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9 771360 821178 2 7 >
July 3, 2020 | £7.99

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Printed by Buxton Press Ltd
Registered as a newspaper with the Post Office
ISSN: 1360-8215



EDITOR'S COMMENT

George MacDonald



Raise a glass – responsibly – to lockdown relaxation

As retail reopened on June 15, there was no getting away from the fact that there was a gaping hole at the heart of town centres and other shopping destinations: the absence of almost any form of recreation.

While the stores were back, many of the other places that draw people in – bars, restaurants, museums and galleries – remained shuttered amid the Covid-19 pandemic. Retail continued to suffer as a result.

The lack of opportunity to enjoy a drink, a bite to eat or a bit of sustenance for the mind and spirit showed just how important wider experiential and leisure appeal is to the consumer business ecosystem.

That was a contributor, no doubt, to the fact that while footfall was unsurprisingly up week on week, as shops emerged from their enforced hibernation, it was still steeply down year on year. So the relaxation of social distancing from two metres to one, enabling the reopening of eateries, pubs, cinemas and other venues from tomorrow, is very good news.

Andy Street, the former John Lewis department stores boss and mayor of the West Midlands, put it well, minutes after Boris Johnson confirmed the changes.

Street tweeted: "I welcome today's announcements by the PM as they are crucial for our economic future, people's jobs and livelihoods. They'll enable a greater return to normal life, which has been made possible by the immense sacrifices by everyone following the guidelines."

He also struck a note of caution, essential before anybody gets carried away with the idea that business and life as usual are back. "I must stress the importance of continuing to follow the guidelines so we are truly able to defeat this virus," he warned.

That caveat cannot be overemphasised because the consequences of another lockdown on any sort of scale as the UK opens up could be catastrophic

for consumer confidence, willingness to shop and retail recovery. That makes this week's developments in Leicester a big worry.

Many people would have been scared to head out to crowded places, even before Leicester. It's a stark reminder that ensuring customer safety must be paramount as hospitality businesses start setting the tables and polishing the glasses again.

Last month, lockdown was reimposed in one German region, home to 360,000 people, following a new outbreak. Germany is widely seen as having been one of the more successful countries in combating the spread, so it is sobering to note that this problem has by no means disappeared.

The UK, by contrast, is perceived by many as having botched crucial aspects of its response. A second lockdown here, even on a local level, could be shattering, so the hope must be that the problems in Leicester can be swiftly addressed.

Consumer businesses, big and small, will of course take every measure they can to ensure customer safety. Kate Nicholls, chief executive of UKHospitality, said when restaurants and similar businesses were given the nod to reopen: "We are the heart of responsible socialising – it is what we do, so let's work with this to give our consumers confidence."

The retail industry, led by food groups and other 'essential' retailers that have traded throughout the emergency, has set a fantastic precedent by showing that businesses can adapt to restrictions forced upon them. There have been very few incidents of shops becoming viral centres.

Other consumer businesses can do the same. In fact, they must, otherwise retail centres are destined for an even more prolonged downturn.

Reopening may have been dependent upon government say-so, but its success will rely upon executional excellence and responsible behaviour by businesses and citizens alike. **RW**

Retail has set a fantastic precedent by showing that businesses can adapt

THE BIG STORY

Is the shopping mall dead?

As shopping centre giant Intu plunges into administration, **Gemma Goldfingle** asks whether the mall as we know it could be a thing of the past

Shopping centre giant Intu collapsed into administration in a pivotal moment for UK retail. Never before has such a large landlord failed.

Intu was saddled with unsustainable levels of debt and, while the lack of rental income over the past two quarters when many of the stores in its centres were forced to close has exacerbated its situation, the writing had been on the wall for some time.

The landlord, which owns malls such as Trafford Centre, Metrocentre and Lakeside, made a £2bn loss last year, up from a £1.17bn loss the year before.

It has fallen victim to a fundamental rethink of retail property as both rents and footfall decline.

“Rent used to go up continually at shopping centres,” says Nelson Blackley, research associate at the National Retail Research Knowledge Exchange Centre (NRRKEC).

“There used to be a waiting list of retailers trying to get into some centres. But recently occupancy levels have dropped because so many brands have gone through CVAs and restructuring, and latterly retailers have tried to reduce rents and move to more flexible structures.”

While store closures of this ilk hit all retail destinations, shopping centres are particularly vulnerable because of their reliance on bigger retailers, says Blackley. He cites Intu as an example – at the end of the

financial year, 170 of its units were occupied by just nine retailers, with Arcadia running 26 shops, Boots 21 and H&M 20.

“It means that when some of these bigger retailers hit financial problems and opt to close stores, it has a huge impact on shopping centre landlords.”

Waning popularity

Store closures, coupled with the growth of online, have led to fewer people visiting shopping destinations. And while all locations have been impacted, shopping centres have been particularly hard hit.

Between 2013 and last year, footfall at malls has declined 14.5% compared to 11.3% on high streets, according to Springboard data.

Springboard marketing and insights director Diane Wehrle says the decline is worse at shopping centres as they have not reflected the changing ways consumers want to shop.

“There’s been a shift in consumer demand away from simply shopping to a more leisure experience,” she says. “Shoppers want more than just to buy stuff – they want an experience. They want to go out for lunch while shopping. High streets realised this and shifted their offer.”

Wehrle also adds that some larger landlords are like “supertankers” and were unable to move quickly enough to meet this changing demand.

However, action has been taken and landlords have been investing to turn their shopping centres into real destinations. In fact, Intu was



Shopping centre landlord Intu has plunged into administration

Year-on-year percentage change in UK footfall

Year	Shopping centres	High streets
2013-14	-1%	-1.4%
2014-15	-2%	-1.9%
2015-16	-1.8%	-1.10%
2016-17	-1.4%	-0.9%
2017-18	-3.2%	-2.3%
2018-19	-2.5%	-2.5%
Total 2013 to 2019	-14.5%	-11.3%

The one thing landlords were pinning their hopes on to save the market is the one thing that people can't do right now – experiences
Jonathan De Mello, Harper Dennis Hobbs



UK retail is overspaced and some of these centres will need to be converted. Some space could be converted to customer fulfilment centres
Nelson Blackley, NRRKEC

attempting to reinvent its malls and had launched a Nickelodeon theme park as part of a 225,000 sq ft extension of Lakeside and an indoor ski slope in its Braehead centre in Glasgow.

Wehrle says the attention paid to premium centres has paid off as there has been a “smaller drop in footfall across bigger centres over the last couple of years”.

But the question is whether leisure can still be the saviour of the shopping centre in the era of social distancing.

Director at retail consultancy Harper Dennis Hobbs Jonathan De Mello suspects shopping centres may experience some short-term pain.

“Landlords were pinning their hopes on experiences and it was the right track,” he says.

“But the one thing they were pinning their hopes on to save the market is the one thing that people can’t do right now. We simply don’t know when that will come back.”

However, Wehrle is convinced experiential shopping centres are still the way forward.

“Lockdown has highlighted the need for having social elements to

shopping trips,” she says. “There’s not been a rush back to retail yet precisely because hospitality hasn’t opened.”

Polarisation of shopping centres

While a focus on experience has helped stem the decline at larger centres, it has taken huge investment to make them true experiential destinations. Intu ploughed an eye-watering £95m into its Lakeside leisure extension.

Wehrle highlights that it is largely premium destinations that have received investment and says that “lots of mid-range shopping centres are still predominantly retail”.

This is exacerbating an increasing polarisation of shopping centres. De Mello says his retail clients are gravitating to a limited number of premium centres they feel they need to be in.

“There is a growing divide between the primary and secondary shopping centres. My clients want to focus on the bigger, better centres – there are only about 20 of these – as a mall needs to be a marketing vehicle

for their brand.” De Mello predicts the rise of “supermalls”, which provide everything from shopping, entertainment and food and beverage under one roof.

However, an uncertain future lies in store for the rest and dramatic overhauls could be needed.

Blackley says: “UK retail is overspaced and some of these centres will need to be converted. Both Intu and Hammerson have looked at the possibility of building homes and some space could be converted to customer fulfilment centres to support the growth of online retail.”

De Mello suggests many centres should convert space to residential.

“Some landlords have the wrong sort of space and it needs to be repurposed to provide what people in those areas want. This could be office space, but it’s more likely to be residential these days.”

There is still life left in some malls, but dramatic change will be needed to keep these destinations relevant. As ever in retail, only the fittest will survive. **RW**

A return to local shopping

Coronavirus lockdown has stimulated a return to shopping locally, and Blackley believes this trend is here to stay as consumers seek a more distinctive retail offer.

Shopping centre footfall has declined heavily because the experience is homogenous, he says. “One shopping centre has pretty much the same experience as any other.”

Instead, shopping centres need to have stronger links to local communities and offer something different: “People will want high streets and shopping centres that reflect a more local offer,” he says.

De Mello believes that independent and local traders are a big plus point for shopping centres and says there is a lot of demand from these businesses to take up space vacated by retail casualties of the pandemic.

NEED TO KNOW

Retailers reflect on trading in a post-lockdown world

After three months of shuttered doors due to the coronavirus, English non-essential retail reopened to the public last month. Retail Week analyses the lessons to be learnt from the early days of trading.

Much has changed since Boris Johnson shut down the UK on March 24. In the intervening months, the economy has ground to a halt, tens of thousands of people have died of Covid-19 and social distancing has become the norm.

In this strange new world, English 'non-essential' retailers began to reopen stores on June 15. With many national chains choosing to take a phased approach to reopening, the day was always going to be more a symbol of progress rather than a return to normal – new or otherwise.

While pictures of snaking, socially distanced queues outside Primark, Sports Direct and Zara stores up and down England led the national news, many customers chose to stay away. Those who were out cut wary figures, many clad in masks.

What can the first weeks of trading tell us about the future of the store in a socially distanced world? As lockdown begins to ease and people feel the first pinches of the impending recession, how will the consumer change?

First impressions

Footfall figures provided by Springboard for June 15 showed encouraging signs. Across all destinations, footfall was up 42%, compared to the previous week.

High streets enjoyed the biggest footfall resurgence, up 52%, while shopping centres saw a 37% increase and retail parks, the most resilient shopping destination throughout lockdown, saw a 25% uptick.

However, while the week-to-week comparisons were encouraging, year-to-year footfall across all destinations was down 34%.

While many retailers would understandably have been nervous about their first day reopening, Superdry chief executive Julian Dunkerton said UK store openings had "outperformed all other European openings". He noted that while different countries have opened at different levels, "the UK is the first to open with full price positive like-for-like sales".

Springboard insights director Diane Wehrle predicted that shopping centres,

with their large, enclosed spaces, expensive parking, and food and beverage and leisure components still closed to the public, might struggle.

"Shopping centres will find it increasingly difficult. After the initial shine of getting out of the house and going to shop wears off, having to queue up and not being able to interact with the products and so on, the shine is going to come off pretty quickly," she said. "Malls will have it harder if things don't ease because part of the experience is about having a coffee and eating something and we can't do any of that".

However, Brent Cross and Birmingham Bullring operator Hammerson's UK and Ireland boss Mark Bourgeois was pleased. He said queues formed at centres from 8am and retailers "across our portfolio in footwear, childrenswear, electronics and summer fashion categories" saw sales spikes.

Intu centre performance director Martin Breeden agreed. He said the

longest queues were seen at Intu Metrocentre's Primark in Newcastle, which at one point in the morning had a 500-strong queue.

Breeden expected footfall to continue to inch up as more stores reopen. On June 15, just 40% of non-essential operators were trading on Intu sites.

Pent-up demand

While more value-led fashion propositions reported queues, other categories such as DIY, department stores and homeware retailers also saw pleasing first day trading.

Chief executive of specialist retailer Dreams Mike Logue was encouraged by early customer appetite. "With people maybe not considering a holiday they are considering bulkier purchases. With people spending so much time at home I think we will see home purchases increase, certainly for the next month or so due to significant pent-up demand."

Card Factory chief executive Karen Hubbard also said she was "encouraged" by trading at the 89 stores the retailer reopened on June 15. "We expected some pent-up demand and we saw strong footfall on the high street and in retail parks."

The big question for retailers remains whether this initial sales flurry will be sustained, or whether, as demand is satisfied, it will fall away.

Springboard figures on June 16 showed a dip across the board in terms of footfall growth week on week compared with June 15. All destinations saw a 27% uptick week on week; however, high streets enjoyed the biggest footfall growth, up 34%.

Wehrle predicted that retail parks and more regional and suburban high streets would continue to drive footfall and by extension retail sales growth in the weeks and months to come.

Chief commercial officer at The Original Factory Shop, Phil Briggs agreed and said "being local and part of the community" was a big help to



Lush expects more regional than national trends to emerge

Our customers would rather shop in stores they can walk to or park outside of

Phil Briggs, The Original Factory Shop

the retailer not just when it reopened but looking ahead.

As he explained: "Our customers don't feel comfortable going far from home or getting on public transport. They'd rather shop in a store they can walk to or park outside of."

Lush retail director Kat Hannible said this local focus is here to stay. The retailer's local store managers are "starting to collaborate and learn together and we are going to see more regional than national trends."

Changing behaviours

While footfall continues to be broadly subdued, retailers from Reiss to Dreams noted that those who came into stores were determined to buy.

Group operations director at John Lewis Andrew Murphy summed it up: "The shopping is highly mission-gearred, it's not just browsing. People have got purchases in mind, so conversion is very good."

For Briggs, the pandemic could play into the hands of department stores, which have struggled to adapt to ecommerce penetration in recent years.

Briggs said footfall was up year on year, which "might come down to the locality of our stores" and broadness of their range – they are walking distance from their shoppers and sell across a lot of categories, so people could walk there and get most things on their non-essential shopping list.

Fenwick retail operations director Pablo Sueiras agreed and said department stores might also have an advantage over other retail destinations given the size of stores to accommodate social distancing.

"Department stores are a great environment in this situation. We've got very wide walkways, so even if someone is walking the wrong way you can very easily step on to a mat that is not congested with fixtures," he said.

However, as more stores across England begin to reopen, retailers are concerned about what effect that might have on customers' psyches.

Waterstones chief executive James Daunt said many of the retailer's

locations could be affected by spillover queues outside stores. "We expect that when a lot of our neighbours reopen things may get a little busier and a little trickier outside our shops. Queueing now isn't an issue as there's plenty of pavement space, but this might change when all shops reopen."

To guard against customers being put off by queues, John Lewis' Murphy says the retailer now has 'customer hosts' outside stores "engaging with people in the queue, chatting to them, making them feel welcome and answering their questions".

Looming large too for the consumer is the recession, the effects of which retailers believe people will feel more as society begins to reopen.

As one high street operator said: "It's going to be a bloody tough year for retail. There's definitely going to be a flight back to value – that was certainly where the queues were on Monday."

Distanced experience

As ecommerce has grown and chipped away at customer footfall in store over the past few years, the predominant pre-coronavirus focus for many retailers was offering unique in-store experiences and services that shoppers couldn't get online.

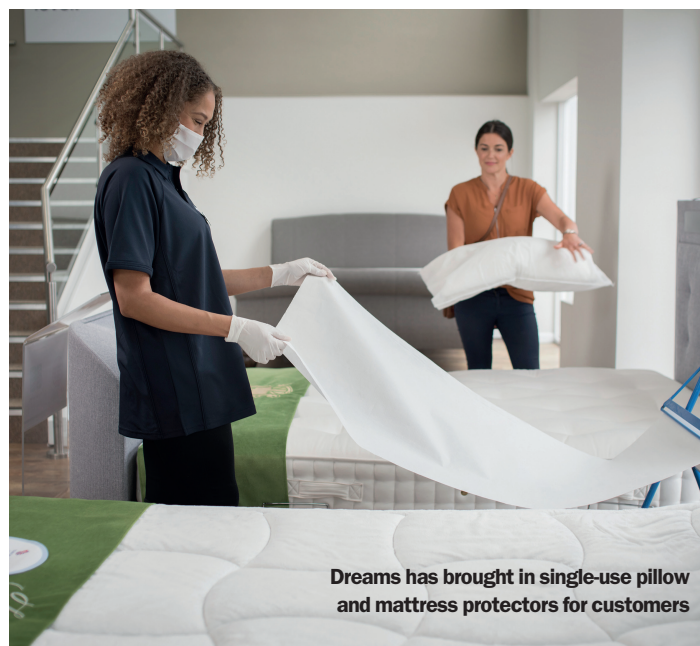
Hannible said the new measures presented issues for Lush. She said while customers want a tactile and experiential shopping environment in store, Lush staff don't "want to be seen to be touching products too much in front of customers". This makes product demonstrations very difficult.

Daunt said the retailer implemented a 72-hour book quarantine system, meaning customers can still browse items without fear of them contracting the virus.

Homewares specialist Heal's has been offering "exclusive experiences" for customers looking to avoid queues, opening the first hour of store trading for private appointments. It has also launched a virtual consultation service for people who do not want to come into the store.

Dreams has been putting in place one-use pillow and mattress protectors for customers, which Logue said has made shoppers more "confident" to both try and purchase items.

For all these efforts, TOFS' Briggs believes in-store browsing has fallen out of favour for many shoppers now and in the near future. "[Shoppers] want to be in and out quickly when they are in they are spending – every person



Dreams has brought in single-use pillow and mattress protectors for customers

in store translates to a sale and they are spending more than they were this time last year," he said.

Many retailers, even those with large stores, are doing their best to avoid customers bunching up either at certain departments or parts of a store.

John Lewis' Murphy said its Kingston menswear department had this problem on the first day and the retailer is still working out how best to manage that ahead of reopening some of its busier stores.

Fenwick's Sueiras said the retailer has effectively followed a hotel model, having a concierge at the front of the store to "put customers at ease and reassure them". He also said this decreases the need for customers to spend their shopping trip reading signs, which he says is "exhausting".

"We've got signage, we've got floor markings, but we always said that we didn't want to overly rely on signage – it's quite exhausting for people to read everything and make sure they are constantly looking at arrows on the ground."

While it is hard to divine too much from a few days, retailers

It's quite exhausting for people to make sure they are constantly looking at arrows on the ground
Pablo Sueiras, Fenwick

are already picking out trends they believe will persist.

Hannible said Lush is already seeing customers being "more discernible" with their money, which could pay dividends for sustainability. "I'd love to see customers making more informed purchases and I'd hope for brands to be challenged on that and held accountable," she said.

Dunkerton said the trend of local high street stores picking up the slack will continue, while "places that relied on tourist spend have struggled and are going to struggle".

Ultimately, John Lewis' Murphy believes the great retail legacy of coronavirus might be that it even further polarises online versus in-store shopping: one for convenience, the other for experience.

"I think it'll change how much value people place on the things you can never do online – the smell of the perfume, the feel of the fabric, the colour matching of two items, the opportunity to ask 15 questions to a knowledgeable tech salesperson.

"These things will be more appreciated. Once the virus threat is fully behind us, I think that will return in spades," he said.

It is clear that customers have missed shopping in store. The challenge for retail in the coming weeks will be giving them reasons to maintain that enthusiasm by offering them an experience that, unprecedented circumstances notwithstanding, scrolling through a website cannot. **RW**

NEED TO KNOW



Garnier says pandemic accelerated Kingfisher's new plans

While Covid-19 shifted our immediate priorities, it was essential that we put in place a new plan to return to growth over the long term
Thierry Garnier, Kingfisher

2020 overhaul

Garnier does not deny that some good came out of Laury's plan, namely "greater buying efficiencies, improved price positioning and own exclusive brands", all of which he aims to build on, but he also asserts that change was needed.

"My immediate priorities [when I joined Kingfisher] were to produce a new strategic plan, build a new executive team and take some early decisions to focus and fix the business," he says.

"This included balancing group versus local responsibilities, implementing our new trading approach, enabling ecommerce from stores, pausing non-critical initiatives and accelerating cost reduction."

The impacts of Garnier's decisions have started to show in Kingfisher's financial results, with like-for-like sales improvement from -2.4% to 1.4% in the fourth quarter of the retailer's most recent financial year, improving to 7.6% by February.

While there is no doubt that the coronavirus pandemic has had an impact on the group as it initially closed all stores, it has now begun to recover and is well-placed to capitalise on the home improvement trends seen during lockdown, with like-for-like sales up more than 25% year on year since mid-May.

According to Garnier, however, the pandemic merely accelerated elements of his new plans, including moving the ecommerce capabilities of stores to the top of the priority list.

"While Covid-19 shifted our immediate priorities, it was essential that we put in place a new strategic plan to return Kingfisher to growth over the long term," he says.

"We have learnt a lot over the last few months and our new strategy has reinforced our rationale and accelerated the opportunity for change, pushing us to be even bolder."

Can Kingfisher rebuild with its new strategy?

Boss Thierry Garnier has announced the DIY group's new strategy, 'Powered by Kingfisher' – but will it be enough to turn things around? **Rosie Shepard** reports

Home and DIY giant Kingfisher, which owns B&Q and Screwfix in the UK, as well as Castorama and Brico Dépôt in France, revealed its 'Powered by Kingfisher' strategy in its results this week, with key priorities being simplification, ecommerce and its own-brand products.

The strategy marks a move away from former chief executive Véronique Laury's 'One Kingfisher' plan – a five-year programme that aimed to unify operations and product ranges across the group.

Laury pledged that One Kingfisher, which was launched in 2015, would deliver a £500m annual profit uplift upon completion. But that ambition failed to materialise and the strategy ultimately resulted in mounting losses, culminating in Kingfisher's relegation from the FTSE 100 in March.

Garnier summarises that One Kingfisher "tried to do too much,

became overly complex, which meant we lacked the agility to meet the customer needs".

Instead, Garnier aims to break down the company into its "distinctive retail banners with diverse customer needs" with more devolved local operations. The group itself will provide "distinct sources of power including sourcing and buying, own-brand product development, shared services and a centre of excellence". There are eight tenets to Garnier's strategy:

1. Focus and fix in 2020, including managing the impact of Covid-19 on the business
2. Move to a balanced, simpler local-group operating model with an agile culture
3. Grow ecommerce sales
4. Build a mobile-first, service-oriented customer experience
5. Differentiate and grow through own exclusive brands

6. Test new store concepts and adapt the store footprint

7. Source and buy better, reduce costs and inventory

8. Lead the industry in responsible business practices.

Retail analyst Tony Shiret believes the new strategy was necessary as One Kingfisher was struggling to make homogenous initiatives work across different countries.

"[Laury's] strategy was very much based on the French view of centralisation, which was popular with French hypermarkets and their global expansion in the 1980s and 1990s – meaning it was a strategy from a different age and was very inflexible," he says.

"Clearly, Kingfisher wants things to change and for the business to fulfil its potential, but it's also evident that the centralisation initiative hasn't delivered."

Digital-first DIY

With many physical stores closed, an ecommerce shift has become evident in lockdown, which Kingfisher has made a key element of its strategy.

For the first time, Kingfisher brands have implemented store-based picking and fulfilment, as well as last-mile delivery from store, which Garnier hopes will bolster its ecommerce capabilities alongside its click-and-collect service. He believes having the store at the heart of online is the best way to prepare for a new age of retail.

The group has also expressed an interest in using marketplaces to drive ecommerce conversions.

"Ecommerce is a high priority for us," says Garnier. "I would say we are experts on home improvement so I think that, as a leader, we should consider every part of the market, and marketplaces is one of them."

"It's very early days, but it's important to look at marketplaces as part of the customer proposition."

Kingfisher's plan also involves a mobile-led service proposition, offering features such as visualisation tools, installation services and consumer credit, but Shiret has reservations about the efficacy of this aspect of Garnier's strategy.

"I'm unclear how Kingfisher's online proposition will turn out," he says.

"They're looking to improve the front end through mobile telecommunications, which is fair enough – that's how people buy things and it worked at Screwfix."

"But it's also clear that you don't drive online sales through picking items in stores, you drive it through marketing online, and I don't get any sense that they're intending to do that."

New proposition

While stores are at the heart of the new Kingfisher strategy, Garnier recognises the need to change up its store portfolio.

Interestingly, he is adamant that the GoodHome concept that was trialled last year is "not a priority" and is "not a relevant banner for Kingfisher", but that the group will instead roll out other forms of smaller concept or innovative stores.

He gives the example of "B&Q Express", citing the power of the B&Q brand in the UK, which he aims to build on instead.

"In my view, having a lot of stores is very important to stay close to customers and their catchment area.



There's always been an issue with Kingfisher that it's very difficult to make the French and the English do the same

Tony Shiret

This probably means that we should have more compact stores – and we will review the size of our stores – but it's important to have this large number to stay at the centre of the ecommerce proposition."

To do this, Garnier says the group will explore opening new small stores, before reviewing big-box stores and potentially installing shop-in-shop concepts based on local geographies.

The new strategy also aims to grow Kingfisher's range of own exclusive brands (OEBs), which grew under Laury's unified approach. The amount of own-brand and third-party unified

products, which are sold under multiple or all Kingfisher banners, stands at 63% across the group's portfolio – a figure Garnier does not wish to increase. His aim is to create diversity across the group through each banner's OEBs and play to each brands' differences as their strengths.

Garnier uses the examples of paint and lawnmowers to illustrate these differences. In France, consumers repaint their houses every eight years and have bigger gardens that require petrol lawnmowers, whereas UK consumers repaint every two and a half years in very different colour choices and use electric mowers for smaller gardens.

Shiret agrees that "there's always been an issue with Kingfisher that it's very difficult to make the French and the English do the same".

A move away from Laury's assertion that "a screwdriver is just a screwdriver in the UK or Romania" therefore seems sensible; while some products can be similar, changing and unifying the ranges simply made them lose any impact, according to Shiret.

Pastures new or déjà vu?

In theory, it seems the Powered by Kingfisher plan is doing all the right

things and ridding the group of the burdens of the One Kingfisher misstep. But Shiret remains sceptical about how well the plan will pan out, especially given the group's history of failing major strategic reviews.

"I have an overwhelming sense of déjà vu," says Shiret. "I think things had to change; he's clearly doing something different, but is batting behind a decent set of sales figures due to one-time conditions. And is he saying anything that makes me think this business will be any more attractive than it was two years ago to the consumer or investors? I don't think it is."

"The problem with strategic changes in retail is they take a long time to take hold and you find out how things don't work as you go along."

When asked why he thought this strategy was "finally" the one that would work, Garnier was adamant that "when you start with customer needs you cannot be wrong".

Garnier's plan and his new executive team have positioned themselves well as Kingfisher's saviours, making bold moves to right the wrongs of his predecessor's strategy. The City will now be watching to see if customers come to see what he builds. **RW**

NEED TO KNOW



Go Outdoors pre-pack – is JD right to shaft landlords?

JD Sports has become embroiled in controversy after putting subsidiary Go Outdoors into administration before promptly buying it back and seeking to secure better rent deals. But should it be cheered or jeered? Retail Week considers both sides of the argument

A brazen, but warranted, move

By Grace Bowden

There's no denying this is a pretty brazen move from JD Sports. There are many businesses that have been kneecapped by the impact of coronavirus and forced to make tough choices, often exacerbated by testy landlord relationships.

But a retailer with consistently soaring sales overall – as JD is – and a £6bn market cap claiming a pre-pack administration was the only solution to make one of their businesses sustainable is a tough sell.

The decision, though, is also very timely. It coincides with a quarterly rent day on which it is widely expected that retail landlords might collect just 10% of rent owed. It is therefore representative of the impasse retailers feel they have reached in their negotiations (or lack thereof) with landlords.

JD executive chair Peter Cowgill isn't the first retail boss to express frustration about the lack of flexibility shown by landlords, who have

enjoyed years of upwards-only rent reviews, in the most extraordinary of circumstances for retail. And he's unlikely to be the last.

Rather than looking at what's happened to Go as an instance of a retailer gaming the system to put landlords over the barrel, is it not an indication that even the most resilient of businesses are finding the current retail property model untenable?

JD Sports has, after all, agreed to pay off Go Outdoors' outstanding debts in full, transferred all impacted employees to new contracts to avoid job losses and taken 12-month licences of all 67 of the stores while rental contracts are renegotiated.

The retailer says that "subject to realism and flexibility in the future leases, it is the group's intention to retain the majority of Go's retail estate and preserve as many jobs as possible". Is it not in the best interests of all involved that this objective is achieved?

This is not a retailer looking for a way to shirk its responsibilities. But it is one unable to move past the logjam

of the current retail property model, and it has grown tired of throwing good money after bad – particularly when leases that are representative of a store's market value and the realities of footfall declines could be negotiated.

If JD Sports has to resort to measures this extreme to get landlords to acknowledge that, what hope do less resilient retailers have?

Brazen though it may be, it's a warning shot that the retail property sector would be foolish to ignore.

JD Sports' pre-pack smacks of vindictiveness

By Hugh Radojev

Many retailers will tell you that landlords have had it far too good for far too long – upwards-only rent reviews, decade-plus leases without breaks and an attitude that when sales start dropping off 'it's not my problem'.

For all that, this pre-pack proposal smacks of vindictiveness. For one thing, to announce it on the eve of a quarterly rent day when landlords are staring at historically low rent returns

seems a targeted kick to an industry that's already more than down.

In its restructuring note, JD Sports says that the coronavirus crisis has brought "into sharp focus the operating costs" of running Go Outdoors, and complains that the average rent lengths of 10 years with upwards-only reviews are too "inflexible". That argument rings incredibly hollow. It invites the conclusion that JD Sports spent £116m on a business without doing sufficient due diligence on its store estate. Could that be possible? In the words of one source, "Do me a favour."

JD Sports bought Go Outdoors four years ago. While many of the stores may have been locked into the kind of long leases it claims, there will have been opportunities to renegotiate.

Successful retailers such as JD will already have seen the way the wind was blowing in retail generally as they considered the future of stores and online. It completely beggars belief that it wouldn't have been doing anything to right that imbalance until now.

While it doesn't say so explicitly, JD is clearly angling to renegotiate rents on stores on a turnover-based model. Now, in honesty, many landlords realise that is the way the world is going.

Yet you can bet that JD wouldn't be sharing the kind of information on a store-by-store basis with landlords needed to make turnover-based rents work from a valuation perspective.

As one landlord wrote for *Retail Week* recently: "Turnover-based rents need to be built on the profitability and the performance of the store, not what tenants think that they can get away with paying at the time."

Another aspect that will stick in the craw of landlords is JD's attempt to paint its debt repayments back to the parent company as a noble deed.

JD is one of the few true high street success stories of the last few years. The idea it couldn't have eaten £50m in debt to get the business back on its feet without a pre-pack is nonsense – shareholders take risks when deals are done; those risks should not be shouldered by others later.

It is to be applauded that Go Outdoors is being saved with minimal job losses and disruption to suppliers.

But, ultimately, landlords are part of a retailer's supply chain, too. If, as is highly likely, more retailers follow JD's lead with pre-packs on top of refusing to pay rent, that supply base may disappear. And is that really in the retail industry's long-term interests? **RW**

Retail diversity shouldn't hinge on one chief executive

With Karen Hubbard's departure taking the number of women running FTSE-listed retailers down to just one, **Grace Bowden** says there is no better time to start shaking things up

This week, Card Factory chief executive Karen Hubbard will leave the business after four years at the helm. Her departure comes after a long stint of declining profits, a profit warning in January and a strategic rethink, which the business will unveil next month.

Although the retailer said her departure was a mutual decision, her rapid exit – announced just days earlier and before a successor was secured – perhaps indicates she was pointed towards the door. In the world of trigger-happy shareholders and a forensic focus on growth, it is perhaps not surprising that Hubbard's tenure came to an end.

What is surprising is the almost total vacuum of other women running listed retailers now she's gone. When Hubbard steps down, Ted Baker chief executive Rachel Osborne will be the only woman left running a FTSE-listed retailer.

This stat becomes all the more concerning when you consider the level of change on retail executive boards. A recent survey by Korn Ferry found that the overall churn of retail bosses was up 25% year on year – a seven-year high.

The headhunting firm's managing director Sarah Lim noted concern about "the attrition rate of female CEOs from listed companies and/or running retail businesses of scale and complexity".

Chief executives are finding that time to prove their worth is of the essence, and those that are ousted are seldom succeeded by women. Over the last few years, listed businesses including N Brown, Kingfisher and Marks & Spencer have hired and fired senior female leaders such as Angela Spindler, Véronique Laury and Jill McDonald, only to replace them with white men.

In and of itself, this isn't an issue – no woman should be in her position as a token to diversity, and if any boss isn't delivering results it's inevitable that the exit door will beckon.

But compiling lists of the women

who have either been given the boot or a top job begs the question: why don't we do the same every time a man gets sacked or hired? There are enough men in positions of power that the errors and successes of one doesn't tell us a lesson about their gender as a whole.

There are similar refrains every time a woman in power exits a high-profile retailer. We are told women lack confidence, we talk about imposter syndrome and the challenges of balancing work and home lives, and various other equivocations that many men would be politely bemused by if asked whether such factors had ever impacted their career ambitions.

It's important to acknowledge the pressures unique to being anything other than a cis-gender white heterosexual man in the workplace, as just about everyone other than this demographic is under-represented at board level.

And the uncomfortable truth is, however underrepresented they are in retail chief executive roles, women are dramatically more represented than those from BAME backgrounds, who hold just 3% of executive positions



Grace Bowden
Head of content
Retail Week

We are seeing a level of scrutiny in the diversity of boards that is unlikely to go away any time soon

among the UK's listed retailers.

Isn't the quick solution to prioritise diversity in hiring across entry-level, mid-level, senior-level and executive positions? That way, when a woman is let go, there will be a wealth of talent who could step into her shoes without causing the sector's diversity to nosedive.

FTSE retailers would do well to look to non-listed businesses for lessons on how to approach this. John Lewis' new chair Dame Sharon White has wasted no time in hiring two well-qualified women to the three executive-level appointments she has made so far during her tenure. The most recent, Pippa Wicks, joins from the Co-op, another business with a greater level of gender diversity than many listed retailers, with four of its six executive roles filled by women.

Maybe Hubbard's successor at Card Factory will be someone that breaks the mould of white men who currently make up 72% of major British retailers' executive boards. Either way, the fact that her departure means there is now just one woman left at the helm of a FTSE-listed retailer shows this issue runs deep.

Particularly in light of the Black Lives Matter movement, we are seeing a level of scrutiny in the diversity of retail boards that is unlikely to go away any time soon. It would be a mistake to view this as anything other than a long-overdue opportunity for retailers to bring new perspectives and talents to the top levels of their businesses. It is an opportunity that shoppers and shareholders will be increasingly pushing the industry to take. **RW**

CaRe20



Alongside healthcare professionals, retail workers are the lifeblood of the UK right now.

RWRC – the home of Retail Week and World Retail Congress – retailTRUST and the British Retail Consortium have joined forces to raise £10m for retail staff facing financial distress.

'**CaRe20** – Caring for Retail during COVID-19' is aiming to raise vital funds to provide financial, emotional, physical and vocational support to store workers, pharmaceutical staff, and those working in food distribution and the medical supply sectors who may be ineligible for government support during this health emergency.

HELP CHANGE THE LIFE OF SOMEONE WORKING IN RETAIL TODAY.

Find out more about the appeal and donate through JustGiving by visiting retail-week.com/donate20

Retailers can help fund the appeal by contacting **Claire Greenwood** at cgreenwood@retailtrust.org.uk

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OPINION

The clarion call has sounded – retail must act now on diversity

Lack of data is an obstacle, so putting systems in place to track and implement meaningful change is essential, writes diversity champion **Suki Sandhu**

Well-known retailers have shown their solidarity with the Black Lives Matter movement but it is time for UK businesses to take long-term action.

We coordinated an open letter, which was a mandate for change signed by 29 UK business leaders including those from Sainsbury's, Tesco, John Lewis and Marks & Spencer.

All pledged publicly to put an end to the repeating cycle of inaction and address the racial inequality that exists for hundreds of thousands within the UK workforce and will report publicly on their progress.

It's pleasing to see retailers making a stand. As the biggest private sector employer, such commitments to action can make a big impact on the longer-term progression of ethnic minority talent, from being stuck within the lower levels of the organisation to advancing all the way through to leadership and the boardroom.

In response to the upsurge of the BLM movement, some retail brands have been caught in the headlights. Some have remained noticeably silent, some have stood in solidarity, but very few have been able to talk comfortably about race in their organisations and the initiatives they have in place to address the lack of diversity within their leadership. This is why there is a need for real, tangible action and a roadmap for how change can start to happen.

That might include: setting targets for diverse candidate slates for every position; starting to track ethnicity data and conducting focus groups to properly understand the experiences of black and minority colleagues; educating ourselves on the experiences of black people in the workplace. It might involve celebrating black leaders and talent in our organisations and the wider business community, and reporting on actions for black inclusion in an annual report

What has been clear from our

previous experience with the retail industry is that simply bringing diversity directly into leadership teams isn't enough – although it is important. You also have to look at the wider issue of inclusion, and driving the cultural change needed to ensure those individuals from ethnic minority backgrounds are listened to, supported and retained.

Understanding the obstacles

One key obstacle to action on race is that companies often don't collect the necessary information. That is especially challenging for retail businesses because many have fluid workforces with large numbers of part-time and short-term staff. But understanding the breakdown of the workforce is an essential step to understanding where the obstacles may lie for minority employees. Indeed, many businesses in various sectors are already starting to track the ethnicity pay gap within their organisations in anticipation reporting may become mandatory.

Retailers will likely have a significant discrepancy between the average salary of ethnic minority and white workers



Suki Sandhu
Chief executive and
Founder of INvolve
– The Inclusion
People, and Audeliss

Some brands have remained noticeably silent, some have stood in solidarity, but very few have been able to talk comfortably about race in their organisations

because of the types of jobs each are hired for, but this is not sufficiently evidenced because the data simply doesn't exist. Putting systems in place to track, acknowledge and implement meaningful change is essential. Ignoring the issue is no longer an option.

We all know that retail has been hard hit by the pandemic, but that is not an excuse to avoid driving change. In fact, all the evidence suggests that the most diverse and inclusive companies consistently financially outperform competitors, so it should be part of the solution.

Social activism and community voices will continue to call out companies that treat diversity as a branding exercise – there is no place to hide now. Retail brands can't stay silent on an issue so important to their customers and society at large. We are at a landmark moment and businesses must respond with real and meaningful change. As our open letter states: "If nothing is done, black people will continue to be disadvantaged."

Progress for some is not progress for all. If we do nothing, we all suffer. If we don't start now, or build on small beginnings, this same cycle of discrimination will continue and, let's be honest, all the excuses will have now been exhausted. The clarion call has sounded. We must act. If not now, when? **RW**

Why have retailers become entrepreneurs all of a sudden?

Throughout the pandemic, retailers have been praised for coming up with creative solutions in challenging circumstances. But this entrepreneurial spirit shouldn't only surface in a crisis, argues **Ajaz Ahmed**

Almost every day there's another story on Retail Week about a retailer doing things in an entrepreneurial way. But where were all these entrepreneurs before the pandemic?

Were they locked in a room and given a warning? "If you come up with anything that is remotely entrepreneurial, we'll sack you."

Incumbents have always been scared to embrace change. Entrepreneurs are usually disruptors who come in and see the gaps, see things in a different way and look at things from a customer's perspective.

My question is: why have retailers become so entrepreneurial all of a sudden? Why did it take an enormous reduction in revenue for them to look at the world in a different way?

I've been writing about the internet for many years, and it's made no difference.

But a huge loss in revenue and retailers are now embracing the internet with both arms, both legs, and running around evangelising about the power of ecommerce.

Earlier this month, one of the headlines on Retail Week was 'Boots leans on digital as it prepares to reopen beauty counters'.

And Dixons Carphone launched a new service that allows customers to chat to staff in store using a video link to get advice and see demonstrations of the products they're interested in from the comfort of their own homes.

What a truly great idea. Chief executive Alex Baldock said: "Sometimes crisis spurs innovation."

When I read this, I wanted to run around the room and shout: "Why, why, why?" Why does a crisis spur innovation?

Highly paid executives and their teams are supposed to come up with good ideas to move their businesses forward. It shouldn't require a crisis –

Ajaz Ahmed
Founder of Freeserve
and chair of Quba



that's why you get paid all that money.

Businesses are supposed to pivot all the time. Retailers need to understand that customers don't say goodbye; they move on and start spending their money with someone else without telling you. Have retailers not learned this valuable lesson yet? It doesn't look like it.

So, how do we change going forward?

A huge loss in revenue and retailers are embracing the internet with both arms, both legs, and running around evangelising about the power of ecommerce

I think it's very simple really.

If you want to be more entrepreneurial, just start listening to people – listen to the people that work for you, encourage them to be entrepreneurial and tell you their good ideas. But you have to promise to sit and listen to what they're telling you.

Allow people from outside your company to approach you and talk to you about good ideas.

When watching *Dragons' Den* and one of the Dragons says "I've got contacts at retailers", I've always wondered why you need contacts to do business with retailers?

Why can't I go to your website and find a section that says: "We want to talk to anybody that's got a great idea – here are our contact details."

Why do you make it so difficult for people to talk to you?

Listen and learn

I once tried to talk to a retailer about an idea. I had to go through a contact and, before even listening to what I had to say, the person said: "You'll need to go through a credit check."

I was so annoyed they didn't listen to me that I ended up saying that, unfortunately, I did have some debt.

"Sorry to hear that," was the response.

"Yes, I've bought two sofas from DFS on interest-free credit and I haven't finished paying for them." And I left without sharing my idea.

Listen, everyone, my advice to you is to stop worshipping Excel and make it easy for people to tell you about new ways of working.

You never know – somebody might come up with a fantastic idea that could change the way you do business.

Don't wait for the next big drop in income to listen to people. You can be entrepreneurial even in good times. **RW**

DEEP DIVE

Can fashion ever recover from Covid-19?

The coronavirus pandemic and resulting lockdown has had a devastating impact on fashion retailers. **Gemma Goldfingle** looks at what the future holds for the embattled sector

No part of retail has been hit worse by the coronavirus outbreak than fashion. The pandemic has not only upended supply chains – it has obliterated consumer demand.

With the doors of fashion retailers forced to shut for almost three months, online has brought little respite as consumers stay home with nowhere to go, making the need for new clothing – aside from comfy loungewear – redundant. As Next chief executive Lord Wolfson put it: “No one wants to buy clothes to sit at home in.”

In the UK, fashion sales will fall between 35% and 46% in 2020, according to McKinsey & Company. That piles huge pressure on an already struggling sector. McKinsey estimates that 80% of apparel and luxury businesses in Europe and North America will be in financial distress after two months of lockdown.

The list of casualties in fashion grows longer each day. Oasis Warehouse, Laura Ashley, Cath Kidston, Quiz, Monsoon Accessorize and Victoria's Secret's UK division have all fallen into administration since the start of the crisis. Just last week, All Saints launched a CVA.

Veteran retail analyst Richard Hyman says this is only the start of collapses in the sector. “The structure of fashion retail will be subject to revolutionary change. Large swathes of the market will disappear,” he warns.

Although ‘non-essential’ stores reopened last month, the storm is far from over. Fears are still high among consumers about visiting busy public places such as high streets and shopping centres and, with social activity still limited, buying new clothes is a low priority for most.

Retail may have reopened, but shoppers strolled, rather than rushed, back to the high street. Footfall was down 47.7% year on year in England, according to Springboard.

When will demand return?

Demand looks likely to be unsettled for some time to come. JD Sports executive chair Peter Cowgill says: “This isn’t what we thought it was at the beginning [of lockdown], which was that we’d turn the lights off and two to three months later flip the switch and turn them back on. It’s a dimmer switch – we don’t know how bright the lights are going to be.”

Marks & Spencer forecasts that demand will be suppressed for some time. It expects a 70% decline in clothing and home sales in the four months to July, and a gradual return to original budgeted levels by February 2021. That will result in a £1.5bn hit to annual sales.

Mountain Warehouse boss Mark Neale is planning for a 20% drop in demand next year, while Schuh chief executive Colin Temple thinks there is much uncertainty and “it could go either way”.

Temple says: “You’ve got a captive audience, who will spend in the UK and will fill their boots, particularly if they are set to get deals of a lifetime.” However, he acknowledges

We thought we’d turn the lights off and three months later flip the switch and turn them back on. It’s a dimmer switch – we don’t know how bright the lights are going to be
Peter Cowgill, JD Sports



Fashion fans and retailers must get used to new ways to buy and sell clothes

that unemployment levels are set to rise once the furlough scheme comes to an end, and a recession beckons: “It could be the case that everyone has got used to not spending and isn’t planning on going anywhere even when they can, so they won’t.”

Setting out the consultancy’s projections for demand returning to pre-crisis levels, McKinsey partner Anita Balchandani says: “The most optimistic scenario is Q4 2020, which relies on the virus being contained.

“A more realistic scenario, which was voted the most planned-for scenario in our CEO survey, is that there will be a resurgence of the virus and a more muted world recovery, which would see us return to 2019 levels of demand by Q3 2022.”

Hyman is more pessimistic and believes that clothing sales will not grow until 2025. “We’re about to go into the worst recession we’ve ever seen; then we’ve got Brexit to deal with. Twenty-five per cent of Britain’s workforce is on furlough, and a lot of those will have lost their jobs and don’t know it yet.

“We could have another 3 million people out of jobs. That’s a lot of spend lost,” he says.

It will not just be a financial decision for some shoppers, who will actively seek to consume less post-lockdown.



Retail Economics chief executive Richard Lim says: “Throughout this period, people have had time to carry out some self-reflection. If they haven’t spent money on clothing or beauty products, they will be considering whether they need to. This is part of a wider trend of people buying fewer products.”

Changing operating models

Coronavirus has created an environment in which finances are stretched – retailers including Ted Baker and French Connection are undertaking emergency fundraising – and the way consumers are shopping is changing forever.

M&S boss Steve Rowe says: “From the outset, we recognised that we were facing a crisis whose effects and aftershocks will endure for the coming year and beyond.

“While some customer habits will return to normal, others have changed forever, the trend towards digital has been accelerated, and changes to the shape of the high street have been brought forward.”

This is forcing retailers to radically overhaul their operating models. “This is a fundamental demand reset,” says Balchandani. “It’s not just about picking out obvious cost lines and looking for a 5% or 10% improvement. It’s

more about clean-sheeting the cost base and looking at the operating model. Every cost needs to be scrutinised for the new normal.”

This new normal for fashion retail will involve a higher mix of online sales and, for many, a much smaller store portfolio.

Online stepchange

Online has been the only way to buy clothing – apart from in supermarkets – for the past three months and, while fears are still rife around visiting stores, it is likely to receive a sustained boost.

In fact, McKinsey expects apparel ecommerce to be up 18% on pre-crisis levels by March 2021. Balchandani says social distancing requirements in stores and the inability of customers to try on clothes will make bricks-and-mortar shopping less appealing.

“Fashion stores had a positive experience gap versus online. You could make clothes shopping an activity with friends and family, and try on clothes. It has typically been an enhanced experience compared with shopping online. That gap has been closed in store currently,” she says.

“The shift to digital and people getting more comfortable shopping online is something that will sustain.”

Discounting frenzy

Fashion retailers are sitting on a mountain of unsold product. Retail Economics estimates that £15bn of stock could be written off because much clothing is highly seasonal and many of the purchases lost over the past three months will not be recouped.

Analysts predict the ‘Sale of the century’ as retailers attempt to clear goods. Hyman says: “We’re going to see Black Friday from now until the rest of the year as retailers will be desperate to get people to open their wallets.”

However, concerns have been raised that big Sales will attract large crowds to high streets, making social distancing impossible and with consequent reputational damage.

For example, The New West End Company, which manages London’s main shopping district, has advised retailers as part of its coronavirus response strategy that they should not discount in order to help maintain social distancing.

George at Asda managing director Steph Strike says the supermarket will offer “targeted but limited markdowns” to ensure social distancing is adhered to, while Harrods is even opening a pop-up outlet store to manage crowds.

Schuh chief executive Colin Temple observes a difficult balancing act: “Safety is paramount and you also have to give the people what they want. If they want a bargain, you’ve got to give them one, not least because you have to accept the commercial reality that if you are selling ice cream you want to get rid of it before winter.”

WGSN Insight senior strategist Petah Marian warns that heavy discounting could damage the fashion industry in the long term. She cautions: “Retailers need to be sensible as what we don’t want to fall into is the pattern that we saw around the last financial crisis where there was so much discounting, and it happened for such a long period, that it became a consumer expectation.”



Retailers are sitting on £15bn of stock

DEEP DIVE

We were the biggest market share gainer for a few years, including online. Our relevance is that we've got the best prices around

John Bason, Primark

Fashion's biggest players are planning for a more online future. Zara owner Inditex experienced 95% online sales growth in April. It now aims to generate a quarter of all sales online by 2022, compared with just 14% in 2019.

H&M boss Helena Helmersson has reported a channel shift in multiple markets during the pandemic as customers who had previously only shopped in stores moved their spend online. She says the pace of digitalisation in general in the fashion industry will accelerate.

Mountain Warehouse boss Mark Neale is drafting a new five-year strategy in light of the coronavirus pandemic, and said the business will "massively pivot towards online". He says the levels of online adoption that would have happened in five to six years have occurred in five to six months during the pandemic. "This is the inflection point," he maintains.

Balchandani says fashion retailers must invest to ensure their digital offer is up to scratch, given the increased penetration of online.

"Many players have learnt what it is to be a digital-only business and, while they've grasped the opportunity, they've realised they're not set up with best practices in terms of operating rhythm, site trading, read and react, last mile experience and digitisation of the value chain."

Hyman agrees the lockdown has been a "huge accelerator" towards ecommerce, and believes that in five years' time online fashion will account for half of all sales. However, he stresses that trading online brings a big profitability challenge for fashion retailers.

"How many fashion retailers really make money online?" he questions. "It's extremely difficult, especially if you haven't got big gross margins to play with. "It favours the more premium retailers and is particularly hard for value retailers and discounters."

That explains Primark's reluctance to launch online. Chief financial officer John Bason maintains that it is still not a business priority, despite the retailer taking zero revenue throughout lockdown.

"The question is built on a macro number showing online taking ever-greater share. What I don't think it takes account of is that it's certain concepts on the high street that are losing relevance to consumers," he says. "We were the biggest market share gainer for

a few years, including online. Our relevance is that we've got the best prices around."

However, experts believe that in the long term Primark may have to relent. Digital services specialist Eagle Eye's head of industry insight Miya Knights says: "I would argue that it needs to if it's to mitigate the risk and build in enough resilience to handle another trading shock, such as the impact of Covid-19, in future."

Balchandani says: "Some reimagining needs to be done in value fashion to make money from ecommerce. It calls for some creative thinking, whether that's through driving newness and frequency, practices that can reduce returns rates or a subscription model that drives up stickiness and order values."

Store closures

The harsh consumer backdrop, coupled with the predicted growth in online shopping, will inevitably lead to more store closures.

Hyman says that this is long overdue: "There's been no meaningful reduction in physical space for the past 20 years, in which time online has grown to 30% of sales. Those numbers don't stack up. No wonder trading economics have deteriorated. A vast chunk of physical capacity needs to leave the market as it will be uneconomical."

KPMG head of retail Paul Martin agrees. "We thought that a reduction in physical retail space by that 25% number would happen by 2025. Due to the effects of the virus, it will happen sooner," he says. "By 2023, we'll have reached that reduction."

Some retailers have already put the ball in motion. Groups such as Clarks and Arcadia have opted not to reopen some stores after lockdown. Even successful retailers like Inditex have chosen to close as many as 1,200 stores around the world.

Coronavirus has also sparked a reappraisal of retail locations as shoppers shun city centres and big shopping malls in favour of local high streets and retail parks because of safety concerns. Shoppers can get to and from such locations without using public transport.

Springboard's footfall figures for May show that, while city-centre footfall declined by 88%, local high streets proved to be much more resilient, falling just 44%. Springboard insights director Diane Wehrle says: "The destinations

Rents have to change, and if they don't we'll see some very empty shopping centres and high streets with their lights turned off
Theo Paphitis, TPRG

Digital-only and DTC brands

The closure of stores could also lead to more businesses going digital-only. Many of the brands that have been acquired out of administration in recent months, such as Laura Ashley, Cath Kidston, Oasis and Warehouse, are to be revived as online-only.

Balchandani says many fashion businesses will seek to remodel themselves as wholesale or digital-only businesses.

"The crown jewels of a fashion retailer are brand, product and customer," she says. "Players will think more about those core elements and look at what they do that adds value. They have to think about the elements that they would be better off partnering with others on." She says partnerships could cover both ecommerce and franchising stores.

There has also been a step-change in direct-to-consumer commerce. With fashion stores closed, many brands have pushed their own online channels and consumers have shopped directly with them.

Hyman says: "The days when brands need retailers to bring their product to the customer are gone. It's going to be harder to make money from other people's products. Retailers need to own the product they sell, either overtly or more subtly through unique deals. But the product they sell must increasingly be unique to them."

DTC brings further capacity to the fashion market at a time where demand is scant, putting further pressures on retailers fighting to win spend.

that may do the best out of all this longer-term are the quiet, smaller town centres and more suburban high streets – the areas, ironically, which were most challenged pre-coronavirus.

"People are going to continue to stay local, even as stores more widely open up. They're not going to want to travel and they will want to support local retailers where they can."

Such locations are where fashion retailers are generally underexposed. Balchandani says this is a reason that online will continue to be more important for fashion retailers, but that it will spark a rethink over where stores need to be.

Hyman thinks that will cause shockwaves in the retail property world: "Local and internet shopping have been boosted and will hold on to some of the spend captured after lockdown. This will cause mayhem to the perception of rent."

"If prime retail is going to have 15% fewer bums on seats, then that blows previously perceived rental values out of the water. It's the difference between life and death in a retail business when a typical bottom line is between 5% and 7%."



Shopping centres are expected to be less popular destinations than they were pre-pandemic

Tycoon Theo Paphitis, who owns Boux Avenue along with Ryman and Robert Dyas, is adamant that rents will have to come down and is already thinking about remodelling how his business operates.

“Rents have to change, and if they don’t we’ll see some very empty shopping centres and high streets with their lights turned off,” he says. “We’ve seen a marked increase in online business. That’s been a great help and this will be the catalyst. We will not, in any of our brands, trade in exactly the same way that we traded before.”

What industry will emerge?

The prolonged lull in demand will have a devastating impact and McKinsey estimates that up to a third of global fashion players, including brands and department stores, will not survive the crisis.

The damage is already plain to see in UK retail as the list of casualties continues to grow.

Hyman says: “Fashion is by far the most oversupplied category in the most oversupplied sector. Coronavirus has been

an accelerator; it hasn’t created the problem. We’ve had five years of evolutionary change in five months. The structure of the retail industry will be subject to revolutionary change. Large swathes of the market will disappear, particularly in the middle market.”

That is evidenced in some of the bigger names that have collapsed in recent months, such as Laura Ashley, Cath Kidston, Monsoon Accessorize, Oasis and Warehouse.

However, Hyman is of the opinion that this Darwinian change is much needed for a stronger fashion retail industry to emerge. “The industry desperately needs market forces to do what they should do: punish the weak and reward the strong,” he says.

McKinsey also envisages a major shakeout. Balchandani points out that fashion was already a “winner-takes-all” category with a big divide between the strong and the weak.

The consultancy carried out analysis using economic profit, which is calculated as net operating profit minus the cost of capital, to measure value creation. The research showed that just a handful of companies create most

of the value in the industry. Meanwhile, 56% of all listed fashion and luxury retailers were value destroyers.

“The crisis will widen the gap between fashion’s winners and losers, with the latter likely to file for bankruptcy, seek government aid, close or become targets for stronger players or private-equity firms,” says Balchandani.

Consolidation is already evident. Boohoo raised £200m last month to capitalise on the “numerous M&A opportunities that are likely to emerge in the global fashion industry over the coming months”, and last week snapped up the Oasis and Warehouse brands. It has promised that more acquisitions are likely.

In five years, Hyman predicts a smaller but stronger, more profitable industry will emerge, with big players likely holding more weight.

He says: “The word fashion denotes change. This sector is more used to embracing and adapting to change than any other.”

The next few years will bring much change to adapt to. Those that are agile and react to retail’s new normal will emerge in a better position, with fewer competitors. **RW**

ANALYSIS

Five pandemic trends with staying power

From virtual consultations to drive-thru collections, retailers have had to re-examine how they do business in the wake of coronavirus. **Victoria McDermott** considers which of these trends might stick around longer than the two-metre rule

Disinfectant-covered shopping trolleys, staff wearing face shields and arrows directing customers around a one-way system in stores would have seemed absurd just a few months ago, but are all part of the everyday shopping experience now.

It goes without saying that Covid-19 has changed the way people shop. Gone are the days of shoppers idly browsing the shelves on lengthy shopping trips, with speed, safety and hygiene all now top of the agenda.

Despite social distancing measures continuing to be relaxed, it will be quite some time before the consumer mindset does the same.

Recent findings from EY Future Consumer Index reveal that seven in 10 UK consumers are uncomfortable going shopping, with 45% saying the way they shop will change over the next one to two years.

Despite social distancing measures continuing to be relaxed, it will be quite some time before the consumer mindset does the same

With shoppers remaining uneasy, the raft of new shopping methods that retailers have put into place during the pandemic could be set to stay.

Here's a handful of innovative ways retailers are serving customers that could stand the test of time in this new retail world.

Supercharged click and collect

Shoppers have quickly grown used to queues snaking around the car park to get into their local shop. However, to make sure this time is not wasted, retailers are getting customers' purchases ready before they've set foot in store.

The Entertainer launched a 'ready in 10' service, which enables queuing shoppers to make an order from their phone that can then be collected from the shop within 10 minutes. Similarly, customers who know what they want can tell a colleague at the door and be fast-tracked to the payment area.

HMV has introduced a new 'list and leave' service, which enables customers to drop off a list of items they want and a member of staff will then select the products from the shelves.

Some retailers have also turned their stores into local fulfilment centres, or 'dark stores'.

Prior to reopening some of its branches in late May, Halfords turned 335 of its 446 shops into 'dark stores', allowing customers to place orders with staff at the entrance, but



Drive-thru collection services like this one at Debenhams have become popular

prohibiting them from entering the store itself. Using these speedy fulfilment models enables retailers to serve more people and means anxious customers don't have to wander around the store – a win-win for both parties.

And with nervousness about shopping not going anywhere fast, these supercharged click-and-collect options will be here to stay.

Virtual consultations

From Saturday night Zoom quizzes to Skype boardroom meetings, the internet has provided much needed face-to-face interaction throughout the crisis.

Retailers too have turned to the virtual world in an attempt to retain a personal touch where physical interaction is limited.

Dunelm is trialling a virtual shopping service allowing customers to browse its Redditch and Erdington branches via an interactive video call.

On the call a 'shopping companion' discusses ideas and picks out options before sending over a shopping list. If the trial is successful, the homewares retailer plans to expand this to all other branches.

John Lewis has also taken its in-store services online, with customer appointments available for advice on areas such as interior design, planning for the arrival of a baby or personal styling.



Using speedy fulfilment models enables retailers to serve more people and means anxious customers don't have to wander around the store

These online interactions could remain long after the social distancing measures are removed as they provide a new aspect to online trading, one which gives personality as well as personalisation and has the potential to turn browsers into buyers.

Customer hosts

We're used to entering hotels or restaurants and being greeted by a concierge or maître d' so it's almost a surprise it has taken the retail world so long to try out something similar.

However, in a matter of weeks, customer hosts have become the norm across shops, with many retailers opting to have a member of staff at the door.

This role differs slightly across each business; however, duties include greeting shoppers, providing instructions on sanitiser and direction of travel or simply monitoring flow in and out of the store.

Fenwick retail operations director Pablo Sueiras says the department store group is effectively following a hotel model and having a concierge at the front of the store to "put customers at ease and reassure them".

He says this reduces the need for customers to spend their shopping trip reading signs, which he describes as "exhausting".

These customer hosts give shoppers a warm welcome to store and ensure they feel

at ease and informed of safety measures for that particular branch. It is a role that is very much needed while social distancing is in place, but could last beyond that.

Drive-thru collection

Consumers are already well versed in how drive-thrus operate, but the service is moving beyond simply collecting burgers. Retailers have taken a leaf out of the fast-food book with many starting to offer drive-thru collections.

Dixons Carphone offers a zero-contact drive-thru model, where purchases can be delivered to a customer's car parked outside of stores without them having to leave the vehicle.

Tesco offers a similar service for grocery orders, while Dunelm's click-and-collect service provides a phone number to ring when you arrive in the car park.

Globally, drive-thrus across the retail sector have really taken off. France was already one step ahead of the curve on this one, particularly in the grocery sector, where the practice is mainstream.

In the US, Kroger is testing a pick-up-only store in Cincinnati, Ohio, and Dubai-based home, garden and hardware retailer Ace opened what it claims is the UAE's "first drive-thru retail experience" where customers text a number to say they have arrived and purchases are brought straight to the boot of their car.

This low-cost and low-contact format is particularly useful for the elderly and vulnerable consumers, or those with a car full of kids.

Drive-thru makes click and collect even more convenient and will likely become a permanent fixture post-pandemic.

Essential food boxes

The likes of Gousto and HelloFresh have proved in recent years that there is a hunger for streamlined food shopping, with their recipe boxes increasingly popular.

As the pandemic struck and pressure piled on to the supermarkets, a number of major grocers launched essential food boxes.

Particularly helpful for those self-isolating or unable to leave their houses, Asda, Aldi, Morrisons and Marks & Spencer launched food boxes containing staples such as bread, pasta, tinned items and teabags.

The ease of buying a week's worth of food could prove popular once the virus has abated, particularly for those buying groceries for others, such as elderly relatives.

There is also scope to extend this offering to include recipe cards and meal suggestions.

Marks & Spencer has already grown its food box offering to include separate fruit and veg boxes, an Indian ready-meal selection and British summer meat boxes. **RW**

ANALYSIS



Superdry terminated its joint venture with Chinese fashion group Trendy

Is UK retail turning its back on internationalism?

With both Tesco and Superdry pulling out of international ventures on the same day, **Hugh Radojev** asks whether UK retail is scaling back its global ambitions

On June 18 two very different UK retailers on two very different trajectories revealed they were pulling out of international markets.

One was the UK's largest grocer Tesco, which is selling its ailing Polish business to Danish mega-retailer Salling Group.

The supermarket giant, which first entered Poland in 1995, is selling off 301 supermarkets in the country, its head office and associated supply infrastructure for £181m.

Poland is the latest international exit for Tesco, which during Dave Lewis' tenure as chief executive has offloaded its operations in Turkey, South Korea and China. Most

recently in March it sold its South East Asian operations in Thailand and Malaysia for \$10.6bn (£8.5bn) in cash.

At the other end of the scale is struggling high street fashion brand Superdry, which revealed it is terminating its joint venture with fashion group Trendy, which has run its Chinese business since 2016.

Superdry described the split as "amicable" and chief executive Julian Dunkerton maintained China is a "huge opportunity" for the retailer.

While the two are very different businesses, what does this retrenchment mean and is the era of retail internationalisation over?

No flag planting

Dunkerton blamed the effects of the coronavirus on bringing the split forward and although he still believes China is "a huge opportunity for Superdry in the longer term", he says the way people are shopping has been upended.

"As the way people are shopping there changes, it makes sense for us to shift our focus to the growth channels of online and wholesale," he says.

Although Tesco's move is not reactionary to the current environment, it is part of a wider strategic goal of retrenching to reinforce its position as the UK's biggest grocer.

Lewis insists that Tesco will continue operating its Central and Eastern European businesses in the Czech Republic, Slovakia and Hungary where it has “stronger market positions with good growth prospects”.

Edge by Ascential director Nick Everitt believes generally that the “era of UK retailers expanding globally and flag planting is well and truly over, and has been for some time”.

Karina van den Oever, partner at consultancy Elixirr, agrees and says the coronavirus crisis has made many retailers realise they are spread too thinly.

“Retail’s challenges have been exacerbated over the last few months [by the coronavirus]. Anyone who was reliant on physical stores and footfall has suffered significantly,” she says.

“That’s where the retrenchment has come from. Retailers are realising they need to refocus – whether that’s on the home market or, if they are more successful overseas, then overseas.”

Everitt believes that retailers looking to pull out of international markets to cut costs now risk missing out on growth in the future.

“You could argue that by exiting these regions, the likes of Tesco are missing a trick,” he says. “By becoming smaller it means you don’t have the buying power. The UK is a much

The era of UK retailers expanding globally and flag planting is well and truly over and has been for some time

**Nick Everitt,
Edge by Ascential**

lower growth market than Asia is, and even parts of Europe. So the growth opportunities and buying power will be less strong.”

Tesco’s approach is at odds with international rivals such as Walmart. In its last financial year, Walmart’s international arm generated sales in excess of \$120bn (£96bn) while Tesco’s overseas businesses turned over £10bn over the same period.

International partnerships

However, van den Oever is not convinced overseas offers retailers the biggest growth potential. “For me the only guaranteed retail growth anywhere is through digital,”

she says. “Running international businesses is hard work, and retailers are going to go after easier growth.

“If they do look overseas it will be with a partner. They’ll only do it if it makes sense from a capital perspective,” she says. “If your brand has strength and can translate internationally, doing it digitally is probably easiest.”

Everitt agrees, and suggests that Tesco, for example, could partner with big overseas players in the ecommerce space.

“I think the future is less about geographical expansion and more about partnerships. Particularly with ecommerce players around things like last-mile delivery.

“That’s a space already where nearly every retailer is looking to partner with a Deliveroo or Instacart, or other third parties to optimise efficiencies.”

He says if UK retailers don’t play in this space “they will have to partner with the likes of an Amazon or Alibaba”.

The unforgiving UK retail landscape has only been exacerbated by the pandemic and British retail appears to be entering a period of isolationism. The road back to a more outward-looking retail sector will require a more collaborative, light touch and digital route than in previous eras. **RW**

In March, Tesco sold its South East Asian operations for £8.5bn



THE BIG QUESTION



How should we kick-start retail?

Industry experts share their views on how to encourage an enthusiastic resumption of retail therapy among consumers

Catherine Shuttleworth, chief executive, Savvy

"What's needed is a joined-up plan where government departments work together in the interests of commerce in the UK. I believe there are three major challenges that need to be joined together to get the nation moving but manage the Covid-19 risk.

"We need a macroeconomic strategy. For retail sales to increase, we all need money to spend, which can only be achieved through preserving employment. The government will have to support employers to keep employees on the payroll. This can't keep coming for free, and I believe it can only be achieved with tax interventions.

"But this will be a waste of time if we haven't got a plan to send children back to school. Notwithstanding the impacts on young people, we need to get parents back to work.

"Above all, we have to keep the R rate low; a second lockdown in the golden quarter could be a disaster."

Ian Shepherd, author, Reinventing Retail

"As if wrestling with lockdown wasn't enough, retailers are about to reopen to a trading environment worse

than most will have seen in their careers. The root cause is obvious – a deep recession. Retailers will need government action to ensure a rapid recovery. Beyond that, though, what can the sector do to help itself?

"Consumers need to feel that shopping is safe and enjoyable. That will need retailers to work with local authorities and shopping centres to get the basics right – one-way routes, safe parking options, regularly cleaned high streets and well implemented processes in stores.

"Then it's time for an old-fashioned solution – local marketing. Themed events, coordinated sales and all the other tools of 'place making' will bring consumers back to stores. The biggest contribution head offices can make to kick-starting the retail economy would be getting out of the way of store teams, empowering them to work to win back the hearts of consumers."

Michael Lieblich, retail analyst

"We're a nation of shopkeepers, but we're also a nation that was suffering severe physical withdrawal symptoms from retail therapy. In an ideal world, the government could credit every

consumer with £300 to help put money in shoppers' accounts.

"An alternative would be to embrace programmes such as the American Express Shop Small Scheme. This has been brought forward because of how the high street is suffering. There's no reason Visa and Mastercard couldn't follow suit, which would capture 99% of UK cardholders. Waiting for a VAT cut is too little, too late."

Karl McKeever, managing director, Visual Thinking

"Lockdown has given people time to consider what they want to change for the better. There is a growing desire to live in a kinder, fairer and better world.

"To minimise the future spread of the virus, returning shoppers will be encouraged to use card payment in stores. For years, store and credit card providers have earned big money from tempting shoppers with easy payment, deferred charging and 'friendly terms'.

"But many of these accounts come with eye-watering APR interest rates, which to me seems unjust. I propose the government introduces a year-long levy to skim any excessive profits made by providers charging excessive interest rates – with the money raised

diverted into social projects, charities and green initiatives that will 'do good'.

"This could be the moment that quickens the death of cash, but could also stimulate a consumer-friendly approach to using credit services."

Lara Marrero, global retail lead, Gensler

"I joined the throng of shoppers returning to the high street. While shops had new procedures in place, I was surprised to see the majority of consumers acknowledging them, then swiftly ignoring them and reverting to the way they shopped before, ignoring one-way signs and not social distancing on escalators.

"The willingness of people to re-engage with shops is testament to their desire to create meaningful connections with a brand.

"That said, sustained footfall will depend on whether retailers successfully deliver these shoppers with an experience that makes them want to come back. Brands must ask themselves if they are providing customers with a purpose beyond purchasing, and if they are able to provide an engaging experience despite the safety protocols." **RW**

Consumers plan to rein in spending for the next 12 months

Exclusive consumer research by Retail Week reveals that shoppers plan to rein in their spending in the next 12 months as they reconsider their purchasing habits in the wake of the global pandemic.

More than half (55%) of consumers say they will reduce their spending over the next year, according to exclusive insight from 1,000 consumers uncovered in our new report *How They'll Spend It*, produced in association with Openpay.

Spending in discretionary categories looks set to remain under particular pressure, especially when it comes to clothing and accessories.

Only 9% of consumers expect to spend more on fashion in the next 12 months than they did before the pandemic, compared with 42% who said that they would spend less, according to our survey conducted in May.

Just 37% of consumers think they will continue shopping and spending just as they had before the crisis.

Encouragingly, 53% of consumers say they had missed shopping during lockdown, citing the social aspects and browsing as the aspects they missed the most, as well as shopping at specific retailers such as Primark.

Young consumers aged 18 to 24 were the most likely to rush back into stores as they reopened, the report found.

However, despite looking forward to stores reopening, 60% of shoppers say that they need to be very careful about how they spend money in the coming months.

The most squeezed shoppers are those in the 25–34 age group, with 37% now earning less as the result of reduced income and furlough schemes.

In essential categories such as grocery, spending remains a priority, although habits have changed.

Across all age groups, 47% of shoppers spent more on groceries, but 55% say they had shopped less often for them during lockdown, and many expect these new habits to continue.

For instance, 25% of shoppers had discovered new local food suppliers and 37% expect to shop more within their local communities.

Online shopping appears to have reached a tipping point, with customers



across all categories and age groups increasing their ecommerce spend.

In grocery, 48% shopped more online during the pandemic, with 36% expecting to continue to do so.

Spending influences

We asked shoppers which factors would influence their decision to spend in the coming 12 months.

Price was the biggest influencer for squeezed shoppers, but they also expect value for money.

Sustainability and ethical practices resonated too, particularly with shoppers under 35.

A major change post-Covid-19 is in the way that shoppers expect to pay for items purchased. There is a clear increase in demand for digital and alternative payments.

Only 27% of consumers now expect to pay using cash when shopping in-store, compared with 63% before the pandemic.

This has been supported by retailers actively encouraging shoppers to use contactless payments. [RW](#)

To access the full report, including in-depth analysis by category and demographics, go to: retail-week.com/HowTheySpendIt

