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Consumer goods and retail in 2022

A report by EIU

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Consumer goods in 2022: knots in the supply chain

Key forecasts

- Global retail sales will recover to 2019 levels in volume terms, but coronavirus (Covid-19) cases, inflationary pressures and slow job growth will pose challenges.
- Online shopping will grow at a slower pace in 2022 as lockdowns lift, but will still account for 17% of global retail sales.
- Higher supply-chain costs will motivate businesses to wean consumers off discount schemes and focus on higher-margin premium products.

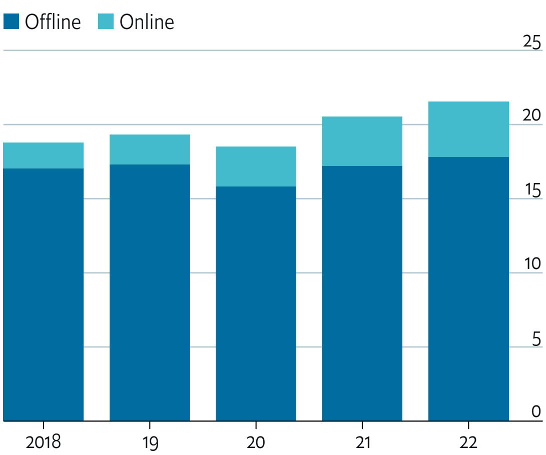
Global retail sales will recover to 2019 levels in volume terms

In 2022 growth in retail volumes will slow to 3.3% when adjusted for inflation, but sales will finally exceed 2019 levels. With vaccination rates rising and lockdowns easing, consumers will head back to shopping malls and high streets, even if they continue to spend more money online.

While some bricks-and-mortar retailers will continue with store shutdown plans announced in 2020-21, others will reinvest in their stores. Flagship outlets offering unique shopping experiences (such as allowing consumers to try on clothes virtually) will be a popular omnichannel strategy. While fast-fashion retailers such as H&M (Sweden) will use physical stores to enter new markets, it will be discount retailers that expand fastest. Over 1,000 new "dollar stores" will open in the US in 2022, as will stores owned by Mere, a Russian discounter.

The recovery in retail will be uneven, however, driven not only on the trajectory of the pandemic, but also by the pace of job creation. Even where vaccination rates are high, consumer expenditure may remain sluggish if the rate of coronavirus cases rises again; if employment and wage growth do not pick up pace; or if the knots in global supply chains keep prices high for prolonged periods.

Offline retail will recover fully in 2022
(global retail sales value; US$trn)



Sources: Edge by Ascential; EIU.

Online shopping will account for 17% of retail sales

The easing of lockdowns in 2021 has confirmed that the shift to online shopping is not a transitory trend. In 2022 EIU expects online sales to account for over 17% of global retail sales, up from about 10% in 2019. However, the pace of growth will slow further from the record high in 2020. The need to develop long-term online sales strategies will see some consumer businesses attempt to bypass online marketplaces to set up their own digital presence.

An expanding breed of e-commerce enablers will help businesses digitalise their operations and finances. These fast-growing start-ups will attract significant private-equity investment, especially in South and South-east Asia, where young, steadily expanding populations will drive growth. Rapid-delivery grocery companies, which became popular during the pandemic, will also attract greater investment, challenging the dominance of traditional supermarket chains. Food and groceries will account for the lion's share of online sales, in a marked departure from pre-coronavirus times.

Knots in the supply chain will persist

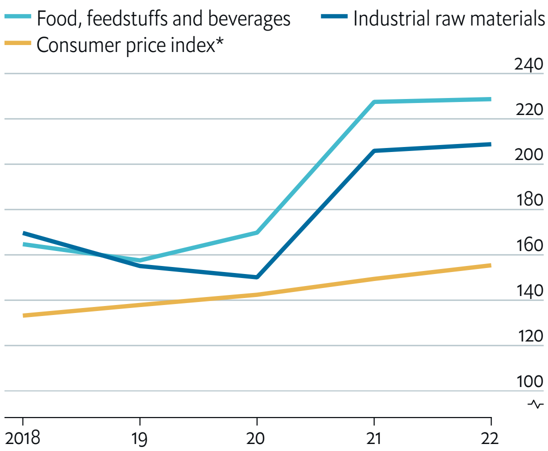
Costs have mounted for consumer companies in 2021. High fuel and freight costs have been compounded by a labour shortage, especially in the transport sector. On top of this, the popularity of online shopping has led to a shortage of storage space, with warehouse rents skyrocketing. We expect these supply-chain challenges to continue into mid-2022, forcing businesses across the value chain to pass on the increased costs to consumers. This will offer a marked departure from the discount-led marketing strategies of recent years.

Manufacturers will raise prices (often in unobtrusive ways, for example by reducing product volumes or weight while keeping prices the same). Retailers, which have had to absorb increased online delivery costs in 2020-21, will find it hard to absorb further price hikes. They will, therefore, pass on costs to consumers. Even online retailers, which have traditionally pushed prices down, will offer fewer discounts, especially as they now have fewer new customers left to win.

While companies try to gauge their pricing strategies, they will turn to new technologies in the hope of finding long-term solutions. In 2022 businesses will need to invest in automation and artificial intelligence (AI) solutions for efficient inventory, storage and delivery management (see New Technologies). Danish shipping giant Maersk's plan to divest its container manufacturing business in order to focus on logistics is indicative of the growth opportunities in e-commerce fulfilment and, in particular, the need for one-stop logistics service providers.

Prices will remain elevated in 2022

(commodities indices; 1990=100)



Sources: national data; EIU. *consumer price index: 2010=100

Premium products will drive profitability

While supply-chain problems and price rises pose risks, they also offer an opportunity to retire low-margin products and focus on upscale goods that bring in higher profits. Feeding into this will be the growing government and consumer focus on ethical and sustainable products. Premium and luxury brands will do well in 2022, helped by the gradual return of international travel. However, Chinese tourists, the biggest buyers of luxury goods, will be missed. While China will remain an important luxury market, its decision to keep its borders largely closed will put a ceiling on international spending. The Chinese government's "common prosperity" campaign also risks discouraging some high-earners from flashing their wealth in 2022.

What to watch for in 2022

Asia's fast-growing logistics companies will go public: Delhivery (India), Ninja Van and Qxpress (Singapore) plan to launch public offerings in 2022. Their listing underlines the need for third-party advisers and enablers in Asia's fastest-growing online retail markets.

EU will enhance consumer-protection laws: EU member states will enforce the Omnibus Directive in May 2022, which will extend consumer laws to cover "free" digital services, such as social media. Tech players will be subject to stricter transparency laws, requiring them to disclose information on the use of algorithms to set prices, the origin of their goods, and the authenticity of product reviews.

Grocery-delivery firms will eye transatlantic expansion: Europe's online grocery-delivery market saw a flurry of new entrants (notably including Turkey's Getir and Germany's Gorillas) in 2020-21, setting the stage for consolidation and transatlantic dealmaking in 2022. Getir plans to launch in 300 US cities by year-end. US players, such as Gopuff, Uber and Amazon, are also seeking opportunities in Europe.

US brands will wade into choppy waters in China: US companies will face a strong current of opposition as they try to win back China's nationalistic consumers, after making waves over human-rights abuses and in light of rising domestic anti-China sentiment. They will come under pressure to boycott the Beijing Olympics, but doing so will hurt chances of boosting their image and sales in one of the world's largest markets.

Online marketplaces face tighter regulations: Scrutiny will be intense in 2022, and not only in rich countries. Developing markets, such as India and Vietnam, will also look to rein in marketplaces. Vietnam's new e-commerce rules, effective from January 2022, will require foreign tech players to enhance consumer-safety standards and pay higher taxes.

New technologies

Given current supply-chain problems, many of the new technologies deployed in 2022 will aim to ease supply and delivery challenges. The adoption of **blockchain** technology will be vital in driving transparency in supply chains—traditionally a paper-intensive affair. Blockchain, an innovative system for recording data, offers the convenience of quickly tracking location, price, quality and certification of products across supply chains. Besides spotting supply-chain disruptions, it will also reassure consumers about the origins of their purchases. Luxury brands can use it to identify counterfeits, making it easier for them to sell second-hand items.

The need for faster delivery, from factories to warehouses to homes, will hasten the adoption of **autonomous robots and drones.** Logistics companies such as DHL and Hellmann (both German) will use a fleet of drones to bypass hold-ups at ports and haulage depots, focusing on the so-called "middle mile". Western regulations are unlikely to allow the use of drones for last-mile deliveries, which is the most expensive part of order fulfillment. However, Asia will be less wary: Alibaba, Meituan and JD.com (all Chinese) will use a total of 2,000 self-driving robots for last-mile deliveries.

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