Brabners

Brabners' Retail Manifesto

Thank you to Arnold Clark, Iceland and Shop Direct for their contribution to this report.

The times they are a-changin'…

Regardless of where you look, from high-street giants to fledgling e-commerce platforms, the retail world is evolving at a faster pace than ever before.

Music critics refer to Bob Dylan's 1964 anthem for change as the 'archetypal protest song' and, speaking to retailers across the nation, it's clear that we are living in a time when the dramatic changes in consumer habits reflect a partial revolt against traditional ways of shopping.

As such, it's a time of great opportunity. There have never been more ways to reach customers, nor so directly. Technology may have created higher expectations of retailers, but it has also enabled them to differentiate their service and encourage greater brand loyalty than ever before. Yet there are plenty of brands that have struggled to adapt, particularly among those that generate the bulk of their sales from physical stores.

At this significant time of change, we wanted to address this delicately balanced, sometimes volatile, playing field and identify the areas that are enabling some businesses to fly and causing others to flounder. In this report, we've considered key topics – from technology and politics to skills and sustainability – taking in the views of more than 400 retailers (page 06) from across the UK.

We've also produced the very first Brabners Regional Retail Index (page 13) – a significant piece of primary research identifying the UK's geographical sweet spots for retailers, with some potentially surprising results.

As we look ahead to an uncertain few years politically, it's clear that our industry will continue to move at an ever-increasing speed and, in light of this, we've made some recommendations (page 16) not only for retailers but also for those lobbying the government to develop a more even playing field. I hope you find them both useful and compelling.

Richard Roberts
Head of retail, Brabners

State of flux: a critical time for British retailers

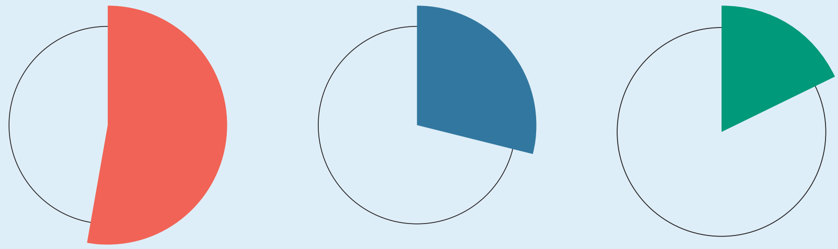
Much has been said about the trials and tribulations of retail in recent years, as the industry looks to evolve and meet the needs of the ever-changing consumer.

In order to develop a deeper insight into the minds of retailers at what could prove to be a historic tipping point for the sector, we surveyed 400 industry decision-makers to gauge their views and opinions on the issues affecting them most.

The results paint a vivid picture of an industry in a state of flux.

A cross-section of the nation's retailers

We spoke to 400 retailers from across Britain, from small, family-owned businesses to retail giants with revenues upwards of £500million.
Of those we surveyed:



53% have both a physical and online store

29% operate solely or primarily online

18% have only or primarily physical stores

Finance and operations

Retailers are realistic about their fortunes over the next three to five years and most see protecting margins, through higher prices or cheaper supplier deals, as key to steadying the ship.

Time to act despite uncertainty

Across the sector, retailers in Britain are alert to numerous and diverse threats to the future of their businesses. Our study found that, for the majority, concern stems from economic uncertainty (36%) and the success of online competitors (16%).

This uncertainty led two in five (42%) retailers to predict that their profits will remain flat, if not decline, over the next three years. For those predicting a downward trajectory, almost half pointed, again, to the impact of online competition on their sales volumes (49%) as reason for concern, as well as price pressure from their competitors (37%).

These findings may confirm some uncomfortable but well-documented truths. Yet a fifth (21%) of our respondents had no proposed plan in place to combat this perceived threat to their profit margins.

For those looking more proactively at their future strategy, passing the buck to customers in the form of higher prices led the charge for many, with almost a third (30%) seeing this as their best way forward. That was despite 38% anticipating that customers will ultimately demand lower prices of them in the future.

Perhaps this is why the alternative for the biggest proportion of retailers (40%) was to look to their supply chain instead and negotiate lower prices, prompting a potential long-term squeeze. Whichever way you look at it, product margins remain a key issue for those concerned about their future performance.

Property, people and technology

Be it new technology or bolstering the team with skilled workers, investing in the future is on the agenda for many retail brands.

Employment growth in the offing

Investment in technology is regarded as a key driver of growth in the modern retail landscape – where a fifth of all sales are now made online – but our research also found that people issues remain a key consideration for future-focussed businesses.

For Shop Direct, one of the UK's largest online retailers, people remain a core focus – as talent, culture and communications director Helen Miller explains: "Successful businesses realise they need more from talent in today's competitive retail market than just core skills. We look for people who are commercially-minded and customer-focussed, irrespective of whether they're in marketing, trading, IT or finance."

Hearteningly, more retailers plan to grow their workforce (18%) than reduce it (14%) in the next three years. And just 6% plan to impose more of the zero-hour contracts that have proved so contentious in some quarters, with one in ten considering more employee-empowering business structures like co-operatives or partnerships.

In further positive news, more than a fifth (23%) will commit to paying the Living Wage Foundation's (LWF) 'Real Living Wage', which currently stands at £9.00 per hour across the UK and £10.55 in London – yet the same proportion plan to employ more part-time or temporary staff.

According to LWF's website, 112 retailers in the UK are accredited as paying the 'Real Living Wage'. If the respondents to our survey live up to their commitment, we could see that number nearly double in the next three years.

"There is huge demand for tech and data skills in all big businesses. Attracting and retaining talent for digital product, user experience, data science, analytics, engineering and testing roles is very competitive, so retailers need to make talent a compelling offer."

Helen Miller
Talent, culture and communications director, Shop Direct

Struggling for skills?

We can also be reassured that, despite the potential implications of Brexit on the supply of overseas staff, only 18% foresee recruitment being a significant challenge in the next three years, with half (52%) confident of finding a pipeline of the right people.

While free movement is a big question for some, the tightening labour market here in the UK will be a more pressing concern for many. Unemployment is low and businesses must compete much harder to attract new recruits.

This might explain why nearly a third of the respondents to our survey worry that offering limited career progression will make them an unattractive employer.

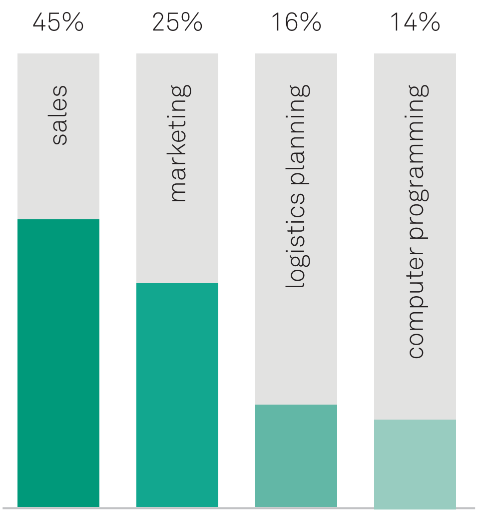
"Finding people with the right skills is a challenge," says Eddie Hawthorne, chief executive of car retailer Arnold Clark.

"You have to tell candidates a story these days – you sell your business to potential employees, not the other way around.

"At Arnold Clark, we changed our recruitment process around 18 months ago, taking a real step back and looking at where we were recruiting, how we were communicating roles and redefining them where necessary.

"We don't have 'sales trainees' any more, we have 'product geniuses' who are charged with knowing everything about our cars. Just from this small change we went from receiving no applications to receiving hundreds. It's also helped us become more diverse and now 50% of our geniuses are women."

Top skills in demand



"Iceland's ratio of store wages to turnover is the highest of any UK food retailer and this is key to our reputation for outstanding customer service, which will never be achieved by automation. We are also developing the next generation of retail talent in-house through apprenticeship schemes for store managers and supervisors."

Keith Hann

Director of corporate affairs, Iceland

Stores still core despite online shift

For those predicting the death of the high street, it is notable that just 13% currently hold plans to move away from current town or city centre locations.

Moreover, the same number of retailers told us they plan to grow their store portfolio, as told us they would reduce it (both 17%), while 42% expect it to remain unchanged.

And 59% will maintain or increase investment in their stores, with more than one in five (22%) expecting their customers to demand an increasingly unique in-store experience. This comes despite the anticipation from almost half (46%) that more customers will demand online purchasing in the next three years.

As Iceland's Simon Anderson points out, a store presence is still a real advantage to retailers with a click-and-collect business model, albeit he anticipates that actual store numbers will continue to reduce for some of those retailers over the next couple of years.

"Let's not forget that lots of people still go out shopping," he says. "Online is an increasingly important part of the mix but it will never render the experience of going shopping obsolete.

"The problem comes in the smaller, lower-tier towns and centres which just can't offer shopping, eating, leisure and cultural experiences in one. Occupancy costs are still way too high in most of them, and demand for space is low. Many are now only there for local convenience and small-ticket item shopping, so it's going to prove very difficult to rebuild them, especially when most also have a decent retail park on their doorstep where you can park for free and shop for everything you would in the town centre."

Making the most of existing space is therefore essential.

"If you have a strong property portfolio already, increasing store footprint isn't always the right thing to do," comments Eddie Hawthorne of Arnold Clark. "What we will do is work on the layout of stores and look at where we can create more space.

"Car retailers essentially operate in two environments now. Customers shop online even though they usually complete their purchase in store. That means we are vying with other retailers, not just our own direct competitors, so we need to differentiate ourselves online and in store.

"Gone are the days of people taking a day to walk around showrooms and choose a car. People expect immediacy, so we have to make sure we're offering a seamless journey."

An eye on innovation

In preparation for an anticipated increase in online consumers, many are moving to make the most of emerging technologies that have the potential to drive real change in the sector.

While many may have already done so, almost half (48%) plan to introduce new technologies to their operations in the next three years.

They have a shopping list that includes big data analysis (22%), automation or Artificial Intelligence (17%), employee tracking technology (12%), electric vehicles (11%), virtual reality (VR) (9%) and even autonomous vehicles (5%).

By equipping themselves for the brave new world of retail, they stand to steal a march on those who intend to stick with the status quo.

For Helen Miller of Shop Direct, it is those companies that embrace tech which will thrive in the future, regardless of whether their focus is online retail or physical stores. "We've been through a huge transformation – from catalogues and retail stores to pure play online – and our transformation is still ongoing," she says.

"One example is where we've integrated IBM Watson's AI technology into our in-app chatbot, Very Assistant, so customers can use natural language to ask account-related questions in their own words and receive personalised answers from the Assistant. It's helping to give customers a better experience and reduce calls into our contact centres."

"Like many retailers, we're still at the early stages of exploring certain technologies. VR has some applications, but it has to be an in-store experience because most customers don't have this technology at home – so they might as well sit in a real car rather than a virtual one.

"A real success story for us has been using video to link the digital and physical experience for our customers. Our product geniuses will make a preview video of your car, almost like a virtual tour. Using video as tutorials is a quicker and more seamless way of instructing and demonstrating features to customers – rather than having to go through all of this during the completion process."

Eddie Hawthorne
Chief executive, Arnold Clark

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is creeping up the agenda for many retailers and, as environmental impact becomes an increasing concern for consumers, commitments to sustainability initiatives are where we see the largest proportion of brands channelling their efforts.

A question of ethics

Alongside an interest in technology-enabled products and services, consumers' priorities are shifting on the importance of sustainability, which is increasingly being considered as part of the purchasing decision next to traditional concerns like cost, quality and convenience.

While CSR has not traditionally been at the top of boards' agendas, applying and – crucially – communicating an effective CSR strategy is making more and more commercial sense, enhancing retailers' reputations, as well as supporting recruitment.

Our study recognised this, with almost a quarter (24%) of retailers anticipating an increase in demand from their customers for them to become a more environmentally sustainable business.

Increased public awareness of the issues surrounding palm oil has contributed to pressure on the industry body RSPO (Roundtable on Sustainable Palm Oil) and the world's largest palm oil trader Wilmar, leading both to make 'zero deforestation' commitments.

This issue was at the forefront of Iceland's marketing strategy for Christmas 2018 when it used its main advertisement, an animation called ***Rang-Tan***, to draw attention to the plight of orangutans endangered by the expansion of palm oil plantations. Although it was barred from airing on TV, it attracted more than 70 million views online and through social channels, making it the most-viewed Christmas ad of all time.

Keith Hann, Iceland's director of corporate affairs, comments: "We have no doubt whatsoever that consumers are increasingly concerned with the purpose and values of the retailers they buy from. This is particularly true of younger Millennial and Generation Z consumers and is therefore set to increase over time.

"We were also the first UK food retailer to pledge support for a Deposit Return Scheme for plastic bottles and the first to promise to remove plastic packaging from our own label range by 2023."

However, when we presented a list of responsible activities and asked retailers which they had adopted in the past three years, the largest proportion (39%) of our study said they had not adopted any. Strikingly, a similar number (37%) said they didn't intend to do so going forward either.

Still, there was a diverse and dynamic selection of green initiatives being pursued by those retailers moving to address their environmental impact.

Over a quarter (27%) had installed a plastics reduction scheme, with a similar proportion (26%) moving to sell more ethically sourced products.

Some had started using renewable energy (15%), introduced environmentally friendly deliveries (14%) or put in place food waste (13%) or emissions reduction schemes (11%).

Responsible retailing

The picture is roughly the same when you look at plans for the future. A fifth intend to reduce plastic and introduce more ethically sourced products to their lines in the next three years, with 18% considering environmentally friendly deliveries or renewable energy (16%), and roughly one in ten (12%) moving to tackle emissions or reduce food waste.

As consumer-facing brands, it's clear that retailers will continue to reflect the values of the communities they serve by limiting their impact on the environment.

By following the lead of brands like Patagonia, Lush and Ikea, more retailers can capitalise on the opportunity presented by growing public awareness of environmental and social issues. ■

The Brabners Regional Retail Index

For bricks-and-mortar retailers, the current retail landscape can be a tough place to be, amid high business rates, price pressures and the quickening march of online players.

But is that landscape consistent across the UK? Are there actually sweet spots for retailers that we can take a lead from and identify the factors that make for a more retail-friendly environment?

To answer these questions, we created an index of 11 British regions to find out which ones are the most retail-friendly.

In creating the index, we identified ten key metrics that impact how easy or difficult it is to do business in a certain area.

Each metric was scored out of five based on how directly it impacts a retailer's ability to do business – the higher the rating, the more impact that metric had on the overall index score. For example, business rates have a direct impact on a retailer's bottom line, so this metric was given a high score. Quality of transport infrastructure was given a lower score comparatively as its effect on the retail environment is more indirect.*

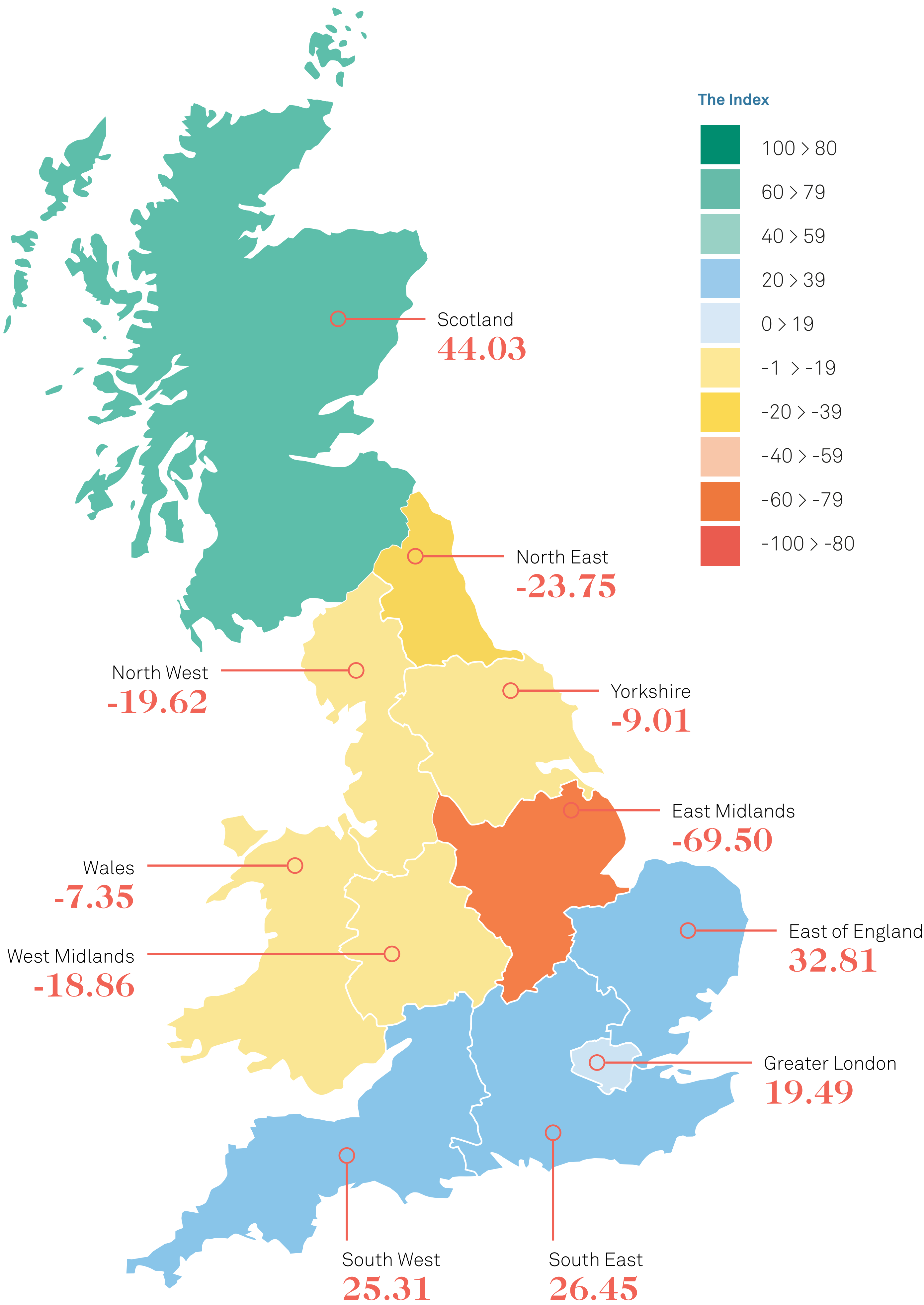
The 11 regions are ranked on each individual metric to arrive at an overall index score ranging from -100 to +100 (+100 being extremely hospitable and -100 being extremely inhospitable).

Rank	Region	Index Score (-100 to +100)
1	Scotland	44.03
2	East of England	32.81
3	South East	26.45
4	South West	25.31
5	Greater London	19.49
6	Wales	-7.35
7	Yorkshire	-9.01
8	West Midlands	-18.86
9	North West	-19.62
10	North East	-23.75
11	East Midlands	-69.50

* Metric weightings were designed by the research team and corroborated with external sources

Data sources for the Regional Retail Index

- **Disposable income per household** - House of Commons Library, Median weekly household income by region, after housing costs: 2014/15 to 2016/17
- **Percentage of total retail GVA** – BEIS Calculations based on National Accounts, Regional Gross Value Added and Regional Annual Business Survey – published in commons committee retail sector report in 2017
- **Quality of transport infrastructure** – Department for Transport , Transport Statistics Great Britain, Oct - Dec 2016
- **Number of businesses** - Nomis - UK business counts
- **Applicable licenses for retail businesses** - Gov.UK License Finder
- **Workforce demographics** – Nomis Workforce profile by region
- **Business rates** – England: .Gov business rates calculator. Wales: .Gov.Wales finance and funding, Scotland: Edinburgh.gov.uk 2018/19 domestic business rate charges
- **Number of lets available** - Zoopla Commercial Property site, number of properties per region
- **Commercial property price** - Zoopla Commercial Property site, average asking rent per week
- **Business survival rates** - ONS business demography (published November 2017)



The Index
100 > 80
60 > 79
40 > 59
20 > 39
0 > 19
-1 > -19
-20 > -39
-40 > -59
-60 > -79
-100 > -80
Scotland
44.03
North East
-23.75
North West
-19.62
Yorkshire
-9.01
East Midlands
-69.50
Wales
-7.35
West Midlands
-18.86
East of England
32.81
Greater London
19.49
South West
25.31
South East
26.45

Power of Scotland

If we look at the overall index scores, Scotland comes out on top – pipping the East of England to the post. While that may come as a surprise to some, it's important to note that Scotland has an advantage over many other regions in that it has a number of significant economic hubs – Glasgow, Edinburgh, Dundee, for example – compared to areas of England that may have only one or two sizeable towns or cities.

Scotland also scores highly on average disposable income, losing out only to Greater London and the South East where prices are generally higher.

A high number of public transport links suggests that travelling to shopping districts is easier for Scottish shoppers – particularly when compared to regions like the North West, where Manchester famously has some of the most disrupted rail services in the country. Even London, which enjoys disproportionately high investment in public transport infrastructure, suffers in this area because of the length of time it takes to travel into the city. Scotland also appears to have good availability of parking close to retail areas.

North vs South

Another noticeable trend in the results is a stark North/South divide with regions in the South of England consistently placing higher in the table than those in the North and the Midlands.

Public spending has long been a bone of contention for the North, with some arguing that most investment is still focused on London and its surrounding regions. An Institute of Public Policy Research study in 2018 found that Londoners benefit from £419 more per head in transport investment than the North of England.

Investment in the built environment has certainly taken off in certain parts of the North in recent years. The Port of Liverpool's new deep-water container terminal (Liverpool 2), with its multi-modal inland transport links, is set to enhance the city's role as a trade hub for the region. Time will tell whether more utilitarian city hubs can also make life easier for the retailers operating in those areas.

But, more often than not, it's the 'secondary' towns and cities – those with populations of around 100,000 or fewer – that struggle. The picture is comparatively rosy for the likes of Birmingham and Manchester. But pinch points around disposable income, workforce availability and infrastructure make life much harder for towns like Bolton, Blackburn and Blackpool.

Whether it's down to Westminster neglect or not, it's clear that prosperity issues are much more of a factor in northern regions. Across the board, they scored poorly in our analysis on disposable income per household – meaning consumers have less spending power. Workforce availability also appears to be an issue in the North where regions tend to have a smaller number of people looking for work and fewer people in general with qualifications above NVQ4.

London waning

Perhaps surprisingly, London performs the worst of the four southern regions in our analysis. Despite greater population density and a huge number of active retailers, the capital falls down in a number of areas that make it a potentially less hospitable place to do business.

Commercial property prices are among the highest in the world, meaning that leases are expensive and high business rates cut into profit margins. The knock-on effect of this is a need to hike prices. For example, cost-of-living database Numbeo calculates that consumer prices in London are 13% higher than they are a few miles south in the city of Brighton and Hove. Residential rental prices are 40% higher.

All this means that not only do Londoners have less money in their pockets, each pound doesn't go as far as it would in other areas of the South. Retailers are caught between customers who can't afford to shop and operational costs that make it difficult to reduce prices. As a result, it is unsurprising that London scores worse than any other region on business survival rates.

It's telling that luxury retail brands – particularly those which appeal to London's big-spending tourists – are the ones that consistently withstand these pressures in the capital. Where Harrods, Selfridges and Liberty are coping, high-street stalwarts like House of Fraser and Debenhams are struggling and in some cases shutting stores. ■

"There is a danger that we will reach a point where retailers need a 'premium' global brand – like Harrods or Harvey Nichols – to prosper in prohibitively high-cost environments like London. The risk is a two-tier system where high-end brands thrive, and the mid-market starts to fade out.

"A redressing of the balance is required. North vs South, big city vs small town, online vs in-store – the retail market is full of divisions and the changes we enact now to make it work for everyone – both online and on the high street – will define what the retail environment looks like five or ten years down the line."

Richard Roberts
Head of retail, Brabners

The Retail Manifesto

In this report, we have identified fundamental challenges that retailers in the UK face. But amongst the uncertainty, evidence from our research and insight from some key industry players has uncovered workable examples of how businesses can break through the barriers in front of them.

Based on this insight, we present our Retail Manifesto – a set of recommendations for how the government and retailers themselves can help to future-proof the UK's retail economy.

For government:

Balance regional infrastructure investment

Our regional index highlighted a clear divide between the North and South of England. While it is not fair to pin all the blame on central government, Westminster is in a position to help rebalance the situation from a funding perspective, perhaps via empowering metro mayors or considering extending initiatives like enterprise zones.

We recommend that a per-capita weighting for regional investment in infrastructure is introduced so that funding is allocated more fairly and does more to help boost struggling areas.

This approach should also include greater incentivisation for local authorities to implement initiatives such as free car parking to stimulate an increase in footfall for smaller town centres and high streets.

Review business rates

Several retailers we spoke to highlighted the impact that high business rates have had on their bottom line. There are, of course, other challenges but fixing this one appears to be well within the government's power.

We call for the government to give increased priority to the ongoing Treasury Committee enquiry into the current business rates system to identify alternative ways of calculating them so that no one is at a disadvantage – whether that's levelling the playing field for bricks and mortar retailers or ensuring that large, international players pay a fair amount of tax compared to their SME e-commerce competitors.

Unlike some, we don't want to see pure-play online retailers 'penalised' for their lack of store footprint. The key is a system that is fair and which incentivises either fresh investment or new entrants into the sector.

For retailers:

Invest in experience as well as footprint

Investing in stores doesn't have to mean increasing footprint. Many of the retailers we interviewed are seeing the value of creating a unique and customer-focused experience in their physical stores.

Funnelling investment into improving existing stores, rather than being overly concerned about your rate of expansion, could be what's needed to get the most return out of existing locations.

Make retail a career, not just a job

In our survey, a third of retailers were concerned they will not be able to attract and retain staff because they don't offer enough career progression. Others highlighted the benefits of rethinking how they advertise new roles, and even what those roles involve.

Exploring where training courses and apprenticeships could be introduced for your workforce will help employees see entry-level job openings as a career pathway that encourages them to stay the course.

Some retailers have also used paying the UK Living Wage – as recommended by the Living Wage Foundation – as a point of differentiation in the market, helping to make careers in retail more attractive in the process.

See technology as man's best friend

Appetite to invest in technologies like AI was low in our survey, possibly down to the negative associations with automation and the threat it poses to job security for people.

Denying the potential benefits of these technologies will only cause a business to fall behind those who embrace change. In a retail environment where there is more pressure and more demand for immediacy from customers, automation could actually be a real help to employees who are stretched. Identify where these technologies can support, not replace, your existing workforce.

Think strategically about CSR

A large number of the retailers we surveyed highlighted the increasing expectation from consumers for the brands they buy from to behave ethically and reduce their environmental impact where possible. The increasing popularity of 'green' brands shows the rest of the sector that there is real business benefit to a strategic approach to corporate social responsibility.

At a time when margins are under pressure, it's fair to say the budget for CSR projects is limited for a lot of retailers. Knowing your customers is key – identify which programmes they will associate with most so that you put your time and money into initiatives that will boost brand loyalty and attract more of your target audience.

Conclusion: Pragmatism and optimism

It's all too easy to say that retailers are at a crossroads, where the choice is either to go digital or risk becoming obsolete.

Yes, consumers have more of an appetite to shop online now and that isn't going to change. But if the Office for National Statistics estimates that one in every five pounds spent with UK retailers is the result of an online purchase, then four out of five are spent in physical stores.

The future of retail, in our view, is a mix of physical and digital experiences where a purchase can start on a smartphone and complete in a store. Where consumers visit the high street for an experiential journey as much as they do for the instant gratification of a physical purchase.

Many of the businesses who contributed to this report highlighted investment in technology as their priority. Some are more focussed on their employer brand and how this will help them secure the talented people they need to keep moving forward. Others will, of course, increase investment in their online presence. But they will also explore ways to expand and enhance their existing physical stores, even if increasing their total footprint has fallen down the list of priorities for many.

From our analysis of the regional retail landscape, it's clear that the government must support retailers by addressing the link between property values and how businesses are taxed. Separately, but just as importantly, we have put forward some categoric evidence for the presence and impact of a stark North/South divide that disadvantages people in the North and the brands they buy from.

But there are also things that retailers themselves must do to adapt to, and take advantage of, the new world order. Being versatile and dynamic in the channels used to engage with customers and identifying what makes your brand experience unique will be key differentiating factors in the years to come.

We've spoken to retailers across the country, from major supermarket chains to online fashion brands. In the main they are pragmatists, but also optimists.

The sector will meet the challenges that lie ahead in the same way it has always overcome adversity – through innovation, adaptation and by understanding what customers want from the brands they engage with.

Robert White
Chief executive, Brabners

March 2019

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