

retailthinktank

KPMG | Iposos Retail Performance

annual. review

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Despite a slow start to the year, retail health improved throughout the first three quarters of 2015 thanks to growing demand brought about by increased consumer confidence, driven by stronger employment levels and a rise in real wages. At times, however, growth in the retail sector failed to keep pace with that seen in the leisure market. Retail's state of health flattened in the final quarter as demand weakened and costs increased. Nevertheless, the Retail Health Index ended the year three points higher on 83, its strongest year-end standing since 2010.

Ipsos/KPMG Retail Think Tank annual report foreword

2015 began where 2014 had left off, with the sluggish end to the year continuing into the start of the New Year. The hangover from Black Friday's spending extravaganza carried into January, leaving people with less to spend in the traditional sales. But after a relatively quiet January, promising signs emerged and demand started to pick up. Telltale sales growth in sectors such as homeware and household appliances indicated that the market was on the mend and the sun was beginning to shine a bit brighter.

With real incomes on the rise, consumer confidence grew to its highest level since the economic crash and employment rates continued to strengthen. Without the long-standing presence of price deflation, into its 23rd consecutive month in March, total retail spending would have been stronger still in Quarter 1. Shoots of recovery even started to appear in the food sector, evidenced by some volume sales growth.

The uplift in demand led to a one point rise in the Retail Think Tank's Retail Health Index (RHI), lifting it to a score of 81 in Quarter 1, which was its highest standing for three-and-a-half years. The score could have been higher if consumers had elected to spend a larger

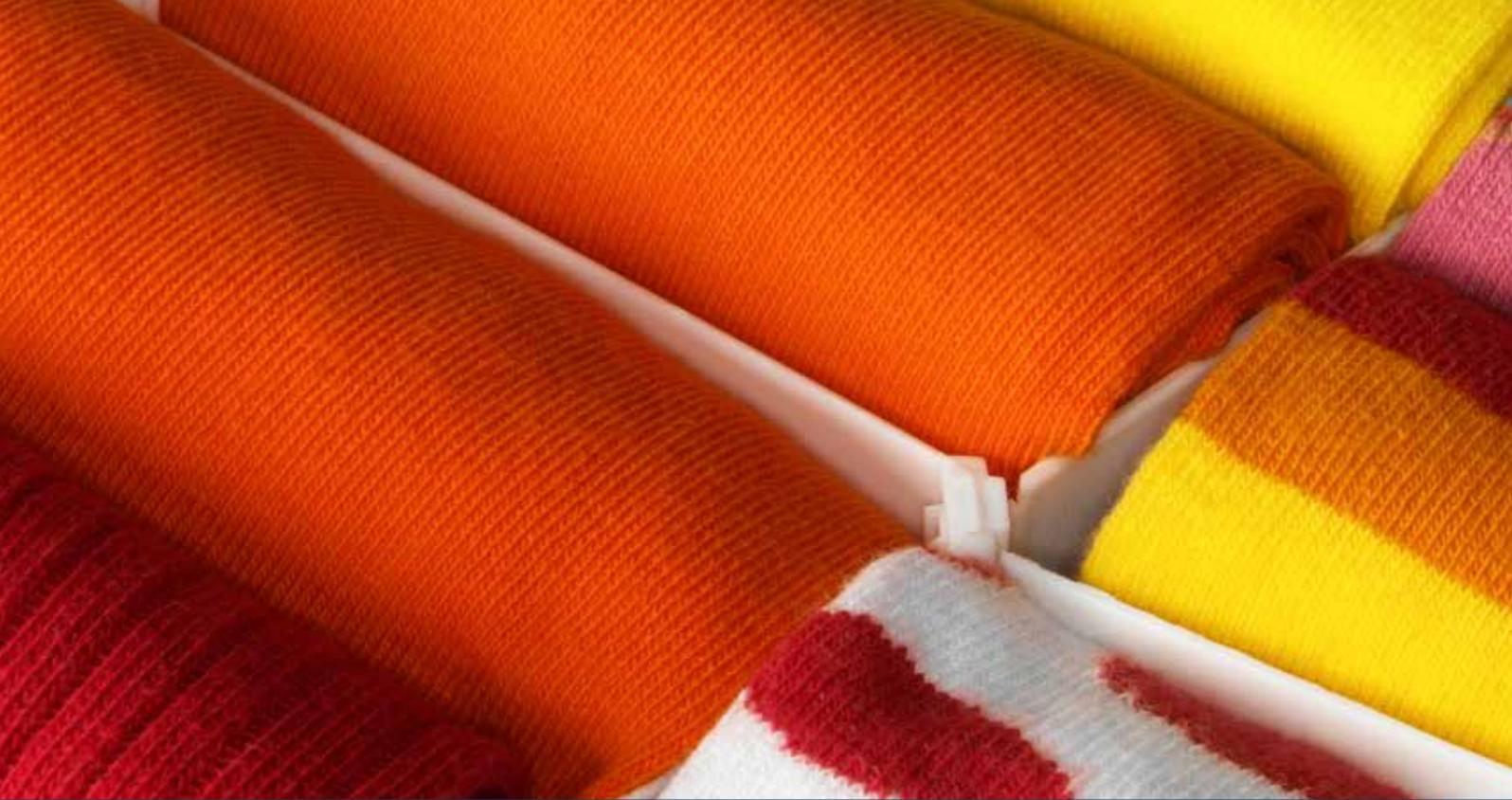
proportion of their new-found extra income in the shops rather than on experiential leisure services and homeowners paying down mortgages.

Costs and margins did not have a significant impact on retail health in Quarter 1. The continued strength of the pound enabled savings to be passed through to consumers and key costs including rents remained constant over the quarter, with minimum change to property demand outside of London.

The months leading up to a general election are often a time of caution and threaten to stifle any economic growth. This proved not to be the case in 2015, despite uncertainty over its outcome hanging heavily in the air right up to polling day in May.

Throughout Quarter 2, the UK retail market continued to recover, although store bosses were not yet feeling the full effect of an improved economy and minimal inflation.

While it was not a decisive factor, the heat wave at the end of June also helped further bolster demand in Quarter 2. Fashion was a big winner, with more consumers paying full ticket price on seasonal lines – however, food and outdoor furniture stores also felt the benefits.



Margins in the food sector began to cause more concern into Quarter 2, with the big four discounting heavily and evermore aggressively. Price cuts, rather than multi-buy offerings, remained firmly in the seat as the preferred promotional mechanic of the supermarket, but proved ineffectual against the discounters Aldi and Lidl who continued to gain market share.

Despite the grocers' brutal battleground negatively impacting margins and retail health in Quarter 2, the modest revival in demand was sufficiently strong to deliver a positive overall outcome for the quarter. Consequently the Retail Health Index rose by another point in Quarter 2 to 82.

At the half way point in the year there was much to be optimistic about. Economic indicators continued to be positive, real wages were still growing and spending on big-ticket items was increasing. However, many factors continued to restrict sales growth in the sector and more work was needed for retailers to win a greater share of the growing disposable income of UK consumers. This imperative became all the more important once the new Government announced its intent to implement a minimum living wage in 2016.

There was evidence of that message getting through to retailers in Quarter 3. A larger share of spend came the way of the high street as the economy continued along its buoyant path, reflected in consumer confidence reaching its highest level since the start of the millennium, and pay, productivity and employment were all to thank. The RTT reported the best run of retail health in five years, with the RHI edging up another point to 83 driven by stronger demand, just as it had been in the first two quarters of the year. The grocers' fortunes began to show signs of improvement and contributed to margins recovering to having a neutral impact in Quarter 3.

The road to recovery nevertheless remained hard work. Compared to before the recession, the gains being made were slight, and the reality was that the retail landscape had changed and growth was far harder to achieve.

The improvement in retail health seen over consecutive quarters in 2015 fell over in the final quarter of the year.

Sales in October and November were sluggish as consumers put off purchases in anticipation of the Black Friday discounts at the end of November. Weak demand continued well into December before shoppers finally came to life in a last minute rush before Christmas and beyond into the sales. As always the trading results were mixed, with online operations performing better than bricks and mortar across the board.

The net outcome over the quarter was one of disappointing demand with total retail sales at a low point for the year and like-for-likes marginally negative. It was the first quarter in the year where demand failed to drive retail health upwards.

In contrast, retailers managed more successfully to hold on to margins in the quarter. This was helped in part by the Black Friday campaign when many retailers were much better prepared than the previous year, offering more conservative price cuts to protect margins, a narrower range of offers and logistics systems offering greater capacity.

Nevertheless, it was the pressures on costs that caused the state of retail health to flatten in Quarter 4. The popularity of online added cost to the fulfilment process and extra security measures also contributed to higher retail costs in the aftermath of the Paris terrorist attacks. Most significant of all though were the costs beginning to be borne in the progression towards the living wage legislation coming into force in April 2016.

2015 ended with the Retail Health Index static in the final quarter on 83. Put into context, this score represents the strongest year-end state in the health of retailing since 2010. Despite being what some described as the toughest trading environment for a quarter of a century, retailing has rallied in 2015 thanks to strong cost control and the strengthening economy. The year started facing uncertainties created by the general election, the state of the Eurozone and the slowdown in growth in the Chinese economy. Retailing finished the year battered, but significantly fitter than it began, ready to take on all that 2016 throws at it.



About the Retail Think Tank

Creation of the Retail Think Tank...

The Retail Think Tank (RTT) was conceived and created in 2006 by Helen Dickinson (former Head of Retail at KPMG LLP) and Tim Denison of Ipsos Retail Performance (Ipsos) to provide an authoritative, credible and trusted window on what is really happening in retail and to develop thought leadership on the key areas influencing the future of retailing in the UK. The intended audience for the outputs of the RTT is primarily retailers as well as anyone with an interest in all aspects of retail and retailing.

Who are we?

James Knightley, Senior UK Economist, ING

Dr Tim Denison, Director of Retail Intelligence, Ipsos Retail Performance

David McCorquodale, UK Head of Retail, KPMG

Richard Lowe, Barclays

Martin Hayward, Founder, Hayward Strategy and Futures

Nick Bubb, Retail Consultant

Maureen Hinton, Conlumino

Martin Newman, CEO, Practicology

Mike Watkins, Head of Retailer and Business Insight, Nielsen UK

Jonathan De Mello, Head of Retail Consultancy, Harper Dennis Hobbs

What do we do?

Our primary objective is to give a balanced, considered and unbiased view of the true state of the health of the retail sector. We aim to provide an authoritative, credible and trusted window on what is really happening in retail.

We assess the 'Health' of the UK retail sector

- Traditionally it has proved incredibly difficult to get a true view of the state of affairs with different sets of statistics due to:
 - sheer volume of data; and
 - large variation in how it is generated and then interpreted
- Since inception, the RTT's activity includes:
 - a retrospective look at the past quarter - looking ahead to the next three months
 - taking into account the three key drivers of retail health: Demand; Margins; and Costs
- The Retail Health Index (RHI) outputs provide analysis and a visual snapshot of how health is changing on a quarter-by-quarter basis covering the past six years

We write White Papers

- Thought leadership on the key areas influencing the future of retailing in the UK
- Issued quarterly throughout the year
- Highlighting issues and investigating areas of topical relevance to retailers
- The 2015 White Papers are included in this review and we have previously covered topics including:
 - The future of the grocery sector in the UK April 2015
 - What can Tesco learn from previous business turnarounds? October 2015

Where to obtain further information?

www.retailthinktank.co.uk





contents

Prospects for 2016 - Individual views of the KPMG/Ipsos Retail Think Tank members	06
James Knightley , Senior UK Economist, ING	07
Dr Tim Denison , Director of Retail Intelligence, Ipsos Retail Performance	08
David McCorquodale , UK Head of Retail, KPMG	09
Richard Lowe , Barclays	10
Martin Hayward , Founder, Hayward Strategy and Futures	11
Nick Bubb , Retail Consultant	12
Maureen Hinton , Conlumino	13
Martin Newman , CEO, Practicology	14
Mike Watkins , Head of Retailer and Business Insight, Nielsen UK	15
Jonathan De Mello , Head of Retail Consultancy, Harper Dennis Hobbs	16
Whitepapers	18
Is discounting a current necessity or is it simply a race to the bottom?	19
In detail – Individual views of the KPMG/Ipsos Retail Think Tank members	23
Black Friday – Where does this now fit into a retailer’s sales/promotion strategy?	33
In detail – Individual views of the KPMG/Ipsos Retail Think Tank members	36
What is the future of the shopping centre in a digital world?	47
In detail – Individual views of the KPMG/Ipsos Retail Think Tank members	51



Prospects for 2016

Individual views of the KPMG/Ipsos Retail Think Tank members



James Knightley

Senior UK Economist, ING

With wages finally responding to the tightness in the labour market and spending power further boosted by the plunge in energy costs, consumer fundamentals are looking in excellent shape right now.

Outlook for 2016

With wages finally responding to the tightness in the labour market and spending power further boosted by the plunge in energy costs, consumer fundamentals are looking in excellent shape right now. This positive momentum looks set to be carried through into the New Year with employment growth having re-accelerated following a General Election related lull, consumer confidence at close to record highs and demand for credit continuing to strengthen.

A further positive for the retail sector is the Chancellor's decision to abandon his cuts to tax credits. If they had been implemented it would have resulted in the incomes of affected households falling by around £4.5bn from April onwards. The fact that this is no longer happening removes an issue that could have hurt consumer spending.

Nonetheless, there are risks for the outlook that could see demand growth start to slow around the middle of the year. The chief threat is the potential for higher interest rates. With domestic demand looking strong and last year's plunge in the oil price dropping out of the annual CPI calculation, headline inflation is likely to rise fairly swiftly through early 2016. Rising wages also mean that business costs are rising and in an environment of strong demand there is a growing prospect that businesses will be able to pass these costs on to the end consumer. The US Federal Reserve has already started to raise interest rates and the Bank of England is likely to follow at

some point in 2016. Higher borrowing costs mean more income being spent on debt servicing, but there will be a partial offset with higher income for savers.

Another issue is the prospect of the referendum on the UK's ongoing EU membership being called this year. Prime Minister David Cameron has made no secret of the fact that he would like to get it out of the way assuming he gets a deal that would give the UK greater control over its own domestic policies. This event would dominate news headlines for months given the huge political and economic implications if the UK was to leave – opinion polls suggest the result is too close to call. As such, this could create uncertainty and weaken both business and consumer confidence with implications for spending.

In terms of sterling and the cost of imports for retailers the outlook is somewhat cloudy. Higher UK interest rates mean that sterling should strengthen versus the euro, where the European Central Bank is still trying to stimulate the Eurozone economy. However, the EU referendum and the uncertainty that it brings is likely to make foreign investors nervous about holding UK assets. Consequently, as we saw ahead of both the Scottish independence referendum and May's General Election, sterling could come under pressure ahead of the vote. We suspect this would be repeated with particular downside risk against the dollar, which will potentially squeeze retailers profit margins.



Dr. Tim Denison

Director of Retail Intelligence,
Ipsos Retail Performance

It is often instructive to reflect back on what has happened, when contemplating what lies ahead. Consumers certainly had a better time of it in 2015

Outlook for 2016

It is often instructive to reflect back on what has happened, when contemplating what lies ahead. Consumers certainly had a better time of it in 2015: employment growth and improved job security, the continuation of record low interest rates and minimal inflation. All this, together with robust confidence in the economy and rising real wages, meant it was a healthier year for the consumer, though perhaps not quite as strong a retail recovery as we might have expected. The scars of austerity still linger, with households mindful to pay down debts and find the best bargains, cognisant that low prices no longer equate always to poor quality.

For retailers, 2015 was a year of great endeavour, innovation and ongoing investment, scrambling to adapt to the fast moving, digital age. For some it was more of a struggle than for others, who had begun the task earlier. It was also a year for changes at the top, bringing fresh legs and life to a sector that has been battling to find new means to make process efficiencies and overcome legacy systems and practices.

The speed of change will not relent in 2016. Nor will the demands of consumers. The shopper continues to adapt, as Millennials become the majority, and so must retailers. The technology drive is integral to future success, stripping out complexity on the one hand, to make shopping easier and quicker, and adding intelligence on the other, to make it more personal and rewarding. Bringing intelligence of current customer behaviour

to the heart of the business, making big data effective to deliver on-demand service through retail analytics will be instrumental in making retailers more agile and responsive in 2016. When the pace of development is so fast, it is easy to take short cuts or risks and slip up. Cyber security, therefore, is the other pre-requisite to deliver in 2016, as 'trust' becomes as important to retailing as 'experience'. There is so much to look forward to from a technology perspective in the year ahead.

The business environment is also not without its considerable challenges for retailers in 2016, particularly on the cost side. The introduction of the national living wage and the levy to fund apprenticeships are two added complications in a year when business rates will only be reviewed, not adjusted. While there are signs that the consumer recovery will lose some of its momentum in 2016, demand may be more resilient – let us hope. In 2015 the uncertainty of the outcome of the general election put the country on hold for months. In 2016 the uncertainty over the wake of the EU-referendum threatens to be a destabilising factor.

For these reasons, 2016 will be a tricky year to get the balance right between cost control and investment. Retailers will need to keep on their toes. Success will not necessarily come from running quicker. At times it may come from running in a different direction. Retailers would be well advised to look outside the sector, not just inside, for inspiration and guidance.



David McCorquodale

UK Head of Retail,
KPMG

When the dust settles on Christmas 2015, the key focus in retail boardrooms will be the implementation of the National Living Wage before April 2016.

Prospects for 2016 – People, productivity and operating model under the spotlight

When the dust settles on Christmas 2015, the key focus in retail boardrooms will be the implementation of the National Living Wage before April 2016. A significant overnight increase to the cost base but much more complex than a simple hourly rate as it has a knock on impact on, inter alia, pay differentials, staff discounts, tea breaks and pensions. It is further complicated with the wage set to increase for each of the next four years.

Consumer power and market competition means that passing this cost increase onto the consumer will only be possible for the strongest and most differentiated brands. Relief from the cost of business rates would help alleviate the burden but retailers cannot hold their breath for this. The majority of them will instead need to examine closely how productivity can be improved through more efficient use of resources or technology solutions.

As well as driving efficiencies, retailers are also being challenged to review and alter their business operating models as disruption from alternatives, including the connected world and internet of things, means that properly fulfilling an omni-channel experience profitably cannot be done from systems and processes designed for just one or two channels. This transformation has already challenged former catalogue businesses, is significantly affecting the grocery sector and will also impact general merchandise retailers.

Driving operational transformation is hard enough, but in the public spotlight of listed company scrutiny the challenge multiplies.

Internationalisation will be another key theme in 2016. With recent inbound investment from China in House of Fraser and Hamleys, and from South Africa in Phase Eight, New Look, Pep & Co and Office, I believe that UK corporates will continue to provide a good platform for international players from which to drive European sales. I also see continued overseas expansion from our own retailers as they strive to find more growth than can be generated within our shores.

Data governance has taken an increasingly important role in the boardroom after some high profile blunders this year. This is not before time as hackers have moved from hacking governments and financial institutions to the retail sector because of the amount of bank and other personal details held by retailers. As cyber criminals become increasingly more sophisticated, company defences have to gain sophistication too as any breach is hugely damaging. Whilst retailers grasp this nettle, I would imagine we will see more high profile cases in the coming year.

Finally, I am excited by the amount of innovation driving change in the retail sector from contactless payments to localisation technology. Not every self-service checkout is welcome but the use of technology to enhance the experience and eliminate friction in the customer journey is increasing and I'd expect to see further innovations in 2016.



Richard Lowe

Barclays

The outlook for the retail industry as we enter 2016 is rather complex.

Although there are certainly grounds for optimism in places, with some retailers on track to continue to grow throughout the year,

Outlook for 2016

The outlook for the retail industry as we enter 2016 is rather complex. Although there are certainly grounds for optimism in places, with some retailers on track to continue to grow throughout the year, there are a number of headwinds that will need to be addressed over the next 12 months. The introduction of the National Living Wage (NLW) in April is naturally top of the list for many retailers. This is a major development with significant implications across a range of industries, with many retailers fearing the effect the initial rate and anticipated future increases will have on their business models. However, the extra money in the pocket of consumers that could result from an uplift in wages may also present some opportunities for retailers, so the impact of the NLW on the industry perhaps isn't as clear-cut as it first seems.

The National Living Wage is coming into force at a time when cost concerns more widely are posing some difficult questions for the industry. Embracing omni-channel and finding new ways to reach consumers is an essential part of the modern retailer's armoury. Indeed, many retailers would be struggling to cope without the additional sales achieved through meeting the demands of the public by offering their products in-store, online and via mobile. As we have witnessed first-hand in the banking industry, we really are in the eye of the 'digital revolution' in retail, with everything from payments through to the speed of delivery being transformed by access to technology. However, the rising costs involved in providing an attractive and efficient omni-channel service is a growing threat that must be managed carefully. I see this as the biggest single issue for retailers at

the moment – finding the right cost balance between the range of sales channels on offer could be the difference between a positive and negative outcome in 2016.

To address these escalating costs, some in the industry are speculating that we may see moderate price increases to help protect margins. High levels of employment in the wider economy should mean that consumers have good levels of disposable income, but I think it's important that retailers don't overplay their hand when considering price points. In many parts of the retail sector the landscape remains intensely competitive, so for individual retailers to decide that the time is right for prices to start to move could be a bold choice. As tempting as price increases are, it's really cost management that has to be the priority in 2016.

A positive focus for many retailers that I would expect to continue in 2016 is the push towards international development and expansion. As I've seen at Barclays, banks are working hard to support this international growth and doing our best to ensure that our retail sector clients are well positioned to compete on a global scale. The international story is complicated by the uncertainty around both the date and outcome of the UK's referendum on EU membership, and as with previous votes we can expect some volatility and potential shifting of sales patterns as the referendum approaches.

Despite the challenges we are likely to face over the next 12 months, if retailers are able to recognise what needs to be done as early as possible they can still have a very successful year. I'm confident that the industry has what it takes to deliver a strong result in 2016.



Martin Hayward

Founder, Hayward
Strategy and Futures

2016 will have to be the year that the relentless drive towards short-termism in retail marketing begins to be balanced by a greater focus on long-term brand building, customer loyalty and value protection.

Outlook for 2016: Putting the long-term back into customer loyalty

Over the last few years there has been a significant shift towards shorter term promotional activity at the expense of investment in broader brand positioning and customer experience. This has been driven by a number of factors that include the squeeze on consumer disposable income, the arrival of discounters and the growing impact of price-led internet based competition. The outcome has been a bonanza for consumers, who have now been educated to expect to be able to find significant discounts available for most retailers most of the time. 20% off clothing is the norm on a regular basis at M&S et al, 25% off wine every few weeks, and regular £4 off when you spend £40 type promotions at the grocers.

This environment is a dangerous one for long-term retailer profitability and loyalty as consumers either wait for the next discount period or switch retailer to follow the deals.

In many retailers the promise of a digital future, where offers are personalised and relevant has so far been missed. Much of the one to one activity that does exist is overshadowed by the bigger deals publicly available. Why be loyal for a small percentage reward when you can be disloyal for a bigger one?

2016 has to be the year when retailers refocus on driving loyalty for the longer term. Yes of course this involves being competitive on price and deals and rewarding loyalty, but it also means looking to build on the other important drivers of consumer choice. Investing in the brand, what it stands for and explaining why a retailer is a better place to shop are crucial elements of consumer satisfaction that can smooth out short term temptations to stray.

Many customers want to feel valued, and want to build relationships with their chosen suppliers but we are currently often making this hard for them to do.

There are however some interesting developments begin to gain traction. Marks and Spencer's "Sparks" loyalty scheme is about rewarding loyalty in an engaging way through exclusive access to events, deals and experiences. Waitrose's "Pick your own offers" and Sainsbury's "My coupons" allow the consumer to personalise their rewards in a way that will motivate beyond the value of the rewards themselves.

For long term brand health, retailers have to focus again on their most important customers. Get to know them, talk to them and love them. The data exists, the tools exist and the customer would love you to do it – the appeal of relentlessly chasing the deal is beginning to diminish.



Nick Bubb

Retail Consultant

A year ago, it seemed likely that higher VAT was unavoidable after the Election, to help “balance the books”.

2016: The grind goes on

A year ago, it seemed likely that higher VAT was unavoidable after the Election, to help “balance the books”, but in the event the Conservatives pre-empted the charge by Labour that they were planning to increase VAT, by specifically ruling out a VAT rise in the pre-Election Budget on March 18th.

In March, Chancellor George Osborne trumpeted that the UK was “the comeback country” and it is clearly true that a lot of low-paid jobs have been created, but despite the unprecedented amount of monetary stimulus since the 2008 banking crisis the economic recovery remains weak and fragile. The year is ending with consumer confidence wobbling again and overall LFL sales growth trends are flat at best (with Food sales down and Non-Food sales only modestly up).

After another poor year in 2014 (in which it underperformed the UK stockmarket by c33%, having underperformed by c10% in 2013), the Food Retail sector rallied very well at the start of 2015, led by a dramatic recovery in the Tesco share price. But since the spring, the Food Retail sector has come under pressure again and is now nearly 10% down so far this year, with the share prices of Tesco and Morrisons hitting new lows, under their new management teams.

And despite weak comps, LFL sales remain firmly negative for the big supermarkets as a result of persistent Food price deflation and the market share growth of the discounters Aldi and Lidl. 2016 seems unlikely to bring much relief, if any, on either front, so the outlook is that the hard grind

will go on for the big supermarkets, with the added complication that there will be higher wage bills to pay for and there will be more competition in Online Grocery from Amazon...

After another decent year in 2014 (in which it outperformed the UK stockmarket by c13%, having outperformed by c17% in 2013), the General Retail sector has also done quite well in 2015 so far, outperforming by the best part of 10% overall, but the gap between the losers and the winners has been wide. 2015 has been a great year for JD Sports, Ted Baker and SuperGroup, but it has been a poor year for Home Retail, Poundland and Game Digital.

The main mystery about 2015 is where all that extra consumer spending went, as there is little evidence that pubs and restaurants have done that much better from the growth in real personal disposable incomes and only modest evidence that consumers have splashed out on new cars and holidays instead.

Perhaps the answer is that consumers simply feel in no rush to spend more on Non-Food at a time of price deflation in the market and when there any number of external and Overseas uncertainties, in which case 2016 is likely to be another tough year, not least as there are signs that the housing market is cooling down.

And the problem for store based retailers is that when consumers do decide to spend and when “the weather” is right, they find it is very easy now to just shop Online. The implications of persistently negative “Store LFL” sales and growing penetration of Online Non-Food sales have a long way to run.



Maureen Hinton

Conlumino

As we head into 2016 there are plenty of positive factors to support an increase in spending by UK consumers.

Outlook for 2016

As we head into 2016 there are plenty of positive factors to support an increase in spending by UK consumers. The economy is growing; wages are rising; more people are in employment than ever before; interest rates are still at an historic low; and price inflation is negligible; all factors that deliver more spending power, but how much retail is going to benefit from this is another matter.

While 2016 is likely to be a much more positive year in growth terms, not all retailers and sectors will benefit, and an improving economy will not solve the problems of how to deal with the fundamental changes in how consumers shop, and the rising costs of meeting their expectations.

Firstly consumers are looking beyond retail for goods and services to spend their money on. This is making it much harder for an oversubscribed retail sector. Leisure, culture, entertainment, have shown much stronger growth than retail over the past five years and this trend is being exacerbated by an aging population – 60+s would rather spend on experiences than buying more goods.

Moreover though they are the beneficiaries of pension equity release, this new boost in pensioners' finances is not going into the retail sector in any significant amounts – money spent on their homes is more likely to benefit tradesmen than shopkeepers, as B&Q can testify. Even when investing in buy-to-lets (which will be less attractive following the Autumn spending statement) they will be not be spending large budgets on furnishing and decorating properties they intend to rent.

At the other end of the scale the under 30s are investing less in homes as they cannot

afford to get on the housing ladder, so are either living with their family or renting, neither of which demands spending on furniture, DIY or big ticket items. So though there is far more movement in the housing market, growth in the home related sectors will still be under pressure.

Secondly consumers are maintaining the shopping habits picked up during the recession, looking for value and cutting back on waste. The food discounters (or more accurately, budget retailers) and general merchandisers will continue to take share because of their increased availability to consumers via new store openings. But volumes are not rising enough to support all this expansion and there has to be some consolidation in the sector to take out the excess supply. This applies to general merchandisers as well as grocers, particularly the pound shops; having four pound shops on a high street is not going to quadruple spending.

Meanwhile productivity is a key issue for retailers. The shift to online shopping and its many forms of distribution, delivery and collection, will continue to challenge retailers' operations and logistics, especially as now the increased prospect of active terrorism in the UK will encourage consumers to shop online more frequently and those with physical stores will be forced to spend more on security. This is another cost to accommodate in addition to the introduction of the higher living wage.

Despite the more positive factors encouraging retail spending in 2016, demand is outstripped by supply. The winners will be those that focus on having the right product, in the right place at the right time for their customers.



Martin Newman
CEO, Practicology

Customer experience will be an important defining factor in how successful retailers are in 2016.

Outlook for 2016

Customer experience will be an important defining factor in how successful retailers are in 2016. This will have a knock-on effect in terms of the operational areas they focus on in order to try and compete, and therefore costs and margin achieved.

At the most strategic level, we see more retailers reviewing their organisational structures and realigning to better serve their customers, as House of Fraser has done in 2015. This is a substantial endeavour for any business, but the investment in re-organisation should ultimately result in happier, more valuable customers.

Off the back of such initiatives, retailers will aim to deliver what we would describe as a seamless multichannel customer experience – one where the shopper is supported and served irrespective of the mixture of channels they use.

So expect to see investment in mobile, fulfilment options and convenience for consumers. For instance, Argos has launched same-day delivery recently, and River Island has innovated with a service that will deliver an item to a customer if they have placed a click-and-collect order and then can't get to the store to pick it up. New benchmarks for service and customer convenience will continue to be set through 2016.

Arcadia Group has recently highlighted the challenge of this trend in its annual results. Sir Philip Green commented that Arcadia's operations are increasingly complex as "The number of channels through which customers choose to purchase and engage with us continually evolves." For Arcadia Group and other retailers this increasingly includes third-party marketplaces, such as Zalando, as it aims to maximise its online reach.

At the same time, cross-border ecommerce continues to be a big opportunity for UK retailers. PayPal research has estimated that a staggering 86.4 million overseas shoppers from 29 countries surveyed bought online from the UK in the last year. So even brands who have no physical presence overseas can bolster domestic demand by opening their online store to the world and developing a localised online presence for markets that warrant the investment.



Mike Watkins

Head of Retailer and Business Insight, Nielsen UK

With a stable and possibly improving UK economic environment, notwithstanding caution around the global economy, the outlook 2016 is for another year in which consumer spend continues to grow.

Outlook for 2016

With a stable and possibly improving UK economic environment, notwithstanding caution around the global economy, the outlook 2016 is for another year in which consumer spend continues to grow.

For the first time in 8 years we now have an optimistic consumer mind-set around local job prospects, personal finances and immediate spending intentions. This will stimulate demand across nonfood and out of home channels.

However there is a different challenge for food retailers where the structural shift to value retailing and online continues and with another year of shop price deflation expected (or at best minimal inflation), there will be pressure on operating margins.

The TOP4 Supermarkets will continue to lose market share

Market share has fallen from 75% to 70% in the last 5 years as a consequence of the Discounters achieving a breakthrough FMCG market share of 11% (source : Nielsen Homescan).

Nielsen expects the market share gains for Lidl and Aldi to continue in 2016 as they accelerate store openings, keep investing in image building media campaigns and start to flex ranges and store formats.

Whilst supermarkets are slowly becoming less reliant on promotions, vouchers, and coupons the 'price war' looks set to continue. However we can expect new marketing activities to help drive footfall, conversion and increased spend in store - initiatives which are not only reliant on low price.

The more optimistic shopper with increasing disposable income is looking for enjoyable shopping experiences and food inspiration from Supermarkets.

Shopper Mission becomes as important as Location for food retailers

The UK has one of the lowest food store densities per head of population in Europe with store estates built on a legacy of large stores. These stores are already under pressure from value retailers and the shift to online grocery shopping will further cannibalise sales. Amazon is also a new disrupter with the capacity to further change consumer expectations.

Whilst out of town shopping is the dominant and most heavily invested channel in food retail, there will be added momentum from 'proximity retailing'. Consumers are orientating towards smaller store shopping where visits are shaped by lifestyle and spend is made across a wider portfolio supermarkets, convenience stores, travel hubs, urban C stores and branded 'food to go' formats.

2016 will also be a year for the reinvention and re modelling of Superstores and even if the financial benefits are 3 to 5 years away. This is a must-do for the many retailers and arguably a better return on capex than new store openings.

Finally, the digital consumer journey enters a new phase next year. Technology has been the enabler and consumer motivation and intent to shop has now changed. The business models of retailers need to evolve again and this will determine not only spend but also profitability.

Whilst the speed of the journey differs between food and non-food channels, the direction is the same. It is no longer just about attracting shoppers to new stores, it's about getting new products to the increasingly connected shopper.



Jonathan De Mello

Head of Retail Consultancy,
Harper Dennis Hobbs

Given an improving economic backdrop, and – in contrast to 2015 – no general election fuelled uncertainty hitting consumer confidence – my view on the outlook for 2016 is generally positive, from a retail perspective.

Outlook for 2016

Given an improving economic backdrop, and – in contrast to 2015 – no general election fuelled uncertainty hitting consumer confidence – my view on the outlook for 2016 is generally positive, from a retail perspective.

Retailers – at least those we represent here at HDH – are very much on the expansion trail, and having recently come back from the Mopic conference in Cannes (Europe's biggest retail property conference) many international brands not currently trading in the UK see the UK as an increasingly attractive proposition, given relatively low taxation, a stable economy and retail-friendly labour laws. The UK is often seen as a springboard into Europe by American brands such as J Crew, American Eagle and others, and a test bed for the US for European brands.

Given rising demand but a relative lack of new retail space coming on line – as most new retail schemes were put on hold post-2008 – retailers; at least those that want to trade more than a handful of stores in the UK, have over the last few years opened more and more stores in small centres that contain a high volume of their target shopper groups. The reasoning behind this is to maximise profit margin, and many retailers can make good margin in such centres – for example, one multiple retailer client has their best store (by margin) in Epsom, another client has their best stores in Cobham and Parsons Green, and another again has their best stores by margin in Henley and Putney. Clearly, this approach is only tenable for retailers that rely less on footfall and more on a certain type of customer, but it is no surprise that

rents have risen in these centres given increasing retailer interest. It is for this reason that we launched our UK 'Vitality Rankings' – ranking centres by the quality of their retail offer, as opposed to just quantum of floorspace.

One of the main findings from this research into centre vitality was the identification of continued polarisation in the UK – not just in terms of large and small centres, but also a continued exacerbation of the 'north-south' divide, with the majority of the most 'vital' centres found in affluent commuter towns in and around London and the South East.

A potential downside risk to retailers focusing their expansion activity on small affluent/market towns however is the long overdue review of business rates being undertaken by local authorities; the bulk of which will be completed during 2016. Looking at how rents have changed since 2007 shows that nearly 80% of centres across the UK have seen a net reduction in rents – and a rates revaluation will consequently make these centres more competitive. The remaining 20% of centres will see rates increase, and the majority of these centres are in London and the South-East. Marlow – for example – will see a circa 60% increase in business rates payable, whilst Newport in contrast will see an 80% reduction. This will to a certain extent level the playing field for centres outside the South East that are in desperate need of retail-led investment, but will certainly force retailers in 2016 and beyond to re-evaluate their approach to location strategy.

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Is discounting a current necessity or is it simply a race to the bottom?

- Bargain hunting has become the norm in an increasingly digital and disloyal world
- Perpetual discounting will lead to brand devaluation and erosion of consumer trust
- UK shoppers need to be weaned off their diet of discounts
- Retailers need to shift the battleground and compete on value rather than price

May 2015

Introduction

The British shopper has always been on the lookout for a bargain. This trend has been exacerbated in recent years by two key factors: the crash in consumer confidence as a result of living through the longest recession in a century and the rise of the internet which has opened up a whole new virtual high street to the consumer and made it easier than ever to check and compare prices.

In an attempt to keep the tills ringing during the recession, discounting prices became the norm. Now, together with the slowness of the economic recovery, we have a whole shopping generation which has become hooked on a diet of discounts.

Richard Lowe, Barclays pointed out that “as a consequence, shopper behaviour has changed intrinsically, leaving many retailers with the conundrum of how to satisfy consumers’ insatiable need for a bargain whilst maintaining profitability. After all, margins cannot be eroded to the point where retailers are unable to stay in business.”

The KPMG/Ipsos Retail Think Tank (RTT) met in April to discuss whether, in light of this, discounting is now a current necessity or is it simply a race to the bottom?

Adapting to the new consumer

The impact of austerity and retailers' prolonged use of discounting has fundamentally changed consumers' approach to spending. The transparency of the internet has also commoditised the sector to some extent. The RTT argued that consumers now know how and where to search for a bargain and are willing to wait for the best offer.

Mike Watkins, Head of Retailer and Business Insight at Nielsen UK, suggested that British shoppers are now in the "mind-set of expecting savings before being prepared to buy...price cuts and promotions are still needed to drive sales despite the highest level of consumer confidence in 8 years (source: Nielsen Global Consumer Confidence survey). This is because many consumers remain unable, unwilling and reluctant to spend freely and in non-food, some have also become customised to waiting for the next new range, products or technology

improvements, before purchasing at lower prices. This is also being exacerbated in a period of deflation."

The RTT warned that discounting can damage a consumer's perception of a brand or retailer. Before entering the discounting fray retailers need to consider whether, by reducing prices, the value of their brand will diminish in shoppers' minds.

Dr Tim Denison, Director of Retail Intelligence at Ipsos Retail Performance, said "dropping prices can introduce doubt and suspicion, encouraging thoughts such as: 'I must have paid over the odds before' or 'perhaps they have changed the formulation or container size'. Discounting plants the focus on price rather than a product's functionality or a retailer's differentiation. The danger is that the shopper's fixation on price distances decision-making away from other attributes such as quality or personal relevance. Ultimately it can damage a retail brand if they have nothing else of value to offer customers other than low prices."

Erosion of consumer trust

“Whatever the sector, a policy of continual discounting can only act to erode margin and brand equity,” said Martin Newman, CEO of Practicology. “In my opinion, it also erodes trust. Consumers begin to question whether RRP’s are genuine. Therefore, it can be strongly argued that discounting is a race to the bottom.”

Mark Teale, Head of Retail Research at CBRE, added “we have already seen the re-emergence of ‘evaporation’ in grocery markets as certain brands turn to surreptitiously reducing packet weights while maintaining prices, a hidden-inflation that temporarily passes consumers by but in the end this sort of sharp practice just undermines consumer trust.”

Nick Bubb, Retail Consultant, argued that “the lack of real ‘value’ in Sale events is only likely to increase consumer cynicism and distrust and undermine the appeal of the constant ‘up to 25% off’ offers. And the increasing penetration of online shopping is also helping to undermine the ‘full price’ shopping culture, as this market seems to be particularly promotional.”

Following the herd versus holding firm

When it comes to mass discounting retailers have a clear and obvious choice to make – follow the herd and dilute prices in the same way as competitors or, hold firm and hope that loyal customers won’t defect to retailers with lower price points.

Mark Teale, Head of Retail Research at CBRE, suggested “for individual mass-market retailers following the herd might seem like the only option. In the run-up to Christmas for example, it only takes a handful of traders to break ranks early for others to follow suit. Stimulating additional sales through discounting/special offers is fine in

theory, but as we saw with ‘Black Friday’, marketing gimmicks can easily prove a zero sum game, simply undermining sector sales (and profits) further down the line.”

However, holding firm and maintaining full prices can deliver long term results. Martin Newman, CEO of Practicology, argued that ‘Black Friday’ 2014 demonstrated that “retailers who held their nerve and didn’t take part... fared well both in terms of demand over Christmas and peak trading, and maintained margins and profitability.” Clearly, though, having a differentiated product is key to this.

Shifting the battleground

Discounting is currently the “in vogue” mode of competition for retailers but, while a valid strategy, it can only persist for so long. Savvy shoppers know how to seek out a bargain but their decision is based on value for money, a differentiated offering that is seen to be worth the cash handed over for it. Why, then, should differentiation come down to price?

Maureen Hinton, Conlumino, said: “When a retailer does not differentiate it is forced into lowering prices to match the competition. This is what drives retailers to the bottom. Price is currently the dominant factor in the food and grocery sector where commodity goods are easily comparable on price and discounters have been taking greater share, yet retailers like M&S and Waitrose, who focus on quality and innovation, are still growing their businesses.”

“Whatever the model, retailers and suppliers need more sophistication in their pricing strategies. Pricing needs to be considered as a strategic, rather than tactical, capability. We all like a bargain but price need not be the sole determinant of that bargain,” agreed David McCorquodale, Head of Retail at KPMG

Value transparency rather than pricing transparency need to be the point of differentiation going forward; ultimately, retailers need to shift the battleground.

Balancing the scales – retailers also have more data on customers

While consumers now have more and more information about the relative prices of the products and services they buy, retailers too now have mountains of data on their customers to better understand and anticipate their needs and wants. This provides two clear opportunities for retailers: the chance to innovate and develop seller-led dynamic pricing models, and the prospect of engaging with consumers on a more personal level to better encourage customer loyalty.

David McCorquodale, Head of Retail at KPMG, said: “Data available through point-of-sale systems, loyalty cards, competitive price checkers and social media can drive seller-led pricing models. More brands are using data to set prices on an increasingly dynamic basis where prices can change by month, week or day. Airlines have done this for years and Uber do it with taxis. Amazon have been the retail pioneer and others are following, and developing into dynamic and personalised pricing. Easier to achieve online but bricks and mortar retailers are trialling electronic price tags that can update prices and promotions dynamically.”

Martin Newman, CEO of Practicology, highlighted that “retailers have an opportunity to engage on a deeper and more personal level with their customers. Most of us don’t have a particularly broad range of brands we choose to engage with. Basic CRM is at best no more than propensity modelling. If retailers can move to something deeper, more engaging and based on customer lifecycle management, they can make themselves far more relevant to their customers; and in doing so secure greater loyalty and customer lifetime value.”

Martin Hayward, Founder of Hayward Strategy and Futures, went a step further and suggested that, in the main, retailers have not done a very good job at engendering customer loyalty. He said “we are in a world of Customer Transaction Management rather than Customer Relationship Management which means that CRM is the future, not the present.”

Conclusion

Overall, the RTT agreed that while discounting is a fact of the retail industry, it cannot be a permanent strategy; margins can only be squeezed so far and there must come a point when consumers begin to question whether they are truly getting value for money.

Maureen Hinton, Conlumino, said: “Discounting is an integral part of modern retailing. It is no more of a necessity today than before. What is essential though is that a retailer has a differentiated proposition and a well structured price architecture, where first price is the right price. And a planned discount strategy.”

Mark Teale, Head of Retail Research at CBRE, concurred highlighting that “the problem with discounting is that, like quantitative easing, it cannot be a permanent panacea. It needs to be used sparingly. At some point, for retail markets to prosper, margins need to be built back.”

James Knightly, Senior UK Economist strengthened the argument suggesting that retailer’s capacity for pursuing discounting strategies has been helped by the strength of sterling in recent months. “While the lagged effects of sterling strength may mean discounting has further to run I suspect that help from the currency and commodity markets is coming to an end,” he said.

“This is a good time to wean consumers off the diet of discounts, the UK consumer demand story is positive with confidence at a 12 year high and with tax changes coming through, real household disposable incomes look set to rise 3-4% this year. This points to an environment where businesses can grow revenues without needing to hurt margins by taking share from competitors.”

Part II – In detail-Individual views of the KPMG/Ipsos Retail Think Tank members



Mark Teale

Head of Retail Research,
CBRE

From a sector perspective, discounting can be both. For individual mass-market retailers following the herd might seem like the only option.

Mark Teale, Head of Retail Research, CBRE

From a sector perspective, discounting can be both. For individual mass-market retailers following the herd might seem like the only option. In the run-up to Christmas for example, it only takes a handful of traders to break-ranks early for others to follow suit. Stimulating additional sales through discounting/special offers is fine in theory, but as we saw with 'Black Friday', marketing gimmicks can easily prove a zero sum game, simply undermining sector sales (and profits) further down the line.

Internet price comparison is exacerbating the problem, weakening profitability as bargain-hunting becomes more and more ingrained. We have already seen the impact on brand commodities, now it is the turn of groceries. Great for the consumer of course, in the short term, but – a bit like the impact of no-frills airlines on travel services – over the long term margin dilution makes a deterioration in offer (service and product quality) inevitable: economic gravity cannot be defied indefinitely.

We have already seen the re-emergence of 'evaporation' in grocery markets as certain brands turn to surreptitiously reducing packet weights while maintain prices, a

hidden-inflation that temporarily passes consumers by but, in the end, in tandem with faux special offers, this sort of sharp practice just undermines consumer trust. Are the startling market share shifts seen in grocery markets over the last couple of years, in favour of hard discounters, really a result of squeezed household incomes or is the malaise much more deeply rooted? After all, certain big-ticket markets like holidays and cars have been booming. So why are grocery markets having such a hard time?

Knee-jerk slash-and-burn 'efficiencies' can provide short-term relief for investors, but at the expense of offer quality. Squeeze margins and costs elsewhere must give: retailers (and their investors) are not charities. The obvious danger of the price weakness afflicting the UK and EMEA retail markets is that, as in Japan, deflationary pressures will become a permanent feature of the market, forcing retailers and suppliers to work harder and harder to stand still. The problem with discounting is, that like quantitative easing, it cannot be a permanent panacea. It needs to be used sparingly. At some point, for retail markets to prosper, margins need to be built back.



James Knightley

Senior UK Economist, ING

As of February, 35.2% of the basket of goods and services included within the UK consumer price index are experiencing YoY price falls.

James Knightley, Senior UK Economist, ING

As of February, 35.2% of the basket of goods and services included within the UK consumer price index are experiencing YoY price falls. This is broadly in line with most other European economies, but is substantially greater than in the US, where it is less than 20%.

In the UK's case, food and beverages account for an unusually high proportion with fruit and spirits the only two components not experiencing price cuts. Furniture and furnishings along with household appliances and audio-visual equipment are also seeing price falls while fuel costs and utility bills are falling YoY.

The discounting is only seen in goods. Services, which are 50% of the CPI basket, are currently experiencing YoY price rises of 2.4%. This is above the rate of wage inflation, which is normally the key driver of service sector price inflation, suggesting that there is corporate pricing power within the economy.

The price discounting within the goods sector was understandable given the aggressive expansion strategies of relatively new entrants and the weak nature of the recovery in consumer spending up until fairly recently. The ability to discount has

been helped by the strength of sterling, which has reduced the cost of importing foreign commodities, products and appliances. Meanwhile the global plunge in agriculture and livestock prices has helped businesses looking to cut prices for both fresh and processed foodstuffs. A lack of movement in wages has also given retailer more scope to cut prices.

Lagged effects of sterling strength may mean discounting has further to run, but I suspect that help from the currency and commodity markets is coming to an end. The US interest rate hike cycle will lead that of the UK while the ECB's QE programme has been priced into financial markets, suggesting sterling could start to soften. Moreover, the global growth story is looking more encouraging, particularly in Europe.

At the same time, the UK consumer demand story is positive with confidence at a 12 year high and with tax changes coming through, real household disposable incomes look set to rise 3-4% this year. This points to an environment where businesses can grow revenues without needing to hurt margins by taking share from competitors.



Dr Tim Denison

Director of Retail Intelligence,
Ipsos Retail Performance

The British shopper has always been a lover of bargains, stimulated by the thought of finding something special at a perceived below-value price.

Dr Tim Denison, Director of Retail Intelligence, Ipsos Retail Performance

The British shopper has always been a lover of bargains, stimulated by the thought of finding something special at a perceived below-value price. It has only been relatively recently, however, that they have become hooked on a diet of discounts. In the 1990s and early 2000s shoppers in the UK had never had it so good, easy credit had become part of everyday living, raising living standards and promoting a sense of affordable luxury for most households.

All that changed after the Lehmann Brothers collapse triggered the global financial crisis and the crash in consumer confidence. In an attempt to keep the tills ringing, discounting prices became mainstream practice. Such has been the slowness of the economic recovery that a whole shopping generation has become discount expectant, reluctant to pay full price wherever and whenever they can avoid it.

Of course sticking to a discounting policy has its attractions for retailers. Special offer and sale signs continue to drive footfall as well as reinforcing habits to visit stores and be tempted by their merchandise. Cut price messaging invariably creates a call to action for shoppers that is ignored at its peril, risking losing out on perceived bargains, here today, gone tomorrow. Executed sparingly and correctly, discount offers can generate genuine excitement for consumers, rewarding shoppers and retailers alike. By stimulating footfall and sales there is every expectation that discounting can protect a retailer's bottom line in the short term.

For retailers that are not set up to trade on constant discounted prices, the difficulties start when the policy extends beyond the short term. In the States, Abercrombie and Fitch dropped its prices by 15% between 2000-2. Over that period it lost significant market share and saw its cachet

disappear. It took two years to recover its former market position once it reversed its strategy. In July 2008 Starbucks posted its first ever trading loss, then weakened its trading position further by offering lower price options such as \$1 cups of coffee and free refills.

Weaning shoppers off their price-cut dependency as demand starts to improve is proving to be far from easy.

The scars of austerity are taking a long time to heal. Old habits and behaviours remain broken. However, there are major risks associated with continuing to offer cut-price deals beyond the short term. Some consumer goods manufacturers were quick to reverse their decisions in late 2008 of taking to blanket discounting in order to protect sales. They soon established that they stripped swathes of value out of categories. Some retailers failed to learn the lessons quick enough – Tesco's "Big Price Drop" campaign taking £500m off its price lines is one infamous example.

Discounting can also prompt shoppers to review their perception of a brand or retailer. Dropping prices can introduce doubt and suspicion, encouraging thoughts such as: 'I must have paid over the odds before' or 'perhaps they have changed the formulation or container size'. Discounting plants the focus on price rather than a product's functionality or a retailer's differentiation. The danger is that the shopper's fixation on price distances decision-making away from other attributes such as quality or personal relevance. Ultimately it can damage a retail brand if they have nothing else of value to offer customers other than low prices.

All said, discounting is unquestionably a valuable sales tool. For retailers that have created a basic cost advantage to leverage, it has delivered unprecedented success and market share gain in recent years. For the rest, it should be used more judiciously as some have already discovered to their cost.



David McCorquodale

Head of Retail, KPMG

Recession coupled with the transparency of the internet have gone a long way to commoditising the retail sector. While the market may have recovered from the recession, many companies are still stuck with recession-driven discounting.

David McCorquodale, Head of Retail, KPMG

Recession coupled with the transparency of the internet have gone a long way to commoditising the retail sector. While the market may have recovered from the recession, many companies are still stuck with recession-driven discounting. Retailers now need to re-think their pricing strategies as the high-low model – marking products up to discount them later – not only lowers margins but damages and devalues brands over time. Constant discounting tells consumers the products aren't worth the regular price and the sale price becomes the true price. And because most retailers have followed the same hard discounting strategy, we are in a race to the bottom. However, there are important developments in pricing that may change things.

Consumer-driven pricing models emerged from the travel industry and now a slew of websites claim to price compare across a range of products and services for millions of time-starved consumers. In retail, smartphone apps can scan barcodes to compare prices at other retailers. Airlines and hotels have countered this to an extent by 'disaggregating' price – baggage, seat, flexibility – and retailers are following suite with delivery charges etc. Other models like Groupon have emerged plus other forms of collective buying where shoppers use combined purchasing power to get deals and these have evolved with social media into name-your-price models such as seen on the online marketplace, Higggle. These developments open new opportunities for enterprising brands that are willing to be innovative in their approach to pricing and promotions.

Consumers may have more access to information, but retailers also have more information about their customer. Data available through point-of-sale systems, loyalty cards, competitive price checkers and social media can drive seller-led pricing models. More brands are using data to set prices on an increasingly dynamic basis where prices can change by month, week or day. Airlines have done this for years and Uber do it with taxis. Amazon have been the retail pioneer and others are following, and developing into dynamic and personalised pricing. Easier to achieve online but bricks and mortar retailers are trialling electronic price tags that can update prices and promotions dynamically.

Supply-driven models where availability of 'on-trend' product or the latest technology have been seen as the preserve of the luxury industry. The car industry followed suit when it began to build on a just-in-time basis. Apple have revolutionised this in the retail world through great product and lean manufacturing and smart supply chain management. Zara have led this in the fashion industry and compels the shopper to buy at full price rather than wait for a mark down that may never come.

Whatever the model, retailers and suppliers need more sophistication in their pricing strategies. Pricing needs to be considered as a strategic, rather than tactical, capability. We all like a bargain but price need not be the sole determinant of that bargain.



Richard Lowe

Barclays

As long as Britain has been characterised as a nation of shop keepers, consumers have had an eye for a bargain.

Richard Lowe, Barclays

As long as Britain has been characterised as a nation of shop keepers, consumers have had an eye for a bargain. This has been heightened in recent years by two influencing factors; the experience of living through the longest recession in a century and the growth of online which has opened up a whole new virtual high street to the consumer. As a consequence, shopper behaviour has changed intrinsically, leaving many retailers with the conundrum of how to satisfy consumers' insatiable need for a bargain whilst maintaining profitability. After all, margins cannot be eroded to the point where retailers are unable to stay in business.

But what constitutes a bargain? Its meaning is somewhat ambiguous – prompting different reactions from different groups of consumers. Therefore, before entering the whirlpool of discounting and price promotions it is important for retailers to decide what their brand is worth. To ask themselves two key questions “why do customers buy our product?” and “what are they prepared to pay for it?” Putting a value on their brand in this way allows retailers to set out their stalls accordingly – negating the need for constant discounting and the ensuing race to the bottom.

To put it another way, it is about being price aware and not necessarily selling everything as cheaply as possible. Selling cheaply will only lead to consumers measuring the value of a brand to them based on constant promotions and price cutting.

This is not to say there isn't a place for promotions and discounting. Planned sales and price cuts are a helpful way for retailers to clear stock at the end of a season. You only have to look at the popularity of Black Friday and the power of a price promotion in the run up to peak seasons such as Christmas to draw shoppers in.

Therefore, it is not a race to the bottom per se. It is about retailers, both on and offline, respecting their brands and introducing promotions in a strategic, managed way in order to preserve precious margins whilst stimulating growth in their businesses.



Nick Bubb

Retail Consultant

Cutting prices should be unnecessary if consumers are feeling better off, but for cyclical and structural reasons retailers are still under pressure to offer deals and promotions.

Nick Bubb, Retail Consultant

Cutting prices should be unnecessary if consumers are feeling better off, but for cyclical and structural reasons retailers are still under pressure to offer deals and promotions.

In Food Retailing, life would be tough even in a normal inflationary era, because of the rapid inroads made by Aldi and Lidl into the post-recession grocery market and the increasing migration of shopping to Online and Convenience stores, which has left clear signs of over-capacity in the supermarket/hypermarket sector. On top of this, however, there are volume pressures from the growth of eating out and the “Café culture”, whilst falling commodity prices have left retailers with no choice but to pass these on to the consumer. The result is a highly promotional and deflationary environment, with shoppers being offered all sorts of vouchers and coupons to try and secure their fragile loyalty. Some retailers are trying to hold the line on an “EDLP” strategy (eg Asda) and others try to uphold a quality service approach (eg Waitrose), but it isn’t easy, as Tesco and Morrisons

attempt to recoup lost market share. Barring a dramatic reduction in industry capacity, which is unlikely in the near term, discounting is unavoidable.

In Non-Food Retailing, retailers seem to have lost the battle many years ago, with very few having the sort of pricing power to resist the discounting culture on the High Street. There is a science to “planned” promotions, however, which has meant that gross margins have not been as damaged as one would expect, eg from events like “Black Friday”. But the lack of real “value” in Sale events is only likely to increase consumer cynicism and distrust and undermine the appeal of the constant “up to 25% off” offers. And the increasing penetration of Online shopping is also helping to undermine the “full price” shopping culture, as this market seems to be particularly promotional.



Martin Newman

CEO, Practicology

I don't believe that discounting is a perennial necessity. However, it has to be contextualised for the retail sector, and the retailer in question.

**Martin Newman,
CEO, Practicology**

I don't believe that discounting is a perennial necessity. However, it has to be contextualised for the retail sector, and the retailer in question.

Whatever the sector, a policy of continual discounting can only act to erode margin and brand equity. In my opinion, it also erodes trust. Consumers begin to question whether RRP's are genuine. Therefore, it can be strongly argued that discounting is a race to the bottom.

Yes consumers continually seek value, but value does not equal price. Task-rich and time-poor consumers value convenience when choosing who to purchase from. This is why click and collect has seen huge traction: it empowers consumers to control where and when their order is fulfilled and is a key component of a successful customer value proposition.

Retailers have an opportunity to engage on a deeper and more personal level with their customers. Most of us don't have a particularly broad range of brands we choose to engage with. Basic CRM is at best no more than propensity modeling. If retailers can move to something deeper, more engaging and based on customer lifecycle management, they can make themselves far more relevant to their customers; and in doing so secure greater loyalty and customer lifetime value.

Discounting is not a necessity for all. As was shown by Black Friday 2014 promotions, retailers who held their nerve and didn't take part - including White Stuff and Ted Baker - fared well both in terms of demand over Christmas and peak trading, and maintained margins and profitability.

This said, in the immediate short term, demand is likely to be flat in the run up to the election and during the aftermath while people take stock of whether they will be personally better or worse off.

I think margins will suffer slightly around the election as retailers discount in order to maintain sales. Price rises have slowed and there are predictions of deflation this year. If this should happen during Q2, falling prices would see margins squeezed, rather than because retailers are lowering prices because their costs have fallen.

I think retailers will try to contain costs in Q2 due to the election and they already know they are going to have to absorb a minimum wage rise of 20p per hour later in the year. For Q3, this should see the majority of retailers looking to maintain margins.

A cliché it may be, but it's true that turnover is for vanity, profit for sanity. If retailers can't find ways to maintain margin and secure long-term customer loyalty, then their model is unsustainable.



Mike Watkins

Head of Retailer and
Business Insight,
Nielsen UK

Cutting prices should be unnecessary if consumers are feeling better off, but for cyclical and structural reasons retailers are still under pressure to offer deals and promotions.

Mike Watkins, Head of Retailer and Business Insight, Nielsen UK

It may appear dramatic, but the developments we are seeing in shopping behaviour and retail infrastructure are without doubt, a 'once in a generation' change which will shape retailing for the foreseeable future. Discounting is no longer a short term necessity to drive sales, but a longer term way of engaging with customers and delivering better value for money in an increasingly digital and disloyal world.

The shift in spend away from large food stores and the integrated role of digital shopping in the non-food channel; a reliance on promotions, vouchers coupons to drive footfall and conversion; and gains in market share for value retailers across the industry, share one common theme – a need to react to a new consumer expectation of lower, regular price points and demonstrable value for money.

When retail sales growths before the economic crisis of 2008 could be comfortably sustained in mid-single digits and disposable income was increasing, discounting was generally a way to grab short term increases in market share, or simply a mechanic to shift slower selling products or end of range.

These strategies worked equally well for food as well as for non-food retailers. Supermarkets maintained margins as shoppers traded up and many general merchandise retailers

surfaced the wave of the growth of consumer expenditure (albeit personal debt also increased).

A decade later, we are 5 years into 'fiscal austerity' with at least another 3 years to go. Even if the majority of households eventually feel or actually do become, financially better off, there is no guarantee this will drop through into a reversal of the current consumer mind-set. A mind-set of expecting and waiting for savings before being prepared to buy.

Price cuts and promotions are still needed to drive sales despite the highest level of consumer confidence in 8 years (source: Nielsen Global Consumer Confidence survey). This is because consumers remain unable, unwilling and reluctant to spend freely and many have become customised to waiting for the next new range, products or technology improvements, before purchasing at lower prices.

All of which is now incredibly simple to do in the digital world in which we connect with consumers. Retailers when faced with weak or unpredictable demand and increasing operational costs such as online fulfilment, wages, are of course only too happy to oblige!

Future retail propositions will need to be planned around changing consumer lifestyles within the context of 'saving shoppers money'. Discounting has arguably now become the new world order and shoppers will be the biggest winners.



Maureen Hinton
Conlumino

There are several factors that create the need for discounting in retail, such as fashion, the weather, sector trends, but ultimately it is about oversupply.

Maureen Hinton, Conlumino

There are several factors that create the need for discounting in retail, such as fashion, the weather, sector trends, but ultimately it is about oversupply. In the UK we have a very mature retail sector, consumer austerity, and supply outstripping demand. Unless a retailer is producing a unique product that is in high demand, such as an Apple iPhone, or it has a phenomenal forecasting model combined with an on-demand supply chain, there is an inevitable need to discount at certain periods in the retail life cycle.

However with the economy improving, wages rising and consumer confidence returning, discounting should only be necessary as a planned promotional tool, or if unpredictable external factors impact the market, such as poor Easter weather, strikes, or a global crisis. Even then retailers should have contingency plans. Moreover, consumers value range and quality more highly than price in most sectors so delivering on these factors should minimise the need to discount.

It is when a retailer does not differentiate that it is forced into lowering prices to match the competition. This is what drives

retailers to the bottom. Price is currently the dominant factor in the food & grocery sector where commodity goods are easily comparable on price and discounters have been taking greater share, yet retailers like M&S and Waitrose, who focus on quality and innovation, are still growing their businesses.

Competing on price alone inevitably pits retailers against sector benchmarks, those retailers whose businesses run on low costs and high volumes. The only way to compete with them effectively is to operate equivalent low cost/high volume models. Yet in a mature market there is not the capacity for a multitude of these budget retailers, as seen in the value clothing sector which suffered many casualties this past decade with Primark emerging the winner.

Discounting is an integral part of modern retailing. It is no more of a necessity today than before. What is essential though is that a retailer has a differentiated proposition and a well structured price architecture, where first price is the right price. And a planned discount strategy.





Black Friday

Where does this now fit into a retailer's sales/promotion strategy?

- More disruption ahead for the traditional UK retail calendar
- When it comes to participating in Black Friday, retailers need to decide early – are you in or are you out?
- Does Black Friday now mean the January sales are redundant?

September 2015

Introduction

Black Friday is a well-established American day of promotions centred around Thanksgiving Day. Amazon initially brought the concept across the pond in 2010 but, without question, it was Black Friday 2014 that was a pivotal shopping day in UK retailing history - £1m was spent every three minutes resulting in total sales of over £800m that day and store traffic across the UK saw a 23% jump.

With the increasing power of American brands, it has become impossible to ring-fence the UK and other markets from US retail industry's online promotions associated with the kick-off to the Christmas shopping season. As Martin Hayward, Founder at Hayward Strategy and Futures, highlighted, "it's quite a wonder that the day after Thanksgiving was the largest trading day in UK retail last year, when the UK doesn't even celebrate Thanksgiving."

Unfortunately the knock on effect of Black Friday 2014 was the weakest December sales growth since 2008 of just 1% and online sales achieved their lowest ever growth of just 5% which suggests that retailers still have a way to go in adapting their sales and promotion strategies to make the most of it.

Notably, it is not just Black Friday that is set to shake up the traditional UK sales/promotion cycle. Now, more than ever, the UK retail calendar is susceptible to outside "disruptors" like Cyber Monday, and more recently, Amazon Prime Day. David McCorquodale, Head of Retail at KPMG, pointed out that "Singles Day in China is the biggest promotions day in the world, driving \$9.3bn of sales in 2014, up 61% on the previous year. Being on Remembrance Day will stall its entry to the UK, but not forever."

So what options are available to retailers who want to reap the benefits of these new discounting periods without incurring the chaos of 2014's "black and blue Friday", which saw in-store riots and numerous retailers' websites fail. The KPMG/Ipsos Retail Think Tank (RTT) met in July to discuss how these new promotional periods fit in to the traditional sales calendar, and what retailers can do to optimise their strategy.

The consumer is now in control

In the past, promotions were driven by the need to shift end of season stock, as a reaction to an unforeseen sales slowdown, or around key events such as Mother's Day or Christmas. Mike Watkins, Head of Retailer and Business Insight at Nielsen UK, emphasised that "the challenge we have is that shoppers` no longer think in this way."

The recession and discounting trends within the sector have fundamentally changed the consumers shop. Research from Conlumino reveals that 75% of consumers would rarely buy certain products at full price, and 62% say they wait to buy until a product is on offer or discounted.

In today's digitally enabled world consumers can shop for anything, anytime from anywhere. No longer are retailers, distributors, or brands in control - it is the consumer that is firmly in the driving seat. "Put simply," said Mike Watkins, Head of Retailer and Business Insight at Nielsen UK, "we should now consider ripping up the old rule books for promotional strategy." As such, retailers need to find a way to play their cards better to make the most of this new consumer mind-set.

With high-profile US owned brands pushing it hard, the swathe of media coverage publicising it, and the sales explosion seen in on November 28th 2014, Black Friday looks to be here to stay and the initiative will probably expand into Continental Europe. Maureen Hinton, Conlumino, highlighted that "the issue for retailers is in how they can benefit from this demand, while not losing margin, or damaging their reputations due to operational inefficiencies."

Learning from the past

To those outside the world of retail, last year's Black Friday phenomenon may have looked more like an own goal than a dazzling demonstration of clever marketing. As Martin Hayward, Founder, Hayward Strategy and Futures, suggested, the strategy appeared to be somewhat incongruous: "sell lots of product, at very low margin just when shoppers are gearing up to buy lots of product for Christmas, the one time when they really do let go of the purse strings."

Both physical and online "stores" buckled under the pressure as retailers had not planned for the extraordinary deluge of demand from bargain hunters:

In shops, many retailers struggled to cope with the crushes and the less than exemplary behaviour of "keen" consumers. In the days following Black Friday 2014, media coverage picked up some of the extremes noting that the lack of security which concerned police forces. James Knightley, Senior UK Economist at ING, suggested that in store "retailers need to work on the staffing levels and the location of the key items being marketed."

In the digital sphere, numerous websites failed with loading times taking considerably longer than normal meaning that retailers lost out as consumers were deterred from purchasing. Negative headlines last year also flagged retailers' sites, warehouses and fulfilment partners not able to keep up with demand.

However, having lived through last year's chaos, retailers are in a position to be much better prepared for Black Friday 2015. To avoid website slowdown and even collapse, James Knightly, Senior UK Economist at ING, said "retailers need to stress test their websites to determine whether they can cope." With such a surge in online orders during Black Friday 2014, making sure web channels can withstand this spike in activity and are fully operational will be crucial.

In addition, retailers might look at ways to control the surge website traffic on the day. For example, for Amazon Prime Day (a single day of discounting in celebration of the retailer's 20th Birthday) which took place only a few weeks ago, only Amazon Prime customers were eligible for the discounts meaning they had to sign up in advance. Dr Tim Denison, Director of Retail Intelligence at Ipsos Retail Performance, noted strategies such as these "could knock down the frailties of the 2014 Black Friday debacle by delivering a proactive, managed approach, far more refined than the blunderbuss approach adopted by retailers last year."

So are you in or are you out?

When the concept of Black Friday originally travelled across the pond, reaction from UK retailers was largely split into two camps. Some ignored it completely, preserving margins and hoping that UK consumers would still have an appetite post-Christmas to snap up a bargain. At the other end of the spectrum, some retailers decided to join in, matching bargains pound for pound. David McCorquodale, Head of Retail at KPMG, highlighted that “ultimately, both of these were losing strategies as the former ceded market share and the latter backfired as retailers had not planned this promotion with suppliers and so were left with reduced margins throughout Christmas and less stock for the ‘traditional’ post-Christmas sale.”

With the benefit of hindsight, retailers therefore have to make a choice, and make it early – they are either in or out – but if they decide to participate, it’s crucial to get the strategy right and this needs meticulous planning and careful execution rather than snap last-minute discounting decisions.

For those who decide to opt out, Martin Newman, CEO at Practicology suggested that “early communication that you won’t be discounting over Black Friday may help to alleviate consumers holding off in expectation of discounts to come.”

Prepare for promotions

Those who accept Black Friday as part of the promotional calendar need to make buying and merchandising decisions promptly, buying specifically for the post-Thanksgiving promotions and building discounts into target margin figures.

In addition, to really make the most of the introduction of a short window of heavy discounting, retailers need to be disciplined in striking the right balance between volume and margin on the day

itself as well as for the rest of the Christmas period. Richard Lowe, Barclays, said: “Retailers shouldn’t assume that they need to dramatically discount all their products. A more nuanced approach, focussed on limited lines and targeted reductions, will help ensure that retailers can realise the benefits of increased volume on Black Friday without disproportionately damaging their margins or lowering the chances of delivering strong overall Christmas results.”

Leverage the logistics network

At the same time, retailers need to be meticulous in thinking through the impact on their distribution and procurement networks. David McCorquodale, Head of Retail at KPMG, described: “a crucial part of any retailer’s sales and promotion strategy is to know what to promote, when to promote it and to have excellence in supply chain in order to be able to both work with suppliers around the promotion and also to fulfil any orders. Mess this up and you probably mess up Christmas itself.” Therefore, enhanced communication with suppliers and logistics companies is essential for the process to run smoothly.

Ensuring that a finely tuned logistics process is in place is also extremely important to safeguard customers receiving their purchases in a timely fashion. Even if retailers are offering the best products at the lowest prices, if they are not able to deliver this could be extremely damaging to a company’s reputation. Nick Bubb, Retail Consultant, said “what will be important is that, as well as funding and “planning” promotions with suppliers, retailers must think through the impact on their distribution and logistics networks of a huge bulge in business at the end of November”. Testing supply and delivery channels throughout the year is a good way to ensure operations are fully functional and able to deal with fluctuations in traffic and demand.

Conclusion

Overall the RTT agreed that Black Friday certainly has made a significant impact on the UK retail calendar, and that impact is likely to grow further. As Andy Street, Managing Director of John Lewis, said “it is impossible to put the genie back in the bottle.”

Given the date itself is somewhat insignificant in the traditional UK calendar, one approach could be to extend the sales event over a whole week, wrapping up Black Friday, Cyber Monday (and the days in between) in a neat little bow. This would certainly reduce the risk of overcrowded stores, alleviate pressures online, and prevent logistics being overstretched.

Moreover, with Black Friday a “fixture” in the minds of the UK consumer it needs to evolve from being just another “tradition” or sales day. David McCorquodale, Head of Retail at KPMG pointed out that “those with supply chain excellence and a genuine understanding of the art of promotion will succeed, and ‘fixtures’ and ‘traditions’ will be eroded.” Martin Hayward, Founder at Hayward Strategy and Futures, added: “in an improving economy, the signs are good that retailers will learn to use this new sales opportunity appropriately, buying special stock well in advance, and protecting the margins on their key lines to gain uplift without substitution.”

However, as Dr Tim Denison, Director of Retail Intelligence at Ipsos Retail Performance, noted “Black Friday 2014 simply served to pull sales forward and threaten margins, rather than grow the size and value of the cake.” As such, it may be that we experience a longer pre-Christmas sales period with the comparative success of Black Friday sales determining retailers pricing and promotion strategy the rest of the holiday period. Should this be the case, maybe the question on retailer’s lips shouldn’t be “what do we do about Black Friday” but instead “do we really need January sales?”

Part II:

In detail – Individual views of the KPMG/Ipsos Retail Think Tank members



James Knightley

Senior UK Economist, ING
Outlook for 2016

Retailers may not particularly like Black Friday with frequently heard complaints that it sucked demand out of the market in the lead up to Christmas.

James Knightly, Senior UK Economist, ING

Retailers may not particularly like Black Friday with frequently heard complaints that it sucked demand out of the market in the lead up to Christmas. However, with well-known US owned chains such as Amazon and Asda pushing it hard and broad media coverage publicising it, retailers will probably have to live with Black Friday. With the idea seemingly having reached critical mass, failure to participate will mean a loss of sales on the day and in subsequent weeks given consumers are increasingly latching onto the idea of using it as an opportunity to bring forward Christmas present purchases. As a result, we may be seeing a more extended pre-Christmas sales period with the relative success of the Black Friday sales determining the pricing strategy for subsequent weeks.

Some retailers have suggested that they will make less of an effort this year. This may be a bit of game theory to try and subtly convince other retailers to not pursue Black Friday aggressively and therefore improve

profitability for the retail sector more broadly. However, as we are seeing with Greece, game theory doesn't always work and can end badly. It may be better for the retailers to talk directly with each other and try to weaken the Black Friday "brand", labelling it as an Americanism that has no place in the British market.

If retailers do persist with it there are issues that need working on. In store, many retailers struggled to cope with the crowds and the behaviour of "keen" consumers. Media coverage highlighted fights with police forces stating broad dissatisfaction with the lack of security. Consequently retailers need to work on the staffing levels and the location of the key items being marketed.

There was also significant commentary on the failure of websites with loading times taking considerably longer than normal. This meant the potential for lost sales as consumers are deterred and has longer term implications for consumer satisfaction and the perception of the retailer. This suggests retailers need to stress test their websites to determine whether they can cope.



Dr Tim Denison

Director of Retail Intelligence,
Ipsos Retail Performance

Without question, November 28th 2014 was a pivotal shopping day in UK retailing history. £2m was spent in stores per minute during the 9 hours of trading.

Dr Tim Denison, Director of Retail Intelligence, Ipsos Retail Performance

Without question, November 28th 2014 was a pivotal shopping day in UK retailing history. £2m was spent in stores per minute during the 9 hours of trading. John Lewis sales went up 21% on 2013 and store traffic across the UK was 23% higher. The sales spike created utter chaos for many retailers who simply had not expected the deluge of demand from bargain hunters. It put unprecedented pressure on service levels in store, on website traffic, on logistics delivery, on security and civility.

Post-event analysis is undisputable. Black Friday 2014 simply served to pull sales forward and threaten margins, rather than grow the size and value of the cake. Online sales in December achieved their lowest ever growth of just 5% and overall retailers suffered their slowest December in 6 years. Furthermore reputations were damaged – amongst them Tesco Direct, Currys and Yodel.

It's clear that "Black and Blue Friday" 2014 cannot be repeated if it is to become a staple fixture in the retail year and a successful part of retailers' sales and promotional strategy. The event needs to become less chaotic and more profitable. It's equally clear that the toothpaste is out of the tube: value-seeking consumers will be expectant of mega-deals in Cyber week 2015.

Amazon, which brought the promotional initiative over from America in 2010, has already signposted its solution to last year's ills, detailing how Black Friday can evolve into something that is better and healthier

for retailers rather than necessarily better and bigger for consumers. It aims to offer the best and most relevant deals to its 'prime' customers directly and personally. It promises everything that its customers cherish: offers that customers engage with and are tempted by, unrepeatable value and shopping convenience. From the retailer's perspective it could knock down the frailties of the 2014 Black Friday debacle by delivering a proactive, managed approach, far more refined than the blunderbuss approach adopted by retailers last year.

For conventional retailers there are elements of this strategy that could be borrowed. It needs to evolve from being just another Sales day, with offers on-line and in-store. Digital communication could be used as the sole marketing medium, targeting and conveying in-store offers to selected customers and replacing mass market, 'first come first served' approach. The date itself is insignificant this side of the pond, so extending the event over a whole week would also reduce the risk of overcrowded stores, of seeing customers fighting among themselves for limited supply bargains and of overstretching logistics. By gamifying the digital campaigns this approach could stimulate customer engagement and serve to enhance rather than diminish reputation. Black Friday could mark its place in the retail calendar as the event to showcase the best of a retailer's omni-channel refined capabilities rather than the worst of their raw in-store operational frailties and their customers' behaviour.



David McCorquodale

Head of Retail, KPMG UK

A crucial part of any retailer's sales and promotion strategy is to know what to promote, when to promote it and to have excellence

David McCorquodale, Head of Retail, KPMG UK

A crucial part of any retailer's sales and promotion strategy is to know what to promote, when to promote it and to have excellence in supply chain in order to be able to both work with suppliers around the promotion and also to fulfil any orders. This has become even more vital with the emergence of new discount days which have changed the customary sales fixture calendar, these so called 'disruptors' are looking to steal an advantage by offering huge discounts on non-traditional days. Consumers are quick to react positively to a bargain.

In the UK this started through the introduction of Black Friday, a well-established American day of promotions centred around Thanksgiving, by US-owned players such as Amazon and Asda. Initially, the reaction from UK retailers was either to ignore Black Friday, preserve margins and hope that the consumer would still have an appetite post-Christmas to snap up a bargain; or to join in and match the bargains pound for pound. Both were losing strategies as the former ceded market share and the latter backfired as retailers had not planned this promotion with suppliers and so were left with reduced margins throughout Christmas and less stock for the 'traditional' post-Christmas sale. However, for those retailers who took this disruption seriously, having lost out on year one, they worked hard with suppliers not to miss out the next time.

Black Friday in 2014 was huge, with £1m being spent every three minutes and total sales of over £800m on the day. This is not a one-off: it is here to stay and will probably expand into Continental Europe. Importantly, it has become a 'fixture' in the minds of the consumer. As a retailer,

you have a choice - you are either in it or out - but if you participate, you need to get it right. It needs careful planning with suppliers to work out what to promote and to ensure sufficient stock at the right price. It needs execution excellence to fulfil the requirements of the day. Mess this up and you probably mess up Christmas itself. The media scrutiny on the day can be brutal for the brand if you get it wrong. Even smaller retailers, generally disinterested (or filled with dread) by the furore around this new promotional period, feel they have to play, and so look to limit the damage to brand by discounting limited lines to entice customers to explore the fuller range. With so much volume at discounted prices changing hands on a single day, this undoubtedly has an impact on the more traditional sales periods and will take volume away from these.

Not only is Black Friday now a permanent fixture in UK retailer's calendars, but other days are likely to surface. Singles Day in China is the biggest promotions day in the world, driving \$9.3bn of sales in 2014, up 61% on the previous year. Being on Remembrance Day will stall its entry to the UK but not forever. Even Amazon's 20th birthday is driving another promotion frenzy this week. Those with supply chain excellence and a genuine understanding of the art of promotion will succeed, and 'fixtures' and 'traditions' will be eroded.



Richard Lowe

Barclays

British consumers have taken quickly to the American phenomenon of Black Friday. However, the increasingly important role it plays in the Christmas retail season presents a real conundrum for retailers.

Richard Lowe, Barclays

British consumers have taken quickly to the American phenomenon of Black Friday. However, the increasingly important role it plays in the Christmas retail season presents a real conundrum for retailers.

The run up to Christmas is the key trading period of the year, so it is natural that retailers should be trying to get as close to full margin as possible. The introduction of a short window of heavy discounting poses a significant challenge – retailers have to ensure that they strike the right balance between volume and margin, both on Black Friday and over the rest of the Christmas season.

The evidence from 2014, where Black Friday helped to contribute to an increase in retail spending of 2.2% in November, followed by the weakest December growth since 2008 of just 1%, suggests that perhaps retailers haven't quite found that balance yet.

The key for retailers is to position Black Friday as part of their overall strategy without it dominating their entire Christmas plan. Retailers shouldn't assume that they need to dramatically discount all their products. A more nuanced approach, focused on limited lines and targeted reductions, will help ensure that retailers can realise the benefits of increased volume on Black Friday without disproportionately damaging their margins or lowering the chances of delivering strong overall Christmas results.

It is worth noting the role of Cyber Monday too. Its growth has helped establish the four day period starting with Black Friday as a crucial part of the season, with some retailers even launching a full week of discounts around this time. Such an approach may be right for individual retailers, but it is essential that they assess properly the value of extended reductions before committing to it.

Black Friday certainly has made a significant impact on the retail landscape over the last couple of years, and that impact is likely to grow further. It is important that retailers do see this as a positive opportunity that can feed into their wider sales and promotion strategy. However, to really benefit from this development, retailers have to employ a disciplined strategy that ensures margins are not pushed too far and volumes do not suffer significantly during the rest of the Christmas season.



Martin Hayward

Founder, Hayward
Strategy and Futures

It's quite a wonder that the day after Thanksgiving was the largest trading day in UK retail last year, when the UK doesn't even celebrate Thanksgiving.

Martin Hayward, Founder, Hayward Strategy and Futures

It's quite a wonder that the day after Thanksgiving was the largest trading day in UK retail last year, when the UK doesn't even celebrate Thanksgiving.

What it does demonstrate is that the inherent hunter-gatherer in all of us can be brought to the surface relatively easily if the potential pickings are rich enough, and they certainly were on Black Friday last year. But rich pickings for consumers come at a cost for retailers and the post event analysis clearly showed that despite a big spike in revenues it was, as Andy Street of John Lewis explained, "More challenging profitability-wise".

To those outside the industry, the whole phenomenon does look more like an own goal than a brilliant piece of marketing. Sell lots of product, at very low margin just when shoppers are gearing up to buy lots of product for Christmas, the one time when they really do let go of the purse strings.

The secondary impact was also major, dampening the post-Christmas sales period, probably the nearest thing to a real, rather than manufactured clearance that most retailers need to clear the decks.

So where does it go from here?

Again to quote John Lewis' Andy Street "I don't think we can put the genie back in the bottle", so it looks like we have another sale cycle to include in the calendar whether we like it or not.

It is likely that the grocers will continue to embrace the phenomenon keenly as a chance to sell larger ticket items (mainly electricals) that they otherwise wouldn't, but for the rest of the market we are likely to see a more cautious approach to protect margins and defend the post-Christmas sale period.

Although not a perfect parallel, we did see a similar hysteria to reality cycle recently when Groupon, the online discounter, arrived on the scene. Mass consumer take-up, lots of unprofitable sales, consumers realise they've bought stuff they don't need, phenomenon fades.

In an improving economy, the signs are good that retailers will learn to use this new sales opportunity appropriately, buying special stock well in advance, and protecting the margins on their key lines to gain uplift without substitution.



Nick Bubb

Retail Consultant

Many UK retailers will have been planning promotions for November 27th for nearly a year... after the explosion of consumer interest in the US import of Black Friday last year.

Nick Bubb, Retail Consultant

Many UK retailers will have been planning promotions for November 27th for nearly a year... after the explosion of consumer interest in the US import of Black Friday last year.

The increasing global power of American brands like Amazon, Apple and Wal-Mart has meant that it has become impossible to ring-fence the UK and other markets from the Online promotions associated with the US retail industry's traditional attempts to kick-start the Christmas shopping season on the day after Thanksgiving Day (the US holiday on the fourth Thursday of November). And in 2013 the way the calendar fell meant that Black Friday was the latest that it could be in November.

But until 2014, Black Friday was still largely an Electricals phenomenon, although John Lewis was drawn more into it because of its increased commitment to be "never knowingly undersold".

What helped make Black Friday different last year was that the UK industry focused more of its promotional calendar on the "pay-day" period at the end of the month, which always seem to get consumers in a spending mood.

And after a difficult autumn, Clothing retailers had a lot of stock to shift, so it was their attempt in particular to exploit "Black Friday" as a promotional event that made it a much bigger deal in the UK in 2014, even though the UK Christmas shopping season begins much earlier than in the US, rightly or wrongly...

Notwithstanding Argos's caution about its profit impact, "Black Friday" was a reasonable success for Electrical retailers, notably Dixons Carphone, with the manufacturers financing most of the promotions, but it was a disaster for most other Non-Food retailers...

It caused a huge pull-forward of sales from December and January, it strained distribution networks, it undermined consumer's willingness to pay "full-price" at Christmas and it ruined perceptions of Online delivery reliability.

Seb James of Dixons Carphone loves it, but I am with John Roberts, the feisty boss of AO.com, on this: "Black Friday" is like "a drug addiction for shoppers", he thundered at a conference in London in early February and "Anybody who says they planned it and executed perfectly either had a terrible Black Friday or is lying".

I think that it has got a lot to answer for and Clothing retailers would be wise to emulate the pricing policy of Next and to try to avoid it this year, weather permitting...

Unfortunately, as Andy Street of John Lewis says, it is impossible to put the genie back in the bottle and retailers won't back off "Black Friday" this year, because the timing is only one day earlier than last year, again coinciding with "pay-day" at the end of November (next year it is 2 days earlier).

What will be important is that, as well as funding and "planning" promotions with suppliers, retailers must think through the impact on their distribution and logistics networks of a huge bulge in business at the end of November. And they will have an early test of their capability, when Amazon launches "Prime Day" on July 15th...



Martin Newman

CEO, Practicology

In the past couple of years, the migration of Black Friday promotions from North America to this side of the pond has caused an upset to retailers' peak trading promotional calendars.

Martin Newman, CEO, Practicology

In the past couple of years, the migration of Black Friday promotions from North America to this side of the pond has caused an upset to retailers' peak trading promotional calendars. With US brands such as Amazon and Asda (Walmart) leading the way, UK retailers have felt obliged to follow suit, often without the ability to accurately forecast the consumer response.

This led to the many negative headlines seen last year with retailers' sites, warehouses and fulfilment partners not able to keep up with demand. Whether you agree with the principle of pre-Christmas discounting or not, unless you sell unique product you are likely to be dragged in. So better to plan for it and manage your margins and forecasting, rather than make snap last-minute discounting decisions.

By accepting that Black Friday is a part of the peak trading promotional calendar you can make buying and merchandising decisions early, buy specifically for Black Friday promotions, and build the discounts in to your target margin figures. At the same time, forward planning with your warehouse and logistics partners should help minimise operational issues over the Black Friday weekend itself.

You must accept that this addition to the promotional calendar will cause a shift in consumer spending patterns, rather than raise overall demand during the peak trading period. In particular, consumers may hold off spending in the run-up; and it certainly has a negative impact on consumers' willingness to spend during the traditional post-Christmas Boxing Day Sale period.

There are few retailers/brands who can escape this, some of whom may have unique product, others are mono-brand. Indeed there was evidence last year that those who chose not to participate in Black Friday promotions managed to maintain good sales and margin. Two examples being Ted Baker and White Stuff.

For those who want to avoid pre-Christmas discounting of their product, early communication that you won't be discounting over Black Friday may help to alleviate consumers holding off in expectation of discounts to come.



Mike Watkins

Head of Retailer and
Business Insight,
Nielsen UK

The digitally enabled world of shopping for `anything, anytime and from anywhere` has tipped the balance of power so that consumers are now in control - not retailers, distributors, brands, media or content owners.

Mike Watkins, Head of Retailer and Business Insight, Nielsen UK

The digitally enabled world of shopping for `anything, anytime and from anywhere` has tipped the balance of power so that consumers are now in control - not retailers, distributors, brands, media or content owners. Put simply, we should now consider ripping up the old rule books for promotional strategy.

Promotions in retailing have for many years been shaped around the need to clear seasonal stock, to react to an unexpected slowdown in sales (often weather related), or the creation of `events` planned in advance to artificially stimulate demand.

The challenge we have is that shoppers` no longer think in this way.

In non-food retail they are more likely to plan spending in advance and to a specific budget; they are price comparing and for bigger ticket items may even wait for prices to fall further. In food retail, we see consumers shopping around more and more and chasing the promotional discounts across the Supermarkets, who are only too willing to offer `everyday` promotional savings of over 30% of the shopping basket. Are these really promotions?

The outlook for retail is that consumers will remain inherently cautious about discretionary spending, so we need new strategies and customer propositions that really do save consumers money, and at the same time, generate incremental demand.

Promotions will have to be multi-channel, which brings with it the risk of adding to supply chain costs but more importantly, strategies need to be technology driven, where `big data` is key to making the crucial supply and margin decisions. These also have to be made in real time.

So we have a new event that fits this bill; one which has now become embedded into modern retailing - Black Friday - or more likely going forward, a number of Black Fridays throughout the year albeit labelled differently (the 1 day Amazon Prime event in July 2015 being just one example).

Whilst Nielsen analysis shows that Black Friday in November 2014 did not deliver incremental food sales it did serve to kick start what was the slowest start to Christmas trading in over 10 years. Perhaps that's the primary objective in these changing times.

A peak event that now needs to be hardwired into retail execution.

"It's a promotion Jim, but not as we know it "is the new mantra in many of our board rooms.



Maureen Hinton

Conlumino

Following the sensation Black Friday caused in 2014, it has undoubtedly become a fixture in the retail promotional calendar

Maureen Hinton, Conlumino

Following the sensation Black Friday caused in 2014, it has undoubtedly become a fixture in the retail promotional calendar. Being the last pay day weekend before Christmas, many retailers already used this weekend for promotional activities in order to grab some consumer spending early on in the Christmas season, and to pre-empt spending at competitors. However giving it a name, albeit borrowed from the US, has focused shoppers' attention far more effectively on the date; so effectively spending was higher that week than during the usual Christmas peak. Indeed it focused consumer spending so effectively it hit post Christmas clearance sales too, having brought forward so much of that potential spend.

The recession and the amount of discounting and promotional activity there is now in retail, have changed the way consumers shop. Our own research at Conlumino reveals 75% of consumers say they rarely buy certain products at full price, and 62% say they wait until a product is on offer or discounted before buying. Having introduced Black Friday there is now an expectation from consumers that it is here to stay.

The issue for retailers is in how they can benefit from this demand, while not losing margin, or damaging their reputations due to operational inefficiencies. The electricals sector probably has the hardest challenge due to the dominance of brands and ease of comparison, bringing it down to price alone. In clothing, where private labels items are not comparable, there is an argument there is no need to discount because consumers are prepared to pay full price anyway. That said even full price spending can be impacted, because following Black Friday consumers have less to spend on full price products.

Therefore no matter which sector you are in there will be some impact from Black Friday and retailers have to decide how they are going to deal with it. The options are to participate fully in the discounting and promotional frenzy, or to tailor your own promotions (and margin) to piggy back onto the event. Or of course ignore it completely, but this is only something the most prestigious, in-demand brands can do.







What is the future of the shopping centre in a digital world?

- Shopping centres need to be more than just a “collection of retailers”
- The rise of destination shopping, consumers craving convenience, and creating community hubs will ensure shopping centres survive and thrive
- The digital world will actually secure the future of the shopping centre

November 2015

Introduction

Nick Bubb, Retail Consultant, commented “it seems like only yesterday that the Bull Ring shopping centre opened next to New Street station in Birmingham, but it’s actually 12 years ago and the fact that this development, with its iconic Selfridges department store, has stood the test of time shows that there is a future for well-conceived shopping centres in a digital age.”

Figures from CBRE confirm this view highlighting that investment in UK shopping centres was at its highest for 10 years in 2014 – so, as Martin Newman, CEO, Practicology, noted “the money men are confident of future returns.” Property developers should therefore feel comfortable with the notion of building shopping centres in this digital age because the pipelining is growing rather than the opposite.

However, what is also true is that shopping centres need to adapt to and harness digital possibilities if they are to continue to flourish. Mike Watkins, Head of Retailer and Business Insight, Nielsen UK, commented, “the most valuable customers of the future will be the ones who shop in-stores and online and this is where shopping centres,

with a unique blend of leisure, retail and lifestyle have an advantage over many high streets or traditional retail parks.”

As such, in order for shopping centres to differentiate, properly embrace the modern, connected consumer and continue to thrive, centre operators are considering additional strategies. These include:

- Adding a sense of occasion and making visiting a shopping centre a fuller, enriching experience.
- Selecting a location that enhances convenience for the time-poor consumer.
- Designing shopping centres to act as a hub for the community in which they are located with the combination of retail, social, work and leisure spaces.
- Consider adapting the traditional business model

The KPMG/Ipsos Retail Think Tank (RTT) met in October to discuss what the future of the shopping centre looks like, whether it’s centres at the premium end of the market or more traditional, local hubs, and how these sorts of outlets stay relevant in the digital world. The RTT also went off-site for this quarterly meeting, taking the opportunity to visit the new Grand Central centre and John Lewis store in Birmingham for further insight.

What do consumers want?

Martin Hayward, Founder, Hayward Strategy and Futures, pointed out “consumers are, and always will be analogue entities in a digital world.” On the one hand, having access to boundless virtual aisles at your fingertips adds choice, value and convenience, but on the other, consumers still like to peruse, touch and feel, particularly when it comes to fashion and beauty products. The human interaction and customer service, which is only possible in-store, also remains important to shoppers.

Added to this, Martin Hayward also posed the question “Why do pensioners go shopping on Saturdays?” It would undoubtedly be easier and quicker for pensioners to shop midweek when the stores are much quieter. However, they choose to shop on at the weekend because that’s when everyone else shops so you get something far more like the buzz of a marketplace which makes the experience more fun.

Not only does this suggest that efficiency isn’t everything, it also means that the in-store environment has the potential to add colour and humanity to a shopping trip that will never be possible through digital channels alone.

With increasingly connected shoppers, the role of the shopping centre in the digital world is therefore about getting new products, services and experiences in front of consumers in an innovative and engaging fashion. Digital can still enhance the in-store experience through the likes of personalised messaging but these channels complement rather than replace the physical store.

A Destination

Internet shopping typically allows greater choice and convenience at a lower price. This means that shopping centres need to offer a different, more engaging experience across multiple demographics in order to remain relevant. With this in mind, Mike Watkins, Head of Retailer and Business Insight, Nielsen UK, suggested “shopping

centres are the only true destination shopping trip.” However, in order to be successful this needs more than a handful of “anchor” clients, a cinema and a food court in order to drive traffic.

A good example of a shopping centre creating a destination to shop is Trinity Leeds. In its first year of operation the centre attracted 13 million shoppers and increased Leeds’ overall visitor numbers by one million. But aside from the novelty factor, what has really driven footfall at Trinity Leeds is the leisure offering which includes an Everyman cinema, premium dining options and a street food area with regularly updated food vendors.

Added to this, many shopping centres are increasingly offering entertainment for children. This allows parents to shop, watch a film or have a meal in relative peace and, if the entertainment is good enough, the kids see this as a “treat” and actually leads to the parents visiting the shopping centre more regularly.

Westfield London played a pioneering role in the destination shopping centre concept, stamping its mark on the Capital’s hospitality map and curating a culinary mix that catered from fast food to fine dining. However, the centre also opened KidZania earlier this year, an educational child-sized indoor city equivalent to the size of Leicester Square. Children aged between four and fourteen can try out a range of professions - playing a surgeon, firemen or fashion stylist for the day - in an ultra-realistic, indoor replica of a city. On entry to the park, the kids are tagged electronically with a bracelet allowing parents to keep track of them, while they relax or go off shopping.

David McCorquodale, UK Head of Retail, KPMG added “the best shopping centres offer a great experience all under one dry roof. Combining easy access, free parking, mix of retail theatre and offering, food and leisure facilities – something for all - premium shopping centres provide the epitome of an experiential destination facility, driving footfall and dwell time.” It is the shopping centres that embrace the

concept of destination shopping or offering a “day out” with a touch of retail that will continue to thrive in the digital world.

Consumers crave convenience

Martin Newman, CEO, Practicology, said “the best performing centres in the UK generate high footfall by providing convenience or are a destination (for leisure as well as shopping).” So, for the busy, on-the-move consumer, convenience in terms of location is everything.

The new Grand Central development in Birmingham is a prime example of this. 40 million people use New Street station below the shopping centre annually which ensures a captive audience of travellers and commuters who are able to buy goods on-the-go, distress gift purchases, and also collect online orders.

As a result, many shopping centres work extremely well as fulfilment points for click-and-collect services in addition to providing inspiration and a showroom environment for consumers who want to complete purchases online via their own devices or in-store terminals.

However, as previously highlighted, technology and the digital marketplace also have a role to play in order to ensure the future of the shopping centre. Therefore, taking this idea a step further, shopping centres could look to harness social media feeds to allow consumers the opportunity to purchase goods or services from all the centre’s retailers and collect in one, easy to find, location.

David McCorquodale, UK Head of Retail, KPMG, suggested “centres working with retailers to provide a single retailer agnostic click-and-collect facility can work with ease and provide a frictionless experience for the consumer.”

Creating community

Community is another differentiator for some shopping centres. Many continue to observe the “death of the high-street” affecting towns all over the country, so the model of a community orientated space is one that is relevant in many places in the UK.

Thus, a shopping centre that has value retailers competing under one roof within a community; that allows shoppers to compare bargains, pick up necessities and access essential services like a post office or a job centre as well as offering leisure facilities can thrive and survive as a community hub.

Added to this, shopping centres have an edge over the internet shopping experience when it comes to addressing demographic differences in the population. For instance, older consumers with a relatively high disposable income may want a safe an environment to socialise, which could put a greater emphasis on fine dining or theatre/concert venue. Alternatively, rising property prices and population growth are likely to mean younger people are increasingly living in a more condensed environment. These consumers may be looking for a more open and green space to spend their leisure time. Shopping centres that adapt to these sorts of trends are for more likely to remain relevant to the local community and also not be so impacted by the digital age.

Dr Tim Denison, Director of Retail Intelligence, Ipsos Retail Performance, highlighted that for shopping centres “acting as a community hub, meshing dwelling, working and social spaces together, such as the soon to be completed Friars Walk development in Newport...the future looks bright.”

Changing the business model

Martin Hayward, Founder, Hayward Strategy and Futures, pointed out that as the use and access to data has become more and more prevalent, it allows retailers to better engage with consumers. “We have the opportunity” he said “with their permission, to know our customers in intimate detail. We have the opportunity to talk with our customers whenever and wherever they are.” The possibilities opened up through data are significant for shopping centre operators, but may also mean they need to consider changes to their business model to be more than just providers of real estate.

For example, data could allow for an additional service offering with the centre operator delivering real-time footfall analytics and customer insights to retailers through the use of central localisation technologies. David McCorquodale, UK Head of Retail at KPMG, further noted that “This may mean a change to the financial model as well, with retailers and shopping centre operators working on a joint physical and digital revenue model or deriving some form of ‘services’ charge for data services provided.”

As such, for the centre operators prepared to embrace the possibilities technology affords and consider evolving their business model in order to drive change, a new structure of shopping centre may emerge in today’s digital world.

Practical tips

However, despite shopping centre’s embracing the concept of destination shopping, making sure to cater for convenience or creating a sense of community, there are practicalities to consider in order to continue to thrive.

With so much to include in these spaces, shopping centres are getting increasingly bigger. So in order to prevent shoppers from being overwhelmed James Knightly, Senior UK Economist, ING, suggested “a greater use of zonal shopping so consumers don’t get “lost”. This can also allow a deepening of the relationship with the customer by offering a more entertaining and interactive experience.” For instance, sports shops in close proximity to a sports centre or a technology zone with relevant retailers, but also where manufacturers can showcase new innovations before they come to market.

In addition, Open Access Wifi, something which was once rare, is now expected in any large scale retail outlet. In a connected world where people use smart phones as part of the shopping experience, whether it be to make price comparisons or receive special offers, consumers expect to be able to get online anywhere, anytime. David McCorquodale, UK Head of Retail, KPMG,

commented “Free wifi should be a given in any shopping centre, almost like toilets – digital natives can’t last without wifi!”

Therefore, shopping centres that get the basics right, truly understand what consumers want when they visit, and also harness the power of technology will have a bright future.

Conclusion

It is important to keep in mind that the future of shopping centre is not about competing to outdo the digital sphere – this isn’t either/or – consumers have such diverse shopping habits in today’s connected world that there is room for both and likely even more channels to engage with shoppers and entice them to spend.

In fact, new technology tools can be used to increase engagement both in and out of store so the key is remembering that technology is not a replacement for the physical, rather an enhancement. Mike Watkins, Head of Retailer and Business Insight, Nielsen UK pointed out “it is no longer just about attracting shoppers to new stores, it’s now about getting new products and services to the increasingly connected shopper. This is the role of the shopping centre in the digital world.”

As such, the RTT concluded that the digital world, through the competition created by online shopping, has not

only led to the design of better shopping centres, but will be instrumental to their continued improvement. As Dr Tim Denison, Director of Retail Intelligence, Ipsos Retail Performance, said “it may seem counterintuitive, but the digital age is helping to secure the future of the shopping centre within the retail ecosystem, rather than put it under threat.”

Nevertheless, owners, retailers and management teams also need to acknowledge that the shopping centres of the 21st century actually mean being more than just a “collection of retailers”. Whether it’s embracing the idea of destination shopping, selecting locations and offering services to cater for convenience, creating a sense of community or evolving the traditional business model, shopping centres in the digital world need to extend beyond a location where shoppers simply go to make multiple transactions.

In fact, the RTT further concluded that idea of the shopping centre as we know it might become a bit of a misnomer in the future and rather than the activity of shopping being its anchor, we may see a shift such that retailing is only a constituent part of a multi-purpose, multi-activity space.

Part II – In detail-Individual views of the KPMG/Ipsos Retail Think Tank members



James Knightly

Senior UK Economist, ING

A key selling point of internet shopping is that it typically allows greater choice and convenience at a lower price. This means that shopping centres need to offer a different, more engaging experience.

James Knightly, Senior UK Economist, ING

A key selling point of internet shopping is that it typically allows greater choice and convenience at a lower price. This means that shopping centres need to offer a different, more engaging experience. The days of being able to provide merely a few “anchor” clients, a cinema and a food court in order to drive traffic have gone.

With shopping centres seemingly getting ever bigger we are likely to see greater use of zonal shopping so consumers don’t get “lost”. This can also allow a deepening of the relationship with the customer by offering a more entertaining and interactive experience. For example, providing a sports centre with sports shops in close proximity or a technology zone where manufacturers can highlight new innovations that may eventually come to market.

Consumers may also be looking for something new - something that they are less likely to come across when browsing the internet. Shopping centres could follow the example of craft markets and pop-up stores that are frequently changing which would offer shoppers a “surprise”.

Shopping centres are also increasingly offering entertainment for children. This allows parents to shop in relative peace, watch a film or have a meal/drink. If the entertainment is good enough, the kids see this as a “treat” and actually leads the parents visiting the shopping centre more regularly.

In addition, shopping centres will need to address demographic changes – something that can give them an edge over the internet shopping experience. An ageing population with a relatively high disposable income may want a safe environment to socialise, which could put a greater emphasis on, for example, fine dining or theatre/concert venue. Furthermore, rising property prices and surging population growth are likely to mean younger people are living in a more condensed environment. They may be looking for a more open and green space to spend their leisure time.

Other factors that may help include loyalty programmes that cover the whole centre, while access to the shopping centre always needs to be addressed– train or tram lines and improving how easy it is to park at busy times.



Dr Tim Denison

Director of Retail Intelligence,
Ipsos Retail Performance

At first glance it may seem counterintuitive, but the digital age is helping to secure the future of the shopping centre within the retail ecosystem, rather than put it under threat.

Dr Tim Denison, Director of Retail Intelligence , Ipsos Retail Performance

At first glance it may seem counterintuitive, but the digital age is helping to secure the future of the shopping centre within the retail ecosystem, rather than put it under threat. Shopping centres are evolving beyond being utilitarian locations where shoppers simply go to make multiple retail transactions. If they want functional experiences they can go on line. Owners and management teams acknowledge that the shopper centres of the 21st century have to offer more.

For their retail customers, the basic needs are for larger footprints, higher footfall and fair rents. Impressive architecture, clever planning, strong tenant mixes and effective transport links all help to meet these goals, but in themselves are no longer sufficient grounds for guarantee of survival. Research data show that the direction of travel is for people to shop in fewer geographical locations and less frequently for comparison goods. Our own data show that footfall volumes in these stores are over 15% lower than they were only 5 years ago.

Yet for centres that meet the basics above, that embrace modern consumer living and are responsive to change, the future looks bright. There are various ways to achieve this, including:-

- by offering a sense of occasion or experience, with leading retail brands as magnets, but food too. Westfield London played a pioneering role in this, planting its postcode on London's hospitality map and curating a culinary mix that catered from fast food to fine dining.

- by acting as a community hub, meshing together dwelling, working and social spaces together, such as the soon to be completed Friars Walk development in Newport.
- or by delivering convenience to the ever-busy consumer, at transport nodes or other key touchpoints central to their everyday lives. Airport hubs such as Heathrow's T5 demonstrate how well it can work.

Digital technology, through the competition created by online shopping, has not only led to the design of better shopping centres, but is instrumental to their improvement. We live in a connected world, where people use their smart phones to help them shop, whether it be to make price comparisons, wayfaring, or receiving special offers. Open access Wi-Fi is something once cherished but now expected of shopping centres.

While being a service in itself, it also provides valuable ongoing insights about their end customers for those operating the centres, such as how long they spend there, how often they visit and which combination of shops and facilities they use.

These are exciting times for the evolution of the shopping centre. One has to do no more than mention the likes of Grand Central, Oxford, Brent Cross and St James, Edinburgh to know that others believe this as well.



David McCorquodale

UK Head of Retail, KPMG

Technology advancements are changing the retail industry like never before and digital transformation is at the centre of this.

David McCorquodale, UK Head of Retail, KPMG

Technology advancements are changing the retail industry like never before and digital transformation is at the centre of this. The internet has connected consumers across the world and new generations of digital natives have evolved with different shopping habits. Is the endless aisle the death of the shopping centre? I don't think so but the shopping centre has to evolve to survive.

'Experience' is the first differentiator offered by the physical store. The best shopping centres offer great experience all under one dry roof. Combining easy access, free parking, mix of retail theatre and offering, food and leisure facilities – something for all - premium shopping centres provide the epitome of an experiential destination facility, driving footfall and dwell time. At the other end of the scale, 'community' is another differentiator. A shopping centre that has value retailers competing under one roof within an urban community, allowing shoppers to compare bargains for necessities and enjoy essential services like post, job centre as well as leisure facilities can thrive and survive as a community hub and not be so impacted by the digital age.

But are experience and community enough in the digital world? Retail centre operators need to change their business models to be more than just providers of real estate.

Free wifi should be a given in any shopping centre, almost like toilets – digital natives can't last without wifi! Working with retailers to provide a single retailer agnostic click and collect facility can work with ease and provide a frictionless experience for the consumer. So too could a digital market place, driving traffic through the centre's social media feeds and allowing consumers the opportunity to purchase goods or services from all the centre's occupiers and collect at the centre. This could be expanded to include retailers without a presence at the centre itself, perhaps from an 'e-floor' in the centre with internet access and dressing rooms; like House of Fraser's concept stores. Data provides another opportunity for a service offering, with the centre operator providing real-time footfall analytics and mobile-accessed customer insights to its retailers through central localisation technologies.

This may mean a change to the financial model as well, with retailers and shopping centre operators working on a joint physical and digital revenue model or deriving some form of 'services' charge for data services provided. There's no need to stick to the tried and tested if evolution can drive change.

Embracing technology could help the best shopping centres thrive into social playgrounds and community hubs. Fighting it could lead to a concrete wasteland.



Martin Hayward

Founder, Hayward
Strategy and Futures

There are so many ways digital technology can and should help business to better engage with customers.

Martin Hayward, Founder, Hayward Strategy and Futures

There are so many ways digital technology can and should help business to better engage with customers. We have the opportunity, with their permission, to know our customers in intimate detail as data is so much more prevalent. We have the opportunity to talk with our customers whenever and wherever they are, again with their permission, as new channels effectively render them 'always on'.

We can use these new tools to deepen engagement both in-store and out of store but the tendency in recent years has been to use technology as a replacement for the physical world rather than an enhancement.

Consumers are, and always will be analogue entities in a digital world. Yes it's great to get a relevant on-line offer, but it's also great to get a smile and good morning. Yes, it's great to be able to try clothes on virtually, but equally good to touch them and smell them.

We all face both the challenge, and enormous opportunity, of using the astonishing advancements in digital technology to make our businesses more efficient, both for ourselves and our customers. If staff time is freed up by new technology, don't immediately reduce headcount, but think how they can be used to better deepen customer engagement. If new channels allow customers to self-serve, think how the benefits can be passed on in ways other than price.

As our ability to interact with customers through digital technology grows, we need to balance the cost savings and efficiencies that tempt us against the impact that any migration to digital channels may have on customer engagement.

It may sound odd on first inspection, but don't let digital make your business too efficient.

It may also help to ask yourself "Why do pensioners go shopping on Saturdays?" It would be far more efficient for them to shop on Wednesdays when the shops are quiet, but they understand that it's more fun on Saturdays because that's when everyone else goes shopping – the buzz of the market place. This insight is important as it proves that ultimately, efficiency isn't everything. The in-store environment has the potential to add colour and life and humanity to the shopping trip that will never be possible in digital channels alone. Digital can still enhance this experience through personalised messaging and better information for customers but see it as a means to a better end, not an end in itself.



Nick Bubb

Retail Consultant

Online shopping is getting ever easier and Birmingham is a good place to debate the subject, as Amazon is trialling an extended Grocery delivery service for its “Prime Now” subscribers in the city.

Nick Bubb, Retail Consultant

Online shopping is getting ever easier and Birmingham is a good place to debate the subject, as Amazon is trialling an extended Grocery delivery service for its “Prime Now” subscribers in the city.

But consumers still like to browse and compare and touch and feel, particularly in Fashion, and it is also ironic that in Birmingham last year Primark acquired a large, if ageing, shopping centre to convert into one of its biggest stores to date. Primark is now seeking planning permission to spruce up The Pavilions and it will relocate from its existing store on New Street.

Of course, Primark is famously the only big High Street chain that does not embrace the concept of multi-channel shopping, as it has no Online offer, but John Lewis certainly does (with over 35% of its sales coming Online). And it is interesting that back in 2011 John Lewis chose the Grand Central development above New Street Station for its first city centre store in Birmingham.

The recently opened John Lewis in Grand Central is slightly smaller than average, but at 150,000 sq ft in sales area it is still a big investment in “bricks and mortar” and management must be delighted with the strong start the store has made, reflecting the significant level of innovation and new merchandising, together with extra customer services.

So, every modern shopping centre needs a strong anchor store and John Lewis is about as strong as you can get, given its unique mix of Fashion and Household goods.

But anchor stores don’t pay a huge amount of rent, so from a commercial point of view shopping centre developers need to let the unit shops on good terms and in Grand Central it is interesting that there is little sign of the major space users like River Island, Zara, H&M, New Look and Top Shop that are usually found in big malls. Instead, there is a raft of complementary upscale Fashion shops like Hobbs, Joules, Fat Face, White Company and Cath Kidston.

And, as in most modern shopping centres, Grand Central has an attractive array of restaurants like Giraffe, Handmade Burger Co, Yo Sushi, Carluccio’s and Ed’s Easy Diner, to encourage dwell time, although the proximity of the railway station would also argue for a strong catering and “food to go” offer.

It’s also good to see that Grand Central will have a specialist bookshop, in the form of Foyles, as bookshops are fast disappearing from many shopping centres, given their inability to combine high rents with thin profit margins, but consumer still appreciate concessions from landlords to improve the retail offer.

Of course, it seems like only yesterday that the Bull Ring shopping centre opened next to New Street station in Birmingham, but it’s actually 12 years ago and the fact that this development, with its iconic Selfridges department store, has stood the test of time shows that there is a future for well-conceived shopping centres in a digital age.



Martin Newman
CEO, Practicology

The first thing to say is that good quality centres certainly have their place in a digital world. CBRE says that investment in UK shopping centres was at its highest for 10 years in 2014 – so the money men are confident of future returns.

Martin Newman, CEO, Practicology

The first thing to say is that good quality centres certainly have their place in a digital world. CBRE says that investment in UK shopping centres was at its highest for 10 years in 2014 – so the money men are confident of future returns.

The best performing centres in the UK generate high footfall by providing convenience or are a destination (for leisure as well as shopping).

Take Trinity Leeds. In its first year of operation it attracted 13 million shoppers and increased Leeds' overall visitor number by one million. The centre owner – Land Securities – has used digital and social channels to reach younger consumers. It's also currently trialling a Digital Loyalty Scheme, with 60 retailers, in a six-month project using a mobile app to offer visitors to the centre relevant offers and tracking behaviour.

Such digital engagement is great, but what has really driven footfall at Trinity Leeds is the leisure offer – an Everyman cinema, premium dining options and a street food area with regularly updated food vendors.

Similarly, the success of the two Westfield centres in London has certainly been helped by the array of leisure and food & beverage operators. This destination feel pushes retailers to offer innovative store-fits and in-store experiences too (which can be fused with digital).

Convenience is also key, and that's part of the reason why click-and-collect services have been so successful in the UK. Shopping Centres can be a fulfilment point, as well as providing inspiration and a showroom environment for consumers who want to complete purchases online via their own devices or in-store terminals.

For convenience location is everything. The new Grand Central development in Birmingham is a prime example.

40 million people use New Street station below the Grand Central centre annually. This captive audience of travellers and commuters will be able to purchase goods for on the go, distress gift purchases, collect online orders and potentially research purchases that they go on to order online.

Digital channels merely complement a quality shopping centre that consumers use for convenience purposes, or want to spend their precious leisure time in.



Mike Watkins

Head of Retailer and
Business Insight, Nielsen UK

The most valuable customers of the future will be the ones who shop in stores and on line and this is where shopping centres

Mike Watkins, Head of Retailer and Business Insight, Nielsen UK

The most valuable customers of the future will be the ones who shop in stores and on line and this is where shopping centres, with a unique blend of leisure, retail and lifestyle have an advantage over many high streets or traditional retail parks. Shopping Centres are the only true destination shopping trip.

There are three elements which shape shopping behaviour in today's digital world: the influence of media and communications in creating the interest, social word of mouth and on line comparison which shapes intention to buy and then the final purchase – which may be online or offline.

With so many touch points, shoppers are demanding value for money but also customer service and in store experiences and this is where many modern shopping centers are now leading other parts of retail. The human interaction that is only possible within a store will remain very important for shoppers – before or after a purchase, anytime and anywhere.

One of the unwritten truths is that all types of physical shops will have to be re-invented in this digital world, offering customers a more involving experience that enables them to shop and have their needs met, in a way that is convenient for them and fits in with their busy lives.

Providing the location where retailers and brands have the space (and customer profile) to showcase and personalise both service and shopping experience, is a competitive advantage.

In some respects `show rooming` will become the new shop window and this is where a modern shopping centre with the one-stop opportunity to visit and engage with a wide range of exciting retail brands, is a compelling attraction.

It is no longer just about attracting shoppers to new stores, it's now about getting new products and services to the increasingly connected shopper. This is the role of the shopping centre in the digital world.



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