Christmas 2009 trading was considerably better than pundits predicted with UK retailers successfully persuading shoppers to start spending again

An analysis of Christmas trading updates from UK retailers by Grant Thornton's Retail team reveals the key drivers impacting trading over Christmas 2009

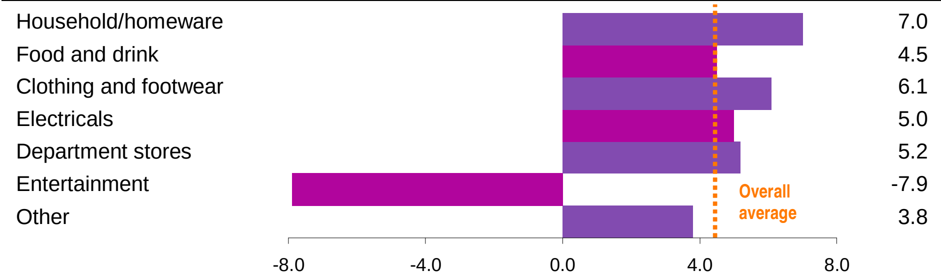
1. Summary Findings

33 retailers reported increases in like for like sales whilst five retailers reported decreases in like for like sales over the Christmas 2009 period. This compared with 15 and 21 respectively from our survey of 36 retailers reviewed for Christmas 2008.

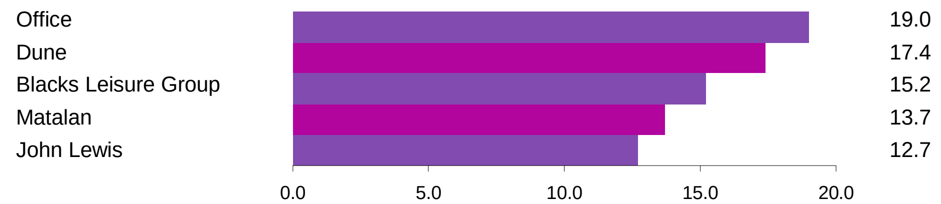
The average like for like sales increase reported by the retailers included in our analysis was 4.5% (compared with a 2.3% decrease last year). The household/ homeware sector reported the highest average like for like sales increase at 7.0% and the entertainment sector (computer games, books, DVDs/CDs) reported the highest like for like sales decrease at 7.9%. Interestingly, this was an exact mirror image of the results from last year's survey.

Ten retailers reported that gross margins had improved this Christmas whilst five retailers reported that they had declined. This compared to five and nine respectively for Christmas 2008. Two retailers issued profits warnings as a result of poorer than expected trading over Christmas, the same number as last year, whilst three retailers revised their full year profit forecasts upwards as a result of successful trading over the Christmas period.

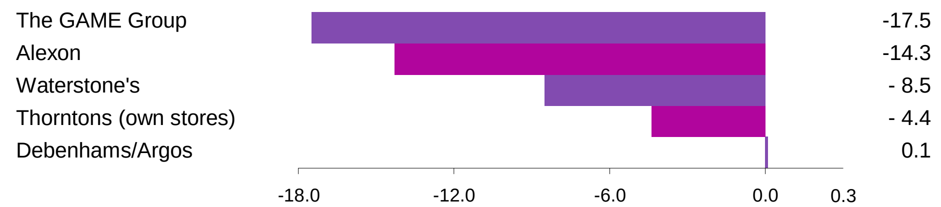
Like-for-like sales increases/decreases by sector
Average increases/decreases by sector (%)



Highest 5 retailers based on like-for-link performance sales over Christmas 2009 period
Like-for-like sales increase (%)



Lowest 5 retailers based on like-for-link performance sales over Christmas 2009 period
Like-for-like sales increase/decrease (%)



2. Sector Review

a. Household/Homeware (three retailers)

Conventional wisdom suggests that this sector is the first to be hit by a decline in consumer spending but also the first to benefit from an upturn. On this basis, strong performances from all the retailers in this sector was positive news although the average increase in like for like sales of 7.0% failed to fully recoup the average decline in sales of 11.3% recorded over Christmas 2008.

b. Food and Drink (seven retailers)

As in previous years, this sector delivered a solid performance. Whilst the average of the like for like growth in sales was "only" 4.5%, the 2008 comparatives were generally strong. The sales growth exhibited continued to be driven by non-grocery sales. For example, J Sainsbury reported that complementary non-food ranges' sales grew at four times those of food ranges in the period. Tesco reported strong sales growth in their clothing, toys and electricals categories.

c. Clothing and Footwear (twelve retailers)

This sector bounced back from a disappointing performance in Christmas 2008, led by Office and Dune who reported the top two like for like sales performances over Christmas. Indeed, retailers in this sector filled the top four places (with Republic only just outside the top five). With the exception of Blacks Leisure Group (who clearly benefited from a corporate restructure undertaken earlier in the year and unseasonably cold weather during December) most of the strongly performing retailers in this sector were also trading up against strong comparatives.

Four retailers also reported improved gross margins which demonstrated a strong grasp of supply chain management as well as constructing successful ranges that tempted the consumer to spend.

d. Electricals (one retailer)

Only one retailer within this sector, DSG International, reported trading results this Christmas (N.B. Kesa Electricals reported after the date of our survey). DSG International's sales results were markedly improved (although at the cost of reduced margins). However, their reported like for like sales growth of 5% this Christmas was less than half of the 12% like for like sales drop reported by the Group last year.

e. Department Stores (four retailers)

This was the best performing sector in our 2005 and 2006 surveys but in the last three years it has achieved only middle-ranking performance largely buoyed up (as with this year) by the performances of House of Fraser and John Lewis. This year demonstrated a real dichotomy between these latter two retailers (up against strong comparatives) and Marks & Spencer and Debenhams who made very little progress against weaker comparatives.

f. Entertainment (three retailers)

This sector went from being the best performing sector last Christmas to the worst performing this Christmas. Our surveys in the past have highlighted the volatility of this sector with (in particular) The GAME Group generally being in our best five or worst five performers due to its dependence upon new hardware platforms and software releases. Additionally, The GAME Group also cited increased competition from the supermarkets this year as a contributor towards adverse performance.

Waterstone's was the third worst performing retailer, turning in a comparable sales decrease result of 8.5%. There would, however, appear to be additional structural factors accompanying such a disappointing result; Waterstone's announced that their Managing Director was being replaced at the same time as their results were issued.

g. Other (eight retailers)

This is a difficult sector to analyse as it contains retailers who do not fit conveniently into other retail sectors; for example jewellers, general discounters and multi-product (generalist) retailers. Inevitably, this sector displayed a wide range of performance from Brighthouse (with like for like sales increases of 9%) to Signet (with like for like decreases of 0.8%).

3 Overall Conclusions

- Most of the predictions relating to how UK retailers would perform over Christmas were gloomy. These predictions were based upon factors such as the UK still remaining in recession, unemployment continuing to rise and only a fragile recovery apparent in domestic house prices (which had been the engine for consumer spending growth in the five year period to 2007). However, the majority of the trading updates issued by UK retailers throughout the earlier part of 2009 were quite confident in tone and therefore the relatively strong performances over Christmas should be viewed as a continuation of a trend rather than a "blip".
- The turnaround in performance compared to Christmas 2008 is extremely marked. Average like for like sales increases were 4.5% compared to decreases of 2.3% in 2008. 86% of all retailers reported like for like sales increases (compared with 42% in 2008). Debenhams and Argos reported like for like sales increases of 0.1% each and yet still found themselves amongst the worst performing retailers. However, there is little evidence that sales increases have been "bought" by reducing gross margins and overall profits. Two thirds of retailers who reported upon gross margin performance said that margins were up (double the number who said the same last year). More retailers said that they expected forecasted full year profits to rise as a result of Christmas trading than to fall.
- The major factors in better than anticipated retail performance were as follows:
  - a number of the weaker retailers failed well before Christmas 2009. The larger retailers that remain are stronger players who have not only taken measures to boost the top line but have worked hard to reduce overheads and implement further supply chain efficiencies
  - Whilst those consumers unfortunate to have become unemployed and/or have run up unsustainable debt levels have clearly had less disposal income to spend, many other shoppers are benefiting from historically low interest rates. Moreover, for the circa 20% of the workforce employed in the public sector, there is still greater job security and annual growth in real incomes than in the private sector
  - Particularly amongst the younger consumer there is currently less of a constraint upon purchasing power. The robust performances of Dune, Republic, Office and Supergroup highlighted that there is no shortage of money if the "brand" is right
  - The UK shopper has become so wedded to the "buy now and pay later" culture that not even the longest economic recession since the Second World War has entirely reversed this trend. Many consumers clearly decided that they were tired of showing spending restraint since 2008 and were determined to spend again as long as the retailers proved persuasive (which largely they were this Christmas)
- Internet shopping continued to increase in significance this Christmas. Not only did the non-terrestrial retailers (eg Ideal Shopping, N Brown, ASOS and Shop Direct) produce strong performances but the use of the internet to develop an additional sales channel is becoming crucial to most high street retailers. Although Waterstone's is the UK's leading high street book retailer, its adverse performance over Christmas is partly attributable to the growing strength of Amazon.com and similar players. Ten of the thirty eight retailers surveyed (26%) made direct reference to the significant year on year internet sales growth that they had achieved.

4. Methodology

The findings and conclusions contained in this survey follow the analysis of 38 trading updates issued by UK retailers since 5 January 2010. We have focused, specifically, upon the key measure of like for like sales increases posted over the crucial Christmas trading period.

The reason for concentrating on this measure is that it excludes the impact of new space year on year and directly focuses upon the genuinely comparative element of a retailer's business. We have concentrated mainly (although not exclusively) on sales (rather than profits or gross margins) as Christmas sales can often form up to 35% of a retailer's annual turnover.

N.B. retailers' reported like for like sales performances cover differing periods and are therefore only generally, rather than strictly, comparable.

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David has specific retail expertise including eight years as Finance Director of the Early Learning Centre. He has worked with many companies at a strategic level within the retail sector. David is our national spokesperson for retail and has become a regular sector commentator on both TV and radio.

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