

Sales Shift: COVID-19 and the UK Retail Landscape

John Griffin, May 2020

IBISWorld assesses how social distancing has affected the UK retail sector, and how changing consumer behaviour is expected to influence retail activity in the long term.

The retail sector has faced a continually evolving and somewhat harshening operating landscape in recent years, as wavering consumer confidence has compounded a widespread migration towards online purchases. However, following a lacklustre end to 2019, the retail sector has faced significant upheaval in the current year, as non-essential stores have been forced to close as part of a raft of measures introduced to mitigate the spread of COVID-19 (coronavirus). This has spurred a shift in the focus of retailers from implementing innovative strategies to create an enticing omnichannel experience for consumers, to extreme cost-cutting measures as they seek to navigate through the challenging period without exhausting emergency cash flows.

With Prime Minister Boris Johnson hinting at a gradual end to lockdown in the coming weeks and months, focus will now be shifting back towards restarting operations. However, with it becoming increasingly likely that some form of social distancing will be required until a vaccine is developed, retailers will be forced to adjust the way in which they operate to ensure customer and staff safety. While some of these changes are only likely to be required in the short term, some of the current changes in lifestyle adopted by consumers during lockdown are expected to manifest in long-term implications for the retail sector, with more than one-quarter of consumers surveyed by Retail Economics stating that the pandemic would have a permanent impact on the way they shop.

Temporary closure

According to data from the Office for National Statistics (ONS), retail sales fell by 5.1% in March 2020, the sharpest rate of decline on record. Sales of clothing were among the hardest hit, recording a 34.8% decline as a significant drop-off in footfall during the opening three weeks of the month was exacerbated by government guidance forcing non-essential retail stores to temporarily cease trading during the coronavirus pandemic. Food stores and e-commerce were the only sectors to show growth during the month, with supermarkets recording their strongest growth on record, and the share of retail purchases made online reaching record levels at 22.3%. This is unsurprising, given the essential nature of products sold by supermarkets and the ability of consumers to substitute in-store purchases with online platforms. Supermarket sales are expected to ease in April, with online grocery retailer Ocado stating that more normal shopping habits have returned. However, trends displayed in March across the rest of the retail sector are anticipated to further intensify as a prolonged period of lockdown forces consumers away from the high street and towards online sales platforms. This collapse in sales is expected to cause a number of casualties in retail industries, with Oasis and Warehouse, Debenhams and Cath Kidston already forced into administration. However, as the government prepares to exit the

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Retail sales in the United Kingdom

Month-on-month growth



SOURCE: OFFICE FOR NATIONAL STATISTICS

initial lockdown phase, retailers are currently developing plans to recall previously furloughed workers and re-open stores.

Short-term prospects

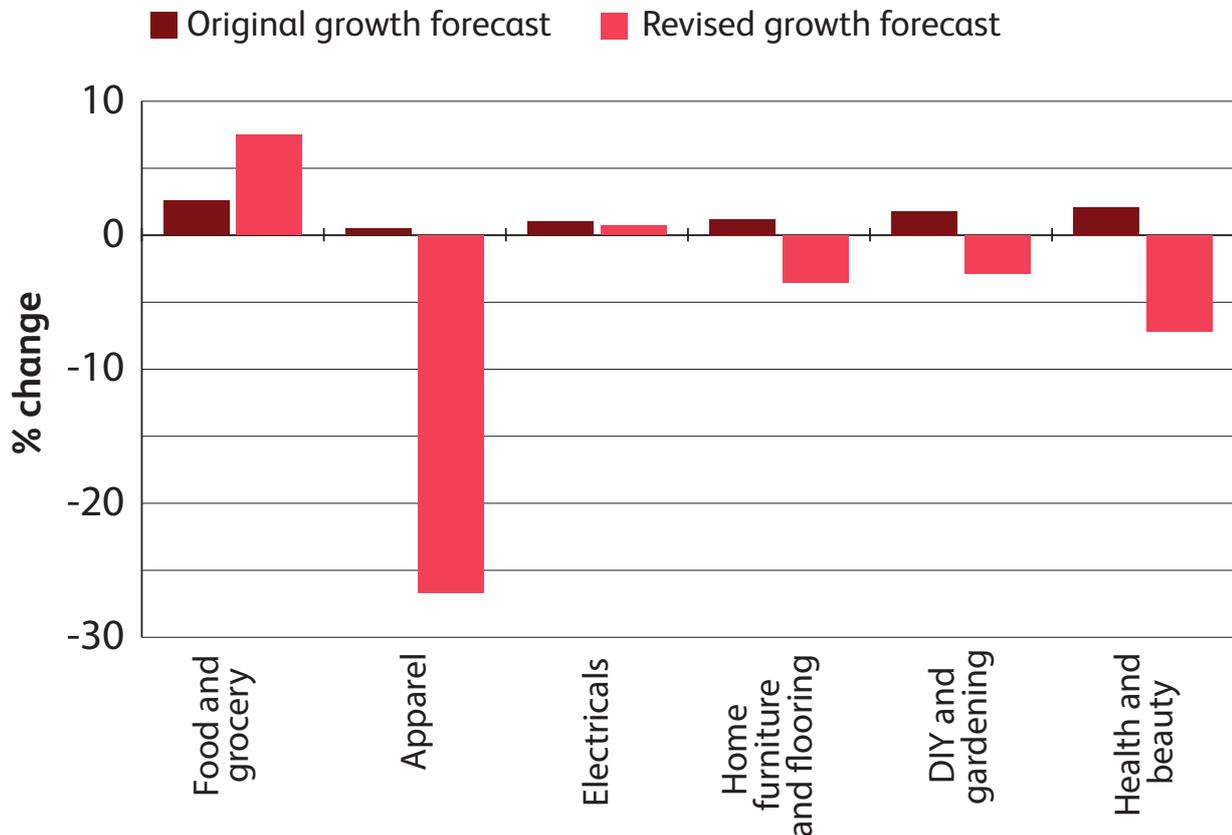
Although a return to work will offer some relief for retailers, the transition towards kick-starting operations is plagued with difficulties and with the Bank of England warning that a recession is imminent, the most damaging period for retailers may still be to come. In anticipation of this, the government has implemented a raft of supportive measures for retailers, including a Retail, Leisure, Hospitality and Leisure Grant and business rates relief, which will apply to the 2020-21 tax year. Even with this support, firms will be reliant on an influx of customers to ensure a successful return to operations. However, according to a recent survey by Ipsos Mori, 43% of British consumers would currently feel uncomfortable shopping anywhere other than in supermarkets. In order to rebuild confidence

among consumers, social distancing measures are likely to be required in stores to mitigate the risk of transmission. Measures suggested by the British Retail Consortium include limiting the number of customers allowed in store, identifying and cleaning high touch points, and using floor markings to facilitate compliance with social distancing. Although necessary, these measures are likely to present significant cost pressures for retailers for the foreseeable future as rising compliance costs are exacerbated by restricted output.

When analysing the subsequent short-term prospects for firms in the retail sector, it is useful to look at countries such as China, which was the source of the pandemic at the end of 2019 and has since embarked upon a tentative resumption in activity. Multinational chains such as H&M have recorded a notable rise in sales from their Chinese businesses since the peak of the crisis in mid-February, though in the final week of March, sales were still down 23% year-on-year. This suggests that the outlook for the remainder of the

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Forecast growth in retail sales, 2020



SOURCE: MARKETS INSIDER

current financial year remains bleak for UK retailers, prompting major clothing retailer Next to warn that sales could still be 28% lower in the three months through January 2021. Such sentiment has been echoed by Retail Economics, which has forecast that non-food retailers could suffer a 17% decline in sales over 2020 as fears linger surrounding the risk of a further peak in infections and operators are forced into a prolonged period of heavy discounting in order shift excess stock that is currently being accumulated.

Retail landscape

In order to offset the limiting effects of social distancing measures on in-store sales, retailers are expected to increasingly focus their attention on online sales platforms. Although the current increase in online retail sales has been somewhat necessitated by lockdown measures, it is widely anticipated that this will spur an accelerated shift towards e-commerce in the long term.

Despite there already being a notable shift towards online retail in recent years, older consumers have so far proved relatively sluggish in this transition. According to ONS figures, 54% of consumer aged 65 and over purchased goods or services online in 2019, compared with 82% of all adults. However, as these consumers are among the most at risk from the pandemic, they are subject to some of the strictest lockdown measures, and have therefore been forced to significantly adjust their spending habits. This has presented an opportunity for online retailers to penetrate this previously unsaturated market, and as older consumers have learned the practise of purchasing goods online, the share of retail purchases made online by this age-cohort is unlikely to revert back to pre-coronavirus levels. This is expected to accelerate long-term growth in the E-Commerce and Online Auctions industry. Meanwhile, traditional retailers are expected to expand their online platforms as well as promoting other innovative features such as click-and-collect, as they seek

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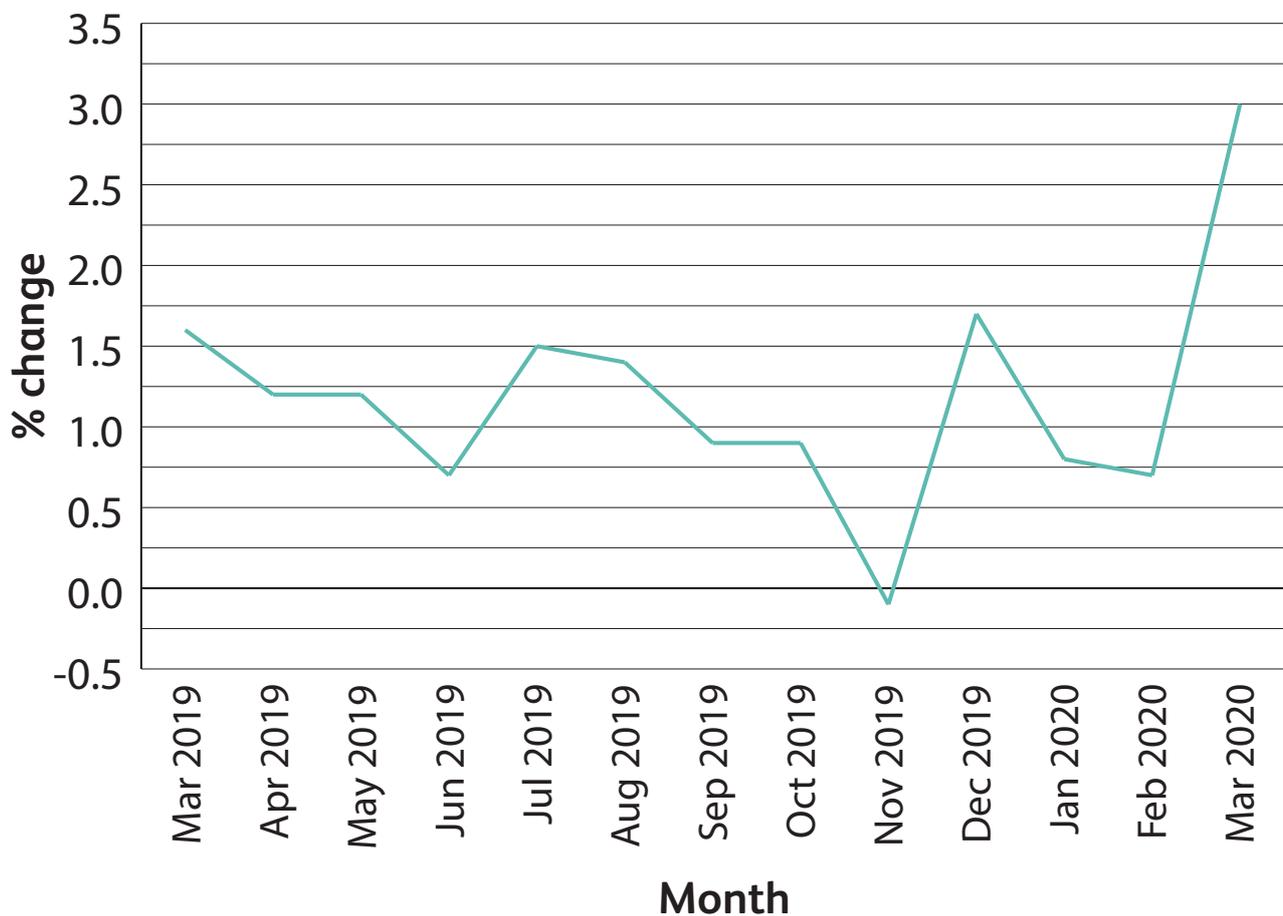
to create an increasingly seamless transition between digital and physical retail. Retailer Argos has already provided a blueprint for this, having used digital channels to record an increase in overall sales since the enforced closure of its stores.

The economic impact of the coronavirus and the monumental changes it has brought to daily life are expected to spur several other long-term changes within the retail sector. These changes, which include a

narrower range of in-store products and increased use of self-service options, largely revolve around reduced contact and increased convenience. However, while these factors pose a key consideration in the long term, the focus in the short term is expected to remain on implementing measures to ensure social distancing and build confidence among consumers surrounding shopping in-store, while also ramping up capacity for online sales.

Share of retail purchases made online

Year-on-year growth



SOURCE: OFFICE FOR NATIONAL STATISTICS

IBISWorld Industry reports used in this special report:

- G47.110** Supermarkets in the UK
- G47.710** Clothing Retailing in the UK
- G47.910** E-Commerce & Online Auctions in the UK
- SP0.060** Online Grocery Retailers in the UK

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