



# Retail trends analysis

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August 2022





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01

# Key findings

# Executive summary (1 of 3)



## While foot traffic is recovering from COVID-19, consumers increasingly demand the best of the online experience in stores.

- COVID-19 drove accelerated growth in e-commerce, but consumers are returning to in-person shopping. There is significant variation in foot traffic declines among categories, which correlates with e-commerce penetration.
- Despite the changes in consumer behavior over the past two years, most consumers prefer to shop in person, but there are aspects of the online buying journey that they would like to see brought into the in-store experience. Retailers have been increasingly investing in technologies to improve the in-store buying experiences and close the gap between online and in-store experiences for consumers.



## Retailers are making new investments in physical locations to enable BOPIS and create a true omni-experience

- BOPIS sales grew at an accelerated 54 percent compound annual growth rate (CAGR) from 2019 to 2021 and are expected to grow at a 19 percent CAGR through 2024. Retailers are investing in changes to their physical locations to enable BOPIS, including both customer-facing changes such as self-pickup lockers and dedicated pickup areas, and also internal efficiency changes such as dedicated in-store pick teams and converting portions of big-box stores to hold BOPIS orders. Retailers have built an integrated omni-experience by centering BOPIS from a customer's first visit to their homepage all the way through to their pickup in store, all with the intention of maximizing retailer efficiency and customer basket size.

# Executive summary (2 of 3)



## **As supply chain challenges have increased, retailers have turned to novel, short-to-medium-term solutions.**

- Challenges in supply chain have been driven by both external, macro-COVID-19-driven disruptions to logistics systems and also by a growing consumer demand for shorter fulfillment times. Retailers have addressed these challenges by first trying to reduce the requirements for their transportation and suppliers by spending on additional storage, using methods such as increasing safety stock, planning longer periods, or even adjusting product seasons or bundles. Retailers have also sought out new transportation solutions, including expanded use of air-freight and deployment of tracking technologies for better insight into arrivals.



## **Tight labor markets and rising unionization have driven retailers to increase pay and benefits.**

- Low unemployment and a shrunken labor force, relative to pre-COVID-19, have increased the difficulty of retaining and hiring workers. While increases to base pay remain the most effective method, retailers have also turned to a wide variety of non-wage pay packages and benefits as a way to offer their employees more with limited impact on labor costs. Retailers have also increased investments in automation and other process changes to decrease their reliance on store labor, which has become more attractive as the cost of labor makes the comparative investment more attractive. Rising unionization has added an additional challenge for some retailers, who primarily reacted with efforts to avoid union certification in their stores.

# Executive summary (3 of 3)



## Metaverse strategies remain in a nascent stage, giving retailers opportunities to experiment.

- Despite the growing conversation around metaverse, most retailers are in the very early stages or not yet developing a strategy for their metaverse presence. While some brands have begun to experiment with the metaverse, through both partnerships with more native brands and stand-alone investments, senior executives remain more skeptical of any uses other than marketing or product discovery. In the longer term, a wide variety of use cases may become standard, ranging from sales of digital items such as NFTs, or physical items through a metaverse storefront, all the way to sponsoring live performances hosted in the metaverse.



## Despite the many distractions of the past two years, ESG continues to grow quickly in importance.

- ESG continues to grow in importance for retail organizations, with more than 80 percent of executives stating it has grown somewhat or significantly more important. Other than cost, executives point to challenges with missing expertise and split managerial attention as their biggest challenges with implementing an ESG program successfully, both of which can be solved by bringing in a dedicated ESG executive and/or team to lead any efforts. Growth in ESG programs has been driven by both internal and external stakeholders, most notably a desire to manage consumer reputation and increasingly regulatory pressure, both in goals and reporting.

02

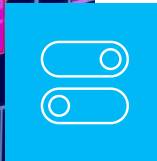
# Macroeconomic indicators



Gross domestic product (GDP) and retail growth acceleration greatly benefited retailers, but growing inflation has created new challenges being met differently by different size retailers.



U.S. GDP is expected to return to roughly pre-COVID-19 levels of growth for about 3 percent of retailers' from 2022 to 2024. Consumer price growth is expected to peak in 2022 at 8 percent before declining to more historically familiar levels.



U.S. retail sales experienced accelerated growth from 2020 to 2021 as a result of consumer spending shifting from services to goods, while e-commerce penetration accelerated from 2021 to 2022 as consumer shopping behavior changed.



Retail executives are most concerned about increased operating and product costs hurting their business as a result of accelerated inflation but expect to fight these effects through complementary cost takeout and passing on price increases to consumers.

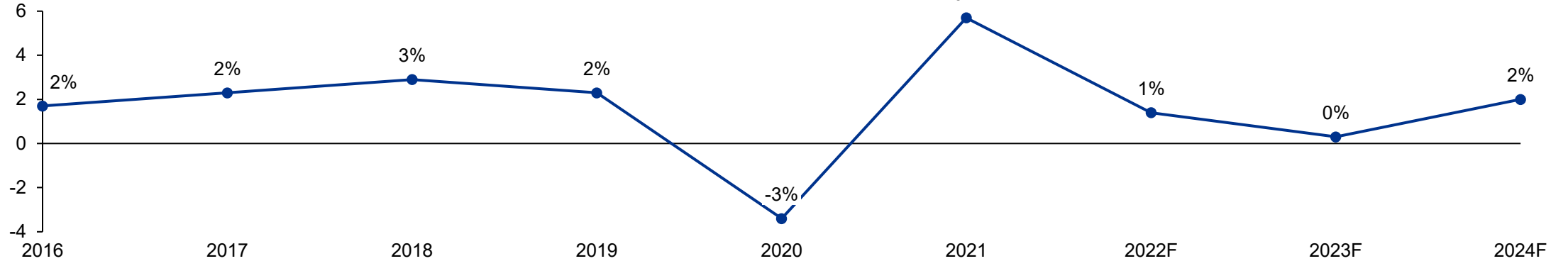


Larger retailers (>\$10 billion revenue) are more concerned with operating cost increases than product cost increases, as well as increased lending rates, while smaller retailers (\$1-5 billion revenue) are more concerned with product cost increases and their ability to pass costs on to consumers.

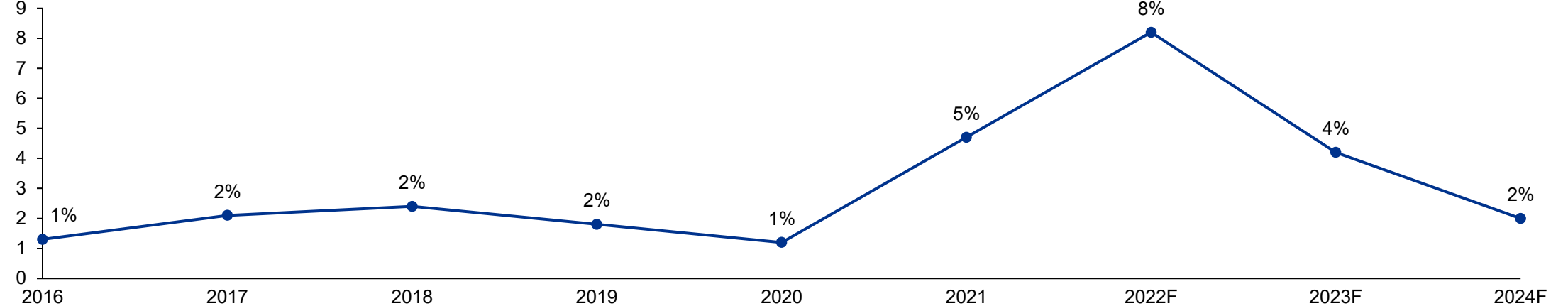


US GDP grew significantly in 2021 as lockdowns lifted and exports and consumer spending increased, while also driving inflation growth as demand outstripped supply.

US Real GDP,%, 2016 - 2024E<sup>(1)</sup>



US Consumer Price Index,%, 2016 - 2024E<sup>(2)</sup>

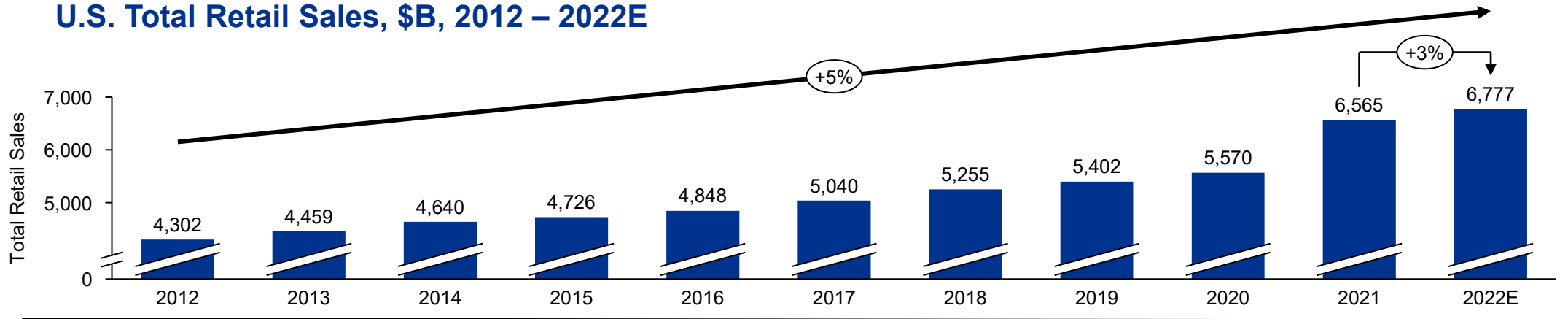


Source(s): (1) Bureau of Labor Statistics with KPMG forecasts; (2) IMF with KPMG forecast

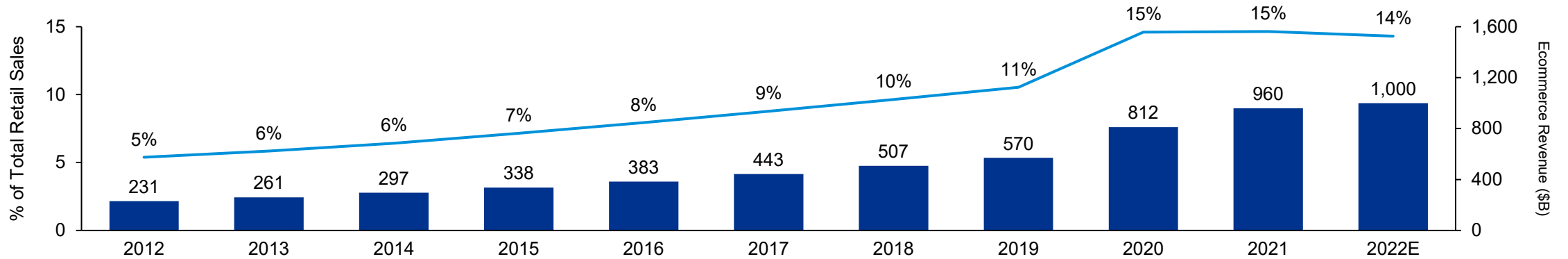


Retail growth is expected to grow ~3 percent in 2022 as consumers spend more on services while e-commerce growth will slow as consumers continue to shift away from spending on goods.

### U.S. Total Retail Sales, \$B, 2012 – 2022E



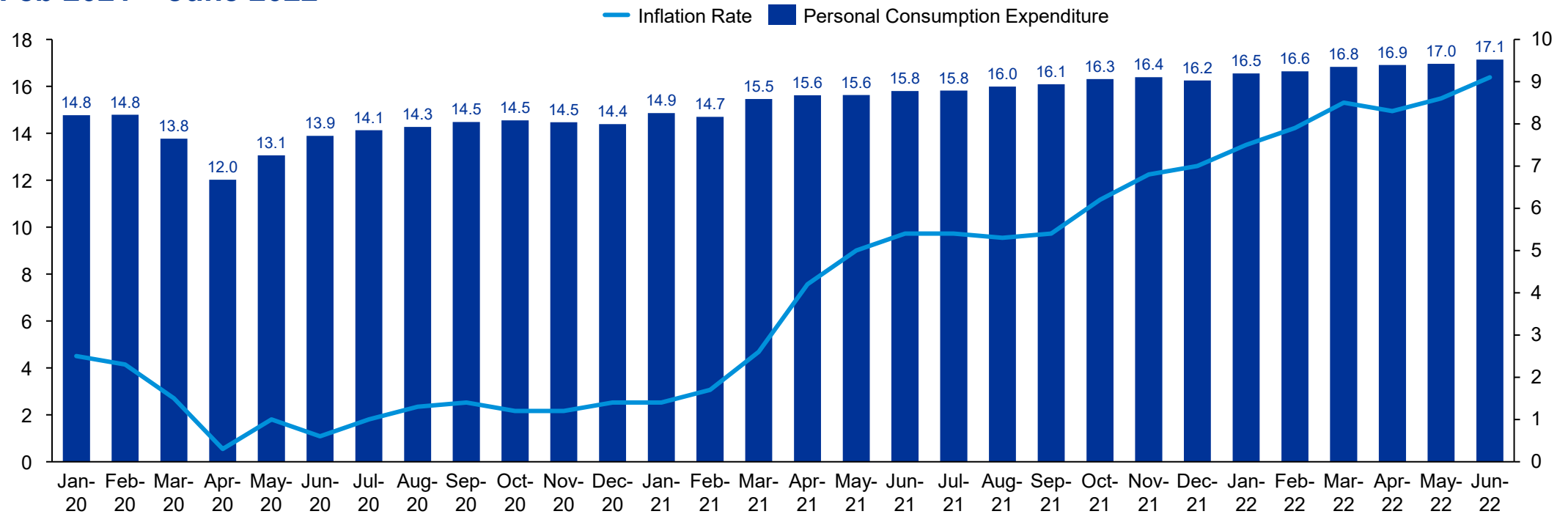
### U.S. Ecommerce Revenue, \$B, and as% of Total Retail Sales, 2012 – 2022E



Source(s): US Census Monthly Retail Trade Report, accessed August 2022, with KPMG forecasts

Personal consumption expenditure and inflation have moved directionally parallel until early 2022, indicating consumers have begun to change purchasing due to rising prices.

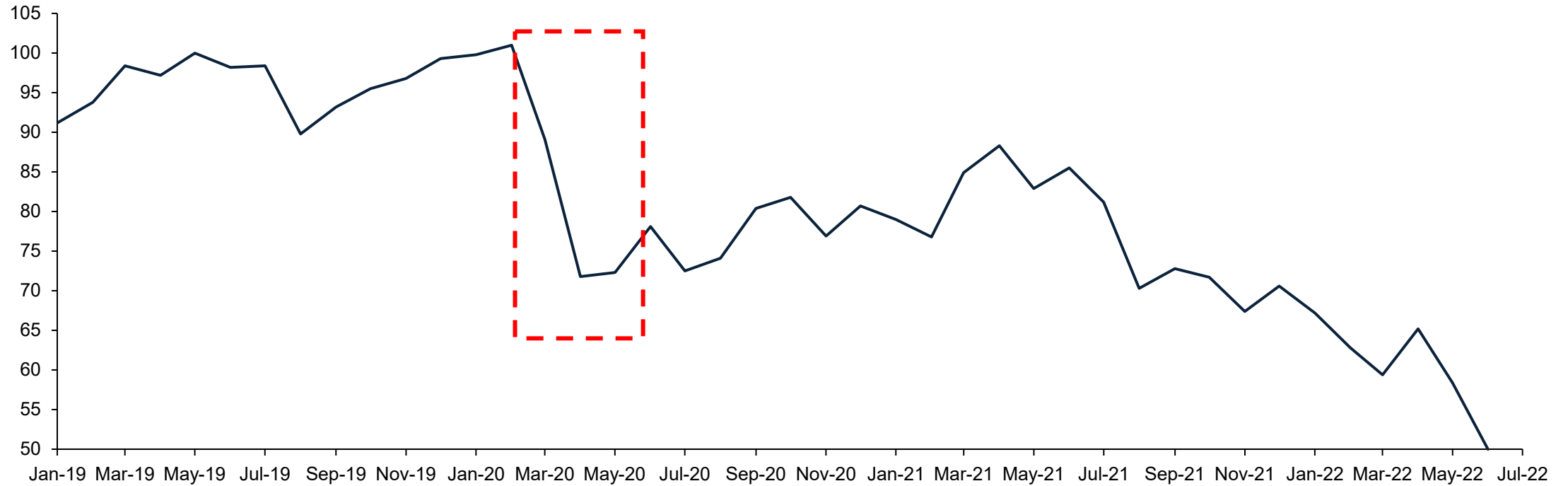
### Inflation Rate and Personal Consumption Expenditure<sup>(a)</sup> in \$T, Feb 2021 – June 2022



Note(s): (a) Personal consumption expenditures (PCE) or Consumer spending is the value of the goods and services purchased by, or on the behalf of U.S. residents  
 Source(s): Bureau of Labor Statistics; FRED

# Consumer sentiment fell sharply between February and April 2020 and has continued to decline through much of the COVID-19 recovery.

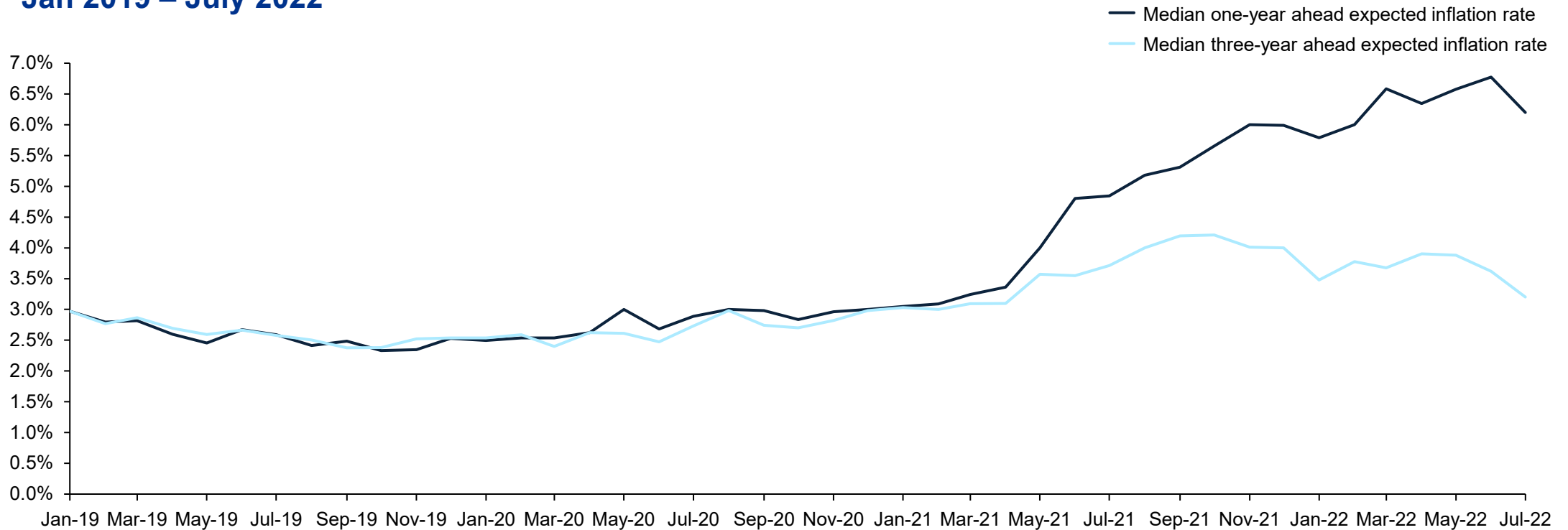
## Consumer Sentiment, Feb 2019 – Jul 2022



Note(s): Consumer Sentiment, Index 1966: Q1 = 100  
Source(s): FRED, May 2022

# Though consumer expectations of inflation rates have increased, consumers do not expect inflation to remain elevated in the longer term

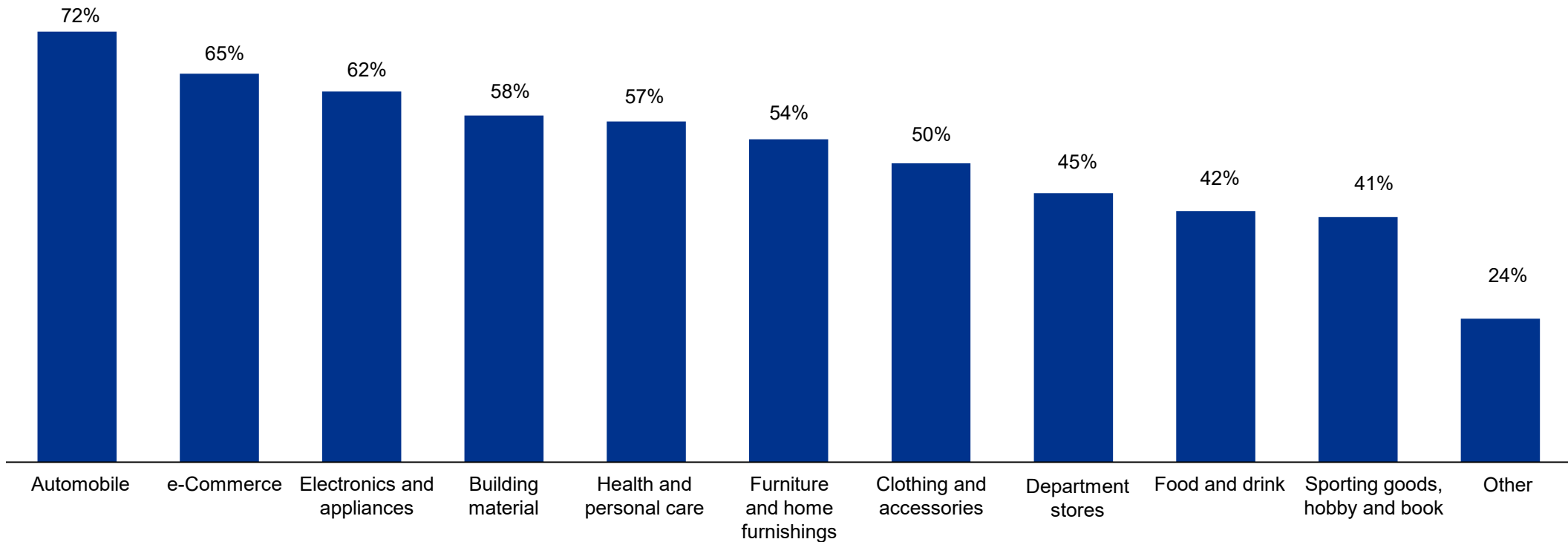
## Consumer expected inflation rates, median, one year and three year horizons, Jan 2019 – July 2022



Source(s): New York Fed, August 2022

Across retail categories, companies are increasing prices to offset rising costs as the threat of prolonged high inflation looms.

Percentage of companies across retail categories that increased prices due to inflation<sup>(a)</sup>



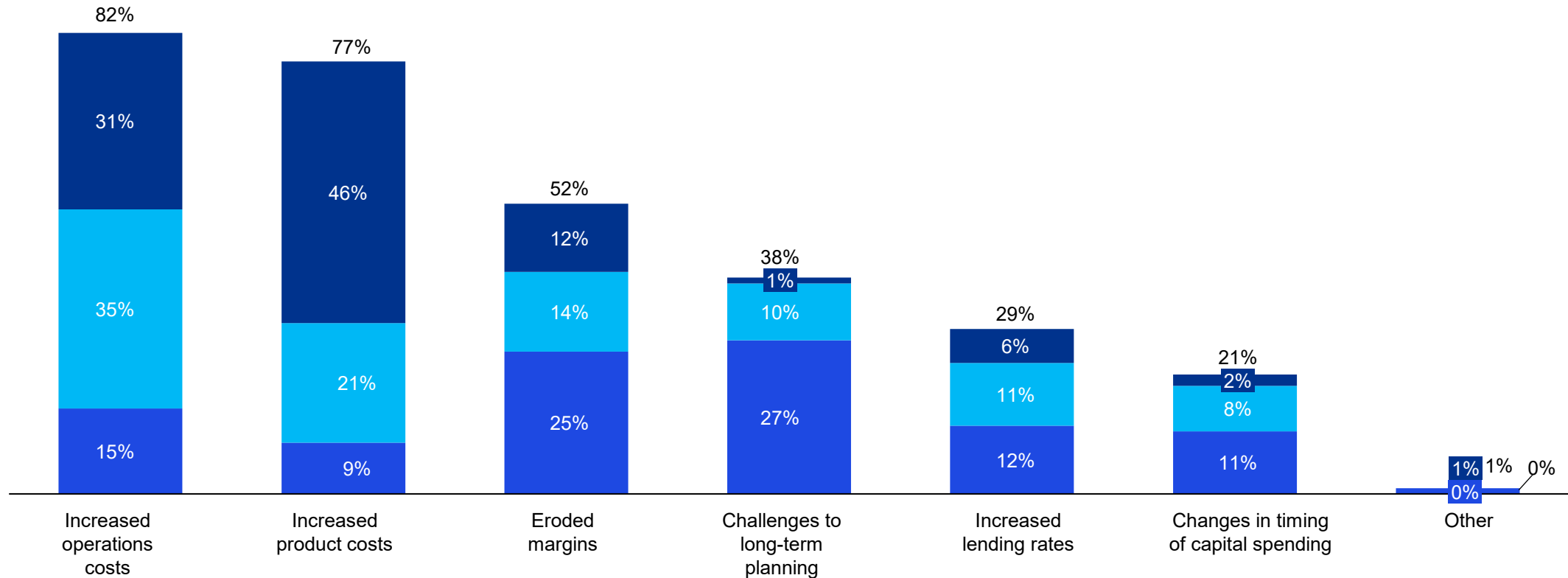
Note(s): (a) A survey conducted by Digital.com on November 2021 surveying 1,000 U.S. retail businesses and executives  
Source(s): Digital, November 2021 and KPMG analysis

# Inflation is occurring throughout the P&L with retailers feeling the most pressure on increased operations and product costs

## Inflationary challenges (N=100)

Thinking about inflation, please rank the top 3 challenges for your company.

Rank 1 Rank 2 Rank 3



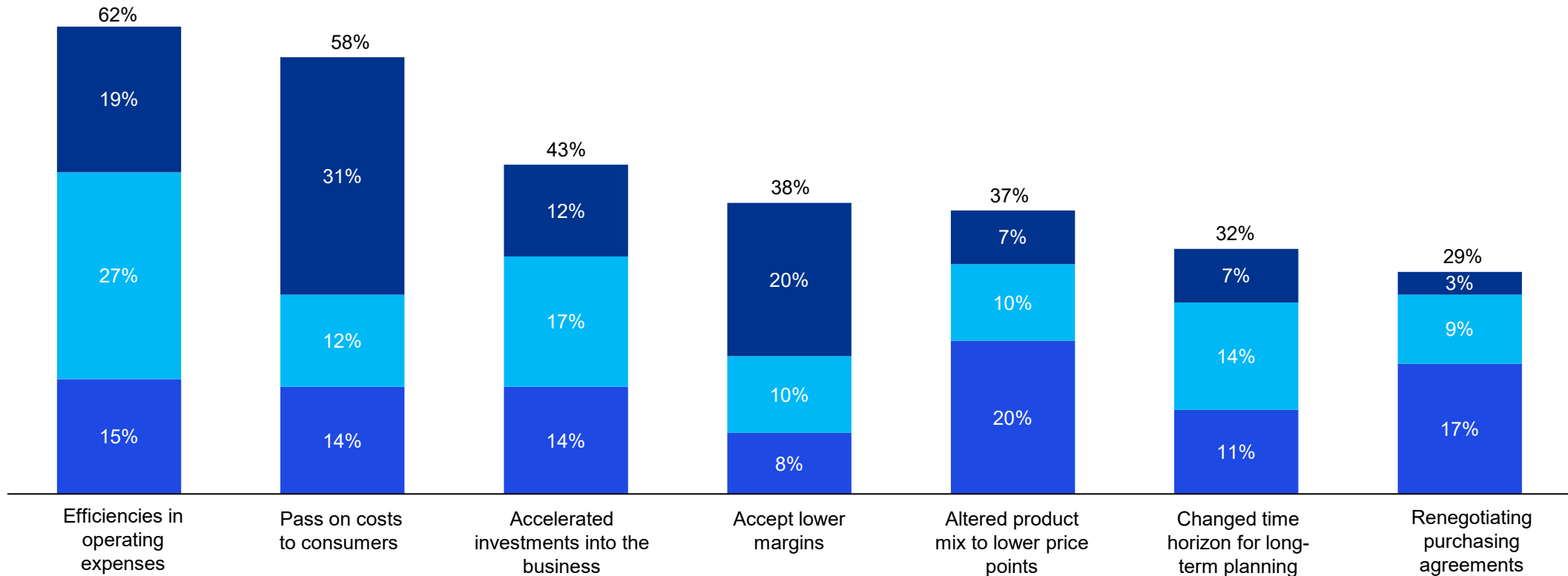
Note(s): Totals may not sum to 100 due to rounding.  
 Source(s): KPMG Retail Executive Survey, fielded May 2022



# Retailers are attempting to offset inflation by driving efficiencies into operating cost and passing costs onto consumers

## Ways to address inflationary challenges (N=100)

Please rank the top 3 options in order of importance to your company for addressing inflationary challenges.



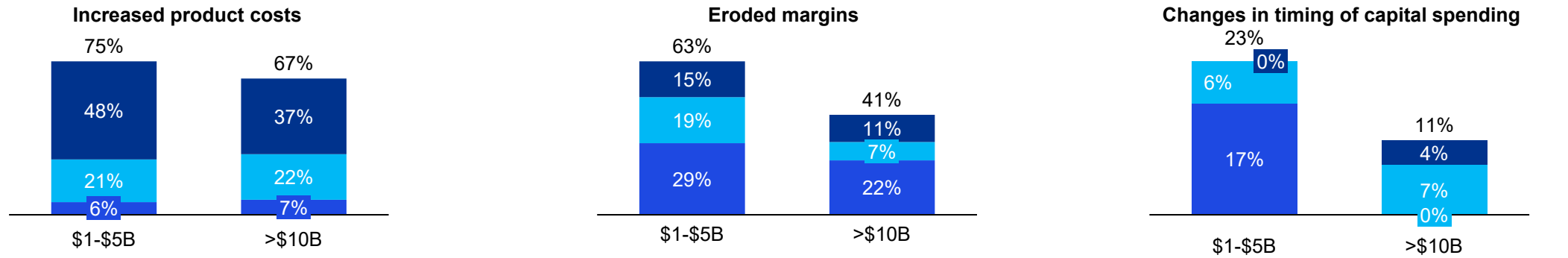
Note(s): Totals may not sum to 100 due to rounding.  
Source(s): KPMG retail executive survey, fielded May 2022

# Larger retailers are more concerned with operations costs and capital spending or planning, while smaller retailers face greater challenges from product input costs and eroded margins.

## Inflationary pain points more challenging to smaller retailers (N=76)

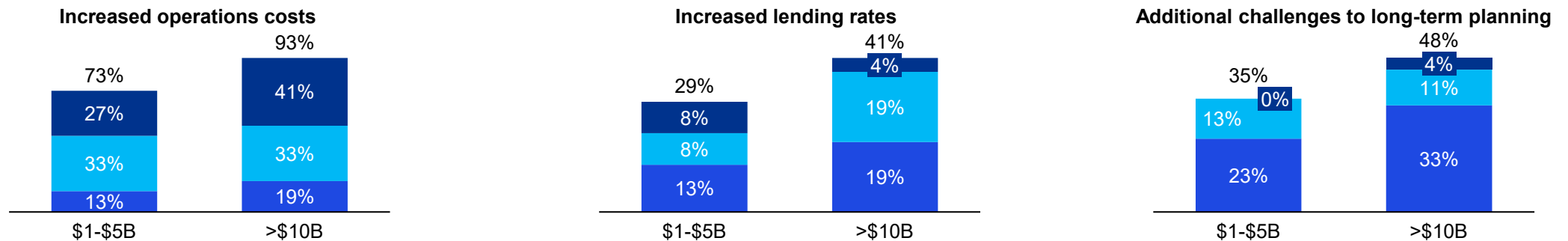
Thinking about inflation, please rank the top 3 challenges for your company

Rank 1 Rank 2 Rank 3



## Inflationary pain points more challenging to larger retailers (N=76)

Thinking about inflation, please rank the top 3 challenges for your company.



Note(s): Totals may not sum to 100 due to rounding.  
Source(s): KPMG Retail Executive Survey, fielded May 2022

03

# Return to physical locations

# Retailers recognize that consumers prefer the online shopping experience but like to shop in person so are adopting technologies to close the experience gap.



## Steady increase of foot traffic in physical stores

While COVID-19 shutdowns drove accelerated growth in e-commerce, consumers have begun to return to physical shopping. Retail foot traffic is increasing steadily across sectors driven by easing of lockdown restrictions and subsequent resumption of normal life. Despite the steady recovery, there are significant differences in e-commerce penetration and foot traffic loss and recovery based on retailer and product categories. As consumers return to physical locations, e-commerce growth has slowed or declined in some cases, being cannibalized by the new growth in physical locations.



## Consumers prefer to shop in person for most goods

When given the option to return to stores or continue to shop online, most consumers prefer to go back to shopping in person. When consumers think about why they might like to continue to shop online, they point to a superior shopping experience online as being the most important driver. This presents an opportunity for retailers to re-create the desirable parts of the online shopping journey for the in-store experience as a way to bring the best of both.



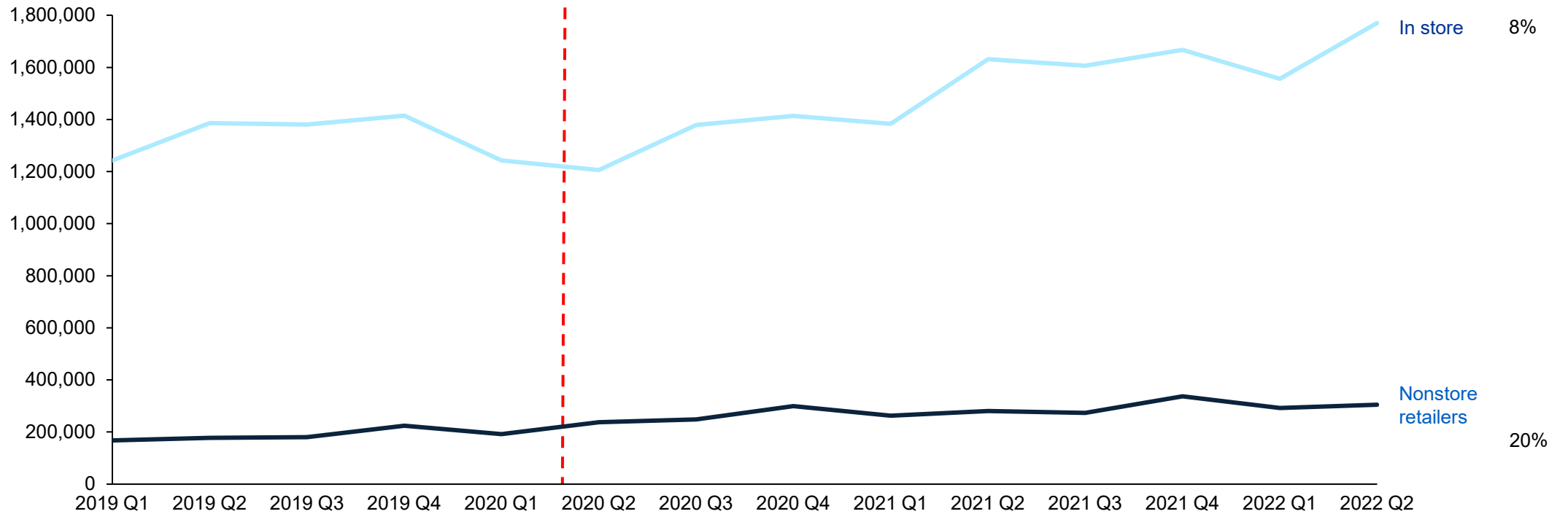
## Retail technology facilitating revival of in-store shopping

Consumers demand in-store retail technologies to assist in ensuring a better shopping experience for customers. Retailers recognize that while in-person shopping provides tangible benefits to consumers, there are also aspects of online shopping that consumers prefer. In particular, consumers desire clarity of experience and simplicity of checkout provided by online shopping. Retailers are adopting innovative technologies, such as QR code payments and smart carts, to enable faster checkouts and improve customer satisfaction.

# COVID-19-driven e-commerce growth has slowed as store shoppers have returned and outpaced pre-COVID-19 in-store spending

**In-store and nonstore (e-commerce) retail sales, \$B, 2019Q1–2022 Q2<sup>(1)</sup>**

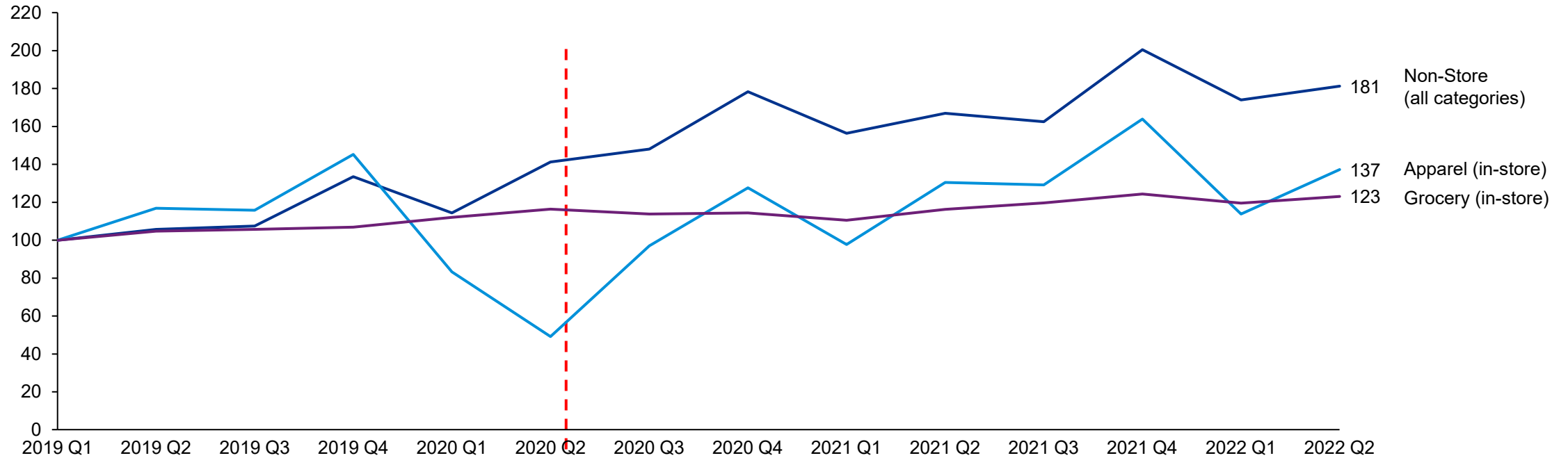
**CAGR  
(‘19-’22)**



Source(s): (1) U.S. Census, accessed August 2022

# Grocery and apparel diverged on in-store sales as a result of COVID-19 but both have successfully exceeded pre-COVID-19 levels in recent quarters.

### Non-store (e-commerce), grocery and apparel sales, indexed to 2019 Q1, 2019 Q1 – 2022 Q2

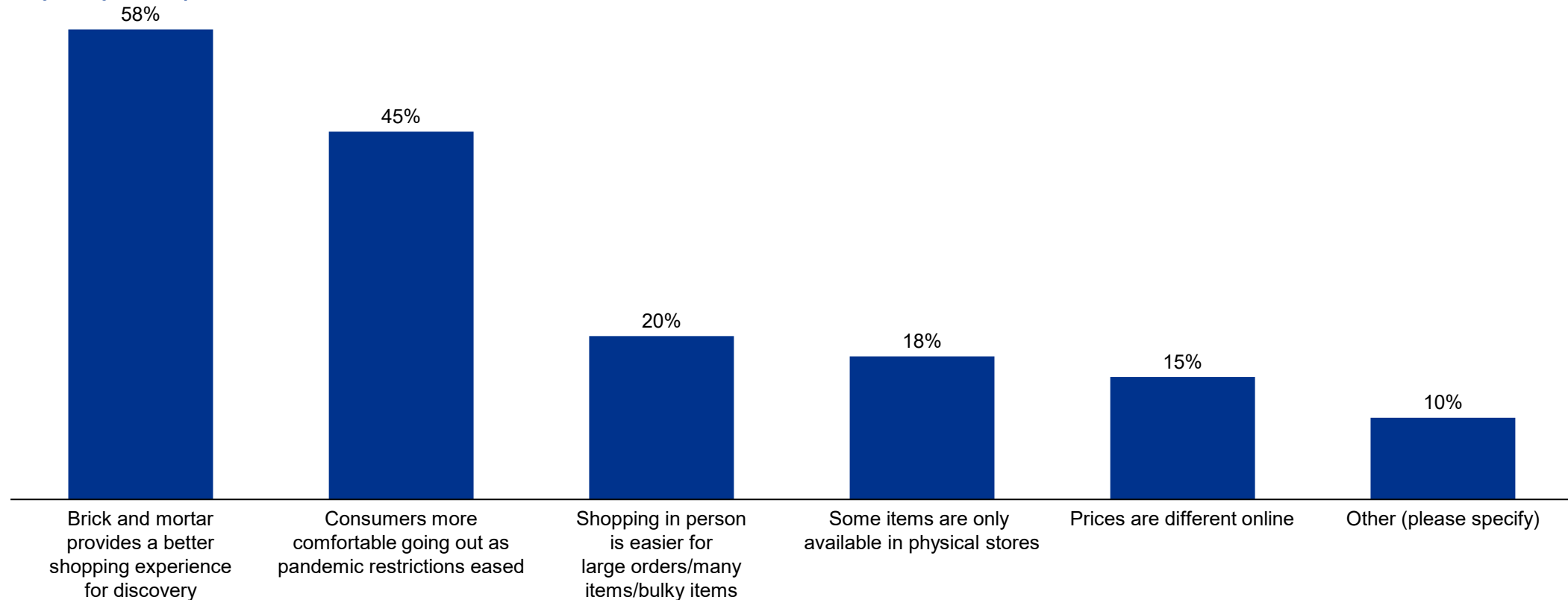


Source(s): US Census, accessed August 2022

# Retail executives pointed to the experiential desirability of in-person shopping as the primary driver for shoppers returning to physical locations.

## Reasons for Foot Traffic Increase in Brick and Mortar (N=51)

*Why do you expect brick and mortar foot traffic to increase?*



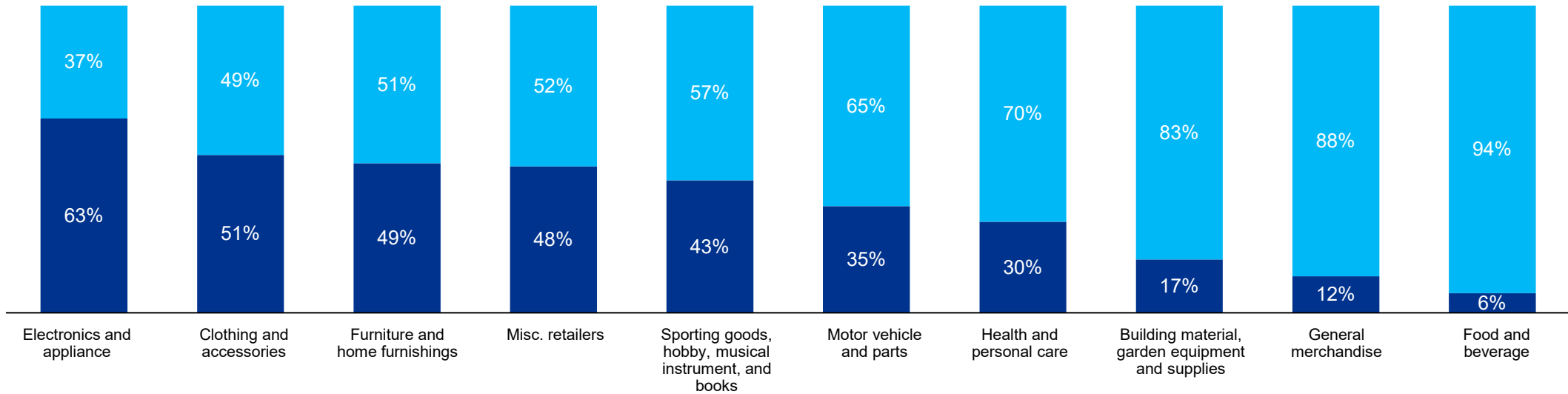
Source(s): KPMG Retail Executive Survey, fielded May 2022.



# e-Commerce penetration varies by product category and is driven in part by the ease of fulfillment for different product categories.

e-Commerce penetration by retail sub-sector, 2021 (a)

■ Online ■ Retail



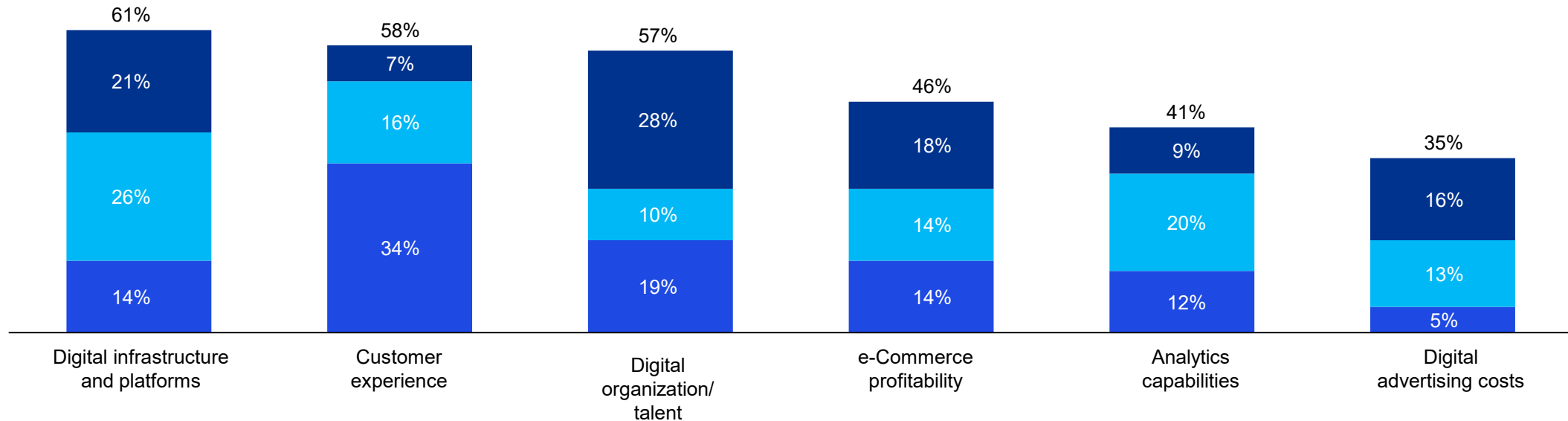
Note(s): (a) Second Measure data is based on an anonymous credit card panel of spend data. Note(s): Totals may not sum to 100 due to rounding.  
Source(s): Second Measure, May 2022

# Digital infrastructure, customer experience, and talent are seen as the biggest challenges for retailers as they continue to build out digital offerings.

## Major e-commerce challenges (N=97)

Thinking about e-commerce, please rank the top 3 potential challenges for your organization.

Rank 1 Rank 2 Rank 3



Note(s): Totals may not sum to 100 due to rounding.  
Source(s): KPMG Retail Executive Survey, fielded May 2022

# Consumers' primary motivation for continuing to shop online is the buying experience, and they prioritize online sources and validators to drive their buying journey.

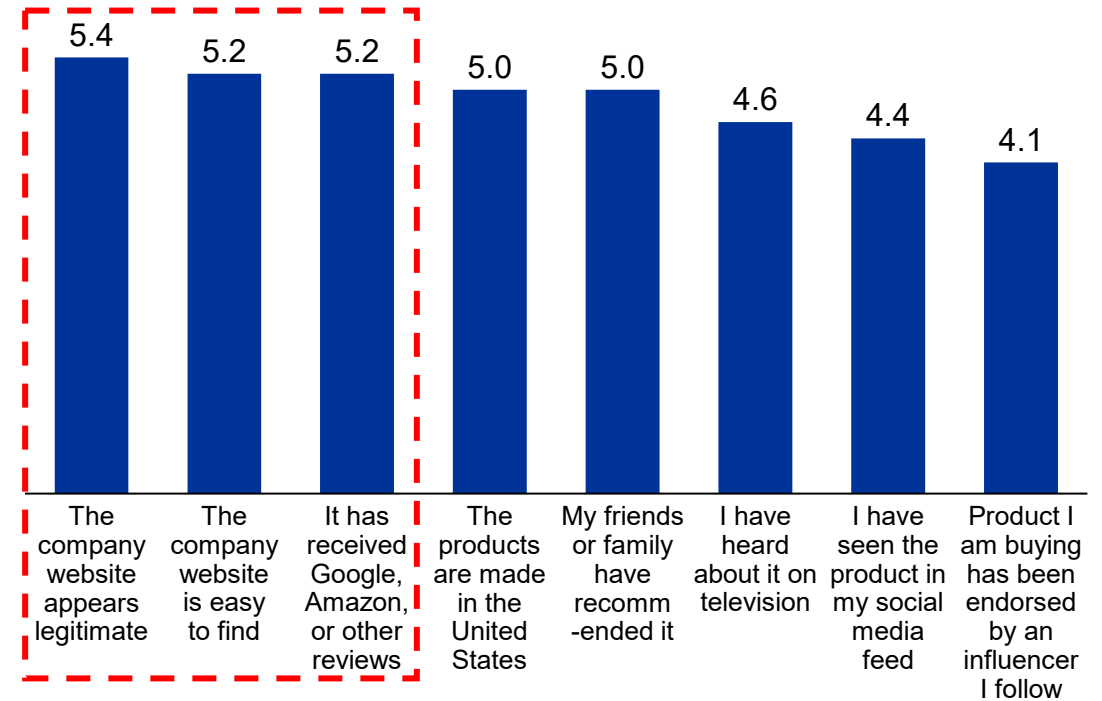
## Reasons survey respondents indicate why they will continue to shop more online (N=479) <sup>(1)</sup>

What best describes your rationale for shopping less online this summer?



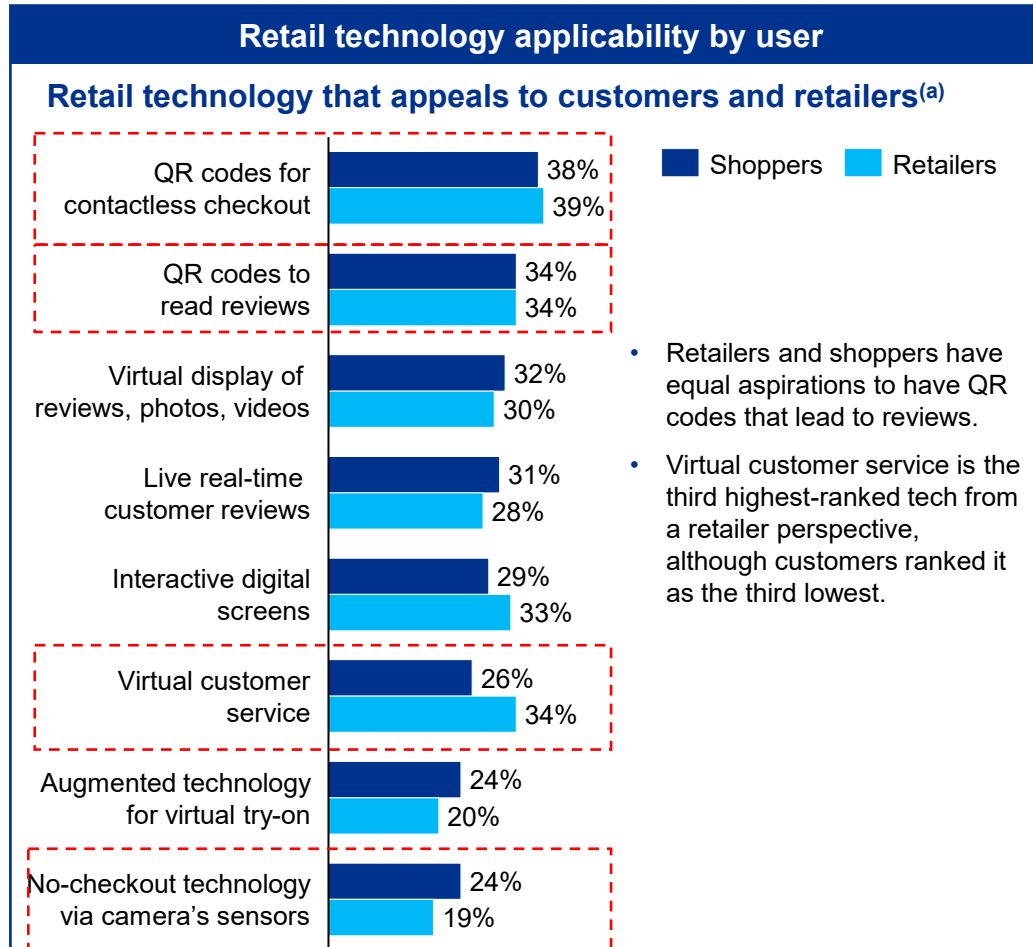
## Importance of information sources to online social media purchases (N=581) <sup>(2)</sup>

How important are the following characteristics to you when making purchases via social media? Please rate the importance of each of the following factors on a scale of 1 to 7, 1 being not at all important and 7 being extremely important.



Source(s): (1) KPMG Consumer Survey, fielded May 2021; (2) KPMG Consumer Survey, fielded February 2022

# Both customers and retailers desire innovative technologies to improve physical store experiences, with particular interest in solutions for seamless checkouts.




Note(s): (a) Bazaarvoice conducted survey in 2021 in which 8,000 consumers and over 500 retail employees from the U.S., the U.K., France, Germany, Australia, and Canada participated. Note(s): Totals may not sum to 100 due to rounding.

Source(s): Bazaarvoice, December 2021.

### Retail technology transforming in-store shopping experience

#### QR code checkouts are gaining popularity among retailers




- With a QR code scanner at checkout, shoppers can bag their items after scanning the provided QR code with their smartphone.
- QR code scan is one of the fastest ways to simplify transactions and improve in-store customer experience.
- It has been adopted by major retailers.

**Transact**

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#### Retailers are piloting smart carts for frictionless in-store shopping



- Smart carts can tally up the total, make recommendations, and allow customers to pay for groceries directly on the cart.
- Smart carts eliminate the need for customers to wait in long lines, stand around strangers, or pass off items to a salesclerk.
- Smart carts are currently being used by large grocers

**Shop**

04

# Omni and BOPIS

# As BOPIS becomes core to retailers' strategies, investments to convert stores for BOPIS and develop a true omni experience are increasingly common.



## Common challenges

- BOPIS sales grew at a 54 percent CAGR from 2019 to 2021 as a result of accelerated expansion during COVID-19 lockdowns and are expected to grow by a healthy 19 percent CAGR through 2024.
- There are significant differences in BOPIS penetration depending on the product category, ranging from the midteens for office supplies to over 40 percent for electronics.
- Retailers pointed to challenges with long and short-term inventory management/planning as the most salient challenges, including demand planning and real-time inventory updates across in-line and instore.



## Changes to store to enable BOPIS

- In order to facilitate the continued growth and improve margins of BOPIS options, retailers are increasingly investing in modifications to store locations. Stores make customer pickup easier by adding amenities such as self-pickup lockers, which the buyer can access with limited employee help, and dedicated curbside parking/pickup areas.
- Retailers are also making changes to improve internal efficiency such as dedicated picking teams or converting portions of big-box stores to warehouse space to hold BOPIS orders. BOPIS success also depends on the network of pickup locations available to consumers, leading some retailers to partnerships to offer pickup in additional locations.

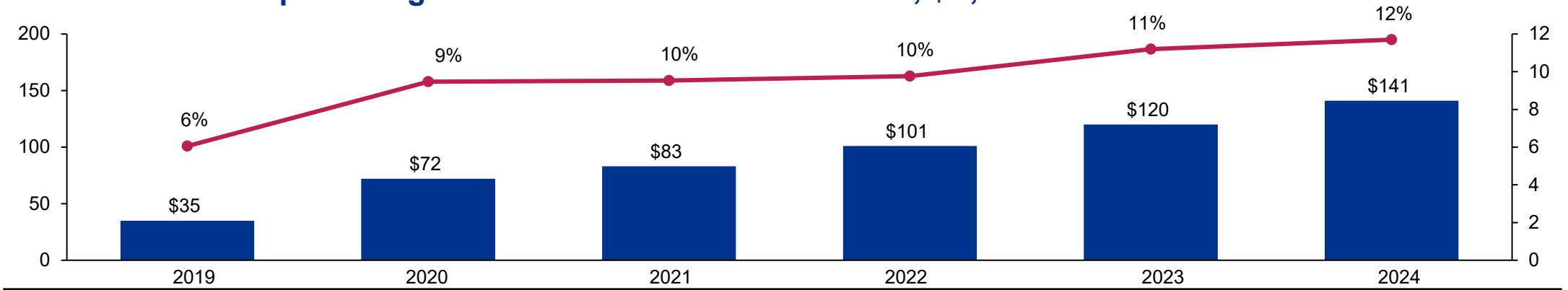


## Building an omnichannel BOPIS experience

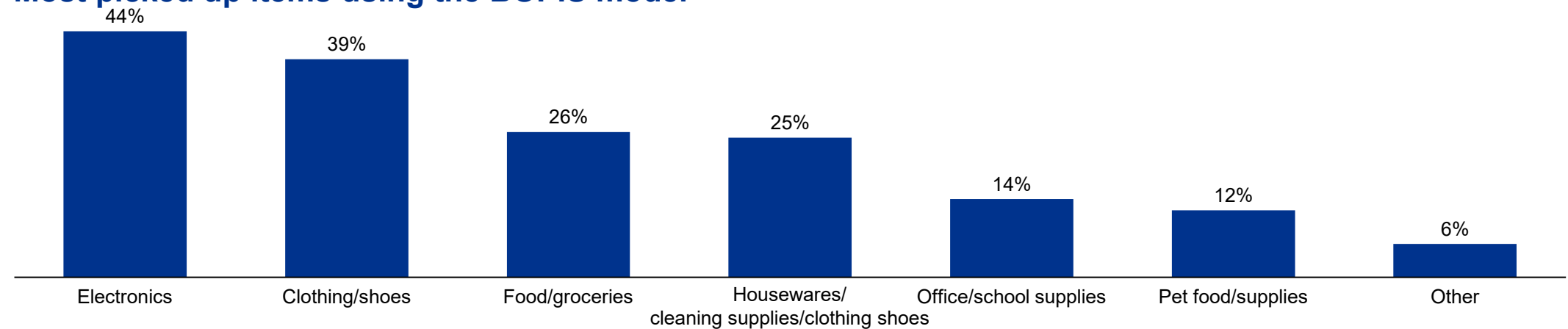
- Retailers are finding that once they get customers into the door with BOPIS, there is a good chance that those customers will leave the store toting more products than they bought through BOPIS. Innovations such as QR code and virtual display of reviews are highly valued by consumers. Retailers have had success growing their BOPIS sales by making BOPIS core to their online shopping journey, through premier placement on homepages and persistent information throughout the checkout process. By thoughtfully designing a specific customer journey for BOPIS, retailers can maximize cost savings, operational efficiencies, and ancillary benefits from customer pickups.

BOPIS has seen accelerated growth as a result of COVID-19, and that growth is expected to continue at a 19 percent CAGR between 2021 to 2024.

**BOPIS sales as a percentage of total e-commerce retail sales, \$B, 2019–2024 (1)**



**Most picked up items using the BOPIS mode|(a) (1)**



Note(s): (a) includes products or services ordered using the internet for pickup in a store or locker in a retail or pickup hub location.  
 Source(s): (1) Insider Intelligence, December 2021 (2) Offers.com Consumer Survey, 2020.

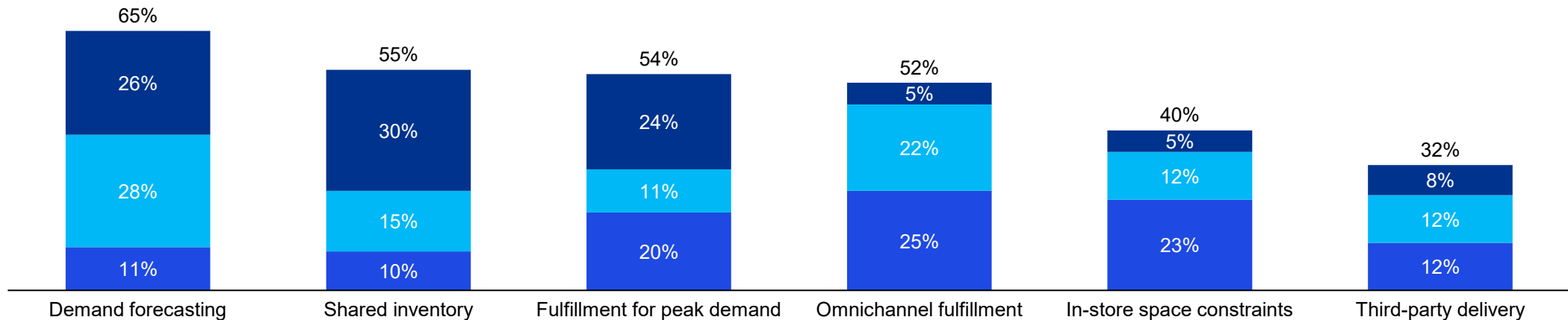


# Long-term and short-term inventory management are the most significant challenges for retail executives with BOPIS driven by demand forecasting and real-time inventory tracking.

## Major BOPIS challenges (N=92)

Thinking about BOPIS, please rank the top 3 of the following potential challenges for your company.

Rank 1 Rank 2 Rank 3

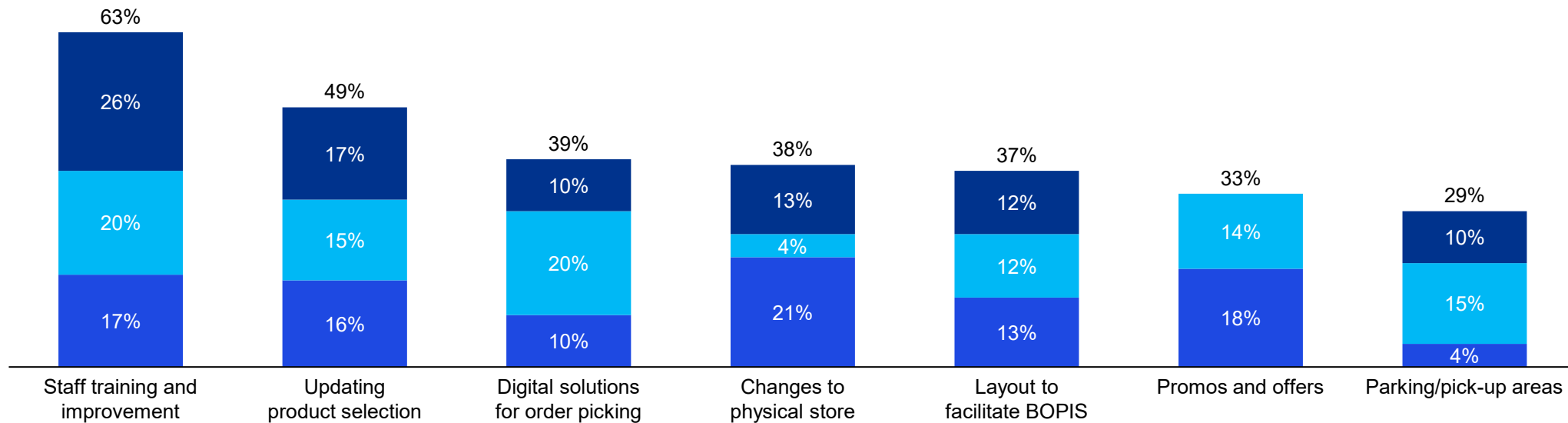


Note(s): Totals may not sum to 100 due to rounding.  
Source(s): KPMG Retail Executive Survey, fielded May 2022

# Retail executives point to staff training and updating product selection as the highest-priority tactics to improve BOPIS offerings.

## Ways to improve BOPIS offerings (N=92)

Please rank the top 3 initiatives in order of importance to your company for improving BOPIS offerings.

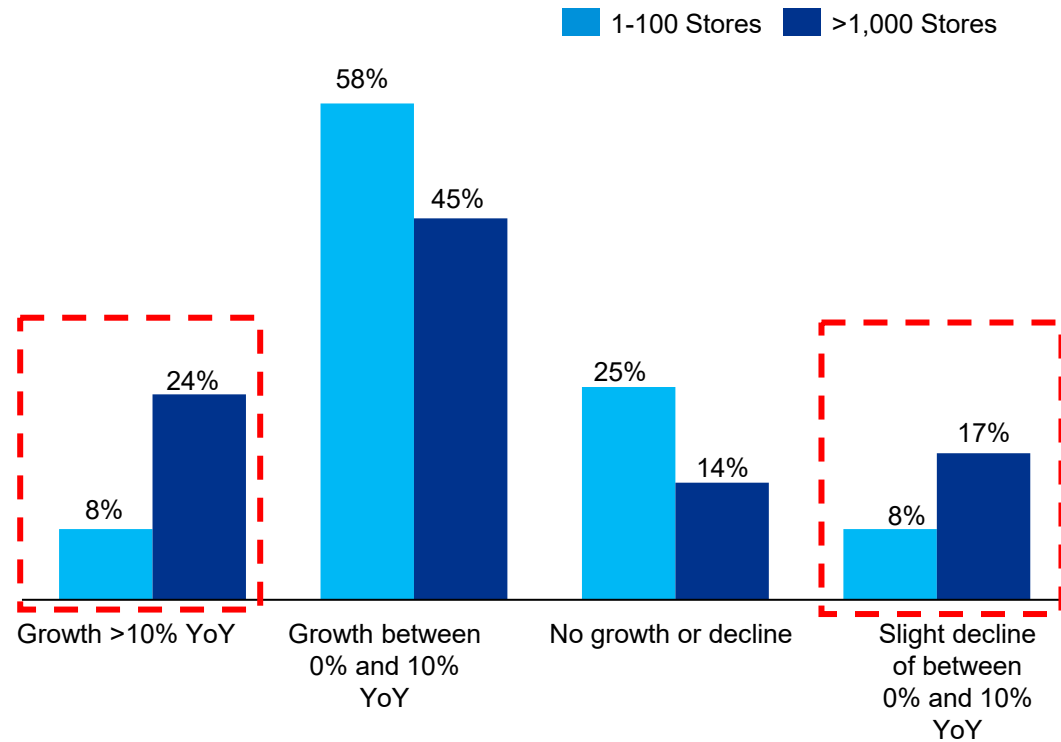


Note(s): Totals may not sum to 100 due to rounding.  
Source(s): KPMG Retail Executive Survey, fielded May 2022

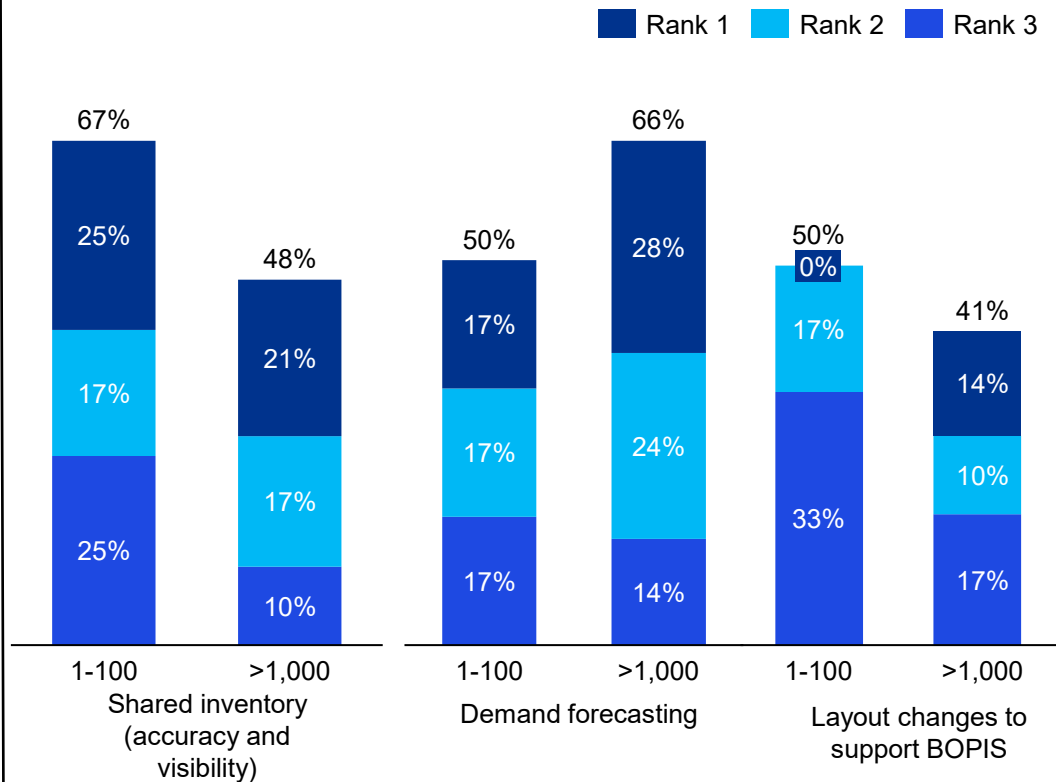
# Larger retailers are more polarized on the future growth prospects for BOPIS, while smaller retailers see shared inventory as the biggest challenge.

## BOPIS forecast growth, by number of stores (N=45)

How do you expect BOPIS penetration at your company to grow in the future?



## Challenges of BOPIS by number of stores (N=45)



Note(s): Totals may not sum to 100 due to rounding.  
Source(s): KPMG Retail Executive Survey, fielded May 2022

To enable faster processing and delivery of customer orders, retailers are investing in increased capacity of their stores by dedicating additional space for warehousing and fulfillment.

### Retailers seek increase of capacity

- 38 percent of retail executives want to prioritize changes to physical stores to better serve customers.
  - Retailers wish to convert many of its stores to be a combination of selling space and warehouse space, enabling them to more quickly fulfill orders for customers.
- BOPAC (buy online pick up at curbside) makes up 2 to 3 percent of average demand while ship from store makes up 25 to 30 percent of sales (except grocery retail where curbside pick-up dominates).
- For retail stores located in malls, curbside pick-up becomes difficult as they do not own or have access to exterior storefronts.
  - Retailers want to increase capacity as they believe that the future of delivery is ship from store.

### Brands are setting up stores to fulfill e-commerce orders

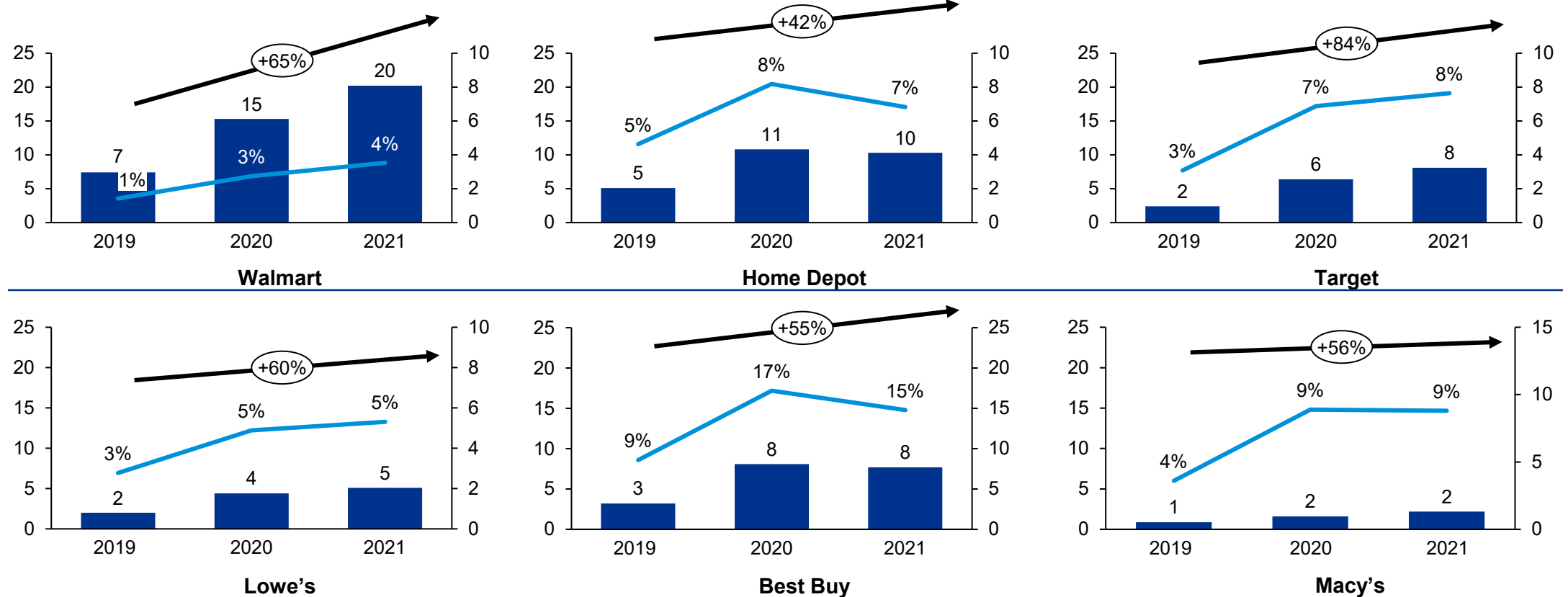
- Best Buy has converted many of its stores to be a combination of selling space and warehouse space.
- DSW plans to turn its stores into a “warehouse reimaged” dedicating extra space for fulfillment and, testing at Walmart is underway dedicating store space into a warehouse for fulfillment purposes.

Note(s): (a) In 2020, Reuters conducted the survey of 300 senior executives across retail and e-commerce responsible for logistics and fulfillment operations in the U.S.  
Source(s): KPMG Retail Executive Survey, fielded May 2022; Blue Yonder & Researchscape Fulfillment Research Report, October, 2020; Reuters; March 2022 and Forbes; April 2022 KPMG analysis, May 2022.

# Target has achieved the fastest BOPIS growth, but Walmart is still the largest BOPIS retailer in the U.S. by volume, though Best Buy has the highest penetration among top retailers.

**BOPIS sales<sup>(a, 1)</sup> and share of total revenue<sup>(2)</sup> for top retailers in \$B, 2019–2021**

■ BOPIS revenue — BOPIS as % of total revenue



Note(s): (a) Forecasts and estimates are done by Insider Intelligence.  
 Source(s): (1) Insider Intelligence, December 2021; (2) FY2021 Company 10-K reports, accessed August 2022

# Retailers are committing to their BOPIS strategies through development of a consistent buyer journey designed around BOPIS and increasing reach of their pickup networks.

	Approach	Examples
Buyer journey	Improving the buyer journey to promote BOPIS and ensure in-store pick up is seamless.	<ul style="list-style-type: none"><li>Clearly promote BOPIS options throughout the buyer's journey.</li><li>Improve proposition picking up orders in stores via dedicated pickup towers, tailored discounts, and car loading.</li><li>Increase basket size through additional take-out options such as coffee from store-in-store partnerships</li><li>Invest in staff training to ensure seamless customer journey once in store.</li></ul>
BOPIS reach	Increasing the number of locations that customers are able to collect their purchases	<ul style="list-style-type: none"><li>Convenience and store proximity are key drivers for BOPIS success as retailers expand their networks</li><li>Retailers are using external partnerships to offer additional pickup locations</li><li>Implement though technology platforms to facilitate the third-party retailers and manage shared inventory in real time</li></ul>

Source(s): Company websites, May 2022

05

# Supply chain disruptions

# Retailers are investing in additional space and emerging technologies to streamline their supply chain to serve customers better through faster and more efficient delivery service.



## Supply chain challenges have grown significantly

- Supply chain has become a major challenge for many retailers over the past two years, leading to challenges with timing and availability of items.
- Consumers demand increasingly short delivery timelines for items, particularly demanding same-day delivery to a growing degree.
- Executives are seeking to solve these issues by focusing on short to medium term solutions like increasing safety stock and diversifying suppliers, as well as bringing in new logistics providers.
- Transit times and costs have increased for most frequently used shipping routes, driving up complexity of implementing tangible, impactful solutions.



## Retailers are changing processes and protocols to decrease supply chain needs

- Retailers have responded to the challenges they face by increasing inventory thresholds and planning longer periods, giving them more leeway to overcome delays or shortages but increasing storage costs.
- Warehouse availability is at a historic low, and prices have increased over 10 percent since the beginning of 2021.
- Intermodal transfers have emerged as a key bottleneck, leading retailers to implement solutions such as ramping up off-peak timing port usage.
- Changes to some product offerings have helped give retailers slack as well, with some seasonal windows adjusted to accommodate logistics snarls or increased bundling to decrease last mile demands.



## Broadening logistics solutions suite

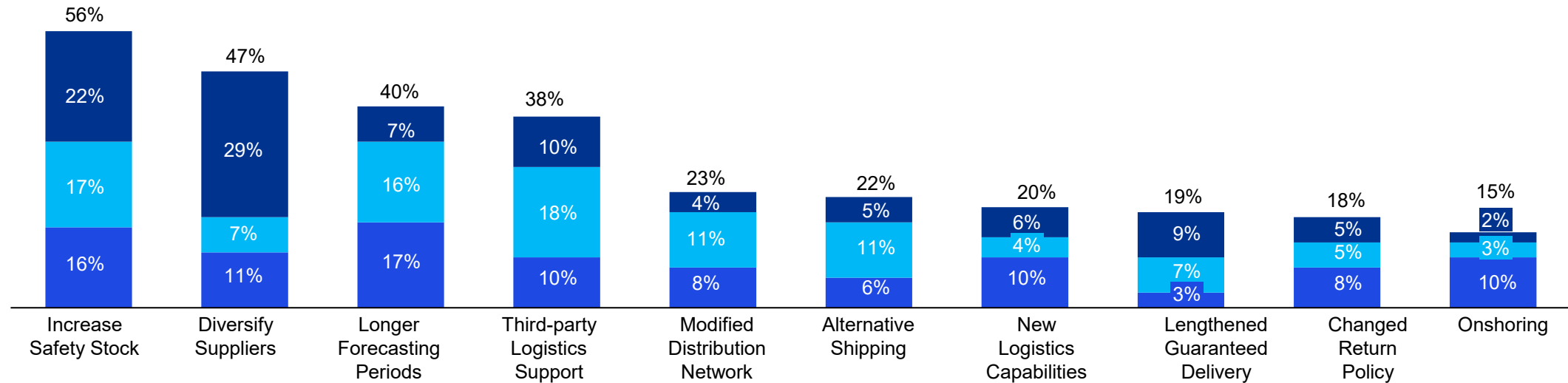
- Retailers have responded by broadening their options for logistics to give them the modality they need.
- Major retailers are piloting emerging technologies to completely eliminate human intervention in the last mile delivery process, including wheeled and aerial drones.
- Previously unthinkable modes of transport such as air-freight have become increasingly common as the cost comparison became more palatable and timing needs outweighed incremental costs.
- Deployment of new technologies to better track items in transit has also helped retailers to identify key bottlenecks in their supply chain and deploy targeted solutions to overcome them.



# Executives look to increase stock levels and diversify suppliers to overcome their current logistics challenges.

## Initiatives to overcome supply chain challenges (N=99)

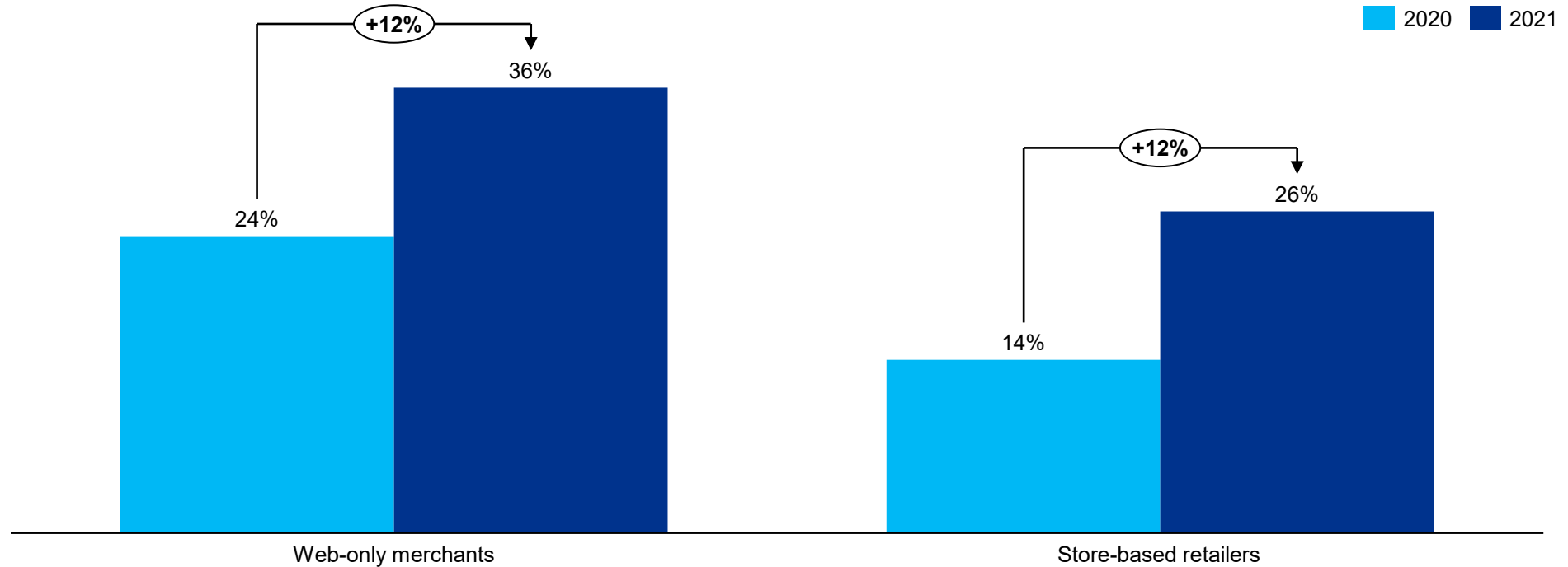
Please rank the top 3 initiatives in order of importance to your company for overcoming supply chain challenges



Note(s): Totals may not sum to 100 due to rounding.  
Source(s): KPMG Retail Executive Survey, fielded May 2022

Increasing consumer demand for faster delivery times has put pressure on retailers to meet expectations and update their logistics networks.

Consumers that engaged in same-day shipping in the last 6 months, 2020 versus 2021



Source(s): Digital Commerce 360, March 2021.

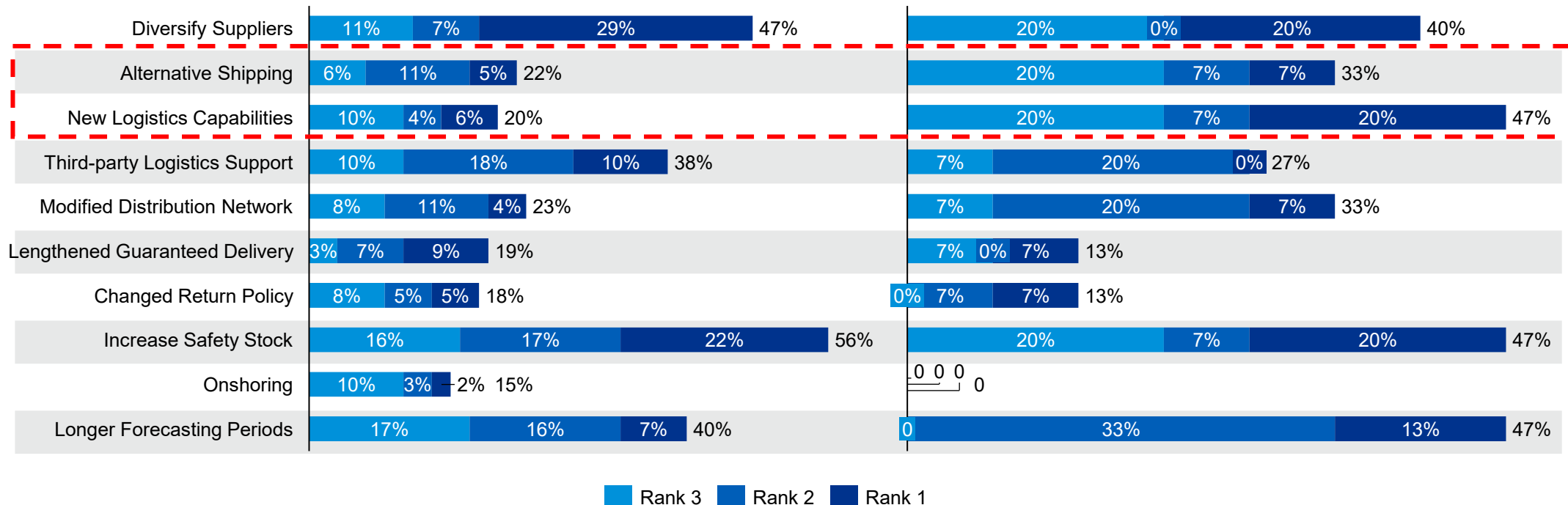
# Supply chain executives consider alternative shipping and new logistics capabilities as much more important challenges than their peer executives.

## Major supply chain/logistics challenges for companies for all executives (N=99)

Thinking about supply chain and logistics, please rank the top 3 of the following potential challenges for your company.

## Major supply chain/logistics challenges for companies for supply chain executives (N=15)

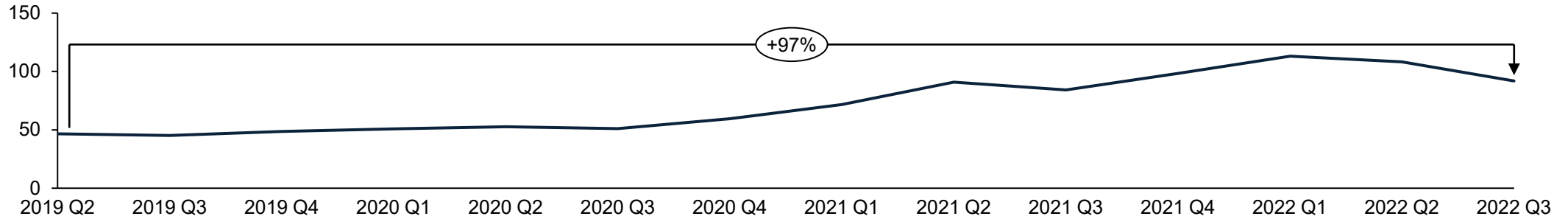
Thinking about supply chain and logistics, please rank the top 3 of the following potential challenges for your company.



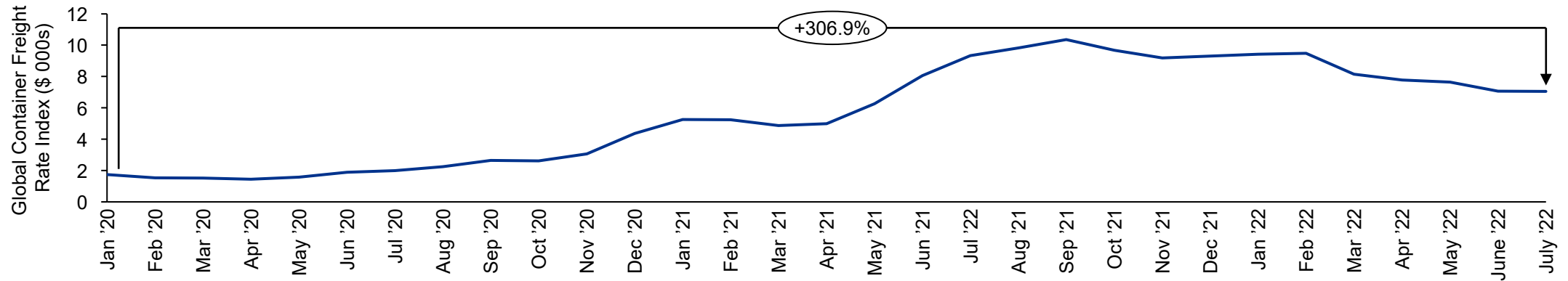
Note(s): Totals may not sum to 100 due to rounding.  
Sources: KPMG Retail Executive Survey, fielded May 2022

Both average cost and time to ship a container have increased significantly since 2020 and show limited indication of returning to historical levels in the near future.

**Average Days in Transit, China to U.S., Q2 2019 – Q3 2022 (a; b) (1)**



**Global Container Freight Rate Index, in \$ 000s, Jan 2020 – July 2022<sup>(c)</sup> (2)**

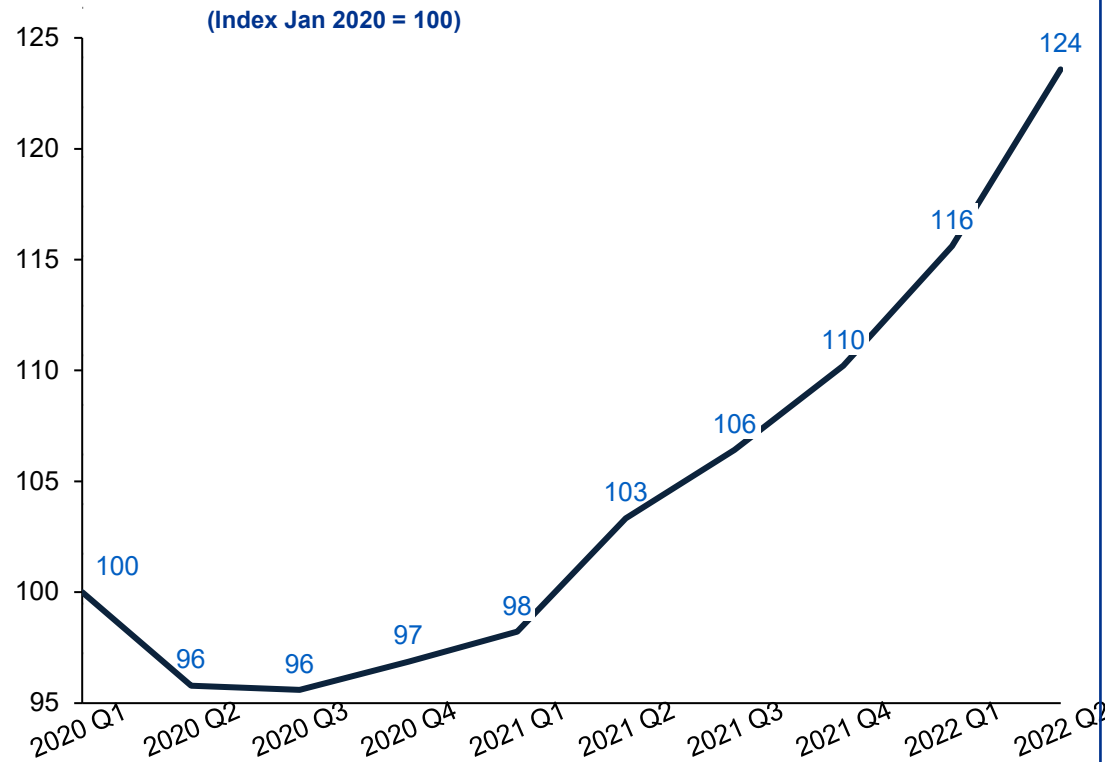


Note(s): (a) Delivery time is the amount of time taken from cargo leaving the exporter to collection at destination port; (b) Days in transit as of 8/16/22; (c) The global container freight rate index tracks the freight costs of 40 foot containers via eight major routes, including spot rates and short-term contract rates

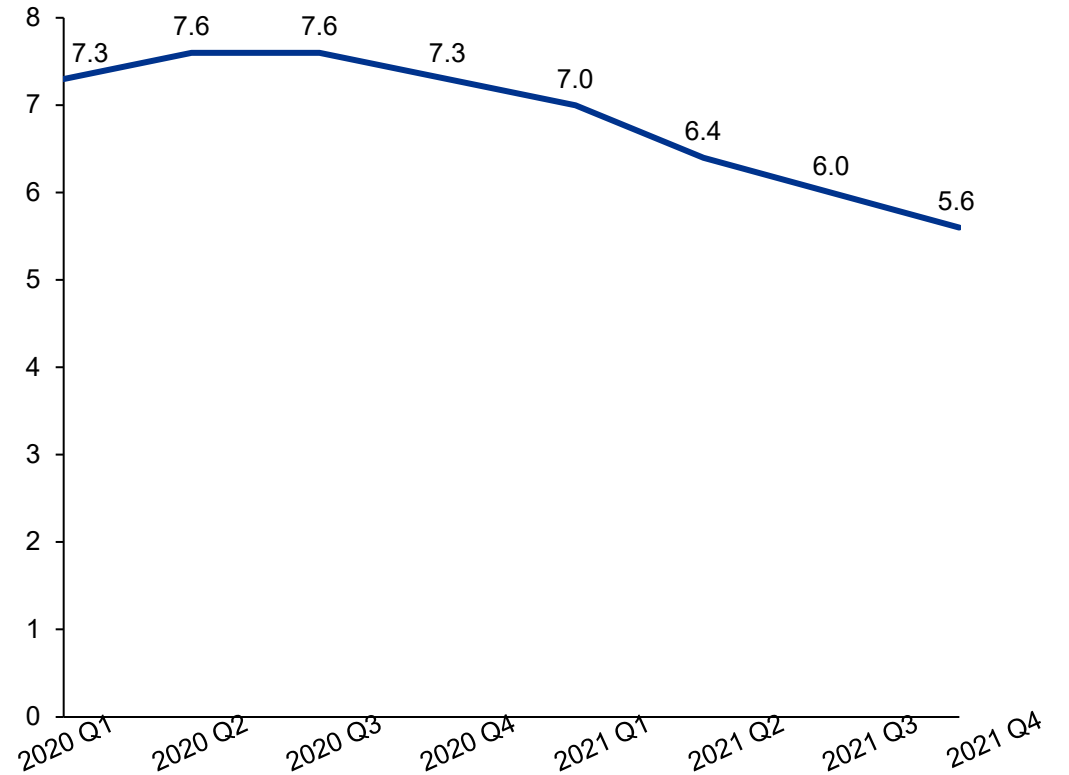
Source(s): (1) Flexport, July 2022 (2) Freightos, May 2022 and Drewry World Container Index, May 2022

Warehousing demand is rising due to e-commerce volume growth and high inventory holding patterns among retailers leading to low warehouse vacancy rates and more costly rentals.

**Producer price index<sup>(a)</sup> (1) - Delivery and warehouse, Q1 2020–Q2 2022**







**National warehouse vacancy rates by quarter, Q1 2020–Q4 2021<sup>(b)</sup> (2)**



Note(s): (a) Producer Price Index (PPI) measures the average change in the selling prices received by domestic producers for their output. (b) Share of warehouse space available in the U.S. logistics sector  
Source(s): (1) FRED; July 2022 (2) CBRE Industrial & Logistics Report, fielded January 2022 and KPMG analysis

# Retailers are updating internal processes in order to limit their exposure to supply chain issues, combat increasing freight costs, and lower time to receive product.

Topic	Description
 <p><b>Increased inventory thresholds</b></p>	<ul style="list-style-type: none"> <li>• Delays in shipments are leading to lost sales, as retailers do not have goods in stock.</li> <li>• To counteract shipment delays, many companies are now aiming for inventory-to-sales ratios approximately 5 percent higher than before the pandemic.</li> <li>• The trend is particularly evident in durable goods retailers.</li> </ul>
 <p><b>Off-peak port hours</b></p>	<ul style="list-style-type: none"> <li>• Delays at receiving ports are part of the issue increasing the time it takes for retailers to received products.</li> <li>• Many retailers are increasing the number of containers they move during off-peak hours, to speed up the supply chain process.</li> <li>• On average, goods move approximately 25 percent faster at night than during the day.</li> </ul>
 <p><b>Adapting offerings to consumers</b></p>	<ul style="list-style-type: none"> <li>• For some industries, such as fashion, the delayed shipping caused inventory to miss short seasonal windows. Retailers tackled this challenge by stockpiling for the following season to ensure they were able to capitalize on the full sales opportunity.</li> <li>• To mitigate the SKU reduction, there was then a sales and marketing focus, with strategies such as bundling, on items that had arrived in time for seasonal fluctuations.</li> </ul>
 <p><b>Container ownership</b></p>	<ul style="list-style-type: none"> <li>• Some online retailers have started to buy containers and charter ships to carry their own goods. By chartering smaller ships, it has allowed them to use less congested ports that are unable to accept larger ships.</li> <li>• One online retailer has increased ports of entry across the network by 50 percent and doubled its container processing capacity.</li> </ul>

Source(s): Reuters; January 2022, Forbes; October 2021, Bloomberg, May 2022 and WSJ, October 2021

# Retailers have focused on order fulfillment and final delivery challenges as areas for investment with regard to their supply chain challenges.

	Approach	Examples
<b>Order fulfillment</b>	Automation of the pick/pack through micro-fulfillment centers (MFC)	<ul style="list-style-type: none"> <li>• Retailers have turned to micro fulfillment centers (MFC) to facilitate more efficient order picking and packing by moving those functions closer to final locations.</li> <li>• Some mass retailers have adapted by using store employees for in-store order packing before moving orders to an MFC for sorting and delivery route optimization.</li> <li>• Other mass retailers have placed MFCs inside their stores and operate them with a separate inventory and workforce parallel to the store.</li> </ul>
<b>Final delivery speed</b>	Retailers are shortening delivery windows to same day to meet consumer demands	<ul style="list-style-type: none"> <li>• As demand for same-day delivery has grown, retailers have utilized acquisitions as a solution to bring required capabilities into their organizations.</li> <li>• Successful acquisitions have brought both physical delivery capacity and also technology enablers allowing retailers to determine the most efficient way to sort, route, and deliver to local neighborhoods.</li> <li>• Rather than buy, other retailers have chosen to partner with third-party delivery platforms such as Doordash and Instacart.</li> </ul>

Source(s): Company websites May 2022;

06

# Labor and staffing



# Retailers face a much more challenging labor market than recent years and have reacted by increasing cash and non cash compensation and automating to ease labor requirements.



## Retailers face a challenging environment for attracting and retaining employees

- In June 2021, overall real compensation, which is wages and benefits adjusted for inflation, was 0.7 percent below December 2019 levels and 2 percent below its pre-pandemic trend.
- Retailers pointed to challenges with finding qualified candidates, time to fill positions, and those candidates demanding increased pay as their greatest hiring challenges.
- Low unemployment and a labor force participation rate below pre-COVID-19 has put additional pressure on companies seeking to hire.
- Non-wage compensation has been a key lever used by major retailers to attract and retain talent while limiting widespread increases to labor costs.



## Retailers have invested in automation and changed ways of working

- Retailers are also investing heavily in automation to alleviate the demand for in-store labor.
- Over 70 percent of retailers are already using or plan to introduce new technology to reduce their reliance on labor.
- Investments in areas such as e-commerce order picking, self-checkout, and automated customer service represent the most common roles, which can be automated.
- Grocery and mass retailers are piloting all self-checkout stores while fast-food and quick-serve restaurants have rolled out kiosks for taking orders.
- Specialty robotics can be as much as 33 to 50 percent cheaper for retailers as compared to human workers on a per-hour basis.

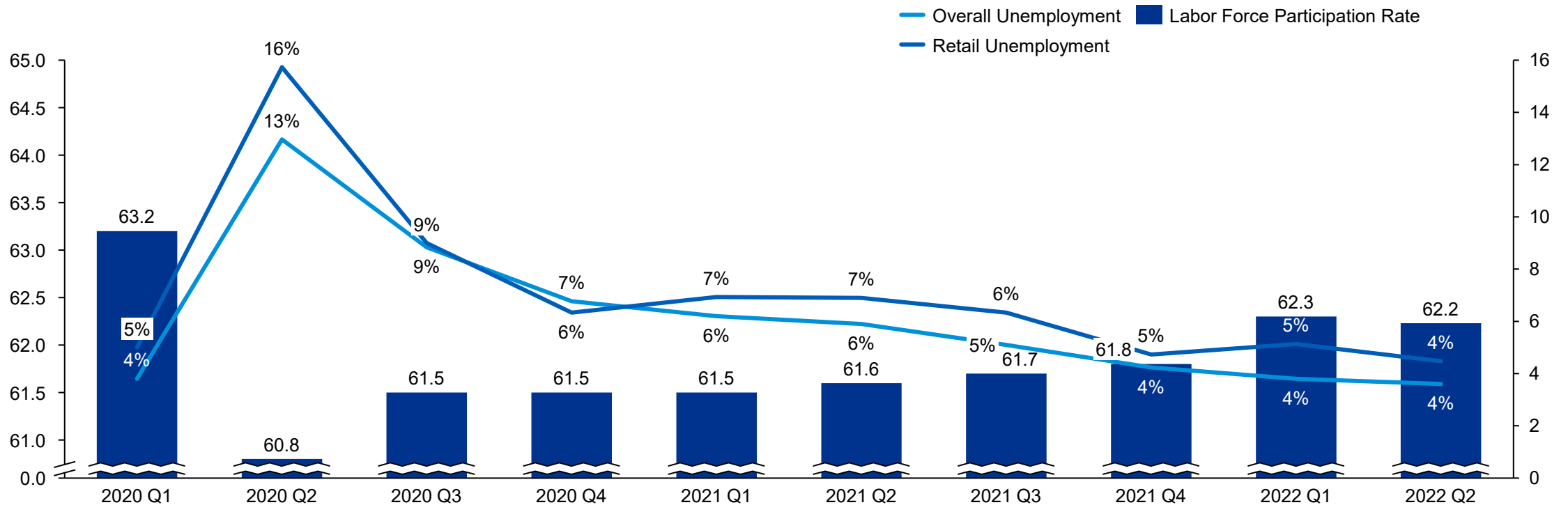


## Formation of new labor unions in retail chains presents an additional challenge

- Union membership has been declining for over 40 years, but recently, some large retail companies have experienced a resurgence of new union formation.
- An online retailers' warehouse workers in New York successfully unionized in Q2 2022, campaigning around better benefits and hours.
- One global retailers' employees in the Northeast, Midatlantic, and West Coast stores have begun to unionize, seeking higher wages and more control over working conditions.
- Retailers have thus far responded with solid opposition to union formation, but as membership becomes more widespread, they will need to consider accommodation.

# Retail unemployment and diminished labor force participation relative to pre-COVID-19 has increased pressure on retailers attempting to hire.

Overall unemployment rate<sup>(a)</sup> versus Retail unemployment rate by quarter, Q1 2020 – Q2 2022



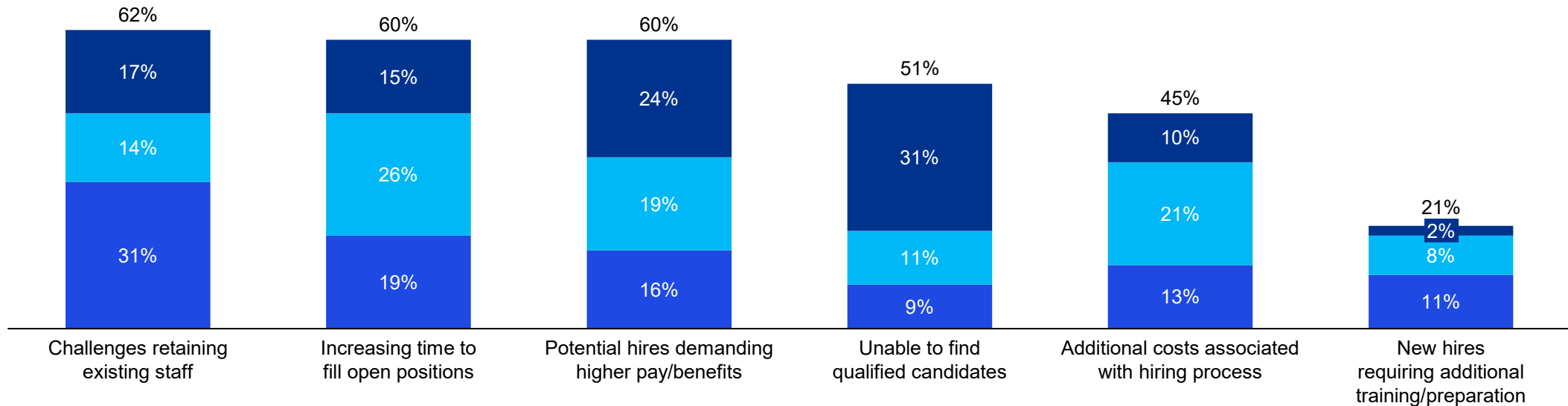
Note(s): (a) Unemployment rate figures are for retail industry. (b) Labor force participation rate is for overall industries.  
 Source(s): Bureau of Labor Statistics, May 2022

# Retail executives face labor challenges retaining employees and with time and cost to hire new employees.

## Labor and staffing challenges for retailers (N=98)

Please rank the top three challenges/pain points for your company related to labor.

■ First rank ■ Second rank ■ Third rank

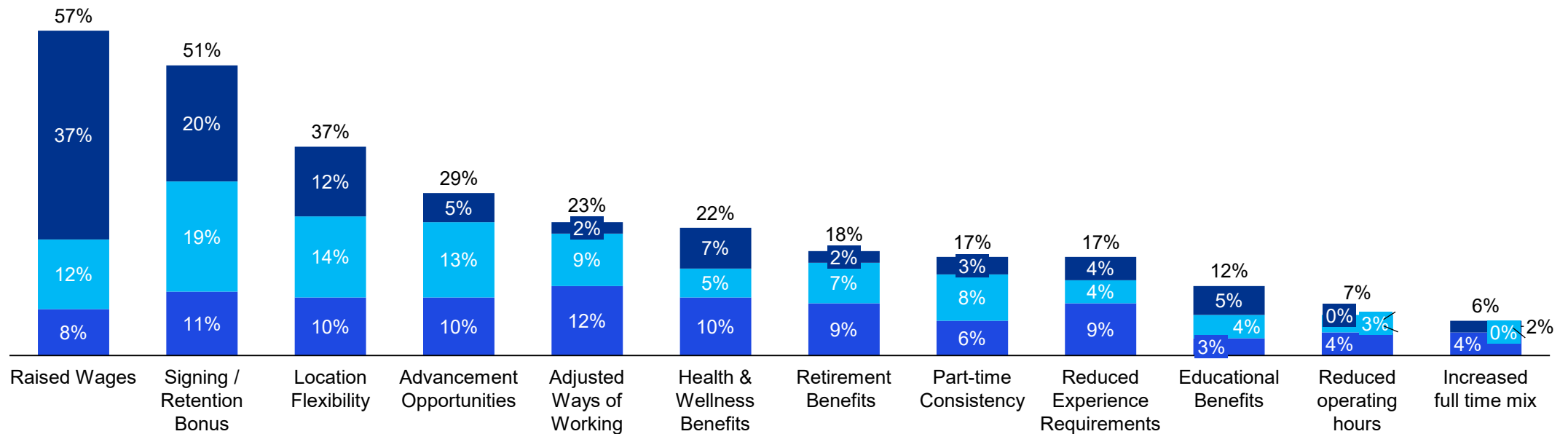


Note(s): Totals may not sum to 100 due to rounding.  
Source(s): KPMG Retail Executive Survey, fielded May 2022

# Raised wages and bonuses are seen as the best ways to attract labor but retailers are also leaning on non-cash benefits items, like location flexibility.

## Initiatives to overcome labor challenges (N=98)

Please rank the top 3 initiatives for your company to alleviate labor and staffing challenges.



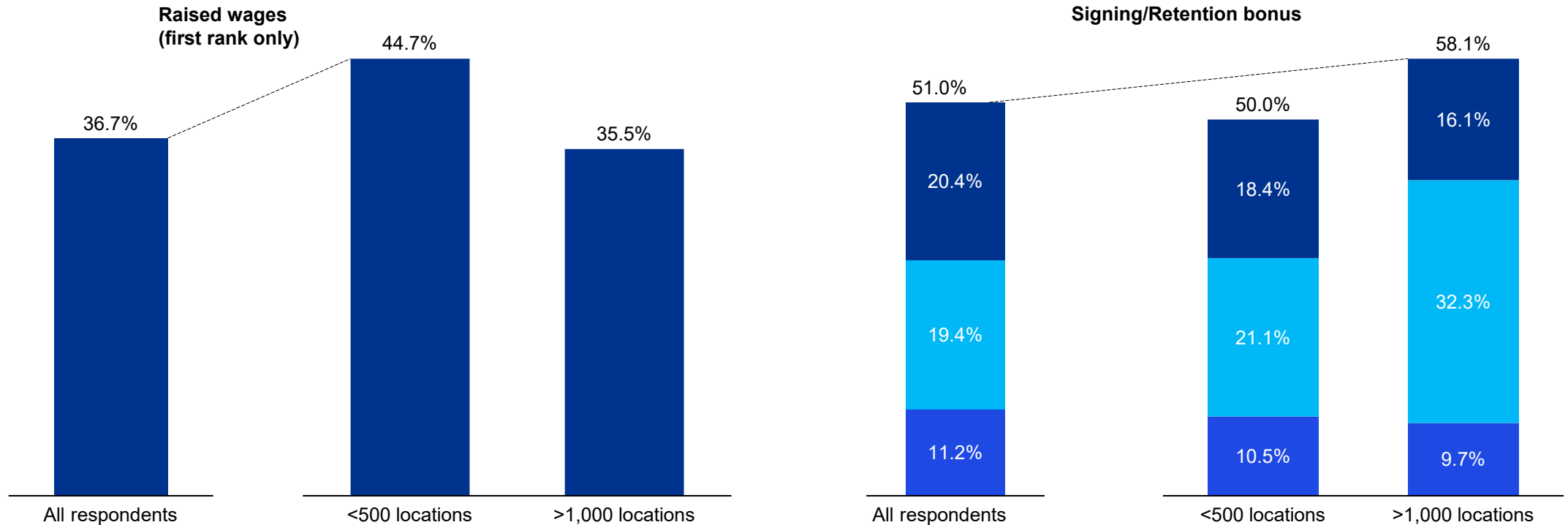
Note(s): Totals may not sum to 100 due to rounding.  
 Source(s): KPMG Retail Executive Survey, fielded May 2022

# Wage increases are more important to smaller retailers, while bonus payments are both more common and important to larger retailers.

## Initiatives to overcome labor challenges (N=98)

Please rank the top three initiatives for your company to alleviate labor and staffing challenges

■ First rank ■ Second rank ■ Third rank



Note(s): Totals may not sum to 100 due to rounding.  
Source(s): KPMG Retail Executive Survey, fielded May 2022

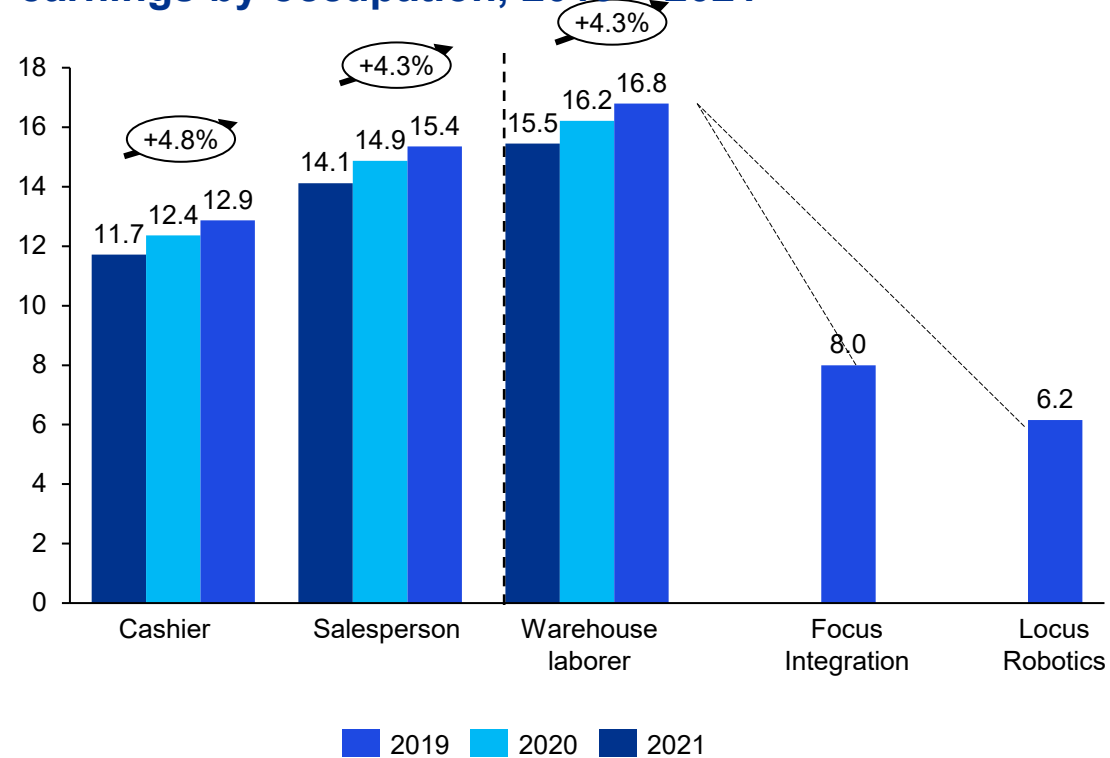
# Retailers are focused on improving their compensation packages to better attract and retain their employees while simultaneously investing in automation to reduce their reliance on store labor.

	Approach	Examples
<b>In-store hiring</b>	Retailers addressed increased in-store hiring challenges through improved pay and benefits.	<ul style="list-style-type: none"> <li>• Retailers face challenges with both finding qualified candidates and also what those candidates demand once they have begun hiring.</li> <li>• Increased base wages remain the most common solution to hiring challenges, though this can create disparities between pay for new hires and tenured employees.</li> <li>• Non-wage benefits such as education support or increased access to advancement opportunities are also increasingly common offerings.</li> </ul>
<b>Employee retention</b>	Retailers are providing new, time-bounded benefits to enhance retention.	<ul style="list-style-type: none"> <li>• Growing hiring challenges with hiring has made employee retention more important.</li> <li>• Retailers are leaning on one-time transfers such as bonuses or equity opportunities, and, where possible, attaching vesting periods to ensure workers are incentivized to stay.</li> <li>• Expanding health or educational benefits, which require continued employment to use, provide an additional hook to keep employees from considering other jobs.</li> </ul>
<b>Labor requirements reductions</b>	As labor costs increase, the financial case for automation investments improves.	<ul style="list-style-type: none"> <li>• Investments in store or warehouse automation designed to decrease the requirement for store labor are costly and historically have been more expensive than using people.</li> <li>• As the cost of filling positions has increased, the incremental cost associated with automation has decreased and new roles have become cost effective to automate.</li> <li>• While checkout automation has historically been a focus area, new functionalities and decreased costs have opened opportunities for e-commerce and BOPIS-adjacent roles.</li> </ul>

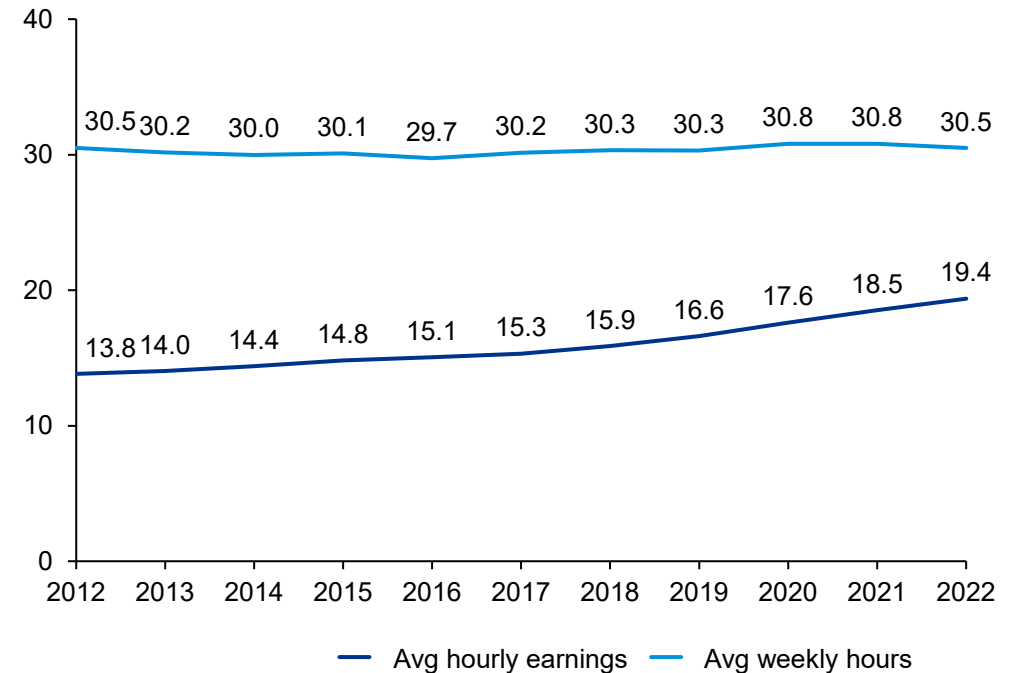
Source(s): Company websites, May 2022.

# Retailer investments in automation as a way to mitigate rising hiring and employment costs have accelerated as automation costs have declined while employment costs have risen.

**Hourly cost of automated solutions and average earnings by occupation, 2019 – 2021 (1,2)**



**Retail store employees average hourly earnings v. average weekly hours, 2012 – 2022 (2)**



Note(s): (a) Focus Integration provides warehouse automation, including palletizing and pallet movement. (b) Locus Robotics specializes in automated picking for e-commerce or BOPIS fulfillment.  
 Source(s): (1) Company website, May 2022 and (2) Bureau of Labor Statistics, May 2022

07

# Metaverse innovations



# Retailers are in the early stages of developing metaverse strategies and have not converged on best practices, giving space for continued experimentation.



## Metaverse utility is currently in an early exploratory phase

- Despite the significant amount of public discourse around introduction and rollout of the metaverse, most retailers are still in a very early, consideration stage for their organization.
- More than four in five executives indicate they have not yet even begun to develop a strategy for the metaverse and over a third have no plan to.
- Growth in attention on the metaverse has accelerated significantly in the back half of 2021, as reflected by a significant increase in web searches and sales volume of NFTs.
- C-suite executives are less familiar with the metaverse than less senior executives, increasing the challenge of building a business case.



## Companies have an opportunity to experiment in the metaverse

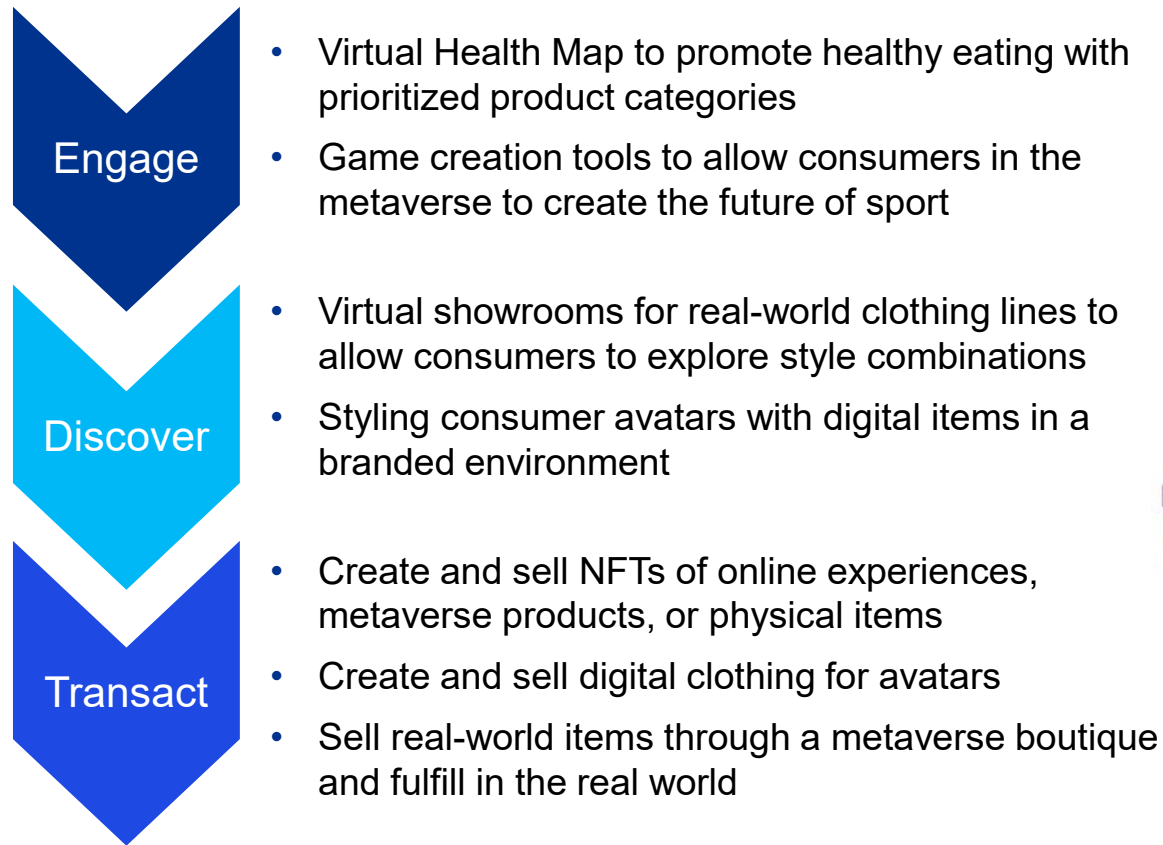
- While metaverse pioneers have developed a wide variety of use cases for retailers on the metaverse, there is little consensus on the most valuable uses at present.
- Surveyed senior executives favor non-sales uses for the metaverse, including dedicated products such as NFTs, instead considering discovery and marketing as more valuable today.
- Luxury brands such as Balenciaga and Gucci have started preparing for metaverse through collaborations with online gaming platforms such as Fortnite or by selling products through NFTs.



## Long-term uses include both internal and external roles

- In the longer term, many more use cases through the metaverse are possibilities for retailers, ranging from marketing, discovery, sales of physical items, sales of digital items, to brand tie-ins across the metaverse.
- Luxury retailers such as Fred Segal and Dolce & Gabbana have opened NFT stores to create a dynamic retail experience.
- Use cases of metaverse are involving the options for introducing products for digital avatars.
- Retail brands also view metaverse as having a real potential to change consumer interaction with their products at stores and improve their marketing efforts.

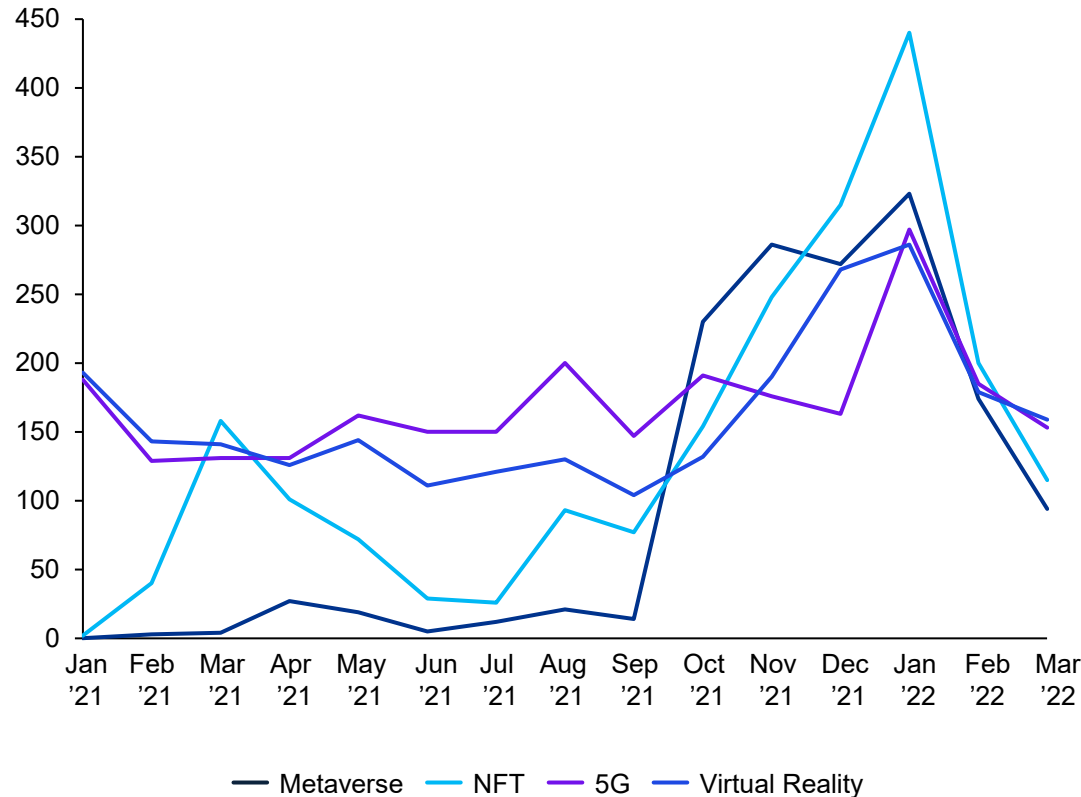
# Retailers can draw from a variety of virtual activities to drive consumer experiences throughout their buying journey.



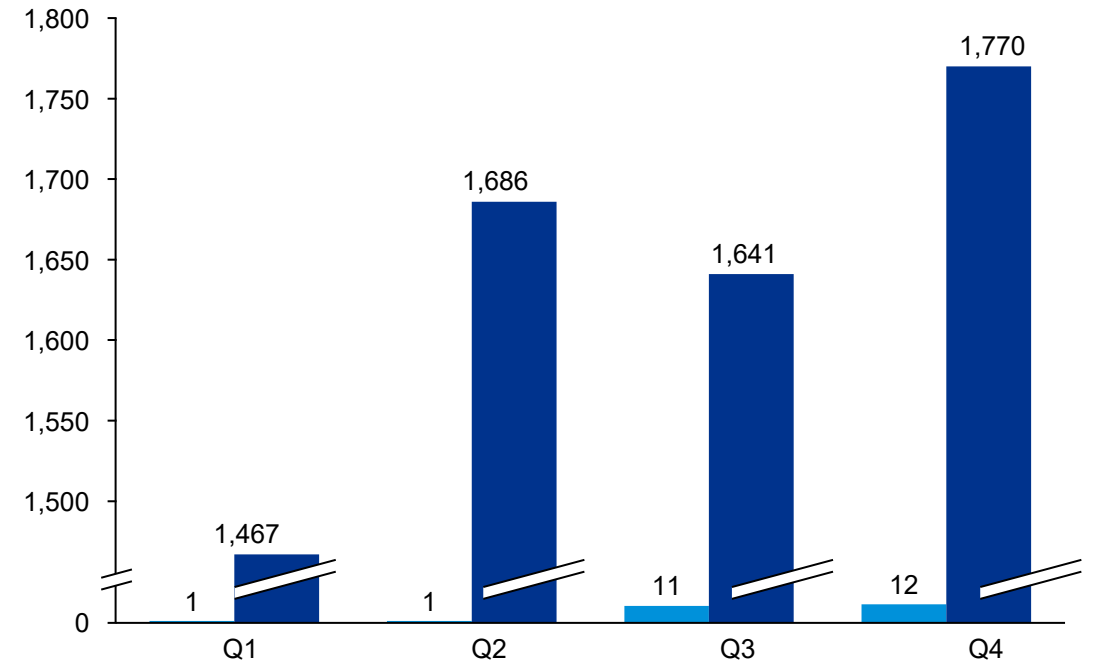
Source(s): KPMG Analysis; May 2022

While interest in metaverse and web 3.0 topics has significantly increased over recent periods, web 3.0 commerce remains magnitudes smaller than retail sales.

Monthly search trends, Jan 2021–Mar 2022<sup>(1)</sup>



U.S. NFT sales and total retail sales by quarter, \$B, 2021<sup>(a, 2)</sup>

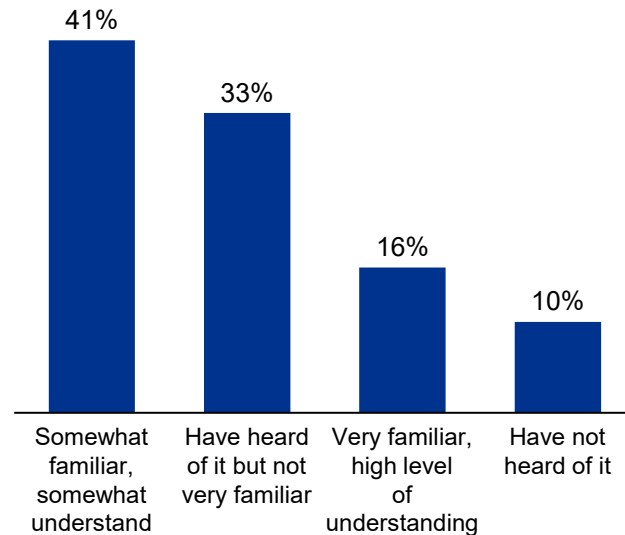


Note(s): (a) Excludes off-chain sales  
 Source(s): (1) Google trends; May 2022 (2) Dapprader; January 2022

# Familiarity with the metaverse is low among executives and majority of retailers do not yet have a strategy in place.

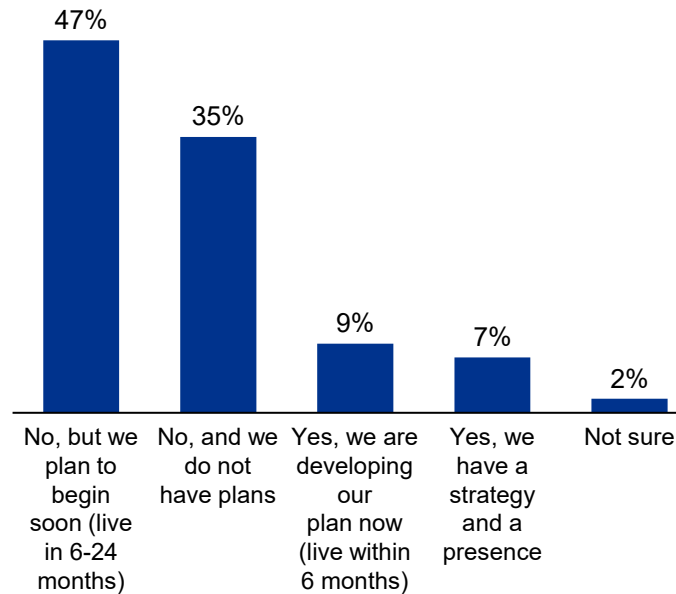
## Familiarity with metaverse for retail executives (N=100)

How familiar are you with the metaverse?



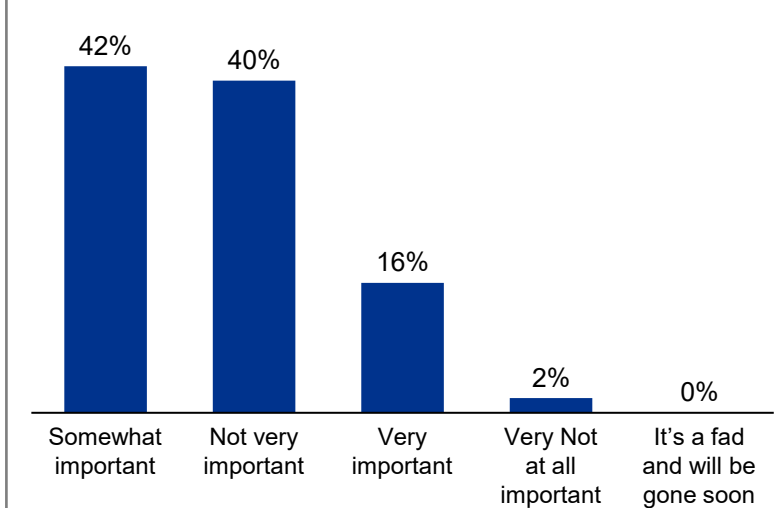
## Metaverse strategy intentions and maturity (N=100)

Does your company have an articulated metaverse strategy?



## Importance of metaverse for retail companies (N=57)

How important do you think the metaverse will become for retail companies?

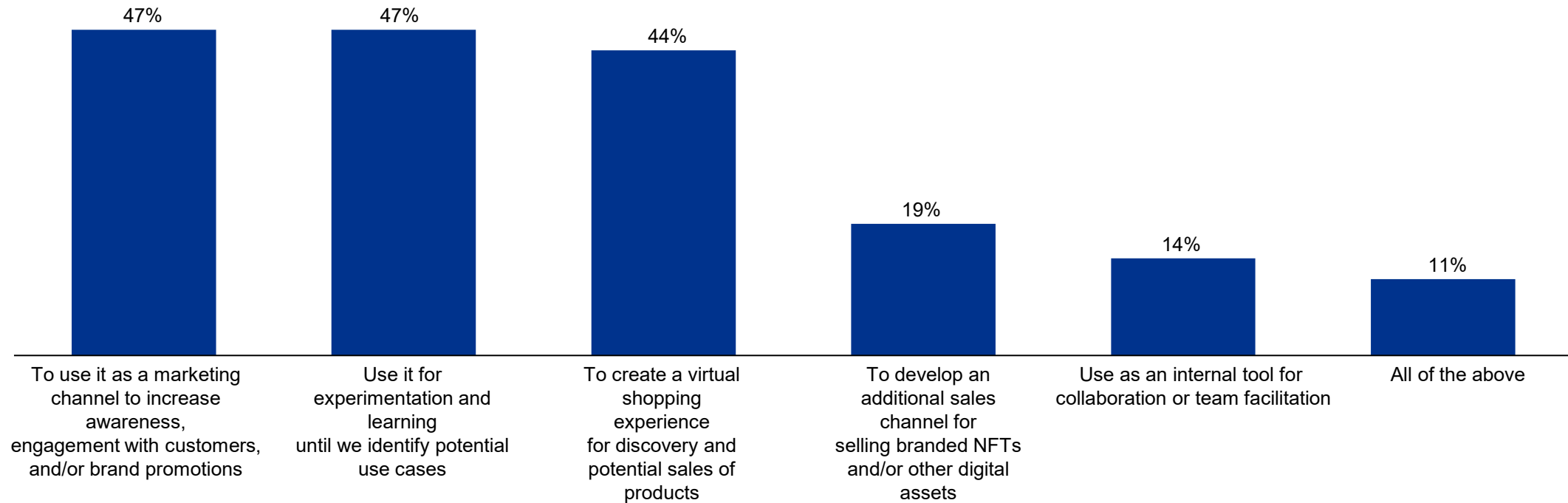


Source(s): KPMG Retail Executive Survey, fielded May 2022

# Executives see metaverse as an opportunity to increase brand awareness rather than as a sales channel and are willing to experiment to identify potential uses.

## Ways to leverage metaverse for retail companies (N=36)

*How does your company plan to leverage opportunities in the metaverse?*

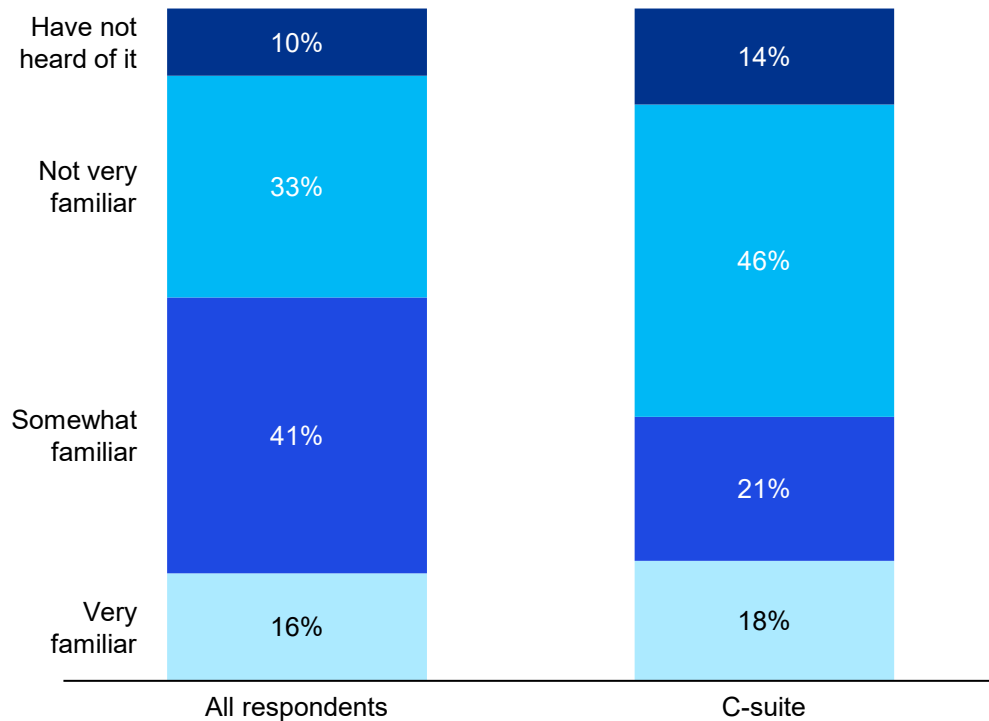


Source(s): KPMG Retail Executive Survey, fielded May 2022

# C-suite executives are less familiar with the metaverse than all respondents and are confident it is best used for marketing and product discovery.

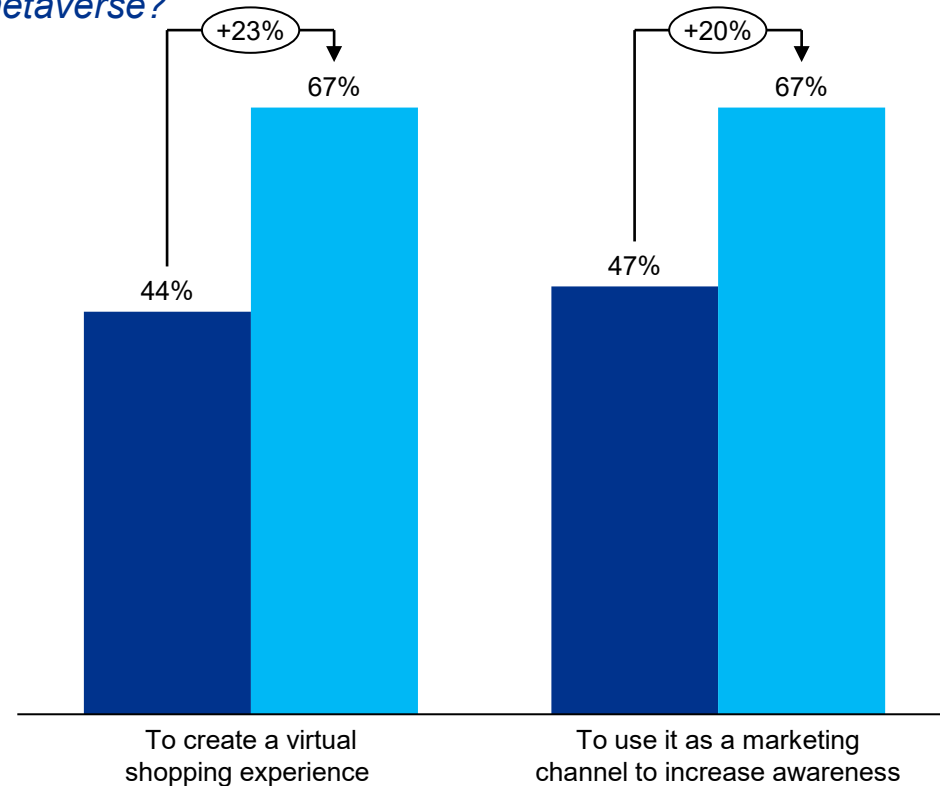
## Familiarity with metaverse/web 3.0 (N=100)

How familiar are you with the metaverse?



## Planned uses for metaverse/web 3.0 (N=36)

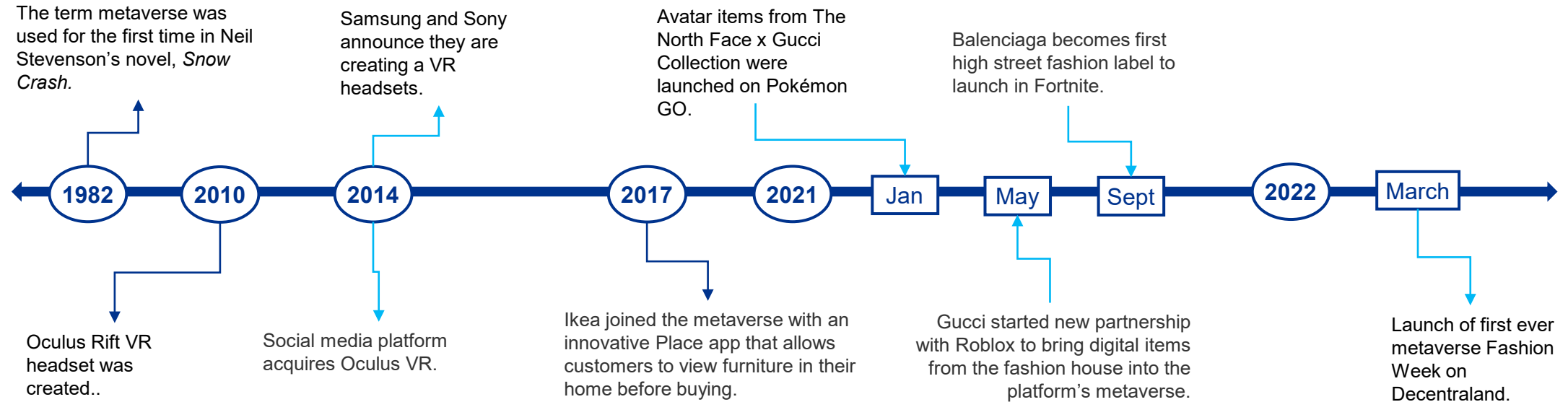
How does your company plan to leverage opportunities in the metaverse?



Note(s): Totals may not sum to 100 due to rounding.

■ All respondents ■ C-suite respondents

# The concept of a metaverse has been around for 40 years but true execution of the concept remains in its infancy.



- During 2020, the fashion industry lead the way in the metaverse with many brands creating virtual spaces amid COVID-19 lockdowns.
- In December 2021, a Los Angeles-based retailer debuted a “dynamic retail experience” called Artcade in its Sunset Boulevard store, created in partnership with a media tech holding company; the experience includes an NFT gallery with digital wall displays, physical and digital products for sale, and a streaming studio.
- In December 2021, a luxury retailer staged an NFT installation in one of its flagship stores, and another luxury retailer held an NFT exhibition for New York Fashion Week.

Source(s): Forbes; December 2021, Detego; January 2022; Vogue Business Index, May 2022

**Retailers' early metaverse strategies revolve around some combination of digital promotion, virtual product sales for use in the metaverse, or sales of real-world products through the metaverse.**

### **Major retailers have started preparing for metaverse**

- In July 2021, one retail and wholesaler launched a healthy map on Fortnite, enabling players to heal themselves and gain more energy by eating fruit, vegetables, and fish.
- Luxury brands such as Balenciaga plan to establish a metaverse unit aside from having developed a video game for a new collection and have partnered with Fortnite on virtual clothing.
- Gucci sold a Roblox handbag and video that was sold as a NFT on Christie's.
- Nascent metaverse and gaming platforms already have a retail constituent as there are marketplaces that already sell NFTs.

### **Key use cases**

- Some retailers, such as Carrefour, have created a digital experience in the metaverse as a way to promote their physical stores.
- Another approach has been to create virtual products which are sold in the metaverse, such as the Gucci Roblox handbag.
- A final consideration is to use the metaverse to raise awareness and promote physical brands products, such as the Balenciaga range .

Source(s): NRF; February 2022, CNBC, January 2022 and Vox, January 2022



08

ESG

# Retailers are proactively adopting ESG policies across their business to build a stronger brand, satisfy key stakeholders, and promote sustainable long-term growth.



## Common ESG themes and initiatives

- ESG is an increasingly important topic for retailers, as a wide variety of stakeholders demand more from companies than was previously expected.
- ESG is made up of three areas:
  - **Environmental:** Efforts to reduce carbon footprints and conserve resources
  - **Social:** Improving labor standards, commitments to diversity and inclusion
  - **Governance:** Data management, stakeholder management, and reporting
- Four in five executives observed that ESG has become more important for their organization in the past two years, despite the emergence of many other challenges for management.



## Dedicated ESG roles are key to program success

- ESG programs depend on the commitment of the organization, making a dedicated role incredibly important for success.
- Outside of cost, executives point to a lack of expertise and requirements to split managerial attention as the largest challenges when implementing a successful ESG program, both of which can be mitigated through a dedicated ESG role.
- Chief sustainability officers (CSO) are increasingly common, with 7 of the top 20 U.S. retailers having this role.
  - CSOs roles have continued to grow, moving up the value chain from after-the-fact sustainability initiatives to involvement in product development and marketing.



## Multiple stakeholders demand ESG investment

- ESG program growth has been driven by a variety of internal and external stakeholders, as well as regulators.
- Internal stakeholders include employees and board members.
  - Employee pressure continues to increase as younger generations put more value on ESG initiatives.
  - Board members tend to be more reactive, driving implementation in response to other stakeholders.
- External stakeholders include shareholders and consumers.
  - Institutional shareholders are increasingly assertive in demanding action on ESG. are increasingly assertive in demanding action on ESG.
  - Executives point to consumer reputation as the most important reason for increasing ESG efforts.

# Companies are incorporating green economy into business models by setting aggressive environmental targets while generating shared value.

The urgent need for meaningful environmental action is driving companies to lead a global sustainability charge by adopting new and innovative measures.



## Adoption of circular economy

Companies are setting aggressive waste reduction targets through circular economy by the reuse of various products and materials.



## Reduction of greenhouse gases

Companies are targeting near-term greenhouse gas emission reductions across their operational footprints with the aim of achieving net-zero emissions.



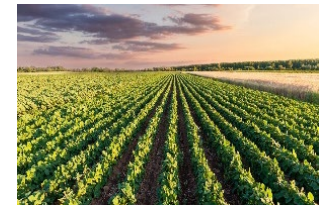
## Conservation of natural resources

In order to conserve the natural resources, companies are increasingly putting efforts to achieve water-use efficiency, and to reduce total water usage across operational plants.



## Sustainable sourcing

Companies are prioritizing sustainable sourcing of raw materials and helping suppliers adopt smart and sustainable practices for cultivating ingredients.



## Recyclable packaging

Innovative package designs are being adopted with the objective of achieving 100 percent recyclable packaging solutions.



Source(s): Company websites; May 2022 KPMG analysis, May 2022

# Companies find social sustainability as a proactive way of managing and identifying business impacts on employees, workers in the value chain, customers, and local communities.

Companies are recognizing the human cost to doing business and incorporating steps to ensure implementation of social sustainability measures.



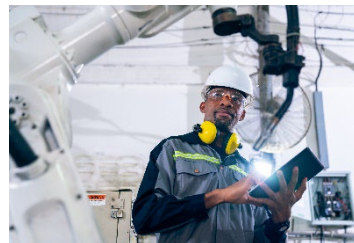
## Adoption of healthy raw materials

Companies are incorporating healthiness into their products by using fewer unhealthy ingredients, such as sugar, and adding more functional products in the portfolio.



## Enforcement of labor standards

Companies are focused on driving fair and safe working conditions by ensuring strict vigilance against use of child labor and addressing most salient human rights issues.



## Focus on People Development

Companies are focusing more on nurturing employees through engaging and targeted training programs to cross-skill and upskill them into leaders of the future.



## Promotion of diversity and Inclusion

Companies are increasingly aiming to sustain pay equity programs and to achieve gender parity and inclusivity in top management roles.



## Empowering community

Companies are investing to empower communities through targeted donations, volunteering programs, and driving educational programs to reduce inequalities.



Source(s): Company websites; May 2022 KPMG analysis, May 2022



# Companies are making change to their governance structure to align commercial goals and sustainability goals with an eye on long-term value creation.

Companies are ushering in governance changes as shareholders wish for transparent and accurate reporting of the company's business practices.



### Adoption of ESG reporting

The quality and quantity of ESG data continue to improve as many companies have started adhering to ESG reporting frameworks.



### Managing data security

Companies are increasingly documenting data security, data protection, and data privacy protocols to prevent misuse/leak of confidential data.



### Changes to board composition

Companies are targeting more participation of women in the Board and for an overall inclusive composition as they understand the importance of hearing different perspectives.



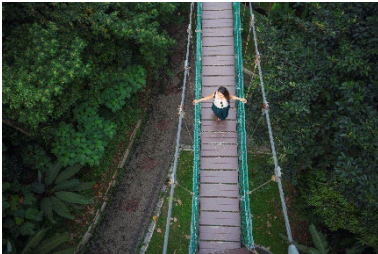
### Active stakeholder management

Companies are engaging in active partnerships with key stakeholders across their business, including, local communities, to strengthen its understanding of important ESG issues.



### Number and scope of CSO role

Companies are opening up CSO roles and the scope of these roles are extending into product development and marketing to ensure commercial and sustainability goals are aligned.



Source(s): Company websites and KPMG analysis

# Retailers have opportunities for ESG actions and commitments across all parts of their business.

	Suppliers, vendors, and logistics	Non-store operations (headquarters, etc.)	Store operations
Environmental	<ul style="list-style-type: none"> <li>Net-zero pledge/reduction of carbon footprint</li> <li>Ethical input sourcing (clean supply chain)</li> <li>Energy-efficient transportation</li> <li>Recyclable packaging</li> </ul>	<ul style="list-style-type: none"> <li>Install solar panels and/or energy efficient windows.</li> <li>Offer electric vehicle charging stations.</li> <li>Smart HVAC and lights to save energy at certain times of the day</li> </ul>	<ul style="list-style-type: none"> <li>Elimination of plastic bags</li> <li>Increase ambient store temperature in summer/decrease in winter</li> <li>Drop point for specialized recycling (electronic, batteries, larger equipment, etc.)</li> </ul>
Social	<ul style="list-style-type: none"> <li>Ensure vendors/suppliers pay fair wages.</li> <li>Commitment source from local/small business suppliers and vendors</li> </ul>	<ul style="list-style-type: none"> <li>DE&amp;I training for recruiters and hiring managers</li> <li>Partnerships with local nonprofits to contribute to community</li> </ul>	<ul style="list-style-type: none"> <li>Living wage for store workers</li> <li>Respect/support for local labor regulations</li> </ul>
Governance	<ul style="list-style-type: none"> <li>Gender-based pay reporting from vendors/suppliers</li> <li>Balanced board composition for vendors/suppliers</li> <li>Requirement for sustainability reporting from vendors/suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Annual ESG reporting to board and shareholders</li> <li>DE&amp;I Key performance indicators(KPI) reporting to internal stakeholders</li> <li>Balanced board composition</li> </ul>	<ul style="list-style-type: none"> <li>Annual reporting on demographic/wage disparities</li> <li>Reporting on labor violations/disturbances</li> </ul>

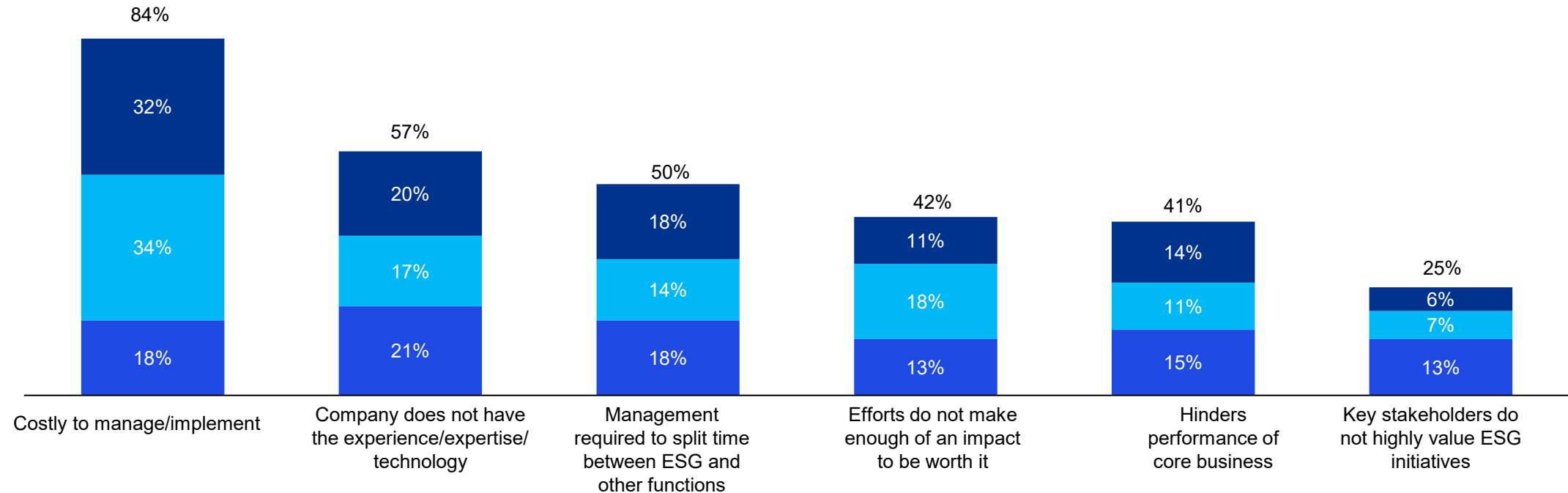
Source(s): Company websites; May 2022 KPMG analysis, May 2022

# Cost, expertise, and management attention are retailers' biggest challenges with ESG.

## Major ESG challenges for companies (N=91)

Please rank the top three challenges/pain points for your company related to ESG.

■ First rank ■ Second rank ■ Third rank

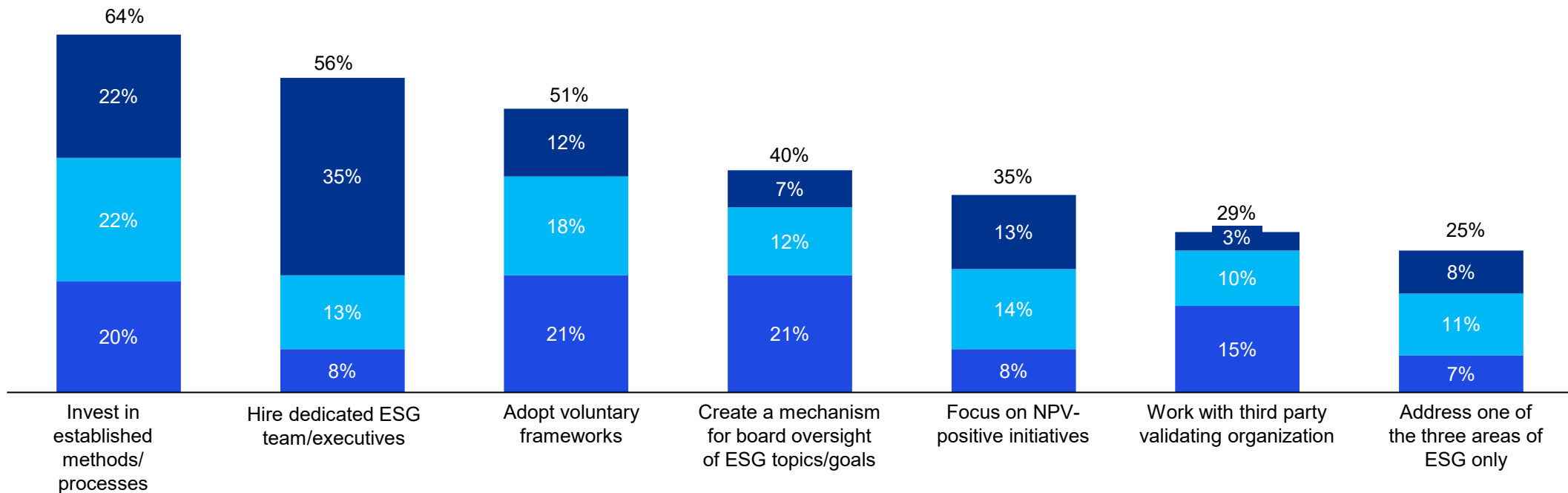


Note(s): Totals may not sum to 100 due to rounding.  
 Source(s): KPMG Retail Executive Survey, fielded May 2022

# Investment into dedicated executives and established processes are the best way to implement change.

## Ways companies are addressing ESG challenges (N=91)

Please rank the top three initiatives for your company to alleviate ESG challenges.



Note(s): Totals may not sum to 100 due to rounding.  
 Source(s): KPMG Retail Executive Survey, fielded May 2022



# As companies are increasingly adopting ESG as a core part of operations, there is a significant increase in frequency for the role of Chief Sustainability Officers (CSO).

## Reasons for Rise in the CSO Roles

### Managing ESG risks:

Modern-day organization leaders acknowledge that ESG risks are substantial enough to their organization's operations to be strategic priorities.

### Managing stakeholder expectations:

Stakeholders (customers, employees, business partners, shareholders, etc.) expect actions on sustainability that an organization is not yet prepared to deliver.

### Managing mandatory compliances:

Organizations need to keep up with external changes, such as new regulatory and government mandates, which are being implemented at a rapid pace.

## Key responsibility areas of CSOs have evolved over time

### 1. Align innovation with sustainable practices.

CSOs are helping sustainability and innovation departments effectively align commercial goals with sustainable practices.

### 2. Develop industry-wide eco-friendly practices.

CSOs are increasingly working with competitor brands to develop eco-friendly best practices.

### 3. Product development and marketing.

CSOs are extending their reach into product development, manufacturing and marketing.

## Major companies with CSO roles

### Apparel

- Nike
- GAP
- Levi's

### Superstores

- The Home Depot

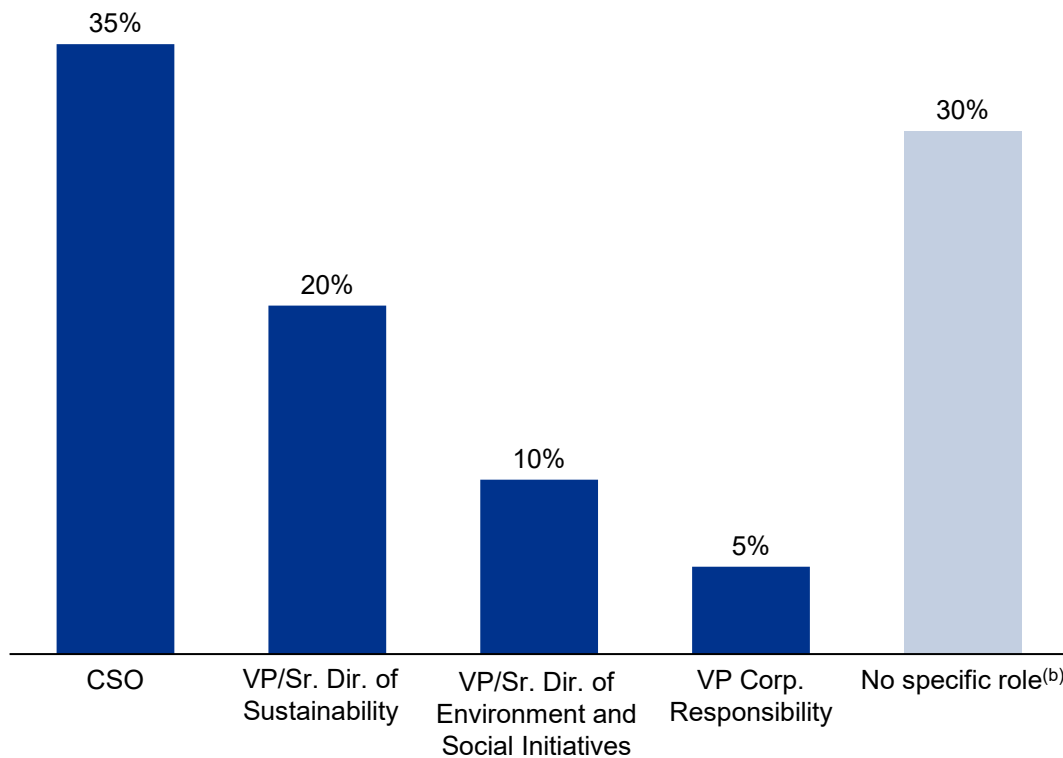
### Eateries

- McDonald's

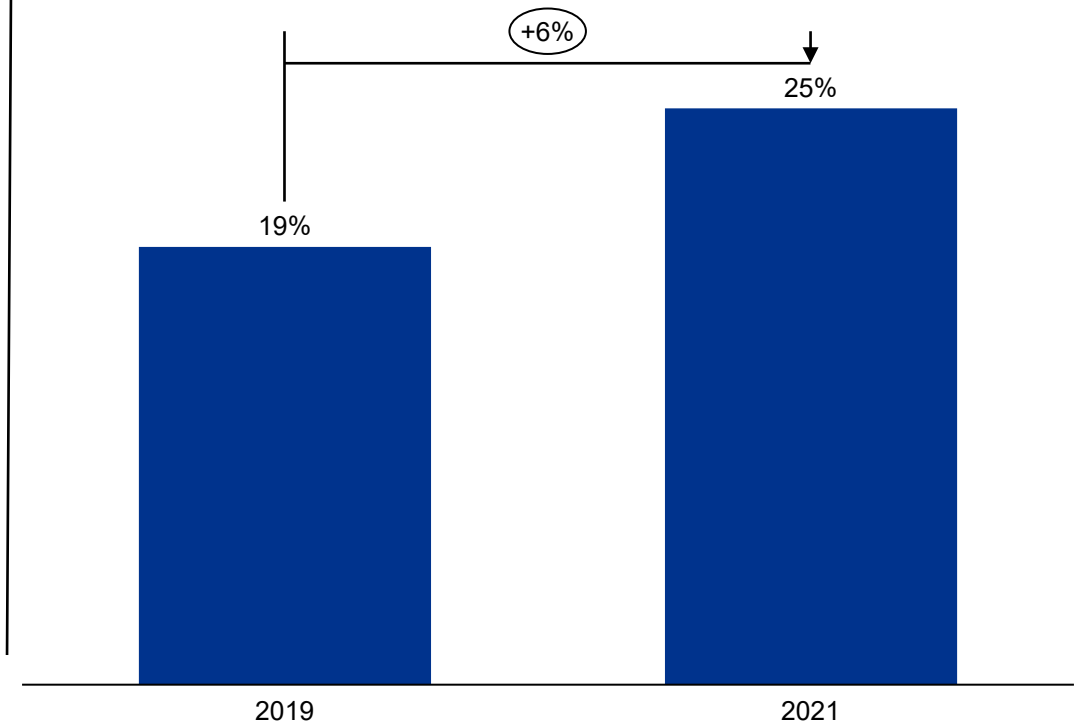
Source(s): Company websites, May 2022 and Forbes February, 2021

70 percent of top U.S. retailers have some dedicated ESG executive on their senior leadership team, reflecting the proliferations of financial incentives to meet ESG targets.

Name and count of top ESG leadership positions of top 20 retailers, 2022<sup>(a, 1)</sup>



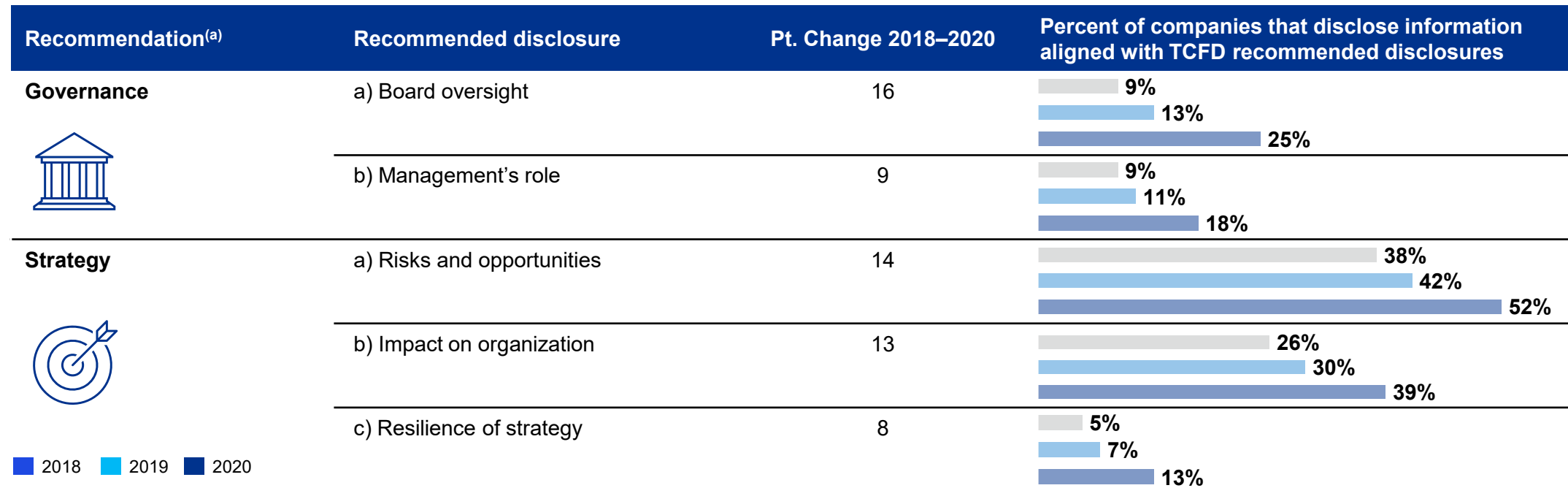
Percentage of U.S. companies including ESG factors in executives' compensation incentives<sup>(c,2)</sup>



Note(s): (a) Title of positions has been generalized for simplicity (e.g., "VP/Sr. Dir. of Sustainability" includes "VP of Global Sustainability & Compliance" as well as "Senior Director of Corporate Sustainability"); (b) Did not have a specific ESG leadership position identified; (c) Includes all U.S. companies (e.g., quick-service restaurants, oil and gas, etc.), not limited to retailers specifically  
Source(s): (1) Company websites; May 2022 and (2) Bloomberg, March 2022

# Voluntary frameworks such as the Task Force on Climate-related Financial Disclosures are increasingly common ways for retailers to action on ESG.

- 1** The Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) provides a global framework aimed at creating more effective climate-related financial disclosures through their existing reporting.
- 2** While the amount of disclosure varies widely by company, an AI review found an average of 32 percent of companies actually making disclosures across all 11 recommended disclosures.



Note(s): (a) Table does not include all recommended categories or disclosures; missing categories (disclosures) include: Risk management (risk ID and assessment processes, risk management processes, integration into overall risk management) and metrics and targets (climate-related metrics, scope 1, 2, 3 GHG emissions, and climate-related targets).  
 Source(s): KPMG Proprietary Research

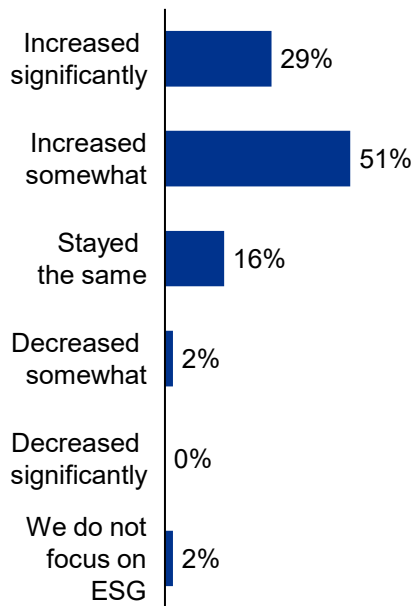
# Retailers have focused on concrete organizational changes to facilitate ESG goals, including dedicated teams and leaders to facilitate accountability.

	Approach	Examples
<b>Product and packaging environmental impact</b>	Companies work throughout their supply chain to reduce impact of products on the environment.	<ul style="list-style-type: none"> <li>Some retailers have opted to implement enterprise-wide targets for reduced consumption of key resources such as water or power.</li> <li>Other retailers have set goals to reduce waste by a fixed percentage per unit, which allows for more flexibility as the organization continues to grow.</li> <li>Well-designed sustainability goals often also include targets for upstream suppliers and/or transportation partners that require changes or additional offsets to meet.</li> </ul>
<b>Employee inclusion and benefits</b>	Retailers make big strides to improve lifestyle of their workforce.	<ul style="list-style-type: none"> <li>Under the guise of their ESG programs, retailers have prioritized employee well-being by providing pay increases to in-store employees, including base salary adjustments.</li> <li>Retailers have invested in diversity and inclusion measures such as training in-store staff or special contributions to community initiatives in areas related to stores.</li> <li>Retailers have also made changes to their hiring processes to mitigate inherent biases and close the wage gap by creating a more consistent hiring experience.</li> </ul>
<b>Cyber security and data protection</b>	e-Commerce growth has led to increased cyber security threats and retailer responses.	<ul style="list-style-type: none"> <li>As cyber threats have proliferated and put consumer data at risk, retailers have invested in dedicated cyber threat intelligence teams to help protect sensitive data.</li> <li>Cyber threat leaders, such as a Chief Technology Risk Officer, are becoming increasingly common as a way to centralize decision-making and commit to meaningful oversight.</li> <li>Retailers have also set up external stakeholder groups to weigh in on use of data, records management, and cybersecurity from a non-corporate perspective.</li> </ul>

Source(s): Company websites; KPMG analysis

# Retailers are reacting to pressure from both internal and external stakeholders on ESG, with some like shareholders more proactive while others like the board tend to be more reactive.

## Importance of ESG over past two years<sup>(a)</sup> (N=93)



### Internal stakeholders

#### Employees

- As baby boomers come to retirement age and they are replaced in the workforce by millennials and Gen Z, there is a growing internal pressure for employers to adopt a proactive ESG strategy.
- Increasing expectation for employers to offer health and wellness in their remuneration packages. This has been exasperated by COVID-19 and the work-from-home culture where employees are not able to separate home and work lives.

#### Board

- Boards are taking a reactive approach to ESG by ensuring that all stakeholder interests are managed equally.

### External stakeholders

#### Shareholders

- Increasing pressure from institutional shareholders for companies to improve their ESG strategy. Financial leaders are encouraging stakeholder capitalism over shareholder capitalism.
- There will be capital attracted to companies that are not only industry leaders but also capital available to help companies drive change.

#### Consumers

- Executives point to reputation as the most important driver in expanding ESG.
- Research by Ipsos highlights that there has been an increase from 50 percent in 2013 to 66 percent of consumers in the U.S. who 'tend to buy brands that reflect personal values.'
- The challenges differs by industry. For example, there is considerable consumer pressure on the fashion industry to improve the "fast fashion" mentality.
  - Emergence of the circular economy with online marketplaces, such as Depop, that allow consumers to recycle items.

### Organizations

#### United Nations

- In 2021, the United Nations gathered in Glasgow, Scotland with the goal to strengthen the global ties on climate change with four key objectives agreed:
  - Ensuring global net zero by 2030.
  - Adapting to protect communities and natural habitats
  - Mobilizing Green Finance
  - Delivered by working together.

#### B Corp

- B Corp is a global non-for-profit whose mission is to "make business a force for good." It now operates in 84 countries and has growing relevance in consumer sentiment. To become a B Corp company:
  - Demonstrate high social and environmental performance.
  - Exhibit transparency
  - Make a legal commitment by changing governance structure to be accountable to all stakeholders, not just shareholders.
  - Retailers will need to work closely with their suppliers to ensure they comply with the strict initiatives throughout the supply chain.

Note(s): (a) How has the role of ESG changed at your company over the past two years?

Source(s): KPMG Retail Executive Survey, fielded May 2022; B Labs; U.K, May 2022 Climate Change Conference; Blackrock, May 2022 and World Economic Forum; May 2022



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