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EDITOR'S COMMENT

Luke Tugby

The perils of chasing revenue over relevance

Britain's high streets mourned the loss of another business last week. Thorntons became the latest to shut up shop as the chocolatier said its 61 stores will not reopen when lockdown restrictions are lifted next month. Many headlines labelled it another coronavirus casualty, but the cold, hard truth is that Thorntons only has itself to blame.

Once a strong brand with a good customer base, the business lost its way either side of its £112m acquisition by Ferrero in August 2015. Thorntons chased revenues over relevance – and ended up squandering both. In its latest available figures, covering the year to August 31, 2019, Thorntons booked a pre-tax loss of £35m, almost identical to the previous year. Its top line melted from £135m to £122m, suggesting its appetite for wholesale over direct-to-consumer wasn't reaping rewards.

Of course, supplying grocers can be lucrative. Ferrero has become one of the largest chocolate companies in the world by striking such deals the world over. But while the Italian confectioner has attempted to maintain perceptions and price points around core products such as Ferrero Rocher and Nutella, putting distance between them and cheaper alternatives, the ambassador wouldn't be seen dead serving up Thorntons chocolates at his receptions.

> **The ambassador wouldn't be seen dead serving up Thorntons chocolates**

It wasn't always that way. Not so long ago, Thorntons was held in similar regard to brands such as Hotel Chocolat and Godiva. Yet it allowed its products to become commoditised, flogging its wares to all who came knocking: Tesco, Sainsbury's, B&M, Poundland. As soon as Thorntons appeared at similar price points to Mars bars and Curly Wurlys, the writing was on the wall.

Rival Hotel Chocolat's journey has taken a contrasting trajectory, as founders Angus Thirlwell and Peter Harris focused on protecting their brand "at all costs". Those words epitomise the reverence in which Thirlwell holds the brand, its purpose, values and customers. All decisions he takes are made through the lens of those four elements.

It is why Hotel Chocolat has always been so selective about third parties. It is why it places such importance on its stores, creating an experiential environment. And it is why it has earned the authority to play in other verticals and categories. None of that can happen without a strong, relevant brand at heart. That's why even the biggest and best brands must protect their positioning "at all costs".

Take sportswear giants Nike and Adidas, for example. Both have supplied retailers around the globe for decades, but a desire to enhance rather than erode the power of their brands has sparked a selective approach to wholesaling.

Just last week, Adidas unveiled its new 'Own the Game' strategy as it shifts to a model led by direct-to-consumer sales. By 2025, Adidas aims to make at least 50% of sales directly to customers – the same target already identified by rival Nike.

That is not to dismiss the merits of wholesaling completely. Pret a Manger dipped its toe into that arena last week, supplying its first FMCG range of frozen croissants to Tesco, having already started selling a number of retail coffee lines through Amazon and Waitrose this year.

Pret chief executive Pano Christou told Retail Week it was working closely with the supermarkets to develop products that would fill gaps in the existing Tesco range, allowing Pret to retain a point of difference. In doing so, Christou is ensuring the brand is improved, rather than impaired, striking the right balance between revenue and relevance.

As an executive at one US retailer put it to me: "Without a purpose and a reason for being, any communication with customers will be tone-deaf – and you very quickly become irrelevant."

That is the hole Thorntons is now scrambling to claw its way out of. Its failure to tackle the relevance agenda should offer lessons for all. **RW**

Read Luke's articles at **Retail-Week.com/Luke-Tugby** **Luke.Tugby@Retail-Week.com** **@LukeTugby**

DEEP DIVE

The new Asda: saddled with debt or a return to former glory?

With CEO Roger Burnley set to exit, how will Asda's controversial new owners the Issa brothers run one of Britain's largest retailers? **Hugh Radojev** gets the lowdown from those close to the grocer

Blackburn-born brothers Mohsin and Zuber Issa became the most-talked about pair in retail when they won the hard-fought battle to buy Asda in October.

The £6.8bn deal, which brings to an end the two-decade ownership of Asda by the world's biggest retailer Walmart, will be the largest leveraged buyout in UK retail since KKR's acquisition of Boots in 2007.

However, concerns are rife about how the Issas, who have remained tight-lipped since the acquisition was revealed, plan to run Asda and what impact such large debt levels will have on the retailer.

Retail Week speaks to those close to the business to find out how the Issas plan to run one of the biggest retailers in Britain.

THE STRATEGY

Investments and disposals

Despite concerns over the huge debt pile the deal has created, the Issa brothers have pledged to invest £1bn into Asda over the next three years to strengthen the business.

Although this falls short of the £500m a year Morrisons is spending and the £1.3bn Aldi said it would plough into its UK business over 2020 and 2021, it is investment that is much needed.

Asda's market share has been slipping in recent years. Kantar data shows that since January 27, 2019, Asda has dropped 0.7 percentage points – the biggest fall of any of the big four grocers –and during the pandemic it is the only supermarket to have lost share.

Observers believe Walmart has underinvested in the UK business of late in order to focus on its battle against Amazon on its home turf. The result is that Asda's stores have started to look tired, its pricing is not as sharp as it used to be and it has failed to capitalise on opportunities such as convenience.

However, there are already signs that the brothers are looking to sell assets to fund its highly leveraged buyout.

Since October, they have commenced a £1.2bn sale and leaseback scheme of the retailer's extensive online distribution centre network and are reportedly considering selling Asda's iconic George fashion and homewares brand in a bid to cut costs.

George, which makes £3bn in annual sales, is the fourth largest fashion retailer in the UK, holding 3.4% market share, according to GlobalData.

Senior industry sources told *The Times* that George was outside the Issas' area of expertise and they would be "more comfortable licensing the brand or introducing more fashion partnerships to Asda's shops to use excess space".

One former Asda executive expressed dismay at the prospect. "When I was there, we used to get a lot of planning permissions for new stores because of the fact we'd be putting a George there,"

Who will succeed Roger Burnley as boss of Asda?
Retail-Week.com/Asda

he says. "It was a very attractive part of the proposition."

The former executive added that George, founded in the 1990s, still resonates with customers in a way that other grocer's fashion brands don't.

"It's still got a lot of brand equity. Most of the other grocers have an equivalent now, but George was the original. The brothers are clearly very entrepreneurial and will have their own ideas. But I think it's still important they keep hold of the things that make Asda special."

Asda and the Issas have declined to comment on George.

Stores and online

Speaking to Retail Week in October, Asda's chief financial officer Rob McWilliam gave some hints about the Issas' future plans for Asda, including expanding the Asda on the Move convenience forecourt trial first launched with EG Group in 2019.

"We see growth in all channels, including superstores. Community convenience has clearly done very well, too, and we want to benefit from that," he said.

While forecourts are a clear area of synergy between the Issa brothers' EG Group and Asda, Shopfloor Insights founder Bryan Roberts says the retailer needs to focus on convenience stores more broadly.

"It's been hamstrung by its lack of exposure to convenience," he says. "Asda has chosen to focus on big sheds, with those second-floor mezzanines dedicated to categories it has been strong in that have either disappeared or are moving online. Things like gaming, music and entertainment."

Shore Capital analyst Greg Lawless agrees, saying that, as a whole, Asda's store estate is "underinvested".

"It's not a particularly pleasant shopping experience as a customer. I think the new owners really need to get Asda's mojo back when it comes to stores," he says.

"They should look at its store of the future in Stevenage; not all of it works, but at least it's showing a bit of innovation."

By contrast, Roberts believes Asda's online business is in a relatively strong position, having massively expanded its capacity during Covid-19.

Like many grocers, Asda spent much of last year increasing online delivery capacity in response to the pandemic. Over the Golden Quarter, the retailer's online sales surged 76% year on year, which it said was due to the 90% extra capacity it had added since March 2020.

The business developed a reputation as a leader in ecommerce across the Walmart group over the past decade, which is the reason Roberts says so many former employees were headhunted across to the Bentonville headquarters and why Leeds was chosen as the global tech hub for the retail giant.

"Asda became the leading light online for the Walmart global stable. Walmart learned a lot from Asda, certainly early on when it came to things like its dot-com, click and collect and dark stores," he says.

McWilliam says coronavirus has taught the business "a lot" about online food retailing and believes that, under the Issas, the retailer has the ability to "scale pretty quickly – quicker than anyone else, in terms of our number of slots".

This week, the grocer unveiled a major restructuring and although 5,000 jobs were put at risk, a further 4,500 new roles will be created in store-based online operations.

The pandemic has accelerated change across retail and our priority is to serve customers in the way they want to shop with us
Roger Burnley, Asda

Although the decision was not made by the Issas, it illustrates the growing importance of ecommerce to Asda.

Asda departing chief executive Roger Burnley said: "The pandemic has accelerated change across the retail sector, especially the shift towards grocery home shopping, and our priority is to serve customers in the way they want to shop with us."

Pricing and offer

Losing the buying power of the world's largest retailer will inevitably have repercussions for Asda's price position.

The timing of this is not great as the UK is experiencing a deep recession brought on by the coronavirus and a price war is kicking off in the grocery sector. Both Tesco and Sainsbury's have launched Aldi price-match pledges over the past year.

While Asda has traditionally managed to keep its prices lower than its big four rivals, Roberts says its new owners will need to invest more heavily in pricing in order to stay relevant in the current economic climate.

The Issas have said that the £1bn pledged would be invested to "continue to offer low prices across its stores and product categories for customers" and to boost its UK supply base.

However, more investment might be needed to compete with the discounters, which have eroded Asda's price message in recent years.

"Asda's main claim to fame at the moment is being the third-cheapest grocery retailer in the country," Roberts says. "Which is not exactly the most commanding message."

One ex-Asda buyer says the Issa brothers are planning to slash ranges in grocery categories in order to compete on price. By increasing volumes of remaining ranges, it can buy, and therefore sell on to customers, at a lower price.

He says: "I've heard they are significantly looking to reduce range – 20% to 30% in some categories at a stroke. That's a huge amount of product that would be lost."

However, he says Asda customers expect bigger ranges and a full complement of brands, so making such a move could damage the retailer.

"When you remove that level of product, that is noticed straight away by the customer. Asda can't be as cheap as Aldi or Lidl; they just can't be because of their model.

"If you haven't got the range, and you're still more expensive than Aldi and Lidl, you're going to suffer."

Another way the Issas plan to change the Asda offer is by partnering with third-party brands.

Asda rolled out a partnership with The Entertainer in mid-February, which will see the specialist retailer manage the grocer's toy aisles across five stores for the next six months.

The grocer also confirmed last week that it would be pushing ahead with in-store partnerships with Accessorize, Claire's Accessories and Music Magpie in larger stores.

"From what I've seen of the Issa brothers with EG Group, they're very good at franchising or subcontracting space," says Lawless.

"They're very good at working out what the core business is good at and partnering with complementary brands to that proposition. I expect we're going to see a lot more of that."

Leadership and culture

Since the acquisition was announced, rumours have swirled around certain senior-level executives at Asda, culminating in Burnley announcing last week that he would be leaving the business after the takeover.

One former Asda executive says that Burnley had been left "exhausted" by the failed merger with Sainsbury's and questioned whether he was up for taking forward a new long-term strategy under new owners.

"I imagine the Issa brothers will have come in with at least a five-year strategy and that's a long-term commitment for a chief executive. He's done a good job and helped them get this over the line, so I

DEEP DIVE


The grocer has many long-serving staff proud of its heritage

wouldn't be surprised if he was considering walking away," says the Asda alumnus.

For their part, the Issas have insisted that they will rely on the existing retail experience at Asda to help them take the business forward, while Burnley has hailed the acquisition as bringing "an exciting new chapter in Asda's long heritage".

However, one source says some long-serving staff have been spooked by the debt levels and the question of whether, following the sales and leaseback of their distribution network, further assets may be offloaded.

There are also concerns about whether the debt-trading Issas are the right cultural fit for Asda, which, despite having been owned by the largest retailer in the world, is still viewed by some as a family business.

"Asda has got a lot of very long-serving staff who really believe in the core roots of Asda as a business. A real grassroots, northern business, with a lot of pride in its heritage. There is some concern about what these guys are going to do with it," says one former executive.

Another former Asda executive says that "two distinct camps" had emerged inside the business, with some senior staff relishing the opportunity of working under new management and others regretting lost development opportunities under Walmart.

> **Asda has a lot of long-serving staff who really believe in the core roots of the business. There is some concern about what these guys are going to do with it**
> **Former Asda chief executive**

However, Catherine Shuttleworth, chief executive at marketing firm Savvy and another former Asda alumnus, believes the prospect of playing a larger role in a smaller company may be appealing to some.

"With Walmart, if you were the head of buying at Asda, you were just one head of buying in the Walmart group. Now you're out on your own and that's a bigger, more powerful job. Personally, I think it's an exciting time to be at Asda," she says.

Growth opportunities

While McWilliam said Asda can foresee growth across all areas of the business under the Issas, analysts believe the main growth avenues lie outside of grocery.

Lawless believes there could be opportunities for Asda in forecourts and at the petrol pump.

Data analysis from his colleague Clive Black found that EG Group forecourts are on average six pence more expensive a litre than Asda. Whereas the retailer has always set its prices nationally, EG Group has traditionally used algorithms to set prices by region, justifying increased prices with better cafes and convenience stores on forecourts.

"It'll be interesting to see what their petrol pricing strategy is and if it changes. For Asda, petrol prices have always been a footfall driver to stores," he says, adding that EG forecourts with Asda convenience stores could be a real area of growth.

Frozen could also be a big opportunity for Asda. Lawless says the grocer could look to take a page out of Iceland's book by increasing its frozen range – the market has thrived during the pandemic – and could even open standalone Food Warehouse-style big-box stores.

"Iceland's Food Warehouse does well, but they're not always the most inspiring shops," he says.

However, any potential growth opportunities could be stymied by the structure of the deal and how much capex the owners have to play with.

"This all depends on whether Asda's hands are tied by the fact their new owners haven't got deep pockets because they're servicing the debt," says Lawless.

Who will succeed Roger Burnley as boss of Asda?
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At the moment all the talk is about selling assets and taking brands out
Former Asda executive

THE DEBT

In the weeks after brothers Mohsin and Zuber Issa won the race to buy Asda in October, praise for the two entrepreneurs flowed.

Chancellor of the exchequer Rishi Sunak congratulated the brothers for returning Asda to British ownership and both were added to the Queen's Birthday Honours List.

The tale of how two brothers from Blackburn came to buy Asda is a true rags-to-riches story built on the success of EG Group, their petrol and convenience forecourts business. The company grew from a single derelict site in Bury, Greater Manchester, opened in 2001, to 6,000 sites across the UK, the US, Europe and Australia.

In the process, the two have literally made a fortune and are worth an estimated £3.56bn according to the Sunday Times Rich List 2020.

Yet, despite all the outward success, both the brothers and their buyout partner TDR Capital have developed reputations in the City for being notoriously secretive and having built their sprawling empire on a mountain of debt.

In 2019 rating agency Moody's said the brothers were the fourth largest borrower in Europe's €100bn collateralised loan obligations market – investments that effectively package riskier corporate debt into safer securities.

From 2017 to 2019, the group's debt pile more than quadrupled to in excess of €8bn. There were concerns at the time about the rapid, debt-driven growth of the business, which have only deepened in some quarters due to the way the two are financing the Asda takeover.

One analyst described the brothers as "canny operators" who have "built up a big portfolio very quickly" by "gearing up their balance sheets with a lot of debt".

"They clearly like a lot of debt and operating with a stretched balance sheet," he adds. "But, as we've seen with some of their other acquisitions, it will confine the capex they have to invest."

How the deal was financed

Despite Asda being valued at £6.8bn, the brothers and investment firm TDR Capital paid just £780m.

Most of the funds – just under £4bn – to buy the supermarket will be borrowed.

The final piece of the transactional jigsaw will be made up through the disposal of around £1.7bn worth of Asda assets, including the sale and leaseback of its distribution network and the sale of its forecourts business to EG.

It has also been reported that the brothers and TDR have set up a labyrinthine network of offshore vehicles and other intricate pieces of financial engineering to keep their petrol station business at arm's length from Asda – no doubt in order to lessen any concerns from the Competition and Markets Authority.

Deloitte, EG Group's former auditor, resigned over concerns about governance less than two weeks after the brothers confirmed the acquisition of Asda in October 2020.

In January, former M&S boss Lord Stuart Rose was brought in as EG Group's new chair, with the explicit remit of "developing "appropriate governance structures for a business of this scale".

However, some critics remain nervous.

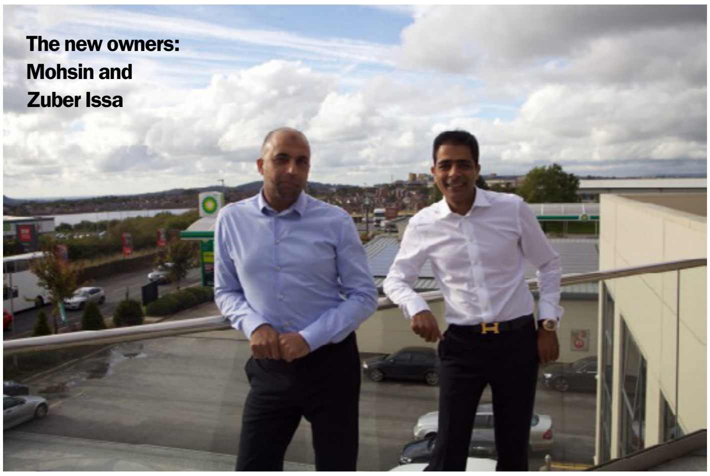
"It seems to be a classic private-equity deal and they will run the business differently to the way a PLC would. They're going to run it for cash," says one analyst. "The way it's started, it all feels a bit reminiscent of Debenhams."

Selling off assets

One former Asda executive says a number of existing staff are worried about the asset sales and whether more might come.

"These guys really are a complete unknown," she says. "There are a lot of colleagues who are asking themselves and each other: what exactly are they going to do with our business?"

Rumours of the potential George sale have added fuel to the fire. However, Roberts says the real concern is if the new owners



The new owners: Mohsin and Zuber Issa

look to sell Asda's extensive portfolio of freehold property.

Asda is unique among the big four in that it owns 75% of the freeholds of its properties and stores.

"Asda has always generated quite a lot of cash," he says. "The question is: what will the new owners do with it?

"In an ideal world, they'd either be returning it to customers in the form of lower prices or improving in-store experience. But with the deal comes a new stakeholder: the debt. Worst-case scenario, a lot of the cash earmarked on investment goes to the lenders over time."

What's next?

Speaking with a number of executives with ties to the business, a common theme emerges in the conversations: a real affection for Asda and a hope that it can succeed under its new owners.

However, that is mixed with a level of concern about the enormous debts piled on it.

"I really hope they do well and Asda succeeds," says one. "It's a great business, with a lot of really talented, hard-working people. There's just a lot of worry about the debt and what that'll mean for Asda."

Yet concerns around what strategy the Issas will take has analysts and alumni alike worried.

If the Issas' plan is to slash ranges, sell off key assets and focus on convenience forecourt strategies with their EG business at the expense of Asda's existing, somewhat tired, superstore portfolio the business could be in trouble, says one ex-Asda executive.

"At the moment, all the talk is about selling assets and taking brands out. With less range, they'll have more volumes – that's what they're telling suppliers. But that model never actually works."

However, Savvy's Shuttleworth is more positive and believes the entrepreneurial brothers, who have built a forecourt empire, will be good for the business and will take their new acquisition forward at a "million miles an hour".

Roberts is clear that investment is needed as the UK grocery market is more competitive than ever.

"I think, as Covid subsides, we will see customers revert to pre-pandemic shopping patterns. The discounters will get their mojo back when Covid becomes less of an issue and customers become more budget-conscious."

"Big boxes will lose their appeal as people don't want to spend hours going around big shops or driving to them. Sure, they might have a few convenience forecourts around the country which is good, but it's not going to be game-changing."

Without a great deal of investment from the brothers in the short term in pricing and stores, Asda looks destined to lose more market share.

Lawless suspects the Issas may not be focused on winning share and will instead look to cut costs to improve the bottom line, with an eye towards a possible float in the medium to longer term.

However, this is reminiscent of another leveraged retail buyout: Debenhams. And we all know how that ended.

Will the Issas' purchase go down as another debt-laden deal that hit one of Britain's biggest retailers or will it be the catalyst to get Asda back firing on all cylinders? All eyes will be on the entrepreneurial brothers to see which way the pendulum will swing. RW

NEED TO KNOW

Lockdown a year on: how retail changed forever

12 months after we were told to stay at home, Retail Week takes stock of how the pandemic has changed the industry. By **Gemma Goldfingle**

Sometimes a reality check is in order. We've all become so accustomed to this new way of life where face masks are the norm, family get-togethers are banned and the height of our social calendar is a daily walk around the park that it's hard to think about what life was like beforehand.

This week marks a year since prime minister Boris Johnson plunged us all into a state called "lockdown".

What was meant to be three weeks of us limiting our social contact and staying indoors turned into on-off restrictions for the next 12 months, a move that has fundamentally changed how we live, how we work and how we shop.

It has also transformed how retailers do business. 'Non-essential' stores have been shuttered for much of the year, which was enough to push some businesses that were already teetering firmly over the edge. Conversely, online sales have soared and where, what and how we buy has changed dramatically.

Retail Week takes this somewhat bleak anniversary as an opportunity to look at some of the biggest – and longest-lasting – changes our industry has undergone.

And there's no shortage of those. As John Lewis Partnership chair Sharon White said earlier this month: "It's been a real economic earthquake. We've seen decades worth of change in the space of one year. Shopping habits have changed irreversibly."

Worst year on record

One of the biggest changes has been in consumption. As we all found ourselves at home with nowhere to go in 2020, many people simply cut down on spending, which hit sectors such as fashion and health and beauty hard.

British Retail Consortium (BRC) chief executive Helen Dickinson said: "Covid has led to 2020 being the worst year on record for retail sales growth. Physical non-food stores – including all of 'non-essential' retail – saw sales drop by a quarter compared with 2019."

Months of lockdown have forced some to rethink what essential means. In fact, according to an exclusive Retail Week survey carried out by Walnut, 51% of consumers plan to save money when lockdown ends, while just 14% intend to splash the cash.

WGSN chief executive Carla Buzasi told Retail Week: "People are getting used to spending less. If we get used to that, it will be good for the planet and for brands as it puts pressure on them to produce really good products people are prepared to spend their money on."

The pandemic has created a real polarisation among consumers, with some losing their jobs and cutting back discretionary spend, while others are sitting on higher levels of disposable income, due to saved commuting costs and cancelled holidays.

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

However, with a sizeable portion of consumers facing economic pressures, price sensitivity could be a notable trend sparked by the pandemic.

JP Morgan head of European food, home and personal care research Celine Pannuti says: "In the next 12 to 24 months, consumers are going to be left with less money in their pocket. Many people will be left unemployed and have less to spend. We could see some downtrading as consumers settle for more affordable options."

Some retailers are planning for this trend. Both Tesco and Sainsbury's have launched Aldi price matches to fend off fears that the discounters will steal share in a price-sensitive market.

Even John Lewis – a brand favoured by the middle classes – has plans to introduce lower-priced products when its department stores reopen next month to improve value for money.

The online shift

With non-essential stores shuttered, consumers inevitably turned to online shopping. Ecommerce accounted for 27.9% of all retail sales in 2020, according to the Office for National Statistics – up from 19.2% in 2019.

The growth of online at some companies has been eye-watering. At John Lewis Partnership, for example, Waitrose.com sales have grown fourfold since February 2020, while JohnLewis.com sales were up 73% and now account for 75% of the department store's sales – up from 40% pre-Covid.

We've seen decades of change in one year. Shopping habits have changed irreversibly
Sharon White, JLP

The retailer said late last year: "Before the crisis, we believed that shops contributed around £6 of every £10 spent online. We now think that figure is, on average, around £3."In food, online has surged from 7% of total sales pre-pandemic to 16%, according to Nielsen data.

KPMG head of retail Paul Martin believes grocery is the area where online has been the "biggest game changer" over the past year. He predicts penetration will reach 20% by the end of the year.

Ocado boss Tim Steiner agrees that online will remain a bigger part of grocery: "Large numbers of customers have tried online grocery for the first time. For the most part, they see its benefits and won't be going back."

This dramatic shift to online shopping is unlikely to dissipate across all sectors post-pandemic. In fact, Martin predicts online will account for 50% of all retail sales by 2025.

PwC consumer markets leader Lisa Hooker points out that digital has taken off with the older generation."That will impact not just how we sell, but how we market to people," she says.

Retailers are investing heavily to benefit from this long-term growth. Tesco, for example, has invested millions in more than doubling its online delivery capacity since March. New chief executive Ken Murphy recently described its plans to build 25 new online grocery fulfilment centres by 2022 as a potential "game-changer" for the future of the business.

Meanwhile, John Lewis has committed £1bn to accelerate its online business and overhaul its shops over the next five years.

New ways to sell

The surge in ecommerce is opening up new growth routes for retailers. Virtual retail, whereby shoppers book one-on-one consultations online, has taken off, with retailers such as Dixons Carphone, John Lewis and Liberty offering such services.

The team delivering Dixons Carphone's ShopLive service has grown from 20 to 450 since its launch in April, with 2,300 staff trained to scale the service during busy trading periods. It is now available 24/7, which the retailer says creates an "always-on" 24-hour retail experience.

"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," says Dixons Carphone chief executive Alex Baldock.

Grocery on demand has emerged as a new growth route for supermarkets. Morrisons, Waitrose and Aldi have partnered with apps like Deliveroo and Just Eat over the past year.

Greggs boss Roger Whiteside, who started selling food on Just Eat last year, insists that the business coming via the app is all additional and believes it is a channel that will grow in the long term. "It opens up the evening for us. Two-thirds of food is delivered in the evening and we weren't even there," he says.

Closing stores

While online has soared, the pandemic has undoubtedly heaped more pressure on the already struggling high street. Store closures have become commonplace this year, with 17,500 chain stores closing their doors permanently in 2020 and just over 7,500 stores opening.

The net decline of almost 10,000 shops was almost a third higher than in 2019. This tally includes stores from retail stalwarts that have hit the buffers during the pandemic, including Debenhams, Arcadia, Oasis and Warehouse. Although their demise cannot be blamed solely on Covid – these businesses had been struggling for some time – it certainly did not help.

For more than 2,000 years, retail has broadly been the same. The growth of online has changed all that
Paul Martin, KPMG

However, even the more resilient retailers are closing stores in the wake of structural changes into how people are shopping. H&M will close 250 stores globally this year, while John Lewis, which shut eight stores last year bringing its total stores to 42, expects more to close at the end of lockdown.

JLP chair White said this decision was "painful" but necessary due to "a decade of changes in shopping habits in one year"."There is no getting away from the fact some areas can no longer profitably sustain a John Lewis store."

Next, one of the most successful multichannel retailers, also has a gloomier outlook after sales in shops plummeted and online revenue soared throughout the pandemic. "In previous years, we assumed that store sales would decline for one more year and remain flat thereafter," the retailer said in January. "We now believe this is overly optimistic and we are forecasting annual like-for-like sales declines for the foreseeable future."

McKinsey & Company partner Anita Balchandani says: "Retailers are really having to think hard about the shape of their portfolios, questioning the quality of the locations that were once prime. Do the economics of the stores stack up? Does that call for a reappraisal?

"We've had many conversations among landlords and brands, and I think the power is shifting to the brand owner at this moment."

Where we are shopping

The pandemic may have pushed more shoppers online, but it has also created a new hierarchy when it comes to retail property.

Footfall has been depleted in city centres like London, which are missing both commuters and tourists – both of which are unlikely to return in the near future. In fact, Heathrow predicts it will see 37.1 million passengers this year, compared with 81 million in 2019.

But while big city centres will struggle to return to pre-Covid levels in the short term, shopping locations such as retail parks and local high streets have proven more resilient.

This trend is predicted to continue, particularly as hybrid working will see more people spending more time in the places they live in. In fact, 25% of shoppers surveyed by Walnut for Retail Week said they planned to spend more in local high streets this year.

This renewed localism has forced some to radically rethink their store strategy. Big-box retailers such as B&Q, Dobbies and Homebase are moving into more local high streets and, despite its store closure programme, John Lewis is trialling opening "smaller, more flexible" outlets in local neighbourhoods later this year.

John Lewis boss Pippa Wicks says: "I don't think we will go back to full working from offices, so being nearer to where customers live is really important."Conversely, some retailers are questioning whether the huge overheads that come with city-centre stores are still worth it.

The current vacancy figures on Oxford Street stand at 9.1% – its highest level in more than a decade, according to the Local Data Company.

The exodus from the high street has created a greater impetus for landlords to lower rents, which is encouraging some retailers to open stores in locations once out of bounds for them.

Greggs is pushing ahead with its move into London over the next year. Whiteside says: "The City of London was always difficult to break into, but with rents falling substantially it is now more accessible. We're lucky we're not suffering from high rents and low footfall. We'll be going in at a lower rent."

Despite predictions that footfall will not be as strong in city centres such as London, with home-working more commonplace and international travel unlikely to return to 2019 levels for some time, Whiteside believes it will still be a bustling place.

"I can't believe London won't be busy – it might not be as super-busy as before, but it's still going to be one of the busiest places on the planet," he says. "Take London Bridge. Even if it's three-quarters as busy, it's still going to be our busiest shop in the country."

PwC director of retail strategy Kien Tan agrees that city centres will bounce back and he thinks the return of the hospitality industry will be a catalyst for this.

"You can't have the restaurant experience online. If cities come alive again because of hospitality, that will have a halo effect on retail," he says.

A new business model

KPMG's Martin says the shift in how consumers shop has fundamentally changed the business model of retail.

"For more than 2,000 years, retail has broadly been the same. You source goods, ship them and sell them in a physical location. The growth of online has changed all that," he says.

Investing and trading online will put margins under pressure for bricks-and-mortar retailers, most of which "do a bit of online on the side", rather than making it core to their model, says Martin. "The cost of doing business will go up. Profitability levels of UK businesses have declined by 80% over the past 10 years. This means, in parallel to changing their business model, most retailers will have to undergo radical cost rationalisation."

Former Co-op and BRC chair Richard Pennycook agrees that cost-cutting is an inevitable consequence of the pandemic. He told Retail Week last year: "Non-food retailers have to re-engineer their economics. In a dramatically lower footfall world, you can't support those rents or wage bills. The whole economics of doing business will need to change."

For retailers that want to be truly omnichannel, this will mean a "brutal cost agenda" with 20% to 30% needing to be cut over 24 months, says Martin.

More flexible supply chain

Another area in which Covid has forced a radical rethink is in sourcing and supply chain. From the impact of stockpiling in grocery to the mountains of unsold clothes in fashion, retail's supply chain has faced its fair share of challenges over the past year.

With demand patterns changing dramatically, retailers have been forced to switch orders and react rapidly.

In fashion, Balchandani says those that sourced nearer to home and had greater flexibility were more resilient.

KPMG UK head of consumer markets Linda Ellett also believes a diverse supply chain will be needed going forward, particularly in food, in a year where not just the pandemic but Brexit blockages have hit demand.

"Structural challenges in our food, drink and wider supply chains were really exposed and taking learnings forward will be critical," she says.

From supply chain to stores, Covid has turned retail on its head this past year. As lockdown ends, stores reopen and businesses start to look to the future, we will see dramatic changes as retailers adapt to a very different way of shopping and living. RW

DATA

Has Covid changed how we shop?

How will a year of on-off restrictions impact the way we shop going forward? As we near the end of lockdown, Retail Week teams up with Walnut Unlimited to ask consumers about their post-lockdown spending priorities

After a year of on-off restrictions, retailers may be hoping that the reopening of retail in April – a significant milestone in the government's roadmap to normality – brings with it a spending splurge.

However, more than half of UK consumers are planning to save money as lockdown unwinds, with just 14% expecting to splash the cash, according to exclusive consumer research from Walnut Unlimited for Retail Week.

Younger shoppers are more likely to make up for lost time and experiences with 24% of 18- to 24-year-olds and 18% of 25- to 34-year-olds looking to spend more as lockdown ends, compared with just 9% of over-75s and 14% of 65- to 74-year-olds.

Travel is the area that consumers plan to spend the most on when they are released from lockdown with 27% expecting to spend more this year than they did pre-Covid, while 22% plan to splurge more on retail .

DIY will continue to thrive

DIY, a sector that has been resilient throughout the pandemic, looks set to be retail's top performer.

Just over a quarter of respondents (26%) said they would spend more on home and DIY products this year than they did pre-Covid.

It would appear that people have caught the DIY bug after a year in which they've spent their time and money improving the houses they spend an increasing amount of their lives in.

A surge in house moves stimulated by the stamp duty holiday has also driven this trend.

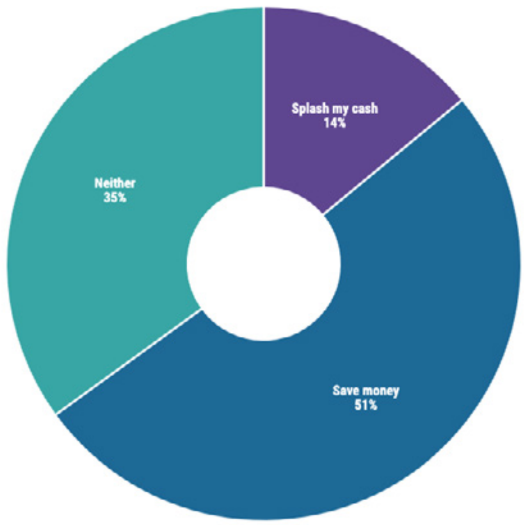
Walnut Unlimited research director Amy Nichols says: "We've all spent significantly more time in our homes than ever before – it is no surprise to see that home and DIY features in our spending plans this year.

"Our home is linked to our intrinsic sense of self."

The next most popular post-lockdown category for spending was entertainment at 19%.

In terms of gender split, the survey found that men plan to spend more on entertainment and technology, while women are looking to spend more on beauty and fashion.

Do you plan to splash your cash or save money as lockdown ends?



Where will we shop?

In 2020, online penetration jumped from 19.2% to 27.8% as store closures forced people to turn to ecommerce to buy what they needed. After a year of shopping this way it seems this behaviour has stuck, with 28% of shoppers saying they will spend more online this year than pre-Covid, making it the biggest channel winner.

However, a quarter of shoppers plan to spend more at local high streets than they did before the pandemic, illustrating that the trend towards localism is here to stay.

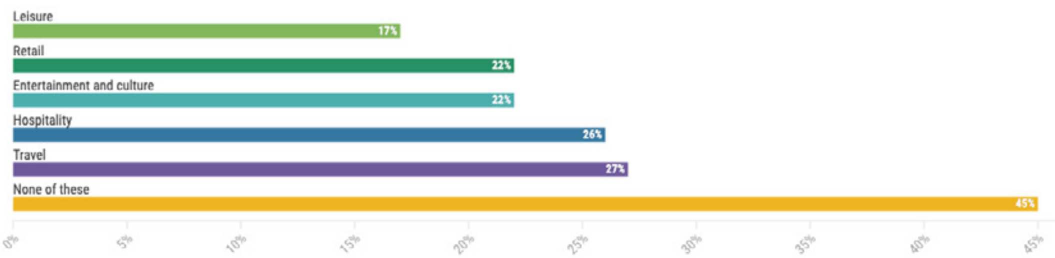
This is perhaps no surprise given that remote working is expected to be here for the foreseeable future.

Shopping centres and city centres were less popular, with only 16% of shoppers planning to spend more at these destinations. However, somewhat surprisingly, retail parks ranked as the destination people were least likely to spend more at, with just 14% of consumers planning to spend more than pre-pandemic levels.

Retail parks proved the most resilient destination during the pandemic as shoppers felt safer driving to such stores, which tend to be more spacious.

Over Christmas, Next said its shops in retail parks performed around 15% better than other destinations. Meanwhile, Springboard said that over the course of 2020 retail park footfall fell 23% compared to a 45.2% plummet on high streets and a 41.5% nosedive in shopping centres. However, this trend looks likely to be temporary one, judging by where consumers say they plan to shop going forward. RW

Which, if any, of the following areas do you plan to spend more on this year compared to pre-Covid-19?



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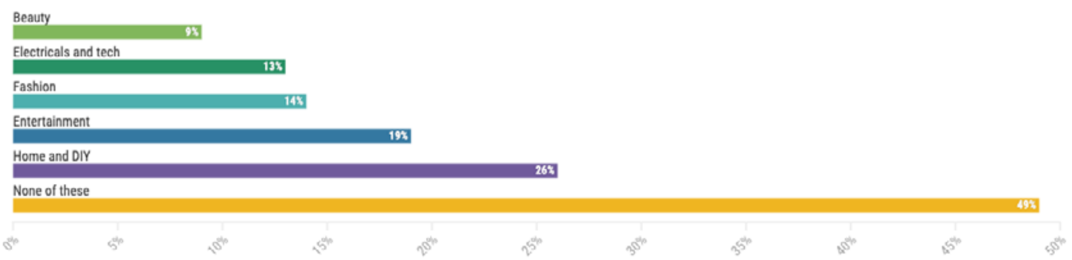

OPINION

Amazon stores are an ally, not an enemy, of high streets

Jeff Bezos' online behemoth is often portrayed as the destroyer of town centres, but its move into UK bricks-and-mortar retail should be welcomed, says **George MacDonald**

As once-powerful names such as Debenhams and Topshop exit town centres, there has been an unlikely newcomer to UK bricks-and-mortar retail – Amazon.

The online giant, which already owns the Whole Foods Market chain, is now trading under its own name after opening the doors to the first Amazon Fresh store outside the US, in west London.

Amazon Fresh, which launched in a blizzard of publicity, will no doubt be an unwelcome arrival in some quarters of retail where the Seattle powerhouse is seen as public enemy number one.

But the opening should be welcome. The store is a show of faith in bricks and mortar and town centres, and is a beacon of innovation – all of that is good for retail.

The pandemic has powered online retail to new heights. In January, online accounted for 35% of retail spend, according to the Office for National Statistics. That was the highest on record but, nevertheless, the figure shows even in these disrupted times the key role played by stores.

It is no surprise that, despite its pureplay heritage, Amazon sees value in shops – particularly in retail's biggest category, food, where traditional grocers still hold sway.

The message for other retailers is surely that there is a future for good stores. That means taking inspiration from what Amazon does well and differentiating from it to emphasise factors such as advice, service, product and curation.

Similarly, as many people continue to work from home and the futures of town centres and the retailers that trade there are questioned, the touchdown of Amazon Fresh in Ealing Broadway shopping centre is a bet – even if a small one at 2,500 sq ft – from one of the world's most forward-thinking retailers that such locations are not finished quite yet.

Meet the neighbours

Amazon Fresh stores UK director Matt Birch told Retail Week the inaugural branch is designed to appeal to neighbourhood shoppers – perhaps indicative of a conviction that a trend towards shopping locally may outlast the pandemic.

More Amazon Fresh stores are planned and it will be fascinating to see what sort of locations are selected. Amazon's choices are likely to help inform those of other retailers as they consider the ongoing relevance of their portfolios.

Using Amazon's Just Walk Out technology, the new shop is also a clear indication of how innovation will shape the future of shopping.

Although Amazon's contactless approach suits socially distanced times well, it predates the pandemic. The point for other retailers is not really the extent to which the tech's time has come, but that the etailer constantly seeks to drive such innovation.

The demise of Topshop, Debenhams and others offers a stark reminder that no retailer can afford not to move with the times, constantly evaluate its formats or create new store models as shopper habits and expectations change.

George MacDonald
Executive editor, Retail Week

The technology would be unused if nobody thought the product on the shelves was worth buying

Some believe Amazon Fresh is primarily a marketing vehicle designed to sell Just Walk Out technology to other retailers in the same way it sells cloud computing services.

That may form a part of its thinking but don't bank on it. The technology would be unused if nobody thought the product on the shelves was worth buying.

The etailer has thrown down the gauntlet by launching its By Amazon own-label food range to sell in the new store. Anecdotally, the food seems to fare well in comparison with longer-established grocers.

The appointment of Birch, a former Sainsbury's and Central England Co-op executive, to spearhead Fresh is a sure sign of Amazon's seriousness in creating a successful food format as part of a bigger grocery business.

If Amazon can see the value in town centre bricks and mortar, it shows there are new forms of opportunity too for those that have traditionally made it their stamping ground. RW

OPINION

Why M&S is unlocking the power of alumni

Retail would be nothing without its people, so why don't we nurture relationships between colleagues after they've left the business? **Katie Bickerstaffe** explains the thinking behind Marks & Spencer's new alumni network

Few would argue the benefits of an engaged workforce, particularly in retail, which is fundamentally a people business and the UK's biggest private-sector employer.

To win in a competitive market, you need brilliant people giving outstanding customer service – every day, in every location. The pandemic has brought this to the fore as teams across the country have dug deep, gone the extra mile and – in our case – delivered some of our highest ever service scores. We're very lucky to have the team we have.

Family values and engagement are deep-rooted in Marks & Spencer's heritage. Our founders knew the value of fostering a culture where colleagues are valued, involved and given a voice.

But until now that has ended abruptly when a colleague leaves us. We want to change this. Our alumni are part of our extended family and have a significant contribution to make. Research shows the commercial reward of investing in these lifelong relationships. One of the clearest and most relevant to retail is the benefit of the boomerang hire.

Returning employees are immediately more productive and,what's more, their retention rates are 44% higher over three years. Returner hires coupled with alumni recommendations create an efficient pipeline and businesses with evolved programmes report 10% to 15% of annual hires coming via alumni.

Digital network

Pre-Covid, retail was grappling with seismic shifts in customer behaviour and these trends have only accelerated.

Alumni could and should be valuable allies in driving transformation and helping retailers emerge stronger, whether that's supporting a talent pipeline, as a source of business development or providing candid feedback on products and services.

Very few retailers feature on the list of major alumni networks. Harnessing the power of alumni in a structured way has largely been the domain of tech, FMCG and professional services, often with a global workforce. Born out of American college culture, alumni programmes are an established feature of US-based companies, where 98% of the Fortune 500 have a recognised network.

This is even more exciting in a digital context. Since the digital makeover of our Sparks programme last summer, membership has grown by over 2 million to 9.5 million thanks to an easier, more intuitive and more rewarding experience. Launching our network digitally means connections can be made at the touch of a button and users can generate content and personalise experiences, setting up shared interest groups. The possibilities that come from bringing this group together are only limited by ambition. We see the potential for a network, using alumni expertise to inform sustainability or product development.

As any marketeer will tell you, word-of-mouth endorsement is worth so much more than any paid communication. The potential to create a network of brand advocates – and even start to consider the network as a route to market – is real and exciting.

Katie Bickerstaffe
Chief transformation and strategy director, Marks & Spencer

Alumni networks are powerful because they connect people. They are a platform to share, collaborate and spark ideas

Family business

Beyond these commercial benefits, alumni networks are powerful because they connect people. They can be a platform to share, collaborate and spark new ideas. But they can also be a community, offering a lifelong source of support and development, both as an employer and consumer brand.

As retailers, we know how loyal our colleagues are and how important relationships are. Retail is built on people, from fantastic selling teams to designers, developers and distribution teams. We asked our alumni how they felt about the network and what it should be called. The feedback was unanimous – the M&S Family. That tells me there is a real passion for this, the opportunity is there and it is vital to get it right. Of course, our M&S family is part of a much bigger retail family – one full of brilliant and innovative people.

In the past year, we've pulled together as a sector, in more ways than I can remember at any time in my career.

As the UK economy reopens, there is a long road ahead for retail and the lifelong connections we have will be more valuable than ever. I'm excited to see what this committed, passionate and caring community can help us do. **RW**

M&S alumni can register at alumni.marksandspencer.com

Online and offline – it isn't a game of winner takes all

Debates about the future of retail are too often framed in binary terms, says eBay's **Murray Lambell**, while the past year has shown us that stores and ecommerce are equally important pieces of the puzzle

Over the past year, many have tried to pit ecommerce against physical stores. And with the regrettable loss of some big brands from our high streets it's an easy assumption to make.

But for every big brand lost, we've seen thousands of retailers take on the challenge Covid has brought with it and turn their operating models upside down, finding new opportunities and revenue in the process. From expanding their online offering to disrupting their supply chains or testing new channels to reach consumers, the real retail story of the last year is one of adaptation, innovation and survival.

More shoppers have embraced online avenues over the past year and have realised the ease and speed that browsing and purchasing from home can give. We can see it in the way people have used the eBay marketplace.

It is evident from an influx of 'first-time' online shoppers to a boom in sales across the DIY and home category, prompted by the closure of non-essential shops.

Searches on eBay for 'eco furniture' and 'sustainable furniture' saw a huge rise in 2020 compared with 2019, up 123% and 171% respectively.

Businesses have responded to these trends in inventive ways that should give everyone hope about the future of the retail industry.

Take ClearCycle as an example, a small retailer on eBay that works with high street furniture brands to refurbish and resell returned or last-season stock to cost-conscious and environmentally minded consumers. With furniture and outlet stores closed, it's a market that has flourished in the past year.

But this isn't a new phenomenon. For decades, retailers have been forced to adapt to changing consumer needs and wants. The only difference is that in 2020 this shift to online was forced upon us. It wasn't a gradual gear change, but a sharp escalation – one I believe has led to positive foundations that will support retailers in the long term.

Murray Lambell
UK general manager, eBay

If we have learnt anything from the last year, it is that online and offline are equally important parts of the retail puzzle. It isn't a binary game of winner takes all. For example, more than 60% of our sellers in the UK have a physical and online shop, and we expect more retailers to adopt this multichannel model in the future.

One way retailers have adapted is by adopting the marketplace model, supercharging their online presence with the safety net of tried-and-tested tech

What's important for consumers right now is supporting local communities, having confidence in the businesses they choose to shop with and finding great value at a time of financial anxiety. That applies to the local corner shop as much as it does a big high street department store or an online-only retailer.

The retailers that are succeeding despite the pandemic are those that see this and have adapted. They are combining community affection and loyalty with the reach and firepower that ecommerce and the marketplace model can bring.

That's why we launched our eBay for Change initiative, to offer training and financial aid to small, community-based businesses that support disadvantaged areas across Britain.

One way many retailers have adapted in the face of Covid is by adopting the marketplace model, supercharging their online presence with the added safety net of tried-and-tested tech.

Last year, in the face of closed stores, Jack Wills, LK Bennett, Wallis, The Entertainer and even the world's most famous toy shop Hamleys launched with us in a matter of weeks.

These online shop windows were soon up and running, reaching the nearly 30 million buyers who visit eBay UK each month.

We've seen more retailers looking to marketplaces for two reasons: in the short term to shift excess stock and, secondly, to try to reach more customers through the already established power and scale of online marketplaces.

Almost a year on from the first lockdown, the UK retail industry has experienced radical change but, I would argue, that change was already on the horizon.

All retailers have the opportunity to not just survive, but thrive post-Covid. And online retail is critical to making that happen. **RW**

ANALYSIS

Where retail bosses love to shop online

After a year that saw ecommerce accelerate like never before, Retail Week asks CEOs to name their favourite retail websites and tell us what they love about them

eBay

Nick Beighton, chief executive, Asos

"I love buying and selling stuff on it. I love to cleanse the house and my wardrobe. I sell just about anything. I've just sold a La Pavoni coffee machine that I bought 20 years ago. It was our first espresso machine. I totally loved it, although it took quite a long time to make a cup of coffee for anyone."

Car & Classic

Jason Tarry, UK chief executive, Tesco

"Having called out a fishing equipment emporium last time, I'll dodge the fishing websites this time around. If I consider the retail website I browse most, it's Carandclassic.co.uk, an aggregator on which it is possible to search for every classic motorcycle and car ever produced. I've never actually bought anything, but the hours wasted browsing, dreaming of owning something impractical, expensive, indulgent and unnecessary is a nice distraction – especially in these lockdown times."

Net-a-Porter

Clare Clough, UK managing director, Pret a Manger

"My weakness is Net-a-Porter – I can lose hours browsing the pages, dreaming about what I could buy. I love the weekly edits and 'What's New'. The style is very editorial, so it feels like reading a magazine as well as shopping. I often build wish lists – which can be almost as satisfying as the purchase. I also love that if you order by 10am you can get same-day delivery and I've used this to avert work event, party and holiday disasters when I haven't had time to plan properly (well, that's my excuse anyway!)."

My weakness is Net-a-Porter – I can lose hours browsing the pages, dreaming about what I could buy. I often build wish lists – which can be almost as satisfying as the purchase

Clare Clough, UK managing director, Pret a Manger

Waterstones

Claire Davenport, chief executive, Notonthehighstreet

"Waterstones is a shining example of what makes a great retail site. It has translated the in-store experience to online cleverly and simply, ensuring recommended reads stand out to the tastes and needs of different customers, keeping reviews prominent on any product landing page, and sharing blogs that replicate the conversations you might have with any sales assistant."

Rapanui

John Boumphrey, UK country manager, Amazon

"I'm a big fan of Rapanui. Excellent customer experience, great designs, high-quality products and a deep commitment to sustainability and the circular economy – what's not to love?"

ANALYSIS

Pasta Evangelists
Wilf Walsh, chief executive, Carpetright

"I would love to make my own pasta, but lack the skill or 'bravura'. Home counties lockdown etiquette strictly decrees artisan (there, I said it) food delivery at home. Pasta Evangelists drops off delicious fresh pasta meals that can be cooked in minutes. Regrettably, the Italian word 'pigro' translates even more cruelly than 'lazy' in English."

Net-a-Porter
Toni Galli, country manager, H&M UK and Ireland

"Shopping at Net-a-Porter is always such a joy. The site promotes a lifestyle through its clean yet inspiring imagery, incorporating a variety of brands at varying price points. I rarely leave the site without making a purchase I know I will cherish for many years ahead."

The Modern House
Murray Lambell, UK general manager, eBay

"A brilliant insight about people and our obsession with where we live has enabled a dynamic duo to set up a daily visual feast and a successful business to boot. The online version of *Through the Keyhole* (for those who remember that in a world of lockdown and Zoom meetings). In the odd break, I can take a peek at a place I'd one day love to call home. Total pleasure."

Bookshop.org
Richard Walker, managing director, Iceland

"My favourite website is Bookshop.org, an online book retailer that donates money from every sale to independent high street bookshops around the UK. Not only is it the perfect antidote to Amazon, but it's also where you can pre-order a copy of my upcoming book, *The Green Grocer*, which will be published in April."

Dr Martens
Cheryl Calverley, chief executive, Eve Sleep

"Ecommerce has a long way to go before it can offer an engaging customer experience to rival physical stores. So, when I think of my favourite online stores, they're centred around my favourite products: shoes. Sites like Jimmy Choo and United Nude make products tantalising and engaging even in lockdown February. However, my ultimate favourite is Dr Martens."

While I much prefer an in-store customer experience and interaction with staff, I am impressed by the functionality of the Ocado website. The site search is brilliant, with super-fast response to display search recommendations

Gary Grant, founder and executive chairman, The Entertainer

The White Company
John Colley, chief executive, Majestic

"I love The White Company's online store. Its user and customer experience is one of the best out there. For me, it's the small details that are incredibly hard to execute that they do so well. The 'Inspiration' links, gift-boxing and messaging options really are best in class. They have now also linked the site to social influencers' top products, which is very well presented. It's been my go-to place to get ideas and buy gifts for friends and family or things for the home this Christmas."

Notonthehighstreet
Jacqueline Gold, chief executive, Ann Summers

"Notonthehighstreet is beautifully curated, with thoughtful touches and lifestyle photography throughout. It's packed full of small business inspiration, whether you're purchasing for an occasion or just looking for something unique for you. It's simple to navigate and personalise products, which means I always find it impossible not to buy something."

Ocado
Gary Grant, founder and executive chairman, The Entertainer

"While I much prefer an in-store customer experience and interaction with store staff, I am impressed by the functionality of the Ocado website. The site search is brilliant, with a super-fast response to display search recommendations. Alongside this, Ocado has their 'list search' functionality, which saves a lot of time when shopping. It allows me to add my full shopping list and then see results on just a few pages, while always prioritising my favourites."

Amazon and Ocado
John Roberts, founder and chief executive, AO

"I would choose Amazon and Ocado based on ease, speed, reliability and performance against promise. You could live most of your life only shopping with these two websites… unless, of course, you need electricals!"

Selfridges
Damian McGloughlin, chief executive, Homebase

"Selfridges is a website that continues to attract me. It has a really good range of brands to choose from. I like browsing and Selfridges makes that really easy, so it's not just about the transaction, but the inspiration along the way. It's simple to navigate, has a good refund policy and deliveries usually turn up when they say they will turn up. It's those symbolic little ticks in your head that mean you buy with confidence."

Gousto
Aron Gelbard, chief executive and founder, Bloom & Wild

"Great customer experience, with a real emphasis on sustainability. Clean navigation and intelligent use of AI that knows the food we love to cook from an extensive range. Our favourite has to be miso tofu with stir-fried ginger greens. Recipes are easy to follow and so far I haven't had any *Hell's Kitchen* moments!"

ANALYSIS

Grocery on demand: the new ecommerce battleground

Online grocery used to be reserved for the big weekly shop, but we're increasingly picking up our smartphones to buy top-up items. Are the big grocers up to the on-demand challenge? **Hugh Radojev** reports

One of the biggest stories in grocery since the start of the pandemic has been the growth of ecommerce, which has doubled in terms of market penetration since March 2020.

Pre-pandemic, the online grocery market was stagnating at around 7% of overall sales and was considered something of a necessary evil for most big-box grocers due to the high costs and low profit margins associated with picking, packing and fulfilling orders.

Fast-forward 12 months and one global pandemic, and the market has exploded, with the latest Nielsen data putting grocery ecommerce at 16%.

But a new trend is emerging online. Much like the way the pandemic has spurred consumers to ditch the hypermarket in favour of local convenience stores, it has driven a similar behaviour online.

Supermarket websites used to be the place to visit when doing the big weekly shop. Now shoppers are picking up their smartphones to buy top-up items for delivery and food for later that evening.

Retail Week looks at what grocers are doing to fulfil the needs of this new online shopper.

How the grocers are doing on demand

Ocado boss Tim Steiner says the pandemic has fundamentally changed the way people shop for groceries and that on-demand grocery delivery is becoming a key part of the ecommerce mix.

"Winners in the online channel will need to offer the very highest standards of customer service and the ability to serve a full range of customer missions," he says.

"These include the full family basket as well as the convenience shop, the option of direct-to-home or pick-up at the store, same-day or next-day."

Ocado Zoom, the grocer's one-hour service, launched as a pilot from a site in west London in 2019. Ocado is looking to take a further dozen sites – small depots designed to service Zoom – inside the M25 to expand the reach of the service.

> **Winners in the online channel will need to serve a full range of customer missions**
> **Tim Steiner, Ocado**

Ocado is not the only grocer that has rolled out on-demand delivery to service the top-up shopper.

Sainsbury's on-demand Chop Chop service, which delivers up to 20 items within the hour by bicycle, launched in southwest London in 2017. Last summer, it expanded the service to 20 cities across the UK, including Birmingham, Cardiff, Liverpool, Manchester and Newcastle.

Meanwhile, frozen food specialist Iceland is also working on its own on-demand service, provisionally called Swift.

However, other supermarkets have partnered with third-party delivery apps to serve this market. Although grocers such as the Co-op and Sainsbury's have been trialling such services for a number of years, the pandemic has been a catalyst for others to launch on apps such as Deliveroo.

Kantar's Worldpanel Plus ecommerce lead Maiko Skorupski says that lockdown has also spurred shopper interest in on-demand grocery.

Prior to the pandemic, the number of customers buying groceries through these delivery apps was so small that Kantar didn't break it out from the wider ecommerce data, she says.

The ability to provide customers with fast, reliable, convenient access to food and grocery products at home is an ever-growing priority for our business
Spokeswoman, Deliveroo

Kantar now measures the metric. In the period for which it has been tracked – the 42 weeks to January 10 – 2.2% of online food shoppers have bought groceries on a takeaway platform.

However, IGD found that 9% of online grocery shoppers used on-demand delivery apps to fulfil their orders in December.

Of the three main delivery apps – Deliveroo, Uber Eats and Just Eat – the data shows that Deliveroo has practically cornered the grocery top-up market.

This is because Deliveroo has not only been the most proactive in forming grocery partnerships, but also markets this service most clearly, explains Skorupski.

"It is focusing more on grocery delivery. They have a separate tab for groceries, whereas Uber Eats and Just Eat don't."

Co-op Food head of digital Chris Conway says the supermarket chose to partner with Deliveroo over other delivery apps because the firm employs its own couriers, rather than working with third parties like competitors such as Uber Eats, which makes the service more streamlined and reliable.

Deliveroo now has 19 partners in the grocery space, including Sainsbury's, Morrisons, the Co-op, Waitrose, Nisa, Harrods, Majestic Wine and Booths.

A Deliveroo spokeswoman says: "The ability to provide consumers with fast, reliable and convenient access to food and grocery products at home is an ever-growing priority for our business in the UK and around the world."

What customers want

Grocery on demand has been particularly popular with younger customers using apps for top-up deliveries, according to Skorupski.

On-demand grocery is comparatively expensive. Kantar found that the average basket spend across Deliveroo, Just Eat and Uber Eats apps for groceries was £28.43, of which up to £4 goes on delivery costs.

Despite this, speedy delivery is not the be-all and end-all for online grocery shoppers. According to a Kantar survey, 73% of customers who had used an app for groceries said that "rapid delivery is nice to have, but not essential".

Meanwhile, 70% said that the quality or variety of products available was more important to them than rapid delivery.

Steiner agrees: "Since last March, customers are much more discerning about the offers in terms of range, quality, service and price.

ANALYSIS

Deliveroo now has 19 grocery partners, taking the lead over the other delivery apps

If you can convince customers you can give them a better proposition than their local grocery store within an hour, then there's obviously a huge market for that
Tim Steiner, Ocado

"If you can convince customers you can give them a better proposition than their local convenience store within an hour, then there's obviously a huge market for that."

Another driver is the growth of localism among consumers who want to buy from community businesses, according to the co-founders of new delivery player Weezy Alec Dent and Kristof Van Beveren.

The start-up, which promises delivery within 15 minutes and currently operates in select areas of southwest, central and east London, works almost exclusively with local independent stores.

"During the pandemic, I think people are missing a sense of community," says Van Beveren.

"If you go to your local bakery or cafe, people remember your name and order. They can tell you, 'Next week, we're going to get this product in stock – you should try it'."

Whether to partner with delivery apps

Sainsbury's is unique among the big four grocers in operating both its own on-demand service and partnering with both Deliveroo and Uber Eats.

A spokeswoman said it partnered with these companies in order to expand on-demand grocery quicker and with less investment than it could through Chop Chop alone.

"The third-party tie-ups complement Chop Chop and online grocery orders by operating out of convenience stores, rather than supermarkets, and give us the ability to quickly and cost-effectively launch in new cities around the UK, where we know there is demand for super-fast deliveries from customers who are already shopping on these platforms."

However, in general it is more efficient to fulfil smaller on-demand orders from c-stores, rather than having pickers roam large supermarkets.

Sainsbury's is the only grocer among the big four to offer an on-demand service as well as partnering with delivery apps

What makes this work for both parties is our physical locations are close to the consumer
Chris Conway, Co-op Food

The Co-op also offers an on-demand service through its own website, promising delivery within two hours, and has a 30-minute delivery service via Deliveroo.

Conway says the scope of its convenience store estate makes the Deliveroo partnership more cost-effective. "The Co-op was pretty uniquely positioned to work with Deliveroo. What makes this work really for both parties is that our physical locations are close to the customer. Deliveroo charges a commission on each basket, but they also have to pay the rider, which doesn't come out of the delivery fee.

"What makes sense for them is, because we've got loads of stores, the delivery distances are quite short, which means they can get more deliveries in and make more money."

Does on-demand make money?

While partnering with the likes of Deliveroo is a good option for grocers looking to expand their on-demand offer with minimal expense, some have questioned its profitability as supermarkets, which operate on wafer-thin margins, have to pay third-party delivery apps commission on each order.

Conway says the on-demand channel needs to be looked at more holistically. He says fulfilling such orders helps to maximise the value of its c-stores and up the productivity of the staff.

"That's when on-demand really works. Part of our colleagues' task is to fulfil those orders, while others can serve at the checkout or stack the shelves," he says.

Conway also points out that, by using third parties like Deliveroo, grocers avoid overhead costs such as paying drivers and fuelling vans, as well as any other issues that come with last-mile deliveries.

On-demand grocery is still a tiny part of the market, but it is growing and all of the big supermarkets are making investments in this space.

With online grocery taking off during the pandemic and consumers embracing on-demand across many facets of their lives – from entertainment streaming to transport services – it's a burgeoning market that demands attention. RW

DATA

Ranking: The UK's 50 most vibrant retail locations

The pandemic has wreaked havoc on the ranking of retail's most vibrant shopping locations, with a swing away from city centres and towards smaller commuter towns in 2021. Grace Bowden reports

Beaconsfield was ranked the number one most vibrant retail location in the Harper Dennis Hobbs (HDH) 2021 Vitality Ranking, followed by Henley-on-Thames, Tenterden and Wimbledon Village.

The annual ranking, which uses a number of metrics including change in residents' movement and vacancy rates to rank 1,000 retail locations in the UK in vitality terms, recorded a major shift away from city-centre locations compared with pre-Covid rankings.

Westfield London, which was the second most vibrant retail location in 2019's ranking, has tumbled 203 places to 205 this year. Other central London locations Knightsbridge, Chelsea and the West End tumbled 327, 243 and 339 places respectively to 330, 247 and 348.

Manchester, which was ranked the 50th most vibrant retail location in 2019, came in at 349 this year, Liverpool fell 258 places to 306 and Edinburgh dropped 299 places to 314.

On average, city centres fell 142 places in the rankings, second only to out-of-town malls, which registered an average fall of 281.

HDH's head of retail consultancy Andy Metherell said: "This Vitality Ranking looks very different from previous years as the 'retail health' of high streets across the country has seen contrasting fortunes since the start of the pandemic.

"The most vital retail centres provide services that are essential to people's lives, such as grocers and pharmacies. These essential retailers have been able to trade throughout the strictest lockdowns, and consumers have not been willing or able to travel far to visit these stores.

"Shopping patterns have therefore changed significantly since the start of the pandemic and consumers' local high streets are benefiting at the expense of major destinations."

2021 rank	Retail centre	Region	2019 rank	Change
1	Beaconsfield	Southeast	64	+63
2	Henley-on-Thames	Southeast	28	+26
3	Tenterden	Southeast	39	+36
4	Wimbledon Village	Greater London	7	+3
5	Marlborough	Southwest	10	+5
6	Sevenoaks	Southeast	30	+24
7	Kingston upon Thames	Greater London	20	+13
8	Berkhamstead	East of England	14	+6
9	Harpenden	East of England	139	+130
10	Ilkley	Yorkshire and the Humber	110	+98
11	Cobham	Southeast	17	+6
12	Skipton	Yorkshire and the Humber	110	+98
13	Reigate	Southeast	12	-1
14	Farnham	Southeast	75	+61
15	Ringwood	Southeast	90	+75
16	Milton Keynes	Southeast	58	+42
17	Truro	Southwest	89	+72
18	Chiswick	Greater London	24	+6
19	Beverley	Yorkshire and the Humber	70	+51
20	Chester	Northwest	46	+26

Going local

This swing towards more local shopping meant a greater spread of regions across England featured in the top 50 ranking this year, with areas in the East Midlands and Northeast featuring for the first time.

However, as in previous years, retail centres in the Southeast featured most prominently in the top 50, followed by retail locations across Greater London.

While most of the top 50 were in the upper echelons of the 2019 Vitality Ranking, these centres have often climbed 25 to 50 places as larger retail centres fall due to shoppers staying closer to home for their shopping trips.

The top-ranked location of Beaconsfield climbed 63 places to the top spot compared with its ranking in 2019, while Harpenden ranked ninth in this year's ranking, having climbed 130 places since 2019.

HDH's head of UK retail Dan Hildyard said: "More restricted consumer shopping habits have had an enormous impact on the relative success of high streets this year, with a shift to home working encouraging residents to reconnect with their local community.

"Affluence is a factor here, and some consumers are protected from job losses seen in other industries.

"While city-centre destinations have suffered from travel restrictions and the absence of office workers, the fundamental strengths of these locations remain and we expect them to bounce back over the course of this year in line with restrictions being eased and consumer confidence in the economy and personal safety rising." RW

The pedestrianised zone in Henley-on-Thames, Berkshire

2021 rank	Retail centre	Region	2019 rank	Change
21	Hampstead	Greater London	43	+22
22	Muswell Hill	Greater London	38	+16
23	Harrogate	Yorkshire and the Humber	22	-1
24	Tunbridge Wells	Southeast	88	+64
25	Brighton	Southeast	21	-4
26	Marlow	Southeast	36	+10
27	Market Harborough	East Midlands	119	+92
28	Exeter	Southwest	80	+52
29	Sherborne	Southwest	26	-3
30	Knutsford	Northwest	104	+74
31	Stourbridge	West Midlands	260	+229
32	St Albans	East of England	19	-13
33	Bath	Southwest	13	-20
34	Winchester	Southeast	61	+27
35	Richmond	Greater London	6	-29
36	Yarm	Northeast	65	+29
37	Altrincham	Northwest	477	+440
38	Heswall	Northwest	140	+102
39	Clitheroe	Northwest	118	+79
40	Thame	Southeast	162	+122
41	Weybridge	Southeast	183	+142
42	Leamington Spa	West Midlands	82	+40
43	Hailsham	Southeast	198	+155
44	Windsor	Southeast	53	+9
45	York	Yorkshire and the Humber	47	+2
46	Bromley	Greater London	69	+23
47	Taunton	Southwest	194	+147
48	Guildford	Southeast	25	-23
49	Oxford	Southeast	42	-7
50	Saffron Walden	Southeast	132	82

More restricted shopping habits have had an enormous impact on high streets this year, with home working encouraging residents to reconnect with their local community
Dan Hildyard, Harper Dennis Hobbs


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