

## **The golden quarter is historically the most important time of the year for retailers to 'get it right' - but with Brexit looming, has there been a more critical Christmas period for retailers in the last ten years (since the financial crash)?**

### **October 2018**

- RTT members thought that the non-food sector could have as much as 20% over-capacity and that this so-called 'Golden Quarter' could be the catalyst for the most struggling retailers to come under serious pressure. They think that Department stores and Fashion retailers will face the most problems in the months running up to Christmas – and for many it could be the most critical trading period in a decade.
- The RTT stated that retailers would be looking to the Autumn Budget for relief in alleviating the negative external influences on the sector.
- Supermarkets are expected to fare better than their non-food counterparts, but food shopping over the festive period could be more restrained and later in the year.

### **Introduction**

The Golden Quarter is traditionally the most important time of the year for the majority of UK retailers – with a huge increase in consumer demand in the lead up to Black Friday, Christmas and Boxing Day Sales. It's the time of year that many retailers focus on the most, and spend months planning for as 'getting it right' can make all the difference in delivering strong trading figures for the year.

Paul Martin, UK head of retail at KPMG highlighted: *“Trading during this time may even determine a retailer's ability to survive, especially given that some retailers generate 80%+ of their annual profits in that quarter alone.”*

With the health of the retail sector steadily decreasing over the last two years, and the uncertainty of a Brexit (no-)deal just around the corner, the RTT discussed just how crucial this coming period was for retailers. Compared to a decade ago, in the midst of the financial crisis when retailers faced dire trading conditions, the members explored just how critical the coming months are for retailers in general, and which sectors could be hit hardest by a poor performance over the Golden Quarter.

### **Now and then**

Looking back a decade to the fourth quarter of 2008, James Knightley, ING chief international economist said: *“The UK economy was amongst the very hardest hit by the financial crisis with output contracting 6% peak to trough, and unemployment rising by 1.1 million”*. Dr Tim Denison, director of retail intelligence at Ipsos Retail Performance, went on to say: *“The golden quarter of 2008 saw the RTT's Retail Health Index crash six points – more than any time since – as the financial crisis broke, discounting became the norm and Woolworths collapsed.”*

They discussed at length how the current financial climate, while not as toxic as during the financial crisis, had still been working against retailers over a number of years – with the RTT’s Retail Health Index falling two points since the start of 2018 alone. Paul Martin added: *“2018 has not been an easy year for a large part of the UK retail sector, and we have already experienced a multitude of high profile business failures.”*

Tough trading conditions, political uncertainty, shifts in geopolitical trade agreements and rising costs are just a number of external factors impairing the performance of UK retailers, with the RTT agreeing that the margin for error in delivering a positive Christmas trading period has never been tighter. James Sawley, head of retail and leisure, HSBC, commented: *“This will be a pivotal couple of months for some retailers from a profitability perspective – those that miss a beat could face challenges with competition so fierce. Some retailers have little room for manoeuvre and could find themselves facing difficulties if they don’t hit desired trading levels.”*

### **Brexit effect**

Whilst 2008 clearly impacted heavily on the retail sector, and there were many ‘unknowns’ with what the future would hold in terms of financial recovery, the RTT acknowledged that with Brexit, this current quarter holds a unique pressure for retailers.

Martin Newman, CEO of Practicology, said: *“A relentless focus on trading will be required in the next three months by retailers who want to go into the unknown of Brexit in the New Year with businesses that are strong enough to survive further upheaval.”*

The RTT commented that retailers must make the most of this Golden Quarter’s increase in demand, and it will be a case of ‘making hay while the sun shines’, as the uncertainty of Brexit could impact negatively on consumer demand and retailers’ costs and margin.

Dr Tim Denison added: *“With all the uncertainties building around Brexit, and the UK’s trade agreements, the months ahead will be defining times for the industry, challenging the acumen of even the very best leadership teams in retailing.”*

### **At the sharp end**

Against a backdrop of store closures and shrinking real estate, the RTT discussed in its latest meeting how a ‘seismic’ correction was underway within non-food retailing. James Sawley said: *“We are undergoing a once in a generation correction in the supply base of physical retail stores driven by short term cyclical, and long term structural and social factors.”*

Members believed that this shift would highlight the notion of there currently being too many stores and retailers operating on the high street – and this correction in overcapacity, which would affect many different sectors, could reduce store portfolios as much as 20%.

Maureen Hinton, group research director at GlobalData, said: *“The UK retail market, along with many other major economies in the west, is suffering from maturity of demand and overcapacity of supply. That said, retailers’ growth, particularly in non-food, is being boosted from casualties in the market. The survivors are picking up the spend that would have gone to these weaker competitors.”*

The RTT highlighted the book and toy sectors as retailers that had already gone through this process, with the surviving businesses picking up the additional demand from competitors that had gone into administration.

Looking ahead to the sectors for which this Golden Quarter is most important, and at the highest risk of overcapacity on the high street, they pointed to department stores and fashion retailers as having real pressure to succeed in the coming months. Maureen Hinton continued: *“The ones that will find it toughest are the mass middle market fashion retailers and department stores that have little or no unique offering, and the home related specialists which will continue to suffer from the stagnant housing market.”*

The RTT added that the UK high street shopper has become accustomed to a diet of discounting in recent years, something that is expected to continue through the Golden Quarter – impairing retailers even further. Jonathan De Melo, head of retail consultancy at Harper Dennis Hobbs, said: *“Retailers will likely be locked into a fierce downward spiral of discounting, which will start a few days before Black Friday and continue throughout the run up to Christmas. This will clearly serve to erode margins – which is the opposite of what retailers need right now – but if they don’t discount then the alternative could be much worse.”*

## **Food**

The RTT explained that the biggest pressures facing retailers this Christmas would mostly sit with non-food retailers. The grocers on the other hand are having a better time of it, with members agreeing that they looked in much better shape than their non-food counterparts.

Mike Watkins, head of retailer and business insight at Nielsen, said: *“The uncertainty surrounding Brexit and the rise of energy and fuel costs have not yet impacted grocery retail spend. There is more good news. Despite 12 months of inflation, volume growth in food retail has turned positive with a 1.1% growth so far in 2018 (Nielsen Growth Reporter).”*

As has been the narrative for the previous 24 months, the non-food sector is expected to continue to struggle, with the grocers providing the majority of positive news for the retail sector. They agreed that whilst any discussion around Quarter 4 being ‘make or break’ is only relevant for non-food, there are certain pressures that will be felt by the big 4 grocers this Christmas – in the form of the discounters and a shift in Christmas buying habits.

Mike Watkins continued: *“It’s been a slow start and many food retailers are now becoming anxious about Q4 with business models stretched more than ever by the continued shift of sales to discounters and the additional costs of fulfilling online orders. What supermarket shoppers say they want is to reduce and to spread the cost of Christmas. Q4 for many stores is going to be set apart from previous years by being ‘less big and more late’ with shoppers expected to shop around for the most convenient shop, good prices and best ranges”.*

## **What ingredients make for a good performance in Q4?**

With the critical importance of this year’s Golden Quarter for non-food retailers agreed, RTT members discussed a number of key factors that would distinguish successful retailers apart from the rest, and will be set to flourish in this key period.

A focused proposition, whereby retailers concentrate on being really great at one thing, is expected to be a common trait of those businesses that succeed in the run up to Christmas. The RTT members were keen to stress that with the stakes so high, and the competition so fierce, there is no room for error in delivering a shopping proposition that isn't up to scratch this Christmas. Retailers that don't have a single focus will risk diluting their offering and that could make the difference between surviving and thriving over the coming months.

Martin Hayward, founder of Hayward Strategy and Futures, said: *"Supermarkets have done a better job of addressing and promoting what they stand for, compared to their non-food counterparts. From a customer's perspective, many non-food retailers have spread themselves too thin, trying to be everything for everyone. This could result in smaller, more agile operators taking share from the bigger players as they are able to deliver a specific, niche proposition to consumers."*

Secondly, the RTT highlighted that retailers that have a tried and tested, true omni-channel shopping experience for customers will also be better prepared to take full advantage of the increase in demand that comes in the Golden Quarter. Dr Tim Denison said: *"The skills required to build a successful omni-channel business model should not be dependent solely on traditional thinking and expertise. Digital dexterity and technological transmutability are dependencies, no longer luxuries."*

## **Conclusion**

The RTT concluded that this coming Golden Quarter will be of great importance to the whole retail sector, and given the external pressures being faced, they suggested that retailers will be looking closely at the Autumn Budget for any signs of relief from the Government.

Nick Bubb, independent retail analyst, said: *"Any additional external pressures could be enough to tip some struggling chains over the edge, so, given the impact of continuing Brexit uncertainty on consumer confidence, many will be hoping that the Chancellor does something in the Autumn Budget to 'level the playing field', via his promised Business Rates review and Digital Sales Tax."*

Members added that for certain sectors it will likely be 'make or break', meaning the tag of it 'being the most important trading period for a decade' could certainly ring true. Those retailers that sit at the sharp end will be in the non-food sector, with the most high profile businesses at risk of being casualties of the Golden Quarter, being fashion retailers and department stores.

The RTT warned that even the slightest deviance away from delivering a well thought through, focused proposition, could be the difference in survival over the coming months.

## **Ends**

**Note to Editors:**

The RTT panellists rely on their depth of personal experience and sector knowledge, and review a comprehensive bank of industry and government datasets. More in-depth comments from the individual RTT members on this white paper can be found at [www.retailthinktank.co.uk/whitepapers](http://www.retailthinktank.co.uk/whitepapers).

**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 – GlobalData Retail
- James Knightley – ING
- Paul Martin – KPMG
- Martin Newman – Practicology
- James Sawley - HSBC
- Mike Watkins – Nielsen

The intellectual property within the RTT is jointly owned by KPMG ([www.kpmg.co.uk](http://www.kpmg.co.uk)) and Ipsos Retail Performance.

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 by KPMG and Ipsos Retail Performance (formerly Synovate) 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.

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