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Agenda

- Welcome and introduction
- Christmas update
- Retail Trends 2017
- The High Street in 2017
Christmas update
2016
A surprisingly good year for consumers and retailers

Disposable income growth has been strong despite the recent rise in inflation.

2016 saw the strongest growth in consumer spending for nine years (Source: Oxford Economics).

Retail sales were very strong – the third quarter in particular saw the strongest growth in almost two years.

UK unemployment falls to 11-year low

Continued fall in unemployment and decent wage growth.
Christmas 2016 – a very merry Christmas!

- Biggest Black Friday ever got Christmas off to a strong start
- Channel shift continued with lower footfall instore offset by more traffic online
- Tourist spending rose by 22% providing a boost to clothing and luxury goods sales
- Record discounting pre and post Christmas
- The grocers bounced back
- Smaller stores and independents outperformed
Christmas update
The numbers are in

Total retail sales

- £44bn
  - +7.1% year on year

Store sales

- +4.6% year on year
  - £37bn

Online sales

- +21.8% year on year
  - £7bn
  - 2x year on year

Source: ONS December results not seasonally adjusted and excluding fuel
## Christmas update

### Sectoral analysis

<table>
<thead>
<tr>
<th>Sector</th>
<th>Performance</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricals</td>
<td>-5.2%</td>
<td>Driven by volume and value sales decline in household electricals. Digital products saw strong growth.</td>
</tr>
<tr>
<td>Clothing &amp; footwear</td>
<td>+1.5%</td>
<td>Further polarisation in clothing while the middle was squeezed. Footwear also strong.</td>
</tr>
<tr>
<td>Food &amp; grocery</td>
<td>+3.9%</td>
<td>Grocers bounced back with value and volume growth due to a focus on availability and execution.</td>
</tr>
<tr>
<td>Home &amp; DIY</td>
<td>+5.1%</td>
<td>Growth across main constituent categories: DIY, Furniture but slight decline in floorcoverings.</td>
</tr>
<tr>
<td>Department stores</td>
<td>+6.8%</td>
<td>Once again department stores delivered a strong performance thanks to their focus on multichannel and experience.</td>
</tr>
</tbody>
</table>

Source: ONS December results non seasonally adjusted
Christmas update
Who were the winners & losers?

Please note these numbers are not audited, not reported for the same periods and therefore have to be treated with caution.

*Total sales  ** Online sales
What characterised the winners this Christmas?..

• Clear focus on brand values

• Pure play scaling rapidly

• Seamless customer service across channels
Retail trends 2017
2017 outlook – Troubled times head
Rising cost pressures signal more challenging times for UK retailers in 2017

Potential for a 300bps to 500bps fall in operating margins in a number of retail subsectors

- Equivalent to c. 6% rental increase in London
- Equivalent to between 2-4% increase in total wage bill
- GBP down c. 15% against USD and c. 10% against EUR
- IMF projects 10% commodity price increase in 2017
- Increases in deficits expected to continue into 2017
2017 outlook – Troubled times ahead
Pressure on consumer spending set to increase

- Consumer disposable incomes will come under pressure.
- Consumers have already been dipping into savings...
- And borrowing more.
- Therefore we expect a shift away from discretionary spending.

% Growth in Average Wages vs. CPI Inflation  
(Source: ONS)
2017 outlook – Troubled times ahead
Disruptive impact of technology
2017 outlook - Troubled times ahead...
Accelerating change

Unprecedented increase in costs
1. E-commerce – the next big thing
And the big shift is still to come...

**Amazon**

- Fastest ever company to get to $100bn in revenue.
- 304 million customers
- Grown margins in the last 10 quarters
- $240bn sales by 2020...
- ...and over 50% of US population will sign up to Prime
- Amazon Go – 2,000 stores in US in next 10 years

**Alibaba**

- $17.8bn sales on 11/11 up 32%
- Including $5bn in the first hour
- Bigger than Black Friday and Cyber Monday combined
2. Store 4.0 - fulfilment, inspiration & friction free

Experience continues to evolve

Sonos

Inspiration

Nike

Amazon Go

Convenience

True Religion
3. Conversational commerce
Speak to buy

A new shopping hub for the smart home

Voice enables in-car shopping
4. The robots have their AIs on the jobs
But technology can ease costs pressure

Next generation warehouse

AI managing customer interactions

Driverless delivery

Flying fulfilment centres
5. Agile at scale is the new normal

Improving innovation, responsiveness and quality of delivery
The high street
Real estate reality check
Understanding the true value of space

1. Changing role of the store
2. Understand the real value of space
3. Focus on productivity
4. Leisure & experience will dominate the high street
5. More data will drive more active portfolio management
Marketplace Showcase

The Connected Store
Digital transformation

L3
Location, location, location

Markdown
Advanced pricing optimisation

BenchMarque
Pricing trends analytics

D-Rex
Physical footprint transformation
Insight

Coming up...

- Retail profitability (February)
- Consumer Review: Digital Predictions 2016 (March)
- Q1 2016 Consumer Tracker (April)
- Q1 2016 CFO Survey (April)
- The Leisure Consumer (April)
- Global Powers of Luxury Goods 2017 (April)