

# THE YEAR AHEAD

# How will retail play out in 2015

After another year of rapid change in 2014 the outlook for many retailers appears rosier this year.

Real wage growth, a cause for concern for many retailers in recent years, is expected to offset a housing market that may cool a little and continued low levels of consumer confidence in 2015.

Growing disposable income and low interest rates are forecast to drive discretionary spending ahead of the election in May, which could bring further uncertainty.

As the overall outlook appears to take a turn for the better, *Retail Week* examines the key themes that are likely to dominate particular sectors.

## Home, furniture & DIY



An improvement in fortunes can be expected in the home and furniture market in 2015 as it builds on the first real year of growth since the downturn.

Conlumino managing director Neil Saunders predicts momentum will continue this year because of a "good volume of housing transactions and a bit more consumer confidence".

However, despite a relatively robust property market, DIY retailers will face another tough year because of the growing trend of the British public becoming ever more reliant on tradesmen.

John Walden, boss of Homebase parent Home Retail, has lamented the lack of DIY skills among the nation's youth, something that is driving the growth of trade specialists such as Screwfix.

Saunders argues DIY retailers – with the exception of Screwfix – will have to "pull their socks up" when it comes to their ecommerce propositions to make the most of what has been a "lost opportunity" to date.

Although consumer confidence is nudging up, people are less keen to splurge on a mass overhaul of their homes.

Saunders believes "piecemeal purchasing" will dominate 2015 as shoppers buy "statement pieces" for their homes and only refresh certain elements of rooms because it is more cost-effective. Consequently, retailers will need to focus on inspiration and innovation to win shoppers' attention.

Home retailers are also expected to move away from a relentless focus on price this year. For example, Carpetright is overhauling its website to highlight design and inspiration.

"The market is more buoyant so price is not as important a tool as it once was," says Saunders. "Value for money is still very important and that extends to the added value element including customer service, interest-free credit and free delivery."

The usual concerns about a general election affecting sales of big-ticket items have been mooted.

However, Saunders believes the present lack of any clear policies that will materially impact consumers, such as a rise in VAT, indicates it will be business as usual in 2015.

**"The market is more buoyant so price is not as important"**

Neil Saunders, Conlumino

## Fashion



Many fashion retailers were left with a Christmas hangover of items such as coats and boots after the unseasonal weather in the last quarter of 2014 hit demand for winter warmers.

It is possible these challenges will continue into the first quarter of 2015 as the retailers aim to flog unsold stock.

Having learned hard lessons from the extreme weather conditions throughout last year – from the floods to the warm autumn – fashion retailers that offer customers a wider range of transitional stock will be the winners in 2015.

This year some retailers are likely to look at ways they can manufacture closer to home, in countries including Turkey and Bulgaria – a trend that has taken off in the past couple of years – as they seek to become faster fashion retailers, churning out trend-led pieces from factory to shopfloor in record time.

While many retailers will continue to manufacture further afield, attracted by cheap labour, Verdict lead retail analyst Honor Westnedge notes that rising wages in China will encourage apparel brands to shift production to countries such as Bangladesh and Vietnam to take advantage of lower manufacturing costs.

Whistles and Bonmarché were two of the more notable retailers to make a play into the menswear market in 2014, and that trend is expected to continue into this year. "Womenswear has become a mature market so the opportunity lies in menswear," says Westnedge. "There's a lot more demand in this market as men become braver in their style."

In womenswear, retailers are expected to seek to broaden their ranges and increase investment in niche categories such as sportswear, petite, plus-size and maternitywear. "Over the last few years, retailers focused on their core proposition to drive footfall to secure and protect sales," explains Westnedge. "They were unwilling to allocate investment in niche but we're coming through the worst and we'll see more retailers invest in these areas to draw in a larger customer base."

**"We're coming through the worst"**

Honor Westnedge, Verdict



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## Grocery

Years of gradual change in the grocery sector came to a head in 2014 when Aldi, Lidl and Waitrose accelerated their growth at the expense of the big four. The rise of the discounters, online and convenience put immense pressure on the established players, resulting in a year of seismic change.

That competitive and aggressive environment is expected to play into 2015 as the big four continue to invest heavily in price as they fight back.

Aldi and Lidl's share will continue to climb as they embark on store opening programmes. And value retailers including Poundland and 99p Stores are likely to provide further headaches for the supermarkets as they expand their grocery ranges.

Bryan Roberts, director of retail insights at Kantar Retail, anticipates another tough year for the grocery sector. "Aldi and Lidl have barely scratched the surface in the UK and a lot of the anticipated moves from some of the big four will continue to inflict damage on the market as they sharpen their focus more on price," he believes.

The price war of 2014 is poised to intensify in the year ahead. "Everyone is locked into a price-matching Mexican standoff and everyone has to follow suit," says Roberts.

Larger grocers will continue to seek locations for c-stores but they will also address overcapacity this year, offloading some of their bigger branches in areas where they have too many stores. They are also expected to be more savvy with their existing store space.

"We'll see some retailers repurpose and reinvent their stores this year," says Roberts. "Tesco has been repurposing its space to third parties for some time, giving space to Giraffe, Mothercare and Harris + Hoole. It'll probably happen less at Asda as it's got George and that's a brilliant brand and it drives footfall."

Far from offering customers more choice in 2015, some of the grocers could change tack and rationalise their product range.

"Retailers sell far too many items and it's confusing for the shopper and costly for retailers. The big four can't win on price against Aldi and Lidl but they need to realise that they can make their stores simpler and quicker to shop in," observes Roberts.



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**Bryan Roberts,  
Kantar Retail**

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## Entertainment



In 2014 the entertainment market was characterised by the resurgence of sales of physical goods such as books. However, a number of digital

innovations suggest the rally of physical sales was only a swan song.

Peel Hunt analyst John Stevenson says a tipping point is approaching when children will begin consuming more digital entertainment as a result of the emergence of affordable children's tablets such as the Kids' version of the Kindle Fire.

"The saving grace for the physical sector has been non-fiction such as cookbooks and children's books," says Stevenson. "In the next couple of years we will start to see more children-related digital content."

Streaming services will increasingly come to dominate music retail as Apple seeks to emulate the success of Spotify.

A key factor in Apple's decision to buy Beats Electronics was the latter's nascent music streaming service, rather than its more renowned headphones business.

A move into streaming could prove a particularly canny one for Apple in the UK after Chancellor George Osborne clamped down on a tax loophole in a finance bill introduced on January 1. The closing of the loophole means consumers will no longer pay VAT at low foreign rates on online purchases of books, music and apps, and is expected to spell the end of the 99p song download.

However, Stevenson believes the entertainment sector as a whole will receive a boost from growing disposable income because of wage growth outstripping inflation.

In addition falling petrol costs will result in a "feel good factor" that will benefit leisure and entertainment spending, he says.

A big winner this year is likely to be Game because sales volumes of next-generation consoles will pick up considerably as hardware prices fall and price cuts kick in around September.

Although Stevenson thinks that in the long term entertainment retailers will begin to drift away from the high street, he believes that will happen beyond 2015 because the sector is still in a "growth cycle".

**"The saving grace for the physical sector has been non-fiction"**

**John Stevenson,  
Peel Hunt**



## Electricals



As ever, the year in electricals will be dominated by the level of innovation on show.

In 2014 sales of tablets dropped. That was largely attributed to

saturation of the market and a lack of any great innovation from Apple and its rivals.

Kantar Retail insights director Himanshu Pal argues more innovation is needed in 2015 and he forecasts Apple will be back on form to revolutionise the sector.

"2015 will most likely be the year wearable technology hits the mainstream and it will be the launch of Apple's smartwatch that drives this agenda," says Pal.

Dixons Carphone is banking on wearable technology chiming with consumers this year and will roll out 'Smart Tech Zones' to around 200 of its stores.

The retailer thinks the opportunity represented by the 'internet of things', which enables users to connect appliances such as fridge freezers to the internet, is worth £5bn.

Ao.com's rise and Amazon's dominance can be expected to continue this year, but Pal believes retailers such as Dixons Carphone and John Lewis are well placed to fight off pure-play rivals.

"Dixons will look to advocate a total care package, meaning the greatest level of service before you make a purchase, while you make a purchase, and after you have made a purchase," says Pal.

After an action-packed year in the sector in 2014, this year looks likely to be dominated by innovation and service as retailers aim to differentiate in the highly competitive market.

**"2015 will most likely be the year wearable technology hits the mainstream"**

**Himanshu Pal,  
Kantar Retail**

## Health & beauty



Consumers' interest in health and beauty – particularly wellness and fitness – shows no sign of abating, and Mintel forecasts sales in

the market to reach £22.1bn in 2015, up from £21.5bn in 2014.

The year ahead could see smart retailers finding a way to tap into consumers' interest in fitness and data, says Mintel's senior trends consultant Richard Cope.

"Self-analysis in this area will start growing and the health space will have to start helping consumers process their data more," says Cope.

"More people are logging their health data such as what they're consuming, through apps and so forth, so it makes sense for trusted retailers such as Boots or even the grocers to help people understand the process a bit more."

Travel retail has become an increasingly popular and savvy way for retailers to target the on-the-go consumer and health and beauty retailers could take advantage of that trend more in 2015 by offering quick-fix beauty services, Cope believes.

He says there is an opportunity for retailers to use vending machines to enable time-pressed shoppers to pick up toiletries, for example.

"Retailers could use these to sell practical products like tissues or cosmetics and they can even be customisable," he adds. He cites L'Oréal, which launched an interactive vending machine that used cameras and sensors to recommend products at a New York Subway station in 2013.

Consumers will also be snapping up anything that will protect them against pollution.

"With more media focus on this area, we're definitely going to see increased spend," says Cope.

**"More people are logging their health data through apps"**

**Richard Cope,  
Mintel**

