

# Deciphering 2010 Christmas retail trading updates and my personal predictions for 2011

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## Deciphering 2010 Christmas trading updates

Whilst newspaper business columns have been thick of both positive and negative Christmas trading updates, lenders and financiers should take any headline like-for-like sales ('LFL') sales analyses with a healthy good pinch of salt and seek to look behind the headlines when divining predictions for 2011.

Along with a number of retailers I have long felt that publication of LFLs can do more harm than good. They were introduced back in the 1980s to stop retailers just saying sales had increased significantly, which had purely happened as a matter of just increasing space and number of outlets.

## Why like-for-like sales analysis can be misleading

The problem is that there are no common standards on how to report LFL sales. Last week saw the publication of LFL figures covering August to Christmas Eve (Next) and Christmas Day to News Year Eve (Waitrose, although admittedly part of a more detailed update).

I am sure no retailer would, but it must be tempting to select the comparative timescale to flatter the headline figures. Blacks used the whole of December to announce a 10.2% increase. Not wanting to kick a good man when he is down (because they deserve all the help they can get in a very tough market), but given it was freezing in the first 2 weeks and they sell all those nice warm skiing/outdoor jackets, I'd love to know the split over the weeks.

The other aspect to LFLs is what goes into "sales". I won't dwell on this too much but, for example, I have seen cases where the full price of both items in a "buy one, get one free" goes into the sales line with the second item taken out in COGS (cost of goods sold).

Lastly what about openings and closings. If you close one of your stores which is near another one, there will be some customer transfer (if you cross promote it can be substantial). LFLs can go through the roof. It is vice versa on openings.

So or companies with large portfolios with more than average churn, meaningful comparative LFL analysis is virtually impossible and LFL sales figures, in isolation, should be taken with a considerable pinch of salt.

## Factors affecting like-for-like sales figures for 2010

Specifically for 2010 there have been two major factors that have disrupted sales (and margin) patterns:

### Snow

The travel disruption will have certainly reduced sales but may have also meant more sales at a full margin, with a

greater proportion of desperation (e.g. warm jackets) rather than discretionary sales. Retailers with different geographic mix will be affected differently as will shopping centre/high street mixes.

The ability to 'one stop shop' has also helped the supermarkets and departments stores as shoppers have avoided trudging from store to store in the cold.

### The VAT increase

It will be interesting to see whether there was a spike in large discretionary purchases prior to the VAT increase. The indications are that there was, but not to the extent predicted.

Many stores are sporting 'no VAT increase here' signs in their windows, appearing to swallow the rise to in VAT to 20%. However, as these retailers would traditionally be discounting by at least 5% if not 10% to drive post-Christmas sales, this is purely a trick to maintain higher margins.

## Christmas Trading Updates - LFL headline figures to date - and my analysis

### Blacks

+10.2% for December. Cold weather and high street locations masked the fact they are still in a very tough market.

### Waitrose

+5.4%. December until Christmas Eve. Quality food and big name marketing (Heston & Delia) helped this Christmas.

### John Lewis Partnership

+7.6%. 5 weeks to 1st Jan. Quality with value shone through.

### House of Fraser

+8.5pc. 5 weeks to 8th Jan. One stop shopping attracted multiple purchases.

### Next

-6.1%. August to Christmas Eve. Not particularly good but Directory sales up by 8.7%.

### HMV

-13.6%. 10 weeks to 1st Jan. Death by a thousand cuts?

### Mothercare

-3.7%. 3rd Quarter. Pregnant women don't go shopping in the snow.

### Majestic Wine

+3.7% 9 weeks to 1st Jan. Value and quality delivered once the snow melted.

### JD Sports

+2.5%. 5 weeks to 1st Jan. Pleasant environment and value.

## **A personal forecast for 2011**

Predicting 2011's winners and losers would lose me many more friends than I would ever make, so I won't be naming names here. Instead I prefer to set out my predictions for retail trends in 2011, which are partially substantiated by the updates this week.

### **Even more shop vacancies**

Unless it is prime space there will be a significant number of non renewals on leases in secondary and tertiary positions.

The country's excess retail space is starting to show as online sales continue to surge. The Local Data Company reports that high street shop vacancy rate in the 750 towns it monitors has risen to 14.3% from 4.6% in October 2008.

### **A shift up the quality curve**

There will be further acceleration of moving away from "shed shopping" to more pleasant environments. The sector is full of cheap, low quality goods sold in similarly described outlets. Not everyone will want to forsake the, now, fundamental right to cheap goods but there will be a shift up the quality curve. The squeeze on incomes over the next few years could in my view result in people no longer buying cheap goods but fewer quality items. i.e. the true perception of value is returning.

### **The rise of the unindebted**

Retailers with established business models but not saddled with high lease rentals will expand aggressively as property values fall.

### **The fall of the smaller retail park**

Smaller retail parks closing. If I am going to travel to one I will want to buy a lot of goods not just one. It isn't just cost that is driving sales of supermarkets non-food items, it is the convenience.

### **Beware the housing market**

Any retailers which rely on the housing market will have a very tough year. The market will be stagnant and those deciding on staying put and many carrying out major DIY projects will have already chosen to spend to avoid the VAT increase.

### **More web and more apps**

A rapid increase in the number of smaller retailers developing fully transactional websites and mobile apps. Domino's Pizza reported a 63% rise in online sales in the year to December 26, while orders placed through its iPhone application, launched in September, crossed the £1m mark.

### **A poor year for young fashion**

In the absence of any major fashion trends (of which we have been particularly bereft in 2010) a poor year for young fashion in particular.

## **So what does this mean for retail causalities?**

Yes, unsurprisingly a corporate recovery specialist predicts retail casualties both this year and probably the next. How many I don't know. The number will depend on two main factors.

Firstly the ability of retailers, generally, to pass on increased input costs (including VAT) to consumers squeezed by tax rises and spending cuts.

Secondly how quickly interest rates will rise. Any upward movement could cause major structural problems both from the perspective of the top line and debt servicing.

### **About Grant Thornton's Retail team**

Our retail team assists clients with a comprehensive range of financial advisory services to help them achieve their goals and ambitions. We also offer a dedicated team to advise on all aspects of retail operations and turn-around strategies. The retail team is backed by a dedicated research department providing insights into market trends as well as performance and comparative financial analysis across all sub-sectors.

The team is headed up by Barry Knight who has over 20 years' experience primarily on the corporate side and has worked for a variety of retailers and wholesalers including Boots, Littlewoods, Arcadia, Selfridges and has wide experience and in-depth knowledge of all sub sectors.

### **Where can I find out more information?**

For further details of our services for retailers and their stakeholders, please call Barry Knight, Head of Retail.



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