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January 2021

RetailWeek

BY ASCENTIAL

The great retail reset

Why 2021 is the year the industry will change forever

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Boohoo on making Debenhams an online force

IPO rush – which retailers will whet investor appetite?

RetailWeek

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

EDITOR'S COMMENT

Luke Tugby

Sunak must act now to save our high streets

"The end is in sight," Rishi Sunak declared earlier this month as he set out a new package of measures to support businesses through the latest painful phase of the coronavirus crisis – a third national lockdown.

His words, for many companies, are far closer to the bone than the chancellor would have intended.

For dozens of businesses, the "end" will not be the conclusion of their Covid-19 nightmare and the start of a new beginning. Instead, it will be the end of their very existence, the end of the jobs and livelihoods they support, and the end of the role they play on our high streets.

Sunak has the power to turn the tide and help all businesses secure a future beyond the pandemic. The measures he announced were welcome, but simply will not be enough to achieve that.

As if a reminder of the plight facing many non-essential retailers was needed, Paperchase provided it. Barely an hour after Sunak's announcement, it emerged that the stationery specialist had filed a notice of intention to appoint administrators from PwC.

Paperchase has been handed a possible lifeline in a pre-pack administration deal, but there will be other retail casualties in 2021 unless Sunak acts fast with greater financial clout and provides a more detailed vision of the government's plan to help businesses navigate this year.

The £4.6bn of additional support he revealed for retail, hospitality and leisure businesses forced to close during lockdown will hand physical operators grants worth up to £9,000 per premises, depending on each property's rateable value. Local councils will receive £594m to support companies in their area that are not eligible for the new payments to help them through to spring.

It is another short-term solution from the Treasury rather than a long-term plan – perhaps unsurprising from a government that has lurched from lockdown to lockdown, learning few lessons. Persistent calls for business rates relief to be extended throughout the whole of 2021 to fend off what the CBI described as an April "cliff edge" have been ignored. There is still no update on the progress of the "fundamental review" of that tax, promised by the government last March.

Although the furlough scheme has been extended to April, many business leaders want this to be made available until the summer. There has been growing clamour among business groups for the temporary cut in VAT to be prolonged too.

But perhaps more importantly, retailers and other high street operators need a sense of clarity. They need sight of the government's long-term roadmap for business support so they can plan accordingly, shift their strategies and cost bases if required and, ultimately, give themselves the best possible chance of survival.

Sunak has done nothing to dispel retailers' fears or paint a clearer picture of the future

Several retailers told me in December their biggest challenge heading into Christmas and 2021 was "uncertainty". Sunak's latest measures have done nothing to dispel those fears or paint a clearer picture of the future.

The BRC estimates non-essential retailers will suffer £2bn a week in lost sales during this third lockdown. Research from the Office for National Statistics has warned half of all hospitality businesses in the UK – 37,500 pubs and 27,000 restaurants are now closed across the country – do not have sufficient cash in the bank to make it through February. Just one in five businesses in that sector were confident they could survive beyond March without greater support.

Sunak says his budget in early March will offer the government a chance to "take stock of our wider support and set out the next stage in our economic response".

Some businesses cannot afford to wait. Act now and act decisively, chancellor. The vibrancy and vitality of our high streets depend on it. RW

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DEEP DIVE

2021: The great retail reset

How we live, work and shop has changed. 2021 is the year the retail industry will fundamentally change, too.
By George MacDonald

A new market – what will the world look like in 2021?

The new year has not got off to the start that anyone would have wanted. A new lockdown is underway and months of restrictions loom.

But as much as it seems like 2020's annus horribilis is set to continue, there is light at the end of the tunnel as a vaccination programme begins. So far, more than 2 million people in the UK have been vaccinated, putting it behind only Israel and Bahrain on a per capita basis.

Prime minister Boris Johnson aims to vaccinate the most vulnerable, totalling around 13 million, by the middle of February. That would signal a realistic prospect of a return to more normal life and a wider reopening of retail.

Both the industry and the world were turned upside down in 2020 as the Covid-19 pandemic erupted. The aftershocks to lives and the economy are likely to be felt for years to come but, as 2021 begins, a bounceback looks within grasp. However, it will not be shared equally among companies.

Bain & Company partner and retail specialist Jonathon Ringer says: "It's not going to apply consistently. I wouldn't mistake some positive news for a general recovery or return to normal. Some of the changes of the last 12 months are going to be forever – some of the channel shift and how people work is here to stay."

The national economy is not expected to return to the levels it reached before the health emergency until at least late this year – that is the Office for Budget Responsibility (OBR) upside scenario. Its central scenario envisages real GDP will recover at the end of 2022.

However, after a year when many stores deemed 'non-essential' were shut for months at a time, retail sales are expected to begin ticking up later in 2021, even as other industries continue to suffer.

The Centre for Retail Research estimates that in 2021 total retail sales – in-store and online – will advance 2.5% by value. This compares to an estimated 4.8% fall last year.

The centre's professor Joshua Bamfield has factored in two lockdowns, or partial lockdowns, in the first half, in which case growth would be backweighted to the second half.

M&S chair and Asda saviour Archie Norman is optimistic about prospects for 2021, particularly when restrictions begin to ease.

He says: "I'm not saying everything's going to be glorious, but I think [2021] will surprise people. Notwithstanding the economic outlook, we'll be coming back from being locked away."

Morrisons chair Andy Higginson, a former Tesco executive and ex-chair of N Brown and Poundland, also expects improvement across the year. He observes wryly: "Given a large part of the industry has been closed, I think bounceback is inevitable. Compared with being closed, it will look good."

Consumers seem to think the same. The latest GfK confidence data showed a seven-point leap in confidence as the Covid vaccination programme got underway in December. However, the start of the third lockdown in England may have derailed this.

Divided Britain

Even so, Higginson points out: "The big unknown is how different customer groups will react coming out the other side."

General changes to behaviour aside, the pandemic has left Britain a polarised society when it comes to money.

Economic forecaster CEBR reported in December that side-effects of the pandemic, such as less commuting and restrictions on hospitality and entertainment, meant that households were expected to have saved £197bn – or £7,100 per household. But set against that is the large number of people who have lost their jobs or been furloughed and whose income is consequently under pressure.

The unemployment rate hit almost 5% in the three months to October, according to the Office for National Statistics (ONS). Over the course of the pandemic, the number of people on UK payrolls has fallen by 819,000.

The OBR estimates unemployment will peak at 7.5% in the middle of 2021, which represents about 2.6 million people out of work – up from 4% pre-pandemic.

"It's a bipolar economy," says Norman. "Some people are losing their jobs, but for salaried Britain it's not so bad."

That polarisation is also evident in where people are spending their money. During the pandemic, value giant B&M posted like-for-like growth of 23% in its first half and a 122% surge in profits. At the other end of the scale, Watches of Switzerland upped its sales and profit guidance at the end of December.

Norman believes that the salaried are likely to start turning on the spending tap more in the spring as the vaccination programme starts to have an effect.

Assuming aspects of life quashed during the pandemic, such as family visits, weddings, sports and entertainment, start to return he

McKinsey & Company partner and head of apparel, fashion and luxury Anita Balchandani says: "Hybrid working has become the norm for as many people as can be allowed."

That means some local shopping locations people can drive to such as retail parks, which have shown resilience during the pandemic, are likely to continue to do well.

Retail Economics founder Richard Lim observes that the working from home "structural change in the labour market" will also support localised economies.

More time at home will also continue to influence spending behaviour. While home goods and electricals retailers, such as B&Q and Dixons Carphone, have done well already from those working at home, fashion buying habits are likely now to change.

Balchandani says: "We'll start to see some paths to normalisation. If you think about the shifts in fashion, for instance, the recovery has been in areas like athleisure and comfort. Comfort will remain important, but people will want to inject more glamour. For those days out, people will invest in standing out."

Online growth

One of the main places people shopped last year was from the comfort of their own sofas.

Online sales rocketed during the pandemic, evident in Christmas updates from retailers ranging from Next to Sainsbury's, and attracting many new shoppers as well as a greater proportion of spend. And online shopping became a new pastime during the pandemic, says Balchandani.

The clock will not turn back on that shift. As 2020 drew to an end, the ONS reported that ecommerce sales grew 74.7% year on year in November as England was plunged into another lockdown, accounting for a third of total retail spend.

Higginson says: "Having got used to the convenience of home delivery and click and collect, I think it will continue."

How retailers are adapting

This very different landscape and consumer has required retailers to rapidly change or accelerate their strategies. This was clearly evident as the pandemic hit and is set to spur more investment and strategic reprioritisation in 2021.

Omnichannel investment

Take the shift to online, which led many retailers to rapidly add capacity to their ecommerce operations.

Recalling the closure of non-essential stores during the first lockdown, Norman says lessons were learned that will be applicable in 2021. "M&S was suddenly a pureplay and that made you think: 'Bloody hell, we can do things differently now'."

The retailer has since launched MS2, an internal division at its fashion and home arm with the freedom to think and act like a pureplay. Initiatives include the development

It's a bipolar economy. Some people are losing their jobs, but for salaried Britain it's not so bad

Archie Norman, Marks & Spencer

hopes "people will open their wardrobes and sigh: 'Oh God, I can't wear that again'".

The Very Group chief executive Henry Birch agrees fashion will see a fillip in 2021: "Once nationwide vaccinations are underway, I would expect fashion to perform really strongly. There will be pent-up demand and high levels of savings among many consumers, who will be keen to resume normal life, go out and go on holiday."

Higginson says: "We're likely to see higher unemployment and there's the potential economic shock of Brexit. On the other hand, people are talking about the 'Roaring Twenties' and a live-for-the-moment attitude."

Changing lifestyles

As well as wealth disparity, the Covid-19 outbreak has brought with it radical changes to travel habits and working routines, which will also affect how retail fares.

Air travel has slumped as holidays were cancelled and business trips put on ice, while the use of public transport plummeted as people worked from home.

Neither is likely to return to former levels soon. In the first week of January, coach operator National Express suspended all UK journeys until March. This has hit travel hub retailers such as WHSmith, as well as the travel divisions of retailers such as Dixons Carphone and convenience chains in train stations.

Bain's Ringer believes airports could, assuming Covid is successfully combated, benefit from pent-up demand for a "big summer of holidays and travel", but nevertheless cautions: "Travel numbers don't tend to come back quickly. You tend to think of them as tourist-driven, but it's often business travel – a lot of people will not be doing that any more."

Home truths

Perhaps the deepest shift, though, will result from continued working from home. Few expect the office to ever play the same part in business life that it did in the past.

DEEP DIVE

of "a new click-and-collect and digital sales experience" being piloted in five stores through to greater capacity and operational improvements at the Castle Donington ecommerce distribution centre.

Changes so far also include, for the first time, the introduction of third-party brands, such as Early Learning Centre, on its website as it complements its own offer with a marketplace-style approach.

Others have shifted in a similar direction in pursuit of an omnichannel model. Department store group John Lewis said in July: "Shops will always be crucial to the brand, but they will be in support of online."

Meanwhile, B&Q owner Kingfisher said it is "placing stores at the centre of our ecommerce proposition" as it ramped up order picking in-store, click and collect and fast delivery.

A review of stores

Questions have therefore been raised once again about the role of stores in the future.

Higginson observes: "The challenge food retailers had is writ large now in other sectors. If you skim, for the sake of argument,12% to 14% of sales off stores it really messes up your economics."

However, there are signs that the economics of stores and online are changing. The travails of retail and the collapse of big names such as Arcadia means the retail property environment is changing as valuations fall and turnover-based rents become more common.

Despite the possibility of improving store economics, 2021 is likely to bring reviews of retailers' estates.

Retail Economics calculated before the pandemic that there were 20% too many stores. The momentum of online growth is likely to pile further pressure on bricks-and-mortar retail and precipitate more closures.

In Korn Ferry's survey of 40 retail chairs, 83% said they are looking to reduce store numbers as a result of Covid-19.

Former Co-op boss Richard Pennycook, now chair of joinery business Howdens, commented: "Pre-Covid, retailers with bricks-and-mortar stores were clinging on to last week's sales and needing to justify to their owners if like for likes were down 3%. That's all gone now; they have to reset their businesses completely.

"They don't have to worry about whether to close a few shops; it is whether they will ever reopen those 150 underperforming stores."

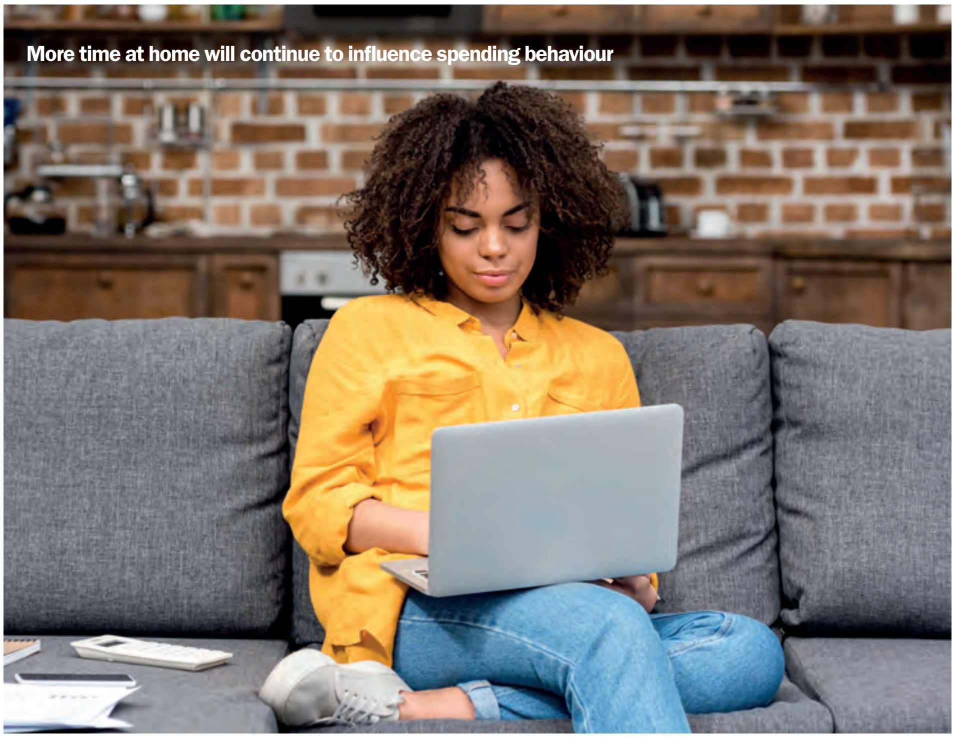
Meanwhile, Angus Porter, chair of McColl's, said: "We have 1,500 stores today, with a plan to exit 200 to 300 small ones when leases expire."

Even Next, a big believer in the importance of stores, has become gloomier about their outlook as shoppers switch their spend online. In its Christmas trading update, the retailer predicted a decline in its in-store sales in future, putting into question the status of some of its stores.

Over the nine weeks to December 26, Next's store sales plummeted 43% year on year, while online jumped 38%. Next said: "In previous years, we assumed that store sales would decline for one more year and remain flat thereafter.

"We now believe this is overly optimistic and we are forecasting annual like-for-like sales declines for the foreseeable future. So we are now providing for store-level losses in shops that we believe will become unprofitable at any point up to the end of their leases."

However, Lim says there are some positives when it comes to the future of stores."There is still overcapacity because of the shift online, but I do think the economics of running stores is rebalancing."


More time at home will continue to influence spending behaviour

The restructuring of the retail property landscape is opening the door to new ways of measuring store performance, such as new customer acquisition and marketing contribution.

He says: "As retail property goes through this painful readjustment, the economics will change and how you measure the value of stores will evolve."

Balchandani adds: "One of the most exciting things we have seen is boundaries between online and offline breaking down and becoming more integrated – focusing on 'What does the customer want?'"

One example might be Dixons Carphone, for instance, which upped its omnichannel capabilities by launching ShopLive, a video advice and sales service connecting customers with in-store advisors.

Dixons Carphone boss Alex Baldock says the service enables colleagues to serve customers anywhere and, as it becomes established, will allow them to better sell associated services, which will enhance online margin. "It makes the store and the store colleague more viable economically," he maintains.

Bain's Ringer says winners will have strong digital and omnichannel capabilities. "They'll be highly flexible and have learned about agility during the crisis," he explains.

Many have told him that, during the pandemic, the inertia that sometimes plagued earlier attempts to pivot evaporated.

A tech-powered workforce

The same adaptability was evident at businesses such as John Lewis and M&S when the pandemic was at its height, as non-food staff transferred to roles supporting online, distribution and grocery divisions.

In 2021, their roles are likely to evolve further as technology brings more change.

"We'll see a rising role for automation and technology to simplify and take out non-value-adding to focus on the customer," says Balchandani.

Ringer says: "The big lever will be how to use data and analytics and technology to fuel efficiency gains. We all know the vast majority of cost is tied up in stores. How do we make them more efficient without making them less attractive to customers? That's the million-dollar question."

As retail property goes through this painful readjustment, how you measure the value of stores will evolve
Richard Lim, Retail Economics

For Norman, this is on the agenda as new forms of in-store technology become viable. He says: "The integration of stores and digital is becoming reality."

That is likely to mean the ability to recognise individual customers when they come into the shop; new payment systems enabling customers to, for instance, buy simply on their phones in store and leave without queuing; and enhanced click and collect through automation – from label-printing to guiding people to where a product is located.

A different-looking industry emerges

Such operational changes are likely to be played out against a reset of the bigger retail picture, too. Old, once venerable, names such as Topshop owner Arcadia and Debenhams have hit the wall as the Covid outbreak exacerbated their existing problems. At the same time, newer retailers have powered forward.

At the start of last year, Boohoo's market capitalisation overtook that of M&S as its online star rose. In the autumn, The Hut Group, owner of online stores such as Lookfantastic and MyProtein, floated with a valuation of £4.5bn. Such developments are representative in Ringer's words of "a reshuffling of the deck" and may open the door to further consolidation.

Investec retail analyst Kate Calvert also predicts market consolidation will continue as more distressed retailers fall into administration. "M&A opportunities will come up, with some players looking to acquire brands and attractive customer bases," she says.

There is already evidence of that. M&S has snapped up heritage fashion brand Jaeger out of administration, Frasers Group tycoon Mike Ashley is eyeing up Debenhams and Arcadia, and Boohoo is flirting with buying Topshop.

Norman says: "It's sad to see great names disappear, but it's also a healthy thing. It was as if the dead never die, like a bad horror movie. What Covid has done is put them to rest. That's blown the cobwebs away and made even the survivors realise that survival is not assured."

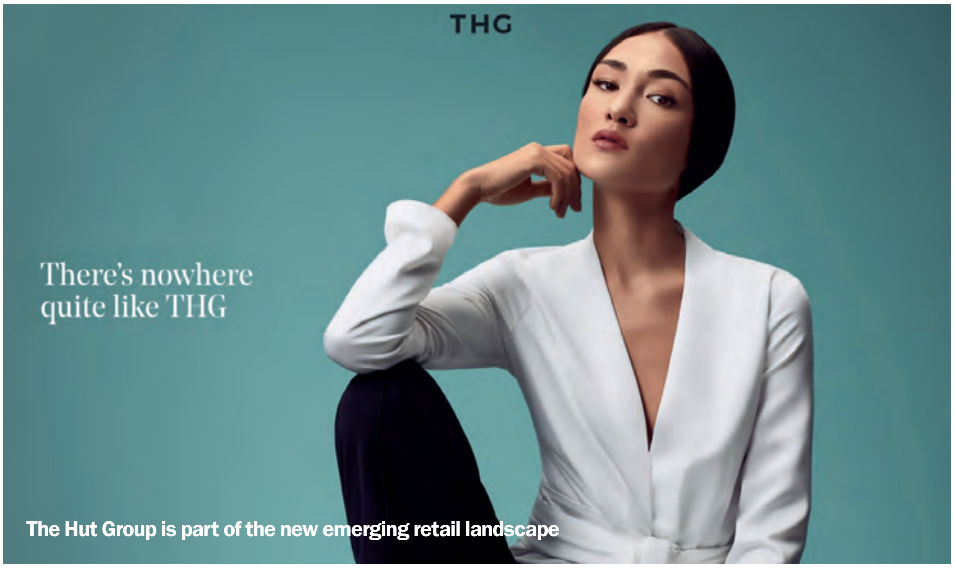
He, too, believes there will be consolidation and sees new players emerging. "There are a lot of brands below the parapet. Retail is the anthill of entrepreneurship – there's always lots going on that you can't see and out of that you'll see new things pop up.

"The catharsis of Covid has opened the doors for new entrepreneurial models. We shouldn't kid ourselves retail is about last man standing."

However, Calvert believes those who survived 2020 will be presented with an opportunity to boost market share, given the amount of capacity freed up through the administrations of many high-profile brands and CVAs.

Building back better

Other deep changes to the retail landscape are likely to gather pace and urgency, such as the increasing importance attached to sustainability and ethics and the future of the high street.



The Hut Group is part of the new emerging retail landscape

A reset on the former is already underway. In November, the British Retail Consortium unveiled its climate action roadmap, with the ambition that the industry should be carbon net-zero by 2040.

It was backed by leading businesses such as Aldi, Asda, Asos, Boots, Greggs, Ikea, M&S, Morrisons, Next, TK Maxx and WHSmith.

It comes as scrutiny intensifies on the sustainability of the retail industry. Last month, Boohoo co-founder and executive chair Mahmud Kamani appeared before Parliament's Environmental Audit Committee over poor factory conditions and wages in Leicester.

Balchandani says: "Sustainability was a trend before the pandemic and it's broadened into workers' rights. A sense of fairness and justice has accelerated.

"It will need to be even more front and centre for retailers when you look at the next generation of consumers, and investors are backing businesses with a strong track record."

John Lewis executive director Pippa Wicks says: "Our customers have re-evaluated what's important to them, including looking for more sustainable ways of living. When we asked a sample about their priorities in the summer, a third highlighted the importance of being able to demonstrate the ethical credentials of the product they were purchasing."

The retailer has already launched a furniture rental scheme and plans to develop "further rental and resale options" for customers. By 2025 it intends to offer "a 'buy back' or 'take back' solution for all categories.

The big unknowns

The fate of high streets is still uncertain. Ringer fears store closures may lead to "contagion" as empty premises hit the trading of retailers nearby.

Higginson thinks that the government must reform business rates and property owners need to move faster.

He says: "The truth is the high street needs to reinvent itself. Rent and rates need to be linked to the success of the venture. Landlords need

> **A sense of fairness has accelerated. It will need to be even more front and centre when you look at the next generation of consumers**
> **Anita Balchandani, McKinsey & Company**

to be part of the solution, rather than being dragged kicking and screaming through CVAs, and fundamentals will need to be addressed for physical retail to survive in a viable way."

An obvious cloud on the horizon – although perhaps not as dark a one as feared – is Brexit. While a deal has been struck between the UK and the EU, some disruption is inevitable.

At the micro level of operations and business models, and the macro level of economic and social policy, change is on the agenda in 2021.

Norman argues: "We've been through massive disruption, but it's been an acceleration, not a break with the past."

Higginson says: "In all my time in retail, convenience has been the single biggest driver."

That applies, he says, both to the growth of c-stores and hypermarkets in earlier years and to the rise of online home delivery and click and collect today. Success as the effects of the pandemic unwind will therefore depend on new answers to perennial questions.

In 2020, Covid brought many retail casualties, as well as human ones. But for the retail survivors, this year – despite its inauspicious start – brings the chance to reset to a changed world. The winners will be rewarded with pent-up spend and be able to build businesses attuned to the future. RW

NEED TO KNOW

Boohoo's plan to make Debenhams a force again

In news that took the sector by surprise, Boohoo has acquired the intellectual property assets of struggling department store Debenhams for £55m – but what does the fashion etailer plan to do with the business? By **Rosie Shepard**

John Lyttle

Since Debenhams fell into 'light touch' administration last April, several interested parties including JD Sports and Sports Direct have mulled a rescue bid for the department store chain. But, until now, no deal to save the business has been reached.

Boohoo's eleventh-hour acquisition of the Debenhams brand, while surprising, is a bold strategic move that will see the etail giant scale up its ecommerce ambitions and expand into new categories and ways of operating.

Boohoo has acquired the brand and website, leaving Debenhams' 116 stores and 12,000 colleagues out in the cold, but giving Boohoo ample opportunity to rebuild the business on new foundations that will set it up for online success.

Marketplace magic

Chief executive John Lyttle tells Retail Week that Boohoo is gearing up for a relaunch of Debenhams online as soon as late March, which he says opens up a "new chapter" for both Boohoo and Debenhams.

"What attracted us to Debenhams was that we talked internally previously about a marketplace," explains Lyttle.

"At the moment, all of our brands had operated as independent websites selling directly to the consumer, but the marketplace opportunity for our nine brands to be sold together was interesting.

"It's a different approach for the Boohoo group, but another clear step in our journey of growing in the fashion online business."

The new marketplace will host all of Debenhams own-brands, third-party sellers and the entire ranges of each of Boohoo's existing nine brands.

Boohoo pointed to the strength of Debenhams' brand online as a key motivation for its acquisition of the business' intellectual property – with 300 million website visits a year, its current ecommerce platform is in the top 10 most popular retail websites in the UK.

The department store retailer also has a substantial hold on the beauty sector, boasting 6 million beauty shoppers a year across its stores and online and 1.4 million Beauty Club members.

Boohoo plans to leverage Debenhams' access to premium beauty brands to make its first foray into the sector at scale, alongside launching into homewares and sporting good categories – both of which have soared during the pandemic.

The retailer has agreed a transitional deal within which Debenhams can trade the stock from its stores once they reopen, before Boohoo launches its online marketplace in the first quarter of its next financial year.

Restyling own-brand fashion

While Boohoo will be able to add Debenhams' own brands such as Principles and Mantaray to its portfolio, Lyttle says the bigger opportunity lies in new categories to create a marketplace model, much like Next or Asos.

The new platform will feature a host of third-party brands alongside Boohoo and Debenhams' own offerings creating a one-stop-shop for fashion, beauty, homewares and sports.

Boohoo believes the marketplace will be a "capital-light and low-risk" model with the brands in control of their own inventory.

Lyttle also explains that Boohoo was attracted to Debenhams' beauty arm and own-label fashion brands, the latter of which he is confident the business can reinvigorate in a similar way to previous acquisitions Karen Millen and Coast.

"Like other brands we've bought, we think they can give a better fashion offering," says Lyttle.

"You look at Principles, Mantaray and Faith and you think it's lost its fashionability and its target customer. Equally we think, from a marketing point of view, it hasn't been connecting with its customers as well as what it should be. Clearly those brands will now be online-only, so without the limitations of store size we can offer a much wider range."

Lyttle also says the retailer is looking to expand Debenhams' beauty offer with third-party brands as well as the potential to create its own labels.

In homewares – a popular category in lockdown – Boohoo is also looking to build on Debenhams base and add "fashionability", with the potential to extend the ranges to its own brands.

PrettyLittleThing, for example, launched a successful homewares edit last year, which Lyttle is hoping to extend.

Will beauty brands bite?

While an adjacent beauty offer is likely to resonate with Boohoo's core customer, Shore Capital analyst Greg Lawless has some concerns about the appeal of Debenhams' premium brands to the fashion etailer's existing audience, as well as whether such brands will agree to be online-only.

"With beauty, the big risk will be whether international beauty brands – Estée Lauder, Clinique and Chanel – will want to be online-only, which I don't think they do. If they were to do that, would they choose Boohoo [to partner with]?" he asks.

Perhaps in a bid to keep existing beauty brands onside, Lyttle says Boohoo will keep Debenhams' existing head office beauty team, as well as building up Boohoo's expertise in the category in-house with new recruits.

"A lot of the head office teams were made redundant last summer and over the last couple of months so there's only a very small team left, and many of them will be associated with running stores or warehouses," Lyttle explains.

Boohoo founder Mahmud Kamani calls the acquistition a ‘transformational deal for the group’

Boohoo will not keep Debenhams’ 116 stores

“We will be looking to recruit some people [from Debenhams], the beauty team for example, and then we’ll be looking to build out those teams.”

Boohoo has a matter of months to relaunch Debenhams as a marketplace if it is to keep to its self-imposed deadline but Lyttle is confident the retailer will be able to do so.

“What we’ve done previously when we’ve acquired these other brands has been that relatively soon after acquisition, we relaunch the brand as a soft launch and then we rebuild by brand, day by day, marketing the site in different ways such as influencers,” he says.

While Boohoo’s plans may carry risks, the acquisition of Debenhams marks an important development in its future growth opportunities, as it looks to take advantage of the online shift seen in the past year to take its business to new heights.

What chair and founder Mahmud Kamani called as a “transformational deal for the group” will leave a hole in the high street that will shake up the sector and send an already soaring retailer to new heights. RW

NEED TO KNOW

John Bason

People want to get through this... back to having holidays, mixing with people. And guess what? People want to shop at Primark again
John Bason, ABF

Sell online? Not likely, insists Primark finance chief

Despite the threat of £1bn in lost sales, ABF finance director John Bason is adamant the fashion giant's analogue model is still the right one. **George MacDonald** reports

As sales were decimated and shoppers flocked online during lockdown, many might think Primark would reconsider whether to trade online – far from it.

After it was forced to close its doors to the public for the third time just before Christmas, hard on the heels of the November lockdown, Primark recorded a sales decline of 30% year on year in the four months to December 31.

In total, the retailer has estimated a potential loss of sales totalling £1.05bn in its first half to February 27, assuming its stores remain closed until then.

If stores continue to be shuttered until the end of March, Primark has estimated a further £800m worth of lost sales and a reduction in profit contribution of £300m.

Despite the pain, Primark parent ABF's finance director John Bason is supremely confident that Primark's unique bricks-and-mortar proposition remains fit for the future and there is no need to sell online.

He told Retail Week: "We've been through two lockdowns and we've seen Primark come back strongly after both of them.

"Although like-for-likes of -14% in normal times would not be seen as good, it reflects lower spend in apparel and accessories overall, and when we do come back, [the experience of previous lockdowns is] our market share is rock-solid.

"There's been a shift online in apparel, but its almost like we're not affected by it – it's going on around us. If anything, the lockdowns have really emphasised the value of what we offer.

"We've got a fantastic offer and prices that nobody else can touch online or offline, and that's why people come back to us."

Bason highlighted the lack of redundancies at Primark, in contrast to some of its high street competitors, as evidence of its continued strength.

He said: "We will reopen, and whenever that time is – and it looks like it's going to be a year on from when we first closed – we will have been through three major lockdowns and still have the same employee base, and we will have opened new stores.

"When stores are closed, you lose sales and, absolutely, it's horrible. The damage is £1bn of lost sales and I don't like it, but that's as far as that goes.

"Are these lockdowns telling us that our business model is impaired and we're in crisis mode and it's getting worse?" The answer, he is confident, is no.

"People want to get through this. The vaccination programme is building and people will want to go back to having holidays, mixing with people. And guess what? People will want to shop at Primark again," Bason added.

Yes, it's painful, but it's not like we're going to lose sales forever
John Bason, ABF

City analysts appear to agree that Primark will prove itself resilient enough to weather the storm without an online offering.

RBC Europe analyst Richard Chamberlain said: "We expect ABF's largest business, Primark, to drive further share gains post-stores reopening with its compelling price points.

"Although it lacks a transactional digital offer, we think its prices act as a barrier to entry versus online competitors and we see an opportunity for it to accelerate US expansion."

Jefferies analyst James Grzinic observed: "Primark retains its ability to recover sales extraordinarily quickly once restrictions subside."

Bason also questioned the economics of selling online at Primark's low price points. He believed no retailer would be able to make a profit on the same basis, which is testament to the highly honed efficiency of the Primark bricks-and-mortar model.

"If you go to online, or even click and collect, you're going to be adding costs," he said.

"We've got a supply chain where everything you've got is packed at source and those cartons don't get opened until they're in the stores.

"A third party needs to pick and pack individual items, and as soon as it comes out the carton it costs money. If it's a pair of £1 flip-flops, by the time you've picked it your profit is gone. If it's a £3 item, by the time you've picked it and packed it, your profit is gone. It doesn't matter if it's a third party or us."

Bason concluded: "Yes, it's painful, but it's not like we're going to lose sales forever".

With a Covid-19 vaccination programme under way, it will be clear within months the extent to which Bason's confidence is justified. As far as he is concerned, renewed success is a question of not if, but when. RW

OPINION

Deliveroo IPO will be a bet on retail's future direction

As the food delivery specialist hopes to float with a valuation of £5bn or more, **George MacDonald** considers what Deliveroo's success might mean for a rapidly changing retail sector

"Shall we get something from Deliveroo tonight?" It's a familiar conversation on thousands of sofas as locked-down consumers seek treats and a break from monotony.

It is testament to Deliveroo that, in less than 10 years, it has built such a recognisable brand – a brand that blurs the lines between retailer, restaurant and service provider. It takes on a role that, in the past, might have been undertaken by the retailer – from customer acquisition to being the face of the brand at delivery.

It is no disrespect to longer-established delivery specialists that their brands are not seen in the same way by consumers. While DHL or Yodel vans, and even their drivers' faces, might be familiar and welcome sights on locked-down doorsteps, nobody thinks: "I need a new shirt, I wonder what Yodel has?"

Deliveroo's rise highlights the increasing importance of platforms and marketplaces across retail, whether that is Next's Total Platform, tech giant Shopify or the trailblazer, Amazon, home to a multitude of third-party sellers as well as being a retailer in its own right.

That is the background against which an IPO of Deliveroo, whose 110,000 riders now deliver on behalf of 140,000 restaurants internationally, should be seen. It describes itself as "on a mission to transform the way customers eat".

It is an ambition as sky-high as that of Jeff Bezos' to turn Amazon into "the everything store". Deliveroo is hoping for a valuation of £5bn or more when it goes public. The listing would be one of the biggest London flotations this year.

Big decisions

Deliveroo already has the Amazon stamp of approval after it took a 16% stake in the platform last year. And it has tempted Next chief executive Lord Wolfson, one of the retail industry's most respected leaders, to come on board as a non-exec – his first such role.

But amid all the superlatives, potential investors will have some big calls to make. While Deliveroo coyly notes that a float comes after "having demonstrated profitability in 2020", it almost collapsed last year, too.

That was through no fault of its own. Deliveroo's market disappeared faster than a plate of canapés at a wedding as Covid-19 struck and widespread restaurant closures followed. The impact prompted the Competition and Markets Authority (CMA) to give the green light to Amazon's investment in Deliveroo in August – a deal that had been in jeopardy prior to the pandemic.

The watchdog said at the time: "Given the seriousness and urgency of Deliveroo's financial situation, the CMA concluded that Deliveroo met the criteria for a failing firm and that its exit from the market would have been worse for competition and customers than allowing the investment to go ahead."

The CMA later concluded that "the restaurant food delivery market had recovered much more sharply than expected" and Amazon's investment would not undermine competition.

Deliveroo's push into grocery was partly in response to the difficulties restaurants were suffering and it is testament to its entrepreneurial approach that it was able to switch to a new market. The company already counts Morrisons and Sainsbury's among its partners. On-demand grocery is the fastest-growing part of its business with further expansion planned this year.

George MacDonald
Executive editor
Retail Week

If a more normal way of life resumes, will the growth of Deliveroo and others remain so rapid?

Picking the right partner

But it is not a slam dunk for Deliveroo. It faces competition from rivals such as Uber Eats and Just Eat. What is to stop them from muscling into grocery? Or a new breed of players, such as Weezy, which has just secured $20m to expand its 15-minute grocery delivery service?

If the vaccination programme continues apace and a more normal way of life resumes, will the growth of Deliveroo and others remain so rapid? Or will people welcome the loosening of restrictions by surging back to shops and restaurants, keen to take a window seat and mix with fellow diners, rather than survey the world on screens while sitting on the couch? The answers to such questions are what potential investors must bet on getting right as Deliveroo proceeds with an IPO.

In the end, it will probably come down to market share accumulation – the path taken by Amazon, which sustained years of losses and investment to build up its dominant position.

Whoever emerges as the winner in food delivery, success will not come cheap, but it may herald another phase in retail's transformation as the right partners become an ever more important element of the retail proposition. RW

OPINION

Our colleagues have earned this pay rise many times over

With supermarket colleagues going above and beyond for their communities throughout the pandemic, the only option is to give them a better pay deal, writes Morrisons chief executive **David Potts**

They say it's always darkest just before dawn. And it does seem pretty dark at the moment with a new lockdown, surging Covid cases, a more contagious strain of the disease evolving and the NHS at full stretch – and then some.

Lots of families and communities are still reeling from the disruption, worry and – in too many cases – terrible loss.

But the vaccine does mean that dawn is coming and, amid the pain and the disruption, there are some reasons for optimism later this year.

In retail, one of those reasons is the continued renaissance of the British supermarket and the re-evaluation of the value of the key workers who have gone above and beyond throughout the health emergency to feed the nation.

We have a saying at Morrisons: "A fair day's pay for a fair day's work." In this new phase of the pandemic, as the vaccine rollout gathers pace, it's right that we take a hard look at pay.

Viewing it with the same eyes that witnessed the work of our store colleagues during the pandemic, the only conclusion that you can come to is that, as we start to come out of this crisis, our first action must be to increase colleague pay.

Although not many good things have come from the Covid crisis, the renewed respect and admiration that we have seen across the country for supermarket workers is one of them.

But respect and admiration do not butter any bread. So I'm pleased we can now say that if you work at a Morrisons supermarket you will earn at least £10 an hour. Everywhere. No small print, no asterisks, no conditions. Ten pounds an hour.

It is an important and symbolic milestone and, having been ahead of us all for so long, it is great that we have now reached it. But this marks a new beginning of the pay journey and not the destination.

We have seen such dedication, bravery and community spirit in the last 10 months that you cannot help but be inspired by it.

During Covid – especially when the virus is as rampant as it is now – just turning up for work is often hard. But turning up, doing a brilliant job, feeding the nation and making the shops safe with a smile on your face is pretty heroic.

Respect and admiration do not butter any bread. So I'm pleased we can now say that if you work at a Morrisons supermarket you will earn at least £10 an hour

We have seen countless acts of kindness and compassion that have made a particular difference this year. Such as when a pregnant customer's house was struck by lightning; our Cannock store made them a hamper of baby clothes and supplies to make sure the mother had essentials for her baby.

But stories like that are not unique to Morrisons. Supermarket colleagues of all stripes across the country have been magnificent.

While I'm sure that when this is all over the grocery sector will be back to knocking lumps out of each other in healthy and friendly competition, for now, I would just like to pay tribute to the massed ranks of Britain's finest who have done such important work in our supermarkets through such a long and incredibly difficult period.

As we wait for that dawn to appear, we are urging everyone to continue to be kind, even as nerves are frayed and patience wears thin. Our colleagues have earned this new pay deal – and their status as key workers – many times over. **RW**

David Potts
Chief executive, Morrisons

Retailers should prepare now for a year of two halves

Short-term agility remains essential, particularly as retail weathers the current storm. But this lockdown period is also the perfect time to prepare long-term strategies for growth, in order to benefit during the second half of the year, writes **Lisa Byfield-Green**

A friend made me smile last week by sending a meme: 'I'd like to cancel my subscription to 2021. I've experienced the free seven-day trial and I'm not interested.'

Despite being glad to see the back of 2020, the toughest year in living memory, 2021 has not had the greatest start. Facing into a third lockdown in the most miserable months of the year, many people have resorted to hunkering down into semi-hibernation. For me, that has involved shopping online for yet more loungewear and items to make my home more comfortable.

Short-term challenges

With non-essential stores closed, the retail environment remains highly challenging. Online shopping is booming and jumped by 74.7% year on year in November, according to the Office for National Statistics.

For many, it has changed the way they think about retail, but the rise in online shopping does not make up the gap for physical stores being closed. Different from browsing in stores, shopping online is mostly functional and it is much rarer for the experience to spark joy, as Marie Kondo might say.

Mostly what is keeping me sane through these dark days is dreaming about all the things I plan to do during the second half of 2021 – seeing friends, going shopping, seeking out crowds, flying off on holiday and properly enjoying life once more.

Retailers have needed to weather the intense storm of a pandemic-induced economic downturn, changing government regulations, uncertainty over Brexit and rapid changes to consumer demand over the past year.

While it has been highly challenging, it has also taught new skills of adaptability and resilience that will strengthen businesses for the longer term. That flexibility will be necessary throughout the first half of the year, but there is much hope for the second half as the warmer weather arrives and the vaccine rollout is fully underway and many retailers are investing in growth.

Lisa Byfield-Green
Head of insight, Retail Week

Investing for success

Already this year we have seen examples of retailers investing now to strengthen their businesses for the long term.

Frasers Group acquired fashion boutique Psyche. In the US, Amazon has invested to further build out its Amazon Air fleet of planes. Asos revealed plans to build a new UK distribution centre. The Hut Group, which floated in the autumn, has already spent £300m on acquisitions, buying online skincare retailer Dermstore in the US and UK-based nutrition suppliers Claremont Ingredients and David Berryman.

Meeting the needs of haves and have-nots

The coming year is likely to be tough economically. The International Monetary Fund predicts huge falls in GDP globally for 2020, including a drop of 4.3% in the US, 5.9% in Germany and 9.7% in the UK.

Consumer sentiment will divide in two, just like the year. Income inequality has accelerated – office workers have been able to keep their jobs and even save money working from home, while others have faced uncertainty, furlough and redundancy. That signals heightened price sensitivity for retailers to adapt to in 2021 and beyond.

There will be opportunities for luxury brands to sell to wealthier consumers who will be keen to travel, socialise and refresh their wardrobes as soon as life returns to some kind of normality. But for many, the major focus will be on low prices and value for money. The market polarisation will pile further pressure on to mid-market brands and retailers, particularly the underprepared.

There will be clear retail winners and losers

This will undoubtedly be a year of two halves for retail – there will be those that survive and thrive by resetting their business models, adapting for change and investing for growth, and, unfortunately, those that get left behind.

Now is the perfect time for retailers to review strategies and make changes for the long term.

Our *Retail Horizon 2021* report outlines some of the trends we expect to see this year, including investment in fulfilment and supply chain agility, a continued focus on local and hyperlocal retail, the evolution of brand experience and customer relevance and further tie-ups through partnerships and ecosystems as businesses realise they are stronger together. It is easy to be distracted by immediate concerns, but it is essential to plan now for the long term as we all hope for a much stronger, healthier second half to the year. **RW**

Retail Week subscribers can access our report *Retail Horizon 2021 – Winning Strategies to Navigate Disruption* at retail-week.com/retail-horizon-2021

THE BIG INTERVIEW

How B&Q boss Graham Bell plans to 'beat the pureplays'

In his first interview as B&Q chief executive, Graham Bell tells Rosie Shepard how the DIY giant 'got its mojo back' and why he believes it has the tools to topple Amazon

The wind and rain lashing against the roof of B&Q's Hedge End store – just five miles from its Southampton headquarters – provides a fitting metaphor for the coronavirus crisis that has battered the retail sector.

The global pandemic has shaken the DIY business to its foundations, forcing it to rethink its in-store operations and rapidly improve its online capabilities to continue serving its customers, as an essential retailer, throughout the relentless storm.

Despite the headwinds created by temporary store closures, higher levels of staff absence and increased costs, B&Q and its owner Kingfisher have emerged among the winners of the Covid crisis.

Sales surged as consumers – left housebound for much of the past 10 months by lockdown restrictions – took on more home improvement projects.

Kingfisher is yet to provide an update on its performance during the golden quarter – that is unlikely until its full-year results are unveiled in March – but like-for-like sales at B&Q jumped 28% in its second quarter, ending July 31, and 24% in the three months to October 31. Ecommerce sales surged 135% in B&Q's first half.

B&Q Hedge End

Bell rings the changes

Such impressive numbers were down in no small part to the fact that B&Q boss Graham Bell has embarked on a makeover of his own –one he believes will set the retailer up to "beat the pureplays" in a post-Covid world.

Central to B&Q's booming online performance has been the creation of what Bell calls its "digital hubs". Leading Retail Week to the back of the Hedge End store, the Scot explains how the warehouse space, previously used to store stock destined for the shop floor, now acts as a distribution centre for home deliveries in the local catchment, delivering more than 1,000 orders per week.

Since the start of the pandemic, B&Q has set up similar hubs in 56 of its largest UK stores, bringing online stock closer to its customers' homes and allowing it to offer next-day delivery, even during the height of the pandemic.

By July, the hubs could reach 98% of the UK population and were fulfilling half of all B&Q's online orders. The number of ecommerce orders it fulfils via store pick has more than quadrupled during the pandemic.

"This is how we can beat the pureplay online retailers – because we can be better on that last-mile and

Graham Bell took the helm in October 2018

that convenience. We can be closer to our customers than they can," Bell tells Retail Week, in his first interview since taking the helm in October 2018. "These digital hubs can service the whole of the UK with the stock we've got in these stores.

"It's something we thought we were going to do over two years but we did it in two months. It's by no means finished, but our new CEO Thierry [Garnier, boss of Kingfisher] has got a nice phrase: 'It's better done than perfect.' By God, did we live up to that," he laughs.

Bell believes B&Q's own distribution network and its partnership with DPD will allow it to compete with online rivals like ManoMano, Victoria Plum and even Amazon when it comes to its delivery credentials.

Fulfilling online orders from its digital hubs, B&Q can deliver anything from a houseplant to a full bathroom suite within 24 hours.

Bell has ambitions to further reduce those delivery times in the coming years.

"Amazon can only do that with some things as long as it fits in a small parcel," Bell says. "Any bulky products it would struggle to deliver fast because it doesn't have the logistics capability that we do.

Amazon is really forcing the issue. We're looking to go down the same route in the future of doing same-day or within-the-hour deliveries
Graham Bell, B&Q

"But, in general, I think Amazon is really forcing the issue. We're looking to go down the same route in the future of doing same-day or within-the-hour deliveries. We'll be looking at a lot of those options in the future."

The creation of the digital hubs marks one of the biggest strategic shifts in Bell's whirlwind first two years in charge at B&Q.

Although he is a Kingfisher veteran of more than two decades – he led stablemate Screwfix for four years before taking the reins at B&Q – Bell admits the past year has been "a rollercoaster".

Kingfisher boss Garnier only joined the group in September 2019 and unveiled his new strategy, Powered by Kingfisher, last June – three months into the coronavirus crisis.

The plan aims to give autonomy back to its family of European DIY businesses, which also includes Brico Dépôt, Castorama and Koçtaş.

Garnier's predecessor, Véronique Laury, had attempted to bring its fascias closer together under her One Kingfisher programme, unifying their IT systems, buying functions and product ranges.

But the strategy left each business with reduced flexibility to meet the tastes of local consumers in each of their markets.

Shoppers could not always find the products and brands they were looking for, sales dropped, profits went into a tailspin and Kingfisher crashed out of the FTSE 100.

Although the proportion of own-label products sold in B&Q has remained around 40% under both Laury and Garnier's strategies, Bell says the retailer now has the "best of both worlds" with the freedom to pick and choose the categories in which it should rely more heavily on third-party brands.

Popular products such as Henry vacuum cleaners, Purdy paintbrushes and DeWalt drills form a more prominent part of the overall mix today than they did under Laury.

"Everybody wants a cheap paintbrush – that's great – but you need categories of good, better and best for different types of customer, like tradespeople who want those branded products," Bell explains.

"The beauty of it is we can look at each individual market and ask: 'What is that product doing? Is it a challenger brand or is it filling a

THE BIG INTERVIEW

What we have learnt throughout the pandemic is that if you give fantastic service, you're still going to have that retail therapy effect
Graham Bell, B&Q

Customers queued around the car parks after B&Q reopened last April

gap? Where do we need to fit our own-brand product in?'"

With the group establishing firmer foundations and its different fascias taking back more control of their individual propositions to better cater for local demographics, B&Q has "got its mojo back", Bell says.

The Hedge End store would appear to support that bold statement. The site has a shop-in-shop feel to it: distinct areas are dedicated to tiling and flooring, kitchen and bathroom design, and a professionals-only TradePoint area. Revamped houseplant and lighting propositions are helping it appeal to a more "millennial" customer base.

"We are like a huge department store," Bell suggests. "I don't use those words often because they have lots of bad connotations at the moment, but we are not just about DIY. We are in the gardening market, we are in the kitchen market, we are in the tiling and flooring market, we are in the lighting market.

"We can give everything under one roof here, which really gives us that edge."

Location, location, location

But it is not just the big sheds on Bell's agenda. He is also keen to keep experimenting with smaller formats in more urban and city-centre locations.

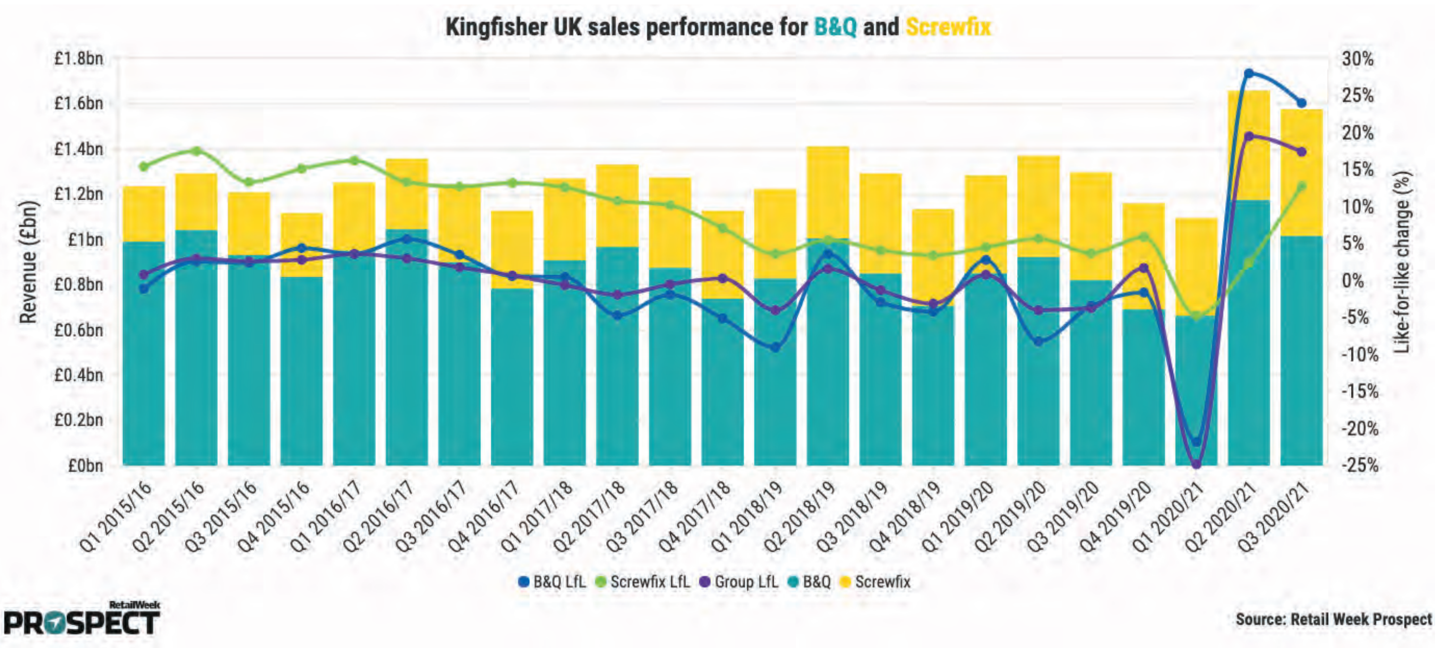
B&Q is piloting shop-in-shops inside Asda supermarkets – the first two opened in Dagenham and Sheffield last year – selling a limited selection of paint, tools, hardware and other DIY essentials in 2,000-3,000 sq ft spaces.

It has also trialled the GoodHome concept, the first of which it opened in Wallington in May 2019, stocking no physical goods for sale on the shop floor but offering Argos-style order-and-collect points, as well as design services.

It comes at a time when a number of its home-and-DIY competitors have also been attempting to bring the best of the big box to smaller locations.

Ikea has opened planning studios in Bromley and London's Tottenham Court Road, and order-and collect points in Westfield Stratford, Birmingham, Aberdeen and Norwich. It also has plans to open a new city-centre store in Hammersmith's Kings Mall in the spring.

Dunelm launched its Edit store in Crawley last June, offering a smaller range of products than its out-of-town locations, and B&Q's chief rival Homebase is testing its



Decorate high street concept.

Bell says B&Q's smaller stores of the future will take a different direction to the GoodHome pilot and will instead be based on the site it opened in Merton a year ago.

The shop stocks around 8,000 key product lines that DIYers would need for a household project, such as lightbulbs and paintbrushes, alongside kitchen and bathroom design areas and a click-and-collect point.

A similar store is planned for Wandsworth high street in the first quarter of 2021, though that will carry an even more curated range of 3,000 SKUs.

But at a time when physical retail locations are being decimated by a third national lockdown – dozens of stores, coffee shops and restaurants are unlikely to reopen even after coronavirus restrictions are lifted – Bell pours cold water on suggestions that smaller-format DIY and furniture stores will become the saviour of struggling high streets.

"I don't know if the small format could save the high street. Even though we will be putting some stores on the local high streets, I don't think we'll be doing enough," he says.

"But I think what we have learnt throughout the pandemic is that if you give fantastic service, you're still going to have that bricks-and-mortar retail therapy effect."

B&Q closed its doors for several weeks during the first national lockdown as it reconfigured its stores to incorporate social distancing, queuing and hygiene measures.

When it opted to reopen the first tranche of stores in April – it was the first non-food retailer to do so in the UK – dozens of customers snaked around car parks as they queued for the "retail therapy" Bell alludes to.

Decisions on its store portfolio were just a few of the difficult calls Bell and his Kingfisher colleagues had to take during the height of the pandemic.

After Tesco opened the floodgates with its repayment of £585m in business rates relief, Kingfisher followed, handing £130m back to the government. The group had already paid back the £23m it drew down from the furlough scheme.

Despite handing back that relief, analysts still expect Kingfisher's UK and Ireland division to register a profit in the region of £660m for the 2020/21 financial year.

Bell's focus now is on how B&Q can maintain the momentum it has built during the lockdown DIY boom and keep its customers hooked on home improvements.

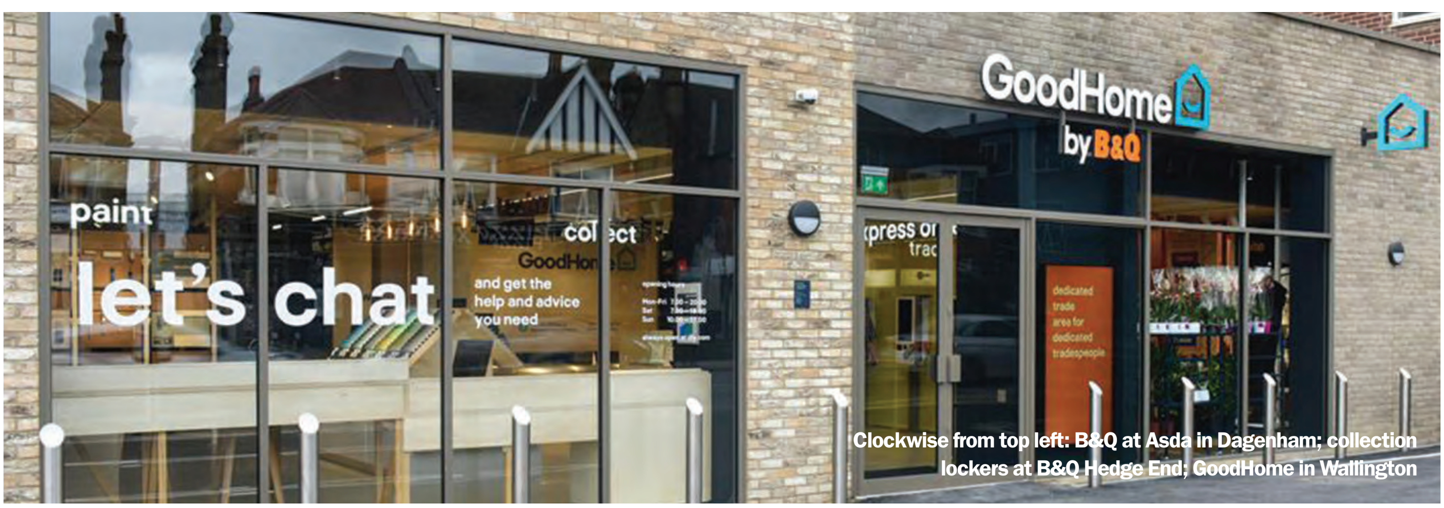
"We've got a lot of product ranges that are making it simpler for people to do," he explains. "What we're doing is taking away all the barriers with convenience, stock availability, confidence, good service.

"We've got a lot of new markets, things like spas, connected homes, Ring doorbells, keeping up with technology and new categories of growth. We're also looking after the tradespeople and giving customers promotions and deals.

"We're trying to look at each customer in a siloed way – trade, garden, DIY. We're really trying to gather that momentum so people are with us and continue with us."

As Bell presses ahead with that digital-first, customer-centric agenda, B&Q just might have the tools it needs to "beat the pureplays". RW

We are not just about DIY. We can give everything under one roof here, which really gives us that edge
Graham Bell, B&Q



Clockwise from top left: B&Q at Asda in Dagenham; collection lockers at B&Q Hedge End; GoodHome in Wallington

ANALYSIS

What next? Retail CEOs predict trends for 2021

After the most unpredictable year in history, which trends do retail's biggest bosses think will be prevalent in 2021? Retail Week finds out

2020 has been one of the most unpredictable years in history. For retailers, this has meant stores opening and closing overnight, online surging to unprecedented levels and demand for certain products, such as fashion, falling off a cliff edge. As we wave goodbye to it, what do the industry's top bosses expect to be big in 2021?

In terms of categories, the hard-hit fashion sector could be due a bounce back after a punishing year. And Pets at Home boss Peter Pritchard believes the pets sector will continue to thrive as more people bring animals into their families.

"Substantial changes to our ways of working, such as more home working and flexible working, means more people are able to welcome pets into their lives. We have seen this trend all the way through Covid and I don't think this will change," he says.

And, with a baby boom predicted, expect maternity product sales from nursery furniture to baby clothes to soar next year. John Lewis said searches for 'new baby' were already up a whopping 274% on its website in December.

The online revolution

The challenges of 2020 mean many retailers find it difficult to look too far into the future.

Tesco UK and Ireland chief executive Jason Tarry says: "I'm not yet looking too far beyond 2020 as we are still managing through the pandemic and preparing for Brexit."

However, one trend he does see continuing into 2021 is the "huge growth in demand for online grocery shopping". "In February, we were serving around 600,000 online slots a week; now we've more than doubled that capacity to 1.5 million weekly slots," he says.

"A significant number of people used online shopping for the first time during lockdown and found it a positive experience. We're confident that demand for grocery home shopping will remain high and we will continue to focus on providing outstanding service."

Iceland managing director Richard Walker agrees that online has been the big trend of 2020. "The real of impact of Covid-19 has been to fast-forward trends that were surely destined to develop over the next five years or so anyway, most notably the huge increase in demand for online retail," he says. "Sadly, this has greatly increased the already severe pressure on the traditional British high street."

Very's Henry Birch expects to see pent-up demand for fashion in 2021

Better connecting stores and online

However, Dixons Carphone boss Alex Baldock, whose business has also experienced a huge online surge during the pandemic, isn't underestimating the importance of stores. He picks omnichannel as his big trend for 2021.

"Yes, more customers are buying tech online. So it's important that we are winning online. Still, 60% of customers want to shop in a mix of online and stores," he says.

"In our space, omnichannel wins – this is our way of bringing the strengths of all our channels, stores and online, to all our customers, however, they may be shopping. We've innovated fast to bring the best of both to customers. We are much more rarely out of stock in store and now we've brought the full online range to every store."

Baldock points out that customers can now order and collect items within the same hour.

Click and collect is also an area The Very Group's chief executive Henry Birch expects store-based retailers to invest in over the next year. "I expect to see high street retailers rapidly innovating their in-store offers and focusing on making their click and collect and returns much easier," he says.

I expect to see retailers rapidly innovating in-store offers and making click and collect easier
Henry Birch, The Very Group

Dixons Carphone's Alex Baldock is betting on omnichannel

Stores will still be important to us in 2021. When we have online and stores together, we are at our strongest
Alex Baldock, Dixons Carphone

Pets at Home's Pritchard concurs: "The debate of online/offline is over. Customers want to be totally in control of how they shop and how they receive.

"Bricks-and-mortar retailers who are able to leverage their physical estate alongside their online presence have a huge advantage as stores become mini distribution centres. This is a huge opportunity to do a better job than pure online businesses. From our perspective, we now have more ways to shop than ever – click and collect, home delivery, contactless delivery in the car park – and 2021 will see even more choices for customers."

Another way retailers have upped their omnichannel credentials of late is by offering customers the option to shop virtually.

Dixons Carphone led the charge with ShopLive, launched during the first lockdown, which gives customers face-to-face advice from experts in-store. More than 2,000 employees are now trained to use ShopLive and a further 500 have moved from retail operations to contact centres to cope with elevated demand.

"ShopLive customers are now twice as likely to buy and spend over 50% than unassisted online customers and it is an innovation others will struggle to copy at the same scale. Who else already has 15,000 experts?" asks Baldock.

The electricals boss is more convinced than ever that stores are crucial. "We're not alone in the shift to omnichannel and the UK isn't unique – omnichannel wins in every major market. And encouragingly, even with this rapid market shift and with one hand tied behind our back when our stores were closed, we have maintained market leadership.

"Stores will still be important to us in 2021. When we have online and stores together, that is when we are at our strongest."

However, Superdry chairman Peter Williams predicts life will not be easy for store-based retailers in 2021. He says agility and nimbleness will continue to be key.

"People are going to have to continue to be fleet of foot as the operating environment for retailers is still uncertain and subject to radical change at very short notice," he says.

"For people who have stores, this is making life very, very difficult and complicated because at short notice they have to open, close or bring people into work and send them home."

Sustainable shopping

John Lewis executive director Pippa Wicks believes the past year has led shoppers to re-evaluate what's important to them and encouraged many to look for more sustainable ways of living, which she thinks will be a prevalent trend in 2021 and beyond.

The department store is already helping its customers become more environmentally friendly. John Lewis launched its furniture rental scheme with Fat Llama this year, an initiative so popular that Wicks points out the majority of products sold out within the first 48 hours. This has led the retailer to develop further rental and resale options.

"Looking further ahead, by 2025 we will have a 'buy-back' or 'take-back' solution for all categories, and all key raw materials in our own-brand products will be from sustainable or recycled sources," she says.

Experiential shopping

Despite Covid putting the kibosh on some of the more experiential elements of in-store shopping, this trend will return in 2021, according to Pritchard.

"We have all been thankful to shop online, but we have also exposed its weaknesses. As Covid comes under control, customers will increasingly be back in search of experience," he says.

"Great stores have a huge opportunity to showcase what stores do best – the ability to experience a product and connect with real people, in our case access expertise. Customers, I think, are really valuing the role shops play as they see their high streets crumble.

"I think we will see a need to use and support the high street or lose it, but that requires retailers to play to their A-game and show all the great reasons why physical shopping is a pleasure and an experience, and not a chore."

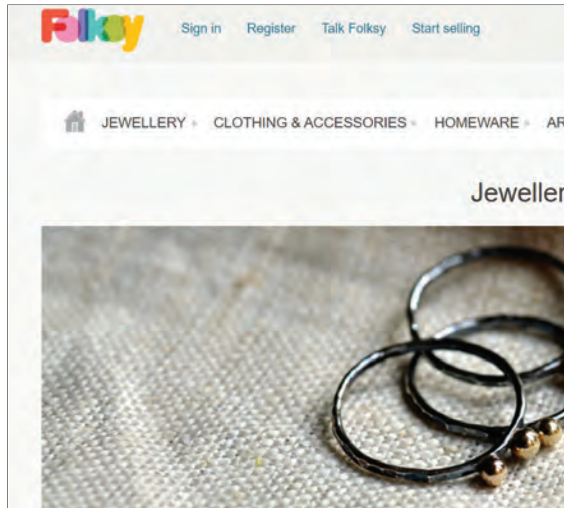
When lockdowns truly are a thing of the past, consumers who have experienced a year of minimal social contact may gravitate back to stores, heralding a new renaissance for the bricks-and-mortar shop. **RW**

John Lewis' Pippa Wicks believes ethical credentials will be big news

ANALYSIS

Five emerging UK marketplaces you need to know

Retail Week shines a light on five marketplaces at different stages of their journey, which could become useful routes to market. By **Suzanne Bearne**



A cool $1.97trn (£1.5trn) was spent globally on the top 100 online marketplaces in 2019, according to research from Digital Commerce 360.

While two very big players, Amazon and Alibaba, dominate the spend, the market remains buoyant with new players emerging all the time, offering new niches and target customers. Retail Week hones in on five up-and-coming marketplaces worthy of your attention, all of which are gaining traction and could provide a useful route to market for brands.

Fruugo

Fruugo has a slightly convoluted history. The marketplace was founded in Finland in 2008, initially as a business-to-consumer site for those living in the Scandinavian and Baltic regions. Four years later, its chief executive Dominic Allonby acquired the company and exited Helsinki to start afresh in the UK.

With a far-reaching product range – it offers everything from a *Minecraft* poster to a stainless-steel pipe – Fruugo sells across multiple categories and price points. Offering a staggering 10 million products and 20,000 brands, it's unsurprising to find that its mantra is 'Everything for everyone, everywhere'.

Allonby says the key to Fruugo's platform is its "single global basket" technology, with the customer able to shop from any retailer in the world in their own language, prices, currency and local payment methods, with applicable sales tax and shipping included.

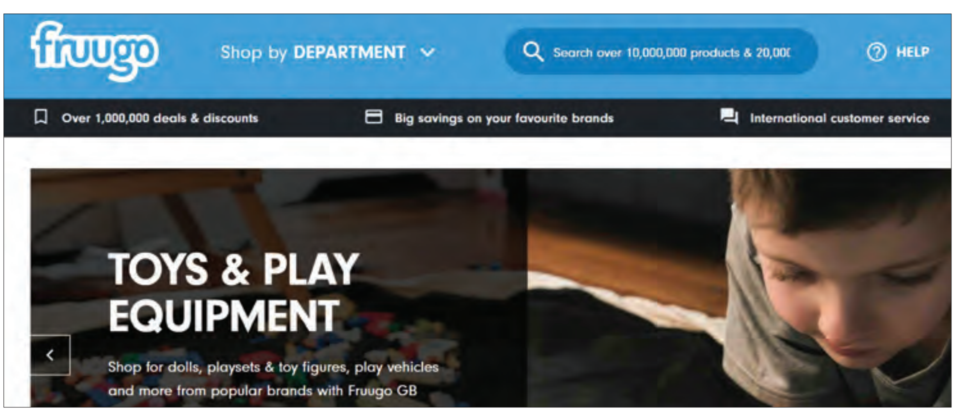
"This means a single shopping cart can – and often does – include goods from multiple retailers in multiple countries," he says. "It makes global shopping feel local for the consumer in a way that no other website does."

Fruugo has certainly swayed retail leaders, with Lord Stuart Rose and Angus Monro among those investing in the platform. Despite the economic backdrop, the company is set to report gross transactional value of €100m this year and claims to have attracted 2 million new customers over the past 12 months.

"The challenges we have overcome this year have been ones no one could have predicted: an overnight, company-wide move to home working; rapid deployment of enhanced customer and retailer online support and service systems; scaling up of technical infrastructure as demand soared; and the recruitment of many new staff across many disciplines to help us cope with a surge in sales from every corner of the globe," says Allonby.

"We have evolved and strengthened all the fundamentals of the business, even ahead of our previous intensive roadmap, and this puts us in greater shape than ever for the future."

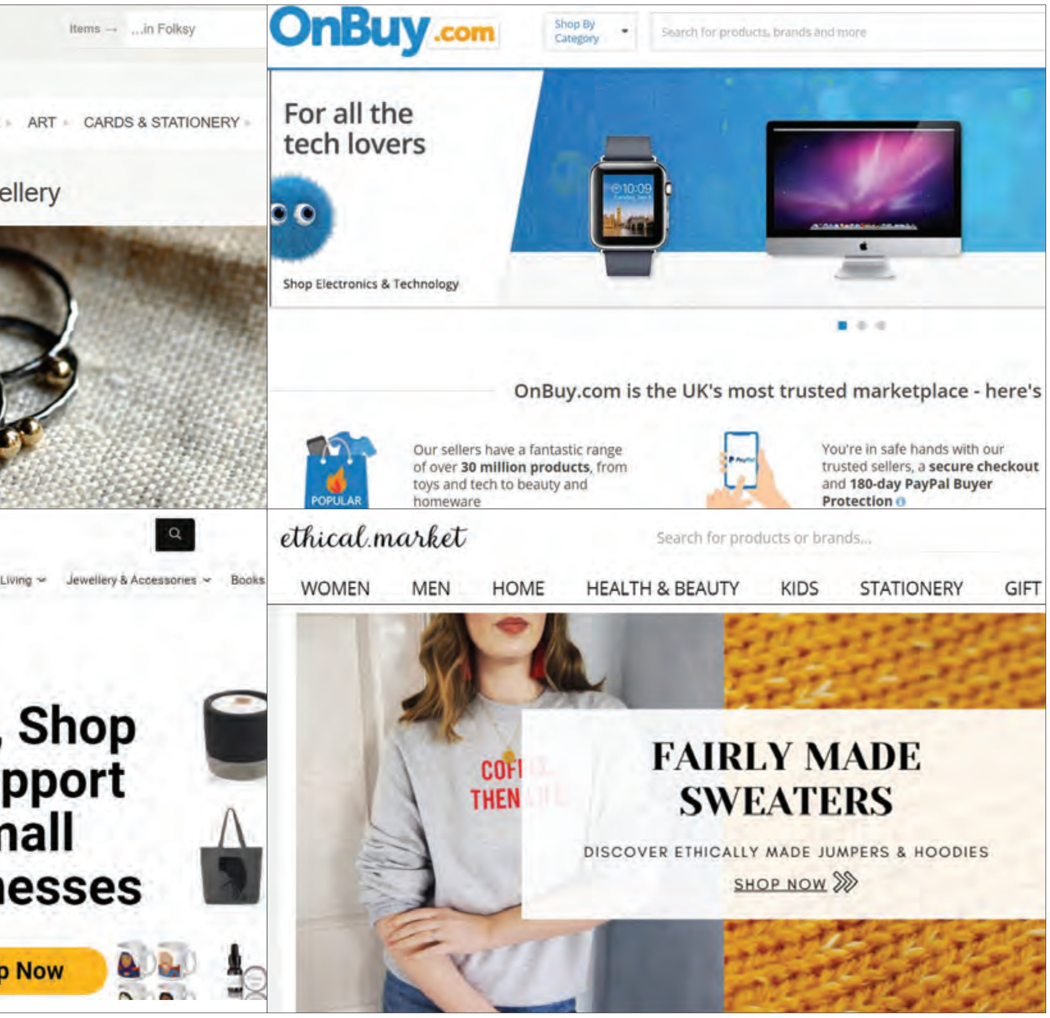
Plans for 2021 include rolling out to more countries and extending its white-label platform to launch vertical niche shopping sites globally.



Wakuda

Albert Larter and Nathaniel Wade want their new online marketplace to be the Etsy for Black-owned brands.

Founding Wakuda in August 2020, the duo were inspired to set up the company following the Black Lives Matter movement that spread around the world.



"During the pandemic, at the time of the George Floyd incident and the London protests, we came together and decided we wanted to do something to help champion Black-owned businesses in the UK," says Larter. "One thing we noticed was that, although there was a conscious shift in a lot of the population's thinking regarding the disparities Black people and Black businesses faced, a lot didn't know how to support it, hence setting up Wakuda."

The goal, he says, is to give small and underrepresented independent UK Black-owned businesses a bigger platform, so they can be seen by a bigger audience.

The site currently showcases more than 1,000 products from 150 businesses across categories such as home, jewellery, fashion, health and beauty, and food and drink.

"Next year we will be continuing to grow the platform and empowering the businesses while continuing to provide people with a simple way to shop and support," says Larter. "We will be increasing the amount of sellers we have and continuing on the journey to be the go-to-marketplace for consumers to support small, independent Black-owned businesses."

Other Black-owned marketplaces making waves are Simply Noir, which also launched this year, and US-based marketplace We Buy Black, founded in 2015.

OnBuy.com

It's the marketplace with huge ambitions. Founded in the UK in 2016 by entrepreneur Cas Paton, OnBuy wants to eat a share of Amazon's booming market – and it's working.

The company claims to be the world's fastest-growing online marketplace, with sales shooting 870% to £170m in the year to November 2020. And it forecasts reaching a whopping £2bn in sales by the end of 2023.

Dorset-based OnBuy serves up millions of products across product categories such as electricals, beauty, home and garden, toys and baby supplies. It sells big brands from Apple to Samsung and Lego to Chanel.

Paton, a finalist in the NatWest Great British Entrepreneur Awards last year, headed up a £5m investment in 2020. The company plans to operate in more than 140 countries by 2023, starting with 42 initial sites early this year.

Since its launch, OnBuy has sold to 8 million customers and it says more than 400 retailers join its platform every month.

Ethical.Market

"Ethical no longer has to mean boring," the Ethical.Market website reads. We've come a long way in the past decade, with fair trade, vegan and sustainable products no longer seen as being solely for hippies.

Demand for ethically bought products has grown massively since Ethical.Market was co-founded in 2013 by Raquel Suraly Wallace. She started the online marketplace with just 10 brands after discovering the hidden costs of cheap clothing and the impact on workers.

Today the company showcases more than 8,000 products from 300 brands, with a collection including fashion, jewellery, lampshades, wall art, beauty products and gifts.

Ethical.market, a member of the Ethical Fashion Forum, says it only lists brands who care about the impact of their supply chain and believe in full transparency.

There are a rising number of ethical marketplaces today, including Bazar, which offers sustainable, pre-loved and eco-friendly products, and "Earth-friendly" platform Veo, home to hundreds of brands that align with its values: kind, healthy and green.

Folksy

Having launched in 2008, Folksy is not the newest online marketplace around, but it is one of the most popular sites for handmade gifts and craft supplies, enabling makers to showcase and sell work to a larger audience.

Run by a small team of six, the site's USP is craft and handmade goods. Folksy targets those who like to shop independent, value craft skills and like sourcing unique presents and pieces. It's not surprising to learn then that three of its staff are artists, designers and makers themselves, giving the team personal insight.

"While other marketplaces have branched out to include vintage or reselling, we're very much focused on handmade and craft," says founder James Boardwell. "The key to being successful, however, is the way we've built a community with our sellers and focused on making selling work simple and easy."

The site features more than 80,000 makers and is used by around 280,000 shoppers a month. Although its audience is primarily based in the UK, Folksy has customers around the world, including mainland Europe, the US, Canada and Australia. Its most popular categories are jewellery, homeware and prints.

The company says 2020 has been a strong year for Folksy, with sales up more than 130% and more than £1.25m of orders. There are plans afoot to continue its strong performance.

"This year we will launch an app to make it even easier for sellers to sell their makes online, features that should make it even easier to shop local and a series of online craft fair events to follow the success of two online markets run in 2020," says Boardwell. RW

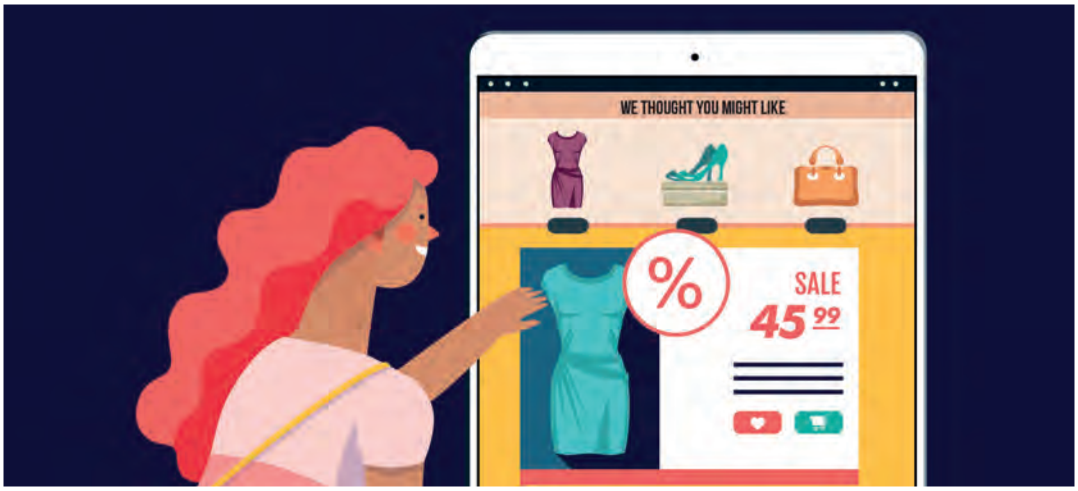
Accelerating Ecommerce Week

Retail Week will explore how to navigate marketplaces at Accelerating Ecommerce Week on February 9. Go to retail-week.com/accelerating-ecommerce-week to register your free place for the virtual masterclass with Trouva co-founder and Thrift+ NED Mandeep Singh and Wakuda co-founder Albert Larter, as well as gain access to other sessions.

DATA

How pricing strategies are losing customers

With consumers still tightening their purse strings, 2021 could prove to be a rocky road for retailers who lack the right pricing strategy. Retail Week's new in-depth report looks at how AI could optimise pricing and drive consumer loyalty



Pricing is having a significant impact on consumer trust in retailers, with three-quarters of shoppers encountering unfair levels during the pandemic and less likely to shop with businesses as a result.

These are some of the key findings of a new report produced by Retail Week, in partnership with DemandTec by Acoustic, *Priceless: How AI will win the retail pricing war*.

The report includes in-depth analysis of a global study of 840 consumers in five countries – Brazil, France, Germany, the United Kingdom and the United States – conducted by DemandTec by Acoustic.

Grocery under the spotlight

Grocery was the hardest-hit sector, with 55% of consumers reporting they had encountered unfair pricing during the pandemic.

More worryingly, however, the same study revealed that 44% of grocery customers that encountered unfair pricing did not shop with the retailer and said they will not shop with them again as result. A further 25% did buy from the store, but also said they will not shop there again.

It's not all right if the price isn't right

In a market fractured by the coronavirus pandemic, consumer loyalty is hard won and easily lost.

The survey reports that 34% of shoppers consider price to be the key contributor to a positive – or negative – shopping experience.

Across all retail formats, price is significantly more important than product quality (28%) and availability (18%).

In grocery, 66% of respondents said price would be 'extremely' or 'very' important to them, versus 61% who felt this way before the pandemic.

The implications are clear: retailers' pricing strategies must respond quickly to new shopper circumstances and preferences.

Five winning pricing strategies

Swathes of consumers began shopping online in 2020 and the trend is only likely to continue this year.

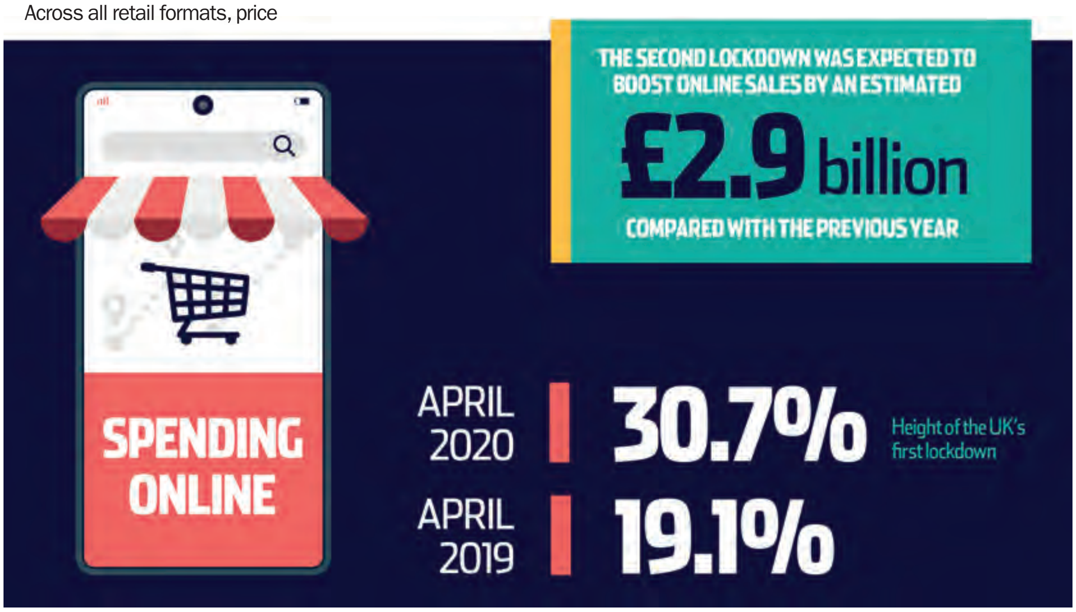
At the height of the lockdown in April last year, the proportion spent online soared to 30.7%, compared with the 19.5% reported by the Office for National Statistics (ONS) in April 2019.

During England's November lockdown, the ONS reported online retail accounted for 31.4% of the total spent, compared with 28.6% a year earlier.

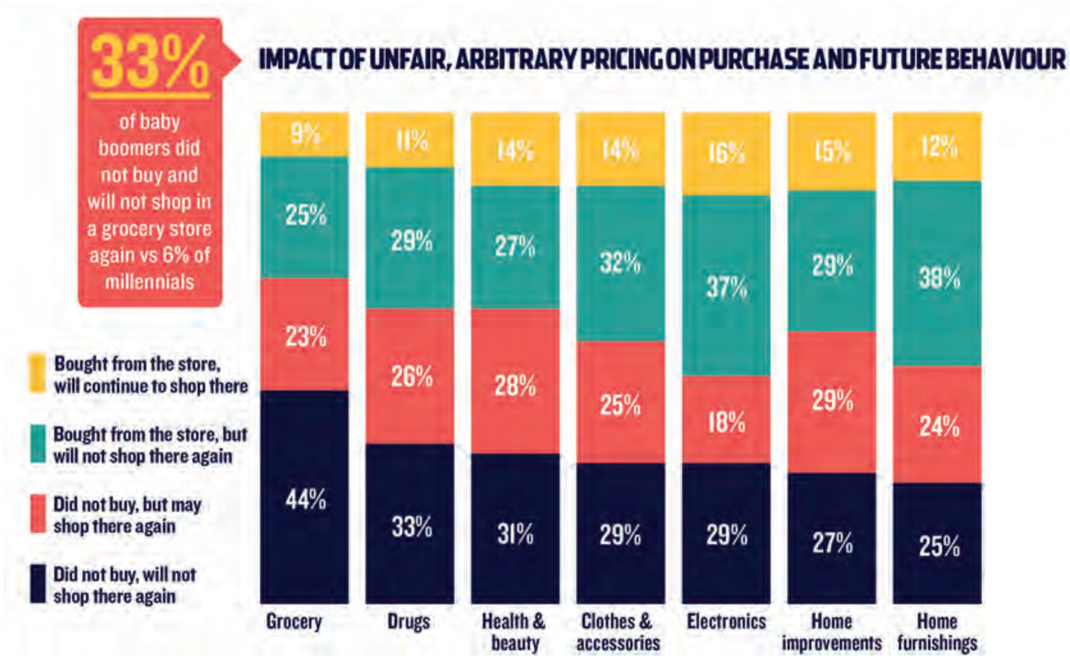
Those consumers can now compare prices far more easily, which means pricing strategies are under the spotlight.

So, what do retailers need to know?

1. The surge in online shopping will be a long-lasting change in how consumers shop and will have a



In grocery, 66% of respondents said price would be 'extremely' or 'very' important to them after the pandemic



direct bearing on pricing strategies as consumers can more easily compare prices.

2. Whether or not the price is right greatly impacts consumers' shopping experience, as well as their choice of where to shop. Investment in AI technology will help retailers stay on top of market trends and demand.
3. Recognising that the perception of price gouging has taken an enormous bite out of consumers' limited pre-pandemic trust is critical to post-pandemic success.
4. Promotions push purchases – but recycling the same old offers is risky at best.
5. Don't forget company culture and mindset. Retailers need to lead change from root to tip and ensure employees trust the technology to do its job and are trained to get the most out of it.

AI could be a gamechanger

With constant price fluctuations across the market, retailers need to be able to respond at lightning speed.

The technology has been available for retailers to do this for some time, but for many it remains a manual process. But this could be about to change.

AI-powered pricing is now a major focus for 10% and a moderate focus for 30% of senior US executives from large or national retailers, according to an RIS News and DemandTec by Acoustic survey carried out in May.

The study underscores the problem: manual processes account for 40% of pricing capabilities, while 53% deploy a mix of automation and manual processes. Just 7% are fully automated in this area.

In addition, 70% of retailers with manual pricing are now more willing to take humans out of the equation and rely on AI-powered and dynamic pricing after the pandemic.

These insights, however, are just the tip of the pricing iceberg. RW

74%

experienced price increases they considered arbitrary or unfair

SECTORS WHERE SHOPPERS SAID THEY PERCEIVED UNFAIR PRICING DURING THE PANDEMIC

55% Grocery
29% Drugs
27% Health & beauty
18% Electronics
18% Apparel
12% Home furnishings
11% Home improvement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