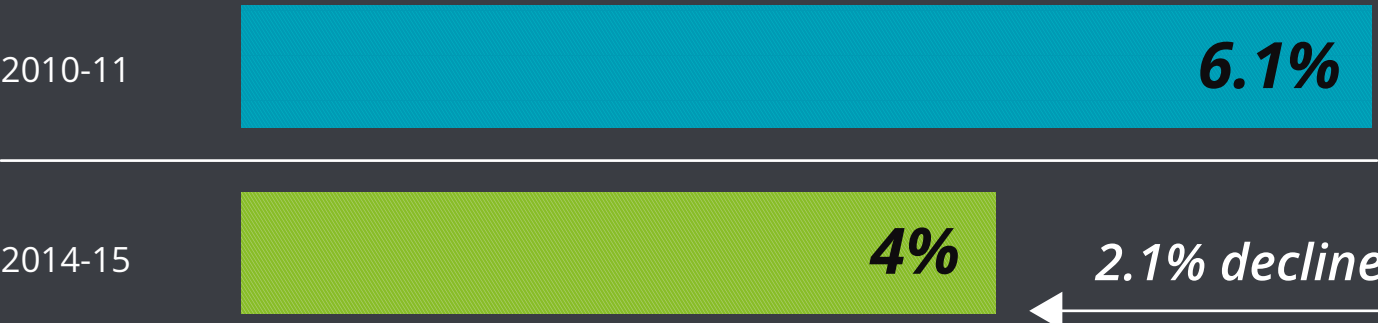


A brave new world
The retail profitability challenge

A six fold increase in e-commerce in the last decade has squeezed profits and rendered many retailers with larger store portfolios than required. Due to a number of key negative cost pressures, operating margins could fall a further 3-5% in 2017.

1. Three year average profit margins have fallen between 2010-11 and 2014-15

Average profit margins



Source: Deloitte Analysis

2. Rising importance of e-commerce requires ongoing investment to stay relevant

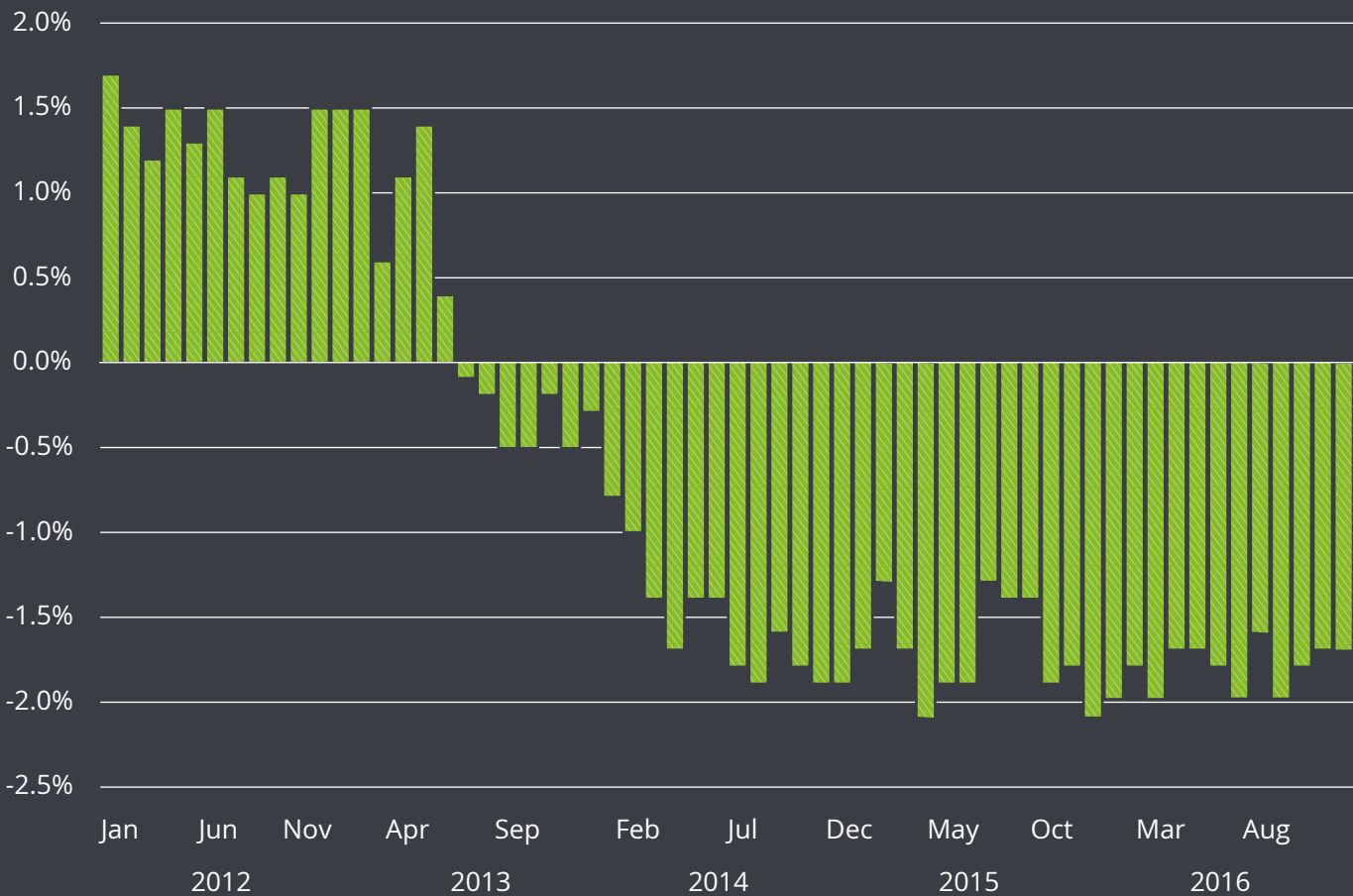
The rapid growth of e-commerce
Online sales as a percentage of total retail sales



Source: Deloitte/Office for National Statistics (ONS)

3. Top line pressure as prices fall for past five years

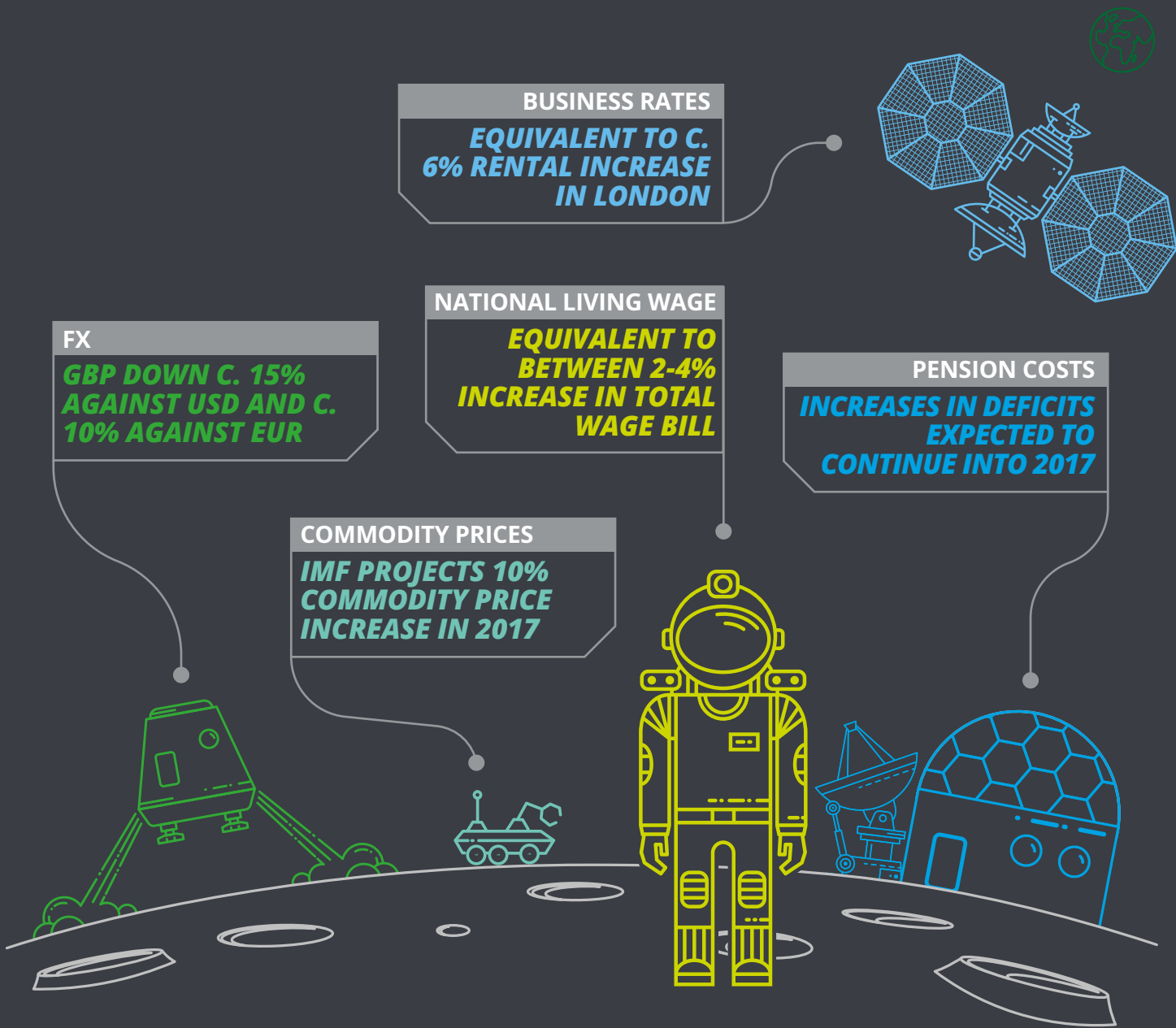
Deflation in retail
British Retail Consortium Shop Price Index 2012-16



Deloitte analysis shows that in the run-up to Xmas 2016 discounting across the retail market reached 43% – a record level

Source: Deloitte/BRC

4. Perfect storm of cost pressures present potential for a 3-5 percentage point fall in operating margins



As a consequence, it is likely that we will see greater differentiation in the market. Retailers are already responding to these challenges but the question is – are they moving fast enough in the digital age?

Working with our market leading Deloitte Digital practice, we can assist retailers in restructuring situations (and more broadly) in ensuring their real estate footprint is future proofed, margins are maximised and their online offering is compelling.

Our innovative retail analytical tools are potential game changers:

- L3. At the touch of a button, drawing on public information, our data driven analysis tool can tell you what your optimal real estate portfolio should look like.
- Pricing Analytics. Our specialist ‘retail margin maximisation’ software can markedly improve the outcome in mark down situations, typically realising 7–10% of margin improvement.

Contacts

Dan Butters
UK Lead Partner
Retail Restructuring Services
+44 (0) 113 292 1279
dbutters@deloitte.co.uk

Rob Harding
UK Lead Partner
Special Situations M&A
+44 (0) 20 7007 2514
robharding@deloitte.co.uk

Hugo Clark
Director
Real Estate
+44 20 7007 3584
huclark@deloitte.co.uk

Fiona Kaufman
Director
Restructuring Services
+44 (0) 20 7007 9328
fkaufman@deloitte.co.uk