Deloitte.

The Retail Review

Christmas Retail Survey 2006

Are alarm bells ringing?

Audit. Tax. Consulting. Corporate Finance.

Contents

Welcome

Welcome to our 12th annual survey of consumer and retail sector confidence. Since 1995, Deloitte has carried out this in-depth analysis of the spending habits and the underlying moods of both consumers and retailers ahead of the all-important Christmas period.

We gather extensive consumer data ahead of the main Christmas shopping rush, as well as polling the opinions of a cross-section of the UK's retailers. By taking an in-depth look at buying intentions and perceptions across different regions and demographic groups, we have been able to build up a very detailed picture of the retail landscape.

This report, which is just a snapshot of what we've discovered, has thrown up some interesting findings.

It seems consumers are more pessimistic than they have been in recent times, but this is not shared by retailers who are expecting good things this Christmas. Retailers' optimism seems to be supported by a return of the consumers to the high street at the expense of the department store. Also surprisingly this year, pensioners are more likely than any other age group to pay for Christmas on credit.

To help offer some insight into this year's fascinating survey we have included our own views on some of the key retail issues both in the short and longer term.

Many people have contributed to this document, and I'd like to thank them all – particularly the retailers who have shared important insights with us over the years. I hope you will find it informative and useful. Certainly the data we collect and the analysis we carry out has helped us to understand the underlying dynamics of this vitally important industry in depth and has contributed to the expertise we provide across so many disciplines in the consumer business sector.

All that remains is for me to wish you all a prosperous and profitable Christmas and New Year. I hope you find this year's survey thought provoking and useful in your business.

Richard Lloyd-Owen
UK Lead Partner
Retail, Consumer Products & Services Group

Highlights

- **Gift retailers can expect a bumper Christmas** this year as the swing-o-meter reflects **consumers intention to switch spending** from socialising to gifts. Predicted gift spend is up by almost 22% from last year, but pubs and nightclubs will need to work harder for the festive pound as consumers plan to cut what they spend on socialising.

- **Retailers are more optimistic** this year with 94% confident that their like for like sales will be the same or improve, compared to 69% last year, encouraged by the recent uplift in sales during the summer.

- **Consumers are particularly pessimistic** over the state of the economy, but they are still happy to spend, buoyed by house price increases.

- More and more **pensioners are ready to pay for Christmas on credit** than ever before – higher than any other age group.

- To keep the **children happy**, give them cash, vouchers or an MP3 player.

- Music CDs are still topping the charts for the most popular gift, but **we are losing the will to shop**. More of us are finishing our shopping later and opting for gift vouchers than ever before.

- Those braving the **crowds are opting for the high street over the department store**. A distinct turnaround in fortunes is expected for high street retailers this year.

- **We do care** for others when we buy our Christmas shopping as social and ethical issues are a concern for more than half of consumers, much higher than environmental issues. Men were far more concerned than women with product safety and energy efficiency.

- It's going to be a while before we use the self service checkouts for our 'big shop'. They are viewed quite positively by half of consumers, but it seems **shoppers still like the personal touch**.

Industry analysis

Innovate, improve or die

At Deloitte we have been of the view for some time now that the retail industry is caught in the classic squeeze between vigorous competition, increasing costs and a more discerning, knowledgeable and promiscuous consumer. Driven primarily by the strategies of the major grocers, consumers have been conditioned to an era of almost permanent price deflation which has impacted on everything from baked beans through to home electrical products and even seriously big ticket items such as cars and diamond rings.

Against this backdrop of falling retail prices, UK consumers now expect convenience, availability, value for money, quality and variety – these aren't "nice to haves" for today's shopper they are "must haves". Irrespective of sector, today's retailer needs to tick as many of these boxes as possible as often as possible. In today's market where there is no such thing as the "average customer" that's no mean feat, and a one size fits all approach simply will not wash. Customer loyalty takes many years to develop and mere seconds to lose.

These high consumer expectations in isolation make retail a hard sector in which to achieve success. Adding in regulatory issues such as food safety, complex and disparately executed planning rules, anti-competitive investigations and employment acts such as the age discrimination bill and working time directive, then the pressure intensifies still further.

And as if that wasn't enough, there's another burden to shoulder in the form of a steadily rising cost base. Wages, pensions, rent and in particular energy costs are all increasing meaning that before retailers even open the doors and let the customers in their cost to operate leaves little room for making profit.

So this unholy trinity is making life exceptionally difficult and we continue to see their effects. Profit warnings, restructuring and liquidations have been widespread across the sector and in our view will continue to be so for the foreseeable future.

Yet remarkably despite all of this, the overall picture is by no means one of unending doom and gloom.

The UK continues to show net increases in floor space dedicated to individual retail outlets or new shopping centres. Private Equity interest in the sector shows little sign of waning and there is still plenty of corporate activity both actual and rumoured across the sector. Clearly there are still many who believe retail can deliver consistent and strong returns. We couldn't agree more but it's not easy by any means.

Today's winning retailers are those who don't stand still for a minute. Constant evaluation, reinvention and revision of the overall offering are vital contributors to success. But none of this matters without focussing on understanding your customers and their needs and wants as fully as possible. Innovation is one of the keys to success – but not innovation for innovations sake. What seems like the best ideas in the world quickly start to become detrimental if they don't work for the ever more sophisticated consumer. Interestingly we see this as an area where many retailers may look to learn lessons from their supplier community who in many sectors have a rich history of innovation and new product development.

The outstanding retailers in all sectors are those who continue to put the customer first by investing time and effort in understanding the values, wants and behaviours of those whose custom they are looking to attract and grow. Acquiring this knowledge is one thing but interpreting it and then acting upon it to refresh, extend, and continually improve your offering is what continues to mark the winners. The battleground for retailers today is about convenience, value, product range and availability, having the right location and in-store excellence. This is what the consumers tell us and those that listen should succeed.

Tarlok Teji
Lead Partner UK Retail

Nervous consumers, but confident retailers

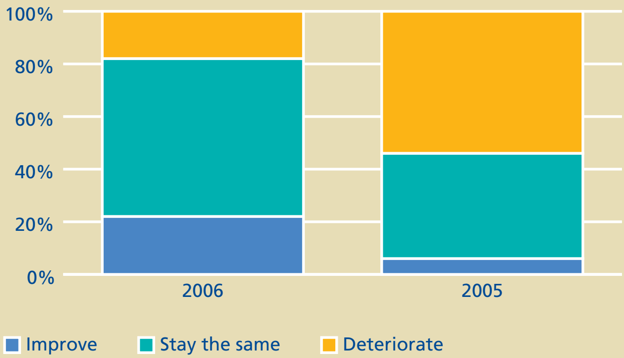
Who will be left holding the pudding?

In the run up to Christmas everyone is nervously trying to second-guess consumer optimism. Like a complex game of chess, retailers are permanently poised with their 'sale' signs not wanting to jump the gun and discount too early, nor do they want to leave it too late and be the one left holding the pudding.

From the retailers' perspective, things are on the up

Retailer confidence is clearly evident in this year's survey with the pessimism of 12 months ago all but disappearing. When asked how the UK economy would perform over the next year, 21% of retailers predicted an improvement – a sharp increase from just 6% last year. Only 18% expect the economy to deteriorate, down from 54% last year.

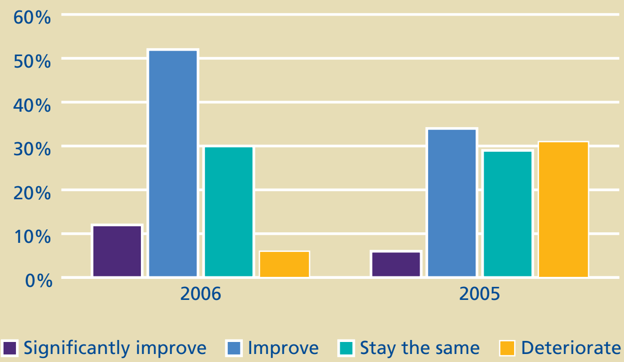
Retailers' economic outlook



Retailers also expect like–for-like sales over Christmas to increase, with 64% foreseeing a significant improvement or improvement in sales compared to just 40% last year.

So the shoppers who hunger for a pre-Christmas bargain could be disappointed as the early January sales just don't seem as likely to happen this year.

Retailers' predicted like for like sales



Consumers see Christmas as another cost to bear

With higher mortgage repayments, rising utility bills and unstable petrol prices, it's no surprise that some consumers are feeling nervous.

Nearly half (46%) said they thought a deterioration in the economy was likely – a leap from last year's 35%.

Women are the most pessimistic of all, particularly those aged between 45 and 64 and those living in Yorkshire with more than half of each group expressing concern over the economy. Conversely, the Midlands and North East are the most optimistic regions.

If you've got it – spend it!

We also asked consumers about the changes that might affect their planned Christmas spend this year:

	Family or personal circumstances	Income	Plans to save	Utility bills	Mortgage	Rent
Will affect spend	44%	31%	27%	25%	16%	15%
No change in spend	56%	69%	73%	75%	84%	85%

It seems that consumers won't let changes to their mortgage repayments spoil Christmas with 84% suggesting that they aren't overly concerned with another hike in interest rates. Changes in personal circumstances such as a new addition to the family and income are most likely to affect consumers. Only when there is a change to household bills would men be more likely than women to change their spending habits.

Interestingly only 31% of consumers confirmed that they would increase their spending should they receive a timely boost to their income. That said, the 16 to 24 group far exceeded the national average for wanting to spend with a staggering 50% saying a pay rise would cause them to spend more at Christmas. Understandably the 65 and over age group was more cautious with only 14% willing to spend more even after a financial boost.

Industry analysis

Do unpredictable energy prices mean that the heat is on for retailers?

The volatility of the global energy markets amid growing environmental concerns will continue to take their toll on everyone's pocket.

Companies have been harder hit this year than any other when oil prices reached record highs, although this was followed by more recent falls in prices. Energy spend is increasingly becoming a number one concern for producers of consumer goods where Chief Financial Officers are increasingly reviewing how power is bought and from whom, and how to reduce overheads with better efficiency.

Other factors such as dwindling domestic gas reserves, growing reliance on overseas supply, and the impending retirement of the UK's nuclear fleet have added to industry's woes. Globalisation continues to be a threat with producers in emerging economies seemingly less affected by the cost of energy consumption.

As a result, some producers have been quick to adopt bio fuel alternatives such as natural gas, combined heat and power (CHP) and biomass, taking advantage of tax breaks based on CO_2 emission reductions being offered as they do so. Even so, the renewables sector contributes a tiny percentage of output to the UK's energy mix – just 4 %.

Key fact
According to our survey changes to the cost of energy and utilities will affect 25% of consumers this year, stating that they are less likely to carry on spending, an opinion re-enforced by 36% of retailers surveyed.

However, the long-term effects of rising production costs are yet to be passed fully along the supply chain and consumers could well see prices rise further in 2007. With the growth of online purchasing already strong and predicted to increase, retailers could seize on the opportunity to cut energy overheads and reduce their own environmental impact by downsizing their physical presence. However, finding an acceptable solution to ensuring the security of energy supply, whilst reducing emissions and optimising affordability will continue to be both technically and politically challenging.

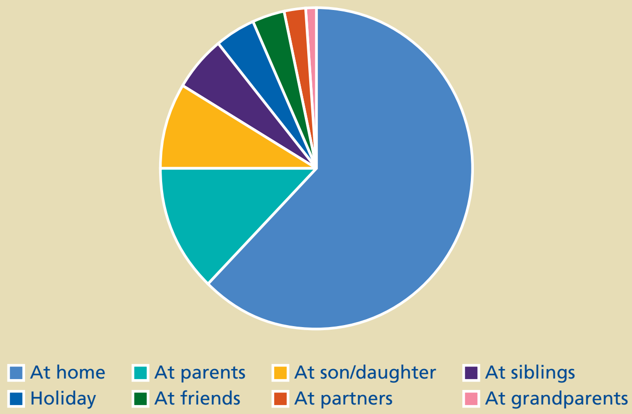
Tom James
Energy, Infrastructure & Utilities

Home sweet home for most of us this Christmas

But would we rather be getting away from it all?

Whether we like it or not, we will be spending time at home with the family this Christmas. A total of 87% of consumers said that they will be spending time with their family with 84% predicting that this would be in their own home or that of close family.

Where do you expect to be spending Christmas this year?



However when asked, men would rather just spend time with their partner than with their kids, whereas women would rather be with their children than their partner.

Where possible the youngest age groups will try to stay with friends rather than spend time with their distant relatives. Those aged 16 to 24 are more than twice as likely as any other age group to want to break away from the family nest at this time of year.

Only 5% of consumers surveyed said that they are likely to spend Christmas alone, unsurprisingly, the majority of these, 69%, were over 55 years of age.

The great escape

Low cost airlines and heavy discounting over the last twelve months by other carriers means that it is now cheaper than ever to go abroad. Increased use of the internet to book flights and hotels means that consumers can create their own budget breaks by cutting out the middleman.

Unsurprisingly, those that can get away will, with the 45 to 54 consumer age group the most likely to flee, followed closely by those aged 55 to 65 and the over 65 age groups. These groups are less likely to have dependent children and more likely to have sufficient disposable income for a winter break and therefore this trend isn't much of a shock. However, it seems some of us are more anxious to get away from it all than others. Those in Northern Ireland are least likely to want to go on holiday at Christmas, very few here opted to go on holiday or stay with friends, preferring to stay at home or the home of close family.

Key fact
Within the regions, the Welsh (7%) are the most likely to go abroad for Christmas, compared to the national average of just 4%.

Industry analysis

Keeping customer data safe

The introduction of the Payment Card Industry Data Security Standard (PCI DSS) is perhaps one of the biggest IT challenges for retailers in recent years.

Created by Visa and MasterCard, the industry-wide standard has been designed to ensure that sensitive cardholder data is always secure. PCI DSS, which is based on best practice principles, therefore applies to any organisation that stores, transmits or processes credit cards including member banks, merchants and service providers.

Its introduction is timely. Concerns over data security have risen exponentially over the past two years with consumers understandably concerned over fraud and identity theft. Card-not-present fraud still continues to be the biggest single type of fraud in the UK with losses, currently in excess of £150m, increasing in line with the growth of businesses offering transactions by phone or online.

Key fact
Worryingly, 10% of retailers stated that PCI DSS would not be applicable to their business.

Under the new standards, merchants are expected to install firewalls, encrypt data transmissions, ensure anti-virus software is updated, develop and maintain secure systems and applications, restrict access to data by business need to know, assign a unique ID to each person with computer access and restrict physical access to cardholder data. They are also expected to track and monitor all access to network resources and cardholder data, regularly test security systems and processes, and maintain a policy that addresses information security.

The implications are significant. Retailers must not only build and maintain a secure network but maintain a vulnerability management programme, implement strong access control measures and regularly test and monitor their networks. Moreover, adapting to the new regime will need good change management and governance as successful implementation will need strong leadership and appropriate staff training.

Merchants that fail to comply with the standard face the prospect of fines that could run to hundreds of thousands of pounds, or being permanently barred from the card acceptance programme should a security breach occur.

Most of the retailers surveyed are on track to ensure compliance with the PCI DSS, as 90% are either already compliant or are due to be by the June 2007 deadline. 18% are however going to leave it until the last minute

However, the benefits of compliance are considerable. Having the proper controls and processes in place should eliminate the risk of any penalties if a breach does occur. Furthermore, with the threat of fraud and identity theft omnipresent, consumers will no doubt feel reassured by an organisation’s PCI DSS status, which can go a long way to maintaining brand “trust” and gaining the competitive edge over less diligent retailers.

Mike Maddison
Technology Assurance & Advisory

The final countdown

A last minute dash or a stroll to the finish?

Christmas shopping comes but once a year, but some shoppers just can't wait to get started. We see every year that retailers seem to start their Christmas displays earlier and earlier, but is it really tempting shoppers to buy?

Key fact
Department stores Harrods and Selfridges were amongst the first retailers off the starting blocks, with Christmas displays in store straight after summer sales in the first week of August.

Christmas tills start ringing in October

Our survey suggests that Christmas shopping will start early again this year with 35% of eager consumers planning to make a start before November – an increase from 32% last year. It is clear that female shoppers prefer to have time to decide what to buy friends and loved ones, with 46% initiating Christmas shopping before November.

The 25 to 34 age group and the North East consumers were the most keen to start their Christmas shopping early with 43% and 42%, respectively, starting before November – far exceeding the national average.

However, Christmas shopping is not high on the agenda for men with 14% leaving the joys of gift shopping to the last week in December. But their late shopping habits could hold benefits for retailers as men plan to spend more on gifts. It seems that many are happy to grab high value items to get their shopping done as quickly as possible, either because they want to enjoy the festivities – or the stores are moments from closing!

When will you start shopping for Christmas?
Regions

Key fact
Consumers in Yorkshire are the least likely to get started early, with over one third actually waiting until Christmas Eve. Our survey also shows that they are also least likely to enjoy Christmas shopping and will be one of the lowest spending of all of the regions.

Just as Christmas shopping will start early, 41% of consumers predict that their shopping will be completed by mid December so they can then relax and enjoy the build up to the Christmas festivities. In general however, we will be putting our feet up even later than last year with 32% of us not planning to finish until Christmas Eve, compared to 25% last year. But it's not just the men, as 26% of women versus 39% of men planning to make that last minute festive dash this year.

Industry analysis

Collaboration is the key to success

Fifty years ago the average margin for a grocery retailer in the UK was around 40%. Today it's closer to 4%. More significantly, the last decade has seen an unprecedented level of competition and consolidation as domestic grocers have fought for market share.

Recently we have seen the arrival and growth of the so called "hard discounters" such as Aldi and Lidl who are now predicted to take a 10% slice of the UK's £90bn grocery market over the next 10 years. Whilst the environment is the most challenging it has ever been for the remaining combatants, rest assured it's nothing but great news for the consumer.

Larger grocers will no doubt continue to increase the sale of profitable non-food goods to compensate for further erosion of margins in foods. We have all seen the success of some grocers with their forays into clothing, electrical products and financial services. Some have prospered, but just as many have struggled to embrace the opportunities that online retailing brings and return a profit. This begs the question – how far can they continue to stretch their offering? Tesco's move into internet telephony (free broadband telephone calls), and their launch of a full scale catalogue offer as well as ASDA's discount venture "Essentials", shows there is still plenty of opportunity to find new ways to attract and retain today's fickle consumer. The name of the game is to leverage trust in the brand and intelligently target the customer base. With millions of consumers visiting every week it's a pretty good idea.

On the supply side of the grocery divide, rising obesity levels and concern over poor health will certainly influence what's on the shelf as retailers consider their approach to "corporate citizenship". The sale of organic, healthy eating and Fairtrade products is set to become another battleground as retailers compete with one another for this rapidly developing market.

The health debate is also driving innovation within food and beverage manufacturing. The growing emphasis on "products that bring benefits" has already encouraged global manufacturers such as Heinz, Unilever and Nestle to announce a reformulation of their product ranges and introduced a brand new word to the English language in the shape of "nutraceuticals".

Retailers and suppliers who focus solely on remaining competitive through price alone face tough challenges. Consumers have consistently told the market that they hold convenience, value for money (which by no means is the same as "cheap"!) and good product range and availability above price in their shopping list. Differentiation on such issues will be ever more important to driving growth and achieving good margins.

The successful pursuit of consumer spend and loyalty is reliant on understanding the consumer, their needs, requirements and expectations – including their shopping experience.. Collaboration between both retailers and their suppliers will continue to be as important as ever. Efficient environmentally friendly supply chains and good sourcing, as well as the ability to share intelligence with each other to meet fluctuating and changing consumer demands, are vital for survival.

Lawrence Hutter
Global Leader
Consumer Business Industry

'Tis the season to be merry

Or are we a nation of scrooges?

Retailer confidence may be up this year, but our survey shows that consumers don't share their optimism and consumer confidence in the economy is lower now than over the previous four years. This appears to have dampened the party spirit, with expenditure on food and beverage flat and spend on socialising down 16%.

Despite a distinct chilling of the traditional Christmas cheer we are still feeling very generous with planned gift expenditure up a huge 22%. Total spend is up 8% on last year from £615 per person to £662 per person but the increase follows one of the toughest trading periods for many retailers in recent times when nearly all the major high street retailers were forced to discount well before Christmas. It's no surprise therefore that we intend to spend more this year.

	2006 (£)	2005 (£)	Change
Food and beverage	163	161	1%
Socialising	121	144	(16%)
Gifts	378	310	22%
Total	**662**	**615**	**8%**

It is evident with historically very low food price inflation, in some years even deflation, we have been able to enjoy better quality products or at least the same quantity of food without having to put our hands in our pockets. Food and beverage spend has remained flat throughout the years, increasing only 6% from 1999 to 2006.

On review of gift spend through the years it is apparent that, even with poor gift sales, there is an increasing trend to spend more on our loved ones. Perhaps we are becoming more demanding or maybe retailers are enjoying the fruits of their hard earned marketing labour.

One interesting trend to note is the swing away from socialising spend when we are feeling particular generous over gifts. It is clear then that we have a set amount that we, at least intend to, spend and this is divvied up at Christmas time. So when we exceed what we had planned to spend on our loved ones – we decide to stay in. The reverse is true when we spend a little less than planned on gifts – we spend whatever is left in our pockets, enjoying the festivities.

Some significant trends this year include:

- Total spend by women remains static as spend on gifts is up but down on socialising. Men will be spending 18% more than last year with most of this going on more expensive gifts such as jewellery and MP3 players.
- There is a direct correlation between lower gift spend and those who have low confidence in the economy – namely those who live in the North, those who are female and those who are in the older age groups.
- The younger age groups are really shelling out this year. Spend by the 16 to 24 and 25 to 34 age groups has increased by 32% and 16% respectively. Surprisingly this isn't supported by an increased use of credit cards or loans in these age groups. One major factor that could be fuelling this increase in disposable income is the difficulty for younger people to get onto the housing ladder. With a recent rise in interest rates and the likelihood of another rise before Christmas, it's not surprising that more young people are opting to stay at home meaning they have more in their pocket to spend on Christmas.

Time to hang up those dancing shoes

The amount predicted to be spent on socialising, including visits to pubs, restaurants and taking Christmas breaks, is down on last year by a considerable 16%. The fall is largely down to a cut in spending by female party-goers, who have slashed their 'on the town' expenses by 32% to just £92. Men on the other hand are still planning to spend the same as last year.

A review of the age groups that are still planning on socialising or have chosen to hang up their dancing shoes makes interesting reading. In the past, younger age groups dug into their pockets the most, with spend steadily falling with age. This year, the trend is more pronounced than ever before with those aged 55 to 64 and 65 and over planning on spending even less than in 2005, at 38% and 35% respectively. This suggests that visits to pubs and nightclubs are still firmly on the agenda this Christmas, but festive activities enjoyed by older age groups, particularly females, will be less of a hit this holiday season.

It could be that the recent smoking ban may be having a slight affect on visits to the pub. Even Scotland has seen a fall in predicted spend on socialising this year, down 11% to £149 per person. Despite this, Scotland remains the second biggest spending region for socialising.

Both the North East and Yorkshire have seen a significant fall in predicted spend on socialising, down 46% and 41% to £100 and just £76 respectively. However, in both instances it is clear that there is a switch from spending cash on going out to gift expenditure, as total spend in the three categories remains stable in both of these regions.

Shock in store for some retailers

It is not all doom and gloom for the party season though. When we asked retailers whether they thought that the sector they were in was going to improve, stay the same or deteriorate, beers, wines and spirits retailers were relatively positive, with most stating that the sector would remain the same or improve over the next 12 months. Perhaps these retailers will be in for a shock this Christmas?

Eat, drink and economise

Despite an apparent shortage of organic turkeys this year consumers are not panic buying their Christmas bird. Although food price inflation increased 4.7% year on year, in real terms there will be a slight fall in expenditure this year fuelled by lower spending by females, which is down 7%. Males are however still spending, 11% up on last year.

Yet again, the 16 to 24 year age group will really push the boat out this Christmas with food and beverage spend up 44% – possibly marking one last fling before they tighten up their belts and brave the housing market in the new year. This increase means that they are now equal to the 35 to 44 age group in being the biggest spenders at £184 each. The biggest drop in spend was seen in the 55 to 64 age group. Those over 65, unsurprisingly, will spend the least yet again this year at £118. The North West will be spending the most at £186 and Yorkshire the least at £129.

Hey, big spender

Planned expenditure on gifts is up 22% to £378 per person this Christmas. However, with non-food inflation up this year to 6.4% actual planned expenditure in real terms is up 15.5%, still considerable.

Our survey showed that the gifts consumers are planning on buying are more expensive than those favoured last year. Down in the ranks goes the more affordable stocking fillers such as books and DVDs to be replaced by gift vouchers, clothes, jewellery, tickets, both sporting and musical and MP3 players – all of which are considerably more expensive.

The generous increase in expenditure is seen across all regions, but by far the biggest and most generous spenders are seen in Wales (as was the case last year) and the North East, spending £443 and £440 respectively. There is a striking correlation between the big spending regions and the reason for shopping where they do. Neither region appeared to be concerned with price or store promotions, but both stated opening hours as important to get in those extra shopping hours.

Those in Yorkshire are doing nothing to dispel their stereotype as they are planning on spending just £330, along with the least generous region South West at £311. Despite this, in both regions expenditure is up on prior year at 19% and 2% respectively.

A thing for bling

The youngest age group seems to really have a thing for 'bling' with 58% saying that they would like to receive an item of jewellery this year, versus the national average of 49%. Last year jewels and trinkets were by far one of the most popular items for females, especially those aged over 35. However, the jewellery wish list is now evenly split between males and females this year, perhaps 'bling' is now becoming mainstream.

What is rising up the Christmas sales charts?

Do we buy what we want to receive?

There has been some movement in the gifts consumers plan to purchase this Christmas but favourite Christmas stocking fillers such as music CDs and fragrances are still high on wish lists. But consumer's fickle nature is deciding what's hot and what isn't this Christmas.

The nation's top ten gifts for 2006

	2006	**2005**
1	Music – CDs	Music – CDs
2	Clothes	Film – DVD
3	Gift vouchers	Books
4	Books	Clothes
5	Cosmetics and fragrances	Cosmetics and fragrances
6	Film – DVD	Food and beverage
7	Jewellery	Traditional toys
8	Traditional toys	Jewellery
9	Food and beverage	Gift vouchers
10	Computer games	Computer games

Key fact
It appears those buying for females may be missing a trick as 31% of females would like a homemade gift!

In line with their 'gadgetry' stereotype, men are more likely than women to purchase DVDs, films, electrical appliances, computer software and MP3 players. This reflects the gifts that they would like to receive.

Conversely, women are more likely than men to purchase clothes, gift vouchers and books, again similar to the more popular items chosen by females as gifts that they would like to receive.

Key fact
3% of consumers in South East are wishing for a car this Christmas… however we have found that no one in the South East is planning on purchasing a car.

The rising stars

Perhaps to avoid the headache of the unwanted gift, there has been a huge rise in the number of people preparing to buy gift vouchers rather than wrapped presents, moving up six places in the 'top ten' to number three. Those aged 65 and over are far more likely to purchase gift vouchers, perhaps due to the difficulty in transporting bulky presents and to avoid the "in store" crush and queuing at the tills.

The turkeys

The gifts moving down in popularity include the more affordable DVDs, books, traditional toys and food and beverage, such as chocolates and wine.

Unsurprisingly, 26% of males are yearning for a flat screen TV but they may have to wait another year as only 6% of consumers are planning on buying one as a gift.

What's more, there are some interesting trends in consumer's desires this Christmas, including:

- The desire for MP3 players this Christmas declines with age, but surprisingly 3% of those 65 and over have it on their Christmas wish list.
- Our London and Northern Ireland regions have demonstrated a high desire for clothes, cosmetics and jewellery, way above national average.
- If you live in Scotland and you are deciding what to get your loved one, don't even think about giving them a homemade gift, Scots at 18% were well below the national average of 25% for wanting anything homemade!
- Those in the South are the fittest, or at least aspire to be, as they would like sporting equipment, far exceeding the national average.

Key fact
Spend on fathers came in at a lowly equal 8th place with just 1% of family members intending to buy their dad the most expensive present equal with those consumers that said that they were going to spend the most on themselves this Christmas.

Pester power prevails…so does Action Man

Make no mistake, children know what they want

Children are clearly gearing up for Christmas early this year as they have already written their wish list. Those intending to purchase gifts for under 12s are left in no uncertain terms what the most wanted gifts are.

Children's top 10 wish list

	2006	2005
1	Computer game	Computer game
2	Toy figures (e.g. action man)	Games console
3	Toy vehicle (cars, trains)	Barbie and equipment
4	MP3 player/iPod	Toy vehicle (cars, trains)
5	CD, DVDs, Video	MP3 player/iPod
6	Clothes/shoes	Clothes/shoes
7	Games console	Toy figures (e.g. action man)
8	Gift vouchers/money	Book
9	Mobile telephone	Playstation portable
10	Book	CD, DVDs, Video

Last year the top 10 gifts represented 50% of all answers. This year however the top 10 represents 76%, with just the top five representing a massive 50% of all answers.

Computer games are still number one

Again computer games are topping the most wanted list with 32% of parents already hearing about them from children. The biggest climbers are CDs and DVDs and boys toy figures. The biggest losers are Barbie dolls. It seems children aren't losing interest in dressing up dolls, but have switched allegiances to a new breed of toy figure. We also notice that for the first time, mobile telephones have hit the top 10, despite negative press about the targeting of children by mobile phone companies.

Batteries not included

Traditional toys appear to be riding high on most childrens wish list. Top toys to look out for this Christmas include the 'Bilibo', an inanimate piece of plastic for the imaginative child and a Rubik's Twist, an apparently less frustrating version of the Cube, plus a whole host of Dr. Who items.

Show them the money

There is no messing around when purchasing gifts for those aged 12 to18. Consumers will have to head straight for their wallet to keep this age group happy, as most just want your cash. When asked what 12 to18 year olds were asking for, 27% responded money or gift vouchers. This was closely followed by clothes and shoes (25%) and an MP3 player or iPod (22%).

Who's going to get the most expensive present… well, it's not the men!

As in previous years, our spouse or female partner will be receiving the most expensive gift this Christmas. A total of 24% of all consumers surveyed said that their most expensive gift would be for their nearest and dearest. Those aged 65 and over were the only age group that were more likely to spend more on their children, and those aged 16 to 24 were most likely to splash out on their mothers.

Men are far more likely than women to spend the most on their spouse or partner, 31% and 18% respectively. Women are just as likely to spend the most on their sons and daughters (17% and 14% respectively).

What's left in your wallet?

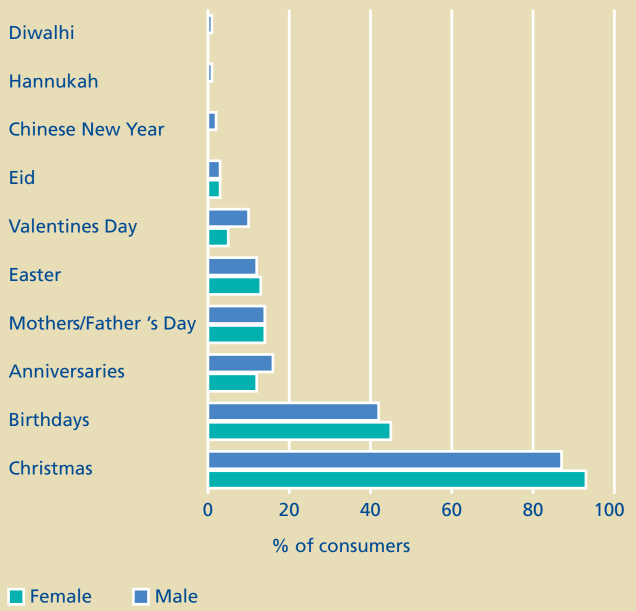
The most expensive time of the year

Across both sexes and age groups, over 87% of people in every region suggested that Christmas was the most expensive day of the year. This is followed by birthdays (44%) and Mothers or Fathers Day (14%).

It appears that women get a better deal at the most romantic times of the year. Males found anniversaries, 16%, and Valentines Day, 10%, far more expensive than females did, at 12% and 5% respectively.

Of the 10% of people that did not mention Christmas as the most expensive time of year, a third of these, due to religious reasons, did not celebrate Christmas at all. The majority of these people were found to be in London, Wales and the North West.

Which of the following celebrations do you find the most expensive?



How will you be paying Sir?

When it comes to paying for Christmas, consumers still prefer to use cash instead of using credit cards. Only 16% of consumers will use their credit card to buy those all important Christmas presents with 19% of males and 15% of females using them to spread the cost of Christmas into the New Year, no noticeable difference on last year.

The long held view that it is the young that will be getting into more and more debt is not supported by our findings. In fact pensioners in the UK are the consumers most likely to get into debt this Christmas. Of the 55 to 64 and 65 and over age groups 24% and 25% of consumers respectively are using credit, which includes credit cards, store cards and loans. This is more than any other age group and exceeding the national average of 18%.

Key fact
One in four pensioners are borrowing money without any plan to pay it back, a survey from advisers Sesame suggests. In addition one in seven of the 2,000 pensioners surveyed said they would consider equity release to clear off credit card and loan debt.

Sesame Group, September 2006

In previous years, consumers from the North East were the top credit card spenders with 26% of consumers paying with credit cards for the majority of their shopping. However this has now dropped to 17% with 83% of North East consumers deciding to pay for Christmas with cash upfront, a noticeable increase from 71% last year.

Industry analysis

Are we a nation of caring consumers?

Our survey tells us that consumers care about ethical issues but their intentions are failing to reach the checkout. Research shows that consumers are unwilling to sacrifice good functionality for better social attributes alone. And they still want value for money.

Corporate Social Responsibility has become a familiar term on high streets. As a result retailers and manufacturers are increasingly keen to demonstrate their responsible business practice as expectations grow from consumers and opinion formers such as non-governmental organisations and regulators.

The issues are far reaching. Food miles, waste, energy consumption, genetically modified crops, food safety, nutrition and health, labelling, recycling, use of non-hazardous materials, packaging, labour, health and safety are but a few.

Reaction has been strong as retailers build upon their licence to sell. Tesco, Sainsbury's and ASDA have all declared new policies on packaging, waste and energy consumption. Wal-Mart is another organisation to throw its considerable weight behind "sustainable consumerism". Other high street names have focussed on specific core issues in an effort to demonstrate their "green" or sustainable credentials, such as recycled carrier bags.

Consumer goods manufacturers in turn have focussed on innovation in packaging, food design and ethical sourcing as well as making efforts to reduce their environmental impact and increase community contribution. As the health debate continues, many have pledged to remove artificial ingredients, reduce bar and pack sizes, reduce salt, introduce organic alternatives and so on. Labelling has also been another area of focus as food and beverage manufacturers respond to calls for clear and more simplistic breakdown of contents.

It's not only behavioural assurance stakeholders are after. The question of whether any rainforests were destroyed, any animals harmed in production or any human rights violated during the manufacturing process are becoming more important in the consumer purchase decision.

To help meet growing stakeholder expectations there has been increased collaboration within the retail and manufacturing sectors. Sedex is a web-based system developed to store data on areas such as labour standards, which is then available to other member companies. The idea behind the system is to reduce the duplication of assessments and audits and make it easier for companies to drive improvements in ethical sourcing.

Over facing consumers with complex information, trying to combat multiple issues within one campaign, or not clearly connecting the benefit of the product with the cause can mean the difference between a consumer choosing a product or a store. Retailers and manufacturers therefore need to be more proactive than reactive – educating consumers on individual benefits as well as those to society as a whole.

What can be said is that the issue of responsible business practice is something that is here to stay, even if its development is somewhat unpredictable.

Leon Olsen
Environment & Sustainability Services

It's the thought that counts

Do we care?

Every day we make, perhaps subconsciously, decisions that may affect the environment or that have social or ethical issues attached to them. Do we give due consideration when picking our turkey or buying that new gadget from overseas or is Christmas stressful enough without this added burden?

When we asked consumer groups whether they would purchase Christmas gifts and food based on social, environmental and ethical considerations this Christmas 31% of consumers quite honestly answered "No" with a further 10% guiltily admitting that they don't, but they 'felt that they should'. A staggering 59% of consumers however do consider these issues when shopping at Christmas, with 25% of all consumers considering them for most of their Christmas shopping.

Consumers most likely to purchase food and gifts based on ethical considerations are 65% of 16 to 24 year olds and 63% of 45 to 54 year olds appearing to be the most ethically minded. It is likely that the former group may simply comprise a larger proportion of 'young idealists' that may not yet have the responsibilities of work and family life with its related challenges of making ends meet, both financially and time wise, whilst the latter may simply have more time to think about ethical issues or can afford the premium placed on some of these products.

Who is going green?

Women appear to be more ethically minded as 60% stated that they were considering 'going green' this Christmas compared to 54% of men.

Perhaps less surprising is the likelihood of purchasing gifts based on ethical consideration declines with social class. This is likely to be due to the perception of higher prices placed on these goods.

Are Christmas gifts decisions based on social, environmental and ethical considerations?

It's only fair

It is unsurprising given the recent press coverage that supporting Fairtrade brands and local producers is important to both men and women. Browse any supermarket today and you will find a range of ethically traded or Fairtrade goods from chocolate to coffee, tea to bananas. Furthermore, it is quite fashionable these days to visit local farmers markets. Consumers not only feel that they are supporting local farmers, but they are eating quality food produced locally.

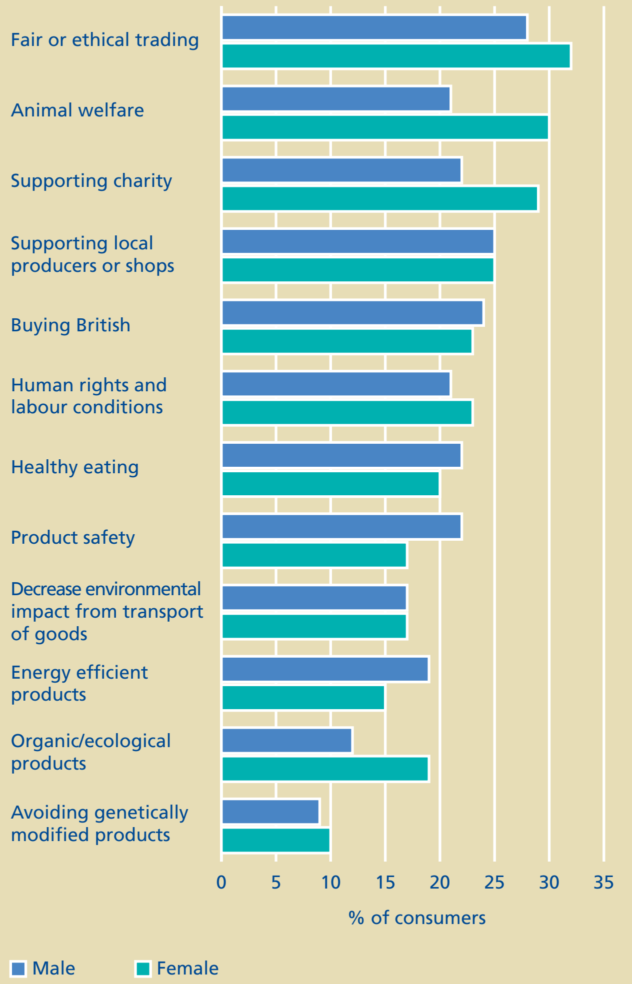
Women are clearly more interested in purchasing organic produce, fair trade, or produce linked to animal welfare and charities compared to men. Interestingly, gadget loving men are more likely to worry about the energy efficiency and safety of products.

The most 'ethical' of the regions are South East and Yorkshire, 55% of whom will be purchasing ethically, not surprising given that there are a higher than average number of rural communities.

Key fact
Ethical awareness is on the increase with 35% of people actively seeking information on a company's corporate responsibility and 58% deciding to avoid a product or service on the basis of a negative reputation.

Co-op

What is most important to you?



Industry analysis
Technology in store

Technology is an important tool in achieving efficient supply chains, excellent customer service, and a retailer's knowldge of its shoppers.

New advances such as Radio Frequency Identification (RFID) are helping to re-shape the retail environment. Although adoption of RFID isn't perhaps as fast as some initially predicted, the new generation of low-cost tags including the chipless tag offer commercially viable alternatives. Ink-based RFID devices, which use special conductive inks instead of solid copper or aluminium, look set to further reduce costs.

Although the potential benefits of introducing RFID are well known, our survey suggests that many retailers are not already up and running, but 44% plan on doing so.

Self-service kiosks will increasingly make an appearance in our stores, although research carried out by Deloitte reveals a mixed reception from shoppers. Consumers are already familiar with catalogue touch screen shopping thanks to retailers such as Argos, but increasingly they will be able to order out of stock items as well as check for availability. According to Kiosk.com, the number of kiosks grew by 62% worldwide in 2005, with that figure expected to double by 2008.

But there is a pay-off. As customer appetites increase for the latest fashion and gadgets, full on shelf availability is paramount. Ease of use is another important positive denominator and retailers will need to be innovative in after sales care. Mobile specialist the Carphone Warehouse and PC World have both been quick to replicate the successful US Rent-a-Geek concept, which provides on-site computer service for homes and businesses. You may pay a premium for Geek Squad or Techguys, but many consumers will be willing to pay a little extra for successful wireless or broadband connection.

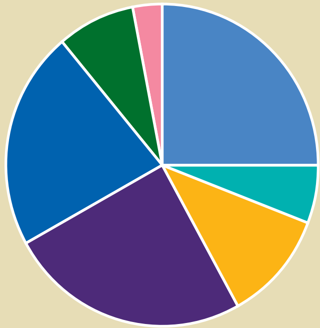
Paul Lee
Deloitte Research
Technology, Media & Telecommunications

Check it out

Self-service or the personal touch?

According to the retailers we surveyed, 42% said that they were already piloting or are implementing self-service checkouts in their stores. So with self-service checkouts appearing in many shops we wanted to gauge consumer reaction. Are consumers still cautious or are they embracing the technological change?

Self-service checkouts: consumer opinion



- Never had the opportunity to use, and would not like to try
- Used, but would not use again
- Used, but would only use again as last resort
- Used, do not mind using
- Never had the opportunity to use, but would like to try
- Used, my preferred method of check out
- Other

Get in, get it and get out – fast

All of the UK has had the same opportunity to use self-service check outs, with nearly half of every region confirming they have had the chance to use one. But we found that responses varied across the board. Of those that hadn't had the chance to use the new systems, 47%, wanted to try it out. However, the majority of these were aged 16 to 24 and interest declined with age.

In total, half of the respondents viewed self-service in a positive light. Those that appear to like this payment method were evenly split across men and women The most optimistic region by some margin is the South, with 66% stating that they either preferred to use, didn't mind using, or would like to try self-service check outs.

Only one third of consumers had negative thoughts about self-service. Of these only 6% of respondents said that they had used the checkouts and would not use again.

Regionally, Yorkshire consumers and those in the North East were the most hesitant of our respondents as a little more than a third (35%), said that they hadn't experienced self-service – and neither would they want to try. They were also the most likely to state that they had used and didn't want to use this method again. Retailers in the North it seems have their work cut out persuading customers to use self-service!

The personal touch

We found that it's not just the older generations that find self-service checkouts somewhat complicated. In fact 42% of 16 to 24 year olds found the whole process most difficult compared to the national average of 28%. All ages chose lack of personal contact as the main reason why they did not want to use self-service again.

Consumers' reasons for not liking self-service check outs	
Prefer dealing with a person	57%
The scanning and packing process is frustrating	32%
It's too complicated	28%
Not appropriate for a 'big shop'	22%
Can't use the preferred payment method	9%
Do not work properly/will not scan	4%
Queues/too slow	3%

Men are more likely to want to deal with someone in person, with 62% preferring the personal touch. Women are slightly more adoptive, with 54% preferring personal service. Females on the other hand were more likely than males to find the process, including scanning, complicated. They were also far more likely to dislike using them for a 'big shop'.

Key fact
Consumers in the South East don't quite yet see the point in self-service check out, as 16% thought that they were slower than using a regular check out.

Industry analysis
The e-tailing evolution

The revelation that 10% of the UK's retail sales now takes place online is one that will not catch many by surprise.

According to research by e-commerce trade body Interactive Media in Retail Group (IMRG), online sales have increased by 2,000% over the last six years which includes all e-tailing such as airline tickets and online car insurance. Verdict on the other hand have a more conservative prediction that internet sales will be £21.5 billion by 2010 representing 7% of retailing spend.

But while pure play retailers have certainly become more sophisticated, it is the nationwide availability of broadband that has most certainly contributed to exponential growth in online sales. The same IMRG study seems to confirm this analysis with 45% of some 4,000 respondents questioned saying they were planning to increase their spending online.

The growth of online shopping has certainly given the bricks and mortar retailers cause for concern. But the doom and gloom prediction that traditional high street stores would lose out to the clicks retailers has proved to be more evolution than revolution.

If anything, the internet has opened a window of opportunity for retailers with consumers increasingly happy to research online before heading off to the shops. The trend has been keenly exploited by familiar brand names such as Argos and PC World, who offer customers the opportunity to research and reserve online before picking up in store. Others have quickly followed suit with Curry's the latest high street name to join the click and brick revolution in time for Christmas. Many have manipulated the medium to innovatively merchandise goods such as furniture to aid customer purchase decisions.

Indeed, familiarity of brand, as enjoyed by many of the larger retailers, has played in their favour. The more conservative online customer is more likely to pay a visit to a store they trust in cyberspace than visit one of the pure play e-tailers. They are also less inclined to surf for the cheapest deal, unlike early adopters who have the confidence to visit multiple sites and compare. It also means that your doors are open 24 hours a day – an advantage without the overheads and the red tape.

But successful online retailing is not just about getting potential customers to visit your site. Customer experience is still critical, and retailers need to invest in the look and feel of the site, as well as browser and transactional security and capability.

Customer expectations should also be catered for, especially on delivery times. The perception that the delivery of internet purchases is almost instantaneous still proliferates. And many consumers are disappointed by the delivery window offered and the thought of staying in again for the delivery or collection from the sorting office. After all, this is where high street retailers have an advantage over their pure play rivals; "I'm afraid we're out of stock of that item. Have you thought about trying one of our stores?". The e-tailers that can deliver on time and resolve the returns conundrum are the most likely to be successful.

However, our survey suggests that "mission critical" gift purchases such as clothing are still being purchased in store rather than online. The ability to touch and feel the product and take it back if the fit is wrong continues to be of paramount importance – especially to us male shoppers!

Robin Knight
Head of Business Development
Retail, Consumer Products & Services Group

From bricks to clicks?

Have we reached the age of the wireless retailer?

The use of the internet is on the up this Christmas, although growth is slower than in previous years. When we asked about how they saw the presence of the internet in their portfolio of store formats, retailers were positive, but 80% said that the overall percentage of sales through the internet remained below 10%.

On analysis of internet options offered by retailers this year 51% of retailers now offer consumers the ability to purchase online (an increase from 47% last year). Due to the increase in the ability to purchase, fewer retailers now have websites that have a catalogue offer, with the option only to browse.

Who is online?

The internet is still most popular with the younger age groups and its popularity is rising, over 10% of those under 35 will do most of their gift shopping online. The anticipated swing towards older age groups using the internet has not been seen this year and growth here remains stagnant.

What we have found particularly interesting is that certain social groups are fuelling this rise in online shopping. Whilst every social class between A to C2 saw a fall in the popularity of the internet, social class DE has seen a massive rise from just 1% of consumers using the internet for most of their gift purchases, to 6% this year. This is possibly due to the wider availability of affordable broadband, cheaper home computers and the discounts and promotions available on line.

Regionally, although the internet is popular in Yorkshire, the rest of the North is less keen with only 3% of consumers preferring to use the internet for most of their Christmas gift shopping. This is compared to 10% in Wales, 9% in London and 8% in Scotland where internet use doubled from last year.

What are we doing online?

Over half of consumers will be using the internet in some capacity, although not all will be brave enough to make that all important purchase.

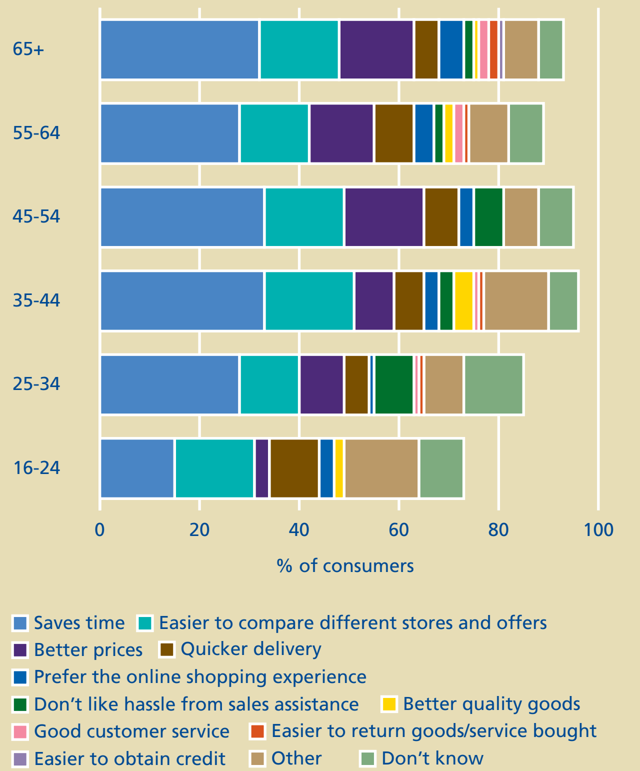
Of those that will be using the internet:

- 64% will be going straight for the purchase, having viewed in store;
- 14% will choose to research only, probably then going to a store to purchase;
- 34% quite cannily will search the internet for price comparisons, possibly then buying online or going back and forth between retailers to get that better deal; and
- 46% will be both researching and purchasing their goods. Out of these consumers, London (64%) and the South (65%) and 25 to 34 year olds (62%) are most likely to make use of the internet for the research and purchase of items as they manage the mammoth task of Christmas shopping efficiently from their armchairs.

Virtual benefits

It is clear that more people are now using the internet for the bulk of their Christmas food shopping. Although the rise is modest, there are several reasons why consumers use this channel. The majority of those that shop online for food do so for the convenience of delivery. Londoners are most likely to use this channel, possibly due to London traffic and congestion charging which has resulted in an increased dependence on public transport. For 16 to 24 year olds, it's more about saving time. For this age group it was by far and away the most important reason for purchasing online.

Why use the Internet for gift shopping?



Browser favourites

The most used sites for internet Christmas shopping for this year are the trusted high street retailer websites, supporting a consumer move back to the high street. At 66%, women are more likely to use well known high street retailers, compared to just 49% of men. Men are more adventurous and happy to search independent internet-only retailers. More than half (58%) of the time poor consumer group – 35 to 44 year olds – are likely to stay at home and shop on their favourite high street website.

The most noticeable reduction is on manufacturer's websites which has fallen one place in the popularity stakes since last year, as smaller independent sites pave the way for cheaper or alternative gifts.

Still not connected?

The main reason for not shopping on line for 42% of consumers is that they still do not have access to the internet, although this has dropped from 49% last year thanks to increased access to personal computers and more affordable or free broadband.

A further 34% of consumers, mostly females, however said they preferred to view and examine the products before buying. Nearly half (49%) of North West consumers also like to see what they are getting for their money before purchasing.

Despite repeated security assurances, 24% of consumers, both male and female and most notably the 35 to 44 and 55 to 64 year age group, still have reservations over the security of purchases and the use of credit and debit cards online.

Industry analysis
High street revival

The emergence of out of town retail parks and the exodus of office-based businesses from town centres have long been blamed for the high street's slow demise.

The Government's ambition to turn the tide and rejuvenate town centres under its "town centre first" policy framework is gathering pace however. The biggest legislative change following its review of the national planning policy in 2005 is the introduction of Planning Policy Statement (PPS) 6, which puts greater emphasis on sequential testing and the site accessibility via public transport links. According to the Barker Review of Land Use Planning Interim Report, there has already been a shift in activity by retailers towards established town centres and a growth in "mixed developments", which include residential, office and light manufacturing accommodation.

Out of town retail parks now find themselves facing severe planning restrictions, but it by no means marks their end. One only has to look at the number of private equity firms snapping up sites with open "unrestricted" planning consent to understand their potential.

But it is not only the new planning focus that is helping to revive the high street. The nation's growing love affair with the continental coffee bar culture has led to a rapid growth of cafes and restaurants, which is in turn encouraging more people back to the high street. In-town leisure facilities are also being built making it more attractive for families to spend a day out in our urban centres.

There are other factors coming into play. Increased use of the internet to browse and reserve has created a wider "catch all" for retailers. Customers can also view prospective big ticket purchases on the web such as furniture using sophisticated software that puts the item "in place" before visiting a store. The added dimension of convenience means that shoppers are afforded the luxury of time. The results from this year's survey seems to confirm the resurgence of the town centre.

For retailers, the "town centre first" policy focus is but another factor to be countered into location decisions. Analysis of geodemographics, transport networks, and in particular shopping trends, is essential. Anecdotal evidence strongly points to a North/South divide in Christmas shopping habits. For example, Northern consumers are more likely to spend big money on electrical goods at Christmas as opposed to Southern consumers who make this type of purchase steadily throughout the year. Northern shoppers are more likely to use public transport when shopping in town centres. Newcastle and Glasgow for example have excellent transport networks, which are used by a high proportion of the population.

However, the recent urban regeneration focus brings its own set of risks with many town centres being literally relocated. Not all developments have resulted in the success initially hoped for. The Broadmarsh shopping centre in Nottingham for example has only 60 % occupancy and the UK's biggest shopping mall – the Bullring in Birmingham – has an average transaction of £25. Out of town retail parks still enjoy much higher spend as consumers are more likely to do their weekly "big shop" there than in town.

Planning policies are also being blamed on the UK's poor retail productivity. Operating costs can increase by 70 % for taller stores, which are preferred over single storey due to scarce land availability. The growing use of Compulsory Purchase Orders has led to the development of super malls, which perhaps aren't in the best interest of town centre development.

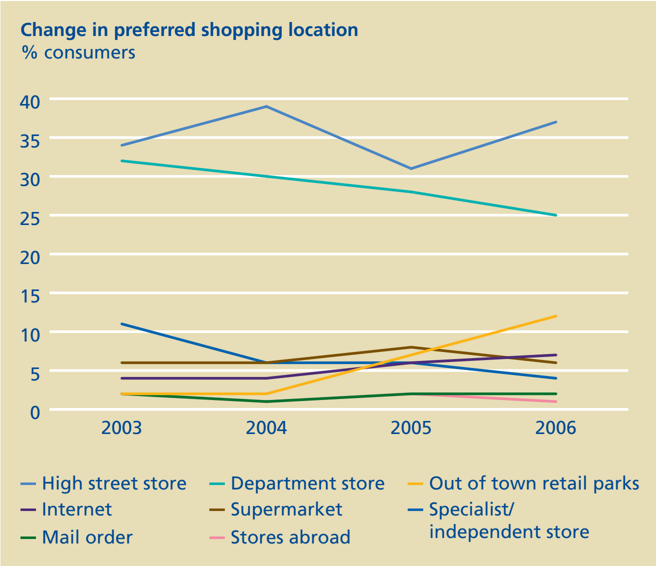
The key issue for retailers is getting the right store in the right place with the right format and range for the current and developing demographic changes. The wrong decision will result in poor return on investment and poor contribution to net margin.

Chris Garner
Site Location Services Group

Location, location, location

The draw of the department store is over as the high street fights back

Although planned spend this year reflects a significant increase in gift spend, our survey suggests that there could be some real retail winners and losers in the battle for the consumers pound.



High street comeback

Many retailers advised us that they intend to boost their store presence on the high street. Perhaps due to the Government's "town centre first" planning policy, which has been developed to boost the fortunes of our towns and cities.

The return of retailer focus to their high street presence is applauded by consumers as the majority of gift shoppers, it appears, will be spending their time trawling up and down their high street in the search for the perfect present this Christmas. This has now reversed the trend seen last year when high street fortunes took a dip. The high street has gained in popularity, with 37% of shoppers preferring to shop here compared to just 31% last year.

However, what is more interesting is who is preparing to shop there. A significant 42% of women compared to only 31% of men are going to brave the hustle and bustle of the high street. This year it appears to be younger females that prefer to shop here, with 54% (46% in 2005) of those aged 16 to 24 will use the high street this Christmas, way above any other location.

The decline of the giants

Department stores are down in popularity yet again this year, falling from 28% to 25% of consumers who intend purchasing most of their gifts here. Despite losing ground in nearly every demographic group, for those over 65, it is still their favourite place to shop with 29% of consumers intending to do most of their gifts there.

The only regions that prefer gift shopping in department stores over that of the high street is Northern Ireland with 44% of consumers preferring it and those in the North East at 40%.

Out-of-town still in vogue

Retailers stated that after the high street they intended to increase their presence in new out-of-town shopping sites, followed by an expansion to existing out of town locations. So with more and more out of town retail parks being developed across the UK, it is no surprise that they too are gaining in popularity with consumers – up from 7% of consumers planning to purchase most of their gifts here last year to 12% this year. This year, 14% of men prefer to shop here, compared to just 10% of women.

Key fact
Although every region showed a strong interest in the high street, it looks like Wales will see some of the busiest high streets, as 46% of Welsh shoppers prefer them.

Supermarket slump

Surprisingly, after their rise in popularity last year, supermarkets have fallen back to their popularity level of 2004 with 8% of consumers purchasing most of their gifts there compared to 6% last year. However, our survey also shows a large fall in consumers likely to purchase food and beverage as a gift this year, down from 47% to 34% this year, which could account for much of this difference. North West consumers are still likely to use the supermarket with 11% of consumers purchasing the majority of their gifts there.

It is anticipated that in the run up to Christmas, supermarkets will be pushing non-food gifts hard, so even those consumers not anticipating purchasing gifts whilst out on their weekly shop may still end up putting some stocking fillers in their basket. The recent launch of the Tesco catalogue may also turn consumers back to the supermarkets.

Return to sender – a fall in mail order shopping

There has been a steady decline in use of mail order for the majority of gift purchases from 3% of consumers in 2002 down to a little over 1% this year. As in previous years it is more likely that older women are shown as opting for shopping from the comfort of their home via mail order – 5% of those aged over 65 and 4% of all women will be using mail order this Christmas. However, with the use of the internet, it is likely that both formats thrive in the future as people use their catalogue as a reference point and possibly order online or call to order. We anticipate a rise in spending for this format next year fuelled by the increase in popularity of the internet.

The big easy

Retailers believe that product range is the most important factor in attracting and retaining customers this Christmas.

Retailer: drivers in attracting consumers to stores

Rank		Rank	
1	Product range	6	Convenience
2	Value for money	7	Loyalty
3	Advertising	8	Promotions
4	Price	9	Easy parking
5	Customer service	10	Home delivery

However, for consumers it seems that yet again convenience tops the list as in prior years. Consumers deem it important when both gift and food shopping and across all demographic groups.

Consumer: the main reason why we shop at a particular outlet

Rank	Food	Gifts
1	Convenience	Convenience
2	Value for money	Value for money
3	Product range	Product range
4	Parking	Price
5	Price	Parking
6	Opening hours	Opening hours
7	Promotions	Customer service
8	Customer service	Store brand
9	Store brand	Home delivery
10	Fewer queues	Promotions

This is closely followed by value for money and product range. Interestingly, given the price focus of many supermarkets, parking is more important than price when food shopping according to those surveyed.

When gift shopping, queues rarely seem to be a problem, but being stuck in a busy supermarket is more bothersome for 4% of consumers who mentioned this frustration. As in previous years the 16 to 24 year olds and those in Yorkshire at 7% of consumers, dislike queuing. Maybe there are more checkouts in Northern Ireland or maybe shoppers are just more 'relaxed' as not one person here mentioned quick check out as a factor in attracting them to a store. Interestingly though, on asking which regions liked self service checkouts, Yorkshire mentioned their dislike and Northern Ireland really liked them. Maybe there is a lesson in there somewhere.

Promotion, promotion, promotion

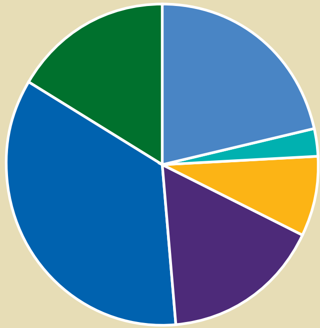
When shopping for food, those in the North East are the most thrifty shoppers as they are interested in value for money and price. They are also more than twice as likely as the national average to shop somewhere that offers promotional discounts and loyalty cards (13% of consumers versus 5% of national average).

Although loyalty cards are still important when food shopping, their popularity has waned as only 7% of consumers, compared to 13% last year, find this important in choosing where to shop. Surprisingly only 3% of those aged 65 and over voted this the most important factor, a drop from 11% last year. Perhaps people are becoming bored of the "benefits" offered by these cards, or more cynical about how the data is used.

It is also interesting to understand how retailers measure the success of promotions. The use of their EPoS sales results is more popular than other forms of monitoring, followed by data from their loyalty card customers.

Key fact
16% of retailers surveyed still do not measure the performance of their promotions.

How do you measure the success of instore promotions?



When asked what advertising strategy retailers were going to follow this Christmas, the following responses were obtained.

Window signage	25%
National advertising	23%
Local advertising	20%
Email alerts to registered customers	17%
Mail shots to registered customers	12%
Blanket mail shots	3%

A noteworthy point is that many retailers still use a 'blanket' approach to promotions, rather than a more targeted approach to existing customers, using mass marketing techniques.

Service with a smile

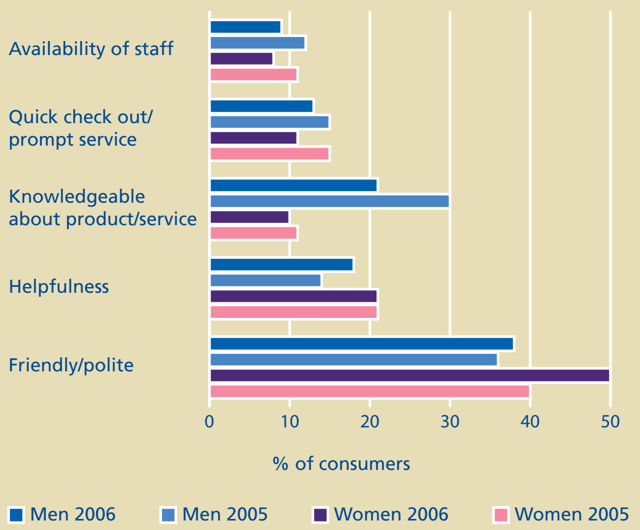
High expectations

According to retailers good service is:

1. Knowledge of product
2. Friendly/polite staff
3. Helpfulness of staff
4. Availability of staff
5. Quick check out

In order to maintain their level of service over the busy Christmas period, retailers voted overwhelmingly for training both their existing and seasonal staff.

What is good customer service?



This is just as well because consumers say that friendly and polite sales staff at this busy time of year makes the shopping experience more worthwhile. Women in particular found this important, with 50% of all those surveyed believing that this was the single most important factor and 38% of men also agreed. This was also very important to the Welsh and Scots, who at 53% and 51%, respectively, agreed. Men are particularly interested in having knowledgeable staff to demonstrate and explain benefits.

Key fact
The ease of checking out and paying for goods has become less important, perhaps reflecting the increased use of self service checkouts.

Christmas woes

Other than requiring good customer service, we asked customers, what they found frustrating about Christmas shopping and overall year on year comparisons are fairly static.

The most interesting age group are those in the 65 and over, as they were the least likely to worry about queuing, product availability and lack of innovative gift ideas. What really frustrated them was the store music, 25% found this irritating compared to the national average of just 15%! However they were also the most likely, double the average of 8%, to actually enjoy Christmas shopping.

Key fact
Consumers in Scotland and Wales were the most irritated and the least likely to say that they enjoyed Christmas shopping, just 4%, half the national average.

Industry analysis
Credit crisis

The number of debt recovery staff working in the UK's banking sector is going to increase significantly this Christmas – and for some years to come.

It's estimated that UK consumers now owe around £1.2 trillion – a sum more than 50% higher than total company debt. According to the Department for Constitutional Affairs (DCA), the number of personal insolvencies through bankruptcy or Individual Voluntary Arrangement (IVAs) reached a record 26,000 in England and Wales during the second quarter of 2006 – a 66% rise on the same period last year.

With a recent MORI report claiming that one million credit card holders are in serious danger of having their debts spiral out of control, earlier estimates that more than 100,000 people could become insolvent by the end of the year may fall short. Surprisingly it seems that a growing number of pensioners are happy to increase their credit card and loan borrowing as confirmed by our consumer survey.

With more and more people failing to pay back their debt and an increase in personal bankruptcy, the banks are reassessing their lending decisions. Some customers, in particular those on low incomes, could see the cost of borrowing go up as banks adopt a greater degree of segmented pricing in an attempt to reduce their losses.

Without doubt, the new environment will see credit card holders finding it increasingly difficult to raise their credit limits this Christmas as the tougher lending regime begins to bite.

The days of phoning up while out at the shops to top up your credit card look set to be over, for a few years at least.

Nick Sandall
Financial Services Group

Industry analysis

Faster, cheaper, better

This Christmas the industry faces the same basic challenge as in previous years – keeping the stores well stocked, for example with this years must have Christmas toys, but with some added twists to keep up the pressure.

The growth of "fast fashion" is leading to the demise of the fashion "season" – instead merchandise needs to change every two to three weeks rather than every two to three months, to keep pace with expectations, and ensure the store and assortments look "fresh".

The grocers, with their ever-expanding non-food offerings, are also setting themselves additional challenges. On the one hand they need to free up food shelf space to make room for higher margin non-food ranges, and on the other, they need to run supply chains that have much more of the "one off"/seasonal structure of traditional fashion and general merchandise retailers. Both requirements add complexity and risk. Shrinking shelf space for food while maintaining stock availability puts increasing emphasis on the need to forecast accurately and critically, implement effective in-store replenishment programmes (the pitfalls of large backrooms full of the wrong stock are all too familiar!). Merchandising non-food also demands the right balance between a credible offering and holding stock back until its clear where the demand is.

Another major thrust in recent years in Grocery has been the rush to establish convenience formats, which again places a real premium on shelf space, yet constrains the retailer on space in the backroom, and also the size and timing of deliveries.

Add to this the increasing movement of revenue to online shopping and it's clear that this year, beyond the traditional challenge of Christmas volumes, the supply chain is carrying added risk for the retailer.

Suppliers will bear a lot of this added risk, but with perhaps two multipliers: a retailer can have a problem in one set of products and see it only having a marginal impact: if the supplier gets it wrong in the supply chain, they may see themselves being de-listed as the retailers squeeze the number of suppliers in each category, again to free up space for non-food.

Suppliers like the retailers will have to face this increased complexity with some extra risks of their own, having restructured operations to expand their footprint or to take out cost, they must deliver the same or better performance with an eye on some additional obligations, such as improving traceability, reducing the operations impact on the environment and managing hazard materials and recycling costs, both by-products from the supply chain.

The pressure has not been relieved by technological advances in quite the way some industry pundits were foreseeing only a couple of years ago. While, for example, RFID technology is increasingly being used in specific segments and in some "closed loop" supply chains, Industry-wide adoption is still some way off. To some extent, this is for technical reasons (achieving consistently reliable read rates in "open" use) and economic reasons, (justifying technology investment and the need to establish a fair distribution of costs versus realised benefits in the supply chain).

However, a more immediate obstacle has been the realisation that organisations firstly need to share accurate and consistent data before they can reap the benefits from technologies such as RFID. Retailers and suppliers have had to do a lot of preparatory work to clean up their data. Early adopters of these "Global Data Synchronisation" principles now look set to see a return on this investment in early 2007. Thus paving the way for a real step change in supply chain capability and performance, as these companies position themselves to be able to truly harness the potential benefits technologies such as RFID have for so long promised.

Will this be the all important mass adoption trigger that finally pushes this technology over the tipping point and into the main stream for supply chains? Perhaps – but alas only in time for Christmas 2007!

Gerry Boyle
Consumer Business, Consulting

Economic outlook

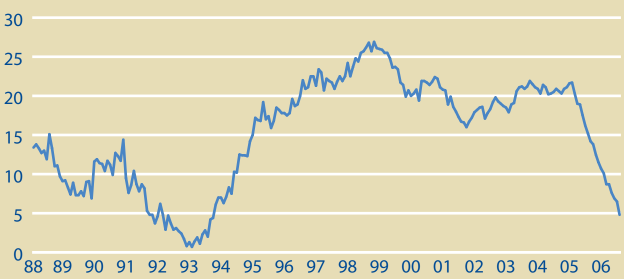
Recovery could peter out in the New Year

With consumers recently having returned to the high street in full force, retailers could be forgiven for going into Christmas with pretty high expectations. After dismal retail sales growth last year, a steady improvement has been seen this year, only partly due to the temporary boost from the World Cup.

Unfortunately, this is unlikely to herald a new period of rapid high street spending growth, not least because of the poor state of consumers' finances. Higher utility bills and interest payments are squeezing the amount of money left over to spend on more fun things. And rapid rises in the number of people looking for work, reflecting high immigration, have made it hard for workers to get higher pay rises to compensate them for this.

But perhaps most importantly, consumers' love affair with their credit cards appears to be coming to an end. As Chart 1 shows, the annual growth rate of credit card borrowing has been plummeting since the start of 2005. Some of this reflects the tighter lending criteria banks have enforced in response to the recent rise in bad debts, making it harder for people to get credit. But the cost of servicing the debt they have already built up is almost certainly making people think twice about using their plastic.

Chart 1: Credit card borrowing (% y/y, 1988 – Aug. 2006)

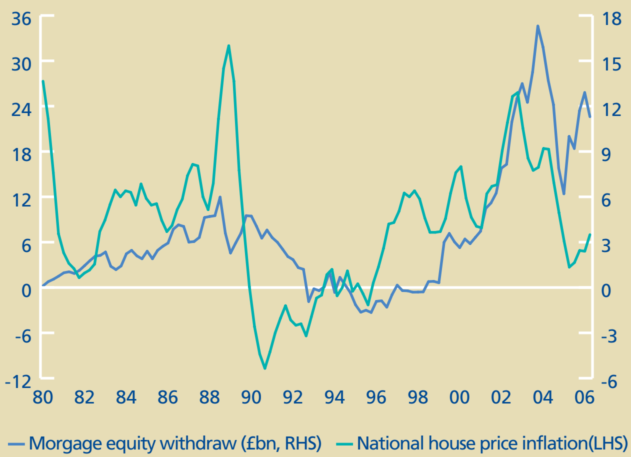


Source – Thomson Datastream

Of course, one factor which could encourage households to splash out at Christmas nonetheless is the recent rebound in the housing market. Annual house price inflation has recently accelerated close to double digits again. And this could encourage households to withdraw more equity from their homes. Chart 2 shows that equity withdrawal has rebounded sharply over the last year, despite slipping back slightly in Q2.

The pick-up in house price inflation could also make households feel more comfortable about dipping into their savings at Christmas time, safe in the knowledge that their housing equity continues to increase by the day. Households are certainly in a better position than last Christmas, when house prices were rising by just 2%. But the current pace of house price inflation still looks unsustainable, not least because interest rates have risen and there are fears they will have to rise again.

Chart 2: Nationwide house price inflation & mortgage equity withdrawal (1980 – Q3 2005)

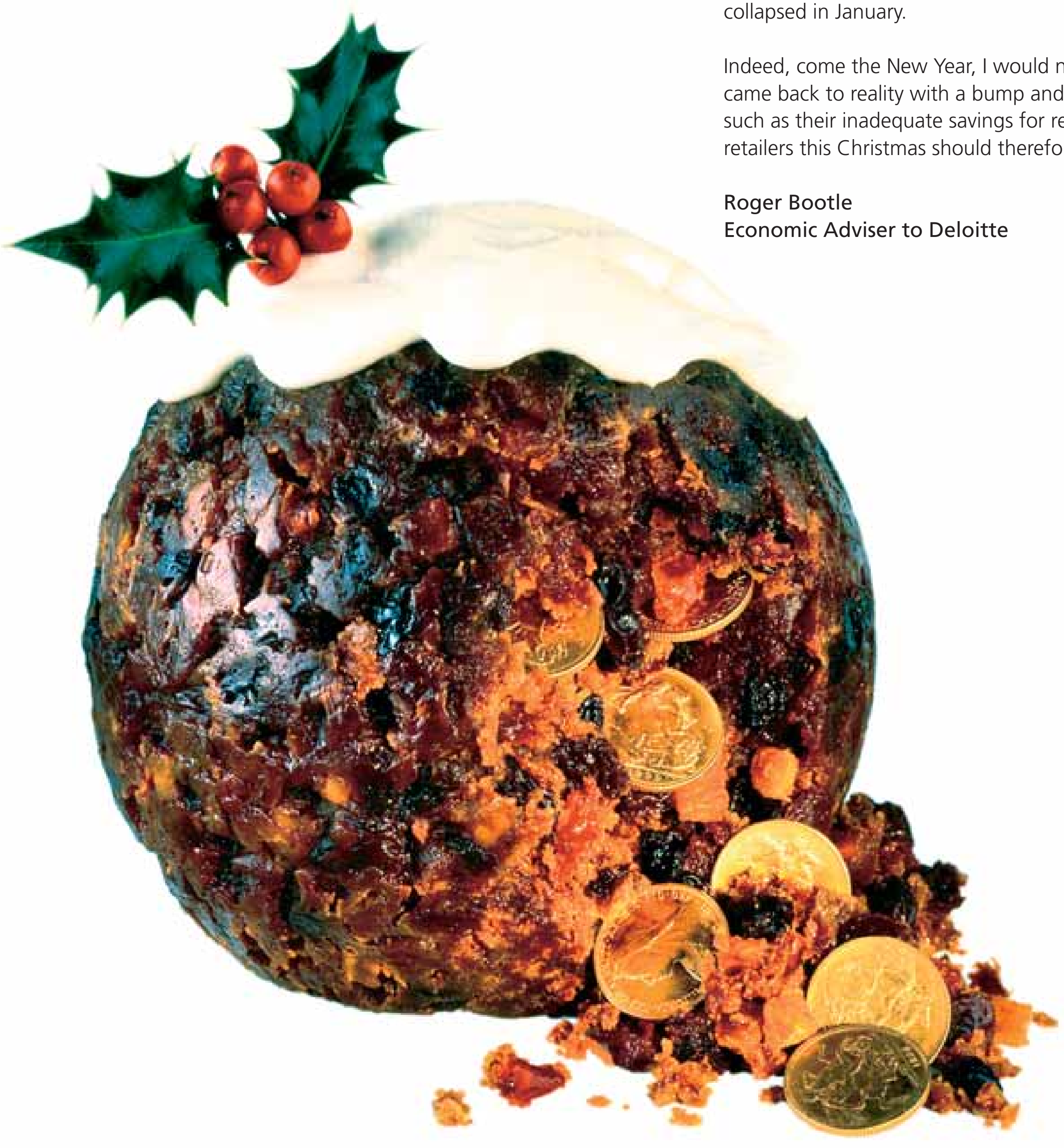


Source – Thomson Datastream

Even if consumers do remain in the mood to spend, however, last year is a warning to retailers not to leave people "shopped out" by January. Aggressive discounting before Christmas last year meant that sales rose strongly in November and December, but then collapsed in January.

Indeed, come the New Year, I would not be surprised if consumers came back to reality with a bump and began to face up to issues such as their inadequate savings for retirement. The mood amongst retailers this Christmas should therefore be a cautious one.

Roger Bootle
Economic Adviser to Deloitte



About this survey

The findings of this survey are based on consumer data obtained by market research carried out by TNS, on behalf of Deloitte. The respondents were chosen from adults aged 16 years and over, using a quota sample designed to represent the adult population of Great Britain.

Deloitte also surveyed a cross-section from the UK retail industry, using a written questionnaire sent to more than 350 organisations.

The Retail, Consumer Products & Services Group

Deloitte specialists in the retail sector

The Retail, Consumer Products & Services Group at Deloitte has extensive experience in retail, distribution and consumer product manufacturing, providing innovative, industry-specific solutions to retailers and their suppliers across audit, tax, consulting and corporate finance.

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Designed and produced by The Creative Studio at Deloitte, London.

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