KPMG

Surviving in Retail

Retail health check

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Rapid deterioration

Over the past 12 months, we have witnessed numerous retailers' financial performance deteriorating rapidly – there are many examples where well established brands have gone from trading with no visible problems to severe financial distress in less than six months. In a departure from recent years, companies are simply running out of cash as lenders and other providers of finance shy away from retail.

The common theme from those that have survived is proactive engagement and addressing the challenges head on.

Underestimating the challenges when they emerge and believing that a recovery will happen on its own is a high risk strategy, fraught with uncertainty and unlikely to deliver.

This booklet outlines where we have deployed our extensive retail experience helping management teams and boards address issues proactively. It also illustrates the short window available to make in impact in a market that continues to surprise.

What are the warning signs?

Warning signs can arise in differing forms between retailers, however the underlying trend throughout is that the sooner they take action, the more options they have to maintain a sustainable future.

The retail market continues to surprise...

Disruption within the UK retail market is ever increasing and a new retail world is evolving.

Unavoidable costs have increased such as minimum wage and business rates which are thinning margins and some retailers are suffering from over-expansion.

Furthermore, high street competition is fierce and is intensified by the omni-channel presence of some retail giants.

To add to this, consumer spending is not only being squeezed but spending patterns are also changing. Consumers now expect an 'anytime, anywhere' shopping experience as well as the ability to shop 24/7 from the comfort of their own home.

A series of retailers have fallen victim to this increasingly challenging market – some of them very quickly, with relatively little warning. We highlight two theoretical examples below.

High street retailer 1

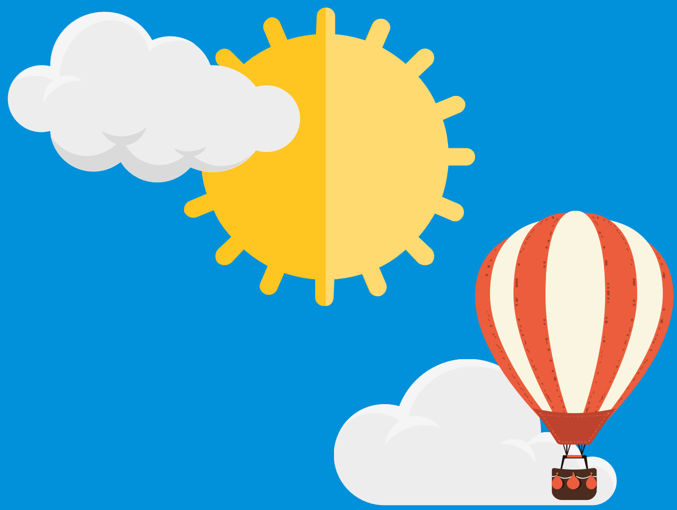
Background: This retailer failed to address the warning signs of their poor Christmas trading results.

Outcome: This resulted in loss of trust with their key stakeholders, withdrawal of their credit insurance and subsequently issues with their major distributor.

High street retailer 2

Background: This retailer was unable to pay significant debt to HMRC when it was due following a turbulent time through pension negotiations and carrying out a CVA.

Outcome: This 'cash crunch' pushed the company into administration.



However it’s not all doom and gloom. Retailers, such as the examples below, who have been proactive in facing their challenges have been able to survive.

High street retailer 3

KPMG helped this retailer develop a plan to rationalise its estate, move to a showroom model and reform its sales platform to an online offering. A financial restructuring of the business was carried out in order to raise the necessary funds required to achieve this plan.

High street retailer 4

A historic financial baseline was conducted as well as scenario modelling and mapping to test future store strategy. Removing underperforming locations and operational reviews of this retailers supply chain and distribution centre enabled KPMG to identify and validate numerous initiatives to increase cash flow.

How can we help?

KPMG has years of experience working with many different retailers, from distressed businesses who need a rapid turnaround or transformation to businesses who are trading profitably but simply seek to improve their performance.

We can help management teams and executive boards to ensure they are appropriately prepared for turbulent market conditions.

Our expertise can help to provide confidence to key stakeholders, help businesses to maintain a more cash generative position and optimise their performance to be able to withstand unpredictable events or funding requirements.

We use interactive tools and leading data visualisation techniques to ensure benefits are quickly identified and subsequently implemented. The tools can also be used for planning purposes and provide the ability to spot warning signs early.

Business plan review

We can thoroughly review your business plan and apply **stress tests** to ensure key stakeholder confidence is maintained. The review can also include **product profitability** to ensure you have the optimal range of products through focus on profitable SKUs.

Cash

Through carrying out a review of your cash position, we can ensure your business is sufficiently **cash generative** to meet all funding requirements. We can also assess your **working capital** and identify hidden cash benefits which can ultimately be released. We can also ensure there is clear **visibility of your cash position** in the short and long term to avoid any unpredictable pay outs having a harmful impact to your business.

Rapid cost reduction

We can help to improve margins across your business by assessing and **reducing your cost base**. This can focus on **rapidly** taking out costs – from head count costs (via workforce right-sizing) to non-pay costs. We will also ensure appropriate **spend controls** and **authority limits** are in place.

Options review

Our options review can ensure appropriate and robust **contingency plans** are in place, consider the sale of underperforming areas of the business and help to implement a **strategic plan** to carry the business forward in the best possible way. In more challenging circumstances, we can also carry out a **CVA feasibility study**.

Estate rationalisation

We can review your **estate footprint** and in doing so, highlight underperforming locations or those vulnerable to change. We can subsequently help with **exit considerations** and assist with **lease negotiations.**

Financing and funding

We can use our extensive debt advisory expertise to ensure **optimal debt structures** are in place for **maximum headroom**. This may be through seeking **new debt finance** or **refinancing** with existing lenders. We can assist with discussions with existing or new lenders and consider options for restructuring your debt.

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