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Begbies Traynor

Little festive cheer for retailers despite improving economy

New research from Begbies Traynor, the UK's leading independent business recovery practice, has revealed that the retail sector is in need of some Christmas cheer this festive season as 151 UK retailers are now facing "critical" financial problems, up 8% from Q4 2012, while the number of retail businesses with "significant" financial issues rose by 15% to 15,792.

These latest figures suggest that although consumer spending is improving on the back of a slow economic recovery, many UK retailers continue to face major structural challenges. These problems are particularly acute for retailers that either don't have a convincing online offering, or don't benefit from high levels of customer retention and satisfaction, with several "traditional" bricks and mortar retailers still being adversely affected by higher fixed costs from business rates and rental payments.

However, the research also shows that traditional, store-based retailers are not alone in their struggles this Christmas, as a growing number of online start-ups have also failed to capture consumers' attention in an increasingly competitive marketplace. While online sales in the UK rose to a monthly record of £10.1bn in November*, Begbies Traynor's research reveals that 1,816 non-store firms are currently in "significant" financial distress, a rise of 28% from the equivalent period last year, in line with recent findings* that online only brands are growing at a slower rate than multi-channel retailers.

Julian Pitts, managing partner for Begbies Traynor in Yorkshire and the North East, commented: "A flush of online start-ups, which are typically at higher risk of failure in the early stage of their life cycles, has driven a significant rise in financial problems in non-store retailers. Many of these are falling victim to larger online and multi-channel competitors who offer lower prices due to greater buying power, increased visibility from better search engine rankings, or the convenience of click-and-collect."

Those retailers that have experienced the highest increases in "significant" distress include second hand stores and market stalls (up 29%) and food, drink and tobacco retailers (up 20%) whilst electrical goods merchants (up 16%) and clothing and footwear retailers (up 12%) are also showing evidence of further pressure.

Commenting on the figures, Julian Pitts said*: "*The big supermarket chains began their Christmas promotions earlier than ever this year, while they are also aggressively expanding into the convenience and express store market, causing smaller food and drink retailers to suffer most in the lead up to Christmas. Unable to compete on the range of goods they offer, combined with the growing trend for consumers to do their festive food shopping online for the best deals, local shops can be expected to continue to suffer as this relentless competition and price pressure persists.

"The move to online shopping across the retail industry has also had a major impact in the rise in the number second hand and market stalls in distress, with consumers preferring the convenience of buying these types of goods online. Well known online marketplaces now offer such large, accessible and convenient platforms for independent traders to reach consumers that many antique, vintage and second hand goods stores are simply being edged out.

"Though consumer debt is increasing, people are becoming increasingly savvy in their spending, either forgoing the latest fashions or shopping around online for the best prices when buying clothes or electronics. Online price comparison and cashback sites are compounding the problem for those retailers that trade purely on the basis of price rather than service levels."

Businesses that have fared better in the past 12 months include department stores and those specialising in furniture and furnishings ("significant" distress up just 10% for furnishings and 11% for department stores), highlighting the changing pattern of consumer behaviour, as well sectors which are less exposed to discretionary spending such as chemists, medical and personal care retailers (up just 7.4%).

Mr Pitts added that: "Department stores have returned to form over the past few years and become the retailers of choice for many consumers who are keen to complete all of their Christmas shopping under one roof. The secret to their success is in providing customers with the convenience of multiple brands and products all in one place, while offering "omni-channel" retailing – the ability to purchase in-store or online, with the choice of home delivery or click-and-collect. This convenience is extremely valuable to consumers, especially in the run up to Christmas as the number shopping days quickly runs out. We expect "omni-channel" selling to become an increasingly important factor for retailers that want to win share in a changing consumer landscape during 2014 and beyond.

"We are also seeing the impact of the housing market recovery which has helped furniture and furnishing stores to perform better than other sectors again this winter. Government led schemes such

as Help to Buy have acted as a significant impetus to the market, with retailers in this sector benefitting from an increasing number of homeowners readying their houses for sale combined with a growing population of new owners shopping for furnishings for new properties.
"While it is encouraging to see an improved outlook for consumer spending, the approaching December quarter rent day will be an ongoing concern for many struggling retailers whose only source of income is through their bricks and mortar premises.

"As the latest footfall numbers showed a 2.9 percent** drop in visits to high streets, out-of-town sites and shopping centres last month, these retailers will be dependent on a strong finish to 2013 as they try to attract customers to their stores with last minute deals and end of year sales. But after the excesses of Christmas, and an increasing willingness by consumers to fund their seasonal generosity on credit cards, we question whether shoppers will have enough credit left to keep these retailers afloat in the New Year.

"We therefore expect to see more high profile retail failures as we enter 2014, particularly early in the year, as creditors typically wait for vulnerable retailers to have higher post-Christmas cash balances but won't want to wait for those balances to be diminished through traditionally tougher first quarter trading. Shop owners will be looking ahead to their next business rates and quarterly rent payments, while working out how they will survive throughout the early months of the year as their cash reserves gradually melt away."

- Ends –

Photo shows: Julian Pitts, managing partner for Begbies Traynor in Yorkshire and the North East

For further information, please contact Susan Reid on 01423 569 999 or email susan@appealpr.com

* IMRG Capgemini e-Retail Sales Index – December 2013
** Research from British Retail Consortium and Springboard – December 2013

Notes to editors:
Retailers with 'Significant' problems by sub-sector (for the period from 1 October to 17 December 2012 and 2013):

Sub-sector	Q4 12	Q4 13	% change
Clothing and Footwear	699	786	12.4
Chemists, Medical and Personal Care retailers	528	567	7.4
Department and Multiple Category Stores	812	904	11.3
Electrical Goods	295	343	16.3
Food, Beverage and Tobacco retailers	1,903	2,282	19.9
Furniture and Furnishings	748	825	10.3
Hair and Beauty	3830	4,318	12.7
Non-store retail	1,421	1,816	27.8
Repair and Cleaning	768	845	10.0
Other Specialist stores	2172	2,470	13.7
Second Hand Good Stores and Market stalls	280	360	28.6
Books, Newspapers & Stationers	263	276	4.9
Total	**13,719**	**15,792**	**15.1**

The survey monitors the numbers of companies experiencing difficulties in two categories:

Significant Problems

Companies with 'Significant' problems are those with minor County Court Judgments (CCJs) (of less than £5k) filed against them or which have been identified by Red Flag's proprietary credit risk scoring system which screens companies for a sustained or marked deterioration in key financial ratios and indicators including those measuring working capital, contingent liabilities, retained profits and net worth.

Critical Problems

Companies with 'Critical' problems are those with CCJs totalling over £5,000 within a three month period or winding-up petitions against them or which have entered Corporate Voluntary Arrangements.

About Begbies Traynor Group

Begbies Traynor Group plc is a specialist professional services consultancy providing independent professional advice and solutions to businesses, financial institutions, the accountancy and legal professions and individuals in the areas of recovery, corporate finance, investigations and risk management. It is listed on AIM (Ticker: BEG). Further information can be found at: www.begbies-traynorgroup.com

About Red Flag Alert

Red Flag Alert measures corporate distress signals through a comprehensive and complex methodology, drawing on factual legal and financial data from a wide range of relevant sources for companies that have been trading for over a year.
Red Flag Alert is commercially available to all businesses, on an annual subscription basis, to help them better understand risk and exposure and help prepare them for the future. Further information about Red Flag Alert can be found at: www.redflagalert.com