SUPPLY CHAIN
INSIDER COMMUNITY

The winners and losers of Christmas 2022:

Lessons for retail's supply chain

RETAIL GAZETTE

In collaboration with

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Welcome

Retail defied the odds and delivered a good Christmas despite the shadow of the cost-of-living crisis with sales up 6.9% across the sector, according to the British Retail Consortium.

Gemma Goldfingle,
editor, Retail Gazette

Supply chain played a big role in retail's Christmas performance. On the positive side, shelves and warehouses were well stocked this Christmas in stark contrast to the previous year when shortages of key gifting areas like toys and electricals hit sales.

However, getting products to customers' homes was more problematic as delivery delays originating from Royal Mail strikes over the festive period left many shoppers empty-handed. The disruption was so severe that some shoppers were still waiting for their parcels in mid-January.

This report, produced in partnership with procurement and supply chain specialist Proxima, will take a deeper look into how retail's supply chain performed over peak and what supply chain leaders did to overcome the many challenges that were served up.

Taking the time to understand what the more agile businesses across the sector did is critical. Now is the time to digest this and take learnings back for your business to help deliver not just a great Christmas this year, but throughout 2023 and beyond.

Retail Gazette's 'The Winners and Losers of Christmas 2022' report is a wonderful dive into the golden quarter, providing insights into the strategies and experiences of some of Britain's largest and most popular retailers; where they placed their bets, and how they turned out.

Simon Geale,
chief procurement officer,
Proxima, procurement & supply chain consultants

But behind the headlines of a 6.9% year-on year sales increase, lies the reality of a hard-fought 2022, and a year ahead that will see further supply chain disruption, continued price inflation, and dampened customer demand.

But that's not to say it's all doom and gloom. Out of every downturn emerges a new generation of stars inspired largely by the ambitious executives who championed the bold strategies that serve the customer of today and build for that of tomorrow.

In 2022 many of those strategies focused on delivering bigger and bolder cost transformation that would enable investment in operational transformation and growth initiatives. In procurement and supply chain terms, this meant building in agility, transparency, and resilience into business models that conventionally were designed with cost, speed, and productivity first.

These are not overnight fixes, and so conventional wisdom suggests the next 12 months will require a similar focus, with a firm nod to making real and measurable progress against ESG commitments, particularly in the supply chain.

Just how will the cost-of-living crisis play out? Is further supply chain disruption on the cards? How will consumers behave, and so what should the experience be? We can tie ourselves up in predicting the future.

2023 will be a challenging year. It will be a year for the bold. But there will be winners.

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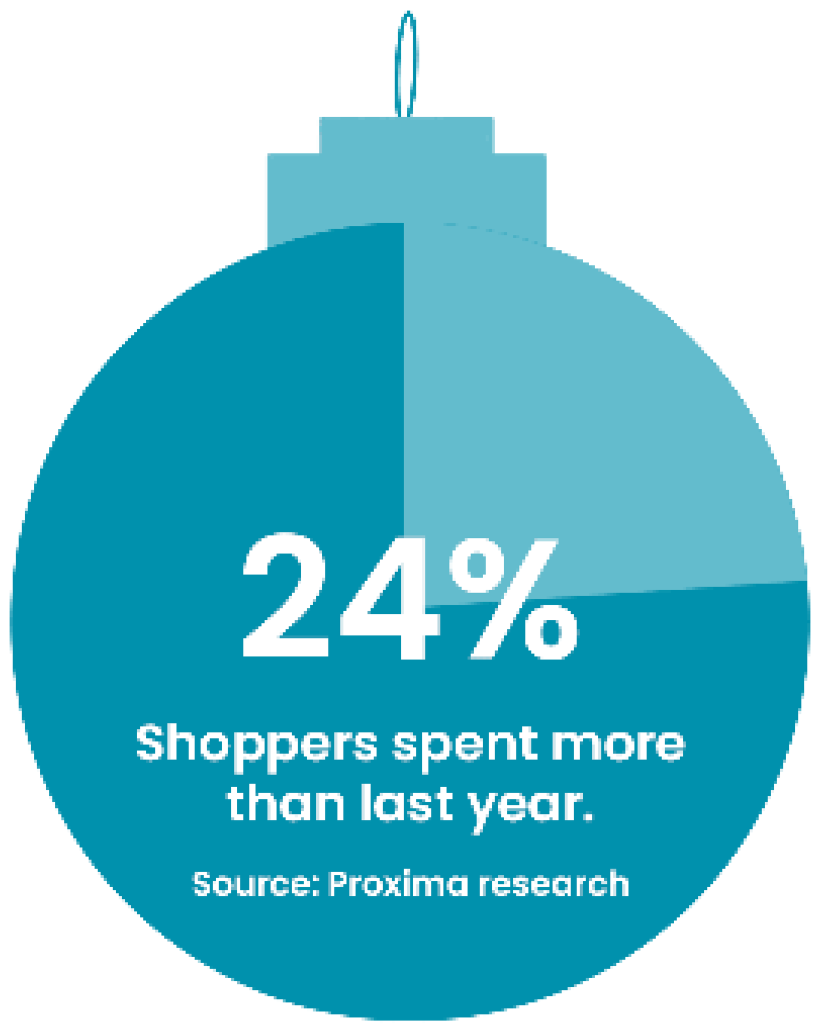
Chapter One: What happened in Christmas 2022?



With the cost-of-living crisis looming large, many were pessimistic about retail's prospects for Christmas 2022. However, shoppers were determined to celebrate, which resulted in a strong festive performance across the sector.

The BRC reported that sales across December rose 6.9% year on year as shoppers had the first "normal Christmas" since the onset of the pandemic.

Tesco CEO Ken Murphy says: "We were pretty confident it would be a decent Christmas as it's the first pandemic-free Christmas for some people for a few years and a chance to escape the daily challenges of the cost of living," he says.

Sainsbury's boss Simon Roberts concurs: "Customers wanted to really treat themselves and celebrate at home together."

Despite the positive sales performance across the retail sector, it must be noted that inflationary price rises accounted for much of this growth.

Both Tesco and Sainsbury's revealed that sales volumes had dropped year on year.

BRC chief executive Helen Dickinson says: "Despite the stronger sales, growth remained below inflation, making December the ninth consecutive month of falling volumes."

"Customers were watching every penny and every pound. They were spending carefully but they still wanted to have the best Christmas possible."

Simon Roberts, chief executive, Sainsbury's

Winners and losers

With inflation soaring, value for money was a big theme of Christmas 2022.

Discounters Aldi and Lidl unsurprisingly emerged as big winners over the festive period, with sales up 26% and 24.5% respectively.

The timing of the first-ever winter World Cup also helped to boost performance in grocery.

Aldi UK and Ireland CEO Giles Hurley says: "This year, Christmas was all about family and football as people came together to celebrate in a way we've not enjoyed for years."

Retailer	Sales (Year on Year)	Period	Sector
Aldi	26%	December	Grocery
Lidl	24.5%	4 weeks to 25 Dec	Grocery
Boots	15%	3 months to 30 Nov	Health & Beauty
Lush	13.1%	December	Health & Beauty
Poundland-owner Pepco	13%	3 months to 31 Dec	Value
B&M	12.3%	3 months to 24 Dec	Value
JD Sports	10%	22 weeks to 31 Dec	Fashion
Tesco	7.2%	6 weeks to 7 Jan	Grocery
Sainsbury's	7.1%	6 weeks to 7 Jan	Grocery
M&S	6.3%	13 weeks to 13 Dec	Grocery & Fashion
Next	4.8%	9 weeks to 30 Dec	Fashion
Very Group	-1.3%	7 weeks to 23 Dec	Department Store
N Brown	-7.6%	18 weeks to 31 Dec	Fashion
Asos UK	-8%	4 months to 31 Dec	Fashion
Boohoo	-11%	3 months to 31 Dec	Fashion
AO	-17.2%	3 months to 31 Dec	Electricals

Outside of the discounters, value was equally as important.

Roberts says: "Customers were watching every penny and every pound. They were spending carefully but they still wanted to have the best Christmas possible."

Shoppers shifted spend into own-brand in grocery, and across all of retail strong value for money was a big driver of where customers shopped.

M&S boss Stuart Machin says the work it has done to up its value credentials helped woo shoppers over Christmas.

"There's no doubt that our entry price products did resonate with customers who were seeking out value," he says.

In food, M&S' Remarksable Value range was up 27% on last year and featured in 20% of customer baskets, which Machin says showed that customers wanted "competitive prices whilst not compromising on M&S quality".

Traditional Christmas gifting categories such as beauty, toys and electricals performed well over the festive period.

Boots, Lush and perfume specialists The Fragrance Shop and The Perfume Shop all produced double digit sales growth.

Meanwhile, consumer technology was a top seller at Argos as people snapped up discounted TVs during the World Cup.

Meanwhile, in an attempt to cut down on soaring bills, energy-efficient appliances such as air-fryers and laundry airers were among the top-sellers.

The big losers this year were online retailers. Giants including Asos, Boohoo, Ao.com, Very Group and N Brown all posted sales declines

Although this follows the trend of the past year when online trade has normalised from the highs of the pandemic, the disruption that reverberated across the delivery network following Royal Mail strikes hit trade at pureplays.

Read on to find more on the impact of supply chain on retail's Christmas trading.

Chapter Two: Stock and availability

Supply chain disruption was an overarching theme of last Christmas with product shortages rife in key festive categories such as toys and electricals.

The hangover of this was felt throughout the year, particularly in fashion where many businesses are still sitting on piles of unsold clothing that was delayed last year.

However, most big retailers managed to avoid such issues this year and ensured they were well stocked over the Christmas period. Many businesses, such as Sainsbury's, highlighted strong availability as a key sales driver.

The grocer's CEO Simon Roberts says: "In general merchandise, sales continued to reflect the improved availability we've been working towards. Last year was particularly challenged on availability, we saw that really come through in consumer electronics.

"This year we had strong availability on the fastest-selling products like air-fryers, tablets and mobiles."

It was a similar story at Tesco, which said it saw an overall improvement in availability year on year.

This included the just-in-time supply chain, with fresh food availability strong, despite concerns that the avian flu would hit the supply of turkeys and eggs.

Tesco CEO Ken Murphy says "We had the best supply chain Christmas for many years. We planned for a good Christmas and we had a good Christmas. No-one was disappointed."

Next, which after posting a better-than-expected 4.8% rise in sales, said it had underestimated the effect improved stock levels would have on its retail and online business this year.

However, like many retailers, Next is still sitting on a big stock pile, thought to be a hangover of last year's supply chain issues. The retailer had 60% more Sale stock this year than last year's low levels. This was up 31% on pre-pandemic levels.

"We had the best supply chain Christmas for many years. We planned for a good Christmas and we had a good Christmas. No-one was disappointed."

Ken Murphy, CEO, Tesco

How did retail avoid supply chain disruption?

Retail was helped by external factors as global supply chain issues subsided.

Proxima chief procurement officer Simon Geale says: "General pressure in the system has eased. Some of the problems have worked their way through.

"Last year, ocean freight rates were up more than 200%, but they're now down to pre-pandemic levels because of availability within the system. Therefore it can now withstand blips and incidents - we're not laying challenges upon challenges."

However, Geale says retailers' own mitigating action also helped.

One strategy retailers have taken to secure supply is to simplify their orders and reduce the number of options to ensure they have good availability of best-sellers. This is an approach M&S has adopted not just over Christmas, but across the year.

The retailer revealed earlier this year it had simplified its range and cut options by 20% as it bought more best-selling lines and concentrated supply into fewer, high-quality suppliers.

Another approach that retailers have taken is to order Christmas stock earlier.

Card Factory CEO Darcy Willson-Rymer says it was "super organised" and made sure that goods were transported to the UK earlier than ever this year.

"We had additional working capital [earlier in the year] to bring stock in early, making sure they were manufactured earlier in the process and then on the water earlier," he says.

However, this approach comes with additional costs, such as storage, which is why Card Factory had to secure additional financial headroom.

Geale says: "A lot of retailers have been forced down the route of bringing in goods earlier, particularly in areas like consumer electronics and fashion. However, this ties up working capital and retailers are essentially gambling on shifting stock."

Currys, which was hit hard by product shortages over Christmas 2021, took this approach and revealed that at the end of October it was sitting on more inventory than last year as it invested to ensure availability for both peak and the World Cup.

For Card Factory, the move to buy earlier paid off as its stores were fully stocked and sales were strong.

The cards specialist may have benefited from the early ordering of products from overseas but it also brings some SKUs to store at the last minute.

The retailer has a vertically integrated model for cards and, according to Willson-Rymer, only printed 80% of its Christmas range ahead of time. The remainder was produced at the end of November when it reprinted what it had established was its best-sellers.

Few retailers have the benefit of a vertically integrated model, however, some businesses have opted to work with suppliers that are closer to home in order to minimise lead times and capitalise on emerging trends.

M&S left more of its autumn winter clothing on open-to-buy to help it both manage uncertain demand and be more trend responsive.

Source: Proxima research

A faster, 'near-sourcing' supply chain has been developed at M&S to help it test and re-order seasonal fashion lines, particularly for its online business. Turkey is a significant sourcing country for its clothing and home business, which allows it to reduce transit times substantially compared to the Far East.

Although near-shoring is a tactic some retailers have adopted to reduce transit times and improve availability, Geale points out that moving supply bases is complex.

"You're essentially trying to take apart highly specialised infrastructure and transport it somewhere else. You need to move to somewhere that has the infrastructure to take on large volumes of production," he says.

Moving production may be challenging, but it may be necessary going forward, according to Geale.

He says that many UK retailers are very reliant on China, which is particularly risky right now as Covid is leading to staffing shortages in factories. Retailers are already reporting delays in production with fears this could lead to gaps on shelves in the next four to six months.

Meanwhile, as tensions ramp up between China and Taiwan, there are also concerns what impact a potential conflict could have on global supply chains, which are still suffering the effects of Russia's invasion of Ukraine.

Diversifying production bases may be complex but it could be necessary to not just ensure product availability over Christmas but across the rest of the year too.

Chapter Three: Last-mile chaos

Availability may have been more resilient this year but the last-mile delivery of goods to home was more problematic as Royal Mail strikes throughout the festive period led to delays across the network.

According to Promixa research, almost half (49%) of British consumers experienced a delay of 5 days or more receiving items they bought online over Christmas 2022, and just over a quarter (26%) had this experience with multiple orders.

It was not just retailers that used Royal Mail as a courier that were impacted. Other carriers such as Evri took on extra parcel volumes in light of the strikes that they were unable to fulfill.

The delivery company was forced to issue a public apology to customers that were still waiting for their Christmas parcels as late as mid-January. A spokesperson said the Royal Mail strike, staff shortages, and bad weather had caused the delays.

All of this disruption hit ecommerce sales as consumers lost confidence in shopping online in the run-up to Christmas.

Some retailers took the decision to bring forward their delivery cut-offs in order to not disappoint customers.

Asos CEO José Antonio Ramos Calamonte says: "The whole performance of the delivery market was impacted in December. Cutting three days [off delivery cut-offs] in a period as important as Christmas has an impact on sales."

Online wine specialist Virgin Wines estimated that it lost £1.5m in sales - it made £33.7m over the entire second half - as a result of bringing forward its delivery cut-off dates.

"The whole performance of the delivery market was impacted in December. Cutting three days [off delivery cut-offs] in a period as important as Christmas has an impact on sales."

Asos CEO
José Antonio Ramos Calamonte

What did retailers do to minimise the impact?

Retailers looked to shift their deliveries to other suppliers. Electricals giant Currys temporarily ditched Royal Mail as a delivery provider in light of the strikes.

Chief executive Alex Baldock says it used its clout as a retailer with large online volumes to secure capacity with other providers.

The move paid off as Currys was able to guarantee that orders made up until 22 December would be received before Christmas.

Proxima vice president of supply chain and logistics Neil Jordan recommends that smaller retailers that don't have the benefit of large order volumes work with third-party logistics firms or specialist carrier management firms like GFS and leverage their volumes to secure a better deal with couriers.

Jordan also advises that retailers of all sizes have partnerships with multiple couriers to manage risk around delivery.

"Retailers that spread the risk around multiple couriers have been able to play around with volumes this Christmas," he says.

As well as ensuring delivery when there is disruption at one or more carriers, Jordan says this allows customers to offer a tiered service to customers, with those buying higher value items receiving more of a "white glove service".

However, he points out that retailers that use multiple carriers need to have the infrastructure to deal with this, and a system that can work out at the point of ordering what the optimal carrier to go with is.

49%

of Brits experienced a delay of 5 days or more over Christmas period

Source: Proxima research

Communicating with customers

For other retailers, communicating that delays would be likely to consumers was critical this Christmas. Willson-Rymer says the action that Card Factory, which has Royal Mail as its delivery partner, took did persuade some shoppers to buy earlier.

"However, there was an impact as people don't always plan things in advance," he admits.

The importance of giving shoppers multiple delivery options also shone through as people opted to collect items in store to avoid delivery delays.

Argos saw a surge in shoppers opting to click-and-collect, which jumped from 40% to 50% of sales over the Christmas period.

The retailer also had a 50% jump in 'walk-in' visits to its stores in the week before Christmas as customers wanted certainty they would get their presents amid the delivery delays, according to Sainsbury's boss Roberts.

M&S also saw the benefits of its omnichannel offer. Its in-store sales for clothing and home jumped 12.8%, and there was a 20% increase in click-and-collect orders over Christmas.

Tesco said its wide range of fulfilment solutions for customers, including speedy delivery for those looking for food for now, paid off over the festive period.

The grocery giant's Whoosh one-hour delivery service came into its own for shoppers looking for drinks and snacks during key World Cup matches.

Tesco boss Ken Murphy explains: "We're trying to create an ecosystem where you can get what you need from us. It's hard to predict how customer needs are going to change. The most important thing is that you're there to meet them when it happens."

Taking a 360 degree approach to fulfilment will ensure that retailers can serve shoppers whatever their needs and gives protection against volatility in the last-mile supply chain.

Chapter Four: The Christmas hangover - the returns headache

Delays in the retail supply chain had a knock-on impact on returns. According to Proxima research, 26% of shoppers returned gifts because they arrived too late or were not as expected.

This comes on top of the already elevated levels of returns that fashion retailers have experienced over the past year as shoppers are more cautious with their spending and scrutinise their purchases.

Both Boohoo and Asos flagged that returns had risen to above pre-pandemic levels last year.

Asos boss Calamonte says that this did not wind down over the Christmas period.

Returns are very costly for retailers, which have to transport, process and clean the product in order for it to be sold again.

Proxima's Geale says: "The cost of reverse logistics can be so onerous that some retailers will end up reselling products at a loss"

"Retailers need to streamline that process to make it easier for both the customers to return and for operations teams to process when items arrive back."

His colleague Jordan points out that returns are easier for bricks-and-mortar retailers to manage as they can encourage shoppers to take back orders to stores.

> *"The cost of reverse logistics can be so onerous that some retailers will end up reselling products at a loss"*
>
> **Simon Geale, chief procurement officer, Proxima**

"If the product is in good condition, it could go straight back on to the shelf and sold," he says. "With a dotcom business, it all has to be shipped back to the warehouse and then steamed, cleaned, and hung."

Next encourages its shoppers to return unwanted items to its 500 stores by making it free. By comparison, customers have to pay £2.50 to return to its warehouses via a courier. Next says that between 75% and 80% of returns are made through its stores.

Jordan says there is scope for bricks-and-mortar retailers to collaborate with online retailers to use their stores as collection hubs, much like Collect Plus convenience stores.

Charging for returns

To minimise the impact of returns, many retailers have started charging customers, particularly in fashion where one in three items bought online are sent back, according to returns specialist ReBound.

Zara led the charge in May last year by introducing a £1.95 charge for sending back items, although returning to store is still free. Fast fashion giant Boohoo also made the move last summer with a £1.99 fee introduced.

Boohoo executive director Neil Catto says: "It makes people think about it before ordering three different styles and then sending back two."

These brands set off a domino effect with retailers including Mountain Warehouse, Moss Bros and THG all introducing online returns charges in recent months.

According to research by parcelLab late last year, a quarter of 200 leading online retailers are now charging shoppers to return items in the UK, an increase of 14% year-on-year.

Geale believes this trend will continue as retailers try to not only protect margin but educate consumers on the cost of sending back items.

"Retailers have always factored returns into their product pricing but creating a separate returns fee is an attempt to make consumers understand that there's a cost attached to returns. It's about making a new deal with the customer," he says.

Expect more retailers to follow suit as they attempt to not only recoup some of the costs of sending back items but bring down the returns rate long term.

Source: Proxima research

Chapter Five: Five supply chain lessons for 2023

01 Spread the risk with multiple partners

The retailers that used multiple couriers were better placed to minimise the impact of delivery disruption than those with exclusive partnerships. These businesses could shift order volumes to other partners when Royal Mail and Evri's delivery network were suffering.

02 Focus on your best-sellers

Retailers had much improved availability this year and experts believe this is in part due to range reduction as businesses focused on their best-sellers.

This can not only help ensure availability of core items, but a simplified range can lead to a less confusing shopping experience and fewer markdowns.

03 Communicate to customers

Let your customers know if disruption is likely, both in terms of product availability and delivery.

Shoppers do listen. They took heed of warnings around product availability in 2021 and delivery disruption last Christmas and bought gifts earlier.

Ultimately they want to get their hands on the gifts their loved ones want. If they are made aware of hurdles, they will change their shopping behaviour to secure them.

04 Harness the power of omnichannel

Retailers with an omnichannel model thrived during a Christmas in which home delivery was disrupted as customers turned to in-store shopping and collection.

Retailers should look to push their in-store options to shoppers and ensure they have market-leading capabilities when it comes to pick-up times.

Pureplays should consider tie-ups with store-based retailers to give shoppers a place to collect and return items.

05 Consider charging for returns

Returns rates continue to be elevated due to delivery delays and the extra scrutiny on purchases during the cost-of-living crisis.

This has a big impact on retailers' margins. With a raft of big retailers including Zara, Boohoo and Next already charging for online returns, shoppers are becoming increasingly used to having to pay to send items back.

Retailers should explore what impact this would have on their business.