



THE SHAPE OF RETAIL

CHANGING CONSUMER VALUES:
BUILDING A COMPETITIVE PROPOSITION

June 2022



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Introduction



Understanding shifts in consumer values lies at the heart of survival for many retail and consumer brands.

Successive waves of disruption have permanently altered much of the landscape. The rise of digital, the shift to online, a global pandemic, and geopolitical tensions all forcing changes in ways that were once unimaginable.

A combination of rising costs of global commodities (e.g. oil, natural gas, grain, paper), transport (e.g. shipping, containers), labour shortages and ongoing disruptions from the pandemic have caused significant cost pressures which continue to filter through the supply chain.

The speed and magnitude of these pressures differ widely by country and industry, based on factors such as the length and complexity of supply chains, hedging strategies, margins and supplier contracts. Nevertheless, consumer prices remain on an upward trajectory. Some forecasts predict double digit inflation by the end of 2022 for major economies across Europe, urging central banks to carefully balance tightening monetary policy with economic growth.

FIGURE 1:

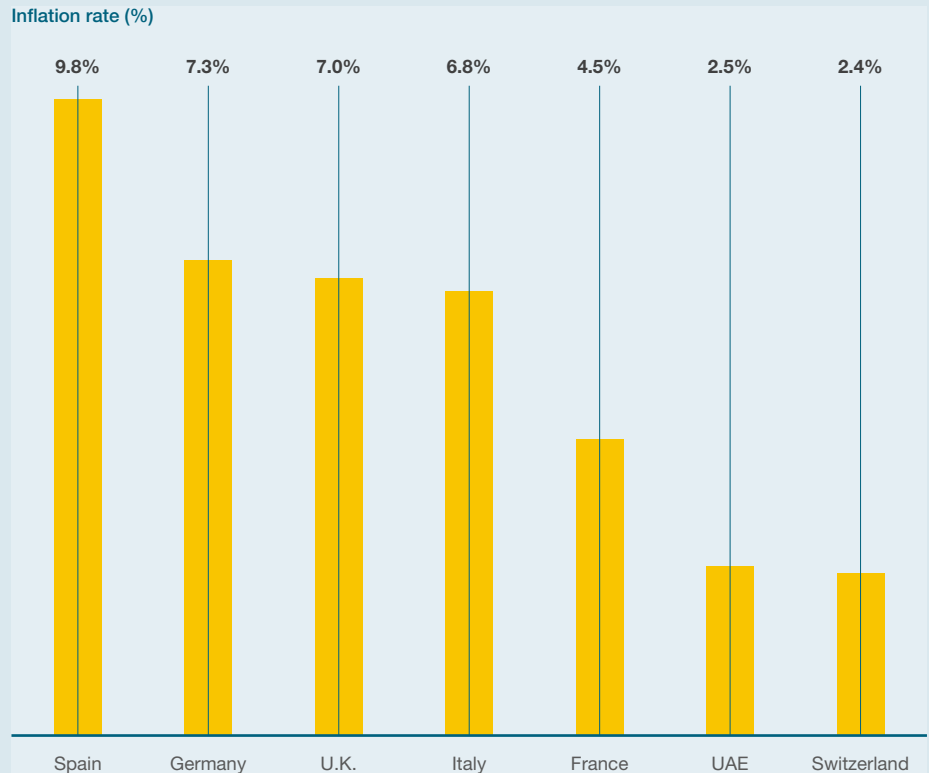
Inflation has reached 50-year highs across some major European countries.

SOURCE:

Refinitiv – Harmonised Consumer Price Index (March 2022).

NOTE:

UAE latest data available is Dec 2021.



The Bank of England raised interest rates for the fourth consecutive time in May, reaching the highest level since the global financial crisis. Meanwhile, the European Central Bank (ECB) has confirmed it will end its net asset purchases, opening up the possibility of a rate hike which some policymakers hinted could come as early as July 2022.

Against this backdrop, households are transitioning from an era characterised by a pandemic, towards one of economic uncertainty. Consumer values (and behaviours) are likely to be further remoulded to cope with a different set of challenges; values based on factors such as product type, channel, price point, sustainability and expectations within the customer journey.

Households are transitioning from an era characterised by a pandemic, towards one of economic uncertainty.

As a result, retailers and brands will need to adapt their propositions to meet an increasing number of cost-conscious consumers with squeezed finances, whilst battling rising operating costs and ongoing supply chain disruption. This will be tough for many.

Retailers and brands will need to adapt their propositions to meet an increasing number of cost-conscious consumers.

Consumer values are based on various attributes such as cost, quality and convenience, amongst others. The insights contained within this report are essential for businesses to better understand how consumer values are expected to evolve throughout 2022-23 (and beyond), and how retailers and other consumer-facing businesses can build their strategies and operating models to succeed in the current environment.

Section 1 of this report outlines a framework to measure consumer values. Section 2 explores megatrends shaping changes in consumer values, and the final section looks at strategies that businesses must embrace to adapt to current and future changes in consumer values.

The research contains data-driven insights developed from nationally representative consumer panel surveys comprising over 5,250 households across France, Germany, Italy, Spain, Switzerland, UAE and the U.K.



Part one:

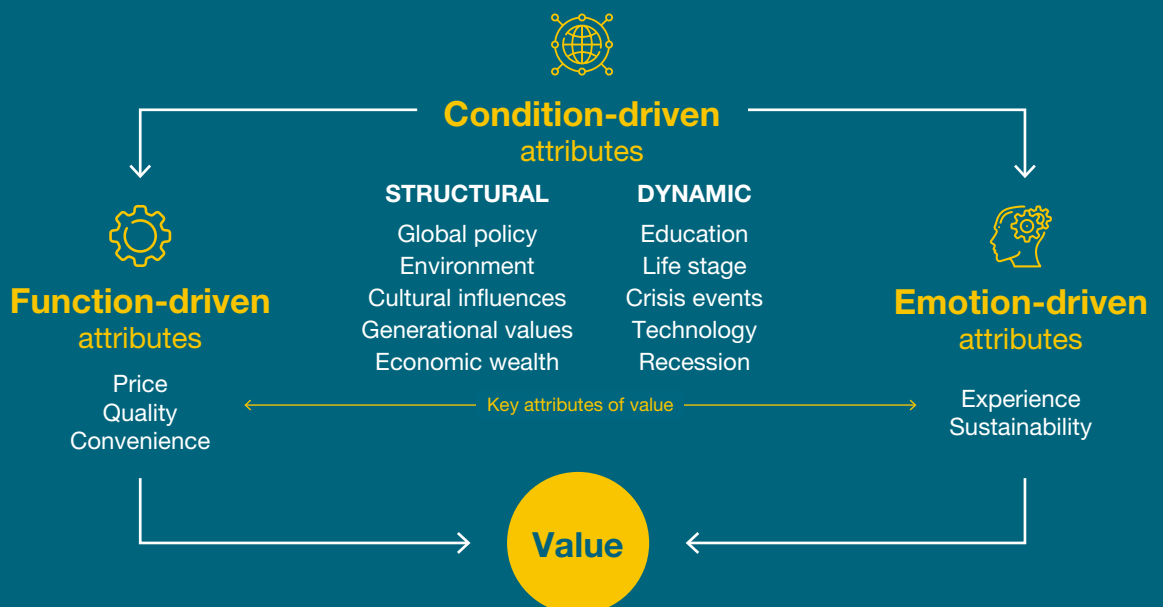
Defining value and the five consumer archetypes

Understanding consumer values is critical to building a strong and competitive value proposition. It forms the basis of securing customer loyalty as shoppers consider purchasing items that offer the highest perceived benefit for the lowest cost or effort.

The consumer value framework (Fig. 2) encompasses factors such as economic development, life stage, income, education and many others. It is dynamic and evolves with time. Our research shows that the consumer path to purchase is influenced by perceived value which is derived by a continuous trade-off (benefits vs. sacrifices) between five key attributes:

1. Price
2. Quality
3. Convenience
4. Experience
5. Sustainability (ESG)

FIGURE 2:
The consumer value framework



Our research reveals five consumer value archetypes (Fig. 3), based on how consumers across the seven countries perceive and rank the importance of the attributes when purchasing retail products and services.

Proportion of respondents (%)

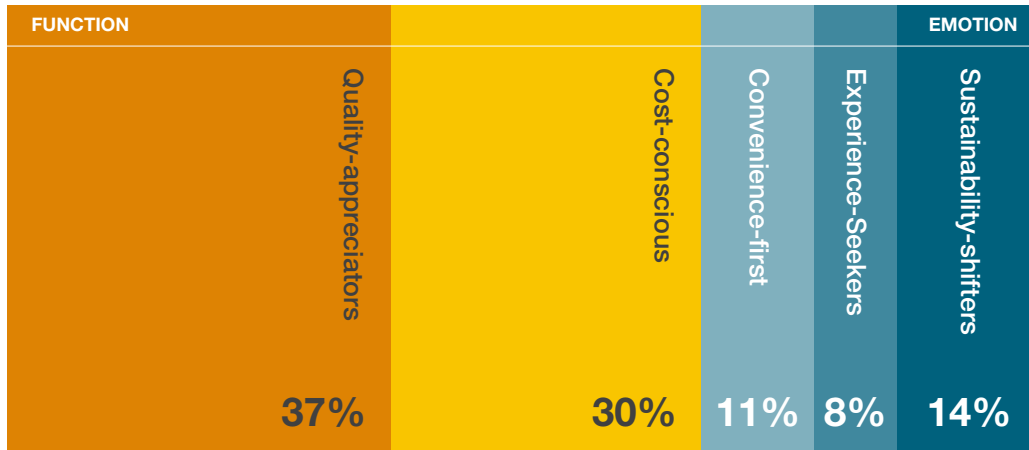


FIGURE 3:

The consumer value mosaic:
Five customer value profiles

SOURCE:

Alvarez & Marsal and Retail Economics

1. **Quality-appreciators** are often aged 55 or older. Quality is perceived as the most important value when purchasing products, with consideration primarily placed on materials and brand, above low prices. From the countries analysed, these consumers are more likely to come from UAE and Switzerland, reflecting higher average incomes. Over half (55.0%) of Quality-appreciators value ease and access to product information, enabling judgement on product sourcing, materials and likely longevity.
2. **Cost-conscious** are more likely to be younger consumers, but ultimately the value captures a broad spectrum of ages. This cohort is primarily concerned with getting value for money from selected brands, retailers and products based predominantly on lower prices. These consumers look for pricing transparency and value access to product information to make informed choices. They are least likely to pay extra for sustainable products.
3. **Convenience-first** consumers reflect a broad mix of ages. This group often desires immediacy and frictionless customer journeys. They select retail brands based on how well they align with their behaviour, and are often willing to pay more for brands that 'get it right'. Convenience for this group is less about finding promotions and deals, and more about understanding availability, simple payment and easy returns.
4. **Experience-seekers** are nearly twice as likely to be shoppers aged under 25 than over 55 years old. These shoppers are looking for meaningful interactions with retail brands, where entertainment, education, environment and escapism adds value to the overall transaction. This group is most likely to seek entertainment when shopping, and value inspiring environments both in-store and online.
5. **Sustainability-shifters** are typically Millennials and Gen Xs. These consumers increasingly embrace social causes, shopping with intent by seeking products and brands that align with their values. Six in ten consumers within this group would be willing to pay more for sustainable products, with over a quarter (26.2%) valuing sustainable sourcing as the most critical retail ethical practice.

The consumer value proposition

Despite notable international differences (e.g. market players, online infrastructure, competition), consumer values across the countries analysed remain remarkably consistent (Fig. 4). Price and quality comprise the main two constituents of the consumer value set across all markets (except for Switzerland where convenience is deemed marginally more important than price).

Interestingly, UAE and Switzerland have higher proportions of 'Quality-appreciators', and the lowest proportion of 'Cost-conscious' consumers. This finding is likely to reflect higher average incomes in these countries.

The U.K. ranked highest for consumers being more function-driven than any other country, followed by France and Spain. This is likely due to the U.K. having one of the most competitive, concentrated and digitally-developed markets across Europe. Arguably, this has created a more demanding consumer whose values are driven by low cost, high quality and seamless access to goods. With inflation hitting 9.8% in Spain in March 2022 (a near 40-year high), almost four in ten consumers are primarily driven by low-costs. This highlights the importance of 'condition-driven' influences (e.g. government policy, strength of regional economies, cultural influences) within the consumer value framework.

Country comparison

Proportion of respondents (%)

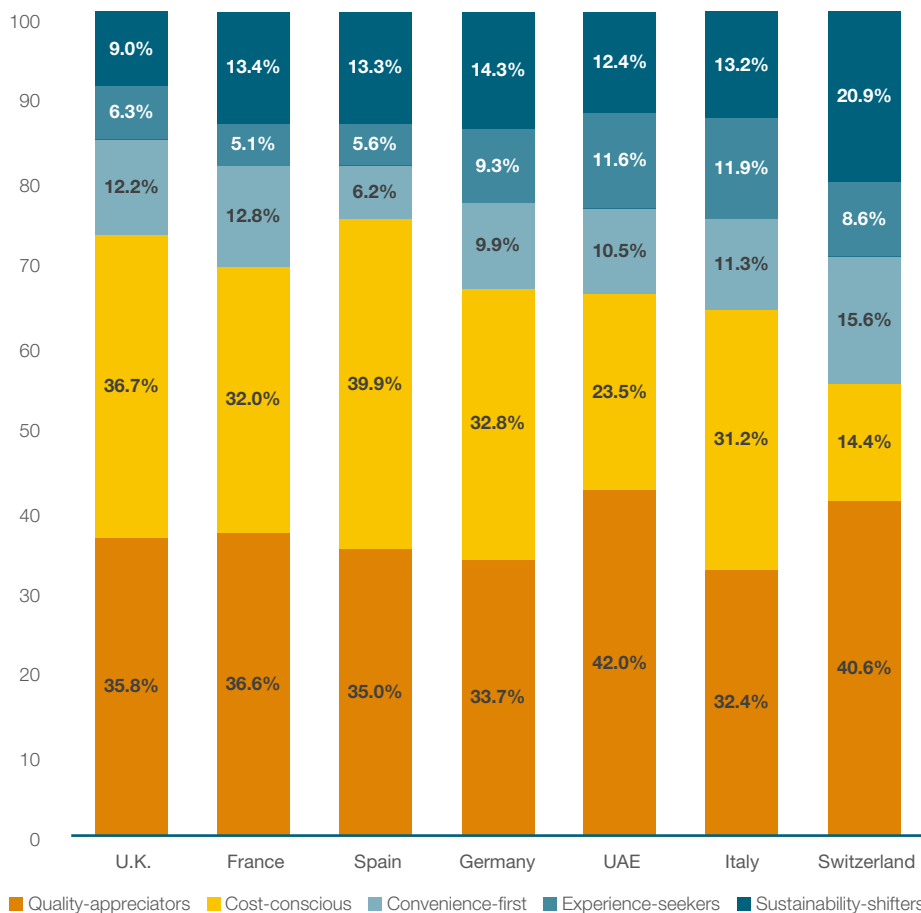


FIGURE 4:
The consumer value proposition differs across markets

SOURCE:
Alvarez & Marsal and Retail Economics

Part 2:

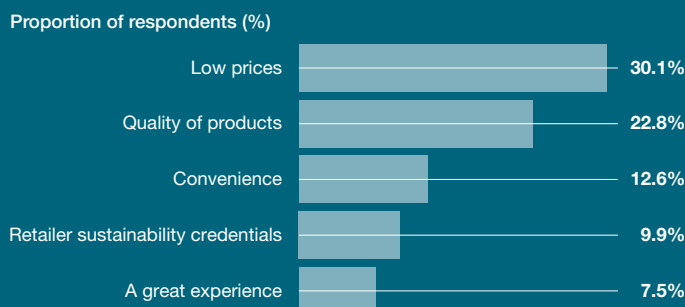
Megatrends shaping change in consumer values



Covid-19 changed the way people work, communicate and shop, and forced people to reassess their values which resulted in behavioural change. For example, across Europe, 40% of consumers purchased a product online which they had only bought in-store pre-pandemic¹.

FIGURE 5:
Consumers have become more demanding of price, quality and convenience since the pandemic

Since the onset of the pandemic, have any of the factors you view as being important in what you look for when buying products from a consumer facing brand become more valuable?



SOURCE:
Alvarez & Marsal and Retail Economics

Now, consumer values are also being redefined. The exposure to new customer journeys and the disruption to everyday life have brought about a change in values for more than two thirds (68.8%) of consumers. Compounded by the emergence of the cost-of-living crisis, price (15.7%), quality (15.0%), and convenience (15.6%) became more valuable factors when buying from a consumer-facing brand since the onset of the pandemic (Fig. 5).

¹ Retail Economics and Alvarez & Marsal, Assessing the impact of Covid-19 on consumer behaviour across Europe, 2020

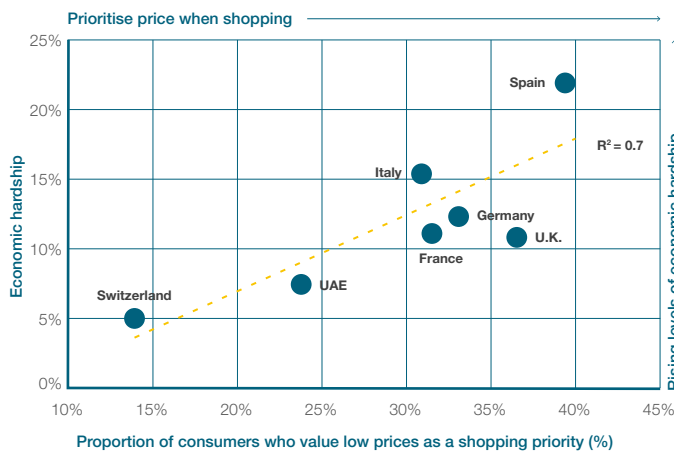
Our research identifies three key trends that are currently shaping what consumers value:

Trend 1: Flight to value as cost-of-living crisis bites

Major economies across the world are facing tough economic headwinds as escalating inflation, slower growth and tightening monetary policy are set against a backdrop of heightened geopolitical tension. This means many households are 'walking out of a pandemic' into a cost-of-living crisis.

Our research shows a strong relationship between consumers who prioritise price ('Cost-conscious') as a core attribute of value, and those countries facing the toughest economic hardship. **Figure 6** depicts this relationship, plotting a measure of economic hardship (calculated by combining inflation and unemployment into a single metric), with the proportion of 'Cost-conscious' consumers for each of the countries included in the research.

FIGURE 6: Countries feeling greater economic hardship have seen more cost-conscious consumers emerge.

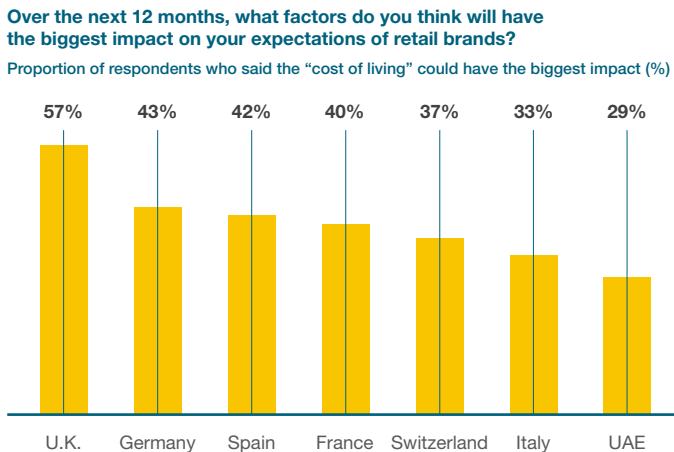


SOURCE: Retail Economics and Alvarez & Marsal

Spain emerges as the country with both the highest proportion of 'Cost-conscious' consumers, and the economy currently facing the greatest economic hardship. Arguably, it provides a clear indication for other countries as to how consumer values are likely to shift with deteriorating economic conditions.

Intuitively, the research confirms that countries that currently have a higher proportion of consumers that value price above other factors (e.g. Spain, U.K.) also have greater expectations that the rising cost of living will impact their values over the next 12 months.

FIGURE 7: The cost of living will have the biggest impact on consumers' expectations of retailers in the coming 12 months.



SOURCE: Alvarez & Marsal and Retail Economics

Across all countries, an average of 40% of consumers feel that the cost of living will have the biggest impact on their expectations of retail and consumer-facing brands over the coming 12 months – highest for the U.K. (57%), Germany (43%) and Spain (42%). Furthermore, as consumers focus on price, they are more likely to compromise on other value attributes. Almost a quarter of consumers (22.5%) would be willing to sacrifice quality in favour of lower prices. This is closely followed by convenience (21.8%) and the shopping experience (20.8%).



As price becomes a more important factor in decision making, consumers are expected to trade down to private-label and own-brand products, and even switch supermarkets to discounter operators. For example, in the U.K., the combined market share for the German discounters Lidl and Aldi has risen from 14.1% to 15.4% in the two months to March 2022.

However, considerable differences emerge across countries. On average, consumers in the U.K., Switzerland and UAE are less likely to compromise on product quality for lower prices, and more inclined to sacrifice convenience or the shopping experience.

This differs considerably from consumers in Spain, France and Italy who suggest they are more willing to sacrifice on product quality for lower prices.

German consumers suggest they are willing to sacrifice across a broader set of values in exchange for lower prices, more so than other countries.

Interestingly, shoppers are least willing to compromise on a consumer-facing brand's ethical credentials such as policies around sustainability, inclusion and diversity, and fair wages (Fig. 8). This finding is consistent across all countries included in the research which deviates little by age – albeit

with a slight tendency for younger consumers to be less willing to sacrifice on ethics than middle-aged consumers. It reflects the rising expectation that ethical credentials are a 'must' for consumer-facing brands, and not something that consumers should be expected to pay for or compromise over.

Retail and consumer brands will need to ensure they implement local market strategies that reflect a variety of consumer characteristics specific not only to the geography, but to channels and categories which is explored further in the next trend.

Which of the following factors are you most willing to compromise on for lower prices?
Proportion of respondents (%)

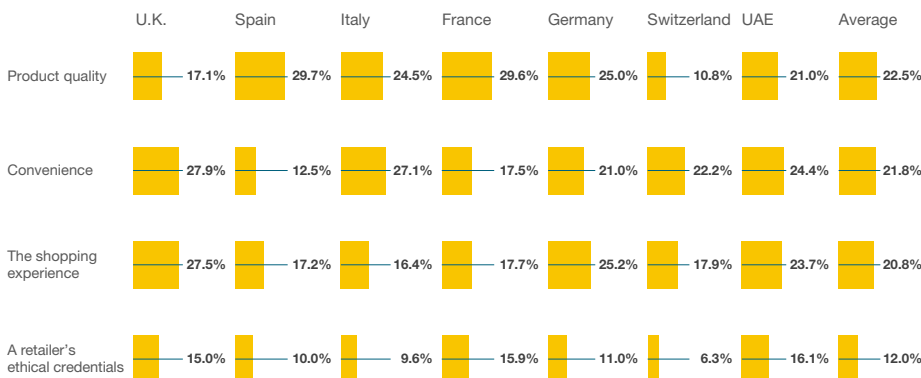


FIGURE 8:
What shoppers are prepared to sacrifice for lower prices differs by market

SOURCE:
Retail Economics and Alvarez & Marsal

Trend 2: Consumer values differ by category and channel

Consumer-facing brands need to deliver against consumer values which continuously change depending on the shopper mission, the product category and market. Our research shows that function-driven attributes of value (price, quality, convenience) are considered most important to consumers across all retail categories in the research.

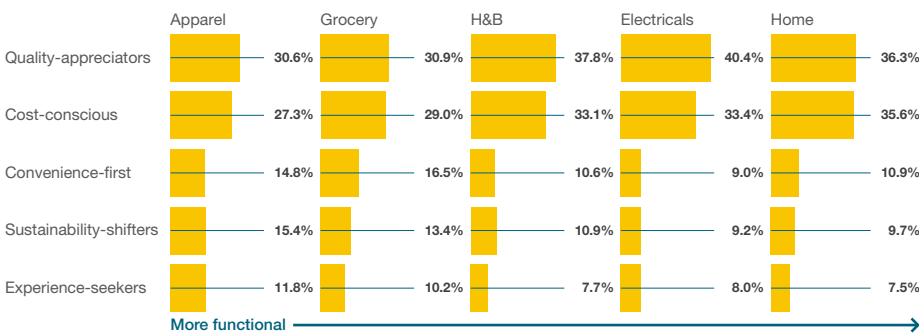
That said, among all categories, fashion and food is where consumers tend to place more importance on emotion-driven value attributes (experience, sustainability) compared to other categories. This likely suggests that consumer sentiment regarding ethical practices within the apparel industry (e.g. sustainable sourcing) have become more important, or at least more so than other categories.

The research also suggests significant divergence between countries. For instance, consumer value is perceived most variedly across countries for the food category (Fig. 10) as shown by the picture below.

In general, consumers in the U.K. are more function-driven when thinking about value, compared with other countries, this being consistent across most categories. In comparison, consumers in UAE and Switzerland are more emotion-driven.

FIGURE 9:

Quality and cost remain the dominant values across all categories



SOURCE:

Alvarez & Marsal and Retail Economics

FIGURE 10:

Consumer values differ widely across countries depending on retail category.

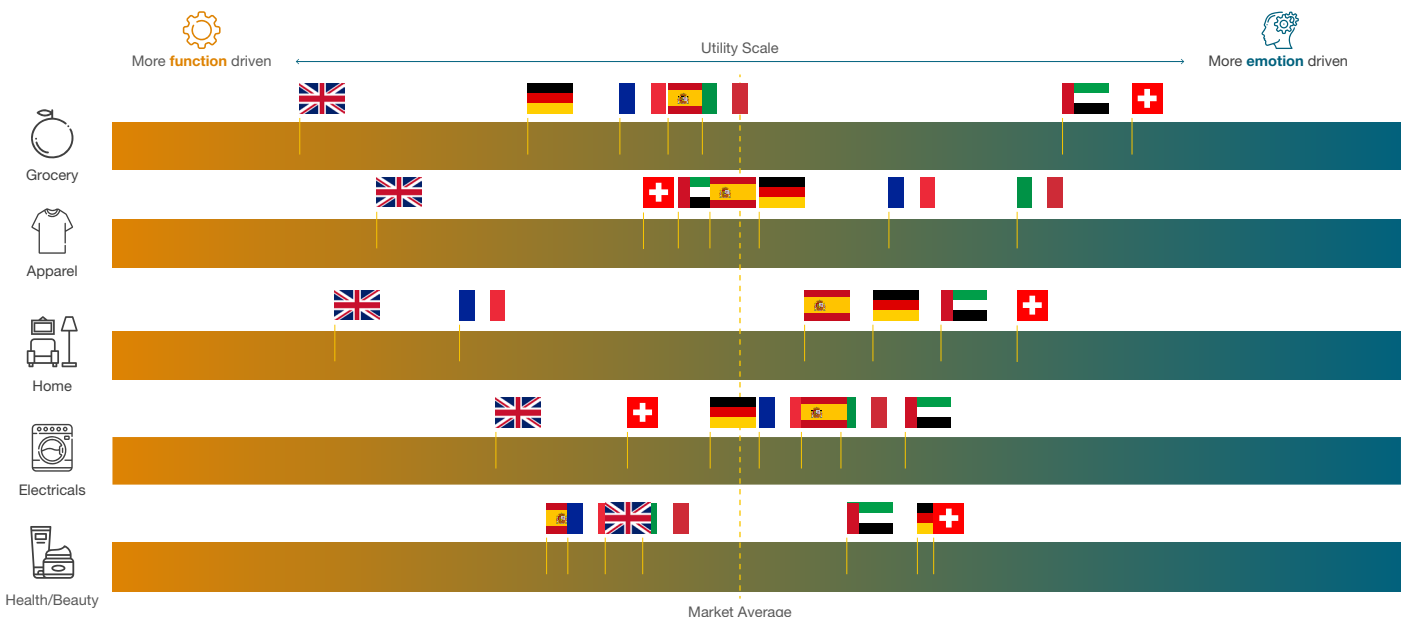
SOURCE:

Alvarez & Marsal and Retail Economics

NOTE:

Functional-driven includes price, quality and convenience. Emotion-driven includes sustainability and experiences

International comparison of value utility across retail markets



Our research also found that age is a significant determinant across product category. For example, regarding the 'quality' attribute of value, older consumers will attempt to buy groceries in the highest quality they can afford, compared to fashion and beauty for younger shoppers who are often subjected to greater social pressure for these categories. For middle-aged consumers (who are often first-time home buyers or home movers and have higher levels of disposable income) it is home-related products that they aspire to buy in the highest quality.

Consumer values also differ with respect to channel too. The rapid rise in online shopping since the pandemic increased the influence of digital touchpoints throughout the customer journey, accelerating the merging of physical and digital channels.

Consumers' expectations of retail and consumer brands' digital propositions have reached new heights, with their demands for rapid delivery, cheap prices and easy returns becoming the norm.

The research shows that younger consumers place the most value on meaningful in-store experiences.



In fact, 18% of Gen Zs (18-24 year olds) suggest that the in-store environment is the most important aspect of a visit (Fig. 11). This consumer group also values integrated in-store digital technology and frictionless payments more than older generations who tend to prioritise product availability and customer service.

Nearly a fifth (18.8%) of Gen Zs are attracted to shopping in-store over online because of store experiences and environments, compared to just 13.4% of Baby Boomers.

When buying a product in-store, what aspect of your store visit is most important to you?

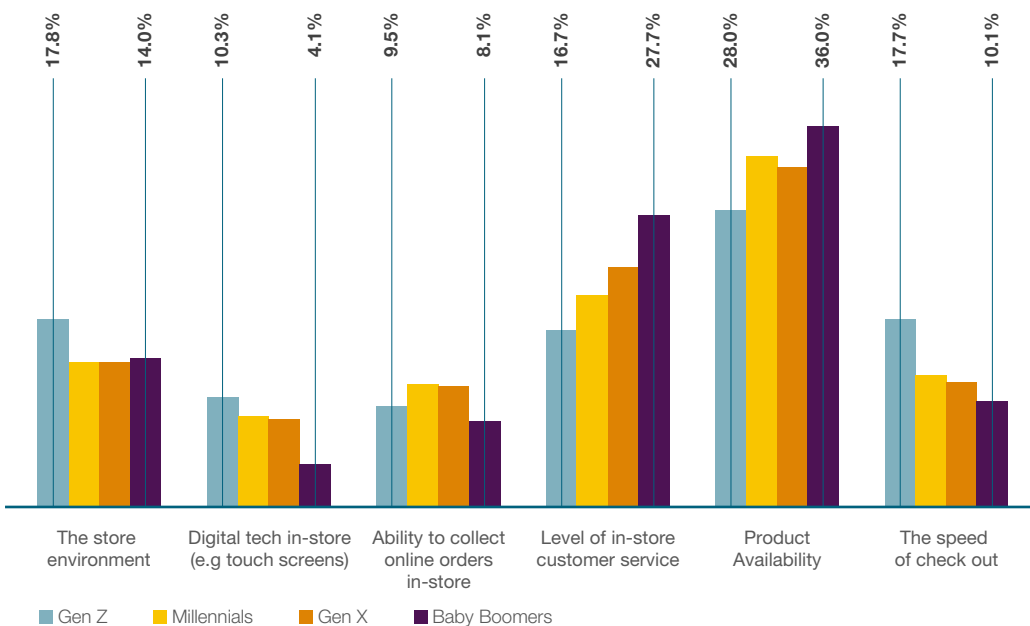


FIGURE 11: Younger consumers value the in-store environment and speed of check-out more than their seniors

SOURCE: Alvarez & Marsal and Retail Economics



In addition, consumers are eager to engage with the sensory experience of touching, feeling and browsing products (33%), experiences that cannot be replicated online (Fig. 12).

Younger shoppers, who valued the store environment slightly more than their seniors, often view shopping as a leisure activity where they spend time socialising with friends and family. Physical destinations provide an effective opportunity for consumers to explore and discover new products and ranges

in real life, allowing them to touch and feel, assess quality, find out more information – which can often lead to impulse purchases. Being able to instantly purchase products in-store (20%) was also a key reason to visit a physical store over shopping online.

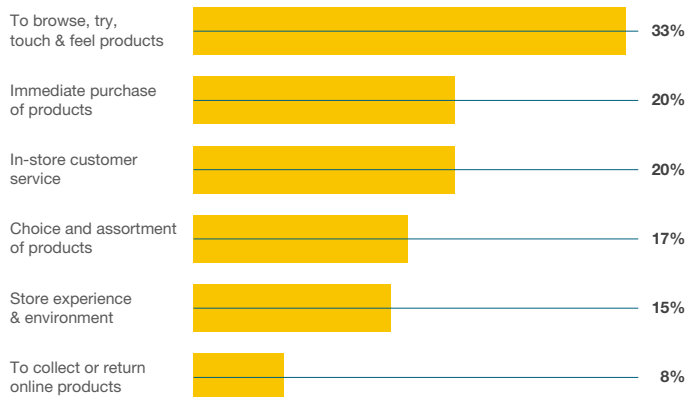
Although just 8% of consumers suggest that the attraction of physical stores is only to support an online journey for collection or drop-off, Gen Zs were more than twice as likely to suggest this was an important option, compared with Baby Boomers (aged over 65).

However, conditional factors are extremely important with respect to channel preference and choice. U.K. consumers appear more flexible, with two fifths (40.9%) willing to freely switch between online and in-store channels to benefit from cheaper prices. This is considerably higher than the average (24.1%) across the countries analysed. Arguably, the U.K. has a more sophisticated online ecosystem, including more mature online retail propositions (e.g. widespread multi-channel fulfilment options) and more developed final mile operators.

Meanwhile, our research showed that consumers across France, Italy and Switzerland were the most likely to buy direct from a brand if it meant buying the same item cheaper.

FIGURE 12: Store-based visits depend on experience that can't be replicated online

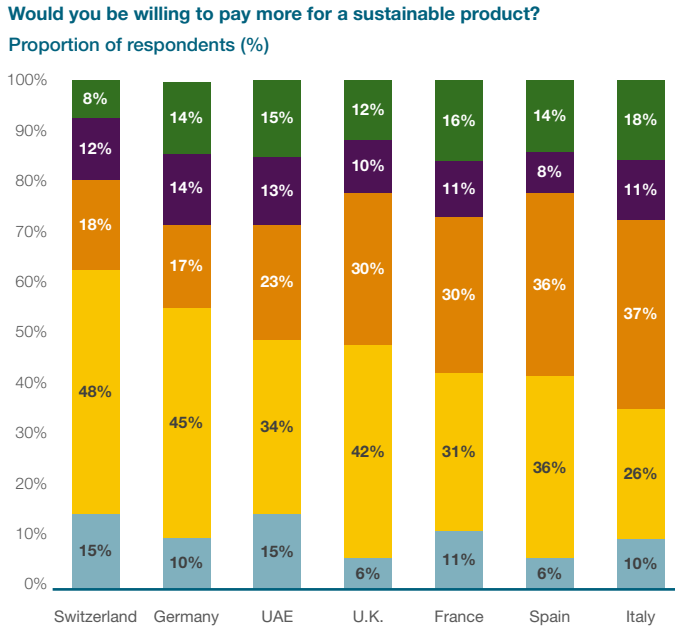
What things attract you to visiting a physical store over purchasing a product online?



SOURCE: Alvarez & Marsal and Retail Economics

Trend 3: ESG and the conscious consumer

FIGURE 14: Consumers in Switzerland are the most likely to be willing to pay for sustainable products.

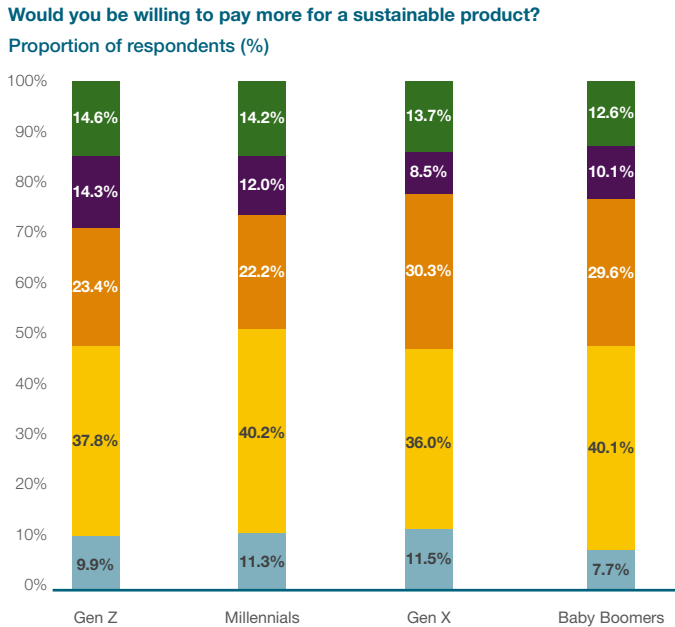


Less willing to pay for sustainability →

- Yes: I would pay significantly more
- Yes: I would pay a bit more
- No: I wouldn't pay more, but prefer sustainable
- No: price more important than sustainability
- No: Sustainability would not impact my choice

SOURCE: Alvarez & Marsal and Retail Economics

FIGURE 15: The majority of Millennials are willing to pay towards sustainability.



- Yes: I would pay significantly more
- Yes: I would pay a bit more
- No: I wouldn't pay more, but prefer sustainable
- No: price more important than sustainability
- No: Sustainability would not impact my choice

SOURCE: Alvarez & Marsal and Retail Economics

Societal values attached to the environmental impact of consumption are rapidly gaining traction as consumers, corporates and governments increasingly focus on carbon reduction strategies. Consequently, this accelerating shift makes it vital for retailers, consumer brands and suppliers to commit to environmentally friendly operations and ethical practices.

Yet there are differences across countries regarding how much consumers are willing to pay extra for sustainable products.

Our research shows that almost half (47.7%) of consumers say they are willing to pay more for sustainable products (10.3% significantly more and 37.4% a little more).

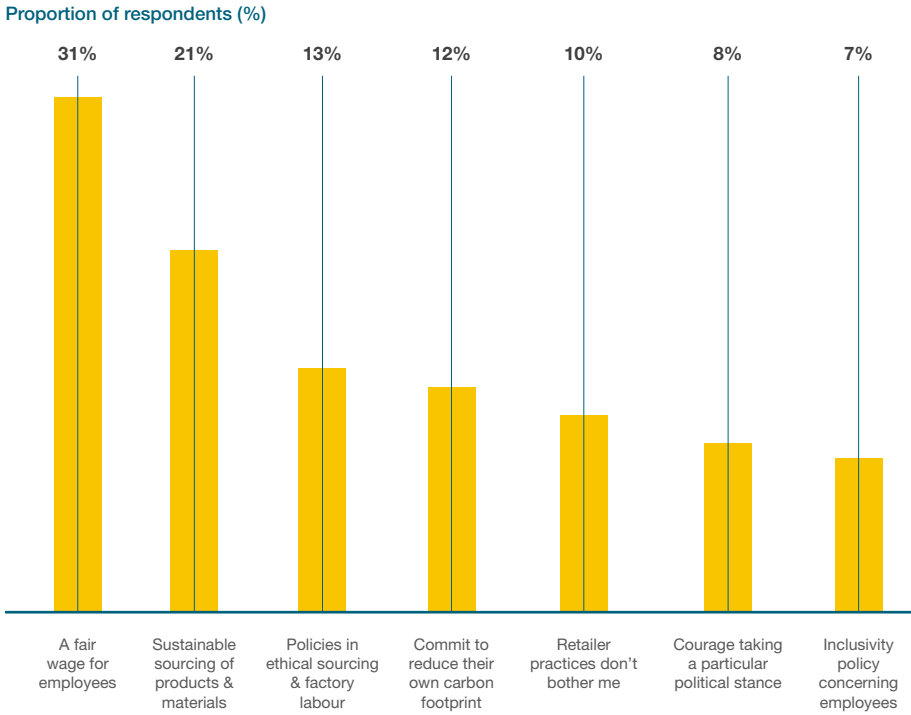
However, consumers in Switzerland (62.7%) were considerably more likely to suggest they were willing to pay more than consumers in Italy (35.5%) (Fig. 14). In addition, more than a quarter of consumers in France, Germany, Italy and UAE suggested that price was more important than sustainability, or that sustainability concerns would not impact their choice.

Age was also an important factor. It appears that Gen X consumers, and more price sensitive buyers, are pushing the responsibility onto retailers, governments and suppliers more so than other age groups; whereas Millennials are more willing to pay for sustainable products themselves.

For Gen Zs, budget constraints and the expectation for retailers to simply offer sustainable products, mean that 14.3% of consumers aged between 18-24 years consider price more important than sustainability, the highest of any age group (Fig. 15).

FIGURE 16:
The majority of consumers suggest fair wages and sustainable sourcing are their top priorities from retailers and consumer brands.

SOURCE:
Alvarez & Marsal and Retail Economics



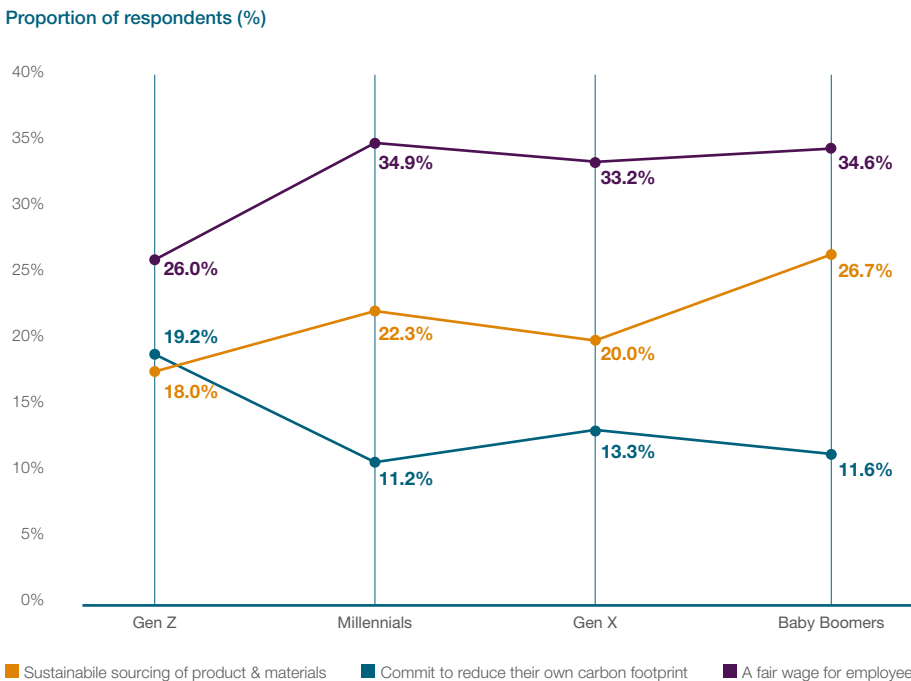
From a range of ethical issues, our research clearly shows that consumers feel that ‘paying a fair wage to employees’ (30.5%) is the most important factor concerning how retail brands should operate (Fig. 16). This is followed by ‘sustainable sourcing of products and materials’ (20.7%). Interestingly, ‘inclusivity’ and ‘taking a political stance’ are considered the least important factors for consumers.

Age also impacts how shoppers feel about sustainable sourcing, wages and reducing carbon footprints. Our research suggests that older consumers are more concerned that retail brands pay a fair wage to their employees, while harbouring greater concerns about sustainable sourcing. In comparison, younger Gen Z consumers appear to be more concerned about the direct impact of carbon emissions and are more likely to feel that retailers and brands should commit to reducing their carbon footprint (Fig. 17). Indeed, messaging around net zero and carbon reduction appears to resonate most with Gen Zs, with around one in five (19.2%) saying that carbon reduction is the most important ethical practice to get right, compared to around one in 10 (11.6%) Baby Boomers.

FIGURE 17:
Gen Zs almost twice as likely as Baby Boomers to value carbon reduction commitments

SOURCE:
Alvarez & Marsal and Retail Economics

What is the most important ethical practice for retailer and brands to get right?



Part three:

The evolution of consumer values and how retailers and consumer brands must urgently react



As consumer values continue to evolve rapidly, retailers and consumer-facing brands will need to adopt a laser-like focus on how to define their proposition while protecting their profitability against a backdrop of rising costs, ongoing supply chain disruption, squeezed household incomes, and fragile consumer demand. Structural shifts towards digital cannot be ignored if brands are to remain relevant.

Our research identifies five critical areas where consumer-facing businesses will need to urgently focus their resources to ensure they are able to navigate the challenges posed by the cost-of-living crisis

1. Defining a strong value proposition

A more cost-conscious consumer is emerging from the cost-of-living crisis. They will reshape how they perceive value, with the attributes of quality, convenience and experience being sacrificed for lower prices, although demands regarding ethical standards will likely remain in place.

As recessionary behaviours such as 'trading down' become more common, businesses must ensure they anchor their proposition around value for money while offering relevant ranges across channels in a fiercely competitive market.

KEY STRATEGIES WILL INCLUDE:

Investing in price:

Currently, the emergence of a more cost-conscious consumer requires a strong value proposition built around value for money. Our research suggests consumers were willing to sacrifice quality in some markets, more so than convenience and experiences in others (Fig. 8). It will be important for businesses to invest in competitive pricing, and work with suppliers to sharpen their communication around promotional activity which is market specific. In some markets, this will require businesses to invest in price while ensuring that product quality is maintained.

Striking a careful balance between using the right tone with a core customer base, while simultaneously attracting new cohorts who are willing to try new brands will be key in protecting market share. Authentic communication can achieve a competitive advantage.



Expectations of retail brands by Gen Z and Millennials can be markedly different from older generations.

Customer segmentation:

Businesses must develop more tailored messaging, pulling value levers that really resonate with targeted customer cohorts. For customers under intense financial pressure, offering compelling entry level price points across relevant ranges with price matching may be the most effective approach.

But for more affluent customers, competitively priced alternatives to leisure and hospitality spending (e.g. premium dine-in meal offers) may be appropriate to help drive perceived value while promoting higher margin products.

Understanding generational differences is critical too. Expectations of retail brands by Gen Z and Millennials can be markedly different from older generations. These consumers are more connected, less loyal, more informed, and channel agnostic. The value proposition must adapt accordingly.

Regional sensitivity:

The impact of the cost-of-living crisis will be felt unevenly across countries (and country regions) due to factors such as income level, digital maturity, government support and culture. As such, businesses will need to vary their value strategies by region. For example, our research shows that some consumers are more willing to sacrifice quality for price

in some markets (e.g. trading down from premium food brands to own-label), while other consumers are more willing to forgo convenience (e.g. using multiple grocery retailers to secure the lowest overall cost). Focusing on how these differences translate to the value proposition and adapting it by market will be key.

Environment, Sustainability and Governance (ESG):

Our research shows that maintaining high ethical standards are 'non-negotiable' for most consumers, regardless of country. Paying a fair wage, ethical sourcing and telling a compelling sustainability story are critical components within the consumer value set.

The growth of clothing and furniture rentals (e.g. Zalando, My Wardrobe; Selfridges Rental, IKEA), online marketplaces (e.g. Depop, Vinted), and the wider circular economy are prime examples of how these trends are bringing about new commercial opportunities.

Maintaining high ethical standards are 'non-negotiable' for most consumers, regardless of country.



2. Redefining customer experiences

Creating positive customer experiences has become an increasingly important way for businesses to connect with customers in a hyper competitive environment.

Many businesses will face a conundrum over how they should adapt and communicate their offer, highlighted by our research showing that consumers are willing to sacrifice experiences for lower prices.

KEY STRATEGIES FOR BUSINESSES LOOKING TO LEVERAGE CUSTOMER EXPERIENCES INCLUDE:

Role of the store:

Stores need to quickly evolve to fulfil a multitude of functions. Providing valuable experiences (e.g. entertainment, education) alongside operational functions to support omnichannel customer journeys (e.g. click-and-collect, returns) will enable businesses to sweat more from their physical assets. For many retailers, this shift in the purpose of stores runs parallel to a strategy to reduce the overall number of outlets in their estate as online continues to account for a larger proportion of sales.

Improved communication:

Research and price comparison will become a more considered part of the journey. Businesses must ensure they communicate their value proposition clearly and consistently in-store and across the digital platforms, where their consumers pay more attention.

Instant access:

Our research shows that cost-conscious consumers disproportionately value immediate access to products in-store. Better visibility of stock availability, and managing consumers' expectations around promotions, particularly where inventory levels are important, will be critical for generating positive customer experiences.

Businesses must ensure they communicate their value proposition clearly and consistently in-store and across the digital platforms, where their consumers pay more attention.



**Enhancing the delivery experience:**

Consumer businesses should attempt to enhance the delivery experience by offering timed delivery slots (dynamic pricing), accepting returns, removing old products for disposal and offering additional services that consumers are willing to pay for. At scale and operated efficiently (although category specific), delivery service revenue can be achieved.

Rapid delivery of products is also becoming more common throughout the industry with businesses partnering with tech platforms such as Uber (e.g. Currys and Uber trial in the U.K.) and Deliveroo to accelerate online delivery. While still in very early stages, consumers are willing to pay for enhanced delivery services which could be an effective way to grow market share. In most cases, this involves retailers shipping from store (or dark store) which requires sophisticated logistics and single inventory reviews. Dual-use of stores as distribution centres will help sweat assets and maximise their value as they become more important in fulfilling online orders.

Dual-use of stores as distribution centres will help sweat assets and maximise their value.

3. Evolving operating models

Unlike previous periods of disruption, significant cost pressures from supply chain issues, labour shortages and rising global commodity costs now often sit within a more mature digital landscape due to the pandemic. This has brought about a new layer of operational complexity.

Businesses will have to initiate a thorough review of their operating models to identify further possible cost savings and improved efficiencies, while continuing to focus on digital transformation to ensure short-term challenges do not derail longer-term ambitions.

As cost control is prioritised, thorough reviews will be required regarding supply chains, supplier contracts, logistics, warehouse, distribution, store estates, personnel, lease flexibility, marketing, digital infrastructure and the purpose of stores.

KEY STRATEGIES WILL INCLUDE:

Partnerships:

New and innovative partnerships will need to be explored, allowing businesses to strike mutually beneficial strategic alliances. This could involve partnerships between pure online and store-based retailers, to tie ups with logistics experts to manage online returns more efficiently.

With profitability under intense pressure, many retailers are likely to accelerate the migration towards online aggregators and platforms. This allows retail brands to leverage existing infrastructure and expertise to drive down marginal cost. Partnerships with agile third-party suppliers (e.g. Amazon) and returns management companies (e.g. Clipper

Logistics, DHL) will become important for many businesses to enhance online capabilities in a rapidly evolving market while managing profitability.

Agility:

Businesses need to respond quickly to changing market conditions, consumer sentiment, and monitor a range of metrics relevant to their operations (e.g. basket size, average transaction value (ATV), online penetration and shift to private label). The ability to adapt promotional messaging and explore innovative tactics related to social media marketing, in-store digital signage and dynamic pricing (where applicable), can dramatically boost customer engagement and satisfaction. For example, ensuring products are only promoted where inventory levels allow to avoid customers disappointment, or reacting quickly to competitor promotions to protect market share.

New and innovative partnerships will need to be explored, allowing businesses to strike mutually beneficial strategic alliances.

Digital investment could come in many forms including supply chain optimisation.

Digital investment:

Digital investment could come in many forms including supply chain optimisation, leveraging data science, using dynamic pricing, demand forecasting and appropriate automation (e.g. robotic process automation [RPA]).

Process automation is broad. It can be applied to tasks such as accounts payable/receivable, but also with administering purchasing or promotions that are largely manual for many retailers. Workflow management software can also smooth decision processes and simplify validation steps, which in turn can boost productivity. As technology costs fall and labour costs rise, businesses need to continually assess where automation can replace manual processes when commercially viable.

Omnichannel first:

The windows of opportunity to capture consumers' attentions online are exceptionally brief. Dwindling attention spans and increasing user experience (UX) standards by big players provides no mercy for 'clunky' websites or an inconsistent cross-channel experience.

The customer journey must be frictionless – irrespective of channel. After all, channels are becoming more indistinguishable as in-store and online experiences overlap. It is here that retail brands must get it right and invest in the appropriate technology to make this a reality.



Huge opportunities lie in meeting consumer needs with a smooth customer journey that merges on and off-line channels. Supporting customers to effortlessly discover products in-store, purchase online and return to a locker – supported by seamless technology – is necessary to meet their expectations. Failure to do so will run the risk of customers moving to brands that can meet their heightened expectations around the shopping experience.

The merging of physical and digital worlds becomes even more testing for retail brands with the Metaverse. Although in its infancy, leading brands such as Nike, Gucci, LVMH, Coca-Cola and others are already experimenting with digital metaverse products and are considering the range of implications to its business models.

Huge opportunities lie in meeting consumer needs with a smooth customer journey that merges on and off-line channels.

4. Flexible supply chains

The ongoing impact from the pandemic continues to disrupt global supply chains. It has also forced many businesses to prioritise agile planning, digitalisation, and to ensure they have international trade policy expertise to address future supply disruptions.



Improved strategies are likely to involve using shorter, more flexible supply chains better equipped to deal with supply shocks; and importantly, able to address changes in consumer values in response to external conditions (e.g. cost-of-living crisis, geopolitics, pandemics).

IN ORDER TO NAVIGATE SUPPLY CHAIN DISRUPTIONS MORE EFFECTIVELY, OUR RESEARCH HIGHLIGHTS THE FOLLOWING STRATEGIES:

Simplification and diversification:

Businesses should explore simplification of supply chains by making them shorter, often involving more on-shoring, near-shoring and re-shoring. Supply chains can also include more sources, and reduced overreliance on single countries (e.g. China +1/+2 models).

Rethinking inventory:

Establish alternative supply sources to enable fast-tracked volume delivery capability. Adopt better, more agile inventory policies to maintain 'just-in-time' strategies with established mitigation.

Understanding cost to serve:

Any move to near-shoring will have an impact on margin due to local cost differences. Businesses will need to gain an understanding of these differences to build mitigation options and pricing scenarios. There is a clear trade-off between agility and inventory write-offs.

Contingency planning:

As operating costs continue to rise, continuous review and risk assessment are required to ensure flexibility to switch suppliers, operate parallel supply chains if needed, or switch supplier countries if localised disruption persists. Building up strategic stockpiles where appropriate to mitigate against potential supply shortages can prove effective, although diligent assessments on cashflow, storage costs and demand forecasting will be imperative.

Digital-first:

Adoption of 'digital-first' supply chains has never been more pressing. Increased efficiency and predictability will help optimise product mix and range, pricing power, and reduce waste.

Also, optimising data flows (from point of sale to predictive ordering) and digital supply chain transparency, can help improve assortment, tailored merchandise for regional variations, and adapt pricing.

Final mile:

The final stages of the supply chain has seen consumer expectations for cheap and speedy delivery become normalised. Consistently achieving these objectives will require investment towards more automated distribution centres and micro-fulfilment hubs (and potentially ship from store) to meet this shift in demand at scale.

Adoption of 'digital-first' supply chains has never been more pressing.

5. Data, insights and personalisation

Digital transformation is an urgent priority for retailers operating with antiquated systems that are unable to provide actionable and near real-time customer insights.

Maximising opportunities from shifting consumer values requires advanced data analytics to convert 'big data' into actionable insight. Data harvesting (e.g. social media 'listening' or AI-driven insights through customer data or message boards) will be critical for retailers to gain a competitive advantage from evolving consumer values.

KEY STRATEGIES WILL INCLUDE:

Personalisation:

The use of data science (AI, data mining and analytics) to mine behavioural insights that can be applied to personalised marketing strategies will be critical in the future as competition increases. The use of relevant, personalised messaging for product offerings can quickly forge deep customer relationships that are more meaningful and enduring. If done authentically, businesses can connect with customers intimately and effectively project their value proposition.

Customer acquisition:

Battling for consumer attention is exceptionally challenging and is increasingly being fought online. As such, using big data to drive sophisticated marketing strategies that engage customers by serving them relevant content at the right moment, in the right channel, will be vital.

Of course, winning new customers cannot come at any cost with limited budgets. A detailed understanding of the cost-attribution and revenue allocation model will be required. This includes accurately calculating return on investment (ROI) of digital ad spend (and a high street presence) to maximise budget efficacy. Advanced customer insight, data analytics and artificial intelligence will also play an increasingly important role in ROI modelling to improve cross-channel attribution that informs intelligent data-led investment decisions.

Enhancing loyalty:

As more cost-conscious consumers emerge, loyalty scheme benefits will become more valued and integrated into consumer behaviour more generally, therefore influencing how and where consumers shop.

A detailed understanding of the cost-attribution and revenue allocation model will be required.





Conclusion

As the world emerges from the Covid-19 crisis, it faces yet another global challenge – one dominated by economics and geopolitics, rather than health.

Rising inflation and political instability amongst other factors have pushed society into a cost-of-living crisis, the worst of its kind in at least half a century with its full impacts yet to emerge. Against this backdrop, many consumers are reprioritising their values as they decide which products, retailers and consumer brands best align to their wants and needs.

Our research provides a framework to measure consumer values, where five distinct consumer archetypes emerge, which we classify as: (1) Quality-appreciators; (2) Cost-conscious; (3) Convenience-first; (4) Experience-seekers; and (5) Sustainability-shifters.

Within our survey sample of more than 5,250 consumers across seven countries (U.K., Switzerland, Spain, France, Italy, UAE and Germany), consumer values are largely found to be very consistent. International consumers feel that function-driven attributes of value (e.g. quality, cost and convenience) are more important than emotion-driven attributes (e.g. experience, sustainability).

Specifically, the key value attributes 'quality' and 'cost' are consistently the most important factors for all consumers. However, differences emerge by country at a category level, and across age and channel.

The research also highlights five focus areas in which retail brands need to pay close attention to in response to these evolving consumer values. These include: (1) defining a strong value proposition; (2) redefining customer experiences; (3) evolving operating models; (4) flexible supply chains; and (5) data, insights and personalisation.

In the not too distant future, economic and geopolitical factors (possibly combined with public health issues still) will culminate into a formidable force that will pressurise and reshape parts of the retail industry. With adaptable business models and sophisticated strategies that integrate a deep understanding of how consumer values are formed and evolve, many retailers and consumer-facing brands will be able to ride the waves of disruption and even benefit at times from the adverse conditions ahead.

Methodology

Consumer panel:

Nationally representative consumer panel was undertaken by Retail Economics across seven countries including the U.K., Spain, Italy, France, Germany, Switzerland and UAE. The sample comprised more than 5,250 consumers with survey data collected in April 2022.



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- **Margin management** to ensure the customer value proposition leads to EBITDA improvement via improved sourcing and clear pricing and promotions strategy.
- **Cash forecasting and working capital optimisation** to create a cash-focused culture with accurate forecasting as well as strategic drivers to conserve cash and drive sustainable change.
- **E-Commerce and digital optimisation** to align operating model, skills, and CapEx and OpEx budgets to deliver profit and leading customer experience.
- **Store operations assessment** across both store performance (sales and margin) and store productivity (costs) to deliver a better customer experience and operational efficiency.
- **Store locations, formats, sizes and rents assessment** to eliminate loss-making stores, renegotiate rental agreements to deliver improvements to EBITDA and geographic network optimisation.
- **Marketing effectiveness** to analyse and improve marketing effectiveness and efficiency to save costs and optimise budget spend to provide the best return.

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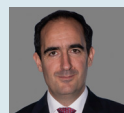
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