

THINK RETAIL THINK VERDICT



UK Retail Futures 2013: Clothing & Footwear

Annual forecasts to 2013



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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.

Global, European and UK analysis across nine core sectors...

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

Over 20 years of experience...

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.

A key source for independent analysis and comment...

Verdict Research is regarded as a key source by the BBC, ITV, Sky News and the UK's leading broadsheets including the FT, Times, The Independent and Daily Telegraph. Leading trade publications often refer to Verdict's opinion and research including Retail Week, Drapers, DIY Week, Cabinet Maker and The Grocer.

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

About Verdict Retail Futures 2013

Verdict Retail Futures 2013 reports are designed to provide an accurate and detailed five year forecast for each retail sector. Each report complements Verdict sector reports by providing a detailed market outlook for the forecast period by analysing a host of economic, social, political and technological factors that determine demand. In addition they take account of factors like fashion, changing consumer preferences and the influence of the media.

As the only provider of forecasts exclusively for the UK retail industry, Verdict is uniquely equipped to give thorough and reliable projections and analysis on its future development.

Retail Futures 2013

The Retail Futures 2013 series of reports provide a complete overview of UK retail...

It provides 5 year forecasts for 73 categories...

Provides accurate projections of market demand and price pressures...

A unique and reliable forecasting tool...

Categories examined by the Retail Futures 2013 series...

CLOTHING & FOOTWEAR

- Women's Outerwear
- Women's Underwear
- Men's Outerwear
- Men's Underwear
- Girlswear
- Boyswear
- Infantswear
- Accessories
- Footwear

HOMEWARES

- Glassware, crockery, cutlery & silverware
- Lighting
- Non-electric kitchen utensils
- Miscellaneous household items
- Bathroom & table linen
- Bedding/Bed linen
- Furnishing fabrics & curtains
- Other household textiles

FURNITURE & FLOORCOVERINGS

- Upholstery
- Beds/Bedroom
- Kitchen
- Living/Dining
- Home Office
- Other Furniture
- Carpets
- Vinyl & Linoleum
- Hard Floorcoverings

ELECTRICALS

- Audio-visual Equipment
- Games Consoles & Software
- Photographic & Optical Equipment
- Major/Minor Household Appliances
- Information Processing Equipment
- Telephones & Fax Equipment

HEALTH & BEAUTY

- Babycare Products
- Bathroom Toiletries
- Cosmetics
- Dentalcare
- Haircare/Skincare
- Men's Toiletries
- OTC Medicines
- Paper Products
- Perfume
- Other Health & Beauty

FOOD & GROCERY

- Bakery & Cereals
- Dairy Products
- Fruit & Vegetables
- Meat & Fish
- Oils & Fats
- Pets, Petcare & Petfood
- Sugar & Sweet Products
- Other Food
- Alcoholic Drinks
- Beer/Spirits/ Wine
- Soft Drinks/Hot Drinks
- Tobacco
- Non-durable Household Goods

DIY & GARDENING

- Non-decorative/ decorative materials maintenance repair
- Tools, equipment & accessories
- Household utensils & lighting
- Fitted kitchens & bathrooms
- Flatpack furniture
- Floorcoverings
- Garden Structures
- Garden Tools
- Garden Utensils
- Outdoor Living
- Greenstock & Growing Media

BOOKS, MUSIC & VIDEO

- Books
- Newspapers & magazines
- Personal stationery & cards
- Music & Video

UK Retail Futures 2013: Clothing & Footwear

The clothing and footwear market faces fresh challenges, but there are still opportunities available...

In 2009, the UK clothing and footwear will experience an unprecedented fall in retail expenditure. With consumer confidence low, unemployment rising and house prices falling, consumers will attempt to resist spending money on discretionary items, such as clothing and footwear. As a result, retailers will face one of the most difficult periods in over 25 years.

UK Retail Futures 2013: Clothing & Footwear is a new report published by Verdict Research that provides detailed and extensive forecasts of the clothing & footwear market for the next 5 years. This report includes comprehensive and authoritative analysis of macroeconomic and consumer-orientated factors impacting the market and the strategies being developed by retailers to cope with reduced demand and intense competition.

Categories Analysed

Women's Outerwear	Men's Outerwear
Women's Underwear	Men's Underwear
Girlsweare	Boysweare
Infantsweare	Footweare
Accessories	

Understand the key drivers of growth in the clothing and footwear market and identify how different channels can use these to their advantage...

Men's Outerwear growth rate 2009-2013

Year	Growth Rate (%)
2009	-2.3
2010	0.7
2011	2.8
2012	3.2
2013	3.6
08-13	7.9

Source: UK Retail Futures 2013: Clothing & Footwear

"Men's outerwear is one of the categories impacted most by the economic downturn – men cut down on their discretionary spending, with clothing one of the first areas to be reduced. The step back in expenditure is worse than women's outerwear as this is less of a priority for men..."

- **Understand what UK retailers can do to lessen the impact of cost price inflation.** Use this report to understand how inflation will return to the clothing & footwear market and how retailers can minimise this impact.
- **Examine the key industrial trends and issues facing clothing and footwear retailers.** Assess how the challenging economic climate will affect the market in the future and what UK retailers must do to achieve success.
- **Identify why clothing & footwear expenditure is set to fall for the first time since 1984 and which categories will be most resilient.** Use individual category forecasts to identify which of these categories offer the most growth potential.
- **Discover the strategies for success in the downturn and beyond.** Learn how UK retailers can effectively differentiate their product offer from competitors and understand why giving customers a reason to shop with them is more important than ever.

UK Retail Futures 2013: Clothing & Footwear

This report answers key questions including...

- What are the key issues for clothing and footwear retailers and how should they respond?
- To what extent will the market grow over 2009-2013?
- Which channels will increase their market share the most?
- What are the prospects for the value clothing & footwear sector?
- How is the weak pound impacting the market?
- What is the forecasted space growth for specialists?
- Which retailers will gain or lose market share in 2009?
- What impact is the internet having on the market?

Key Market Data

Total Clothing & Footwear expenditure
 Clothing & Footwear forecasted growth until 2013
 Expenditure analysis of the key categories
 Category shares, values & forecasts
 Market shares for the 33 leading clothing & footwear retailers by channel of distribution & forecasted changes to 2013
 Specialists' sales densities, total sales, space growth & forecasted total store numbers

Key issues examined in this report...

Winning retailers in a recession 2009

Sector	Unique selling point
Large Value Retailers	Differentiate on price, stand out through offering the lowest prices
Discounters	Offer value through selling branded products at discounted prices
Niche retailers	Differentiate on product offering unique or exclusive product
Design-based retailers	Stand out on quality and design credentials

Source: UK Retail Futures 2013: Clothing & Footwear

"The recession will pose difficulties for retailers across the board. Nevertheless some will emerge as winners. Successful retailers will be those that have prepared for the recession and adapted their strategies accordingly. Key to success will be establishing a point of difference or unique selling point to ensure customers are offered a clear reason to visit over competitors..."

- **Impact of a weak pound.** Weakening of the US dollar against sterling will push up the price of imports. Retailers will be forced to pass on some cost increases to consumers, resulting in the return of inflation to the sector. Margins will be put under increased pressure
- **More cautious approach to spending.** Consumers will try to cut back on non-essential clothing expenditure. Retailers will need to entice people into spending through offering store events, maximising add on sales and focusing on service.
- **Internet growth continues.** The Internet remains an important source of growth for clothing and footwear retailers – particularly during a recession. Retailers must continue to invest in their transactional websites, exploring cross-channel opportunities and utilising more sophisticated technologies in marketing via the Internet.
- **Space growth slows.** Recession will force retailers and developers to review growth plans. Store closures will weaken the power of landlords providing retailers with an opportunity to negotiate. Department store growth plans will be put at risk.

UK Retail Futures 2013: Clothing & Footwear

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Executive summary Key findings



Value of clothing and footwear spend		Growth rates		Sector outlook
(2008)	(2013)	(2009)	(2008-2013)	
£41,054m	£45,284m	-1.5%	+10.3%	Contraction; recovery; then growth to accelerate

- Clothing & footwear expenditure will fall ...

In 2009 clothing & footwear expenditure will fall for the first time since our records began. With consumer confidence low, unemployment rising and house prices falling, consumers will try to resist spending money on discretionary items, with a high proportion of clothing & footwear expenditure falling into this category. Retailers will be in the midst of one of the most difficult periods in over 25 years.

+ Value retailers continue to win market share

Both grocers and value clothing specialists continue to grow their share of the market, benefiting from a more cautious consumer shopping around for the best value for money. However, this growth will be mainly confined to larger players – with smaller ones, that do not generate the volumes necessary to compete on entry level prices, forced from the market. Space expansion will be a major source of growth as grocers focus on expanding their non-food operations.

= ... despite the return of inflation

After over a decade of deflation, inflation will return to the clothing & footwear market, here to stay for the foreseeable future. The main driver of this will be the weakening pound, putting upwards pressure on cost prices. Retailers will be forced to raise prices, though most are also likely to operate on slightly reduced margins to avoid passing on the full impact to the consumer. The will have a knock on effect on overall sales volumes with substantial growth only returning in 2011. Retailers will examine all areas of the business to redeem the lost margin.

+ Accessories continues to outperform clothing & footwear

Accessories continue to show the most growth. Though largely discretionary purchases, their low average selling price allow consumers to update outfits at a relatively low cost. Moreover, growth is driven by more accessories trends with costume jewellery remaining popular and hats becoming more fashionable. Clothing specialists have taken advantage of this, continuing to grow ranges in a bid to boost sales. However, we expect volume growth to slow in 2009 and 2010 as consumers exercise more caution with purchases.

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Key market issues Impact of the weak pound



Impact of exchange rates and VAT change on retailers margins 2009

	2008 Comparison	Scenario 1	Scenario 2
Exchange rate \$	\$1.99	\$1.40	\$1.40
Vat rate %	17.5%	15.0%	15.0%
Cost price \$	\$10.00	\$10.00	\$10.00
Cost price £	£5.00	£7.14	£7.14
Mark up £	£3.50	£1.36	£1.55
Ex Vat Price £	£8.50	£8.50	£8.69
Sales price inc Vat	£10.00	£9.78	£10.00
Margin (as % of ex Vat price)	41.1%	16.0%	17.8%

• Clothing & footwear retailers have enjoyed over a decade of deflation. Overcapacity in China has provided retailers with the opportunity to negotiate hard on cost prices. As well as this, a strong pound against the dollar has benefited UK retailers. Value retailers have successfully taken advantage of this, driving prices down and volumes up and forcing retailers in the midmarket to review prices.

• However, the weakness of the pound against the dollar is adding inflationary pressure on prices. While some of this is likely to be offset by overcapacity in factories, due to a reduction in demand and forcing cost prices down, we do not believe this will be enough to offset the exchange rate fluctuations and expect to see sustained inflation in clothing & footwear for the first time in over 10 years.

• Many retailers will have hedged foreign currency at the higher exchange rate. However, we expect these funds to run out during the middle of this year, forcing some prices up.

• However, retailers will be reluctant to raise prices across the board, given the difficult economic environment. They will try to hide price increases wherever possible, through adding more design content and detail to garments – particularly those in the 'better' and 'best' categories of the 'good, better, best' architecture.

• Retailers are less likely to increase entry level prices – simply because in the case of entry level product, it is the price that often drives sales. In many cases retailers may choose to operate with severely reduced margins to ensure prices remain low and volume sales are maintained.

• The reduction in VAT, implemented in December 2008 and due to run through the course of 2009 is in effect, being absorbed by exchange rate fluctuations.

• For example (see left) an item sold at £10.00, would sell at £9.78 with the VAT cut to 15% but, because of the weakening of the pound against the US dollar, doing this would reduce margins (originally 41.1%) by 60% to 16%. Even if retailers maintained the price at £10.00 their margins would be down by 57% (scenario 2). Therefore to maintain profit levels prices must rise.

Source: Verdect Research

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