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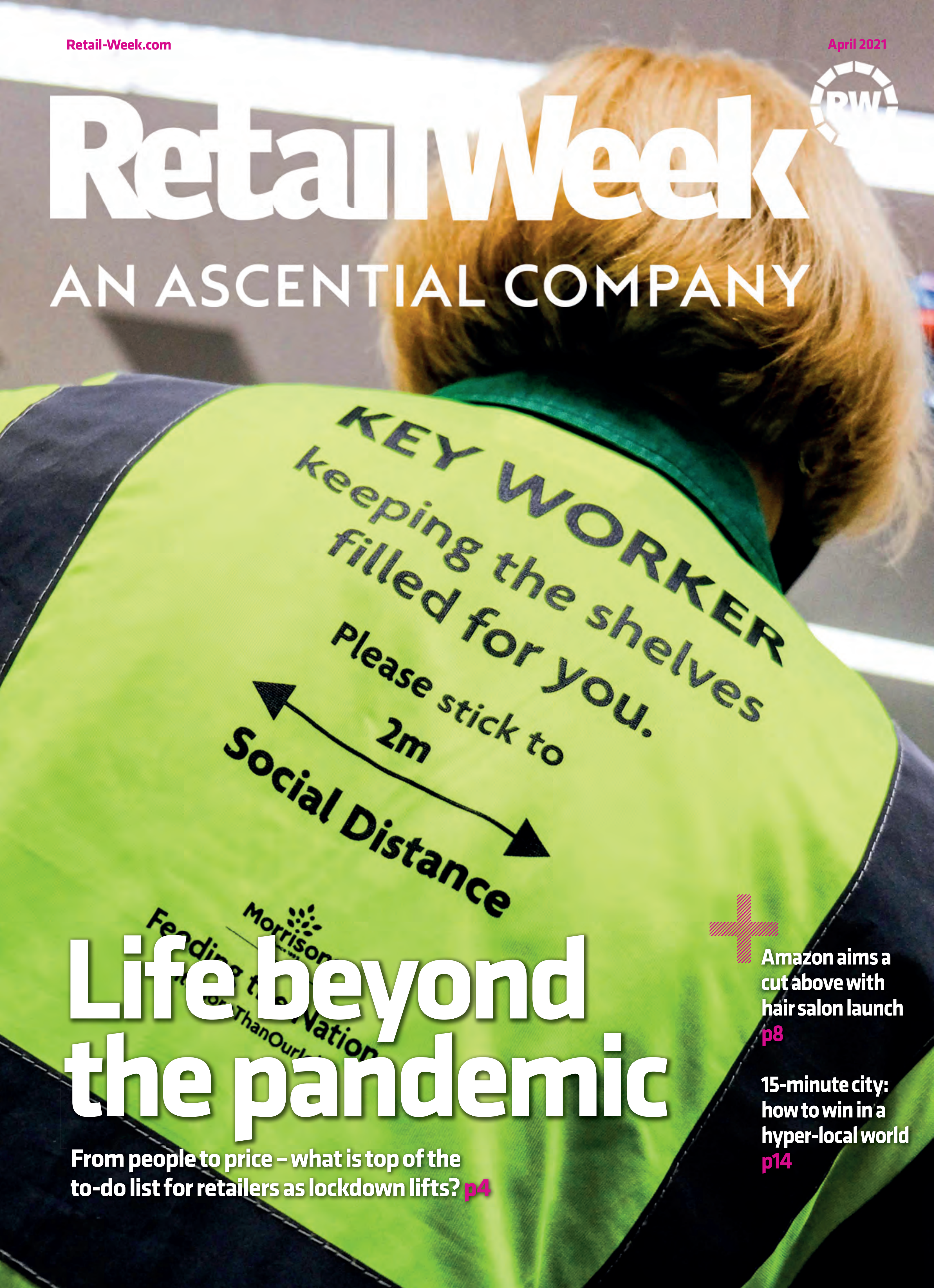

Life beyond the pandemic

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EDITOR'S COMMENT

Luke Tugby

Amazon's experience ploy is a warning shot to retail

It is a topic that has become a fixture of boardroom conversations over the past decade. As bricks-and-mortar retailers seek to create a store experience that offers something unique, attention has focused on 'what Amazon can't do'. Indeed, the WACD acronym has been scrawled on countless flipcharts and mentioned in hundreds of emails by retailers.

The issue they all have is that the list of things Amazon can't do is shrinking, almost by the day.

The ecommerce titan has already rolled out a chain of bookshops in its native US; it operates its own streaming services; it acquired Whole Foods in 2017 and has since opened its own Go and Fresh stores; it has launched its own pharmacy service.

Last week, the etailer embarked on perhaps its most unlikely brand extension to date. As revealed by Retail Week, Amazon will open its first hair salon, in London, in the coming weeks (page 8).

It's a story that sparked plenty of quips on social media. "Amazon taking the 'you can't get a haircut online' retort to heart," BNP Paribas Real Estate's James Child joked. One observer asked whether it "will bring up a list of haircuts that people like you have chosen", drawing parallels to the website's 'you might also like' feature.

> **Expect the unexpected where Amazon is concerned. Nothing is off the table**

But for Amazon's rivals, the latest launch is no laughing matter. As NBK Retail analyst Natalie Berg says, it serves as "a reminder that Amazon is not a retailer – and certainly not a hair salon – but a tech company that likes to find ways to do stuff better".

The salon will also double up as a test-and-learn facility to try out in-store tech. Customers can point to any product on display and digital screens will display information on that item. If they want to purchase the product, they simply scan a QR code.

The space will also act as a marketing tool for other products and services. Visitors will be given Fire tablets to keep them entertained, allowing them to stream music or video. Sound, of course, can be played through Echo speakers.

This is designed to be an experience – something that Amazon has never been renowned for. Its relentless rise has been driven by functionality, by convenience and by value. Experience was always the arena in which bricks-and-mortar retailers could win, using stores to enhance their USPs and build affinity between brand and customer. Now Amazon is attempting to do the same.

Amazon says the salon is a one-off, but it should serve as a warning shot for all retailers. Think about it – theoretically, Amazon could snap up any of the vacant Debenhams or John Lewis stores and open its own department store. It already has relationships with fashion and homewares brands. It has a growing range of tech and entertainment products. It has bookstores. Fresh could be integrated as a food hall. It has a pharmacy and now a salon.

OK, such a move appears unlikely, but not beyond the realms of possibility. Amazon's ambition is to offer consumers everything they need at any stage of their life cycle – from cradle to grave – without ever having to look outside its vast ecosystem. Why not test the idea of bringing that proposition together under a physical roof?

If the opening of a salon has reinforced anything, it is to expect the unexpected where Amazon is concerned. Nothing is off the table. If it spots a market or category that can be improved through its use of data and technology, it has both the cash and the 'test-learn-fail fast' culture to give it a try.

Even the best retailers cannot afford to rest on their laurels with that threat hanging over their heads. They must continue to innovate to improve the customer experience. They must continue to think carefully about their brand positioning and how it needs to evolve to remain relevant among not just today's shoppers, but tomorrow's. But, perhaps most difficult of all, they must continue to seek out and exploit those remaining things that Amazon can't do. RW

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DEEP DIVE

What are retailers' post-pandemic priorities?

From a renewed focus on price to a more flexible workforce and changing approaches to online, stores and supply chain, **Grace Bowden** looks at what's top of the to-do list for retailers

The past 12 months have upended normality for everyone and retail has been no exception. The UK's biggest private-sector employer has had to contend with closures of stores deemed 'non-essential', a swing to online shopping and shifting consumer priorities around what they want to buy and why.

But how has the last year changed retail leaders' priorities, where they are investing and how they are measuring success?

As stores emerge from a third national lockdown, Retail Week examines the industry's new post-pandemic priorities and how it is tackling them.

ONLINE

Across a number of key retail categories, namely those categorised as non-essential under government restrictions, 2020 was the year that online became the primary sales driver for the first time.

In February 2021, online sales at non-essential retailers surged 82% compared with a rise of 3.6% during the same month the previous year, prior to the onset of Covid-19 in the UK.

Although shoppers have flocked back to stores following their April 12 reopening, it is clear that ecommerce will continue to comprise a more significant part of retail spend than it did pre-pandemic.

The Centre for Retail Research forecasts that online will account for 27% of retail sales in 2021 – marginally down from 30% in 2020, but substantially up on the 19% share registered in 2019.

Against this backdrop, tycoon Theo Paphitis, whose eponymous retail group owns Boux Avenue, Ryman and Robert Dyas, says: "We knew online was where we had to put all of our money as far as development was concerned. We've done that the last few years to our cost and I'm pleased we did, because the work we have done stood us in brilliant stead with the advancement of online shopping."

Paphitis says a key area of focus for his group will be in continuing to increase the online range to extend substantially beyond that stocked in store. He points to the fact that 65% of online sales at one of his fascias last year came from products not stocked in shops – an indication that creating broader, exclusive online ranges will remain a key priority post-pandemic.

Etailer Feelunique is taking a similar approach. It plans to add more third-party brands to its platform, despite already stocking products from more than 800 beauty brands.

Boss Sarah Miles wants to increase that number to more than 1,000 in the coming years and expand its propositions in categories such as supplements and wellness.

But range is just one part of the online equation retailers must nail post-pandemic. Fulfilment has become another crucial battleground – a fight that has played out most intensely within the grocery sector.

We want to serve over 60% of the UK population at home
Jo Whitfield, Co-op

Retailers from Tesco to Iceland have ploughed cash into ramping up the number of delivery slots they offer in order to serve more vulnerable and elderly shoppers. They are also thinking carefully about how they fulfil those orders in the most efficient way.

Asda's chief customer officer Preyash Thakrar says the supermarket giant, which doubled its online capacity during lockdown, is "continuing to innovate" online.

It will grow its store-picking capabilities, creating 4,500 new roles in store-based online operations.

The Co-op is expanding click-and-collect services to more than 1,000 stores in the coming year as part of a £183m investment in its online and digital capabilities. Despite the progress made during the pandemic, including launching a partnership with Deliveroo, the Co-op's food boss Jo Whitfield plans to double the size of the convenience specialist's online operations again this year.

"We're currently in around 400 towns and cities with our delivery options and we want to be in over 600 by the end of the year," she says.

"By that point, we'll be able to serve over 60% of the UK population at home. That was always a goal, but it's definitely been sped up by the pandemic."

The Co-op fulfils all online orders from its estate of convenience shops, but many more retailers are now looking at the role of their portfolios and how they can double up as distribution hubs to service their growing online businesses.

Tesco has opened its first in-store urban fulfilment centre in West Bromwich and plans to open a further four sites in the next 12 months. It's a model that boss Ken Murphy describes as "a scalable, efficient option to fulfil ongoing online demand".

Fashion giant Inditex invested heavily in RFID across its operations to offer a single view of its stock holding. That enabled the group to fulfil 46 million online orders worth €1.2bn (£1.04bn) from its stores during 2020, delivering goods to customers' homes at a higher speed and lower cost.

As fashion rival Seasalt's chief executive Paul Hayes explains: "Many of our store teams have remained active through the lockdowns and have acquired new skills that reflect the changing role of our stores.

"We have invested in technology that allows us to fulfil online orders from our stores, which now act as mini fulfilment centres and are responsible for a significant percentage of our digital sales.

"We're working towards our staff in stores also providing customer service to the digital channels."

That's a crucial investment that Seasalt, Iniditex, Tesco and others will power ahead with as we emerge from the pandemic.

STORES

After a year of enforced shop closures across categories deemed non-essential, retailers are emerging from lockdown with an existential question hanging over their stores and the purpose they serve.

Making better use of those spaces by fulfilling online orders is just one of the ways retailers will be thinking differently about their portfolios.

As Alvarez & Marsal retail director Erin Brookes says: "The biggest question retailers have to ask themselves is: 'What is the role of the store going forward?' Because it is definitely going to fulfil a different set of criteria than it used to.

"Pre-pandemic, many retail businesses will have had a tail of unproductive stores. It's really time to call time on those stores that are likely not going to recover and focus investment in the estate in a more concentrated way."

According to PwC, more than 17,500 stores closed in 2020 – a net decline of almost 10,000 shops and the biggest decline for more than a decade.

It's not just collapsed chains like Debenhams and Arcadia that have shut up shop, either. High street stalwarts including John Lewis and H&M are also streamlining their portfolios.

Next is just one of the businesses forensically re-examining the role of its stores. Boss Lord Wolfson says the retailer now examines a store's value through the lens of online and the level of ecommerce sales it helps to supplement.

Wolfson flags that, pre-pandemic, 50% of Next's online orders were collected in store, while 80% of returns were processed in its shops.

Despite the challenges faced by bricks and mortar – including the perennial business rates burden – many retailers still see stores as a crucial part of their business model post-pandemic, but are thinking differently about what their stores will need to offer consumers.

Fenwick chief executive John Edgar says the retailer will curate a more varied set of experiences in its stores post-lockdown, from al fresco vegan dining and a wellness and lifestyle area in Bond Street, to pop-ups championing locally sourced produce in Newcastle.

Edgar says Fenwick will be "more flexible" with its approach to department stores than it was pre-pandemic, explaining: "We are focused on arrangements that allow us to bring pop-ups and newness into store, and with a lighter capital investment, rather than putting lots of money into something we're locked into for 10 years."

The themes of newness and flexibility are top of mind for other department store operators, too.

Frasers' new Wolverhampton store has been designed in a manner that allows it to flex its proposition on an almost weekly basis, dependent on how well certain brands and products are selling, while John Lewis plans to introduce 80 new fashion and beauty brands by the summer.

John Lewis is also offering furniture-rental services following a successful trial with Fat Llama, while its Kingston branch will soon begin selling refurbished vintage furniture, creating additional store-only propositions.

Asda's Thakrar believes lockdown has made big-box locations like department stores and supermarkets more of a destination as shoppers seek to get everything they require under one roof. It's a trend Asda is betting will persist post-pandemic, having launched in-store partnerships with the likes of B&Q, The Entertainer and Greggs.

The biggest question retailers have to ask is: 'What is the role of the store going forward?'
Erin Brookes, Alvarez & Marsal

Thakrar says that "allowing customers to complete a number of activities in a single trip" is a key priority for Asda post-pandemic – and it is not the only retailer reimagining its bigger stores in such a way.

Tesco has opened shop-in-shops for electricals pureplay AO.com, Waitrose is rolling out John Lewis concessions in a number of its supermarkets and, earlier this month, Next revealed plans to open Homebase garden centres in six of its branches – a move Homebase boss Damian McLoughlin says is "part of our wider commitment to make shopping with us easier".

Efforts to drive that ease and convenience for shoppers are also underpinning the way that retailers are thinking differently about their store locations post-pandemic.

Following a year in which remote working and increased spending in neighbourhood shops has become the norm, many retailers are already starting to open stores closer to where people live.

B&Q boss Graham Bell says the home & DIY retailer has pressed pause on big-box openings, but will be "growing new small stores" and "trialling new concepts". It is already trialling three new formats: stores on high streets with no parking, stores in suburban areas on the outskirts of cities and stores in rural catchments.

Homewares giant Ikea is prioritising more local store openings across multiple territories; recently opening a small store in Hammersmith and a 'mini' format in Queens, New York, both of which are intended to serve the

DEEP DIVE

needs of a more local customer base.

John Lewis is also reshaping its portfolio away from major cities. Earlier this year, the retailer rubber-stamped plans to close eight more city-centre stores, including those in Sheffield and Peterborough, in favour of launching smaller local shops.

John Lewis boss Pippa Wicks says customer feedback has revealed that shoppers "would really like to shop with us more", but doing so was "just not convenient" due to the distances some would need to travel.

She says: "We are going to be spending more time near our homes. I do not think we will go back to full working from offices, so being nearer to where our customers live is really important."

That will be the case for all retailers – not just John Lewis.

PRICING & SUSTAINABILITY

Price is likely to emerge as a crucial battleground for retailers in the coming years, with shoppers expected to adopt an increasingly recessionary mindset when it comes to spending post-pandemic.

A recent OnePoll survey found that 60% of UK adults are more money-conscious now than they were at the start of the Covid-19 pandemic – and retailers will have to adapt.

John Lewis is among the businesses seeking to hammer home its value credentials as we emerge from the crisis. The department store operator has launched new own-brand range Anyday, initially spanning homeware, technology, baby care and baby clothing, at prices 20% lower on average than existing own-brand lines.

Wicks admits the retailer is "perceived as too expensive" by consumers and says the launch will "challenge value perceptions of John Lewis and attract a broader group of shoppers who want to combine style and value".

She says the range could help John Lewis win shoppers from rivals such as M&S, Next and Ikea, but also win "more of the spend of the wallet of our existing customers" as it bids to grow market share.

That is something Tesco has already done successfully through its Clubcard Prices and Aldi Price Match initiatives, driving NPS scores and winning spend from all its key rivals, including the discounters.

Only this month, the grocer further cranked up the pressure by extending Clubcard deals to another 1,000 products, pushing further into fashion and general merchandise, and signalling its intent to continue investing in price post-pandemic.

Grocery retailers more broadly will be wary of the need to do similar. Aldi and Lidl ate into the market share of mainstream rivals at a rapid rate following the 2008/09 financial crisis, and the big four will be determined not to let that happen again as we enter a new recession.

Asda's Thakrar cautions: "As customers have adopted a more frugal mindset in the last 12 months, we anticipate that this will remain for some time to come, with value and accessibility driving customers' considerations to shop."

But one juggling act retailers across all sectors must get right is the trade off between price and sustainability.

Lower pollution rates during the global pandemic, in a year when fewer cars have been on the road, have clearly demonstrated the benefits of looking after the planet – something many consumers will continue to want to do. Yet offering products at low prices while producing and sourcing them in a sustainable manner can be difficult.

John Lewis carefully balanced those two conflicting demands from consumers when developing its Anyday range. "We're not compromising on quality or style or sustainability – that's been very key," Wicks insists.

The retailer is "seeing more demand for more sustainable products" post-pandemic, Wicks says. In order to keep prices at the shelf-edge as low as possible, John Lewis has sought to create products from affordable but sustainable materials, such as bamboo or recycled plastic bottles in the case of its £200 bed frame.

H&M is also thinking carefully

I do not think we will go back to full working from offices, so being nearer to where our customers live is really important
Pippa Wicks, John Lewis

Morrisons raised its pay for store staff to at least £10 an hour

about the link between price-consciousness and sustainability among its consumers.

The international fashion giant has recently launched its Conscious loyalty scheme, which rewards shoppers for making more sustainable shopping choices, including bringing in old clothes for H&M's garment collecting, choosing climate-smart delivery options and buying products made from more sustainable materials. The points shoppers accumulate then translate into discounts on future purchases.

H&M boss Helena Helmersson says: "Sustainability is integrated into everything we do. The pandemic has increased awareness for customers, which makes us feel that our position and our customer offer of price, fashion, quality and sustainability is good.

"We will be doing different things going forward when it comes to sustainability and customer engagement. We launched green points in the loyalty club so that we also encourage certain behaviours, which is a great way for us to continue to increase awareness."

PEOPLE

It's been a transformative year for retail staff, on one hand hailed as key workers throughout the crisis and on the other hand dealing with growing levels of abuse and harassment from shoppers chafing against lockdown restrictions.

Thousands of staff in non-essential stores have had to contend with being placed on furlough or pivoting to new skills, such as processing online orders from stores or conducting video consultations with customers. All this has drastically altered the way retailers think about their people.

As one retail boss puts it: "The contract between employer and employee has changed forever. This was the year of welfare and wellbeing – it has been tough, but there will be positive long-term ramifications for how we as retailers reward our colleagues."

Pay is a crucial part of that change. Morrisons put a flag in the ground at the start of this year when it became the first major supermarket to commit to paying its store staff a minimum of £10 an hour.

Morrisons boss David Potts describes the new pay deal as "an important and symbolic milestone", but insists it "marks a new beginning of the pay journey and not the destination".

Tesco has dished out three separate bonuses to its staff during the past year, while the Co-op hiked the pay of more than 30,000 shopfloor workers – a £53m annual investment – and gave out £25m in bonuses during its financial year.

Last July, AO founder John Roberts launched a new incentive scheme that would reward all 3,000 of its staff should the etailer hit share-price targets. Writing for Retail Week at the time, Roberts said the move was about "doing the right thing when it comes to how we treat our people".

But remuneration is just one important strand of retail's renewed post-pandemic focus on investing in its people. Reskilling and upskilling staff to better equip them for the demands of multichannel retail is becoming a key goal for a number of businesses.

EE retail director Lee Frankham says diversifying the skillset of its existing employees will provide a key measurement of success for the business post-pandemic.

None of the mobile network's retail staff were furloughed during lockdown, but were instead retrained and given the equipment required to deal with

It's about optimising our global stock pool Nick Beighton, Asos

customer enquiries via telephone and webchat while working from home.

"We've invested heavily in the training and equipment for that to become a permanent fixture," says Frankham. "You'll be able to either come into store, call us up or go on our website and still have the same team working with you on any of those channels.

"What success looks like now is an ability to operate this new hybrid retailing model, servicing customers in different ways. And we will be measuring and reviewing our guys in the way that they take on all of the new capabilities that we have given them."

Fenwick's Edgar also plans to invest more cash and capacity into staff training, which will allow the business to offer a greater level of service to shoppers in store.

He says a key priority for the business will be in "keeping staff engaged" as Fenwick pivots into new categories and a great level of customer service. "The business has lost confidence in recent years, so it's critical for us that we bring staff along with us and have that renewed cultural engagement."

Retailers are also thinking differently about how their head offices will work. Feelunique is among those developing new principles around flexible working for staff in its London, Jersey and Northampton offices, with employees likely to return to the office for just two or three days a week in the longer term.

"I do feel we miss something by being five days at home," boss Miles says. "The creativity, energy and ability to move more strategic or cultural topics forward are very much enhanced by everyone being together.

"It is something that will still be important to Feelunique going forward, but we are thinking about how to balance that with the changes we have all adapted to in the last year."

Fellow etailer The Very Group has unveiled a refurbished head office offering more collaborative open-plan working spaces – lending itself to employees working more flexibly between home and office.

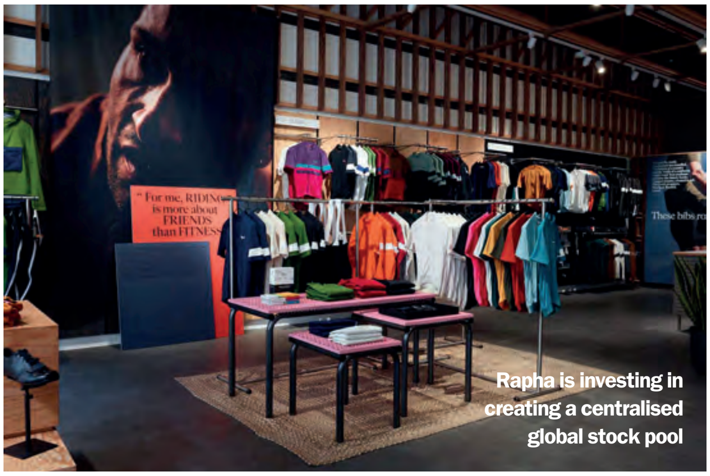
Very's chief people officer Sarah Willett says: "We want our people to be productive at home and super-collaborative in the office. But our plans aren't just about productivity. They're about how we can offer our colleagues true value and get value back in return.

"By offering better balance, increased flexibility, interesting work and an amazing place to come together, we can attract even more outstanding people – and retain the ones we already have."

If retailers want to attract and retain the very best people, they will have to think more carefully than ever about the full package of pay, development and flexibility that they offer post-pandemic.

SUPPLY CHAIN

Retailers have had to contend with a tumultuous year across their supply chains. Covid restrictions and the Suez Canal blockage left billions of pounds' worth of goods stranded at sea or docked at ports, while consumer demand for stock already ordered by retailers reduced dramatically during lockdowns – and that's without even mentioning the ongoing disruption sparked by Brexit.



Rapha is investing in creating a centralised global stock pool

Some observers have suggested that retailers should seek to move their supply chains closer to home, reducing the risk of disruption when sourcing from countries like China.

Although such radical change may not be easy to achieve, Accenture's retail lead for the UK and Ireland Kelly Askew is among those who believe retailers need to build greater flexibility into their supply chains following the pandemic.

"It's no secret that retail descended into supply chain chaos last year when existing consumer habits accelerated drastically overnight," Askew says.

"With stores reopening, the immense pressure on the ecommerce supply chain may begin to ease somewhat, but before retailers breathe a sigh of relief, a crucial priority must be how they can build resilience and agility into every step of their supply chain to better ride out future disruptions.

"A key part of this will also be to reopen their stores with a clear inventory and stock-control strategy while ensuring sustainable practices are embedded throughout the supply chain going forward."

Alvarez & Marsal's Brookes says retailers will need to be "much more thoughtful about where stock is sitting across the value chain" to ensure they can fulfil orders and process returns for shoppers based on their preferences, rather than logistical constraints.

This is something Asos boss Nick Beighton highlights as a key priority for the etailer going forward. "Our flexible fulfilment strategy means that we make sure that if we've got a product in any of our warehouses, in any size, we will get it to you," he says.

"It's about optimising our global stock pool, so if we happen to be out of stock in a particular size in Atlanta in the US and we have it in Barnsley, we will fulfil it. It's about not letting the customer down.

"The second stage of that is partner fulfilment, whereby if we haven't got the size or colour and our third-party partners have, we will then enable them to fulfil it through the same transaction."

Rapha chief executive Simon Mottram says the cycling specialist is investing in creating a centralised global stock pool after struggling to cope with demand at peak times during the last year.

"Stock is our number-one investment to keep and get ahead of growth, so we are examining how to drive efficiency in our stock and investing in creating a single pool of stock. Where we keep stock is more and more significant because we are spending more on that than anything else," he says.

"One of the biggest challenges has been getting enough stock with supply chain issues and the Suez Canal being blocked – things like that have a real knock-on effect when you're running really hot, which we are, so investing to improve availability and flexibility around moving our stock is really important for us."

JD Sports is another global business focusing time and capital in that area. The retailer opened an 80,000 sq ft warehouse in Belgium last autumn and has plans to further develop its distribution network to eliminate Brexit costs and improve availability.

It will open a 65,000 sq ft warehouse near Dublin in the second half of this year and is also on the hunt for a larger European facility to process "all of the volume required for stores and online orders in mainland Europe".

Askew says that, as retail emerges from what will hopefully be its last lockdown, investing in data capabilities to ensure the right stock is in the right place to maximise sales will be key for retailers.

"For retailers, a huge challenge will be how to predict which categories of items will be more desirable for consumers to purchase in store or online, and which products should be placed in which location in the right quantities," he says.

"With stores reopened, the bricks-and-mortar data will flow again. But the retailers that have invested in technology that carefully interprets that data to inform their stock distribution are the ones who will have more agility."

Agility within the supply chain appears likely to become a proverbial buzzword post-pandemic – and it could separate the retail wheat from the chaff.

The coronavirus pandemic has created a maelstrom of unforeseen circumstances for retailers to contend with, from accelerating existing trends like the adoption of online to undermining the strength of destination stores in tourist and commuter-heavy locations.

As the dust settles on retail's most extraordinary year, the challenge now for leaders is to adapt their strategies on shifting sands. Those with a keen connection to their customer, an engaged and empowered workforce, innovative ideas around how to reinvent their stores and an agile approach to their supply chains will be best placed to win in a post-pandemic world. RW

NEED TO KNOW

The salon will feature Amazon products such as Fire tablets and Echo speakers

Amazon launches first-ever hair salon concept in London

Amazon's latest move into physical retail is designed to bring it 'one step closer to customers' and make advances in health and beauty. **Hugh Radojev** reports

US tech giant Amazon is set to open its first-ever Amazon Salon in east London, trialling some of its newest technology and stocking products from its new dotcom beauty hub.

Retail Week was given an exclusive look at Amazon's first-ever bricks-and-mortar hairdressing salon, which is set to open its doors in London's Spitalfields in the next few weeks.

The 1,500 sq ft salon concept is split over two floors and will offer customers the chance to experiment with different hair colours and styles using an augmented-reality colour bar. It will also give customers the chance to purchase products from the giant's beauty store using its brand-new 'point-and-learn technology'.

The new technology will allow customers to point at products they are interested in on a display shelf and information, such as brand videos and educational content, will be displayed on a screen. If the customer then wants to purchase that product, they can do so by scanning a QR code to visit its page on the Amazon website.

The products on sale in the salon concept have been curated from tens of thousands of products on Amazon.co.uk. Amazon will also offer hair and beauty businesses an opportunity to buy the products through its Amazon Business arm.

Like any other hairdressing salon, the Amazon store will also offer customers hair care and styling services provided by Neville Hair and Beauty Salon owner Elena Lavagni and her team of stylists.

A spokesman for Amazon said that customers would not need to be Amazon members to enter the salon and have their hair cut or styled, but they would need an Amazon account to purchase products from the store. It will not be using Amazon's 'Just Walk Out' technology that powers its convenience stores.

The spokesman said the salon was a chance for the retailer to trial its new technology and health and beauty ranges, and said there were no plans to expand the concept into a chain of salons.

The new concept will open first to Amazon's UK employees initially, with bookings being opened up to the public "in the coming weeks".

Amazon said it had redesigned the space to be fully Covid-secure, "providing free face masks and sanitiser, taking temperature checks and reducing the capacity of the salon".

The tech giant also said that separation screens had been used to "divide each styling station" and that both staff and customers will be required to wear masks at all times.

Amazon's UK country manager John Boumphrey said: "We have designed this salon for customers to come and experience some of the best technology, hair care products and stylists in the industry.

"We want this unique venue to bring us one step closer to customers, and it will be a place where we can collaborate with the industry and test new technologies."

The US giant clearly views the UK, and London more specifically, as fertile ground for trialling new bricks-and-mortar concepts, having opened its first Amazon Fresh convenience store outside of the US in the city in March. It has since opened two other London Fresh stores, with plans for at least 10 in the capital. RW

Amazon customers will be able to buy a curated offering from Amazon's Professional Beauty Store range

Amazon Salon is the US tech giant's first hairdressing concept

The 1,500 sq ft concept features augmented-reality and 'point and learn' technology

INTERVIEW

Steve Oliver

Music Magpie takes flight with constant reinvention

As Music Magpie goes public, co-founder and CEO Steve Oliver tells **Hugh Radojev** about its brand evolution and how it is urging customers to buy into the green economy

"It's been absolutely a heck of a ride," laughs Music Magpie boss Steve Oliver, as the business he founded 13 years ago goes public on the London Stock Exchange.

Oliver set up the company alongside friend Walter Gleeson, having met while working in music retail. Setting up in the garage of Oliver's house in Stockport, the pair built the business on buying and selling second-hand CDs, DVDs and video games.

Wind the clock forward to today and, as Oliver proudly points out, Music Magpie is "the UK's biggest mobile phone recycler" – a business that now accounts for more than half of its turnover.

Music Magpie has since grown into one of the biggest sellers of second-hand goods on eBay and Amazon, quickly pivoting to focus on the reselling of refurbished electronics and mobile phones after streaming services like Spotify and Netflix decimated the demand for second-hand CDs and DVDs.

The company now makes 54% of revenues from the resale of consumer technology; 38% from CDs, DVDs, vinyl records and computer games; and 7% from books. It also has operations in the US under the Decluttr brand.

"You could say that the business has really evolved and pivoted a couple of times in its history," Oliver reflects. He admits that the etailer has also benefited from the shift to home working during the coronavirus pandemic with workers requiring new equipment to do their jobs remotely, fuelling increased sales of products such as MacBooks and iPhones.

In the year to November 2020, Music Magpie's revenues jumped 17% to £153.4m, while profits more than trebled from £4.6m to £13.9m.

Off the back of that strong trading, Music Magpie made its £208m stock market debut last week. For Oliver, who will share a £22.5m IPO windfall with Gleeson – now a consultant with the business – the underlying reason for the listing is to drive further evolution of the business. The majority of the £15m working capital raised will be put into Oliver's next major project: mobile phone handset subscriptions.

"It's going to be a new income model for us – as well as an outright sale, we're offering customers a monthly rental for a refurbished iPhone," Oliver explains. "The average subscription starts at £6.99 a month and, since soft-launching this a few months ago, we've got over 5,000 sign-ups".

But Oliver's excitement about the opportunity the subscription model presents extends far beyond those revenue possibilities.

"It's all about the relationship we can then have with the consumer, where we can talk to them on a monthly basis," he says. "It's an enhanced way for us to deal with customers and we think it has the possibility to be really transformational for the business."

Some of the capital Music Magpie has raised will also go towards extending its network of phone-recycling Smart Drop kiosks, which it began rolling out at Co-op and Asda last year.

After agreeing to a price for a phone on the Music Magpie website, customers within 20 miles of a kiosk are offered the option of completing a transaction there. Each kiosk is fitted with four HD cameras that check a phone's make and model, unique serial number, its condition and whether or not it is locked to an account. Once those checks are completed, customers deposit that phone and receive the money through PayPal or a bank transfer.

Music Magpie already operates 20 kiosks around the UK and, while Oliver will not be drawn on specific targets to grow that figure, he insists the reaction from customers and its grocery partners has been "amazing".

It is on the topic of engaging with more consumers on recycling and the circular economy that Oliver becomes the most animated. Operating primarily online has helped Music Magpie emerge as one of the success stories of the pandemic, but Oliver believes the crisis has also had a profound impact on the way people think about the future of the planet.

"If there have been any positives to come out of this horrible time, I think it's the fact that the world has woken up: be nice to each other; be nice to your neighbour; be nice to your planet.

"It's the same in retail. Sustainability is a megatrend at the moment, but the whole circular economy, whether it's fashion or furniture, is also booming."

The retailer has already been given the London Stock Exchange's 'green economy mark' for deriving 50% or more of total revenues from sustainable products and services, but Oliver is excited about future opportunities to grow this amount.

"Second-hand used to be quite a niche sector and it wasn't for everyone. That's changing and fast," he insists.

"It's become a mainstream thing, accepted and seen as a smart and savvy solution for the customer and for the planet. Customers are increasingly asking themselves, 'Why wouldn't I do that?' and that's great."

Music Magpie's model has already been through more iterations than most. But with a new war chest at its disposal and bona fide sustainability credentials, Music Magpie is ready to truly spread its wings. RW

OPINION

Retail not essential? Tell that to reopening day shoppers

As non-essential retail reopened its doors earlier this month, shoppers were keen to show retailers how much they had been missed. Let's keep that momentum going, says **George MacDonald**.

There was a joyful sense of release when, after three months of lockdown darkness, so-called 'non-essential' shops reopened. The Retail Week team was out on the ground to gauge reaction in Bluewater, London's West End and York, and it was clear everywhere that people embraced the chance to visit stores and enjoy outside eating and drinking.

Queues at stores such as Primark and H&M of course partly reflected ongoing Covid-19 safety measures and the need to manage capacity inside, but the fact consumers were willing to line up was a testament to how much retail had been missed.

There were plenty of young people waiting to get into shops such as JD Sports and Foot Locker, too – a reminder that, although they purchase more online than their predecessors, youngsters enjoy bricks-and-mortar shopping just as much as their elders.

Early footfall numbers give grounds for optimism. Shopper traffic monitor Springboard reported that on reopening day numbers were down 16% versus the same Monday in 2019. That is quite a result – "amazingly positive", in the words of Springboard's Diane Wehrle – and hugely encouraging as retailers seek to rebuild trade so disrupted by the coronavirus pandemic.

That overall number of course masks differences between locations. Central London was down 56% compared with 2019, while market towns outperformed with a decline of just 6.8%.

That shows the extent of ground to be made up by some of what were the biggest retail destinations, such as the capital's prime Oxford Street, Regent Street and Bond Street locations.

The New West End Company is doing good work to enhance the district's appeal and tap into the potential rise in importance of places where people live. The extent to which working from home persists may ultimately fundamentally reshape shopping habits, which will no doubt spur retail innovation in locations of all types.

An early retail bounceback, welcome as it is, was always likely as people were released from lockdown. After an initial splurge, the likelihood is that consumers will revert to more typical spending. How this early enthusiasm translates into longer-term demand will shape the development and success of bricks-and-mortar retail from here on in.

As Tesco chief executive Ken Murphy cautioned as he issued full-year results: "We expect some of the additional sales volumes we have gained this year in our core UK market to fall away as Covid-19 restrictions ease."

That is partly because of the extraordinary levels of demand when grocers could trade but other retailers could not. Much of that demand was for food, but customers could also get products such as homewares and clothing, too, at a time when apparel specialists could only operate online.

JD Sports executive chair Peter Cowgill who, like Murphy, delivered strong results, observed: "We feel slightly bitter about store closures… there were retailers allowed to continue selling clothing and footwear while we had to shut."

George MacDonald
Executive editor
Retail Week

There is much to look forward to as the year unfolds, but retailers can't take anything for granted

That bitterness will no doubt be shared by others, but there is little point hand-wringing about the past. The point now for retailers once again able to trade is to make the most of it, and remind consumers of the qualities that make them stand out as specialists.

So what now for the rest of 2021?

The roadmap out of the pandemic is likely to help. Each month from now until late June, all being well, will bring further relaxation of restrictions, and each is likely to improve confidence and readoption of former habits.

After the summer, the build-up to Christmas will soon come around. Last year, families and friends were unable to meet. That is likely to be reversed and retailers will aim to reap the benefits as people reunite around the tree.

So, fingers crossed, there is much for retailers to look forward to as the year unfolds, but they can't take anything for granted. For those with stores, that means a laser focus on what makes shops special – from outstanding product to great service.

After retail pioneer W Galen Weston died this month, his daughter Alannah, the chair of Selfridges, recalled his ability "to reimagine what customer experience could be". That skill will be called for now more than ever to power a bricks-and-mortars recovery.

Shoppers have shown their readiness to get back into shops. Now retailers need to make sure they give consumers plenty of reasons to return. RW

OPINION

Comparing online and in-store is a false fight

The way we shop has never stopped evolving and great retailers understand their customers, wherever and however they choose to do it, says AO.com's **Danny Emmett**

Great innovators from Henry Ford to Steve Jobs had it right. Don't just give customers what they ask for, give them what they don't know they want yet.

The accelerated move to online shopping during the pandemic has transformed retail, and given us at AO an unprecedented year of challenge and progress.

We're delivering to more customers than ever and have seen huge expansion in people, infrastructure and demand. However, as 'non-essential' stores reopen, pitting online and in-store experiences against each other is a false fight. That's not how customers see it, and neither do we.

Customers vote for great retailers, and great retailers understand their customers – wherever and however they shop, now and in the future. Customer behaviour is always changing and our industry needs to recognise and, most importantly, drive this change.

That's why in October 2020 we launched a trial of the AO experience in five Tesco stores, which we're now restarting after pressing the pause button due to Covid-19.

In our store-within-a-store, customers can browse and order larger electricals, such as washing machines and fridges, for home delivery, as well as take away a variety of smaller products.

At its core, we want to bring customers even more convenient access to our full range of electricals, delivered with the same AO quality and dedication to service we're known for online.

Data from the limited opening period showed that tech was the most popular category with TVs, laptops and iPads proving to be bestsellers. We're expecting a spike in TV sales ahead of the much-anticipated appearance of Scotland (as well as England and Wales, of course) at Euro 2021.

So while customers are stocking up on drinks and snacks ahead of match day, they can also visit the AO store, speak to one of our team and buy a new television for next-day or even same-day delivery.

Getting one step ahead of customers and solving their problems is what great retailing is all about. As an industry we did this brilliantly during Covid: online businesses stepped up as a lifeline as soon as the first lockdown hit, while others upgraded their digital offer to serve customers unable to shop in store.

The pandemic has without doubt changed our behaviour permanently and in ways we don't yet know. But we have to remember that the way we shop has never stopped evolving. Catalogue shopping was a part of my childhood – circling a favourite shellsuit from Kay's or my Christmas present wishlist from Index. The last of Argos' printed catalogues in 2020 was the end of an era.

And in the 1990s, when Scotland – my team – last qualified for the Euros, the potential of buying and selling online was not even on the agenda.

Danny Emmett
Chief operating officer, AO.com

Getting one step ahead of customers and solving their problems is what great retailing is all about. As an industry we did this brilliantly during Covid

That was the age of dial-up internet, pre-Google and years before our chief executive John Roberts was challenged to start AO in the now-famous £1 bet.

Technology has facilitated much of this change over the past two decades, and that is where our partnership with Tesco is so complementary.

The challenge of raising the bar

The trial will explore what happens when we deliver our exceptional online content, product expertise and customer service in a store environment.

We can explain who we are and what we do to even more customers, and in an uncertain climate we want customers to feel that AO is a better and easier way to get their electricals.

So we're focused on finding solutions for customers, innovating and challenging ourselves to raise the bar again and again.

AO is a business that thrives on innovation. And, just like my hopes for the Tartan Army at the Euros, we're powering on to achieve new heights for the people who matter most – the punters. RW

Covid certificates will damage retail's recovery

Reclaiming our past freedoms post-pandemic is paramount, says L'Occitane's **Alia Hawa**, and vaccine passports are not the way to do that

With non-essential retail reopening, news that the government is considering making Covid certificates mandatory for customers in stores comes as another blow.

I strongly believe that a Covid certification for customers in non-essential retail stores is wholly unnecessary. At the time of writing, over 47% of the adult population in the UK have had at least one dose of the coronavirus vaccine. Hopefully soon, the majority of the country will be fully vaccinated.

To require a Covid certificate or passport for something as basic as a shopping trip feels akin to having one of our most basic human rights taken away. It's paramount that once the worst of the pandemic has passed that we reclaim and maintain as much as possible our past freedoms.

We are all looking forward to going back to a semblance of normal life where we can enjoy meeting with friends, going to restaurants and shopping, and the idea of having a Covid passport would take away any of that spontaneity and choice, which is in itself a big part of many customer shopping experiences.

After the past year of closures and unprecedented levels of uncertainty and disruption, this would be the last thing non-essential retail needs. We have been closed for the best part of eight months and there will already be anxiety among some consumers about coming back to the high street.

It would lead to greater friction between customers and staff. It is not our job to police Covid certificates

Alia Hawa
Managing director UK and Ireland, L'Occitane

As a nation, we need to be reassuring, encouraging and supportive of one another, not create additional and arbitrary barriers for people. It would only add a further layer of bureaucracy and tension, and would take away the pleasure of going into a store.

Not only do I feel passports are unnecessary, but I'm also far from convinced they would even work. There hasn't yet been enough detail from the government about what form the certificates would take or how they would be checked.

Retailers up and down the UK and Ireland have made huge efforts to ensure their stores are safe and compliant with social distancing regulations and have been doing so since they were first allowed to reopen last summer.

In L'Occitane boutiques, we have hand sanitiser in every store and sinks with soaps in most of our stores. We have added glass screens at the tills and, on top of that, we limit the number of customers in store at one time to four. Under the proposed regulation, what would happen if one customer doesn't have their Covid certificate on them for whatever reason? Would we have to turn them away? This would not only lose us sales, but goes against everything L'Occitane stands for – our stores represent the sunshine of Provence, they are welcoming for all.

Retailers have made huge efforts to ensure their stores are safe and compliant with social distancing regulations

We know that some members of the community cannot get the vaccination for medical reasons or, through their own freedom of choice, will choose not to be vaccinated. Does the government expect us to close our stores to them indefinitely?

Alongside lost sales, it would also lead to greater friction between customers and staff. These are brand representatives and salespeople; it is not in their job description to police Covid certificates. Unfortunately, there has been a rise in abuse and violence against store staff during the pandemic and adding further layers of bureaucracy like checking Covid passports would only increase tensions further and could put our staff at greater risk.

My staff would never want to turn away customers, for ultimately they work hand in hand.

Any Covid certification scheme would serve only to put further pressure on high streets and shopping destinations that have already endured so much and drive even more customer spend online. RW

ANALYSIS

Shops and the 15-minute city

As retailers look ahead to a post-Covid reality, could the concept of a 15-minute city provide a recipe for success in the UK? **Manfreda Cavazza** looks at how to win in a hyper-local world

Hyper-localism has been a silver lining of lockdown for many. Forced to stay at home for months on end, many of us have fallen back in love with our local community. We turned our kitchens into offices, relied on our local shops like never before and replaced our gym sessions with walking, running and cycling outside.

A survey commissioned by property development firm Argent Related and conducted by insight agency Copa found that close to 60% of UK residents agreed that lockdown had enhanced their love of their immediate area.

This is a backdrop that begs the question of how shoppers' relationships with and expectations of their local communities will change post-Covid – and one that has fuelled a resurgence in the urban planning model of the 15-minute city.

The question is, will this trend survive post-pandemic? And can retailers benefit?

What is a 15-minute city?

The principles of the 15-minute town are simple: the places where you work, shop, play and learn should all be within a 15-minute walk or cycle from where you live.

It's the brainchild of Carlos Moreno, a scientific director and professor at the University of Paris 1 Panthéon-Sorbonne, who created it in response to the climate crisis.

Moreno has been working on the concept for many years, but he says Covid-19 has rapidly kickstarted the trend toward hyper-localism, putting the 15-minute city on the agenda of many metropolitan areas worldwide.

Portland, Madrid, Milan and Melbourne are some of the cities that have launched urban planning developments linked to the concept in recent years.

Most recently Anne Hidalgo, the mayor of Paris, made the 15-minute city the centrepiece of her successful 2020 re-election campaign, outlining four major principles: proximity, diversity, density and ubiquity.

Above all, the aim was to create what she calls "a city of proximities" – not only between structures, but also people.

"We need to place the human at the heart of the neighbourhood again. We've seen an increase in un-human behaviour, a shift towards digital, and this is damaging our communities," explains Moreno.

A sense of British nostalgia

So, could the 15-minute city take off in the UK?

While the term itself is relatively new for consumers, Argent Related partner Nick Searl points out that the concept harks back to the days before out-of-town retail took off.

"When I was a child, the 15-minute city was the norm: I would walk to school, there was a doctor's, a grocery store, a butcher and a bakery," he says. "It was all local and we knew the shopkeepers.

"What has happened in the last 40 years is that we've created zones where certain things happen. We've been working in one place, living in another, shopping 'out of town' and attending cultural events at large-scale venues – and we've been driving between them all. Thankfully, this seems to be going into reverse."

Argent Related is leading the development of Brent Cross Town in north London. The 180-acre scheme, thought to be one of the largest in the UK, aims to be a 15-minute town that will "contribute to London's green economic recovery with sustainability, health and wellbeing and a powerful sense of neighbourliness at its core".

"We're trying to create a town that delivers two things: it needs to offer easy access to your daily needs, but also it needs to reinforce your bonds with your community," says Searl, who is confident that demand for schemes like this will only rise post-pandemic.

"More and more, people are talking about their quality of life. I think we were moving in

How Brent Cross Town will look

We need to place the human at the heart of the neighbourhood again. We've seen a shift towards digital and this is damaging our communities
Carlos Moreno, University of Paris 1 Panthéon-Sorbonne

this direction already; the pandemic has just rocketed everything forward. It has opened people's eyes to the opportunities that were in front of them."

Shopping in the 15-minute city

Moreno's vision of the 15-minute city doe not leave a lot of room for online deliveries, which he says are at odds with the concept due to driving up levels of local traffic.

However, the general consensus among retailers and property developers is that this is not realistic for the UK consumer, for whom online retail has become a lifeline and an increasingly normalised way of shopping during the pandemic.

Searl says online will have an important role in the 15-minute city being developed in Brent Cross.

"We're going to see an increase in the interaction between online and physical retail. Some shops might be smaller, but they will be more creative spaces that provide experience and personal connection with brands and what they offer.

"We may well see an evolution of click and collect, and retailers being entrepreneurial and showcasing their range in shops to drive online purchases at a later date."

Argent's survey found that the top five amenities people wanted in a 15-minute

Brent Cross Town

Brent Cross Town in north London is a £5bn development run in partnership between Barnet Council and Argent Related. It aims to be more than just a dormitory area of London.

The development will include 50 acres of green parks and playing fields, 3 million sq ft of commercial office space, 6,700 new homes and student housing, retail, leisure and hospitality offerings. It aims to create a place where people can live, work, visit and play without travelling for further than 15 minutes.

Key highlights:

- It will be a net-zero carbon town by 2030. This will be achieved by driving down the embodied carbon in buildings and infrastructure, reducing the carbon used in energy supply and offsetting the remainder.
- The development will include a new high street, local shops, restaurants, services, workspace and community spaces.
- The town centre will connect to King's Cross in 12 minutes via the new Brent Cross West station, to be completed by 2022.
- The town will include new walking and cycle routes to connect the development with existing communities.

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town were a supermarket, transport connections, natural green space, parks and restaurants.

With this in mind, there are some UK retailers that by virtue of their size, existing locations and online prowess are better placed than others to fit into the 15-minute city if the concept were to catch on more widely in the UK.

British Land's head of real estate Darren Richards cites Amazon as a prime example of a retailer tapping into the trend of hyper-localism: it recently opened its first contactless grocery store in the UK at the Ealing Broadway shopping centre, one of British Land's mixed-use London assets.

As well as providing a convenient way to buy food without having to queue up to pay at a till, Amazon's Fresh concept in the UK offers shoppers the chance to collect and return other items ordered from Amazon free of charge, allowing them a local portal to its broader catalogue.

Similarly, Co-op offers click-and-collect services for department store chain John Lewis so shoppers can order a wider range of products for collection in their local area.

Co-op chief executive Steve Murrells says a greater focus on hyper-localism, combined with extending the grocer's online reach in communities, will inform the retailer's opening strategy going forward. "Our store opening strategy is very responsive already to changing trends in consumer behaviour," he says.

"We're already looking to increase our physical store estate and the number of stores that serve our online delivery model, which is already giving us a much greater reach than from our stores alone.

"But we're changing the strategy, and looking at it through the lens of putting stores down that give us a much wider reach, both physical and online, for where people are living and working.

"We still see opportunities in urban stores and in transit locations, but their usage will be changed by the pandemic.

"As the pandemic begins to end, I think people will go back to a much more hybrid way of living and working, with more of a focus on localism, and we want the balance of our stores to reflect those changes."

British Land's Emma Cariaga, who is joint head of a redevelopment at London's Canada Water, says she sees an opportunity for what she calls 'functional retail' in the 15-minute city: shops that deliver services that are impossible to deliver online, such as hairdressers, beauty salons, dry-cleaners and other small shops.

Moreno says there are opportunities for retailers who are adaptable and creative. High street retail shops could be repurposed into multi-use spaces.

A fashion store, for instance, could be a cafe in the morning, sell clothes during the day and then turn into a cultural space for art exhibitions in the evening.

People will go back to a much more hybrid way of living and working, with more of a focus on localism, and we want the balance of our stores to reflect those changes
Steve Murrells, The Co-op


How the Canada Water development will look

This is a concept that John Lewis is exploring with the development of its more localised, small-format concept. The format, set to be unveiled later this year, has been adapted in response to customers saying they wanted more local access to John Lewis branches.

Executive director Pippa Wicks says the branches will focus on newness and adaptability, so they could feasibly be dedicated to selling by day but also host events in the evenings.

Logistical legwork

Pandemic aside, one of the many hurdles retailers face is the gentrification of city centres. Many retailers are simply priced out of inner-city locations.

In Paris, local retailers have benefited from government support, which has made the concept of the 15-minute city a more attainable option.

Semaest is a company financed by the Paris city council with a goal to regenerate neighbourhoods in the French capital.

The company purchases vacant shops, renovates them and rents them at the lowest possible market price to innovative new commercial concepts or helps established businesses survive.

There are similar schemes in the UK: British Land, in partnership with Southwark Council, is offering discounted rent levels for 10 years at its Canada Water development to support local retailers.

Although areas like Canada Water and Brent Cross have bought into the concept of the 15-minute city, Richards believes logistical challenges will make rolling out this concept more widely challenging for urban planners.

"Retro-fitting British towns and cities into a mosaic of 15-minute zones, like a patchwork quilt, is a lovely idea, but it's unrealistic that it's going to play out like that, given the level of complexity," says Richards.

He agrees that the concept of the 15-minute city could be one of the main guiding principles of urban planning, especially when it comes to new developments, but it will only work if there is support from local authorities.

Driving localism through data

Richards is also sceptical about the prospect that localism will be a panacea for the battered British high street. Indeed, British Land, which owns more than 30 retail parks, remains bullish about this out-of-town format.

Richards adds: "As always, the locations of physical retail will be driven by consumer demand and what people want is convenience.

"Retail parks are convenient, compatible with online and increasingly sustainable if you think about the rise in use of electric cars."

Superdry chairman Peter Williams echoes this view. "From a consumer point of view, I can see the appeal of hyper-localism. We have an emotional desire for our local area to be a thriving place," he says. "But when you think about what's on the agenda in any boardroom of a retail business, it's all about ensuring you have a tight store estate and ensuring your website is functioning well to make the most of the surge in online shopping. The economic pressure is real."

While the concept of the 15-minute city may not take off wholesale across the UK as a whole, Savills' national head of retail planning Jeremy Hinds says retailers should take lessons from the rise of hyper-localism in the last year to adapt their offer in each area they operate in.

Data will play an important part: retailers can use tech to analyse their customer base in specific areas and then stock those shops accordingly.

"The challenge for retailers who are in towns is to reorientate what retail is," he says. "If retailers just keep offering the same product, regardless of where the shop is located, they will struggle. It's not just about proximity – it's about providing specific needs. There is plenty of tech out there that can help retailers determine what customers want.

"The mantra used to be location, location, location. Now it's data, data, data."

As ever, the job of a good retailer is to listen to customers and give them what they want. It seems that convenience is always going to be the top priority and the 15-minute city delivers on that front.

However, retailers can still respond to consumer needs without adhering to the 15-minute model. The key is to adapt. RW

Canada Water

The Canada Water development is a partnership between British Land, Southwark Council and the local community to create a new town centre for Southwark.

The development covers 53 acres providing jobs, homes, offices, public spaces and facilities, and responds to the Greater London Authority and Southwark Council's policy aspirations to deliver new homes and jobs in Canada Water.

British Land's Cariaga says: "Even before Covid, we wanted Canada Water to be a place where life happened.

"The space is being divided 50/50 between commercial and residential. It has always been as much about working as it has been about living."

Key highlights:

- The development will offer 100,000 sq m of retail, leisure, entertainment and community space.
- It will feature the first new high street in London for 100 years and 16 new streets covering 3.8km.
- 5,000 sq m of retail space (around 20 shops) will be offered at discounted rent levels for 10 years to support local retailers.

It's not just about proximity – it's about providing specific needs. The mantra used to be location, location, location. Now it's data, data, data

Jeremy Hinds, Savills

ANALYSIS

Where are retail giants investing for growth – and should you follow?

As retailers ramp up for the new normal, how are titans Inditex, Tesco, Walmart, Amazon and Walgreens investing? **Grace Bowden** reports

It has been a bruising and transformative year for retailers, but for the industry's biggest operators it has sharpened and shifted investment priorities. For some – namely Walmart and Amazon – investment has grown rapidly in recent months.

Amazon has risen to the opportunity presented by the pandemic to cement its position as the world's biggest retailer. It has been the number-one destination for shoppers stuck inside to flock to.

Meanwhile, Walmart has added an additional $4bn (£2.9bn) to its capex in its current financial year to $14bn (£10bn) – an increase of nearly half on the approximate $10bn (£7.3bn) per annum spent over the past three years.

Tesco and Walgreens Boots Alliance have been more conservative with their capex plans, while Inditex has used the pandemic as an opportunity to ramp up its online investment specifically.

How much each of these retailers invest as a proportion of total sales varies dramatically. While Walmart proudly declared this year that it would invest as much as 3% of sales, the fact that Amazon invested five times as much at more than 15% shows how difficult it is for traditional retailers to keep up with the innovation and growth emanating from the online giant.

But where are retail's giants betting for growth and where are they pulling back from? We take a closer look at each of these business' capex ambitions and ask how retailers operating alongside these goliaths should respond.

What this means for the rest of retail

It is notable that, with the exception of Amazon, these retailers are spending below their peak capex in the current climate.

Shore Capital analyst Clive Black even points out that Walmart, which is spending more than it has over the past decade, may be over-ambitious in its capex plans. He argues that investments like the nascent India ecommerce market and financial services, which international grocers have tried and failed to crack before, could prove to be more of a cash drain than a cash cow.

Black highlights that overexpansion and overextension have scuppered the likes of Tesco, Carrefour and even Walmart itself in the past. He suggests retailers would be wise to follow Tesco's more cautious approach to international going forward.

By contrast, Amazon's rate and scope of capital expenditure is more than double any other retailer listed here as a percentage of group sales.

GlobalData analyst Patrick O'Brien says Amazon's approach would be tough for pretty much any other retailer to justify in the current climate.

"You have to admire Amazon's ability to invest in multiple areas, pull back from what doesn't work – and let's not forget there have been plenty of failures – persevere gradually in others and go full speed ahead where it sees an opportunity working," he says.

"The consequences of failure of investments are much greater with smaller retailers, though, which have to operate in a much more conservative, less speculative way. It can only come down to getting confidence in investments through painstaking research in understanding the needs of customers."

Société Générale's non-food retail director Anne Critchlow says the level of Covid-led disruption in the sector has meant that many retailers are rightly focused on survival, rather than investment, so the majority of retailers will be reining in spend.

INDITEX

The world's largest fashion retailer, which owns Zara, spent €900m (£781m) in its financial year ending January 31, and plans to invest the same amount per annum for the next two years.

Digital is the big beneficiary, with €1bn (£868m) of the €2.7bn (£2.3bn) to be spent over the three years earmarked for such investments, including developing in-store technology and completing Inditex's move on to its own proprietary software framework, which has been developed in house over the last few years and will be concluded this year.

Inditex's €900m (£781m) annual capex represents 6.9% of its €20.4bn (£17.7bn) group sales. While this is an increase from the previous financial year, when it invested €713m (£619m), it is still markedly below investment in previous years.

Société Générale's non-food retail director Anne Critchlow says: "The reason for the difference and why [Inditex's] capex will probably never go back to historic levels is because it isn't opening stores in the numbers it used to."

Critchlow points to the fact that in recent years Inditex had added 10% to its physical store space, but last year decreased this by 5%. It has plans to reduce its store footprint by approximately 2% in its current financial year.

By contrast, the group is prioritising investment in digital capabilities after registering 77% online sales growth on a constant currency basis in its past financial year.

Inditex is still opening in notable locations, such as its recently unveiled Zara flagship in Beijing, the group's largest store in Asia to date. However, more investment is being put into making its existing network of stores work harder, in both physical and digital sales.

Inditex has recently deployed RFID across its 5,777 stores, which enables it to track and sell every item of inventory online or in store as needed. This technology allowed the group to fulfil 46 million online orders worth €1.2bn (£1.04bn) from its stores – a big benefit during the pandemic when it shifted to online as stores were closed across the globe.

"Inditex still had skeleton staff in the stores fulfilling online orders, which meant that when stores reopened much of the inventory had been sold through online, which freed up space for fresh inventory," says Critchlow.

She says this allowed Inditex to clear stock better than other retailers over the past year. It led to inventory levels actually declining 9% year on year and gross margin remaining broadly flat at 56%, as it did not resort to heavy discounting to shift stock.

Technology has been a big investment focus at Inditex for some time. It has invested €11bn (£9.5bn) in technological integration, digitalisation, transformation and store adaptation since 2012, and this year is set to complete its transition to in-house software framework Inditex Open Platform (IOP).

This system enables Inditex to develop and roll out technology without relying on a third party. This has cut back development times for new products and allowed it to innovate faster.

TESCO

In the grocer's last reported financial year for the 53 weeks to February 29, 2020, capex stood at £1.1bn – a figure the business expects to have matched in 2020/21.

However, at the half-year mark the supermarket giant's capex was £374m – £48m higher year on year. This was due to higher spend on both in-store maintenance and technology, including installing more sustainable refrigeration and lighting in a number of stores, and plans to diversify Tesco's in-store offer, including its tie-up with electricals etailer AO.com across five of its branches.

Tesco's capex has been broadly flat over the past three years and it expects group capital expenditure to be in the range of £900m and £1.2bn in years to come.

Shore Capital analyst Clive Black says rather than investing heavily the supermarket giant, which paid investors a £5bn special dividend earlier this year following the sale of its Thai and Malaysian businesses, is focused on "gaining the status of a cash compounder", which can pay back dividends to shareholders following a "period of great distress when it was over-indebted".

In 2019/20 Tesco's capex equated to 1.7% of group sales, with the bulk of spend made in the UK. The £769m spent at home was up 8.5% year on year, mirroring Tesco's broader shift away from expanding its international portfolio in favour of its domestic market.

The heightened UK and ROI spend largely went towards store maintenance and new openings, which included a handful of refits as well as the opening of 18 new Express stores and five new Jack's stores.

Online growth has also steamed ahead during the pandemic. Investment projects include its first urban fulfilment centre, hiring 16,000 staff to support its online business and more than doubling capacity to offer 1.5 million online delivery slots per week.

The group's new chief executive Ken Murphy believes the shift to online retail is here to stay and forecasts that ecommerce will account for 20% of the group's overall sales in the coming years. In its first half online accounted for 16% of overall revenue and spiked 69% year on year.

Tesco plans to open 25 online grocery fulfilment centres by 2022, which will act as mini-warehouses. Murphy also believes adding "an element of automation" to Tesco's existing in-store picking capabilities within its biggest stores could be a "game changer" for the business. He hints that investment in these areas could allow the business to fulfil online orders on the same day in the longer term.

Alongside its online investment, the supermarket chain also closed a significant amount of retail space internationally.

As well as selling its businesses in Thailand and Malaysia, Tesco also reduced its selling space in central Europe by approximately 3 million sq ft in its 2019/20 financial year.

This represents a substantial difference with Tesco's international investment versus Walmart, which is investing substantially in its overseas portfolio.

ANALYSIS

WALMART

If Tesco is reducing its capex in favour of offering more appetising shareholder returns, Walmart is gearing up for an assault on a variety of sectors, ranging from international to healthcare and financial services.

"Walmart is undoubtedly in a much more expansionary mode than Tesco," says Black.

The US grocery titan has pledged $14bn (£10bn) of capex – between 2.5% to 3% of sales – in its current financial year, a substantial increase from the $10.3bn (£7.5bn) and $10.7bn (£7.8bn) spent in 2021 and 2020 respectively.

Walmart said revenue growth of $40bn (£29bn) last year had put the business "at least a year" ahead of where it expected to be financially, so the time was right for it to step up investments in a number of areas.

The grocery giant forecasts that this investment will deliver 4% top-line sales growth and an even stronger uplift in operating profits after a year of transition – the equivalent of "adding a Fortune 100 company every year", according to Walmart.

However, this increased level of investment is still below Walmart's capex peak of 4-5% of sales during the period of rapid superstore expansion between 2003 and 2008.

The retailer plans to spend the bulk of its investment on improving operations, supply chain and customer experience for shoppers in the US, alongside expanding in key international markets Mexico and India through Walmex and Flipkart.

Retail Week Prospect estimates that Walmart is spending $2.2bn (£1.6bn) of its $14bn (£10bn) capex on its international portfolio. In India, which Bain & Company estimates will have a $100bn (£72.5bn) ecommerce market by 2025, its Flipkart acquisition is thriving. It attracted more than 250 million customers over a five-day period during its recent Big Billion Day event and Walmart says it "is positioned to win India's ecommerce future".

To capitalise on this opportunity, the business is expanding its offer in fashion, investing in price and range across grocery, and investing in its supply chain and technology infrastructure, as well as developing its ad tech and wholesale divisions.

The retailer's Mexican division is similarly investing in its ecommerce offer across technology, supply chain and customer acquisition, as well as developing alternative revenue streams including advertising.

Walmart expects its global ecommerce sales to hit $100bn (£72.5bn) in the coming years, so it is investing in automation, fulfilment capacity, supply chain and other technology.

Chief executive officer Douglas McMillon says the business is "going to invest more aggressively in capacity and automation to position ourselves to earn the primary destination position with customers".

Among other things, this step up in investment will see Walmart invest in "next-generation" supply-chain solutions, including using robotics to pick and pallet items by store, department and aisle.

AMAZON

Like Walmart, Amazon is gearing up for further expansion, but its rate of growth is such that it puts other retailers in the shade.

The online titan's capex in the year to December 31, stood at $59.6bn (£43.2bn), which represents a massive 15% of total sales.

Amazon's capex more than doubled year on year in 2020.

Fulfilment is Amazon's big investment focus. Approximately $44bn (£32bn) was invested in fulfilment, including transportation, last year when it doubled its capacity in response to the global pandemic and more shoppers flocking online.

This investment was nearly 10 times what Amazon's closest follower in capex terms – Walmart – plans to spend on its supply chain in the coming year.

Speaking on the group's first-quarter analyst call, Amazon chief financial officer Brian Olsavsky said this fulfilment expansion was likely to continue in the current financial year and beyond.

"It's hard to turn that capacity on quickly, so it generally means you may have to overbuild to protect the customer experience. On transportation, we made large investments in our transportation network in 2020. That work is not done yet. We have a lot of continued expansion" he said.

Olsavsky says continued investment in Amazon's Prime programme is also an investment priority in a post-pandemic world.

"There are a lot of people who engage more strongly with Prime benefits in 2020 and we think that'll have a lasting impact, both from the purchase frequency and amount they purchase."

Amazon Web Services (AWS) is another chief investment priority.

Retail Week head of insight Lisa Byfield-Green says the online retailer is also investing in deep learning technology to improve the recommended products served to shoppers.

Investment in physical retail is also stepping up. Amazon opened eight more Fresh stores in the US last year and its first two Fresh stores outside the US in London this year, equipped with its Just Walk Out till-free technology.

Amazon is licensing Just Walk Out to third-party retailers in a similar way to its AWS platform, creating a new revenue stream. US airport retailer Hudson has just signed up as its first client.

The retailer will also plough investment into a number of research and development initiatives, such as Prime Air drone deliveries, which are a continued part of its capex spend as the business aims to stay on the cutting edge of innovation.

WALGREENS BOOTS ALLIANCE

US pharmacy and retail giant Walgreens Boots Alliance (WBA) has had relatively steady capex in recent years, which stood at $1.4bn (£1bn) in its 2020 financial year, slightly down from the $1.7bn (£1.2bn) spent in 2019, when the business acquired around 1,000 Rite Aid stores in the US.

While WBA does not share its global capex target for its current year, this level of investment, approximately 1% of group sales, is broadly expected to be maintained.

Of last year's $1.4bn (£1bn) capex, more than $1bn (£725m) was spent in the US while just $239m (£173m) was spent on international pharmacy, which primarily comprises Boots, and $83m (£60m) on wholesale.

After putting a number of transformation initiatives on hold in 2020 to deal with the fallout of the coronavirus pandemic, Walgreens Boots Alliance expects to ramp up its partnerships and roll out some pilots at scale in its current financial year.

This will see the business invest more in its retail systems, applications and products, as well as its existing store network and technology to help its healthcare service.

In the US, the retailer is improving its beauty offer in store and online, which is less developed than at Boots in the UK, as well as increasing the level of automation used in store to free up time for pharmacists.

In the UK, Boots is also expanding its healthcare offer to include services such as mole-scanning and hair-loss treatments. It has also introduced technology to support virtual GP appointments.

Walgreens plans to open more neighbourhood pharmacies in the US to drive convenience and accessibility for shoppers.

The group has also spent heavily in its Covid-19 services across the US and the UK. Five million Covid tests have been administered across 5,000 sites in the US and 2.8 million tests in the UK, with 16 vaccination sites now up and running.

Across WBA, mass personalisation across its website and loyalty schemes through partnerships with Microsoft and Adobe is a big focus. The health and beauty group will be using Microsoft's technology alongside data from across its loyalty scheme, ecommerce and store network to create a more personalised shopping experience for its customers.

Shoppers who have used their Boots Advantage Card to buy a product in store, for example, will be served offers on that product online when they are due to run out, or sent app push notifications when near a store that has the item in stock.

The technology underpinning this marketing will be used for all pharmacy and beauty lines across Walgreens in the US and Boots in the UK.

The retailer has also tripled capacity for its online operations in the UK to support rapid growth during the pandemic.

Store spend stalls

None of the retail giants analysed are planning substantial investment in store expansion.

In fact, at Inditex and Tesco, the plan is to reduce store space across their global estates. Only Amazon, which has a nascent physical store network, is ramping up its bricks-and-mortar ambitions.

This does not mean stores are no longer a valuable part of a retailer's portfolio; however, the focus is on making existing stores work harder by facilitating more online orders.

Although this is a sensible strategy given that most experts believe the shift to online will be a permanent one, O'Brien believes there is an opportunity for retailers, particularly in fashion, to go against the grain and expand.

Digital investment

Digital is the area in which most of these retail goliaths are spending big. But should smaller retailers be following suit?

Although it is hard to compete with the big boys when it comes to best-in-class digital, smaller retailers should not give up. This channel is where the growth in retail is coming from, so all retailers need to be playing in this space and offering the best experience they can.

O'Brien believes online should be the biggest investment priority for all retailers, but that they should be selective and focus on areas where they can win against major platforms, rather than competing against them.

Few may be able to compete with the fulfilment might of Amazon or the personalisation clout of Boots, but they can invest in features that matter to their audience, be that curated content or better search, to drive online growth.

"It's really about how you engage with your customers online without having the utilitarian, one-size-fits-all model that major businesses like Amazon have," says O'Brien.

"Investment should go into how to showcase your products in a more flexible way, as well as customer service pre- and post-purchase, including ways to engage with chat or video calls."

However, the case is getting stronger for smaller brands to partner and sell through platforms and marketplaces that have a best-in-class offer. O'Brien argues that there are pluses and minuses to this approach.

"Partnering up with such platforms is enticing for small retailers to access those infrastructure benefits, but you lose the connection with the customer and other aspects of control, such as how your products are displayed," he says.

"Larger retailers will feel the need to stay away and develop more relevant online experiences for their products, engaging better with customers, but will have to focus on good enough fulfilment rather than the margin-sapping world of competing with, say, Amazon Prime."

Category expansion and ecosystems

A big focus for Walmart and Tesco is diversifying the range of products sold beyond just grocery to entice customers to spend more time and money with them.

The strength of general merchandise businesses that have remained open during lockdown, such as B&M, demonstrate a desire for shoppers to complete as much of a shopping list in one store visit as possible.

For the giants, adding more categories is part of their plan to create a wider retail ecosystem. Walmart is investing in its Walmart+ membership scheme while Tesco has Clubcard Plus as both aim to emulate Amazon Prime.

Of course, it is not possible for every retailer to create their own ecosystem or membership scheme. However, investing in differentiated ways to encourage shoppers to spend more with them, be it through nifty in-app features or exclusive discounts, will become increasingly important.

Smaller retailers should focus on ensuring their online offer is consistent and compelling, both from a transactional and engagement standpoint, and that stores are worth the visit.

This is a strategy that will serve all in retail – regardless of budget – well in years to come. RW

DATA

Nike to Next – the 20 fashion brands bossing social media

Social listening specialist Maybe* has compiled a ranking of the top fashion and luxury retailers in the UK for engagement on Facebook, Instagram and Twitter. We reveal the top 20 and look at what they are doing right

The first quarter of 2021 may have already come to a close, but physical retail is finally reopening across England.

During the third national lockdown, 'non-essential' retailers have relied on digital channels to communicate and sell to their customers. And, as the likes of Asos and Boohoo have demonstrated in their financial results, those with a strong ecommerce presence and the ability to adapt quickly to consumer trends have reaped the rewards.

But during the crisis, retailers have pivoted their social media communication away from 'hard selling' techniques to offer a more supportive, sympathetic narrative.

Such interaction via channels such as Facebook, Instagram and Twitter has arguably been more crucial than ever, but which fashion retailers have mastered that art and driven online engagement at a time when high streets have been closed?

In data compiled exclusively for Retail Week, social listening specialist Maybe* – which tracks the social media activity of 3.9 million businesses across Facebook, Instagram and Twitter – has ranked the top 160 fashion and luxury retailers in the UK based on their engagement during the first three months of 2021.

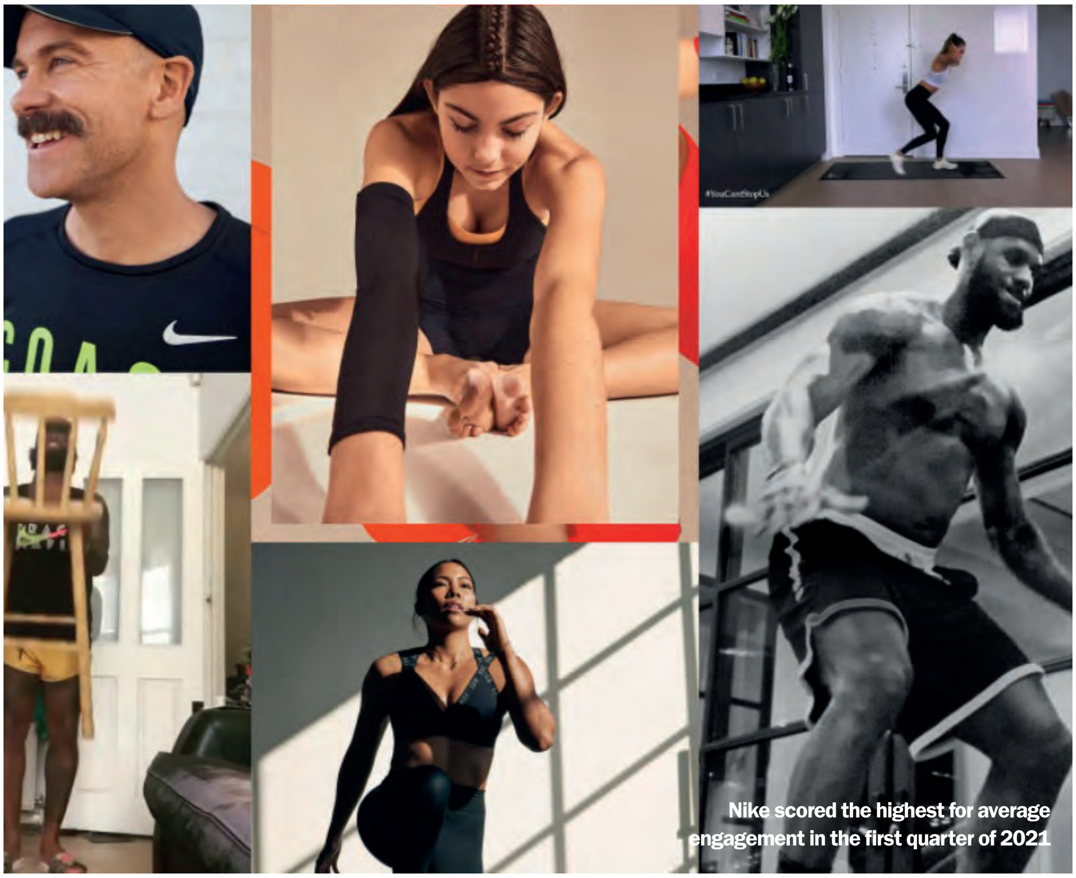
Sportswear titan Nike comes out at the top of the ranking, which scores retailers and brands on their average engagements – including likes, retweets, comments and shares – per social media post.

Shares and comments are considered a "deeper level of engagement" from consumers and are therefore given a higher score than simple likes or retweets.

On average, the businesses in the top 20 post 19 times per day.

M&S and Primark are the most active per day as they prioritise responding to engagement. Burberry and H&M are the least active with an average of just one or two posts per day, although H&M operates separate accounts purely for enquiries.

Ranking	Retailer	Total posts	Total engagements on posts	Average posts per day	Average engagement per post
1	Nike	108	734,561	1	6,801
2	H&M	178	1,023,250	2	5,748
3	Burberry	153	647,171	2	4,229
4	Urban Outfitters	505	881,349	6	1,745
5	Missguided	1,475	1,974,544	17	1,338
6	Boohoo	2,004	1,827,862	23	912
7	Asos	1,931	1,079,178	22	558
8	Zara	1,654	866,762	19	524
9	End	969	500,423	11	516
10	Gymshark	2,625	898,528	30	342
11	Farfetch	361	94,956	4	263
12	New Look	1,726	376,910	20	218
13	The White Company	551	113,009	6	205
14	River Island	949	152,914	11	161
15	Footasylum	711	108,801	8	153
16	John Lewis & Partners	468	70,380	15	150
17	Boux Avenue	926	104,939	11	113
18	Primark	5,353	475,302	62	88
19	Marks & Spencer	7,235	325,411	83	44
20	Next	3,038	100,270	35	33



Nike scored the highest for average engagement in the first quarter of 2021

Methodology

Maybe* tracked the social media engagement of 160 fashion and luxury retailers between January 1 and March 28, 2021. It ascertained the 20 brands with the highest total engagements, then ranked them to score the quality of the average engagement on each post.

Maybe* uses a distinct algorithm to score engagement. Instead of simply capturing the total number of engagements, it weights shares of social content the highest, then comments and then likes, since shares and comments require a deeper level of engagement than simply liking a post.

Maybe* is therefore able to measure which types of content are receiving the highest level of customer engagement at a deeper level and judge which businesses are most effective on social media.

Analysis from Maybe* head of insight Amy Rountree

How are retailers driving strong engagement?

Nike scored the top spot through successful Mother's Day content, paying tribute to mothers that raise athletes and athletes who are mothers themselves.

Nike continues to champion its diversity and inclusion agenda through its social media content. As we saw in 2020, this messaging and, crucially, being seen to walk the talk continues to be of the utmost importance.

End, Zara, H&M, Nike, Burberry and Urban Outfitters all occupied the top 10, but did not rely on competitions to drive their engagement. By contrast, Missguided's best post offered the chance to win a house deposit for a first-time buyer. This was an interesting social media campaign since the prize was not cash to spend with the brand, but instead a prize that reflects the current position and priorities of many of its shoppers.

While Boohoo, Missguided, Asos and Gymshark all used competition mechanics to drive their social media engagement, the likes of Nike and Urban Outfitters prove that brands can still cultivate deeper and meaningful engagement with relevant content that reflects the world we live in.

Retailers have a job to recognise their customers' state of mind and create content that speaks to those situations. There is no need to be overtly mentioning 'lockdown', 'pandemic' or 'corona' – those points do not need to be laboured.

The brands that are doing best are simply creating content that either serves their customers' needs for entertainment and escapism or that demonstrates authentic care for the world we live in.

Businesses like Zara, H&M and Burberry excel at social media by staying true to the simplicity of their brands. They post less frequently, content is beautifully styled and messaging reflects hero products. All three businesses regularly create content that champions sustainability issues. Nike ensures everything it does is about achievement and breaking limits, in the sporting world and outside of it.

Who should we be keeping an eye on for the rest of the year?

Topshop has continued to engage customers via social media and narrowly missed a spot in the top 20 during the first quarter of the year, despite posting minimal content. But will its new owner Asos seek to overhaul the way it engages with consumers via social media?

The majority of Topshop's social content of late references the fact that items can be bought at Asos.com. This speaks to the strength of Topshop's existing social media audience and its brand recognition.

There seems no need to completely incorporate Topshop social media within the Asos umbrella when its content already performs strongly.

Topshop has always enjoyed social media success and delivered great levels of customer service via social media. It was the same story at Debenhams, especially with the Debenhams Beauty Club.

Asking who 'owns' social media within a business is like asking who owns the customer. Social media adds value to multiple areas across a business

The opportunity for Asos to grow Topshop's social media success and the value it brings a business will not lie in the 20% of social media we see on the surface, which is the content that gets created, but in the 80% that happens behind the scenes.

Asking who 'owns' social media within a business is like asking who owns the customer. Social media adds value to multiple areas across a business. The user case where social media will add more value to Topshop and to Debenhams is in whether it is employed as a business tool and not just a marketing channel.

Will they use social media as a listening tool to quantify and qualify customer feedback? Will social media commentary inform customer experience and business strategy? Can Asos and Boohoo use social data to cross-sell the Topshop and the Debenhams brands they stock?

Also worth watching are brands with a strong sustainability agenda through recycling or peer-to-peer rentals, such as Girl Meets Dress. These brands previously enjoyed growing success, but post-pandemic they may have to seek new ways to engage customers as concerns around safety and lockdown impact social events.

Both activity and engagement with their social content has seen a decrease throughout the first three months of this year. It will be interesting to see if this increases in the coming months as social distancing restrictions are eased and weddings and other larger events start to take place again. RW

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