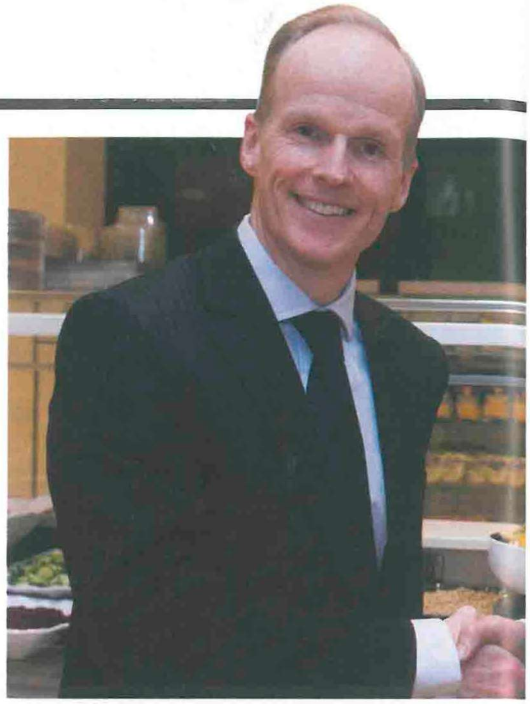
ANALYSIS



The events that rocked retail

Retail Week looks at the big events that shook retail this year and the implications each has going forward

Tesco buys Booker

Tesco's £3.7bn acquisition of wholesale giant Booker sent shockwaves through the industry when it was revealed back in January, and the repercussions that have already started to play out across grocery will reverberate well into next year and beyond.

The businesses said the enlarged company would offer customers "greater choice, quality, price and service" in both the in-home and fast-growing out-of-home markets – slices of sectors that Tesco's rivals are also keen to gobble up.

However, its grocery rivals are getting in on the act. Morrisons is beginning to leverage its vertically integrated model by supplying both Amazon and c-store specialist McColl's, while the Co-op is in the process of acquiring Nisa as retailers look to tap into the convenience, wholesale and foodservice markets to boost revenues.

Observers have suggested the Competition and Markets Authority's decision to provisionally give the Tesco-Booker deal the green light creates an "open season" for the lines between food retail and wholesale to blur further in 2018 through more M&A activity.

Sainsbury's has already looked at Nisa and remains in and "acquisitive mood", sources suggest, while Asda – bankrolled by the deep pockets of Walmart – could also be in the market for deals as it continues its turnaround efforts.

With further tie-ups, partnerships, mergers and acquisitions almost certain to follow, the seismic shift sparked by Tesco-Booker is only just beginning.

The snap election

In the search for a strong and stable government, the Prime Minister launched the country into nearly two months of campaigning. But Theresa May's quest for certainty backfired. She ended up substituting her slim majority in Parliament for a minority position dependent on the Democratic Unionist Party (DUP), and plunged the UK and its businesses into further turmoil.

Retailers were hoping that the vote would deliver a period of stability as Britain began its negotiations to leave the EU, but the hung Parliament prolonged the agony and served to dampen already fragile consumer confidence.

Trading for some big-ticket retailers – as is customary around an election – took a knock for a few weeks, which was deemed unhelpful so soon after the referendum.

For now uncertainty remains and retailers can only concentrate on controlling the controllable – giving cash-strapped shoppers compelling reasons to spend.

Amazon snaps up Whole Foods

If Tesco's acquisition of Booker created tremors across the UK, Amazon's Whole Foods buy jumped off retail's Richter scale.

In June, the US etailer splurged $13.7bn (£10.7bn) on the organic food specialist, taking on its debt pile and its 450 global stores.

In an instant, the doomsayers peddling tales of ecommerce killing stores were silenced as the world's biggest online player made an audacious push into bricks and mortar.

The move hit home on a global scale.

Fellow online titan Alibaba revealed in September that it was building a tech-driven shopping centre near its headquarters in Hangzhou. And rumours of Amazon forging further tie-ups with the likes of French grocer Carrefour have prompted others into action.

Carrefour's rival Casino has agreed topay for the use of Ocado's Smart Platform technology, and Amazon's growing presence in grocery is sure to spark further reactionary deals next year.

Job cuts

This year has been punctuated by swathes of job cuts across retail. Tesco and John Lewis kicked off the trend with the grocer cutting 1,700 deputy manager roles at its Express stores – it went on to cut a total of 8,000 roles during 2017 – while John Lewis axed 400 roles.

'Fewer, better jobs' became the mantra of 2017 as retailers sought to cut costs and future-proof their businesses by ensuring that the staff they do have are best utilised in front-of-house roles, and that back-office work is minimised via smarter processes, enabled by technology.

Asda, Sainsbury's, Wilko and Boots are among the retailers that have made redundancies, with more than 20,000 jobs lost in 2017.

The trend shows no sign of abating. This month Asda launched a further round of cost-cutting under which more than 800 store staff may have their pay cut or be made redundant.

The BRC estimates that there will be up to 900,000 fewer roles by 2025. However, it remains to be seen whether those job cuts will result in a poorer experience for shoppers in the long run.

The fall of the fashion stalwarts

This year has shown that fashion retailers once considered stalwarts can no longer be considered invulnerable.

Sales at high street bellwether Next dived as the retailer came unstuck amid tumbling consumer confidence, some wrong-footed product decisions and a challenged mid-market.

Meanwhile, trouble began to brew at New Look. Under Anders Kristiansen the business had emerged from its turnaround and, until the beginning of this year, could be relied upon to outperform a market hammered by stiff competition from youth-focused etailers such as Boohoo and Missguided.

See the data outlining the job cuts across the industry this year
Retail-Week.com/Eight-events

Clockwise from left: Booker and Tesco's bosses; Theresa May; shopfloor staff; Bunnings; John Lewis; and Whole Foods

That all came to an end in 2017 when dismal trading led to Kristiansen's exit. He was replaced by former boss Alistair McGeorge, the architect of New Look's last turnaround.

The industry is bound to see more fashion turmoil in 2018 as consumer spend continues to fall where discretionary purchases are concerned. Established retailers will need to review and reinvent how they operate to succeed in this increasingly difficult market.

The reinvention of the department store

The death of the department store has been a talking point ever since online shopping crossed into the mainstream, but there have been few years that have illustrated the conundrum of department store retail so starkly as 2017.

After years of sluggish sales growth, Debenhams' new boss Sergio Bucher introduced a strategy to overhaul the business and make its stores more exciting places to shop.

Meanwhile, under-pressure House of Fraser drafted in former Goodwood estate boss Alex Williamson as its new chief executive. The retailer said that he brought "compelling lifestyle-led experience".

Sector leader John Lewis was also hit as its high staffing costs bit into profits. Like HoF and Debenhams, it also put a greater emphasis on creating experiences. Its new store in Oxford has an 'experience desk' manned by John Lewis' first brand experience manager.

Staff can book shoppers into exclusive events, masterclasses and appointments around the store, or reserve a table in its Scandinavian rooftop restaurant KuPP. The store also offers services including travel advice, eye tests, personal styling, free technology training workshops and a nail and brow bar.

No doubt 2018 will see the trio attempt to out-innovate the market, but they will have to work hard to keep afloat.

Bunnings' arrival

Australian conglomerate Wesfarmers may have bought Homebase in 2016, but this year brought the UK its first glimpse of Bunnings Warehouse.

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The debut Bunnings store opened in February in St Albans, with a hard DIY focus and mammoth SKU count. The arrival of Bunnings in the UK threatens to turn DIY retailing on its head. Bunnings is widely respected globally and, with a similar offer, it poses a major threat to UK market leader B&Q.

But while the Australians focused on setting up a cluster of Bunnings shops – it currently has 11 – the remaining 250-odd Homebase stores started to fall by the wayside.

Like-for-like sales at Homebase slumped after its new custodian removed homewares and concessions from stores, dropped its kitchen installation service and cluttered up the shops by clearing old ranges.

The year ahead will be pivotal for Bunnings. The fledgling UK business will need to ramp up its Homebase closures and Bunnings openings before customers lose patience and switch their allegiance to rivals B&Q and Wickes.

Brexit hits retailers

The year was characterised by a lack of action on Brexit, which left a big question mark hanging over all working and living in the UK.

Uncertainty is rife, which led to consumer and business confidence plummeting. With pre-Brexit currency hedges rolling off, the weak pound has hit many retailers that buy in dollars.

Confidence has also hit consumer spending, particularly on big-ticket items. Retailers including Topps Tiles and Carpetright have posted profit warnings throughout the year.

Topps Tiles chief executive Matt Williams said: "Anything the Government can do to get people moving more would be welcomed, and clearly progress in terms of Brexit would be helpful, but we're not hanging about for any of this stuff."

Theresa May finally broke the stalemate to negotiate a Brexit deal with the EU last week, but few details have emerged on what this means in real terms. Retailers will be hoping that the government makes swift progress next year to give shoppers and businesses peace of mind. RW