

## ANALYSIS

# Retail's new year

A general election looms bringing the possibility of political upheaval, making it harder for retailers to plan for 2015. **Rebecca Thomson** and **Grace Bowden** list the things retailers will be working on and what businesses hope will go in their favour in the year ahead

**A**s retailers tally up the scores after the Christmas rush they will hope to receive a particular set of gifts themselves to help deal with the challenges of 2015. Several trends that have emerged in recent years will continue to present hurdles and offer opportunities. From the general election to the erosion of customer loyalty, here's what retailers will need to contend with – and what will help them boost performance.

## ● Reform of business rates

Retailers will hope that whichever party or parties emerge victorious in May will finally grasp the nettle on business rates and deliver root-and-branch reform. Chancellor George Osborne announced a review of the system in last year's Autumn Statement and retailers will want it to lead to fundamental change.

## ● A warm spring and a cold autumn

The mild autumn helped no-one last year as cold weather failed to materialise until well into November. Retailers will pray for more normal seasonality to help drive fashion sales.

## ● Robust consumer confidence

After rallying early in 2014, consumer confidence faltered in later months as shoppers continued to harbour uncertainties about the economy. This year retailers want consumer sentiment to improve on a sustained basis.

## ● Stronger customer loyalty

Loyalty has been on the wane for several years as consumers choose to shop around and become increasingly promiscuous about where they spend. The big grocers have been particularly affected in the past year as shoppers defected to Aldi and Lidl, or traded up to Waitrose. A loyal band of merry customers will be near the top of every retailer's wish list.

Retailers will particularly hope for stronger digital loyalty. Ben Perkins, head of consumer business research at Deloitte, says: "2015 could be a transformational year for customer loyalty, moving away from card-based point systems to a personalised, digital offer."

## ● Stability in international markets

Russia and Ukraine were perhaps the most problematic international markets last year for retailers, who found it difficult to operate because of unrest in the region. New Look was hit by the problems – in November it revealed it had closed its 20 stores in the countries. Chief executive Anders Kristiansen said at the time: "All retailers are having an extremely tough time in Russia. The energy, drive and money [we were investing in] for Russia, we are now channelling into China, where we are doing exceptionally well."

## ● Increased consumer trust

Success in retail in 2014 relied in part on how much retailers were trusted by shoppers, and this year will be no different. Trust in retailers took a serious drubbing in 2013, when the Bangladesh factory collapse and horse meat scandal hit the headlines. Trust is still an issue, and there continued to be problems last year – not least the investigation into chicken hygiene in July following an industry-wide exposé of hygiene standards.

**"It could be a transformational year for loyalty, moving away from point systems"** Ben Perkins, Deloitte





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# Year wishlist



## ● Likeability

One lesson to come out of Tesco's troubles last year was the importance of being liked. The grocer's declining popularity among shoppers was a key cause of many of its problems, and one of its priorities is to reconnect with consumers and get them back on side. Its monolithic, corporate image – built up over several years – has alienated it from shoppers, demonstrating the crucial importance of being liked.

## ● Greater economic certainty

General elections have a habit of increasing economic uncertainty. Retailers will want this year's proceedings to have as minimal impact on consumer spending as possible.

## ● A level playing field on taxes

Amazon, Starbucks and Google have all been accused of not paying fair tax on the revenue they earn in the UK, and George Osborne reportedly has plans to take measures to ensure that stops. Some big retailers will hope that action follows the noise surrounding the issue.

## ● Staff with the right digital skills

It's never easy to find the right people to support a business's growth, and that is particularly true in the digital age. In an environment where the right digital offer is crucial for retailers whose business models need to evolve, finding a digital maven capable of guiding ecommerce through its next phase would be the perfect gift for many retailers this year.

## ● International talent and franchise partners

International expansion is just as difficult to get right as digital growth – and in some cases, more so. In many markets success can only be achieved by finding the right partners to work with, and retailers will be searching high and low for the best franchisees or international talent. ▶



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**“2015 looks like it could be the year that mobile payments take off in a more serious way”**

## ► ● Investor confidence remaining high

2014 was the year of the retail IPO – 12 retailers floated on the stock market, a boon for an industry that had sometimes attracted little attention from public investors in the recession and its aftermath. There are no imminent retail flotations but retailers including SCS and Office have been the subjects of speculation in the past few months.

## ● Higher disposable income

Wages in the UK have failed to keep pace with inflation over the past few years, leading to consumers feeling the pinch as disposable income takes a hit. Retailers will hope wages start to creep up, providing a boost to the consumer economy.

## ● A mobile payments crystal ball

2015 looks like it could be the year that mobile payments take off in a more serious way, and retailers may finally have to start taking some punts on the services they think will win. Despite delays Apple Pay is expected to launch in the UK in the first half of the year, and there are already a number of competing services. It's not an easy gamble to make, and retailers will wish they could gaze into the future when it comes to choosing where to invest.

## ● A store format that travels

Travel retail is going from strength to strength. Airports and stations are playing a role in everything from international expansion to delivery via click-and-collect at Tube stations. It will only become more important as retailers come up with formats that will help them take advantage of the trend. There are also big

infrastructure projects such as Crossrail nearing completion, as well as a decision on an extension to either Heathrow or Gatwick, meaning this subject will remain high on the agenda.

## ● UK deficit reduction

The UK's budget deficit is one of the biggest in Europe and the International Monetary Fund expects it to be 5.3% of 2014's GDP. The deficit is still growing, despite the past five years of austerity measures from the Government. Unless tax revenues start to increase next year, more austerity measures will be required to cut the deficit.

The retail industry will be hoping for higher tax revenues in 2015. Otherwise further cuts and austerity measures will dampen consumers' spending appetites once more. The trick, of course, will be increasing tax revenues without denting disposable incomes.

## ● A creative approach to retailing

There is no World Cup or royal wedding planned for 2015, so retailers will have to exploit other ways of prompting spending. Some of these will be external and out of their control – fashion retailers might keep a hopeful eye on what the Duchess of Cambridge is wearing, for instance. But others can come from

clever ideas from internal marketing departments or agencies. Last year's ice bucket challenge, while not a retail-related campaign, showed how quickly ideas can become popular and go viral. Retailers will aim to strike it lucky with a great idea that spreads like wildfire, creates a good feeling around a brand, and ultimately leads to sales.

## ● Seamless technology

It might be wishful thinking to expect easy integration of store technology in ecommerce, but retailers can dream. Chief information officers and ecommerce directors will continue to work on their vision of multichannel nirvana, joining up systems and trying to create a customer offer that blends the channels seamlessly.

In 2014 several retailers, including John Lewis, spent much time and money investing in legacy system overhauls. This year that work will carry on but, at the same time, more changes will be visible to the customer.

Michelle Beeson, retail analyst at research firm Forrester, says: “Ideal for retailers in 2015 will be integration of in-store technology, providing a consistent in-store experience across touch points.” This will include, she believes, personalised emails, a strong social media presence, a responsive online experience and an in-store experience that also harnesses digital insight. ■

