

Steady ship, choppy waters



By [Jon Copestake](#)

18 Jan 2016

Although most retail markets will expand steadily in 2016, consumers and retailers alike could be vulnerable to crises of confidence.

Many of the problems that faced retailers in 2015 will be carried over into 2016.

Mainstream retailers will again struggle with falling profit margins and shrinking market share owing to the combined growth of discount and online retail channels. Weighing on sentiment will be mounting terrorist concerns, geopolitical strife and Europe's unfolding migrant crisis. Rising US interest rates will exacerbate uncertainty by creating volatility in certain markets.

The world is flat

In aggregate global terms, retail sales will maintain a steady course. Sales volumes are forecast to grow by 2.7% in 2016, the same as our estimate for 2015. Growth in North American retail will be pegged back slightly after strong expansion in 2015, but will nonetheless remain solid as economic growth continues to bolster consumer confidence. However, shifting spending patterns have been disruptive for retailers, bringing losses as more shoppers switch to online channels.

The retail environment in Latin America remains unstable amid falling commodity prices and economic travails in key markets. Even with some modest improvements, sales will still contract in 2016. In Asia, China and India will drive regional sales, but markets like Vietnam and Indonesia will also garner attention. Europe, the Middle East and Africa share an uncertain outlook, owing to security threats and economic uncertainty. Despite making steady economic progress, Western Europe continues to feel the fallout of the euro zone crisis: growth in Spain, for instance, will still not be enough to push consumer spending to the level achieved in 2008. Moreover, Europe has been on a heightened terror alert after shootings in Paris, while Africa and the Middle East face multiple insurgencies. Although sub-Saharan Africa is a hotly tipped prospect, investments there should be aimed at reaping rewards in ten or twenty years' time, not in 2016.

Age of the consumer?

Price will once again be a central consideration in 2016, despite the gradual recovery in incomes after the financial crisis. As economic woes weigh on places like Russia and Brazil, a new wave of emerging market consumers is becoming more bearish in outlook. Price sensitivity also has a secular explanation. Mobile commerce (m-commerce) enables shoppers to compare prices of almost any product, while peer reviews on social media empower them further. At the touch of a button, they can identify the best product for their needs, and decide where to buy it at the best price. Hence, retail profit margins will continue to slide. Before 2009 Walmart achieved a profit margin of 3% to 4%, but by October 2015 this had sunk to a low of 2.8%. The chief financial officer of Sainsbury's, which faces its own declines, has predicted that margins for grocery retail, once as high as 5%, will fall to around 3%.

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Retailers will seek to harness lower prices, trying to generate footfall and site traffic through more intense and longer sales seasons. Sales dates during the festive season - Black Friday, Cyber Monday, Super Saturday and Manic Monday - are blurring together into a continuous period of discounting lasting from November to the January sales. 2016 will see retailers seek to set themselves apart from competitors by opting in and out of these many sales dates or creating their own. The risk, though, is that sales fatigue sets in and discounts will fail to generate the excitement they once did.

For the full report, go to www.eiu.com/IndustriesIn2016.

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Jon Copestake is the Economist Intelligence Unit's Chief Retail & Consumer Goods analyst and is also the Editor of the Worldwide Cost of Living and Liveability surveys.
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