

BRC / EY Future Consumer Index

| From pandemic to endemic, entering a post Covid society



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Much has happened since the latest wave of the Future Consumer Index was captured in October. The Delta variant seemed all but conquered in Western Economies, with vaccine rollouts successfully lowering hospital admissions and deaths. The Omicron variant has since risen to dominance globally, creating a mixture of responses to the virus from different Western Governments. The UK's light touch approach of reintroducing face coverings, a work from home mandate, and accelerating its booster programme, may not have stemmed case numbers but has kept hospital admissions to manageable levels.

Despite government mandated restrictions and the voluntary distancing effect seen when cases are high, the impact on industry was not as profound as expected. It appears that 2022 will be the year that we learn to live with the virus. What this means for consumers is less severe lockdowns which target workplaces, rather than shops or services; more regular vaccination campaigns; a higher risk of disruption during the winter months; and the risks associated with the virus become embedded, and more predictable.

As the worst effects of the pandemic continue to subside and the UK public begin to shift their perception of the virus as just another reality of life, what does that mean for UK retail and the British consumer? How many of the new trends, such as the move to home centricity, and health consciousness, identified during the pandemic will persist as we move forward? While the pandemic's direct effects might be receding, it has substantially changed the way that we consume and has introduced a variety of new pressures that will influence both retail and the British public's behaviours. We intend to answer these questions and more in this the latest wave of our Future Consumer research with EY.



Continuous disruption

It has been an incredibly challenging year for those responsible for quantifying retail performance, managing supply and predicting demand. As UK and European demand continues to see-saw in response to lockdowns, new variants and the inevitable recovery that follows, we have seen significant changes to rising freight and logistic costs, and spot shortages in some categories. Despite this, retail sales have remained buoyant, and consumer confidence indicators appear to be moving in the right direction. In October of 2021, 25% of consumers surveyed mentioned feeling better about their finances, compared to 12% in June of 2020.

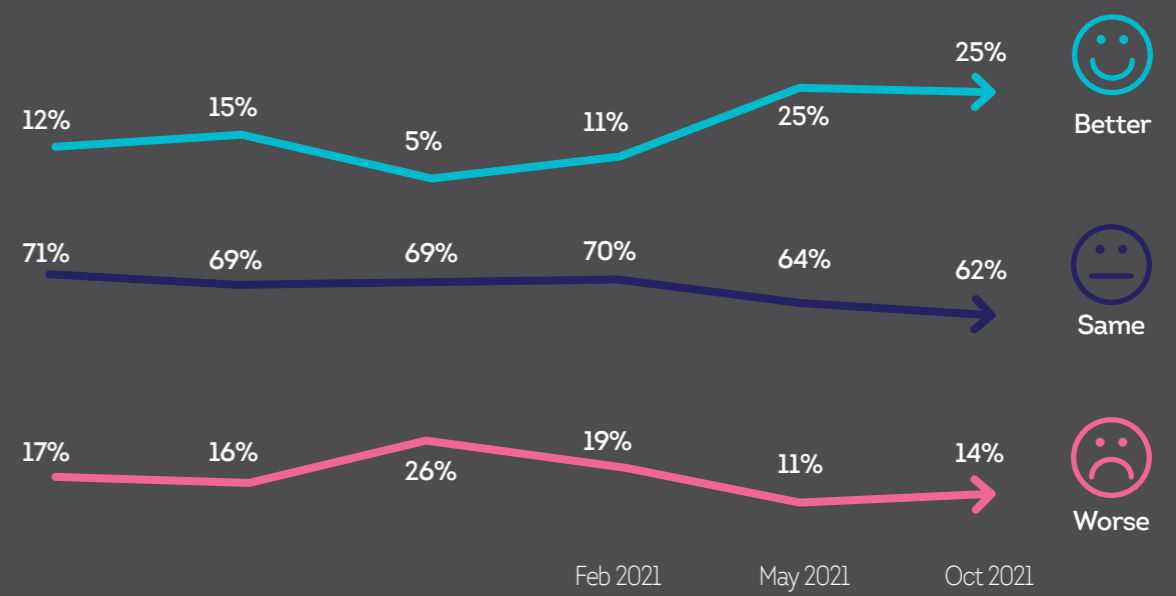
While consumer confidence has slowly improved throughout 2021, strong inflationary headwinds are a serious risk to future economic recovery. With the price rises for many goods and services accelerating sharply, we are likely to see consumers begin to cut back on non-discretionary spending and switch down from more premium lines to cheaper alternatives for items they do consider essential. This concern was evident in EY's Future Consumer Index, where 37% of respondents expect to not be able to buy what they want in the next 6 months, only essentials. Annual headline CPI inflation increased to 5.4 per cent in December from 5.1 per cent in November, with analysts expecting this to continue rising in the first half of 2022. Rising energy prices are one of the primary contributors to household inflation. With the energy price cap rising again to 51% on April first, it is anticipated this will put increased pressure on already strained household budgets.



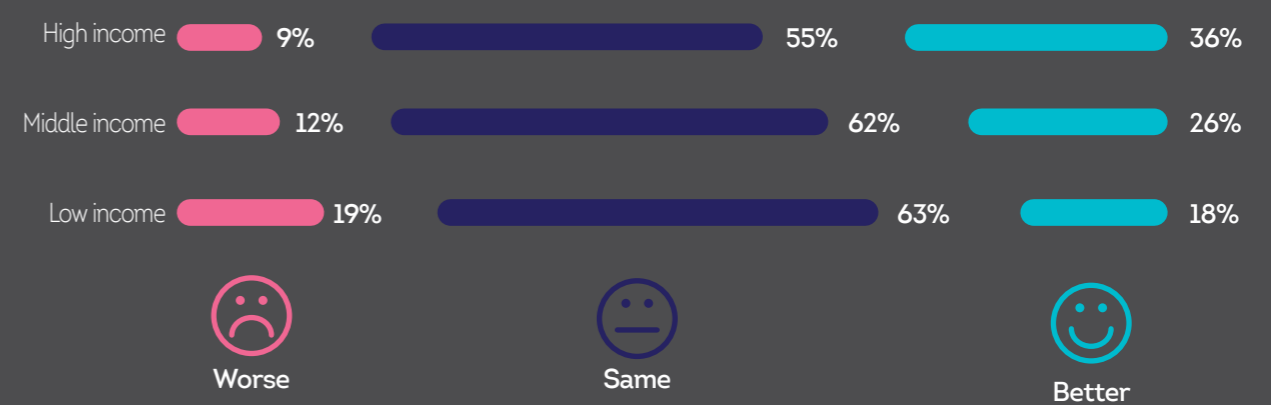
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Consumers are starting to feel more upbeat, although there are differences depending on income levels

Feelings compared to last month*



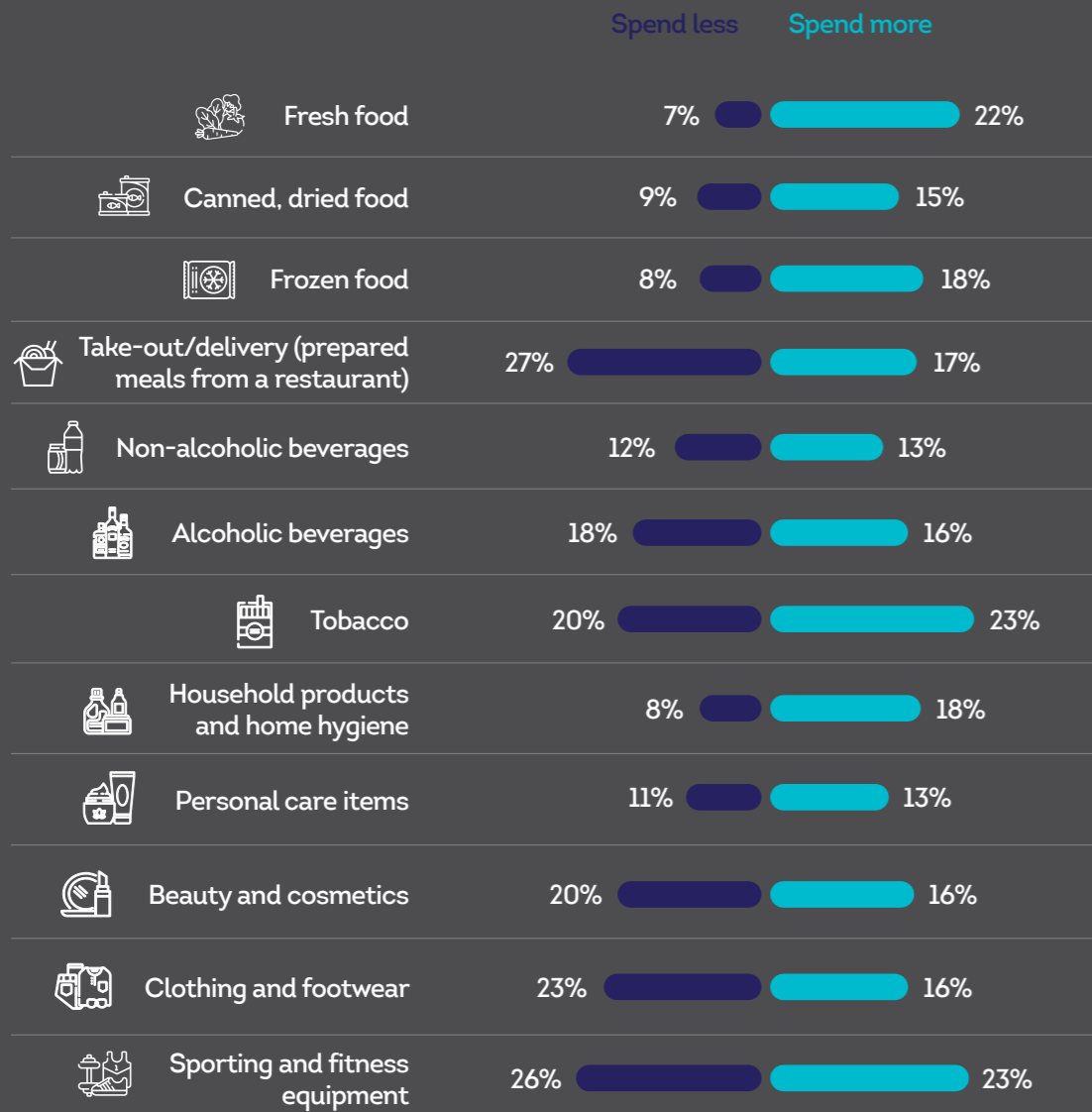
Feelings by income group, October 21



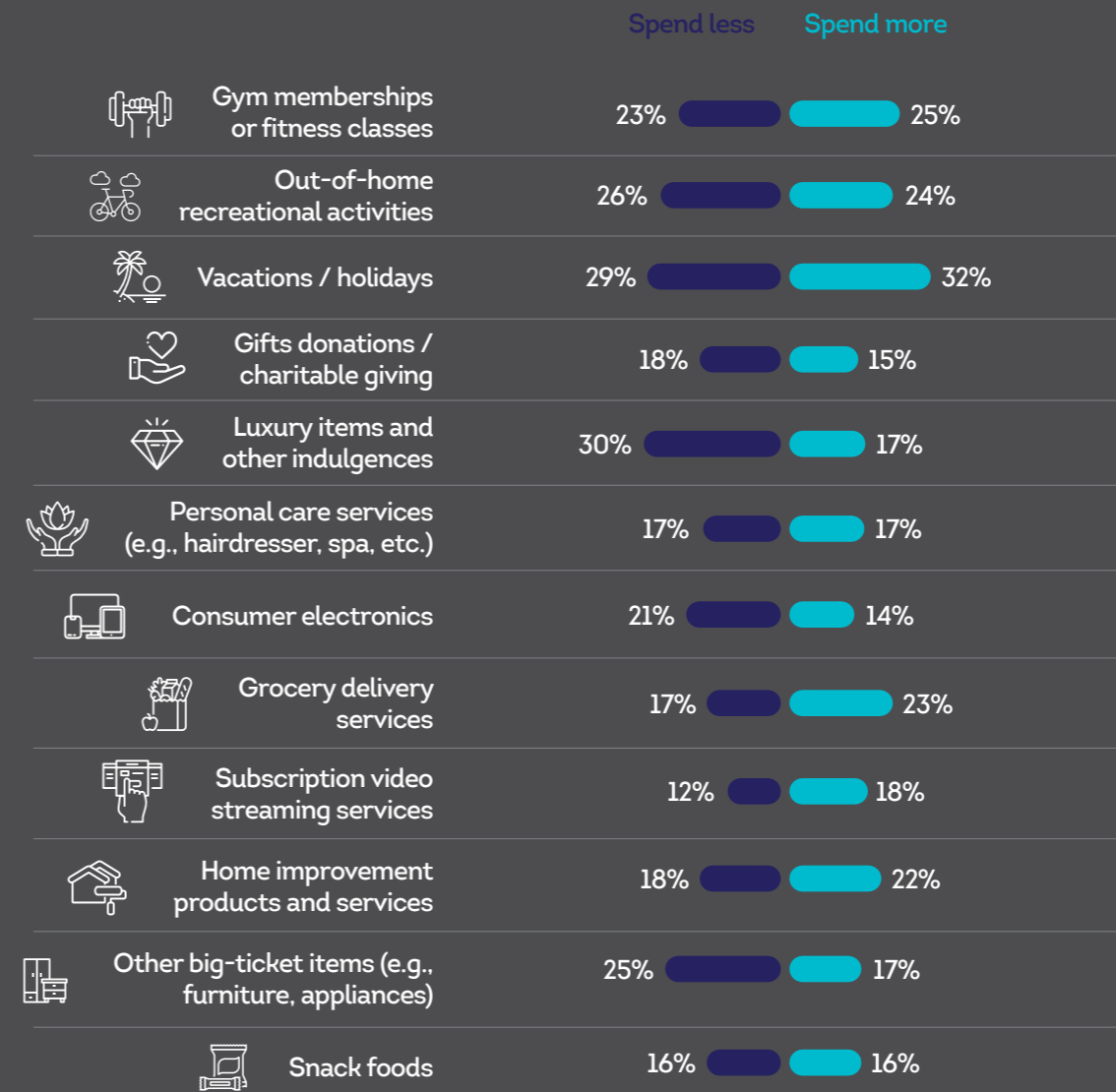
Despite rising inflation, more positive consumer sentiment, combined with pent up demand and lockdown savings from when consumption was low, could lead to increased consumer demand.

* In October 21, the question was asked compared to 3-4 months ago Source: EY Future Consumer Index, June 2020 to October 2021

How much, if at all, do you expect your household spend to change across the following categories in the next six months?



On January first, 2021, new border checks were introduced for goods originating from the European Union; a delayed effect of Britain leaving the EU. The bulk of these border entry requirements for products have been delayed till July 1st. While this delay may ease pressures in the short term, underlying difficulties for businesses still need to be resolved, which may result in increased cost of goods, and further exacerbate supply chain issues.



Whatever a particular disruptor's origin, be it economic, societal, geo-political or pandemic related, consumers have learned to live with uncertainty. Expectations of a 'return to pre-pandemic' ways have generally subsided, with almost half of respondents in EY's Future Consumer Index anticipating the way they live to remain significantly changed after the pandemic ends. Two thirds also said that new behaviours adopted during the pandemic feel normal now.

| Home life

Online acceleration and the role of the store

The rapid rise in share of sales made online during the pandemic was not particularly surprising, but the level at which they would remain was always far from certain. We have seen the 'shift to digital' establish itself as a new baseline across most categories. In EY's latest survey, 45% of consumers said they visit stores less, and 37% said they are now purchasing items they would have previously bought in store online, instead.

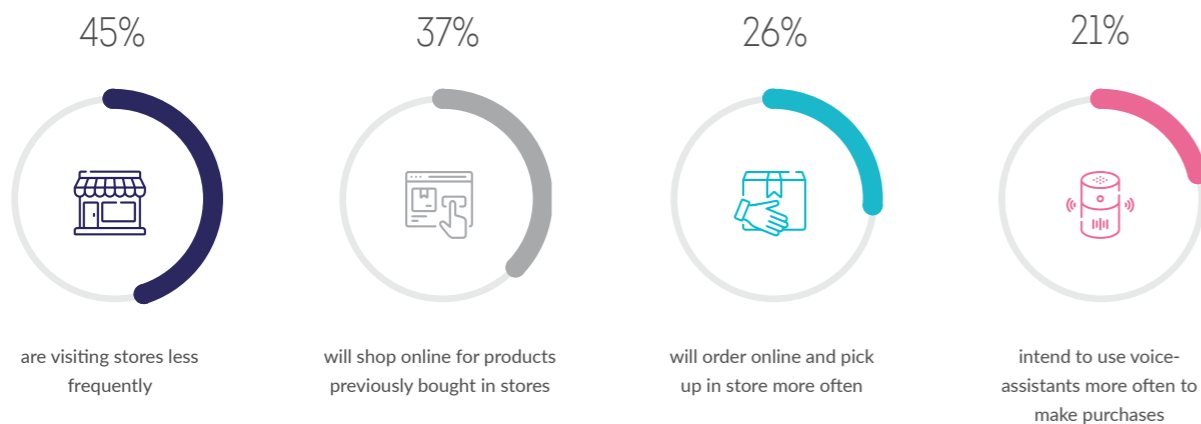
Looking to the BRC Retail Sales Monitor, share of online Grocery spend made online has hovered at around 7% between 2015 and 2020, however this doubled to 14% over the course of the pandemic. Grocery retailers also embraced new and innovative models such as dark supermarkets, and rapid last mile delivery services, such as Deliveroo and Uber Eats, to meet a sharp rise in demand for home delivery.

Across non-food, this trend was more mixed. Beauty saw the smallest shift to online moving from 13.5% pre-pandemic to 17.9% in 2021. Computing, while already higher than most categories, moved from 57.2% pre-pandemic to 77.2% in 2021. Interestingly, 57.8% of footwear sales were made online in 2021, despite the products facing return challenges due to sizing selection when made online. This effect might be a hangover of concerns that shoe stores were 'high contact' retail environments during the pandemic.

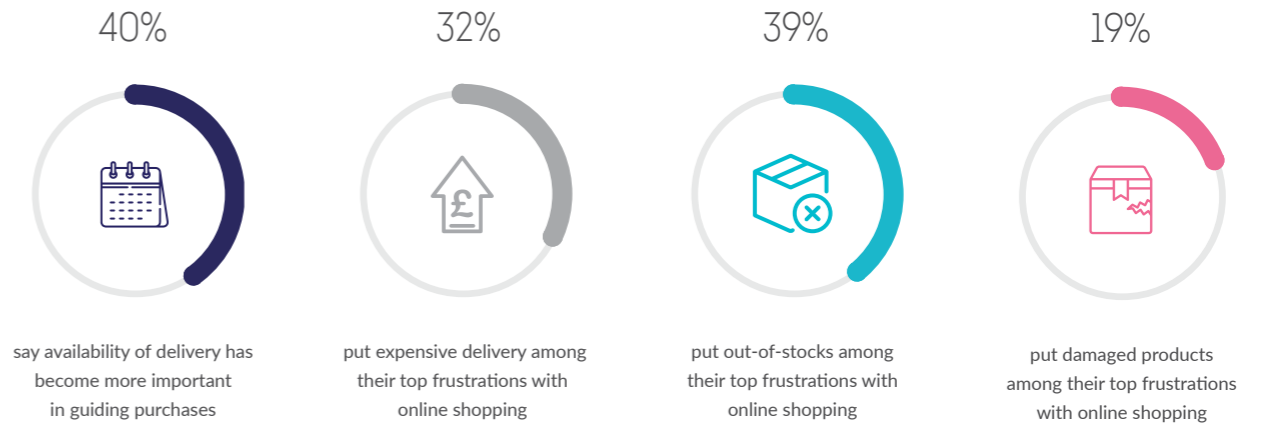
“Retailers will need to rethink the way they engage with consumers going forward, the roles of online and stores are becoming far more blurred”.

The rapid growth of e-commerce comes with its own growing pains: customer experience will need prioritising to maintain online momentum

The digital shift is established



But experience needs to improve



Source: EY Future Consumer Index, May 2020 to October 2021

What is clear is that consumers are becoming far more discerning, with online experience playing an increasingly key role in retailer selection. 40% of consumers stated that the availability of delivery was a key concern guiding their purchases, and 39% mentioned that lack of stock was a core frustration. Delivery windows, artificially lengthened by supply chain issues, will also be less tolerated moving forward.

Retailers will need to rethink the way they engage with consumers going forward. The roles of online and stores are becoming far more blurred, and the rise in online adoption has led consumers to expect the same level of transparency and convenience from their physical locations. Retailers must quickly adopt new technologies and rethink the way they operate in order to satisfy these new expectations.

Key findings

Consumers are increasingly enjoying the value of digital experiences. Companies must deliver the same quality in the physical world and enable seamless and consistent experiences across both realms.

72%

will make purchases during the next big shopping events with a mix of online and in store

Flexibility and wellbeing



These behavioural changes represent both physical and mental, with 61% of consumers stating they would be more aware of their physical health going forward, and 38% stating that any changes made in their approach to mental wellbeing will persist beyond COVID-19".

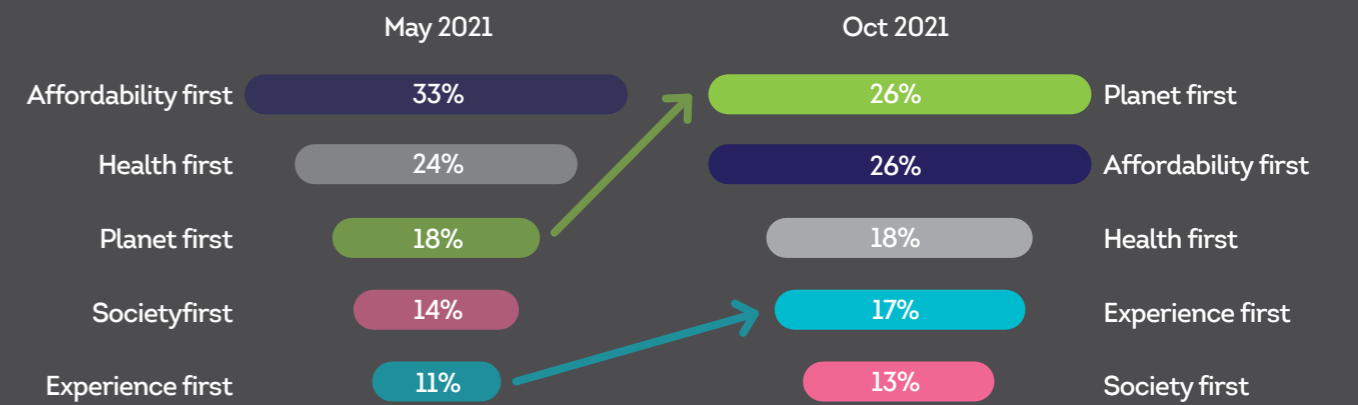
The seismic shifts to both work and leisure have caused consumers to think much more carefully about their own health and wellbeing. It is now expected that most businesses that are able will operate a hybrid working model, shifting many activities into or near the home. A little over half of our respondents stated that they now work in a hybrid model, with 39% saying that this allowed them to shift many non-work-related activities such as shopping, into their working hours. It is also expected that a larger share of other activities such as fitness, wellness, and eating will take place at home, than prior to the pandemic.

Wellness practices, adopted to cope with the worst of the pandemic, induced lifestyle challenges which are expected to persist as we move forward. These behavioural changes represent both physical and mental, with 61% of consumers stating they would be more aware of their physical health going forward, and 38% stating that any changes made in their approach to mental wellbeing will persist beyond COVID-19. This also extends to the product choices that consumers will make; when discussing product purchasing drivers, 45% of consumers agreed that products labelled as 'Healthy' are a core driver in their decision-making. The market has responded through the launch of a slew of new health and wellness apps, new product lines and M&A activity.

Emerging consumer segments have pivoted in the last few months as consumers move on from the pandemic

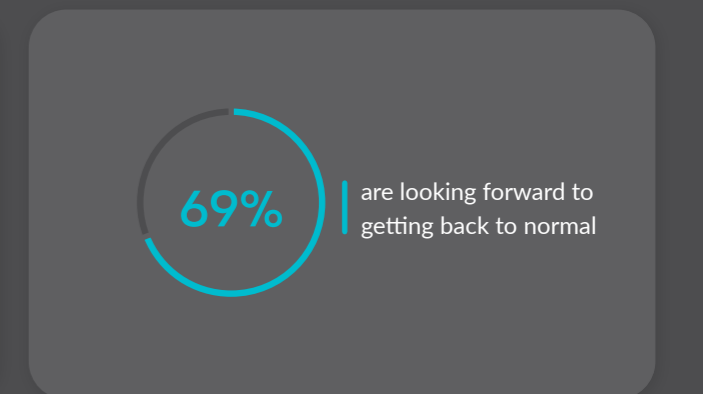
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PLANET FIRST
 More mindful consumption
 Optimistic about the future
 Favouring local products
 Expecting transparency
- 
AFFORDABILITY FIRST
 Financially concerned
 Largely unchanged
 Saving, not spending
 Price comes before planet
- 
HEALTH FIRST
 Most concerned
 Uncomfortable in shared spaces
 Focused on health and safety
 Cutting discretionary spending

- 
EXPERIENCE FIRST
 Unconcerned about COVID-19
 Financially & socially optimistic
 Living for the moment
 Looking for personal benefit
- 
SOCIETY FIRST
 Owning fewer, better things
 Believing together is better
 Expecting long-term life changes
 Feeling positive about the future



Key findings

COVID-19 is not a temporary disruption. Cooking more at home or buying online will stick - companies must fundamentally change to meet new consumer demands and behaviours.



Transparency and sustainability

In a previous edition of this report, we discussed sustainability as a concept, and the various challenges in its interpretation and execution as a retail strategy. We raise it again due to the unprecedented rise in importance of this topic among the Future Consumer Index' respondents.

In May of 2021, the largest segment in the Future Consumer Index was 'Affordability First' representing 33% of respondents. This was understandable, given the uncertainty the nation still faced at the time. The 'Planet first' segment was the third largest, representing 18% of the population. In just five months 'Planet first' has become the joint largest consumer segment along with affordability, each representing 26% of consumers. These two trends match patterns in disposable income, with many poorer households seeing incomes squeezed by higher cost of living, while many other households – particularly for office workers – seeing significant savings in travel costs and childcare.

'Planet first' is an attractive consumer market for those who can afford it, but 'Affordability first' may be set to grow in the future as energy prices and National insurance rises come into force in April. It is clear that a shift in values is occurring for most UK consumers, with many attributing improved quality of life to 'better' consumption, rather than 'more' consumption.

Mounting scrutiny is calling for increased transparency which requires the integration of new technologies



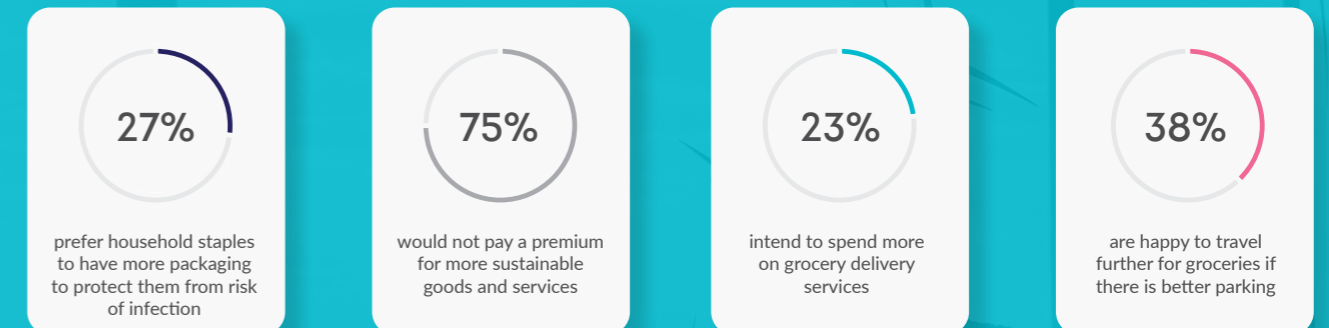
Transparency is becoming a baseline expectation, but those who can deliver authenticity will command greater trust among consumers.

Sustainability is becoming more prominent but there is a gap between intentions and actions

Good intentions



Bad behaviors



This is one potential area of alignment for both cost and planet conscious consumers; a planet first' approach can also be affordable; 52% of consumers are now looking to repair items first, rather than replace them. Other sustainable actions that consumers have begun to adopt include 39% stating that the pandemic has led them to attempt to source locally before buying elsewhere and 46% saying that environmental impact will be a top priority in choosing what and where they buy.

While most consumers' intentions are good, there remains the same gap between intention and action as in previous waves of this survey. Despite previous responses stating the importance of sustainable provenance in their purchasing behaviour, 75% stated they would not pay a premium for it.

With prices for many goods rising via other up-chain cost increases, this could pose challenges for retailers offering costlier sustainable items. Retailers should focus on finding new ways of making the carbon footprint, and other sustainable credentials, from product consumption clearer to customers. This could take the form of a standard rating system on products. This level of transparency in showing why the price is higher on a sustainable product may break down the intention / action barrier by showing the good that price premium achieves, e.g., send a child to school or pay a living wage to labourers.

Conclusion

We face a very new world, with new challenges. Consumer expectations are evolving at a pace not seen in recent times, and in a more volatile manner. We face a market in which rapid adaptation to ongoing disruption will mean the difference between success or failure. One where consumers are far more sophisticated in their buying behaviours and educated about products and supply chains than ever before, and where digital execution will be the core component to future growth. Retailers will need to keep many things at the forefront of their mind.

As consumers divide themselves into different categories – from 'Affordability first' to 'Planet first' and more – it will be essential for retailers to tailor their communications to each audience. This will become more important as rising prices, and the cost of living crisis this creates for many, become a political and reputational issue.

Product ranges will also need to match the communication strategies. Firms must look to enlarge consumer options for sustainable and ethical products; something seen, for example, in the explosion of vegan ranges of everything from food to clothing. Meanwhile we may see a return of budget ranges, which many retailers reduced or phased out prior to the pandemic.

Consumer trends are changing faster than ever before. Retailers must be flexible and adapt if they are to thrive.



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Helen Dickinson OBE, Chief Executive of the British Retail Consortium, said:

“What is mind blowing, is not the changes that are happening in retail, but the pace at which they are happening. We have seen a decade of transformation in twelve months. The retailers who will come out of this pandemic the strongest are those who are able to anticipate and adapt to these changes. Retail has shown itself to be incredibly robust, but it must continue to be so throughout the recovery if it is to thrive.”

“Working with EY, the British Retail Consortium is tracking the many changes in consumer sentiment. We are looking at the main drivers of future consumption to help retailers stay ahead. From price to sustainable practices to the experience – there are many ways brands will seek to stand out in an industry of intense competition. The BRC will use this to help set the economic and policy environment that enables retail businesses to thrive and consumers to benefit.”



Silvia Rindone, EY-Parthenon UK&I Retail Lead, Ernst & Young LLP, said:

“It has become clear that consumer values have changed permanently during the pandemic, driving a heightened awareness around what and how they buy. Factors such as sustainability, social impact and actual need are increasingly important to consumers, but affordability is still a key influencer. Value for money and price remain important as consumers are thinking more carefully about how they spend – a trend set to continue against an economic backdrop of rising energy prices and inflation. Our research shows that consumers are cautious about how they spend their limited disposable income and they are becoming more savvy about what they buy. They are increasingly looking for value, and to buy and consume better. The retailers that can adapt to meet these needs will thrive.”

The BRC and EY

The BRC and EY are delighted to be working together to bring you the very latest in research into the future consumer. We've created this report exploring EY's Future Consumer Index to help leaders understand and track emerging consumer behaviours and sentiment around the world. Over the coming year, we'll identify the new trends we see emerging – asking which are temporary reactions to changing circumstances, and which point to more fundamental shifts.

About BRC

The BRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

Retail is an exciting, dynamic and diverse industry which is going through a period of profound change. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.

The BRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership comprises over 5,000 businesses delivering £180bn of retail sales and employing over one and half million employees.



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About EY

At EY, our purpose is Building a better working world. Consumer products and retail companies are operating in a brand-new order, a challenging environment of spiralling complexity and unprecedented change. Demand is shifting to rapid-growth markets, costs are rising, consumer behaviour and expectations are evolving, and stakeholders are becoming more demanding. To succeed, companies now need to be leaner and more agile, with a relentless focus on execution. EY's global teams enable our worldwide network of more than 44,000 sector-focused assurance, consulting, strategy, tax and transaction professionals to share powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can assist you in making more informed, strategic choices and help you execute better and faster.



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