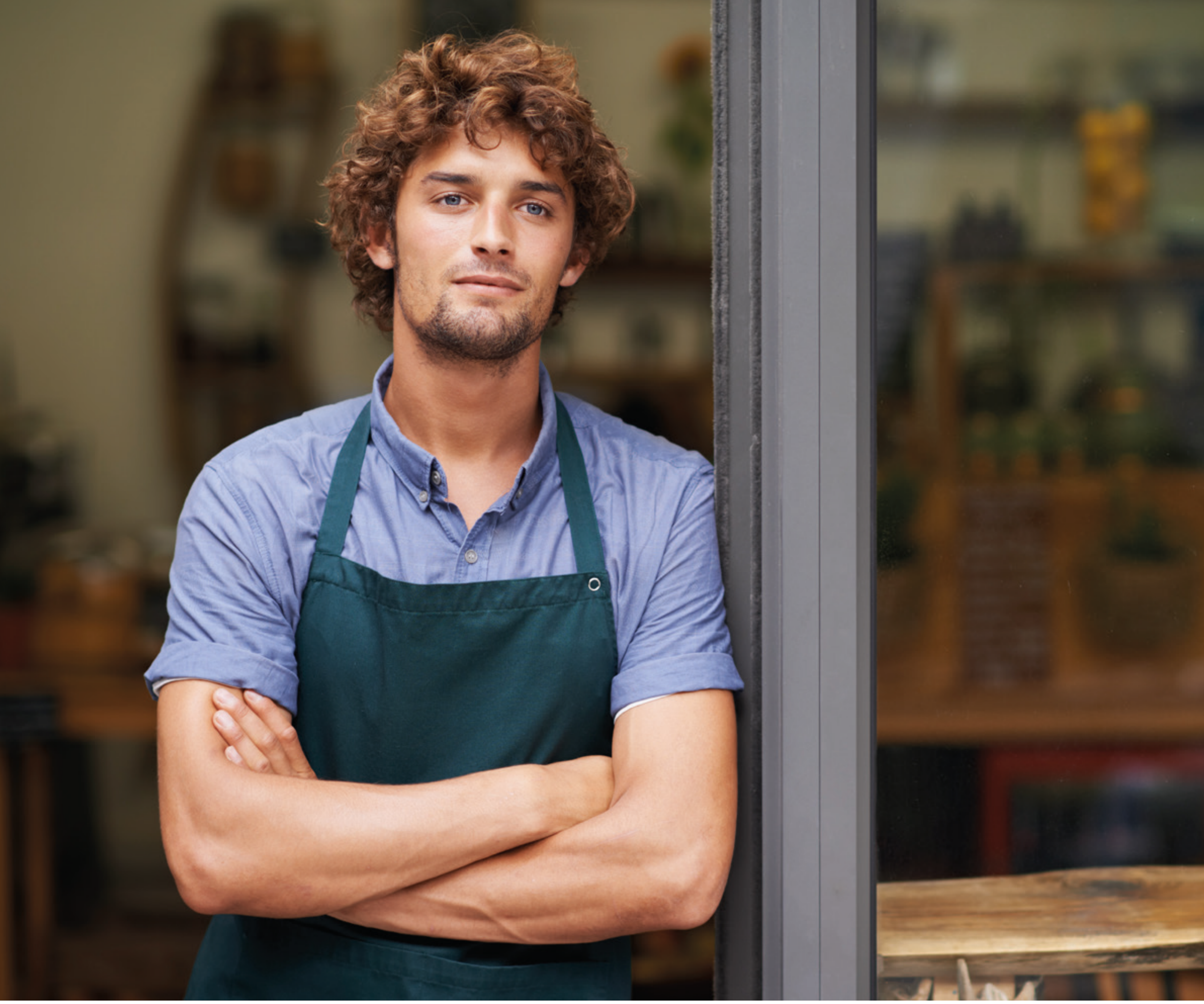

FIVE TRENDS FOR RETAILERS IN 2023

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With retailers continuing to battle economic headwinds, earlier this year global consultant Deloitte made five predictions for major retail trends in 2023. MAPIC looks at its forecast and the retailers ahead of the curve.

Although the European retail market continues to face economic headwinds, multiple transformations including artificial intelligence (AI), retail media, the transition to renewable energy and higher levels of sustainability, plus the return of demand for physical stores, new foundations are being established.

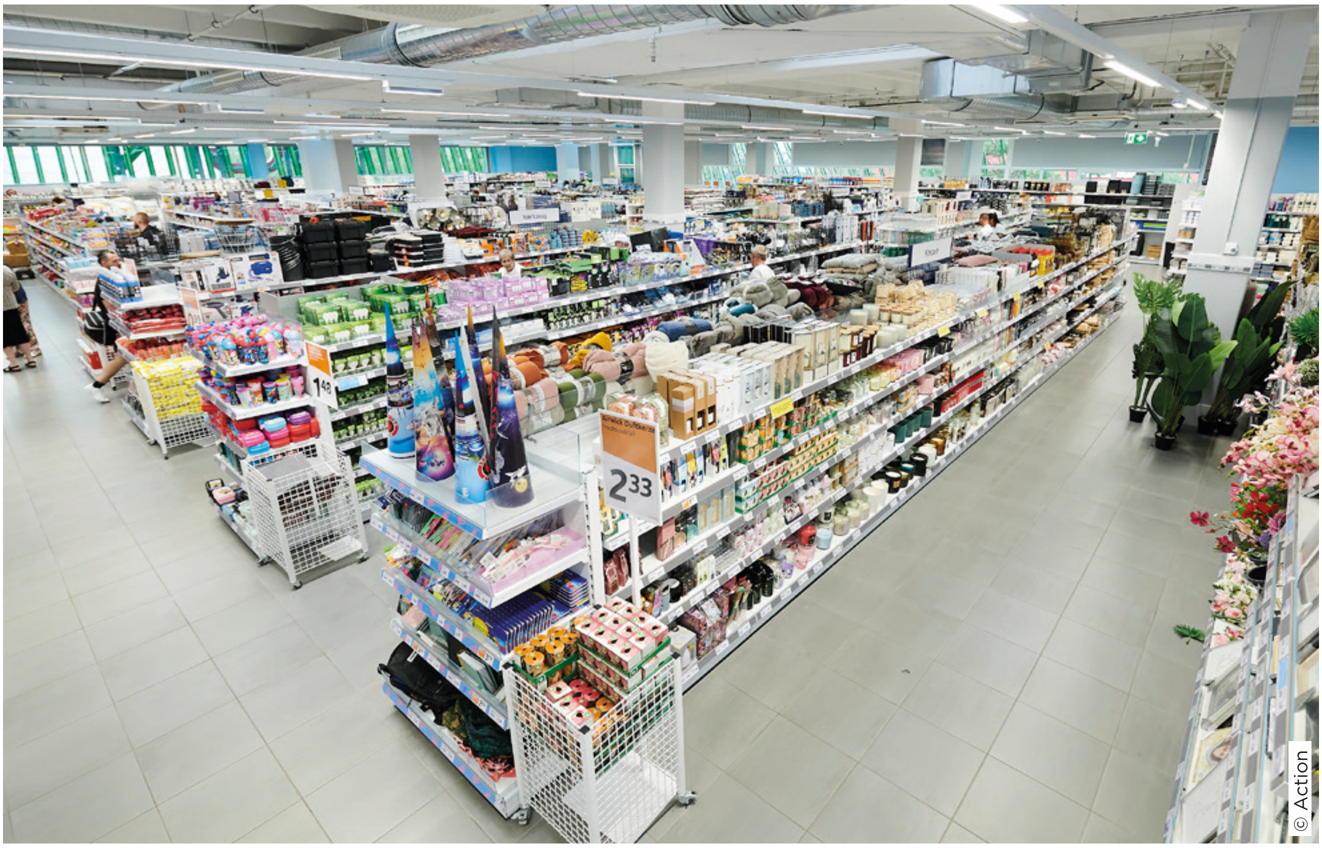
The pandemic, the Russian invasion of Ukraine, political instability and a declining consumer economy globally have all taken their toll, but significant lessons have been learned about how to survive and ultimately thrive under rising cost pressures, supply chain constraints and changing consumer behaviour.

For some retailers, 2023 has represented an opportunity to reset their ambitions and start on a path to recovery. For others, the lessons learned over the past three years, combined with major advances in technology and legislation that favours the retailer, mean there is an opportunity to finally unleash the full potential of their business, achieving profitable, sustainable growth.

Leadership is a theme that runs throughout all Deloitte's trends for 2023, whether it is how retailers will make strategic investments or decisions on cutting costs to unlock value, ensuring businesses stay focussed on the customer experience in the face of extreme challenges, pushing the net zero agenda or transitioning to a skills-based organisation.

But leadership is not just demonstrated in the boardroom. To be successful, retailers will need employees across their organisations to step up and demonstrate leadership traits in the year ahead.

Unlocking Value



Deloitte: The reality of ongoing cost pressures means that retailers are having to make difficult decisions about prioritising capital allocation. Therefore, we expect to see a renewed focus on performance improvement in the year ahead. Specifically, we predict that retailers will focus on identifying, improving, and creating efficiencies across all areas of their business, while also looking to maximise the value of their available assets. This approach will allow retailers to unlock the true value of their business, creating an environment that allows for profitable sustainable growth.

MAPIC: One of the key assets that many retailers hold is their physical real estate portfolio and for many these have become a priority once again. While widespread expansion is unlikely for most, many established retailers are re-examining their portfolios and trying to align them to their current needs.

“Closing stores is a big decision, which always makes the news headlines, while we have also been opening new stores. Those decisions are important as we try and modernise the business,” says Marks & Spencer CEO Stuart Machin of is strategy.
For Machin, the key to deciding how to reshape the department store and food retailer’s portfolio is also around how the retailer marries tradition with modernisation.
“It’s about protecting the magic of our heritage. We should be the most trusted brand in the UK, putting product at the heart of everything we do. Some of the bold things we try and do mean remembering it was never about premium, we need to go back to our foundations of great product at the best price,” he says.

Meanwhile, other retailers are expanding rapidly. The fastest-growing retailer in Europe is Action and CEO Hajir Hajji highlights the importance of flexibility, a scalable operational model, a committed team and making sustainability accessible to all of the retailer's customers as the key elements of its approach.

Action has 2,300 stores, of which 800 of are located in its largest market, France.
According to Hajji, key factors leading to its growth are Action's ability to process large volumes, change assortments every week, maintain the same look and feel in all stores, and running efficient logistics.

Interestingly, legacy names are also returning to real estate. Entertainment retailer HMV is to reopen at its London Oxford Street store later this year and is to introduce the new HMV Shop format to 24 new sites and 14 existing stores by the end of 2023. It is also open stores in Europe in 2023.
Similarly, the private equity backed bookseller that owns Barnes & Noble and Waterstones is reopening in markets it previously vacated.

CEO James Daunt says that good booksellers are thriving and it is the poor ones and the larger chains around the world which have failed to focus on their offer that are now suffering, following a major boost to reading during and post-pandemic.

To open more stores requires creating "something better than just somewhere to pick up a book", he insists.

The return of music, entertainment and books retailing to the mall and high street reflects changing customer attitudes post-pandemic and something of a reset after these categories were some of the first to be impacted by the rise of Amazon.

Experience Innovation

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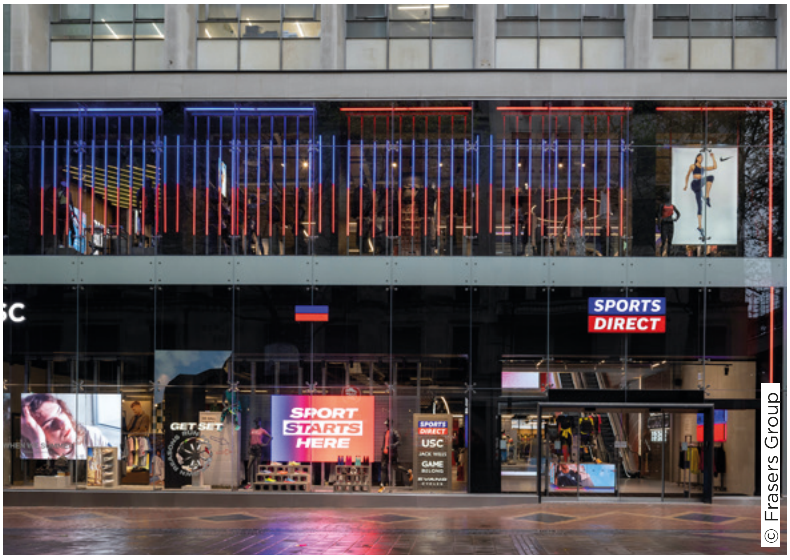

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Deloitte: In the year ahead, we will continue to see innovative technology and business models serve changing consumer behaviour across every aspect of the customer journey. Retailers will differentiate themselves in a crowded, competitive market by engaging directly with consumers, encouraging the growth of communities, and actively encouraging interaction with their brands. Elsewhere, the ability to communicate and serve consumers where they spend most of their time means that we will see more retailers focus on social commerce and gaming as a growth opportunity. Likewise, the demand from consumers for physical experiences will force retailers to offer immersive, technology-filled stores as standard.

MAPIC: If any retailer embodies the confidence in the return of the store, then UK-based Frasers Group and its CEO Michael Murray are it. The discount sportswear and equipment operation Sports Direct is the most scalable of its formats as it looks to expand into Europe, according to Murray.
“What we have done with the UK and Ireland doesn’t really exist in Europe but it is also expensive to develop an elevator position within a new country. Sports Direct is definitely the scalable, because we can align with a smaller number of key brands, so long as we can find the right locations,” he says. “The sports brands were obsessed with D2C but that’s changing and the focus is back on stores. It’s very expensive to open their own stores, especially second and third tier cities,” he adds.
Even the challenged department stores has continued to find ways to reinvent itself and John Lewis deputy chair Rita Clifton says: “You need to think about what makes you different. It’s much better to start with the customer, then the channels. You also need to do your sums very carefully if you are going to be catchment based, rather than destination based.”

David Wilkinson, CEO of Oslo-located landmark department store Steen and Strom, adds: “Our department store business is very nuanced. Promenaden [the real estate owner of the retailer] runs the luxury district in Oslo. We repositioned Steen and Strom for the future and we know we can’t do everything, but there are things we can do very well by category or focus.”

Planet & Society

Deloitte: The success of the retail industry in the year ahead may come to be defined by how retailers manage to navigate some of the most serious and complex issues we face. While rules and regulations around everything from emissions to the ingredients in our food mean that retailers have a legal responsibility to act on these issues, there is actually a strategic advantage to be had, with major growth opportunities available in these spaces. We predict that 2023 will be the year when retailers adopt business practices that shift the dial on their net zero commitments, finally making their (sometimes) lofty targets seem achievable.

MAPIC: There are so many examples of green initiatives among retailers, especially the fast fashion brands that received much of the original criticism about their practices. From Uniqlo to H&M, most have re-use strategies in place although scale remains an issue.

Outdoor fashion and sports retailer Northface is another about to launch its re-use service for Europe in the UK first. Apart from reducing waste, Jerome Greig, ecommerce merchandiser, says that the company is looking at opportunities to make a lifetime consumer of Gen Z especially through second hand product.
“For Northface Reuse it has been about understanding fully the waste streams and understanding the value of those waste streams and we have been able to redirect these back to the consumer for profit,” he says.
Emil Bolon, CEO of Looper Textile, which works with H&M among others, adds: “All garments have value, even outside their primary channel. Demand for recycled fibres is growing so much but the reality is 60% of unwanted garments in Europe are thrown away, 82% in the US.

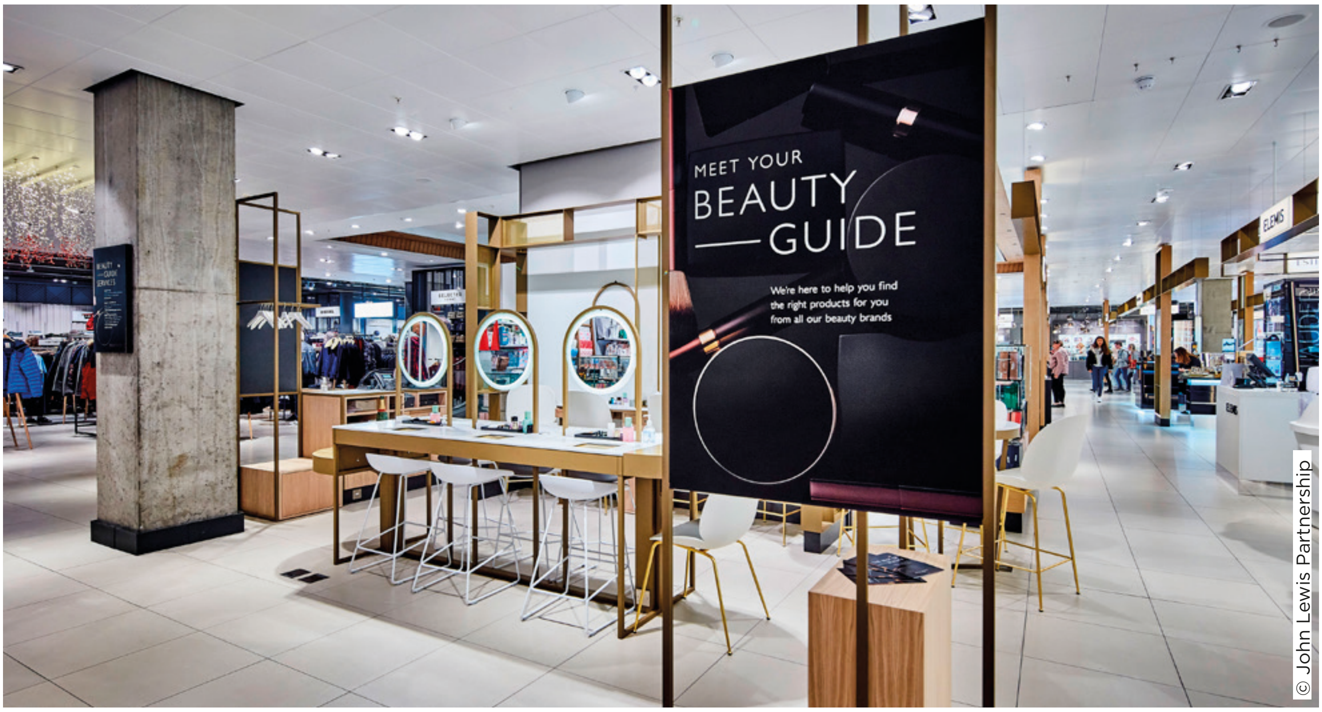
Retailers need to make it easier for consumers. Then it’s about scale, what do we do with all these garments that don’t have a home.”*

Another focus area is single-use plastic. Confectionary giant Mars bars was recently given a new exterior with recyclable paper wrappers instead of plastic. The move is part of a pilot, trialling more environmentally friendly materials for Mars Food's candy bars and the new packaging has been rolled out across 500 Tesco supermarkets in the UK.

European candy Nestle, which switched to paper packaging for Smarties in January 2021 and for its selection box star performer Quality Street in December 2022.

Another pillar of Action's transformation is prioritising sustainability, Action's Hajji says.
"In low-cost and discount there is a misperception that you can't afford sustainability. We have clear targeting and make sure we can offer sustainability to our customers that don't have much to spend."
Jens Nielsen, commercial and digital manager, Ingka Centres, adds: "For us it's about community and we would like the mainstream retailers to think about that approach, which has to put community and the planet first. We have four urban centres now, two open in London and Toronto, plus San Francisco which will open later this year and Paris which we have just acquired. Each centre needs a slightly different approach, but always with the same ethos."

People & Leadership



Deloitte: In a time of significant change and economic uncertainty, the best organisations maintain a laser focus on their people and their wellbeing. At its core, retail is a people business, employing millions of people across the globe. At the sharp end of retail, if workers don't feel fulfilled or looked after, customer service suffers. But the demands from employees are changing and retailers will have to innovate their approach to recruitment and retention, considering what really matters to a new generation of retail employees. At the same time, strong, empathetic and purposeful leadership will be needed to navigate new ways of working, challenging decisions on cost and delivering on net zero ambitions.

MAPIC: Leadership is undoubtedly changing and Consello partner Mindy Grossman - best known for her roles at Home Shopping Network and WW - believes that the future of retailing is about "boundaryless retail".
"It's what's going to happen and what has to happen. We have to embrace this idea that every touchpoint doesn't have to have a credit card on it. It may instead be about building community. It's not just the transaction at the moment, it's every touchpoint," she says.
Grossman adds that future retail leadership is about the "ability to both see what's next and take the risk" as she outlined her vision and said that to achieve genuine transformation, companies needed to build the infrastructure and culture into their businesses, be resilient and be prepared to invest significant money.
"All too often leaders can be characterised by alienation. The future needs to much more human, open and empathetic," adds Rita Clifton, deputy chair, John Lewis Partnership.

Similarly, retailers are getting to grips with the next phase of influencers, who have been so important to connecting with younger consumers. Earlier this year the hashtag #deinfluencing surfaced because many influencers have been only too happy to promote products purely for profit, rather than merit. Deinfluencing is meant to turn that on its head, so if traditional influencers hype a product, deinfluencers are there to challenge the hype.

The issue first became prominent after influencer Mikayla Nogueira was accused of wearing fake eyelashes while extolling the virtues of L'Oréal's lash-enhancing product on a TikTok video.

More recently, a number of influencers received a sharp backlash after they went on a Shein-sponsored trip to the fast fashion retailer's Chinese manufacturing facilities and extolled its ESG initiatives, despite the fact that the brand has received a huge amount of criticism over the sustainability of its 'disposable fashions'.

Artificial Intelligence

Deloitte: Throughout our 2023 trends, it is clear that artificial intelligence has the potential to cause major disruption in the retail industry this year. Whether it is increasing productivity, reducing the time to launch new products, providing age verification at self-checkouts and click and collect sites, disrupting the creative process, or defining the skills required for future retail workers, AI will be something that retailers have to get to grips with sooner rather than later.

Deloitte asked ChatGPT "how will AI impact retail?" and were astonished by the immediacy, and accuracy of its answer:
AI is likely to have a significant impact on the retail industry in several ways.

1. Personalisation: AI can be used to personalise the shopping experience for individual customers. For example, it can be used to recommend products to customers based on their browsing and purchase history, as well as their social media activity.

2. Predictive Analytics: AI can be used to analyse data from various sources (such as customer data, sales data, and social media data) to make predictions about customer behaviour and trends in the market. This can help retailers to make more informed decisions about what products to stock, how to price them, and how to market them.

3. Inventory Management: AI can be used to optimise the management of inventory. For example, it can be used to predict demand for products, track inventory levels in real-time, and automate reordering processes.

4. Automation of repetitive tasks: AI can help in automating repetitive, mundane tasks like price checking, stock checking and much more.

5. Chatbots: AI can be used to create chatbots that can answer customer questions, provide recommendations, and even complete transactions without the need for human assistance.

6. Image recognition: AI can be used for automated image recognition for products in online retail, which allows for easier product search and category browsing.

MAPIC: There is absolutely no doubt that AI has captured the imagination of the retail sector in a way in which, for example, the metaverse did not.

Carston Keller, VP direct-to-consumer at Zalando, says: "The biggest challenge is to find a model from a no-AI to an AI world, and people will need more skills. It will be exciting," he says. However, he warns of the "trap" where some assumed that AI could solve everything.

Media group WPP CTO Stephan Pretorius believes that technology is reshaping brands' relationship with consumers and stresses the importance of adding relevance and having a broader view on the consumer's identity, incorporating machine learning.
"Until now we worked with indications of consumer preferences. If you know who the consumer is, you're able to understand what's relevant to them. But who you are is a far low indication of where you are or how you behave," he says.
WPP has launched what it calls an Occasions Graph, a platform that works upon multiple data signals and delivers activations on cross channels while also integrating content enablement.
Pretorious says that brands can then use workshops to hear directly from consumers, and combine these with generative AI and machine learning through occasions.
"We are using this cross-countries and it accelerates creativity. It is a new way of thinking about marketing and advertising processes," he adds.

According to Thomas Gilbert, Doctor of Machine Ethics from UC Berkeley, brands will partner with generative AI tech companies "as fast as they can", citing the example of "nostalgic brands", like Coca-Cola, and newer or niche brands, built on the consumer's specific needs. Indeed, Coca Cola, Bain & Co and Open AI have recently entered into a collaboration.
"In practice it means an ecosystem, whether you are an etailer, brand or big tech company, where everybody tries to react to what other companies are doing," he says.
Gilbert says that the three key components of generative AI are: foundation, evaluation and personalisation.
AI can replace a complete part of the stack, in a technique called 'zero shot learning', which makes it possible, for example, for chatbots to teach themselves or teach humans about human psychology.
The second component is the capability of in-house evaluation of human infrastructure to reduce the most harmful outputs.
"It can advance things that are not anticipated by human designers," he says. "Nobody knows exactly the limits as the foundations are so big."
Personalisation is the third key component. "When you interact with this model, it'll know things about you that even your most loved ones don't know. The ability for these models to customise at scale is unprecedented."

Summary

Retail is being pulled and pushed by a number of key influences, from the immediate demands on the consumer of high inflation and the cost of living squeeze to the push for greater ESG strategies and the promise and threats of new technologies.

Far from being overwhelmed by the challenges, many retailers are becoming increasingly confident about embracing these multiple facets and aligning their businesses with the reshaping future.

Much of this may because largely only the fittest have survived. The competition from online, the global financial crisis and latterly the pandemic have provided a level of adversity that could hardly have been imagined, and yet many of the players on Europe's high streets and in the shopping centres have survived.

To do so, operators have had to show a remarkable level of resilience and adaptability and those skills will be at the fore of succeeding in the next transitional stage for retail.