



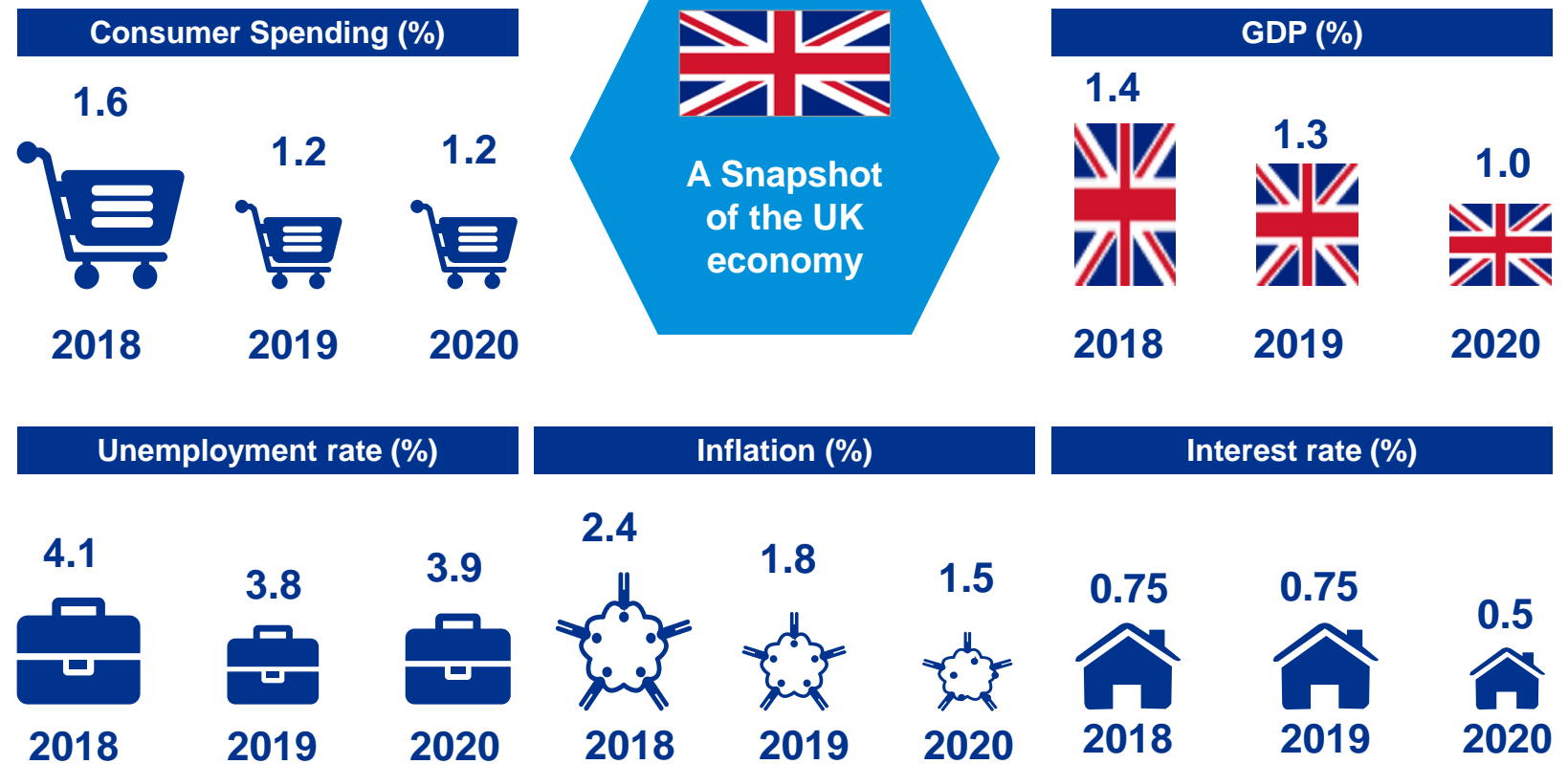
UK retail outlook and key trends

Don Williams, Partner - Retail

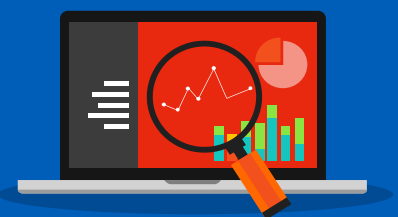
February 2020



Short term outlook for the UK Economy



Source: ONS, KPMG forecasts. Average % change on previous calendar year except for unemployment rate, which is average annual rate. Investment represents Gross Fixed Capital Formation, inflation measure used is CPI and unemployment measure is LFS. Interest rate represents level at the end of calendar year.



BRC KPMG retail sales monitor

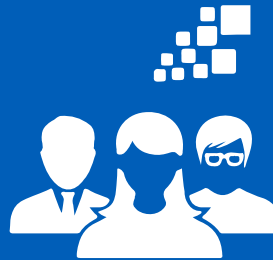
	January 2020	January 2019
UK retail sales (LFL)	0.0%	1.8%
UK total sales	0.4%	2.2%
Online sales – non-food	2.5%	5.4%
Online penetration rate	30.6%	29.5%
	Three months to January 2020	12 month average to January 2020
Food sales (LFL)	(0.1)%	
Total food sales	0.6%	1.2%
Non-food retail sales (LFL)	(1.5)%	
Non-food retail sales (total)	(1.3)%	(1.3)%
Online sales – non-food	2.6%	3.1%
Instore sales – non-food (total)	(3.0)%	(3.1)%
Instore sales – non-food (LFL)	(3.3)%	(3.2)%

2020 Retail outlook

Cautious growth in 2020



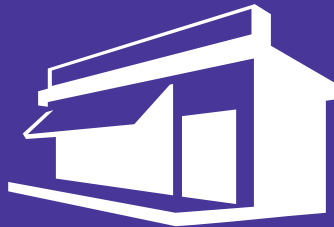
Changing consumer demand



Food - Structural changes to the sector



Retailers will seek to ease rental pressure



Technology will aid sales growth



Continued failures of legacy retailers





Dynamite and Trends

6 points that are driving the distress on the high street

Geo-political & macro-economic



Instability both locally and globally causing increased costs and reduced consumer confidence

Regulatory & compliance related costs



Looking forward and back two years there are a long list of key themes which are affecting retailers

Structural changes to the sector



10 years ago, online penetration was 6%, it is now 18% - a shift in how shoppers are using channels

Over-supply of physical stores



We estimate a 30% over supply of physical stores

High-levels of debt



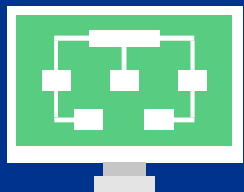
Over the last 2 decades the retail sector has accumulated a significant amount of debt often resulting in to higher leverage

Lack of leadership talent



There is not enough leadership talent across the sector as those that led the growth of 90s and 00s often don't have toolkit to drive the necessary changes

10+1 key trends shaping the retail landscape



Business model



Internationalisation



Innovation



Discounters



Declining margins and productivity



Supply chain and fulfilment



Emerging technology



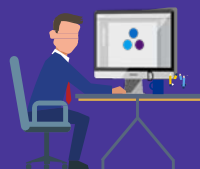
Consumer power








Consolidation



Purpose and reputation



People and ways of working

Key  Growth  Cost and Efficiency  Customer  Protection and compliance  People



NRF 2020

Global Retail Trends Emerging from NRF in 2020



As customer demands continue to rise, retailers can't do it all with limited resources. Retailers will need to reconsider their business models and consider partnerships to stay relevant.

01 Business models and partnerships



With current disruption and debt equity of technology and talent today, retailers need to evolve with the times or be left behind. The cost of doing business is only increasing and retailers need to identify how to most effectively use their resources to grow.

02 Cost of doing business



If retailers cannot articulate why they are a business and what they stand for, increasingly they will not have the legitimacy to exist as a business.

03 Sustainability and higher purpose

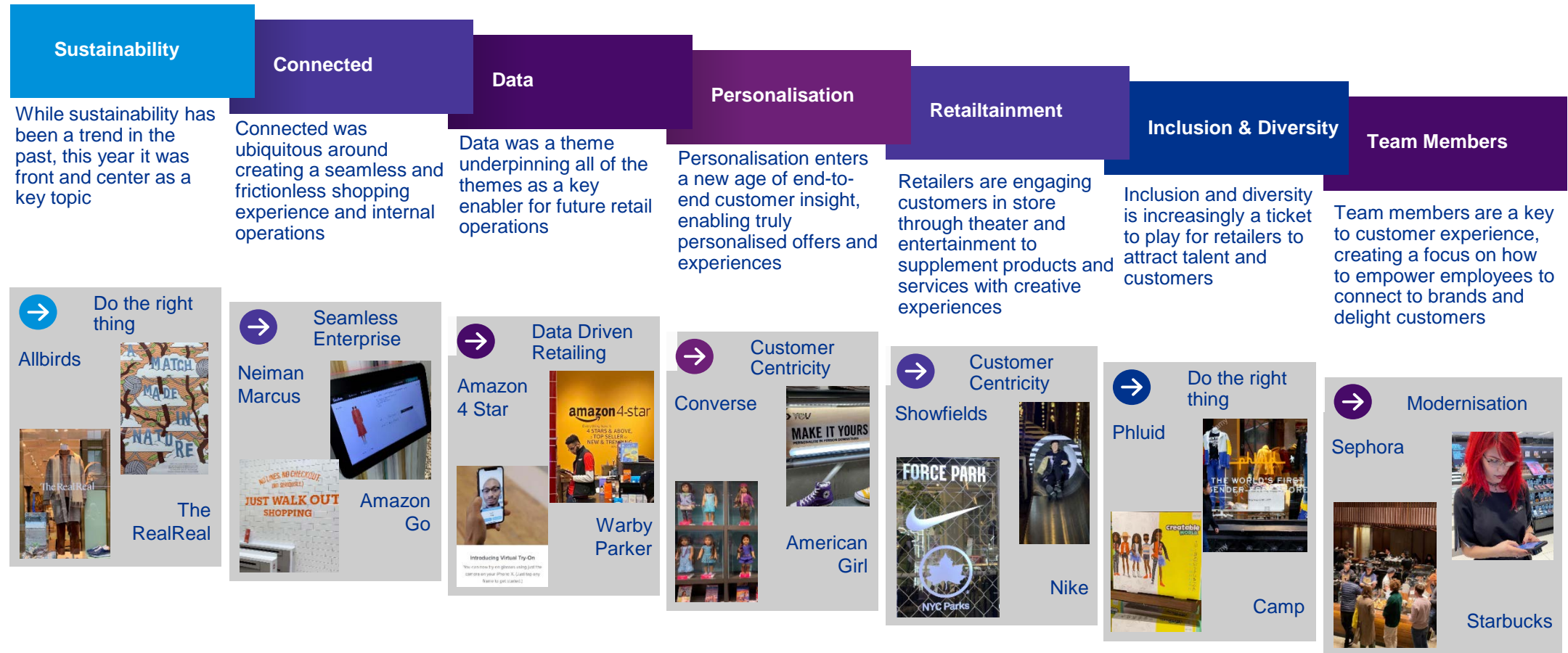


If retailers don't know who their customers are and why they want to interact with their brand, they are very likely to disappear. Retail is transitioning from a push (B2C) to a pull (C2B) model.

04 Customer

Themes from NRF

While at NRF, the following themes were observed through the expo, retail store tours and speaker sessions:





KPMG Retail Survey 2020

Annual Retail Survey 2020



Overview

- Over 1,300 survey respondents from KPMG UK employees
- 50+ questions focusing on customer journey and fulfilment, from browsing through to returns
- Over 130 Brands and Retailers
- Power BI analytics dashboard
- Covering Black Friday and Christmas Trading Period
- Hard and soft copies available

Key themes

1. Black Friday
2. Routes to Market
3. Political and Economic Environment
4. Customer
5. Deliver options
6. Returns

Summary

TAKEAWAYS

1. **Black Friday**: a firm fixture in retail and **consumer diaries**
2. Data is key to understanding the **profitability of the routes to market** and optimising different **supply chains**
3. Turbulent times are ahead from an **economic, global trade, tariffs, taxes** and **sustainability** and **awareness** perspective
4. Retailers need to really understand **profitability by customer, by channel** especially including returns
5. **Delivery** and **last mile** are an integral part of the **customer experience** now
6. **A cost effective and efficient** returns process is now key to **profitable retail business**

FOCUS AREAS

1. Tactical roadmap for 2020 (not just for Christmas)
2. Supply Chain Analytics & Insight
3. Economic, Trade and Tariff 'what-if' modelling
4. Multi-channel Cost to Serve
5. End to end customer journey mapping
6. Optimised returns process



If you would like to discuss any item of this content in more detail or you would like to receive the thought pieces and research on the retail sector that we produce, please contact:

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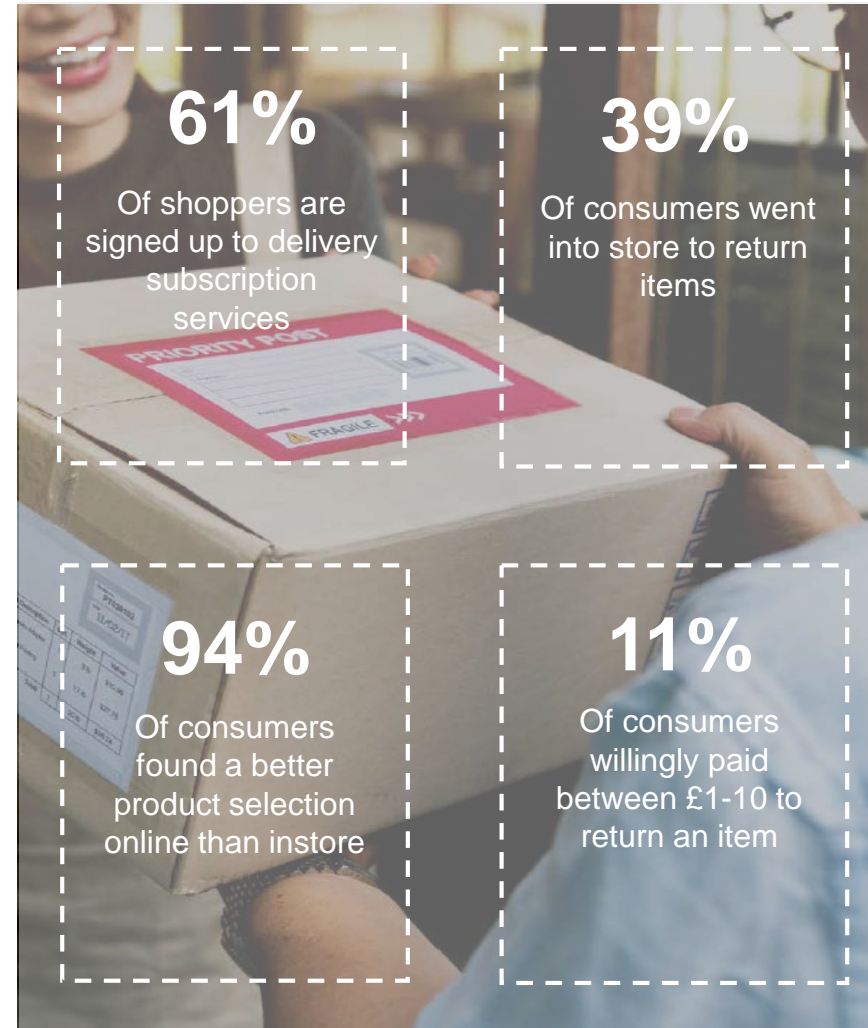
Survey Insights

- Over half of consumers are waiting for, and use, **Black Friday** to purchase **Christmas presents**
- Almost a third of consumers **trust delivery providers**, an increase on 16% last year
- Over a third of consumers are **aware of sustainability practices** and this is **influencing purchasing decisions** i.e. Click & Collect
- The **store is not dead**, with 83% of consumers using the store as a **showroom** and **fitting room**
- More consumers are using **credit options** and this **increases basket size** e.g. Buy Now, Pay Later Schemes'



Survey Insights

- **Over a third** of consumers used the **high-street to return items**, proving **customer experience & services** in stores is key
- **Online availability** and **product offering** is a key **driver for consumers**, with 94% finding a better selection online than instore
- 11% of consumers were not dissuaded by **paying a returns delivery charge**, with some paying **up to £10**





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