2022 retail industry outlook

The pandemic creates opportunities for the great retail reset

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Deloitte surveyed 50 senior executives from retailers across multiple subsectors from October 29 to November 9, 2021. Most companies are multinationals, all have at least $1 billion in annual revenue, and 56% have $10 billion or more in annual revenue. The respondents include C-suite and senior executives who are directly responsible for or exert significant influence on major strategic initiatives. In addition, we also conducted interviews with 15 Deloitte retail subject-matter specialists in November 2021.

Introduction

For nearly two years, the predictions about the future of retail have seemed dire. The retail headlines for 2022 don't look much better—empty store shelves, over 1 million retail jobs unfilled,[1] surging inflation, and organized bands of criminals ransacking stores.

But 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.

To realize long-term and lasting benefits, however, retailers should continue down the remediation path they began at the onset of the pandemic. In fact, 2022 offers opportunities to restructure outmoded supply chains, rightsize inventory management, review pricing, recalibrate promotional cadences, and reinvent the physical store. This will likely require major transformational thinking and long-term commitments from retailers, but these efforts could forever shift the way retailers conduct business.

That future begins today by addressing near-term retail challenges with an eye to the future. Now is an ideal time to take stock of the market to better understand what traits separate those who embrace the reset—the leaders—from the rest of the pack.[2] We asked 50 retail executives to share their views on where they see the industry in the next 12 months. The resulting data, combined with insights derived from client work and prior research, offers a snapshot of strategies and investment plans that help inform the future of the industry. For 2022, several priorities emerged that we discuss in more detail below—namely workforce retention, supply chain resiliency, and digital investments.

What lies ahead

Before addressing the strategic priorities of the retail industry, it may be instructive to first examine expectations for the economy, industry, and consumer. This can help provide further context for the strategic priorities that follow.

Economic outlook

Everything changed in 2021, and for the better. Effective vaccines and greater general knowledge of COVID-19 increased consumer confidence, which resulted in an uptick in consumer spending,[3] especially in food services, transportation, and recreation services.[4] The labor market also played a key role, with the unemployment rate dropping significantly while consumers also benefited from strong earnings growth.[5] As the economic recovery gathers steam, consumers are also spending more and saving less than what they did in 2020.

All of this is a good sign for retailers in the near term. In 2022, we expect the economic recovery to continue at a strong pace with GDP rising by 3.5% in 2022.[6] Given this scenario of high growth and reduced health concerns, we forecast real personal consumer spending (PCE)[7] to expand through 2022.[8] We expect services to lead the recovery in 2022, while durable goods should decline, given the strong growth in the category in 2020–2021.

Industry and consumer outlook

With consumers muddling through the pandemic since early 2020, time and experience have yielded some clarity for retailers about what to expect moving forward. Despite increasing bifurcation,[9] executives are confident that consumer behavior is moving in their favor, especially around the willingness to spend and a return to in-person experiences. However, recent consumer data suggests that consumers are rethinking priorities, with one-third of consumers saying they are spending more on experiences than possessions compared to a year ago.[10]

Executives appear optimistic about revenue growth and margins for 2022 (figure 1). Some are even taking perceived headwinds and turning them into opportunities. For example, 58% saw inflation as an opportunity to take price and improve margins. Others are rethinking their old buying and discounting cadences. With fewer products to sell, some stores even stopped offering promotions, thereby boosting profits. Others built on strategies already in the works, such as closing unprofitable locations and strengthening their positions to emerge from the pandemic.[11]

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%)

Figure 1. 2022 retail executive 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

Newfound opportunities emerging from the downturn are additional indicators that the pandemic is spurring a retail reset. Though with other retail headwinds such as supply chain and labor shortages pushing against progress, it appears that lasting optimism might be tenuous for now. In evaluating where retailers plan to invest in 2022, it's apparent that some are seeking short-term stopgap measures, while others are working to ensure that today's solutions will have more lasting effects on their businesses down the road.

Many retailers will face similar challenges in 2022, so it was not surprising that at least 80% of the executives surveyed plan to make moderate-to-major investments in digital and supply chain. What stood out, however, is that leaders are differentiated by their views and actions around areas such as digitization, incorporating ESG practices, and making the workforce future-ready (figure 2).

Methodology:

Leaders and laggards

We assigned scores to each respondent for the items below:

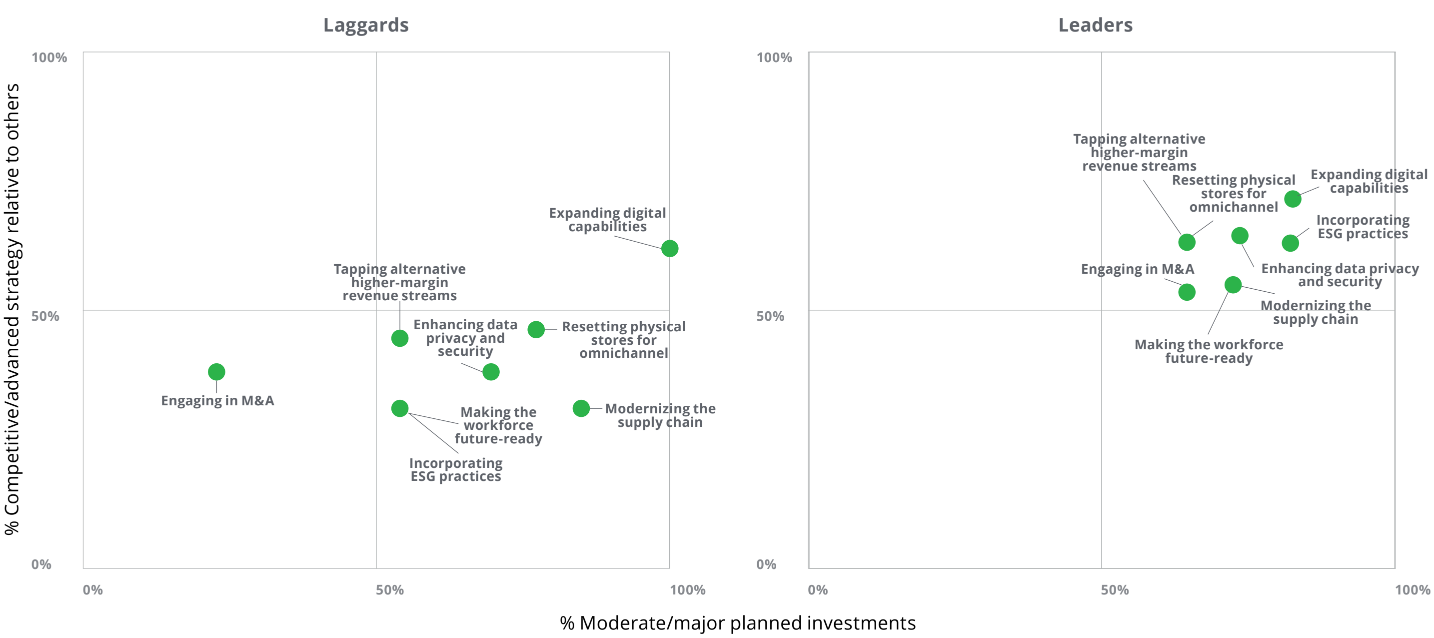
1. Annual revenue growth in the most recently completed fiscal year
2. Proportion of revenue derived from digital channels in the most recently completed fiscal year
3. Confidence in their organization's ability to execute its business strategy successfully in 2022

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)**.

Figure 2. Company strategy relative to competitors versus planned financial investment in 2022

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



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)

Reimagine the workforce

The Great Resignation has brought workforce issues to the forefront of industry discussions. Even as recently as one year ago, the problems the industry faces today would have seemed unlikely, especially given where the economy was headed and how workforce reductions were far more commonplace at the time. With all the pandemic-related uncertainty, it seemed that no one would voluntarily leave a job without lining up something else first. Many retailers are in a tough spot, and 83% said they are having to invest most heavily in recruiting new employees and retaining them. With executives noting that labor issues are top retail concerns, retailers should reset the way they think about employees as they plan for the future. The issue goes far deeper than merely salaries. Priorities have shifted for employees, especially around flexibility, culture, and diversity, equity, and inclusion (DEI).

Employer pain points

Looking ahead, many retail executives see labor shortages as a leading concern, especially because it may be difficult to compete with the flexibility of the gig economy for hourly wage employees. The figures are daunting: 70% of executives say labor shortages—especially in hourly wage jobs—will hamper retail growth in 2022.

Currently, the biggest pain point for retailers is at the store level, and 74% expect shortages in customer-facing positions in 2022. Given the pervasiveness of the situation, retailers have little choice but to address the problem or adapt the business model. Warehouse positions are also expected to be problematic, and 56% expect shortfalls in hourly supply chain, distribution, and logistics positions. Turnover has always been an issue with these jobs, but it has accelerated even further because of the additional pressures put on workers by the pandemic.

Retailers should look to invest in a workforce for the future, focusing on technology and automation to rely less on physical labor. It may be difficult to imagine today, but more than half of leaders (vs. 31% of laggards) believe that staff-free stores will be common within the next five years.

Digital talent shortage

Also concerning is that nearly half of executives expect a shortage in skilled workers for IT and analytics positions—needed roles that require greater investment and will likely be the foundation of digitally enabled retail. The shortage is compounded by the fact that retail is competing against virtually every other industry for talent; retailers need to solidify why they are more attractive than big tech for high-demand workers. Hiring for technology-driven roles will likely require retail to move at a much faster pace in adopting the latest and greatest technology to compete with far more tech-savvy industries.

> "The draw to retail for an aspiring, agile brainiac who wants to do all these really cool things from a technology perspective just isn't there—especially when you're a retailer that is still arm wrestling with on-premises technology that was installed during the dinosaur age."
>
> **—Deloitte human capital specialist**

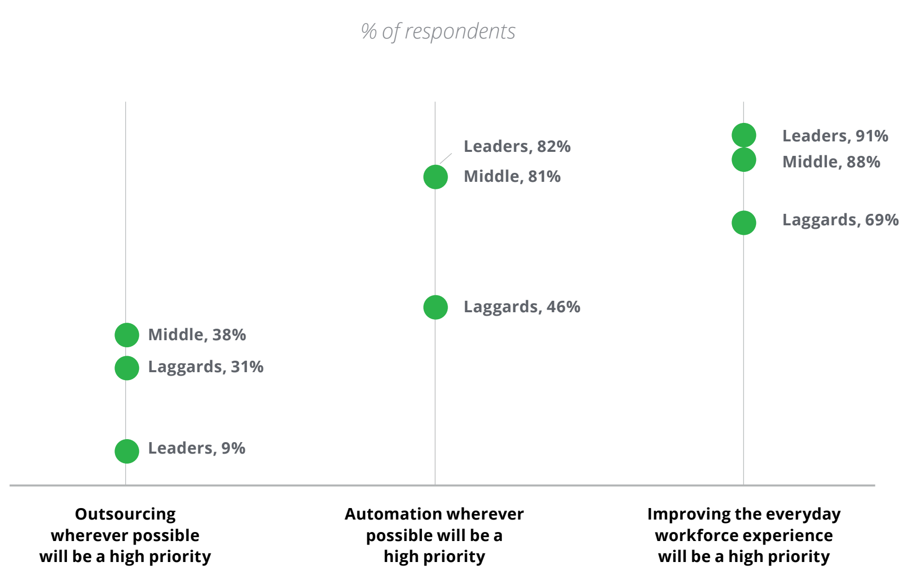
Reshaping talent priorities

As retailers look to address the war for talent, they should understand how the pandemic has reshaped priorities. Recent data shows the collective experience of the pandemic has induced a period of self-reflection for wage earners.[12] In particular, there is a greater focus on introspection and well-being, and a divide between money and purpose. There is also a strong desire to work from home more frequently.[13] Current retail workforce structures seem destined to clash with evolving employment expectations. Retailers should take a page from leaders' playbooks, inside and outside the industry, and look beyond pay for ways to improve the everyday workforce experience (figure 3). They should consider ways to infuse culture, flexibility, and purpose to hire and retain employees. Our research bolsters this thinking: 94% believe that employees prefer workplaces that consider DEI. And while 86% plan to make moderate-to-major investments in DEI, such investments are generally focused on programming and training. These are important, but retailers can improve the return on these investments by focusing on outcomes and considering what career advancement looks like in the organization.

In addition, evolving priorities will likely require retailers to address how they represent themselves in the marketplace, from diversity of suppliers to career advancement for historically marginalized groups. The way a company presents its brand can be a vital part of the retail reset and gaining competitive advantage. Adapting to changing marketplace conditions and evolving the narrative around the brand can help make customers, vendors, and employees feel included and, more importantly, connected with the brand.

Figure 3. Company workforce strategy in 2022

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? (Percentage that agree/strongly agree).

Sample size (N) = 50

Supply chain resiliency

Failures up and down the supply chain during the pandemic have laid bare persistent issues with the manufacture and movement of goods around the world. Though it shouldn't have come as a real surprise, the sudden and simultaneous shutdowns demonstrated in real time that the status quo would no longer suffice. True supply chain resiliency will likely require significant change across the board. Resets don't happen overnight, but retailers can't afford to wait given that 80% of executives said they believe that consumers will prioritize stock availability over retailer loyalty in the upcoming year.

As retailers look to take action, it's important to understand that just as shifting priorities from the pandemic have changed employee expectations, they have also altered the way consumers shop. Where and when customers make their purchases are far less predictable these days. Consumers have become merchants in their own right, buying from a broad range of retail channels, curating and promoting their own array of products via their social media accounts, reselling used goods through digital platforms, and setting the terms for how purchases arrive on their doorsteps.[14] And many current supply chain capabilities—around demand planning, inventory management, and fulfillment forecasting—aren't set up to handle such scenarios. Organizations need more credible information and technology upgrades to develop agile systems that can handle the new consumer scenarios.

"You don't build an agile supply chain. Buildings don't go up overnight, automation isn't put in overnight. Agility means being able to adjust to the changes in customer behavior, to sense and get them ahead of that, and then help shape their behavior."
—Deloitte supply chain specialist

Leaders look to automate

As expected, fulfillment and inventory and warehouse management are expected to attract the most investments in 2022. However, 57% of executives still have no plans to invest in robotics and automated material handling. This is particularly concerning given the current workforce challenges the industry faces. Leaders are making this a higher priority, and forward-thinking retailers should strive to automate their processes as much as possible and consider making significant investments in automated driving technology and last-mile delivery (figure 4).[15]

Automation in distribution will be a higher priority for leaders

33% Automation in distribution/fulfillment centers will be a priority

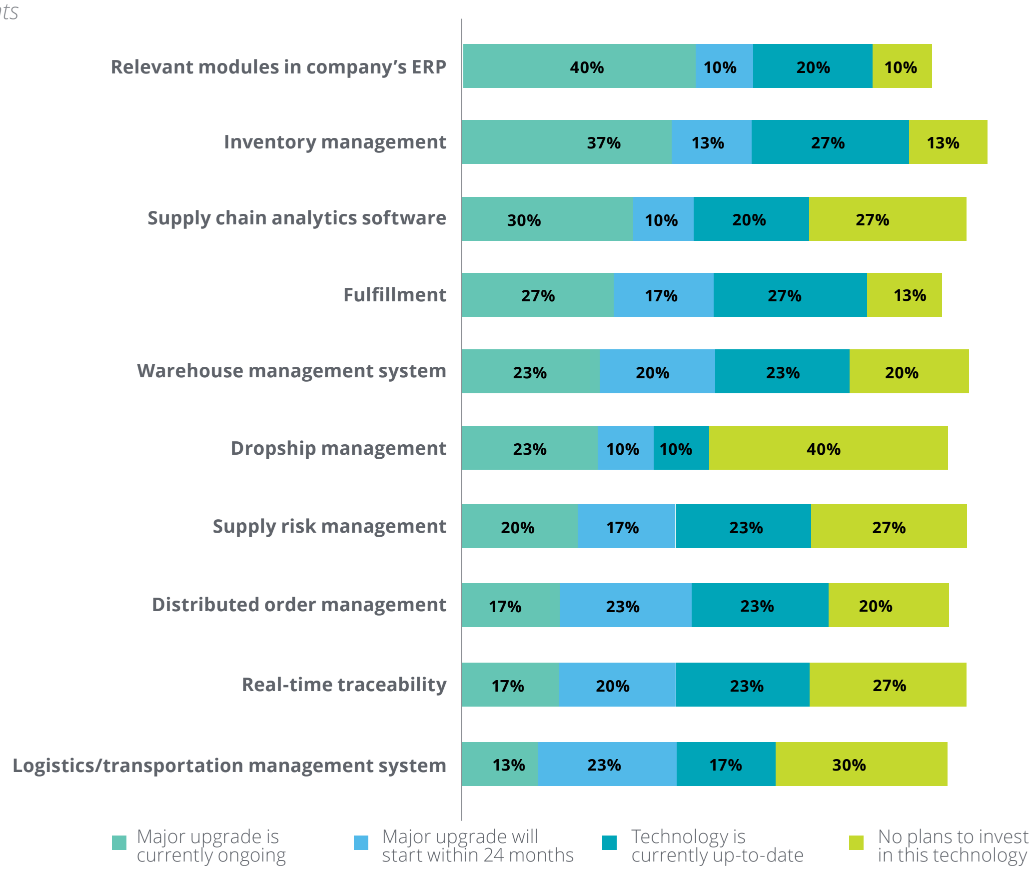
11% Laggards

50% Leaders

Figure 4. Assessment of supply chain technologies

Top 10 major upgrades to supply chain technology

% of respondents



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

Create transparency

As it becomes apparent that the supply bottleneck may take years to sort out, retailers should position themselves to plan for the future—not just by investing in new technologies and automation but also cultivating transparency today. Transparency and conveying information across the end-to-end process are often necessary ingredients to help maximize the impact of technology investments going forward.

Case in point, suppliers for mass merchants and large grocers have little insight into what those companies expect to sell or might discount in the future. Suppliers can be left guessing what retailers will order, creating potential supply chain and delivery issues down the road. Given that retailers must compete against large, vertically integrated players who have more “perfect” (read: transparent) information, it can be mutually beneficial to share information across partners.[16]

Retailers, therefore, should pivot toward transparency, sharing information more openly, completely, and with lead time, to help their partners upstream plan accordingly. In a nutshell, as one subject-matter specialist put it, “There can be no secrets anymore. Not sharing information is just detrimental to everyone.”

Collaborate with new partners

Not every retailer can scale to compete with large players that are utilizing their data to maximize supply chain efficiencies and offer personalized experiences. Those that are unable to scale should pursue other options like transparency, accessing underutilized assets, and collaborating with new partners. For example, retail real estate owners and retailers could share analytics and use existing infrastructure to help provide more seamless shopping experiences and last-mile solutions to better compete.

Digital revolution

In 2022, we expect the fusion of digital and physical experiences to accelerate further. Retailers should make significant investments that not only meet the e-commerce needs of the present, but also those of the future.

A key takeaway from the pandemic has been that consumers have reset their level of reliance on technology and digital platforms. Virtual work, school, and entertainment now fill homes with more gadgets and accessories. In addition, consumers tried and adopted new and innovative ways to shop. Even in our recent back-to-school and holiday studies, consumers indicated that though they feel more comfortable returning to stores, their preference for online channels remains higher than before the pandemic.

Leaders and laggards are mostly aligned on how they plan to invest in 2022 around e-commerce, digital marketing, and automated checkout, but differ in their views and investments further out. Over the next five years, leaders are buying into the prospects of digitization of the physical world, such as voice commerce, staff-free cashier-less stores, and selling of digital goods. It's interesting to note that more laggards aren't expecting these trends to be adopted, given that the technologies have been discussed for years (figure 5).

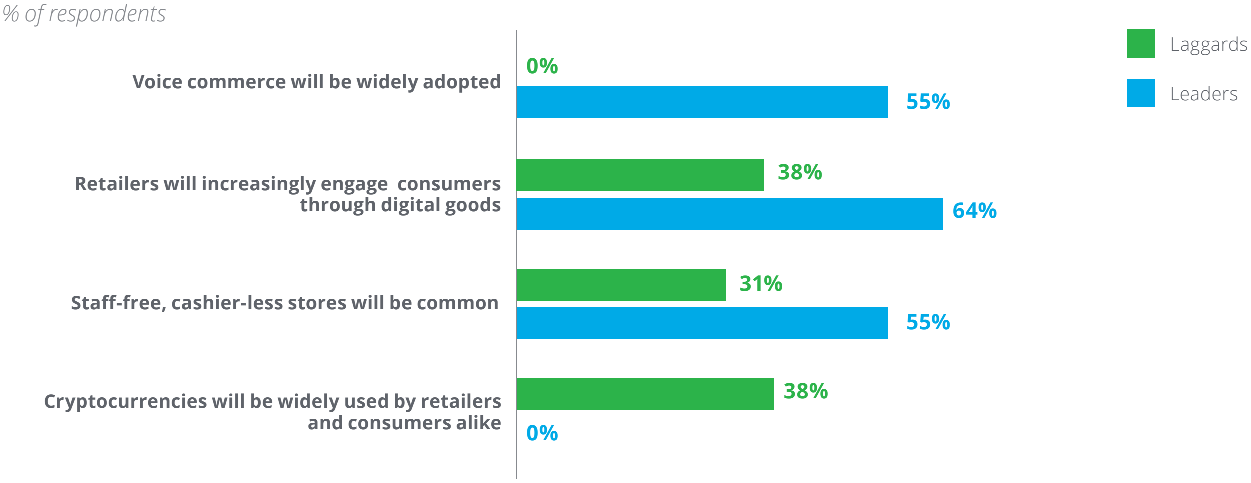
"Hardware is ubiquitous, and there is rapidly growing opportunity to expand retailers' footprint by turning 'everywhere' into selling opportunities. The trick is to create a seamless and simple user experience, and to get the fulfillment done as quickly as possible."

—Deloitte digital specialist

Figure 5. Most likely to occur in the next five years

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

% of respondents



1. Digital goods include goods sold in video games, the metaverse, and/or as nonfungible tokens (NFTs). Voice commerce is defined as using voice commands to find and purchase products online. Which of the below are most likely to occur in the next five years? Please select up to three.

Sample size (N) = 50

Make marketing count

Where retail executives plan to spend their budgets is quite telling, with 70% planning for moderate to major investments in digital marketing. This indicates that retailers are looking to gain market share by finding new customers but also trying to figure out how to turn more in-store shoppers into online shoppers. Clearly, shoppers are more profitable when they're spending on both channels.[17] Looking for a quick fix with digital marketing to get more traffic to their sites and generate sales serves as an effective short-term strategy, but retailers should continue to focus on how they define and measure their digital success going forward.

Given the significant investments in digital marketing, retailers should consider exploring the metaverse, especially as 64% of leaders expect retailers to engage with customers around digital goods in the next five years. Although retailers have already started experimenting with the metaverse as luxury brands sell virtual accessories for avatars, and athletic companies operate stores on the Roblox platform, retailers should work to get an early start to help increase brand recognition with a more tech-savvy target demographic.[18] Working to translate physical-world offerings into digital ones can create marketing opportunities to hold virtual product launches, events, and other exclusive—and value-added—metaverse experiences that can have lasting impact in the marketplace.

Infrastructure needed for omnichannel

Some 67% of respondents cited e-commerce and online shopping platforms as top investment areas, given that many organizations are still dealing with old and outdated platforms. Some retailers still do not utilize cloud services and need new next-generation e-commerce platforms to support their growing banners and their future digital ambitions. Shifting customer expectations are making old e-commerce solutions seem even more outdated, especially as users demand new capabilities and experiences that are not currently supported.

COVID-19 has shown that the role of the store isn't going away, but it's changing, and stores more than ever are needing to support both traditional shopping patterns and omnichannel fulfillment activities. This is forcing retailers to rethink their in-store investments and what infrastructure they need to be both resilient and agile. Our survey found that only one-fourth are prioritizing store investments in 2022. Retailers can and should make this a higher priority. In general, legacy technologies that retailers run in-store cannot support future-facing customer and associate needs, and ultimately, they may create unacceptable operational risk.

For years, connectivity, bandwidth, and security have limited retailers in deploying in-store technology. Minimal and zero infrastructure flips the script, allowing retailers to invest, and incentivizes them to connect solutions that address operations, experience, and efficiency. In addition, a zero-Infrastructure mindset allows for more granular control over costs, service quality, security, and applications across sites. In an ideal world, plug-and-play integration should emerge between devices and solutions, along with the ability to deploy workloads when and where needed. Retailers that adopt these types of solutions can harness the power of distributed infrastructure at scale and evolve store technology as rapidly as business solutions demand.

Prioritize data privacy and security

Another concern is that only one-fourth of executives planned to make major investments in data privacy and security. Perhaps there is a false sense of confidence from those who have not experienced data breaches or ransomware attacks, given that threat activity has increased exponentially during the pandemic. A 2021 study found that the retail industry was hit the hardest by ransomware, with 44% of retailers attacked globally.[19] And as retail increases its digital presence, from cashier-less stores to drone deliveries, the attack surface expands. Retailers are likely not investing enough now to reduce the risk in a more-digitized retail world five years from now.

In the end, the retail reset will likely require retailers to adequately prepare for the digitization of the physical world. Ultimately, the goal is to create a seamless shopping experience in omnichannel. But that entails preparations beyond the online world and includes data privacy and security technologies for the physical space as well to help create a seamless transition. Investments in analytics can help retailers prepare to address the rapidly shifting priorities of consumers faster than their competitors—while helping to ensure that security and data privacy initiatives are in place to maintain consumers' trust.

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.

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