

Retail Industry



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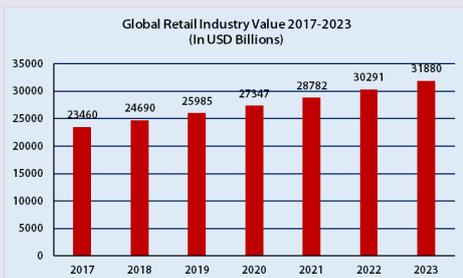


Figure 1. Global Retail Industry Value



Global Outlook

According to Mordor Intelligence, the global retail industry is expected to register a CAGR of 5.3% during the forecast period of 2018 to 2023.

The retail market is mature and highly competitive in the developed economies of Europe and North America. On the other hand, the developing economies of Asia-Pacific, Middle East and Latin America have been instrumental in driving market growth, a trend that is expected to continue throughout the forecast period.

As for the apparel and footwear retail market, according to Research and Markets, the global apparel retail industry is expected to grow at a CAGR of around 5% during the forecast period of 2018 to 2023. Per research firm, Lucintel, total revenues for the global footwear retail market stood at around \$275.1 billion in 2018, with expectations of moderate growth in the coming years.



Global Economic Outlook

According to the IMF, as of July 2019, world economic growth remains subdued. Major factors behind the sluggish growth are the United States further increasing tariffs on certain Chinese imports and China retaliating by raising tariffs on a subset of US imports. Also, global technology supply chains are threatened by the prospect of US sanctions, continued Brexit-related uncertainty and rising geopolitical tensions roiled energy prices.

The IMF goes on to add that against this backdrop, global growth is forecast at 3.2% in 2019, picking up to 3.5% in 2020. GDP releases so far this year, together with generally softening inflation, point to weaker-than-anticipated global activity.

In conjunction with increased online sales, many fashion companies are experiencing a steep decline in brick-and-mortar traffic. Companies are looking for ways to reduce store operating costs, re-evaluate store networks and innovate the in-store experience to attract customers.

“The digital shift has hit some harder than others. For example, US department store sales have fallen drastically in recent years and mall closures are expected to increase. Sluggish sales in the departmental store channel, combined with a desire to improve margins and control brand presentation, markdowns and customer data, are causing brands to move to direct-to-consumer models,” explained the SoF report.

Cumulative data published in retail consulting firm Shopify’s The Fashion and Apparel Industry Report paints a bright portrait with worldwide e-commerce fashion revenue expected to rise from \$481.2 billion in 2018 to \$712.9 billion by 2022.



Focus on the Supply Chain

The supply chain is quickly becoming a way for retailers to offer consumers a differentiated service, but making the supply chain faster, more predictable and cheaper is a difficult triad to manage simultaneously.

As retailers buckle down and prepare for potentially challenging times ahead, supply chain improvements can be a significant growth driver. But rather than just investing in trends like smart packaging in reaction to competitors, retailers would do well to think about accumulating long-term competitive

Retail Industry



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advantages through wider supply chain strategies and also through experimenting and investing in new technologies that will help them stay ahead of the competition.

Overall, trade-related forces are expected to lead to some changes in the fashion industry. Escalating trade tensions are expected to cause international brands to re-examine their sourcing, perhaps to the benefit of countries involved in newly negotiated trade agreements.

Recent Trends



Rise of Social Commerce

Social media is continuing to exert increasing influence on the retail sector, spurred on by “digital native” generation Z and millennial shoppers. According to Retail Dive, more than 80% of generation Z and 74% of millennials say that social media influences their purchases. Investment and demand for consumer durables have been subdued across advanced and emerging market economies as firms and households continue to hold back on long-range spending. Accordingly, global trade, which is intensive in machinery and consumer durables, remains sluggish. The projected growth pickup in 2020 is precarious, presuming stabilisation in currently stressed emerging markets and developing economies and progress toward resolving trade policy differences.



UK Retail Sales

Recent figures from the Office for National Statistics (“ONS”) showed in the three months to June 2019, the quantity bought in the UK increased by 0.7% with growth across all sectors except food stores and department stores; however, this was a slowdown from the stronger growth of 1.6% in the three months to May 2019.

The quantity bought in June 2019 increased by 1% when compared with May 2019. The year-on-year growth rate shows that the quantity bought in June 2019 increased by 3.8%, with growth across all sectors except department stores, while May 2019 was at 2.2% for the year-on-year growth rate. Online sales as a proportion of all retailing fell to 18.9% in June 2019, from the 19.3% reported in May 2019.



Global Fashion Industry Outlook

According to Statista, the global fashion industry is expected to grow at a CAGR of 9.8% during the forecast period of 2019 to 2023, resulting in a market volume of \$873 billion by 2023. The industry’s largest segment is apparel, with the most revenue generated in China. The primary factors driving the growth of the fashion industry worldwide are increasing internet penetration and urban population as well as increasing disposable incomes resulting in increased consumer spending in numerous countries around the world.

Customer expectations are increasing considerably, with both individual customers and businesses expecting to get goods faster. This has led to growing pressure on companies to deliver goods more efficiently, sometimes at an even lower cost than previously.



Fashion E-Commerce Outlook

According to The State of Fashion 2018 (“SoF”), a joint report from

Retail Industry

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Business of Fashion and McKinsey & Company, “The global fashion industry today is moving into a decisive phase of digital adoption by the mainstream consumer, and online sales of apparel and footwear is projected to grow rapidly, not the least in emerging markets. On average, consumers in Southeast Asia spend about eight hours a day online, from social media to video streaming and shopping amongst other things. The modern shopper's comfort with digital channels and content has changed the consumer purchase journey from a traditional linear model to a complex journey across online and offline touchpoints.”

A number of social media giants have already begun to capitalise on this trend. Instagram introduced shoppable posts in 2016 and Snapchat recently launching an e-commerce or “selfie-commerce” channel for brands to advertise on. The ability of consumers to more easily and quickly connect with brands and products is driving the convergence of social media and retail. This trend is only going to gain further prominence in the coming years.



Consolidation in the High Street

Whilst 2018 was a bleak year for many retailers, that doesn't mean the high-street is dead. Co-op is a prime example of this, as the company launched a £160 million expansion plan and sold 300 of its larger stores in order to refocus on its smaller outlets in community areas, thereby catering to consumer shopping habits of smaller but more frequent store visits.

Brands across other branches of the retail spectrum are expected to make similar moves in 2019. In focusing on the consumer and their shopping experience, experts expect to see a reinvention of the physical space around the customer, in many cases leading to fewer stores per retailer.



Digital Startups

Digital startups are no longer playing in the shadows. They're addressing chronic issues faced by the retail industry through innovative offerings, personalisation, authentic engagement, differentiated fulfillment and more. And the amount of capital flowing to retail tech startups is allowing these companies to realistically compete with established players.

To help offset the early gains made by these startups, traditional retailers will have to push ahead, blurring the lines between business development and corporate strategy. To acquire the next big idea, they might have to seek out guidance from specialists or through a scouting approach



Emerging Technologies

Gone are the days when IT strategy was limited to architecture, modernisation and ERP systems. Today, investment options, technologies and vendors number in the thousands, making it challenging to navigate and hone in on the next big thing. Ultimately, retailers can figure out how to scale these solutions and embed them into their way of doing business. Leveraging the true power of next-generation technologies may require retailers to make some significant changes. They can seek to consistently mine the data they collect, transform their operations to deliver on the brand promise and adapt to the future of work.

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