

Turbulent Times in Retail - 10 golden rules for success

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**Location analysis & the new economic realities
SLA Wednesday 25th March 2009**



Agenda

- **Christmas trading – the big freeze?**
- **Outlook for 2009**
- **10 golden rules for success**

What happened at Christmas?



2008 Christmas trading

Summary

- BRC December 2008 year on year by value = -1.4%
- Adjusted for BRC membership = -2.0%
- The first decline for more than 20 years

Sectors and players

Christmas winners and losers

Based on recent like for like sales growth reported and other factors including sector, quality of offering and financing structure

“Win”

- Online retailers
- Young fashion
- Food discounters
- Value clothing retailers
- Electrical games/consoles

“Lose”

- Durable specialists, particularly electricals
- Footwear specialists
- Clothing, particularly the middle market
- Furniture and homeware specialists

Sectors and players

Christmas winners and losers

Based on recent like for like sales growth reported and other factors including sector, quality of offering and financing structure

“Win”



“Draw”



“Lose”



Outlook for 2009



2009 – a year to forget

Market outlook

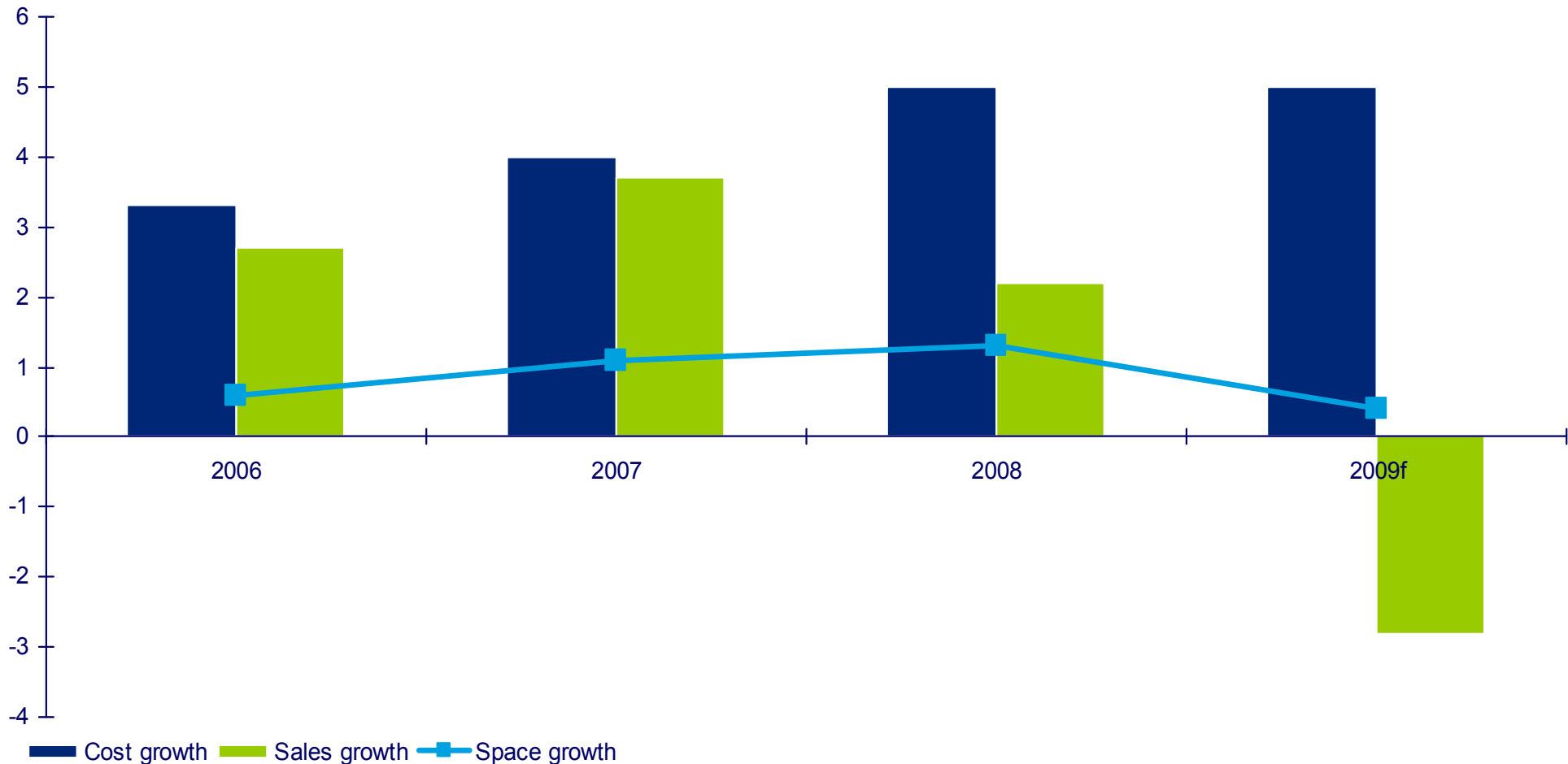
- Total retail spend will fall by nearly 3% - the first calendar year decline in modern times
- We expect cost growth (including product) to increase by at least 5% for the year
- Significant downward pressure on margins
- The shake-out that began last year will gain ground

Market overview

Getting tougher

Double whammy of underlying cost inflation and reducing sales growth in an increasingly competitive environment.

Sales, costs & space growth in % : 2006-2009f

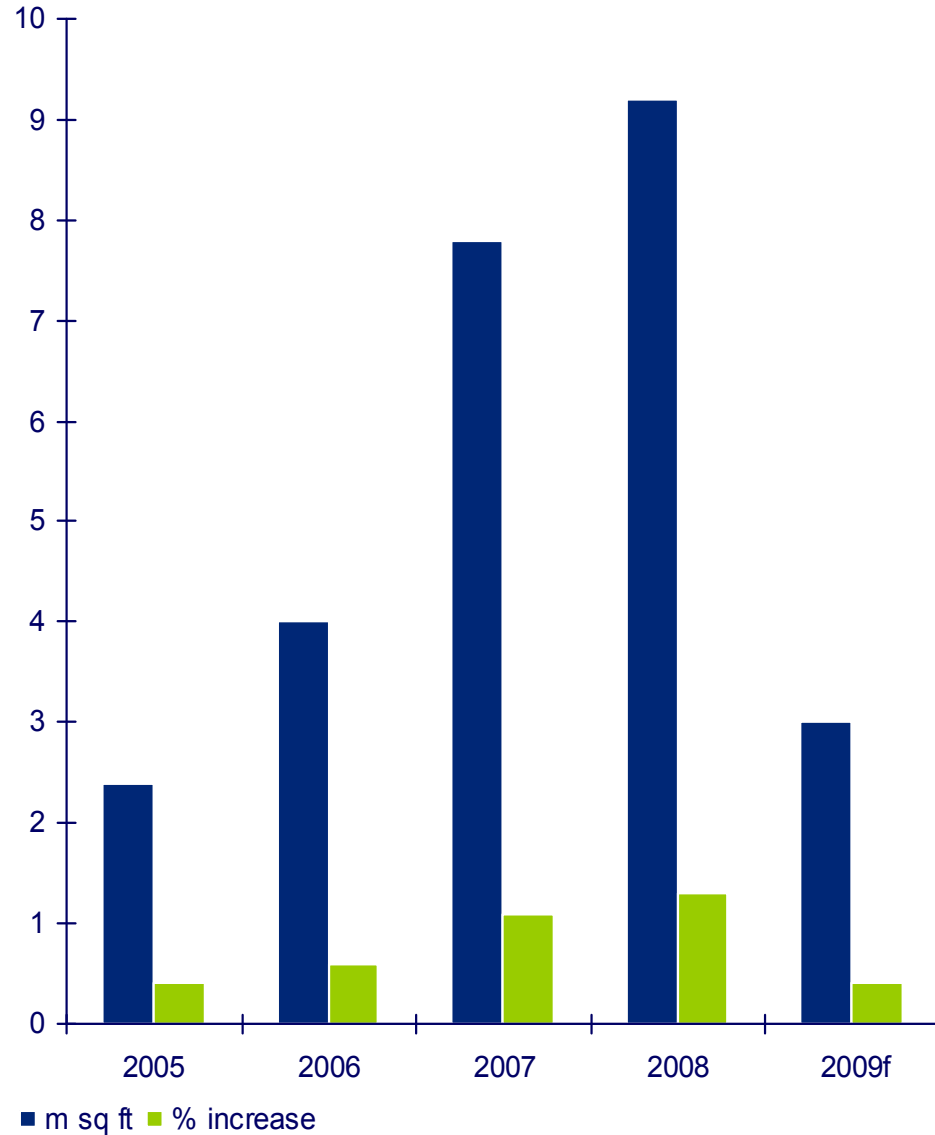


Source: Deloitte Analysis, Verdict Research

Floor space

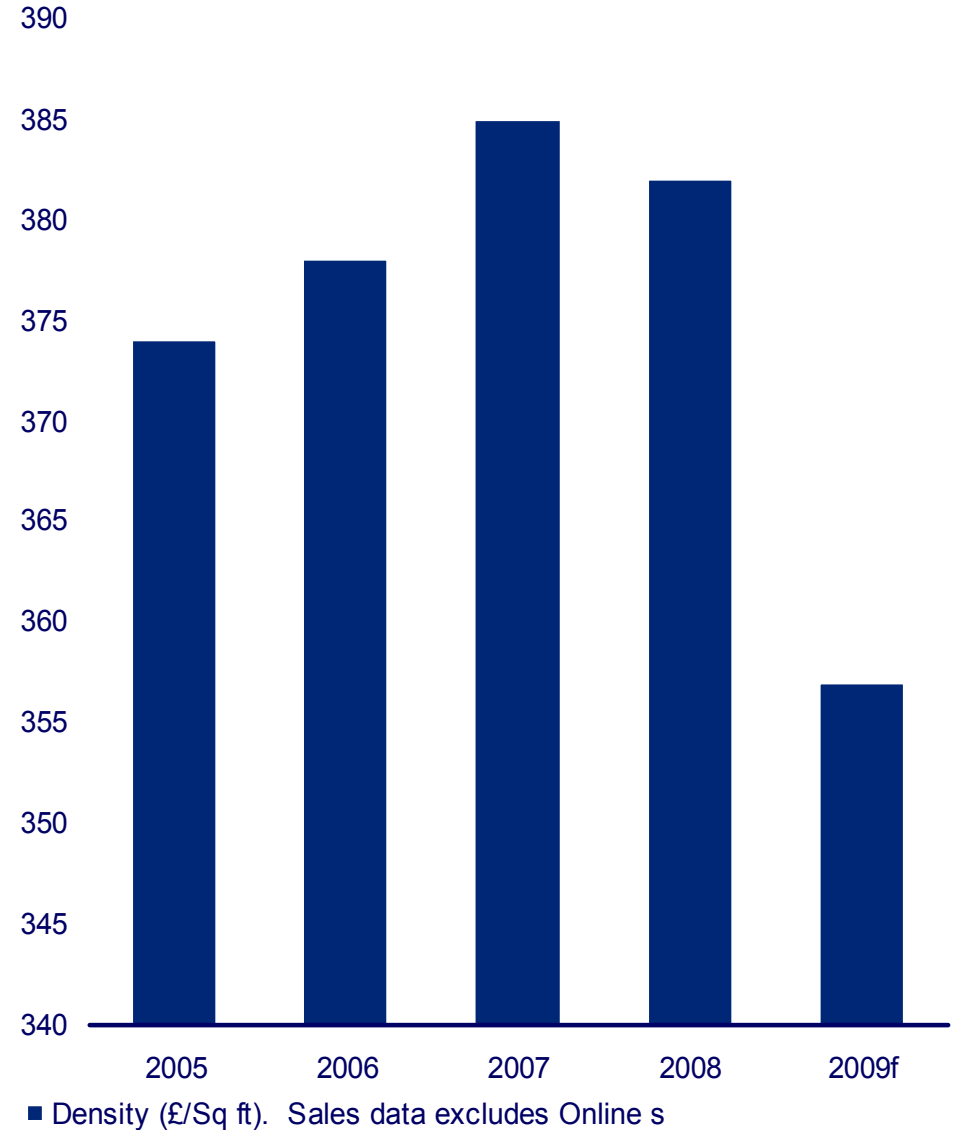
Total & density

Floor space growth net of closures



Source: Deloitte Analysis, Verdict Research

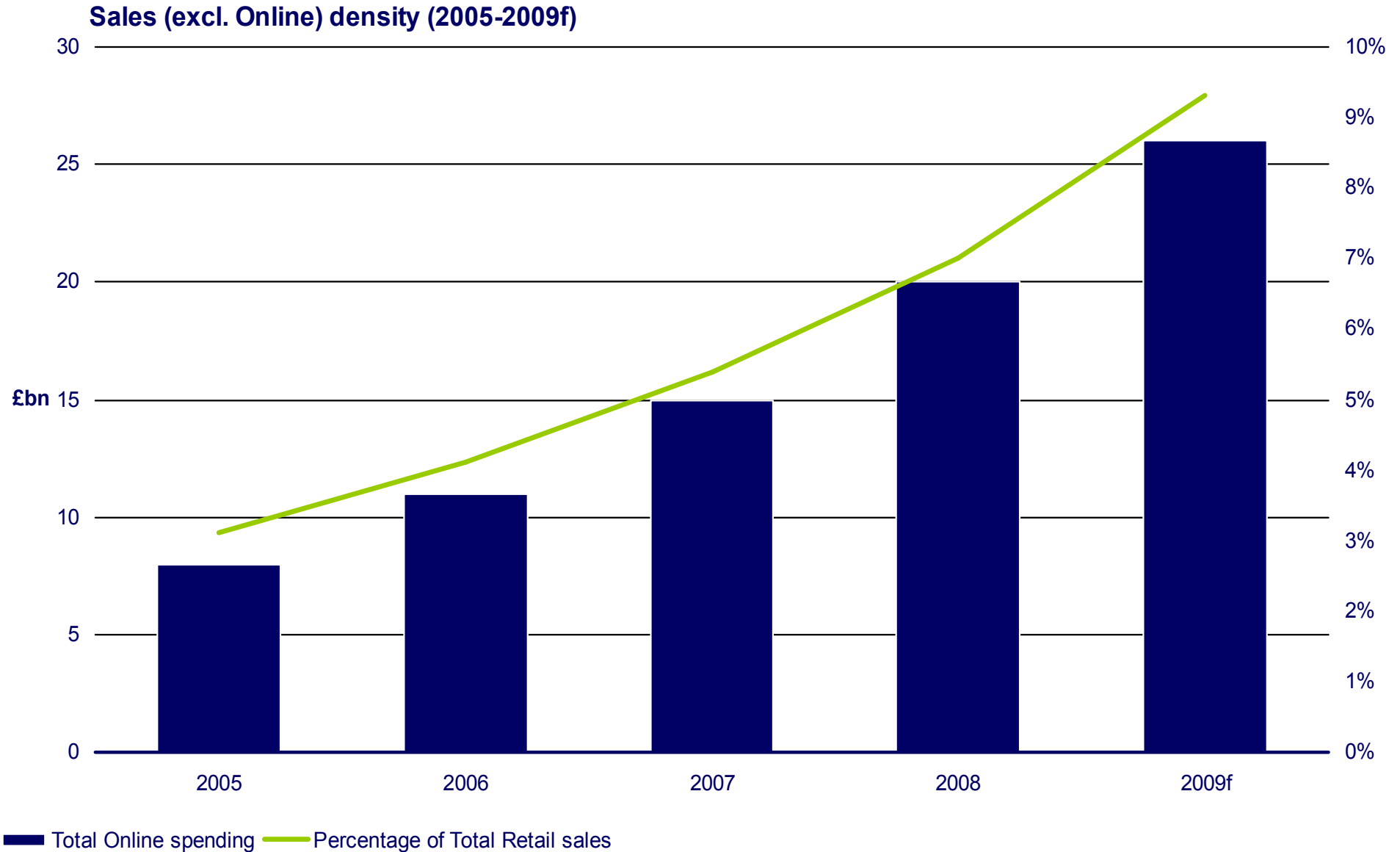
Sales (excl. Online) density (2005-2009f)



Source: Deloitte Analysis, Verdict Research

Market overview

Online sales market size: 2005-2009f

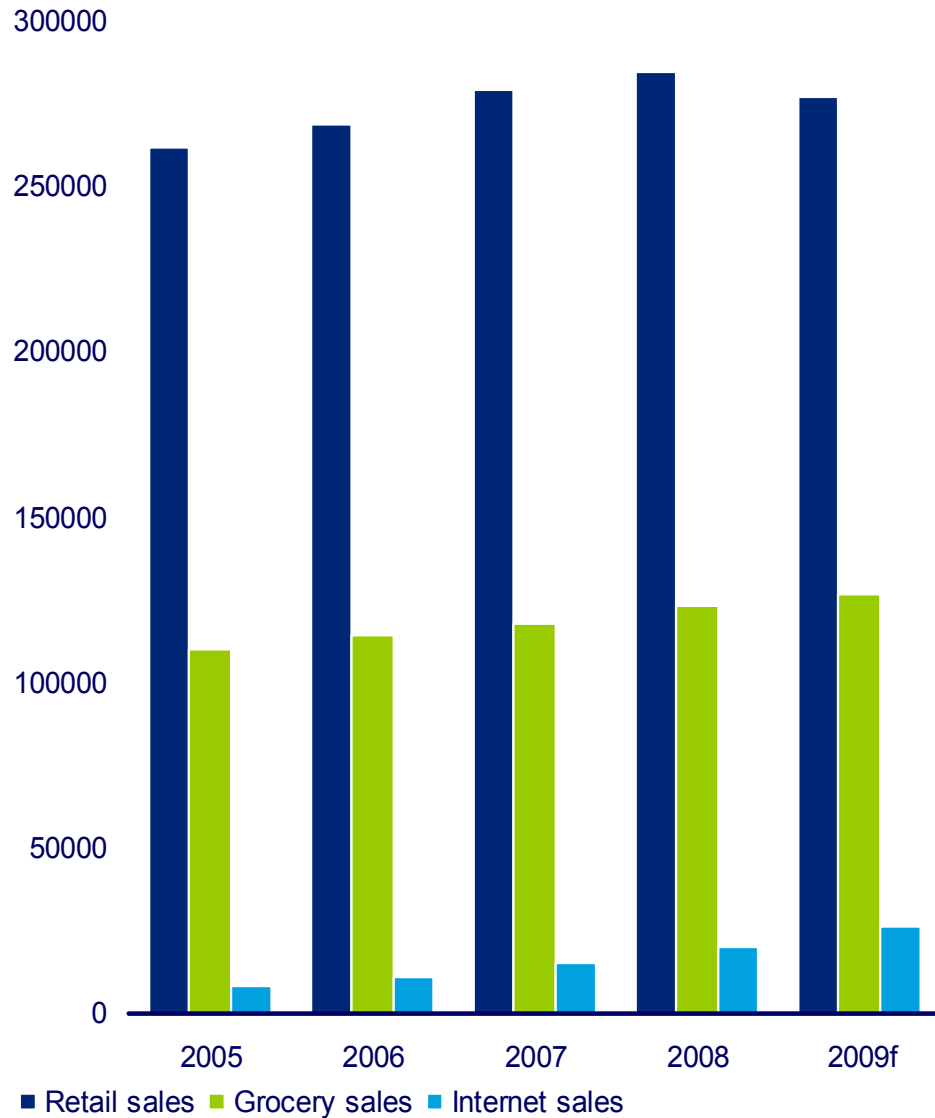


Source: Deloitte Analysis, Verdict Research

Retail sales and growth

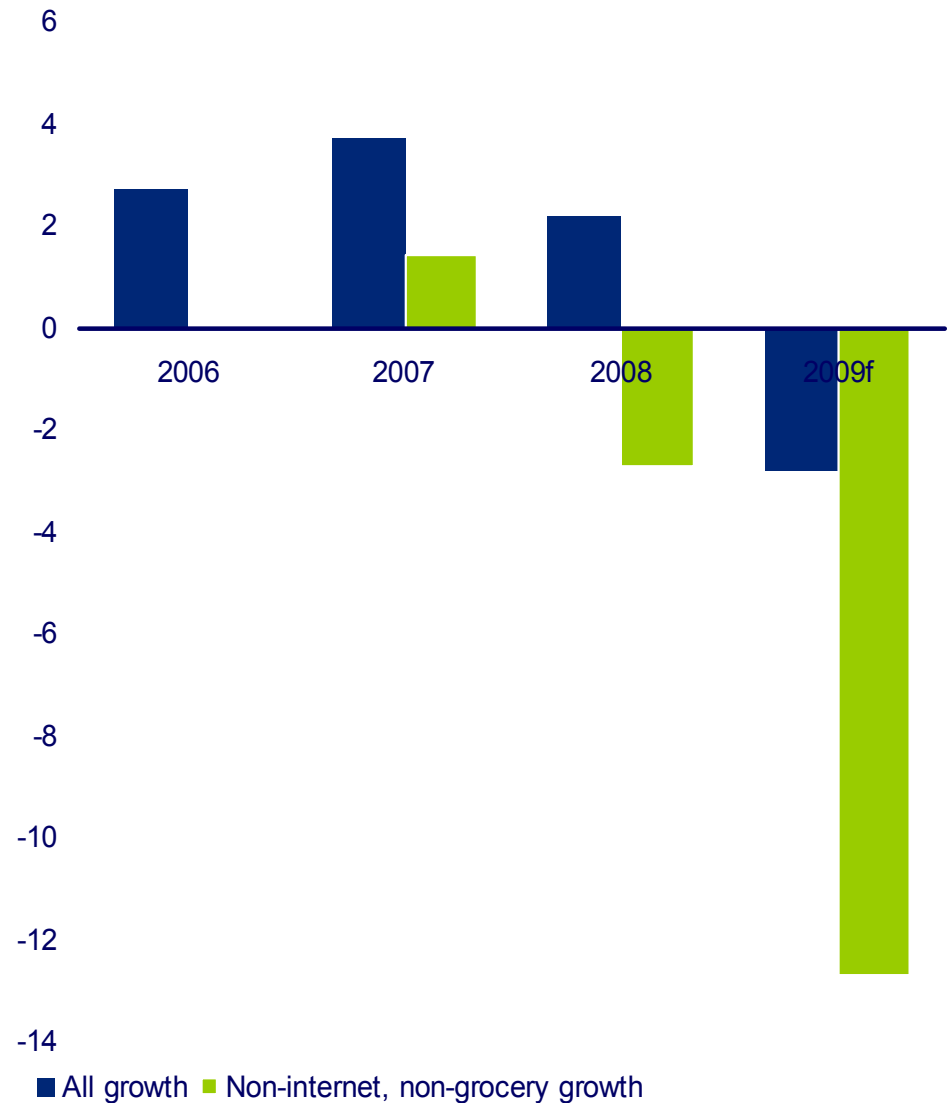
Overall, grocers & internet

Total sales (2005-2009f)



Source: Deloitte Analysis, Verdict Research

Sales growth in % (2006-2009f)



Source: Deloitte Analysis, Verdict Research

2009 – a year to forget

A game of two halves

- Food and non-foods will continue to see different patterns of demand
- The grocery sector will see modest year on year spend growth of around 3%
- Non-foods will see a year on year spend decline of around 7% - totally unprecedented

2009 – a year to forget

Management

- Leadership
- Different skills for a different environment
- More pragmatic: “the intelligent loss of business”
- Each store as a business
- Who owns the top line?
- Strategy and execution

2009 – a year to forget

Issues

- Costs
- Proposition and branding
- Channels to market
- Customers
- International

10 Golden Rules for Success in 2009



The 'NICE' times are behind us and we are in a turbulent period of instability and adjustment for UK retail.

1. Money, money, money

- Cash
- Liquidity
- Financing renewal
- Gearing and debt
- Strengthening the balance sheet
- Financial discipline

Get a grip on your cash and liquidity and do some serious financial re-engineering



2. Location, location, location

- Property
- Rentals
- Asset values
- Store portfolios
- Estates / property departments
- Hurdle rates for ROI
- True WACC

Make your store footprint decisions based on consumer insight not property deals



3. Cheaper faster better

- Cost reduction not sales reduction
- Head Office
- Distribution
- Stores
- Outsourcing
- Sacrifice 'sacred cows'

Squeeze the pips from your cost base and don't settle for 5-10%. It's not enough in 2009



4. Simplify supply chain

- Foreign Exchange volatility & commodity hedges
- 'Net Net' input margin stability
- Credit insurance
- Supplier relationships
- Sourcing security
- Vertical integration
- Authorised Economic Operator
- Efficient Consumer Response
- Re-design 'end to end'

Take complexity out of your supply chain and let the technology take the strain



5. Sustainable sales growth

- Focus on the customer
- Develop actionable customer insight
- Understand your non-purchasers
- Use insight to make better trading decisions
- Innovative product development
- Focus on footfall / clicks
- Loyalty and retention
- Shopper marketing
- Excel in customer service

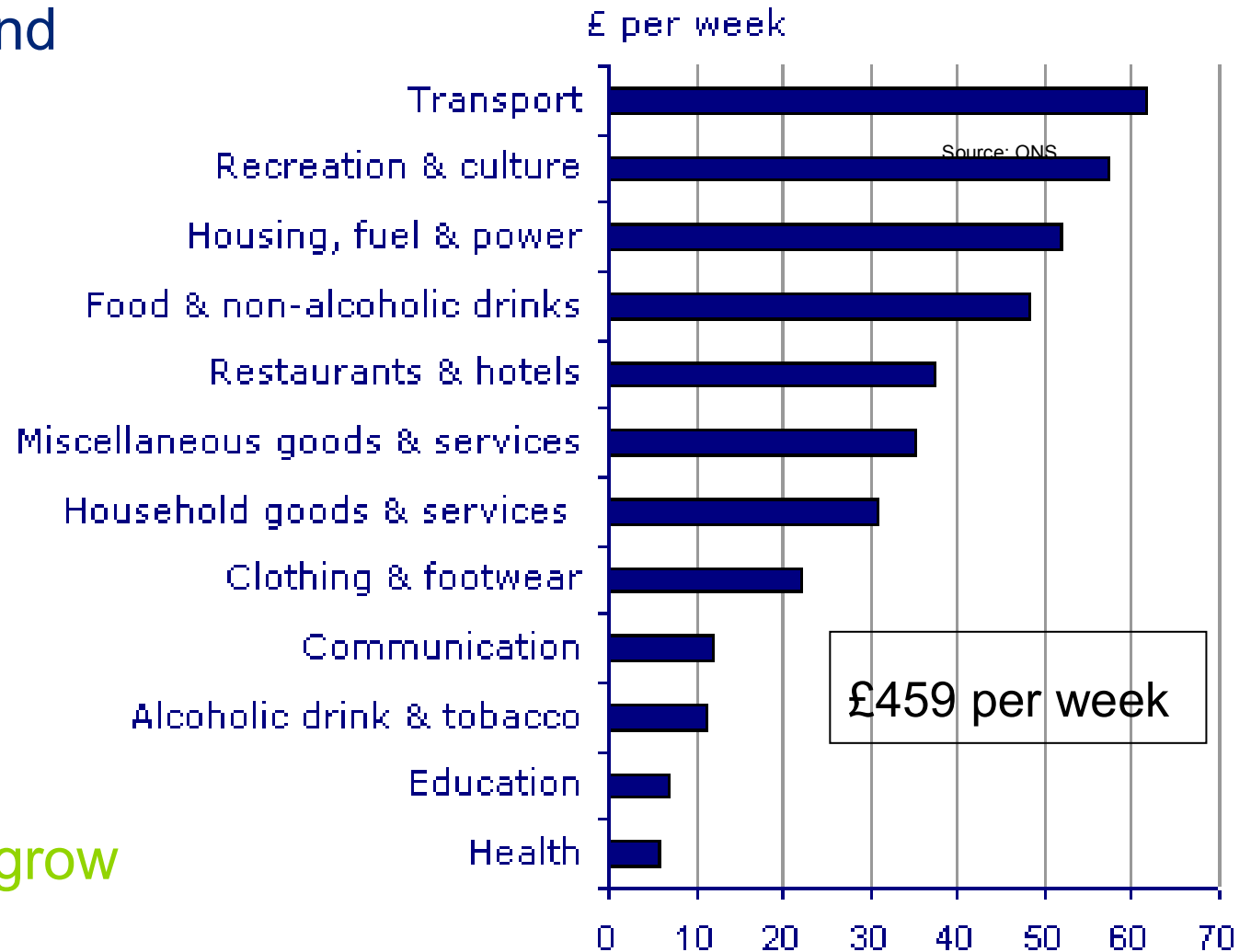


The customer comes first, second and last

6. Share of wallet

- Leverage your brand
- Leverage your infrastructure
- Range extension
- Merchandising effectiveness
- Own-label
- New services
- Business partnerships

Stretch the brand to grow your share of spend



7. Global village

- Overseas expansion
- More than BRIC countries
- Balance of owned, franchise or JV's
- Think local, act global
- Leverage economies of scale
 - Global sourcing
 - shared services

Look overseas for the most profitable growth and determine the right model for each market



8. Multi-channel

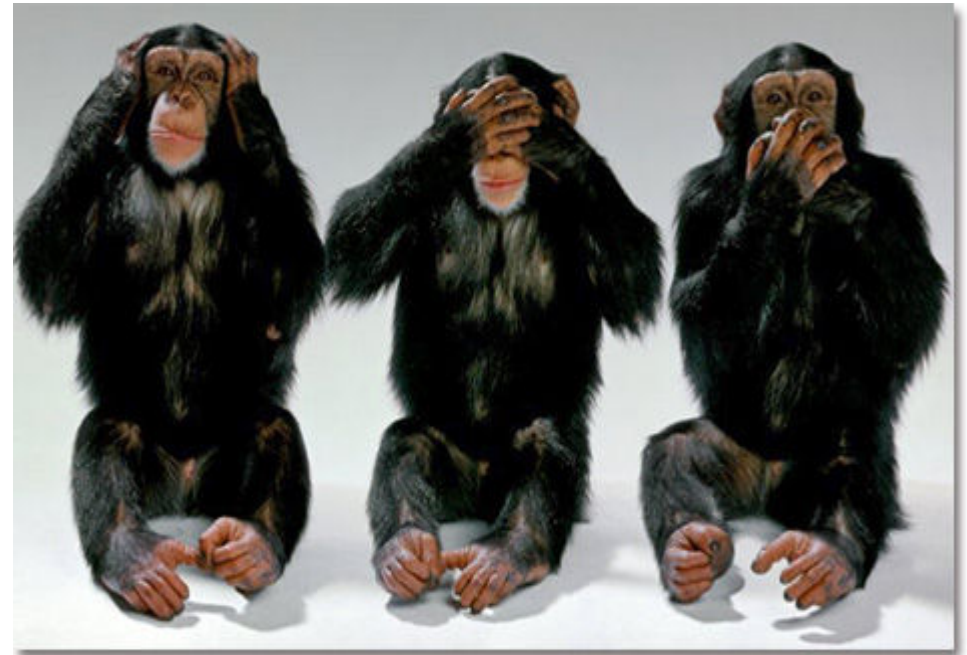
- One brand - integrated media marketing plan
- Re-think organisation structures and incentives
- Think geography, tax and profit
- One customer multi-buy options
- Seamless interaction with the customer
- Flexible, cost effective and accurate delivery options

Stop doing multi-channel in silos
and re-organise the entire business



9. Risk, Regulation and Compliance

- Risk perspectives
- Leadership listening
- Respect regulation
- Ensure compliance
- Take a stand on standards
- Governance is expected
- Corporate responsibility
- Competition Commission
- OFT / FSA
- EU directives



Give risk a voice and avoid the bankers pitfalls

10. Think Talent

- People fit for purpose?
- Skills to execute strategy
- Succession
- Retention
- Development
- Engagement and motivation
- Remuneration and benefits



Ensure your brain count and head count tally up and people are truly fit for purpose

Getting fit for 2012 is
about hard operational
and financial disciplines
.....and there are plenty
of ways location analysis
can assist along the way!!



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