Ulster Bank

Retail and Leisure Outlook Report 2025

TOMORROW BEGINS TODAY

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Foreword

With the disruption of recent years subsiding, 2025 marks a transitional phase as businesses and consumers adapt to cautious stability.

Inflationary pressures are stabilising, and real earnings growth is finally emerging, offering respite after a prolonged squeeze that saw £49 billion in household spending power evaporate during the cost-of-living crisis (Retail Economics). While the worst is over, recovery remains uneven, with heightened geopolitical instability, economic uncertainty and new policy impacts shaping the road ahead.

The Autumn Budget 2024, with key measures effective from April 2025, adds further complexity. Rising National Insurance Contributions are set to drive up costs for businesses, translating to potentially higher prices, slower wage growth, and cautious recruitment. Meanwhile, households are rethinking financial priorities. Affluent groups are bolstering savings, while lower-income and middle-income families continue to face financial strain having been heavily impacted by rising interest rates and debt levels.

Essentially, this environment requires a dual focus of addressing subdued consumer demand while seizing opportunities through emerging technology and innovation. Our research shows that businesses are investing heavily in six key areas of digital transformation to streamline operations, enhance customer experiences, and adapt to evolving market demands. For many businesses in 2025, success will largely hinge on aligning their capabilities with shifting consumer expectations, embracing sustainability, and leveraging technology to maintain relevancy and a competitive edge.

This report investigates the key dynamics shaping the year ahead, drawing insights from Retail Economics' proprietary data, consumer surveys, and official statistics. It offers a comprehensive view of the critical factors influencing the retail, leisure and hospitality sectors, alongside actionable strategies for navigating challenges and capitalising on emerging opportunities.

The report is structured into four sections:

Section 1 – Navigating the macroeconomic landscape: Provides an assessment of the UK economy and explores factors shaping household finances and spending.

Section 2 – Digital transformation in 2025: Examines business investment across six areas of digital transformation and innovation.

Section 3 – Mapping consumer expectations: Assesses business capabilities against evolving consumer expectations

Section 4 – Megatrends shaping 2025: Outlines four critical trends that will shape the industry throughout the year and beyond.

David Scott
Head of Consumer Industries

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Section 1

Navigating the macroeconomic landscape

Exploring factors shaping household finances and spending

Section one: navigating the macroeconomic landscape

Economic overview

In 2025, the UK economy faces a landscape characterised by more stability, modest recovery and recalibration. The economy is expected to grow between 1% and 2% in 2025 (Bank of England, Office for Budget Responsibility), marking a potential strengthening of economic activity in the near term.

Households have now surpassed the worst of the cost-of-living crisis, which brought a year and a half of inflation that outpaced earnings growth. There is now an expectation that inflation will increase to around 2.75% by the second half of 2025, before gradually falling back to target.

In principle, businesses will need top-line revenue growth of at least 2.75% to drive volume growth. Without this level of growth, profitability risks being squeezed for industries operating on low single-digit margins such as retail.

Price stability would leave opportunity for a continued loosening of monetary policy. Interest rates are also projected to fall gradually to an average of c.3.7% in the fourth quarter of 2025, reducing borrowing costs for businesses and households.

Nonetheless, both households and businesses are still navigating a complex macroeconomic environment (Fig. 1). This reflects changes to fiscal policy following the Autumn Budget 2024, as well as the continued, restrictive stance in monetary policy.

(**1**) Key consumption drivers in 2025

Macroeconomic backdrop	Behavioural implications
• **Stabilising inflation:** around 2.75% by the second half of 2025.	• **Soft confidence amid uncertainty:** confidence is uneven as households brace the impact of the Budget. Disposable incomes are recovering, but fiscal drag and adjusting to heightened price levels is tempering spending.
• **Easing interest rates:** projected to fall to c.3.7% by the end of 2025.	• **Selective discretionary spending:** recovery in spending remains fragmented, as consumers prioritise experiences and affordable luxuries.
• **Wage growth:** expected to rise by 4.8% in Q1 2025 to support increasing discretionary income, before easing to 2.3% in Q4.	• **Value-conscious behaviour:** continued emphasis on value for money despite improved finances.
• **Unemployment:** expected to fall to 4.1% in Q4 2025, but there is uncertainty around the labour market outlook, shaped by the Autumn Budget.	• **Household financial management:** balancing spending with precautionary saving and a focus on reducing personal debt levels as credit conditions become more favourable.

Source: Retail Economics

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The Autumn Budget 2024: uncertainty and expectations

The Autumn Budget 2024 has introduced a significant shift in fiscal policy, with a large, sustained increase in government spending, taxation, and borrowing. Budget policies will increase spending by almost £70 billion a year over the next five years, which equates to just over 2% of GDP. This fiscal loosening is expected to provide a temporary boost to GDP in the near term.

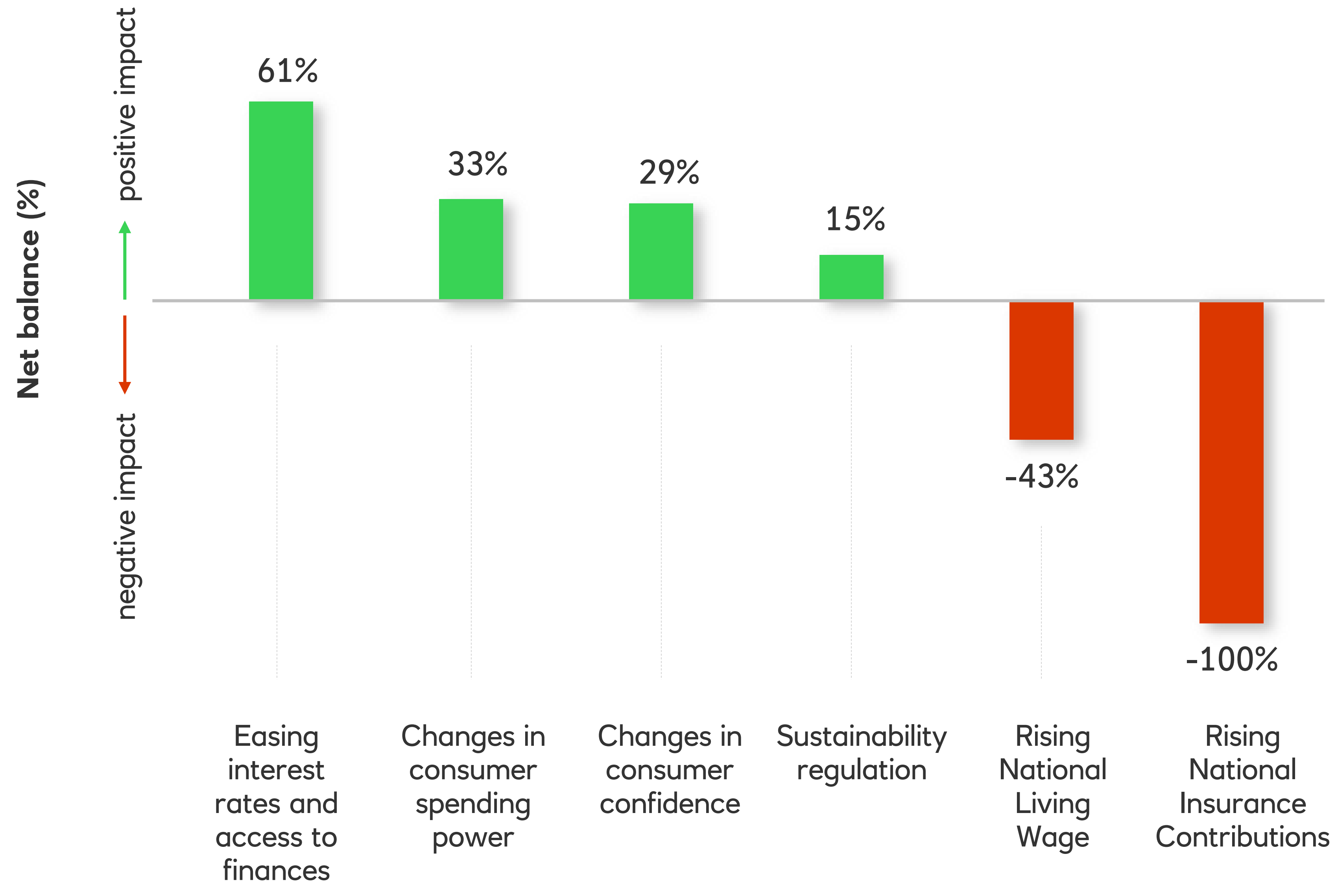
However, this is partly offset by tax measures which are projected to raise receipts by an average of £36 billion per year from 2025-26. Importantly, the increase in employer National Insurance Contributions (NICs) will impact the cost base for many businesses.

Our research shows that the fiscal landscape in 2025 presents significant challenges, with all businesses surveyed anticipating negative impacts from increased employer NICs and National Living Wage (NLW) requirements (Fig. 2). Hospitality firms are particularly affected, with 65% expecting adverse effects due to their high proportion of entry-level workers.

“Budget policies will increase spending by almost £70 billion a year over the next five years, which equates to just over 2% of GDP.”

(2) Businesses expect fiscal changes in 2025 to drag on their performance

Q: *To what extent, if any, do you think the following factors will impact your business in 2025?*



Source: Retail Economics

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While businesses anticipate some relief from improved monetary conditions and consumer spending in 2025, uncertainty remains around how Budget measures will affect consumer behaviour. A key concern is how much of the increased business costs from higher NICs will ultimately be passed on to consumers, potentially affecting spending patterns and confidence.

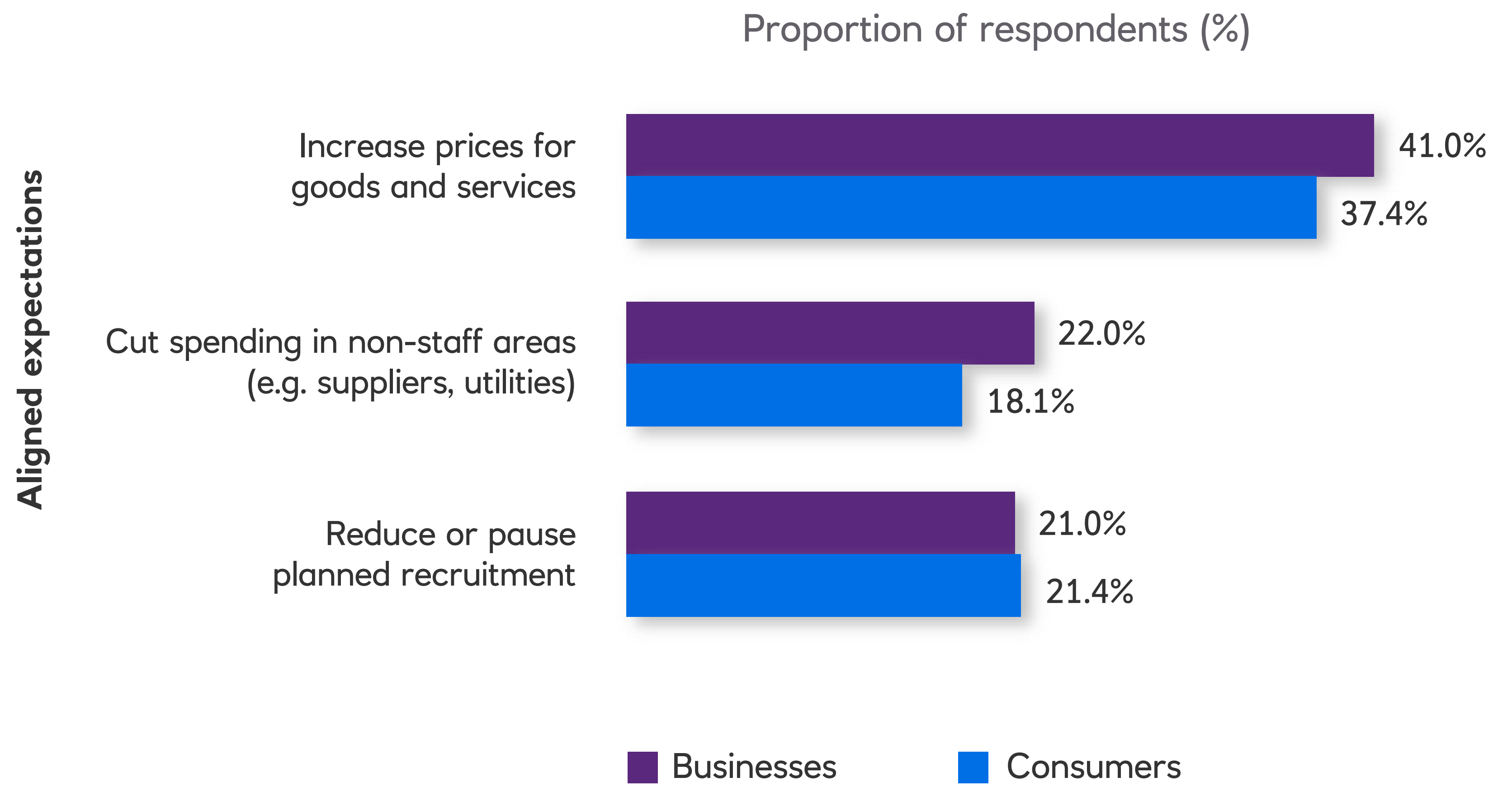
Our research highlights alignment between business plans and consumer expectations on price increases, as consumers appear more accepting of cost pass-throughs after experiencing double-digit inflation during the cost-of-living crisis (Fig. 3). However, consumers also expect cuts to operational spending and staffing, which may affect service quality. To address this, businesses are adopting AI solutions and cloud-based customer service tools to maintain standards while managing these challenges.

The bank's research shows Future Fit businesses (identified as firms which are achieving goals such as business growth, faster innovation, and improved sustainability) adopt forward-thinking practices, including:

- Experiment with new technologies, including artificial intelligence (AI), to secure first-mover advantage.
- Identify partners and ecosystems through which to innovate collaboratively, reducing the cost of upfront investment and sharing risk.
- Map workforce skills that the business will need over the medium to long term, then work backwards to develop a plan to secure them to avoid talent gaps if recruitment is paused.

To attract the best talent, the industry must promote retail, leisure and hospitality as exciting sectors that offer rewarding career opportunities, despite the challenging economic environment.

(3) Alignment of consumer expectations with business plans, following employer NIC increase in 2025



Note: Compares the percentage of consumers who expect businesses to take specific actions due to the Autumn Budget with the percentage of businesses planning to implement those actions.

Source: Retail Economics

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Household finances in 2025

Discretionary incomes are projected to rise in 2025, though growth patterns vary significantly across households. Our analysis identifies five distinct cohorts, defined by their spending power, confidence, and financial outlook (Fig. 4). The most affluent quintile, representing 20% of households but driving a third (32.3%) of retail, hospitality and leisure spending, shows the strongest sentiment toward major purchases.

"The most affluent quintile, representing 20% of households but driving a third (32.3%) of retail, hospitality and leisure spending, shows the strongest sentiment toward major purchases."

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(4) The five principle household cohorts

	Precarious Potential Least affluent	Financial Jugglers Low-middle	Typical Household Middle-income	Aspiring Achievers Middle-high	Economic Orchestrators Most affluent
Characteristics	• Household income: <£11,000 • High proportion of older demographic (40.7% aged 55+) • Most vulnerable housing status (34.7% in social housing/housing benefit) • Highest proportion of job seekers (23.4% looking for work) • Significant student representation (5.4% students) • Lowest full-time employment (10.2%) • Financial perceptions: Improvement in sentiment from -37.1% in 2024 to -30.5% in 2025, but still facing significant challenges	• Household income: £11,000-£24,999 • Highest proportion of older demographic (47.9% aged 55+) • Substantial social housing presence (26.8% in social housing/housing benefit) • High part-time work representation (20.0% part-time) • Significant retired population (26.2% retired) • Very low full-time employment (27.7%) • Financial perceptions: Improved slightly from -40.4% in 2024 to -37.0% in 2025, indicating ongoing economic strain	• Household income: £25,000-£39,999 • Relatively balanced age distribution (16.8% aged 35-44) • Increasing home ownership (53.0% owning home with mortgage or outright) and reduced reliance on social housing (16.8%) compared to lower affluence groups • Over half in full-time employment (51.8% full-time) • Financial perceptions: Sentiment improved marginally from -34.4% in 2024 to -31.6% in 2025, reflecting cautious optimism	• Household income: £40,000-£60,999 • Key mid-career professional age groups represented (e.g. 17.4% aged 35-44) • Significant mortgage-based home ownership (28.6% with mortgage) • Robust full-time employment (58.3% full-time) • Financial perceptions: Sentiment remained the same, -16.3% in 2024 to -16.3% in 2025, signalling no change	• Household income: >£61,000 • Concentrated in established career ages (24.2% aged 35-44, 19.2% aged 25-34 and 45-54), with a low elderly demographic • Dominant outright home ownership (42.8% own home outright) • Highest full-time employment (75.1%) and lowest proportion of part-time workers (7.4%) • Financial perceptions: Sentiment improved markedly from -3.0% in 2024 to 3.7% in 2025, reflecting greater resilience and optimism
Age	Younger 31.1% Middle-aged 28.1% Older 40.7%	Younger 24.4% Middle-aged 27.7% Older 47.9%	Younger 27.9% Middle-aged 32.2% Older 39.9%	Younger 27.1% Middle-aged 34.4% Older 38.4%	Younger 27.3% Middle-aged 43.4% Older 29.3%
Housing tenure	Renter 52.7% Home-owner 33.5% Other 13.8%	Renter 50.8% Home-owner 42.8% Other 6.4%	Renter 39.6% Home-owner 53.0% Other 7.4%	Renter 29.9% Home-owner 63.6% Other 6.5%	Renter 14.8% Home-owner 79.8% Other 5.4%
Change in Discretionary Income	2024F 0.4% 2025F 2.0%	2024F 5.0% 2025F 4.6%	2024F 8.2% 2025F 6.2%	2024F 10.7% 2025F 7.5%	2024F 6.6% 2025F 5.8%
Proportion of total retail, leisure and hospitality spending	Share of total spend 9.4%	Share of total spend 15.2%	Share of total spend 19.4%	Share of total spend 23.7%	Share of total spend 32.3%

Source: Retail Economics

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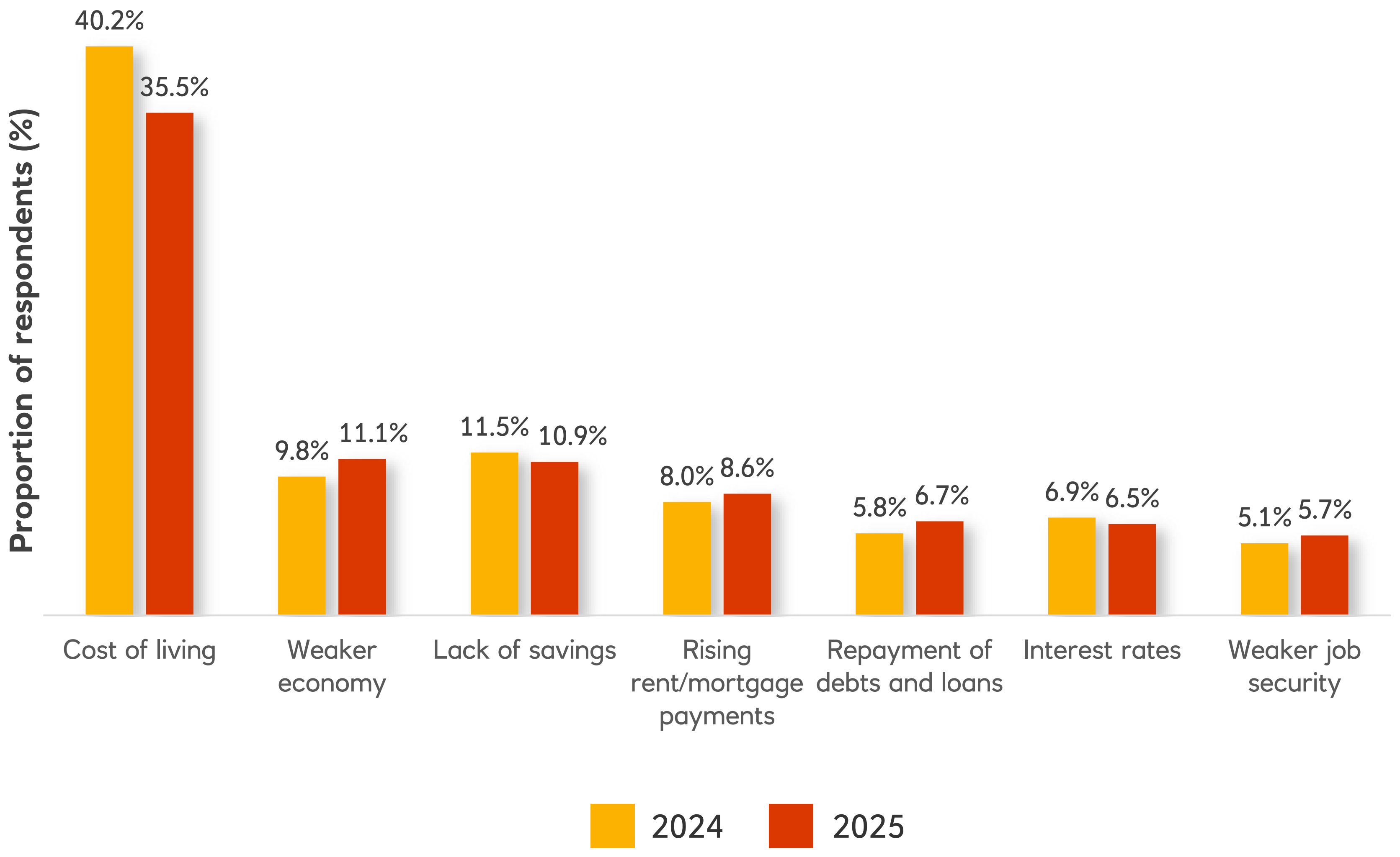
Despite stabilising inflation, 35.5% of consumers remain concerned about living costs (Fig. 5), with prices still 20% above pre-crisis levels and further increases expected following the Autumn Budget 2024.

(**5**) Inflation remains a top concern for households in 2025

Q: *When thinking about your personal finances in 2025, what do you find most concerning, if anything?*



Source: Retail Economics

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The Wealth Effect and consumer sentiment

Consumer confidence is closely tied to perceptions of wealth, with most UK households (except the most affluent) feeling less wealthy than five years ago. This sentiment closely mirrors actual changes in discretionary income, where lower and middle-income households have experienced sustained pressure, while affluent households have seen gains, creating a widening confidence gap across economic groups (Fig. 6).

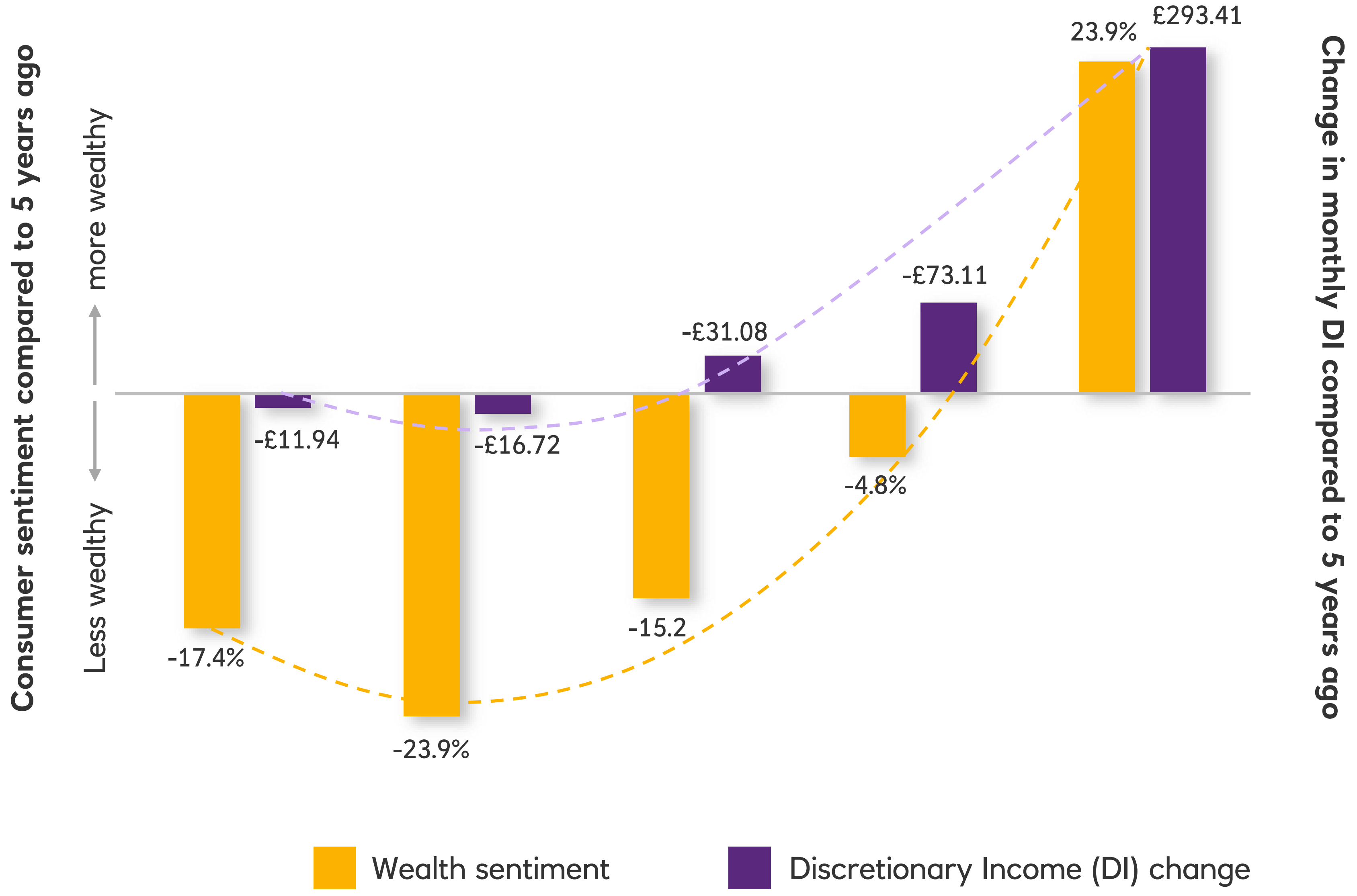
While spending power has diminished, wealth perceptions are shaped by multiple factors including property, assets, and investments. Key factors influencing household wealth include:

- **Property wealth**: Despite being a traditional wealth source, property has become less viable as an asset, with prices up 25% and mortgage payments doubling over five years.
- **Cost of living impact**: Lower-income households face disproportionate pressure, spending more of their income on inflationary essentials.
- **Income disparities**: Middle and high-income households have benefited from National Insurance cuts and stronger wage growth, while lower-income groups see limited gains.

Collectively, these factors have created a widening gap in perceived and actual wealth across economic groups.

(6) Feelings of wealth eroded as discretionary budgets down for lower affluence households

Q: *Compared to five years ago, do you feel your household is more or less wealthy?*



Source: Retail Economics

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Household finances: savings, debt and big-ticket purchases

Our research shows that households are adjusting financial strategies in response to evolving economic conditions, prioritising debt reduction, savings, and selective spending. Debt reduction remains crucial for over half of households, especially 25-44 year-olds, middle-income earners, and mortgage holders, who are most exposed to high interest rates.

In fact, savings behaviour highlights both precautionary measures and targeted goals. Middle-high income (15.6%) and affluent households (29.6%) lead in savings intentions, supported by stable incomes. Key motivations include:

- **Precautionary savings**: Mitigating risks amid uncertainty (cited by 29.7% surveyed)
- **Future purchases**: Two in five households are saving for either a physical item (e.g. car) or experiential purchases (e.g. holiday abroad)
- **Investments**: Building wealth via stocks and assets (cited by 17.1%)

Affluent households and younger consumers are selectively spending on lifestyle-enhancing categories, suggesting resilience after successive crises (e.g. the pandemic, cost-of-living).

Households anticipating 2025 as a favourable year for major purchases are prioritising spending in the following areas as shown in Figure 7.

(7) Consumer spending priority areas and drivers

Category	Drivers
Travel and leisure experiences (33.0% expect to spend in this area in 2025, among those that think it is a good time for a major purchase)	Driven by older consumers (aged 45+) and the most affluent households. Reflects pent-up demand for high-value experiences.
Home furnishings (28.6%)	Concentrated among affluent households, who continue to invest in their living environments.
Technology and Electronics (25.1%)	Driven by younger consumers (under 25s) and affluent segments upgrading tech for work, leisure, and connectivity.
Automotive (22.5%)	Concentrated among under 45s, middle-high income, and most affluent households, reflecting lifestyle changes.
Luxury goods (18.4%)	Popular among younger (under 35s) and affluent consumers investing in aspirational brands.
Hospitality experiences (14.6%)	Driven by younger demographics and the most affluent households, reflecting demand for unique and social experiences.

Source: Retail Economics

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"Households appear to be remaining pragmatic in 2025, carefully balancing everyday spending with selective priorities amid ongoing economic challenges."

Implications on household spending

Households appear to be remaining pragmatic in 2025, carefully balancing everyday spending with selective priorities amid ongoing economic challenges. While inflation eased in 2024, uncertainty persists, keeping consumers cautious. As such, spending behaviours reveal a continued focus on essentials like food and energy, with discretionary spending taking a backseat for many (with the exception of holidays).

Over the past three years, spending intentions reflect how consumer mindsets have evolved:

- **2023**: High inflation led to widespread cutbacks, especially in essentials like energy and food.
- **2024**: With inflation stabilising, households aimed to recover spending in key areas.
- **2025**: Uncertainty is driving softer spending intentions, with essentials protected and modest growth in categories like health and beauty, while hospitality sees weaker demand.

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Interestingly, our research identifies distinct differences by income group:

- Affluent households are driving spending on experiences, with increases in holidays (+12.8%), transport (+15.0%), and services (+13.6%), reflecting their financial flexibility.
- Lower-income groups are tightening their belts, cutting non-essential spending significantly, particularly in leisure and hospitality.
- Middle-income households face unique pressures, adjusting spending on retail, leisure, and hospitality due to higher housing costs, rent increases, and elevated interest rates.

These patterns underline the resilience of essential spending and the widening divide in discretionary priorities across different income groups (Fig. 8).

"Affluent households are driving spending on experiences, with increases in holidays, transport and services, reflecting their financial flexibility."

(8) Essential spending is protected as households cut back on discretionary purchases

	Least affluent	Low-middle	Middle income	Middle-high	Most affluent
Food retail	19.8%	19.3%	16.3%	30.2%	31.3%
Home energy	22.2%	24.4%	15.7%	27.1%	26.9%
Transport	6.6%	2.5%	1.1%	11.2%	15.0%
Other services	4.2%	-2.5%	-4.3%	5.9%	13.6%
Holidays	-7.2%	-4.9%	-6.7%	7.8%	12.8%
Home-related	-2.6%	-6.7%	-10.5%	-2.3%	3.0%
Non-food retail exc. home	-3.6%	-8.9%	-12.0%	-2.4%	7.9%
Leisure	-10.8%	-9.3%	-17.6%	-5.8%	-0.7%
Hospitality	-7.8%	-12.2%	-19.2%	-10.7%	-0.1%

Note: Table shows the net balance of consumer intentions to increase or decrease spending, rather than changes to spending volumes (i.e. it does not capture magnitude of changes or imply level of sales). 'Other services' include Communication and Education

Source: Retail Economics

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Our analysis also provides summary insight into spending projections and impacts for key areas within the retail, leisure and hospitality sectors (Fig. 9).

(9) Spending projections for key categories

Category	Spending impact
Food	Spending is largely protected as consumers prioritise essentials. However, a third (30.8%) are balancing cost concerns by shifting toward cheaper alternatives, including leveraging member pricing and price promotions among major grocers.
Home energy	Households are increasingly shifting toward cheaper alternatives to manage costs as the energy price cap is expected to see a modest increase in 2025. This includes switching suppliers and using smart energy-efficient devices. Fixed plans are becoming a preferred choice for those prioritising budgeting to protect against price fluctuations.
Holidays	Spending intentions reflect the value placed on experiences over goods, particularly among affluent households.
Home-related	Home-related categories are seeing declines among lower- and middle-income households, but the most affluent households remain committed to home investments.
Non-food exc. home	Health and Beauty remains the standout non-essential retail category, as households prioritise wellbeing and look to discover products on social platforms. However, 29.6% will look to trade down on Health and Beauty in 2025. Apparel is showing signs of disruption, with a quarter (25.5%) set to delay spending and 30.2% trading down to cheaper labels. This reflects caution amid softer income growth.
Hospitality	A key cutback area, including a quarter looking to cheaper alternatives across takeaway, restaurants, pubs and bars. Meanwhile, around one in seven plan to stop almost all spending on takeaways.

Source: Retail Economics

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Section one: navigating the macroeconomic landscape

The range of spending intentions across different consumer affluence groups highlights the need for businesses to tailor their strategies to ensure they capture opportunities among resilient spenders, while addressing growing caution in vulnerable segments (Fig. 10).

(10) Strategic implications for businesses

Strategy	Implications
Sophisticated target segmentation	Businesses must consider using data-led approaches to tailor strategies to distinct behaviours within key consumer groups: • Affluent and middle-income households are strengthening their financial positions while selectively spending on travel, home improvement, and technology. • Younger consumers are driving demand for technology, luxury goods, and experiential categories like hospitality.
Emphasise value	Businesses can emphasise value, quality, and long-term benefits in their offerings to unlock consumer spending: • As precautionary savings remain a dominant priority for households, consumers need to feel confident in their spending decisions. • Hospitality businesses can adapt through value-driven offers (e.g. loyalty incentives) and enhanced customer experience to justify higher spend.
Offer flexible financing options	With debt repayment a significant priority, businesses can benefit by offering financial solutions (e.g. refinancing options, payment plans) to: • Support consumer strategies to enable more financial stability. • Help with financing solutions (e.g. instalment payments) to manage big-ticket spending among certain demographics in sectors such as travel and leisure, home improvement, and technology.

Source: Retail Economics

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Section 2

Digital transformation in 2025

Focus points for business investment

Section two: digital transformation in 2025

Section two examines how businesses are navigating digital transformation amid economic uncertainty in 2025. It explores three key areas: (1) innovation factors driving digital investment; (2) sector-specific priorities; and (3) barriers limiting transformation efforts.

Innovation factors

Digital transformation is becoming an important aspect of retail, leisure and hospitality businesses as they face mounting pressure to innovate, while managing economic headwinds. Despite soft consumer spending, our research reveals significant momentum in digital initiatives, with total investment reaching £7.3 billion across these sectors in 2025.

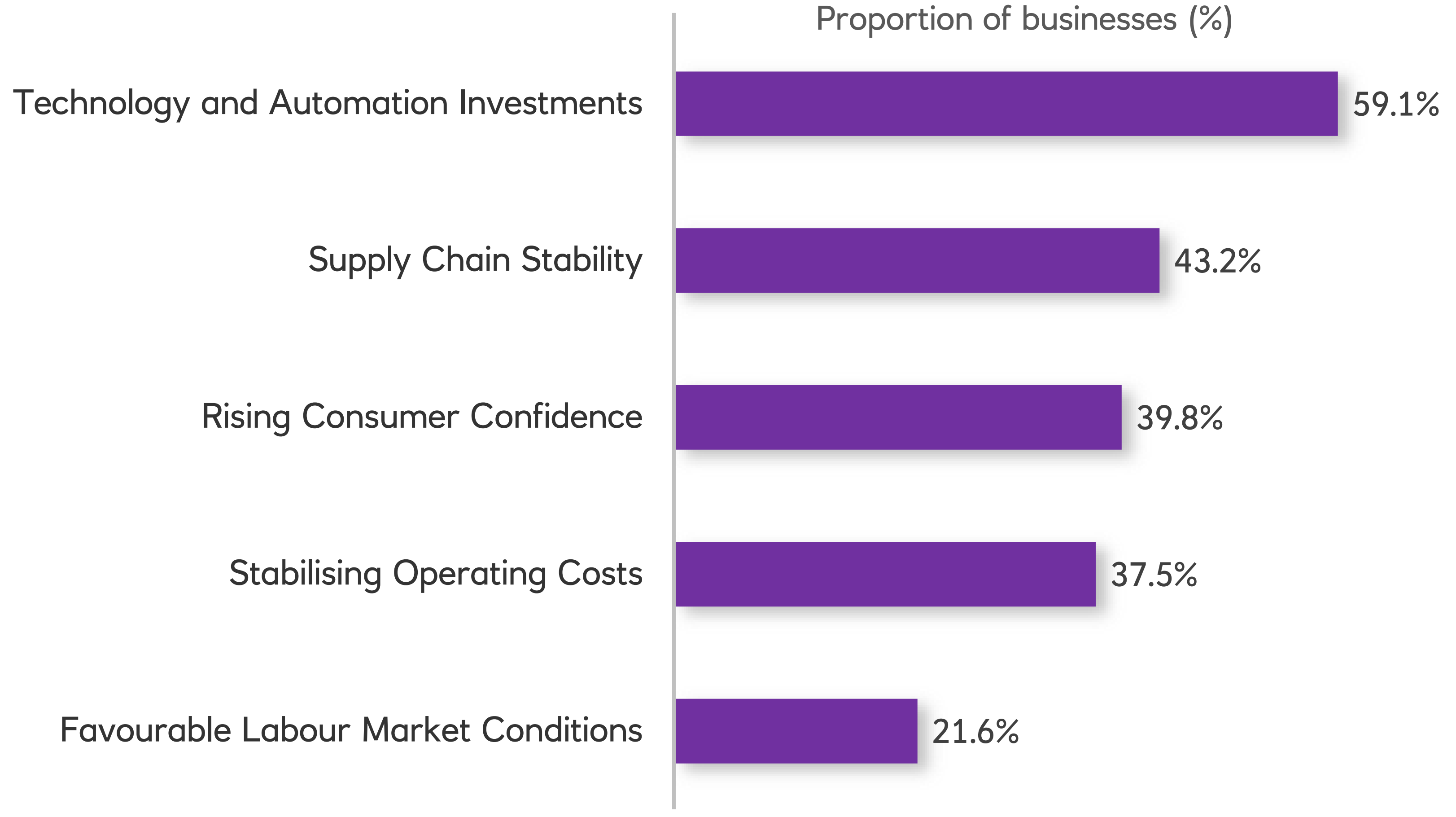
Such commitment reflects growing business confidence, with 88% of companies surveyed feeling more positive about the outlook for 2025. This is being largely driven by technological advancement (59.1%), highlighting the critical role of digital transformation in meeting next generation consumer expectations (Fig. 11).

The pursuit of digital transformation in 2025 is not just to adapt, but to drive measurable benefits to achieve revenue growth, cost reductions, and increased customer engagement. Our research shows businesses are channelling resources into six key areas and identifies where investment is being prioritised to secure value and improve resilience (Fig. 12).

(11) Positive business sentiment is being driven by technological development

Q: *What factors do you believe will have the most significant positive impact on your business in 2025? Select up to three options.*

Top five positive influences in 2025



Source: Retail Economics

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Section two: digital transformation in 2025

(12) Investment in digital transformation across the six key areas

Area	Investment	Applications	Drivers	Key benefits
Cybersecurity and data privacy	£1.5bn	Protecting data with advanced security and ensuring compliance (e.g. security systems, employee training).	• Data privacy and security concerns • Trust and transparency • Compliance awareness	• Compliance and risk management • Productivity and operational efficiency • Customer experience and engagement
Enhanced customer experience and customer-centric innovation	£1.5bn	Improving customer experiences with personalised and immersive innovations (e.g. experiential services, AR/VR technologies).	• Customer expectations of exceptional experiences • Desire for innovation and novelty • Community and brand engagement	• Customer experience and engagement • Productivity and operational efficiency • Revenue growth
Digital transformation and omnichannel platforms	£1.5bn	Integrating online and physical channels for seamless shopping experience (e.g. mobile apps, consistent messaging).	• Preference for convenience and speed • Adoption of mobile and digital platforms	• Productivity and operational efficiency • Cost reduction • Revenue growth
AI, Automation, and data-driven decision making	£1.4bn	Using AI and automation to streamline operations and personalise interactions (e.g. analytics, trend prediction).	• Desire for personalisation • Expectation of fast and efficient service • Interest in innovative technologies	• Increased productivity and operational efficiency • Adaptability and competitive advantage • Customer experience and engagement
Sustainable and resilient supply chains	£1.3bn	Improving supply chain efficiency, sustainability, and resilience (e.g. waste reduction, ethical sourcing).	• Preference for sustainable and ethical practices • Demand for more transparency • Environmental consciousness	• Improved sustainability credentials • Better customer experiences and engagement
Digital skills in workforce	£1.2bn	Upskilling employees for digital competencies to adapt to new technologies.	• Heightened consumer expectations of quality customer service with good product/service knowledge • Increasing technological savviness	• Productivity and operational efficiency • Adaptability and competitive advantage • Revenue growth

Source: Retail Economics

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Section two: digital transformation in 2025

Investment in these transformational pillars is not a one-time effort, but a commitment to ongoing progress and continuous development. The bank's Future Fit research shows that leading innovators in transformation are more than twice as likely as their peers to have:

- Experimented with new technologies, including artificial intelligence (AI), to secure first-mover advantage.
- Identified partners and ecosystems through which to innovate collaboratively, reducing the cost of upfront investment and sharing risk.
- Mined insight from data to understand consumer preferences and behaviours, personalising the customer relationship to an ever more granular level.

"Investment in these transformational pillars is not a one-time effort, but a commitment to ongoing progress and continuous development."

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Section two: digital transformation in 2025

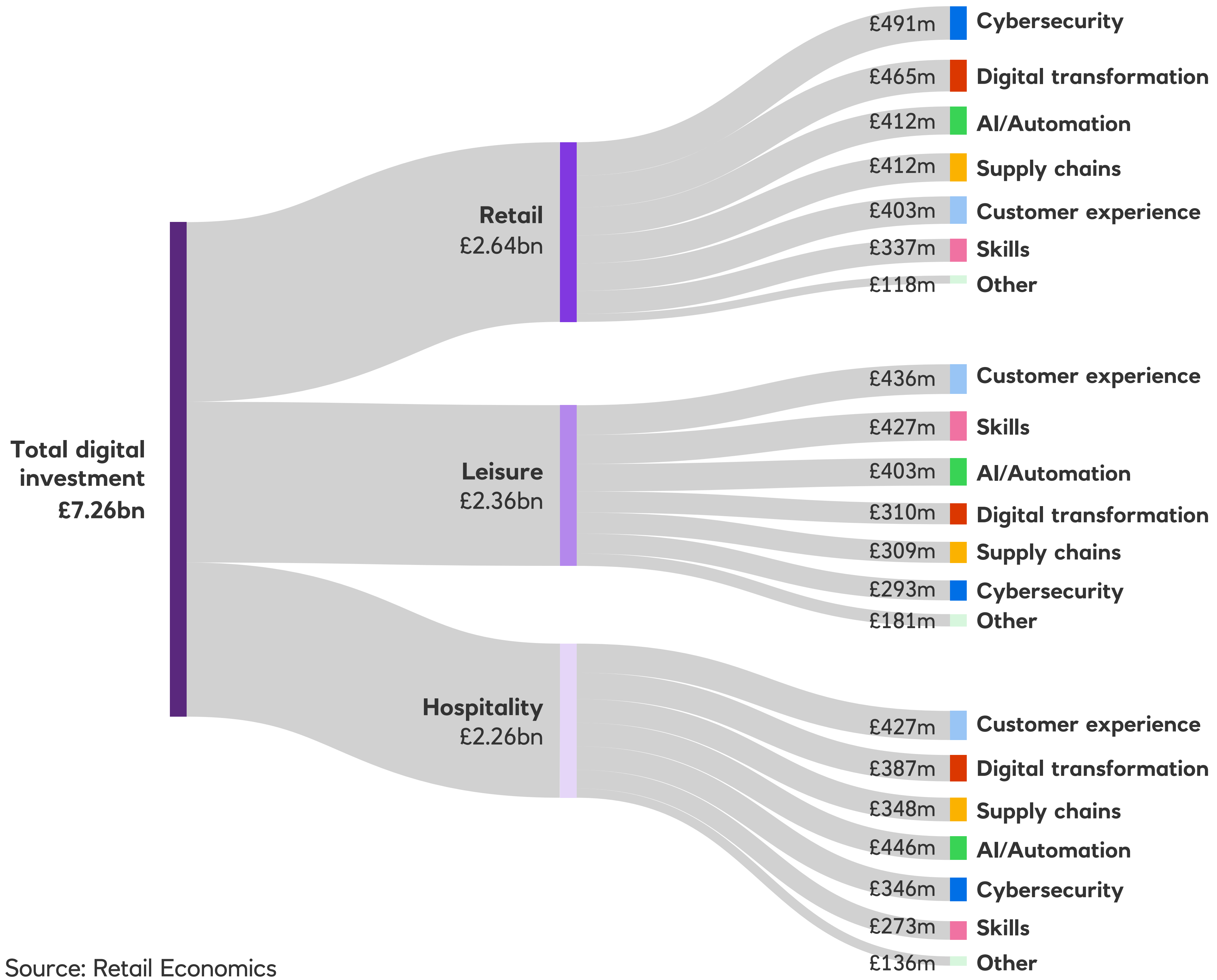
Investment priorities

Digital investment priorities differ across the retail, hospitality, and leisure sectors (Fig. 13). Our research shows these differences reflect unique pressures and opportunities within each industry.

Retail: The retail sector is directing the largest share of investment towards cybersecurity, reflecting heightened focus on data protection and risk management. Digital transformation and AI/automation follow closely behind, demonstrating the sector's commitment to modernising operations and efficiency gains. Supply chain resilience and improving customer experiences also receive substantial funding, highlighting retailers' balanced approach to digital advancement.

Leisure and Hospitality: The leisure sector prioritises customer experience and digital skills investments, reflecting its focus on visitor engagement and workforce development, while allocating significant resources to AI and automation for operational efficiency. However, hospitality shows a more balanced investment approach, with customer experience leading marginally, followed by digital transformation and near-equal investment across supply chains, AI/automation, and cybersecurity, indicating a comprehensive modernisation strategy.

(13) Digital investment to hit £7.3bn in retail, hospitality and leisure sectors in 2025



Source: Retail Economics

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Section two: digital transformation in 2025

Investment barriers

Within the different sectors, various barriers limit investment in digital transformation and innovation. Our analysis reveals that implementation costs, lack of expertise, and system integration challenges consistently emerge as the primary obstacles limiting innovation efforts (Fig. 14).

(14) Top barriers limiting digital transformation and innovation

Proportion of businesses, top two choices	Barriers: Digital transformation and omnichannel platforms	AI, automation, and data-driven decision making	Sustainable and resilient supply chains	Enhanced customer experience and innovation	Digital skills in workforce	Cybersecurity and data privacy
High implementation costs	49%	36%	42%	34%	36%	38%
Skills gap and expertise shortage	38%	43%	28%	38%	51%	34%
Technical and integration challenges	42%	42%	27%	33%	36%	41%
Culture, change management and adoption resistance	26%	27%	31%	39%	32%	26%
Regulatory compliance and ethical concerns	22%	26%	33%	23%	24%	35%
Market uncertainty and operational risks	22%	26%	37%	26%	21%	25%

Source: Retail Economics

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Section two: digital transformation in 2025

Top barriers relative to investment area:

- **High implementation costs**: this is the largest barrier for Digital Transformation and Omnichannel Platforms, cited by 49%. It reflects concerns over upfront capital requirements and uncertain ROI.
- **Skills gap and expertise shortage**: particularly significant in AI/automation (43%) and Digital Skills in Workforce (51%), the shortage of technical talent limits businesses' ability to execute plans effectively.
- **Technical and integration challenges**: notably affecting Cybersecurity (41%) and AI solutions (42%), integration issues with legacy systems delay transformation efforts and hinder efficiency gains.
- **Change management and adoption resistance**: cultural resistance and operational inertia present barriers, particularly for Enhanced Customer Experience initiatives (39%), where shifts require significant internal alignment and engagement.
- **Market uncertainty and operational risks**: investments in Sustainable and Resilient Supply Chains face challenges due to upfront costs (cited by 42%), as well as unclear regulations leading to market uncertainties (37%). Operational risks associated with aligning supply chains to net-zero goals create hesitation. Additionally, the evolving geopolitical landscape represents an operational risk for supply chains (e.g. trade tariffs, regulatory changes).

To help overcome these barriers, businesses must consider the following strategies:

- **Invest in talent development**: address the skills gap by prioritising workforce training, particularly in AI, automation, and cybersecurity.
- **Flexible funding models**: explore innovative financing options, such as collaborative investments or ROI-driven phased implementations to overcome capital constraints.
- **Integration roadmaps**: develop clear digital transformation plans that address legacy infrastructure, ensuring seamless adoption of new technologies.
- **Change management initiatives**: cultivate a culture of digital adoption through leadership agreement, employee engagement, and customer-focused innovation strategies.
- **Sustainability alignment**: collaborate with suppliers, invest in cost-effective sustainable solutions, and leverage regulatory incentives to mitigate sustainability-related barriers.
- **Risk management frameworks**: develop operational resilience strategies to navigate market uncertainty, safeguard investments, and mitigate disruption risks.

“Cultivate a culture of digital adoption through leadership agreement, employee engagement, and customer-focused innovation strategies.”

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Section 3

Mapping consumer expectations

Aligning business capabilities with consumer expectations

Section three: mapping consumer expectations

In 2025, it will be critical for businesses to align their capabilities with evolving consumer expectations.

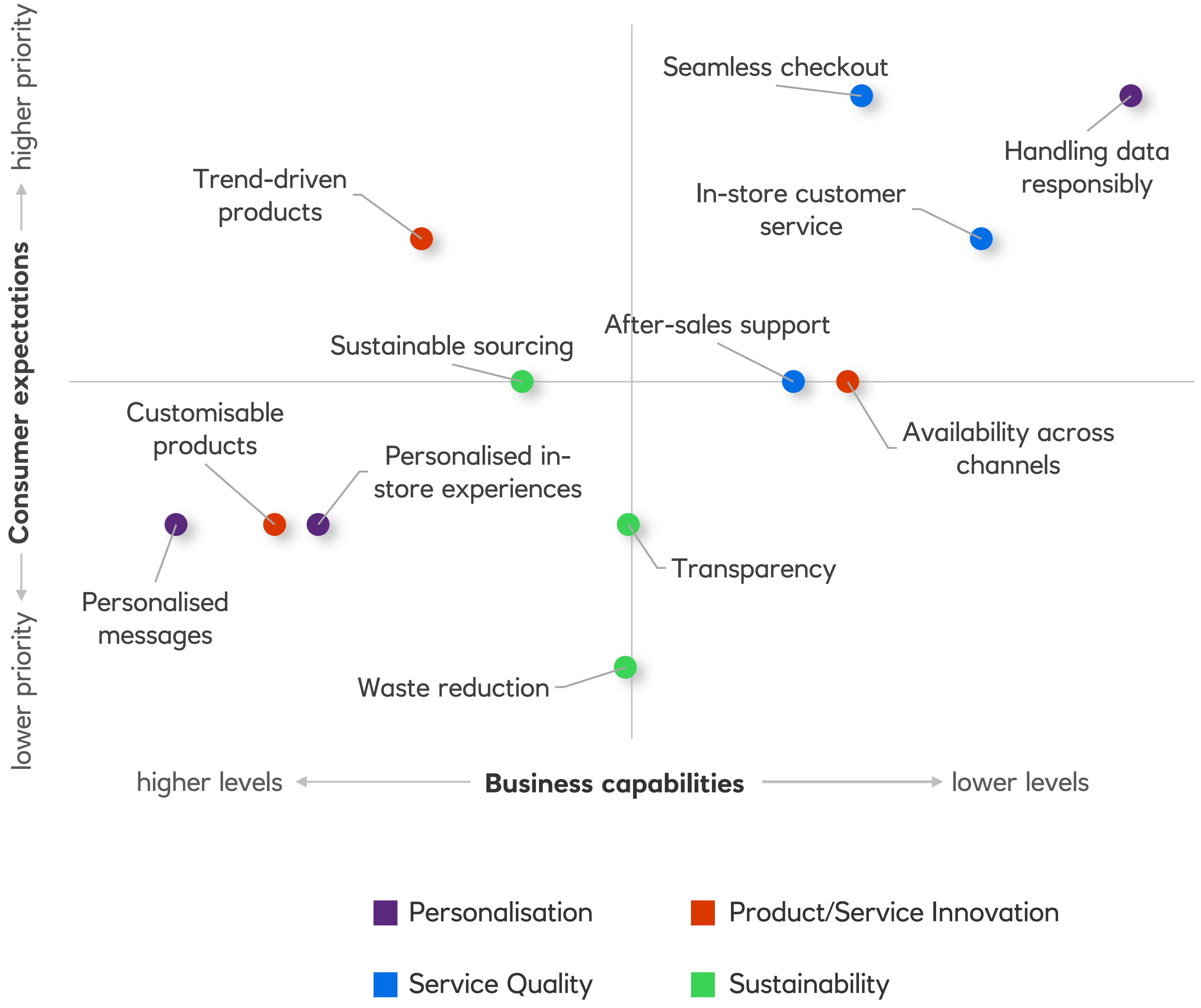
Our Consumer Industry Alignment Map serves as a useful framework to systematically map business capabilities against consumer expectations across four dimensions: (1) personalisation; (2) product/service innovation; (3) service quality; and (4) sustainability.

Our framework identifies the degree of alignment, critical gaps, and opportunities for improvement. These insights provide guidance for enhancing customer satisfaction, fostering loyalty, and driving competitive differentiation.

Retail

Within retail, our research finds that consumers place high expectations on seamless checkout experiences, responsible data handling and trend-driven products (Fig. 15). While businesses are delivering on some fronts, gaps still persist, particularly in meeting personalised and sustainability-focused demands.

(15) Consumer Industry Alignment Map for the retail sector



Source: Retail Economics

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Section three: mapping consumer expectations

Retail: key observations and suggestions

Area	Observation	Suggestion
Service quality is a priority	Seamless checkout and responsible data handling are high-priority expectations that align well with strong business capabilities. This reflects progress in omnichannel integration and data management. However, while availability across channels and in-store customer service are also strong capabilities, businesses need to maintain and further enhance these aspects to meet rising consumer expectations.	Strengthen service leadership – maintain momentum for enhancing omnichannel experiences, while further improving transparency and in-store customer support. Experiment with new technologies, such as AI-driven predictive analytics to optimise in-store and online touchpoints. Evaluate staff skills in delivering exceptional experiences that are enhanced by digital offerings.
Sustainability sourcing gap	While sustainable sourcing ranks high on consumer priorities, business capabilities in this area lag behind, suggesting opportunities for further investment to meet environmental concerns. Similarly, waste reduction and transparency are areas where businesses have yet to satisfy expectations, despite growing demand for sustainable and ethical retail practices.	Enhance sustainability efforts – prioritise transparent and sustainable sourcing practices, waste reduction, and clear communication to address unmet consumer values. Use sustainability imperatives to work more closely with partners, encourage collaboration and deliver greater transparency.
Personalisation is underdeveloped	Consumers increasingly value personalised experiences, yet capabilities such as personalised marketing, messaging, and customisable products remain at relatively lower levels.	Invest in personalisation – leverage customer data with data science to deliver hyper-personalised recommendations, relevant messages, products and services that align with core preferences for improved engagement. Experiment with new technologies, including AI, to deliver tailored experiences at scale.

“Experiment with new technologies, including AI, to deliver tailored experiences at scale.”

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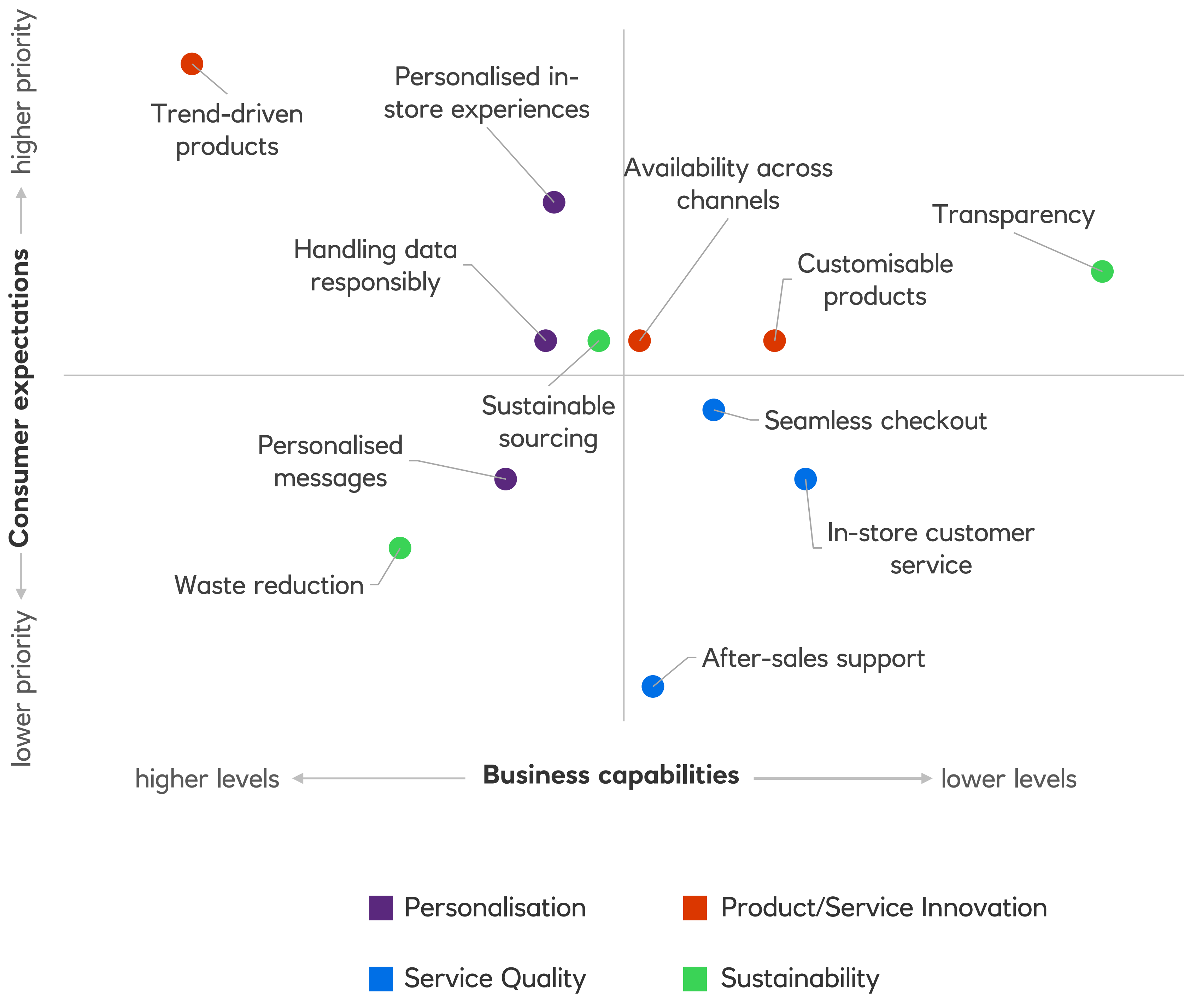
Section three: mapping consumer expectations

Leisure

The leisure sector faces high consumer expectations for trend-driven products, personalised experiences, and transparency. Nevertheless, businesses on average show a shortfall in capabilities in meeting these expectations (Fig. 16).

(16) Consumer Industry Alignment Map for the leisure sector



Source: Retail Economics

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Section three: mapping consumer expectations

Leisure: key observations and suggestions

Area	Observation	Suggestion
Experience innovation aligns with priorities	Capabilities such as customisable products and seamless checkout align well with consumer expectations, reflecting progress in enhancing the leisure experience. Meanwhile, in-person customer service remains a strength, delivering on high consumer expectations for physical interactions.	Build on experience innovation – continue to enhance customisable offerings and seamless digital interactions to meet rising expectations for flexibility and convenience. Leverage customer data to better understand and cater to different segments. Collaborate with technology partners to integrate technologies such as augmented reality to elevate customisable experiences.
Emerging personalisation gaps	While consumers seek more personalised physical experiences, business capabilities remain limited. Personalisation in leisure will require greater focus on leveraging customer data and improving touchpoints for better targeting and engagement.	Focus on personalisation – use data analytics with emerging technologies to deliver tailored, meaningful experiences at scale that really resonate with consumer needs. Try modular personalisation initiatives such as flexible booking or add-on options to test and iterate cost-effectively.
Unmet capabilities for trend driven products	Consumers have come to expect trend driven products within the leisure sector, with social media likely to be playing a key role here. Despite this, many businesses find catering to this demand exceptionally challenging.	Explore agile development of products/services – this area represents significant opportunities for those who can identify and react quickly to emerging trends in appropriate ways, while limiting financial risks. 'Social listening', industry trend and customer sentiment analysis will be essential to test, learn, and scale trend-driven concepts. Collaborate with content creators to support awareness.

"Continue to enhance customisable offerings and seamless digital interactions to meet rising expectations for flexibility and convenience."

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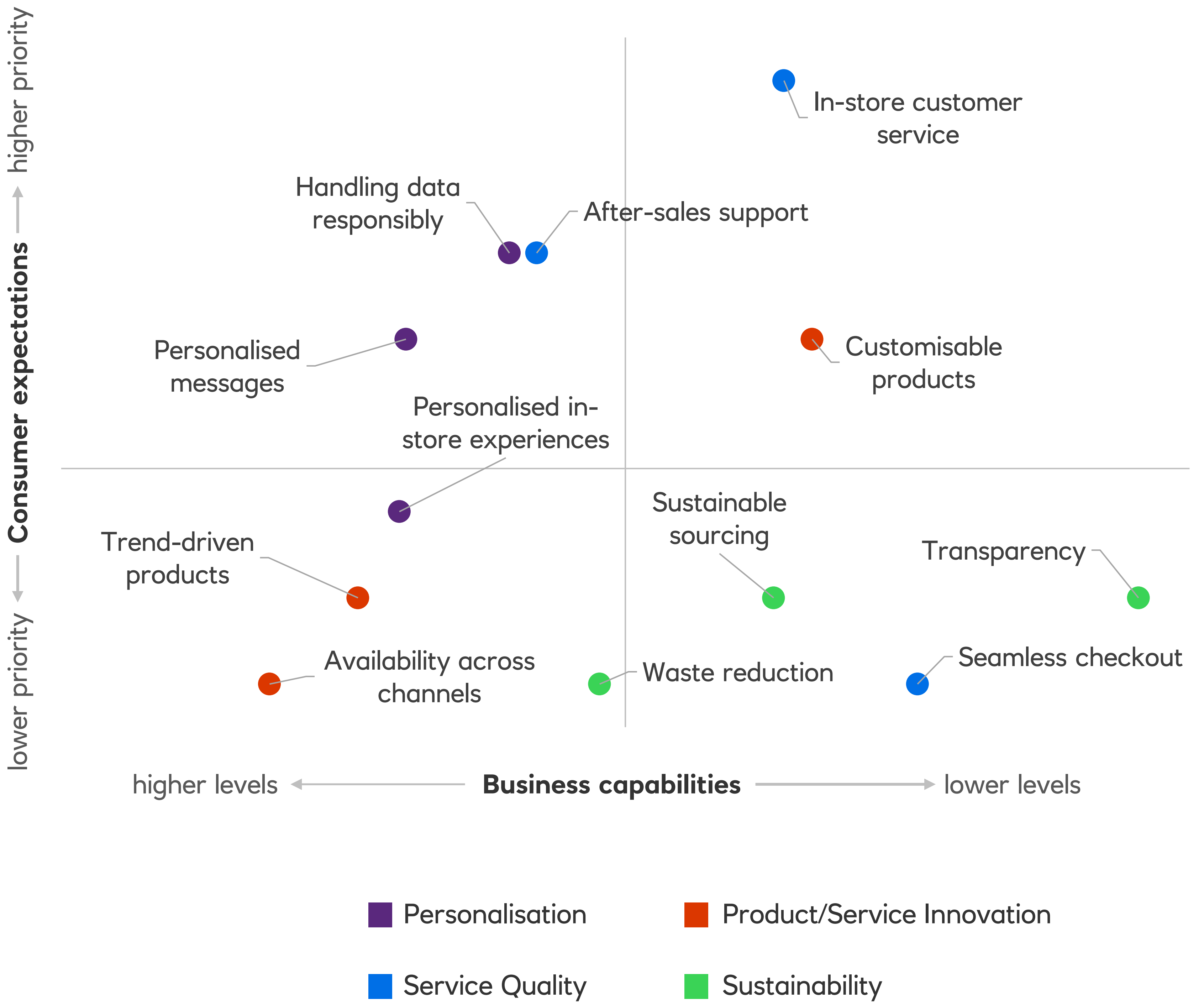
Section three: mapping consumer expectations

Hospitality

Our framework shows that consumers highly value aspects of customer service and personalisation within hospitality, as well as responsible data handling. Businesses show mixed alignment in capabilities in these areas however, and require more strategic focus and investment to close some of the gaps here (Fig. 17).

(17) Consumer Industry Alignment Map for the hospitality sector



Source: Retail Economics

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Section three: mapping consumer expectations

Hospitality: key observations and suggestions

Area	Observation	Suggestion
High priority on service excellence	Consumers rate in-person customer service and after-sales support as top priorities. While businesses demonstrate strong capabilities in services, after-sales support remains an area for improvement. Similarly, customisable products are well-aligned with consumer needs, offering opportunities for differentiation through tailored hospitality packages. Interestingly, seamless checkout capabilities and transparency are highly prioritised by businesses, yet consumers place lower emphasis on these areas.	Elevate service excellence – focus on improving after-sales support and offering customisable, flexible hospitality packages that exceed guest expectations. Understand customer needs to identify workforce gaps in aftersales and bridge through training to deliver more meaningful interactions.
Personalisation challenges	Personalised marketing and in-person experiences are emerging as high-priority consumer expectations, yet current business capabilities on average, are still very limited. This poses a significant opportunity to leverage technology and customer data for more tailored communication and immersive experiences.	Increase priority for personalisation – invest in technologies such as AI and advanced CRM tools to deliver more personalised communication and experiences at scale. Use partnerships to facilitate best practice learnings from other industries.
Underdeveloped sustainability initiatives	Although waste reduction and sustainable sourcing is a rising consumer expectation, business capabilities remain modest. The demand for sustainability within hospitality is set to increase over time, and businesses need to be ready and futureproof with demonstrable action on environmental impact.	Advance sustainability initiatives – demonstrate tangible commitments to sustainable sourcing, energy efficiency, and waste reduction to enhance trust and alignment with environmentally-driven consumers. This will require collaboration across the value chain to ensure transparency and high standards to ultimately benefit the broader ecosystem.

"Seamless checkout capabilities and transparency are highly prioritised by businesses, yet consumers place lower emphasis on these areas."

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Section 4

Megatrends shaping 2025

Key trends and strategies to address industry shifts

Section four: megatrends shaping 2025

Four transformative megatrends are poised to shape 2025 as the retail, leisure and hospitality sectors navigate shifting consumer behaviours, technological advancements, and economic pressures.

These megatrends capture the interplay of consumer expectations, innovation, and strategic imperatives, offering actionable insights to help empower businesses to navigate the challenges in the year ahead.

Megatrend 1: customer journey evolution

Consumer behaviour has fundamentally shifted as digital and physical touchpoints merge across all stages of engagement. This transformation is most pronounced in retail, where online sales now dominate non-food categories, accounting for over half of purchases in sectors like clothing and homewares. The digital evolution extends across leisure and hospitality, transforming how customers discover, book and experience services. Furthermore, rising expectations for convenience, personalisation and innovation are driving brands to reimagine their customer journeys.

For many businesses in 2025, success will require mapping and enhancing critical touchpoints throughout the customer journey, from AI-powered discovery to post-purchase engagement. The following analysis (Fig. 18) outlines key developments at each stage, demonstrating how businesses are innovating to maintain a competitive advantage.

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(**18**) Key developments across the customer journey in 2025

	Stage 1: Awareness	Stage 2: Research	Stage 3: Purchase	Stage 4: Fulfilment	Stage 5: Aftersales
Retail	• **Conversational search**: AI-powered voice assistants and chatbots driving discovery through personalised recommendations. • **Influencer and social commerce**: increased use of short-form videos (e.g. TikTok) to engage audiences with shoppable content. • **Sustainability messaging**: emphasis on green credentials and ethical sourcing to attract shoppers.	• **Augmented Reality (AR):** virtual try-on tools for clothing, footwear, and home furnishings. • **Product comparison platforms**: enhanced platforms enabling side-by-side feature and price comparisons. • **Transparency tools**: blockchain-based tools to provide detailed product origin and supply chain insights.	• **Digital wallets**: growth of contactless payments, Buy Now Pay Later (BNPL), and QR code-enabled transactions. • **Physical interaction for validation**: high-value items (e.g. electronics, luxury goods) still rely on in-store experience for trust and decision-making.	• **Smart lockers**: growth of parcel lockers and click-and-collect options to enhance convenience. • **Eco-friendly deliveries**: expansion of electric vehicles and carbon-neutral delivery methods. • **Real-time delivery tracking**: enhanced visibility and updates through app notifications.	• **Personalised loyalty programmes**: AI-powered systems offering customised discounts and exclusive offers. • **Circular economy services**: growth of repair, refurbishment, and recycling schemes (e.g. trade-in programmes for electronics). • **24/7 Customer support**: omnichannel chatbot solutions for instant after-sales queries.
Leisure	• **AI-driven recommendations**: personalised suggestions for leisure activities based on browsing history and past behaviour. • **Gamified promotions**: creative campaigns using games and challenges to engage audiences online.	• **Interactive event previews**: AR/VR tools for concert venues, festival layouts, and attractions. • **Transparent booking platforms**: growth in apps providing clear breakdowns of fees, schedules, and environmental impact. • **Experience reviews**: rise in demand for influencer reviews of leisure destinations.	• **Digital wallets for tickets**: growth in Near Field Communication (NFC)-enabled wallets for seamless ticketing (e.g. stadiums, cinemas). • **Dynamic pricing models**: AI-powered ticketing platforms offering real-time discounts and upsell opportunities.	• **Immersive event technology**: AR-enhanced maps, photo activations, and interactive experiences elevating in-venue engagement. • **Cashless payments at events**: mobile apps supporting transactions for food, merchandise, and upgrades.	• **Effortless refunds**: streamlined cancellation and refund policies, especially for disrupted travel or events. • **Community engagement**: platforms encouraging users to share photos and reviews, fostering word-of-mouth marketing.
Hospitality	• **Dynamic social advertising**: geotargeted and personalised ads promoting unique hospitality experiences. • **User-Generated Content (UGC):** encouraging reviews, images, and videos on platforms like Tripadvisor to drive discovery.	• **Virtual tours**: AR/VR solutions enabling immersive hotel and restaurant previews. • **Transparent reviews**: enhanced review platforms to highlight verified feedback and reduce fake reviews. • **Sustainability differentiator**: growing demand for visible green credentials, such as eco-friendly certifications and carbon offset data.	• **Flexible booking tools**: real-time pricing algorithms offering tailored packages. • **Digital wallet integration**: streamlined payments for reservations, dining, and other services. • **Seamless pre-arrival coordination**: apps that let guests customise experiences (e.g. selecting preferences).	• **Contactless guest journeys**: widespread adoption of app-enabled check-ins, room access, and concierge services. • **Guest experience platforms**: apps offering dynamic in-destination assistance, from itinerary updates to restaurant bookings.	• **Personalised retention**: AI-driven post-stay emails offering discounts for future bookings or personalised suggestions. • **Experience feedback channels**: interactive surveys and gamified feedback forms encouraging participation.

Source: Retail Economics

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Shifting role of physical stores in 2025

As the customer journey becomes increasingly digital, physical stores are transforming their role. Far from being obsolete, brick-and-mortar locations are emerging as experiential hubs, integrating technology with human interaction to support product discovery, brand engagement, and immersive experiences.

However, our research highlights softening demand for in-store shopping across most non-essential categories, following a post-pandemic resurgence (Fig. 19). During the height of the cost-of-living crisis, households looked to spend in-store to save on delivery and returns fees, and benefit from local store markdowns.

In 2025, households feel less financially pressured relative to the cost-of-living crisis, which is supportive of online sales:

- **Food and drink at home**: This is the only category maintaining a net-positive trend (+1.3%) for in-store spending, albeit significantly lower than 2024 levels (+11.9%). This reflects consumers' prioritisation of essentials and value-driven, in-store promotions.
- **DIY and Gardening, Homewares, and Furniture**: Categories like DIY and Gardening (-1.3%) and Furniture and Flooring (-2.7%) are set to see declines for in-store shopping as digital platforms improve convenience and offer price transparency. However 'touch and feel' remains critical to conversion, meaning declines are modest compared to other categories.
- **Clothing, Toys, and Electricals**: These categories face the sharpest shift towards online channels, with net balances of -6.7% (Clothing) and -6.9% (Toys and Games). These trends reflect greater consumer comfort with online purchasing and expectations for competitive pricing, easy comparisons, and rapid delivery.

"In 2025, households feel less financially pressured relative to the cost-of-living crisis, which is supportive of online sales."

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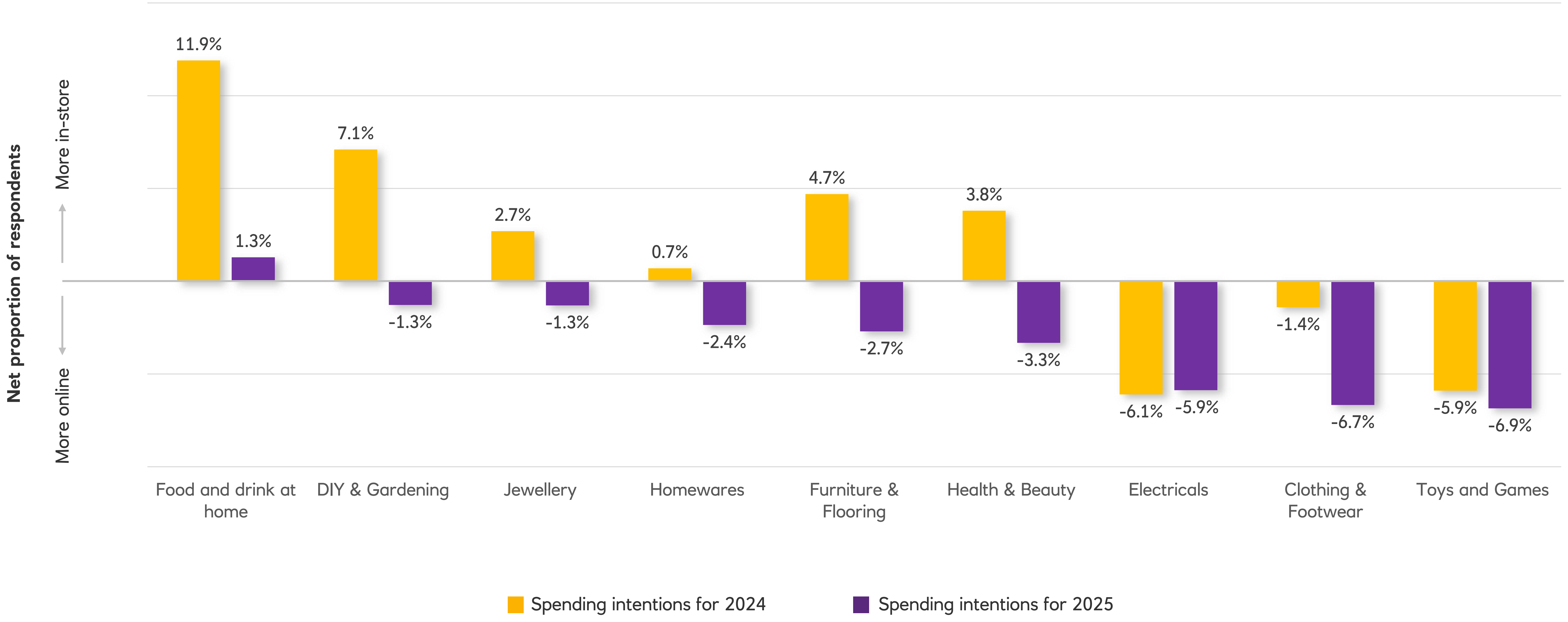
(19) Online spending intentions deepen in 2025



Source: Retail Economics

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Developments in the customer journey reveal three critical insights for 2025:

1. Omnichannel is becoming non-negotiable
Consumers demand fluid transitions between online and offline touchpoints. For example, seamless checkouts, digital wallets, and transparent product comparisons have become standard expectations. Physical spaces can be transformed into experiential destinations to remain relevant as customers seek novel experiences, integrating technology with human interaction. Businesses failing to deliver integrated experiences risk losing relevance.

2. Personalisation provides a competitive edge
From tailored recommendations to personalised loyalty programmes, the value of personalisation is undeniable. Investments in data-driven insights and AI will enable businesses to offer curated experiences that deepen customer relationships and foster loyalty. In particular, AI shopping agents represent a key trend, helping consumers streamline decision-making while allowing brands to maintain ethical practices.

3. Building trust in an era of unified commerce
The retail experience is being transformed by technologies that seamlessly connect online and offline shopping – from AI assistants to integrated loyalty programmes. This 'unified commerce' approach aims to make shopping effortless across all channels.

Success depends on using customer data thoughtfully and securely. Businesses must protect privacy while delivering the kind of personalised experiences shoppers now expect. The key is finding the right balance: using data to enhance experiences without compromising trust. This means being transparent about data usage, giving customers control, and ensuring personalisation adds real value to shopping journeys.

"Success depends on using customer data thoughtfully and securely while delivering the kind of personalised experiences shoppers now expect."

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Megatrend 2: leveraging technology for increased sophistication

As technology redefines the way brands interact with customers, businesses are reimagining ways to create hyper-relevant, value-driven experiences. Our research shows that personalisation, seamless transactions, and loyalty programmes dominate consumer expectations (Fig. 20).

Our research identifies five key areas for technology investment in 2025:

1. Digital loyalty programmes

Loyalty systems integrated with mobile apps and personalised rewards remain critical in fostering customer retention. Retail leads in consumer demand for loyalty programmes (17.5%). This underscores the growing importance of building meaningful, long-term customer relationships through tailored benefits.

2. Seamless and quick transactions

Contactless payments and app-based check-ins are reshaping consumer experiences, particularly in retail as stated by 15.9% of survey respondents. Across hospitality and leisure, seamless transactions remain pivotal to ensuring convenience and enhancing customer satisfaction.

(20) Top technology benefits which are most valued by customers

Q: *As more retailers, hospitality, and leisure businesses invest in technology, what do you generally value most from these innovations?*

	Retail	Leisure	Hospitality
Digital Loyalty Programmes	17.5%	14.0%	14.2%
Improved Delivery and Returns	15.0%		
Improved Booking and Reservation Systems		14.3%	13.8%
Seamless and Quick Transactions	15.9%	12.9%	13.3%
Relevant Offers and Personalisation	13.8%	12.1%	12.4%
Reduced Waste and Sustainable Practices	14.3%	12.8%	11.1%

Source: Retail Economics

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3. Relevant offers and personalisation

Personalised discounts, customised stay packages, and tailored offers rank among the top consumer demands across all three sectors. Younger consumers (aged 18-34) place greater emphasis on personalised experiences, suggesting opportunities to leverage data analytics and machine learning to deliver targeted interactions.

4. Product/service visualisation

Younger demographics are driving the demand for immersive technologies like virtual try-ons and 360-degree hotel tours. In retail, these tools are twice as likely to matter to under 25s compared to older consumers (55+), and three times as likely across hospitality and leisure, reinforcing the need for businesses to integrate AR/VR technologies to cater to digitally native audiences.

5. Digital enhancements in physical environments

While ranked lower overall, digital initiatives such as interactive screens, digital menus, and AR experiences are three times as likely to be valued by under 25-year-olds, compared to over 55s. This signals an opportunity for businesses to appeal to younger audiences by blending physical and digital experiences.

“Younger demographics are driving the demand for immersive technologies like virtual try-ons and 360-degree hotel tours.”

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Megatrend 3: automation and workforce management

Faced with rising costs and sensitive profit margins, businesses are turning to automation to boost resilience. Retail, which operates on slim margins with limited capacity to absorb inflationary pressures (e.g. rising labour costs), has been significantly impacted by changes in the Autumn Budget. As such, these cost challenges make efficiency gains essential for survival and growth. Indeed, just 3% of businesses believe automation 'isn't suitable' (Fig. 21). Automation presents a pathway to not only reduce costs, but also enhance longer-term operational efficiency.

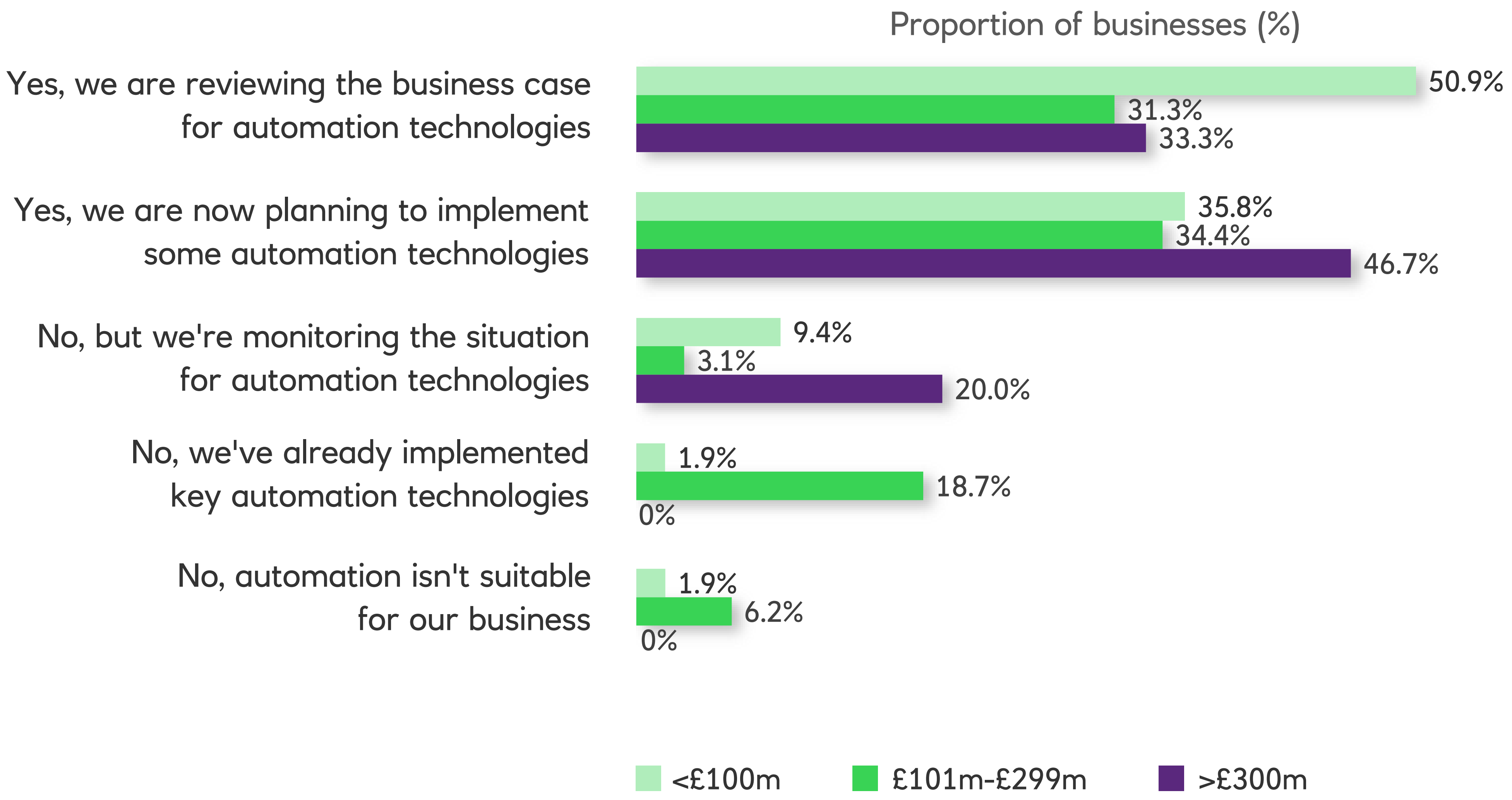
AI, robotics, and machine learning is making automation more commercially viable with new providers allowing businesses to scale, streamline processes, and respond flexibly to changing market conditions.

In 2025, four in five businesses (79.0%) have planned labour cost increases due to the Autumn Budget and have made the business case for automation technologies that weren't previously commercially viable.

(21) Increasing labour costs improve business case for automation in 2025

Q: *Are planned increases in labour costs making the business case for the implementation of automation technologies that weren't previously commercially viable?*

Automation more commercially viable in 2025



Source: Retail Economics

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"Nearly half (46.7%) of businesses with annual revenues exceeding £300m are actively planning to implement automation technologies in 2025."

However, businesses are at different phases of automating processes, depending on size:

- Larger businesses are advancing faster, leveraging scale to integrate advanced automation systems; while smaller firms tread carefully, evaluating the ROI and impact on operations.
- Nearly half (46.7%) of businesses with annual revenues exceeding £300m are actively planning to implement automation technologies in 2025. Strategies are likely to include wide-scale deployments such as warehouse robotics, automated inventory management and self-checkout systems to drive cost savings at scale.
- In contrast, 50.9% of smaller businesses (<£100m) are still reviewing the case for automation, reflecting a cautious approach due to higher upfront costs and risks. These firms are more likely to consider modular automation initiatives that deliver measurable ROI, such as automated scheduling tools and smart inventory tracking systems.

Notably, the 'digital leaders' (typically larger businesses) have already implemented key automation technologies, ahead of labour changes.

Automation offers significant efficiency gains but requires considered implementation to address workforce challenges. A change management process, including workforce transition plans must evolve alongside automation:

- **Reskilling employees**: As machines handle repetitive tasks, employees need to focus on higher-value areas such as creativity, strategy, and customer engagement.
- **Cultivate adaptability**: Equip employees with digital literacy to adapt to evolving technologies, training in managing and operating automation systems.
- **Manage cultural changes**: Manage change through leadership support and communication, emphasising the mutual benefits of automation

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Megatrend 4: sustainability-driven consumer choices

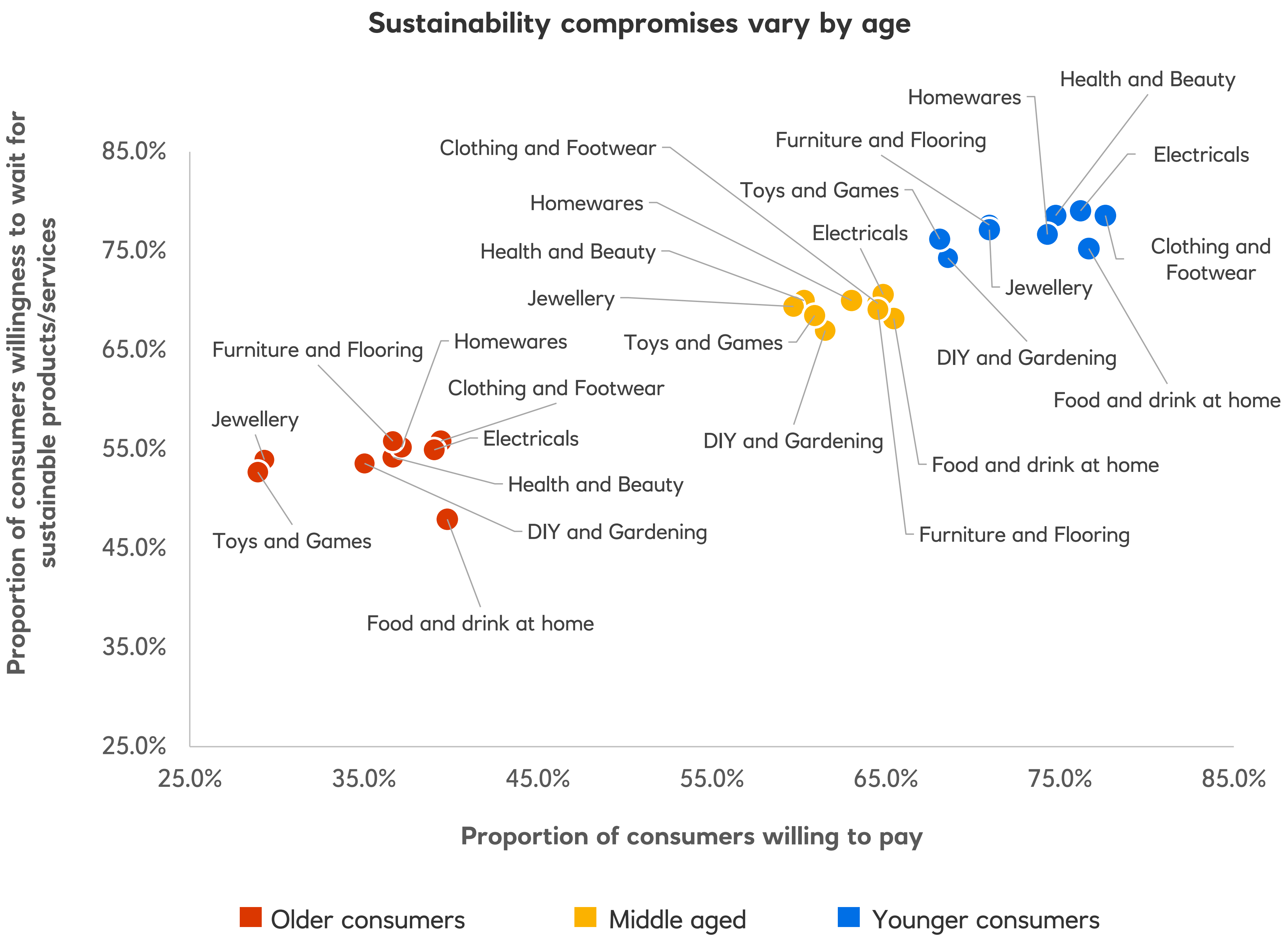
Sustainability has evolved from a secondary consideration to a strategic imperative for future-ready businesses across retail, leisure and hospitality. While consumer demand for eco-friendly products and services continues to grow, the journey toward meeting these remains challenging.

Many businesses are still far behind industry leaders in achieving their emissions reduction targets, with substantial investment required to bridge the gap. The obstacles are significant: high costs, limited incentives, and capacity constraints in adopting low-carbon alternatives or abatement measures.

The uneven political and regulatory landscape further complicates efforts, as differing standards across regions hinder cohesive action. However, the emergence of green funds and sustainable financing options in the UK offers an opportunity for businesses to align operations with environmental goals while accessing preferential lending terms.

The importance of sustainability is clear. The bank's Future Fit research shows 78% of businesses recognise sustainability as a competitive advantage. Environmental, social, and governance issues are becoming central to business strategies, with 73% of leaders anticipating that sustainability will remain a significant focus.

(22) Age is more significant than category for driving sustainability



Source: Retail Economics

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Immediate challenges lie in passing on the cost of sustainable initiatives to consumers. Our research reveals younger, more affluent consumers are most open to the idea of paying more and waiting longer for sustainable alternatives (Fig. 22). This signals opportunities for targeted strategies to capture loyalty:

1. Consumer age is significant
Age (more than product category) drives willingness to pay. Younger consumers (aged 18–34) exhibit the highest willingness to pay a premium or wait longer for sustainable products and services, while older demographics are more hesitant. This generational divide highlights the importance of tailoring sustainability efforts towards younger, eco-conscious consumers, as well as educating consumers more widely because environmental issues can often influence purchasing decisions.

2. Financial confidence amplifies willingness
Financial outlook significantly impacts consumer sustainability choices. Among those expecting their finances to improve substantially in 2025, 77.4% are willing to pay more for sustainable options – three times (22.7%) more than those anticipating financial decline. Similarly, 82.1% of financially optimistic consumers are willing to wait longer for eco-friendly products, versus 48.9% of those with a pessimistic outlook.

3. Category-specific impact
Sustainable practices resonate most in high-value, discretionary categories such as furniture and flooring, where consumers view eco-friendly features as part of a premium experience. Conversely, essentials like food see less pronounced demand for sustainability, reflecting practical considerations over ethical concerns in everyday spending.

"Among those expecting their finances to improve substantially in 2025, 77.4% are willing to pay more for sustainable options."

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As pressure to invest in sustainability grows, businesses must consider the following when positioning efforts among consumers:

Evolving expectations

For consumers, sustainability has become an expectation rather than a luxury. In the move to net zero over the next decade, businesses will have to move beyond treating sustainability as a differentiator and instead, integrate eco-friendly practices as a core element of their offerings.

Beyond sustainability benefits

While sustainability is important, green intentions often come secondary to more immediate priorities such as price, availability, and convenience, particularly for essential purchases. For broad appeal, businesses must complement their sustainability efforts with clear value propositions that address these lower-order considerations.

Supply resilience and collaboration

Strengthen the relationship between buyer and supplier by focusing on areas where interests align and collaborate with greater transparency. Draw attention to sustainability imperatives (e.g. Scope 3 emissions) to encourage collaboration. This includes identifying opportunities to work more closely with partners throughout the value chain, sharing insight across the ecosystem.

> **"Strengthen the relationship between buyer and supplier by focusing on areas where interests align and collaborate with greater transparency."**

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Key takeaways

As the retail, leisure, and hospitality sectors progress through 2025, businesses face a critical moment to adapt and thrive. Stabilising inflation, shifting consumer behaviours, and rapid technological advancements demand bold, forward-looking strategies.

To remain competitive, businesses must align closely with consumer values, embrace innovation, and invest in sustainable practices. In summary, our research identifies the following key insights:

- **Diverging consumer spending**: affluent households are driving selective discretionary spending in lifestyle-enhancing categories, while middle- and lower-income groups remain focused on essentials due to financial constraints.
- **Investment priorities**: businesses are channelling resources into digital transformation, automation, and sustainability to protect margins, enhance efficiency, and future-proof operations.
- **Meeting consumer expectations**: personalisation, seamless omnichannel experiences, and visible sustainability initiatives have shifted from competitive advantages to essential business imperatives.
- **The role of digital transformation**: innovation, particularly through technologies like AI and automation, is a cornerstone of resilience, enabling businesses to streamline operations, personalise at scale, and adapt to market demands.
- **Capitalising on megatrends**: the four megatrends highlighted in this report provide a strategic framework for businesses to navigate uncertainty and identify growth opportunities.
- **The pivotal opportunity of 2025**: with thoughtful execution, 2025 offers a window for businesses to transform challenges into strategic gains, strengthening their position for long-term success.

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About Retail Economics

Retail Economics is an independent economics research consultancy focused on the consumer, retail and leisure industries. We analyse the complex retail economic landscape and draw out actionable insight for our clients. Leveraging our own proprietary retail data and applying rigorous economic analysis, we transform information into points of action.

Our service provides unbiased research and analysis on the key economic and social drivers behind the retail sector, helping to inform critical business decisions, giving you a competitive edge through deeper insights.

We're thrilled to collaborate with the bank once more to deliver this year's outlook report for the retail, hospitality, and leisure sectors. This report offers vital insights into the evolving factors shaping consumer spending and highlights strategies for businesses to build resilience.

As 2025 unfolds, the trading environment remains challenging, requiring retailers to stay agile and innovative. Embracing emerging technologies and adapting to ongoing industry shifts will be key for businesses aiming to navigate disruption and drive growth successfully.

Richard Lim
CEO, Retail Economics

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Important information

Methodology

Modelling and analysis by Retail Economics which includes:

- A UK nationally representative survey across 2,000 consumers undertaken in December 2024
- A survey across 100 UK retail, hospitality and leisure businesses undertaken in December 2024
- Third-party sources including national statistics and official forecasts
- Future Fit businesses are identified based on a survey of 1,000 UK businesses across 10 sectors in 2024

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Further information

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