THE SHAPE OF RETAIL:

COVID-19 AND THE FUTURE OF RETAIL SUPPLY CHAINS

ALVAREZ & MARSAL

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Contents

Introduction

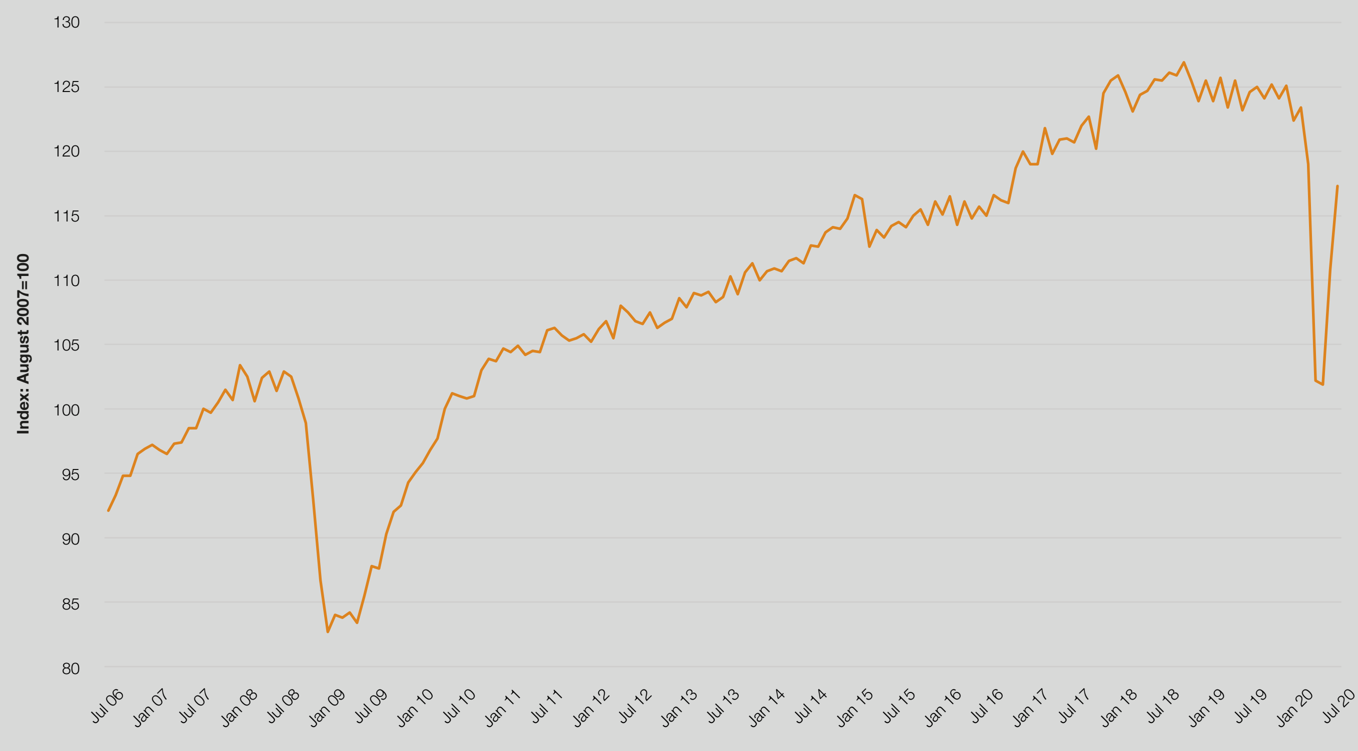
The COVID-19 pandemic has caused a sudden and severe impact on international trade, investment and global economic growth. As nations grappled with the impact of the virus, factory closures throughout international markets caused a ripple effect across an expansive supply chain network, quickly leading to disruption across the world.

Retailers across Europe experienced a significant shock to both supply and demand on an unprecedented scale, compounded by government measures which restricted the movement of people and goods. Certain governments imposed unilateral export controls on specific goods to protect domestic supply, while others reduced tariffs to encourage trade. Meanwhile, tighter border controls slowed the ability for goods to seamlessly transit through countries. While these measures were temporary, the impact across supply chain networks could cause longer-term distortions.

Global trade volumes fell sharply in the first half of 2020, pulling down global economic growth. The International Monetary Fund (IMF) forecasts a decline in global growth of 4.9% in 2020, although the Euro Area (-10.2%) and the U.K. (-10.2%) are expected to experience sharper slowdowns. World exports contracted by 19%[1] in the six months to May 2020 (Figure 1) and are expected to fall in the region of 13% to 32% across 2020, according to the World Trade Organisation (WTO).

As the flow of goods seized up in countless locations, many households across Europe struggled to access basic consumer products in the immediate aftermath of the pandemic. In some parts of the market, the supply-side shock combined with a surge in demand, especially across grocery supply chains. This forced retailers and brands to acknowledge the fragility of some modern supply chains.

Figure 1. World exports fell by 19% from December 2019 to May 2020



Source: CPB World trade monitor

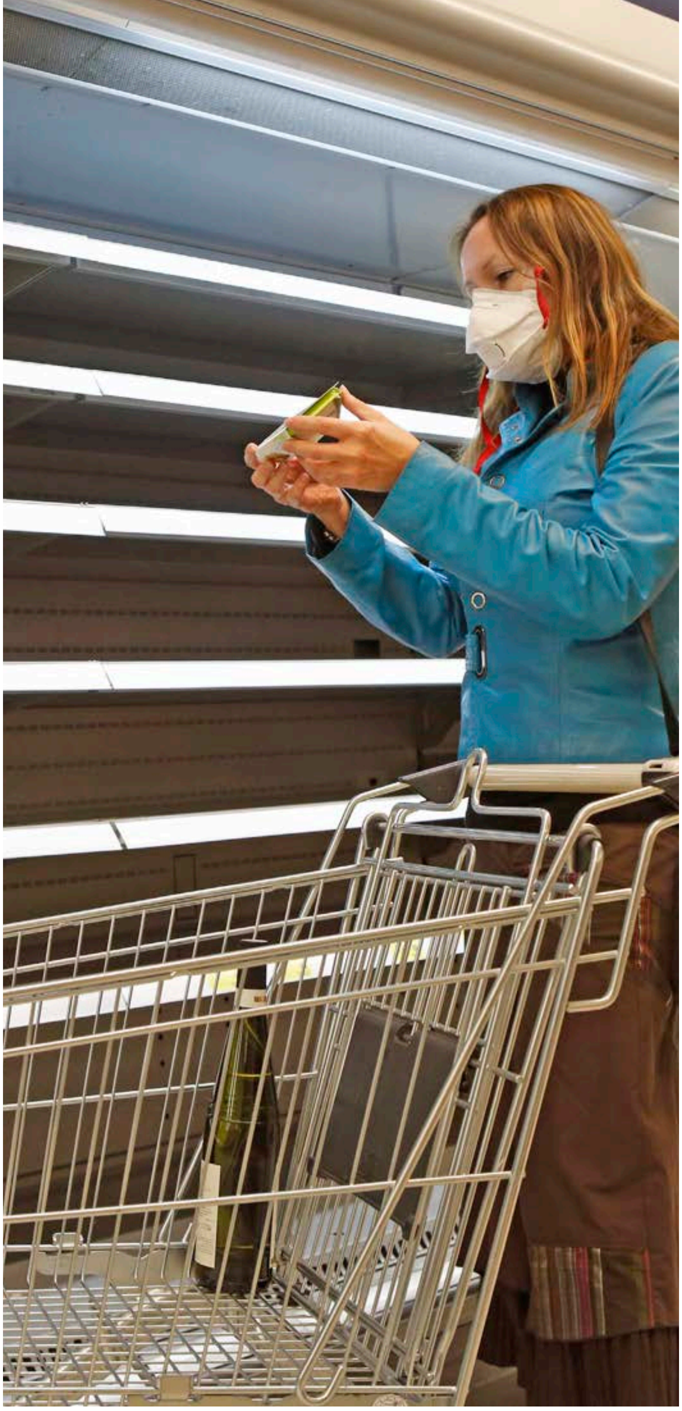
[1] CPB World Trade Monitor

For many retailers throughout Europe, the initial impact caused an abrupt supply shock. Attention quickly turned to identifying weaknesses in supply chains, often highlighting reliance on a single country, too few suppliers and 'just-in-time' principles. These vulnerabilities have emerged following decades of cost efficiencies being prioritised over flexibility and responsiveness. Supply chain security was thrust into the spotlight as retailers faced challenges to procure the goods they needed. After an initial 'panic period', many retailers began asking questions about how to design smarter, stronger and more diverse supply chains.

Over the last few years, Brexit-planning has put intense scrutiny on supply chains, with many retailers having conducted in-depth reviews. Against the backdrop of sustainability, technological advancements and a more sensitive geopolitical environment, the impact of COVID-19 has acted as a catalyst to accelerate underlying structural change. International supply chain networks are in the midst of a fundamental shift and retailers must work quickly to embrace, adapt and evolve when sourcing products if they are to overcome the present challenges.

This report explores these structural changes and contextualises the impact of COVID-19 on supply chains across the European retail industry. It incorporates data from interviews with 30 of the largest European retailers. It also identifies five key themes underlying supply chain dynamics, the potential impact of shifting supply chains and recommends operational strategies for retail businesses to 're-set' their thinking to future-proof their supply chains.

For retailers and brands seeking valuable insight into the impact of the crisis across Europe, this research provides data-driven insights and guidance for action.



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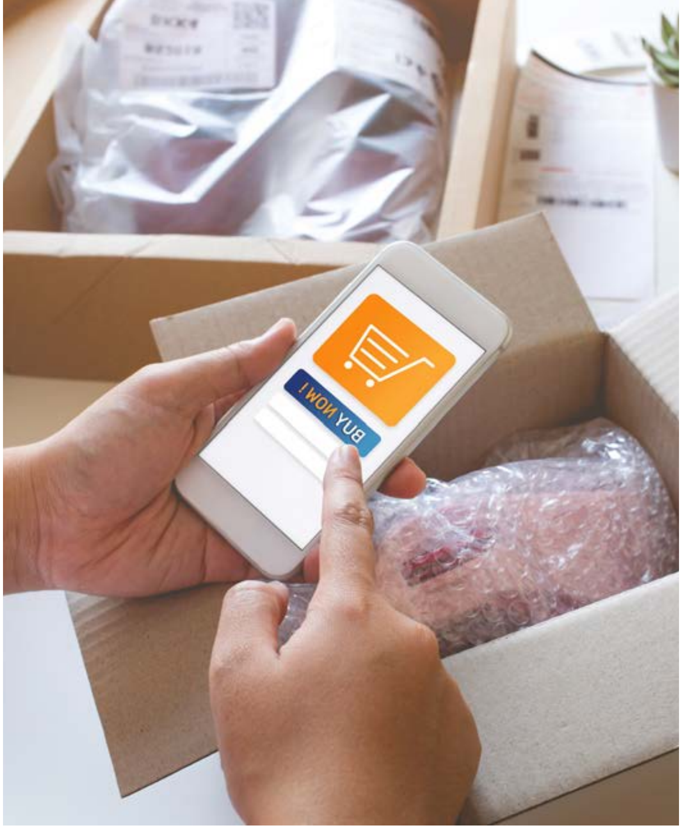
Section 1:

Shifting supply chain dynamics



Prior to COVID-19, international supply chains were already in transition. Increasing pressure over Environmental, Social and Corporate Governance (ESG), the impact of technology, Brexit and increasing geopolitical volatility underscored the importance of supply chain security.

Businesses are being forced to reassess the future of their supply networks and how they can not only meet COVID-19 related challenges, but simultaneously address underlying structural challenges to ensure they are future-proofed (Figure 2).

Figure 2. Five key themes underlying shifting supply chain dynamics

Future of supply chains

COVID-19	• 2nd wave of COVID-19 • Cashflow • E.U. state aid • Supplier diversity	• On-shoring • Consumer trends • Trade credit insurance
Sustainability	• Re-shoring • ESG investment • Near-shoring • Carbon neutral	• Traceability • Carbon borders • Paris Treaty • New Green Deal
Geopolitical environment	• Government debt • Government intervention • Foreign direct investment • Nationalism	• Trade wars • Protectionism
Brexit	• Labour costs • Labour shortages • Tariffs • 2nd tier suppliers	• Free Trade Agreement • No-deal • Currency fluctuations
Technology	• Digital transformation • Automation • Blockchain • China +1/+2 • Robotics	• Artificial Intelligence • Machine learning • Autonomous vehicles • Digitalisation • Cyber security

Source: Retail Economics

1. Impact of COVID-19

COVID-19 has highlighted the fact that globally dispersed and complex supply chains are only as strong as their weakest link. As businesses assess the impact of the crisis and future gaze, new supply chain strategies are emerging as industries adjust to the new normal.

Strategies are likely to involve using shorter, more flexible and resilient supply chains better equipped to deal with supply shocks, but also address rapid changes in consumer behaviour witnessed in recent months (covered in our 'The Shape of Retail: Consumers and the New Normal' report).

Improving supply-chain security is likely to involve a combination of:

- **Simplification:** with shorter supply chains using more on-shoring, near-shoring and re-shoring.
- **Diversification:** more sources of supply, reduced reliance on single countries (e.g. China +1/+2 models) and single suppliers.
- **Rethinking inventory:** establishing alternate supply sources to enable fast-tracked volume delivery capability. Adopting 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. Develop an understanding of these differences to build mitigation options and pricing scenarios. There is a clear trade-off between agility and inventory write-offs.

Striving for simplicity

A change in manufacturing footprint will continue to gather pace with businesses considering alternate strategies. A combination of near-shore (use suppliers closer to domestic markets), re-shore (bring back previously used domestic supply chains) and on-shore (move supply chains to within domestic economies) operational strategies will re-set many economic models. The motivation being that shorter and simpler supply chains are more resilient to global shocks, given fewer stages in the chain itself and have shorter shipping routes. Impact analyses are crucial in understanding the effects of such changes, but could suit many retail sectors, e.g. apparel, food ingredients, DIY, home and leisure to name a few.

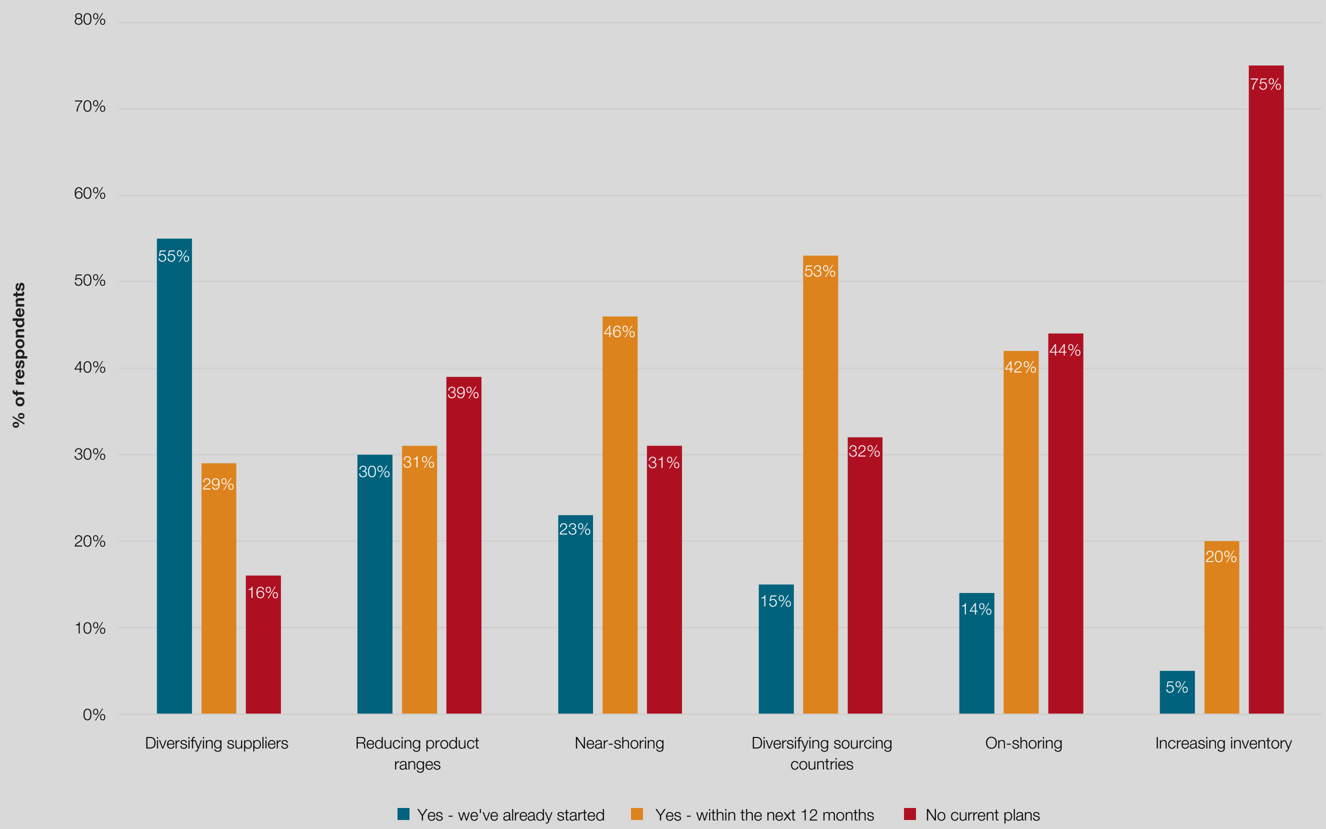
Risk mitigation

The impact of COVID-19 has exposed the over-reliance on single suppliers and single-country supply routes for many businesses, forcing them to consider supplier diversification and even dual-sourcing to ensure supply continuity.

Our research found that almost 70% of retailers surveyed[2] had conducted a review of their supply chains as a direct result of COVID-19. From detailed conversations, many were at pains to report the significant work that had already been conducted around Brexit planning, so they were better positioned to deal with the impact of the pandemic.

Nevertheless, the sudden and severe impact on supply chains forced action, with more than half (55%) of retail respondents reporting they had already diversified a number of their supply chains. Other measures included reducing product ranges (30%), near-shoring (23%), diversifying sourcing countries (15%), on-shoring (14%) and increasing inventories (5%). However, there was a marked difference between food and non-food retailers, with agri-food supply chains appearing to be much more flexible for switching suppliers and sourcing countries.

Figure 3. Are you considering any of the following options since the emergence of the pandemic?



Source: Retail Economics

[2] Retailer Survey conducted from 28 September to 7 October 2020, across 30 multinational retailers with a combined turnover of over €600 billion.

The survey data (Figure 3) also demonstrates that strategies to improve supply chain resilience will not be applied in equal measures across all parts of the retail industry. Tailored solutions will be formulated depending on: the location of retailers, product type, production complexity, seasonality, production costs, quality of materials, level of automation, logistics, profit margins and many other factors. Therefore, supply chain strategies will vary widely across sectors, country and individual retailers, occurring at a varying pace.

However, some parts of the market have been disproportionately impacted by the effect of the pandemic, with retailers remaining in survival mode by cutting costs and preserving working capital. For these businesses, their operational flexibility will be restricted by commercial realities, giving them fewer options to reshape supply chains.

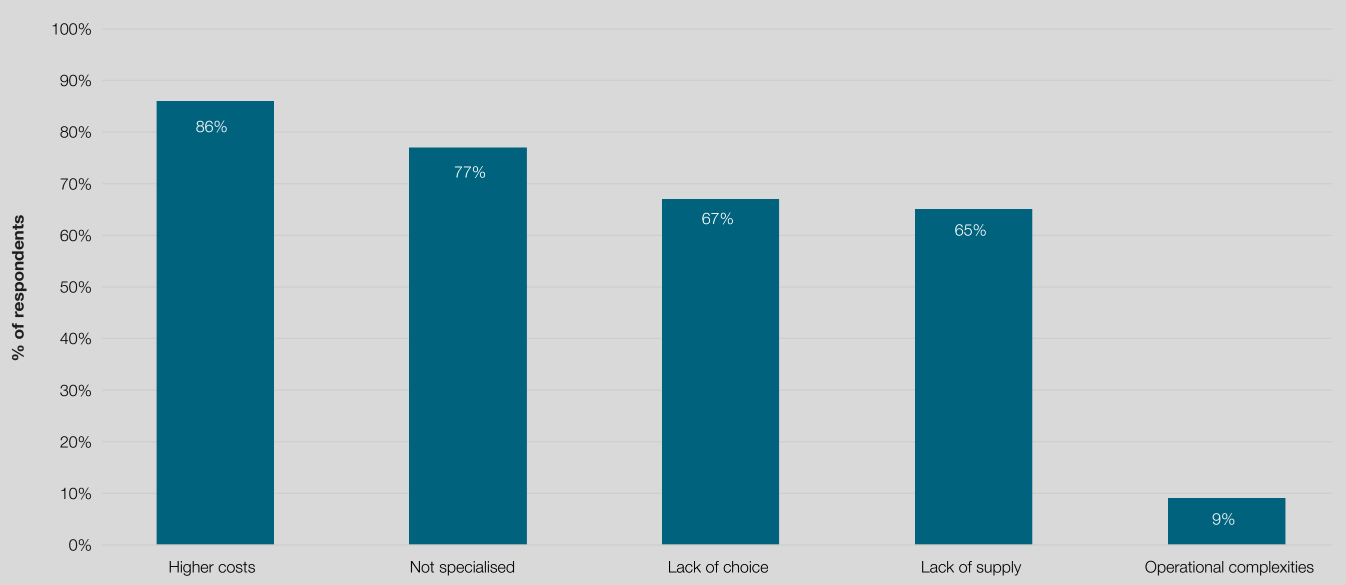
Increasing scrutiny will be placed on retailers and their competence to diversify sourcing countries, near-shoring and on-shoring. However, numerous barriers are preventing a sharp and sudden shift towards sourcing more from European domestic economies (Figure 4).

Retailers cited higher costs as the main barrier for bringing supply chains on-shore, but lack of specialisation, choice of suppliers and concerns about capacity were also likely to dampen pace.

The commercial viability of sourcing strategies will ultimately drive decision making amongst firms, but there is clearly a desire from retailers to source more locally where retail economics allow. For example, it would be unrealistic to assume that a significant proportion of the production of electrical products (e.g. televisions, smartphones) could be on-shored in the U.K. due to restrictions of scale and cost implications. Labour constitutes a significant proportion of production costs and with higher wages in Europe, and significant infrastructure investment, considerable cost inflation would make this scenario implausible.

However, where profit margins allow, parts of the retail sector such as high-end fashion, homewares, and agri-food (where a high proportion is already sourced domestically for many retailers), the prospect of more domestic sourcing is plausible.

Figure 4. What barriers are stopping you from shifting your supply chains to your domestic economy?



Source: Retail Economics

2. Brexit

Considerable uncertainty remains over the future relationship between the U.K. and the European Union (E.U.). Whatever the outcome, there will be significant repercussions for supply chains for European retailers, particularly those U.K. based. After all, the E.U. is the U.K.'s largest trading partner, accounting for approximately half of both imports and exports of goods. Supply chains between the U.K. and the E.U. are highly interwoven throughout the entire retail industry.

While domestic production of food in the U.K. accounts for around 60% of consumption, three-quarters of food imports currently originate in the E.U. Likewise, the E.U. accounts for a significant proportion of U.K. imports for electricals (47%), health and beauty (69%), apparel (39%), DIY and gardening (61%) and furniture (48%).

Although both sides are keen to strike a deal, the end of the transition period on 31 December 2020 moves ever closer. Both parties are still far apart on important issues like fisheries and state aid, and as time runs out to resolve differences, the chances of a no-deal outcome increases. If a no-deal scenario emerges, retailers will be affected in four main areas: (1) supply chain issues; (2) border friction; (3) increasing tariffs and (4) the speed of goods transitioning into and out of the country and its impact on inventory, therefore working capital.

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Deal or no-deal

In the event of a no-deal, moving goods between the U.K. and the E.U. will become more costly and problematic. There is also likely to be an immediate interruption to supply as retailers grapple with new U.K. border requirements which could cause significant delays.

The magnitude of the impact could also be exacerbated by Christmas timing, restricting retailers' ability to stockpile essential products because of limited warehousing space.

New rules and procedures (e.g. paperwork, customs systems, permits, testing requirements) will affect many different industries. The common impact on all European businesses trading across the Channel is increased cost and complexity.

Administration of new tariffs could also slow down the movement of goods, increase sourcing costs and impact supply chain strategies, though the U.K. government is trying to soften the blow for imported goods by allowing deferred payment of duties and submission of customs paperwork.

The imposition of tariffs on exports from the U.K. (that have previously been tariff-free) and the reduction of duties on goods from some other countries will increase costs for U.K. producers. It will also significantly affect their international competitiveness. In particular, tariffs applied on goods exported from the U.K. to the E.U. could result in U.K. businesses being less able to compete with their E.U. counterparts on the E.U. market.

Equally, tariff plans published by the U.K. government in May 2020, which reduce duties on several tariffs, could leave U.K. businesses more exposed to lower-cost competition internationally while facing tariffs on its exports to the E.U. – for the first time in 46 years.

Our research interviews with retailers also discovered their reluctance to commit to any permanent changes in their supply chain until a Free Trade Agreement (FTA) is negotiated between the U.K. and E.U. However, even in the event of a FTA, there are likely to be some changes to long-term sourcing strategies for retailers across Europe.

Impact of new U.K. Most Favoured Nation (MFN) tariff schedule on imports from the E.U.

Tariffs

- No-deal scenario would mean new WTO style tariffs on U.K. and E.U. trade. Food tariffs would be very high – up to 80% on some meat and dairy.
- For non-food consumer products: 12% on clothing, 16% on footwear, 10% on glassware, and up to 12% on ceramics.
- However, new Free Trade Agreements (FTAs) with net exporters of food (e.g. United States, Canada, New Zealand and Australia) could significantly reduce tariffs on imports to the U.K.

Regulation

- Most existing product regulation for consumer goods will remain in place for the U.K. post-Brexit.
- Possibility that E.U. might block future U.K. food exports if manufactured to rules not recognised by the E.U.
- U.S. will use FTA negotiations to apply pressure on U.K. to allow U.S. food products that are currently banned in the U.K. market.

State aid

- Aid currently available to encourage economic development in Southern Spain, Southern Italy and Eastern Germany.
- Considerable aid still available to farmers across the E.U. through the Common Agriculture Policy to ensure domestic food production in the individual Member States.
- U.K. will adopt a national state aid regime but has not yet given details of its operation.

Overall cost

Based on trade flow data for 2019, E.U. goods imported to the U.K. would face new tariffs costs of £7 billion with most of the burden placed on food and apparel.

Retail Sector	Imports from E.U. (£m)	Potential duties (£m)	Average weighted tariff (%)
Food and Drink	30,781.3	5,263.6	17.1%
Clothing and Footwear	10,679.1	1,136.6	10.6%
Health and Beauty	12,764.0	29.4	0.2%
DIY and Gardening	6,154.5	171.7	2.8%
Homewares	1,180.9	71.2	6.0%
Electricals	16,130.7	171.3	1.1%
Furniture and Flooring	4,061.6	107.7	2.7%
Toys, Games and Leisure	1,173.0	22.8	1.9%
Total retail/wholesale	**82,925**	**6,974**	**8.4%**

3. Geopolitical environment

Rising tensions between the U.S., China and the E.U. have created considerable uncertainty within the international trade environment, impacting foreign direct investment and influencing supply chain strategies for many international businesses.

War of words

Confidence in the global trading system has been significantly undermined following aggressive and unpredictable interventions by the U.S., including the sudden imposition (or threat of imposition) of new tariffs that do not conform to WTO rules. U.S. action has also undermined the effectiveness of the WTO to rule on trade disputes between countries. U.S. measures have also led to retaliatory tariffs from major trading partners, including China and the E.U.

Global trade disputes could escalate further as the WTO is set to grant the E.U. authority to impose extra duties on $4 billion of U.S. imports to the E.U.

These 'retaliatory' or 'rebalancing' tariffs are frequently applied to U.S. food and consumer goods such as soya beans (China) and jeans, whisky and orange juice (E.U.), leading to mutually harmful tit-for-tat trade restrictions.

Global trade disputes could escalate further as the WTO is set to grant the E.U. authority to impose extra duties on $4 billion of U.S. imports to the E.U. This is in retaliation for illegal subsidies granted by the U.S. government to Boeing. It raises the real prospect of U.S. tariffs against E.U. imports in response to illegal state aid to the European aerospace industry; this comes at the same time E.U. tariffs are being applied to trade from the U.S. in response to state aid to U.S. aerospace. This mutual retaliation might bring a long-standing (16 year) dispute over large civil aircraft to a head. Meanwhile, it could inflict unwelcome collateral damage on a range of totally unrelated sectors such as retail products as the two sides exercise their option of applying retaliatory duties.

The impact of COVID-19 has only fueled further risks in the rise of protectionist trade policies and the resurgence of nationalism. We have already witnessed the potential implications of these trends during 2018-2019 as the U.S. and China became embroiled in a trade war. As uncertainty escalated, ever-changing trade policies forced businesses to boost operational flexibility to adapt to swift changes in trade flows.

Ongoing uncertainty in the international trade environment and foreign investment will lead to shifts in goods and investment flows. This will increase impetus to ongoing supply chain diversification while adding to the perceived value of geographic diversity in supply chains.

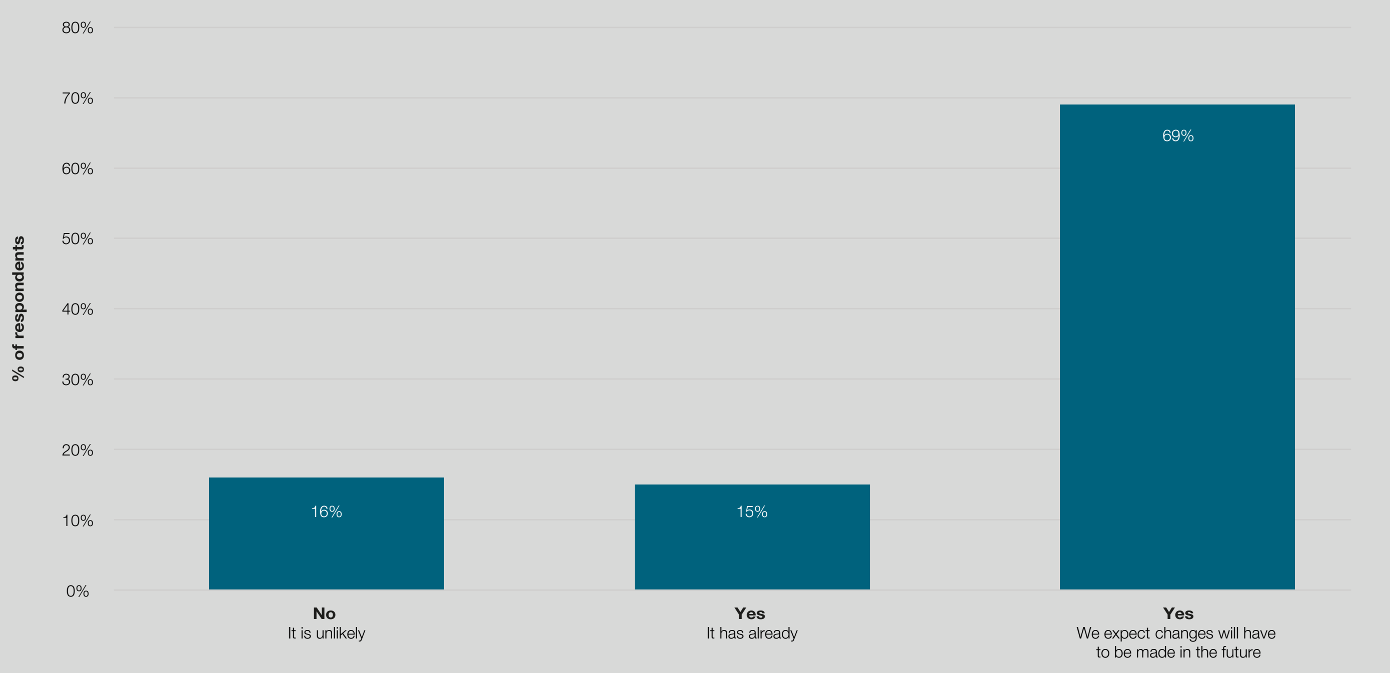
Indeed, our research shows that 15% of pan-European retailers surveyed have already been impacted by protectionist trade policies (Figure 5), while 69% expect changes in their supply chains will have to be made in the future because of escalating tensions.

Furthermore, future regulatory changes also risk wholesale shifts in international trade. These could include the payment of government subsidies, tax incentives, and a shift by the U.S. International Development Finance Corporation to promote inward investment. Domestic government procurement strategies of "buy local" and requirements for increased domestic production could be a feature of future sourcing.

Brexit angle

As the U.K. leaves the E.U. Customs Union on 1 January 2021, it will be free to pursue an independent trade policy. Amongst other things, this might enable the U.K. to distance itself from burgeoning trade disputes and negotiate bilaterally with the U.S. and others to reduce (or scrap) additional tariffs. On the other hand, as an independent trading nation, the U.K. may seek the authority from the WTO to impose extra duties of its own on other countries, provided it can demonstrate lawful adherence. Of course, outside of the Customs Union, U.K. trade may be liable to trade actions from the E.U. which, if successful, could lead to the imposition of extra tariffs on U.K. exports.

Figure 5. Do you think that protectionist trade policies are likely to impact the way that you source products in the future?



Source: Retail Economics

4. Sustainable supply chains

Early in the pandemic, apparent concerns around sustainability were at risk of falling to the wayside as firms focused on survival. However, as the initial shock resided, businesses and governments are considering how to build back better, with sustainability playing a major role.

The crisis has highlighted various compelling ESG-related scenarios that cannot be ignored as economies look to rebuild.

This will influence the future of international supply chains. These driving forces include:

- **On-shoring/re-shoring/near-shoring–** an obvious benefit of on-shoring is likely reductions in transportation carbon emissions.
- **Regulatory incentives –** Government rescue packages will incentivise investment into digital and green technologies.
- **ESG targets –** retailers will face increasing pressure for transparency of their ESG standard, including supply chain management and emissions data.
- **Consumer behaviour –** awareness of consumerism and its impact is influencing behavioural change with rising demand for sustainably-produced products.

Shorter supply chains help produce fewer emissions

Around 22% of global greenhouse gas emissions are attributable to the production and distribution of traded goods consumed abroad[3], around a third[4] of which are directly linked to trade-related freight transport. Shortening supply chains will abate some emissions embedded in the international transport of goods, encouraging businesses to move supply chains 'closer to home', while a more carbon-efficient local production base would also present obvious benefits.

However, the potential reduction in carbon emissions is not always clear-cut. For example, more carbon-producing transport methods (e.g. road and rail compared to ocean freight), decouple the straightforward relationship between distance and carbon emissions. Other factors like the speed of freight are also important. Reducing the speed of ocean freight (thereby increasing the time in transit) can yield significant carbon reduction. Nevertheless, on-shoring will also help European retailers reduce their exposure to regions with potentially higher social risks associated with poor labour conditions.

[3] CarbonBrief
[4] International Transport Forum

Incentives to build back green

The E.U. will play a major role in the economic recovery following the pandemic. In addition to a seven-year €1.1 trillion budget (Multi-Annual Financial Framework[5]), the E.U. is poised to agree on an additional fund of around €750 billion in the form of grants and low-cost loans to support the European economy as it recovers from the effects of COVID-19.

This additional €750 billion (coined the 'Next Generation E.U.' Fund) will allow the European Commission (E.C.) to borrow directly on the financial markets for the first time. The ambition being to herald this as a green stimulus package within the COVID-19 response, aligned with the E.C.'s commitment to sustainability and the green agenda. Conditionalities placed on disbursement of the fund will rely on governments and companies' ambitions toward a green and digital transition. As the E.U. plans to inject significant amounts of money into countries (and companies), incentivising recipients to deploy capital to sustainable projects will be paramount to protect the European Green New Deal which will have clear implications on supply chains.

[5] At least 30% of the E.U.'s new €1.1 trillion budget is earmarked climate objectives in particular E.U. commitments to Implement the Paris Accord and the U.N. Sustainable Development Goals.

Although specific details of the program are yet to be agreed upon, Spain might likely receive the largest proportion of funding as a percentage of gross GDP (7.9%), followed by Italy (5.7%), France (2.1%) and Germany (1.0%). Switzerland and the U.K. would not qualify for support. The U.K. has yet to publish details of its future state aids program, although it has hinted that it wants the flexibility to support a range of economic activities that may not be possible under existing E.U. State Aids rules.

Other regulatory incentives include a Carbon Border Adjustment Mechanism. This will allow producers in the E.U. to meet tough and expensive sustainability requirements, particularly carbon reduction targets, without suffering cost disadvantages relative to importers. Spain, Italy, France and Germany, being part of the E.U., are close to adopting new rules which would allow the application of additional duties to imports of products which will benefit from price advantages over E.U. products due to lower environmental standards which are cheaper to comply with. This will further incentivise near-shoring and on-shoring for many manufacturers and retail brands residing in the E.U.

ESG-focused investors

European retailer boards will come under increasing pressure to deliver compelling sustainability stories to investors. This will create greater visibility around ESG goals, driving greater transparency around demonstrating tangible metrics and ratings based on their actions.

Currently, corporate disclosures remain vague, lack comparability and depth, and are often infrequent. But as investors demand more visibility, and the terms of corporate finance increasingly hinge on the outcome of investors' ESG analysis, retailers will be pressured to pursue actionable outcomes to reduce carbon emissions amongst other goals.

The influence of ESG rating providers (e.g. MSCI) has risen significantly in recent years, dovetailing with huge demand for sustainable investment from large pension funds to retail investors, looking to investment products that "do good" as well as generate returns. More than 360 new ESG-focused funds were launched in 2019. This is up 2.5 times in the previous year, generating €120 billion in investments[6].

These underlying trends will sharpen the dialogue between borrowers and investors, which will become more dominated by ESG with supply chains playing a critical role.

Retailers are already reviewing how they source products as a critical enabler to satisfy ESG goals. Our research showed that 70% of retail respondents have already changed the way they source products to help meet their ESG goals; the remaining 30% plan to do so in the future (Figure 6).

[6] Morningstar

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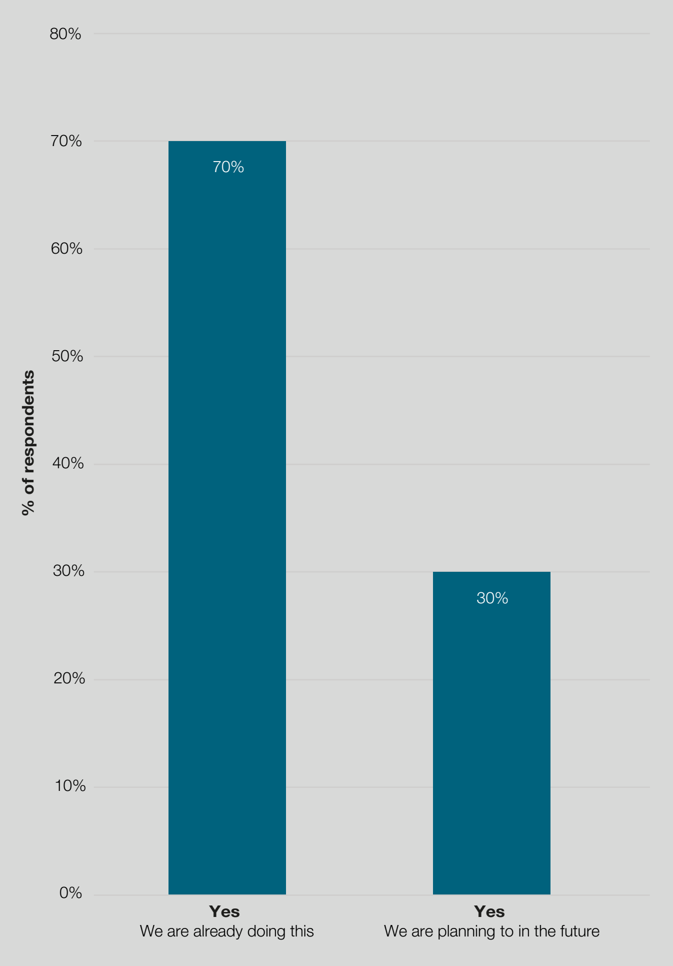
Figure 6. Does your firm have plans to change the way it sources products to help meet ESG goals?



Source: Retail Economics

More than ever before, consumer awareness and their expectation of more responsible and ethical practices from retail brands are driving business change.

Part of these plans also incorporates on-shoring with 46% of retail respondents claiming they already source more from their domestic economies to help meet ESG targets. 39% suggested that they plan to do more in the future to support these ambitions.

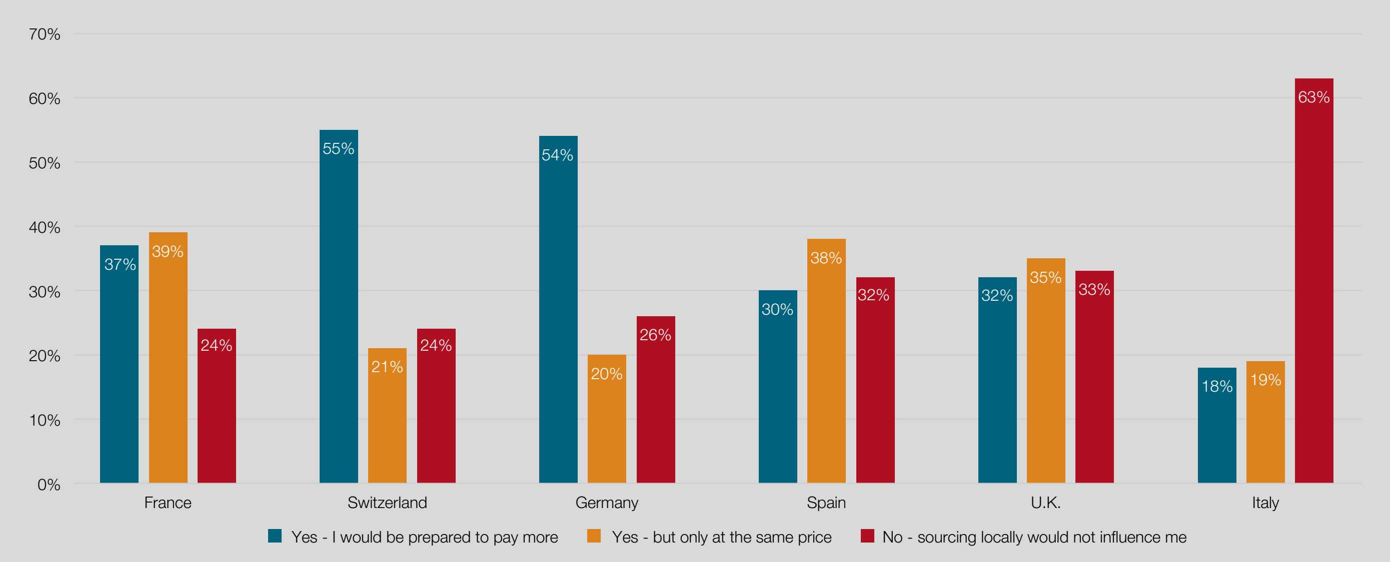
Consumer pressure

Sustainable consumption and production of products have become a critical issue for consumers, influencing their choice of where to shop.

More than ever before, consumer awareness and their expectation of more responsible and ethical practices from retail brands are driving business change. Several retailers interviewed suggested that sustainable behaviour appears to be influencing consumer choice, whether it's the environmental impact of textile production, food or furniture (including energy consumption), water use, packaging, waste, provenance, chemicals, dyes/finishes or greenhouse gas emissions.

Our research confirms that consumer sentiment around local sourcing is an important factor in choosing products, but considerable differences arise by geography (Figure 7). Indeed, Italian consumers are almost twice as likely to suggest that a product's origin has no bearing on their purchasing decision compared with almost every other European country surveyed. Sizeable differences also arise in consumers' willingness to pay more for goods sourced locally. More than half of Swiss and German consumers agreed they would pay more, compared with around a third of consumers in the U.K.

Figure 7. If a retailer or brand sourced products from your domestic economy to help meet carbon emissions targets, would it influence where you shopped?



Source: Retail Economics, survey conducted between 30 September and 4 October 2020, sample = 3,000

5. Technology

Technological advancement has revolutionised supply chains in recent years. The drive towards efficiency has streamlined supply chains, from warehousing robotics and autonomous ships to computerised shipping and tracking.

Whether it's greater efficiency, better communication or enhanced transparency, the supply chain continues to evolve at pace, and the role of technology is central to future development.

The COVID-19 crisis has put even greater emphasis on using technology to build more resilient supply chains. Indeed, the WTO noted that the pandemic has led to accelerated trends towards digital trade and increased use of electronic communication, creating growth in business-to-business e-commerce.

Technological innovation and adoption will shape the future of supply chains, driven by:

→ **Digitalisation:** the buyer-supplier relationship will make identifying, recruiting and switching suppliers more efficient and build stronger supply chains.

→ **Automation:** its impact has the potential to make it more economical to manufacture closer to domestic economies.

→ **Artificial intelligence:** to pre-empt supply chain disruption, utilise big data, waste reduction, cyber-security, autonomous vehicles and identify opportunities.

Paperless trade

Despite the rapid advancement of technology, administration between buyers and suppliers remains predominantly paper-based. The transition towards new supply chain models will be underpinned by the digitisation of paperwork that accompanies global trade, helping to build more resilient supply chains.

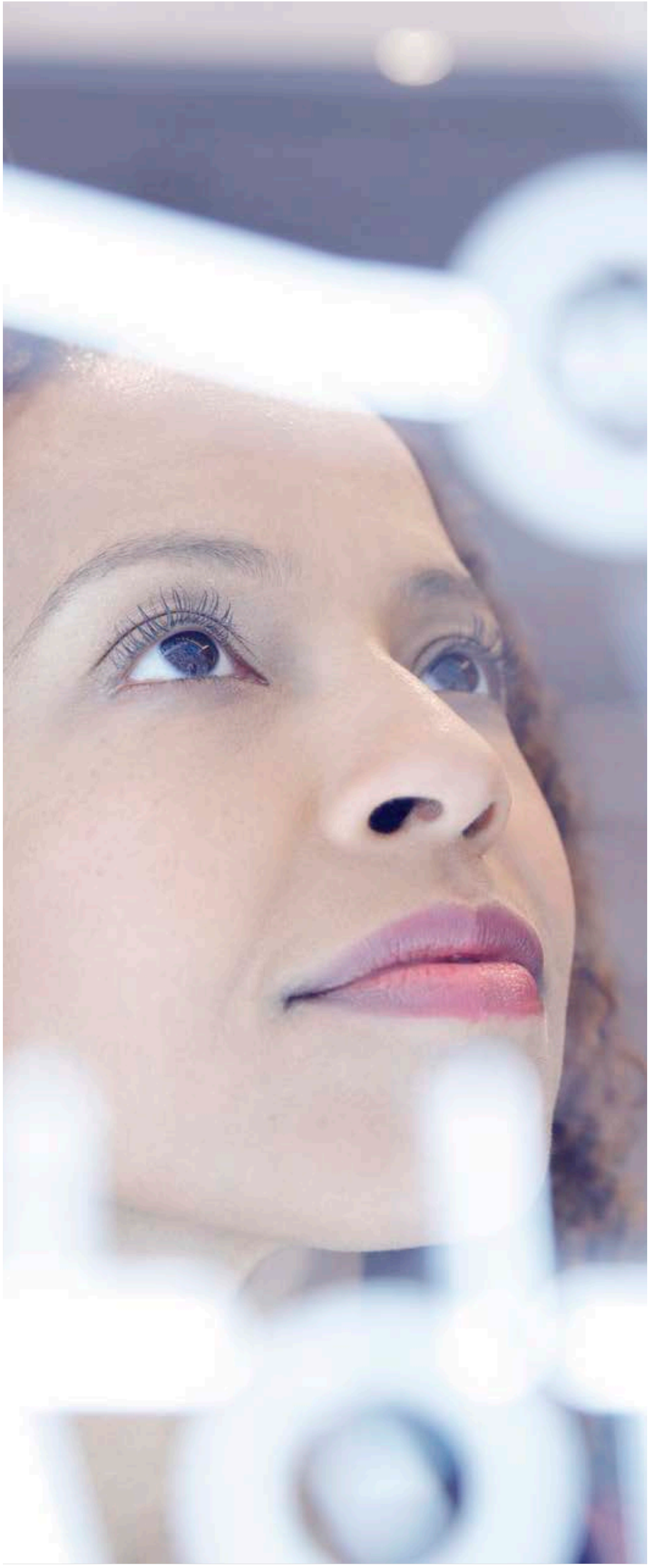
The current crisis presents an opportunity to reset a system that has relied on outdated processes, replacing it with smarter and nimbler digital frameworks that will be better placed to deal with future shocks.

Blockchains are already playing an increasingly important role in the reliability, security and transparency of supply chains, with its adoption likely to increase. In the food industry, traceability is critical to food security and quality. For example, Nestlé and Carrefour collaborated to use IBM's Food Trust platform for their GUIGOZ Bio 2 and 3 infant milk range in a bid to boost consumer confidence by providing transparency on their product (GUIGOZ Bio 2 and 3 packaging). This transparency in the supply chain further increased the benchmark for Nestlé and Laboratoires Guigoz, to ensure a high standard of care for the quality of their products.

Automation

Clearly, labour costs are critical for determining manufacturer location and where retailers choose to source. It stands to reason that production processes relying on labour intensive tasks, meaning that on-shoring or near-shoring supply chains may not be commercially viable for many parts of the supply chain.

However, these costs could be partially mitigated using automation in certain areas of the supply chain, with human tasks being replaced with robotics and other autonomous technology. This is far from new as many parts of the supply chain have already been automated to varying degrees. However, as the cost of automation continues to fall, and as governments and financial market incentives become more attractive, a tipping point will emerge where a strong economic case for automation in domestic economies becomes credible. For example, following the financial crisis, the U.S. government introduced new incentives and credits to encourage job creation and domestic manufacturing. Tesla and Ford received $465m and $5.9bn respectively, in government loans as an economic stimulus to accelerate electric vehicle (EV) capabilities. Similar strategies by the E.U. and other governments could be used to incentivise on-shore production.



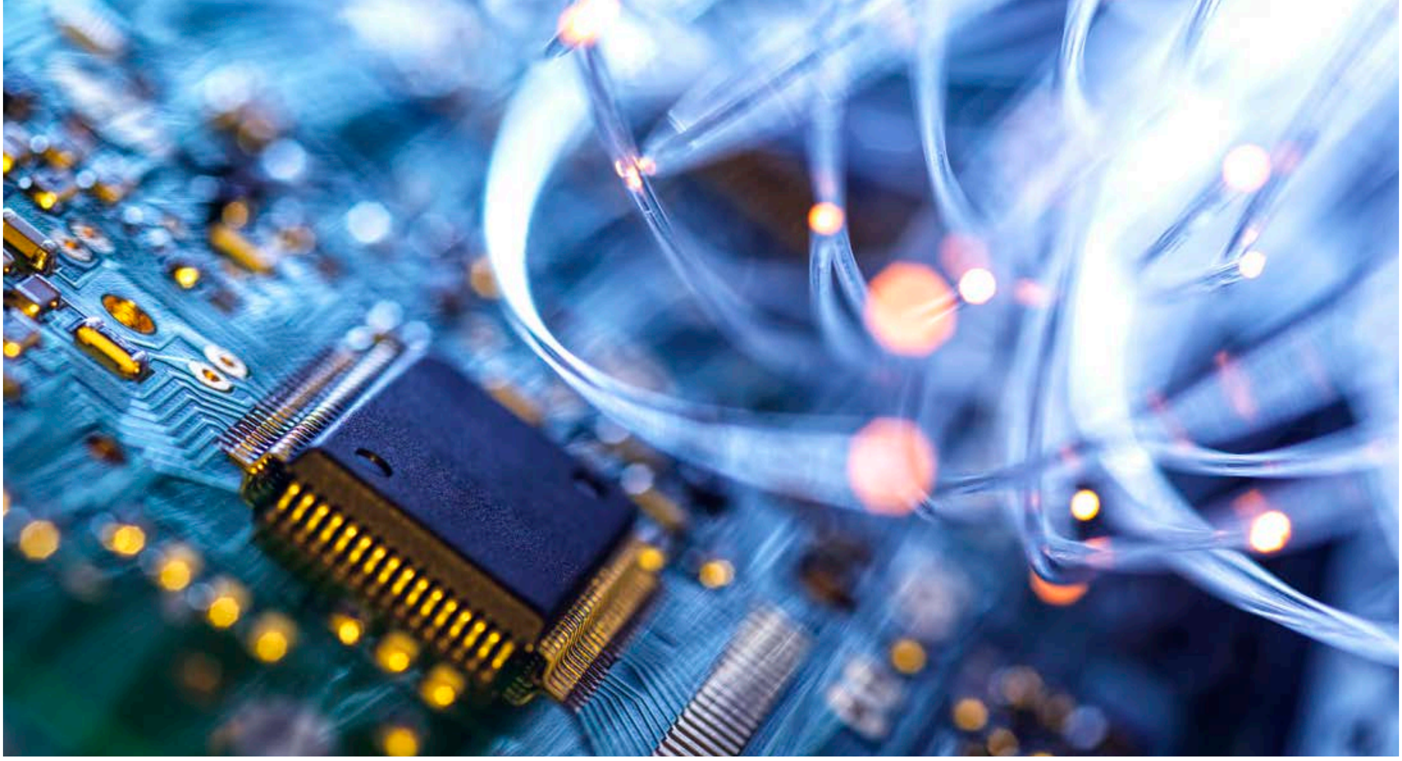
Artificial intelligence (AI)

Traditionally, the application of artificial intelligence within supply chains has been focused on demand planning, forecasting and waste reduction. Machine Learning (ML) techniques have been applied for many years to improve and refine processes to boost efficiencies.

However, artificial intelligence is now permeating all stages of the supply chain, from sourcing raw materials and connecting with customers, to encouraging brand loyalty. For example, ML is being used to adapt to changing conditions and priorities in warehouses and distribution centres. While 'pick density' might be an initial priority, as carrier cut-off times approach, priorities may shift to meet other obligations in an automated manner.

Big data fuels AI systems; and ML supply chain applications will need big data platforms to collect, cleanse and organise data – turning it into actionable insights to improve supply chain efficiency. For example, in August 2018, JDA Software completed the acquisition of Blue Yonder, a market leader in AI solutions for retail and supply chains. The acquisition accelerated JDA's vision of an Autonomous Supply Chain by leveraging the Blue Yonder platform. It connected their Service Control Point (SCP) systems to external data – particularly social, news, event, and weather data – enabling more automated and optimised business decisions. The ambition is for retailers to be able to leverage an end-to-end supply chain solution with integrated AI to provide better planning, analysis and execution on a cognitive, connected platform.

...artificial intelligence is now permeating all stages of the supply chain, from sourcing raw materials and connecting with customers...

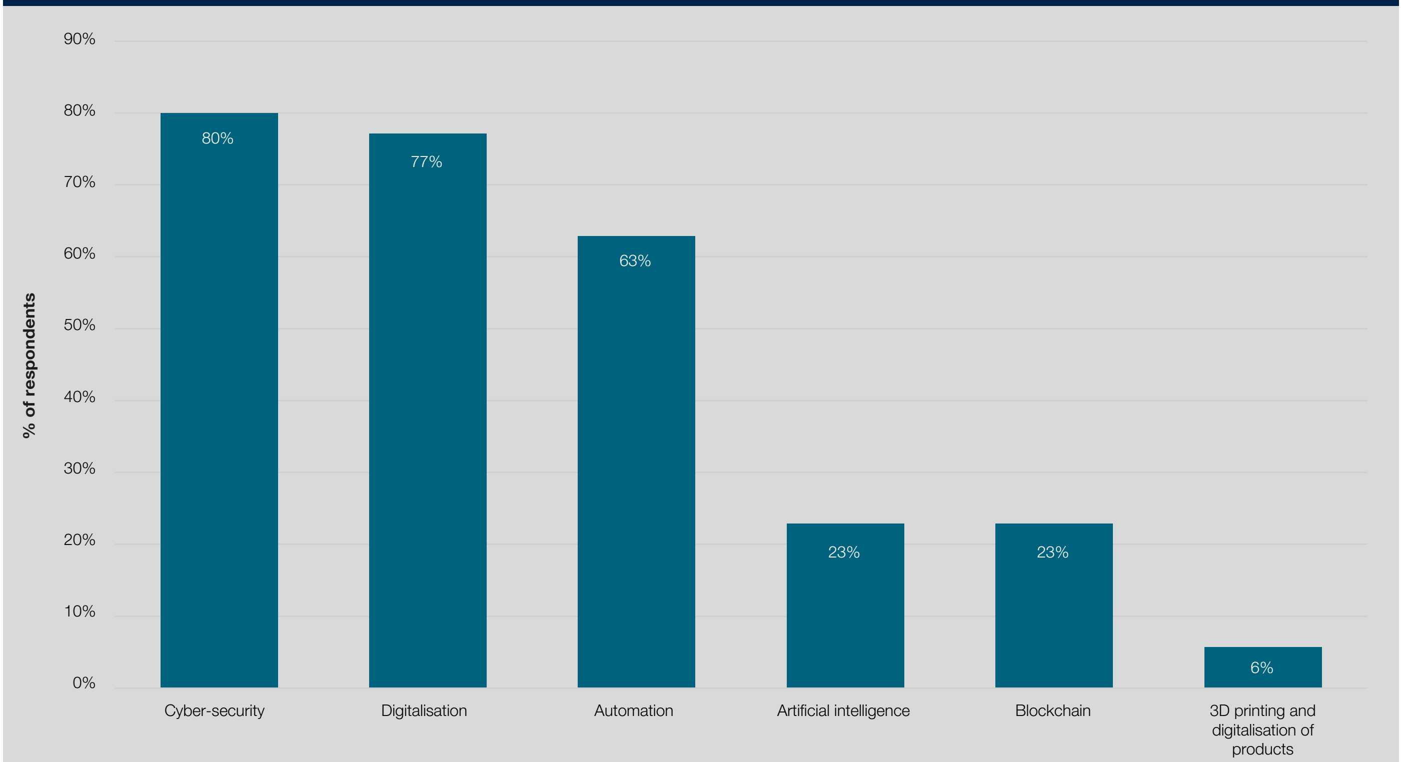


Immediate priorities

During the research, interviews with retailers confirmed that they remain focused on immediate business priorities – supply chain security, digitalisation and automation (Figure 8). For many, these changes can bring about sizeable rewards with minimal investment.

While the use of AI can leverage benefits in time, many retailers lack the in-house expertise to develop their own systems, highlighting a significant knowledge gap. Strategic partnerships with specialised companies are likely to dominate retailers' strategies for adopting these technologies going forward.

Figure 8. Which of the following are you considering as part of any investment in supply chain technology?



Source: Retail Economics

Section 2:

Sensitivity analysis: The impact of on-shoring

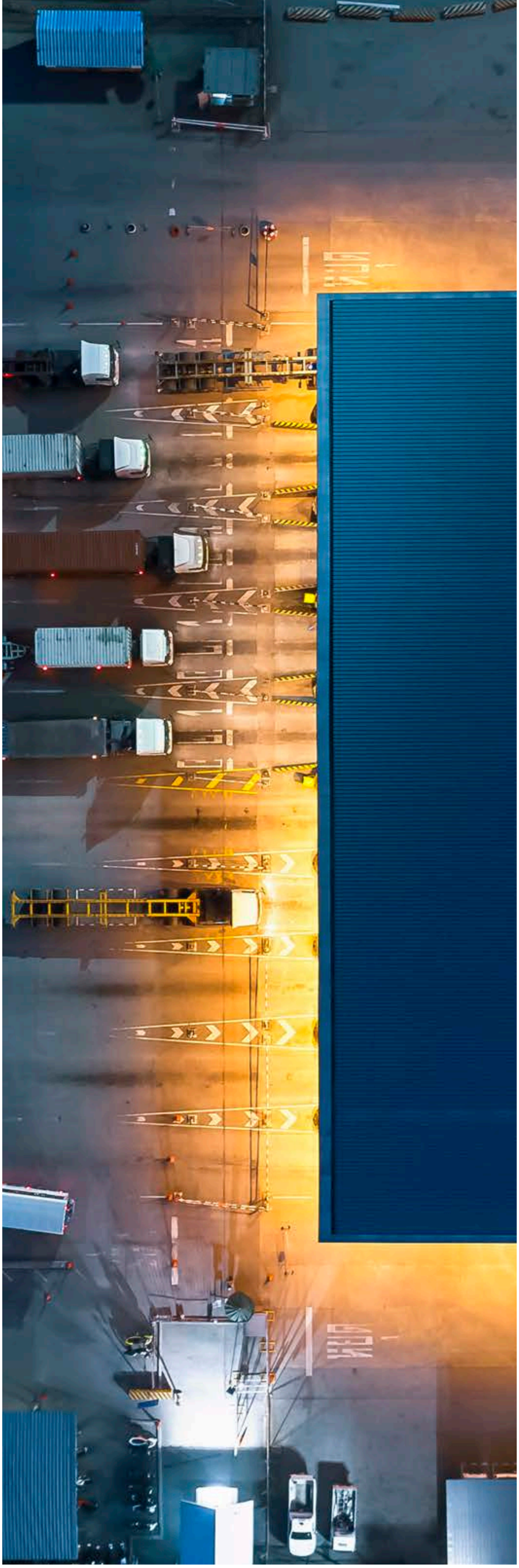
As retailers prioritise building more resilient supply chains, the prospect of sourcing products from domestic economies (on-shoring) emerged as a strong theme for many. Our research revealed that some retailers had already begun to source more domestically as they looked at alternative strategies to mitigate the impact of supply chain disruption.

Furthermore, our research highlighted that other underlying motivations around the impact of Brexit, carbon reduction ambitions and consumer behavioural change combined to add further weight and, in some cases, urgency to this strategy.

As part of our research, we conducted a retailer survey that includes data from over 30 of the largest European retailers with a combined turnover of €600 billion. In-depth interviews were conducted to understand better the motivations, desire and ability for businesses to generate greater sourcing capabilities from their domestic markets.

Interviews were also conducted across a range of industry experts including financial services, government departments and industry trade bodies.

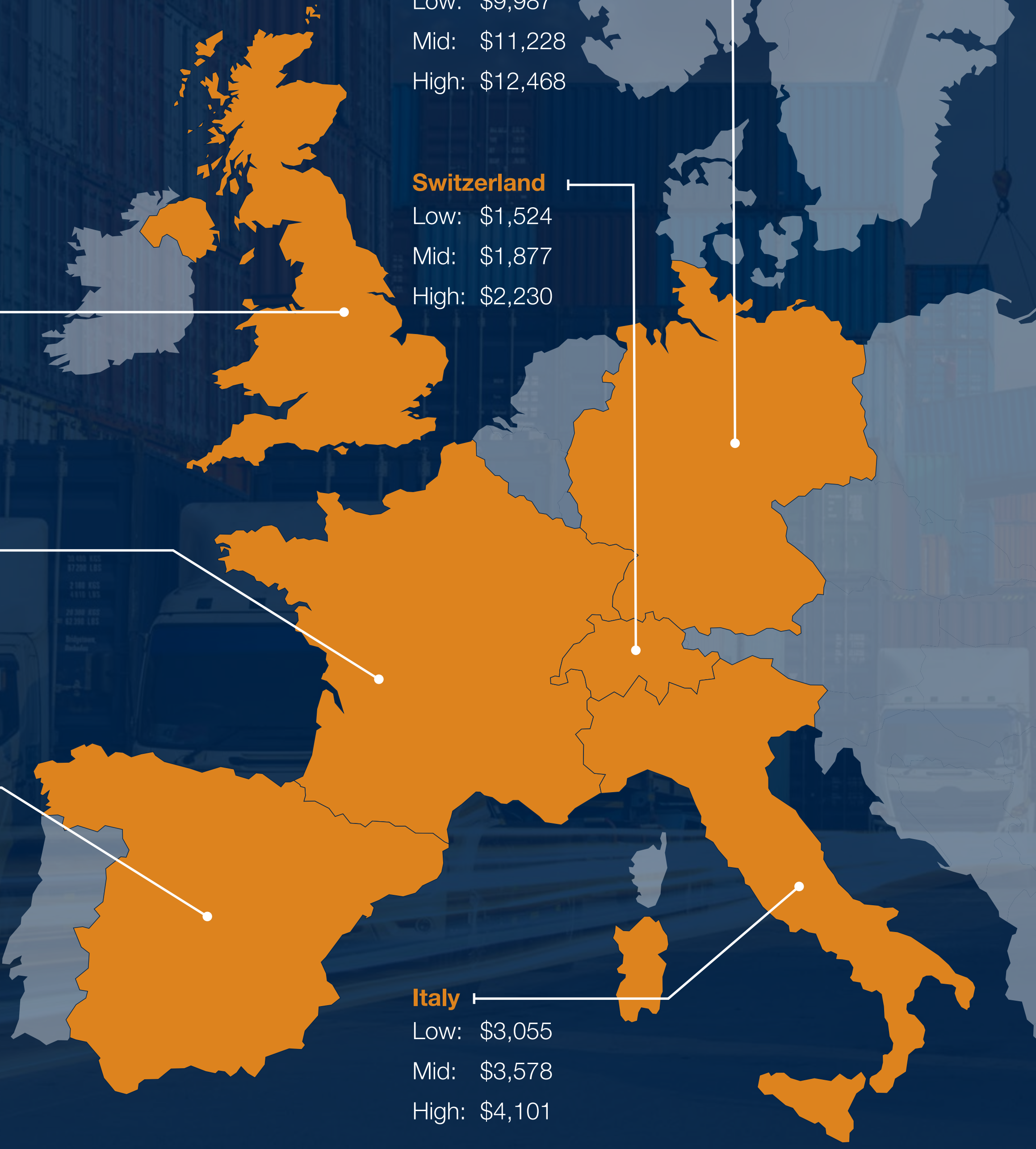
...the prospect of sourcing products from domestic economies (on-shoring) emerged as a strong theme for many.



Leveraging these data and insights, we estimate that across the six European countries covered in the research (U.K., Italy, Spain, France, Germany and Switzerland) c.$31.5 billion worth of trade could be on-shored over the coming 12 months, equating to around 3.6% of total imports of retail products across these countries (Figure 9).

While the appetite for on-shoring appeared healthy across the retailers we spoke with, there was a clear message that higher costs and lack of supply were two key barriers that were likely to inhibit sourcing from domestic markets. The pace of moving to on-shoring would be driven by efficiency, with concerns that if it occurred too quickly, significant near-term cost pressures could arise. The companies that relied on human labour to ramp up production in a short time frame could end up building highly inefficient supply chains, and without care could damage market share due to price point inflation.

Figure 9. On-shoring estimates for retail trade by country and scenario over the next 12 months
$ millions



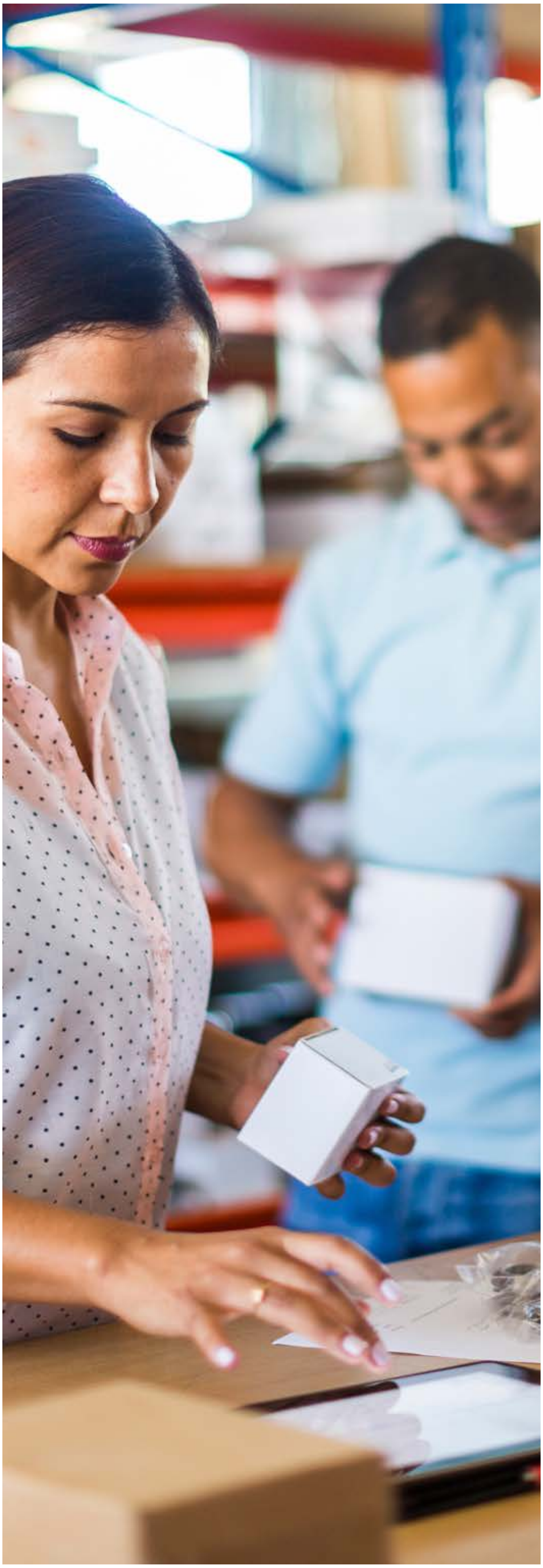
Source: Retail Economics

Section 3:

Operational Toolkit – Strategies to navigate through the COVID-19 pandemic and beyond

International supply chain networks are transitioning through a period of intense change, affected by significant interconnected forces. The impact of COVID-19 acted as a catalyst for businesses to review and prioritise strategies around building more resilient supply chains that are fit-for-purpose in the context of increasing geopolitical volatility and pressures around ESG.

Many retail businesses could see this as an opportunity to 'reset' their thinking around supply chains. For some, immediate measures are necessary to protect the viability of their businesses; but further out, more strategic decisions will be required to future-proof operations for long-term success.



Many retail businesses could see this as an opportunity to 'reset' their thinking around supply chains.

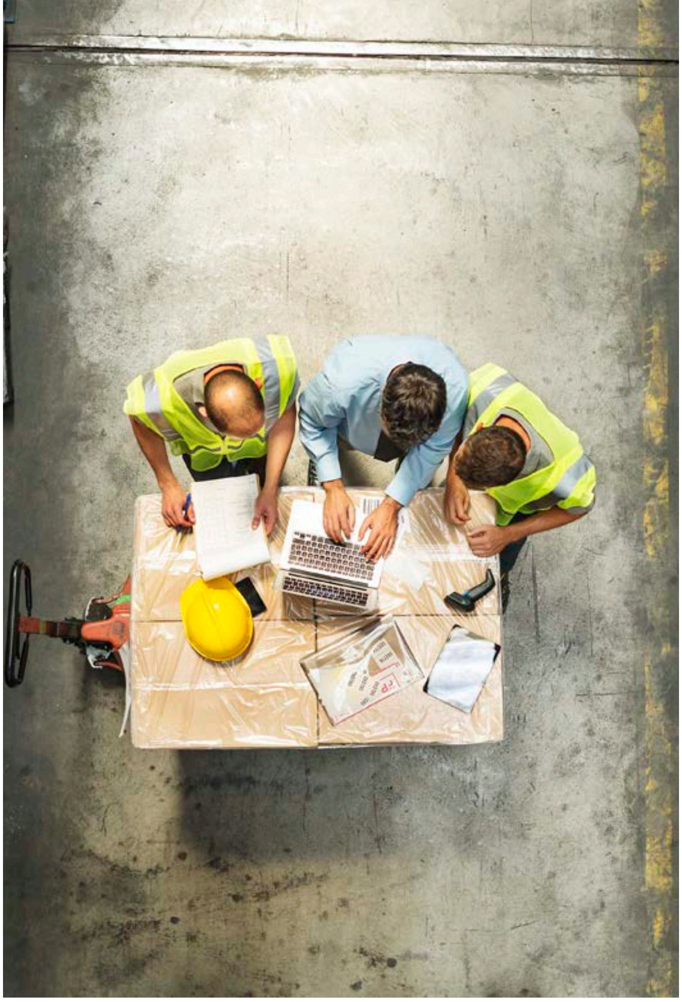
1. Workforce management

For most retailers, business continuity will largely hinge on their ability to intelligently manage their workforce throughout their supply chain, whether it's on the shop floor or elsewhere in the supply chain.

The majority will require visibility over their Tier 1 suppliers and develop relationships that instil confidence that adequate measures are in place to limit the risk of plant closures. This will be critical when planning for periods of peak demand such as Christmas and Black Friday. Factories, distribution centres and logistic providers are at risk of running at reduced capacity because of control measures, such as social distancing, or illness. In the event of reduced capacity, understanding how allocation priorities will be treated will also be essential in minimising the impact on businesses. What's more, the ability to re-route distribution to different distribution centres can help manage capacity constraints.

It will also be critical for retailers to prepare succession plans for vital positions throughout the supply chain, ensuring key executive (and management) positions have adequate cover, should employees need to self-isolate or become ill. These plans should consider both short-term and long-term implications, preparing for all eventualities at all levels of seniority.

To limit these risks, firms should also focus on educating employees on COVID-19 symptoms and preventative measures that feed into clearly defined HR protocols.



Factories, distribution centres and logistic providers are at risk of running at reduced capacity because of control measures, such as social distancing, or illness.

Retail brands will need to assess the impact in both financial and operational terms and also develop solutions that limit the impact of supply chain disruption.

2. Agile planning

Contingency planning across the business will be vital in reducing risks and identifying ways to mitigate the impact of the virus. Retail brands will need to assess the impact in both financial and operational terms and also develop solutions that limit the impact of supply chain disruption.

A continuous review and risk assessment of supply chains is needed so that businesses have built in the necessary flexibility to switch suppliers, operate parallel supply chains if needed, or switch supplier countries if localised disruption persists. Identifying the weakest links in supply chains and understanding the impact that disruptions could have in meeting supply requirements is critical.

To operate in a fast-paced, dynamic environment, having complete visibility of supplier inventory, production capacity and live order fulfilment status will be essential. Where possible, it will also be important to trace extended supply chain networks to assess risks further down the supply chain. In addition, the ability to conduct risk assessments of Tier 2 suppliers and plan for potential disruption (e.g. seeking out alternative suppliers to keep plant operation near full capacity) will be extremely important. This will require companies to quickly adopt a digital-first approach.

Consideration should also be given to essential product lines. If further supply chain disruption occurs, retail brands will need to pivot production to core product lines. In many cases, this requires key components used in the production of multiple goods to be reserved, limiting the impact across ranges.

It's also vital that retailers stress test their in-house ordering systems to ensure changes to ordering volumes can be efficiently executed without negatively impacting ordering algorithms. For some businesses, it may be appropriate to consider inventory buffers where conditions allow. Building up strategic stockpiles to mitigate against potential supply shortages could prove prudent, given elevated levels of uncertainty. However, key considerations will require diligent assessments, such as impact on cashflow, product seasonality, storage costs and shelf-life.

3. Digital transformation

The imperative for businesses to adopt a 'digital-first' approach to their supply chains has never been more pressing. It will become the norm for intelligent retailers to quickly identify bottlenecks in supply chains and to pivot towards alternative suppliers to ensure supply continuity.

However, this will require antiquated paper-based systems to be replaced with digital supply chains to drive greater transparency, faster and more data-driven decision making.

COVID-19 may accelerate the use of Internet of Things (IoT) hardware, which links the physical and digital worlds. Leveraging data science and analytics to bring real-time visibility across the entire supply chain will help achieve greater precision and efficiency. Providing a detailed view of stock, sales, orders, deliveries, and returns across all channels will enable more accurate demand forecasting, better inventory management and deliver important cost savings.

Digital transformation will also be pressing at the final stages of the supply chain as the relentless shift towards online shopping becomes a key feature within the industry. In our report 'The Shape of Retail: Consumers and the New Normal' we outlined how the impact of COVID-19 has led to a permanent shift in online shopping. Investment in appropriate levels of automated distribution centres and micro-fulfilment hubs (to meet heightened demand for online shopping) will become essential for many retailers to meet this shift in demand. Final mile deliveries and efficient handling of returns processed back into the supply chain will be particularly challenging for many retailers.

Retail brands will also have to adapt to a new customer journey which puts digital at its heart, from the awareness of products on social media to the tracking of deliveries and organising returns. Providing a single customer view across multiple digital and physical touchpoints, and across a more complex customer journey, will deliver rich rewards. Companies will have to quickly pivot business models to adapt to a new set of customer expectations which will rely heavily on digital technologies.

4. International trade

Specific expertise around international trade policy, the implication of Brexit (and beyond), and continual assessment of the geopolitical environment will be critical in determining efficient trading strategies.

The impact of Brexit (resulting from a no-deal or a Free Trade Agreement at the time of writing) will not be felt evenly across geographies or sectors. Disruption across international trade policy presents a significant opportunity for retailers to gain a competitive advantage, should they understand the implications and can move quickly to take advantage of specific policy changes.

For example, the Northern Ireland Protocol is a hugely complex area where an in-depth understanding of the Internal Markets Bill requires specialist expertise. Retail brands operating across these geographies need to appreciate the implications, plan for disruptions and spot opportunities to gain a competitive advantage.

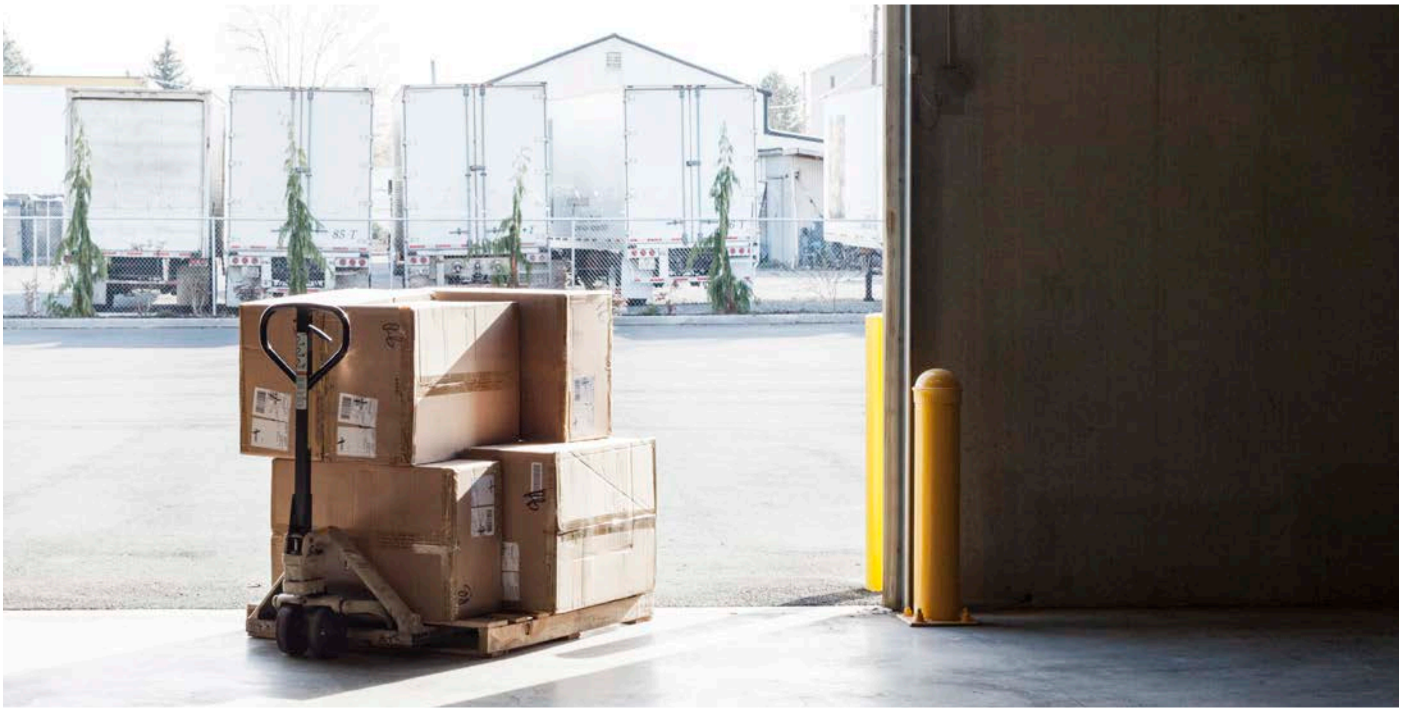
5. Leading ESG

It will become essential for retail brands to develop credible, realistic and measurable ESG commitments that address sustainability and wider societal responsibilities. Retail brands will come under increasing pressure to disclose more data on their carbon emissions and the impact of their sourcing, supply chains, labour practices, waste and many other factors.

A greater level of transparency and depth of data will be used to provide context and will be a vital source of information for investors to identify opportunities (and risks) across a businesses' value chain.

The current dearth of corporate disclosures will create future challenges as corporate finance increasingly hinges on the outcome of investors' ESG analysis; this comes at a time when the appetite for ESG-focused investments continues to rise.

What's more, sustainability investment strategies will increasingly incorporate not just what companies do (as their principal business activity), but how they do it. This presents an opportunity for retail brands who lead on ESG standards, as the asset-pool for greener investments rapidly grows.



Conclusion

Some companies are clearly better prepared than others to mitigate the impact of COVID-19 and the other challenges that European retailers will face regarding their supply chains in the coming years.

It will be critical for retailers to implement supply chain risk management and business continuity strategies to weather more challenging and volatile trading conditions which can be expected over the next 12 months.

Considering these five key measures in the operational toolkit will help businesses prepare for some of these eventualities and provide them with the best chance to develop agility within their production and distribution networks, providing them with the tools to better sense and respond, and even predict supply chain issues.

It will be critical for retailers to implement supply chain risk management and business continuity strategies.

Appendix:

Country trade factsheets

United Kingdom

Sector Summary

International Trading Outlook

Outlook

- The U.K. will exit the E.U. on 1 January 2021. The natures of the future relationship remains unclear and both parties are still far apart on important issues like fisheries and state aid.
- U.K. is still negotiating deals with E.U., U.S., Canada, Australia and New Zealand, accounting for 66% of total U.K. trade flows.

Opportunities

- Opportunities lie in the further on-shoring of agri-food supply chain. U.K. food self-sufficiency rate increased from 60% in 2018 to 64% in 2019 according to DEFRA.
- In the event of a no-deal, the temporary unilateral reduction of tariffs could lead to cheaper imports from some countries.

Risks

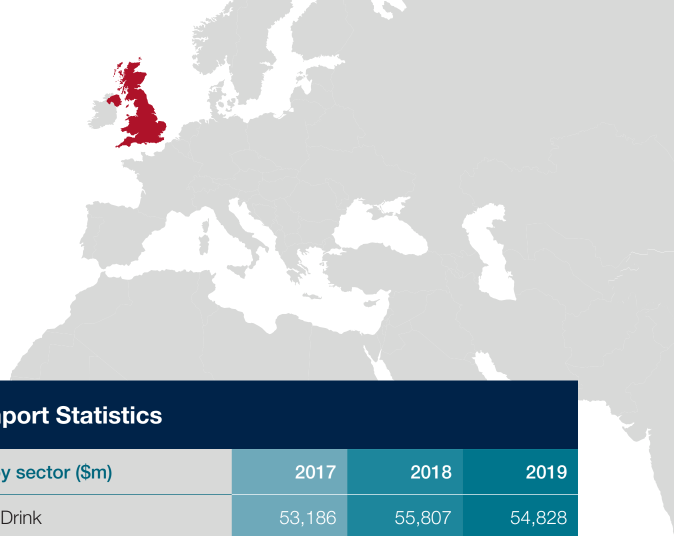
- New tariff and regulatory barriers make U.K. goods less competitive on E.U. markets.
- A no-deal Brexit leads to additional regulatory burdens which add significant cost and hinders the free flow of goods and services.

Possible Outcomes

- No-deal Brexit drives on-shoring in food and drink and possibly quality clothing and footwear.

Retail sector and market size

Retail Sector	**International Trade**		**Key Trading Partners**	
	Imports	**Exports**	**Exports**	**Imports**
Food and Drink	$55 billion	$27 billion	Ireland – 16% United States – 11% France – 10.1%	Netherlands – 11.6% Germany – 10.0% France – 9.8%
Clothing and Footwear	$36 billion	$12 billion	Germany – 21.5% Ireland – 13.8% France – 10.2%	China – 21.5% Bangladesh – 10.2% Italy – 9.4%
Health and Beauty	$22 billion	$24 billion	United States – 12.5% Germany – 11.6% Ireland – 8.2%	Germany – 15.4% France – 11.9% Belgium – 11.8%
Electricals	$15 billion	$5 billion	Ireland – 13.8% Germany – 12.2% United States –10.7%	China – 24.2% Netherlands – 13.5% Germany – 13.4%
DIY and Gardening	$15 billion	$9 billion	Germany – 14.9% Ireland – 10.7% United States – 8.4%	China – 15.6% Germany – 14.4% Netherlands – 12.8%
Furniture and Flooring	$13 billion	$5 billion	United States – 19.0% Ireland – 13.4% France – 11.3%	China – 34.4% Italy – 8.0% Germany – 7.9%
Sports, Toys and Leisure	$7 billion	$2 billion	Ireland – 14.6% Germany – 12.3% France – 11.9%	China – 54.9% Germany – 4.5% United States – 4.2%
Homewares	$6 billion	$3 billion	Ireland – 13.3% France – 8.2% Germany – 8.0%	China – 45.0% Pakistan – 8.2% Germany – 6.3%



United Kingdom

Sector Summary

Key Trade Statistics

U.K. Export Statistics

Exports by sector ($m)	2017	2018	2019
Food and Drink	25,272	27,178	26,886
Clothing and Footwear	11,639	12,328	11,968
Health and Beauty	26,063	24,651	23,502
Homewares	2,472	2,635	2,517
DIY and Garden	9,020	9,648	9,157
Electricals	5,983	6,166	5,461
Furniture and Flooring	4,354	4,460	4,660
Sports, Leisure and Toys	2,293	2,628	2,455
Total	**87,098**	**89,695**	**86,605**

U.K. Import Statistics

Imports by sector ($m)	2017	2018	2019
Food and Drink	53,186	55,807	54,828
Clothing and Footwear	35,117	36,331	36,086
Health and Beauty	24,501	23,847	21,693
Homewares	6,367	6,291	6,465
DIY and Garden	14,659	15,630	14,784
Electricals	15,683	16,407	15,170
Furniture and Flooring	13,017	13,221	13,289
Sports, Leisure and Toys	6,852	6,811	6,595
Total	**169,383**	**174,345**	**168,911**

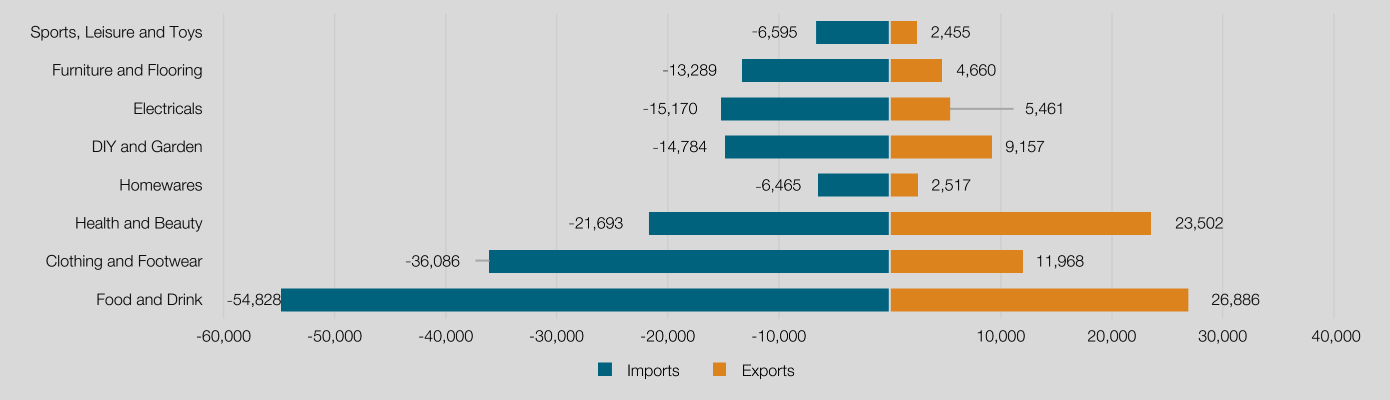
Top 10 Retail Export Markets

Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
Ireland	11,037	12.7%
Germany	9,803	11.3%
United States	9,097	10.5%
France	7,163	8.3%
Netherlands	5,760	6.7%
Spain	3,316	3.8%
China	3,299	3.8%
Italy	2,906	3.4%
Belgium	2,980	3.4%
Poland	1,891	2.2%

Top 10 Retail Imports Markets

Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
China	26,459	15.7%
Netherlands	15,779	9.3%
Germany	16,771	9.9%
France	11,776	7.0%
Italy	11,276	6.7%
Belgium	8,610	5.1%
Ireland	7,785	4.6%
Spain	7,307	4.3%
Poland	6,151	3.6%
United States	5,970	3.5%

Retail Balance of Trade ($m)



Spain

Country profile

International Trading Outlook

Outlook

- The International Monetary Fund (IMF) forecasts GDP to fall by 12.8% in 2020, a sharper decline than the Euro Area (-10.2%).
- Tourism makes up 14.3% of GDP in Spain, versus 9.5% in the European Union, which may be greatly affected by the restrictions generated by COVID-19.

Opportunities

- Spain may be significant beneficiary of grants from proposed E.U. recovery fund equivalent to 8% nominal GDP in 2019.

Risks

- No deal Brexit harms Spanish exports to U.K. Spain had £14 billion trade surplus with U.K. according to the Department of International and Trade.

Possible Outcomes

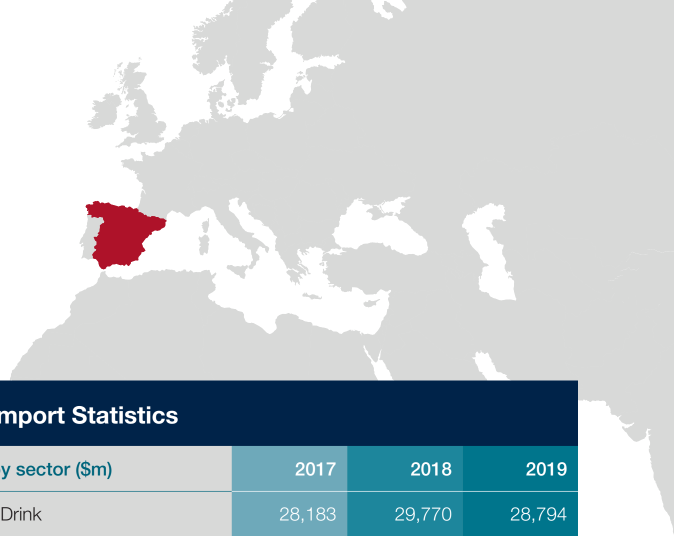
- Spanish economy may struggle to regain production capacity lost as a result of the pandemic.
- Policy makers have an opportunity to accelerate the country's digitisation, developing the infrastructure of the future, putting emphasis on a green economy as they build back better.

Retail sector and market size

Retail Sector	International Trade		Key Trading Partners	
	Imports	Exports	Exports	Imports
Food and Drink	$29 billion	$47 billion	France – 16.3% Germany – 13.0% Italy – 8.9%	France – 12.7% Germany – 10.1% Netherlands – 7.3%
Clothing and Footwear	$25 billion	$19 billion	France – 15.1% Italy – 11.5% Portugal – 8.6%	China – 23.4% Bangladesh – 13.0% Turkey – 11.0%
Health and Beauty	$14 billion	$14 billion	Switzerland – 18.6% Germany – 12.2% France – 8.7%	France – 16.2% United States – 16.2% Germany – 15.1%
Electricals	$6 billion	$3 billion	Portugal – 17.2% France – 15.7% Germany –15.1%	China – 28.5% Germany – 11.4% Netherlands – 6.7%
DIY and Gardening	$7 billion	$12 billion	France – 14.5% Portugal – 7.7% Germany – 7.3%	Germany – 21.0% China – 12.5% Italy – 10.9%
Furniture and Flooring	$5 billion	$4 billion	France – 23.5% Portugal – 12.0% Germany – 6.5%	China – 30.6% Portugal – 10.5% Germany – 9.8%
Sports, Toys and Leisure	$3 billion	$2 billion	France – 41.3% Italy – 14.5% Portugal – 11.3%	China – 58.0% Germany – 6.4% Italy – 3.8%
Homewares	$3 billion	$2 billion	France – 21.4% Portugal – 11.0% Italy – 9.4%	China – 42.7% France – 5.9% Germany – 5.8%

Spain

Country profile



Key Trade Statistics

Spain Export Statistics

Exports by sector ($m)	2017	2018	2019
Food and Drink	42,992	45,860	46,559
Clothing and Footwear	18,473	19,028	19,083
Health and Beauty	12,038	13,106	14,435
Homewares	2,250	2,337	2,297
DIY and Gardening	11,825	12,736	12,437
Electricals	2,595	2,943	2,842
Furniture and Flooring	3,863	4,048	4,106
Sports, Leisure and Toys	1,963	2,200	2,249
Total	**96,000**	**102,257**	**104,009**

Spain Import Statistics

Imports by sector ($m)	2017	2018	2019
Food and Drink	28,183	29,770	28,794
Clothing and Footwear	23,365	24,978	25,430
Health and Beauty	12,956	14,067	13,843
Homewares	3,254	3,344	3,190
DIY and Gardening	7,096	7,669	7,381
Electricals	6,551	6,923	6,497
Furniture and Flooring	4,794	5,206	5,055
Sports, Leisure and Toys	3,626	3,618	3,474
Total	**89,825**	**95,574**	**93,665**

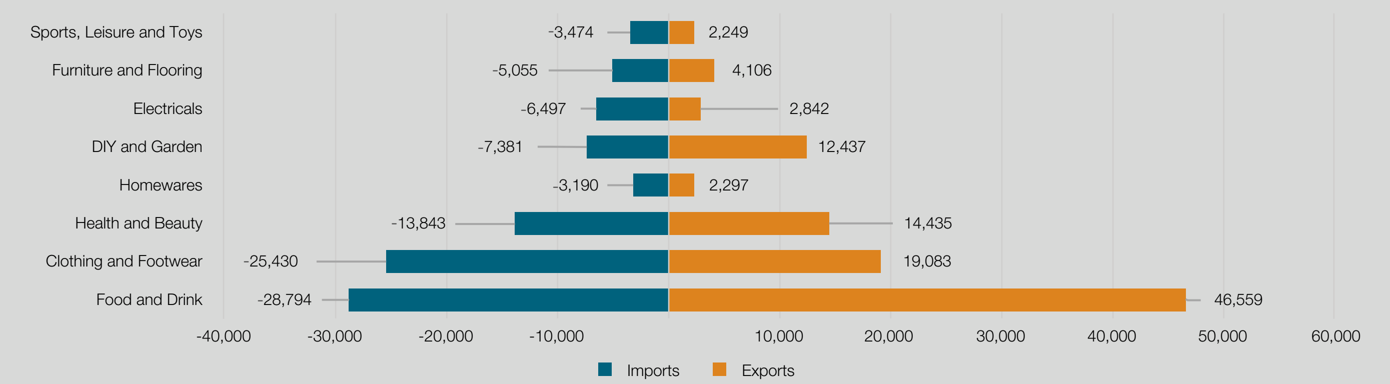
Top 10 Retail Export Markets

Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
France	16,333	15.7%
Germany	10,909	10.5%
Portugal	8,853	8.5%
Italy	8,696	8.4%
United Kingdom	7,177	6.9%
United States	3,878	3.7%
Netherlands	3,858	3.7%
Switzerland	3,661	3.5%
China	3,297	3.2%
Poland	3,003	2.9%

Top 10 Retail Imports Markets

Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
China	14,504	15.5%
Germany	8,620	9.2%
France	8,608	9.2%
Italy	6,120	6.5%
Netherlands	4,971	5.3%
Portugal	3,996	4.3%
United States	3,754	4.0%
Morocco	3,882	4.1%
Turkey	3,533	3.8%
Bangladesh	3,374	3.6%

Retail Balance of Trade ($m)



France

Country profile

International Trading Outlook

Outlook

- The International Monetary Fund (IMF) forecasts GDP to fall by 12.5% in 2020, a sharper decline than the Euro Area (-10.2%).
- Strong government intervention may help French manufacturing survive the downturn in domestic and international demand as a result of COVID-19.

Opportunities

- France may receive grants from proposed E.U. Recovery Fund equivalent to 2.1% of gross GDP in 2019.
- France has unveiled a €100bn-Euro economic stimulus package to help repair the economic damage caused by coronavirus.

Risks

- The United States may retaliate against any new E.U. “Digital Tax” with new tariffs including on French luxury consumer goods.

Possible Outcomes

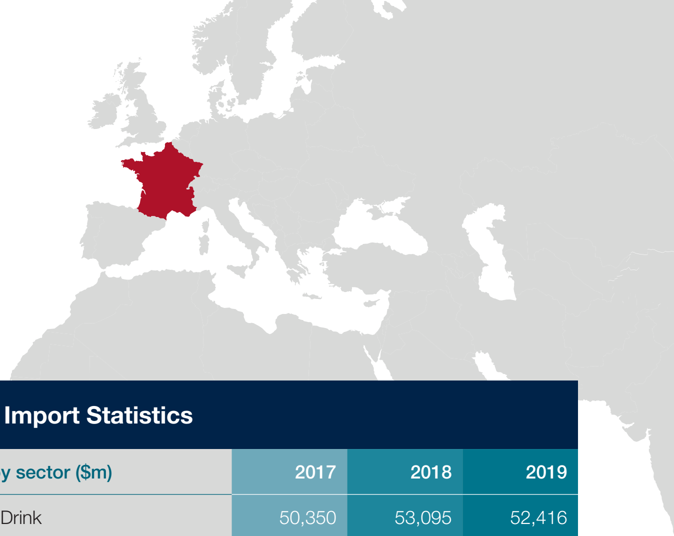
- Possible new trade deals with Mercosur (Brazil, Argentina), Australia and New Zealand provide significant new competition to France in E.U. markets.
- €30bn package will be used on greener energy policies.

Retail sector and market size

Retail Sector	International Trade		Key Trading Partners	
	Imports	Exports	Exports	Imports
Food and Drink	$52 billion	$54 billion	Germany – 10.7% United Kingdom – 10.0% United States – 9.9%	Spain – 14.2% Belgium – 13.9% Netherlands – 13.8%
Clothing and Footwear	$39 billion	$27 billion	Italy – 12.1% Germany – 9.5% United Kingdom – 9.5%	China – 14.9% Italy – 13.7% Belgium – 9.7%
Health and Beauty	$21 billion	$45 billion	United States – 14.2% Germany – 10.3% Italy – 9.0%	Germany – 18.5% Italy – 13.1% Netherlands – 10.7%
Electricals	$14 billion	$6 billion	Germany – 17.6% Italy – 7.5% Spain –7.5%	Netherlands – 18.2% Germany – 17.8% China – 16.4%
DIY and Gardening	$18 billion	$10 billion	Germany – 15.6% Spain – 9.4% Belgium – 9.0%	Germany – 21.6% Netherlands – 11.5% Italy – 11.4%
Furniture and Flooring	$13 billion	$4 billion	Germany – 16.7% Spain – 8.7% United States – 7.8%	China – 18.0% Germany – 14.7% Italy – 13.4%
Sports, Toys and Leisure	$6 billion	$2 billion	Italy – 14.8% Germany – 13.0% Spain – 12.0%	China – 19.6% Netherlands – 15.4% Spain – 14.9%
Homewares	$7 billion	$3 billion	Germany – 11.5% Spain – 9.2% Italy – 8.1%	China – 25.9% Germany – 11.1% Belgium – 10.2%

France

Country profile



Key Trade Statistics

France Export Statistics

Exports by sector ($m)	2017	2018	2019
Food and Drink	51,667	53,879	54,019
Clothing and Footwear	22,100	25,187	26,638
Health and Beauty	40,815	43,609	44,758
Homewares	3,277	3,499	3,460
DIY and Gardening	9,654	10,422	9,951
Electricals	5,891	6,235	6,101
Furniture and Flooring	4,341	4,529	4,435
Sports, Leisure and Toys	1,988	2,124	2,048
Total	**139,733**	**149,485**	**151,410**

France Import Statistics

Imports by sector ($m)	2017	2018	2019
Food and Drink	50,350	53,095	52,416
Clothing and Footwear	35,493	38,491	39,261
Health and Beauty	19,403	20,584	21,191
Homewares	6,122	6,523	6,539
DIY and Gardening	17,015	18,225	18,203
Electricals	13,449	14,208	13,971
Furniture and Flooring	11,713	12,739	13,268
Sports, Leisure and Toys	5,737	5,901	5,917
Total	**159,282**	**169,765**	**170,765**

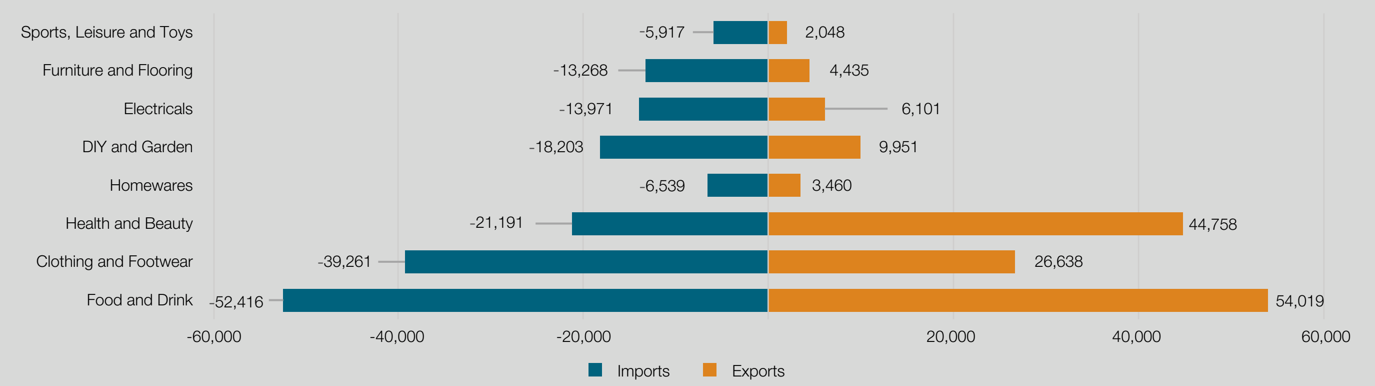
Top 10 Retail Export Markets

Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
Germany	16,956	11.2%
United States	15,286	10.1%
Italy	13,114	8.7%
United Kingdom	12,148	8.0%
Belgium	10,928	7.2%
Spain	10,585	7.0%
China	6,265	4.1%
Netherlands	5,577	3.7%
Switzerland	5,289	3.5%
Hong Kong	3,468	2.3%

Top 10 Retail Imports Markets

Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
Germany	23,467	13.7%
Netherlands	18,458	10.8%
Italy	18,153	10.6%
Belgium	17,986	10.5%
China	15,077	8.8%
Spain	15,677	9.2%
United Kingdom	6,955	4.1%
Switzerland	6,099	3.6%
Poland	4,838	2.8%
Ireland	3,513	2.1%

Retail Balance of Trade ($m)



Italy

Country profile

International Trading Outlook

Outlook

- The International Monetary Fund (IMF) forecasts GDP to fall by 12.8% in 2020, a sharper decline than the Euro Area (-10.2%).
- However, signs of a strong recovery following the most severe fall in industrial production of all E.U. countries in Q1/Q2 2020.

Opportunities

- New E.U. origin labelling rules favour Italian food products in the E.U. market.
- Proposed Border Adjustment Tax gives cost advantage over some non-E.U. imports.

Risks

- Exports of clothing and footwear to the U.K. more expensive as a result of no-deal Brexit.

Possible Outcomes

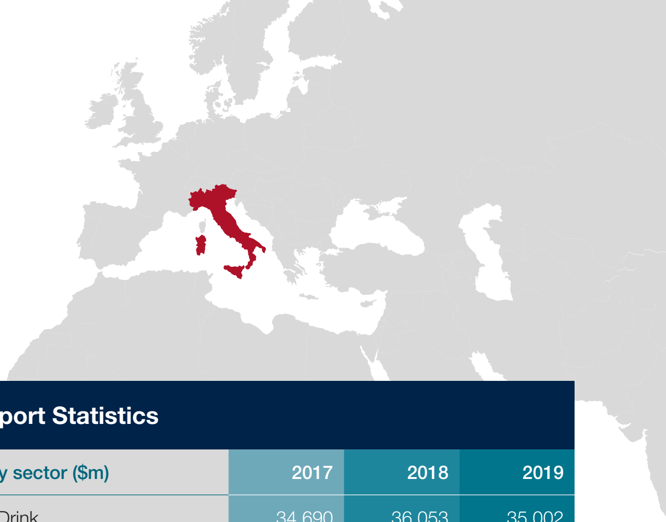
- New trade deals increase market access for quality Italian products in non-E.U. markets and strengthens protections for geographical indicators.

Retail sector and market size

Retail Sector	International Trade		Key Trading Partners	
	Imports	Exports	Exports	Imports
Food and Drink	$35 billion	$43 billion	Germany – 16.8% France – 11.2% United States – 10.2%	Germany – 16.0% Spain – 11.9% France – 11.1%
Clothing and Footwear	$27 billion	$51 billion	Switzerland – 17.3% France – 11.1% United states – 8.8%	China – 18.7% France – 12.0% Spain – 6.8%
Health and Beauty	$20 billion	$29 billion	United States – 17.1% Belgium – 16.5% Germany – 10.5%	France – 20.0% Germany – 14.4% Belgium – 14.4%
Electricals	$9 billion	$6 billion	Germany – 11.7% France – 10.1% United States – 6.7%	Germany – 20.1% China – 18.5% Netherlands – 10.6%
DIY and Gardening	$10 billion	$20 billion	Germany – 13.7% France – 12.7% United States – 8.3%	Germany – 24.1% China – 10.0% Netherlands – 8.4%
Furniture and Flooring	$4 billion	$14 billion	France – 15.3% Germany – 9.9% United States – 9.7%	China 30.7% Germany – 12.5% Poland – 7.2%
Sports, Toys and Leisure	$3 billion	$2 billion	France – 16.5% Germany – 10.7% United States – 9.3%	China – 33.2% France – 11.2% Spain – 9.8%
Homewares	$3 billion	$4 billion	France – 14.0% Germany – 12.9% United States – 7.2%	China – 34.3% Germany – 10.3% France – 8.9%

Italy

Country profile



Key Trade Statistics

Italy Export Statistics

Exports by sector ($m)	2017	2018	2019
Food and Drink	39,359	42,301	42,842
Clothing and Footwear	44,445	48,965	51,211
Health and Beauty	23,802	19,809	28,960
Homewares	4,447	4,603	4,236
DIY and Gardening	20,041	21,487	19,838
Electricals	6,005	6,466	6,036
Furniture and Flooring	14,167	15,136	14,254
Sports, Leisure and Toys	2,112	2,326	2,164
Total	**154,378**	**161,092**	**169,540**

Italy Import Statistics

Imports by sector ($m)	2017	2018	2019
Food and Drink	34,690	36,053	35,002
Clothing and Footwear	23,294	26,442	26,977
Health and Beauty	17,998	19,165	19,726
Homewares	3,346	3,539	3,353
DIY and Gardening	9,649	10,217	9,772
Electricals	8,461	9,007	8,513
Furniture and Flooring	4,196	4,553	4,298
Sports, Leisure and Toys	2,680	2,835	2,657
Total	**104,313**	**111,811**	**110,299**

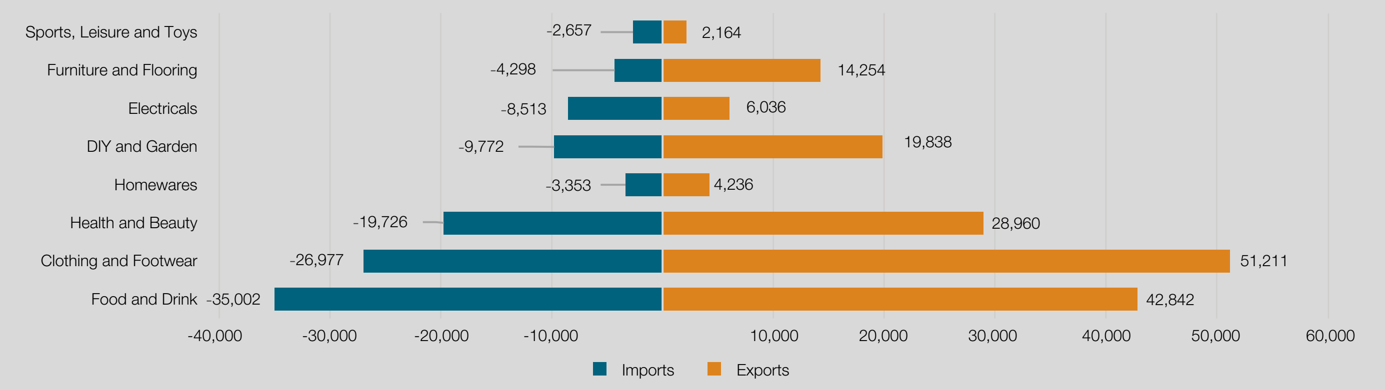
Top 10 Retail Export Markets

Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
Germany	19,984	11.8%
France	19,566	11.5%
United States	17,796	10.5%
Switzerland	13,331	7.9%
United Kingdom	11,682	6.9%
Spain	7,008	4.1%
Belgium	7,849	4.6%
Netherlands	4,595	2.7%
China	4,909	2.9%
Japan	4,552	2.7%

Top 10 Retail Imports Markets

Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
Germany	15,052	13.6%
China	11,417	10.4%
France	12,898	11.7%
Netherlands	8,287	7.5%
Spain	8,095	7.3%
Belgium	6,438	5.8%
Poland	3,349	3.0%
United States	2,953	2.7%
United Kingdom	2,631	2.4%
Ireland	2,428	2.2%

Retail Balance of Trade ($m)



Germany

Country profile

International Trading Outlook

Outlook

- The International Monetary Fund (IMF) forecasts GDP to fall by 7.8% in 2020, a shallower decline than the overall Euro Area (-10.2%).
- German industrial production has second worst rate of recovery of any E.U. country (July production only 88.3% of February production). Recovery rates for food and non-food consumer goods much higher.

Opportunities

- Proposed Border Adjustment Tax favours German goods over some non-E.U. imports.
- The government wants to revive the economy by boosting consumption through lower rates of value-added tax for the second half of the year and a one-off stipend for parents.

Risks

- No-deal Brexit affects German exports to U.K. Escalation of trade disputes with U.S. lead to new tariff barriers on German goods.

Possible Outcomes

- New trade deals would open some new markets to German exports.

Retail sector and market size

Retail Sector	International Trade		Key Trading Partners	
	Imports	Exports	Exports	Imports
Food and Drink	$80 billion	$68 billion	Netherlands – 11.7% France – 9.2% Italy – 8.6%	Netherlands – 16.9% Italy – 9.2% Poland – 8.4%
Clothing and Footwear	$58 billion	$36 billion	Switzerland – 14.0% Poland – 13.7% France – 9.9%	China – 24.9% Bangladesh – 11.1% Italy – 7.2%
Health and Beauty	$39 billion	$70 billion	United States – 16.3% Switzerland – 8.5% Netherlands – 7.0%	Switzerland – 15.9% France – 11.8% United States – 11.2%
Electricals	$30 billion	$26 billion	France – 9.7% Netherlands – 8.9% United Kingdom – 7.2%	China – 34.0% Poland – 7.4% Japan – 5.9%
DIY and Gardening	$32 billion	$45 billion	France – 9.0% Netherlands – 7.5% Austria – 6.7%	China – 13.4% Netherlands – 13.3% Italy – 7.2
Furniture and Flooring	$23 billion	$19 billion	France – 12.8% Austria – 10.1% Switzerland – 9.9%	China 21.8% Poland – 21.7% Czech Republic – 9.3%
Sports, Toys and Leisure	$9 billion	$7 billion	Poland – 23.9% Austria – 9.7% France – 9.4%	China – 39.6% Czech Republic – 11.0% Japan – 8.7%
Homewares	$11 billion	$9 billion	Austria – 11.5% France – 9.7% Netherlands – 7.9%	China – 41.2% Poland – 8.2% Turkey – 4.9%

Germany

Country profile

Key Trade Statistics

Germany Export Statistics

Exports by sector ($m)	2017	2018	2019
Food and Drink	67,308	69,650	68,431
Clothing and Footwear	31,282	35,923	36,860
Health and Beauty	64,866	69,057	69,662
Homewares	8,531	9,149	8,715
DIY and Gardening	43,980	47,474	44,987
Electricals	25,998	27,693	26,383
Furniture and Flooring	18,351	19,814	18,976
Sports, Leisure and Toys	6,119	6,756	6,574
Total	**266,435**	**285,515**	**280,588**

Germany Import Statistics

Imports by sector ($m)	2017	2018	2019
Food and Drink	78,765	82,644	80,439
Clothing and Footwear	55,669	59,113	58,203
Health and Beauty	34,538	37,663	39,194
Homewares	10,732	11,381	10,994
DIY and Gardening	31,313	33,557	31,833
Electricals	30,689	32,027	29,939
Furniture and Flooring	22,278	23,457	22,698
Sports, Leisure and Toys	8,518	9,815	9,425
Total	**272,501**	**289,658**	**282,725**

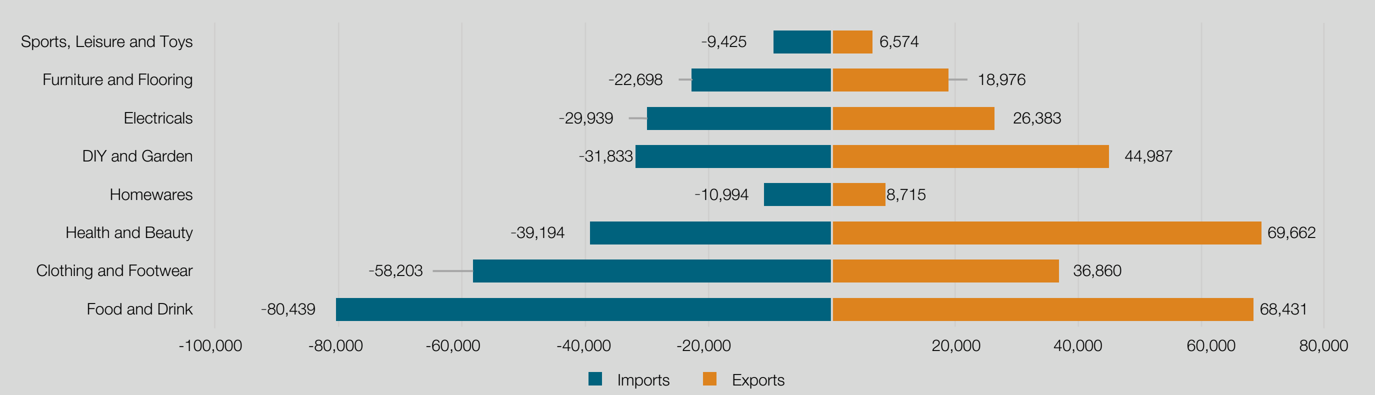
Top 10 Retail Export Markets

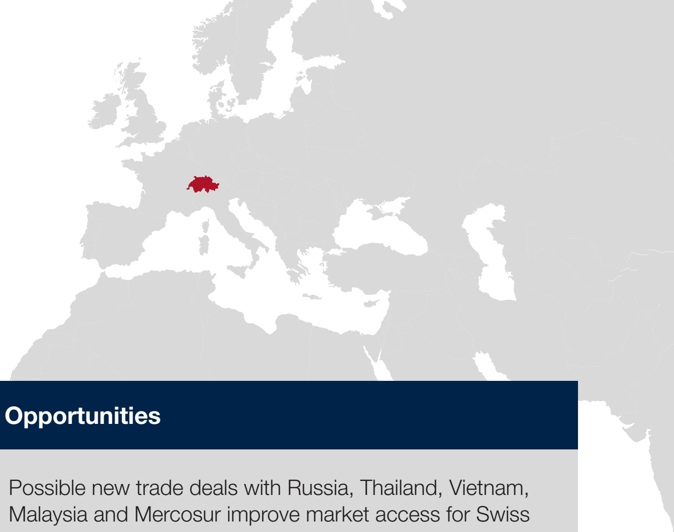
Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
Netherlands	24,487,080	8.7%
France	24,465,751	8.7%
Switzerland	19,528,505	7.0%
United States	19,289,750	6.9%
Austria	18,986,171	6.8%
Poland	18,580,767	6.6%
United Kingdom	16,212,009	5.8%
Italy	16,120,032	5.7%
Belgium	11,003,653	3.9%
Spain	10,350,093	3.7%

Top 10 Retail Imports Markets

Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
China	43,874,275	15.5%
Netherlands	26,576,354	9.4%
Poland	20,436,468	7.2%
Italy	19,050,674	6.7%
France	14,762,019	5.2%
Switzerland	11,311,232	4.0%
Spain	10,449,557	3.7%
United States	9,621,615	3.4%
Czech Republic	8,551,511	3.0%
Austria	8,361,813	3.0%

Retail Balance of Trade ($m)





Switzerland

Country profile

International Trading Outlook

Outlook

Total GDP expected to fall by 6.2% in 2020. Switzerland is heavily trade dependent and has suffered a sharp contraction in demand in major export markets as a result of the pandemic

Opportunities

Possible new trade deals with Russia, Thailand, Vietnam, Malaysia and Mercosur improve market access for Swiss consumer goods.

Risks

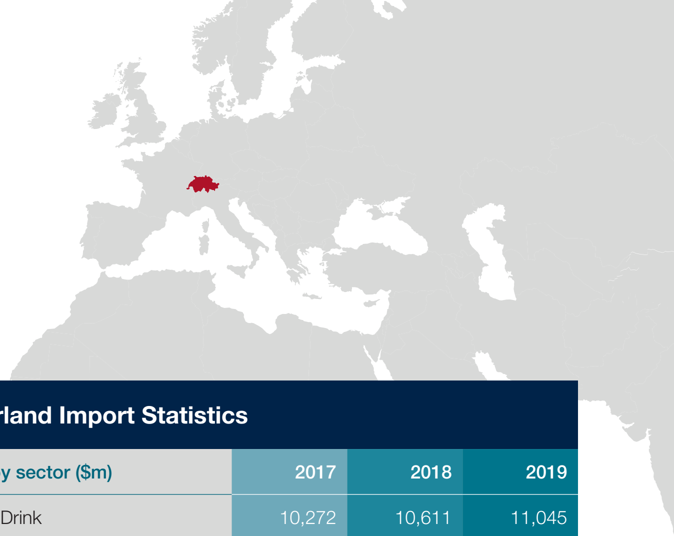
Subdued demand in export markets continues to hamper Swiss industrial growth.

Possible Outcomes

New trade deals added to existing agreements make Switzerland one of the most open markets in the world for non-food consumer goods.

Retail sector and market size

Retail Sector	International Trade		Key Trading Partners	
	Imports	Exports	Exports	Imports
Food and Drink	$11 billion	$15 billion	United Kingdom – 26.8% United States – 10.1% Germany – 7.9%	Italy – 15.5% Germany – 14.2% France – 12.0%
Clothing and Footwear	$11 billion	$4 billion	Germany – 56.9% Italy – 10.1% United States – 5.3%	China – 23.3% Italy – 17.3% Germany – 13.9%
Health and Beauty	$23 billion	$49 billion	United States – 26.3% Germany – 11.9% Slovenia – 5.9%	Germany – 30.3% Italy – 14.9% Spain – 13.7%
Electricals	$4 billion	$2 billion	Germany – 25.7% United States – 13.9% France – 7.2%	China – 31.3% Germany – 22.2% Japan – 5.1%
DIY and Gardening	$6 billion	$5 billion	Germany – 26.8% United States – 7.3% France – 6.0%	Germany – 39.7% Italy – 12.0% Netherlands – 6.6%
Furniture and Flooring	$5 billion	$1 billion	Germany – 49.5% France – 8.4% Austria – 5.6%	Germany – 35.8% Italy – 14.0% China – 10.8%
Sports, Toys and Leisure	$1 billion	$1 billion	United States – 16.3% Germany – 13.9% France – 9.2%	China – 35.4% Germany – 22.6% Austria – 4.3%
Homewares	$2 billion	$1 billion	Germany – 34.6% United States – 8.8% France – 6.3%	Germany – 26.6% China – 23.6% Italy – 9.0%



Switzerland

Country profile

Key Trade Statistics

Switzerland Export Statistics

Exports by sector ($m)	2017	2018	2019
Food and Drink	8,732	9,104	15,196
Clothing and Footwear	3,373	4,178	4,331
Health and Beauty	42,771	46,956	49,165
Homewares	590	590	516
DIY and Gardening	5,466	5,534	5,261
Electricals	1,603	1,584	1,540
Furniture and Flooring	923	929	822
Sports, Leisure and Toys	192	217	186
Total	**63,650**	**69,091**	**77,015**

Switzerland Import Statistics

Imports by sector ($m)	2017	2018	2019
Food and Drink	10,272	10,611	11,045
Clothing and Footwear	9,705	10,995	11,211
Health and Beauty	20,780	21,000	22,589
Homewares	1,967	2,064	2,001
DIY and Gardening	6,382	6,638	6,245
Electricals	3,507	3,544	3,555
Furniture and Flooring	4,645	4,888	4,689
Sports, Leisure and Toys	1,253	1,278	1,288
Total	**58,511**	**61,018**	**62,624**

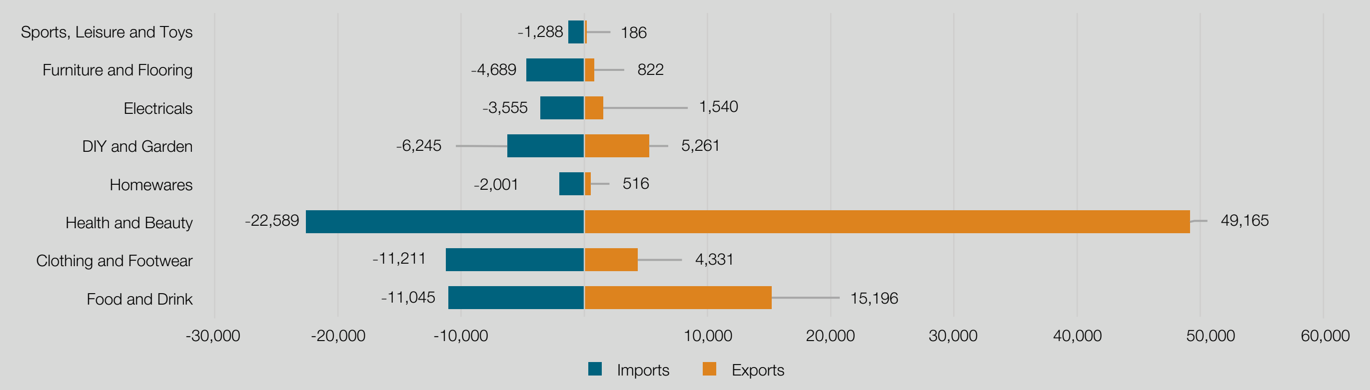
Top 10 Retail Export Markets

Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
United States	15,421	20.0%
Germany	11,941	15.5%
United Kingdom	5,922	7.7%
France	3,570	4.6%
Italy	3,422	4.4%
China	3,013	3.9%
Slovenia	2,935	3.8%
Japan	2,647	3.4%
Belgium	2,008	2.6%
Netherlands	1,876	2.4%

Top 10 Retail Imports Markets

Top 10 Markets in 2019/20	Imports $ Million	% of Total Trade
Germany	15,751	25.2%
Italy	8,786	14.0%
China	5,668	9.1%
Spain	4,334	6.9%
France	3,720	5.9%
Austria	3,724	5.9%
United States	1,741	2.8%
United Kingdom	1,836	2.9%
Netherlands	1,562	2.5%
Vietnam	948	1.5%

Retail Balance of Trade ($m)



Methodology

Retail Economics conducted an online survey and telephone interviews with 30 of the largest European retailers, with a combined turnover of over €600 billion, between 28 September to 7 October 2020, which was used to support our rationale for the future of retail supply chains across Europe.

In addition, a consumer panel survey was conducted between 30 September and 4 October 2020 across the U.K., Spain, Italy, Germany, France and Switzerland covering over 3,000 households [Figure 7].

A&M: LEADERSHIP.ACTION.RESULTS.℠

A&M has worked with some of the largest European and global retailers to stabilise financial performance, transform operations, catapult growth and accelerate results through decisive action.

When traditional improvement activities are not enough, A&M's restructuring and turnaround heritage brings fact-based, action-oriented leadership to transformation and delivers rapid results.

Our professionals have both operational and advisory experience together with a proven track record in leading businesses through tough, complex situations:

- **Operating model transformation and cost reduction** to ensure the resources and skills of an organisation are organised to deliver the strategy and ensure future success
- **Supply chain and operations** Sales and operations planning, global logistics, warehouse strategies, advanced methods for e-fulfilment, network planning, distribution, performance improvement.
- **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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A & M

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Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 5,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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