Retail survival through the pandemic

Routes to market

Covid-19 has given a major boost to the increasing shift online that the consumer retail industry has experienced in the last few years, as well as increasing the use of digital as a communication channel. Many of these shopping habits are set to remain when the pandemic subsides, providing fresh challenges to the many multichannel retailers whose business models combine store networks with online offerings.

This article sets out the key trends and highlights the importance of multichannel retailers taking a hard look at their strategy to ensure survival now and that they are fit for the new era of retail post the pandemic.

Longstanding consumer trends

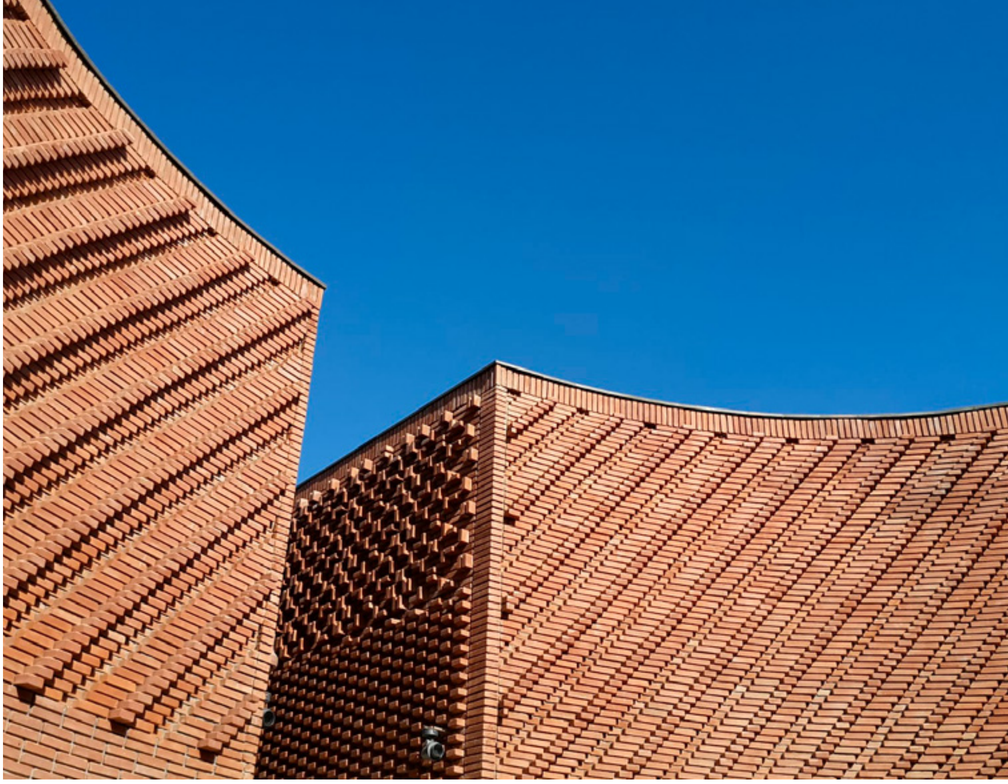
Across retail, ongoing socio-economic forces and technological advancements have continued to drive changes in consumer behaviour. Shoppers across demographics have benefited from increasing access to information and a wider range of brands and products, giving them not only far greater choice over what they buy but also how they buy.

The retail sector has also witnessed an increased focus on purchasing experiences rather than products, sustainability and smarter, on trend buying, often heavily influenced by social media. Consumers are also placing greater value on their own time, looking to minimise time spent on tasks perceived as routine or chores.

L.E.K. Consulting analysis shows that there are ten key long term trends that will continue to define the future of retailers and their multichannel strategies. See figure 1.

Figure 1:

Socio-economic forces, supported by technology advances, have forged ten major longstanding consumer trends



Three major factors impacting multichannel approaches

Of these ten trends, three are particularly important for retailers' multichannel strategies and their use of digital for communication with consumers as well as transactions: online converts, smart buying and on trend choices.
With the barriers to adoption for online shopping largely removed, the number of online converts has continued to expand. This has been underpinned by the impact of younger generations who have grown up with online shopping (and have higher expectations of rapid fulfilment) and older people getting used to e-commerce.

Online shopping and related technologies also enables customers to access price comparison and facilitates browsing across sites, which is increasing competition between retailers.

"With greater access to information, consumers are now better equipped to evaluate price and quality when buying, a trend we term 'smart buying'. In this more sophisticated environment, promotions, sales and discounts can have a significant influence on consumers. In turn retailers who do not wish to compete on price are having to increase the sophistication of their messages and techniques to communicate quality over 'value' to the consumer."

Finally, many consumers are more likely to buy trending products and services, 'on-trend buying', which they engage with via social media and online platforms. Leveraging these channels with influencer endorsements and reviews is becoming increasingly important.

Covid's impact on retail

Covid has upped the influence of these dynamics and they are set to continue after the pandemic, particularly the importance of online converts. See figure 2.

The continued fear of shop interactions is expected to reinforce the shift online. Even as infections declined in the summer, fear of catching the virus from either crowded spaces or touching objects in public remained high. See Figure 3.

Throughout the pandemic there has been a significant growth in digital across many categories, from grocery and home goods to clothing.

In grocery, our analysis shows that online channel sales were c.6% of the market in 2019 and are set to grow to 8% by 2025, representing a c.8% per annum rise over the next five years.

Online home goods have also had a positive pandemic – for example, DIY retailer web traffic has risen by over 50% since February (Figure 4.). Analysis we have conducted indicates that this shift to online shopping in DIY, as well as in related categories such as home furnishings and furniture, is expected to remain as customers are now familiar with the channel for buying these sorts of products.

Figure 2:

Post-Covid, smart buying and on trend choices will continue while the trend to on-line converts will accelerate

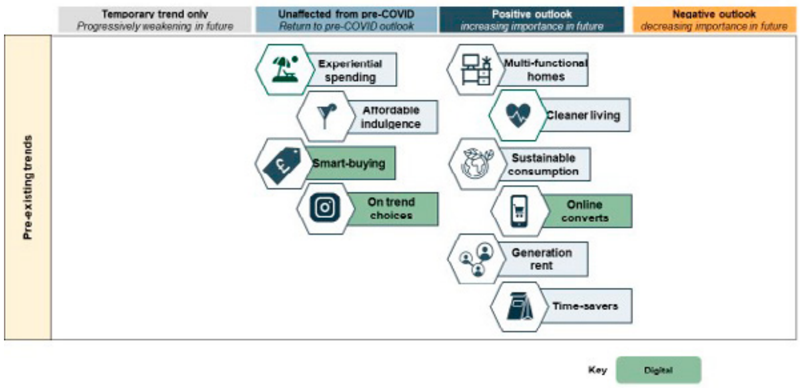


Figure 3:

Consumers only became somewhat more relaxed about moving in crowded spaces and physical contact, and there has been some recent reversion

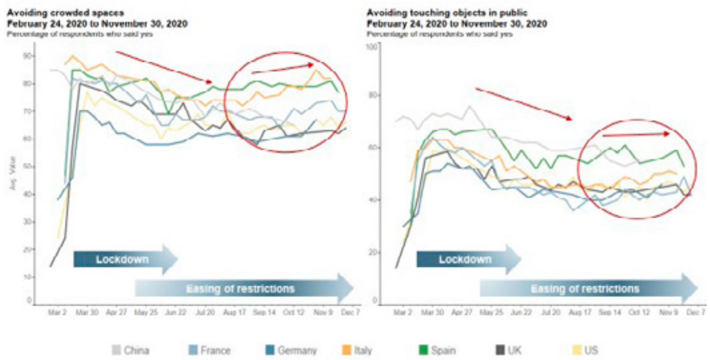
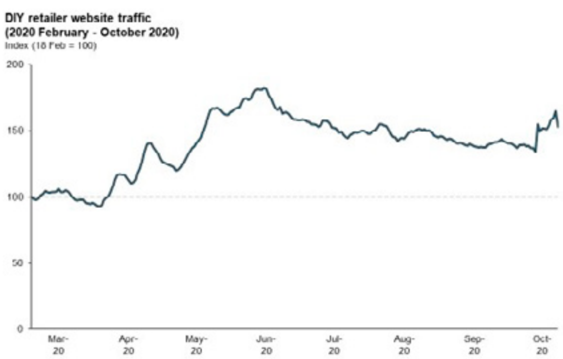


Figure 4:

As consumers increased their focus on the home, DIY retailer web traffic has grown by over 50% since February as consumers are comfortable shopping online



The continuing role of stores in a digital world

While the accelerated shift to digital has benefited a number of businesses, it has simultaneously undermined the businesses of retailers with fundamentally weak business models going into the crisis (e.g., Arcadia, Debenhams). The rapid shift has demonstrated the benefits of a well-designed bricks and mortar network and robust business model. Click and collect in grocery is a key example, with our analysis indicating that it is has grown markedly over the last three years, more than trebling its penetration of all retail sales.

In clothing, Next is one of a few traditional high-street companies that has fully embraced the opportunities of blending a progressive online approach with a strategic use of its store network. As noted in its March 2020 financial statement, whilst the internet gives its customers huge choice, they collect nearly half of the company's online orders from its shops.

Other notable online/ offline strategies include DixonsCarphoneWarehouse's use of its larger stores as showrooms for customers to see products, often before buying them online, and in delivering its multichannel service proposition. AO, the online focused electricals retailer, has opened concessions in Tesco stores in order to access a broader customer base.

The way ahead

Covid-19 is a watershed period for retailers. There are those that have done well but sadly there have also been multiple casualties, many of them being well-established high-street names that went into the crisis with fundamentally weak business models that were too reliant on store-networks and had under-optimised online channels. The key implications for retailers are summarised in Figure 5.

Figure 5:

There are fundamental implications for network configuration, transactional websites and digital communication:

Description	• Step change shift to digital, for both information and transactions, across a wide range of retail categories • Requirement for 'trusted' retail and consumer brands, increasing the importance of influencers • Bounce back of leisure time post pandemic, increasing focusing on time saving in everyday shopping • Reinforcement of local convenience as public transport not favoured and continuation of consumer habits adopted during initial and continuing restrictions
Implications for retailers	• Requirement to develop digital proposition including: improvements to digital proposition to attract and convert traffic to site; robust transactional offers where economics allow • Development of social media and influencer strategy (but recognising needs for it to be 'real') • Right-sizing of retail networks and leverage for delivery, C&C, returns • Development of local and convenience strategy

There is an unprecedented need for retailers to act decisively to ensure they develop a competitive advantage to sustain them through the pandemic and emerge in a strengthened position on the other side.

For some, there will be an urgent requirement to develop a far more sophisticated blended online/ store strategy. But there is still a compelling case that a right-sized retail network can provide multi-channel competitive advantage.

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