FUTURE CITIES SERIES: WILL CHANGING CONSUMER TASTES SHAPE THE MODERN CITY?

15 September 2020 | Insight
– By **Susan Black, Kristin Stammer, Anne Petitjean and Rachel Montagnon**

Few sectors have seen as much upheaval from the pandemic as retail. As the High Street goes digital, how will modern cities evolve?

At the start of the Covid-19 pandemic, the consumer and retail sectors were very much focused on product, service, demand and supply. We saw some providers switching off lines, reducing their product range or even changing their products entirely – such as in the cases of distillers producing sanitisers, household engineering companies contributing to the production of ventilators and fashion brands making PPE garments and face masks. There were particular markets in higher demand, for example, DIY home supplies and supermarkets who often operated with empty shelves as customers panic purchased and suppliers sometimes struggled to keep up with demand.

> This article is part of our Future Cities Series where our experts explore the pressures facing our cities in the post-Covid era and map out the key issues and industry themes in re-thinking urban life.

As organisations struggled to meet the changing demands of the market, most questioned whether they had the necessary materials, expertise and people to cope. Contractual obligations quickly became a critical focus for much of the initial stages of the pandemic as businesses identified how to avoid or enforce commitments, cease or change production, and continue to operate where parts of their supply chain were within isolation zones. More recently we have seen retail businesses acknowledge that changes to their business strategies that were in the pipeline and developing relatively slowly have needed to be accelerated as consumer behaviour has been forced towards the online in a leap that could not have been anticipated.

As we near the last quarter of 2020, with very different situations playing out across the world and in many cases much reduced opportunity for traditional retail experiences, the big question is how will the changing behaviours that have effectively been forced on consumers impact the future of retail and consequently cities? What operating model will enable the greatest flexibility and resilience as we continue to live with uncertainty about what the future will look like?

THE ACCELERATED DECLINE OF "BRICKS AND MORTAR" RETAIL

For years now there has been much discussion and debate around the role of the high street and shopping centres (bricks and mortar) in creating important client experience versus e-commerce offerings (see our predictive pieces on the future of the consumer and retail sector here). It now seems however that the pandemic and resulting change in consumer behaviours just may be the historic event that accelerates the decline of shopping centres.

What we have seen during the pandemic, is the massive up-tick in online sales – in respect of many goods from fashion to groceries and personal products which were traditionally more likely to have been personally selected. Often the context of shopping – just popping out for something essential or serendipitous shopping in a lunch-hour and buying something we didn't intend to – has been converted into online sales (or not purchased at all). So the trend towards digitalisation has been accelerated with many who would not normally have done so, turning to the digital marketplace. The impact of this on the interplay between commercial, office and residential in our cities – and the shorter and longer terms use of space and services – is being watched closely.

Prior to the pandemic, consumers were being lured into shopping centres and the high street to a certain extent, via the offer of "experiences". The advent of augmented reality making shopping a more exciting and holistic experience, and contextual commerce with offers being messaged to consumers as they moved around the centre, all added to the entertainment factor. Shopping centres were designed as destinations, places where a family could spend a whole day out, complete with cinemas, restaurants and even softplay areas. It is evident that this sort of experience is necessarily curtailed in the current Covid-19 situation and that customers do not feel so comfortable in these environments.

However, there has been an increase in the use of retail parks where consumers can easily drive and park, avoiding public transport, where there is generally more space and no crowded pavement effect and where shoppers can enter individual stores as they wish/need with a mostly outdoor, single storey experience. This is not "leisure shopping" as we have seen it develop in recent years but perhaps the retail park which many had thought was dead or at least low on the consumer desirability list, will now see a renaissance?

Although many businesses had increased online structures in their sights, these recent changes in consumer behaviours have caused unexpectedly immediate impacts on the strategy and cost models of retail businesses. In many cases the continued cost of bricks and mortar rental and upkeep is running in parallel with increased costs of online sales including returns, warehousing and delivery. Some businesses have been able to use their "bricks" sites for "clicks" delivery and collection (such as Waitrose in the UK and similar offerings in other countries) but others such as Marks & Spencer's in the UK have already begun to cut jobs at "bricks" sites and curtail extension of high street and shopping centre units.

THE IMPACT AND CONSTRAINTS OF THE ONLINE MARKETPLACE

Consistent with this changing marketplace, regulatory authorities are increasingly focusing on digital and developing policies and strategies for the digital marketplace. At the same time, in the context of merger control and transactions involving high street and online we are seeing ever greater recognition of the impact of online and digital, and the constraints between different formats.

SUPPLY CHAINS

The move to online also has obvious impacts on distribution and logistics. The locations of deliveries to individuals (no longer wishing to receive deliveries at the office and thus creating a more diffuse delivery zone requirement) and the siting of warehousing to fulfil the distribution needs will have a bearing on the structure and function of cities of the future. With more online purchases come more returns and this can be a logistical headache for both retailers and customers alike. The corner-store that acts as a mini distribution hub has already become a popular concept. The design of future cities will need to take this into account, along with the much broader distribution profile of a nation that shops and works from home.

The resilience of supply chains is also an important issue for the future of cities. We are seeing an increasing focus on production and manufacturing closer to the end consumer for key products, where the economics make sense, increasing flexibility in supply chains and greater focus on ESG issues.

REAL ESTATE

Real estate issues are also important for retailers and consumers. Many landlords (of shopping centres and major real estate owners) and retailers have been looking at rent freezes, reductions and lease terminations. For retailers the crunch time is looming to decide how much space they really need on the high street, and whether they can finance their rent? For the landlords, how can they preserve or maximise their revenue? Across various jurisdictions, we have seen rent exemptions and also regulators relaxing rules to allow retailers to share information and to jointly negotiate rent reductions. Some of these outcomes can of course be achieved through negotiation, some are likely to end in disputes. Another solution may be for retail spaces to adapt and become experiential spaces.

FUTURE-PROOFING THE CONSUMER AND RETAIL SECTOR

Even before the pandemic, the increasing digitalisation of stores and restaurants was apparent. The virus has accelerated this process, with menus going into apps and swiping becoming the norm. Many retailers were already exploring the use of augmented reality in their retail space to entice customers in and create a positive reaction to products, even if the actual purchase was still going to be made online. In order to future-proof our cities there will still be a need for large retail spaces or "experience zones" even if they are really only the shop windows for the online retail world.

Subscribe to stay up-to-date with our Future Cities Latest Thinking: Australia-based contacts | Contacts based outside Australia

RELATED TOPICS

Emerging Technologies

FEATURED INSIGHTS

FEATURED INSIGHTS

HELPING YOU STAY AHEAD OF THE BIG ISSUES

BROWSE BY:

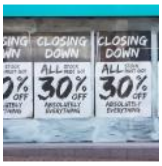
- TECH, DIGITAL & DATA

- GEOPOLITICS AND BUSINESS

- NEW BUSINESS LANDSCAPE

RELATED ARTICLES

Foreign investment: Rising tides of politics in regulation



Storm warnings – Will stagflation herald a new wave of corporate failures?

Second Scots independence referendum floated – A Q&A Update

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.

SUSAN BLACK
PARTNER, LONDON

+44 20 7466 2055
Susan.Black@hsf.com

KRISTIN STAMMER
PARTNER, SYDNEY

+61 2 9225 5572
Kristin.Stammer@hsf.com

ANNE PETITJEAN
PARTNER, PARIS

+33 1 53 57 13 55
anne.petitjean@hsf.com

RACHEL MONTAGNON
PROFESSIONAL SUPPORT CONSULTANT, LONDON
+44 20 7466 2217
Rachel.Montagnon@hsf.com
