



2022 retail industry outlook

The pandemic creates opportunities for
the great retail reset

January 2022

Overview

The retail industry faces significant challenges that will likely last beyond the pandemic. However, these headwinds have also yielded some positive results. Retailers have been forced to reexamine their legacy systems and strategies that have shaped the industry for years.

In many ways, the pandemic has opened the door for a long-overdue, great retail reset that can help move many retailers into more stable—and potentially more profitable—positions than ever before.

We asked 50 senior retail executives across multiple subsectors to share their views on where they see the industry in the next 12 months. The resulting data, combined with insights derived from 15 Deloitte retail subject-matter specialists, client work, and prior research, identified three priorities for the great retail reset—reimagining the workforce, supply chain resiliency, and digital revolution.



Outlook for 2022

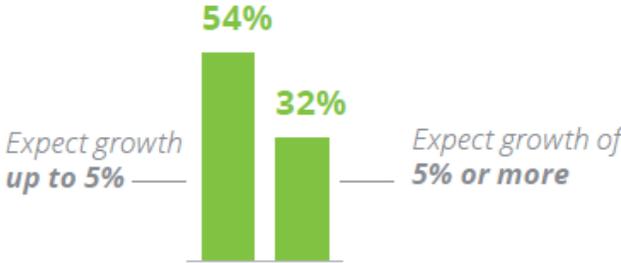
Optimism about revenue growth and margins despite some near-term challenges

Retail executives appear optimistic about revenue growth and margins for 2022, with some taking perceived headwinds and turning them into opportunities

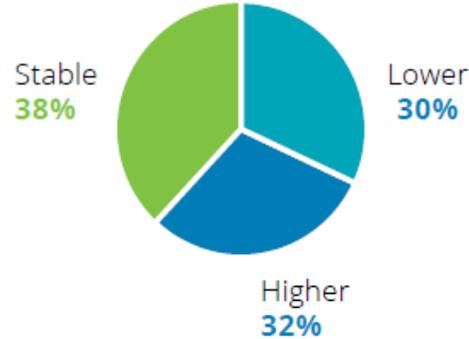
Expectations for the 2022 consumer

- Active and outgoing, seeking experiences outside the home (84% in 2022 vs. 42% in 2021)
- Willing to spend but having to rely more on credit or buy now, pay later (64%)
- Expecting seamless experience across channels (96%)
- Pursuing retailers with strong ESG initiatives (68%)

2022 industry revenue growth*



YoY operating margin expectations

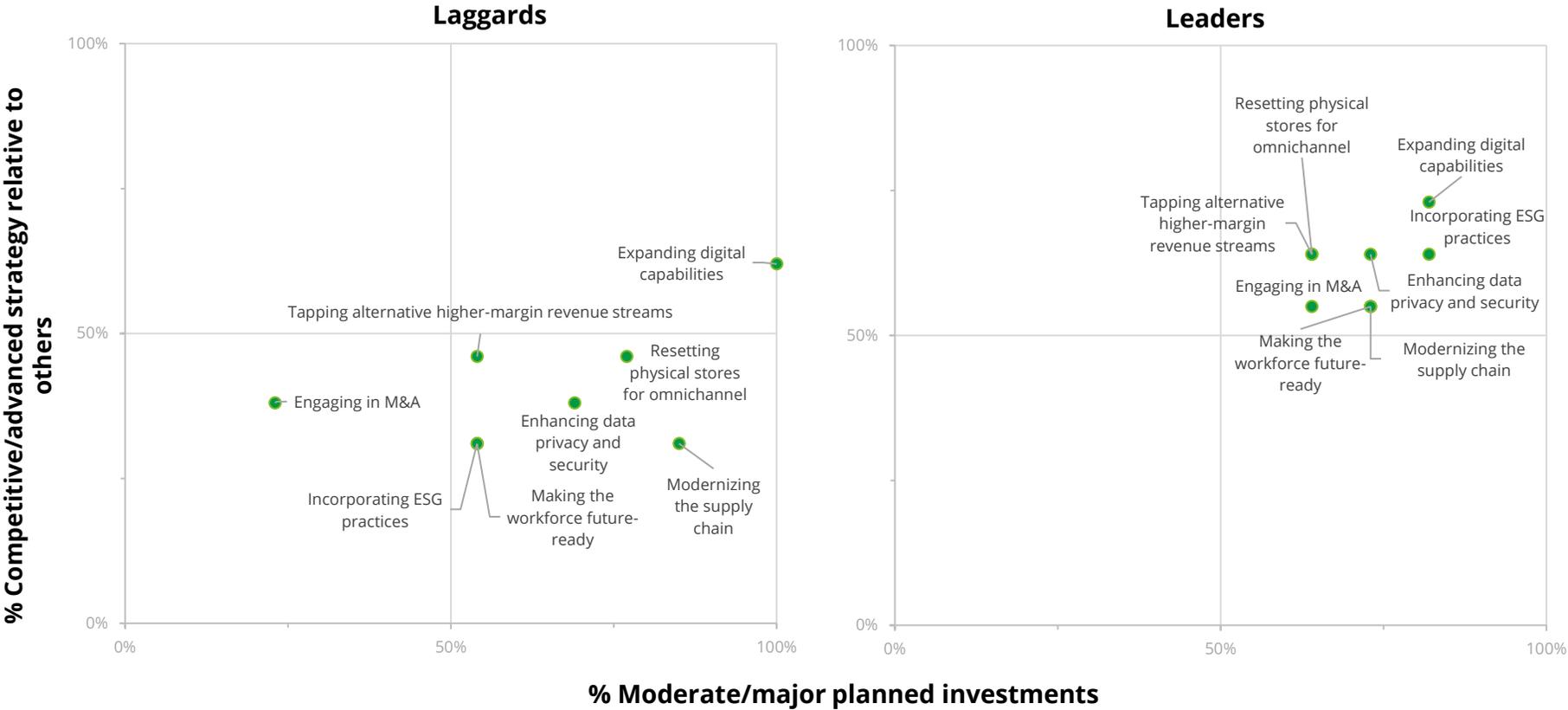


- Opportunities**
- Favorable consumer behavior
 - Use inflation as an opportunity to improve margins (58% agree)
 - Take price/reset promotional cadence (over buying/discounting)

- Challenges**
- Consumer bifurcation
 - Employee shortages will hamper growth (70% agree)
 - Supply chain disruption will impact growth (68% agree)
 - Consumers expect timely delivery (64% agree)

*Note: Remaining 14% expect flat or lower sales; 6% expect a decline in sales; 8% expect flat sales in 2022

Leaders support strategies with investment, while laggards invest significantly even in areas where strategies are not advanced



Methodology: Leaders and laggards

We assigned scores to each respondent for each of the items below:

- Annual revenue growth in the most recently completed fiscal year
- Proportion of revenue derived from digital channels in the most recently completed fiscal year
- Confidence in their organization’s ability to execute its business strategy successfully in 2022

The sample of 50 respondents was split into three groups based on the aggregate scores derived from the above.

The top 25% aggregate scores were classified as “leaders” (n=11) and the bottom 25% were classified as “laggards” (n=13).

1. For the following strategies, please assess how advanced your company’s strategy is relative to others in your industry. (N = 50)
 2. Please choose the answer that best describes the size of the financial investment your company will make in the following strategies in the upcoming year (2022)? (N = 50)

Priority #1: Reimagine the Workforce

Facing workforce shortages, retailers are emphasizing employee recruitment and retention, bearing in mind employee priorities such as DEI



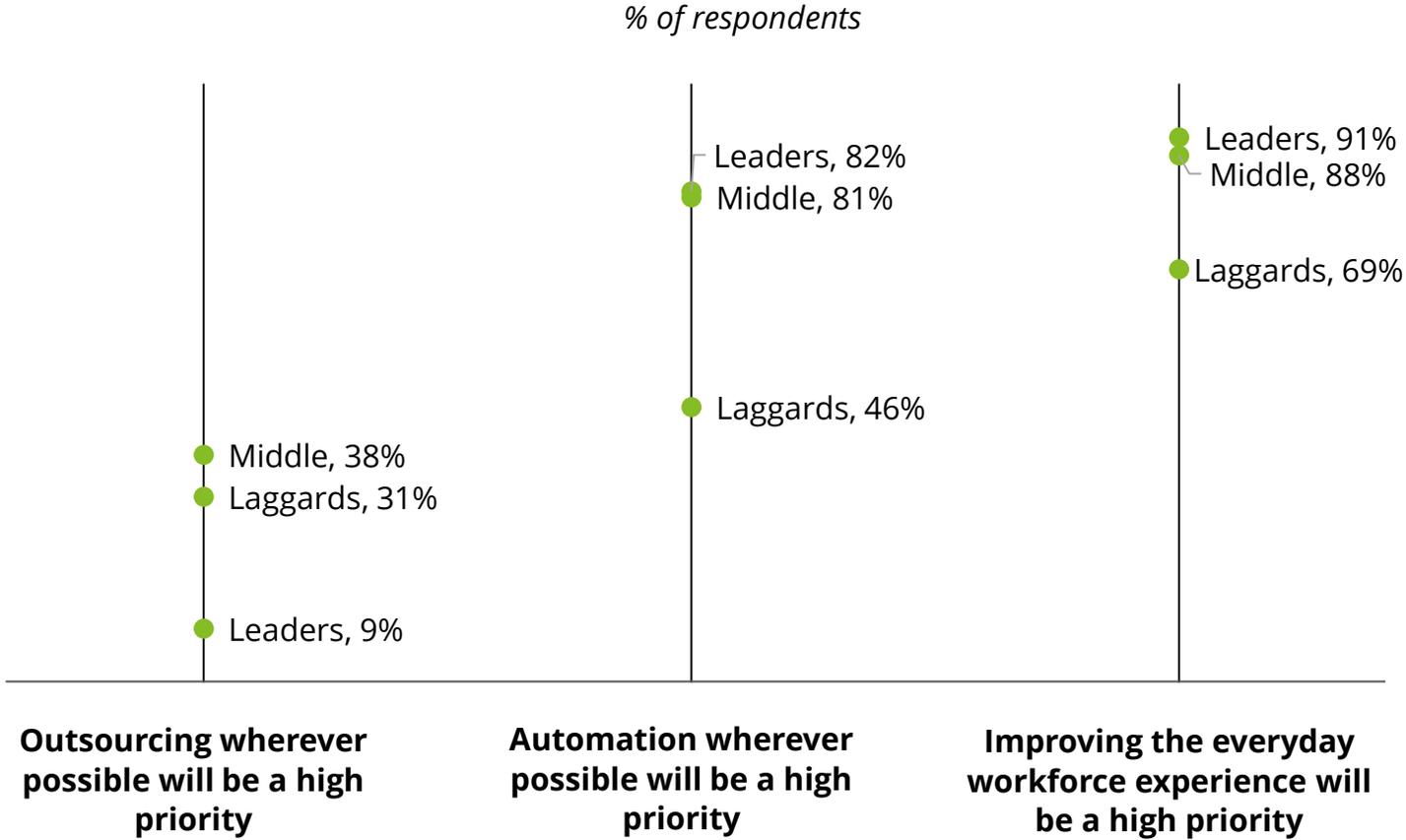
Executives anticipate workforce shortage in areas such as retail store and supply chain operations

Areas likely to experience workforce shortage in the next 12 months¹
% of respondents



1. In which of the following areas is your company likely to experience a shortage of qualified talent in the next 12 months? Please select all that apply.
*(e.g., cashier, sales associate, food service, pharmacy, loss prevention, store manager)
Sample size (N) = 50

Leaders will prioritize automation and workforce experience over outsourcing



1. In the context of your company's workforce strategies, to what extent do you agree with the following statements for 2022? - % agree/strongly agree and % disagree/strongly disagree. Sample size (N) = 50

Majority of retailers with at least functional strategies for making the workforce future-ready, plan to invest in DEI and employee retention strategies

Planned investments in workforce-related strategies¹
% of respondents



1. Please choose the answer that best describes the size of the financial investment your company will make in the following workforce-related strategies in the upcoming year (2022)? Only asked those who said their company's strategy was "Functional" OR "Competitive" OR "Advanced" relative to others in your industry in terms of "Making the workforce future-ready"
 Sample size (N) = 40

Priority #2: Supply chain resiliency

Retailers are making investments to improve supply chain capabilities and make it more resilient



Most retail executives believe that priorities in 2022 would include mitigating rising supply chain costs while achieving more reliable flows

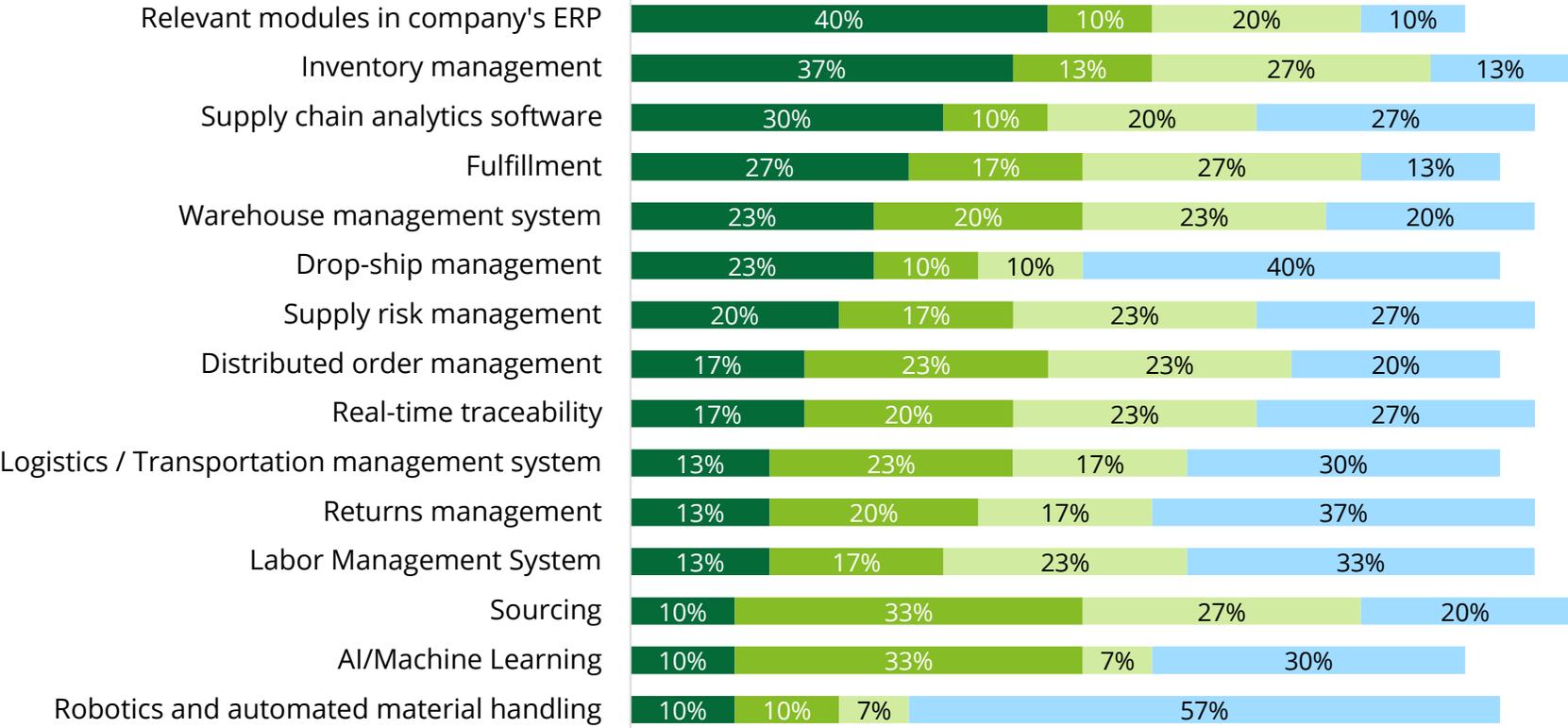
Supply chain priorities in the next 12 months¹
% of respondents



1. Thinking about your company's supply chain, which of the following are you expecting to be major priorities in the next 12 months? Please select all that apply
Sample size (N) = 50

Major technology upgrades are ongoing/planned in areas such as inventory management, fulfillment and warehouse management

Major upgrades to supply chain technology¹
% of respondents



Automation in distribution will be a higher priority for leaders

33%

Automation in distribution/fulfillment centers will be a priority²

- 11% Laggards
- 40% Middle
- 50% Leaders

- Major upgrade is currently ongoing
- Major upgrade will start within 24 months
- Technology is currently up-to-date
- No plans to invest in this technology

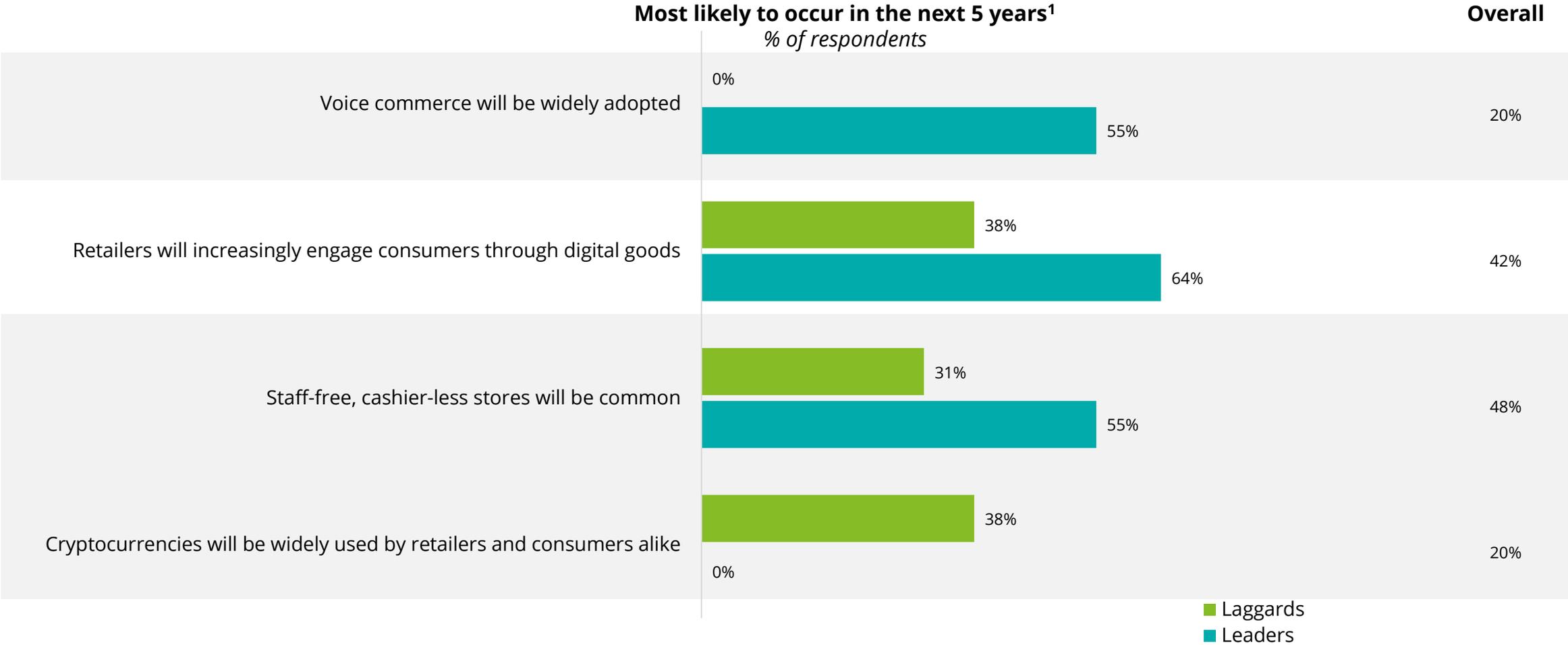
1. Please provide an assessment of the below supply chain technologies at your company; Chart does not include "Don't Know" responses
 Sample size (N) = 30
 2. In the context of your company's supply chain, to what extent do you agree with the following statements for 2022?
 Sample size (N) = 30 Laggards 10; Middle 14, Leaders 6

Priority #3: Digital revolution

Retailers are investing in digital marketing and online shopping platforms, with many expecting the digitization of the physical world



Leaders are more optimistic about the prospects of digital goods and voice commerce and less optimistic about usage of cryptocurrencies

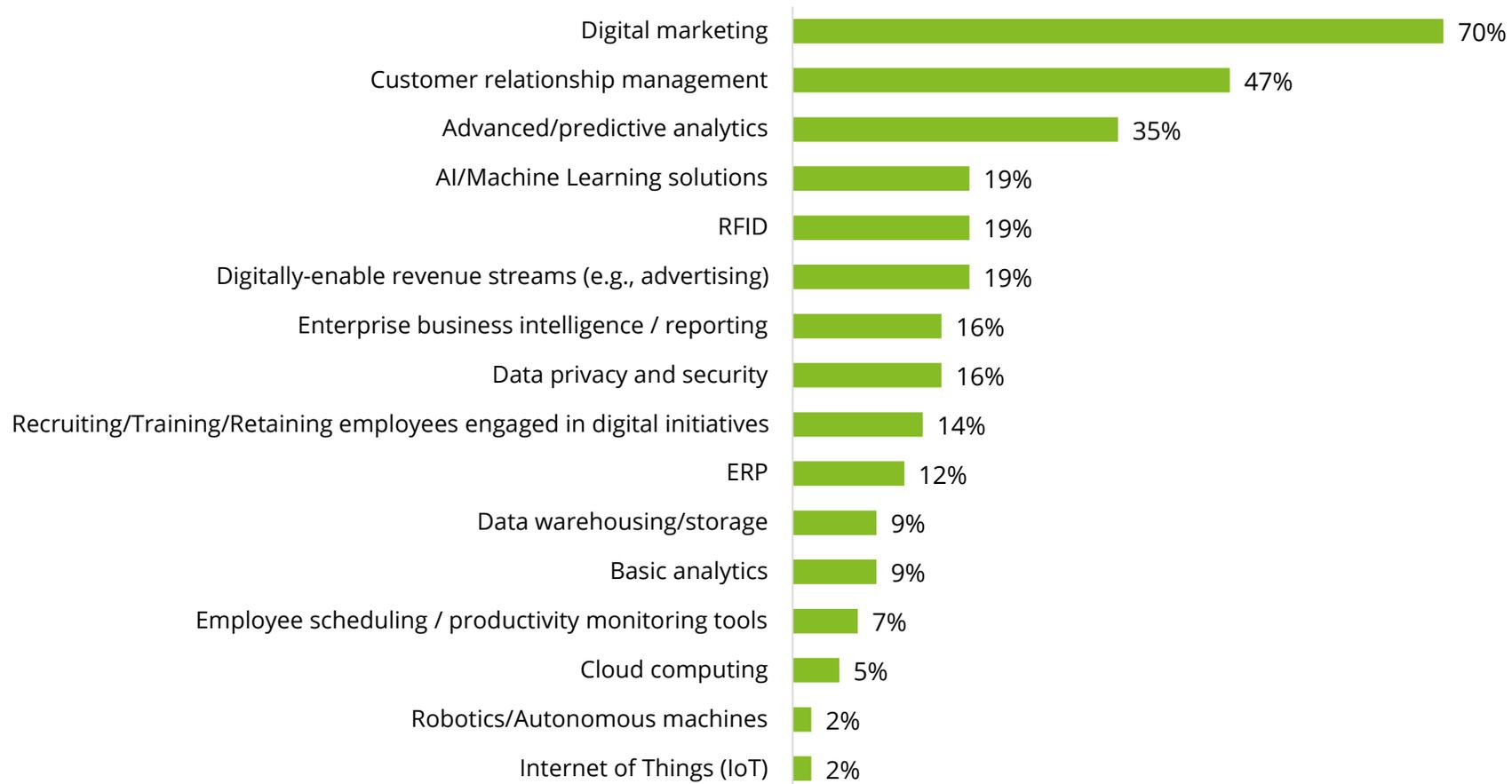


1. Which of the below are most likely to occur in the next 5 years? Please select up to three. *digital goods (sold in video games, the metaverse, and/or as Non-fungible tokens NFTs); voice commerce (voice commands to find and purchase products online)
Sample size (N) = 50

Majority are investing in digital marketing...

Digital investment priorities in the next 12 months¹

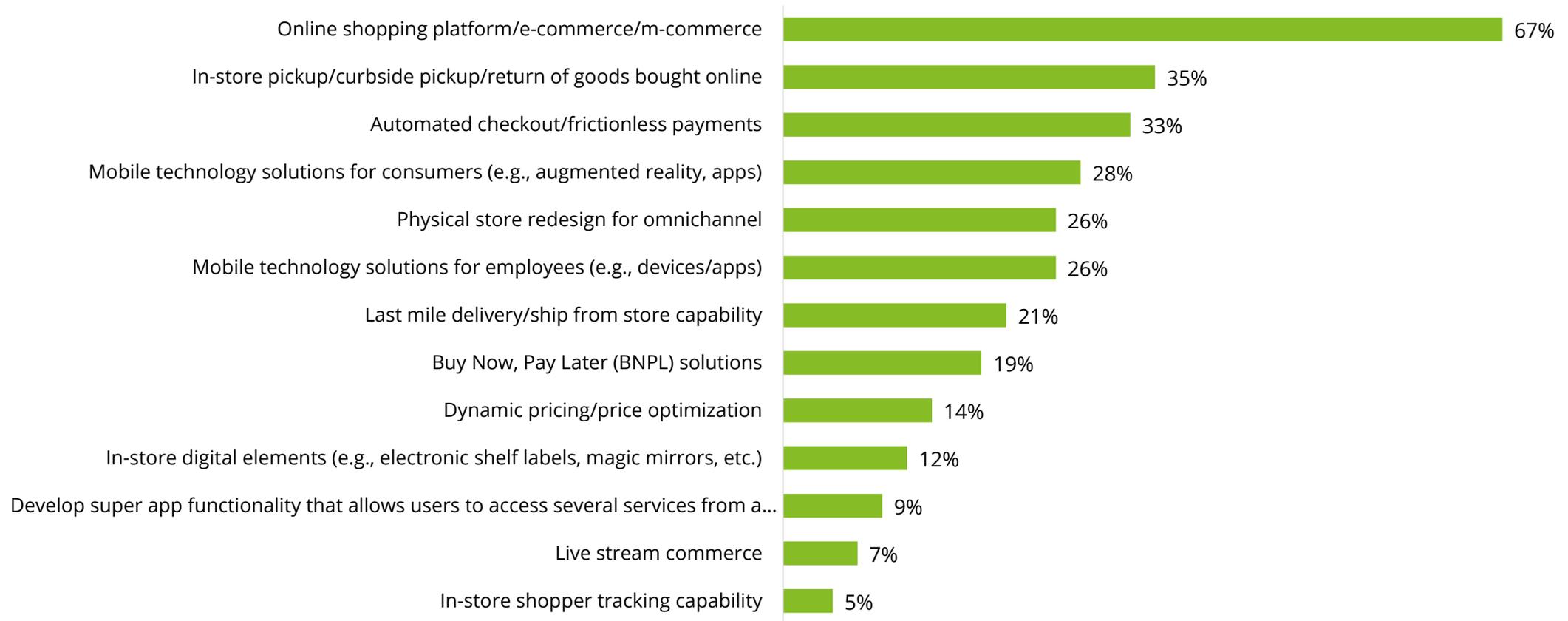
Top 3 areas cited – % of respondents



1. Within digital, which of the following areas are likely to see the most investment by your company in the next 12 months? – Select top 3.
Sample size (N) = 43

...alongside online shopping platforms, reflecting traction gained during the pandemic

Digital investment priorities in the next 12 months¹
Top 3 areas pertaining to in-store/omnichannel/e-commerce technology cited
% of respondents



1. Within digital, which of the following areas pertaining to in-store/omnichannel/e-commerce technology are likely to see the most investment by your company in the next 12 months? – Select top 3. (N) = 43.

The road ahead

Retailers face significant challenges that will likely last beyond the pandemic, but there are also unexpected opportunities that can help them prepare for future disruptions. Retailers must figure out how to reset—as employers, at meeting consumer needs, and by being better corporate citizens—to compete in the next era of retail. Retailers should embrace the current disruption and commit to pivot toward the future.

Contact Us

Please let us know if you have any questions.



Rod Sides

Vice Chairman

US Retail & Wholesale Distribution

Deloitte LLP

+1 704 887 1505

rsides@deloitte.com



Lupine Skelly

Retail Research leader

Deloitte Consumer Industry Center

Deloitte Services LP

+1 206 716 7187

lskelly@deloitte.com



About the study

A survey was commissioned by Deloitte and conducted online by an independent research company between October 29 and November 9, 2021. It polled 50 retail executives across retail categories, 56% of which had annual revenues of \$10 billion or more. The respondents included C-Suite and senior executives who were directly responsible or exerted significant influence on major strategic initiatives in their organization. In addition, interviews were conducted with 15 retail subject-matter specialists of Deloitte in November 2021.

Deloitte Center for Industry Insights

The Deloitte Center for Industry Insights is the research division of Deloitte LLP's Consumer and Industrial Products practices. The center's goal is to inform stakeholders of critical business issues, including emerging trends, challenges and opportunities. Using primary research and rigorous analysis, the center provides unique perspectives and seeks to be a trusted source for relevant, timely and reliable insights.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

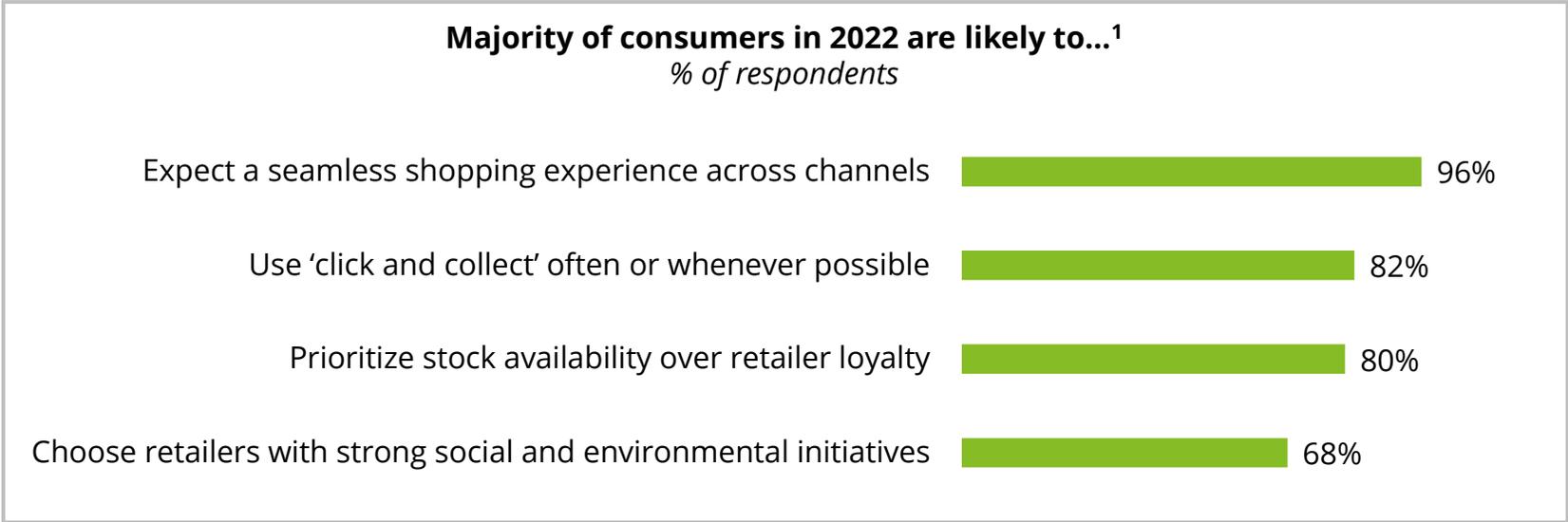
This presentation contains general information only and Deloitte is not, by means of this presentation, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This presentation is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this presentation.

Appendix



Consumers' expectations from retailers likely to remain high in 2022



Despite well-known supply issues, consumers will still expect timely delivery

64% of consumers will expect timely delivery regardless of supply issues

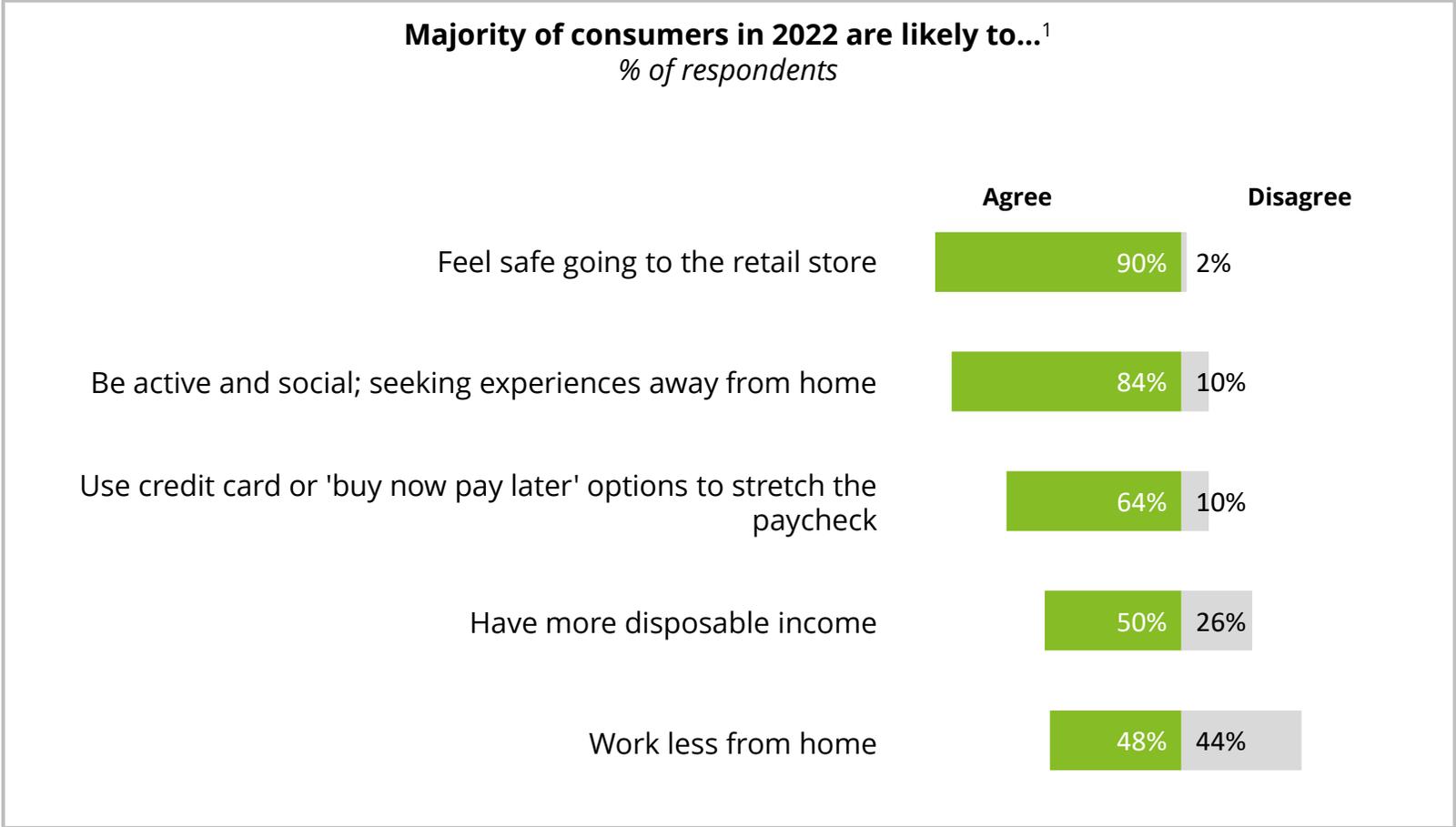
98% Consumers will expect more fulfillment choices

66% Consumers will rely on e-commerce more because of supply issues

56% Low prices will be more important than where products are sourced

1. In 2022, the majority of consumers are likely to... Chart depicts % Agree/Strongly agree to each statement
Sample size (N) = 50

Executives largely expect positive consumer sentiment to offset headwinds



Headwinds in 2022²

70% Employee shortages will hamper retailers' growth in 2022

68% Supply chain disruption will impact growth in 2022

48% Inflation will force shoppers to consume less

1. Compared to 2021, the majority of consumers in 2022 are likely to... Chart depicts % Agree/Strongly agree and % Disagree/Strongly disagree to each statement
 2. When it comes to 2022, to what extent do you agree or disagree with the following statements? "Employee shortages will hamper retailers' growth"; "Supply chain disruption will impact our company's growth"; "Inflation will force shoppers to consume less": % Agree/Strongly agree
 Sample size (N) = 50