

Unlocking UK Retail



Introduction

The world is facing an extraordinary crisis. The COVID-19 pandemic has dislocated international supply chains, sent shockwaves through the economy and uprooted societal norms.

Coordinate action from the Bank of England and the UK Government has been swift and decisive but the hit to the UK economy will be inevitable. Unprecedented intervention from the Government has been a lifeline for many businesses and will help alleviate some of the pain, but deep scars are likely to be left across some sectors. The Bank of England forecast of a 25% fall in GDP in the second quarter of 2020 leading to the deepest recession in over 300 years lays out the scale of the challenge ahead.

Prior to the crisis, the retail sector was already undergoing a period of intense structural change. The rapid evolution of consumer behaviour through the continued migration towards online, heightened expectations and the rising importance of experiences has reshaped the retail landscape. The impact of the pandemic will further accelerate these trends, exposing antiquated business models that are no longer fit for purpose.

It is inevitable that the UK retail sector will emerge from the crisis in a very different form. Further administrations, job losses and store closures can all unfortunately be expected. However, a more resilient sector will emerge, resembling more nimble and adaptable businesses that are well positioned to form the cornerstone of the economic recovery.

Figure 1: Covid-19 Timeline

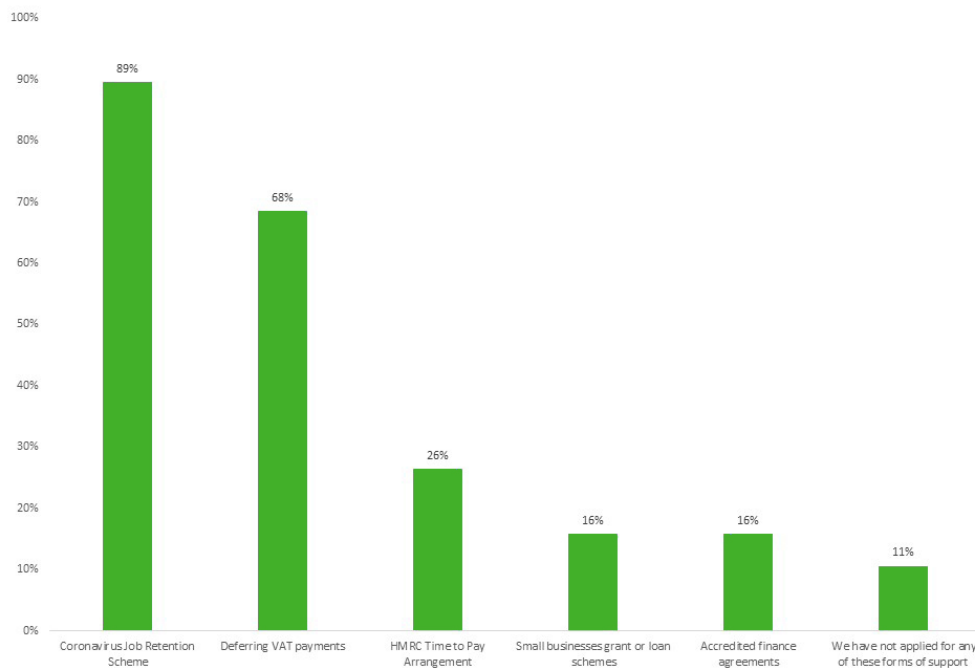


The Impact on Retailers

The severity of the coronavirus pandemic on the retail sector was laid bare in our recent research, with over three-quarters (76%) of retailers suggesting Covid-19 has had a significant negative impact on their sales, with a further 14% said it had a small negative impact.

For most retailers, the announcement of the government aid measures has been a lifeline and eased pressure on their cash flow, affording them time to assess their businesses before making fundamental decisions on how to future-proof them for a post-Covid 19 world. The most popular support package was the Coronavirus Job Retention Scheme with almost 90% of retailers indicating they have applied/received it since its introduction. Other significant measures were the deferral of VAT repayments (68%) and the business rates holiday (53%). This is not surprising given that labour costs and rates make up a significant proportion of retailers operating costs.

Figure 2: Has your business applied for and/or received any of the following types of financial support?



Source: Retail Economics, Squire Patton Boggs



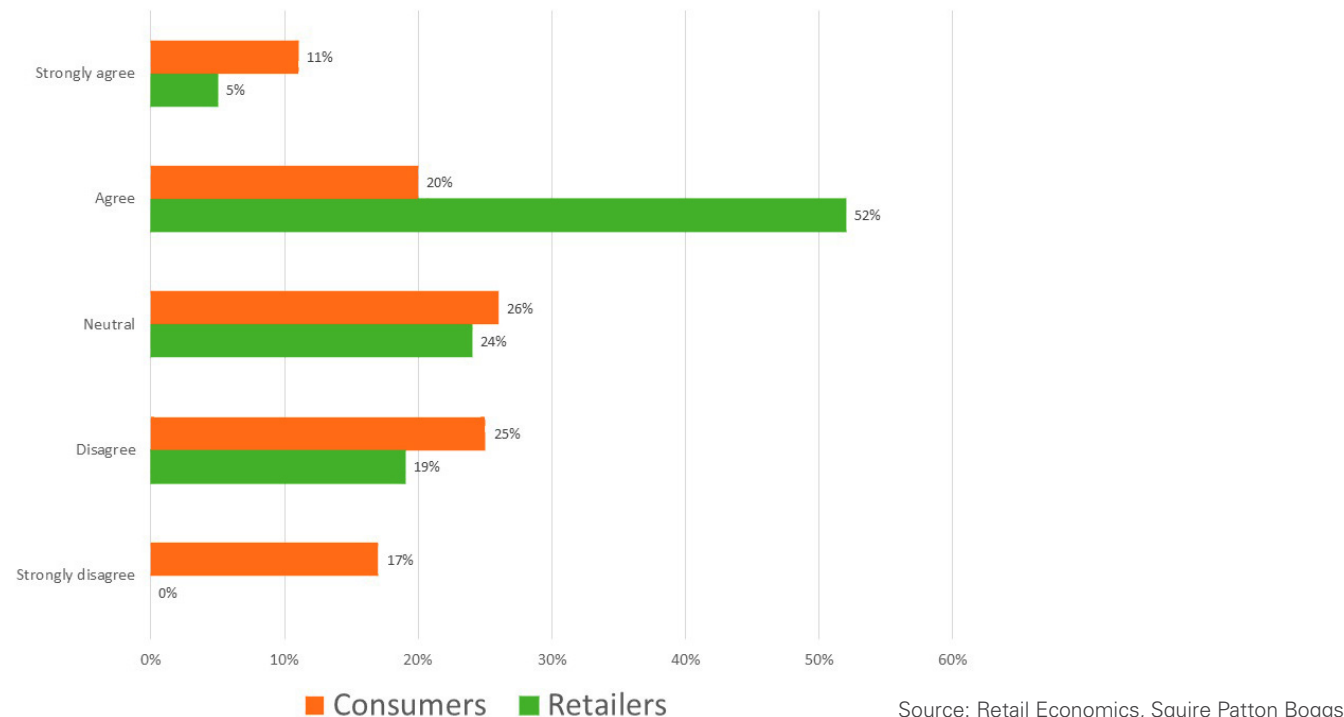
The Exit Strategy

On 23 March 2020 the Government initiated lockdown measures to prevent the spread of the virus and help save lives. Households in the UK were asked to only leave their homes when absolutely necessary and all non-essential retail, leisure and entertainment premises were forced to close. Online retail services were encouraged by the Government to remain open and postal and delivery services continued to run, albeit offering a reduced service due to staff sickness and shielding employees.

Since then, Boris Johnson addressed the nation on 10 May 2020 to outline a framework for the UK's exit strategy which was followed up by the Covid-19 recovery plan on the following day. This document was then updated on 25 May 2020 giving more detailed guidance on a phased approach to re-opening non-essential retail stores from 15 June 2020 providing practical guidance on areas such as social distancing at work, cleaning the workplace, using personal protective equipment (PPE) and workforce management.

It's interesting to note that while 57% of retailers agree with the government's strategy, almost a fifth (19%) disagreed, with worries that easing restrictions too quickly could lead to a second-peak (and further lockdown), as well as an increased risk of the coronavirus spreading within the workplace if the infection level rose. Concerningly, consumers are considerably more pessimistic compared to retailers with only a third (31%) suggesting they agreed with the strategy, a likely indication of heightened anxieties and confidence in the government's ability to deal with the spread of the virus.

Figure 3: To what extent do you agree or disagree with the strategy set out by the UK Government for gradually easing the lockdown restrictions?



Unlocking Stores

In recent weeks, retailers have considered a range of measures that will allow the safe reopening of stores based on Government guidance. Some of these measures include those outlined in Figure 4.

Figure 4: Government measures outlined in “Working Safely during Covid-19 in shops and branches” document (updated 25 May).

Social Distancing	Hygiene Measures	Workforce Management
<ul style="list-style-type: none"> • Setting max limits for customers in store • Limiting the number of people in congestion areas • Reminding customers their responsibility to supervise children • Providing customer service without contravening social distancing • One-way customer floor plans • Providing and managing outside queuing systems • Different entry and exit points • Providing written or spoken guidance • Visible signage offering guidance • Staggering collection times of online orders 	<ul style="list-style-type: none"> • Frequent cleaning of objects and surfaces • Providing and encouraging customers to use hand sanitizer • Limiting customer handling of merchandise • Contactless payments • Contactless refunds 	<ul style="list-style-type: none"> • Staggering arrival and departure times • Create social distancing champions • Creating worker shift groups • Different staff entry and exit points • Hand washing facilities • Staggering break times

Responses to an online unlocking tool created by Squire Patton Boggs showed that there are still challenges with unlocking stores relating to employees, data and health and safety.

Of those who completed the unlocking tool attention is still needed around adequacy of first-aid arrangements and fire safety, potential risks connected with mental health and operation of air-conditioning. In relation to employees additional safeguards are still needed for employees and non-employees in a vulnerable group, attention is needed on how the roll-out of the NHS track and trace app might impact on the workforce and the need for robust protocols for disclosure of sensitive personal data. Squire Patton Boggs have put in place a UK Employer guide for preparing for a safe return to work to address these issues.

From 15 June 2020, most retailers are opting for a phased approach to reopening store estates which differ by size of retailer, channel (e.g. high street, retail parks, shopping centres), category (e.g. footwear, electricals) and, potentially, by region.

Retailers have taken a forensic look at their store estate to establish which locations were best suited to reopen based on their suitability to enforce social distancing measures, while also taking into account the viability of commercial success and, in some cases, the ability to satisfy pent-up demand. For instance, Next Pic, the apparel and homewares retailer, are opening 25 of their stores in out-of-town locations where they are typically larger and more

adaptable to implementing social distancing measures, while longer opening hours will help spread footfall more evenly throughout the day and larger outside spaces help manage queues more easily.

The cost burden on retailers is considerable. In most cases, safety equipment such as protective barriers at checkouts, barriers for queuing systems, hand sanitiser stations, more frequent cleaning and signage offering guidance is needed. In some cases, changing product display methods has been appropriate. In all most all cases, there will be a significant administrative cost concerning the assessment of all sites, creating new work scheduling and shift teams and planning the adaption of store layouts.



Assessing the challenges by physical channel

Retailers have given careful consideration to the physical characteristics of individual stores, their region and accessibility as they execute on their plans to reopen.

Retail Parks: Large format stores located in retail parks are being opened in the first wave by many retailers as they offer larger spaces to effectively implement social distancing measures, one-way floor plans, queuing systems, different entry and exit points and other important guidelines highlighted in Figure 4. Importantly, they also offer ample parking for consumers who will prefer to travel in private transport rather than by public means.

High Streets: There are also a number of locations across high streets in town centres that have large enough footprints and good accessibility to effectively open. These are likely to be regional shopping destinations that attract drive times of 30-60 mins that usually contain strong anchor tenants, such as a department store.

However, retail SMEs across local high streets are also reopening, adhering to more basic guidelines. These businesses are likely to benefit from consumer preference to shop more locally, who have a desire to support local businesses, stay close to their homes and avoid public transport, a trend we have seen accelerate during the pandemic.

Consumers are also likely to prefer shopping in open air environments where it will be easier to observe social distancing guidelines and government advice suggests transmission rates are lower.

Shopping Centres: The approach to reopening retail stores in shopping centres is likely to be fragmented and highly dependent on the relationship with landlords, the coordination between stakeholders (landlords, local authorities and tenants), and the size of the scheme.

In some instances, retailers will have an incentive to initially leave some stores in shopping centres closed as they learn from the experiences of opening in other destinations, while gathering more information to accurately model potential levels of demand.

What's more, flagship destinations (e.g. Westfield, Birmingham's Bull Ring) rely heavily on the footfall generated by restaurants, cafes, entertainment and leisure which will remain closed until 4 July 2020 at the earliest. Retailers will be concerned that reopening in these destinations, which demand the highest operating costs, may not be commercially viable until the easing of restrictions encompass the wider proposition of these locations.

Consumers will feel more anxious shopping in enclosed environments that make social distancing measures more difficult to follow due to narrow walkways, lifts and escalators, while more surfaces (e.g. hand rails, shop fronts, benches, escalators, doors, parking ticket machines) could make the shopping experience more stressful, especially with children.

Encouragingly, large retail landlords such as Hammerson and Intu have indicated their shopping centres are reopening with a raft of social distancing and increased hygiene measures in place, while limits to the number of people and cars will be enforced where needed to ensure safety of both customers and workers.

Assessing the challenges by sector

The size of the task at hand will be felt unevenly across the sector. Parts of the industry will find adhering to social distancing, hygiene factors and workforce management more difficult than others. In part, the difficulty and the risk of reopening will be based on the idiosyncratic characteristics of the in-store customer journey for each sector.

These are likely to include Category Characteristics Metrics such as:

- Density of products in-store
- Frequency of product contact
- Customer service proximity
- Average dwell times
- Footfall levels

Using these category characteristics, cross-sectional analysis has been conducted by sector (e.g. clothing, electricals) and channel (e.g. high streets, retail parks) assessed across a range of Government measures outlined in "Working safely during Covid-19 in shops and branches" published on 25 May 2020.

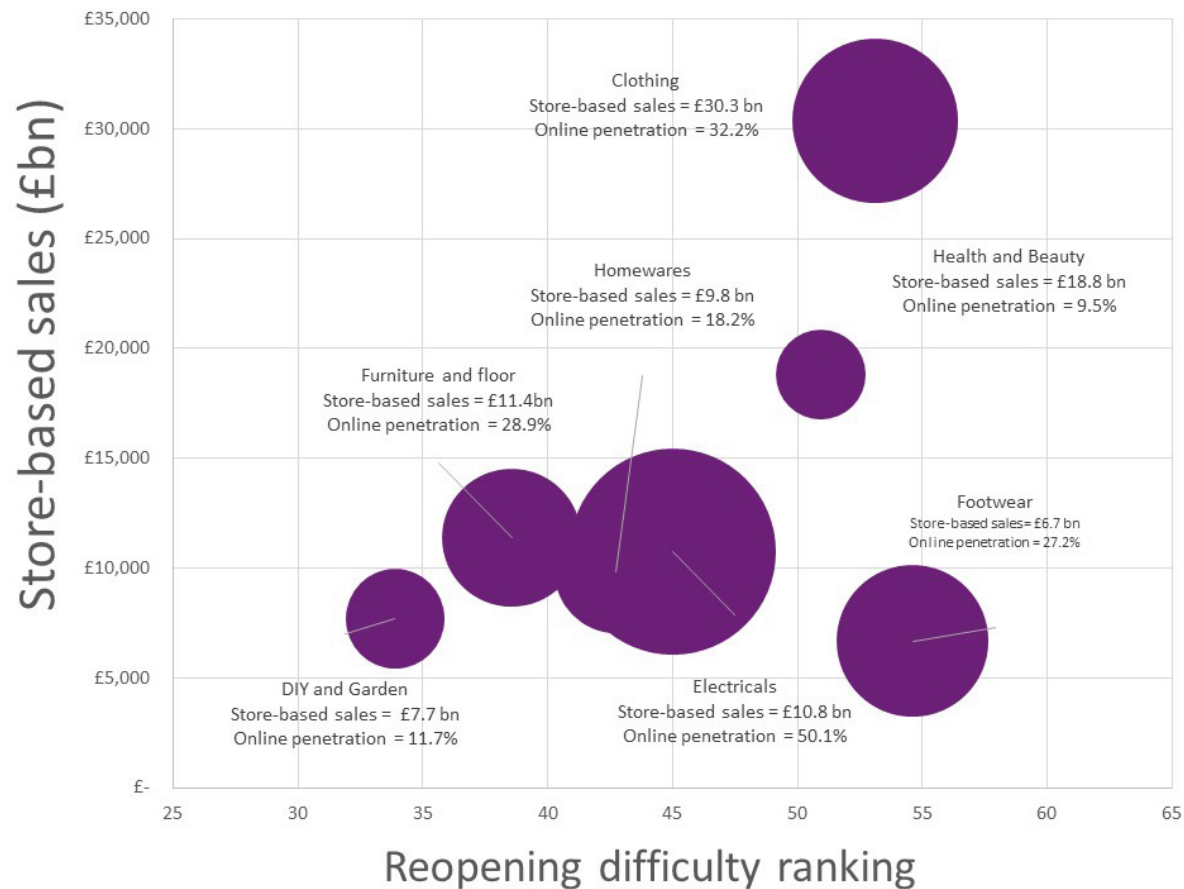
Using a range of data sources, a "Reopening Difficulty Ranking" has been constructed based on Government guidance shown in Figure 5.

Clothing, Footwear and Health and Beauty are likely to face the toughest challenges for reopening. Common characteristics that will make the reopening of these shops more difficult than other parts of the industry include densely packed products in-store, the frequency of customer-product contact, high levels of footfall and the proximity of customer service.

For example, trying on a pair of shoes often involves face-to-face assistance from staff who collect multiple boxes of shoes, help with fitting and even measure children's feet. Current Government guidelines suggest that retailers should consider "suspending or reducing customer services that cannot be undertaken without contravening social distancing guidelines". When rigorously applied, it will significantly undermine the ability for some retailers to offer even the most basic services.

Additional steps to minimise the risk of transmission through customer changing rooms further highlight how the challenges will vary by sector.

Figure 5: The challenge of unlock stores by sector (store-based sales, difficulty ranking and penetration rate of online sales)



Note – the size of the bubble represents the proportion of sales conducted online in 2019. The larger the bubble, the higher the proportion of online sales.

For example, current government guidelines outline that clothing retailers should:

- Limiting customer handling of merchandise, for example, through different display methods, new signage or rotation of high-touch stock.
- Storing items..., for example tried-on shoes or clothes, in a container or separate room for 72 hours, or cleaning such items with usual cleaning products, before displaying them on the shop floor.
- Putting in place picking-up and dropping-off collection points where possible, rather than passing goods hand-to-hand.

However, the guidance is open to interpretation. For example, Kurt Geiger have stated that shoes will be quarantined for a 24-hour period before being put back on display following contact with a customer. Whereas, Dune are offering customers disposable pop socks with separate fitting areas being cleaned after each customer.

Policing these measures will be extremely challenging for many larger stores while also leading to a significant impact on in-store operations, inventory levels, storage and working capital.

Given the specific challenges for some parts of the industry, it would seem logical for retailers to attempt to merge their physical and online propositions more closely where possible. This resonated with the retailers we surveyed with 42% suggesting that investment into online operations was a permanent measure they are looking into adopting.

The maturity of online operations will play a crucial role in identifying which sectors and retailers could be most adaptable. Figure 6 illustrates the size of store-based sales by sector, against the difficulty ranking of reopening stores and the penetration rate of online sales. For example, the health and beauty sector generated £18.8 billion of store-based sales in 2019 with online accounting for just 9.5% of total sales. Retailers will struggle to leverage their online capabilities to shift spending towards this channel while also finding it more difficult to open stores while maintaining social distancing, hygiene measures and workforce management.

While clothing retailers face a similar level of difficulty in reopening physical stores, albeit on a larger scale, the online proposition is far more developed and so merging the physical retail experience with online fulfilment is likely to become a more visible feature for retailers and supporting overall demand.

Unlocking Consumer Spending

The COVID-19 pandemic has already fundamentally altered consumer behaviour. Lockdowns, social distancing and other restrictions have forced households to break away from habitual routines and forcibly introduced new shopping behaviour.

This will lead to a diverse impact across the industry depending on the sector, retailer, consumer segment and many other factors.

Behavioural shifts

Perhaps the most prevalent trend arising from the lockdown has been the sharp shift towards shopping online. The closure of all non-essential retail stores captured c.70% of the non-food sector precipitating the shift.

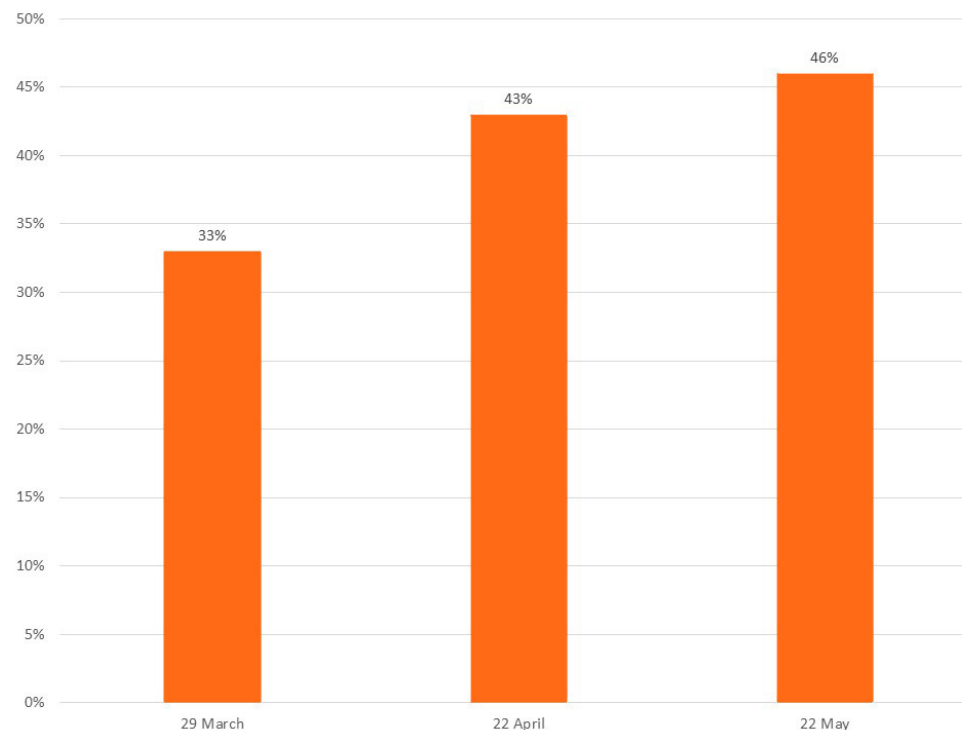
Some grocery retailers experienced a 10-fold increase in online orders, while other non-food retailers struggled to cope with the step-change in the volume of orders as online operational capacity was pushed beyond their limits.

Our research shows that almost half (46%) of consumers have switched to purchasing products online that they have previously (and exclusively) only purchased in-store. This cohort of consumers have been exposed to an entirely new customer journey that have previously laid undiscovered. Many would have overcome the initial friction of setting up accounts, entering payment details and, potentially, gaining the trust of online payments. In the future, many of these apprehensive internet shoppers may emerge as full 'online converts'.

In other parts, consumer spending has become more fragmented over a larger number of localised smaller retailers. Determining which behavioural traits will become deep rooted after the lockdown measures have been lifted remains highly uncertain.

Irrespective of the channel, consumers have prioritised 'needs' based spending over 'wants'. The impact of the coronavirus on the economy and the labour market has heightened consumer concerns over personal finances. Indeed, almost half (45%) of consumers say that they are 'worried' about their personal finances and have little to no savings. Resultantly, they have delayed spending in key areas such as apparel, DIY, Gardening and Homewares.

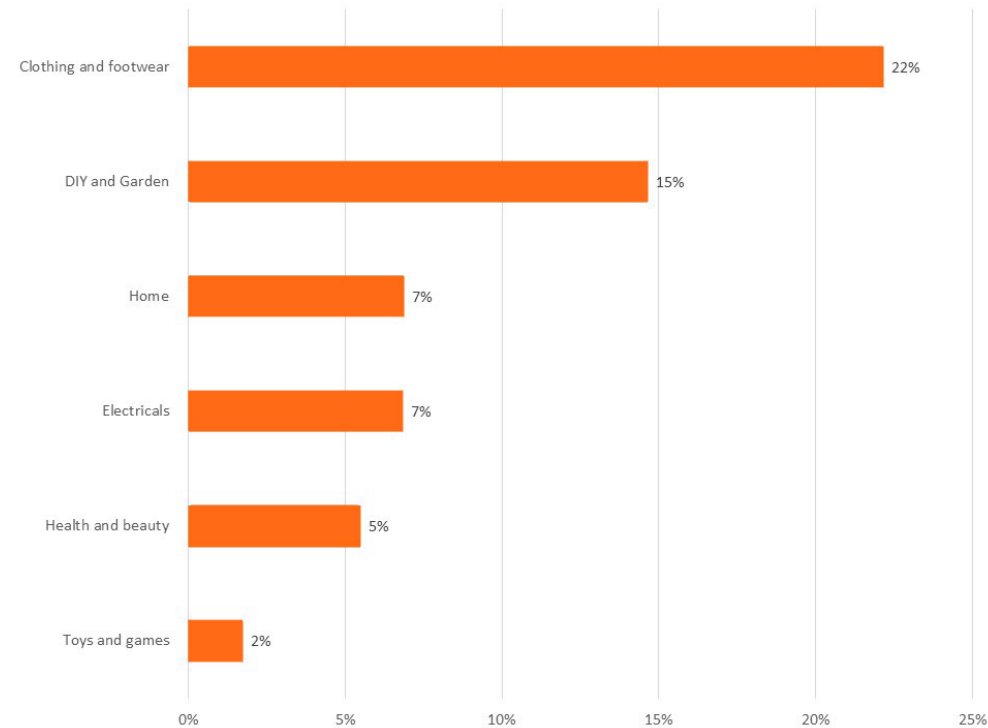
Figure 6. Since the outbreak of the coronavirus, have you switched to purchasing products online that you have always previously purchased in-store?



Source: Retail Economics, Squire Patton Boggs



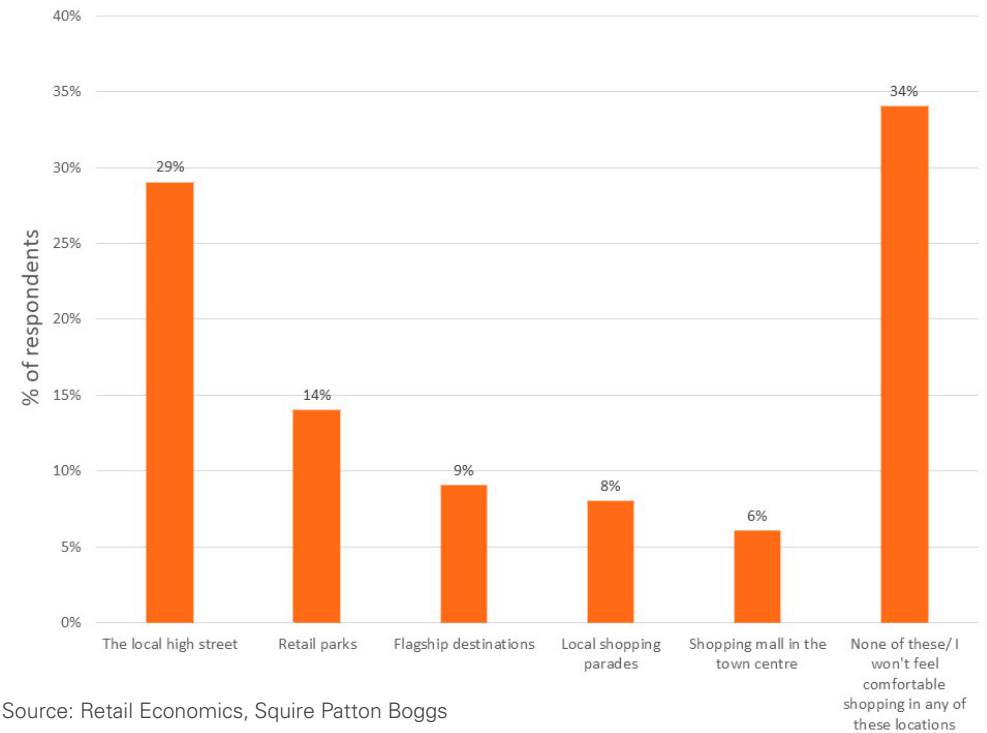
Figure 7. Have you delayed spending on any of the following sectors as a result of the coronavirus pandemic?



Source: Retail Economics, Squire Patton Boggs

However, as restrictions ease, considerable uncertainty remains over how consumers are likely to react. Our research shows that over a third of consumers suggest they will not feel comfortable shopping in any physical locations as the lockdown restrictions begin to ease. Of those that are comfortable, shopping at the local high street (29%) was twice as popular as retail parks (14%) – with shopping malls in town centres the least desirable places to visit.

Figure 8. As lockdown restriction ease, which one of these locations do you think you'll feel most comfortable shopping in?



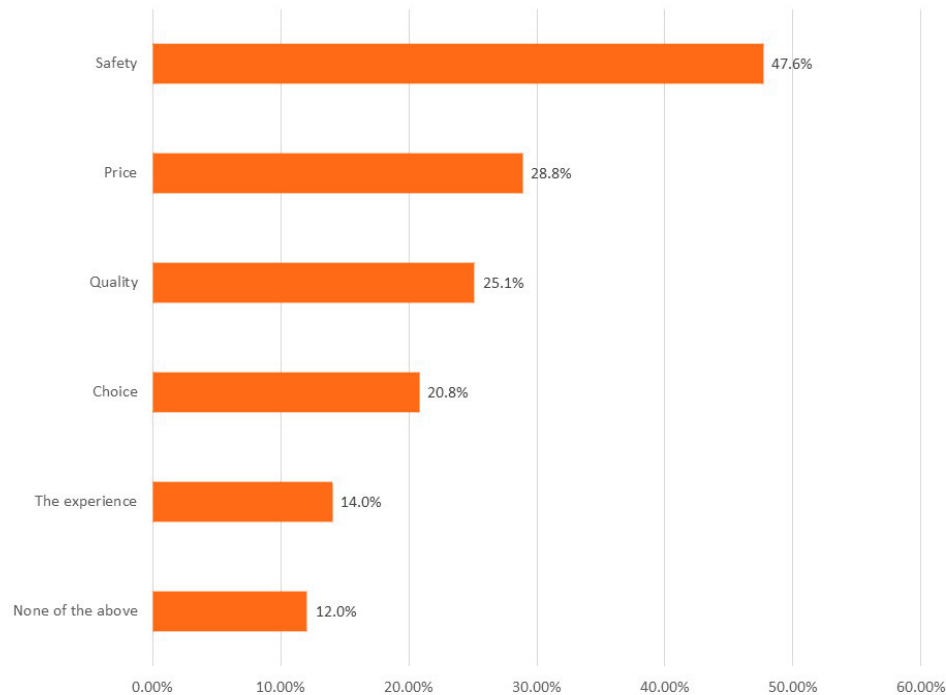
Source: Retail Economics, Squire Patton Boggs

Overcoming anxiety

Consumers remain deeply concerned about the impact of the virus but there are signs that confidence is beginning to improve. Our research shows that three in four consumers think that the coronavirus still poses a high threat to the health of the UK. However, this has fallen from 88% of consumers at the end of March. This is broadly in line with the perspective of retailers with 76% indicating it poses a high level of threat to public health.

Nevertheless, consumer confidence is likely to remain soft for some time and consumers are reordering their priorities and reassessing their values around consumerism. In fact, our research showed that 'going on holiday' (25.7%), 'eating out' (20.3%), 'visiting pubs and bars' (9.6%) all ahead of 'shopping' (5.4%) in terms of what they are most looking forward to do as lockdown restrictions are eased.

Figure 9. Thinking about returning to shops when restrictions are eased, when making a decision to purchase in-store what factor is most important to you?



Source: Retail Economics, Squire Patton Boggs

What's more, those consumers who do venture out will prioritise 'safety'. Indeed, almost half (47.6%) considered safety to be the most important factor when making a decision about shopping in-store, ahead of 'price' (28.8%) and 'quality' (25.1%).

The most important measures for consumers are around social distancing and hygiene. Indeed, 'limiting the numbers of people in stores' (56%) is the most important factor making consumers feel safe according to our research. This is followed by measures retailers use to 'enforce social distancing' (52%) and 'providing cleaning stations in-store' (38%).

Encouragingly, retailers of all sizes, channels and in all locations are prioritising the required safety measures to restore confidence for their core customers to visit stores.

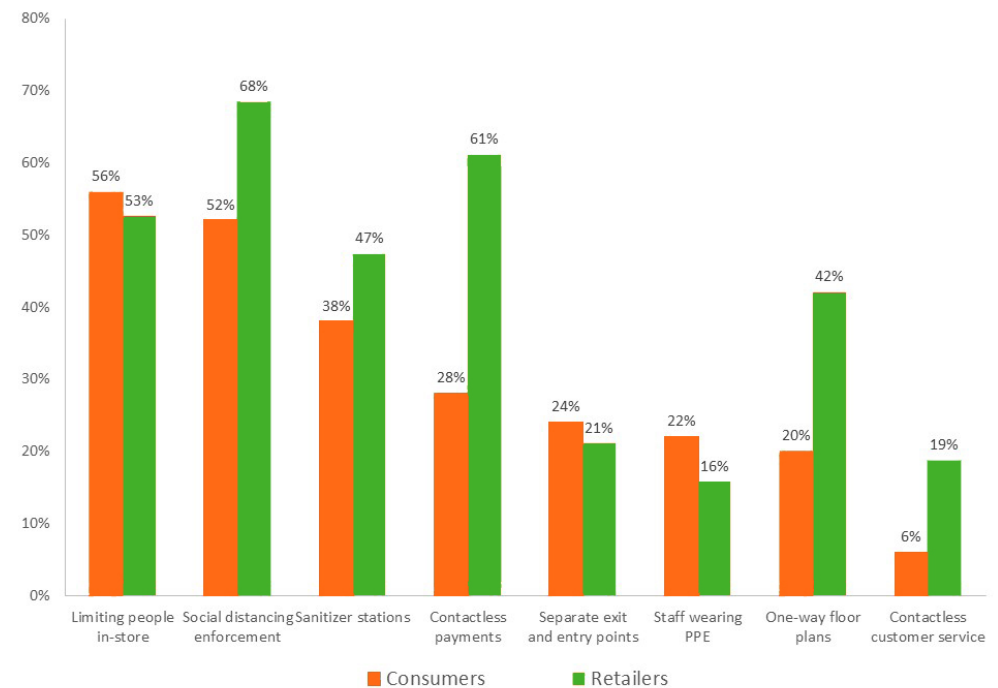
Indeed, retailers indicated that 'enforcement of social distancing' (68%) was the most important factor to their businesses while 'limiting numbers of people in stores' (53%) was high on their priority list.

Where views deviated however was around contactless payments with over three-fifths (61%) of retailers holding this in high regard compared with under a third of (28%) consumers, perhaps as this is more of a preventive measure for retailers to stop the virus transmitting between customer and employee.

Notably, differences arise by age, with younger consumers considerably more relaxed about social distancing and hygiene factors. Indeed, just 39% of consumers aged between 16-24 said that limiting the number of people in stores was their primary concern compared with 63% of consumers aged over 65.

However, there could be a significant gap between shoppers' expectations of the retail experience and the reality of browsing with social distancing measures in place. Being greeted with mask-wearing shop assistants, disinfecting shelves and guarding closed changing rooms could risk undermining the whole retail experience, further fuelling the shift to online.

Figure 10. Thinking about shopping in physical locations, which, if any of the following factors are most important to you/your business as the lockdown restrictions ease?



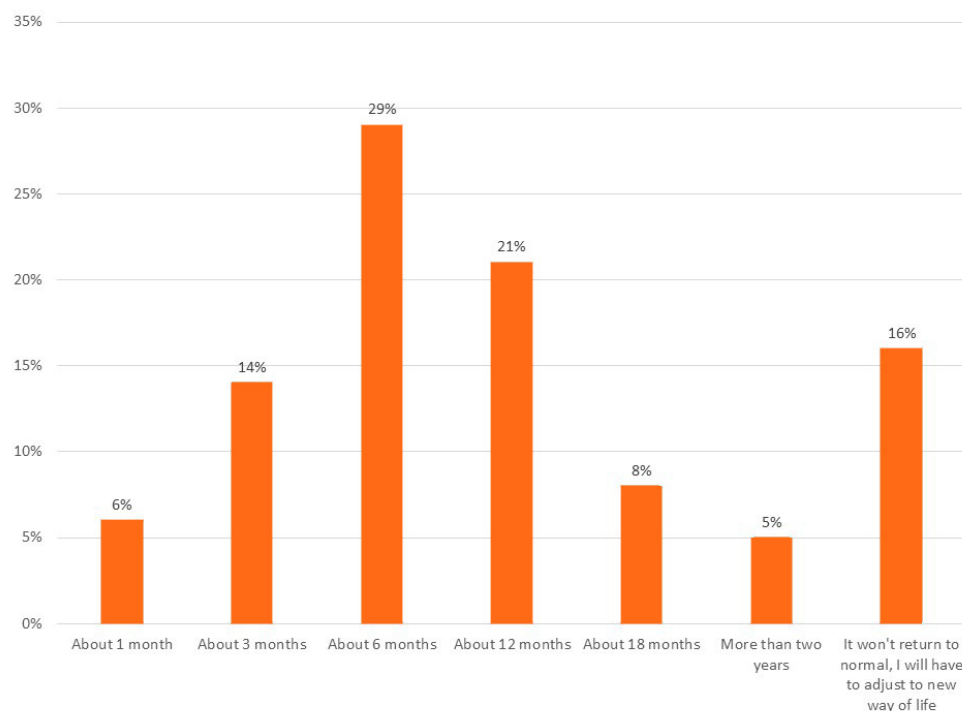
Source: Retail Economics, Squire Patton Boggs

Looking Forward

Forming a judgement around the timeframe for recovery is highly uncertain and dependent on the duration of the pandemic and whether the rate of infections continue to ease as it has in recent weeks. Despite unprecedented fiscal and monetary support from the Government and Bank of England, it appears that a deep recession is likely to unfold in the second half of the year and significant uncertainty surrounds the pace of the recovery. In fact, recent analysis by the Organisation for Economic Co-operation and Development suggests that the UK's sharp decline in GDP (as a result of Covid-19) will be the worst of any other developed country.

Given consumer spending accounts for about two thirds of the UK economy, household confidence will be a vital determinant of the shape of the recovery. However, it appears that households are in for the long haul and on average feel that life will not return to normal for at least six months. What's more, 16% think that life will never return to normal.

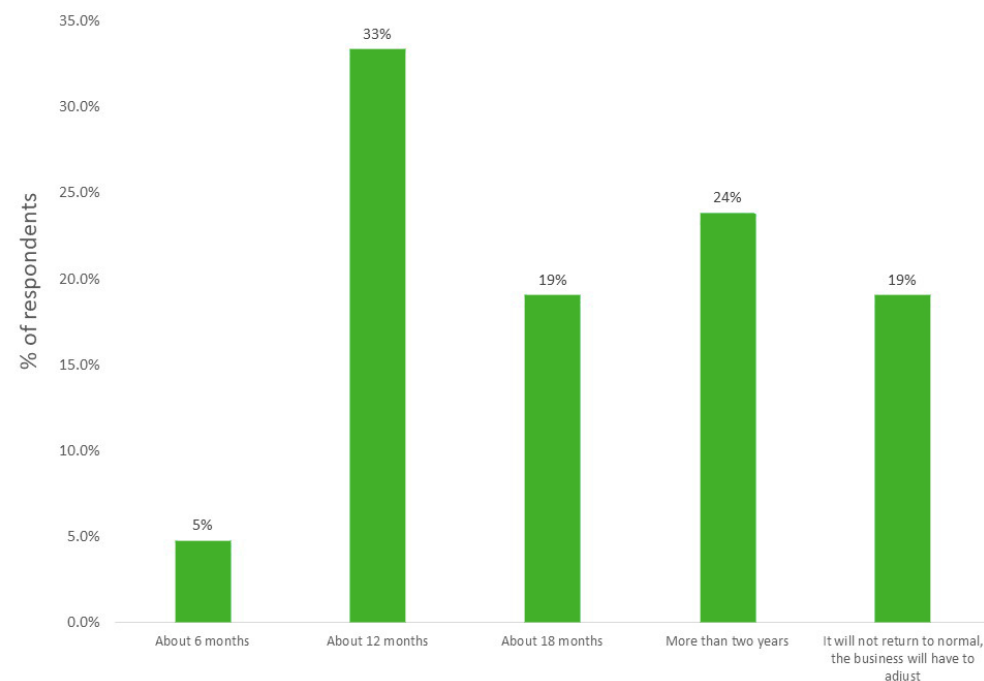
Figure 11. As the impact of the coronavirus lessens, how long do you think it will take for your life to return to normal?



Source: Retail Economics, Squire Patton Boggs

That said, consumers have a far more optimistic outlook than retailers regarding the coronavirus. Indeed, a third of retailers expect the coronavirus to impact their business for around 12 months, followed by two years (24%) and 18 months (19%) whilst, almost a fifth (19%) of retailers expect life will not ever return to normal.

Figure 12: How long do you think the coronavirus pandemic will likely impact your business?



Source: Retail Economics, Squire Patton Boggs

As the dust begins to settle from the impact of the pandemic, it's unrealistic to assume that consumers will wholly revert back to their pre-Covid-19 routines. Indeed, 28% of consumers revealed that the way they shop is likely to change on a permanent basis as a result of the pandemic, ahead of changes in communication, travel and working.

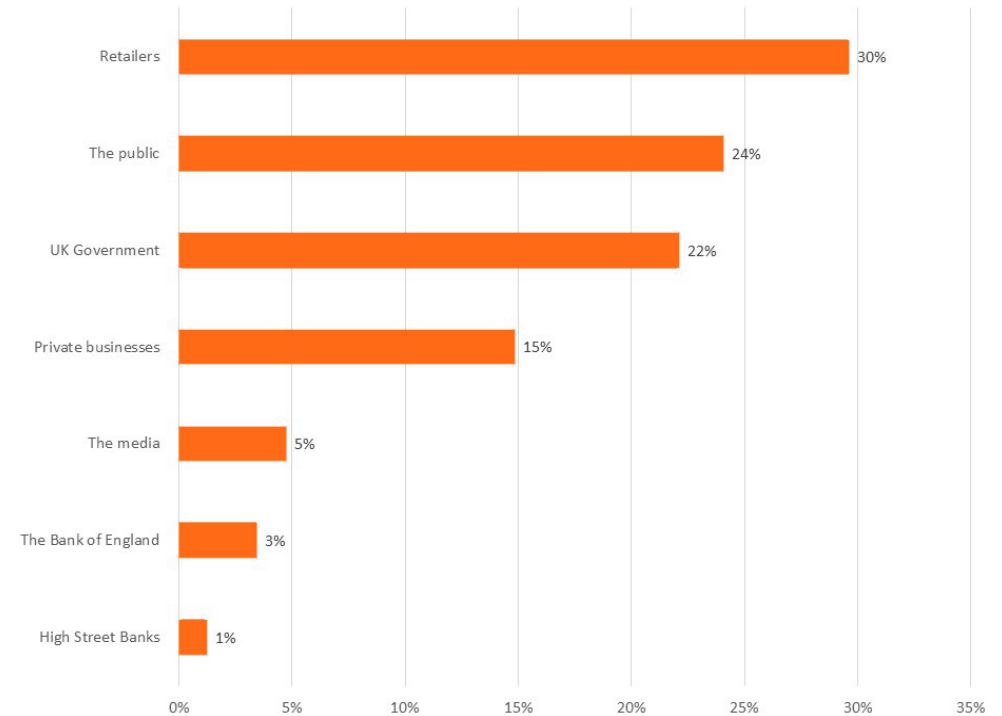
From a retailer perspective, leadership teams will review risk management strategies which will include an impact assessment on supply chains, reassess the purpose of their stores and stress test their business continuity models in times of crisis.

Many retailers that were well run, financially viable and with a good business model were faced with the unprecedented challenge of having to mothball and effectively cease trading. Very few retailers had planned or budgeted for such a dramatic change in their business models. Accordingly, there should be no shame in a retailer saying that it may need to make use of some of the additional restructuring tools that are provided by the new [Corporate Insolvency and Governance Bill](#) (Bill) to allow the business to recover from the impacts of COVID-19.

Many other retailers, especially those in the more fortunate position of either not being as severely affected, or having had sufficient financial and operational strength (online presence) prior to lockdown so that they themselves won't need the benefit of these additional measures. However, virtually every retailer will find that some businesses within its supply chain, customer base or that it otherwise engages with are impacted by the changes. In those circumstances, it is just as relevant for those companies to understand how the Bill and these new measures could impact their customers, suppliers and third parties that they engage with.

But at times of crisis, deep bonds are formed, and retailers appear to have won the support of the public in terms of the way they have reacted. Indeed, the industry should be proud that 'retailers' were ranked the highest in terms of the way that they have reacted to the pandemic, head of the public, government and other private businesses.

Figure 13. Who do you think has reacted in the best way to the impact of the coronavirus?

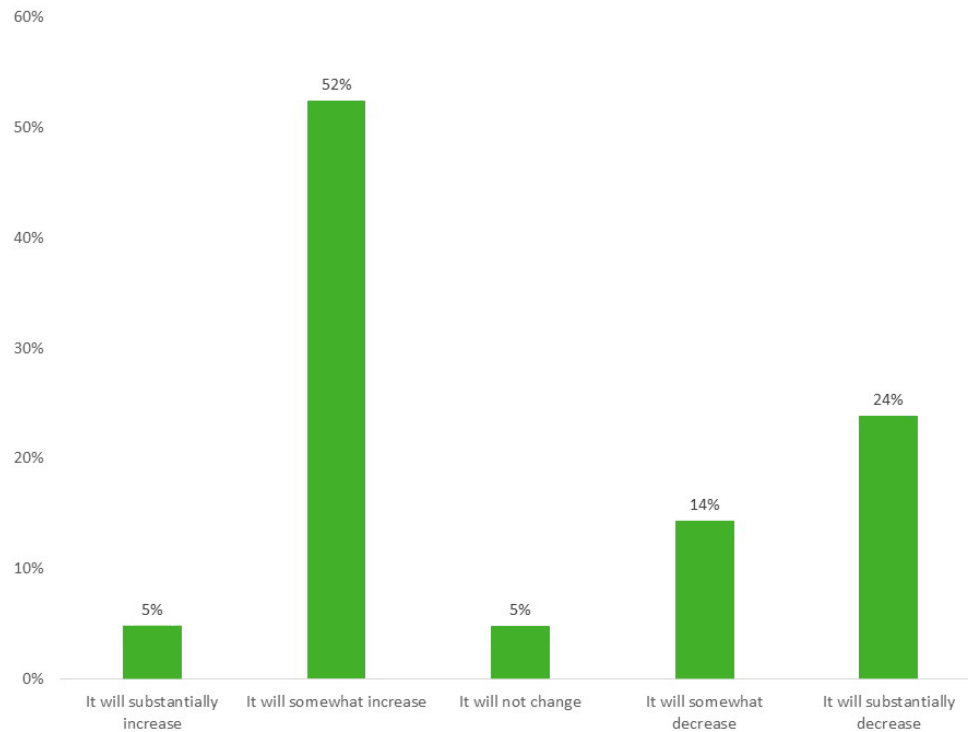


Source: Retail Economics, Squire Patton Boggs

Against the backdrop of these issues, over half of retailers feel that their sales are likely to increase over the next three months as stores are reopened and consumers begin to readjust to a new reality. Indeed, almost three-fifths (57%) of retailers expect to see an increase in turnover in the next three months, significantly outweighing those retailers who expect it to decrease (38%).



Figure 14 How do you expect your business's turnover to change in the next three months (compared with the previous three months)?



Source: Retail Economics, Squire Patton Boggs

However, there is likely to be an element of pent-up demand when consumers return. How long and sustainable a recovery in retail sales will be remains highly uncertain.

Research methodology

Consumer panel research was conducted across a nationally representative panel of 2,000 households between 20-25 May 2020.

Retail survey covered 21 large multiple retailers conducted between 24 May 2020 and 5 June 2020.

About Squire Patton Boggs

Recognised as one of the world's strongest integrated legal practices, Squire Patton Boggs provides insight at the point where law, business and government meet. With more than 1,500 lawyers across 45 offices in 20 countries, the firm delivers commercially focused legal services and invaluable connections on the ground to a diverse mix of clients across North America, Europe, the Middle East, Asia Pacific and Latin America. For more information, visit the Squire Patton Boggs website.

About Retail Economics

Retail Economics is an independent economics research consultancy focusing exclusively on the UK retail and consumer industry. Our subscription service empowers you with a deeper understanding of the key economic drivers supporting the UK retail industry, providing a competitive edge needed to make critical business and investment decisions.

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