



Global retail trends 2020

Preparing for the new reality



KPMG in Belgium

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COVID-19 accelerates the trends that matter most

Clearly, COVID-19 has created massive challenges for retailers around the world. For some, it may have presented opportunities. The past few months have brought unprecedented uncertainty, complexity and change to the industry. In its wake, some retailers will thrive while others struggle to survive.

Interestingly, COVID-19 has accelerated key fundamental trends that were already influencing the sector: business model evolution, the value of purpose, the ruthless focus on reducing cost and the increased power of the consumer. Rather than stop these trends in their tracks, the recent shifts in retail fundamentals has made these trends even more acute and urgent.

This report highlights the four key trends that — we believe — every retail executive should be watching as they rebuild their business towards the new reality. Based on the collective experience of KPMG's network of Retail sector professionals, these trends offer clear indications of how retail markets around the world are changing and how the retail industry is evolving.

To learn more about the trends highlighted in this report, we encourage you to contact your local KPMG member firm or any of the authors listed in this report.



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Trending in retail



The rise of platforms is changing the retail landscape.

Trend 1
The Retail Business model is evolving.



Customers want to buy from companies who stand for something bigger than profits.

Trend 2
Purpose moves to the forefront.



Retailers take new approaches to cutting costs and driving profitable growth.

Trend 3
Rethinking the cost of doing business.



As customers focus on availability over selection, all signs suggest discounters and platforms will thrive.

Trend 4
Customer choice comes under the microscope.

Interestingly, COVID-19 has accelerated key fundamental trends that were already influencing the sector — rather than stop these trends in their tracks.



Trend 1:

Business models evolve

COVID-19, for the most part, has put physical retailing on pause. Indeed, with a significant proportion of the world's consumers currently under some form of lockdown and all but essential services (generally food and pharmacy) permitted to operate, physical retailing is in a precarious state.

Given that physical stores have been the foundation of the retail experience since the dawn of ancient Greece, the implications for today's retail business model are massive.

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

At the same time, the challenges related to COVID-19 are also forcing retailers to rethink the complexity of their value chain. Companies now need to be good at not just buying and selling products, but also at things like online fulfillment, home delivery, data analytics, AI, machine learning and process automation. The capabilities required to succeed in retail continue to expand. Given the current capability shortages and cash flow challenges, retailers should now be looking to refocus on the core retail fundamentals of buying and selling whilst partnering to deliver the other required skills.

Many are looking to platform companies to help deliver some of those important capabilities. Retailers (particularly small and medium sized ones) are also looking to them to drive footfall. Indeed, what this difficult time has clearly demonstrated is that online platforms are quickly becoming

the shopping malls of tomorrow. Retailers need to be in the right malls — and, just as importantly, in the right location — to see footfall today and (very likely) in the new consumer environment.

Generally speaking, most retailers now have three main options 1) become a platform, 2) leverage platforms or 3) continue business as usual.

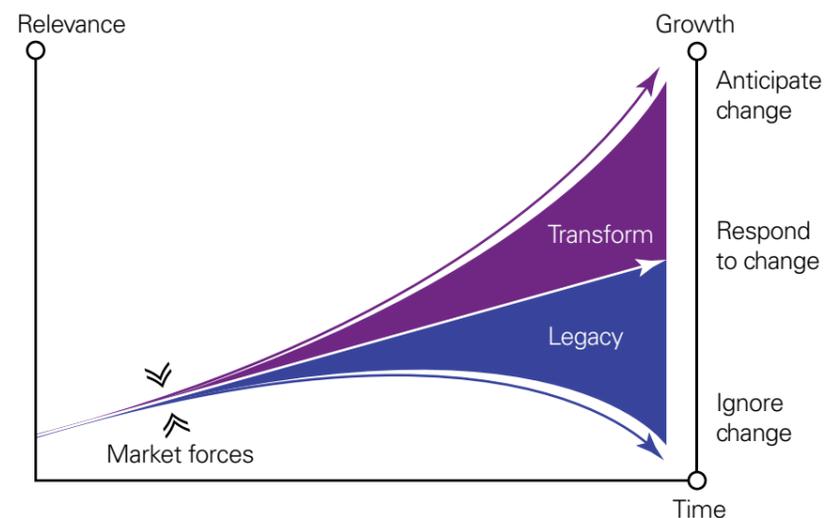
Creating their own platform. Only a handful of market leaders currently have the strength (in capabilities, balance sheet or brand) to develop a platform ecosystem compelling enough to truly compete against the existing heavyweights. However, for those that can, the added value of controlling the data, route to market and capabilities that come with a platform will be extraordinarily valuable.

Leverage platforms. Those without the scale to become a platform themselves will likely need to partner with one. As part of their business model planning, retail execs are starting to think carefully about what part of the value chain they should own and what parts could be better delivered through partnerships (where all parties put some skin in the game).

Business as usual. Being able to partner while expanding and maturing your omnichannel capabilities will be pivotal. Prior to COVID-19, consumers were increasingly jumping channels as they moved through the sales journey and retailers will need increasing sophistication in their omnichannel approach in order to ensure customer experiences are seamless going forward. In this environment, business as usual would be challenging at best.

We believe that — over the coming year — ongoing challenges with supply, demand and business continuity will force many retail groups to rethink their future business models and make the respective choice. And that, in turn, should spark a new wave of innovation and competition across the industry.

21st century enterprise: alternative strategic paths



Legacy

- Speed to market
- Scalability
- Smarter portfolio management

Transform

- Enterprise transformation
- Leverage the role of new valuable assets: data
- Build new operating models and collaboration

Strategic options



Become a platform



Leverage platforms



Business as usual



Case study

Food retailers

Background: As it became clear many countries were going into lockdowns, many traditional food retailers moved quickly to enhance and expand their delivery services. Marks & Spencer, a leading UK retailer of food and non-food items, for example, partnered with food delivery service Deliveroo to expand delivery services from their M&S stores located at some service stations. Before the COVID-19 pandemic M&S agreed a joint venture agreement with Ocado (a home delivery service) to increase their delivery reach for their food business which could prove to be a decisive step for the future.

Why it matters: While most food retailers have been building their delivery channels for some time, the closure of physical stores coupled with heightened demand for same-day/online food delivery required organizations to make radical shifts in their business models. Partnering with Deliveroo allowed M&S to scale up their services which not only drives cash flow but also reinforces the brand with customers.

Lesson learned: A number of food retailers have been able to rapidly shift their business model assumptions and seek out partnerships with non-traditional players in order to keep parts of their business in operation. These services, while created out of necessity, will likely mature into a strong go-to market channel for the brand in the future.



Trend 2:

Purpose moves to the forefront

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

The upheaval only accelerated a trend that was already well underway. Consider this: according to a study by Edelman in late 2018, nearly two-thirds of consumers around the world said they would decide to either buy or boycott a brand based solely on its position on a social or political issue.¹

Company results further reinforce the importance of purpose. Brands that demonstrated a positive impact on people's lives grew 2.5 times more (over a 12 year period) than brands with a low perceived impact.² A further report shows that 'meaningful' brands also generate higher returns on their KPIs — almost three times the purchase intent in non-customers and more than double the repurchase intent in existing customers.³ Not surprisingly, meaningful brands outperformed the stock market by 134 percent.⁴

What COVID-19 has demonstrated is that customers want businesses to stand for something bigger than just the products they sell or the dividends they return to their shareholders. They expect the retailers they purchase from

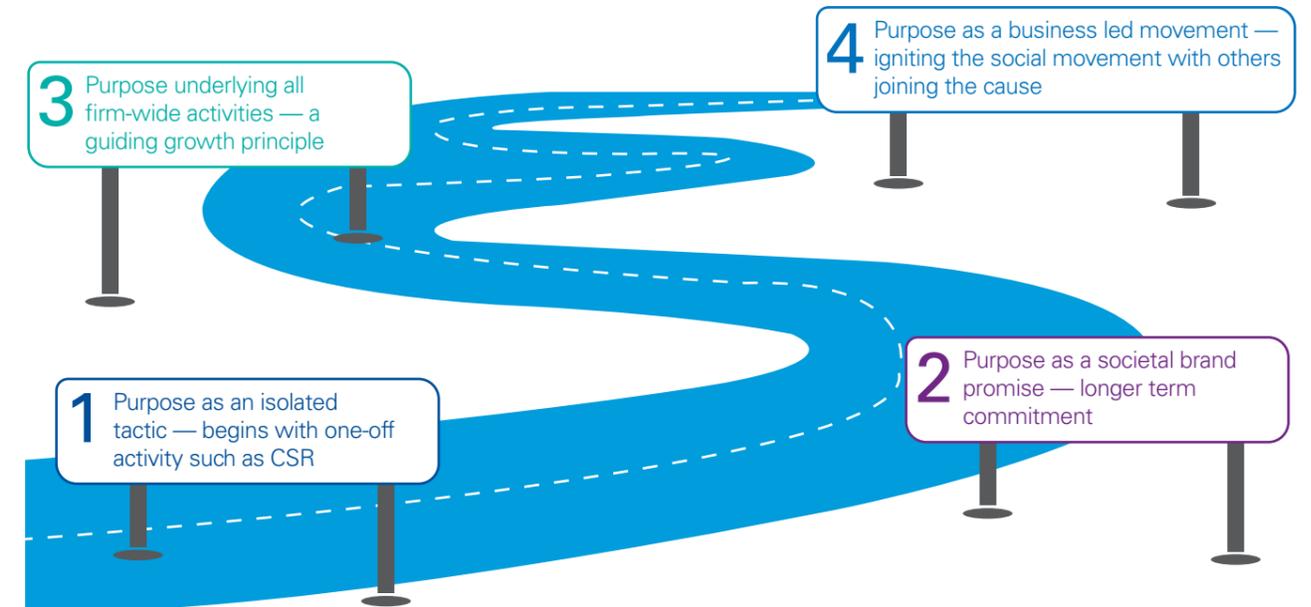
to reflect their values and to care about the same societal issues they do. And COVID-19 has given retailers ample opportunity to demonstrate their purpose.

This year, expect to see retailers start to focus on improving transparency across the entirety of their business. Particular focus, not surprisingly, will be on those that help society respond and recover to the current health troubles. Those going the extra mile to support their customers and their employees through this challenge will undoubtedly come out the other side with greater brand loyalty.

That being said, customers expect their brands to do more than just talk a good talk. According to the Meaningful Brands survey, only around 38 percent of consumers think companies and brands currently communicate honestly about their commitments and promises.⁵ Recent backlashes against perceived instances of corporate 'green-washing' suggest that consumers are setting a rather high bar for retailers to pass.

In 2020, expect to see the leading retailers move from having a purposeful brand promise to using their purpose as a guiding growth principle and decision-making lens. Simply put, smart retailers will use this critical period as a way to demonstrate that they live their purpose rather than just talking about it.

Journey to becoming purpose led



Case study

Fashion retailers

Background: The world's top fashion brands — including Burberry, Giorgio Armani, Dior and Ralph Lauren — have all temporarily retooled their manufacturing facilities to produce a range of personal protective equipment (PPE) such as masks, gowns and medical overalls for use by healthcare providers and patients.

Why it matters: Particularly in the early phase of this global upheaval, the public has been keenly aware of potential shortages in critical health equipment. And, with demand for PPE at an all-time high and demand for luxury and premium fashion products at an all-time low, this action allows fashion brands to keep their factories operating (and, in some cases, drive cash flow) until demand for their lines returns.

Lesson learned: Brands that embody their purpose through these trying times are not only generating public goodwill and customer loyalty, they are also demonstrating they are willing to work with government and in concert with the wider industry to deliver on the needs of society. That will serve them well in the years ahead.

¹ <https://www.edelman.com/news-awards/two-thirds-consumers-worldwide-now-buy-beliefs>

² Brand Z/WPP/Kantar1

³ Meaningful Brands survey, 2019

⁴ Ibid

⁵ Ibid



Trend 3:

Rethinking the cost of doing business

Margins were already razor-thin across many parts of the retail sector. In the UK retail profit margins have declined from 4 percent in 2013 to 2.5 percent in 2019. Now every cost is coming under the microscope and every drop of cash is being aggressively preserved. The memory of this event will remain in the collective consciousness of retailers for some time; the desire to eliminate costs will likely be insatiable.

Most retailers recognize that conventional forms of cost cutting are no longer enough to shore up margins and rebuild the business. Even after the aggressive cost-containment strategies rolled out in the immediate aftermath of the response to COVID-19, most retailers recognize they will need to go further if they hope to return their business to profitable growth in the years ahead. Expect to see a flurry of investments focused on improving the value of existing assets over the coming year.

Some of the more obvious places for investment include new technologies to improve the efficiency of supply chain management, inventory management and shipping and receiving. These are areas that could yield significant value if the right technologies and operating models are brought to bear. There are certainly a multitude of tools and technologies on the market that offer as much.

But this year, we expect to see retailers start to take a closer look at the value of their other assets — namely their stores, their employees and their customer loyalty. Due to COVID,

all three are now in flux and their value propositions and expectations are rapidly shifting. Ensuring the right costs are being incurred to achieve the right objectives will be key.

Retailers need to increasingly leverage data and analytics to identify their most profitable stores, configurations and products and, based on this, make some important decisions. Given the massive recent changes in customer expectations and demand, all previous analytics will need to be reviewed. Stores that were profitable before may no longer be so in the future.

They will likely also view their employees in an entirely new light. Rather than simply stocking shelves and overseeing cash registers, employees will be engaged as valuable customer experience agents and ambassadors for the brand's purpose. Head office jobs may also start to shift as companies look to take advantage of new remote-working models and virtualized ways of working.

The most advanced will likely start to manage their customer experience and loyalty as if it were an asset, carefully nurturing and measuring their stock of loyalty in order to enhance its value and improve its resilience.

There is no doubt that margins will continue to come under pressure as markets start to rebuild from COVID-19. Yet rather than simply slashing costs and hiking prices, expect to see retailers start to look for new ways to secure value from their existing assets.

Impact on retail — Global

Retailers' AI investment



In 2022
US\$7.3
billion⁶

Retail AI cost savings



In 2022
US\$340
billion⁷

RPA cost savings



25-50%
cost saving
on effective
deployment⁸

⁶ <https://www.juniperresearch.com/press/press-releases/retailer-spending-on-ai-to-grow-7-3bn-2022>

⁷ <https://www.capgemini.com/wp-content/uploads/2018/12/Report-%E2%80%93-Building-the-Retail-Superstar-Digital1.pdf>

⁸ <https://irpaai.com/definition-and-benefits/>



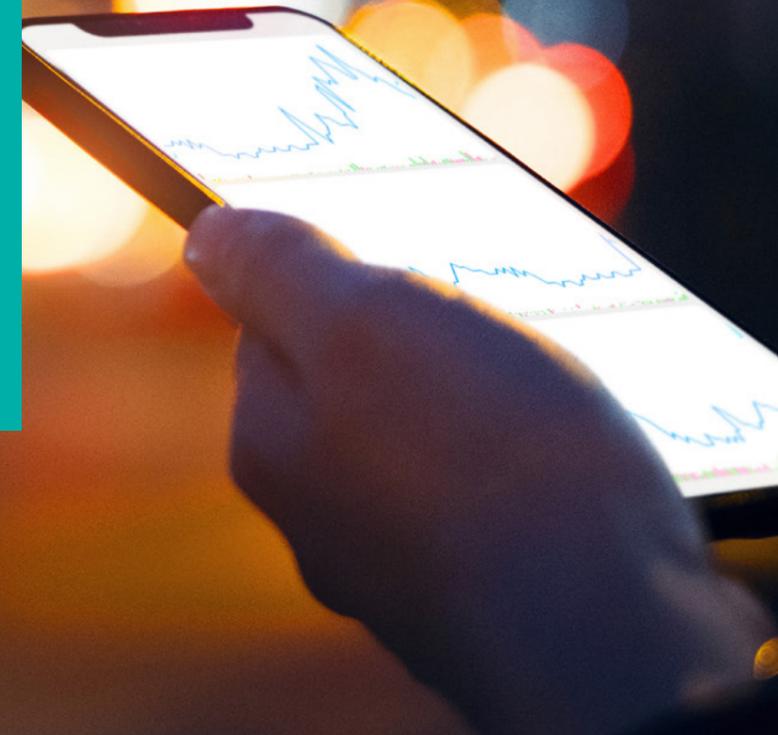
Case study

Delivery services

Background: Demand for delivery services has skyrocketed. And that left many existing delivery services — Ocado, Deliveroo, Ele.me and others — scrambling to expand their workforce and their fleet. Many have extended offers of temporary employment to 'gig economy' and hospitality workers that have found themselves without work in other industries.

Why it matters: Online delivery services saw massive drops in customer satisfaction early in the COVID upheaval as supply chains seized and last mile delivery became overwhelmed. This move not only helped the delivery service organizations build rapid scale, it also allowed them to offer jobs to people who had recently been laid off, thereby reinforcing their commitment to the health of the community.

Lesson learned: While some retailers have seen demand and volume plummet, others are looking for ways to quickly scale their service and value proposition. In some cases, organizations will need to invest fresh cash and resources if they hope to meet demand and maintain their customer loyalty.





Trend 4:

Customer choice comes under the microscope

In today's environment, customers care less about breadth of assortment and more about availability. And that could change the way many retailers operate.

Indeed, as countries moved into lockdown status and grocery store shelves emptied, many grocery retailers started exploring ways of narrowing their focus down to a decreased range of high-demand items — creating 'minimum viable ranges'. In doing so, supply chain efficiency and working capital measures are increasing significantly; few customers have so far complained.

Once again, COVID-19 has accelerated a shift that had already been underway across the retail sector. For some time now, customers have had an almost unlimited selection of items online. Fancy an organic sun-dried tomato ketchup? Or a blueberry flavored ketchup? Maybe a ketchup already mixed with mustard? Before the upheaval, consumers could find those, and hundreds of other different ketchup brands, flavors, sizes and packages with just a few taps on a smartphone.

In the near future, customer expectations will once again shift. Our view suggests that only two types of retailers will likely survive: those offering a limited yet curated selection and those offering unlimited selection. Those in the middle may be the ones that struggle most.

We also expect to see retail leaders think more clearly about their investments into three key areas: customer loyalty programs, customer data, and technologies aimed at making the shopping experience easier, safer and more efficient.

Let's start with customer loyalty... or the lack thereof. In a recent (pre-COVID) survey of UK customers, 42 percent said they were likely to switch their current food and grocery retailer. Thirty nine percent showed no loyalty to

their electronics retailers. Around a third said they were willing to change their travel retailer. The same survey extrapolated the cost of customer defections in these three categories alone to be worth almost GBP100 billion (US\$129 billion).⁹

To combat this, retailers need to improve the sophistication of their loyalty programs, moving away from traditional points-based systems to instead create integrated and unified rewards programs that allow multiple product and service offerings to be bundled together in a way that encourages consumers to dwell in their ecosystem.

Secondly, retailers need to explore a wider range of models and approaches for gathering and analyzing customer data. Integrated reward programs may be part of that solution. So, too, will participation in various platform plays. But expect retailers to start thinking more about how they can partner with others in their customer's ecosystem to not only deliver value and improve relevance, but also to capture greater and richer sources of customer data.

You can also expect to see retailers increase their investments into new and emerging technologies. Voice ordering via smart speakers, for example, is allowing innovative retailers the opportunity to deliver a more convenient on-demand ordering experience (particularly relevant in a shopping environment dictated by isolation measures). Others are exploring how blockchain might help improve the value of their loyalty programs.

Ultimately, we believe that the shift towards reduced choice will likely lead to more efficient supply chains, lower costs and better customer satisfaction.



Case study

SMEs in China

Background: Alibaba, one of China's largest consumer platforms, has rolled out their '2020 Spring Thunder Initiative' aimed at helping small and medium enterprises (SMEs) recover and grow during the current health and economic difficulties. The organization is offering capabilities such as resource support and fast track processing, as well as enhanced financial terms through fee reductions and extended 'immediate settlement' services.

Why it matters: The two largest consumer platforms in China — TenCent and Alibaba — already served as a primary channel for the majority of China's SMEs. Since COVID, these platforms have stepped up to provide help to SMEs in their network and, in doing so, have signed millions of new merchants into their e-commerce ecosystems. A similar suite of programs launched by Alibaba during the 2008 financial crisis helped the company reach 40 million SMEs.

Lesson learned: The online platforms are not just seeing increased volume and demand as people self-isolate and stores remain shut; they are also signing up millions of SMEs and merchants that will help them expand their ecosystem, enrich their customer data and — perhaps most importantly — enhance customer loyalty.

⁹ 2018 Unfaithful Consumer State of the Nation report

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