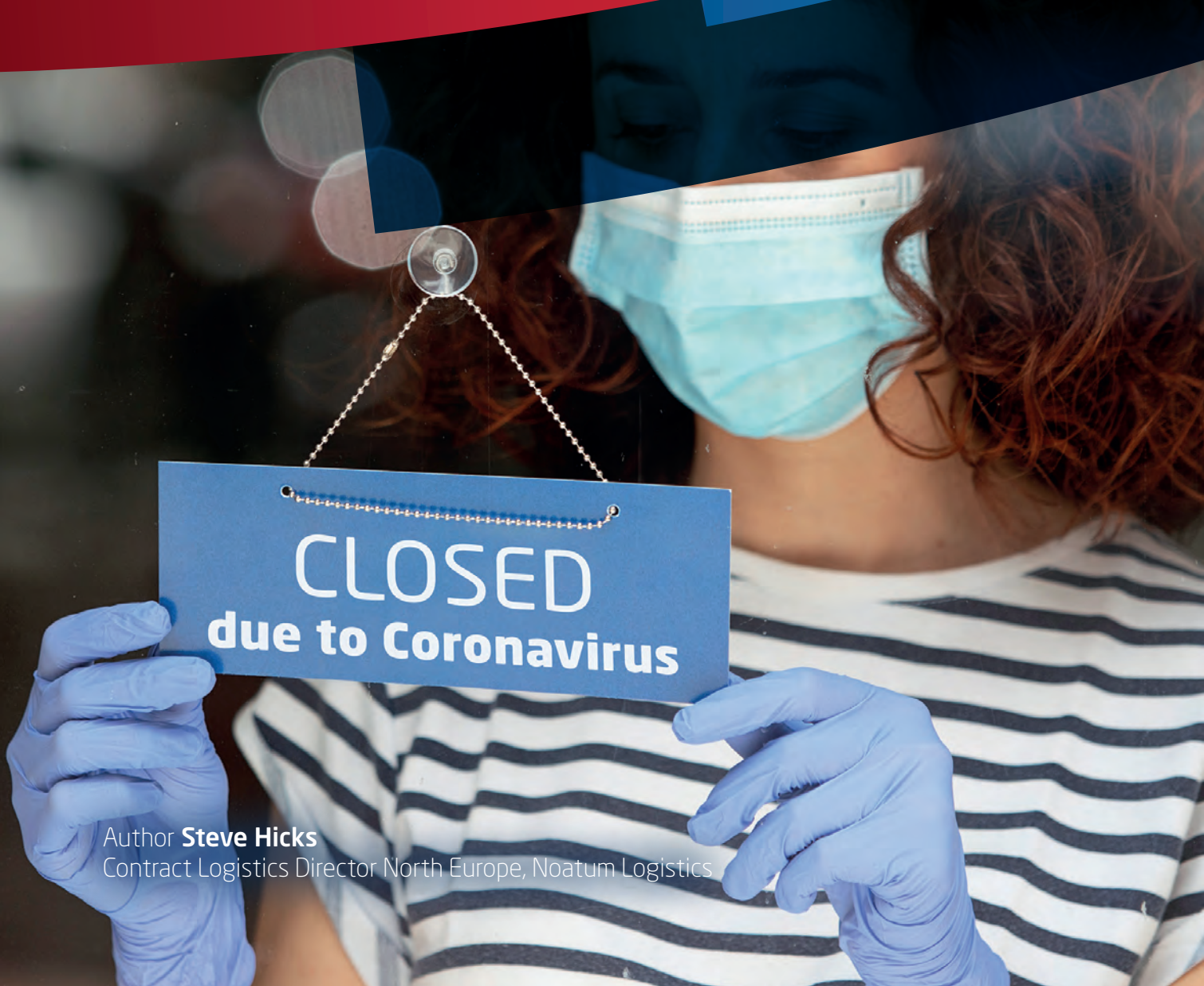


The post-COVID retail challenge

**Growing retail in the
post-COVID world**



Author **Steve Hicks**
Contract Logistics Director North Europe, Noatum Logistics

Growing retail in a post-COVID World

Steve Hicks

Contract Logistics Director North Europe
Noatum Logistics

CONTENTS

- Retail was already under pressure
- Online shift to accelerate further
- Pointing the way to the new normal in retail
- The new retail normal
- Scalable, visible and effective logistics is a critical success factor
- Online shift to accelerate further
- ePoint; digitally native, scalable logistics
- The eCommerce retailer
- Riding the eCommerce wave

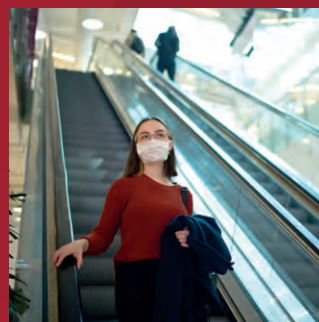


Growing retail in the post-COVID World

A scarce resource is now even scarcer

If the focus for 2020 survival has been reducing rents and getting out of high street leases, the focus for 2021 will be on managing the growth of e-commerce within the warehouses and final mile delivery.

“ 92 million sq ft of warehousing space will be needed to meet eCommerce demand by 2024 ”



Retail was already under pressure

Rapidly growing their online shopping capacity and capability is critical for retailers and brands that want to hold onto customers that are accelerating their move away from the high street, but availability of critical eCommerce logistics and warehouse capability is limited.

The coronavirus pandemic and COVID19 lockdown has hit retail particularly hard, pushing the unprepared over the brink into financial crisis and rapidly accelerating the shift from traditional shopping channels to e-commerce.

Retail was changing at an unprecedented speed before COVID, with Brexit uncertainty causing spending growth to slow and the industry already faced large-scale business restructuring, with Deloitte forecasting 85,000 jobs lost and 9,169 store closures.

The latest forecasts from the Centre for Retail Research (CRR) paint a far bleaker picture, with more than 20,622 stores closing this year and annual sales falling by almost 5% with lost revenue totaling £13.2 billion.

"Retailing is in crisis," the CRR noted in its October report. "This has been caused by high costs, low profitability, and losing sales to online shopping. These problems are felt by most businesses operating from physical stores in high streets, shopping malls or locally. The low growth in consumer spending since 2015 has meant that the growth in online sales comes at the expense of the high street".

COVID will cost at least £13bn in lost retail sales

M&S clothing and home sales were down 21% in its second quarter to September, a period when its stores had reopened and boss Steve Rowe has been "lobbying quite hard with the rest of the industry for the extension and deregulation of some Sunday hours."



SORRY
WE ARE
CLOSED



Online shift to accelerate further

Retail Economics estimate that around £3bn in sales will shift online this Christmas, but stores will remain an important channel, particularly in lockdown mark two, as the government has stipulated that shops can offer click-and-collect.

By carrying inventory to meet local demand, stores support click-and-collect by providing consumers more choice and greater speed, while also generating essential foot traffic in the future.

Effective logistics capability is critical

This cross-channel approach requires integrated systems, fulfilment operations skewed toward fast-moving items to support in-store pickups, and flexible resources to support the additional workload.

e-Commerce currently makes up to 19% of retail fashion sales, with the channel experiencing significant growth over the past 5 years.

The Covid-19 pandemic is accelerating this move to e-commerce and many analysts are forecasting that up to 50% of retail sales will be generated on e-commerce platforms within the next two years.

Yodel chief executive Mike Hancox confirmed that the delivery company has been operating at 'peak' levels since the first lockdown in March, with volumes up 20% compared with normal and was expecting Christmas to be another 20% on top of that. But that was before lockdown number two was announced.

£3bn in Christmas sales will move online in 2020

The global small parcel market is expected to more than double from 103 billion parcels in 2019, to between 220 and 262 billion parcels by 2026, driven predominantly by e-commerce volumes.

The simple fact is that consumer behaviour has changed and retailers need to adapt and develop the right mix of digital channels to reach and serve their customers.

"The logistics function is an intrinsic component in continued retail success"

McKinsey confirm that in adapting to the next normal in retail, the customer experience is imperative, with the path to purchase more digital and cross-channel.



The new retail normal

Getting the right omnichannel mix is critical in driving engagement and growth. In any retail channel, success will be defined by the ability to build and satisfy sustainable relationships with consumers, which means that the logistics function is an intrinsic component in continued retail success.

Online sales, which increased at a 14% compound annual growth rate (CAGR) over the past four years, grew by 25% in a two-week period in March 2020, which has had a profound impact on consumer shopping habits and retailers need to respond quickly by expanding their digital capability quickly.

Online sales peaked at 33.4% during the lockdown

Customer expectations are rising for digital channels, so available inventory, ease of the fulfilment process, online gift shopping and delivery times are all critical elements in ensuring that the customer's digital experience is frictionless.

By adopting agile marketing and logistics practices, alongside the generation of real-time consumer insights, retailers can more quickly recalibrate their business model and offerings to meet consumer expectations.





Pointing the way to the new normal in retail

The pandemic and subsequent lockdowns have been seismic for retail, closing stores and forcing retailers to serve customers through other channels.

Pure-play and omnichannel have adapted easily

Retailers, like Primark, that prioritised physical stores and face-to-face engagement over omnichannel strategies have struggled to respond, while pure-play and omnichannel retailers have pivoted more easily.

McKinsey believe that the pandemic has changed consumer behaviours permanently. In the United States, many customers have tried new omnichannel models: buy online, pick up in store (BOPIS) grew 28% year-over-year in February compared with 18% in January and these new engagement models are here to stay, with consumers reporting high intention to continue using models such as BOPIS (56%) after the pandemic.

Overall retail performance, prior to the second lockdown in England, has been strong increasing by 17.4% in the three months to September and up 4.7% on 2019. (ONS)

For McKinsey, the starting point matters in a crisis, suggesting that retailers that can quickly reimagine their omnichannel approach to create a distinctive customer experience will recover faster from the pandemic. Analysis of the financial crisis of 2008 shows that customer experience leaders saw a shallower downturn, rebounded more rapidly, and achieved three times the total shareholder returns compared with the market average.

Online sales grew 14% over four years and by 25% in a two-week period in 2020



Scalable, visible and effective logistics is a critical success factor

The Knight Frank analysis considers how the growth of online retail sales, which currently account for 26.6% of retail sales and peaked at 33.4% in May during the lockdown, will impact the demand for warehouse space across the UK.

For most logistics vendors providing inventory visibility, order preparation, fulfilment and return management is straightforward. The limiting factor is the capability to perform these functions at significant scale, with the ability to flex to meet demand spikes and integrate all these functions with leading-edge technology and retail sales platforms.

In the run up to Brexit in 2018, storage costs soared by 25% as available warehouse space was given over to stock-piling and just last Summer warehousing space within the M25 was down to just 2.2%, almost 20% below the normal national average.

92 million sq ft of warehousing space needed by 2024

A scarce resource is now even scarcer

In a report last month, commercial property experts Knight Frank said. "The rise of e-commerce has been one of the fundamental drivers of demand for warehouse space over the past five years, and our analysis shows this trend is only going to accelerate as consumer behaviour continues to shift in favour of online purchasing. With 92 million sq ft of warehousing space needed to meet demand by 2024."

By examining five-year data for online sales, take-up of warehouse space and retailers' warehousing networks, Knight Frank forecasts that for every billion pounds of online retail sales, 1.36 million sq ft of warehouse space is required.

This model suggests that the spike in online sales in 2020 alone will create demand for an additional 30 million sq ft of space, rising to a total of 92 million sq ft by 2024 when it is forecast that online sales will hit a sustained level of 32% of UK retail sales, though this could be as high as 50% for some sectors.





ePoint; digitally native, scalable logistics

The huge shift from shopping in-store to online has massively increased e-commerce demands on companies and brands.

They are required to promptly and efficiently fulfil increasing numbers of online orders, offering flexible delivery and return options for hundreds and thousands of orders, while also providing end-to-end tracking and integrating brick-and-mortar inventory into e-commerce networks.

ePoint is designed to help retailers increase throughput capacity, while reducing resource and order lead time

Strategically located to the east of London, ePoint Medway is 378,000 sq ft of custom-created space, dedicated to super-efficient inventory management, eCommerce fulfilment, value-added warehousing and returns processing.

Noatum Logistics' ePoint has been designed to provide retailers and fashion brands with a scaleable eCommerce resource, so that they can grow this critical channel, safe in the knowledge, that however quickly demand spikes they will have the capability to fill online orders and offer flexible delivery and return options, with integrated tracking and sales platform management.

The blurring of boundaries between in-store sales and e-commerce fulfilment is driving the adoption of resources, technology and tools designed specifically for the management and logistics of online orders.



The eCommerce retailer

Retail eCommerce teams tend to be very tech aware and innovative, which means they are open to new ideas and technological opportunities.



And because they are comfortable working with digital tools and dashboards, they understand the benefits of true end-to-end supply chain visibility and leveraging these assets to gain maximum benefit.

Having worked in the sector for decades Noatum Logistics are retail and fashion specialists, continuously evolving to meet the changing needs of retailers, brands and their sales channels.

The ePoint conveyor system flexes to each SKU's sortation needs and handles peak volumes simply and efficiently, without any issues

Systems, processes and infrastructure have been adapting from the birth of online sales, through the omni-channel revolution and the rise of the pure-play internet retailer, to create fully integrated eCommerce supply chains, from source to sale.

Noatum Logistics deliver your brand promise digitally, with visibility of every stage, to SKU level, with supply chain, inventory and sales dashboards.

According to a survey of 200 retail and consumer goods firms in the United States and Europe by consultancy Accenture, the COVID-19 pandemic has caused a significant shift in where brands made their sales.

Pre-crisis, the firms surveyed achieved 34% of their sales online, while during lockdowns, online sales doubled.





Riding the eCommerce wave

Noatum ePoint provides complete omnichannel customer solutions with specific value-added services for retail, wholesale and e-commerce, with 15 million consumers within a two-hour drive radius and 36 million in under four hours.



More than half the firms surveyed said they expected their direct online sales to rise from about 6% today to above 20% in three years, but half the retailers reported that their logistics were not scaled to support online business acceleration.

Falling behind the e-commerce curve can be devastating for retailers, leading many to close stores, in a bid to stave off insolvency. Pippa Stephens, retail analyst at data and analytics company GlobalData, said COVID-19 had accelerated a trend over the last few years of customers shopping online, and it was lack of decisive action to address this shift in consumer behaviour that has left retailers "in a far weaker position than it should be to withstand the current crisis."

With ePoint's 3D simulations we visualise your materials flow in real time, to maximise throughput

Today's supply chains demand highly integrated solutions, because businesses must be able to adapt in an instant, adding in new and emerging technology to solve challenges, adjusting for peak seasons and building new facilities - or day-to-day tasks like demand surges across a range, or changing a customer's order before it leaves the warehouse, or re-routing a day's orders in transit.

Retailers need to engage with digitally native supply chain experts such as Noatum Logistics, to help them build and maintain their growing e-commerce capacity, because for many brands the eChannels may be what protects their future.





noatum logistics

ePoint Medway

epoint.noatumlogistics.com

ePoint Medway

Noatum Logistics

James Swallow Way, Hoo, Rochester, Kent ME3 9GX

epointuk@noatumlogistics.com

• **Steve Hicks**

Contract Logistics Director, North Europe

T +44 (0) 1784 480109 | M +44 (0) 7968 327615

steve.hicks@noatumlogistics.com

UK HEAD OFFICE

Noatum Logistics UK Limited

Unit 1, Alpha Way, Thorpe Industrial Park, Egham, Surrey TW20 8RZ

T +44 (0) 1784 480100