POINT OF VIEW:

After the dust has settled:

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Introduction

2013 saw another frantic Christmas trading period for the UK retail sector. With global giant WalMart (and therefore its UK subsidiary Asda) having recently reported its full year and Q4 results, the festive earnings season is now officially at an end. Now that the dust has settled, we thought it appropriate to take a look back and analyse what really happened in many retailer's most important period of the year.

Who were the winners and losers, what were the reasons for success and failure - and most importantly, what lessons can we learn?

Comparing the strategies of businesses that successfully navigated the Christmas period with those where weaknesses were exposed tells an interesting story. As usual the weather, 'Christmas coming late this year' and challenging market conditions were given as reasons for poor performance, but the truth lies elsewhere. Every business was subject to these same conditions, yet some performed significantly better than others. An analysis of why those companies succeeded where others didn't offers some illuminating insights into the strategies required to win in the retail sector over the next few years.

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>
> Phillip Clarke, Tesco, CEO

The big picture

Before looking at the performance of individual companies, it's useful to look at the broader economy and put this in the context of the retail sector. As the table below shows, there are many signs that the UK economy is recovering from recession, with a silver lining on the horizon.

U.K. economic data

	2011	2012	2013
Inflation (CPI)	4.4%	2.8%	2.7%
GDP (% real growth)	1.1%	0.3%	1.7%

Source: ONS, IMF

The data shows good reason for optimism, with the 2013 tailwind looking likely to gather further momentum in 2014: GDP growth is expected to reach 2.7%., inflation is forecast at 2.2% (which will see it drop close to the Bank of England's target of 2%), and the unemployment rate is expected to drop to 7%.

All in all, this makes for pretty rosy reading – but the recovery is still far from secure. The UK's economy is closely interlinked with global developments. As such, issues such as the fragility in emerging markets and sluggish growth in many of the Eurozone countries remain potential risks. In addition, the encouraging performance of 2013 has not filtered through to the consumer's wallet yet.

Consumer spending is the key factor influencing the performance of the retail sector – and in 2013 real wages were still at 2003 levels.

> "The market was highly promotional in the run-up to Christmas and we responded to these conditions to ensure our offer was competitive. However, this extremely difficult environment has inevitably had an impact on both our sales and profitability."
>
> Michael Sharp, Debenhams, CEO

The retail sector in 2013

In the retail sector, 2013 was a story of recovery from a bleak 2012 (albeit from low comparative numbers) with growth delivered across all sub-sectors. The overall sector grew by an estimated 2.5%.

Yoy growth in %	2011	2012	2013
Grocery	5.8%	1.7%	5.3%
Non-specialised Stores	2.9%	5.6%	7.1%
Textiles, Clothing & Footwear	8.2%	-2.8%	5.9%
Household Goods Stores	-0.9%	0.5%	0.6%
Other Stores	-1.8%	1.0%	10%
Non-store Retailing	9.7%	10.4%	21.7%

Source: ONS

The star performer, not surprisingly, was online (non-store retailing) which has increased its pace of growth and is predicted to continue at an even faster speed in the future. There is no doubt though that the online channel is increasingly cannibalising sales from the other channels. Especially as the Office of National Statistics (ONS) methodology incorporates sales from all sub-sectors in its definition.

A further winner was definitely the apparel sector bouncing back from a disastrous 2012 posting 5.9% year on year growth. Although volatility remains high and innovation in delivering the right product at the right price at the right time remains imperative for retailers in this sector.

The Grocery sector had a more positive year than 2012 but definitely did not deliver results to shout from the rooftops. Competiveness has increased further with the discounters gaining in momentum, prices falling, overall food consumption volumes declining and consumer spending on grocery remaining tight.

On-going disappointment is to be reported from the Household Goods sector which includes DIY and Furniture retailing. This sector has been through a rough patch over the last years with its fortunes closely linked with the UK housing market. There are signs of recovery in the property market with increased activity over the last 6 months providing hope for a more successful future for the associated retailers.

Taking the growth across all sectors into account, different retailers delivered a wide range of results – from extremely positive and encouraging to disappointing and elevating fears for their future success.

Winners and losers

The following table highlights some of the good and not so good performers over the Christmas trading period. We have also included public comments from the companies themselves, including those companies where the CEO would rather not have to explain a less than stellar performance. They are illuminating because they allude not only to the company's strategy, but also to their confidence (or lack of confidence) in it.

Sector	Company	2013 Growth (UK only est)	Xmas 2012 vs Xmas 2013 (like for like sales)	Reported company comments on performance
Grocery	Aldi	22%	↑ 37% (for 12 weeks to 1st of February 2014)	"Record numbers of customers visited Aldi as they realised they could get all the festive trimmings at Aldi, while cutting the cost of Christmas and not the celebrations." – Spokesperson
	Waitrose	7.4%	↑ 3.8% (Online orders up 33.4%)	"More customers than ever before shopped across all our ranges this Christmas, from luxurious festive fare to essential Waitrose trimmings. We've had a very strong Christmas." MD Mark Price
	Tesco	1.3%	↓ 2.4% (Online orders up 11%)	"…further weakness in the grocery market as a whole continued to impact our performance in the UK." CEO Phillip Clarke
	Morrisons	1.9%	↓ 5.6%	"The difficult market conditions were intensified for Morrisons by the accelerating importance of the online and convenience channels, where Morrisons is currently under-represented, and by targeted couponing which was particularly prevalent in the market this Christmas."– Spokesperson

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Sector	Company	2013 Growth (UK only est)	Xmas 2012 vs Xmas 2013 (like for like sales)	Reported company comments on performance
Fashion	Next	7.6%	↑ 12%, (with Online sales up markedly)	"We had a good season and a lot of ranges were better than the previous year." "…shoppers' growing confidence in ordering online for delivery to homes and stores, which helped the company capitalise on a late surge in sales this year." – CEO Simon Wolfson
	Asos	39.5%	↑ 38%	"These results were driven by significant improvements to our customer proposition, including better delivery options, additional payment methods and the rollout of our premier service in key international markets" - Nick Robertson, CEO.
	Shop Direct	1%	↑ 5%, (Digital up 14%, of which mobile sales were up 64%)	"We also made big strides in ecommerce. Mobile exploded as a source of both traffic and sales. More than half of all visits to our websites came from smartphones and tablets this Christmas. " - Alex Baldock, CEO Despite the highly promotional retail environment in the run up to Christmas the retailer "…kept discipline in stock and cost control" and is ahead of its EBITDA and profit targets
	M&S (GM)	0.9%	↓ 2.1% Performance 'well below expectations' (M&S.com sales up 23%)	"We delivered an improved performance in General Merchandise over the important Christmas period, with sales up 1.5% in a highly promotional market. However, an exceptionally unseasonal October, which saw GM sales down strongly, has resulted in a quarterly performance below our expectations." Marc Bolland CEO

Sector	Company	2013 Growth (UK only est)	Xmas 2012 vs Xmas 2013 (like for like sales)	Reported company comments on performance
Department Stores	John Lewis	8.9%	6.9% (Online sales up 22.6%)	"The shift to mobile devices for online shopping has been confirmed but the in-store Sale is well and truly thriving, as shown by the record first day for clearance in our shops on December 27. With new highs in branches as well as for Johnlewis.com, this has been a genuine Omnichannel Christmas." - MD Andy Street
	House of Fraser	3.3%	7.3% (Online sales up 57.7%)	"This performance demonstrates the success of our strategy to continuously improve our online proposition, develop both our house brands and premium branded proposition and invest in our stores to give our customers the best possible shopping experience" CEO John King
	Debenhams	3%	0.1% (Online sales up 27%)	"The market was highly promotional in the run-up to Christmas and we responded to these conditions to ensure our offer was competitive. However, this extremely difficult environment has inevitably had an impact on both our sales and profitability." CEO Michael Sharp
General Merchandise	Argos	1.4%	3.8% (Online sales were around 50% of total sales)	"This growth was supported by a strong performance in mobile commerce sales which represented 20% of total Argos sales in the period. This gives further reinforcement to our plan for Argos to become a digital retail leader.", CEO, Home Retail Group, Terry Duddy "…with its "Check & Reserve" service proving popular" Spokesperson

Strategies for success

The concentrated nature of the Christmas trading period makes it a very useful illustration of emerging trends in the marketplace – and as 2013 confirmed, it's a marketplace that is changing rapidly. This snapshot of the 2013 Christmas period highlights three key trends in particular that will be key to successful retail strategies in the medium term.

1. Is the price right?

It's never been easier for consumers to compare prices. At websites like Mumsnet and many others like it, shoppers can read product reviews, compare prices and share experiences about every product under the sun, simply and easily. The result is systematic, downward pressure on margins – and that pressure is not going to go away any time soon.

Aldi's remarkable sales growth is a good illustration of the importance of price - and perceived value - to consumers. The introduction of high quality products at affordable prices was a key driver of growth - "cutting the cost of Christmas and not the celebrations."

At the other end of the scale, pricing was a major factor in Debenhams' disappointing performance over the Christmas period, with CEO Michael Sharp pointing to the need to remain competitive in a highly promotional market as having "a major impact on both sales and profitability."

The inevitable, and uncomfortable, outcome of increasing price consciousness is that retail businesses will have to get used to lower margins over the long term. To remain competitive, they will need to ensure their business model is fit for the market they operate in and drive all unnecessary costs out of the business. For example, businesses that performed well in the fashion sector, such as Shop Direct, were able to avoid reducing prices too early through maintaining discipline in stock and cost control.

2. Quick and easy

Consumers' appetite for increasing convenience is providing insatiable. Your customers expect to be able to interact with you anytime, anywhere, and on anything – and there are big rewards if you can satisfy their customers' needs faster and more easily than your rivals.

Many of the businesses that performed well over the Christmas trading period demonstrated a commitment to making the customer journey as easy as possible. Asos CEO Nick Robertson credited their like-on-like growth of almost 40% to 'significant improvements in our customer proposition, including better delivery options, additional payment methods and a new premier service in key international markets."

John Lewis Managing Director Andy Street pointed to a 'genuine Omnichannel Christmas' which saw record in-branch sales as well as a significant increase in online sales. At Argos, m-commerce sales accounted for 20% of all sales, while their 'Check and Reserve' service, which enables customers to reserve items to be picked up at their convenience, also proved popular.

In contrast, Morrisons identified their lack of convenience stores and online presence as major contributors to their disappointing performance. However, having a presence across all channels is not enough in itself. The key is connecting the dots to provide customers with a consistent experience, however they choose to interact with you.

3. Brand value and knowing your customer

While consumers are increasingly price-conscious, they also remain very brand-conscious (both national and retailer brands). In fact, with an ever-increasing choice of products, channels and purchase methods, a clear, relevant brand proposition is in many ways more important than ever. Events such as the horsemeat scandal have increased the value to consumers of brands they know and trust. A strong brand can also help to offset the ever-increasing pressure on margins - many customers are willing to pay more for a brand they trust than they would for a product they have little or no relationship with.

Companies with a well-differentiated brand proposition and an excellent understanding of their customers such as Next fared well over the Christmas period. Next's clear value proposition - good quality products at competitive prices delivered in a consistent manner – helped drive a 12% increase in like-for-like sales. CEO Simon Wolfson also credited increasing shopper confidence in ordering online as a contributing factor. Brands with a less targeted proposition like M&S, Debenhams and Tesco, in contrast, registered disappointed performances. In trying to be most things to most people, they may be struggling to convince customers of exactly why they should buy from them, instead of their competitors.

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> Nick Robertson, CEO, Asos

Conclusion

The 2013 Christmas trading period showed once again, if further proof was needed, that the retail sector is continuing to undergo rapid and fundamental change – and that succeeding in retail is more complex and more difficult than ever.

Consumers have become accustomed to 'austerity' pricing, along with much greater real-time visibility of prices. As a result, a structural change is occurring in the sector which will result in lower margins over the long term. Consumers have also become accustomed to 'anytime, anywhere' convenience and a plethora of options which have made purchasing decisions increasingly complex.

It's no longer enough to compete on one facet only. Customers want the best price, but they also want convenience. They want the ability to purchase online, but they also want to touch and feel the product. They want quality, but they may not be prepared to pay as much of a premium for it as they used to. Purchase decisions often involve a complex series of trade-offs between each of these factors.

To succeed, businesses must touch all of these buttons. They will need to ensure that their business model can deliver sustainable returns while remaining relevant to their customers. They will need to offer customers a consistent and convenient experience right across the customer journey. And they will need to make sure they and their customers clearly understand what their brand stands for.

If it sounds difficult, it is. But as Christmas 2013 showed, it is not impossible – and there are significant opportunities for those who can adapt best to the challenge.

We do not have a crystal ball to give us the definitive answer on who will continue building on their current positive momentum, who will learn from their disappointments and who will remain a loser but rest assured those that place the customer in the heart of their operation, execute rigorously and balance cost and investment intelligently are likely to be winners.

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Boxwood work together with ambitious CEO's to design and implement programmes that deliver growth and improved profitability. We help refocus what it takes to improve business performance; and bring clarity and fresh momentum to overcome critical barriers which hold back business performance. Boxwood is a niche consultancy that specialises in business transformation

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