



## SEARCHING FOR GROWTH IN A BLEAK ECONOMY

Fragile demand and rising raw material prices  
bring challenges for global retail and consumer goods sellers.

**T**HE LAST THING that seems to be bought at the moment is things that are unseen – so underwear. Bedding is doing particularly badly too.”

As Dean Moore, finance director of UK outsize fashion retailer N Brown put it, consumers in Europe and in the US remain very cautious before opening their wallets, with the possible exception of a few items

showing fatal attractions such as fancy yoga outfits or upscale baseball bats.

Around the world, shoppers continue to take a cautious approach when buying everything from food to fashion, leaving retailers little wiggle room to raise prices. Retailers and consumer goods makers face rivals in stores, online and increasingly in the palms of shoppers' hands, as mobile

phone users quickly compare products and prices with the swipe of a finger.

During closed sessions with Reuters journalists in London and New York, more than 20 executives and experts have discussed the future of the consumer and retail industry. Here are some of the best stories.



**REUTERS**

# RETAILERS SEE TOUGH ECONOMY FOR SHOPPERS

BY BRAD DORFMAN  
NEW YORK, JUNE 28

**H**IGH GASOLINE and food prices and a slow recovery in jobs will continue to weigh on consumers this year, except for those that buy \$98 yoga pants and \$400 baseball bats, retailers and manufacturers said this week.

U.S. consumer spending was flat for the first time in 10 months in May and consumer confidence fell in June.

The data came as no surprise to executives who spoke this week at the Reuters Consumer and Retail Summit, most of whom said their customer is still under pressure two years after the U.S. recession officially ended.

"I think that there are many families today who are fighting to live within their means right now and protect their quality of living," said John Barbour, chief executive officer of

*"MANY FAMILIES TODAY ARE FIGHTING TO LIVE WITHIN THEIR MEANS."*

educational toy maker LeapFrog Enterprises Inc.

Another shock is coming, as soaring cotton prices show up in clothes in the important back-to-school and holiday shopping seasons.

Children's Place Retail Stores Inc CEO Jane Elfers said the store is raising prices \$1 to \$2 per item on some of its children's clothing, a noticeable increase on items that may be around \$10 for a parent whose dual-income household brings in an average of \$70,000 a year.

Rising costs for food and gasoline are already causing that consumer to make hard choices over what to buy.

"When the real apparel inflation hits in back-to-school and into holiday, she is going to have to be further pressed to make those choices," Elfers said.

"When you take gas and food and clothes together, three months from now, she might



**PUMP IT UP:** A gasoline tanker driver moves a hose as he fills tanks at a Chevron gas station in Los Angeles, California April 11, 2011. REUTERS/FRED PROUSER

be feeling worse," she said.

Any downturn in consumer morale shows up quickly in economic data, as consumer spending represents about 70 percent of U.S. economic activity.

"When you see mini-shocks, gas spiking, credit restraints that frankly affect-lower income consumers, middle-income consumers more than high income-consumers, you see that flow through into the numbers very quickly," said Kenneth Berliner, president of investment bank Peter J. Solomon.

Those shocks on the lower or middle end are not creating even a faint buzz further up the economic scale.

Lululemon Athletica Inc, known for its yoga pants that cost around \$100, is not seeing a hit from economic issues, executives said.

"People still buy Starbucks, and who would have thought that you'd buy a \$4 latte? I think there is a ... it's a unique niche," said John

Currie, Lululemon's chief financial officer.

Jarden Corp is also seeing consumers willing to spend for more expensive items, such as \$400 carbon fiber baseball bats.

"The people who are buying our products aren't worried about losing their job, where two years ago, they were worried about losing their jobs," CEO James Lillie said.

**HIGH-LOW SPLIT**

THOSE HIGHER-END shoppers are likely to contribute the bulk of sales growth this holiday season, solidifying the bifurcated consumer environment where the low end is still struggling, analysts said.

"I think a disproportionate share will come from upper-income householders who are seeing real gains in income. The real problem for the economy is with low-and middle-income householders," said Ira Kalish, director of economics and consumer business at Deloitte.

In Europe, the consumer is worse off, with economies contracting even as inflation rises and with the Greek debt crisis hanging over the continent.

"I would expect to see a very difficult environment for retailers in Europe over the next 1-2 years and even beyond that I'm not sure we're going to see a whole lot of health," Kalish said.

Consumers in Britain are in recession, the CFO of Asda, the British arm of U.S. retailer Wal-Mart, said.

"Do I expect it to improve any time soon? No, I do not," Judith McKenna said.

(Additional reporting by Mark Potter and James Davey in London, Nivedita Bhattacharjee in Bangalore and Phil Wahba, Jessica Wohl, Alistair Barr, Jessica Hall, Dhanya Skariachan and Martinne Geller in New York; editing by Matthew Lewis)



**LOWFAT OR SKIM?:** The milk section of a grocery store is pictured in Los Angeles April 7, 2011. REUTERS/MARIO ANZUONI

**FULL SUMMIT COVERAGE**



For all stories, analysis, videos and blogs from the Reuters Global Consumer And Retail Summit, please visit: <http://link.reuters.com/tat32s>

**INDEX**



Economy.....	2-4
Holiday Prospects.....	5-6
Growth Strategy.....	7-8
China.....	9
US vs Europe.....	10
Tesco.....	11-12
Lululemon.....	13
Toys R Us.....	14-15
Children's Place.....	16
Sainsbury.....	17

# BRITAIN'S CONSUMERS ARE IN RECESSION - ASDA

BY MARK POTTER  
LONDON, JUNE 28

**A**SDA, THE BRITISH arm of U.S. retailer Wal-Mart Stores Inc, believes UK consumers are in recession, with less money to spend and fearful of losing their jobs and seeing interest rates rise.

Asda Chief Financial Officer Judith McKenna told the Reuters Consumer and Retail Summit on Tuesday the retail outlook was tough because of the squeeze on people's incomes and fear of the future.

"Do I expect it to improve anytime soon? - no I don't," she said.

McKenna said the grocery group's income tracker showed people currently had 14

pounds (\$22) less in their pockets year on year. "It is a really biting effect on how people are shopping and spending....particularly in the area of discretionary spending."

Two years ago, when Britain's economy was suffering badly, consumers were just as worried but didn't actually see their spending power squeezed. But now government austerity measures and inflation have begun to hurt.

McKenna said the difference now was that consumers physically had less money.

"I do think the consumer is in recession," she said. "How long for is difficult to call."

Tight budgets as a result of higher taxes and rising prices have made consumers much more careful about

how they spend their cash.

A growing number of British retailers are feeling the pinch. Thorntons, the chocolatier, on Tuesday said it would close a third of its stores over three years due to lower demand.

Britain's biggest floor covering chain Carpetright is bracing for two more years of tough trading conditions as consumers cut back on discretionary spending.

"People have changed their shopping habits as well ... they have started to ration their behaviour about how they spend and what they spend it on ... there is a new norm developing," McKenna said.

In this tough climate, food retailers are seeing consumers switch to their lower-priced own-label ranges from brand names.

McKenna said there was a marked shift into own- or private-label by shoppers. She said ASDA's own-label range "Chosen by You" was the fastest-growing private label in the market.

*"DO I EXPECT IT TO  
IMPROVE ANYTIME  
SOON? NO I DON'T."*

When asked whether there was growing pressure from UK retailers on the government to take action to revive consumer spending such as a temporary cut in value-added-tax, McKenna said: "Anything that puts money back in the pockets of the consumer, however you choose to do it, is a good idea."

She also said that when people had a reason to spend they did. Warm weather and the royal wedding, for example, provided a reason earlier this year, but then shoppers closed their wallets quickly afterwards.

McKenna said the prospect of rising interest rates was a big spectre for people.

She said if someone was already 14 pounds a week down and then interest rates rose as well, because of the leverage effect, that would be a big impact.

"We ask 2,000 people a week how are you feeling ... one in 20 people do not believe they will get a pay increase this year .... it was one in 10 last year."



**EGGING ON THE ECONOMY:** Hens roam on a James Potter free range farm that produces eggs for Asda supermarkets, in Catton, northern England February 21, 2011. **REUTERS/NIGEL RODDIS**



**i SHOULD HAVE SLEPT IN:** Shoppers attend Black Friday sales at the Eagle Rock Plaza in the Eagle Rock area of Los Angeles November 26, 2010. **REUTERS/PHIL MCCARTEN**

# US RETAILERS TWICE SHY ABOUT HOLIDAY SEASON

**BY MARTINNE GELLER**  
NEW YORK, JUNE 29

**U**.S. RETAILERS, bitten by over-optimism last holiday season, are planning conservatively for the coming season in order to limit profit-sapping discounts on unsold merchandise come January.

Retail executives gathered this week in New York for the Reuters Retail and Consumer Summit said spending was improving, particularly at higher-end stores catering to well-heeled consumers emboldened by a better stock market.

Still, they said they did not want a repeat

of last year, when a flurry of shopping early in the season and hopes for an economic recovery led some chains to take on more inventory, only to get stuck when demand later ebbed.

"It's only common sense to be cautious, given the uncertain outlook for the economy," said Toys R Us Chief Executive Jerry Storch. "My belief is that many retailers ended up with too much inventory last Christmas. They

were kind of fooled by false optimism that the economy had already recovered."

Still, Storch said the world's largest toy retailer was planning for higher same-store sales in the holiday quarter, by far its biggest, like it usually does.

Leapfrog Enterprises Inc CEO John Barbour said optimism for the retail industry has not been justified by any significant reduction in unemployment or improvement

*"IT'S ONLY COMMON SENSE TO BE CAUTIOUS, GIVEN THE UNCERTAIN OUTLOOK FOR THE ECONOMY."*

in people's quality of life.

"There's nothing that I've seen on my horizon that convinces me that this year is going to be spectacularly better," Barbour said. "Maybe an inch or so better. To me the trends are continuing with some level of growth, but a very slow level of growth."

The International Council of Shopping Centers expects same-store sales at chains it tracks to rise about 3.5 percent for the year, with sales during the holiday

continuation of a slower trend."

Holiday sales for November and December rose 3.8 percent last year, according to ICSC.

**LOOKING FOR DEALS**

THE YEAR-END holiday shopping season, the most important period for retailers, has traditionally marked its unofficial start on "Black Friday" -- the day after the U.S. Thanksgiving holiday in late November when stores open early and offer deep discounts.

*"THERE'S NOTHING THAT I'VE SEEN THAT CONVINCES ME THIS YEAR IS GOING TO BE SPECTACULARLY BETTER."*

season in a similar range.

Michael Niemira, the group's chief economist, said 3 percent growth was a "likely starting point" when thinking about growth for the holiday season, even though spending could get a boost from an easing of gasoline prices and job growth.

"I don't think it will be dramatically more growth. I don't think the sales will be dramatically stronger either," Niemira said. "The industry was a lot stronger in the beginning part of the year, and it's a

But consumers are looking for those deals earlier, said Bill Tancer, general manager of global research at Experian Marketing Services. That gives them more time before Christmas to find the best prices, a trend that does not bode well for retailers' profits.

Internet searches for "Black Friday" started in the first week of November in 2009 and in the week ended October 23 in 2010, Tancer said. He predicts they will start in early- to mid-October this year.

"It's become a phenomenon, like

coupons. We're all expecting a deal and we're going to start searching for it sooner," Tancer said.

Based on what Tancer, who tracks Internet searches, has seen so far this year, he expects the holiday season to be "on par" with last year.

Brian Goldner, chief executive of toy maker Hasbro Inc, said he was relying on the appeal of new products such as Kre-O building sets, based on Transformers characters, to drive sales ahead of the holiday season, rather than any real increase in consumer sentiment or spending.

And for apparel retailers like Children's Place Retail Stores Inc -- which are being forced to raise prices on products to offset higher costs for commodities like cotton the holiday season will be difficult.

"(With) the pressure on fuel and the pressure on food, (our core customer) has to make a lot of choices right now. They're already struggling," said Children's Place CEO Jane Elfers, citing weakness in the credit and housing markets.

"When the real apparel inflation hits, in back-to-school and into holiday (seasons), she's going to have to be further pressed to make those choices," Elfers said.

(Editing by John Wallace)



**BAH HUMBUG:** A pedestrian walks past the holiday window decorations outside Bloomingdale's department store in New York December 8, 2010. **REUTERS/LUCAS JACKSON**

# RETAILERS TAKING RISKS IN QUEST FOR GROWTH



**GRIM OUTLOOK:** A woman passes a shop window in Regent Street in London June 16, 2011. **REUTERS/LUKE MACGREGOR**

**BY MARK POTTER AND JAMES DAVEY**  
LONDON, JUNE 29

**R**ETAILERS HAVE ALWAYS been cyclical, hostage to swings in consumer spending. Now, many feel compelled to seek new growth avenues outside their sluggish main markets, taking a step into the unknown.

The outlook for most U.S. and western European store groups is grim.

Recession-scarred consumers have put credit-fuelled spending firmly behind them, population growth looks set to remain subdued and many markets appear saturated with stores as shoppers move online.

No surprise then that executives at this week's Reuters Consumer and Retail Summit set out a range of plans to expand outside core markets and into faster-growing areas such as foreign countries, new store formats and services.

The potential benefits are clear. For Tesco, the world's third-biggest retailer, profit margins in its fast-expanding financial services business are around 25-30 percent, compared with just 4-5 percent on groceries, according to Natalie Berg, co-global research director at Planet Retail.

But diversification can be costly and time-consuming, with no guarantee of success.

A study by consultants Bain & Co made exclusively available to Reuters showed fewer than 40 percent of European retailers were successful with moves to diversify from 2000 to 2010.

Lead author Joelle de Montgolfier believes store groups need to work harder to find original concepts, adapt them to local markets, test them better and run them through a dedicated team.

Western European retailers face a more pressing need to find new sources of growth than U.S. counterparts because their home markets are smaller, more consolidated and face a tighter fiscal squeeze as their governments look to cut deficits.

"In a market the size of the U.S. it makes sense to be fairly focused and just do the

*DIVERSIFICATION CAN BE COSTLY  
WITH NO GUARANTEE OF SUCCESS.*

one thing you do well on a very large scale, whereas in Europe it makes sense to be more diversified," said Ira Kalish, director of economics and consumer business at consultants Deloitte.

The good news for the Europeans is that, with more practice, they are getting better at learning new skills.

The Bain study of 25 leading European retailers found more than 500 attempts at diversification last decade, much higher than a similar study of U.S. store groups a few years earlier.

The Europeans had a success rate of almost 40 percent, against 30 percent in the U.S.

**LEARNING CURVE**

THE MOST COMMON, and most successful, drive for new growth is in foreign markets.

U.S. toymaker Hasbro, the firm behind Monopoly board games, underscored the benefits of expanding in fast-growing countries such as Brazil and China, saying it expected foreign sales to overtake U.S. sales in coming years.

British grocer Asda, part of U.S. retail giant Wal-Mart, also highlighted the advantages of being part of a global group, saying economies of scale meant it was able to undercut rivals with group brands like Elegant Living homewares.

British home shopping group N Brown, however, said it was vital to understand the differences between markets.

In Germany, for example, it is operating in a market where customers typically return around 60 percent of what they order, more than double the norm in the United States and a significant logistical challenge.

Launching new store formats is another popular way of diversifying.

British grocers J Sainsbury and Waitrose said they were rapidly expanding convenience stores to tap new trends towards "food on the go" at lunch and "top-up" shopping at the end of the day.

But not everyone is convinced strong sales growth translate into good returns. Asda is shunning convenience stores, arguing grocers need to charge higher prices to make the economics work.

Tesco, Britain's biggest retailer, is pursuing one of the most ambitious diversification strategies. As well as expanding abroad and with new store formats, it is building a services business which includes setting up a bank.

The task of building IT platforms, establishing call centres, recruiting and

**RAPIDLY EXPANDING:** A Waitrose logo is seen outside a supermarket in west London July 6, 2010. REUTERS/TOBY MELVILLE



**ECONOMIES OF SCALE:** Asda CFO Judith McKenna attends the Reuters Consumer and Retail Summit in London June 28, 2011. REUTERS/BENJAMIN BEAVAN

training staff and winning regulatory approvals has taken around three years.

"I don't think there will be too many new competitors appearing, if our experience is anything to go by," Tesco's head of retail services Andrew Higginson told Reuters.

But the group believes the hard work will be worthwhile, and that it can build a retail services business earning 1 billion pounds (\$1.6 billion) annually.

Deloitte's Kalish believes it's the sort of strategy that a growing number of retailers will have to pursue.

"It's a very steep learning curve. It's a long-term investment. The returns are not likely to be quick. But in the world we're living, this is where growth is going to come from," he said of retailers' drives to diversify

(Additional reporting by Dhanya Skariachan in New York)

# CHINA TO STAY WORLD'S TOYMAKER DESPITE COSTS

BY PHIL WAHBA  
NEW YORK, JUNE 29

U.S. TOY COMPANIES are sticking with China as their factory of choice, saying its workmanship and infrastructure are enough to offset rising costs that are forcing some Western fashion brands to seek cheaper locations.

The chief executive officers of Hasbro Inc, LeapFrog Enterprises and Toys R Us Inc all told the Reuters Global Consumer and Retail Summit this week that China's considerable advantages as a manufacturing mecca mean it will remain toymaking's main hub.

"Costs would have to go up for many, many years" for China to lose its edge, Hasbro CEO Brian Goldner said.

With Chinese wages rising at 15 percent to 20 percent per year, the labor costs of manufacturing there could pull even with U.S. levels by 2015, Boston Consulting Group forecast in May.

But wages make up only 7 percent to 9 percent of Hasbro's manufacturing costs, Goldner said, and the company, which does not own its factories in China, is making greater use of automation.

China, particularly Hong Kong, is a nexus of toy suppliers, manufacturers, and shippers, making it hard for emerging Asian manufacturing centers like Vietnam, India and Sri Lanka to knock the country off its perch.

"Just like you think about Silicon Valley with technology, Hong Kong is the analogous location for toys," Toys R Us

CEO Jerry Storch said.

To be sure, the production of simpler items like plastic buckets, toy furniture, and some stuffed animals that only need some stitching has moved to places like Vietnam. But as games and toys get more sophisticated and include more electronics, China remains attractive.

"China has built an unbeatable infrastructure for effective manufacturing,"

be particularly true for simple garments.

"Taking some of our more basic product and having that produced elsewhere makes a lot of sense," said Chief Product Officer Sheree Waterson.

Lululemon, which is known for yoga pants that cost around \$100, eventually would like China to account for 50 percent of its manufacturing, down from 60 percent currently. Rather than moving production

from there, it plans to add capacity in places like Vietnam, Cambodia and Central America as its needs increase.

Those countries, and others, are closing the skills gap.

Only 40 percent of the clothes sold at Children's Place Retail Stores Inc are made in China, and CEO Jane Elfers expects that percentage to drop as the moderately priced clothing chain moves production to other countries.

"We're not feeling that that is going to cause quality issues," Elfers said.

Jeans and woven clothing can easily be made elsewhere, she said, but the dressiest, most elaborate clothing still needs to be made in China.

But China's increasingly affluent workers are losing interest in the grind of production lines.

"Nobody particularly wants to work in a textile factory in China anymore," said Dean Moore, finance director of British home shopping company N Brown. "They want to be in a merchant bank; they want to be in a McDonald's."

(Additional reporting by Mark Potter in London; Editing by Lisa Von Ahn)



**NEXUS OF SUPPLIERS:** Toys, made in China, are displayed inside a showroom in Hong Kong June 23, 2011. REUTERS/TYRONE SIU

said LeapFrog CEO John Harbour. "It is still the world's factory."

## LOOKING AT VIETNAM

SOME COMPANIES with more labor-intensive manufacturing are moving some production out of China. Jarden Corp, for instance, now makes items like baseball bats and life jackets in North America.

Clothing store chains also are trying to protect margins that are under growing pressure from rising Chinese wages and oil prices, and many of them say workers elsewhere in Southeast Asia are up to the task.

Lululemon Athletica Inc is finding that to

# U.S. RETAIL TO OUTPACE EUROPE-DELOITTE

BY MARK POTTER  
LONDON, JUNE 27

U.S. RETAILERS WILL return to modest growth in time for the holiday season, outpacing their counterparts in Europe which will suffer the effects of a debt crisis for years to come, according to consultants Deloitte.

Ira Kalish, director of economics and consumer business at Deloitte, told the Reuters Consumer and Retail Summit that Germany should boost domestic demand to stimulate imports from debt-laden European economies like Greece, Italy, Spain and Portugal.

But with Europe's biggest economy

mainly to one-off factors like bad weather and disruption from March's devastating earthquake in Japan.

While lower and middle-income U.S. shoppers, many of them still underwater on their mortgages, would stay cautious with unemployment showing little sign of falling, they were at least seeing some improvement in real incomes, he said.

Higher income shoppers, meantime, were feeling much better off, creating an environment where discount and luxury retailers could both continue to thrive, while those in the middle come under the most pressure.

"I think in the second half we will see U.S.

because of rising inflation, and real incomes falling sharply, he said.

European retailers needed to respond by stepping up expansion into faster-growing emerging markets, particularly in Asia and Latin America, he said.

That carried big risks, as consumer tastes vary so widely.

"It's a very steep learning curve. It's a long-term investment. The returns are not likely to be quick. But in the world we're living in, this is where the growth is going to come from," Kalish said.

He saw particular opportunities for clothing and homewares retailers from an explosion of middle-income households in emerging markets like Brazil.

"If you go to the malls and look at the speciality apparel, and homewares (stores in Brazil), it's still very fragmented and still very local. That's where I think you can see opportunities," he said.

While a small number of retailers, like fashion groups Inditex and H&M and home improvements group Kingfisher were already going global, there was plenty of room for others like U.S. chain Crate & Barrel and Britain's Marks & Spencer to make more of an impact too, he said.

As well as expanding into growth markets, retailers needed to respond more effectively to the internet, which has turned many of the goods they sell into commodities by making them widely available and instantly comparable by price, Kalish said.

That meant thinking more like a consumer goods company to create distinctive brands and harnessing new technologies.

"So far, social networks have mostly been a way to destroy brands and accelerate commoditisation. Retailers need to fight back and use social networks to try to build their brands and build their relationship with consumers," Kalish said.

(Editing by James Davey and Jon Loades-Carter)



SHOPPING FOR SALES: A man carries a bag in the West-End in London June 16, 2011. REUTERS/LUKE MACGREGOR

focused on balancing its own budget, and driving through a fiscal squeeze to get there, he saw little prospect of that happening any time soon.

"I would expect to see a very difficult environment for retailers in Europe over the next one to two years. And even beyond that I'm not sure we're going to see a whole lot of health," he said.

Kalish was more upbeat about the United States which, like Europe, has seen its economic recovery falter in recent months.

He said a slowdown in second-quarter growth, which had hit spending, was due

retail sales growth go back to where it was in the first quarter, which was modest growth, but still growth (of 2-3 percent)," he said.

## FIGHTING BACK

CONSUMERS IN individual European countries were coming under intense pressure as their governments drive through draconian austerity measures at a time of rising prices, Kalish said.

Britons, for example, faced a "perfect storm of negative effects," with the government slashing spending, the bank of England unable to provide further monetary stimulus



**DON'T BREATHE ON THE PRIME MINISTER:** A Tesco store worker waits for the arrival of Britain's Prime Minister David Cameron during a trade mission in Beijing, November 9, 2010. **REUTERS/DARREN STAPLES**

# TESCO GEARS UP FOR AUTUMN PUSH IN BANKING

BY MARK POTTER AND JAMES DAVEY  
LONDON, JUNE 27

**T**ESCO, THE WORLD'S third-biggest retailer, will make its long-awaited push into banking this autumn, and will not do so by buying Lloyds branches or bidding for state-owned Northern Rock.

Andrew Higginson, head of Tesco's retail services business, told the Reuters Consumer and Retail Summit on Monday that the British group was focused on expanding its own operations.

The group was not interested in buying branches being sold by Lloyds and was very unlikely to bid for nationalised bank Northern Rock, he said.

Tesco announced plans to set itself up as a bank in 2008 when it bought out Royal Bank of Scotland from a financial services joint venture. While it has launched some products since then, like a fixed-rate savings

account, it has focused largely on setting up its own operations, from IT platforms to call centres, and transferring customers to them.

"It has been an incredibly difficult thing to do," Higginson said, describing how the business has transformed from a joint venture employing 185 people to a team of over 3,000.

"I do not think there will be too many new

*"IT HAS BEEN AN INCREDIBLY DIFFICULT THING TO DO."*

**END OF TRANSITION:**

Branding for a Tesco store is seen in west London April 19, 2011. **REUTERS/TOBY MELVILLE**



competitors appearing, if our experience is anything to go by."

He said Tesco was near the end of the transition, ironing out glitches that saw some savers locked out of their accounts earlier this month and preparing to transfer 2.5 million credit card holders to a new platform in August and September.

That should allow it to launch mortgages in early autumn, a bit later than hoped, followed by tax-efficient individual savings accounts by the end of its fiscal year in February and current accounts in autumn 2012, he said.

The new products would be accompanied by a marketing drive.

**PICKING UP THE PACE**

"AT A TIME when you are migrating everything, you cannot really have a big marketing push for new customers," Higginson said, when asked about Tesco Bank's low profile so far.

"Certainly we will be picking the pace of that up as we get towards the back end of the year," he said.

Some analysts have been disappointed by the time it has taken Tesco to gear up its banking business, arguing it has missed an opportunity to take custom from established players during the financial market crisis and lagged other new entrants, like Metro Bank and Virgin Money.

However, Higginson said the group was close to its original timetable and would have competitive advantages over the longer term from its Clubcard loyalty scheme, which should make it cheaper to win and retain



**MISSED OPPORTUNITY?:** Tesco CEO of Retail Services Andrew Higginson listens during the Reuters Consumer and Retail Summit in London June 27, 2011. **REUTERS/BENJAMIN BEAVAN**

customers, and from its focus on the internet, where Tesco Bank does 85 percent of its business.

"If we have got lower delinquency, and we have got lower customer costs, and we have got lower operating costs ... then you have a chance to do the right thing" and offer customers consistently good deals, he said.

Tesco was aiming to build a mortgage

book worth around 10 billion pounds, with an average loan-to-value ratio of 80-85 percent, he said.

Higginson said Tesco would look at the sale of Northern Rock, but was unlikely to be interested in buying it.

"Now we are moving along with our own plan, that looks less and less attractive," he said. "It is the sort of thing you would classically have a look at to take a positive decision one way or the other, but it is very unlikely we would do it."

Higginson said Tesco had scrapped plans to set up bank branches within stores due to the cost and was instead testing areas within stores that were largely based on self-service terminals, but would still offer some level of staffing.

It was also looking at improving an existing service where customers can pay cheques in at its 30,000 British checkouts.

"It is a bit clunky today. But if we can get that to be straightforward, that would be a fantastic convenience," he said.

Higginson predicted a "very good improvement" in underlying profits at Tesco Bank this financial year, with an acceleration the year after. Tesco Bank made a profit of 264 million pounds in the year ended February 2011, out of a total profit for retail services, which also includes telecoms, internet sales and market research unit Dunhumby, of 583 million.

Higginson said Tesco was still confident of building a 1-billion-pound a year services business over the long term.

# LULULEMON EYES \$1 BLN IN REVENUE

BY S. JOHN TILAK AND ALLISON MARTELL  
TORONTO/NEW YORK, JUNE 27

LULULEMON ATHLETICA Inc is not feeling threatened by new premium yoga lines from big-name sportswear manufacturers such as Nike and Adidas, despite worries that competition might cut into its phenomenal growth curve.

The Vancouver-based yogawear retailer expects to hit \$1 billion in revenue during fiscal 2012, as productivity at its U.S. stores, once a cause for concern among investors, climbs closer to that seen in its highly profitable Canadian outlets.

While Lululemon's sales have soared along with its share price, investors have been concerned that competition might start to slow its ascent.

"We're not feeling it or seeing it on a global basis or even store by store," Chief Financial Officer John Currie told the Reuters Global Consumer and Retail Summit on Monday, when the stock hit an all-time high.

"But you know, it's a competitive marketplace. So, the next competitor ... we have to worry about them just like we do about Nike and Adidas."

Lululemon's Nasdaq-listed shares closed up 4 percent at \$108.58 on Monday, after



**COMPETITIVE MARKETPLACE:** A Buddha shrine sits at the entrance of lululemon athletic, a yoga clothing store, as a woman shops with her dog in San Francisco, California, in this March 31, 2006 file photo. **REUTERS/KIMBERLY WHITE**

hitting their highest level since the company went public in 2007. The stock closed up C\$4.29 at C\$107.24 in Toronto.

The company's fiscal 2012 ends in January 2013.

Lululemon has seen an improvement in its store productivity in the United States in recent months, said Currie, reaching \$1100 to \$1200 per square foot, well above its targets when it entered the U.S. market.

"We're seeing crazy improvement in the

U.S.," said Currie.

The company is also looking to expand online, where it is replacing a basic outsourced site with an improved, in-house system.

"Even without adding bells and whistles and functionality, it's generating about 10 percent of our revenue and we see that going higher," said Currie.

While Lululemon remains focused on yoga, it has experimented with lines for other activities, including swimming, cycling and hiking.

Sheree Waterson, chief product officer, doesn't see the diversification as a distraction.

"Yoga is our access to all sports," she said, adding that shoppers have responded particularly well to the company's running gear.

Lululemon's men's line is also expanding. In the fourth quarter of 2010, men's items accounted for 13.7 percent of sales, the highest level ever, John Currie said.

"We try to allocate 18 to 20 percent of the floor space to men's and we believe that it has the ability to grow into that. I don't think we want to take it further because we're women's focused," Currie said.

(Additional reporting by Jessica Wohl and Phil Wahba in New York)



**DIVERSIFICATION:** Sheree Waterson, executive vice president of General Merchandise Management and Sourcing for Lululemon Athletica, speaks at the Reuters Consumer and Retail Summit in New York June 27, 2011. **REUTERS/BRENDAN MCDERMID**



ONLINE SALES TO DOUBLE: Shoppers pass by the Toys R Us store at Times Square in New York November 22, 2010. REUTERS/BRENDAN MCDERMID

# TOYS R US SEES WEB SALES GROWING

BY DHANYA SKARIACHAN AND  
ALISTAIR BARR  
NEW YORK, JUNE 28

**T**OYS R US, the world's largest toy retailer, sees online sales at least doubling in the next five years, its chief executive said.

"I'd be disappointed if we didn't do more

than that," CEO Jerry Storch told the Reuters Global Consumer and Retail Summit in New York.

"There's a change in the paradigm for how we think about the Internet. This change has arrived. What did we sell online or in the store? Everyone has to stop thinking like that. I almost always check online first before

going to a store," Storch said.

"You could not find a bigger fan or supporter of the Internet than me," Storch said. "Our Internet sales as a percentage of total sales are among the highest of all retailers."

The company's rivals include mass merchants such as Wal-Mart Stores Inc and Target Corp as well as online



chain Amazon.com Inc.

Despite his bullish outlook on the online segment, Storch insisted that the physical stores are important too.

"The winning strategy online is bricks and mortar multichannel. Customers can order from anywhere. Orders can be fulfilled from anywhere. You can service the customer wherever they are," Storch said.

"Last year was one of the most rapidly growing years (for online sales). It was significant double digits," Storch said.

Toys R Us plans to work more with EBay Inc following the e-commerce company's recent acquisition of GSI Commerce, Storch said on Tuesday.

The firm, which is looking to go public, said an initial public offering would depend on both the state of the markets and on company-specific factors.

Storch did not comment further on the timing of the potential IPO, which analysts believe will help the company pay down debt. He said he wasn't worried about debt maturities.

One source told Reuters in April that no final decision on the IPO's timing had been made, but the company and its private equity backers were discussing whether they might get a higher price if they allowed the company more time to recover from weaker-than-expected Christmas sales. Another source said that the IPO could be in July.

The New Jersey-based retailer, which operates stores under its namesake brand and the Babies R Us and FAO Schwarz labels, filed for an IPO of up to \$800 million last May.

### HOLIDAY PLANS

STORCH SAID it is a wise idea for retailers to be more careful while planning their inventory this year ahead of the holiday selling season, considering the uncertainty in the U.S. economy.

"It's only common sense to be cautious given the uncertain outlook for the economy," said Storch, who has five kids.

Toy retailers make more than a third of their income in the biggest selling season in the year. Demand was strong at the start of the season last year, but petered out when



**CAUTIOUS:** Jerry Storch, Chairman and CEO of Toys R Us Inc., speaks at the Reuters Consumer and Retail Summit in New York June 28, 2011. **REUTERS/BRENDAN MCDERMID**

retailers applied the brakes on discounts.

"My belief is that many retailers ended up with too much inventory last Christmas. They were kind of fooled by false optimism that the economy had already recovered.

"I would be very surprised if everyone didn't behave differently" this time, he said.

Storch said it was too early to give his sales expectations for this holiday season, but agreed that customers will see higher toy

prices this year as toy companies try to pass on some of the higher costs of labor, freight and resin to shoppers.

"We're working very hard to hold the prices, but it's inevitable there will be some increase," Storch said, adding that the price increases won't be significant.

(Additional reporting by Helen Chernikoff; editing by Matthew Lewis and Gerald E. McCormick)

# CHILDREN'S PLACE UPBEAT ON SCHOOL START

**BY NIVEDITA BHATTACHARJEE AND MARTINNE GELLER**  
 BANGALORE/NEW YORK, JUNE 28

**C**HILDREN'S PLACE Retail Stores Inc is gearing up for a much better back-to-school season as it banks on tighter inventories and new, sometimes pricer, merchandise to entice still-wary shoppers, its chief executive said on Tuesday.

Shares of Children's Place, which sells clothes for kids, were up 1.7 percent at \$45.14 in early afternoon trading.

"Last year, back to school was very difficult for us. This year, we are in a much better position ... because inventories are in a better position," said CEO Jane Elfers, adding that prices on some clothes will be up by \$1-\$2, due to higher costs for commodities such as cotton.

"Costs in the fall season are significantly high ... but cotton prices are ebbing down spring into summer," Elfers said, adding that the back-to-school season of 2012 should see some relief from lower cotton prices.

The back-to-school season, during which youngsters stock up on clothes, gadgets and paper supplies for the new school year, kicks off in July and runs through Labor Day in early



**A BETTER POSITION:** Jane Elfers, CEO of Children's Place Retail Stores Inc., speaks at the Reuters Consumer and Retail Summit in New York June 28, 2011. REUTERS/BRENDAN MCDERMID.

September. It is the second-largest shopping period in the United States, after the holiday season in November and December.

Since taking the top job in January 2010, Elfers has been working to correct inventory and merchandise missteps that had often led the retailer to discount heavily at the end of each season to get rid of unsold merchandise.

This year, Elfers is expecting fewer discounts due to improvements in the company's merchandise assortment, marketing and inventory levels.

"This year, you will see more wearable and lighter fabrics. (Girls) can buy it in July and wear it in July," said Elfers.

**RESHUFFLING MANAGEMENT**

ELFERS HAS ALSO reshuffled her management team, and is still looking for a new chief marketing officer.

"I've interviewed a lot of people (but) haven't found someone with the background, mix to fit into the group," said Elfers, who is also revamping the company's strategy for outlet stores and online shopping in a bid to capture more market share.

"We see about 50-65 percent of outlet merchandise being unique by 2012, up from 3 percent now," Elfers said, and added that the company sees opportunities to go beyond its usual merchandise in its online store.

Currently, e-commerce does not even account for 10 percent of Children's Place's overall sales. It mostly sells the same things as in its stores, except for some baby bedding and extended sizes.

Children's Place, which competes with chains like Target Corp and Gap Inc's Old Navy, caters to households with a median annual dual income of about \$70,000 -- or shoppers who are still under pressure and looking for bargains.

"(With) the pressure on fuel and food, (our core shoppers) have to make a lot of choices right now. When the real apparel inflation hits in back-to-school and holiday, she's going to have to be further pressed to make those choices," Elfers said. "The high-end consumer is not our consumer."

U.S. consumer spending failed to rise in May, breaking 10 straight months of gains, as households struggled with rising prices.

The Secaucus, New Jersey-based company, which operates almost 1,000 stores in North America, is planning to open its first international store in the second half of 2012 and has seen a lot of interest for partnership in new countries, Elfers said.

"We're looking mostly at a franchise model and long-term partners," Elfers said. The company has not yet decided where its first international store will be.

(Reporting by Nivedita Bhattacharjee and Martinne Geller, editing by Dave Zimmerman and Gerald E. McCormick)

**OTHER SUMMIT INFO**



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<http://www.reuters.com/summits>

*THE BACK-TO-SCHOOL SEASON OF 2012 SHOULD SEE SOME RELIEF FROM LOWER COTTON PRICES.*

# SAINSBURY SEES CUT-THROAT UK GROCERY MARKET



**RIGHT TOOL KIT:** J Sainsbury CFO John Rogers attends the Reuters Consumer and Retail Summit in London June 28, 2011. **REUTERS/BENJAMIN BEAVAN**

**BY MARK POTTER AND JAMES DAVEY**  
LONDON, JUNE 28

**J**SAINSBURY PLC is confident of returning to outperformance of Britain's grocery market once a period of unusually cut-throat competition runs its course, Finance Director John Rogers said.

Speaking at the Reuters Consumer and Retail Summit on Tuesday, Rogers said British shoppers were under intense pressure from rising prices and government cutbacks. Many grocers were responding with promotions which, while boosting sales, were adding nothing to profits or even eroding them.

"That's a dynamic we've seen for the last couple of quarters," he said, referring to why Sainsbury's outperformance of the industry during 2009 and 2010 had recently faded.

Rogers rejected suggestions that middle-income shoppers, traditionally the bedrock Sainsbury's customer base, were suffering more than other income groups and was confident its strength in areas like own-brand products and convenience stores would help it to outpace rivals again.

"We feel as if we've got the right tool kit to outperform in the longer run. But there will always be periods when we're keeping pace

and at the moment it just makes no sense to chase those unprofitable sales," he said.

Rogers said cut-throat competition was often a feature of trading early in the year and the pressure tended to ease as firms start to focus more on their bottom lines.

While there was little prospect of a quick recovery in consumer spending, confidence was so low already it was unlikely to be affected significantly by more bad news, such as a rise in interest rates, he added.

"There's a huge, huge amount of pressure on consumers and has been certainly for the last six months and certainly will be for the next six months," he said.

"It's very difficult to see light at the end of the tunnel at the moment," he added, echoing gloomy comments earlier in the day from rival Asda and from non-food retailers like Carpetright and Thorntons.

Rogers said Sainsbury's, Britain's third-biggest grocer behind Asda and market leader Tesco Plc, was seeing a tick up in demand for cheaper own-brand products as cash-strapped shoppers look to save money.

The group is in the midst of revamping its standard own-brand range and expects to have relaunched around 70 percent of the 6,500 products by March 2012.

Own-brand goods, including the lower-priced "Basics" and premium "Taste the Difference" ranges, account for more than 50 percent of Sainsbury's sales -- slightly higher than at Tesco and Asda.

"It's absolutely our strength," Rogers said.

He added Sainsbury's was also benefiting from higher levels of demand at its convenience stores as Britons shop more frequently in order to cut back on waste -- a trend also reported by upmarket rival Waitrose.

Sales at convenience stores open at least a year were growing at around twice the pace of sales at larger supermarkets, he said, adding the group was on track with its plans to open one or two convenience shops per week this year.

(Editing by David Holmes)



**PRESSURE ON CONSUMERS:** Sainsbury's supermarket trolleys are lined up at a branch in west London November 10, 2010. **REUTERS/TOBY MELVILLE**

# SUMMIT SPEAKERS



**NEIL AUSTRIAN**  
Chairman and Chief Executive Officer  
Office Depot Inc



**JANE ELFERS**  
Chief Executive Officer  
Children's Place



**JUDITH MCKENNA**  
Chief Financial Officer  
Asda



**CHUCK RUBIN**  
Chief Executive Officer  
ULTA Salon, Cosmetics & Fragrance



**JOHN BARBOUR**  
Chief Executive Officer  
LeapFrog Enterprises Inc



**MARTIN FRANKLIN**  
Executive Chairman  
Jarden Corp



**DEAN MOORE**  
Group Finance Director  
N Brown Group



**JERRY STORCH**  
Chairman and Chief Executive Officer  
Toys R Us Inc



**TONY BARTEL**  
President  
GameStop



**BRIAN GOLDNER**  
President and Chief Executive Officer  
Hasbro Inc



**MICHAEL NIEMIRA**  
Chief Economist & Director of Research  
International Council of Shopping Centers



**BILL TANCER**  
Manager of Research  
Experian Marketing Services



**KENNETH BERLINER**  
President  
Peter J. Solomon Company



**ANDREW HIGGINSON**  
Chief Executive Officer,  
Retail Services  
Tesco



**MARK PRICE**  
Managing Director  
Waitrose



**SHEREE WATERSON**  
Vice President,  
General Merchandise Management and Supply Chain  
lululemon athletica



**MARC COOPER**  
Managing Director  
Peter J. Solomon Company



**JAMES LILLIE**  
Chief Executive Officer  
Jarden Corp



**JOHN ROGERS**  
Chief Financial Officer  
J Sainsbury



**DAVID WILD**  
Chief Executive Officer  
Halfords



**JOHN CURRIE**  
Chief Financial Officer  
lululemon athletica

**COVER PHOTOS: CLOCKWISE FROM TOP LEFT:** Fans wearing Transformers character costumes draw attention from the crowd at Hasbro's 2011 Transformers "BotCon" Convention in Pasadena, California, June 4, 2011. **REUTERS/RAY STUBBLEBINE/HANDOUT.** A trolley of goods are pictured at Tesco's in Leeds, England, June 25, 2010. **REUTERS/NIGEL RODDIS.** Sony's PlayStation Vita is shown in Los Angeles, California June 7, 2011. **REUTERS/FRED PROUSER.** A buddha statue sits at the entrance of Lululemon Athletic, a yoga clothing store, as a women shop with her dog in San Francisco, California, in this March 31, 2006 file photo. **REUTERS/KIMBERLY WHITE.** **CENTER:** A man shops at an Office Depot store in New York October 25, 2010. **REUTERS/SHANNON STAPLETON.**

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**REUTERS**



**ANNUAL MEETING OF COMICS OBSESSIVES ANONYMOUS:** Guests wear "Transformers Cine-Mask 3D Masks" as they prepare to watch a special preview from the new "Transformers: Dark of the Moon" movie during the Transformers Hall of Fame inductions ceremony at Hasbro's 2011 Transformers "BotCon" Convention in Pasadena, California, June 4, 2011. **REUTERS/RAY STUBBLEBINE-HASBRO/HANDOUT**