

Survive and thrive

How the UK's retailers are
adapting to the 'new normal'

 **BARCLAYS**



Flying in the face of adversity

Faced with unprecedented challenges and extensive disruption to their business models, retailers are responding with confidence – and innovating to seize the opportunities offered by new revenue streams.

Last year witnessed one of the toughest periods of trading in recent memory for the UK's retail sector.

Beset by the uncertainty surrounding Brexit, 2019 saw the slowest rate of growth since 2010¹. The knock-on impacts for many retailers were job cuts and store closures, while we also saw a handful of high-profile firms tip into administration.

And yet, 2020 has uncovered challenges that far outweigh those of 2019; challenges that few people would have thought possible. The lockdown enforced to contain the spread of Covid-19 forced all 'non-essential' physical stores to close, with only the likes of supermarkets and chemists permitted to remain open. These developments put the industry under unprecedented pressure.

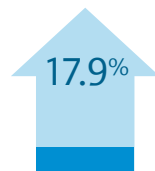
Signs of growth

More recently, however, there has been cause for optimism. Retail sales have returned to growth after most stores re-opened, with the Barclaycard consumer spending index² showing a 17.9% year-on-year increase in retail expenditure in July 2020, following 15.5% year-on-year growth in June. Within this upwards trend, DIY and home improvement stores have been one of the

biggest beneficiaries (31.3% year-on-year growth in June, following a 3.2% contraction in May). Meanwhile, digital sales have soared since lockdown began, and £3 out of every £10 is now spent online³.

Against this backdrop, Barclays Corporate Banking wanted to understand how retailers were adapting to the changing climate – the 'new normal' as it has been called.

We surveyed 300 senior managers (or above) from across the industry⁴, working in firms with between 10 and 500+ employees. This panel gave us a great cross-section of responses, and the views of retail leaders in fashion, food and drink, health and beauty, sports, electronics, home improvement/DIY and entertainment were all represented – as well as senior personnel from department stores, supermarkets and online marketplaces. The research took place between 14 July and 20 July 2020.



The **year-on-year increase in retail expenditure** in July 2020, according to the Barclaycard consumer spending index

£3 out of every £10

is now spent online³, showing that digital sales have soared since lockdown began



The results are encouraging. Rather than revealing a picture of doom and gloom – which, in many ways, would be understandable given the scale of the challenges facing the industry – our research found evidence to the contrary. Retail leaders are confident about the prospects of the companies they work for – not only in the longer term, but also across the next few months.

Retailers are also using the current situation to innovate and refresh their business operations. Many have used lockdown as an opportunity to open up new digital revenue streams, while others are seeking to extend the 'community spirit' that brought the country together through more localised supply chains and improved ESG policies.

One thing is for sure – this is an industry that doesn't stand still. Even in these most extraordinary times, the sector will evolve not only to survive but also to thrive.

The expert view

Buoyed by greater ‘intent to purchase’ on the high street and a rise in online activity, Karen Johnson, Head of Retail and Wholesale, Barclays Corporate Banking, says retailers remain optimistic with good reason.

I don’t remember a time in retail quite like this. I’m not sure anyone does. It was inconceivable at the start of the year that nearly every high street store would close for three months, but it happened.

And as retailers adjust to a post-lockdown period, one in which many people are still concerned about contracting Covid-19 and have less disposable income, there is a general acceptance that the landscape has changed inexorably. Businesses are past the preservation phase and are now thinking about longer-term trends and how they can compete in the ‘new normal’.

How have retailers adapted?

Our new research sought to understand how senior executives in the industry are feeling, and what updates to their business models they are making.

Confidence is holding up well as retailers adjust to the new landscape, and I sense that in many conversations I have with business leaders. We’re also seeing it in sentiment coming through from publicly listed organisations. For example, Next – in a trading update on 29 July – stated: ‘as we learn to operate in a socially distanced world, we are beginning to better understand both consumer demand and how the company’s finances will be affected’⁵.





+400 

John Lewis recently announced a vast extension of its click-and-collect partnership with Co-op to include **400 new stores**, taking the overall number to nearly 900 locations.

Similarly, Victoria PLC – a producer and distributor of designer flooring products – posted strong results⁶, in keeping with the wider home improvement category, and attributed its strong trading to high numbers of consumers renovating their homes.

One advantageous factor for retailers is that when consumers are going out to shop, they are increasingly doing so with the intent to purchase rather than to browse. Retailers are seeing average basket sizes increase as a result.

However, it's a tough job to keep conversions high when financial belts are tightening, and retailers need to make their customer experiences and journeys as smooth as possible.

That's where technology comes in – an area through which businesses can gain a competitive edge.

New models for growth

Retailers that have invested heavily in their e-commerce platforms have managed to trade well throughout lockdown. This includes Hotel Chocolat, which said in a recent trading update that digital sales accelerated more than 200% year on year in the three months to the end of June, and that it is creating 200 jobs in response to surging online demand⁷. Similarly, Kingfisher announced that its second quarter sales were up 21.8% due to strong e-commerce growth⁸.

A key trend that has emerged is a shift to a more localised retail model. In large part, this is in response to a sharp increase in more people working from home – a trend that was illustrated when the CEO of UBS suggested that up to one-third of its workforce may never return to the office⁹. Local high streets, rather than those in big cities, perform better in that scenario.

IWC confirmed this trend and said that all of the new franchise agreements it is signing are in the provinces and the suburbs¹⁰.

As a result, many retailers are looking at how they can grow their community footprints. For example, John Lewis recently announced a vast extension of its click-and-collect partnership with Co-op, to include 400 new stores – taking the overall number to nearly 900 locations.

Greater utilisation of local stores may be complemented by an increase in local suppliers, according to our research. This will unfold as businesses not only battle to rebuild disrupted supply chains, but also aim to improve their environmental credentials.

Retail was facing significant structural change as we came into 2020, and the pandemic has only served to accelerate this trend. In fact, in the past three months we have seen more change than we'd typically expect to see in a three to five year period.

Whilst this rate of adjustment is a daunting prospect for the whole industry, if the results of our research tell me anything it's that retailers in the UK are determined to meet these challenges head on.



Karen Johnson

Head of Retail and Wholesale,
Barclays Corporate Banking

Open for business – and open to change

Our research reveals that UK retailers are not just ‘sitting tight’ in the current climate, but are adapting their models. Growth is being fuelled by greater adoption of technology and more localised operations.

Barclays Corporate Banking’s new research reveals some notable trends across the sector. Despite unforeseen and unparalleled challenges, retail leaders remain broadly upbeat about their businesses’ prospects. Meanwhile, companies are also reinventing their business models – both through the technology they use and the relationships they have with local communities and suppliers – to survive and thrive in the ‘new normal’.

Sector confidence

We asked respondents how confident they were about their businesses’ growth across different timeframes.

When asked about growth in the next three months, an encouraging 60% said they were confident (this is the combined total of respondents who answered either ‘very confident’ or ‘somewhat confident’). The category of retailer demonstrating the strongest air of confidence in the short-term is home improvement/DIY, with 80% of the respondents in this vertical believing their business will grow in the next three months.

“When asked about growth in the next three months, an encouraging 60% said they were confident.”





Retail leaders are confident they will see **business growth** over the coming period:



Health and beauty retailers (72%) – a category in which the ‘health’ component has been more in demand than the ‘beauty’ component during lockdown – were the next most confident about their prospects across the next three months, followed by food and drink retailers (68%).

As time progresses, retailer confidence grows:

- When asked about four to six months’ time, 80% of our respondents were confident
- When asked about seven to nine months’ time, the combined confidence score rises to 93%
- When asked about ten to 12 months’ time, confidence rises to 94%.

Of particular note when looking at confidence across the different timeframes, are the views of senior managers in large (500+ employee) retail businesses. While this group has below-average confidence at three months (46%) and six months (50%), they then exceed the average at nine months (94%) and 12 months (98%). To emphasise this point, it is supermarkets – at 97% – that have the highest combined confidence score of any retail category for 12 months’ time.

An accelerated technological revolution

One of the key developments for consumers during the pandemic has been the shift to online shopping. In turn, this is impacting retailers’ use of technology both online and in-store – so much so, in fact, that one in four senior managers (26%) believes the coronavirus has accelerated a ‘technological revolution’ in the sector.

E-commerce has been an area of growth, not only for retailer revenue but also in terms of headcount. Among our respondents, 15% of businesses had taken on additional staff to cater for a surge in online trading, with an average of 11 new positions created at each company recruiting for this need.

These new team members are being put to good use, as our research reveals the measures that retailers are putting in place to sell more through digital channels.

The UK is the world's third-largest market for e-commerce, and our research shows that a substantial number of retail businesses have invested even further in technology to maximise their offering. For example, a third of respondents (33%) told us their business had made upgrades to its website – with larger firms of 500+ staff (38%), department stores (40%) and fashion retailers (39%) most likely to have done this.

Meanwhile, around one in three retailers, 32% of those we surveyed, said they have also started to accept a broader range of payment methods to maximise income. Against this metric, it's entertainment retailers (38%) that are most likely to have made changes. Upgrades here could include everything from accepting mobile wallets – such as Apple Pay and Google Pay – for the first time, to accommodating new consumer finance options and rolling out biometric payment technology.

“Around one in three retailers said they have started to accept a broader range of payment methods – to maximise income.”

New tech opportunities

Harnessing the power of data analytics is an increasingly effective approach for retailers to understand their customers, and one in four retailers (26%) has embraced this technology for the first time since lockdown began. Electronics retailers (39%) lead the way in taking this step.

More generally, around three in ten retail businesses (29%) have invested in new technology to accommodate more sales through digital channels, with smaller retailers (40%) – those with between 10 and 49 team members – most likely to have done so.

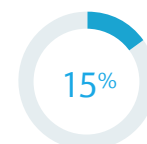
Other technological developments in retail include:

- 26% of businesses selling more through social media channels, with fashion retailers (37%) in first place for this development
- 26% rolling out more personalised customer offers, with home improvement / DIY retailers (33%) the category of retailer most likely to have implemented this change
- 24% offering 'click and collect' for the first time; again, it's home improvement/DIY retailers (40%) that are in top spot for making this adjustment.

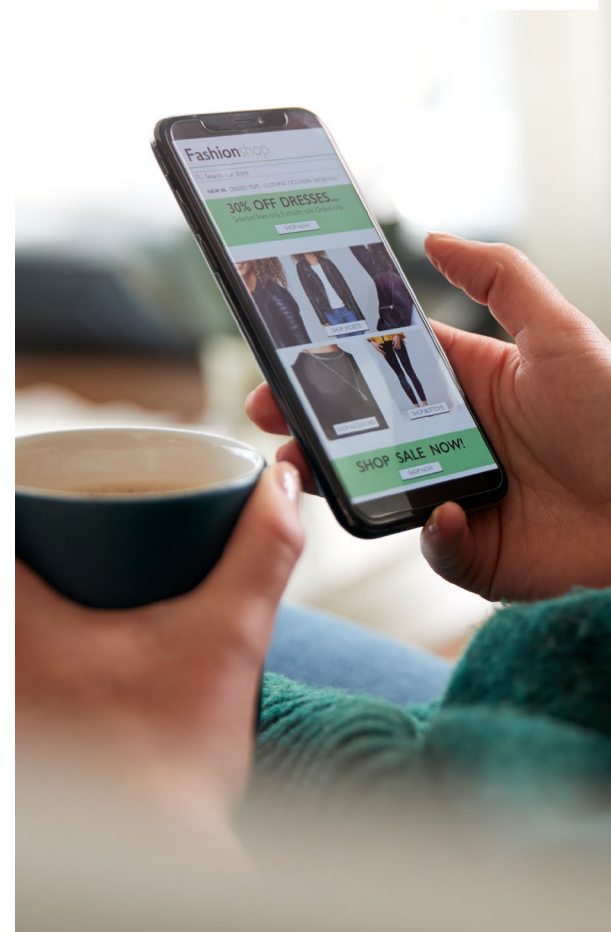
These figures represent a notable shift within an industry that was already using sophisticated technology and approaches to secure digital sales.

With homeworking set to continue for many people – in parallel with concern about public transport and busy shopping areas – our research with senior retail executives shows a move towards more localised business operations.

Retailers are upping their online capacity



15% of businesses have taken on **more staff** to accommodate the surge in online retail



For example, one in seven (15%) retail businesses plan to reduce the number of physical stores they have in urban areas close to office buildings within the next year. Health and beauty retailers (28%), supermarkets (19%) and food and drink retailers (18%) are most likely to do so in the next 12 months.

We could also see the number of urban outlets fall further in the longer term, with one in five of respondents (20%) telling us they see the future of the physical retail industry on local high streets rather than in city centres.

Supply chain shift

Beyond store locations, supply chains also look set to become more localised as a result of the pandemic. Just under two-fifths (39%) of our research respondents told us that they'd experienced supply chain disruption during lockdown, and more than a quarter (27%) are looking to move to suppliers based closer by as a result, with the number rising to 38% for larger, 500+ employee businesses.

Across the different categories of retailer, it's home improvement/DIY (53%), sports (33%) and entertainment (28%) businesses that are looking to localise their supply chains.

The environmental benefits that come with having suppliers in closer proximity are appealing to retailers that are looking to cut their carbon footprint. Of the senior managers we spoke to, 23% said carbon reductions are a key reason for moving to local suppliers, and the same amount agreed that they will now only work with suppliers that have strong 'green' credentials.

Retailers expect a shift towards 'localised' retail:



believe retail businesses will start doing more to support local communities



believe the future of retail will be on local high streets rather than in big cities



are planning to reduce their physical stores in urban areas close to office buildings



A pivotal business

How Central England Co-operative has cemented its community credentials and embraced new technology in the ‘new normal’.

Central England Co-operative is one of the largest independent retailers in the UK, encompassing around 400 trading outlets across 16 counties, 8,600 colleagues and 330,000 members and customers.

More than 250 of its outlets are local stores that specialise in food, drink and other essentials, a category that has been in high demand among consumers seeking to avoid large crowds.

The return of the weekly shop?

“In the days just before lockdown when people were panic buying, footfall in our stores was up massively,” says Debbie Robinson, Chief Executive, Central England Co-operative. “In the months since, footfall has reduced but average basket spend has increased. People are finding that they can avoid visiting shops too frequently, and that their local Co-op is safe and well-stocked with a broad range of quality produce.”

“Local retail has provided a lifeline to communities during the Covid-19 pandemic.”

Debbie and her colleagues at Central England Co-operative have had to be resourceful to continue that customer offering during the pandemic.

Local supply solutions

“Like many other retail businesses we experienced disruption to our supply chain, particularly early on,” she explains. “But local food and drink suppliers had the opposite problem – lots of their customers were in the hospitality and leisure sector and could no longer buy from them. We were able to solve our supply challenges and their demand challenges in one go.

“We worked closely with farmers from Shropshire and Staffordshire to procure additional eggs, while a local, quality butcher, which had previously been selling its meat to food service operators, was able to cater to our increased requirements. Another nearby supplier, TransLink Express Logistics in Leicester, was brought in to create and manage emergency warehouse space when demand was at its highest.

“Working with local suppliers will be a bigger part of retail’s future,” Debbie explains. “Not only does it help cut our carbon footprint, but it also shows commitment to communities, which is a huge part of who we are as a business.”



Community focus

At a time of national emergency, support for communities, key workers and vulnerable people has been highly valued by consumers. Putting colleague, member and customer safety first is always at the forefront of Central England Co-operative's thinking. During lockdown, this involved offering priority access to NHS staff all day, every day, and working closely with charity partner, FareShare, to reach even more communities in need.

The most significant development has been the introduction of a new initiative named Call & Collect, primarily for those with limited access to and knowledge of technology. Members were able to phone Central England Co-operative and give them their shopping list over the phone, and collection or delivery was then arranged at their convenience. Central England Co-operative colleagues have been going the extra mile and many have been delivering groceries to local, vulnerable people in their spare time, free of charge.

The company's innovative approach to life during the pandemic has not stopped there, with Central England Co-operative keen to keep refreshing its offering.

"Local retail has undoubtedly provided a lifeline to communities during the Covid-19 pandemic," says Debbie Robinson. "Many people have discovered the quality and great choice that local shops have to offer, in convenient, safe surroundings. However, we must continue to work with local suppliers and big brands alike to bring product innovation and interest to customers and members who are shopping locally."

One of the ways that Central England Co-operative aims to do this is through the application of new technology.

Trials are underway to launch a more formalised home delivery service and 'click and collect' capabilities via the website. The group is also currently working with Ubamarket on implementing a new solution that will give customers the ability to scan and pay for their purchases in store.

Business intelligence

Central England Co-operative has also found new ways to harness the power of data analytics, expanding its data team by three people since lockdown began.

"We've always understood the benefits that data can have for our business," explains Debbie Robinson. "But we've taken our capabilities to a whole new level recently. In doing so, we are now able to combine our local knowledge of members and customers, and cross correlate that with data analytics. In practical terms, this means we'll be ensuring that we've got the right products, in the right place, at the right time, and we will be able to communicate this via social media.

"We've made great progress as a team, especially our colleagues on the frontline. They've played a vital role in the national effort to support communities throughout a global pandemic, and it has been an honour to work alongside them."

"Working with local suppliers will be a bigger part of retail's future. Not only does it help cut our carbon footprint, but it also shows commitment to communities."



Strategies for success

Confronted with unprecedented circumstances, retailers are innovating to protect the present and flourish in the future. To help, here are five recommendations from Barclays Corporate Banking on how to survive and thrive in the ‘new normal’.



Embrace data and technology

Use data analytics to build a better understanding of your customers – their demographics, geographies and preferences. By truly knowing who is buying from you, you can offer more personalised products and price promotions. Tailored packages are more likely to convert to sales and lead to customer loyalty and retention in the longer term. Also invest in your e-commerce offering and digital channels to be part of the surge in online sales.



Get involved in the local community

Don't just tell customers you support local communities, show them. Get staff to talk with and listen to people that come into different stores and understand how concerns differ from one community to another. Then act on this knowledge by making a positive contribution in areas that matter, such as schools, charities and helping vulnerable people.



Prepare for the next stage of Brexit

Despite everything else that has been going on in the world, Brexit has not gone away and trade deals still need to be agreed between the UK and the EU by 31 December 2020. Ensure you are up to speed on the latest policy announcements and understand what different outcomes will mean for your business.



Promote your values

Ensure customers know the ‘values’ of your business – what you stand for – particularly when it comes to issues such as sustainability, diversity, governance and the community. These areas are an increasingly important part of consumers’ purchasing considerations.



Review your supply chain

Now is the time to take stock of any disruption you experienced in recent months and evaluate why it happened, to ensure supply chain resilience in the future. Double down on cashflow and working capital requirements by ensuring payment terms with suppliers and other stakeholders are flexible. Also consider working with third parties to audit suppliers to ensure they meet governance criteria.

Sources

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- ² home.barclaycard/media-centre/press-releases/July-sees-continued-improvement-in-consumer-spending.html
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To find out more about how Barclays can support your business, please email [Karen Johnson](mailto:karen.johnson@barclays.com), Head of Retail and Wholesale, Barclays Corporate Banking, or connect with her on [LinkedIn](#).

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