

# Overcoming Disruption in the Consumer Sector

UK Powerhouse, January 2022





# Foreword

About this sector report

# Welcome to our UK Powerhouse Consumer Sector Summary Report.

Produced in partnership with the Centre for Economic and Business Research (Cebr), we explore the critical themes and issues faced by businesses as we move into 2022.

## **What does 2022 have in store for the consumer sector?**

It was a hugely challenging year for the consumer sector in 2021, and it increasingly looks like the start of 2022 will be another tough period to navigate.

At the start of December, Cebr, the economic consultancy which supports our UK Powerhouse campaign, forecasted a 35.4% increase in GVA for the hospitality industry in 2022 with retail sales expected to stay strong at 4.5% growth.

The spread of the Omicron variant, however, has the potential to dramatically change these predictions.

This summary report explains the challenges that have affected consumer businesses, and what is likely to continue disrupting the sector in the future.

It will also provide recommendations from both our legal teams and the CBI.

For a more detailed insight, read our full [UK Powerhouse report](#).



I hope you find this to be of value and if you have any questions, please do get in touch.

**Faye Bargery**

Partner

A woman with long, wavy blonde hair, wearing a white dress with black polka dots, is looking down at a piece of clothing in a retail store. She is surrounded by racks of various garments, including blue jeans and pink blouses. The background is softly blurred, showing more clothing racks and store fixtures.

# The State of the Consumer Sector

A deep dive into the pressures affecting retailers and hospitality & leisure businesses.

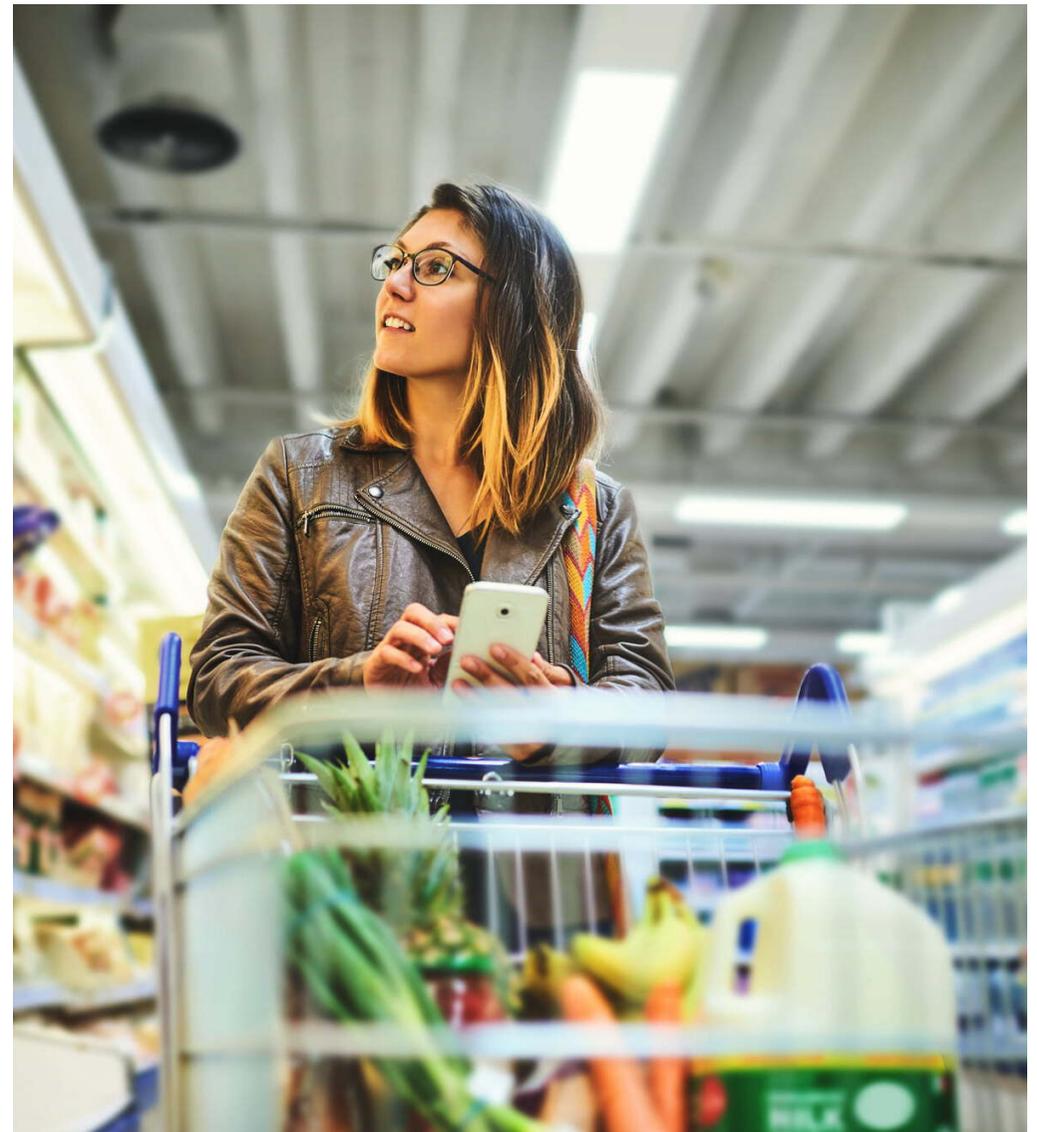
## The State of the Consumer Sector

The consumer sector experienced mixed fortunes throughout 2021. The post-pandemic shift to online purchasing persisted, but challenges were evident, with declining consumer confidence, store closures and job losses.

Unlike manufacturing, retail sales were less severely hit by the onset of the pandemic, expanding by 0.5% in 2020. Following the easing of some lockdown restrictions in April 2021, the reopening of retail stores saw sales pick up, resulting in a quarterly expansion of 19.2% in Q2 2021. This contributed to an increase in the GVA of retail sales (except of motor vehicles and motorcycles) by 13.7% in Q2 2021. But between February and March 2021, around 91% of fuel retail businesses stated that they experienced a decrease in their business turnover.

Despite the Q2 2021 growth in retail sales, they also saw a contraction of 1.3% in Q3 2021, with the summer months experiencing a decline in month-on-month retail sales volume.

This decrease is seen by some as a normalisation of consumer behaviour, with significantly higher activity following the easing of restrictions attributed to pent-up demand and increased savings over the pandemic. With lockdown restrictions having eased for some time, retail sales are possibly returning back to normal levels.



### **Consumer confidence**

Having declined for the third consecutive month, consumer confidence now stands at -17 points in the GfK Consumer Confidence Index for the month of October 2021. This has raised concerns that the contraction in retail sales volume isn't simply a normalisation of consumer behaviour.

Consumers are growing increasingly pessimistic about the general economic situation in the UK, amid concerns over fuel and food shortages due to supply disruptions, rising inflation squeezing household budgets, the likelihood of interest rate hikes impacting the cost of borrowing, and rising COVID-19 rates. It's likely that the current economic outlook, which looks gloomier than it did back in April 2021, is prompting consumers to be less willing to loosen their purse strings and spend more.

### **Surge in retail vacancies**

Statistics from April 2021 show that at least 167,450 jobs were lost due to COVID-19, with 48,379 being from the retail sector. However, vacancies in this sector stand at 91.6% above pre-pandemic levels, and this increase is likely to continue into 2022. Cebr also expects retail sales to grow by 10.1% in 2021, buoyed by the strong performance in Q2 and low base effects.

### **Government support**

The government has remained committed to supporting the retail industry in recovering from the effects of the pandemic. The Chancellor announced a 50% cut to business rates (up to £110,000) for the retail sector and one-off grants of up to £6,000 for eligible businesses. As such, retail sales are expected to stay strong in 2022, albeit at a slower pace, forecasting 4.5% growth in 2022.

### **Technology**

Technological disruptions have also changed the landscape of the retail sector significantly. A McKinsey & Co. report in June 2020 detailed how at least 20% of UK consumers shop entirely or mostly online. This statistic excludes the effect of the pandemic on the retail sector, and it's likely that pandemic-induced disruptions have bumped this figure up. For example, groceries saw a huge surge, with an extra 5.7 million households shopping for their Christmas groceries online in 2020 compared to 2019.

With an increasing emphasis on online purchasing – a trend exacerbated by the pandemic – it has become imperative for UK retailers to adopt technology to stay profitable.

Data shows that online sales grew by 36% in 2020, which is the highest growth seen in 13 years, whilst retail sales fell by 0.13%, marking the lowest annual growth figure for 25 years. This online success continues as 55% of non-store retailers reported that their turnover had increased between February and March 2021.

The future of retail is set to be propelled by the adoption of technology and advanced analytics to meet consumers' changing expectations. The outlook of individual retailers will be highly dependent on how well they integrate technological optics into their daily functions.

### **Decline of the high street**

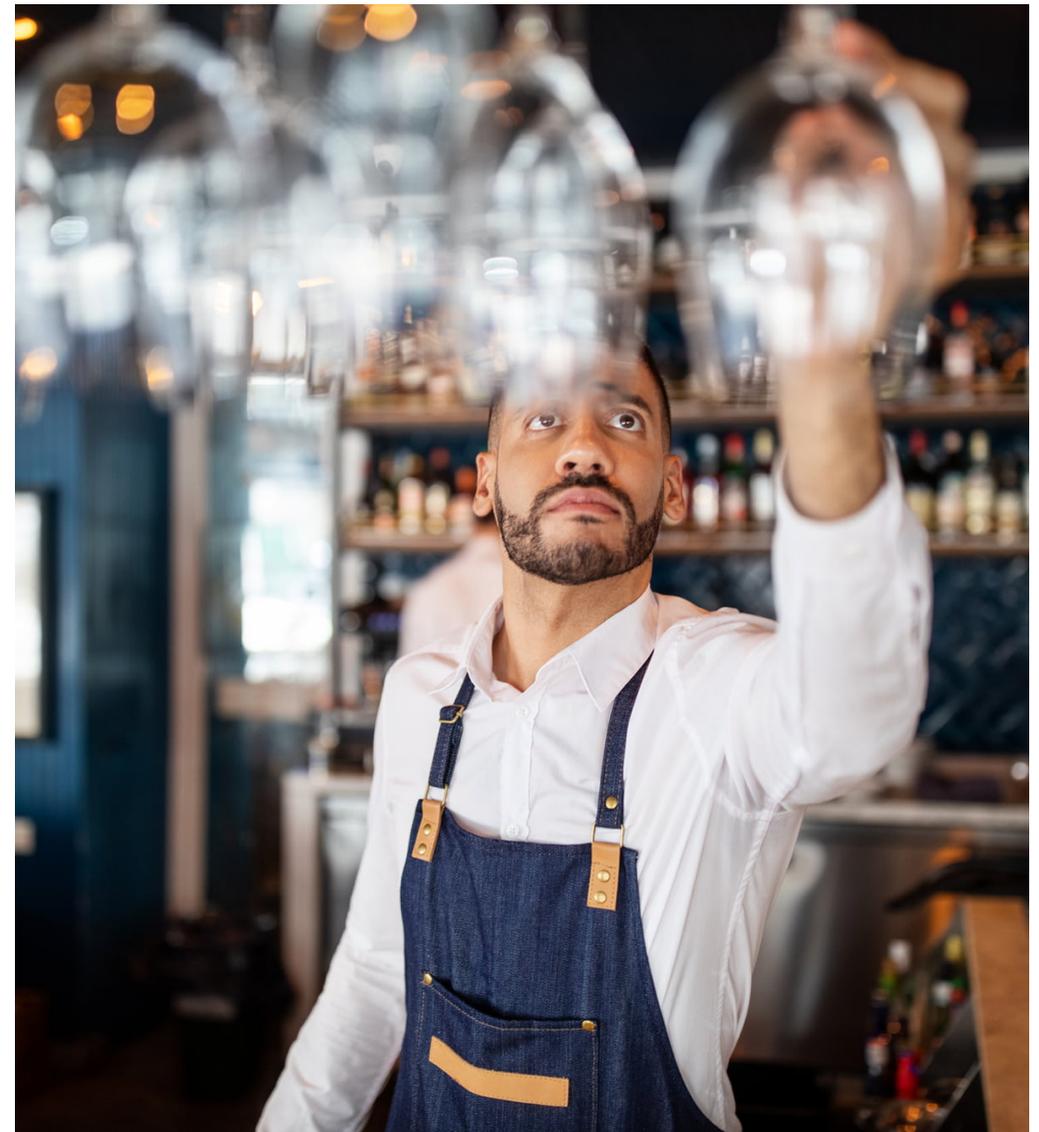
Retail margins have fallen by almost two percentage points since 2013 due to competition, persistent price pressures and declining space productivity. Multiple high street retailers, including John Lewis, Topshop and Debenhams, have closed down stores due to pandemic-induced difficulties, as almost one-in-five shopping centre units now lie empty, with many retailers opting to move towards online sales instead.

### **The hospitality industry**

Meanwhile, the hospitality sector was one of the hardest hit, experiencing a contraction of 41.7% in 2020 due to the pandemic. With the resumption of domestic holidays and the reopening of restaurants in April 2021, the accommodation and food services sector had a strong recovery in Q2 2021, with a quarterly increase in GVA by 87.6%, or approximately £11.6 billion.

The business rates cut to the retail sector also apply to the hospitality sector, and the government have announced an additional £1 billion in financial support for the hospitality sector, affirming their intention to help its recovery.

As such, Cebr forecasts the accommodation and food services industry to grow by 29.4% in 2021. This recovery is also set to continue into 2022, with a forecasted growth of 35.4% for the industry. However, the recent spread of the Omicron variant has the potential to dramatically impact these predictions.



# Drivers of Disruption

The headwinds affecting businesses' post-pandemic recovery



# Drivers of Disruption

Businesses are facing unprecedented levels of disruption. Our insight from sector-based analysis shows five key themes:

## Staff shortages

The pandemic has changed the way people think about work and life. Employees are realising that their skills are in demand, which gives them the opportunity to look for and negotiate a better deal elsewhere. Indications are that 40% of workers are likely to move in 2022, of which 18% are certain to move.

Therefore, employers need to understand what their employees want and why they're leaving. Is it about pay? Or are they unhappy with other elements of the working environment?

## Supply chain issues

Many businesses have been affected by the [global semiconductor chip shortage](#), which isn't expected to improve until 2023. Companies with large delivery and transport operations integral to their core business have felt it the most – an obvious area for additional costs being unplanned maintenance of older stock.

On top of this, the staffing problems have been evident in logistics and transportation, with a [shortfall of 100,000 qualified HGV drivers](#), further disrupting the supply chain.

## A worrying economic outlook

Concerns over fuel and food shortages, rising inflation squeezing

household budgets and the cost of borrowing likely to increase as interest rates rise, has led to growing pessimism. And those are on top of the ongoing spectre of COVID-19. Consumer confidence has also declined for the third consecutive month.

## Brexit

With free movement of people, imports and exports becoming more difficult because of new immigration rules, trade barriers, and increased red tape, it'll take some time before all Brexit-related issues are laid out. These factors are already adding to the staffing and supply chain issues previously discussed. Groceries are particularly at risk. [Half of all food consumed in the UK is imported](#) and 90,000 workers are needed each year domestically to pick fruit and vegetables.

## The rise of innovators

The shift to online retail during the pandemic has led to the closure of a number of household brands. The future of retail looks set to be propelled by the adoption of technology and advanced analytics to meet consumers' changing expectations. The outlook of individual retailers will be highly dependent on how well they integrate technological optics into their daily functions.

The onset of the pandemic has also pulled forward digital disruption in the financial services industry. It's fuelled the demand of services provided by fintech start-ups, given that in-person banking services were unavailable when lockdown measures were in place.

# How to overcome disruption with innovation

Read the key recommendations from the Confederation of British Industry (CBI)



# How to overcome disruption with innovation

**Vanessa O'Donnell**, Senior Policy Adviser at the CBI, looks at recommendations for businesses ahead of 2022.

"This report has shone an important light on the disruptors impacting everyday businesses operations and the areas that will be prioritised in the future. While the pandemic, recent and systemic labour shortages, and the road to net zero each present unique challenges, they all share the ability to turbocharge innovation.

## Embrace technology

"From productivity improvements, new products and services, and refreshed business models, here at the CBI, we've seen first-hand how many businesses are prioritising investments into cutting-edge technologies. This has unlocked growth, increased resilience and boosted agility.

"The business case for innovation is clear – those who invest in R&D and adopt new technologies enjoy increased turnover and profits, and are more likely to experience higher levels of productivity and growth. As our economy fires up again and we chart our path to net zero, the role that innovation will play in powering the success of individual businesses and the wider economy, as well as addressing societal challenges, is set to grow even further.



## Provide employees with the skills you need

"While the onset of the pandemic saw an acceleration of tech adoption, we're now at risk of losing this momentum. Research undertaken by CBI Economics chimes with the findings of this report that the key barrier to tech adoption is now skills.

This puts into sharp focus the urgent need to tackle labour shortages if we're to avoid our access to talent from holding back the economy.

## Learn from others

"The risks are particularly acute for less digitalised firms and we must act now to prevent the gaps in adoption translating into significant gaps in business performance. One way this can be addressed is through best practice sharing. Our recent study showed that over half of organisations accessing tech support did so by learning from peer companies and business networks.

"The CBI has been leading the charge on these issues and our project Big Fish, Little Fish offers businesses a series of vital tools, as they seek to collaborate on innovation initiatives.

"But the government must do more to support the trend towards digitalisation.

This is crucial in our drive towards a more productive and levelled-up economy, with a high-wage, high-skill workforce.

"The new innovation strategy provides a valuable opportunity to foster a more supportive ecosystem, which better connects the various players across the system.

"Current changes to the regulatory framework and data protection regime must also ensure we incentivise rather than deter innovation.

"The CBI are now working with BEIS and DCMS to ensure the strategy, wider regulatory framework and the

Spending Review settlement deliver a truly world-leading innovation offer, which unlocks further business-led innovation.

## Go green

"Environmental sustainability is now firmly a boardroom issue, with two-thirds of organisations now citing this as a consideration when determining supply chain relationships, as well as new products and services.

"This transition offers real benefits for all businesses, with the potential to deliver growth through job creation and boosting exports. Embracing this disruptor also offers businesses a strong value proposition that can put them ahead of the game, with strong climate credentials being likely to lead to increased customer share, improved attraction and retention of talent and greater favourability with investors.

## Innovation is key

"While we're experiencing unparalleled levels of disruption to traditional business practices, there's much to be gained for those that embrace these shocks.

"Innovation is key to achieving this successfully and strategically, and we look forward to continuing to support our members as they chart their path through these unprecedented times."



Thank you for reading

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