



# The road to recovery for retailers

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# 1

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**Challenges faced by  
retailers due to Covid-19**

# The impact of Covid-19 on the retail industry

There are few industries, outside of healthcare, that have been more impacted by the Covid-19 outbreak than retail.

This has had a compounded impact to the economy with retail being the UK's largest private sector employer.

The retail industry employs almost 3 million workers and plays a substantial role in the UK's economy, generating £381 billion of sales in 2018 alone.

While some retailers have been phenomenally busy, such as online grocery stores, others have seen sales almost disappear overnight such as fashion retail.



## The retail landscape

According to the Financial Times the impact on the economy of Covid-19 was startlingly clear with retail sales and business activity contracting at a record pace.

The volume of British retail sales dropped 5.1% in March, compared with previous months - the largest ever drop recorded by ONS.

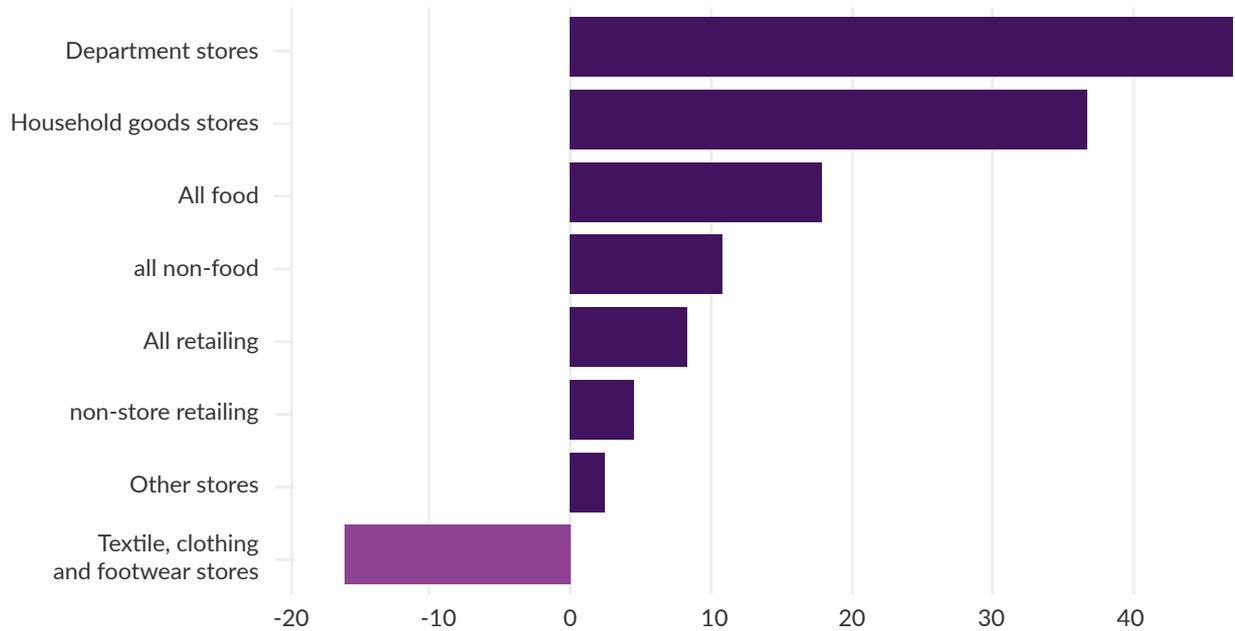
Despite a surge of 10.4% in some retail segments such as groceries due to panic buying, the decline was strongly impacted by the collapse of clothes shopping with an overall 35% fall in sales.

In contrast, department sales grew during March due to a 47% increase in online demand.



# Most stores boosted their sales

Great Britain, March, % change over value of previous month



Source: ONS  
© FT

## Key challenges faced by retailers during Covid-19

Social distancing regulations set out by the government meant that the general population weren't allowed within 2m of each other

The government announced the mandatory closure of the majority of high street stores in March 2020

Increased online demand put pressure on home delivery & logistics operations

Stock shortages were experienced by almost all grocery retailers due to panic buying and shipping blockages from international suppliers

Consumer behaviour changed due to economic instability

# 2

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**What can we learn from  
China's retailers?**

## Early indications of retail recovery

Covid-19 was first detected in China in late December 2019, consequently it was one of the first countries to go into lockdown to prevent further spread of the virus.

China is estimated to be 4 weeks ahead of Europe in-terms of the progression and impact of Covid-19.

Consequently, the Chinese retail industry is one of the first in the world to begin to see green shoots of recovery.

A closer look at how Chinese retailers dealt with the crisis and what they're doing at the start of recovery, can help to create a more stable future for our retailers

## The shape of recovery:

### Not a linear path

Early signs from China reference a u-shaped recovery with a lingering effect over the coming months before trade fully returns to normal levels.

A survey by Deloitte reports that over 90% of Chinese businesses believe the pandemic has impacted customer numbers, with some experiencing a 60% drop in footfall to their stores post-lockdown.

This is believed to be linked to a change in consumer behaviour:

- Continued public concern around crowded places
- Frequency of store visits substantially reduced
- Online shopping demand substantially increased



**90%**

Of Chinese businesses believe pandemic has impacted customer numbers



**60%**

Drop in footfall to Chinese businesses

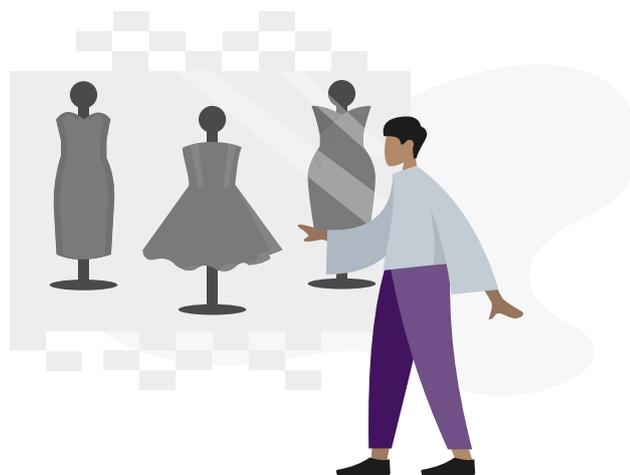
## Emerging consumer behaviour

There are two types of consumers emerging:

- 40% of consumers continuing to be cautious around spending
- 60% of consumers are spending significantly and are already back to spending at 80% of what they would be spending in normal circumstances

Online retailers have continued to do well with a marked growth in the apparel segment.

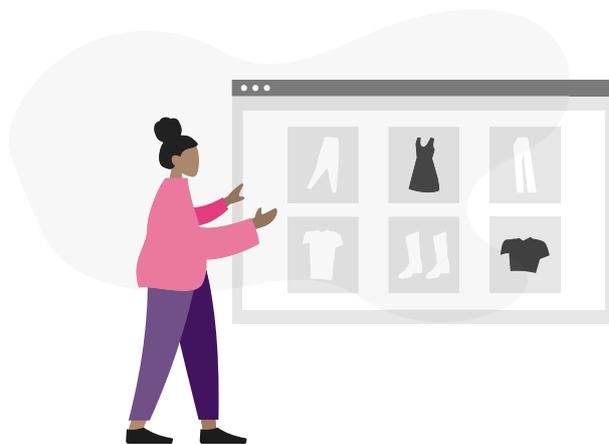
The Chinese e-commerce giant Alibaba reports that shopping activity is beginning to approach pre-outbreak levels.



## Recommendations from Chinese retailers

### Focus on improving your online offering:

- O2O, e-commerce & Click and Collect are set to be growing revenue arms for retailers
- Expand online SKUs to meet growing customer demand
- Community retail is set to become an influential player in retail post Covid-19, consider how you can incorporate new sales methods into your business and what online channels are gaining an increased following - who does your customer now trust?

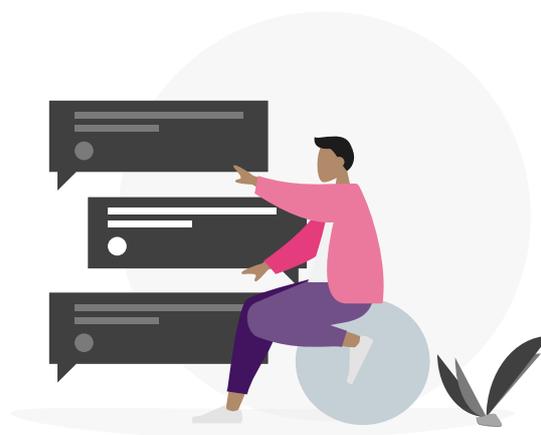


### Invest further in delivery:

- Loyal high street shoppers have now swapped to online purchasing and many look like they're here to stay, ensure your delivery service is robust enough to continue to serve such high volumes of online shopping and home delivery

### Communication is king:

- The correct channel or combination of channels can give companies the edge over competitors to reach your new type of customers - consider what messaging would be most effective and which channels would be most appropriate



## What is O2O?

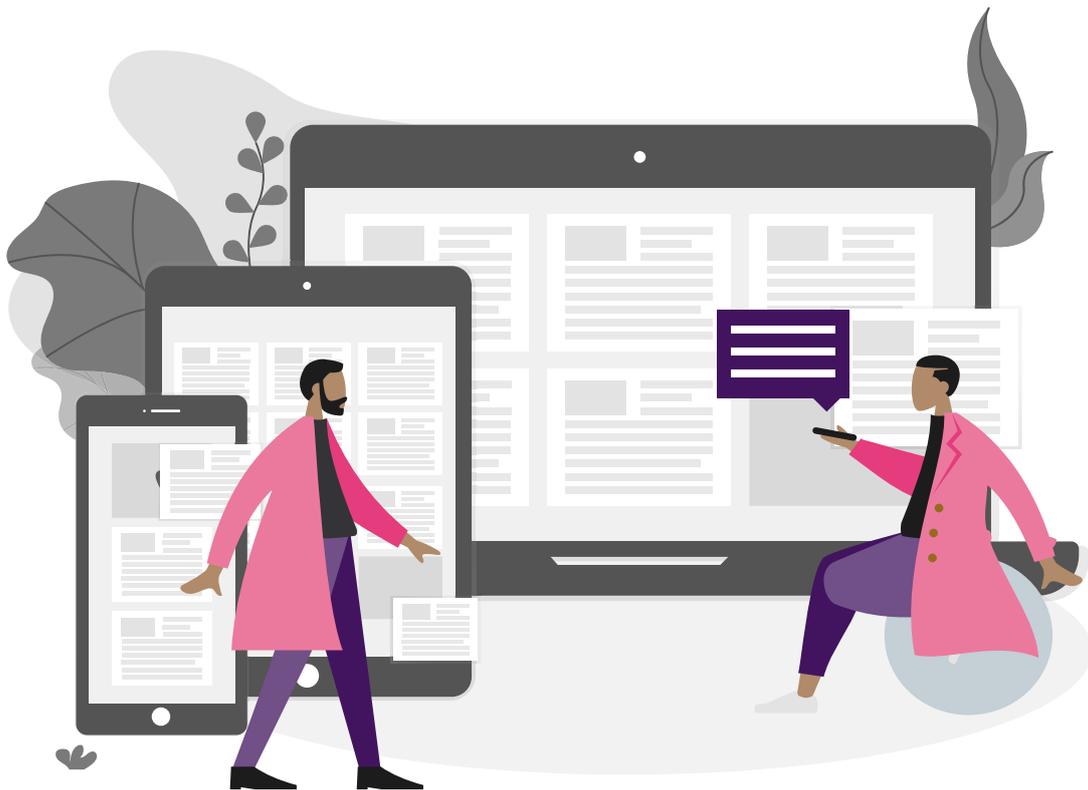
O2O refers to Offline to Online business and vice versa [Online to Offline]

The idea is around blurring the boundaries between a business' online and offline proposition.

It indicates the two-way flow between the online and the physical world, especially seen in retail and ecommerce.

An example would be purchasing a pair of jeans online and picking them up in-store. This is often referred to as Click and Collect.

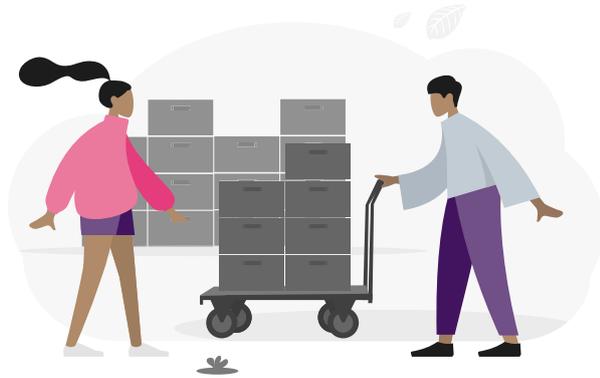
Customers could also order and purchase a pair of jeans in-store to be delivered to their home.



# Key trends to look out for from China

## Cloud consumption is the “new normal”

- Consumption needs are emerging in relation to contactless payments
- Operations, sales and supply chain models will continue trending towards digital transformation



## Supply chain review

- Understand your supply chain base and identify where issues/shortages may occur
- Look to diversify your supply chain so that your business is less vulnerable
- Gather accurate and reasonable forecasts of distribution needs and negotiate with upstream suppliers and communicate clearly downstream with customers

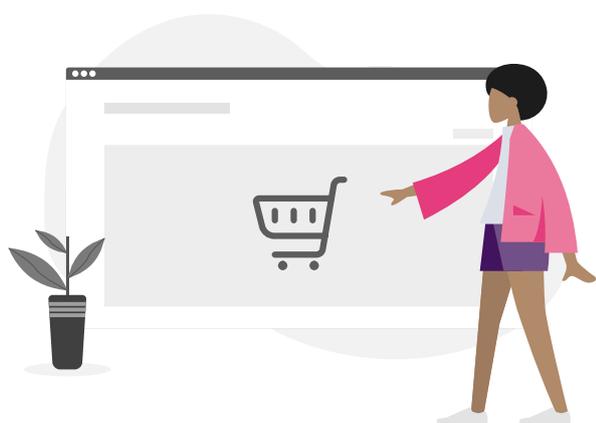
## Consumer demand patterns

- Identify the segment of customers able and willing to continue spending and strengthen your online offering around them
- Flexible stock and virtual stock might be two good areas to explore
- Keep track of how online ordering changes during lockdown and highlight any significant shifts in top selling products/brands and adapt your future strategy accordingly



## Consumer trust

- Continue to adopt an expansionary and open approach to shore up consumer resilience
- Promote more of a pro-consumption attitude against a backdrop of a slowdown in spending - this needs to be done through effective, well-timed communication



## Emphasis on e-commerce

- E-commerce continues to penetrate tier 3 and below cities in China and they will continue to be a major player in the growth of China's overall consumption over the next 5 years
- E-commerce will help to promote down tier consumption

## Physical retail to accelerate the embrace of digital transformation

- Digitalisation is driving major industry changes as the consumption market re-orientates around the consumer
- This is exemplified by more rapid adoption of O2O integration and data driven remodeling of offline retail



According to the Deloitte report, 50% of Chinese businesses will make no adjustments to their 2020 budget or financial targets despite the existing challenges.

### So what will they do?

- It appears that the pandemic has given many retailers a new found awareness of the urgency to develop online services and accelerate offline-online integration into their growth plans
- 83% will develop online channels and accelerate O2O integration
- 63% will establish a digital ecosystem, creating a complete, consistent marketing system
- Covid-19 has also accelerated China's adoption of omnichannel strategies



**50%**

Of Chinese businesses will make no adjustment to 2020 budgets



**83%**

Will develop online channels and accelerate O2O integration



**63%**

Will establish a digital ecosystem



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**A look to the European  
retail industry**

## Early European trends

Disruptions usually shape the future by fast tracking some emerging trends and putting the brakes on others

- The optimisation of online experiences will be required to build or maintain demand. The e-commerce challenge will quickly move from penetration to retention



**69%**

Retailers have developed new routes to consumers via O2O



**62%**

Of retailers have increased investment in e-commerce

According to a survey by Kantar UK, retailers have already started to react positively to the additional channels:

- 69% of retailers have already developed new routes to the consumer by adopting O2O or B2B2C
- 62% of retailers have increased investment in their e-commerce platform and advertising channels

## Consumer behaviour and crisis implications

Some new behaviours will stick around far beyond the crisis such as a higher demand for e-commerce and virtual experiences, so investment in this area is of paramount importance

Millenials are likely to be particularly hard hit by the economic decline as it impacts their ability to make payments on debt and mortgages making them more cautious shoppers

Younger generations such as Gen Z are infused with a sense of can-do spirit and additional resilience driven by their ability to get by in a crisis making them perhaps more willing to spend money - they seem to be becoming increasingly less risk averse

According to the latest YouGov survey, consumer behaviour will vary depending on age, gender and retail segment.

- 88% of the British public think that it is too early to start releasing lockdown measures and opening high street stores
- Many Brits say they will feel uncomfortable going to newly reopened stores once lockdown is lifted
- 46% of people surveyed said they'd feel uncomfortable visiting a clothing store

### **The gender divide:**

- 54% of men surveyed said they'd feel comfortable returning to shop at a high street clothes store
- 58% of women surveyed said they'd feel uncomfortable returning to shop at a high street clothes store

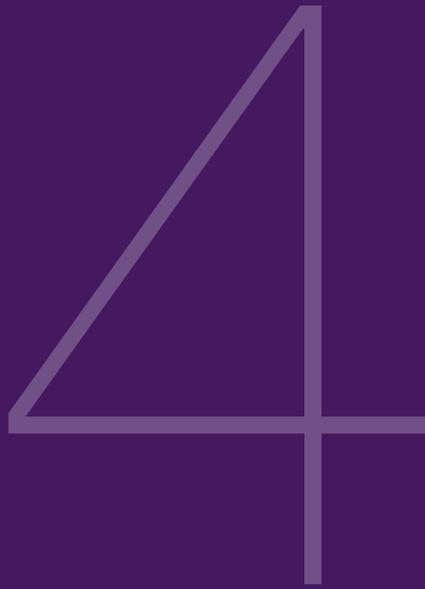
### **The age gap:**

- 64% of 18-24 year olds surveyed said they'd feel comfortable returning to shop at a high street clothes store
- Women aged 24+ are increasingly uncomfortable returning to shop at a high street clothes shop

## Recommendations

- If you work in the fashion industry and your target audience is women aged 24+ then you should divert a good portion of your budget to boost your online presence for this section of your customer base
- Since this audience segment also falls under the millennial generation you should invest time and money into communicating to this segment, address them personally and ensure they understand how your products can enhance their lives and act as an investment rather than a frivolous purchase - this generation is set to become our most risk averse set of customers
- According to Brand Watch ethical, sustainable shopping is likely to play a large part in consumer purchasing patterns post Covid-19 with searches for sustainable products up 217% YoY and 2.4k consumers stating they will avoid fast-fashion.
- With consumers becoming more eco-focused than ever before, there is an opportunity for brands to attract these customers by openly talking about their ethics and clearly stating their stance on supporting the environment and factory working standards.





**3 takeaways**

## 3 takeaways

**1**

Continue to build a strong online presence and invest in O2O

**2**

Assess logistics and diversify suppliers

**3**

Focus your strategy around new consumer behaviour

## About Esendex

*Esendex is a mobile business communications provider helping thousands of customers worldwide.*

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