IDEAS | PEOPLE | TRUST

RETAIL FORECASTS REPORT 2020

# ADAPT, EMBRACE AND INNOVATE

LOOKING FOR OPPORTUNITIES IN THE TURMOIL

# CONTENTS



# RETAIL FORECASTS REPORT **2020**

Reviewing the last 12 months of 2019, our Retail Forecasts report analyses the previous trading year's activity and highlights key areas of focus for retailers entering 2020. Those retailers which adapt, embrace and innovate, whilst managing the cost and disruption involved will be the ones that are ultimately best placed to survive and thrive.

**#BDORetailForecasts**

# AN INTRODUCTION FROM SOPHIE MICHAEL

## HEAD OF RETAIL AND WHOLESALE

In 2018 we characterised retail as being in a state of ‘uncertainty and upheaval’ and, 12 months on, little has changed. According to the Centre for Retail Research, approximately 31 companies were already failing in the nine months to September 2019, with an estimated 35,000 employees affected, putting the sector on track to have more people impacted than any year since 2012 at around 48,000 employees – itself the highest figure since the crisis of 2008.

Headwinds remain strong, led by concerns over Brexit and the weakness of sterling. At the same time, consumers are becoming ever more demanding, insisting on value, convenience and environmentally responsible approaches, all while restricting what they are spending and channelling growing proportions of their income into services and experiences, rather than traditional retail.

Despite the meaningful role retail plays in the UK economy, accounting for around 5% of GDP and employing almost three million people, support from both the government and the investment community remains sparse. More than ten years on from the credit crunch, business rates remain in desperate need of reform. Many businesses are finding it increasingly challenging, if not impossible, to access the credit or re-financing they need, and ever-shifting Brexit deadlines and uncertainty are creating extra costs and uncertainty for retailers, including cautiousness among their customers.

However, far from this being a time to sit still and wait for conditions to improve, we have identified the coming years as a crucial time for retailers to be proactive and begin, or accelerate, adapting to the raft of further challenges and opportunities the next decade is set to bring.

There are many trends that retailers need to address in 2020. The following list is by no means complete, but includes some of the more impactful factors that are relevant to retailers as the sector heads into the next decade:

- Investing in and exploiting new technology to meet the rising demands of connected shoppers in a cost effective manner
- Competing with disruptive new subscription based payment models
- Meeting increasing consumer interest in having products and services tailored to their lifestyles
- Re-shaping store portfolios to fit modern customer shopping habits
- Overhauling supply chains to deal with the growth of home delivery and click & collect
- Adapting to the growing spending power of older shoppers
- Navigating falling home owner-occupier rates
- Becoming truly ethical and environmentally aware businesses.

Those retailers which accept and embrace these challenges, whilst managing the cost and disruption involved will be the ones that are ultimately best placed to survive and thrive.

# RETAIL CATEGORY GROWTH FORECASTS

## FOOD & GROCERY

With the fall in sterling against the Euro, since the 2016 UK referendum result, food prices have been rising. As EU produce accounts for up to 30% of the UK's food imports, the prospect of Brexit will likely see inflation continuing with purchase volumes remaining steady. This will especially be true in the event of a no-deal or partial deal scenario where tariffs will come into play. However, it is also likely to play out in any scenario involving a departure from the single market, as new supply deals with the EU and countries outside are negotiated and supermarkets are forced to pay higher prices.

As we have seen over the past decade, periods of economic uncertainty and spiralling food and grocery prices provide ideal conditions for the discounters to thrive. Businesses such as Aldi and Lidl have seen their business mature and rapidly expand compared to a decade ago and they will continue to see the potential for plenty of growth at the expense of traditional supermarkets. With convenience and online sales also set to benefit from their growing relevance to consumers, it continues to be a difficult time for the Big Four and traditional grocers in particular.

| CATEGORY | 2014-2019 % growth | 2019-2024 % growth |
|---|---|---|
| **TOTAL RETAIL** | **8.8** | **11.7** |
| Food and grocery | 10.1 | 15.0 |
| Entertainment | -5.5 | 12.6 |
| Homewares | 9.0 | 11.7 |
| Health and beauty | 15.6 | 11.6 |
| Books, news and stationery | 10.4 | 10.6 |
| Furniture and floorcoverings | 8.0 | 9.9 |
| Other | 3.7 | 9.4 |
| DIY & gardening | 5.7 | 8.3 |
| Clothing and footwear | 6.4 | 6.9 |
| Electricals | 3.8 | 4.1 |

*Source: all data GlobalData estimates*

## CLOTHING & FOOTWEAR

Volume growth has eluded the clothing and footwear market in 2019 and will remain minimal in 2020, dragged down by womenswear in particular. Economic insecurity is still plaguing the market, with shoppers reining in non-essential spend and many trading down to make their money stretch further.

Spend is likely to slowly rise again as certainty is eventually restored, but this will be predominately inflation-driven due to rising labour and sourcing costs, especially given the growing focus on using more expensive sustainable materials.

The online channel continues to excel, driven by the emergence of key online pureplays, including ASOS and the Boohoo Group, as well as many major retailers, such as Next who are shifting large portions of their business online and providing an effective platform for other brands. Although this growth is forecast to continue and will outperform the offline channel, it will start to slow as players become more established, with less scope to achieve rapid sales growth. Nevertheless, retailers' bricks-and-mortar operations will continue to struggle amid weaker footfall and shoppers' reluctance to make purchases.

# RETAIL CATEGORY GROWTH FORECASTS
CONTINUED

## ELECTRICALS

Contrasting fortunes in electricals are set to see connected devices spearhead growth in grey goods, while white and brown goods suffer from subdued housing market activity and a growing trend for shoppers to repair rather than replace.

Amazon's share of the UK electricals market is expected to reach 17.8% in 2019, and 36.7% of the online electricals market, as the retailer continues to invest in own brand electrical products as well as capitalising on its Prime delivery service, to make it the go-to retailer for quick replacement purchases.

However, market leader Dixons Carphone continues to prove there is still a demand for physical stores where the retailer has weathered the lull in demand for brown goods and benefitted from its focus on the booming gaming market. Moreover, its focus on improving instore experience and updating store layouts in big box locations is making these spaces more relevant for the modern shopper.

## HOMEWARES

Demand for homewares is expected to increase as housing transactions pick up slightly post-Brexit. The long-term increase in renters will help the industry as the average consumer spends less on big ticket items (furniture, flooring, appliances) and moves towards a higher spend on cosmetic items such as lighting, candles and bedding.

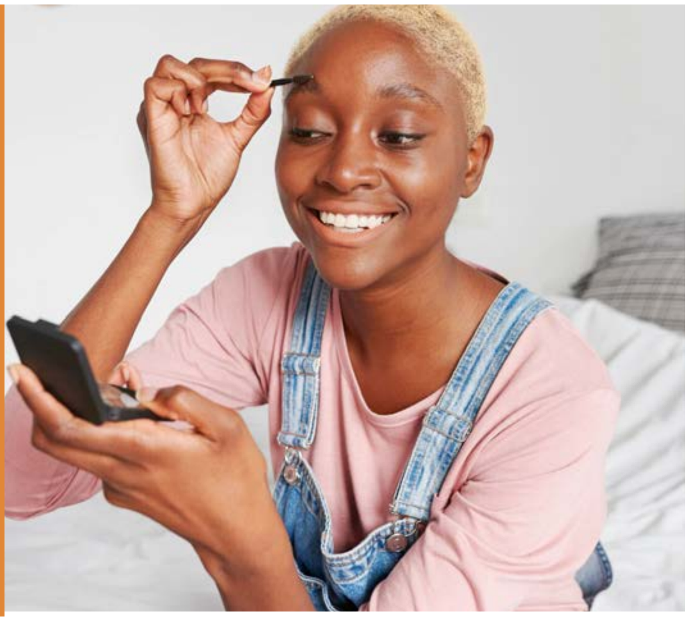
Market leader Dunelm continued to extend its market share in 2019, capitalising on the wide range of choice it offers as a homewares specialist. Dunelm also benefits from its mainly out-of-town and retail park locations which protects it from falling footfall in town centres, and its careful investment in progressively building brand awareness.

## HEALTH & BEAUTY

Health and beauty will be a big beneficiary of the health and wellness trend. Shoppers will spend more on over the counter medication and supplements, often tailored to allow consumers to understand everything from their DNA to their gut bacteria and therefore buy products specific to their needs.

Increasing competition and growing awareness of new brands in the UK is aiding the beauty market. This is particularly strong in the skincare and cosmetics department with beauty retail expanding into new areas, such as men's makeup.

However other less buoyant categories in this sector will see a slowing growth rate. These include babycare, which will be impacted by a falling birth rate; paper products which will see volumes growth held back by environmental awareness; and bathroom toiletries which, along with paper products, has been impacted by trading down and the growth of discounters holding back average spend.



## TOURISM

The UK is the only one of the world's top ten countries by incoming tourism expenditure that witnessed a decline in the number of inbound tourists in 2018. This was largely due to the instability of the pound, a fall in interest among Europeans and uncertainty surrounding Brexit. Even with recent declines in the value of sterling it remains a considerable risk which will continue to impact levels of tourism in the coming years.

To address this issue, the VisitBritain tourism board launched a campaign named 'Friends of Europe' in 2019, aimed at persuading Europeans that they will get a warm welcome and good value in Britain.

Much of what happens next still depends on how swiftly, cordially and neatly Brexit and any subsequent trade deals can be negotiated. Any extension and further adversarial discussions by politicians will likely continue to deter Europeans and distract from opportunities to overhaul VISAs and travel agreements with other countries in order to further encourage visitors from Asia, America and elsewhere.

# RETAIL CATEGORY GROWTH FORECASTS
## CONTINUED

### LOCATIONS

The online channel will continue to drive the majority of growth in retail spend. Consumers are becoming more accustomed to buying online, led by less mature categories, such as health & beauty, furniture, food & grocery, and DIY, benefitting from new technology including clothing & footwear continuing to increase in popularity through the channel.

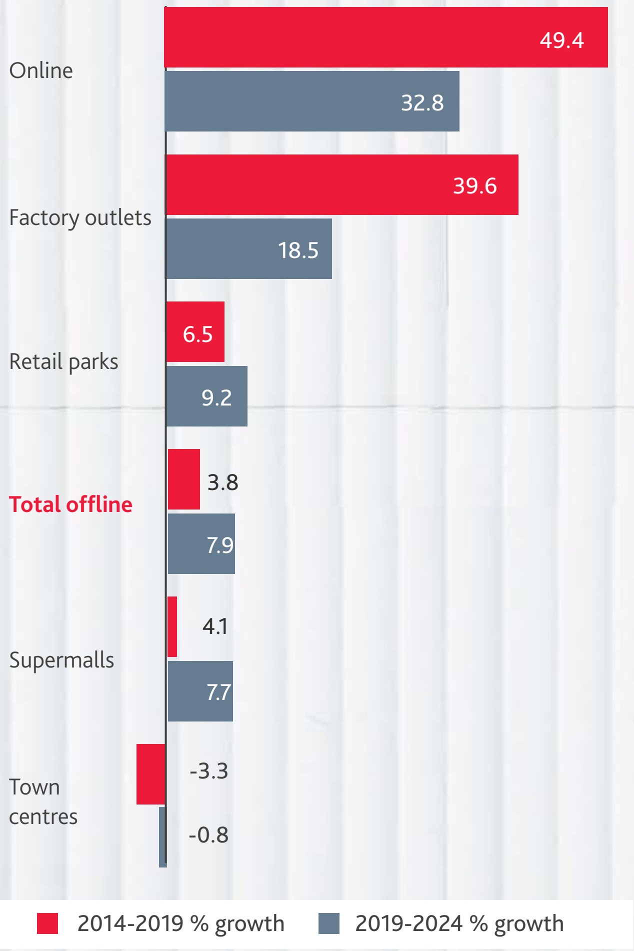
Retail parks will be one of the key locations in terms of value add to the retail sector, bolstered by growing food & grocery spend, as discounters Aldi, Lidl, B&M and Home Bargains continue to implement ambitious store expansion plans. Other retailers are also moving into the location, with specialists such as River Island and Superdrug taking advantage of the footfall and easy access.

The destination appeal of supermalls, given their strong retail offer coupled with complementary food service leisure options, will also ensure that growth is resilient over the next five years. Supermalls continue to divert spend away from neglected and unappealing town centres, bolstered by ongoing investment from property companies and higher occupancy rates.

Factory outlets will continue to see impressive growth compared to other locations but are witnessing a slow in sales as they are squeezed by competition from online and malls.

Town centre sales continue to decline as consumers shift their spend to other locations like retail parks and supermalls. These locations offer a wider product choice, free parking and a better all-round experience, with food service and leisure being a key focus alongside retail. However, despite being on a downward trajectory, essential product sectors, namely food & grocery, and health & beauty will help prop up the location.

**Channel growth**




Source: GlobalData

## CONSUMER CONFIDENCE

October saw a small ‘Boris bounce’ in consumer confidence, as the prospect of a Brexit deal and a government spending spree briefly cheered consumers. However, it remains unlikely this upturn will be sustained for long. The long-term trend remains one of considerable negativity with low unemployment and improving disposable income more than offset by worries about the future of the economy.

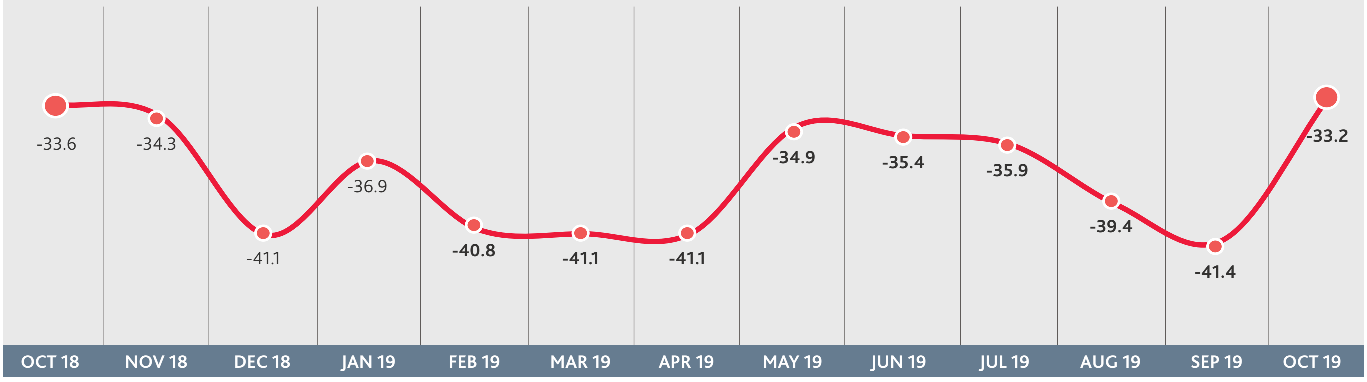
**Consumer Confidence Index** October 2019

# -33.2

Change on last year
+0.4 **strengthening**

Change on last month
+8.2 **strengthening**

### Overall future sentiment index




Source: GlobalData

# RETAIL CATEGORY GROWTH FORECASTS
## CONTINUED

### BREXIT

In some ways the drawn-out nature of the Brexit saga has seen initial fears easing off, with a large proportion of consumers becoming somewhat indifferent to imminent warnings of doom and gloom and returning to spending as usual.

The ongoing deadlock around Brexit may not be ideal in terms of prolonging uncertainty, but it does reduce the fear that we could end up sleepwalking into a no-deal Brexit by accident and it now seems that parliament will remain resolute in doing as much as it can to prevent the most disorderly worst case scenarios.

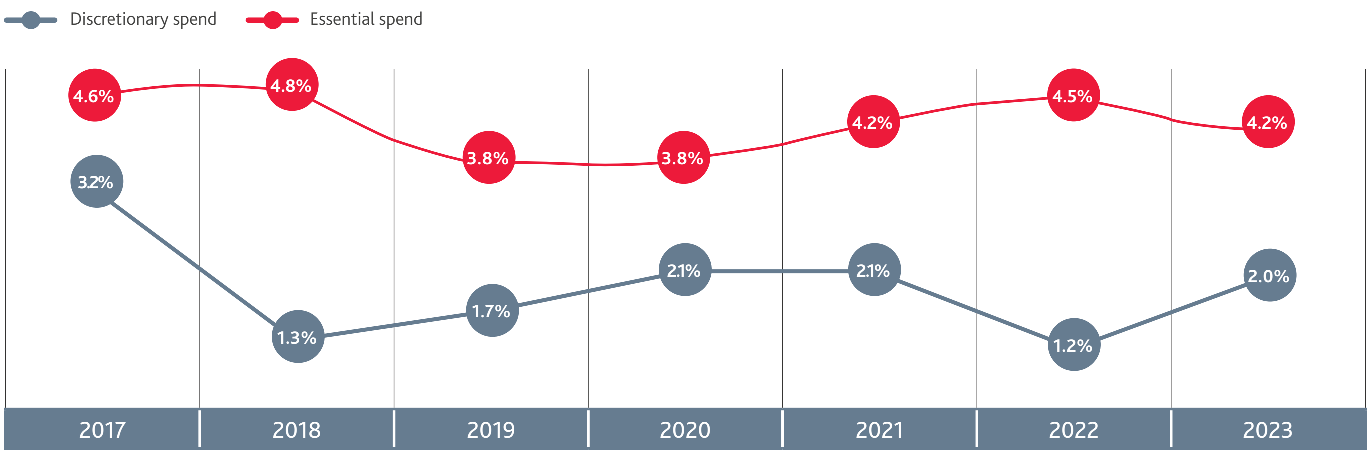
Nevertheless, any prospect of uncertainty, and in particular the upheaval a no-deal Brexit would bring for the economy, continues to undermine confidence, particularly when it comes to big ticket items.

At the time of writing, a forthcoming general election in December 2019 has the potential to bring some clarity to the next stages of the Brexit process. However, given the tumultuous political situation that the UK has experienced since the Brexit referendum in 2016, continued gridlock is a more than possible scenario.

Regardless of the electrocial outcome, 2020 will represent another year of uncertainty and disruption for retailers and consumers. Adapting to whatever happens at the beginning of the year will bring more challenges and more pain. Even in the event of the current deal on the table being voted through parliament, the UK will continue to trade with the EU as before under the transitional period until at least the end of 2020, as the detail of the trading agreements are drawn up. This transitional period is likely to be extended beyond 2020, if the speed of negotiations between the UK and the EU so far are anything to go by.

In the scenario that the UK exits the EU without a deal, there will be significant, though different, impacts to the food and non-food retail markets. Food prices would rise significantly, due to problems with availability, additional tariffs and the further devaluing of sterling which we believe would occur. Consumers would be forced to spend a greater proportion of their disposable income on essentials – mainly food – and as a result would have less ability to spend on non-essentials, as well as less confidence to do so.

**Spending growth – discretionary vs. essential**




Sources: GlobalData, ONS, OBR

## CHRISTMAS 2019

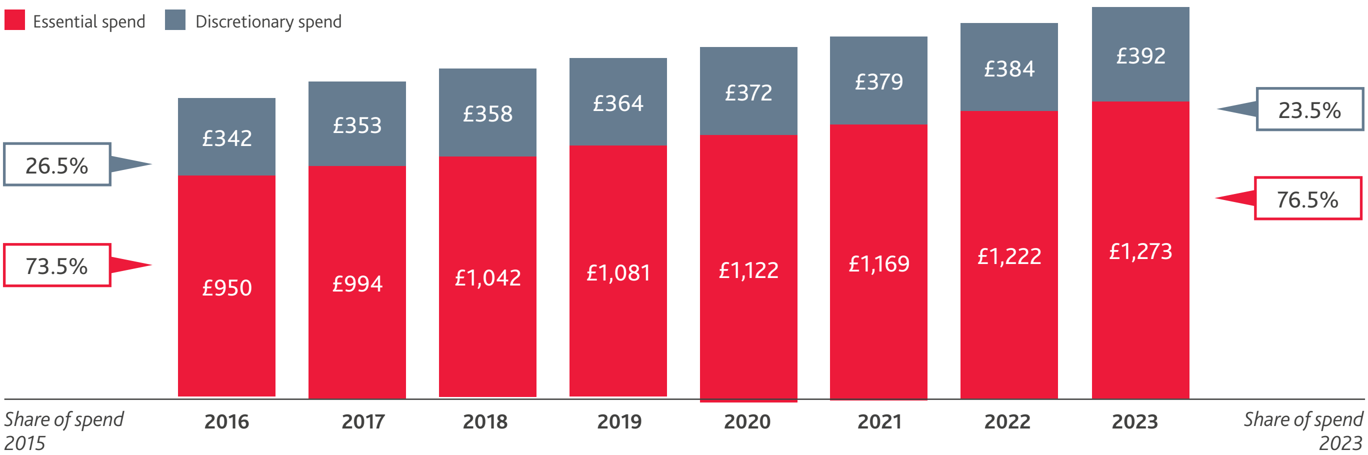
The fact that Christmas 2019 looks likely to coincide with a period of political change and uncertainty surrounding Brexit and a general election, it is far from ideal for retailers who will have to work harder than ever to encourage consumers to put their fears and cautiousness to one side and spend freely.

Some categories will find this easier than others, and while some fashion (weather permitting), the latest gadgets and food & drink are likely to benefit from a desire for escapism, big ticket items, particularly those that rely on a buoyant attitude among homeowners, are again set for a tough time.

Traditional retailers and market leaders will also once again find themselves squeezed by the expansion of the discounters, led by B&M, The Range, Aldi and Lidl, and the popularity of pureplay online players, from giants such as Amazon to smaller specialists.

**Share of consumer spending by category**

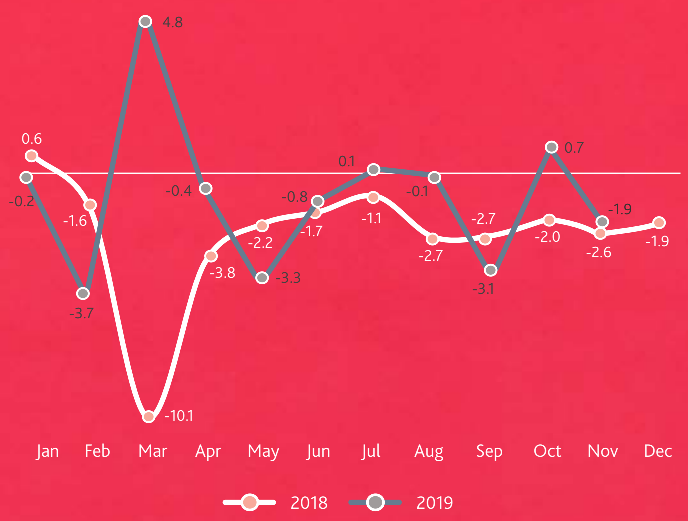
Figures are £bn



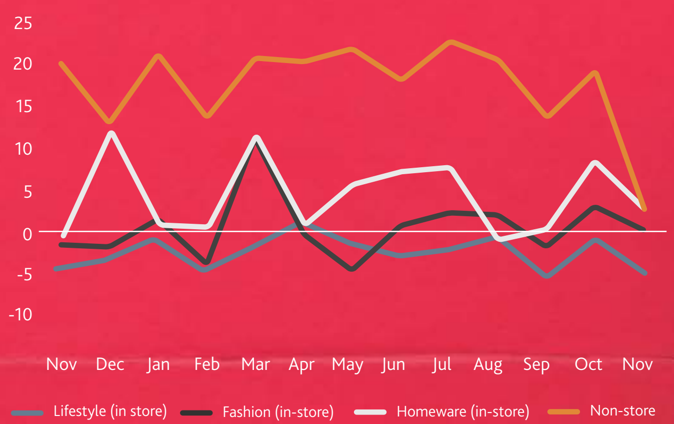

Sources: GlobalData, ONS, OBR

# HIGH STREET SALES TRACKER

### BDO high street sales tracker figures 2019




### BDO high street sales tracker figures 2018/19




### HIGH STREET SALES TRACKER

For the fourth year in a row 2019 has seen difficult trading characterised by ongoing declines in high street sales.

On a category level, lifestyle has had a particularly tough 12 months, with consistent declines; fashion has been largely stagnant, aside from the weather comparatives related boost in March; and homewares has been more resilient, seeing peaks in Christmas 2018, a prolonged spell of decent growth in the early summer, and strong growth in October 2019.

# RETAIL TRADING CONDITIONS

## THE MARKET OUTLOOK

With footfall continuing to decline on the UK high street in 2019, the winners in consumer M&A have been those driven by data.

Moving forward to 2020, the fast pace of change of the UK consumer means retail and consumer businesses need to recognise the change and adapt quickly. Below we explore the landscape for mid-market M&A as well as the distressed market and what may be the winners and losers of 2020.

## MID-MARKET M&A

The consumer mid-market M&A landscape has had a steady level of transactions in 2019, however, it has been the year where a number of opportunities in the market never resulted in a successful transaction. Why is this? Consumer businesses have faced a number of significant challenges from the weather to a significant change in the cost of customer acquisition. Those brands which have seen rapid and significant growth historically via their social media channel were hit overnight by changes. Equally, influencer-led brands have seen challenges and coupled with the consumer becoming more cynical of the leading UK influencers means brands have had to re-think how they engage with their consumer.

However, there have been some significant winners in brands led by data. These are the brands who truly understand their consumer and 'communicate' with them. 2019 has certainly been a year where technology and retail have moved closer than ever before, which has a significant effect on equity value. These are the brands that investors are looking to secure.

There has also been momentum in certain subsectors. The beauty market consolidators are all looking to acquire sustainable brands, recognising the growing trend in the Generation Y consumer that social responsibility dictates brand engagement. Notable deals include Canopy Growth's acquisition of British beauty brand, This Works and Snowberry, a New Zealand based natural skincare business acquired by P&G. This Works also was the first CBD beauty transaction, marking a new market trend.

This is also moving across apparel with H&M committing to ensuring that 100% of their products will be made from sustainable cotton by 2020. With Zara and now premium brand Prada also following similar sustainability pledges. This corporate strategy goes hand in hand with M&A and the businesses these larger corporates are looking to acquire.

As we move into 2020 we expect more change in the consumer. There is an increasing trend to the rental model, which is still in its infancy in the UK, but with proven traction in the US market with the likes of Rent the Runway, M&A follows this pattern with retail tech platforms attracting high valuations.

Overall, brands that adapt to the changing consumer and recognise the changing landscape for the global corporates around social responsibility will be the winners in 2020.

# ADAPT, EMBRACE AND INNOVATE

In this section, we have highlighted five key areas of focus for all retailers entering 2020, areas that continue to grow in importance to enable retailers to differentiate and attract the consumer purse. These include: being convenient & affordable; the changing consumer landscape; the smart & connected shopper; the influence of health & wellness; and being sustainable & ethical.

## BEING CONVENIENT & AFFORDABLE

### DEMANDS FOR CONVENIENCE AND VALUE ENCOURAGE INNOVATION AND NEW TECHNOLOGY

A major driving force for retailers has been the consumers' desire for convenience. Consumers with busier lifestyles, who work more hours or have limited disposable income are more likely to seek value, convenience and technology-led solutions to help them in their daily lives. According to IBISWorld, the average weekly hours of work is expected to rise from an already high level in 2018-19 and this can be seen as a strong opportunity for retailers.

There has been an increase in consumers preferring to eat at home rather than in restaurants due to busier lifestyles, and companies like Deliveroo, Just Eat and Uber Eats have since been expanding, offering a wide range of takeaway foods, easily browsed and ordered via their apps. With their slick apps and delivery direct to the door, the market has recently seen traditional retailers exploring this innovative way to meet the demand for convenience.

Grocery stores have become an increasingly competitive battleground for food delivery technology in the last few years. For example, the Co-op has branched out from delivering groceries with Deliveroo to consumers in 30 minutes, to now trialing its own delivery service working with similar products, technology and timescales. Costcutter has also struck a deal with takeaway delivery app Uber Eats, marking the tech company's first foray into grocery delivery.

**Grocery stores have become an increasingly competitive battleground for food delivery technology in the last few years**

# ADAPT, EMBRACE AND INNOVATE
CONTINUED

## SALES, SCHEMES AND SUBSCRIPTIONS

Deal-focused retailers such as Wish, online flash sales and new loyalty schemes have become more prominent over the years. The epoints loyalty scheme, for example, rewards consumers for shopping online by allowing members to save an extra 10-15% off the original cost of a product across many leading internet retailers. It is believed that epoints will be reaching awareness of 14.8% among UK consumers by early 2019.

The challenge for retailers, however, is how they meet the growing demand to deliver 'good value' while still maintaining a healthy profit margin. One example of a business taking a different approach is Beauty Pie, a subscription based make-up provider that offers premium beauty products without the associated high price tag. The company makes money from its subscription fees rather than product mark ups which they've also made possible by cutting out all the industry cost such as celebrity marketing campaigns, fancy packaging and TV adverts.

Other new entrants are also focusing on different approaches by capitalising on current trends such as Pact Coffee, a subscription based coffee delivery company and Vegan Tuck Box, a subscription based vegan snacks company. With health, value and convenience all being key consumer concerns, many people may be converted from their long established buying habits. With other specialists such as Hello Fresh and Abel & Cole making a big impact in the sector, the subscription food box market is set to be worth £355m by 2022.

There has also been a number of large companies responding with acquisitions to tap into the subscription model, with Unilever acquiring Dollar Shave Club for $1bn, Colgate-Palmolive taking a minority stake in the contact lens subscription service Hubble and Nestlé taking a majority stake in Tails.com, the tailored dog food delivery service.

## FEWER 'MID-MARKET' STORES, MORE DISCOUNTERS

Across multiple categories the store portfolios of mid-market retailers continue to feel the squeeze. The demands of maintaining and investing in a store estate alongside an online proposition have weighed heavily on the operating margins of traditional multichannel retailers. Retailers are forced to reshape their store portfolios to be fit for purpose in a modern retail market where much of the customer journey is now fulfilled online and requires delivery direct to consumers or nominated stores/collection points.

Alongside the value and convenience of shopping on the internet, consumers have also demonstrated a preference for the prominent emphasis put on lower prices from discount retailers. Over the last ten years financial pressures have encouraged consumers to target food and grocery as potential outlets for cost savings, boosting the discounters at the expense of mid-market retailers (ie those with their focus on either value or premium goods).

The discounters' approach is broadly similar in that it involves a lot of branded products sold at low prices, frequently supplemented with own brand lines. These retailers have been quick to capture both credibility and consumer attention, even as they expand into new areas of the UK with new product categories. Led by the likes of The Range, B&M and Home Bargains, as well as Aldi and Lidl, the discounters continue to grow market share not only in food but in home, DIY & gardening, and health & beauty.

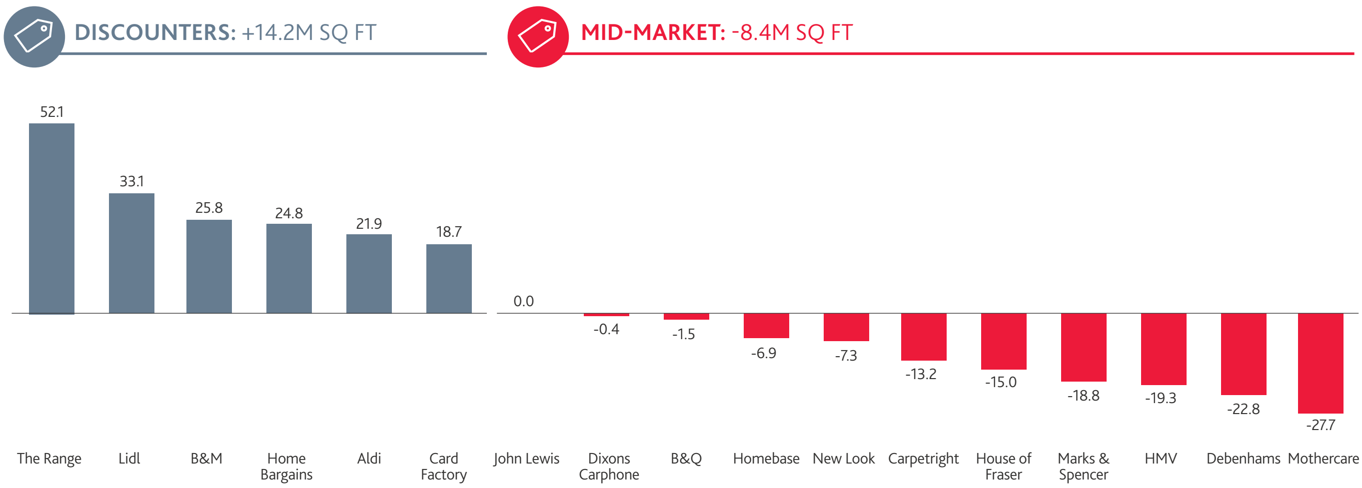
With many traditional retailers struggling and closing stores it has been the discounters leading space expansion, further taking their appeal to new customers and eating into sales of traditional players.

While this has predominantly involved the discounters' preferred footprint of big box out-of-town stores, there has also been experimentation with new formats. For example, Aldi has opened a new local format in Balham at 6,500 sq ft (and selling 300 fewer products than a regular sized Aldi), and B&M combining with Heron Foods to create B&M Express stores, offering discounted brands through convenience stores. Even The Range has opened city centre stores, while discount card specialist Card Factory opened an average of one new store per week in its half year to 31 July 2019.

More established retailers are seeking ways to ensure they are still a compelling alternative to the discounters, developing clear points of difference of their own. In this cut-throat new world simply providing reasonable products at reasonable prices will not be sufficient.

**Retailer space growth plans 2019 to 2024**

Figures are %




Source: GlobalData

# ADAPT, EMBRACE AND INNOVATE
CONTINUED

## CVAS AND RENT REDUCTIONS

CVAs continue to attract a degree of controversy, particularly within the landlord community. They are often compared to 'pre pack' administrations. Sometimes, even in the best planned 'pre pack' there is an element of execution risk that cannot completely be mitigated.

Our sense is that whilst not exactly welcome, landlords are at least receptive to CVA proposals that attempt operational restructuring via a package of measures. Occasionally, the best CVA proposals are those that set out a holistic solution. This might include a recut of the debt stack, reduction in central overhead, improvements to management, other key stakeholders sharing the pain and, if there is upside created, some sensible mechanic by which this upside can be shared with compromised parties.

However, good CVAs should not be ignored. A good CVA and a well-executed 'pre pack' can be an extremely effective way of reinvigorating an otherwise failing retailer.

Large established retailers have increasingly had to embark on radical re-negotiations with their landlords to shape their portfolios in order to compete with rival discounters and keep up with today's modern consumer.

More extreme examples of recent retailer downsizing have involved the use of CVAs to exit unprofitable leases and reduce rents which has encouraged even relatively stable retailers to also seek out rent reductions. Next and Primark have reportedly been looking for rent cuts of around 30% on expired leases and Clarks is exploring rent cuts on existing stores in exchange for extending leases.


## OPPORTUNITIES IN A CHANGING CONSUMER LANDSCAPE

### GROWING POPULATION

Growth in the UK population, as a result of both high birth rates and net immigration, has been a major driver of increases in retail spending in recent decades. While expansion of the populace is now slowing, the UK population is still forecast to grow by almost 3 million by 2028. This particularly presents opportunities for the biggest chains with a focus on essential spending, such as the supermarkets, as well as local stores, such as pharmacies and convenience outlets; population growth means that even if average spend per head stagnates there will still be opportunities for retail sales as a whole to grow.

### AGING POPULATION

Almost 80% of the growth in the UK population over the next decade will come from those aged 65+, with the 65+ age bracket becoming the highest spending age bracket, accounting for 30% of retail spending by 2028, up from 18% in 2018.

This in turn will result in a significant shift in the marketing and strategies of consumer facing businesses, pivoting away from millennials and families in order to place more emphasis on winning spend from older shoppers.

The businesses who are able to capitalise on this trend will be those that not only meet the evolving demands of their aging customers, but those who are able to innovate new products to appeal to older consumers that are set to be more online savvy. This also includes those who have more free time and disposable income to freely pursue their hobbies and areas of interest.

**Population growth means that even if average spend per head stagnates there will still be opportunities for retail sales as a whole to grow**

## MORE RENTERS

Growth in the number of households will be led by demand from single individuals and childless couples to have their own space. However, the lack of affordable housing will push a further 1.3 million households into the rental sector, with the proportion of owner-occupiers continuing to fall. Younger households will be the most exposed to this, with over two-thirds of 16-34 year olds renting as the rising gap between house prices and wages, and the difficulty of securing deposits and mortgages, puts home ownership out of reach for many millennials.

The cost of renting, with rental spend growing by 50% over the next ten years, is set to put pressure on household budgets and the spending habits of the under 35s will change considerably.

The generation of renters are less likely to spend on big ticket items for the home, such as kitchens, flooring and furniture which is being reflected in DIY category. For example, B&Q's H1 sales have shrunk by £360m in the last four years, from £2,133m in 31 July 2015 to just £1,773m in 2019.

This switch however can free up more spending on items for the home and other sectors, such as fashion, technology and experiences. It is these opportunities that retailers now need to focus on, including the new generation of landlords.

## 'LIVE-FOR-NOW' MENTALITY

The difficulty in getting on to the property ladder has had a knock-on effect upon young people, as they are now being encouraged to rent in cities for longer (rather than moving out to buy in the suburbs) and waiting until they are older before having children, fostering a 'live-for-now' mentality.

It has also meant that convenience stores and services are providing more tempting ways to save time and effort, which has led to a growth in spending on experiences over 'things'. With 27% of consumers mentioning they are spending more on experiences than products compared to five years ago, compared to just 12.5% saying the opposite, this trend is proving particularly strong among the under 35s.

Alongside an increased focus on sustainability and 'de-cluttering', more options for leisure experiences and a shift away from materialism, consumers are less motivated to own things and more inclined to spend money enjoying themselves and creating memories. This feeds into the desire to create stories and images which are shareable on social media. Based on this, retailers and property firms are looking to transform their stores into more experiential showrooms and establish locations that include a mixture of retail and leisure businesses.

The shift to experiences encompasses not only a resurgence in traditional social activities, such as pubs, theatres, cinemas, music festivals and restaurants, but new types of activities, such as escape rooms and 'interactive' shows, such as secret cinemas. It also includes a willingness to embrace new tech-based businesses setting out to disrupt established industries such as Uber, AirBnb and new startups such as Task Rabbit. Task Rabbit was purchased in 2017 by the IKEA group and allows customers to search for assistance in everyday tasks such as cleaning, gardening and flat-pack assembly, leading to accessibility and convenience.

# ADAPT, EMBRACE AND INNOVATE
CONTINUED

## SMART & CONNECTED SHOPPERS HAVE HIGHER EXPECTATIONS

### SMARTER SHOPPERS

Consumers are now increasingly integrating and dependent on smart tools and digital technologies across all aspects of their lives, from smartphones and wearable tech to connected televisions and smart appliances.

In shopping, the popularity of connected devices is changing the way consumers act. Compared with five years ago, 59% of consumers now say technology has made them more likely to compare prices, 58% say it has made them spend more time researching products and 46% are more likely to look for bargains. This has had a particularly significant impact on the shopping habits of younger shoppers, with 63.9% of 16-24 shoppers and 57.8% of 25-34 shoppers having browsed on mobile devices before purchasing over the past 12 months. In contrast just 11.7% of 55-64 shoppers and 5.7% of 55+ shoppers have done the same.

Furthermore, as technology continues to develop, the boundaries between channels will become ever more blurred. Smart speaker penetration already sits at 34% (February 2019), with Morrisons becoming one of the first UK retailers to launch an 'Alexa skill' to enable voice commerce in December 2017, allowing Users to ask Alexa to add items to their Morrisons order and check their delivery is on time.

Other potential examples of technological disruption include mobiles and wearable technology facilitating greater levels of interaction within stores and retailer websites becoming more integrated with social media and other platforms.

### SEAMLESS PAYMENT

As well as a rising influence on research, browsing and inspiration stages of the purchasing journey, mobile devices have grown as a transactional channel, with 22% of consumers using smart pay technology in the year to February 2019. Technology giants such as Apple and Paypal have developed their own takes on making payment as effortless as possible, utilising technology such as contactless transactions and fingerprint recognition, with Natwest piloting a contactless debit card that uses the owner's fingerprint

**The challenges of perfecting such an approach were short-lived when long queues of customers wanting to pay for their groceries in the traditional way led to Sainsbury's re-installing some of its checkouts in September 2019**

to verify transactions of up to £100. According to UK Finance, contactless payments made in the UK increased 31% to 7.4bn in 2018, with around 70% of UK consumers regularly using contactless.

The rollout of these services continues to lead us into a cashless society with the trend recently reflected by Amazon and Sainsbury's opening of till free stores. However, the challenges of perfecting such an approach were short-lived when long queues of customers wanting to pay for their groceries in the traditional way led to Sainsbury's re-installing some of its checkouts in September 2019.

Another technology enabled development has been the integration of more flexible credit offerings into the payment process. For example, some retailers have already integrated payment service Klarna into their propositions, allowing customers to pay in instalments of their choosing or even delay initial payments. Paypal Credit also encourages consumers to use Paypal as way of deferring payments for major purchases by four months.

### NEW TECHNOLOGIES

New technology will also continue to shake-up the retail sector. IKEA's 'Place' app uses augmented reality allowing consumers to experiment with how products might look in their homes; Marks & Spencer's visual search tool permits searching for products most similar to images found elsewhere; Asos' Enki 'Fashion Bot' messages you with personalised recommendations; and brands such as Adidas and Mammut have embedded NFC tags in products to provide information to customers.

Looking ahead, virtual and augmented reality headsets and 3D printing are two main examples of developments with the potential to radically transform how people shop for and purchase products.

The former could eventually make it possible to browse and closely scrutinise a whole range of products in detail without having to leave your home. It also presents the potential to purchase materials and designs, and to obtain highly personalised items, which can lead to a significant reduction in mass production in some categories.

AI will also play a growing role in everything from guiding retailer strategy and marketing, to mining customer data and improving operational efficiency. Consumers are generally receptive to the idea of more sophisticated technologies facilitating their shopping experiences. Data shows that 52% of global consumers consider it appealing to receive personalised product or service recommendations based on their previous shopping behavior, reflecting an acknowledgement that shopping can be more satisfying if personal data is used to inform it.

As robotics become capable of incorporating more complex aspects of AI, such as machine learning in a cheaper manner, they too will become not only a useful cost-cutting tool for efficiency-seeking retailers, but an indispensable aspect of the customer experience. The use of robotics in the warehouses of online retailers such as Amazon and Ocado, is a key reason why these retailers are able to replenish inventory, pick and pack at extremely efficient levels, and deliver rapid postage and fulfilment services on a huge scale. Getting this wrong can cause disastrous effects which ASOS experienced early last year when they expanded into Europe and the US. Their technology, logistics and people capability were out of sync and left many customers let down, leaving the e-tailer to rebuild customer loyalty.

# ADAPT, EMBRACE AND INNOVATE
CONTINUED

## TECHNOLOGY BOOSTING SUBSCRIPTION SERVICES

Many businesses prefer the stability and customer retention offered by subscription payments and have focused on ways to use new technology to develop business models centred around this approach.

Prominent examples are in food, led by the likes of Hello Fresh and Abel & Cole, and in entertainment, spearheaded by Netflix and Amazon Prime. In both cases market potential is set to attract new competitors, such as Mindful Chef and Allplants which are examples of relatively new innovators in the food market, and Disney, Apple and HBO among those launching their own streaming services.

Elsewhere Amazon's Prime subscription delivery service continues to be utilised by a growing proportion of households. This has altered how consumers shop online and has allowed Amazon to be the consumer's first choice destination for many products in which the retailer has not traditionally been a major player in, such as DIY, homewares and household goods. Amazon is also strengthening its grocery offering through different services including Fresh, Pantry and Subscribe & Save. By doing this the retailer is attempting a flexible range of options to meet demand for value and convenience in an innovative way that differentiates them from the major supermarkets and provides consumers with a compelling reason to switch at least some of their food & grocery spend.

## STORES WILL ALSO EVOLVE

Maintaining store portfolios developed in a pre-internet era while trying to absorb the extra costs of deliveries has been a difficult task for many retailers in a time when other costs are also increasing, and consumer spending has tightened.

Online is forecast to account for most of the growth in retail over the next five years, and particularly in clothing and footwear. However, the outlook in home and electricals is more promising for physical shops, as usage of click & collect and a desire to see products in person prior to purchase predicts a store resurgence for these fairly internet-mature sectors.

Decreasing demand for space will also enable and encourage retailers to experiment with new store formats to better adapt in order to meet the demand of modern consumers. This will include stores set-up to better facilitate click & collect allowing for cheaper, more efficient fulfillment. In the case of delivery to stores they also permit the retailer to promote additional purchases, by bringing customers into shops and presenting opportunities to upsell with extra, and more expensive, products.

It will also see more stores designed as 'experiential showrooms' and even stores built around new technology, such as virtual reality and 3D printing. For example, Adidas has unveiled a new concept flagship store on Oxford Street, which features a strong focus on experiential digital innovation and customer services. All changing rooms feature Radio Frequency Identification enabled mirrors, with tags on all items activating further information to be provided on the mirror.

There will also be the potential of a new generation of businesses occupying retail space, with online giants, consumer brands and micro businesses utilising pop-up and permanent stores in order to tap into growth beyond their traditional channels.

## MANY CONSUMERS BECOMING 'MINI RETAILERS'

Another trend enabled by technology, and one that is set to continue over the coming decade, is the proportion of people starting micro retail businesses of their own. For some this represents a full-time venture, but for the majority it is more of a hobby or side-project, with platforms such as eBay, Amazon, Etsy, Zazzle and Shopify making it easier than ever to start selling products with minimal initial investment and risk.

Consumer interest in these types of ventures will also benefit from the gradual move away from mass market items and towards demand for more unique and personalised products. Technological advances will encourage further development, with 3D printers allowing consumers to bypass traditional manufacturers completely and provide them with freedom to create, trade and sell their own designs for others to use, supported by social media and online marketplaces.

**Decreasing demand for space will also enable and encourage retailers to experiment with new store formats**

## SPREADING INFLUENCE OF HEALTH & WELLNESS

PERSONALISED APPROACH

To enhance their wellbeing, consumers continue to seek proactive ways to address their health in a more holistic and personalised manner. Technology and scientific advances are taking this to new levels, allowing consumers to understand everything from their DNA to their gut bacteria with the aim of helping them alter their lifestyles to maximise their fitness and wellness. Example includes DNA fit, which provides customers with exercise and nutrition plans tailored to their DNA and Kymira, a smart garment business, which produces items of clothing containing technology to assist athletes and monitor health.

Most recently Google's $2.1bn acquisition in November 2019 of wearable technology company, Fitbit, strengthens this market as the next battleground for growth. While Google's efforts in this market has been relativity quiet, they now have the potential use of health data of millions of Fitbit customers. Fitbit devices have been tracking wearers' health metrics for over a decade, storing data such as calories burned and exercises performed. This is just what Google needs to further build out its profile of customers and compete against their rivals.

As these services become more widespread and credible, there will be knock-on effects on how consumers shop for food, exercise and receive medical treatments. Retailers will need to respond to these changes and treat consumers as individuals with specific needs. They will also need to respond to consumer demands for closer integration between tech and wellness as currently this is seen as separate aspects. Leading traditional retailers in particular will need to ensure they aren't left behind by technology-led companies with the ability to offer individualised marketing and product recommendations, led by the data they are gathering and sharing with consumers.

# ADAPT, EMBRACE AND INNOVATE
CONTINUED

### NEW HEALTH SERVICES CREATE NEW REVENUE STREAMS

Heath services are set to be a major growth area over the next decade as businesses take advantage of consumer's interest in their health by providing a range of new treatments enabled by medical and technological progression not yet available on the NHS.

Retailers will also look to actively guide customers on health and nutrition, driven both by bottom-up shopper demand and top-down pressure. Waitrose, for example has trialled offering more proactive advice instore, with specialist staff offering support on food choices.

Recipe box companies are also looking to tap into this trend, with Gousto partnering with fitness guru, Joe Wicks, to create healthy recipes and Mindful Chef guiding shoppers through the process of healthy eating with nutritionally balanced and calorie counted recipes.

### HEALTH, BEAUTY AND FITNESS RETAIL OPPORTUNITIES

Health and wellness related services are set to see the biggest boost over the next decade. On the non-retail side, this will help to drive 32.4% spending growth on hair and wellness services (such as hair dressers and nail bars) and 34.4% growth on gyms and fitness facilities over 2019-28. Retail is also set to benefit, with beauty retail growing 18.9% over this ten-year period, benefitting from expansion into new areas, such as men's makeup (following a trend seen in South Korea). Meanwhile spending on health retail is set to grow 28.8%, with shoppers spending more on over the counter meds and supplements (including CBD oil) and sports equipment will see 19.1% growth, benefitting from an ongoing drive to encourage more active lifestyles.

Changes in retail will also see many of these products sold in different ways. Personal and celebrity brands, sports teams and social media will all continue to play increasingly important roles in how these products are marketed and purchased.

## BEING SUSTAINABLE & ETHICAL REQUIRES LONG TERM VISION

### PLASTIC – THE SYMBOL OF CHANGING ATTITUDES

Consumers have heightened levels of concern surrounding the scale, complexity, and interdependence of social and environmental challenges. Over the past two years this has been symbolised by a massive backlash against single-use plastic especially plastics used in retail. With increased awareness of how much is ending up in the oceans and the damage it causes (initiated by the BBC documentary Blue Planet), retailers are now feeling the pressure to remove plastic from their supply chains as 55% of shoppers now say they avoid excessively packaged grocery products most or all of the time.

Businesses have been experimenting with different ways to meet these changing consumer expectations, with Waitrose installing a refill station allowing shoppers to bring their own re-usable containers to transport products such as cereals, rice, and cleaning materials and paying around 15% less for them than they would for the packaged alternatives.

### DIET AWARENESS

As we continue to learn more about the benefits of personalised diets and nutrition, consumers will continue to demand more choice and flexibility in what is available to them, particularly when it comes to healthier alternative products.

Free from and food intolerance products are set to enjoy growth in excess of 50% over the next decade as consumers educate themselves about what ingredients they respond positively and adversely to, and also begin to reject reduced sugar and fat items in favour of naturally healthy alternatives.

Food will also increasingly be assessed for its impact on an individual's health, as well as the planet, and typical shopping journeys are likely to become more extensively planned and researched with these aims in mind.


Outside food & grocery, Apple offers incentives to trade in its products for recycling and cosmetics firm MAC gives a free lipstick to customers returning containers. The Body Shop has also recently revamped its Oxford Circus flagship store to include fixings made from upcycled and recycled items, and installed a ‘re-filling station’ of its own, where consumers can fill re-usable containers with shower gels.

## ENVIRONMENTAL AWARENESS

Consumers are demonstrating themselves to be both increasingly concerned and willing to take action on climate change. Some retailers have reacted more ambitiously than others, using difficult and often costly tactics which have then frequently paid off. For example, Aldi UK & Ireland achieved positive PR in early 2019 when it announced it is now completely carbon neutral across its 900 stores and 11 distribution centres, following initiatives including the purchase of 100% green electricity, a new energy management system and a £20 million investment in environmentally-friendly refrigerators.

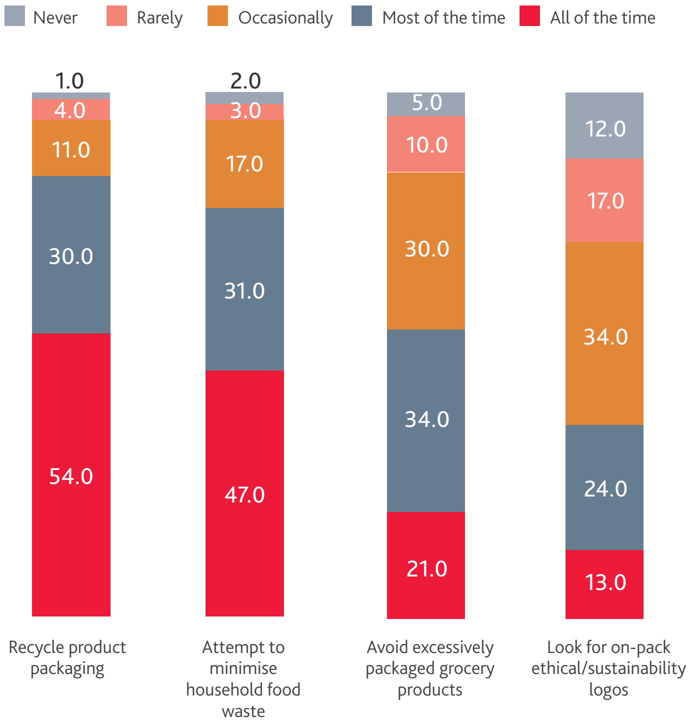
Elsewhere Farfetch has gone a step further. The retailer is among 24 companies to have signed an agreement to work towards a shared goal on the environment launched by French President Emmanuel Macron. This Fashion Pact campaign will see companies from the fashion industry look to work together on climate issues.

However, promoting yourself as environmentally aware can also bring challenges. Iceland, having initially gained a lot of positive attention for its palm oil focussed Christmas advert in 2018, (banned from TV for being ‘political’ but viewed 65 million times online) and promises to ban palm oil in all own brand products, saw a negative backlash when it was uncovered that rather than removing the ingredient, the retailer had simply removed its branding from 17 items.

At present retailers are often caught between a rock and hard place, with consumers increasingly expecting them to act in a highly responsible manner, but not necessarily keen to pay more to fund these changes. However, retailers who are able to work with shoppers to meet the rising expectations without alienating them over price and convenience will be well placed to thrive in the long term.

**Frequency with which shoppers undertake each activity**

Figures are % - research conducted in early 2019




Source: GlobalData

# ADAPT, EMBRACE AND INNOVATE
CONTINUED

### FAST FASHION

One area that has so far come under relatively little scrutiny from the majority of consumers is fast fashion, with the attraction of extremely cheap items in the very latest styles continuing to carry huge appeal despite the questions around the sustainability and environmental impact of such an approach.

Fast fashion leader Primark has a range of ethical policies in place, including donating unsold clothing to charities, using minimal packaging and attempting to reduce chemicals and water in production. Nevertheless, the difficult fact remains that the business' whole model relies on a large number of shoppers buying large volumes of product which they are often only wearing a few times before discarding, creating huge amounts of waste.

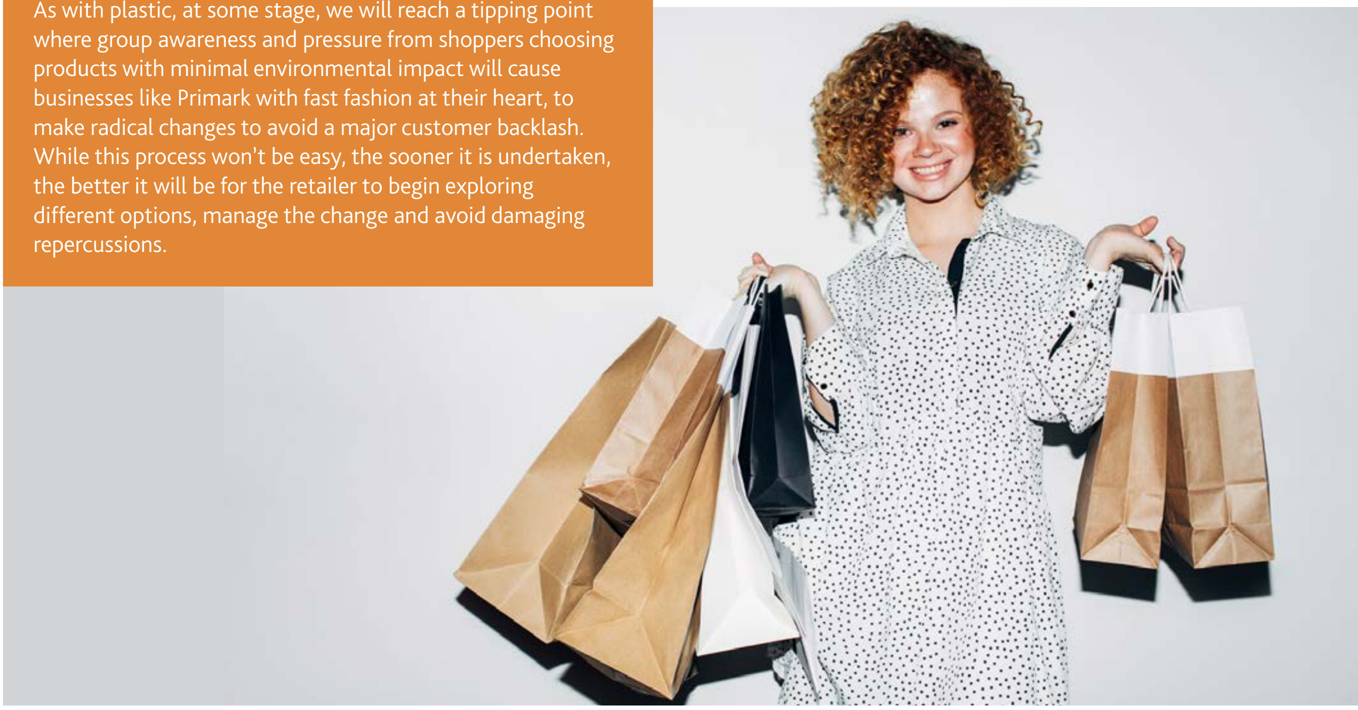
As with plastic, at some stage, we will reach a tipping point where group awareness and pressure from shoppers choosing products with minimal environmental impact will cause businesses like Primark with fast fashion at their heart, to make radical changes to avoid a major customer backlash. While this process won't be easy, the sooner it is undertaken, the better it will be for the retailer to begin exploring different options, manage the change and avoid damaging repercussions.

### REDUCING ANIMAL PRODUCTS

Another trend with momentum is the move away from meat and animal derived products. Driven by a combination of the perceived health benefits, ethical reasons and desire for more environmentally friendly diets, meat free and vegan alternatives are seeing a considerable growth.

However, it is not just food that is being impacted by this trend. Large minorities of UK consumers define themselves as 'likely' to purchase vegan health and beauty products (44.7%), vegan clothing (38.5%) and vegan footwear (36.1%), driven by concerns about animal welfare and the environment.

The growth of these products will squeeze sales of products perceived to be detrimental to the environment and animal welfare, and retailers will need to ensure they have the right balance of ranges to capitalise on this trend.



## REPAIR AND RENTAL TO GROW

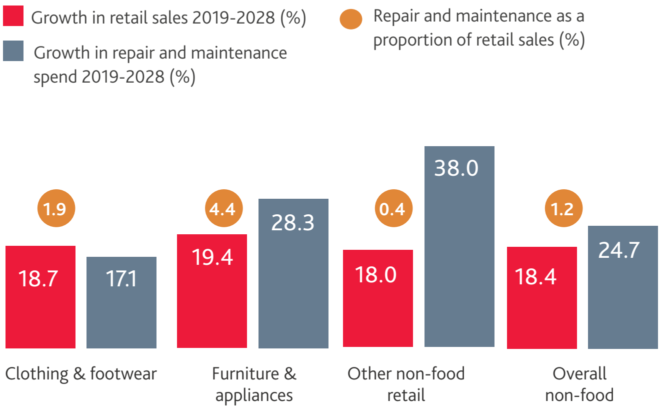
The twin drivers of value and sustainability are encouraging shoppers to repair rather than replace, to rent rather than buy and to choose second-hand over new.

IKEA is one of the retailers leading the way in sustainable consumerism, offering shoppers in Sydney the chance to sell their unwanted IKEA furniture. Also in the UK, IKEA has introduced a new scheme, where customers can bring in unwanted textiles to be re-used, repaired or recycled, together with workshops teaching customers how to breathe new life into textiles. Another is Made.com, which is considering launching a furniture rental service.

'Repair cafes' are also tapping into the growing trend for sustainable consumption, with shoppers increasingly opting to mend rather than replace. There are now over 70 of these cafes in the UK, offering a free meeting place with tools and materials to fix everything from clothes to furniture, toys and appliances, with expert volunteers on hand to help.

In the UK, GlobalData forecasts the total second-hand fashion market will be worth £5.8bn by 2029, growing from 2.8% of total shopper spend on fashion in 2019, to 9.2% in 2029.

### Repair and rental growth




Source: GlobalData

As a society we are increasingly asking questions about the sustainability and environmental impact of constantly buying large volumes of new clothing, and in particular how responsible it is to buy fast fashion items, which are often only worn a few times before discarding. It seems likely this will soon begin to have an impact on the volumes shifted by the likes of Primark and New Look, and subsequently even the likes of Next and H&M, as consumers try to reduce their environmental footprints.

Adapting to these changes will be increasingly important, otherwise they are likely to lose out to retailers with less of a focus on volume, as well as to the growing second-hand sector including the charity retailers. This trend is already evident with the latest figures indicating that, while the commercial high street saw negative monthly like-for-like sales this year compared with last, the charity high street boomed, showing positive results for all except one month – which only saw a 0.1% fall - since March 2018. Our latest Charity Retail Sales Tracker, which analyses like-for-like sales (mainly second hand, but some new goods) across the largest charity retailers covering c.4,000 stores nationally, suggests that shoppers may already be changing their shopping habits. What may once have been a purchase out of necessity in the main, may become a preferred alternative for the sustainability-conscious consumer – a type of consumer which the average shopper is increasingly becoming.

# CONCLUSION

2019 has seen more high-profile administrations and CVAs largely led by established retailers with legacy store portfolios, while online has also started to slow.

In general, UK retail remains in a state of uncertainty, not only due to the short-term worries over Brexit and the economy, but because of a growing number of challenges such as changing attitudes to materialism, rising expectations for value and convenience, and increasing spending on services and experiences rather than products.

Retailers must be proactive and stay ahead of these trends, embracing short term costs and disruption to avoid the far more dangerous path of gradually becoming irrelevant.

Below we set out some key areas for businesses to consider for 2020.

## ADAPT TO INCREASINGLY VALUE AND CONVENIENCE LED CONSUMERS

Currently, many of the big retail success stories are from value-led businesses and those that have tapped into new revenue streams which are very different to the retail business models of the past.

Traditional retailers, particularly those with large store portfolios, are often ill-equipped to adapt and compete in the same way. However, falling demand for space has made landlords more receptive to rent re-negotiations and CVAs, giving heavily laden store based businesses a lifeline to cut costs and re-shape store portfolios in a low cost way more suited to modern shopping habits.

In addition, technology has increasingly offered retailers opportunities to both overhaul their core businesses and infrastructure and look at new ways to sell. In a sector full of hungry expanding players, such as the discounters, and innovative tech-based start-ups, more established retailers can't afford to stand still.

## EMBRACE DISRUPTION AND TECHNOLOGY

Technology is creating smarter, connected shoppers with higher expectations, but at the same time it is providing solutions on how to meet these demands in a cost-effective manner.

Wearable tech, smart payments, voice recognition, 3D printing, AI, virtual reality and advanced robotics are just some of the technologies, both back and front end, which retailers need to keep abreast of and invest in over the coming years in order to remain competitive.

Adapting to an evolving customer journey requires a selective amount of physical presence. The use of technology driven solutions will help retailers drive an efficient supply chain to provide fast and flexible delivery to a range of locations.

Growing revenues will also require more diverse strategies with subscription options, micro-payments, rental services and trade-in/recycling choices to customers. These are all set to become increasingly mainstream.

## TARGET GROWTH DEMOGRAPHICS AND BEHAVIOURS

The changing UK consumer landscape presents challenges and opportunities alike for retailers.

The lack of affordable housing is seeing the proportion of owner-occupiers continuing to fall and rental increasing. Consequently, categories which rely on consumers achieving home ownership will be heavily impacted but it does free up spend for other categories such as fashion, technology and experiences.

A 'live-for-now' mentality means that convenience stores and services are providing more ways to save time and effort and there has been a growing preference for spending on experiences over products.

Furthermore, growth in the proportion of older shoppers will make targeting the 'grey pound' increasingly lucrative, but this doesn't just mean targeting the stereotypical pensioners of times past. The modern older shopper is often online savvy, more discerning and has a diverse range of interests.

Retailers need to adapt and cater to the new consumer profiles both to take advantage of these trends in changing demographics but also to avoid becoming increasingly irrelevant.

## TREAT CUSTOMERS AS INDIVIDUALS

The spreading influence of health and wellness is just one example of an area where businesses are offering consumers a more personalised, holistic approach. Google's acquisition in November 2019 of wearable technology company, Fitbit, demonstrates the significant focus on this area. These services are becoming more widespread and there will be knock-on effects in how consumers shop for food, exercise and receive medical treatments and supplements.

This will also raise consumer expectations in other retail services and, using the latest technology, businesses will increasingly have to meet the specific needs of individual consumers. Examples include 3D printing enabling consumers to purchase clothes tailored to their exact specifications, AI building detailed profiles for use in marketing and product recommendations and VR enabling opportunities for highly individualised shopping experiences.

## RECOGNISE BEING 'GREEN' WILL BECOME A NECESSITY

Consumers are increasingly expecting retailers to act in a highly conscientious manner, but not necessarily keen to pay more to fund these changes which has provided businesses with a difficult challenge.

However, as we have seen with plastics, we will reach a tipping point where group awareness and pressure from shoppers choosing products with minimal environmental impact will cause businesses to make radical changes to avoid a major customer backlash.

For many retailers this shift will not be easy, requiring not just superficial changes but radical overhauls at the very heart of their business models. Businesses who now face up to the difficult decisions and are able to work with shoppers in ways that meet these rising expectations without alienating them over price, convenience and other basics will stand a better chance of avoiding highly damaging backlashes. They can survive the transition into a new world where consumption is set to be much more considered and expected to avoid causing further damage to the environment.

I do hope that you have found our Retail Forecasts report both useful and insightful. If you would like to discuss any of the themes highlighted or would like to express your ideas on topics you would like to see in future editions, we would love to hear from you.

**SOPHIE MICHAEL**
NATIONAL HEAD OF RETAIL AND WHOLESALE

## KEEP UP TO DATE IN 2020

As a retailer in the current turbulent economic climate, it has never been more important for you to know how you are performing and benchmark your results; against both competitors and the industry standard.

At BDO we have developed the High Street Sales Tracker, a leading sales index for retailers which benchmarks like-for-like sales performance within the sector, a vital tool for any retailer. The High Street Sales Tracker is a confidential, weekly exchange of like-for-like sales between retailers, providing busy retail management teams with accurate performance in a timely manner.

**For more information on the High Street Sales Tracker contact Sabrina Appiah: sabrina.appiah@bdo.co.uk**

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