Deep Dive

Retail 2021: Global Trends

We outline our analysts' global retail and consumer trends for 2021.

The new consumer:

- Wellness concerns will be the number-one driver of discretionary spending growth worldwide.
- Hourglass fragmentation will continue, with strong discount demand and a luxury bounce.
- Consumer behavior will be characterized by a mix of sticky spending habits and vaccine-driven changes.
- The consumerization of healthcare will grow in scope and size.

The future of physical retail:

- Mall operators will accelerate their transformation through diversification.
- The rise of SPACs will drive M&A in retail.

The evolution of digital retail:

- New Retail will continue to lead online and offline integration.
- Media technology will make e-commerce more experiential and immersive.
- Brands will turn to livestreaming to drive engagement.
- Recommerce, DTC (direct to consumer), subscription and brand collaboration will see renewed growth.
- More Chinese manufacturers will build their own brands overseas.

Doing good is good business:

- Inclusivity will be an essential component in driving growth for apparel and beauty brands.
- Sustainability will increasingly be an essential factor for consumers and investors.

Discovering new ways of transacting:

- Speed, security and efficiency will lead the way for a digital payments boom.
- Gamification will scale in retail.
- Retailers will sharpen their last-mile strategies to offer seamless customer experiences.
- Uncertainty will prompt businesses to make supply chains more resilient, agile and diversified.

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CORESIGHT RESEARCH

CONTENTS

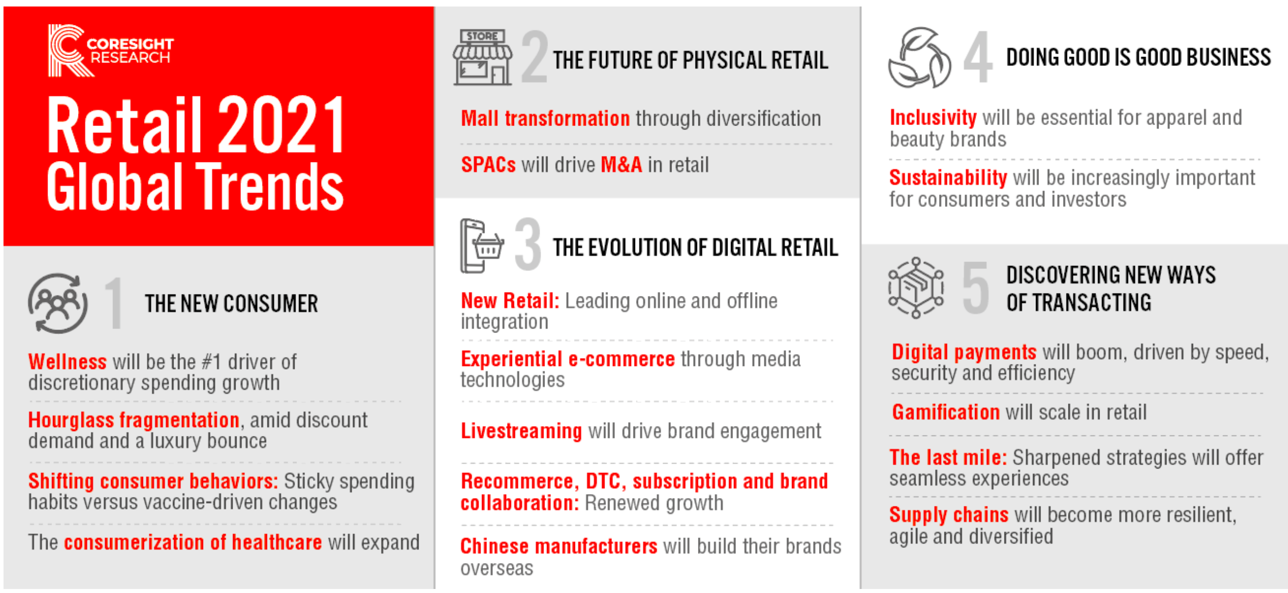
What's the Story?

We present our annual report on global retail and consumer trends. These range from some of the biggest, multiyear, multicategory trends such as wellness and sustainability to more nascent or niche trends such as livestreaming and experiential e-commerce. Read on for our analysts' views on the prospects for 2021.

Global Trends in 2021: A Deep Dive

Coresight Research's global trends for retail in 2021 fall under five umbrellas: the new consumer; the future of physical retail; the evolution of digital retail; doing good is good business; and discovering ways of transacting.

Figure 1. Retail 2021: Global Trends



Source: Coresight Research

1. The New Consumer

Wellness Concerns Will Be the Number-One Driver of Discretionary Spending Growth Worldwide

We estimate that the US CBD health and wellness market will increase by 24% to $434 million in 2021.

Heightened Consumer Focus on Good Health Supports the Wellness Trend
Wellness will remain the pre-eminent multiyear trend driving discretionary spending shifts, only amplified by the pandemic prompting consumers to be more focused on both their mental and physical wellness. This secular trend will drive the flow of dollars in apparel (to athleisure and other sportswear), beauty (to wellness-themed products), supplements (including CBD), the sleep economy, home fitness and mental wellbeing. In the near term, we will continue to see much wellness spending diverted from services, such as spas, gyms and fitness memberships to products for at-home use.

Demographically, we see this macro trend being driven by the twin forces of an increasingly self-focused younger consumer (at its peak, veering toward self-absorption and narcissism) and relatively affluent, wellbeing-concerned baby boomers taking heightened interest in healthy living into their senior years.

Trend Details and Impacts
Perhaps more than any other trend, we predict this impacting a broad array of sectors and regions in 2021.

- **Apparel:** Sportswear, incorporating athleisure, looks set to continue its ongoing ascent in apparel and footwear, with an additional boost from sustained working and leisure time spent at home. By the time vaccinated consumers emerge blinking into the daylight, we expect lifestyle and apparel trends adopted in lockdown to have become entrenched. Coresight Research estimates that the US athleisure market will bounce back to growth in 2021, rising 7.9% year over year to $113.5 billion in 2021.
- **Beauty Wellness:** The tie between beauty and wellness will become more prominent, with more consumers associating beauty with wellness and a focus on beauty products that combine health and wellness aspects. Safety and transparency of ingredients are more sought by consumers than ever amid the Covid-19 pandemic, supporting the "clean beauty" movement. There is also emerging opportunity in CBD beauty products, especially in skin care, due to its diverse health benefits.
- **Supplements:** The growing appetite for immunity-boosting supplements during the pandemic will continue, fueling the dietary supplement market. CBD supplements are cited to help anxiety relief and sleep issues and comprise a segment that presents huge potential. Possible favorable Food and Drug Administration regulations in the US and increasing affordability of CBD products could further add growth to the market, which we expect to jump by close to one-quarter in the US in 2021.
- **Sleep Economy:** Products that aid sleep will continue to gain momentum. According to consulting firm Frost & Sullivan, the global sleep economy is forecast to reach $488 billion in 2021, growing 6.3% year over year. We expect to see sleep-related products such as mattresses, pillows and bed

linens become more functional and customizable to improve sleep quality. Innovative brands, such as direct-to-consumer (DTC) brands, will continue to steal share from traditional brands and retailers. We could also see more consumers embrace nontraditional sleep-aid items including lighting, scents, wearable devices, sleep apps and medicines.

- **Mental Wellbeing:** Consumers' rising concerns over mental wellbeing will amplify demand for such products. Mental health has been brought under a spotlight by the Covid-19 pandemic. In addition to medicines and food that combat anxiety and stress, we see opportunities for products that foster a comfortable and relaxing environment at home, such as home decor and fragrances. Brands and retailers could appeal to consumers by showing their support for mental wellbeing and promoting its importance.
- **Home Fitness:** The recent surge in demand for home fitness solutions is likely to be sustained through 2021, as more consumers seek active lifestyles and remain wary of returning to enclosed spaces such as a gym or yoga studio. Our *US Consumer Tracker* consistently finds that over half of consumers are avoiding gyms or sports centers. For young consumers, fitness also represents a social status symbol and an expression of self-improvement. Interactive digital fitness platforms are gaining popularity amid the pandemic.

We see the growth of wellness spending not playing out only in the more mature retail markets of Europe and North America but also in higher-growth economies such as China and India. In those markets, we have already seen an abundance of evidence that the growing middle classes are willing to spend on wellness-driven categories. With demand fueled by the typically younger populations of many of these countries—in China, millennials and Gen Z are expected to account for 65% of the urban population by 2025—global brands and retailers face a double tailwind of trend-driven demand on top of structurally higher-growth economies.

Across economies, we predict that the aspirational and often image-driven nature of the wellness trend will see consumer migration to strong brands—from DTC and lifestyle brands in home and fitness to the strongest global brands in beauty and sportswear to brands with authentic credentials in categories such as CBD. Private label and "also-rans" will find it harder to tap this demand than carefully nurtured, on-trend brands. Retailers should seek partnerships with strong wellness-economy brands—along the lines of Nordstrom's 2020 deal with DTC sleep-economy firm Casper.

Figure 2. The Wellness Market: Major Drivers and Segments

Three Drivers	Affluent Baby Boomers	Gen Zers' Self-Absorption	Covid-19 Impacts
Six Key Segments	Athleisure	Beauty Wellness	Sleep Economy
	Home Fitness	Supplements	Mental Wellbeing

Source: Coresight Research

Hourglass Fragmentation Will Continue with Strong Discount Demand and a Luxury Bounce

We estimate that discount and value formats will account for around two-thirds of US store openings in 2021.

Fallout from 2020 To Drive Hourglass Renewal
The social and economic impacts of Covid-19 will renew the relevance of Coresight Research's longstanding Hourglass model for retail in 2021. For a number of years, we have used the Hourglass model to delineate the bifurcation in sales growth and, in some cases, physical expansion in US retail, with the high-end and value formats outperforming while legacy centerground giants became increasingly pressured. At the same time, this fragmentation has supported the expansion of more niche brands and retailers—often digital-first companies—that resonate with consumers more than centerground generalists do.

During 2021 and into 2022, a renewal of this Hourglass model will be fueled by the following:

- Negative economic impacts from the Covid-19 crisis, driving shoppers toward value formats
- Shoppers redirecting spending from retail to services, once they feel it is safe to do so—likely prompting them to look for savings in everyday purchases
- A bounce for luxury against a very weak 2020, especially once the world begins traveling again

Trend Details and Impacts

- **Offline Value Formats To Drive Physical Store Expansion; Luxury Demand To Recover but Likely with Retained Channel Shifts**
  Particularly in the US market, we will continue to see spending shift to predominantly offline, no-frills value models, driven by grocery. Store expansion will be led by grocery-heavy formats, such as warehouse clubs and dollar stores. We expect to see expansion from names such as Aldi, BJ's Wholesale Club, Costco, Dollar General, Dollar Tree, Family Dollar, Five Below, Grocery Outlet and Lidl in the US. Discount and value formats have accounted for the majority of US store openings in recent years, and we expect this segment to account for around two-thirds of store openings in 2021.
  Online, Amazon and other marketplaces such as Wish in the US and Pinduoduo in China are enablers of the shift to value, with the competition of third-party sellers driving a race to the bottom on prices. Amazon has an (arguably) borderline off-price positioning in apparel, for example.
  The counterpart to discount expansion is a probable bounceback for high-end retail, which we expect to be driven by renewed demand for luxury in later 2021 as the Covid-19 vaccine rollout becomes more widespread and shoppers return to global travel. The luxury sector has much ground to make up: Coresight Research estimates that the global personal luxury goods market declined by 20–25% at constant exchange rates in 2020. Even

with a substantial bounce, it could be 2022 before we see the market value comparable to pre-crisis levels.

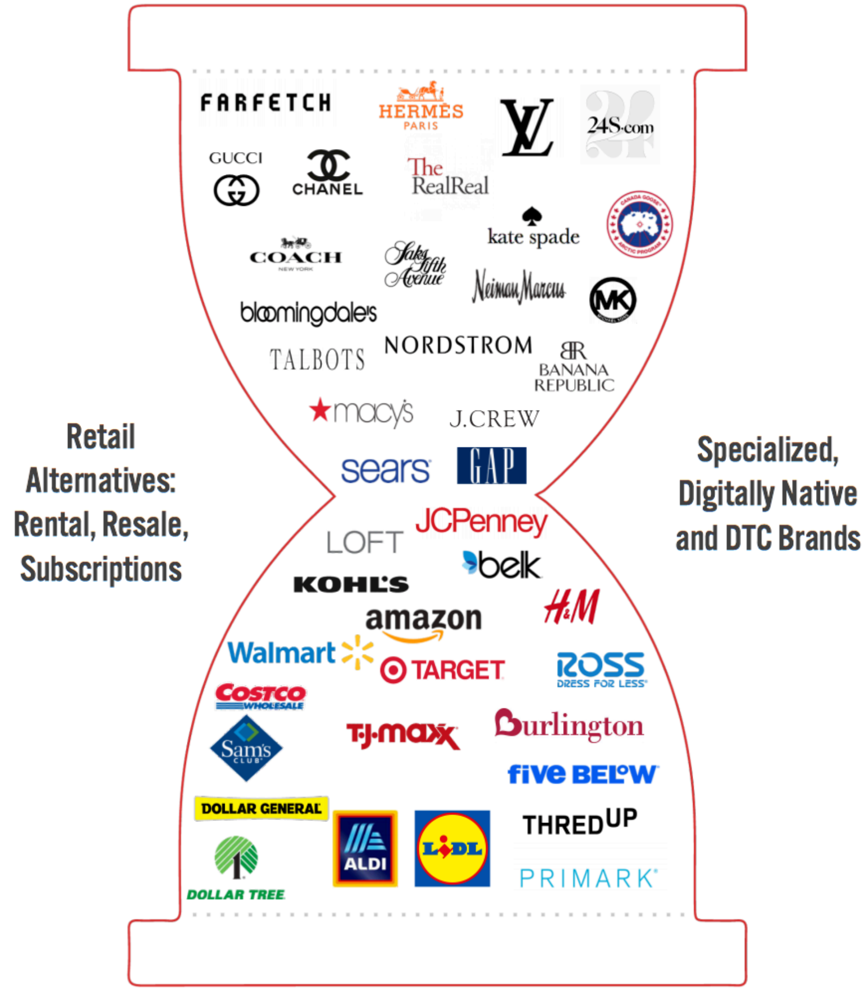
Renewed demand will prompt some return to physical stores at the high end, but we expect a significant degree of sales retention online, as shoppers will now be more accustomed to buying luxury online. This supports more high-end shoppers going direct to brands and turning to digital platforms such as Farfetch, The RealReal and 24S.com, and bypassing traditional multibrand channels such as department stores.

- **It Is More than Bifurcation**
  The splintering of spending is about more than a high-low polarization driven by consumers' financial strengths. In discretionary retail, it is also about a fragmentation to more focused, specialized or niche brands and retailers that resonate with consumers' more heterogeneous identities. Often digital-first DTC brands, this segment is represented by names such as Allbirds, Casper, Everlane and Lululemon. In 2021, strong, focused brands will continue to peel shoppers away from the behemoths that traditionally dominated retail.

- **Implications**
  Competitive pressures on middleground giants are likely only to be compounded. In general, those discretionary segments in the hinterland between discount and premium and not benefiting from the power of their own strong, desirable brands are likely to face renewed challenges. In 2021, this means that these kinds of retailers will disproportionately drive store closures and thus downward spirals for those regional shopping malls that have a preponderance of challenged retail formats.

  Expansion by value retailers will be insufficient to save those struggling US malls: The grocery-heavy formats that will account for the bulk of those new stores are predominantly off-mall retailers. As a result, the further splintering of spending from some traditional mass-market channels will continue to ripple through retail.

Figure 3. The Coresight Research Hourglass Model of Retail



Source: Coresight Research

Consumer Behavior Will Be Characterized by a Mix of Sticky Spending Habits and Vaccine-Driven Changes

In 2021, we expect around 50% of consumers to retain at least some of their changed shopping behaviors post vaccine.

The Health and Economic Backdrop Supports a Confluence of New and Retained Ways of Spending

In 2021, the stickiness of new, crisis-influenced behaviors will be put to the test: Widespread vaccination efforts are likely to make it safer for consumers to get out more and have opportunities to revert to old spending habits.

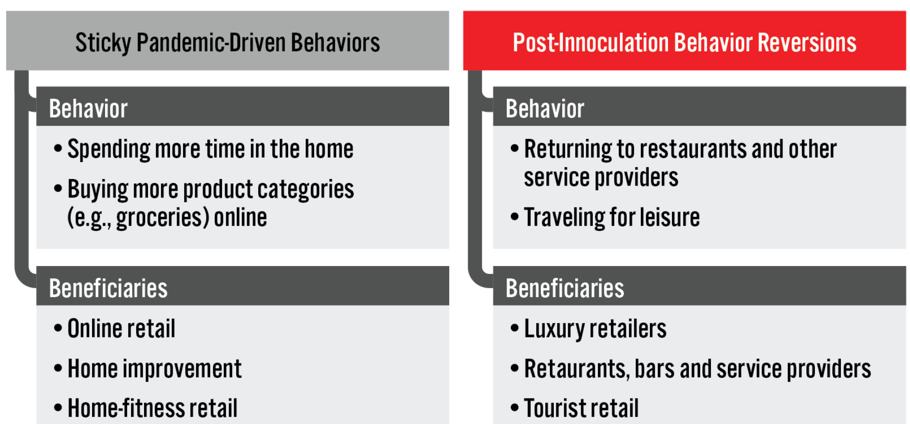
For the first half of 2021, consumers in many countries will likely continue their pandemic-driven changes in shopping behavior, directing spending away from services and shopping more online with a focus on products used inside the home. In the second half of the year—although varying by market and dependent on vaccine programs—we expect a return to service, leisure, entertainment and discretionary spending. However, even as consumers revert to some prepandemic spending habits and potentially direct some spending back toward services and experiences, we expect certain behaviors to stick—namely, increased online spending and a focus on the home.

Trend Details and Impacts

There are three sectors in particular that we feel will see significant effects from this trend.

- **Home Improvement:** Through 2020 and continuing into 2021, most consumers have spent more time at home, inspiring many to take better care of their houses that have now become hubs not only of family life but of business and education as well. Even once the pandemic is over, at least 16% of US workers will switch to working in the home at least two days a week, according to an August 2020 study by Harvard Business School. Coupled with this seemingly permanent rise in the amount of time consumers are spending at home has been a housing boom spanning countries including China, the UK and the US. Homebody consumers are likely to continue spending more on home-improvement products.
- **Grocery:** Food and beverage sales, particularly digital sales, benefited greatly from the pandemic. Grocery retail sectors in many countries will annualize exceptional lockdown growth rates and will suffer when consumers return to restaurants (which is likely to straddle 2021 and 2022), but the prevalence of online grocery shopping in a number of markets looks here to stay.
- **Luxury:** International travelers typically account for about 20–30% of all global luxury purchases, according to a 2020 McKinsey study. When travel restrictions are lifted and virus fears subside later in 2021, the hard-hit luxury sector may be poised for a strong recovery.

Figure 4. Predicted Consumer Spending Habits in 2021



Source: Coresight Research

The Consumerization of Healthcare Will Grow in Scope and Size

Nearly half of adults in the US will use telehealth in 2021.

Data, Digital and Retail To Drive the Consumerization of Healthcare

In 2021, we expect the consumerization of healthcare to continue apace. The Covid-19 pandemic has accelerated consumer demand for accessibility and fast services in healthcare. The global market is therefore seeing the rollout of an omnichannel approach that includes flexible schedules for doctors and patients. In addition, the infancy of this trend means that its data collection is relatively primitive. For an industry that will rely heavily on data to pre-emptively predict illness and remotely monitor conditions, etc., the collection of data in the coming years will be key in allowing massive growth in size and in possible applications.

Trend Details and Impacts

- **Data Collection Continues Growth:** In order to deliver personalized healthcare, companies will need to rely heavily on data in order to provide the most efficient services. According to Kinsa, a company that provides smart thermometers, its data across 2 million thermometers can predict outbreaks of Covid-19 and flu weeks before symptoms are exhibited. Expansion into new categories is certain for such smart devices that leverage data.

- **Retailers Expand Healthcare Offerings:** Retailers such as CVS, Walgreens and Walmart in the US will continue expanding their healthcare offerings. CVS has pledged to offer "HealthHubs" at 1,500 of its stores across the US. Walgreens has invested $1 billion into VillageMD, which plans on setting up clinics in 500 Walgreens locations. We expect these primary-care facilities to handle a high proportion of non-urgent medical matters.

- **Omnichannel Integration of Healthcare:** Healthcare will no longer be a disjointed venture, requiring the patient to link together the various aspects of their healthcare. We expect to see a connection made between telehealth visits, prescription fulfillment, multimodal communication, at-home vital monitoring, in-person visits, etc. This would improve the slow processing times within the healthcare industry. According to a 2020 survey of US patients by Doctor.com, more than half of patients would be willing to meet with a new doctor via telehealth, while around 75% would be willing to meet virtually with a doctor with whom they have a previous relationship.

- **Payment Visibility:** We expect healthcare's notoriously complex and inefficient payment system in the US to see major changes moving forward. According to InstaMed's 2019 "Trends in Healthcare Payments Report," 89% of US consumers want to know their payment responsibility upfront. Additionally, 85% want an online payment estimation tool to use prior to medical visits. Not only do consumers want transparency when it comes to the payment process but also the ability to make transactions with minimal wait times.

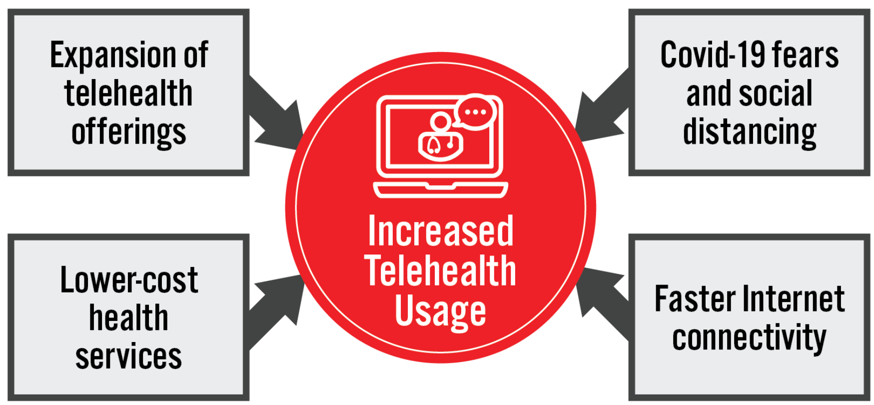
Focus on Telehealth

We see telehealth as a new trend that has been boosted by patient fears around Covid-19 and social-distancing impacts but that will further expand beyond the pandemic. As the technology for these telehealth programs improves, services will too. We expect the range of services offered virtually to increase. According to the American Medical Association (AMA), around 75% of visits to medical professionals are either unnecessary or can be handled virtually. Virtual medical care will allow doctors to see more patients and provide direction much more conveniently. According to the AMA, 93% of patients are willing to manage their prescriptions via virtual health meetings, which accounts for a large percentage of in-person health visits.

With improved data from new technologies, we believe that the consumerization of healthcare will remain one of the fastest growing fields. Data will be collected from at-home monitoring of patients, telehealth visits and past medical records to provide a comprehensive account of a patient's medical history and allow for much more detailed and personalized medical experiences.

We summarize the four major drivers of the telehealth market in Figure 5.

Figure 5. The Telehealth Market: Major Drivers



Source: Coresight Research

2. The Future of Physical Retail

Mall Operators Will Accelerate Their Transformation Through Diversification

We estimate that department stores and apparel retailers together will account for around half of US store closures in 2021.

Mall Operators' Diversification Plans To Be Driven by Bankruptcies and Store Closures Among Department and Apparel Stores

Feeling the aftershocks of the brick-and-mortar earthquake in 2020, mall operators will continue to diversify their tenant mix with a higher proportion of non-apparel tenants such as grocery and healthcare. REITs (real estate investment trusts) will look to these alternative tenants to backfill the vacant space created by anchor department stores and large mall-based apparel retail store closures.

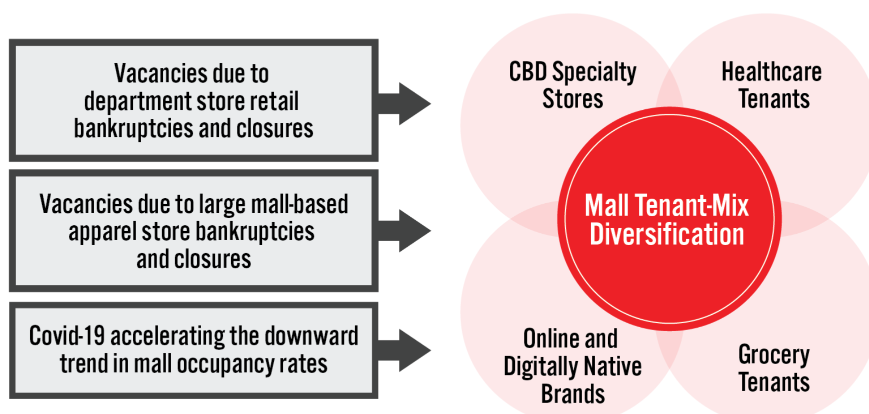
While mall occupancy rates had already been on a downward trend in recent years, the Covid-19 pandemic accelerated the decline and is thereby supporting the trend of tenant-mix diversification among mall operators.

Trend Details and Impacts

Mall operators, as part of their tenant-diversification strategies, are expected to include more of the following categories of tenants in their portfolio in 2021.

- **Grocery:** The grocery sector has been a major beneficiary of the ongoing pandemic, and grocery retailers are currently viewed favorably as desirable tenants among landlords, partly due to the frequency of visits to grocery stores and, more recently, due to the sector's resilience.
- **Healthcare Tenants:** We expect the share of shopping-center space taken by healthcare tenants to continue growing in 2021. According to the International Council of Shopping Centers, 21,595 shopping centers (19% of all centers) had healthcare tenants in 2013, and these tenants accounted for 1% of total space. By 2019, the number of centers with healthcare tenants increased to 27,878 (24% of all centers), occupying a 2% share of total space. Healthcare tenants provide benefits for property owners as they have higher credit ratings than the average retail renter and tend to favor longer-term contracts compared to retail brands.
- **Digitally Native Brands:** Digitally native brands have been resilient during the crisis and are becoming prospective tenants for property owners. Some of the drivers causing these brands to open stores at malls include greater flexibility of lease terms, availability of space due to vacancies, high online customer-acquisition costs and the fact that most retail sales still take place offline.
- **CBD Specialty Stores:** We have already pointed to rising demand for CBD (see earlier in this report), and we expect this trend to ripple through to brick-and-mortar retail. Many CBD specialty stores have cropped up in malls owned by some of the largest landlords in the US, such as Simon Property Group. We expect that CBD will rely on growing networks of physical stores to serve demand.

Figure 6. Mall Tenant-Mix Diversification: Alternative Tenants and Factors Driving Diversification



Source: Coresight Research

The Rise of SPACs Will Drive M&A in Retail

We estimate that global merger and acquisition (M&A) deals in the retail sector will up by 7–10% in 2021.

Expect To See More M&A Activity amid the Rise of SPACs

The increasing presence of special purpose acquisition companies (SPACs), backed by private equity, venture capital and hedge fund giants, will boost M&A activity as businesses and sectors reposition themselves during the recovery stage in 2021 and beyond.

SPACs are publicly traded shell companies formed to acquire or merge another company. They provide an easier avenue for private retailers and brand owners to enter the public equity market versus a traditional initial public offering (IPO). SPACs provide companies access to capital, even when market conditions are volatile and other conditions limit liquidity. Unlike traditional IPOs, retailers and brand owners can negotiate and lock the prices of their stocks with the SPACs as part of their merger deals, helping retailers shield the values of their stocks from market uncertainties. Retailers can use this capital to fund growth and expansion opportunities, such as pursuing new markets, new projects or new products; making capital expenditure to support or enhance the business; pay off debt; fund research and development; and make acquisitions.

However, leveraging SPACs to enter the public equity market brings its own set of challenges for retailers, which includes meeting legal and regulatory requirements (though these are often less complex and have lower transaction fees compared to a traditional IPO), maintaining higher transparency for accounting and financial reporting, and losing controlling stakes in their companies.

In 2020, SPACs in the US raised $70 billion, a fivefold increase from 2019, and these entities could spur $300 billion in M&A activity across all the sectors (not specific to retail) over the next two years, according to Goldman Sachs. We believe that 2021 is going to be a make-or-break year for SPACs to strike M&A deals with target companies: If a SPAC fails to strike deals within two years of raising funds, it must return investors' money.

Trend Details and Impacts

The wave of retail disruption and consolidation will continue in the near future as retail giants acquire weakened rivals and add new technologies and consumer segments for their brands to reclaim some of the market share lost to innovative startups. At present, borrowing costs remain extremely low compared to historical standards, benefiting the companies in a strong financial position to make investments or acquisitions.

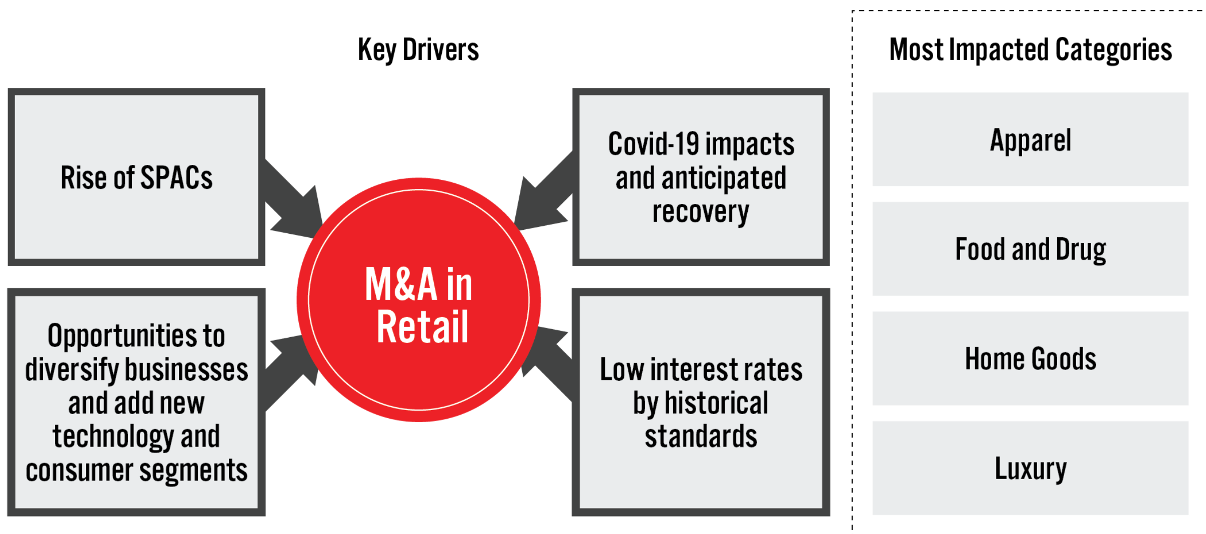
The growing trend for joint ventures and alliances as companies look to build up their ecosystem, along with divestments to enable strategic business shifts and reinvestment, are likely to fuel M&A deal-making intentions in 2021. However, the global crisis, growing innovation and the rise of new market entrants make M&A in retail a constantly shifting market.

We expect M&As in retail to substantially impact a large number of sectors and regions in 2021.

- **Apparel:** Apparel continues to be one of the retail categories most negatively impacted by the pandemic. In 2021, we expect to see substantial M&A deals in this sector, extending from the second half of 2020. The main focus of M&A in 2021 will be on apparel brands that most resonate with the youngest generations; these brands are popular among new consumer segments and offer quick returns compared to more mature brands.
- **Food and Drug:** These nondiscretionary categories have strongly benefited from the crisis. We expect M&A deals to rise in these categories in 2021, with more companies looking to diversify their businesses and capitalize on this growing category.
- **Home Goods:** This is the only discretionary sector that has benefited from the crisis as consumers spend more time at home. We expect M&A deals to increase across this category as more retailers look to transform or diversify their businesses to get ahead of growth in adjacent segments or related businesses.
- **Luxury:** Consolidation remains a long-term trend in the luxury category. The high-margin business and strong free cash flow make luxury companies highly profitable targets. Despite the crisis-related downturn, the fundamental appeal of a strong return on investment from luxury brands remains intact.

In 2021, we expect the growth of M&A activity in the faster-growing economies, such as China and India, to surpass the more mature markets of the UK and the US.

Figure 7. M&A in Retail: Major Drivers and Categories Likely To Be Most Impacted



Source: Coresight Research

3. The Evolution of Digital Retail

New Retail Will Continue to Lead Online and Offline Integration

We estimate that the New Retail market in China will reach ¥1.4 trillion (around $216.5 billion) in 2021.

Digital Consumers, Data-Driven Product Creation and Social Media Set To Support New Retail Expansion

We expect the "New Retail" segment to continue to expand in 2021 as offline-online integration increases across retail sectors. Coined in 2016 by Chinese e-commerce giant Alibaba, New Retail is a model for integrating online retail, offline retail and logistics across a single value chain powered by data and technology. Alibaba's New Retail ecosystem, for example, includes a chain of grocery stores and Intime department stores. Many other companies in China and elsewhere are implementing various elements of the model.

With retail facing an increasingly complex landscape of new technologies and a rising number of digital consumers, brands and retailers are adopting New Retail strategies to meet elevated and fluctuating consumer demand and drive sales through engagement.

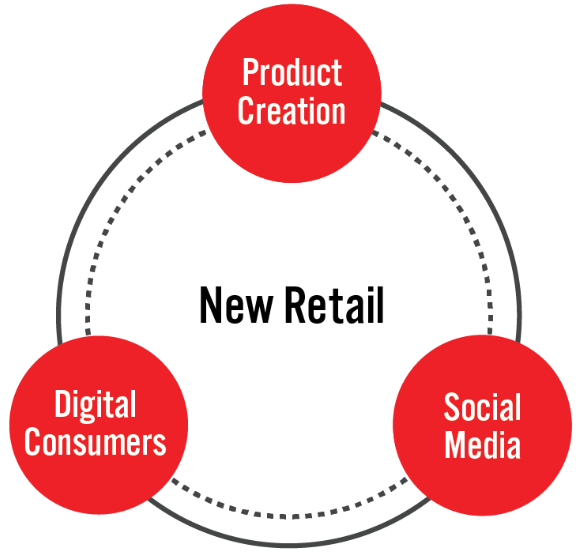
Trend Details and Impacts

We anticipate three factors driving the growth of New Retail in 2021.

- **Traditional Stores Continue To Digitalize Their Business:** Merchants will continue to accelerate their digital transformation as consumers are likely to at least partially retain the shift to e-commerce—retailers will expand their online services and integrate stores with online sales channels as well as improving inventory visibility across stores, warehouses and vendors to increase turnover.
- **Data-Driven Product Creation Will Prevail:** Empowered by consumer data from online channels, brands and retailers will continue to create customized products that meet consumers' needs. It will help to optimize product creation processes as well as increasing consumer engagement.
- **Social Media Will Drive New Retail Further:** Brands and retailers will continue to integrate social media with their stores to excite shoppers. In 2020, Burberry teamed up with Chinese tech giant Tencent to open its first "social retail store," which relies heavily on a WeChat mini program to reward consumers for engaging with the brand.

We expect the New Retail model will become a new growth driver for both traditional retailers and e-commerce players. Traditional players are challenged by digitalization, while pure e-commerce players are pressured by surging online customer-acquisition costs. Merchants can use data from their apps and online channels to analyze customers' preferences and shopping habits and tailor marketing strategies accordingly. Physical stores can focus on improving the customer experience, with the support of a strategy that effectively connects warehousing and logistics.

Figure 8. New Retail: Major Growth Drivers



Source: Coresight Research

Media Technology Will Make E-Commerce More Experiential and Immersive

We estimate that global e-commerce retail sales using voice, AR/VR (augmented and virtual reality) and visual search could reach $150 billion in 2023, representing 2.5% of estimated total online sales.

AR, VR, Text and Voice Recognition and Visual Search Will Make E-Commerce More Compelling

Having resonated so successfully with existing and new consumers in 2020, experiential e-commerce is likely to continue its march forward in 2021.

Online shopping lacks the physical stimuli that in-store shopping offers, where consumers can interact with store associates and physical goods. Technologies and media such as AR/VR, voice shopping and visual search will help to make online shopping more of a human, interactive experience.

Trend Details and Impacts

There are several technologies that can bring the human element back into e-commerce.

- **AR/VR:** While these technologies remain in their infancy, recent developments demonstrate the promise of reality tech. Consumers working from home crave the stimuli of visiting a store or a mall, and technology can now provide a substitute. Alibaba demonstrated a virtual Macy’s during its Singles’ Day shopping festival a couple of years ago, and Facebook’s new Oculus Quest 2 headset makes VR technology more affordable and accessible. AR technology requires a lower hardware investment and can also offer consumers the opportunity to make virtual store visits.
- **Text/Voice Shopping:** Two technologies—natural language processing and voice recognition—have made enormous advances in terms of power and

accuracy, catapulting text- or voice-based shopping into the mainstream. Chatbots can now access customer data to interpret contextual information—enabling intelligent, interactive conversations—and voice recognition amplifies its power by understanding multiple languages and dialects.

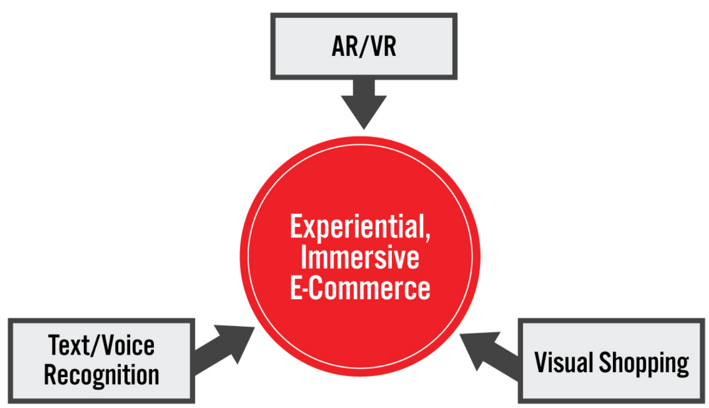
- **Visual Shopping:** Advances in artificial intelligence (AI) have greatly enhanced image recognition to enable consumers to shop visually similar apparel items online, for example.

China benefits from the massive scale of technology powerhouses such as Alibaba and Tencent. The country's tech capabilities are also buoyed by a concerted effort to become the global leader in AI, which powers the functions highlighted above. Both Alibaba and JD.com have launched smart speakers that enable voice shopping on their platforms. WeChat serves more than 1 billion users, offering translation of text messages, including in-car voice recognition, and its Cloud service offers transcription and subtitling of audio/video content.

The largest global application of AR technology is probably Pokémon Go, a video game that took the world by storm in 2016 and had amassed more than 1 billion downloads as of March 2019, generating more than $3 billion in lifetime revenue, according to Business of Apps.

Visual search also offers assistance to visually impaired consumers in addition to those speaking other languages or those who cannot read, enabling them to shop by look rather than having to interpret text.

Figure 9. Media Technology That Can Enhance E-Commerce



Source: Coresight Research

Brands Will Turn to Livestreaming To Drive Engagement

We estimate that the US livestreaming e-commerce market will be worth more than $6 billion in 2021.

Livestreaming To Drive Engagement and Sales

Livestreaming is becoming an essential marketing tool for brands and retailers as it provides interactive content in real time, directly engaging consumers. Alongside the consumer shift to e-commerce amid the Covid-19 pandemic, shoppers are looking for entertainment and social interaction as they spend more time at home. Livestream e-commerce meets this demand while also reducing friction in the shopping process by integrating in-app payments, delivery tracking and customer services.

Trend Details and Impacts

There are four aspects to the livestreaming e-commerce trend that we expect to see in 2021 as retailers further engage with consumers through this channel.

- Livestreaming is likely to be leveraged in retail categories beyond apparel and beauty—even up to big-ticket items such as real estate and automobiles. Department stores globally—such as Galeries Lafayette in Paris, China's Intime, London's Selfridges, Suntec City in Singapore and Mall of America—have integrated livestreaming to encourage consumers to shop online across multiple product categories amid the Covid-19 pandemic.
- We expect to see more brands host their own livestreaming sessions, rather than leveraging KOLs (key opinion leaders) or celebrities as has typically been the case. During the lockdown in China, Intime department stores deployed over 5,000 of their sales associates to host several livestream sessions each day. According to the department store chain, online traffic during the first three hours of livestream selling generated more than six months' worth of physical traffic at its brick-and-mortar locations. Furthermore, major e-commerce platforms such as Alibaba, Amazon and Lazada are making moves to own the entire livestream process—including by launching their own video-hosting pages and managing inventories and distribution.
- Emotionally connecting to consumers will ultimately improve sales conversion by building trust among a brand's customer base. A strong charismatic host also plays a critical role in driving purchase conversion during livestream sessions. In addition to using sales associates, we expect brands and retailers to turn to KOCs (key opinion consumers) to enhance trust—KOCs are generally believed to be more authentic than sponsored celebrity endorsements. Brands and retailers can extend this social element of livestreaming further by facilitating communication between like-minded consumers, thereby driving product recommendations.
- Streamlining the shopping experience via livestreaming will be a key differentiator in the near future. We are already seeing e-commerce players make efforts in this space: Amazon launched interactive video services in July 2020, and Facebook launched the platform Shops in May 2020 to enable businesses to build their own shops on social media platforms Facebook and Instagram. According to a survey conducted by Coresight

Research, 77.6% of US consumers who use social media as part of the shopping process would give up making a purchase because of a lack of in-platform functionality. In-video/app checkout is therefore critical to reduce friction and boost conversion. Facebook acquired Packagd in December 2019 to enable direct purchases via livestreaming. Walmart is testing a shoppable experience through a partnership with TikTok, which it began in December 2020. We expect more online and offline organizations to jump on the livestreaming bandwagon and invent new ways to interact with buyers.

Although livestreaming is well established in China, it is also rapidly expanding in the US and the rest of the world. The livestreaming e-commerce trend has been boosted by the pandemic as consumers look for entertainment online. As entertainment becomes more embedded in the shopping experience, enhanced technology will give rise to new service offerings, strategies and agile approaches to e-commerce for brands and retailers looking to deepen their connection with consumers and expand their reach.

Figure 10. Livestreaming E-Commerce: Four Key Ways Brands and Retailers Can Drive Success

Source: Coresight Research

Recommerce, Subscription, DTC and Brand Collaboration Will See Renewed Growth

In 2021, we expect the US fashion resale market to grow twice as fast as the total US fashion market.

Changing Consumer Preferences Will Support the Growth of Retail Alternatives
Recommerce, subscription and DTC sales will remain outperforming segments in US retail in 2021.

We will see consumers' growing attention on sustainability support the expansion of fashion resale. A substantial proportion of US consumers have become more focused on sustainability in their shopping journey due to Covid-19: Some 29.0% of respondents in a recent Coresight Research survey said that the pandemic has made environmental sustainability more of a factor when shopping, which we expect will result in growth of resale and rental models in the near future.

During the pandemic, subscription services—especially in apparel—have experienced a hit as consumers look to save costs by unsubscribing from services. In 2021, we expect to see a slow recovery of the subscription model.

Alongside the surging e-commerce trend, consumers want to engage more with brands digitally and are engaging with personalized services such as customized recommendations, targeted marketing and one-to-one customer service, which make DTC and brand partnerships more popular.

Demographically, we see the growth of resale, rental and subscription being driven by younger consumers including millennials and Gen Z shoppers, who are generally more environmentally aware, social-first and digitally minded.

Trend Details and Impacts

- **Resale:** The resale model will become more mainstream in 2021 as consumers increasingly seek out value (both economic and ethics based). The growth of the US resale market will be mainly driven by the fashion resale sector. We expect the US fashion (apparel, footwear and accessories) resale market to grow twice as fast as the total fashion market, with a sales surge mainly online. We expect more shoppers to use resale services to expand their closets at low costs: In 2021, used high-end apparel, shoes, jewelry and handbags will see a sales spike, which presents opportunities for luxury resale to further expand. There are five business models that represent the majority of resale businesses today: social commerce-based resale (e.g., Poshmark), e-commerce native resale (e.g., Etsy), consignment-based resale (e.g., The RealReal), resale-as-a-service (e.g., ThredUP) and resale services directly offered by retailers (e.g., Macy's resale offering).

- **Subscription:** Following the impacts of the pandemic, we expect the nonfood retail subscription market to slowly recover in the second half of 2021, as it is still an integral part of the way modern consumers shop, with companies such as Stitch Fix and Trunk Club leading the new wave. Consumers will consider more casual clothing subscription an option in 2021 as the recent casualization trend is likely to stick.

- **DTC:** With consumers' online shopping behaviors continually evolving, brand owners such as NIKE, Under Armour and PVH Corp. have made efforts to become more DTC-focused. In 2021, we expect to see more companies reduce their exposure to wholesale and transition to DTC online.

- **Brand partnerships:** Cross-brand and celebrity collaborations will drive consumer engagement and increase brand awareness on a global scale. We are seeing ongoing cross-branding and celebrity collaborations for denim, leisurewear, sportswear and sneakers, even in this volatile retail environment. We expect to see more partnerships in 2021, which will help retailers expand into complementary markets and attract new customers.

We see the growth of new models in retail in higher-growth economies such as China as well as mature retail markets such as the US and Western Europe. In China, we have already seen an abundance of evidence that millennials are willing to spend on secondhand products. Leading resale apps include Alibaba's Xianyu and Tencent-backed Zhuanzhuan. To date, however, the subscription model has not been broadly applied in the retail industry in Asia.

Figure 11. New Models in Retail

Source: Coresight Research

More Chinese Manufacturers Will Build Their Own Brands Overseas

> *We expect to see more Chinese cross-border e-commerce merchants in 2021, with over 25% of them selling through standalone websites.*

Strong Economic Growth Drives Development and Export of Chinese Brands
In 2021, we expect to see more Chinese manufactures tap into the overseas market by building their own brands and taking control of the whole supply chain. Chinese cross-border commerce is about more than Chinese consumers buying from retailers overseas.

In order to gain better margins amid rising labor costs, more and more Chinese manufacturers are designing, producing and selling products under its brands, rather than manufacturing for third-party brands. At the same time, as China's domestic online retail market becomes saturated—which drives up costs of consumer acquisition—Chinese manufacturers are increasingly pursuing overseas opportunities. Sometimes supported by venture capital and private equity firms, brands are launching in different regions around the world.

Marketplaces such as Amazon and AliExpress remain significant channels for these companies to sell internationally. However, we are seeing an incremental move to standalone websites, as brand owners want to engage with the consumers more directly. According to a survey conducted by CIFNews.com—a Chinese cross-border e-commerce service platform—85% of surveyed cross-border merchants planned to sell through online third-party platforms in 2020, while the remaining 15% planned to sell through standalone websites. The number of merchants that planned to sell through standalone websites was double that from 2019.

Trend Details and Impacts

We expect more Chinese apparel brands to tap into the US's online fashion market in 2021, following the success of Chinese e-commerce fashion brand Shein, whose total revenue reached $10 billion in 2020. The US online fashion market, which Coresight Research estimates grew by 27.2% to $121.5 billion in 2020, is the most preferrable choice for Chinese brands that want to expand abroad.

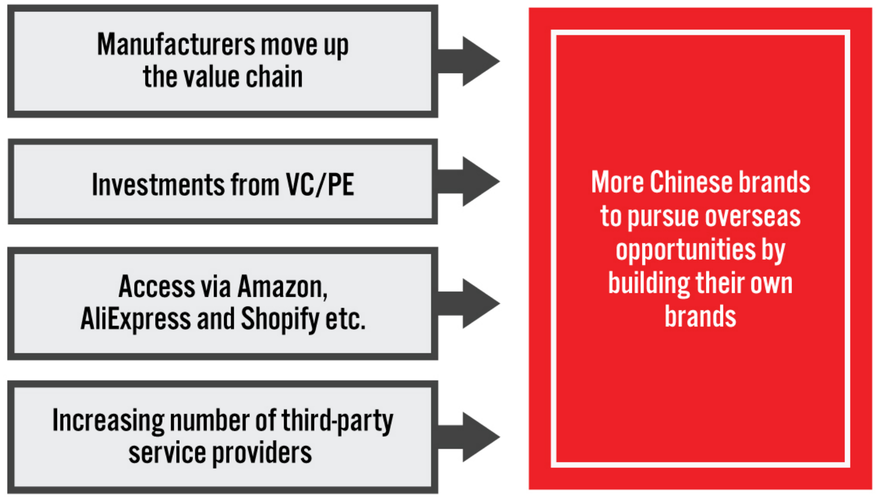
We expect to see more manufacturers of 3C (communication, computer and consumer electronics) products move up the value chain to handle all aspects of the supply chain, including product development and design, then sell directly to overseas markets. China is the largest manufacturer and exporter of consumer electronics and also has the world's most comprehensive supply chain. Some manufacturers began selling their own brands online to overseas consumers on Amazon then expanded to offline markets. Successful cases include Anker, a China-based electronics brand that sells portable chargers on Amazon. The brand has expanded its presence to offline stores—consumers can find Anker's products at Target and Walmart in the US.

However, with the political tension between China and the US, we expect Chinese smartphone brands to gain market share more strongly in South East Asia and Africa in 2021. China has set a goal to develop its own equipment in the smartphone sector, including semiconductors and smartphone chips, so that it does not have to rely on other countries for supply.

We also expect to see more Chinese DTC cosmetic brands gain popularity among Gen Z consumers in the global market, leveraging their success implementing innovative social commerce marketing strategies in China and their ability to quickly develop and launch new products.

With the help of global online platforms such as Amazon, AliExpress and Shopify, together with cross-border e-commerce third-party service providers that assist Chinese brands with building online stores and handling cross-border logistics, we expect to see Chinese brands to reach out to global consumers.

Figure 12. Major Drivers of Chinese Brands' Global Expansion



Source: Coresight Research

4. Doing Good Is Good Business

Inclusivity Will Be an Essential Component in Driving Growth for Apparel and Beauty Brands

Inclusivity will drive over $33.4 billion in apparel and footwear retail sales in the US in 2021.

Diverse Representation Is Accelerating the Inclusivity Trend
Next year and beyond, we see inclusivity as one of the leading trends spanning multiple product categories and helping to influence meaningful long-term change within retail organizations. This trend means providing equal access to opportunities and resources for people who might otherwise be excluded or marginalized.

Inclusivity is not just a trend but a movement that is having an impact on every aspect of the retail supply chain—on the product side with adaptive designs, extended sizes and new product formulations in beauty, and on the "supporting operations" of the business. Specifically, inclusivity is impacting corporate structures and policies, brand representation on shelves, and the content that companies and brands are posting on social media.

Trend Details and Impacts
Inclusivity will drive growth in multiple product categories and influence change in supporting operations in retail.

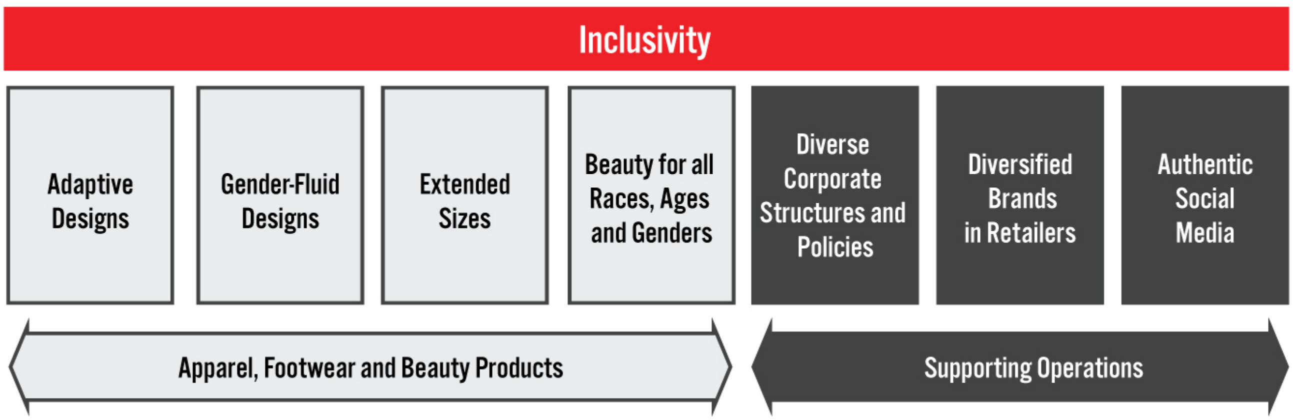
- **Adaptive Designs:** Adaptive clothing and footwear encompasses stress-free designs to meet the needs of people with various disabilities and health conditions: 41 million US individuals reported a disability in 2019 (12.5% of the population), according to the US Census Bureau. Two of the biggest opportunities in adaptive designs are for individuals with ambulatory needs and self-care/independent living. We estimate that consumers will spend nearly $1.0 billion on adaptive clothing and footwear in 2021. However, this represents less than 2% of total clothing and footwear spending by people with disabilities in the US. We therefore see significant opportunities for retailers to enter this untapped market.

- **Gender-Fluid Designs**: Open conversations around gender identification are pushing fashion boundaries. Retailers from mass to luxury are recognizing the opportunity: In March 2020, Converse launched Shapes, a collection agnostic of gender with four styles; and in July 2020, Gucci launched Gucci MX, a genderless shopping category. As gender fluidity expands, there is an opportunity for brands and retailers to recognize a new category and acknowledge that today's progressive consumers are not just sticking to designated men's and women's departments.
- **Extended Sizes:** Body positivity and social media has helped to reframe the conversation on inclusivity and will help to grow the extended-size market to $31 billion in the US in 2021, we estimate. We expect that retailers and designers will continue to prioritize extended-size collections as sales increase.
- **Beauty for All Races, Ages and Genders**: Inclusivity is expanding the beauty market to include a wider range of choices to better represent various customers' race, age and gender. We estimate that the inclusive beauty market will grow at nearly twice the CAGR of traditional beauty over the next five years in three main areas of inclusivity: (1) Innovation and inclusion in beauty products for non-Caucasian women; (2) Male personal care products; (3) Products geared to baby boomers.
- **Diverse Corporate Structures and Policies:** The conversation around diversity and inclusivity is impacting internal organizational structures, policies and procedures and is prompting companies to look at their teams. Consumers are seeking diversity, transparency and authenticity in the companies and brands that they support. We expect that 2021 will be a year of ongoing evolution as companies hire corporate diversity officers and global inclusion and diversity officers, and pay careful attention to ensure that brand values align with consumer interest.
- **Diversified Brand Offerings:** Inclusive brands that are led and owned by under-represented groups including blacks, Hispanics and women will continue to become more prominent on retailer shelves as the conversation around diversity continues. In 2020, we saw the beginning of this evolution with Sephora becoming the first retailer to take the 15% pledge in June 2020 in the US, dedicating 15% of its shelf space to black-owned businesses. Sephora reported that 3% (nine of its 290) brands today are black-owned, providing an opportunity for 44 new brands—383% growth. We expect 2021 will see continued focus on inclusive brand representation.
- **Inclusive and Authentic Social Media:** As influencers are brand messengers, it is becoming increasingly important that there is alignment between company values, the brand, the influencer and the content message. The link between consumers and brands has become closer due to social media, and the expectations of the consumer today is that brands are authentic and the message is genuine, both through influencers and through brand content. Last year was a turning point for some brands, when outward corporate messaging did not align with its influencer base, which affected consumer support. We believe that in 2021, inclusivity and diversity will

play a primary role in how companies and brands are approaching social media strategies, because consumers are interested in if what a brand says is what it really means.

With demand fueled by both body-positivity messaging on social media and messages of empowerment about disabilities, we estimate that these two categories will drive $33.4 billion in apparel and footwear retail sales in 2021. Additionally, inclusive beauty provides an untapped opportunity, particularly for men and older consumers as well as catering to more racial diversity.

Figure 13. The Inclusivity Market: Major Segments



Source: Coresight Research

Sustainability Will Increasingly Be an Essential Factor for Consumers and Investors

With Apple's announcement in its 2021 Proxy statement that it will tie executive bonuses to environmental and social KPIs, we expect the proportion of corporations doing the same (currently around 10%) to double during 2021's proxy season.

Cultural Values Support the Sustainability Trend

We see sustainability remaining top of mind for multiple stakeholders—consumers, employees, investors, government and NGOs (non-governmental organizations) for the decade, driving enhanced business models and new consumer brands and services across numerous sectors and categories.

Sustainability suffered a brief dulling of interest as the Covid-19 virus captured mindshare in early 2020, and attention was diverted to health, employment, family safety and finance. However, as 2020 progressed, the effect of Covid-19 actually accelerated interest in sustainability as consumers seek out brands, products, services and retailers with values and purpose beyond mere commerce. Concerns about water shortages, reduced biodiversity and polluting energy sources are driving a wave of interest in circularity, new sourcing methods and a leaner supply chain.

A younger generation of consumers, employees and investors expect greater transparency and stricter ethical business codes from the brands they buy, the companies they work for and the firms they invest in. One of the many silver linings of the Covid-19 pandemic is that quarantined consumers had the chance to examine their values and the values of the businesses they interact with. The push for a more environmentally friendly retail landscape is also driven by increased interest in sustainability from the investment community. Corporates are responding to customers, employees and investors and addressing sustainability comprehensively, by impacting corporate structures and policies, brand representation on shelves and the content that companies and brands are posting on social media.

Trend Details and Impacts

We predict that environmental awareness and a push for sustainability will impact a range of sectors and regions in 2021. Most industries have a handful of environmental concerns that are destructive to the ecosystem but also carry with them the potential for reputational risk and financial harm. We believe that this year, corporates will resume and increase their focus on improving sustainability efforts following 2020's lull.

- **Fashion and Apparel:** Fashion and apparel is one of the most polluting industries in the world. We have seen a large push in recent years among fashion brands to create more sustainable supply chains. We expect this to continue, with a focus in water use, material sourcing and biodiversity preservation. In some cases, this means reimagining the entire apparel/accessory design process to incorporate new techniques and materials.
- **Beauty and Wellness:** We have isolated three main environmental concerns we believe beauty brands will be looking to address in 2021—packaging, biodiversity and water use. We expect trends such as "waterless beauty" to continue growing. We have also seen companies make pledges in these areas—for example, L'Oréal has pledged for 100% of industrial sites and operated buildings to have a net positive biodiversity impact by 2030. We expect other companies to launch similar goals and timelines.
- **Home Improvement:** We expect to see two major environmental initiatives headline the home improvement industry for 2021—wood sourcing and resource usage. We expect a continued increase in ethical sourcing of wood with stricter purchasing policies. Additionally, we expect resource use such as energy and water to be addressed via companies striving toward alternative production processes that use fewer resources and selling products such as appliances that use water and energy more efficiently.
- **Online Retailers:** The pandemic-led shift to e-commerce brought a new wave of challenges in last-mile delivery. In 2021, we expect retailers to address this by finding more efficient delivery schemes (see later in this report), establishing micro-fulfillment centers and providing greater transparency throughout the supply chain.

We expect all companies and industries to prioritize water usage in the coming years. Parts of the world are already experiencing water shortages, and this is only expected to increase in the future. Current supply chains use a high volume of water for their operations. As global demand for water increases, it will be imperative for businesses to shift away from water-intensive processes and find waterless production methods.

In 2021, we expect to see a boost from the US government in spending on environmental efforts and renewable energy. President Joe Biden has made it clear that the US will rejoin the Paris Climate Accord and has pledged to invest nearly $2 trillion in environmental initiatives over the coming years. This influx of government spending is likely to act as a catalyst for speeding up investment and innovation within the industry.

Below, we present our complete sustainable economy infrastructure, which utilizes the Coresight Research EnCORE framework for sustainability in retail to outline the major aspects that we believe companies will dedicate their attention to in the coming year.

Figure 14. The Sustainable Economy Infrastructure

Source: Coresight Research

5. Discovering New Ways of Transacting

Speed, Security and Efficiency Lead the Way for Digital Payments Boom

We expect global transactions using digital wallets to grow by more than 10% in 2021.

Contactless and Frictionless Are Here To Stay
Growth of digital payments in 2021 is expected to continue as more consumers get connected and comfortable with the digital payments ecosystem. Improvements to mobile wallet technology has vastly improved the speed and efficiency of mobile payments in the last couple of years.

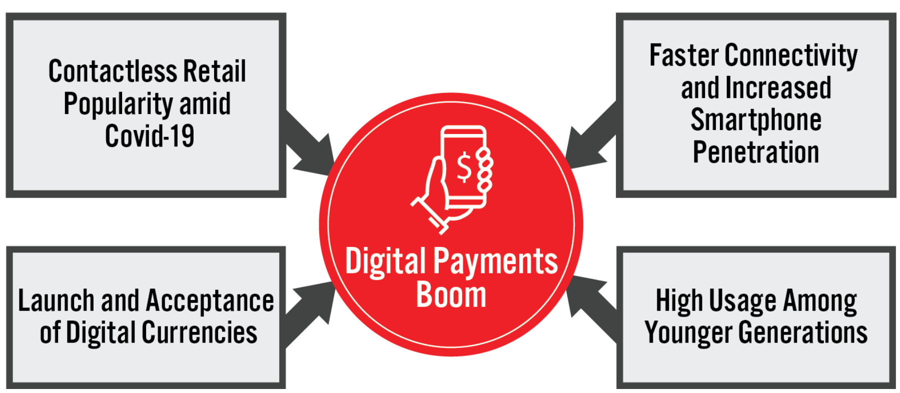
The expansion of mobile and digital payments has multiple driving factors.

- We believe the security and speed of these digital transactions will prove attractive to consumers.
- We believe that the habits picked up by consumers amid the Covid-19 pandemic are likely to last beyond the pandemic.
- Looking further into the future, Gen Z and millennials are becoming more significant consumer groups, and both are more inclined to use mobile payments than older generations.

Trend Details and Impacts
We expect the digital payments boom to manifest in a number of ways in 2021.

- **Frictionless Retail Experiences:** Consumers are expecting a variety of payment options to make payment a more seamless experience. According to The Futurist Group, nearly 40% of consumers in the US consider contactless payments a basic checkout feature. Additionally, we expect retailers to offer a wide variety of options such as digital payments, one-click payments, "buy now, pay later" and other invisible payment options to alleviate friction.
- **Real-Time Payments:** Adoption of real-time payments is expanding worldwide through banking, P2P (person-to-person) and P2B (person-to-business) apps. Reducing transaction and settling time from days to seconds allows buyers and merchants to send and receive money nearly instantaneously. The driving factor in this has been the widespread penetration and faster connectivity of smartphones around the world.
- **Digital Currency Nearing Mainstream:** Corporations such as Amazon, Facebook, JP Morgan Chase and Tencent are creating their own digital currencies. Additionally, central banks such as the Bank of Japan are creating digital versions of their currencies. With the increased acceptance of digital currencies, we expect widespread usage in retail is on the horizon.

Figure 15. Digital Payment: Market Drivers



Source: Coresight Research

Gamification Will Scale in Retail

The Focus on Experience and Engagement Supports the Gamification Trend
We see gamification of the shopping experience becoming much more widely adopted among retailers in 2021. The key driver behind the adoption of gamification is the growing focus on enriching the consumer experience and increasing engagement. We expect the gamification trend to be especially strong in the e-commerce channel, where sales growth has recently accelerated.

The integration of social networking platforms has enabled users to share experiences with others, thus enhancing the effectiveness of gamification as an engagement tool.

Trend Details and Impacts
We expect gamification to influence a number of areas in retail in 2021.

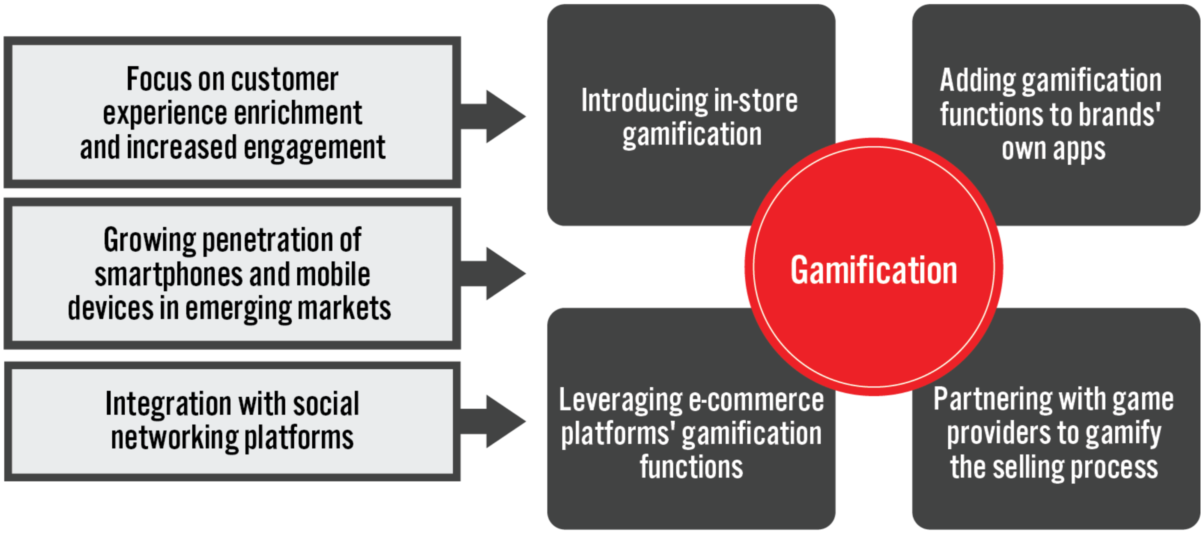
- **E-Commerce:** Retail gamification will continue to grow as a trend in the online channel as retailers look to compete online for the attention of consumers by offering a superior and engaging customer experience. For example, apparel and fashion retailer Sand Cloud uses a spinner app that pops up when a user moves their mouse toward closing the browser tab. If customers spin the wheel, they stand to gain a discount if they place an online order. This increases the chance that a user who was set to exit will instead remain engaged on the e-commerce site. We expect that many more retailers will introduce similar gamification-based engagement tools in 2021.
- **Digital Marketing:** More retailers will use gamification in digital marketing for greater shopper engagement this year. Some retailers have been experiencing a notable return on investment following the introduction of gamification to their engagement strategies. An example is online flower retailer Teleflora, which credits users with points for engaging with the brand on social media. According to the retailer, it experienced a 92% conversion rate and a 105% increase in traffic from Facebook following the use of gamification for increased engagement.
- **Brand Launches, Promotions and Virtual Events:** Gamification will also be a popular avenue for companies to launch and promote new brands and collections. Luxury fashion brand Balenciaga launched its new Autumn/Winter 2021 collection in December 2020 through an interactive video game called *Afterworld: The Age of Tomorrow*, which enabled users to play for free through their web browser. In September 2020, Burberry collaborated with video-streaming service Twitch to stream its Spring 2021 show, and in October 2019, the company launched an online game called "B bounce," which was made available to play in its Regent Street store in London, UK.

From a regional perspective, Asia Pacific is likely to see the fastest growth in gamification, driven by the escalating smartphone penetration and digitalization rate, while we expect the mature North American market to have the highest market share but a comparatively lower growth rate.

Potential new revenue streams exist for retailers whereby they could possibly sell products for a URL persona or avatar. One retailer that has already trialed this is

Prada, which launched its own VR dimension in 2020 that offers an immersive experience between virtual and physical worlds.

Figure 16. Gamification in Retail: Growth Drivers and Use Cases



Source: Coresight Research

Retailers Will Sharpen Their Last-Mile Strategies To Offer Seamless Customer Experiences

We expect US e-commerce sales to reach over $770 billion in 2021, prompting retailers to refine their last-mile approach in order to drive increased customer satisfaction, spending and loyalty.

Improving Operations Following 2020's Scramble for Capacity

Following the scramble to increase logistical capacity in 2020, retailers will look to readjust and reshape their last-mile offerings to drive operational efficiencies while scaling up, push for sustainable brand image and offer a smoother customer experience.

The health crisis has strengthened e-commerce, and the online channel will likely remain embedded in shoppers' buying habits. We estimate that US online retail sales grew by around 35% in 2020 and will reach over $770 billion in 2021, leading to an upswing in last-mile logistics for online retail sales.

Trend Details and Impacts

Retailers of all types have ramped up their last-mile capabilities during the crisis. Going forward, retailers will look to iron out last-mile friction to offer a seamless experience and retain customers acquired during the pandemic.

Delivery: Pandemic-induced online shopping has overwhelmed parcel delivery companies, stretching their capacity to limits in peak periods. In this context, retailers will gradually diversify out of traditional shipping carriers and progressively take greater ownership of last-mile logistics by having their own delivery staff and fleet of vehicles. This will enable companies to control costs, build positive customer experiences, expand their delivery windows and add the ability to redirect orders in real time.

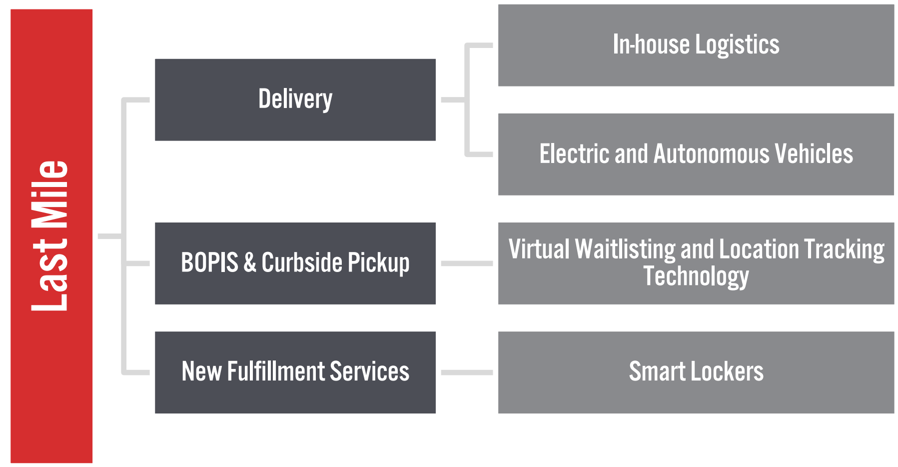
According to the World Economic Forum, global road freight transportation accounts for 2.9 gigatons of tailpipe CO2 emissions per year. Building a sustainable brand image while simultaneously increasing delivery capacity to meet growing e-commerce demand will be key for retailers. We expect retailers to increasingly deploy electric vehicles to reduce carbon emissions and reduce the environmental impact of their delivery operations.

Retailers may be inclined to deploy more autonomous delivery services down the road to ensure contactless fulfilment and reduce carbon emissions. The last mile is the most expensive part of the delivery chain, accounting for 53% of total shipping costs, according to delivery software provider Onfleet. Adopting autonomous vehicles can slash the cost of last-mile deliveries from $1.60 per delivery via human drivers to $0.06 per delivery through autonomous robots, according to Onfleet.

BOPIS and Curbside Pickup: Curbside and in-store pickup are fast becoming the preferred mode for customers who order online, and retailers worldwide have recently ramped up their BOPIS (buy online, pick up in store) and curbside pickup services to meet growing demand. Retailers should now look to differentiate themselves by digitally enhancing the pickup service to reduce friction in the process, such as by minimizing queuing and eliminating overcrowding issues, reducing customer wait times and simplifying the overall process. We expect retailers to implement technologies such as virtual waitlisting, which notifies consumers via text when it is their turn to enter the store to pick up an order or make a return, as well as location tracking and geofencing technologies that automatically alert the store associate when customers are on the way to a store, allowing them to deliver orders to customers as soon as they arrive at the pickup zones, thus optimizing the overall pickup process.

New Fulfillment Services: Retailers would also get creative by deploying or expanding fulfillment services such as smart pickup lockers to make online ordering more convenient for customers. The shopper can either scan the barcode or enter the order number to retrieve the package. These 24-hour pickup lockers can be set up at stores or other designated locations and can be temperature controlled. They offer an easy, secure alternative for on-the-go customers who do not want to wait in line to pick up orders. Several retailers, including Albertsons and Lowe’s, are expanding their smart-locker pilot programs, citing that the service is clocking higher customer satisfaction scores and repeat visits.

Figure 17. The Last Mile: Areas and Supporting Technologies



Source: Coresight Research

Uncertainty Will Prompt Businesses To Make Supply Chains More Resilient, Agile and Diversified

We expect a majority of retailers to reduce or maintain their sourcing exposure to a single country to less than 30% in order to mitigate risk.

The Covid-19 Pandemic, US-China Relations and Brexit Will Reshape Sourcing Strategies

The coronavirus pandemic and other macro forces will prompt retailers to reconsider their supply chain strategies, move away from a largely single-source model and implement new technologies that will give them greater visibility and control over potential disruption.

Diplomatic tensions between China and other nations—particularly the US, which is a major importer of goods from China—have further driven businesses to rethink their sourcing strategies. Steven Madden, for example, was sourcing 73% of its goods from China as of the fourth quarter of 2019. In its third-quarter 2020 earnings call, the footwear brand said that the proportion of goods sourced from China was now in the "low 60s."

Furthermore, businesses dependent on uninterrupted movement between the UK and mainland Europe have had to redesign their supply chains in light of Brexit. Trade between Britain and the EU is tariff-free as long as it satisfies the condition of originating from the EU or the UK, but for many apparel retailers, raw materials and finished products tend to converge from various countries. For example, British luxury fashion brand Temperley moved a warehouse last year to Italy to save duties on its global orders.

Trend Details and Impacts

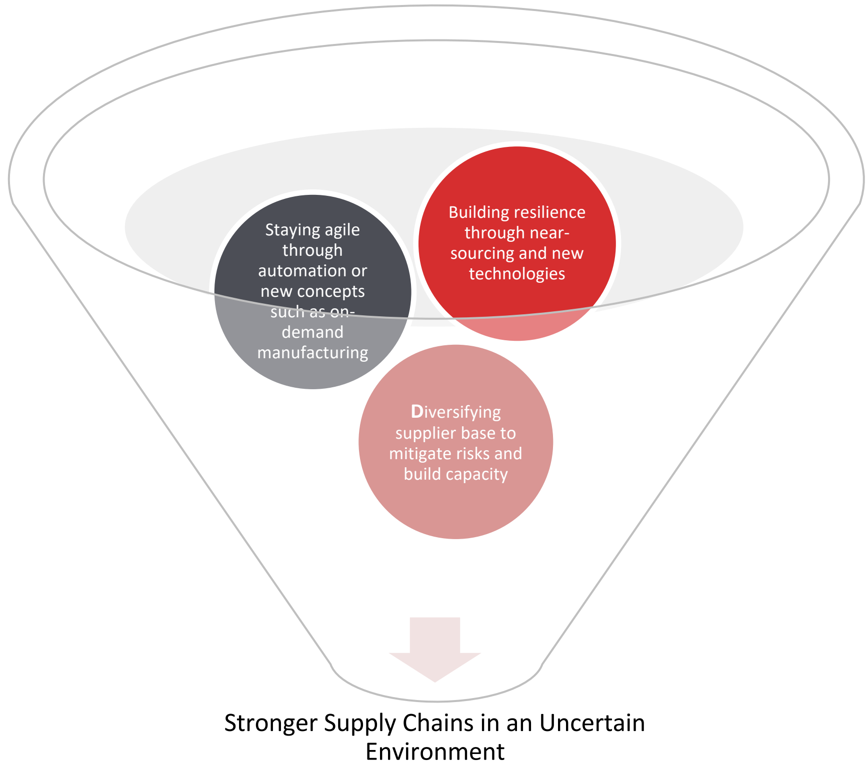
We expect most retailers will focus on three key aspects of the supply chain in 2021: resilience, agility and diversification. We outline our framework for this trend in Figure 18. We predict this trend to impact a number of sectors that had to adapt quickly or simply weather through the uncertainty in 2020.

- **Apparel:** Apparel retailers will reduce their sourcing exposure to China and look to other countries to procure goods. As Western retailers continue to build new supplier relationships, which may even be closer to market, we think the subsequent benefits of supplier diversification, nearshoring and saving on shipping times (if sources are closer) will outweigh any additional costs associated with sourcing outside the familiar and cost-effective sourcing destination of China. Between January and October 2020, US apparel imports from China were down 42% year over year, according to latest data from the Office of Textiles and Apparel. Much of this decline was driven by lockdowns in China, shipping delays and slowing apparel demand in the US as people stayed home.
- **Furniture:** Retailers will develop more responsive supply chains by engaging closely with suppliers to expand capacity and meet surges in demand. As consumers are likely to continue to focus on the home until coronavirus vaccines are more widely rolled out, retailers should communicate more frequently and transparently with suppliers to plan for instances when demand pivots between categories—replenish inventory quickly in high-demand categories and reduce SKU (stock-keep unit) counts in categories with low demand. Home Depot, for example, worked with its suppliers to ease supply chain pressures brought on by strong demand in some categories by reallocating production from low-demand categories. This made its supply chain more flexible and responsive to demand.
- **Food:** Retailers will look to gain further control by vertically integrating some supply processes. A few grocery retailers, such as Albertsons and Kroger in the US and Morrisons in the UK, have a vertically integrated supply chain for some product lines, by owning food manufacturing plants, giving them greater control and visibility over the sourcing process. Vertically integrating some processes and manufacturing, for staples retailers, will help ensure a more reliable supply chain as staple items tend to be replenished more frequently due to a restricted shelf life.

Retailers could also adopt new technologies to help provide more visibility and predictability across the supply chain. For example, 3D printing and 3D visualization will help speed up prototypes and approvals in earlier stages of product development and production. This is also likely to help make supply chains more resilient by shortening lead times—the supply chain could be less exposed to shocks. In addition, 5G wireless technology, combined with other near-field technologies as Wi-Fi and Bluetooth, provides end-to-end coverage of the supply chain, promoting greater visibility over inventory and assets as well as over processes.

We expect retailers to seek out ways to make their supply chains more responsive, either by automation or concepts such as on-demand manufacturing to cater to shifting consumer trends.

Figure 18. Coresight Research's RAD Framework: Resilience, Agility and Diversification in the Supply Chain



Source: Coresight Research

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