PART 1

OUTLOOK FOR 2020

KPMG/IPSOS RETAIL THINK TANK: THE UK RETAIL SECTOR SHOULD FEEL CAUTIOUSLY OPTIMISTIC IN 2020, WITH GROWTH OF AT LEAST +1.0% LIKELY

- The UK retail sector is predicted to grow by at least +1.0% in 2020, following three and half years of pain.
- Perceived certainty in the UK political landscape is likely to increase consumer confidence and kick start spending.
- Non-food retailers that have adapted well over the tougher years should now feel the benefits of what the RTT members describe as a 'turning point' for the retail sector.
- A focus on communicating retailer values is considered to be a key part of any successful growth strategy next year.
- Weak food sales over the Christmas period are expected to set a precedent for what will be a difficult 2020 for supermarkets.
- Inefficient and irrelevant legacy retailers will continue to struggle in 2020, with the number of re-structures and administrations predicted to increase on 2019.

The UK's retail industry is likely to grow by at least +1.0% in 2020, despite weaker food sales, according to the latest predictions from the KPMG/Ipsos Retail Think Tank.

The General Election result, following over 36 months of political volatility, brings with it a perception of clarity regarding Brexit. The RTT believe this will be welcomed with open arms by many UK shoppers in the short-term, even by those who feel that Brexit may be damaging to the UK economy in the long-term. Retailers should also expect to feel the benefits of growth stimulated by a recovering housing market across the UK in 2020.

AN END OF POLITICAL PARALYSIS?

While the RTT is cautiously optimistic that political stability will translate into improved sales on the high street in 2020, it stresses there are still a plethora of unknowns to be confronted, including the obstacles around tariffs and trade deals for retailers to negotiate. That said, the general idea of 'Brexit being done' is expected to finally unshackle the positives of rising wages, low interest rates and record employment levels from the political uncertainty that has caused consumers to think twice about exercising their increased spending power in recent years.

James Sawley, Head of Retail & Leisure at HSBC UK, comments: *"The news of a governing party, with a comfortable majority and clear vision for Brexit, gives me hope that we will see a rebound in consumer confidence in 2020. The UK consumer may breathe a sigh of relief, the end of knife-edge votes and uncertainty should translate to a loosening of the purse strings."*

Next year's trading deal negotiations with the EU and elsewhere will undoubtedly lead many retailers to review their supply chains to avoid damaging disruption. However, a growing need and awareness to reduce emissions is expected to present a post-Brexit UK with an opportunity to focus on local manufacturing, sourcing and food production, bringing the importance of provenance into focus.

RTT members also point to independent and smaller retailers as being vital to supporting growth in the UK retail sector in 2020. Recent LDC (Local Data Company) figures showed independent retailers to be more resilient in terms of store closures in 2019, providing a shopping experience and product range, often outside of traditional retail centres, that bigger operators struggle to compete with. The RTT agreed this put them in a strong position to continue to flourish over the coming 12 months.

Breaking a prolonged narrative of the food sector outperforming non-food, RTT members fully anticipate that next year should see non-food make a comeback, and this return to sales growth will offer retailers the opportunity to reset, making 2020 a year of positive transition.

A YEAR IN TRANSITION

2020, while full of optimism, is predicted to be a year of transition and change for the UK retail sector. 'Brexit uncertainty' is an excuse for poor performance that has been delivered by many operators since 2016, but the RTT claims that retailers now must move beyond Brexit and start delivering growth plans. Those retailers that have adapted their operations and 'weathered the storms' of the last three years will have a solid base on which to build and flourish over the coming 12 months.

However, RTT members are keen to stress that an uplift in consumer confidence is not a silver bullet for retailers. A short-term economic boost will not suffice to breathe new life into an industry that is undergoing wider structural changes. Good retailers will continue to succeed, poor retailers will continue to fail. The RTT warns that the swathes of administrations and restructuring that have taken place over the previous 12 months will likely increase further next year. This would be a correction welcomed by the RTT, shedding fascias that are beyond their sell-by date, making way for new entrepreneurs and their retail concepts.

The RTT acknowledge that a number of mid-market retailers are coming to the end of their 20-30 year life cycles, and these operators are already beginning to lose their appeal with consumers. Mid-range clothing and footwear retailers, department stores and shopping centres will be at the centre of this plight and will dominate the headlines for the all the wrong reasons in 2020. The 'at risk' register, therefore, will continue to remain a long one.

Nick Bubb, retailing consultant notes: *"Whether the decisive Election result will ultimately deliver the certainty that the UK economy needs is unclear, as the risk of a no-deal Brexit at the end of the transition period remains, but an expansionary Budget in February will boost the consumer and the doubters can at least console themselves with the thought that the prospects for the housing market have improved."*

GROCERY 2020

The grocery sector, which in recent years has been propping up the poor performance of its non-food counterparts, is not immune to its own structural changes, which are only set to intensify in 2020. It's been a long time since 'the rise of the discounters' was considered news, they are, and will continue to be very much a part of the future of the grocery sector. In 2020 discounters are on target to reach a combined 17% market share, as they continue to meet the needs of regular, weekly grocery shoppers.

RTT members also highlight a shift in consumers moving away from 'mission' shopping such as completing weekly and top-up trips, towards on demand, 'occasion shopping'. Fast food operators, such as Uber Eats and Deliveroo, are also growing in popularity in response to an increasing demand for home deliveries. Supermarkets, in acknowledgment of this, will

continue to expand store space for fresh and chilled goods, appealing to shoppers seeking out curated meals and menus for 'free from meat/diary nights' as well as food ordered for sharing.

Supermarkets will also continue to feel the pressure as the size of the 'supermarket pie' shrinks, Mike Watkins, Head of Retailer and Business Insight at Nielsen UK, adds: *"Shopper behaviour is changing with more of what we consume being purchased away from large supermarkets and instead at small stores, out of home or using food delivery specialists and platform providers. There will be consolidation in this channel and possibly investment by other retailers as different business models emerge. And after three years of weak growth there is a need for many supermarkets to reposition in order to be able to achieve a growth in value sales that at least moves in line with CPI, and a recovery from the 1% decline in volumes across the £164bn food retail industry in 2019 (Nielsen Growth Reporter)."*

EASING RENTAL PRESSURES

Cost savings will continue to be a common theme for retailers to pursue in 2020, with the RTT suggesting a further 3-5% needed to be saved over the next 12 months. Many retailers will look to their property portfolio and rent reductions as a potential lever that can be pulled in 2020, building on the successful negotiations made in 2019.

Jonathan De Mello, Head of Retail Consultancy at Harper Dennis Hobbs, adds: *"Of the retailers that don't restructure via CVA or some other mechanism, a large majority are going back to landlords and asking for rent reductions."*

CVAs were a consistent theme of 2019, and the RTT does not expect the broader bout of restructuring to end in 2020. Jonathan continues: *"The recent closure of property funds is the first sign that property funds are materially starting to feel the pain that retailers have been feeling for years – and there may well be more fund closures or outright business failures before 2020 is out."*

A NEW FOCUS FOR RETAILERS IN 2020

Paul Martin, UK Head of Retail at KPMG, advocates that: *"It is becoming increasingly clear that whilst the three key historic drivers of purchase decisions – value, convenience and experience – remain important, new factors are rapidly emerging. I would argue that a second lens of factors should now be considered, these being choice, purpose and privacy."*

Choice and the size of product ranges have proved interesting 'battle grounds' for retailers in recent years, with those at the extreme ends of the spectrum delivering strong results. Those retailers offering either a perceived 'unlimited' level of choice, or alternately a strictly 'limited' and curated choice, have appealed most strongly to consumers. Next year will continue to be a difficult trading year for those whose offer falls somewhere in the middle; trying to provide 'the best of both worlds' to the shopper will not only miss the mark for consumers, but impact on working capital and operational complexity.

The RTT members are in agreement that a retailer's values will also play an increasingly prominent role in driving sales next year, with consumers becoming more aware of the impact that their lifestyles have on the environment. The ethics of a business viewed through its supply chains, delivery methods and packaging will all come further into focus, leading many consumers to start turning away from retailers that are unable to deliver on their own ethical promises or to the consumer agenda. A shift in emphasis towards value and away from the recent obsession with volume, is be a common story that is expected to play out in 2020.

With momentum building towards more sustainable living and the growing drive towards a circular economy, comes a prediction from the RTT that consumers will actively begin to buy less new goods in the future – turning towards repairing, purchasing second-hand items and rental propositions.

In terms of the final factor referred to by Paul Martin – privacy - as retailers continue to invest in convenience, digital offerings and omnichannel experiences, the willingness of consumers to hand over increasing amounts of their personal data for these enhanced levels of service will be crucial to the investments paying off. In conjunction with communicating their ethical and environmental stance, retailers will need to prove to consumers that they have the capability to manage their data and privacy in a trustworthy fashion over the coming 12 months.

CONCLUSION

The RTT is cautiously optimistic for the UK retail sector as we head into 2020. A perceived end to the political uncertainty that has plagued the economy and consumer confidence for over three years will likely ease, if not end, for many shoppers who will now loosen the purse strings and start to spend again.

This is not to say that retailers should take their eye off the ball. Those that have fundamentally sound businesses - that are able to adapt to the changing market conditions that Brexit will bring, and the shifting consumer demands we will see over the next 12 months - will be able to take advantage of any rise in consumer confidence following the General Election.

However, the RTT warns that there are still many 'zombie retailers' who will struggle to survive and could well join in growing numbers those already buried in the densely populated graveyard of retailers past.

Ends

PART 2

Dr Tim Denison, Director of Retail Intelligence – Ipsos Retail Performance

Outlook for 2020

Caught in a web spun by politicians, the economy became stuck fast in 2019. Retailing was an unwitting victim, squeezed by upwardly creeping costs and resolutely cocooned demand. It was a year 'on hold', a year of endurance rather than exuberance for consumers and retailers alike. With three weeks of the year remaining, footfall in the non-food sector is likely to end up in 2019 down -7% year-on-year, matching the decline of the previous year and worse than our forecast of -5.1%.

Now with a powerful Brexit mandate behind the Government, the country is hoping to be lifted out of paralysis and back into productivity. For retail, as for most other sectors, 2020 will inevitably be a year of transition, rather than one of rapid changes, over trade and tariffs, logistics and regulatory checks, and migrant employment. But it will necessarily be a time for retailers to plan and adapt their operations to the pending deals.

Putting those to one side, together with the more well documented, ongoing consumer-driven trends, I'd like to call out one particular movement that took root in 2019 and that I expect to

expand rapidly in 2020. It is the march towards sustainability. In the food sector there is now considerable focus on reducing the amount of packaging and especially plastics. Both Waitrose and Tesco ran packaging-free trails in selected pilot stores in 2019. According to research by Ipsos MORI, 61% of people would consider using such facilities, were they to be available close to where they live. Furthermore 26% of the British public said they would stop going to shops that use excessive amounts of non-recyclable packaging. These are significant numbers and represent a consumer movement that will only grow. And though Amazon is disciplining its suppliers to reduce packaging, its growing customer base is very aware of the oversized and excessive packaging of products that arrive on the doorstep.

Refilling is a natural extension to reduced packaging. The appearance of trial product refilling stations for everything from cereals in Waitrose to shower gels in The Body Shop will continue to gather momentum. The water bottle refilling station in Seasalt store is a clever service ticking the same box.

The trend from buying "things" to experiences is well established, but tangential to this is rise in popularity of repairing, buying second-hand and renting the likes of furniture and clothing. Charity store shopping used to be done out of necessity, it is increasing done out of choice. Clothing rental is another alternative to buying new and one that may, in time, become the natural successor to fast-fashion retailing.

In the RTT we have talked quite a lot recently about the increasing resonance that 'values over value' plays as part of consumer psyche. Sustainability is one of the emerging values that is important to increasing more of the public. Leading retailers, those that are truly connected to their customers, will be hard at work behind the scenes, crafting innovations to their services and products that tackle this call for greater sustainability and that are also "oven-ready" launches of 2020.

Paul Martin, UK Head of Retail – KPMG

Outlook for 2020

The general election delivered a clear result, which no doubt is something business has been seeking for a number of years, and this should provide certainty on topics such as the UK's departure from Europe in the near future. It is important to highlight though that this still does not answer what our future relationship with our largest trading partner will be. There are likely to be many twists and turns in the upcoming negotiations about a future trade deal with the EU and any boost to consumer confidence provided by the outcome of the election could be undermined very quickly again.

What this will mean for the retail sector remains unclear. 2019 and especially the second part of the year has been challenging for many in the industry and December's election result is likely to only have a minimal impact on the quarterly results after very disappointing months in October and November, as per the BRC-KPMG monthly Retail Sales Monitor. An improvement of fortunes in Q1 2020 is likely, although the beginning of the calendar year often starts slow and factors like the weather can have a disproportionate impact. For the remainder of 2020, a slight uptick can be expected although this is heavily dependent on the outcome of the trade negotiations which will continue to drive consumer sentiment.

One thing the political events of recent years hasn't changed is the continued structural evolution the sector is facing. It is becoming increasingly clear that whilst the three key factors

which have historically driven purchase decisions – value, convenience and experience - remain important, and retailers need to be seen to be delivering against at least one, new factors are rapidly emerging. I would argue that a second lens of factors should now be considered, these being choice, purpose and privacy.

When reviewing which businesses have been successful in recent years, those providing the consumer with either perceived 'unlimited' or a curated 'limited' level of choice have been successful. The platform businesses and value players are the best examples for this. Playing in the middle and trying to provide the best of both worlds is having a large impact on working capital considerations as well as operational complexity, and in many cases has delivered limited financial success for many retailers.

Being able to demonstrate purpose is also now more important for business than ever. Environmental, social and governance-related factors will become a faster growing dimension for consumers when making purchase decisions. Even though this is still at a comparatively low level currently, it is only going to increase and will further divide winners from losers in the future.

Privacy is the final factor. I believe that potentially the biggest disruptor of the 2020s will be the question of whether consumers are prepared to trade increased amounts of their personal data for enhanced levels of convenience. Businesses that can demonstrate that they have the capability to manage consumer data in a trustworthy fashion are likely to succeed in the coming years.

These three factors are only starting to emerge in their importance and will not ultimately define success or failure in 2020, however, those business that embrace them earlier than others will be better prepared for a prosperous future.

Martin Hayward, Founder – Hayward Strategy and Futures

Outlook for 2020

Uncertainty is a killer of confidence, and thankfully, after the General Election, a large weight of this uncertainty has been lifted from the shoulders of the British shopper.
We should not underestimate the brake that the last three years of contrived denial of democracy has had upon the confidence of many in this country and therefore should look forward to a renewed optimism across our high streets.

Yes, there's a lot of Brexit detail to deliver, but the sky still hasn't fallen in, and it won't. With the clarity of a decisive election result, much pent-up demand and investment will begin to flow.

The new government is sympathetic to a review of high street rents and global attention is now being focussed on the tax position of international on-line businesses that have gamed local tax laws to gain unfair, if nominally legal, advantage.

Enthusiasm for on-line shopping will continue to slow as consumers realise that sitting at home waiting for couriers and returning goods is frequently less fun than going out to touch and smell what they might buy, and public opinion will begin to turn against the environmental and

economic nonsense of a tsunami of white vans delivering individual small packages to individual homes.

In a world looking to reduce emissions, travel and packaging, the post-Brexit opportunities for a closer focus on local manufacturing and food production, are also very positive for UK businesses and retailers. We may soon get closer to squaring the huge contradictions between corporate enthusiasm for globalisation, with all of its inherent travel and haulage implications, and consumer concerns about the environment.

The high street will consequently begin to better understand that growth will have to come from value not just volume when confronted with consumers keen to consume less and to consume more ethically and environmentally sensitively.

Overall 2020 looks to be a year of great change but also of great opportunity for retailers who really understand their consumers. The political events of the last 3 years have shown that people really do know what they want - if only you listen and don't assume that you know what's best for them.

Maureen Hinton, GlobalData

Outlook for 2020

The election has given some certainty to consumers and businesses about the direction the country is heading for – Brexit – but the trade deal with the EU still has to be agreed. Therefore, with 2020 being the year of negotiations and transition to a new, not yet defined, state of play with both the EU and the rest of the world, uncertainty still prevails.

On the demand side, consumers, there is still uncertainty about what Brexit will mean. Rising wages, low inflation, low interest rates, and high employment, in a stable political environment should encourage spending, but people are concerned about the future; will jobs be moved to Europe for instance increasing unemployment? Will economic growth slow even further and even push us into recession? Not until the UK has negotiated a trade deal will there be more clarity on the impact of Brexit.

Meanwhile other factors are putting a brake on retail spending. Consumers are becoming more considered about consumption and, with high debt levels and the end to PPI claims (which have injected nearly £50bn into the economy) finances are still under pressure. On the other hand the housing market is likely to move out of stagnation, but there will be a lag before this benefits retail spending.

The ongoing shift in consumer behaviour will not be affected by Brexit. Preferring to spend on leisure rather than more products; becoming more concerned about the environment and sustainability; the dependence on technology to buy and pay for goods, and the need for convenience will continue to drive purchasing decisions.

On the supply side, retailers, Brexit brings rising costs and complexity in the supply chain. The pound will rise if the UK gets a favourable deal with the EU, which will help – but this will not be confirmed until the end of negotiations. In the meantime businesses have to plan for higher transport costs, exacerbated by the higher penetration of online shopping, and a shortage of cheap workers. Business rates are unlikely to be reduced this year, if ever, and employment costs will rise.

These factors, combined with changing consumer habits and the focus on sustainability, ethics and governance, will not alleviate any of the pressures retailers are currently under –

particularly from the costs of excessive, unproductive, physical space. So expect to see more casualties in 2020 as the retail sector acclimatises to both a post-Brexit and a re-set retail world.

Martin Newman, The Customer Experience Champion

Outlook for 2020

Continued political uncertainty will cast a shadow over the prospects for retail in 2020.
Despite the Government majority and fact they are able to deliver Brexit, the negotiation around trade deals and the processes to begin the uncoupling from the EU will run throughout 2020 and beyond. This will drive continued consumer uncertainty and affect consumer confidence. That's the cause. The effect is it will continue to supress demand and therefore retailers will continue to discount in order to 'buy sales.'

The continued channel shift and migration of some consumers switching their engagement with retailers from offline to online will see some more retailers having to go through CVAs as a result of their store portfolio being too large.

Online retailers will continue to take advantage of empty stores and landlord's requirements to fill these spaces with pop ups and short-term leases.

Despite the headwinds, retailers who know who their most important customers are, what they want to buy, how much they're prepared to pay and through which channels they want to buy and engage will continue to do well. And those who also understand the value of shifting from simply selling stuff to delivering services, will thrive. There are plenty retailers who are currently and highly likely to continue to perform well. Some of whom include; Ocado, Primark, Joules, Sea Salt, H&M, JD Sports, Zara, Lush, Dreams, Boohoo and Oak Furniture Land.

A note of caution. As we've seen with Ted Baker, even brands who have historically only ever delivered growth in both sales and profitability can unravel and fairly rapidly. It takes relentless focus, drive, tenacity, a fail fast mentality alongside great leadership, an employee first culture and true customer centricity to sustain growth. But those who do and who recognise the importance of becoming a service provider will drive loyalty and customer lifetime value.

Mike Watkins, Head of Retailer and Business Insight – Nielsen UK

Outlook for 2020

With the path towards Brexit now certain, this is likely to have a positive impact on Consumer Confidence, at least until the end of 2020. Even so, the macro-economic environment is likely to be turbulent and retail demand will remain weak. And not just because details of future trading relationships are still to be negotiated but as a result of the structural change already underway across the retail industry.

Shopping behaviour is changing and changing fast and the impact on food retailing will again be dramatic in 2020 and in particular for the major supermarkets. Just 6 years ago the market share of the `big4` was 73% but by the end of 2019 this had fallen to 64% with nearly all of this a systemic loss of sales of around £7b, shifting to Aldi and Lidl. (Nielsen Total Till).

It`s unlikely that this trend can be reversed in the short term and Discounters are on target to reach a combined 17% market share in 2020. With an average of 17 fmcg items in every

shopping basket (Nielsen Homescan) this is now more items being purchased on a shopping trip than at the big4 supermarkets. If Discounters continue to meet the needs of a regular, weekly grocery shop for many more millions of households, this is a potential game changer. So there are 3 trends which we should watch closely next year.

To slow this sales attrition we can expect the supermarkets to continue to cut prices on key skus e.g. fresh foods to maintain parity with Discounters. But this alone will not be enough to regain shopper spend. They will need to differentiate more strongly by reminding shoppers about their customer services, concessions, wider ranges and of course, omnichannel propositions. Competitive advantages which can be leveraged in strategy and better communicated to shoppers.

We will also see a shift away from `mission` shopping (typically a big shop, a top up shop, and an on the move shop) to `occasion` shopping. This is more than just little and often shopping trips. It includes meals curated for dining in at home , `free from` nights, food ordered in for sharing, cooking from scratch, and food suggestions expertly matched with a drink. In response, supermarkets will need to give more space to fresh and chilled foods and remodel stores around menus, experiences and new in store technology.

The size of the supermarket pie is also shrinking as more of what we consume is purchased away from large supermarkets and instead at small stores, out of home or using food delivery specialists and platform providers. There will be consolidation in this channel and possibly investment by other retailers as different business models emerge.
The food sector remains embattled with fierce competition and none of the above are quick wins. After 3 years of weak growth, there is a need to reposition many supermarkets to once again achieve a growth in value sales that at least moves in line with CPI and a recovery from the 1% decline in volumes across the £164b food retail industry in 2019 (Nielsen Growth Reporter).

Nick Bubb, Retailing Consultant, **Bubb Retail Consultancy Ltd**

Outlook for 2020

After the **Election** on December 12th, there has been much talk of what the "**Boris bounce**" will do to consumer confidence and the housing market, as we head into 2020 with more certainty about **Brexit** and more political stability, but 2019 had already been a surprisingly good year for both the **Food Retail** and **General Retail** sectors on the stockmarket.

The **FTA Food Retail** index outperformed the market by c13% in 2018 and at the close of business of Friday December 13th it had also outperformed by c13% in 2019, as it was running up by nearly 25% in absolute terms. There has been a wide divergence, however, between the key stocks in the sector: investors who had focused on **Greggs** (up 72%) and **Ocado** (up by 57%) at the start of the year would have been handsomely rewarded, but investors who had focused on **Sainsbury** (down 16%) and **Morrisons** (down 8%) a year ago would have been disappointed.

Of course a year ago, in **Sainsbury's** case, the City was betting that the **CMA** would allow the planned **Asda** merger to go ahead without too onerous a level of store disposals, so the news in April that the merger was going to be completely blocked was one of the bigger shocks of the year. **Sainsbury** CEO **Mike Coupe** has so far survived the post-mortem, but the supermarket business has been under pressure to become more price competitive without eating too much into profits. As for **Morrisons**, there have been some promising moves in Wholesaling and Online, but top-line progress in the core business has run out steam. **Tesco**,

however, has been a pretty good story, with the shares up by c32%, helped recently by the news of a surprise bid for its lucrative **Asian** assets.

The **FTA General Retail index** underperformed the market by c14% in 2018, but at the close of business of Friday December 13th it had outperformed by c21%, despite a weak Q2, as it was running over 32% up in absolute terms. The main losers so far this year at that point were **Marks & Spencer** (down by 10%, despite a recent rally) and the beleaguered **Ted Baker** (down 76%), with the big winners being **Pets at Home** (up 142%), **JD Sports** (up 124%), **Dunelm** (up 110%), **Games Workshop** (up 87%) and **Next** (up 80%).

Of course a year ago, sentiment about High Street retailers was very weak, as exemplified by **Mike Ashley**'s outspoken complaint that November 2018 had been "*the worst on record, unbelievably bad*"…But although 2019 turned into an "annus horribilis" for **Ted Baker**, life carried on for the better players and a year later Online competition doesn't seem to be quite the threat it used to be, with Online spending growth slowing (off a high base), whilst the plethora of **CVA's** has done wonders for retailer's negotiating power with the embattled shopping centre landlords over shop rents…

If 2019 always looked likely to be the year when the death agonies of **Debenhams** were played out, the business in focus in 2020 will be the **John Lewis Partnership**. **Sharon White** takes over from **Charlie Mayfield** as Executive Chairman in March and she will face plenty of problems, even if the general sector and economic outlook seems a bit brighter. The future of the costly "Never Knowingly Undersold" price pledge at **John Lewis** will surely be under review, whilst **Waitrose** (shorn of its MD **Rob Collins**) has to face both a resurgent **M&S Food** business on the High Street and the loss of its **Ocado** business in September. Finally, the Retail casualty list in 2020 will, inevitably, lengthen, with the **Footwear chains** and the struggling **Tapi** carpet chain top of the "Watch List".

James Sawley, Head of Retail & Leisure, HSBC

Outlook for 2020

From a banker's perspective the news of a governing party with a comfortable majority and clear vision for Brexit gives me hope that we will see a rebound in consumer confidence in 2020. The UK consumer can breathe a sigh of relief, the end of knife-edge votes and uncertainly should translate to a loosening of the purse strings. If you look at the FX markets, not all the benefit of this certainty is baked in, the risk of a no-deal has gone but there's still the risk of a no-trade deal and I foresee Sterling slowly recovering towards the 1.45 area as positive develops are reported on trade negotiations. This of course works both ways. Retailers, being a cautious bunch, have largely fixed most their currency requirement for 2019 so the benefit in margin won't be felt until H2 and beyond. Retailers will benefit not just in improved gross margins but also by way of a more confident consumer, whose real purchasing power will improve as FX gains make their way into inflation data. Food retailers will be the main beneficiaries of the rally on Sterling in the near term and will level the playing field between those who are Sterling and Euro denominated businesses.

After 3.5 years of deterioration in the health of the retail industry I'm confident that 2020 will be the turning point from a macro perspective, however from a micro perspective we will see a number of operators make the ultimate sacrifice. Structurally, overcapacity remains, especially in Clothing & Footwear. We have seen lately a number of CVAs have been rejected

by landlords and therefore I predict a number of brands struggling to turn a profit will be calling in the administrators. This rebalancing of the supply base, however, is exactly what the industry needs so to ensure those brands that have earned the right to survive, do.

For 2020 will also see a continuation of two key themes which are shaping the future landscape of retail – the growing demand for new and exciting experiences, and that for more sustainable products. Retailers and real estate owners will now have more confidence to invest in stores, high streets and shopping centres and I predict a stabilisation in channel shift in 2020 and a levelling off in footfall data. Retailers will continue to invest in more sustainable products, packaging and methods of fulfilment and we will see an emergence of new businesses, technology and operating models disrupting the sector and meeting this demand.

Jonathan De Mello, Head of Retail Consultancy – Harper Dennis Hobbs

Outlook for 2020

Love or hate the election result, we finally seem to have some certainty around Brexit, with the Conservative party winning a clear majority in last Thursday's General Election.

2019 was another very challenging year for retailers, with a large number of business failures - whether CVA's or full administrations. Weak consumer demand due to Brexit uncertainty was a major contributing factor to this, as well as rising costs due to sterling's continued weakness. Following the election result sterling has rallied and it is likely demand will tentatively increase now that we have some certainty.

Some retail sectors have been harder hit than others this past year, and this is likely set to continue into 2020 in the casual dining sector in particular. Chilango's recent CVA proposal for example is on the back of the CVA/failure of casual dining retailers such as Jamie's Italian, Prezzo, Byron, GBK, Carluccio's etc.. As well as reduced demand due to Brexit uncertainty a more fundamental reason for the failure of these chains is the over-provision of casual dining retailers in some areas - particularly London. Landlords saw casual dining as their saving grace given the impact of e-commerce, and many jumped on this bandwagon, with lettings to any niche concept that made remote sense/sounded cool, despite weak rental covenants. Many of the casual dining retailers, for their part, overpaid massively on rent in order to secure what they considered to be prime sites in a highly competitive market driven by private equity and the mantra of acquiring as many sites as possible, as quickly as possible. We are now witnessing the result of this, with demand and supply returning to equilibrium, and inevitable business failures along the way.

The casual dining sector is a more extreme microcosm of the wider retail sector, with CVA's/administrations also relatively abundant. Of the retailers that dont restructure via CVA or some other mechanism, a large majority are going back to landlords and asking for rent reductions. It is this that has led to many retail schemes seeing huge valuation write downs and investors seeking to exit from certain property funds. The recent closure of M&G's property fund is a case in point, and the first sign that property funds are materially starting to feel the pain that retailers have been feeling for years. It is pain that can only get worse for those funds that principally own buildings or centres in locations that are in decline from a retail perspective - such as M&G - and there may well be more fund closures/outright business failures among landlords before 2020 is out. Some of the major landlords such as Intu and Hammerson have put shopping centres on the market in order to raise cash to pay down debt, and I expect more schemes to be sold by both in the coming months. Still, 2020 could have been even worse for landlords - If Labour/the Liberal Democrats had been elected to

government, both had fairly radical manifesto pledges to make landlords pay for retailer business rates too!