UK RETAIL:

LEADING GLOBALLY, SERVING LOCALLY
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Retailing plays a central role in British life. Unlike many other business sectors, we are close to people wherever they are. Whether as a customer or as one of the three million people who work in shops, almost every one of us comes into daily contact with retailing.

Yet, as the UK’s retail trade association, we are regularly and rightly asked some very tough questions. Do customers get a good deal from our retailers? Does retail make a fair contribution to the public purse? What is the true value of a retail job? Are we as efficient as overseas retailers?

This landmark independent study, carried out by Oxford Economics and the Oxford Institute of Retail Management, provides a clear and positive answer to these, and other, crucial questions. It shows the unique and significant role the sector plays in the UK’s economy and society.

We generate very significant wealth; are a leading investor in both our communities and our people; are the largest private sector employer; and work tirelessly to ensure that our customers receive the very best value and service.

But that’s not the end of the story. Against the backdrop of testing economic conditions, this report clearly demonstrates that retail has a fundamental role to play in the economic recovery. Given the right conditions, we will remain a great British success story. This report sets out the breadth of our contribution.

Stephen Robertson
Director General
British Retail Consortium
A British success story

The British love affair with shopping, and shopkeeping, has been disparaged by economists, industrialists and a French general over the centuries, but remains central to the economic and social welfare of the UK. A key driver of economic prosperity, the retail sector generated £303bn of retail sales in 2011—equivalent to one fifth of UK GDP—and plays a vital role in the regeneration of towns, cities and local communities.

Retail is Britain’s largest private sector employer, providing jobs for almost 3 million people and so is responsible for more than 10% of total UK employment. The exceptional flexibility of retail work, with a higher proportion of part-time roles than other sectors, gives workers greater freedom and wider opportunities for career development. Parents, usually mothers, are better able to achieve a sustainable work/childcare balance, students are able to fund further education, and people without formal qualifications are able to gain an important first step on the career ladder. Also, retail is often the first opportunity for paid employment for many young people.

In fact, 42% of all working 16-17 year olds are employed by retailers.

Commendable investment in training by retailers—£1,275 per employee per year, compared to just over £800 in the financial sector—gives retail workers invaluable, transferable skills from which other sectors of the economy benefit. Many successful careers have started in retail before blossoming elsewhere. Equally, long-term investment in people has helped to foster employee loyalty and developed retail leaders from the shopfloor.

The retail sector is, in many ways, a paragon of UK business excellence. Intense competition means UK consumers get a better deal than in the rest of Europe, paying approximately 5% less than their European counterparts for a standard basket of goods. Despite legislation that curtails the free market, labour productivity rose by 40% between 1995 and 2007 (as opposed to just 10% in France or Germany). UK retail is at the vanguard of international, multichannel shopping, well ahead of European rivals. Enthusiastic, educated and technologically aware consumers have been a key factor in boosting internet sales to £23.4bn in 2010. Globally, with an estimated 11% of sales, the UK is the third largest market for internet shopping, equivalent to Germany and France combined.

The retail sector also pays its fair share to the public purse—approximately £18bn in net VAT payments, National Insurance, PAYE and Business Rates—and makes less use of exemptions than other sectors, including banking, oil and gas.

UK retail is a significant exporter. Flagship retailers, particularly at the luxury end of the market, are driving growth through international expansion as well as strengthening the UK brand, leading to increased spending by overseas tourists here in Britain.
Future Challenges

The foundations are strong but there are challenges ahead. The effects of the worldwide economic downturn continue to dampen demand and test business, while the uncertain future of the Euro has already toughened trading conditions. There is no disguising the fact that many UK retailers have struggled in recent years, and will continue to struggle if conditions remain tough. Long-term perspective is essential.

The eyecatching success of e-commerce and superstores in out-of-town locations needs to be balanced against the decline of many smaller town centres. A steady hand on policy is required in the coming years to ensure the viability of our high streets with all their colour, character and convenience.

The BRC believes a healthy mix of small and large retailers in diverse locations is the route to sustained profitability. Even the largest, multichannel retailers were once small start-ups, and smaller retailers can be incubators for innovation.

Most of all, we should never stop learning. While UK retail productivity has increased over the last decade, that of the US has grown even faster – in large part because of a less regulated marketplace – so there is room for improvement. The inexorable move to multichannel retailing presents a steep learning curve, with real costs as well as enormous benefits. What works in a purely online environment does not necessarily transfer seamlessly to established store-based retail. More channels do not always mean more demand.

Recently retailers have chosen to secure jobs at the expense of temporary setbacks in labour productivity.

With the recovery we expect productivity growth to pick-up once more.

Awareness of technology, as a driver of shopping patterns and behaviours, is crucial. Government ambitions to widen access to high speed broadband are to be applauded, but what is next? How will wireless payments and specialist apps affect retailers? What role will social networks play in the way we shop? If smartphones and tablets provide new ways to shop today, what devices can we expect tomorrow? What are the consequences of ‘buy-and-collect’ shopping? And, as consumers rapidly become better informed, how will that affect pricing, staffing and skills needs?

There are many questions to be answered and real challenges ahead. Overall, the prospects for UK retail are promising and many of the ingredients for success are already in place. Our greatest assets remain our unquenchable passion for shopping and the inexhaustible entrepreneurial spirit of the British shopkeeper.
01 WHAT ROLE DOES RETAIL PLAY IN THE UK’S ECONOMIC SUCCESS?

Retail sales totalled £303 billion in 2011, equivalent to around 20% of UK GDP. The retail sector consistently accounts for around 5% of Gross Value Added in the UK economy. 14% of all UK investment made by large non-financial-sector firms is made by large retailers. Retailers purchase around £180bn worth of goods for resale, supporting £47bn of output from other sectors. Retailers pay out £4 billion every year in dividends to shareholders, around 5% of the UK total.

02 DO UK CUSTOMERS GET A GOOD DEAL, COMPARED TO OTHER COUNTRIES?

UK consumers currently pay around 5% less for their basket of goods than citizens of the Eurozone. UK retailers are less expensive in every sub-category of goods except for alcohol and tobacco, which are more expensive due to much higher duty rates. The price of food in the UK remains lower than the European average, despite strong cost-push inflation driven by the sharp depreciation of sterling. UK clothing retailers have been more effective in shielding consumers from rising cotton prices than their European counterparts.

03 ARE UK RETAILERS AS PRODUCTIVE AS OVERSEAS RETAILERS?

UK retailers are increasingly more productive than their European counterparts. Labour productivity in the UK retail sector rose by over 40% from 1995 to 2007, compared to less than 10% in France and Germany. Overall productivity in the US has risen more quickly due to a lighter touch regulatory environment, particularly on planning. Expanding UK retailers generate an increasing proportion of sales and profits from overseas customers, both abroad and as tourists to the UK. As well as earning export revenue, retailing strengthens the UK’s brand overseas.

04 WHAT VALUE DO RETAIL JOBS HAVE FOR THE UK ECONOMY?

Around three million people work in retail, the largest private sector employer in the UK, accounting for 10.5% of total employment. Retail employment is far more flexible than most other sectors - the sector has a much higher proportion of part-time workers, and of these 84% combine their jobs with other commitments, such as studying or caring, or are enabled to remain in the labour force despite illness or disability. Retailers account for over 12% of the total training spend in the UK. On average, retailers invest £1,275 in training per employee per year, compared to just over £800 in the financial sector and £1,200 in manufacturing.
The retail sector pays £17.5 billion per year, 9% of the UK total, of the four largest taxes (VAT, Business Rates, National Insurance and Income Tax). This is made up of:

- Around £8 billion (4 to 5%) of National Insurance and Income Tax, reflecting its role in employing part-time workers and those new to the world of work.
- Around £5 billion per year (9% of the total) of VAT payments.
- Around £5 billion per year (28% of the total) of Business Rates.

Around £5 billion per year (over 11% of the total) in Corporation Tax is paid by the distribution sector (wholesale and retail), which makes less use of exemptions than other sectors.

Retailers also make substantial contributions to the public purse through fuel duty, landfill tax, the Climate Change Levy and, in future, the Carbon Reduction Commitment.

As shopping habits change, town and city centre retailing needs to adapt to meet ever strengthening competition from other channels and locations. These challenges are separate from, but magnified by, the current economic downturn.

Successful retail locations combine small and large retailers, with the most successful smaller firms a critical source of innovation and future growth.

Historically retail births and deaths have been roughly equal, at around 23,000 in 2007. Births subsequently declined to 21,000 in 2009, with possible implications for future innovation.

Constant innovation and adaptation to customer demand means that there will always be winners and losers.

Total non-store retail sales were £30.3 billion in the UK in 2010, of which internet sales comprised £23.4 billion.

With an estimated 11% of global internet retail sales, the UK was the number three market, equivalent to Germany and France combined.

Consumer power has been enhanced by internet retailing, which enables ready access to greater information, price comparisons and other consumers’ recommendations.

New mobile platforms, including smartphones and tablets, are being adopted by consumers and are leading retail into new territory.

A substantial minority, 41%, of UK households reported ‘never’ using the internet for shopping in 2010 and traditional channels remain important to these consumers.
WHAT ROLE DOES RETAIL PLAY IN THE UK’S ECONOMIC SUCCESS?

Figure 1: Consumer spending as a share of GDP
Source: Oxford Economics/ Haver Analytics

Figure 2: Retail sector value added demanded from other sectors (£m)
Source: Oxford Economics/ Haver Analytics
The retail sector consistently accounts for around 5% of Gross Value Added in the UK economy.

14% of all UK investment made by large non financial-sector firms is made by large retailers.

Retailers purchase around £180bn worth of goods for resale, supporting £47bn of output from other sectors.

Retailers pay out £4 billion every year in dividends to shareholders, around 5% of the UK total.

What is the role of retailers in serving UK consumers?

Over the past decade the retail sector’s role in the UK economy has evolved significantly. Greater competition has led to wider choice, better quality, lower prices and more transparency in pricing, sourcing and labelling. Factors such as market share, number of outlets and location have helped drive efficiency, while improvements in shopping experience, targeted advertising, loyalty cards, the provision of credit, delivery and the internet have helped deliver growth and streamline business operations. With retail sales consistently accounting for around a third of total consumer spending, the sector remains as central as ever to British life.

Figure 3: Spending on retail goods as a % of total household consumption less housing, bills and fuels

Source: Oxford Economics/Haver Analytics
Much of the increase in spending on services has been driven by non-discretionary spending, the most obvious example being the increase in housing and utility costs over the past 20 years, from just over 15% of household spending in 1988 to over 22% in 2010. As a result households have less flexibility to spend on discretionary goods.
Looking forward, we expect retailing’s share of total spending to remain broadly stable. Although expenditure in the next few years will be slightly weaker as consumers tighten belts, spending on goods as a share of GDP will be broadly stable over the decade to 2020. We expect food, alcohol and tobacco to decline modestly as a proportion of spending, while audio-visual and other leisure-related goods increase.

**What is the importance of UK retail to other sectors?**

In addition to employing over 10% of the UK workforce, retailers play a vital role in supporting other sectors of the UK economy. For example, around 80% of the UK’s farm produce reaches its market via UK retailers. Retailers source around 60% of their intermediate inputs from UK financial and business services, 20% from manufacturing, while other retail and wholesale firms, and transport and communications firms each contribute around 10%. Within financial and business services, over half of retailers’ demand (£12bn) is real estate, with market research and consultancy (£4.4bn), and advertising and computer services (£2bn) also substantial beneficiaries.

**What is the role of UK retailers as wealth generators and investors in the future?**

Retailers do not generate wealth merely by purchasing from other sectors – they also add value to these inputs and generate profits to invest or distribute to shareholders. At around 5%, the dividends paid on equity by UK listed retailers are broadly in line with retail’s share of total GVA. A number of non-retail firms paying dividends in the UK make the vast majority of their profits overseas, especially in banking, and oil and gas. Excluding these two sectors, the share retailers pay is in the region of 7-9% of the total.
Retailing punches above its weight in investing in the UK economy. In 2008 large retailers accounted for around 14% of investment by all large non-financial sector UK firms (firms with 250+ employees). However, small and medium size UK retailers underperform, with implications for their growth potential.
What is the economic outlook for UK retailers?

The growth in household spending slowed from 3.1% to 0.4% between 2005 and 2010, in real terms. Higher food and energy prices have outpaced wage increases and are likely to continue to do so until unemployment eases. As the economy recovers, we expect interest rates to rise, unwinding the positive impact of lower mortgage payments. Cuts to public spending as well as increases in taxes will also erode consumers’ ability to spend, so it could be the middle of this decade before significant growth returns. Thereafter, household spending is expected to increase by nearly 60% by 2020, not accounting for the change in prices.

Although spending on non-food items is not forecast to grow by as much as it did between 1995 and 2005, it will still be a major driver of overall demand, at an average of 4.6% per year.
DO UK CUSTOMERS GET A GOOD DEAL, COMPARED TO OTHER COUNTRIES?

Figure 11: Price of overall consumer basket, 2010
Source: Oxford Economics/Haver Analytics

Figure 12: Food price indices
Source: Oxford Economics/Eurostat
UK consumers currently pay around 5% less for their basket of goods than citizens of the Eurozone.

UK retailers are less expensive in every sub-category of goods except for alcohol and tobacco, which are more expensive due to much higher duty rates.

The price of food in the UK remains lower than the European average, despite strong cost-push inflation driven by the sharp depreciation of sterling.

UK clothing retailers have been more effective in shielding consumers from rising cotton prices than their European counterparts.

On the whole the typical UK consumer basket is 5% cheaper than that in the Eurozone. German consumers pay 2% more, while French consumers pay around 10% more.

A category breakdown shows that the UK is more competitively priced in all categories but alcohol and tobacco. Tobacco duty is almost double the rate of that in France and Germany, while the UK is one of a few countries to impose any substantial duty on wine. Clothing and footwear prices are about 20% cheaper in the UK than abroad.

Figure 13: UK prices relative to Eurozone, 2010
Source: Oxford Economics/Haver Analytics
Figure 14: Duty on wine across EU, 2011
Source: Oxford Economics/Eurostat

Figure 15: Clothing and footwear price indices
Source: Oxford Economics/Haver Analytics

Have UK retailers insulated consumers from commodity price increases?
UK consumers have faced a more rapid escalation in their food bills in recent years than in other parts of Europe but this follows a period of softer price increases. In the 10 years up to 2007, food prices in the UK had risen by only 17%, compared to 22% in France, and more in other parts of Europe. Sterling’s sharp depreciation against the dollar in 2008 has meant that commodities priced in dollars – such as foodstuffs and cotton – as well as products made using these commodities, have become more expensive. Despite that, Europe has seen a greater degree of volatility in clothing prices, which may be down to more intense competition among UK clothing retailers.

Despite these recent currency movements, food costs have fallen as an overall proportion of family budgets. Family spending surveys show that in the 1950s UK households spent almost a third of their disposable income on food, as opposed to less than 10% in 2010.

![Figure 16: Exchange rates, 2008-2011](image)

**Source:** Oxford Economics/Haver Analytics

Official food price indices inevitably compare constant shopping baskets. In reality, consumers have changed their shopping behaviours in order to stretch household budgets. Retailers have increasingly used promotional activity to drive sales and protect market share. The BRC’s Shop Price Index shows that 39% of grocery spend now goes on promoted goods which increasingly include multi-purchase discounts. These discounts make direct price comparisons difficult, so that official data (based on unit rather than multiple purchases) exaggerate the rate of inflation experienced by consumers. The figures may also be obscured by greater availability of ‘value’ ranges, regular own brands and premium own brands which have allowed consumers to respond to rising prices by trading up or down. If multi-purchase discounting and the proliferation of ‘value’ brands has increased more in the UK than in Europe, relative food price inflation may be exaggerated.

Overall, it is clear that UK consumers get a good deal. In spite of sharp rises in commodity prices over the past few years, and much higher duties, the UK remains more competitively priced than the Eurozone.
ARE UK RETAILERS AS PRODUCTIVE AS OVERSEAS RETAILERS?

How does UK retail productivity compare to foreign markets?

There is widely perceived to be a productivity ‘gap’ between the UK and overseas markets. UK retailers that trade extensively abroad have found this is not supported by their own experiences. Data on labour productivity confirm this view. Structural and accounting issues make international comparisons extremely difficult and potentially misleading. However, official figures suggest that while UK distributive trades exhibited low growth in labour productivity between 1970 and 1995, they have pulled away from much of the rest of Europe since.

Figure 17: Labour productivity growth, retailing, selected countries, 1995–2007

Source: Oxford Institute of Retail Management/ EU KLEMS
• UK retailers are increasingly more productive than their European counterparts.
• Labour productivity in the UK retail sector rose by over 40% from 1995 to 2007, compared to less than 10% in France and Germany.
• Overall productivity in the US has risen more quickly due to a lighter touch regulatory environment, particularly on planning.
• Expanding UK retailers generate an increasing proportion of sales and profits from overseas customers, both abroad and as tourists to the UK.
• As well as earning export revenue, retailing strengthens the UK’s brand overseas.

Figure 18: Labour productivity growth, distributive trades, selected countries, 1970-2004

Source: Oxford Institute of Retail Management/ EU KLEMS
Other factors have affected the efficiency of UK retailing over this period. Bigger businesses (both in terms of firm and store size), along with mergers and acquisitions, have led to economies of scale. Structural changes, such as large supermarkets moving into higher margin general merchandising, have increased margin contributions and output per worker hour.

Improvements in efficiency can also be due to other considerations such as quality of management or innovation. The development of a firm’s competences, innovativeness and, ultimately, profitability are also influenced by the business and regulatory environment.

How innovative are UK retailers? Innovation in retail is more difficult to record than in manufacturing since manufacturers tend to innovate in ‘staircase’ fashion with clear jumps in product development. Most retail innovation occurs in a ‘continuous mode’ of organic change. However, in the 2009 Community Innovation Survey, 54% of UK retailers claimed to be ‘innovation active’ – the equivalent figure in France in 2008 was 33%. In addition, the retail sector was well ahead of the national average in adopting innovations which were ‘new to market’.

Two recent factors have had a major effect on retail labour productivity: the economic recession and faster than average growth in non-store shopping, particularly via the internet. The impact of these is hard to measure. Evidence in the US suggests retailers responded relatively quickly to the economic downturn from 2008, enabling them to return to positive, albeit small, rates of labour productivity growth in 2009 by adjusting staffing levels, extensive discounting and price promotion.
Although the UK also benefits from a flexible labour market, retailers here have chosen to retain jobs at the expense of temporary setbacks to labour productivity. As the economy returns to full capacity, labour productivity should pick up once more.

The UK is leading the way in multichannel retailing. The growth of e-commerce can boost productivity by providing a more efficient business model than one based on stores alone. But purely online retailers use very different business models to store-based retailers, more akin to direct mail businesses. Efficiency is also measured rather differently:

“We are very different, because 85% of our business is online-based, and 15% is through the traditional call centre. So, a lot of our efficiency metrics are based on key ROI stats, and we look at things like cost per order, cost per new customer, which are sort of probably typical direct mail type efficiency [measures].” (UK e-commerce retailer)
Online retailers have very different cost bases and productivity ratios. While there are phenomenally successful UK multichannel retailers, efficient integration across channels is not without its challenges. Store-based retailers developing multichannel capabilities can learn from the efficiencies of e-commerce but more channels do not automatically lead to more growth. Store-based retailers risk adding to cost base without securing equivalent sales increase. Tighter cost control and creative integration solutions are required and there may be significant transfer of skills and experience between channels.

Despite the potential of non-store retailing, the present limitations on opening hours and planning requirements constrain UK retail competitiveness and productivity compared with the US. These regulations reflect the scale, nature and location of retailing preferred by the two different cultures, but there is a clear productivity trade-off.

**Are UK retailers globally competitive?**

World retail sales reached £7.2 trillion in 2010, a quarter of which were generated in Western Europe and 4% in the UK. The UK stands out as having the highest composite retail sales growth of the mature markets from 2005-10.

Retailers from low growth, mature markets are seeking opportunities internationally. European retailers tend to be more international than their US counterparts because they have reached domestic saturation more quickly. European retailers in the top 250 by sales in 2009 generated a third of their revenue outside their domestic market.
UK plc benefits from British retailing successes abroad in three ways. First, export trade brings in revenue and is important for the rebalancing of the UK economy. Second, retailing can benefit from the repatriation of ideas and experiences and by boosting the international talent pool. Expatriate managers bring expertise to the domestic operation. Finally, UK retailers promote the UK as a tourist destination and as a source of British produced goods. Luxury British brands, in particular, have had great success in international markets. Expenditure from inbound tourism, classed as an export, held up much better between 2009-10 (+6%) than that from domestic tourism (-5%). It has been estimated that £1 in every £4 spent on luxury brands in the UK over 2010-11 came from overseas visitors.
WHAT VALUE DO RETAIL JOBS HAVE FOR THE UK ECONOMY?

Figure 22: Retail employment
Source: Oxford Economics/ONS

Figure 23: Share of different types of employees in the retail sector and whole economy, 2010-11
Source: Oxford Economics/ONS
What is retail’s role in providing employment for UK workers?

Retail is the largest private sector employer in the UK providing jobs for around three million people, about 10.5% of total UK employment. This proportion has remained stable over the past decade. Whether it is the high street, out-of-town complexes or local shopping parades, retailing creates new markets and plays a vital role in the regeneration of towns, cities and local communities. It is an integral part of the UK economy and will continue to be a major source of employment.

We expect retail employment to edge down in 2011 before beginning to recover in 2012 or 2013. Retail employment is currently expected to grow by around 1% per year from 2013 to 2016, around the same rate as for the economy as a whole.

Some parts of the UK such as the South West, East of England and Wales are more dependent on retail. In some cases this is likely to be related to tourist activity, for example in historic towns or near major landmarks, or the presence of major retail developments such as Bluewater or Lakeside.

Figure 24: Local authorities most dependent on retail employment
Source: Oxford Economics/ONS
In other areas, particularly those with a large reliance on public sector activity, it is more likely to reflect an absence of other private sector employment. In these areas retailing is both more vital to sustaining local economic activity and, at the same time, more vulnerable as public sector jobs are lost.

Retail is the largest provider of private sector jobs in the UK. As most parts of the public sector will experience job cuts – 330,000 during this Parliament according to the Office for Budget Responsibility – retail’s role as a provider of jobs will become even more important.

Figure 25: Employment in retail and public sectors, 2008
Source: Oxford Economics/ONS

Figure 26: Employment in the ten largest sectors of the UK economy, by employment, 2009
Source: Oxford Economics/ONS
What is retailing’s role as an employer?

The retail workforce differs from the rest of the economy in a number of ways. Retailing employs a far greater proportion of part-time staff (55% versus 31%), women (60% versus 49%), under 25s (31% to 13%), and people who do not hold a degree (83% to 62%). All of these groups find it easier to find opportunities in retailing that match their needs than elsewhere in the economy. Other sectors do not offer the same flexible employment opportunities.

Contrary to some perceptions, many people who undertake part-time work do so because it suits their preferences rather than because they are unable to obtain a full-time job. ONS interviewed people working part-time as part of the Labour Force Survey (LFS). In 2010, 48% of respondents in retail said that they did not want a full-time job, 34% were in education, 16% could not find full-time work and 2% were ill or disabled. The overwhelming majority, therefore, choose to work part-time or are unable to work full-time.

Many women choose retail because of the availability of part-time work. Most women in retail work less than 40 hours per week. Part-time roles are sought by women with dependent children as this allows them to combine employment with childcare commitments. Without this flexibility, many would not be able to achieve a successful combination of work and family life. Through part-time work, retailing provides a valuable boost to household incomes as well as to overall employment.
The retail sector is also an important source of jobs for young people at a time when youth unemployment is at a record high. It provides 42% of 16 to 17 year olds in employment with a job, 40% of 18 to 19 year olds and 25% of 20 to 24 year olds.

Figure 28: Retail’s share of total employment, by age group, 2010 Q2
Source: Oxford Economics/ONS
By providing employment to young people, retailing is delivering two benefits to society. First, a significant proportion of young workers are students and part-time work helps them support themselves through higher education. Second, retail is often regarded as a ‘gateway employer’. Other sectors benefit from workers who have gained prior work experience and skills in retail.

Retail fulfils a similar role for those without formal qualifications. One in six (16%) employees without qualifications work in retail. Similarly, one in seven (15%) of those with a Level 1 NVQ work in retail. Retailing offers the opportunity to gain work experience and skills that will benefit employees and other future employers. Retailers invest substantial sums in training and development, so many employees remain in the sector to build successful careers.

**How much do UK retailers invest in education and training?**

According to the National Employer Skills Survey (NESS), retail and wholesale employers in England spent £4.9 billion on training staff in 2009, accounting for 12% of total training expenditure. Only business services (£9.1 billion) and health and social work (£5.7 billion) spent more. Retailers’ investment equates to £1,275 per employee, slightly more than the manufacturing sector, but less than the utilities sectors. Retail employees who received training, spent 6 days a year being trained on average.
Retailing makes significant direct tax payments to the public purse. Retail also collects tax on behalf of the Government, including tax paid on income earned by retail employees and dividend recipients, indirect taxes such as VAT, as well as fuel and other duties. Retailers also enable people to make other local government payments, such as the London Congestion Charge.
• The retail sector pays £17.5 billion per year, 9% of the UK total, of the four largest taxes (VAT, Business Rates, National Insurance and Income Tax). This is made up of:
  • Around £8 billion (4 to 5%) of National Insurance and Income Tax, reflecting its role in employing part-time workers and those new to the world of work.
  • Around £5 billion per year (9% of the total) of VAT payments.
  • Around £5 billion per year (28% of the total) of Business Rates.
  • Around £5 billion per year (over 11% of the total) in Corporation Tax from the distribution sector (wholesale and retail), which makes less use of exemptions than other sectors.
• Retailers also make substantial contributions to the public purse through fuel duty, landfill tax, the Climate Change Levy and, in future, the Carbon Reduction Commitment.

What does retail employment contribute to tax receipts?

Retail accounts for around 10% of total UK employment. Wages in the sector tend to be lower than in the rest of the economy with an average wage in 2010 of £284 per week compared with around £480 across the economy as a whole. This is largely due to the greater proportion of part-time workers and their age profile. Retail also plays an important role in drawing people into work from unemployment, which reduces the burden on taxpayers of Jobseekers Allowance payments. Overall, government receipts from National Insurance and Pay As You Earn income tax are around 4-5% of the total.

How much VAT does UK retail pay?

The retail sector made around 9% of total VAT payments in 2008/09, a significant figure that compares favourably with its share of total value added in the economy, which was around 5%.

Retailers net VAT payments since 2008-09 will have risen because the cut to 15% on 1 December 2008 (which would have depressed the net sum paid during the final four months of the 2008-09 financial year) was reversed on 1 January 2010 and followed by a rise to 20% on 4 January 2011.
How much corporation tax does UK retail pay?

It is difficult to determine exact figures for retail’s total Corporation Tax payments but analysis suggests that this is broadly in line with the average across the economy. HMRC places wholesale and retail businesses within the broader grouping of Distribution and Repairs, which accounted for 14% of total GVA in 2008, generated just under 12% of gross profits, and paid 11.3% of total Corporation Tax in the financial year 2008/09. Comparing the Corporation Tax paid by the distribution sector with its gross profits indicates the effective tax rate paid on profits was 15.5%.

However, the whole economy average is distorted by the especially high rate paid by utility firms, which made over a quarter of all profits in 2008-09. Removing this sector from the calculation lowers the corporate tax rate across the economy to 14% The Distribution and Repairs sector, therefore, paid a higher than average effective tax rate.
How much does UK retail pay in business rates?

National Non-Domestic Rates, otherwise known as Business Rates, are levied on properties used for commercial purposes. The retail sector accounted for around 25% of total rateable values in 2005 and 2010, but over a similar period (2005-06 to 2007-08) the sector contributed 28% of actual rates paid, so the sector pays more than its fair share of Business Rates.

How much tax does the UK retail sector pay?

We estimate that the retail sector contributed between 6.5% to 7% of the total tax yield in 2008-09, based on the five main taxes considered above. Retailers also bear a substantial cost in terms of fuel duty and motoring related taxes, both directly and through contracting to external logistics firms. However, published records do not allow quantification.
WHAT IS THE CHANGING SHAPE OF RETAIL?

Figure 35: Growth in retail sales, by location, 2000-2009
Source: Oxford Institute of Retail Management, Verdict, 2011

Figure 36: Births and deaths of retail enterprises, 2004-2009
Source: ONS, 2011
• As shopping habits change, town and city centre retailing needs to adapt to meet ever strengthening competition from other channels and locations. These challenges are separate from, but magnified by, the current economic downturn.
• Successful retail locations combine small and large retailers, with the most successful smaller firms a critical source of innovation and future growth.
• Historically retail births and deaths have been roughly equal, at around 23,000 in 2007. Births subsequently declined to 21,000 in 2009, with possible implications for future innovation.
• Constant innovation and adaptation to changing customer demands means that there will always be winners and losers.

What are the challenges facing high streets?

The geography of UK retail is changing. The growth of large-scale formats in edge and out-of-town locations over the past 30 years has been accompanied, more recently, by a rapid expansion in non-store retail sales. While total sales were growing, the impact on retailers’ bottom lines was largely concealed. However, as overall sales have fallen since the start of the recession in 2008, the locational impact has become more apparent. In particular, the long-term decline in the proportion of sales going through town centres has accelerated.

At the same time, sales through out-of-town locations have continued to grow, albeit at a slower rate than at the beginning of the decade, as customers enjoy benefits such as easy access by car and the convenience of key retail brands situated in the same location. Shopping patterns have changed. The average number of shopping trips per person fell by 18% between 1995 and 2009. Before sharp increases in fuel costs, the trend was to longer, less frequent car trips that had replaced more frequent shopping trips on foot. More recent data suggest this may be reversing, at least temporarily.
Neighbourhood shopping has seen a slow, but relatively consistent, rate of decline in sales growth over the last decade. It is here, as well as town centres, that most small and independent retailers are located. To continue to trade successfully these locations need to offer comparable levels of access and convenience.

In terms of turnover, the average size of UK retail firms nearly doubled between 1996 and 2009, a transformation mirrored in every developed economy and increasingly a feature of many emerging markets. Larger firms have economic advantages in terms of reach, buying power, supply chains and marketing. But successful small retail firms are a seedbed for innovation and are often more agile in delivering tailored choice and personalised service. A healthy retail economy benefits from the co-existence of both large and small firms.

Town centres are not simply retail locations. Their importance to their local communities rests on the broader range of activities which take place there.

**Are town centres different?**

Town centres with property designed to meet Victorian or older needs may not be able to adjust to all modern requirements. The long-term diversion of trade is not so much from town centres to out-of-town as from old shopping stock to new, and from small space to big, irrespective of location. Retailers want to trade from efficient premises with access to the largest shopping populations. Developers build in low risk, high yield locations. And shoppers want more choice, better value for money and easier access.

Retail’s role will continue to change. About half of the population shopped in the 90 largest trading locations in 2009; compared to over 200 locations in 1971. Smaller towns have fallen behind as town centre redevelopment schemes and satellite out-of-town centres have focussed on areas of high population.

Irrespective of where they are, high quality, well managed shopping locations continue to attract footfall and maintain high levels of profitable retail. For example, between January and May 2011, Land Securities reduced the vacancy rate in its shopping centre portfolio from 4.5% to 4.1%. Similarly, Anglo-French shopping centre developer Hammerson reported ‘little impact’ from the recent rise in UK retail administrations.

Falling demand and cost pressures have had disproportionate effects on smaller businesses. Between 21,000 and 28,000 retail enterprises were ‘born’ each year from 2004-2009, but that number has fallen since. The number of ‘deaths’ of UK retail firms exceeded births in 2009 (25,500). More recent unofficial data suggests the closure rate of retail firms has increased in the last two years. The survival rate of new retail firms is constant: with two-thirds remaining in business at the end of year 3 but only around half at the end of year 4.
What does the future hold?

The outlook for all kinds of retail locations is very uncertain. The downturn has exposed struggling trading locations as well as retail categories such as furniture and jewellery shops which are always disproportionately affected by a recession. However, supermarkets have continued to expand with 41 million square feet of new developments in the pipeline at the end of the first quarter of 2011.

When definitive action is taken, improvements are possible. The BRC’s 21st Century High Streets report makes clear that wider adoption of best practice can ensure that town centres have a successful future. This includes creating a unique sense of place, an attractive public realm, planning and working with partners in developing accessible, safe and secure locations in the context of supportive regulatory and fiscal regimes. These are not ‘quick fix’ solutions but longer term strategies, which must be shaped to individual circumstances. A clear strategic view must be taken of each local high street within its broader catchment.

Out-of-town strategies will also need to evolve to meet changing customer demands. Retail warehouses are currently delivering an above average return to investors, but shifts to other channels could alter the dynamics in these locations. There has already been substantial differentiation of centres according to their offer and target audiences. This has, for example, led to the emergence of outlet centres and fashion parks.

Small and independent high street and neighbourhood retailers still have the advantage where convenience is the main consideration. Time constrained customers are willing to pay a higher price for less stress and ease of access.

Whatever their location or size, it is clear customers expect retailers to contribute positively to their communities. As well as delivering services and providing jobs, successful retailers contribute to social and environmental projects, which deliver tangible benefits to the people living in their localities. This expectation is only likely to increase as government looks to redefine the relative roles of private, public and other bodies.
WHAT IS THE IMPACT OF MULTICHANNEL RETAILING?

Figure 39: Estimated internet retail sales per capita, selected countries, 2010
Source: Oxford Institute of Retail Management, Verdict, 2011

Figure 40: Smartphone adoption and use of smartphone shopping apps, by age and socio-economic group, 2011
Source: Ofcom, 2011
• Total non-store retail sales were £30.3 billion in the UK in 2010, of which internet sales comprised £23.4 billion.
• With an estimated 11% of global internet retail sales, the UK was the number three market, equivalent to Germany and France combined.
• Consumer power has been enhanced by internet retailing, which enables ready access to greater information, price comparisons and other consumers’ recommendations.
• New mobile platforms, including smartphones and tablets, are being adopted by consumers and are leading retail into new territory.
• A substantial minority, 41%, of UK households reported ‘never’ using the internet for shopping in 2010 and traditional channels remain important to these consumers.

What is the extent of multichannel retailing in the UK?

The internet is transforming economies and societies, and UK retailers are at the forefront of this change. Sales growth via non-store channels is increasingly important to traditional retailers, so understanding the implications of multichannel retailing has become vital.

In 2010, total non-store retail sales in the UK were estimated at £30.3bn, of which internet sales comprised £23.4bn. By the beginning of 2011, the internet was responsible for nearly 10% of all retail sales, up from 6% in 2009. A quarter of the UK’s most popular websites are online retail sites. More than 80% of the UK’s internet users visited at least one of the UK’s top 200 retail sites in August 2010. Ofcom’s consumer research in April 2011 suggested that 72% of adults used their broadband connection for purchasing goods and services, making it the third most popular online activity after emailing and web browsing.

Figure 41: Internet retailing sales and penetration, 2009-2011

Source: Oxford Economics/ONS
Multichannel retailing is more than simply offering store and internet sales; it includes sales from catalogues, vending machines, mail order and TV shopping. While 53% of all shoppers bought over the internet in 2008, between a fifth and a quarter used catalogues or mail order and 9% used TV shopping.

As new technologies and software have become more widely available, internet sales have come from a broader range of channels. At the beginning of 2011, 27% of UK adults were smartphone users, 18% of whom reported having used their phones to make a purchase.

The ownership of tablets more than doubled, from 2% to 5% of UK households, in the six months to March 2011. The proportion of users making purchases using this new technology also doubled to 38%. Although retail apps account for fewer than 0.5% of the total, Apple reported that three out of its top 25 apps were from retailers. The UK mobile commerce (m-commerce) market in 2010, was estimated to be worth £561m (2.4% of all online spending). This is expected to double in 2011.

Click-and-collect purchasing is becoming increasingly popular and is expected to increase from a fifth to a third of non-food retail purchases by 2020.

Figure 42: Use of remote shopping channels, by age group, 2008
Source: Verdict Research, 2009
Internet sales account for the majority of non-store retail sales across Western Europe, with global non-store retail sales via the internet estimated at £206bn for 2010. The UK generates approximately 11% of total global sales, making it the number three market in terms of size, equivalent to Germany and France combined.
UK per capita internet sales were also the highest in Europe last year, at £374 per annum. Pre-disposing factors include: fewer, larger retailers; cheaper and ubiquitous broadband; more reliable and cost-effective delivery; and increased confidence in online security. As UK consumers have grown increasingly confident they have become habitual online shoppers.

The reasons for shopping online are changing. In 2010, 14% of online shoppers bought goods on a weekly basis, compared to 4% in 2007, and price is no longer the sole motivation. The convenience of 24/7 shopping, the ease of comparing products and prices, and ready access compared to ‘visiting the shops’ are all cited as increasing in importance since 2007.

From a retail perspective, strategic innovation by large UK companies, the attractiveness of the UK to purely online US businesses, and innovative online start-ups, have broadened and strengthened the offer.

The dramatic growth of internet sales is dwarfed by its indirect effects in influencing offline sales. These range from developing interest to product evaluations and price comparisons, reinforced by customer recommendations. Around 1 in 7 internet users in the UK visited price comparison sites in April 2011 and 15 million used voucher or reward sites. Stores can, conversely, play a key role in influencing online purchasing. Around a fifth of all internet transactions in the UK involve some in-store research. The growing use of mobile product scanning apps also means that stores themselves enable online price comparisons. Shoppers are consequently better informed than ever and, to be successful, retailers need to meet and exceed growing expectations.
What is the extent of the digital divide in the UK?

A significant minority, 41% of UK households, report ‘never’ using the internet for shopping. They do not see a need, prefer in-store shopping or have concerns about payment security and privacy. This reflects differences in familiarity and engagement with the digital world. While 73% of UK households had internet services in 2010, these were largely younger and more affluent homes. Over 65s were half as likely as 16-24 year-olds to be online and only 30% of the lowest income households had internet access. Daily access to computers, smartphones and other devices also reflects similar social trends as does willingness to buy online. This is gradually changing over time.

Figure 46: Penetration of internet access, by income decile, 2005-2010
Source: BRC, ONS Family Spending, 2005-10

Figure 47: Daily reach of devices, UK, 2010
Source: BRC, Ofcom Technology Tracker, 2011
The newer digital technologies – smartphones and tablets – attract users from broader social backgrounds.

With 26.5 million users in the UK, product endorsements on social media play an increasingly important role. 16-24 year olds spend up to an hour a day on social media, whereas over 55’s spend only 6 minutes on average. However, lower socio-economic groups are extensive users of social networking.
What is the impact of multichannel retailing on the sector?

Changes in buying and researching have consequences for retail business models. Online customers shop more frequently, often with a smaller basket size, focussing on fewer retailers. This is partly for reasons of convenience, partly for reasons of trust. Most online shoppers, 60%, have between two and five ‘favoured’ retailers, based on a trusted brand and a broad product range. Over half of online shoppers reported spending more with their favourite brand as a result.

Multichannel retailing has changed customers’ expectations, including when visiting stores. Innovative retailers are responding with new store layouts, in-store services, downsizing or closing stores, or redeploying staff across their multichannel operation. As customers choose to research and purchase goods in varying combinations of location and channel, retail operations need to flex and respond accordingly. Multichannel offers shoppers greater choice and transparency between discount and high service retail, which sets new challenges for the sector.

Multichannel retailing requires a new set of skills and competences. Although it may be possible to transfer learning between channels, there can be significant cultural barriers at Board, as well as shop floor level. Research for Skillsmart Retail in 2011 commented: “One of the perceived barriers to the acquisition and utilisation of employees with technical skills was seen by some retailers to be the lack of technical literacy at senior management level. ‘They have secretaries and drivers; they don’t even know how to use Google Maps’ said one respondent. Such managers are often digital immigrants who have come late to ICT; or are simply cocooned from it by their support systems. It makes it difficult for such managers to see the opportunity and potential both in new hires of digital natives, embedded in IT and with often superior skills, and the growing capability of the customer base.” (OXIRM, 2011)
ABOUT THE BRC

The British Retail Consortium (BRC) is the lead trade association for the retail sector and the authoritative voice of the industry to policy makers and the media.

We campaign to promote and defend retailers’ interests, and advise retailers of threats and opportunities to their business. We also look to improve the perceptions of retailing in the UK.

Retail is one of the UK’s success stories, but currently faces a challenging trading and regulatory environment. The BRC’s aim is to bring about policy and regulatory changes that will ensure retailers can maintain their outstanding record on job creation, consumer choice and product innovation.

ABOUT OXFORD ECONOMICS

Oxford Economics - formerly Oxford Economic Forecasting - was founded in 1981 to provide independent forecasting and analysis tailored to the needs of economists and planners in government and business. It is now one of the world’s leading providers of economic analysis, advice and models, with over 300 clients.

ABOUT THE OXFORD INSTITUTE OF RETAIL MANAGEMENT

The Oxford Institute of Retail Management (OXIRM) was established within the University of Oxford in 1985, to relate sound scholarship to the practical needs of retail and consumer service companies. It is now based at the Said Business School. In this bridging role for the past 25 years, OXIRM has created and contributed to an active applied, interdisciplinary research programme, teaching on degree and executive education programmes, a series of revenue-generating research workshops as well as being engaged in active networking through its Oxford Retail Futures Group, and its publishing of The Retail Digest, a quarterly journal.

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