RWRC^

RETAIL HORIZON 2021

WINNING STRATEGIES TO NAVIGATE DISRUPTION

CONTENT

CONTENT

STRATEGIES THAT WORKED YESTERDAY MAY NOT BE SUCCESSFUL TOMORROW

With 2020 a year like no other, business planning has never been more difficult. Society is changing more rapidly than ever and there are myriad external shifts impacting our future world.

This turbulent backdrop has provided the driving force behind the creation of Retail Horizon 2021: Winning strategies to navigate disruption. This new strategic toolkit will support retailers and brands to grow their business by examining the major influences shaping consumer mindsets and market trends.

This insight is derived from Ascential's STEPIC methodology, which provides a complete overview of macro factors impacting all retailers, and pieces together a fragmented landscape to help leaders tackle the most disruptive factors impacting their businesses and strategies.

To help you prioritise, we have given each of the identified trends a strategic priority rating.
● = requires action now, ● = prioritise, ● = monitor.

SOCIETY	TECHNOLOGY	ECONOMY
POLICY	INDUSTRY	CULTURE

Retail Horizon 2021 offers a reference point against which to sense-check strategic thinking for you and your teams, with the ultimate mission of fostering decision simplicity in an increasingly complex world.

THE KEY DRIVERS OF CHANGE

SOCIETY

- Home-based consumers
- Local and hyperlocal focus
- Ageing population
- Health and wellbeing
- Ethical, sustainable solutions
- Rise of Gen Z

TECHNOLOGY

- Retail automation
- AI solutions
- Digital payments
- Blockchain
- Voice
- Augmented and virtual reality

ECONOMY

- Combined impact of recession and Brexit
- Nervous consumers
- Growing income divide
- Spending and category shifts
- London exodus

POLICY

- New trade agreements
- End of Covid-led stimulus
- Focus on health
- Sustainability targets and incentives
- Data privacy and protection

INDUSTRY

- Partnerships
- Channel shifts
- Changing role of the store
- Supply chain transformation
- Direct-to-consumer models
- Digital ecosystems
- Data-driven innovation

CULTURE

- Inclusion and diversity
- Creative sustainability
- Decision simplicity
- Community and togetherness

RWRC'S STEPIC APPROACH IDENTIFIES CHANGE THAT WILL DISRUPT YOUR BUSINESS

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

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

S	T	E	P	I	C
SOCIETY	TECHNOLOGY	ECONOMY	POLICY	INDUSTRY	CULTURE
The drivers altering consumer behaviour and preferences	The drivers enabling new models, processes and possibilities	The drivers impacting the health of global retail	The wild cards and disruptions	The drivers dictating the competitive environment	The cultural and consumer influences

↓

NEW SET OF ASSUMPTIONS ABOUT THE FUTURE

↓

IMPLICATIONS FOR STRATEGIC DECISIONS

↓

DEFINE WINNING STRATEGIES

↓

BRAND RELEVANCE AND EVOLUTION	AGILITY AND PARTNERSHIPS	CUSTOMER EXPERIENCE	INNOVATION AND INVESTMENT	CULTURE AND PURPOSE

WINNING STRATEGIES TO NAVIGATE DISRUPTION

WINNING STRATEGY #1

BRAND RELEVANCE AND EVOLUTION

RELATED STEPIC DRIVERS

- ✔ Home-based consumers
- ✔ Local and hyperlocal focus
- ✔ Spending and category shifts
- ✔ Rise of Gen Z

WHAT IT TAKES TO WIN

- ✓ **Target customers where they are** e.g. at home
- ✓ **Fast fulfilment** to meet shopper expectations around convenience
- ✓ **Digital engagement** to drive awareness with relevant shopper groups
- ✓ **Clear brand positioning** to provide affordable quality and ensure relevance

The retail landscape is evolving like never before. Covid-19 has accelerated many of the trends that were impacting the industry before and also introduced new ones.

Brands and retailers need to be prepared to **adapt** to and **anticipate the constantly evolving consumer behaviours** and trends across all channels, and to monitor global competitor activity to ensure that they stay relevant.

Speed of strategy overhaul and the creation of new business structures will be key to retail success. This may require retailers to become more ruthless as they invest for the long term.

WINNING STRATEGY #2

AGILITY AND PARTNERSHIPS

RELATED STEPIC DRIVERS

- ✔ Retail automation
- ✔ Partnerships
- ✔ Supply chain transformation

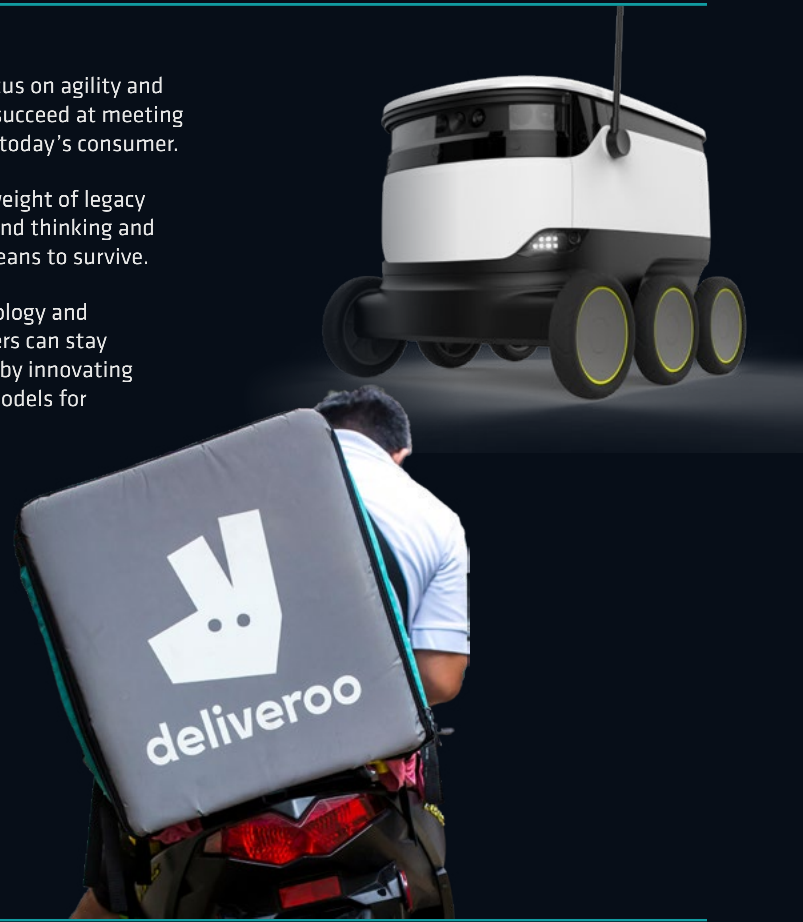
WHAT IT TAKES TO WIN

- ✓ **Fast fulfilment** to meet shopper expectations around convenience
- ✓ **Innovation** through mutually beneficial partner relationships
- ✓ **Investment in technology** with purpose to solve business problems and drive efficiencies
- ✓ **Speeding up the supply chain** through innovation and new technology

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

This means shaking off the weight of legacy technologies, supply chains and thinking and driving cost efficiency as a means to survive.

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



WINNING STRATEGY #3

CUSTOMER EXPERIENCE

RELATED STEPIC DRIVERS

- ✔ Channel shifts
- ✔ AI solutions
- ✔ Decision simplicity
- ✔ Direct-to-consumer models
- ✔ Ecosystems

WHAT IT TAKES TO WIN

- ✓ **Investment in online and digital**
- ✓ **Fast fulfilment** to meet shopper expectations around convenience
- ✓ **Digital engagement** to drive awareness with relevant shopper groups
- ✓ **Clear brand positioning** to provide affordable quality and ensure relevance
- ✓ **Frictionless, personalised experiences**

As consumers engage across channels, brands need to develop a single view of the customer, and build a deeper relationship and understanding of them. A brand's relationship with its customers across all channels will help to identify where growth, sales and ultimately success lies.

Shoppers will naturally gravitate towards retailers that offer seamless and frictionless, personalised experiences in store, online and across multiple devices.

WINNING STRATEGY #4

INNOVATION AND INVESTMENT

RELATED STEPIC DRIVERS

- ✔ Retail automation
- ✔ Supply chain transformation
- ✔ Data-driven innovation

WHAT IT TAKES TO WIN

- ✓ **Shopper analytics** to spot trends early on and drive rapid response
- ✓ **Online experience and personalised engagement** to drive frequency and subscription conversion
- ✓ **Supply chain agility** to support accelerating and increasingly complex fulfilment options
- ✓ **Data and insight** to inform new product development

By developing a deeper understanding of shopper needs and the changing external influences on retail, companies can identify opportunities to add true value to their business. Investment for long-term growth and profit rather than short-term gain is the key to sustainable growth.

As consumers increasingly live online, retailers need to collaborate with global giants. As platforms view themselves as retailers, retailers must view themselves as brands.

To do this, retailers need to rethink the traditional concept of retail, and innovate and invest to keep one step ahead of consumer behaviour.

WINNING STRATEGY #5

CULTURE AND PURPOSE

RELATED STEPIC DRIVERS

- ✔ Inclusion and diversity
- ✔ Sustainability targets and incentives
- ✔ Rise of Gen Z

WHAT IT TAKES TO WIN

- ✓ **Inclusivity at board level** as a top priority
- ✓ **Brands and retailers** committing to change and reporting on progress
- ✓ **Defining your brand purpose** internally and externally with absolute clarity. Acting openly and with integrity
- ✓ **Building authentic, trusted communities**
- ✓ **Helping consumers to make better choices**

Culture and purpose continues to rise to the fore driven by movements such as Black Lives Matter and consumers are looking for brands and retailers to lead on change.

While trading through the pandemic, brands with purpose, integrity and a very clear proposition are the ones that maintained loyalty. Consumers are actively seeking out ethical retailers.

This culture and purpose agenda is also intrinsically linked to innovation, talent acquisition and workforce productivity.

SOCIETY

THE FACTORS SHAPING CHANGE

HOME-BASED CONSUMERS

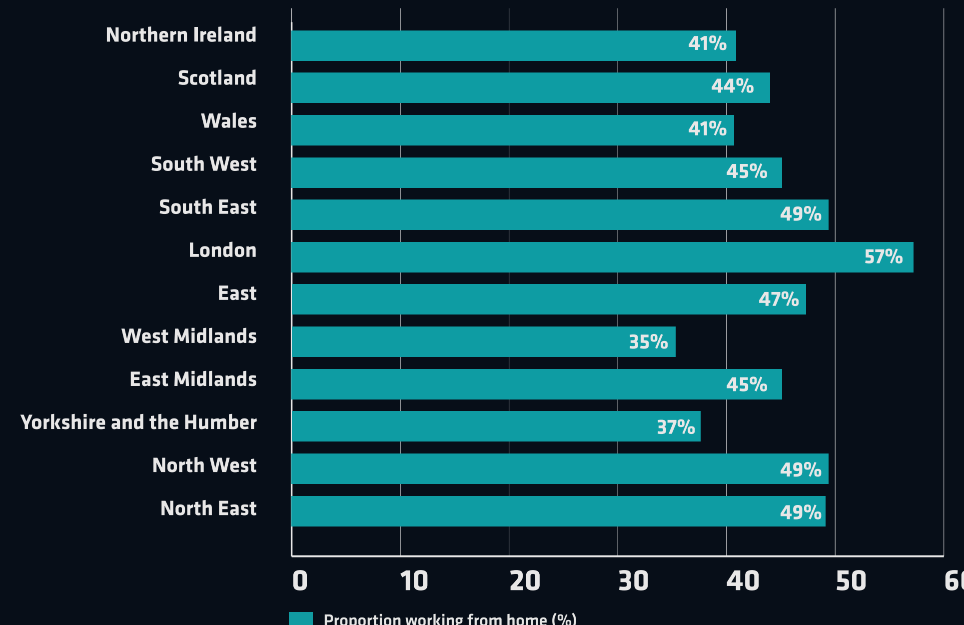
Consumers are spending more time at home, both for work and leisure. This has led to new shopper mindsets and behaviours.

- Home-based consumers are accelerating demand for **online fulfilment** and **rapid delivery** across all categories, but most notably food and essentials
- Shoppers are seeking convenience, comfort and ways to treat themselves at home
- Priorities are products and experiences that give comfort and improve the home environment – from personal care to comfortable loungewear, home products, entertainment and small luxuries
- Fashion, entertainment and dining out remain lower priority

Home-working patterns can be expected to persist far beyond the pandemic, with work-life balance priorities sparking increased focus on family, community and the home.

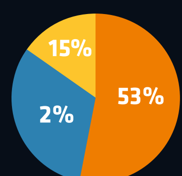
The resulting channel shift online will remain, although category spending patterns will evolve in the medium term.

HOME WORKING BY REGION



Data from the ONS found that in April 2020, 47% of people in employment did some work at home. Of those, 86% did so as a result of the coronavirus pandemic. Those with higher qualifications and living in London were most likely to work from home.

SHOPPING HABITS



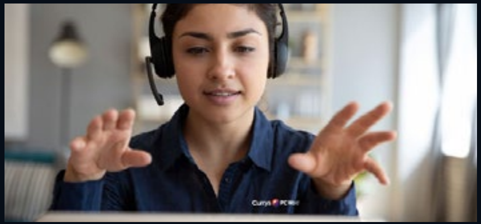
Will you be more likely to shop online or in store now that non-essential shops have reopened?

- More likely to shop online
- More likely to shop in store
- Don't know

Source: RWRC and Manhattan Associates report Dynamic supply chains, *September 2020*

HOME-BASED CONSUMERS: STRATEGIC IMPLICATIONS FOR RETAIL

- Retailers must adapt strategies for online, stores, product development and marketing to prioritise the needs of home-based consumers
- As online accelerates, fewer large stores will be needed
- More sales will be digitally influenced, meaning that retailers will need to find new ways to engage online and via social media to reach their customers
- Consumers will seek out convenience close to home
- Rapid fulfilment and supply chain agility will be differentiators
- Food-to-go trends will give way to cooking and baking at home, recipe boxes and meal deliveries
- Virtual services and live streaming will accelerate



Dixons Carphone launched virtual consultation service ShopLive

Dixons Carphone

Dixons Carphone's video-consultation service ShopLive has remained a constant following positive feedback on the support provided to customers during lockdown.

ShopLive connects Dixons shop assistants working inside stores to customers shopping online at home, with the offer of product demonstrations and advice. The service has led to the emergence of a new way for customers to shop.

Other retailers have implemented similar technology, including John Lewis offering personal shopping and beauty weekend programmes online, and Bravissimo offering remote bra fittings over the phone.

LOCAL AND HYPERLOCAL FOCUS

Consumers staying closer to home has resulted in a shift in how and where we want to shop.

- **Smaller stores** on local high streets, retail parks and convenience locations have been most successful at attracting returning footfall, as have small, **local businesses** adapting to serve their communities
- Nervous shoppers feel safer in their local communities and this is leading to rediscovery of local retail and an increased sense of community
- Local shopping trends are likely to remain, even once the health threat subsides as more consumers work flexibly and from home
- Retailers can also expect growing demand for **local products**
- Efforts to pedestrianise city centres to give a community feel will accelerate

YEAR-ON-YEAR CHANGE IN UK FOOTFALL

Source: Springboard, August 2020

***42%** of shoppers began buying from local businesses during the pandemic*

***37%** expect to shop more within their communities*

Source: RWRC and Openpay report How they'll spend it, *June 2020*

LOCAL AND HYPERLOCAL FOCUS: STRATEGIC IMPLICATIONS FOR RETAIL

- Retailers will need to adapt strategies to locate stores and services closer to where people live
- Offering **more local products** and a focus on **community initiatives** to engage and connect people will drive loyalty and footfall
- Range curation will become more flexible and personalised to take into account local demographics
- Pedestrianisation of cities will move up the agenda, presenting an opportunity to co-locate retail, hospitality, entertainment and housing, and bring new services to high streets
- Retailers will trial smaller stores with locally adapted assortments alongside click and collect. This could mean more premium formats in some areas and for others it might involve curating and highlighting local bestsellers
- Click-and-collect services and partnerships will grow further

H&M has opened its first hyperlocal flagship in Berlin

H&M Mitte Garten runs regular events for customers

H&M

H&M introduced its first 'hyperlocal' flagship in the creative Mitte district of Berlin in a bid to become "more personal and locally relevant".

The 3,200 sq ft store is among H&M's smallest and offers a curated assortment of womenswear as well as fashion items from local, Berlin-based brands and vintage pieces.

With a community feel, the space offers regular events such as lectures, fashion talks and yoga for its customers.

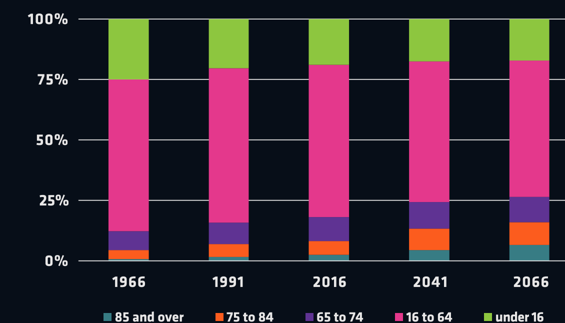
AGEING POPULATION

Societies in virtually every country are ageing. Within the next five years there will be an additional 129.6 million consumers aged 65+, with the global number of elderly shoppers rising by 18%.

This trend is combined with a decrease in birth rates, putting pressure on younger people and on middle-class incomes, leading to shifts in consumer needs and expectations.

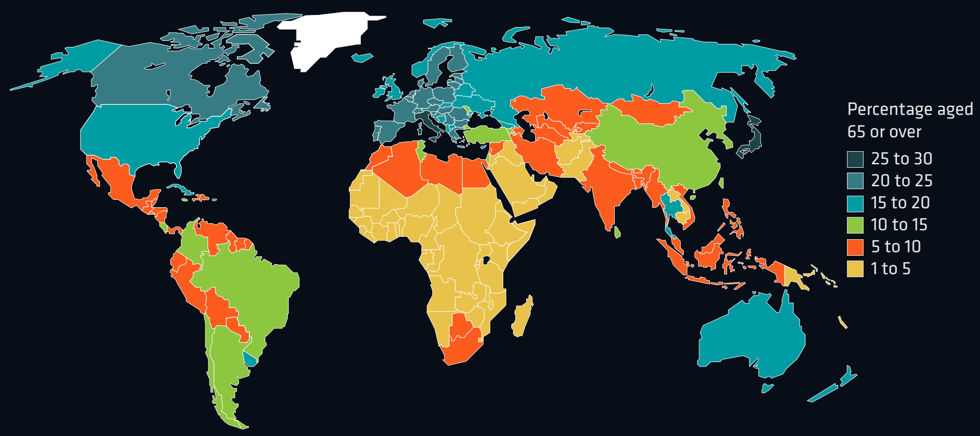
- Squeezed shoppers will increasingly seek out affordable products and services
- Demand for health and wellness products will increase
- Convenient small-format stores and online services will grow to meet the needs of older shoppers

UK POPULATION BY AGE GROUP



Source: ONS

SHARE OF POPULATION AGED 65+ YEARS, 2025



Source: UN Population Division

AGEING POPULATION: STRATEGIC IMPLICATIONS FOR RETAIL

- Demand for health, convenience and lifestyle solutions will increase, such as meal delivery, recipe boxes and subscriptions
- Small, local stores and online will be key to serving older shoppers
- As consumers live longer, retailers will capture opportunities to increase spend from this wealthier demographic
- Squeezed young and middle-income shoppers will remain focused on value
- Products and services must target the needs of smaller and more diverse, multi-generational households

Morrisons has reintroduced grocery boxes

Morrisons

Following the success of online grocery boxes during lockdown, Morrisons has reintroduced the concept and expanded it.

Morrisons' cupboard essentials box is aimed at older shoppers and those who may struggle to get to the shops or to book a delivery slot. This can be ordered individually or as a subscription service.

Additionally, the retailer has launched new boxes targeting specific groups and events, such as vegan essentials, gluten free, craft beer discovery and five meals to feed a family of four.

For Christmas 2020 the retailer is offering a festive feast box containing Christmas dinner for four people, priced at £50.

PRIORITISING HEALTH AND WELLBEING

The ageing population and Covid-19 have both accelerated the prioritisation of health, hygiene, healthy eating and fitness.

Covid-19 in particular has driven awareness of mental health fragility.

Consumers are looking to retailers and brands to provide solutions to help them become safer, fitter and healthier.

- Demand for healthy foods and plant-based products will continue to rise sharply
- Vitamins, supplements, medicines and hygiene are a priority
- Personalised and targeted meal solutions such as Huel will drive further growth
- The number of trademarks registered for new vegan food and drink products grew by 128% last year and demand accelerated during lockdown
- A holistic approach to mental health as well as physical health will make consumers feel good about themselves
- Fitness and home workout clothing, tech and equipment are a huge growth opportunity as home-based consumers seek alternatives to the gym

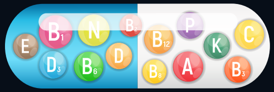
25% vegan

of young British millennials say that Covid-19 has made a vegan diet more appealing

23%

of British nationals have been eating more fruit and vegetables since the outbreak

31% of Gen Z and **27%** of millennials are keeping their fridges well-stocked with healthy produce



73%

of British nationals say Covid-19 has encouraged them to add more nutrients and multivitamins to their diets to support the immune system

Source: Mintel, Organic Trade Association (OTA)

PRIORITISING HEALTH AND WELLBEING: STRATEGIC IMPLICATIONS FOR RETAIL

- Brands and retailers should innovate to help customers make improvements to health, nutrition, fitness and lifestyle
- Personalised and targeted nutrition and fitness plans will increase in popularity to fit around busy lifestyles
- Demand for meat alternatives, vegan and free-from products will continue to accelerate
- Personalised nutrition and fitness plans leveraging technology and diagnostic testing (e.g. vitamin levels, hormones, food intolerances, BMI) will become a mainstream trend
- Fitness products and subscriptions targeting individuals at home will provide opportunities for continued growth

Holland & Barrett has introduced a new range of wellness products and services

Holland & Barrett

Holland & Barrett introduced a new format in August 2020 with a range of products and services to educate shoppers on their wellness needs.

The store offers more than 250 new products across vitamins, supplements and clean beauty ranges, as well as diagnostic testing kits and personalised vitamin subscription offers.

Shoppers visiting the store can have their vitamin, hormone and microbiome levels checked by staff. Also offered are consultations with nutritionists and fitness experts, in store or via video.

The store has click-and-collect lockers for customers who have ordered online.

ETHICAL, SUSTAINABLE SOLUTIONS

Recent lockdowns accelerated an existing desire for responsible consumption as we realised its positive impact on the environment.

Concerns over plastic, food waste, pollution and the impact of fast fashion are now mainstream, putting ethics and sustainability firmly at the heart of the agenda, for both businesses and consumers.

- **Conscious consumers** are increasingly doing their research and are keen to buy from ethical, sustainable brands to minimise environmental impact
- A **desire to change the world for the better** through movements such as Black Lives Matter and opposition to modern slavery is driving the need for brands to be authentic and act with integrity
- UK consumer online searches for recycling and plastics grew by 60% and searches for food waste by 89% in the year to July 2020, according to Google
- Effective engagement is shifting from selling products to making the world a better place and building communities

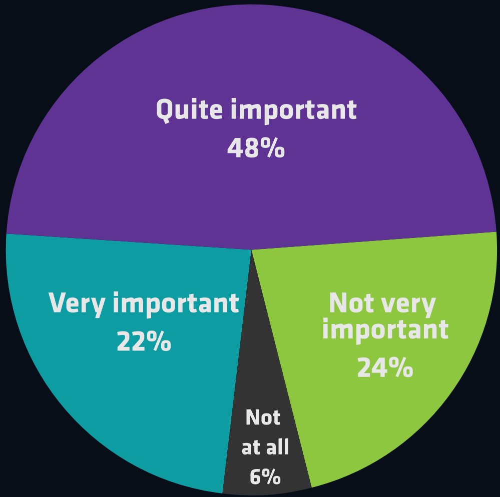
Roughly one third of food produced in the world each year gets lost or wasted

at a cost of around ***$680bn*** *(£527bn) in industrialised countries*

46% *of Adidas apparel is recycled polyester*

Source: RWRC and IBM report Doing good is good for business, *November 2019*

HOW IMPORTANT ARE SUSTAINABILITY AND ENVIRONMENTAL CREDENTIALS AS PART OF YOUR PURCHASING DECISIONS?



Source: RWRC and Manhattan Associates report Dynamic Supply Chains, *September 2020*

ETHICAL, SUSTAINABLE SOLUTIONS: STRATEGIC IMPLICATIONS FOR RETAIL

- Sustainability has become a mainstream concern for consumers
- Ethical, sustainable brands are poised for growth
- Businesses will be expected to act ethically and sustainably, measure their impact and publish metrics
- Retailers will need to collaborate with manufacturers to speed up the reduction of plastic and packaging as consumers lose patience with lack of progress
- Brands will need to help consumers become more sustainable and work to remove barriers such as price
- Retailers will need to find more sustainable ways of serving customers across all channels including online
- Sustainable last-mile solutions will accelerate with increased focus on click and collect, electric vehicles, partnerships and other initiatives to reduce carbon impact

Amazon makes it easier for customers to search for sustainable products

French retailers are developing sustainable last-mile solutions

Amazon

Amazon has introduced Climate Pledge Friendly, a new programme to help make it easy for customers to discover and shop for more sustainable products.

The Climate Pledge Friendly label launched with 25,000 products, signifying that the items have one or more of 19 different sustainability certifications that help preserve the natural world, such as reducing the carbon footprint of shipments to customers. The items are also featured in a dedicated section of its online store.

Auchan

In France, Auchan is accelerating the development of its Auchan Piéton city centre click-and-collect format, with plans to open 300 further stores in 2021. The digital format offers contactless pick-up on foot within three hours of ordering and has grown in popularity since the Covid-19 pandemic.

Monoprix

In October Monoprix opened its first unstaffed store under the Monop' Box brand. The 18 sq m store is contactless and cashless. It does not require users to download an app, but authorises them to spend using their bank card at the entrance.

THE GROWING INFLUENCE OF GEN Z

Generation Z consumers account for 24% of the global population. As they enter the working world they are bringing completely new mindsets and shopping habits.

- Digitally savvy, Gen Z are most likely to shop, compare prices and research purchases online
- A generation that is ethnically diverse and socially and environmentally aware, they balance strong values and fast-moving lifestyles
- They seek authenticity and brands with purpose

- Gen Z are digital natives and big consumers of media, expecting to interact online with retailers and brands
- Online advertising (19%), and social media posts from influencers and ads (13%) lead in persuading Gen Z to spend
- Top influences on spend for Gen Z include good promotions and deals, convenience and product quality. This generation may also shop for and are likely to influence older family members
- Brands including Nike, Brandy Melville, Depop and Morphe are among those successfully capitalising on the Gen Z opportunity

Gen Z is the segment of the population born between 1995 and 2010

74% spend their spare time online

Gen Z has spending power of $143bn (£111bn) in the US and will account for **24%** of global consumers this year

Source: Morgan Stanley Research, IBM Institute for Business Value, Forbes, JD.com

> Gen Z are very different to the millennials who came before them. Their expectations of unique, memorable shopping experiences and their desire to protect the environment bring distinct challenges to the retailers. We're ready for these challenges and we're excited to develop new ways of doing business

Dominic Lai, group managing director, **AS Watson Group**

THE GROWING INFLUENCE OF GEN Z: STRATEGIC IMPLICATIONS FOR RETAIL

- Digital first and multichannel will be crucial to attract and engage younger shoppers
- Brands must leverage purpose-driven social marketing and recruit brand ambassadors to gain loyalty and build meaningful connections
- Integrity, relevance, value for money and purpose will emerge as priorities to reach these more conscious consumers
- Pre-loved marketplaces and peer-to-peer commerce platforms such as Depop will grow rapidly, as favoured channels for younger shoppers
- Finding ways to help Gen Z embrace the circular economy and lessen their environmental impact will win loyalty
- Agile brands should also keep Gen Alpha (those born after 2010) on their horizon

Ikea has launched recommerce initiatives

Ikea

Ikea is prioritising the circular economy in a number of its latest initiatives.

From November 2020, to coincide with Black Friday, Ikea will introduce a 'Buy Back' programme across stores in 27 countries, allowing customers to return used items of furniture to stores and receive vouchers worth up to 50% of the original price. Customers must log the item online first to be given an estimate of its value.

Later this year its first second-hand store is set to open in Sweden. This will sell refurbished items in Eskilstuna, at a store conveniently located in the world's first second-hand shopping centre.

Both initiatives are part of Ikea's efforts to become a fully circular business by 2030.

In 2019, Ikea announced its first pilot project in Switzerland, enabling customers to rent furniture as part of its circular model.

SOCIETY – WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Target customers where they are, e.g. at home
- Bring stores and services closer to where people live, increase focus on local products
- Provide innovative solutions to help customers lead fitter, healthier lifestyles
- Engage shopper loyalty with an ethical, purpose-driven strategy
- Adopt an agile, digital-first focus to ensure brand relevance

TECHNOLOGY

THE FACTORS SHAPING CHANGE

RETAIL AUTOMATION DRIVING EFFICIENCY

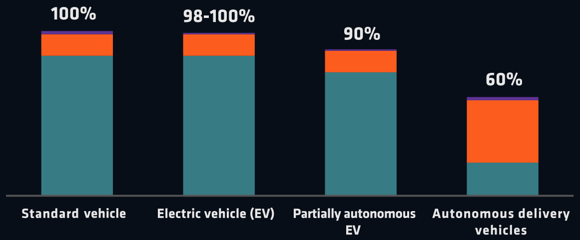
The shift to online has been hugely accelerated in recent months as nervous shoppers seek convenience.

This has created further advantages for retailers that leverage automation to expand **online capacity** and improve **last-mile economics**.

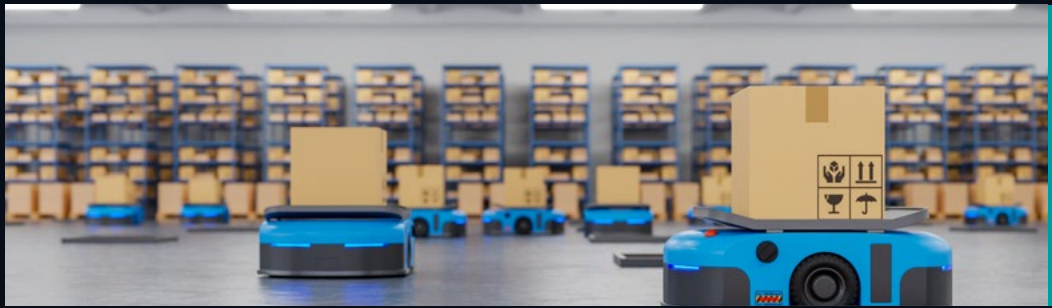
Investment in automation increases efficiency, particularly in densely populated areas where there is high demand.

- Rising customer expectations for **speed**, **convenience** and **frictionless** shopping are driving new technology adoption
- Increased demand improves the ROI in automation as facilities run at higher capacity
- Outside of major cities and where there is fluctuating demand, a flexible combination of automation and store-based picking can help retailers balance resources
- Shopfloor robots and automated vehicle delivery will drive further in-store and last-mile efficiencies
- A further priority will be **connected and agile supply chains**, with high availability and faster, more flexible fulfilment a key retail differentiator

LAST-MILE DELIVERY COST PER PARCEL IN AN AVERAGE CITY



Source: McKinsey



Retailers using automated warehouses can increase their weekly online order capacity by up to **200 times** (in the case of larger centralised fulfilment centres)

Autonomous delivery vehicles have the potential to reduce last-mile delivery costs in cities by **40%** compared with standard delivery vehicles

Source: Edge by Ascential Retail Insight, McKinsey

RETAIL AUTOMATION DRIVING EFFICIENCY: STRATEGIC IMPLICATIONS FOR RETAIL

- Retailers will leverage technology purposefully to drive increased efficiency into the organisation and solve business challenges
- Automated warehouses and supply chains will deliver ROI for large retailers, particularly in big cities
- Semi-automated distribution centres and dark stores will increasingly be created in repurposed store space
- Agile solutions for many retailers will rely on partnerships with logistics companies and delivery intermediaries, which will in turn increase their investment in automation
- As online demand accelerates, profitable solutions will need to be built

Amazon is leading in last-mile tech

Amazon
Rapid fulfilment is a differentiator for Amazon and it continues to test technology to make faster, automated deliveries a reality.

Prime Air aims to use drones to deliver items in 30 minutes or less and there are now development centres in the US, UK, Austria, France and Israel working to test the technology.

Amazon Scout delivery robots are also in the pipeline to facilitate rapid last-minute delivery. The driverless bots launched in Washington in 2019 and subsequently trialled in Georgia and Tennessee.

Fashion retailer Next will invest £300m in distribution centres over the next four years.

Its automated returns storage and retrieval system added earlier this year is expected to reduce picking costs by
30%

RETAIL AUTOMATION DRIVING EFFICIENCY: CASE STUDIES

Ocado

Ocado is a world leader in retail automation with 20 years' experience in the UK. It is now exporting its expertise to partner with retailers worldwide, including Sobeys, ICA, Kroger, Casino, Aeon and Coles.

The retailer's customer fulfilment centres (CFCs) use automated 'bots' that pick from a grid structure known as 'the Hive'. Storage is 4D-optimised and controlled by its proprietary warehouse management system.

Its proprietary systems lower labour, supply chain and overhead costs, and benefit from the long tail by offering a wider assortment of products – 58,000 SKUs for Ocado Retail in the UK.

Ocado calculates it takes 15 minutes to pick, pack and dispatch a 50-item order at its fully automated CFCs compared with its estimate of 74 minutes to pick manually in a store.

Last-mile deliveries are also optimised using AI to find the most efficient routes.

Ocado is exporting automation expertise worldwide

Tesco is trialling drone delivery in Ireland

Tesco

Tesco is partnering with Irish drone company Manna to trial grocery home deliveries in Ireland.

The trial in October will deliver essentials from its Oranmore store in Co Galway, Ireland.

Tesco's innovation director Claire Lorains says the trial aims to focus on the delivery of just a few grocery items, such as forgotten recipe items, with deliveries made within 30 minutes to an hour of an order being placed.

ARTIFICIAL INTELLIGENCE

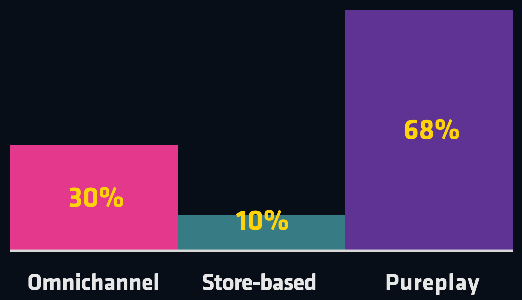
Artificial intelligence (AI) is helping retailers and brands to leverage their data in new ways.

The power of AI goes beyond simple algorithms to leverage machine learning, which can transform the retail experience by:

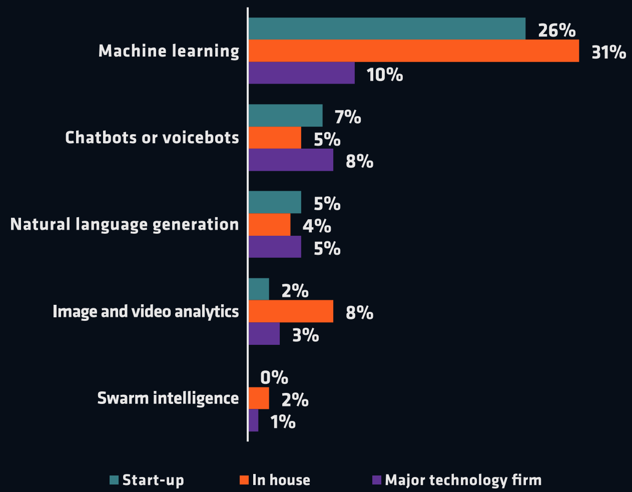
- Leveraging customer data to provide highly personalised recommendations and experiences
- Supporting data-driven product innovation to design items that shoppers want to buy
- Predicting demand
- Optimising supply chains and fulfilment
- Curating assortments to local demographics

Its ability to **optimise efficiencies** is a big factor in the growing adoption of AI.

% OF RETAILERS USING AI



MACHINE LEARNING DOMINATES AI USE FOR RETAILERS



Source: Capgemini Research

ARTIFICIAL INTELLIGENCE: STRATEGIC IMPLICATIONS FOR RETAIL

- AI will help retailers and manufacturers become more efficient and customer-focused
- Customer data will be leveraged more effectively for **new product development** and to forecast more **accurate demand**
- Fulfilment data will improve supply chain operations
- AI will personalise and improve the customer experience both in store and online
- The race for AI adoption will accelerate as retailers bring forward investment to avoid being left behind
- Legacy retailers will need to embrace new business models and think like pureplayers
- Capturing the right data and finding the right partnerships will be key to success

Sainsbury's uses AI to optimise assortment

Sainsbury's
In February, Sainsbury's launched its first On the Go store at Mansion House in London tailored specifically to the needs of its local customers, mostly time-poor city workers.

Sainsbury's used data from its Nectar card loyalty scheme to curate a slimmed-down product range based on the purchasing habits of local customers. The ambient range is 30% smaller than a regular Sainsbury's Local store, with many products such as jam and tomato ketchup featuring just one single line.

The additional space created was used to introduce changing daily fresh food items and a coffee and hot food area at the front of the store.

DIGITAL PAYMENTS AND NO-TOUCH RETAIL

Covid-19 has hugely accelerated the adoption of digital and contactless payments, which was already a priority for retailers.

Consumers have shunned cash payments over health concerns, and are looking for convenient and faster solutions at the checkout.

As no-touch retail becomes vital to the consumer experience, we can expect further innovation to create frictionless experiences, both in store and online.

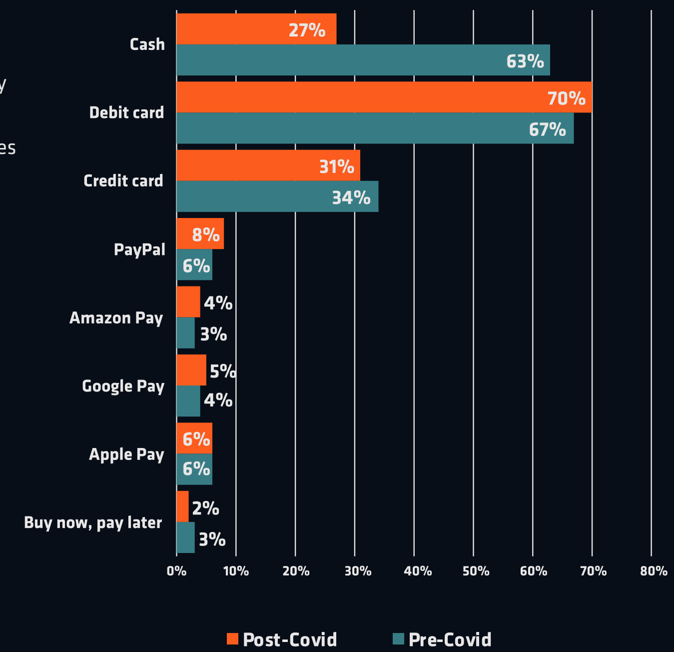
- More shoppers will expect to pay using mobile devices
- Checkout-less solutions will be a priority
- Shoppers will increasingly embrace technology that makes in-store shopping easier
- Expect a shift towards more 'cashless' societies

Debit cards are the preferred payment method for 70% of shoppers in store and 62% online

10% of 25- to 34-year-olds expect to use buy now, pay later solutions in the next 12 months

43% expect to use PayPal to pay online, compared with 8% who expect to use it in store

CHANGING PAYMENT PREFERENCES IN STORE SINCE COVID-19 (% OF CONSUMERS)



Source: RWRC and Openpay report How they'll spend it, *June 2020, which highlights a huge decline in cash payments and an acceleration in contactless and digital methods*

DIGITAL PAYMENTS AND NO-TOUCH RETAIL: STRATEGIC IMPLICATIONS FOR RETAIL

- Cash and queuing is out
- Retailers will trial digital, contactless and frictionless payment technology to improve the customer experience
- Scan-and-go and solutions leveraging customer mobiles will accelerate
- Further partnerships and innovation will provide new frictionless solutions, as retailers partner with tech providers to make shopping easier
- Retailers will need to balance the needs of tech-savvy and more technically challenged customers
- Retailers should prepare for the long-term transition to a cashless society

Amazon is trialling a palm-scanning checkout solution

Amazon

Amazon has introduced a new payment system at two Amazon Go stores in Seattle. Its new Amazon One scanner registers an image of the customer's palm and lets them pay by hovering their hand over the scanner upon exiting the store.

Palm scanning has around the same level of security as fingerprint scanning, but is more practical as it can be used at a distance of a few inches without the need for touch.

Amazon says it is already in active discussions with potential clients and sees its use extending beyond stores to high-footfall locations such as stadiums.

BLOCKCHAIN WILL ENABLE GREATER TRACEABILITY

The retail industry is well positioned to benefit from the evolution of blockchain technology, which digitally tracks and traces products and transactions to increase transparency and efficiency across the entire value chain.

- As a cloud-based, decentralised ledger, blockchain enables every person who is involved in a product's journey to see where it has been and ensure that the process meets industry standards
- Because every process is secure and cannot be changed, it is easier to identify where a problem or error occurred in a product's journey
- The grocery sector, where traceability and safety is a critical consideration, is a particular focus for this modernisation of inventory visibility
- Within supply chains blockchain can increase efficiency, visibility and track costs
- It can be used to demonstrate to shoppers exactly where a product has come from, preventing counterfeits and making it a useful resource for retailers looking to combat speculation, e.g. around working conditions in warehouses
- Through trusted digital collaboration, financial transactions can move faster to speed up supplier and cross-border payments
- By integrating it with other emerging technologies, such as the Internet of Things (IoT), businesses can capture data to help meet sustainability goals and minimise waste
- The diversity and breadth of opportunity are huge, but industry collaboration is needed and unlocking value relies on convincing all suppliers and retail partners to adopt the technology

BLOCKCHAIN: STRATEGIC IMPLICATIONS FOR RETAIL

- Enabling end-to-end supply chain visibility will become a focus for retailers and suppliers
- Blockchain will simplify processes by digitising them, freeing retailers from legacy systems
- Blockchain will provide solutions to measuring sustainability, as this becomes a mainstream concern
- Customers will benefit from detailed, transparent product information, which can be shared online
- Purposeful brands that share the product lifecycle with consumers could drive more loyalty
- More companies will partner with blockchain providers to leverage the opportunity

Walmart leverages blockchain to improve food safety standards

Walmart

Walmart is digitising its food supply chain using the IBM Food Trust solution. This blockchain technology allows the retailer to work with suppliers to keep track digitally of each entity that handles food as it moves through the supply chain on its way to the store.

By digitising previously manual processes, the time taken to trace food within the supply chain has reduced from seven days to 2.2 seconds, allowing for rapid intervention in case of any safety concerns.

The solution is being implemented category by category. Last year all US suppliers of leafy green vegetables were required to upload their data.

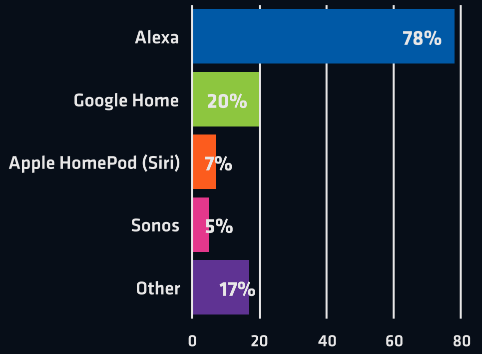
VOICE TECHNOLOGY

Voice technology is reaching a tipping point.

In 2019, 146.9 million smart speakers were sold worldwide and adoption continues to accelerate.

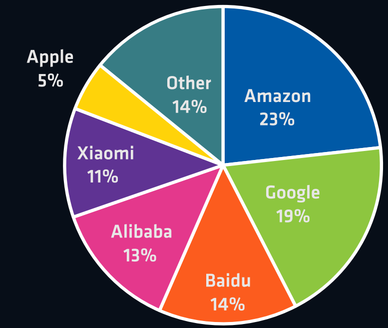
- Over the next few years, voice technology will transform the way that we search, communicate and shop
- Home devices, systems and vehicles will increasingly have voice technology integrated by manufacturers
- Although shopping via smart speakers is in its early stages, consumer adoption trends will drive usage
- Brands and CPGs are collaborating with retailers to trial new voice commands, but progress to date has been slow
- Brands must consider the new ways that consumers will want to search for products and interact with their brand to unlock this opportunity
- The future addition of new innovations such as celebrity voices could accelerate voice technology adoption

UK SMART SPEAKER OWNERSHIP BY BRAND



Source: Statista, June 2020

GLOBAL SMART SPEAKER OWNERSHIP BY BRAND Q1 2020



Source: Voicebot.ai

VOICE TECHNOLOGY: STRATEGIC IMPLICATIONS FOR RETAIL

- Demand for voice services will grow as more consumers use it in their homes, on mobiles and in cars
- Brands will find new ways to engage and develop relationships with customers across this emerging channel
- Simple tasks such as food-to-go and repeat item ordering should be prioritised as they are easier for both retailers and customers
- Adding value and making the customer experience frictionless and fun are key considerations
- Brands must consider challenges such as optimising voice search to ensure that their products make it to the top of the list

Amazon is integrating Alexa into new vehicles

Amazon

Amazon is working with vehicle manufacturers to integrate Alexa voice technology into new vehicles. Audi, BMW, Ford, Kia, Nissan, Volvo and Toyota are among the major names that have already introduced Alexa to new models.

Vehicle owners can use Alexa for skills such as voice search and music, but can also remotely lock/unlock doors, start/stop the engine and find out how much fuel they have left.

For those with older vehicles, Amazon recently introduced an automotive device with Alexa built in, to bring the voice assistant into the car.

AUGMENTED AND VIRTUAL REALITY

Augmented reality (AR) can be used by more than three billion smartphone users globally and retailers are increasingly leveraging it to help customers visualise products, conduct visual searches or place items into new contexts (e.g. a room setting).

It is changing the way we discover things and has the potential to transform the way that we shop.

While constrained by device adoption, virtual reality (VR) is coming into its own in areas such as home sport and fitness.

- More immersive shopping will engage customers, increase dwell time and drive conversion
- AR and VR will build online to offline connections, which will be particularly valuable as shoppers become more home-based
- Brands will have new ways to reach customers to deliver innovative D2C shopping experiences

Across Facebook and Instagram, ***more than 600m*** people use AR every month and ***more than 400,000 creators have published over 1.2m*** AR effects

Retailers and brands will increasingly leverage AR and VR to connect with consumers, provide innovative and personalised online-to-offline experiences and help them visualise products in new ways

AUGMENTED AND VIRTUAL REALITY: STRATEGIC IMPLICATIONS FOR RETAIL

- Brands will leverage AR for new visual experiences on mobile and to drive excitement around new products
- VR will become increasingly relevant in sport and fitness, where it can gamify home exercise
- Smartphone apps will leverage AR for practical solutions, e.g. to help customers find the right fit

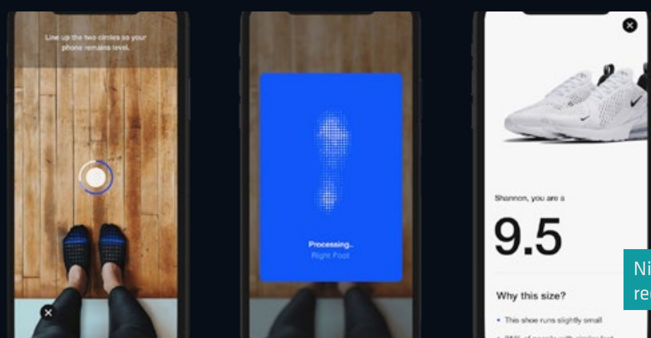
Zwift recently reached valuation of $1bn

Zwift

Zwift, the global online fitness platform for cyclists and runners, connects sports enthusiasts in a 3D immersive world with a social aspect for those who want to compete or train together.

As Covid-19 confined people to their homes the digital platform saw a surge in new members and hosted mass participation events such as a virtual Tour de France.

In September 2020 Zwift reached valuation of $1bn (£767m) as it announced a $450m (£345m) round of minority investment, led by KKR. The capital will be used to further expand its brand, which already has 2.5 million accounts across 190 countries.



Nike Fit uses computer vision, data, AI and recommendation algorithms to find the right shoe

TECHNOLOGY – WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Deploy technology with purpose to optimise business efficiency and CX
- Invest in automation to deliver supply chain and last-mile solutions as online accelerates
- Leverage AI for optimisation of supply chain, price and product, as well as a more personalised customer experience
- Prepare for further digital payment innovation and a cashless society
- Implement AR, VR and voice to transform and personalise experiences

ECONOMY

THE FACTORS SHAPING CHANGE

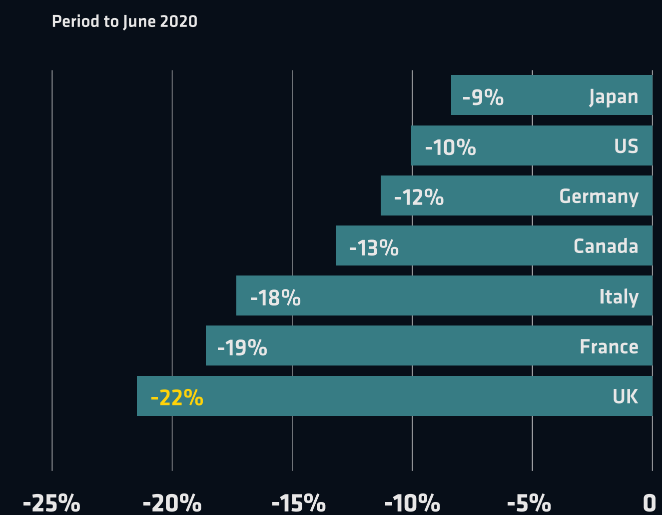
RECESSION AND BREXIT DOUBLE-IMPACT

The multiple impact of a global recession, reduced government Covid support and a potential no-deal Brexit could have catastrophic results for the UK economy and consumer spending power.

- The IMF predicts huge falls in GDP globally for 2020, including a drop of 4.3% for the US and 10.4% for the UK
- By October 2020 the UK had already invested £200bn in public spending on Covid-19, leading to questions over how this could be paid back in future
- In the case of a no-deal Brexit, the BRC has warned that £3.1bn per year could be added to the cost of importing food and drink
- Supply chains must prepare for initial disruption and work to build more localised sourcing capabilities

> Certainly, in any year, no one wants to see increased prices, but particularly in a recession year
>
> **David Potts,** chief executive , **Morrisons**

UK GDP FELL BY A CUMULATIVE 22% IN THE FIRST HALF OF 2020



Source: ONS

RECESSION AND BREXIT DOUBLE-IMPACT: STRATEGIC IMPLICATIONS FOR RETAIL

- Retailers must expect disruption and drive contingency into their supply chain operations as a top priority
- Strapped consumers will be unprepared for higher costs, so businesses will need to find efficiencies to absorb these
- Further waves of stockpiling and unpredictable demand are highly likely
- In addition to a no-deal outcome, retailers must ensure they prepare for the impact of a 'thin' deal, and its costs and logistical challenges
- Value focus and price wars will continue for the mid to long term
- Retail must be prepared for a difficult period ahead

Morrisons is preparing for the UK's exit from the EU

Morrisons

Morrisons' preparations for Brexit have been focused on mitigating delays at border crossings. Chief executive David Potts told Retail Week the retailer had been looking into alternatives to the crossing point at Dover and Calais to reroute goods. It also secured trusted vendor status to enable items to be loaded more speedily.

Morrisons also benefits from local sourcing. Over time the retailer has built up a predominantly British supply chain base, with around two thirds of goods sold being British.

NERVOUS CONSUMERS

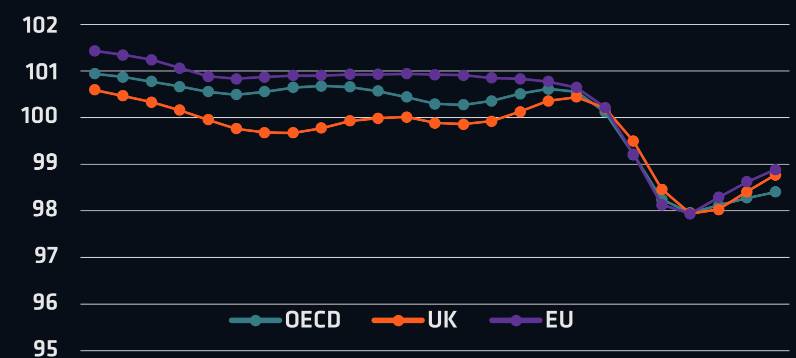
With a looming recession and uncertainty over jobs and Brexit, it is understandable that consumers will remain cautious.

- Unemployment is rising, furlough payments are ending, jobs are moving abroad, and school- and college-leavers are struggling to find work
- **Consumers are reining in discretionary spending**
- House-buyers are struggling to get on to the property ladder owing to higher deposits and lack of savings
- **Shoppers are prioritising saving over spending money**
- It is difficult to predict how long the recession will last (in 2008 it lasted five quarters)

60% of consumers say they need to be 'very careful' how they spend money

Source: RWRC and Openpay report How They'll Spend It, *June 2020*

CONSUMER CONFIDENCE INDEX JULY 2018 TO AUGUST 2020



Source: OECD

The impact of Covid-19 on consumer spending can be seen worldwide. UK consumer confidence is tracking lower than the average OECD index and lower than the European average.

NERVOUS CONSUMERS: STRATEGIC IMPLICATIONS FOR RETAIL

- Persuading shoppers to spend will remain challenging, particularly in discretionary categories
- Home-based consumers will be most likely to spend in categories such as grocery and home furnishings
- Retailers must be agile and shift focus to online and a proposition targeting home-based consumers
- Taking time to build authentic relationships will reap rewards for the long term
- With less money to spend, consumers will seek out brands that they feel connected to or consider to be aspirational
- Price and value for money messaging will continue to resonate
- Rentals and payment solutions will grow in popularity to help cash-strapped consumers

John Lewis has partnered with Fat Llama to offer a furniture-rental service

John Lewis

In August 2020 John Lewis partnered with Fat Llama to offer a furniture-rental service.

The service allows customers to rent John Lewis furniture such as desks, chairs, dining chairs and sofas for three, six or 12 months, and have the option to buy them later with existing payments deducted from the purchase price.

John Lewis said attitudes to renting items and the sharing economy had “dramatically shifted in recent years”, and the service gives customers flexibility and peace of mind.

GROWING INCOME DIVIDE

Income inequality has led to the creation of a two-tier society and erosion of the middle class.

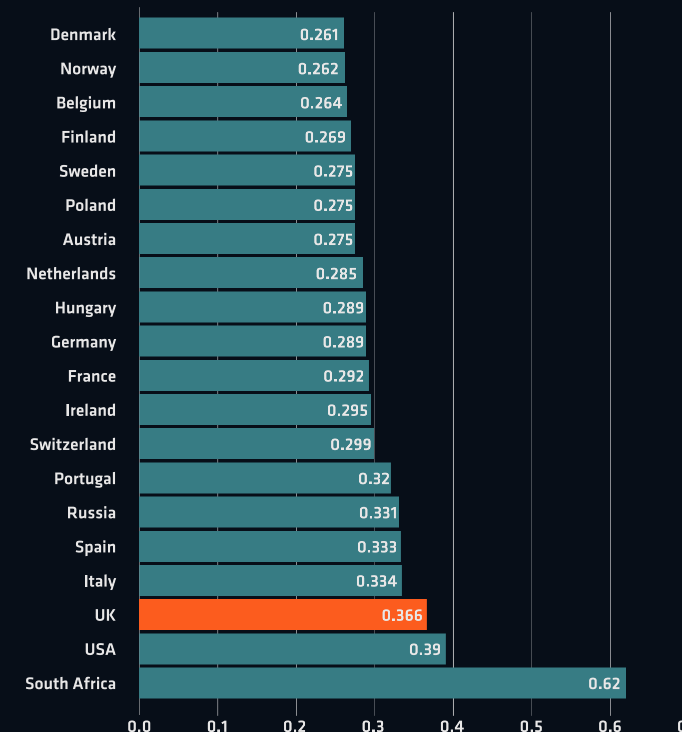
- Covid-19 has accelerated the income divide, with increased job losses for some, while others are able to save money by working from home
- Uneven income gains can be expected to continue, leading to increased price sensitivity
- Lower discretionary spending can be expected to persist
- At the top end there will be opportunities for luxury brands to sell to wealthier consumers
- Market polarisation will put even further pressure on to mid-market brands and retailers

COVID SCENARIOS PUBLISHED BY THE UK GOVERNMENT'S OFFICE FOR BUDGET RESPONSIBILITY (OBR), OCTOBER 2020

Optimistic: unemployment peaks at **9.7%** this year, returns to pre-crisis levels in 2022

Least optimistic: unemployment peaks at **13.2%** in 2021 and is still at 6.3% (above pre-crisis levels) in 2024

EQUALITY OF INCOME DISTRIBUTION BY COUNTRY
(LATEST AVAILABLE YEAR)



(Gini coefficient metrics, where 0=complete equality, 1=complete inequality)

Source: OECD

The income divide in the UK is greater than in other European countries.

GROWING INCOME DIVIDE: STRATEGIC IMPLICATIONS FOR RETAIL

- Growing income inequality will require sharper product and price positioning from retailers
- Shoppers in lower-income segments will be highly sensitive to price
- Wealthier shoppers will have increased capacity to spend, but may remain nervous and prioritise saving
- Brands and retailers must tailor products and assortments carefully to a wide range of income profiles to reflect the growing income divide
- Aspirational luxury brands and relevant value retailers will both maximise opportunities to gain share from the mid market

The Co-op is investing in price and customer-facing tech

The Co-op

The Co-op is set to invest in pricing and customer-facing technology in a bid to keep its core food business relevant to price-conscious consumers.

As the big four grocers lower prices to woo customers away from the discounters, the Co-op has vowed to invest in price towards the end of 2020 into 2021.

At the same time the shift to online means the retailer is building its online grocery capabilities and trialling services with Deliveroo and robot deliveries with Starship Technologies. While it continues to invest in customer experience and consumer-facing technology, it is also investing to drive efficiencies and deliver cost savings within the business, with additions such as back-office AI range-forecasting software.

SPENDING AND CATEGORY SHIFTS

Many long-term trends have been paused as the result of Covid-19 and the way that we consume products has shifted dramatically.

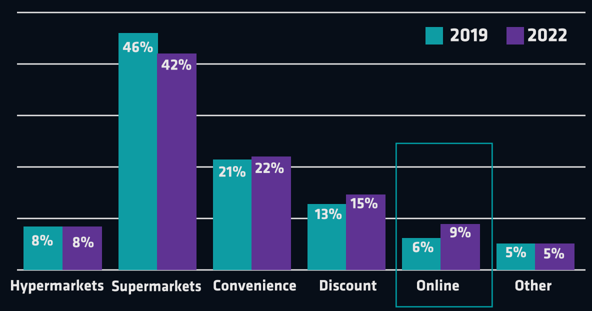
- Essential goods such as grocery and healthcare products have seen a boost
- Online growth has accelerated
- Store space is being reallocated to in-demand categories, with others shifting online
- For grocery, convenience remains significant, but big-basket shops have returned, particularly online
- Shoppers are visiting stores less but with increased basket size
- Home-based consumers are disrupting traditional category demand
- Brands are increasingly selling directly to consumers (D2C)

Retailers must adapt strategies for online and prioritise the needs of home-based consumers. Customer experience, agility and relevance have never been more important

Online will provide 57% of global sales growth by 2025

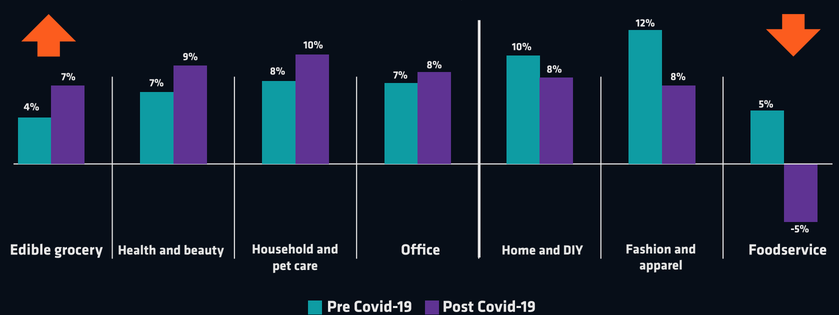
Source: Edge by Ascential

UK GROCERY SPEND BY CHANNEL, 2019-22



Source: IGD

GLOBAL YEAR-ON-YEAR GROWTH BY CATEGORY, 2020 PRE- VS POST-COVID-19 FORECAST



Source: Edge by Ascential

SPENDING AND CATEGORY SHIFTS: STRATEGIC IMPLICATIONS FOR RETAIL

- Focus on online and digital will intensify to meet the needs of home-based consumers
- Convenience and discount will also grow at the expense of large formats
- Successful brands and retailers will seek growth in categories such as food, health and beauty, home office and comfort ranges
- Retailers must prioritise **finding new ways to make online profitable**, as share of sales from the channel accelerates
- Brand relevance, customer experience, innovation and ethics will determine where consumers spend their discretionary income

Aldi has launched an online grocery trial

Aldi

Despite the profitability challenges of online grocery, the discounters are recognising the need for agility to meet increased consumer demand.

In September 2020 Aldi began trialling click and collect from a store in the Midlands. Customers can choose from a full range of groceries online and drive to the store for contact-free collection.

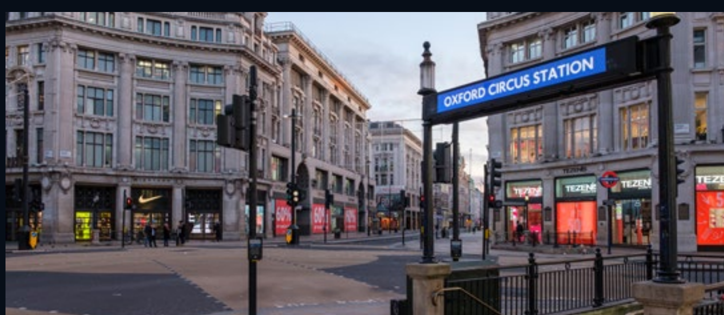
If successful the trial will be extended to further stores.

Aldi is also trialling a rapid delivery service with Deliveroo across stores in the East Midlands, London, Cambridge and Greater Manchester.

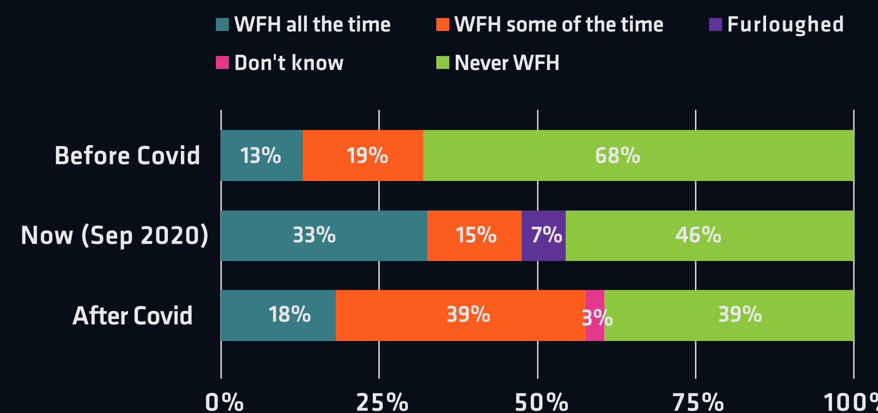
LONDON EXODUS

London and major cities have taken a hit since the government and businesses told employees to work from home. This trend looks set to continue for the medium term.

- Changes to working patterns and more working from home means that people can and will now work from anywhere
- Office workers can live more rurally or even in far-flung locations and still be productive
- More flexible working patterns are likely to persist and this could lead to an exodus of office space in central London and other cities, with a resulting impact on the economy
- The city will also be hit by lower tourist numbers in the short to medium term



UK WORKING PATTERNS: WHERE DO YOU WORK/EXPECT TO WORK?



Source: YouGov

ESCAPE TO THE COUNTRY

Rightmove.co.uk visits from those living in 10 cities ***increased 78%*** in June and July 2020. There was a ***126% increase*** in people considering properties in village locations.

Knight Frank reports a ***60% increase*** in property exchanges in rural locations in August.

Henley Business School discovered that in companies implementing a four-day work week, ***78% of staff were happier, 70% were less stressed*** and ***62% took fewer days off sick***.

LONDON EXODUS: STRATEGIC IMPLICATIONS FOR RETAIL

- A strengthened online presence will be key across the retail sector and retailers must prioritise the following:
- Closely monitor the shifting demographics of key customers and footfall to identify how/where they want to shop as historic patterns are unreliable
- Constantly evaluate opportunities and challenges across their store portfolios
- Investigate potential new areas of opportunity, which will most likely lie outside major cities
- Expect fewer people to live in and travel to city centres
- Help drive recovery by engaging in efforts to make towns and cities more appealing and accessible to shoppers

Seasalt plays on its Cornish heritage

Seasalt

Seasalt has bucked the trend in the challenging UK fashion market, enjoying double-digit growth and a surge in online sales. The Cornish lifestyle brand has grown to 70 stores across the UK and Ireland, with 59 opened in the last seven years and it is stocked in 400 outlets, including John Lewis and Next.

The retailer plays on its Cornish heritage and its roots in the South West. The original store network targeted seaside towns, but it has expanded to market towns and locations across the Midlands and northern England.

During lockdown Seasalt rolled out a new product information management platform to streamline its product data and this has also helped it to grow online.

On social media the retailer has generated supportive, creative content including recipes, posts on lockdown life in Cornwall and online book clubs to engage customers. It was also one of the first retailers to offer bookable appointments to tempt nervous consumers back to its stores.

ECONOMY – WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Prepare urgently for the double impact of the recession and Brexit
- Streamline cost and productivity efficiencies and be agile to remain relevant
- Emphasise value for money, but target a wide range of customers
- Strengthen online and build strong customer relationships
- Review store portfolios to stay close to customers and meet changes in demand

POLICY

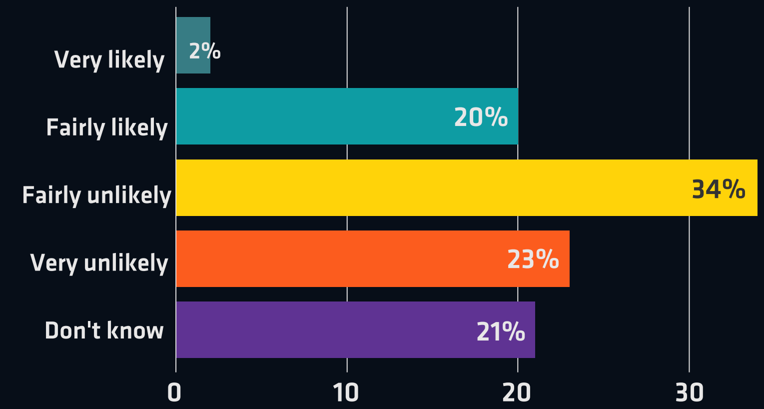
THE FACTORS SHAPING CHANGE

POST-BREXIT NEW TRADE AGREEMENTS

Importing and exporting goods with the EU is about to change and the process is likely to become more complicated for a prolonged period.

- Brands and retailers need contingency to overcome potential delays and should maximise local sourcing where possible
- Supply chain partnerships and optimisation will be critical to navigate change
- Businesses that export from the UK to Europe may need to set up an EU presence and vice versa
- The UK may sign new trade agreements with other countries post-Brexit, which could lead to new opportunities longer term

HOW LIKELY DO YOU THINK IT IS THAT THE UK WILL AGREE A TRADE DEAL WITH THE EU BEFORE THE END OF THE TRANSITION PERIOD ON DECEMBER 31?



It appears that the UK population has little trust in the government's process, leaving retailers to bear the brunt of preparing for all potential outcomes

Source: YouGov, September 2020

Retailers must optimise their supply chains to prepare for a period of transition as cross-border trade evolves. Agility, speed and visibility will be essential

POST-BREXIT NEW TRADE AGREEMENTS: STRATEGIC IMPLICATIONS FOR RETAIL

- Retailers and suppliers must expect disruption and prepare contingency
- Supply chain optimisation must be a top investment priority
- Impending changes will make supply chains more complex
- Digitising processes will assist speed, tracking and agility
- Expect to manage more supplier relationships
- Closely monitor changes and opportunities in cross-border trade, such as new agreements and restrictions

JD Sports has invested in an EU distribution centre

JD Sports

JD Sports launched an 80,000 sq ft 'test' warehouse in Belgium during H1 2020. The retailer says it is taking a number of key learnings from the site that will be used to shape a longer, more permanent, European supply chain strategy.

Approximately 90% of JD Sports' stock is purchased from international brands, so the business would be hit hard by potential taxes on its imports and exports in the event of a no-deal Brexit.

In light of Covid-19 JD Sports has shelved nearly half of the European store openings it had originally planned for the current financial year.

END OF COVID-LED STIMULUS

The UK government, like those in other countries, had been providing financial support to businesses and their employees throughout the pandemic.

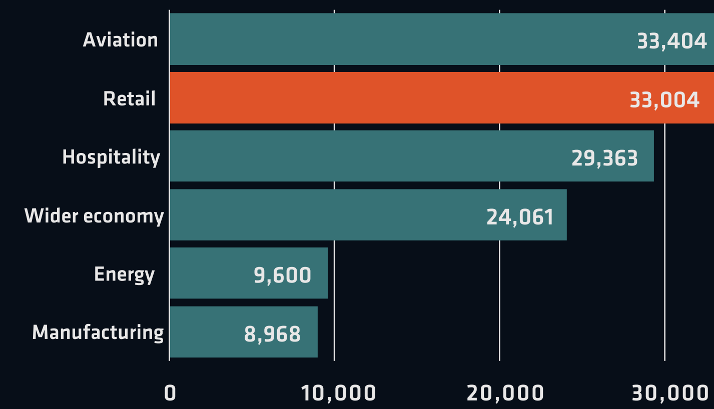
The furlough scheme was due to end in October 2020 but was extended in light of a month-long second lockdown.

The new Job Support Scheme is likely to come into effect after this period to maintain jobs that are 'viable' by paying a percentage of wages for employees working at least one third of their normal hours, while employers share the cost of the unworked hours.

It includes a proposed continuation of the VAT cut for the hospitality sector and deferrals for VAT payments. This scheme will likely come into effect once the UK emerges from the second lockdown period.

- It is likely that some jobs in retail and hospitality will not be considered 'viable'
- The path to recovery is delicate, particularly in light of local lockdowns
- From April 2021 there remains an £8bn business rates cliff edge, as rates holidays for businesses will end

JOB LOSSES BY SECTOR AS THE RESULT OF COVID-19
(TO END SEPTEMBER 2020)



Source: Sky News

Aviation and the retail industry have been the worst hit by coronavirus. As stimulus packages end, more job losses can be expected

The retail and hospitality sectors remain at high risk of further job losses. Discussions on business rates and taxes will be critical

COUNTING THE RETAIL COST

More than 11,000 UK stores closed during H1 2020, up 71% year on year

RWRC UK tracker – retail job losses in 2020

END OF COVID-LED STIMULUS: STRATEGIC IMPLICATIONS FOR RETAIL

- The retail and hospitality sectors remain at high risk of further job losses
- There are likely to be more CVAs and further market consolidation in retail
- Local lockdowns will continue to hamper recovery
- Landlords and retailers will need to work together on solutions
- Retailers will need to lobby for government support if impact is to be minimised

FOCUS ON HEALTH

Obesity is a national crisis in the UK, which is among the leading countries in Europe for child and adult obesity.

In response to the associated risks from Covid-19 the **UK government has proposed measures to promote healthy diets**, including:

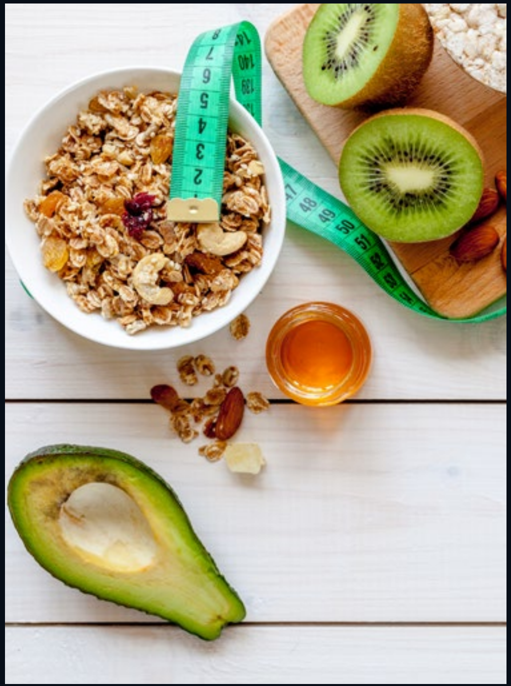
- Legislation for out-of-home food businesses to add calorie labels to food that they sell
- Introducing calorie labelling on alcohol
- Ending the promotion of foods that are high in saturated fat, sugar or salt (HFSS)
- Banning the advertising of HFSS foods before 9pm

The EU is also working on a Farm to Fork strategy to tackle obesity rates.

Healthier diets are coming to the fore and we can expect a plant-based boom.

- Consumers are increasingly looking to brands to help them live healthier lifestyles
- New product development should take into account changing regulations and attitudes to healthy living

> “We have to change what we incentivise people to produce
>
> **Dave Lewis,** ex-chief executive, **Tesco**



FOCUS ON HEALTH: STRATEGIC IMPLICATIONS FOR RETAIL

- Helping customers to live healthier lifestyles is not only a consumer demand but increasingly a government mandate
- The grocery and hospitality industries will need to prepare for compliance and anticipate further initiatives to target rising levels of obesity
- Consumers will also welcome healthy initiatives
- Plant-based eating will continue to accelerate and needs to be reflected in supplier base and product development
- Lowering the price of healthy food to make it accessible to all will be a key priority, from a loyalty and CSR standpoint
- New product development should target helping consumers meet healthy eating and fitness goals
- Innovation opportunities in fitness and lifestyle will continue to grow

Tesco has committed to boosting sales of meat alternatives 300% by 2025

Tesco

Tesco launched its plant-based range Wicked Kitchen three years ago, in partnership with pioneering chef Derek Sarno.

During this time, sales of Wicked Kitchen branded products have grown to exceed more than £50m.

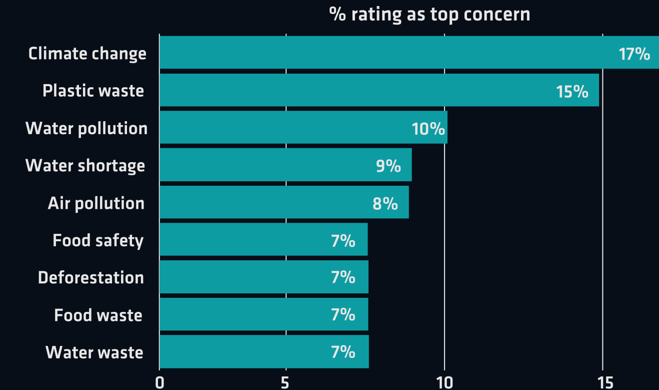
Tesco has committed to boosting sales of meat alternatives 300% by 2025 in support of healthier lifestyles.

SUSTAINABILITY TARGETS AND INCENTIVES

Sustainability is an urgent concern for government, businesses and consumers.

- In 2015, world leaders agreed to 17 global goals with the power to create a better world by 2030
- In June 2019, UK parliament legislated to achieve net zero emissions by 2050
- Led by sustainability champions such as Unilever, large businesses including M&S, Amazon and Tesco are committing to their own goals
- Further legislation has been proposed, such as tax on plastics and retailers should prepare now to work on these key concerns

TOP ENVIRONMENTAL CONCERNS FOR CONSUMERS GLOBALLY



Kantar and GfK surveyed 80,000 people across 19 countries to find out consumers' biggest environmental concerns

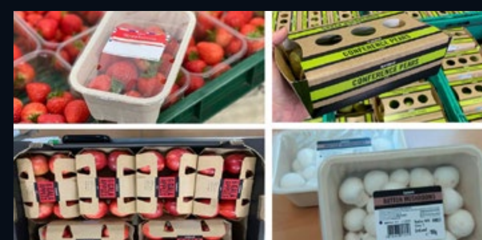
Source: Kantar and GfK, September 2020

THE GLOBAL GOALS
For Sustainable Development

SUSTAINABILITY: STRATEGIC IMPLICATIONS FOR RETAIL

- Suppliers and retailers can expect further legislation to incentivise sustainable business practices
- Focus on plastics, packaging and ethical sourcing will continue to grow – both as consumer priorities and to enable companies to achieve their targets
- Retailers that do not meet the highest standards must commit to change or they will not succeed (**see Boohoo analysis**)
- Businesses should set and measure targets to reduce their carbon footprint
- Being an ethical brand with purpose will drive customer loyalty
- Brands should build storytelling and engagement into their sustainability efforts

Amazon has pledged to be net zero carbon by 2040


Iceland's sustainability plan pledges to remove plastic packaging by the end of 2023

Amazon

Amazon founded The Climate Pledge in 2019, an initiative to be net zero carbon across its business by 2040, 10 years earlier than the Paris agreement.

To meet this aggressive target the company is working towards powering its operations with 100% renewable energy by 2025, making 50% of shipments net zero carbon by 2030 and purchasing 100,000 electric delivery vehicles.

Additionally the business is investing in technologies and services that reduce carbon emissions.

Iceland

Iceland was early to commit to sustainability initiatives and has been actively working since January 2018 on an aggressive goal led by managing director Richard Walker to eliminate plastic packaging from its own-label products by the end of 2023.

In September 2020 the company produced its first plastic packaging footprint report measuring its footprint across its UK stores and depots for the full 2019 calendar year.

The company has called on others to publish similar data, as "without transparent reporting, and government-enforced reduction targets, we will not be able to judge whether business actions are delivering real progress".

DATA PRIVACY AND PROTECTION

Since GDPR came into force in 2018 customer data can only be processed with consent.

Social media platforms have come under scrutiny and Google introduced plans to make third-party cookies obsolete.

Tracking apps introduced to control the pandemic have intensified the debate and likelihood of further legislation.

- Home-based consumers will increasingly shop online and rely on trusted online relationships and personalisation, which has been shown to increase loyalty and conversion
- Retailers will need to develop their own data insight capabilities through ecosystem extension and personalised interactions
- Brands will need to invest in new ways to access shopper insights, such as data-sharing agreements with retailers and D2C activities

WHAT DOES A COOKIE-LESS FUTURE MEAN?

In January 2020, **Google announced plans to phase out third-party cookies by 2022**.

This will be extremely **disruptive** to the **digital advertising** sector, which relies on them to plan, target, measure and attribute sales.

The move signals a **shift towards more enclosed online domains and ecosystems**, where brands and retailers build trust with customers, offering incentives and personalisation in exchange for data.

DATA PRIVACY AND PROTECTION: STRATEGIC IMPLICATIONS FOR RETAIL

- Brands must develop a single view of the customer and build deeper and more authentic relationships
- As third-party cookies are phased out, brands and retailers must prioritise new digital engagement strategies and prepare for a cookie-less future
- Consumers will shun faceless transactions in favour of ecosystems and trusted relationships
- Deep customer relationships will provide data and insight for product and service innovation
- Third-party data will become less valuable as brands prioritise their own engagement with customers
- Marketing and growth will be driven by relevant and meaningful omnichannel engagement

Heineken ran a successful data-led campaign

Heineken

Heineken ran a marketing campaign aimed at getting more customers into UK pubs to consume its beer. It worked with Brulines to get access to 2,500 pumps across the country, installing smart devices to monitor how many pints were being pulled.

For the first time the company had visibility of real-time performance and was able to test different paid-for social messages, communicating to potential drinkers that a pint of their favourite beer was served in a nearby bar.

Sales increased by 3.6% during the first six weeks of the campaign and the company was able to determine which brands, messages, media choices and moments drove the biggest uplifts in sales.

POLICY – WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Ensure supply chain excellence and agility as a differentiator – even more post-Brexit
- Engage with customers in a meaningful, personal way and protect sensitive data
- Evaluate priorities as post-Covid stimulus measures end and take a long-term view to investment and innovation
- Place measuring, improving and communicating on sustainability needs at the heart of business practices
- Plan for a first-party data strategy as a priority

INDUSTRY

THE FACTORS SHAPING CHANGE

PARTNERSHIPS DRIVING INNOVATION

As demand for online delivery and rapid fulfilment soars, **delivery intermediaries are emerging as a channel in their own right**, providing retailers with new last-mile solutions.

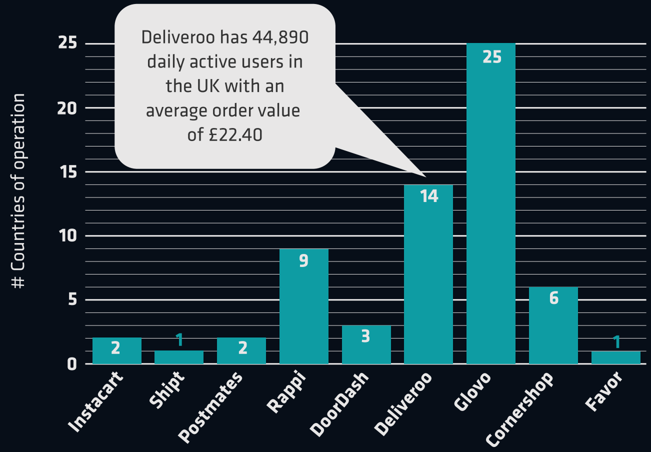
Complementary partnerships between retailers are increasingly a way for businesses to achieve more, e.g. Marks & Spencer and Ocado, Morrisons and Amazon.

Many retailers are experimenting with **third-party marketplace tie-ups** as a way to expand assortment and reach new customers.

Start-ups are also benefiting from the opportunity to work with retailers on agility and innovation.

Partnerships allow retailers to become more agile – when successful they deliver benefits to both parties as well as consumers

DELIVERY INTERMEDIARIES BY NUMBER OF COUNTRIES OF OPERATION



Source: Edge by Ascential

PARTNERSHIPS DRIVING INNOVATION: STRATEGIC IMPLICATIONS FOR RETAIL

- Retailers and brands will seek out complementary partnerships that allow them to become more agile
- Online partnerships, e.g. third-party marketplaces, will allow retailers to reach new customers and increase brand relevance
- Delivery intermediaries will become a channel in their own right as partnerships across retail and foodservice accelerate
- **Start-ups can help** retailers become more agile, but decision-making structures within the organisation must be in place to support this
- As retailers try to achieve more, they will need to **democratise decision-making** and allow those further down the organisation to help drive innovation
- Partnerships will remain a low-risk way to innovate and help retailers with the challenges of last-mile economics
- Further acquisitions and consolidation is likely within the retail market, as performance gaps widen

Marks & Spencer recently joined forces with Ocado

Marks & Spencer

Marks & Spencer paid £750m to take a 50% stake in Ocado Retail, creating a joint venture that elevates the former's previously limited online food business. The partnership officially started on September 1 and M&S Food managing director Stuart Machin said the deal was "transformational" for the company.

Thanks to the deal, the M&S Food range of 6,000 products and 800 M&S clothing and home lines have been brought together online for the first time, adding to Ocado Retail's 50,000 products.

CHANNEL SHIFTS

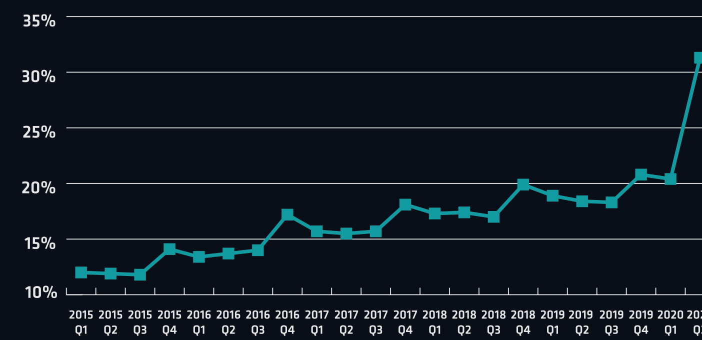
The shift to online was accelerated several years as a result of the pandemic, as more home-based consumers turned to the channel for convenience.

- New groups of shoppers started shopping online and are unlikely to revert to previous habits
- Online helps vulnerable and nervous shoppers to buy what they need without visiting stores
- Many shoppers find the channel more convenient

- Grocery and health and beauty retailers were quick to increase capacity by picking from stores, adding dark stores, converting underused stores and trialling delivery partnerships
- However, the shift to online puts pressure on to profit margins, as servicing the channel adds significant operational and last-mile costs.
- Retailers will need to find new ways to work more efficiently and effectively in this rapidly evolving retail environment

Source: *Deep Dive – A Covid Christmas. How consumers will spend, shop and celebrate*

UK ONLINE SALES AS A PERCENTAGE OF TOTAL SALES



Source: ONS

43% of consumers expect to do more than half of their Christmas shopping online this year

14% expect to do all their shopping online

Source: Retail Week Deep Dive: A Covid Christmas

Sainsbury's online sales jumped 87% in three months to the end of June

John Lewis now generates

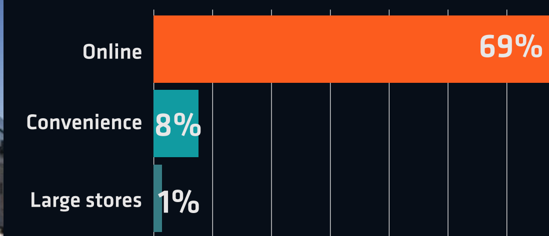
60% of sales online

CHANNEL SHIFTS: STRATEGIC IMPLICATIONS FOR RETAIL

- Retailers must prioritise and bring forward planned investment in online and digital
- Fulfilment solutions should be implemented to reflect demand – automated DCs and dark stores suit busy urban areas, with flexible hybrid stores and local delivery hubs adding agility and speed
- With online accounting for a much larger share of sales and growth, retailers will seek more efficient solutions to **make the channel profitable**
- Delivery and collection partnerships will increase options to reach more customers at lower cost
- Online and digital solutions must be prioritised at all stages of strategy development (e.g. NPD, packaging)
- Click-and-collect and delivery intermediary solutions will accelerate for discounters and smaller retailers

Tesco's online sales saw a 69% jump in H1 2020

LIKE-FOR-LIKE GROWTH BY CHANNEL, H1 2020



TESCO

Tesco

Tesco recorded a 69% jump in online sales during H1 2020, with the rate of growth reaching 90% in Q2. It more than doubled its online delivery capacity to 1.5 million slots per week, with online grocery sales now accounting for more than 16% of sales, from 9% at the start of the year.

THE CHANGING ROLE OF THE STORE

With the huge channel shift to online and the pressures of Covid-related health and safety concerns, pressure on big stores has accelerated.

- To remain relevant, bricks-and-mortar retail needs to create great experiences that will move at the pace of customers
- Shoppers want a more frictionless experience in store, focused on reducing queuing, and finding what they want quickly and easily
- The power of the physical store for brand-building remains strong, as a place to engage with products and experience a brand, even as many transactions shift online
- Retailers are likely to need fewer stores in future, but will need to make these customer-focused places to experience the brand, with a greater marriage between online and offline
- Big-box retail will evolve through new tie-ups and partnerships that utilise excess space and give customers the ability to complete multiple shopping missions in one place
- Stores will play an important role as hyperlocal hubs for flexible online fulfilment, returns, click and collect and partnerships with delivery intermediaries
- The continued evolution of the high street is likely to introduce more multi-use space between hospitality, leisure and retail to drive footfall

Primark, Birmingham

THE CHANGING ROLE OF THE STORE: STRATEGIC IMPLICATIONS FOR RETAIL

- Stores need to be inspiring places for customers to experience and interact with your brand
- Fewer stores and smaller, more flexible formats will be required as online accelerates
- Big-box retailers will speed up efforts to add new retail concessions to large stores. This presents opportunities for brands to partner and reach new customers
- Retailers should leverage technology and digital, making the in-store experience personalised and frictionless
- Store evolution will introduce new hybrid multichannel opportunities, such as setting aside store space for dedicated online fulfilment
- Close relationships with customers, innovative loyalty initiatives and a great experience remain essential to drive footfall to stores

Walmart has launched a digitally inspired store format

Asda has partnered with The Entertainer on toys

Walmart

Walmart's new store format aims to create an "omni-shopping", digitally enabled shopping experience for customers, inspired by airport wayfinding systems and its own app.

Product layout and signage has been optimised to bring greater visibility to key items and help customers find their way through the store quickly and easily.

As customers enter the store they are encouraged to download and use the Walmart app while they shop. Aisles are marked with letter and number combinations to guide customers from phone to product.

To create a frictionless experience, stores offer self-checkout kiosks, contactless payment solutions and Scan & Go.

Asda

In October 2020 Asda expanded its partnership strategy by teaming up with toy specialist The Entertainer, which will turn the toy categories in five Asda stores into branded concessions.

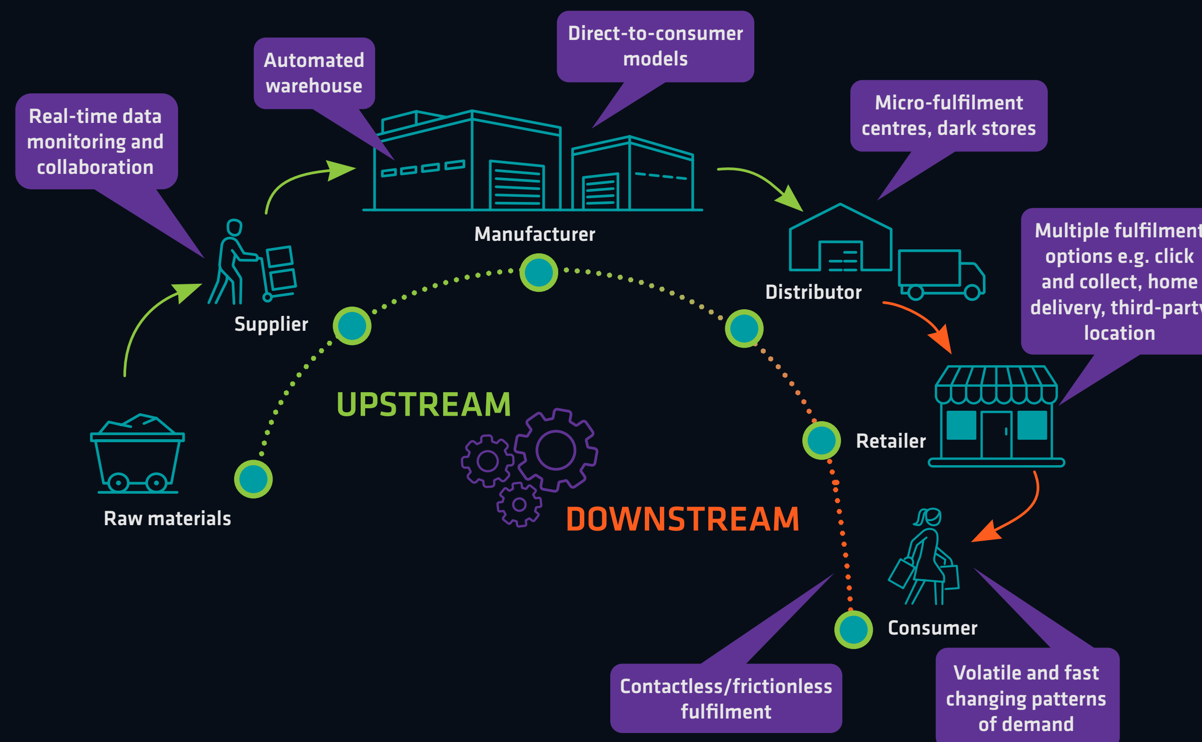
This move is part of an ongoing strategy to bring complementary brands into stores. To date Asda has established tie-ups with Claire's, Greggs, B&Q, musicMagpie and Fragrance Point.

SUPPLY CHAIN TRANSFORMATION

Meeting the demands of the pandemic and preparing for Brexit have been tipping points for retail supply chain operations, with transformation rising quickly to the top of the agenda.

To respond to rapidly changing retail and consumer trends, retailers are investing in their supply chains to enable growth and flexibility.

- Rapid, reliable supply chains are emerging as a differentiator for retailers to meet consumer demand
- Innovative supply chain management and flexible business models are essential for success
- Digitised supply chains present retailers with increased end-to-end transparency and greater collaboration
- The adoption of new technologies such as AI is helping retailers to stay ahead of the game
- Increased focus on sustainability is also transforming supply chains and increasing the need to measure carbon footprint



Source: Edge by Ascential

SUPPLY CHAIN TRANSFORMATION: STRATEGIC IMPLICATIONS FOR RETAIL

- Sourcing, supply base and warehousing must become more agile to meet rapidly changing consumer needs
- Demand for warehousing will increase as more retailers investigate opportunities for urban and micro-fulfilment centres
- Digitising supply chains will give additional flexibility and competitive advantage to retailers and their suppliers
- Applying AI and blockchain technology will lead to more transparent and predictable service delivery and a better customer experience
- Sustainability measures will need to be prioritised and measured as part of supply chain transformation

Amazon opened its first Whole Foods dark store this year

In recent, months grocers such as the Co-op and Marks & Spencer have launched partnerships with Deliveroo, while Waitrose is developing its third London-centric customer fulfilment centre in Greenford, which will become operational before the end of this year.

In early September Amazon unveiled its first Whole Foods dark store in Brooklyn, New York. The 28,000 sq ft premises was purpose built and operates like a warehouse where staff select customers' orders from shop-style shelves.

For deeper insight into ways to transform and optimise your supply chain strategy, **read our *Supply Chain 2021* report**

DIRECT-TO-CONSUMER RETAILING

The shift to online is benefiting brands, enabling them to form closer, direct relationships with customers and to sell products to them online.

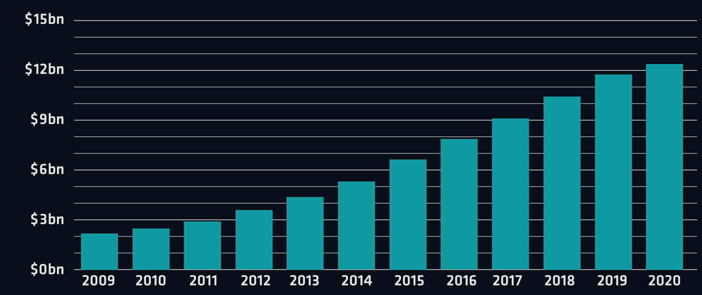
Direct to consumer (D2C) selling by brands is a rapidly growing opportunity, which many are prioritising, not least as it gives valuable data and insight into their most loyal customers.

- Among the most disrupted sectors are food, fitness and health and beauty
- Unilever has acquired 29 D2C companies since 2015
- Demand for online subscriptions, health and beauty products and recipe boxes have soared since the pandemic, as convenience is prioritised by home-based consumers
- CPG companies are finding ways to offer loyal shoppers bundles
- D2C channels are also being used by companies to generate excitement around product launches and exclusives, and to offer full ranges
- For brands, D2C gives them valuable data and insight into their customers and a direct way to communicate independently of retailer partners

73% **of companies now sell direct to consumer**

(Source: Barclays Corporate Banking)

NIKE'S GLOBAL D2C REVENUE 2009-2020



Source: Retail Week Prospect

Nike estimates that D2C revenue will reach **$16bn** by the end of 2020. Last year the brand stopped selling on marketplaces such as Amazon to prioritise its own channels

From 2016 to 2019 D2C commerce grew 3x to 6x the rate of overall ecommerce sales

(Source: Retail Week – How Nike, Unilever and Gymshark are building DTC empires)

DIRECT-TO-CONSUMER RETAILING: STRATEGIC IMPLICATIONS FOR RETAIL

- D2C will accelerate as more brands introduce platforms to drive engagement, create loyalty, gain shopper insight and test innovation
- Brands will increasingly seek more control and influence over how their products are presented to customers
- Consumers will engage directly with brands that they feel connected to, influencing brand positioning and NPD
- Retailers can overcome this potential threat by become more open to sharing data and forging deeper partnerships with their suppliers
- Large brands will create their own ecosystems to reach customers, but must also absorb additional costs

Hotel Chocolat offers subscriptions for chocoholics

Heinz sells bundles to consumers

Hotel Chocolat

Hotel Chocolat added a virtual Inventing Room subscription to its offer in October 2020, delivering newly developed products to loyal subscribers before they go on sale in stores.

For £30 a month, subscribers are sent products to sample and invited to share their views. The company says the feedback will "directly influence" its future range.

Cadbury

Mondelez has offered Cadbury direct to consumers for several years, offering its full range as well as hampers, bundles, exclusives and personalised bars. During a lockdown Easter in 2020 it was overloaded with requests for eggs and had to temporarily pause orders.

Heinz

Heinz sells direct to consumers with an offering of various Heinz To Home bundles. The six packages range from baby food to bundles of sauces and beans.

DIGITAL ECOSYSTEMS

The world's leading global ecommerce platforms have been leveraging ecosystems for some time, to build more profitable revenue streams, attract shoppers and generate increased loyalty.

Data acquisition is at the heart of this strategy, feeding into strategic decision-making and driving volume and frequency.

- More product searches are now taking place directly on platforms such as Amazon than Google
- Third-party marketplaces and ecosystems will become increasingly powerful
- Just a few large ecosystems are likely to dominate, meaning that brands will need to focus on understanding how to win in these and optimise their marketplace-specific shopper-engagement strategies accordingly
- According to a new **Ascential white paper *Retail 5.0***, CPGs must focus on ways to optimise market engagement strategies within these ecosystems and build flexibility into their supply chains, since they will not be able to win by building consumer relationships on their own
- Marketplace tie-ups also present opportunities for retailers to reach new groups of customers and enter new markets
- Ecosystems such as Amazon, Alibaba and JD.com are expanding their assortments to attract a wider pool of shoppers and missions and to create exclusive ranges

Source: Edge by Ascential

DIGITAL ECOSYSTEMS: STRATEGIC IMPLICATIONS FOR RETAIL

- Shoppers will continue to seek more holistic services from retailer ecosystems, such as entertainment, healthcare and convenient fulfilment leading to even higher levels of loyalty
- Retailers must pivot business models away from transactional platforms towards loyalty, personalisation and value-added services, prioritising data and agile fulfilment
- To build shopper loyalty, brands must seek ways to connect with and serve consumers across many touchpoints
- CPGs must increase their focus on data and insight to help them optimise their strategies to drive reach and market share across large marketplaces
- In a world of ecosystems, building personal relationships with shoppers will take on even greater importance

Next says it is “competing with itself”

next

Next
Clothing and home retailer Next admits that it is “competing with itself” since introducing its Label third-party marketplace platform, but it believes it is “the only way to survive in the online world” and to keep customers coming back as a first-choice destination for fashion and home.

Label has grown over 10 years to achieve sales of £510m in the year to January 2020 and 15% margin. The addition of new brands to Next’s site is a priority for the coming year, as well as the extension of its Platform Plus service giving access to stock in partner warehouses.

In 2019 Next partnered with Amazon to launch a click-and-collect service in its stores.

DATA-DRIVEN INNOVATION

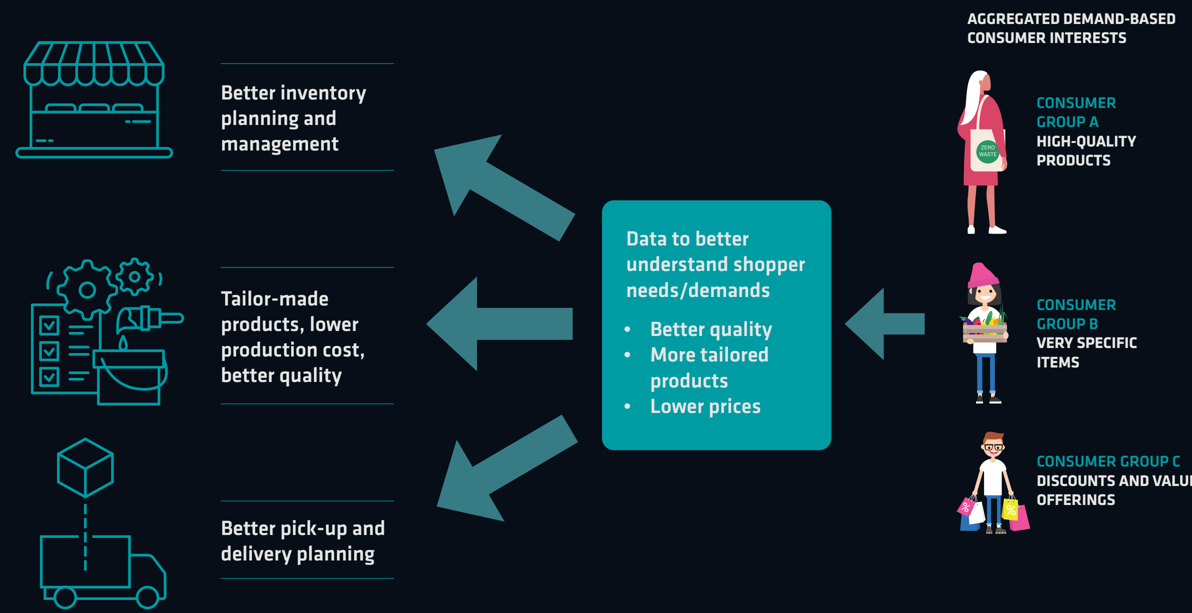
Data-driven innovation uses technology with purpose. It can be used for new product design.

Additionally it can help to make supply chains more agile and reduce costs by **delivering items that shoppers want to buy**, when they need them. The pandemic has highlighted the need for retailers and manufacturers to work together quickly to adapt to changing demand.

As manufacturers and retailers gather more data and a deeper insight into consumer preferences, this can be used as an advantage to achieve more accurate forecasting and to develop the right products and assortments to cater to rapidly changing demand, particularly in sectors such as fashion and beauty.

- In China, the consumer-to-manufacturing (C2M) model has seen retailers leveraging their data on consumer preferences to design items that they know shoppers want to buy
- By using data and better AI-based forecasting, brands and retailers can anticipate the constantly evolving needs of customers and target the right products

THE CONSUMER TO MANUFACTURING (C2M) MODEL EXPLAINED



Source: Edge by Ascential

DATA-DRIVEN INNOVATION: STRATEGIC IMPLICATIONS FOR RETAIL

- Brands and manufacturers will prioritise the gathering of data and analytics to inform new product development
- Retailers will use real-time shopper data to continuously adapt curation and market positioning
- Data sharing between retailers and their suppliers will allow both to become more agile
- Loyalty schemes will incentivise increased data-sharing and personalisation for customers
- Technology trends such as AI and machine learning will continue to assist retail in becoming more responsive and streamlined

JD.com and Huggies have worked together on data-driven product innovation

JD.com

JD.com is increasingly working with manufacturers to leverage data insight to develop new products. By focusing on consumer preferences within the baby category, JD.com was able to identify and analyse the characteristics shared by its bestselling nappies.

This data analysis identified strong shopper preferences for brands that contained a specific type of absorbent composite material, and by sharing this information with Huggies they partnered to develop a new and improved nappy.

The new product grew rapidly to account for 62% of Huggies' sales on JD.com.

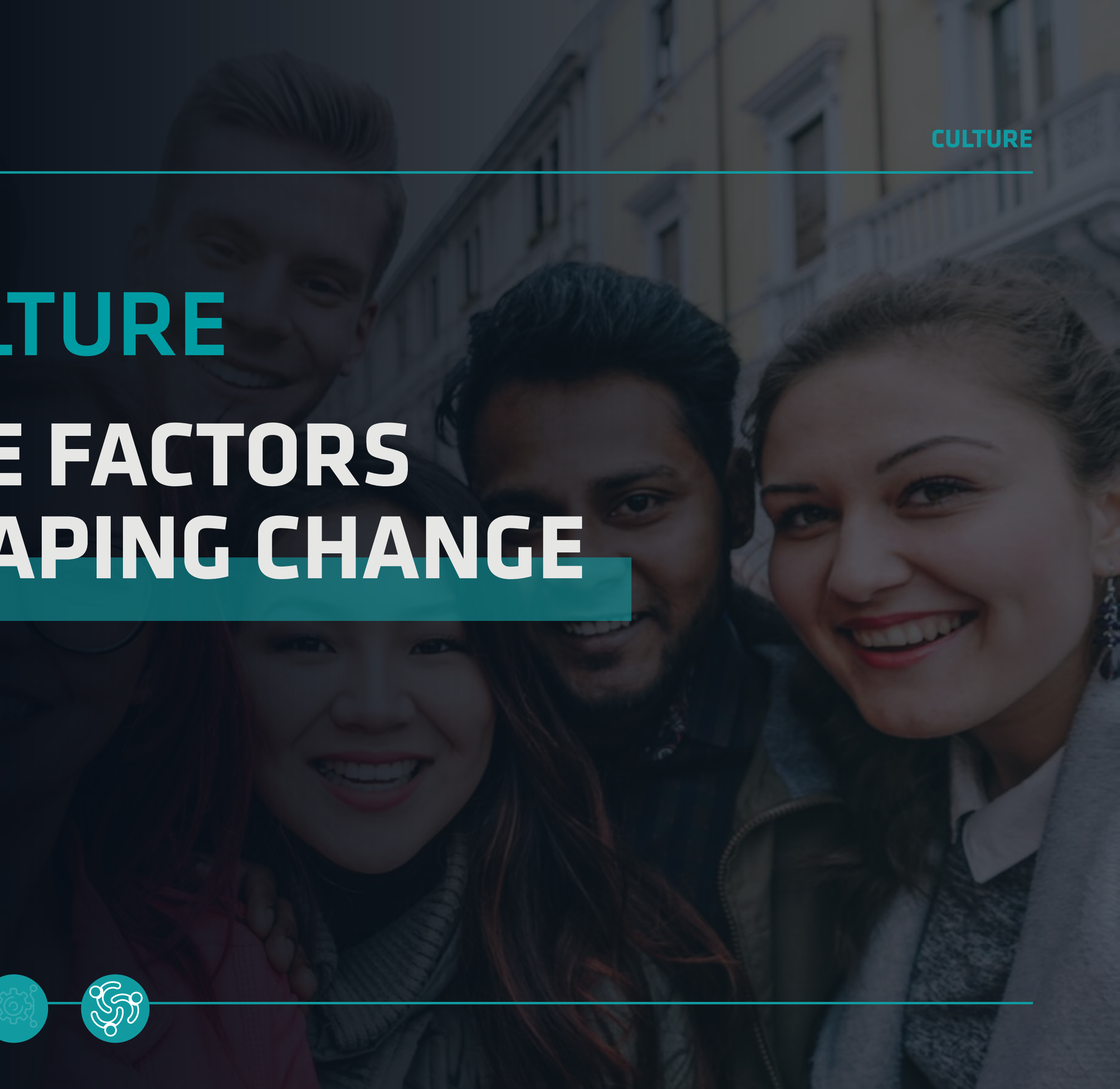
Subsequent analysis of the frequency of customer shopping trips and average purchase needs also led the company to introduce a new pack size (104 nappies).

INDUSTRY – WINNING STRATEGIES FOR RETAILERS AND BRANDS

- Seek out complementary partnerships to become more agile
- Prioritise online and digital at all stages of strategy development
- Digitise supply chains for additional flexibility and competitive advantage
- Build personal relationships with shoppers as a priority in a world of ecosystems
- Ensure physical retail touchpoints inspire shoppers, while data and analytics inform strategy and product development

CULTURE

THE FACTORS SHAPING CHANGE



INCLUSION AND DIVERSITY

With the Black Lives Matter (BLM) movement coming to the fore following George Floyd's death, 2020 will be remembered not only for coronavirus but also for the fight against racism and inequality.

Spurred by BLM and the strong, inclusive values of Gen Z, the conversation has progressed to the exploration of privileges and a call for solidarity, rich dialogue and commitment.

In June 2020, a mandate for change was signed by 29 UK business leaders, including those from Sainsbury's, Tesco, John Lewis and Marks & Spencer.

Inclusion and equal opportunities for everyone in society regardless of race, gender or sexual orientation has become a priority, with the weight of expectation on those in positions of power to actively bring about change.

Gender diversity and social mobility remain significant challenges for leading businesses, particularly in light of the growing income and social divides driven by the pandemic.

Companies will now be expected to report openly and publicly on their efforts and progress to end inequality.

Among senior retail leadership positions, white men hold 67% of the total roles in the US and 72% in both the UK and Europe

Retail units that are diverse and engaged have a 46% increase in comparable revenue

Companies in the top quartile for gender diversity on their executive teams are 21% more likely to have above-average profitability

Sources: Green Park The Retail Leadership 700; *RWRC and Google report* The True Value of Diversity, *June 2019*

Retail Week's Be Inspired programme began in 2016 with the goal of promoting diversity at all levels of retail and to encourage everyone, whoever they are and whatever their background, to fulfil their career aspirations.

Since then it has become a vast community of colleagues across the retail sector and now, more than ever, this sense of togetherness is what we need. **Find more resources here**.

INCLUSION AND DIVERSITY: STRATEGIC IMPLICATIONS FOR RETAIL

- Ethics and diversity matter to consumers now more than ever
- Culture and purpose will intrinsically link to innovation, customer engagement, loyalty and workforce productivity
- Brands and retailers must publicly demonstrate their commitment to change and report on progress
- Diversity and inclusion at board level is top priority
- Many companies are focused on diversity but not the key part of inclusion, which has led some to change semantics to 'belonging'
- To achieve change companies must embrace radical ideas, recognise unconscious bias, listen to employees and customers and set targets
- Marketing, product development and strategy will need to reflect the needs of everyone in society in all its diverse richness
- Shoppers will actively seek out ethical retailers
- Businesses owned by minority groups will seize the opportunity to make a real impact

Gap has committed to inclusion as a "business imperative"

Gap

Gap has pledged to double the representation of its Black and Latin American employees at all levels in its US head offices by 2025 to mirror its customers.

The company is putting a particular focus on to functions that make and market its product to ensure it is "creating for all, with all".

At the same time Gap has committed to being inclusive "as a business imperative" and invited former diversity strategist at Walmart Amber Cabral to give a series of talks for all employees.

INCLUSIVE, ETHICAL BRANDS WILL WIN

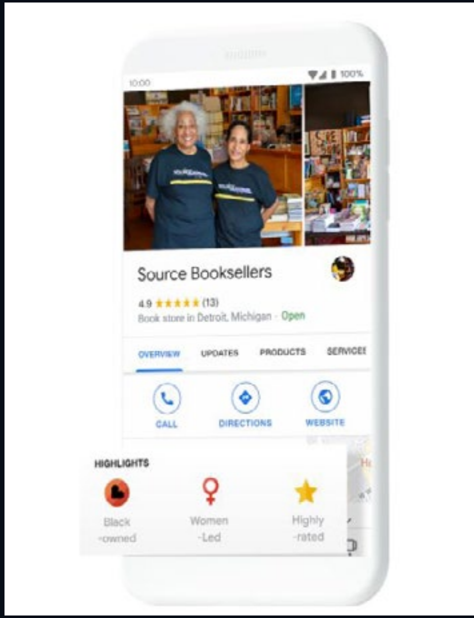
Sainsbury's

In October Sainsbury's announced it would be marking Black History Month, an annual observance of Black history and culture celebrated around the world.

In a tweet shared with half a million followers it expressed zero tolerance for racism and said "We proudly represent and serve our diverse society and anyone who does not want to shop with an inclusive retailer is welcome to shop elsewhere".

Being bold in driving change is a growing trend that we expect to see more of in 2021.

Sainsbury's zero-tolerance stance against racism



Google has made its search and maps more inclusive

Google

In the US Google is encouraging minority business owners to sign up for a verified business profile. By adding a Black-owned business attribute, businesses can make it easier for customers to find and support them through search and Google maps.

Additionally Google has pledged to train 50,000 Black-owned small businesses through its Google Digital Coaches programme.

CREATIVE SUSTAINABILITY

Conscious consumption is a trend that has accelerated ever since the pandemic, as we recognise the benefits of living a simpler lifestyle and minimising our impact on the planet.

Creativity, family and home pursuits have come to the fore.

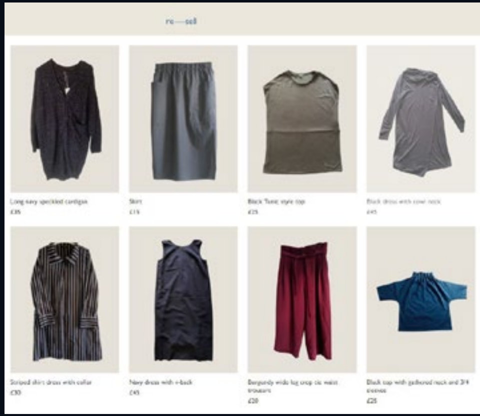
- We are focusing more on creative hobbies, cooking from scratch, reducing food waste and encouraging more sustainable diets
- There is a growing trend towards repairing, upcycling and reselling items to increase their lifetime value
- Gen Z is driving the move towards buying pre-loved and vintage items through resale platforms such as Depop

- The uptake of new hobbies and crafts is growing
- Conscious consumers are increasingly looking to brands and retailers for information on ethics and sustainability of their products
- Shoppers are seeking solutions to help them live more sustainable lifestyles
- Interest in sustainable lifestyles is widespread and is now higher in Bristol and Manchester than it is in London, with other smaller cities close behind

Depop
Depop combines Instagram-style content with influencers, blogs, video and social content to connect buyers and sellers. Some 90% of users are under 26. The platform has seen a 163% year-on-year rise in new sign-ups since April 2020, with items sold increasing by 300%.

CREATIVE SUSTAINABILITY: STRATEGIC IMPLICATIONS FOR RETAIL

- Retailers and brands will seek ways to extend customer lifetime values through circular business models such as rentals, repairs and multiple garment lifecycles
- Item resale will become a growing trend to promote longevity and brand value
- Partnerships with rental companies, repair experts and peer-to-peer platforms will help retailers understand the dynamics of the fast-growing circular economy
- Customers will seek out creative tutorials on hobbies and crafts, repairing and upcycling, and recipes to minimise food waste
- On-demand production and data-driven forecasting will help make businesses more sustainable and reduce unsold stock



H&M recently launched a resell platform for its London-based Cos brand

H&M

As a move towards becoming "fully circular and renewable" H&M is putting sustainability at the heart of its business.

Recently it launched a resell platform for its London-based Cos brand, allowing customers in the UK and Germany to buy and sell pre-loved items.

The company also developed a cutting-edge "garment-to-garment recycling system" known as Looop, which will shred old clothes and spin them into new ones. This is soon to launch at its flagship in Stockholm and will no doubt engage customers and add retail theatre.

H&M has ramped up its focus on circular strategies in recent years, having launched initiatives in rental, repair and recommerce.

In 2019 the company became the majority owner of Swedish recommerce platform Sellpy.

> We work to ensure that sustainability is integrated into all aspects of our business – it should pervade everything that we do, all the decisions we make and the everyday work of all our employees

Karl-Johan Persson, chairman, **H&M Group**

CREATIVE SUSTAINABILITY: CIRCULAR BUSINESS MODELS

Nespresso

Sustainability has been at the heart of Nespresso's practice since the early 2000s. It has four key pillars: sustainable sourcing through a partnership with the Rainforest Alliance, recyclable aluminium pods, a Pure programme committed to planting trees and limiting waste water, and clear internal and external messaging.

Since its coffee pods cannot be recycled in household waste, Nespresso now has more than 7,000 collection points across the UK, as well as recycling stations in each of its 57 boutique stores.

To raise awareness of the benefits of recycling the pods and how easy it is to do, the company has used storytelling – for example, working with Swedish brand Vélosophy to create fully functional bicycles out of the aluminium pods.

Selfridges puts resell and repair at the heart of its strategy

Nespresso has four key pillars to its sustainability strategy

Selfridges

Department store group Selfridges launched an eight-week Project Earth campaign in August, to highlight its commitment to change the way people shop by 2025.

The company wants to become "synonymous with circularity" with a focus on repair, resell, refill and rental.

Selfridges put a spotlight on to its sustainable and organic assortment, and launched a rental partnership with Hurr as well as a repair concierge at its London store.

In the supply chain the retailer has partnered with 300 brands including Barbour and Levi's to help it achieve net zero carbon by 2050.

DECISION SIMPLICITY

As we navigate so much uncertainty and change in our lives, consumers are suffering from growing levels of anxiety, depression and burnout. Worries over work, finance, health and the news are making us feel stressed and uneasy.

Increasingly, consumers are looking for a break from this anxiety and the opportunity to switch off.

- As people prioritise simplicity and stability in their lives, they are looking for products and experiences that give them comfort and make them feel good – from personal care to comfortable loungewear, home products, entertainment and small luxuries
- To cut through the many confusing messages they are looking to those they can trust to make them feel happy and simplify their choices
- Brands and retailers can help with this, by showing customers that they know them and gaining trust with personalised messaging and curated content

Levels of mental distress in the UK population rose from 19% in 2018-19 to 27% in April 2020

Source: The Lancet

60% of adults say their mental health got worse during lockdown, with BAME groups most impacted by worries over employment, health and finance

Source: Mind

John Lewis: Consumers are looking for products that bring comfort

DECISION SIMPLICITY: STRATEGIC IMPLICATIONS FOR RETAIL

- Consumers will seek out products that simplify their lives and make them feel good – food, recipe boxes, entertainment, craft, home improvement and beauty luxuries
- Brands should present simpler curated experiences and choices
- Customers will value a single, seamless omnichannel experience
- Personalised interactions and incentives will show customers that retailers 'know' them and that they are making the right choice
- Rapid fulfilment will make choice easier, by catering to impulse spend
- Despite their limited online presence, the simpler ranges of grocery discounters will continue to tempt consumers, as well as the 'treasure hunt' middle-aisle experience

Gousto has expanded its services as demand for recipe boxes grows

Gousto

In line with growing demand for online grocery, recipe-box services have soared in popularity since the coronavirus pandemic.

Gousto will open a second UK picking facility this year and is introducing next-day delivery for customers who find it more difficult to plan ahead.

The company also plans to broaden its range of 50 recipes and has introduced the ability for customers to tailor existing recipes based on preferences and dietary requirements.

COMMUNITY AND TOGETHERNESS

Since the pandemic, consumers have been spending more time close to home, but also more time alone.

Living with restrictions has taught us to be more appreciative of where we live, our family, friends and the interaction of spending quality time together.

The pandemic has also taught us kindness and of the need to prioritise vulnerable groups within our society.

During this difficult period we came together in our support for key workers and were sustained by local services – independent retail, our local high streets and communities.

- Now that consumers are continuing to spend more time close to home and with shifts in working patterns it will be critical to find new ways to connect
- We can expect a renewed focus on togetherness and community and also that people will seek new ways to connect with one another, to support their own mental health and that of others
- There will be a focus on efforts to bring people closer together where they live
- Being a brand and retailer with purpose will mean helping local communities come together and appreciating the things that they care about

COMMUNITY AND TOGETHERNESS: STRATEGIC IMPLICATIONS FOR RETAIL

- Consumers will increasingly support brands with purpose
- Stores need to reflect and support the communities that they serve
- Doing good and bringing people together needs to become a philosophy within businesses, which in turn will lead to greater loyalty
- Retailers can facilitate local initiatives such as peer-to-peer commerce, food donations and support groups to help their local communities
- Relevant independent and local businesses will strengthen as the result of increased shopper loyalty and drive footfall to local high streets
- Peer-to-peer commerce will grow
- Doing good will be good for business

The Co-op has increased its community donations

The Co-op

The Co-op is a retailer with convenience stores at the heart of the community. Like-for-like sales jumped 8% in the first six months of 2020 as consumers shopped closer to home and Co-op's grocery market share reached 7.2% in July, the highest it has been for two decades.

In October the Co-op unveiled an updated membership scheme, overhauling rewards on purchases to double the funds going to community groups.

Although shoppers now receive less cashback on their purchases, the scheme has introduced more personalised offers.

The Co-op also supports the communities it serves through its Co-operate platform, which helps people to find things to do in their area, connects those that need or want to offer support with shopping and provides an online community centre-style platform for local groups.

OUR WINNING STRATEGIES FOR 2021

- **Be a relevant brand by adapting to and anticipating evolving consumer behaviour across all channels**
- **Leverage partnerships to become more agile and drive innovation to survive**
- **Invest for sustainable, long-term growth and profit rather than short-term gain**
- **Develop a single view of the customer and build authentic, trusted communities**
- **Become a sustainable brand with purpose**

For more information on this report or to find out how Retail Week can provide additional insight and analysis to your business, contact Lisa Byfield-Green, head of insight – lisa.byfield-green@retail-week.com

RWRC

RETAIL **HORIZON**

2021