

# Retail

**Perhaps the most startling figure in these results is that 34 percent do not consider there is over-capacity in the retail market. Maybe my view is overly influenced by UK vacancy rates currently running at over 15 percent – although admittedly concentrated in secondary locations. Primary locations do remain in high demand.**

Maybe I should be encouraged that so many businesses remain optimistic, believing there is opportunity to secure value and volume growth, in the current low growth environment which is here to stay for some time to come. Hypothesis #2 reminds us how tough it is for small retailers to make their mark where the major players keep on getting bigger. However, I believe the opportunity remains for such businesses to carve out a successful niche for themselves, provided they continue to focus on the wants and needs of their customers.

It's also worth speculating whether a point will come when large operators are seen as too large; prompting consumers to look elsewhere. If that were to happen, successful, established niche businesses would benefit. With online retailing, trying to accurately predict the percentage of sales this channel will generate is a futile task. For this survey, I went for 50 percent in ten years – and just over half of the respondents agreed. That is still a huge leap forward as online sales currently account for under ten percent of the total.

Actually, the continued blurring of the multi-channel boundaries will make the question redundant as technology continues to facilitate the ability to interact with consumers at multiple touch points. How to make investment decisions will become increasingly difficult as the point at which (or where) a customer made their final purchasing decision becomes less and less straightforward.

Regarding vertical integration, I believe the split of respondents here correlates to the split of businesses where security of supply is everything and those where flexibility remains key. Food businesses for example will deem it critical to have a secure, sustainable supply chain as they look to combat the risks of commodity price increases and supply chain disruption. Businesses more reliant on access to the latest designs or technology may feel that flexibility of supply is more important than driving out supply chain risk through vertical integration.

On the issue of pricing, I am intrigued that 31 percent do not agree with the hypothesis, especially given today's consumers' price-aware mentality, enhanced by ease of access to information. Admirable optimism? Maybe the 31 percent believe that they absolutely understand their customers' decision-making at various price points – but this is an issue vexing plenty of retailers so this response is somewhat surprising. Setting and executing pricing policy, consistent with the value proposition, will be critical to drive profitable growth as input prices remain under pressure and as buying behaviour evolves.

On the overall themes, it's understandable that cost efficiency and changing customer behaviour are strong focus areas for retail. I am bemused though by the muted support for transactions and high growth markets (given the low growth at home) and for sustainability. The latter being especially noteworthy. I feel that the need to change to more sustainable business models will be the primary factor shaping the future of retail over the next 20 years – just as technology was for the previous 20 years.

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RR Donnelley | Succeeding in a changing world | RRD-255653 | June 2011

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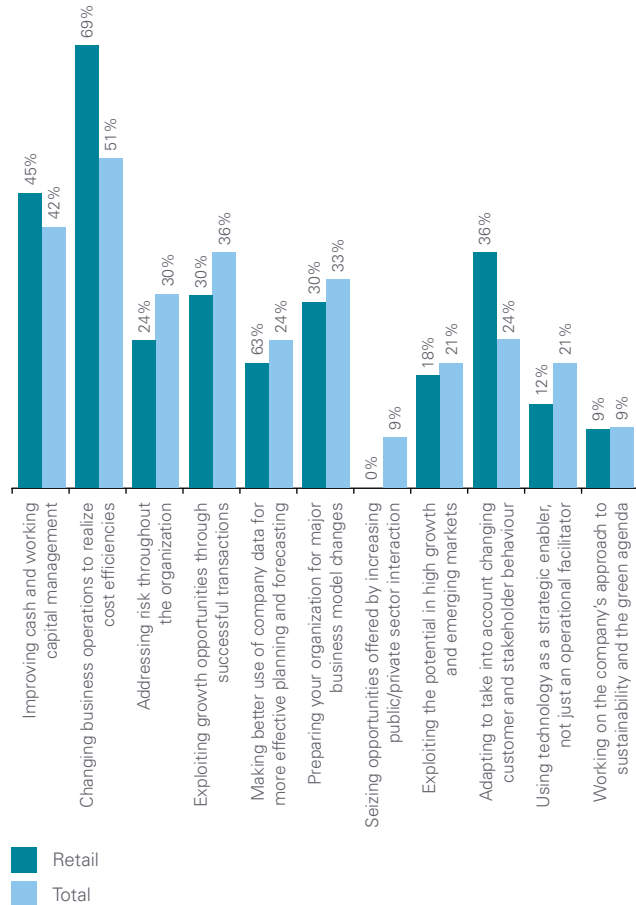
Retail

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# Retail – Sector Results

## Comparison of top business issues for Retail with total results



Percentage add up to 300 percent as all respondents had three votes.

### Hypothesis 1:

Before the financial crisis, the previous 15 to 20 years of growth in the retail sector was characterised by volume increases and space expansion. As a result, there is now over-capacity in the retail market and there is little prospect of future growth from further volume increases

### Hypothesis 2:

Globally, retail market share is being concentrated into the hands of fewer and fewer businesses, particularly with large food retailers expanding into non-food categories – and this trend is set to continue for the foreseeable future.

### Hypothesis 3:

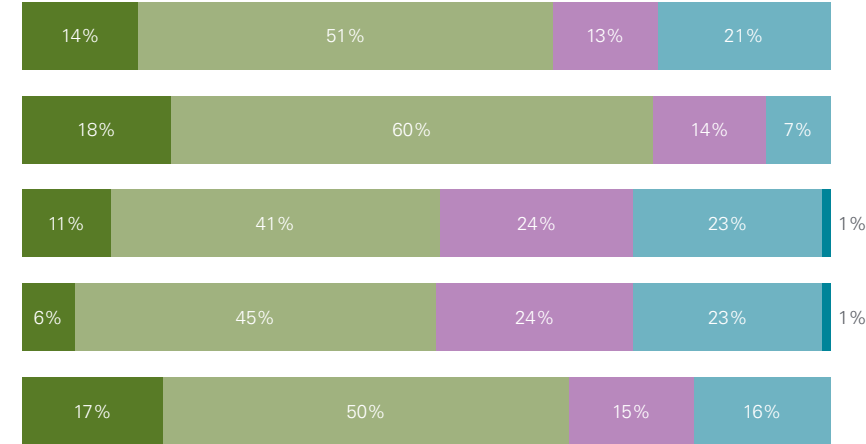
Continued connectivity and convergence developments in mobile and internet technology mean that retail will continue its shift towards non-store sales, resulting in online retail accounting for 50% of total retail sales within ten years..

### Hypothesis 4:

With commodity price inflation having risen sharply over the past 18 months – and with greater scarcity of many resources expected in the future – we will see increased vertical integration throughout the sector with more retailers taking greater control or ownership of their key suppliers in an effort to create a more sustainable business model.

### Hypothesis 5:

Despite widespread acceptance that the increased level of price promotions and discounting (which have been a necessity to drive demand in the downturn) are unsustainable in the long term and are damaging profitability, consumers now expect it and hence retailers are now locked into this practice and it is impossible for them to break out.



### Further info

The SiCW Business Leaders survey Exec Summary is available at: [www.kpmg.eu/businessagenda](http://www.kpmg.eu/businessagenda)

A suite of videos and kitcards, on the top themes is available online. This includes Jeremy Kay outlining what the Board is thinking about in terms of changing their business operations to realise cost efficiencies; and Andrew Ashby on how companies can improve cash and working capital management. To view the information please go to: [www.kpmg.eu/businessagenda](http://www.kpmg.eu/businessagenda)

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**Helen Dickinson**