Market Snapshot

UK Outdoor Retail 2015

PRAGMA

Pragma View

Tom Holt CEO, Pragma Consulting

Pragma has been fortunate to have worked on a number of projects in the outdoor sector over the last few years for operators like Mountain Warehouse (and we are delighted to include an exclusive interview with Mark Neale, the CEO, in this report) and for investors.

We predict growth in the Outdoors Market will be c. 2-3% p.a. from 2015 to 2017.

We are publishing this report because we believe future growth in this market is very likely, driven by population growth, an increase in older, more affluent consumers (who are the key target audience for the products) and, specifically in the case of running, increased participation. The UK is already the second largest outdoor market within Europe, after Germany.

Other factors and trends suit this sector: for a start, the weather, but also the number of domestic holidays taken in the UK, the rising attendance of music festivals and lastly, the popularity of healthy living.

While Sports Direct dominates sports retailing, cycling, running and snow sports still remain relatively untouched and fragmented, with large parts of each market still in the hands of generalists and independents.

The outdoor market faces increasing pressure to provide customers with better value products; non-specialists have entered the market with a price-led strategy, mainstream suppliers have also decided to enter the market and own brand outdoors products are becoming increasingly popular.

Pressure is also coming from changing consumer shopping habits, fuelled in part by the hunt for a bargain which is changing market dynamics as value-led retail chains and own labels exploit this trend. The internet and e-commerce has been an enormous catalyst of change providing new opportunities as well threats.

Companies must remain focused on who their customers are as any deviation could prove costly. Pressure also comes in the form of transparency as brands must create new feeds to drive consumer discovery at the same time as openly displaying their position on such issues as corporate social responsibility, and sustainability.

We predict growth in the Outdoors Market will be c. 2-3% p.a. from 2015 to 2017. It is likely that independents and small chains will struggle whilst large chains with a well-defined proposition, mainstream suppliers and generalists are likely to do well.

I hope you find this report useful. It is the first in a regular series we will be publishing looking at specific retail and consumer sectors and trends.

If you have any feedback please drop me a line at **t.holt@pragmauk.com**.

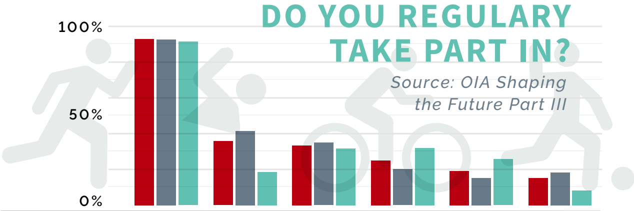
Tom Holt
CEO Pragma Consulting

By The Numbers

UK Outdoor Market Key Statistics

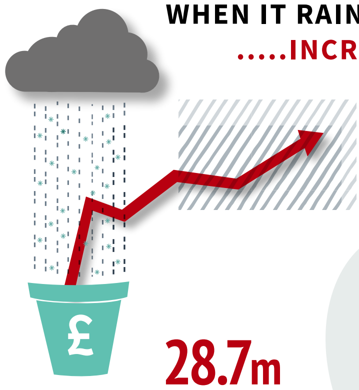
WHICH OUTDOOR ACTIVITIES DO YOU REGULARY TAKE PART IN?

Source: OIA Shaping the Future Part III



	Walking	Hiking	Cycling	Swimming	Keep fit Gym	Mountain Biking
TOTAL	92%	36%	34%	24%	19%	15%
MALE	92%	41%	35%	20%	16%	18%
FEMALE	91%	28%	31%	32%	25%	9%

WHEN IT RAINS, IT.... .....INCREASES SALES



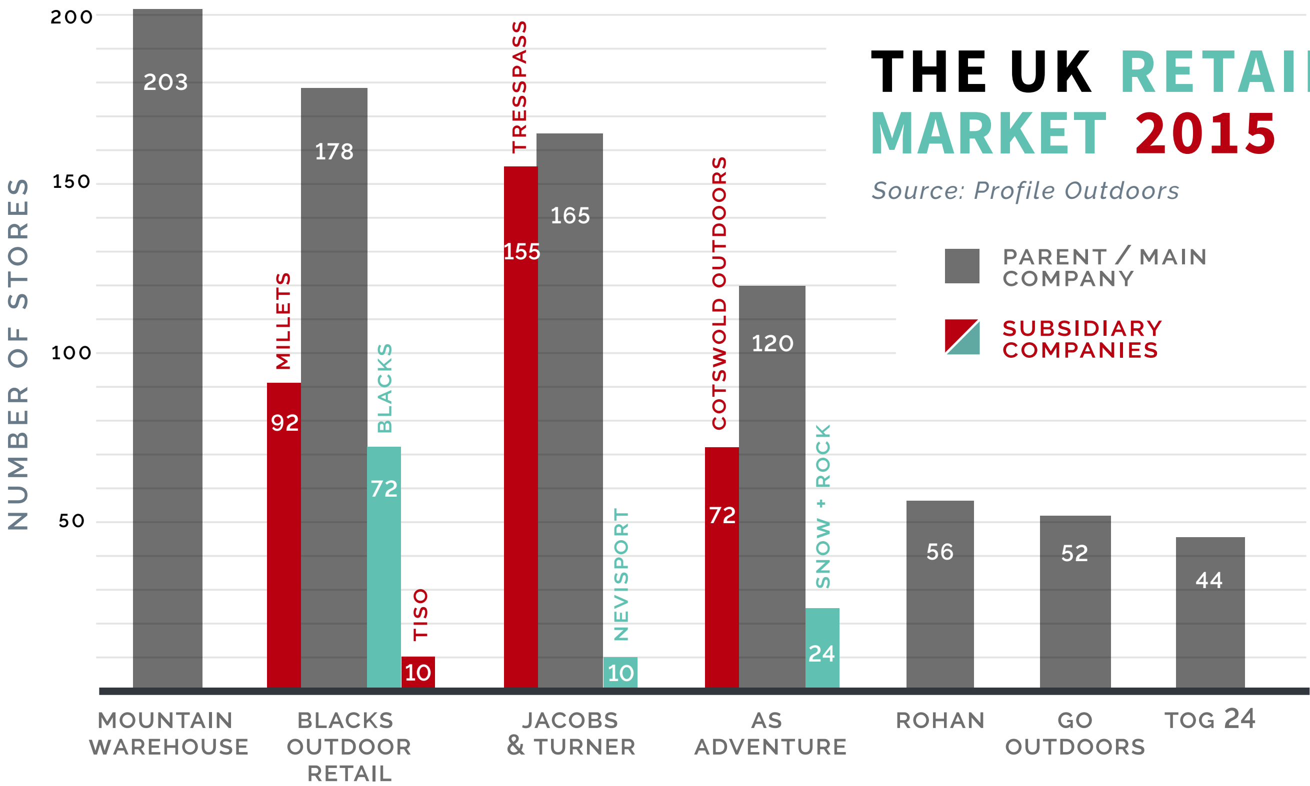
- Cold & Wet Winters
- Mild & Damp Springs
- Rainy Summers

28.7m
DOMESTIC TRIPS
(JAN-APR 2015)
Source: Visit England

STAYCATIONS
+18% YEAR ON YEAR

THE UK RETAIL MARKET 2015

Source: Profile Outdoors



(2010-2013 BY TURNOVER £m)

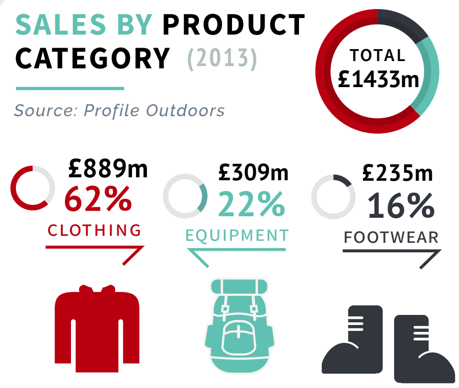
TOP UK OUTDOOR SUPPLIERS

TOP 5	2010	2011	2012	2013
1 REGATTA LTD	102.2	112.95	115.6	119.0
2 NORTH FACE*	64.0	63.0	61.0	62.5
3 BERGHAUS	55.6	56.0	56.1	54.6
4 CRAGHOPPERS	41.9	44.1	37.9	37.8
5 AMG Group	33.4	32.9	27.3	26.8

Source: Profile Outdoors (2013) *Estimated

SALES BY PRODUCT CATEGORY (2013)

Source: Profile Outdoors



Expert Interview

Mark Neale CEO, Mountain Warehouse

Mountain Warehouse has had a great year. Could you give us a a brief overview of how things are going?

> ‘By Christmas this year, we will have 225 shops, including 34 new shops opened this year’

Our sales are up by 24.7% this year, with profit up 28% and online sales up 41%.

MW is active in several European countries. How did you build your international footprint?

At the moment we are in the UK but also in Poland, Austria and Ireland, plus one shop in Germany. We have agreed to open more shops in Germany, in the early parts of 2016.

International expansion really started for us with Poland in 2011 and now we have 10 stores in Poland. We are interested in countries with cold or wet weather and climates, and outdoor activity heritage. Poland and Germany are like that. Other countries with warmer climates are less urgent for us. In the UK, the “wet” is not a problem!

Could you describe a typical MW store?

Physically, we have two typical sizes. The smallest ones are about 100 sq.m GLA and we will open our largest store later this month in Banbury on 500 sq.m GLA. We are in lots of different locations, but we quite like market towns, tourist towns, places that people visit on holidays or days out. We have shops in national parks, where people go walking. We like places like Devon & Cornwall and Scotland.

We are not focussed on big cities. MW is much more of a country offer. For instance, in Germany, we have a shop in Heidelberg, which has a huge number of tourists and also students. In Poland, one of our shops is in Zakopane, a mountain ski resort and hiking resort in summer, located in mountains in the South of Poland. It’s difficult to have a standard size in such different places. As a result, we have a very eclectic mix of stores. It’s not like when you enter a regular shopping mall and you look for a typical 300 sq.m store.

What about your offer? What are the best selling categories?

> ‘It’s very much focused on value for money, everyday activities for the whole family. It’s not about climbing Mount Everest,it’s about kids and parents who play sports at the weekend, people going walking or camping for the first time’

Primarily, the offer is apparel clothing and footwear (about 80% of sales) Non-apparel (bags) is about 20% of sales. Everything is under our own brand, Mountain Warehouse.

Why do you prefer retail parks over high streets or shopping centres?

We do quite like high street locations, depending on where they are. We have shops in Central London (about 4) but for us, it’s so difficult to afford the rents. We can’t really compete with the major fashion retailers. In other locations, we are not competing with fashion retailers, so rents are much more affordable.

And that's where our customers are, actually. People who do outdoor activityies and need outdoor clothing tend to be in outdoor locations rather than in cities.

Are customers looking for more style/fashion in outdoor clothing? And on the opposite, are there fashion retailers who move into lifestyle products?

‘People are wearing a lot of outdoor clothing for their everyday life rather than specifically outdoor activity, so both categories are definitely getting more blurred’

The MW products we sell are primarily technical in some way or another (fabrics, manufacturing techniques) and fashion retailers don't really understand that. You have to work with different manufacturers, and fabrics. Many customers want a credible and authentic outdoor brand. We also try to sell more stylistic products, so we have items to sell in sunny weather (shorts, t-shirts etc).

Do you see the outdoor sector growing in the UK, and if so, becoming more competitive?

It's extremely competitive and very price sensitive. I think the market is growing, not at a fast rate but growing, as more people are doing more leisure activities and as the government is encouraging us to go out more.

Regarding your international footprint, do you see consumer differences between the UK and Continental Europe?

There are differences in terms of the colours people want to see. I think the UK is a very conservative market (dark colours) while some other markets prefer brighter colours. In other markets, we also have a prevalence of skiing apparel, which are naturally more colourful.

I think that more of a structural difference is that in the UK, there is a split between outdoor and regular sports. It's more separate, whereas in France you have Decathlon, which is a market leader for both outdoor and regular sport. In the UK, items for regular sports (team like football or individual like tennis) tend to be in different shops (Nike, Adidas) than outdoor. The markets are slightly different in that way.

Who are the main competitors of MW?

In the U.K, we compete with Cotswold Outdoor, Go Outdoors and Blacks & Millets. In the sport sector, competitors are very different. Sport Direct is the UK's largest sport retailer, and they do a little bit of outdoor but they are primarily a sport retailer.

In Poland, we compete with a local retailer called 4F (mix of sport & outdoor, like in the rest of Europe) and in Germany, there is Globetrotter and of course, Jack Wolfskin, a franchised store network with a high-end brand.

Do you believe that Europe will become more important for you in the next few years?

Yes, definitely. We have opened our first shop in Germany earlier in 2015 and I think we've agreed 3 more shops, and we are actively looking for more locations. I was there 2 weeks ago with the property director. Germany is a big country, it's a big priority for expansion, the main priority. We believe that Germany could become a larger business than the UK eventually.

Also, Poland & Ireland are priorities. In Ireland, we have only 2 shops, we could go to 20 eventually. Also, we quite like Holland and Denmark even if we've not done anything yet in these countries. These are northern countries, with similar infrastructures to the UK.

What opportunities do you see beyond Europe for Mountain Warehouse?

We sell quite a lot in the USA & Australia on our website, and we've just launched in China on Tmall Global online website (part of Alibaba) last week.

In the longer term, we consider that we could open stores as well, but slowly.

How is the online business evolving?

It's growing extremely quickly, it's close to 20% of our total sales. In the first half of the fiscal year, it's been growing by 41%. We now make exclusive products for online (extra colours, bigger ranges). Online is also quite useful to test products. We try to operate a multichannel approach. People can click & collect, order at a store. We don't do customisation, but we have the widest range online and we have some exclusive products online. We try (it's difficult to do but we try) to make sure that the online shop is the last shop to sell out of something. So if a product is sold out in a store, people can order it online.

Andy Street from John Lewis said earlier that free click & collect was not viable for any retailer. How do you deal with the costs of click & collect and delivery?

I agree with him. We've experimented different schemes for delivery and so on, and we do not make free click & collect at those prices.

'It's just not economic to do completely free click & collect'

We do free delivery over £50 and we do free click & collect over £20. It's a lower threshold for click & collect, but we still need a threshold. We also do free next day delivery over £80.

What is the share of click & collect vs. delivery?

I think that it's roughly 20% of click & collect today. Before, at the time of the free click & collect, the percentage was much higher. I think customers are trying to have free delivery really.

What are your priorities for the online channel in the next few years?

We are launching the German language online website in the next few years. Also, we will launch US dollars, Canadian dollars and Australian dollars too over the next months. Initially, the first one to launch will be the German one, well before Christmas. It's a key priority. For six months we've had a good mobile site. We're working hard on growing the traffic, now we're trying to improve the conversion. We want to maintain growth. I'm sure we can continue growing.

What segments of the outdoor market do you think will grow in the future?

'I think cycling and running will definitely grow'

Some of the more lifestyle products will grow, and I think that people will import their offering in that area'The other important growing category is travel products (apparel, travel bags, backpacks, students going on holiday, money belts, document wallets, travel adaptors), that's a growing sector. People are travelling more & more.

What do younger customers expect?

They want more fashionable products. They are ready to pay a bit more for better technical features and functionality. The cycling and running area also appeals more to them than older people.

What do you like the most in your job?

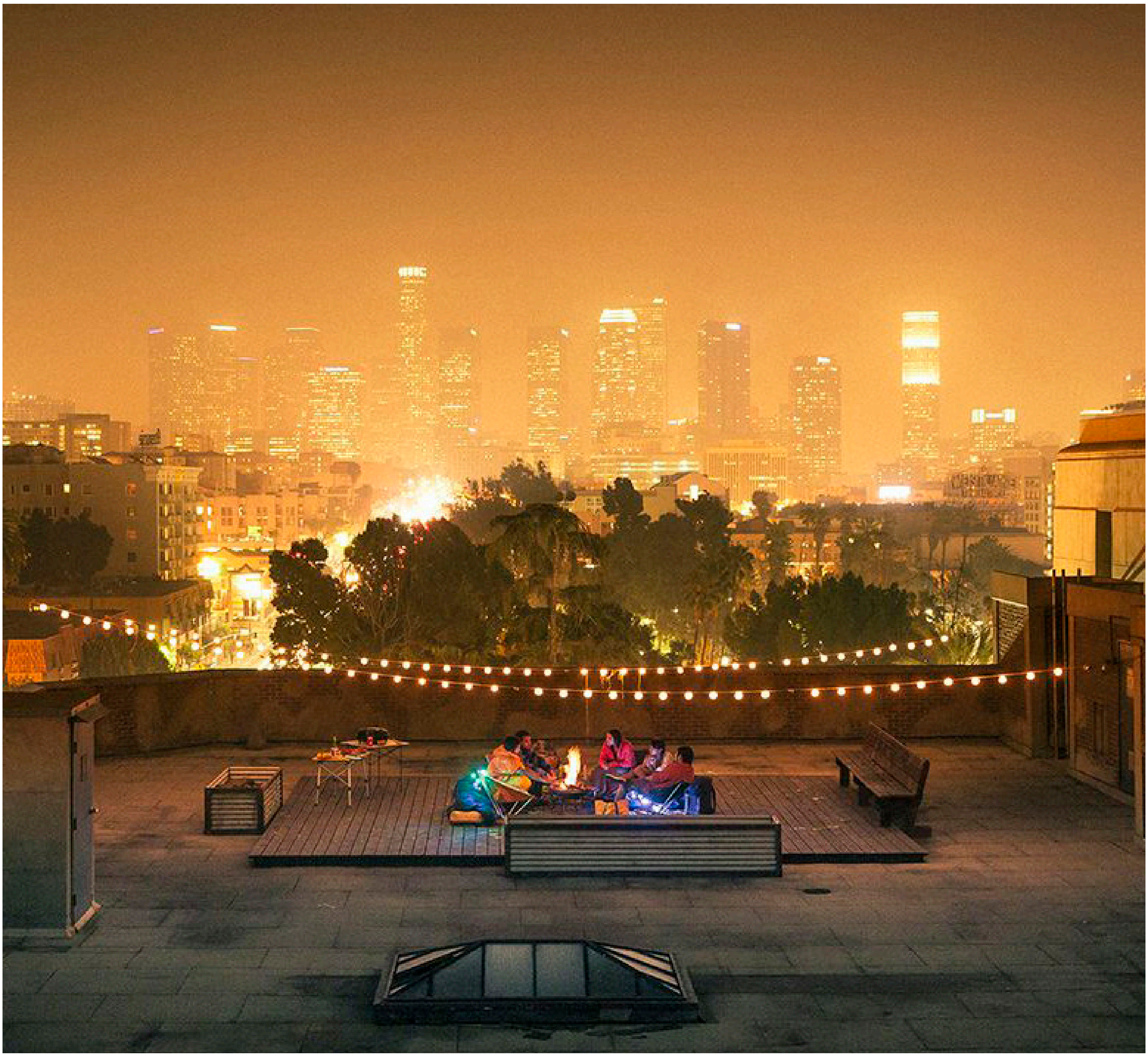
I like the product, product development, inventing new products, helping develop them and bringing them to the market. I also like the property aspects, finding great shops that can last for a very long time. For some of our best shops, we've waited for the best shops and we are very very careful when we sign the lease. We want to make sure we have the right location, a long-term approach. If you have the right location and you put fantastic products in, you have a successful business.

This interview was conducted by **Sophie Baqué**, Editor in Chief of Global Retail News, on behalf of Pragma Consulting.
www.globalretailnews.com

Key Trends
Outdoor Retail

Tech-Focused Fashion
Targeting the Urban Consumer

As more consumers are trying to lead active lifestyles with increasing focus on healthy living, the demand for performance wear that will take them from the city to the mountain is on the rise. This trend has been supported by fashion-led brands such as Nike, whose Instagram is flooded with images of climbing, bouldering and hiking. The re-launch of their Terrex range is testament to the growing popularity of outdoor clothing for the urban consumer. Traditional, technical outdoor brands such as Arc'teryx and Rab have met fashion-focused retailers at the middle, creating ranges grounded in technical excellence, but designed for everyday living. The aptly named "24" range by Arc'teryx and "Escape" by Rab, maintain the heritage and finesse of their more technical products to outperform competition in this sector, based on their longstanding reputations and authenticity. This new fashion is an intersection of core performance and style.



Key Trends
Outdoor Retail

Direct Retailing
Capturing Attention

Jack Wolfskin, The North Face and Arc'teryx are three brands going direct to consumer through their own brand stores. Jack Wolfskin has 900 franchise stores across Europe, including 3 own-brand and 5 partnership stores in the UK. Arc'teryx focused on their country of origin (US) to launch own-brand stores and now have a portfolio of approximately 10 stores across the US, Canada and Europe. Noticeably, Arc'teryx have focused on city locations, ranging from Minneapolis, to Seattle and London. However, rather than focusing on opening a flagship store, some brands have chosen to dip into direct to consumer retailing through temporary pop-up shops. Box Park London (pictured) showcases outdoor brands like Patagonia, Fjällräven, and Poler Stuff. Interestingly, most pop-ups are located in cities and target, as above, the urban consumer. The pop-up shops are accessible, cool, exciting and grab the attention of the consumer, inviting them to engage with the brand before it departs its temporary location.

Asia Calling
Channel Entry

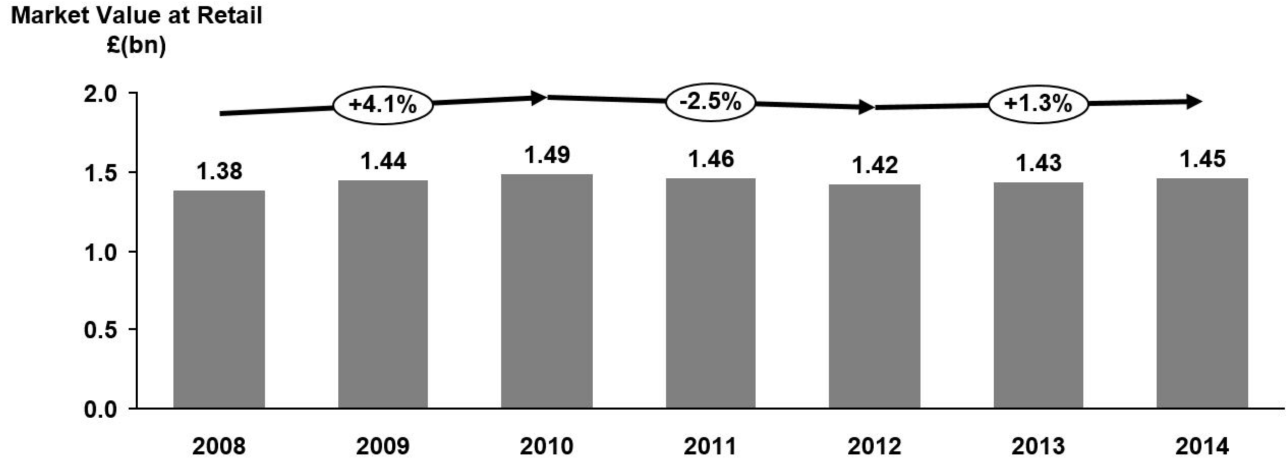
The outdoor market in Asia was worth $2.8 billion in 2014, a 10.8% increase on 2013. In addition, the China Outdoor Association forecasts that the market could grow by between 10 - 15% year-on-year to 2024. This represents a prime opportunity for foreign brands to enter and capture market share. Salomon opened its first own brand store in Japan this year, chosing the famous Mori Park Outdoor Village as the destination to launch. In addition to store growth, internet retailing channels grew by 61.7% in 2014 compared to 2013, and online now represents 28.4% of the outdoor retail market. It is, therefore, unsurprising that Mountain Warehouse has chosen online as the route to enter the Chinese market, through online retailer Alibaba's Tmall website.

Market Trends
Participation and Market Size

After a period of turbulence owing in part to the collapse of Blacks in 2012, the outdoor market returned to growth in 2013 – 2014

UK Outdoor Market Value 2008 – 2014

Source: *Profile Outdoors, Pragma analysis*

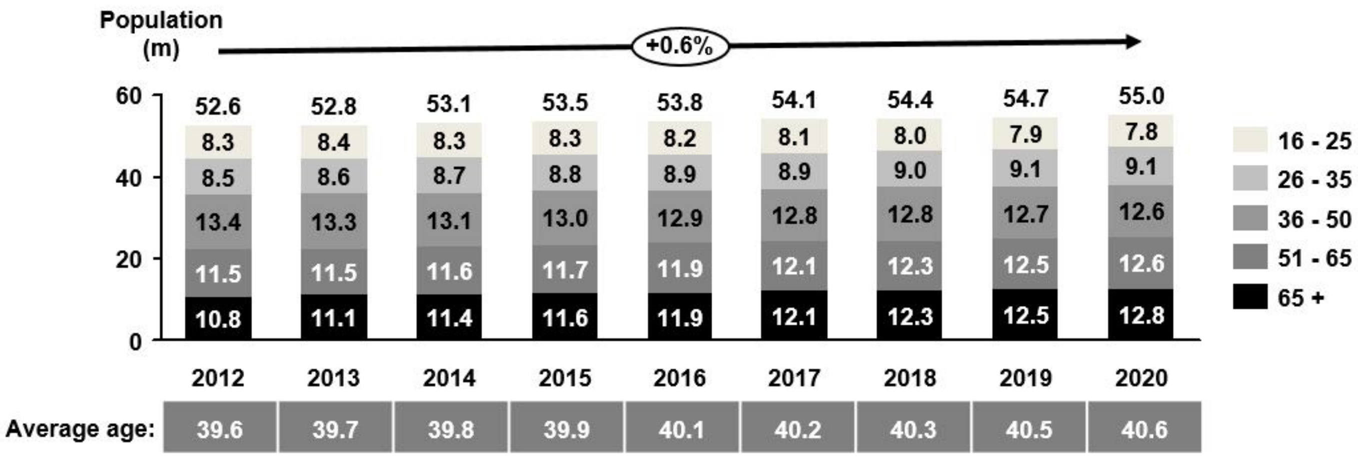


Having undergone a decline in 2010-2012 due to the delayed effect of the recession and the collapse of Blacks, the largest outdoor retailer in the country, in 2013 and 2014 the market appears to have returned to a normal level of competitive intensity.

The UK adult population is forecast to grow from 53.1m in 2014 to 55m in 2020, driven by an increase in the 50+ age bracket

UK Adult Population by Age Range 2012 – 2020

Source: *ONS*

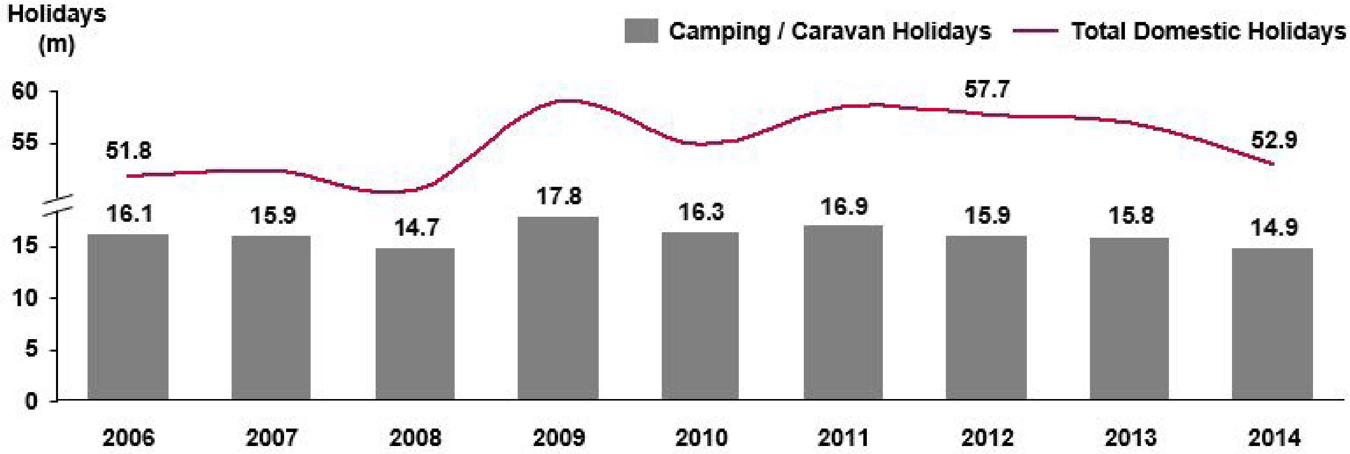


Walking is particularly popular amongst those aged over 45, indicating that the ageing population may have a positive impact on sales in this category. Historically, the outdoor market's steady growth has been driven by increasing participation; this, in conjunction with the quantum of forecast population growth, leads us to consider that the market will continue to grow in coming years.

‘Staycations’ have become more popular, with domestic holiday numbers rising by 11% to 58 million between 2006 and 2012

Domestic Holidays 2006 - 2014

Source: *ONS, Visit England (Great Britain Tourism Survey)*

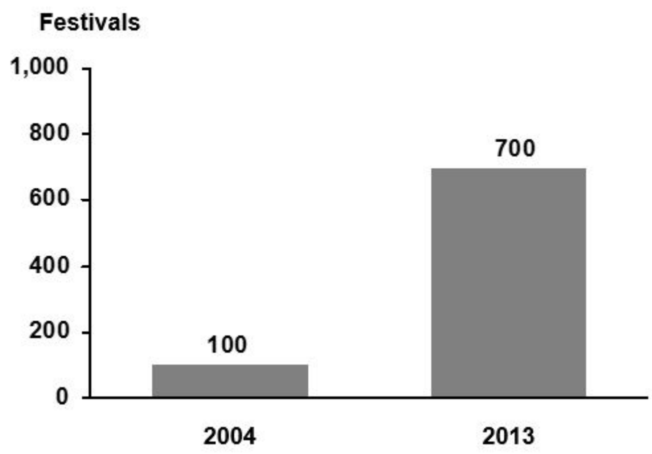


Although growth in ‘staycations’ has weakened in recent years, driven by a decline in camping holidays, the total number of domestic holidays remains up on 2006 levels, suggesting that ‘staycationers’ have branched out into other sorts of holiday. This may have the effect of ensuring that growth in domestic holidays is sustained in the longer term.

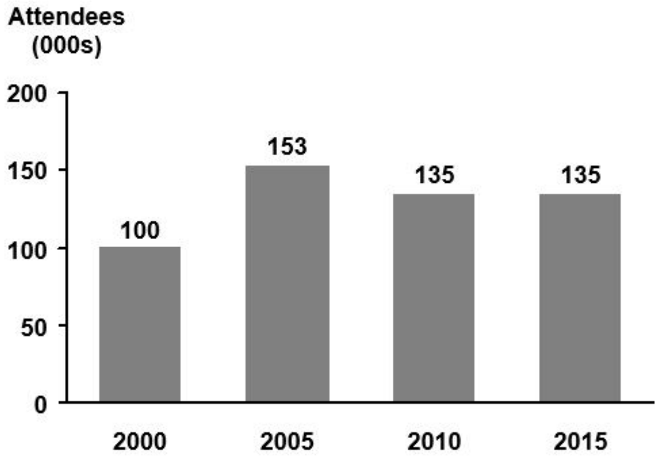
Music festival attendance has grown in recent years, boosting demand in the value end of the outdodor market

Number of UK Music Festivals

Source: *BBC, Glastonbury*



Galstonbury Festival Attendance



Music Festivals have contributed to considerable growth at the value end of the market, with consumers looking for cheap ‘throwaway’ camping equipment – such as tents. Value retailers such as Argos have entered the market, as well as the continued growth of Go Outdoors and Mountain Warehouse, both of which offer discount (and own-brand) products.

Pragma Case Study
Berghaus Customer Segmentation

Context

Berghaus, the leading outdoor clothing and equipment manufacturer, asked Pragma to help them learn more about female buyers of outdoor clothing and identify which females they should target. Pragma's work included:

1. Identifying potential future female target groups, identifying their needs and how they differ from current customers

2. Segmenting current female buyers of Berghaus products, profiling their personal characteristics and understanding their shopping habits, attitudes and activities

Pragma Solution

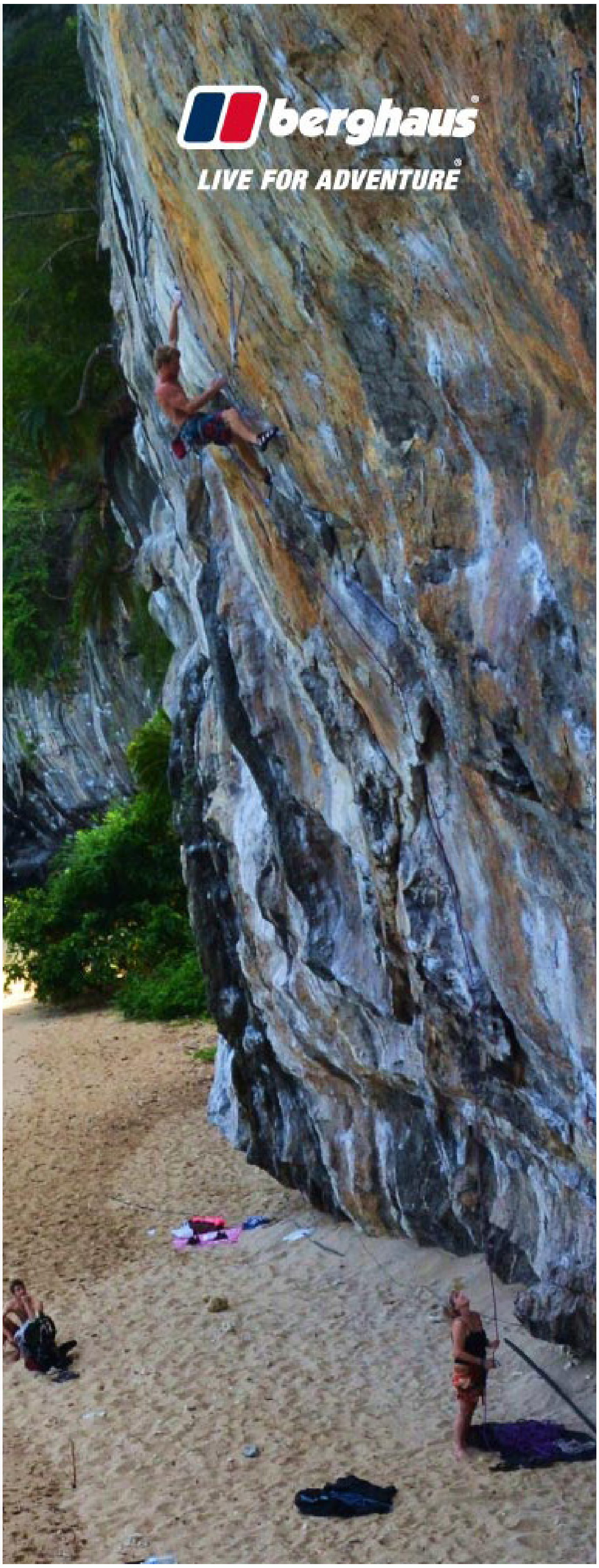
Combined qualitative focus groups and customer data to achieve a balanced analysis

Conducted research with loyal customers, light users of Berghaus gear and non Berghaus customers of varying age segments in order gain a wide spectrum of understanding around the Berghaus brand and outdoor attitudes

Worked with generic outdoor customer data to provide a specific analysis of female buying behaviour

Outcome

Pragma provided a clear picture of female outdoor buyers and identified the potential within each segment together with actionable strategies to address the most commercially attractive segment opportunities. The findings provided recommendations in the areas of range, customer communication and distribution strategies.



Pragma Case Study

Hunter Commercial Due Diligence

Context

In 1856 American entrepreneur Mr. Henry Lee Norris started North British Rubber Company (later to be renamed Hunter Boots), with only four employees. In 2011, Searchlight Capital Partners sought to become majority shareholders in the company, and commissioned Pragma to conduct a programme of commercial due diligence.

Pragma Solution

- Evaluated the key success factors of the brand in the UK and US
- Calculated the size of the wellington boot market in all key geographies as well as the opportunities and challenges Hunter faces in each market
- Examined the structure of the markets including the key distribution channels and their potential for expansion
- Analysed the brand's sustainability in the UK and the US and areas of opportunity available

Outcome

Following Pragma's report delivery, Searchlight Capital successfully acquired the controlling stake in the company. Signalling the start of a new path for the brand, James Seuss was appointed CEO in 2012.

Pragma Case Study
Mountain Warehouse Vendor Due Diligence

Context

Pragma was engaged to complete a thorough programme of vendor due diligence to provide potential debt providers with a clear understanding of the UK outdoor clothing and equipment market and Mountain Warehouse's position within it.

Pragma Solution

- Undertook a comprehensive programme of consumer research, including focus groups, an online market survey and store exit interviews, to understand consumer perceptions of Mountain Warehouse's offering and what the unique selling points are for the retailer
- Evaluated the business plan to assess the achievability of management's forecast performance and to identify areas where the business could be improved further
- Analysed Mountain Warehouse's trading performance at both the product and store level
- Assessed the historical, current and likely future health of the outdoor clothing and equipment market and Mountain Warehouse's competitors

Outcome

The Mountain Warehouse management team took full ownership of the business from LDC, with backing from RBS and Alcentra, in a deal valued at £85m.

Pragma Case Study
AS Adventure Commercial Due Diligence

Context

Pragma was commissioned by PAI Partners to conduct commercial due diligence on the acquisition of the A.S. Adventure Group, comprised of A.S. Adventure (Belux), Bever (The Netherlands) and Cotswold Outdoor (UK).

Pragma Solution

- Analysis of the dynamics of the outdoor markets and the competitive landscapes in which A.S. Adventure and its other group fascias operate
- An in-depth channel performance analysis across store and e-commerce channels
- Assessment of the potential for further domestic and international growth for each business
- A programme of consumer research to better understand the consumer in each market
- Assessment of the feasibility of each aspect of the business plan

Outcome

Based on Pragma's findings and conclusions, PAI Partners acquired the business in January 2015. Pragma's recommendations also contributed to the eventual acquisition of Snow & Rock by A.S. Adventure in June 2015.

Pragma is a leading consultancy which specialises in retail and consumer markets, airports and commercial spaces

Established over a quarter of a century ago, it's our unique combination of research, analysis, retail operations and implementation skills that sets us apart. We have delivered over 1,300 projects in over 30 countries and can apply our skills in any market or sector.

pragmauk.com
+44 (0)20 7902 6888

Profile UK Outdoor Market Report 2014

Profile Outdoors Ltd

In today's competitive business environment, knowledge and understanding of your marketplace is essential. With over 20 years' experience, Profile has built a reputation as the number one source of reliable market information on the outdoor industry.

The 140+ page Profile UK Outdoor Market Report 2014 offers a detailed insight into the marketplace through a combination of market research, supplier, retailer and consumer surveys, company financial analysis (supplier and retailer) as well as observation and insight. The report costs £895.00 for a single user agreement.

For more information contact info@profileoutdoors.com
The Profile UK Outdoor Report 2016 will be published in May 2016

PRAGMA