

# On the Horizon

## Forward Thinking for Retailers Operating in the UK

September 2021



# Introduction







The retail sector is undergoing a seismic shift, largely driven by a digital transformation, but accelerated by COVID-19, environmental, social and governance (ESG) factors, and climate change, to name just a few.

For some time, online retailers have seen significant growth at the expense of a struggling high street. Lockdown restrictions due to the pandemic forced a wave of consumers online, introducing many to a new, more convenient retail experience, and raising questions about consumer behaviour post-pandemic.

At present, there is a heightened focus on climate change from policy, investor and consumer perspectives, with many looking at businesses to play their part in reducing carbon emissions and protecting the environment, in turn, encouraging many to assess their own sustainability. Similarly, investors are looking at a range of social and governance criteria to mitigate investment risks. Although a relatively new concept, there is already a positive correlation between the adoption of ESG criteria and commercial success. Thus, many businesses are conducting due diligence of their own houses and wider supply chains to ensure they are ticking all the right boxes for their stakeholders.

With such substantial change comes new rules and regulations for the industry to abide by. Our legal experts have established the short-, medium- and long-term challenges that retailers face to help your business adapt and strategize for the future.

## At a Glance

	<b>Sustainability</b> – a consumer shift in favour of sustainable products, net-zero commitments, transparency, packaging and five-mile delivery pressure
	<b>Supply chains</b> – building/increasing resilience, more transparent and more rigorous
	<b>Consolidation and acquisition opportunities</b>
	<b>ESG-related investment drivers</b>
	<b>Technology drive</b> with five-mile delivery and returns
	<b>Partnerships</b> throughout the supply chain



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# Obstacles on the Horizon

Short Term	Medium Term	Long Term
<p><b>Environmental, Social and Governance (ESG)</b></p> <p>ESG drivers are forcing businesses to look more closely at how their actions fare against investment risk criteria. This involves looking at supply chains – in particular, the global scale of the supply chain, carbon emissions targets for themselves and suppliers, suitable working conditions and pay, and ensuring transparency in governance, not just at home, but also throughout the supply chain. The data already indicates that businesses that embrace ESG changes can expect to benefit from stronger financial performance.</p> <p><b>COVID-19</b></p> <p>The pandemic demonstrated the need for more resilient and rigorous supply chains, as many businesses with international suppliers experienced delays, resulting in a loss of productivity. Unfortunately, the impact of COVID-19 on supply chains may be felt for some time as we undergo recovery. Businesses may be encouraged to modify their supply chains to enhance rigour and sustainability, by working with suppliers closer to home to limit the impact of disruption.</p> <p><b>Further Demise of the High Street</b></p> <p>COVID-19 recovery is likely to have a strong positive impact on e-commerce markets, but a return to a less restricted retail environment will test the extent to which the COVID-19 pandemic has accelerated changes in retail habits, and the consequent pressure on the traditional high street will stand in contrast to the benefit online retailers will likely see.</p>	<p><b>Tax Increases</b></p> <p>Pressure on public finances will translate into corporate tax in various ways: an increased focus on how online retail is taxed, with a possibility of turnover-based taxes; the balance between taxation of online and physical retail (i.e. making online pay for some of the adaptation to the high street); overall tax rates and taxes paid in individual countries; and politically it is easier to increase tax on companies than on voters.</p> <p><b>Carbon Reduction</b></p> <p>With an increasing focus on climate change, there has, in turn, been a sharp increase in pressure to reduce carbon emissions, with ambitious deadlines for carbon reductions fast approaching. This will have implications for supply chains and logistics, but businesses should also be aware of the emerging risk of climate litigation.</p> <p><b>Climate-related Financial Disclosures</b></p> <p>In November 2020, the chancellor announced a mandatory implementation of climate-related financial disclosures for businesses by 2022. Such disclosures will provide a clear assessment of carbon reduction efforts, while also enabling a clear assessment of investment risk.</p> <p><b>Supply Chain Due Diligence</b></p> <p>There will be a continued focus on supply chain issues, sourcing and labour standards. Geopolitics (US-China) may make some supply relationships more complex, hence a greater risk of politicisation and scrutiny of supply chains. Companies will increasingly be held accountable for behaviours throughout their supply chain. Thus, there is potential for future supply chain due diligence regulation.</p> <p><b>Technological Change and Risk</b></p> <p>Data privacy and cybersecurity risks will increase as the use of technology extends and as potential attackers adopt more sophisticated techniques. Hence, expect to see increased scrutiny and possible regulation of AI, data analytics systems and digital platforms (particularly pertaining to advertising and personality profiling).</p>	<p><b>Technology and Automation</b></p> <p>Technology and automation are expected to drive profound changes to supply chains, manufacturing and logistics. While this will have significant benefits for productivity, businesses should be aware of the implications of these changes, in particular new skill requirements.</p> <p><b>Evolving Social Patterns</b></p> <p>Changes in consumer behaviour will lead to long-term changes in the retail environment, combined with political expectation that those who have benefited from the change will contribute to the adaptation of socio-economic elements that have declined – particularly town centres.</p> <p><b>Deeper Structural Change to the Tax System</b></p> <p>Changes to the tax system are likely to reflect changes to the retail economy, with a shift from an analogue market to digital market tax system. As technology makes profits easier to shift between jurisdictions, taxes become increasingly based on the point of sale in the jurisdiction of the customer.</p>



## How We Support Retailers

Global Policy Support	Driving the Retail Experience Economy Through Digital Transformation	Compliance and Risk	ESG and Sustainable Business
<p>Many of our seasoned senior policy professionals are former US, EU and UK government officials who have served or worked at the highest levels within the US Congress or European Parliament and Commission, serving as ministers or ambassadors, or holding senior positions within national governments or supervisory authorities in Europe. Therefore, they understand the inner dynamics of the legislative and regulatory processes. One of our Public Policy team members is Jake Berry MP, the former Northern Powerhouse and Retail Minister.</p>	<p>To support retailers in assessing the impact on your operations, supply chain, brand and marketing, as well as against numerous commercial risk factors, we have developed the <a href="#">Retail Digital Transformation checklist</a> in order to guide you through the journey of digital transformation. Within our guide, our retail specialists provide you with practical insights and solutions across all of your business needs, including commercial and technology, advertising, brand and consumer, and data privacy and cybersecurity.</p>	<p>We adopt a holistic approach to business integrity risk. We assist in creating comprehensive compliance programmes and/or enhancing a company's existing programme to effectively manage risk and meet regulatory requirements.</p> <p>Our <a href="#">compliance framework</a> aims to support retailers to enhance their business integrity and compliance against a number of material risk factors. We have also set out the key compliance pressures and insight into the risks associated with not having a robust compliance framework in place.</p>	<p>We have a dedicated global cross-practice ESG group, which provides solutions to our clients both in addressing ESG risks, opportunities and compliance, as well as ESG-related litigation. <a href="#">Learn more on stakeholder pressures and how we can provide support.</a></p> <p>We provide access to our insights on hot topics relating to ESG and sustainable business. Recent highlights have included:</p> <ul style="list-style-type: none"> <li>• <a href="#">Corporate Purpose – The Future of Regulation and Governance</a></li> <li>• <a href="#">Mitigating ESG Risk Guide</a></li> <li>• <a href="#">The ESG Bandwagon in the United States</a></li> </ul>



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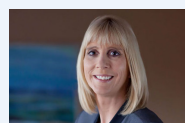
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