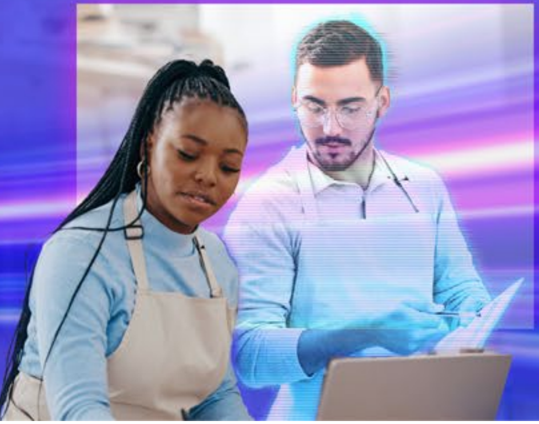
Consumer and retail sector overview



The shift online has weakened, high levels of inflation mean costs have escalated, shifting consumer demands and loyalty in the wake of rising prices have driven an intense focus on margins.

Retailers face a vicious cycle

It is raw economics that is shaping the consumer and retail experience. It is an industry grappling with a vicious cycle. The profitability of online is weak at best, so retailers have attempted to shore up margins by introducing "costs of convenience", bringing in charges for returns and delivery slots. Whilst this helps margin it is stifling growth which, in turn, is reducing the economies of scale of the online channel.

It is a situation that is likely to deteriorate further before it improves. Poor weather has hit summer product sales, the effect of high mortgage rates has yet to flow through to the retail sector and cost inflation continues to be a problem.

Despite this, consumers are proving to be resilient, adapting behaviour to take account of the prevailing economic conditions and that is being reflected in their shopping and purchasing decisions.

Shoppers are returning to stores, where they can see and feel the goods. This is a change in buying behaviour that is impacting the online pure play providers.

In the face of high levels of inflation shoppers have changed their purchasing habits - they are buying less or buying cheaper.

Buying "better value" (cheaper items) and buying more promotional items, shopping at lower-cost retailers or buying brands that cost less.

There is a flight to quality and value. In grocery retail those organisations such as Aldi and Lidl that have exceptional value credentials, good propositions and execute well are outperforming their competitors. Similarly in the non-grocery sector retailers such as JD Sports, Next and M&S have benefited from strong value-based propositions and weaker competition.

Channels are continuing to blur and both retailers and manufacturers are being challenged to deliver and orchestrate a frictionless experience across physical and digital touch points.

ESG takes a back seat

Even though consumers are ever more likely to shop with organisations that share their values, the focus on margin has meant boards have struggled to prioritise ESG, allocate capex spend, and deliver meaningful outcomes for customers.

The retail ESG emphasis is on ensuring they are meeting regulatory requirements, but organisational effort is on looking for a source of differentiation that drives volume at minimum cost.

Organisations want to do the right thing and are concerned about their environmental CO2 footprint – but out of necessity the focus is on value.

The search for growth

Retention and new volume are the key areas of concern. Consumer goods companies are seeking to drive top and bottom-line growth through digital channels, both D2C (where it makes sense) and B2C (e-retail, quick commerce, and marketplace). This is both a product and service approach.

Channel conflict is therefore an area of concern. How do these organisations compete effectively in the D2C market whilst preserving relationships with existing large scale online businesses that are already distributing their products? It is clear that these companies have yet to perfect a joint business plan with existing channel partners that reduces physical and digital cannibalisation and enables real digital growth.

Organisations such as Nike, Gymshark, and All Saints show that it is possible, but it requires a fundamentally different approach to the market.

Grocery retail organisations in the UK top 100

1 **Ocado**	5 **Sainsbury's**
2 **M&S Food**	6 **Farm Foods**
3 **Waitrose & Partners**	7 **Lidl**
4 **Aldi**	8 **Tesco**

Ocado continue to set the standards for online retailing. They lead the world in their development of new technology to support online and delivery retailing. As well as developing a frictionless highly automated warehouse and supply chain operation, Ocado has developed a personalised, positive online shopping experience, and makes sure this great service continues when their drivers make the delivery to the customer. It wants to ensure that every delivery driver is an advocate for the brand, demonstrates the same values and complements the overall experience.

Consequently, driver recruitment is undertaken very carefully, ensuring that drivers have the right personality and disposition to ensure they can deal with all types of customers and all types of customer situations, including the vulnerable.

M&S Food has built its online and delivery capability around its partnership with Ocado. In store it is advancing its food renewal programme. The M&S renewal strategy is all about creating magical stores that offer the efficiency of a supermarket and the soul of a fresh food market. These stores have increased produce, bakery, ambient grocery and frozen ranges, as well as innovative concepts like Fill Your Own, Percy Pig World, Wine Tasting and Ceramic Pizza Ovens – all laid out in an inspiring and aesthetically-pleasing format.

The overarching aim is to encourage customers to do a full shop and end the perception that M&S is a convenience, ready-meal specialist.

For Waitrose it is the quality of its people that make the difference. The customer service at Waitrose is always good – they excel at the service basics. If they are out of stock of a product on the shelf, they always go and look for it. The Waitrose partners are always positive, knowledgeable, and engaging. The stores are well laid out, bright and feel clean.

Top 10 non-grocery retail organisations

1 **Lush**	6 **Lakeland**
2 **John Lewis & Partners**	7 **Chanel**
3 **Specsavers**	8 **Waterstones**
4 **Vision Express**	9 **M&S**
5 **Richer Sounds**	10 **Apple Store**

Lush lives and breathes its ethical approach, ensuring their products bring no harm to people or planet and customers can be confident that all ingredients are ethically sourced. Many products have little or no packaging, with the creative development team constantly rising to the challenge of making innovative products in solid formulations that don't require bottling. Lush have spent decades developing solid products that work effectively.

Customers can scan QR codes with their mobile phones to understand the composition of a product, further reducing the need for labelling and packaging.

But it is the quality of its staff that ensures that not only is the product difference communicated effectively to customers, but also that individual products are exactly right for an individual customer. A process of consultancy and diagnosis rather than sales.

John Lewis and Partners continue to set retailing standards. Vaunted for their instore experience they are now expanding online, with a massive 74% of its total sales for the past year being completed via its ecommerce presence. Of these, around a quarter were completed on the John Lewis app. These figures represent a 40% boost in ecommerce sales for John Lewis compared to pre-pandemic[1].

It is therefore making serious investments to improve its offering in the online space, devoting £800m this year into its ongoing digital transformation – spending £334m of that in the first half alone.

A big part of this investment has been poured into improving the customer experience – blending the instore and online John Lewis shopping experience into a single omnichannel strategy. It has developed a digital fit finder, which is designed to help customers find the best possible clothing to suit their individual figure, and it is trialling a video-on-demand shopping experience. This new development would see customers consuming online content around John Lewis products and give them the ability to purchase those products from within the video content itself.

It is also planning to open up its ecommerce platform as a digital marketplace where third-party brands can sell their wares. Over the next year, John Lewis expects to see around 100 new fashion brands appear on its website.

For Specsavers there are very defined points of contact – a check-up every two years. But the challenge in a highly competitive market is how to stay relevant and top of mind during that intervening period. This has led to a detailed focus on customer journeys and communication.

The brand has focused on optimising the customer journey around booking appointments, by introducing online booking, providing more information about what the appointment would involve and how to prepare, and building in more flexibility with changes and cancellation.

After their appointment, customers move into a post-purchase booking journey: for those who didn't buy a product, there's a non-purchaser journey, while those who did will receive checks to make sure they're happy with their purchase. Between one appointment and the next – the recommended frequency of eye tests for most adults is every two years – customers receive newsletters, with content tailored based on what Specsavers knows about them and

"Whilst demonstrating resilience in a difficult economic environment, shoppers are continuing to spend. They have, however, changed their purchasing habits, they are buying less or buying cheaper. They are buying "better value" (cheaper items) and buying more promotional items, shopping at lower-cost retailers or buying brands that cost less."

Duncan Knight, Partner, Customer & Operations Consulting – Consumer & Retail

[1] https://etaileurope.wbresearch.com/blog/john-lewis-omnichannel-customer-experience

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