The Year That Was 2021

Springboard's Annual Review

SPRINGBOARD.

PREDICTIVE RETAIL INTELLIGENCE

Introduction

Welcome to Springboard's annual review of 2021 which looks back at the performance of retail throughout 2021, encompassing key trends in footfall, store capture rates, store sales, online spending, vacancies and consumer confidence over the year from January to December.

The continuing impact of Covid means for the second consecutive year our review is shaped by a lockdown and closure of retail, which began immediately after Christmas 2020 and lasted until mid April 2021.

In light of this, we have once again parked the reference to standard quarters, and instead have examined trends over two key periods: Lockdown (January to March 2021) and post Lockdown (April to December 2021).

2019 remains the anchor point for pre-Covid trading conditions, and so this is the key comparison for 2021 rather than with 2020 which was dominated by lockdowns and restrictions. We do, however, reference 2020 as it is important to provide the context for the journey of retail out of Covid; whilst we are certainly not there yet, the retail landscape achieved a far greater state of normality in 2021, albeit with some key shifts in consumer behaviour that have emerged from the pandemic which may well have a significant influence on retailing into 2022 and beyond.

The key difference from last year is the success of the vaccination programme, which began in December 2020, and the positive impact this has had on all aspects of consumers' daily lives.

Overview of 2021

Over the year as a whole, footfall across all UK retail destinations in 2021 was -31.1% lower than in 2019, with retail parks continuing to display a far greater resilience than either high streets or shopping centres in retaining footfall.

Whilst footfall in high streets and shopping centres was -36.7% and -37.9% lower than 2019 respectively, in retail parks the drop from 2019 was less than a third of this at -11.8%.

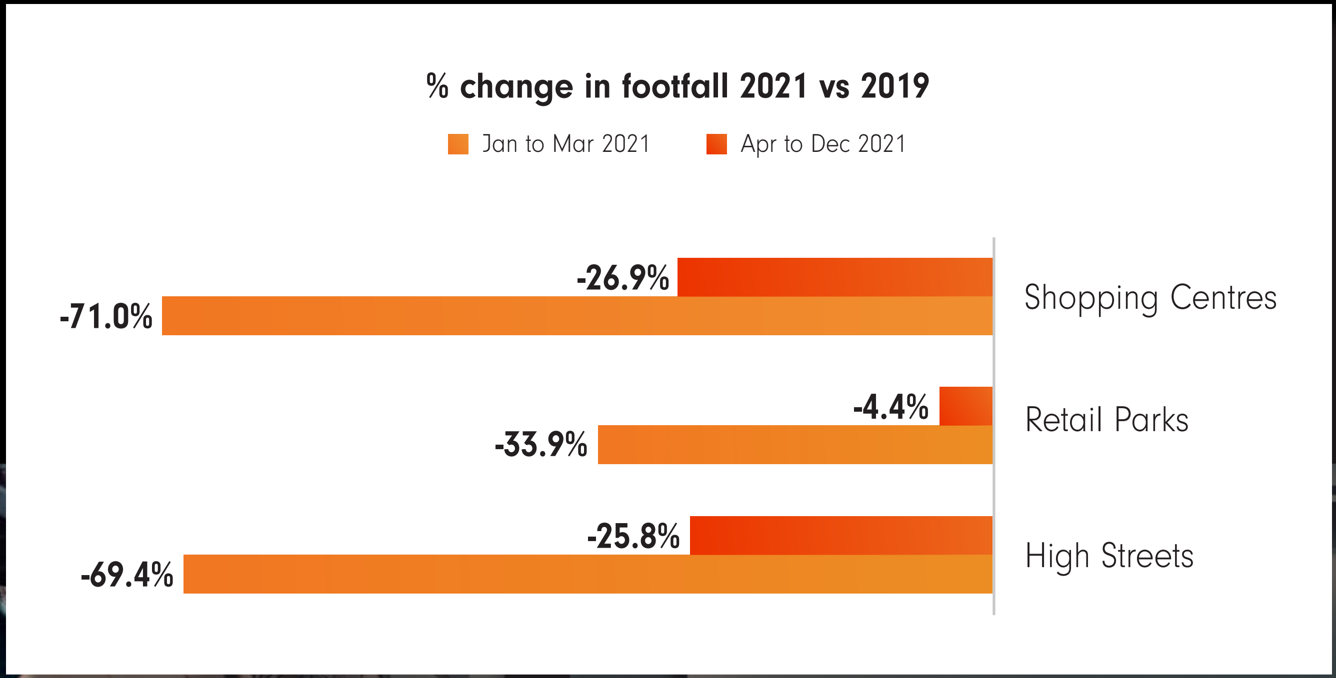
Whilst during 2021 there remained a significant gap in footfall from 2019 (particularly in high streets and shopping centres) activity had strengthened from 2020; by +54.1% in high streets, by +53% in shopping centres and by +28.7% in retail parks.

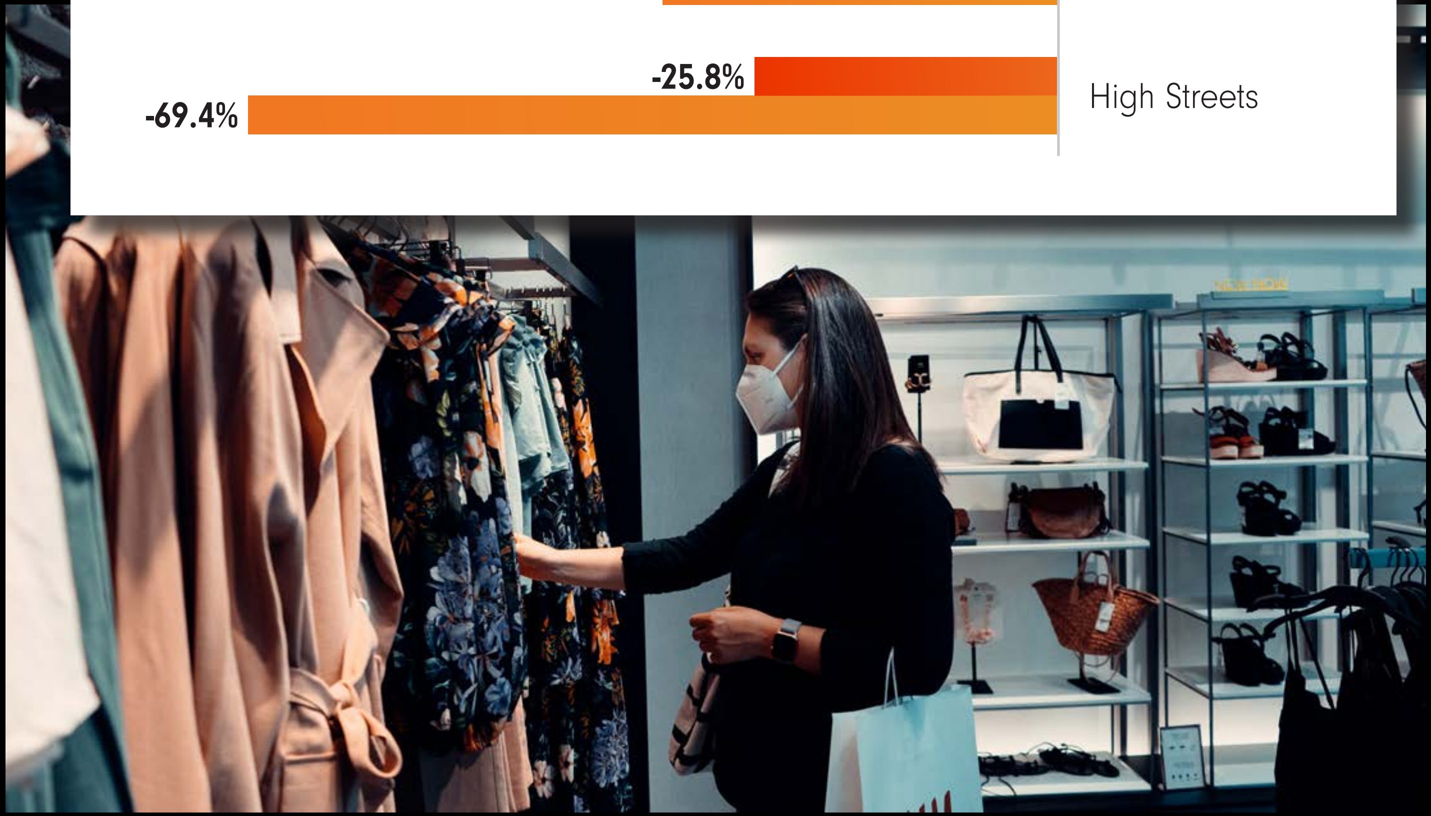
Overview of 2021

During Lockdown 3 between January and March, footfall in retail parks was -33.9% below the 2019 level versus -69.4% in high streets and -71% in shopping centres. However, the attractiveness of retail parks to consumers became even more evident following the reopening of retail in April; over the nine month period to December, footfall in retail parks was just -4.4% below 2019 versus -25.8% in high streets and -26.9% in shopping centres.

Footfall in all three destination types was impacted by the increase in infections from both the Delta and the Omicron variants. In July, at the peak of Delta infections, the gap from 2019 widened to -30.5% in high streets (from -27.2% in June) and to -30.2% in shopping centres (from -29.1% in June). The Omicron variant – which led to the government implementing Plan B guidance in December with advice to work from home if possible - had an even more significant impact on footfall, with the gap from 2019 widening in high streets to -22.2% (from -15.8% in November) and in shopping centres to -24.1% (from -22% in November).

The uplift in footfall post reopening in 2021 is even starker when compared with the same nine month period in 2020; over this period footfall in both high streets and shopping centres was nearly double that in 2020 and +46.4% greater in retail parks.





Town Centres and the Growth of Localism

The narrative around the growth of localism has been a key feature over the past two years, and in 2021 Springboard continued to deliver the vital evidence to determine the extent to which this is continuing.

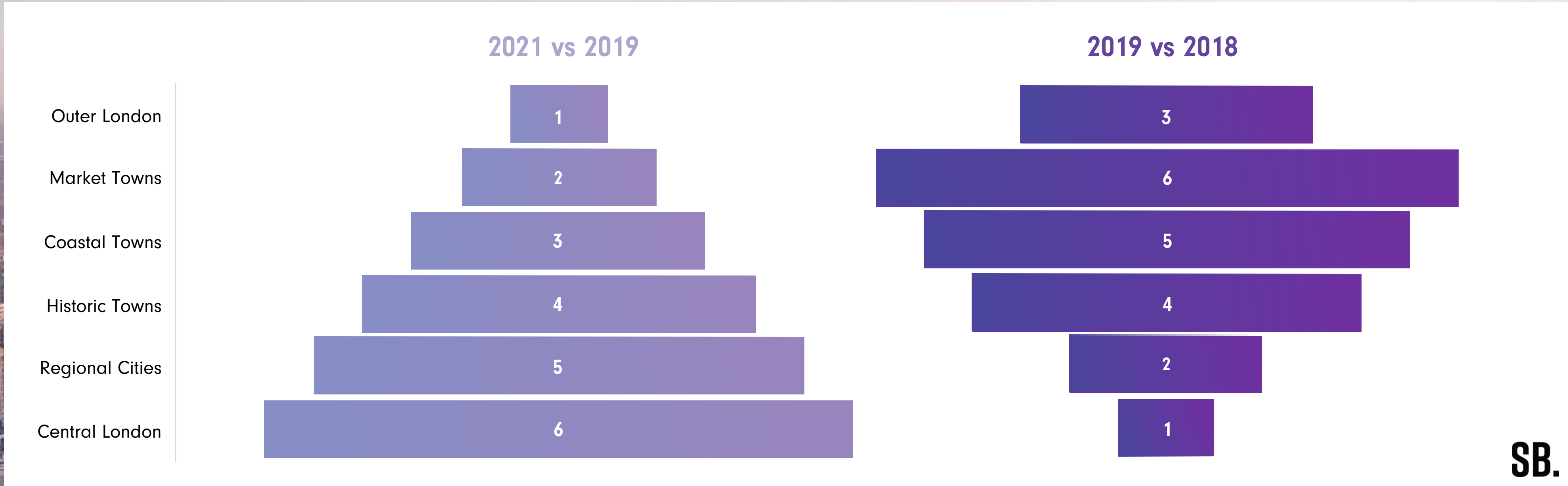
Springboard tracks footfall in a range of towns, with the relative performance of regional cities vs market towns, and Central London vs Outer London demonstrating the trend for localism.

Home working for office based employees, for at least part of the week, has become firmly established, and it inevitably influences the level of footfall in towns and cities. This is particularly the case in large city centres, where a large proportion of footfall during the working week comprises those employed within businesses.

Springboard's UK Consumer Survey[1] identified that 57% of consumers worked at least part of the week at home in 2021, and that 24% of these consumers visited retail destinations less frequently. Inevitably this has led to a proportionately greater reduction in footfall in large city centres than in more local high streets, as consumers are able to visit these easily from home during the working week. This is contra to the pre pandemic trend, when large city centres were more resilient than smaller towns in terms of retaining footfall.

[1] Springboard's UK Consumer survey of 1,500 UK consumers to understand their shopping patterns in a post Covid retail landscape

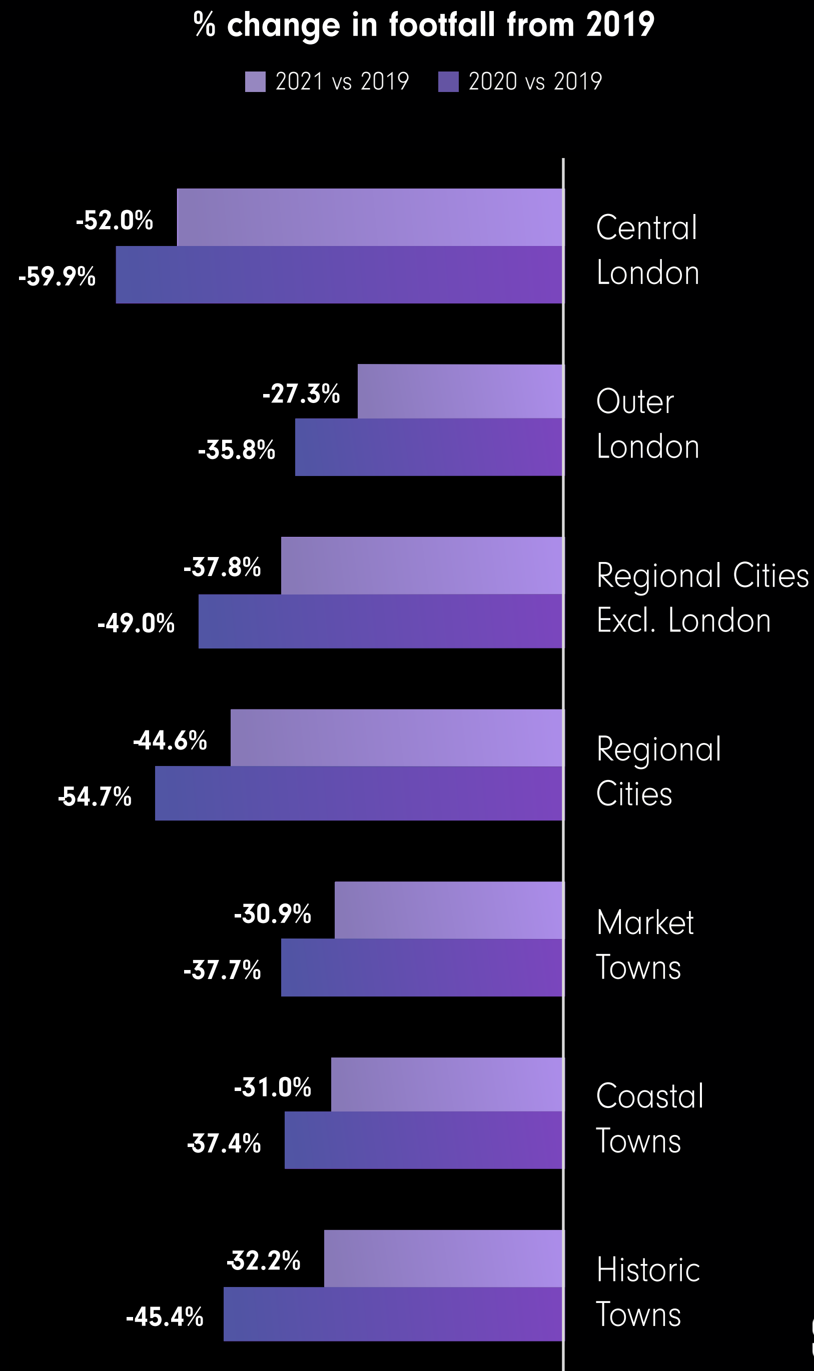
Ranking – smallest to largest YOY % decline in footfall



Town Centres and the Growth of Localism

The most extreme example of the increase in localism is the comparison of footfall performance in Central London vs Outer London; footfall in Outer London in 2021 was -27.3% lower than 2019 compared with -52% in Central London. Another example is the comparison of footfall in market towns, coastal towns and historic towns – all smaller, more local high streets – with regional city centres around the UK; footfall in market towns in 2021 averaged -30.9% below 2019, -31% in coastal towns and -32.2% in historic towns, versus -37.8% in regional cities outside London.

The trend for localism is in clear contrast with the pre-pandemic period; between 2018 and 2019 the smallest drops in footfall occurred in Central London and regional cities and the largest in market and coastal towns, but in 2021 the reverse was true.



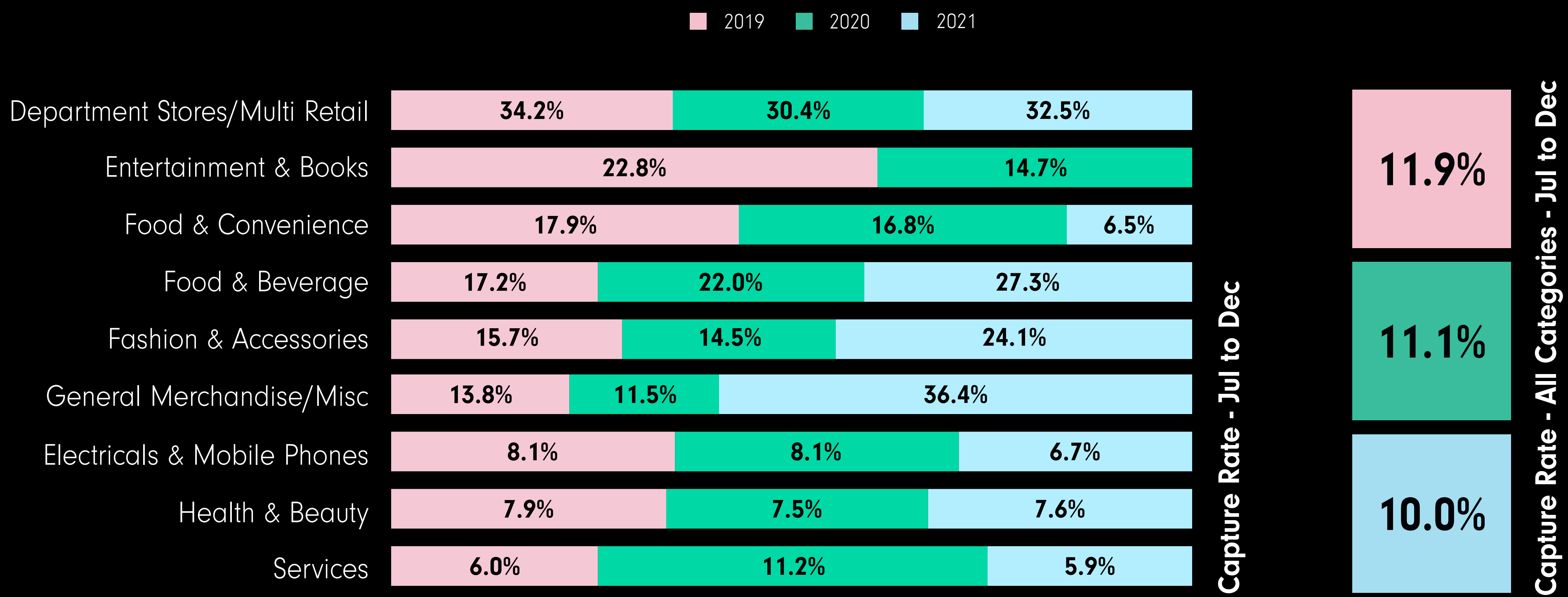
Capture Rate

The Capture Rate (the % of footfall in streets/malls that enters stores) equates to the market share of stores in their trading locations. If this declines, it means that stores are losing proportionately more footfall than the locations in which they are situated.

This is what occurred in 2021, with the Capture Rate declining slightly over the six month period between July and December to 10% from 11.1% over the same period in 2020 and 11.9% in 2019. Springboard has been tracking Capture Rates from 2015, and this is the continuation of a long term trend; as consumers increasingly integrate the internet into their shopping habits, using it to both browse and buy, the need to visit as many stores during their trips to destinations as they did previously has declined.

Since Springboard started tracking Capture Rates in 2015, larger stores have had the highest Capture Rate, which is a function of their size and visibility, the lack of competition and their brand strength. However, over the past year a key shift has been a substantial increase in the Capture Rate of General Merchandise/Misc stores – from 11.5% in 2020 to 36.4% in 2021, resulting in a higher Capture Rate than department stores for the first time.

The other key shift in 2021 was an increase in the Capture Rate of both Fashion & Accessories and Food & Beverage stores despite the shift to online spending during lockdowns since the start of the pandemic; the Capture Rate for Fashion & Accessories increased from 14.5% in 2020 to 24.1% in 2021 and the Capture Rate for Food & Beverage rose from 22% in 2020 to 27.3% in 2021. This demonstrates that whilst shoppers continued to make online purchases, the demand for in-store shopping, and combining shopping with visits to hospitality outlets, rose significantly as restrictions were lifted and the vaccination programme ramped up, with consumers consequently feeling less nervous about visiting stores and destinations.



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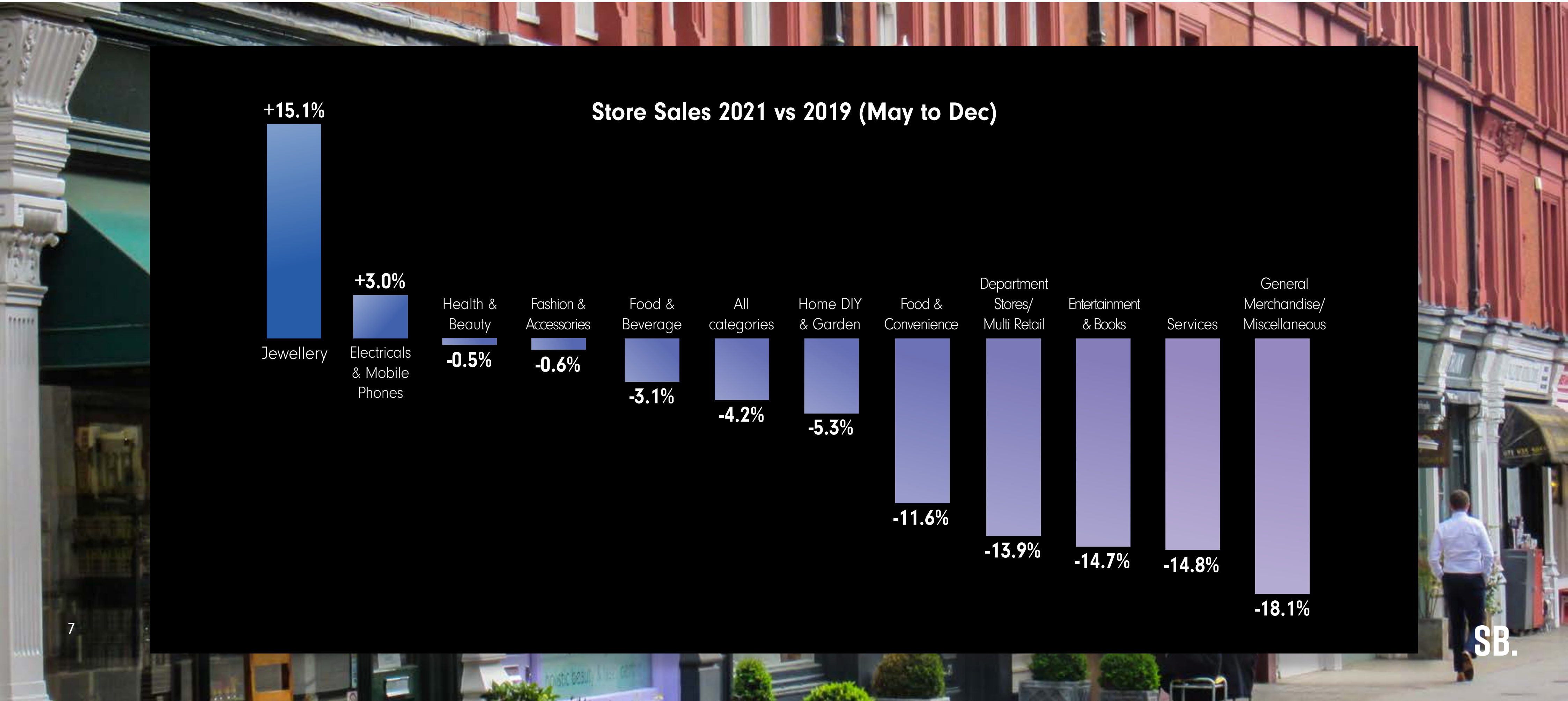
Store Sales

Springboard's Perform sales tracking service records the value of sales made in-store from a sample of over 750 retail fascia located across the UK.

Springboard was not able to track in-store sales during Lockdown 3, when all but essential retailers were closed over the period from January to mid April. However, once stores opened Springboard was able to record sales that took place in store between May and December 2021.

Over this period, sales across all categories were -4.2% lower than over the same eight month period in 2019. Whilst sales values overall were lower than in 2019, there were some real successes in a number of categories, with either higher sales than in 2019 or sales that stayed largely on par with 2019. The clear winners were jewellery and electrical/mobile phones in which sales rose from 2019 by +15.1% and +3% respectively. Even in health and beauty and fashion and accessories, store sales were only very slightly lower than in 2019 (-0.5% and -0.6%).

Inevitably the restrictions around eating and dining that prevailed following the end of Lockdown 3 meant food and beverage sales suffered, but over the eight month period they were only -3.1% lower than in 2019 supported by a huge boost in sales in August that was +13.4% higher than in 2019. Over the three months from August to October, in store food and beverage sales averaged +6.3% higher than in 2019.



Store Sales

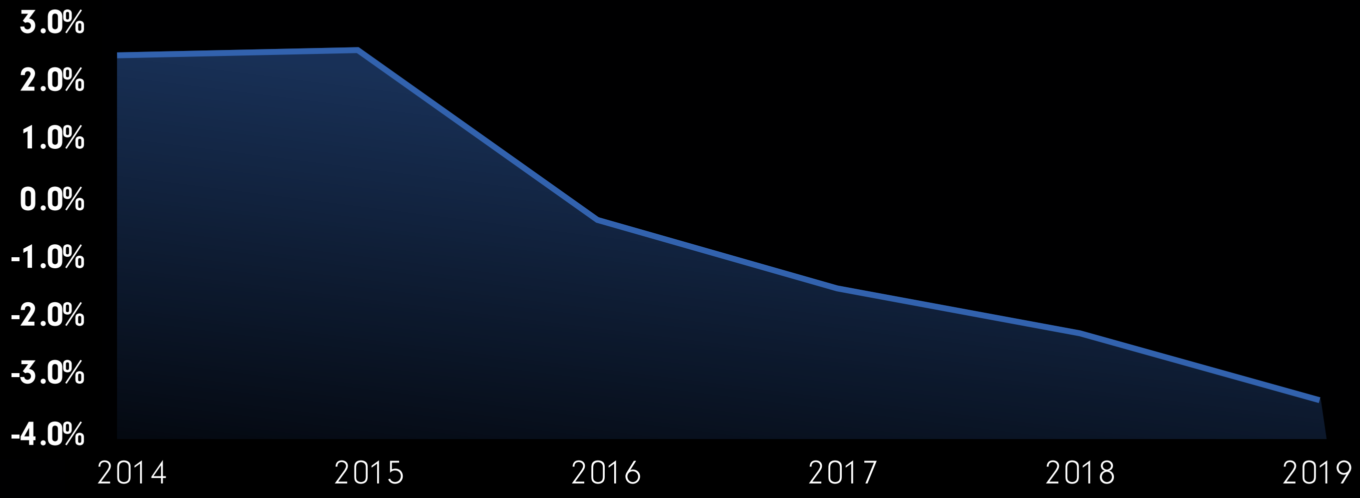
We have been able to compare store sales in 2021 with previous years, however, the incidence of lockdowns in 2020 means that the period of comparison is July to December.

The positive news is that over this six month period, store sales in 2021 were -3.5% lower than in 2019 which is more modest than the drop of -4% over the same six month period in 2019, before the pandemic struck.

% change in store sales - all categories - Jul to Dec	-3.5%	-33.1%	-4.0%
	2021 vs 2019	2020 vs 2019	2019 vs 2018

It is important to put store sales performance in 2021 into context; Springboard has been recording store sales from 2014, and store sales have declined from the year before in each consecutive year between 2016 and 2019. A key driver of this has been the increasing migration of spend online.

Year on year % change in store sales - all categories – Jan to Dec



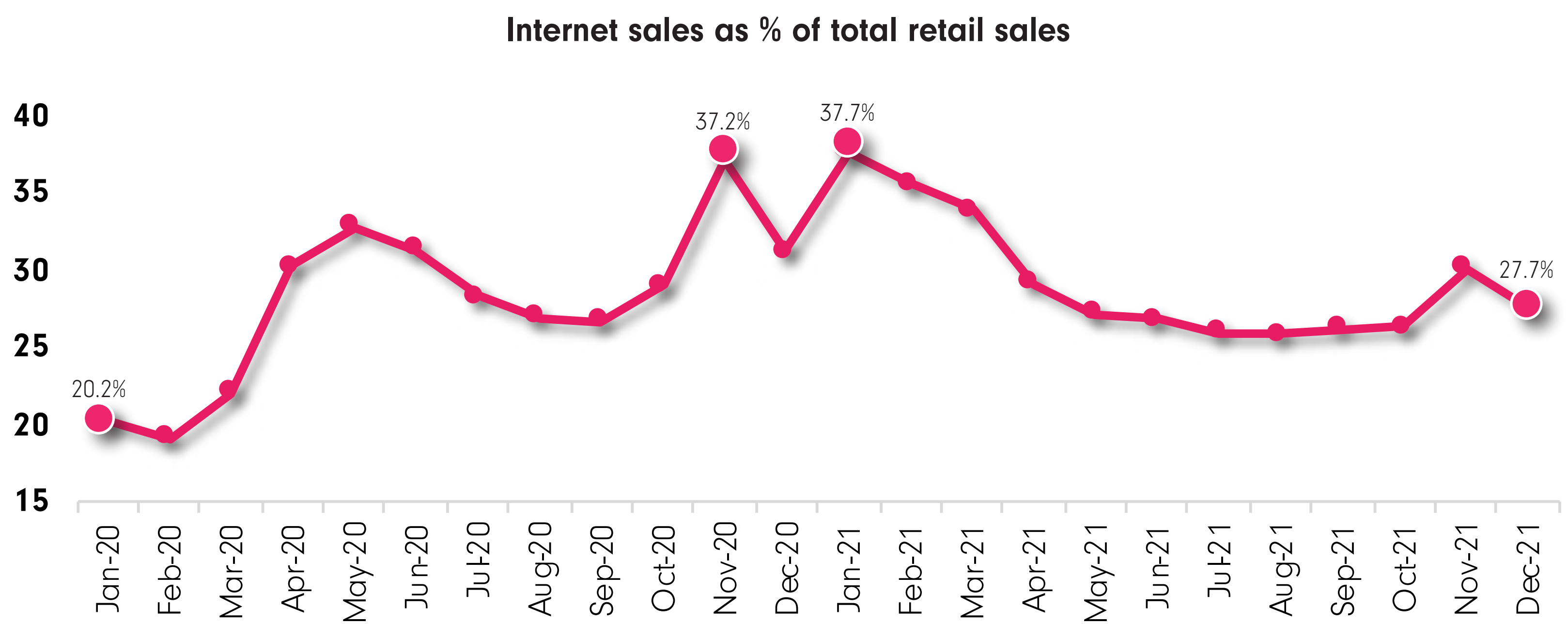
Online Sales

Online sales as a % of total retail sales averaged 29.4% in 2021, increasing from 2020 when it averaged 27.9%. Online sales inevitably increased during Lockdown 3 - to 35.7% between January and March - but fell back to 27.3% between April and December.

Online sales for clothing and footwear peaked at 57.4% during Lockdown 3, however, this also means that 42.6% of spending occurred in store, despite only essential retailers' stores being able to trade. Once stores reopened, online clothing and footwear sales dropped back to 26.6%.

Despite the improvement in home delivery, the vast majority of consumers continued to buy food and groceries in store during 2021. Online food sales averaged only 10.9% of total sales over 2021 as a whole, and rose only slightly to 12.4% during Lockdown 3, dropping back to 10.3% between April and December.

At the end of 2021, in December, online sales dipped to 27.7% of retail spending, with 27% of spending on clothing and footwear being online and 9.7% of food spending.

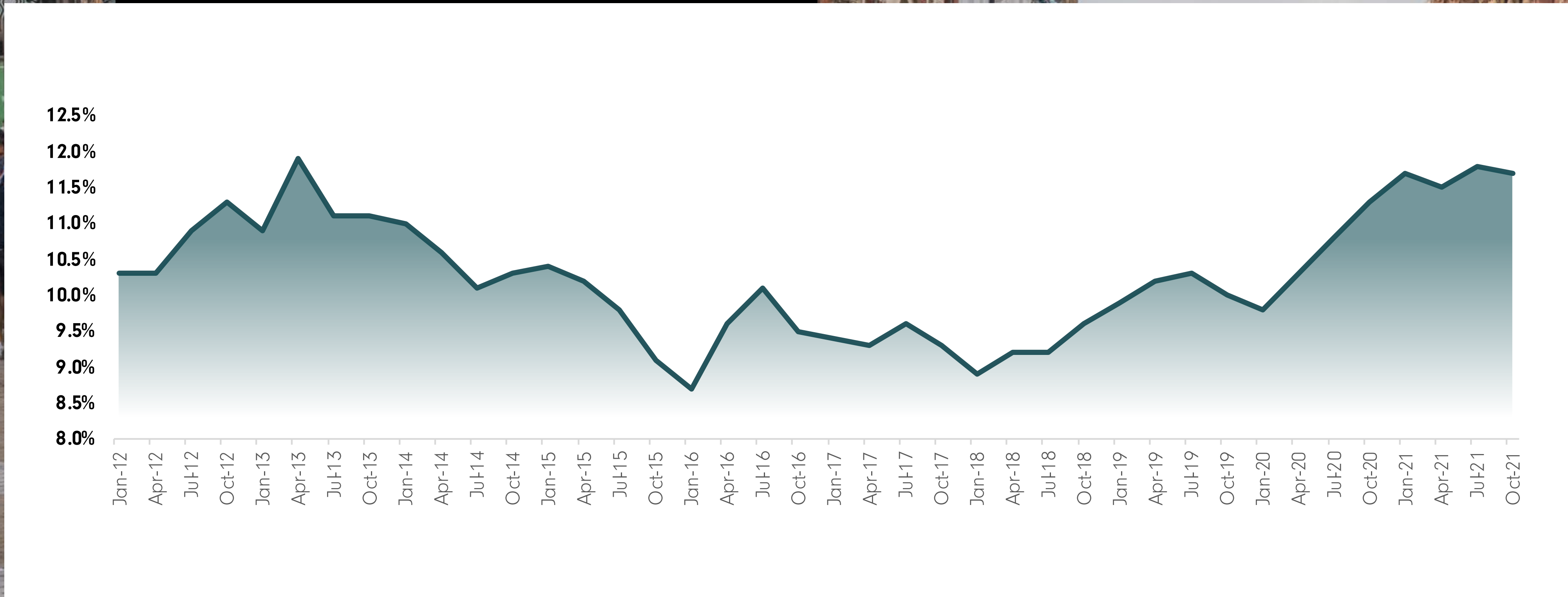


Source: ONS

Vacancy Rate

The pandemic has had a huge impact on the vacancy rate; it rose from 9.8% in January 2020 to 11.3% by October 2020, which was nearly as high as the highest previously recorded rate of 11.9% in April 2013.

In 2021, the vacancy rate remained high, averaging 11.7% over 2021, with the rate above 11% in all four quarters of 2021.



Overall Index Score	-13 2019
-26 2020	-15 2021

Source: GFK

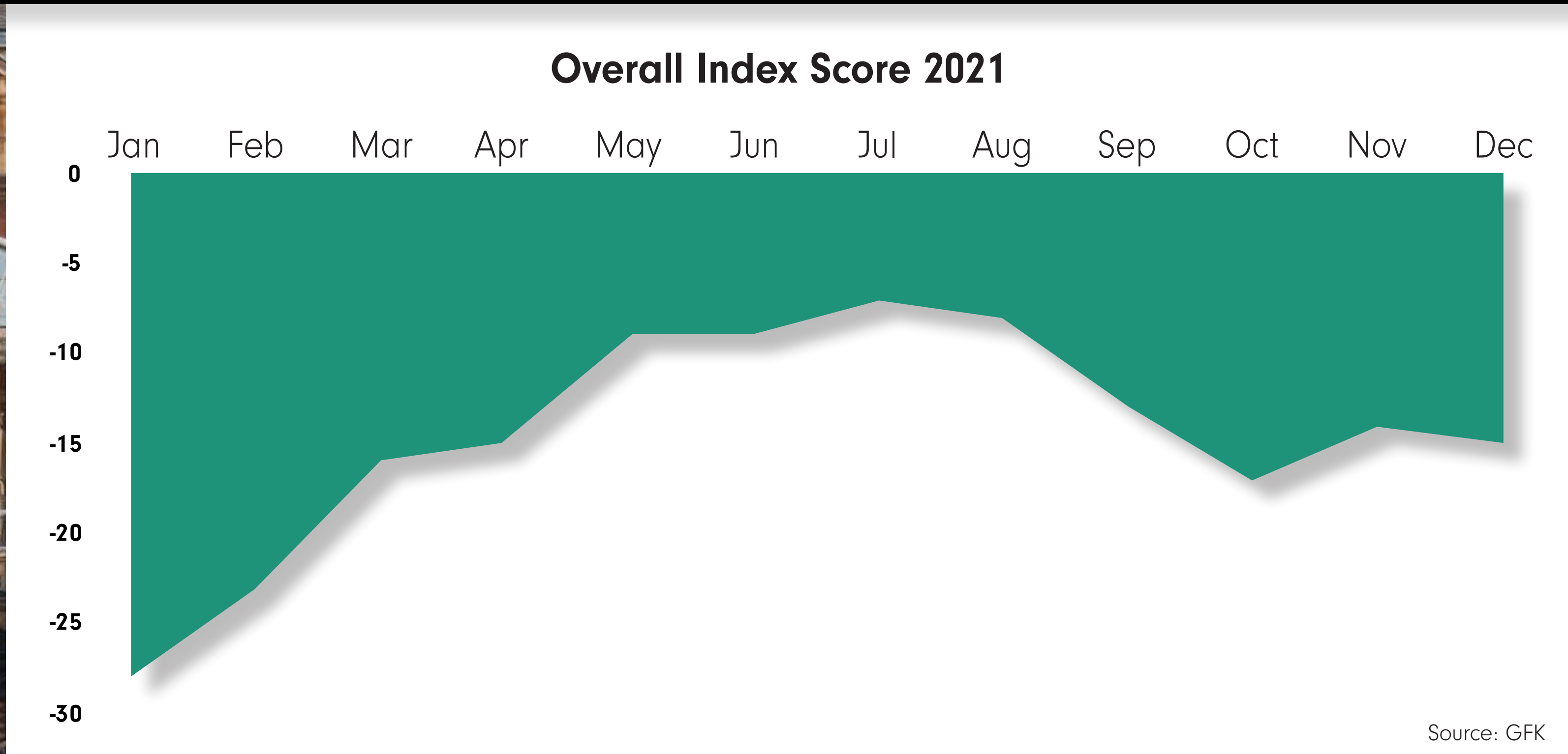
Consumer Confidence

It is inevitable that the pandemic continues to impact consumer confidence, and confidence is a key factor in determining the degree to which consumers are willing to spend.

The consumer confidence index score as measured by GFK improved significantly in 2021 from 2020, shifting from an overall index score of -26 in 2020 to -15 in 2021.

This score in 2021 was heavily influenced by the adverse impact of the wider economic situation over the past 12 months (index score of -50), whilst consumers felt far more confident about their own financial position last year (index score of -8) and particularly over the next 12 months (index score of +7).

The confidence of consumers increased significantly from May onwards, following the ending of Lockdown 3 and remained strong over the summer, declining as infections increased from September onwards.



Looking Forward to 2022

What does the evidence suggest for the prospects for retail stores and destinations in 2022?

It is clear that whilst retailing was impacted by Covid in 2021, the roll out of the vaccine programme has undoubtedly been a game changer. In our review of 2020 we were forecasting that we would need to break down 2021 into two key parts - pre vaccine and post vaccine - and largely this is what has come to pass. With the rapid roll out of the vaccine in 2021, bricks and mortar has weathered the storm of two new variants, with footfall strengthening every month until December when the government issued Plan B guidance to work from home which took the froth off of the expected uplift in footfall and sales during the crucial Christmas trading period.

At the beginning of Q4 2021, we forecast that footfall would end the year at around -10% to -15% below the 2019 level, which it seems would have come to pass as in November footfall was -14.5% below 2019, and without Omicron it is likely that this would have improved slightly in December. Unfortunately Plan B guidance, and consumers' desire to protect their Christmas celebrations with friends and family by avoiding crowds, meant that footfall dipped to -18.6% in December.

What have we learnt in 2021 that will act as sign posts for the prospects for retail in 2022?

The experience of three lockdowns has taught us is that the need for human interaction and sensory satisfaction that we highlighted in the 2020 review really does drive visits and spend in stores and destinations. Following the end of Lockdown 3 in mid April 2021, the initial surge in visits to stores and destinations that we forecast in our 2020 review came to pass, with the gap in footfall from 2019 immediately halving (from -56.5% below 2019 in the week before Lockdown 3 ended to -25.4% the following week), and then continuing to strengthen, peaking during October half term week at -10.9% below 2019. In fact, even with Plan B measures in place and shoppers exhibiting significant caution in December, footfall in the week leading up to Christmas ended up just -13.8% below 2019.

At the same time, the migration to online intensified in 2021, with online sales as a % of total retail sales increasing to 29.4% in 2021 from 27.9% in 2020, and it will no doubt settle at this much higher level over the long term. Apart from the conversion of many shoppers to the benefits of online, retailers themselves have become more skilled at delivering an efficient online proposition and dovetailing clicks with bricks, so shoppers have a unified online-offline shopping experience.

There is still a way to go for online, however, as the cost of returns is proving to be an issue, particularly in the fast fashion sector, and in any event whilst nearly 30% of retail spending is now online, more than twice that amount (70%) is made in-store. However, with pressures on occupation costs, retailers will continue to review their store networks to ensure they are right-sized, but during this process store environments will undoubtedly be enhanced with the objective of tempting shoppers back into store. Indeed, the attraction of in-person shopping will only increase if retailers aim to offset the cost of online returns by reintroducing postage costs.

The other key trend that will start to play out in retail is the maturity of the hybrid office/home working model. Even without Plan B guidance, in the eight months post Lockdown 3 it appears that the majority of employees continued to work at home for at least part of the week whilst travelling into the office for much needed collaboration time. Springboard's Consumer Surveys (in both the UK[1] and the US[2]) identified that over half of employees work at least part of the week from home, and of these around a quarter visit stores and destinations less frequently. With nearly two years of home working under our belts, the vast majority of employees have set themselves up with an efficient way of doing this, and consequently we are fully expecting daytime visitation patterns during the working week to shift accordingly.

1 Springboard's UK Consumer Survey
2 Springboard's U.S. Consumer Survey

Looking Forward to 2022

What are the other changes in consumer behaviour that we are likely to see in 2022

Other changes in consumer behaviour that are likely to accelerate in 2022 include a greater number of visits in the evening and at the weekend, longer dwell times and an increase in the combination of shopping and dining. Some individual destinations are already seeing shifts in their peak trading day and trading hours, and this trend will undoubtedly magnify as the year progresses, spreading across a wider range of centres and to a greater magnitude. After all, if around half of all employees are at home for at least part of the working week it may well mean that a visit to a shopping centre or a city centre after a day's work in the home office, will become a more attractive prospect. Likewise, Saturday and Sunday may well become even more significant, as shoppers will have less opportunity to shop during the working week.

The other side of the coin – and one of the very few upsides of the pandemic – is the resurgence in visits to local high streets, which were previously unobtainable whilst many employees spent every day in their offices. In 2021 – for the second consecutive year - footfall in market towns remained more resilient than in larger cities, with a gap in footfall from the 2019 level that was 20% smaller than in regional cities around the UK and 45% smaller than in Central London. What is even more heartening for smaller destinations and retailers, is that the recovery of market towns was not compromised by the recovery of larger city centres; in every month of 2021 the gap from the 2019 footfall level was smaller in market towns than in both regional cities and in Central London.

For our larger city centres, the prospects still remain optimistic; we must not forget that whilst footfall may be lower during the working week, home working will in itself generate a demand by consumers for the sensory delights and choice that can only be obtained in a larger destination. In addition, we are still lacking overseas tourists which are the lifeblood of many city centres, particularly Central London, and domestic tourism and leisure has yet to bounce back. As the confidence of consumers concerning Covid improves, and the vaccination programme does its job, we are likely to see a steady rise in footfall in our larger cities, the importance of which to the overall retail landscape cannot be overestimated.

What is the potential for the recovery in retail in 2022 and how can retailers respond?

The potential fly in the ointment, that may put the brake on some of the recovery in retail in 2022, will be the hit on real incomes through increased inflation and the associated rise in food and utility prices. For many households this will prove to be punitive and reduce their disposable income substantially, and so therefore we expect footfall to remain at least 10% lower than the pre-Covid level in 2022.

Whilst 2020 was typified by unprecedented change in retail brought about by the pandemic, and 2021 saw the start of retailers accommodating this change, 2022 will be typified by the transition of retail to succeed in a Covid world. Retailers can expect a continuation of the migration of spend online to continue throughout 2022, although as consumers feel more confident with regard to the risks associated with Covid, a proportion of this will shift back to stores. Therefore, the better integration of online and store retailing must be at the forefront of retailers' minds; delivering a unified shopping experience to the customer that enables stores to optimise their ability to showcase their proposition and present the experience that shoppers crave, whilst also providing the convenience of online purchasing.

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