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UK Homewares Retailers 2009

Growth stalls as recession bites

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Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

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>
> **Sir Stuart Rose**
> Executive Chairman
> Marks & Spencer

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.

UK Homewares Retailers 2009

Growth stalls as recession bites...

The economy deteriorated rapidly throughout 2008 and the UK homewares market was one of many areas of retail which suffered. With house prices falling sharply and first time buyers forced out of the market, housing transactions have decreased dramatically and are likely to fall further in 2009. This has severely restricted a major driver of homewares demand which has a huge impact on homewares sales over the next few years.

UK Homewares Retailers 2009 is a new report published by Verdict that provides ten years of UK homewares sales, spending, space and store data, and details the key drivers and trends shaping this sector. This report examines the key success factors and drivers of growth in what is a very challenging and difficult trading environment. It looks at how to achieve strong value credentials, while examining how to capitalise on the changing dynamics of the homewares market.

22 Key Company Profiles

Argos	Laura Ashley
Asda	M&S
B&Q	Matalan
Bhs	Morrison
Debenhams	Next
Dunelm	Rosebys
Habitat	Sainsbury
Homebase	Tesco
House of Fraser	TK Maxx
IKEA	Wilkinson
John Lewis	Woolworths

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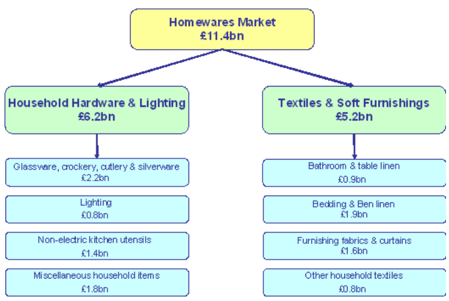
Homewares category expenditure 2008



Source: UK Homewares Retailers 2009

"The two main categories that make up the homewares market are household hardware & lighting and textiles & soft furnishings. Each of these categories is made up of principle components. The largest category, made up of high value items, is household hardware & lighting, making up 54.4% of total sales. Within in the principle components, the largest categories are glassware, crockery & cutlery & silverware at 18.4% of total sales and bedding & bed linen at 16.7%..."

- **Benchmark retailers' performance across key operating parameters** with this report's analysis of market share, sales densities and operating margins for 2008.
- **Understand the effects of key external and internal market drivers on the UK homewares market** including house price inflation, housing transactions and disposable income.
- **Develop strategies to cope with deteriorating market conditions** using this report's analysis of consumer preferences, technological developments, operators' development plans and trading performance.
- **Create more effective strategies to respond to key issues and changes in the UK homewares market** using this report's actionable recommendations and analysis of retailers' responses.

UK Homewares Retailers 2009

This report answers key questions including...

- To what extent will the UK homewares market be affected by the downturn in the housing market and consumer confidence?
- Who were the main winners and losers in the UK homewares market in 2008?
- How can UK middle market retailers defend themselves from value led competitors?
- Which product segments are experiencing the fastest growth in demand in the UK homewares market?
- What volume of new homewares space will be created by UK homewares retailers over the next five years?

Key Retailer Data

Market shares of major operators

Sales per sq ft

Trading record

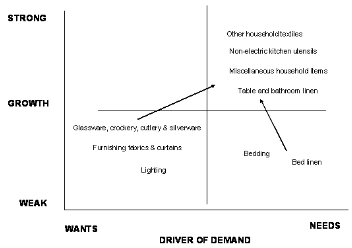
Operating margins

Store portfolio analysis

Advertising spend

Key issues examined in this report...

How the drivers of demand influence growth



Source: UK Homewares Retailers 2009

"In the current economic climate, homewares purchases are driven more by replacement and core essentials than by discretionary fashionable and desirable items. As such the drivers of demand can be categorised as either needs or wants driven. At present, the majority of growth is being driven by core essentials and replacement purchases, while heavy promotional activity is required to stimulate demand in discretionary homewares purchases..."

- **Consumers have cut back spending.** With the squeeze on personal disposable income, rising bills, food inflation, slowing wage growth and unemployment, shoppers are left with less to spend in other areas. A combination of economic deterioration filtering down to ordinary people and the effect of consumer psychology resulted in a more frugal shopper that was a lot more considered in their purchases particularly in areas where it is relatively easy to cut back, such as homewares.
- **Fewer housing transactions.** With house prices falling sharply and first time buyers forced out of the market, housing transactions have fallen sharply and are likely to fall further in 2009. This has severely restricted a major driver of homewares demand which has, and will continue to have, a huge impact on homewares sales over the next few years.
- **Grocers continue to aggressively take share.** UK Grocers have made substantial market share gains over the past five years and this trend has continued in 2008. With outstanding value credentials, high footfall and well-edited, essentials-focused ranges will ensure that UK grocers will continue to gain share during the recession.

UK Homewares Retailers 2009

Pages 352 Figures 46 Tables 155

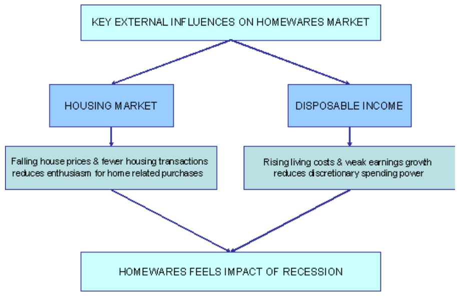
Chapter 2: Market Analysis

Housing Market

- Though house prices and the state of the housing market does not have a direct impact on homewares as no intrinsic value can be added to a property through the addition of homewares purchases, the growth in the number of house moves does because the act of moving house provides a vital catalyst to home improvement expenditure with the new owner keen to adapt their home to suit their needs and tastes.

- Between 1998 and 2005, the number of housing transactions averaged around 1.3m per year, with the total surpassing 1.6m in 2006 and 2007. However, the abrupt reduction in lending levels by banks has made houses far harder to sell. As a result the number of house sales has plummeted.

Figure 10: Key external influences on homewares market 2009



Source: UK Homewares Retailers 2009

- In the second quarter of 2008 the number of house moves was 40.0% lower than a year earlier and, with the remaining quarters of the year set to be more gravely impacted by the deepening financial crisis, Verdict expects transactions for the full year to be less than 1m, over 600,000 lower than 2007 and a lower annual figure than during the 1979-81 and 1990-91 recessions.

- Looking further ahead, as companies reduce workforces, and a high proportion of job losses occur among the more affluent (and homeowning) financial services workers, the number of housing transactions is likely to deteriorate further in 2009. Indeed, government initiatives to restore consumer confidence such as increases to personal allowances and the VAT cut will do little to stimulate the housing market or confidence to spend on housing related purchases.

- Verdict expects housing transaction levels to recover in 2010 when house prices have fallen by over 30% from their peak and the house price earnings ratio has dropped below 4.0.

Disposable Income

- Demand for homewares can be characterised as either needs or wants driven. While an element of homewares demand stems from replacement and core essentials, discretionary spending is the lifeblood of homewares retailers, meaning there is a particularly close relationship with real disposable income.

- Levels of disposable income have a direct impact on homewares. Not only does spend ability on non-discretionary items impact growth of bigger-ticket homewares items, but it influences spending decisions on core essentials and lengths of replacement cycles. Though there is not a direct correlation between homewares growth and disposable incomes – as consumers spending priorities change, it is evident that a downturn in levels of discretionary spending powers negatively impacts homewares growth.

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