

RetailWeek 

RETAIL **HORIZON**

2022

Mid-Year Update

A 360-DEGREE OVERVIEW OF DISRUPTION USING OUR STEPIC METHODOLOGY



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

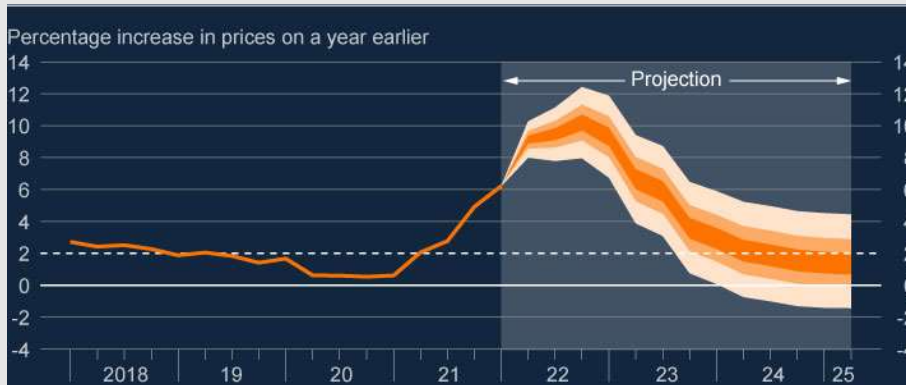
Brand relevance and evolution | Agility and partnerships | Customer experience
Innovation and investment | Culture and purpose

Economic challenges will be the key concern for retailers and consumers

- External factors disrupting the economy will characterise the rest of this year into next and have a major impact on strategy
- Major living standards hit for households driven by high and rising inflation; wages not keeping pace
- Businesses facing increased overheads (transportation, fuel, staffing, manufacturing)



Inflation at 40-year high, forecast to peak in Q4 2022



Bank of England CPI projection, May 2022



ONS/Bank of England, May 2022

The Bank of England forecasts CPI inflation to peak at 10% by the end of 2022 and it may rise even higher. This will make the golden quarter particularly challenging.

Retail sales **volumes are drifting lower, as prices rise**

Russia's invasion of Ukraine will impact costs including energy, wheat and sunflower oil.

Customers will trade down and reduce spend. Even affluent customers with the ability to spend will need to be incentivised to make considered purchases.

Retailers will remain under pressure to absorb costs and protect consumers, where possible

Battle with other sectors for discretionary spend



Retailers must pivot with consumers as landscape continues to shift

- Consumer lifestyles continue to evolve, but hybrid working remains
Online retail growth has peaked. Store footfall recovering. Consumers continue to adjust behaviour on an ongoing basis, as spending power remains curtailed.
- With so much recent change, the time to reflect has made us reassess priorities
Focus on work/life balance, socialising, saving, experiences, family and friends, health and wellness
- Digital-first consumers are now seeking tech-driven interactions
Demanding more from businesses, including hyperpersonalised experiences, loyalty incentives and flexibility to shop however they want
- Fragmented society, influence of Gen Z and social media
Priorities vary significantly for different consumer groups. Gen Z is influencing a need for digital interaction, but also prioritising mental health, sustainability and integrity.
- Need for community and connection, including those working at home
Opportunity to build loyalty and emotional engagement, also the Metaverse is connecting us within virtual communities



Habits and loyalty have shifted dramatically – how well do you **really** still know your customers?



Asda

As UK inflation hit a 30-year high in February, social influencer and poverty campaigner Jack Monroe (@BootstrapCook) tweeted about the disappearance of budget lines from her local Asda store, criticising the retailer for range rationalisation resulting in its failure to “provide customers on a budget with more value choices”.

As a result, Asda pledged to reinstate its full range of 150 Smart Price and Farm Stores products to all food stores by March.

Asda chief customer officer Meg Farren said: “We want to help our customers’ budgets stretch further and have taken on board the comments about the availability of our Smart Price range made by Jack Monroe”.

Pressure from consumers and social media is set to continue, particularly on sensitive topics such as price. Monroe is now partnering with Superdrug on beauty and working with the ONS on a new consumer price index.



Primark

Primark does not have a transactional online site and revenue has suffered over the past two years from enforced store closures and lower footfall.

To drive customers to its stores it invested to upgrade its digital presence and launched a redesigned website, which allowed customers to see product availability by store.

At the same time, it is generating excitement around its brand with new partnerships. In February 2022, Primark teamed up with Greggs to launch a range of Greggs-branded clothing and open a ‘Tasty by Greggs’ café in its Birmingham flagship.

Consumer pressure on price will increase

Retailer innovation can drive footfall to stores



Retailers increasing tech investment for efficiency and long-term growth

- Tech investment remains at the heart of long-term growth strategies and is also allowing retailers to be more agile in responding to rapid changes
Focus areas include supply chain, IT systems, automation of processes
- Return on investment key, with retailers working to improve operational efficiency
Tangible results include assortment and availability improvements, smarter routing, better insight, AI, systems integration
- CX transformation brings relevance for digitally driven consumers
Digital reach broadening to store experiences and personalised interactions
- Acceleration and wider adoption of autonomous, frictionless retail solutions
Cashierless stores, robot deliveries, self-driving electric vehicles
- Blended retail improving experience and margins
Flexible online fulfilment from stores, immersive experiences, livestreaming, app-driven discovery and selection, in-store data collection
- Tech as a service
Monetising the opportunity to license expertise to others eg: Ocado, Hut Group, Next, Amazon



Amazon is now rolling out cashierless shopping to its Whole Foods stores in the US and licensing Just Walk Out to other retailers



John Lewis recently created 150 new digital tech roles to respond to changing consumer habits



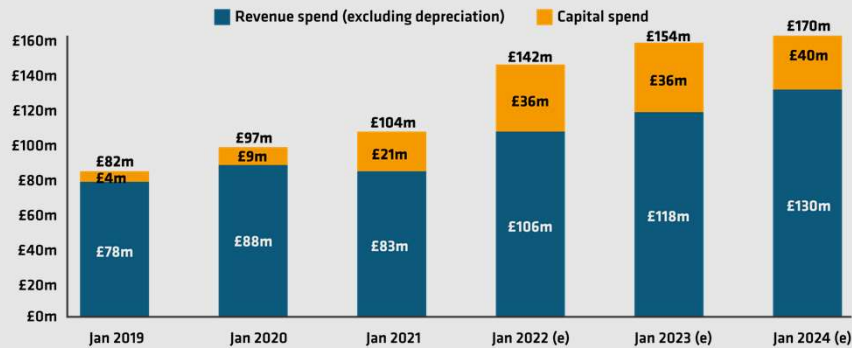
Next

Next has adopted an in-house first approach to developing technology and is deploying these systems through its Total Platform to the benefit of other brands such as Gap, Reiss and its partners.

Next generated £10m in profit from this ecosystem in 2021 and expects to double this to £20m in the coming year.

Next will increase capex on technology to £36m annually, as part of a four-year plan to modernise all eight of its system domains.

Next Technology Expenditure



Ocado

In January, Ocado Technology unveiled seven “game-changing” innovations to bring lower operating costs and drive more speed and efficiency into its last-mile operations.

Innovations include automated bots that are energy efficient and five times lighter than previous designs. More than half the parts are 3D printed. The new design allows Ocado to build lighter grids that can be retrofitted into existing space rather than new CFCs, saving time and cost.

Supply chain efficiency is gained by robotic picking arms sitting on top of the grid and there is an automated frameload to lower labour costs and increase productivity.

Routing is another key focus. Ocado Orbit creates a “virtual distribution centre” allowing smaller fulfilment centres to split product ranges and work together in an ecosystem powered by AI and machine learning.

A Swift Router system enables smart order prioritisation, allowing last-minute, short lead-time orders to be prioritised and processed alongside regular orders and delivered by the same van.

Additionally Ocado is investing in autonomous vehicles with its £10m multi-year collaboration with Oxbotica.



Taking next steps to meet targets on health and sustainability

- Sustainability at the heart of strategy
Leading UK retailers including Sainsbury's and Tesco are targeting net zero by 2035, ahead of the UK 2050 commitment. Now businesses must focus on the steps to get them to their goals: innovating, measuring and communicating progress
- HFSS compliance for grocers from October
Display regulations for products high in fat, salt and sugar from October, with other measures to follow. New product development will focus on healthier products and eating well. Promotional activity highlighting healthier lifestyles
- Transition to electric vehicles and greener solutions
Retailers are accelerating investment in electric HGVs and delivery vehicles. New car regulations from 2030 and rising energy costs driving up consumer EV sales (11% of new car registrations, April 2022)
- Green financing commitments from major businesses
Linking finance to ESG goals (eg: Joules, John Lewis)



Selfridges' Superfutures pop-up explores the future of retail, bringing to life an imagined future store that offers product on-demand and items made from future-facing materials such as pineapple leather



eBay

In a move towards sustainability, ITV series *Love Island* is partnering with eBay this summer, having in previous years partnered with I Saw It First and Missguided.

As part of the tie-up, contestants will wear pre-loved clothes during the series from a shared wardrobe situated in the villa.

eBay revealed that UK shoppers are showing clear signs of moving towards resale, with those aged 18 to 34 now having 22% second-hand items in their wardrobe.

Boohoo

YouGov research in 2021 showed that Boohoo was among the companies making the biggest leaps in reputation after it linked a £150m bonus scheme to changes in factory conditions.

Green financing is increasingly being adopted by companies and this is a good way to drive towards ESG targets.



Currys

Currys has announced a 'Long Live Your Tech' commitment aimed at tackling e-waste.

The new commitment educates, supports and helps consumers to make more informed and sustainable choices when buying and disposing of technology.

Currys collects, on average, 5,500 tonnes of unwanted tech every month. Its 'Cash for Trash' initiative running in March and April 2022 offered UK consumers a monetary voucher when they brought in unwanted electronics. More initiatives are set to follow.

Innovation in healthier lifestyles and sustainable solutions will drive growth

ESG remains focus for government, businesses and consumers



Blended retail, resilience and customer-centric strategies

- Big retail transformation to 'lean machines'
Legacy retailers (e.g. M&S, Tesco, Frasers Group) adopting a start-up mentality to transform their businesses. This requires maximising every resource for ROI, adopting new thinking and making incremental gains
- Acceleration of new formats and blended retail experiences
Mediocre retail is out, new store innovation is key to retail transformation. Businesses adopting a digital-first, hyperpersonal approach, with a keen focus on CX
- New ecosystems at the heart of brand and retailer growth
Expanding reach via new initiatives and partnerships, ecosystems lock in customer loyalty with choice and rewards, whilst gathering valuable insight on customer needs and priorities.
- Alliances that are focused and strategic
Partnering to expand reach and make incremental gains. Complementary to all parties and sharing insight and expertise.
- Rapid rollout of sustainable retail solutions
Retailer focus on sourcing, waste, energy, repair and resale



M&S, Stevenage



Coca-Cola, Covent Garden



M&S

Marks & Spencer hailed a turnaround in its business as it recorded an uplift in full-year sales and profits in the year to April 2022.

M&S has adopted a start-up mentality to reinvigorate its business, which is reflected in results and also showcased in its new concept store in Stevenage.

Opening in May 2022, the 75,000 sq ft former Debenhams store aims to bring a “bigger, better, fresher shopping experience” for customers.

Outside the store, customers are greeted by a large Percy Pig as well as a digital screen showing M&S adverts. Technology including Scan & Shop has been added instore and there are digital order points in the 174-seat café.

The market-style food hall features fill-your-own stations for products such as pasta and rice. Sparks loyalty card customers can scan their card to taste a sample of the wine selection.

Clothing and home have a refreshed look and feel and are carefully integrated into the store design.



Tesco

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

Tesco has driven profitability into its business to reinvest in lower pricing. This includes rental savings through property buybacks and selling ‘air rights’ above its stores. Tesco has also reduced costs by disposing of its Jack’s discount format and closing in-store counters.

By converting excess store space into urban fulfilment centres (UFCs), the profitability of online is improving. Four UFCs are now in operation, with 25 planned in the long term. UFCs give Tesco a scalable, efficient way to increase picking rates (4x compared to stores) and fulfil rapidly growing online demand. It is also trialling rapid delivery through its Whoosh initiative and a partnership with Gorillas in selected Extra stores.

The powerful combination of Aldi Price Match and Clubcard prices is locking in loyalty for the 9 million members in Tesco’s ecosystem at a time when the cost of living is a high priority. 100% of Tesco promotions are now on Clubcard only.

As it works towards its target of net zero by 2035, Tesco is trialling Loop in 10 stores and highlighting healthy, sustainable diets through its Better Baskets initiative.



Purpose-led strategies and circular business models

- Acceleration of purpose-led strategies key to long-term retailer growth
 Consumers expect businesses to now lead and report on progress, publishing key data to allow informed consumer choice
- Conscious consumption and circular business models
 Requires a mindset change for businesses and decisive steps on responsible sourcing and product lifecycles. Resale and hire schemes will proliferate; longer term, products could be produced to order
- Frictionless sustainability closing the value / action gap
 This requires businesses to remove barriers to more sustainable choices e.g. price, range and to act through the value chain on behalf of customers and the planet
- Progressing the D&I agenda
 Kind leadership and holistic support of everyone - disability, age, menopause, health issues, gender and ethnicity. Essential as businesses strive to attract and retain valuable workers.



WGSN forecasts that sales on resale platforms will overtake fast fashion by 2030. Etsy acquired Depop for \$1.6bn (£1.1bn)

What consumers think of retailers' sustainability targets

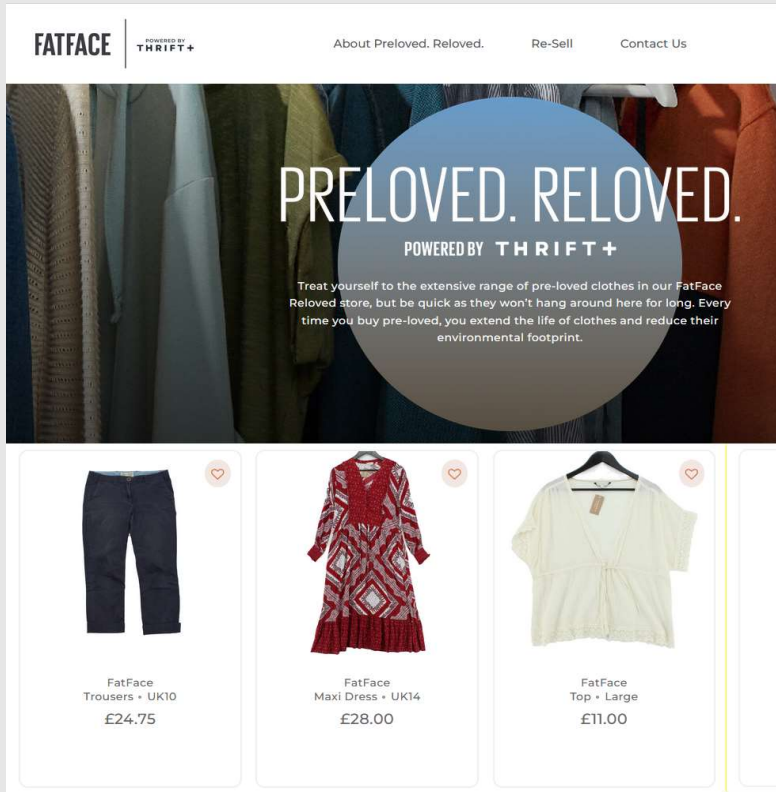
Would a retailer with sustainability targets and pledges incentivise you to shop with them?



Retail Week 'Green is the New Black', April 2022



Doing good becomes frictionless

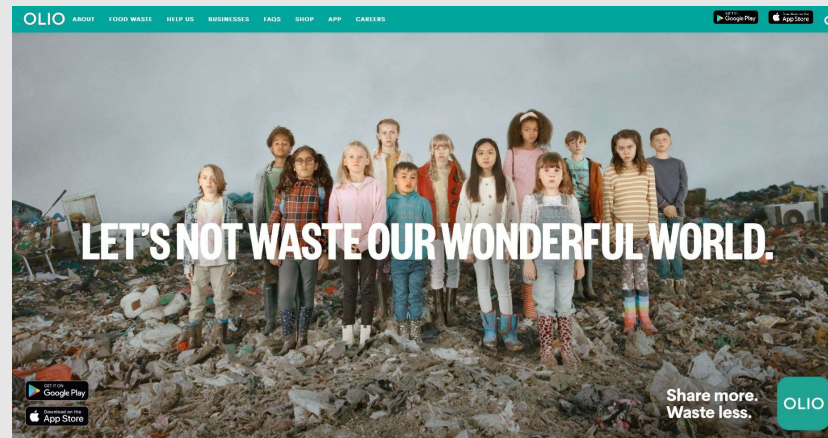


Thrift+ and Olio are among a new breed of companies that are helping retailers and consumers become more sustainable.

These type of easy-to-navigate platforms make buying, selling and reusing items frictionless and as easy to browse as regular retail platforms. At the same time, they are focused on helping charities and the community.

Fatface partnered with Thrift+ on its Preloved. Reloved. store, which is accessible through Thrift+ and also the FatFace website.

Olio partners with individuals and businesses to minimise food waste.





FIVE WINNING STRATEGIES

Disruption is the new normal, future-proof your business

- **Brand relevance and evolution**
Decisive action to keep up with rapid consumer changes, digital engagement, ecosystems
- **Agility and partnerships**
More strategic, value-added, delivering for both businesses and customers
- **Customer experience**
Blended, digital-first CX, building relevance and deeper customer relationships
- **Innovation and investment**
Future-proofing, incremental gains, lower costs, flexibility, customer-centric solutions
- **Culture and purpose**
ESG at the heart of strategy, aligning values with action, kind leadership



For more information about this report or if you would like us
to present it to your business, please get in touch:

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