THE RETAIL SECTOR

THE EVOLUTION OF THE UK HIGH STREET
An OfficeTeam White Paper

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EXECUTIVE SUMMARY

This report examines the future of the UK retail sector. The purpose of this paper is to explore the top-level findings for why the sector is experiencing an evolution and how retail businesses need to adapt in order to survive.

It considers how years of soaring costs, rising business rates, advances in technology and a marked shift in consumer behaviour have led the UK high street to a point of noticeable structural change. The high street is far from dead but there’s a definite need for remodelling the role of the shops within it.

The UK’s overall economy is set for modest growth in 2019. UK consumers continued to exercise their spending power and the retail sector overall is prospering. Retail sales in August 2018 increased by 3.3% compared with August 2017. Food (+4.5%), DIY & Gardening (+3.2%), and Electricals (+3.1%) all saw strong growth.

However, it’s a highly competitive market and insolvency rates in the retail industry are high. We’ve seen an increase in stores closing, CVAs and administrations this year. In the first 6 months of 2018, there were 4,400 net closures across the UK high street – an increase of 95% from 2017.

It’s a challenge to deduce an underlying trend. Our warm summer fueled demand in some areas yet delayed demand in others. Retailers can’t rely on citing our unpredictable weather or even the uncertainly of Brexit for poor results. The truth of the matter is the high street is changing because consumer demands are changing.

The paper used desk-based research of publicly-available information to present the findings.

This report is aimed at operations directors, financial directors and procurement directors, and employees tasked with strategic purchasing and cost efficiency.

For company leaders, it highlights how the challenges faced by the sector are forcing retailers to adapt to survive and thrive and encourages innovation to remain competitive.

For those with responsibility for strategic purchasing, it highlights the role that procurement can play in helping retailers embrace initiatives and respond to consumers’ expectations.
INTRODUCTION

At the beginning of 2018, commentators were predicting a gloomy year ahead. But overall, the sector demonstrated robust sales, steered by a durable performance by the food and beverage sector and the enduring surge of e-commerce. As we headed into autumn, British shoppers were continuing their strong summer spend and showed no sign of the caution, which was predicted with the approach of Brexit.

Retail is set to thrive, and success stories can be found in every sector; but not without reinvention and investment.

We are seeing an evolution in retail determined by transformative consumer expectations and lifestyles. The customer is king. Technology is enabling consumers to connect at any time they choose. Their shopping behaviour is demanding a seamless experience both in-store and in the digital retail landscape.

High streets are becoming more leisure-based, genuine destinations as consumers demand more from their shopping experience. Retailers need to invest in a customer-first strategy to maximise profitability. New ways must be constructed to enhance the experience of the customer. The retailers that offer value through services and innovation will prosper. The pace of change is only set to increase.

In this paper, we explore key steps towards building a more sustainable and profitable future. We present these steps to help achieve profitability by leveraging emerging trends, but we acknowledge these steps are not at all exhaustive.

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UK RETAIL SECTOR

- **1st**: The UK’s largest private sector employer
- **£366bn**: Total value of UK retail sales 2017
- **2.9m**: People employed in UK retail 2017
- **4.3%**: Growth in UK retail sales 2017
- **16%**: Proportion of retail sales made online 2017
- **294,280**: Retail outlets in the UK
- **One third**: Proportion of consumer spending that goes through retail
- **5%**: Retail generates on total GDP (GVA)
The evolution of the UK high street

NEW ENTRANTS IN THE RETAIL SECTOR

The impact of an uncertain Brexit; new entrants such as Direct to Customer, Artificial Intelligence (AI) and Augmented Reality (AR) are driving retailers to adapt to new ways of working. New business models are required to contend with the pressures of demand for connectivity and overall efficiency. It’s a period of significant change.

The overriding challenge in the sector is to deliver innovation, quality and value to meet the growing expectations and demands of the consumer. Today’s consumers are digitally active and expect a highly personalised, multichannel service from brands.

“There’s no room for complacency in retail today. If you can’t be relevant to your customers or stand out from your competition, then you don’t stand a chance. The underperformers will be rooted out and the undifferentiated will be exposed.

Some of the best retailers are very much recognizing the purpose of the store has to change and become a genuine destination, a place to discover, to play, to work and to eat, and do all kinds of things, and not just to buy.”

Natalie Berg, Founder NBK Retail

1. Brexit uncertainty

The enormity of Brexit is hitting us all and it’s becoming a distinct possibility that the UK may be leaving the EU without an agreement in place on future trade and wider cooperation.

Brexit has intensified the pre-existing consequences and vulnerabilities for retailers, many of which have long been in dire need of solving such as:

• workforce pressures, currently around 6% of the retail workforce are EU citizens
• increased import costs, potentially leading to a less-secure means of supply
• impact on product availability and pricing
• volatility in the pound

Responding to these and future post-Brexit challenges requires retailers to develop their own comprehensive strategies.
Brexit: future drivers

“Whilst the level of risk varies hugely between different products, the need to meet demanding customer expectations is common across all categories and retail channels. With more fulfilment direct from mainland Europe, those retailers who understand their supply routes, are managing the risks, and have mature contingency plans, can look forward to an advantage over those who have delayed action.”

Brian Connell, Senior Manager, Advisory - Operations, KPMG in the UK

Retailers must be adept and selective to build smarter operations in the markets that will acquire the best returns. Many retailers are considering the significant potential of Asia. Some retailers are collaborating with others to protect their market share and keep costs low. In an effort to combat increased import costs, retailers are targeting consumers to buy from non-UK websites and subsequently dispatch from EU distribution centres.

Case study: Next

Next is one of the first fashion retailers to release their preparations in the event of a ‘no-deal’ Brexit. The high street favourite has stated that although departing the EU without a free trade agreement and managed transition period is not its preferred outcome, it has prepared well to ensure business continues as usual.

Lord Simon Wolfson, Chief Executive, a prominent Brexit supporter, has disabused the scaremongering about a ‘no-deal’ Brexit. The company has reported that the biggest risk to its business over the coming years is the potential for long delays at UK and EU ports and has called on the Government to ensure port operations are not affected in the case of a ‘no-deal’ Brexit.

Approximately 10% of Next’s goods are procured from the EU and Turkey but the company stated that increased tariffs could be neutralised by “alternative sourcing routes” or sharing costs with suppliers.

On Brexit planning, Next said:

“There are significant challenges involved in preparing for a ‘no-deal’ outcome and we would not want to understate the work we are doing to prepare for this eventuality. However, we do not believe that the direct risks of a ‘no-deal’ Brexit pose a material threat to the ongoing operations and profitability of Next’s business here in the UK or to our £190m turnover business in the EU.”
With the onset of a shifting workplace landscape there is a growing concern about how Brexit could impact retailers’ ability to attract talent. The retail industry could be facing a skills challenge. But it doesn’t need to be so.

EU citizens already living in the UK can remain, post-Brexit, allowing workers already in the sector to continue to make a valuable contribution. Organisations which rely on EU Nationals should work towards upskilling their current workforce. British workers should be offered initiatives to draw them into the sector such as career progression schemes, with clear pathways that can lead to senior management roles for those who want them.

And reengaging with other underemployed socio-demographic groups such as older workers; working parents and Not in Education, Employment or Training (NEETs) should be considered.

2. The ‘Amazon effect’

Amazon’s effect on the retail industry cannot be underestimated. The third-party multi-retailer has dramatically reshaped the dynamic between brand and customer. As consumers, we have never had so much choice. Not only is Amazon fuelling customer demand, it’s meeting it too.

Online sales are rising and have been since 2013. According to the Office of National Statistics, in 2017, 77% of adults had bought goods or services online for a period of 12 months. It is predicted that by 2030, online purchasing will account for at least 40% of all UK retail sales.

We have learnt to expect a seamless digital experience when shopping online. We want to buy products immediately, for the best possible price and with the added convenience of them being delivered directly to our homes or offices with free or at the very least, low-cost and fast delivery and more.

**Brand matters**

The Amazon effect is flowing into more traditional spaces. Customers now want the same frictionless shopping process whether they’re in front of a screen or inside a store.

Physical shops are set to support and enhance online stores, not compete with them. Physical shops still serve a necessary purpose – the key is to redefine what that purpose is. Future-proofing retailers are creating community-based hubs, focussing on social currency and connectivity.

Customers are building brands. They trust each other more than they trust the brand and are dictating how they engage. In the fiercely competitive retail environment, customer engagement is more important than ever. Shop floors need to exude the brand experience by bringing the brand to life both on and offline.
The evolution of the UK high street

Case study: Missguided

Missguided’s store at Bluewater in Kent, designed by Dalziel & Pow is an impactful, ‘on air’ retail store concept. It offers a high-energy, fashion-forward experience with its young customers fully embracing the brand.

The foundation of their approach is social interaction. Customers delight in interacting with each other and the brand by bringing social media into a physical experience.

The Bluewater store has no windows; its open store-front is intended to have ‘stop you in your tracks’ appeal. Vast screens display customer-generated content, curated by the use of the hashtag #babesofmisguided. The concept is inspired by a tv studio.

There is nothing conventional in this store. It features flexible, lifestyle-led sets which actively encourage inquisitive customers and celebrates their sharing on social media.

Omnichannel retail

Thriving retailers are those who have assessed their current resources such as stock, order fulfilment and delivery processes and planned and implemented a strategy that drives efficiency and profitability through the value chain.

Retailers should consider re-imagining their physical stores as an essential part of the customer experience but also as an integral part of order fulfilment and a real-time, optimised network of available stock.

Case study: Gabor

Gabor has its own e-commerce store but also sells via thousands of stockists and physical stores across Europe, resulting in decentralised stock.

Gabor delivers a seamless customer experience by interchanging their in-store practice with digital. Working with their retailers they have created a revolutionary fulfilment and order management system.

Gabor used their data to create a centralised global stock list. Order fulfilment is smartly drawn from any distribution hub. Physical stores, suppliers and partners have become mini-distribution centres. This means Gabor are making use of all available stock, whilst also ensuring that their customers always get what they want.

They have successfully merged their customers’ online and offline experience and have subsequently reported they have increased sales by up to 20%. 


Fifty one percent of consumers use price comparison sites before making a purchase decision. This means larger, lower-margin brands are well-placed to take full advantage of the dynamic of direct to customer.

**DIRECT TO CUSTOMER - STATS AND FACTS**

- **62.9%** of shoppers bought directly with the brand compared to 37.1% who bought via a third-party retailer.
- **29.5%** of purchases made directly with a brand were driven by stock availability and product range.
- **27%** of shoppers said they visited a store before making an online purchase.
- **17.5%** of millennials’ purchasing decisions were influenced by social media.
- **51%** use price comparison sites or platforms to inform their purchasing decisions.

**3. Artificial Intelligence (Ai)**

As we have already discussed, the pressure is on for retailers to provide seamless shopping experiences. Today’s customers have a good understanding of their fiscal value and have more power than ever before. To really connect, retailers need to personalise their products and services.

The power of data is critical to a forward-thinking retailer. Data is no longer just a useful insight; it’s a business asset in its own right. But customers are wary about their privacy and retailers must manage their data with integrity.

Facebook states that there has been a shift from people finding products to products finding people. Retailers can no longer rely on TV ad campaigns to attract customers but must now plan and implement strategies to use data responsibly to seek out customers in the digital space.
As artificial intelligence gets increasingly intuitive and clever, personalisation and conversion of programmatic and similar forms of advertising will only improve for the benefit of both consumers and retailers.

Edward Story, Senior Counsel in Consumer & Retail Sector Group, Taylor Wessing

Personalisation of the retail experience is critical. With the right data, AI allows retailers to understand, meet and exceed their customers’ expectations. AI is regenerating the retail industry by enhancing shopping experiences and creating new ways of attracting customers.

Smart fridges have been around for a while. Imagine a personal AI which knows what’s in your fridge and, if you give it permission, knows your personal history and what your children like to eat on a Tuesday. The AI will track calories, protein and carbohydrate intake, and vitamin balance. Food orders can be made automatically taking all of these needs into account.

Helen Marriot, Partner & Market Leader, Retail & Consumer Products, EY UK & Ireland

AI is already in action across the industry with the use of chatbots, virtual assistants and beacon technologies.

Case study: Carrefour

Carrefour uses beacon technology to send their customers details about special offers along with directions to the nearest store inviting customers to benefit from exclusive promotions.

Case study: Sephora

Sephora gives visitors to its physical store an excellent reason to shop. Customers have realised the value of their data and are keen for their shopping experience to add value. Sephora’s instore beacons send birthday messages to their customer reminding them that when they make a purchase during their birthday month, they will receive a free, special gift.

Personalised messages are also sent to help customers navigate the store – another way to streamline their shopping experience.
Many retailers don’t know it, but they are already collecting enough data. By taking advantage of simple data sources, such as purchase history, location, recently viewed products or the type of device being used, retailers have the ability to create seamless shopping experiences. AI can assist retailers in making sense of large data quantities and pinpointing those which can drive personalisation, leading to an increase in revenue, engagement and repeat custom.

4. Augmented Reality (AR) – the new way to shop?

AR blends the real world with computer-generated imagery. The use of AR technology in retail is set to increase rapidly as it has the ability to truly enhance the customer experience. AR allows for interactive experiences to be created around branded content.

AR can be used in the important decision-making stage of the customer journey. Amazon, IKEA and Houzz have AR apps that allow customers to scope a room in their house with their phone’s camera, browse a catalogue of furniture and then place that product virtually in the room. Users can move the piece of furniture around on their phone screen to give an instant insight into what it would look like in the room. It can also be used post-purchase, for example to deliver clear instructions for how to assemble or use the product.

AR is already transforming the retail industry and will continue to do so as the technology improves.

5. Delivering on expectations

Expecting customers to stay home waiting for a parcel to be delivered at an unknown point of the day is no longer an option. Customers expect a delivery option that fits their busy lifestyle.

The range of delivery and fulfilment options are dramatically increasing. And retailers need to keep pace with consumers’ growing delivery expectations. Efficient and fast are no longer enough – customers are becoming used to having access to more detail such as driver name, where the driver currently is and exact time of arrival.

Case study: Amazon

Amazon’s secret weapon is data. Amazon uses data to predict what a customer is likely to purchase and when... And where.

Amazon is, of course, leading the space in this regard, with significant spend and research already invested into its [patented] anticipatory package system, which finds economies of scale by moving items to distribution centres closer to customers who are likely to buy them.

- Hugh Fletcher. Global Head of Consultancy and Innovation, Salmon.
Retailers must keep up with how technology is advancing in order to meet and even exceed their customers’ expectations. Customers are less concerned about speed of delivery and are more inclined to a guaranteed time slot.

Forward-thinking retailers can integrate tracking information into their websites and apps. This also allows the opportunity to cross and up-sell; drive customer loyalty and add brand value.

“DPD has managed to create a profitable model by not seeking to play in the low-cost home delivery space, but instead focusing on value-added services” citing improved track and trace, a 15-minute delivery window and name driver as examples.

They invested ahead of the curve and some customers are typically paying £1 to £2 more to select a DPD delivery because they know it will give certainty.”

Stuart Higgins, Director of Retail, Bearing Point

“Working together is key to competing with Amazon’s delivery might. To make this happen in practice, retailers and delivery companies must look to the technology driving their logistics and operations. This can make collaboration possible by sharing accurate, timely information across a wider network, making it possible for retailers to pool their resources when it comes to delivering goods.”

Bobby Shorne, Global Business Director, Centiro
CONCLUSION

As we have seen the new entrants affecting the sector are bringing transformation and new ideas to the retail industry. Being able to quickly adapt to consumer needs will be critical; with new business models and flexibility key. Instead of working in the same way and offering the same things, new models enable retailers to work collaboratively with consumers to find new solutions.

The retail sector relies on consumer confidence. Retailers who continue to focus on customer service, with a seamless customer journey from start to end will be the ones to prosper. Traditional retailers will be replaced by the brands that are not afraid to experiment and innovate.

The future of the retail industry lies in integrated e-commerce with physical stores, providing customer engagement and experience. Innovative organisations will embrace new models of work to deliver quality and value. Brand strength and efficient distribution channels are key.

With reinvention and investment, the future of retail is favourable.

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TESTIMONIALS

By using OfficeTeam, we have not only gained great direct financial savings, but also eradicated soft costs through their excellent administration systems. OfficeTeam provides us with greater visibility of our business spend through tailored management reports, centralised invoicing for our stores and Head Office and an online ordering facility which standardises and restricts the products our employees can order. They also provide direct delivery of business supplies to all of our Fred Perry sites across the UK.

Fred Perry

These types of savings would not have been possible or certainly not executed as effectively by anyone else.

OfficeTeam has been able to offer us proactive hands on approach to cost improvement, taking ownership of each project and delivering excellent cost savings. Along with excellent customer service, product and deliveries.

Grafton Group PLC

At our Head Office in Regent Street, InteriorsTeam assisted with a space optimisation and re-planning project putting the space we had to far better use. The team were forward-thinking and were able to draw upon their experiences to execute the task effectively... The implementation and installation process was seamless.

Facilities Manager, New Look

ABOUT OFFICETEAM

We deliver value for a number of high street brands in the retail sector.

OfficeTeam has a heritage unmatched in the office supplies market. A British company founded over 100 years ago, our business has grown through the acquisition of complementary businesses and expertise.

Today we provide our customers with a single trusted source for their business supplies requirements. Our expert teams operate under specialist brands, while as a Group we lead the market by providing the most extensive portfolio of business supplies and services – available via a single online portal.

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