The Retail Think Tank

February 2025 release on UK retail health

The Retail Think Tank (RTT) is a panel of 8 experts across economics, banking, property, media, investors, advisers, data and insights with over 150 years of cumulative experience in the retail sector.

2024 Q4 look back

Despite consumer confidence remaining volatile, and the potential impact on household spending from the Budget, the RTT had predicted the strongest golden quarter for retail health since the pandemic.

The British Retail Consortium (BRC) & KPMG Retail Sales Monitor (RSM) have confirmed this, with sales growth up 0.4% over the quarter compared to last year.[1]

It was a rollercoaster ride for retailers though. November trading for the first few weeks was disappointing as consumers held back for Black Friday deals, but more positively the final week delivered, with Black Friday itself almost 6% up.[2]

Despite a strong Black Friday, the late timing left retailers nervous whether Christmas shopping in store was done; whilst online remained strong "Christmas came late in our stores" as one Health & Beauty retailer put it.

In 2024 retailers have been more careful to tightly manage stock levels, so whilst promotional activity was high for Black Friday and Christmas, attracting spend, most retailers avoided significant unplanned deep discounting.

Q4 ended with the BRC and KPMG RSM showing an increase in UK total retail sales in 2024 of 0.7% compared to 2023. Whilst food growth was up by 3.3%, non-food declined by 1.5% for the year.[3]

The quarter also saw retailers continuing to take stock of the impact of higher employment costs following the Budget announcement that the National Insurance Contribution threshold for employers' NIC would drop – Impacting retail particularly given the number of part time and seasonal workers.

This led to fears of job losses and higher prices to come in 2025, and so consumers were not as confident to spend as had been hoped.

Looking ahead to 2025

So what can we expect for 2025? Whilst the economic recovery is not as strong as previously thought and consumer behaviour is still volatile, the RTT is still predicting a strong first quarter for retail health, with digital commerce being key to this growth.

The RTT economist expects inflation to remain steady in 2015, ending the year at 3.1%. Nevertheless, the economy will benefit from rising household spending, as incomes rise by more than prices, and as modest cuts in interest rates kick in. Economic growth is expected to be 1.1% in 2025, so positive, although only steady.

The GfK Consumer Confidence Index rose by one point in December to end 2024 at –17 in total [4] and KPMG's Consumer Pulse survey showed consumers are feeling better, with the majority of households headed into 2025 feeling financially secure; nearly 3 times more people feel secure (57%) than insecure (21%) about their financial situation at the end of 2024; with half saying they are able to spend freely.[5]

These are important as they show us both the potential and the propensity of the consumer to spend.

However, four in ten consumers say they feel the UK economy is worsening; rising to 2 in 3 for those aged 65+, which is a key group with the wealth to spend.[5]

A toughening jobs market may be increasing nervousness to spend for some, with the KPMG and REC Report on Jobs survey showing that 2024 ended with the biggest contraction in vacancies since August 2020, coupled with hiring intention declining at a pace not seen for 16 months.[6]

References:

[1] British Retail Consortium (BRC) – December 2024
[2] British Retail Consortium (BRC) – Black Friday Report
[3] BRC – KPMG Retail Sales Monitor – December 2024
[4] NIQ UK Consumer Confidence December
[5] Households confident in their finances heading into 202 – KPMG UK
[6] KPMG and REC, UK Report on Jobs

Looking ahead to 2025 (Cont.)

ONS data shows that the average household savings ratio from disposable income has increased to 10% (from 6% in July 2022) – Suggesting savings are there, should consumers be confident enough to spend[7].

On the retailer side, conflict in the Middle East with the resulting high freight costs and longer shipping times is expected to continue for the duration of 2025; making stock predictions by retailers even more critical. But there is more positive news from a business rates perspective, which have been fixed at 1.7% (September inflation rate) whereas our RTT property expect says retailers were budgeting 2.5%.

2025 – The year of choiceful consumers

Consumers will continue to be cost conscious with polarised spending, saving in some areas in order to afford treats or focus spending on particular products. For example, KPMG Consumer Pulse data from December showed that a quarter of consumers increased their promotional and discount buying in the last three months of the year. While four in five consumers plan to buy big-ticket items in 2025.[5]

Retailers will have to keep fighting for discretionary spend with one third of consumers describing their financial situation as only 'managing' if they are budgeting discretionary spending each month [6]. As a result we expect to see continued promotional behaviour to trigger spending and further development of loyalty schemes, including offering unique experiences.

However with household budgets easing, consumers are returning to valuing convenience – whether that is doing more of their shopping in a single store weekly shop, or treating themselves with takeaways or food-away-from home. Quick-commerce, whilst a small part of the market, will likely benefit as will top-up shops, also boosted by the tick-up in return to office.

With competition high between retailers, and a more discerning consumer, customer experience returns to the fore. At a minimum, retailers must ensure a seamless journey across all of their channels. The leaders in this space are already utilising AI to enhance their experience, as highlighted in our latest Customer Experience Excellence report.[8]

But Q1 will remain tough, with a freezing start to January, and consumers hesitant about how April's changes to minimum wage and NIC will affect their job prospects.

Where should retailers be playing

The way customers are shopping is changing and their behaviour is mixed and varied.

Whilst online may feel like the norm for most of us now, in 2024 only 16% of total retail sales were online, with the rest from physical stores[9]. This tells us that the high street is still important, and businesses with a multi pronged approach marrying up both an online and physical presence are the ones who are doing best.

We're also seeing a rise in "pop-up stores" for historically online pure play brands, in particular in the lead up to Christmas – again demonstrating the importance of physical space.

With the rise of new shopping channels and disruptor platforms such as TikTok Shop continue to see rapid growth, retailers will need to decide where it makes sense for them to compete, and, arguably more importantly, where it doesn't.

2025 – The year of choiceful retailers

The biggest focus for most retailers in 2025 will be cost 'containment'. The NIC impact hits part in 2025 and full in 2026; retailers cannot make sustained changes fast enough to save that level of cost in 6 months and hence there will be a combination of price increases where consumers will tolerate this, and margin pressure where shareholders will.

This year will therefore see very deliberate choices on both tactical cost savings such as reduction in headcount or closing stores; and starting more structural cost savings through technology and automation including instore, supply chain and the supporting functions. With rapid developments in AI offering growth and cost opportunities those retailers who already invested in data and technology can steal a march, others will be trying to catch up in a year with high additional costs.

No retailer wants to increase prices, and few have not had a strong cost focus to date, so addressing costs is going to require new thinking – looking across functions at full end-to-end processes, using zero-based approaches to understand the impact of trade-offs between customer, colleague and cost, and leveraging external as well as internal data sets.

References:

[7] Quarterly economic commentary – Office for National Statistics
[8] UK customer Experience Excellence report 2024/25
[9] Retail or E-Tail, buying online vs buying in person

New earnings streams

Consumers will continue to boost their income by selling pre-loved items (for example on Vinted and Depop), driven also by sustainability and waste concerns.

Retailers are also increasingly exploring other revenue streams, All of these were seen in 2024 and the RTT expects further developments.

- For those whose data is in a position to monetise, retail media may prove a profitable revenue channel.
- Omnichannel marketplaces making it easier for customers to buy in one place, retailers can have a huge range online, with collect and return in store, without stock issues; and the additional customer data supports a retail media strategy.
- Retailers are maximising their real estate: whether it is residential units above stores or EV charging points.

The Retail Think Tank met on: Wednesday, 4 December 2024.

Retail Think Tank Experts

- **Natalie Berg** – Retail Analyst, NBK Retail.
- **Nick Bubb** – Retail Consultant, Bubb Retail Consultancy.
- **Charles Burton** – Director, Oxford Economics.
- **Jonathan De Mello** – Founder and CEO, JDM Retail.
- **Linda Ellett** – Head of Consumer, Retail and Leisure, KPMG.
- **Maureen Hinton** – Retail Consultant.
- **Miya Knights** – Retail Consultant, Author, Publisher of Retail Technology (cityam.com).
- **James Sawley** – Head of Retail and Leisure, HSBC.
- **Mike Watkins** – Head of Retailer and Business, NIQ UK.

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