FUTURE OF RETAIL

SERVITISATION

Elastic brands: retail's diversification drive

Facing an increasingly uncertain future, several players are branching out, providing services ranging from rental homes and renewable energy to weddings and workouts. Are these extreme brand extensions a stretch too far?

Simon Brooke

Even before the pandemic accelerated the ecommerce revolution, many British retailers were busy transforming their high-street stores into venues offering services and enhanced customer experiences as well as goods, seeking a level of engagement that could never be achieved over a smartphone.

This trend has strengthened since the Covid trading restrictions were eased, as the sector faces new challenges that have driven some players to rethink their business models entirely and, in some cases, venture boldly into uncharted territory.

For instance, the John Lewis Partnership surprised many observers by announcing a move into residential property development. In June, it revealed plans to build on top of two of its Waitrose supermarkets in Greater London and convert a vacant warehouse in Reading into homes. These developments will form part of the UK's burgeoning build-to-rent market.

The partnership's stated aim is to "raise standards in rental property, through our role as developer and our commitment to manage the buildings".

Last August, Ikea announced plans to sell renewable energy to domestic consumers, starting in Sweden. Ingka Group, which controls most Ikea stores, will buy solar- and wind-generated electricity on the Nord Pool power exchange and sell this on to customers without a surcharge.

Selfridges, which opened a cinema at its Oxford Street branch in 2019, has recently obtained a wedding licence, so that customers can go there to do more than simply buy an outfit for the big day. Packages range from the modest "Just the two of us" option through to the "All-out extraordinary wedding", which includes a make-up appointment with the store's beauty concierge and hair styling at its Daniel Galvin salon. The couple can make their vows at its wedding lounge before heading to a private room at the Brasserie of Light for a three-course meal with 20 guests.

> **In the late 1980s, Next came close to collapse after it had diversified too quickly into non-core activities**

"Retailers occupy the envious position of having direct contact and engagement with the consumer. In many cases, they can become a trusted partner," observes Rhiannon Thomas, partner and managing director at the Kearney consultancy. "What's particularly interesting about the latest shifts is that retailers are looking to meet an end-to-end consumer need, rather than merely offering services adjacent to their retail lines."

In John Lewis's case, it's about providing "all the services to create the best home for you, including the building. This is similar to Nike offering you all the services to motivate you to run," she says.

Given that such developments represent a radical form of brand extension, they need to sit well with the retailer's existing offerings. Ikea uses solar panels to generate much of the energy required by its stores, for instance, and it sells these products widely in Continental Europe and Australia. The firm's move into supplying renewable electricity therefore seems a logical and appropriate next step.

Similarly, it's not too much of a stretch to understand why chocolate retailer Hotel Chocolat might have chosen to build a hotel alongside its cocoa plantation on the Caribbean island of St Lucia.

Other brand extensions might seem more tangential, but they still make sense. For instance, menswear retailer Flannels has opened a fitness studio on the fifth floor of its flagship store in Liverpool for customers whose interest in their appearance extends beyond their wardrobe.

John Lewis certainly sees no incongruity in its move into the build-to-let market. "Delivering new rental homes is a natural extension of our heritage. It's what drives us as a business," says Chris Harris, the partnership's director of property, who points to John Lewis's expertise in providing products such as white goods and furniture along with services such as home styling, contents insurance and individual savings accounts, which many people use to build a deposit for a home.

"Most crucially, it allows us to play to our strengths of being a purpose-led, reputable brand with high quality standards. We believe that these core values apply as much to letting homes as they do to retail."

A retailer offering financial services is nothing new, of course. Sainsbury's Bank started life in 1997 as a joint venture between the supermarket chain and Bank of Scotland, for instance, before the former took full ownership in 2014. But there has been a fresh influx into this sector in recent years with the growth of embedded finance – integrated services that enable customers to pay for their products seamlessly. UK brands expect to generate £230bn from these services over the next five years, according to estimates by embedded finance provider OpenPayd.

The concept of a retailer that offers everything is something that dates back to the heyday of the department store in the late 1800s and early 1900s. Today, Amazon is following in this proud tradition. Having transformed from an online bookseller to a general retailer, the etail behemoth is using its considerable heft to enter sectors ranging from commercial insurance to medical care.

Such diversification is not without its dangers, notes Professor Adrian Palmer, head of marketing and reputation at Henley Business School.

"Management time may become focused on a large number of peripheral problem businesses, diverting attention away from the core enterprise," he says. "If a company is struggling in its main market when other players are succeeding, the question must be asked whether that business has the management talent to cope in sectors that are less familiar to it."

Palmer points out that a hasty and poorly focused expansion would put a strain on any enterprise, however well resourced.

"In the late 1980s, for example, Next came close to collapse after it had diversified too quickly into non-core activities, including travel services and wallpaper manufacturing," he says.

Buffeted by problems such as high inflation, staff shortages and disrupted supply chains, retailers are taking a risk and doing some impressively innovative thinking to refresh and, in some cases, reinvent themselves. But, as ever, it's largely down to the consumer to decide whether their bold gambits will prove successful or not.

54%

of retail executives anticipate year-on-year sales revenue growth of up to 5% in 2022

32%

anticipate growth of 5% or more

14%

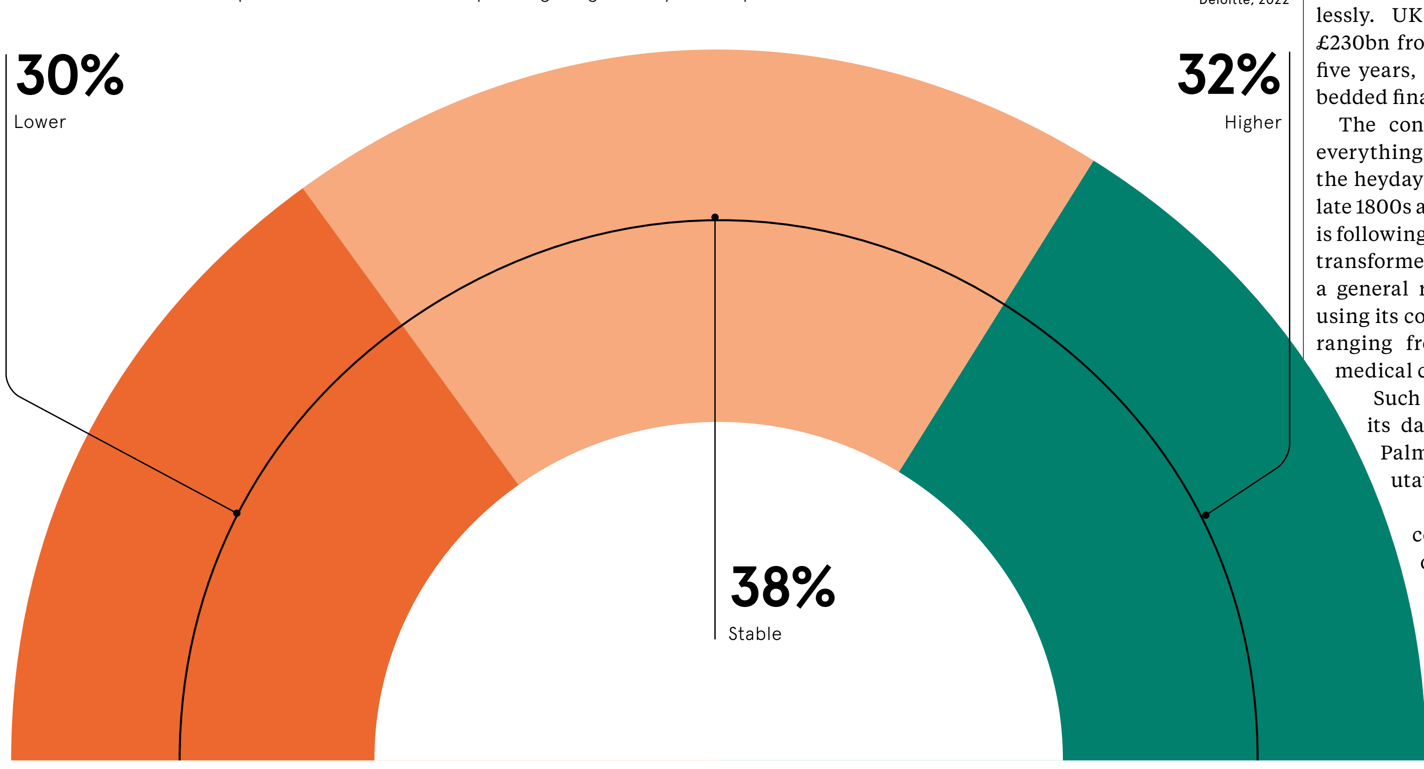
anticipate either no change or a decline in sales revenue

Deloitte, 2022

HOW ARE RETAIL BUSINESS LEADERS FEELING ABOUT THE FUTURE?

Global retail executives' expectations for their firms' operating margins this year compared with 2021

Deloitte, 2022



Distributed in
THE SUNDAY TIMES

Published in association with
BRC imrg The UK Ecommerce Association

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TRENDS FOR GOOD

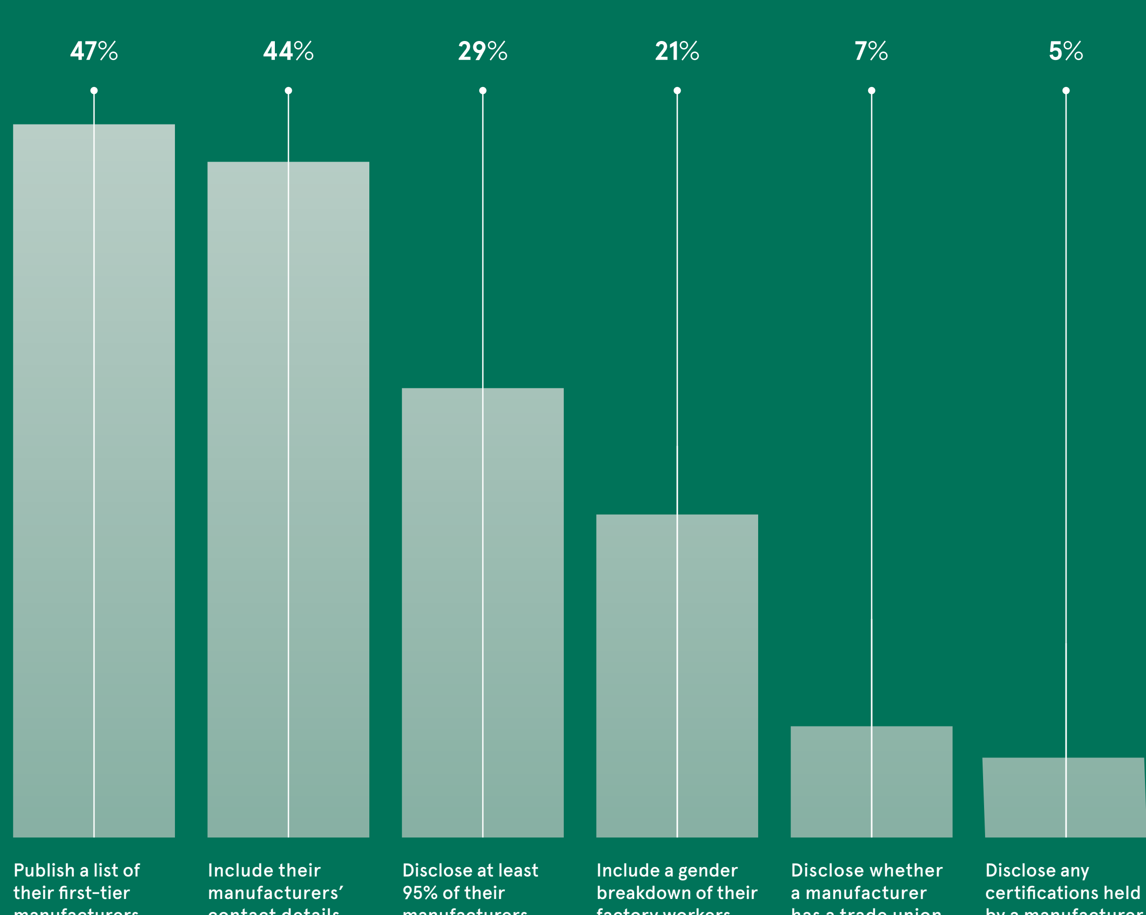
The fashion industry has never been known for its ethical credentials, but many retail brands have been working hard to change the public's perceptions. A look at the sector's recent record in areas ranging from sustainability to racial equality gives an idea of the progress being made

SUPPLY CHAIN TRANSPARENCY

HOW OPEN ARE BRANDS ABOUT THEIR SUPPLY CHAINS?

Fashion Revolution, 2021

Percentage of global fashion brands that disclose details about their first-tier manufacturers



11% of global fashion brands disclose selected raw material suppliers

5% of disclosures cover more than one raw material type

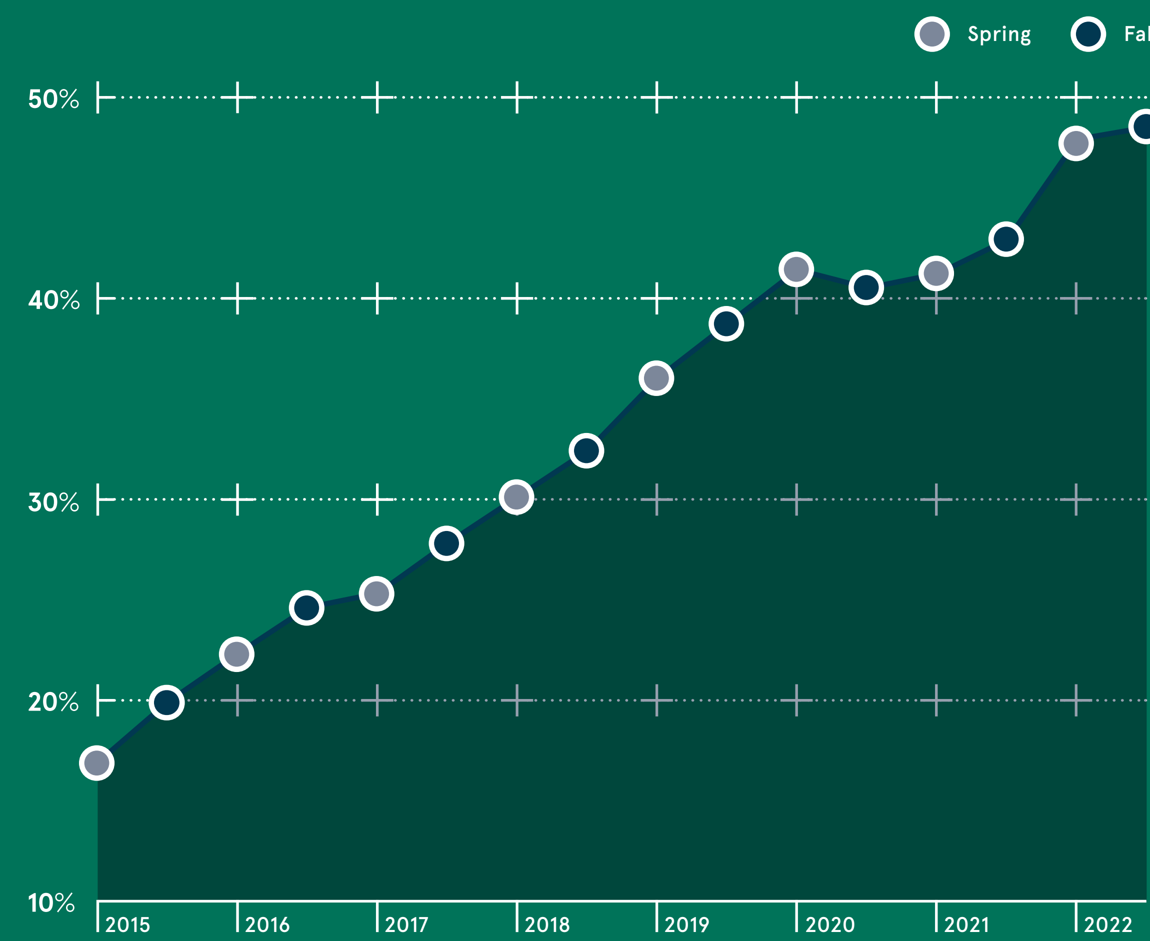
Fashion Revolution, 2021

REPRESENTATION ON AND OFF THE RUNWAY

RACIAL DIVERSITY ON THE CATWALK IS IMPROVING

The Fashion Spot, 2022

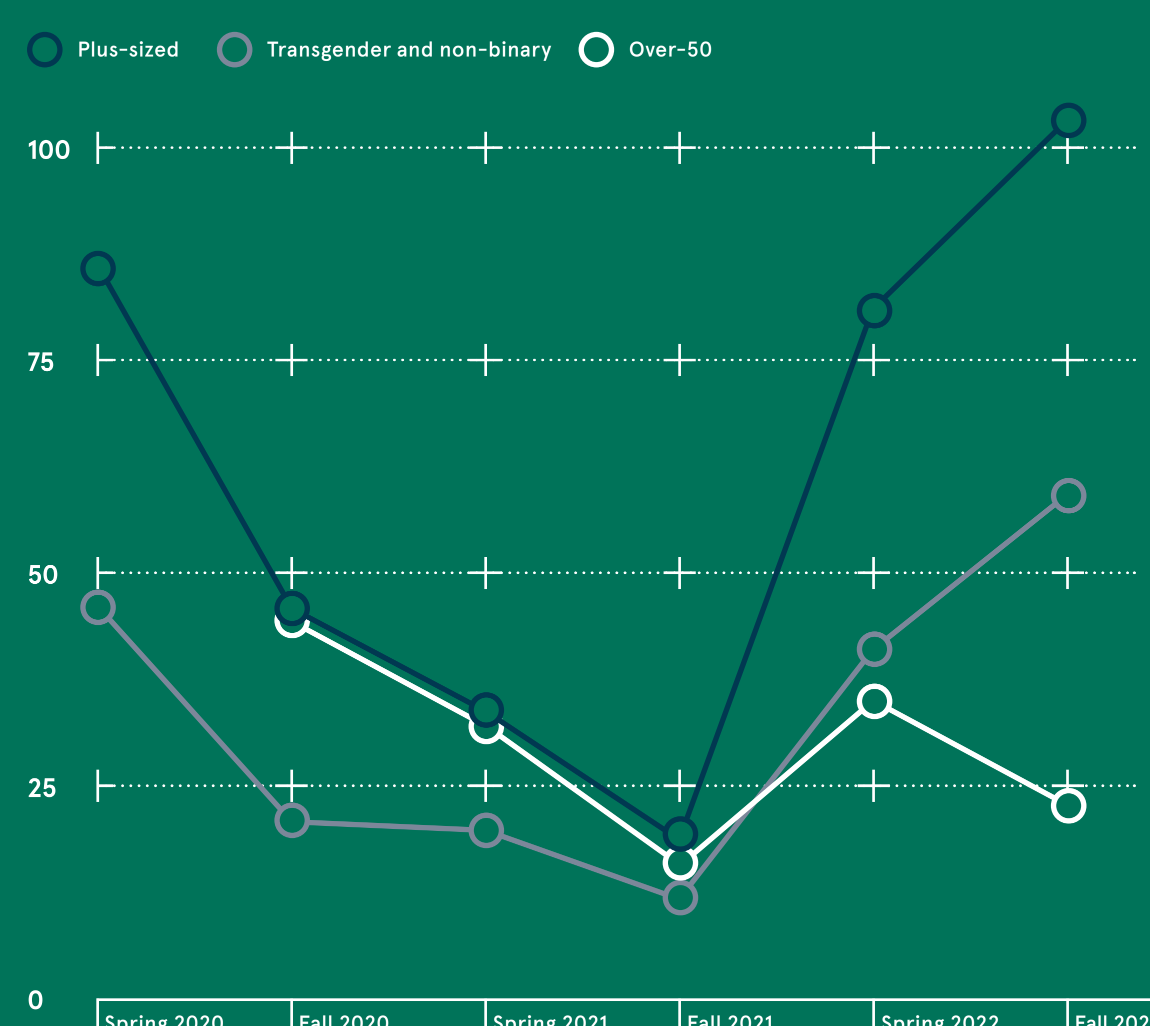
Percentage of models of colour on Fashion Week runways in New York, London, Paris and Milan combined



NOT ALL PROTECTED GROUPS ARE FLOURISHING

The Fashion Spot, 2022

Number of plus-sized, over-50, transgender and non-binary models present on global Fashion Weeks runways since spring 2020

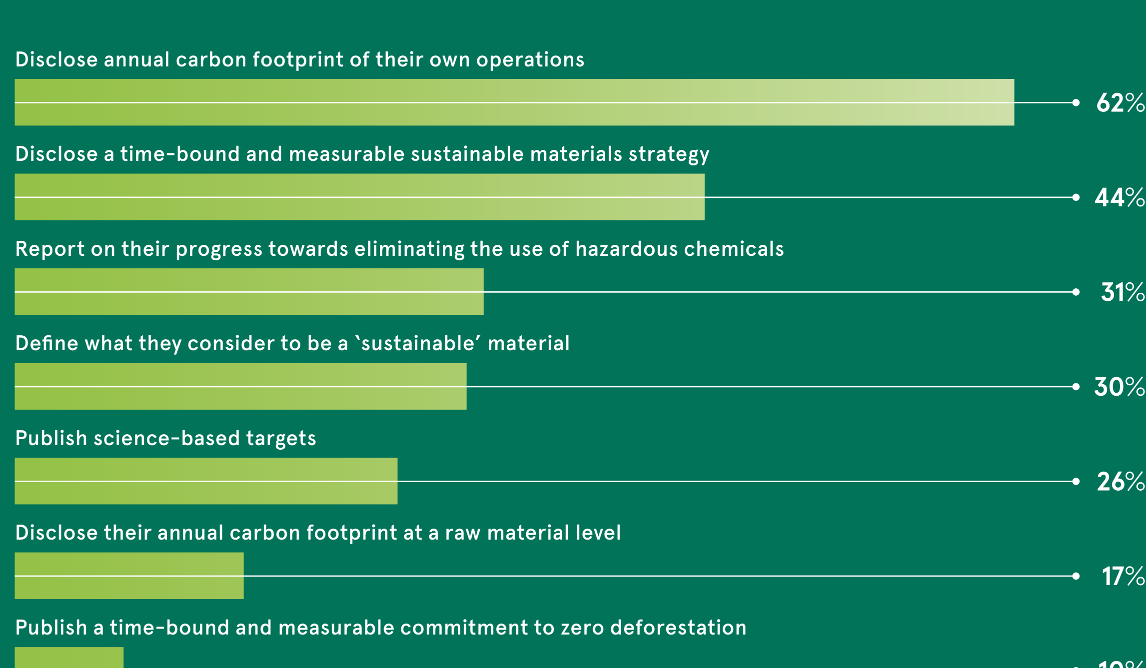


SUSTAINABLE PRACTICES

HOW THE INDUSTRY IS PROGRESSING TOWARDS NET ZERO

Fashion Revolution, 2021

Percentage of global fashion brands that are transparent about their environmental impact



12% of executives in the global fashion industry see sustainability as the biggest opportunity for growth

14% see sustainability as the biggest challenge

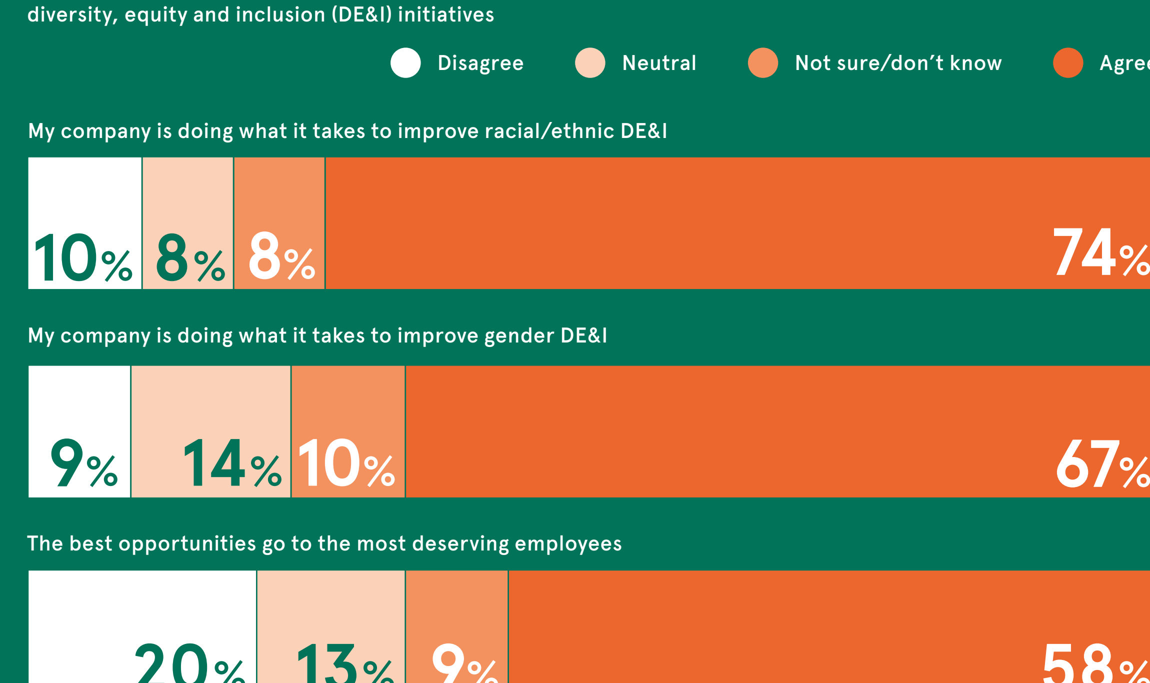
McKinsey and Business of Fashion, 2022

FAIRNESS IN THE FASHION WORKFORCE

NOT QUITE A MERITOCRACY

Council of Fashion Designers of America and PVH, 2021

Breakdown of responses from employees to the following statements about diversity, equity and inclusion (DE&I) initiatives



67% of Black employees in the fashion industry report experiencing micro-aggressions at work

65% of LGBTQ+ employees report experiencing micro-aggressions at work

Council of Fashion Designers of America and PVH, 2021

Commercial feature

Packaging gets smart on sustainability

With brand owners under pressure, packaging providers are investing in innovations which can help retail to future-proof delivery without compromise and greenwashing

For UK retail, the 2020s have so far proved a decade of disruption, with markets and supply chains hit hard. First Covid, then the conflict in Ukraine, have made it difficult not only to get the shoppers to the goods, but also to get the goods to the shoppers.

As a result, a lot of tough questions have been asked of solution providers in the packaging sector. In response, the industry has increasingly looked to smart design to help provide the answers, says Arco Berkenbosch, vice-president for innovation and development at Europe's leading corrugated packaging company, Smurfit Kappa.

"Smart design seeks to negotiate a product path between the complex, often conflicting, demands of efficiency and flexibility. In this way, smart principles help us respond to the two megatrends driving the retail packaging agenda at present: agility and sustainability."

Agility built on security of supply

When it comes to agility, retail customers faced with market shocks and business risks are really looking to their packaging suppliers for reassurance Berkenbosch suggests.

"Priorities have changed. Pre-pandemic, for instance, security of supply was typically little more than a nice-to-have in the packaging industry. While we all had contingency plans, they almost never got called into play. Now, dependability has become a key differentiator."

This fresh emphasis on future-proofing and resilience has sparked something of a trade-off, in terms of a relaxation of specification requirements for the sake of flexibility, he adds.

"As long as a product performs, customers are now more likely to allow the packaging company to pick the specification, for example. Before, they might have micro-managed the spec right down to the last detail; today, there is some wiggle room, some flexibility."

This shift has partly been driven by a need for speed. The beer, wine and spirits trade is an example of a sector that was forced by lockdown restrictions to switch to online sales almost overnight, in a bid to mitigate the impact on turnover and revenue.

Overall in 2020, official UK government figures for total retail sales showed volumes shrank by 1.9% year-on-year, representing the largest annual fall on record. At the same time, online sales rose to a record high of 33.9% as a share of all retail spend.

To add to the global economic pressure on brand owners and FMCG leaders to develop a responsive approach to design and manufacturing, there has also been the influence and impact of disruptors to consider. Startups can prove quicker at getting products to market and better at adapting to process shifts.

So, to boost the responsiveness of bigger brands and under-pressure industry players, Smurfit Kappa made a significant investment in its new Design2Market Factory.

A potential game-changer for companies in a race to release products on ecommerce platforms such as Amazon and Alibaba, this unique facility creates a fast and seamless development process from packaging design through to market launch.

It provides rapid prototyping for pilot production, combined with industry-leading packaging performance analysis and field-lab facilities, all under one roof.

> Smart design seeks to negotiate a product path between the complex, often conflicting, demands of efficiency and flexibility

Sustainability from front to back

Alongside agility, the other global megatrend moving markets is sustainability.

Brand owners are experiencing not only the pull of consumer demand, awareness and activism, but also the push of regulation and policy initiatives such as the EU Green Deal.

In principle, therefore, it is critical for retail players to partner with packaging providers who are fundamentally aligned on the sustainability agenda, with the numbers to prove it.

At Smurfit Kappa, the sustainability performance is there for all to see.

Working towards at least net-zero-emissions by 2050, the company has already achieved a 41.3% reduction in CO_2 emissions since 2005 (as validated by KPMG) and is on target to hit 55% by 2030, validated by the Science Based Target initiative (SBTi). SBT validation provides Smurfit Kappa with confirmation that its CO_2 target is not only ambitious as a stand-alone target but also aligned with the Paris Agreement objectives and the recommendations of the latest climate science findings.

On responsible and sustainable sourcing, Smurfit Kappa can also provide evidence that 93.45% of the packaging solutions sold to customers in 2021 were chain of custody certified. Plus, the company is on target to deliver a 30% reduction in waste sent to landfill by 2025.

In practice, however, the sustainability picture gets bigger and more complex.

A fundamental disconnect is emerging in the rapidly evolving retail model. Driven by digitalisation and disruption, the front end is an increasingly virtual, online sales engine — perceived as relatively sustainable, bar the carbon footprint of its data centres.

By contrast, the back end of the operation is built upon mostly physical assets, such as materials, machines, factories and vans. Here, the sustainability challenge is tougher and any disconnect between front and back undermines a brand's ethical and eco credentials.

Innovation that can help reimagine

So, to provide the evidence base for intelligent sustainability improvements, real-world operating data is a must. This is why Smurfit Kappa uses insights from more than 90,000 supply chains and 130,000 consumers to inform its omnichannel design process.

The upshot is that success in this sustainability space is often manifested in seemingly small, but significant innovations, such as the child-proof TopLock Box, which sits in the Smurfit Kappa Better Planet Packaging portfolio.

Being renewable, recyclable and biodegradable, as well as safe and convenient, the TopLock is an example of a popular packaging product reimagined to provide a sustainable paper-based alternative to the rigid plastic laundry pod detergent box.

Smurfit Kappa's most recent launch, AquaStop, offers another example of sustainable high-performance innovation at work, being water-resistant, as the name suggests.

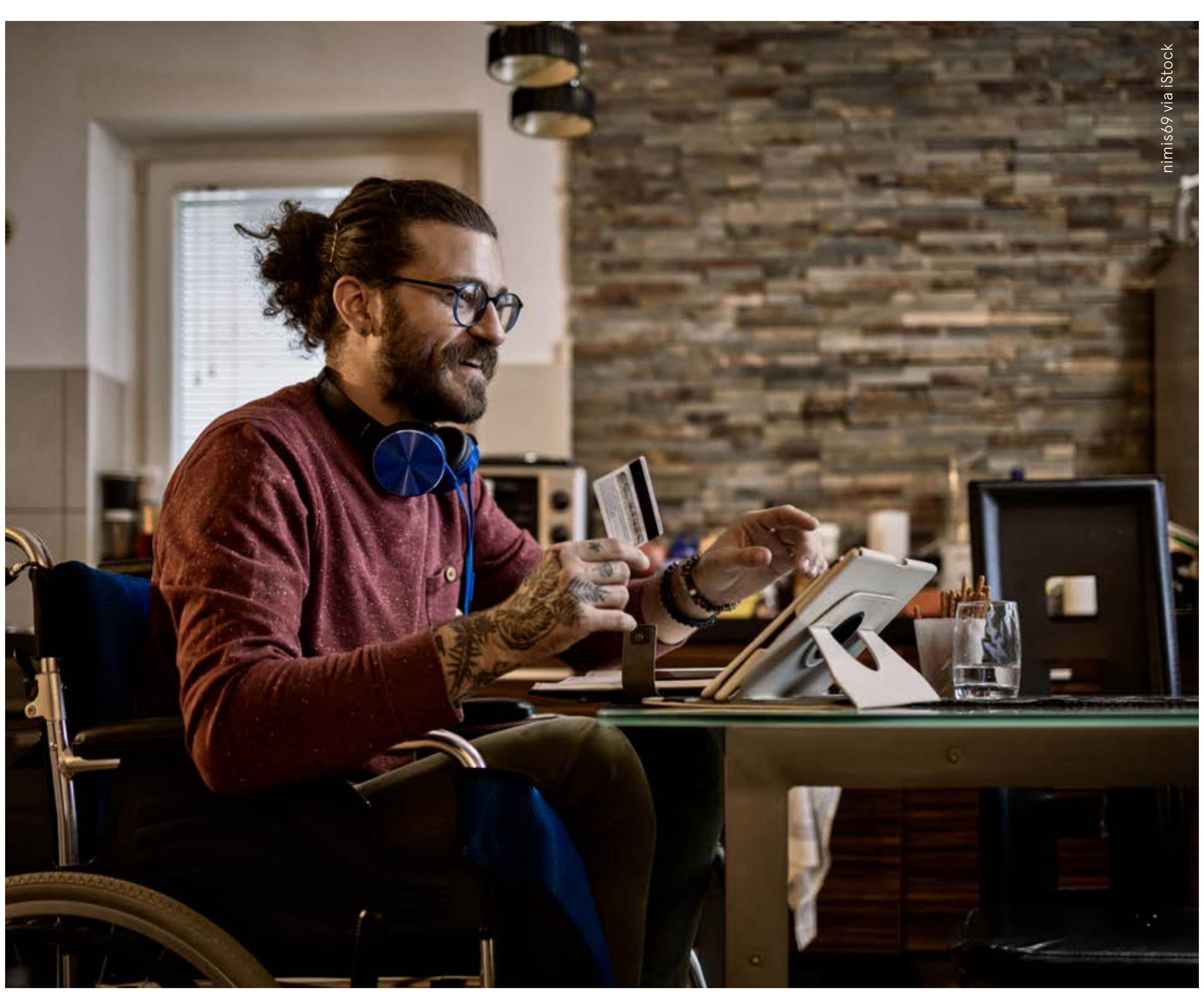
End-to-end cultural shift

Ultimately, though, delivering sustainability at speed and scale is not merely a matter for tech, important as that may be. From red tape and recycling infrastructure, to end-user education and behaviour change, true change is systemic, concludes Berkenbosch.

"What's needed is an end-to-end cultural shift to move to more sustainable packaging solutions that are smarter by design. These must still deliver agility in terms of efficiency and flexibility, but also a cleaner and greener environment, that is built on affordable energy and responsible sourcing, for a better quality of life overall, for everyone."

For more information, visit smurfitkappa.com

Smurfit Kappa



nimis69 via iStock

PAYMENTS

Running low on credit

The cost-of-living crisis and the prospect of tougher regulation are taking the gloss off the market for buy-now-pay-later finance, but that hasn't deterred a slew of recent entrants

Laurie Clarke

Providers of buy-now-pay-later finance achieved blockbuster valuations on a wave of pandemic-fuelled hype last year, sending everyone from high-street banks to tech giants scrambling to market their own BNPL offerings. But growing regulatory pressure and soaring inflation in the UK are starting to pose serious problems for the sector. Could it be the service providers, rather than the users, who will ultimately pay later?

The surge in ecommerce prompted by 2020's Covid lockdowns helped the BNPL market to gain serious momentum. It doubled in value to £5.7bn in 2020-21, according to estimates by the Financial Conduct Authority, as more and more enticing buttons appeared on etailers' checkout pages inviting customers to pay for their purchases by interest-free instalments.

Stagnating wages and the return of high inflation have since caused a cost-of-living crisis that has forced millions of British consumers to tighten their belts this year. In April, the Office for National Statistics recorded the first monthly decline in retail sales for 15 months.

"People are spending less on items such as clothing, which has been a big driver of BNPL profitability," reports Benedict Guttman-Kenney, a PhD student at the University of Chicago who has been studying the sector for his economics doctorate.

As well as limiting the retail activity that's the lifeblood of the BNPL sector, the cost-of-living crisis has caused concern that a wave of defaults is approaching as growing numbers of consumers find themselves unable to make their repayments. At the same time, rising interest rates are pushing up providers' operating costs, while the sector attracts greater regulatory attention amid claims that it ensnares young people in debt.

Last June, Klarna was valued at $46bn (£39bn), making it Europe's most valuable private fintech firm, but the Swedish company is now seeking new finance at less than half that valuation, having recently announced its intention to lay off 10% of its workforce. Meanwhile, the share price of rival Affirm has tumbled 80% this year.

The cost-of-living crisis could boost demand for BNPL services, but uptake may be more focused on essential, rather than discretionary, spending. Some providers have steered away from this category, but firms such as Zilch enable customers to spread payments for groceries and even energy bills. Indeed, Zilch was recently criticised for encouraging consumers to pay for basics such as supermarket pizza over several weeks.

Retailers' appetite for BNPL is based on the promise of improved sales volumes. Providers argue that they help consumers manage their spending more effectively and offer better terms than credit cards (several of which have been charging interest rates exceeding 20%). But critics say that they can still trap customers in a debt spiral, and that BNPL's sheer ease of use means that many people don't even realise they're becoming indebted.

"This trend gets worrying when you see reports that increasing numbers of customers are using BNPL to cover essential purchases," notes Hannah Hilali, industry strategist at fintech consultancy 11:FS.

A YouGov poll of BNPL customers on behalf of debt advice charity StepChange last October found that 49% of respondents were struggling to keep up with household bills and other debt repayments.

And research published by Citizens Advice this June found that more than 20% of recent BNPL customers had been obliged to borrow money to make their repayments. There are concerns that the situation will worsen in the coming months as the financial pressure on consumers shows little sign of easing.

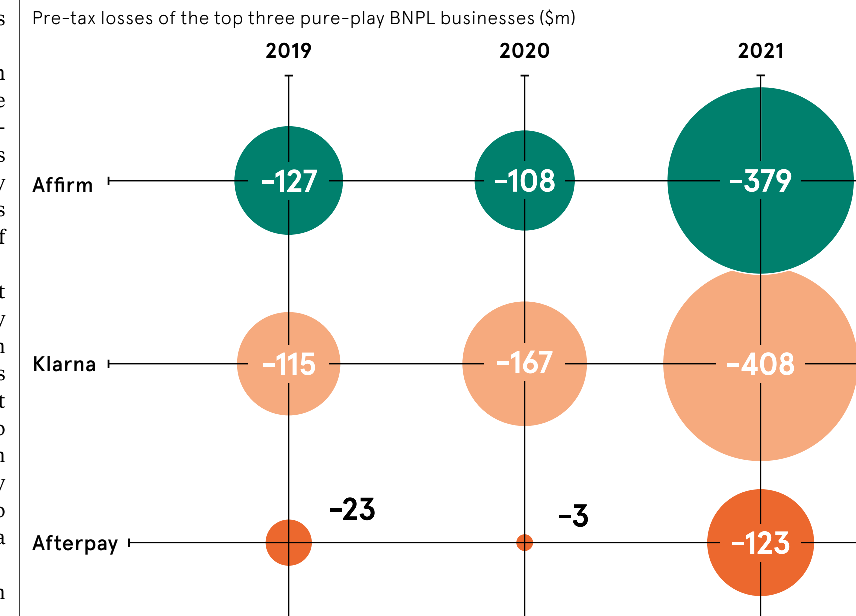
A surge in defaults would be painful for BNPL providers, given that most of them don't charge interest or late-payment fees that they could use to offset the damage. They make their money by charging retailers a fee for each transaction.

And then there is regulatory uncertainty. Westminster is planning to require lenders to perform affordability checks on BNPL applicants, but such legislation is unlikely to be enacted until next year. In the US, meanwhile, the Consumer Financial Protection Bureau has ordered, Affirm, Afterpay, Klarna, PayPal and Zip to disclose information about their commercial practices.

"The longer this goes on, the more uncertainty there will be about what the rules are going to be and how they will affect businesses," Guttman-Kenney says.

NONE OF THE BNPL LEADERS HAVE BEEN MAKING A PROFIT

Pre-tax losses of the top three pure-play BNPL businesses ($m)



Redburn, 2021

Yet the gathering storm clouds haven't dissuaded new players from entering the market. Apple recently became a notable challenger in this sector, alongside an increasing number of retail banks. Barclays, Monzo, NatWest, Revolut and Virgin Money are among those offering, or planning to offer, new products featuring instalment repayments. How can these companies avoid the worst ramifications of the looming default crisis?

> A lot of fintech companies are altering their business models or exploring new ones to stay afloat

"One approach could be to stop giving credit to really high-risk people, because they're too risky to lend to in this environment," Guttman-Kenney says.

Klarna, which decided to strengthen its credit checks in the UK at the end of last year, intends to share information with credit reference agencies Experian and TransUnion. Such moves won't mitigate the effects of inflation and recent increases in the Bank of England's base rate on BNPL providers' operating costs, of course.

"Another option for them would be to pass their extra costs on by increasing the cut they take from retailers," Hilali says.

But, while BNPL providers have typically charged merchants between 3% and 6% commission on every transaction, Klarna's CEO, Sebastian Siemiatkowski, told Bloomberg in January that intensifying competition in the sector meant that retailers were no longer so content to pay the top rate.

Because most BNPL firms don't charge customers interest, a fresh approach may be warranted, according to Hilali.

"One of the wider trends we're seeing is that a lot of fintech companies are altering their business models or exploring new ones to stay afloat," she says.

A study published last October by equity research house Redburn indicated that profit margins in the BNPL sector were wafer-thin or non-existent even while the market was booming. The researchers suggested that providers would have to expand into all-purpose digital wallets to ensure their survival.

Hilali notes that she has seen several players, including Klarna and Afterpay "evolving to focus on solving adjacent customer needs, such as building shopping experiences around their products".

Highlighting the importance of Visa's and Mastercard's instalment products in enabling firms to launch their own BNPL offerings, she adds: "I think we're about to see a lot of companies enter such partnerships across the world."

Notwithstanding the prospect of more stringent regulation, the BNPL revolution could still be in its infancy, according to Guttman-Kenney. "I'm pretty confident that it's going to survive this crisis," he says. "The sector has very attractive economic and psychological factors – to both consumers and retailers."

SUSTAINABILITY

A 360-degree reappraisal

'Circular economy' initiatives ranging from take-back programmes to rental services are enabling fashion retailers to enhance their green credentials. But how effective are such schemes in reality?

Amy Nguyen

Waste material from a garment factory dumped in a canal in Dhaka, Bangladesh

STORYPLUS via Getty Images

The task of establishing a circular fashion economy is widely accepted as vital, given that a truckload of textiles is being incinerated or buried every second, according to a global estimate by the Ellen MacArthur Foundation.

The charity has also calculated that the under-use of clothing and lack of garment recycling costs the global economy more than \$500bn (£420bn) a year. The longer-term price paid by the environment is likely to be far greater. The microplastics that the synthetic fibres in our clothing shed when washed have been found in human blood, placenta and, most recently, fresh snow in the Antarctic.

Developments such as the EU's circular economy action plan of 2015 and the UK's circular economy package of 2020 have prompted many fashion retailers into action. The EU strategy for sustainable and circular textiles, published this March, also stressed the importance to the industry of a credible long-term strategy for durability, recycling and waste management. In June, Boris Johnson even promised £80m of public funding to help establish a "circular fashion model".

But critics of the industry's historically profligate practices argue that 'circularity' has become a mere buzzword, used by companies seeking to apply a coat of greenwash over their continuing wasteful ways.

Clothing take-back programmes have become central to the circularity drive. The Waste & Resources Action Programme (Wrap) charity estimates that such schemes – adopted by the likes of H&M, M&S and Primark – prevented 620,000 tonnes of used textiles from ending up in UK landfills in 2018. H&M has reported that its "Close the loop" recycling and repairing initiative collected 18,800 tonnes of unwanted clothing in 2020.

Juliet Lennon, programme manager at the Ellen MacArthur Foundation, says: "Rental, resale, remake and repair have the potential to make up 23% of the global fashion market by 2030, representing a \$700bn opportunity."

Retailers work with white-label services such as Yellow Octopus and I:CO, which sort garments into categories for reuse or recycling. In theory, such innovations are welcome, yet not all clothes collected are suitable for either process. I:CO, a partner in H&M's take-back programme, recently reported that 8% of what it received was neither reusable nor recyclable and would therefore have to be incinerated.

More concerning is research published by Greenpeace in April, which claimed that no more than 30% of used clothes are staying in the country of donation. Much of the remainder is sent to countries in the Global South, where it often ends up "on huge dump sites, on open fires, along riverbeds and washed out into the sea".

> **Most circularity claims are greenwashing. Fewer than 1% of clothes produced are actually made from recycled textiles**

Kantamanto Market in Accra, Ghana, illustrates the scale of this problem. About 15 million garments enter the marketplace every week. Some of these can be used to support the local textile industry, but researchers estimate that 40% of the items are of such poor quality that they are deemed worthless on arrival and are either buried or burnt.

Viola Wohlgemuth, a campaigner for Greenpeace Germany, says that countries such as Ghana "don't have the infrastructure to cope with the large volumes of textiles that are arriving, even if all of them were reusable".

The large-scale dumping of unwanted textiles is creating a socioeconomic and ecological crisis for local communities. The waste material is a health hazard, as its decomposition not only releases microfibres into watercourses but also produces dangerous levels of flammable methane gas.

Moving clothes from one country to another is by no means circular. The practice simply shifts the burden to a territory with less capacity to handle it and weaker environmental laws. Chile, for instance, has long been a hub for used and unsold garments from all over the world. The port city of Iquique accepts nearly 60,000 tonnes a year, but less than half of this material is bought by merchants for resale. The rest is simply dumped in huge mounds in the surrounding Atacama Desert, where it could take two centuries to biodegrade.

23%

of the global fashion market could consist of circular business models (resale, rental, repair and remaking) by 2030

Ellen MacArthur Foundation, 2022

Wohlgemuth recounts a recent visit to Gikomba, Kenya, where she found herself walking along the banks of the Nairobi River and realising that they mostly comprised piles of textile waste, from which garments would fall and be swept downstream. It's hardly surprising that such experiences have led her to conclude that "the system is not working".

Transparency is key to encouraging participation in any sustainability initiative. A recent Wrap poll found that 42% of consumers deemed it important to know the likely destination of their donated garments.

"When people give back clothes, they expect these items to be reused, to raise money for charity or to benefit people that need them," Wohlgemuth observes. "They wouldn't expect them to end up in huge, overflowing landfills in Africa."

Some retailers run incentive schemes that offer customers discount vouchers for donations, but such measures have drawn criticism for fuelling further consumption, which works counter to the circular economy. There has been "little evidence of plans to reduce the flow of fashion – a precondition for any meaningful attempt at circularity", Wohlgemuth argues.

When donating clothes or buying 'sustainable' garments made from recycled polyester, consumers should proceed with caution, she adds. Regulations such as the UK Competition and Markets Authority's *Green Claims Code* are designed to prevent companies from making misleading statements, but Wohlgemuth believes that "most circularity claims are greenwashing. Fewer than 1% of clothes produced are actually made from recycled textiles."

Sarah Gray, senior analyst for textiles at Wrap, recommends that companies build "a solid evidence base to ensure that they can verify details on recycled content to make certain that their claims about circularity are truthful".

Genuine and effective circular initiatives call for higher standards of reporting on supply chain risks; efficient monitoring systems; investment in technology to enhance transparency; and legally compliant collection processes. Lennon believes that "economic and regulatory incentives are needed to increase the viability of circular business models, as voluntary commitments by industry leaders alone will not achieve the scale required".

Retailers should focus on consistency too. Any firm that's vocal about plastic packaging as part of its circularity drive, yet doesn't publicly disclose the volume of synthetic material in its collections, should reconsider its approach, for instance. Doing so will be key to its long-term survival.

Opaque reverse-logistics operations and half-hearted circularity initiatives are leaving companies vulnerable to several ESG risks – and investors, if not consumers, are watching them closely.

INSIGHTS

'You can put technology out there and make it easily accessible, but do people actually need it?'

Andy Mulcahy of UK ecommerce association IMRG discusses whether the metaverse will really deliver on the promises it's making for retailers

Is the metaverse going to be the next big thing for retailers? Before answering that question, let's first work out what the metaverse actually is and, perhaps just as crucially, what it isn't.

A key point to understand is that the metaverse is not an entity in and of itself – one you can see and isolate, with a clear beginning and end. Rather, it refers to the evolution of what we call the internet into something that's generally more immersive. In practice, that means greater use of virtual and augmented reality and, yes, in some cases, avatars.

The thing you will note is that none of these concepts is particularly new. Virtual reality has been around for decades; millions of people use augmented reality every day through Snapchat filters; and gaming has long made use of avatars. So why all the stink about the metaverse now? Is it really the next big thing – and what has it got to do with retail?

At the risk of someone's avatar saying to me in 10 years' time "do you remember when you said…", I always regard the next big thing in retail with a hefty scoop of scepticism. In my role, I speak to an awful lot of people and there have been an awful lot of next big things over the years – some of which you've heard of; others, believe me, you haven't. The main problem with next big things is that, by definition, they tend not to have happened yet.

We see all the buzz, the excited chatter and the artists' impressions of how a certain development is set to enrich people's lives, why we'll all find it irresistible and so on. Much of that hype tends to come from those with a vested interest in its success. Enter Facebook. Or, to give the company its updated moniker, Meta.

When one of the world's largest companies is the main driving force behind the buzz, you might assume that the metaverse is a done deal. The truth is that the hi-tech highway is littered with broken-down next big things. Consider Google Glass, which never got going at all. Or 3D printing, where we were going to create all our own products at home without any intervention from manufacturers or retailers. Or Amazon Alexa, which was set to change how people search retail sites for products but in reality is just used for setting timers and playing music.

And now we are getting to the crux of the problem with next big things. Maybe we *will* all be wearing Google Glasses in 2030 and some of the technologies mentioned above will have found practical applications. Buy-now-pay-later solutions were around back in 2010, but they didn't enter the mainstream until Klarna arrived. The key point I'm making is that the use case for them isn't always immediately evident. You can put this technology out there and make it easily accessible, but do people understand it? Do they need it? Is it actually helping them in the context of their lives? In short, does anyone care?

Those use cases might vary wildly by industry. In gaming, for instance, it is straightforward enough to identify. Using augmented reality to walk around museums and other exhibits on the other side of the planet might work. In retail, though, it can be easy to make mistakes. Some companies will probably get their approach to the metaverse right and so reap the rewards. But firms should be wary when doing something specifically because it's viewed as the next big thing – especially when someone on the board decides it's a good idea – without putting a well-considered, measurable strategy behind it.

Will the metaverse come to mean something genuinely transformational for retailers or, in a practical sense, are we just talking about selling non-fungible tokens here?

Andy Mulcahy
Strategy and insight director, IMRG

TECHNOLOGY

Meet the luxury brands testing out the metaverse

Not so long ago, high-end brands were wary of the internet, believing that it would cheapen the customer experience. Today, they're enthusiastic adopters of Web3 tech. What has changed?

Simon Brooke

The luxury sector is determined not to make the same mistake again. It generally regarded the internet with suspicion when the ecommerce revolution started in the late 1990s. Most luxury brands took several years to understand its potential before rushing to catch up with the rest of the retail world.

Regular global studies of the personal luxury goods segment by Bain & Company have charted the increasing importance of ecommerce. Its research indicates that the proportion of online sales more than tripled from 7% in 2017 to nearly 22% in a pandemic-boosted 2021.

Having learnt from bitter experience, most luxury brands are determined not to be left behind by the latest digital developments, despite the challenges that technologies such as cryptocurrency, NFTs and the metaverse present to a sector particularly focused on preserving its heritage and protecting its image.

In September 2021, for instance, Philipp Plein became the first global high-end fashion brand to accept crypto as payment both online and in its stores. It has partnered with Coinify, a payments platform owned by Voyager Digital, enabling it to handle 24 cryptocurrencies, including bitcoin and ether.

In the same year, crypto payment processor BitPay saw a 31% annual growth in the volume of transactions involving luxury goods such as yachts, cars and jewellery. More recently, crypto exchange FTX announced that it would be targeting luxury brands to help them to benefit from this fast-moving trend.

For many high-end names, crypto is in essence a way to enter the metaverse and reap the benefits offered by the growing interest in assets such as non-fungible tokens (NFTs).

Rosh Singh, MD at Unit9, a multidisciplinary production company that works on films and games, notes that luxury brands have become some of the most notable early players in the metaverse.

"The sector's interest in gen Z is one of the key factors driving this behaviour. The metaverse is a new virtual playground with serious longevity for this group, as well as tomorrow's consumers," he predicts. "Experimenting with metaverse and crypto activations gives brands relevance and enables them to tap into new audiences."

Gucci has been particularly active in the metaverse, most recently with the release of a set of NFTs called Gucci Grail. Minted on the ethereum blockchain, this is the result of a collaboration between the brand's creative director, Alessandro Michele, and fictional "famed digital craftsman" Wagmi-san.

Selfridges has announced that it will sell NFTs and digital fashion in its store on Oxford Street, London, with prices ranging from £2,000 to more than £100,000. The inaugural Metaverse Fashion Week was held at the end of March in Decentraland, a browser-based virtual reality platform that uses a cryptocurrency called mana.

> "Experimenting with metaverse and crypto activations gives brands relevance and enables them to tap into new audiences

Burberry has announced a partnership with Mythical Games to create an NFT collection inside the latter's flagship product, Blankos Block Party, an open-world multiplayer game. Burberry's limited-edition Blanko (character), Sharky B, is an NFT that can be bought, upgraded and sold within the game's marketplace. Alongside this, the brand is launching its own in-game NFT accessories, including a jetpack, armbands and pool shoes, which players can put on to any Blanko they own.

"When it comes to the fashion industry, NFTs can be the digital versions of physical pieces of clothing or a one-off digital-only design. This can be anything from a whole outfit to a pair of digital shoes, a handbag or even earrings," says James Gaubert, founder and creative director of Republique, which describes itself as a "metaverse-ready" fashion house.

Luxury brands are benefiting from blockchain tech in ways that are less glamorous but every bit as important. LVMH, for instance, has joined forces with Prada Group and Cartier – a subsidiary of its arch-rival, Richemont – to develop the Aura Blockchain Consortium. The world's first global luxury blockchain, this unprecedented collaboration of competitors represents what its creators call "a single, innovative solution to shared challenges of communicating information on authenticity, responsible sourcing and sustainability in a secure digital format".

A challenge for luxury labels is to recreate the same thrill in the virtual world as customers would have when they walk into a store in Mayfair or Knightsbridge.

"Owning a virtual fashion NFT brings with it the same feeling as owning an exclusive, one-off piece of designer clothing," Gaubert says. "The NFT is simply the digital equivalent. The perceived value associated with fashion NFTs is also another opportunity for these big fashion houses. Some collectors are treating their NFT purchases as investments."

But the metaverse poses threats as well as opportunities to luxury brands. The younger customers they are targeting tend to be more concerned about sustainability issues, for instance. A series of transactions emanating from a single NFT, such as bidding, selling and transferring ownership can consume 340kWh of energy – more than is needed to power the average fridge for two months.

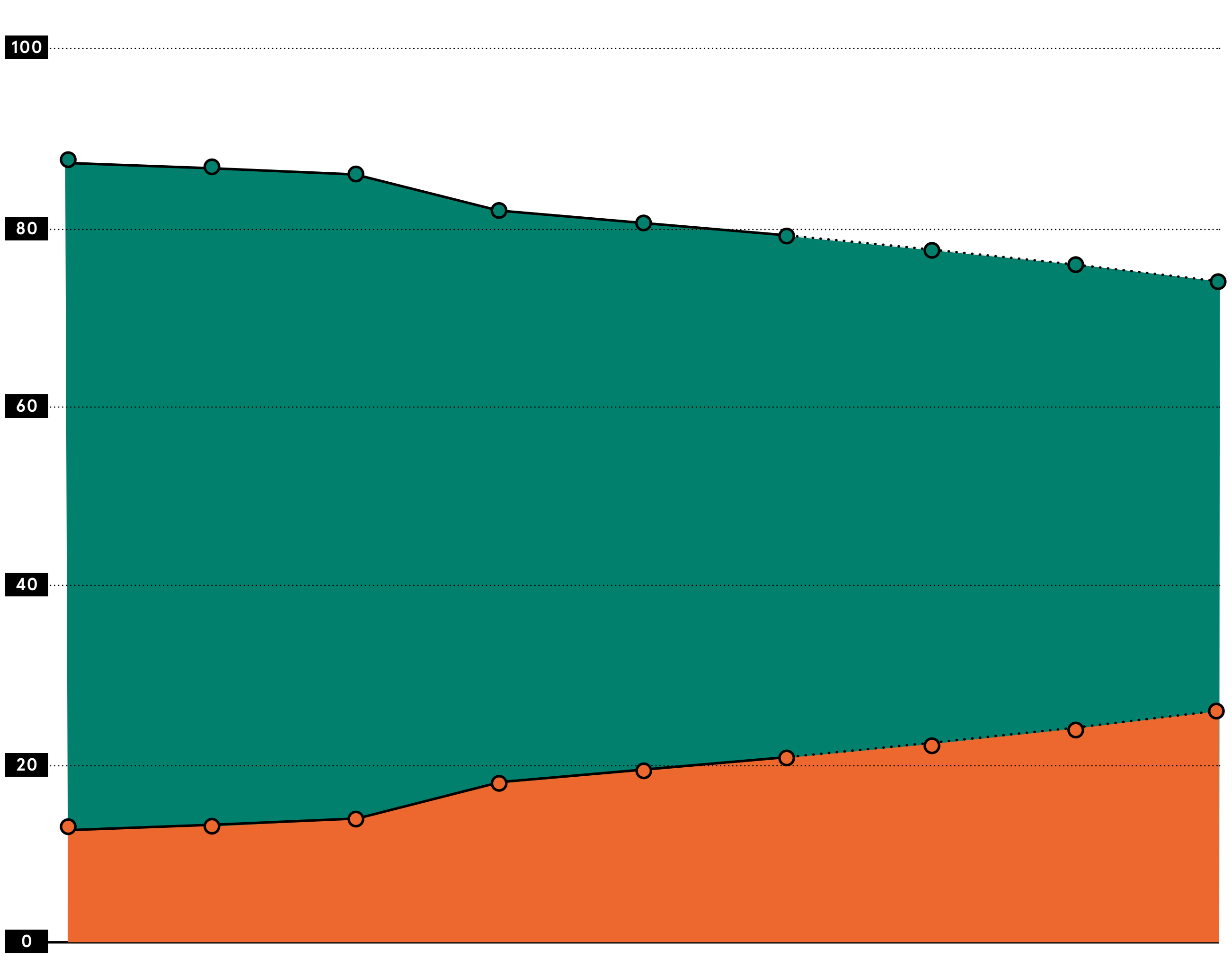
And luxury houses are waging a constant battle against fakes, as Abigail Dews, trademark attorney at intellectual property specialist Marks & Clerk, notes.

"Just like physical counterfeit goods, virtual copies being sold for thousands of dollars on various NFT markets have the potential to dilute or tarnish a brand in the physical world. This is a particular issue for luxury fashion brands, where unauthorised NFTs are significantly cheaper than their real-world counterparts," she says, adding that the problem has yet to be addressed in the UK courts. "Luxury brands will want to ensure that the legal protection they have in the physical world is also enjoyed within the metaverse."

The metaverse certainly offers luxury brands a chance to reach new market segments and showcase their craftsmanship in different ways. The challenge for them will be to do this while retaining their core values of quality, exclusivity and the highest standards of customer service. ●

WILL THE LUXURY SECTOR'S ETAIL SALES CONTINUE TO GROW?

Percentage of luxury goods sales transacted online and offline from 2017 to 2025



INSIGHTS

'The rising cost of living is one of the biggest concerns for retailers right now'

Helen Dickinson, CEO of the British Retail Consortium, explores some of the toughest challenges facing the sector

Q What role can the retail industry play in improving diversity, equity and inclusion in the workplace?

A Retail has long provided a unique environment in which diversity and inclusion can thrive. It is a dynamic, agile and innovative industry that has always attracted a varied workforce. It is often the first step into the world of work for people and it can be a perfect choice for those with caring responsibilities who are seeking part-time work to fit around their lifestyles.

This workforce diversity is vital when it comes to responding to the changing needs of consumers. Pressure is mounting on employers to ensure that promoting equality is entrenched into business practices. It is no longer good enough to consider simply diversifying the leadership level and then expecting a permanent change to unfold throughout the rest of the industry.

That is why the British Retail Consortium has produced a diversity and inclusion charter, which has gained the support of more than 60 retailers. This makes a commitment to improving the retail employment landscape and making that a lasting change. The charter's pledges focus on oversight, recruitment, progression, reporting, inclusivity and responsibility. They are designed to help all retailers challenge their culture and biases holistically and embed diversity and inclusion into all facets of their businesses, thereby making our industry as vibrant, creative and innovative as it can be.

Q Beyond recycling schemes, what should the fashion and retail industries be doing to achieve their net-zero aims?

A Supply chains play a pivotal role in retail's journey to net zero, but it all starts with improved transparency and traceability. In fashion retail specifically, the main impact of carbon emissions occurs at the fabric creation stage, from spinning to weaving to dyeing. This is why a clear sourcing strategy is essential when working with supply chain actors that are trying to shrink their own carbon footprints.

The British Retail Consortium is helping retailers to reduce their carbon emissions as part of our climate action roadmap, which charts retail's journey to net zero by 2040. More than 80 leading UK retailers have already signed up, including many big fashion companies.

Part of the roadmap focuses specifically on sourcing sustainably and aims to help retailers reduce their supply chain emissions. Our most recent guide with IBM sets out the frameworks and strategies for how retailers can gain better visibility and improve reporting of their emissions to achieve the greatest possible reductions.

Q The UK is experiencing a cost-of-living crisis, with prices rising and household budgets shrinking. How easy is it to pursue a sustainable agenda at such a time?

A The rising cost of living is one of the biggest concerns for retailers right now. The whole industry is trying to keep up with fluctuations in the market, while keeping costs down for consumers as they feel the squeeze.

Nonetheless, most consumers are still looking for good-quality products that have been sourced responsibly – although these must still be at a reasonable price.

Even though it may seem so, this is not an impossible task. Retailers are looking at different initiatives to deliver the best quality at a low cost. Such actions for fashion retailers include limiting the clothing ranges or fabric consolidation to allow retailers to negotiate better prices from suppliers without passing the costs back down to consumers. ●

Helen Dickinson
CEO of the British Retail Consortium

Halfpoint Images via Getty Images

STRATEGY

Downturn upsides – strategies for success during a slowdown

Several indicators are pointing towards a recession in the UK. A lengthy slump could hit retail hard, but the industry has learnt a great deal in recent years about overcoming adversity

Nick Easen

The 'R' word is not something that any company likes to talk up, but the portents don't look good.

The UK's GDP growth figures continue to look underwhelming. And, as persistently high inflation squeezes incomes and makes it increasingly hard for millions of Britons to make ends meet, the nation is in a grimmer mood than it was during the 2007-08 financial crash, after the Brexit referendum and in the depths of the Covid crisis. According to market research giant GfK, consumer confidence has fallen to its lowest level since the firm started tracking it in 1974.

Shoppers are already limiting their expenditure and trading down. Retailers will need to show that they're in the trenches with their customers, sharing the pain and working hard to retain their loyalty.

"If you don't flex with the prevailing winds as a retailer, you'll get blown over," warns Nick Cooper, global executive director for insights and analytics at the Landor & Fitch consultancy. "Brands have to remain price competitive. If they don't offer value, consumers will be forced to switch. The trick is to retain the loyalty of customers when times are bad and pull them back up when times are good."

As their budgets tighten, shoppers' preferences are likely to become more extreme, more diverse and, hence, more difficult to predict. They will also seek greater control as the economy becomes less stable.

While many firms will start discounting, "the smart retailers will keep trying to crack what customers are really looking for in their lives. As everyone else is cutting prices, they'll be focusing on creating value," says Martin Bui, experience design director at marketing agency Tribal Worldwide. He points out that Amazon launched its first Kindle e-readers just as the global financial crisis was unfolding in late 2007 – "and people bought them then because they were perceived to be of value".

> "The smart retailers will keep trying to crack what customers are really looking for in their lives

No strategy will be worth its salt unless it's driven by high-quality data. More efficient data-led planning and targeting will become crucial as consumers' habits evolve during the downturn. Brands will need to dig deep into first-party data to really understand why consumers are behaving in certain ways. The aim will be to target and reward customers with timely, tailored promotions and boost that value offering.

"A focus on data-driven tactics that are fully trackable, highly targeted and more able to deliver fast results will be understandably attractive," says Siobhan Simpson, strategy director at ad agency The Brooklyn Brothers. "It will be interesting to see what consumers will cut back on. Over the past few years we've been reassessing our perceptions of what's essential and non-essential. The things we think we simply cannot live without have changed as we've reconsidered what's truly important to us."

Physical retailing could also be hit hard again, just as it was during the darkest days of the pandemic. Fuel and energy cost inflation, staff shortages and supply chain disruptions are all hurting high-street retailers, which are also desperate to pass on high business rates to consumers. Having a multichannel contingency plan that can be adjusted quickly will therefore be crucial.

"It's hard to enact a business-changing strategy to cope with recession a few short months before it hits," says Hugh Fletcher, global head of consultancy and innovation at Wunderman Thompson Commerce. "Retailers that ride out the storm tend to have large cash reserves, enabling them to thrive while others struggle. They also tend to have omnichannel strategies, enabling them to dial up or down the channels most affected. They've also built technology solutions that can scale up and down with ease."

The past two years of upheaval have shown that brands could do more today to prepare for economic shocks tomorrow. We all crave reassurance and familiarity in uncertain times, so expect retailers to focus on showing such qualities. But a recession will ultimately mean some form of compromise. They will need to work out what consumers are willing to concede and what they aren't.

"If not price, what are consumers willing to compromise on? In the case of Netflix's new subscription tier, it's the inconvenience of watching ads," notes Andy Humphreys, senior strategist at branding agency Coley Porter Bell. "Cosmetics retailer Beauty Pie has seen huge success after compromising a luxury brand for products less than half the retail price. Spotting what the negotiables and non-negotiables are for consumers could unlock interesting recession strategies."

Expect retailers to continue automating processes all along the customer journey to improve convenience and cut labour costs. Automation is an important long-term investment. Companies that do so now will give themselves a better chance of weathering future downturns. But there's a fine balance between creating efficiencies and emptying stores of staff. Retailers' experiences during the pandemic have shown that shoppers are becoming ever more likely to change long-held habits, Fletcher warns.

"The lack of availability of products during the first Covid lockdown forced many consumers to expand their horizons and move away from brands that they'd been used to shopping with," he says. "Cutbacks in personnel often follow recessions, but retailers must beware: 43% of the physical shoppers we have polled say that there already aren't enough sales advisers in stores to help them. Any further cuts in staffing could give them another reason to transition all their spending online."

Above all else, expect companies to build resilience. There are some new tech tools in the retail armoury, including AI systems that can identify new consumer trends as they emerge. A downturn certainly drives changes in buyer behaviour, which in turn create new commercial opportunities.

Bui cites Lego as a case in point, noting that the company's profits increased during the previous recession when those of its rivals didn't, "because it recognised that customers wanted toys with longevity. So it adapted its message to promote the durability of its products," he says. "There is still a lot to play for." ●

CONSUMER CONFIDENCE FALLS TO A RECORD LOW

GfK's Consumer Confidence Index measures in recent months

GfK, 2022

'V' for victory – based on customers' values

The industry's preoccupation with customer-centricity could change in a downturn. The focus instead will be on values – not on the value a given brand offers to consumers, but on the values that matter to consumers the most. A key task for retailers will be to build a deeper relationship with customers based on these.

That's the view of Richard Robinson, managing director of marketing consultancy Xeim Engage.

A brand's values will need to embrace, support and raise up the customer," he argues. "To quote Ray Kroc, the founding father of McDonald's: 'Look after the customers and the business will take care of itself.'"

In times of uncertainty, consumers crave familiarity and reassurance. Those companies that meet these emotional needs could have an advantage over those that focus solely on the rational aspects of shopping.

Expect companies to adopt sophisticated AI tech such as machine learning to work hard on cracking consumers' values. This will help them to identify shopping trends and buying behaviour with increasing accuracy, enabling them to focus on what truly matters to their customers. Understanding which categories are more sensitive to shopper discretion will be vital.

Companies that are working on recessionary business strategies centred on values will be better placed to respond when markets evolve at pace – and it won't just be about consciously trading down, the rise of own-label brands or personalised promotions, according to Luke Weston.

"Successful brands will try to reframe the conversation so that it's focused on 'value for living'," he predicts. "This is about maintaining a positive, inspirational narrative in a world of price pressures. It's key to keeping customers engaged and delivering relatable brand experiences that are in tune with their evolving lifestyles – shifting from bulk-buy to 'lifestyle value-add', say. This is a subtle, yet powerful, shift in defining a recession-proof strategy."

But the conversation about values won't add up to anything unless companies are getting their messages across. In this digital-led era of entertainment, expect retailers to experiment with new channels and formats to engage with customers where they spend most of their time, whether that's watching TikTok videos or listening to podcasts. It could even be in a store.

Nike Japan launched Nikelab Radio last year, featuring a collection of music playlists, podcasts and video content from local celebrities and social media influencers. And eBay recently opened a platform enabling users to interact with vendors and purchase goods directly via its live-streamed video sessions.

"The aim of these new channels is to keep conversations with consumers alive during a recession," Weston says. "In the process, these brands will reap the rewards with future sales and, hopefully, lifelong customer loyalty."

Andy Humphreys agrees: "The more a retailer builds a relationship, the more chance it has of weathering a storm. Even if Wayfair, Made.com or B&Q were to reduce their prices in a recession, Ikea will still be Ikea – others can't copy that brand's deeper role in people's lives. For example, it has expanded its business during the pandemic, opening new stores around the world. It can do this because it has democratised design."

Loyalty schemes are likely to play an increasingly important role if the downturn does turn into a lengthy recession. Data from these programmes provides rich insights into how customers are likely to adapt to deteriorating economic conditions.

We could also see a shift from retailers towards providing more digital goods and services, from virtual clothing and art to metaverse wares, as physical retailing feels the strain and labour shortages deepen.

Fletcher points out that "38% of everything bought online is now a digital product or service. Moving away from physical to digital will save costs in production, duplication and delivery."

Consolidate to accumulate

Gobbling up distressed and/or strategic brands is the name of the game for a bold retailer seeing opportunity in a recession. Such moves also enable the acquirer to consolidate its position in a stagnating market. Identifying customer preferences is crucial to the success of this process.

"We're tracking a trend for high-street names to amass portfolios of well-known brands as they pursue fulfilment-model business strategies," reports Luke Weston, brand experience strategy director at the Household agency. "This way, they can extend their reach but benefit from lower fixed overheads."

It helps that retailers hold far more data about their customers than they ever have done. This enables them to identify the most useful products and services, and where an acquisition or new partner might be a good fit and not cannibalise their core brand offering.

Partnerships are also a way to project retail brands with less risk – think M&S and Ocado or Next and Homebase. Store-within-a-store retail concepts have become popular here, whether it's Missguided teaming up with Asda or Pret A Manger with Tesco.

"Tie-ups make sense, especially in a recession," says Andy Humphreys. "It's far easier than building out your own offering. For instance, Next had no credentials in garden products, but Homebase does. So, rather than spending the next three years trying to build out that area, Next brought in a partner to do it. This is a quick way to expand and improve the customer experience you offer in a downturn."

CRIME

Ruck and mall: retailers start the fightback

Shop workers have suffered an epidemic of abuse from customers over the past two years. But the industry, with the help of the justice system, is taking concerted countermeasures

Fiona Duffy


fizkes via GettyImages

For a brief period, when the initial wave of Covid struck the UK, the nation held retail workers in almost the same high esteem as it did NHS staff. After the first lockdown was imposed in March 2020, these previously unsung key workers – many of whom weren't equipped with adequate personal protective equipment – were lauded for keeping everyone fed, watered and stocked up with loo roll.

But the goodwill didn't last. The public's initial gratitude turned into frustration as the government's social distancing regime forced shoppers to queue up outside stores and wear masks inside them. In too many cases, frustration turned into aggression.

The British Retail Consortium (BRC) *Crime Survey 2022 Report* reveals that incidents of verbal and physical abuse targeting retail workers nearly tripled in number year on year during the 12 months ended 31 March 2021 – to 1,301 every day on average.

Dealing with violence became the top concern for retailers in the depths of the Covid crisis, according to the BRC's research. Its report concludes that the "response from the police has failed to meet the challenge", given that 60% of the survey respondents described this as either poor or very poor. Only 4% of cases resulted in prosecutions, compared with 6% the previous year.

> **The problem with this aggression is that it's become a social norm**

The enactment of more stringent legislation to protect public service workers – including retail staff – from abuse in their jobs has come not a moment too soon, then. Under the amended Police, Crime, Sentencing and Courts Act 2022, which has been in effect since 28 June, a common assault on anyone working in a retail store will be classed as an aggravated offence and therefore attract tougher penalties.

While experts in the field agree that this is a welcome development, many believe that more can and should be done to protect retail workers, as the cost-of-living crisis causes further tension for millions of cash-strapped shoppers.

An enquiry by the Commons home affairs select committee last year uncovered just how dire the situation had become. Its report concluded: "It is completely unacceptable that violence and abuse towards retail workers is becoming endemic in British society," adding that there was "overwhelming evidence that the police response is simply failing to match" the escalation in hostilities.

Tougher sentencing was one of the committee's many recommendations. These ranged from ensuring that police and crime commissioners (PCCs) prioritise tackling such crimes to establishing more effective reporting systems.

Chris Brook-Carter is CEO of the Retail Trust, a charity promoting the welfare of all those who work in the industry. He says: "The problem with this aggression is that it's become a social norm. Abuse is one of the top issues affecting staff wellbeing. Combined with deteriorating mental health from the pandemic and concerns about the cost of living, it's prompting many people to consider leaving their jobs in retail for good."

He continues: "The new legislation sends out a much clearer message that this kind of behaviour will not be tolerated. It's also important that retail employers unite to provide the right protection for colleagues facing unacceptable threats."

Jason Birks, national president of the Federation of Independent Retailers, agrees that stronger legal protection should be just the start.

"The important thing is that the police and the Crown Prosecution Service cooperate to ensure that this new law is an effective deterrent, not just a piece of paper," he says. "It's essential that retailers report all incidents to highlight the scale of the problem. And, if retail crime is to be tackled head on, the police response must improve."

One constabulary that's leading the way in this respect is Sussex Police. Katy Bourne has been elected three times as the force's PCC since commissioners replaced police authorities in 2012.

"When I was first elected, I was the only commissioner in the country to include business crime in their police and crime plan," claims the Conservative politician and former business owner. "I do understand there are huge demands on police time, but we know that 20% of offenders create 80% of crimes. They cause so much misery, yet they weren't being targeted."

When Bourne set up the Safer Sussex Business Partnership – involving retailers, crime experts and police – in early 2020, a fundamental issue soon came to light.

"While the police, who are driven by evidence, were telling me that everything was fine, businesses were saying that it was terrible," she says. "We found that retailers were reporting about 8% of incidents and saying: 'The police don't show up. They don't do anything, so what's the point?' But, if 92% of crimes in stores weren't being reported, how could the police ever respond to them? It just needed someone to bring the two sides together. We all recognised that the situation couldn't continue."

The introduction of an innovative 'one touch' system slashed the time it took to report crimes from half an hour to two minutes. Meanwhile, Sussex Police set up a dedicated business crime unit to respond to such reports.

"Focusing on business crime means that we're getting a higher 'solved' rate. This has taken a while, but we have built up the confidence with our business community and it is already making a difference," Bourne says. "My colleagues around the country have since started setting up their own business partnerships."

And, with specialist organisations such as the National Business Crime Centre and the National Retail Crime Steering Group growing in influence, further initiatives are coming thick and fast. They include the provision of body-worn cameras for workers and the production of videos offering guidance on how to stay safe while managing risky situations – for instance, when asking customers to provide proof of age.

4%

of cases of verbal or physical abuse targeting retail workers resulted in prosecutions over the 12 months from April 2020 to March 2021

60%

of retailers described the police response as either poor" or very poor

1,301

incidents of abuse targeting retail workers occurred daily on average over the period

British Retail Consortium, 2022

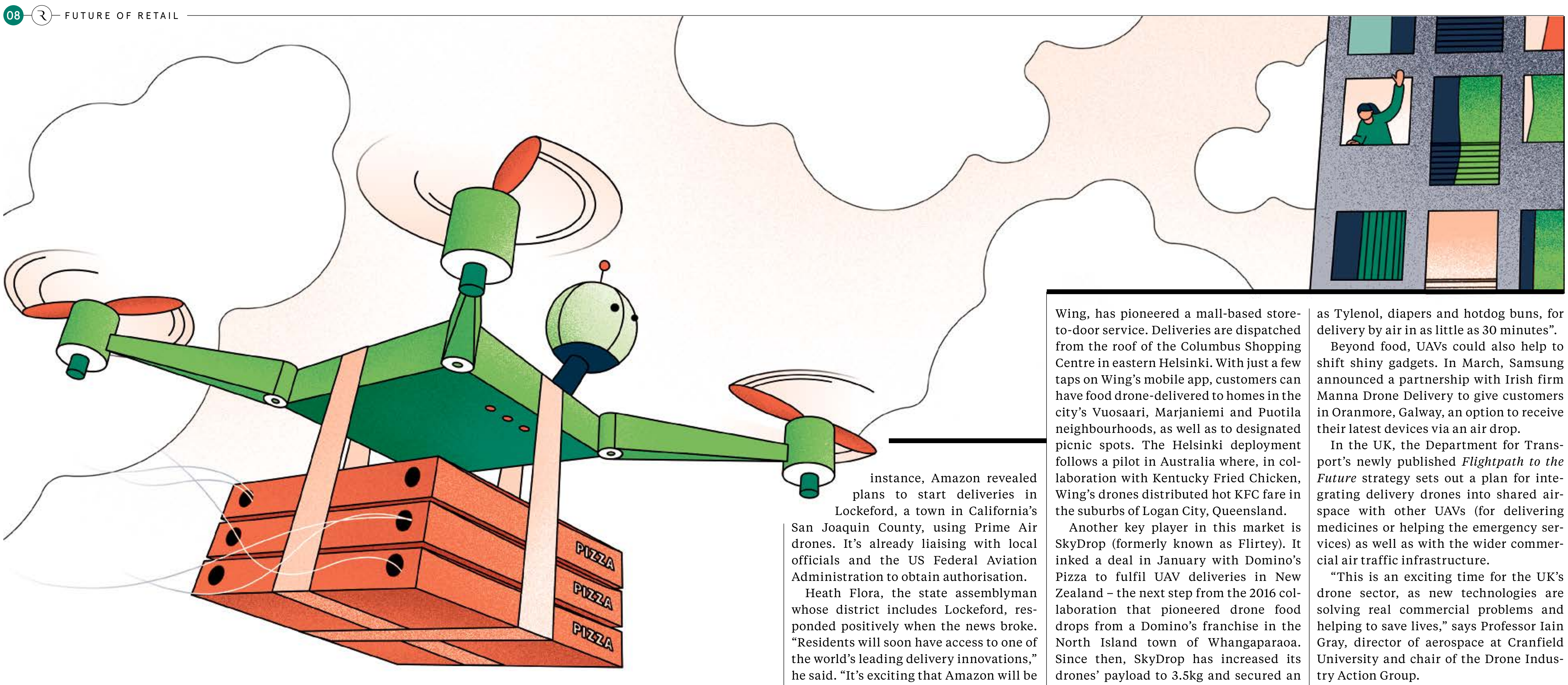
Naz Dossa is CEO of Peoplesafe, a provider of personal security devices used by enterprises such as the Co-op. He says that a feature of its cameras is that "they have front-facing screens, so that members of the public can see that their actions are being recorded. This serves as a deterrent to potential offenders, as anyone can clearly see that, if they were to commit verbal and/or physical abuse, a camera would collect evidence of that."

The Association of Convenience Stores is asking PCCs to sign a pledge to make tackling retail crime a priority. And the Retail Trust has joined forces with law firm Foot Anstey to set up a certification programme designed to "showcase the retail businesses that are taking the appropriate steps to protect their staff while giving retail workers… the clarity they deserve".

Perhaps the simplest initiative of all is a movement urging customers to be nicer to retail workers. The national #ShopKind campaign aims to encourage courteous behaviour in shops, highlight the vital role of retail workers in the community and raise awareness of the scale and impact of abuse against them.

"Just those two words – 'shop' and 'kind' – say everything, don't they?" says Bourne, who launched the first Keeping Christmas Kind campaign in Sussex in 2020.

Brook-Carter agrees: "We have so much to thank retail workers for. The very least they deserve is the ability to do their jobs without fear of being abused or assaulted."



LOGISTICS

Drone delivery – more than just pie in the sky

When Amazon and Walmart invest heavily in aerial fulfilment trials, everyone takes note. Is it just a matter of time before parcel drones become as common as delivery vans?

Paul Sillers

Thanks to advances in technologies such as machine learning, cloud computing, GPS and Lidar, the use of unmanned aerial vehicles (UAVs) in retail fulfilment is becoming a reality.

There have been more than 660,000 commercial deliveries by parcel drone (excluding trial flights) worldwide over the past three years, according to estimates by McKinsey & Co. A forecast last year by Meticulous Research projected that this market would grow by an average of 40% a year to 2028, by which time it could be valued at $1.29bn (£1.07bn).

Parcel drones offer more than a way to leapfrog gridlocked streets. Their carbon footprint can be significantly smaller than that of their earthbound counterparts, according to a study published last October by satellite telco Inmarsat and Cranfield University. The research indicates that a UAV delivering 10 packages within a 5km radius would emit 47% less CO_2 on average than a small van with the same workload.

Unsurprisingly, some of the giants of retail are becoming increasingly interested in aerial fulfilment. Last month, for instance, Amazon revealed plans to start deliveries in Lockeford, a town in California's San Joaquin County, using Prime Air drones. It's already liaising with local officials and the US Federal Aviation Administration to obtain authorisation.

Heath Flora, the state assemblyman whose district includes Lockeford, responded positively when the news broke. "Residents will soon have access to one of the world's leading delivery innovations," he said. "It's exciting that Amazon will be listening to the feedback of the San Joaquin County community to inform the future development of this technology."

The Lockeford scheme is the culmination of an extensive R&D programme in which Prime Air has developed a sophisticated sense-and-avoid system that enables drones to autonomously detect and dodge hazards such as power lines and birds in flight.

This project could shape the extent of Amazon's drone ambitions, which will be influenced by the aviation rules of different jurisdictions, the level of public acceptance and the ever-important consumer demand for rapid fulfilment.

But how quickly do customers really need their stuff? Smarty, an e-shopping portal that applies coupons on purchases from US retailers including Best Buy, Target and Walmart, recently asked its customers to identify which goods they would pay more for if these could be delivered to them by drone within an hour. Their top choice for a rapid UAV drop was food (cited by 40% of respondents), followed by medicines (38%), batteries (30%), an emergency replacement smartphone (30%) and clothing (28%).

One of the main companies jostling for a slice of the aerial fulfilment economy, Wing, has pioneered a mall-based store-to-door service. Deliveries are dispatched from the roof of the Columbus Shopping Centre in eastern Helsinki. With just a few taps on Wing's mobile app, customers can have food drone-delivered to homes in the city's Vuosaari, Marjaniemi and Puotila neighbourhoods, as well as to designated picnic spots. The Helsinki deployment follows a pilot in Australia where, in collaboration with Kentucky Fried Chicken, Wing's drones distributed hot KFC fare in the suburbs of Logan City, Queensland.

Another key player in this market is SkyDrop (formerly known as Flirtey). It inked a deal in January with Domino's Pizza to fulfil UAV deliveries in New Zealand – the next step from the 2016 collaboration that pioneered drone food drops from a Domino's franchise in the North Island town of Whangaparaoa. Since then, SkyDrop has increased its drones' payload to 3.5kg and secured an unmanned aircraft operator certificate.

In May, Walmart announced plans to expand its DroneUp delivery network to 34 sites, with a potential coverage of 4 million households in Arizona, Arkansas, Florida, Texas, Utah and Virginia. This will enable the supermarket giant to distribute more than 1 million packages by drone annually. It plans to charge a delivery fee of $3.99 for a 4.5kg payload.

> Customers will be able to order from thousands of items, such as Tylenol, diapers and hotdog buns, for delivery by air in as little as 30 minutes

The company says "customers will be able to order from thousands of items, such as Tylenol, diapers and hotdog buns, for delivery by air in as little as 30 minutes".

Beyond food, UAVs could also help to shift shiny gadgets. In March, Samsung announced a partnership with Irish firm Manna Drone Delivery to give customers in Oranmore, Galway, an option to receive their latest devices via an air drop.

In the UK, the Department for Transport's newly published *Flightpath to the Future* strategy sets out a plan for integrating delivery drones into shared airspace with other UAVs (for delivering medicines or helping the emergency services) as well as with the wider commercial air traffic infrastructure.

"This is an exciting time for the UK's drone sector, as new technologies are solving real commercial problems and helping to save lives," says Professor Iain Gray, director of aerospace at Cranfield University and chair of the Drone Industry Action Group.

The government is making "game-changing investments" with the Future Flight Challenge – a £300m R&D scheme for the UK aviation industry, according to Gray. But he adds that "innovators need clear, forward-thinking and responsive regulatory regimes to operate within if they are to reap the full benefits".

While the regulators and other stakeholders work to integrate drones with the nation's broader aviation networks, Royal Mail has been trialling UAVs to assess their capacity to serve remote communities. In May 2021, it used a drone to deliver Covid testing kits and personal protective equipment from Cornwall to the Isles of Scilly. In April this year, it conducted trials on the Shetland Islands in partnership with Windracers, putting on flights between Tingwall Airport near the capital, Lerwick, and the northernmost inhabited island, Unst, 50 miles away.

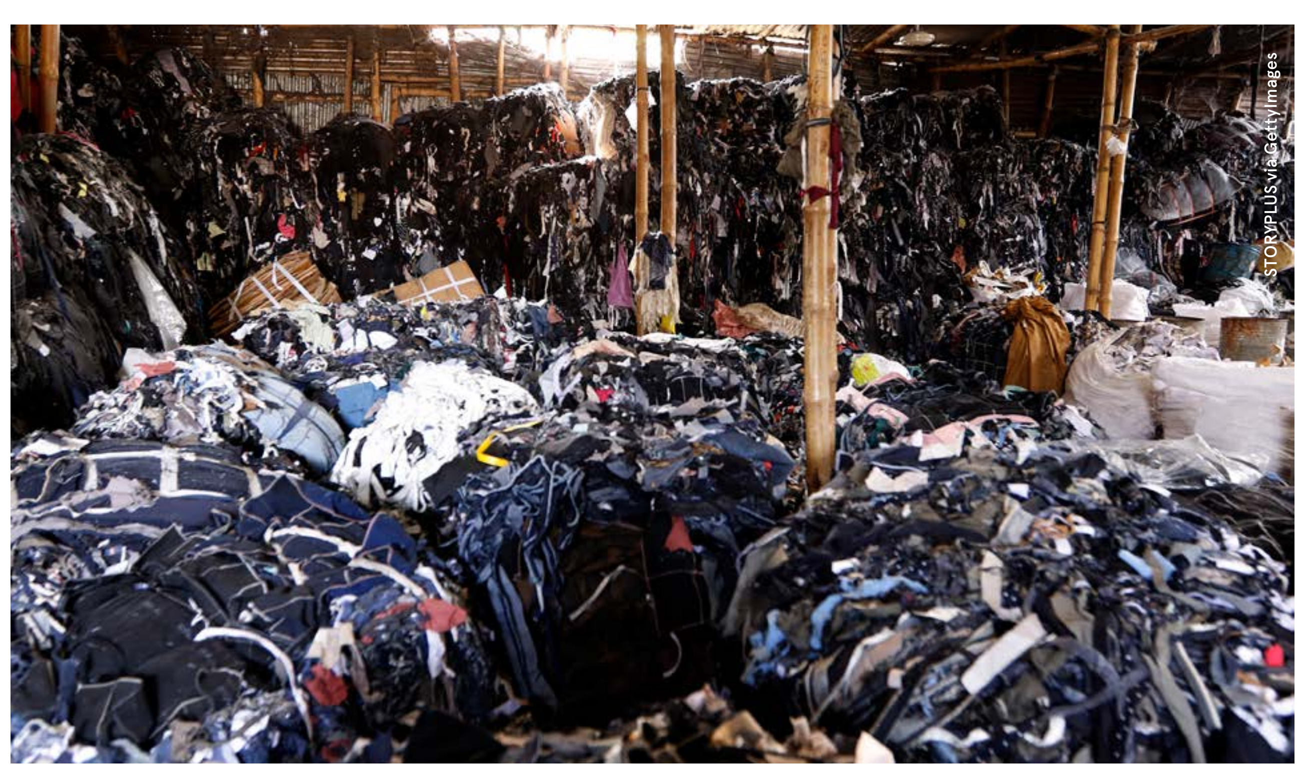
Royal Mail is planning to establish more than 50 drone postal routes over the next three years, subject to approval from the Civil Aviation Authority. Its longer-term aim is to operate a fleet of 500 UAVs nationwide. It's just the type of fulfilment capability that retailers will have on their radars as the commercial potential of drone delivery really takes off. ●

MARKETING

Is this the beginning of the end for greenwash?

With the Competition and Markets Authority set to name and shame fashion's greenwashing offenders – and the intention to legislate on the horizon – is much-needed systemic change afoot in the sector?

Ana Santi



STORYPLUS via Getty Images

Can a fashion collection be marketed as "cherishing waste" yet contain only a small proportion of recycled materials? Yes, it can. Is it greenwashing? The jury is out. But the UK Competition and Markets Authority (CMA) wants to abolish grey areas, pledging to name and shame fashion retailers that make false or misleading claims about their environmental credentials.

In March, the CMA said that it would publicly list fashion's worst greenwashing offenders, having already published a report revealing that 40% of green claims online could be misleading and released a *Green Claims Code* in 2021. The code is a checklist of 13 requirements that brands must meet when making a green claim to comply with consumer protection law.

The Cherish Waste collection in question was launched by H&M in April. It was criticised for greenwashing by anti-fast-fashion campaigners including Venetia La Manna, who cited a pair of denim-print jogging pants made from 100% cotton (the garment's shell is made from 50% recycled cotton).

"This is worthy of naming and shaming," agrees Orsola de Castro, co-founder of Fashion Revolution. "I welcome the CMA's review but I don't welcome steps that take years to turn into action. And simply stopping a brand from saying something isn't the same as being granular and accurate [about their supply chain]."

Capsule collections such as Cherish Waste often come under fire for representing a small proportion of an otherwise large offering – H&M produces 3 billion garments each year. Globally, the equivalent of a rubbish truck full of clothes ends up in a landfill every second.

Some experts believe that smaller ranges could lead to systemic change if the right parameters are applied. Amy Powney, creative director of Mother of Pearl, points to her recent clothing and homeware collections with John Lewis.

"The team wanted to tap into the sustainable knowledge I had," she explains. "But it is vital that these collections lead to evolutionary change in the company as a whole, not just as a marketing one-off."

Fabrics are one of the most common entry points for retailers seeking to change their business models. Powney highlights Tencel as a fabric that brands should explore for its cellulose fibre of botanic origin, which comes from sustainable forestry.

"For us, our most commonly used material is cotton – used in 60% of our product ranges – so we started there," says Nick Stevenson, trading director at Fat Face. "We used three certification bodies to help us – the Better Cotton Initiative, the Organic Content Standard and the Global Organic Textile Standard – and we're now moving on to our other materials."

But fabrics represent only one part of fashion's notoriously complex supply chains, sections of which are often untraceable by the brands themselves.

"I'd like to see 'transparency' become part of the main vocabulary in an industry where brands are open and honest, where they give real insights into the progress that they have made and where they want to improve," Powney says. "Our website is set up so that you can see the 'sustainable attributes' of each piece. We are transparent."

If 'sustainable' was the original buzzword – and one coming under scrutiny by the CMA – 'transparency' is already vying to replace it. When approached for comment, H&M issued the following statement: "We strive to act in accordance with local regulation and in cooperation with the relevant bodies. We welcome initiatives that contribute to an open discussion regarding the importance of transparency in the fashion industry."

The CMA will have its work cut out to ensure that 'transparency' – alongside emerging terms such as 'purposeful', 'responsible' and 'regenerative' – is not co-opted for greenwashing purposes. As Stella McCartney said: "I barely even know what the word 'sustainable' means any more."

But can the *Green Claim Code* hold any business to account without legislation to support it? De Castro isn't convinced.

"Brands like H&M are used to being named and shamed, so nothing will be effective unless it comes with industry regulation to ensure brands tell the truth," she says, adding that disclosing data such as how much garment workers are paid is crucial to a transparent supply chain.

There is legislative hope on the horizon. Last month, the government indicated its intention to give the CMA the power to enforce legislation directly. Under the proposals, the watchdog would be able to impose a penalty of up to 10% of global annual turnover on companies that break such laws.

"It would be a game-changer because it would allow the CMA to act fairly quickly," says Duncan Reed, partner at law firm TLT. "The current regime for punishing organisations that mislead consumers is clunky and involves proceedings through the criminal courts. This is different."

He believes that there could be some prominent casualties of such a move, not least because the CMA wants to be seen as a "world-leading regulator" after Brexit. "The CMA will seek to exercise [its powers]," Reed predicts, cautioning retailers that cannot trace every supplier. "They'll need to tighten up the indemnities and warranties within their supply chains."

The European Securities and Markets Authority has also published a plan in which it identified tackling greenwashing as a priority.

Firms can – and many will – wait for legislation, which is clearly necessary. But time isn't on our side when it comes to the climate emergency. Revolutionary brands have shown what is possible without regulatory obligation. Businesses must be accountable for their actions. They have a responsibility to know and show the people and resources behind their collections without sugar-coating anything.

"I've journeyed, and continue to journey, to seek out the best suppliers, which care about the planet," Powney says. "We are a small brand with limited means. If we can do it, anyone can." ●

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WHAT CONSUMERS UNDERSTAND WHEN BRANDS SAY THEY'RE 'SUSTAINABLE'

First Insight, 2022

Percentage of US and UK consumers who said the following when asked for their views on what 'sustainable' means when applied to products