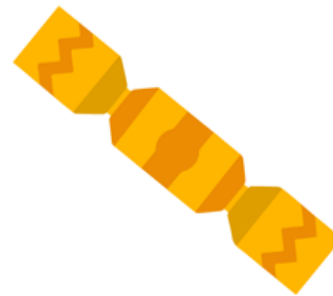
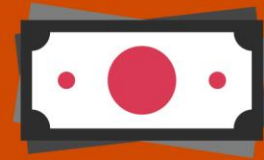


# Retail and Consumer Briefing

January 2021



# Today's speakers



Lisa  
Hooker

Head of  
Consumer  
Markets



Kien  
Tan

Senior Retail  
Advisor



Nick  
Forrest

Economics  
Leader



Ainsley  
Moore

Head of Real  
Estate Advisory



Jacqueline  
Windsor

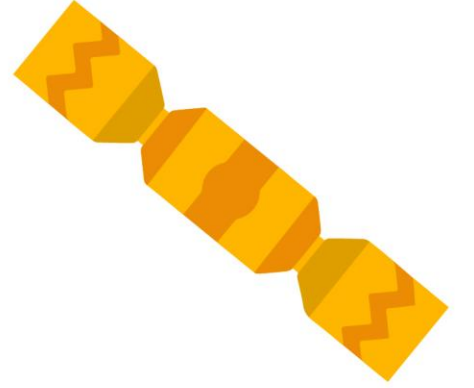
Head of Retail  
Strategy

# Question 1

When will consumer spending return to pre-pandemic levels?



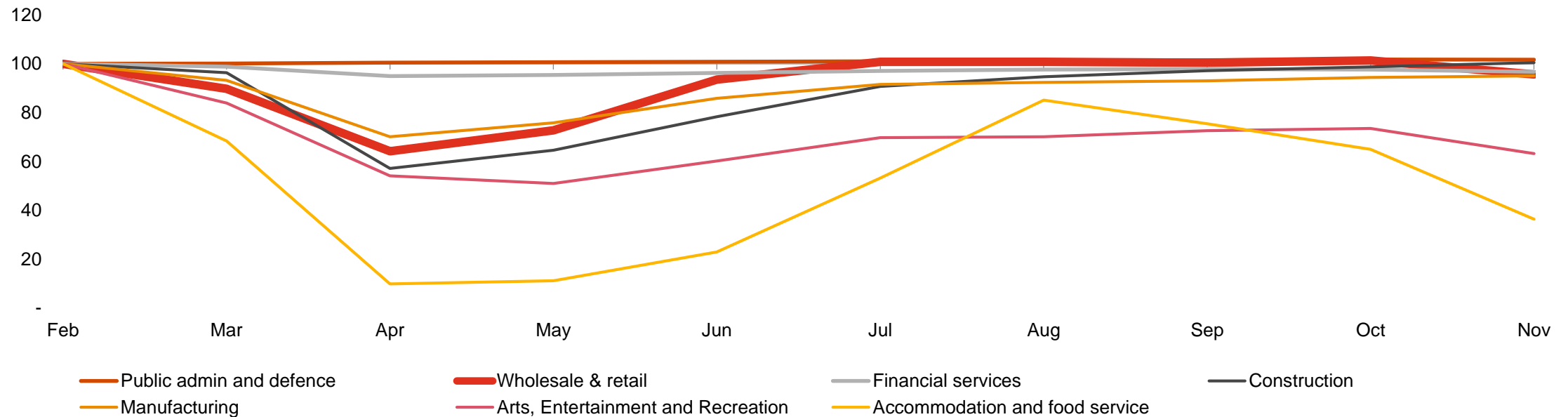
# Review of 2020



# Despite a dramatic 2020, retail fared better than most other sectors...

## UK GDP for selected industry sectors, 2020

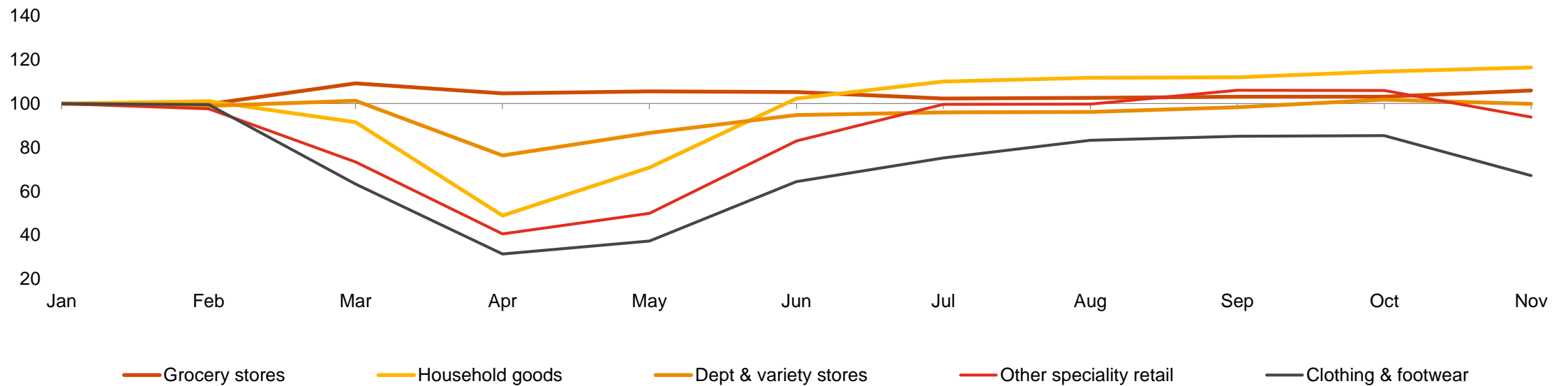
Source: ONS



# ...but not all categories did well...

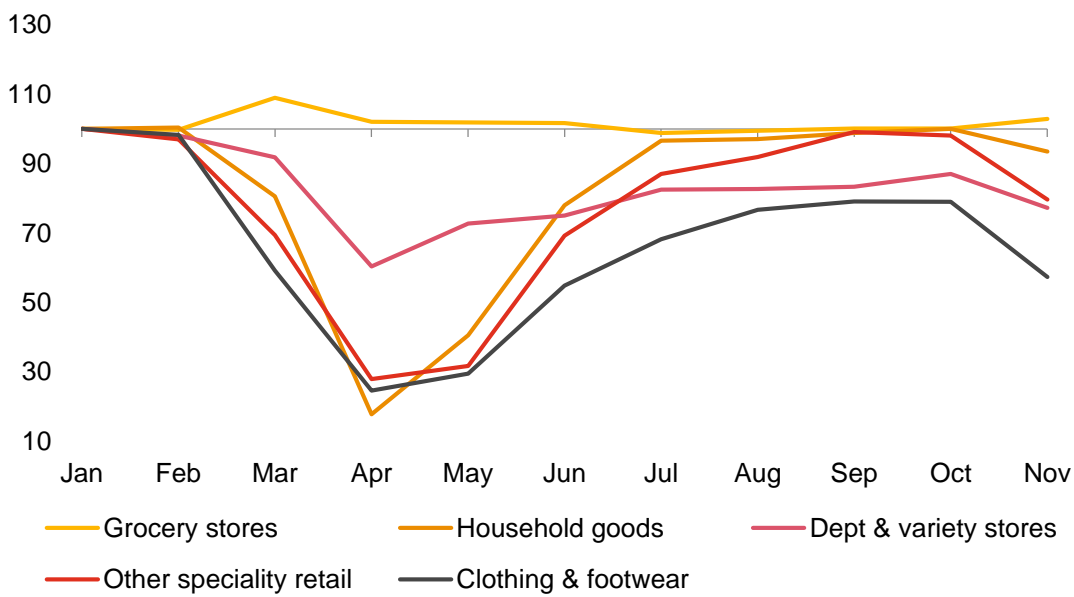
**Weekly retail sales by category, Jan-Nov 2020**

Source: ONS



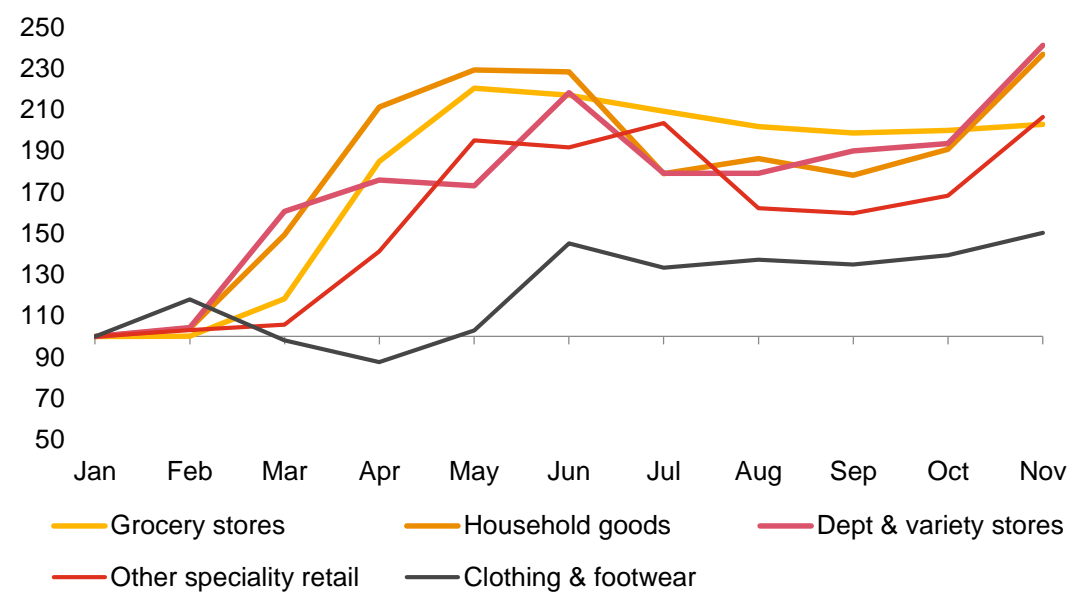
...whilst lockdown closed stores, online saved the day...

Weekly in-store sales, Jan-Nov 2020



Weekly online sales, Jan-Nov 2020

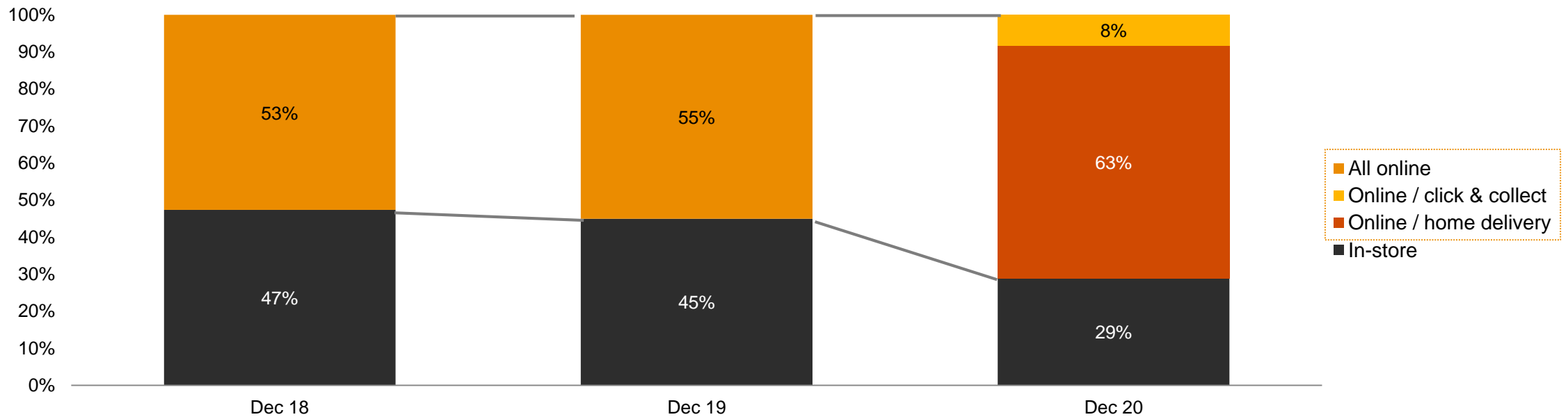
Source: ONS



# ...particularly in the run up to Christmas

## Proportion of spend online vs in-store

Source: PwC Consumer Survey, December 2018-20

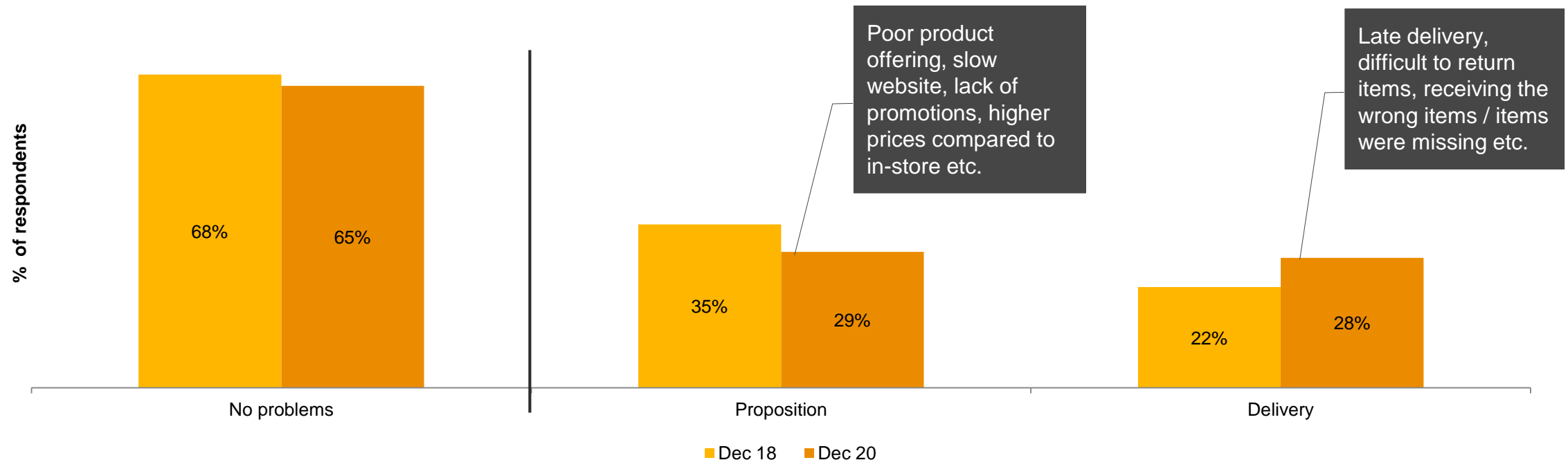




# Retailers delivered online, even if parcel carriers struggled

**Thinking about your Christmas and 'Black Friday' shopping, did you encounter difficulties when shopping online?**

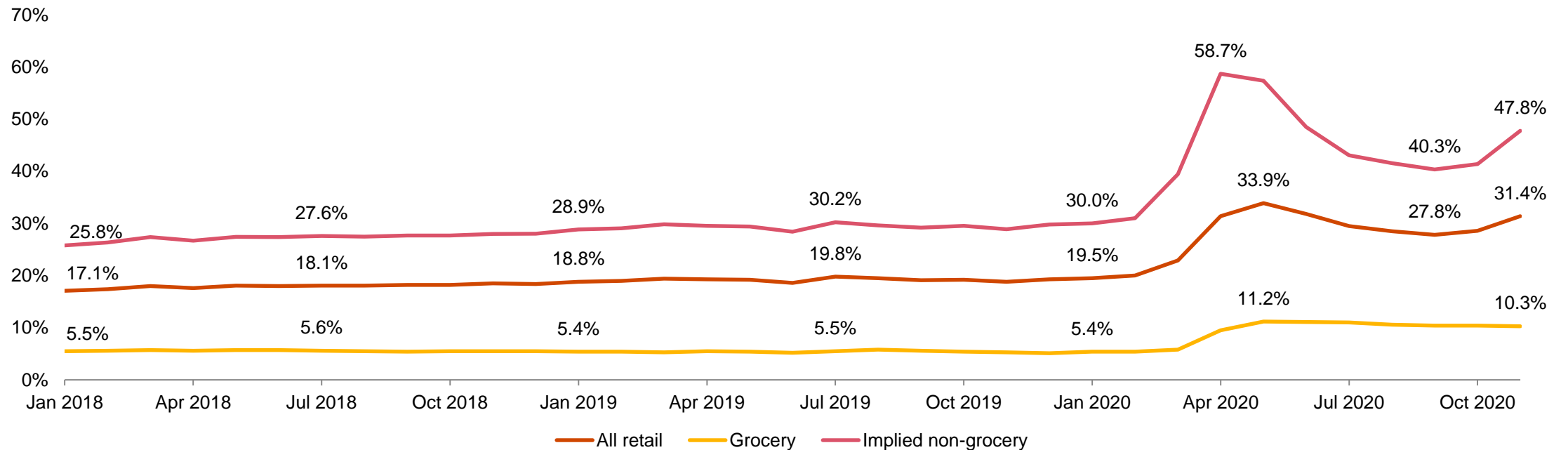
Source: PwC Consumer Survey, December 2020



# “Seven years of online growth in seven weeks”

## Proportion of retail sales online, 2018 – 2020

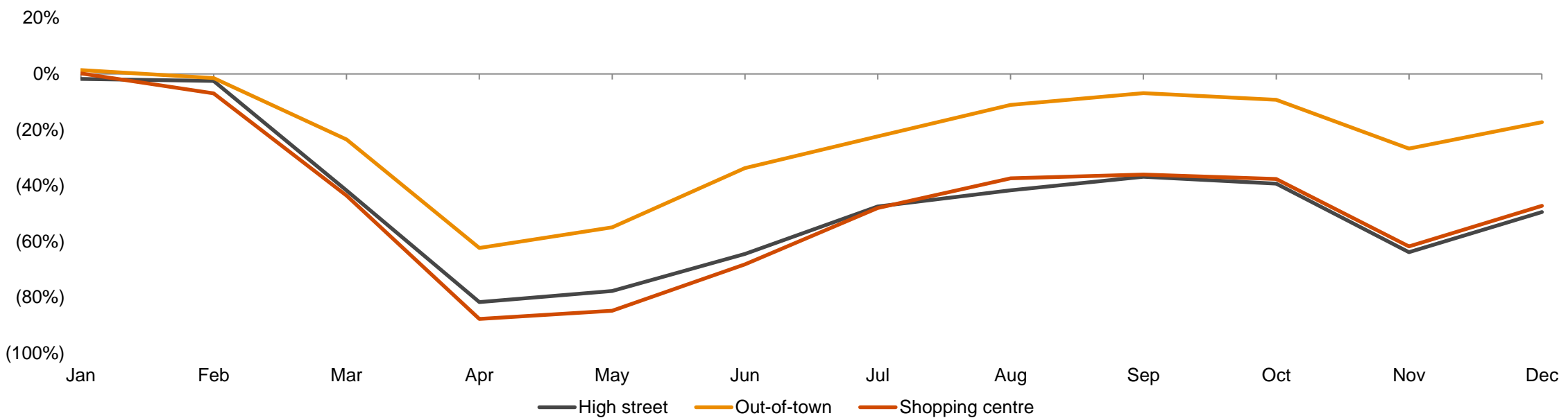
Source: ONS



# Lockdown had a devastating effect on footfall

% change in footfall by location during 2020

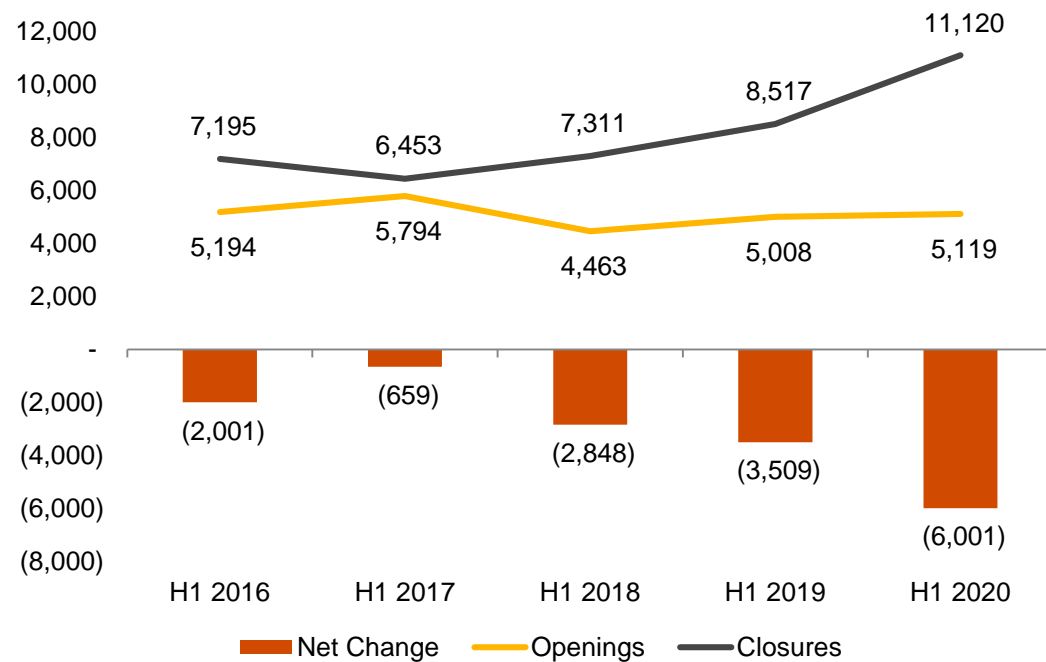
Source: BRC Springboard and BRC ShopperTrak



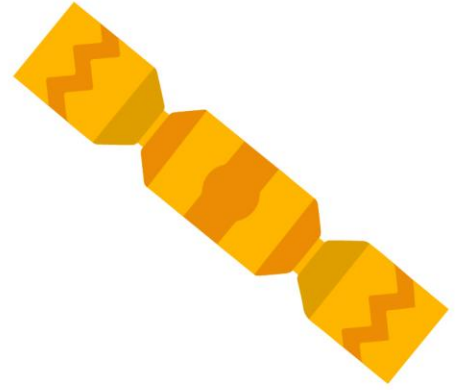
# Chain store closures were already accelerating, but worse to come

## Store openings and closures

Source: PwC and LDC survey



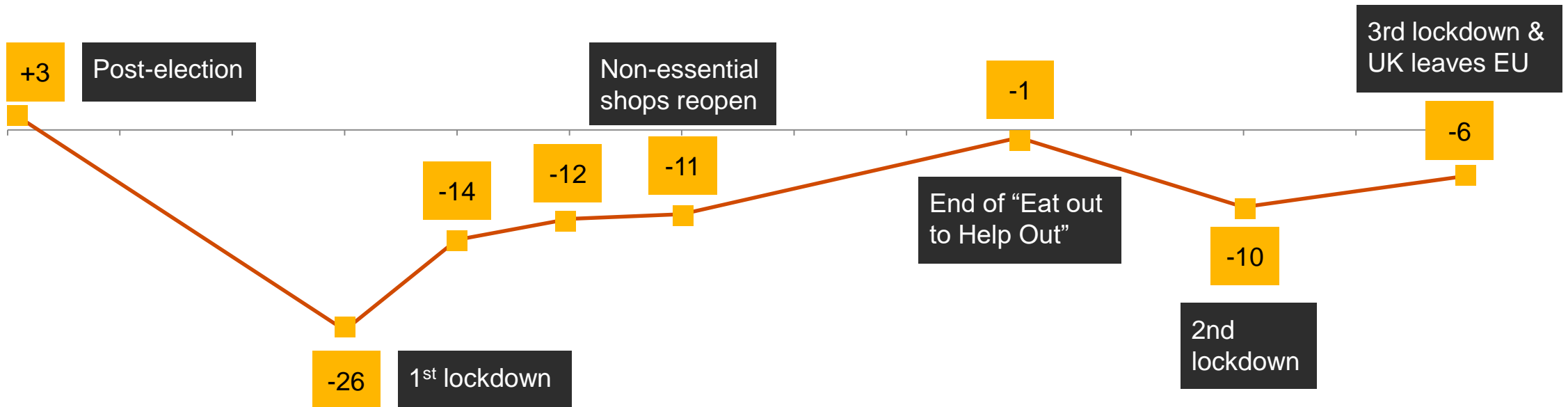
# So what defined Christmas?



# Consumer sentiment recovered quickly from the initial shock...

## Net consumer sentiment during 2020

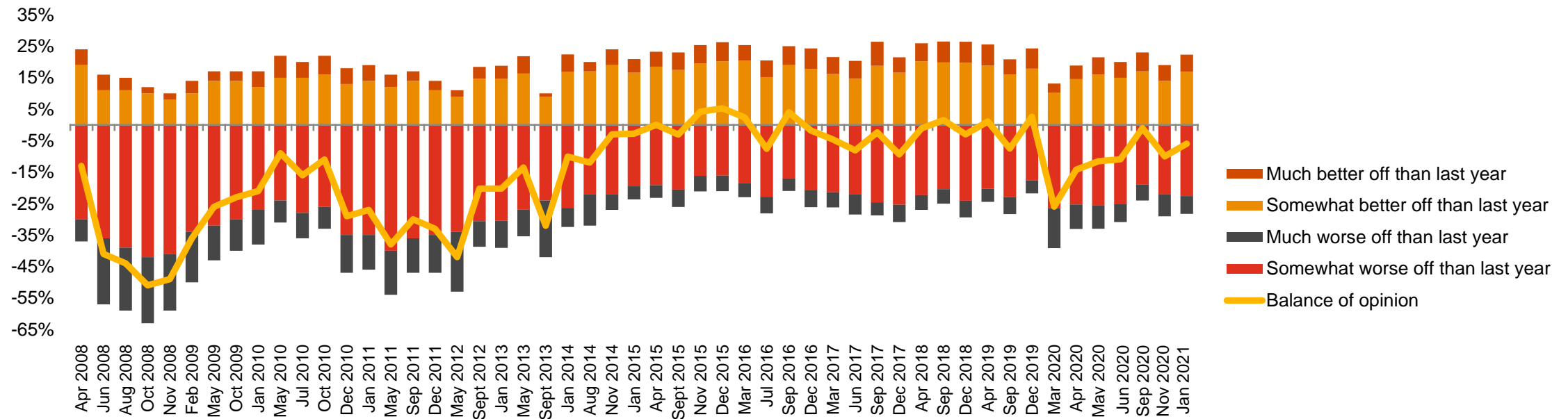
Source: PwC Consumer Sentiment Survey



# ...and still far stronger than the global financial crisis

## Net consumer sentiment over time 2008 – 2021

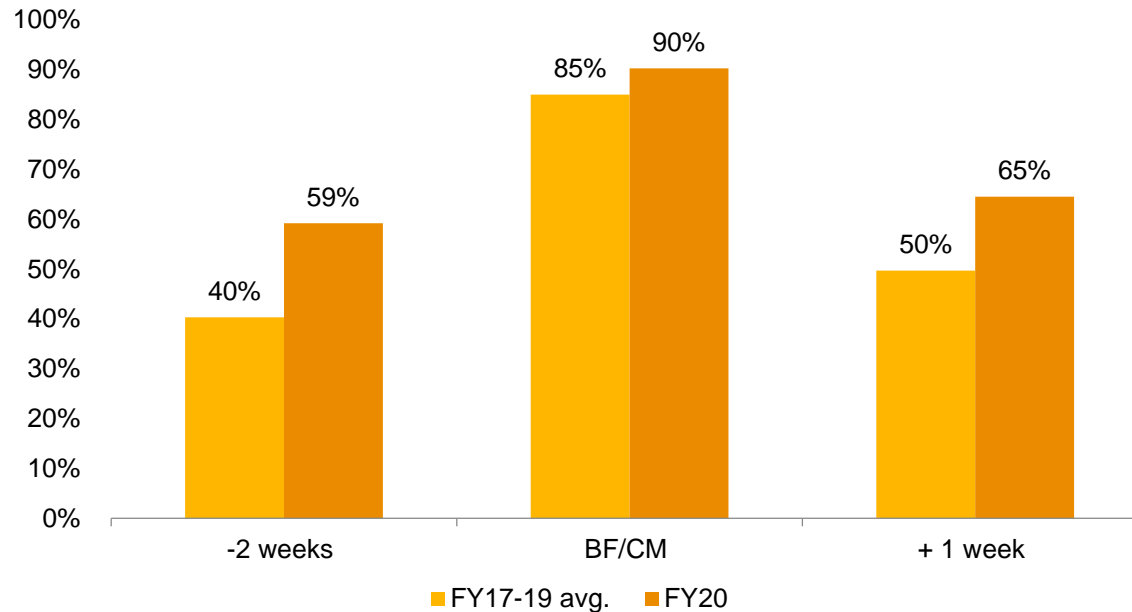
Source: PwC Consumer Sentiment Survey



# Promotional activity was used to drive traffic online...

## Comparison of online promotions vs previous years

Source: PwC UK promotions tool and PwC research



## Interest in Black Friday declined from...

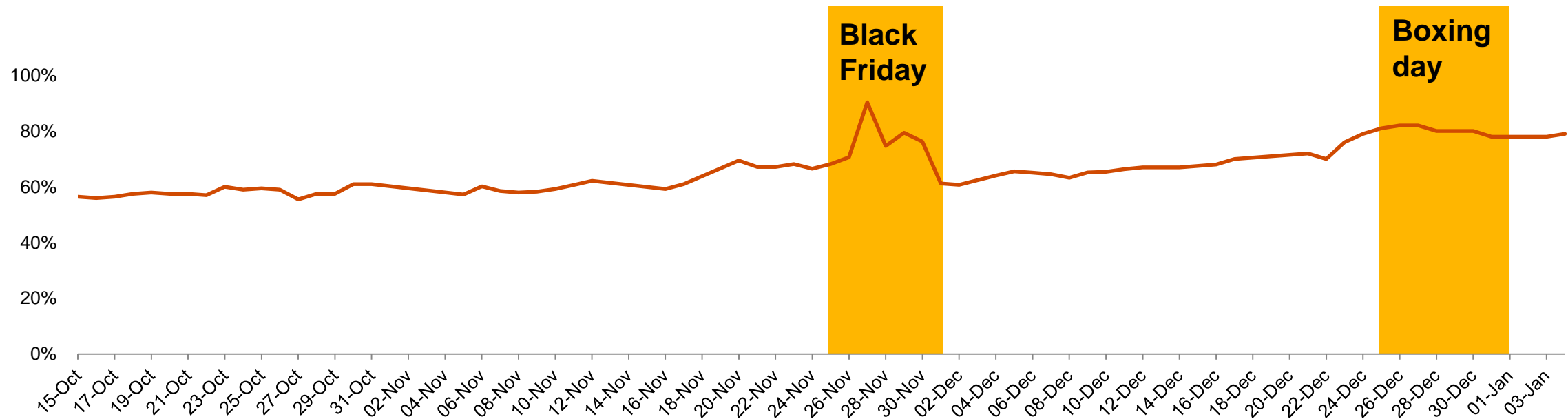




...with many retailers offering discounts...

### Daily promotions in the run up to Christmas

Source: PwC UK promotions tool

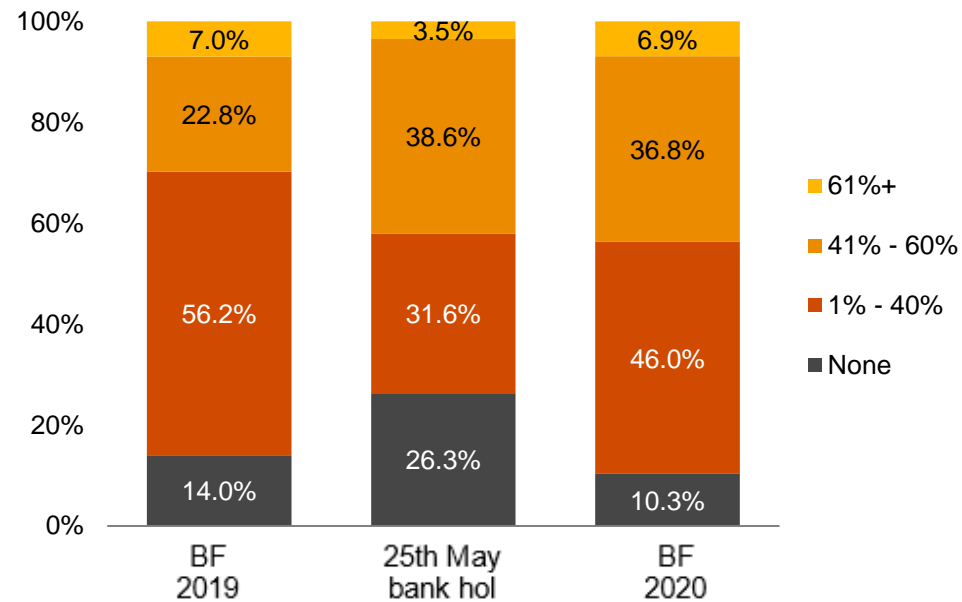


# ...albeit more selective than the deep headline discounts suggested

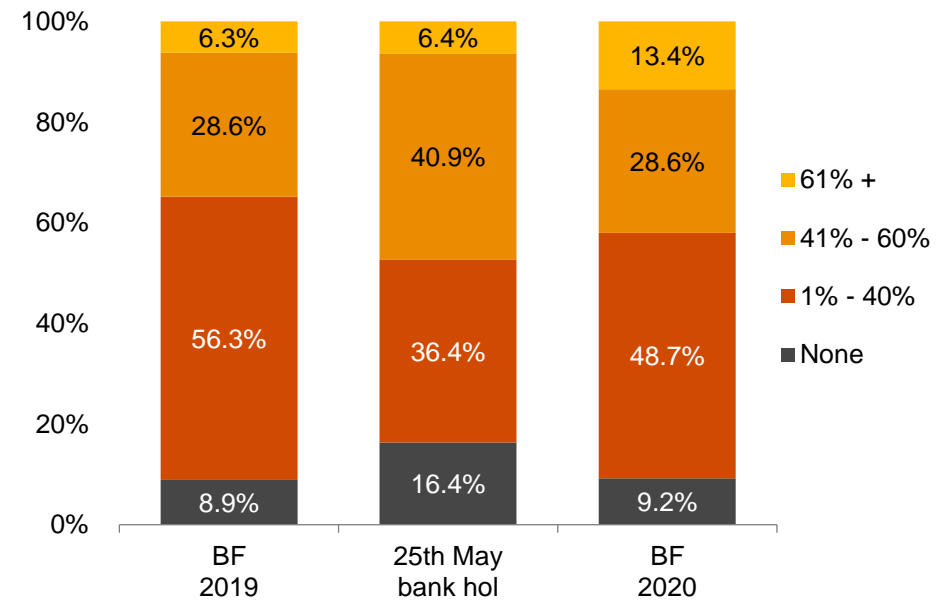
## Depth of online general merchandise and fashion promotions offered

Source: PwC UK promotions tool

### General merchandise

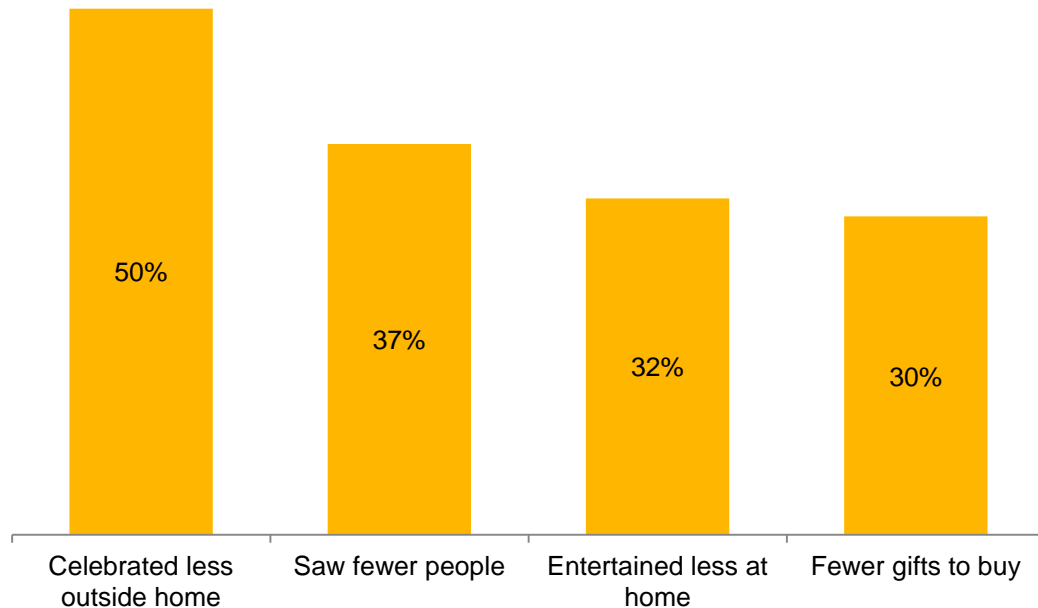


### Fashion



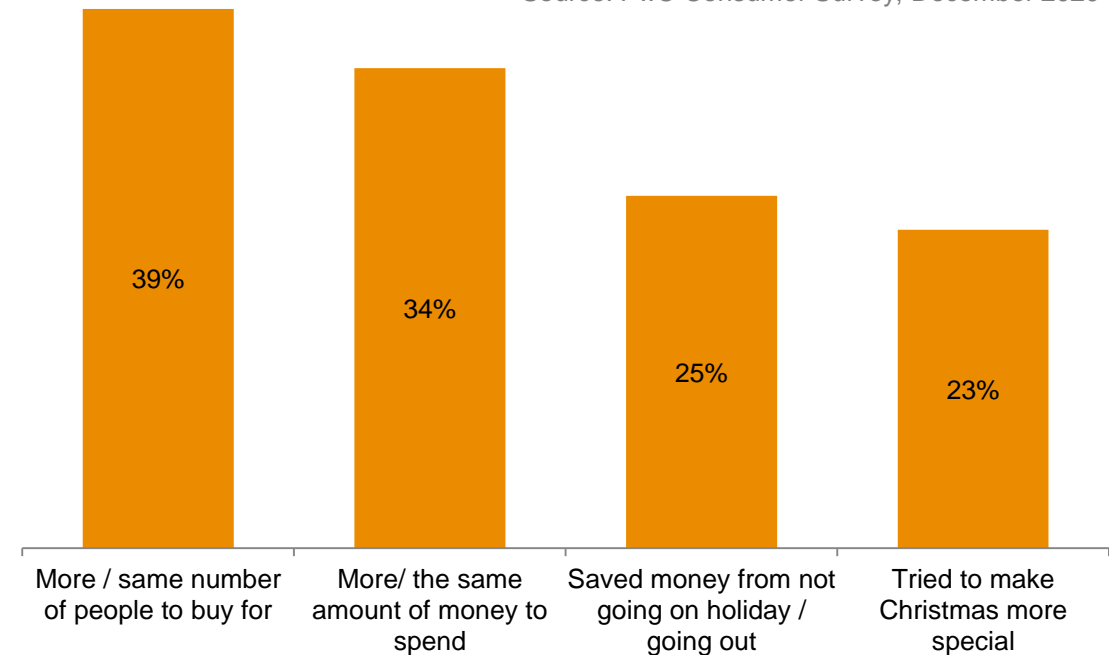
# Disposable income didn't constrain spending, so what did?

## Reasons for spending less than last year on Christmas shopping and celebrations...



## Reasons for spending the same or more than last year on Christmas shopping and celebrations...

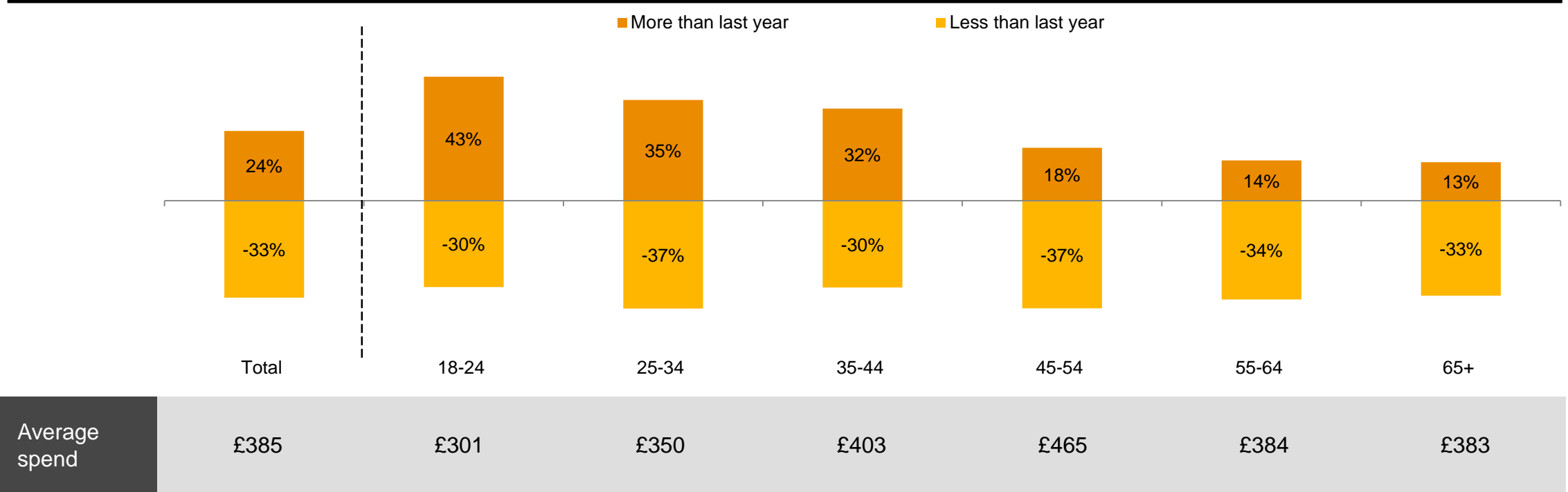
Source: PwC Consumer Survey, December 2020



# Fewer guests to host and smaller celebrations

Compared to last year, how much did you spend on Christmas shopping and celebrations this year?

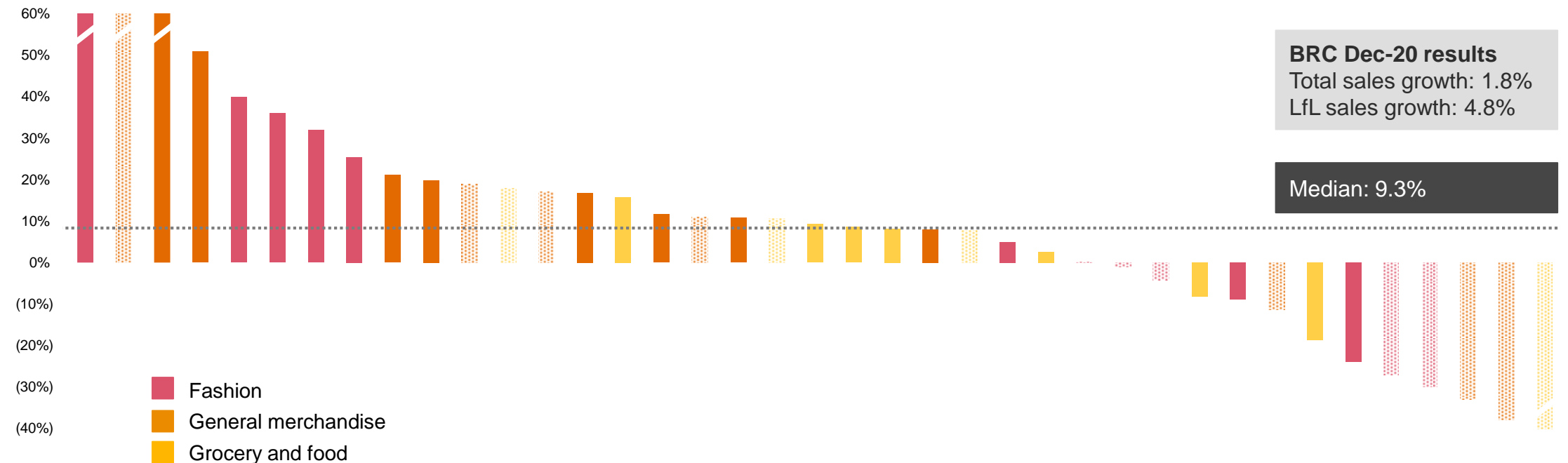
Source: PwC Consumer Survey, December 2020



# So how has this been reflected in results so far?

## Overview of Christmas trading results, 2020

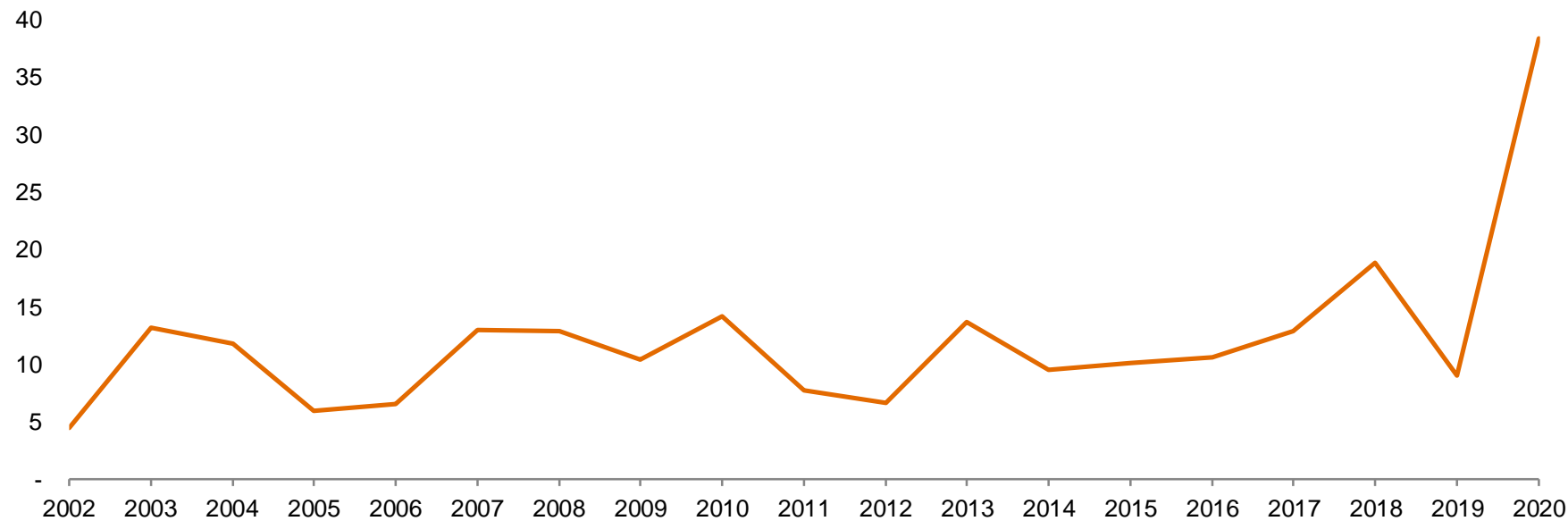
Source: Company trading statements



# The largest gap between winners and losers has emerged

## Standard deviation between retailers' LfL results

Source: Company trading statements



Year	Standard deviation
2016	11
2017	13
2018	19
2019	9
2020	38

# Grocery was one of the winners, driven by volume...

## BRC LfL sales, inflation and volumes (Oct-Dec avg.)

Source: BRC

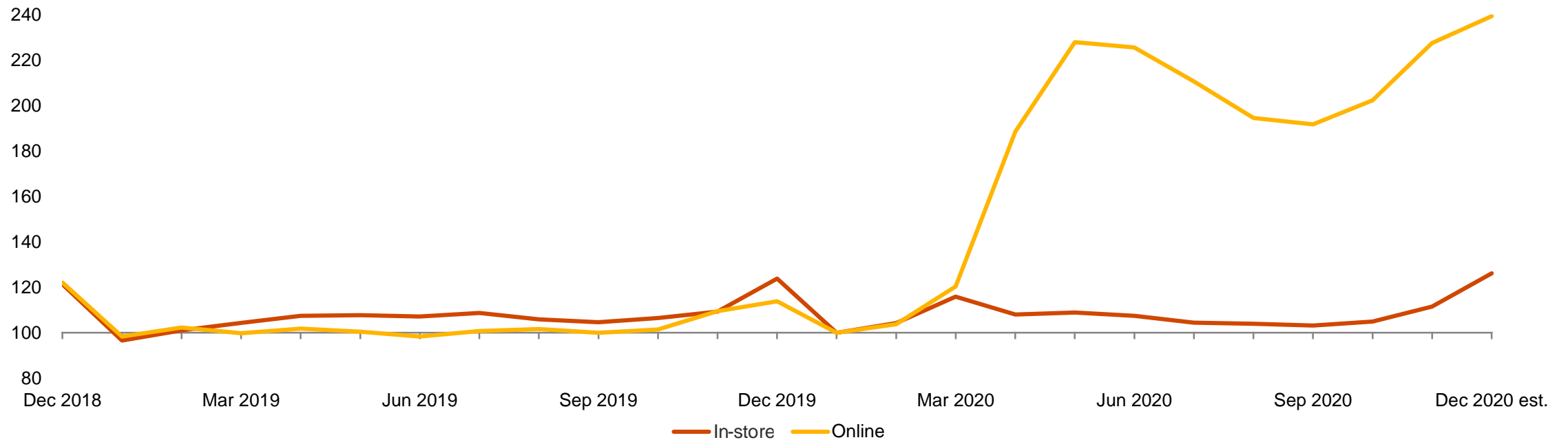
	Food				
	2016	2017	2018	2019	2020
LfL sales growth	1.1%	2.6%	0.6%	0.0%	6.1%
Inflation	(0.9%)	1.8%	1.5%	1.5%	(1.6%)
Implied LfL volume	2.0%	0.8%	(0.9%)	(1.5%)	7.7%
Total volumes	3.3%	2.4%	0.3%	(0.8%)	8.3%



# ...with record sales both in-store and online

## Grocery sales, non-seasonally adjusted, Jan 2020 = 100

Source: ONS

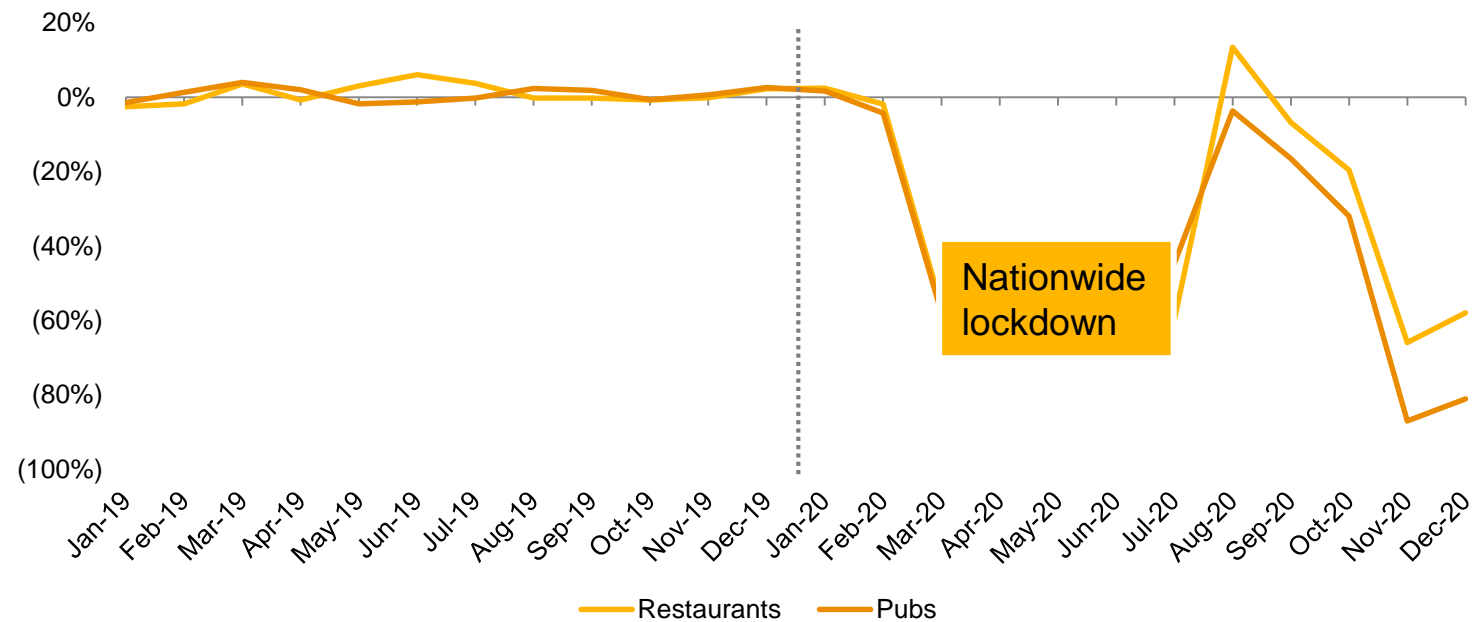




# This was at the expense of hospitality

## Coffer Peach Tracker LfL growth %

Source: Coffer Peach Business Tracker



	2018	2019	2020
Restaurants	(0.8%)	1.1%	(24.2%)
Pubs	1.6%	0.8%	(30.5%)
Combined	0.5%	0.9%	(29.0%)

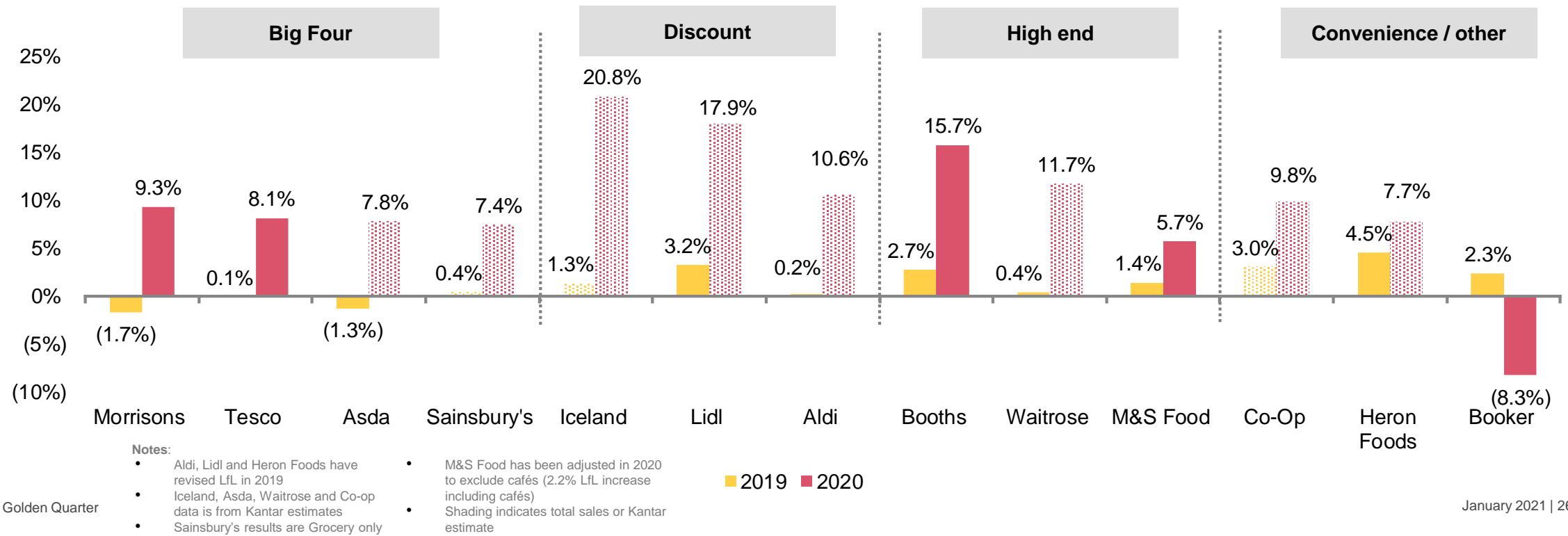
Note: Total sales growth % recorded in Jul-20 and Nov-20

Golden Quarter

# Grocers had their best Christmas in recent history

Christmas trading grocery growth, 2019 vs 2020

Source: Company trading statements, Kantar



# What defined the winners and what will stick?

## What won at Christmas

- Meeting immediate demand
  - “Fix what’s in front of you”
  - Online capacity
- Encouraging sticky behaviour
  - Building baskets
- Weaker 2019 comparatives

## What will keep winning

- Doing the basics right
  - Pricing and availability
  - Store / online standards
- Being where customers want you
  - Convenience
  - Online

## What the jury’s still out on

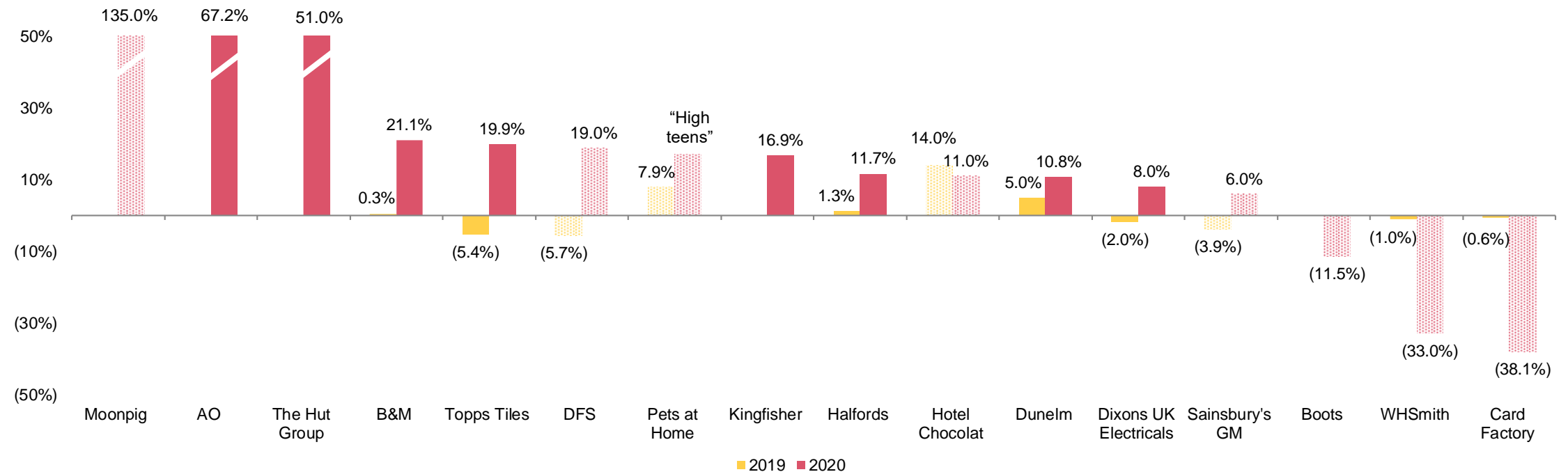
- SKU rationalisation
  - “Proliferation temptation”
- Treating and trading up
  - Innovation in a downturn
- Fighting for share of stomach
  - Vs eating out and delivery

**Tough comparatives will make 2021 harder**

# Strong demand for general merchandise, but only multi-channel could deliver

## Christmas trading general merchandise growth, 2019 vs 2020

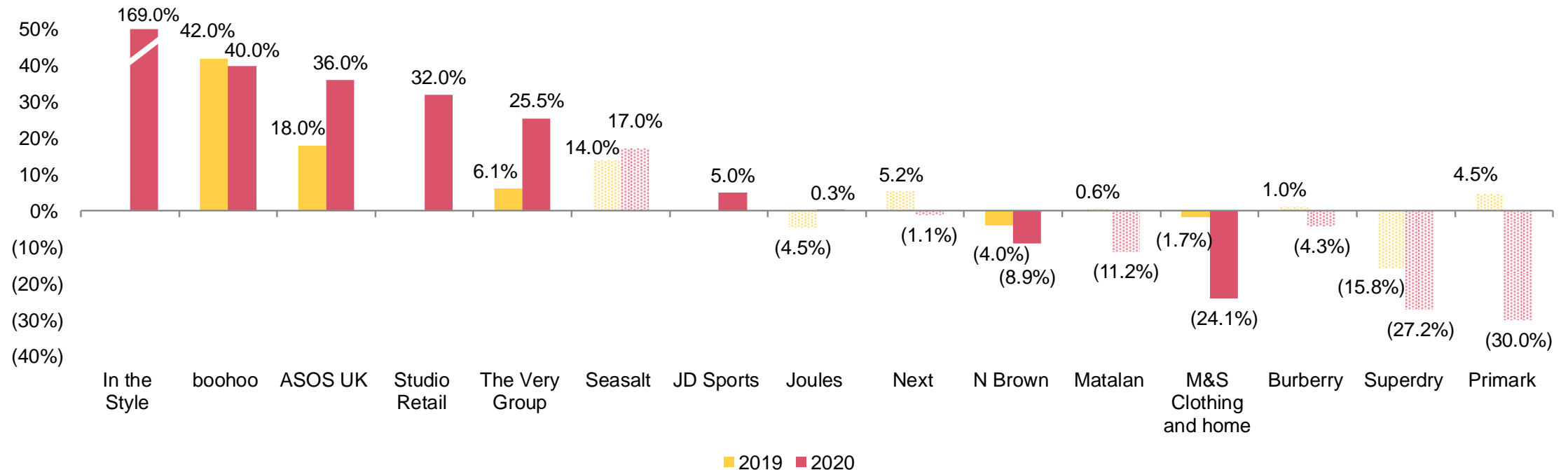
Source: Company trading statements



# Pureplay online continues to be the winner in fashion

## Christmas trading fashion growth, 2019 vs 2020

Source: Company trading statements



Note: shading indicates total sales rather than LfL

# Will the “Roaring Twenties” rejuvenate fashion demand?

## What did we see in 2020

- Fewer reasons to shop and higher promotions
- Access
  - Digital and fulfilment
  - Credit
- Dress for me
  - Comfort categories and colour palette
  - Relaxed silhouettes and tactile “luxé” fabrics
  - Above the keyboard accessories

## What will 2021 bring?

- Diminished demand and considered purchasing...
- ... but fashion celebrations
- Less is more
  - Complexity, discounting, smarter stock, right-sizing
- Continued collaboration across supply chain
- Opportunistic M&A

## What will stick longer term?

- Access
  - Inclusiveness: from PTM to BLM
  - Credit
- Modernised communication
  - Role of store
  - Gamification
- Circular fashion 2.0
- Market shake out and partnerships

# So what defined 2020 for retail?

## Previously...

- Five Cs still matter:
  - Channel
  - Convenience
  - Curation
  - Communication
  - Credit

## Learnt new disciplines

- What COVID-19 brought into focus:
  - Be where your customers want you
  - Your people are your secret weapon
  - Winners were fleet of foot
  - Collaborations were rewarded

## Doing the right thing

- More important than ever
  - For your people
  - For your customers
  - Government support
  - Sustainability



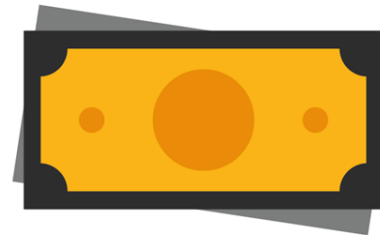
# Question 2

Thinking about COVID-19 restrictions, when do you think things will get back to “normal”?





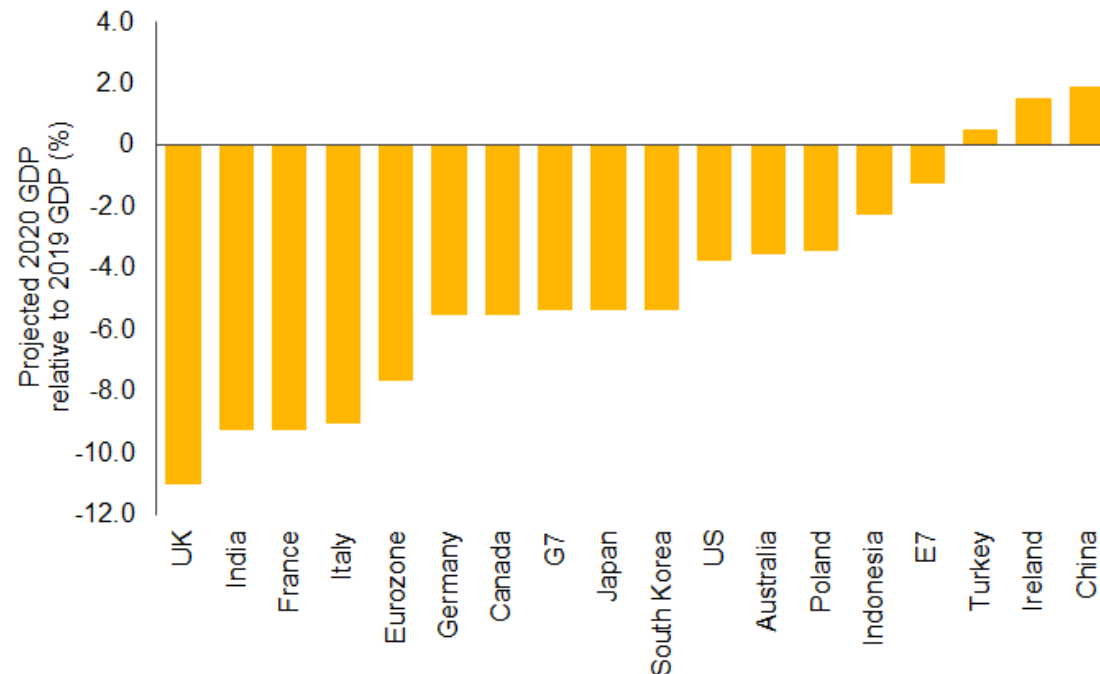
# Economic outlook



# Despite global growth of 4.7% in 2021, the recovery will be uneven across sectors, countries and income levels

## Projected size of selected economies in 2020 compared to their pre-pandemic levels, %

Source: PwC analysis

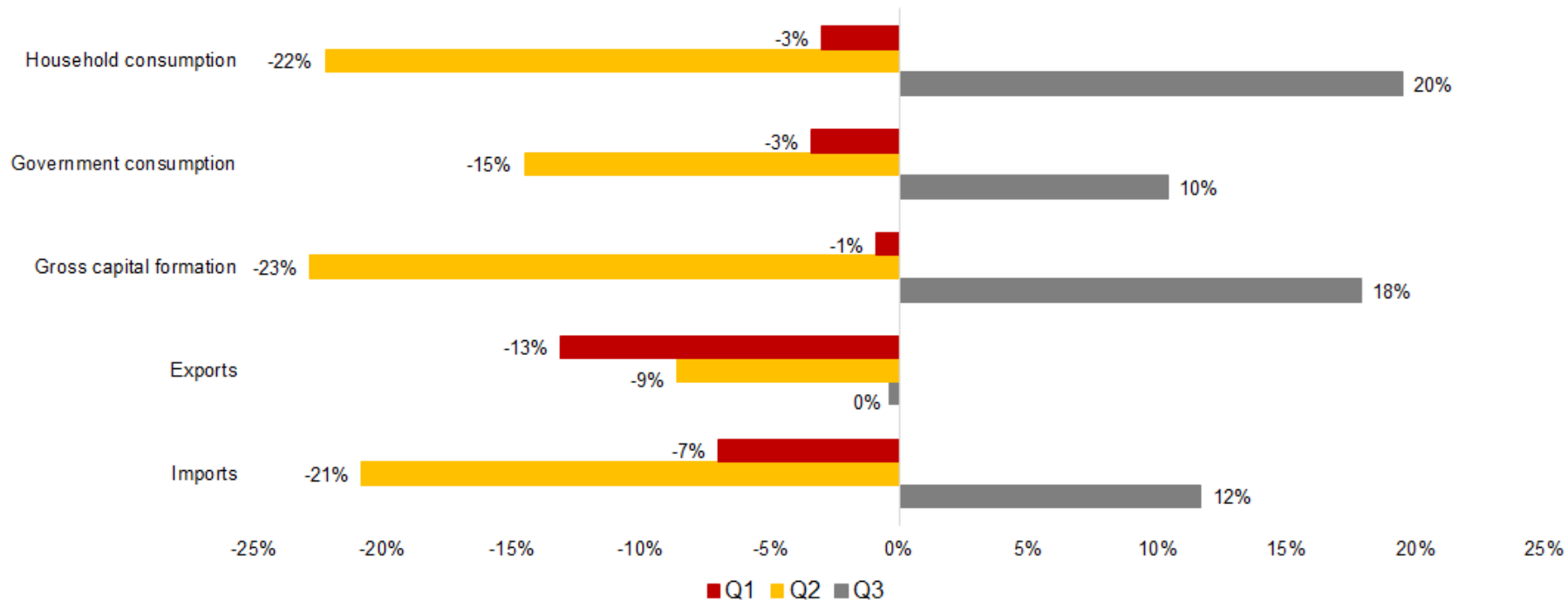


	2020e (%)	2021p (%)	2022p (%)
Global (MER)	-3.9	4.7	3.7

# Rebound of consumer spending in Q3, driven mainly by 17.4% growth in retail sales

## Growth in GDP by expenditure, %, Q1 – Q3 2020

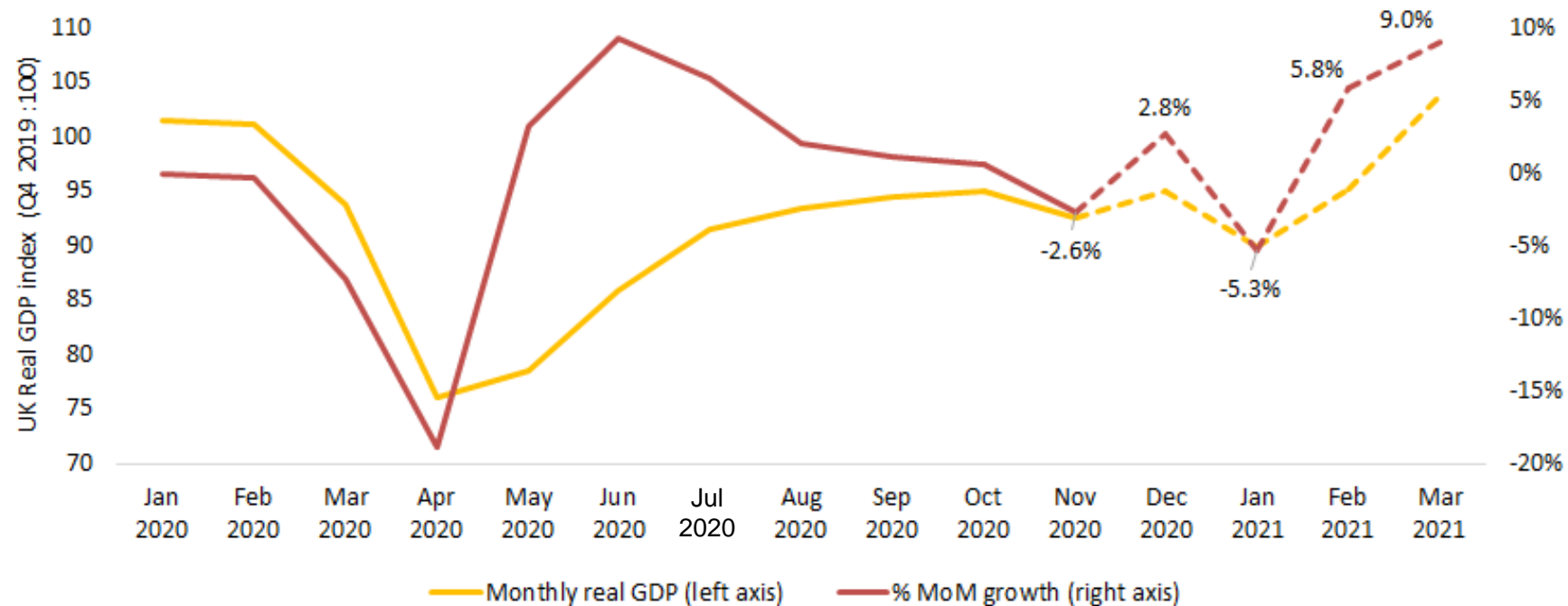
Source: ONS



# After bumpy months, recovery is expected to start as early as February

Real GDP index and month-on-month changes, Q4 2019 =100

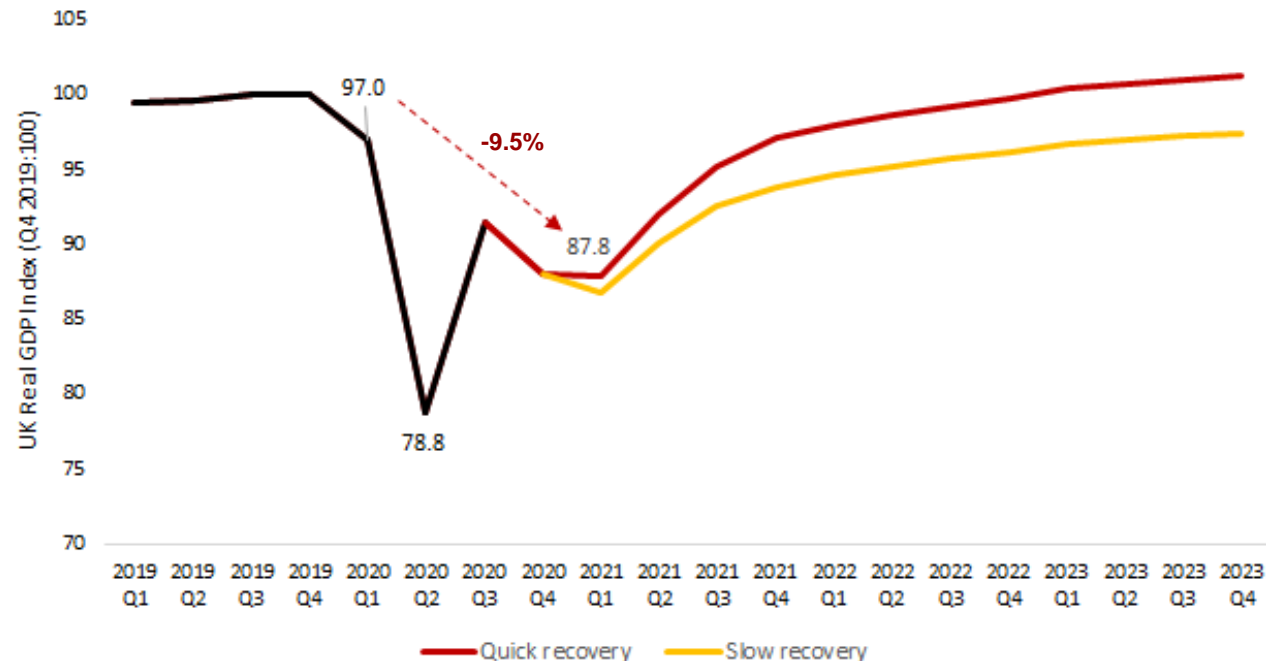
Source: PwC analysis



# The economy is not expected to recover to pre-pandemic levels until at least late 2022

Real GDP index, quarterly levels in each scenario, Q4 2019 =100

Source: PwC analysis



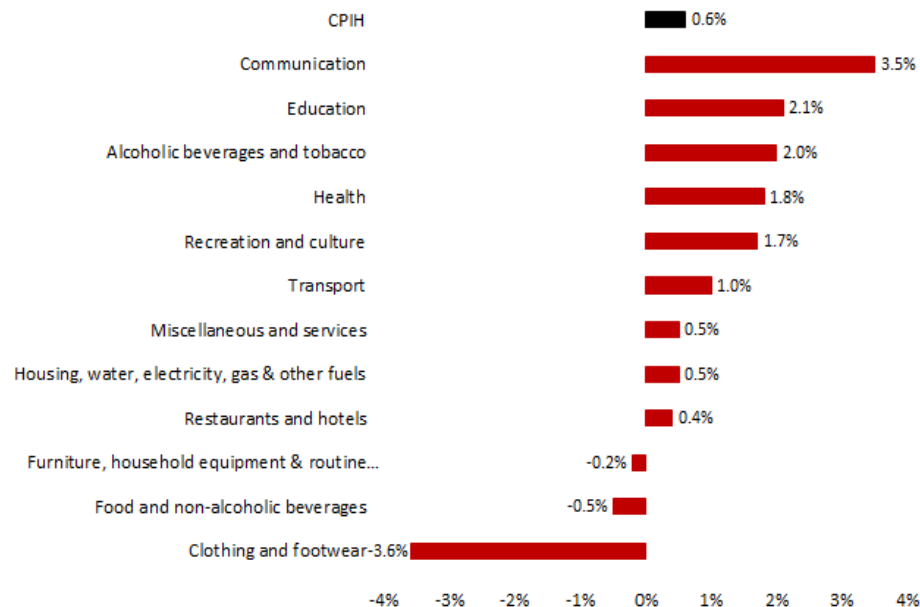
Annual real GDP (%)	2020e	2021p	2022p	2023p
Quick recovery scenario	-11.0	4.8	6.3	2.0
Slow recovery scenario	-11.0	2.2	5.1	1.7

We expect the UK GDP to grow by 2.2%-4.8% in 2021, supported by release of pent-up demand, mass vaccination, consumer savings and business adaption

# Economic recovery and Brexit will put upward pressure on inflation, but expected to stay below long term averages

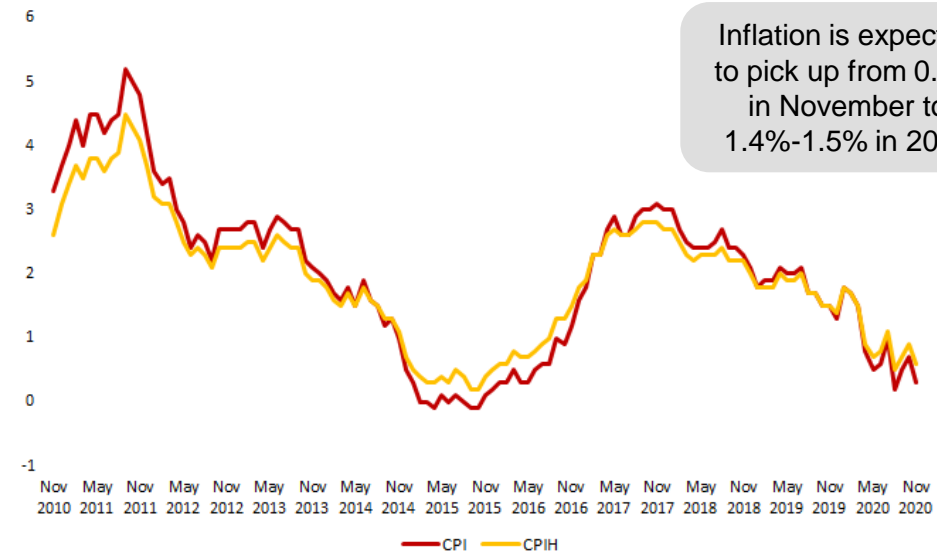
## November CPIH by component, % change from previous year

Source: ONS



## 12-month CPHI and CPI, % change from previous year

Source: ONS, BoE estimates for 2020, PwC scenarios for 2021



Inflation (CPI)

Q4 2020e (%)

1.4

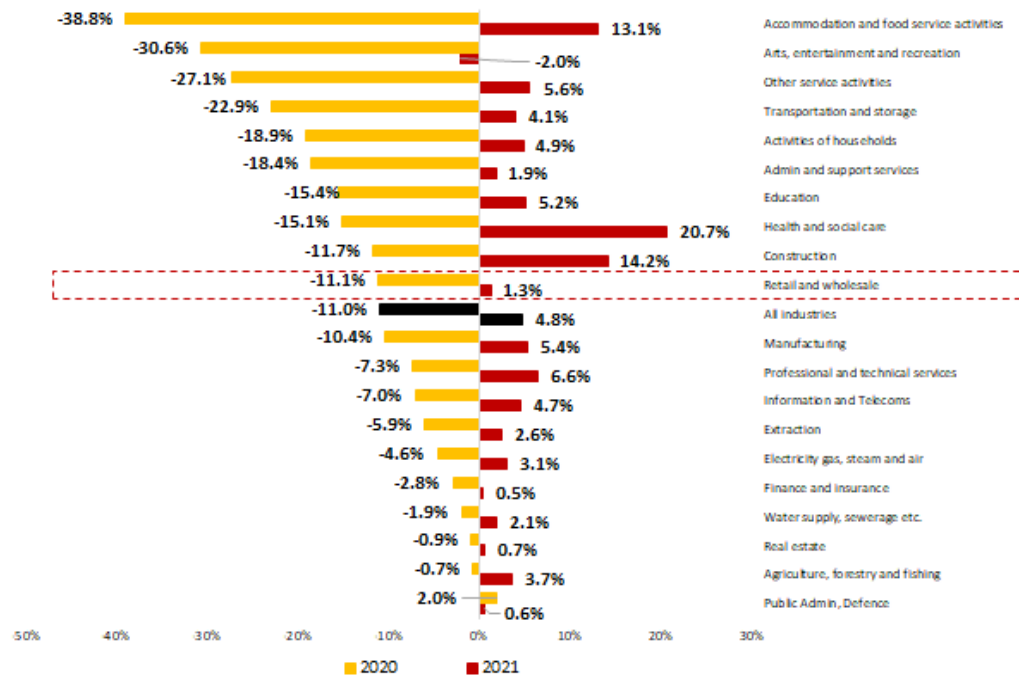
2021p (%)

1.4 – 1.5

# Retail and wholesale are expected to rebound in 2021 after a sluggish Q1

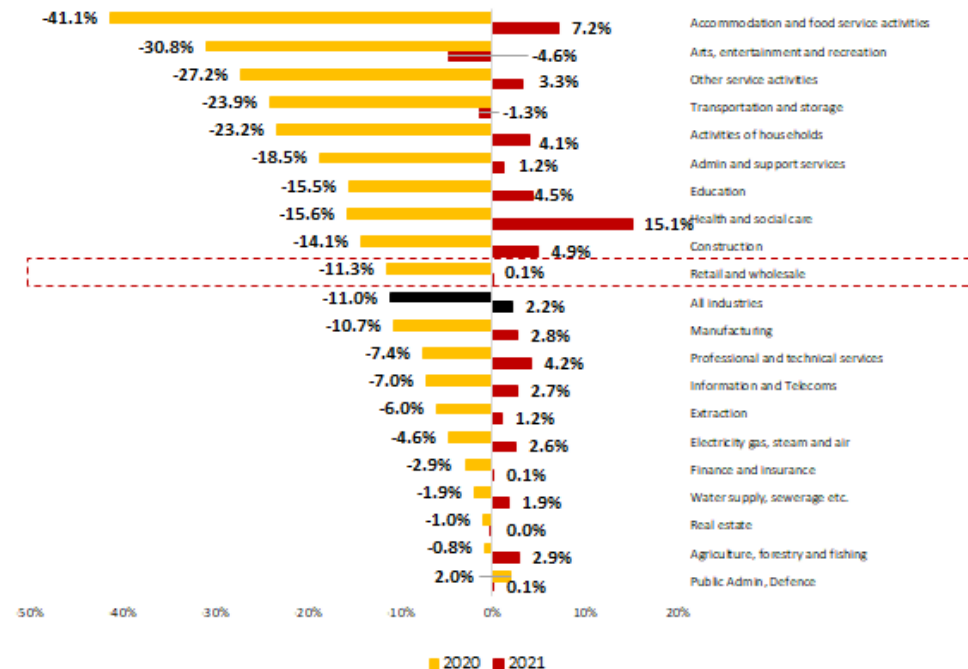
## Projected GVA average annual growth rates by scenario, %

### 'Quick recovery' scenario



### 'Slow recovery' scenario

Source: PwC analysis



# We expect consumer spending growth in 2021 will be driven by multiple, opposing factors



## **Large consumer excess savings**

Release of £100bn excess savings due to lockdowns has upward impact on retail growth in 2021



## **Low interest rate environment**

Household credit, especially secured loans on housing, will benefit from ultra-low interest rates of 0.1%



## **Increased unemployment**

End of the furlough scheme in April and job security concerns squeeze household spending



## **Slowdown in housing market**

End of stamp duty holiday will have downward impact on property spending



## **Demographic changes**

Drops in birth rates and immigration drag on spending in the long run



## **The outlook for consumer spending in 2021**

will depend on how the combined impact of those drivers affects future spending



# Key takeaways for the economy and consumer spending

1

Global economy is expected to recover at a record rate in 2021 led by China, but most countries will remain below pre-crisis levels through 2021

2

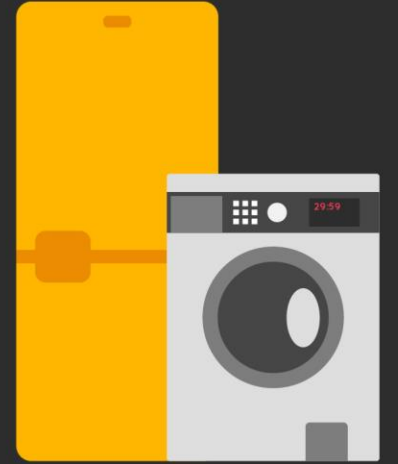
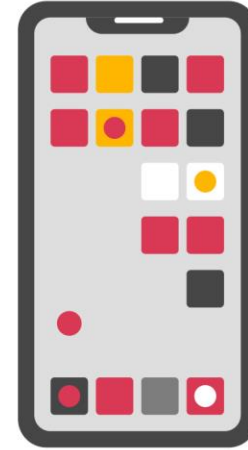
UK economy is expected to recovery strongly from Q2 2021 once lockdown measures are released.

Most hard hit sectors will return to growth, but unemployment, business fragility and weak business investment will drag on final recovery to pre-COVID-19 levels

3

Consumer-led recovery fuelled by the release of £100bn involuntarily accumulated savings and record low interest rates... but risks of unemployment, slowdown in housing market and demographic changes weigh down on growth.

# Consumer outlook



# We hoped we wouldn't have to raise Brexit in 2021...

“

Percy Pigs could be under threat

“

Ready meals and fresh fruit experiencing disruption due to Brexit

“

Increase of missing items and substitutes

“

Brexit tariff costs of c.£15m in 2021

“

Brexit trade deal set to significantly impact EU stores

“

Shoppers face £5 fees on fashion items as Brexit causes delays

# Where not to get caught out? Some examples...

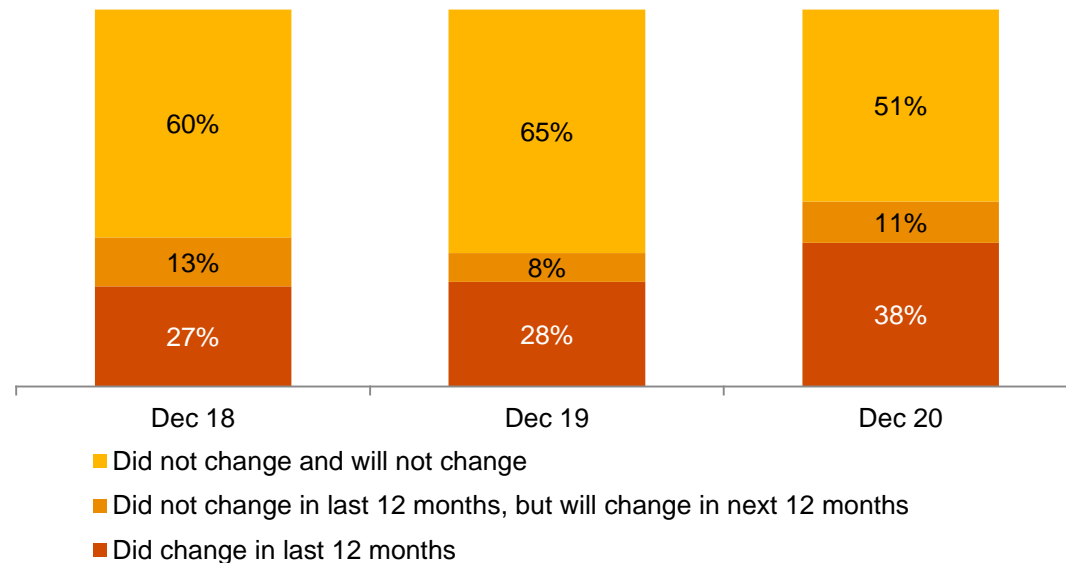
- Don't **underestimate paperwork**
  - Outsourcing may not be a solution – experts in short supply
- Careful not to **alienate customers** by landing them with a fine, or expensive / complex returns
- Don't lose **cross-border opportunities** indefinitely
  - Is it worth the cost of a bonded warehouse or separate distribution solution in Europe?



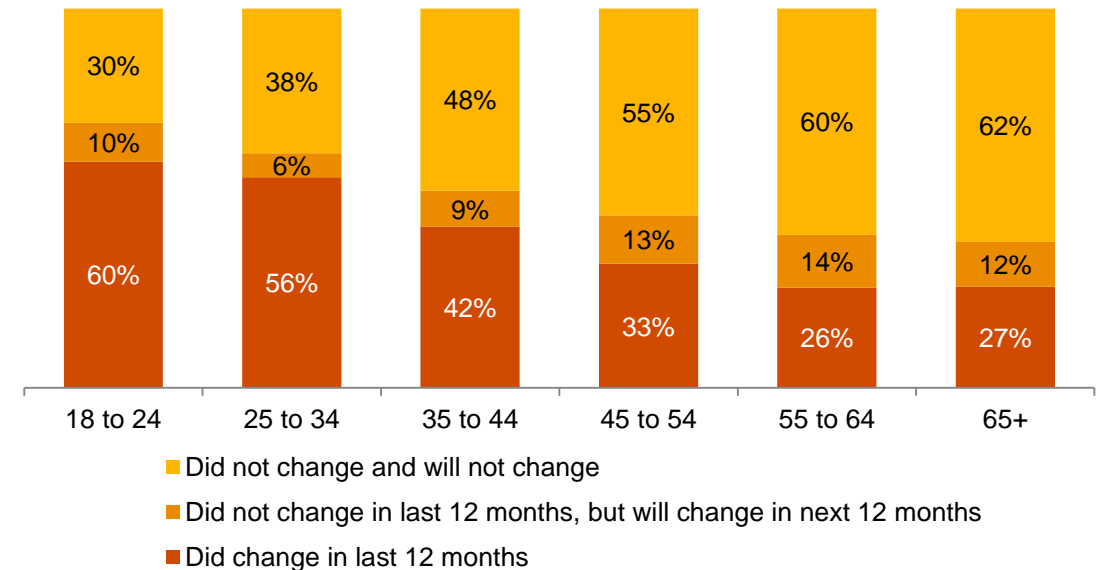
# Brexit increasingly affecting consumers' spending choices

**Do you think Brexit has affected or will affect the way you spend or save money over the next 12 months?**

Over the years...



By age group...

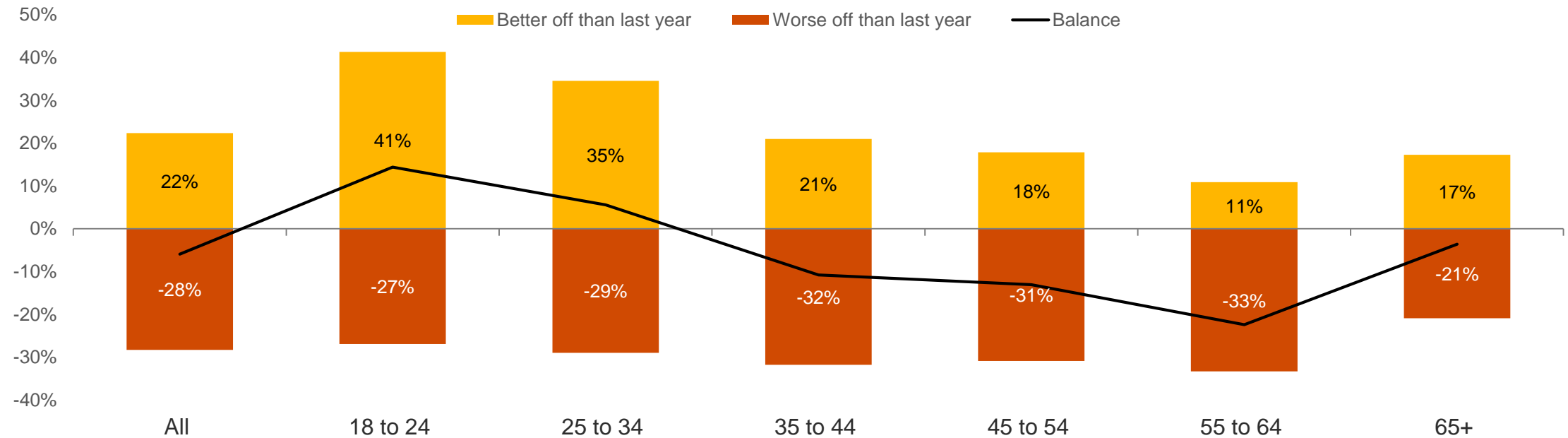


Source: PwC Consumer Sentiment Survey, December 2018-20

# The young are still the most optimistic overall...

**Thinking about your disposable income, in the next 12 months do you expect that your household will be?**

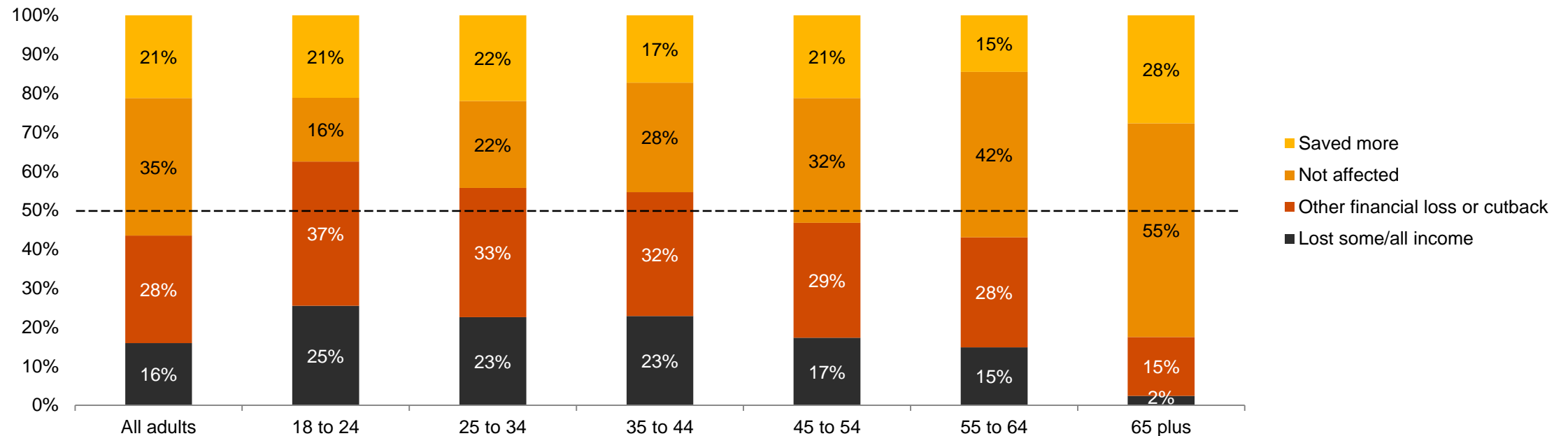
Source: PwC Consumer Sentiment Survey, January 2021



# ...despite over-65s being least financially affected by the pandemic

**Since the coronavirus pandemic began in March, have your household finances been affected in any of the following ways?**

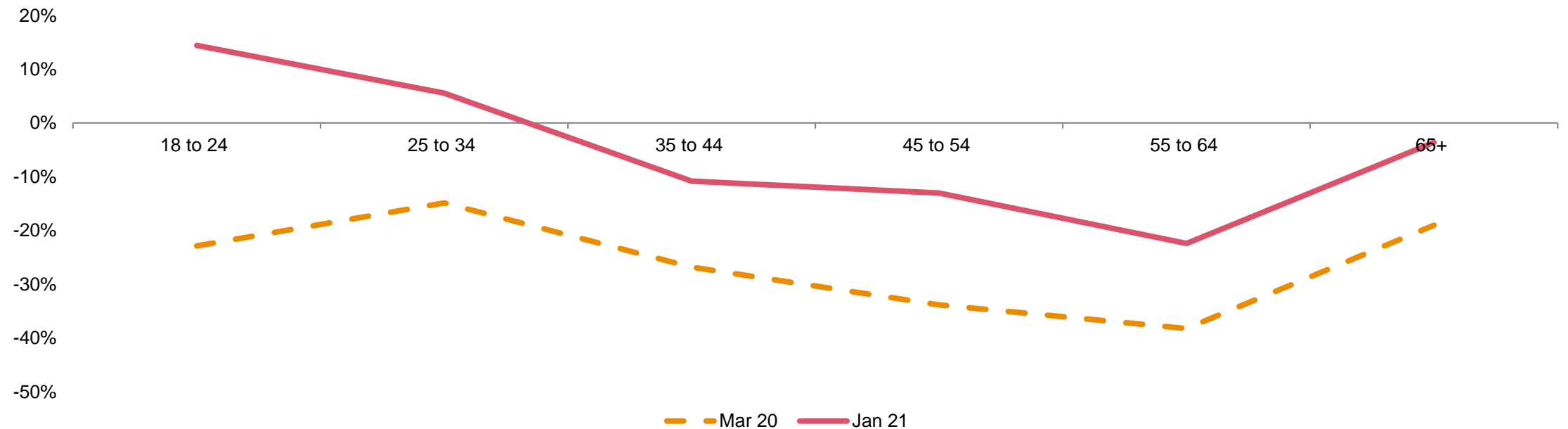
Source: PwC Consumer Sentiment Survey, January 2021



# Lockdown 3.0 hasn't affected consumer sentiment as much

**Thinking about your disposable income, in the next 12 months do you expect that your household will be?**

Source: PwC Consumer Sentiment Survey, January 2021

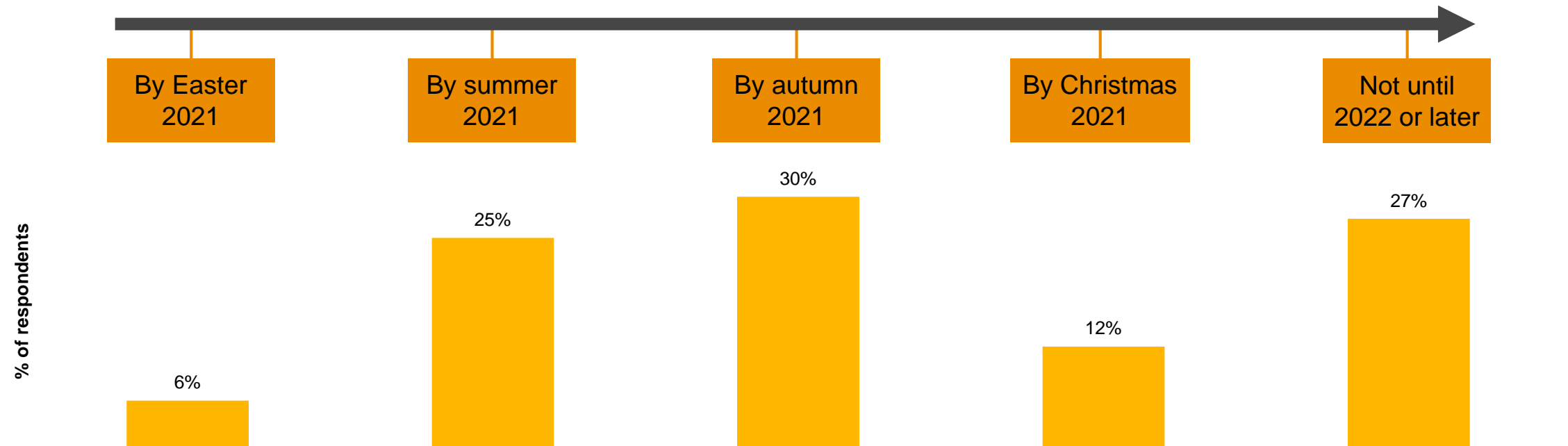




# When will things get back to normal?

Thinking about the restrictions due to COVID-19, when do you think things will get back to “normal”?

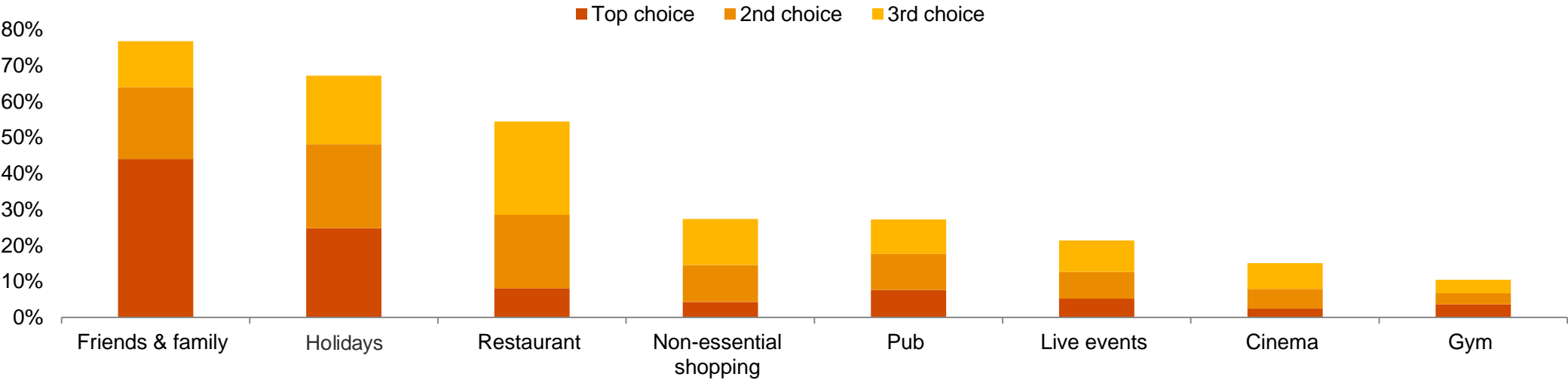
Source: PwC Consumer Survey, December 2020



# We miss holidays almost as much as we miss our friends

## What are you most looking forward to doing once you are allowed to?

Source: PwC Consumer Sentiment Survey, January 2021



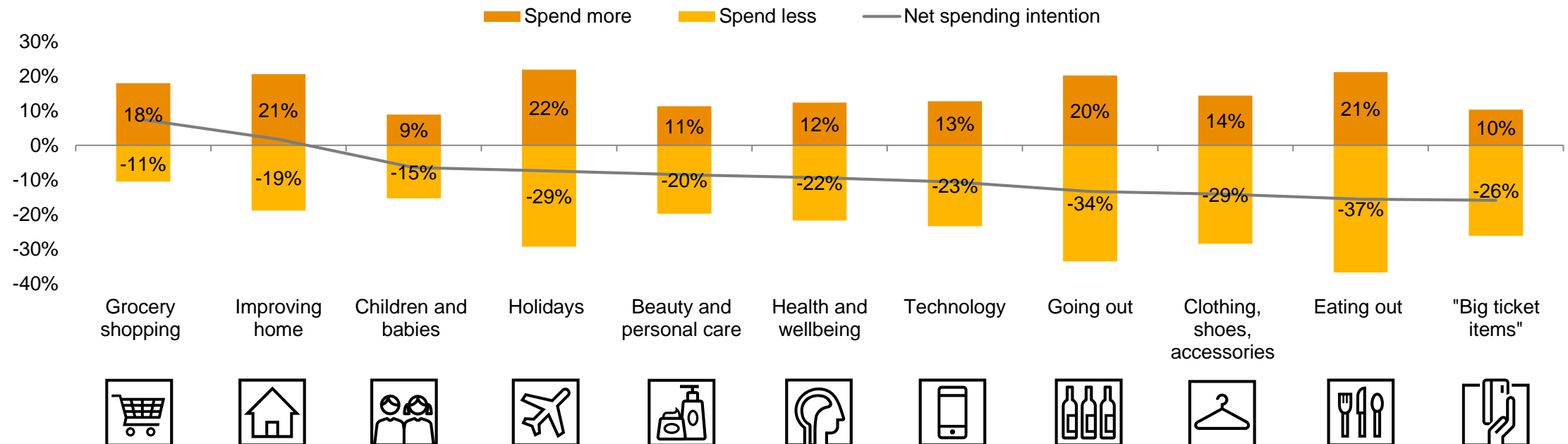
Change in  
interest vs.  
June 2020



# On balance, we'll rein in our spending on every category

How do you expect your spending to change on the following categories in the next 12 months?

Source: PwC Consumer Survey, December 2020



# It's not about trading down, it's about buying less

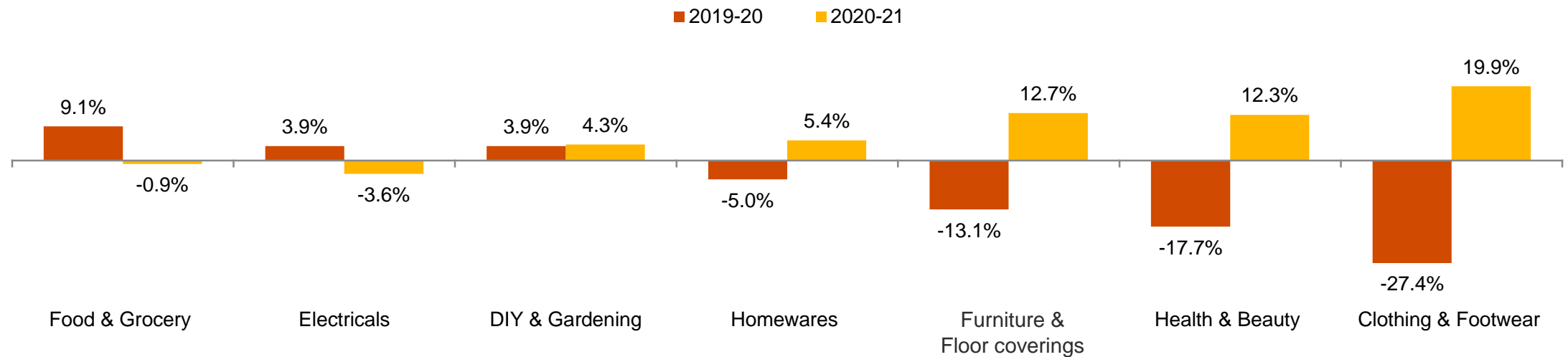
Grocery	Clothing	Holiday travel
28% Waste less	31% Buy fewer items	26% Won't go on holiday
25% Buy more special offers	27% Shop less often	24% Wait till pandemic is clearer
24% Shop around more	21% Buy more in the sales	15% Travel in UK instead of abroad
24% Buy more own label	12% Buy second hand	12% Look out for promotions
28% Will not cut back	23% Will not cut back	17% Will not change plans

Key: Do less Trade down Switch

# How big will the bounceback be in 2021?

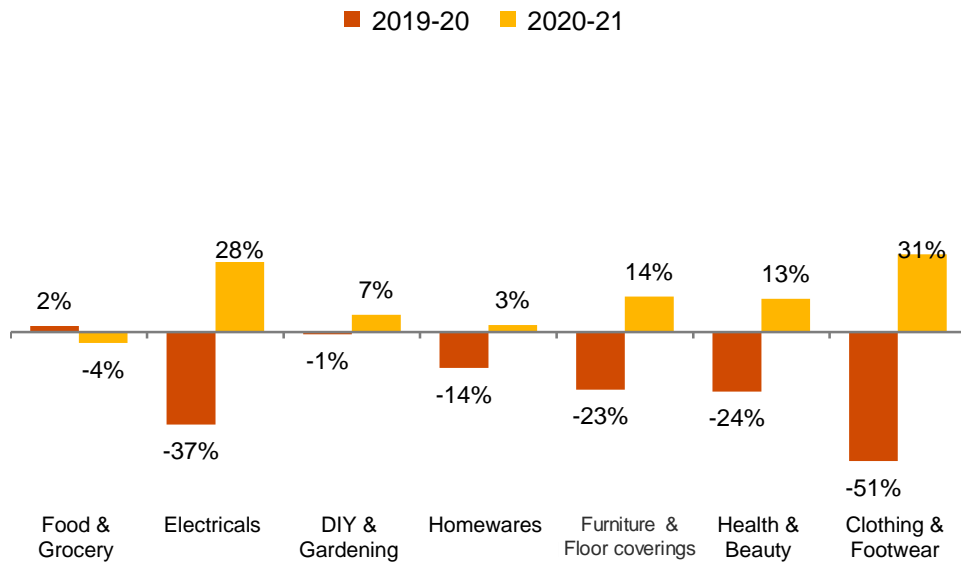
## YoY % market growth, total

Source: GlobalData



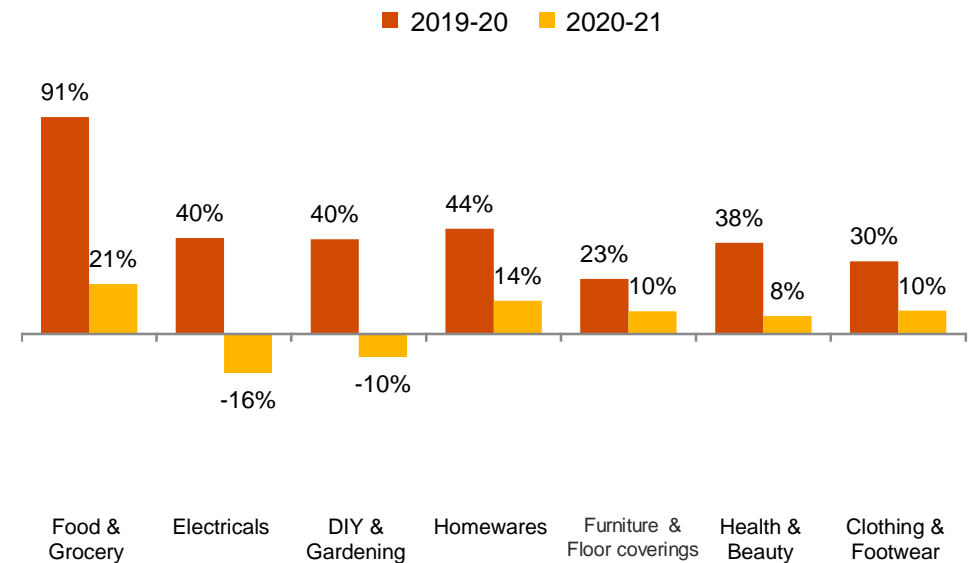
# Will shoppers return to stores?

**YoY % market growth in-store**



**YoY % market growth online**

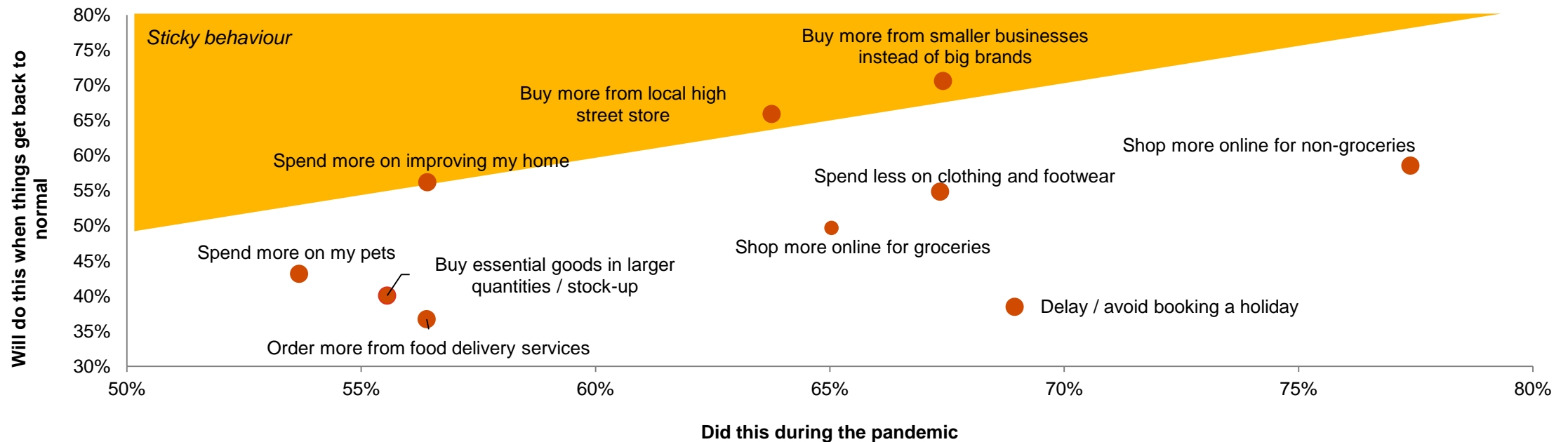
Source: GlobalData



# Local and independents playing a bigger role post-COVID

Thinking about the below activities as a result of the pandemic, how has your behaviour changed compared to “normal” times?

Source: PwC Consumer Survey, December 2020



# But what does this mean for retail overall?


## Evolution of the store

- Integral to shopping journey
  - Pent-up demand post-lockdown(s)
- Multichannel comes into its own
  - More to be done to integrate and optimise channels
- How to measure importance
  - Not just P&L
  - Value to customer

## Doing the right thing

- Not just for Christmas, or in a pandemic
  - Recognise, reward and develop your people
  - Retailers' role in society
  - Year of inflexion for ESG and Net Zero?
- Customers may or may not reward you for it... but at least they won't punish you

## Investments and partnerships

- Local, national or global champion – where are you going to play?
  - What is your platform to win?
  - Can you build resilience?
- 
- Don't have to do it on your own



# Question 3

What are the top 3 things on the minds of retailers in 2021?



# Property as we return to business

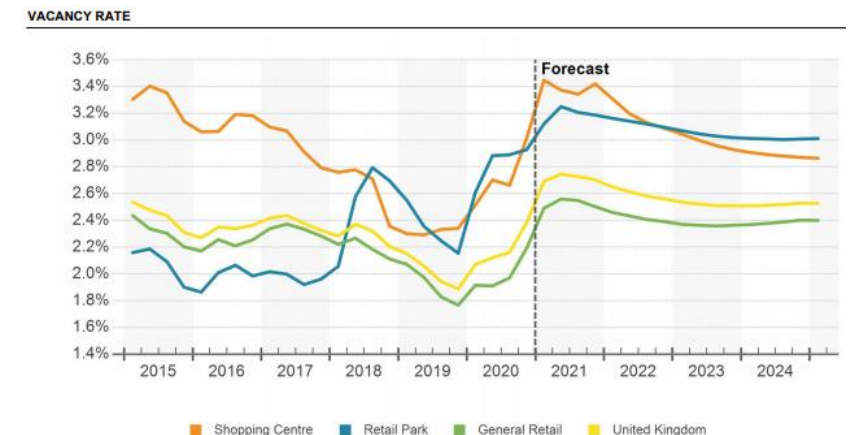
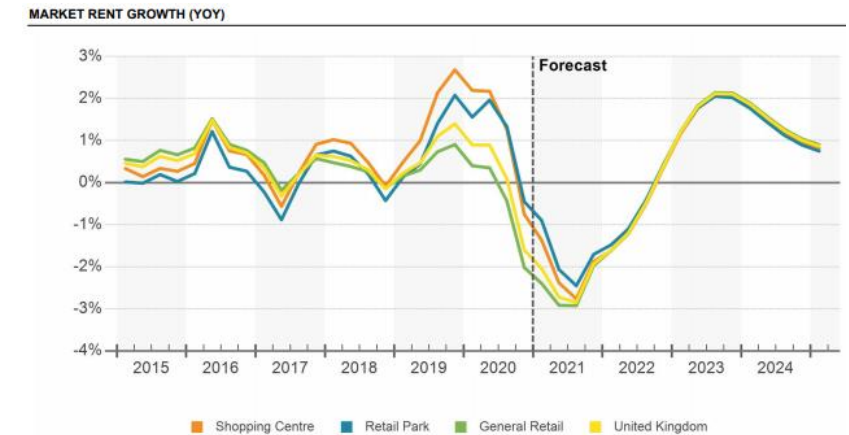
For more information on this topic, please visit our [Real Assets](#) homepage.



# Landlords are also feeling the pain

## The landlords' perspective

- **Landlord pain** – lenders likely to start to be more active in negotiations
- **Landlord approach** – remains 'not here to support wealth transfer'
- **Rent Collections** – many court proceedings expected to log-jam the system
- Valuations now NOI driven
  - **Turnover rents** less concerning but at the right levels
  - **Recovery** of service charge and reduction in voids a powerful tool
- **Impact of Insurance** – Supreme Court ruling on 'pandemic' clauses' for hospitality (except reduction in consumer demand and the government's actions)



CoStar, Retail National Report, 18/01/2021

# With March 2021 rent date fast approaching...

## Are we approaching the last landlord negotiation?

- **March & April are key months** – need for pragmatism and clarity of approach
- **Moratorium** – currently looks like the lease moratorium won't get extended...business rates may be, potentially, but awaiting the Budget
- **Get the backstop in place** – CVA / pre-pack is still very much live, as is the new Director Called Insolvency Moratorium
- **Know your power** as a driver of footfall / demand. Partnering in the future to:
  - Move units
  - Shrink units
  - Get access



# How can you help fund your re-opening?

- Is S&L an option to help cashflow?
- Are regears back on the table?
- Can you amend terms of existing S&L?
- Use of Asset Backed Contributions to fill the pension gap

Note: Make sure you mitigate and defer property taxes where relevant

“Ted Baker has struck a £79m sale and leaseback of its London head office” (Mar ‘20)

“Next has secured the £107 million sale and leaseback of a warehouse complex in West Yorkshire” (May ‘20)

“Asda’s new owners are preparing to sell and lease back the supermarket’s distribution centre network for up to a reported £1.2bn” (Dec ‘20)

“H&M has been transferring many of its leases to turnover-based rent... However, many leases are still on contracted rents, and even in turnover cases have a base rent” (Nov ‘20)

“John Lewis to build rental homes at 20 of its UK sites...Retailer’s plan is part of strategy to rebuild profits to £400m within five years” (Oct ‘20)

# Are you ready for the opportunities...

## Freehold vs Leasehold

- Have you or your shareholders got capital to buy-back property at 10%?

## Mitigating the impact of enhanced online sales

- Repurpose underutilised space
- Enabling click & collect

## Planning for buy-side distress

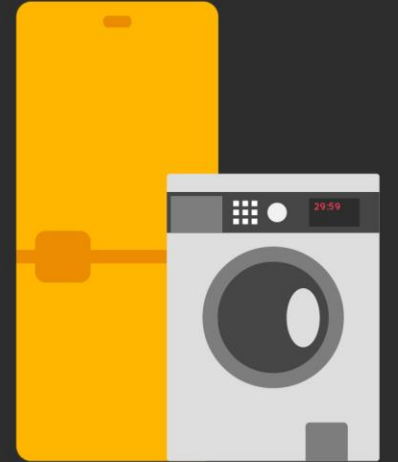
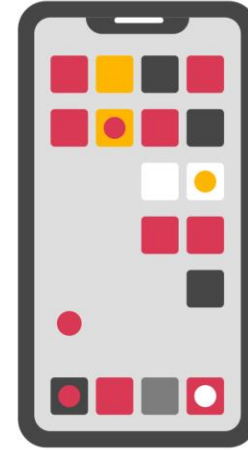
- Are you able to move at pace?
- Do you know what you want?
- How would you integrate?

“Epiris announces acquisition of Bella Italia, Café Rouge and Las Iguanas” (Jul ‘20).

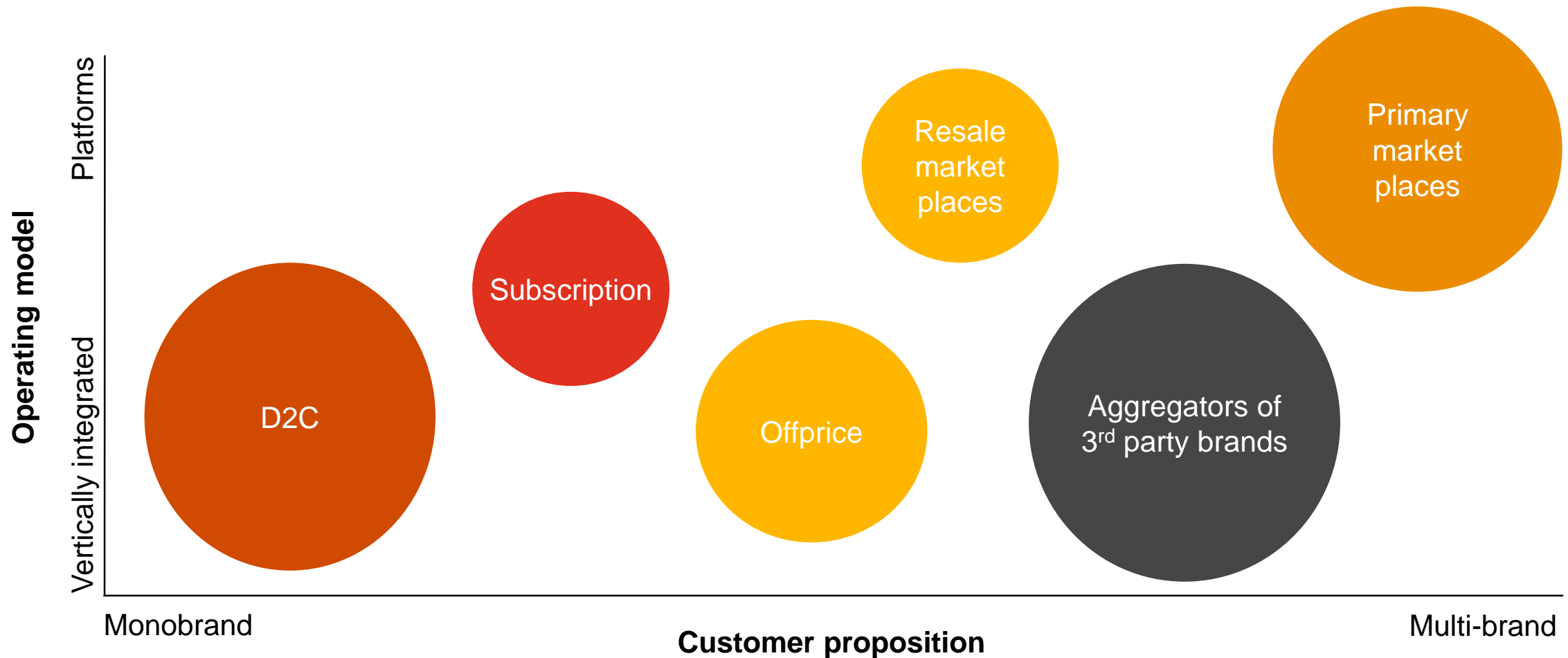
“Next has agreed a joint venture deal for the Victoria’s Secret UK business...Victoria’s Secret UK collapsed into administration in June, putting more than 800 jobs at risk” (Sep ‘20).

“Supermarket giant Asda is set for a significant overhaul that will mimic department stores by hiring out large parts of its shops to other businesses” (Oct ‘20).

# Digital models



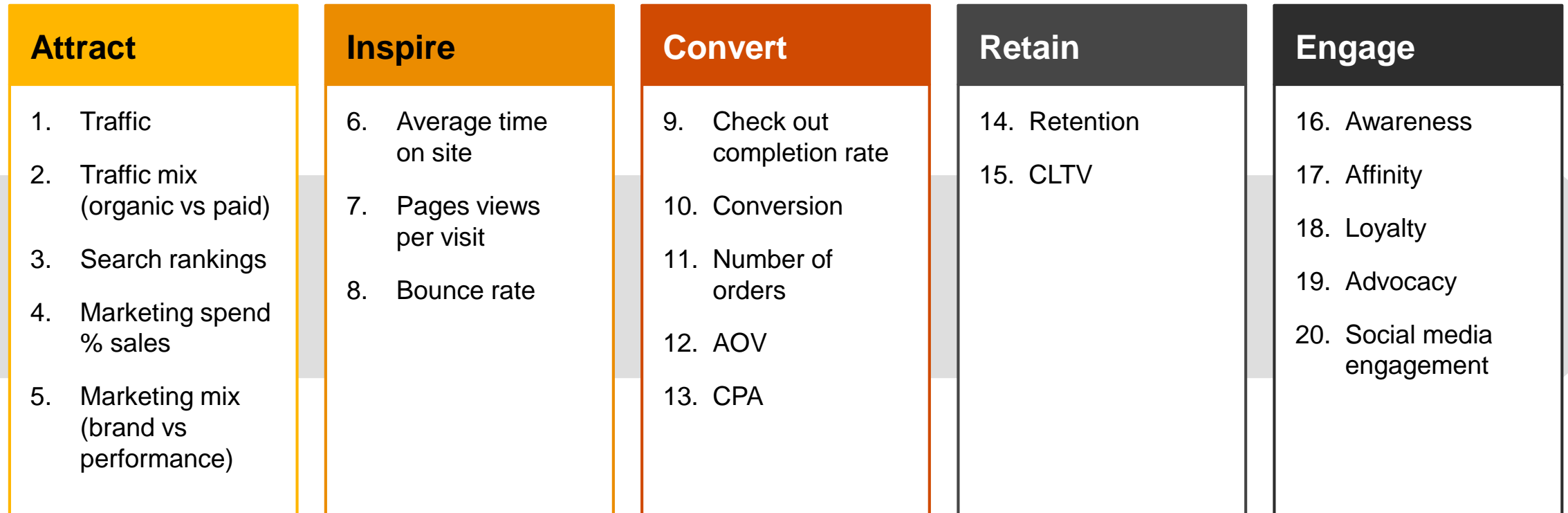
# We're seeing the emergence, convergence and acceleration of digital models



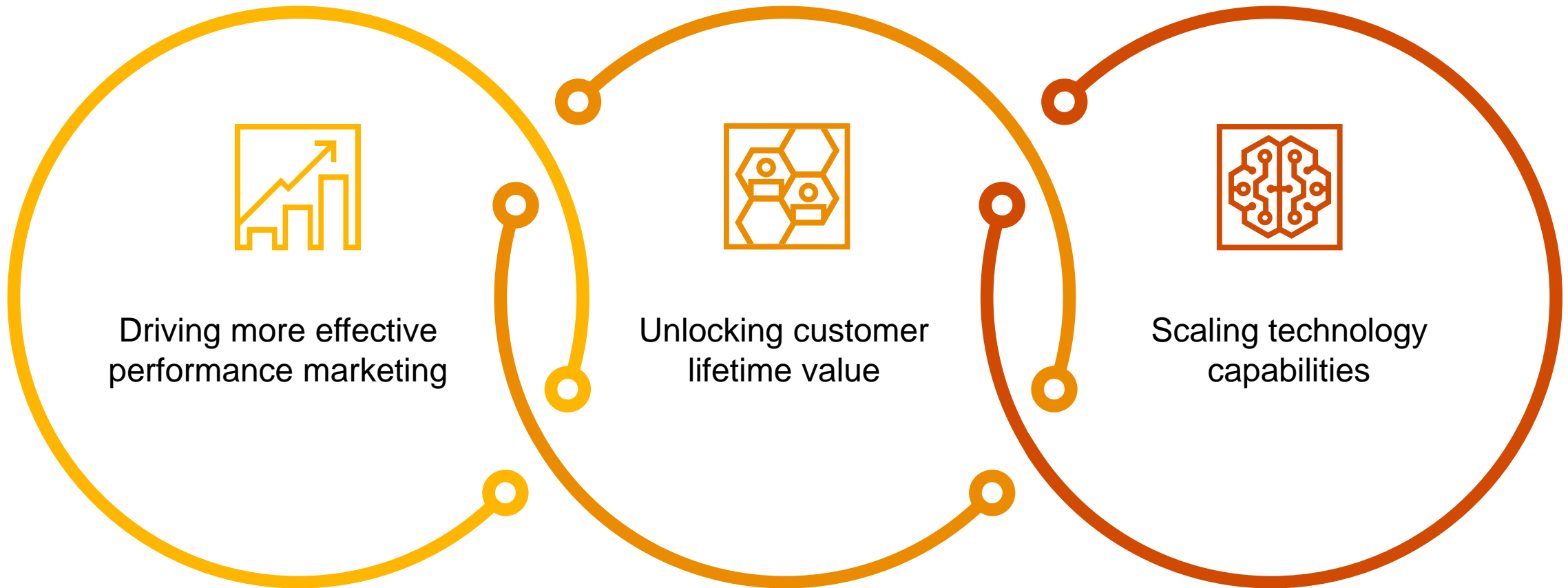


# What should be in your top 20 digital metrics?

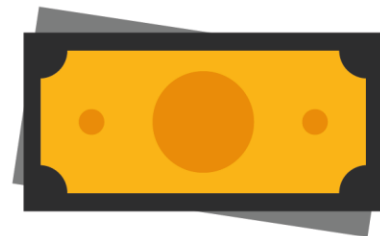
## Customer journey



# Some key learnings from assessing digital models



# Appendices



# Overview of Christmas trading results

## Overview of Christmas trading results, 2020

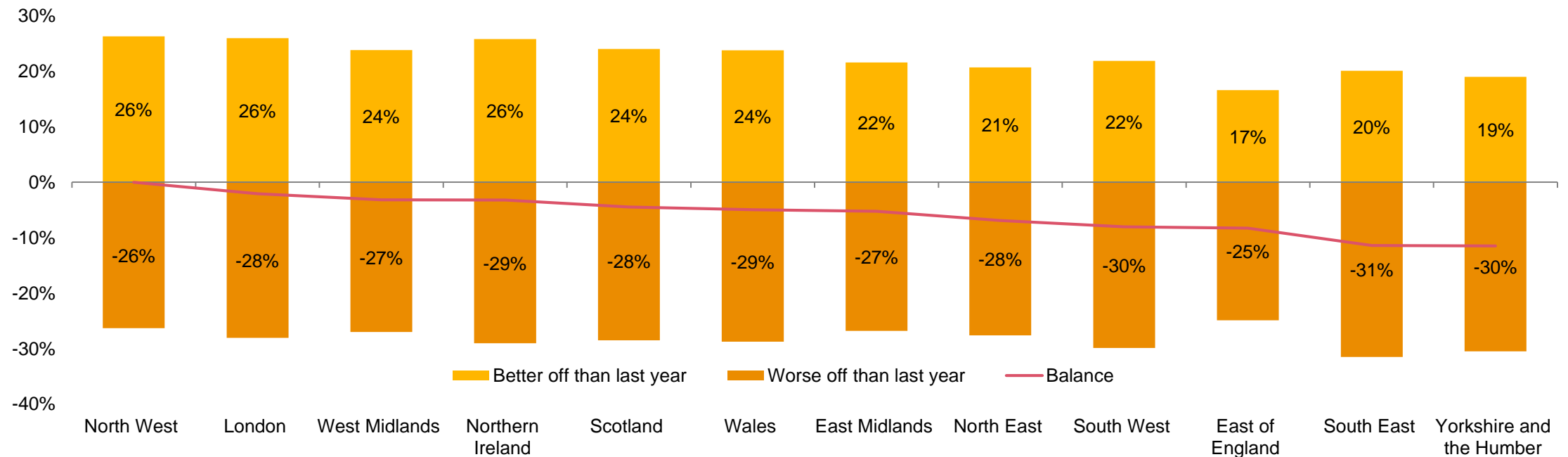
Source: Company trading statements



# Consumer sentiment by region

**Thinking about your disposable income, in the next 12 months do you expect that your household will be...?**

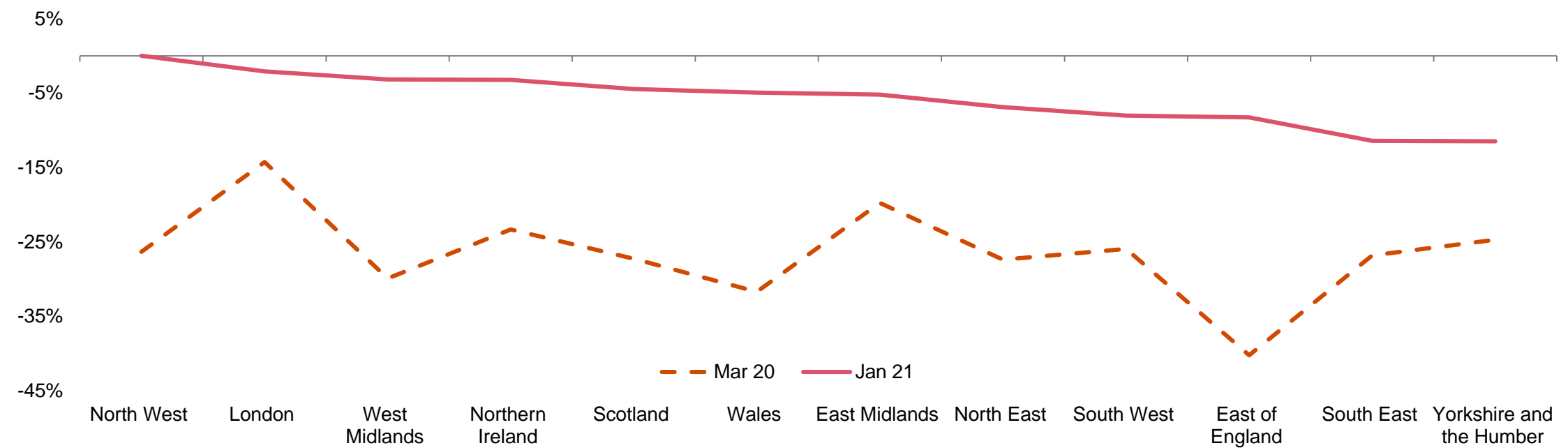
Source: PwC Consumer Sentiment Survey, January 2021



# Consumer sentiment in lockdown 1.0 vs 3.0 by region

Thinking about your disposable income, in the next 12 months do you expect that your household will be...?

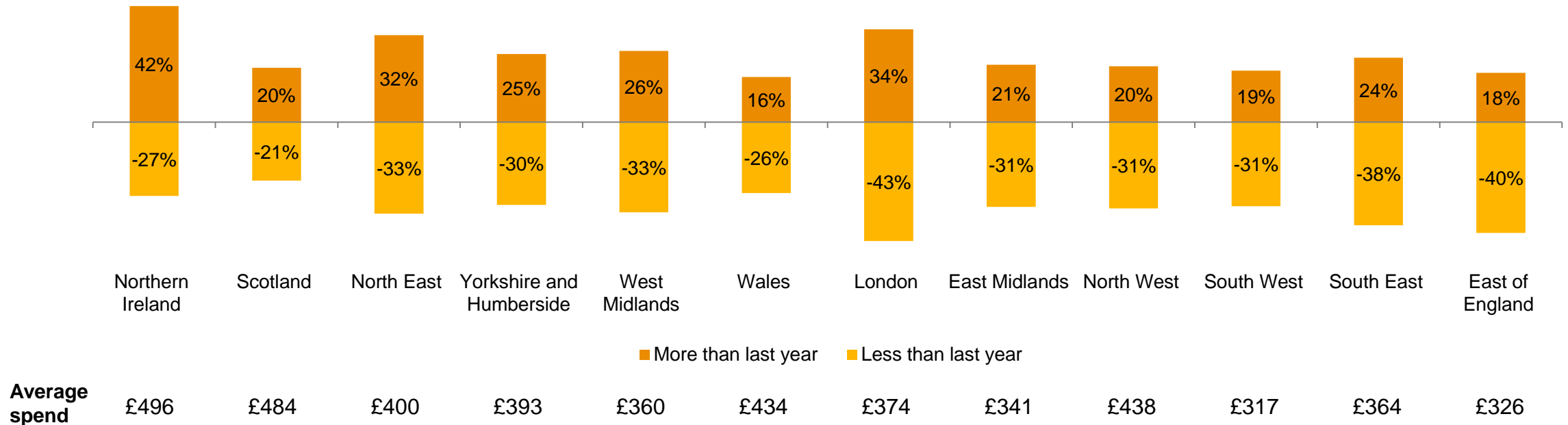
Source: PwC Consumer Sentiment Survey, January 2021



# Christmas spending by region

**Compared to last year, how much did you spend on Christmas shopping and celebrations this year?**

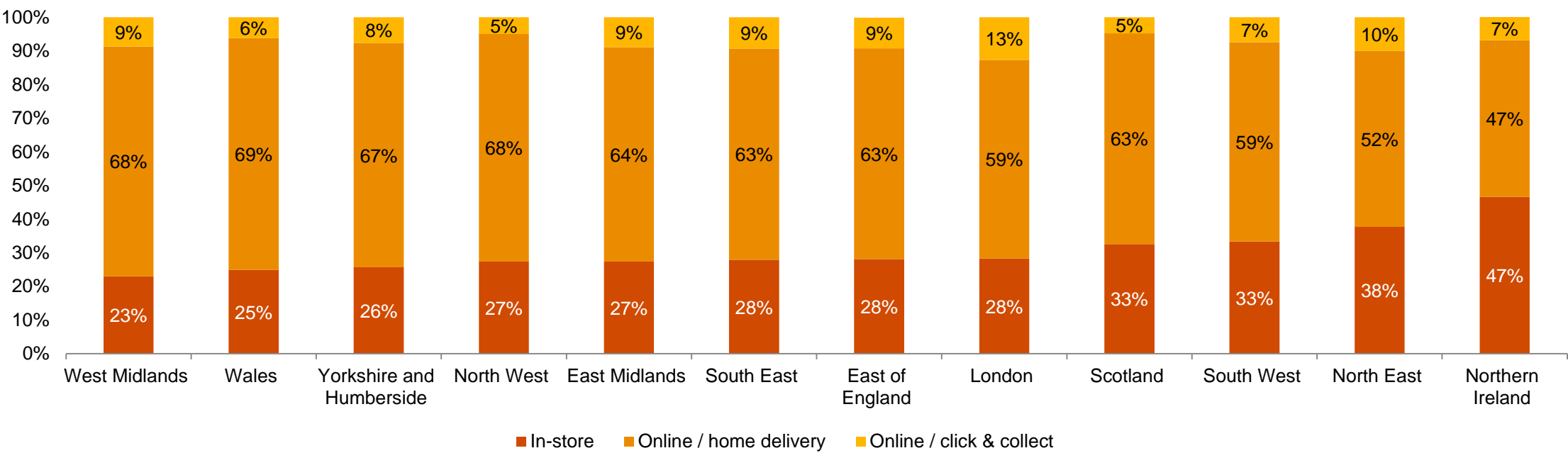
Source: PwC Consumer Survey, December 2020



# Christmas shopping channels by region

Proportion of spend online vs in-store

Source: PwC Consumer Survey, December 2020

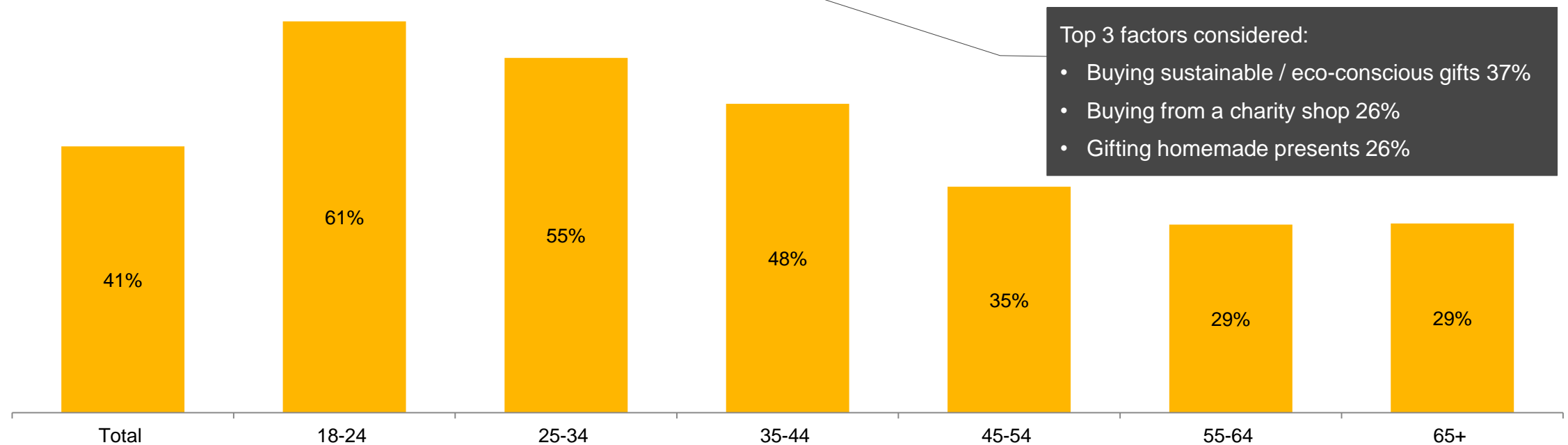




# Christmas shopping: sustainability considerations

**% of respondents who considered sustainability / environmental factors in their Christmas shopping**

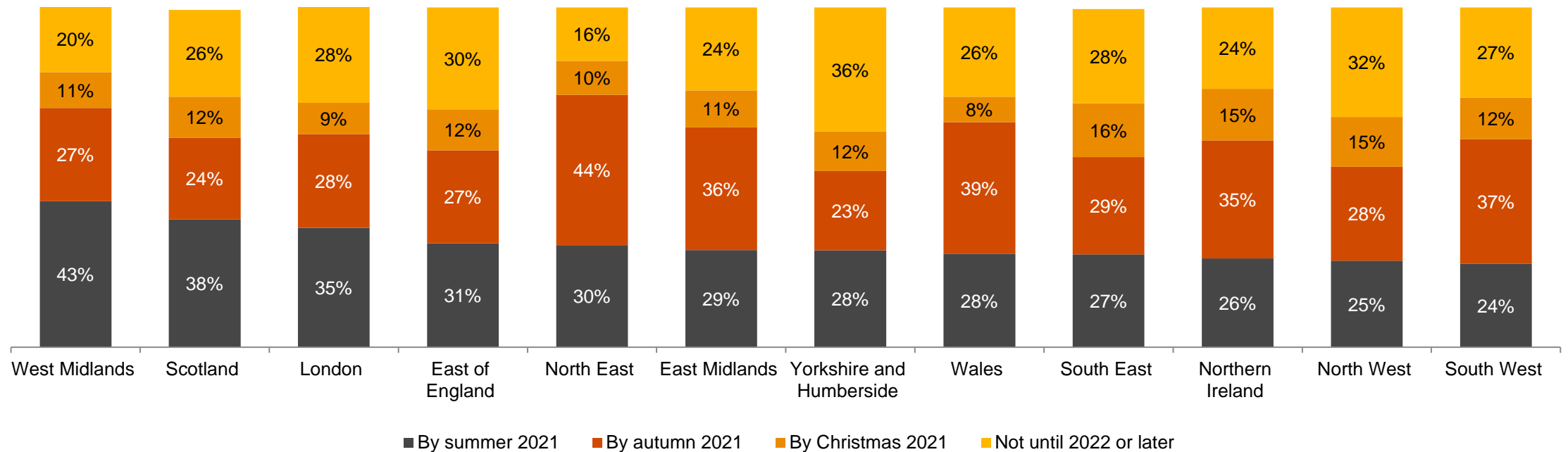
Source: PwC Consumer Survey, December 2020



# When will things get back to normal – by region?

Thinking about the restrictions due to COVID-19, when do you think things will get back to “normal”?

Source: PwC Consumer Survey, December 2020



# Outlook for beauty: Self-care and health integral to the future of beauty

## What we've seen

1. Health and wellbeing, with focus on care
2. Rise of natural, eco-ethical and cruelty-free
3. Focus on simplicity
4. Digitalisation, with one-on-one consultations

## Bounceback

1. Led by the eyes
2. Continued focus on natural and brands with purpose
3. Return to salons for the "natural look"

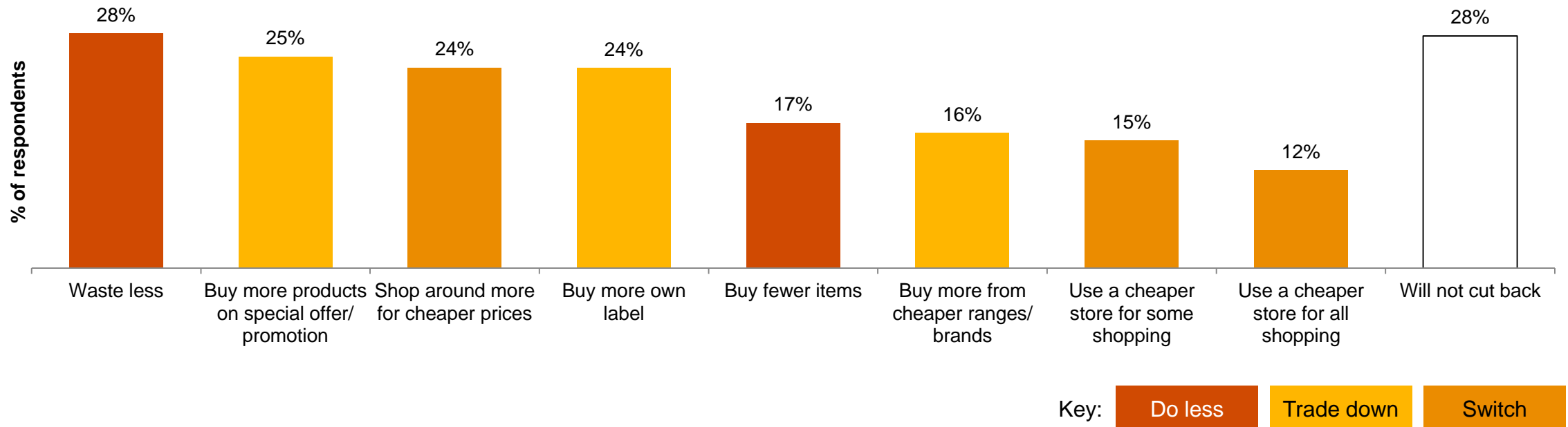
## Future

1. Shift from colour and fragrance to self care and skincare
2. Digital is now mainstream
3. Role of the store evolves with use of technology, even QR / VR / AR touchpoints?

# Cutting back in grocery: Discounters won't benefit as much as in the last recession

**How do you think your grocery shopping habits will change over the next 12 months?**

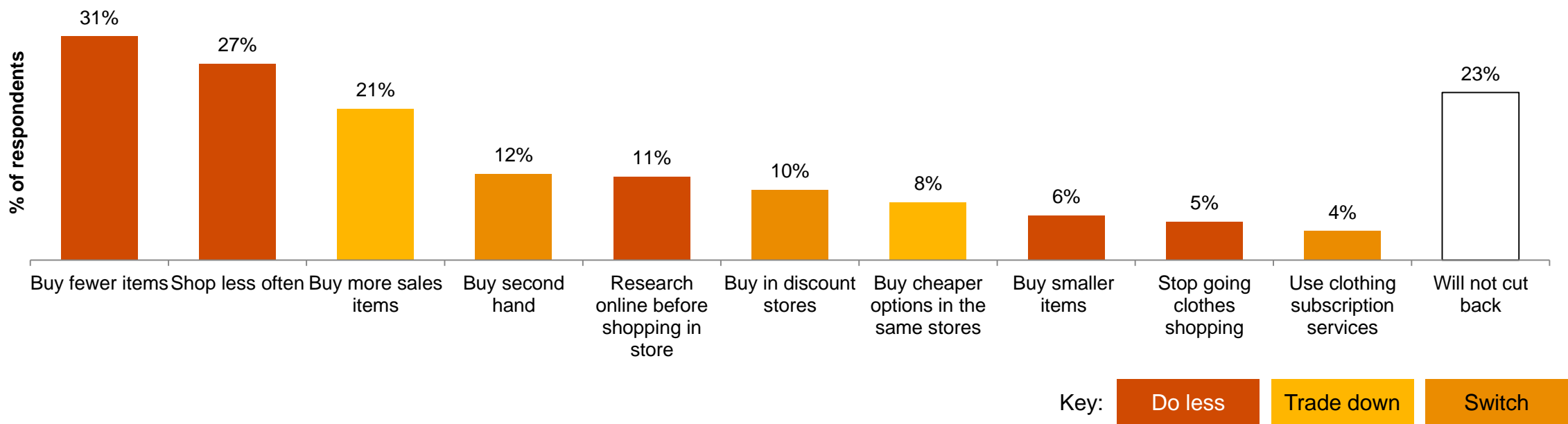
Source: PwC Consumer Survey, December 2020



# Cutting back in fashion: Fashion demand will remain muted in 2021

How do you think your clothes shopping habits will change over the next 12 months?

Source: PwC Consumer Survey, December 2020



# Thank you

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