Christmas 2011 – the occasional oasis of excellence in a desert of mediocre performances

1. Summary findings

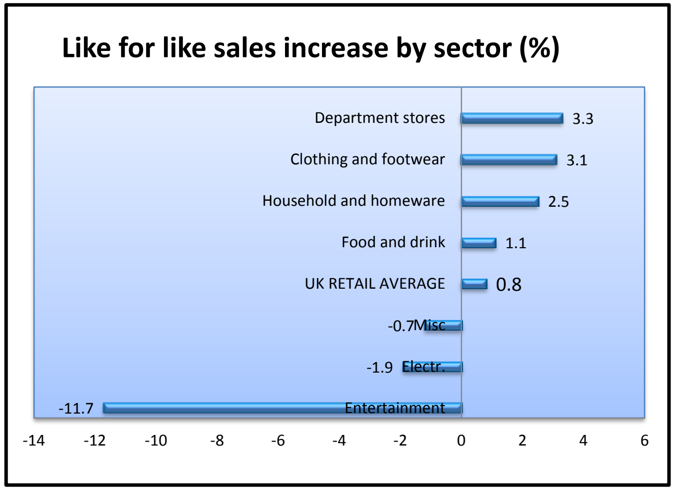
Of the 42 retailers reviewed over the Christmas 2011 period, 29 have reported increases in like-for-like sales and 13 have reported decreases in like-for-like sales. This compares with 12 and 17 respectively from our sample of 29 retailers reviewed for Christmas 2010.

The average like-for-like sales increase reported by the retailers included within our analysis was +0.8% (compared with -1.0% last year) with the Department Stores sector reporting the highest average like for like sales increase at +3.3% and the Entertainment sector (principally computer games, books, CDs and DVDs) reporting the highest like for like sales decrease at -11.7%.

Additionally, it is likely that the average like-for-like sales increase has been overstated this Christmas because a number of retailers have reported sales increases gross of VAT. As the VAT rate changed from 17.5% to 20.0% on 1 January 2011, this has had the effect of increasing any like-for-like sales increases (or reducing any like-for-like sales decreases) by just over 1.0% if the figures were actually reported gross of VAT.

Therefore, UK Retail has not even managed to recover the like-for-like sales shortfalls generated during Christmas 2010 (which in turn were partly caused by the adverse weather conditions that the UK suffered in the run up to last Christmas).

Surprisingly only Tesco issued a formal profits warning (although Game Group did warn of an upcoming profits' covenant breach). That said, a number of retailers did get their bad news out early with profits warnings issued even before Christmas trading proper actually got under way. Clearly, a significant number of retailers did actually collapse into administration over the Christmas period as well.



2. Gross Margins

Whilst Christmas trading updates are generally all about sales performance, it was apparent to every retail observer (and customer!) that the High Street was "on sale" from early December or before with significant discounts being offered on product. It therefore remains to be seen via retailers' subsequent profit updates as to what extent any meagre sales' increases have been "bought". Only the brave deliberately withheld concerted promotional activity in the run up to Christmas with heroic examples being led by Ted Baker and Next.

This year, most retailers were significantly reticent about where their GM percentages were heading but one would have to assume that many of them are under severe pressure as a result of the significant promotional activity which we have witnessed this Christmas.

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3. Internet Retailing

Internet Retailing continued its inexorable rise (and inevitable related cannibalisation of terrestrial stores' sales). Experian (the marketing group) recorded 96 million visits to UK Retail websites on Boxing Day. This was a 40% increase on the same figure in 2010. Non-food internet sales rose 20% compared to Christmas 2010. The majority of the retail trading updates contained references to online performance. Some of the standout comments were as follows:

- **John Lewis' online sales rose by 27.9% year on year**
- **J Sainsbury's "Click and Collect" service grew 20% year on year with Christmas week being its best yet for the service**
- **House of Fraser's online sales grew 124% over the Christmas period making it the Group's largest store**

Only Halfords sounded an off-key note by reporting that online sales had fallen year on year by 3.6% due to the contraction of the overall SatNav market.

4. Sector and Individual performance review

Top five retailers based on like for like sales over Christmas 2011 period Like for like sales increase	%
1. Aurora (t/a Coast, Warehouse and Oasis)	13.0
2. Robert Dyas	7.4
3. John Lewis Partnership	6.2
4. SuperGroup	5.8
5. Greggs	5.1

The most surprising aspect of the Christmas results was the largely uniform nature of the like-for-like sales results:

- **All of the sectors bar Entertainment ended up in an average like-for-like sales range of between -1.9% and +3.3%**
- **17 out of 42 retailers surveyed had like-for-like sales between -3.0% and +3.0%**
- **Only eight retailers achieved a like-for-like sales result better than +5.0%. Only five retailers achieved a like-for-like sales result worse than -5.0%. Therefore there were very few spectacularly good or bad results**

Bottom five retailers based on like for like sales over Christmas 2011 period Like for like sales decrease	%
1. Game Group	(15.2)
2. Theo Fennell	(11.0)
3. Argos (part of Home Retail Group)	(8.8)
4. HMV Group	(8.2)
5. Dixons Retail	(5.0)

Department stores (4 Retailers; +3.3% average increase)

All retailers in this category performed strongly with particularly good showings from John Lewis (+6.2%) and Debenhams (+5.0%). There was clear evidence that the department stores largely got their ranges right, albeit at some potential cost to gross margin percentages

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Clothing and footwear (9 Retailers; +3.1% average increase)

Aurora's performance boosted the result for the entire category with the best like-for-like performance over Christmas caused partly as a result of a conscious move to the younger customer and related supply chain improvements. The remainder of the performances were largely lack-lustre and were hindered too by mild weather in the run up to Christmas

Household and homeware (6 Retailers; +2.5% average increase)

Robert Dyas' performance was attributed to strong consumable products and cookware ranges albeit that their 2010 comparative numbers were not strong

Food and drink (9 Retailers; +1.1% average increase)

Tesco's performance shocked the market and resulted in a profits warning being issued. Thorntons also performed poorly (-4.2% decrease) but the remainder of the category performed in the range average to good with consumers still willing to splash out on luxuries at Waitrose and Majestic Wine

Miscellaneous (10 Retailers; -0.7% average decrease)

By definition a mixed bag with only Pets at Home (+4.9% increase) demonstrating that consumers were prepared to cut back on themselves before their pets

Electrical (2 Retailers; -1.8% average decrease)

Once again, consumers were loath to purchase high-ticket electrical items. The relatively good result in this sector was largely due to the very weak sales levels at Christmas 2010 that retailers were comparing against

Entertainment (2 Retailers; -11.7% average decrease)

Game Group and HMV were two of the worst overall performers. Game was impacted by the growth in competitor online retailing whilst HMV continued to trade in a sector that has been detrimentally (for HMV) transformed by technology

5. Conclusions

a. Online retail transactions are likely to exceed 10% of all retail transactions in 2012 and it is apparent that most retailers will need to embrace a genuinely multi-channel approach to retailing to continue to hold onto market share. In many cases this Christmas, the retailer's e-store has outperformed its terrestrial equivalents.

b. The supermarkets continue to take market share from the specialists (J Sainsbury noted that general merchandising and clothing sales continued to grow faster than food sales). However there is also a recognition that much of future non-food growth will be conducted online; the space race is over!

C. Overall performance was unsurprisingly mediocre given the state of the UK economy although there were isolated pockets of excellence where a retailer was successful in tapping into the public mood in terms of product range and value. The consumer's behaviour was schizophrenic; saving up for luxuries in certain areas whilst happy to trade down in others. John Lewis and Greggs have both enjoyed success.

6. *Methodology*

The findings and conclusions contained within this survey follow the analysis of 42 trading updates issued between 4 and 16 January 2012. We have focused upon the key measure of like-for-like sales increases and decreases posted over the crucial Christmas trading period. Please note however that retailers reported like-for-like sales performances over differing periods and are therefore are only generally rather than strictly comparable.