THE BIG STORY

It's been a turbulent year in almost every sphere – and retail has had its fair share of ups and downs. Here the *Retail Week* team looks back on a testing twelve months

2016: Brexit, boardro

Brexit and rates blues

Retailers have endured a perfect storm of political factors this year that have added to the challenges of doing business.

Brexit, the national living wage, the apprenticeship levy and a lack of significant action on business rates have all weighed heavily. But Britain's shock decision to leave the EU is likely to have the most long-term impact.

The collapse in the pound against the dollar sparked most concern and though sterling has recovered of late, the drawn-out nature of Brexit negotiations are likely to cause continued uncertainty.

While plenty of retailers are hedged against major currency swings, the clock is ticking on many of these arrangements. Fashion retailers that rely extensively on sourcing product in US dollars are especially vulnerable. The knock-on effect will be higher prices, with Next warning its prices could rise by up to 5% next year.

Aside from Brexit, retailers have grappled with an increase in the national living wage. Tesco, M&S and B&Q were among those that came under fire for changes to pay structures, regarded by some as a way to soak up some of the extra payroll costs.

From next April, the new rate will be £7.50 for over 25s, Chancellor Philip Hammond confirmed in his autumn statement.

West End retailers in particular remained frustrated by the Government's lack of reform on business rates. A shift to bring down the cap on transitional rate relief by Hammond did little to appease London retailers that also face a major hike in their bills from April after the revaluation process.

The industry also remains concerned about the cost and implementation of the Government's apprenticeship levy, which kicks-in next April.

Scandals abound

Some retailers hit the headlines for the wrong reasons this year and were left with their reputations severely tarnished.

Mike Ashley's Sports Direct was embroiled in a media circus after *The Guardian* published an exposé on the working conditions at its Shirebrook warehouse. It claimed that staff were effectively being paid below the minimum wage and raised questions about how they were being treated.

Ashley was hauled in front of MPs and called to account for working conditions at the warehouse.

At an open day for press and investors in September, Ashley stole the limelight by flashing a wad of £50 notes as he went through a dummy security check.

A month later, Sports Direct was forced to deny planting a hidden camera to record an unplanned visit from the MPs who had grilled Ashley during the inquiry.

But overshadowing Ashley's woes was Sir Philip Green, whose knighthood for services to retail has been questioned since BHS slumped into administration this year.

Last year Green sold the chain for £1, with a sizeable pension deficit, to multiple bankrupt Dominic Chappell. The collapse that followed involved the loss of 11,000 jobs and left an as-yet-unplugged pension black hole to the tune of £571m.

Despite pledging to "sort" the pension deficit, Green has yet to resolve the issue and the row wages on. MPs even branded the Arcadia-owner "the unacceptable face of capitalism".

Meanwhile, Chappell has since been arrested over allegations of an unpaid tax bill.

oms and the big four

Tech trends

From Pinterest ads to Pokémon Go!, 2016 was a year packed full of technology innovations.

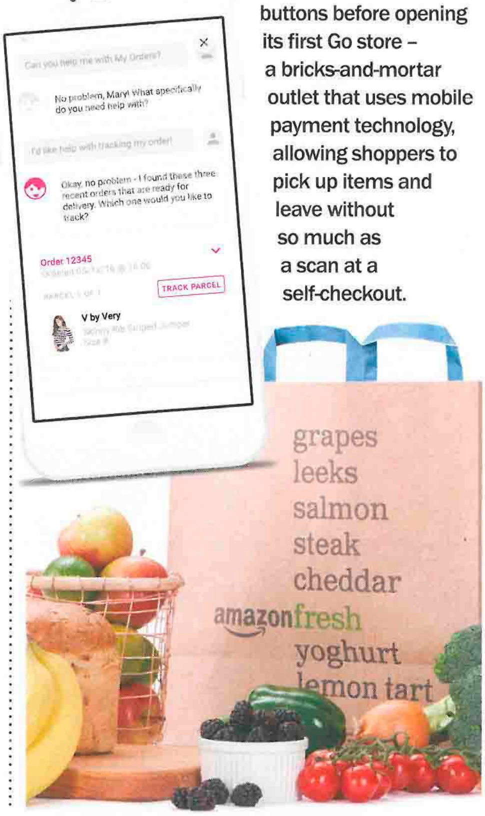
One trend that developed at pace this year was artificial intelligence. Retailers from eBay to Estée Lauder partnered with social media giant Facebook's chatbot technology, offering users personalised recommendations and the opportunity to buy.

Shop Direct boss Alex Baldock told *Retail Week* the etailer was making a "big bet" on artificial intelligence to drive its personalisation offer forward. The company rolled out customer service chatbots on its Very app in November.

Technology investments and roll-outs came thick and fast at the grocers. Sainsbury's opened a digital hub, launched its SmartShop app and belatedly introduced contactless payment while Tesco launched its mobile payment app.

Despite the raft of tech investment, all in retail spent another year playing catch-up to Amazon, which remained the pacesetter for innovation.

The etail Goliath launched its Fresh offer in the UK and introduced instant re-ordering Dash buttons before opening its first Go store – a bricks-and-mortar outlet that uses mobile payment technology, allowing shoppers to pick up items and leave without so much as a scan at a self-checkout.



Big four fightback

After a turbulent period weathering a storm of food price deflation, online growth and changing shopper habits, the big four grocers fought back in 2016.

Market leader Tesco, under the stewardship of Dave Lewis, continued to shed non-core businesses such as restaurant chain Giraffe and Dobbies Garden Centres.

Investment in price, customer service and rejuvenating its own-label proposition with the entry-level Farm brands has helped it return to like-for-like sales growth. It hopes to continue on the front foot by restoring group margins to between 3.5% and 4% in the coming years.

Morrisons has perhaps been the biggest surprise of the year, as David Potts proved he is a strategic leader as well as a born trader. Its 'fresh look' programme has breathed fresh life into its store estate, which is now in like-for-like growth.

Potts has also harnessed the grocer's vertically integrated model by supplying goods to Amazon and reviving the Safeway brand, opening up a new revenue stream.

Sainsbury's is poised to leverage the Argos and Habitat brands to help it create its 'supermarket of the future', while its Chop Chop and SmartShop apps both look set to gain traction in the New Year.

Even Asda has a fresh impetus, spearheaded by new boss Sean Clarke. The Walmart-owned grocer has drafted in new senior management staff as it seeks to turn around its fortunes, which hit a low when like-for-likes plunged 7.5% in the second quarter of 2016.

After a promising year for the mainstream grocers, Aldi and Lidl could well be facing a tough 2017.