



Rialtas na hÉireann  
Government of Ireland

# Focus on Retail

## August 2020



# Retail

## Description

The retail sector refers to a broad spectrum of manufacturers, sellers and marketers of physical goods used by consumers which are sold through retailing. The retail sector is an intensely competitive sector, due mainly to the relatively low barriers to market entry, small margins, and the ease with which consumers can alter preferences in response to emerging trends and advances in technology.

## Snapshot

		Market Size	Previous Growth Forecast
Global	Food & Grocery Retail <sup>i</sup>	\$8,411bn (2017)	\$11,740bn by 2022, CAGR 6.9%
	Online Retail <sup>ii</sup>	\$930bn (2017)	\$1,739bn by 2022
National	Food & Grocery Retail <sup>iii</sup>	\$20,149 million (2017)	\$23,295 million by 2022
	Online Retail <sup>iv</sup>	\$2,779 million (2017)	\$4,428 million by 2022
	Employment <sup>v</sup> (Q4 2019)	310,200 (13.14%)	

- i. Global Food & Grocery Retail, Marketline, November 2018
- ii. Global Online Retail, Marketline, November 2018
- iii. Food & Grocery Retail in Ireland, Marketline, November 2018
- iv. Online Retail in Ireland, Marketline, November 2018
- v. CSO- Labour Force Survey, Q4 2019 (data for NACE Rev. 2 sector G). Note: percentage of national employment derived using CSO total employment. Employment figures are seasonally adjusted

## Pre-COVID-19 Position

***Technology was transforming global retail business models and experiences through data analytics, AI, virtual and augmented reality and smart devices.***

- Automation and AI is reshaping retail business models, supply chains, and the future of work in retail allowing faster more informed decision making, increasing efficiencies in logistics and fulfilment.<sup>1</sup>
- International e-commerce retailers such as Alibaba, Amazon, Weibo, Otto and Zalando are demonstrating the global reach of online shopping platforms while also exploring ways of 'digitalising' the offline shopping experience using AI and deep machine learning (e.g. Amazon Go).
- Digital is empowering customers; range and pricing are transparent while loyalty is scarce. New channels and competitors are setting expectations of convenience, value and experience that are hard to match profitably. Retailers are increasingly required to transform their business to deliver the personal, seamless, omni-channel experience that shoppers increasingly demand — in a way that is profitable and sustainable.<sup>2</sup>
- Retail business models are also changing in response to sustainability challenges with move towards a circular business models, prolonging life of products and components. Global movements to reduce packaging waste and single-use plastics present a challenge to the sector.<sup>3</sup>
- Prior to the pandemic the sector was facing challenges with upward cost pressures such as high rents and the increasing impact of technology. COVID-19 may serve to accelerate structural changes in the sector, including the move to digital and online.

***Ireland's retail sector was employment intensive and regionally dispersed. Prior to the pandemic the sector was facing challenges with upward cost pressures and the increasing impact of technology.***

- Wholesale and Retail (e.g. food, all other retail goods) accounted for 8% of GVA in 2018 and is the largest employer across all sectors, with 310,200 employed, representing 13% of national employment. The sector has a wide regional significance; with 70% of employment outside Dublin.<sup>4</sup>
- There are 37,400 retail and wholesale businesses operating in Ireland with 85% of retail businesses in Ireland employing less than 10 people.
- Retailers faced on-going cost challenges including energy prices, insurance, levies and commercial rates with issues around long processes to improve the insurance culture in Ireland around claims and impact on premiums. An independent commercial rents arbitration structure was identified as potentially beneficial in keeping the negotiation of retail rents open and transparent.

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<sup>1</sup> Automation in retail: An executive overview for getting ready, McKinsey May 2019

<sup>2</sup> Transforming Retail, EY Global

<sup>3</sup> Current EU Directive [http://ec.europa.eu/environment/waste/plastic\\_waste.htm](http://ec.europa.eu/environment/waste/plastic_waste.htm)

<sup>4</sup> Economic Considerations for Reinstating Economic Activity, DBEI, May 2020

## Impact of COVID-19

### GLOBAL

- The OECD, in its evaluation of the initial impact of COVID-19 containment measures on economic activity, provide estimates of the initial impact of restrictions on sectoral output across the G7 economies with retail and wholesale trade, being one of the most impacted sectors.
- Recent analysis by Copenhagen Economics<sup>5</sup> indicates a 27% total reduction in economic activity as a result of the lockdown in the euro area with.
- Analysis by the ECB finds the total initial economic loss from the lockdown is estimated to be around 30% of GVA, though this varies by country.<sup>6</sup>
- The COVID-19 pandemic will likely accelerate the ongoing move toward the sale of consumer goods through online channels, as consumers are forming new habits and retailers are stepping up efforts to expand their online operations. Nevertheless, online retailers are facing various challenges, including inventory shortages and supply chain difficulties, which are causing delays in deliveries and disrupting cross-border e-commerce. The impact on the distribution sector, including its online segment, may differ across economies as a result of different approaches to lockdown policies as well as different levels of e-commerce development.<sup>7</sup> COVID-19 is expected to accelerate the digitisation of end-to-end supply chain management performance management right from order to delivery.

### NATIONAL

- Despite some retail activities (e.g. grocery) remaining open in the lockdown and experiencing an increase in demand, the sector as a whole has been badly affected, with over 60% of the retail workforce, ca 180,000 people availing of income supports at the peak of the restrictions.
- The drop in footfall will threaten the viability of some enterprises in the sector. While many firms were able to adopt new modes of operation (online, contactless etc.), others such as the motor trade cannot, and an irreparable loss of activity is likely. The sector also saw an overall increase in online retail.
- Social distancing requirements have led to efficiency declines in terms of volume of customers that can be served, and in logistics operations. Fixed costs, such as commercial rates, commercial rents, insurance and other costs, continue to accumulate without corresponding revenues.
- Availability of inputs, supplier relationships, and cost and delays to freight transportation are all impacting the sector. The sector is highly dependent on manufacturing sectors and

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<sup>5</sup> Copenhagen Economics, Economic Consequences of The Covid-19 Pandemic, March 2020

<sup>6</sup> ECB, Alternative scenarios for the impact of the COVID-19 pandemic on economic activity in the euro area, 1 May 2020

<sup>7</sup> ([https://www.wto.org/english/tratop\\_e/covid19\\_e/services\\_report\\_e.pdf](https://www.wto.org/english/tratop_e/covid19_e/services_report_e.pdf), 2020)

logistics and is also vulnerable to consumer confidence and spending appetite. Streamlining of products by large retailers, for supply chain management, has had impacts on suppliers / producers.

- Prior to the pandemic the sector was facing challenges with upward cost pressures and the increasing impact of technology. COVID-19 may serve to accelerate structural changes in the sector, including the move to digital and online with ripple effects in local economies.
- The multifaceted nature of the retail sector will mean that the recovery trajectory will not be uniform. Those who can resume trading may incur significant costs to meet public health restrictions. Retail workers will also need to have confidence in terms of safety in the workplace prior to returning.
- The volume of retail sales declined by 35% on a monthly basis in April. The sectors with the largest monthly declines were Furniture and Lighting (-84%), Bars (-77%), Textiles, Clothing and Footwear (-74%) and Motor Trades (-71%). Private cars (new and used/imported) licensed for the first time decreased by 88% in April 2020 on an annual basis, with new private cars down 90%. However, consumer sentiment showed the strongest monthly increase since January 2015 in May potentially reflecting the planned easing of containment related restrictions and improving trend in health outcomes. It is important, however, to note that consumer sentiment had the largest monthly fall in the history of the index in April.

## Issues, Opportunities and Challenges for the Sector

- Social distancing requirements have led to reduced capacity and efficiency declines in terms of volume of customers that can be served, and in logistics operations.
- Fixed costs, such as commercial rates, commercial rents, insurance and other costs, continued to accumulate during COVID-related closures without corresponding revenues.
- Developments towards implementation of a “Living Wage” should factor in the additional labour costs to retailers associated with operating in COVID-19 safe environment. The multifaceted nature of the retail sector will mean that the recovery trajectory will not be uniform. Resumption of trading may incur significant costs to meet public health restrictions.
- There is high interdependency between the performance of the retail sector and the opening of the transport, tourism, and art/entertainment/events sectors. Given education profile, average pay and share of part-time employment, the challenge of labour market activation in the reopening and recovery stages is of particular concern for this sector.
- Impacts on independent retail and small-scale business, when combined with a likely prolonged restriction on cafes, pubs, restaurants and hotels, as well as the curtailment of private and public events, will disproportionately affect city and town centres, particularly in regional and rural Ireland, with the risk of accelerated urban dereliction and vacancy.
- The restriction measures are likely to have accelerated the ongoing shift of consumer-demand into online purchasing, permanently reducing the demand for labour supply in the retail professions (the largest occupation in the sector). Recovery will be dependent on economic growth, employee upskilling in e-commerce to match the changing consumer habits to online shopping.

- The retail sector will be challenged to return to pre-COVID-19 levels of trading in the short-term for several factors including; reduction in occupancy numbers in-store due to the implementation of physical distancing, changing consumer behaviour and preferences, growth of online shopping, and levels of consumer confidence to return to in-store shopping.
- The sector will need to have a sustained focus on maintaining high levels of compliance with the public health guidelines and ensuring customer and staff safety at all times. Coupled with the potential for depressed consumer demand arising as a result of COVID-19 and the associated decrease in sales and turnover, the retail sector recovery will be sluggish in the short to medium term.
- Sections of the retail sector that rely mostly international visitors market including tourist shops but also high-end retailers stocking Irish brands aimed at an international market have been hit particularly hard and expectations are that it could take 3 to 4 years to recover.