

The next
normal: where
retail goes
from here



SHOP

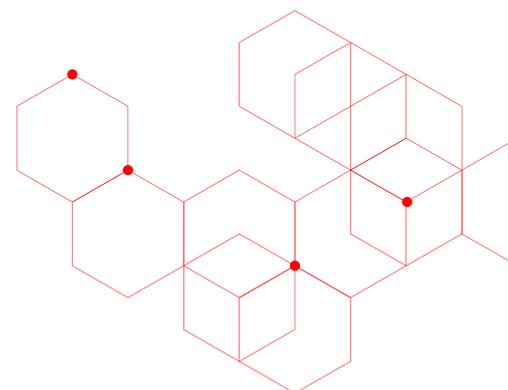
How COVID-19 and global lockdowns
impacted the retail sector



The coronavirus pandemic has posed a stark challenge to the retail sector. This has manifested differently in different sub-sections of the industry: some stores found themselves in far higher demand than usual during lockdowns around the world, while others were shut down entirely. The distinction between bricks and mortar versus online, and between big and small retailers has been marked.

Those outlets forced to close – such as specialist shops deemed ‘non-essential’ and fashion stores – saw their outlooks slashed and faced a struggle to shift existing stock to online availability. Garden centers proved a particularly bleak example, as unsold plants died on shelves while skeleton staff tried to keep them alive. The situation was even more difficult for retailers specialising in fresh blooms and bouquets.

In the face of this unprecedented disruption, the retail sector rallied: adopting a crisis management approach appropriate to the circumstances.



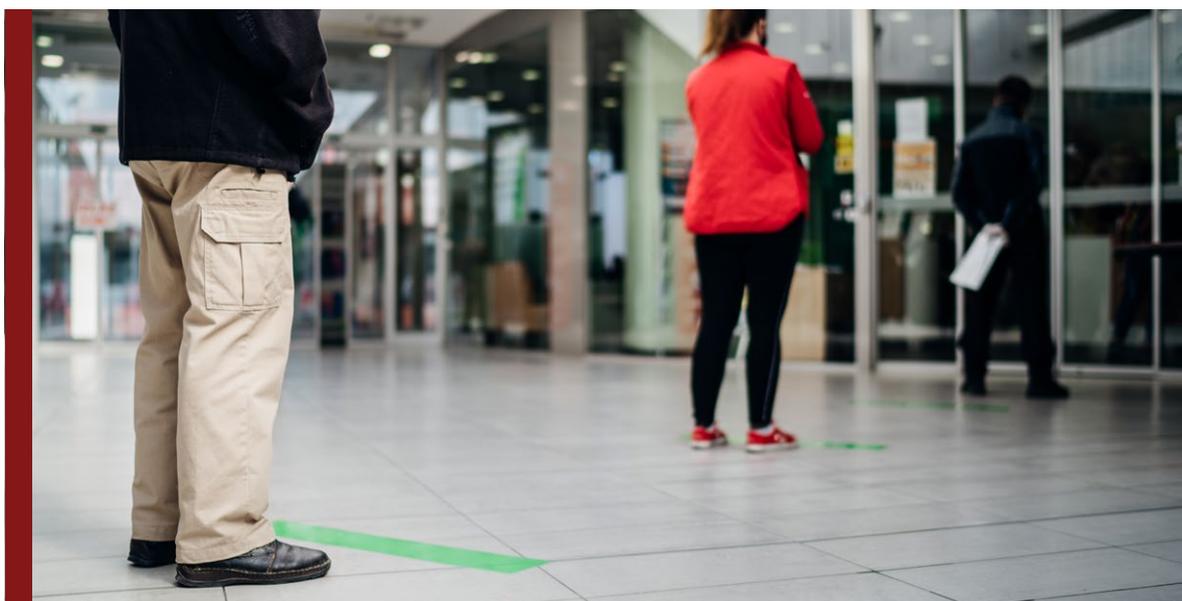


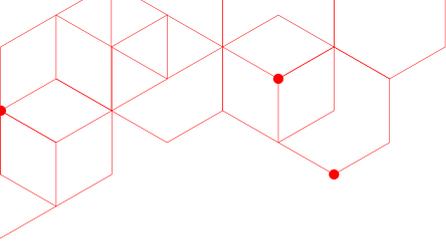
Retailers with an ecommerce offering to accompany their bricks and mortar stores pivoted, but faced organizational hurdles as well as the difficulties that stacked up with global supply chains grinding to a halt.

On the other side of the spectrum – most notably in the case of supermarkets and pharmacies – things had never been busier. But this huge rise in demand didn't spare these retailers from supply chain challenges. Images of empty shelves beamed around the world by news channels and on social media were testament to this.

In addition to this, supermarkets and other essential retailers had to consider the safety of their staff and shoppers.

Emergency measures to manage capacity and ensure social distancing, as well as additional protections such as installing Perspex screens and designating one-way systems, became paramount. Supermarkets in the UK even changed their in-store music to help make shoppers feel more comfortable.





How the retail sector has responded to COVID-19

While striving to maintain a safe shopping environment, the retail sector's response to the COVID-19 pandemic can be broken broadly into three solutions:



Self-service



Ecommerce options



30-minute deliveries

Self-service



Self-service checkouts have been a common feature of UK supermarkets for many years, though in many cases (particularly in larger outlets) this option made up a smaller portion of the checkout area.

In recent years, the technology has gradually gained traction in other countries around the world too – notably the USA and Australia.

With the increased risk of infection from face-to-face interactions, shops that remained open during the height of the pandemic encouraged consumers to use self-service checkouts to pay for their shopping. The pandemic has accelerated the need for these stations, with staff who would usually man traditional checkouts redeployed to help with restocking and capacity control.

Elsewhere, supermarkets have accelerated trials of shopping experiences that do away with queues and checkouts entirely. Originally pioneered by Amazon Go in Seattle, with similar experiences trialled by supermarket brands including Sainsbury's last year, this approach allows shoppers to scan and pay for items via a smart-phone app as they make their way around the store.

This reflects a broader trend away from cash transactions amid fears that coins and notes could provide a vector for infection. Retailers have instead pushed for customers to use contactless card and app-based payments (such as those enabled by Apple Pay and Google Pay) where possible and to avoid cash.



Ecommerce options



In its breakdown of the business 'winners' and 'losers' of the COVID-19 pandemic, Switzerland's International Institute for Management Development listed traditional retail in its losing sectors. Ecommerce marketplaces, meanwhile, topped the list of winners.

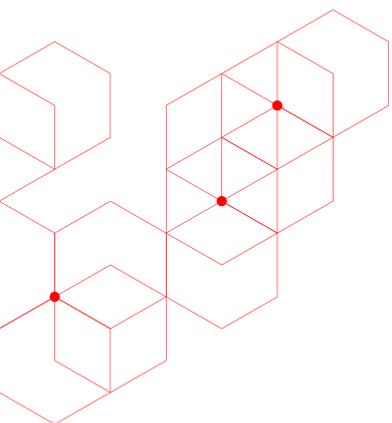
In an attempt to align with the latter group, retailers have moved quickly to bolster their ecommerce offerings.

Supermarket chains such as Tesco in the UK, Kroger in the USA, and Woolworths in Australia all pumped up their online shopping options: increasing the number of delivery slots, and bulking out their workforces to help with picking, packing, and delivery. Ocado, the online supermarket, saw its revenues surge by 40% during March and April.

Online-only fashion outlets saw sales dip at the beginning of lockdown, as pubs, clubs, bars, and restaurants closing their doors meant demand for 'occasion-wear' dipped. ASOS, a leader in the sector, was hit by a 25% sales sink during the first months of lockdown. However, this blip was soon revealed as such: across the four months of lockdown conditions in the UK (March-June), sales rose by 10% – equivalent to over £1 billion, and an increase on last year's £919 million.

Shops unable to open their doors at all were forced to pivot online entirely.

Greetings card stores saw demand increasing as people looked for ways to connect with one another in more meaningful ways while under lockdown conditions. However, without access to proper fulfilment spaces small shop owners found themselves driving from store to store to collect stock for photographing and posting online.



For many, an existing need to provide customers with a reliable ecommerce option has been accelerated by the pandemic. Others, meanwhile, have taken lockdown as an opportunity to establish a new revenue stream that they will use to bolster diminished in-store sales as the crisis subsides.



30-minute deliveries



It's been widely reported that the coronavirus has posed greater risk to people in vulnerable categories – such as the elderly or those with pre-existing medical conditions. While lockdown restrictions in place around the world would keep most people relatively safe, these more vulnerable members of society were asked to 'shield' from the dangers outside by staying at home for the duration of the lockdown.

Supermarkets responded to the needs of these people by opening up same-day delivery services. By partnering with established food delivery services like Uber Eats and Deliveroo, as well as business couriers such as Stuart, supermarkets were able to offer 30-minute delivery services to those shielding at home.

Despite the growing popularity of app-based takeaway services, supermarkets had previously resisted opting into offering similar amenities as it would mean relinquishing control over their supply chains – something which large retailers control closely in order to maintain their narrow profit margins.

However, with an important role to play in feeding the nation – including those most vulnerable members of society – supermarket retailers opted in to these third-party courier services. Whether these delivery partnerships will continue after lockdown conditions ease, or whether the supermarkets will develop their own competing offering, will be something for retail analysts to observe closely in the coming months.

Pharmacies were also grouped alongside supermarkets as essential retailers. These stores play a vital role in providing prescriptions to people with ongoing medical needs. However, with many vulnerable recipients unable to leave their homes to collect their medicines, pharmacies were forced to rely on volunteers from mutual aid groups to make their drop-offs – exposing a gap in the service provided.



What next for the retail sector?

Empty shelves and long queues outside supermarkets during the months of lockdown have led many to assume that these businesses have been making hay while the sun shines. But while it's true that sales have been up, all of these essential retailers have had to invest huge amounts in staff, facilities, and supply chain capabilities to meet the new demand.

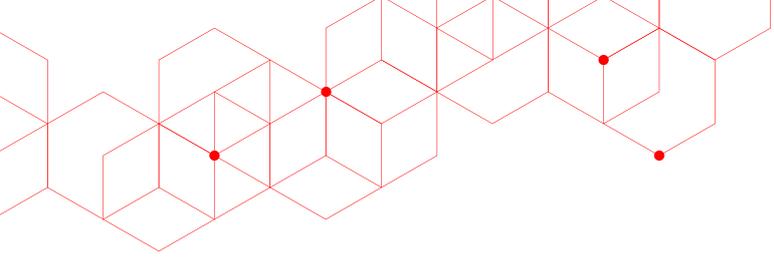
This increase in spend to maintain liquidity has meant that supermarket profits – subject to tight margins even at the best of times – have remained under pressure.

As the pandemic subsides – and the predicted recession deepens and drags out – all retailers will need to assess more closely where their costs are headed. The biggest costs for large retail businesses are inventory, staff, and property. These three areas will be under a lot of scrutiny as retailers look for a way out of this situation.

No business will want to consider letting staff go – particularly in the midst of an economic crisis. Instead, many will think of how to redeploy staff in a way that can save cost and minimize risk. Meeting new needs, such as controlling in-store capacities and reassuring customers, provide options for retailers to retain their staff bases without having to make redundancies or re-recruit.

Non-food retailers, and fashion stores in particular, will consider whether they need all of the bricks and mortar space they currently occupy. Zara, the Spanish high-street store, has already announced it will shut 1,000 of its shops over the next two years.

The biggest costs for large retail businesses are inventory, staff, and property. These three areas will be under a lot of scrutiny as retailers look for a way out of this situation.



Retailers will need to maintain the strategic push of their businesses, in spite of the pandemic's impact. They mustn't forget the direction of travel they were pursuing before the pandemic hit.

Inventories will be slimmed down too, as retailers look to rationalize their SKUs. Keen-eyed supermarket shoppers will already have noticed this, with own-brand ranges in particular being slimmed down during the lockdown months.

Stocking ten brands of the same biscuit instead of, say, six, means taking on more supply chain costs, more waste costs, etcetera. Reducing SKUs means reducing all the associated costs of managing additional product lines, while only reducing customer choice by small increments. To do this makes sense in the current climate, particularly when consumers are expected to show reluctance to spend, and is likely to produce cumulative savings for large retailers.

Ultimately, however, leaders in the sector will need to remain mindful of maintaining the strategic push of their businesses. Retailers mustn't forget the direction of travel they were pursuing before the pandemic hit.

The need for better synergy between online and offline shopping experiences will still be there. In-store innovations will still be required, just perhaps a little further down the line than initially planned.





COVID-19 and the recession that will follow will present huge challenges for retailers. But these needn't be existential.

The pandemic has already accelerated many digital transformation projects outside of the retail sector, and retailers will need to buy into that appetite to maintain pace with the world around them. Similarly, the last four months have kick-started new experiments in ecommerce, flexible delivery services, and store cost base remedies (such as using store space for delivery fulfilment, similar to existing click-and-collect services).

There will be emotional after-effects of the crisis too.

Fast fashion has found itself under scrutiny once again, not only for the short shrift given to garment factories in south Asia, but for the industry's use of exploitative labour practices in Leicester too – where a local lockdown had to be enforced to stem a second virus outbreak.

People have had a lot of time to think during the past four months too, in particular about the choices they make as consumers: localized shopping, ethical consumption, and the positive environmental side-effects that lockdowns have had will all remain front-of-mind for some time, even as old habits creep back in.

Retailers will need to bear all of this and more in mind as the sector faces its biggest challenge in a generation.



shaping tomorrow with you

Ultimately, retailers need to embrace the uncertain future that lies ahead.

This is now the time to take what you've learned from the past four months, recognize your resilience, and stride on with the confidence that has brought you to this point.

Fujitsu will be with you every step of the way.

Contact us

Whether it's finding the right tech, managing change or training your people, we can help. Please contact:
askfujitsu@ts.fujitsu.com | +44 (0) 1235 79 7711