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RETAIL 2013

The definitive report on the state of the retail industry, from the leaders in UK retail

RetailWeek
REPORTS

Foreword

Outside the economic community, news in the Chancellor's Autumn Statement that the Government's austerity measures are to be extended beyond their original deadline of 2017 by another year were greeted largely with indifference.

It is testament to how hardened the general public has become to bad news and how little economic statistics now mean to consumers who increasingly view austerity not as a blip in the free market's inexorable growth trajectory but as the new normal.

2012 was a year many had hoped would see the economy splutter back to life. Instead, the UK plunged back into recession in April. A summer bracketed by celebrations helped buoy the mood, but there were signs as this report went to press that we could even be teetering on a third dip.

The truth is that for most UK shoppers we have never been out of recession, regardless of what the indicators tell us. Belts are being tightened, domestic budgets adhered to and bargains sought. No one knows this better than the retailers on the front lines.

That is why this report has become such a flagship of *Retail Week's* year. GDP figures, company profits and confidence indices only tell part of the story. To truly understand the mood and behaviours of consumers you need the qualitative evidence you can only get by speaking to the people trading and talking to, and fighting for their custom every day.

This year we spoke to 28 retail chiefs, from a careful selection of the UK's largest retailers. Between them they represent pure-play, traditional and multichannel businesses, which own more than 12,000 stores and account for about £53bn of revenues. Their combined thoughts give us not only a unique perspective on the mood of the British shopper, but a clear vision of how the retail industry will respond to that environment over the next 12 months. We probed them on a range of subjects this year from the business and consumer outlook, to property, digital retailing and the supply chain.

The headline is a collective expectation that there will be growth in 2013 – just – but it will be hard won and come on the back of graft and innovation rather than any macro improvement. This will be underpinned by a small but significant shift in the consumer outlook, which has moved from fear of the financial environment to a resignation the hard times are here to stay. As a consequence there is an acceptance by the public that life must go on. While this is hardly a ringing endorsement of a recovery, it gives retailers a platform – if a fragile one – from which to build. Over the following eight chapters we find out how.



Chris Brook-Carter
Editor-in-Chief
Retail Week

Kurt Salmon viewpoint

This year could well be a defining one for retail. Unless someone fires a silver bullet, life as we have experienced over the past few years is going to intensify not just throughout 2013 but beyond. This year should be seen as the start of the 'new norm' with survival well and truly in the hands of retailers.

However, over the past year the blueprint of a successful retailer has been more accurately defined, in the main thanks to those businesses at the front of the curve. We know by their example of the benefits of embracing a multichannel world, being more customer centric, reviewing store portfolios, taking advantage of opportunities opened up by the less successful and cutting out the poor performers. We also know that mobile is important, sourcing new product more regularly is an imperative, and building a reputation overseas is probably a given – and all this needs to be done while keeping an eye on day-to-day costs.

However, knowing and doing are two different things – 2013 has to be the year of doing, and for businesses to be less risk adverse to making changes and moving forward.

While we may not be able to prescribe exactly what the future of retail will look like in detail, we have a jolly good idea of the components that are required and will learn more as we continue to listen to consumers.

As such, both the business strategy and the execution needs to be robust but, at the same time, sufficiently agile to adapt.

Developing the teams and the processes to manage these changes, having the skills in place to know what needs to be done and, importantly, when are going to be the challenges retailers need to address in 2013. And if they do, it will definitely be a defining year for retail.



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Executive summary

If what doesn't kill you really does make you stronger then the retail businesses left standing after four years and counting of recession and low growth must have, at the very least, built up significant resistance to gruelling trading conditions.

The expert testimony of the 28 retail leaders interviewed for *Retail 2013* suggests there will be yet more opportunity to build immunity in 2013, which is expected to be every bit as tough as 2012.

While there were some positive economic indicators during the second half of 2012, these have not proved sufficiently encouraging to trigger any meaningful or enduring recovery in consumer confidence, which remains frustratingly low. This is a fact underlined by a lacklustre Christmas trading period, which expected consumer spending to rise only in line with shop price inflation, according to the BRC.

Moreover, while delivering only moderately encouraging news on key metrics such as GDP growth, unemployment or consumer spending, economic forecasters warn that a prolonged period of no or low growth must be anticipated, quite unlike the recovery phases of other recessions. That is clearly the message that is having most resonance with consumers who are, say the retailers, resigned to the 'new normal'. Consumers also to a degree see this message reflected in the Government's austerity measures and arguably in its rhetoric too.

It is interesting to note that while the retailers were overwhelmingly supportive of the deficit reduction strategy, some did call for a more upbeat approach to communication on the part of the Government. The fact that consumer confidence is dragging behind even a weak economic recovery underlines just how resistant this retail environment is proving to "talking up". Both in its rhetoric and actions, the retailers have compelling suggestions for what the Government should do.

However, as one might expect from those who have survived in adversity, they also believe there is much they can do themselves. Those retailers that have come through the recession are not only "still standing" but have learnt and are learning ways to cope and prosper in extremely challenging conditions, which is testament to the ingenuity and resilience of the sector.

In the following eight chapters, while accurately identifying and commenting on why the environment is so challenging, the retailers also point to solutions and opportunities, for instance in relation to multichannel integration, more flexible supply chain management, improving customer service and adapting retail estates to a changing environment.

There are naturally signs of battle fatigue but there is equally a strong sense that when the going gets tough, the best in the sector will rise to the top.

1. The outlook for retail in 2013

- **Little improvement in overall trading patterns in 2013**
- **Middle market squeezed as value sector continues to grow**
- **Depressed retail economy the 'new normal' and will prevail beyond 2013**
- **Cautious view on investment and business development**
- **Slight uplift in consumer mood more born out of acclimatisation to the new normal**
- **Multichannel development remains top priority**

2. Coping with austerity

- **Widespread retailer support for austerity measures**
- **Lack of confidence affecting consumer behaviour**
- **Fear of unemployment weighs most heavily on consumers**
- **Policies needed to foster retail investment and help small businesses**
- **Government must address banks' reluctance to lend to the retail sector**
- **Tackling unemployment viewed as critical**
- **More positive leadership required from the top, some retailers suggest**

3. Adapting to the 'new normal'

- **Consumer confidence not growing in step with recovery**
- **Consumers less fearful but still reluctant to spend**
- **Attitudes to shopping on price have changed**
- **Shopping habits acquired during the recession are being retained**
- **Prospering in the new normal about getting 'the basics' right and being smarter**

4. Online, mobile and multichannel integration

- **Multichannel integration remains top business priority**
- **Ecommerce continues to buck recessionary trend**
- **Online retail benefits from drop in leisure and impulse shopping**
- **Mobile growth still showing triple-digit growth**
- **Retailers still searching for optimum way of accounting for multichannel cost and sales**

5. In-store service and the customer experience

- **Service becoming more important differentiator but price remains king**
- **Value retailers note growing importance of in-store service**
- **Enhanced in-store service can win back consumers lost during the downturn**
- **Multichannel offers challenges but also opportunities to enhance in-store experience**

6. Supply chain and sourcing: moving west

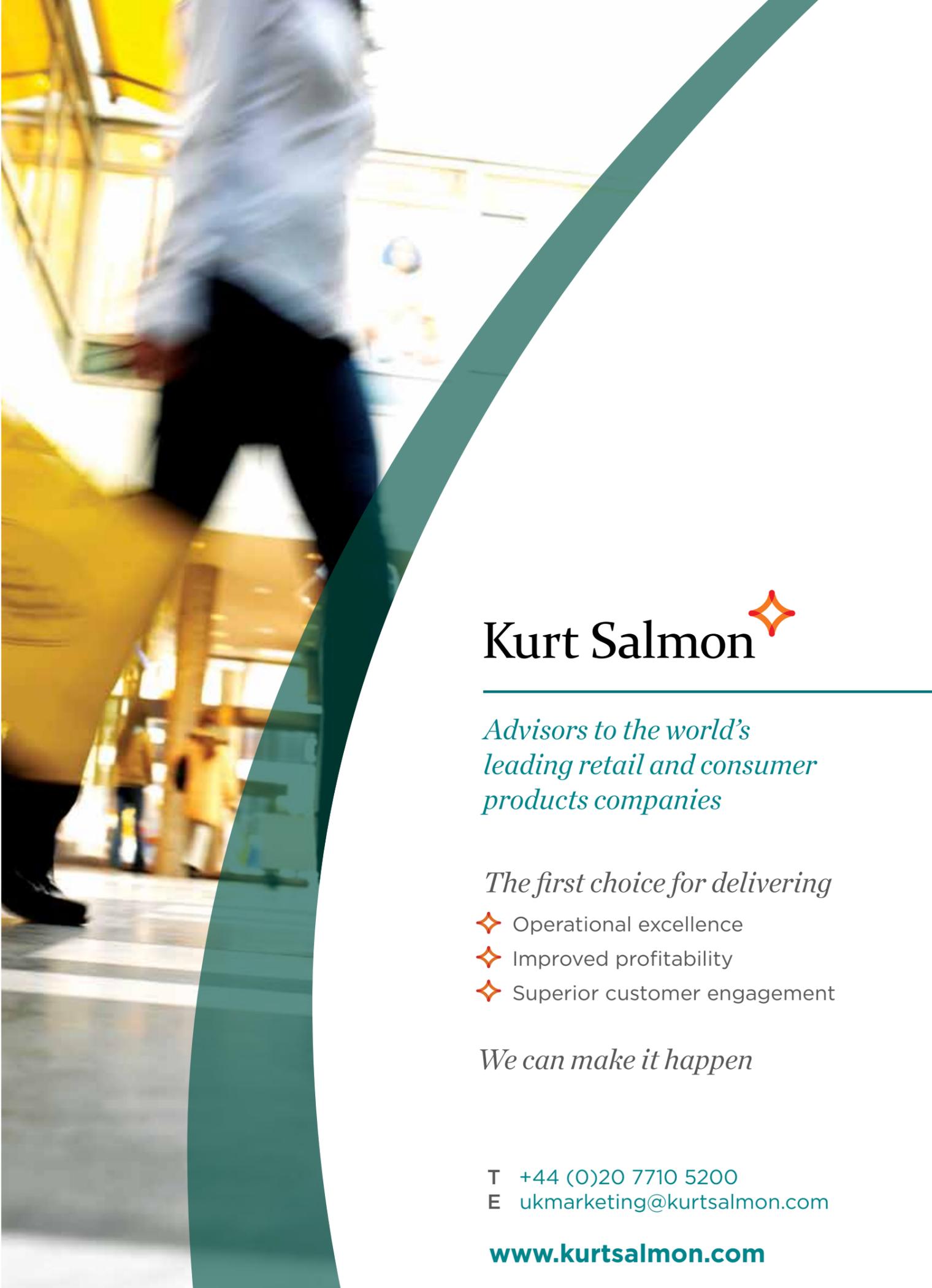
- **Discernible move to find some alternative sources of supply to China**
- **Widespread support for Chinese suppliers on quality and service criteria**
- **Need for greater flexibility and shorter lead times prompting change as much as costs**
- **Other Asian countries gaining ground**
- **European sourcing on the increase**
- **Retailers making selective changes to supply chains while retaining core relationships**

7. Property: responding to a changing landscape

- Gap between best and worst stores continues to widen
- Addressing over-capacity seen as critical
- Retailers look for shorter leases in a more fluid retail environment
- Value sector growth offers some relief for struggling high streets
- Online growth forces changes in retail estates but stores have key role in multichannel world

8. Mergers and acquisitions: cherry-picking to continue

- Cherry-picking trend to continue in 2013
- Retailers looking to open stores have great choice and can pick optimum sites
- Mixed views on opportunistic acquisition of assets
- More support expected from banks but not enough to finance many large deals
- Next year unlikely to see many major acquisitions or retail floats



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