



# RETAIL NATION

How UK's Retailers are  
Making a Difference

# RETAIL NATION

The retail sector is a vital part of the UK economy and touches us all in many ways as customers, employees or partners. Retail is a vibrant and dynamic sector featuring constant innovation, and is a core part of the UK's reputation on the global stage.

OC&C and Retail Week have undertaken this study to recognise and celebrate the value the retail sector brings to the country.

We hope this is the start of a conversation and debate which we want to continue into the year, ensuring retailers have the tools and environment necessary to enable the most positive impact.

A large and growing retail sector is essential to the UK. The sector employs three million people and invests in them at all levels. It delivers great value for customers by keeping prices low, and offers them choice and convenience through new business models. Customers have embraced this, resulting in a world-leading online retail sector. Retail makes a major contribution to other parts of the UK economy, with £130bn of spend in retail flowing to other sectors, and £30bn paid to the public purse each year. And finally, UK retail offers an internationally compelling offer – as shown by £3bn of tourist spend in shops and £5bn sold online to overseas consumers. In summary, retail is a vibrant sector that makes far-reaching contributions to society.

# 1. THE LARGEST PRIVATE SECTOR EMPLOYER

## Flexible

British retailers provide more employment than any other part of the private sector. Over three million people are building their careers in retail, more than traditionally labour-intensive sectors such as manufacturing and hospitality. The sector also offers flexibility in employment to suit the needs of particular groups. Retail employs more people part-time than any other, over-indexes on the proportion of female employees – over 60% – and is recommended by single-parent-family charity Gingerbread for its favourable working conditions and flexibility.

## Up and down the nation

The benefits these jobs bring are distributed across the UK. Retail jobs, by their nature, are dispersed across the country more evenly than other major sectors. They account for between 9% and 11% of total employment in each region. Manufacturing, by contrast, is more heavily weighted towards the Midlands, North East and Yorkshire, while professional services and business administration jobs are most commonly found in London.

Beyond being a major source of employment in every region, retail is the largest source of high-value jobs beyond the capital and the Home Counties, with 40% of the UK's top 100 retailers

located outside of this area. Over half of FTSE-100 retailers have their headquarters outside London – more than the engineering, industrial and consumer goods sectors. One reason for this is that retailers rarely relocate head offices, resulting in many being beacons of employment in the towns where they were originally founded.

## Developing talent

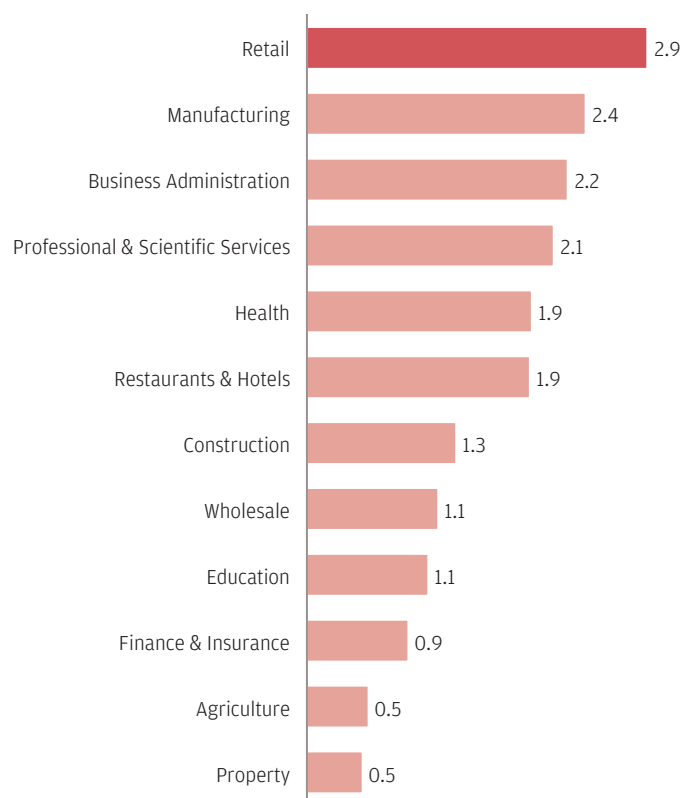
British retail is proving strong at attracting and developing its own talent. Over 100,000 young people took up apprenticeships in the sector in 2012-13, and retailers are more likely to recruit young people for their first jobs after education. They appear to be good at developing and retaining them right to the top. Looking at the UK's Top 50 Retail CEOs, around 60% started their careers in the sector, many with the same companies they now lead – and some of the UK's largest and most successful retailers are led by individuals who started their careers on the shop floor. Retail genuinely provides progression opportunities irrespective of entry point – shop-floor to CEO can and does happen.

## Popular for entrepreneurs

Retail is a popular sector for entrepreneurs – over 20,000 new retail businesses are created each year and their survival rate is better than average.

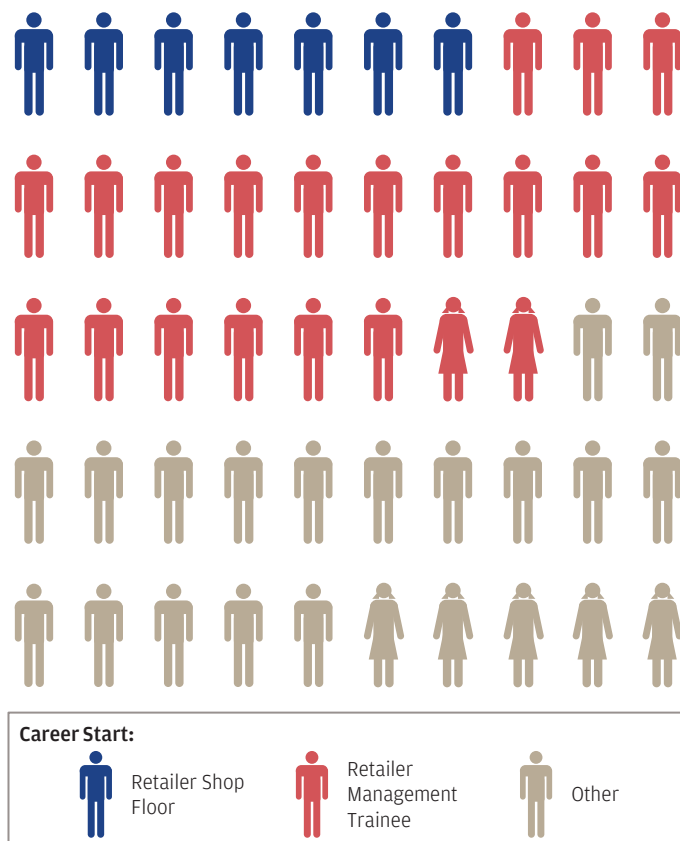
**Exhibit 1:**  
**UK PRIVATE SECTOR EMPLOYMENT 2012**

Millions of Employees and Proprietors



Source: ONS, OC&C analysis

**Exhibit 2:**  
**CAREER START FOR CEOs OF 50 LEADING UK RETAILERS**



Source: Retail Week Knowledge Bank, Company Websites, LinkedIn, Desk Research, OC&C analysis

# 2.

## DELIVERING GREAT VALUE FOR CUSTOMERS

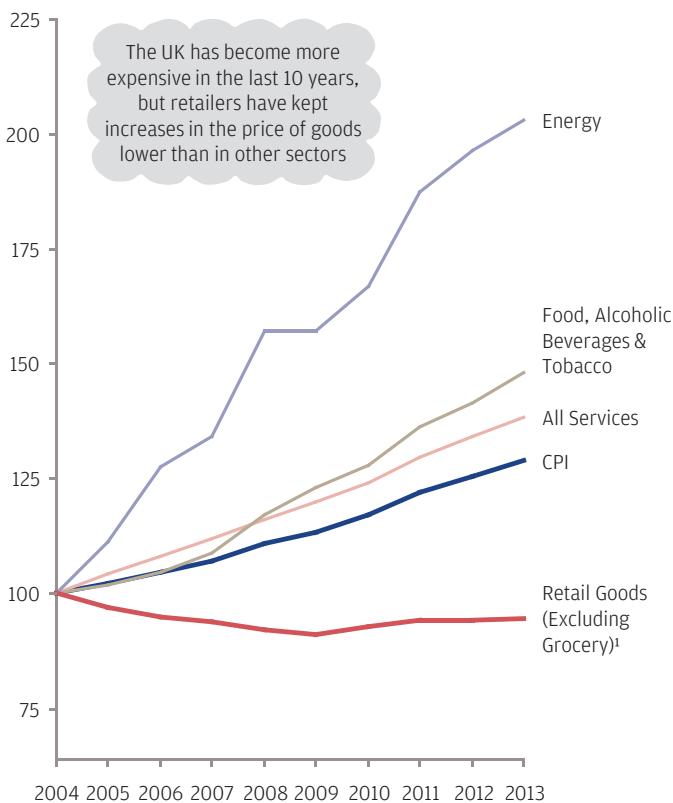
The UK retail sector delivers a good deal for customers. Although the overall cost of living has increased since 2007, most of this increase has come from the services sector – the price of the CPI basket of retail goods in 2013 was 2% lower than the same basket in 2004. In some high-competition segments, particularly clothing and footwear, prices have reduced since pre-recession levels.

Even in higher inflation areas like food, which saw supply-side shocks in 2008 and 2011, consumer prices have increased by significantly less than overall commodity inflation levels, with retailers and manufacturers absorbing the cost increases through margin compression. Weighted average grocer margins have fallen every year since 2010. Although these have been tough years for those in grocery retail and their suppliers, they have insulated consumers from the full effects of food price inflation.

When compared to international markets, the lowest-cost place for UK consumers to shop is at home. Based on a basket of identical international branded goods, we found it to be more cost-effective for customers to buy domestically when compared with the delivered cost of goods from overseas.

**Exhibit 3:**  
**ELEMENTS OF CPI**

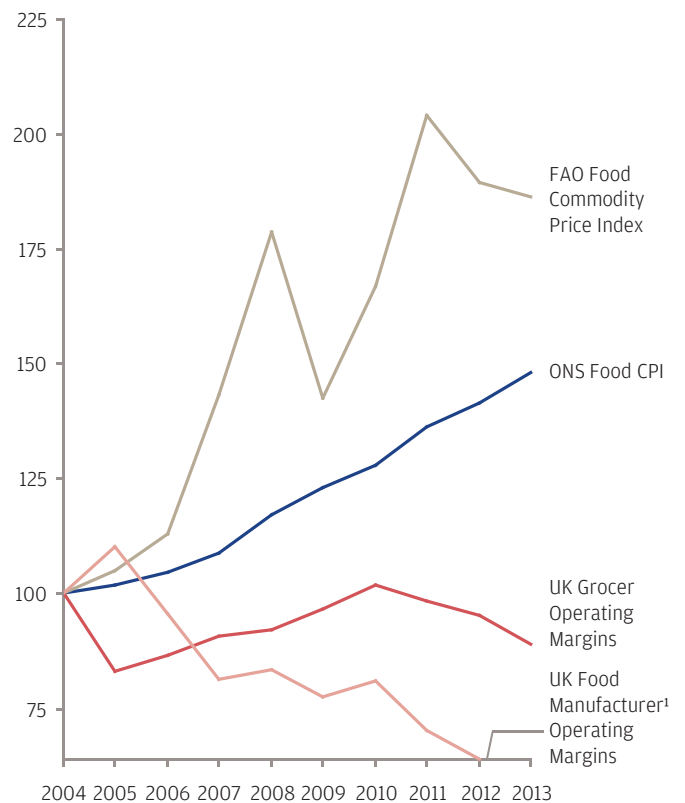
Indexed, 2004 = 100



Source: ONS, OC&C analysis

**Exhibit 4:**  
**UK CONSUMER FOOD PRICES VS ECOSYSTEM INDICATORS**

Indexed 2004=100



1. Top 150 UK Food Manufacturers by revenue  
Source: FAO, ONS, Companies House, OC&C UK Food & Drink 150, OC&C analysis

# 3. SUPPORTING THE WIDER ECONOMY

The revenues of the retail sector flow through to the wider UK economy, supporting other providers of goods and services and contributing to local and central government.

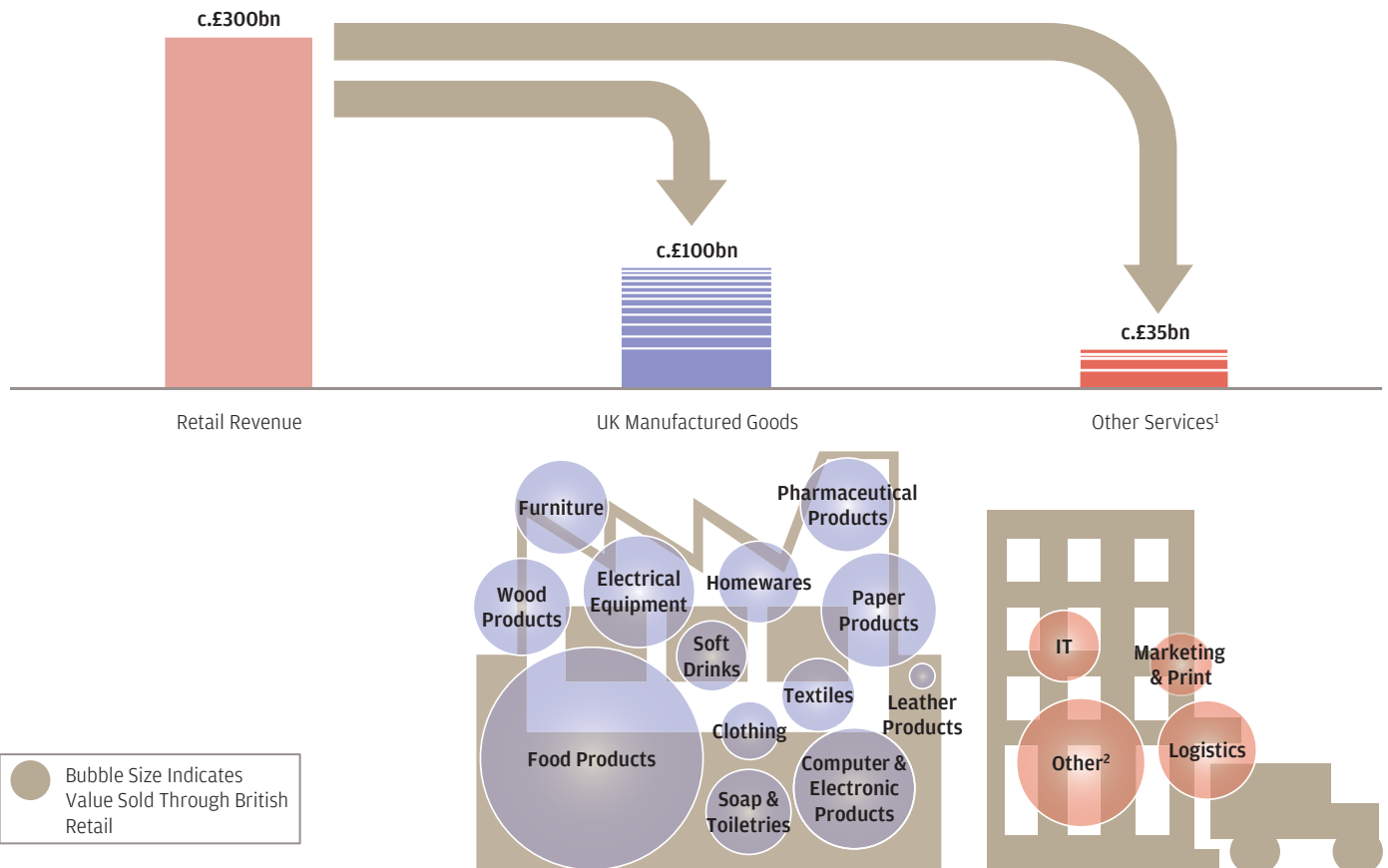
Of the £300bn spent by consumers on retail, £100bn flows through to UK manufacturers each year. Retailers provide a critical route to market for their goods. Food products account for the largest share at £34bn per annum, but even sectors with strong overseas suppliers such as furniture and clothing still provide opportunities for UK manufacturers, with merchandise worth £6bn and £2.5bn traded respectively in 2012. Companies such as Emma Bridgewater and Barbour are just two examples of UK manufacturers who directly benefit from customers choosing their distinctive products when shopping.

Procurement specialist Proxima estimates that in addition to the cost of goods sold, labour and rent, annually retailers

spend c.12% of revenue (worth c.£35bn) on support services and other goods not for resale, mainly with domestic service providers. Sectors such as logistics and marketing are the most significant recipients of this spend and most is sourced from UK suppliers. Even in sectors such as IT, much of the spend goes on UK-based implementation and service personnel rather than overseas-sourced hardware and software. From security to consumables; payment processing to facilities management, a tier of suppliers service the retail sector.

Finally, as a result of being people and property-intensive businesses, retailers pay £30bn in tax each year to central and local government in the form of corporation tax, business rates, income tax, national insurance and net VAT collected – accounting for 10% of total government revenues from these taxes.

**Exhibit 5:**  
**MONEY FLOWS FROM UK RETAIL, 2012**



● Bubble Size Indicates Value Sold Through British Retail

1. Goods not for resale  
2. Includes other goods and services not for retail, eg HR, travel, etc  
Source: ONS, Proxima Group, OC&C analysis

# 4.

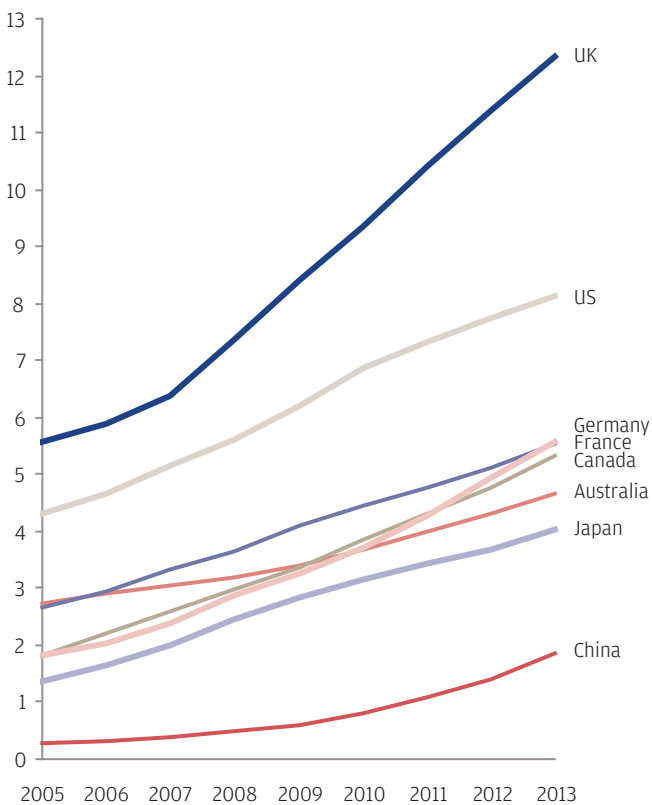
## LEADING THE WORLD IN E-COMMERCE

Although the internet has fundamentally challenged existing business models, UK retailers have embraced it and made it a spectacular success. The UK leads the world with one eighth of all retail spend now taking place online, and the highest per-capita online spend at nearly £900 per annum. As a result of this, retail innovation is fostered in technology hubs such as London's Silicon Roundabout.

The combination of a fiercely competitive retail environment and a strong technology sector has made the retail sector an incubator for innovative models throughout the value chain. Companies such as WGSN, the trend-forecasting service started in London in 1998, are helping to make sense of vast quantities of fashion data. London based Fits.me have developed a virtual fitting room for used in retailers' online stores, allowing shoppers to get an accurate idea of what a size will look like on them. Technology is transforming the in-store experience

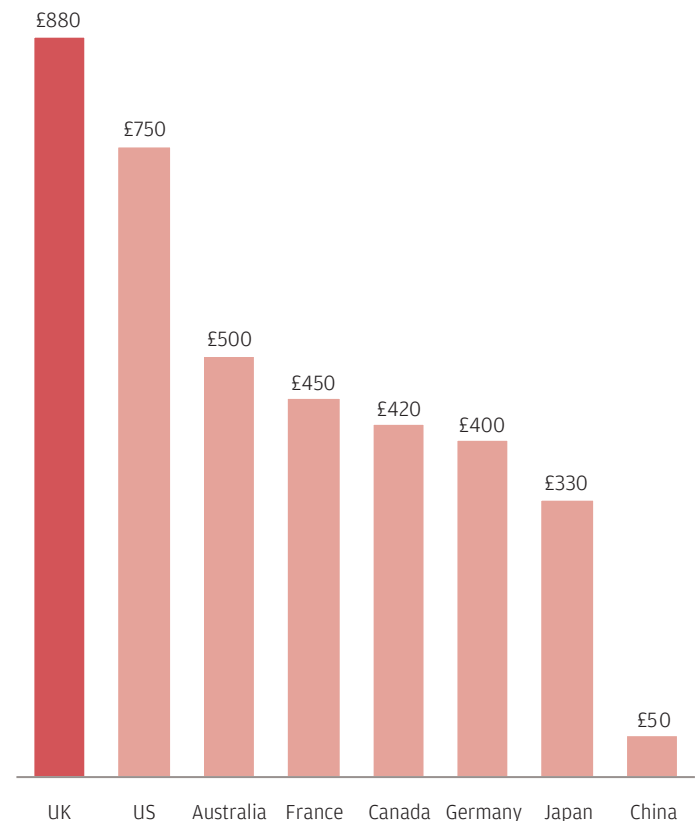
too with "endless aisles" and Argos's Digital Store being two examples of providing extensive choice in an informed way within limited space. The UK's compact geography has allowed innovative fulfilment models to thrive. Collect+ and MyHermes are overcoming traditional fulfilment challenges with highly fragmented, late-opening distribution points for collection and delivery by partnering with convenience stores. London-based Shutl, which offers same-day delivery by aggregating local courier supply, was recently acquired by eBay to improve the customer offer through 1-hour delivery in the UK.

**Exhibit 6:**  
**% RETAIL SPEND ONLINE**



Source: Conlumino. OC&C analysis

**Exhibit 7:**  
**ONLINE SPEND PER CAPITA, 2013**



Source: Conlumino. Mintel. OC&C analysis

# 5.

## GROWING CROSS-BORDER TRADE

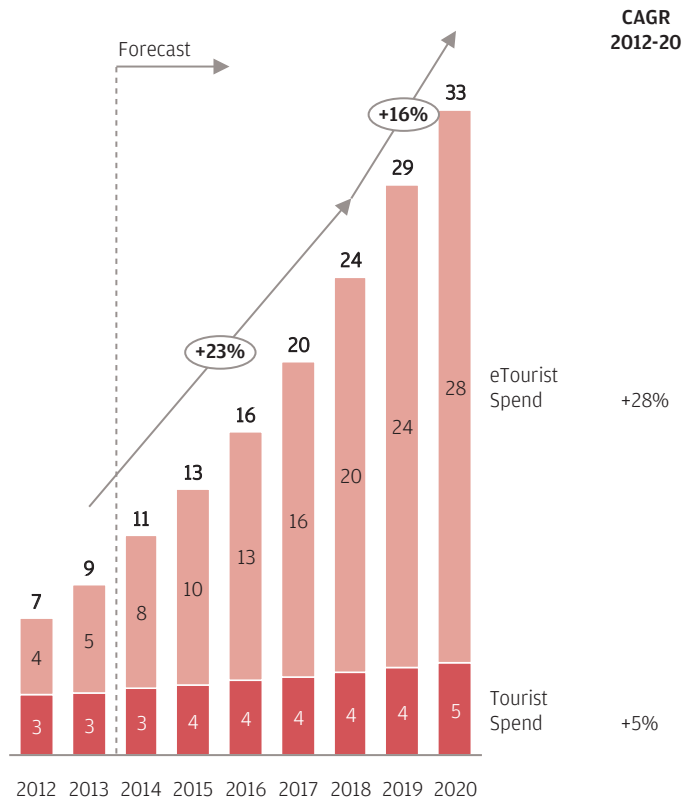
The UK is one of the world's leading tourist destinations and those visiting spend £3bn on retail (and a further £15bn on accommodation, food, travel and entertainment). We expect this to grow by 5% per annum driven by increasing tourist volumes and spend per head, particularly in London.

One consequence of embracing online retail early has been to establish the UK as the online retailer to the world, welcoming eTourists to our shops. UK retailers sold £5bn of goods internationally in 2013 and OC&C forecasts this to grow to £28bn by 2020. Key drivers of this growth will be the advantage UK retailers hold on proposition, service (eg free European delivery) and price, particularly against countries with strongly valued currencies. From the consumer side we expect increased demand for UK brands, growing confidence in online shopping and growth of mobile to lead to more opportunities for UK online retailers.

Of the top 300 UK retailers with an online presence, over one in three achieve a material proportion of Google searches – in excess of 20% – from overseas, with a small number now “majority overseas” including Asos.com, Charles Tyrwhitt and Chain Reaction Cycles.

**Exhibit 8:**  
**INTERNATIONAL SALES FROM UK RETAILERS**

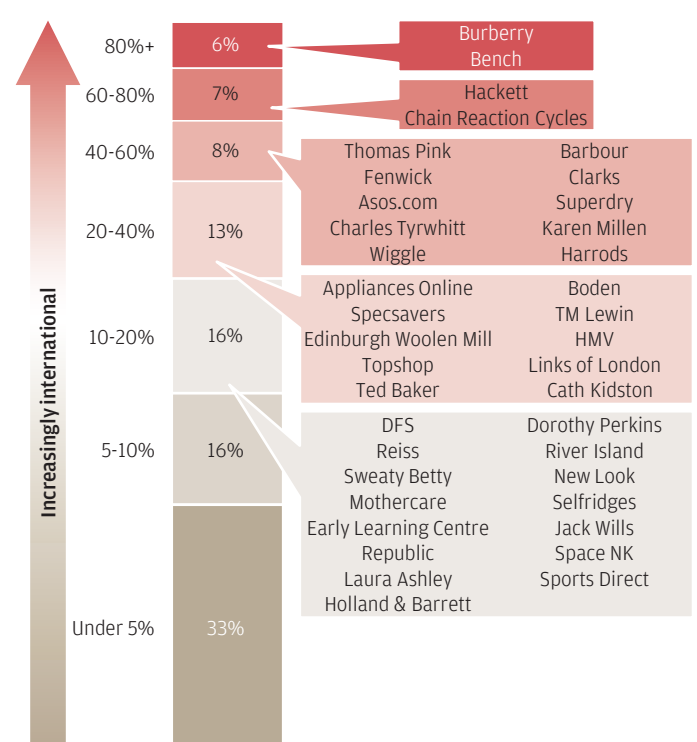
£bn, % CAGR



Source: IMRG, Euromonitor, Forrester, Google Queries, OC&C analysis

**Exhibit 9:**  
**PROPORTION OF GOOGLE SEARCH VOLUMES ORIGINATING OUTSIDE OF UK**

Not Exhaustive



1. Selected high-street brands; based on over 300 retail brands

Source: Google Data, OC&C analysis

**Belo Horizonte**

T +55 31 3481 0092

**Boston**

T +1 617 896 9900

**Düsseldorf**

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**Hamburg**

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**Hong Kong**

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**Istanbul**

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**London**

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**Mumbai**

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**New Delhi**

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