QUARTERLY RETAIL THINK TANK REPORT
AUGUST 2019: "Retail 2025"

Six years is a long time in any industry, although with the fortunes of retailers being so intrinsically linked to the slightest deviations to the economy, consumer confidence, advancements in technology, political legislation and societal changes, 2025 will almost certainly bring with it a very different retail industry than we see today.

At the latest KPMG/Ipsos Retail Think Tank (RTT) meeting, members discussed what they believed the future would hold for retailers, and what shopping landscape the consumer could expect to experience in 2025.

Physical stores and portfolio size

The RTT looked ahead at what role the physical store would have in the future, and how our high streets might look in 2025.

Many figures have been suggested and discussed with regards to the number of purchases that will take place on the high street versus online. The RTT members believe that as many as 35% of sales will be online by 2025. While this proportion will not make physical stores redundant, it will almost certainly lead to further closures and restructuring work across the UK.

The trend of reducing physical stores will undoubtedly continue. However, as consumers – especially millennials – seek out experiences over tangible 'things', it is expected that successful retailers will be ones that drive footfall with in-store experiences that complement and enhance the offering, even if that ultimately drives online sales.

By 2025, not only will the role of physical stores change, but the number of stores and where they are located will look very different too. Jonathan De Mello, head of retail consultancy at Harper Dennis Hobbs, said: *"Retailers are looking for fewer stores not more – and it is increasingly about being in the right location as opposed to saturating the market with stores. 40-50 stores in the right centres is typically sufficient to cover the UK market, with other distribution channels such as wholesale, concessions and online covering the rest."*

Where these stores are located is also expected to have evolved by 2025, with dense footfall centres not always being formed on 'traditional' high streets in towns and cities across the UK, but at travel hubs, large out of town shopping centres and on key 'premium' high streets such as Oxford Street. RTT members warned that this consolidation of stores into key locations will cause shoppers and retailers to desert some of the traditional high streets, where many units and buildings will need to be re-categorised and re-used, with some likely to become derelict and vacant.

Looking at those traditional footfall centres, the think tank was especially concerned for the future of department stores. Six years from now it will be commonplace for brands to sell directly to consumers, skipping department stores out of the buying process. These will likely consist of a single brand flagship store that personifies the brand through an experience, and complements a direct to consumer online operation. This will leave department stores struggling to compete for the best brands to sell, and consequently competing for customer footfall and sales.

Market equilibrium

In 2008 Amazon's annual revenue was $1.9bn, ten years later in 2018 it was $232bn. The last decade has seen the retail sector scramble to keep up with a monumental shift in how people shop. Universal internet access, the widespread use of smart devices, rising online competition, quicker deliveries and an ebbing and flowing sense of mass consumerism and convenience has led to an explosion in the popularity of online shopping.

This has not taken place overnight, but in terms of its impact on operations, it has required change at nearly every level of a retailer's business. This amount of upheaval over a long period of time has left retailers in an almost constant state of catch-up and change as they have reacted to new technology and market conditions. Retailers will hope to have found some sort of equilibrium by 2025, allowing them to proactively improve their offering and finesse their business models, rather than being caught in a reactive cycle that has bogged many down over the last decade.

Technology isn't going to stop evolving though, and retailers are not going to stop implementing and utilising it. Retailers have to dedicate the time, investments and resources to start strategically taking advantage of new technology to its full capacity.

Technology

It's impossible to predict the latest scientific breakthroughs or new technology that could be commonplace by 2025, but it's clear that people's daily lives will continue to be intertwined with new technology.

Automation, both physical and cognitive, will be widely used to enhance the consumer experience – freeing up staff to concentrate on customer service in-store. Martin Newman, The Customer Experience Champion, added: "From an AI perspective, we will continue to see an increase in the use of Robots in the physical store but not to serve customers, to do the heavy lifting – ensuring shelves are stocked and floors are clean. This will leave their human cousins to build relationships with customers, the way we used to back in the 60s and 70s."

While automation and technology will be used to personalise the shopping experience, enabling retailers to connect more directly with the customer, there might be pushback from consumers and policy-makers. Paul Martin, UK head of retail at KPMG stated: "One major disruptive factor that will become increasingly important for the industry is the balance between privacy and convenience. Understanding the trade-off between privacy and convenience and how to manage the three main stakeholders – the retailer, the regulator or policy-maker and the consumer – will be both a major threat and an opportunity for the UK retail market in the years to come."

Platform models

The route to market by which brands sell their goods online is also likely to see a major change. Platform-based sites such as Amazon will become critical to the online sales model for retailers, with the reach and influence of such platforms proving too powerful for many to compete with. Large scale international technology companies will become the custodians of the digital high street, and few retailers will be able to afford to challenge them. This leaves them with little choice but to partner and pay their way onto these platforms.

Today, smaller retailers look at platform models and online shopping as an opportunity to disrupt the market, especially in light of the relatively low cost of entry. However, as larger operators such as Amazon and Alibaba continue to grow, the ability to influence and attract consumers will get harder and harder.

Larger retailers that have both the budget and the will to compete may form alliances with complimentary businesses, or perhaps purchase smaller retailers to create their own micro-platforms. Consumers are already used to one-stop-shop purchasing online, and this is only set to grow in popularity with services such as Prime providing a raft of value-added benefits for customer loyalty.

Values not value

The average UK consumer, and society at large, is becoming more demanding in wanting to see big businesses deliver transparency and accountability. Ethically sourced goods and materials, the environmental impact of production and home deliveries are all hot topics on the mind of today's Gen X and millennial consumer. However, it's debatable whether they currently have the spending power to create sizeable shifts in what retailers need to offer.

Fast forward to 2025 and the RTT members agreed that a generation brought up on a diet of value and discount retailing should now have the disposable income and spending power to be more selective in where they shop. It is likely they will be holding retailer's values in higher regard than product value. Wastage will be a hot topic, and consumers may rent more products as opposed to owning them. This will be a service that will be delivered by a new wave of businesses that will become the new normal in the marketplace.

Maureen Hinton, global retail research director at GlobalData said: *"Consumers will be even more conscious of sustainability and want to cut back on consumption, and limiting their climate footprints by buying more sustainably. What the IKEA CEO calls mass circularity – the renting of products, not ownership, and the C2C re-selling of product, will continue to grow, restraining growth and cutting out retailers further from the purchasing process."*

Retailers have spent the last decade discounting goods to prop-up or buy consumer demand. A greater focus from the consumer and legislators on the ethics and sustainability of cheap products and the supply chains that get them to the customer could see the appetite for value goods disappear. Martin Hayward, Hayward Strategy and Futures added: *"The realities of supplying a new dress for £9.99 or a fresh chicken for £3 can sometimes be that suppliers have limited leeway to ensure their staff are adequately rewarded in a safe environment, that the provenance of ingredients is checked or that quality is consistent. By 2025, continued scrutiny into supply chains, working conditions and provenance will lift the pressure for retailers to be lowest cost at any cost."*

Conclusion

While it's not expected that by 2025 there will be as radical changes to the UK retail market as there have been over the last decade, retailers will find themselves in a very different landscape. It will be a landscape which presents a new set of unique opportunities and threats. Fewer shops in different locations, an increasing reliance on platform model retailing, and both consumers and legislators placing an operator's values and sustainability record front of mind, will shape a very different market across the UK, both physically and online.

Retailers will need to continue to adapt and ensure they are working hard to win over customers with their changing shopping habits and attitudes. The RTT members were keen to stress that whilst this would be a challenge, they hoped the scramble to keep up with changing technology and a race to the bottom in terms of price and discounting would begin to slow, presenting retailers with the opportunity to strategise and implement change at their own pace.

Part II: In detail – individual views of the KPMG/Ipsos Retail Performance Think Tank members

James Knightley, ING Chief International Economist

The last five years confounded the expectations of "experts": Brexit, Donald Trump, global trade wars, the UK on its third Prime Minister are a few examples. Therefore it is with some trepidation this economist offers some thoughts on what the economic and political backdrop may hold for UK retail between now and 2025.

Firstly, we have to remember that the global growth cycle is very mature – the US economy is currently experiencing its longest period of uninterrupted growth since at least 1854 so it is unsurprising that most analysts suggest that the chances of a global slowdown/recession within the next five years are pretty high. If that is the case, in an environment of ultra-low interest rates there is concern that central banks don't have much ammunition with which to fight a downturn. It looks as though central banks will have to become even more innovative in using their balance sheets to deal with a future crisis.

Brexit will continue to hang over the UK economy. A "no deal" Brexit this October would be a huge shock for the UK economy with the disruption to supply chains and the increase in costs being deeply damaging for economic activity and jobs. However, one would hope that the UK economy would be well on the road to recovery by 2025 although it may not be back at the same level of economic output as now.

For now the assumption remains that parliament would step in and prevent that happening with Brexit delayed again. A General Election may well be the result, but when you have the Conservatives, Labour, the Liberal Democrats and the Brexit party on roughly equal polling the potential policy implications (be that taxation, nationalisation, housing policy etc) are incredibly broad. Moreover, if the SNP are brought in as a coalition partner we would have to consider another Scottish independence referendum.

Internationally, the geopolitical environment is unlikely to improve meaningfully. President Donald Trump is favoured to win re-election in 2020 and with President Xi of China effectively President for life, China-US tensions are likely to remain high. Russia, Iran and Korea will remain global worries. Moreover, there is lingering concerns that Europe could increasingly get drawn into the trade war malaise.

I used to agree with the view that economics drive the politics, but evidence suggests we are seeing the roles reverse. Time will tell if the geopolitical backdrop becomes more benign, but I suspect retailers and shoppers will simply have to get used to protracted uncertainty and potential disruption and changes to incomes/earnings.

Paul Martin, UK Head of Retail – KPMG

A quick glance at newspaper headlines will have you believing that the UK's retail sector currently stands in front of the abyss. Indeed, the problems on the high street are well documented, and in my opinion, these key issues are only likely to continue. Having said that, it is very easy to forget that the UK retail sector is still in realising positive growth, it's just that the industry's structure is fundamentally changing and many of the high street brands many of us have grown up with now face the challenge of evolving or facing extinction. In the face of this extreme 'adapt or die' environment, considering what the retail sector could look like in 2025 is an extremely valid question. I believe that parts of the industry will continue to prosper whilst others will regrettably, continue to decline.

Businesses face the critical question that will need addressing over the next few years: are they going to play a role as a 21st century enterprise or not? Increasing numbers of CEO's within the sector have acknowledged that building a business model that can operate successfully in the future is pivotal, whilst at the same time a high proportion admit that they are just not there yet. It is also clear that the business model of physical stores is not going to exist at the same scale it does today, but this does not mean physical stores have no role to play in the future.

Our monthly retail sales monitor, in conjunction with the BRC, showcases that online penetration currently stands at approximately 30% for non-food, and as a UK total at around 19%. Our forecasts highlight that the penetration ratio is set to increase and in some categories will surpass 50%, although the median is unlikely to be higher than 35% by 2025. This means that two-thirds of all sales will still by transacted through the physical store. The role the store plays however, is fundamentally changing, with it increasingly having to function as the bridge between different channels.

I believe that if an organisation's aim is to command 2% or more market share in any retail category, you will have three options going forward:
– Transform and become a platform business model operator
– Rely on a platform for a large part of your service proposition
– Business failure

The other major disruptive factor that will become increasingly important for the industry is the balance between privacy and convenience. In a number of our recent reports, we have discussed the role of the consumer and the importance of understanding what role the customer plays in every retail organisation. Understanding the trade-off between privacy and convenience and how to manage the three main stakeholders – the retailer, the regulator or policy-maker and the consumer – will be a major threat and opportunity for the UK retail market in the years to come.

Martin Hayward, Founder – Hayward Strategy and Futures

Retail in 2025 will be characterised by a new transparency into the real costs of doing business.

Many of the challenges making retail so difficult today have been driven by changes in the costs of doing business in a new international, digital, environmentally aware environment that consumers, companies and legislators have been struggling to adapt to.Let's start with the relentless pressure to offer value. The cost of goods in many sectors has been driven down by a sustained period of retailer power to negotiate with suppliers at scale and source from anywhere in the world. For consumers this had led to a 'democratisation of supply', providing cheap goods for all. Only now are the real implications of this pressure on the supply chain starting to be fully understood, but this understanding will drive corrections by 2025.

The realities behind supplying a new dress for £9.99 or a fresh chicken for £3 can sometimes be that suppliers have limited leeway to ensure their staff are adequately rewarded in a safe environment, that the provenance of ingredients is checked or that quality is consistent. By 2025, continued scrutiny into supply chains, working conditions and provenance will lift the pressure for retailers to be lowest cost at any cost.

The second big correction will be around the realities of running an online business. Home delivery at scale has developed at breath-taking speed, yet only now are the real costs of this becoming apparent. Home delivery is not very profitable, if at all, for some retailers and we are already seeing the first signs of correction as unlimited free returns are being curtailed, click and collect is being encouraged over home delivery and delivery costs added to orders.

Equally important is awareness of the social and economic costs of home delivery. Traffic congestion and pollution from a sea of white vans delivering individual parcels to individual homes, armies of 'off the books' couriers without responsibility or employment protection and humans reduced to robots as they are marched around vast warehouses to pick goods.

Finally we shall see corrections in the legislation applied to retail. There are clearly major changes to come in the taxation of international retailers who continue to 'game' legislation by offshoring profits, and our own government will react to emptying high streets by evolving business rates to encourage a high street presence, to reflect both its social and economic importance.

As we all begin to understand the real costs of the new world we have created, a better future lies ahead for consumers and for responsible and open retailers.

retailthinktank
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Maureen Hinton, GlobalData

SEVEN TRENDS

Online reaches peak levels

Technology will play an even bigger role in retail over the coming years, but it will be focused more on enhancing the physical experience than the online one. Indeed in some sectors online will start to reach peak levels of penetration. Technology will strip out rising costs both online and offline, but the focus will have shifted to the delivery of the personalised experience for consumers in both the physical as well as digital world. The handling of huge quantities of personal data will increase the prospect of cybersecurity breaches.

The West loses its retail dominance to the East

All the growth and innovation in retail has been coming from Asia and this will not change. India and China, with their large populations and huge demand for product will continue to outstrip the stagnant growth in mature Western economies and be the major destinations for global brands. Alibaba, which has developed a new retail model in China, merging physical and digital retail, thus creating a new model of convenience and experiential retail in hypermarkets, shopping malls and even local convenience stores, is teaching the global retail industry the way forward. Retailers in the West are learning from this and developing similar models, but with its expertise leading the way, Alibaba's presence in the West by 2025 could easily become a physical one with an acquisition or merger.

Amazon expands its physical presence

Amazon has also been a global retail disruptor and taken a big share in non-food in the UK. Its penetration of the UK market will continue, but by 2025 it will also have become a significant player in food & grocery and this move will prove a catalyst for change in the UK food & grocery sector where consolidation of some sort is inevitable. A merger with, or acquisition of, an existing player in the market would give Amazon the physical infrastructure to grow its food business. Indeed Sainsbury's with its mix of large hypermarkets, convenience stores and Argos could prove to be an attractive foundation for Amazon's growth strategy – as long as the CMA does not get involved.

Continuing overcapacity will lead to more casualties

The problem of overcapacity in the UK retail sector will still be an issue in 2025 – there will be further casualties as supply continues to exceed demand; operating costs continue to rise; and margins are squeezed so much businesses become unsustainable. Retailers that are currently growing their sales by adding more space, and have plans to open hundreds more stores in the UK, will hit the buffers unless they can become the dominant player in their sector, killing the competition. And CVAs are just producing long slow deaths for the majority of retailers in them.

Brands cut out the retailer

There will be even more single brand flagship stores that combine their physical brand statements with their own online, direct to consumer business, and online marketplaces, cutting out the need for the traditional department store concept and retail distributors. The trend for manufacturers selling direct to consumers will expand and this is not just fashion, sports and beauty brands but all kinds of consumer goods brands from coffee to cars.

Mass circularity and sustainability

Consumers will be even more conscious of sustainability and want to cut back on consumption, and limiting their climate footprints by buying more sustainably. What the IKEA CEO calls mass circularity – the renting of products, not ownership, and the C2C re-selling of product, will continue to grow, restraining growth and cutting out retailers further from the purchasing process.

Retail will be more than just retailing

Against this backdrop of developing trends, with low growth and the shift in consumer demand, retailers have to do more than just sell product. They will have to develop new skills and services. These include engaging with their customers socially as well as commercially, and introducing complementary services that give a reason to visit physical stores. This requires new skills in the workforce and delivering high levels of customer service but there is still the fundamental principal – offering products that people want to buy.

Martin Newman, The Customer Experience Champion

Contrary to popular belief, retail in 2025 will not only be online! I predict that the split across channels for all retail will be 25% online and 75% offline (the current split is 81% offline and 19% online). Obviously, there will be some categories where the percentage online is higher such as in fashion and electricals.

There will be a resurgence in brick and mortar retail driven in the main by artisanal independent retailers. The drivers for this will be a combination of more realistic business rates, fairer, sales driven, rentals, a consumer desire to experience more in the physical world and to support their local high streets.

There are many examples of independent retailers who are thriving today. One such business is the Pud Store who sell childrenswear. They have close links to local charities in the North of England; They are an authentic brand with a strong community focus both of which helps to drive increased footfall and a positive brand image.

What are customers going to expect from their retailers 6 years from now? One thing we can be sure of, it's going to be a lot more than a simple transactional exchange of money for goods or services. Shoppers are going to want a brand with purpose, with genuine identity, which means not simply a slick marketing campaign, but a convincing narrative, an authentic voice, and a social conscience, backed up by fantastic customer service.

Our shopping experiences will be fully personalised with communications and incentives tailored to us and not the masses. Many of us will also be differentiating ourselves through customised products.

From a technology perspective voice will have replaced pinching and scrolling on mobile and augmented reality will be common place whereby our experiences in store will be enriched by a whole host of additional images, content and information beamed directly onto our glasses. Remember Google glasses? They were just too early with those.

From an AI perspective, we will continue to see an increase in the use of Robots in the physical store but not to serve customers, to do the heavy lifting. Ensuring shelves are stocked and floors are clean. Leaving their human cousins to build relationships with customers, the way we used to back in the 60s and 70s.

Our growing desire for experiences will see us visit our High Streets with increased frequency in the years to come. However, for retailers to take advantage of this they will need to offer far better, more personalised and engaging experiences than they do currently.

Mike Watkins, Head of Retailer and Business Insight – Nielsen UK

"It's Retail, Jim, But Not as We Know It! "

Whilst it`s difficult to predict the future state of retail 5 years ahead, one thing is clear: the retail landscape is going to be very different.

Firstly Brexit will upset the status quo and with or without a following recession, retailers will need to become more efficient not only in sourcing but in better adapting to the weaker customer demand that is likely to be with us for the next 3 years. In food retailing, the weekly grocery shop is also irreversibly shifting to a different type of supermarket; the low cost and limited range Discounter model which Nielsen anticipates could hit a ceiling of 22% market share by 2025, up from 14% in 2018. There will also be a convergence of online and convenience shopping missions, for example ordering food online for collection or consumption; for dining in or for eating on site. Food customisation will become the norm as supermarkets adopt the faster and easy approach of food service delivery but where the mantra is fresh and healthy. As channel boundaries blur, only a significant diversification in the customer proposition will ensure that the major food retailers are able to maintain growth.

Secondly the shift of spend from stores to online, from traditional to value or premium retail and from product to experience will not be linear. As the retail industry is forced to adapt to changing shopping habits we will see new store formats and more innovation in the design of stores, with personalised customer service and curated suggestions the way to secure loyalty. Furthermore, retail will no longer be about attracting shoppers to a store or a corporate website but meeting the needs and values of the digitally connected Generation Z shoppers. This may require a complete re invention of retail for these cohorts. Millennials already value diversity but the ESG agenda will become a new foundation for retailing.

However it will be technology as much as economics and lifestyle that will have the biggest impact on the sector. Mobile technology already makes it easier to purchase and The Internet of Things will finally become a reality as part of a new speed in the new era of retail. In store technology which actually makes it easier for customers, such as frictionless purchase and payment, apps which prompt incremental spend, search driven by voice and the use of AI and robotics by retailers behind the firewall, will shape the next generation of retailing.

These structural changes are already happening and will accelerate after 31st October this year and the survival of the fittest retailers and the extinction of many others will be the outcome by 2025.

Nick Bubb, Retailing Consultant, Bubb Retail Consultancy Ltd

It is July 2025 and Coco Gauff is about to win her fifth successive Wimbledon Women's Singles title…The last Marks & Spencer clothing store on the High Street has just closed, following the controversial takeover by the tech giant Ocado that was precipitated by the failure of their Online Grocery joint venture with M&S. The John Lewis Partnership is reported to be thinking about closing its last John Lewis department stores to focus on its Online business and is to re-name itself The Waitrose Partnership. And Mahmud Kamani was knighted in the King's Birthday Honours List for services to Online Retailing, following Boohoo's elevation to the FTSE 100 index and its takeover of struggling rival ASOS…

Crystal ball-gazing to one side, the rapid evolution of UK Retailing over the last 6 years implies that the next 6 years will also see some big changes in the mix of "winners and losers" and that success today is no guarantee of success tomorrow, even if it's hard to see what can stop the relentless growth of Online sales, barring a punitive "Amazon tax".

It is safe to say that the beleaguered department store sector will be a much shrunken force in 2025 and that Mike Ashley will regret ever getting entangled with House of Fraser and Debenhams. Mid-market clothing retailing will also continue to implode and the once mighty Arcadia will have shed most of its non-core brands as it circles the Top Shop wagon, in a last ditch stand against its Online predators…

But after death there is life and just as the reduction in the quoted company sector in the early 2010's prompted a search for new growth and the IPO boom of 2014-2015, so we are likely to see a new IPO boom in the next few years, focusing on the big privately-owned discount players like The Range and Home Bargains. ABF could well soon float off Primark as a separate business at last and if all goes well Asda should be a quoted company again in two or three years' time.

As for the structure of shopping in 2025, we are unlikely to see tumbleweed blowing through every shopping centre in the country, but the industry will be focused on the premier out-of-town locations (with lots of Leisure and Catering content), although the community-based local High Street shopping centres will still have a role to play. And it won't just be the "millennial" consumer that does most of their shopping through a connected mobile device, as home delivery by electric-powered vehicles will become the norm.

James Sawley, Head of Retail & Leisure, HSBC

There's no doubt that retailing in 2025 will be different, but not starkly different. I am a firm believer that the majority of online disruption is behind us, and that human beings innate desire to socialise, explore and discover will keep high streets alive for decades to come.

One slightly left field, but substantial, change to the retailing ecosystem I see on the 2025 horizon, is taxation. One thing for sure is that in 2025 we will have less shops as each category finds its "channel equilibrium". The BRC estimates 900k jobs will be lost over the next 5 years through either efficiencies, automation or simply expensive store rationalisation. With less employees, comes less income tax, employee national insurance and employers national insurance. With smaller retail store portfolios comes less properties paying business rates. As rents fall, so too will valuations, driving business rates down further. Online pureplayers now have a greater market share, but they tend to be less profitable, meaning less corporation tax. So what does all this mean? Well given the tax generated by Rates alone is equal to the Social Services bill, it means tax reform is not a questions of "if", it's "when". Other countries have already adopted reforms to protect local operators from overseas players benefitting from a tax advantage. Government funding aside, tax reforms are essential to level the playing field, encourage much needed investment in our high streets and stabilise the sector.

For those traditional retailers who survive the current market "correction", the path to 2025 will involve three strategies – to Build, Reduce and Differentiate. Build better ecommerce infrastructure, interlinking systems with seamless connectivity between the physical world and online – for me, getting this right is the formula for long term success. Reduce underperforming real estate portfolios, downsize stores where appropriate which in turn will decrease overheads/fixed costs allowing elements of flexibility to invest elsewhere, which brings me to Differentiate. Provide something different to any peer, or provide an exceptional service or experience which can't be replicated online. Underpinned by technology, experiential retailing will have upped its game dramatically by 2025.

But what exactly are we going to be buying in 2025?? Technological innovation is still prevalent, but step-change improvements aren't as big as they were 10-15 years ago. A great example of this is mobile phones, where consumers were once on a yearly cycle, this turned to a two yearly cycle and now it's stretched to a 3 yearly cycle. How many flat screen TV's do you really need? Consumers are saturated with 'stuff' and are choosing to spend discretionary income on experiences, whether this be leisure, experiences or social affairs. In addition to this, consumers are increasingly focussed on reducing their carbon footprint, limiting waste and recycling. New retail models and brands will be born out of these trends. Supermarkets for example will have isles of fresh food with no packaging, shampoo and cleaning detergent dispensers instead of plastic bottles. The recycling of clothing could become a whole industry, with beautiful stores selling second hand clothes. In summary, the customer is king, and my prediction is that in 2025 the retailing experience will be substantially better for the customer, and hopefully for the environment too.

Jonathan De Mello, Head of Retail Consultancy – Harper Dennis Hobbs

It is incredibly difficult to predict how retail will evolve in the UK over the next 6 years given the continued uncertainty around Brexit. Will we exit with no deal? Will there be a second referendum? The outcome of Brexit will have a huge impact on retailers in the UK – with a substantial increase in costs from a combination of tariffs and further sterling depreciation eroding already thin store margins. It would be impossible not to pass these costs on to shoppers in some capacity – with would reduce demand.

We have already seen a spate of Administrations, CVA's and store closures this year – from Select and Jamie's Italian (Administration), Arcadia and Debenhams (CVA's) to William Hill and Boots (Store

Closures). Many retailers not in immediate financial trouble seem to be engaging in CVA's or closing stores, and in my opinion this seems to be them hedging/future-proofing their businesses against the Brexit storm to come. I think it is sensible that they do so, though some of the 'losers' from this process – for example property owners – seem to be coming together to fight back against CVA's in particular. This has led to some interesting flashpoints between retailers and landlords – such as Intu vs Sports Direct/House of Fraser, and a consortium of major landlords vs Arcadia. CVA's store closures and restructuring in general will continue in the run up to Brexit, and – should a No Deal Brexit actually happen – there is no doubt that this will push some retailers that are currently trading on very tight margins into administration. So what trends are we seeing in Retail, that will endure up to 2025?

– Physical Retail Space: Between 2010 and 2019 vacancy rates have risen by 23%, Health and Beauty has grown by 20%, Restaurant space has increased by 13% and General Clothing space by 10%. At the same time, Ladies Fashion has fallen by 53% (likely down to the rise of fast fashion/value category killers such as Primark), Books/Recorded Media by 38%, Children's Clothing by 35% and Electrical Goods by 20%. In fact, most physical retail space categories have fallen, and this trend will continue over the next 6 years.

– Retail Centre Polarisation: We will see continued Polarisation between large and small centres. Retailers are looking for less stores not more – and it is increasingly about being in the right location as opposed to saturating the market with stores. 40-50 stores in the right centres is typically sufficient to cover the UK market, with other distribution channels such as wholesale, concession and online covering the rest. Clearly this is not a 'one size fits all' trend however, with the grocers, discounters etc.. all continuing to require hundreds of stores given the nature of the products they sell. What is important however is to recognise that retailers no longer see stores purely from an EBITDA perspective. As well as profit, retailers will take a view on the level of brand equity a store will deliver, and look to quantify the 'halo effect' a potential new store will generate for other distribution channels such as wholesale and online. The map below produced by HDH for a retailer client recently clearly illustrates this, with online sales in the catchment area of the new store growing by 25.6% in the year following the new store opening. This means that retailers will increasingly gravitate to high footfall centres, and non-traditional locations that nonetheless have high footfall – such as train stations and airports – are more and more coveted.

– Experience/Leisure: Linking in with the idea of stores as brand equity builders, retailers taking such stores are looking to show their brands off in the best possible light to shoppers. Showcasing the 'lifestyle' a brand can provide is important, and for that reason Gymbox have live DJ's in their gym classes, Jo Malone host 'Pamper Parties,' Lululemon provide yoga classes and Nike have their Running Club and app. By 2025, more and more online, wholesale and FMCG brands will have physical stores in high traffic locations in order to showcase their brands and drive sales to other distribution channels. Examples of this include Microsoft, Samsung, Peloton, Dyson and Nespresso.

Other trends set to become more prevalent by 2025 are : Augmented/virtual reality and Gamification, to improve the shopper experience and drive interest. AI/tech in store to refocus staff time to improve customer service. No cashiers – such as Amazon Go, No in-store transactions (e.g: Sonos, Bonobos). Content streaming – e.g: Spotify (music), Netflix (movies), Playstation Store (video games). Rent and return: Rent the Runway, Ikea (furniture rental) etc..

Demand has remained flat but at the same time margins have been hit by increased promotional activity – particularly in the fashion sector, with discounts of up to 50% on offer in stores such as

Reiss, All Saints and many others. Against this backdrop, rents have not changed significantly, with net effective rents coming down if anything, as more retailers engage in processes with landlords to reduce property costs. This trend is set to continue into Q3, with demand potentially dropping into negative territory as a No Deal Brexit becomes more and more of a reality. Clearly if this happens then the cost position for many retailers will move into very negative territory indeed.

Members of the RTT are:

- Nick Bubb – Retail Consultant
- Tim Denison – Ipsos Retail Performance
- Jonathan De Mello – Harper Dennis Hobbs
- Martin Hayward – Hayward Strategy and Futures
- Maureen Hinton – GlobalData Plc
- James Knightley – ING
- Paul Martin – KPMG
- Martin Newman – The Customer Experience Champion
- James Sawley – HSBC
- Mike Watkins – Nielsen UK

Notes to editors:

The RTT was founded by KPMG and Ipsos Retail Performance (formerly Synovate) in February 2006. It now meets quarterly to provide authoritative 'thought leadership' on matters affecting the retail industry. All outputs are consensual and arrived at by simple majority vote and moderated discussion. Quotes are individually credited. The Retail Think Tank has been created because it is widely accepted that there are so many mixed messages from different data sources that it is difficult to establish with any certainty the true health and status of the sector. The aim of the RTT is to provide the authoritative, credible and most trusted window on what is really happening in retail and to develop thought leadership on the key areas influencing the future of retailing in the UK. Its executive members have been rigorously selected from non-aligned disciplines to highlight issues, propose solutions, learn from the past, signpost the road ahead and put retail into its rightful context within the British social/economic matrix.

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