Life after COVID-19: the immediate fallout and the long-term implications

In recent weeks and months, 'unprecedented' is a word that has never been so prevalent in our vocabulary, but equally never has it been more relevant. The COVID-19 pandemic has brought life around the world to a grinding halt, with every sector from manufacturing to hospitality, and from travel to retail, all carrying their own burden of the weight of trading restrictions, social distancing measures as well as economic turmoil.

The UK retail sector has been hit particularly hard, especially with the temporary closure of all non-essential stores. While it's abundantly clear that the pandemic is having a serious, and often critical impact on retailers right now, the longer-term implications could well change the face of the sector for many years to come.

At the latest quarterly meeting of the KPMG/Ipsos Retail Think Tank (RTT), members discussed and explored what the immediate fallout would be, as well as the long-term implications on the retailers themselves.

Immediate fallout for retailers

With the UK economy having lost an estimated 25% of its output overnight – eclipsing the fall in output during both the 2008/09 financial crisis and the great depression – businesses are trying to operate in the most toxic of trading environments.

The detrimental impact on retailers has been immediate and cannot be over expressed, as Maureen Hinton, group retail research director, GlobalData Plc, commented: *"In the UK, the closure of non-essential stores over a period of nearly seven weeks means that 382 million sq ft of retail space is non-operational. In 2019, these stores would have generated around £14.5bn of retail expenditure over that period. Some of this spending will have been transferred online but certainly not anywhere near enough to compensate for the closures. Add to this a house bound population, with many households struggling financially, and you have a retail apocalypse."*

With physical shopping outside of the grocery sector largely in hibernation, the impact on those retailers without an online delivery channel has been hugely detrimental. Tens of thousands of people working in the industry have also been furloughed under the Government's Coronavirus Job Retention Scheme, as their employers are forced to take a hiatus from selling, hunker down, reduce costs and hope cash reserves last until life returns to some sort of normality.

Unsurprisingly, fashion and footwear have been hit particularly hard by the lockdown, with consumers finding little or no reason to spend money on new clothes or shoes when they are not leaving the house to go to work or socialise with friends and family. Millions of people have been furloughed or have even lost their jobs, and the softening of the UK shoppers spending power has squeezed retailers even further. Not only is there less money to spend, there are limited options to spend it.

Those retailers that are able to operate have had to move quickly to adapt their product offerings and service in line with social distancing and consumer demand. In non-food, there have been positives for some retailers in specific sectors. Children's clothing, DIY, toys, crafts and home beauty preparation for example, are all areas that have not been hit as hard and managed to at least maintain a certain level of demand.

The pressure being exerted on the relationship between landlords and tenants during the current crisis has never been under greater strain too. In an effort to survive and lower costs, landlords are finding that a proportion of the burden is being passed onto them by some retailers. Jonathan De Mello, head of retail consultancy, Harper Dennis Hobbs commented: *"Securing rent in the current climate has proved extremely difficult for landlords, particularly given the Government is very much backing retailers if they choose not to pay. Some retailers such as H&M have even introduced*

'pandemic clauses' which would empower them to break a lease if turnover for that store does not return back to 90% or higher of pre-pandemic levels."

There are many different strategies being undertaken in terms of rental agreements with landlords, but with no direct Government support in this area, deals that are made in the coming months will likely make or break a number of retailers. It will continue to be an enormous challenge for years to come, but those retailers and landlords that collaborate, work together and are transparent will be able continue their relationships, possibly through concessions, holidays or reductions - rather than have to close stores and lose rental fees.

The story of non-food retailers has been in complete contrast to their grocery compatriots, with RTT members wanting to express a huge amount of praise to the leadership and staff of the major supermarkets. Online delivery slots have been ramped up, social distancing measures quickly introduced, protective equipment and training delivered to thousands of staff – and most importantly, supply chains have continued to flow and the shelves have remained stocked after initial shortages.

Supermarkets are also one of the few retail environments where shopping behaviour can be observed, and whilst unpredictable in the current crisis, that could provide a glimpse into the future and a ‘new normal’ for retailers. People are spending less time in store, less time browsing for products and very much plan their shops in advance. Demand for online fulfilment, whether that is home delivery or ‘click and collect’ has also never been more popular – all of which will need to be carefully considered by retailers when planning for the future and adapting to the long-term implications of COVID-19.

Long-term implications on the retail sector

When the world begins to emerge from hibernation, and people are given back the opportunity and freedom to shop, retailers would be naive to think that their trading will quickly return to a level of pre-COVID-19 ‘normality’.

Every sector will need to adapt to the ‘new world’ in some degree, and the way that many retailers’ businesses are structured means they are not well placed to cope in the long-term, as James Sawley, head of retail & leisure, HSBC comments: *“The economic structure of retailers’ business models are not set up to absorb shocks like this. Retailers traditionally carry a high level of operational leverage in their Profit & Loss and margin structure. High fixed costs as a proportion of revenues and low profit margins means that a fall in sales very quickly will wipe out profits in their entirety – sometimes in a matter of weeks – then after that the business is having to fund losses.”*

It has become increasingly clear that many retailers will not survive this crisis, but those that do, will emerge from stasis to find a very different shopping environment – one that will require them to adapt large parts of their business operations.

The requirements of a successful retailer have grown exponentially in recent years, as technology and the world at large has changed. New layers of complexity have been added to operations in order to keep the tills ringing. However, in the coming months retailers will need to shift to a simpler model, as described by Paul Martin, UK head of retail, KPMG: *“Companies now need to be good at not just buying and selling products, but also at things like online fulfilment, home delivery, data analytics, AI, machine learning and process automation. Given the current capability shortages and cash flow challenges, retailers should now be looking to refocus on the core retail fundamentals of buying and selling whilst partnering to deliver the other required skills. Many are looking to platform companies to help deliver some of those important capabilities.”*

Retailers that will survive should already be planning for both a post-lockdown and post-COVID world, and cutting costs will be high on the agenda. It’s a foregone conclusion that the overall size of retailers’ store portfolios will have to be reduced, with many sites not likely to re-open when restrictions are eased. For the stores that do, the sector is going to need further financial support from the Government in order to get back on its feet, and retailers will be expecting the long-awaited review of business rates to take place, once the current freeze has ended.

In terms of what retailers sell, savings will also need to be made on the cost of goods, and we will likely see a drastic reduction in the number of ranges on offer. By providing more streamlined ranges, they will save money and be able to provide consumers with what they will want in the short term - a simpler, quicker shopping experience.

With operating cost savings of around 30% needed, it's inevitable that efficiencies will have to be found within the workforce.

The speed and size of the retail sector's recovery will be dictated greatly by how shoppers behave as restrictions and social distancing begins to be eased. RTT members are split on how the public will react when the retail sector's hibernation comes to an end. There is evidence from countries such as China that once restrictions are lifted, consumers will want to get out onto the high street as soon, and as often as possible. However, it was agreed that there will be large swathes of the population that will likely remain hesitant to venture out to shops, with it perceived as an unnecessary risk to their health. Time will tell if we see a 'shopping splurge' in the coming months, but retailers should be prepared for both scenarios.

It's also important to highlight where retailers should be looking to invest, with customer loyalty programs, customer data, and technologies aimed at making the shopping experience easier, safer and more efficient, all likely to be focuses for forward-thinking businesses.

Post COVID-19, it's also expected that shoppers will be even more aware of a retailer's value to the community, as they intensify their search for simplicity and meaning in how they shop.

Nick Bubb, Bubb Retail Consultancy, discussed what a heightened awareness of the environmental impact of shopping will have on the fashion sector: *"CSR and ecological issues are likely to be more of a focus in the future, with 'conspicuous consumption' being frowned upon, along with 'throwaway fashion'. Ironically, that could lead to growth in the embattled 'middle market', with both the bottom end and the top end of the clothing market getting squeezed. Unfortunately, the middle market fashion players are all but extinct, with the pandemic lockdown accelerating the demise of the likes of Arcadia and Debenhams."*

The ethics, sustainability and provenance of products - and the retailers that sell them - will come under greater scrutiny amongst shoppers. In recent years, consumers have increasingly declared with their wallets that values can outweigh value when it comes to choosing where to shop.

Consumers will also know and remember how retailers were perceived to have behaved during the COVID-19 crisis. Putting people ahead of profits and seeking out opportunities to 'serve not sell' will have put some retailers at the front of the queue in consumers' minds. Meanwhile, those that were seen to have profiteered their way through the crisis will undoubtedly have their actions judged, which could have long-term implications in the coming years.

Supermarkets will require a very different exit strategy from the lockdown as they continue to feed the nation. Mike Watkins, head of retailer and business insight, Nielsen, said: *"Retailers will need to rethink the safety of the customer journey. Shoppers are going to want simplicity of shopping with more physical space around checkouts, customer services and between aisles. In response, we can anticipate radical new food store designs where click and collect (at a central collection hub) becomes the primary reason for `visiting` a supermarket. Significant investment into store technology to digitise shopping is a must and shoppers will expect self-checkout and cash free transactions as the norm."*

RTT members also expected that in line with the long-term economic fallout – unemployment levels rising sharply and taking several years to fall back to pre-crisis levels and consumers' incomes reduced – the discounters will continue to prove popular with the consumers and take more market share away from the Big Four supermarkets in the coming years.

The immediate impact of COVID-19 cannot be understated, and in the long term it's going to change the face of retailing in the UK for many years to come. Retailers are going to have to change their proposition, whether that is with: reduced product lines; increased investment in online fulfilment;

adapting instore layouts and formats; cuts to staffing levels or even a reduction in the number of stores that re-open.

It’s been discussed by members in previous meetings that the retail sector was on the path of natural correction, with only the best retailers surviving in the longer term. The COVID-19 crisis will likely be the catalyst to speed up this process. ‘Adapt in order to survive and sell’ should very much be the mantra for all retailers.

End

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

How shopping attitudes and behaviour will change

Covid-19 has undeniably caused instant profound changes to everyday life and promoting trend accelerants and norm disruptors, but our research at Ipsos suggests that many of people’s underlying values will still stand after the crisis. We react to shock by reinforcing what we already think or what we want to be true. So, expect shoppers to be ever more mindful of their sense of value to the community, employees and the planet in their purchase decisions in the future, expect them to consider matters such as product authenticity, healthiness and carbon miles harder and expect them to intensify their search for simplicity and meaning even in how they shop.

In the immediate aftermath of the crisis I foresee that aspects of shopping behaviour and retail services will bear some deep scars from the lockdown period. I don’t believe, however, that staying in will be the new going out. People will return to the shops, restaurants and coffee bars, but not in the numbers and with the frequency that they did before. Fewer trips, bigger baskets, local patronage and less frivolous spending will characterise our return-to-shop behaviour. Social distancing will continue to have conscious resonance in how we shop, how we move around stores and how we are served. Preference to use card and contactless will endure. Click-and-collect will be back with a bang. Online retailing and services have found a new audience during the crisis – the elderly and vulnerable – and their discovery and adoption of this new way of shopping will become ingrained in their future routines.

As to the longer term impact of the coronavirus pandemic, any changes in attitude and shopping behaviour will be driven by the deep-seated values that become more important to society and will give cause to rebalance our priorities, as I stated at the start of this piece. Consumerism, that tends to quietly build up over the years, will be kicked back down the road for a generation, to be replaced by a rediscovered sense of community purpose and primary values.

Future attitudes to shopping in the long term will be shaped by the children of today in their formative years, whose mindsets and beliefs are being constructed in these unprecedented times. Today we cannot truly predict what indelible marks will be left on the next generation’s society; but we can be sure that their psyche will be shaped by the devasting impact of Covid-19, just as the terrorist acts of 9/11 and the Bali bombings and the natural disasters of SARS, the Indian Ocean tsunami and the Haiti earthquake bred a loss of feeling of security and promoted a sense of strong family bonding among the Millennial cohort when these events unfolded in their teenage years in the early years of this century.

Paul Martin, UK Head of Retail – KPMG

In the past we have often overused words like ‘unique’ or ‘unprecedented’, although it’s fair to say that the current situation stemming from the global COVID- 19 pandemic justifies the use of these terms. We are already experiencing once unthinkable implications, such as the full lock-down of ‘non-essential’ retail and the widest restrictions on movement of the general public many have ever known. Even after the lock-down is relaxed – which is likely to happen in different phases – we will experience lasting changes for the retail sector for years to come.

Many of these changes will be connected to trends that have already present for many years, such as the growth in online shopping. The COVID-19 pandemic has acted as a catalyst for many of these trends, accelerating the pace of the change.

I believe the implications of current health crisis and its aftermath can be divided into four different phases:

- React – first 4 weeks
- Resilience – months 2-4
- Recovery – months 2-12
- New Reality – months 2-24

It is important to highlight that these phases will not happen sequentially. Especially phases two, three and four, which will partially play out in parallel and are of course based on the longevity of the virus, which is yet to be fully understood.

Many UK retail businesses have now migrated from the first phase to the second, after having initially focussed on their immediate reaction. In that context I believe it to be pivotal for retail businesses to start thinking about phases three and four. This exercise cannot start early enough and some organisations have already created 'Go Forward' teams to address the future.

In my opinion four areas will dominate during the Recovery and New Reality Phases:

- Business Model & Partnerships
- Cost of doing business
- Purpose
- Customer

Even before this crisis, it was becoming increasingly clear that store-based retailing had passed its zenith. And while many physical stores will certainly return to growth in a post-COVID world, it is clear that the days of being able to drive growth through physical stores alone are over. Those with no existing online or delivery channel will struggle to survive in the future.

Companies now need to be good at not just buying and selling products, but also at things like online fulfillment, home delivery, data analytics, AI, machine learning and process automation. The capabilities required to succeed in retail continue to expand. Given the current capability shortages and cash flow challenges, retailers should now be looking to refocus on the core retail fundamentals of buying and selling whilst partnering to deliver the other required skills. Many are looking to platform companies to help deliver some of those important capabilities.

Retail, in comparison with many other sectors, has always been a lower margin sector. In 2015 the average profit margin was 4% deteriorating to 2.5% in 2019, with a further decline very likely. In that context the cost of doing business for many retail business does not work anymore and therefore a significant review will need to happen. In my opinion this will be in four areas:

- Store and real estate portfolio
- Cost of goods – resulting in range reductions
- Business rates and service charges
- Workforce

My assumption is that on average 30% of operating cost savings will need to be identified in the near future.

From the outset of the COVID-19 crisis, the vast majority of businesses have been clear that they plan to put people ahead of profits. And, as companies around the world moved to retool their business models to support government response requirements, it quickly became clear that brands were already being judged by their actions and their purpose.

The COVID-19 crisis only accelerated a trend that was already well underway. Consider this: according to a study by Edelman in late 2018, nearly two-thirds of consumers around the world said they would decide to either buy or boycott a brand based solely on its position on a social or political issue.

As different countries moved into lockdown status and non-essential retail stores closed their doors while grocery store shelves emptied, those retailers who know their customers had a clear advantage. On the one side, vulnerable customer groups could be identified and communicated to accordingly, whilst ensuring supply to them was safeguarded. On the other side, regular communication with your most loyal and valuable customers could be enhanced to ensure they continued to shop with you in both the essential and non-essential categories. Therefore, we expect to see retail leaders think more clearly about their investments into three key areas: customer loyalty programs, customer data, and technologies, aimed at making the shopping experience easier, safer and more efficient.

The retail sector will change post COVID-19 and for many businesses these are challenging times. That said, there will remain plenty of opportunities for organisations to succeed in what becomes the new reality.

Martin Hayward, Founder – Hayward Strategy and Futures

It is often said that businesses fail to adapt because executives are too wrapped up with running the existing business to lift their heads from the desk to see where the world is changing.

For all of the heartache that Covid19 has created, the suspension of normal life does present a once in a generation opportunity to rethink one's business, and re-enter the post Covid 19 world with a more relevant proposition.

For some this will unfortunately mean the end of their businesses – many retailers that were limping before the disease will decide, or have it decided for them, that the costs of restarting will outweigh the potential benefits. In some sectors there has been an oversupply of retail space and too many outdated propositions for some time, so this rationalisation was potentially overdue anyway.

For the majority of retailers who will remain, what will a relevant proposition post Covid 19 look like? It really depends on how long the pandemic affects our world but we can suggest some obvious impacts:

- Cash will become an ever more minority payment method as contactless has evolved from a convenience tool to a hygiene tool and recruited many new advocates.
- Integrated on-line channels will be crucial – many shoppers have been recruited to on-line shopping due to necessity, and will continue to keep it as part of their channel portfolio.
- However, the convenience of on-line shopping does not compensate for the social and psychological needs of shoppers in the way that physical channels do, and once restrictions are lifted, the excitement of going out to shop will be a powerful driver of footfall.
- Even though we all thought that we'd talk of nothing else forever, Brexit has taken a back seat recently, but many of the themes behind the country's democratic vote for Brexit will be reinforced. The importance and benefits of local sourcing of both goods and staff will remain particularly pertinent and retailers will do well to continue their focus on this long beyond the end of the outbreak.

Despite the anxiety and fear we all carry, we must remember that there is not an underlying systemic problem with our economy and the recovery should be robust and sustained once the restrictive measures can be lifted. In the meantime, we should celebrate the skills and resilience of our retailers who have adapted at speed and scale to keep the nation well fed and supplied against very challenging circumstances.

Maureen Hinton, Group Retail Research Director, GlobalData Plc

COVID-19 is proving to be the catalyst that turned the retail evolution into a retail apocalypse. The process of creating the right balance of physical and digital retail has been overturned by the complete closure of non-essential physical retailers across major countries in Europe and the US.

Many of these retailers will not survive, reducing supply drastically, but as demand has been shrinking in mature markets, the survivors will be in a stronger position. And all retailers, especially in food, will be speeding up their investment into digital capabilities and their operational capabilities.

In the UK the closure of non-essential stores over a period of nearly seven weeks means that 382 million sq ft of retail space is non-operational. In 2019 these stores would have generated around £14.5bn of retail expenditure over that period. Some of this spending will have been transferred online but certainly not anywhere near enough to compensate for the closures. Add to this a house bound population, with many households struggling financially, and you have a retail apocalypse.

We at GlobalData are forecasting that retail sales will fall by 4.4% in the UK in 2020, taking £12.8bn out of the market. Opening non-essential stores will not lead to spending reverting to normal. Social distancing is likely to remain in place for months, and the economy and employment is not going to rebound either, severely restricting spending this year.

That said within the market are some very contrasting stories. Food sales are very obviously increasing, as are health products. Isolation has led to a large amount of food on the go, restaurant and café spend transferring to grocery spend. Fashion however will be the sector hardest hit, with sales forecast to be over 26.1% down on 2019 levels. No amount of spare time at home to browse online can make up for the lack of reasons to get dressed up for work or events. Only childrenswear will remain more resilient as children continue to grow, and social distancing is having an impact on the second hand market for clothing and nursery products.

Despite the malaise in the retail industry there are new opportunities being created by the new enforced lifestyle for households. In home improvement in recent years, there has been a steady rise in consumers engaging workmen to ‘do-it-for-me’, but the coronavirus pandemic is forcing a swing the other way, with homeowners undertaking the work themselves. This has already given an unexpected boost to struggling DIY retailers. Toys, hobbies, crafts and games are all getting a boost, as are home beauty preparation products such as hair dye.

The challenge for retailers in the future is to adapt to new behaviours as some of these trends are likely to continue with consumers not reverting to the old patterns of consumption. Indeed working from home is likely to become even more widespread which could give rise to the resurrection of local retail and foodservice as home workers seek social engagement.

Furthermore how companies react in this situation will have a defining impact on their future survival, even if they are financially sound. Ethics, sustainability and governance (ESG) were a major theme before the crisis and are having a defining influence on how consumers will respond post crisis. Those companies that have acted ethically, doing their best for employees and customers, and helping the community through initiatives such as supporting their health services and the vulnerable, will be the ones that will retain loyalty and attract custom post COVID-19.

Martin Newman, The Customer Experience Champion

The pandemic will change consumer behaviour. Some changes will be temporary and short-term, others will be a permanent shift. All will have implications for retailers.

However, as the saying goes, there’s no one size that fits all. I see different consumer mindsets affecting behaviour.

Some consumers who have been cooped up with young kids or just gone stir crazy having been deprived of their usual lifestyle are going to want to get out there as often as they can. They will be a core target for retailers as they will also look to make up for lost time with retail therapy. One Hermes store took $2.7m in sales in one day upon re-opening in China.

There is a large segment with a ‘life must go on attitude’. They’ll be sensible in what they do but it won’t stop them living and getting back to a sense of normality.

Another sizeable group of consumers will be extremely nervous and highly reluctant to venture out due to the perceived risks associated with doing so.

The best way to answer what happens next is to look at history. Take 911. Many consumers felt uncomfortable being in larger stores with more people and therefore smaller stores benefitted.

In fashion, consumers will be reluctant to enter a changing room to try on clothes, concerned about who has been in there before them.

Most of the changes above will have a short-term impact. How might our behaviour change in a lasting sense? We were already on a path to wanting to buy less and experience more. In addition, conscious consumption and the climate change agenda was changing the frequency of purchase for some consumers. Our experience during lockdown will accelerate the over-arching move to 'buy less.' This has massive ramifications for retail in general.

Many people will lose their jobs and many others will also be out of pocket, particularly those who are self-employed. This doesn't auger well for a quick recovery.

Who are the losers? We can see already that we are sadly going to lose another swathe of the High Street with mid-tier players such as Oasis and Warehouse going. Some tier ones will potentially join Debenhams. If Primark survive, surely, they will need to review their perennial decision to not sell online?

Fast fashion will be impacted by a reduction in the frequency of purchase.

Asides from the grocers and pharmacists, who will be the winners? DIY will thrive as will small, local independent retailers. Why? I believe that many consumers will want to stay local and also shop in smaller stores. They will also benefit as a result of most of us choosing to staycation for the next year or two.

Channel wise, ecommerce will obviously grow as a percentage of overall retail, but the current spike will soften as life gets back to some sense of normality.

It'll take at least two years for the economy to fully recover.

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

Shopping habits for food and drink have been altered and it remains to seen whether the precipitous channel shifts seen in March and April 2020 - towards online and smaller stores - will continue. However the early indications are that we are now seeing the start of a fundamental change in shopping behaviour that will last well beyond 2020.

Nielsen research at the end of March 2020 showed that 56% of UK shoppers believe that the immediate impact of Covid -19 will continue for up to 12 months which means that the level of underlying demand and patterns of shopper behavior will remain unpredictable. An indicative trend is that weekly shops and meal occasions are now more planned and that shoppers probably want to get in and out of stores (still over 90% of all food and drink sales) as quickly as possible; with less time spent browsing and with a focus on \`essentials\`. If this behaviour continues it will put further pressure on the (too many) and often over ranged Superstores and Hypermarkets.

We can also expect post Covid-19 health awareness to remain high so retailers will need to rethink the safety of the customer journey - in store aswell as online. Shoppers are going to want simplicity of shopping with more physical space around checkouts, customer services and between aisles. In response we can anticipate radical new food store designs where click and collect (at a central collection hub) becomes the primary reason for \`visiting\` a Supermarket. Significant investment into store technology to digitise shopping is a must and shoppers will expect self-checkout and cash free transactions as the norm. Unprofitable stores will have to close faster to support capex in remodelled supply and distribution chains (shared with competitors?) or be converted into dark stores to meet growing demand for online.

And we must not forget that rising unemployment and reduced incomes for most households will add to the pressure on household finances, and this will give further momentum to Discount and Value retailers who Nielsen expect to have a combined FMCG market share of 25% in less than 3 years.

In summary there are 5 key ways in which shopper behaviour will evolve over the long term which will lead to a re appraisal of the business models of food retailers.

The acceleration of online and the wider adoption of technology by shoppers; heightened concern around health and wellbeing; the continued rise of provenance, quality and a need for trust in supply chains; the emerging popularity of the at home meal occasion and a reinforcement of the savvy mind-set of shoppers, which was one re sets following the previous recession 11 years ago.

The continuation of `restricted shopping` is the new norm in the UK for the foreseeable future, and compounded by a delayed, slow restart of the out of home food and beverage industry with probably less consumption, food retailers need a different exit strategy from lock down than non-food retailers, as they continue to #feedthenation.

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

The stockmarket veers between hoping for the best (ie a reasonably swift return to normality after a disastrous Q2 for the economy) and fearing for the worst (ie that the Government fails to provide enough support for the economy to prevent a prolonged recession and that it fails to get on top of the pandemic either).

Of course, the stockmarket doesn't know how the pandemic and the economic slump will pan out, but following the ups and downs of the market is the best way of following how fund managers and analysts have tried to discount ahead. At first, of course, the growing pandemic in China was seen as a sourcing problem, given the importance of Chinese manufacturing to many retailing supply chains, with the likes of Joules and B&M in the spotlight early in the saga. And retailers with heavy exposure to Chinese consumer spending and tourism like Burberry were early in the firing line.

The situation soon developed into a UK consumer demand problem, as the pandemic ran rife throughout Europe and the Retail sector began to react to the implications of the enforced closures of non-essential stores and the household lockdown…

The big supermarkets and the **Food Retailers** were seen at first as big winners, given the surge in sales from the panic buying in w/e March 21st/22nd and the boom in Online Grocery, plus the benefit from the general Business Rates holiday for this year announced by the Government. But enthusiasm in the City for the Food Retailers waned after Tesco announced that higher operating costs and some gross margin dilution would wipe out any bottom-line benefit from higher sales. And more recently the queues caused by the social distancing measures at the big supermarkets have sent many consumers to top up at local corner shops etc

Nevertheless, over the last 8 weeks, the defensive merits of the supermarkets have shone through, with the FTSE Food Retail sector only down by 1.5%, compared to a 23% fall in the All-Share index. That performance is skewed, however, by the impressive 38% growth in the Ocado share price, on the back of its Online Grocery positioning. At the other extreme, the once high-flying Greggs has been a big "loser" on the High Street, with the shares down by 29% over this period.

The pattern of performance in the **General Retail** sector over the 8 weeks since the stockmarket began to crash on Feb 24th has settled down over the last couple of weeks, as the City has started to get on top of the likely "winners" and "losers"…On average the FTSE General Retail sector is down by 28% over the last 8 weeks, but that it is skewed by the resilient performance of **Just Eat** and in the mainstream stocks falls of 35%-40% are not uncommon. **WH Smith** and **Frasers** are both down by 53%, whilst **Dixons Carphone** is down 50% and they seem to be ranked as "losers". In the middle are the likes of **JD Sports** (-43%) and **M&S** (down 47%), but **M&S** seems to be moving into the "losers" camp, despite its Food business. In the "winners" camp are the Online players: **Boohoo** (only down

14%), **AO.com** (down 11%) and **ASOS** (down 29%, even after the massive rally of late). With hindsight, the likes of **ASOS** got heavily oversold 2 weeks ago, on fears that its young target consumers were no longer buying clothing to wear "at home" and the worry that it might have to shut down its warehousing operations on health and safety grounds. After the recent equity placing, **ASOS** is now seen as a "survivor" of the crisis, as well as a winner.

Simon Wolfson of Next famously said that "People do not buy a new outfit to stay at home", but will they buy once the lockdown is over? It's easy to say that fashion retailers targeted at the young will do best post-crisis, as the young will be the ones most likely to have immunity from the coronavirus and the confidence to go out and mingle, whereas older people will remain nervous about going out. But the young are the most likely to have lost their jobs because of the lockdown and the decimation of many service industries, whilst the old are the most likely to have money to spend…

And CSR/ecological issues are likely to be more of a focus in the future, with "conspicuous consumption" being frowned upon, along with "throwaway fashion"

Ironically, that could lead to growth in the embattled "middle market", with both the bottom end and the top end of the clothing market getting squeezed. Unfortunately, the middle market fashion players are all but extinct, with the pandemic lockdown accelerating the demise of Arcadia and Debenhams etc… If clothing is likely to remain a troubled market post-crisis, "cocooning" at home should stimulate DIY and furnishing/homewares trade, at least for those consumers able to afford it.

Going to shops, apart from supermarkets, feels like an alien activity at present and it's tempting to think that life will never be the same again. But after "9/11" it was said that nobody would ever want to fly again or work in high-rise office buildings…and yet people would soon be doing exactly that. Time is a great healer and although airport retailing is one sector that will certainly not be the same again…it is perhaps not too hard to envisage a future where High Streets are busy again, even though shopping in masks and with social distancing screens for shop assistants it will feel a bit different.

James Sawley, Head of Retail & Leisure, HSBC

As for most people, day-to-day life as a banker has been flipped, reversed and turned upside down. My attention has entirely turned to helping our customers get through this extraordinary time. Retail is probably the third most impacted sector after airlines and hospitality. At least retailers can trade online. However, the economic structure of retailers business models are not set up to absorb shocks like this. Retailers traditionally carry a high level of operational leverage in their P&L/margin structure, high fixed costs as a proportion of revenues and low profit margins means that a fall in sales very quickly will wipe out profits in their entirety – sometimes in a matter of weeks – then after that the business is having to fund losses. Where that money comes from is the key matter of debate.

I have been enormously impressed by the leadership efforts of my Retail clients. Management have been effective at taking action and have done so at pace. The reality is that every stakeholder in a business needs to absorb some pain, and those who distribute said pain effectively and, more importantly, fairly, have the right to survive and will hopefully flourish. Retailers quickly moved into cash preservation mode, cancelling capex projects, furloughing staff, putting a stop to travel and marketing spend, and cutting directors salaries. This has been a tortuous process which has really tested leadership capabilities. The hardest part, clearly, is the impact on colleagues. No one wants to let people go, or reduce someone's pay, even if temporally. However, salaries are the number one operational cost to a retailer and while the governments job retention scheme has enabled millions of people to go into hibernation without a material impact on living standards, many jobs will be lost through business failures and the uncertainly of life after Covid-19 will be having a huge impact on the lives of millions of workers in the sector. The second biggest operational cost to a retailer is causing the highest degree of angst – Rent. At a time when the Retailer/Landlord relationship was already being tested, the unthinkable has happened and rent continues to be the biggest component of cash burn. I am seeing a huge variation in strategies being adopted, from ultra-aggressive to collaborative. Given the lack of direct government support for rent, going forward doing a deal on rent may be make or break for many operators when we exit lockdown. For me, this is the industry's biggest challenge. Key to maximising this 'opportunity' is to understand landlords motives, financial standing and to leverage relationships in order to agree win-win long term deals.

After cash preservation comes cash generation, key actions here involve moving stock to places and channels to maximise sales, stimulating demand through promotional activity, and generating cash through working capital. I have been encouraged by the strength of online sales, people are clearly still shopping for essential and non-essential goods, ultimately making life at home more comfortable and entertaining. For most though online sales are not nearly enough to mitigate the cash flow challenge. Suppliers is the next obvious way to generate cash from working capital and retailers have been systematic in identifying where savings can be made and cash created. Best in class retailers have prioritised payments with in mind long term equitable trading relationships. The most difficult decisions retailers are facing now is how much stock to buy, predicting demand for Q3, Q4 and Q1 2021 is an impossible feat and one which entirely depends on your view of the post coronavirus consumer, and how much cash you still have in your business!

Looking forward, what does the exit look like from a financing perspective? A key challenge with the actions taken to manage cash through this period of lockdown, is that liabilities are being built up, rather than forgiven. Retailers are going to come back from hibernation having accrued material levels of rent cost and creditor stretch, all of which must be unwound, at the same time as taking on more debt to fund losses. The result of this means companies could be looking at years of rebalancing the books before shareholders can make a decent return, meaning we are likely to see owners walk away from investments and therefore more business failures. For the stronger companies who are likely to survive, equity needs to form part of the overall solution so not to burden businesses with too much debt, constraining growth and investment. To this end we have seen retailers such as ASOS and WH Smiths tap the equity markets to shore up balance sheets. Some Retailers are looking at the current crisis as a golden opportunity to fast track their medium term strategies, taking action to right size their business and sharpen their focus. Many businesses are hoping to come out this leaner and more efficient.

The longer term implications of Covid-19 on the sector are hard to call. I sit in the optimistic camp whereby I believe consumer spending will return reasonably quickly, as we are seeing in China, however recovery will depend on what you're sell and to whom. Sadly, the consumer groups who will be impacted greatest by this crisis are the most vulnerable in society and unemployment is likely to rise along with a recession in the short term. Similar to our experiences through the last recession, this will further polarise the spending patterns between the value and the luxury end of the market, and the best and the worse operators. Therefore, again, the most vulnerable retailers are those without a market leading value proposition or strong brand equity. As weak operators fail, stronger companies will benefit, and spare capacity (together with lower rents) will pave the way for the new generation of retailers.

Jonathan De Mello, Head of Retail Consultancy – Harper Dennis Hobbs

The lockdown resulting from the spread of Covid-19 has impacted UK retailers – and property owners - hugely. It is hard to estimate when normality will return, as – even though shops have started to open again in China – secondary outbreaks have recently been reported there also. The UK has been hit harder than most other European countries and, while we continue not to screen incoming passengers through our airports, and a minority of people do not respect the lockdown that has been put in place, we are likely to recover less quickly than other economies.

Many of the brands planning to open new stores at the beginning of the year have put expansion plans on hold, as current market conditions create a huge drain on their finances. However those with deep cash reserves, strong online revenues or smaller store portfolios, will be in a better position to take advantage of the current situation and negotiate favourable property deals with landlords, when the market returns to some semblance of normality.

Some sectors, such as Grocery, have posted record sales growth numbers as people have been panic buying – both in store and online. Other sectors have been hit extremely hard however – for example Leisure – given the closure of all restaurants, bars and pubs. It is hard to see how Leisure will recover for the forseeable future, as people are likely to shun medium-large social gatherings even post-lockdown; at least until a vaccine for Covid-19 is found.

Retailers that were struggling prior to the crisis have fallen into administration, while others have accelerated the pace of store closures. Whilst the government has provided business rates holidays for retailers and the opportunity to furlough staff, retailers have had to negotiate rent concessions/holidays from landlords, with some very reticent to offer such concessions; even threatening to issue statutory demands to some retailers for non-payment of rent.

Securing rent in the current climate has proved extremely difficult for landlords, particularly given the government are very much backing retailers if they choose not to pay. Some retailers such as H&M have even introduced ‘pandemic clauses’ which would empower them to break a lease if turnover for that store does not return back to 90% or higher of pre-pandemic levels. H&M is not alone in introducing such clauses is planning for the future, where more shopping will be conducted online than ever before, it is expected that shop vacancy rates will be substantial given the volume of business failures we are likely to see before the pandemic is over, and rents will be forced down further as retailers seek to cut costs to counter the effects of lower demand.

Ruth Gregory, Senior UK Economist, Capital Economics

With an estimated 25% of the UK economy disappearing almost overnight, the enormous economic costs of the Covid-19 outbreak are becoming clear. A fall of this magnitude will not only eclipse the 6% slump in output in the financial crisis in 2009 but also the 7% drop in the Great Depression.

Perhaps more important than the size of the initial slump in GDP is what comes next. As far as the alphabet soup of what shape the recovery will take (V, U, W, L?) goes, we don’t know yet. But the sheer scale and global nature of the crisis make the best-case scenario – that the UK economy suffers no permanent loss of output and returns to its pre-virus path of GDP, or a perfect V-shaped recovery – seems increasingly unlikely.

True, when the restrictions are over, there may be a surge in restaurant, pub visits and travel. But not all the spending on things that are forgone will take place in subsequent quarters – on top of the spending that would have happened anyway. The lesson from China is that once governments conclude that lockdowns can be eased, reopening workplaces is easy. But encouraging firms and households to start spending again, if fears of a second wave of the virus linger, is more difficult.

Meanwhile, there is no doubt that governments have pulled out all the stops in announcing huge fiscal stimulus programmes. But with many businesses reluctant to take on more debt or falling through the cracks, this may not prevent long-lasting effects from higher unemployment and corporate insolvencies. Once the virus fades, governments around the world will face big economic and political questions. Will the size of the state be permanently larger and how will countries tackle burgeoning debt burdens? None of the four options; tolerance, austerity, default or deflation, are appealing. Austerity didn’t exactly go well after the financial crisis. Inflating away the debt could have disastrous consequences. Perhaps the least painful option may be to let UK debt be eroded gradually by economic growth, as the UK did after the Second World War. Even so, it took several decades. Whatever happens, the economic effects of the Covid-19 outbreak will remain for many years to come.

Members of the RTT are:

o Nick Bubb – Bubb Retail Consultancy
o Tim Denison – Ipsos Retail Performance
o Jonathan De Mello – Harper Dennis Hobbs
o Ruth Gregory – Capital Economics
o Martin Hayward – Hayward Strategy and Futures
o Maureen Hinton – GlobalData Plc
o Paul Martin – KPMG
o Martin Newman – The Customer Experience Champion o James Sawley – HSBC UK
o Mike Watkins – Nielsen UK

Notes to editors:

The RTT was founded by KPMG and Ipsos Retail Performance (formerly Synovate) in February 2006. It now meets quarterly to provide authoritative 'thought leadership' on matters affecting the retail industry. All outputs are consensual and arrived at by simple majority vote and moderated discussion. Quotes are individually credited. The Retail Think Tank has been created because it is widely accepted that there are so many mixed messages from different data sources that it is difficult to establish with any certainty the true health and status of the sector. The aim of the RTT is to provide the authoritative, credible and most trusted window on what is really happening in retail and to develop thought leadership on the key areas influencing the future of retailing in the UK. Its executive members have been rigorously selected from non-aligned disciplines to highlight issues, propose solutions, learn from the past, signpost the road ahead and put retail into its rightful context within the British social/economic matrix.

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