OUTLOOK FOR 2021

- UK retailers should prepare for a brighter outlook for the second half of 2021, with sales growth expected between flat and +3% for the year
- The competition with the hospitality and leisure sector for pent-up spend will be fierce as restrictions are eased
- Shifts in consumer behaviour likely to impact the grocery sector permanently
- Urgent reform of the business rates system, rental levels and a future vision is required in order to support the high street

The UK retail sector should be able to look ahead to a brighter outlook in the second half of 2021, according to the KPMG/Ipsos Retail Think Tank (RTT).

Pent up savings and demand, a more confident consumer, and a successful vaccine rollout will all help to support the recovery of the retail sector. Much like 2020, however, fortunes will be mixed for different retail categories, because consumer behaviour (which changed rapidly due to COVID-19) will continue to evolve, as many people roll back some of their new behaviours whilst others become permanent.

The RTT, however, remains cautious in its optimism, warning retailers that there are still very tough times ahead, with the prospect of Tier Four restrictions keeping non-essential retail stores closed (except for click-and-collect operations) in large parts of the country well into Q1. This latest RTT white paper shares the Members' outlook for 2021, focusing on four areas that will have most impact on retail, namely the economy, regulations, consumer behaviour and technology – as well as providing a prediction of retail sector growth in 2021.

The economy

As the retail sector looks ahead to the coming 12-months, many hope that the most damaging effects of COVID-19 will be behind them come the Spring. But even with the mass rollout of a vaccine programme underway, the legacy of the pandemic and enduring restrictions are set to impact the economy well into 2021 and beyond.

RTT members stress that there are many 'moving pieces' that will impact the first half of the year. The Tier Four restrictions in England may remain in place deep into Q1 and be expanded well beyond London and the South East. Elsewhere in the UK, the constraints threaten to be at least as tough. Any tightening or geographical expansion of the curbs will add considerable extra pain onto the sector. The timing of the restrictions could not have come at a worse time for the sector and are a 'hammer blow' for the high street. The looming prospect of further restrictions remaining well into the New Year, beyond those already announced in Scotland, Wales and Northern Ireland, will severely limit and set back the retail sector's recovery in 2021.

So much now depends on the speed and efficiency of the vaccine rollout, given the rapid spread of the latest variant of the virus, which along with any disruption following the Brexit transition period, could add further pressure and demands onto the retail sector.

Ruth Gregory, senior economist UK economist, Capital Economics explains: *"The high street recovery will be boosted by vaccinations reaching the arms of people across the UK, but it is by no means the silver bullet many retailers have been hoping for at the start of 2021.The positive news and its impact on the economy will be dictated by the speed of the vaccine rollout."*

Unemployment levels will continue to rise well into 2021, especially as the Government's Job Retention scheme expires at the end of April - the unemployment rate is expected to peak in the summer at around 7%, far higher than the current rate of 4.9%, before falling back towards the end of the year. While this will work against retailers, there are positives in the amount of savings that have been amassed by individuals that have continued to work throughout 2020. As restrictions are eased, the RTT expects many to get out and spend, although this will probably be balanced by households looking to preserve a larger 'savings buffer'.

The government budget deficit and level of public debt are currently at a peacetime high. Whether the Treasury signals in the Budget on March 3rd that it will soon begin a period of fiscal belt-tightening, or if it will continue to nurse the economy back to health, will play an enormous role in determining the economic conditions that retailers will be trading in over the coming 12 months. The RTT expects Government support programmes to begin to taper after the middle of next year, but that the recalibration towards normality will not kick off in earnest until 2022.

Ruth Gregory adds: *"The size of the hit the economy has taken cannot be understated, but in the long term, the economy may not be smaller than it would have been had COVID-19 never existed. This means that the Government doesn't need to rush to reverse the spike in the public deficit and debt to GDP ratio triggered by the crisis. Instead, with the cost of borrowing so low, the Chancellor has time to let decent economic growth heal the public finances for him. A rush to tighten fiscal policy would not only cause the economic recovery to stall, but it could cause permanent economic scarring that would ultimately require a greater fiscal consolidation."*

In summary, the RTT believes that the tough economic background will mean that the retail sector can't expect to see any noticeable improvement in spending patterns much before the second half of 2021.

Regulations / costs

Part of the Government's 2020 support package for business included pausing business rate payments. But Jonathan De Mello, Equity Partner, CWM Retail Consulting, believes that while this will continue to help retailers at the start of 2021, major changes are required as payments are currently planned to resume in April: *"Business rates reform is urgently required if the high street is going to keep its recovery on track in 2021. The current system is not fit for purpose and has failed to keep up with the pace of change that retailers have been forced to adapt to over the last 20 years. Some retailers and landlords have worked together during this difficult time to be more open and transparent, and turnover-based rents are now becoming more commonplace. However, large numbers of rent payments are still not being made, and with the added pressure of business rates in April, the knock-on effect will not only be retailers failing, but also more landlords not being able to collect rent and therefore increasingly failing to keep up with their loan payments".*

The RTT points out that business rates are currently accounting for up to 50% of retailers' property costs before the holiday, well above those in other sectors.

The RTT argues that with the high street in such a fragile state, further support will be required in 2021, rather than increased regulation and taxes. The swathes of CVAs that were seen in 2020 won't end as we head into the New Year, further store closures will come and support from the Government should not be simply turned off just because consumers are able to shop on the high street again.

Nick Bubb, independent retail analyst, suggests: *"The question of how best to design a new system of taxation for a sector as diverse and fast moving as retail is one that requires urgent attention from the Government. There seems to be no appetite in the short term to further penalise retailers via new home delivery or green taxes, it's clear that inequality does exist within the current model - specifically in terms of purely online platforms which have been some of the biggest 'winners' of the pandemic. Perhaps one avenue to explore would be a re-worked business rates system which levies taxes on the distribution and warehousing space used by online retailers, helping to reduce the burden on the high street"*

RTT members also reflect on other regulatory challenges the sector will face in the New Year, such as the rollback of tax-free shopping for foreign visitors to the UK. The RTT warns that the tightening of VAT rules would be a further setback for retailers, especially in major metropolitan centres such as

London and Edinburgh which are popular with tourists and have already lost so much business in 2020. Luxury retailers are most at risk, as affluent foreign tourists, without the tax-free incentives to shop in the UK may be tempted to change their travel plans to other major European cities such as Paris or Milan.

Consumer behaviour

The seismic shift in how people have been able to shop in 2020 has forced retailers to fundamentally change the way they operate. In the long term, this has accelerated the need for retailers to adapt their operating models. While this transition will continue, in the shorter term the question on retailers' lips is to what extent consumers will revert back to pre-pandemic behaviours?

Martin Hayward, Founder Hayward Strategy and Futures, summarises the RTT's point of view: *"The changes we have seen to consumer behaviour in 2020 were sudden and dramatic, but I remain sceptical they will result in a permanent shift. There will, of course, be people that find they prefer the new lifestyle, but I expect the majority, in the end, to return to their pre-pandemic behaviour. When it's deemed safe to do so, there will be household bubbles bursting with savings to spend in the hospitality and leisure sectors, and some high streets and shopping centres will see a return to normal levels of footfall."*

When buoyancy returns to consumer confidence in both household finances and personal safety, the RTT expects there to be strong competition for shares in the pent-up spend and demand that has amassed throughout 2020. In the first half of 2021, this is not expected to return across all areas of the UK simultaneously, with the severity of restrictions likely to remain mixed across different regions and countries depending on the prevalence of the virus.

The leisure and hospitality sectors are expected to be front of mind for many people when they are free to mix with friends and family again, but as proven by the bustling high streets in early/mid-December, there is a big demand from consumers to enjoy the experience of physical shopping again. International travel and holidays abroad may take longer to recover their former share of the consumer wallet, with the travel sector not expected to really take off again until 2022.

As retailers were forced to halt trading in physical stores in spring 2020, it's clear that the surge in online shopping was driven by necessity rather than choice for many people. The RTT concedes that the huge swing towards online that saved much of the retail sector is here to stay, but compared to the highs of 2020, sales growth on digital channels in non-food will slow in 2021. Martin Newman, The Consumer Champion, summarises: "*Online will continue to grow but at much slower rates than in 2020. I anticipate that growth will be back in the area of 10% to 15% down from the giddy heights of over 100% for many brands this year. As a percentage of retail sales, I expect that online will account for around 28% of total retail by year end 2021."*

While RTT members believe that consumers in the non-food sector are more likely to start to revert back to pre-pandemic behaviour, the shift in the way people now shop for food is expected to be more permanent. Pre-pandemic, online channels accounted for 7.1% of sales, increasing dramatically in the first half of 2020 and peaking at 13.7% in June. The home delivery and click and collect services, after seeing such increased uptake for the grocers in 2020, are set to remain popular next year. Huge investment has been made in fulfilment centres and new technology to service this increase in demand, and shoppers have grown accustomed to the convenience of home delivery.

The seemingly unstoppable gains that the discount supermarkets have made in the last five years may have been tempered by the pandemic, but that will merely be seen as a road bump in the long run, as the discounters will be well and truly 'back on the front foot' and growing market share in 2021.

While matching the performance of 2020 is very unlikely, Mike Watkins, Head of Retailer and Business Insight, Nielsen UK, describes the coming year as looking bright for the food sector: *"With* *sales growth of 8% in 2020, food retailers have been the big winners of re-shaped consumer spending. We are expecting growth of between +2 to +4% next year, but that will be dictated by a number of factors including how much of the reduction in hospitality continues to shift to food retail which is still a big unknown. With trading restrictions looking likely to be in place well into Q1, this spend will continue to move into the grocers' tills - but restaurants and cafes will be front of the queue to benefit from an initial surge in demand as restrictions are loosened. However, over the course of the year supermarkets should expect to grow sales again - even against some high comparatives."*

Local and neighbourhood shopping is expected to become even more prevalent in 2021. The convenience of local shops and high streets will continue to be popular with and relevant to consumers, especially among those who still feel hesitant to travel into major city centres. Paul Martin, UK Head of Retail at KPMG, explains: *"The work from home revolution is here to stay and more and more of us believe the future of work will be hybrid. The home really has become the hub throughout 2020, and this will remain in place well into the New Year. This will only further boost local high streets, with independent and convenience retailers well positioned to take advantage of suburban and town regional centres throughout the working week."*

The RTT also advises retailers, that despite positive news on vaccines, and the fact that many are keen to see restrictions loosened following a mass rollout, large swathes of the population will still be nervous about their own and their family's safety.

Paul Martin continues: *"In order for the retail sector to really reap the rewards of busy high streets and shopping centres, the desire from consumers to get out and shop must be matched by their confidence in the safety to do so. Even with physical stores open, without the ability to touch and feel products and try on items of clothing, much of the pleasure and experience that comes from physical shopping will remain off limits. The wearing of masks and social distancing rules, regardless of how much they are relaxed, look set to remain in place for much of 2021 so retailers shouldn't be expecting a return to 'normal' next year."*

Technology and innovation

The longer-term direction of travel for the retail sector hasn't altered due to COVID-19, rather it has accelerated the need for business models to change to keep pace with improving technology and evolving consumer expectations.

Investment from retailers in new technology will continue to increase in 2021, and will pivot from store openings and refurbishments, to the back office and fulfilment centres. James Sawley, Head of Retail and Leisure, HSBC UK explains: *"The investment into much publicised technology such as delivery drones and instore robots to count products and assist customers is overplayed and I don't expect it to be required next year. Retailers should instead be seeking out technology that drives efficiency and improves margin, and I expect most to be looking at investment into AI and automation within their warehouses and supply chains – something that will be especially important if the end of the Brexit transition period reduces the availability of staff currently working in these parts of the business."*

The RTT stresses that many retailers will need to finally 'take the plunge' in 2021 to update and improve the back-office technology their HR, finance and marketing functions operate from. Cloud systems and big data have been prevalent in other industries for a number of years now, and the retail sector has been missing out on the benefits that come with them.

The RTT also agrees that retailers will need to work harder and invest more into technology that enables them to get closer to their customers, with the goal of better understanding their needs and desires in order to deliver far more personalised communications and services. Machine learning and turning big data into insight will be key to exploring new opportunities to service customers more effectively in 2021.

Dr Tim Denison, Director of Retail Intelligence at Ipsos Retail Performance, added that one area where online shopping is falling short is in its emotional connection with consumers*: "As the fight for* *the consumer's digital pound becomes more competitive, retailers will need to keep investing in their online platforms which have so far largely focussed on displaying products and delivering efficient transactional services. Investing in technology that makes the remote experience more personal, exciting, informative and exclusive will help deliver an emotional payback from online shopping that is often found wanting. I expect that to achieve this, we will see more retailers implement improved social commerce in 2021, along with social media platforms that work in harmony with their online channels."*

The competition for consumer spend will be fierce next year, and it's not just other retailers they will be battling with. Ensuring the sector is at its 'fighting weight' in terms of insight and efficiency through technological investments and innovation will be vital if retail is going to compete with other sectors and keep the recovery on track.

Summary

The retail sector will not shrink back further in 2021, but predictions from members on the level of growth were mixed, due to the economic, political and social uncertainties that currently exist as we head into 2021. The rate of growth could be anywhere from flat to +3% for the overall sector.

RTT members expect that the recovery and any real growth will take part in the second half of the year, driven by the non-food sector which should be well placed to bounce back as the vaccine rollout really gathers pace, non-essential retail is up and open again and consumer confidence starts to rise.

As we head into the summer, clothing and footwear will likely be the big winners as the positive effects of an effective vaccine rollout sees people attending weddings and parties again, spending more time in the office and starting to think about shopping for foreign holidays. Cosmetics, toiletries, jewellery and watches should all also have a positive performance, again however, this will largely take place in the second half of the year.

Those categories that most benefited from people spending more time at home in 2020, such as DIY, gardening, video games, alcohol and homewares will see their growth slow, but their online sales values should remain higher than 2019. Big ticket items are also expected to struggle, as the effects of higher unemployment rates impact on people's ability and confidence to spend.

Food is forecast to grow at a slower rate year-on-year against its bumper performance in 2020. As restrictions are set to stay in place during the first quarter of 2021, the grocers will continue to take sales away from the hospitality sector. Changes to consumer behaviour are expected to be semi-permanent, but unlike the non-food sector, the RTT doesn't expect shoppers to be wanting to spend more time in supermarkets in 2021. Instead, increased use of convenience stores, local shopping and home delivery look set to be legacies of the pandemic that will continue to shape the food sector next year.

There are still many factors that will determine the size and speed of the sector's recovery in 2021 that are out of retailers' hands - external influences in the form of Brexit post the transition period, the health of the economy, the duration of the closure of non-essential retail stores, social distancing restrictions and vaccines will all play a huge part in the fortunes of the sector. But the RTT is upbeat that through investment and innovation, retailers will put themselves in the best possible position to take advantage of improving market conditions in 2021, particularly in the second half of the year. Dr Tim Denison concludes: *"The pandemic has acted as a catalyst for change. 2021 will be one of the most innovative years the sector has ever seen. Standing still is not an option. Of that I have no doubt."*

Ends

PART II: In detail – individual views of the KPMG/Ipsos Retail Performance Think Tank members

Dr Tim Denison, Director of Retail Intelligence – Ipsos Retail Performance

2020 and 2021 will be seen in time to come as formative years in the making of the future of retailing. The pandemic of 2020 disrupted the status quo and became the instigator and accelerator of change in a sector that clearly needed to change both structurally and technologically. 2021 will bring further rapid and radical advances in many areas of retailing, just four of which are called out below. It is going to be a busy year!

Distribution is not generally regarded as the most exciting or fast-moving part of retailing. Over the coming year I expect that all to change. What was seen as a temporary, enforced shift to online non-essentials' shopping is unlikely to be fully reversed. Speedy fulfilment and home delivery have helped drive its popularity, but they come at a cost and need investment to become hugely more efficient. While automation and robotics have been technically available in logistics for a few years, it is only now that the scale of operation makes it more widely commercially viable. Expect picking robots and delivery drones therefore to see much more frontline action in 2021. Laggards run the risk of having to hold larger inventories in their logistics' networks in order to meet customer service requirements, which is both expensive and costly if it remains unsold. Brexit's trade agreements could make this situation even more perilous.

Expect also initiatives to take distribution into far more sustainable territory and carbon footprints to reduce. Without progress in this area the convenience of online shopping and home delivery will quickly lose appeal. More dark stores and local fulfilment centres will be part of the solution, but more will be needed.

Forging strategic business partnerships of various kinds will become mainstream. Alliances between retailers will serve mutual benefit, whether through shared distribution channels, shared sales space (in-store and online), or shared customers. Partnerships with specialist players outside of the sector will also prove essential if retailers are to realise their digital potential. Some have been teamed up with technology companies for a number of years now, and we should expect to see significant benefits emerge this year, particularly from data analytics.

While technology has provided good solutions for the transactional aspects of online shopping (displaying products and payment platforms), it has failed to deliver every day great experiences. The emotional payback from digital is still found wanting. Social media platforms and social commerce will help change all of that in the year ahead, making a remote experience more personal, exclusive, informative and exciting, as well as a one-stop shop. Instagram, Facebook, YouTube, TikTok and Twitch will all have big years and livestreaming will continue to gain traction, as 5G becomes more accessible.

While the talk about the year ahead may be dominated by online, the importance of physical stores should never be forgotten. Results from Ipsos' Global Trends Survey 2020 showed that friction with ecommerce has grown during the pandemic; the percentage of even Gen Z respondents finding online more difficult than shopping in traditional stores rose from 26% in 2019 to 37% in 2020. As likely as not, we will find many more brands take up residence in high street shops, to gain visibility and build up direct relationships with their consumers. DTC will continue to be a favoured growth strategy and route to market for them next year, particularly as prime sites become vacant and rents drop.

The pandemic has acted as a catalyst for change. 2021 will be one of the most innovative years the sector has ever seen. Standing still is not an option. Of that I have no doubt.

Paul Martin, UK Head of Retail – KPMG

2020 has been an unprecedented year in so many different ways.

The COVID19 19 pandemic has impacted retail like few other events before, including political crisis and world wars – accelerating the structural changes already evident over the last decade. It is also important to say though, that in addition to the acceleration of the existing trends, - new trends, especially those connected with changing consumer behaviours related directly to the pandemic, have resulted in significant implications on the sector.

Looking ahead, all eyes are now on 2021 and the big question, if and when will we go back to some type of "New Reality". Increasing optimism about a vaccine should make us feel hopeful about mass immunisation becoming a reality over the course of 2021, although it is unlikely to be immediate. In that context the retail sector should even brace itself for a potential 3rd lockdown in January following the relaxation of restrictions during the Christmas period with all the negative implications this will have for non-essential retail.

Overall though we believe the retail sector will continue to grow in 2021 benefitting from the on-going shift of discretionary spend from sectors like travel and hospitality. Making precise forecasts in what will no doubt be a fluid situation over the next 6 months will remain difficult, although 2-3% growth for the sector in 2021 is likely. Fortunes will vary heavily across different categories. In comparison to 2019, food, home & garden, home appliances and computing will continue to show impressive growth although against 2020 like for likes will see a decline after their impressive surge this year. The fashion sector is set for recovery in 2021 with women's, men's and childrenswear projected to lead the growth table although will likely still be behind 2019 value levels.

Over the course of 2020 KPMG's Global Consumer Behaviour Survey research showcased 4 key themes that were top of mind for consumers across 12 different countries from Australia, China, to various European countries, the US and Brazil.

- ***Personal safety*** – outlining how important it is for Consumers to feel safe when interacting in physical retail spaces. This will continue to have implications for footfall especially for large urban centres.
- ***The economic impact of Covid-19 on the individual*** – economic hardship will be more severely felt in many economies in 2021 especially if consumers are reluctant to spend and continue to bolster their personal savings were possible. Retail will benefit from reduced spending across other adjacent categories like travel and hospitality although if the equilibrium returns to pre-COVID19 levels, retail spend could also decline.
- ***Acceleration of online*** – the online channel will have grown by 50-80% over the last 12 months. Even if the penetration levels decline in some categories, the baseline established in 2020 is here to stay with further growth to be expected.
- ***The home is the new hub*** – even with workers returning to offices in 2021, a mixed home/office balance is likely in the future. This will have implications for many sectors and categories related to the home will continue to benefit even if not at the same levels of 2020.

These trends are expected to shape consumers behaviours for at least the first 6 months of 2021. After that I would not be surprised if they remain top of the list for at least 50% of consumers for the foreseeable future and some could stick forever.

Martin Hayward, Founder – Hayward Strategy and Futures

If, like me, you have tired of the unprecedented use of the word 'unprecedented' over the last nine months, you are probably also weary of the neologism 'The new normal'.

Today Waitrose released its annual food trends report and confidently stated:

"The 'new normal' that we all spoke about back in the spring isn't new anymore. It's just normal. Call it a pivot, a new dawn, or a fresh start, but one thing is clear: things will never be the same again" Waitrose & Partners Food and Drink Report 2021. JAMES BAILEY Executive Director

In many ways, the prospects for the wider retail industry in 2020 depend very much on whether you agree with this sentiment.

Personally, I'm not sure that I do.

So much of what has happened this year has been driven not by a fundamental shift in consumer aspirations and needs, but by an enforced but temporary restriction on being able to live the life that we really want to. To extrapolate from this peculiar situation to the future is a very big leap.

Also in today's news is Ryanair's order for 75 new Boeing 737s. Ryanair, and who would bet against them, clearly believe that once we are able to make choices again, then the old world is coming rushing back. Will we really continue to be sitting at home slow roasting oxtails as Waitrose suggest or jetting off for holiday fun in 2021? My bet's on the beach winning.

Back to the High Street and our challenge is to identify how much of what has happened this year will really stick. The main legacies of 2020 that pass on to 2021 will be:

1. A permanent reduction in cash usage.
2. Greater urgency from the government to reform business rates to reflect trading levels of individual stores and hospitality businesses to prevent a lockdown legacy of business closures.
3. Greater pressure to level the playing field between on-line and physical operators to ensure that a fair contribution is made by all. The Spectator magazine makes the observation that *'Covid-19 rules could not have been so biased against traditional stores had they been drawn up by Jeff Bezos'*, and this will energise current plans to find better ways to ensure that international online retailers pay a fair and reasonable share of the tax burden and account for the societal and environmental impact of their businesses.
4. Every retailer has an improved and better integrated multi-channel offer.
5. Despite initial euphoria from many quarters about the joys and benefits of working, studying, shopping and entertaining at home, the reality has now caught up with most that it is boring, dull, monotonous, emotionless and draining. Expect those outlets that have a good offer, presented in a relevant and appealing way, to enjoy close to pre-pandemic levels of footfall as consumers enjoy the thrill of the marketplace and social interaction once more.

Maureen Hinton, Group Retail Research Director, GlobalData Plc

The promised roll-out of vaccines has provided some hope of life, and retail, returning to a degree of 'normality' in 2021. However, there are still major factors that are likely to impede progress.

1. **The vaccination programme itself**. How long will it take to vaccinate enough of the population for regional lockdowns to end? Reasonably it looks like it will be Q2 before we get the full benefit and consumer confidence rises.
2. **Brexit** – at this point the deal has not been agreed. We can hope for a deal that will avoid the need for tariffs, but there is likely to be a level of disruption with or without a deal.
3. **High unemployment**. The current furlough scheme runs until March 2021 but, as we have seen with the recent collapse of Arcadia and Debenhams, along with many hospitality businesses, workers are losing their jobs in thousands and will no longer receive the support of furlough payments.
4. **Debt.** With restricted incomes and job losses, many people are building up debts which will restrict their spending power in 2021. But there is polarisation here as many others have retained their employment and saved money from working from home and having few incentives or opportunities to spend money.

H1 is likely to remain challenging for retail but the vaccine should have been deployed by H2 with social distancing measures easing and people mixing more socially, returning to work, and travelling. This will help to release a lot of pent up spending from those that have remained in work.

Clothing & footwear, the worst hit sector in 2020, will see the biggest bounce back. Weddings, and other social occasions including holidays, postponed because of lockdown restrictions, plus a semi return to office life, will help to drive spending on relatively high ticket formal and occasion wear. The return of foreign tourists will help luxury and premium brands (if the government sees sense and revises its plan not to allow VAT refunds).

On the other hand, the food & grocery, and DIY & gardening sectors, which have benefitted considerably from the lockdowns, will see growth slow down, but their online sales values will remain higher than 2019, pre the pandemic. In the case of food & grocery 2021 online sales will be double the value of 2019 spending online.

One of the lasting impacts of COVID-19 will be the rapid recruitment of new shoppers, especially in the older age groups, to online shopping. Though consumers will want to return to physical stores we will have embraced the convenience of the online channel so much that a quarter of all retail spending will be online. In the case of clothing & footwear it will reach 40% and electricals 63%, highlighting the need to adapt the physical retail model even faster to changing spending trends. Those that have will emerge the winners.

Martin Newman, The Consumer Champion

Having witnessed the high street casualties in recent weeks, Arcadia, Debenhams, Bon Marche, Edinburgh Woollen Mill, Peacocks et al, it's hard to imagine that there won't more once great retail businesses go to the wall in 2021. Retailers with an imbalance in store count versus digital, with some rare exceptions such as Primark, are likely to need life support.

However, those who have the agility in their supply chains and a strong focus on digital and instore experiences can do well next year. As we're going to over-index in categories where COVID has robbed us of the opportunity to participate. 2021 will be an era of what I'd call 'revenge consumption.' Our opportunity as consumers to make up for lost time.

Weddings, Barmitzvahs, Wimbledon, Football, The Open, Theatres, Gigs, Clubbing, Comedy, Cinemas, days out, international travel will all make a spectacular comeback, particularly in the second half of 2021. This will drive demand for formal wear, spring/summer and autumn/winter fashion, holiday wear and so on. All the categories that really suffered during the Pandemic.

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In contrast, sectors that performed really well from a demand perspective such as Grocery, DIY, homewares, electricals, home exercise equipment, coffee machines etc will soften as we'll all be spending a lot more time being out and about.

Retailers will have the added headache of paying for business rates when the payment holiday for these end.

Online will continue to grow but at much slower rates than in 2020. I anticipate that growth will be back in the area of 10% to 15% down from the giddy heights of 100% plus for many brands this year.

As a percentage of retail sales online will account for around 28% of total retail by the year end and online grocery around 16% to 17%.

With work from home becoming a permanent shift whereby we adopt a hybrid model of spending half of our week in the office and half at home, local independent retailers will have a good year as we shop locally more frequently than pre-COVID.

Larger retail centres such as the west end and other major towns and cities will regain some sense of normality and strong footfall as we look for some pick-me-up retail therapy and get ourselves ready for all the events we have planned.

To temper this general increase in consumer confidence and expenditure, we have to account for the mass- unemployment and the impact this will have on the economy. The beneficiaries of this will be the discounters.

Mike Watkins, Head of Retailer and Business Insight – Nielsen UK

In a year where consumer spend has been irreversibly re shaped by the global pandemic, one of the few winners have been food retailers with sales growth over the full year of 8% and volume growth close to 3% (Nielsen Total Till).

Any projections of supermarket growth in 2021 now need to be considered in the context of four important unknowns: if there is a return to shopping little and more often, whether commuting and travel recovers, how much of the reduction in the capacity of the hospitality channel continues to shift spend to food retail and the level of recessionary consumption (which includes any Brexit impact).

Against high comparatives, the current line of sight from Nielsen is between 2% and 4% fmcg industry growth in 2021 but this will only be achieved if (a big if) consumer confidence returns quickly by early summer and spending is maintained in the second part of the year. Nielsen research shows that 60% of households consider themselves `constrained` in how they will spend next year so the rapid growth in unemployment and any pay increases below CPI with the possibility of shop price inflation in a hard Brexit scenario, are real concerns.

The level of consumption of non essential categories - including services, travel and entertainment will also set the level of fmcg spend and its possible that grocery spend is simply rebalanced next year, with shoppers resuming trading up or down depending on the shopping occasion and not spending much more overall, which was how we exited 2019 pre pandemic .

Nevertheless, a consumer reset will continue and what`s more certain is that where we shopped yesterday is not where we are shopping today and may not revert in the future. For example the shift of spend from the city to the suburbs and the movement of £6 billion of spend to online in 2020. Online share of fmcg channel sales averaged 13% over the year which is the highest in Europe and well above North America (Nielsen Homescan).

The adoption of online grocery shopping by millions more shoppers will continue and takes us closer to omnichannel retail in food and drink. Convenience and proximity stores which gained share from May to October (so during lockdown as well as the summer) can also be expected to maintain momentum as shopping locally and consuming closer to where we live, may be one of the lasting legacies of the pandemic.

All of which will continue to put pressure on the bigger stores - early winners in March and April - as shoppers slowly start to shop around again in 2021. Shifting spend and more unpredictable consumer demand patterns are here to stay for the next 12 months but the structural change to the retail landscape is semi permanent.

Nick Bubb, Retailing Consultant, **Bubb Retail Consultancy Ltd**

Given the serious downturn in the economy over the last 9 months, it is extraordinary that the Government still can't provide business with any certainty over the outcome of the protracted Brexit trade talks and what will happen on January 1st. But then it is also extraordinary that sterling (which is the best guide to how the markets see the likely outcome) has been pretty unmoved by the increasing talk of a no-deal exit, even though, as one fund manager is quoted as saying in today's FT, "*Whatever deal we see now would have been viewed 12 to 18 months ago as a catastrophic cliff edge*".

What happens with Brexit and sterling will affect the outlook for inflation and interest rates, but the 2021 crystal ball is hard enough to read without these additional complications…

The function of stockmarkets is to discount forward the probable situation for the UK economy and businesses over the next 3/6 months and over the last month or so, since the surprise emergence of credible COVID vaccines, there has been a dramatic shift in how investors see the attractions of the winners and losers from the pandemic and lockdowns.

Investors are betting that life will soon get back to normal and have been rushing back into stocks and sectors that were hard hit in 2020, including airlines, hotel and cinema chains, pub groups and property companies.

In General Retailing, this shift in sentiment has seen a big sell-off in lockdown winners like Games Workshop, Just Eat, Dunelm and B&M, whilst the share prices of other companies that have benefited from the way consumers have shifted their spending have also come under pressure (including AO, Halfords, Pets at Home, ASOS, Next and Kingfisher). To symbolise the shift against "the winners", it is noteworthy that, after a stay of just 6 months, the home repair/Checkatrade business HomeServe was ejected from the FTSE 100 index in the recent quarterly review (despite its admirable defensive qualities).

Conversely, investors in General Retailing have moved back heavily into "the losers": the WH Smith share price, for example, was trading below £10 at the end of October, but it has stormed back up to the £16 mark (albeit it was over £25 back in January…). Other losers like Marks & Spencer, Superdry and Burberry in the fashion sector, have also seen sharp rallies in their share prices.

In Food Retailing, the recent shift in sentiment against the winners has seen investors taking profits in Ocado and buying Greggs, with the big supermarkets overlooked because of their defensive qualities (and their willingness to forgo the Business Rates relief from the Government).

Stockmarkets rarely get these sort of calls completely wrong and it is of course possible that 2021 could be a good recovery year, as Covid vaccination gives people the confidence to get back to normal and spend their savings. And although some people have been hard hit by the decimation of the hospitality sector, most people have been able to save from not being able to spend money on holidays, eating out, gyms etc. And the pent-up demand for housing shows through in the strength of mortgage approvals, even without the stamp duty reduction benefit…

There is talk in some quarters of a possible return to the "Roaring Twenties", the boom after the Spanish Flu pandemic. But much could go wrong…what if the Covid vaccination programme runs into operational problems and takes too long? What if the pandemic doesn't die away in the spring (it started in the spring…)? What if inflation starts to take-off, undermining the ultra-low interest rate outlook? What if the unemployment outlook worsens again as companies look to cut costs further?

If the downside and upside risks to the economy in 2021 look quite balanced after the Brexit uncertainty is resolved, the wise investors will probably be hedging their bets

James Sawley, Head of Retail & Leisure, HSBC

As a banker to the UK retail industry, here are my Top 5 predictions for 2021:

1. More causalities, but less compared to 2020.True, ordinarily more companies fail during the recovery than in the crisis, however, this is no ordinary crisis. While the number of retail company failures in 2020 have only matched those of 2008 and even 2012 – around 54 – the causalities are much bigger. In 2008 retail failures affected 75k employees compared with 95k in 2020. Companies fail because they run out of cash, this crisis is different because companies needed to raise significant amounts of cash to fund unprecedented short term trading losses against a very uncertain outlook. With the tills not ringing, this immediate need for cash at the worst possible time meant that those with a fighting chance of survival got funded, and those whose future was more uncertain, didn't. CVAs also allowed many businesses to restructure their cost bases. In 2021 we will see government support end or taper down, and millions of pounds worth of accrued liabilities unwound, all in the midst of rising unemployment, a recovering economy and Brexit disruption. This will no doubt lead to more causalities, especially at the smaller end. However, I predict that for bigger businesses if you survived 2020 and had enough funding to pass your audit (the accountants should have stress tested 2021), you are likely to survive 2021, the year of a vaccine euphoria driven consumer bounce, less competition and falling rents.

2. Online penetration will be a roller coaster and will settle close to the natural equilibrium point.COVID-19 has indeed fast forwarded the progress of channel shift, but a vaccine is imminent. Pre-COVID non-food online penetration was 35% and food was 7%. At the peak of lock down these rates rose to 70% and 15% respectively, so where will they go? I predict that by Easter once the vaccine has been largely rolled out, consumers will be flocking back to stores on mass, enjoying the ambiance, meeting up with friends, family and enjoying all that hospitality and entertainment on offer. As a result, online penetration in non-food, will dip below pre COVID levels, and recover by Year End to 40-45% underpinned by 'new' customers acquired during lock down and some 'stickiness' from lockdown habitual changes. I believe 45% is where non-food penetration will stabilise before the very notion of online and offline sales will eventually be relegated to the history books. The heightened penetration of Food will be different, I predict this will be much stickier as people 'enjoy' food shopping far less and increased working from home will mean delivery is far more practical in the real world. Food penetration will therefore remain in the 15% area throughout 2021.
3. The multiples will regain lost ground. The grocery sector has no doubt been a relative winner of 2020 and the multiples have performed extremely well in how they responded to surging demand in-store and online. The trend away from 'little and often' back to the 'big shop' meant that our traditional grocers won back market share from the discounters, as well as capturing 100% of the increased online demand. I predict that the multiples will not let this turn in fortunes be wasted and will defend market share gains by investing further in EDLP and further enhancing the online offer.

4. The dividend debate will escalate. At the time of writing Tesco have just announced they will be repaying in full the savings they have made by way of the Government scrapping Business Rates. Next year we will see more pressure put on other essential retailers allowed to remain open who have clearly financially benefitting from being the only game in town. This debate will escalate especially as these business try to pay dividends to their shareholders while the government – and therefore the public – are having to tackle the problem of the enormous debt burden on the country.

5. Exciting new concepts will emerge, starting the process of healing the High Street. I am hearing my clients talk about rent reductions up to 90% of pre-COVID levels. Materially lower rents, rates and more flexible property deals will open up opportunities for creative online only brands, small businesses and entrepreneurs to take more risks with Real Estate. The resulting outcome will be new concepts, spaces and formats of retailing entertainment that we don't even know exist, yet. If you had said to me 10 years ago that in the future I'd pay a healthy premium to play darts or crazy golf in central London while eating and drinking I wouldn't have believed you, but now we have concepts like Flight Club and Puttshack capitalising on emerging technologies and, most importantly, lower rents in the Capital, in order to deliver to the customer amazing experiences and driving footfall.

Jonathan De Mello, Equity Partner, CWM Retail Consulting LLP

Shopping habits have changed significantly since the onset of the pandemic. Some of these impacts will be short-lived – depending on whether a mooted vaccine proves effective and can be rolled out to the general population quickly - but others will change the way that the retail industry operates in the years to come. Forced store closures and stay- at-home orders have driven people who prefer to shop in stores to instead spend online, accelerating the shift towards digital retail. Online pure-plays have benefited most as they have no store costs to subsidise, but multi-channel brands who previously invested in logistics/enhanced their online platforms are outperforming compared to their peers. Whilst many will revert to prior shopping habits in 2021, some will no doubt continue to shop online for certain products. A number of retailers such as John Lewis, Next, Argos and others are building this shift to online into their future projections, and this is impacting their physical store portfolios in terms of divestment, rent negotiations etc.. Argos in particular have an aggressive store closure programme planned – with 420 stores to close by 2024.

Home working has become a necessity during the pandemic, and the fact that it has encompassed everyone – from CEO to shop floor worker – has highlighted that it can be an effective way of working in most industries. This has led to significantly reduced footfall in centres that are heavily reliant on office workers, and if the trend becomes a more permanent aspect of working life post-COVID, with a mix of home and office working, sales in some locations may not ever fully recover to pre-pandemic levels. This potential trend has led to companies reviewing the need for expensive city centre office space, and some are considering a 'hub and spoke' model – made possible through the rise of flexible working space via property repurposing. Smaller, locally-orientated retail centres – particularly those with supermarkets or other essential retailers – have been far more resilient during the pandemic given home working, and this has boosted independent retailers to an extent; particularly those with a grocery offer. Shoppers travelling slightly further afield are opting for unenclosed centres, such as retail parks. With home working set to continue into 2021 and potentially beyond, shoppers will continue to 'buy local.'

The ongoing COVID-19 pandemic has had a severe impact on the retail sector in 2020, with a swathe of CVA's and administrations – which have even hit property owners such as Intu. Retail business failures will no doubt continue into 2021, particularly if business rates are re-introduced without any meaningful reform in April 2021. In terms of rent negotiations with property owners, the current market very much favours retailers, as store closures have left a larger pool of opportunities to choose from. Rent collection has been, and will continue to be tough for landlords. Retailers are capitalising on pending lease expiries and break options to negotiate more flexible leases, including 'pandemic clauses'. The pandemic has reshaped the traditional rental model – new leases in even major cities and malls are now commonly turnover only. In addition to turnover rents, shorter leases of 3 years, or 5 years with a tenant break in years 2 or 3 will become common going forwards. Tenants with strong covenants are in high demand, and landlords have been prepared to offer more flexible terms to such brands, including large incentives, and even more so to retailers willing to agree to longer leases. This is to ensure some stability of rental income in the face of a market that has, particularly over the past 24 months, seen a large number of brands enter CVA or administration.

Ruth Gregory, Senior UK Economist, Capital Economics

The positive news on COVID-19 vaccines is tempered by the fact that they won't come soon enough to prevent a difficult winter for the economy. GDP probably still fell during the second lockdown in November, perhaps by up to 8% m/m, and the strict COVID-19 regional tier system will limit the rebound in activity in the coming months.

But the growing likelihood that effective vaccines will be widely deployed next year has clearly improved the prospects beyond the next few months. Much will depend on the procurement and distribution of vaccines but, if all goes well, this would significantly reduce the need for COVID-19 restrictions and social distancing beyond the next six months, allowing consumer spending to rebound strongly from Q2 next year.

This doesn't mean there won't be some lingering effects of the crisis on the economy. Some businesses have already gone bust and hundreds of thousands of people have already lost their jobs. The pandemic will leave a large overhang of debt in its wake. That may mean that some firms are keen to hold a larger cash cushion. And while medium-term inflation concerns are building, price pressures are likely to remain subdued in the near term, keeping inflation below the Bank of England's 2% inflation target. That points to monetary policy remaining extremely accommodative, with interest rates remaining steady at 0.10% for the next two years at least, irrespective of the rollout of vaccines.

But the brighter outlook is not without its risks. One of the more immediate risks is that the focus on "paying the bill" for the pandemic threatens to push the government into a premature fiscal tightening via cuts in government spending and/or tax hikes. However, since the Bank of England will probably anchor the government's borrowing costs at very low levels for many years, the Chancellor has time to let the economic recovery repair the deterioration in the public finances for him. And ironically, rushing to tighten fiscal policy would not only cause the economic recovery to stall, but it would also be the surest way to ensure the permanent economic scarring that would ultimately require a fiscal consolidation. Instead, the overriding priority for the government in 2021 should be to focus on keeping an appropriate degree of fiscal support in place to compensate for the weakness in private sector demand.

So there is finally light at the end of the tunnel. Provided the politicians don't mess it up, the economy should do better in 2021 than most people think.

Ends