Retail agility report 2023

LESS PERMACRISIS MORE A PERMACHALLENGE

For what comes next

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Introduction

Unlocking Retail Resilience : People, Product and Supply Chain

Retailers have been facing pressures on all sides with customers experiencing a decrease in confidence and spending power due to the continuing cost of living crisis. "Permacrisis" has been the term routinely used to sum up the instability and insecurity we are experiencing as a result of lurching from one unprecedented event to another, the war in Ukraine, Covid-19, Brexit and, of course, climate change. Despite these challenges, retailers have remained resilient, constantly evolving to meet the changing needs of their customers.

This resilience has been vital in keeping the economic outlook from becoming as bleak as some predicted. In fact, the majority of retailers (70%) experienced a strong Golden Quarter in 2022, and around half do not anticipate sales to decrease this year.

We spoke to the UK's top 100 retailers about how they are securing profit margins in the short term and building resilience for the future on three fronts:

People – investing in workforces to improve retention and improve customer service

Products – re-engineering products and refining pricing strategies to improve efficiency and preserve brand loyalty

Supply chain – reconfiguring logistics and embracing digital technologies to cut costs, enhance reputation and find pathways to sustainable growth

There are many strategies retailers can introduce to increase sales, optimise costs and build resilience into their business but they are all focused, in different ways, on driving efficiency in their business as consumers will have less to spend, and price must be kept low.

The research provides valuable insights for retailers looking to navigate the "Permachallenge" and should instil confidence that those challenges can be overcome with a dynamic approach to business.

If you would like more information please contact us on the below.

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People

Retailers are investing in their workforces to win the war for talent and ignite growth

Whether you called it the 'Great Resignation', the 'Great Reshuffle' or the 'Big Quit', there is no doubt that the mass exodus of record numbers of people from their jobs in 2021 was a consequence of the Covid-19 pandemic. The hiatus in 'business-as-usual' gave workers a chance to reassess their priorities, take stock of their careers and express their dissatisfaction with wage stagnation, stressful working environments, limited opportunities for advancement and poor benefit packages.

Despite the surge in food and energy prices that followed Russia's invasion of Ukraine in Spring 2022, the trend continued for much of the year, forcing employers to re-evaluate the way they attract and retain top talent.

Almost half of retailers expect retention rates to improve in 2023, suggesting that fewer people are willing to take the risk of job-hopping or quitting during a time of economic uncertainty. However, 70% of grocery retailers, 62% of fashion retailers and 60% of home retailers plan to make workforce investment a priority this year.

LABOUR

Sourcing labour remains a significant challenge for many major retailers, with 54% struggling to attract the skilled workers they need. In a recent statement from Simon Wolfson, the chief executive of the clothing and homeware retailer Next, he urged the government to make it easier for foreign workers to come to the UK, whereby one possibility might be to incentivise employers businesses to hire locally by for example making sure firms pay a 10% tax to the government on salaries of foreign hired labour, but in cases where local labour is genuinely not available, employers can take on foreign labour and pay the premium. He has received widespread support from retailers, with 74% agreeing this would ease chronic labour shortages. Retailers should work closely with the government and recruitment agencies to address this issue and find innovative ways to attract talent.

Are you finding it hard to source labour?

Grocery	Fashion	Home	Lifestyle
60%	59%	50%	50%

"Investing in people is key to surviving these challenging times and retailers should seize this opportunity to revisit and refresh their employee value propositions. Beyond competitive pay and benefits, it's about offering opportunities to learn and progress, and flexible ways of working that promote a healthy work-life balance."

Liz Cotton, Partner

WAGES

Private sector pay grew by 7.4% in the final quarter of 2022, the largest growth rate ever seen outside of the height of the Covid-19 pandemic period. But after a year in which UK inflation hit a 40-year high, salaries remain a concern for retailers, with 53% expecting them to rise in 2023. Retailers need to consider the impact of wages on their bottom line and find a balance between paying their employees fairly and remaining profitable.

Liz Cotton comments

Liz Cotton, Employment Partner at TLT says “Investing in people is key to surviving these challenging times and retailers should seize this opportunity to revisit and refresh their employee value propositions. Beyond competitive pay and benefits, it’s about offering opportunities to learn and progress, and flexible ways of working that promote a healthy work-life balance. Retailers must stay informed of the latest trends and regulations related to workforce management and work closely with legal and regulatory experts to ensure compliance. By doing so, they can retain top talent and create a positive work environment that delivers exceptional customer service.”

Product

Retailers are reconfiguring their products and pricing strategies to cut costs and build loyalty

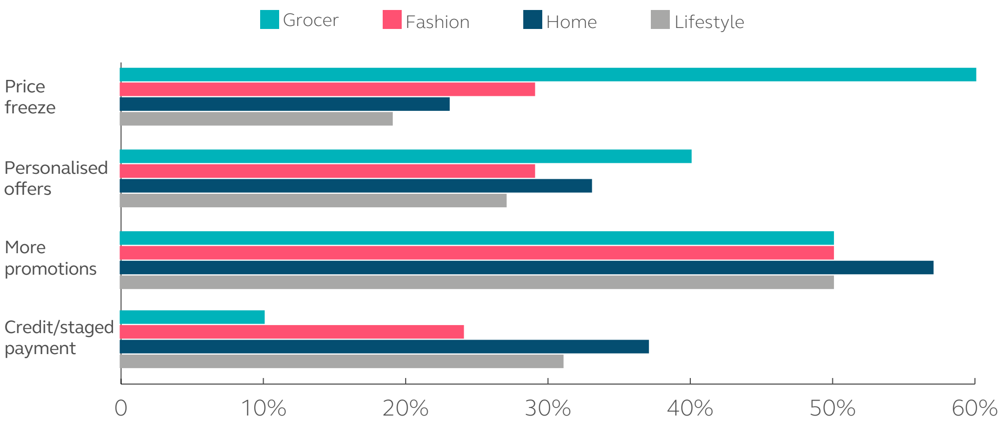
PRICING STRATEGIES

Retailers are also adjusting their pricing strategies to claw back market share at a time when brand loyalty is low.

Freezing prices is the go-to strategy for grocers, with 60% using this method to drive traffic and resonate with consumers feeling the pinch. Half of retailers (including 57% of home brands) are running more promotions, our research shows. Retailers in home and lifestyle markets are the most likely to use delayed or staged payment options to establish relationships with consumers who might otherwise put off purchases.

Personalised promotions is another growing trend, especially in the grocery sector where 40% of retailers are leveraging digital loyalty scheme data to engage consumers through individualised offers, rewards and product recommendations based on previous buying habits. Over a quarter of fashion, home and life brands are doing the same, reflecting increasing expectations from consumers for personalised experiences.

Which of the following will help your consumers with finances?



Dynamic pricing is also common, using algorithms and data analysis to adjust prices in real-time in response to changing supply and demand. However, with the increased complexity comes increased risk – potential confusion and dissatisfaction among customers, and a potential price war with competitors.

Online retailers need to be aware of the new Digital Markets, Competition and Consumers (DMCC) Bill, published in April 2023, which aims to encourage the growth of the UK digital economy by promoting fair competition. It aims to give more powers to the Competition and Market Authority (CMA) to combat unjust practices, such as fake reviews, subscription traps, and pressure selling.

The proposed legislation would allow the CMA to determine when consumer law has been violated, without having to resort to court proceedings, and to impose fines on companies amounting to as much as 10% of their worldwide revenue. The Bill also outlines increased authority for the CMA to promptly detect and halt unlawful anticompetitive behaviour, as well as updated merger and fine thresholds, which would facilitate the body's ability to address mergers that harm UK businesses and consumers.

Duncan Reed comments

Duncan Reed, regulatory partner at TLT comments: "With the DMCC Bill's proposed updates to the CMA's powers, retailers will need to be even more cautious about how they implement pricing strategies to ensure they comply with fair competition and consumer regulations. It is critical that retailers stay informed about the latest changes and to adapt their pricing strategies accordingly to ensure they are complying with the law whilst also remaining competitive."

Supplier chain

Retailers are bringing supply chains closer to home and pooling resources to reduce risk

Driver shortages exacerbated by Brexit, fuel price inflation as a result of the War in Ukraine together with lessons learnt from the COVID-19 pandemic highlighted the importance of supply chain efficiency for retailers, with disruptions in logistics and manufacturing causing significant obstacles to trade.

The research shows that the majority of retailers (69%) will be investing in supply chain efficiency over other parts of their business to improve their operations and resilience. This investment is ahead of other business critical areas which include consumer facing technology, product innovation and brand development. Additionally, 65% of retailers are considering sharing logistics or deliveries with other businesses, which not only makes commercial sense but also supports environmental goals by reducing overall carbon emissions in the journeys made and resources used.

65%

would consider sharing logistics/ deliveries resources with another business to reduce costs

28%

would consider sharing store space

60%

would consider sharing warehouse space

65%

would consider sharing people in order to reduce cost

Warehouse space is a significant area where retailers can share resources to reduce costs and increase efficiency. 60% of retailers have indicated they would consider sharing warehouse space but there are issues to be managed in agreeing the terms, such as:

1. Identifying the right partner with aligned values to avoid brand damage;
2. Dealing with insurance and risk in the products stored;
3. Dealing with inventory management technology and the interface of the various systems used and the warehouse management systems (WMS) that has been adopted at the site;
4. Allocation of cost with regard to (a) specific product handling requirements (b) how a product is stored and separated between users. (c) How the cost of the space is shared. (d) How the cost of warehouse personnel is shared. (e) Allocation of capital expenditure when looking automation or site improvements etc. and
5. Providing a fair apportionment of risk on exit from the site.

Retailers need to have a clear agreement in place with the other businesses, outlining each party's responsibilities.

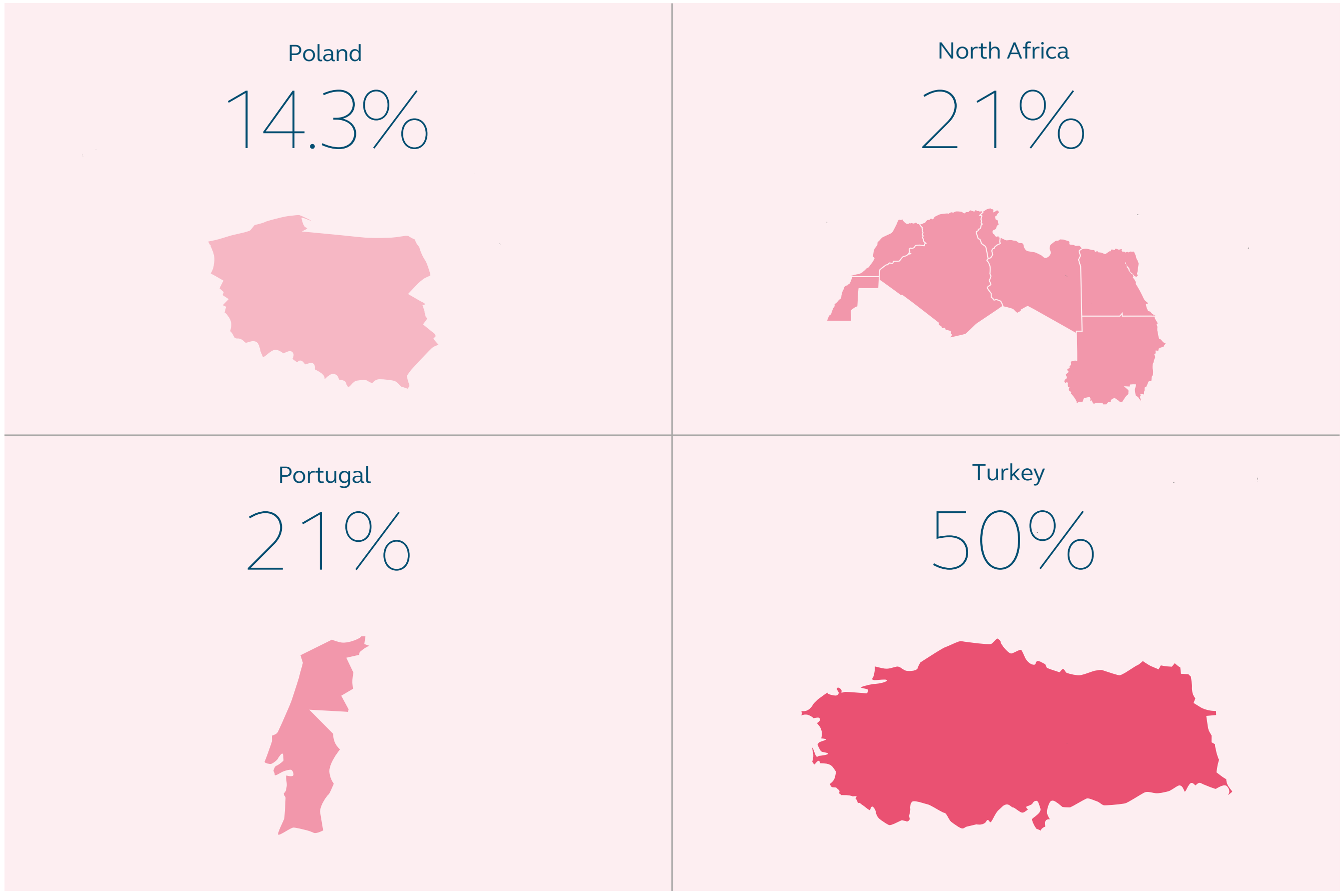
SHORTENING THE SUPPLY CHAIN

Global disruption has highlighted the importance of having resilient but agile supply chains. Meanwhile, customers increasingly expect goods to be readily available and delivered quickly, so reducing supplier lead times is a critical area for every retailer. Our research shows that 57% of retailers are trying to reduce lead times for new orders, for example by improving communication with suppliers to gain more accurate and frequent forecasting, helping to reduce waste and bring forward delivery times.

Moving supply chains closer to home is an increasingly attractive option, as retailers seek to reduce transit times and transportation costs, improve quality control and lessen their carbon footprints. Often this is being done along geopolitical faultlines, with greater cultural and political alignment regarded as another way to mitigate risk.

Half of retailers are near-shoring in Turkey, followed by North Africa and Portugal (21% each) and then Poland (14.3%). Turkey ranks high due to its location, demographics, quality of the labour force, and a large domestic market. Near-shoring can reduce lead times, transportation costs and improve quality control as well as improving a retailer's carbon footprint which makes it an attractive option.

However, on top of the additional cost that comes with a potentially more expensive manufacturing base, managing multiple suppliers with different countries of origin can be costly, and loses the financial benefit that comes with exclusivity all of which drive price up. In addition, there are the risks that apply to any overseas supplier such as political instability, trade disputes, and currency fluctuations.



Perran Jervis comments

Dealing with all of these potential additional costs, in the context of a hardening market will mean that efficiency throughout the supply chain is even more critical than ever.

“Sharing resources, reducing lead times and near-shoring are all strategies that can help retailers reduce costs, improve efficiency and increase agility. Retailers need to have a clear understanding of the potential risks and benefits of each strategy and have contingency plans in place to mitigate any potential disruptions.

TECHNOLOGY IN THE CHAIN

Retailers’ biggest technology investment is in customer service (58%), with over half of retailers planning to invest in consumer-facing technology.

Implementing artificial intelligence (AI) is a clear focus for retailers, helping them to automate tasks, improve customer service and optimise operations. Investing in customer service technology is crucial for retailers who want to stay competitive in 2023. AI-powered chatbots, for instance, can provide 24/7 customer support, improve response time and reduce the workload of customer service representatives.

Additionally, retailers can use AI to predict customer behaviour, recommend products and personalise promotions, further improving customer service and drive sales.

Viewpoint

Richard Lim, CEO of Retail Economics

The macroeconomic landscape has seen significant shifts and challenges in recent times. It was only at the end of last year that financial markets were in near turmoil, consumer confidence had hit record lows and the Bank of England was expecting a deep and protracted recession - lasting for over two years. However, recession was averted with consumer spending, in particular, holding up better than many had expected. The fallout from the Russian-Ukrainian conflict remained largely contained and global energy prices fell back sharply. While the situation has improved compared to the bleak outlook at the end of the previous year, it is not without difficulties.

One crucial aspect is that the sharp rise in interest rates has expanded the impact of the cost-of-living crisis, capturing a wider array of affluence groups as housing affordability is put to the test. Recessionary behaviours have been adopted by many consumers - cutting back, trading down and cancelling some purchases all together – which increasingly include middle income households. Elevated levels of savings amassed during the pandemic are beginning to dwindle leaving a squeezed middle and a polarised spending landscape.

From a retailer perspective, extraordinary levels of government stimulus and coordinated policy response throughout the pandemic helped many businesses restructure debt profiles and shore-up their balance sheets. However, these measures quickly unravelled against a backdrop of softer consumer demand, rising operating costs and seismic shifts in consumer behaviour. Heading into the second half of 2023 and beyond, the biggest challenge facing the industry is how to protect profit margins while continuing to invest in a proposition that can meet the heightened expectations of omnichannel shoppers.

In conclusion, we must acknowledge the progress we have made in overcoming the challenges of the past year. However, we cannot ignore the remaining pain from the cost-of-living crisis, the impact of rising interest rates, and the need to navigate profitability pressures. The retailers that approach these issues with resilience, adaptability and a clear understanding of the evolving dynamics of the market will move from surviving to thriving.

Conclusion

“Change itself is not a crisis; it can often be a key driver of innovation and creativity. Much has been written about the permacrisis, but a ‘perma-challenge’ more accurately reflects the current context for retailers. Response to these challenges will determine success and those who create increased efficiency and marginal gains will rise to the top.”

Perran Jervis, Partner, Head of Retail and Consumer Goods, TLT

Despite the more optimistic economic outlook for 2023, retailers are likely to suffer the hangovers of Brexit and the pandemic for some time to come, exacerbated by the ongoing war in Europe and the existential threat of climate change. However, if we have learned anything from the pandemic, it is that retailers – like all of us in society – are capable of pivoting to new ‘normals’ in a crisis and there are opportunities for those prepared to invest in innovation when the going gets tough.

About TLT

TLT advises many of the UK's leading retailers and consumer goods businesses. Our clients represent over 15,000 stores, one million employees and £100 billion of retail sales.

Our national retail team has an in-depth understanding of the industry, offering advice in context and solutions that work. We provide strategic advice on major projects, as well as support for in-house teams on day-to-day matters.

We are ranked among the very best law firms in Chambers UK 2023 for Retail (UK-wide), an independent guide to the legal profession. We also support retailers through our retail-specific training programme, seminars, e-alerts, industry reports, risk reports and are actively involved in retail industry groups.

To find out more visit tlt.com/retail

RESEARCH METHODOLOGY

To gain a sector and category view of the retail sector, independent research was conducted by GlobalData on behalf of TLT LLP.

GlobalData interviewed 100 leading UK retailers in December 2022. In all cases, interviews were carried out with senior management. The sample was representative of sectors within the retail space including: food and grocery; fashion and beauty; home sectors; and lifestyle and leisure.

All charts, data and statistics featured in this report are the product of the research.

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