



Next Gen Retail

Inflation bites

June 2022



Volume: 2



Younger customers are also disproportionately likely to prefer retailers that support sustainability and good causes...





Welcome to volume two of our Next Gen Retail series, which analyses the results of our recent independent research on the concerns of the Irish shopper. In this issue we look at how different generations of consumers in Ireland are altering spending habits as inflation takes its toll.

The world has changed rapidly since the start of 2022. The conversation has shifted from pandemic restrictions and reduced footfall and increased online shopping activity, to a focus on soaring prices and the role of supply chain constraints, pent up post-pandemic consumer demand and the Russian government's invasion of Ukraine.

Our survey has confirmed what many might have suspected – that consumer discretionary spend is under threat, with customers tightening their belts as inflation begins to bite. This has been felt in almost every sector, and most especially in hospitality and clothing retail. We are already seeing retailers shift their brand messaging to savings and deals, and we expect that this will increase in the coming months.

Having faced Brexit and the pandemic, there is no doubt that retailers have to work hard to overcome challenges and continue to identify new opportunities. We expect to see a growing emphasis on price promotion and the marketing of special offers in some sectors as consumers shop around for deals. Joint marketing efforts between retailers and mainstream brands is also becoming more prevalent as operators try to lock in loyalty and we hope to cover this phenomenon later this year.

The switch to online, which we detailed in volume one, has stalled somewhat as main streets and shopping centres fill up again as pandemic restrictions disappear. However, younger customers are still most likely to shop online, so we expect that the trend towards online shopping will continue in the long term.

Younger customers are also disproportionately likely to prefer retailers that support sustainability and good causes and prefer new payment methods such as Revolut and Apple / Google Pay amongst others. Retail businesses, particularly ones that either focus on younger customers, or wish to position their businesses well for the next generation, will continue focusing on delivering a world class customer experience while paying attention to the latest technology and payments trends and changes in social attitudes.

I hope you find the insights in this report useful, and if you have any questions, do not hesitate to get in touch.

A handwritten signature in black ink that reads "Keith Watt". The signature is written in a cursive, slightly stylized font. Below the signature is a thin blue horizontal line.

Keith Watt
*Partner,
Head of Retail*

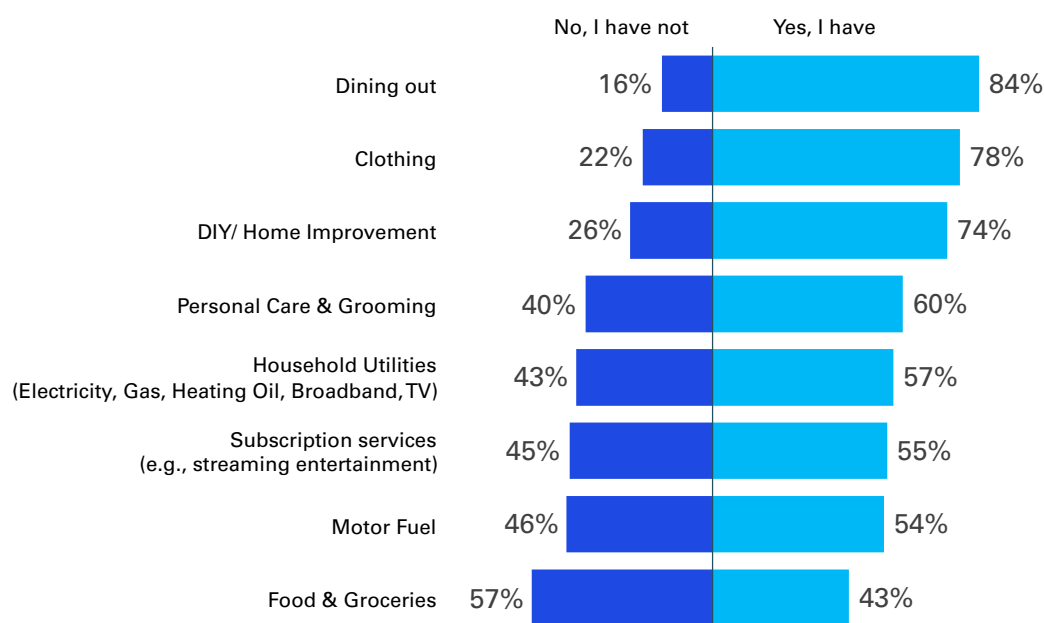
Macro-economic factors: Inflation

The rising cost of living is causing a rethink on spending habits

Inflation, resulting from pent up demand post-Covid and the war in Ukraine, is changing consumer behaviour and purchasing patterns. A majority of customers in all areas except for food & groceries stated that they have reduced their spending. However, with food prices increasing, we would expect that rather than spending less, consumers

are purchasing cheaper own brands more frequently or purchasing fewer non-essential items.

In a similar trend, more than 4 in 5 (84%) of consumers have already started tightening their belts when it comes to eating out and almost 8 in 10 (78%) have reduced their spend on clothing, while 74% are cutting back on DIY budgets.



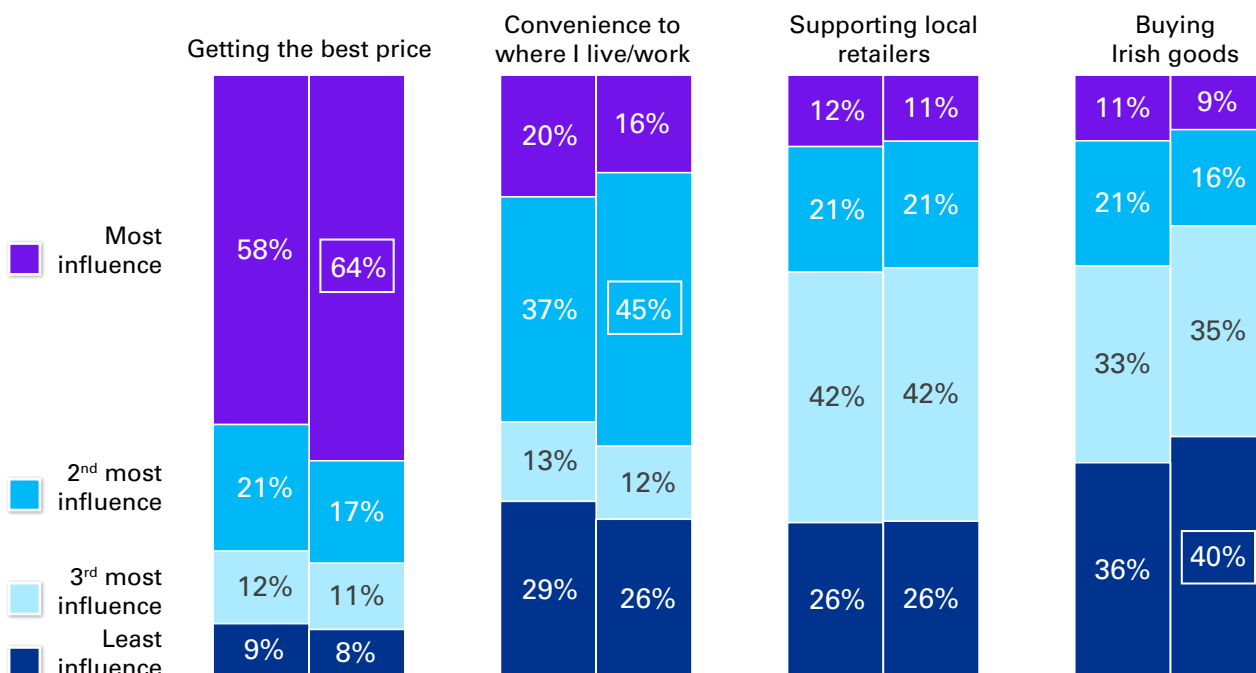


Meanwhile, getting the best price continues to be the number one priority for almost two-thirds of consumers (64%).

More than half of consumers older than 45 are shopping around more often for motor fuel. Meanwhile, women & those in rural areas are

shopping around more for better value on clothing. Conversely, younger consumers were more likely to report paying more for subscription services such as Netflix and Disney Plus, with many providers hiking their prices in recent months.

Dec 2021 – May 2022





Macro-economic factors: Brexit & Covid-19

Customers still buying less from UK post-Brexit

There has been little change since December 2021, and Irish consumers are still buying less from online UK retailers as a result of Brexit, with additional charges being a significant detractor. It is notable however that our survey was carried out prior to the UK governments announced unilateral changes to the Northern Ireland protocol. It is currently too early to tell what impact, if any, this may have on consumer spending.

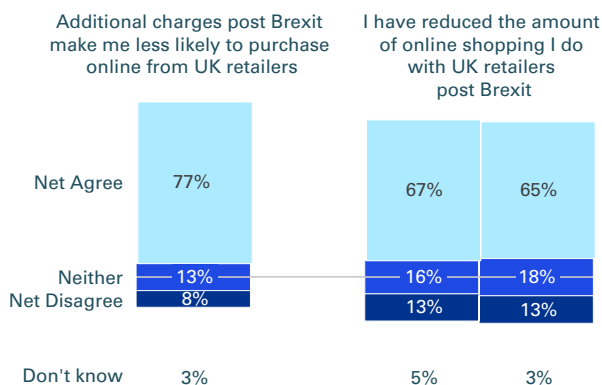
With the lifting of COVID-19 restrictions, consumers have adopted a mix of online and offline shopping, except for groceries which remains mostly offline. Gift shopping online has seen the largest decline compared to when consumers were asked in KPMG's December survey, with seasonal factors

playing a role. However, younger cohorts continue to purchase more online than their older counterparts.

Consumers' expectation of their levels of online shopping over the next 12 months has decreased since December. This is likely resulting from the practical elimination of pandemic restrictions and the improving weather over the summer months. However, despite a clear move towards physical shopping, at the time of our survey, 46% were still avoiding big shopping centres and city centres because of COVID-19, although this is a significant reduction from 61% in December. At the time of writing, an increase in cases has been reported and we anticipate that attitudes will alter depending on the pandemic cycle.

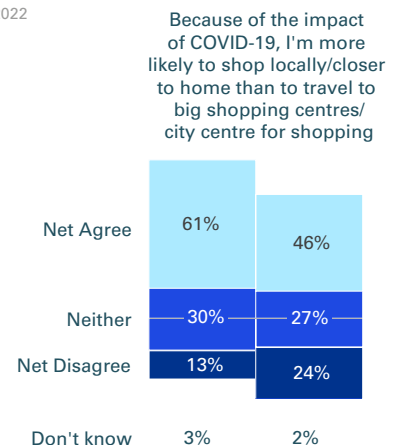
Impact of Brexit on Shopping Behaviour

Dec 2021 – May 2022



Impact of COVID on Shopping Behaviour

Dec 2021 – May 2022



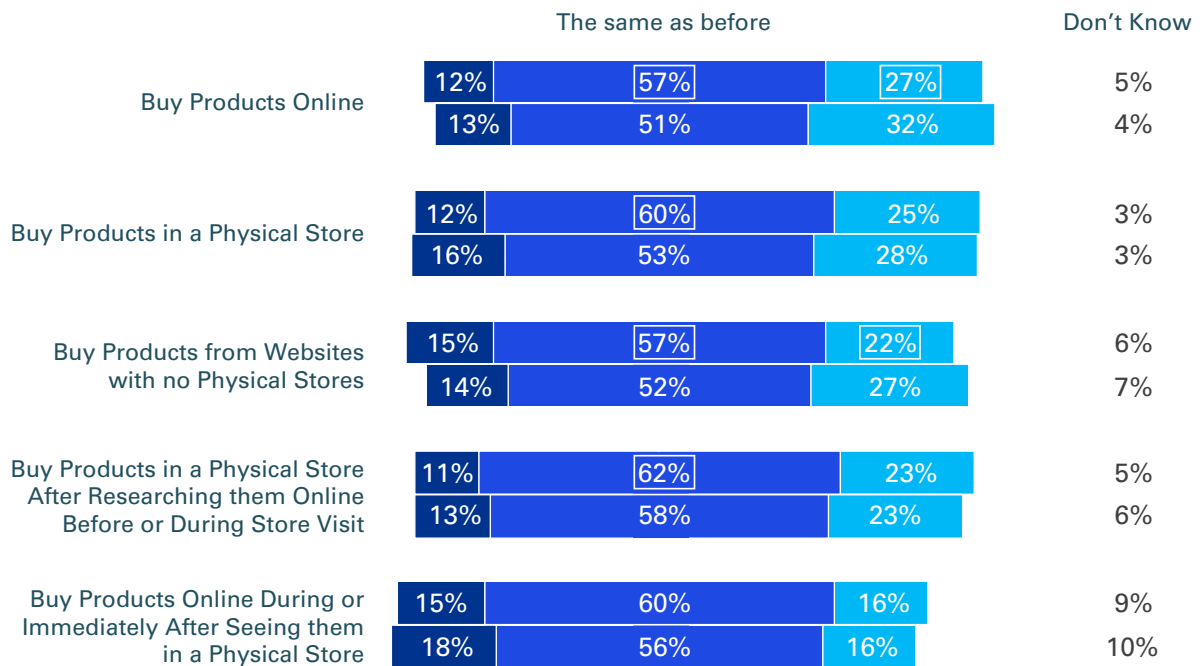
Bricks vs Clicks

Online shopping slows down as restrictions disappear

In line with further lifting of COVID restrictions, the increase of online shopping has slowed down. Clothing & gifts in particular have seen an increase in being bought in store compared to Dec'21. However, the online trend remains strong with

younger consumers as they continue to rely more on online shopping than others, even if they see the product in a physical store first. A majority of consumers expect their shopping behaviours to remain the same within the next year.

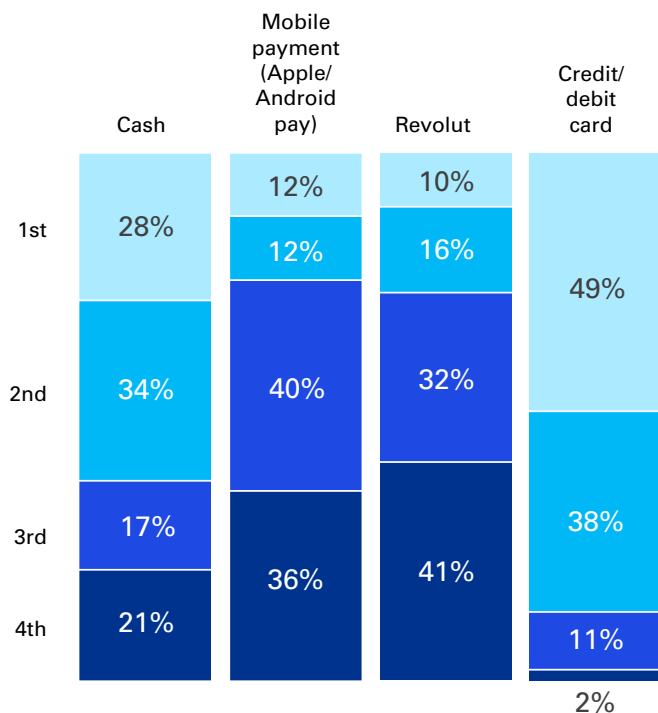
Dec 2021 – May 2022



Customer Expectations

Younger customers eschew cards and cash for new payment methods

Digital payments and Revolut are more popular among younger, urban consumers, while cash is more likely to be preferred by consumers in Leinster (outside of Dublin) and in Connacht / Ulster. Older rural consumers continue to rely on predominantly on credit and debit cards. Cash, which saw a dramatic drop in use during the pandemic, is still a popular first choice, with almost 3 in 10 consumers preferring it.



Price increases are reducing socially conscious shopping, but less so for younger customers

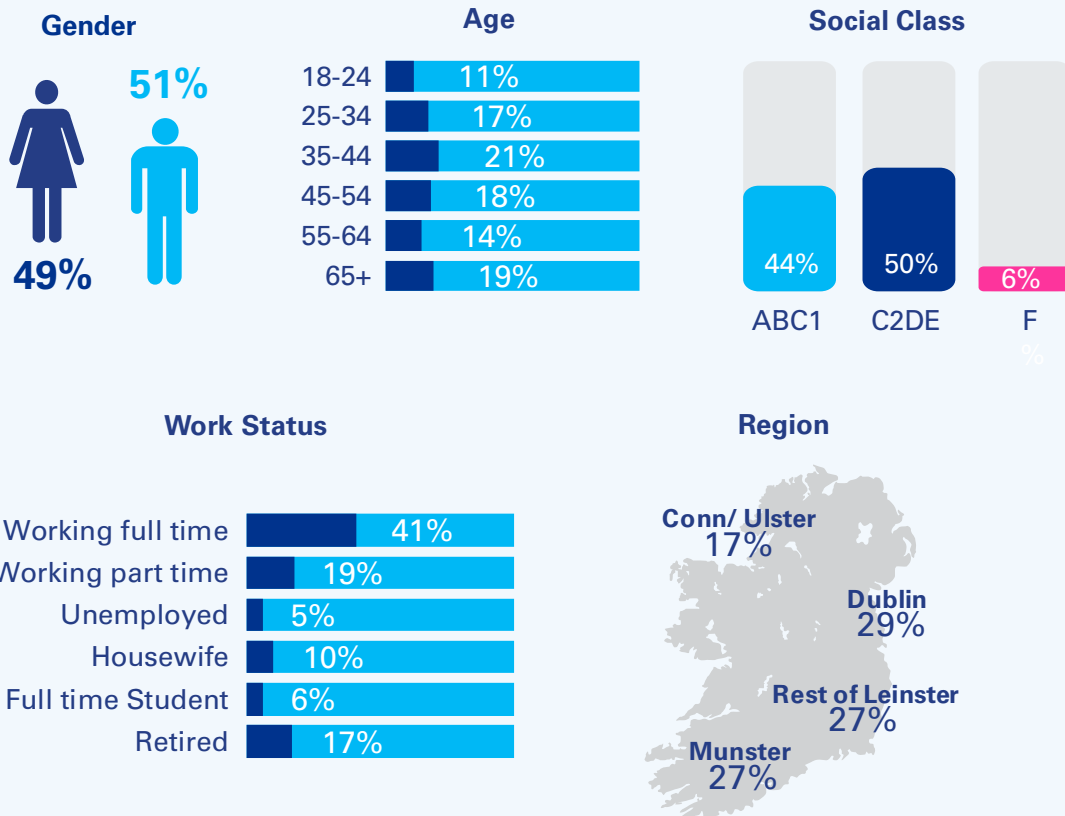
Only approximately a third of consumers said a retailers support of good causes (36%) or sale of sustainably sourced or produced products (29%) made them more likely to consider purchasing from them. This was however much more significant for younger customers, with half (50%) of 18-24s likely to look for sustainable goods and retailers supporting good causes.

Younger and urban customers prefer self-service

47% of consumers stated they prefer to use self-service check out facilities rather than going to cashiers where possible, but this was far higher for younger consumers, with 69% of 18–24-year-olds, and 62% of 25–34-year-olds. This was also significantly higher for urban consumers, with 51% preferring self-service compared to only 38% of rural consumers.

Methodology

KPMG's survey of consumer retail attitudes was conducted via RED C. Quotas were set on age, gender, social class and region to ensure a nationally representative sample of 1,000+ adults 18+. Fieldwork was carried out in May 2022, and where relevant, results are compared to previous wave of the retail survey carried out in December 2021.



Get in touch

The pace of change is challenging retailers like never before. To find out more about how KPMG perspectives and fresh thinking can help you, please get in touch with Keith Watt, Head of Retail.

We'd be delighted to hear from you.

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