

ART Observatory - New purchasing behaviours and the future of retail in the Covid-19 era.

THE ECONOMIC CRISIS HAS ALSO AFFECTED BUSINESSES IN THE KITCHENWARE, TABLEWARE AND HOME DECORATION SUPPLY CHAIN, BUT THE FIRST MONTHS OF 2021 HAVE ALREADY SEEN AN INCREASE NOT ONLY IN THE CLIMATE OF CONFIDENCE, BUT ALSO IN THE MAIN ECONOMIC INDICATORS.

AFTER THE LOSSES DURING THE SECOND HALF OF 2020, THE CONFIDENCE OF COMPANIES BEGAN TO GROWN AGAIN IN THE FIRST PART OF 2021 AND REGAINED OPTIMISM AFTER THE FORCED LOCKDOWNS OF 2020.

The entire sector is now worth almost seven billion Euros, with a drop due to the current health and economic crisis of just under 900 million Euros, of which about 45% from to the HORECA sector.

The sector managed to contain at least partially the losses during the second half of 2020 and in the first months of 2021, thanks to the renewed interest of consumers towards the home and what this also means for tableware, kitchenware and household "items". However, the loss of purchasing power of Italians and the stores closures imposed to contain the pandemic, have affected the volume of revenues of the sector during 2020.

All companies in the sector, from production to wholesale and distribution, recorded a marked improvement in the first months of 2021 not only in the climate of confidence, but also in the main economic indicators compared to the values recorded during 2020.

The supply chain segment in which the best data is found is that of manufacturing companies with a prospective level of confidence (2021 over 2020) equal to 54 (on a scale from 0 to 100), above the 50 line, which traditionally separates a shrinking market from a growing one.

Even wholesale companies recorded positive data in terms of economic performance, even if, compared to the other businesses in the supply chain, they would seem to have paid a significant toll to the crisis, with the disappearance of many companies in 2020 compared to 2019. In fact, during 2020, wholesalers had to deal with a series of new difficulties due to the pandemic, first and foremost those who have to deal with the importation of goods (from the increase in costs, to transport and logistics difficulties, to bureaucratic hurdles).

Italy lost over 130 billion Euros in consumption in 2020, and such a figure could not fail to also affect the household ware, tableware, kitchenware and gift sector, and this despite the "rediscovery of the home" by Italians during the months of lockdown. The crisis hit retail distribution businesses hard in 2020, but, nonetheless, business confidence has shown a marked improvement in recent months.

By analysing the demand for the articles under consideration, it is found that the pandemic did not affect the interest of consumers (the number of those who made at least one purchase went from 89.5% in 2018 to 87.1% in 2020), but impacted on the amount of expenditure, a consequence of the reduction in the purchasing power of consumers. This however is expected to return to pre-Covid level during 2021.

These are the key findings emerged from the market survey on tableware, kitchenware and gift items carried out by ART, the national trade Association, member of the Confcommercio System, which brings together producers, importers, distributors, agents of foreign companies and specialized retailers of tableware, kitchenware, gift and home decorative products, in collaboration with Format Research.

THE PHENOMENON OF ELECTRONIC COMMERCE

The exponential growth of electronic commerce (e-commerce), not only in the household ware, tableware and kitchenware sector, is possibly one of the most important innovations resulting from the health and economic crisis. Today 24% of manufacturing companies, 39% of wholesalers and 32% of retail businesses are involved in e-commerce activities. Among wholesale companies, the share (almost 60%) of those who use platforms made available by large marketplaces such as Amazon and eBay is very significant.

The share of consumers who purchased household ware, tableware and kitchenware items in 2020 almost doubled compared to 2019: they were about 17% in 2019 while in 2020 they were almost 35%. Not only operators that have always been present on the web have benefited from this, but also traditional businesses: 25% of consumers have purchased household products on the websites of chains such as Zara Home, Rinascente, Coin casa, Kasanova, Expert, Unieuro, 15% on the producers' websites and 13% on the websites of local shops.

PRODUCTION COMPANIES

The confidence of manufacturing companies in the performance of both the sector as a whole and their business in 2021 is improving compared to 2020 along with the forecast for positive revenues growth: 24.6% expects an increase in revenues in 2021 compared to 2020.

***Change of business models in companies.** The health and economic crisis has most likely played a role in modifying the business models of companies in the sector, where there is a new orientation towards customer service and innovative ways of managing commercial development.

While on the one hand about 40% of companies are chosen by their customers for the price, as many as 34.5% of companies are chosen by their customers for their capability to comply with stringent requirements and technical specifications, and 23.1% on the basis of a close collaboration that the manufacturing companies have been able to develop with their customers as regards the identification of adequate technological solutions. In the next two-year period 2021-2022, if on the one hand the demand will continue to attribute great importance to the price, on the other it will begin to ask for greater customization of products (68.6%), often requesting companies to consider discussing the co-creation of products (65.7%).

Increased demand for innovative products, digitalization of the customer-supplier relationship and attention to sustainability by the supplier are just some of the main trends that will characterize the market according to the opinion of manufacturing companies. According to 21% of companies, in the next two years the sales process

to the customers will be characterized by the sale of “solutions”, or products and services associated with these, while for the remaining 79% it will continue to be characterized by the sale of products.

Figure 2 - Evolution of the customer sales process

Evolution of the customer sales process | For about one in five companies in the production of kitchenware, tableware and gift items, the next two years will be characterized by the sale of solutions.

In your opinion then, in the next two year will **the sales process to the customers** by your company be characterized more by the sale of “solutions”, i.e. products and services associated with these?



WHOLESALE COMPANIES

The confidence of wholesale companies in the performance of both the sector as a whole and their business in 2021 is improving compared to 2020 and a rise in revenues is expected: the indicator prospectively stands at 42 (2021 over 2020) against the previous figure of 21 (2020 over 2019).

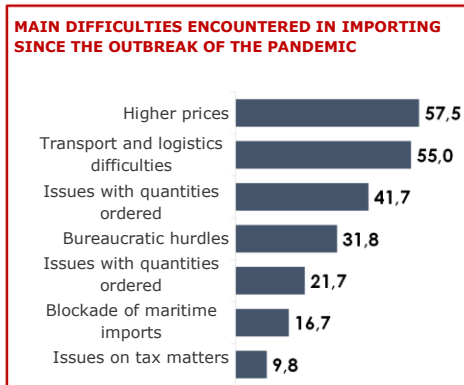
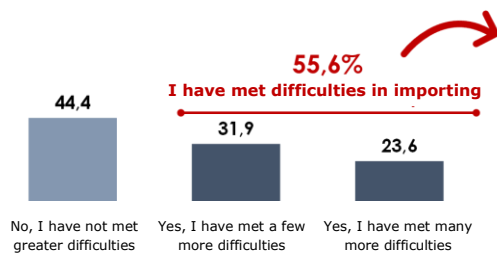
The employment situation improved in 2021 compared to 2020, with a prospective indicator of 50 against the previous 39, and there is an improvement in 2021 also for the ability of companies to meet their financial needs, despite the fact that in terms of reduction of their financial capacity, wholesale companies have suffered much more than production companies as a result of the health and economic crisis that is still underway.

***Import of goods.** 49% of wholesale companies import from abroad and 55.6% of these have had more difficulties in importing products from abroad since the outbreak of the pandemic. The greatest difficulties have been in coping with the increase in costs, transport and logistics problems, issues with the quantities ordered and bureaucratic hurdles. According to 54.1% of companies, since the outbreak of the pandemic to date, the prices charged to the company by its foreign suppliers have increased compared to what happened before the pandemic.

Figure 3 - The main difficulties of imports during the pandemic

Import difficulties due to the pandemic |

Since the outbreak of the pandemic to today, has your company had **more difficulties in importing** products from abroad? (Only companies that import)



RETAIL BUSINESSES

The crisis hit retail businesses hard in 2020. Italy lost over 130 billion Euros in consumption in 2020, and this affected also the household ware, tableware, kitchenware and gift sector, and this despite the “rediscovery of the home” by Italians during the months of lockdown.

However, companies’ confidence has improved steadily in recent months, both with regard to the performance of the sector as a whole and their business, with the prospective indicator showing an increase of 69% in 2021 compared to 2020.

Also the sales forecasts are for positive revenues growth, where the value of this indicator is 46 (2021 over 2020), against the previous figure of 24 (2020 over 2019).

***Process and service innovations.** 31% of retail businesses introduced process innovations in the sale of online products in 2020 following the COVID-19 health emergency. The main process innovations introduced refer to the introduction or strengthening of their e-commerce platform on social networks.

46% of retail businesses introduced service innovations in the online sale/supply of products/services in 2020 following the health emergency: these are mainly services to support customers on the web and/or social networks (31.3%), management of the commercial relationship with customers via emails and communications (30.0%), upgrading of digital payment systems (27.3%).

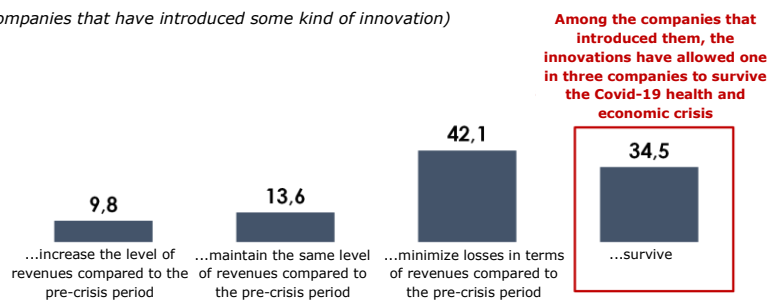
The process and service innovations introduced in 2020 allowed 34.5% of companies in the sector to at least “survive” in the year of the crisis, 42.1% to minimize losses in terms of revenues compared to 2019, 13.1% to maintain the same revenues level in 2020 as in 2019, and 9.8% of companies to increase revenues in 2020 compared to 2019.

Figure 4 – The consequences of innovations on retail businesses

Innovations and pandemic | For 42.1% of retail companies, the innovations introduced in the aftermath of the pandemic allowed them to minimize their losses in terms of revenues, but for more than one in three it made it possible to survive.

Would you say that, compared to the pre-crisis period, the **introduction of these innovations** has allowed the company to...

(Only companies that have introduced some kind of innovation)



CONSUMERS

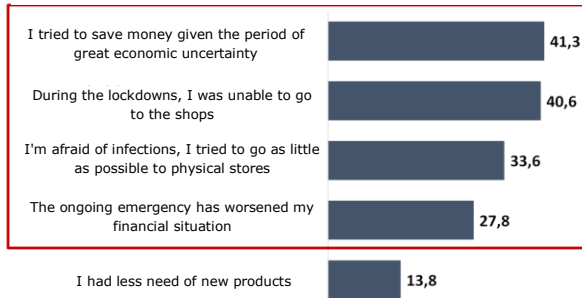
In 2020, consumers who purchased at least one tableware, kitchenware or gift item were 87.1%; in 2018 this percentage was 89.5%. The decrease in the number of consumers who made at least one purchase three years after is small, but what has really decreased is the overall value of consumption, as a result of the decrease in the purchasing power of consumers. The pandemic therefore did not affect consumer interest in household items, which on the contrary actually increased during the months of lockdown, but had a negative impact on the spending ability of consumers. A temporary phenomenon that will likely disappear during 2021.

The main reasons for the reduction in average spending were the need to economize in a period of high economic uncertainty (41.3%); the fact that the stores were literally closed during the lockdown periods (40.6%), i.e. consumers would have liked to buy tableware, kitchenware, etc., but were unable to do so; the fear of infections (33.6%); the reduction of their spending power (27.8%). In the near future, however, 78% of consumers will return to purchase household items as in the period before the pandemic.

Figure 5 - Reasons why consumers reduced their consumption in 2020

Reasons for spending less | The reasons why consumers spent less during 2020 are in 86% of cases attributable to the health and economic emergency

For which of the **following reasons** was the 2020 spending below that of 2019?
(Only those that have pointed out to have spent less)



86%

Consumers who indicate a reason for lower spending than 2019 **attributable to the health and economic emergency**

45% of consumers who in 2020 made in store purchases of household ware, tableware or kitchenware searched online for information on products of interest before going to the physical store, mainly to find out about prices or product characteristics, while 29% of them first searched for the information they needed on products of interest in the store. It's interesting to note that 51% of consumers who went to the store did so with the intention of buying the products they needed, but then preferred to buy online because the same products were sold on the web at lower prices. 36.9% of consumers also went to the store to buy, but then ended up buying online as they did not find the product they were looking for in the physical store.

Methodological note - The ART2021 Observatory is based: 1) on a survey carried out on a sample of companies in the kitchenware, tableware and gifts supply chain in Italy (producers, wholesalers, retailers). (411 interviews in total). Confidence margin: +4.0%. The survey was carried out by the Format Research Institute via telephone interviews (Cati system), between 1 March and 22 March 2021; 2) on a survey carried out on a representative sample of the universe of Italian consumers over the age of 18. (1,380 interviews in total). Confidence margin: $\pm 2.6\%$. The survey was carried out by the Format Research Institute via telephone (Cati system) and web interviews (Cawi system), between 24 February and 23 March 2021.

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ART – TABLEWARE AND GIFT PRODUCTS

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