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Top Retail and Leisure Trends for 2022

Challenges, Opportunities and Change

Foreword | David Scott

The pandemic has necessitated a permanent change for many businesses. It's also resulted in unprecedented levels of additional debt. Businesses have had to adapt more quickly than ever, but as we move into 2022 there are strong grounds for optimism.

This report highlights a healthy rebound of the UK economy in 2022 as we acclimatise to a life with Covid. For a sector that is reliant on consumer confidence and discretionary spending, a feel-good period will help us push on from where we are now, into a more dynamic and innovative 2022.

We know there are challenges and obstacles to deal with too. Staff shortages, supply chain problems and inflation will all be issues in 2022. But with the right approach, and a collaborative attitude, I believe we can, collectively, make the most of the available opportunities.

For example, consumers now seem to have more conviction over their needs, and this is redefining their expectations of retailers. Among other things, they're looking for more innovative digital experiences with different physical interactions. These insights can lead to new, better and more efficient ways of doing business.

This also taps into another enormous issue, which is the path to net zero. Many commitments have been made, but these need to turn into real action. Consumers are already demanding change and, again, this opens the door to new ways of creating lasting relationships built on common values.

Overall, these have been incredibly testing times for retail and leisure, but together we have delivered some truly amazing outcomes. And we're here to continue supporting your businesses, to develop respected relationships and to help you come back stronger and more future-fit than before.

David Scott
Head of Retail and Leisure
NatWest

I believe we can, collectively, make the most of the available opportunities

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Foreword | Richard Lim

It's been astonishing to witness the resilience and adaptability of businesses over the last couple of years. In the face of unprecedented challenges, necessity really has been the driver of invention.

Retailers and leisure operators leaned into the disruption, investing in their digital propositions to accelerate their online offering to meet new customer expectations. From this, unlikely partnerships were formed, and new customer journeys forged. The entire online ecosystem has evolved with enormous investment flowing into areas such as logistics, courier networks, data science and digital marketing, to name just a few. A new level of digital capacity has been reached as we transition through an era of pandemic-induced disruption.

However, underlying this complex retail environment, huge macroeconomic shifts have also unfolded. Inflation has hit a 30-year high and the backdrop for household finances looks increasingly daunting. A 'cost of living crisis' has emerged, which will hit the least affluent households the hardest, sparking recessionary behaviours, weaker spending and softer confidence. If ill-managed, policy makers and central banks could risk derailing the economic recovery. Meanwhile, supply chain disruptions, labour shortages and rising operating costs are expected to persist throughout the year.

Despite these obstacles, I remain optimistic. Businesses that successfully navigated through the choppy waters of Covid are now in a stronger position following unparalleled levels of Government support. The labour market has been incredibly resilient, and households have accumulated significant savings which could act as an effective buffer over coming months.

If there's one thing I've learnt over the last couple of years, it's to believe in the incredible businesses that reside within our shores – businesses that have shown courage, ingenuity, and are now positioned to thrive as we look towards the future of retail in the UK.

Richard Lim
CEO Retail Economics

Businesses that successfully navigated through the choppy waters of Covid are now in a stronger position following unparalleled levels of Government support

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Introduction | Macroeconomic headwinds

The cost of the global pandemic to the UK retail and consumer sector is severe. The enforcement of store closures, social distancing measures and heightened anxiety over viral transmission have all hit businesses hard. Conversely, the impact has elevated digital to new heights across the entire customer journey.

In the initial stages of the pandemic, there was a seismic shift towards e-commerce throughout major European retail markets, as consumers explored new paths to purchase goods and services.

These shifts will continue heading into 2022 as the industry undergoes further restructuring. However, future risks and uncertainty for the sector remain high.

The ongoing impact of supply chain disruption, readjustment to Brexit and rising levels of consumer inflation will present considerable challenges for the industry throughout 2022.

This report provides in-depth analysis, forecasts and insights that focus on the key challenges mentioned, and many other consumer trends.

The structure of the report is outlined below.

Section 1
The big picture
Outlines the wider macroeconomic backdrop for the UK and how this will translate to the consumer sector.

Section 2
Retail outlook
Provides an in-depth analysis of the UK retail and consumer sector including category level forecasts for 2022.

Section 3
Reshaping the consumer landscape
Focuses on five major themes that continue to reshape the retail and leisure sectors.

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The big picture

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Section 1 | The big picture

Macro outlook

The UK economy achieved an impressive recovery in mid-2021 as Covid-19 restrictions were lifted. This allowed consumer spending to quickly gain traction.

The effective vaccine roll-out helped restore confidence across households, vital in supporting a resilient consumer sector which accounts for two-thirds of the UK's GDP. Economic growth was also aided by unprecedented fiscal stimulus as ongoing government support for businesses and households remained in place against a backdrop of loose monetary policy.

Households quickly accumulated savings as holiday plans were cancelled and less money was spent on commuting and social events. As economies reopened, demand for many goods and services bounced back strongly, having been postponed earlier in the year.

Conditions became more challenging heading into autumn as Covid-19 fiscal support began to unwind. This resulted in an end to the furlough scheme, cuts to benefits and a reduction in business support. Simultaneously, macroeconomic headwinds gained force as tighter labour markets, supply chain disruption and a sharp rise in inflation dampened prospects for growth.

Elevated levels of uncertainty also caused many firms to delay investment, awaiting more clarity on the impact of the pandemic and the performance of the economy.

In February 2022, the Bank of England (BoE) deemed it necessary to raise interest rates for the second time in three months, rising from 0.25% to 0.5%. This added further financial pressure to households, together with impending tax rises and cuts to universal credit.

To compound all these factors, the emergence of a new Covid-19 variant, Omicron, hit financial markets hard. It served as a stark reminder to businesses, global governments and consumers that the effects of the pandemic are far from over, although much brighter than last year.

Many businesses bounced back strongly in 2021, as demand for goods and services grew

While fiscal support helped stabilise many businesses during this period, continuing uncertainty has stalled further investment and future plans

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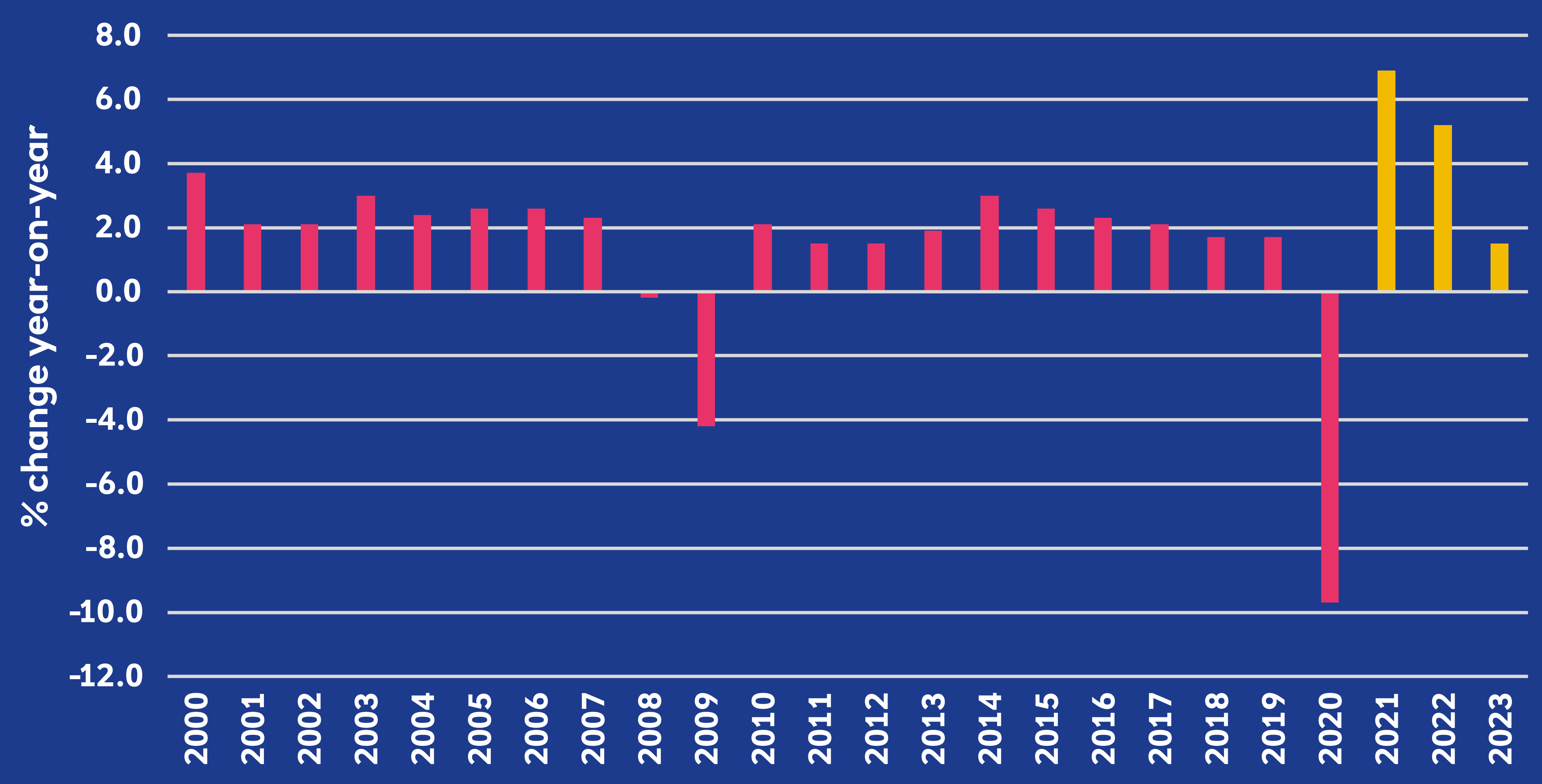
Figure 1 Outlook for UK recovery remains uncertain.



Source: Retail Economics

Despite these challenges, the UK economy is expected to grow by 6.9% in 2021, and 5.2% in 2022 which represents a healthy rebound from the exceptional decline in 2020.

The UK economy is forecast to reach pre-pandemic levels in the early part of 2022, in line with its European neighbours. But forecasts have been downgraded markedly in recent months, reflecting a more challenging outlook than initially anticipated.

However, the recovery is expected to be uneven across sectors and regions. In particular, city centre locations continue to see footfall considerably lower than other locations such as town centres in the commuter belt and retail parks. Indeed, with the number of tourists remaining considerably lower than 2019 levels, many city centre hotels remain under pressure, with some expecting lower occupancy rates to persist through to the latter part of 2023.

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Macro summary for 2022

Macro headwinds

Squeeze on spending power

- A rise in National Insurance Contributions (NIC), a freeze on personal tax allowance and increasing inflation will mean a decline in spending power for a significant proportion of households in 2022.
- Specifically, a rise in the energy price cap and a NIC increase of 1.25 percentage points will both hit in April 2022, causing a significant squeeze on incomes for the least affluent households.
- Inflation reached a 30-year high of 5.4% (Consumer Price Index) in January 2022 with some forecasts suggesting an average of 5-6% in 2022.
- The Resolution Foundation estimates the average household will experience a reduction in income of £1,100 in 2022 from increased NIC (£600) and higher energy bills (£500).
- The proportion of households struggling with finances has increased, particularly among those with unsecured loans. These households tend to have lower incomes and are less likely to be in employment, leaving them more vulnerable in the next phase of the crisis.

Interest rates

- Interest rates rose from 0.25% to 0.5% in January. This is the second time in three months and marks the first successive increase in more than three years (and almost 15 years since any significant and sequential increase in rates).
- Rising rates could have a much more muted impact given the share of households with mortgages has fallen (30% in 2019/20 v 39% in 2007) and significant growth in the proportion of fixed-rate mortgages (80% in 2021 v 51% in 2007).
- The psychological effect of rising interest rates could have a greater impact on spending given the duration of time since interest rates have risen on a sustained basis. Households could interpret this as a sign of higher interest rates to come, or as a precursor to economic slowdown.
- Interest rates are expected to rise gradually to reduce any adverse impact on the economy but could reach 1% by the end of 2022.

Covid

- The emergence of the new Covid-19 variant Omicron sent shockwaves throughout financial markets, triggering a new wave of lockdown measures across the EU with border closures once again.
- The ongoing impact of the pandemic continues the run of uncertainty for businesses and economies, which undermines investment and damages consumer confidence.
- Reimposing various restrictions (currently in Scotland, Wales and Northern Ireland) creates greater uncertainty with how governments balance risks concerning the health of their populations with that of their economies.
- But the rapid vaccination programme appears to have limited the rise in hospitalisations compared with previous waves, with businesses, households and governments now more adept at altering their ways of operating.

Supply chains

- Ongoing constraints across global supply chains are likely to persist well into 2022.
- Rising shipping and container costs are likely to be set against a backdrop of tighter labour market conditions, combining to place further pressure on margins.
- In response to patchy availability, businesses may over-order and/or build up inventory levels, shifting their reliance away from 'just in time' supply models. This could subsequently put increasing pressure on warehouse storage.
- For certain industries, labour shortages will take longer to resolve (eg lack of HGV drivers) and will be compounded by the impact of Brexit.

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Macro summary for 2022

Macro tailwinds

Labour market

- The labour market remains robust, with unemployment rates remaining low, vacancy rates high and wages rising. These factors should support consumer spending.
- Despite the end of furlough, the labour market has held up remarkably well and unemployment is unlikely to rise significantly, peaking at just 4.5%, according to the BoE.
- A rise in the National Living Wage (+6.6%) will outpace inflation for the lowest paid.

Savings

- Many households have amassed additional savings throughout the pandemic, but this is disproportionately concentrated on middle to high income households.
- The Bank of England (BoE) estimates an additional £250bn of 'excess' savings.
- For middle to higher income households, this could support spending.
- However, savings have continued to rise above this long-term trend, despite lifting Covid-19 restrictions, which could undermine spending forecasts against a more cautious backdrop.
- The government has also suggested greater liquidity among operators.

Investment

- Business investment is also expected to gain traction in 2022, making the recovery more broad-based than at present.
- The BoE suggests business investment could rise by circa 17% on the previous year, as sales recover and uncertainties decline.
- The Chancellor's 'super-deduction' tax incentive acts as one of the policy drivers.
- Despite entering a more difficult phase of the recovery, there's now more clarity than during the past two years. This provides reason for optimism.
- Following a period of survival, more businesses are expected to invest so they can take advantage of opportunities within a reopened economy.

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Consumer outlook

Additional public spending announced in the October 2021 budget will reduce the tightening of fiscal policy over the next few years. But for many households, 2022 is likely to be a pinch point as the combination of tax hikes and a rise in the cost of living erode incomes.

Inflation rose to a 30-year high of 5.4% in January 2022, as the impact of supply chain disruptions and rising energy costs pushed prices even higher. Inflation is expected to peak at 6.5% in spring 2022 (a 20-year high), as energy price caps are increased and rising costs are passed through to consumers.

The prospect of a squeeze on incomes is evident from the research, showing rising inflation is the biggest concern for consumers in 2022 – over Covid-19 and a weaker economy. Inflationary concerns are shared evenly across all age groups but rise markedly for the least affluent households – with around half suggesting it's their biggest concern heading into 2022, compared with 31% for the most affluent.

Spiralling energy costs are a key contributor, with the average household expected to foot an additional £600 per year as the cap on energy bills is raised. This will hit low-income families the hardest, given its disproportionate share of expenditure. Indeed, the share of income spent on energy bills among the poorest households is set to rise from 8.5% to 12% – three times as high as the share spent by the most affluent households.

Coupled with the rise in NIC of 1.25 percentage points, expectations about personal finances look challenging. More than half of consumers expect them to weaken in 2022, rising to two-thirds for the least affluent households. Indeed, the Resolution Foundation estimates the rise in inflation and NIC will cost the average household £1,100 in 2022.

The research shows more than half (50.4%) of households expect their personal finances to weaken in 2022. Of those, 54% said inflation is their biggest concern. This compares with just 19% who feel their personal finances are likely to strengthen.

Indeed, the proportion of households reporting financial difficulties is rising, particularly for those with unsecured loans who typically have lower incomes and are less likely to be employed. These households are particularly vulnerable to inflationary shocks and much less likely to have accumulated savings throughout the Covid-19 crisis.

There will be challenging times ahead, as various factors affect household incomes

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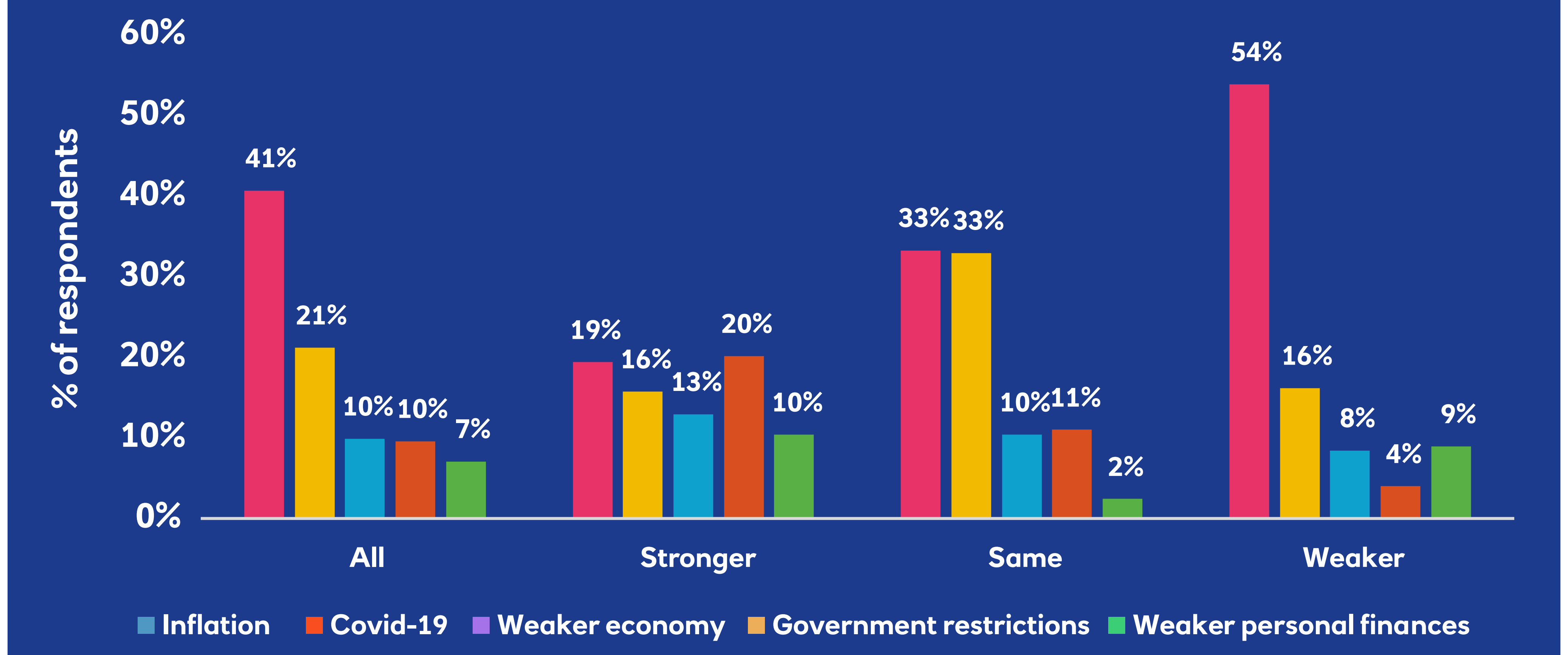
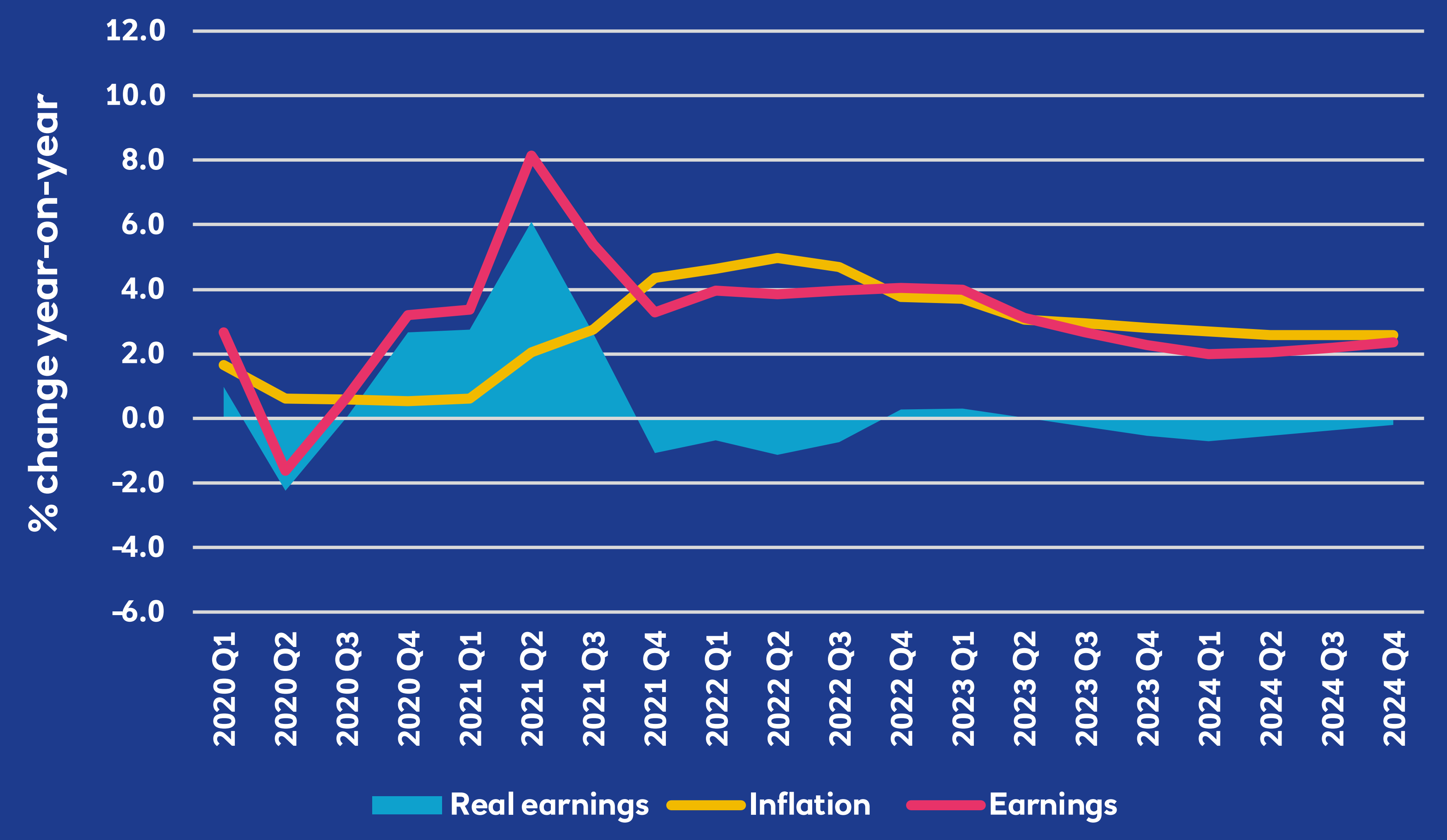
Figure 2 Top five concerns heading into 2022, by household expectations about their personal finances.



Source: Retail Economics

Figure 3 Real wages look set to fall for most of 2022.



Source: Bank of England, OBR, Retail Economics analysis

In the context of rising inflation, the latest Office for Budget Responsibility (OBR) earnings forecasts suggest real earnings will be falling in the first half the year before returning to lacklustre levels of growth as inflation begins to soften.

Overall, the average household is unlikely to see their real earnings higher at the end of 2022, compared to now.

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Summary

In summary, the UK economy is expected to grow by 5.2% in 2022, which represents a healthy rebound from the exceptional decline in 2020.

BoE suggests business investment could rise by 17% on the previous year.

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Labour market is robust, with unemployment rates remaining low.

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The 6.6% rise in the National Living Wage will outpace inflation.

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How the macroeconomic backdrop translates to the retail and consumer sector remains highly uncertain.

On the upside, the labour market has shown impressive resilience, with many households managing to reduce personal debt and mortgages, as well as increase savings during the pandemic.

The extent to which households dip into their accumulated savings (estimated at around £260bn, Bank of England (BoE)) will be critical in determining the strength of retail sales throughout the year. Importantly, many households are in a stronger financial position to weather the effects of rising inflation, albeit savings are concentrated across wealthier households and older demographics.

Many parts of the retail sector have also benefited from displacement of spending in travel, leisure and hospitality during periods of lockdown, compounded by anxieties around social interaction. Consequently, as consumers regain confidence to spend across these areas again, it could suppress demand across parts of the retail sector.

Likewise, impending rises in National Insurance contributions (NIC) and the prospect of further interest rate rises could dent consumer confidence in the lead up to April. If so, this is likely to erode discretionary spending. While the pain will be felt more acutely across least affluent households, the psychological impact across more wealthy households could encourage higher levels of saving.

Taking these, and many other factors into account, retail sales are expected to rise by 2.0% in 2022, following a rise of 7.8% in 2021. However, inflation will be a key driver of sales growth across the industry as a whole, with underlying demand across categories being uneven. Indeed, inflation specific to the retail sector rose to a 30-year high in December 2021.

Retail sales are expected to rise by 2.0% in 2022

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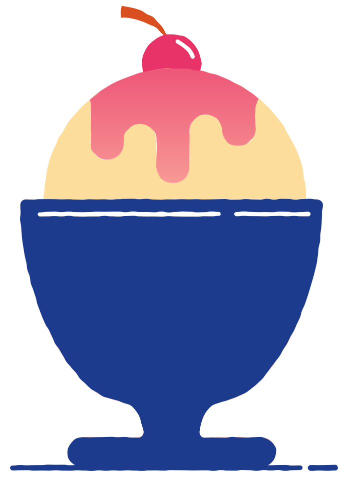

Sector
Food and grocery

Actuals 2021	Forecast 2022
1.7%	-1.1%

The food and grocery sector saw growth of c.1.7% in 2021 despite tough comparisons in the previous year. The first quarter of 2021 saw robust growth as work from home guidance and lockdowns saw families cooking from home more.

Assuming no further lockdowns are implemented, sales are expected to decline on the previous year by 1.1% as spending across hospitality picks up to the detriment of the grocery sector. However, the decline in sales will be softened given rising food inflation. The backdrop of higher supplier and operating costs will be passed on to consumers to some extent throughout the year.

What's more, profitability will come under pressure from the migration towards online and growing competition from rapid delivery players. With incomes expected to be squeezed, consumers are likely to revert to more savvy, recessionary behaviours, trading down on some products and shopping around to stretch tighter budgets. As seen in the aftermath of the financial crisis, this will benefit the discounters.

The sector also continues to transition through a period of rapid evolution with digital platforms such as Deliveroo, Uber Eats, Getir and Gorillas creating near frictionless online access to grocery items. Despite rapid grocery delivery and the expanding takeaway market (remaining a small overall proportion of total food sales), digital growth and its potential disruption will be a concern for incumbent players.

Elsewhere, the pandemic has caused a wave of new online grocery shoppers with the proportion of online sales rising from c.5.5% in 2019 to c.12% in 2021. Online is expected to remain at similar levels in 2022 as retailers ramp up capacity for picking, packing and distribution.

The food and grocery sector saw growth of c.1.7% in 2021

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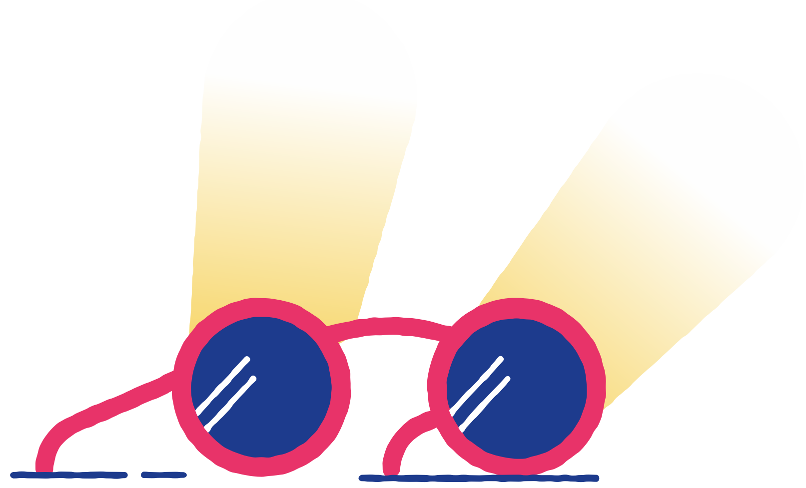

Sector
Apparel

Apparel sales bounced back strongly in 2021 following unprecedented declines caused by lockdowns and social distancing measures in 2020.

The apparel sector is one of the most susceptible to government policy measures concerning Covid-19, with working from home guidance, restrictions on social events and lockdowns all undermining demand for new outfits. Despite online capacity being well established within the sector, the strength of sales in 2022 will be highly susceptible to government guidance.

Nevertheless, with the effects of the pandemic expected to be more muted than in 2021, consumer demand should return with more consistency, and more aligned with pre-pandemic levels. However, many of the trends experienced during the pandemic (eg growth of casual and sportswear) are likely to endure, with retailers having to adapt their propositions accordingly.

Increased competition from brands selling direct to consumer (DTC) will also remain a key feature within the industry. Nike, adidas, Levi's and many others are setting out clear strategies to increase their market share in this way.

Supply chain issues are expected to persist throughout the year, putting pressure on margins – particularly for fast fashion players that rely on higher frequency of sales at lower margins.

Issues around sustainability will also intensify for retailers and brands, placing greater urgency to accelerate their net-zero objectives with increased transparency.

Actuals 2021	Forecast 2022
29.1%	3.4%

Overall, demand for apparel is expected to align to pre-pandemic levels

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Sector
Electricals

Electrical retailers saw strong demand in 2020 as work from home practices were introduced requiring laptops, monitors, webcams and other accessories to be in high demand. Also, households looked to upgrade their entertainment and domestic appliances (eg TVs, sound systems, kitchen and cleaning appliances), supported by higher levels of savings. Some of this momentum continued into 2021 with sales rising on the previous year, but momentum has begun to wane.

Spending in 2022 will be set against tough comparisons at a time when household incomes will come under more pressure. Electricals is a very price sensitive sector, and retailers will find it difficult to pass on escalating costs against a backdrop of squeezed household incomes and softer consumer confidence.

Many consumers brought forward the cyclical purchases of big-ticket items due to spending more time at home with remote working and home schooling. The sector is also likely to face cyclical challenges as the latest generation of games consoles (Playstation 5 and Xbox series X) provide less support and tougher annual comparisons.

Meanwhile, structural changes in the telecoms market will continue to undermine growth together with ongoing supply chain disruptions well into 2022, underlined by more microchip shortages and other curtailed supplies.

Actuals 2021	Forecast 2022
2.1%	-4.1%

Electrical retailers saw strong demand in 2020 as work from home practices were introduced

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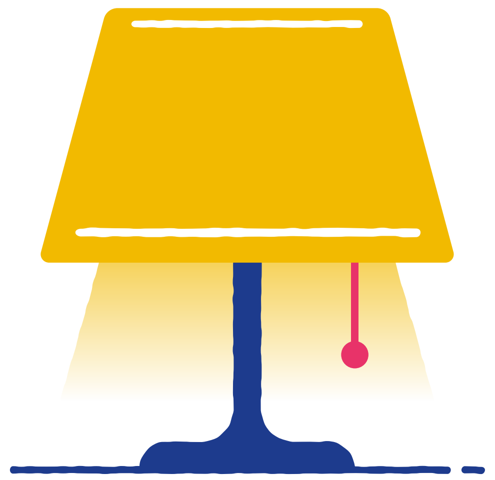

Sector
Home, furniture and flooring

Homewares and furniture retailers saw a strong bounce back in sales following the reopening of non-essential retail in April 2021. Housing market activity was buoyant, supported by temporary Stamp Duty relief. While periods of lockdown saw significant declines in the first quarter, underlying demand stayed strong with these purchases realised later in the year.

Looking forward, the housing market has already cooled following the removal of Stamp Duty relief and a more pessimistic outlook for the wider economy. Mortgage approvals (a useful forward-looking indicator) have fallen by a third compared with 2020, indicating a sharp slowdown in activity in the coming months, albeit against a buoyant market in the previous year.

The furniture sector will face tougher conditions than homewares, given typically higher transaction values and its greater dependency on the volume of housing transactions.

Supply chain disruption also remains a considerable issue for the industry evidenced by many retailers being unable to fulfil orders within their promised delivery dates. These issues are likely to persist well into 2022.

Sales growth in the market will be driven by higher levels of inflation with volumes expected to decline on the previous year.

Homewares is predicted to remain more stable as consumers remain in their 'improve, not move' mentality, making cosmetic changes to their homes. The pandemic also had a marked impact on the proportion of online sales as many consumers embraced this channel through necessity.

Actuals 2021	**Forecast** 2022
15.6%	2.8%

Homewares is predicted to remain more stable as consumers remain in their 'improve, not move' mentality

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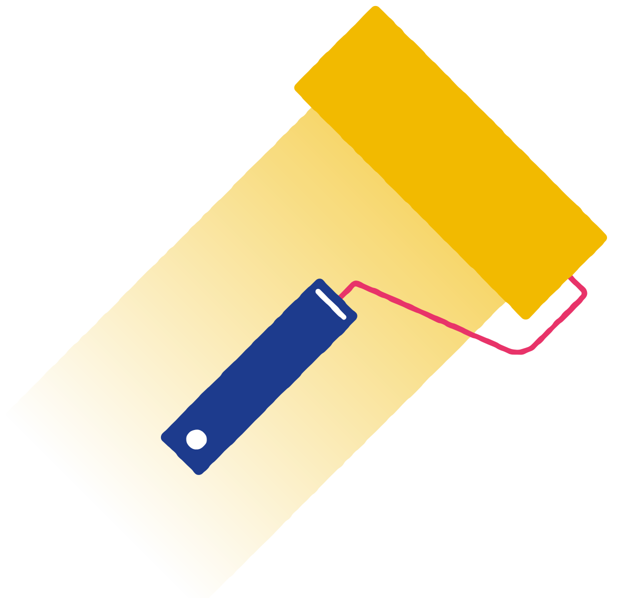

Sector
DIY and gardening

DIY and Gardening has continued to perform strongly throughout the pandemic as consumers spent more time at home and invested in their property.

Heading into 2022, momentum within the sector is forecast to slow as society edges towards some semblance of normality. What's more, furlough provided many households with the means and time for DIY and renovation projects, which brought forward demand.

A revival in leisure and hospitality will also compete for other areas of discretionary spending. This will curb spending in this sector, alongside supply chain issues continuing into 2022.

Rising inflation within the category will support sales, with volumes falling markedly on last year's levels.

Actuals 2021	Forecast 2022
13.7%	-0.4%

DIY and Gardening has continued to perform strongly throughout the pandemic

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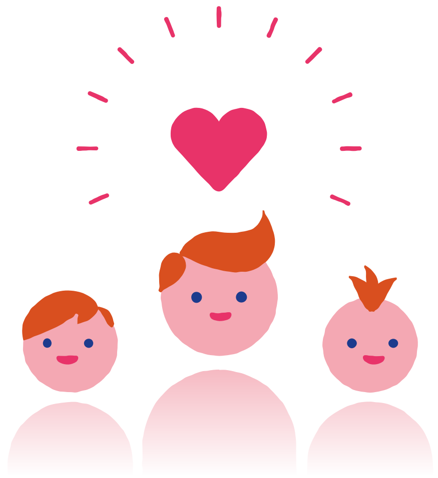

Sector
Health and beauty

After an extremely challenging year in 2020, Health and Beauty sales bounced back in 2021. As lockdowns ended, social events picked up and many of us returned to the office, beauty sales gained momentum while health products continued to be supported by greater awareness of Covid-19.

With a more positive outlook concerning Covid-19 in 2022, a continuation of these positive factors can be expected.

Some of the trends experienced throughout the pandemic (eg greater focus on skincare) could be a more permanent shift from consumers, having discovered new products and their benefits.

Demand for some health products (eg sanitiser gels) will also likely remain beyond long term trends due to engrained pandemic-induced behaviour.

Actuals 2021	Forecast 2022
9.7%	7.8%

The return to office work will see a rise in demand for beauty products

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Summary

'Improve not move' mentality will keep homewares stable in 2022.

—

Apparel sales are expected to align to pre-pandemic levels.

—

More socialising will keep health and beauty sales buoyant.

In summary, retail sales are expected to rise by 2.0% in 2022, following a rise of 7.8% in 2021.

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Covid-19 has undoubtedly reshaped the UK consumer landscape. The impact of the pandemic has been a clear catalyst for structural change, sending shockwaves throughout the global economy, dislocating international supply chains and reshaping the way consumers live, work, communicate and shop.

Retail, hospitality and leisure have been among the hardest hit sectors, forcing many businesses to quickly adapt their business models to accommodate extraordinary trading conditions.

Following the initial 'survival period' when businesses cut costs and protected working capital to manage risks, the industry entered a period of consolidation and partnerships. As the 'survivors' gained more traction, weaker businesses in the market failed, leading to market consolidation. Here, the industry saw ASOS acquire Arcadia and Boohoo absorb Debenhams, while other innovative partnerships emerged, such as M&S and Deliveroo; Next and Morrisons; Dixons and Uber; Sainsbury's and Amazon; Tesco and Gorillas; Klarna and Hero, and many others.

During this phase, acquisition and partnership opportunities arose, which helped drive value, reposition brands and build scale. The industry is now entering the third stage of its restructure – innovation.

Many consumer habits have now become entrenched, and the blueprint for lockdown and non-lockdown shopping behaviours is now well established. Consumers also appear to have more conviction over their needs and wants, with businesses pivoting their propositions to accommodate to these new expectations.

Many consumers have now formed more conscious behavioural frameworks when shopping. This has helped redefine their expectations of retailers and, in many instances, clarify the kind of relationships they want with them. This now often involves less physical interaction.

Consequently, retailers will need to provide innovative digital solutions that appropriately support customers on a new, virtual customer journey – from product awareness to service and returns. Focusing on merging digital and physical realms will also be critical as they reassess the value and importance of stores as their purpose evolves.

As retailers navigate through these challenging conditions, companies will require different skills, financing and business models to remain relevant.

Here, core principles associated with innovation, efficiency and adaptability will form a strong foundation. Existing business models will be tested by successive waves of disruption and form new cohorts of competitors offering solutions in narrow specialisms.

In this section, we outline five major trends that will dominate boardroom agendas throughout 2022.

Increased consumer confidence has created opportunities for growth and innovation

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Trend 1: Digital dependency

The pandemic has permanently impacted shopping behaviour. It has affected every stage of the customer journey, from the discovery of new products and brands to how shoppers track and return online orders.

Periods of lockdown necessitated a shift towards online for many consumers, especially for slow digital adopters. In many instances, this cohort was 'forced' into new ways of shopping that involved unfamiliar digital touchpoints on their path to purchase.

Furthermore, digital-savvy consumers started shopping online within categories they would typically reserve for the in-store visit, such as furniture.

As Covid-19 restrictions eased across the UK, many consumers reverted to previous shopping habits. However, a significant proportion of consumers continue to spend more time browsing, researching and purchasing online compared with pre-pandemic times.

Indeed, the proportion of online sales has risen from 19% in 2019 to 26% in 2021, with many categories seeing the step change in online sales persisting beyond lockdowns.

Although the impact of the digital shift has been uneven across different sectors and age groups (and other factors), four major behavioural archetypes have emerged during the pandemic.

Online sales have risen significantly and this is expected to continue

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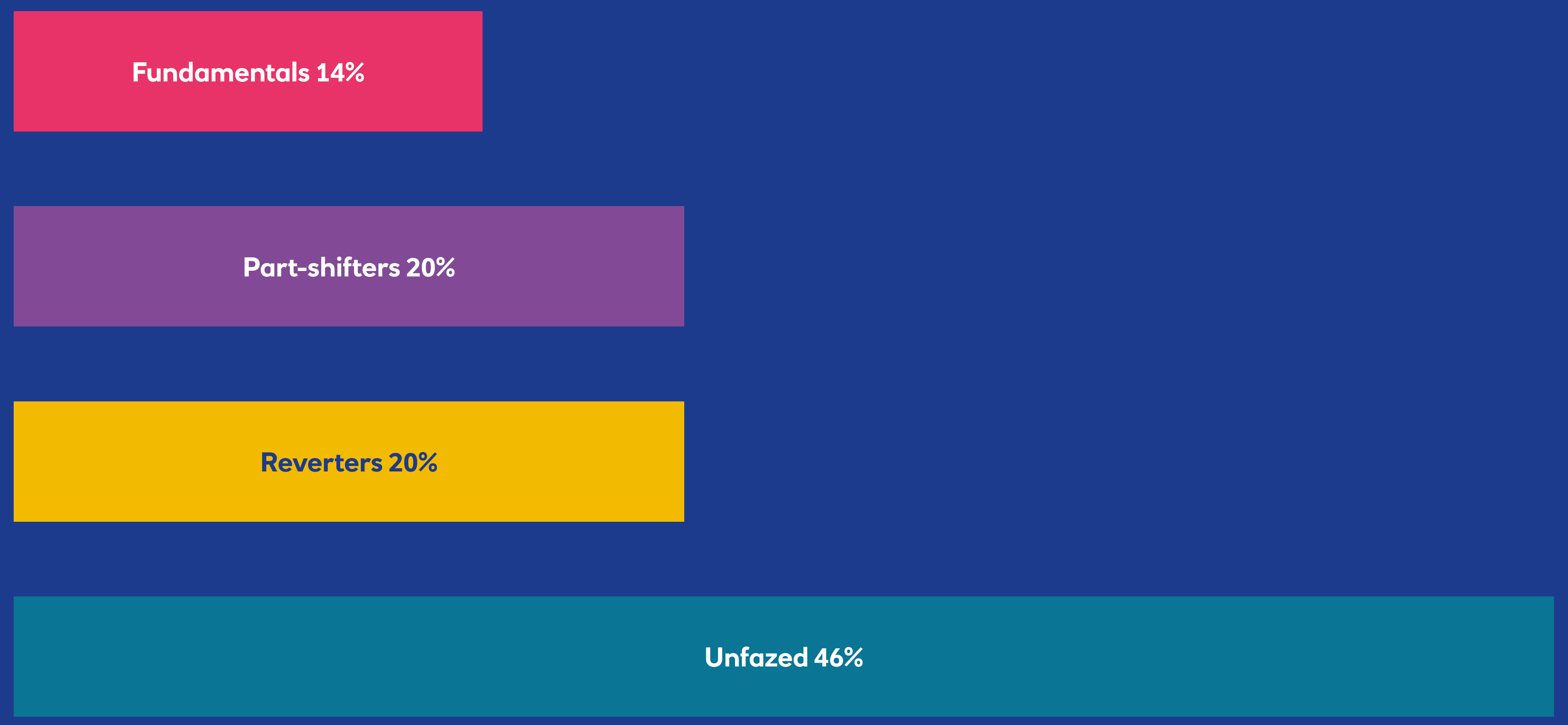
Trend 1: Digital dependency

Figure 4 Four distinct behaviours have emerged throughout the pandemic.



Fundamentals
Spending has changed permanently across the majority of shopping.
This group represents consumers who have altered shopping habits the most. Around 14% of consumers said there will be a permanent change in the majority of their shopping, driven by older consumers who have experienced the most profound changes caused by the pandemic.

Part-shifters
Spending has changed permanently for some aspects of their behaviour.
This cohort represents 20% of consumers, who say there will be a permanent change across some of their shopping habits. Gen Zs were around three times more likely to say there had been a permanent change in some of their shopping rather than the majority.

Reverters
Spending habits have been impacted but are expected to revert to pre-pandemic behaviour once the threat of the virus recedes.
This cohort represents 20% of consumers, whose spending habits have been temporarily impacted, but they intend to revert to previous behaviours.

Unfazed
Spending behaviour and motivations are unaffected by the impact of the pandemic.
This forms the largest group of consumers (46%), who suggest their spending habits remained unaffected by the impact of the pandemic. These consumers are typically younger, with older cohorts less likely to say there was no impact.

The research found consumers experiencing the greatest change in their shopping habits during the pandemic ('Fundamentals') are more likely to conduct a higher proportion of their shopping online and less in-store in the future.

For this group, over a third of consumers expect to permanently shop less in physical locations, with almost two-thirds (63%) expecting to shop more online than they did before the pandemic.

Compared with the 'Unfazed' consumer group, a net balance of 7% thought they would shop more online in the future, but the amount they visit stores is unlikely to change. Interestingly, these consumers account for 46% of total spending across retail and leisure activities, the largest of all groups.

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Trend 1: Digital dependency

Figure 5 Consumers who have experienced the largest impact in their shopping behaviour expect to do more shopping online and less in-store in the future.

Note: size of the bubble reflects share of wallet for spending across retail, hospitality and leisure.

Source: Retail Economics

This shift in consumer behaviour highlights a significant opportunity for retailers that have evolved their propositions to meet these new customer expectations. Key opportunities also lie in relationship building. Shoppers are increasingly looking to form meaningful relationships with retailers and brands that can meet or surpass their expectations.

As digital uptake has soared, capacity across the entire e-commerce ecosystem has expanded. Businesses have invested significant amounts in more sophisticated digital marketing campaigns, warehouse automation and boosting courier networks to cope with peak order volumes.

In many cases, digital transformation accelerated by years in just a matter of months – new technologies were adopted, new partnerships formed and new business models embraced.

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Trend 1: Digital dependency

Within the major trend of digital dependency, the research uncovers five micro-trends driving these changes.

Micro trend 1: Generational acceleration

Older generations have experienced the greatest disruption, accelerating their online adoption.

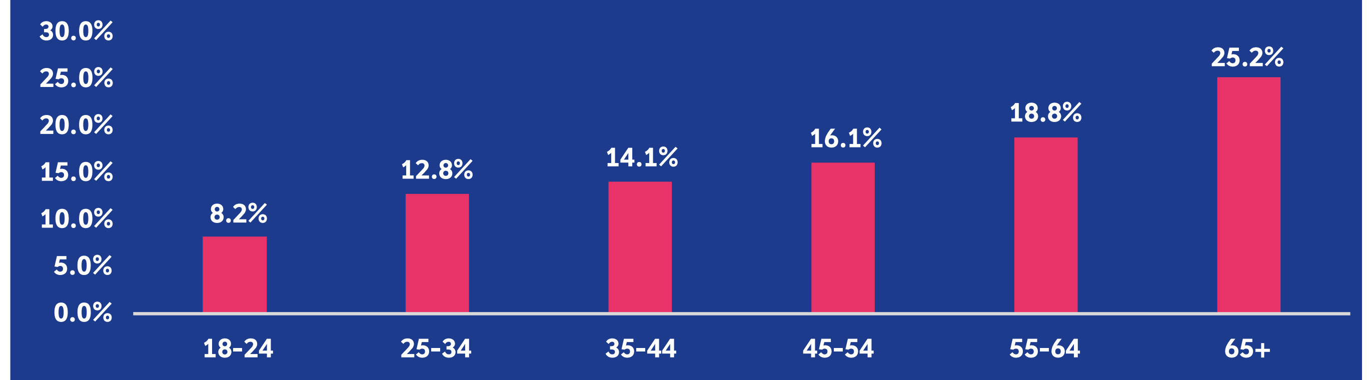
- Older generations have typically been slower to adopt e-commerce, but the pandemic has acted as a catalyst for them to engage with digital, often through necessity.
- A quarter of consumers aged 65+ say there's been a permanent change in the way they purchased goods across the majority of their shopping, compared with 8% of Gen Zs (aged 18-24).
- Over half (53%) said they shopped more online than before the pandemic.

Micro trend 2: Sectoral divergence

The impact of the pandemic has been felt unevenly across sectors.

- The greatest adoption of online has been for apparel, homewares, food and electricals.
- Customer journeys that typically involve higher value items and more consideration (eg furniture and high-end jewellery), a greater proportion of shoppers revert to pre-pandemic behaviour.
- The merging of physical and digital realms will become even more critical as retailers leverage technology to inject greater value into stores. For example, the ability to offer extended ranges, use of augmented reality (AR) and, crucially, using online fulfilment for physical orders.

Figure 6 More than a quarter of consumers over the age of 65 years say there has been a permanent change in the way they shop.



Source: Retail Economics

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Trend 1: Digital dependency

Micro trend 3: Working from home

More time spent at home has boosted first-time delivery success and increased the opportunity for households to receive online orders.

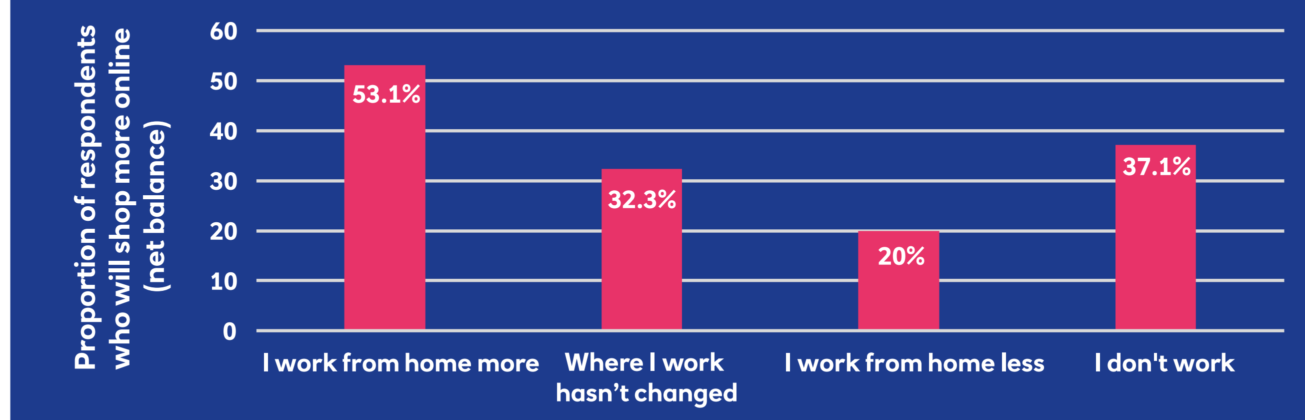
- Workplace changes have significantly impacted shopping behaviour.
- The research revealed that 28% of consumers said they now work from home more than they did before the pandemic. Of these, more than half (53%) suggested they have done more shopping online, with 40% indicating that this will be a permanent change.
- The proportion of online shopping peaked at 37.7% during the January 2021 lockdown for total retail sales according to the Office of National Statistics (ONS), hitting 42.5% for non-food retail.

Micro trend 4: Digital blueprint

Consumers seamlessly switch to lockdown and pandemic shopping behaviours.

- Consumers are very comfortable reverting to 'lockdown style' shopping habits, with a significant proportion of shoppers 'self-governing' their behaviour as they assess health risks and self-isolation.
- As the impact of the pandemic endures, the more embedded the shift towards online becomes for many consumers.
- Moving forward, consumers are likely to need little encouragement to switch to well-versed lockdown style shopping habits from further Covid-19 restrictions or variants.

Figure 7 More than half of consumers who work more at home since the pandemic say they now shop more online, more than twice that of those now working less from home.



Source: Retail Economics

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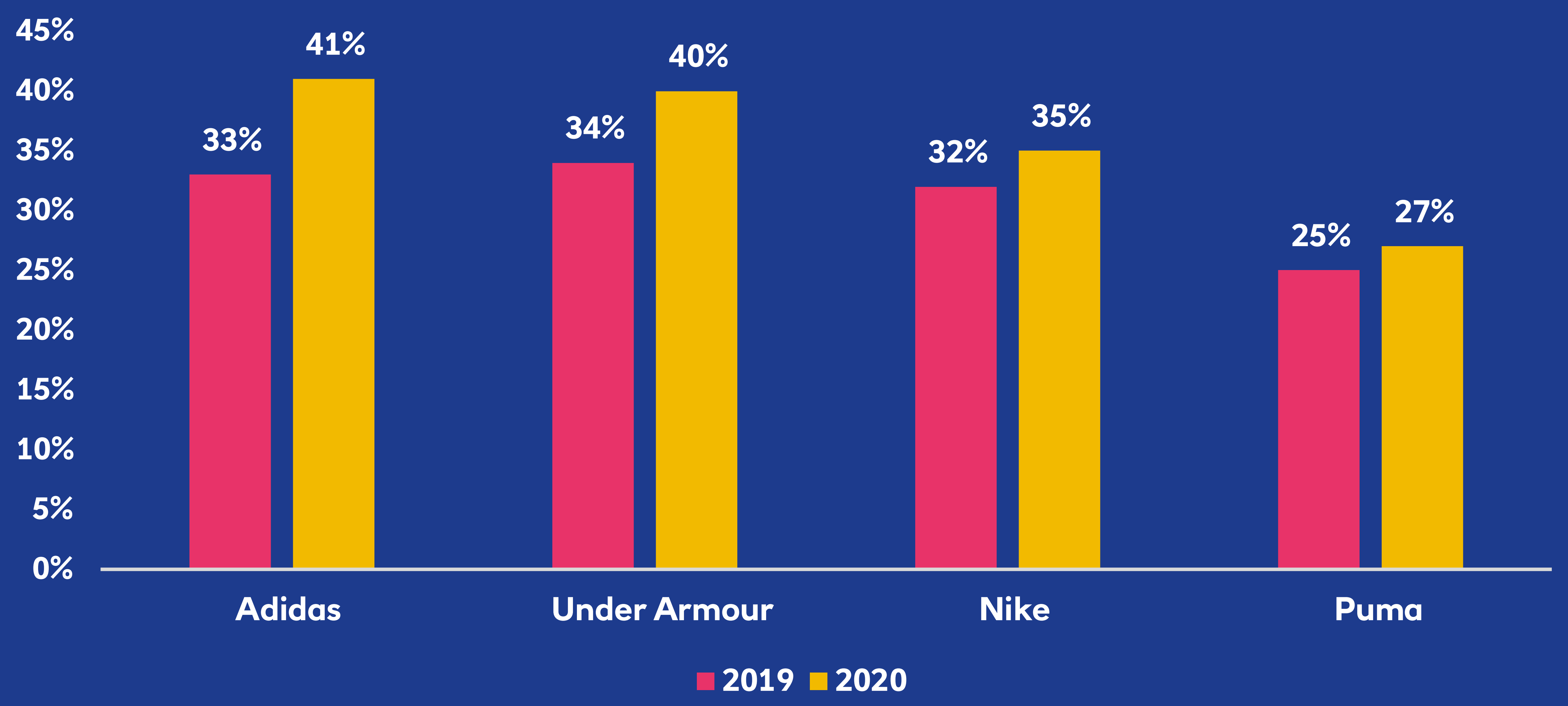
Trend 1: Digital dependency

Micro trend 5: Direct to consumer

Brands will continue to develop their direct-to-consumer (DTC) strategies as they take back control from retailers and distributors to leverage consumer data.

- As retail progressively shifts online, brands have more opportunities to sell direct to customers as they face fewer barriers to entry than physical stores.
- Brands looking to truly drive unique experiences will rely more heavily on a physical presence too, typically through flagship experiential stores and concessions. These stores are partially treated as a marketing asset, where store sales are not necessarily the primary objective.
- Many brands will be well positioned in a post-Covid era given they operate with larger profit margins and are uninhibited by vast store estates occupied by retailers.

Figure 8 Direct to consumer as a percentage of total sales.



Source: Company reports

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Trend 2: Rebalancing physical retail

Although the impact of the pandemic has shifted more sales online, importantly, the majority of retail sales still remain in physical locations.

However, the distribution of expenditure across local high streets, shopping centres, retail parks and city centres has altered significantly during the pandemic, having important consequences across hospitality too.

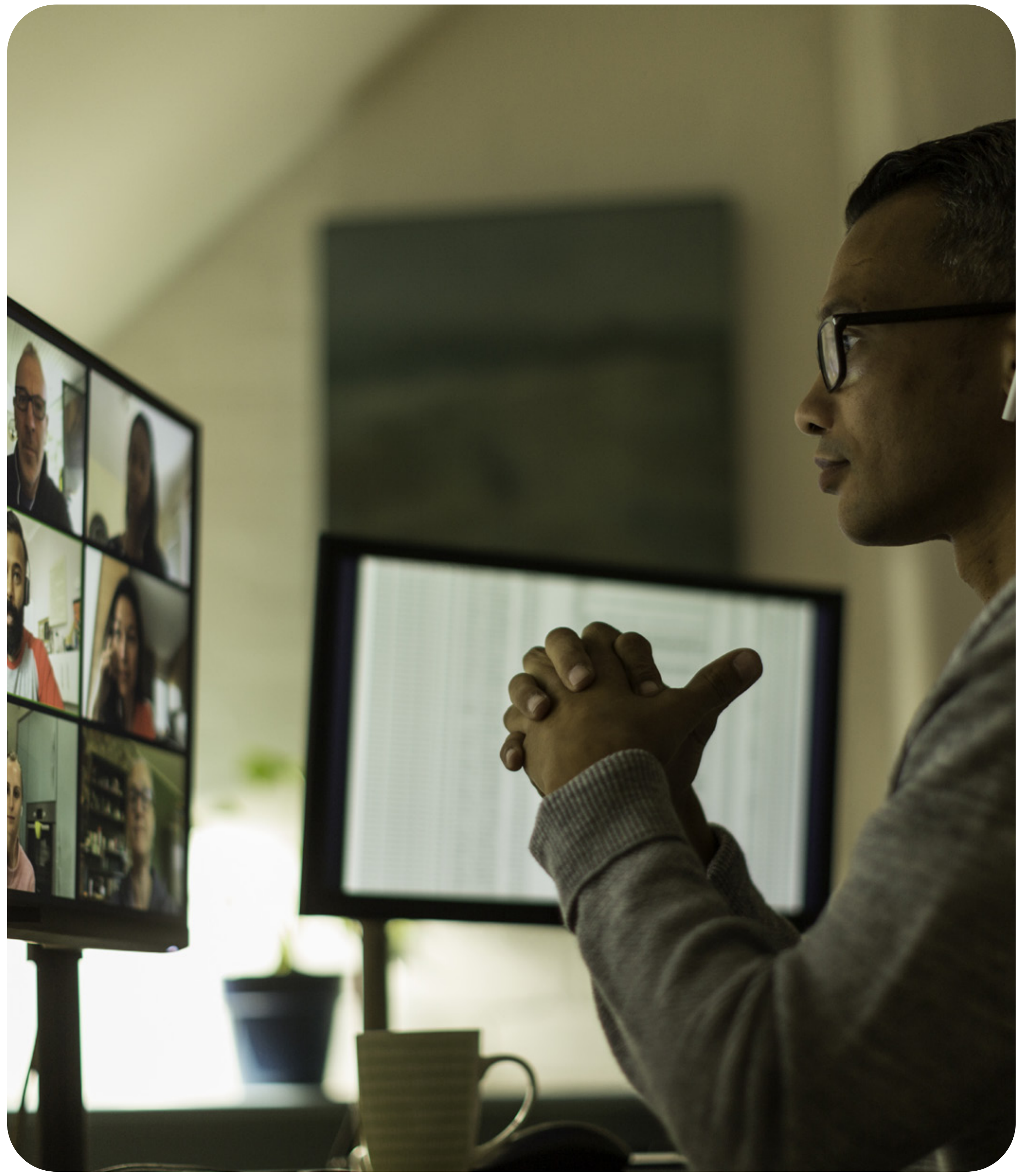
In part, this fragmentation was initially fuelled by consumers wanting to avoid crowded destinations, showing a strong preference for retail parks where social distancing measures are easier to implement. Throughout 2021, footfall has fallen markedly on 2019 levels, but retail parks (-13%) have held up well relative to shopping centres (-39.6%) and high streets (-38.8%)[1].

Beyond the immediate impact of lockdowns, a key disrupting factor has been the sharp rise in the proportion of people working from home, particularly in commuter belt towns. Following numerous lockdowns, commuter towns have retained a greater proportion of city workers, whose spending is now more focused in localised areas near their homes.

This has come largely to the detriment of city centre locations where footfall levels continue to be significantly lower than in 2019.

The research shows that, on balance, more consumers are looking to cut back spending in physical locations than increase it. However, of those looking to increase and shift their spend across physical channels, local high streets are expected to be the main beneficiaries going forward.

Local high streets are expected to benefit, as some people continue to work from home



[1] Springboard

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Trend 2: Rebalancing physical retail

Despite the redistribution of spending across physical channels, retailers and leisure operators will continue to merge physical and digital channels as the purpose and value of physical locations evolve.

Gone are the days where physical stores are solely purposed for distributing products, accountable for their own profit and loss. The merging of physical and digital realms will become even more critical as retailers leverage technology to inject greater value into stores (eg use of AR and using online fulfilment of physical orders).

Likewise, hospitality players are increasingly using technology (eg mobile apps for ordering) to further integrate technology in a bid to improve their service.

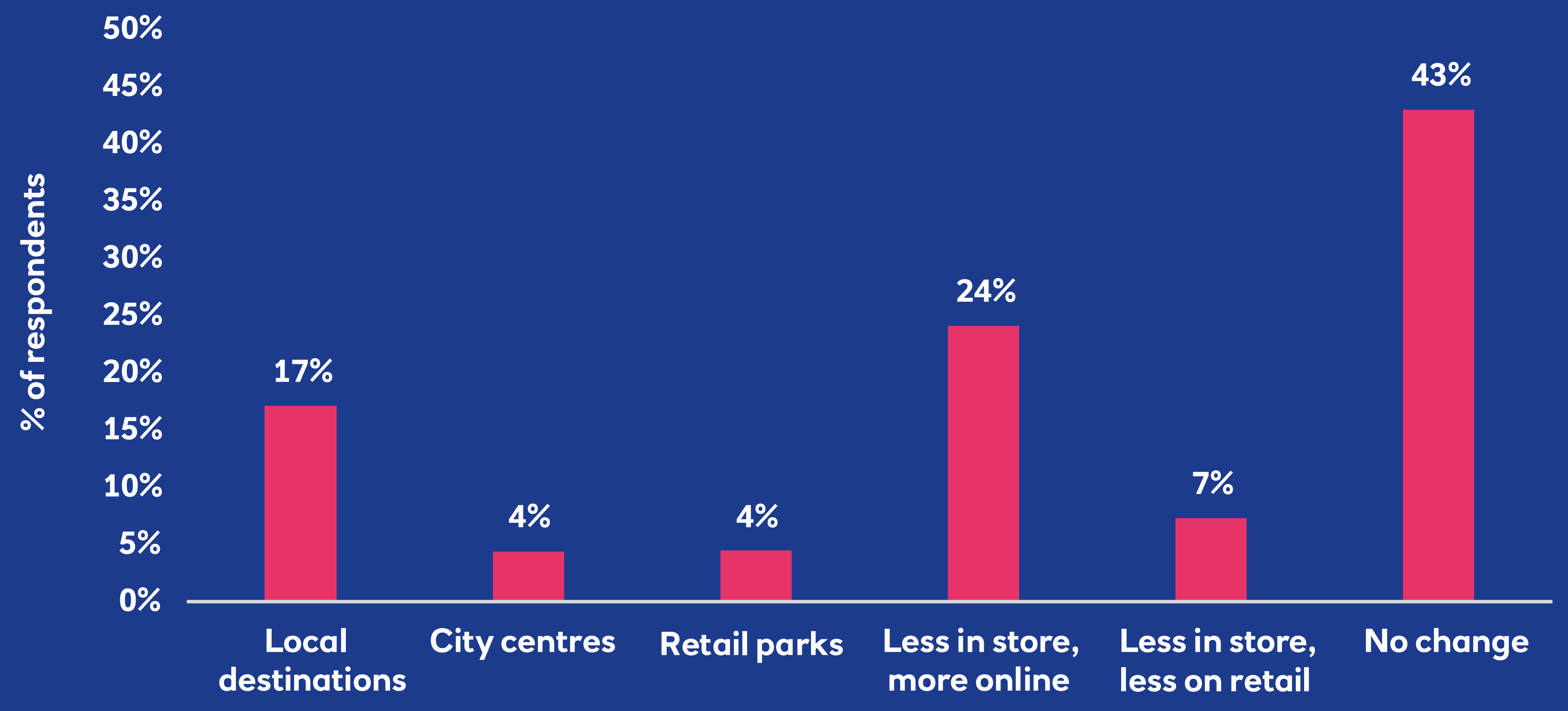
Periods of lockdown also accelerated the use of stores as distribution hubs for online orders as retailers embraced more innovative ways to access inventory and fulfil online demand. As retailers become increasingly sophisticated with their inventory systems and logistics, they will move towards store fulfilment-based models and rapid delivery – particularly in densely populated areas.

Indeed, many retailers have increasingly leaned towards their store estates to leverage value in a truly multichannel proposition, winning back market share from pure online players by providing a point of difference.

In addition, landlords will have to become much more innovative in their use of space and work more collaboratively with retailers. Pop-up shops and white box spaces that create a healthy churn of independent retailers (relevant to the local communities they serve) can drive sustainable levels of footfall and revitalise tired areas.

Elsewhere, oversized or redundant stores could be repurposed to facilitate online fulfilment, city centre hubs for consolidating deliveries, convenient click-and-collect locations, or drop-off destinations for returns, as long as discounted rental costs make it commercially viable.

Figure 9 Those looking to spend more in physical locations intend to do so in local destinations.



Source: Retail Economics

Trend 3: Supply chain disruption

Covid-19 has highlighted the fragility of globally-dispersed and complex supply chains.

During the initial stages of the pandemic, the closure of factories, ports and disrupted shipping routes dislocated supply chains causing worldwide product shortages.

As economies reopened, global supply chains buckled under the pressure of quickly ramping-up production to meet significant levels of pent-up demand across advanced economies. Combined factors such as Covid-19 outbreaks, port closures, port congestion, labour shortages and a lack of containers caused considerable disruption resulting in rapidly escalating costs.

The cost of shipping a container across most major shipping routes rose by more than nine times in 2021 compared with the previous year[2]. Even when UK and EU-bound containers reached their destination ports, a shortage of HGV drivers and additional Brexit-related complexities caused further delays. This exerted even more pressure on costs.

[2] Source: Freightos

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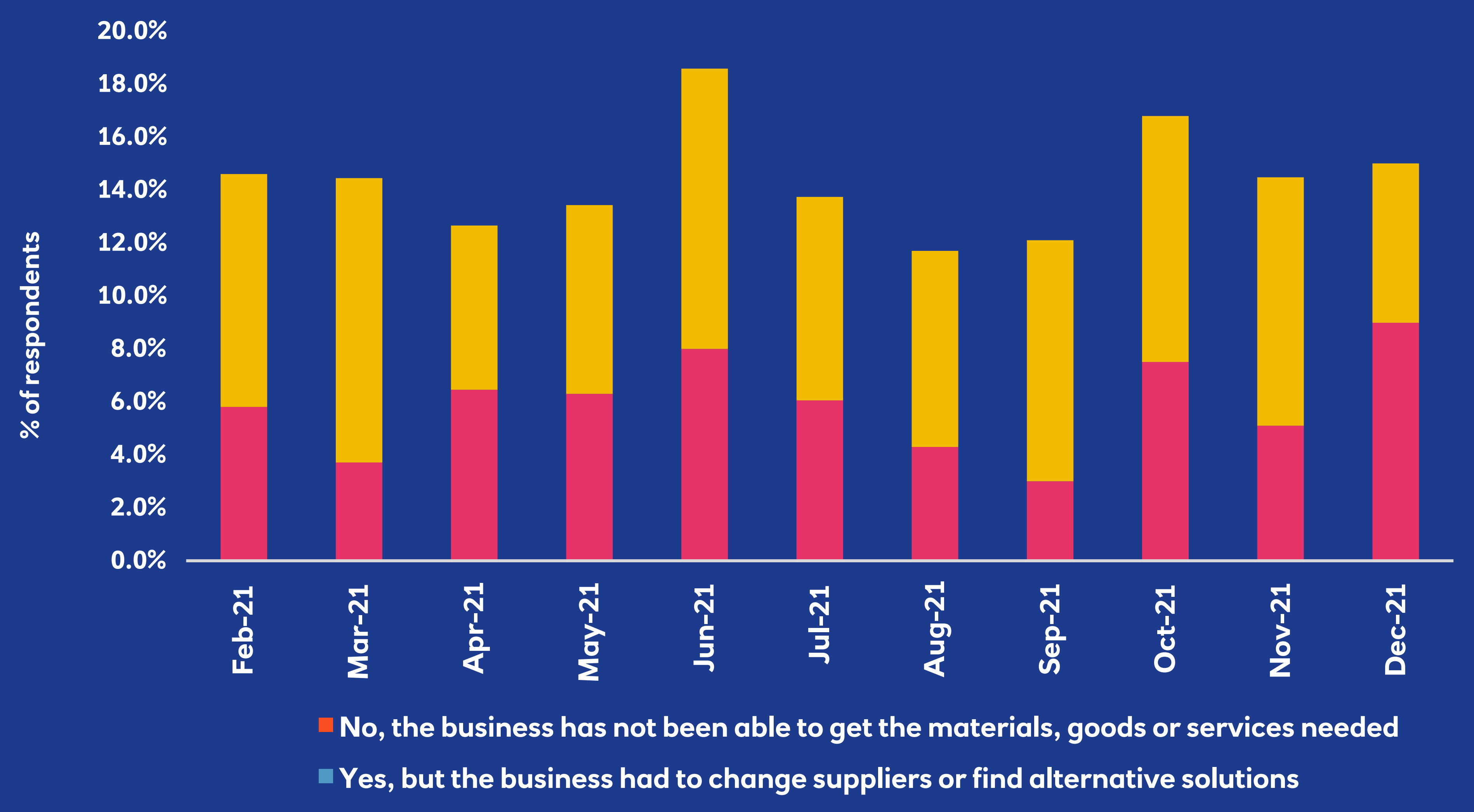
Trend 3: Supply chain disruption

Figure 10 Supply chain issues for retail and wholesale peaked in the summer but remain at elevated levels.



Source: ONS

In fact, UK wholesalers and retailers reported the top five challenges faced when trying to import products as follows:

1. the change in transport costs (53%)
2. additional paperwork (37%)
3. customs duties and levies (34%)
4. lack of hauliers (26%)
5. disruption at UK borders (26%)[3].

All these pressures converged in the summer of 2021 as retailers, wholesalers and hospitality businesses struggled to acquire essential goods.

In October 2021, almost a quarter of UK businesses either had to change suppliers to find alternative products or couldn't get what they needed because of these disruptions.

As such, inventory levels across the sector have been depleted and, in many cases, retailers haven't been able to fulfil demand.

A range of high-profile retailers reported these issues throughout the year.

[3] Office for National Statistics – September 2021

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Trend 3: Supply chain disruption

Figure 11 Supply chain issues and inflationary pressures expected to persist into 2022 for many retailers.

Tesco PLC	**October 2021** Tesco CFO Imran Nawaz: Tesco CFO Imran Nawaz: "We're seeing inflation in certain commodity type items. We have it on the distribution side, the HGV driver shortages you've seen publicly, we're paying a bonus to bring people in."
J Sainsbury PLC	**November 2021** "We flagged supply chain challenges earlier in the year and alongside some of the other well-known challenges relating to labour shortages. It makes for a more uncertain environment heading into peak... Looking to the second half, we flagged in July that we expected general merchandise supply chain challenges to persist through the year. A specific example I would give you is that we normally, in our general merchandise business, run a toy promotion, a pretty significant toy promotion this time of year. We put that back a couple of weeks because the product wasn't in the UK."
Marks and Spencer Group PLC	**November 2021** "We are planning for significant supply chain cost increases in the second half of the year with further on-costs next financial year... Well publicised supply chain pressure, combined with pandemic supply interruptions, rising labour costs, EU border challenges and tax increases means the cost incline becomes steeper in the second half and steeper again in the 2022/23 year."
JD Sports Fashion PLC	**November 2021** "Supply chain delays negatively impacting the performance of certain seasonal categories combined with insufficient global production capacity to meet current strong demand for bikes and cycling related accessories."
Next PLC	**November 2021** "Stock availability has improved but remains challenging, with delays in our international supply chain being compounded by labour shortages in the UK transport and warehousing networks."
Joules Group	**December 2021** "The well-documented global supply chain issues have resulted in some higher costs and stock delays during the period. In addition, labour shortages in our third-party operated distribution centre (DC) have resulted in extended product delivery times to online customers, stores and wholesale partners. These factors were particularly acute in November, including the Black Friday period... Global supply chain challenges are expected to remain during at least the second half of the group's financial year."
Halfords Group PLC	**November 2021** "Cycling undoubtedly had a very strong FY21 and sales this year, while strong, have been constrained by supply chain issues and industry-specific bottlenecks on production... Moving anything around the globe over the last six months has been particularly challenging. Even if goods are manufactured and a container is found to ship them to the UK, the recent HGV driver shortage has meant that this final leg of the supply chain has been more costly and unreliable. The freight spot market has, at times, been 10 times the normal rate, with some suppliers reneging on volumes or prices."

Source: Company trading updates, media announcements

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Trend 3: Supply chain disruption

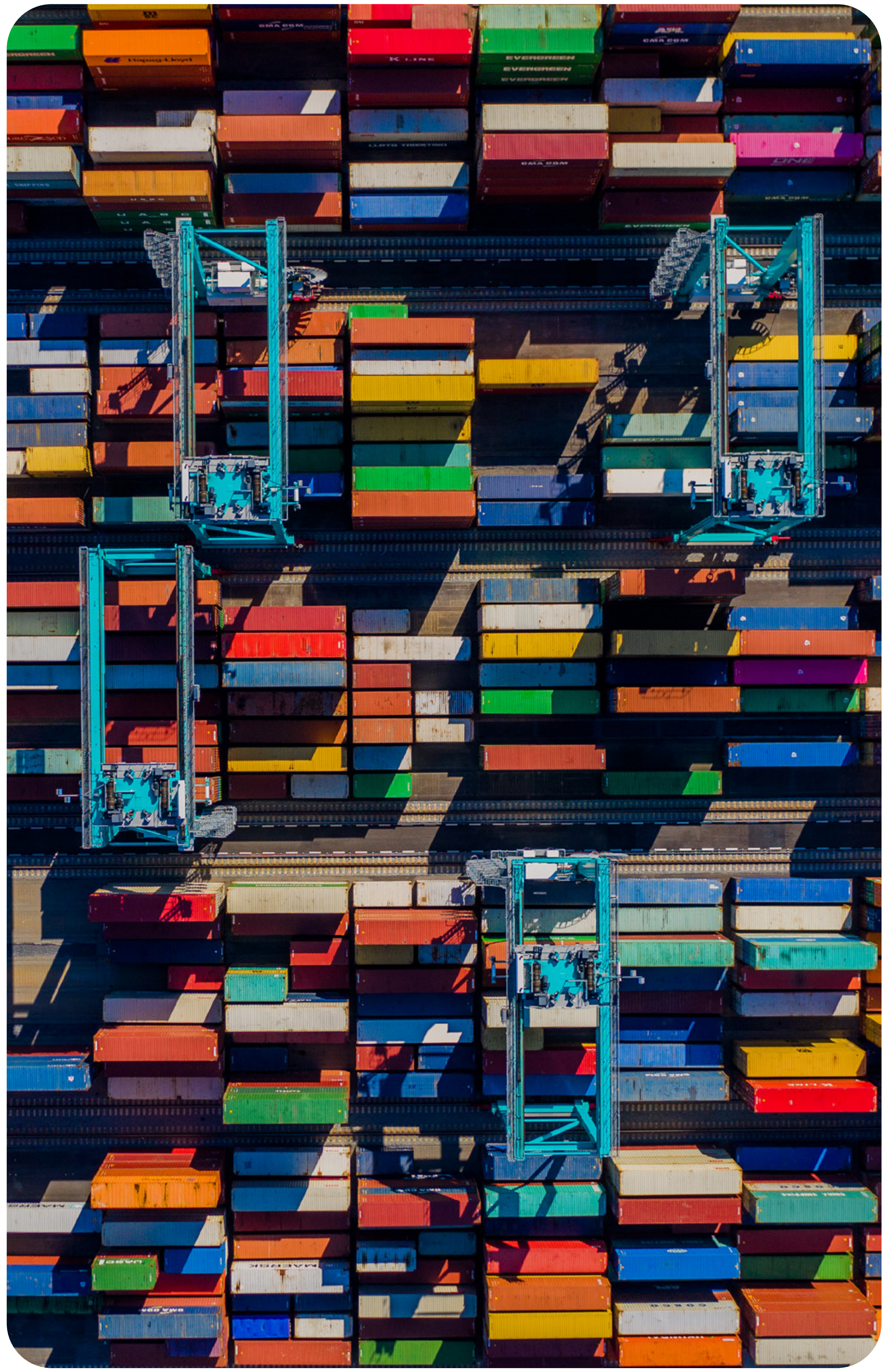
Figure 12 Have you experienced any issues with product availability over the last 12 months?

Source: Retail Economics

Inevitably, consumers faced challenges accessing products. Our research suggests more than a quarter (28%) of consumers experienced issues with product availability in 2021, with 9% saying it was a significant issue.

While it's difficult to predict how long and to what extent supply chain pressures will last, **figure 11** shows a range of high-profile retailers expecting supply chain issues and inflationary pressures to persist into 2022.

Freight costs appear to have peaked in September 2021 but have since fallen sharply over the last few months. There have also been improvements in the supply of HGV drivers as wages adjust, tempting workers into these important roles.



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Trend 4: Path to net zero

Greenhouse gas emissions reached new record highs in 2020 as world leaders met for the 26th Conference of the Parties (COP26) of the United Nations Framework Convention on Climate Change in Glasgow in November 2021.

This is despite an estimated 6% to 7% reduction in carbon dioxide emissions due to the economic slowdown brought about by the global pandemic.

As international agreements and targets were signed to strengthen global action, the critical role that multinational corporations play in tackling the crisis was put under the spotlight. Although the number of companies that have pledged to reach net-zero emissions by mid-century continues to grow, significant differences arise between international markets, industries and size of corporation.

While the UK is ahead of the curve in its aspirations for carbon neutrality compared with its European neighbours, corporations' commitments around net-zero emission targets often remain vague, lack comparability and reporting is often infrequent, if at all. This needs to change.

The gap between commitment and action must narrow rapidly if businesses are to fulfil their net-zero carbon emissions obligations by 2050. Indeed, under one-third of the largest 1,000 European corporates have a solid commitment in reaching net zero by 2050. Of those that have commitments, just 5% are on track to meet their target if current trends continue[4].

Consumer-facing industries in the UK have a leading role to play, even if the level of commitment towards net-zero carbon emissions differs widely by retailer, sector and size of company. The research shows that from a sample of the largest 50 listed UK retailers (combined market capitalisation of £156bn), under half (46%) have committed to net-zero carbon emissions. Of those that have committed, the average number of years to net-zero emissions is 20.5 years or by 2041.

An aggressive reduction of emissions must occur across all sectors to achieve net-zero objectives. However, the level of burden faced by firms differs substantially by sector, and 'scope 3 emissions' (those produced outside the control of retailers and further down the supply chain) differ widely depending on the length, carbon intensity and complexity of the supply chain.

A combination of regulation, investor pressure, and consumer and corporate awareness is encouraging businesses to commit to net-zero pledges – and they're doing so in increasing numbers. Commitments to net zero require companies to develop decade-long strategies that often rely on significant investment, requiring assurance by long-term government backing in many instances.

The journey to net zero is one of the most important issues of our times

[4] Source: Accenture – Count Down to Zero. September 2021

Businesses need to rise to the challenge if net-zero objectives are to be reached

The UK Government is signalling to firms its intention to commence a 'green revolution' to leverage a global competitive advantage in its post-Brexit and post-pandemic state. Armed with a comprehensive 10-point action plan, the UK is making strides towards reducing more carbon emissions than EU countries.

This includes a ban on new petrol and diesel car sales from 2030 (compared to EU's 2035), and an infrastructure bank to invest in green projects. Additionally, in June 2021, the UK Government set into law what it believed to be the world's most ambitious climate change target – to reduce emissions by 78% by 2035 compared to 1990 levels.

From a consumer-facing industry perspective, there will be many focal points of change in the coming 12 months and beyond, as fervent strides towards net-zero goals are actioned.

It's difficult to overstate the quantum of transformation required across consumer-facing businesses if they're to rise to the challenge. Against a backdrop of growing population and rising energy demand, the industry's decarbonisation will rely heavily on access to clean power generation, carbon capture and storage, technological advancements, behavioural changes and a transition away from fossil fuels.

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Enabling behavioural change

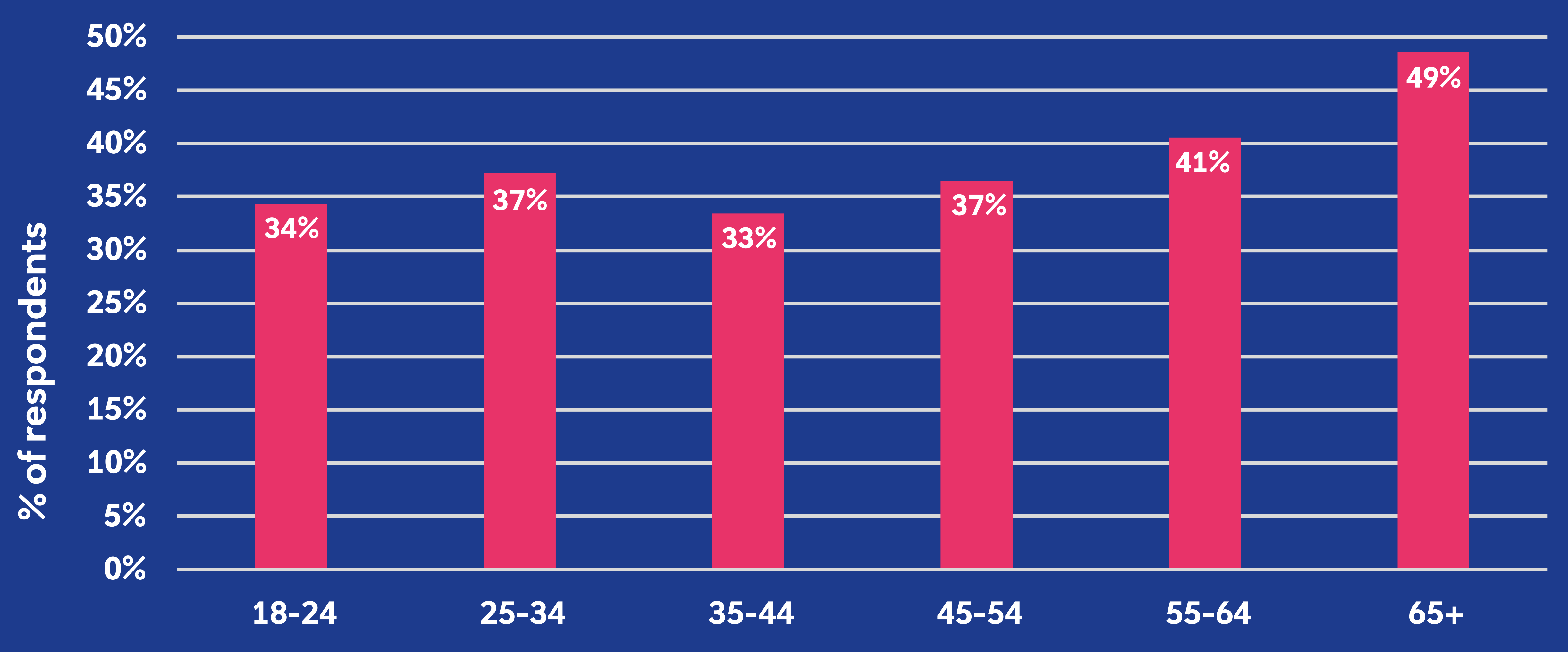
Consumers will play a pivotal role on the path to net zero through reducing excessive energy use, switching modes of transport (eg to public transport and electric vehicles) and realising efficiency gains through increased recycling and retro-fitting households (eg efficient insulation, heating/cooling systems).

From a consumer perspective, they'll increasingly search for businesses that reflect their sustainability values and, if there's a mismatch, they'll find alternative companies who can fulfil their requirements. The research shows just under 38% of consumers think they (the public) can have the greatest impact on reducing carbon emissions, marginally ahead of government (38.7%) and retailers and brands (22.5%).

Interestingly, those who believe the public can make the biggest impact are more likely to be older consumers. Conversely, younger consumers believe the government can have the greatest impact.

Thinking about issues around sustainability, which of the groups do you think can have the greatest impact on reducing carbon emissions? Of those that answered 'the public'.

Figure 13 Older consumers are more likely to believe the public can have the greatest impact on carbon reduction than younger age groups.



Source: Retail Economics

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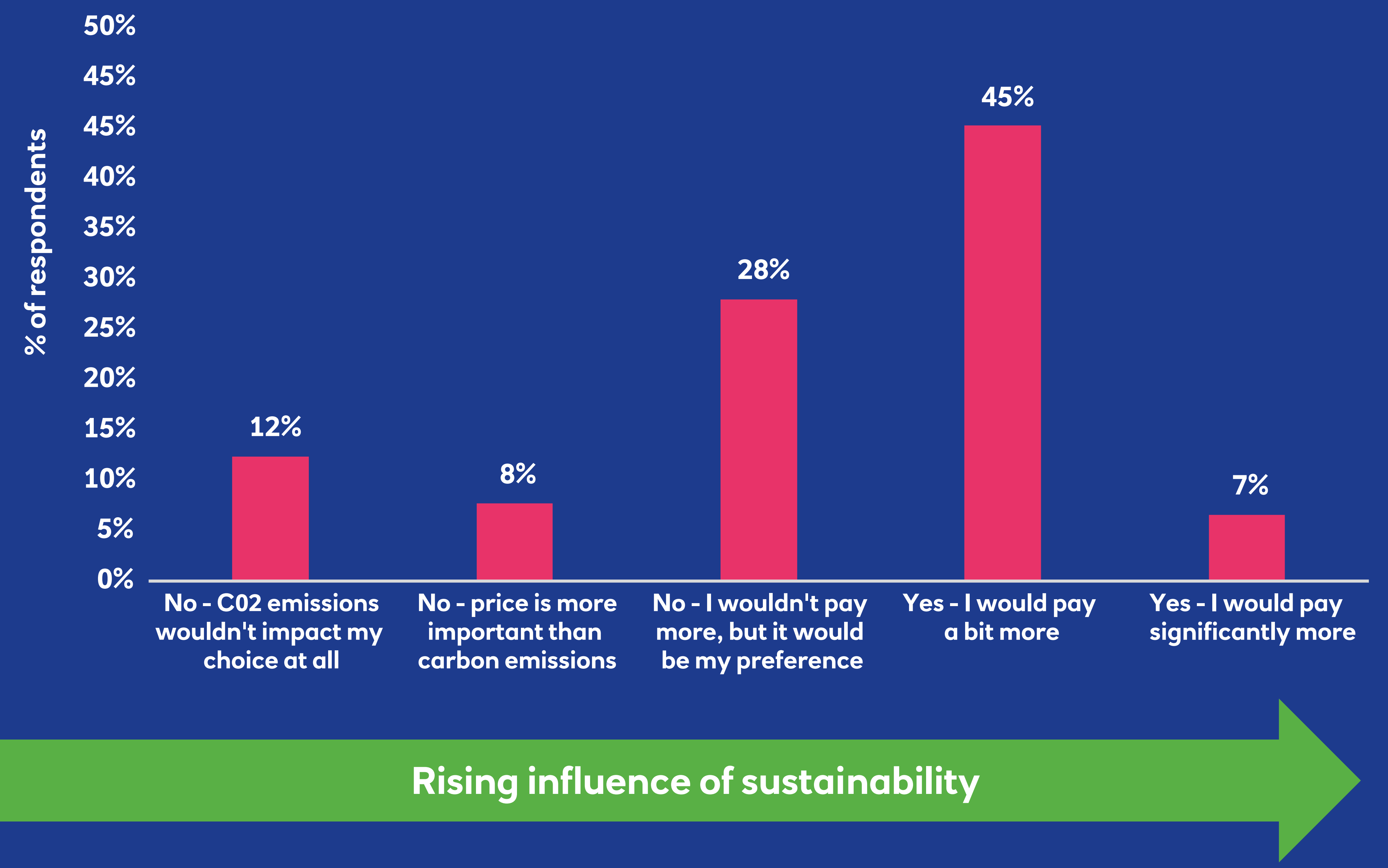
When it comes to willingness to pay for the reduction in carbon emissions, almost half of consumers (45%) are willing to pay 'a bit more', with over a quarter (28%) suggesting it would influence their choice, but they wouldn't pay more. Just 12% said carbon emissions wouldn't influence their choice at all, however, this is heavily weighted towards older consumers – with just 2% of Gen Zs (18-24) selecting this option compared with 15% of those aged between 35 and 44 years old.

It'll become increasingly important for consumer-facing brands to tell a compelling sustainability story. For many consumers, companies putting sustainability at the core of their values will become the norm, or at least a minimum requirement. Companies failing to live up to these exacting standards run the risk of reputational damage and even boycott in the worst instance.

Figure 14 Would you be willing to pay more for a product if the carbon footprint (C02 emissions) had been meaningfully reduced?



Source: Retail Economics

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Investing in new technologies

The consumer sector will have to embrace new technologies on their path to net-zero carbon emissions. These will include the following:

Renewable power: Considerable investment over the last few decades has positioned renewable energy (primarily solar and wind) at the forefront of low-cost decarbonisation. Retailers and leisure companies will be sourcing more renewable energy to power stores, logistics and distribution centres to reduce overall carbon emissions.

Battery energy storage: Technological advancements in battery energy storage will be critical for commercial property and the decarbonisation of short-haul transport through electrification (eg final file delivery vehicles).

Utility-scale batteries: could also play a key role in energy security for large stores requiring resilient power infrastructure as demand for power generation increases.

The disposal, recycling and reuse of batteries will also require keen consideration, alongside the issue of embodied energy (ie the sum of all the energy required to produce goods or services).

Carbon capture and storage technologies (CCS): Carbon capture technologies will support de-carbonization of carbon intensive sectors where emissions are non-abatable (or difficult to sequester) using present technologies. Carbon sequestration broadly falls into three main areas:

- carbon sinks (eg reforestation)
- carbon capture, utilisation and storage (eg direct capture of CO2 emitted from industrial plants)
- direct air carbon capture that recoups CO2 from the environment.

Although carbon sequestration has yet to reach large-scale adoption and the economies of scale like renewable energy technology, it has experienced a revival in recent years. As such, it will form a critical component in the path towards net-zero carbon emissions. It'll also be essential in the production of clean hydrogen in the future.

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Clean hydrogen: This is a potentially transformational technology for long-term energy storage to aid uptake of renewables in power generation. Clean hydrogen also has the potential to support decarbonisation of the 'harder-to-abate' industries (eg iron and steel, long-haul transport, heating, petrochemicals) where electrification may not currently be a commercially viable option.

Investor pressure: The emergence of environment, social and governance (ESG) funds and increasing pressure from investors for consumer-facing businesses to tell a compelling sustainability story will continue to rise. Financial institutions have already deployed ESG standards and frameworks for the identification of investment opportunities. This is becoming more commonplace throughout the industry. What's more, there's a swell of capital providers in search of bankable projects aligned to their ESG targets and net-zero commitments.

Regulation: A country can't meet its net-zero commitment without transforming its economy and associated industries. With regulation evolving in tandem with investor pressure, businesses are increasingly coming forward with net-zero commitments. The EU's landmark law to make the bloc's carbon emissions legally binding will result in a wave of new policies and incentives to fight climate change in coming years. This is likely to impact areas such as global trade agreements; competition law; tax reforms; climate risk disclosure; corporate finance; mergers and acquisitions, and supply chain management.

Supply chains: More sustainable and efficient supply chains that reduce embedded emissions will be critical. This could involve the use of more near-shoring and on-shoring. Increasingly, businesses will demand greater visibility of their supplier's carbon emissions and those further down the supply chain. Supplying companies that are unable to provide adequate transparency, or are too slow in decarbonising their supply chains, run the risk of being replaced by companies that take their responsibilities more seriously.

Consumer-facing brands need to embrace the opportunity to tell compelling sustainability stories

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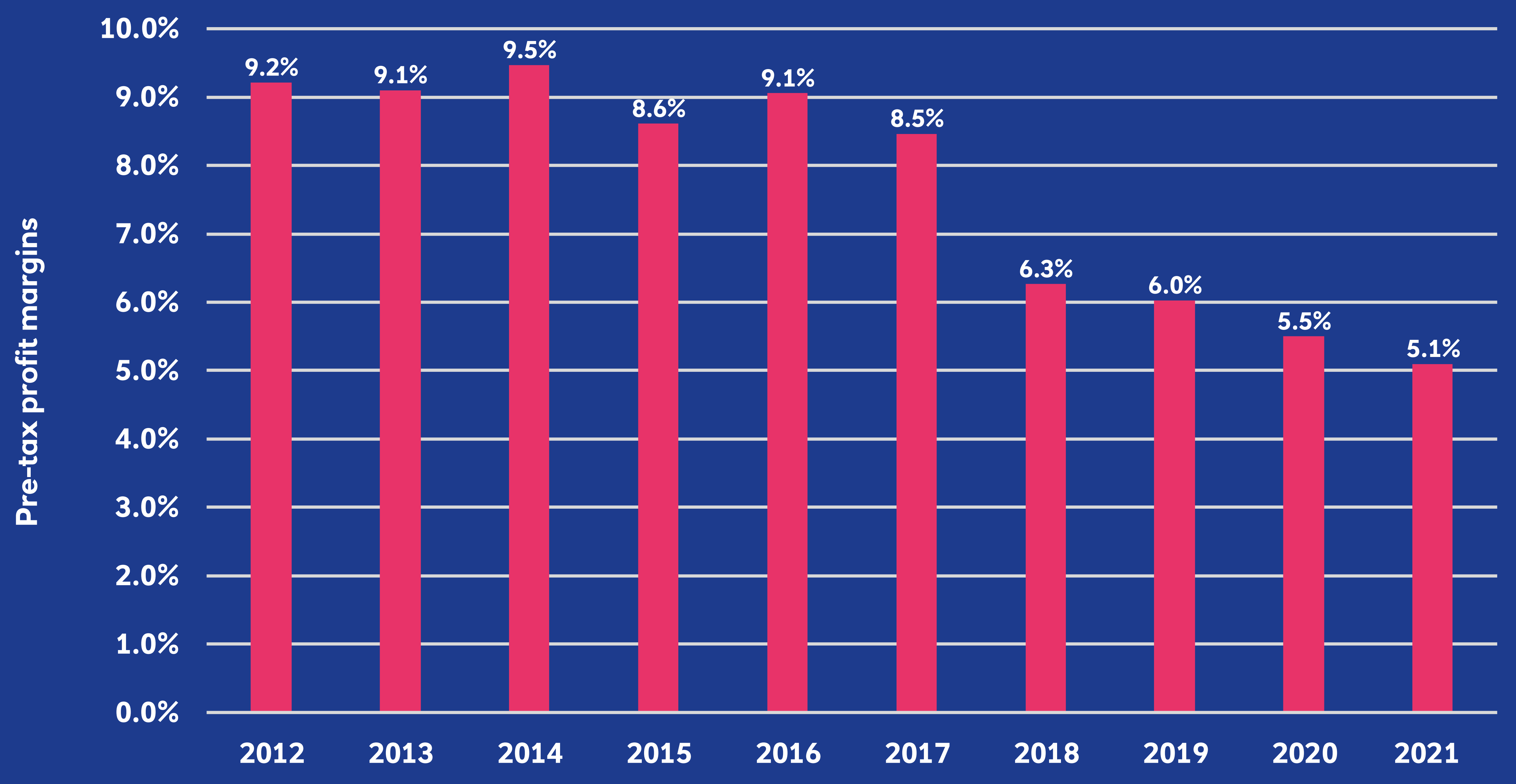
Even before Covid-19, retail profitability was already under significant pressure.

Over the last decade, pre-tax profits have almost halved for the largest UK retailers, falling from 9.2% in 2012 to an estimated 5.1% in 2021. The combination of rising costs, fierce competition and the shift towards online has put intense pressure on margins.

Some of the biggest challenges have been felt by retailers with large store estates. The shift towards online has left many retailers exposed with cost structures disproportionately weighted towards their physical channels. This comes at a time when variable costs are rising and online sales account for a growing proportion of total sales.

With more physical outlets than many can commercially justify, many of which are often tied to inflexible lease structures, their ability to pivot business models as rapidly as required has been significantly hampered.

Figure 15 Pre-tax profits have fallen markedly over the last five years across UK retail.



Source: Company accounts, Retail Economics analysis

Sample of the largest 55 listed retailers in the UK, accounting for more than £165bn of turnover in 2020.

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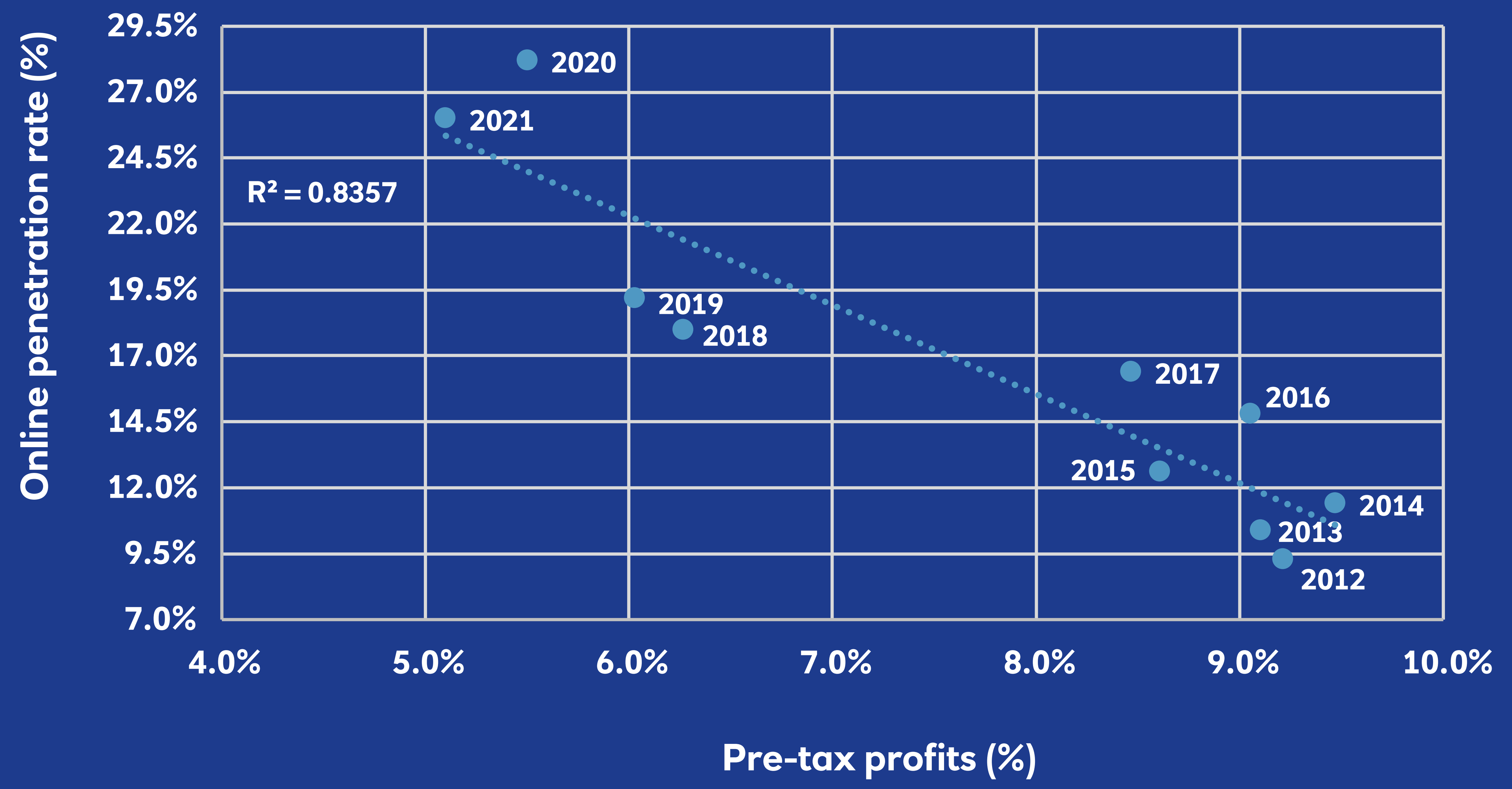
Meanwhile, heavy investment will be needed to make online operations more efficient, from automating dispatch processes to hiring data scientists and integrating more sophisticated marketing campaigns. The digital shift will create new challenges throughout the entire value chain, adding additional cost at each stage.

Indeed, the research shows the shift towards online is a significant contributing factor of dwindling profit margins. **Figure 16** shows an inverse correlation between the rise in the proportion of online sales and a fall in pre-tax profit margins over the last decade.

Pure online retailers typically operate on considerably lower margins than multi-channel and bricks and mortar business models. This reflects the difference in cost structures, business models and the price sensitivity of consumers, where transparency in price, service and quality place further downward pressure on margins.

Figure 16 Pre-tax profit margins have fallen as penetration rates rise across key UK retailers.



Source: Company financial reports, ONS, Retail Economics analysis

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As the retail industry undergoes a period of transformation, businesses need to adopt a more detailed and data-driven approach to profitability. The shift towards online will exert the greatest pressure on store-dependent operating models, requiring businesses to align with more digital-centric customer journeys.

For retailers, the priority of protecting margins and improving operational performance will mean using data to gain increased visibility on e-commerce profit and loss. Here, data-driven decisions will be critical in executing more informed investment trade-offs.

Retail strategies will vary widely. Many factors such as category, customer demographics and the maturity of online propositions all influence strategic success. And external influences such as regional market dynamics, regulation and infrastructure ensure transformation plans are dependent on individual company and market characteristics, such as existing online penetration rates, concentration and competitor activity.

Irrespective of the nuances across operations, successful companies will be those that quickly deploy effective margin-improvement strategies targeted at the largest cost drivers underpinning the digital switch. For most retailers, these strategies centre on digital marketing, supply chain optimisation and channel-mix management.

The shift to digital will create incredible opportunities for businesses to grow, adapt and innovate

Section 3 | Reshaping the consumer landscape

Summary

In summary, consumers appear to have more conviction over their needs and wants, with businesses accommodating these new expectations.

Businesses will have to commit to real action to help get to net zero.

—

The resurgence of local high street shopping is expected to continue.

—

Online sales show no signs of slowing in 2022.

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The UK retail and leisure industry will continually sustain the impact of disruptive factors throughout 2022.

This will further reshape the way businesses and consumers operate, think and interact. Naturally, challenges will arise, but business models must be flexible enough to react swiftly to threats and opportunities in order to maximise chances of success.

Macro headwinds such as a squeeze on spending power, interest rates rise, and ongoing Covid and supply chain disruption will mean that retailers and leisure operators will need to work harder and smarter to remain relevant with attractive propositions.

Exploring enhanced capabilities through strategic acquisitions and partnerships will be vital to operate in a disrupted marketplace where technological progress and consumer behavioural shifts can quickly derail established trends.

The digital shift has been accelerated by Covid-19, with many consumers now comfortable with new online paths to purchase and using digital platforms (eg Deliveroo, Uber Eats, Just Eat) to access goods and services. Businesses will need to be mindful of the uneven impact this has had across categories, adjusting strategies accordingly. Catering for new consumer wants, desires and expectations – now often processed digitally – will require careful assessment of industry trends and leveraging insights using data science.

The purpose of physical channels is being further refined to encompass a greater marketing function as physical and digital worlds become indistinguishable to many consumers at times.

Supply chain strategies that acknowledge the benefits of re-shoring will be a focal point throughout 2022, as shortages in materials and labour plague many traditional modes of operating. Following COP26, sustainability issues will become increasingly integrated into processes and elevated in priority.

Retailers and leisure businesses will also need to be very conscious of how these issues impact their relationships with consumers and investors, set against ambitions to reduce carbon emissions towards net zero.

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Technology will continue to drive restructure, with an ongoing focus on AI, AR, VR and big data which will drive innovation, personalisation and efficiency. In part, this has improved work-from-home practices, but to the detriment of footfall rates, especially in city centre locations, shifting more focus to localised shopping. Meanwhile, conversations and embryonic strategies may start to form as retail boardrooms consider the impact of the metaverse.

More brands will likely embrace the direct-to-consumer (DTC) model which will place increasing pressure on retailers to present a more compelling and unique proposition to retain market share. DTC also provides brands with a direct link to consumers where imparting their values will play an increasing role in building more meaningful relationships.

Lastly, protecting profitability will remain another key factor in surviving the disruption, especially for businesses suffering from high online returns volumes and restrictive supply chain issues.

Overall, 2022 will be fraught with similar challenges and opportunities to 2020/21, but successful retailers will be more proactive now, having benefitted from past experience and explored new ways of operating for increased resilience.

Business models must be flexible enough to react swiftly to threats and opportunities in order to maximise chances of success

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