



# Navigating 2023

Retail Trends That Will Shape  
The Sector

January 2023



**OC&C**  
Strategy consultants

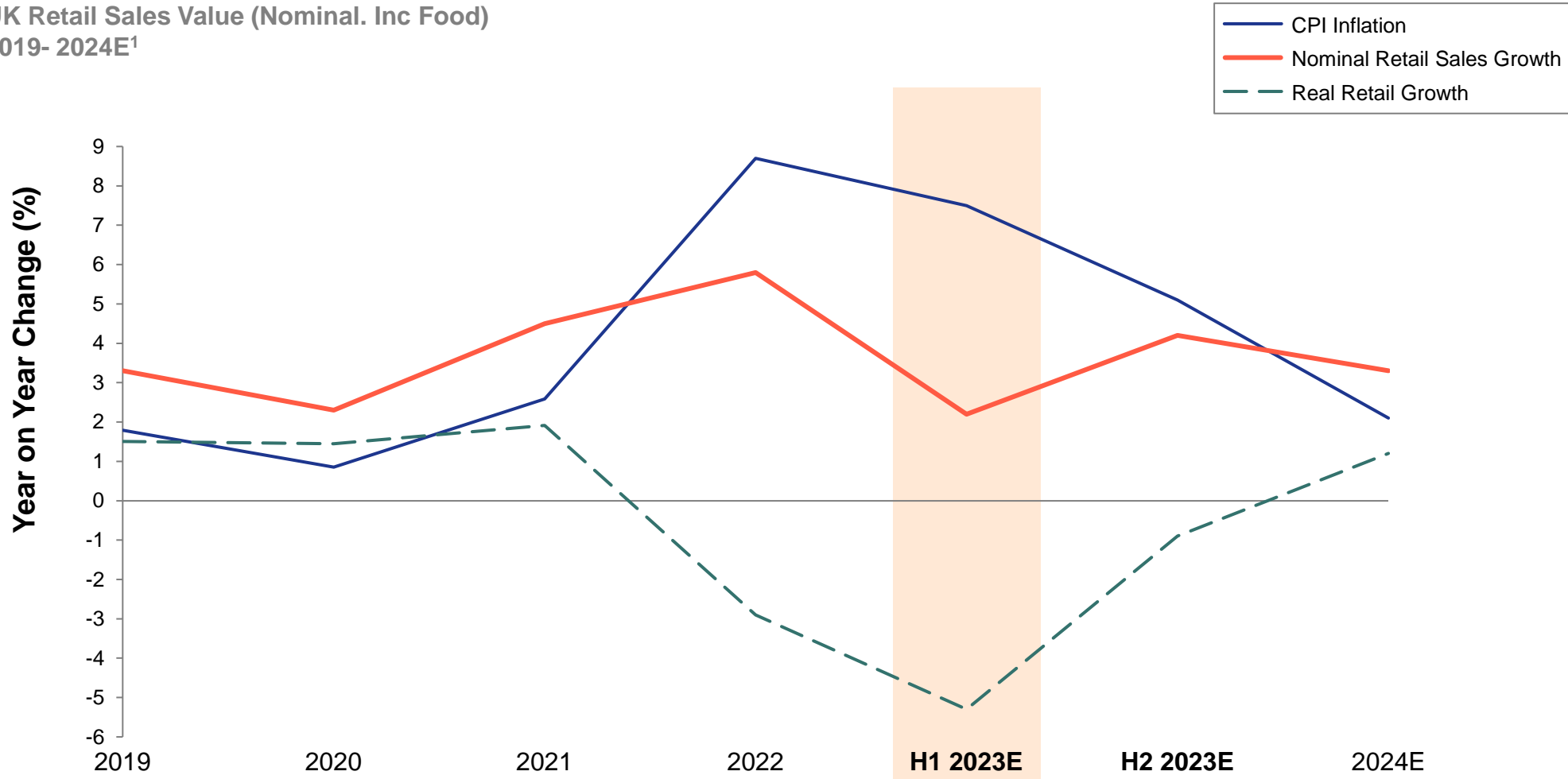
uncommon sense™



1. Retail spend held up resiliently in Q4
2. Retailers insulated their P&Ls to retain profitability
3. Consumer belt-tightening mounts while inflation lingers
4. Increased tension between profit protection & revenue growth
5. 'Natural order' of categories form with a 2023 'twist'
6. Omnichannel models have more structural protection
7. Pureplays must address 'big' business model questions
8. Volume pressure & managing uncertainty will catalyse productivity and agility gains
9. The most acute pressures should ease as we hit the Autumn
10. The winners will have contained the impact of the downswing and moved faster to seize the opportunity from recovery

# We are entering a period of belt-tightening, volume pressure and continued inflation

UK Retail Sales Value (Nominal. Inc Food)  
2019- 2024E<sup>1</sup>



1. Excludes Automotive Fuel

2. 2022 Inflation CPI excludes December 2022 data

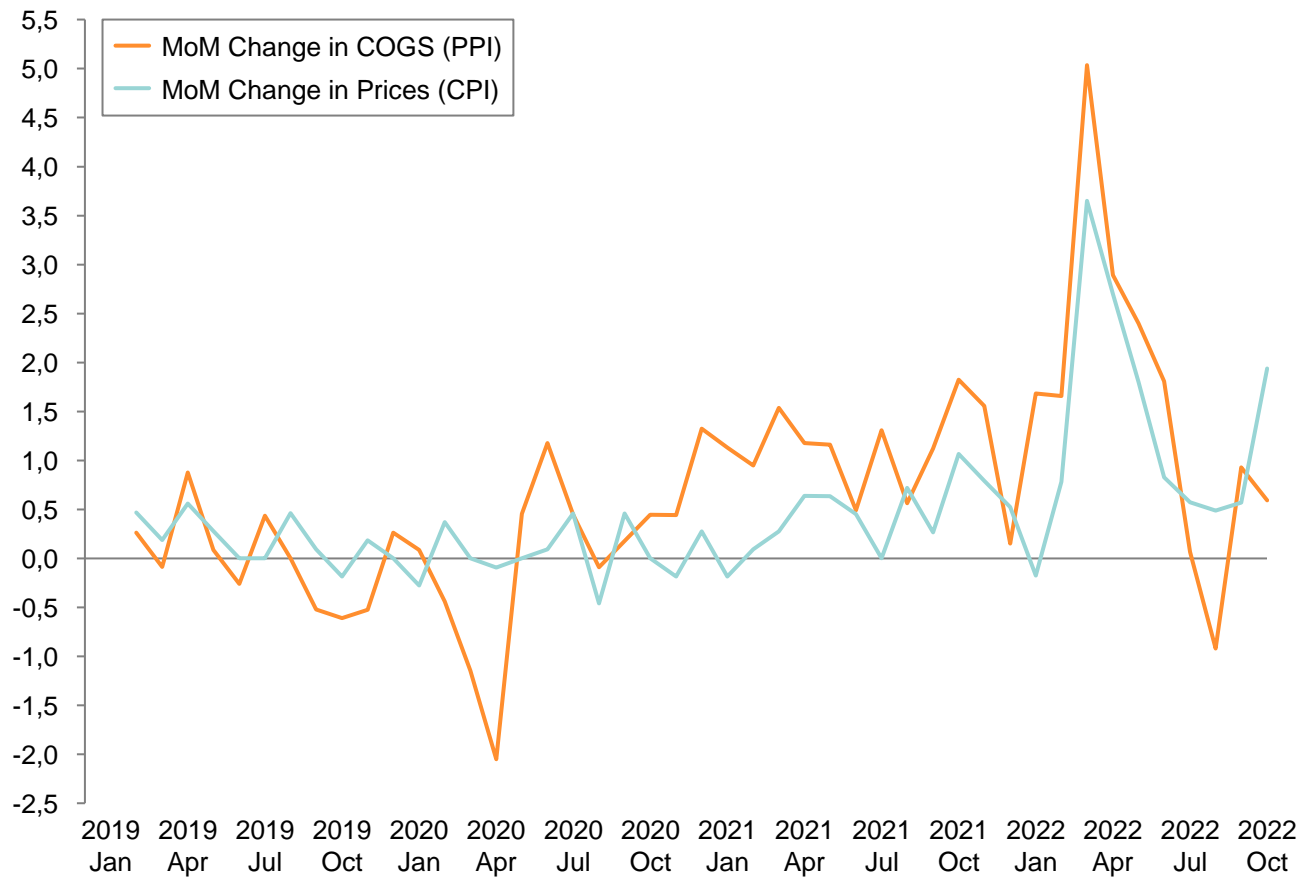
Source: ONS, OECD, BRC, BOF, Retail Week, OC&C analysis



# Retailers have so far acted rationally to protect margin



CPI vs PPI<sup>1</sup> change, Month on Month (MoM), 2019-2022



Source: ONS, OC&C analysis

1. Producer Price Index (PPI) measures changes in the cost of the basket of purchases required as inputs into the production process

# But 2023 will likely bring pressures that make inflationary pass through more complex

## Nominal Sales Growth Falls

- The pandemic savings buffer has unwound
- Increased cost of living impacts middle income households
- Consumer confidence remains at record low
- Value for money and thriftiness has never been a more important



- Passing through inflation has a more elastic reaction on volumes
- Models that rely on high acquisition (vs effective loyalty) come under pressure
- High labour models become more expensive and / or unreliable
- Channel profitability gaps re-opens

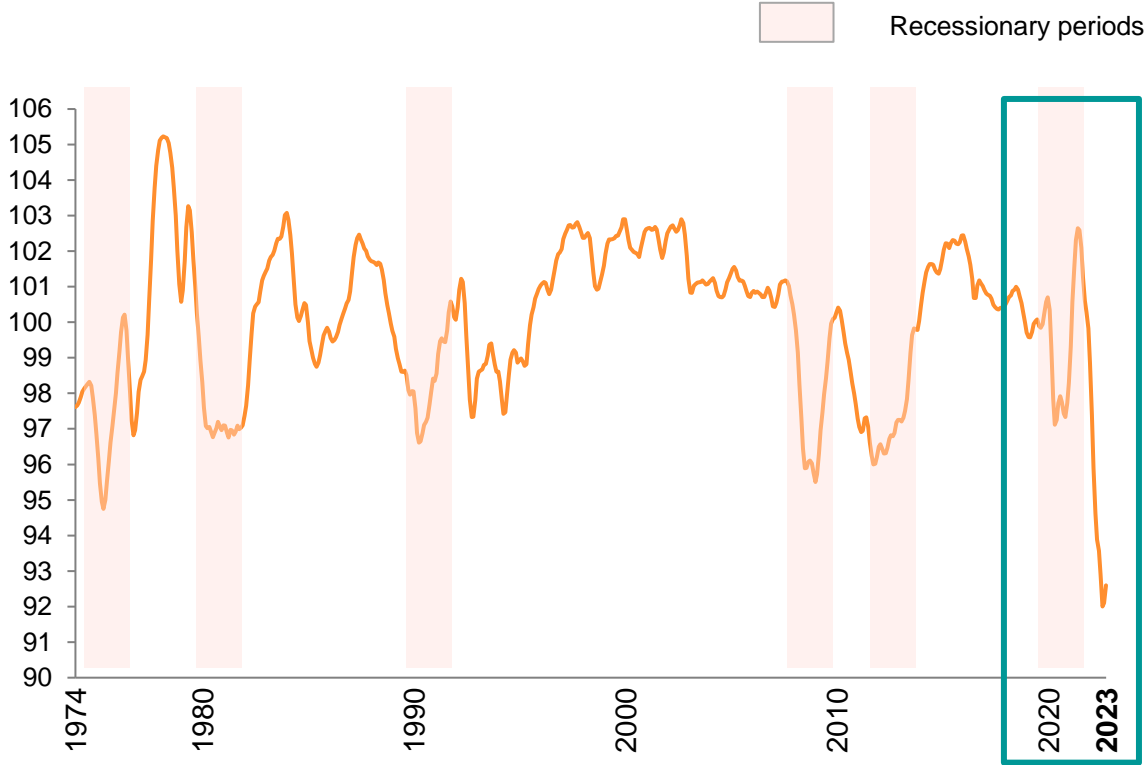


## Cost Inflation Lingers

- Energy prices remain double 2021 levels
- Labour inflation remains at 4-5%
- The skirmish for customers inflates some marketing and acquisition costs
- Some respite from deflation in raw materials and freight costs

# Consumer confidence remains at an all-time low

**Consumer Confidence Index, UK**  
1974-2023  
(OECD Measure of Confidence, 100 = Index of Long Run Average)



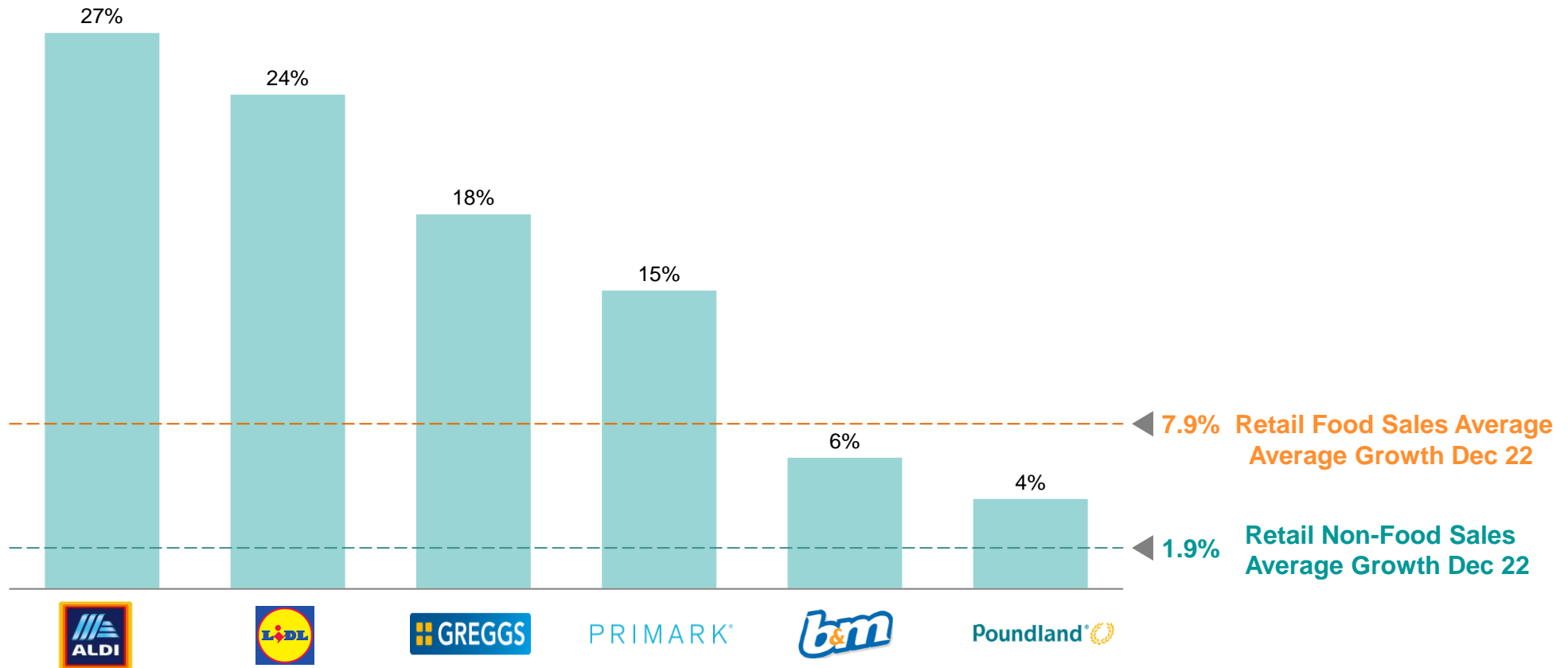
This is the lowest Consumer Confidence level seen in 50 years (since OECD started collecting this data)

Source: OECD, OC&C analysis



# Consumers are already showing signs of a flight to value

Selected UK Retailers Q4 2021 vs Q4 2022 Performance<sup>1,2</sup>



1. JD sports reporting last 6 weeks of trading in 2022, Boots reporting last 4 weeks of 2022, Next reporting Last 9 weeks of 2022, Majestic reporting last 8 weeks of 2022, Primark UK Retail FY2022 vs FY2021

2. Food & Non food sales average comes from BRC Retail Sales monitor from last 4 weeks trading in 2022 vs same period in 2021

Source: BRC, Retail Week, OC&C analysis



# The 'natural order' of recession resilience is forming, but with a 2023 (post pandemic) 'twist'

## The Recession Impact By Spend Area From Prior Recessions

Recession Impact on Consumer Products and Services Spending in the UK ( $\beta$  value)



Source: UK Government, OC&C Survey, Euromonitor 2020, OC&C analysis



## Notable 2023 Spend Areas Proving More Resilient



### International Travel

Traditionally hard-hit by recessions, we've seen international travel insulated so far by the continued after effects of COVID, and the desire to prioritise time away after a period of confinement



### Health & Wellness

People are prioritising spending on their physical and mental wellbeing; cutting back on other areas (e.g. alcohol) to fund spend on products and services



### Out of Home Entertainment

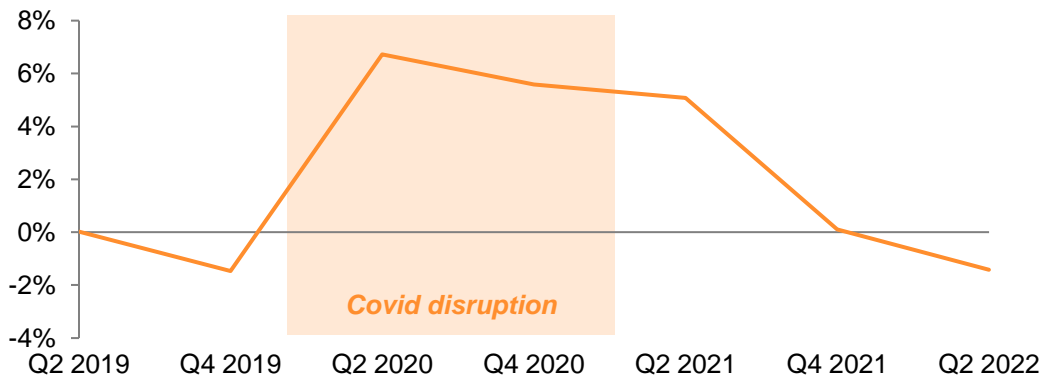
There appears to be a greater desire to protect out of home socialising – potentially again a prolonged impact of people having to cut back through the pandemic



# Pureplays have an important role to play, but will be forced to address some 'big' questions

## Average Net Margins for Pureplays<sup>1</sup>

Benefitted from increased online spend through COVID, but margins have fallen through 2022



Amazon to axe 18,000 jobs as it cuts costs

The High Street strikes back: Shoppers flock to H&M, Next and Primark's stores while online-only rivals Asos and Boohoo struggle

ASOS seeks job cuts, launches staff consultation

## Profit Pressure Drivers for Pureplays



### Growth Tailwinds Are Slowing

Historical double-digit growth has dropped back to c.5%. Retailers with Omni-Channel estates are benefitting from a halo effect from physical stores of up to 45%



### Cost of Acquisitions Have Increased

Industry estimates suggest Digital Customer Acquisition Costs have increased by 60% in the last 5 years.



### Cost of Returns Are Also Significant

Returns were expected to cost retailers c.20% of online sales driven by high shipping, labour & restocking costs

1. Based on a basket of Pureplay online retailers  
Source: OC&C Experience, Global Data, Internet Retailing, Forbes, OC&C analysis

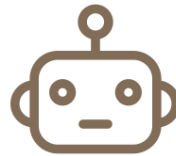
# The 'win-win' for retailers is to address areas that create near term insulation and medium term structural advantage



**Loyalty &  
Retention  
Models Are  
Redesigned**



**Value  
Becomes  
More  
Personal**



**Digitisation  
and  
Automation  
Unlocks  
Efficiency**



**Sustainable  
& Agile  
Operating  
Models  
Prevail**



**Genuine  
Omnichannel  
Emerges**

# Five 'big' questions this leaves retail leaders

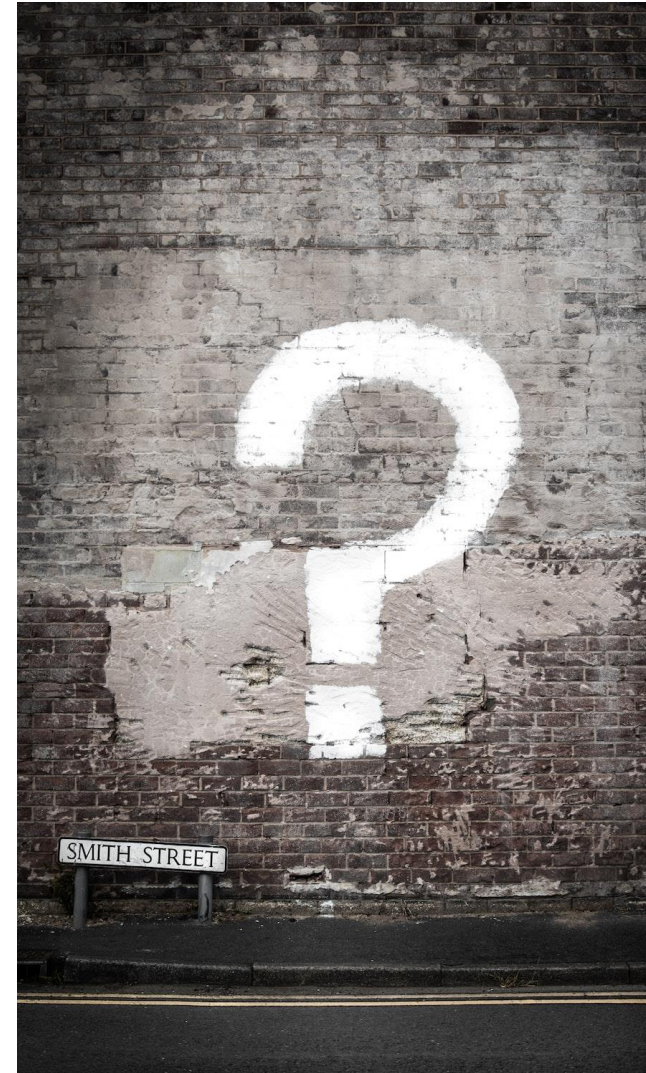
**Are you clear on your current and future key customers? How are you delivering life-long loyalty?**

**What is your value strategy? How do you flex price and margin across your offer?**

**What drives your cost to serve and where you can deliver greater efficiency and effectiveness?**

**What is the true economic value of your sales channels, and how do they need to evolve?**

**Where do you get greatest return from investment, and how do you balance the short and medium term?**





Please get in touch to find out more...

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