retailthinktank
KPMG | Ipsos Retail Performance

Opportunities lie overseas for UK retailers

Now is the time to consider overseas expansion, says the KPMG/IPSOS Retail Think Tank
Regulatory and structural boundaries are diminishing, providing easier access into growing markets
However, international expansion is not a get rich quick scheme that can subsidise weakness in the UK operations

Part I: Executive Summary

Introduction

The past is littered with examples of major retailers who have dared to foray into foreign territories only to fail spectacularly. "25 years ago it was commonplace to talk about overseas, and the USA in particular, as 'the graveyard of UK retailers'; whatever they touched seemed to turn to dust," says retail analyst Nick Bubb.

However despite this past history many UK retailers are now actively considering international expansion, either for the first time or to grow their existing presence.

The KPMG/IPSOS Retail Think Tank ('the RTT') met in July to consider why some retailers have historically found it so difficult to expand into new foreign markets, whether now is the time to undertake new expansion and to identify the key to achieving success abroad.

Why have so many retailers failed in the past?

"From an economic point of view, global expansion should have been a successful strategy for UK retailers to follow," says Vicky Redwood, Chief UK Economist at Capital Economics. "On average, between 1990 and 2007, global GDP growth exceeded growth in the UK. And while the UK economy grew by 2.1% in 2010 and 0.7% in 2011, global growth was 5.1% and 3.8% respectively."

However, the challenges of taking an often unknown brand to a new and unfamiliar market proved insurmountable for many. As a consequence very few retailer brands have proved really successful globally. "The only true global retail brand currently is Amazon," comments Mark Teale, Head of Retail Research at CBRE. "Many domestic offers are simply not transferable. Cross border traffic in retail fascias has always been a lot lower than cross border acquisition of local retailers. For example, a large number of chain retailers in the UK are foreign owned (see table below), but the number of brands that originated outside the

UK is much smaller. It is really only in luxury markets that global brands really become prolific."

Ownership of chain retailers operating in the UK

	% owned by that country
UK	58.63
USA	12.80
France	4.74
Germany	3.59
Italy	2.57
Ireland	1.83
Sweden	1.62
Japan	1.49
Iceland	1.42
Monaco	1.15
Spain	1.02
Remaining countries	9.14
Total	**100.00**

Source: Retail Locations

A local offering for local people

Misunderstanding the local culture and tastes meant that retailers also potentially took the wrong proposition to the wrong market. "Consumers around the world have different tastes, flavour preferences, habits, styles, sizes and shapes; some are stark and others very subtle. Many retailers failed to do this research," adds Tim Denison, Director of Retail Intelligence at IPSOS.

Retailers often fail to understand the *psychology* of overseas consumers and did not consider that they may respond differently to the strategies on brand positioning, advertising and pricing used in the domestic market. "Even nations with seemingly similar cultures and values – the US and UK being the most obvious example – have patterns of shopper behaviour and consumer tastes which are completely unalike," notes Neil Saunders, Managing Director at Conlumino.
Most of the factors that drive success in retail are by their nature local. This makes entering a new market enormously challenging; it clearly is not just a case of taking a proposition that works in the home market and dropping it into a new country. In fact a great deal of research and insight are required and business models need to be tweaked and adapted so that they are aligned with new conditions.

Fools rush in
Many past failures were not the result of external factors, but were caused by misjudgements made from within businesses.

"There was often a fundamental misunderstanding about how best to export their offerings," explains Richard Lowe, Head of Retail and Wholesale at Barclays. "Many believed that their existing products could simply be repurposed for the new market to the same effect, with limited consideration given to the dynamics of the local industry and whether their products would have the same appeal or whether they would need to be localised."

Deciding how to structure the back office of the business has also been a past issue. "You have to consider your operating model," says Helen Dickinson, UK Head of Retail at KPMG. "Just as for your product, what the model looks like in one place may not replicate.

"This involves looking beyond people and property resources. After all, even if you get your proposition exactly right, if that's not supported in the right way then you will fail." Some retailers focused too heavily on the demand side opportunity (for example economic climate, levels of consumer spending, market outlook) and did not sufficiently consider supply side factors such as distribution, infrastructure, financial controls, shared services and meeting new regulatory requirements.

"Competitive dynamics, intricacies of retail property, legal structures, financial requirements and a whole host of other things also vary from country to country. Any of these things can represent the difference between success in one geography and failure in another," says Neil Saunders of Conlumino.

Underestimating the commitment/doing it for the wrong reasons

Underestimating the scale of the investment required and length of payback periods involved in international initiatives has contributed to the failure of some expansion plans.

Some made the mistake of viewing the internet as a cheaper way to reach new markets. Mark Teale of CBRE says: "Just having a transactional website will not do the trick. Leaving aside expats, and even without the language issues (you have to have multi-lingual sites), the marketing spend necessary to successfully penetrate overseas markets is huge. Each is different. Even amongst countries sharing the same language, there are always huge cultural and taste differences that are difficult to bridge.

"You also need to invest heavily in marketing to build the public's awareness of what you're selling. This is often very hard without complementary physical stores which help to build understanding of your brand and the products you sell. This has led some to say that it is easier to build a brand globally using a traditional store expansion model."

The time commitment and focus of senior management should not be underestimated and if this is needed at home, the core business will be detrimentally impacted.

Undertaking international expansion to rescue an ailing part of the business caused some ventures to fail. "One thing international expansion can never be is a response to underperformance in the home market. History is littered with examples of where such aspirations compounded problems at home and led to subsequent withdrawal," says Helen Dickinson of KPMG.

Is now the time to expand overseas?

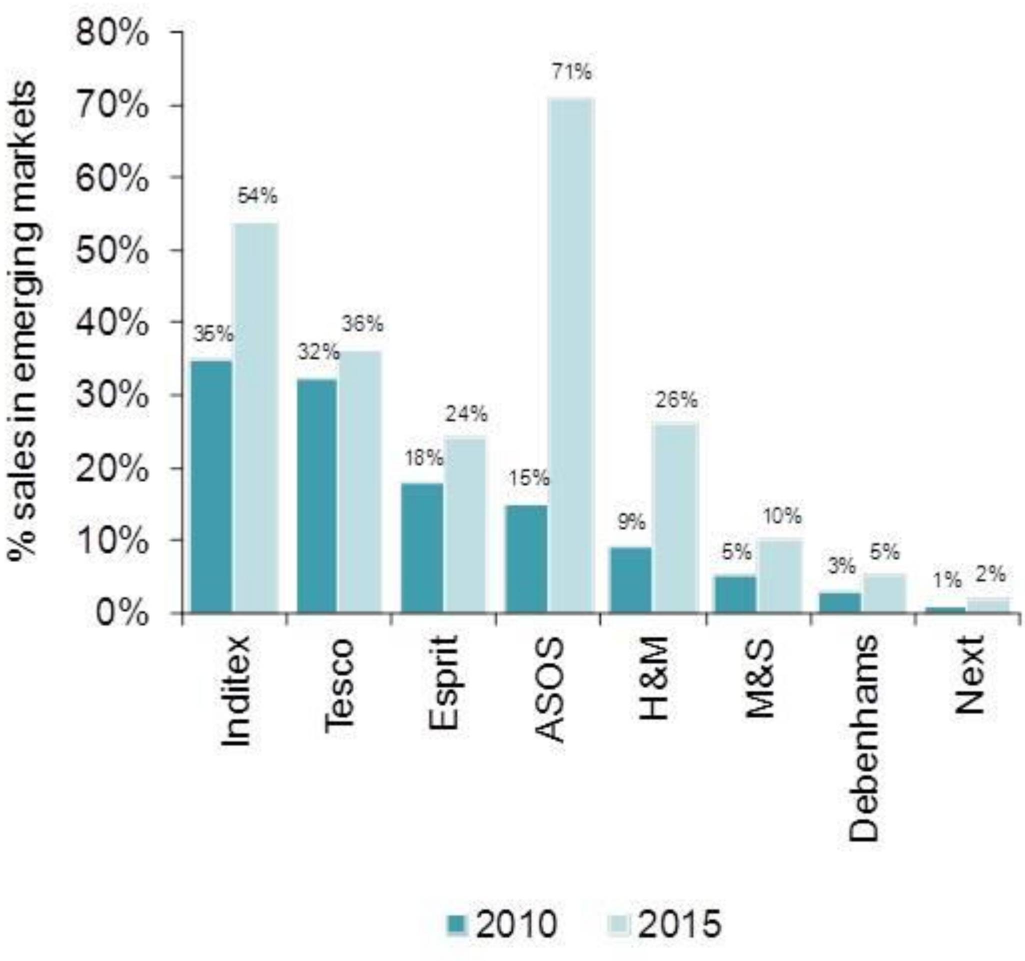
In the current economic climate, certain international markets pose a viable opportunity when there is little sustainable growth forecast for the domestic market.

Richard Lowe of Barclays says: "This year we have seen a number of UK retailers manage to offset lacklustre domestic performance with stronger overseas sales. In the current environment where consumer spending is cautious, the opportunity to successfully reach and explore new markets has never been more important."

Vicky Redwood of Capital Economics adds: "The weak outlook for UK consumer spending over the next couple of years increases the incentive to expand overseas instead, where the outlook (Europe aside) is generally brighter."

The RTT believes that opportunities do exist in overseas markets for UK retailers and many are well advanced in their plans to exploit them. "In clothing for example, Asian demand is set to overtake Europe in 2015 and within Europe there are wide disparities in growth rates. Turkey is anticipated to contribute over 30% of all growth in the European clothing market demand between 2010 and 2015. Brazil is set to continue its dominance of Latin American markets consistently driving over 30% of all clothing demand in the region," says Helen Dickinson of KPMG.

Outlook for sales in emerging markets, selected retailers



The reduction of regulatory and structural boundaries has also removed some, but not all, problems that traditionally faced retailers. Tim Denison of IPSOS explains: "Since the Reagan era, many of the regulatory and structural barriers that used to impede cross-boundary trading have been crumbling away. Currency convertibility, exchange control restrictions, majority ownership rules and repatriation of earnings and capital no longer present the difficulties they once did."

Physical and virtual partnerships and communities are now more commonplace, easier to form across diverse geographies, revolutionising the manner in which retailers can expand beyond their domestic markets without many of the traditional barriers to entry.

The internet is also playing a pivotal part in the opportunity by creating a borderless landscape that increasing numbers of consumers are able to access. "Global retailing is now about brands, which is why franchising and online selling seem to be the way forward," says Nick Bubb.

What is key to achieving success overseas?

- *Be in good financial health*

Before considering overseas expansion, retailers must be in good financial health at home. "The opportunity to grow internationally can only come about through being in good shape domestically, having strong cash flows and reserves," says Tim Denison of IPSOS.

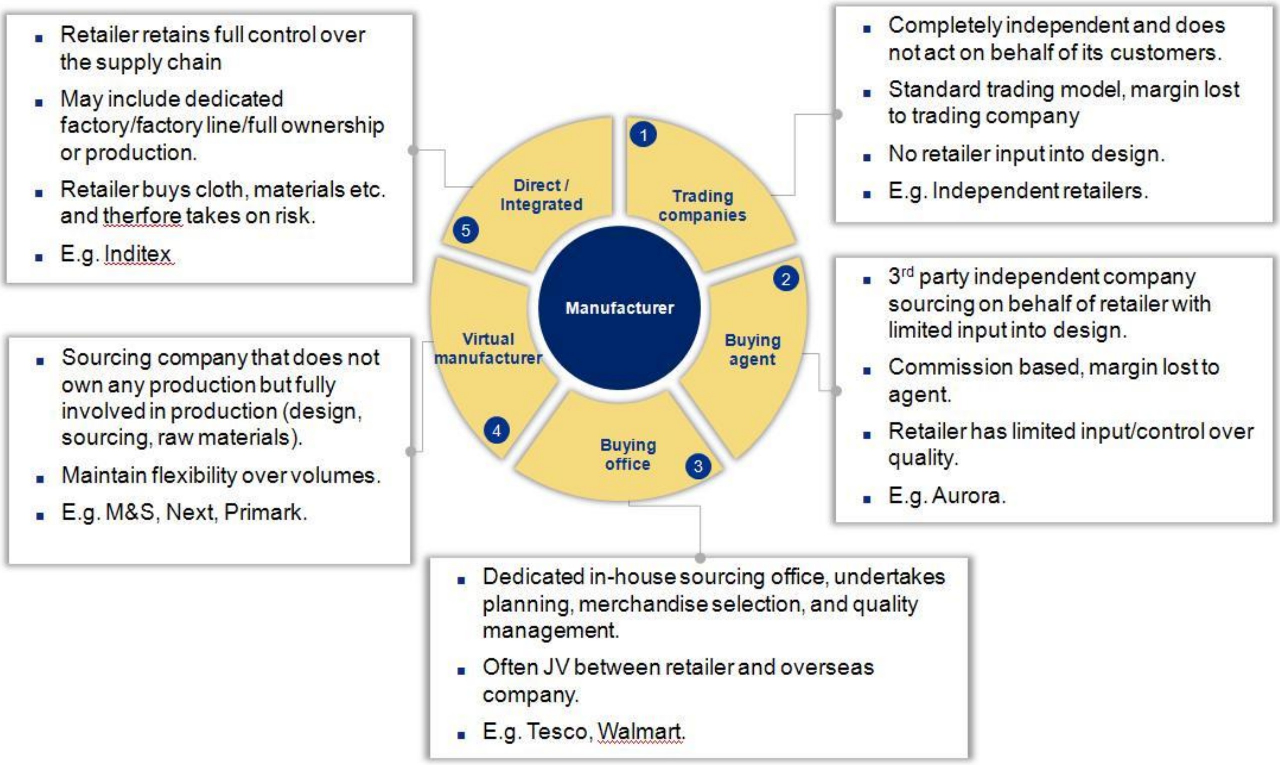
- *Do your research*

Well grounded research is required to clarify the value proposition and identify the most suitable markets to take it to. As well the potential market opportunity, what is unique about the brand that will appeal locally? Is this transferrable and what is its success dependent on are questions to be considered. Tim Denison of IPSOS adds: "This might all sound very daunting, but the research trail nowadays can start simply and inexpensively. Commercial websites can quickly build knowledge of local market tastes and trends, and help to build brand awareness even before investing in a physical presence. In this year in particular, there is great opportunity for retailers, small and large, to gather feedback from overseas visitors about their value propositions and potential beyond these shores. It's an opportunity not to be missed."

- *Consider the shape of the operating model*

It is highly unlikely that the operating model can be mirrored market to market. Recruiting the right people and setting up a strong local management team, structuring the business systems, the supply chain and all back office processes to suit local market needs is critical. Many clothing retailers for example have refined the sourcing model across different markets.

Which sourcing models are appropriate?



Source: KPMG

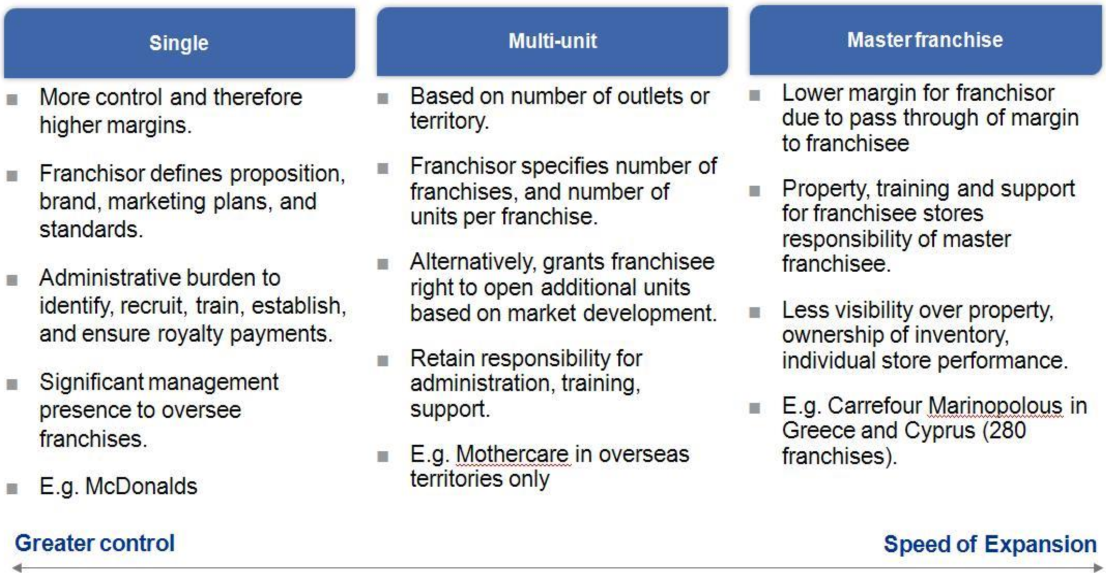
- *Identify local partnerships*

Richard Lowe of Barclays comments: “A lot of expansion is now partner led. Retailers used to go by themselves and plant a flag and announce ‘we’ve arrived’! However, soft barriers still exist, such as cultural differences and knowing the right people, and a partner can bring valuable advice and contacts.”

The RTT members agreed that the right partner can add valuable insight and understanding of local nuances. However they noted it was important not to divest too much control of the business so that brand and values are not compromised.

Operating through a franchise model is becoming increasingly popular but is not the solution in every situation. While franchising isn’t that capital intensive, it has the downside of relinquishing a level of control. And with lower set up costs also come lower returns. It also requires a certain scale to provide the returns needed.

Franchising models



Source: KPMG

Non competitive alliances with other retail businesses may also aid the sharing of knowledge and the cost of overcoming regulatory burdens.

- *Learn from past failure and success*

The RTT believes that the path to success is becoming easier to follow as more retailers begin to flourish internationally. They note it is important retailers learn from their own and others' mistakes and identify what has worked well.

If a business successfully expands into a new market, the knowledge gained through this process can often inform further expansion. Neil Saunders of Conlumino says: "Those that are used to international growth know the pitfalls and have the internal knowledge to work around potential problems. To some degree, the more a retailer expands the more chance it has of success."

- *Secure long term support of shareholders*

The RTT members warned that retailers must not see international expansion as a get rich quick opportunity. It will take significant investment before returns are seen. This needs to be communicated to shareholders in advance of any action being taken. It is not an option to opt in and out of markets due to short term cash flow needs at home or elsewhere.

Vicky Redwood of Capital Economics says: “Expectations may simply be too high and shareholders could underestimate the length of time it will take a retailer to fully test out, settle in and exploit fully a market. Expanding successfully often requires perseverance.”

Conclusion

The Group agreed that in spite of the challenges facing many retailers, the global marketplace represents a fresh opportunity, and the changes in how retailers are engaging this market are revolutionising the industry for the better.

“As developing economies get richer and develop their infrastructure, we will see more opportunities arise, for example the ongoing issue of liberalisation in India,” says Vicky Redwood of Capital Economics.

The RTT predicts that due to the state of the local UK market more retailers will begin to contemplate an international move. Richard Lowe of Barclays says: “We have seen the bigger players expand, but now I believe we’ll see some of the smaller players in the retail market spread their wings and move into international markets.”

Neil Saunders of Conlumino concludes: “International expansion will cause polarisation in the UK market– some retailers will get a lot more global and others will become a lot more domestic as their brands or products simply don’t travel well.”

Part II: In detail – Individual views of the RTT members

Mark Teale, Head of Retail Research at CBRE:

Very few retailer brands have proved really successful globally. The only true global retail brand currently is Amazon. There are a handful of others that are well represented globally, but not many. Most domestic offers are simply not transferable. Cross border traffic in retail fascias has always been a lot lower than cross border acquisition. For example, a large number of chain retailers in the UK are foreign owned. The number of brands that originated outside the UK is much smaller though. It is really only in luxury markets that global brands really become prolific.

This cultural barrier to retail offers is apparent in Internet markets even. Many retail majors are studying the potential for global trade but there are few goods areas, like books and music for example, where a single portal can be used for an entire category of goods: i.e. you can do it with books and music but not clothing. Penetrating global markets as a niche brand is much more difficult, even for say a Harrods or Nordstrom or JLP. Just having a transactional website will not do the trick. Leaving aside expats, and even without the language issues (you have to have multi-lingual sites), the marketing spend necessary to successfully penetrate overseas markets is huge. Each is different.

There are of course commonalities: US and Canada for example, but you still have to pick off each country in turn. Even amongst countries sharing the same language, there are always huge cultural and taste differences that are difficult to bridge. Like wine, some fascias travel well: most don't. Ironically, the price comparison features of the Internet will inevitably drive many retailers into the own brand route, reducing rather than increasing the potential of the Internet to operate as global platform for selling commodity products like branded electricals. Price comparison in commodity brands just creates price alignment: negating the price comparison advantage to the consumer. Local sales taxes, tariff barriers – regulatory differences – etc are added obstacles. There is a lot of potential for overseas retail expansion but as we have seen with the UK retail majors, it is slow and very difficult process and will remain so.

Tim Denison, Director of Retail Intelligence at IPSOS:
"*Nothing worth having comes easy*". International expansion has been one of retailers' most difficult challenges. It's the spectacular failures, both recent and past, that tend to stick in the mind ... Best Buy in the UK, Tesco in Japan... but we should also acknowledge the sparkling successes ... the likes of Ahold, Burberry and IKEA.
Since the Reagan era, many of the regulatory and structural barriers that used to impede cross-boundary trading have been crumbling away. Currency convertibility, exchange control restrictions, majority ownership rules and repatriation of earnings and capital no longer present the difficulties they once did.

Many of the past failures though have come about not from external factors, but from within businesses, their myopia and misjudgements. Success does not come about through replicating and rolling out domestic models. Consumers around the world have different tastes, flavour preferences, habits, styles, sizes and shapes; some are stark and others very subtle. Underestimation of the investment requirement and length of payback periods have been the downfall of many international initiatives.

The path to success though is becoming easier to follow as more retailers begin to flourish internationally. Good news indeed, when there is little apparent sustainable growth in the domestic market for some time to come. But the opportunity to grow internationally can only come about through being in good shape domestically, having strong cash flows and reserves, and the long-term support of shareholders. Going international should not be seen as a foray; more so a colonisation.

Results stem from thorough, well grounded research: a full appreciation of the retailer's value proposition and how it can be adapted to a local market; which markets are most suitable to enter - the favoured BRIC group, the up and coming VISTA countries or beyond; identification and development of local partnership and supplier relationships. On the operational side, recruiting the right people and re-structuring the business systems to suit market needs remain critical.

This might all sound very daunting, but the research trail nowadays can start simply and inexpensively. Commercial websites can quickly build knowledge of local market tastes and trends, and help to build brand awareness even before investing in a physical presence. In this year in particular, there is great opportunity for retailers, small and large, to gather feedback from overseas visitors about their value propositions and potential beyond these shores. It's an opportunity not to be missed.

Richard Lowe, Head of Retail & Wholesale at Barclays:
Retail and global expansion have not always been comfortable bedfellows, but times are changing. This year we have seen a number of UK retailers manage to offset lacklustre domestic performance with stronger overseas sales. In the current environment where consumer spending is cautious, the opportunity to successfully reach and explore new markets has never been more important.

Historically, the challenges of taking an often unknown brand to a new and unfamiliar market were fraught with issues: strategic and financial risks were high. The overheads of setting up a physical store, alongside navigating the regulatory landscape and associated advisory fees proved prohibitive - particularly without a demonstrable track record.

For those retailers that did make it past these initial hurdles, there was often a fundamental misunderstanding about how best to export their offerings. Many believed that their existing products could simply be repurposed for the new market to the same effect, with limited consideration given to the dynamics of the local industry and whether their products would have the same appeal or whether they would need to be localised.

However, we are now in a brave new world of physical and virtual partnerships and communities, which is revolutionising the manner in which retailers can expand beyond their domestic markets without the traditional barriers to entry.

Joint ventures and franchising opportunities have come into their own. By partnering with local operators many retailers have been able to take advantage of their partners' insight, market knowledge and existing brand, thereby limiting the cost and risk previously encountered.

The internet has had a pivotal role in retail expansion by creating a borderless landscape that increasing numbers of consumers are able to access. Combined with the growing influence of online communities, and of course social media, the internet is offering retailers the opportunity to establish their brands without laying a single brick.

In spite of the challenges facing many retailers, the global marketplace represents a fresh opportunity and changes in how retailers are engaging this market are revolutionising the industry for the better.

Neil Saunders, Managing Director at Conlumino:
Retail history is littered with the debris of failed plans for global domination. From Walmart's misadventure in Germany and Marks & Spencer's dalliance with Brooks Brothers and Kings in the US, to Tesco's withdrawal from Japan, there are plenty of case studies of how not to execute international expansion. So, why is it so difficult to get right?

The main problem is that most of the factors that drive success in retail are, by their nature, local. This makes entering a new market enormously challenging; it's not just a case of taking a proposition that works in the home market and dropping it into a new country, a great deal of research and insight is required and business models need to be tweaked and adapted so that they are aligned with new conditions.

Consumer demand is, of course, the most obvious thing that differs between countries. Even nations with seemingly similar cultures and values – the US and UK being the most obvious example – have patterns of shopper behaviour and consumer tastes which are completely unalike.

Demand is not the only challenge. Competitive dynamics, intricacies of retail property, legal structures, financial requirements and a whole host of other things also vary from country to country. Any of these things can represent the difference between success in one geography and failure in another.

An apt example of all of the above is Japan, where both Tesco and, initially at least, Walmart have struggled. House sizes in Japan are small and most people do not have significant storage space. This means food shopping is more piecemeal with few families doing big bulk shops or stocking up on staples. This could not be more different from the UK and US where the big weekly, fortnightly or monthly trip to the supermarket is an established part of the grocery retail landscape. That difference means that everything from store size to pack size to marketing and promotions have to be changed to work in the Japanese context; that in turn means the economics of food retail in Japan are highly different.

As challenging as international expansion is, there are plenty of success stories. Inditex has a flourishing global empire, as does H&M, and the IKEA model works well across numerous geographies. What's the secret behind their success? To an extent all have some degree of universal appeal: products or brand values that transcend borders with relative ease. In the case of Inditex and IKEA tight control over the whole supply chain also helps them to make adjustments to products and to respond to shifts in demand. The businesses also have experience: they are used to international growth, know the pitfalls and have the internal knowledge to work around potential problems. To some degree, the more a retailer expands the more chance it has of success.

With many western domestic markets becoming saturated, more and more retailers are being pushed to look for growth overseas. While there is some evidence that globalisation, which includes much more cross-cultural experiences among consumers, is making the process a bit easier, it will never succeed in making it totally straightforward. As such the fortunes of expanding retailers are likely to remain well and truly mixed.

Helen Dickinson, Head of UK Retail at KPMG:
One thing international expansion can never be is a response to low growth or worse still underperformance, in the home market and history is littered with examples of where such aspirations compounded problems at home and lead to subsequent withdrawal.

Even successful national retailers have struggled and many have a board, often driven by driven by questions from their non-executive directors, asking themselves why they are not, and whether they will indeed ever, make any money from their international operations. Particular challenges have centred on:

- Scalability of expertise, for example the role of the local or regional organisation versus the centre, executive mobility and succession planning, training and development of operations staff (if say the knowledge of the store managers is key to home success and has been built up over time, how can this be rolled out quickly to diverse locations without creating gaps at home);

- Focussing too heavily on the demand side opportunity (eg economic climate, levels of consumer spending, market outlook) and not taking enough account of supply side factors (eg distribution infrastructure, regulatory requirements);
- Changing the operating model as what works in one place may not replicate. This involves looking beyond property and people resources. Other common issues to be overcome include:
  - infrastructure around new online and mobile channels
  - rapid introduction of financial controls
  - management reporting and business intelligence
  - the role of shared services for HR, FM, IT first line support, after sales care
  - management of range planning for shared sourcing
  - core systems selection for smaller markets
  - security and data integrity

However, there are those who have made a success of going international (although being truly global is still illusive to but a very few). However, there is no doubt that the opportunities are there to be seized.

For example in clothing, Asian demand is set to overtake Europe in 2015 and within Europe there are wide disparities in growth rates. Turkey is anticipated to contribute over 30% of all growth in the European clothing market demand between 2010 and 2015. Brazil is set to continue its dominance of Latin American markets consistently driving over 30% of all clothing demand in the region.

With low growth, if any, being all the beckons on the home horizon, many retailers are currently looking to foreign shores, those that take the lead will be wise to heed the pitfalls of the past.

Nick Bubb, Retail Analyst:
25 years ago it was commonplace to talk about overseas, and the USA in particular, as “the graveyard of UK retailers”, as whatever they touched seemed to turn to dust. Good examples were Dixons acquisition of the Silo electronics chain in 1987 and the M&S purchase of the iconic menswear brand Brooks Brothers in 1988

Ten years ago, however, it became clear that the way to make money overseas was to franchise, so that the risk of opening and operating stores was taken away and retailers could simply take a fee on supplying the products to the franchisees. The Middle East has been a particularly happy hunting ground on this basis, with Mothercare leading the way.

And now retailers have realised that it is rather easy to simply set up a local website overseas and sell to overseas customers, notwithstanding the delivery and returns issues, with Australia providing a particularly and surprisingly rich vein of demand for the likes of Asos.

In some ways, expanding overseas through franchising and e-commerce is now so easy that it is running a big UK store portfolio that seems more challenging...But UK retailers are still tempted to think that they know best and take the plunge, with "flagship" stores in Paris or Berlin the current vogue, just as the big global brands now all want to be in Regent Street. One of the problems in expanding overseas is in knowing where to locate stores, as local shopping patterns are never easy to understand, even with the best local experts to advise. There was, for example, some bad luck in the timing of Tesco's move into California with its new "Fresh & Easy" chain at the end of 2007, at the top of the US housing market bubble, but was it sensible to locate so many stores in the less affluent eastern side of the catchment? Time will tell whether there is the gap in the US market for a fresh food based convenience store chain that Tesco saw, but Tesco did not help them with poor initial execution of the format.

Keeping a decent local management team who understand the market would seem to be an obvious thing to do when moving overseas, but it doesn't always guarantee success. Maybe Dixons got lucky with its purchase of the Elkjop chain in Scandinavia in 1999, as this has proved to be an exceptionally well-managed business, even though it has benefited from Norway's oil wealth. Less sensible was the purchase of the UniEuro chain in Italy by Dixons in 2002 in the misguided belief that the faster-growing periphery of Southern Europe was the place to be...

If Dixons can tell anybody about all the problems and pitfalls of overseas retailing, it is only fair to point out that the situation cuts both ways, as overseas retailers don't always find the UK an easy market to enter, even though profit margins seem high and we all speak English. The US retailer Best Buy was arrogant to think in 2008 that there was big gap in the UK electricals market for a service-based proposition, as all they did was galvanise the local competitors into raising their game. Global retailing is now about brands, which is why franchising and online selling seem to be the way forward.

Vicky Redwood, Chief UK Economist at Capital Economics:
From an economic point of view, global expansion should have been a successful strategy for UK retailers to follow. On average, between 1990 and 2007, global GDP growth exceeded growth in the UK. And while the UK economy grew by 2.1% in 2010 and 0.7% in 2011, global growth was 5.1% and 3.8% respectively. The weak outlook for UK consumer spending over the next couple of years increases the incentive to expand overseas instead, where the outlook (Europe aside) is generally brighter.

Of course, one issue is that understanding consumer psychology overseas is different to understanding that in the UK. What prompts UK consumers to buy is not the same as what prompts overseas consumers to buy. Not only do retailers have to make sure that the product itself is as attractive to overseas consumers as it is to domestic ones, but they need to understand that overseas markets may respond differently to the same strategies on advertising, discounting, etc.

Another problem is that it is not just consumer demand markets that are different overseas. Retailers also have to deal with different labour markets, property markets, supply chains etc. However, this begs the question of why, by employing local managers who should be familiar with local issues, retailers cannot overcome these problems. Indeed, a number of retailers have successfully used franchising as a way to expand into other countries.

The spread of the internet should in theory boost retailers' chances at expanding overseas successfully as they will have more opportunity to make their brand known. They can also use online selling as a way to test the market before investing in physical capacity in a country. As developing economies get richer and develop their infrastructure, we could also see more opportunities arise e.g. the ongoing issue of supermarket liberalisation in India.

Lastly, expectations may simply be too high and people could be underestimating the length of time it should take a retailer to fully test out, settle in and exploit fully a market. Accordingly, global expansion could become more successful if retailers persevere.

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Note to Editors:
The RTT panellists rely on their depth of personal experience, sector knowledge and review an exhaustive bank of industry and government datasets including the following:

Members of the RTT are:

- Nick Bubb – Independent Retail Analyst
- Dr. Tim Denison – Ipsos Retail Performance
- Jonathan De Mello – Harper Dennis Hobbs
- Martin Hayward – Hayward Strategy and Futures
- Maureen Hinton – Conlumino
- James Knightley – ING
- Richard Lowe – Barclays Retail & Wholesale Sectors
- David McCorquodale – KPMG
- Martin Newman – Practicology
- Mike Watkins – Nielsen

The intellectual property within the RTT is jointly owned by KPMG (www.kpmg.co.uk) and Ipsos Retail Performance (www.ipsos-retailperformance.com).

First mentions of the Retail Think Tank should be as follows: the KPMG/Ipsos Retail Think Tank. The abbreviations Retail Think Tank and RTT are acceptable thereafter.

The RTT was founded in February 2006. It now meets quarterly to provide authoritative 'thought leadership' on matters affecting the retail industry. All outputs are consensual and arrived at by simple majority vote and moderated discussion. Quotes are individually credited. The Retail Think Tank has been created because it is widely accepted that there are so many mixed messages from different data sources that it is difficult to establish with any certainty the true health and status of the sector. The aim of the RTT is to provide the authoritative, credible and most trusted window on what is really happening in retail and to develop thought leadership on the key areas influencing the future of retailing in the UK. Its executive members have been rigorously selected from non-aligned disciplines to highlight issues, propose solutions, learn from the past, signpost the road ahead and put retail into its rightful context within the British social/economic matrix.

Definitions: The RTT assesses the state of health of the UK retail sector by considering the factors which influence its three key drivers.

1. **Demand** – Demand for retail goods and services. From a retro-perspective, retail sales, volumes and prices are the primary indicators. When considering future prospects, economic factors such as interest rates, employment levels and house prices as well as others such as consumer confidence, footfall and preferences are used

2. **Margin** (Gross) – Sales less cost of sales; the buying margin less markdowns and shrinkage. Cost of sales include product purchase costs, associated costs of indirect taxes and duty and discounts
3. **Costs** – All other costs associated with the retail operations, including freight and logistics, marketing, property and people

The Retail Health Index – how is it assessed?

Every quarter each member of the RTT makes quantitative assessments of the impact on retail health of demand, margins and costs for the quarter just completed and a forecast of the quarter ahead. These scores are submitted individually, collated and aggregated in time for the RTT's quarterly meeting. The individual judgements on what to score are ultimately a combination of objective and subjective ones, drawing upon a wide range of hard datasets and softer qualitative material available to each member. The framework follows the example of The Bank of England Agents' scoring system on economic intelligence provided to the Monetary Policy Committee.

The aggregate scores are combined to form the **Retail Health Index ('RHI')** which is reviewed at that meeting and occasionally revised after debate if members feel it appropriate. The RHI tracks quarter on quarter changes in the health of the UK retail sector and as such provides a useful and unique measured indicator of retail health. The index 'base' of 100 was set on 1 April 2006. Each quarter, it assesses whether the state of health has improved or deteriorated since the previous quarter. An improvement will lead to a higher RHI score than that recorded in the previous quarter, and with a deterioration leading to a lower score. The larger the index movement, the more marked the shift in the state of health. The RHI has two main benefits. Firstly, it aims to quantify the knowledge of the RTT members in a systematic way. Secondly, it assesses the overall state of health of the UK retail sector for which there is no official data.

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