



The rising influence of Gen Z

Retail Forecasts Report 2024

IDEAS | PEOPLE | TRUST



2023 Retail Performance

Introduction from Sophie



Sophie Michael
Partner, National Head of Retail

2023 was another challenging year for retail, with stubbornly high inflation, rising interest rates, and geopolitical tensions, increasing pressure on both retail businesses and consumers.

Ongoing inflation, particularly for essentials like food and energy, has continued to squeeze household budgets, and in particular, creating further pressure on discretionary disposable income. Savings created during lockdown periods have been largely spent, leaving therefore far shallower savings pots to fall back on, if any at all. In addition, high interest rates continue to deter shoppers from using credit to fund purchases, whilst also increasing the cost of mortgages and housing. All of this has led to consumers remaining cautious with their spending as we head towards Christmas and into 2024 with purchase volumes not expected to return to growth until 2025.

Meanwhile, rising costs and weak consumer demand have further eroded businesses' profit margins, increasing losses and cashflow stresses. Some retailers, such as Wilko, have not been able to withstand this sustained pressure.

Following four turbulent years, retail businesses and consumers will be hoping for a more settled year in 2024. Although inflation is set to come down to its lowest level for two years, it will take some time for retailers' profit margins and consumer confidence to stabilise.

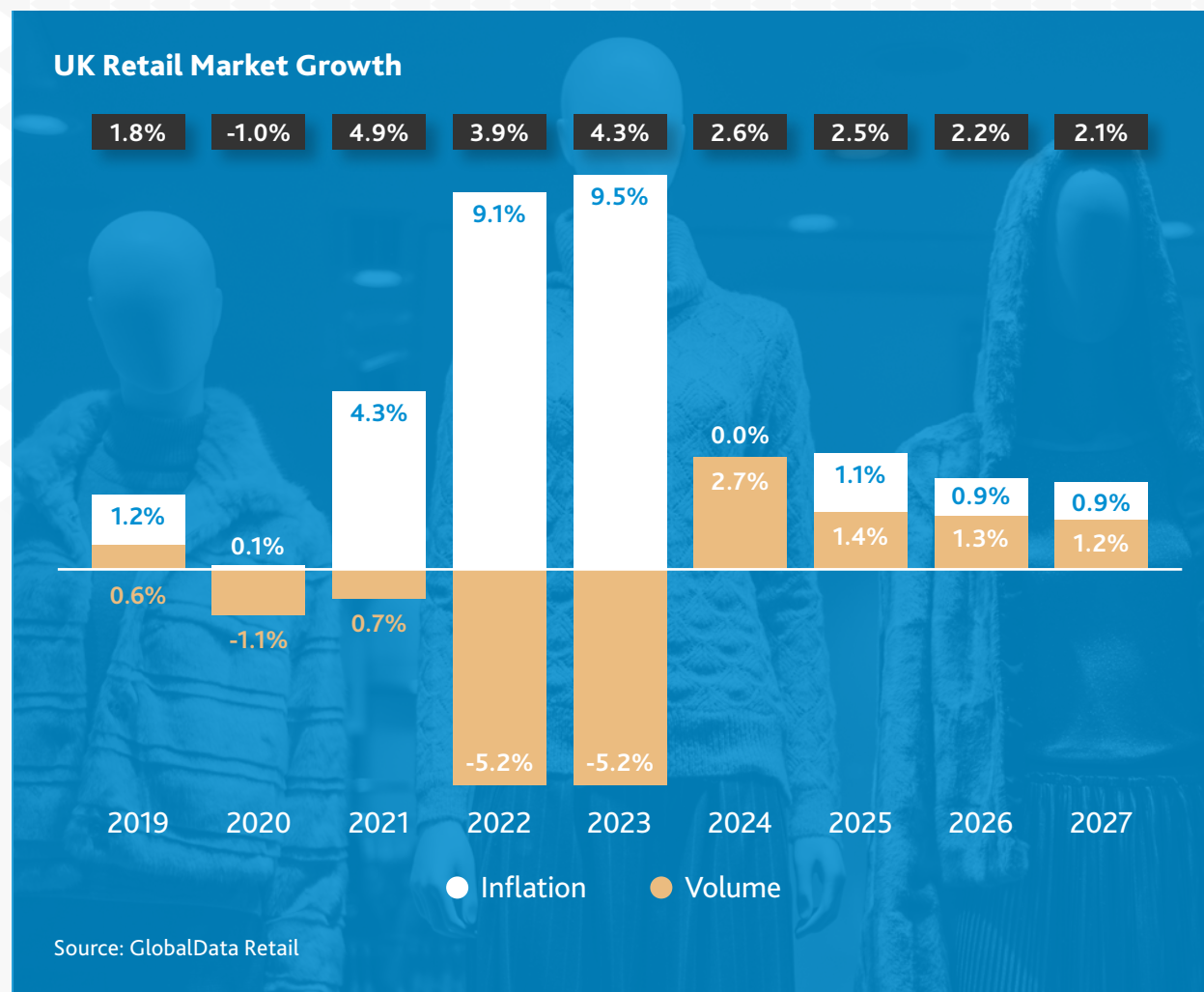


Reviewing the past 12 months, our **Retail Forecasts Report** reflects on the performance and challenges faced by retailers over the past year and calls out key areas for focus for the year ahead.

2023 Retail Performance

Introduction from Sophie

In this environment, retailers need to look for pockets of growth, and for this year's whitepaper we are focussing on one such opportunity: Generation Z (Gen Z) shoppers. Sharing insights from our recent in-house study of Gen Z, our report will include evidence on the purchasing behaviours and preferences of this key target demographic.



Born between the years of 1997 and 2012, around one in five people in the UK are Gen Z. While some are still in school and college, many have already entered the workforce, and are collectively spending billions within the retail industry.

Moreover, each year Gen Z is growing in spending power. They have so far been relatively protected during the cost-of-living crisis, as most are not yet on the property ladder and have therefore not been impacted by rising mortgage rates. Gen Z are also naturally trend-driven and portray a greater willingness to spend on current and emerging products and brands. They tend to be "informed consumers", often weighing up their options before committing to a purchase and therefore switch easily between brands.

Nevertheless, retailers can capitalise on this lucrative demographic to find success in 2024, but it will require them remaining authentic to their brand, staying on top of the latest trends and meeting expectations when it comes to technology, social media, persuasive and smart loyalty schemes, and of course the ESG agenda.



This report will firstly explore the background issues facing businesses and consumers in the UK. It will then highlight the key themes that will impact retail in 2024, with a particular focus on Gen Z, including:

- ▶ Technology
- ▶ Modern media consumption
- ▶ Loyalty and subscription programs
- ▶ Environmental, social, and governance (ESG).

The economic context

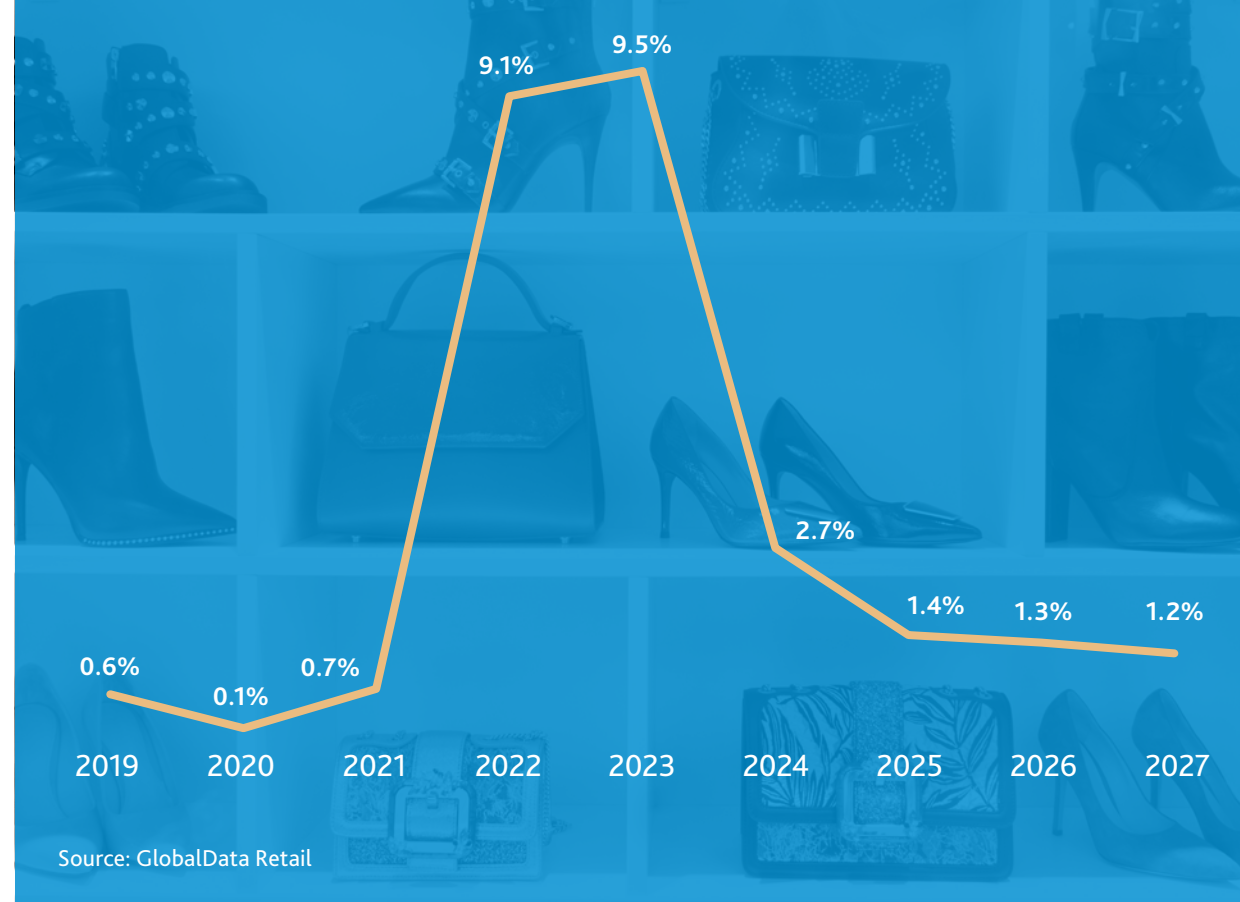
2023 has been another challenging year for retail businesses, but also very much so for consumers, with stubborn inflation, rising interest rates, and geopolitical tensions creating significant macroeconomic instability.

The cost-of-living crisis has intensified for many consumers; the price of essentials such as food and groceries rose sharply and while we have seen a recent drop in fuel prices, the periods of high fuel costs are still making their way through the cost of goods. Food and grocery inflation peaked at just over 19% in the spring of 2023 and although it is starting to slow, it remains much higher than pre-COVID-19 levels. According to recent Office for National Statistics (ONS) data, food prices were around 30% higher in October 2023 than in October 2021. The Bank of England also raised interest rates gradually throughout the year in an attempt to stabilise the economy, climbing from 3.5% in December 2022 to 5.25% by November 2023.

This has made mortgages and other borrowing more expensive, putting pressure on already-squeezed consumer budgets and impacting even the most affluent households.

Consumers have therefore continued to cut back on retail spend, particularly for non-essential categories such as clothing and furniture. This, combined with upward trending costs such as labour and rent, has put significant pressure on profit margins for retail businesses. Some have been unable to weather the storm – the most significant casualty has been Wilko, which fell into administration in August 2023, leaving another void on many of the UK's high streets.

Inflation in the UK Retail Market



Cost pressures are unlikely to ease for retailers in 2024 with business rates set to rise further, in line with the September inflation rate.

However, there are some signs of pressures beginning to ease. Recent data has shown a drop in inflation, beyond that which was expected (although largely driven by fuel), and inflation is set to fall gradually, but further, throughout 2024. A drop in inflation together with the government's plans to increase the National Living Wage to at least £11 an hour from April, should provide some boost to consumer spending power. The rise in national living wage will however also result in a rise in retailer costs, either directly in their own payroll costs or in supply chain costs.

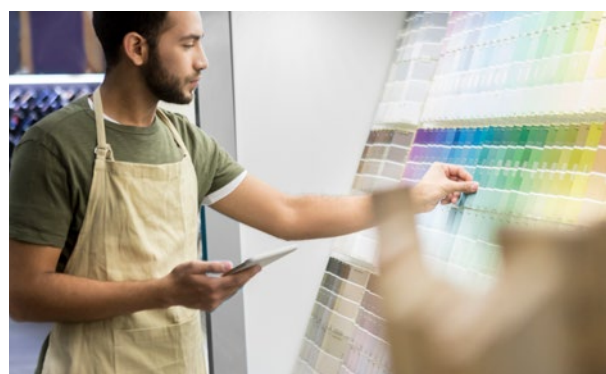
As noted earlier, younger consumers have been somewhat protected in this cost-of-living crisis. Indeed, many retailers that have successfully tapped into the lucrative Gen Z demographic have thrived during 2023. Shein, for example, has quickly grown in popularity among Gen Z shoppers thanks to its combination of low prices, desirable product ranges, and impactful marketing through social media.

The consumer context

Many of the challenges consumers faced in 2022 continued into 2023. High prices for food and energy, along with rising interest rates, have continued to put pressure on consumers' wallets.

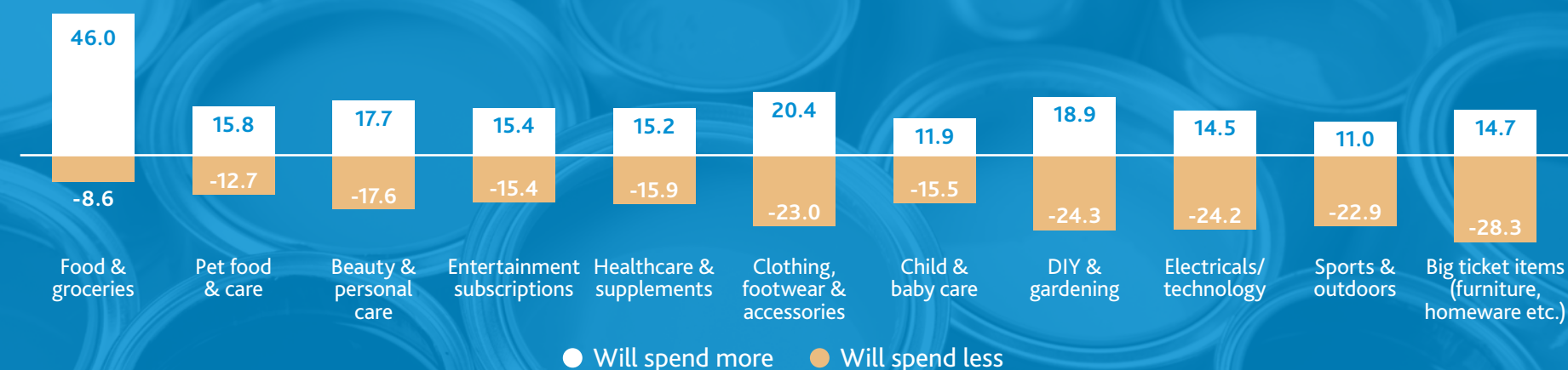
Over the past two years, many consumers have diminished the savings they built up during COVID-19; according to the Bank of England's November Monetary Policy report, savings relative to household income have fallen back to pre-pandemic levels, indicating that any savings built up during COVID-19 have now been fully eroded. High interest rates have also discouraged some consumers from taking out loans or using credit to fund large purchases.

All of this has weakened consumer spending power, with many cutting back on non-essential purchases altogether and trading down for more essential categories such as food & grocery and health & beauty. Many retailers including ASDA and Boots have reported strong growth in own brand ranges, as consumers switch to lower price point alternatives.

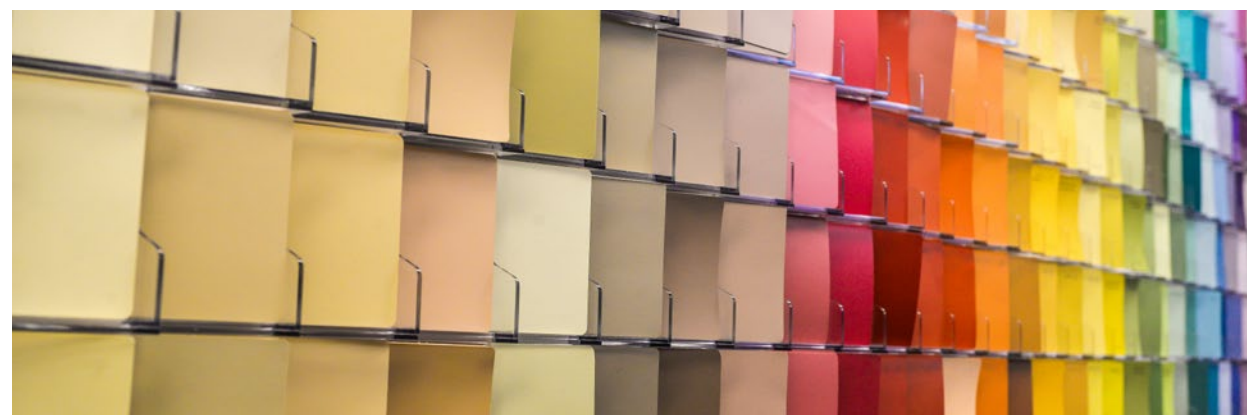


Consumer sentiment has risen gradually throughout 2023, with BDO's future sentiment index improving from -7% in March to +1% in November. However, consumers still plan to cut spending across a range of non-essentials over the next six months; 23.0% plan to spend less on clothing, footwear and accessories, while 28.3% will cut spending on big ticket items.

How UK households will behave in terms of retail spend in the next six months (%)

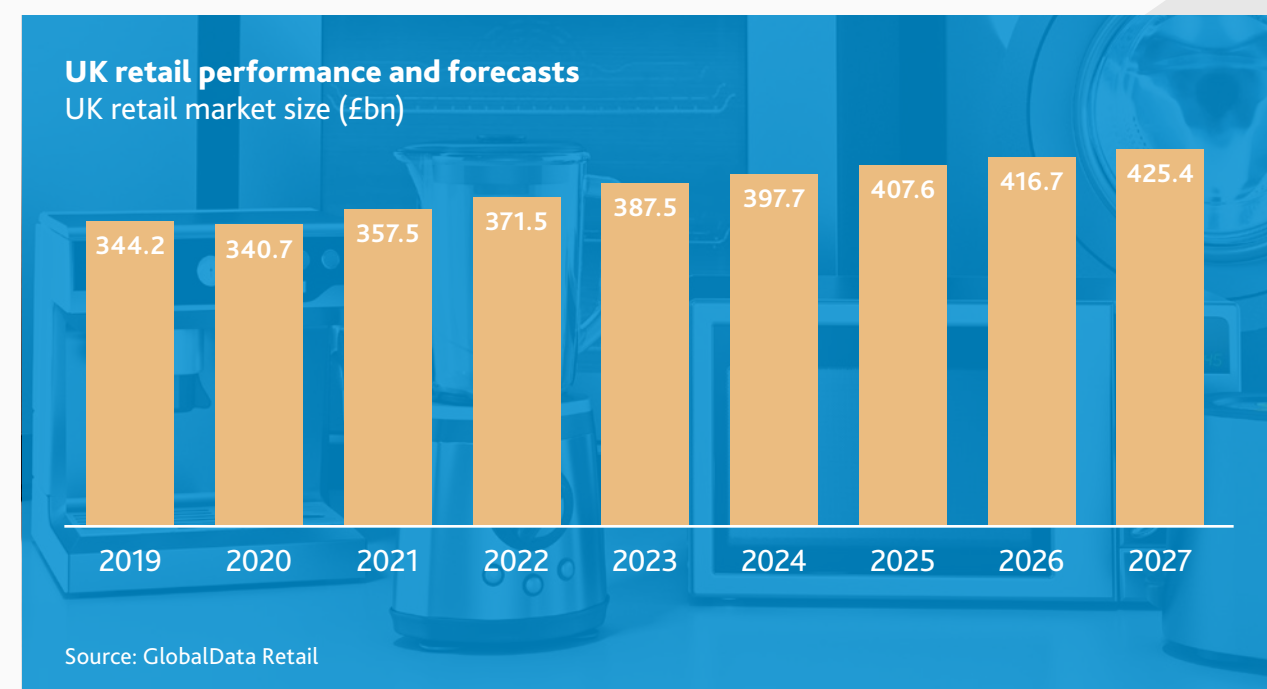


Source: BDO's Consumer Trends Survey, November 2023



In addition to this, consumers' saving pots will remain under pressure in 2024. According to BDO's November consumer sentiment tracker, more than one-third (39.6%) of consumers expect to save less over the next six months, while only 20.4% expect to save more. This results in an overall savings index of -19.2. The index is more positive for young consumers, at 10.6% for those aged between 18 and 24, with fewer non-discretionary outings and many saving to improve cashflow or for a house deposit.

The consumer context



The UK retail market grew 4.3% to £387.5bn in 2023, with 9.5% inflation triggering a 5.2% reduction in volumes. Growth will slow in 2024, as inflation eases, but purchase volumes will not return to growth until 2025.



Category	2022		2023		2024	
	% Growth	Volume % Growth	% Growth	Volume % Growth	% Growth	Volume % Growth
Total retail	3.9	-5.2	4.3	-5.2	2.7	0.0
Health & Beauty	8.3	0.2	5.5	-2.2	2.5	-0.4
Electricals	-6.6	-4.7	-0.6	1.9	2.3	5.7
Food & Grocery	1.8	-9.3	8.0	-6.8	2.9	-1.1
Clothing & Footwear	17.2	9.6	2.2	-4.5	3.7	0.7
Homewares	-0.2	-9.0	1.4	-4.8	0.6	-1.6
Furniture & Floorcoverings	3.0	-10.7	-1.2	-11.1	1.5	-1.0
DIY & Gardening	-10.9	-21.6	-0.4	-8.0	1.9	-0.6
Other*	5.7	-3.4	-0.4	-4.4	1.7	-0.4

Source: GlobalData Retail. *Other includes a range of products, such as Toys & Games, Jewellery, Sports Equipment, Entertainment and Books.

The consumer context

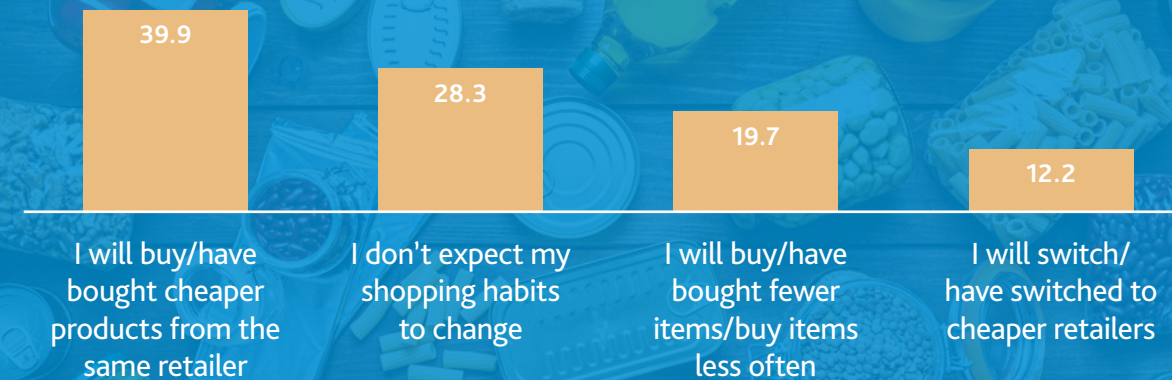
Clothing & Footwear

The clothing & footwear market grew 2.2% in 2023, bolstered by consumers utilising the savings they saved during the pandemic. Spending on clothing & footwear slowed in the latter months of the year, as consumers' savings began to dwindle, and they faced higher energy bills over winter. The Christmas period also went up against tough comparatives from 2022, when consumers made the most of purchasing new outfits, after parties were cancelled throughout the pandemic.

The clothing & footwear market is expected to grow 3.7% in 2024 with volumes beginning to return to growth, as softening inflation makes consumers feel more confident in purchasing non-essentials.



How consumers are changing their food & grocery shopping habits in response to inflation (%)



Source: GlobalData Retail consumer survey, October 2023



Food & Grocery

The food & grocery market grew 8.0% to £185.6bn in 2023, driven by persistently high food inflation. Rising prices have led many consumers to trade down for their food purchases – according to GlobalData's latest monthly consumer survey, 39.9% of consumers are buying cheaper products from their usual grocer, while 12.2% are switching to cheaper retailers.

Looking ahead to 2024, the food & grocery market is expected to grow 2.9% to £191.1bn, with volumes forecast to remain negative into Q1 compared to the same period last year.

Online penetration is expected to rise to 11.2% in 2024, a 0.4ppt increase on 2023, as pressure on disposable income eases slightly, encouraging some customers to return to shopping online for home delivery and click & collect.

The consumer context

Health & Beauty

The health & beauty market grew 5.5% to £25.7bn in 2023. The essential nature of some health & beauty categories forced consumers to endure higher prices for day-to-day necessities, such as deodorants and baby care products, with consumers trading down or switching to a cheaper retailer instead of stopping purchases altogether.

Online penetration fell marginally in 2023 as shoppers reverted to buying more instore to avoid the delivery charges associated with purchasing online. Millennials and Gen Z make up the majority of the consumers globally, who shop online. With advances in technology such as AI, the online channel is set to grow at a faster rate than the physical channel in the coming years. Health & beauty retailers continue to innovate and enhance their online propositions, with many now offering virtual try-ons to boost appeal among Gen Z.



Electricals

The electricals sector declined 0.6% in 2023. Growth slowed during the second half of the year as demand for items such as air fryers and heating appliances faltered, with many consumers already having purchased these items to reduce energy costs earlier in the year or in 2022. The sector is forecast to grow 2.3% in 2024 as consumer confidence and wage growth rises. The online channel is set to outperform from 2024 onwards, with rapidly growing retailers such as Marks Electricals boosting the market, and other players continuing to invest in their online propositions.

DIY & Gardening

Growth in DIY & gardening was flat in 2023, at -0.4%, after a tough start to the year when poor weather affected the gardening market. Despite better weather in June, it was a tough summer for garden furniture and barbeques, due to the unseasonably cool and wet weather during July and August. The sector is expected to return to growth in 2024 as the housing market picks up and more consumers undertake major DIY projects.



Home (Furniture, Floorcoverings, Homewares)

Spending on furniture & floorcoverings declined 1.2% in 2023 as the weak housing market stifled demand and as consumers cut back on big-ticket purchases. The sector is set to return to growth in 2024 as consumer confidence rises and the housing market and real wage growth begin to recover.

Homewares spend rose 1.4% in 2023, with the sector holding up well due to the essential nature of items such as bathroom accessories, as well as the mood-boosting lipstick effect of categories such as decorative items. Food storage also performed well, as consumers cooked more at home to reduce spending on eating out. Due to the relative resilience of homewares in 2023, growth in 2024 will be marginal, at 0.6%.



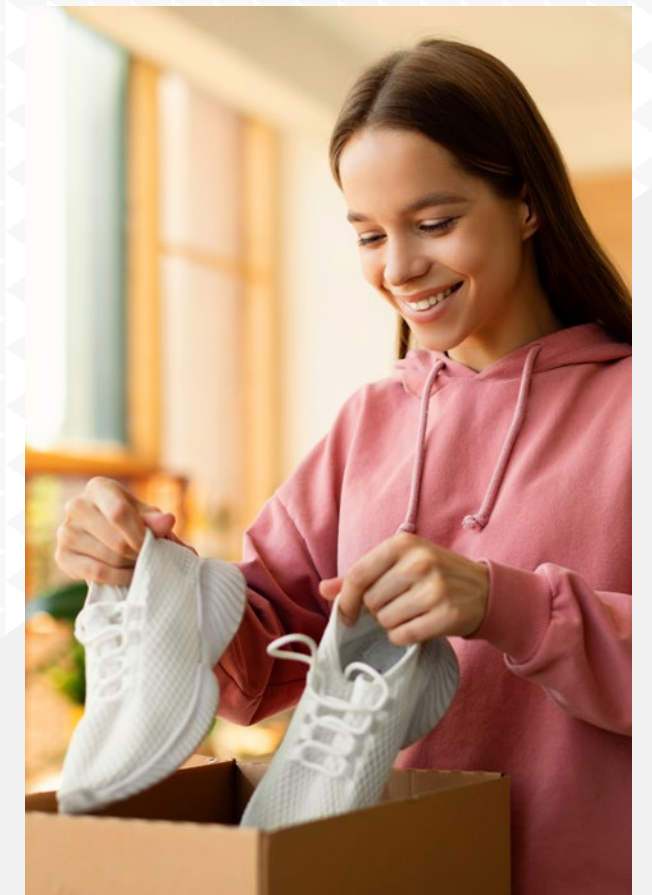
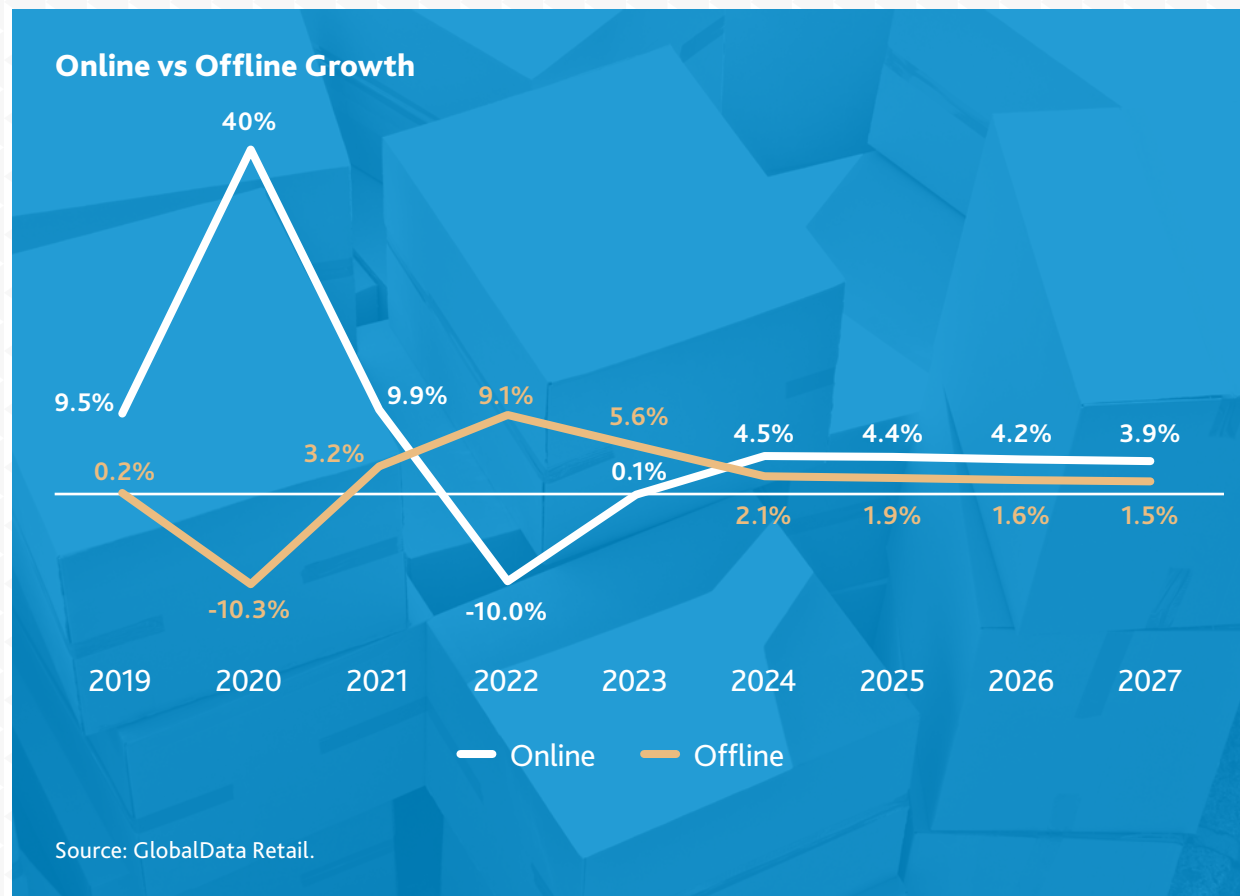
Retail channels

Spending through online channels returned to growth in 2023. However, it once again underperformed offline channels as the market continues to rebalance following lockdowns in 2020 and 2021, and as consumers turned to stores to find the lowest prices and avoid delivery charges during the cost-of-living crisis.

Gen Z shoppers often switch between channels to find the lowest prices and the most up-to-date products. Some online-only retailers have opened temporary pop-up stores to capitalise on this and boost consumer engagement; Shein, for example, opened a pop-up store on London's Oxford Street for London Fashion Week.

71% of Gen Z stated they prefer online product research and **68%** prefer online product purchasing over other channels.
 BDO in-house survey

From 2024, it is expected that online will return to drive growth in the retail market, with advancements in technology, such as AI, enhancing the online experience and shopping journey.

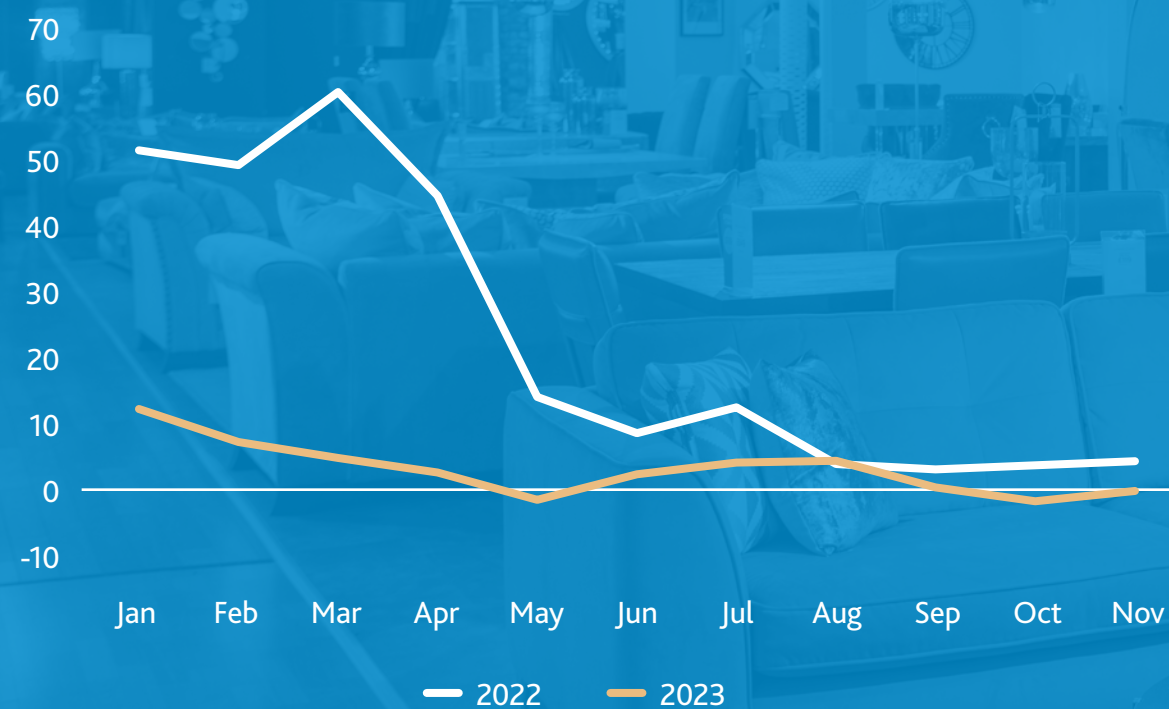


The BDO HSST Data

BDO's High Street Sales Tracker (HSST) follows discretionary spending across fashion, lifestyle and homeware, both online and in-store. It is not impacted by essential purchases and is therefore an important barometer of where the consumer purse goes.

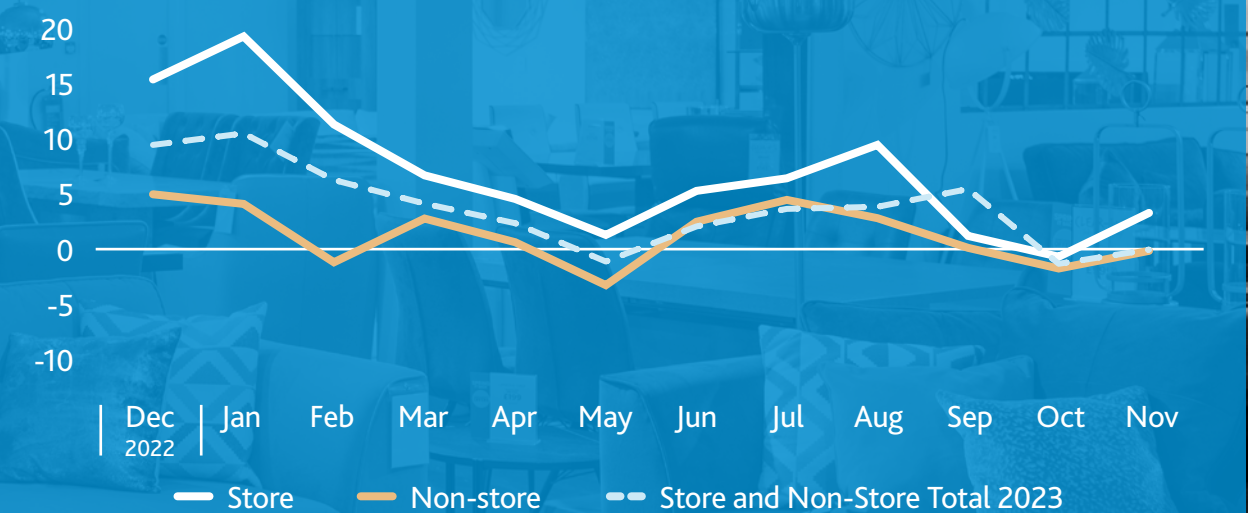
The cost-of-living crisis dampened consumer demand throughout 2023. According to BDO's HSST, in 2023, retail sales growth lagged behind 2022 in every month apart from August.

Total LFL (%) January – November 2023 versus January – November 2022



Source: BDO High Street Sales Tracker

Total LFLs December 2022 – November 2023



Source: BDO High Street Sales Tracker

2023 witnessed a widening gap between store and non-store LFL sales throughout much of the year. However, the final quarter of 2023 saw store sales dip into negative territory, pulled down by a steep drop in store fashion sales in October – the first negative store performance since February 2021. Non store sales continued to show mixed results, perhaps due to buyer fatigue with online sales following a boom in e-commerce through the COVID-19 pandemic and lockdown.

Key retail themes for 2024: Gen Z and... ...Technology

Retail businesses continue to innovate, leveraging new technologies to create efficiencies across their supply chain, improve the consumer shopping journey, and boost profitability. Artificial intelligence (AI), for example, can be used to improve pricing optimisation, inventory management, product recommendations, personalisation, and instore conversion. Many retailers are using AI to engage young shoppers, through digital and physical channels alike.

It is notoriously difficult for retailers to achieve a healthy profit margin through online channels, due to the logistical challenges involved and the high volume of returns, which can be costly for both retailers and the environment. Some fashion players including Uniqlo and Zara recently introduced a fee for online returns, to help mitigate some of these cost challenges. Meanwhile, fashion retailer Rixo recently unveiled a 'try before you buy' service which allows customers to try up to four styles at home with no payment taken aside from the standard delivery fee.

"It's early days for exploring Generative AI, but we are always looking to raise the bar on our customer experience and help make our customers' lives easier."

Amanda Yu, Ocado Retail

Many businesses are also turning to technologies such as AI to reduce return rates, for example through improving sizing and product recommendations. For instance, ASOS uses its Fit Assistant tool to recommend a product size based on what other similar shoppers have bought and kept.

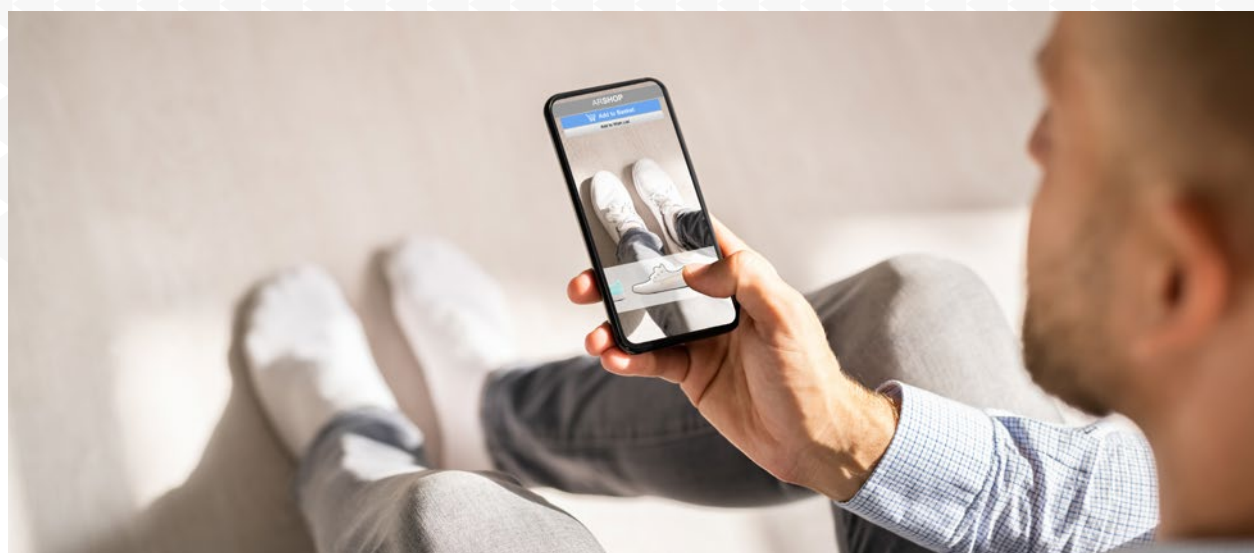


AI is also facilitating a shift from personalisation to hyper-personalisation. Traditional personalisation methods use historical data to offer tailored experiences, while hyper-personalisation uses real-time data. Consumers, especially Gen Z, increasingly demand this high level of personalisation during their shopping journey. In our in-house survey, 61% of BDO Gen Z stated personalised dashboards to be somewhat important, important, or highly important to a seamless online experience, while 57% listed relevant recommendations based on past browsing or purchasing.

Hyper-personalisation is gaining traction in the health & beauty sector with many retailers and brands offering virtual try-on services for makeup, hair dye, and glasses to boost consumer engagement. BDO's survey showed 21% of Gen Z to believe augmented reality contributes to a seamless experience. For example, War Paint for Men offers an interactive shade finder on its website and has collaborated with Dcypher to offer a personalised skincare service in its stores.

Key retail themes for 2024: Gen Z and...

...Technology



Generative AI, such as ChatGPT, can also be used to improve customer service through virtual shopping assistants and chatbots. Generative AI-powered chatbots can respond instantly to frequently asked questions about product availability, order status, or return policies. For example, in April 2023, Zalando introduced a virtual assistant that uses ChatGPT on its app and web platforms. This allows shoppers to ask open questions and offers product recommendations based on details such as the occasion and location of an event.

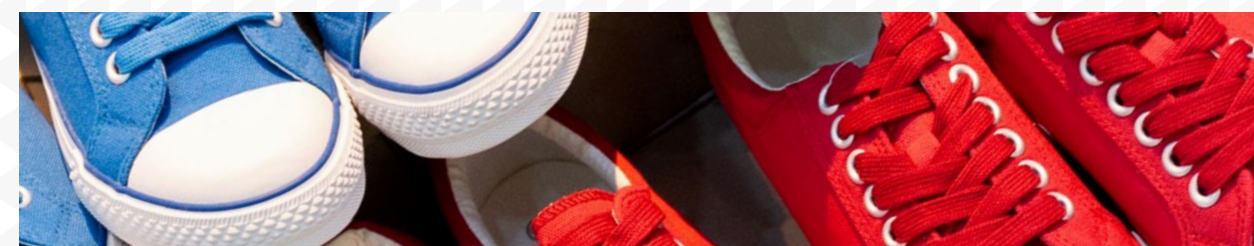
However, there is still some way to go to boost uptake of chatbots. Many consumers are sceptical – according to a recent GlobalData survey, more than half (56.8%) said they are unlikely to use a chatbot to answer a question about a product or order when shopping online. Gen Z are slightly more open to the idea, with this percentage dropping to 46.4% among those aged between 16 and 24.

Gen Z are constantly looking for new and exciting ways to shop, and retailers are responding. Some are experimenting with the metaverse – although this is far from becoming mainstream in the retail market, it has however been proven to be useful for marketing and consumer engagement. Nike, for example, has recognised the metaverse as a new frontier for customer engagement and brand experience. The brand aims to create immersive and virtual environments that allow users to interact with Nike products in new ways. Nike has explored the concept of virtual sneakers, allowing users to own and customise digital versions of Nike shoes as non-fungible tokens (NFTs). These virtual sneakers can be worn in metaverse experiences and on social platforms.

Despite big brands like Nike using the metaverse, consumer uptake and engagement with it is low. According to a recent GlobalData survey, just over half (53.3%) of consumers are aware of the metaverse. Of these, only 36.3% stated that they would make a purchase in the metaverse, although this proportion rises to 42.5% among those aged 16-24. It is yet to be seen if this will change in the future, especially with Apple launching its first AR headset in early 2024.

Key actions for retailers

- 1 Explore and stay in tune with the latest technologies and how they can be utilised to enhance your customer experience.
- 2 Evaluate the suitability of these latest technological advancements against your customer segments.
- 3 Identify where inefficiencies exist and start to test new technologies and solutions.
- 4 Explore where you can create effective business partnerships to share the cost of the technology required.



Key retail themes for 2024: Gen Z and...

...Modern media consumption

Social media is becoming an increasingly important part of the shopping journey, especially among younger shoppers. Our in-house survey presented Instagram to be the most popular social media platform among Gen Z, with 87% using it for one hour or more per week. As many as 33% engage with Instagram for longer than 5 hours per week, while 34% of Gen Z use TikTok for this duration.

In particular, Gen Z consumers are increasingly using platforms such as TikTok and Instagram for product discovery and to browse, purchase, and review items. Our in-house survey exhibited 43% of Gen Z to use social media apps to follow brands or find reviews of brands and products. Of those engaging with brands, Gen Z are most likely to follow those in the apparel, food and drink, or technology sectors. Purchasing products through social media, either directly or indirectly, is growing in popularity too for its convenience. At BDO, nearly 20% of Gen Z have completed a purchase in a social media app in the last three months and as many as 49% indirectly.

"TikTok is educational and entertaining. This 'edutainment' factor is really capturing people's imagination and that's why engagement levels are so high and conversion is more effective."

Lucy Beresford, SLG Brands

Although this provides opportunities for retailers and brands to boost awareness and engage with shoppers, it can be difficult to cut through the noise and stand out. BDO's in-house survey showed 'fun and entertaining content' to be one of the reasons of nearly a quarter of Gen Z engaging with brands' social media (24%), while 23% are persuaded to follow brands after regularly seeing advertisements on their existing social pages.

Some retailers are also introducing curated content on their own websites. For example, Zalando recently introduced 'Stories' which highlights inspirational style content, new trends, and exclusive brand collaborations.

While some retailers pay hundreds of thousands of pounds for sponsored posts on platforms like Instagram and TikTok, it can often come across as inauthentic to Gen Z consumers – especially if the influencer mentions a post is sponsored, as is legally required in the UK. In fact, the rise of the "deinfluencing" trend, where influencers discourage shoppers from buying unnecessary or low-quality products, points to growing cynicism towards sponsored posts.

In contrast, one of the most proven methods for products to gain hype in the digital world is where there is the absence of corporate involvement. Some of the most viral products gain notoriety from their consumers engaging on social media to tell their peers about what they've been enjoying, or after discovering a new hack. This form of organic marketing can cause sales to surge at brands and retailers without them incurring any advertising expense. Recent examples of this include Ninja air fryers, Starface pimple patches, and crossbody bags from Uniqlo, with Gen Z shoppers driving and creating much of this demand.

"We have used social media and digital content to tell the rich story of our history which has led to greater interest from Gen Z in our brand and our propositions."

**Justin Carmichael,
Fortnum & Mason**



Key retail themes for 2024: Gen Z and...

...Modern media consumption

Social media has also had an impact on the luxury retail market. Throughout their lives, Gen Z have constantly been exposed to luxury via social media platforms. This has resulted in them developing a desire for luxury at an earlier age compared to previous generations, and the luxury shopper is getting younger and younger. But Gen Z shoppers do not purchase luxury items merely for superficial reasons. Some purchase luxury items as investment pieces, paying particular interest to the resale value, and flipping them for profit. This has led to the likes of Rolex now operating its own 'certified pre-owned watches' program, and brands like Versace using Certilogo to authenticate products.



Key actions for retailers

- 1 Develop a clear segmentation of your social media channels, understanding which customer segments engage with which channels.
- 2 Assess the role influencers play with your customers and engage with those which can be affordably utilised.
- 3 Consider how your brand and products can be utilised in visually appealing posts.
- 4 Develop a clear approach to monitoring and measuring the performance of these channels.

Success story

TALA, a UK-based activewear brand focused on sustainability, successfully uses social media to engage with Gen Z shoppers. Founded in 2019, TALA now has over 400,000 Instagram followers and uses both affiliate influencers and user-generated content to appeal to Gen Z shoppers. To enhance authenticity and grow its credibility among younger shoppers, TALA's products and affiliate influencers are very inclusive with a wide range of body types and Instagram profiles promoting TALA products.

Key retail themes for 2024: Gen Z and...

...Loyalty and subscription programs

In a world where consumers are exposed to countless options through social media, it is challenging to win new shoppers and even more difficult to keep them returning. Consumer choice is now broader than ever, with shoppers easily able to compare products and prices across channels and switch based on their preferences.

"I expect to see more brands incentivising social media activity as a loyalty mechanic to drive brand engagement."

Tom Holt, BDO

This has led to the emergence of the 'zero-consumer'. A diverse and growing segment, zero consumers are omnichannel shoppers who focus on saving but are also willing to spend when convinced. They also have little brand loyalty, and care about health and sustainability but are unwilling to pay a high price for it.

Gen Z shoppers make up a large proportion of the zero-consumer and are particularly difficult to retain; they are trend-driven and tend to shop across different retailers, brands and channels to keep up to date with the latest trends. This means that they are generally far less loyal to a particular retailer or brand than older generations.

Most retailers now offer some form of member program to boost shopper loyalty. Many loyalty programs offer exclusive member pricing, personalised discounts, or points that can be used for future purchases. Some also offer additional benefits such as rewards or even freebies.

Three quarters of BDO's Gen Z have joined a loyalty scheme in the past 12 months, with the majority citing grocery schemes, followed by apparel. When asked which factors would most influence them to join a loyalty scheme, free delivery was a top choice, with 92% rating this as somewhat important, important, or highly important. Other leading responses were largely discount-related, such as personalised discounts based on past purchases, while 9 in 10 chose "collecting points for money off".



Loyalty clubs can also be used to generate interest around specific events such as Black Friday. This not only promotes the membership scheme itself but also the event, creating a sense of anticipation. For example, Superdrug launched its Black Friday promotions two weeks earlier for its Health and Beauty card members.

Schemes that offer discounts for members, such as Clubcard Prices and Nectar Prices, tend to resonate particularly well with consumers, as these offer an immediate and tangible price saving. 92% of BDO Gen Z voted for instant discounts as an influential factor for joining a loyalty scheme. Consumers also value loyalty schemes that offer money off future shopping trips, for example through points or cashback. JD Sports has recently launched its new loyalty app in the UK, granting members 10% cashback on their first purchase with 'JD Status' and 1% cashback on every additional purchase at the retailer.

Key retail themes for 2024: Gen Z and...

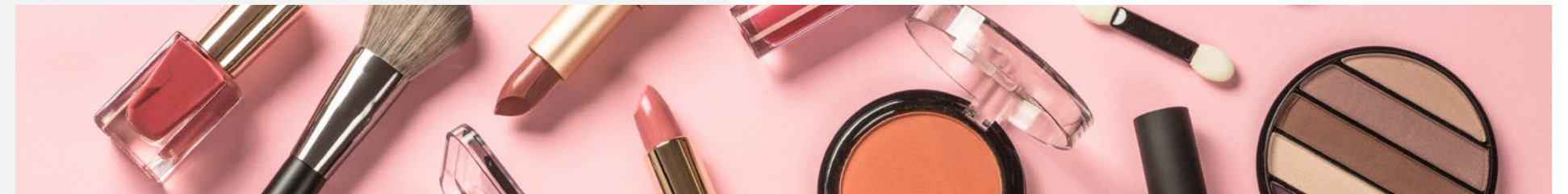
...Loyalty and subscription programs



"Retailers have got to do something distinctive and make sure it feels worth it from a customer point of view."

Ross Avery, John Lewis Partnership

In the past, retailers and brands have successfully used subscription services to boost repeat purchases and build shopper loyalty. Over the past couple of years, this has become much more difficult, with consumers cutting back on subscriptions to save money, largely also as a result of the cost-of-living crisis. However, subscription models can be successful, with many Gen Z shoppers using subscriptions as a means to discover new products and brands. 68% of BDO Gen Z stated early access to new products or exclusive launches as influential for joining a scheme. For instance, Sephora offers a Beauty Box subscription service which allows shoppers to select five new product samples that they want to try each month.



Key action for retailers

- 1 Create a clear understanding of where loyalty can play a role across the customer experience.
- 2 Test incentives to assess if these can drive behavioural changes and a return on investment.
- 3 Consider non-discount driven loyalty mechanics e.g. free returns for your best customers.
- 4 Explore how loyalty can be used to drive social media engagement e.g. exclusive access to new launches for top posters/sharers.

Success story

Beauty Pie has successfully driven brand loyalty among Gen Z shoppers through its membership structure. For £4.95 per month (for an annual membership), Beauty Pie subscribers can access member prices (which are significantly lower than the normal price) and exclusive products. They also receive free shipping on orders over £50.



Key retail themes for 2024: Gen Z and... ...ESG

Environmental, Social, and Governance (ESG) is now a key pillar of retailers' strategies, with consumers and shareholders increasingly demanding transparency and action around issues impacted by areas such as supply chains, modern slavery, and carbon footprints.

Gen Z consumers are playing a crucial role in this. 54% of BDO Gen Z state that sustainable features are somewhat to highly important to them when considering a product purchase, while 2 in 5 take into account ESG considerations when deciding to purchase from a brand. BDO Gen Z perceived fair treatment of company employees, sustainably sourced raw materials, and sustainable packaging to be the most valuable ESG elements.

Eliminating modern slavery has been a key focus for fashion brands in particular. For example, following allegations of modern slavery in boohoo's supply chain back in 2020, stockists such as Zalando and Next pulled the brand's products from their websites and the controversy has weighed on its share price ever since. To protect and demonstrate against such events, in 2022 ASOS signed a new three-year partnership with Anti-Slavery International.

"Anyone in the consumer goods sector would recognize that we've got a really important job to do in terms of making mindful decisions that reduce our impact on the natural world."

Lucy Beresford, SLG Brands



Many consumers are participating in the circular economy in an effort to reduce waste but also to empower their spending further when the consumer purse is being squeezed. Retailers are equally focused on the circular economy with 26 retailers including Primark, M&S, John Lewis, and ASDA signing the circular economy charity Wrap's Textiles 2030 initiative to 'reduce carbon emissions, improve water stewardship and make the clothing and textiles sector more circular.'

Gen Z has been one of the main groups driving growth in the re-commerce market over the past few years.

BDO Gen Z quoted re-commerce as their top method of having become more sustainable shoppers over the last year, with **4 in 10** having bought more second-hand products and **1 in 10** switching to rented or borrowed products.

BDO in-house survey

Key retail themes for 2024: Gen Z and...

...ESG



Platforms such as Depop and Vinted make buying and selling secondhand easier than ever. Depop, for example, has developed curated pages that are tailored to each consumer, by allowing them to select their most admired brands and trends. Some retailers are also participating in the circular economy to encourage reuse. For example, Shein has launched its own resale platform, Shein Exchange, in the US; this allows shoppers to more easily buy and sell preowned Shein products.

Of BDO Gen Z consumers, **27%** stated they would not be prepared to pay more than usual for more sustainable products.

BDO in-house survey

There is no doubt a desire among consumers, especially Gen Z, to shop more sustainably. However, many struggle to put this into practice due to financial constraints, a need for convenience, or poor visibility of truly sustainable brands.

According to a recent GlobalData survey, just over one-third (33.7%) of UK consumers agree with the statement "retailers that place greater emphasis on sustainability appeal the most to me", and agreement with this statement is highest among 18-24-year-olds, at 46.5%. However, this proportion has declined year-on-year, suggesting that consumers are prioritising other aspects such as price during the cost-of-living crisis.

Retailers that offer low prices and align with environmental considerations prove popular among the Gen Z demographic. For example, Nobody's Child has launched a rental service in partnership with rental specialist Zoa. This allows shoppers to hire selected products for a minimum of five days, with prices starting at £15.



Key retail themes for 2024: Gen Z and... ...ESG

Retailers cannot rest on their laurels when it comes to ESG, as demands from shareholders and consumers continue to evolve, and as the government introduces new mandates. Indeed, 58% of BDO Gen Z believe brands are not doing enough when it comes to ESG, while three quarters believes the responsibility to pay for sustainability falls to businesses rather than consumers.

“ESG is the right thing for the world and the environment but there is a way to go before it's a major purchase driver.”

Ross Avery, John Lewis Partnerships

'Fast-fashion' is now a well-known term, but awareness is also growing about fast consumption in other areas such as the technology sector. For example, there are rising concerns about the environmental impact of disposable vapes and the throwaway culture

for small electrical items like cables and USB sticks. In response, Superdrug recently announced plans to stop selling single-use vapes. Electronics specialist Currys is also taking meaningful action in this space, by offering a service to repair, refurbish and recycle used tech products.

The rise of 'cancel culture' means retailers now have to tread much more carefully, with young consumers often shunning brands that do not meet their expectations, particularly when it comes to ESG. Gen Z shoppers are more likely to scrutinise retailers' ESG claims than older generations and often highlight instances of greenwashing – exaggerating the sustainability credentials of a product – on social media. Also apparent is consumer focus on whether retailers uphold their ESG promises; boohoo recently came under scrutiny after a BBC Panorama episode revealed a lack of execution over its pledges to an ethical overhaul. With consumers and regulators clamping down on greenwashing, companies will likely tighten control over their marketing departments and how they use terms like sustainable and green in the coming years.

Key actions for retailers

- 1 Start to track as much of your environmental impact as possible and set in place targets.
- 2 Ask your customers where you can make the most difference with your ESG commitments.
- 3 Consider how your customers can engage with your ESG targets to help bring authenticity to them.
- 4 Develop policies for your colleagues that highlight your brand lives and breathes by its ESG values.

Success story

H&M operates many circular initiatives including an instore textiles collection service and peer-to-peer websites. Its majority ownership of Sellpy, an online resale platform, shows its commitment to the preloved market and its efforts to grow product circularity. In addition to this, H&M also offers its 'Conscious' range which contains at least 50% more sustainable materials. This is marketed across all of its departments, labelled with a green hangtag with future plans to have all of its products made from recycled or other sustainably sourced materials by 2030.





Following four years of significant macroeconomic instability, many retail businesses and their consumers are in a fragile position, with a cloud of continuing uncertainty, as we head towards 2024.

Despite falling inflation in recent months and the government's plan to increase the National Living Wage from April, it will take some time for consumer confidence and spending power to stabilise. Many consumers will remain cautious and retail purchase volumes are not expected to return to growth until 2025. Retailers will continue to feel the impact of muted consumer demand and this, along with a rise in business rates, will make it difficult to restore profit margins.

Closing comments from Sophie

It is therefore even more critical that businesses identify and seek out the pockets of opportunities; one such area is the envisaged growth in 2024 from spend by the lucrative Gen Z demographic. Gen Z are now an established consumer base and in the coming months and years, their sphere of influence and spending power will continue to grow. The retail landscape will evolve as brands adapt their strategies and pivot their efforts toward Gen Z in order to remain relevant and capture this spend.

More than any generation before them, Gen Z shoppers continuously look for new and engaging ways to shop, often switching between retailers and channels to find the most on-trend products. This means they are generally less loyal than older generations, so retailers need to work harder to gain and retain their spend. Gen Z are also much more likely than older generations to call out or 'cancel' brands that do not align with their expectations, particularly when it comes to ESG.

Engaging with this "older teens and twenty's something" group may be the most important consumer group that many retailers are not yet reaching to succeed as the winners from retail in 2024 and beyond.

In conclusion, retailers seeking out Gen Z shoppers as a source of growth, will need to stay on top (and almost ahead) of the latest trends when it comes to products, technology, social media, pricing structures, and expectations around ESG issues, in order to resonate with this tech-savvy consumer base with increasing spending power and influence.



To register for upcoming retail webinars, or to watch previous recordings, scan the QR code.

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