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What retail sectors will emerge stronger and which will be most changed in the wake of the pandemic

- COVID-19 has acted as a change accelerator for many of the long-term structural issues that have been apparent in the retail sector for several years.
- Nearly every operator will require some level of structural change - and as many as 50% of retailers will need to pivot to a new model.
- A more balanced retail market will emerge, as some legacy operators in overpopulated categories exit and make room for surviving retailers to grow and new concepts and brands to emerge.
- A shift to more immersive and experiential online shopping services will become prevalent, this will be driven by retailer innovation and consumer uptake.
- Opportunities for the physical high street will also emerge as the cost of opening and running stores is reduced.

The global COVID-19 pandemic has meant an immediate change to the day-to-day life of billions of people around the world, and many of those shifts in lifestyle and behaviour are expected to become more permanent in the post-COVID world. In the latest KPMG/Ipsos Retail Think Tank (RTT) white paper, members discuss how retailers have been changed by the pandemic and what opportunities have materialised (Part 1), and in the longer term, how larger, more fundamental structural changes will be required to ensure operators are able to thrive in the coming years (Part 2).

Part 1: How retailers have been changed by the pandemic and what opportunities have materialised

COVID-19 has impacted retailers in many ways, with no operator left unaffected by the trading restrictions imposed across the UK. While the likes of grocers benefited from increased sales due to the lockdown of the hospitality sector and the return of home cooking, for others, it's acted as a 'trigger event' leading to weaker retailers closing their doors for good.

There will likely be more failures, most likely legacy retailers in already overpopulated categories. Maureen Hinton, group retail research director, GlobalData, summarises: *"With the demise of the weakest operators, many of whom were already heading towards a long slow demise, the pandemic has proved the catalyst that has accelerated that process. This helps the survivors because it takes out the overcapacity in the market, concentrating spend onto fewer players."*

In the immediate aftermath of retail's lockdown ending in England last month, and as restrictions continue to be eased and consumers gain more confidence to shop again, there are a number of areas for growth. This growth will see new life injected into the sector in the short- to medium-term, driven by a mix of new trends and ones that have re-emerged due to the way consumers are now living their lives.

With people traveling less far and less often, even with guidance regarding working from home and using public transport being updated, the dependence on local services and amenities is set to stay and will result in a rise in popularity for localised, neighbourhood shopping. Convenience stores, corner shops, boutique retailers, and small independents were once the lifeblood of local high streets, and people's reconnection with the local community and the value attributed to local services may well see their resurgence continue at the expense of city centres and large shopping malls – at least in the short term.

In the food sector there will be a more permanent shift in how we shop. However, this is a shift that was already underway, as Mike Watkins, head of retailer and business insight, Nielsen UK, explains: *"Pre-COVID-19, online spend was growing faster than bricks and mortar and spending `little and often` was contributing to a decline in the sales of the largest food stores. As we emerge from lockdown and start to reboot retail, the expectation is that despite the recent disruption, shoppers will eventually revert back to existing shopping behaviour, probably later in 2021. Which means large stores will continue to underperform relative to other sectors - the biggest change will be that online will retain close to the current levels of market share."*

The discounters and value retailers offering home essentials may not have enjoyed the bumper sales of their more premium competitors in lockdown, but with the economic recovery likely to be slow and unemployment expected to rise further, their upward growth trajectory pre-COVID-19 will quickly get back on track. It's likely there will be major investment from value and discount operators as they venture further into online sales. While historically it's a model they have avoided, the surge in demand for home delivery and click and collect is here to stay, and operators will need to ensure they are able to offer and fulfil these services.

While it's been a disastrous period for most fashion and footwear retailers, the overnight shift for millions of people swapping working locations from an office to home studies and kitchen tables has benefitted the furniture and homewares sectors. This increase in demand has also been felt in gaming and DIY, as consumers spent time at home with no reason or opportunity to 'get dressed up' or to enjoy hospitality venues or book holidays. This trend is expected to continue, as those individuals who worked through lockdown and didn't enter the furlough scheme have likely amassed savings over this period and may be looking to spend those pent-up funds.

Throughout lockdown, retailers operating in the health, wellbeing, sporting and outdoor pursuits sectors have also seen a significant rise in consumer demand, as people have re-evaluated their work/life balance, and health and fitness has emerged higher up their priority lists. The RTT expects this 'bounce' to continue, especially as the appetite for foreign holidays will be replaced with a surge in staycations, particularly in 2020.

Whilst the RTT was able to highlight some categories that will emerge stronger from the lockdown, the future survival of retailers and their ability to grow will be determined by the state of individual retailers' finances pre-COVID-19, and their businesses strategies and success in changing structurally post-COVID-19.

Part 2: In the longer term, larger more fundamental structural changes will be required to ensure operators are able to thrive

The UK retail sector was amid a structural revolution before the pandemic, but greater urgency is now needed by retailers to increase the pace of change.

Inevitably, new and updated business models are needed in order to deliver the requisite structural changes. Retailers need to move away from traditional, store-centric models that have been so successful for decades, where there was almost a linear relationship between the number of outlets and sales. Instead, consumer commerce businesses will be the future, many of which will evolve from existing retailers, but others will be born out of technology, data or supply chain businesses looking to sell products and services to the consumer.

The urgency of change is stressed by Paul Martin, UK head of retail at KPMG, who comments: "*Looking ahead, there are likely to be six types of businesses that will succeed. These types of businesses will span multiple sectors and categories and not all will represent the 'traditional' business model we have become accustomed to over recent decades: international platform ecosystems, multi-national retailers evolving into platform businesses, large scale domestic retailers that form partnerships to compete, value-based retailers, brands selling direct to consumer and category specialists are the winning models of the future. I believe as many as 50% of today's retailers do not fit into one of these classifications, and without pivoting into one of these new models, they will find it extremely difficult to survive."*

Structural changes will be seen in both the food and non-food sector. In the former, Mike Watkins outlined three long-term store formats for success: online, local convenience and food only supermarkets, focussed primarily on fresh foods.

COVID-19 has acted as a stimulant to the uptake and frequency of online shopping, and digital is the common force for change. Dr Tim Denison, director of retail intelligence at Ipsos Retail Performance said: *"The lockdown has acted as an accelerant for digital retailing. At the end of March, 11% of respondents to Ipsos' coronavirus tracker said they were increasing the amount of general shopping they were doing online. By the start of June, the percentage had almost trebled, to 31%."*

The RTT stresses however, that the current operational model for home delivery in the UK – so important to the success of online – is not economically viable, environmentally friendly or fair in the long term. Changes will inevitably come, whether through further supply chain innovation, cost transfer to the consumer or Government legislation, levies or tax changes.

With shoppers remaining cautious about returning to bricks-and-mortar retailing, store-based non-food shopping is currently seen less as the popular recreational pursuit it once was, and more as a functional activity. The irony is that in recent years, retailers have been pushing forward with the development of their physical stores to create more immersive and experiential reasons for customers to visit. Much of this investment could now switch to the online world, not only as a means of differentiation, but also to answer the growing need for 'added-value' experience-based shopping within digital formats. Augmented reality, video consultations and the building of online brand communities will all become more prevalent, as retailers look to ensure they capture as much of the rise in online shopping as they can. As Maureen Hinton points out: "*Livestreaming, which is prevalent in China, is becoming more common among Western brands and Lululemon's acquisition of at-home fitness firm Mirror, demonstrates how brands are partnering to increase their access to consumers in their homes and during their activities."*

With consumers set to shop more online, the high street will face a pivotal 'now or never' moment if physical shopping is to remain a firm fixture in the future. The demise of the high street has partly been caused due to an unlevel playing field with digital services, and partly by severe overcapacity of stores within a static market.

COVID-19 has already presented opportunities for retailers to re-open negotiations and terms with landlords on their leases, and a rising number of operators are looking to secure rental agreements that are directly linked to turnover. It is inevitable that working relationships between retailers and landlords will have to become closer and more transparent. Along with the proposed cuts to business rates, alleviating this cost pressure on stores will be a necessary step in making more stores profitable and attractive propositions for retailers.

If rents become cheaper and more accessible, many of those units and locations that have shut their doors since lockdown could again become financially viable to trade from. The re-vitalisation of the high street may also come in the form of exciting, smaller new concepts that will be driven by entrepreneurs, investors and independent business owners who may not have been able to make a business case without the more affordable physical stores. As James Sawley, Head of Retail & Leisure, HSBC, points out: "*Going forward, spare capacity and lower market rents will allow exciting new concepts, localised independent stores and younger, cooler brands to enter locations previously not attainable to smaller businesses."*

Conclusion

The direction of change that the UK retail sector is heading in has not diverged due to COVID-19, but it has accelerated the need for fundamental structural changes and innovation in the ways retailers operate and reach their customers.

Undoubtedly the recent impact of the pandemic has been monumental for retailers. Not all the behavioural changes will stick long term, some of them will revert to the old. Much will depend on the desire and ability of consumers to spend, as the effects of the huge hit to the economy lingers and the uncertainty caused by Brexit acts as a further hurdle in the economy's road to recovery.

The RTT firmly believes, however, that there is a now a window of opportunity for retail operators to seize the initiative, and, with Governmental policy support, become bold and radical, embrace the quest for new business models, remain intensely focussed on their customers, and so ensure they are in a position to take full advantage of the opportunities that present themselves.

Ends

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.

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

KPMG/Ipsos Retail Think Tank
Dr Tim Denison, Director of Retail Intelligence – Ipsos Retail Performance

With footfall still down by over 60% year-on-year and online sales failing to make up the difference, it is hard to imagine that any retail sector will emerge stronger after the pandemic than before, such has been the cataclysmic impact of COVID-19. Despite the strong economic headwinds that we are facing, there are pockets of light, however, and as Sir Winston Churchill famously remarked: "Kites rise highest against the wind, not with it."

We've referenced in a previous KPMG/Ipsos Retail Think Tank white paper some of the consumer trends that began before the coronavirus crisis, have grown in appeal since and are likely to endure long term. The importance associated with wellness is one that will offer growth hormones to the health and beauty sector as well as the likes of sportswear and equipment retailers. Halfords, for example, announced a 57% increase in bike sales in the 13 weeks to July 3rd. Our re-discovered love of nature and the great outdoors is also providing green shoots to garden centres and farm shops. Our appreciation of local neighbourhood stores during the lockdown could trigger their revival. A recent survey by Wunderman Thomson Commerce found that there has been a 27% increase in the public's positive perception towards corner shops.

While it is difficult to call out many sectors that will be strengthened as a result of the pandemic, all individual retailers that emerge stronger will be much changed from their former selves. One area in particular is worthy of comment here. The lockdown has acted as an accelerant for digital retailing which will hasten the evolution of inventory/supply chain management. At the end of March, 11% of respondents to Ipsos' coronavirus tracker said they were increasing the amount of general shopping they were doing online. By the start of June the percentage had almost trebled, to 31%. For grocery shopping, the proportion had doubled from 15% to 30%. Levi Strauss & Co have just reported a 35% hike in online sales across Europe in Q2. More fulfilment options, such as click-and-collect will be an inevitable consequence.

Aside from sales, the direction of travel for online is away from purely functional towards experiential, taking over that mantle from physical stores. Already we are seeing retailers such as Dixons Carphone and John Lewis launching virtual consultations, the likes of Clinique livestreaming to shoppers and Asos scaling its AR "See My Fit" service to offer customised views of hundreds of products each week. Digital communities between retail teams and their customers are fast becoming built – reference the US e-tailer Zappos, which has recently launched its "Customer Service Anything Helpline", a hotline that will provide advice on anything and everything.

The sectors that will change the most in the wake of the pandemic will be those that are "high contact", whether that is contact with assistants or with products. To avoid spreading the virus, product and person engagement in physical stores will be demoted. The clothing and footwear sector will therefore need some re-modelling; the halcyon days of browsing and trying-on may be behind us. Perhaps likely to see more change still will be the luxury sector and not simple because it is a high service and therefore high contact sector. Shoppers from China and elsewhere in South East Asia are prominent spenders in European luxury stores, but long-haul travel is likely to remain unfashionable for some time to come. Furthermore, picking up where I began, another of the trends that has gained momentum during the pandemic has been towards better CRS and consideration of the whole of society and communities. This is manifested in the move away from exclusivity to inclusivity in the luxury sector, where minority groups are gaining greater importance as customers. Some very good things often come out of something very bad.

Paul Martin, UK Head of Retail – KPMG

In England, non-essential retail stores started re-opening from Monday June 15th. On the day itself long queues in front of stores were reported, which could lead us to believe that the sector was going to emerge strongly after months of lockdown and recovery would be swift. The reality is unfortunately far from that.

The sector remains split in two halves, with a proportion of businesses having fared ok during the crisis – in some cases experiencing significant sales increases – whilst the fortunes of the other half have been more negative. This pattern is likely going to have longer-term implications for the sector. Categories like food, homewares, furniture and home improvement have benefitted over the last four months, whilst womenswear, menswear, footwear and health & beauty have been less fortunate.

For the month of June, according to the BRC-KPMG Retail Sales Monitor, retail sales bucked the recent trend, having turned positive with 3.4% growth in comparison to June 2019. Alongside continued strong growth in food (a category continues to take advantage of the shift to in-home food consumption versus out of home consumption) a variety of non-food categories, all with focus on the home, posted 50%+ like-for-like sales increases, including furniture and computing. On the flip side, most clothing, accessories and footwear categories continue to be down 30% like-for-like.

This of course prompts us to question what shape the retail sector will take in the future. Generally, we expect many of the above trends to continue for the short to mid-term, and pre-COVID-19 levels of trade will not be achieved again in some categories until 2022. Some categories, especially in non-food, aren't likely to retain the same size in value they did prior to the pandemic, and although we do not expect any categories to disappear in their entirety, the route to market to sell these categories will.

Looking forward there are likely to be six types of businesses that will succeed. These types of businesses will span multiple sectors and categories and not all will represent the 'traditional' business model we have become accustomed to over recent decades. We increasingly believe that retailers will be replaced by consumer commerce businesses 5-10 years from now. These organisations will, in some cases, have originated as technology, data or supply chain businesses who now sell products and services to the consumer.

The 6 type of businesses will be:

- International Platform Ecosystems
- Multi-national retailers evolving into platform businesses

- “Domestic Heroes” - large-scale domestic retailers that will seek “buying” alliances or partnerships to succeed
- Value-based retailers
- Brands going direct to consumer
- Category specialists

  Businesses that do not fit into these classifications could find it extremely difficult to survive and thrive in the future, therefore we believe the urgency and pace of change to increase fundamentally in the next months and years. Many of the underlying trends have not changed but COVID-19 has functioned as an accelerator. Times of crisis have historically represented an opportunity to speed up decision making and acted as a catalyst to do things differently.

Martin Hayward, Founder – Hayward Strategy and Futures

The ultimate fate of many sectors of UK retail is more dependent upon the future actions and aspirations of the government than it has ever been. For a sector that is so consumer led and fiercely commercial, this is a peculiar outcome.

Outside of food, currently large sections of the retail estate remain at least partly shut down, with furloughed staff’s wages being paid by the government and business rates supported or suspended. Clearly this is not sustainable and the government is doing all it can to encourage retailers to reopen, shoppers to venture out and office workers to return to the towns and cities.

In contrast to conventional wisdom and recent trends, it is the smaller stores in towns and villages that have re-opened most rapidly due to so many shoppers being furloughed or working from home. The larger stores in shopping centres and cities remain cautious about the economics of re-opening with limited footfall. How quickly the big city shopping destinations recover is still an unknown as we assess the pandemic’s impact on tourism, consumer confidence and how structural is the migration to home working.

As the economics of re-opening remains questionable for some stores, the online sector has enjoyed unprecedented success over the last four months.

In many respects the pandemic has merely accelerated and exacerbated underlying trends that were already very apparent to the retail sector.

- The hard economics of the high street with onerous business rates and intransigent landlords
- The tax and business rates advantages enjoyed by multinational online players
- The loosely regulated and environmentally damaging home delivery infrastructure

  The retail industry has known about these issues for many years but has perhaps not pushed hard enough to correct the imbalances in the system caused by legislation and tax approaches not keeping up with changes in the sector.

  Business rates are already being reviewed and this process will surely accelerate, but real urgency, pressure and leadership must be given by the retail industry to a levelling of the legislative and fiscal approach to physical vs online shopping.

  The Department for Transport Science Advisory Council ‘Last Mile Logistics’ positioning statement is a good place to start. This paper explores potential options to reduce home delivery inefficiencies, congestion and pollution through, amongst other things, a tax on home delivery. This, together with the rates review and a fairer tax burden on international online businesses could have a major impact on the sustainability of physical retail.

Consumers will inevitably soon begin to tire of ‘Zooming’, their families and not going out, particularly when the weather turns. The retail industry needs to push hard to get the fiscal and legislative help it needs to protect physical retail for when they return – there is no better time, and there is very little time.

Maureen Hinton, Group Retail Research Director, GlobalData Plc

At GlobalData we are forecasting the total UK retail sector will drop by 5.4% in 2020, resulting in a £18.4bn reduction in expenditure compared with 2019. Considering we were forecasting a modest 2.0% increase pre COVID, which would have added £6.8bn of spend, COVID-19 will have had a £25.2bn detrimental impact on retail. We envisage

restrictions on physical stores and the reluctance to visit them will continue into Q1 2021. This combined with unemployment levels rising, and further arduous negotiations over Brexit, will suppress consumer confidence and spending.

Hence the demise of the weakest operators, many of whom were already heading towards to a long slow death; the pandemic has proved the catalyst that has accelerated that process. This helps the survivors because it takes out the overcapacity in the market, concentrating spend onto fewer players.

The biggest loser has been the clothing & footwear sector. The shift online has not compensated for the closure of stores – though we have seen the like of ASOS & Boohoo, who sell to young, already online committed consumers, show strong sales. Though one has to bear in mind some of this gain can be attributed to the major player in young fashion, Primark, being closed for three months.

Working from home has also reduced the need for occasionwear and formal clothing. Our weekly global COVID-19 recovery tracker shows more than half of UK consumers are not buying these products. As 21% of consumers say they intend to continue to work from home, 37% say they will continue to buy more online and 47% are on a tight budget, consumers will be more selective about what they buy and how they buy it. Apparel retailers will have to adapt their offers to suit changing lifestyles with fewer stores, more online, new products, and new ways of communicating with the customer.

The trend for health & wellbeing will continue, aiding the global, and up-and-coming sports and leisure brands in particular. And how brands communicate is changing. For instance livestreaming, which is prevalent in China, is becoming more common among Western brands and Lululemon’s acquisition of at-home fitness firm Mirror, demonstrates how brands are partnering to increase their access to consumers in their homes and during their activities.

The only major retail sector that will emerge stronger is food & grocery. Food is essential to everyone, but players have benefitted from the closure of foodservice, shifting eating out to eating at home. This is likely to continue for much of the rest of the year as consumers only gradually overcome their reluctance to visit crowded places. The pandemic has also forced the supermarkets to increase their online capacity much faster than planned. The accelerated trend for shopping for food online is unlikely to drop off in demand this year with supermarkets unable to accommodate pre-COVID levels of footfall. The downside of this is the impact on costs. Encouraging more shoppers to click & collect will help, but greater investment in technology and automation will be essential.

Martin Newman, The Customer Experience Champion

The sector that will be most changed from the pandemic will be Fashion Retail. It is facing into an almost impossible set of circumstances to recover from.

As a category, it has for many years had over-supply and too many retailers are, or have been, ‘stuck in the middle’ with no real differentiation.

Add to this that consumers have been trading up or trading down for a while now. Buying less expensive fast fashion or buying premium and luxury. This has already contributed to the glut of CVAs taking place in the middle ground.

The pandemic and lockdown will have a lasting effect on a number of fashion retail categories. Take formal wear. Whereby loungewear, sportswear, jogging bottoms, t-shirts and other casual wear have benefitted from work from home and the opportunity to wear what we want when on a zoom call! It has been catastrophic for formal wear brands, and it was no surprise to see the demise of TM Lewin’s 66 stores.

It is entirely plausible that 50% of the workforce will on a permanent basis, either work from home or, only have to be in the office for one or two days a week. If you’re not going to work and not going to industry events you don’t need a more formal work shirt, suit, tie, smart shoes or other associated products.

Weddings and concerts have been cancelled and theatres remain shut. Holidays shift from International to staycations. As such, we don’t need to procure the new outfits, swimwear et al..

Prior to the pandemic, we were already hurtling down the road towards conscious consumption and the lockdown will fuel that for many consumers. We all now have a heightened awareness of the environment and sustainability and that will in turn lead to us buying less stuff. After all, we’ve got even more used to buying less during lockdown. Unfortunately, fashion will bear the brunt of this shift in behaviour.

To add salt to the wounds, research tells us that due to COVID, consumers in the main, don’t feel comfortable being in a fashion store but in particular using changing rooms. This in turn is likely to cause a lasting uptick in fashion bought online and therefore further closure of retail stores. But I believe this will affect national chains more than independents. And I can see an increase in independent fashion retailers who can offer the consumer a differentiated proposition from the national chains whom consumers perceive to have too much homogeneity.

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

Over the 3 months of `lockdown` which ended in early July, there was a dramatic and unprecedented change in shopping behaviour across food retailing.

With the closure of the hospitality channels, shoppers spent 9% more at food and drink retailers (supermarkets, convenience, specialists) with a 35% increase in spend per visit. But there was a corresponding 23% fall in the number of store visits. Initially the large superstores benefited as shoppers avoided unnecessary travel and the limited range Discounters were the early casualty. Yet by the start of summer 2020, Aldi and Lidl were in recovery and holding market share. However the key sector trend was the massive shift to online. Sales doubled, with online share of all fmcg sales leaping from 7% to 13% during the period of restricted living. Convenience stores of less than 3000 sq ft. were the second fastest growing channel (+12%) with sales well ahead of Superstores and Hypermarkets; a trend also seen in France and Italy (Nielsen Homescan 12 weeks to 16/6/2020.)

So are these permanent, structural shifts in food retail and are these shopping patterns the new normal?

In the 5 years before the pandemic the trend was to `shop around` and the impact was that the loyalty to the top4 supermarkets (share of wallet) declined. Decisions on where to shop were being less influenced by location and price and more by the changing lifestyle of households. Online spend was growing faster than bricks and mortar and spending `little and often` was contributing to a decline in the sales of the largest food stores.

As we emerge from lockdown and start to re boot retail, the expectation is that despite the recent disruption, shoppers will eventually revert back to this shopping behaviour, probably later in 2021. Which means large stores will continue to underperform relative to other sectors. The biggest change will be that Online will retain close to the current levels of market share - further cannibalising the sales of Hypermarkets. Value retailers on retail parks will also capture more general merchandise and non-food grocery sales but it remains to be seen whether their edible food offer can extend any further.

Smaller stores of whatever denomination will emerge stronger and Discounters will receive another boost to sales as we navigate the worst recession in 70 years. Convenience store models will evolve and retailers will seek incremental growth from an increased food delivery offer, particularly outside of city centres and in the suburbs. The online grocery and food service channels will also converge and consolidate which will help food only superstores to rise like a phoenix from the pandemic ashes. The Times They Are A Changin` ...

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

The stockmarket has been weighing up the Retailing “winners” and the “losers” from the pandemic for some time and the trends are clear now, with Online pure plays firmly in the winners category.

It is 20 weeks since the stockmarket began to crash in w/c Feb 24th, as investors started to worry about the likely adverse economic impact of the pandemic on consumer demand and after a slump of over 33% in the All-Share Index in the month up to “lockdown”, the overall stockmarket is now down by only 18%, after the recent rally.

At first, investors thought that the big grocery supermarkets were going to be the big winners, but feelings have shifted of late, with the companies highlighting that the extra sales boost has brought extra operating costs and that overall profits this year are likely to be only flat. The collapse of the “eating out” meal market in restaurants etc has driven up business for the supermarkets, but the extra staff required to help stock and manage supermarkets at the height of the panic buying surge were costly, as was the extra Online Grocery delivery capacity that was rapidly brought on stream to try and meet the demand.

Over the last 20 weeks the overall Food Retail sector has held up relatively well, falling only 3%, but that outcome is highly skewed by the huge 76% jump in Ocado, as investors appreciated how well placed they were to prosper from the boom in the home delivery market in Grocery. Morrisons has also held up well, given its lower Non-Food exposure, but the Tesco share price is down by 16% over the period and Greggs is down 36%, given its inability to open stores in the lockdown and the slump in High Street footfall. In contrast, the best performing Food Retail business is Naked Wines, with its shares up by no less than 83% over the last 20 weeks.

In Non-Food Retail, a similar surge has been seen in the share price of AO World, up by a massive 113% over the period (whereas Dixons Carphone is down 35%). The big Online fashion pure plays were seen as potential losers at first, given the expected negative impact on clothes buying by young customers during the lockdown and the potential problems of having to close “non-essential” distribution warehouses. But these issues were soon shrugged off and the share prices of ASOS and Boohoo came roaring back, with ASOS now slightly up over the last 20 weeks. At the end of June, the Boohoo share price was well up since Feb 24th and the company seemed able to do no wrong, after reporting bumper trading and raising cash for acquisitions, but the recent Leicester “sweatshop” sourcing scandal has badly tarnished its image and its share price...

Elsewhere in the General Retail sector, investor sentiment has been very mixed: the overall sector is down by 18% over the last 20 weeks, which is in line with the overall stockmarket, but performance has been very polarised. The lockdown boom in DIY/gardening has been very good news for the discount chain B&M, with its shares 18% up, whilst Kingfisher is slightly up. But Marks & Spencer has been placed in the loser category, despite its Food business and Ocado tie-up, with the shares 48% down. And even the well-respected Next is down by 33%, with investors nervous about its exposure to the troubled fashion market. Two interesting performers worth highlighting are WH Smith, with its shares 57% down over the last 20 weeks, given the slump in Airport and Travel shop activity, and Games Workshop, with its shares 14% up, with investors soon realising how good the lockdown would be for indoor gaming and modelling.

Outside the quoted company arena, the lockdown was a notable disaster for Primark, given its lack of Online sales, and it was a surprising disaster for Boots, despite its solid Pharmacy sales base, given the slump in the Beauty market.

In summary, investors with perfect hindsight would have been heavily weighted in Online Retail stocks at the start of the pandemic, but the volatility of the Boohoo share price shows that stockmarket sentiment can be very fragile and the pattern of winners and losers can change quickly. Come the key autumn trading period it may be time, for example, to revisit the defensive qualities of the big supermarkets.

James Sawley, Head of Retail & Leisure, HSBC

From a Banker’s perspective, the coronavirus pandemic has been the catalyst for not only distress in the retail sector, but also progress. Before the virus there was already a number of brands and operators just about getting by in a challenging trading and cost environment. Recessions have a cleansing effect on the industries they impact, thus we are seeing many businesses go under. However, if you take the saddening (hopefully short term) human costs out of the equation, what we are experiencing is progress - Supercharged. Just as natural selection through the ages progressed humanity, the Covid pandemic will leave only the best, the fittest, the most forward-thinking and relevant brands, taking the industry forward at a greater pace than before.

On a channel level I believe that once the virus has passed, a vaccine is found or we develop herd immunity, things will settle back down closer to where we started, than where we were at the coronavirus peak. Online has been the key beneficiary during the virus but early data shows that people are keen to get back to physical retail stores, places where they can touch, feel and enjoy some much needed human interaction. Given the correction in the property market we are currently seeing, driving significantly lower rents, I would argue that it's the enduring physical retail sector which will emerge stronger as the virus has afforded them an opportunity to reduce store estates and reset rents. Going forward, spare capacity and lower market rents will allow exciting new concepts, localised independent stores and younger, cooler brands to enter locations previously not attainable to smaller businesses, thus driving more footfall. Leisure and flexible working will also play a key role in the shape of the High Street going forward. As we face in a period of recession, mounting job losses and an uncertain economic future, it will be the two ends of the value

spectrum who will also emerge strongest, as people look make their money work harder for the basic necessities, but still treating themselves with desirable brands and experiences to mark the end of lock down.

Financial markets have played a major part in this shake up, many companies have needed to fund losses through this period and for many debt is not the answer. With limited or questionable equity value, businesses have folded. On the flip side, stronger names have been able to tap into cheap debt and a good level of investor appetite in order to shore up balance sheets, enabling these businesses to invest in growth and capture market share. Variances in capital structure has been and will continue to be a key component of defining the coronavirus winners and losers.

Ruth Gregory, Senior UK Economist, Capital Economics

With consumers having turned their focus away from face-to-face spending channels and towards online and essential spending, the key question now is whether these changes stick and if so, for how long. Admittedly, a lot of the changes in people's spending habits have been forced upon them by the lockdown measures to contain the coronavirus. And the historical evidence suggests that after previous significant events, such as pandemics, plagues and terrorist attacks, people reverted to their previous behaviours often within three to six months. For example, after the SARS pandemic in Asia and North America in 2002/03, the sharp declines in the number of international passenger arrivals, hotel occupancy rates and retail sales in Hong Kong were all reversed three months after their low points. And while a lot has changed since the Black Death, we know from "The Diary of Samuel Pepys" that after the Great Plague in London of 1665/66, Pepys returned to the shops six months after the number of plague deaths peaked.

Even so, our primary concern is that a fall in incomes will reduce the ability of households to increase their spending. After all, despite the extra policy measures announced by the Chancellor in July, further rises in unemployment are on the way. Indeed, to some degree, the cliff caused by the end of the job furlough scheme is just being replaced with a series of new slopes created by the end of the "Job Retention Bonus" scheme, VAT cut in late January and the expiry of the stamp duty cut at the end of March. We think that unemployment will rise by around 1 million from 1.34 million to 2.36 million by June 2021, taking the unemployment rate to a peak of around 7%. And our expectation that the unemployment rate will remain above its pre-pandemic rate of around 4% until 2023, suggests that the labour market will remain a constraint on the recovery in consumer spending for some time yet. That's why we think that after an initial vigorous rebound, driven by the reopening of most shops, the pace of the recovery will slow later in the year.

And of course, some changes are much more likely to be permanent, including those that were already underway and which have been supercharged by the crisis, including spending online, the reduction in the use of cash and the greater use of technology in the workplace. If anything, these changes might enhance productivity. This supports the idea that

in the long term at least, the coronavirus may not significantly reduce the economy's potential rate of growth. In some ways, it could even boost it.

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

In the age of COVID-19, no one is a winner. We have witnessed a huge volume of retail business failures already, despite the business rates holiday and government furlough plan serving to reduce cost - given the massive drop in consumer demand we have seen.

Until a long-term solution for the virus has been found, consumer demand will continue to be dampened, with demand principally weighted more toward 'essentials.' As the shops have now started to reopen, some retailers will perform better than others. There are a number of factors which will materially impact retailer performance in this 'new normal' to consider:

- The retail category: this ranges from grocery (overall neutral turnover position as a result of COVID-19) to restaurants and cafes - which are currently trading at an average of 25% of pre-COVID-19 turnover levels. Stores that sell multiple product categories have also seen turnover vary wildly, with Boots for example, benefiting from being open during the lockdown due to the Health products it sells, but losing out in Grab-and-Go due to a lack of office-based workers, and in Beauty (which has been a major focus for the retailer in recent years) as sales performance is often linked with consumer socialization, which has not been possible in recent months.
- Retailer market positioning/price point: value/mass market brands are volume driven and are thus more dependent on footfall. High-end brands conversely do not require as much volume given high price points and are therefore likely to fare better given continued low consumer demand. There are obvious exceptions to this, but in general, stores that require high volumes are likely to under-perform.
- Internal configuration of the unit: It is easier to socially distance in larger units/units with consistent width and depth. Units that are an irregular shape will naturally need to place more limits on shopper numbers in-store to facilitate ingress/egress, leading to queuing - which can be discouraging to shoppers. Malls/retail parks will have units that are better suited to social distancing, as many are more recent builds designed specifically for retailing - compared with retailers on high streets - which are often older converted residential buildings. Retail parks however are likely to fare better than malls, given stores can often be driven to directly, they are open air environments, and many are grocery anchored. The drive to localism is worth bearing in mind - and has benefitted smaller high streets to an extent - but has also benefited retail parks given many are located in residential locations.

What does this mean for shopping centre owners? We have already seen the sad administration of Intu - and there almost certainly will be others in trouble given a combination of high debt and plummeting capital values and rents. Applying the analysis detailed above to retailers trading in a UK mall at an individual retailer level (and then aggregating to retail category) - the table below illustrates the huge (but differential) impact on turnovers by category, and thus affordability of rents. Overall scheme rent to sales ratio would rise from 14.9% to 26.4% if rents stay constant - and 40%+ in some categories. This is an unaffordable position for many retailers trading in the centre and is precisely why many retailers have not paid their quarterly rents (a historic low of only 14% of retail rents paid last quarter). It is also why many retailers are attempting to negotiate turnover rents with landlords. For some landlords however this would massively damage rental income - in the below instance rents would drop from £75.5m to £25.5m, if scheme rent to sales ratio was to drop to 8.9% given turnover rents. The medium-term position for many landlords is certainly not good, however in the long-term turnovers will rise and opportunities for growth will present themselves as retailers and landlords work together to find balance in the 'new normal'.

Product Category	2019 Turnover (£m)	2019 Rents (£m)	2019 Rent to Sales	2021 Turnover (£m)	2021 Rent to Sales - Consistent Rents	2021 Rent to Sales - Renegotiated Rents	2021 Rents (£m)
Books & Recorded Media	£4.1	£0.5	11.0%	£2.1	22.0%	9.0%	£0.2
Department & Variety Stores	£144.0	£7.9	5.5%	£86.4	9.2%	9.0%	£7.8
DIY & Home Improvement	£1.3	£0.1	6.0%	£0.9	8.6%	6.0%	£0.1
Electrical	£16.9	£3.2	19.0%	£11.9	27.1%	9.0%	£1.1
Entertainment Services	£23.9	£1.9	8.0%	£7.2	26.7%	9.0%	£0.6
Fashion - Children's Clothing	£6.3	£1.4	22.0%	£3.5	40.0%	9.0%	£0.3
Fashion - General Clothing	£114.9	£25.9	22.5%	£63.2	40.9%	9.0%	£5.7
Fashion - Ladies' Clothing	£38.2	£8.0	21.0%	£21.0	38.2%	9.0%	£1.9
Fashion - Men's Clothing	£10.7	£2.7	25.0%	£5.9	45.5%	9.0%	£0.5
Footwear	£14.2	£3.1	21.5%	£7.8	39.1%	9.0%	£0.7
Health & Beauty	£29.7	£6.1	20.5%	£23.8	25.6%	9.0%	£2.1
Homewares	£8.4	£0.7	8.0%	£5.9	11.4%	9.0%	£0.5
Jewellery, Watches & Silver	£15.3	£3.4	22.0%	£7.7	44.0%	9.0%	£0.7
Newsagents, Stationers & Gifting	£5.8	£0.7	12.0%	£3.2	21.8%	9.0%	£0.3
Personal Accessories	£11.0	£2.5	23.0%	£6.0	41.8%	9.0%	£0.5
Pubs, Clubs and Bars	£0.4	£0.0	9.0%	£0.1	30.0%	9.0%	£0.0
Restaurant & Cafes	£35.9	£4.3	12.0%	£10.8	40.0%	9.0%	£1.0
Specialist Food	£5.4	£1.2	22.0%	£3.2	36.7%	9.0%	£0.3
Supermarket	£7.4	£0.4	6.0%	£7.4	6.0%	6.0%	£0.4
Toys, Games & Hobbies	£11.0	£1.5	14.0%	£7.7	20.0%	9.0%	£0.7
Scheme X Total	£505.0	£75.5	14.9%	£285.6	26.4%	8.9%	£25.5

** Harper Dennis Hobbs original research - anonymised*