

THINK RETAIL THINK VERDICT



UK Town Centre Retailing 2008

**Out-of-town and non-store growth
reduces share of spend**

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About Verdict Research

Authorative analysis...

Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

Rigorous research methodology...

Our in-house retail expertise and rigorous research methodology ensure our reports provide complete and accurate analysis of the major players, issues and trends together with a detailed examination of the strategic implications for the retail market.

For key players in the retail industry, our reports are the first source of information on sector forecasts, retailer performance, store and product portfolio developments and trading strategy.

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Verdict Research reports covers nine core sectors, five year forecasts, strategic issues, key locations, How Britain Shops consumer surveys and the main European retail markets. Also available are a daily news service, weekly newsletter and tailored consultancy portfolios to suit individual business information needs.


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Verdict Research is the UK's leading authority on retailing and publishes unrivalled independent analysis of the retail industry. With over 20 years' experience, Verdict has close relationships with major UK retailers and access, at the highest level, to key executives working in the top 300 retailers to hear their first hand views. Verdict reports provide clients with a complete picture of the retail sector and unique forecasts to help UK retailers, manufacturers, service suppliers, city analysts, consultants and the media with strategic planning.

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.



“Verdict are the company of choice for any research analysis and insight into retailing”

Sir Stuart Rose
Executive Chairman
Marks & Spencer

UK Town Centre Retailing 2008

Out-of-town and non-store growth reduces share of spend...

Competition amongst the various sales channels is intensifying, with town centres losing out to online and out-of-town. Over the last 10 years, town centres have faced increased levels of competition from out-of-town and non-store retailing. While town centre sales increased by 30.8% between 1997 and 2007, out-of-town stormed ahead with sales up by 73.0% and non-store retailing grew by a phenomenal 141.0%.

This new report published by Verdict examines the detailed key trends and future developments in UK town centre retail and insight into the major issues that retailers are facing. It provides in-depth analysis of the main operators in the town centre, and also looks at the UK's leading town centres locations. It also reviews the pipeline of new shopping centre development, which remains the key driver of sales growth in the town centre over the next 5 years.

12 Key Companies Profiled

Argos	Marks & Spencer
Boots	Next
Debenhams	Primark
HMV	WH Smith
House of Fraser	Wilkinson
John Lewis	Woolworths

Quantify the growth potential of the UK town centre retail channel, discover how the key players in this market have performed and the future challenges they face with this report...

Clothing retailers Primark and Next head the list as the fastest expanding high street retailers among the Top 12...

Space growth of leading town centre retailers over past 5 years

Retailer	Space Growth (%)
Primark	221.5
Next	127.1
HMV	40.1
Argos	36.8
Debenhams	29.4
Wilkinson	29.1
Town Centre Average	27.0
Boots	21.2
House of Fraser	16.9
Marks & Spencer	15.4
John Lewis	8.1
WH Smith	-1.1
Woolworths	-1.7

Source: UK Town Centre Retailing 2008

"Between 2002 and 2007, Primark more than doubled its portfolio, adding 3.3m sq ft of space. Though Primark has organically opened large numbers of new stores, its growth plans have been underpinned by acquisition, including 120 stores from Littlewoods in July 2005, of which it retained 41 stores, which were refitted and opened during 2006 and 2007..."

- **Benchmark your competitive strategies using the company profiles contained in this report** for key retailers including Marks & Spencer, Boots, Argos, Debenhams, Woolworths, John Lewis, HMV, WH Smith, House of Fraser, Next, Primark and Wilkinson.
- **Quantify key retail trends and accurately predict future UK town centre retailing growth** with the key operating statistics detailing out-of-town retailing sales and operating profitability, alongside details on each company's operations, including key operating statistics, trading records, store portfolio and outlook contained in this report.
- **Understand the growth potential and the challenges facing the channel and the key UK town centre retailers** using this reports in-depth analysis of market drivers, key issues and channel outlook.
- **Develop more effective strategic responses** with this report's actionable recommendations for how retailers can cope with the changing UK town centre retail market.

UK Town Centre Retailing 2008

This report answers key questions including...

- What are the key issues affecting town centre retailing at present?
- Which retailers will be driving town centre growth over the next 5 years?
- What are the major problems and challenges facing town centre retail?
- Which sectors will outperform the town centre market over the next 5 years?
- What are the top ten retail destinations in the UK and why?
- Which areas of the UK have retail developments in the pipeline?

Key Market Data

10 year historic retail sales
and 5 year forecasts

Space

Store numbers

Sales densities

Average store size

Key issues examined in this report...

At £124.6bn in 2007, town centre remains the most important channel in UK retail...

Town centre sales, space and stores
1997, 2002 & 2007

	Units	1997	2002	2007
Sales at current prices	(£m)	95,298	117,155	124,671
Space	(m sq ft)	314	305.9	309
Stores	(number)	158,581	151,685	145,978
Sales density	(£ per sq ft)	303	382	405
Average store size	(sq ft)	1,980	2,016	2,117
Sales per store	£ (000)	601	772	854

Source: UK Town Centre Retailing 2008

"However, town centre is still underperforming rival channels, showing year-on-year growth of just 1.7% in 2007, compared to 3.8% for out-of-town and 2.1% for neighbourhood. Despite this moderate growth rate, just under half of all UK retail expenditure is derived from town centre retailing..."

- **Town centre sales densities set to decline.** Despite the influx of new, higher quality space, the number of stores in town centres is set to fall further over the next few years. Many of the UK's largest and most successful retailers already have coverage in the UK with their current stores. They might open a new, much larger, store in a new shopping centre, often closing an existing store.
- **New shopping centres.** With the retail market now deteriorating and spending growth slowing, potential gains from a new development are lessening, which raises the risk for developers. Consequently, many are delaying, cancelling or reducing schemes, especially in less desirable areas. Potential new town centre space from major new developments have been considerably reduced because of this in 2009.
- **Locations will become empty and desolate.** Although occupancy rates at new shopping centre developments are likely to be high, due to the demand for new, premium space, the arrival of such a large amount of space at a time of slowing growth in spending will likely result in higher vacancy rates in older high streets over the next few years.

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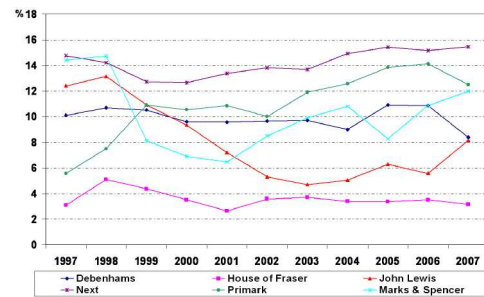
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- Despite having fallen in 2007 after several years on an upward trajectory, Primark retains the second highest operating margin of the Top 12 town centre retailers. This is largely as a result of the rapidly increasing scale that the business has driven in the past few years, reporting a 37% increase in retail floorspace in the year 2007/08.
- This scale has enabled Primark to secure better sourcing deals while it has continued to run its stores and head office extremely efficiently. The decline in margin in 2007 can largely be attributed to the poor summer weather resulting in heavy markdowns on stock.
- Under the stewardship of Sir Stuart Rose, M&S' performance has improved as the business has become demand-led rather than supply-driven, rationalising the number of suppliers and holding less stock. Growth in the international business has boosted scale economies in the UK and the high margin internet operation continues to demonstrate impressive growth, at 78% up over the crucial Christmas period in 2007.
- However, with 2008 so far showing signs of heavy discounting, prolonged sales and slowing sales in food and clothing it would seem that M&S' margin is now in decline again.
- For the two years that Debenhams was in private ownership, the retailer significantly increased its operating margin from 9.0% in 2004 to 10.9% in 2006. Strict cost savings and better supplier payment processes were the key reasons for this. However, on returning to public ownership, Debenhams has struggled to maintain this strong profitability, issuing a number of profit warnings to the stock exchange due to flagging like-for-like sales.
- 2007 saw Debenhams margins hit by price re-alignment, primarily in menswear, but a number of other factors also played a role. Too many different brands, poor store aesthetics, muddled layouts and lack of clear segmentation all hit sales. However the retailer has a strategy to counter these problems in 2008/09, introducing cost cutting initiatives whilst simplifying brands and the shopping experience. The retailer is planning to reduce the number of options by 15% and stock by 10%.
- In the eight years prior to 2007 John Lewis' margin failed to reach anywhere near the 13.1% margin it had enjoyed in 1998. However 2007 has seen it bounce back to its highest level since 2000. This has been achieved through significant operational improvements including call centre productivity gains, improved stock availability, supply chain and delivery efficiencies and tight control of branch operating costs. The growth of John Lewis Direct also played a key role.

Figure 7: Operating margins of clothing specialists and department stores



Source: UK Town Centre Retailing 2008

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