KPMG

Christmas trading review and outlook for 2024

January 2024

Executive summary

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UK Retail market had a tough 2023 mainly due to the cost-of-living crisis and the pressures of various geo-political issues. 2024 is also expected to be a lacklustre year similar to 2023, especially the first half.

Linda Ellett

UK Head of Consumer, Leisure & Retail

Paul Martin

UK Head of Retail

Happy New Year!

Words like the “new normal” or an “incredibly difficult year” are nothing new for the UK retail sector, and the year 2023 was yet another one of those years. The sector has been facing into what seems like a never-ending stream of challenges – ranging from multiple decades of channel fragmentation, a global pan-demic closing large parts of the physical retail network and accelerating the growth of online, the cost of living crisis fuelled by soaring inflation, followed by consumers increasingly venturing back to stores - albeit more often to retail parks instead of high streets - just to name some of the drivers. This has resulted in lower sales (when stripping out inflation), in comparison to the previous 2 years and maybe more worrying for many categories, a drop in sales volumes. It is important to highlight though, that the sector is resilient and many retailers are well equipped to deal with these pressures. We have seen some business failures (although these have been limited) and many have used the last years to strengthen their balance sheets.

Christmas trading 2023 was down in comparison to previous years, driven by positive grocery and health and beauty sales and disappointing results across most other non-food categories. The overall outlook for 2024 remains very similar to 2023 - a year of stagnation, especially for the first half of the year. There is more positive economic news with inflation continuing to fall and wage growth picking up although geo-political challenges continue to make headlines with potential supply chain implications connected to these.

Many businesses will be reflecting on their Christmas trading performance although more importantly they will be assessing how they can deliver profitable growth in 2024. I hope this paper provides you with some thoughts on both of these topics.

Source: On a total-basis; KPMG-BRC Retail Sales Monitor

Overview

Christmas trading overview

Winners and underperformers

Key Retail trends and outlook for 2024

UK economy review and outlook

Christmas trading – Considerations

- Calendar impact of timing of Black Friday and Christmas 2023
- Like-for-Like sales compared to total sales
- Trading periods reported inconsistently between retailers
- Reporting is not a requirement for privately held businesses: good news travels; bad news rarely seen
- Compilation of publicly available information: lack of consistent and standardised metrics
- Trading results focus on sales not margins
- Persistent inflation (UK inflation was at 4.0% for December 2023[1])

Notes: (1) As per the data released by ONS in mid December (2) Higher value is largely due to goods costing more

Looking back at Christmas 2022

WZinners

Retailer	2022(YoY) L4L Christmas sales	
Fat Face	47.0%	▲
Aldi	26.0%	▲
WH Smith (Group)(1)	26.0%	▲
Lidl	24.5%(a)	▲
JD Sports	20.0%(a)	▲
Greggs(2)	18.2%	▲
Dunelm(3)	18.0%(a)	▲
Mamas and Papas	16.0%(a)	▲
Primark(4)	15.0%(a)	▲
Boots UK	15.0%	▲
Seasalt	15.0%(a)	▲
Matalan	14.6%(a)	▲
Booker	11.7%	▲
The Fragrance Shop	11.2%	▲
Hotel Chocolat(5)	10.0%	▲
Marks and Spencer (Clothing & Home)(3)	8.6%	▲
Beaverbrooks	8.0%(a)	▲
Tesco (UK & ROI)	7.8%	▲
Pets at Home(12)	7.6%	▲
Marks and Spencer (Total)(3)	7.2%	▲
Card Factory(6)	7.1%(c)	▲

Retailer	2022(YoY) L4L Christmas sales	
Sainsbury's (excluding fuel)	7.1%(a)	▲
Bensons for Beds (2)	7.0%	▲
B&M	6.4%	▲
Marks and Spencer (food) (3)	6.3%	▲
The Works(7)	5.7%	▲
Hobbycraft(8)	5.5%	▲
Wickes(3)	5.2%	▲
Topps Tiles(3)	5.1%	▲
Gear4music	5.0%(a)	▲
Next	4.8%(b)	▲
Superdry	4.5%(a)	▲
Poundland(2)	4.4%	▲
Halfords	1.8%	▲
Burberry(2)	1.0%	▲

Neutral performance

Retailer	2022(YoY) L4L Christmas sales	
Majestic Wine	0.2%(a)	▶

Underperformers

Retailer	2022 L4L Christmas sales	
DFS	(1.1)%(a)	▼
Very.co.uk	(1.3)%	▼
Asos(9)	(3.0)%(a)	▼
Currys (UK & Ireland) (10)	(5.0)%	▼
N Brown(11)	(9.2)%	▼
AO.com(2)	(17.2)%(a)	▼
In The Style(2)	(22.0)%(a)	▼

Note: (a) Total sales (b) Full-price sales (c) Store LFL sales (d) Next raised its profit forecast for the year to January 2023 to £860 million, up £20 million from the company's previous projection and exactly in line with the figure predicted this time last year; (e) JD Sports upgraded its market expectations for the year to January 28 for the group profit before tax and exceptional items of £933 million to £985 million

(1) Group revenue 20 Weeks to 14 January 2023; (2) Three months to 31 December 2022; (3) 13 weeks to 31 December 2022; (4) 16 weeks to 7 January 2023; (5) Nine weeks to 25 December 2022; (6) 11 months to 31 December 2022; (7) 11 weeks to 15 January 2023; (8) 7 weeks to 26 December 2022; (9) Four months to 31 December 2022; (10) 10 weeks ended 7 January 2023; (11) 18 weeks to 31 December 2022 (12) 12 weeks to 5 January 2023

Source: Publicly available press releases, Retail Week, as at 27 January 2023

BRC-KPMG retail sales monitor: 2023

	Growth % Full Year 2023 vs 2022	Growth % Full Year 2022 vs 2021	Growth % year on year (December 2023)
UK retail sales (LFL)	3.6%	1.8%	1.9%
UK total sales	3.6%	3.1%	1.7%
Online sales – non-food	-2.8%	-11.2%	-0.8%
Online penetration **RATE** (%Online vs In Store sales)	37.3%	40.3%	36.8%
Online penetration **GROWTH** rate (%Online vs In Store sales)	-1.3%	-5.7%	-0.8%
Food sales (LFL)	8.3%	2.6%	6.8%*
Total food sales	**8.1%**	**3.0%**	**6.8%***
Non-food retail sales (LFL)	-0.4%	1.1%	-1.7%*
Non-food retail sales (total)	-0.1%	3.2%	-1.5%*
Instore sales - non-food (LFL)	1.1%	20.3%	-1.6%*
Instore sales - non-food (Total)	1.6%	25.6%	-1.3%*

Notes: (a) For the area highlighted in grey: Due to a legacy agreement between BRC and IGD, we can only show the growth of the 3 month average in both years (Oct, Nov, Dec)
Source: BRC-KPMG Retail Sales Monitor, and Monthly BRC reports.

BRC-KPMG retail sales monitor (cont.)

Total retail sales in December 2023 were up by only 1.7% against an increase of 6.9% in December 2022.

Despite the fall in inflation and some consumers having more money in their pockets this Christmas, they exhibited restraint in spending.

- Consumer preferences shifted from traditional choices like clothing, jewellery, and technology gifts to beauty, health and personal care products, and food and drink.
- Online sales remained negative, although the decrease was more moderate than in recent months with sales down nearly 1 percent on last year.
- Online pureplay retailers are facing difficult trading conditions with in-store shopping picking up.
- Consumers are increasingly shopping across channels and so the retailers are focusing on hybrid business models.
- While profit margins were affected by promotions, retailers showed resilience by redesigning supply chains to be more cost-efficient, enabling strategic discounting.
- Despite factors like falling inflation rates and an upcoming cut in national insurance rates, consumers, still feeling the pinch from the economic downturn of the past couple of years, kept their spending to a minimum.

Paul Martin

UK Head of Retail, KPMG:

Christmas shoppers ditched clothing, jewellery, and technology gifts, opting for beauty, health, and personal care products, which, along with food and drink drove festive sales this year.

Retailers rolled out promotions that lasted longer and were deeper than last year and higher promotional activity amongst supermarkets saw grocery price inflation fall at its fastest rate on record in December.

Despite falls in inflation, an upcoming cut in national insurance rates, and some consumers having more money in their pockets this Christmas than last, the constant drip of economic challenges they've faced over the last two years has finally come home to roost.

Source: BRC-KPMG Retail Sales Monitor, released 9 January 2024 available at: A perspective on the BRC - KPMG Retail Sales Monitor December 2023 KPMG United Kingdom (home.kpmg)

BRC-KPMG retail sales monitor (cont.)

December 2023	
% change on year ago	
Like-for-Like	Total
All categories	
1.9%	1.7%

1.9% increase in UK retail sales on a like-for-like basis compared to December 2022, where they had increased by 6.5% from the previous year.

October – December: 3-month weighted average				
% change on year ago				
Like-for-Like		Total		
Food	Non-food	All categories	Non-food	Food
6.8%	(1.7)%	2.3%	(1.5)%	6.8%

3 month weighted average	
% change on year ago	
Total Non-Food	
In-store	Online
(1.3)%	(1.7)%

Over the **03** months to December, in-store sales of non-food items decreased 1.3% on a total basis.

12 month average to December		
% change on year ago		
Total		
All categories	Non-food	Food
3.6%	(0.1)%	8.1%

12 month average witnessed an increased of 3.6% on a total basis. Food witnessed a 12-month total average growth of 8.1% and Non-Food witnessed a 12-month total average decrease of 0.1%.

Note: (a) Numbers in brackets denote negative

Source: BRC-KPMG Retail Sales Monitor, released 9 January 2024 available at: A perspective on the BRC - KPMG Retail Sales Monitor December 2023 - KPMG United Kingdom (home.kpmg)

Christmas trading review – 2023

01 Ongoing cost of living and inflationary pressures

- Beset by low to no growth in the economy, and customers impacted by a most significant increase in cost-of-living, high staff costs, interest rates; UK retail had a tough 2023.
- Home-owners continued to deal with higher mortgages and rentals as the Bank of England left borrowing costs unchanged at a 15-year high of 5.25% (December 2023).
- Further, an additional 1.5 million households across the UK are facing food and energy bills greater than their disposable income. This has led to real disposable income dropping 2.4% in 2023.
- As a result, IGD's Shopper Confidence Index score remained at -8, unchanged from November, indicating the nation's confidence is still firmly in negative territory.
- To attract customers, retailers offered a plethora of promotions whilst also dealing with rising costs that are squeezing margins.
- On a positive note, the CPI inflation stood at its lowest levels in two years at 3.2% (albeit more than the Bank of England target of 2%) in December 2023, offering hope that interest rates could start to come down sooner than expected in 2024.

02 Consumer behaviour

- With 41% of consumers[1] feeling less financially secure heading into 2024, consumers prioritised their needs and were more selective about where they shop and what they buy.
- Value remained a priority as nearly half of consumers[1] said they'll buy more own brand or value goods in 2024, also more promotional or discounted items.
- Further, 41% of consumers stated product quality as a key factor for switching brands, indicating that quality closely follows value as a top priority for gifting.
- Black Friday emerged as the most significant online shopping day of 2023 albeit failed to meet expectations. Data from Barclays showed that transaction volumes on the day were down 0.63% y-o-y.
- To navigate the rising cost of living, consumers looked at spending on credit. During November and December period, Buy now Pay later (BNPL) saw an increase of 12.7% y-o-y.
- Going into 2024, consumers will continue to be cautious with their spending with 58%[1] saying they will cut non-essential spend in 2024.

03 Channel dynamics

- Since the COVID bounce, online sales for non-food categories have been in continuous decline for two years now (y-o-y decline of 2.8% in 2023 and 11.2% in 2022) and adjusting back to equilibrium.
- During the festive period, online sales along-with penetration rates were down by 0.8% y-o-y in December 2023.
- Black Friday sales were also less impactful online than in the recent past, as online sales on the day declined by 12% compared to 2022.
- December footfall witnessed monthly increase of 6.1% than in November, boosted by the final trading week before Christmas. In terms of shopping destinations, shopping centers saw the largest rise in footfall of 11.1% in the same period. Retail parks saw a monthly rise of 5.9% rise, while high streets had a 3.7% rise.
- Click and collect usage rose to 8% of orders on Black Friday (for retailers offering the service), up from 6.4% in the previous year, indicating retailers need to ensure a seamless journey from physical to online and back again (possibly multiple times).
- For multichannel and other online specialists, the focus was on ensuring online operations are profitable, with some retailers increasing online thresholds for free delivery and charging for online returns to ensure online profits.

04 Category trends

- The festive feel-good factor was lacking this year as many retailers faced a disappointing December with sales growth only up 1.7% on 2022.
- Christmas shoppers ditched clothing, jewellery and technology gifts, opting for beauty, health and personal care products, along with food and drink.
- Food was the clear category winner with sales up by 6.8%[2] while volume increased slightly vs. December 2022. Christmas saw a large food volume increase, likely helped by retailers cutting the prices of essential Christmas dinner vegetables.
- Non-Food sales remained in decline (down 1.5%[2]), however, Health & Beauty continued to be the shining light of the category.
  - Cosmetics and fragrances performed well helped by deep discounts from major fashion houses, accompanied by the strong sales of Beauty advent calendars that have become a staple of people's festive spending.
- Although tech and other electricals, did not see growth, online sales of wearable tech and gaming grew, with the latter being boosted by discounts on key consoles. Further, Toys sales in stores were also boosted proving they are still a preferred gifting option.

Note: 1) As per a KPMG survey of 3,000 UK consumers conducted between 1st to 11th December 2023 2) Inflation data is 3-month average of Sep-Nov

Sources: 1. ONS 2. Retail Week 3. Forbes 4. Reuters 5. Similarweb 6. Retail insight 7. Fashion United 8. Retail Week 9. The Guardian 10. Retail times

The ranking is based on sales values and does not take reflect profitability metrics

Christmas 2023

Winners

Retailer	2023(YoY) L4L Christmas sales	
Sosandar[7]	23.0%	▲
Marks Electrical[7][a]	17.8%	▲
Fortnum and Mason[14]	17.0%	▲
Lidl[3][a]	12.0%	▲
Cotswold Company[2]	10.5%	▲
Greggs[7]	9.4%	▲
Pandora[1]	9.0%	▲
Booths[16]	8.7%	▲
Bodycare[6]	8.2%	▲
Marks and Spencer[9]	8.1%	▲
Majestic Wine[8][a]	8.1%	▲
Aldi[3]	8.0%	▲
Superdrug[6]	7.1%	▲
Mamas and Papas[1]	7.0%	▲
Tesco[12]	6.9%	▲
Next[4] [e]	5.7%	▲
Sainsbury's[11]	5.3%	▲
B&M[5]	5.0%	▲
Primark[11][a]	4.5%	▲
Radley[2]	4.0%	▲
The Very Group[13][a]	3.4%	▲
Procook[10][a]	3.0%	▲
Halfords[19]	2.0%	▲
JD Sports[15] [f]	1.8%	▲

Neutral performance

Retailer	2023(YoY) L4L Christmas sales	
Poundland[7]	0.9%	►

Underperformers

Retailer	2023 L4L Christmas sales	
Currys[17]	(3.0)%	▼
The Works[18]	(4.9)%	▼
Burberry[9]	(7.0)%	▼
Topps Tiles[1]	(7.1)%	▼
The Hut Group (THG)[7]	(7.1)%	▼
Mulberry[9]	(8.4)%	▼
N Brown[20]	(9.3)%	▼
Naked Wines[7]	(10.0)%	▼
Quiz[21]	(11.0)%	▼
Dr Martens[7]	(21.0)%	▼

Note: (a) Total sales (b) Full-price sales (c) Store LFL sales (d) Retailers performance is based on the revenue during the Christmas trading period, and profitability was not considered for the analysis (e) Next increased its full-year profit guidance before tax by £20 million to £905 million (f) JD Sports had lowered its full-year profit guidance, from £1.04b to between £915m and £935m, after revenue growth was hit by "milder weather", "cautious consumer spending" and "softer" peak trading season than anticipated

(1) 13 weeks to 31 December; (2) 9 weeks to 31 December; (3) 4 weeks to 24 December; (4) 9 weeks to 30 December; (5) 13 weeks to 23 December; (6) 4 weeks to 31 December; (7) 3 months to 31 December; (8) 8 weeks to 25 December; (9) 13 weeks to 30 December; (10) 12 weeks to 7 January; (11) 16 weeks to 6 January; (12) 19 weeks to 6 January; (13) 7 weeks to 22 December; (14) 5 weeks to 24 December- (15) 22 weeks to 30 December (16) 3 weeks to 6 January (17) 10 weeks to 6 January (18) 11 weeks to 14 January (19) 13 weeks to 29 December (20) 18 weeks to 6 January (21) 1-31 December

Source: Publicly available press releases, Retail Week, as at 12 January 2024

2023 winners (1/5)

Winners

Retailer	2023 L4L Christmas sales		Retailer's reaction
Sosandar	23.0%	▲	"This performance and continued demand demonstrates the strength of the Sosandar brand and its unique product range in the key trading period before Christmas." **– Company statement**
Marks Electrical	17.8%	▲	"I continue to remain proud of the entire team at Marks Electrical for delivering a record peak trading period while gaining market share and maintaining our industry-leading Trustpilot score of 4.8. This further demonstrates the strength and attractiveness of our market-leading customer offering and as brand awareness improves, we continue to see a strong repeat customer rate." **– Mark Smithson, CEO**
Fortnum and Mason	17.0%	▲	N/A
Lidl	12.0%[a]	▲	"I'm incredibly proud of our performance this Christmas in what was the busiest trading period in our history." **– Ryan McDonnell, CEO**
Cotswold Company	10.5%	▲	"Our long-term focus on product quality, combined with investments in our omni-channel model, including optimising the online user experience and delivery service, are driving conversions and customer engagement." **– Ralph Tucker, CEO**

Notes: (a) Indicates total sales

2023 winners (2/5)

Winners

Retailer	2023 L4L Christmas sales		Retailer's reaction
Greggs	9.4%	▲	"2023 was a year of further progress by Greggs. I am proud of our teams, who did a fantastic job serving more customers as we continue to grow our shop estate and offer greater availability through digital channels and extended trading hours." **– Roisin Currie, CEO**
Pandora	9.0%	▲	"We are very pleased with our results across the peak trading season, and how we closed 2023. It's clear that our brand resonates well with consumers and continues to gain strength." **– Alexander Lacik, CEO**
Booths	8.7%	▲	"Everyone at Booths, alongside our supplier partners, has contributed to delivering a great Christmas for our customers and this is reflected in a set of strong trading results." **– Nigel Murray, MD**
Bodycare	8.2%	▲	"While we are exceptionally pleased with the results, especially coming on the back of last year's successful Christmas, we still have significant opportunities to move the business forward in 2024." **– Tony Brown, CEO**
Marks and Spencer	8.1%	▲	"Our strategy to reshape M&S for growth has enabled sustained sales momentum across food and clothing and home over the Christmas period. In food, we inflated below the market, with quality perception increasing further." **– Stuart Machin, CEO**

2023 winners (3/5)

Winners

Retailer	2023 L4L Christmas sales		Retailer's reaction
Majestic Wine	8.1%[(a)]	▲	"This was a record-breaking Christmas for Majestic, in which we achieved higher sales and served more customers than ever before." **– John Colley, CEO**
Aldi	8.0%	▲	"We're really grateful that so many customers chose Aldi for their main Christmas shop this year. As we look ahead to 2024, our promise to customers is that they will always make significant savings on every shop with Aldi, because we have the lowest grocery prices in Britain." **– Giles Hurley, CEO**
Superdrug	7.1%	▲	"We are exceptionally pleased to be reporting strong Christmas results and appreciate our customers' continued support. We understand the pressures customers are currently facing and are committed to supporting them and offering the very best in accessible health and beauty." **– Peter Macnab, CEO**
Mamas and Papas	7.0%[(a)]	▲	"Last year, despite a challenging inflationary environment, we backed our strategy and continued to invest in the brand and the business for both long-term sales and profit growth." **– Nathan Williams, CEO**
Tesco	6.9%	▲	"We stepped up our investment in service over the key festive period, with more colleagues on the shopfloor, helping to deliver market-leading availability and making this our best Christmas yet."**– Ken Murphy, CEO**

Notes: (a) Indicates total sales

2023 winners (4/5)

Winners

Retailer	2023 L4L Christmas sales		Retailer's reaction
Next	5.7%	▲	"Online performed particularly well, which we believe was as a result of service improvements versus last year." **– Company statement**
Sainsbury's	5.3%	▲	"We've worked hard to really deliver for our customers this quarter and have grown grocery volumes ahead of the market for the fourth Christmas in a row. More customers are choosing to shop at Sainsbury's, recognising our determined focus on value, product innovation and service."**– Simon Roberts, CEO**
B&M	5.0%	▲	N/A
Primark	4.5%	▲	"Sales of our Christmas ranges were also strong and sold through well. At the start of the period sales of many of our cold weather categories were initially slower but have much improved with the recent cold temperatures,"**– Company statement**
Radley	4.0%	▲	N/A
The Very Group	3.4%[(a)]	▲	"Our team delivered a brilliant range of products, strong pricing, an engaging new marketing campaign, and an improved online experience to give families everything they needed this Christmas." **– Lionel Desclée, CEO**
Procook	3.05%	▲	N/A

Notes: (a) Indicates total sales

2023 winners (5/5)

Winners

Retailer	2023 L4L Christmas sales		Retailer's reaction
Halfords	2.0%	▲	"In what remains a very challenging time for our customers, we are pleased to have delivered a resilient performance in Q3. Trading in Q4 has begun strongly and we remain focused on everything that we can control, with a number of initiatives underway to achieve further efficiencies within the business, as well as investing in areas where we see real opportunities for future growth."**– Graham Stapleton, CEO**
JD Sports	1.8%	▲	"We have made good progress against our five-year strategic plan, delivering global organic revenue growth of 6% in the period against very tough comparisons with last year, and opening over 200 new JD stores in the year. Our key markets have seen increased promotional activity during the peak trading season, driven by a more cautious consumer, but we continue to grow market share." **– Régis Schultz, CEO**

2023 neutral performers

Neutral performers

Retailer	2023 L4L Christmas sales		Retailer's reaction
Poundland	0.9%	►	"Poundland continued to perform robustly in Q1, boosted by strong sales of FMCG. I am pleased that we achieved a 200 basis-point year-on-year improvement in gross margin during Q1, and this positive trajectory is expected to continue over FY24, notwithstanding the potential impact of external factors beyond our control, such as industry-wide supply chain disruption." **– Andy Bond, CEO Pepco Group**

2023 underperformers (1/3)

Under performers

Retailer	2023 L4L Christmas sales		Retailer's reaction
Currys	(3.0)%	▼	"Our priorities this year are simple: to get the Nordics back on track and to keep up the UK and Ireland's encouraging momentum, while strengthening our balance sheet and liquidity. We're making good progress on all these in a still challenging economic environment." **– Alex Baldock, CEO**
The Works	(4.9)%	▼	"Market conditions have been persistently challenging, putting pressure on our sales and profit performance in the first half and throughout the festive period. It is clear that many families celebrated Christmas on tighter budgets this year and, while we offered excellent value, we were not immune to this reduced spend. I am proud of the way that our colleagues have rallied together to deliver for customers during these challenging times." **– Gavin Peck, CEO**
Burberry	(7.0)%	▼	"We are continuing to deliver the transition to our new modern British luxury creative expression for Burberry, which started appearing in our stores in early autumn. We are still in the early stages of executing this, which has become more challenging against the backdrop of slowing luxury demand. We experienced a further deceleration in our key December trading period and we now expect our full-year results to be below our previous guidance. We remain confident in our strategy to realise Burberry's potential and we are committed to achieving our £4bn revenue ambition. " **– Jonathan Akeroyd, CEO**

2023 underperformers (2/3)

Under performers

Retailer	2023 L4L Christmas sales		Retailer's reaction
Topps Tiles	(7.1)%	▼	"The group remains well-positioned to respond to market conditions and we expect to have gained further market share in the first quarter, driven by our world-class customer service, market-leading brands and specialist expertise, and supported by our strong balance sheet. We remain excited about the opportunities for Topps Tiles over the medium term." **– Company statement**
The Hut Group (THG)	(7.1)%	▼	N/A
Mulberry	(8.4)%	▼	"In the run-up to Christmas, the macroeconomic environment continued to impact consumer spending in the luxury retail sector, which Mulberry was not immune from. Despite this, the group maintained its discipline and focus on a full-price strategy against an unusually high promotional environment." **– Thierry Andretta, CEO**
N Brown	(9.3)%	▼	"We are pleased with the progress we have made in transforming the business, the resilience built through our strong balance sheet and that our full-year EBITDA expectations are on track. " **– Steve Johnson, CEO**

2023 underperformers (3/3)

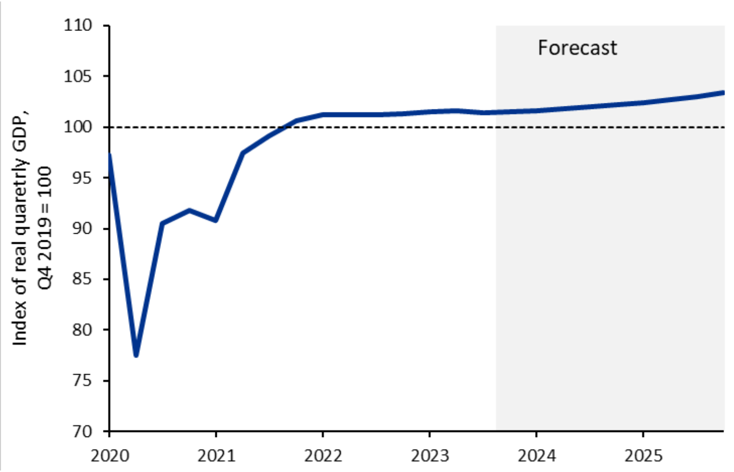
Under performers

Retailer	2023 L4L Christmas sales		Retailer's reaction
Naked Wines	(10.0)%	▼	"I'm delighted with how the team pulled together to deliver a well-executed peak trading season. As we saw at the half year, the reason sales are down on prior year is entirely due to a smaller repeat customer base reflecting lower investment in customer recruitment in the previous year." **– Rowan Gormley, Executive Chair**
Quiz	(11.0)%	▼	"This reduction reflects the negative impact of inflationary pressures on consumer demand which resulted in declines in traffic both in-store and online, offsetting consistent year-on-year trends in key metrics such as conversion rates and average transaction values." **– Company statement**
Dr Martens	(21.0)%	▼	"[The results were] driven by a weak US performance, as expected. Trading in the quarter was volatile and we saw a softer December in line with trends across the industry. While the consumer environment remains challenging, we are taking action to continue to grow our iconic brand and invest in our business. We remain confident in our product pipeline for AW24 and beyond." **– Kenny Wilson, CEO**

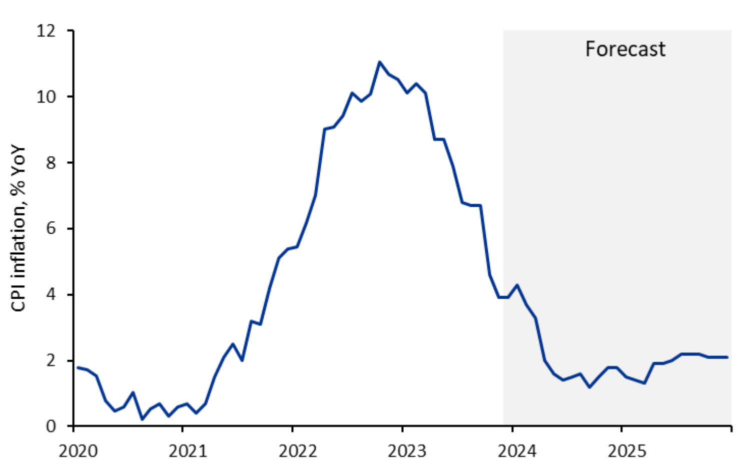
Economic Outlook

UK economy

UK real GDP



UK consumer inflation



- UK GDP is expected to have grown by 0.3% in 2023, for 2024 we expect sluggish momentum to continue with growth of just 0.4%. The economy isn't expected to return to its steady-state growth rate until next year when we expect growth of 1% in 2025.
- UK inflation fell to its lowest level in two years in November 2023, falling to 3.9%, down from 4.6% in October 2023. The sharp fall in November inflation was driven by a decrease in transport and food prices. We expect inflation to continue to slow in 2024, averaging 2.1% this year and return to the Bank of England's target by early spring.
- Interest rates reached a 15-year high of 5.25% in August 2023 and are expected to have reached their peak this cycle. The BoE opted to keep interest rates unchanged for the third successive meeting in December. This follows on from a series of hikes which saw interest rates increase by 500 basis points since the start of 2022 in response to higher levels of inflation.

Source: KPMG Macroeconomics forecast, January 2024

Economic Outlook (cont.)

Short term outlook for the UK economy

	2022	2023	2024	2025
Real GDP	4.3	0.3	0.4	1.0
Consumer spending	4.9	0.5	0.3	1.2
Investment	7.9	2.4	-0.5	1.6
Unemployment rate	3.7	4.1	4.7	4.9
Inflation	9.1	7.4	2.1	1.9
Base interest rate	3.50	5.25	5.00	4.00

Source: ONS, KPMG forecasts. Average % change on previous calendar year except for unemployment rate, which is average annual rate. Investment represents Gross Fixed Capital Formation, inflation measure used is CPI and unemployment measure is LFS. Interest rate represents level at the end of calendar year.

Sterling exchange rate

	2020	2021	2022	2023	2024
Exchange rate GBP/USD (average)	1.28	1.38	1.24	1.24	1.26

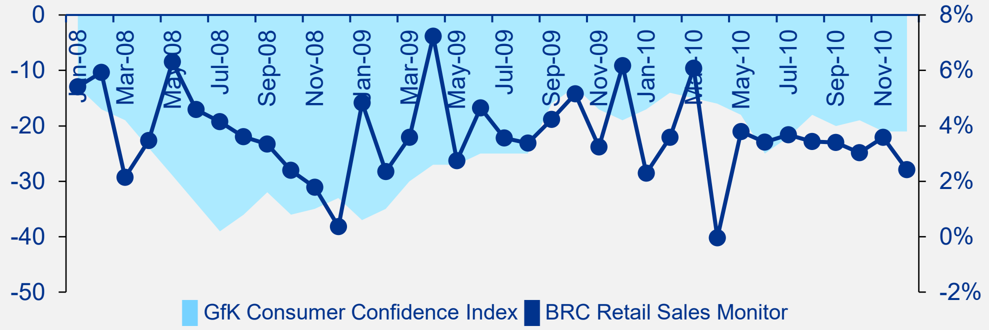
Note: 2024 figures are based on forward market data.

Source: Bank of England, Refinitiv

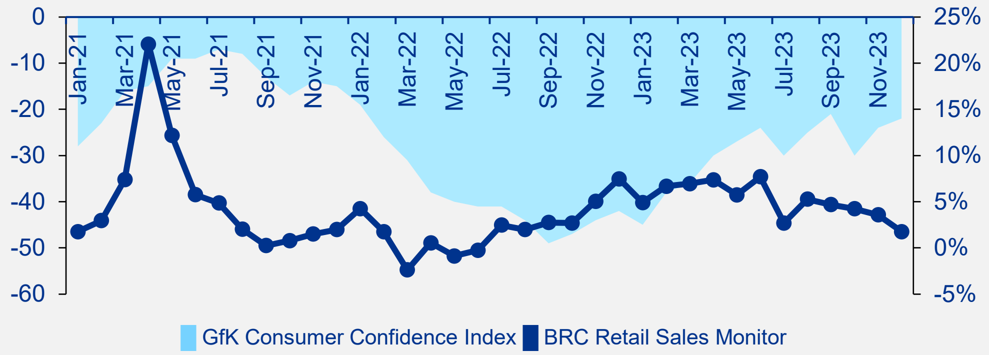
- Consumer spending is expected to weaken further this year and grow by just 0.3% in 2024. Households will continue to feel the impact of higher interest rates in form of higher mortgage costs. Falling inflation is expected to provide a cushion for consumers while continued momentum in pay growth will partially offset the impact of high interest rates.
- Higher costs of borrowing and slowing growth outlook are expected to weaken investment significantly. Overall, investment is expected to contract by 0.5% this year before recovering in 2025 with growth of 1.6%.

Consumer sentiment indices relationship analysis

GfK Consumer Confidence Index (-100 to 100) and BRC Retail Sales Monitor (%): 2008-2010



GfK Consumer Confidence Index (-100 to 100) and BRC Retail Sales Monitor (%): 2021-2023



Note: (a) E- Estimated/ Forecasted 1) BRC Sales data is considered on % growth on y-o-y basis

Source: Refinitiv, BRC, GfK; accessed on 4 January 2024

Key Takeaway – lagged relationship

The **GfK Consumer Confidence index witnessed a slow but persistent growth** in 2023, on the other hand, the **BRC Retail Sales Monitor[1] saw a sharp year-on-year decline** in December 2023, as consumers held back on Christmas spending due to the cost-of-living crisis.

Outlook

- Gfk's Consumer Confidence Index witnessed a 20-point year-on-year rise in December 2023. The confidence index is still in the negative territory but there is optimism as all key measures, including personal financial situation, general economic situation, major purchase index, and savings index showed significant year-on-year increase in December 2023.
- "Despite the severe cost-of-living crisis still impacting most households, this slow but persistent movement towards positive territory for the personal finance measure looking ahead is an encouraging sign for the year to come." – Joe Staton, Client Strategy Director at GfK.
- "As was the case in 2023, large numbers of consumers tell us that they are going to combine stopping, reducing, and switching the things they buy to save money in 2024. " – Linda Ellett, Sector Lead, Consumer Markets, Leisure & Retail.

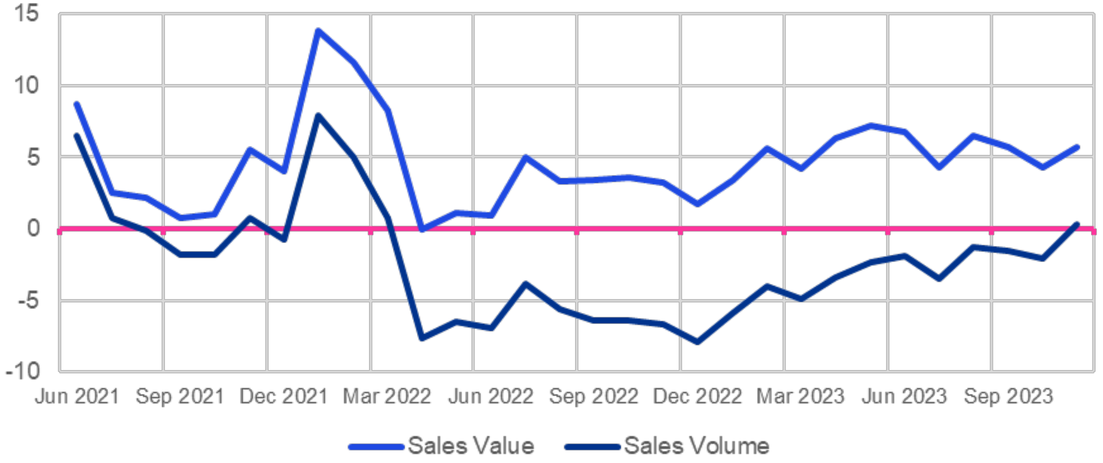
Retailing trend (1/2)

All retailing excluding automotive fuel

The chart to the right highlights the year on year change in sales value and volume excluding the sale of automotive fuel.

Since the summer of 2023, we have seen a plateau in sales value growth. However, the decline of volume has been slowing since January 2023.

Volumes in November 2023 stopped declining compared to prior year, suggesting there are signs for optimism.

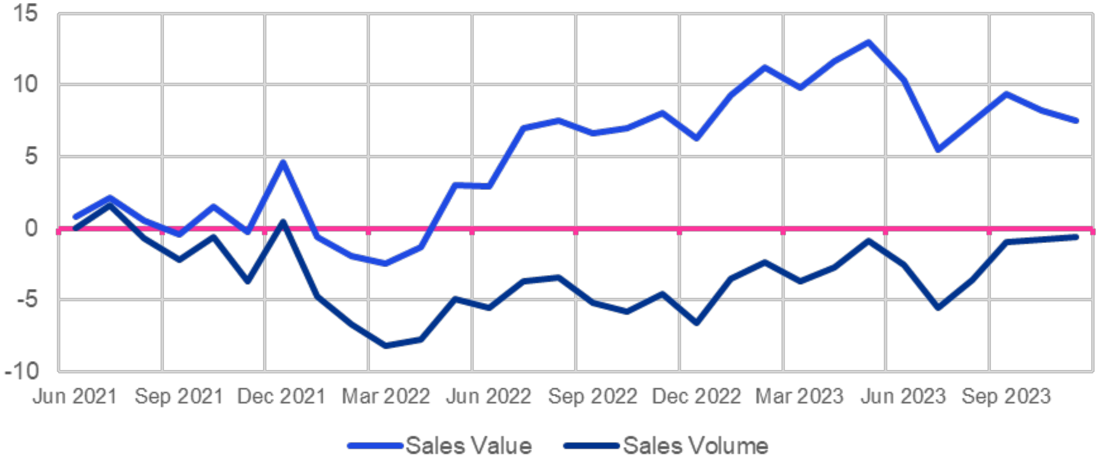


Predominantly food retailers

The chart to the right highlights the year on year change in sales value and volume for retailers that predominantly sell food.

The growth in Y-O-Y food sales have slowed since June 2023 but still remain high at an average of 6-8%.

Volumes have been declining since 2021 but the rate of volume decline has been slowing over 2023. Volumes are reaching prior year levels.



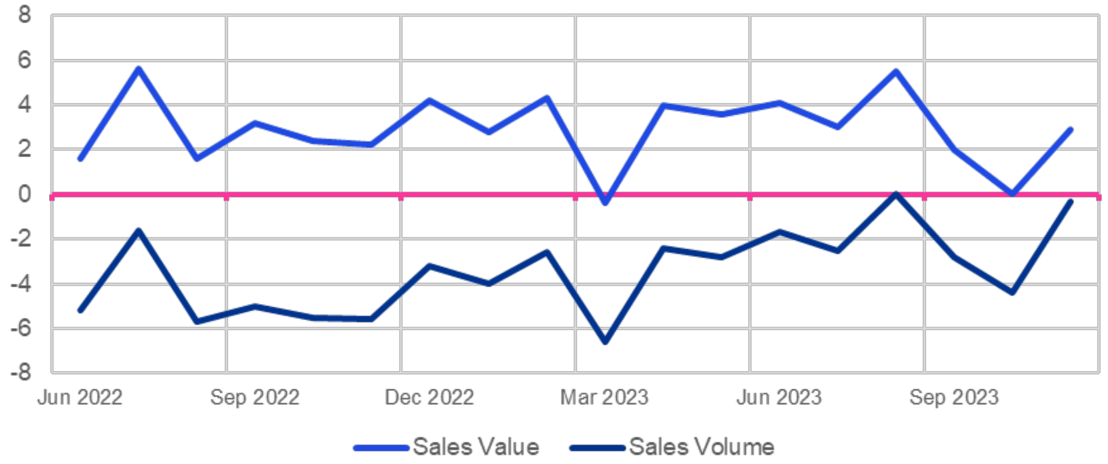
Retailing trend (2/2)

Predominantly non-food retailers

The chart to the right highlights the year on year change in sales value and volume for retailers that predominantly sell non-food items.

As with other areas, the rate of volume decline has slowed whereas sales value have consistently been at an average of 4% for 2024.

Sales volumes stopped declining in November 2023.



Retail Outlook 2024 - Challenges

01 Slow economic growth

- UK's Economic activity has outperformed expectations, but the outlook remains weak and vulnerable to shocks.

  KPMG's Economic forecast expects UK real GDP growth will slow to just 0.4% in 2024. Risks to the outlook are skewed to the downside, stemming from more persistent inflation and the delayed impact of monetary policy.
- While the inflation shock is receding, both fiscal and monetary policy is likely to hold the economy back in 2024.
- However, in the latter part of the year, real wages should continue to recover and interest rates start to fall.

02 Weakened consumer demand

- Households will continue to face pressures on disposable income as more borrowers are forced to refinance their mortgages at much higher rates and those renting face rising costs passed on by landlords.
- Some of the benefits of wage growth will be offset as more consumers move into higher tax brackets.

  High household debt servicing costs are also likely to impact spending power as debt interest payments are expected to climb to 5.7% of household income in 2024, more than double the 2022 level.
- The support from universal energy subsidies has also been withdrawn, so real income growth will be subdued next year.

03 Rising business costs

- Businesses will continue to face rising cost pressures, including National Minimum Wage, Business Rates and supply chain given Middle East geo-political disruption.

  The National Minimum Wage will rise in April/May 2024- while this will be welcome for consumers' disposable incomes and may impact demand, it also represents a significant cost to retail businesses.
- Structural weakness of labour supply and immigration restrictions is further expected to push up salaries.
- Business Rates are set to rise by 6.7 percent in April 2024, offsetting the benefits of more favourable rent deals. This will be compounded by other emerging issues, such as the disruption to shipments from the Far East via the Red Sea.

Retail Outlook 2024 - Opportunities

Embrace hybrid models

Shift towards hybrid models that seamlessly connect all retail touchpoints. New physical concepts, especially in retail parks, are set to thrive, to include more hospitality.

Personalise customer engagement

Leverage AI for customer experiences, offering targeted pricing and promotions. AI-enabled personalisation enables businesses to become more resilient to changing customer wants and needs.

Prioritise tech innovation

Generative AI (Gen AI) and advanced tech investments will separate winners from losers in the retail landscape. Gen AI will move from hype to happening and deliver measurable benefits.

Category focus

Identify growth opportunities in categories like grocery, health & beauty, and purpose driven retail. The Health & Beauty sector will continue to thrive and the circular economy will grow, albeit from a low base.

Invest in retail media

Explore growth models like retail media to enhance visibility and customer engagement. Retail Media Networks offer retail businesses additional revenue streams, monetising 1st party customer data and opening ad services and opportunities to 3rd party brands and advertisers.

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Growth in M&A activity expected

M&A activity will grow on the back of lower valuations for struggling online and mid-market brands, with some possible consolidation in the online pureplay and luxury space.

Consumer Pulse: 2024 Outlook (1/2)

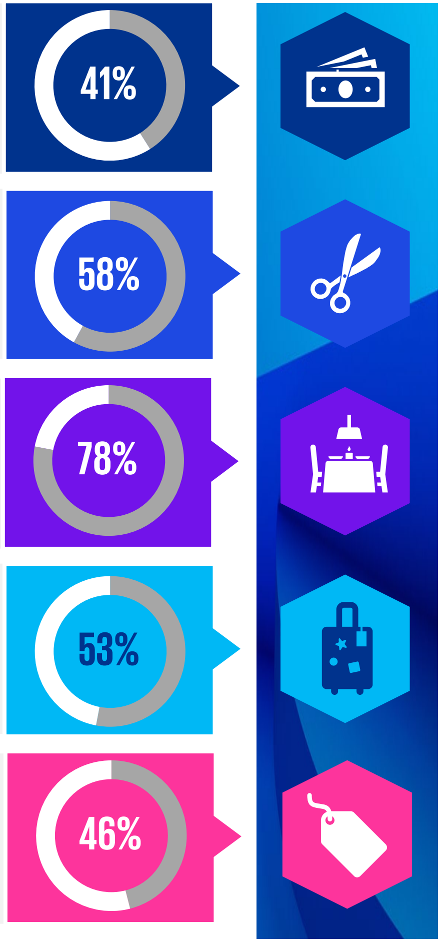
41 percent of the consumers **feeling less financially secure** heading into 2024.

58 percent of the consumers say they will **cut-back on non-essentials spending**, while only 8 percent say they will increase non-essential spending.

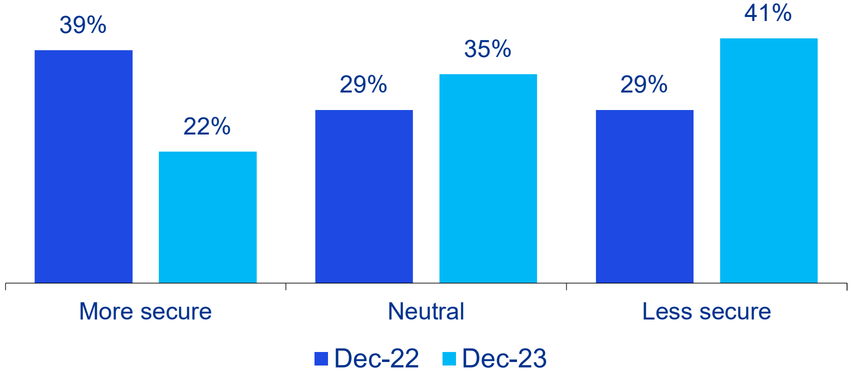
Eating out is the most common **non-essential cutback category** for 2024 with **78 percent** of votes, followed by takeaway with 70 percent.

53 percent of consumers stated that they will **increase their non-essential spending** in **Leisure Travel/Holiday.**

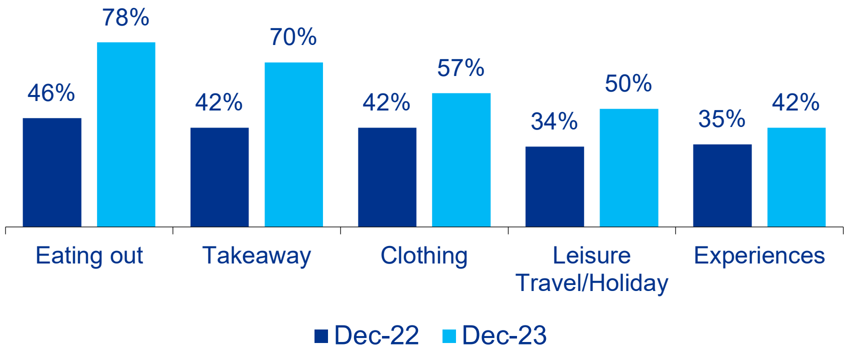
46 percent of the respondents said they will buy more **own brand or value goods** in 2024, also more **promotional or discount items.**



How financially secure do consumers feel (2022 vs 2023)?



Top 5 non-essential spends consumers will cutback (2022 vs 2023)?



Source: KPMG UK Consumer Pulse survey; accessed on 9 January 2024

Consumer Pulse: 2024 Outlook (2/2)

Price is the top consideration when purchasing goods and services in 2024 for **83 percent** of the respondents, followed by quality.

83%

40 percent of consumers say they will **increase their use of retailer loyalty schemes** in 2024, up from 18% at the start of 2023.

40%

70 percent of the respondents stated that they will be **buying their groceries in-store**, compared to 16 percent who will be buying groceries online.

70%

Do you prefer to buy in-store or online (by category)?

> As more households are exposed to higher mortgage rates or rent, the number of people needing to cut non-essential costs increases. Our survey also indicates that those consumers who have already adapted their shopping behaviour to lower their costs during 2023 are going to continue these steps during the next twelve months. **- Linda Ellett, Sector Lead, Consumer Markets, Leisure & Retail**

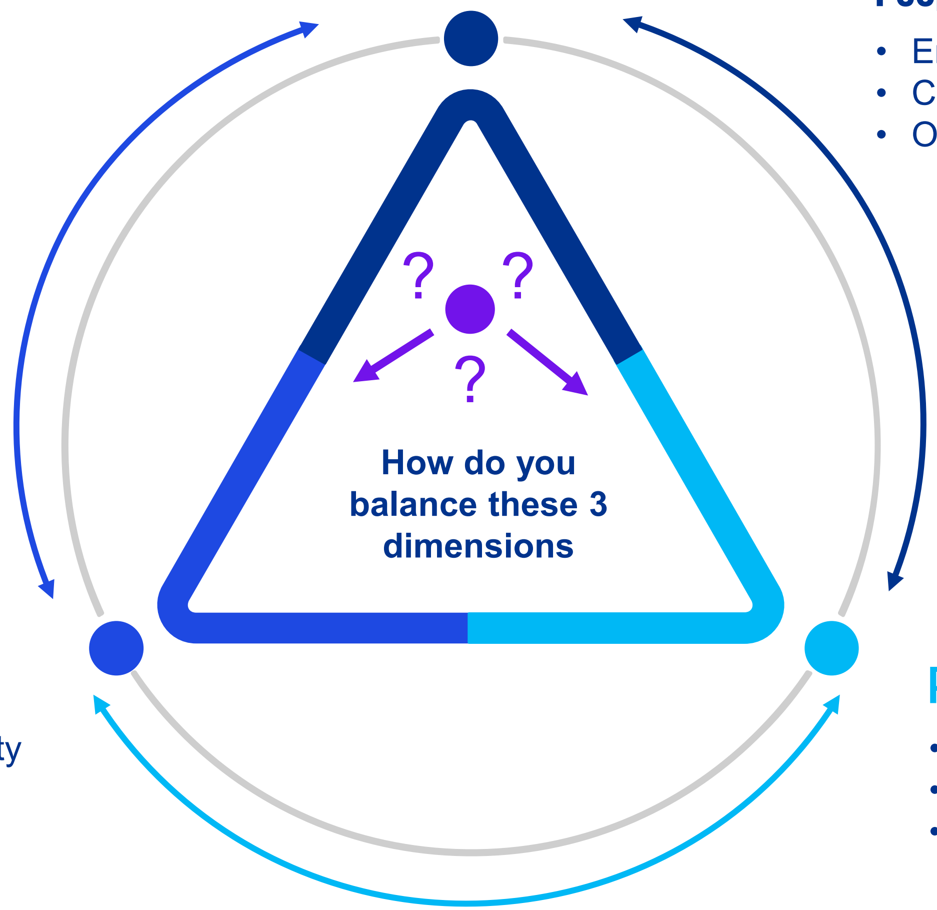
Source: KPMG UK Consumer Pulse survey; accessed on 9 January 2024

People, Planet and Profit – aligning these 3 dimensions will be top of mind in 2024 (1/2)

Navigating the 3P's during a period of economic uncertainty and a softening in demand will be critical for retailers. Managing and even embracing the tensions of what could be perceived as forces pulling in opposite directions will be at the top of retail leaders to-do list.

People

- Employees
- Customers
- Other Stakeholders



Planet

- Sustainability
- Society
- Regulation

Profit

- Protection
- Growth
- Business model & Innovation

People, Planet and Profit – aligning these 3 dimensions will be top of mind in 2024 (2/2)

Although it's going to be a challenge for many, retailers still need to manage all the 9 key priorities to emerge as winners

People	**Employees** Attracting and retaining employees across all levels in the current climate is a key challenge.	**Customers** Understanding what customers want must be at the forefront for all retailers.	**Other Stakeholders** Managing a broad set of stakeholder's (Shareholders, Policymakers, Media etc.) is part of BAU today.
Profit	**Protection** Maintaining profitability is key in the current trading environment with increased costs and softening demand.	**Growth** Thinking about how to drive growth in the current economic climate must be part of a retailer's agenda.	**Business model** With consumer behaviour evolving rapidly, retail business models will also need to constantly evolve and sell more than just physical products in physical spaces.
Planet	**Sustainability** Ethical and sustainable practices have become an important factor impacting consumer preferences.	**Society** Demonstrating how retailers can be an integral and collaborative part of the society they serve must be a key priority.	**Regulation** How to stay ahead of regulation in the sector whilst not falling victim to greenwashing accusations will be vital.

People

01 Employees

Attracting and retaining talent in the current climate will represent a challenge for many retailers.

Competitive pay and benefits is only one dimension whilst also adapting to changing working patterns and the need for varying skill-sets will need to be considered.

Both monetary and non-monetary incentives need to be considered as drivers which can help employee retention, particularly during the ongoing cost of living crisis.

02 Customer

Most organisations claim to operate a customer-centric business model although in many cases further insight is required in this space.

Retailers need to focus on understanding their consumers at a granular level using first party data and insights to personalise engagement, offer targeted pricing and dynamic promotions.

The ever-changing nature of consumer behavior and its speed of transformation in the context of health, geopolitics and cost of living crises make data even more critical for success.

03 Other Stakeholders

Managing all other stakeholders be it Shareholders, Policymakers, or Influencers, will require increased focus during challenging times as the retail sector's public nature generally attracts more attention and scrutiny than many other sectors.

Retailers must demonstrate an in-depth understanding and clear communication strategy for all their multiple stakeholders. For example, providing long term financial support to suppliers to help them overcome the cost-of-living crisis.

Dunelm

In March 2023, Dunelm announced that they were trialling a new shorter hybrid working model across select departments which gives its employees the option to work four-days a week. According to retailers who have adopted the hybrid model, it has helped improve work-life balance, increase productivity and lower stress levels of the employees.

Waitrose

In November 2023, Waitrose announced a partnership with AI-driven search platform Netcore Unbxd to improve its online search and browsing experience and develop personalised and tailored experiences for customers, making it easier for them to find exactly what they need.

Sainsbury's

In September 2023, Sainsbury's invested an additional £6 million annual investment with the aim of providing long term support for its dairy farmers. The current investment follows a booster payment of £8.9 million paid to dairy farmers in April 2022, and adds to the £66 million provided in support of farmers in total across 2022.

Profit

04 Protection

Maintaining profitability has become increasingly challenging for many retailers due to the softening in demand and due to the increase of multiple cost factors.

The National Minimum Wage has continued to rise, and will rise again in April 2024, which represents a significant cost to retail businesses.

Retailers are working towards cost efficiency programs by reducing retail operating costs, investing in technology that enhances efficiencies, delivering better value, increasing innovation and improving customer engagement and experience.

05 Growth

While protecting the planet and focussing on employees and customers has increased in importance, having a clear growth strategy remains pivotal.

In 2024, retailers who have adopted hybrid business models are expected to prosper and deliver a profitable return, as consumers are increasingly shopping across multiple channels.

Retailers have continued adopting a customer-led and data-driven approach towards promotion, particularly targeting the old and affluent consumers who are most likely to have material savings and low or no mortgages.

06 Business model & Innovation

With consumer behaviour evolving rapidly, retail business models will also need to constantly evolve.

The future of retail will likely consist of hybrid business models that integrate all channels and touch points seamlessly.

According to research by Gartner, 2024 is going to be a breakthrough year for AI. The research suggests that business intelligence and data analytics is going to top the list of technologies that retailers are investing in, followed by investment in cloud platforms and application modernization.

Retailers have been aspiring for hyper-personalisation for years, and Gen AI will finally make this a reality.

Morrisons

In March 2023, Morrisons announced a three-year savings programme, wherein they plan to cut £700 million in costs, which will allow them to reduce prices amid a decrease in consumer spending. The company did not specify where the savings would be made, but sources said that they would not result from job cuts or store closures, but rather from alterations to the company's back office and logistical processes.

M&S

In May 2023, M&S, as part of its "reshape M&S for growth" strategy, announced targets to achieve 1 percent growth in market share in both clothing and food and to bring its operating margin up to 4 percent in food and 10 percent in clothing over the next five years.

The Very Group

In November 2023, The Very Group announced the launch of a new Gen AI Innovation Lab which will test new retail solutions powered by generative AI to transform the way customers shop on the company's ecommerce platform by combining cloud and general artificial intelligence capabilities.

Planet

07 Sustainability

The ethical and sustainable practices of retailers have become one of the factors impacting consumer preferences. It is essential for retailers to position themselves as standing for more than just profit and ensure their businesses have a positive impact on the environment.

Focus areas for retailers include sustainable practices across the entire value chain – from procurement of raw materials, to production, packaging and sale of products.

08 Society

Demonstrating how retailers can operate sustainable business models, whilst being an integral and collaborative part of the society they serve, is going to be essential.

Retailers need to demonstrate how they make a difference to the communities they serve and how they are responsible corporate citizens.

Practices such as discounting, cost-cutting, minimal cost-transfer to consumers, capped prices, charity funds and donations can help retailers be the go-to choice for consumers in the middle of the current inflationary driven cost of living situation.

09 Regulation

Alignment to regulations relevant to retailers, people, consumers, labour, environment and society as a whole will make retailers stand-out as responsible businesses.

There is considerable pressure from multiple stakeholders including consumers alike for retailers to be in sync with key themes like climate change, environment protection, supply-chain sustainability, employee well-being and best-practice governance. Due to the public nature of the sector green-washing should be considered as a key risk.

Regulatory commitments such as human rights, modern slavery, TCFD1 (critical for all large businesses in UK) as well as mandatory product enhancements in line with HFSS2 are expected.

Asda

In July 2023, Asda partnered with Avery Berkel, a UK-based manufacturer of in-store weighing and pre-pack solutions, and Hanshow, a Chinese manufacturer of electronic shelf labels (ESL) and digital store solutions, to launch a sustainability trial store in the UK which uses ESL technology and other digital solutions to promote refillable solutions for supermarket shopping with a focus on sustainability and customer experience.

Tesco

In May 2023, Tesco announced that it redistributed 88 percent of surplus food across its UK business in partnership with FareShare and Olio. FareShare is able to support about 8,500 community groups and charities with surplus food from Tesco's network of stores and distribution centres.

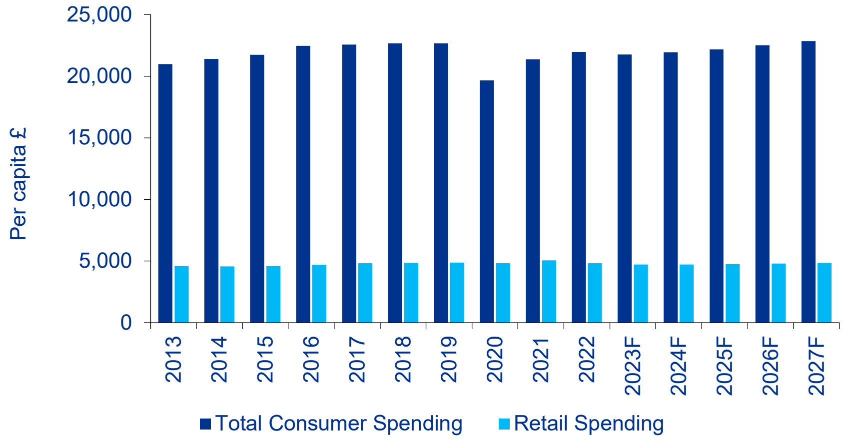
Lidl

In February 2023, Lidl UK announced that they are phasing out the advertising on HFSS products to children as part of the company's 'conscious nutrition' initiative. The supermarket chain also introduced a higher level of transparency for its customers by adding Nutri-Score labelling system to packaged goods in order to help consumers understand the nutritional profile of the products.

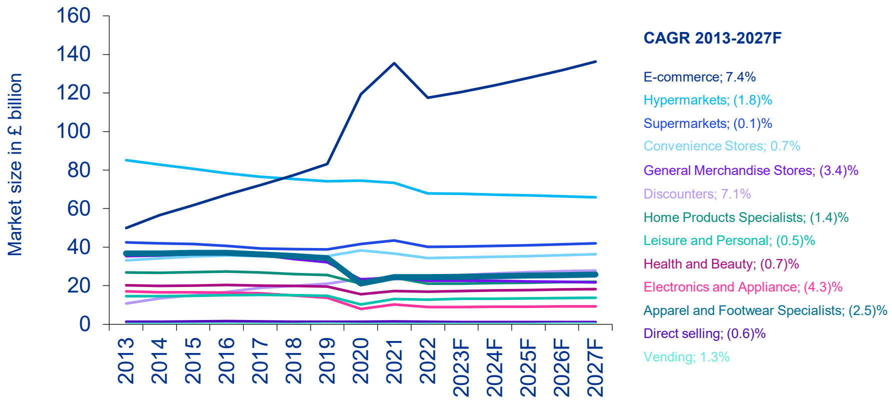
Note: 1) TCFD refers to Task Force on Climate-related Financial Disclosures 2) HFSS refers to High in Fat, Salt and Sugar

2024 UK retail outlook (1/2)

UK consumer spending



UK channel overview



- Total consumer spending might experience a slight year-on-year increase of 0.8 percent in 2024.
- The retail spend of UK consumer is expected to have a marginal decrease in 2024.
- Consumers moving into higher tax brackets and increasing household debt servicing costs is likely to have negative impact on consumer spending.

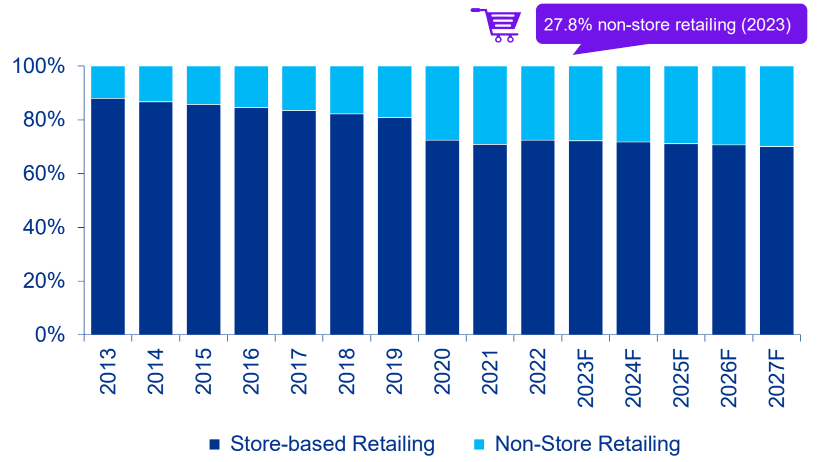
- On a CAGR basis E-commerce remains the fastest growing channel although its growth has slowed since 2022 to similar levels which was experienced in the run-up to the Covid-19 pandemic.
- Discounters and Vending are expected to be the fastest growing physical channel during the forecast period.
- The Electronics and Appliance channel is expected to experience the most significant decline during the forecast period.

Note: The consumer spending data (historic and forecast) is at 2022 constant prices. Retail spending is calculated as the sum of consumer spending on food and non-alcoholic beverages, clothing and footwear, household goods and services, and alcoholic beverages and tobacco. All other data is 'Retail Value Excl. Sales tax' and is reported at 2022 constant prices

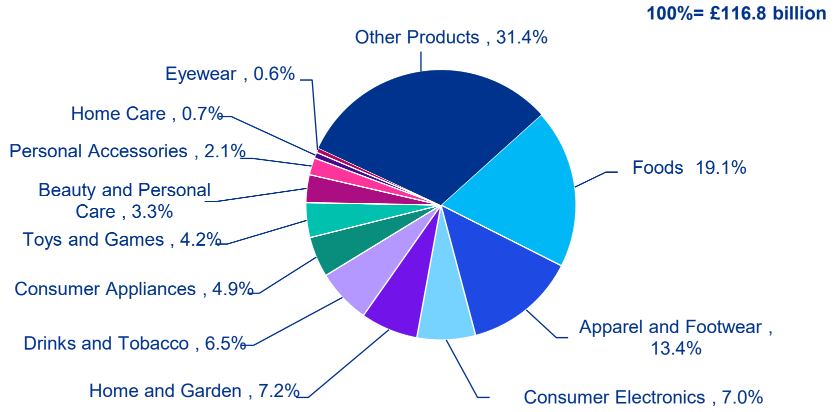
Source: Euromonitor, accessed 3 January 2024

2024 UK retail outlook (2/2)

Store versus non-store



Internet retailing, 2023



- Store-based retailing will continue to be the main channel during the forecast period.
- Digital penetration growth rate is expected to experience a stable but slow growth rate during 2023-27.
- Consumers will continue to use multiple channels across their whole shopping journey during the forecast period therefore an omni-channel strategy is pivotal.

- Food and drink, and apparel and footwear categories make up approximately 39 percent of internet retailing in 2023.
- Consumer electronics and consumer appliances make up approximately 12 percent of internet retailing in 2023.

Note: The consumer spending data (historic and forecast) is at 2022 constant prices. Retail spending is calculated as the sum of consumer spending on food and non-alcoholic beverages, clothing and footwear, household goods and services, and alcoholic beverages and tobacco. All other data is 'Retail Value Excl. Sales tax' and is reported at 2022 constant prices

Source: Euromonitor, accessed 25 January 2024

How can KPMG help?

We can help you to address the implications of the three themes from the triangle of retail…

People

- **People Consulting**
  - **People led organisation transformation** — helps achieve transformation objectives by influencing and shaping behaviour
  - **People services** — payroll compliance, compensation policies and global mobility solutions
  - **Reward and employee benefits** — provides reward advisory services and helps with compliance matters
  - **Employment solutions and payroll advisory**
  - **Global mobility services**
- **Customer Consulting** — customer insight and analytics, customer, brand and product strategy, customer experience, employee experience, marketing and media effectiveness, sales transformation, and service transformation

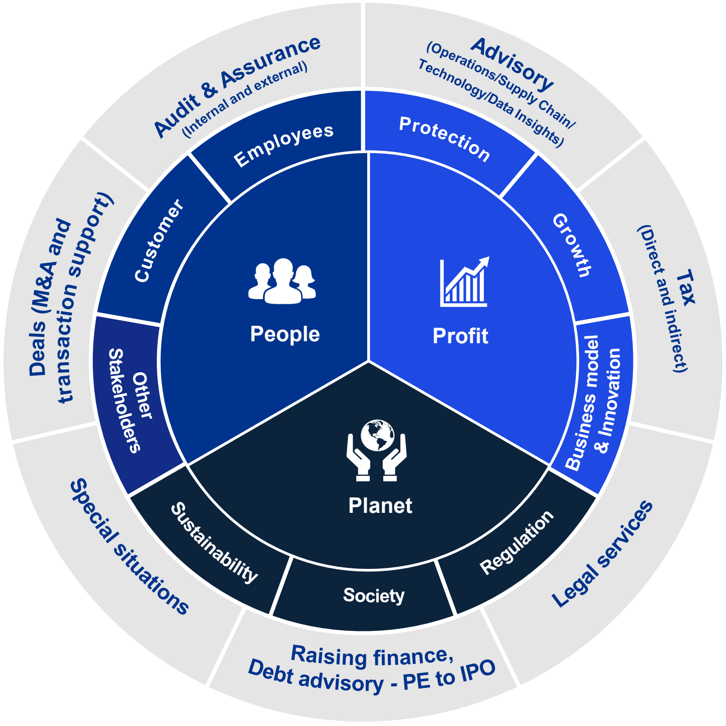
Profit

- **Strategy Consulting** — business growth strategy, reshaping cost, enterprise-wide transformation, post deal transformation
- **Innovation Advisory** — helps maximise returns on innovation investment
- **Operations consulting** — digital supply chain transformation, powered procurement transformation
- **Technology consulting** — functional transformation, digital transformation, technology strategy, technology risk management, data strategy, human-centred design, cloud transformation and advisory, automation, and software testing services

Planet

- **Environmental, Social and Governance (ESG) services**
  - **Climate risk and strategy** — helps identify climate risks and accelerate decarbonisation plans
  - **ESG assurance**
  - **ESG reporting** — supports ESG reporting by combining ESG expertise with technical accounting and reporting expertise
  - **Sustainable supply chain** — helps in identifying the opportunities and building a sustainable supply chain
  - **ESG Debt Advisory**
  - **ESG in Financial Services**
  - **ESG strategy** — helps develop an ESG strategy by clearly analysing the ESG landscape
  - **ESG linked financing assurance**
  - **IDE: Inclusion, Diversity & Equity**
  - **ESG Tax**

… and there are nine key priorities that retailers need to address to emerge as winners. Our specific service offerings are designed to help tackle these priorities. These augment our business as usual services



Key

- **Inner most circle:** 3 key themes
- **Inner circle:** 9 priorities
- **Outer circle:** BAU services

Further reference materials

Further reference materials

01 **UK Customer Experience Excellence Report 2023.**
Date released: November 2023

02 **Retail Think Tank – 2024 outlook.**
Date released: December 2023

03 **Retail Sales Monitor.**
Date released: January 2023

04 **Pricing and Promotions Strategy report.**
Date released: September 2023

UK Customer Experience Excellence Report 2023

Date released: November 2023

For the last 14 years we've looked at how the world's best organisations connect customer experience excellence to lower costs and faster growth. In 2023 we've reached a tipping point in business adoption of artificial intelligence (AI), which is radically re-writing the rules of the game.

As with any paradigm shift, business leaders and society are still coalescing around a consistent way of managing AI. Many different models have emerged, but in this report we explore how the world's leading brands are thinking about AI as a new, game-changing type of colleague. One with unique management challenges, integration risks and strategic advantages.

By examining emerging best practice in AI implementation, we provide an early view of what CEOs and other business leaders need to do to deliver real human value, at a low cost, as safely as possible.

In this year's report we explore:

- Customer excellence: Who leads for CX in the age of AI?
- Best practice: Where are AI colleagues delivering results?
- Implementing AI: How do we safely navigate to an AI future?

[Link to report]

Contact

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Retail Think Tank – 2024 outlook

Date released: December 2023

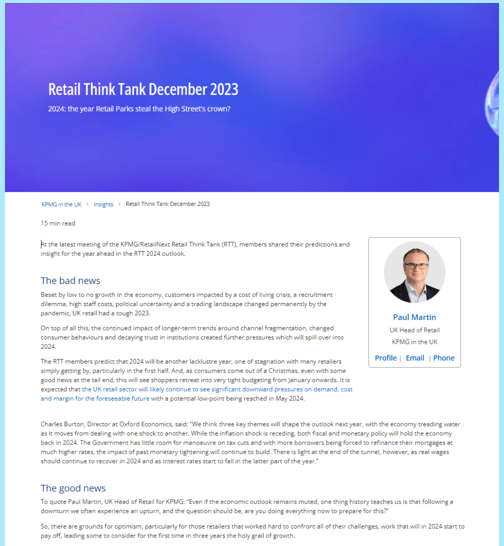
The KPMG/RetailNext Retail Think Tank (RTT) predicts a challenging 2024 for UK retail, characterised by economic stagnation and downward pressures on demand, cost, and margin. The three key themes shaping the outlook include a sluggish economy, fiscal and monetary policy constraints, and potential light at the end of the tunnel with real wages recovering later in the year. Despite these challenges, retailers focusing on innovation and efficiency may experience growth, especially in Grocery and Health & Beauty.

Key themes:

The outlook emphasises the importance of:

- **Hybrid business models,** with new growth areas like retail media, closed-loop social commerce, cross-border, and platform models.
- Retailers must navigate a polarised market, with winners and losers driven by factors like cost pressures, generative AI, retail media networks, and sustainable practices.
- The landscape also highlights **potential growth in Retail Parks** and the impact of changing demographics on consumer spending.
- **Technology investments,** particularly in generative AI and data analytics, are crucial for retailers seeking to thrive in a competitive and evolving market.

Outlook for 2024 | Retail Think Tank



Retail Think Tank December 2023

2024: the year Retail Parks steal the High Street's crown?

KPMG in the UK › Insights › Retail Think Tank December 2023

15 min read

At the latest meeting of the KPMG/RetailNext Retail Think Tank (RTT), members shared their predictions and insight for the year ahead in the RTT 2024 outlook.

The bad news

Beset by low to no growth in the economy, customers impacted by a cost of living crisis, a recruitment dilemma, high staff costs, political uncertainty and a trading landscape changed permanently by the pandemic, UK retail had a tough 2023.

On top of all this, the continued impact of longer-term trends around channel fragmentation, changed consumer behaviours and decaying trust in institutions created further pressures which will spill over into 2024.

The RTT members predict that 2024 will be another lacklustre year, one of stagnation with many retailers simply getting by, particularly in the first half. And, as consumers come out of a Christmas, even with some good news at the tail end, this will see shoppers retreat into very tight budgeting from January onwards. It is expected that the UK retail sector will likely continue to see significant downward pressures on demand, cost and margin for the foreseeable future with a potential low-point being reached in May 2024.

Paul Martin
UK Head of Retail
KPMG in the UK
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Charles Burton, Director at Oxford Economics, said: "We think three key themes will shape the outlook next year, with the economy treading water as it moves from dealing with one shock to another. While the inflation shock is receding, both fiscal and monetary policy will hold the economy back in 2024. The Government has little room for manoeuvre on tax cuts and with more borrowers being forced to refinance their mortgages at much higher rates, the impact of past monetary tightening will continue to build. There is light at the end of the tunnel, however, as real wages should continue to recover in 2024 and as interest rates start to fall in the latter part of the year."

The good news

To quote Paul Martin, UK Head of Retail for KPMG: "Even if the economic outlook remains muted, one thing history teaches us is that following a downturn we often experience an upturn, and the question should be, are you doing everything now to prepare for this?"

So, there are grounds for optimism, particularly for those retailers that worked hard to confront all of their challenges, work that will in 2024 start to pay off, leading some to consider for the first time in three years the holy grail of growth.

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Retail Sales Monitor

Date released: January 2023

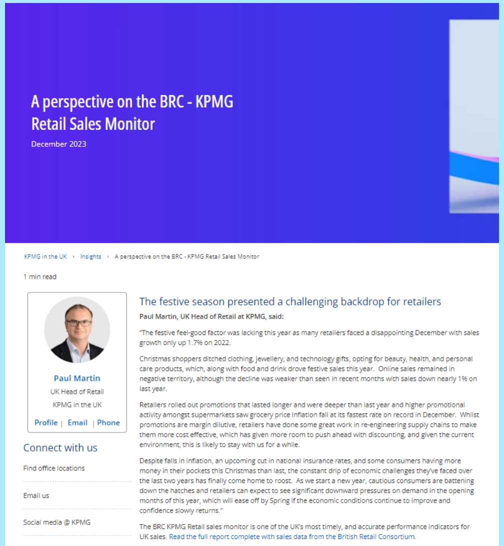
Christmas 2023 presented a challenging backdrop for retailers, witnessing a modest 1.7% growth compared to the previous year. There was a shift in consumer preferences, with a departure from traditional choices like clothing, jewellery, and technology gifts to a focus on beauty, health, and personal care products, along with increased interest in food and drink.

While promotions impacted profit margins, retailers showcased resilience by re-engineering supply chains for cost-effectiveness, allowing for strategic discounting.

Despite factors like falling inflation rates and an upcoming cut in national insurance rates, consumers, cautious from the economic challenges of the past two years, exhibited restraint in spending.

Paul Martin assesses the figures in the latest BRC Sales Monitor.

[Link to December results]



A perspective on the BRC - KPMG Retail Sales Monitor
December 2023

KPMG in the UK › Insights › A perspective on the BRC - KPMG Retail Sales Monitor

1 min read

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The festive season presented a challenging backdrop for retailers

Paul Martin, UK Head of Retail at KPMG, said:

"The festive feel-good factor was lacking this year as many retailers faced a disappointing December with sales growth only up 1.7% on 2022.

Christmas shoppers ditched clothing, jewellery, and technology gifts, opting for beauty, health, and personal care products, which, along with food and drink drove festive sales this year. Online sales remained in negative territory, although the decline was weaker than seen in recent months with sales down nearly 1% on last year.

Retailers rolled out promotions that lasted longer and were deeper than last year and higher promotional activity amongst supermarkets saw grocery price inflation fall at its fastest rate on record in December. Whilst promotions are margin dilutive, retailers have done some great work in re-engineering supply chains to make them more cost effective, which has given more room to push ahead with discounting, and given the current environment, this is likely to stay with us for a while.

Despite falls in inflation, an upcoming cut in national insurance rates, and some consumers having more money in their pockets this Christmas than last, the constant drip of economic challenges they've faced over the last two years has finally come home to roost. As we start a new year, cautious consumers are battening down the hatches and retailers can expect to see significant downward pressures on demand in the opening months of this year, which will ease off by Spring if the economic conditions continue to improve and confidence slowly returns."

The BRC KPMG Retail sales monitor is one of the UK's most timely, and accurate performance indicators for UK sales. Read the full report complete with sales data from the British Retail Consortium.

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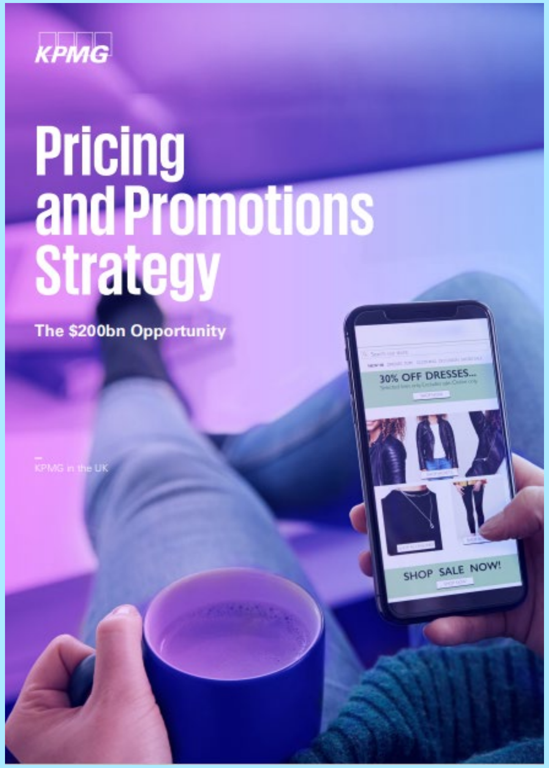
Pricing and Promotions Strategy report

The $200bn Opportunity

Squeezed consumer spending and high input inflation have put pricing and promotions to the top of the strategic agenda for consumer goods suppliers and retailers. We've calculated that a global value of $200bn is being 'left on the table' through inefficient pricing and promotions. In our latest report we identify critical actions to take to activate a refreshed strategy and cover:

- Fewer, smarter promotions can deliver significant return on investment (ROI) if suppliers and retailers take a more customer-led and data-driven approach.
- Investing in pricing and promotions capability and transforming pricing governance can deliver 20-30x ROI.
- The enablers required to unlock an effective strategy: people, processes, and data.

Read the report



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