



THE SHAPE OF RETAIL: CONSUMERS AND THE NEW NORMAL



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Introduction

As the world continues to face into a truly unprecedented crisis, global lockdown measures to control the spread of COVID-19 have paralysed economies and unsettled societies. Widespread business closures, social distancing restrictions and isolation have caused significant disruption.

The International Monetary Fund (IMF) reassessed prospects for global growth in 2020 and 2021, declaring that we have entered a recession as bad or worse than that of the 2008 global financial crisis.

The International Monetary Fund (IMF) expects the global economy to contract sharply by 3% in 2020 - much worse than during the financial crisis of 2008. The Euro Area is expected to report significantly weaker growth, with output falling 7.1% in 2020, while advanced economies are predicted to suffer a 6.1% fall before bouncing back in 2021.

These are extraordinary times. Never has a single event had such a wide-ranging impact on financial markets, businesses and households. The stakes are high and governments and central banks in advanced economies will continue to run significant fiscal deficits to avoid high levels of structural unemployment, protracted disruption to supply chains and waves of business failures. The benefit of running large deficits today is seen as far outweighing any eventual costs. As countries around the world emerge from lockdown, governments will cautiously explore ways to enable societies to manage the interconnected realms of public health and economic wellbeing.

The impact of COVID-19 has devastated consumer confidence across Europe. Fears about health, personal finances and job security have undermined households' propensity to spend. Across the U.K., Germany, Spain, Italy, France and Switzerland, consumers have cut back spending on non-essentials while behavioural shifts are being driven by varying degrees of lockdown policy.

The Euro Area is expected to report significantly weaker growth, with output falling 7.1% in 2020.

Consumers believe that long-lasting structural changes will surface from this crisis. Such changes will affect the way we live, how we work, communicate and shop. However, various impacts will be felt unevenly across the industry with broad divergencies by age, attitudes to risk and region among other factors. In reality, changes will involve a series of complex societal shifts based on public policy, experiences and emotion.

In a 'post-COVID world', the retail sector will look very different – irrespective of country or region. The nuances of these changes will be geographically specific and complex in their implementation.

This report explores how the COVID-19 crisis is impacting consumer behaviour, measuring the attitudes of over 6,000 consumers across six European countries. It identifies similarities and differences in consumer sentiment, emerging trends, impact to retailers, and offers a glimpse into the future. For retailers and brands seeking valuable insight into how the impact of the crisis is unfolding across Europe, this research helps provide valuable consumer-led guidance and insight for action.



COVID-19 timeline

The following timeline outlines the major events for each of the six countries analysed in this report.





Section 1

The impact of COVID-19 on consumer behaviour

Governments across Europe have begun to ease restrictions as the threat of COVID-19 is downgraded. Pockets of spending are starting to return, but consumer caution remains high as society transitions to a new normal in the way we work, socialise and shop.

The shock to societal norms has forced many consumers to seek alternative customer journeys as store closures rendered many previous behaviours redundant. Many shoppers are now reassessing old spending patterns, reordering priorities and feeling a sharp hit to confidence. As European consumers reconcile the impact of the crisis on their daily routines, four distinct consumer behaviours have emerged:

- 1 **Cautious:** cut back on some spending and waiting for more normal times
- 2 **Undeterred:** spending levels have remained unaffected by the impact of the virus
- 3 **Hibernators:** cutting back on all non-essential purchases
- 4 **Confident:** spending levels have risen

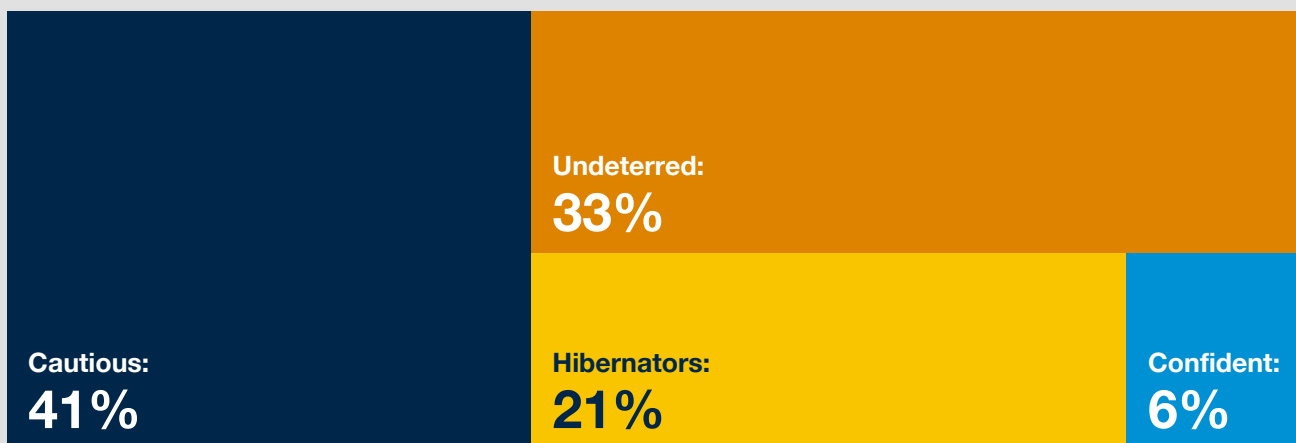
Figure 1 shows these four behavioural segments in their relative proportions.

The prevailing consumer instinct is to hold back some spending on non-essential purchases and adopt a more cautious view of personal finances. This constitutes 41% of 'cautious' European respondents surveyed. Typically, these consumers delayed some spending on discretionary purchases, focusing on essentials, while waiting for normality to return.

One in five consumers consciously cut back spending on all non-essentials as concerns about the future significantly undermined their confidence as they effectively entered a 'hibernation' mode. This consumer segment is disproportionately comprised from the least affluent households with spending predominantly focused on essentials.

A third of consumers claim that the crisis has not influenced their level of spending on retail products, appearing undeterred when it comes to shopping. These consumers were disproportionately weighted towards the most wealthy households, particularly for the U.K. and Germany where almost half of consumers associated themselves with this categorisation the most.

Figure 1. Consumer behaviour mosaic: Four consumer segments have emerged from the COVID-19 pandemic.



Source: Retail Economics (includes France, Germany, Italy, Spain, Switzerland and U.K.)



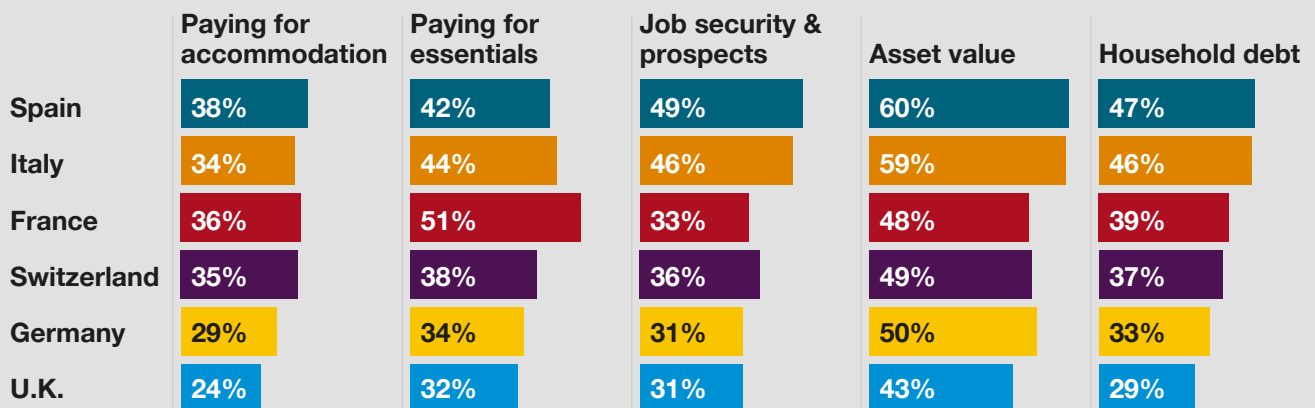
Lastly, 6% suggest they are spending even more, potentially on opportunistic purchases on deeply discounted items.

Nevertheless, retail sales across Europe have been decimated. Almost two-thirds of consumers suggest they are spending less on non-food categories and confidence has been shaken. Although differences arise by country and region, consumers Europe-wide are uniformly worried most about a drop in asset values, weakening job security and levels of household debt shown in Figure 2.

Consumers Europe-wide are uniformly worried most about a drop in asset values, weakening job security and levels of household debt.

Figure 2. How worried are you about each of the following?

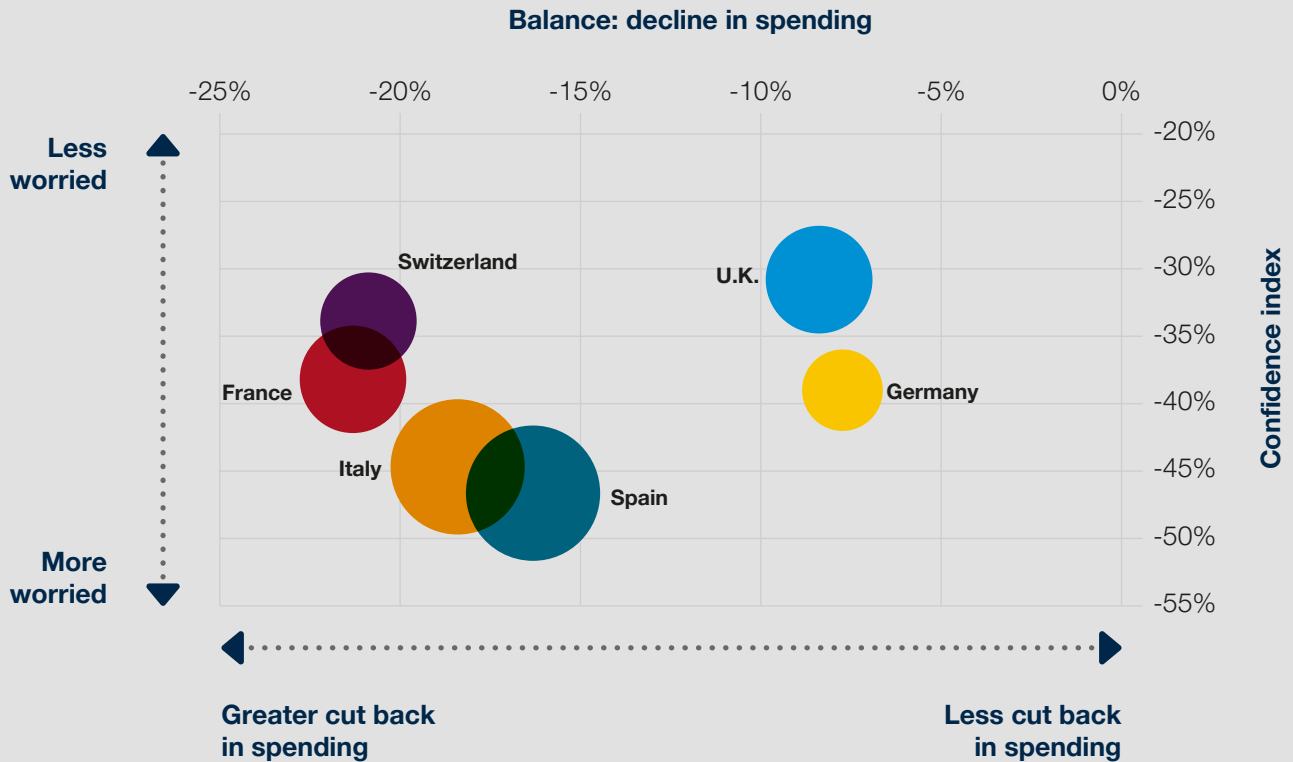
Net balance of those that are worried about the following factors.



Source: Retail Economics

Figure 3. Weaker confidence and a reduction in spending are largely correlated across Europe.

A negative net balance shows that consumers who are cutting back their spending outweigh those who suggest they are spending more since the outbreak of the pandemic.



Note: Size of the bubble reflects attitudes towards personal finances. A larger bubble reflects greater pessimism towards personal finances.

Source: Retail Economics

Consumers in the U.K. appear significantly more optimistic compared with other European countries surveyed. British consumers were consistently more positive across a number of measures including job security, paying for essentials and the performance of their assets.

A broad correlation emerged between the level of consumer confidence and the proportion of consumers who indicated they were going to cut back on spending (Figure 3). Both the U.K. and Germany display similarities between the proportion of consumers cutting back their spending, and consumer pessimism.

Meanwhile, consumers in Spain and Italy are much more pessimistic about their finances and job security, and also indicate significant cutbacks in retail spending, particularly for apparel, homewares, electricals and furniture (Figure 4).

Since the pandemic, three distinct trends have emerged. The following sections explore these trends and identify key insights that can assist retailers in developing reactive strategies to the COVID-19 crisis.

Trend 1: Focussing on essentials

Understandably, consumers have prioritised their spending on essentials such as food and health, avoiding discretionary purchases within categories like apparel, electricals and homewares. Indeed, across the European countries surveyed, 61% of consumers agreed that they had prioritised their spending on essentials since the coronavirus outbreak, with Italy (76%), France (75%) and Spain (75%) experiencing the largest shift. Clothing and footwear were consistently the worst affected sectors across all countries, highlighted by a net balance of 73% of Italian consumers suggesting they had cut back spending in these sectors since the outbreak (Figure 4). A similar proportion of consumers in Spain also suggested this was the case, with electricals, homewares and furniture experiencing significant declines.

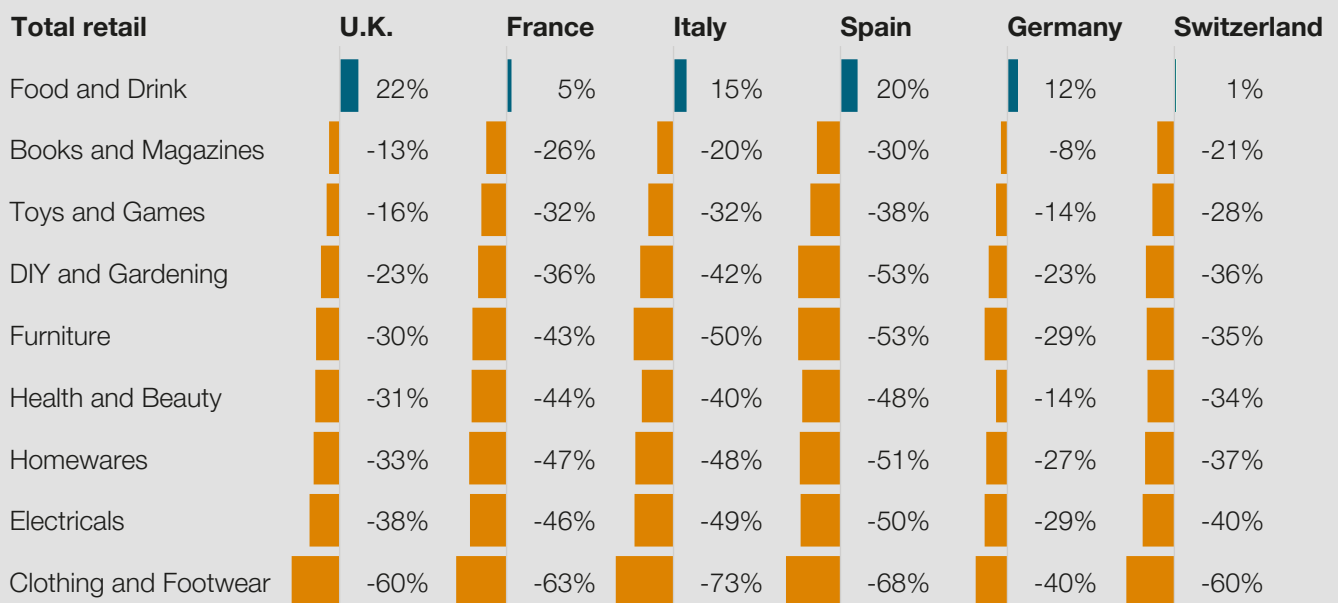
Unsurprisingly, food has been the stand-out beneficiary during the lockdown as measures legislated the closure of restaurants, cafes and bars. The transition of spending away from food services towards the grocers has greatly benefited the food and drink sector with 22% of U.K.

consumers suggested they shopped more within this category. Every country surveyed experienced an increase in spending across food. Interestingly, Switzerland showed just a marginal increase of 1%.

Every non-food category across all countries surveyed reported consumers cutting back their spending to some extent. The most defensible non-food categories are those that likely increased household comfort from time spent indoors. Such categories included books and magazines, and toys and games. Notably, with young children housebound, keeping them occupied and assisting with homeschooling had an impact. Electricals also had an initial surge in demand, driven by companies scrambling to set up home working systems, teleconferencing and video calls. Laptops, PC monitors and webcams were particularly in high demand with e-commerce sites showing hundreds of out of stock products with 4-6 week waiting times. But as the initial surge petered out, underlying demand for electricals began to wane.

Figure 4. How has the coronavirus situation affected your overall spending?

Net balance of those that have either cut back or increased spending



Source: Retail Economics

More than four in 10 consumers across Europe indicated they had purchased something online for the first time which they had only previously bought in-store.

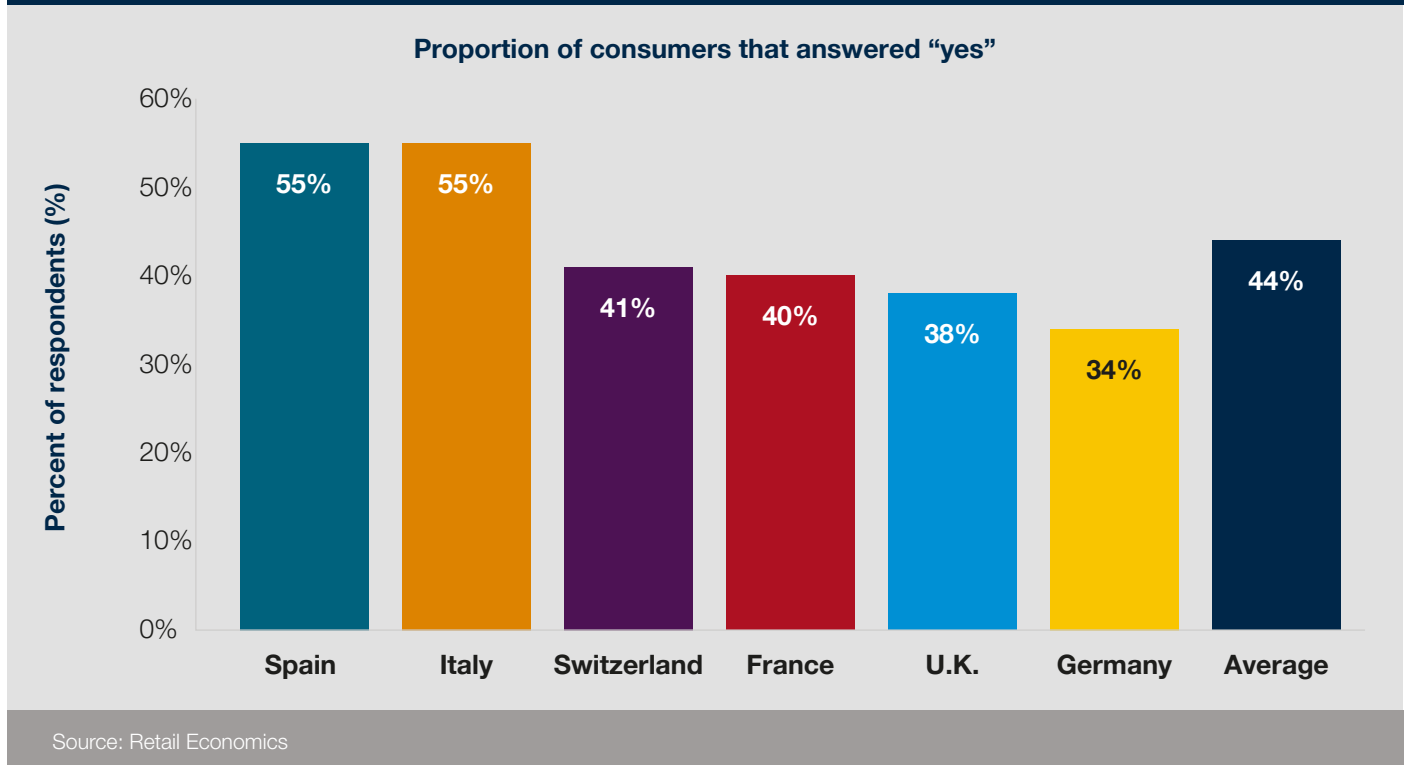
Trend 2: Accelerated shift towards online

As lockdown measures were implemented across Europe, a predictable switch towards online channels emerged. The shift was immediate but it was felt unevenly across regions and sectors. Some retailers struggled to cope with a sudden surge in demand, pushing websites to breaking point and exceeding fulfilment capacity.

Although highly penetrated markets, such as the U.K., were better equipped to cope, higher consumer adoption rates saw a step-change in the proportion of shopping conducted online. This trend is highlighted by the fact that more than four in 10 consumers across Europe¹ indicated

they had purchased something online for the first time which they had only previously bought in-store due to the virus. This proportion rose to 55% for consumers in Italy and Spain, reflecting elevated concerns about the impact of the virus and relatively immature online adoption rates compared with other European countries. As such, there are a significant proportion of consumers being exposed to a new digital-first customer journeys. Many have overcome the initial friction of setting up online accounts and become familiar with online payment systems. In future, many apprehensive internet shoppers may emerge as full 'online converts'.

Figure 5. Have you started buying any products online that you had always previously bought in-store because of the coronavirus situation?



¹ Research included U.K., Germany, France, Spain, Italy and Switzerland.

Trend 3: Readjusted expectations

As consumers now focus on the easing of restrictions, their expectations have ultimately endured a period of readjustment. The overriding priority for shoppers returning to stores is safety – above that of convenience, price and choice. It is important to consumers that they perceive a safe shopping environment as they navigate store aisles while observing social distancing guidelines.

Beyond policy adherence, retailers will need to prioritise safety measures when attempting to reassure consumers and garner trust. Evidently, the most applicable measures centre around social distancing and hygiene which will become a minimum expectation from consumers during this transitional period.

Retailers failing to meet these expectations risk loss of confidence from their customer base, arguably at a time when gaining trust has never been more important. Nevertheless, age-related disparities will arise, reflecting differences in perceived risk of contracting the virus where higher risk consumer groups will respond positively to retailers adhering to COVID-19 trading guidelines which ultimately could help forge lasting relationships.

Consumers are also likely to feel more anxious shopping in enclosed environments that make social distancing measures more difficult to follow due to narrow walkways,

lifts and escalators, while more surfaces (e.g. hand rails, shop fronts, benches, escalators, doors, parking ticket machines) could make the shopping experience more stressful, especially with children.

Throughout the crisis, the obvious drawback of implementing safety measures is the quality of the traditional customer experience. From beautifully designed open retail spaces to the reality of yellow and black hazard stripes adorning pathways and countertops, the customer experience objective sought by retailers could be in jeopardy. [This is especially true for younger consumer groups \(e.g. Gen Zs and Millennials\) who greatly value physical retail and use it as a means for socialising and product discovery, with a touch and feel attitude towards products²](#). Successful retailers will reimagine the customer journey and leverage technology, such as augmented reality, to enhance the overall experience in new and previously unexpected ways.

[For older consumers who highly value inter-personal interaction while shopping](#), a more impersonal experience (e.g. mask-wearing assistant) could prove more problematic. Added friction throughout the path to purchase could risk deflating the retail experience, further fuelling the shift to online.

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² A&M/Retail Economics – [The Shape of Retail report](#)





Section 2

Future trends

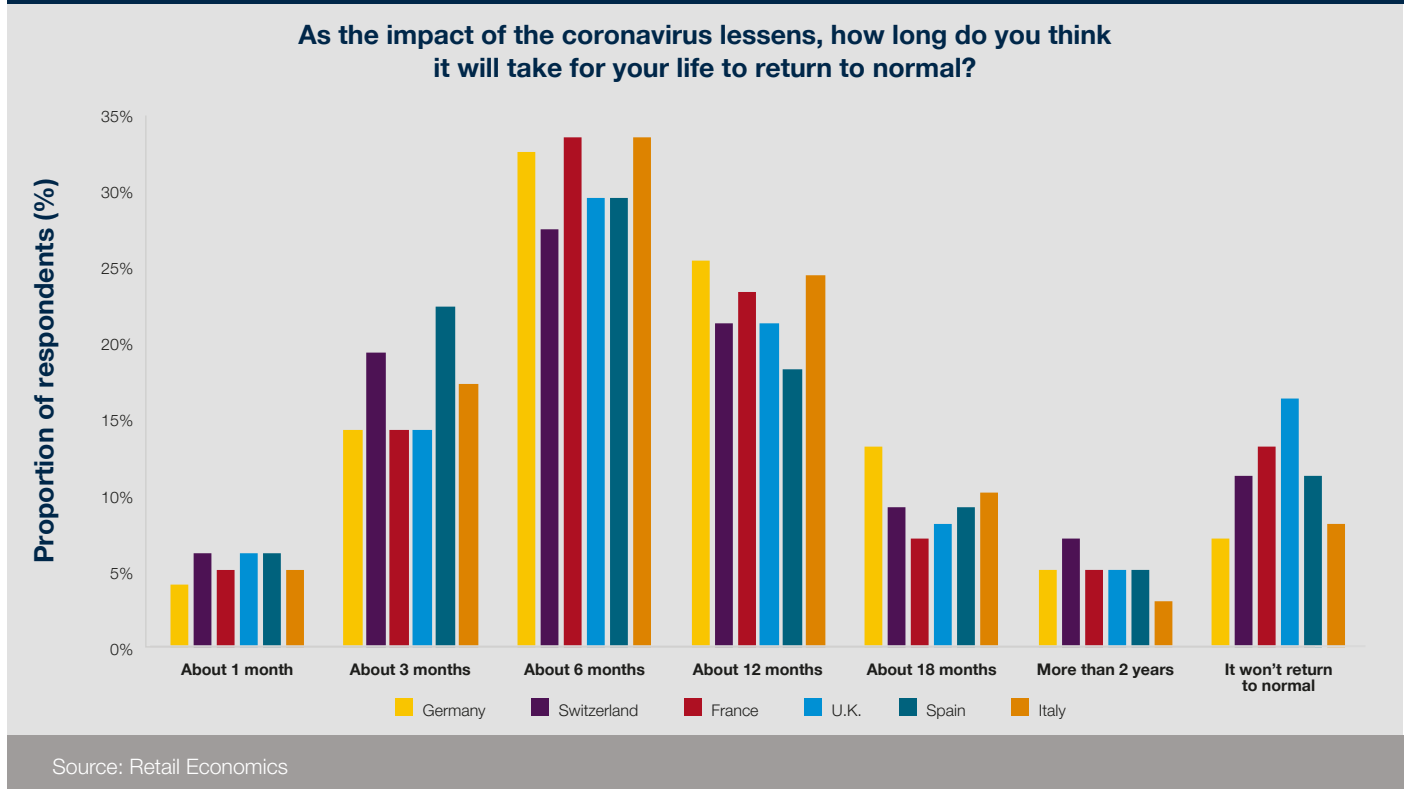
For many consumers, as the initial coronavirus panic subsides and a 'new normal' comes into view, it is clear that shoppers will not revert to pre-COVID-19 behaviours.

Consumers have transitioned through an initial period of anxiety, but as capacity returns to enable consideration of future scenarios, the longer-term implications and 'fallout' from the restrictions comes to the fore. Many shoppers appear pragmatic about the immediate state of retail, accepting various restrictions and a protracted customer experience in lieu of safety. But shopper missions have fundamentally changed.

While social distancing measures remain in place, the overall experience will be considerably compromised, shifting from experiential endeavours that entail a mix of leisure and entertainment to one where the primary purpose is driven by the functional acquisition of products. The question on everyone's mind is, how long will this last?

While social distancing measures remain in place, the overall experience will be considerably compromised.

Figure 6. European consumers are aligned in their expectations about how long it is likely to take to return to 'normal' life.



European consumers are remarkably aligned in their expectations of how long it will take for them to experience some semblance of normality. Most consumers believe it will take around six months before returning to 'normal', taking this period of disruption up to the end of 2020.

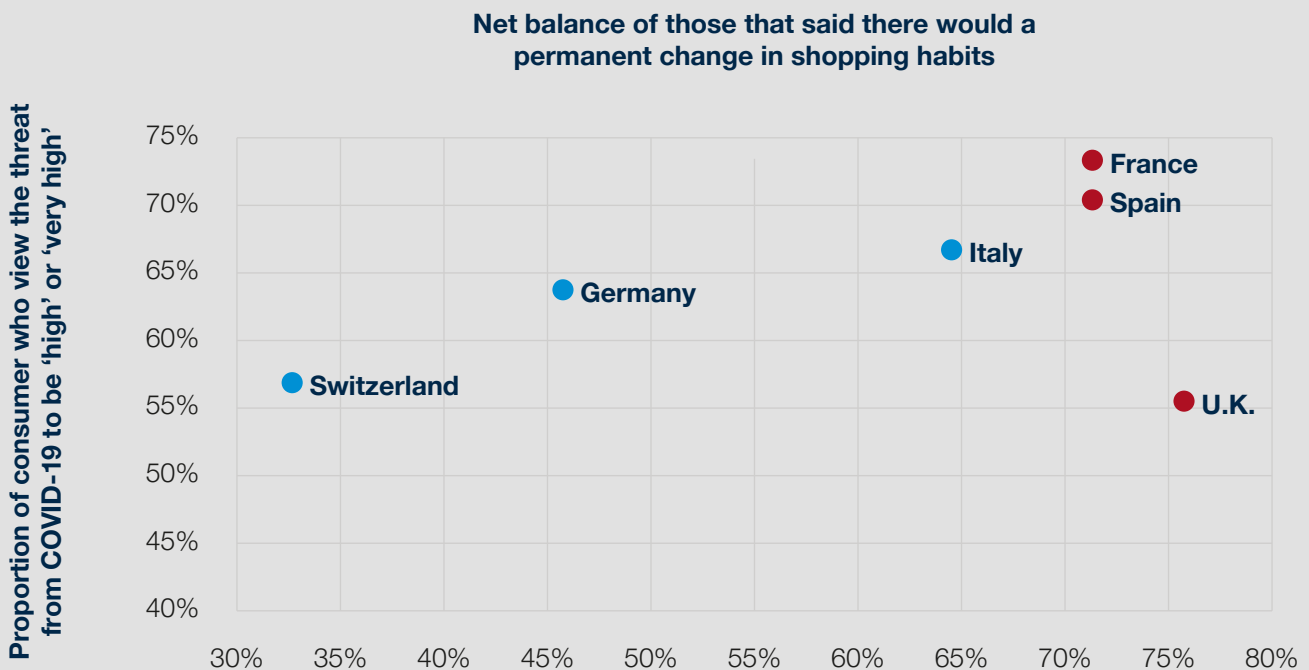
However, returning to a state of normality (or a new normal) does not preclude the notion that our lifestyles are likely to change on a permanent basis. Our analysis shows that consumers expect to see a permanent shift in the way they communicate, work, exercise, eat, socialise and much more. This is especially true for the way in which consumers shop. This ranks the highest across a number of lifestyle activities (e.g. work, travel, communication, exercise) in all European countries surveyed.

In fact, across all regions, a third of consumers suggested that how they shop will likely change permanently – a sentiment felt more strongly in Spain and France where four in 10 consumers feel this is the case.

Across all regions, a third of consumers suggested that how they shop will likely change permanently.

Notably, there was little evidence to show any meaningful differences by age or household income. However, a strong correlation emerged between consumers' perceived risk of the virus and a permanent change in shopping habits. Consumers who thought the threat of the virus was 'very high' were almost four times more likely to suggest that their shopping habits were likely to permanently change. Indeed, almost half of consumers who thought the virus was a very high threat, also said that there would be a permanent change in shopping habits. This compares with just 12% who thought the virus was a low threat.

Figure 7. Consumers who suggest there will be a permanent change in their shopping habits are more likely to perceive the COVID-19 threat to be higher.



Source: Retail Economics

Note: Red dot indicates a net negative for consumers who thought their government has reacted poorly to the pandemic. Blue dot indicates a net positive assessment of government's actions.



Mapping this relationship by jurisdiction shows a broad correlation between consumers who live in countries where the risk of COVID-19 is perceived as high, against the proportion of consumers who said there is likely to be a permanent change in shopping behaviour. For both Spain and France, over 70% of consumers considered the threat of COVID-19 to be 'high' or 'very high', the highest of all countries measured; this corresponds with a higher proportion of consumers indicating that permanent changes would occur in the way they shopped. Conversely, Swiss consumers were the least likely to suggest a permanent change in shopping habits. Switzerland also showed fewer respondents who thought the virus was of a high or very high threat.

Our research also shows firm intentions for consumers to transition from store-based sales to online channels across all countries surveyed. Shoppers expect to cut back on the frequency of visits to physical stores most in Italy, Spain, France and the U.K. Likewise, consumers across all countries surveyed showed further intent to increase the frequency of online shopping and the average transaction value of their purchases, particularly for online non-food products. Attitudes towards online shopping for food were

more diverse, likely to reflect cultural variance, the difference in online delivery propositions and capacity constraints.

Overall, the largest shifts are likely to be experienced in Italy, Spain, France and the U.K., with Italy and Spain having significantly lower online penetration rates which will likely ensure aggressive rates of growth in the future.

Figure 8. How do you think your shopping habits are likely to change in the long-term due to the impact of the coronavirus?

Net balance of those that intend to either cut back or increase spending in the long-term

	U.K.	Spain	Germany	France	Italy	Switzerland
Frequency						
Frequency of shopping trips to physical destinations	-35%	-37%	-16%	-32%	-44%	-18%
Frequency of shopping online	34%	41%	23%	26%	38%	18%
Channel						
Average spent on a transaction in-store	-5%	-4%	8%	-24%	-12%	-1%
Average spent on a transaction online	21%	23%	10%	16%	23%	6%
Online category						
Average spent online for non-food products	16%	15%	9%	1%	7%	1%
Average spent online for food products	16%	12%	5%	1%	0%	-3%

Source: Retail Economics

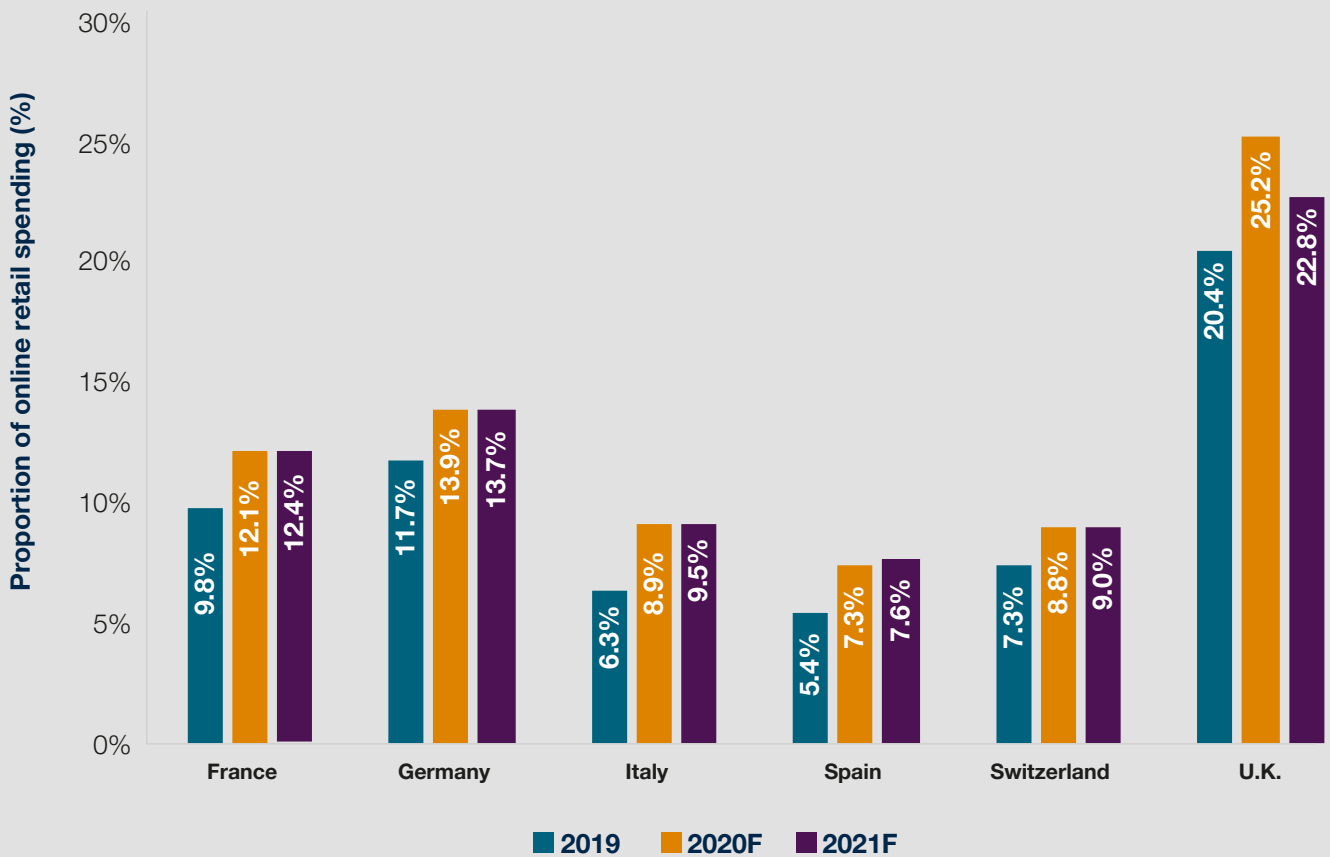
Note: Net balance of those that intend to either cut back or increase spending in the long-term.

Overcoming the initial barriers to online shopping will cause a step-change across countries, resulting in an estimated €13.6 billion of additional online sales in 2020.

There will be a 'step-change' in the proportion of retail sales conducted online in 2020 as lockdown measures necessitate the shift towards this channel. Overcoming the initial barriers to online shopping will cause a step-change across countries, resulting in an estimated €13.6 billion of additional online sales in 2020 – above previous expectations – for the U.K. (€5.0 billion)³, France (€3.0 billion), Germany (€2.3 billion), Spain (€1.5 billion), Italy (€1.5 billion) and Switzerland (€0.3 billion).

The greatest gains are likely to be experienced in Italy and Spain, where the proportion of online sales are lower and consumer adoption rates have been weaker than other nations. However, even in the U.K. where the proportion of online sales is already high, a likely step-change will emerge in the size of online sales as retailers boost capacity.

Figure 9. Online penetration rates expected to see a step-change in levels of adoption.



Source: Retail Economics

³ Sterling to Euro exchange rate of £1 to €1.12 as of 10 June 2020.





Section 3

Beyond the pandemic: The impact on retailers

European governments swiftly implemented measures to support their economies, businesses and households. While these measures helped limit the economic damage inflicted by COVID-19, inevitably the retail sector will emerge from the pandemic in a different form.

A 'shake-out' across all retail geographies is on the horizon as consumers migrate towards business models that are aligned to a new set of values. Retailers who fail to pivot their business models fast enough will cease to exist, engulfed by those with nimble strategies and new entrants. It is equally as critical to strategically tackle the heavy legacy fixed cost base of many retailers in order to become more agile. Retailers will need to address the burden of rent and other occupancy costs in order to support the footprint of the future.

Retail industries across the world are currently transitioning through a readjustment period. Accordingly, businesses that emerge 'on the other side' will be stronger and more adaptable to challenges that lie ahead.

If businesses hibernate for too long, the opportunity to grasp new markets, retain loyal customers and win new ones will quickly pass, as consumers seek alternatives that meet their new expectations.





Industry restructuring

Reaching a post-COVID-19 future for retail is an evolutionary process. This fundamental transformation will take time and international markets will have their own nuance of localised regulation, regional competition and consumer typologies influenced by divergent cultures.

During this restructure, three key stages are likely to arise that are common to all markets:

Stage 1 of restructure: Survival – timing is everything

The impact of the virus pushed many healthy retailers from a positive to negative cash flow within weeks (see our previous report [‘Surviving the Cash Crunch’](#)). As lockdown measures persisted, demands on liquidity intensified and the depletion of working capital forced many retailers into administration.

To this end, many non-essential retailers remain in ‘survival mode’, preserving capital and carefully navigating a phased approach to reopening from lockdown.

Intricate scenario planning is critical during this phase, as retailers leverage data and market intelligence to model demand scenarios which drive decision making and cash flow forecasting. This strategy is appropriate while businesses look to weather the storm as effectively as possible, but as the skies clear they will need to quickly evolve their proposition to meet the new demands of a ‘post-COVID-19 shopper’.

If businesses hibernate for too long, the opportunity to grasp new markets, retain loyal customers and win new ones will quickly pass, as consumers seek alternatives that meet their new expectations.

These actions require bold leadership. In some instances, retailers may discover their proposition has become obsolete as new consumer realities no longer align with product ranges, experiential offerings and fulfilment methods. In these instances, leadership teams will need to act decisively to redeploy capital towards more productive endeavours.

Many non-essential retailers remain in ‘survival mode’.

Stage 2 of restructure:

The fallout – consolidation and partnerships

As the survivors gain more traction, weaker retailers in the market will fail, leading to market consolidation. During this phase, acquisition opportunities will arise which could help drive value, reposition brands and build scale.

The drive towards leaner, simpler and more nimble business models will also encourage more strategic partnerships. Retailers partnering with companies offering computing, distribution, logistics, payroll and many other functions were able to utilise these relationships to boost capacity during periods of concentrated demand.

Partnerships and collaborations are likely to assume the form of mutually beneficial retailer tie-ups. Here, complementary partnerships can offer:

- 1 Repositioning propositions to attract new customers (e.g. Next and Amazon)
- 2 Improved logistics (e.g. Clipper Logistics that can house, distribute and manage returns)
- 3 Efficient final mile delivery (e.g. Deliveroo, Uber)
- 4 Big-data driven insights (e.g. Google Cloud computing, Amazon Web Services, Microsoft Artificial Intelligence)
- 5 Intelligent use of retail space (e.g. flexible landlords facilitating innovative solutions)

Many strategic alliances arising from the COVID-19 disruption will continue to exist. In fact, they are likely to strengthen during this phase (e.g. M&S and Deliveroo, Carrefour and Uber Eats, McDonald's and Aldi).

Retailers will also aim to simplify management structures enabling speedier decision making to maximise efficiency. In doing so, retailers must maintain momentum while the internal rejig occurs, avoiding relinquishment of market share by upsetting customers as management attention is diverted.



Stage 3 of restructure:

Innovation – a time to shine

As a new normal appears, consumers will have more conviction over their new needs and wants. They will also form a more conscious framework which delineates their expectations of retailers and the kind of relationship they want with them. For many, this will involve less physical interaction. Retailers will need to provide innovative digital solutions that appropriately support customers on a new, virtual customer journey – from product awareness to service and returns.

As retailers navigate through these challenging conditions, companies will require different skills, financing and business models in a bid to remain relevant. Here, core principles associated with innovation, efficiency and adaptability will form a strong foundation as successive waves of disruption and a new cohort of competitors, offering new solutions in narrow specialisms, test existing models.

As retailers navigate through these challenging conditions, companies will require different skills, financing and business models in a bid to remain relevant.

Adapting to a new retail paradigm

Retail strategies will vary widely depending on many external factors such as region, competitor dynamics and regulation. However, many core behavioural traits outlined in the first two sections of this report will resonate throughout international markets. Retailers must be fastidious in aligning their operations to emerging trends and leveraging their strengths during the consolidation period.

Our research highlights five key themes that retailers must embrace as a new retail paradigm emerges:

Theme 1: Identifying new customer cohorts

As identified in Figure 10, a new cohort of consumers has emerged, based on their perceived risk of COVID-19. This consumer group is primed for permanent changes in their shopping habits. They have learned new shopping behaviours; and new customer journeys have been revealed in the search for alternative ways to acquire essential items, driven by a desire to reduce their risk of contracting the virus.

Ready to embrace permanent change, consumers who perceive the risk of the coronavirus as very high are almost four times more likely to shift their shopping habits in the long-term, compared to those who perceive the risk as very low. Building on these new experiences, previously unseen options will be considered, and new choices will be made.

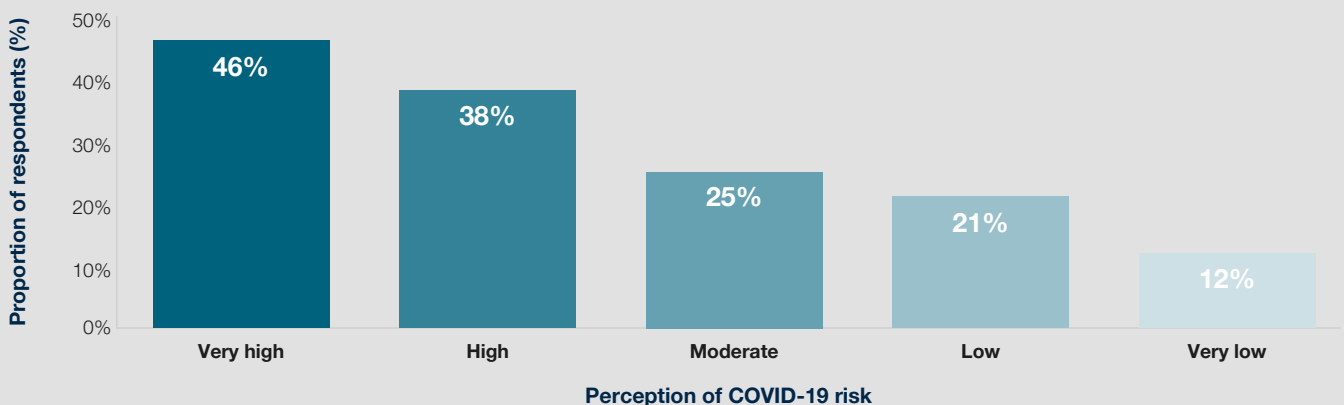
Intuitively, these more vulnerable groups, and perhaps those living with vulnerable family members, have stronger motivations to change their shopping behaviours; and once they have experienced a new way of shopping, these habits are more likely to stick.

However, this cohort of consumers may more broadly reflect those in society who are most risk-averse. These characteristics are also likely to exist in their attitudes towards new technology, online banking and online shopping. In other words, a new cohort of 'slow adopters' have broken through the digital barrier, and the impact could provide rich opportunities for retailers who can offer appropriate levels of engagement and support.

Implications for retail business models

- **Data science, artificial intelligence and machine learning** will be at the heart of identifying new consumer cohorts and engaging with them in a sophisticated, automated and scalable way. Most retailers do not have the in-house expertise to leverage these new technologies and hence strategic partnerships will be critical in allowing retailers to leverage the benefits while remaining nimble.
- **Marketing strategies** will have to adapt to new customers to target them across a mix of channels that reflect their attentions.

Figure 10. The proportion of consumers who indicated they will change their shopping habits on a permanent basis by perceived risk of COVID-19.



Source: Retail Economics

A significant proportion of European consumers (44%) are buying products online for the first time and are experiencing new customer journeys.

Theme 2: Leveraging permanent shifts in behaviour

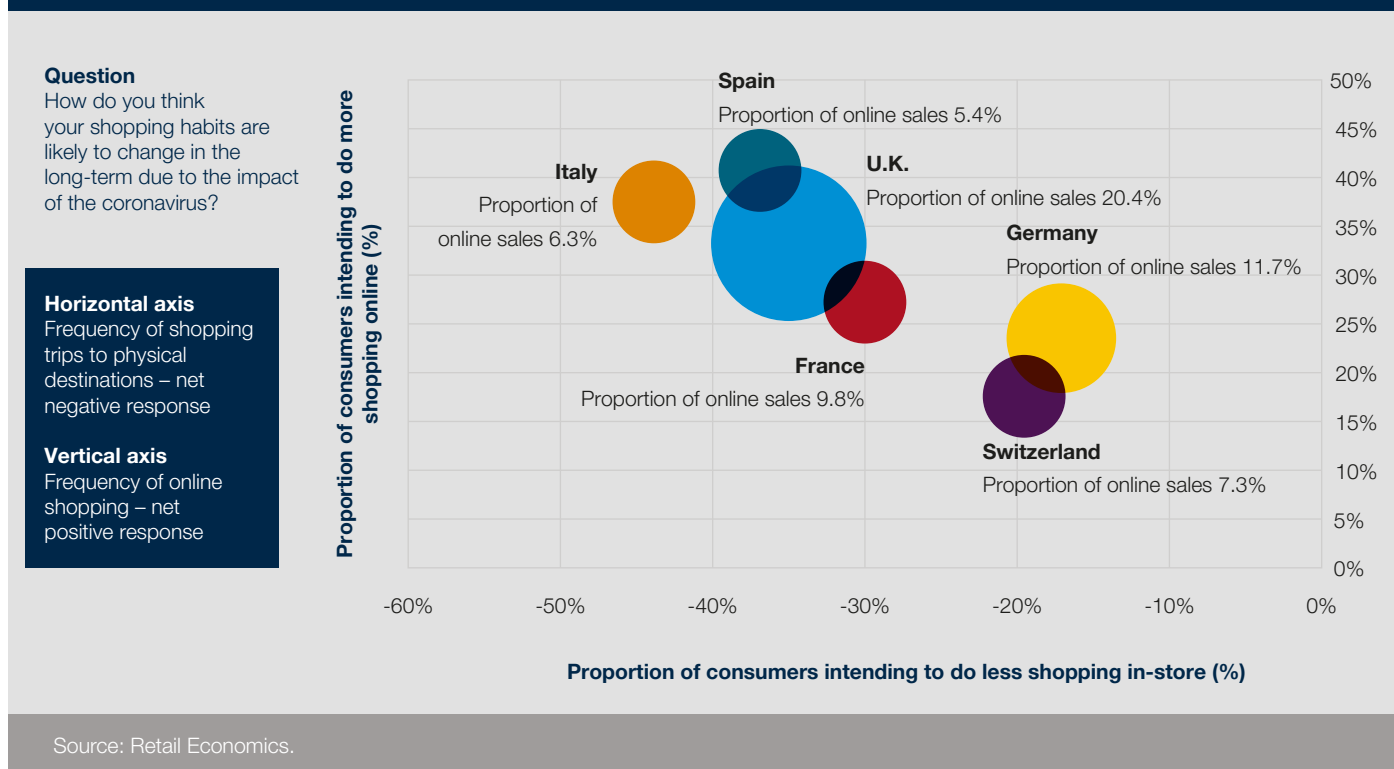
The closure of non-essential retail across large swathes of Europe has necessitated a clear shift towards online. A significant proportion of European consumers (44%) are buying products online for the first time and are experiencing new customer journeys. A key consideration for retailers will be trying to identify which reactionary behaviours will endure and how they will develop in the interim.

These permanent behavioural shifts will not be uniformly expressed across Europe and will depend on many factors such as broadband penetration, online retail capacity, socio-demographics and others. Even within markets, notable differences arise by age. Nevertheless, there is a clear statistical bias towards a higher frequency of online shopping at the expense of the physical channels.

Italy and Spain have lower penetration rates for online retail sales and so it stands to reason that they are positioned to experience the largest proportional shift towards the online channel. British consumers also indicated that they are likely to follow this trend, predicated on high rates of consumer adoption in the U.K., and significant investment in capacity from retailers and logistics companies.

While this presents key opportunities, it also creates monumental challenges for retailers that have too many stores, too much space and a poor multichannel proposition.

Figure 11. The long-term impact will lead to fewer store visits and greater migration towards online.



Note: smaller bubble reflects lower penetration of online sales.



While it is inevitable that some consumers will revert to their old ways once a semblance of normality returns, our research clearly indicates consumer acceptance of permanent change in the way they shop across all European countries surveyed. Put simply, the gradual transition towards digital channels have effectively been fast-tracked. Specific stages within the overall shift that would have taken years to complete, may now have been accomplished in a mere matter of months.

The impact on business models will be vast and the implications will be far-reaching. During the consolidation phase, successful retailers will be implementing innovative ways to engage with these previously hard-to-capture online shoppers to create and capture value. These new cohorts may become more valuable targets, while they reassess what aspects of the retailer relationship are most important.

It also means that the first-mover advantage has been diluted overnight in some parts of the market. The strategy of creating a vast user base that investors patiently wait to be monetised at a later date will be tested, given the overflow and changing dynamics of digital shoppers.

What's more, retailers will need to accelerate the pace of investment in their digital and omnichannel capabilities, as the impact of the pandemic has highlighted the need for flexibility across channels. The integration of Customer Experience and Relationship Management software (CRM) has been central to ongoing digital transformation initiatives across the retail industry, and this area is likely to see sustained levels of investment. Strategies are likely to vary widely between retailers, but during the consolidation phase there is likely to be accelerated adoption of communication platform partners which integrate, facilitate and scale communications with customers across email, text, voice, social media and video channels.

New digital customers will also require different technologies to service them effectively. For example, it may mean that offering free, but timed delivery slots (preferred by older consumers), might provide better traction than same day paid for delivery services (preferred by younger consumers) for some parts of the market.

Implications for retail business models

- **Acquisition and partnerships** will become an important strategy in the innovation stage. Some will use M&A or partnerships to achieve scale, such as international grocers, while others will look at forming strategic partnerships.

- **Scale** will be critical in leveraging opportunities within the online channel. Retailers will have to invest heavily in multichannel, data-analytics capabilities and logistics.

- **Efficiency and cost-cutting** will be at the heart of business planning. Following years of margin erosion, further declines due to the impact of COVID-19 can be expected. However, retailers will come to the realisation that conventional forms of cost-cutting can only take them so far and significant investments in new technologies to improve the efficiency of supply management will be needed to restore profitability. How this is implemented will be key, as partnerships and 'everything as a service' models become more commonplace.



Theme 3: Retailer voids

The retail landscape has evolved at a frightening pace. Many businesses entered 2020 with weak balance sheets and the impact of COVID-19 was ‘a step too far’ for some, pushing them into administration. Similarly, other retailers will struggle to survive as a new retail paradigm makes many existing propositions obsolete.

Failure to react intelligently will leave gaps in some markets, providing opportunities for surviving retailers to swoop in and occupy obvious voids. These voids are likely to be most visible in physical retail space across Europe. Before the pandemic, there was already excess capacity of retail floor space in most countries due to the rise of online shopping and shifting consumer behaviours. For example, in the U.K. it is estimated that there is around 20%⁴ overcapacity of retail space that businesses cannot commercially justify. In a post COVID-19 world, this figure will be higher. Also, the market will correct over a shorter time frame.

These underlying impacts are already being felt across the retail property market with dwindling investor interest, falling rental values and higher vacancy rates. The impact of COVID-19 will exacerbate this, leading to more favourable occupier terms which will alter the economics of running stores in some sectors. But importantly, looking towards the new retail paradigm, the past is unlikely to be a good predictor of the future.

Implications for retail business models

- **Direct to consumer** is likely to accelerate as brands leverage online channels to offer solutions to consumers’ emerging needs and wants. Operating with larger profit margins and uninhibited by vast store estates occupied by retailers, there will be an opportunity for brands to accelerate their push to consumers in this new retail paradigm.

- **Specialist retailers** will emerge to fill the gaps concerning new customer demands. Armed with deep knowledge, flexible supply chains and sophisticated online operations, these retailers will operate with leaner and more flexible business models.

- **Regional expertise** will become an important differentiator of choice for consumers. Such retailers offer unique regional propositions that are relevant to their local communities.

4 A&M/Retail Economics – [The Shape of Retail report](#).

Theme 4: Adapting the purpose of stores

Many themes are omnipresent across Europe. One such theme is the urgency to repurpose physical retail space. This will result in a significant shift in the value and purpose of stores. Gone are the days where physical stores are solely purposed for distributing products, accountable for their own profit and loss.

The merging of physical and digital realms will become even more critical as retailers leverage technology to inject greater value into stores. For example, being able to offer extended ranges, use of augmented reality (AR), and crucially, using online fulfilment of physical orders.

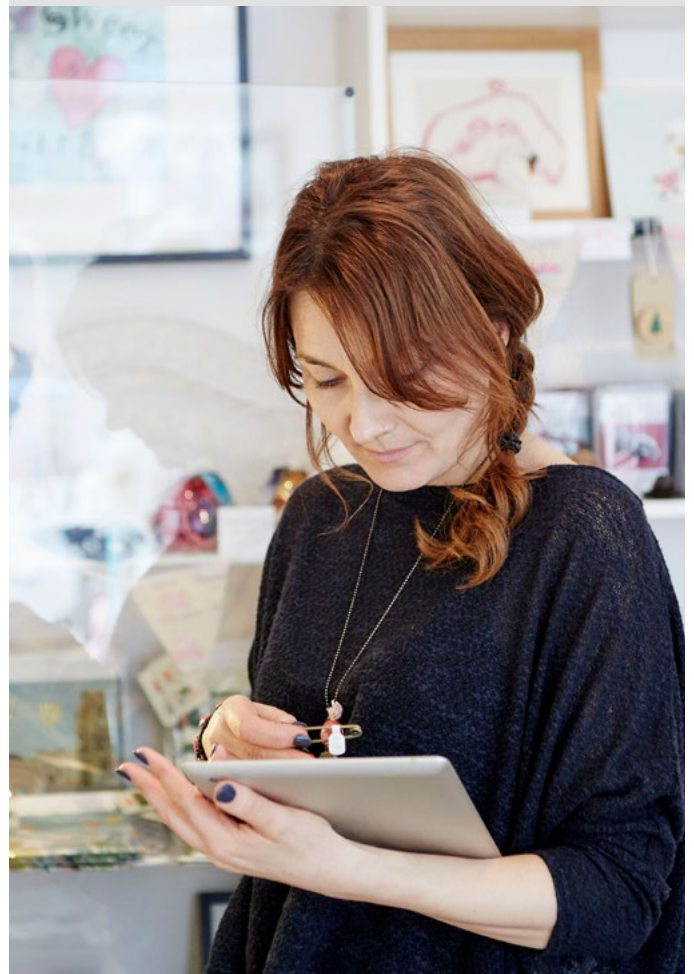
Landlords will also have to become much more innovative in their use of space and work more collaboratively with retailers. Pop-up shops and white box spaces that create a healthy churn of independent retailers who are relevant to the local communities they serve, could act as a 'retail oasis', hydrating withering parts of the market and revitalising tired areas.

Elsewhere, oversized or redundant stores could be repurposed to facilitate online fulfilment, city centre hubs for consolidating deliveries, convenient click-and-collect points, or drop-off destinations for returns provided the decline in rental made this commercially viable.

The merging of physical and digital realms will become even more critical as retailers leverage technology to inject greater value into stores.

Implications for retail business models

- **The media mix** will include stores as an effective customer acquisition tool that distributes experiences, builds the brand and supports the merging of digital and physical realms. As lease terms become increasingly flexible (and turnover based in some countries), operating costs become more variable. However, the landlord-retailer relationship is co-dependent. Developing accurate methods to value stores will become more important as the purpose of stores evolve and move away from merely a sales generating channel.
- **Dual-use of stores** as distribution centres will help sweat assets and maximise their value as they become more important in fulfilling online orders. But ultimately, fewer stores will reduce overall fixed costs and create leaner and more flexible business models.





Theme 5: Shifting supply chains

Retailers will need to develop more resilient supply chains and distribution platforms. At the survival phase, the priority here will be agile planning. With such an approach, it can help balance costs and reduce risk during a period of extreme uncertainty.

In the consolidation phase, retailers that thrive will be those with supply, fulfilment and return systems that are flexible, nimble and responsive, and that can quickly adapt to new retail trends.

Looking forward, as retailers better understand the challenges at hand, new solutions will need to be considered. Highly responsive supply chains will be central to retailers' plans, with the sustainability of flexible business models critical.

In some instances, this may require shorter supply chains to maintain faster reaction times for operating models. In other cases, near-shoring may be commercially viable, but this will not be feasible at scale for many parts of the market. A broader diversification of supply chains will help to mitigate some risk, but multiple supplies may just be part of the solution where retailers consider leaner inventory, pull ordering and just-in-time manufacturing.

Many fashion retailers already operate agile sourcing models with shorter and more responsive supply chains. Others will be shifting towards similar principles where profitability allows.

Business model implications

- **Automation** will be critical for retailers to reduce operating costs and improve supply chain resilience. It will allow firms to grow more cost-effectively and enable faster reaction times to demand spikes or labour shortages. The application will go well beyond warehousing to influence sourcing, procurement, warehouse management and logistics.
- **Digitalisation** of supply chains will drive greater transparency and allow for faster and more effective data-driven decision making. 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.
- **Nearshoring** will allow more agile sourcing that encourages shorter supply chains which would have significant impacts on order cycles, stock rotation and inventory levels.



Conclusion

The impact of COVID-19 and the raft of policy measures that have been enacted across Europe have preserved public health but have had a devastating effect on retailers and brands. Consumer confidence across Europe, and indeed the world, has sustained a severe blow. Many households are worried about health, personal finances and job security which all undermine propensity to spend.

Permanent changes within the retail industry are likely to arise from an event of this nature and magnitude – for retailers as well as consumers. However, these changes will be felt unevenly across Europe as a ‘new normal’ emerges. Influencing factors include policy implementation, retail sector, consumer type, culture and geography. Each country faces its own unique set of challenges as its retail industry transitions towards a post-COVID-19 era.

Throughout the disruption, three overriding consumer trends have surfaced:

- 1 a focus on essential spending;
- 2 an accelerated shift to online spending; and
- 3 a readjustment of expectations.

The greatest impact concerning the quickening shift to online will be felt within the food and grocery sector as many consumers have been effectively forced to engage in a more digital customer journey to receive essentials. For many consumers, online fulfilment has reduced their exposure to the virus, and has influenced new behaviours which are likely to endure into the future, beyond the crisis.

For retailers and brands across Europe, significant industry restructuring continues relentlessly, accelerated by the COVID-19 pandemic. Here, businesses will pass through distinct phases which include aspects of survival, consolidation and innovation. As we head towards a totally new retail paradigm, successful retailers will be those that can: identify and secure new customers, leverage permanent shifts in consumer behaviour, fill gaps in the market as opportunities arise, repurpose stores to meet new customer expectations and operate with resilient supply chains.

Whether the COVID-19 pandemic recedes in the immediate future, or lasts until 2021 (or beyond), the fallout from the event will cause permanent shifts in consumer behaviour and leave a deep scar on international markets for many years to come.

Businesses will pass through distinct phases which include aspects of survival, consolidation and innovation.



Appendix

Country profiles

This section features profiles for each European country surveyed which enables a quick comparative analysis to identify key differences across countries and cultures in response to the COVID-19 outbreak.

The U.K. has the 6th largest economy in the world. It has a strong service sector which contributes about 80% of GDP, focussed around financial services (2nd largest globally) with significant manufacture in aerospace and pharmaceuticals (10th largest globally). The economy is also supported by North Sea oil and gas production. The U.K. has a highly developed social market and was the 10th largest goods exporter in the world in 2016.



Population
66.6 million



% of internet users
95%



GDP
2.855 trillion USD

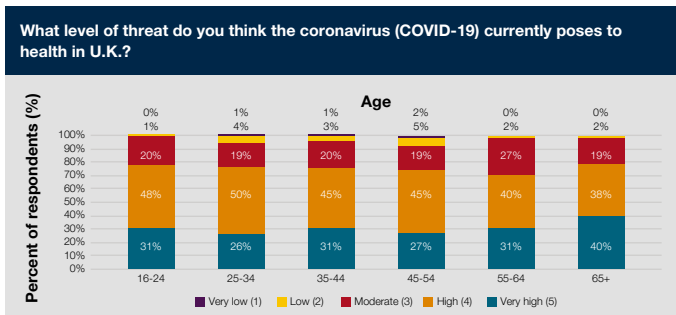


GDP Ranking
6th

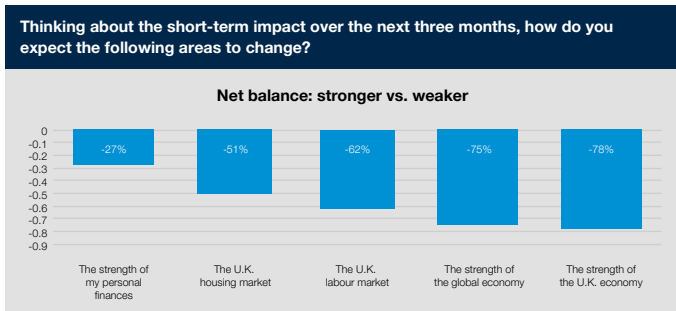
Macroeconomics

U.K. Forecasts	2017	2018	2019	2020F	2021F
Real GDP growth (% change, annual)	1.9	1.3	1.4	-6.5	4.0
Inflation rate, average consumer prices (% change, annual)	2.7	2.5	1.8	1.2	1.5
Unemployment rate (%)	4.4	4.1	3.8	4.8	4.4
Advanced Economies GDP (% change)	2.5	2.2	1.7	-6.1	4.5
Advanced Economies Inflation rate, average consumer prices (% change, YoY)	1.7	2.0	1.4	0.5	1.5
Advanced Economies Unemployment rate (%)	5.6	5.1	4.8	8.3	7.2

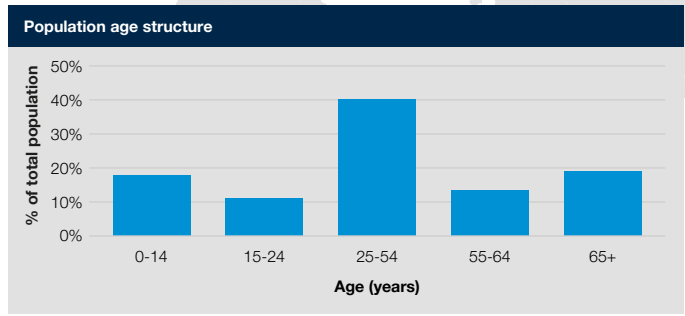
Consumer data



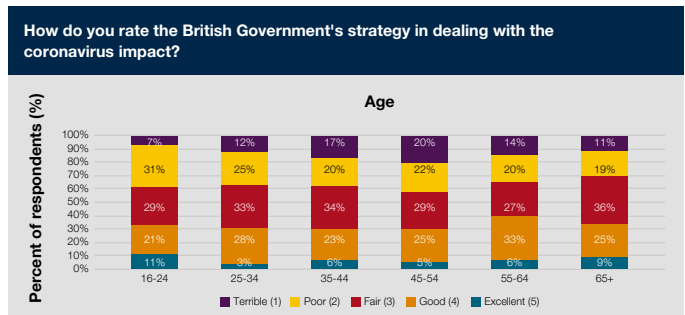
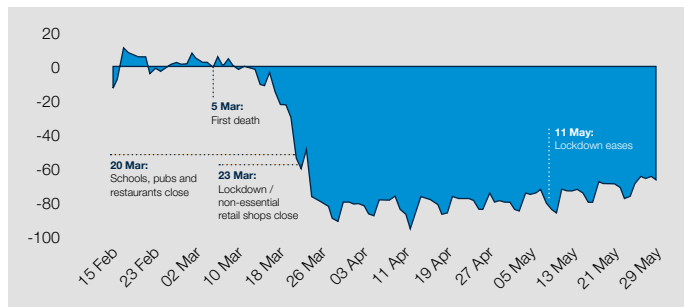
- U.K. consumers are the most pessimistic about the threat of COVID-19 on health.
- Gen Zs are the most fearful group, with close to 80% of consumers saying that they believe the threat to be high or very high.
- However, there is broad agreement across all age groups regarding the severity of the threat.



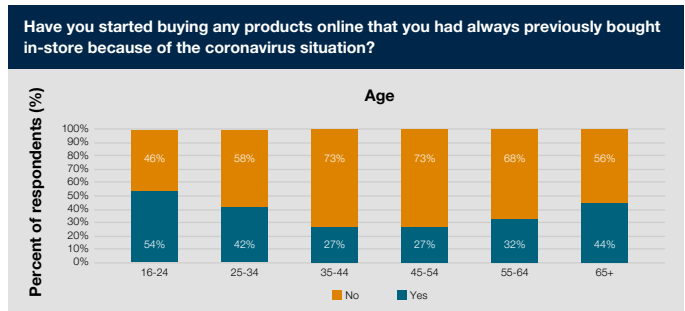
- British consumers are more worried about the health of the U.K. economy than the global economy.
- Consumers are fearful about the outlook for the labour market, with unemployment expected as firms ease of the Job Retention Scheme and administrations bite.
- Retired consumers are the least worried about their personal finances, while more than two fifths (42%) of those aged 16 to 24 years old expect their finances to weaken.



Mobility



- U.K. consumers are divided about the government's strategy for COVID-19.
- Around a third (32%) believe it to be good or excellent, while just over a third (37%) believe it to be poor or terrible.
- Households in the South East are most positive, while those in Scotland and North Ireland are most sceptical.



- Shoppers are switching their spending to online channels. Over a third (38%) said that they are now purchasing products online that they had previously purchased exclusively in-store.
- A quarter believe they will increase the average spent online across food and non-food products in the long term, as around half (48%) will look to avoid busy destinations such as large shopping centres.

France

Country profile

France has the world's 7th largest economy and the 2nd largest economy in the EU. The country has a wide range of economic activity including general manufacturing, fashion, tourism and chemical manufacture. It has a UN Human Development Index of 0.891 (very developed) with the OECD being headquartered in Paris.



Population
67 million



% of internet users
82%



GDP
2.778 trillion USD

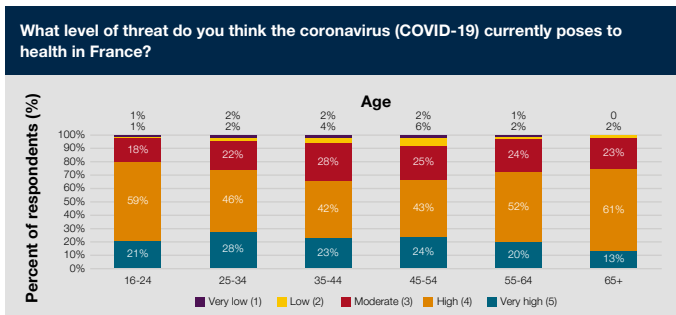


GDP Ranking
7th

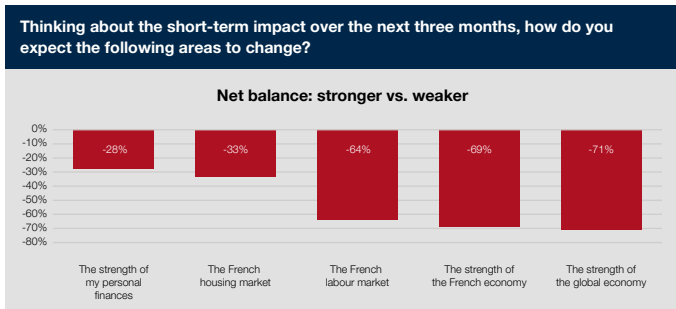
Macroeconomics

France Forecasts	2017	2018	2019	2020F	2021F
Real GDP growth (% change, annual)	2.3	1.7	1.3	-7.2	4.5
Inflation rate, average consumer prices (% change, annual)	1.2	2.1	1.3	0.3	0.7
Unemployment rate (%)	9.4	9	8.5	10.4	10.4
Advanced Economies GDP (% change)	2.5	2.2	1.7	-6.1	4.5
Advanced Economies Inflation rate, average consumer prices (% change, YoY)	1.7	2	1.4	0.5	1.5
Advanced Economies Unemployment rate (%)	5.6	5.1	4.8	8.3	7.2

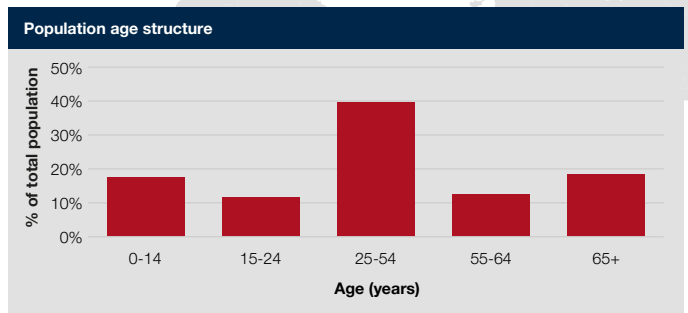
Consumer data



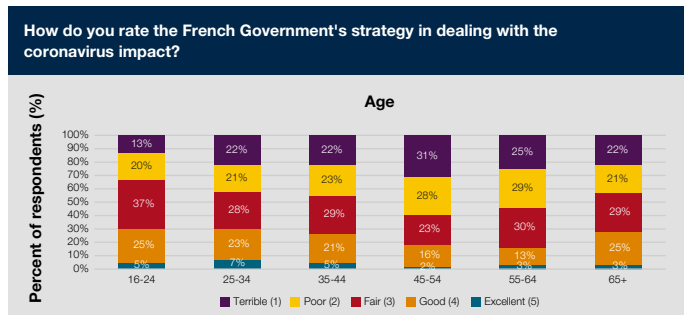
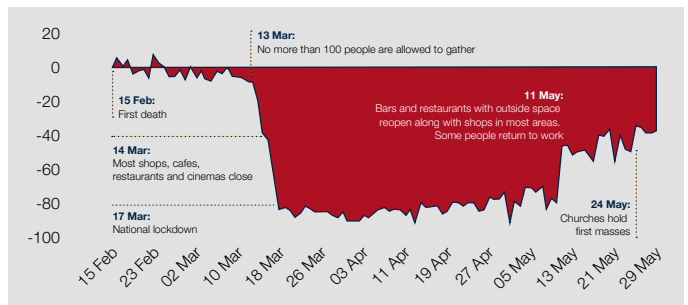
- Nearly three-quarters (72%) believe that COVID-19 poses a high or very high threat to health in France.
- The French are consequently holding back spending. Nearly four-fifths (77%) of those that are cautiously spending and waiting for normality believe the threat is high.



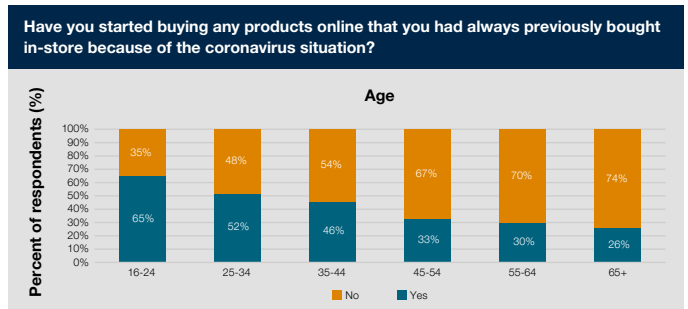
- The French are wary of the economy, particularly at a global level.
- The vast majority expect an impact on the labour market, however consumers in France are somewhat less pessimistic about their personal finances in the short term.
- Two-fifths are spending more cautiously – waiting for normality – while a quarter are only spending on essentials. A high 18% of 16-24 year olds are conversely spending more as they are confident about the future.



Mobility



- The French are deeply disappointed with the government's handling of COVID-19, as some of President Emmanuel Macron's decisions have faced controversy.
- Nearly a quarter deem the government's actions 'terrible', which rises to almost a third among those aged between 45 and 54 years old.
- Two thirds believe the government's response was "too slow".



- Younger consumers are most likely to have started buying certain products online for the first time. Some two-thirds (65%) of 16 to 24 year olds have, which compares to around a quarter (26%) of those aged 65 and over who have made a switch online.
- Around three-quarters (73%) of those that are spending more nowadays have made the jump online for particular products that were previously only bought in-store.



Germany

Country profile

Germany has the world's 4th largest economy and the largest in the EU. It is a founding member of the EU and the Eurozone and in 2017 accounted for 28% of the Euro area economy (IMF). The service sector contributes around 70% of total GDP, industry 29.1%, and agriculture 0.9%. Exports account for 41% of national output. Germany also has the largest manufacturing economy in Europe.



Population
83.02 million



% of internet users
90%



GDP
3.948 trillion USD

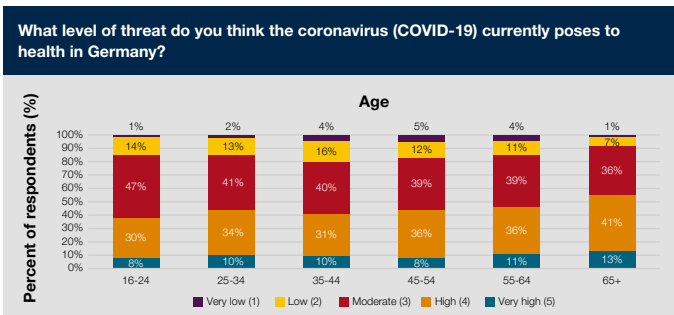


GDP Ranking
4th

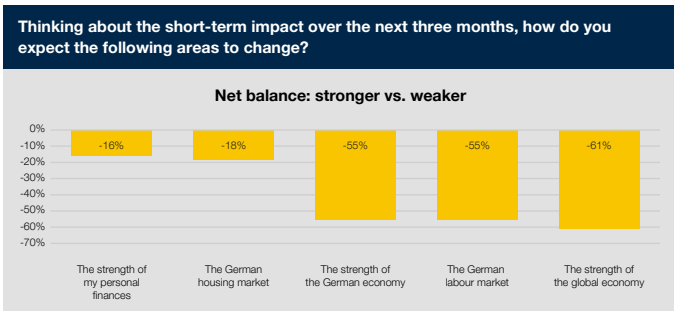
Macroeconomics

Germany Forecasts	2017	2018	2019	2020F	2021F
Real GDP growth (% change, annual)	2.5	1.5	0.6	-7	5.2
Inflation rate, average consumer prices (% change, annual)	1.7	2	1.3	0.3	1.2
Unemployment rate (%)	3.8	3.4	3.2	3.9	3.5
Advanced Economies GDP (% change)	2.5	2.2	1.7	-6.1	4.5
Advanced Economies Inflation rate, average consumer prices (% change, YoY)	1.7	2	1.4	0.5	1.5
Advanced Economies Unemployment rate (%)	5.6	5.1	4.8	8.3	7.2

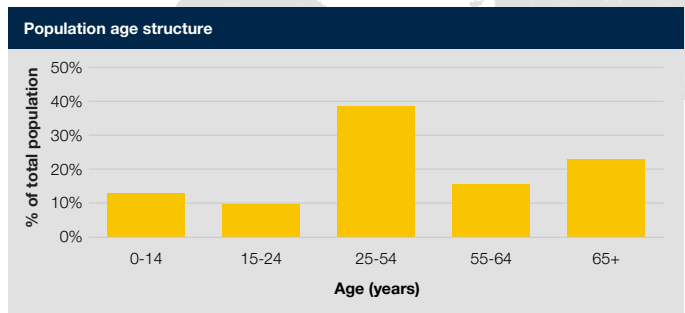
Consumer data



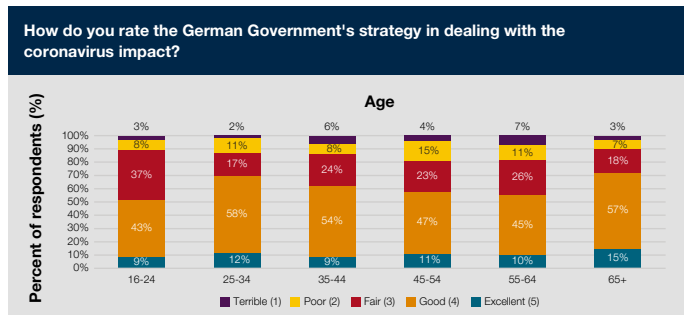
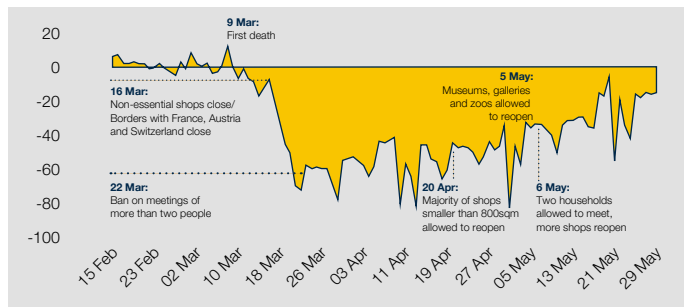
- German consumers are relatively optimistic about the level of threat COVID-19 poses compared with other European countries.
- Nonetheless, nearly one in two (46%) believe COVID-19 poses a high or very high threat.
- The eldest are the most pessimistic while the youngest age group are the least, suggesting Germans acknowledge their personal level of risk to the virus.



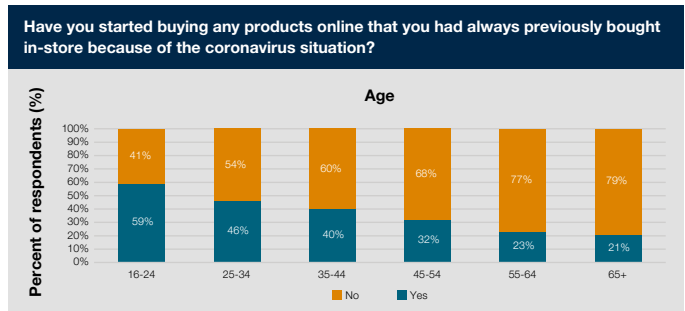
- German consumers are relatively optimistic about the outlook compared with their European neighbours.
- Although a net balance of 55% expect the German economy to weaken, far fewer expect it to hit their purses and trickle down to the housing market.
- Two-thirds expect their personal finances to remain about the same in the short term, while three-fifths expect the housing market to be broadly unchanged.



Mobility



- By and large, Germans feel positive about their government's response.
- Around half (49%) view the timing of the government's response as being right.
- Millennials and Baby Boomers give the highest praise to the government's action. More than 70% of those aged between 25 and 34 years old and 65+ believe the response has been good or excellent.



- Younger consumers are most likely to have started buying certain products online for the first time. Some two-thirds (65%) of 16 to 24 year olds have, which compares to around a quarter (26%) of those aged 65 and over who have made a switch online.
- Around three-quarters (73%) of those that are spending more nowadays have made the jump online for particular products that were previously only bought in-store.

Italy has the 8th largest economy in the world and the 3rd largest in the EU. It is a founding member of the EU, the Eurozone, the OECD, the G7 and G20. It has a large manufacturing base (2nd largest in EU) and is a major exporter of products which include: vehicles, machinery, furniture, clothing, food, pharmaceuticals and robotics. Italy also owns the world's third-largest gold reserve.



Population
60.36 million



% of internet users
74%



GDP
2.084 trillion USD

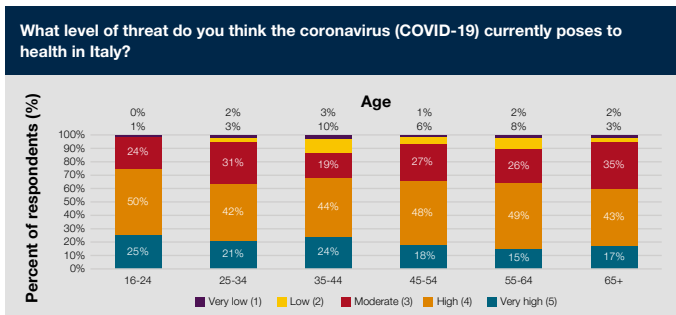


GDP Ranking
8th

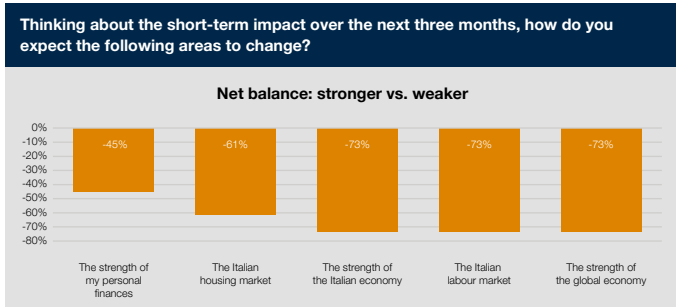
Macroeconomics

Italy Forecasts	2017	2018	2019	2020F	2021F
Real GDP growth (% change, annual)	1.7	0.8	0.3	-9.1	4.8
Inflation rate, average consumer prices (% change, annual)	1.3	1.2	0.6	0.2	0.7
Unemployment rate (%)	11.3	10.6	10	12.7	10.5
Advanced Economies GDP (% change)	2.5	2.2	1.7	-6.1	4.5
Advanced Economies Inflation rate, average consumer prices (% change, YoY)	1.7	2	1.4	0.5	1.5
Advanced Economies Unemployment rate (%)	5.6	5.1	4.8	8.3	7.2

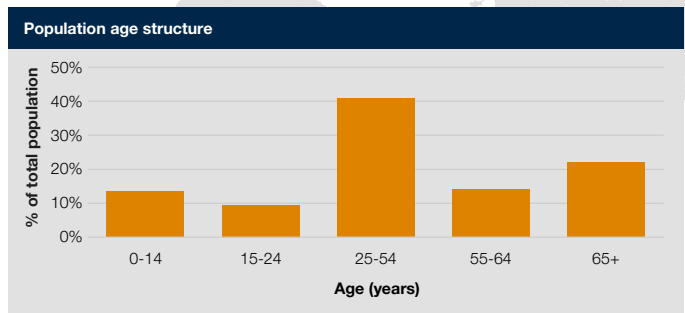
Consumer data



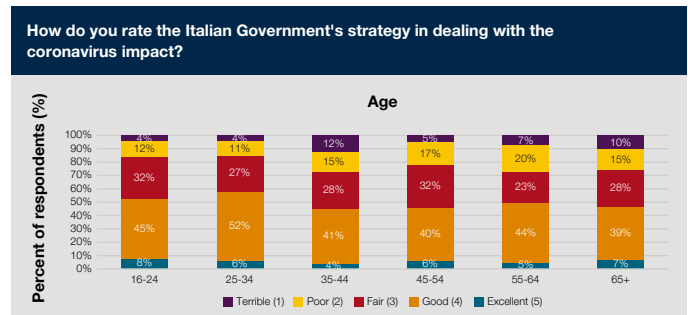
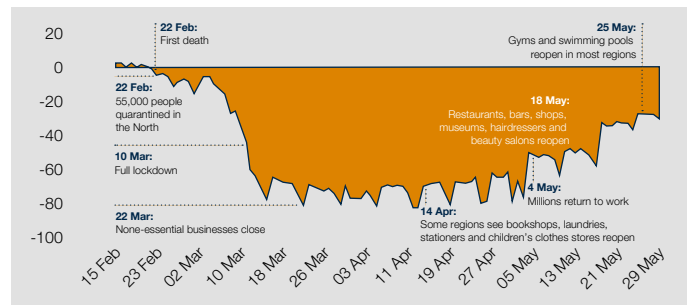
- Around two-thirds (65%) of Italians believe COVID-19 is a high threat to public health.
- The youngest have the most downbeat view - despite the virus acutely impacting large senior communities in Italy.
- Three-quarters of Gen Zs believe the coronavirus to be high threat, compared with two-fifths of those within retirement age.



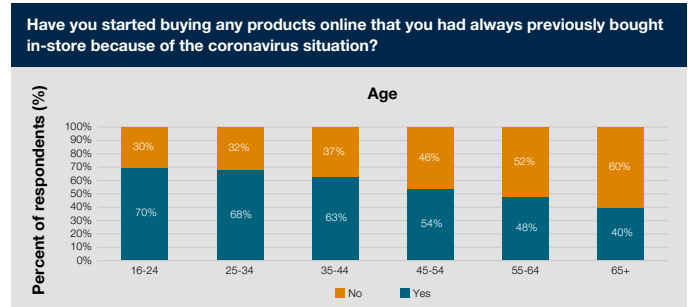
- Italians expect an adverse impact in the short term across key indicators.
- Their outlook for the global and national economy, as well as the labour market, faces high levels of pessimism. Around 8 in 10 expect these three areas to weaken over the next three months, while less than 1 in 10 expect a strengthening.
- Half (51%) anticipate weaker personal finances. Two-fifths of Italians are worried about their finances, having little or no savings.



Mobility



- Around half (49%) of households are pleased with the government's dealing of COVID-19, while a quarter (23%) consider it poor or terrible.
- Those that believe the virus is high threat are particularly praising of the government.
- However, when considering the speed of lockdown, three-fifths believe it was too slow and should have been implemented sooner.



- A high 70% of 16-24 year olds have now started buying products online that they previously only shopped in-store for.
- The 65+ age group is less engaged online, but nonetheless two-fifths of them have shifted spending online.
- Around two-fifths (42%) of those only spending on essentials have seen a shift online for the first time, while 77% of those spending more have made the jump online for products that were previously only bought in-store.



Spain

Country profile

Spain has the 13th largest economy in the world. It is a member of the EU, and belongs to the OECD and the WTO. The automotive industry is one of the country's largest employers, with motor cars accounting for nearly 15% of all non-agricultural exports. Citrus fruits, meat and olive oil are key agricultural produce. As the 2nd most visited country in the world in 2019, tourism is critical to the economy.



Population
46.94 million



% of internet users
86%



GDP
1.419 trillion USD

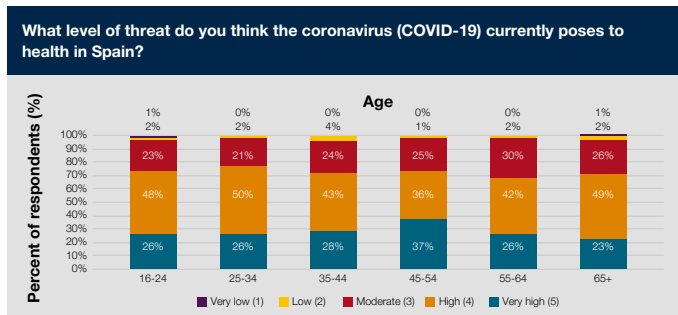


GDP Ranking
13th

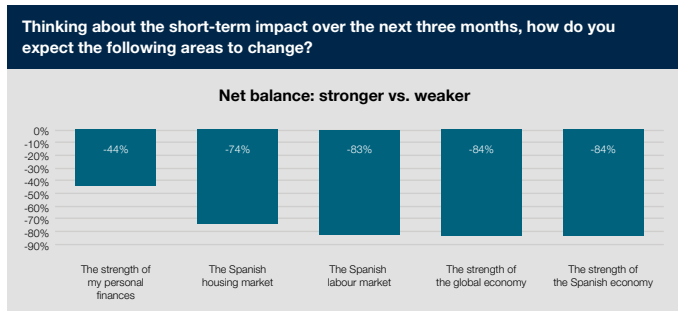
Macroeconomics

Spain Forecasts	2017	2018	2019	2020F	2021F
Real GDP growth (% change, annual)	2.9	2.4	2	-8	4.3
Inflation rate, average consumer prices (% change, annual)	2	1.7	0.7	-0.3	0.7
Unemployment rate (%)	17.2	15.3	14.1	20.8	17.5
Advanced Economies GDP (% change)	2.5	2.2	1.7	-6.1	4.5
Advanced Economies Inflation rate, average consumer prices (% change, YoY)	1.7	2	1.4	0.5	1.5
Advanced Economies Unemployment rate (%)	5.6	5.1	4.8	8.3	7.2

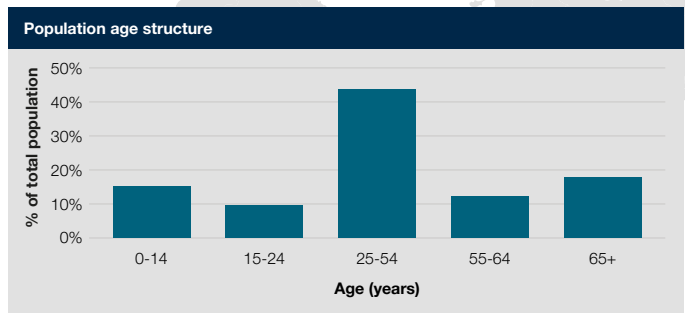
Consumer data



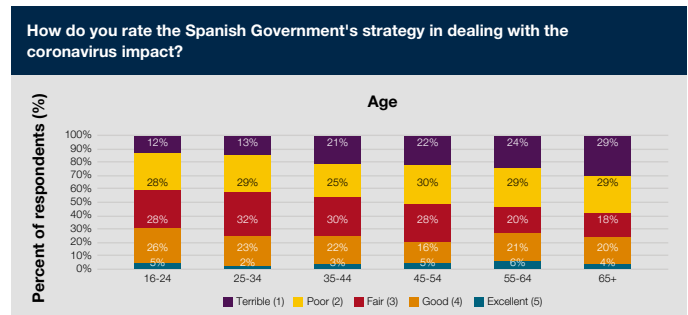
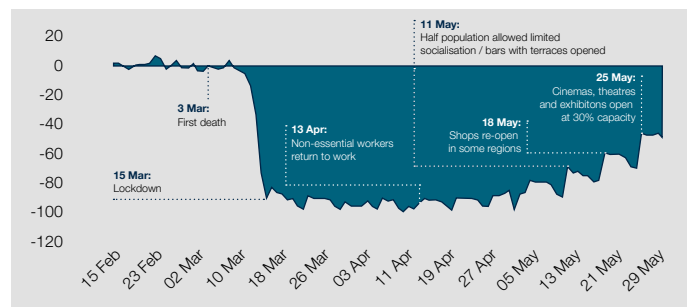
- Regardless of age, the Spanish consider COVID-19 as a high threat to national health.
- Around three-quarters (73%) consider the threat to be high, while just 2% consider it low risk.
- This could have long lasting implications for shopping habits, with two-fifths expecting a permanent impact on the way they shop as a consequence of COVID-19.



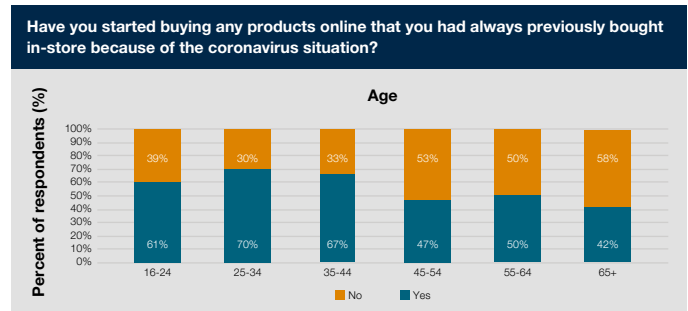
- The Spanish have the weakest outlook for the global economy, and feel as pessimistic about the global economy as they do their own.
- 90% of those that believe COVID-19 to be high or very high threat anticipate the economy will weaken over the next three months.



Mobility



- The Spanish have been overwhelmingly scathing on the government's handling of COVID-19.
- Nearly a third (29%) of those aged over 65 years old feel the government's dealing with the impact has been "terrible".
- Younger consumers are slightly more positive – nonetheless less than a third of Gen Zs feel the response has been excellent or even good.
- More than three-quarters (76%) believe the government's response was ultimately too slow.



- Spanish consumers have been shifting spend online as a result of COVID-19, with more than half (55%) having started to buy certain products online for the first time.
- Millennials in particular have felt a need to gravitate online - around 70% of 25 to 44 year olds have made a step change online.
- Those that are most confident to spend have felt a strong desire to break the ice online with certain products. Nearly four-fifths (79%) of those that are spending more have bought a product online for the first time.



Switzerland

Country profile

Switzerland has one of the world's most advanced economies. It has a significant service sector revolving around international banking and tourism. Switzerland is the world's third richest landlocked country and has a GDP per capita above US\$70,000. It has significant manufacturing industries in pharmaceuticals, high end clocks and watches and food processing.



Population
8.57 million



% of internet users
90%



GDP
705.1 billion USD

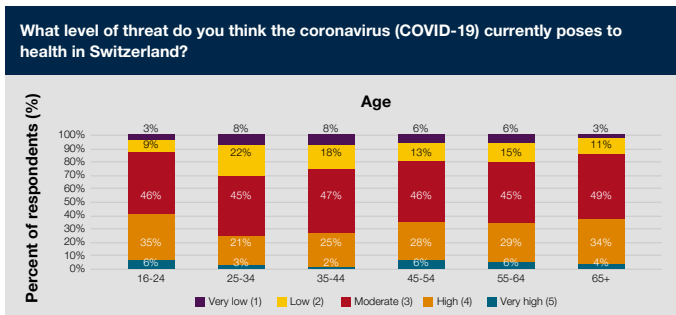


GDP Ranking
20th

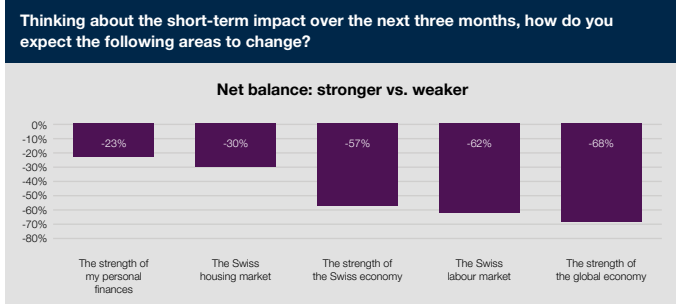
Macroeconomics

Switzerland Forecasts	2017	2018	2019	2020F	2021F
Real GDP growth (% change, annual)	1.9	2.7	0.9	-6	3.8
Inflation rate, average consumer prices (% change, annual)	0.5	0.9	0.4	-0.4	0.6
Unemployment rate (%)	3.1	2.5	2.3	2.7	2.6
Advanced Economies GDP (% change)	2.5	2.2	1.7	-6.1	4.5
Advanced Economies Inflation rate, average consumer prices (% change, YoY)	1.7	2	1.4	0.5	1.5
Advanced Economies Unemployment rate (%)	5.6	5.1	4.8	8.3	7.2

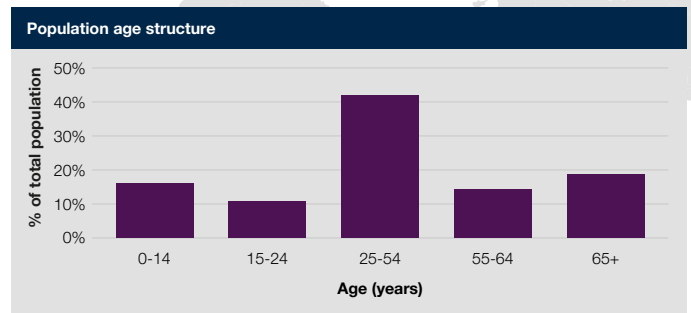
Consumer data



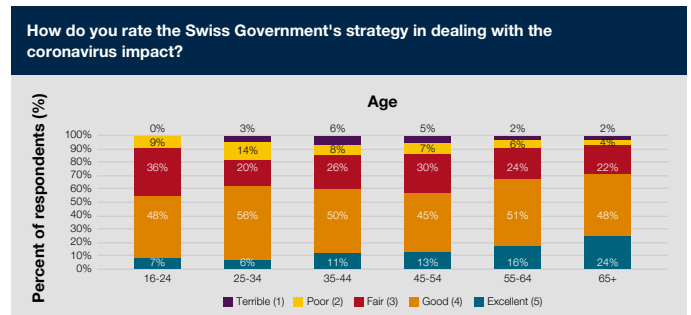
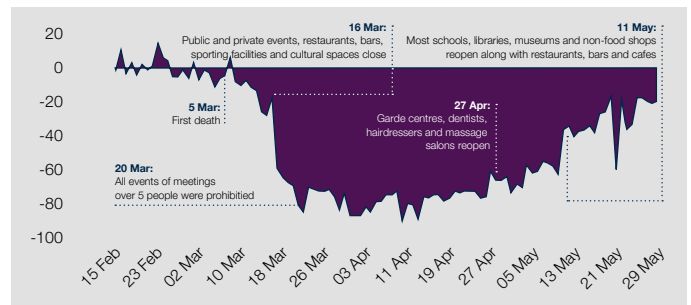
- Switzerland has had a far milder COVID-19 outbreak than some of its European neighbours.
- It quickly responded to stress on intensive care units as the outbreak gathered pace, which has seen it post strong virus recovery rates.
- This is reflected by the Swiss feeling the least threatened by COVID-19 compared to the other countries analysed.



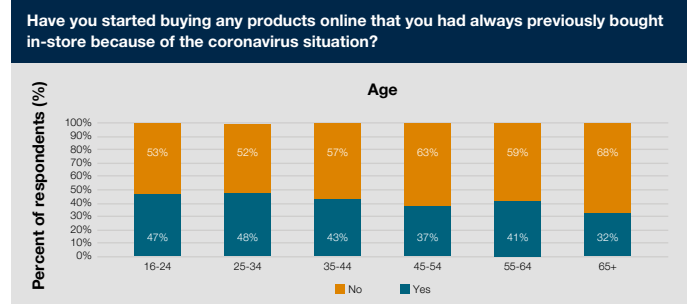
- The Swiss believe their economy will prove more resilient than the global economy in the short term.
- The majority of households (58%) expect personal finances to remain about the same as they are now, with just under a third (32%) anticipating a drop in finances.
- Similarly, more than half (53%) predict the housing market will be stable in the short term, although around two-fifths (39%) expect a weakening.



Mobility



- The majority of those in Switzerland have good things to say about the government's response to COVID-19.
- Around three-quarters of the elderly – among the most vulnerable to the virus – feel the government's action has been positive.
- Around two thirds (62%) of those that believe the virus is a high threat is Switzerland believe the government's response has been positive, while around half (46%) of those that believe the threat is very low believe it has been poor or terrible.



- Three-fifths (59%) of Swiss consumers have not starting buying products online that they previously always bought in-store.
- Nonetheless, around half of 16 to 34 year olds have.
- Those that perceive the threat of COVID-19 to be a high risk are the most likely to have started to shift new spending online.

Methodology

Nationally representative consumer panel research was conducted across six European countries including the U.K., Spain, Italy, Germany, France and Switzerland. In total, over 6,000 consumers took part in the research with no less than 1,000 households representing each country.

Panel research was conducted between 18 to 29 May 2020.

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- **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.

Key Contacts



Erin Brookes – U.K.
Managing Director and
Head of Retail, Europe

+44 20 7663 0592
ebrookes@alvarezandmarsal.com



Tarek Hosni – France
Managing Director

+33 6 82 81 82 56
thosni@alvarezandmarsal.com



Hervé Gilg – France
Managing Director

+44 798 335 8909
hgilg@alvarezandmarsal.com



Bob Rajan – Germany
Managing Director

+49 89 710 40 60 61
brajan@alvarezandmarsal.com



Alberto Franzone – Italy
Managing Director

+39 02 8596 4123
afranzone@alvarezandmarsal.com



Alejandro González – Spain
Managing Director

+346 5094 9417
alejandro.gonzalez@alvarezandmarsal.com



Claudio Cervellati – Switzerland
Managing Director

+41 79 592 7415
ccervellati@alvarezandmarsal.com



Alessandro Farsaci – Switzerland
Managing Director

+41 78 600 5066
afarsaci@alvarezandmarsal.com



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