

# RetailWeek

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RETAIL

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Ascential, 20 Air Street, 2nd Floor, W1B 5AN  
Tel: 020 3033 4220  
Website: Retail-Week.com  
Email: Firstname.Lastname@Retail-Week.com

### Talk to us...

**Group Content Director**  
Charlotte Hardie 020 3033 229

**Editor**  
Luke Tugby 020 3033 4305

**Executive Editor**  
George MacDonald 020 3033 2836

**Head of Content**  
Grace Bowden 020 3033 4338

**Senior Reporter**  
Hugh Radojev 020 7715 6075

**Reporter**  
Rosie Shepard 020 3961 8890

**Features Editor**  
Gemma Goldfingle 020 3033 2943

**Managing Editor**  
Abigail O'Sullivan 020 3033 2940

**Production Editor**  
Stephen Eddie 020 7728 5000

**Digital Product Manager**  
Rebecca Frole 020 3033 2659

**Subeditors**  
Rebecca Dyer, Emily Kearns

**CMS Specialist**  
Tatsiana Bakun 020 3033 2650

**Commercial Content Director**  
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**Head of Commercial Projects**  
James Knowles 020 3033 6192

**Relationships Director**  
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**Commercial Content Editor**  
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**Commercial Team**  
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Julia Jones 020 3033 2952

**Subscriptions Team**  
Shrinal Patel 020 7715 6316

**Managing Director**  
Hanna Jackson 020 3033 2496

### Find out more...

**Group Events Director**  
Email: Poppie.Mickleburgh@Retail-Week.com

**Customer Relations Consultant**  
Ben Tinning  
Email: customerservices@retail-week.com  
Tel: 0203 873 2847

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# EDITOR'S COMMENT

Luke Tugby



## Walmart's Asda Price must be right to secure backing

On, then off. On, then off. And now back on again. Walmart has resumed efforts to sell off a majority stake in Asda – and hopes it will be third time lucky.

The US retail giant had planned to merge its British grocery business with Sainsbury's, only for the Competition and Markets Authority to kibosh that ambition in April last year.

Walmart then pursued plan B, investment from private equity houses as part of the path to an Asda IPO, before the coronavirus pandemic called an abrupt halt to those discussions.

Now, following Asda's "resilience" during the health crisis, talks with "a small number" of interested parties are back on – and there is renewed confidence that Walmart will finally be able to exit the UK sooner rather than later.

But to do so, Walmart's Asda Price has to be right. The £7bn that Asda would have been worth in the Sainsbury's merger may need to be revisited.

The grocer is operating in perhaps the most challenging retail market in the world. Food retailers may have benefited from increased basket sizes during the pandemic, but many of the tailwinds that have accelerated sales growth over the past months will eventually subside.

Future growth, and return on investment for interested parties, will not be easy to come by at a £7bn price tag.

Simply put, if you were building a food retail business from scratch today, it probably wouldn't look like Asda. It has limited skin in the game in two of three big areas of growth during the past decade: discount and convenience.

Once upon a time, Asda's price proposition made it hugely attractive to customers and differentiated it from its big four rivals. But the explosion of Aldi and Lidl on these shores blew Asda's chief USP out of the water. The cold hard truth is that it has been struggling to conjure up a new one ever since.

While rivals Tesco and Sainsbury's embraced the convenience trend, opening hundreds of c-stores across the country, Asda stuck steadfastly to its large out-of-town supermarket model.

Admittedly, those locations have served it fairly well during the crisis – its sales rose 11% in the 12 weeks to July 12, according to Kantar.

Credit where it's due: Asda's top line has improved strongly over the past few years under the leadership of Sean Clarke and now Roger Burnley. The business is on a much firmer footing now than it was four summers ago, when it saw eye-watering 7.5% like-for-like declines.

But make no mistake – Asda is still playing catch-up as it bids to restore its former glories.

Private equity investment could be exactly what it needs to achieve that. Despite the backing of parent company Walmart, cash from the bank

of mum and dad in Arkansas has dried up for Asda of late. Investment, instead, is being poured into markets such as India and China, where Walmart sees scope for growth.

Interested parties will need to ask themselves: where are the growth opportunities for Asda?

A belated move into convenience could be a fruitful

but expensive shift, particularly if it opted to grow that estate organically from scratch.

Online offers an opportunity for a market share grab, although the economics of food ecommerce present financial headaches that private equity groups may not be willing to bankroll for too long.

Asda's George brand is among the biggest in the UK and could pick up further sales amid the fashion shake-out sparked by the pandemic.

But such avenues for growth are far from straightforward and do not offer private equity suitors guaranteed returns on investment.

Against that backdrop, Asda's valuation looks steep. Walmart may have to hold on to its British business a little longer unless it rolls back its Asda Price. **RW**

**If you were building a food retail business today, it probably wouldn't look like Asda**

# THE BIG STORY

## Will face masks muzzle retail's recovery?

Face masks have been made mandatory for the public in all stores. **Grace Bowden** and **Hugh Radojev** analyse the effect on consumer confidence and economic recovery

Having trailed the idea of mandatory face coverings in shops in England for weeks, the UK government brought its guidance into effect on July 24.

Face coverings in stores have been mandatory in Scotland since July 2 and required on all forms of public transport, in England at least, since June 15. Yet the rollout of the new measures has not gone smoothly.

For one thing, the government did not publish the guidelines until the afternoon of July 23, giving affected retailers less than 12 hours to effectively work out strategies for dealing with them.

Guidance that was provided was also criticised for a lack of clarity on how it impacted retail locations such as shopping centres, where consumers need to wear masks continually, versus places that offer table service, where masks are not required.

Along with the ambiguous guidance and short timeframe in which to implement the new rules, the government has also faced criticism over who exactly is meant to enforce them.

Failure to wear a mask officially carries a £100 on-the-spot fine. However, it remains unclear who can actually issue these fines.

Retail staff certainly will not be able to. Metropolitan Police chief Cressida Dick effectively ruled out police officers enforcing the rules as well. Dick said last Thursday that police would only respond to calls about non-compliance "as a last resort".

Instead, she hoped customers would be "shamed" into complying by the behaviour of others.

A number of retailers, too, have ruled out having staff monitor the guidance.

Sainsbury's said on Thursday that staff "won't be challenging customers without a mask", while Dixons Carphone "won't prevent customers from entering a store if they are not wearing a face covering", though store staff "would remind them about the new rules".

Asda has followed suit. The grocer said that while it would "encourage" customers to wear a mask, ultimately "it is the responsibility of the relevant authorities to police and enforce the new rules".

The director of another high street grocer said that it was advising store staff to wear provided face coverings "in places where social distancing can't be implemented, as a means of encouraging customers to do the same".

However, he too ruled out having frontline staff turn shoppers away if they didn't have a covering.

"For one thing, there are exemptions to the guidance anyway for people with certain health conditions. For another, ultimately, it's not really the job of our staff to be implementing or enforcing these rules," he says.

Hotel Chocolat chief executive Angus Thirlwell said he would expect "high levels of conformance to the new rulings" from the public.

He said that more than 50% of Hotel Chocolat customers had been voluntarily wearing face masks in stores before the ruling. However, he did reiterate that it was not the retailer's role to be "face mask traffic wardens".

A poll by Ipsos Mori found that two-thirds (67%) of Britons are in favour of the mandatory rule in shops, while just 16% oppose the measures.

Despite fairly strong support for the move, the public is less convinced when it comes to whether or not face coverings will make them more or less willing to go into stores.

Around 25% of respondents said that having the rules in place will make them more likely to go shopping, while 21% said less likely. Over half of respondents said the measure would have no effect at all.

This mixed sentiment seems to have been borne out over the weekend, when face masks became mandatory in shops.

### Decline in footfall

Although footfall rose 4% in England over the last week overall, shopper numbers on Friday and Saturday – the first two days when face coverings became mandatory – declined by 1.7%.

England was the only country in the UK that registered a decline over both days week on week, and it registered the steepest decline on Saturday, when shopper numbers



Face coverings in all stores became mandatory for the public on July 24

fell 3.2% overall – although this fall is likely to have been exacerbated by wet weather.

High streets registered the steepest decline over the two days, with footfall down 7.7% on Saturday, while shopping centres proved the most resilient, with footfall up 0.4% and 0.3% week on week on Friday and Saturday respectively.

However, the boss of one retailer says they registered "a real hit to footfall" in their shopping-centre outlets over the weekend.

"There's been a very negative impact on footfall and dwell time in shopping-centre stores, where shoppers have to wear masks the whole time, whereas on high streets they can remove them going from store to store," he says.

"I'm sure it was an unintended consequence and the government implemented this measure to get confidence up, but it's actually acting as a deterrent from what we are seeing – people feel like they are walking around a hospital, not a shop.

"I'm sure the action was taken with all the best of intentions, but





**I'm sure it was unintended, but it's acting as a deterrent – people feel like they are walking around a hospital, not a shop**  
**Retail boss**

it's not helping us from a footfall perspective at all."

A source from one major grocer poured cold water on suggestions that the face mask rule had sparked a drop in shopper numbers.

Although he admitted that trading was "a little bit behind forecasts", he said that was offset by "unexpectedly high" fuel sales – the conclusion being that fewer people were shopping because they were heading away on holiday, not because they had been put off by face masks.

Waterstones boss James Daunt also believes shoppers were undeterred by the new measures.

"It certainly hasn't caused us any issues. Sales relative to last year were actually better this weekend, but that's generally because it was boiling hot last year, which is when we don't tend to do as well. So, I can't claim that in reality face masks have had much practical impact one way or the other, but certainly not negative," he tells Retail Week.

"In respect to masks, it's been plain sailing – people have gone from not wearing them at all to wearing

**It's been plain sailing. A few people forget or need a gentle reminder, but frankly it's without drama**  
**James Daunt, Waterstones**

them, much the same as they did on public transport. A few people forget or need a gentle reminder, but frankly it's without drama."

Superdry chief executive Julian Dunkerton echoes this view and says that although there was a "marginal decline" in footfall over the course of the weekend, he expects shoppers wearing face masks in stores to "normalise very quickly".

### **On the front line**

While Daunt said Waterstones staff were "generally happier that at least there's a perception of them being safer" due to shoppers wearing masks, a source from one grocer said the ruling was putting additional strain on already overburdened employees.

"Like a lot of retailers, we aren't telling our store colleagues to enforce face masks or to tell people they cannot enter our shops unless they wear one.

"There have been a few instances where that's caused some friction and a few problems – we've had customers arguing with other

customers because they haven't been wearing face masks. It's something else that our colleagues are having to deal with now beyond their day-to-day work."

The source added that it was roughly a 50/50 split between shoppers that were and were not wearing masks in store over the weekend.

While England's shoppers adjust to the newest iteration of a new normal, retailers may be heartened by Scotland's footfall figures – the only other country in the UK where face masks in shops are currently mandatory.

Last week, footfall in Scotland increased 6.4% and was up 5.3% over Friday and Saturday specifically.

Early signs are that shoppers have taken face masks in their stride, despite last-minute guidance from the government.

Retailers will now hope that this additional measure will increase consumers' desire to head to stores and their confidence that they can do so safely, rather than acting as another strain on the already much-changed shopping experience. **RW**

# NEED TO KNOW



Monzo came sixth in the ranking

## The brands bossing customer experience

Customer experience is arguably more important than ever during a time of crisis, and KPMG's ranking of the top 50 brands excelling at it reflects that reality. By **Luke Tugby**

In the midst of the coronavirus pandemic, customer needs and behaviours have shifted rapidly in just a few months. Shoppers across the globe now have less to spend, they feel more vulnerable, their values have evolved and they are becoming increasingly digitally savvy.

In this 'new world', the customer experience and a brand's ability to build lasting relationships with consumers have become more crucial than ever.

As experts at the KPMG Nunwood Excellence Centre put it: "We are entering an 'integrity economy', one where the ethics of an organisation are as important as its products and services."

So which brands are best placed to win in that market? According to research from KPMG's international think tank, 23 of the top 50 brands in its Customer Experience Excellence ranking for 2020 are retailers.

TV shopping channel QVC led the way, finishing second in the ranking behind internet bank First Direct, which retained the top spot.

John Lewis & Partners rose up the list to fourth, one place ahead of Lush, while Lakeland and Marks & Spencer also made the top 10.

### Lessons from the customer experience champions

The KPMG Nunwood Excellence Centre suggests there are now six key pillars to driving the customer experience: integrity; resolution and innovation; expectations; time and effort; personalisation; and empathy.

#### Integrity

"Trust is an outcome of consistent organisational behaviour that demonstrates trustworthiness," KPMG says. "There are trust-building events where organisations have the need to

publicly react to a difficult situation. And trust-building moments where individual actions by staff add up to create trust in the organisation as a whole.

"Behavioural economics teaches us that we trust people we like. The ability to build rapport is therefore critical in creating trust."

KPMG hails Waitrose's creation of a £1m community support fund, Deliveroo's donations of 500,000 meals to NHS staff and Aviva giving £15m to the Red Cross and NHS charities as examples of brands that have shown integrity during the crisis.

#### Resolution and innovation

Turning a poor experience into a great one is crucial if brands are to retain customers for the longer term.

As KPMG's report puts it: "Customer recovery is highly important. Even with the best processes and procedures, things will go wrong.

"Great companies have a process that not only puts the customer back in the position they should have been in as rapidly as possible, but also makes the customer feel really good about the experience."

A host of banks and building societies acted quickly, scrapping overdraft fees and introducing payment holidays to help customers in difficulty.

#### Expectations

Even during a pandemic, customers have expectations around fulfilling demands. As KPMG points out: "Customer satisfaction is the difference between expectation and actual delivery. Understanding, delivering and, if possible, exceeding expectations is a key skill of great organisations."

KPMG points to Tesco as a business that achieved this during the pandemic, praising the way it "reacted quickly to changing customer demand, putting the needs of the many first and restricting the products manufactured by its suppliers to the essentials".

It adds that weekly email updates from chief executive Dave Lewis kept shoppers informed of changes, proactively managing consumer expectations at the height of the crisis.

#### Time and effort

The modern shopper is increasingly time-poor and wants "instant gratification," KPMG says. As a result, "removing unnecessary obstacles, impediments and bureaucracy to enable the customer to achieve their objectives quickly and easily have been shown to increase loyalty".

The likes of Amazon continue to use time as a source of competitive advantage, growing their sales during the pandemic by rationalising ranges to maintain rapid delivery times.

#### Personalisation

Retailers and brands have long grappled with the art of personalisation and attempting to master it in order to give their shoppers genuinely unique and tailored shopping experiences.

During the coronavirus crisis, shoppers wanted to feel as though their specific needs and circumstances were being accounted for. Companies' abilities to address customers by name directly and access knowledge of past interactions are key to creating an experience that feels personal and builds an emotional connection.

Supermarkets leaned into this, offering dedicated opening hours for older and vulnerable customers and



| Customer Experience Excellence top brands in 2020 |                       |                    |            |
|---------------------------------------------------|-----------------------|--------------------|------------|
| Rank                                              | Brand                 | Sector             | YOY change |
| 1                                                 | First Direct          | Financial services | Unchanged  |
| 2                                                 | QVC UK                | Non-food retail    | Up         |
| 3                                                 | Starling Bank         | Financial services | New entry  |
| 4                                                 | John Lewis & Partners | Non-food retail    | Up         |
| 5                                                 | Lush                  | Non-food retail    | Down       |
| 6                                                 | Monzo                 | Financial services | Down       |
| 7                                                 | Lakeland              | Non-food retail    | Down       |
| 8                                                 | Côte Brasserie        | Restaurants        | Up         |
| 9                                                 | Marks & Spencer       | Non-food retail    | Up         |
| 10                                                | American Express      | Financial services | Up         |
| 11                                                | M&S Food              | Grocery retail     | Up         |
| 12                                                | Joules                | Non-food retail    | Up         |
| 13                                                | Tesco Mobile          | Telecoms           | Up         |
| 14                                                | Wagamama              | Restaurants        | Up         |
| 15                                                | Netflix               | Leisure            | Up         |
| 16                                                | Nando's               | Restaurants        | Up         |
| 17                                                | Welsh Water           | Utilities          | Up         |
| 18                                                | Miller & Carter       | Restaurants        | Up         |
| 19                                                | National Trust        | Leisure            | Up         |
| 20                                                | The Body Shop         | Non-food retail    | Up         |

Source: KPMG. View the top 50 at [retail-week.com/customer50](https://retail-week.com/customer50)

NHS staff, while KPMG also hails Starbucks for the way it extended its mental health benefits to workers' family members during the pandemic.

#### Empathy

Arguably the most important pillar, this metric measures how a brand drives a rapport with customers based on an understanding of their personal needs.

According to KPMG: "Empathy-creating behaviours are key to

establishing a strong relationship and involve the telling of personal stories that reflect back to the customer how you felt when in similar circumstances. Then going the extra step because you understand how they feel."

For example, Sainsbury's prioritised older and vulnerable shoppers for online food deliveries, FirstVet offered free video appointments to people self-isolating with pets and Admiral Insurance gave its customers a £25

'stay at home' refund because fewer drivers were on the road. First Direct, Leon and its peers in the top 50 offer examples of how retailers and brands can ramp up their customer experience credentials in a post-coronavirus world.

But others still need to adapt. KPMG concludes: "The 'new customer' has the potential to disrupt every enterprise. How well businesses compete in this changed environment will determine future viability and growth." **RW**

### How First Direct won the top spot again

British bank First Direct has topped the KPMG ranking five times in the last 11 years. The report calls First Direct "a global exemplar of what constitutes customer best practice".

Amid the pandemic, First Direct moved quickly to protect customers by offering fee-free overdrafts, loan repayment holidays and lower insurance payments. It quickly expanded what KPMG calls "a dedicated, empowered team" to "empathetically respond" to customer queries.

"Proactive engagement, strong communications and a highly committed team meant their customers continued to receive outstanding service at a time when they needed it most," the report says.

It highlighted five key areas that underpin First Direct's approach, all of which served it well during the crisis:

1. A strong sense of mission and purpose, with around 3,000 people committed to the customer.

2. Its "people-first" approach. First Direct has three critical metrics it uses to shape its approach to business: how are our people feeling? How are our customers feeling? What is our commercial performance?

3. The "active nurturing" of its culture. First Direct's culture is recognised by its leadership team as "a critical part of the employee experience", KPMG says. It suggests that culture is "carefully nurtured to ensure it continues to be relevant for today's challenges".

4. Deep knowledge of the customer and a clear target experience. According to

KPMG's research, First Direct "knows exactly what customers are seeking physically, rationally and psychologically, and are very diligent in delivering the target experience".

5. Physical reinforcement. First Direct uses "symbols and totems" to keep the brand and its purpose "uppermost in their peoples' mind".

# NEED TO KNOW



With the ongoing coronavirus pandemic reshaping the way people shop for groceries and pushing hundreds of thousands of consumers online, how has the UK's only pureplay grocer really fared in lockdown? **Hugh Radojev** and **Eleanor Smith** investigate

Ocado updated the City this month with its results covering the lockdown, which saw both online grocery sales and demand surge historically.

While Ocado's results covered the 26 weeks ending May 31, compared with Sainsbury's and Tesco's 16-week updates, they bear comparison as they take in the manic three-month period where grocery retail seemingly changed forever.

Ocado chief executive Tim Steiner was bullish about his business' performance. More importantly, given the group's increased focus on world domination through its Solutions technology arm, Steiner was also convinced that online grocery demand has passed the tipping point from which there is no return.

"In the last six months, the world has changed, and we aren't going back to where we were before. We have seen two decades' worth of growth in a matter of months," Steiner says.

"This dramatic shift in online

demand is not just a UK phenomenon – it's happening everywhere."

Yet Ocado has been criticised at home during this period for not being able to meet new customer demand. Its more rigid and capital-intensive automated warehouse model has also allowed the more nimble store-pick models favoured by the supermarkets to steal a march in terms of online share.

How, then, has it actually done?

## Sales growth

Steiner hailed Ocado's "resilience, dedication and innovative spirit" for the period, which saw sales balloon 27% to more than £1bn.

While the numbers in isolation may be impressive, they pale into insignificance when compared with the online growth of the likes of Tesco and Sainsbury's.

In Tesco's first quarter, overall ecommerce sales jumped 48%, hitting a peak of more than 90%

growth in May. While not going into sales figures for the period, outgoing chief executive Dave Lewis said online sales this year would be worth £5.5bn, compared with £3.3bn last year.

Sainsbury's, meanwhile, saw online deliveries skyrocket 87%, while sales more than doubled to be worth 18% of total group sales for the period.

Ocado's share price dipped last week. GlobalData retail analyst Thomas Brereton notes that, while there are "numerous positives" to take from its first half, the retailer's sales growth is basically as "good as it's going to get".

He points out: "Tesco saw +90% online grocery sales in May and Sainsbury's saw +136% in June – figures that are simply unachievable by Ocado due to capacity issues.

"With the UK online grocery market expected to grow 76% in 2020, Ocado will inevitably lose share of the UK online market."

Ocado does offer partners a pick-

at-store service, such as its tie-up with Morrisons, and Steiner said it had increased capacity in that area "five-fold" during lockdown.

However, he questioned whether the short-term increase in sales achieved by the likes of Tesco and Sainsbury's over this period was sustainable.

## Customer acquisition

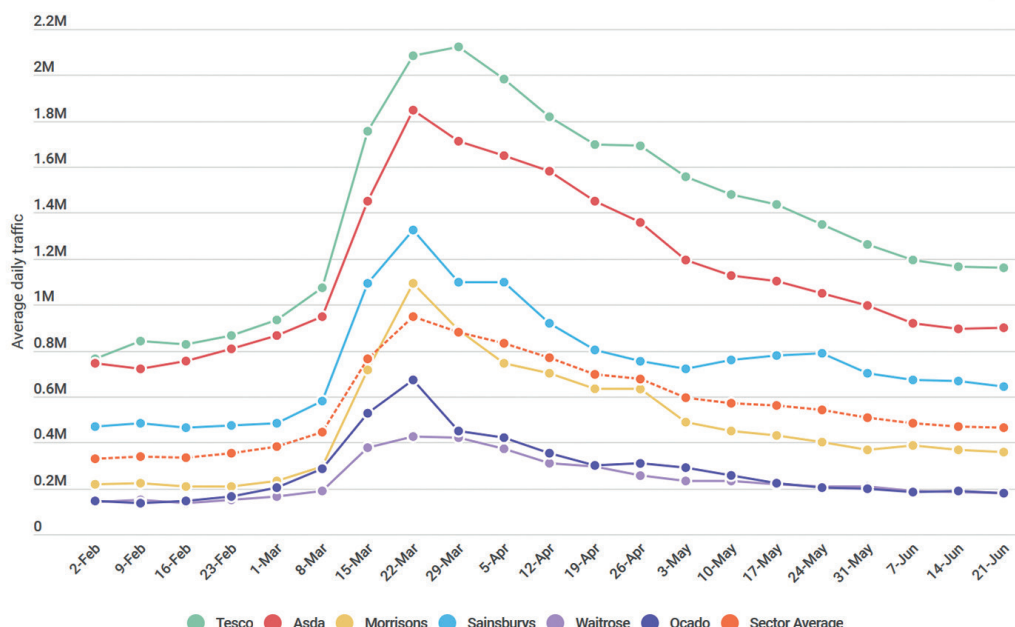
Without the added lever of physical stores, Ocado has always been forced to rely on its ecommerce website to service customers. Early in the crisis, the sheer weight of new and existing customers trying to place orders saw the retailer close its website down.

With Ocado's fire-damaged Andover CFC out of commission until the second half of next year and its Erith warehouse operating only at 60% capacity, Steiner admitted that the retailer had simply been unable to grow as fast as it could have.

"Could we have doubled, trebled our growth? Maybe five or 10 times? If we'd



## Grocery ecommerce website traffic trends in the UK



**In the last six months the world has changed and we aren't going back to where we were before**

**Tim Steiner, Ocado**

had the capacity, that wouldn't have been difficult. But we'll never know, not having had the capacity," he said.

In that time, Sainsbury's and Tesco added hundreds of thousands of new online customers. Tesco's Lewis said that five weeks into lockdown the grocer had the capacity to make 1.3 million deliveries a week, more than double where it started in March.

He also said the grocer served 590,000 vulnerable customers online during the height of lockdown, many of which were "new to Tesco".

Sainsbury's said it served more than 500,000 elderly, disabled and vulnerable customers online and boosted weekly delivery slots from 370,000 to more than 650,000. In its first quarter, online sales jumped 87% and more than half of its new online shoppers were also first-time Sainsbury's customers.

Meanwhile, broker Peel Hunt notes that Ocado's active customers for the period fell 14% to 639,000. Analyst James Lockyer says this "makes sense given the focus on loyal and vulnerable customers", but does "put the revenue into perspective".

Even as lockdown measures begin to ease, Steiner said that Ocado is still struggling to take on new customers. He says it currently has "over 1 million customers who want to shop with us" waiting for availabilities.

To mitigate this, Steiner stresses

that Ocado will be increasing capacity by more than 40% by the end of next year – as new CFCs at Bristol, Purfleet and finally Andover come online, and capacity at Erith reaches its peak.

However, as Goldman Sachs analyst Ana Fernandez points out, delays to the building of the new CFCs could "negatively impact future demand from existing customers" and continue to hinder the acquisition of new ones.

This becomes even more important as Ocado's joint venture with Marks & Spencer is set to go live this September.

M&S chair Archie Norman cautioned the retailer's customers earlier this month that access to Ocado would "likely be very limited" due to the ongoing demand issues.

While Steiner admitted there could be more demand than Ocado can handle with M&S, "we know that we've got the code and controls in place to manage the business well in that scenario".

### Profitability of the model

The eternal question that has plagued Ocado is when will it become a routinely profitable business? In its 20-year history, it has only turned a pre-tax profit three times.

Steiner said that in the first half of the year its UK retail arm saw profits nearly double to £45.7m, despite increased costs from staff bonuses and absences and depressed margins. As a group, its overall losses

before tax narrowed during the period to £40.6m.

However, improved retail profits were almost entirely offset by equivalent losses in Ocado's Solutions business.

Despite all this, Steiner was adamant that Ocado's automated warehouse model is more profitable than the store-pick models favoured by Sainsbury's and Tesco.

"What you're seeing from some of our competitors is that their numbers are challenged because of the growth of store-pick. Whereas what you've seen here is significant conversion to profitability in our retail business because of the operating leverage and the positive operating contribution in our model," he said.

"I'd rather grow 40% with a doubling of profitability than grow 100% and wipe out my profits."

While it is true that both supermarket giants noted that increased staff costs would likely wipe out much of the profits from increased online sales during lockdown, Shore Capital analyst Clive Black disagrees that Ocado's model is more profitable long term.

He says that Tesco and Sainsbury's were able to achieve huge online growth with minimal capital investment, while Ocado's warehouses cost tens of millions of pounds while still not delivering similar increases on returns.

"Making online profitable has always been a problem for the

supermarkets, with the margins, but all big grocers have seen improved financial metrics during the lockdown. They are mostly in the black online, because at full capacity there's no need for marketing incentives driving customers online," he says.

"Supermarkets also increased capacity with minimum expenditure, while Ocado has put down tens of millions of pounds with desperately poor returns."

Despite these criticisms, Steiner remains convinced that Ocado's model will bear long-term fruit – both at home and abroad.

Ocado said that during the first half of the year international partner revenues had combined to £210bn, which, given the increased online shift globally, "represents a fee opportunity of £3.5bn to £26.3bn".

Steiner predicted that online demand will continue to grow and could reach as much as 30% over the next five years, "at which point we'll see a continued channel shift, which will begin to make the economics of stores quite challenging".

Ocado has never been judged by investors like other retail businesses. It is built and sold on a singular vision and, if its online penetration predictions come true in the next five years, its failures over the last three months will be forgotten. As ever, though, it's a pretty big if. **RW**

# NEED TO KNOW



**We're behind our big stores. We've invested tens of millions over the past year in remodelling 121 of our big stores**  
**Alex Baldock,**  
**Dixons Carphone**

"If we're paying for assets in a store, whether it's the store itself or the colleagues in it, we're finding ways to get more leverage out of that asset," he says.

## Omnichannel services

During lockdown, Dixons Carphone has created a raft of new ways to supplement and complement pureplay services, including ShopLive, which enables colleagues to serve customers anywhere as opposed to only in their immediate catchment area.

Initially launching with 30 participating colleagues, ShopLive now has 280 experts on hand to talk to customers online, and the retailer plans to continue to scale up as time goes on.

ShopLive is currently conducting 20,000 online consultations a week with UK customers, helping drive the retailer's omnichannel sales, and Baldock says customers using the service have both higher conversion rates and higher spend per head.

As the service leverages "the best of stores and online", the cost of, for example, hiring a new store colleague seems more worthwhile as their reach goes beyond the store.

"Our pace of innovation accelerated due to the circumstances of lockdown," explains Baldock, "but we're placing bets that these services will become the new norm."

While the longstanding difficulties at the mobile business are still to be resolved, Baldock remains bullish.

"We've learned a lot during this crisis and will emerge a better business from it," he maintains.

Online in-store sales were already up 64% before Covid-19 hit and if Baldock is right, the pandemic, perversely, will have accelerated the move in an omnichannel direction that Dixons Carphone had already taken, and that seems to be proving popular with customers. **RW**

## Dixons Carphone's model bets on bricks and clicks

Dixons Carphone was set to fulfil its promises before coronavirus struck and boss Alex Baldock remains certain the retailer is still on the right track. By **Rosie Shepard**

Dixons Carphone had to close all UK stores from March 23, but the retailer has used the lockdown period to accelerate its digital operations and build its online market share, while also leveraging the strengths of its in-store expertise.

It is a mix that boss Alex Baldock believes will put the business in a powerful position post-pandemic.

"We have significantly grown online," he points out. "We've done what we said we were going to do, which is to improve the range and make it easier to buy online, whether it's better search and recommendations, checkouts or site speed, as well as making it easier for them to get a hold of their products once they've ordered."

"But it's not just about online; it's about stores too. We're behind our big stores. We've invested tens of millions over the past year in remodelling 121 of our big stores. It's online and stores together for us."

While Dixons Carphone's mobile division is behind schedule and

dragged performance down, Dixons Carphone is making strides to build its wider omnichannel operations and plans to break even in 2022.

In the financial year to May 2, Dixons Carphone's online sales rose 22% and climbed a record 166% in April year on year as lockdown kicked in and more shoppers turned to online.

With stores forced to close, Dixons "became a pureplay retailer overnight temporarily" and succeeded in securing 70% of the lost store sales online.

Baldock was already taking Dixons Carphone in a more omnichannel direction and, in anticipation that the shift online is here to stay, says he is confident in that model.

"We do expect the shift online we've seen in many customers to continue after the crisis," he says.

"We do think this forced digital-first immersion that many have felt, whether it's video conferencing or telemedicine or online shopping, will continue, and we expect these to all

become enduring trends. The reason we're comfortable about that is, first of all, we're winning online by gaining market share both online and in stores, and secondly we believe in our omnichannel model.

"We believe that online and store services together are the right answer in the electricals category, where 20% or less of customers are online-only."

## Marginal differences

Although online sales bring lower margin, the gap is narrowing according to finance chief Jonny Mason as assets are deployed in a more complementary way.

Mason points to new elements such as the retailer's ShopLive digital shopping platform and advice service, carried out over video by consumers speaking to in-store colleagues, as one example of how assets can be deployed differently to benefit the whole business rather than by taking a distinct channel view.



# Working from home is here to stay and retail must adapt

With many home workers still reluctant to head back to the office, retailers must accept there is no turning the tide and adjust to yet another new reality, says **George MacDonald**

**A**fter face masks became mandatory for shoppers last week, it was a stark reminder that the Covid-19 pandemic is far from over.

The sudden appearance at high streets, malls and retail parks of masks en masse rather than among a minority of consumers – in my experience, at least – renders visible that unnerving reality.

The implications for retailers are not yet clear. Will masks build consumer confidence or shake it? Either way, they represent a flashing light that signals the need for vigilance.

That vigilance comes into play too as far as people's willingness to travel to work goes. Travel hubs such as railway stations and the big city centres that they normally funnel commuters into still lie pretty much deserted – a heavy weight to bear for the many retailers that rely on office and other urban workers for some of their most lucrative trade.

Retailers operating in London's West End or other major cities such as Manchester and Leeds should not expect much relief any time soon. Like much of the official communication of late – including on face masks – the message about working from home has been muddled by the government.

It's probably done more harm than good. Anecdotal, a seam of resentment seems to have built up among many people, who have come to the conclusion that pleas to return to the workplace are about 'saving Pret' and other hospitality businesses that rely on breakfast and lunchtime trade, rather than their own welfare.

And many big companies show not the slightest sign of ordering staff back to their desks. Only this week, banking giant RBS told its 50,000 UK employees that they need not return to offices until next year.

Changing working patterns are evident at retail head offices too.

Asda has been a conspicuous exception in ordering HQ staff to spend some time in the office every week from next month. Its grocery rival Morrisons is introducing a four-day office week as standard at its HQ and those wishing to work from home can do so unless it is essential for them to come in.

Reasons for Morrisons' changes included enabling a better work-life balance, staff retention and attractiveness as an employer.

Of the pair, it's Morrisons that looks as if it is more in tune with the times. Offices in many ways are brilliant places. I miss ours and I'm looking forward to going in again, but much less often than in the past.

It has become obvious that many people and roles can be as productive at home as at work. Employers need to find ways to preserve the benefits of the workplace, such as sparking ideas and esprit de corps, while being more flexible about bums on seats.

Many are thinking along exactly those lines, as evidenced by RBS, raising questions about the future shape of retail estates and location strategy.



**George MacDonald**  
Executive editor,  
Retail Week

**It's possible that the switch in working patterns will open new opportunities for retailers**

It's possible that the switch in working patterns will open new opportunities. Hotel Chocolat, which updated this week and will meet full-year profit guidance, said that while performance in big-city stores has been hit, market-town locations have done much better – as, of course, has online.

Some stores once seen as moneyspinners in commuter locations will never reopen, even when the pandemic subsides. The places where people live, rather than where they travel to, will become more important to retailers.

That could be good news for town centres as they seek to reinvent themselves. Some shops may take on new leases of life and contribute in new ways, such as by becoming click-and-collect hotspots for online orders.

In that context, John Lewis's delivery tie-up with convenience specialist the Co-op looks like a good move, while Marks & Spencer's joint venture with online grocer Ocado couldn't have come at a better time. Some of its food shops are suffering as a result of new travel patterns, so an online operation takes on even greater importance.

Retailers have adapted during the emergency. They've had to. But that versatility should enable them to adapt once again if necessary to new living and working arrangements.

The one thing they can't do is play Canute. They need to be where the customers are. **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](https://retail-week.com/donate20)

Retailers can help fund the appeal by contacting **Claire Greenwood** at [cgreenwood@retailtrust.org.uk](mailto:cgreenwood@retailtrust.org.uk)

**RWRC**<sup>^</sup>  
BY ASCENTIAL

**retailTRUST**<sup>rt</sup>

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# OPINION

## The new channel split is buying vs shopping

Online retail took a big step forward during lockdown but it still cannot capture the experience of shopping, while physical retail faces its own post-pandemic challenge, writes **Michael Jary**

**W**hy has online retailing not grown more during the Covid crisis? And what does that tell us about its limitations?

This may seem like a strange question. Of course, online retailing surged while everyone was locked down at home, and it seems likely at least some of that forced behaviour will stick.

In the UK, online penetration of non-food retail rose from just over 20% to nearly 30% in April and May. But when most shops were shut this is hardly surprising. And in a market which had contracted by up to 40%, the absolute growth in the ecommerce channel has been quite modest. Even by June, online penetration had begun to shrink again.

In countries that exited lockdown earlier, online retail is slipping back towards January penetration. South Korea had a six percentage point uplift at peak, but has now stabilised at 1-2% up. Online in China is about half the way back to pre-Covid levels.

During a crisis, it is easy to overestimate the extent of permanent change. Online channels will have taken, perhaps, a two- or three-year step forward. That is significant, especially if, as expected, around 8% of stores will not reopen. Nevertheless, physical stores remain the dominant channel. This is not the tipping point and it is worth asking, why not?

For a long time, answers to this question usually started with “Ah, but my mother...” My mother doesn’t have a smartphone, wouldn’t use it and so on. But this is no longer true.

Your mother (I confidently wager) has a smartphone. She already does many things online, including some shopping, and was obliged to do more of it during lockdown. She uses Zoom and Netflix. But she still wants to go to the shops.

The channel split is no longer between those who are online and those who are not.

The difference is one of mission – it’s between buying and shopping. Buying (I know what I want, I want it now and I just want it at a reasonable price) is ideally suited to online and rapidly going that way. Shopping (I’m not sure what I want or if I want anything, I want you to advise, inspire, entertain and pamper me) takes place multichannel.

If it’s the first mission you’re on, you’re going to turn to the internet. But if it’s the second mission, which comprises a large and profitable portion of retail, then physical retail still has an indispensable role to play.

Shops should not be attempting to compete for those buying missions that will be won by the internet. Responding to declining footfall by cutting staffing levels and training, underinvesting in the physical environment and smoothing out friction takes shops away from where their unique advantages lie: experience and discovery.

Stores will only have a role if they provide the inspiration of beautiful display and personal service, the serendipity of curation. That means far fewer



**Michael Jary**  
Senior adviser, OC&C  
Strategy Consultants

**The best online experience is amazing at logistics, but terrible at discovery, inspiration or recommendation**

stores, but much better invested. Sadly, for the moment, nervous shoppers, enforced social distancing and reduced dwell times severely hamper stores even if they are open.

Last week, I began the search for an item online, but to complete it I drove up in front of the store at a retail park and popped the boot while a masked man placed the parcel inside. The opportunity for the store and its wonderful staff to offer service, inspiration and impulse was all lost.

But equally, online retail is not filling this gap. The best online experience is amazing at logistics but terrible at discovery, inspiration or recommendation. Perhaps AI will solve that eventually, but as anyone who’s looked at their Amazon ‘Recommended for you’ will realise, the state of the art is way off.

In the race for diminishing marginal returns of cheaper and faster, online retail has lost sight of the opportunity for more thrilling, more imaginative or more lovingly curated.

Demand creation, therefore, is the biggest gap in retail right now. Without it, the V-shaped recovery will take us only to 90% of pre-existing demand and the last 10% will be missing.

Shops have to find ways to manage with the Covid restrictions, to create an environment that inspires. But equally, the online channel has to see beyond its limited role as a search engine for product and find ways to transport the customer to a world of discovery. **RW**



# Why all AO staff – not just bosses – will share our success

AO.com's new incentive scheme is different from others, says chief executive **John Roberts**, because it will focus on the value that all employees achieve together

**A**t AO.com, we talk a lot about trying to do things that would make our mums proud. That means doing the right thing when it comes to decisions about how we run the business, how we look after our customers and how we treat our people.

I've thought for a long time that the right thing to do is to find a way for every single AO employee to receive a meaningful reward, above and beyond the wages they earn, for the value they create.

We've been working on ideas for months and the value creation plan we announced this week is a unique rewards scheme that I really am proud to tell my mum about.

Proud because it absolutely epitomises the AO way of doing things. Proud because it is absolutely true to our One AO principle. And proud because it gives all of our people a stake in the future success we can achieve together.

## Ambition and innovation

We have an unbelievably dedicated and talented team striving to go the extra mile for our customers every day. The point of our plan is to recognise and reward exceptional performance and the value it creates.

It's not like other incentive schemes that focus on individuals – particularly top executives. The AO way is to prioritise the value in what we achieve together – all 3,000 of us.

**The whole business is now obsessed with delighting our customers, driving innovation and creating growth**

**John Roberts**  
Founder and chief executive, AO.com



Rewards will kick in as our share price rises and market cap grows in response to exceptional performance. The pot starts building when the share price hits £5.23, valuing the business at £2.5bn – compared with around £790m today – and grows through phases up to a maximum of £300m over five years.

The key point is that the majority of that value is shared with every AO employee, not just executive management.

What this means over time is that everyone could receive around a year's salary – making a real difference to them and their families. That's what we mean by exceptional rewards for exceptional performance.

Our remuneration committee has been canvassing investors and there is broad support for the plan. They like the innovation and they like the ambition.

By ambition, I mean we've set a pretty high bar for this. We've done that with confidence based on changes we've made to the business and progress we're making.

**We saw five years of change in just five weeks. Now we're investing to cement that change and create lifelong habits**

We went back to basics, bringing clarity and leadership to the fundamentals of AO. Our model and vertically integrated ecosystem is a structural advantage when properly leveraged. The whole business is now obsessed with delighting our customers, driving innovation and creating growth.

## Vote of confidence

It is clear that Covid-19 has driven a real and, I believe, durable shift in shopping behaviour. We saw five years of change in just five weeks. Now we're investing to cement that change and create lifelong habits.

It's by fixing the business that we have ensured AO is set up to benefit from this accelerated structural shift to online in the UK and Germany, and our model is now truly scalable.

AO is fit and focused on growth and this scheme is a vote of confidence in our people and the future we're building together.

One final point, in case anyone wonders about my own stake – it's very simple.

Every penny of my share will go to OnSide Youth Zones – a charity I care about as passionately as I believe in AO – because talent is evenly distributed but opportunity is not. And the charity sector needs disrupting just like the electricals market did 20 years ago. **RW**

# ANALYSIS



## Farewell to the West End?

People are travelling less, working from home more and less inclined to congregate in busy public spaces – will this change where retailers want to open stores? **Hugh Radojev** reports

**N**on-essential shops reopened on June 15, but shoppers have not rushed back to the high street – and it's no surprise that city centres have fared worse than other locations given that many people are still working from home.

For example, footfall in London's West End was down an eye-watering 81% year on year in the first week stores opened their doors, according to Springboard.

Even the reopening of pubs and restaurants failed to bring people into central London. Visitor numbers were down 76% year on year

over Super Saturday weekend – when these establishments swung open their doors again – compared with the average 50% drop across all shopping and leisure destinations in England.

It's not just the centre of London that shoppers are avoiding. According to data from the Centre for Cities, Manchester, Liverpool and Newcastle joined the capital as some of the locations that experienced the smallest bounces in weekly footfall in the week following store reopenings.

Meanwhile, smaller towns and cities, such as Warrington, Hull and Telford, were

among those that enjoyed the biggest increases.

The property boss of an international fashion retailer with a handful of stores, predominantly in London's West End, says demand has been so weak it has barely been worth opening.

"Most of the retailers I know are taking a few hundred pounds a day, and if it carries on much longer I think most would consider closing down again to reserve cash," he says. "For a few more weeks anyway, in the hope that demand and footfall return."

The chief executive of one footwear retailer agreed, saying that trading since reopening has



been polarised: “Provinces are performing much better, but big cities like London are a nightmare.

“There are a lot of retailers that are going to close down their central London stores again for a while as they’re not covering the cost of wages and electricity.”

With coronavirus still a present threat, this could be seen as a short-lived trend that will reverse as life slowly returns to normal. However, the footwear boss believes a return to local shopping is here to stay.

“People have forgotten what it’s like to shop with people that they know, or can get to know. During lockdown they got to know their local shopkeepers. They won’t forget that quickly, so hopefully [shopping locally] will continue.”

One retail consultant says the shift in destination popularity is leading retailers to re-evaluate where their store priorities lie.

**During lockdown people got to know their local shopkeepers. They won’t forget that quickly, so hopefully [shopping locally] will continue**  
**Footwear retailer**

## Footfall trends on ‘Super Saturday’

| Type of location  | Week-on-week % change in footfall | Year-on-year % change in footfall |
|-------------------|-----------------------------------|-----------------------------------|
| Central London    | 26%                               | -75%                              |
| Coastal town      | 7.4%                              | -56%                              |
| Historic town     | 22%                               | -57%                              |
| Regional city     | 29%                               | -68%                              |
| London’s West End | 26%                               | -76%                              |

Source: Springboard

“The pandemic has changed everything in just a few months. It’s led many of my retail clients to do 180-degree turns when it comes to planned store closures,” he says.

“At the start of the year, many would have been looking to jettison stores on local high streets and in towns which were struggling. Now, it’s gone completely the other way and they are considering closing more urban centres and shopping centres, because no one’s commuting, no one’s travelling and nothing is really open.”

Take Pret A Manger, for example. The sandwich chain has revealed it will close 30 branches in the second half of 2020.

Eleven of these shops are in London, in prime locations such as Piccadilly, Fleet Street and The Strand. Locations outside London include those in shopping centres such as Metrocentre in Gateshead, Lakeside in Essex and Capitol in Cardiff.

### Focus on local stores

Brands with sprawling store estates that focus on local high streets and regional town centres have enjoyed something of an uptick since non-essential retailers have reopened.

A source at one mid-market fashion group says it is now “doubling down on our ultra-local high street strategy”.

“The internal view is that these ultra-local high streets are less impacted by commuting and behavioural change because everyone lives within a stone’s throw,” he says.

“We also think that the last few months may encourage more people to stay and shop local, rather than going to bigger, out-of-town retail centres and hubs.”

Former Sainsbury’s boss Mike Coupe suggested that reconfiguration may be necessary in the grocery sector too, before he stood down in late May.



# ANALYSIS

## A new prime emerges?

Harper Dennis Hobbs compiles a longstanding Vitality Index that ranks the health of 1,000 retail areas based on criteria such as vacancy rates, and the proportion of upmarket and discount stores. The retail property consultancy has now created a post-Covid list for Retail Week, which is dominated by more local or suburban shopping areas.

Harper Dennis Hobbs executive director Jonathan De Mello says: "Given the drive to localism, I think towns like these will do better than some of the larger centres and malls in the current climate. Obviously, no one is really a winner, but sales in these towns won't be hit as hard."

| Post-Covid position | Retail centre           | 2019 rank | Post-Covid position | Retail centre              | 2019 rank |
|---------------------|-------------------------|-----------|---------------------|----------------------------|-----------|
| 1                   | Wimbledon Village       | 7         | 26                  | Ringwood                   | 90        |
| 2                   | Marlborough             | 10        | 27                  | Stamford                   | 91        |
| 3                   | Reigate                 | 12        | 28                  | Wimborne Minster           | 99        |
| 4                   | Berkhamsted             | 14        | 29                  | Knutsford                  | 104       |
| 5                   | Cobham                  | 17        | 30                  | Bowness-on-Windermere      | 105       |
| 6                   | Sherborne               | 26        | 31                  | Peebles                    | 106       |
| 7                   | Bristol - Clifton       | 27        | 32                  | Sheffield - Ecclesall Road | 108       |
| 8                   | Ilkley                  | 29        | 33                  | Totnes                     | 111       |
| 9                   | Sevenoaks               | 30        | 34                  | Keswick                    | 114       |
| 10                  | Marlow                  | 36        | 35                  | Hoddesdon                  | 115       |
| 11                  | Muswell Hill            | 38        | 36                  | Holt                       | 116       |
| 12                  | Tenterden               | 39        | 37                  | Clitheroe                  | 118       |
| 13                  | Hampstead               | 43        | 38                  | Edinburgh - Morningside    | 122       |
| 14                  | St Ives (Cornwall)      | 45        | 39                  | Dartmouth                  | 125       |
| 15                  | Holborn - The Brunswick | 52        | 40                  | West Bridgford             | 126       |
| 16                  | West Hampstead          | 56        | 41                  | South Woodford             | 129       |
| 17                  | Blackheath (London)     | 59        | 42                  | Saffron Walden             | 132       |
| 18                  | East Sheen              | 62        | 43                  | Harpenden                  | 139       |
| 19                  | Beaconsfield            | 64        | 44                  | Heswall                    | 140       |
| 20                  | Yarm                    | 65        | 45                  | Monmouth                   | 141       |
| 21                  | Lymington               | 73        | 46                  | Didsbury                   | 144       |
| 22                  | St Andrews              | 76        | 47                  | Pocklington                | 145       |
| 23                  | Seaton                  | 77        | 48                  | Fulham - High Street       | 146       |
| 24                  | Barnes                  | 78        | 49                  | Great Malvern              | 147       |
| 25                  | Petersfield             | 79        | 50                  | Pinner                     | 148       |

"Some of our most successful convenience stores are in the big city-centre locations – they are closed at the moment because there really is no traffic. You might, potentially, have to reorientate your convenience business in a different direction because some of the ones near to where people live are a lot more buoyant," he told Retail Week.

Landlords are expecting this to result in more demand for secondary and tertiary locations.

Emma Mackenzie, head of asset management at landlord NewRiver, which owns 33 community shopping centres and 25 retail parks across the UK, says: "A lot of retailers say that local stores are trading better than the big destination locations.

"Generally, people are staying and spending more locally and that will start to inform retailers' acquisition programmes going forward.

"Even if, once this is over, people are only working from home for two or three days a week, that's still local demand and there's going to be plenty of opportunities to soak that up."

Matt Slade, retail director at Quintain, which owns London Designer Outlet (LDO) in Wembley Park, says a number of fashion retailers are now considering taking space in his centre.

"There used to be some brands that didn't want to come to LDO because they viewed it as an urban location that was too near places like the West End," he says.

"However, over this period, we've had

a whole bunch of really good, interesting, aspirational brands that hadn't previously wanted to come that have now agreed deals."

Of course, LDO is benefiting from its status as an off-price centre, given that many fashion retailers have a whole season's worth of stock that they need to offload at a discount.

## Changing rents

The resurgence in local shopping is clearly leading to a reappraisal of where stores should be, and the prospect of a portfolio made up of local stores, with lower rents to pay, will be appealing to many retailers.

The landlord of a regional shopping centre tells Retail Week that the pandemic has certainly "made the retention of existing tenants easier" due to his site's location and importance to the local community.

The fashion property boss says some local landlords are already trying to take advantage of the newfound popularity of their stores. "I know of several instances where landlords in places like Caterham are demanding full rent during lockdown."

However, the shopping centre landlord believes that local high streets will be under as much pressure to readjust rents as the rest of retail's property owners.

"Coming out of this, it might actually be quite good for the retailers, hospitality and leisure operators that survive. Rents will come down across the board, because valuations are coming down and have been for some time," he says.

"The government have obviously already cut business rates and I'd imagine it would look at them again next year. It will also probably offer grants and all sorts of things. So it could be a good time to try, or stay in, bricks and mortar."

The effect on once prime retail locations, such as London's West End, could be profound.

Tycoon Theo Paphitis, who owns Ryman, Robert Dyas and Bux Avenue, is adamant that rents will have to come down. "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.

Harper Dennis Hobbs executive director Jonathan De Mello believes rents in prime locations will fall faster than other destinations, particularly for retailers on turnover-based rents.

"If retailer turnover is on average 60% of what it was pre-Covid, and turnover rents on average are agreed at say 10%, then prime rents in a lot of major centres will likely drop to 40% in the short term."

Since the pandemic turned the world upside down in March, people have become reacquainted with their local high streets, and four months is more than enough time to turn relatively new behaviours into habits.

While this may help to breathe life into long-suffering local high streets, city-centre sites that were once the places to be could be seeking new lifelines. **RW**





# Slow fashion picks up the pace

As modern slavery allegations blight fast fashion and the world pauses to think about the impact of consumerism in lockdown, could change be afoot? **Rosie Shepard** reports

**A**llegations that fast-fashion giant Boohoo was found to be using modern slavery to make its clothes in a Leicester sweatshop rocked retail this month – however, few were surprised. Leicester’s rogue rag trade has been an open secret in the UK fashion industry for years.

However, the fresh media coverage has brought renewed attention to the ethics of fashion’s supply chain at home and abroad, particularly within fast fashion.

Using complex supply chains to produce huge volumes of clothing at low prices in super-fast time creates many ethical challenges that are difficult to manage.

Meanwhile, lockdown has quelled consumerism for many and led some to a rethink how they buy clothes. Could this be the moment that the fashion industry is turned on its head and ‘slow fashion’ – clothing designed and made to be sustainable and long-lasting using slower production – rises to the fore?

Slow fashion can include a range of different concepts, from better treatment of workers to using sustainable materials and recycled

packaging. But at its heart is a more considered approach to clothing – from supplier, to purchase, to how the consumer uses it.

There are signs that consumers are using and thinking about fashion differently. Over the past five years, people have been cutting back on the amount of clothing they buy, according to Kantar consumer fashion specialist Michael Mackenzie.

“The average shopper bought 76 items per year in 2016, whereas it’s now down to 72,” he says. “That might seem like a small reduction but it’s relatively large in the grand scheme of things.”

Mackenzie believes this trend is likely to continue. “Lockdown and social distancing measures and the other associated barriers to shopping at the moment, as well as the fact that there are currently fewer occasions to buy clothes for, will potentially lead to consumers really having time to think about those clothes they do purchase,” he says.

“Clothing will move away from being an impulsive purchase to something that is more planned and therefore sustainability and the ethical profile of that brand may

perhaps become more important within the considerations for purchase.”

Accenture managing director for global responsible retail Cara Smyth agrees. “We’re all thinking ‘what is in my closet?’ because we’re all stuck in our houses and wondering whether we need everything that’s in there. Off the back of the pandemic, we will see some behavioural shifts and we will think more carefully about what we want and how long we will keep it.

“What we are left with are more compassionate consumers that recognise the interconnectedness of the world, communities and each other. Consumers will make different decisions so fast fashion, like every other company, can do better and absolutely should be trying to do better and evolve now.”

Smyth predicts that pressure from customers and investors – Boohoo’s share price plummeted 40% this month on the back of the modern slavery allegations – can force this fast-fashion evolution.

For larger brands, overhauling supply chains could seem like a daunting and expensive task, but as sustainability makes its way higher up consumers’ considerations and more

# ANALYSIS

## What we are left with are more compassionate consumers that recognise the interconnectedness of the world, communities and each other

**Cara Smyth, Accenture**



Boden

We love clothes that last

## Slow-fashion spotlight: People Tree

People Tree was launched in 1991 and has been quietly using sustainable and ethical practices to create organic garments ever since.

The brand adopts traditional methods such as weaving, knitting and embroidery by hand, and uses low impact dyes in order to safeguard the environment and its customers' health.

Consequently, the brand moves at a much slower pace, placing orders further in advance in order to allow time for creation.

"To People Tree, slow fashion means we have to work with our producers to give them sufficient time to create the items properly," explains managing director Melanie Traub.

"What that usually means is that we have to commit to orders much further in advance. For example, by the end of August, we will have committed to our spring/summer 2021 collection so that they can take the time to weave the fabrics, give the staff enough time to do everything without working overtime or work funny hours, so we really have to plan for it.

"For the stores we sell to, we ask them to commit earlier to ordering our products than if we were an ordinary fast-fashion business. It just means you have to take things way slower."

People Tree also advocates fairtrade and fair wages for workers.

"Not only do we visit the factories, but we do regular interviews with workers," says Traub.

"Instead of using a manager as a translator, we hire independent native speakers to help conduct the interviews to ensure that the

answers are honest and fair, and we'll just pick people at random to ask what they're paid and what hours they work to make sure the record and reality mix."

Traub says People Tree has proven popular during the pandemic as consumers become more conscious, with a strong interest in organic cotton products.

"I think retailers could learn that there is another option out there, a better way to do business – hopefully this will be a positive that comes out of the situation," she says.



ethical competition enters the market, it may become a hygiene factor rather.

"I think we will see increased players in the slow-fashion industry," says Mackenzie. "That kind of behaviour and business model is normally aligned with smaller operators and more niche companies and there are plenty that do it well and admirably.

"For the larger brands and retailers that have more complex supply chains that model is going to be a challenge to put in place but there are some that are very clear and transparent about the factories they source from."

He gives the example of Boden, a brand that makes clear on its website the factories it uses.

Following the Boohoo furore, Asos chief executive Nick Beighton was also eager to point out that it publishes a list of its suppliers. It was also quick to ditch Boohoo from its roster of third-party brands when the modern slavery claims were brought to light.

Fast-fashion behemoth Primark has also made positive steps to improve how its supply chain operates.

"We have been working hard for many years to minimise our impact on the planet across our supply chain, from the way we source our raw materials to the way we transport our products to our depots, shipping the vast majority by sea and road, not air, and packaging them more efficiently, prioritising more sustainable practices wherever possible," says a Primark spokesman.

"We're also bringing more products made using more sustainable fibres to our customers, with ranges made from Primark's sustainable cotton to recycled polyester. We realise there is always more to be done in this area and are committed to playing our part."

However, Sarah Gillespie, brand manager of sustainable activewear retailer Tala, questions whether fast-fashion players can really be sustainable.

"I think broadly fast fashion is inherently unethical," she says. "What we have seen is a lot of brands jumping on the sustainability bandwagon, incorporating it into one collection they do or launching a temporary initiative, but it's not rooted in everything they do so customers have no idea what's really going on behind the scenes.

"We encourage our audience to take the time to research where the clothing is coming from. If you can't find that information, if you can't find where it's being produced or what the conditions are like, then there's probably a reason for that."

While Gillespie understands it is difficult for mainstream fashion firms to overhaul business practices overnight, she says small changes can make a big difference.

"I'm sure there's an easy way to make changes without overhauling the entire business, even if it's offsetting your carbon footprint or using recycled packaging," she says. "Baby steps in the right direction show that they're thinking that way and listening to what the consumers are demanding.



## The realities of slow fashion

As its name would indicate slow fashion, these brands cannot react to the latest trends or pivot their collections at a moment's notice.

Mackenzie says this means the movement is more geared towards basic clothing; however, there are ways to ensure all clothing made this way remains on trend, says Traub.

"It's challenging because we are working at a different pace to the rest of the industry. We have to get hold of the first trend books that come out because we're doing everything ahead of the major fashion shows, which can be difficult. We are a fashionable brand so that's what we have to do," she explains.

As a brand aimed towards the 18-to-35-year-old customer, Tala is competing with a host of fast-fashion brands that, Gillespie says, can see a celebrity wearing a product and have a similar item listed on their website within a few weeks – but Tala cannot do the same.

Another reality is that profit margins are slimmer, admits Gillespie. "It costs more to produce sustainable products and from the beginning, we always said that we would keep our price points at an accessible level. We don't want to out-price our customers, as historically sustainable apparel is known as a luxury that the majority can't really afford.

"While there are some downsides, it's not something we are willing to compromise on. If we can do it as a start-up, there's no excuse for bigger brands not to be increasing their sustainability and ethical credentials."

Moreover, if sustainable practices become the norm, the process will become cheaper, she says.

Big retailers are beginning to take notice of the movement. Zara-owner Inditex has pledged to use only sustainable materials by 2025, while H&M has promised to do the same by 2030. Of course, this is far from shunning fast fashion, but it is making production more ethical.

Mackenzie refers to H&M, which has stocked its Conscious Collection of sustainably made products for more than 10 years, as the "poster boy" for mainstream retailers adopting more sustainable practices.

"It's clear commitment to conscious behaviour proves that multinational retailers can look to change and have elements of their offer be more sustainable. As a result, H&M's market share has increased, showing that there are lucrative opportunities for those that behave differently."

Smyth says widespread change will be driven by consumers buying more sustainable products. "The more consumers are asking for and buying sustainable products, then the more retailers will have to listen to the demands.

"We all have a place in evolving businesses to be what we want them to be. If there's no real demand for slow fashion then there's no reason for brands to make those changes."

The demand is there and growing. Perhaps it is time for fashion retailers to slow down the pace in order to keep up with it. **RW**

## Slow-fashion spotlight: Tala

Activewear brand Tala was created by fitness influencer Grace Beverley with sustainability and slow fashion at its core.

The brand, which was launched in May 2019, ensures every element from packaging to production is in line with its sustainable values.

"To us, the slow fashion label means taking a lot more care across each and every element of the brand," says Tala brand manager Sarah Gillespie.

"It starts with using accredited organisations to ensure all our suppliers have been audited." She says audits cover quality of materials, the use of chemicals, working conditions and pay. It also conducts many factory visits and, in the spirit of a company set up by an Instagram influencer, broadcasts footage from these excursions. For International Women's Day this year, Tala visited one of its factories in Portugal to conduct video interviews with a range of workers there, which were then shown on the brand's Instagram TV channel.

Tala also makes items with "the highest proportion of sustainable materials we possibly can", says Gillespie.

"The majority of our activewear contains 92% upcycled or recycled materials, and our loungewear has 100% upcycled or recycled material, such as cotton and even plastic bottles. We're really proud of those figures and we're working with our suppliers to better that.

"Our packaging is made from 100% recycled and recyclable materials and we've recently

made a change from black to white plastic as research has shown white plastic is easier to break down."

Another unique sustainable feature of Tala is that product tags are made out of seeded paper, and customers can opt to plant them in soil and grow a surprise plant such as basil, sunflowers and fennel – meaning there's no waste.

With ethics and sustainability threaded into its operations, Tala aims to take on the fast-fashion industry and steal its business.

"I hope that as we grow our audience stays vocal and votes with their money," says Gillespie. "If we continue the way we're going, we will be able to drive that change in the industry and those brands will have no choice but to listen. It comes back to: if we can do it, what's your excuse?"



**Broadly fast fashion is inherently unethical. What we have seen is a lot of brands jumping on the sustainability bandwagon**  
**Sarah Gillespie, Tala**



# ANALYSIS

## Retail's ticking time bomb

When all non-essential stores closed in March, many businesses were forced to increase borrowing to stay afloat. But is this level of debt sustainable? **Hugh Radojev** reports

**S**ince the UK was plunged into a nationwide lockdown, the retail sector has been scrambling to keep afloat.

With stores shut for nearly three months and homebound shoppers not spending, many retailers have seen sales plummet. To get through this unprecedented time, many were forced to go to new and existing lenders to secure additional credit in order to pay the bills.

As the government pushes to reopen the economy and wean businesses off state funding, some retailers are facing the prospect of having to pay back large loans on top of existing debts – all while footfall levels wallow at a historic low and consumer confidence remains stagnant.

Could this mixture of excess debt and stagnant sales lead to a retail credit crunch?

### Money, money, money

The government has strived to make funds available to help businesses get through these turbulent times, but fundamentally these are loans that need to be paid back.

The main measures unveiled by chancellor Rishi Sunak in March were two state-backed loan schemes: the coronavirus business interruption loan scheme (CBILS) for businesses with turnovers of less than £45m and the coronavirus large business interruption loan scheme (CLBILS) for businesses with turnovers of more than £45m. These schemes were joined in late April by the bounce back loan scheme (BBLS) for smaller businesses, with loans ranging from £2,000 up to 25% of turnover, with a maximum of £50,000. No interest will be incurred by businesses taking any of these loans for the first year.

Lauded at the time as one of the most generous government responses anywhere

in the world, the limitations of the CBILS, CLBILS and BBLS schemes are becoming increasingly clear.

As the chief financial officer of one mid-market fashion retailer explains, the schemes do leave some businesses without cover – including internationally owned retailers or those considered in danger of failing.

A notable example was French Connection, which last week said it had been forced to raise £15m in working capital investment from Hilco after it was refused access to government support.

As a result, many retailers in this “funding no man’s land” have had no other recourse than to either raise cash through share buybacks or additional funding from owners or new investors – or, failing that, go cap in hand to banks.

This has led to a huge increase in the overall amount of debt that retailers have taken on, on top of existing loans and borrowing. While a true figure is impossible to calculate, Alistair Lee, partner at financial advisory firm Argyll Partners, offers an example.

“I’m currently working with about a dozen retail clients,” he says. “And it could easily be between 30% and 50% above what their normal funding levels would be.”

Another banker agrees with this figure and says that a mixture of concern for existing clients and external governmental pressure to prop up the sector has seen traditional lending norms go out the window.

Lending is calculated against a business’ EBITDA. The banker explains that, prior to the pandemic, it would never lend more than two or three times a retailer’s EBITDA. However, due to the effect the virus and store closures have had on sales, banks are now effectively taking a leap of faith and lending at eight, nine and even 10 times current EBITDA levels.

“In many cases, businesses that are ‘undertaking in difficulty’ [businesses either unable to pay debt or whose incomings are less than outgoings] and can’t access these loans, we’ve ended up lending them money anyway because they are fundamentally good businesses and we believe in them,” he says.

Lee says most of his retail clients, even those with robust balance sheets, have increased their overdrafts or revolving credit facilities.

However, credit isn’t available to all businesses. The banker says that retailers with severely reduced revenues are being forced into asset-based loans (ABLs) – effectively borrowing against the paper value of their stock.

“As companies get more distressed, they go down the ABL route,” he says. “There’s a lot more of that. Remember, banks are also investors. You’re protecting your loan by lending them more money because if you don’t, they’ll go bust. If you lend them more, there’s at least a chance of recovery.”

While ABL loans are far more prevalent in the US, they have historically been seen as a last resort for struggling retailers in the UK and developed a stigma due to their association with high-profile collapses such as Woolworths in 2008.





**Having all these old, tired brands fail is taking the industry forward quicker. They would have failed anyway, but this has just accelerated that process**  
**Banker**

In the wake of the pandemic, however, the banker says there has been an explosion in asset-based lending, which has seen American banks like Wells Fargo enter the UK retail market as “ABL is their bread and butter”.

Given the increased volatility across the sector, are lenders applying more strenuous terms to cover themselves should a retailer collapse?

The banker claims not. Many banks have agreed to increase existing loans or add new ones based on pre-coronavirus metrics, such as the company’s revenue expectations, he says.

“We’re not charging crazy interest rates at all. Most companies are on the same interest rates to what they were on before,” he explains.

The fashion CFO backs this up. “The banks we deal with have been more flexible and creative when it comes to loans,” he says, confirming that the retailer’s lenders have agreed to extra facilities based on pre-coronavirus revenue levels.

Despite existing lenders offering support, Lee admits the retail sector is not exactly top of many banks’ new client wish lists.

“If you had a traffic-light approach to different sectors and whether you’d want to lend money to them, I think it’s fair to say there wouldn’t be a green light on retail. It would probably be amber, at best,” he says.

As the banker points out, it’s been the mid-market apparel and footwear brands that have suffered the most due to the crisis – both in terms of collapsing sales and struggling to open up fresh lines of credit with banks.

### **Looming credit crunch?**

With banks suspending normal lending rules and many retailers borrowing money against old revenue forecasts, which may be unachievable in this new world, the situation looks increasingly perilous.

The CFO says he does not expect in-store sales to return to even 80% of pre-coronavirus levels until the second half of next year.

If sales continue to lag and generous interest rates and loan agreements expire, the banker believes a number of retailers could default on existing loans, or find themselves unable to access new ones. He tries to see this as a positive, however. “Having all these old, tired brands fail is taking the industry forward quicker. They would have failed anyway, but this has just accelerated that process.”

While banks are happy to lend right now, will this be the case later in the year when retailers are struggling to keep up with repayments? Could banks that have been hit with bad debt from retailers failing simply switch off the taps to the wider sector? The fashion CFO worries this could be in the offing.

“We’ve come together really through the crisis, but how that pans out as things get more ‘normal’ and get more tested is the worry,” he says.

As those support schemes, such as furlough pay and business rates holidays, taper off at the back end of the year, the CFO predicts issues will come to a head. “We’re currently not paying for a lot of liabilities, which are being stacked up to pay back in the future,” he says.

“As these things unwind, you’re almost certainly going to see a second hit where the liquidity point could really be tested. That could come in October or November, where liquidity could be seriously challenged again if stores sales don’t pick up significantly.

“A lot of retailers won’t have headroom and will need new facilities. I think they may face more challenging conversations with banks at that point.”

Lee agrees and sums up the situation: “There’s a lot of retail businesses, particularly the ones that have high street exposure, which will come out of this with more debt than they had going in and not all will be able to cope with that debt going forward.”

Ultimately, whether or not retail is heading for a gargantuan credit crunch depends on two things: how quickly sales normalise to pre-Covid levels and whether the government extends existing support packages or unveils fresh fiscal stimulus measures.

Whatever happens, this coming golden quarter could well be the most important in the history of retail. A happy Christmas will see many retailers be able to pay off their debts, while a poor one could be fatal. **RW**



# Coronavirus Consumer Pulse: Online traffic back to pre-crisis levels

Amid the coronavirus crisis, it has arguably never been more important, nor more difficult, for retailers to understand their customers.

How are shoppers feeling about their own finances, the economy and life in general? Are they shopping more online since lockdown? Which retailers are they gravitating to? Does the switch to ecommerce mark the new normal? Or will old shopping patterns and habits start to return as lockdown measures ease?

As retailers grapple to understand evolving consumer trends and how they could shape the future of commerce, Retail Week has joined forces with analytics specialist The Smart Cube to answer some of those questions.

Our biweekly Coronavirus Consumer Pulse monitor will pull together data from a multitude of sources to better understand consumer behaviour and sentiment, track how that is changing alongside the government's actions and restrictions, and establish the businesses that are emerging as the online winners during the crisis.

Retail Week and The Smart Cube have combined their machine learning and sector expertise to analyse online search trends, website traffic, app downloads and use, social media posts, physical mobility data and government actions to paint a picture of the current retail environment – and analyse what it might mean for the future of the sector.

Online traffic is returning to pre-coronavirus levels across the fashion and health and beauty sectors, Smart Cube's latest Coronavirus Consumer Pulse suggests.

Average daily visits to fashion websites during the week beginning July 5 amounted to 321,693, down 8.3% on the previous week. That was also just 5,500 hits per day more than the 316,107 recorded in the week beginning March 1.

The health and beauty sector also recorded a similar normalisation of ecommerce traffic. Retailers in that category received an average of 101,850 online visits per day to their websites in the week starting July 5, 8.8% down on the 111,728 during the week commencing March 1.

Although online traffic to grocery and home and DIY websites remained



As stores reopen, online delivery is not shoppers' only option

ahead of pre-lockdown levels, there were signs that shoppers are visiting those websites less frequently.

During the week beginning July 5, average online visits to grocery websites stood at 433,347 per day, down 3.7% week on week and 54.3% below the late-March peak, when online food retailers received an average of 948,507 hits every day.

Traffic has fallen every week since for 15 weeks, according to SimilarWeb data, and is now just 14% ahead of the 379,937 average daily visits recorded during the first week of March.

Home and DIY retailers have experienced similar patterns of online popularity. The 425,129 average daily visits during the week beginning July 5 marked a 2.5% drop week on week and a sixth consecutive week of decline.

But online traffic to home and DIY websites remains considerably ahead of pre-lockdown levels. Despite the gradual declines suffered since May, average daily visitor numbers remain 56% up on levels registered in the week beginning March 1. The data suggests the switch to online shopping could have more longevity within home and DIY than other retail sectors.

## Kingfisher still flying

Kingfisher-owned duo B&Q and Screwfix have been among the biggest online winners during lockdown and were two of only three major retailers in the home and DIY sector to grow website traffic week on week.

Average daily visitor numbers to their sites advanced to 893,478 and 939,719 respectively during the week beginning July 5.

DFS was the only other business in the category to benefit from a week-on-week increase in online traffic, growing visitor numbers 3.1% to 91,794.

Dunelm and Homebase both saw steep drops in online traffic week on week, as average daily visitors fell 7.5% and 11.4% respectively.

## Grocery demand settles

None of the major grocers grew online visitor numbers at the start of the month as demand began to settle.

Average daily visits to Tesco's website dipped to 1.1 million during the week beginning July 5, a 0.6% week-on-week decline and the 14th week in a row that its ecommerce traffic has slowed.

Daily visits to Asda's website fell 3.5% week on week to 826,310. Morrisons was down 5.4% to 333,717 and Sainsbury's ecommerce traffic was down 0.2% to 637,021 compared with the week beginning June 28.

The government has made wearing face masks in shops compulsory from July 24, which could impact the number of people buying groceries in stores and drive online traffic back into growth.

## Out of fashion

In the challenged fashion sector, H&M and Topshop were the only major retailers to register an increase

in online traffic during the first full week of July.

H&M's average daily website traffic climbed 2.8% week on week to 255,638, while Topshop's visitor numbers were up 5.4% to 84,591 in the week beginning July 5.

Visits to the websites of pureplay fashion retailers Asos and Boohoo both declined for the third week in a row and are threatening to settle well below pre-lockdown levels. However, as both businesses have pointed out in recent weeks, conversion rates have improved as consumers shop with more purpose and make fewer returns.

An average of 371,637 shoppers visited Asos' website every day during the week beginning July 5, 15.4% less than levels achieved in the week starting March 1.

Boohoo has seen even steeper declines, potentially sparked by allegations of modern slavery within its supply chain that emerged on July 5. Daily traffic of 211,678 that week was 5.6% down compared with the previous seven days and 22.4% on levels recorded during the first week in March.

As Boohoo investigates such slavery claims, the Coronavirus Consumer Pulse will track whether customers click elsewhere when shopping for clothes online in the coming weeks. **RW**

To find out more about

The Smart Cube or the Coronavirus Consumer Pulse monitor, email [retail.solutions@thesmartcube.com](mailto:retail.solutions@thesmartcube.com)