RetailWeek

RETAIL HORIZON 2023

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A 360-DEGREE OVERVIEW OF DISRUPTION USING OUR STEPIC METHODOLOGY

SOCIETY	TECHNOLOGY	ECONOMY
POLICY	INDUSTRY	CULTURE

Retail Horizon offers a reference point against which to sense-check strategic thinking for you and your teams, with the ultimate mission of fostering decision simplicity in an increasingly complex world.

Five Winning Strategies

Agility and focus | Strengthened propositions and ecosystems
Customer obsession | Innovation and ingenuity | Power in purpose

THE FACTORS SHAPING CHANGE

SOCIETY

- Change overload
- Cost-of-living anxiety
- More with less
- Hybrid consumers
- Power in the hands of workers

TECHNOLOGY

- AI powers next stage of retail
- NFTs down but metaverse growing
- Beyond-reality experiences
- Digital transformation to maximise efficiency
- Innovative materials

ECONOMY

- Major disruption: inflation, recession, weak UK economy
- Consumers reining in spend
- Wealth gap widening
- Balancing short- and long-term priorities

POLICY

- Cost-of-living intervention
- Geopolitics and localisation
- Political uncertainty
- Supply chain scrutiny
- Climate emergency

INDUSTRY

- Flexibility to serve
- Lean in or branch out?
- Loyalty reinvented
- Survive or thrive
- Elevated store concepts and hybrid space

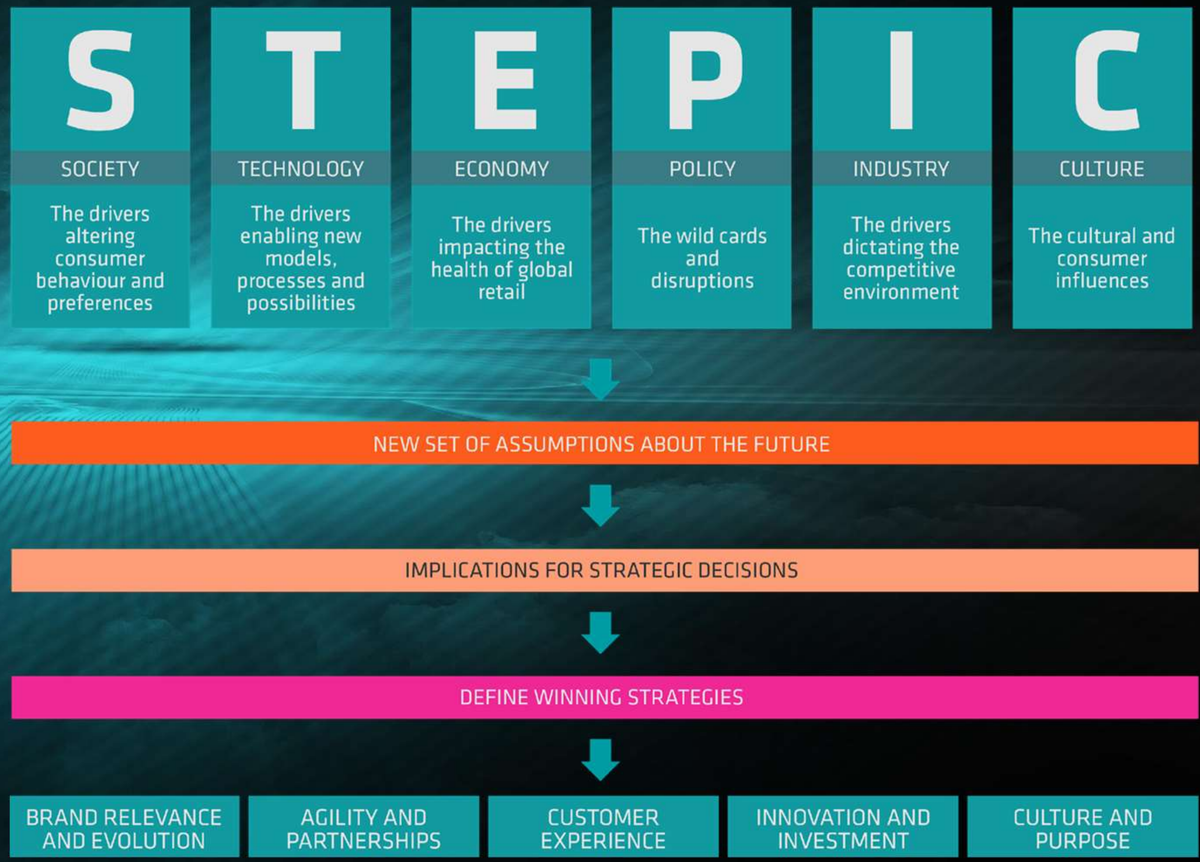
CULTURE

- Taking responsibility
- Sustainable partnerships and monetised wardrobes
- Breaking barriers

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

AGILITY AND FOCUS

The power of external disruption continues to accelerate the urgency for change in retail. The landscape is evolving as never before, as consumer needs and behaviours shift in response to the cost-of-living crisis, climate anxiety and a rekindled desire for in-person experiences following the coronavirus crisis.

Brands and retailers must continue to demonstrate flexibility to stay ahead amid this relentless pace of change. The focus is on staying lean: investing, divesting and rationalising to maximise opportunity.

Balancing expenditure to survive in the now with bold and ruthless investment for the long-term is needed, alongside 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 strategic overhauls and the creation of new business structures remains key to success. Decisive, bold moves will win.

Related STEPIC drivers

- Cost-of-living anxiety
- Hybrid consumers
- AI powers next stage of retail
- Balancing short-and long-term priorities
- Geopolitics and localisation

What it takes to win

- ✓ Prepare for ongoing volatility and frequent shocks
- ✓ Invest boldly to drive future growth
- ✓ Minimise short-term risk eg: localised supply chains
- ✓ Put customers at the heart of strategy

STRENGTHENED PROPOSITIONS AND ECOSYSTEMS

Brands and retailers must establish powerful ecosystems and strategic partnerships to succeed at meeting the rapidly evolving needs of today's consumer.

Partnerships and tie-ups are at the heart of growth strategies, but the focus has shifted towards shared ambitions, return on investment (ROI) and ways that these can elevate the business.

As retailers such as Amazon and Tesco increasingly offer member-only rewards within their Prime and Clubcard ecosystems, others are strengthening their propositions through acquisition. Next has snapped up equity stakes in both Gap and Reiss as it added them to its Total Platform, and Farfetch purchased a stake in Yoox Net-a-Porter.

Partnerships for loyalty, store concessions and rapid delivery are trialled frequently, but the best tie-ups strengthen the customer proposition and bring true ROI by driving loyalty and engagement. Examples can be seen with Nike's loyalty tie-up with JD Sports and Co-op's delivery partnership with Starship Technologies.

As the future looks increasingly hybrid, we expect new alliances, pop-ups and multi-purpose space to transform business models and bring new benefits to maximise ROI.

Nike has linked up with JD Sports and Zalando on Nike Connected, sharing exclusive, members-only access to Nike products, early access to launches and free gifts when customers link their membership accounts.

Related STEPIC drivers

- Flexibility to serve
- Loyalty reinvented
- Cost-of-living anxiety
- Hybrid consumers
- Sustainable partnerships
- Survive or thrive

What it takes to win

- ✓ Mutually beneficial partnerships
- ✓ Tech and knowledge sharing
- ✓ Customers at the heart of strategy
- ✓ Shore up business plans, maximise ROI
- ✓ Internal and external value-chain efficiency

CUSTOMER OBSESSION

Customers are overwhelmed by change and struggling with their finances. They are also digitally savvy and channel agnostic, demanding the best of online and offline interchangeably to suit their current need.

As constant change proliferates, it is crucial for retailers to truly understand their core audience, to be sensitive and responsive to their needs, and to be present where they are.

Brands must develop an in-depth, single view of the customer to deliver on great customer experience. Channel-agnostic consumers demand consistency and excellence, however they choose to shop.

Businesses must convince discerning consumers of the value for money spent. They must also personalise and simplify the shopping experience, while deepening 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. Consumers will resonate with strategy and communication that puts empathy at its heart.

Related STEPIC drivers

- Change overload
- Cost-of-living anxiety
- Hybrid consumers
- Consumers reining in spend
- Flexibility to serve

What it takes to win

- ✓ Customers at the heart of strategy
- ✓ Sensitivity to cost-of-living pressures
- ✓ Agility and flexibility
- ✓ Seek new ways to fulfil demand across channels
- ✓ Engage customers through technology

INNOVATION AND INGENUITY

As businesses future-proof for the long term they must be agile, adapting to external shocks and disruption and responding to frequent shifts in customer behaviour.

Retailers must make bold decisions to survive in the short term, finding new ways to embrace test-and-learn and to trial new partnerships, formats and channels.

At the same time, positioning the company to grow is non-negotiable to ensure that businesses are strengthened as we emerge from this difficult period.

Retailers that invest with purpose to power customer experience, upgrade legacy systems, speed up the supply chain and increase efficiency will outperform their peers.

Lower-cost innovation and big wins can be gained by partnering with disruptors and start-ups to trial new ideas. Businesses should be bold in terms of image and brand and stepping outside of their traditional comfort zone.

Retailers have never been under more pressure to deliver more. 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.

Related STEPIC drivers

- Survive or thrive
- Balancing short- and long-term priorities
- AI powers next stage of retail
- Engaging consumers through beyond-reality experiences
- Lean in or branch out

What it takes to win

- ✓ Analytics to respond early to changing trends
- ✓ Prioritising investment to compete and innovate
- ✓ Operational excellence
- ✓ Trials and partnerships
- ✓ Invest boldly to drive growth

POWER IN PURPOSE

Purpose needs to be at the heart of strategy for businesses and government. Climate change is already affecting our lives and we must transition to a more caring world.

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

Consumers want to see the steps that businesses are taking towards their sustainability goals and expect companies to provide transparency and open communication on progress.

At the same time, kind leadership is critical. Businesses must commit to embracing and caring for customers, suppliers, leaders and staff of all genders and backgrounds to truly make a difference.

This means moving the dial to prioritise and incentivise workers, and breaking taboos to support them through difficult times and life challenges such as menopause.

Brands that lead with purpose, integrity and a clear proposition will be rewarded with increased loyalty from their customers. Company performance will increase as brands take action to attract and retain the best talent in a market that has put power in the hands of the jobseeker.

Related STEPIC drivers

- More with less
- Innovative materials
- Wealth gap widening
- Sustainable partnerships
- Breaking barriers

What it takes to win

- ✓ Accelerate progress to sustainability goals
- ✓ Be open, specific and report on progress
- ✓ Help customers make informed sustainability decisions
- ✓ Inclusivity at board level
- ✓ Listening, openness and kindness throughout the organisation

SOCIETY

THE FACTORS SHAPING CHANGE

Change overload - seeking comfort, stability and control

Society has been facing into constant turbulence and upheaval over the past two years, driven by external influences including Covid, the war in Ukraine, energy anxiety and the cost-of-living crisis. The rapid rate of change can feel overwhelming – in the space of one week in September 2022, the UK gained a new prime minister and a new monarch. The new PM lasted just 45 days.

Cope culture has led to Britons blindly trying to keep their heads above water, but there is also mental exhaustion and change fatigue. ONS census data in May 2022 reported 77% of British adults feel stressed as a result of the cost-of-living crisis. Women are more likely to feel anxious than men.

The shared experience of coming together for the funeral of Queen Elizabeth II showed society prioritising and valuing community and comfort.

Consumers are also looking inward to combat stress, seeking ways to take control of their lives wherever possible.

This often involves switching off from external triggers such as news and politics to focus on protecting mental health, avoiding doom-scrolling and prioritising time with family and friends.

Just 40% of Britons felt happy in September 2022 compared with 51% two years ago. The same number of people felt stressed as happy

Source: YouGov, 18 September 2022

Seeking comfort, stability and control:
Strategic implications for retail

- Sensitivity to change overload is key, as mental-health and cost-of-living concerns dominate
- As rapid change proliferates, it is crucial for retailers and brands to understand their core audience and be present where they are
- Strategy and communication that puts kindness and empathy at its heart will resonate
- Consumers will welcome uplifting messages, humour and a focus on family and friends
- Self-care and switching off will remain a focus as we all navigate constant change
- Retro and vintage themes may grow in popularity as individuals anchor themselves to the past
- Within their own organisations retailers must ensure that they are supporting staff and making them feel comforted, stable and in control

John Lewis

John Lewis' new brand promise, For All Life's Moments, is focused on positioning the brand as caring, valuing the small things in life and opportunities to come together.

Its first ad created by adam&eveDDB takes customers on a journey through the highs and lows of parenting through touching moments shared between a father and his daughter.

The brand promise aims to tell a story about the way John Lewis "plays an important role in those moments that really matter" to customers.

Gymshark

Gymshark teamed up with Lions Barber Collective in July 2022 to open a pop-up barbershop called Deload, aimed at helping men talk about their mental health.

Staffed with mental health-trained barbers, the format offered free trims to customers alongside discussion panels aimed to open up conversations about difficult subjects and increase support for those who are struggling.

Gymshark worked alongside mental-health-focused organisations such as CALM (Campaign Against Living Miserably) and Curfew Grooming on the format.

Cost-of-living anxiety

Consumer confidence is at an all-time low as rising costs are forcing people to make difficult choices on where to spend their squeezed incomes.

Money concerns are impacting consumers' ability to do things that they love, such as socialising with family and friends and taking holidays. For those on lower incomes there is real fear around energy costs, mortgages, fuel prices and grocery inflation.

Middle-class consumers are reining in spend, as seen in the latest financial results from Waitrose and Ocado, which reported increased customer numbers but with smaller basket sizes as customers set – and stick to – spending budgets.

Pressure on discretionary spending will intensify with retailers needing to demonstrate how they are supporting customers and remaining relevant with entry-level ranges and supportive messaging on price.

As the class and income divide widens, some opportunities exist to target affluent shoppers who will have more income to spend on aspirational brands and products.

Impact of inflation by category

Category	Inflation impact level	Average price in Sep 2022	Price change since a year ago	YoY % change	Price trend
Butters and Spreads	High	£2.76	+£0.59	27.1%	
Carbonates	Medium	£2.61	+£0.17	7.1%	
Crisps	Medium	£1.68	+£0.13	8.7%	
Dry Pasta	High	£1.49	+£0.27	22.5%	
Eggs	High	£2.27	+£0.30	15.4%	
Fresh Fruit	Medium	£1.84	+£0.14	8.4%	
Frozen Fish	High	£3.82	+£0.45	13.4%	
Milk	High	£1.64	+£0.24	17.4%	
Poultry	High	£5.42	+£0.76	16.2%	
Ready-to-eat Cereal	Medium	£2.67	+£0.16	6.3%	
Tinned Fish	Low	£2.23	+£0.07		
Wrapped Bakery	High	£1.55	+£0.18	13.4%	

RetailWeek AN ASCENTIAL COMPANY | PRICE + PROMO

Source: Retail Week, Price + Promo

Source: Grocery inflation report – Your strategy to tackle rising food prices, Retail Week, September 2022

82% of UK consumers are concerned that prices for everyday purchases are going up (v 75% global average)

Only **35%** are optimistic that the financial situation will improve within three years (v 46% global average)

Source: Global State of the Consumer Tracker, Deloitte, August 2022

Cost-of-living anxiety:
Strategic implications for retail

- Consumers will look to retailers to help them find ways to save money
- Entry-level ranges and value messaging will resonate with those on a tight budget
- Basket sizes are unlikely to increase in the short term as shoppers spend cautiously
- Membership rewards, ecosystems and help with planning and budgeting will drive loyalty
- Discretionary spending will be focused on efficiency or aspiration – capsule wardrobes; small treats; energy-saving technology
- Cost-of-living support to staff members will aid retention during these turbulent times

Asda

Asda invested £90m into pricing initiatives, launching its 300-product Just Essentials range in May 2022 and introducing 'Dropped & Locked' prices on over 100 basket staples until the end of 2022. It also began price matching Home Bargains on over 100 household and toiletry essentials.

Its new loyalty app allows customers to save money by building up a 'cashpot'. Asda cafes offered under-16s a hot or cold meal for just £1 over the summer holidays in 2022.

These new measures helped Asda to narrow like-for-like sales declines to 1.9% in Q2, from 9.2% in the first quarter of the year.

Primark

Primark pledged to freeze prices on more than a thousand items in its kidswear range to help families cope with the increased cost of living.

The move was announced in July 2022 ahead of the new school term and included underwear, T-shirts, dresses and jeans. Prices include T-shirts from £1.80, jackets from £14 and jeans from £6.

Primark chief executive Paul Marchant said: "Kids grow fast and replacing their clothing is an essential task for families – we hope that by protecting the prices on our essential kids' items we can help in some small way."

More with less

Gen Z are coming to terms with having less wealth than older generations and adapting accordingly. Anxious about amassing debt and living outside of their means, younger consumers are living a more individual, minimalist and sustainable lifestyle and their ethos is spreading through society.

Enthusiasm for make and mend soared during the pandemic, keeping many of us occupied during lockdown. Following on from the success of TV programmes such as *The Great British Sewing Bee*, social media is filled with "how to" content from people who are upcycling clothes, making them shorter, more fashionable or adding personalised modification and embellishment.

Giving preloved items a new lease of life is a statement of individuality, as the trend for vintage, independent and statement pieces differentiates the owners from the mainstream.

Cost-conscious consumers are increasingly turning to marketplaces including eBay, Thrift+ and Vinted as they buy and sell items to refresh their wardrobe on a budget.

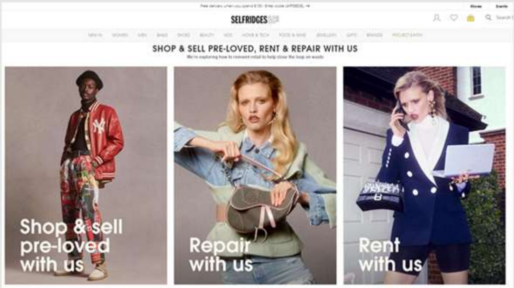
Living with less wealth as a result of the cost-of-living crisis, consumers are seamlessly transitioning to a more sustainable society.

Oxfam's Second Hand September champions a more sustainable way of living. In September 2022, 26,000 people took part, with the event fuelled by increased media coverage and inspired by the 'preloved' wardrobe of this year's Love Island contestants, a partnership with eBay

More with less

Strategic implications for retail

- Brands and retailers should prepare for the transition to a more sustainable, less throwaway society
- Appetite for preloved items will grow as these help customers save money and express individuality
- Circular strategies support businesses as they strive to reach their sustainability targets
- Online marketplaces including Vinted, Thrift+, eBay and Vestiaire Collective will continue to attract new customers
- Brands should decide whether to host their own initiatives or to partner with an existing marketplace in this rapidly growing C2C market
- Consider opportunities to creatively restyle, repurpose and repair items to extend their lifecycle and value



Cow's Christina corset top is reworked from a classic Ralph Lauren shirt

Selfridges

Selfridges is making a bold commitment to change the way we shop and the way it does business through its Project Earth sustainability strategy.

By 2030, it has set itself the target for 45% of transactions to come from circular products and services, including repair, resale, rental and refills.

Sales of second-hand items at Selfridges rose by 240% in 2021, evidencing the desire for more sustainable shopping.

Cow

Independent vintage clothing and accessories retailer Cow offers a sustainable alternative to fast fashion, trading online and through several stores across the UK.

Alongside its ethically sourced items from around the world, Cow has created a Rework range. These pieces are made from outdated vintage garments and salvaged fabrics, altered into trend-led styles.

The company aims to make shopping vintage less daunting and to create sustainable, individual, trend-led items.

Hybrid consumers

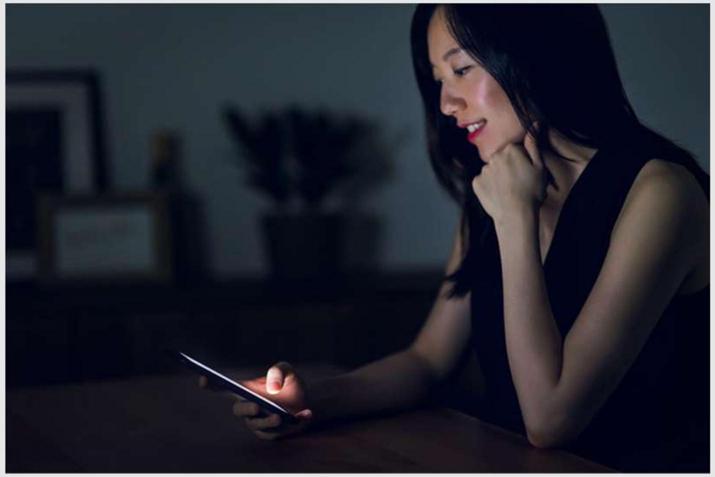
Since shopping almost exclusively online during the pandemic, consumers have become much more digitally savvy and channel agnostic.

Now able to return to more normal lifestyles and in-person experiences, customers are demanding the best of both worlds more than ever before.

Shoppers are buying and researching products online, using mobiles and digital payments in store, but cherishing personal interactions and customer service when making considered purchases or dining out with friends and family.

As we live so much of our functional lives online, consumers are using technology to remove friction and save time. Yet having opportunities to switch off and enjoy experiences are now even more important and valuable.

For retailers, this means adopting a truly channel-agnostic and customer-centric strategy, being led by the consumer on how they want to shop and engage.



53% of UK adults value spending on experiences over things

Source: Deloitte Global State of the Consumer Tracker, August 2022

33% of adults believe social media is having a negative effect on their mental health

Source: YouGov, July 2022

24% of men globally aged between 18 and 35 plan to regularly pay with crypto by April 2023

Source: Checkout.com, April 2022

Hybrid consumers:
Strategic implications for retail

- Retailers must put customers at the heart of strategy and remove friction wherever possible, across all channels and touchpoints
- Rich customer data is an important tool to assess the most effective ways to meet the rapidly evolving needs of these busy, tech-savvy consumers
- Business should focus on finding ways to support customers as they balance priorities between convenience and enjoyment
- Retailers need to prioritise innovating to enhance customer experience
- Personal and in-person experiences can make customers feel valued; invest where it makes the most sense

Lush

Lush has quit four major social platforms and is investing £7.6m between January 2022 and June 2023 to grow its retail estate, valuing the "exceptional, award-winning service" that it can offer in-store to inspire customers and ensure they go away with the right products.

Between September and December 2022, Lush hosted a series of floristry events at its flagship London store on Oxford Street, including autumn and Christmas wreath making.

It has invested in a new, ethically-focused online commerce platform and app to create a more personalised shopping experience.

H&M

H&M is exploring tech-enabled shopping experiences in its US stores to build "more relevant" relationships with consumers.

At Cos, the group has rolled out a pilot to provide visitors with seamless payment options, personalised styling recommendations, faster checkout, and upgraded delivery and return options.

Among the tech solutions are fitting rooms equipped with smart mirrors that recognise products brought into the room (eg: item, size and colour) and offer personalised product and styling recommendations. Other types of smart mirrors within the store offer virtual try-on and styling.

Power in the hands of workers

The shift in power from employers to workers began with the great resignation, as many saw the pandemic as an opportunity to re-evaluate their work-life balance, to embark upon new career paths, retire early or to work more permanently from home.

This left vacancies from shopfloor to boardroom and was particularly evident in service, hospitality and retail jobs, where high productivity often masks an exhausted workforce. The sector is still struggling to fill key positions.

As inflation soars and wages fail to keep pace, this challenge is intensifying as industrial action threatens to wreak havoc by disrupting the industry and its workforce.

Unions across the country are mobilising their members to walk out in disputes over jobs, pay and working conditions. Strikes are already evident in the rail network, across postal services and at shipping ports. This disruption could potentially intensify and become wider reaching – across sectors including health, transportation and supply chains. Society is largely supportive of these workers' causes but unrest could severely hamper businesses' ability to trade.

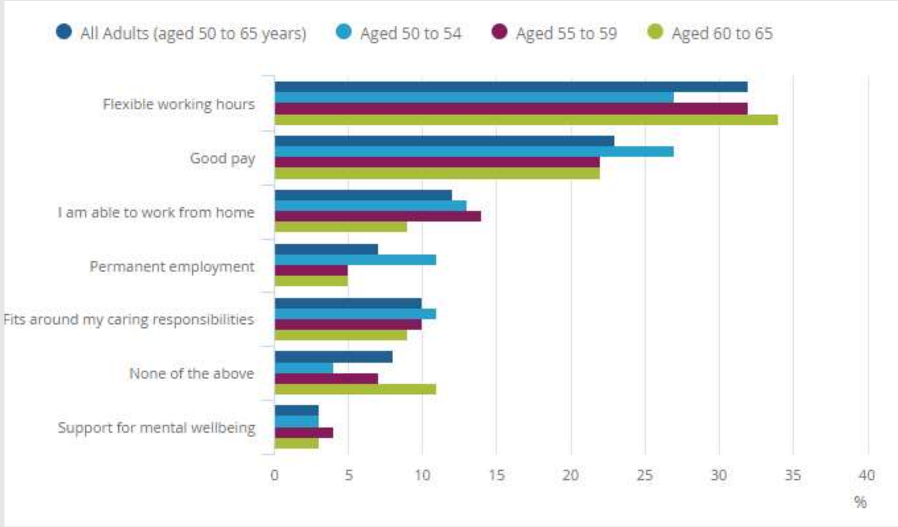
With employees firmly in the driving seat, companies must work hard to attract and retain staff. They must also work to minimise disruption while considering the impact of industrial action and strikes on business dependencies such as transportation and supply chains.

Source: ONS, September 2022

Power in the hands of the workers:
Strategic implications for retail

- Businesses should assess critical dependencies within their own and partner organisations and plan for contingency in case of disruption
- With employees in the driving seat, companies will compete with one another for applicants
- Businesses should identify at-risk roles and consider how to incentivise and retain critical staff
- Business leaders must foster a culture of common purpose, emotional connection, recognition and communication
- Companies will need to take a diverse and holistic approach to nurturing staff in order to retain them
- Consider workers who have left the workforce and might be tempted back with incentives and flexible work patterns
- Introduce further benefits that will placate workers and encourage them to stay

MOST IMPORTANT FACTORS WHEN CHOOSING A PAID JOB BY AGE GROUP



Source: ONS, September 2022

Attracting older workers

ONS surveyed adults aged 50-65 who had left their job since the start of the coronavirus pandemic and not returned.

Of these, **58%** would consider returning to work. The most important factors were flexible working hours (32%), good pay (23%) and being able to work from home (12%)

Lidl

Lidl became the UK's highest-paying grocer from October 2022, when it increased base-level pay rates from £10.10 to £10.90 per hour outside of London and £11.30 to £11.95 per hour within the M25.

Currys

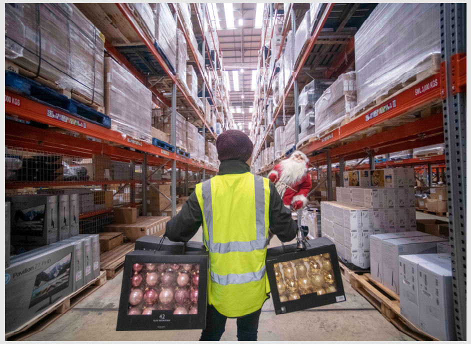
Currys has awarded its staff three pay rises in the space of just13 months, raising base hourly pay by 15.6% during the period. The latest 3.5% rise from October 2022 takes hourly pay to a minimum of £10.35 and brings pay for London staff to a minimum of £11.43 an hour.

Iceland

Iceland has introduced multiple initiatives to help cash-strapped shoppers navigate the cost-of-living crisis. In May, the company increased the discount it offers staff in a bid to help them combat rising energy and food bills. Managing director Richard Walker announced on Twitter that Iceland was increasing the discount from 10% to 15%.

John Lewis

In September 2022, John Lewis announced a one-off, cost-of-living payment of £500 to full-time staff and less for part-time workers. The partnership is offering all partners and temporary workers free food from October to January and has doubled its financial assistance to help with bills.



WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Put customers at the heart of strategy and be agile to respond to their rapidly changing needs
- Kindness, empathy and a human face of retail is essential as consumers feel stressed and overwhelmed by constant change and cost-of-living anxiety
- Less wealth is accelerating the transition to a more sustainable society – brands need to address their own strategy
- Attracting and maintaining the workforce requires flexibility and benefits such as hybrid working - retailers must ensure their workforce and line managers are empowered and supported

TECHNOLOGY

THE FACTORS SHAPING CHANGE

AI powers next stage of retail

The adoption of artificial intelligence can benefit businesses in a number of ways, including improving stock management, enhancing the shopping experience, boosting productivity and driving cost savings across the entire organisation.

Autonomous retail solutions such as cashierless stores are not new, with retailers including Amazon, Tesco and Aldi launching and trialling these high-tech formats. Yet the aggressive expansion of cashierless stores has slowed recently owing to disappointing sales performance and high costs. Growing financial pressure on businesses has undoubtedly made this worse.

Aside from frictionless store solutions, we expect ongoing retailer focus to explore the benefits of AI across multiple business units. Examples include applying AI tools to predict consumer demand and deploying robots in warehouses to automate the pick-and-pack process.

Additionally, AI-powered solutions have intensified competition in last-mile delivery as artificial intelligence revolutionises routing plans, self-driving robots and drone delivery.

The grocers have taken the lead on integrating AI solutions to power operational efficiency. Other sectors including fashion, health and beauty and general merchandise are following closely behind.

Supply chain innovation
AI precise predictions/ Agile supply chain

Experience innovation
Smart trolleys/Digital human/AI video chat

Payment innovation
Cryptocurrencies/Digital wallet/Cashierless

Warehouse innovation
Smart pickers/Robots

Delivery innovation
Drone delivery/Self-driving vehicles/AI delivery routes

AI to power up the next stage of autonomous retail

Strategic implications for retail

- Continued long-term investment will focus on large-scale warehouse and autonomous supply chain projects, requiring regular reviews and updates
- Smaller investment projects can add short-term value at low cost, for example AI digital assistants, cryptocurrency payment, digital wallet
- Offering quicker and better shopping experiences remains a priority with consumers
- Drone deliveries will accelerate with UK plans to allow a 265km 'superhighway'. These deliveries benefit from avoiding road traffic on time-sensitive deliveries (eg: medicines)
- Retailers should consider target customers when selecting technology and take into consideration less tech-savvy customers, the elderly and those with disabilities
- Partially autonomous retail solutions give businesses flexibility to scale operations and accommodate customers, improving the shopping experience
- Data security and privacy regulations and the AI code of ethics should be introduced to reduce risks such as cybersecurity breaches and AI bias

JD.com

JD.com, one of China's largest ecommerce groups, claims to have utilised its in-house team to build powerful AI and machine learning tools, in order to achieve an overall upgrade in automation, cost reduction, operational efficiency and experience optimisation across the business.

JD applies AI alongside its supply chain to make forecasts and buying decisions across its 10 million automated SKUs when future supply and demand remains unknown.

The retailer also upgraded its autonomous procurement, resulting in the reduction of its inventory turnover to around 30 days. This has greatly improved the operational efficiency of the business.

JD is focused on improving last-mile delivery for its customers and JD Logistics owns over 400 autonomous delivery vehicles in more than 25 cities across China.

Its automated ground vehicle system works with employees in JD's Asia intelligent industrial parks, improving sorting efficiency.

Amazon, Boots, Google - drone delivery

In August 2022, Amazon officially rolled out drone delivery for its Prime customers across California and Texas. It aims to deliver parcels up to 5lbs in less than an hour.

In July 2022, Boots launched its first drone to deliver prescription-only medicines. The retailer is now assessing the future potential for drones in medicine delivery.

In May 2022, Royal Mail ramped up drone deliveries with 50 new routes and aims to deploy 200 drones to deliver mail across the UK in the next three years.

Google parent Alphabet's Wing drone delivery service was trialled in Australia during 2021, delivering 10,000 cups of coffee without a single mishap or accident. In partnership with FedEx and Walgreens, it delivers packages, wellness products and medicines to customers.

Ikea

Ikea is among several leading retailers that adopts AI technology widely in its business.

In partnership with Winnow's AI technology, Ikea announced in September 2022 that it had succeeded in slashing food waste by 54% across its 400 stores globally. According to the retailer, more than 20,000 staff were trained on how to use the tool in their daily routines.

The AI tool measures and registers food waste in Ikea restaurants. The data collected provides Ikea's food colleagues with insights on what was discarded and why. This helps to reduce and prevent food waste in the future.

NFTs down but metaverse growing

The metaverse concept has become extremely popular in recent years. Fashion brands are continually targeting the metaverse to enhance brand awareness and accelerate customer engagement.

Metaverse is the virtual world where millions of people from around the world can meet and interact. Transactions in the virtual world, for example NFTs, are all through crypto-enabled payments, and digitally recorded on the blockchain.

Large companies such as Microsoft and Meta started developing their metaverses in 2021. According to Bloomberg Intelligence, the metaverse could be a $800bn (£744bn) market by 2024 in terms of total global spend.

According to Fortune, NFT marketplace OpenSea suffered an eye-watering sales decline of 99% between May and August 2022. Many people believed the NFT hype was just a bubble waiting to burst, yet retailers' infatuation with the metaverse continues.

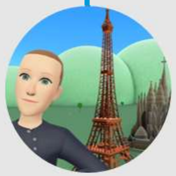
Virtual job fairs are increasing in popularity, enabling businesses to recruit talent globally without travelling. Immersive training is also gaining momentum, as it allows companies to simulate realistic learning scenarios.

The blockchain could create more robust and trustworthy supply chain processes for businesses, as all price, date, location, quantity and certifications are digitally recorded on the chain. It improves transparency, with end-to-end tracking and highlights any suspicious activities.

Blockchain in retail
Transparent supply chain/
Stock traceability

Hyperreal recruitment
Virtual job fairs/
Onboarding/Training

NFT (non-fungible token)
Authentication/Digital
assets/Resale market



Entertainment
Digital avatars/Metaverse
stores/Interactive games

NFTs down but metaverse thriving

Strategic implications for retail

- Leadership teams should educate themselves on the potential of the metaverse, which presents endless opportunities for businesses to engage their customers through immersive experiences
- All retailers are encouraged to step into the virtual world and explore the best practice for them. Virtual events with personalised digital avatars could provide a valuable and low-cost first step
- Retailers offering unique experiences linked to gaming, events, or social media will build loyalty and engagement among younger customers
- Retailers should be cautious with NFT-related investments as there are no standards in place yet and prices tend to fluctuate significantly
- Like all other digitalised products, the metaverse will bring risks in privacy and security for individuals, as well as institutions
- Luxury fashion and sporting retailers are currently taking the lead, with beauty, health and grocery set to follow

eBay

In June 2022 eBay acquired NFT marketplace KnownOrigin to expand its business stream to include digital collections.

eBay first offered its users the ability to buy and sell NFTs in May 2021.But KnownOrigin's dedicated platform takes that functionality to the next level, providing artists and users with a place to create, buy and resell NFTs.

Alibaba

Chinese ecommerce group Alibaba's luxury shopping platform, Tmall Luxury Pavilion, hosted a metaverse luxury shopping event in September 2022.

A Meta Pass was introduced to connect with China's affluent clients and offer them priority access to the luxury brands' products and offline events.

Carrefour and Samsung

During the pandemic, large companies looked for ways to recruit candidates without having to travel or make physical contact. Virtual meetings and interviews became the norm, but subsequently more and more businesses are expanding virtual meetings and remote working into the metaverse to make it more engaging for employees.

In May 2022, French retail giant Carrefour hosted a virtual job fair to hire data analysts and data scientists. At the virtual venue, candidates had the opportunity to chat with recruiters and interact with leaders. The company is ramping up its hiring of data specialists, expecting to recruit up to 3,000 by 2026.

In September 2021, South Korean company Samsung held virtual consultation events for job seekers on the metaverse platform Gather Town. More than 30 companies and 400 candidates participated. There was a lobby, an exhibitor's hall and auditorium, and jobseekers were able to use their digital avatars to walk around the virtual venue, much like they would in real life.

Adidas and Nike

The battle between Adidas and Nike is nothing new, but it appears to be taking a new turn from the physical world to the metaverse.

In November 2021, Adidas announced its presence in the Sandbox metaverse. It acquired Bored Ape, tied up with crypto influencer Gmoney and NFT series Punks Comic as it deepened its reach into the metaverse space.

In partnership with Roblox, Nike launched 'Nikeland' in the same month. Nikeland is filled with online games and virtual products. A month later, it bought RTFKT, an NFT studio that produces digital collectibles, including virtual sneakers. It reported 7 million visitors from 224 countries during its first few months.

Engaging customers through tech-driven and beyond-reality experiences

With store footfall increasing significantly since the end of the covid pandemic, businesses are tapping into in-store technology to differentiate from competitors and bring some of the tech-enabled experiences of online into physical retail.

Augmented reality (AR) overlays visual content and information on top of the real world, through the camera on a smartphone. Virtual reality (VR) is a simulated virtual world and it usually requires a headset to 'enter' the virtual environment.

Both AR and VR are designed to provide an immersive and interactive environment to engage users. This can greatly enhance the shopping experience, drive conversion and retain brand loyalty.

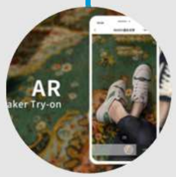
Smart fitting and virtual try-on are being leveraged in-store to assist shoppers to 'try on' items and select the correct size. This technology has the potential to improve conversion and can also lower return rates, thus reducing warehouse processing costs and protecting margins.

A tailored shopping experience adds a personal touch on top of traditional customer service, making consumers feel truly cared for by the retailer. Building engaging, emotional connections with customers is a valuable driver of brand loyalty and spend.

The AR/VR market size is forecast to reach $454bn (£411bn) by 2030. Based on the PwC Global Consumer Insights Pulse Survey, half of VR users said they used the technology for games, movies and TV shows. A third of users made purchases after visiting virtual stores.

Store evolution
Experiential retail/ Concept stores

Personalisation
Smart fitting/Virtual try-on/Customisation



CRM
Customer relationships/ Brand loyalty

Engaging customers through tech-driven and beyond-reality experiences

Strategic implications for retail

- Applying AR/VR experiences in stores will grow in popularity to attract new customers and improve footfall
- Retailers will leverage new technology as a way to refresh brand image and to get closer to increasingly tech-savvy consumers
- Pop-ups and limited-time collaborations with technology companies are good ways to lower costs and test customer reactions
- Compared with larger IT implementations, AR/VR experiences are cost effective, sometimes just requiring a headset and supporting programme. Yet they have potential to create unique, unforgettable interactions for customers

Nike

In September 2022, Nike unveiled B.I.L.L. at NikeTown London. B.I.L.L is a robot-augmented system designed to clean and repair sneakers.

This service is free to customers, and is a part of the brand's Recycling and Donation initiatives.

Apple

In July 2022, Apple's newest store opened in London. The store opening featured the launch of 'United Visions', an augmented reality experience focused on London poet and painter William Blake.

The AR experience is an app created for Getty Museum by artists and creative technologists Tin &Ed, which showcased the latest technology and gave a new immersive experience to customers with music and creature surrounds.

Walmart

Walmart acquired Zeekit, a creator of dynamic virtual fitting-room platforms, in early 2022. Customers using the platform have the choice of 50 models with various body types and heights, enabling them to choose the one that most resembles themselves.

This virtual fitting room was upgraded in September 2022 to add a new feature called 'Be your own model', enabling shoppers to upload a picture of themselves to virtually try on clothes.

The retailer claims the new feature offers a more realistic try-on experience with the use of algorithms and machine learning. The clothes fall differently on different body types, including shadows and fabric draping details. The feature is now available on more than 270,000 items across Walmart's portfolio.

The only concern from shoppers is understanding how Walmart expects to store and use their pictures and personal data.

Nisa

Nisa partnered with retail technology company Jisp and was the first retailer to launch its 'Scan & Save' vouchering system. This allows customers to save money on branded products.

An AR voucher pops up when a barcode is scanned and this can be saved and used within the Jisp app. Since its launch in September 2021, Scan & Save has helped Nisa retailers increase footfall, grow sales and build customer loyalty with more than 111,000 scans and 43,000 redemptions. The average shopper is adding 2.5 items to the basket and saving on average £3.10 every visit. The solution was expanded to a total of 54 Nisa stores in March 2022.

Retailers also earn 2p every time a customer taps an AR voucher, along with a further 4p for every redemption.

Digital transformation to maximise value-chain effectiveness

Retailers continue to invest in technology to increase responsiveness and improve efficiency across the full value chain, from raw materials to sales and customer service.

Primary level investment is critical as it relates directly to the supply chain, products, sales and customer service. Key investments are being made to use data effectively for better planning and to understand consumers' changing demands and behaviour. Operational efficiency gains are being made through investment in improvements to data analysis, supply chain planning, price optimisation, demand forecasting, strategic sourcing, logistics optimisations, marketing and customer relationship management.

Secondary level investment in support of company infrastructure, human resources and upgrading legacy systems is increasingly being prioritised. These investments can help with staff upskilling and development and support new and better ways of working.

The efficiency of supply chains is a key area of focus, with intelligent solutions helping retailers to accurately predict demand and manage capacity. Precise predictions remain key to tackling supply chain uncertainties and to navigate disruption caused by factors outside of businesses' control.

With intense macroeconomic pressure, protecting margins through operational efficiency will prove a vital weapon in the armoury of successful retailers.

59% of people cited professional development as the top area to invest in to improve company culture

Source: LinkedIn Global Talent Trends, 2022

Levi's

As part of its digital transformation, Levi's held an eight-week bootcamp in coding and machine learning for its employees. Some graduates will now put their new skills into practice within Levi's growing strategy and AI team.

Digital transformation to maximise value-chain effectiveness

Strategic implications for retail

- Retailers will increasingly apply intelligent solutions linking data sources to understand and predict consumer demand and make more effective decisions
- A diversified supplier base, optimised warehouse and logistics space, an increase in capacity and precise forecasting tools are the keys to tackling current supply chain uncertainties
- Retailers operating slow-moving legacy systems can expect to be less agile, less aligned to the business strategy and will miss out on critical insights
- Digital upskilling initiatives for employees could largely improve productivity across the business and reduce overheads of new technical hiring and training

AS Watson

AS Watson Group has been driving its digital transformation in anticipation of changing customer demands in the health and beauty sector since 2012.

According to the retailer, it has invested $400m (£349m) in supply chain transformation for its O+O (Offline plus online) retail model.

The transformation includes upgrading its planning and forecasting tools, real-time inventory visibility and supply chain agility. This has strengthened operational efficiency at the company and boosted performance.

Innovative materials to revolutionise the industry

In February 2022, the IBM Institute for Business Value (IBV) surveyed 16,000 global consumers. More than half (51%) of respondents said sustainability is more important to them today than it was 12 months ago. This is due to a growing awareness of environmental impact and the need to reduce reliance on products created using fossil fuels.

Emerging technologies play a crucial part in innovating planet-friendly materials, including advanced fabrics and new packaging solutions.

Research by Spherical Insights & Consulting in October 2022 found that the global e-textiles and smart clothing market is projected to reach $15.36bn (£13.66bn) by 2030, compared with $7.17bn (£6.38bn) in 2021.

Advanced materials often have better performance and functionality than traditional ones, and additionally, many are 100% sustainable and have low energy consumption or carbon footprint.

In March 2022, researchers at MIT developed a high-tech fabric that can 'hear' a person's heartbeat, handclaps or even faint sounds. The team suggested the fabric could be made into wearables for blind people or as maternity wear to monitor a baby's heartbeat.

Grocers and fashion retailers are already taking the lead by introducing innovative packaging solutions and high-performance fabrics. Other sectors including health and beauty, and general merchandise can be expected to follow.

Iceland

In August 2022, Iceland partnered with a sustainable packaging specialist called Parkside. The aim was to design recyclable paper packaging with a high level of grease and oil resistance to frozen food.

The new paper packaging solution will replace the former low-density polyethylene plastic packaging and is 100% recyclable.

Innovative materials to revolutionise the industry

Strategic implications for retail

- The sustainability of materials, products and solutions are important considerations for consumers, even during the cost-of-living crisis
- Brands and retailers should keep a close eye on material innovation to determine areas relevant to their businesses
- Innovative high-performance textiles can be leveraged to produce better quality and more durable garments, slowing down the negative impact of fast fashion
- Biodegradable and recyclable packaging solutions will rapidly become the norm
- Retailers that differentiate on sustainability will drive brand loyalty

Coperni

In October 2022, fashion brand Coperni took Paris Fashion Week by storm when it spray-painted a slip dress on to a model live on the catwalk.

The spray-on dress used Fabrican liquid, which is durable and versatile. It can be adapted to use synthetic or natural materials, including cotton, linen, polyester or nylon, as well as recycled materials. All components are reusable.

Vegea

Italian technology company Vegea invented 'grape leather', a vegan leather alternative made from wine production waste, including discarded grape skins, stalks and seeds. The process is 100% sustainable and the company found that grape leather could be used to make shoes and handbags. It has been adopted by brands including Tommy Hilfiger, Calvin Klein and luxury car manufacturer Bentley.

WINNING STRATEGIES FOR RETAILERS AND BRANDS

- **Invest in the next level of autonomous retail to differentiate and boost performance**
- **Continue to invest in the metaverse but remain cautious**
- **Engage customers through tech-driven and beyond-reality experiences**
- **Focus on digital transformation for internal and external value-chain efficiency**
- **Innovate with new materials and packaging for performance and sustainability**

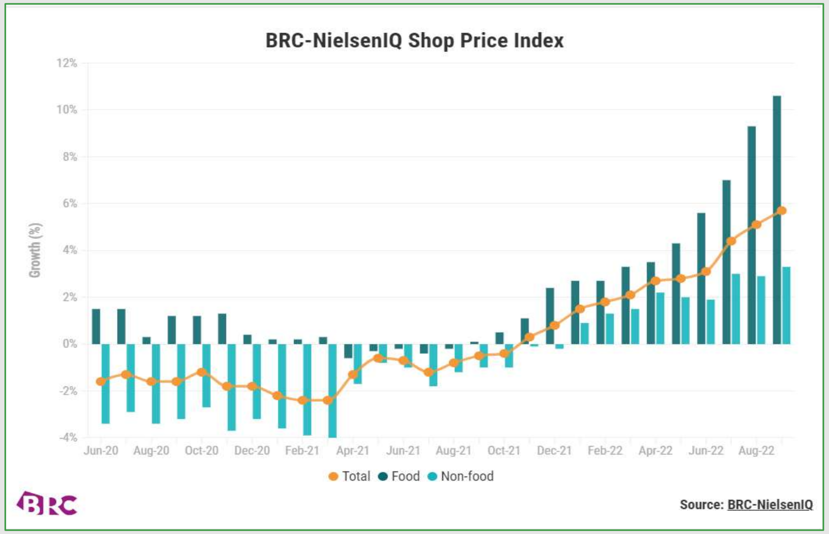
ECONOMY

THE FACTORS SHAPING CHANGE

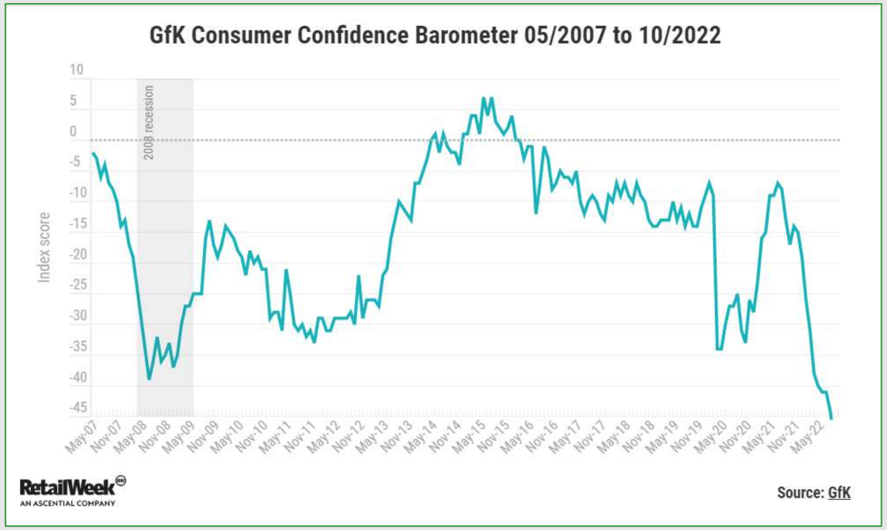
Major disruption: Economic challenges and inflation

External factors disrupting the UK economy are set to define the retail environment during the Black Friday and Christmas periods and into 2023. Households have been hit by a major cost-of-living crisis driven by rising inflation - and wages are not keeping pace.

Businesses face crippling increases in overheads in transportation, fuel, staffing and manufacturing, linked to Brexit and the war in Ukraine. Yet consumers cannot afford to pay more. This gives retailers very difficult choices and a need to partially absorb costs.

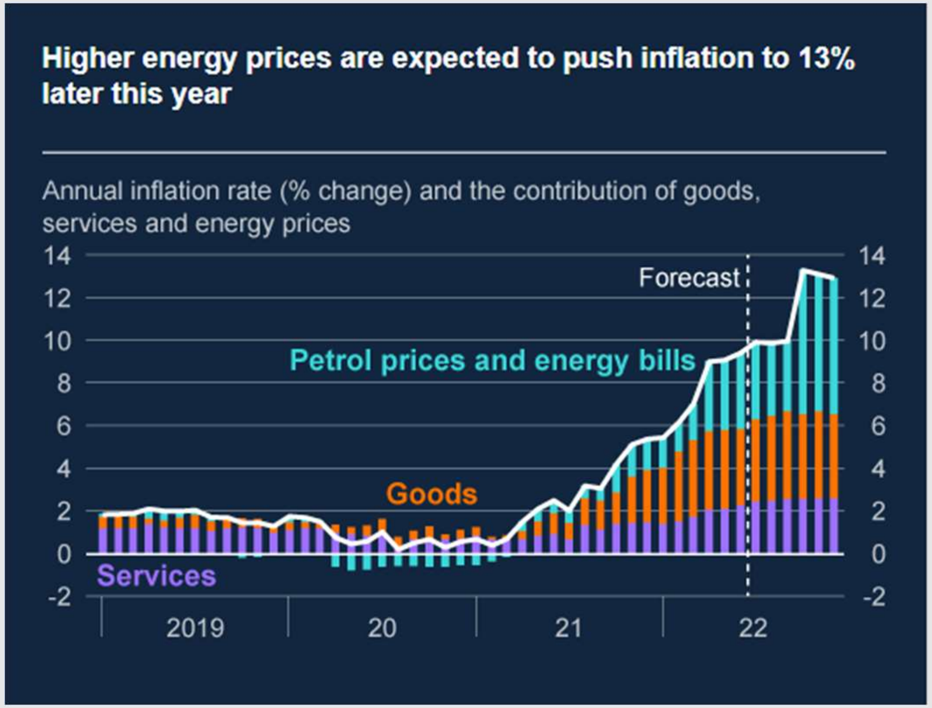


Prices rising since September 2021, with food inflation outpacing non-food



UK consumer confidence has hit an all-time low
(lower than lockdown and the 2009 recession)

Major disruption: UK to enter recession with inflation at 40-year high



Source: Bank of England, August 2022

The Bank of England's monetary policy committee predicts inflation will reach 13% before the end of 2022 and expects the UK to enter recession during the fourth quarter.

This will significantly increase pressure on retail during the Black Friday and Christmas periods and will last throughout next year.

Real household post-tax income is projected to fall sharply in 2022 and 2023, while consumption growth turns negative.

Retail will be competing with other sectors for spend, at a time when consumers will be very sensitive to price.

Christmas comes at the worst possible time as inflation enters double-digits, and consumer spend declines and will be spread over a longer period.

Major disruption: IMF anticipates global slowdown, with UK among weakest economies in 2023

(real GDP, annual percent change)	2021	2022	2023
World Output	6.0	3.2	2.7
Advanced Economies	5.2	2.4	1.1
United States	5.7	1.6	1.0
Euro Area	5.2	3.1	0.5
Germany	2.6	1.5	-0.3
France	6.8	2.5	0.7
Italy	6.6	3.2	-0.2
Spain	5.1	4.3	1.2
Japan	1.7	1.7	1.6
United Kingdom	7.4	3.6	0.3
Canada	4.5	3.3	1.5
Other Advanced Economies	5.3	2.8	2.3

Source: International Monetary Fund, October 2022

The International Monetary Fund anticipates a "broad slowdown" of the global economy in the coming year, as the US, China and the Euro area continue to stall.

The IMF revised its growth forecasts for 2023 in October – it now expects global growth of just 2.7% for the year.

Of the advanced nations, the UK's growth outlook for 2023 is among the weakest at just 0.3%, as high inflation reduces purchasing power and tighter monetary policy takes a toll on consumer spending and business investment.

In July 2022, the IMF warned that rising food and energy prices could cause widespread food insecurity and social unrest.

As price becomes a major battleground, retailers will need to be focused to identify and invest in the most in-demand product areas, as competition intensifies.

Major disruption:
Strategic implications for retail

- Rising costs and inflation will continue to increase overheads for businesses. Retailers will need to decide how much cost can be absorbed and how much must be passed on to consumers
- Even with UK government intervention to protect consumers from soaring energy bills, the ongoing impact of rising costs and inflation on consumer confidence remains inevitable
- Retailers and brands should continue to implement best practices learned during the pandemic to address market volatility and supply chain challenges
- Investment in price and close partnerships with suppliers to share the burden are needed to ease pressure
- Businesses should prepare contingency for disruption and incentivise existing staff to retain expertise

Amazon

Amazon's Prime ecosystem drives strong brand loyalty and ensures that it remains top of mind with shoppers. Nonetheless, the retailer took measures to win a greater share of holiday spend, launching a two-day 'Prime Early Access Sale' in 15 countries on October 11-12 ahead of Black Friday.

Simultaneously, in October, a new Amazon Access hub was launched for US recipients of government benefits. This offers Prime membership at a 50% discount, access to Amazon Layaway and the ability to order groceries via the Supplemental Nutrition Assistance Program (SNAP).

Sainsbury's

Research from Sainsbury's suggests that 58% of consumers are looking at ways to cut costs including throwing away less food (35%) and purchasing more reduced items (45%).

In September 2022, the grocer opened a pop-up Sainsfreeze concept for two days at Boxpark, Shoreditch, showing visitors how to freeze surplus food and avoid waste. Frozen items including eggs, meat, herbs and baked goods were available for free to take away.

Sainsbury's also launched freezer tips online for customers.

Consumers reining in spend as cost of living bites

Consumers are having to rein in their spending as they struggle with higher costs of essentials including energy, food and mortgage payments.

The top sectors where households are reducing their spend include eating out (32%) luxury items (31%), clothes (29%), holidays (28%) and non-essential food items (26%) according to consumer data from YouGov. [1] Other categories including household essentials, toiletries and video streaming subscriptions have seen sharp increases in shoppers cutting back to save money.

Until the economy materially improves, discretionary spend will continue to come under intense pressure. Consumer behaviour will shift as people trade down, shop less often, seek price promotions and spread payments over a longer period.

Compared with the same month last year, **80% of households suffered a decline in disposable income in August**

Average household income **fell by £32.32 a week**

One in five UK households had a **negative disposable income** of £60

Source: Asda Income Tracker, September 2022

WHERE ARE CONSUMERS CUTTING SPENDING? (YEAR-ON-YEAR CHANGE BY CATEGORY)

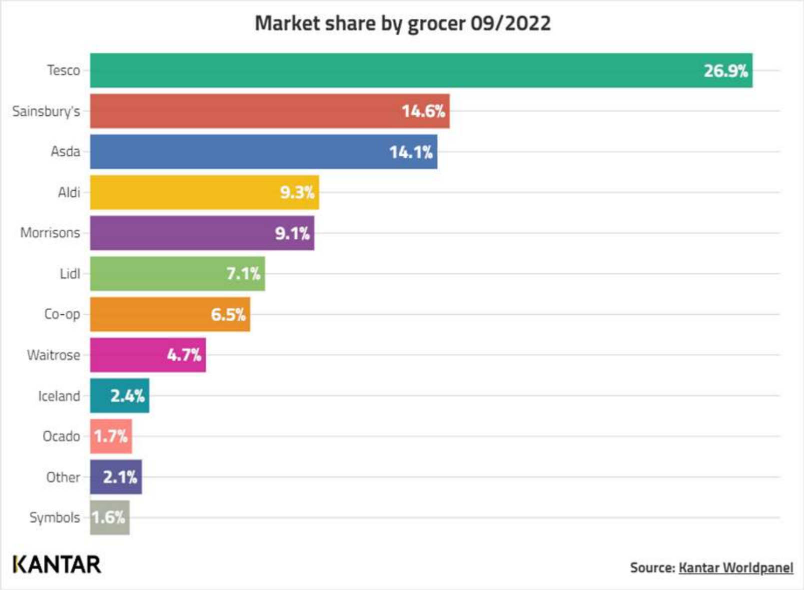
September spend growth per customer

Retail	**-2.1%**
Clothing	-4.1%
Grocery	2.1%
Supermarkets	2.8%
Food & Drink Specialist	-3.7%
Household	-6.2%
Home Improvements & DIY	-6.4%
Electronics	-5.6%
Furniture Stores	-6.7%
General Retailers	-4.8%
General Retailers & Catalogues	-5.7%
Department Stores	-3.5%
Discount Stores	-1.2%
Specialist Retailers	-2.3%
Pharmacy, Health & Beauty	0.8%
Sports & Outdoor	-7.9%
Other Specialist Retailers	-1.7%

Source: Barclays UK Consumer Spending Report, September 2022

Consumers reining in spend:
Strategic implications for retail

- Basket sizes will be limited as consumers set budgets and stick to them
- Expect discretionary spend to fall in non-essential categories
- Retailers will need to convince shoppers of value with entry level items and lower pricing
- Discounters will gain market share as consumers switch to value retailers
- Price guarantees and loyalty ecosystems will be critical levers for retailers as consumers rein in spend



Aldi disrupts big four grocers

In September 2022, Aldi overtook Morrisons to become the fourth-largest UK grocer. Lidl gained sixth position from Co-op earlier in the year.

Both discounters are expanding rapidly and enjoying switching gains as they set the benchmark for value and low pricing in grocery. Tesco and Sainsbury's are price-matching Aldi on 650 and 240 items respectively.

Wealth gap widening even further

Our previous Retail Horizon reports have looked at how income inequality has led to the creation of a two-tier society and the erosion of the middle class. This is a trend that continues to accelerate.

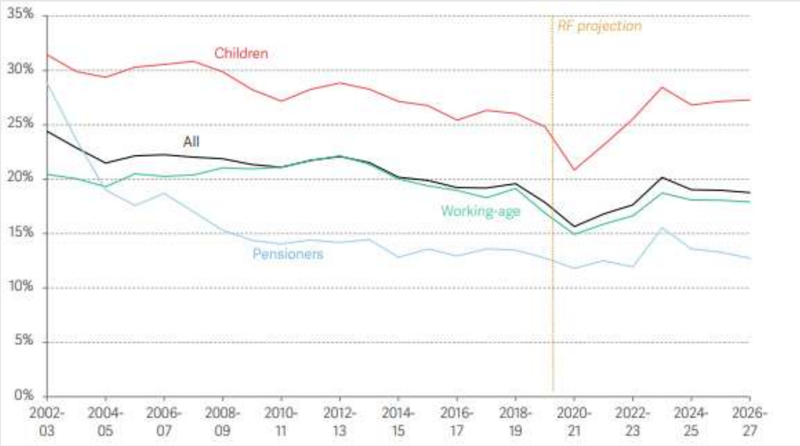
The pandemic increased job losses and insecurity for some, while others were able to save money and continue to work from home.

Uneven income gains and soaring inflation are continuing to widen the gap between the richest and poorest in society. With lower earners having to spend a higher proportion of their wages on essentials such as food, energy and mortgage payments, we anticipate ongoing high price sensitivity. Discretionary spend will remain under intense pressure as wage increases fail to keep up with inflation.

Discounters are already outperforming as shoppers seek value, but at the premium end of the market there will also be opportunities to target the grey pound of older shoppers and to persuade wealthier consumers to make some quality, considered purchases.

Market polarisation will lead to intense pressure on mid-market retailers, as growth comes from low prices at one end of the market and luxury at the other.

PROPORTION OF PEOPLE LIVING IN ABSOLUTE POVERTY, AFTER HOUSING COSTS: UK



Source: Resolution Foundation

In September 2022, the Resolution Foundation forecast that average real incomes will be 7% lower in 2024/25 than they were in 2019/20.

The number of people living in absolute poverty in the UK is currently projected to rise from 11 million in 2021/2022 to 14 million in 2023/24.

Wealth gap widening:

Strategic implications for retail

- Growing income inequality requires sharp product and price positioning
- Customers will seek value for money, with shoppers of all incomes sensitive to price
- Brands and retailers must tailor products and assortments carefully to a wide range of incomes
- 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 remain squeezed

Iceland

Iceland's core customer demographic has been among those hardest hit by the cost-of-living crisis and the retailer is at risk of losing customers to food banks.

The grocer introduced a price freeze on hundreds of £1 Iceland Value lines until the end of 2022. It also gave new online customers a £10 discount on their first shop and reduced the minimum spend for home delivery and deliver from store. Online deals included offering customers certain essential items from as little as 1p.

Every Tuesday, Iceland offers a 10% discount for the over-60s. It partnered with ethical lender Fair For to offer customers loans of up to £100 paid in £10-per-week instalments.

In September 2022, the company added energy-saving cooking guidance to its packaging.

These measures have helped customers but investment in price has caused a setback to its long-term sustainability initiatives; Iceland no longer expects to meet its target to become plastic-free by 2023, owing to the "unforeseen crises" it is working through.

Balancing short- and long-term priorities

Navigating short-term challenges such as the cost-of-living crisis is non-negotiable, but retailers must also retain a keen focus on long-term strategy to emerge stronger from this difficult period.

As the climate emergency accelerates, sustainability and purpose-led strategies must remain at the forefront.

This means putting customers and employees at the heart of strategy and plotting a path back to growth and innovation over the coming months.

Improving supply chains through vertical integration and other efficiency gains will benefit retailers in both the short and long term.

Product innovation, partnerships, innovations in technology and sustainability will prepare retailers for a path out of the short-term crisis.

M&S completed the acquisition of logistics provider Gist in October 2022, accelerating its multi-year plan to modernise its food network

Balancing short- and long-term priorities:
Strategic implications for retail

- To emerge from the cost-of-living crisis stronger, retailers must set aside budget for long-term innovation and investment
- Sustainability and purpose-led strategies remain at the forefront
- Customer-led innovation will win loyalty and drive long-term growth
- Apply a start-up mentality and agility gained during the pandemic to encourage new ideas and fresh thinking
- Partnerships and test-and-learn initiatives will allow retailers to innovate at lower cost

Ikea

Ikea continues to invest in new formats and innovation to maintain relevance and long-term growth.

London is a testbed for small formats, with planned investment of £1bn over three years to get closer to customers. Its first extended range small-format store opened in Hammersmith in February 2022. It features distinct areas focused on different parts of the home and includes a planning studio, a bargain corner where sustainable secondhand items can be bought and an in-store café featuring its famed meatballs. Its second small store format in London will open by the end of 2023 at Oxford Circus on the site of the former Topshop flagship.

In May, the retailer announced that it would be investing some €3bn in 2023 to adapt its big-box stores to double as online distribution centres. In October, it unveiled a partnership with Tesco to trial seven new Collect Near You points in supermarket car parks in Blackburn, Doncaster, Cambridge, Dereham, Bolton, Stockport and Liverpool.

Beyond retail, parent company Ingka Investments committed €100m to fund the development of more than 250 social housing units across Dublin, aiming to complete at least 150 by 2025. Upon completion, the new homes will be leased on a long-term basis to local authorities.

WINNING STRATEGIES FOR RETAILERS AND BRANDS

- **Shore up business plans to cope with ongoing disruption and frequent shocks**
- **Anticipate a new environment of squeezed incomes for the next few years**
- **Align strategy around customers and their evolving needs to remain relevant and emerge stronger from the economic crisis**
- **Place speed of change and agility at heart of strategy, as innovation will win**

POLICY

THE FACTORS SHAPING CHANGE

Cost-of-living intervention

Several measures have been introduced by the UK government to support consumers and businesses as they face rising inflation, energy costs and the cost-of-living crisis. More intervention is likely to be needed.

Through the Energy Bill Relief scheme, the government will subsidise energy bills for consumers and businesses for the six-month period until April 2023.

A planned increase to National Insurance contributions was scrapped to stimulate spending. Nonetheless, consumers are likely to find incomes squeezed as energy bills, fuel, food and mortgage payments rise. A planned 1p reduction in the basic rate of income tax was reversed by chancellor Jeremy Hunt just three weeks after being announced by his predecessor Kwasi Kwarteng.

The wealth gap between the highest and lowest earners will continue to widen and there will be concern for those on lower incomes, including students and the elderly.

Businesses will need ongoing support, particularly small and medium-sized retailers.

Cost-of-living intervention:
Strategic implications for retail

- Expect continued instability and volatility ahead
- Retailers must focus on easing the cost-of-living crisis for struggling consumers and employees
- Mortgage rates and inflation will dictate consumers' spending power for the coming year
- Small and medium-sized businesses will come under pressure with energy caps due to expire at the end of March 2023
- Businesses should be lean and efficient, but customer focused
- Leveraging customer data will help businesses to prioritise what is important

Tesco

Tesco is outperforming its grocery peers. In its interim results for the six months to August 2022 like-for-like sales edged up 0.7% in its core UK market. Pre-tax profit fell 64% as the company invested in price and increased staff pay.

Revenue was driven by Tesco's "powerful combination" of Aldi Price Match, Low Everyday Prices and Clubcard Prices amid cost-of-living pressures. The grocer has seen shoppers trade down to own brands and reduce basket sizes. However, Tesco also recorded a 13% year-on-year increase in sales of its Finest range as customers treated themselves at home, rather than eating out at restaurants.

To mitigate cost inflation, Tesco is accelerating its Save to Invest programme, with cost savings of £500m anticipated in the year to February 2023. Tesco expects to reach its £1bn cost saving target a year early in 2023/24.

Geopolitics and localisation

With many high-impact yet uncontrollable factors causing shocks to the economy and supply chains, businesses are assessing ways to lessen exposure to unnecessary risk.

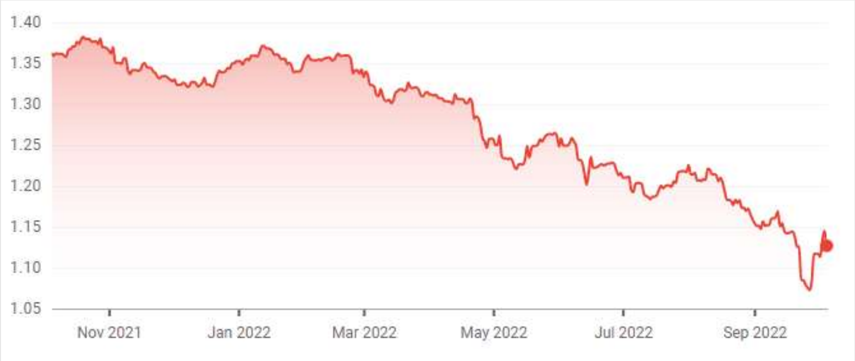
The war in Ukraine, political instability in Russia and China, and the falling value of the pound against the dollar have all combined to bring higher overheads, volatility and global risks that are impacting all retailers and becoming too obvious to ignore.

With the majority of international businesses forced to exit Russia, we anticipate that many will adopt a more risk-averse strategy to international exposure. Reliance on Russia for energy and on China for manufacturing will be side-lined over time in favour of other, lower-risk markets such as the US and EMEA.

As businesses seek alternative sources of goods and manufacturing, we anticipate a move towards more localised economies.

While localised supply chains may increase some overheads such as staffing costs, they are climate friendly and offer greater flexibility and rapid go-to-market innovation.

GBP TO USD EXCHANGE RATE



Source: Google Finance, October 2022

Geopolitics and localisation:
Strategic implications for retail

- Geopolitical instability will lead businesses to reconsider dependencies
- Shipping delays and the rising cost of freight will result in more diversified/localised supply chains
- Aside from politics, goods from markets such as China, priced in US dollars, will become less attractive as the pound weakens
- Retailers with diversified supply chains and international subsidiaries will benefit from minimised risk owing to geographical spread
- A weaker pound will drive international visitors to the UK, which will benefit retailers particularly in the luxury sector
- Localised supply chains will bring long-term benefits including progress towards sustainability goals and rapid reaction to changing demand

Next

At Next's interim results presentation in October 2022, chief executive Lord Wolfson shared the view that there are two cost-of-living crises – "a supply side-squeeze" with immediate impact and a "currency-led price hike" that will be felt next in 2023.

Next incurred "exceptional increases" in energy costs during the first six months of 2022, with its sourcing and supply chain functions disrupted by Covid and Russia's invasion of Ukraine.

Wolfson observed: "In preparing for a weaker pound next year, we must push the boundaries of our supply base to deliver better value through new sources of supply. This must be done without compromising our ethics, reliability or design."

Inditex

In the face of "possible supply chain tensions", Inditex temporarily accelerated autumn/winter inventory inflows to increase product availability. This resulted in a 43% increase in inventory levels during the six months to July 31.

The company outlook highlighted the "flexibility and responsiveness of the business in conjunction with in-season proximity sourcing", which it says allows a "rapid reaction to fashion trends" and provides a unique market position.

Political uncertainty transfers responsibility to businesses

UK government turmoil is blazing a trail of uncertainty over proposed and future legislation, leaving the retail industry to lead itself.

Parts of the government's HFSS legislation have been delayed and there remain questions as to whether it will ever be implemented, particularly if a change of government occurs again in 2023.

The ban on multi-buy offers for HFSS foods, including buy-one-get-one-free (BOGOF) and three-for-two offers, has been pushed out to October 2023. A junk food advertising ban, on television and online, will not begin until January 2024.

The stripping away of legislation leaves retailers and suppliers to decide for themselves. Market leaders Tesco and Sainsbury's are pushing ahead with the introduction of HFSS-compliant layouts and healthy eating initiatives.

The government's planned reintroduction of VAT-free shopping via a new digital scheme was welcomed by retail, but lasted just three weeks before being scrapped.

It is unlikely that we will see meaningful action on business rates under the current government, despite the industry campaigning for change. This is likely to add a huge additional burden in the coming year.

Political uncertainty transfers responsibility to businesses:

Strategic implications for retail

- Healthy eating will remain at the top of the agenda for responsible grocers, whether or not full HFSS legislation is implemented
- Business rates increases due to come into effect in April will put pressure on already squeezed retailers
- VAT-free shopping was set to provide a boon for luxury retail brands and destinations, but its reintroduction lasted just three weeks. Retailers must now find new ways to attract overseas visitors
- Retailers must be prepared to work together and with industry bodies to lobby government on major issues
- Retailers should brace themselves for a potential change in government – and engage with the opposition ahead of the next general election

Tesco

Despite delays to some HFSS legislation, Tesco confirmed that it expected to remove volume-led promotions on HFSS products from October 2022. This is in response to feedback from customers saying that 86% want to eat more healthily, and 77% want help from supermarkets to do so.

Tesco launched a Better Baskets campaign, designed to help customers shop a healthier and more sustainable basket, without compromising on price.

Both moves are in line with Tesco's aim to boost sales of healthy products to 65% as a proportion of total sales by 2025.

Sainsbury's

Sainsbury's has relocated items high in fat, sugar and salt away from entrances, aisle ends and checkouts at all stores. Only exempted products or non-HFSS lines are now in these areas.

Promotional bays of HFSS and restricted lines have been moved to the back walls or the first bay in aisle, with other changes differing based on store and layout.

The retailer is continuing to review its strategy based on government guidance. Last year almost 60% of promotions at Sainsbury's were on healthier or better for you choices.

Supply chain scrutiny

New scrutiny and proposed legislation is anticipated to focus on the shipping industry. This follows the impact to supply chains of Covid in China, the Suez Canal blockage, Brexit and strikes and backlogs at Felixstowe.

The criticality of supply chains across multiple industries has been highlighted since the coronavirus crisis, as disruption led to shortages across the retail, electronics and automotive industries.

The World Trade Organisation predicts continued disruption to trade volumes due to the conflict in Ukraine, rising inflationary pressures and expected policy tightening in advanced economies.

With ongoing political volatility and industrial action likely to disrupt supply chains in the short term, businesses should consider ways to minimise risk. Any delays or strikes are likely to have a significant detrimental impact to goods importers, particularly as an unprecedented heatwave in China has already caused disruption to vital logistical routes.

Heath Zarin, founder of EV Cargo, a company that carries goods for companies including Sainsbury's and Asda, told Bloomberg in July that the world "needs to be prepared for more volatile and expensive global supply chains".

Supply chain scrutiny:
Strategic implications for retail

- Geopolitical considerations should remain at the forefront of supply decisions for retail
- Industrial action, war and further waves of Covid could continue to disrupt freight
- Control of supply chain overheads is critical to business, particularly as inflationary and cost-of-living pressures squeeze already tight margins
- International regulations for freight and distribution may be tightened as delays impact supply chains
- Differentiated and localised supply chains give businesses operational advantages

Next

Next revealed that freight costs made up 6.5% of the landed cost of goods in the six months to July 31, putting pressure onto profitability and giving the company limited flexibility on margins and price.

Kingfisher

B&Q owner Kingfisher noted in at its interim results for the six months to July 31 that high demand, port congestion and Covid had placed "considerable strain" on the industry's supply and logistics network over the past two years. Since the summer of 2021, the group has built inventory in order to improve product availability, securing seasonal and 'buffer' stock ahead of peak trading. The company notes that freight headwinds are easing and the group is making progress on its sourcing diversification plan, increasing its 'near-sourcing' footprint and exploring dual sourcing where possible.

Amazon

Amazon's worldwide shipping costs almost doubled in two years, from £10.94bn in Q2 2020 to £19.3bn in Q2 2022, and rising fuel costs are also impacting its business.

In July 2022, it increased Amazon Prime membership fees in the UK and Europe and earlier in the year added a fuel and inflation surcharge of 4.3% for Amazon Marketplace sellers in the UK.

Climate emergency and steps to net zero

The climate emergency is a global imperative. With temperatures soaring to new records in 2022, the UN's climate science body, the Intergovernmental Panel on Climate Change (IPCC), warned that we are living in the hottest period for 125,000 years.

The UK government is targeting net-zero carbon emissions by 2050 and the majority of large companies have now set targets, including 80 retailers that have signed up to the BRC's Climate Action Roadmap – an industry-wide effort to find ways to decarbonise stores by 2030 and products by 2040.

Now businesses must ensure that they make adequate progress towards these targets, mapping out every step along the way and reporting openly and publicly on progress.

Despite navigating short-term crises such as the spiralling cost of living, this remains non-negotiable. Yet many businesses are falling behind on their goals.

At the same time, regulatory bodies such as the Competition and Markets Authority (CMA) have called out brands and retailers on greenwashing and can be expected to step up their vigilance on companies' sustainability claims.

The IPCC warned that we are living in the hottest period for 125,000 years and levels of carbon dioxide are the highest for 2 million years. Urgent steps must be taken now to combat global warming and avoid further catastrophe

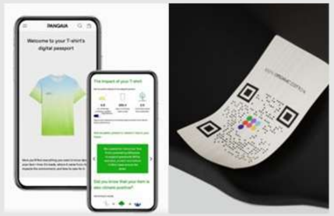
Climate emergency and steps to net zero:
Strategic implications for retail

- Growing anxiety among consumers will pressure businesses and governments to address the climate emergency
- Retailers should set scientifically measurable targets, clearly communicate these and report on the steps to get there
- Frequent progress updates should be provided, both internally and externally
- Environmental claims must be able to be substantiated, with legislation around greenwashing expected to increase
- Reusable packaging and packaging take-back schemes will continue to accelerate in support of ESG goals
- By 2023, every item of clothing sold in France will require a label detailing its precise climate impact. A similar rule is expected for the rest of the EU by 2026
- Credible certification bodies such as B Corp or The Carbon Trust can provide a framework for companies and build consumer trust

Amazon

Amazon co-founded the Climate Pledge in 2019. It has committed to reach net-zero emissions by 2040 and for 50% of shipments to be net-zero carbon by 2030. In support of this goal it is investing in areas including renewable energy, electric vans and HGVs, and has a dedicated area on its site for Climate Pledge-friendly products.

However, progress is slow. Amazon's latest sustainability report revealed that its carbon emissions increased 18% in 2021, amid expansion and soaring revenue during the pandemic.



Pangaia

Ethical fashion retailer and materials science company Pangaia is using EON QR code labelling on its garments. These enable customers to scan the code to learn about the product's origin through to its transportation, purchase and aftercare.

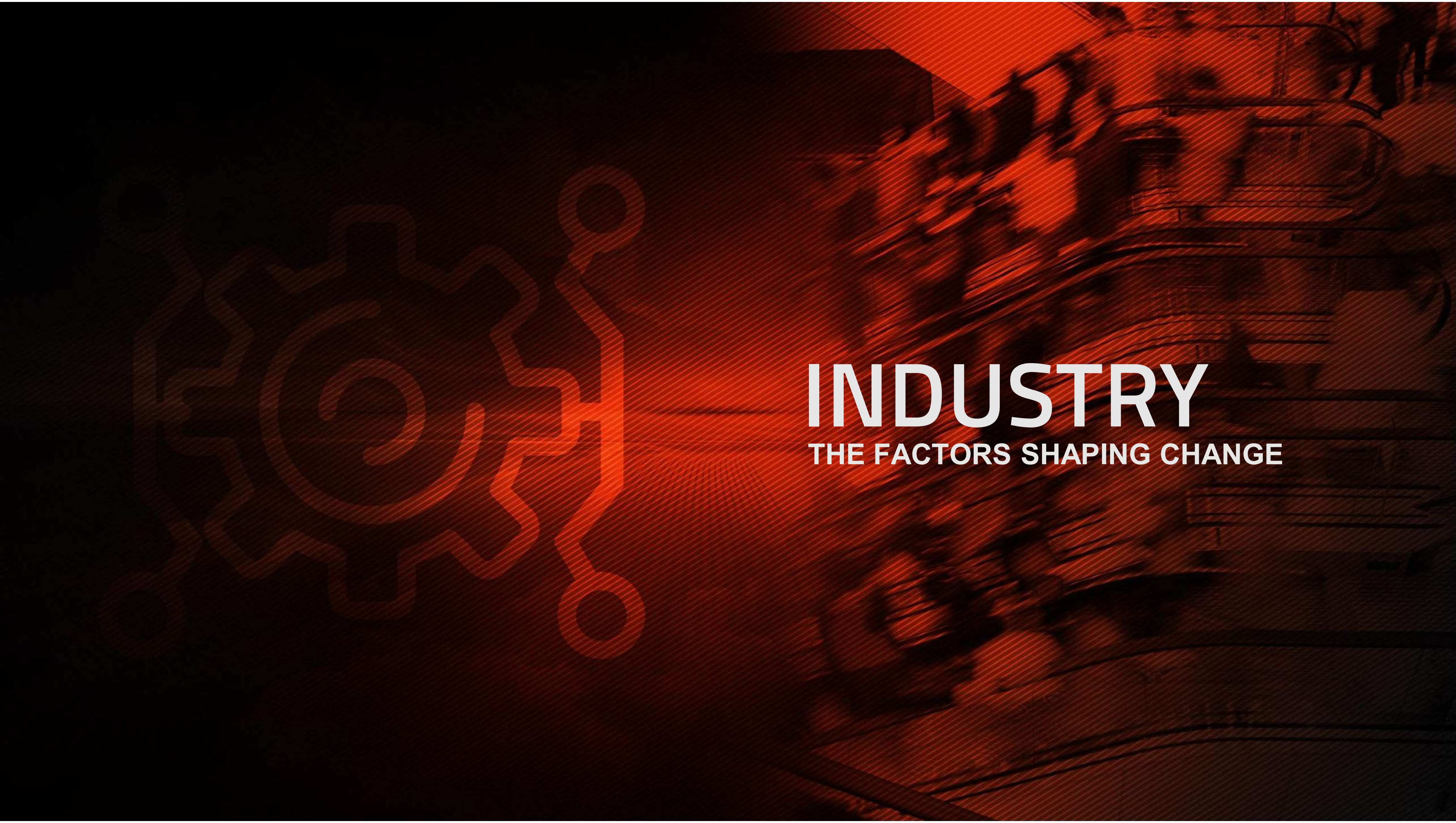
Thrift+

Preloved fashion marketplace Thrift+ gained B Corp status in October 2022. Achieving this status certifies that it has met exacting standards across five impact areas: governance, workers, community, environment and customers. As part of the process it legally embedded its commitment to purpose in its company articles.

The company has established 20 circular partnerships with fashion retailers and offset 201,700kg of CO_2 to date.

WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Prepare for ongoing political volatility and consider geopolitical disruption
- Mortgage rates and inflation will dictate consumers' spending power
- Localised supply chains will help minimise risk and accelerate progress towards sustainability goals
- Expect a degree of self-regulation within the industry in the short term
- Changes in UK government will give the industry the opportunity to argue for the changes it wants to see


INDUSTRY
THE FACTORS SHAPING CHANGE

Flexibility to serve

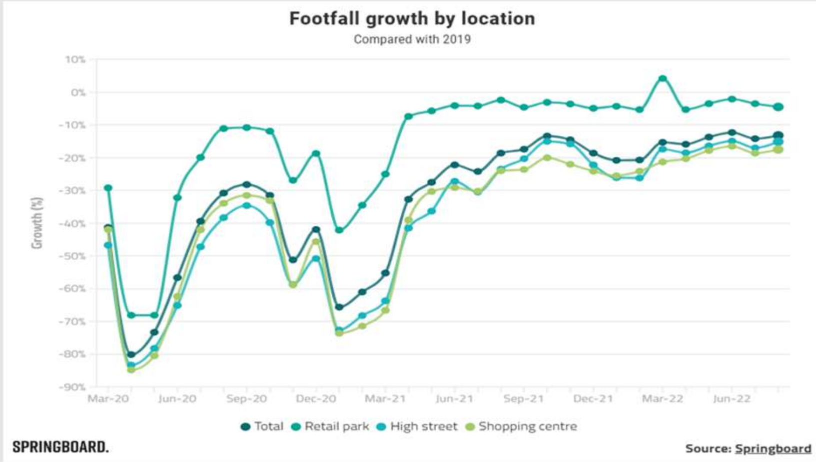
As consumer habits continue to evolve, retailers must ensure that agility and flexibility are at the heart of their strategy, allowing them to meet shoppers' constantly changing needs across all channels.

Despite the accelerated shift online during the pandemic, consumer habits have been recalibrating and data trends do not support the previously held view that ecommerce adoption was brought forward by up to 10 years.

Online sales have been in a year-on-year decline since May 2021, according to the IMRG Capgemini Online Sales Index. At the same time, Springboard figures show that footfall has strengthened across retail parks, high streets and shopping centres, although it remains below pre-pandemic levels.

This ongoing shift is reflected in the squeeze on the technology sector, where high levels of recruitment and investment had been undertaken to support the online peak. Demand for rapid delivery still exists, but it has slowed and providers are laying off staff and pulling out of some cities.

Meanwhile, distribution-dedicated space is being repurposed. Amazon is among the retailers subletting warehouse space as the pandemic-galvanized surge in online shopping slows.



Flexibility to serve

Strategic implications for retail

- Retailers must be efficient and consistent in support of channel-agnostic consumers that select brand over channel
- Investment in infrastructure and innovation will be informed by data to ensure best ROI
- Critical channel-related decisions must be made regarding business units, staffing and use of space – including warehousing – to support the rebalance in consumer habits
- Retailers must be agile, as rising living costs and deal-seeking behaviour adds to consumer unpredictability
- Store space will be leveraged for cross-channel functions, eg: distribution hubs, with stores further integrated into consumers' online shopping through live-stream shopping
- Decisive action will be needed around adding supply chain friction with retailers assessing the popularity of on-demand vs slower delivery

Next

Next reported a "sharp reversal of last year's lockdown trends" in a trading update for the first half of the 2022 financial year. Store sales recovered and online growth reverted to its "longer-term trajectory". The changes indicated a return to normal levels and a rebalancing now that shops have reopened.

Despite the online slowdown, and tough economic environment, Next remains bold in its tech investment and the rebalance is driving its priorities. At its half-year results, Next chief executive Lord Wolfson said: "Slowing rates of growth across the company, and in particular online, present the opportunity to reduce operating costs and improve our service." This includes increasing choice on the website and ensuring additional, similar product options offer something new, thereby eliminating duplication.

John Lewis

At the half-year point in September, John Lewis reported that in-store spending in the six months to July 30 had rebounded, although online was still elevated compared with pre-pandemic levels. It believes that this is a permanent shift.

The partnership continues to develop across channels, rolling out further John Lewis aisles in Waitrose stores and trialling a new John Lewis format in early 2023.

Lean in or branch out for future growth

As recession looms, businesses are taking decisive action to minimise price hikes for consumers while shoring up their bottom line – whether that means leaning into their existing proposition and stripping operations back to their original strengths or diversifying beyond retail to generate extra revenue and grow profits.

Some, such as Sainsbury's with its food-first strategy or Moonpig's back-to-basics focus on greetings cards, are battening down on what they are best known for and doing it well.

Others, such as Pets at Home with its grooming and veterinary arm or John Lewis with its rental home businesses, are branching out beyond their core retail offer.

Introducing or expanding service-driven revenue streams furthers the evolution of brands as ecosystems, bringing retail and services together, feeding into consumers' appetite for convenience and value.

Whether they stick or twist, retailers need to fully commit.

Its move into the rental housing market is part of John Lewis' long-term plan for 40% of profits to come from outside of retail by 2030.

Lean in or branch out for future growth

Strategic implications for retail

- Retailers will lean into their core retail offer to strengthen the balance sheet and benefit from a clear consumer proposition
- Businesses should consider which services they could add to their offering to generate additional revenue streams
- Retailers must ensure any business diversification is a good fit, with margins and overheads key considerations
- Businesses will have to be bold, investing in new service opportunities during challenging times
- Acquisitions will accelerate diversification, with savvy retailers sweeping up struggling businesses
- Brands must be agile and innovative to diversify and adapt quickly and successfully
- Retailers must pick the right partners and platforms and diversify rather than dilute their own brand

Poundland

Having hailed its success at reaching a multi-price strategy milestone in the 2021 financial year with more than a third of its sales made at prices other than £1, Poundland announced in June 2022 that it will be leaning more heavily into its "iconic" £1 price-point to help consumers hit by rising inflation.

Halfords

While Halfords' retail revenues declined year on year in the 12 months to April 1, 2022, it described the growth of its services offer as "the most transformational change" it has made to the business, bringing in revenues of £531m – up 79% on a two-year basis – accounting for almost 40% of total revenue.

Its diversification into motoring services should help it battle the impact of the rising cost of living with the needs-based, rather than discretionary-based, business helping it through uncertain times.

Loyalty reinvented

As living costs soar, increasingly channel-agnostic shoppers are switching between brands, seeking out the best prices and optimum convenience, casting brand loyalty aside.

Beyond cost-saving measures such as price matching and personalised offers, promiscuous consumers expect more than loyalty schemes to keep them coming back.

As other factors override traditional loyalty schemes, retailers will seek ways to entice repeat spending, including:

- Value-adding partnerships
- Subscription services
- Marketplace opportunities

The subscription economy swelled during the pandemic and while people will be more selective regarding the subscription services they use as they cut back, Barclaycard Payments data from mid 2022 found that, on average, businesses offering subscriptions estimated that nearly two-fifths (36%) of their revenue came from these sales over the past 12 months – up 11% year on year.

"Marketplace will allow us to build on the strength of our existing business to offer an even bigger range of choice for consumers and be the first to market with emerging brands and new products."

Boots chief digital officer **Paula Bobbett**

Loyalty reinvented

Strategic implications for retail

- Retailers must grow their ecosystems to find ways to win repeat spend in a market of promiscuous, value-conscious consumers
- Even trusted brands will have to demonstrate values rather than rely on emotive communications
- Loyalty schemes that resonate will provide exclusive rewards, as well as personalised offers and recommendations
- Retailers should consider tapping into the subscription economy to drive repeat spending
- Subscription models must be designed to provide real value, as anticipated divergence will result in consumers dropping some sign-up services to save money
- Retailers will launch marketplaces as a low-cost distribution model to help them offer greater brand breadth
- Retailers must choose partnerships that deliver tangible returns for consumers and benefit both brand parties

Walmart and Paramount+

Netflix's significant loss of subscribers in early 2022 reflected a slowdown in the surge in uptake during the pandemic and signalled an opportunity for partnerships that could benefit both retailers and subscription-driven companies during a time when consumers become more selective about the services they use.

In August 2022, Walmart gave its Walmart+ members the added streaming benefit of a Paramount+ subscription at no additional cost.

Walmart+ senior vice president and general manager Chris Cracchiolo said: "With the addition of Paramount+, we are demonstrating our unique ability to help members save even more and live better by delivering entertainment for less, too."

This streaming offer, combined with Walmart's speedy-delivery proposition, could come at a good time for the retailer in light of Amazon's rise in Prime membership costs.

Walmart+ | Paramount+

Survive or thrive

Caught in a perfect storm of pandemic-related supply chain, staffing and financing issues, and facing tough macroeconomic headwinds including operational costs, wage pressures and unpredictable consumer spend, retailers are in survival mode.

As the strain continues to mount, the market will diverge between success stories in which retailers will emerge stronger than ever, and tales of debt and collapse for those that fold under the weight of the climbing costs of doing business.

One area hiking expenses is labour, with retailers under pressure to increase employee wages as the cost of living rockets. Indeed, retailers such as Marks & Spencer and Sainsbury's carried out autumn pay reviews in 2022 for the first time.

Financial lifelines including fresh investment or new credit facilities are proving harder to secure, as market turmoil drives up the cost of debt. Eve Sleep abandoned a sale process and went into administration before being rescued by Bensons for Beds, while the sale of Boots was abandoned as potential buyers struggled to raise funds.

Founders and other former key personnel are being parachuted in to bring stability, including Tom Joule at Joules and John Hargreaves at Matalan.

Businesses are being squeezed into making tough decisions around store closures, layoffs and fresh capital as they seek stability in a volatile environment.

Katniss Everdeen fighting to survive in The Hunger Games trilogy

Survive or thrive

Strategic implications for retail

- Founders and experienced ex-bosses will be parachuted back into businesses to provide stability and strength (eg: Joules, JD Sports, Matalan, Naked Wines)
- Retailers will be forced to take dramatic cost-cutting measures such as store closures and management streamlining
- Wage hikes and flexible working will be needed to attract and retain staff as competition for labour mounts
- Retailers must collaborate and enter partnerships with start-ups to facilitate digital transformation, particularly where tech budgets are tight
- Building strong supplier relationships is key to navigating tough terrain
- Retailers have to be bold, continuing to invest in key areas such as product development and supply chain
- Large retailers with cash on the balance sheet will seek to snap up embattled businesses at knockdown prices

Joules

Lifestyle retailer Joules hired KPMG in the summer of 2022 to advise on shoring up its cash position as pressure mounted during times of economic turbulence.

Joules was in discussions with Next for the latter to take a 25% stake for £15m but this fell apart after Joules' share price dropped following a profit warning.

The retailer is considering other financing options, including a possible equity raise.

Founder Tom Joule was parachuted back in as an executive director to oversee its product offer.

As it looks to survive, the retailer is focused on better pricing and promotional strategy, more profitable product categories, and a strong focus on cost controls.

Elevated store concepts and hybrid space

As retailers battle to emerge from economic turbulence in the best possible shape, their physical store portfolio will come under scrutiny as associated costs weigh heavily.

Flagships will be a key consideration. Large city flagships are still popular among multi-brand groups looking to showcase their broad product range and retailers using the space for experiential purposes - such as sport clubs and demonstrations. However, for other brands, smaller flagships with a curated product offer will resonate better with consumers, with locality and tailored experience key. A more personalised in-store experience is also being supported by retailers' portfolios comprising multiple store formats.

This varied concept offer supports struggling high streets. With high streets failing to attract sufficient footfall, retailers' abandoned units and other unused space will increasingly provide opportunity for hybrid spaces for shopping, working and other leisure activities that will draw people back.

Repurposing of space will be prevalent, for instance, with empty, large department stores broken down into smaller units and retail sitting alongside office space.

Technological innovation will be integral to elevate these hybrid spaces and bring communities together.

"As the headwinds increase and put more pressure on household budgets, I also think physical retail is where retailers can successfully differentiate to defend and grow their market share."

Mamas & Papas chief operating officer **Nathan Williams**

Source: Retail Week Future Formats report, June 2022

Elevated store concepts and hybrid space

Strategic implications for retail

- Investing in stores and physical space will remain key to strategy as store revenues rebound post-pandemic
- Retailers will carry out estate reviews, which will be critical to restructures and cost cutting as well as long-term growth
- Portfolios will comprise multiple store formats based on best-for-brand and location fit
- Store strategies will benefit from local, neighbourhood formats as consumers continue to favour working from home and supporting local businesses
- Retailers must prioritise concept, experience, customer service and brand embodiment over store size, even for flagships
- Disruptive pureplayers such as Shein will use pop-ups to complement their online presence and experiment with new physical space and locations
- Retailers will embrace hybrid in-store space for events, partnering with leisure and food brands, and multipurpose opportunities such as office rental space

Rapha

Cycling clothing brand Rapha's flagship Soho London store, which was extended to almost double its size in late 2021, includes a significant 'experiential space' alongside its retail offer.

The Clubhouse celebrates the sport and includes a large cafe area as well as an extensive programme of events and rides, creating a community hub for cyclists.

Tesco

Tesco is running a trial renting out excess store space to be converted into offices as it taps into shifts in people's ways of working.

Partnering up with office rental company IWG, the grocer kicked off a pilot of the venture at its Extra store in New Malden, London, with approximately 3,800 sq ft of space on the mezzanine floor dedicated to 12 desks with the option of privacy, as well as 30 co-working spaces and a meeting room.

Users are charged a membership fee in exchange for access to the work space, Wi-Fi and the store's cafe. If popular, the idea could be rolled out to more Tesco stores.

Gymshark

Gymshark opened its first permanent store location on Regent Street, London, in October 2022.

The 18,000 sq ft hybrid space is not only dedicated to retail – it also features a dedicated "sweat" room, "pro bench" rooms, gym-standard, gender neutral changing rooms and a Joe & the Juice partner concession. The upstairs hub area is designed to be used for events and brand activations.

The store offers click and collect and customer online returns and will support those splitting baskets between store purchase and delivery.

Founder and chief executive Ben Francis said: "The original brief was we wanted a store that combined community, conditioning and retail. That's obviously difficult to nail all three things, but I think we've done a really good job of it."

WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Be agile and flexible, seeking new ways to fulfil demand across channels in line with changing consumer needs
- Commit fully to a laser-focused retail strategy or diversify into other revenue streams
- Build an ecosystem and seek means beyond loyalty schemes to win repeat spend
- Invest boldly to drive growth
- Innovate with space and embrace hybrid opportunities

CULTURE

THE FACTORS SHAPING CHANGE

Taking responsibility

The UK government recently admitted its net-zero policy is unlawful. The onus now falls on businesses to set the standard and take responsibility for carbon emissions in the absence of direction from Westminster.

Whilst most retailers now have ESG goals in place, many of these targets are set several years into the future.

To drive faster change, sustainability messaging must be embedded throughout the business, with investment in upskilling employees to create experts across all functions.

Retailers must be clear on their ESG strategies, both internally and externally, and report on the steps and progress to get there. It is essential that businesses are clear on policy, with more cases of greenwashing hitting the headlines in recent months.

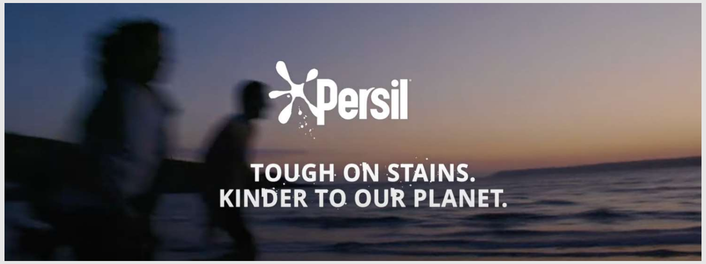
Consumers are driving change, with a YouGov survey revealing that more than two in five consumers (44%) try to buy only from socially and environmentally responsible companies.

An honest approach will benefit in the long term, including enlightening customers with clear goals, timelines and progress.

Businesses that invest in clear sustainability sign-posting for customers stand to gain on loyalty and set themselves up to win over the next few years.

Amazon's absolute carbon emissions increased by 18% year-on-year in 2021 and were up 40% on 2019 levels.

As part of its Climate Pledge launched in 2019, it committed to be carbon neutral by 2040.



Unilever's advert for Persil was banned by the UK Advertising Standards Authority for being misleading about its environmental benefits.

Taking responsibility:
Strategic implications for retail

- Purpose gives retailers a competitive edge, but goals and progress must be clearly tracked and communicated
- Take customers and employees on your brand journey. Meaningful change and progress can increase brand credibility and drive loyalty
- If targets are not being met, avoid reputational damage by communicating clear reasons why and state what will be done to tackle the issue
- Use technology and labelling in-store and online to help customers understand their consumption habits and make informed choices
- Close the green talent gap – equip employees with the skills needed to tackle and achieve climate goals
- Remove perceived affordability barriers by showcasing entry-level products with clear green credentials
- Retailers will only succeed if all colleagues across the business have the skills and knowledge to support and drive meaningful change

Patagonia

"Earth is now our only shareholder."

Those were the words of Patagonia founder Yvon Chouinard in September 2022 as he handed over his business to Holdfast Collective, a US charity "dedicated to fighting the environmental crisis", and a new trust that will oversee the company's mission and values.

Chouinard added: "Instead of extracting value from nature and transforming it into wealth for investors, we'll use the wealth Patagonia creates to protect the source of all wealth.

"If we have any hope of a thriving planet—much less a thriving business—50 years from now, it is going to take all of us doing what we can with the resources we have. This is another way we've found to do our part."

Ganni

Danish fashion label Ganni held itself to account for its sustainability credentials with its “Why we’re not a sustainable brand” feature in 2019.

Since then, it has launched Ganni.Lab - taking customers on its sustainability journey, from which fabrics it is sourcing, to supply chain relationships - and has established an external responsibility board to hold it accountable. It releases a progress report each year.

Ganni Repeat, which originally launched as a rental service, has been expanded to encompass a resale platform.

For its spring/summer 2023 collection, it collaborated with Levi’s, 66North and Barbour on collections that reuse materials and repurpose clothes.

Ganni was B Corp certified in September 2022.

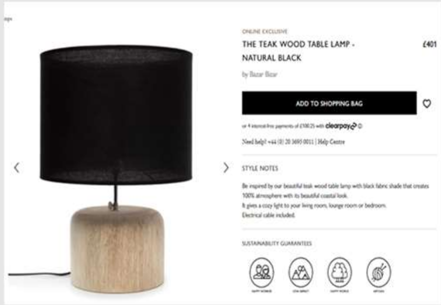
Wolf & Badger

Wolf & Badger became the UK's first B Corp marketplace when it achieved B Corp status in May 2021.

The business was founded on a mission “to ensure that the future of retail is a responsible one, where independent designers are incentivised to manufacture and source sustainably and ethically”.

As part of its Guarantee Index, the retailer marks its entire product catalogue according to sustainable attributes - these are easy signifiers for customers to engage with when purchasing.

With a presence in the US since 2017, it unites a global community of more than 2,000 designers with a shared focus on design and sustainability.



Sustainable partnerships and monetising your wardrobe

The cost-of-living crisis is shifting customer attitudes away from purchasing new items, returning to core values such as make-do-and-mend and thrifting. A recent report by Deloitte and YouGov 'How consumers are embracing sustainability' found that 53% of consumers have repaired rather than replaced an item in the last 12 months.

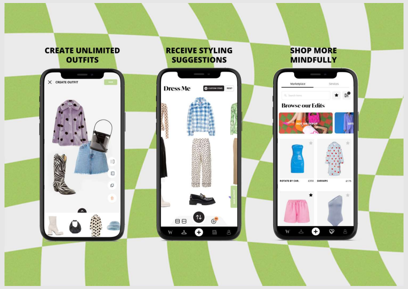
The rise of rental has also been spurred by consumers reducing the number of new products they purchase - huge market growth is predicted for fashion rental.

Resale opportunities will become normalised - resale platform Thred Up's Resale report found that the number of global brands operating their own resale shops almost quadrupled, from eight in 2020 to 30 in 2021. The secondhand apparel market is expected to grow by 127% globally by 2026.

Savvy consumers are also are monetising their wardrobes, using re-commerce platforms to rent out clothing. The number of customers digitising their wardrobes will also rise as consumers break away from consumptive models and catalogue their items, to build outfits from clothes they already own.

Brands and retailers are forging sustainable partnerships to tackle issues together. No longer able to go it alone, this joining of minds will enable retailers to build effective ESG functions for the future, whilst tackling goals head on. Slow fashion is a growing trend, as retailers move away from seasonality towards a more conscious and mindful strategy.

In the US, clothing retailer Madewell teamed with resale platform Thred Up to create "a circular store." It features secondhand Madewell pieces sourced by Thred Up.



Whering's app allows users to upload images of their clothing items and digitise their wardrobes. Users can then create outfits, planning them ahead of time.

Sustainable partnerships and monetising your wardrobe:
Strategic implications for retail

- Retailers can no longer go it alone; the future requires partnering with other retailers or brands to break down sustainability barriers and achieve targets faster.
- Joining brands together that have shared causes will deliver faster results, but partnerships must resonate with respective customer bases
- Adopt circularity practices now. Investment in circular models will drive future growth, with resale or recommerce platforms set to grow substantially over the next few years
- Retailers need to be mindful of the sustainability implications of cryptocurrency and partner with crypto-brands that have clear ESG strategies
- Slow fashion and seasonless assortments will become more commonplace
- Sustainable service propositions such as repair and tailoring will rise over the next few years. Expect partnerships and pop-ups to drive growth in these areas as retailers experiment

We are Kin

East London based slow fashion label We are Kin was founded by Ngoni Chikwenengere.

Its clothing is made to order, based on ‘timeless’ shapes that do not confirm to fashion trends. It describes itself as “seeking to create garments that are void of trends and fads which in turn makes our pieces timeless, wearable and help to reduce waste”.

As well as timeless shapes, it sources organic or end-of-line fabrics.

Sojo

Founded by Josephine Philips, Sojo aims to help consumers adapt clothes already in their wardrobe under the tagline “alterations and repairs made easy”.

Its app launched in early 2021 to connect customers with local tailors and alteration services. In 2022, it received $2.4m in funding to “turbocharge” its “mission”.

Sojo was chosen by Google as one of 40 recipients of its Black Founders Fund, which provides cash awards — without requiring equity in return — and hands-on support to help black entrepreneurs build and grow their businesses.

It has launched a partnership with fashion brand Ganni, offering a free tailoring and repair service to all its London customers.

Adidas x Allbirds

German sports giant Adidas worked in partnership with environmentally conscious footwear B Corp Allbirds to design its “most climate-friendly performance running shoe ever”.

In combining expertise, the two brands produced a shoe that uses minimal materials but still delivers on performance.

Allbirds head of sustainability Hana Kajimura said: “Climate change presents a formidable challenge, but the success of this project is an example of how two teams can work together to create a shoe fit for performance and the planet.”

At just 2.94kg CO_2 emissions per pair, the shoe is responsible for emitting 63% less carbon dioxide than a comparable running shoe across its entire lifetime.

Each shoe has been coloured with no dye - a method that uses the material’s natural colour to help reduce water consumption.

Adidas SVP of innovation Tom Waller, said: “The only way we can sustain our company’s growth is by being innovative. New ways to bring elevated experiences to our consumers is based on our ability to find new and sustainable ways to do that. Innovation is therefore a sustainability strategy, and sustainability is an innovation strategy.”

Breaking barriers

The Black Lives Matter movement in 2020 catapulted a recognition that retailers had to act to tackle both unconscious and conscious bias within the sector - but how much has changed since then?

A recent study by MBS Intelligence and the BRC, 'Tracking progress on diversity and inclusion in UK retail, 2nd Edition', found that 78% of businesses now collect D&I data, with 90% including ethnicity as an area of focus within their strategies. However, research indicates that only 34% of employees reported that open conversations about race were taking place in their organisation.

Many retailers are now expanding data collection schemes to include information on employee mental health, sexual orientation, socioeconomic background and disability status.

When it comes to addressing disability, flexible working will speed up progress, creating more opportunity for inclusion.

Retailers' inclusion drives cannot just be limited to their employees – they must place huge consideration on this within their customer bases too.

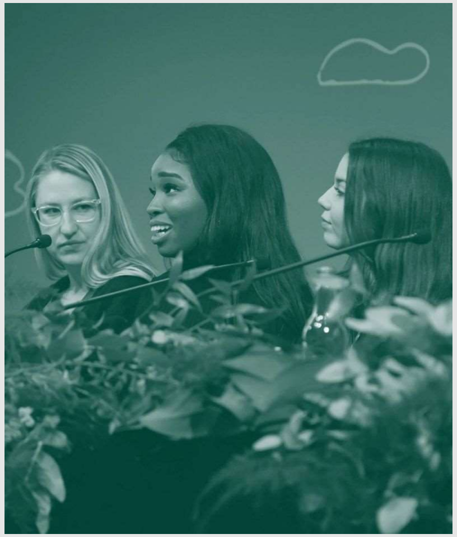
Focus on the value of Gen Z customers has sidelined shoppers over the age of 50. The grey pound should not be underestimated, these shoppers are more likely to have disposable income.

H&M Move recently used 84-year-old actress Jane Fonda for its campaign launch

Superdry hit the headlines for discriminating against one of its designers due to age. She was awarded £100,000 at a tribunal

Breaking barriers:
Strategic implications for retail

- Brands and retailers must continue to champion race and gender equality, giving employees platforms and safe spaces to discuss these issues
- Businesses should adopt reverse mentoring schemes and company collectives to ensure that different generational voices are heard from all levels within organisations
- The sharing of data and progress on D&I is pivotal to driving change. Employees and customers not only demand improvement but want to see the data to back it up
- Retailers must work to normalise conversations around previously taboo subjects such as birth, menopause and grief. Not only will this aid employee retention, but it will also increase brand affinity
- With increased focus on Gen Z, companies risk sidelining a huge number of customers from other generations. Marketing and range decisions must be tailored, or retailers risk alienating themselves from older, and often more affluent, demographics
- As retailers focus on their future strategies, they must utilise customer panels and listening groups to capture what makes customers tick



The Body Shop

In May 2022, beauty retailer The Body Shop announced the launch of its 'Youth Collective' that aims to back the views of the younger generation.

Made up of a group of under-30s within the Body Shop and other B-corps, they will be consulted by senior leadership on business decisions.

The retailer stated it "will make sure that we are amplifying young people's voices within our business, while also pushing us to look at the way we do things in a new way".

In August 2022, the Youth Collective took over the group's social channels for International Youth Day to help shine a light on the issues facing those aged between 15 and 24, now making up 1 in 6 of the global population.

Boots

Boots introduced a raft of new initiatives in support of customers who are going through the menopause.

In September 2022 it launched its new skin:edit range, specially formulated to target the visible skin changes experienced during perimenopause and menopause – citing that there are an estimated 13 million women in the UK that are currently perimenopausal or menopausal. It has also created a menopause skincare range as part of its successful No7 brand.

It became the first pharmacy to offer HRT medication without prescription.

Superdrug

Tackling the topic of bereavement, Superdrug teamed up with charity Marie Curie to introduce its new 'Make Up for Me Time' initiative.

Proceeds from the donation of products online and in-store will support the charity's bereavement services.

Supporting young people who are experiencing bereavement, it will host make-up masterclasses to "open up conversations in a safe space".

WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Share progress on sustainability targets to gain trust and confidence
- Help customers to make informed choices when it comes to sustainability
- Partner with like-minded retailers to tackle sustainability barriers
- Embrace circularity and experiment with service propositions to promote change and discussion
- Highlight and discuss difficult topics with employees and customers
- Continue to progress the D&I agenda

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