

THE BIG STORY

Premium, promos and polarisation

What does the recent ream of major updates tell us about how the golden quarter went for the industry? We pick out the key trends from retail's Christmas

Discount fever

Christmas 2017 was driven by discounting, particularly in clothing and department stores.

Debenhams warned on profits as it slashed prices to "remain competitive" in a promotional market, while John Lewis said the pressure of margins "intensified" over the Christmas trading period and restated that its full-year results would be "negatively affected".

The emergence of Black Friday as a major event in the UK has, of course, made promotions a more prominent part of Christmas trading.

Some retailers did not cave in to the pressure to discount. M&S stuck to its guns and held its full-price stance – even opting out of Black Friday – in what it termed a "very promotional market".

Although like-for-likes in clothing and home fell 2.8% over its third quarter, M&S says the unseasonable October was to blame. It is telling it gave no warning on profits.

House of Fraser also stuck with its strategy of cutting the amount of goods on Sale. This move helped increase gross margins, but store sales declined 2.9% over the Christmas period and online plummeted 7.5%.

Chief executive Alex Williamson said: "Our focus is on driving profitability, rather than chasing revenue at any cost. We are not a business determined to sell everything to everyone at any price."

However, it is revealing that HoF's sales did rise in-store – albeit a meagre 0.8% – during its Black Friday event and online came within 1% of last year's record sales performance.

Not discounting backfired for some retailers. Mothercare this week issued a profit warning as discount-hungry shoppers opted not to buy at full price.

The retailer did not discount prior to Christmas, but was forced to slash prices at its end-of-season Sale, which is when its shoppers hit stores. This depleted margins.

The nursery specialist now expects adjusted group profit for the year to be between £1m and £5m. Pre-tax profits stood at £19.7m last year.

Discounting wasn't rife across all retail, however. In grocery, 36% of spending was on items on offer – the lowest level of promotional activity at Christmas since 2009.

Consumers are expected to tighten their purse-strings in the year ahead and will undoubtedly be looking for promotions on the high street.

Christmas has highlighted how difficult it is to get a promotions strategy right. Non-food retailers would be wise to look to how grocers reset consumer expectations.

Clicks made the difference

A rundown of the winners and losers this festive season tells us that retail success comes from operating a genuine omnichannel business.

Compare and contrast, for example, the fortunes of Next and M&S. Although M&S' 3% rise in ecommerce sales was a rare bright spot in an overall dismal showing, that uptick paled in comparison to Next's 13.1% online growth.

Many UK retailers have yet to grasp that being shoppable in a digital form is no longer sufficient. An online offer is one thing; giving shoppers compelling reasons to use your service is something else entirely.

Royal Mail's *Delivery Matters* report, released last week, states that Next and M&S are the two most popular online clothing destinations among high street retailers. Yet Next Directory is comfortably outperforming M&S in the digital space and the question must be: why?



SHUTTERSTOCK

Successful ecommerce execution relies on making the shopping experience as seamless as possible. Consumers want a minimum of fuss, fast and convenient fulfilment options and an easy returns process.

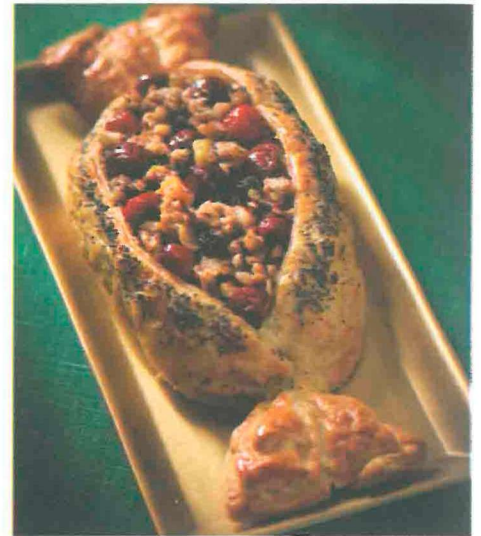
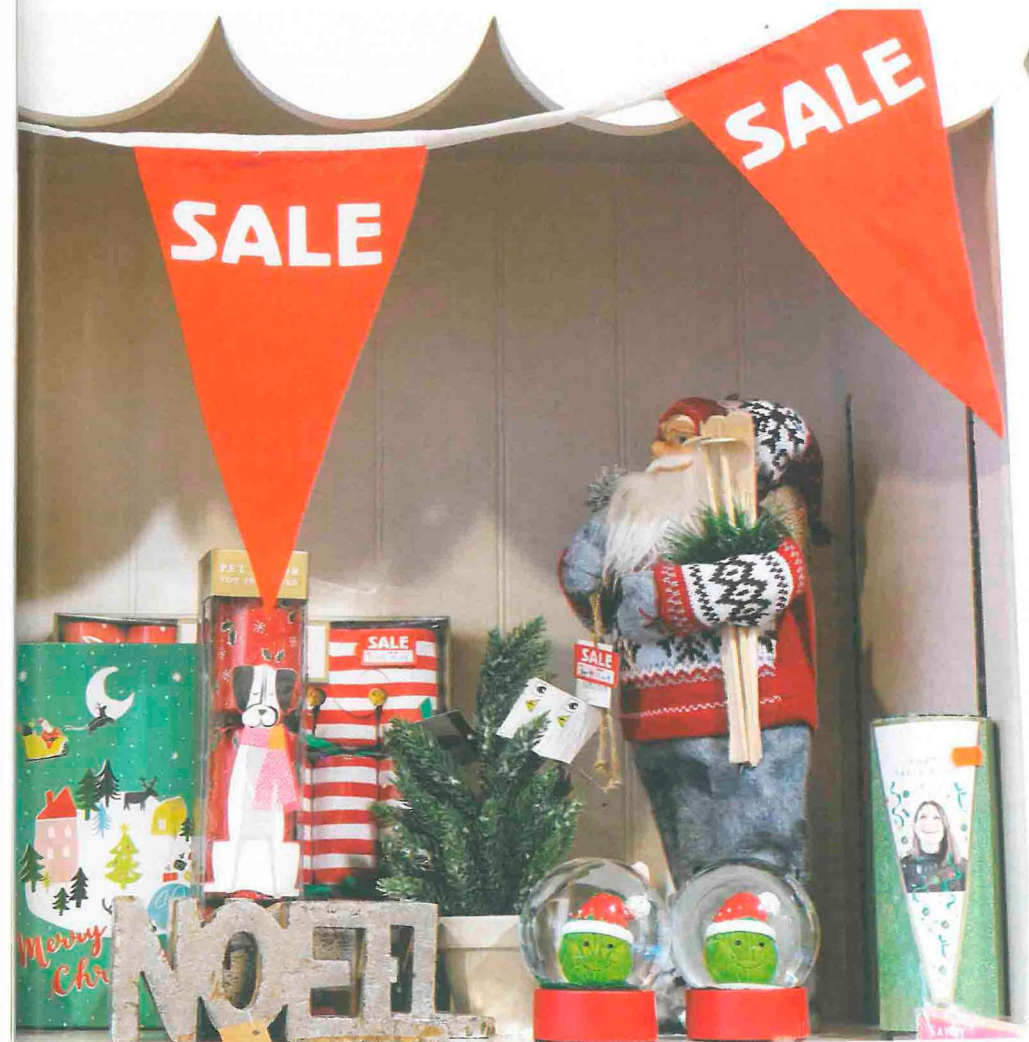
Here is where Next trumps M&S. Orders can be made up to 9pm for next-day delivery – extremely handy where last-minute gifts are concerned. Moreover, shoppers familiar with Next Directory trust the retailer to deliver.

Digital shoppers have lower expectations that M&S can deliver the online experience they want. This perception only increases when you consider how M&S reinforces its ecommerce offer. Its stores remain decidedly analogue, with few signs that a compelling, exciting experience can be had via its online portal.

Modern shoppers want a retailer that can engage with them, not just during the transaction, but before and after.

Online-only players, such as Boohoo and Asos, win because they consistently communicate their sales messaging wherever their consumers might be. Today, that means social media, where the bulk of their shoppers live. These are, of course, largely millennials and it is perhaps understandable that the likes of M&S and Debenhams would shy away from attempts to be 'down with the kids'.

Read all the latest Christmas trading updates from retailers
Retail-Week.com/Christmas-trading



Morrisons' The Best (above) and Lidl's Deluxe ranges both performed well

The trend among consumers is to upscale to premium ranges within their regular food retailer, rather than going to upmarket rivals

Another mistake. Millennials are growing up fast, and older shopper segments are adjusting to the new digital retail world.

Online grocery growth at Tesco and Sainsbury's is not all driven by digital natives; it's coming from working parents who enjoy the convenience such services add to their lives.

Omnichannel is now an imperative. Those retailers left licking their wounds after Christmas need to rapidly re-examine the e-commerce experience they are giving their shoppers and commit to upgrading their service.

Those that move first and fastest are gaining ground. Those that stand still risk seeing customers vanish over the hill.

Trading up

Christmas is traditionally a time for people to treat themselves in terms of the food they buy and, despite a squeeze on disposable incomes, shoppers traded up again in December.

But the trend among consumers is to upscale to premium ranges within their regular food retailer, rather than going to upmarket rivals.

Discount duo Aldi and Lidl have made great strides in improving the quality and variety of their Specially Selected and Deluxe ranges over the past few years, waking customers up to the fact that they can get good-quality groceries without needing to switch to M&S and Waitrose.

Indeed, the upmarket pair failed to set the world alight during the crucial golden quarter. Waitrose grew like-for-like sales 1.5% in the six weeks to December 30, although boss Rob Collins said inflation was just under 2% during the period. And M&S suffered a 0.4% dip in grocery like-for-likes over the 13 weeks to December 30 – a time when its posh nosh usually comes into its own.

Conversely, market leader Tesco grew like-for-likes 1.9% in the four weeks to Christmas Day, as total sales of its premium Finest ranges climbed more than 4%.

Big-four rival Morrisons also grew at a quicker pace than its upmarket competitors.

Its 2.8% uplift in like-for-like sales in the 10 weeks to January 7 was spearheaded by a 25% spike in its The Best range.

As the middle-market and discounters gain further traction in premium sales, upmarket operators will need to demonstrate clear value for their higher price points if they are to win a larger share of festive spend in 2018.

Dire department stores

Department stores were the topic of much discussion this festive quarter, with the format on trial to a degree rarely seen before. The results of that trial were mixed, at best.

On one hand, Debenhams' profit warning and HoF's falling sales speak to a sector under siege. On the other, market-leading John Lewis managed to pull off a surprisingly good performance, while M&S fell in the middle.

It begs the question: are these poor results the nail in the coffin for the format? The shift to online continues to hurt the format once viewed as the most convenient way of shopping across categories. And as discounting becomes more rife in response to falling footfall and dented consumer confidence, it will become more difficult for them to compete.

While the four main players have taken radically different approaches to balancing

THE BIG STORY

sales and profitability, all are vulnerable to high-cost store estates and staffing models. This means that, across the sector, the bottom line will be under increased pressure.

It's accepted that their heyday is decades past, but if department stores cannot perform well during the golden quarter, the question over their relevance comes into sharper relief.

Inflation bites

Retailers have been struggling under the weight of inflationary pressures since the Brexit vote sparked a plummet in the value of the pound.

Supermarket chains were hard hit, as staple groceries imported from overseas – such as bananas, strawberries and grapes – became more expensive. They were forced to pass on a proportion of extra costs to shoppers, with food prices rising 3.7% year on year in the 12 weeks to December 30, according to Kantar Worldpanel.

Such increases in prices at the shelf edge sweetened the grocers' festive numbers, which might not have been quite so impressive without the inflationary impact. Waitrose's 1.5% like-for-like uplift, for instance, was driven by inflation of close to 2% during the festive trading period.

Non-food operators were also hit by inflation. John Lewis Partnership chairman Sir Charlie Mayfield was among those to lament the toll that input cost headwinds have taken on margins. He said: "The pressure on margin in the first half of the year has intensified because of our choice to maintain competitive prices,

despite higher costs mainly due to the weaker exchange rate."

But retail leaders suggest pressures will ease in 2018. Tesco boss Dave Lewis said: "The inflation we have seen in the second half of the year is abating a little. There still will be some, but not as much as we've seen this year."

But as British Retail Consortium chief executive Helen Dickinson flagged, there could be further input cost pressures to come for retailers, depending on the results of crunch talks with Brussels. She said: "With spending likely to remain under severe pressure in the next few years, it's imperative that in the forthcoming trade negotiations, the Government does all it can to avoid adding new tariffs to existing price pressures."

Although the impact from the slumped pound may be easing, there could be more inflationary shockwaves to come.

Hard-strapped consumer

Next boss Lord Wolfson said consumer demand was "subdued" this Christmas, and this is evident in the divergent performance of food and non-food retailers.

It was a harder slog to get shoppers to part with discretionary spend. This has heightened the need for retailers to give shoppers compelling reasons to part with their cash, such as making stores desirable places to visit and investing in all channels to fulfil busy shoppers' demands.

Distinctive brands such as Ted Baker and Joules, and those with market-leading fulfilment propositions, such as John Lewis, fared best.

Consumers have also been hungry for value. Poundland, for example, clocked up a 4% like-for-like sales rise this Christmas.

The demand for value is also evident in the food sector, with Aldi and Lidl giving the big four a run for their money. Aldi recorded a 15% sales rise in December, while Lidl racked up a 16% year-on-year lift.

Upmarket M&S, which posted negative festive like-for-likes, said choices reflected "tighter budgets".

However, some shoppers bucked the trend. Luxury food purveyor Fortnum & Mason posted a 13% like-for-like jump in the five weeks to December 31.

A volatile year ahead

Christmas could be characterised as a mixed bag or damp squib, depending on who you ask.

Grocers including Tesco, Co-op, Morrisons and Aldi delivered strong sales rises and retailer Boohoo doubled its festive sales. But these results were tempered by profit warnings from Debenhams and Mothercare, as well as weak trading from M&S, HoF and Moss Bros.

These polarised results look set to continue. The value of the pound continues to fluctuate, economic uncertainty inhibits consumer spend and shopping is increasingly done on smartphones.

Retail mogul Theo Paphitis said of the current climate: "It really does feel like retail as we know it is creeping closer and closer towards the precipice." And he's not the only retail boss to express this sentiment.

JLP chairman Charlie Mayfield said: "Looking ahead to 2018/19, we expect trading to be volatile due to the economic environment and anticipate competitive intensity will continue."

Card Factory boss Karen Hubbard said the stationery stalwart would struggle to maintain momentum in the year ahead. Hubbard flagged that the double whammy of wage hikes and the weak pound would hit the retailer's bottom line to the tune of £7m to £8m, and that EBITDA growth for the year was "likely to be limited".

As the deluge of Christmas updates continue, the fortunes of different retailers will no doubt be varied. But in terms of the year ahead being a challenging one, they all seem to be singing from the same hymn sheet. **rw**

16%

Year-on-year sales rise posted by Lidl in December

If department stores cannot perform well in the golden quarter, the question over their relevance comes into sharper relief



Fortnum & Mason posted a 13% like-for-like jump