



Cautious optimism in uncertain times

Retail 2015, produced by Retail Week in association with Kurt Salmon, reveals what industry chiefs really think about prospects for this year and how they plan to respond to consumers' increasingly complex multichannel demands

Whether your glass is naturally half full or half empty the likelihood is that 2015 is already shaping up to be a year of both opportunities and challenges.

If the 44 pages of illuminating insight in *Retail 2015* could be condensed into a pithy two-word summary there's no doubt that a seam of 'cautious optimism' runs through the responses of the chief executives interviewed.

What's clear from industry leaders is that increasingly bullish economic forecasts from the UK Government are not necessarily reflected in burgeoning confidence among businesses and consumers, and retailers remain unconvinced that positive economic indicators will translate into a complete recovery of the retail market in 2015. A senior executive at a supermarket group sums up the mood concisely: "I think the whole market, whether that is the consumer market or the stock market, is still very volatile."

While employment rates are going in the right direction, concern remains that wages are lagging behind. Instability in the eurozone is another ongoing worry, as is the possibility of future interest rate rises. The forthcoming general election is also cited as a cause for consumer uncertainty since a possible change of government is predicted to lead to a longer period of disruption.

Although the Government's rhetoric on the strength of the economy should be treated with caution, it is equally apparent that the death of

the high street narrative that attracted popular support during the economic downturn may too have been exaggerated. In fact, some retailers point to a move towards localised and frequent shopping trips as a significant trend, particularly in the grocery sector. That presents a big opportunity for the high street to deliver future growth. However, there is also general agreement that rents must be pitched at a level more appropriate to modern usage and that the days of landlords being able to charge astronomical prices are over.

Old habits die hard

Retailers are in agreement that consumers are not yet ready to throw off the shackles of austerity. They are still shopping cleverly, looking for bargains and prioritising value.

That said, the consensus among the 25 leading chief executives exclusively interviewed for *Retail 2015* is that the worst of the economic turmoil is over and 2015 will bring improved sales and returning consumer confidence.

Only 16% of the retailers interviewed forecast flat retail sales in the coming year, versus 60% in last year's report. 72% of this year's group expect retail sales to be slightly better, against 36% last year. That means the proportion forecasting retail sales to be either slightly or much better in the coming year has leapt to 84% from just 40% last year (see chart 1.1).

When asked to gauge the mood of their consumers in comparison with this time last



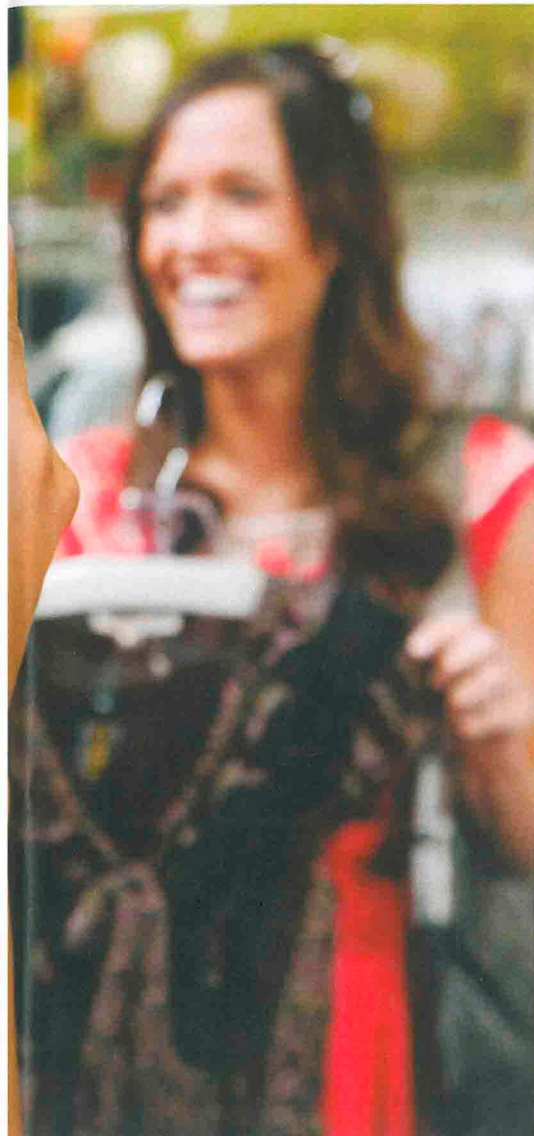
year, 63% say the mood is a little better, while 25% say it is the same. Only 4% say it is much better, while 8% say it is a little worse.

For Helen Mountney, managing director of Kurt Salmon UK & Ireland, there's no doubt that consumer confidence is rising "despite the fact that this would appear to be ahead of real income levels". "The economic variables are mixed. For example, within food, despite growing levels of GDP, retailers have seen deflation with some even suggesting that the market actually shrank towards the end of 2015 (relative to the previous year)," she says.

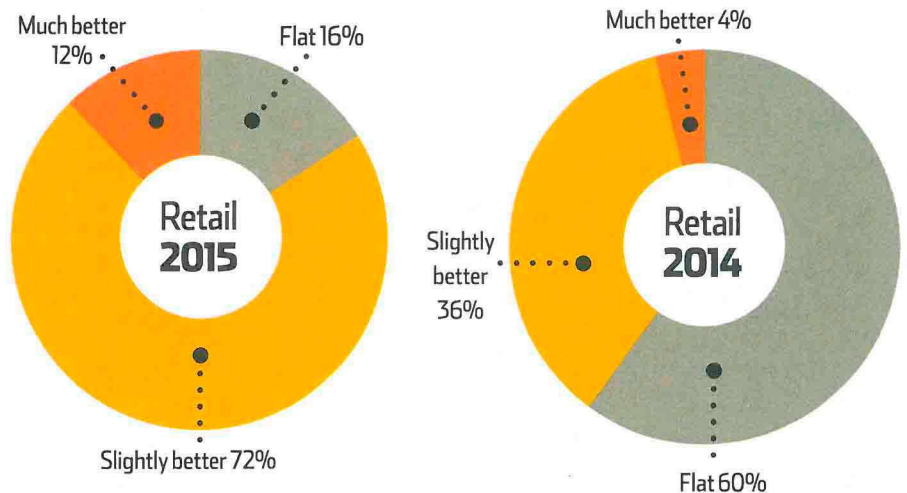
"I think the whole market is still very volatile"

Senior supermarket executive

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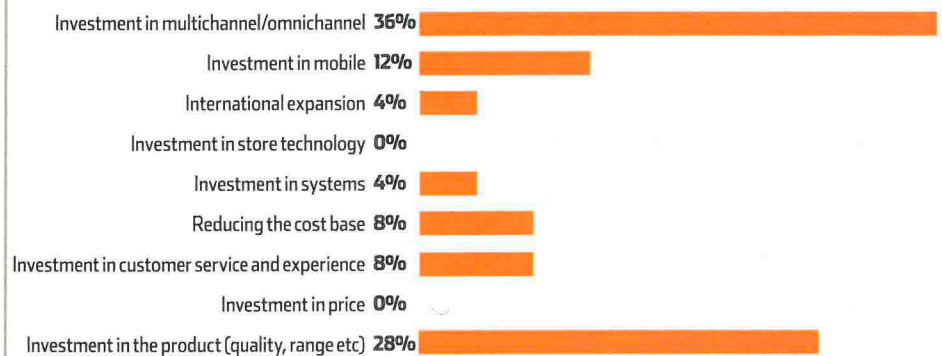


1.1 Forecast for retail sales over the next year compared with 2014



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS

1.2 Retailers' top business priority for the year ahead



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS

"The quantitative easing by the European Central Bank will also have an impact on future success, with imports much cheaper and exports to Europe more expensive. This could impact on the growth of UK retail. However, after five long years, most analysts are optimistic about the future and while the economic variables are mixed, the fundamentals of retail remain the same."

Perhaps predictably, there is a strong consensus among retailers that the online – and in particular mobile – sectors will grow in popularity in 2015. However, there is also an interesting juxtaposition between the two top business priorities for 2015: investment in omnichannel and investment in product.

On the one hand this reinforces omnichannel's status as the new frontier in retail and recognises the need to focus on getting fit for a future when people no longer think in terms of distinct channels; but on the other hand it's clear that for all the change taking place in the market, the oldest adage in retail – that product is king – still very much applies.

As Mountney explains: "Retailers must

continue to focus on the product – this mustn't change but it's easier said than done. The challenge is to ensure that this focus continues while the business is reorganised to liberate the opportunities offered by omnichannel.

"Even though the supply chain and IT are critical enablers, the most important factor in the transition to omnichannel success is organisation and ensuring that the structures are in place to support the discipline required to focus on product and unlock the value of those new channels."

Investment a priority

As so many of the observations of the major retailers interviewed for this report make clear, to succeed in the omnichannel environment a retailer needs to be customer-led, service-orientated, flexible and responsive.

Investment in mobile and multichannel integration are rated as among the most important business priorities for 2015 by the retailers, with value, convenience and personalisation identified as the key consumer drivers.

In addition to targeted advertising and social

media, retailers are also prioritising investment in search engine optimisation, while the *Retail 2015* consumer survey of 1,000 shoppers confirms that free delivery is perceived as a critical factor for customers when shopping online.

Adaptation to the demands of omnichannel retailing is regarded as a work in progress. Only 5% of the retailers say the process of restructuring their businesses is complete, though 81% have made progress on reorganisation during the year. The retailers' comments show how omnichannel is changing the retailer-customer relationship and communication. Retailers hold more information on their customers than ever before and using this effectively is seen as another key omnichannel challenge. The potential for targeted advertising, notably using social media, is an enticing prospect for the retailers, and recruitment of personnel with relevant technical expertise has increased as a result.

Nowhere does the link between omnichannel and customer service manifest itself more clearly than in customer delivery. Delivery has become a dynamic area of the retail

RETAIL 2015

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RETAILER SENTIMENT

84%

of retail chiefs forecast retail sales will be slightly or much better in 2015

67%

of retailers report improved consumer mood but remain cautious

19%

of retailers have a single view of both stock and customer, while...

57%

have a single view of their stock but not the customer



CONSUMER SENTIMENT

5%

of the 1,000 consumers polled say they are significantly more confident in the state of the economy than this time last year, while...

48%

feel the same

45%

feel the same level of financial security as this time last year, while...

17%

feel significantly less financially secure

Key findings

- 60% of retailers place inflation and the cost of living in their top three most influential factors affecting consumer behaviour
- 56% of retailers rank customer service and the customer experience among their top three priorities
- 67% of retail bosses rank investment in mobile as their top priority
- 29% of retailers have made significant progress in restructuring their organisation to meet the demands of omnichannel
- 46% of retailers nominate investing in front-end technology among their omnichannel priorities
- 50% of retailers say international sales have increased as a share of revenue over the past year
- 57% of consumers say free delivery is a key priority when shopping for clothes online

What's inside Retail 2015?

Chapter One Outlook for retail in 2015

Chapter Two The consumer mood

Chapter Three Progress towards the omnichannel ideal

Chapter Four Omnichannel and the consumer

Chapter Five Delivering goods

Chapter Six Managing store estates

Chapter Seven Expanding horizons

Chapter Eight Optimising the supply chain

market thanks to the omnichannel revolution. Choice in delivery options for customers is broadening, both in terms of 'when' and 'where', as retailers seek to leverage their delivery service for competitive advantage.

The problems with delivery experienced by many major retailers over the Christmas period highlighted just how challenging it is to service the growing number of consumers shopping online, and how demanding those consumers have become.

Increasingly, according to the consumer survey carried out for *Retail 2015*, that means free delivery with specific time slots rather than speed is the most important requirement. Here again the need for flexibility and responsiveness is critical, ensuring the customer is at the centre of the omnichannel experience. To achieve this, investment in supply chain visibility and achieving cost transparency is key. Supply chains must be adaptable and flexible so as to be able to meet the expectations of consumers.

Amid the race to get fit for an omnichannel future, some historically important priorities have taken a back seat. Half of the retailers report that international business has increased as a share of revenue over the past year, with rising online sales considered to be the primary catalyst. However, investment in international development has slowed, partly on account of the need to consolidate at home but also uncertainties around the economic turmoil in the eurozone and challenges involved in expanding in new, high-growth territories such as China.

The evolving role of the store is also examined, particularly in light of the surge in demand for click-and-collect services.

Notwithstanding a prevailing view that retail space will further contract in 2015, the comments of the industry leaders concerning their retail estates are more positive than might be expected given the continued growth in online and mobile retailing. In particular, they see good prospects for the regeneration of the high street as shopping behaviour and patterns change. Stores are seen as a vital part of the new omnichannel world, not the old order.

Translating all these priorities into a coherent business strategy will be a major challenge for retailers in 2015. Businesses must think ahead to the opportunities and challenges that further integration of channels will bring but also be mindful that the old rules of retail still apply: product, price, service, location – principles just as relevant now as in the early days of trading.

If there is one unifying feature that encapsulates all that retailers are doing to embrace change and prosper in a changed retail market it is the unrelenting focus on the customer. Retailers understand that consumers do not think in terms of channels. They simply shop and expect a seamless interaction with the retailer as a matter of course.

The winners in 2015 will be those retailers that execute their plans effectively and give consumers a reason to loosen their purse strings. ■

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