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Counting the cost of VUCA: Adapting to change in food retailing



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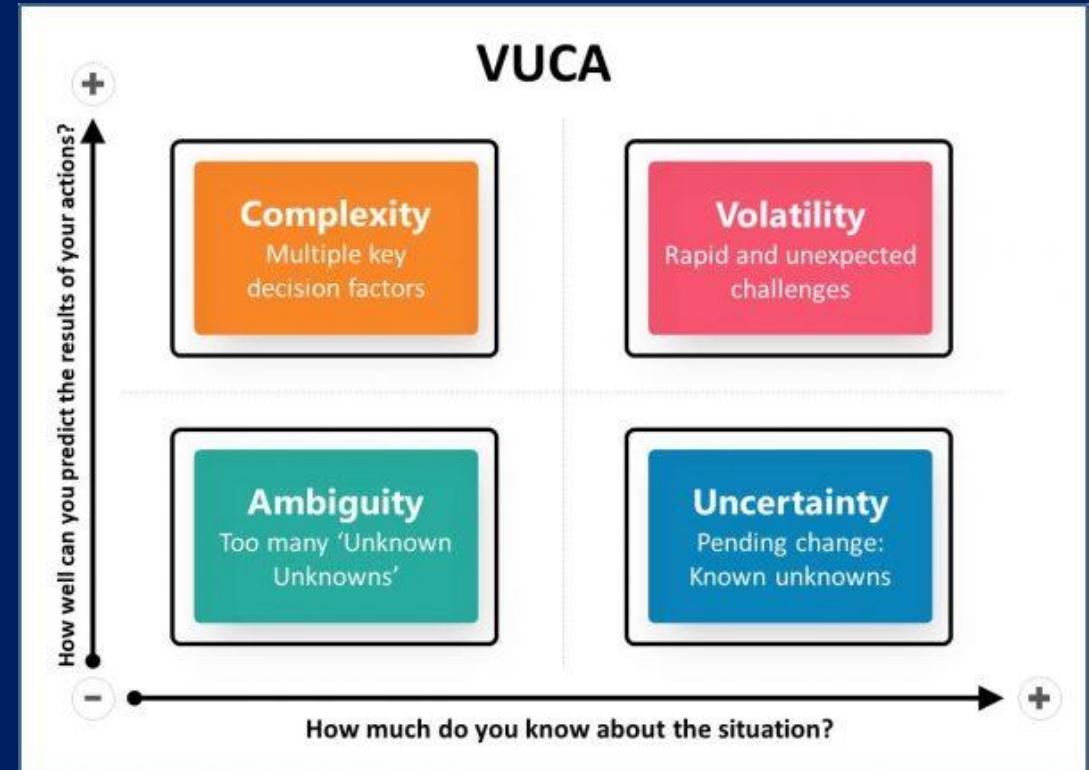
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Retail in a time of VUCA

- VUCA: developed in the US Army War College in the 1980s
- Originally developed to describe the world after the Cold War
- Since co-opted by management gurus
- What has been VUCA's effect on the adaptability & growth prospects of UK grocery retailers?
- *“We have witnessed five years’ of change in three months”*



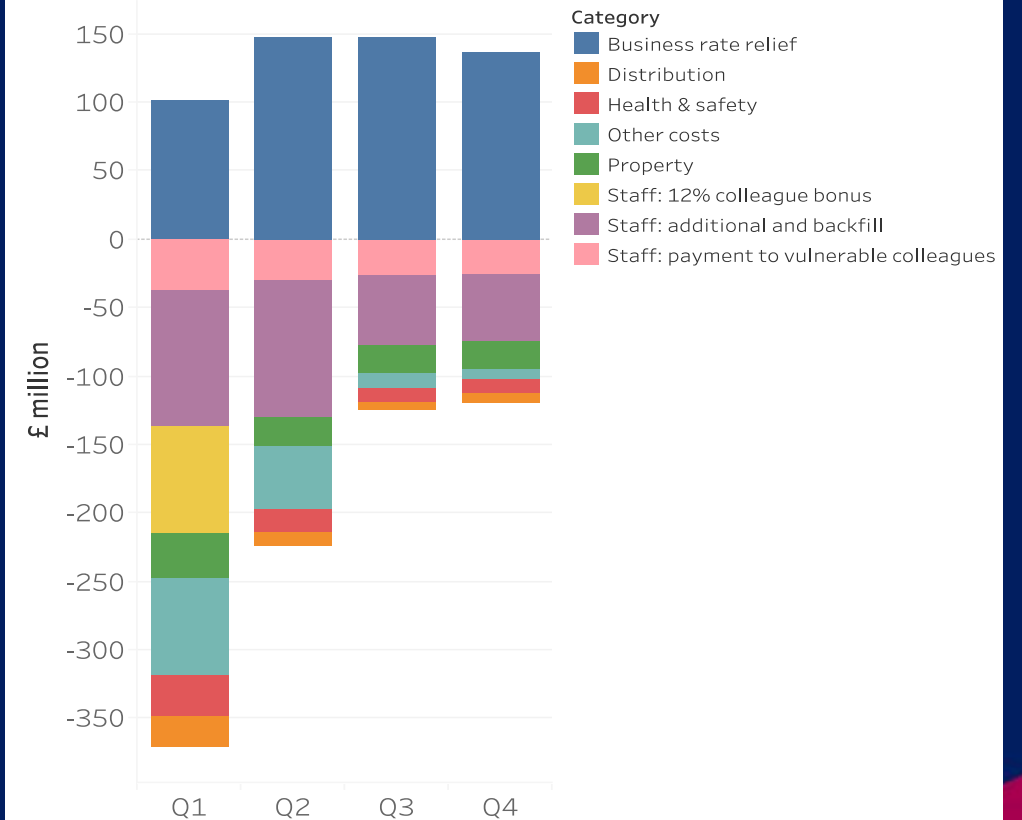
Adapted from Bennett & Lemoine, 2014.
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The combined effects have been costly

- “The UK’s biggest retailers would exhaust their entire working capital if they were forced to stay closed for 6 months” (Retail Economics)
- But those that could stay open still incurred significant extra costs, e.g. Tesco
 - £500mn staff-related alone
 - £532mn business rate offset
 - £840mn potential hit in the full financial year
- Significant COVID-related costs for smaller firms

Tesco: Current best view of incremental COVID-19 costs, end May 2020.





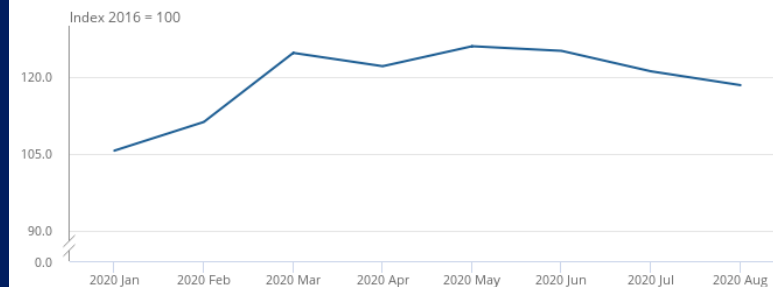
1. Volatility

- Stockpiling
 - Food buying helps us feel in control
 - Bullwhip effect & the failure of 'just in time'
- Eat Out to Help Out
 - Cost £522mn
 - 87,000 restaurants taking part
 - Impact on food spending by households



Figure 5: Food and drink sales within large retail businesses fell in July and August 2020

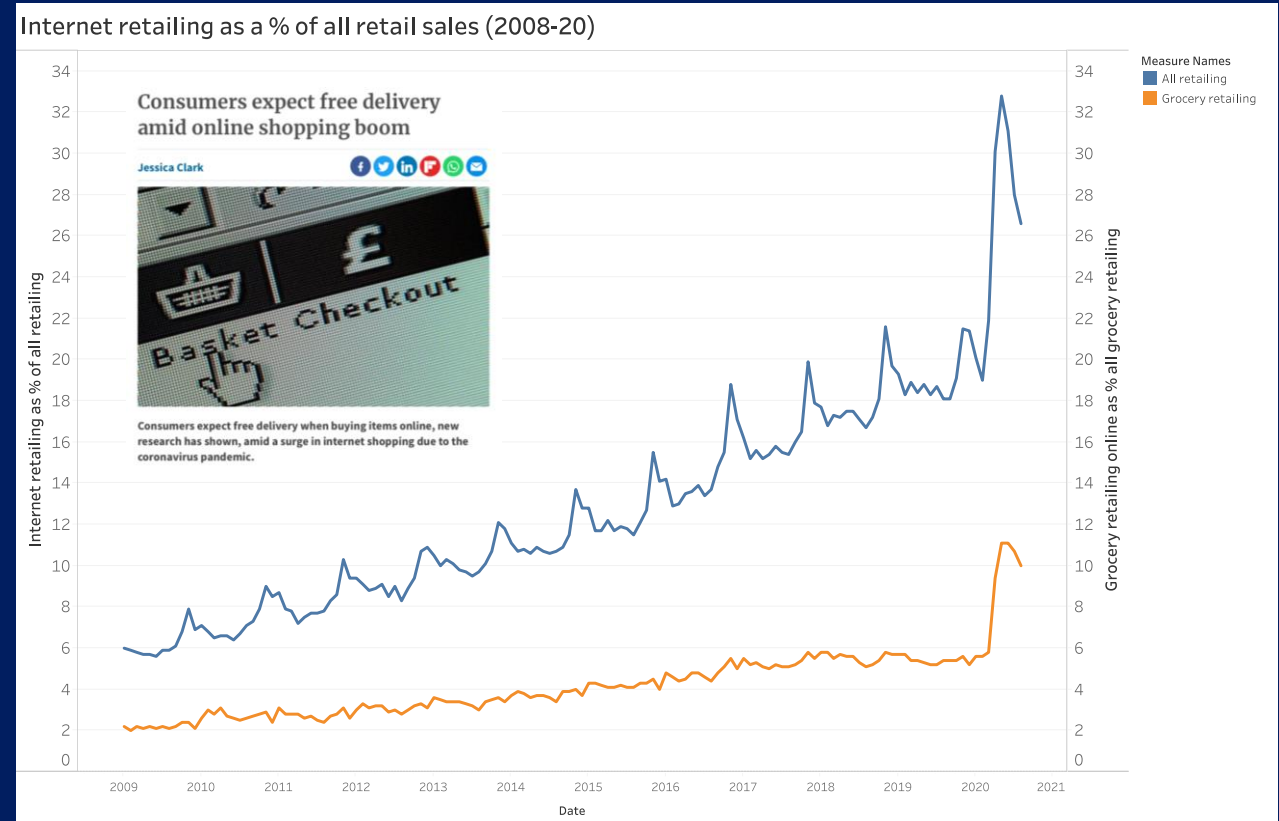
Value sales, non-seasonally adjusted, Great Britain, January to August 2020





2. Complexity: the online experience

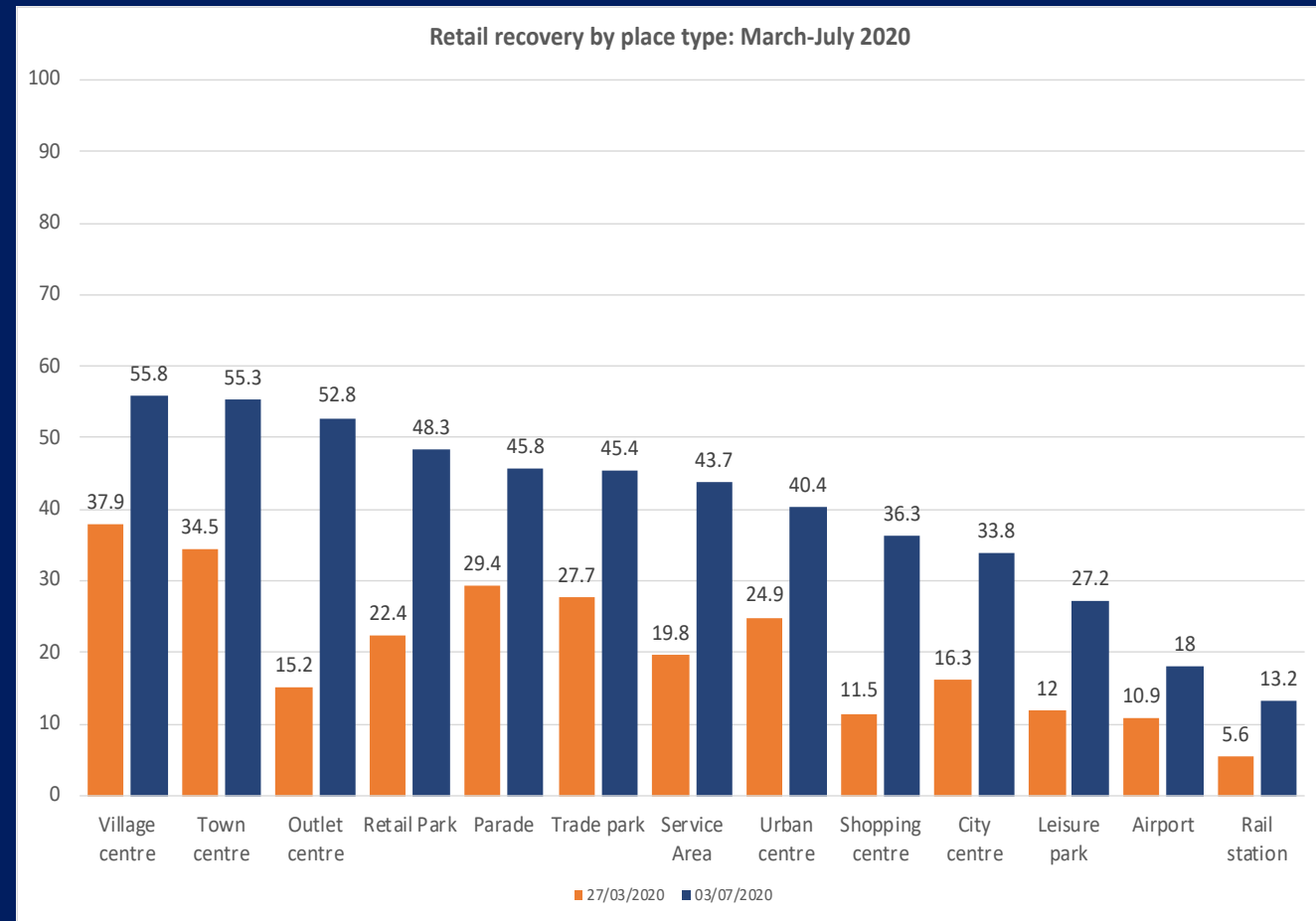
- Exponential increase in online demand from 18.8% - 32.8% all retail sales
- Varying agility of grocery firms in coping with extra demand
- Shopper dissatisfaction with online experience?
- Risk of profitless growth: *“moving sales out of our most profitable convenience channel and driving a huge step up in online grocery participation – our least profitable channel”* (Simon Roberts, Sainsbury’s)



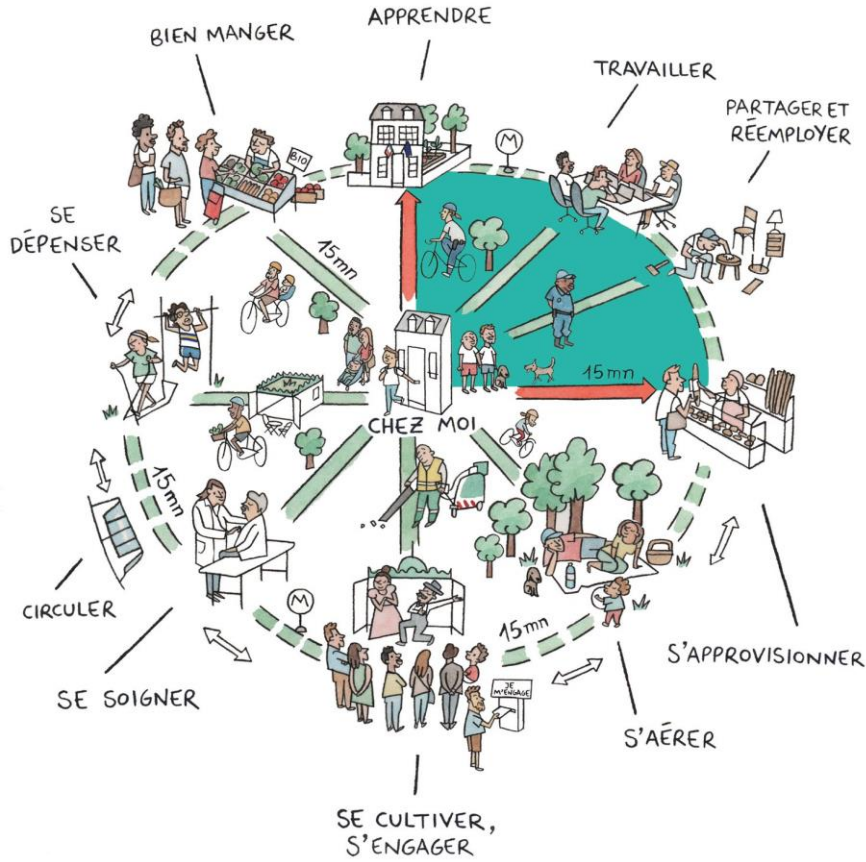


3. Ambiguity: the impact on places

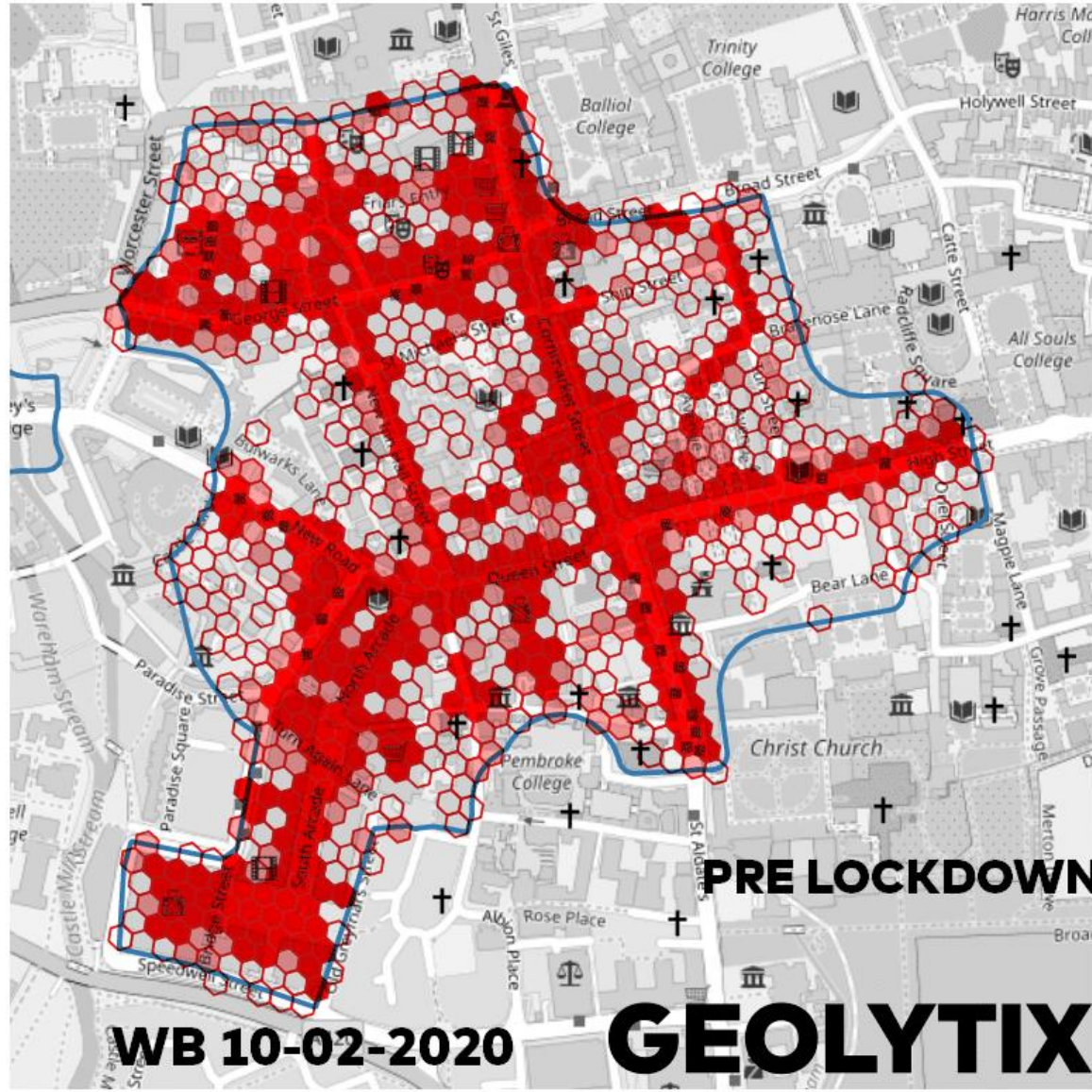
- Resilience of local place types
- Slow recovery of transport hubs & larger towns and cities
- *“A lot of people are saying that they’re not coming back”*
- City of London’s 30 biggest employers will bring only 40% of employees back into their buildings
- Will all existing stores be required or be viable?
- Will the concern over the local provenance of food and for localism more generally persist?



LE PARIS DU 1/4 HEURE



MICAËL



PRE LOCKDOWN

WB 10-02-2020

GEOLYTIX

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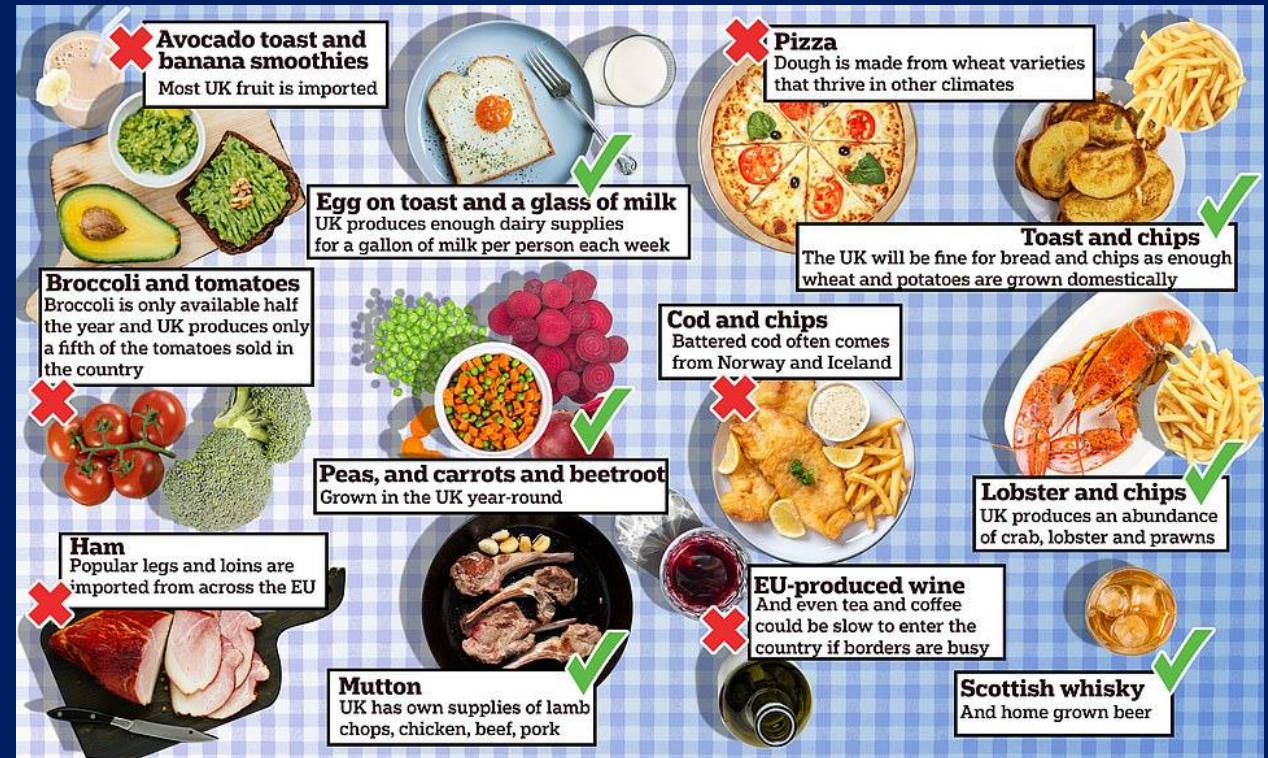
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4. Uncertainty: Brexit

- Should there be a 'no deal'
 - 85% of food imports from the EU will be subject to a tariff of more than 5%
 - An average tariff of over 20%
 - Additional costs for physical checks & non-tariff barriers
 - A £3bn tax bill for food that cannot be sourced in the UK
- And an expert analysis...
 - Food price change for Brexit with a Deal is expected to be +6.1% and with No-deal +22.5%
 - *"The number of households experiencing food insecurity and its severity is likely to increase because of expected sizeable increases in median food prices"* (Barons & Aspinall, 2020)



Sources: Daily Mail; British Retail Consortium, Barons & Aspinall, 2020



How to adapt?

Challenge	Example	Response
Volatility	Stockpiling, Eat out to Help Out	Build in resource to prepare, build in slack, invest in talent. Relate the cost to the risk
Complexity	Growth in online	Restructure to address complexity; develop appropriate specialisms; build up resources
Ambiguity	Places	Experiment; test out ideas; learn and apply lessons
Uncertainty	Brexit	Gain data insight; take external soundings; seek alternative viewpoints; develop scenarios

Adapted from Bennett & Lemoine, 2014.

Source: Geolytix, 2020, using mobile app data. <https://blog.geolytix.net/geolytix-retail-recovery-index/>

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Glass half full...

- “What I’ve noticed is everyone is looking for doom and disaster and I think that whilst we think the sales in the second half won’t be as good as they have been over the last 13 weeks, we are not in a position where we are worrying about the company’s stability over the next six months.”
- “In all scenarios, including the downside scenario, we will still deliver a profit.”



Simon Wolfson, Chief Executive, Next

Tesco profits surge as online orders double

53 minutes ago | 150



Coronavirus pandemic



GETTY IMAGES

Supermarket giant Tesco has seen first-half profits rise by more than a quarter as customers bought more food during the pandemic and online orders doubled.