

GOLDEN-QUARTER TRADING

AFTER A ROLLERCOASTER PEAK TRADING PERIOD

Will retail ever be the same again?



That's the question guest

editor **Theo Paphitis** wanted answered after one of the most volatile trading periods in memory. **Retail Week** spoke to industry leaders to find out



Christmas trading used to be comfortably predictable – there was a steady build-up before shoppers threw their purses wide open in December, culminating in a last-minute rush to the high street, followed swiftly by the Boxing Day and New Year's Sales frenzy.

No more. Last year the typical pattern was turned topsy-turvy in one of the most nail-biting peak periods in memory.

The traditional build-up to Christmas evaporated as shoppers capitalised on Black Friday deals in November, left their Christmas shopping late with the prospect of fast fulfilment of online orders, and then pounced again on discounted goods in the Sales.

Retailers had experienced this in Christmas 2014 but the pattern was exacerbated in 2015.

John Lewis managing director Andy Street characterised the new shape of trading as “three peaks”. And Home Retail chief executive John Walden described trading patterns as “volatile” when he updated on a tough Christmas. He noted “particularly strong sales during Black Friday week, a shift in consumer demand from both the weeks before and after Black Friday, growth in digital transactions, reduced store footfall – particularly on the high streets – and the continuing effects of price deflation”.

Now, as retailers plan their budgets for the year, they are trying to work out whether this pattern is here to stay. Or will 2016 be as unpredictable as last year? And will Black Friday

remain such a prevalent phenomenon?

Veteran industry analyst Richard Hyman of Richardtalksretail believes the industry landscape has indeed changed forever.

“This is the most promotional retail market that we’ve ever seen and the whole pattern of consumer behaviour has changed,” he says.

“The amount of time that retailers are trading at full price is now alarmingly small and this is helping to completely redefine the economics of the industry.”

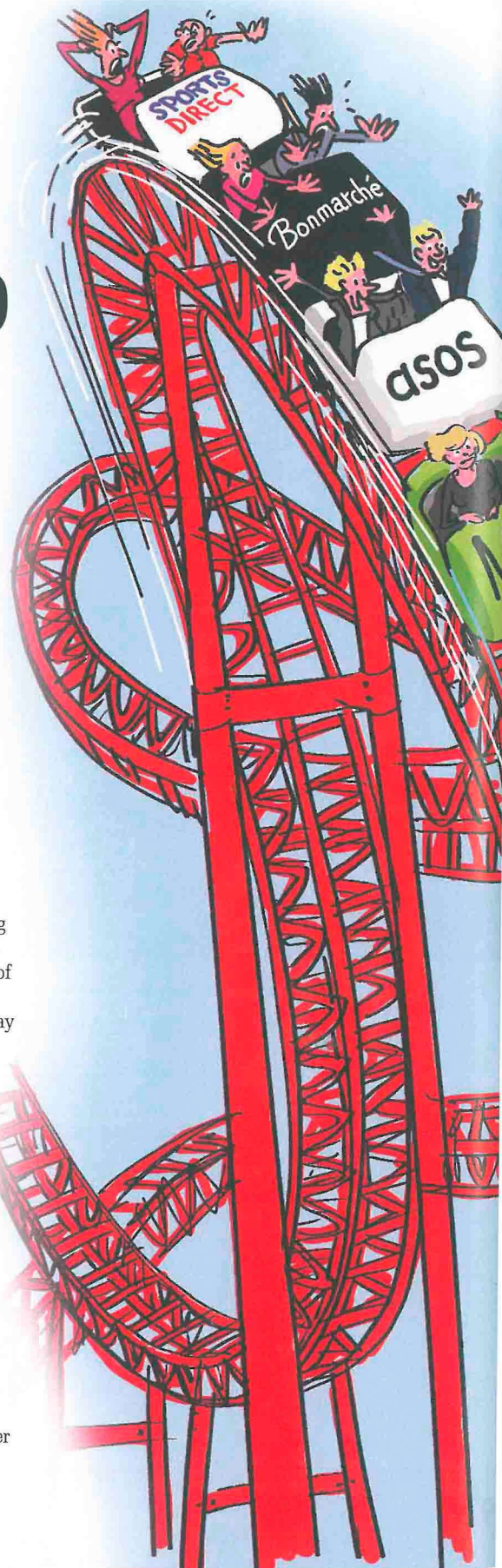
A big contributor is the impact of Black Friday and the wider shift to online shopping. Online sales jumped 12% to £24.4bn in the eight weeks to December 26, according to IMRG figures.

Retailers including John Lewis and Shop Direct had their biggest ever trading days around Black Friday, and those with a bricks-and-mortar presence observed that there was a big drop-off in store sales for weeks after the promotions bonanza.

Online shift

At Argos, for instance, sales rose 23% over the Black Friday week with online shopping accounting for 62% of the total, but in December there was a 13% slump in ‘walk-in’ revenue – sales generated without a digital element.

The shift to digital played well for retailers. Looking back over the peak period, Alex



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Baldock, boss of pure-play retailer Shop Direct, agrees that the shape of peak trading has changed, but argues that it makes a "good fit" for his business.

"It has certainly introduced a new promo peak and there is no reason that will change, though how peaky that peak is might change," he says. "It is not for everyone but it fits with our strengths."

Asos chief executive Nick Beighton says the fashion retailer experienced two peaks this year – Black Friday and Boxing Day – rather than three like John Lewis. He told analysts when he updated that the autumn/winter period has "changed forever".

"The balance of trade has changed," he says. "It was a quieter run-in to the Cyber Weekend and correspondingly quieter immediately afterwards in the first week of December. But November's Cyber Weekend was the biggest [peak of Christmas trading] without a shadow of a doubt."

He suggests some promotional extravaganzas, such as Black Friday, could become even more online-focused. "Events will pull away to be more of a mobile or online event and less of a bricks-and-mortar event," he says.

Black Friday impact

For better or for worse, Black Friday has now set the tone for the peak trading period.

Hyman argues that is not a welcome development, echoing some other retailers including departing Marks & Spencer boss Marc Bolland.

"The industry is gradually realising what a disadvantageous thing Black Friday is," Hyman says. "For the vast majority, it's economically damaging in every conceivable way. The problem is, I'm not sure how much choice there is in the matter."

Walden concedes that there is a "love/hate relationship" in the industry for Black Friday but says the event is unlikely to disappear.

"We saw people spread their promotions out a bit last year to make it a week instead of a day and I think that will continue as it has done in the US."

Retrenchment

But some retailers believe the genie can be put back in the bottle. The hope is that others will follow Asda's lead last year and opt out.

Mothercare boss Mark Newton-Jones says: "Retailers will start realising that discounting when footfall is up is a bad idea and the consumer will realise that the event is not as big and will return to normal shopping habits. The peaks will be here for a couple of years only."

Fortnum & Mason boss Ewan Venters also argues there is a way back from the US-inspired Sales phenomenon.

"You already saw a step away

from the activities of 2014 and I think you'll see more people do the same this year," he says.

"Black Friday will probably get back to that original premise, which was a white goods, electricals-based promotion."

Hyman points out that avoiding participation in Black Friday need not damage trade even when competitors are discounting. "Businesses like Jigsaw opted out of Black Friday and they traded really strongly," he says.

But he warns: "The problem is, a lot of retailers don't feel they can. That says a lot about the market we are in today."

"They are not confident they will generate sufficient sales. They are not confident enough in the brand relationship they have with their customers."

The discount drug

As customers have adopted a discount mentality, many retailers have followed that path, which has sparked concerns about long-term stability.

"Discount business models are built to deliver good returns off very low margins," says Hyman. "The overwhelming majority of retailers that are discounting today have full-price models."

"It's not just a matter of cutting a few jobs, it's much more complicated than that and can't be done at the drop of a hat."

And as promotions such as Black Friday are increasingly played out online, there are other implications for retailers.

At some of the retailers that were most successful last Christmas, online sales accounted for about 40% of the total.

A lesson from the peak period must be that retailers where that is not the case should bolster their online operations.

But that will not be a panacea in itself because of the expense involved. The cost of fulfilment for instance is an issue that some big retailers have started to address.

John Lewis last year introduced a £2 charge on click-and-collect orders less than £30, while Tesco has also introduced a surcharge on orders under £30.

Fortnum & Mason's Venters says: "I can totally understand why that has to happen. I'm very anti-free delivery. It sets the wrong tone and ill informs the customer about the real cost of getting that product to a certain location."

But before the industry hits peak trading again this year, Hyman believes some retailers may have already fallen by the wayside.

"Demand is relatively soft, so I'm forecasting the beginnings of a serious shake-out in the second half of this year," he cautions. "There are too many mouths to feed and I don't think there is enough business to go around."

After a rollercoaster, frequently discount-driven Christmas, preparing for 2016 will tax the brains of many retailers. Everything changed last year and perhaps the best approach for retailers to take as they plan is to assume that this year will be predictably unpredictable.

