Is discounting a current necessity or is it simply a race to the bottom?

Date: May 2015

- Bargain hunting has become the norm in an increasingly digital and disloyal world
- Perpetual discounting will lead to brand devaluation and erosion of consumer trust
- UK shoppers need to be weaned off their diet of discounts
- Retailers need to shift the battleground and compete on value rather than price

Introduction

The British shopper has always been on the lookout for a bargain. This trend has been exacerbated in recent years by two key factors: the crash in consumer confidence as a result of living through the longest recession in a century and the rise of the internet which has opened up a whole new virtual high street to the consumer and made it easier than ever to check and compare prices.

In an attempt to keep the tills ringing during the recession, discounting prices became the norm. Now, together with the slowness of the economic recovery, we have a whole shopping generation which has become hooked on a diet of discounts.

Richard Lowe, Head of Retail and Wholesale at Barclays, pointed out that "as a consequence, shopper behaviour has changed intrinsically, leaving many retailers with the conundrum of how to satisfy consumers' insatiable need for a bargain whilst maintaining profitability. After all, margins cannot be eroded to the point where retailers are unable to stay in business."

The KPMG/Ipsos Retail Think Tank (RTT) met in April to discuss whether, in light of this, discounting is now a current necessity or is it simply a race to the bottom?

Adapting to the new consumer

The impact of austerity and retailers' prolonged use of discounting has fundamentally changed consumers' approach to spending. The transparency of the internet has also commoditised the sector to some extent. The RTT argued that consumers now know how and where to search for a bargain and are willing to wait for the best offer.

Mike Watkins, Head of Retailer and Business Insight at Nielsen UK, suggested that British shoppers are now in the "mind-set of expecting savings before being prepared to buy…price cuts and promotions are still needed to drive sales despite the highest level of consumer confidence in 8 years (source: Nielsen Global Consumer Confidence survey). This is because many consumers remain unable, unwilling and reluctant to spend freely and in non-food, some have also become customised to waiting for the next new range, products or technology improvements, before purchasing at lower prices. This is also being exacerbated in a period of deflation."

The RTT warned that discounting can damage a consumer's perception of a brand or retailer. Before entering the discounting fray retailers need to consider whether, by reducing prices, the value of their brand will diminish in shoppers' minds.

Dr Tim Denison, Director of Retail Intelligence at Ipsos Retail Performance, said "dropping prices can introduce doubt and suspicion, encouraging thoughts such as: 'I must have paid over the odds before' or 'perhaps they have changed the formulation or container size'. Discounting plants the focus on price rather than a product's functionality or a retailer's differentiation. The danger is that the shopper's fixation on price distances decision-making away from other attributes such as quality or personal relevance. Ultimately it can damage a retail brand if they have nothing else of value to offer customers other than low prices."

Erosion of consumer trust

"Whatever the sector, a policy of continual discounting can only act to erode margin and brand equity," said Martin Newman, CEO of Practicology. "In my opinion, it also erodes trust. Consumers begin to question whether RRPs are genuine. Therefore, it can be strongly argued that discounting is a race to the bottom."

Mark Teale, Head of Retail Research at CBRE, added "we have already seen the re-emergence of 'evaporation' in grocery markets as certain brands turn to surreptitiously reducing packet weights while maintaining prices, a hidden-inflation that temporarily passes consumers by but in the end this sort of sharp practice just undermines consumer trust."

Nick Bubb, Retail Consultant, argued that "the lack of real 'value' in Sale events is only likely to increase consumer cynicism and distrust and undermine the appeal of the constant 'up to 25% off' offers. And the increasing penetration of online shopping is also helping to undermine the 'full price' shopping culture, as this market seems to be particularly promotional."

Following the herd versus holding firm

When it comes to mass discounting retailers have a clear and obvious choice to make – follow the herd and dilute prices in the same way as competitors or, hold firm and hope that loyal customers won't defect to retailers with lower price points.

Mark Teale, Head of Retail Research at CBRE, suggested "for individual mass-market retailers following the herd might seem like the only option. In the run-up to Christmas for example, it only takes a handful of traders to break ranks early for others to follow suit. Stimulating additional sales through discounting/special offers is fine in theory, but as we saw with 'Black Friday', marketing gimmicks can easily prove a zero sum game, simply undermining sector sales (and profits) further down the line."

However, holding firm and maintaining full prices can deliver long term results. Martin Newman, CEO of Practicology, argued that 'Black Friday' 2014 demonstrated that "retailers who held their nerve and didn't take part…fared well both in terms of demand over Christmas and peak trading, and maintained margins and profitability." Clearly, though, having a differentiated product is key to this.

Shifting the battleground

Discounting is currently the "in vogue" mode of competition for retailers but, while a valid strategy, it can only persist for so long. Savvy shoppers know how to seek out a bargain but their decision is based on value for money, a differentiated offering that is seen to be worth the cash handed over for it. Why, then, should differentiation come down to price?

Maureen Hinton, Conlumino, said: “When a retailer does not differentiate it is forced into lowering prices to match the competition. This is what drives retailers to the bottom. Price is currently the dominant factor in the food and grocery sector where commodity goods are easily comparable on price and discounters have been taking greater share, yet retailers like M&S and Waitrose, who focus on quality and innovation, are still growing their businesses.”

“Whatever the model, retailers and suppliers need more sophistication in their pricing strategies. Pricing needs to be considered as a strategic, rather than tactical, capability. We all like a bargain but price need not be the sole determinant of that bargain,” agreed David McCorquodale, Head of Retail at KPMG

Value transparency rather than pricing transparency need to be the point of differentiation going forward; ultimately, retailers need to shift the battleground.

Balancing the scales – retailers also have more data on customers

While consumers now have more and more information about the relative prices of the products and services they buy, retailers too now have mountains of data on their customers to better understand and anticipate their needs and wants. This provides two clear opportunities for retailers: the chance to innovate and develop seller-led dynamic pricing models, and the prospect of engaging with consumers on a more personal level to better encourage customer loyalty.

David McCorquodale, Head of Retail at KPMG, said: “Data available through point-of-sale systems, loyalty cards, competitive price checkers and social media can drive seller-led pricing models. More brands are using data to set prices on an increasingly dynamic basis where prices can change by month, week or day. Airlines have done this for years and Uber do it with taxis. Amazon have been the retail pioneer and others are following, and developing into dynamic and personalised pricing. Easier to achieve online but bricks and mortar retailers are trialling electronic price tags that can update prices and promotions dynamically.”

Martin Newman, CEO of Practicology, highlighted that “retailers have an opportunity to engage on a deeper and more personal level with their customers. Most of us don’t have a particularly broad range of brands we choose to engage with. Basic CRM is at best no more than propensity modelling. If retailers can move to something deeper, more engaging and based on customer lifecycle management, they can make themselves far more relevant to their customers; and in doing so secure greater loyalty and customer lifetime value.”

Martin Hayward, Founder of Hayward Strategy and Futures, went a step further and suggested that, in the main, retailers have not done a very good job at engendering customer loyalty. He said “we are in a world of Customer Transaction Management rather than Customer Relationship Management which means that CRM is the future, not the present.”

Conclusion

Overall, the RTT agreed that while discounting is a fact of the retail industry, it cannot be a permanent strategy; margins can only be squeezed so far and there must come a point when consumers begin to question whether they are truly getting value for money.

Maureen Hinton, Conlumino, said: "Discounting is an integral part of modern retailing. It is no more of a necessity today than before. What is essential though is that a retailer has a differentiated proposition and a well structured price architecture, where first price is the right price. And a planned discount strategy."

Mark Teale, Head of Retail Research at CBRE, concurred highlighting that "the problem with discounting is that, like quantitative easing, it cannot be a permanent panacea. It needs to be used sparingly. At some point, for retail markets to prosper, margins need to be built back."

James Knightly, Senior UK Economist strengthened the argument suggesting that retailer's capacity for pursing discounting strategies has been helped by the strength of sterling in recent months. "While the lagged effects of sterling strength may mean discounting has further to run I suspect that help from the currency and commodity markets is coming to an end," he said.

"This is a good time to wean consumers off the diet of discounts, the UK consumer demand story is positive with confidence at a 12 year high and with tax changes coming through, real household disposable incomes look set to rise 3-4% this year. This points to an environment where businesses can grow revenues without needing to hurt margins by taking share from competitors."

Part II: In detail – Individual views of the KPMG/Ipsos Retail Think Tank members

Mark Teale, Head of Retail Research, CBRE
From a sector perspective, discounting can be both. For individual mass-market retailers following the herd might seem like the only option. In the run-up to Christmas for example, it only takes a handful of traders to break-ranks early for others to follow suit. Stimulating additional sales through discounting/special offers is fine in theory, but as we saw with 'Black Friday', marketing gimmicks can easily prove a zero sum game, simply undermining sector sales (and profits) further down the line.

Internet price comparison is exacerbating the problem, weakening profitability as bargain-hunting becomes more and more ingrained. We have already seen the impact on brand commodities, now it is the turn of groceries. Great for the consumer of course, in the short term, but – a bit like the impact of no-frills airlines on travel services – over the long term margin dilution makes a deterioration in offer (service and product quality) inevitable: economic gravity cannot be defied indefinitely.

We have already seen the re-emergence of 'evaporation' in grocery markets as certain brands turn to surreptitiously reducing packet weights while maintain prices, a hidden-inflation that temporarily passes consumers by but, in the end, in tandem with faux special offers, this sort of sharp practice just undermines consumer trust. Are the startling market share shifts seen in grocery markets over the last couple of years, in favour of hard discounters, really a result of squeezed household incomes or is the malaise much more deeply rooted? After all, certain big-ticket markets like holidays and cars have been booming. So why are grocery markets having such a hard time?

Knee-jerk slash-and-burn 'efficiencies' can provide short-term relief for investors, but at the expense of offer quality. Squeeze margins and costs elsewhere must give: retailers (and their investors) are not charities. The obvious danger of the price weakness afflicting the UK and EMEA retail markets is that, as in Japan, deflationary pressures will become a permanent feature of the market, forcing retailers and suppliers to work harder and harder to stand still. The problem with discounting is, that like quantitative easing, it cannot be a permanent panacea. It needs to be used sparingly. At some point, for retail markets to prosper, margins need to be built back.

James Knightley, Senior UK Economist, ING
As of February, 35.2% of the basket of goods and services included within the UK consumer price index are experiencing YoY price falls. This is broadly in line with most other European economies, but is substantially greater than in the US, where it is less than 20%.

In the UK's case, food and beverages account for an unusually high proportion with fruit and spirits the only two components not experiencing price cuts. Furniture and furnishings along with household appliances and audio-visual equipment are also seeing price falls while fuel costs and utility bills are falling YoY.

The discounting is only seen in goods. Services, which are 50% of the CPI basket, are currently experiencing YoY price rises of 2.4%. This is above the rate of wage inflation, which is normally the key driver of service sector price inflation, suggesting that there is corporate pricing power within the economy.

The price discounting within the goods sector was understandable given the aggressive expansion strategies of relatively new entrants and the weak nature of the recovery in consumer spending up until fairly recently. The ability to discount has been helped by the strength of sterling, which has reduced the cost of importing foreign commodities, products and appliances. Meanwhile the global plunge in agriculture and livestock prices has helped businesses looking to cut prices for both fresh and processed foodstuffs. A lack of movement in wages has also given retailer more scope to cut prices.

Lagged effects of sterling strength may mean discounting has further to run, but I suspect that help from the currency and commodity markets is coming to an end. The US interest rate hike cycle will lead that of the UK while the ECB's QE programme has been priced into financial markets, suggesting sterling could start to soften. Moreover, the global growth story is looking more encouraging, particularly in Europe.

At the same time, the UK consumer demand story is positive with confidence at a 12 year high and with tax changes coming through, real household disposable incomes look set to rise 3-4% this year. This points to an environment where businesses can grow revenues without needing to hurt margins by taking share from competitors.
Dr Tim Denison, Director of Retail Intelligence, Ipsos Retail Performance

The British shopper has always been a lover of bargains, stimulated by the thought of finding something special at a perceived below-value price. It has only been relatively recently, however, that they have become hooked on a diet of discounts. In the 1990s and early 2000s shoppers in the UK had never had it so good, easy credit had become part of everyday living, raising living standards and promoting a sense of affordable luxury for most households.

All that changed after the Lehmann Brothers collapse triggered the global financial crisis and the crash in consumer confidence. In an attempt to keep the tills ringing, discounting prices became mainstream practice. Such has been the slowness of the economic recovery that a whole shopping generation has become discount expectant, reluctant to pay full price wherever and whenever they can avoid it.

Of course sticking to a discounting policy has its attractions for retailers. Special offer and sale signs continue to drive footfall as well as reinforcing habits to visit stores and be tempted by their merchandise. Cut price messaging invariably creates a call to action for shoppers that is ignored at its peril, risking losing out on perceived bargains, here today, gone tomorrow. Executed sparingly and correctly, discount offers can generate genuine excitement for consumers, rewarding shoppers and retailers alike. By stimulating footfall and sales there is every expectation that discounting can protect a retailer's bottom line in the short term.

For retailers that are not set up to trade on constant discounted prices, the difficulties start when the policy extends beyond the short term. In the States, Abercrombie and Fitch dropped its prices by 15% between 2000-2. Over that period it lost significant market share and saw its cachet disappear. It took two years to recover its former market position once it reversed its strategy. In July 2008 Starbucks posted its first ever trading loss, then weakened its trading position further by offering lower price options such as $1 cups of coffee and free refills.

Weaning shoppers off their price-cut dependency as demand starts to improve is proving to be far from easy.

The scars of austerity are taking a long time to heal. Old habits and behaviours remain broken. However, there are major risks associated with continuing to offer cut-price deals beyond the short term. Some consumer goods manufacturers were quick to reverse their decisions in late 2008 of taking to blanket discounting in order to protect sales. They soon established that they stripped swathes of value out of categories. Some retailers failed to learn the lessons quick enough – Tesco's "Big Price Drop" campaign taking £500m off its price lines is one infamous example.

Discounting can also prompt shoppers to review their perception of a brand or retailer. Dropping prices can introduce doubt and suspicion, encouraging thoughts such as: 'I must have paid over the odds before' or 'perhaps they have changed the formulation or container size'. Discounting plants the focus on price rather than a product's functionality or a retailer's differentiation. The danger is that the shopper's fixation on price distances decision-making away from other attributes such as quality or personal relevance. Ultimately it can damage a retail brand if they have nothing else of value to offer customers other than low prices.

All said, discounting is unquestionably a valuable sales tool. For retailers that have created a basic cost advantage to leverage, it has delivered unprecedented success and market share gain in recent years. For the rest, it should be used more judiciously as some have already discovered to their cost.

David McCorquodale, Head of Retail, KPMG
Recession coupled with the transparency of the internet have gone a long way to commoditising the retail sector. While the market may have recovered from the recession, many companies are still stuck with recession-driven discounting. Retailers now need to re-think their pricing strategies as the high-low model – marking products up to discount them later – not only lowers margins but damages and devalues brands over time. Constant discounting tells consumers the products aren't worth the regular price and the sale price becomes the true price. And because most retailers have followed the same hard discounting strategy, we are in a race to the bottom. However, there are important developments in pricing that may change things.

Consumer-driven pricing models emerged from the travel industry and now a slew of websites claim to price compare across a range of products and services for millions of time-starved consumers. In retail, smartphone apps can scan barcodes to compare prices at other retailers. Airlines and hotels have countered this to an extent by 'disaggregating' price – baggage, seat, flexibility – and retailers are following suite with delivery charges etc. Other models like Groupon have emerged plus other forms of collective buying where shoppers use combined purchasing power to get deals and these have evolved with social media into name-your-price models such as seen on the online marketplace, Higgle. These developments open new opportunities for enterprising brands that are willing to be innovative in their approach to pricing and promotions.

Consumers may have more access to information, but retailers also have more information about their customer. Data available through point-of-sale systems, loyalty cards, competitive price checkers and social media can drive seller-led pricing models. More brands are using data to set prices on an increasingly dynamic basis where prices can change by month, week or day. Airlines have done this for years and Uber do it with taxis. Amazon have been the retail pioneer and others are following, and developing into dynamic and personalised pricing. Easier to achieve online but bricks and mortar retailers are trialling electronic price tags that can update prices and promotions dynamically.

Supply-driven models where availability of 'on-trend' product or the latest technology have been seen as the preserve of the luxury industry. The car industry followed suit when it began to build on a just-in-time basis. Apple have revolutionised this in the retail world through great product and lean manufacturing and smart supply chain management. Zara have led this in the fashion industry and compels the shopper to buy at full price rather than wait for a mark down that may never come.

Whatever the model, retailers and suppliers need more sophistication in their pricing strategies. Pricing needs to be considered as a strategic, rather than tactical, capability. We all like a bargain but price need not be the sole determinant of that bargain.

Richard Lowe, Head of Retail and Wholesale, Barclays
As long as Britain has been characterised as a nation of shop keepers, consumers have had an eye for a bargain. This has been heightened in recent years by two influencing factors; the experience of living through the longest recession in a century and the growth of online which has opened up a whole new virtual high street to the consumer. As a consequence, shopper behaviour has changed intrinsically, leaving many retailers with the conundrum of how to satisfy consumers' insatiable need for a bargain whilst maintaining profitability. After all, margins cannot be eroded to the point where retailers are unable to stay in business.

But what constitutes a bargain? Its meaning is somewhat ambiguous – prompting different reactions from different groups of consumers. Therefore, before entering the whirlpool of discounting and price promotions it is important for retailers to decide what their brand is worth. To ask themselves two key questions "why do customers buy our product?" and "what are they prepared to pay for it?" Putting a value on their brand in this way allows retailers to set out their stalls accordingly – negating the need for constant discounting and the ensuing race to the bottom.

To put it another way, it is about being price aware and not necessarily selling everything as cheaply as possible. Selling cheaply will only lead to consumers measuring the value of a brand to them based on constant promotions and price cutting.

This is not to say there isn't a place for promotions and discounting. Planned sales and price cuts are a helpful way for retailers to clear stock at the end of a season. You only have to look at the popularity of Black Friday and the power of a price promotion in the run up to peak seasons such as Christmas to draw shoppers in.

Therefore, it is not a race to the bottom per se. It is about retailers, both on and offline, respecting their brands and introducing promotions in a strategic, managed way in order to preserve precious margins whilst stimulating growth in their businesses.

Nick Bubb, Retail Consultant
Cutting prices should be unnecessary if consumers are feeling better off, but for cyclical and structural reasons retailers are still under pressure to offer deals and promotions.

In Food Retailing, life would be tough even in a normal inflationary era, because of the rapid inroads made by Aldi and Lidl into the post-recession grocery market and the increasing migration of shopping to Online and Convenience stores, which has left clear signs of over-capacity in the supermarket/hypermarket sector. On top of this, however, there are volume pressures from the growth of eating out and the "Café culture", whilst falling commodity prices have left retailers with no choice but to pass these on to the consumer. The result is a highly promotional and deflationary environment, with shoppers being offered all sorts of vouchers and coupons to try and secure their fragile loyalty. Some retailers are trying to hold the line on an "EDLP" strategy (eg Asda) and others try to uphold a quality service approach (eg Waitrose), but it isn't easy, as Tesco and Morrisons attempt to recoup lost market share. Barring a dramatic reduction in industry capacity, which is unlikely in the near term, discounting is unavoidable.

In Non-Food Retailing, retailers seem to have lost the battle many years ago, with very few having the sort of pricing power to resist the discounting culture on the High Street. There is a science to "planned" promotions, however, which has meant that gross margins have not been as damaged as one would expect, eg from events like "Black Friday". But the lack of real "value" in Sale events is only likely to increase consumer cynicism and distrust and undermine the appeal of the constant "up to 25% off" offers. And the increasing penetration of Online shopping is also helping to undermine the "full price" shopping culture, as this market seems to be particularly promotional.

Martin Newman, CEO, Practicology
I don't believe that discounting is a perennial necessity. However, it has to be contextualised for the retail sector, and the retailer in question.

Whatever the sector, a policy of continual discounting can only act to erode margin and brand equity. In my opinion, it also erodes trust. Consumers begin to question whether RRPs are genuine. Therefore, it can be strongly argued that discounting is a race to the bottom.

Yes consumers continually seek value, but value does not equal price. Task-rich and time-poor consumers value convenience when choosing who to purchase from. This is why click and collect has seen huge traction: it empowers consumers to control where and when their order is fulfilled and is a key component of a successful customer value proposition.

Retailers have an opportunity to engage on a deeper and more personal level with their customers. Most of us don't have a particularly broad range of brands we choose to engage with. Basic CRM is at best no more than propensity modeling. If retailers can move to something deeper, more engaging and based on customer lifecycle management, they can make themselves far more relevant to their customers; and in doing so secure greater loyalty and customer lifetime value.

Discounting is not a necessity for all. As was shown by Black Friday 2014 promotions, retailers who held their nerve and didn't take part - including White Stuff and Ted Baker - fared well both in terms of demand over Christmas and peak trading, and maintained margins and profitability.

This said, in the immediate short term, demand is likely to be flat in the run up to the election and during the aftermath while people take stock of whether they will be personally better or worse off.

I think margins will suffer slightly around the election as retailers discount in order to maintain sales. Price rises have slowed and there are predictions of deflation this year. If this should happen during Q2, falling prices would see margins squeezed, rather than because retailers are lowering prices because their costs have fallen.

I think retailers will try to contain costs in Q2 due to the election and they already know they are going to have to absorb a minimum wage rise of 20p per hour later in the year. For Q3, this should see the majority of retailers looking to maintain margins.

A cliché it may be, but it's true that turnover is for vanity, profit for sanity. If retailers can't find ways to maintain margin and secure long-term customer loyalty, then their model is unsustainable.

Mike Watkins, Head of Retailer and Business Insight, Nielsen UK
It may appear dramatic, but the developments we are seeing in shopping behaviour and retail infrastructure are without doubt, a `once in a generation` change which will shape retailing for the foresable future. Discounting is no longer a short term necessity to drive sales, but a longer term way of engaging with customers and delivering better value for money in an increasingly digital and disloyal world.

The shift in spend away from large food stores and the integrated role of digital shopping in the non-food channel; a reliance on promotions, vouchers coupons to drive footfall and conversion; and gains in market share for value retailers across the industry, share one common theme – a need to react to a new consumer expectation of lower, regular price points and demonstrable value for money.

When retail sales growths before the economic crisis of 2008 could be comfortably sustained in mid-single digits and disposable income was increasing, discounting was generally a way to grab short term increases in market share, or simply a mechanic to shift slower selling products or end of range.

These strategies worked equally well for food aswell as for non-food retailers. Supermarkets maintained margins as shoppers traded up and many general merchandise retailers surfed the wave of the growth of consumer expenditure (albeit personal debt also increased).

A decade later, we are 5 years into `fiscal austerity` with at least another 3 years to go.   Even if the majority of
households eventually feel or actually do become, financially better off, there is no guarantee this will drop through into a reversal of the current consumer mind-set. A mind-set of expecting and waiting for savings before being prepared to buy.

Price cuts and promotions are still needed to drive sales despite the highest level of consumer confidence in 8 years (source: Nielsen Global Consumer Confidence survey). This is because consumers remain unable, unwilling and reluctant to spend freely and many have become customised to waiting for the next new range, products or technology improvements, before purchasing at lower prices.

All of which is now incredibly simple to do in the digital world in which we connect with consumers. Retailers when faced with weak or unpredictable demand and increasing operational costs such as online fulfilment, wages, are of course only too happy to oblige!

Future retail propositions will need to be planned around changing consumer lifestyles within the context of `saving shoppers money`. Discounting has arguably now become the new world order and shoppers will be the biggest winners.

Maureen Hinton, Conlumino
There are several factors that create the need for discounting in retail, such as fashion, the weather, sector trends, but ultimately it is about oversupply. In the UK we have a very mature retail sector, consumer austerity, and supply outstripping demand. Unless a retailer is producing a unique product that is in high demand, such as an Apple iPhone, or it has a phenomenal forecasting model combined with an on-demand supply chain, there is an inevitable need to discount at certain periods in the retail life cycle.

However with the economy improving, wages rising and consumer confidence returning, discounting should only be necessary as a planned promotional tool, or if unpredictable external factors impact the market, such as poor Easter weather, strikes, or a global crisis. Even then retailers should have contingency plans. Moreover, consumers value range and quality more highly than price in most sectors so delivering on these factors should minimise the need to discount.

It is when a retailer does not differentiate that it is forced into lowering prices to match the competition. This is what drives retailers to the bottom. Price is currently the dominant factor in the food & grocery sector where commodity goods are easily comparable on price and discounters have been taking greater share, yet retailers like M&S and Waitrose, who focus on quality and innovation, are still growing their businesses.

Competing on price alone inevitably pits retailers against sector benchmarks, those retailers whose businesses run on low costs and high volumes. The only way to compete with them effectively is to operate equivalent low cost/high volume models. Yet in a mature market there is not the capacity for a multitude of these budget retailers, as seen in the value clothing sector which suffered many casualties this past decade with Primark emerging the winner.

Discounting is an integral part of modern retailing. It is no more of a necessity today than before. What is essential though is that a retailer has a differentiated proposition and a well structured price architecture, where first price is the right price. And a planned discount strategy.

Link:
http://www.kpmg.com/uk/en/issuesandinsights/articlespublications/newsreleases/pages/is-discounting-a-current-necessity-or-is-it-simply-a-race-to-the-bottom.aspx

Note to Editors:
The RTT panelists rely on their depth of personal experience and 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
Martin Hayward – Hayward Strategy and Futures
James Knightley – ING
Richard Lowe – Barclays Retail & Wholesale Sectors
David McCorquodale – KPMG
Maureen Hinton – Conlumino
Mark Teale – CB Richard Ellis
Mike Watkins – Nielsen UK
Martin Newman – Practicology

The intellectual property within the RTT is jointly owned by KPMG (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.
Definitions: The RTT assesses the state of health of the UK retail sector by considering the factors which influence its three key drivers.

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.
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.
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.