THE OC&C CHRISTMAS TRADING INDEX 2010

THE GOOD, THE BAD, AND THE UGLY

OC&C Strategy Consultants

The good, the bad, and the ugly

Terrible weather hit retail hard this Christmas, but some managed to prosper regardless. Rebecca Thomson wraps up Christmas 2010 with the help of OC&C's Christmas trading index

Clockwise from top left: Burberry reported 14% growth for the festive period; Superdry had an online sales rise of 243%; Sainsbury's became the second biggest UK grocer by market share; House of Fraser reported like-for-like growth of 8.5%

The Christmas trading period this year may not have been a total wipeout, but it was a big disappointment for many retailers. And the stores sector is not out of the woods yet.

While some retailers shook off the recession quicker than others, the snow just before Christmas certainly affected the trends seen in this year's OC&C Christmas Trading Index.

Snow aside, there are two prominent patterns of performance. One set of retailers is doing well, buoyed by richer consumers whose spending habits are less affected by inflation and the Government's proposed cuts.

The other set is struggling more. Companies are beset by a range of problems and many are still searching for their place in a changing retail environment.

The wide spread of Christmas numbers shows how varied performance was in the peak period. Some managed sales leaps compared with the comparable previous period while others suffered slumps – sometimes unexpected.

OC&C associate partner Tom Gladstone says: "There's been quite a big spread in retail performance this year. When times are tougher you tend to see big differences."

The disparity can be seen in fashion retailers' performance. At one extreme SuperGroup, owner of brand-of-the-moment Superdry, delivered a rise in online sales of 243%, like-for-likes at the rather less glamorous Alexon plummeted 19.9%.

PricewaterhouseCoopers retail and consumer lead for transaction services Lisa Hooker says: "When it's a difficult trading Christmas, you get more penalised if you haven't got the proposition right. Consumers are more discerning when they have less money to spend."

This year's results showed fewer trends cutting across the whole retail industry. Instead, particular themes emerged within different categories.

Premium

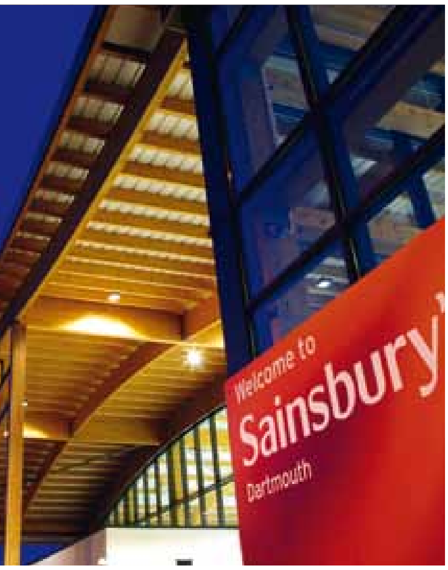
Premium retailers tended to do slightly better than value retailers. More affluent customers were less affected by the approaching VAT increase and more willing to use their credit cards.

That was good news not just for high-end fashion groups such as Burberry, which reported 14% growth, but for Waitrose and Marks & Spencer. Luxury department store Fortnum & Mason posted like-for-likes ahead by 10%, while John Lewis reported a 7.6% like-for-like rise and achieved 42% growth in online sales. House of Fraser posted like-for-like growth of 8.5% and an online sales leap of 120%. By comparison, value fashion retailer New Look suffered a drop in sales of 9.1%. Customers are willing to part with cash, but are thinking carefully about what they spend it on.

Grocers

It was a mixed Christmas for the supermarkets, with Tesco in the unusual position of the laggard. Tesco experienced a reduction in its like-for-like growth compared with 2009 – up just 0.6% compared with 4.9% the previous year and ahead 18% online compared with 50% a year ago.

Sainsbury's was the category's winner, grabbing headlines as it became



the second biggest supermarket in the UK in terms of market share. It pushed Asda into third place and moved into second position behind Tesco after boosting sales by 3.6%.

Sainsbury's said it got the fundamentals right. Aside from the strength of its offer, the retailer had "plenty of salt and grit" to battle the snow and make its car parks and access roads accessible to customers, and benefited from diversification into non-food lines. It says its share of the £9.9bn value fashion market has more than trebled in the past five years.

Gladstone says: "The grocers have all been driving their non-food businesses relatively hard, but Sainsbury's in particular has very strong growth in non-food lines and has been expanding its ranges."

OC&C CHRISTMAS 2010 TRADING INDEX – STORES

Retailer	% change in like-for-like sales 2010	Weeks of period	Period end	% change in like-for-like sales 2009	Movement 2010 on 2009
Oliver Sweeney[1,4]	50.0%	8	December 24	23.3%	▲
Mountain Warehouse[3]	15.6%	4	December 31		–
Aurum Holdings[3]	14.5%	5	January 9		–
Burberry Group (retail)	14.0%	13	December 31	10.0%	▲
Blacks Leisure (outdoor)	10.2%	4	December 31	14.9%	▼
Fortnum & Mason[3]	10.0%	4	December 31		–
BrightHouse	9.8%	13	December 31	9.0%	▲
House of Fraser[1,4]	8.5%	5	January 8	7.1%	▲
John Lewis (John Lewis Partnership)[4]	7.6%	5	January 1	12.7%	▼
Booker[4]	5.4%	16	December 31	6.7%	▼
Waitrose (John Lewis Partnership)[1,4]	5.4%	3	December 23	9.0%	▼
Cooperative Group (food stores)[1,2,4]	5.0%	3	January 2	5.3%	▼
The Original Factory Shop[1,4]	5.0%	6	December 26	16.0%	▼
Alliance Boots (UK retail)[1,4]	3.8%	4	December 31	4.6%	▼
Marks & Spencer (general merchandise)	3.8%	13	January 1	1.2%	▲
Majestic Wine	3.7%	9	January 3	11.7%	▼
J Sainsbury[1,2,4]	3.6%	14	January 8	4.2%	▼
Jessops[3]	3.0%	6	January 9		–
Marks & Spencer (all categories)	2.8%	13	January 1	0.8%	▲
M&Co[1,4]	2.7%	8	December 25	11.1%	▼
JD Sports (Group)	2.5%	5	January 1	6.6%	▼
Carphone Warehouse (Best Buy Europe)	2.3%	13	January 2	6.3%	▼
Topps Tiles (UK)[1]	2.2%	13	December 31	5.5%	▼
OC&C Store Weighted Average[5]	**2.1%**	**n/a**	**n/a**	**4.1%**	▼
Jacques Vert (retail)[1]	1.9%	11	January 8	2.1%	▼
Marks & Spencer (food)	1.8%	13	January 1	0.4%	▲
Blue Inc	1.7%	2	December 31	5.0%	▼
Morrisons Group[2]	1.0%	6	January 2	6.5%	▼
Greggs[1,4]	0.6%	5	January 8	1.1%	▼
Tesco (UK)[2,4]	0.6%	6	January 8	4.9%	▼
British Retail Consortium Average	**-0.3%**	**4**	**December 31**	**4.2%**	▼
Waterstone's (HMV Group)4	-0.4%	5	January 1	-8.5%	▲
Game Group	-0.5%	5	January 6	-17.5%	▲
Homebase (Home Retail Group)	-1.2%	18	January 1	4.0%	▼
Debenhams[1]	-1.3%	19	January 8	0.1%	▼
Clinton Cards (Birthdays UK)[3,4]	-1.5%	5	January 2		–
Clinton Cards (Clinton Brand)[4]	-2.0%	5	January 2	3.6%	▼
H Samuel (Signet)	-2.8%	9	January 1	-1.5%	▼
Dixons Retail	-4%	12	January 8	5.0%	▼
Dunelm Group[1]	-4.2%	13	January 1	15.4%	▼
Argos (Home Retail Group)	-4.9%	18	January 1	0.1%	▼
Mothercare Group[1]	-5.8%	12	January 1	4.2%	▼
Ernest Jones (Signet)	-5.9%	9	January 1	0.2%	▼
Thorntons (own shops)	-5.9%	14	January 8	-4.4%	▼
Next Retail (Next plc)[1]	-6.1%	21	December 24	1.6%	▼
Halfords (retail)[4]	-6.6%	13	December 31	0.2%	▼
Theo Fennell[1]	-7%	4	December 31	25.0%	▼
Comet (Kesa)[1]	-7.3%	11	January 18	-3.9%	▼
New Look[1]	-9.1%	15	January 8	5.9%	▼
HMV (UK & Republic of Ireland)[4]	-13.6%	5	January 1	2.2%	▼
Alexon Group[1]	-19.9%	3	December 18	-14.3%	▼

Methodology: OC&C used the shortest reported period of like-for-like sales during the Christmas period, and excluded results where the shortest reported period was greater than 26 weeks. Periods vary significantly between retailers: therefore care should be taken in interpreting the results. Definitions of like-for-like may vary between retailers, but principally refer to same-store sales. Where possible, figures relate to trading in the UK/UK & Ireland. Figures are stated as reported - no decimal place indicates rounding at the reporting stage. Figures exclude VAT unless indicated otherwise.

Notes: [1] 2010 period length differs from 2009; [2] Excludes petrol; [3] No 2009 like-for-likes available; [4] Like-for-like change in sales including VAT; [5] Average like-for-like growth rates across retailers, weighted by most recent reported annual revenue

"SCALE IS IMPORTANT – WE WERE ABLE TO PUT GREAT DEALS IN FRONT OF CUSTOMERS"

Ian Shepherd, Game

Snow

December's snow unsurprisingly cropped up frequently as retailers revealed seasonal sales figures. The arctic conditions spelled opportunity for some retailers.

Outdoor specialists Mountain Warehouse and Blacks Leisure had increases of 15.6% and 10.2% respectively, as customers turned to them for cold-weather clothing. Department stores such as John Lewis and House of Fraser also did well out of the snow – as did supermarkets – as consumers chose to shop where they could get everything in one place instead of braving the snow.

Retailers offering convenience, such as Co-op and Boots, also benefited to some degree as people shopped close to home instead of venturing further afield. Overall, PwC estimates that the snow reduced December retail sales by about 2%.

Online retailers also experienced some high-profile problems because of the snow. Retailers including Amazon struggled to fulfil customer orders in time for Christmas as roads become blocked and delivery vans stranded.

But the online sector still achieved overall growth as the shift in customer behaviour continued in the same vein of the past few years.

"Christmas is a good time for online retailers because the convenience factor is exacerbated," says Gladstone. "Plus retailers' online propositions are generally improving as they put more effort into it, while customers are getting more used to shopping online. It's a virtuous circle."

For those who did manage to fulfil orders the benefits will not stop at Christmas, Gladstone predicts: "I suspect those retailers that did manage to deliver during the snow and successfully fulfilled customer orders will have got quite a lot of credit from customers for doing so. There will be longer-term reputational benefits."

Surprises

The entertainment sector continued to suffer the effects of structural changes as customers flocked online to buy music and film. HMV experienced a sales slump of 13.6% after facing the added difficulties of the snow.

OC&C CHRISTMAS 2010 TRADING INDEX – DIRECT

Retailer	% change in like-for-like sales 2010	Weeks of period	Period end	% change in like-for-like sales 2009	Movement 20010 on 2009
Supergroup (online)[2]	243.3%	9	January 2		–
House of Fraser (online)[13]	120.0%	5	January 8	91.0%	▲
Fortnum & Mason (direct)[2]	47.0%	4	December 31		–
John Lewis (online)[23]	42.0%	5	January 1		–
Ocado[3]	26.7%	4	December 26	30.0%	▼
N Brown (online only)	26.0%	19	January 8	13.0%	▲
Marks & Spencer (direct)	25.0%	13	January 1	32.0%	▼
Asos[13]	23.0%	13	December 31	30.0%	▼
Tesco (direct)[3]	18.0%	6	January 8	50.0%	▼
OC&C Direct Weighted Average[4]	**15.0%**	**n/a**	**n/a**	**9.0%**	▲
Mothercare (direct sales)[1]	10.2%	12	January 1	19.5%	▼
Next Directory (Next plc)[1]	8.7%	21	December 24	6.8%	▲
Ideal Shopping Direct	8.6%	26	January 2	18.5%	▼
Shop Direct (Group)	5.0%	6	December 31	6.3%	▼
N Brown (Group)	1.2%	19	January 8	3.6%	▼
Flying Brands[2]	-12.3%	13	December 31		–

Methodology the methodology and footnotes are the same as the previous table

BEST OF THE WEB

243%
The rise in SuperGroup's online sales

120%
The rise in House of Fraser's online sales

Game, however, served up a surprise performance of almost flat like-for-likes, with a drop in sales of 0.5% compared with a 17.5% fall in 2009. The improvement came despite a difficult market – there were no major games console releases recently and footfall was reduced.

Game chief executive Ian Shepherd said he was hopeful the retailer would move into positive like-for-likes this year: "It was a solid set of results. We outperformed the games market. Scale is important – we were able to put great deals in front of customers.

"Footfall was depressed [because of the snow] but this was offset by our very strong conversion rate. But there is no question that comparables were a bit easier."

Camera specialist Jessops, which has been through the mill in the last few years, also did well in a generally difficult period for electricals more generally. While Comet's sales fell 7.3% and Dixons' by 4%, Jessops managed a 3% rise. Gladstone says Jessops' performance was down to two factors: "It has got to the point where it is stabilising its business, and it has had an active refurbishment programme of stores. It has upgraded its offer in-store and that's delivered quite a lot of success."

Year ahead

The coming year will bring plenty of difficulties, even if the weather does behave itself for the rest of winter.

While the overall recovery is slow paced, opportunities remain and consumer confidence has proved to be fairly resilient in the face of some pretty robust challenges so far.

The royal wedding and Olympics build-up could prove helpful for some, and international growth continues to provide some of the biggest opportunities for UK retailers.

But Hooker says a range of hurdles are likely to present themselves over the coming months – not least adapting to a multichannel world. "Multichannel is changing people's shopping habits and will have implications for what stores should look like and where winning shopping destinations will be," she says.

This year retailers will also have to contend with continuing pressures on income because of cuts in the public sector and a difficult housing market. She concludes: "With Government cuts and high inflation, 2011 is likely to be tough."

➤ To see the replay of Retail Week's Christmas online round-up webinar go to www.retail-week.com/christmaswebinar

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