What is the true state of spend in retail versus other categories?

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There has been a general understanding in recent years that the retail sector has been proportionally losing sales and its share of consumers' disposable income to the leisure sector. Whether or not this paints an accurate picture of the true state of consumer spend is the topic of the latest KPMG/Ipsos Retail Think Tank (RTT) white paper.

The impact that any change in spend has had on retailers is explored, together with the reality that many retailers find themselves in today, and whether any shift in spend towards leisure operators is a key driver holding back the sector's current stuttering performance.

Goods v experience data sets

The RTT members acknowledge that there are a range of different data sources available in order to ascertain evidence of a shift in spend away from the retail sector.

Consumer Price Index (CPI) data from the Office of National Statistics (ONS) shows that households are spending less on goods, and more services, but the majority of this spending shift is attributed to property rentals, vehicle leasing and professional services. James Knightley, ING chief international economist delved deeper into consumer spending behaviour: *"Back in 1988, goods accounted for 71% of the basket, now it is down to 52%".* James explained that this shift largely reflects the rising proportion of spending on household rentals and 'miscellaneous services', which include personal, legal, financial and social services. The index is based on approximately 180,000 price quotations a month for a sample of 800 goods and services, which are reviewed annually to reflect changes in consumers' spending patterns.

Dr Tim Denison, director of retail intelligence at Ipsos Retail Performance adds weight to the argument saying that whilst there were shifts in spending habits, total retail spend as a whole hadn't really changed in the last two decades according to official data: *"Total consumer expenditure at current prices seasonally adjusted for the period 1998 to 2018 shows very little change in the amount households spend on retail (food and non-food combined). Back in 1998 I calculate it stood at 29.2% and twenty years later it is 30.0%."* This analysis on household final consumer expenditure (HHFCE) data is compiled from the ONS's Living Costs and Food Survey, drawn from a UK sample of just under 6,000 households annually.

However, RTT members also seek counsel from alternative sources in exploring where the 'consensus' that a shift in spend taking place has come from. ONS data suggest the trend towards experiences appears to be marginal, but the reality we find ourselves in today tells a different story. *"It's no secret that the way money is being spent has changed, with people electing to spend increasingly on experiences, and more frequently of late, opting to forego material objects."* said James Sawley, head of retail & leisure at HSBC UK. These comments were backed up by multiple sets of spending data issued by credit card companies. Tim Denison added: *"In a 2017 release, Barclaycard declare 'spending on physical goods continued to slow, with expenditure on household* *items dropping 1.2% year-on-year.' It identified that entertainment growth was running at 6.8% year-on-year and pub and restaurant spending was climbing by 13.6% and 11.4% respectively."*

The RTT concluded that there seem to be conflicts in the different data sources, and members questioned whether the conflict in narratives is exacerbated by the way that spending is classified. Paul Martin, UK head of retail at KPMG and co-chair of the RTT**,** said: *"It is clear to say that consumer spend has evolved over the last decades and is becoming increasingly diversified. This is reflected by the plethora of data sources available, which in my opinion at times deliver increasingly conflicting messages, as ultimately the changing consumer landscape means we are not really comparing like-for-like. Retail as a service, retail experience alongside product-centric retailers and of course brands that blur the lines of a traditional offering are all commonplace today. What is pivotal though and the route to success is understanding the size and shape of each consumers wallet and how the spend is being allocated and what factors are driving this spend."*

RTT members also referenced the structural changes in the retail sector, an ever-evolving society and improving technology as key factors that are driving this apparent shift in credit card spending towards experiences and away from retailers.

Different parts of the retail sector are impacted in different ways by this apparent shift. Maureen Hinton, group research director at GlobalData, said: *"It is non-food that is bearing the brunt of this shift in spending – it is markedly underperforming with just 7% growth over the decade."*

As regards specific categories, James Knightley highlights 'food, alcohol and tobacco'; 'audio visual' and 'furniture and household equipment' as showing slight reductions as a percentage of overall spend, whilst surprisingly 'clothing and footwear' has seen a marginal increase.

In terms of leisure operators that are benefiting from this shift, those providing 'transport', 'package holidays' and 'accommodation services' are all shown to have seen increases in consumer spend. The RTT adds that there are opportunities within this shift in spend and Maureen Hinton suggests that *"retailers have good reason to invest in ways to add entertainment and experience to their propositions and to exploit trends such as travel retail and duty free, just as WH Smith has done at one end of the market and luxury retailers have at the other."*

The shift to online

A number of different structural and societal factors are impacting on the sale of goods, and as such, have contributed heavily to the apparent diversion of consumer spend. Firstly, the RTT comments on the increased popularity of online shopping, which as a service is improving in line with technology at an almost constant rate. This has in no doubt impacted the size of the retailers' share of the available spend.

"Online shopping is generally bad for existing retailers given the costs of delivery and returns frequently outstripping the benefit of the additional sales," commented Martin Hayward, founder of Hayward Strategy and Futures.

Martin's thoughts were echoed by Mike Watkins, head of retailer and business insight at Nielsen UK: *"The reduction in spend is amplified by the channel shift to online and value retailing, which started in non-food and is now the key trend in food retail."*

James Sawley added that today's consumer enjoys a swifter and more efficient shopping experience thanks to technology, freeing up more time to enjoy themselves – and this is largely benefiting the leisure industry more than retailers: "*The phrase 'time poor' has been brandished about more, and with improvements in logistics/fulfilment leading people to purchase more goods online to be delivered or picked up at the customer's convenience. Subscription models, such as the one Amazon uses, appear to be a popular mechanism to purchase non-descript monthly essentials, again saving the shopper time each month. All of these new channels and ways of shopping are ultimately freeing up time for people to enjoy themselves. This has led to a brand new leisure category being born – 'Competitive Socialising'- which appears to be garnering more of people's wallet."*

Much like the rising popularity of travel has opened up retail opportunities at travel hubs, the ever-growing use of the internet has meant retailers are seeing the store as having uses beyond just selling. Retailers are actively looking at ways to enhance their in-store offering, to provide consumers with the experiential shopping experience they believe this generation desires.

Jonathan De Mello, head of retail consultancy at Harper Dennis Hobbs, points out that: "*Given the rise of online retailing, the high street is markedly different from what it was 10 years ago, with shoppers increasingly demanding experiences as part of their shopping trip – as a point of difference against online shopping. Not only has this exacerbated the decline of certain centres, which have lost out through retail business failures – or lack of retailer demand – it has also led to an increase in the presence of 'experience' stores, where the store is seen as an additional marketing channel."*

However, RTT members do question the actual benefits retailers are reaping by this switch to a more experiential offering, and if investment in this area is actually holding the retail sector back. Nick Bubb, independent retail consultant, argues that consumers might not be buying into this investment: *"Department stores in particular have rushed on to the 'experiences retailing' bandwagon, in the belief that consumers want more than just the usual products and services, but there is little evidence of these moves having any real impact. The monthly Coffer Peach Tracker survey of pub and restaurant sales shows that this sector is not exactly booming either, notwithstanding continued new restaurant openings."*

Social changes

RTT members concur that, alongside the improving technology, changes within society, and the values consumers hold, contribute to the apparent shift in spend.

Focusing on the millennial market, Martin Newman, The Customer Experience Champion, said: "*Success in the millennial's mind is not about how much money you make, more it's about how much freedom you have and the experiences you can share. Previous generations didn't have the opportunity or ability to travel as much as us or to start a new business the way we do today, therefore they invested in homes, cars and other things that were a reflection of the times we lived in".* It is apparent that today's younger consumers are more environmentally aware and have more of a sharing and recycling mindset in terms of physical goods – they seem less focused, and place less value, on the ownership of possessions.

Martin Hayward adds: *"It is likely that younger families will spend more on communications such as telephony and data, and are more likely to stream music, films and other content. These services are not cheap and place pressure on disposable income for shopping. This will particularly impact on fashion retailing."*

This shift in mindset, and the improvements to technology that assist it, are clear when looking at how people spend their money. The RTT highlight in particular the abundance in choice in terms of services now available to consumers, with Maureen Hinton adding: *"Life is changing – a decade ago we were not paying subscriptions to Amazon Prime Video and Netflix which currently have around 20 million paying subscribers in the UK."*

Whether or not the different spending habits of the younger consumer audience is driven more by the new products available to them, or because of a wider societal change remains unclear. Dr Tim Denison points out*: "Different consumer segments are found to have different spending priorities and it is here that the two conflicting stories (of shrinking versus stable spend on retailing) converge. All the evidence shows, for example, that younger people spend less on 'things'. Whether this is a long-term change in cohort behaviour, or the consequence of other events, such as more young people staying at parental homes longer and therefore not needing to buy so many goods, is difficult to gauge."*

Whatever the reason for the change in the way young people spend their money, the RTT agree that more of 'the pie' is finding its way to the leisure sector, which can provide these consumers with the more experiential, and less tangible, gratification they are after.

Conclusion

There is little doubt that there have been changes in the way that UK shoppers spend their disposable income, moving from the purchasing of 'things' towards 'experiences' – with the younger millennial market leading the charge in this shift in spend.

Mike Watkins concludes: *"So traditional retail, compared to other sectors of consumer spend, faces more headwinds. Sentiment is intrinsically rooted in changing economic circumstances, but spend is now driven by a desire for more consumer experiences. Due to changing priorities and aspirations, or as a result of external factors such as cost of living increases, shoppers are adapting their over wallet allocation for discretionary spend. This is resulting in less money being spent on goods or services which have low involvement or minimal investment."*

The magnitude of this shift however, and the actual impact it is having on retailers is trickier to dissect. The RTT accept that different data sources that track consumer spending reveal conflicting arguments on where shifts in consumer spending are moving. The issue is compounded by the traditional 'data buckets' in which we classify spend. Factors such as the rise in internet shopping and increasingly popular subscription services are making it harder to distinguish the actual impact that changing consumer spending habits are having on retailers.

It is clear though that any shift in spend away from retailers, has of course, impacted negatively on the sector. However, the RTT members hold that this alone is not to blame for the fragile position that many operators find themselves in today. External economic factors, political uncertainty, rising costs, a changing consumer mindset, an increased use of technology and the rise of the discounters, alongside this shift in spend towards the leisure sector are all working together to challenge the status quo of what it takes for a retailer to succeed in 2019.

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

James Knightley, ING Chief International Economist:

There is a hypothesis that since the global financial crisis households have moved away from buying "things" to buying "experiences" and this structural shift in behaviour explains some of the pain being felt by retailers.

As an economist my first port of call when looking at the shifts in relative spending is the consumer price inflation report. Here we can see a time series of the weights of different goods and services that a "typical" person in the UK spends their money on.

Since the late 1980s there has been a notable shift in spending behaviour from goods towards services. Back in 1988 goods accounted for 71% of the basket, but now it is down to 52%. This largely reflects the rising proportion of spending on housing rentals (owner occupied housing is not included) and an increase in the proportion of spending on "miscellaneous services" such as personal, legal, financial and social (including retirement) services.

But this shift has slowed markedly since the financial crisis. In 2007 goods accounted for 54.7% versus the 51.9% today. In terms of the big components food, alcohol and tobacco dropped from 14.6% to 14%, primarily because of tobacco. Housing and utilities has risen from 11.5% to 13% reflecting rising rents as a proportion of household spending. Transport has held steady at just over 15% (rising use, but falling prices for airfares and taxis).

In terms of the specifics of "things" versus "experiences" there are some interesting shifts. Clothing and footwear is actually up from 6.2% to 6.7%, led more by the latter than the former. However audio visual has gone from 2.9% to 2%, furniture and household equipment has edged very marginally lower to 6.5% from 6.8%. Games, toys, garden and pets have held at 3.7%.

Spending on "major durables for recreation and culture" have increased from 0.9% to 1.7%, led by spending on camper vans and boats! This looks to be part of the shift to "experiences". Package holidays have been one of the biggest movers going from 2.9% to 4.3% of spending and accommodation services have increased from 1.9% to 2.6%. However there has been weakness in other "experiences". For example, "catering services" dropped from 11.9% to 9.5% with restaurants, canteens and take-aways all seeing declines in relative spending

In general there does appear to have been a marginal shift towards "experiences" from "things", but it is quite tentative and there are clearly winners and losers within both groups. Given the relatively small changes in spending behaviour and the fact the "pie" of consumer spending has got significantly bigger (consumer spending is up 14% in real terms and 46% in nominal terms since 2007) this cannot be attributed as the major factor holding back UK retail. The problem seems to lie more generally with other structural issues such as internet/rents/taxation/car parking and management.

Dr Tim Denison, Director of Retail Intelligence – Ipsos Retail Performance

It is widely reported that retail as a percentage of total household spending is on the slide at the expense of leisure/experiential activities. Official data from the ONS seems to suggest otherwise.

Whilst the classification of expenditure and its breakdown is detailed, it is somewhat opaque when it comes to clustering total spend on retail.

Analysis of the data table on total domestic expenditure at current prices seasonally adjusted for the period 1998 to 2018 shows very little change in the amount household spend on retail (food and non-food combined). Back in 1998 I calculate it stood at 29.2% and twenty years later it is 30.0%. Yes, it has wobbled around a bit, for example in 2008 at the start of the financial crisis it fell to 27.4%, but the medium-term trend remains flat. Another ONS data source, the components of household expenditure 2018 table, which draws on a sample of over 5000 households and reports in sterling values corroborates the top line percentage of spend attributable to retail.

So where does the misperception that retail is losing out to experiential spending come from? I suggest that one main source is credit card companies. In a 2017 release, Barclaycard declared that “spending on physical goods continued to slow, with expenditure on household items dropping 1.2% year-on-year.” It identified that entertainment growth was running at 6.8% year-on-year and pub and restaurant spending was climbing by 13.6% and 11.4% respectively. More recent data from Visa UK reveals that spending at hotels, restaurants and bars was up 3.2% year-on-year in February 2018 and has been continually rising since 2011. Worldpay too, has published results detailing a 7.3% increase in card spending on travel and experience in the UK and a 6.8% rise in leisure and cultural activities from 2013-17, compared to just 3.9% growth in retail. Credit cards, of course, are just one source of spending. Nevertheless, other, survey-based, sources also produce similar direction and narrative. Deloitte’s consumer tracker, for example, quoted a 2% increase in spending on leisure pursuits in Q4 2018 year-on-year, suggested that the uptick was possibly “a sign of escapism”, seeking enjoyment through experiences.

While overall spending on retailing at a national level may not be shrinking, different consumer segments are found to have different spending priorities and it is here that the two conflicting stories converge. Averages can often be very misleading, masking significant variation. All the evidence shows, for example, that younger people are spend less on “things”. Whether this is a long-term change in cohort behaviour, or the consequence of other events, such as more young people staying at parental homes longer and therefore not needing to buy so many goods, is difficult to gauge.

It would be remiss of me to conclude without making reference to the rest of Europe. How does their retail spending compare to ours? The answer is quite similar. Analysis of Eurostat data divulges that the average percentage of household spending on retail across the EU member states, excluding the UK, is also 30%. As before though, the devil is in the detail. For founder members it is similar to that in the UK, but for late entrants, such as Lithuania, Romania and Estonia, retail’s proportion of household expenditure is over 40%. Make of that what you will!

Martin Hayward, Founder – Hayward Strategy and Futures:

Considering the medium-sized spending categories, spending on food and non-alcoholic drinks has remained fairly constant across time, with the average spend in FYE 2018 (£60.60) being almost identical to the starting point of the series in FYE 2002 (£60.70).

Spending on restaurants and hotels showed a steady decrease until 2013 after which there were a few years of increase, but in the year FYE 2017 to FYE 2018 there has been a £2.00 decrease in average spend, with households spending an average of £49.60 a week on restaurants and hotels in FYE 2018.

Spending on household goods and services was at a low in 2011 at £29.40 a week followed by a general rise to a high of £40.70 a week in FYE 2018, though levels are broadly unchanged from the previous year.

For the lower-level spending categories, spending on clothing and footwear showed a general rise between FYE 2002 to 2010, since then it has remained fairly stable. However, in the period FYE 2017 to FYE 2018, spending in this category fell by £1.60 to £24.30 a week in FYE 2018.

Spending in the communication category has shown a general increase over time. In the year FYE 2017 to FYE 2018, there was an increase of £0.50.

Spending on alcoholic drinks and tobacco has shown a general downward trend over time, though remaining stable over the last three years.

The above analysis, from the ONS analysis of family spending from 2002-2018, does not suggest that the major category retail businesses should be performing far from the general trends in household expenditure, which have shown an element of real growth in recent years. Add to this the growth in the number of households (the above analysis is per household) and the overall growth in spend on goods is even larger. (In 2017 there were 19.0 million families in the UK, a 15% increase from 16.6 million in 1996).

However, given the obvious challenges we are seeing on the High Street, the overall spend numbers must be hiding some more destructive trends for retailers. The money is there, but some of it is clearly being diverted to different places :

- Top of the list will be the shift to online shopping. Online shopping is generally bad for existing retailers given the costs of delivery and returns frequently outstripping the benefit of the additional sales. (Recent moves by ASOS to curb excessive returns are only the start of a rebalancing that is long-overdue). Online shopping is also bad for existing retailers because of the unfair tax and rates advantages enjoyed by 'stateless' yet strangely morally superior international online-only retailers. Click and collect options make much more sense for those retailers that have embraced them such as Next and John Lewis, and much more sense for consumers who are not wasting their budget on delivery charges.
- The overall household expenditure data hides differences between generations. It is likely that younger families will spend more on communications such as telephony and data, and are more likely to stream music, films and other content. These services are not cheap and place pressure on disposable income for shopping. This will particularly impact on fashion retailing.
- The rise of the hard discounters in both food and fashion has contributed to reducing margins. Families may well be getting more food and clothes for their money, but retailers get less margin. It was hard to find a dress for less than £20 ten years ago, but today 'fast fashion' is churning them out by the millions.

At the highest level of resolution, retail is holding its share of consumer spending, but in reality, a growing proportion of that spend is not funding quality goods but:

- A sea of white vans tearing around the country delivering individual packages to individual homes
- International businesses with unfair tax and rates advantages
- Questionable employment practices in fast fashion factories and distribution warehouses that treat humans as robots.

Progress, or an industry in desperate need of sensible government intervention to reduce inefficient and polluting distribution, enforce employment practices and rebalance the tax and business rates playing field?

Maureen Hinton, GlobalData:

UK retail is a prime example of the shift to experience

There has been much talk about how the shift from spending on product to experiences is a major factor behind the difficulties retailers face in mature economies. The UK is a mature economy that has one of the most advanced and mature retail sectors globally. It is also one that other countries look at to understand future retail direction. And it is a great example of how indeed changing consumer behaviour is influencing retail – not just the shift to online, but the shift to experiences.

Leisure/experience on an upward trend for a decade

Taking trends in the UK over the past decade (2008 – 2018) the charts below show clearly the shift in consumer spending from retail to experience.
The bars shows how much more we spent in each sector in 2018 compared with 2008. And it is not that 2018 was a boom year, the spending in all the leisure/experience sectors has been on a consistently upward trend over the decade. The result is that we are spending £150bn more on leisure now than a decade ago – and only £50bn more in retail – 77% of which is going on food, which is a necessity.

Non-food, discretionary spending losing out

It is non-food that is bearing the brunt of this shift in spending. It is markedly underperforming with just 7% growth over the decade, and in terms of spending per head we are spending less (-1%). While low inflation is a factor here, much of that has been led by retailers forced into price discounting to encourage us to spend.
Instead we are spending more on eating out, travel, entertainment and leisure. Furthermore life is changing – a decade ago we were not paying subscriptions to Amazon Prime Video and Netflix which currently which have around 20 million paying subscribers in the UK. And despite the shift to streaming we are spending more in cinemas too – up over £0.4bn on cinema tickets in a decade.

So retailers have good reason to invest in ways to add entertainment and experience to their propositions and to exploit trends such as travel retail and duty free, just as WH Smith has done at one end of the market and luxury retailers at the other.

Martin Newman, The Customer Experience Champion

The premise used to be that buying stuff made us happier. Arguably today that mantra has changed to ‘experiencing things’ makes us happier. Let’s look at millennials as they are the largest spending cohort and the biggest indicator of how things are changing.
They are growing up in a world where the largest retail store doesn’t own most of its inventory (Amazon), where the biggest taxi firm doesn’t own any of its own cars (Uber) and the largest site for booking accommodation doesn’t own any of its own hotels or apartments (Airbnb).
Therefore, should we be surprised that millennials view towards owning things is changing? Why have the stress associated with owning your own home or car when you can book a car and a driver anytime you need one and why buy a house when you don’t know how long you’re going to be in the job or in the same area? Also, increasingly you can work from anywhere.
Previous generations considered success to revolve around prosperity and stability. Given that more than 50% of millennials would take a pay cut to work for a company that matches their values, this is no longer the case.

Success in a millennial’s mind is not about how much money you make more it’s about how much freedom you have and the experiences you can share. And is part of our quest for ‘likes’ on Facebook, Instagram and other social media platforms.

Previous generations didn’t have the opportunity or ability to travel as much as us or to start a new business the way we do today, therefore they invested in homes, cars and other things that were a reflection of the times we lived in where you were encouraged to buy a house early, take on a mortgage and stay in the same job for twenty years.

According to a McKinsey study, consumer expenditure on experience related services such as attending spectator events, visiting leisure establishments, eating out and traveling have grown more than 4 times faster than expenditures on goods.

According to Statista, the market value of the outdoor recreation market grew by 14% from 2016 to 2017 to £22.8bn. in 2017, we saw the lowest growth in retail spending since 2013.

We’re also moving into a time where sustainability is gaining heightened awareness on a daily basis. This in turn will lead to less of a desire to continue to buy stuff and look more to the sharing economy.

Finally, as we continue to become increasingly health-conscious, we will also move more towards enjoying experiences, particularly where they have a health benefit. The market value of consumer health will grow by 9% in 2019 to £5.37bn and will grow a further 9% in 2020 (Statista).

Buying stuff is not a thing of the past, but the categories that will do really well in retail include those that contribute to experiences such as Sports and outdoor, health and wellness and grocery.

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

There is an array of economic and social factors that can be interpreted to explain why consumer spend is changing in the UK. However when looking at the `state of the nation` for retail, there are three overwhelming and structural trends which are changing the business models of retailers today, and will do so for the next 5 years.

Firstly the continued economic pressure on consumer spend means households have to make savings in retail to maintain overall standards of living. The Nielsen Changing Consumer Prosperity report (2019) reveals that one in five consumers believe they are in an inferior financial position compared with 5 year years ago; 39% indicate that the amount they spend on groceries has increased (due to inflation). A third have spent more on utilities and a quarter choose to increase spend on technology and communications. Consumers' sentiment toward their financial situations has fundamentally changed and the impact is less spend on retail as a share of household disposable income.

Secondly, this is amplified by the channel shift to online and value retailing, which started in nonfood (general merchandise and clothing in particular) and is now the key trend in food retail. The impact is lower volumes for stores and falling sales for mass market retailers. Profits will continue to fall for retailers in the declining middle market.

Thirdly there is a move towards Premiumisation where consumer spend is increasingly delivered as a service or engaging customer experience rather than a product. The key to unlocking this potential (i.e. incremental spend) lies in assessing more accurately, consumers' changing spending capability and when they are willing to pay a premium for a certain service or product. The result is that new, digital retailers are quickly gaining resonance; direct to consumer businesses can now by-pass retailers and platform operators are creating new markets that cut across retail, hospitality, leisure and financial services. The traditional retail pie is going to shrink further as Amazon or Alibaba style ecosystems (with subscription services the modern interpretation of gaining the lifetime value and total consumer spend of shoppers) become a dominant business model.

So traditional retail compared to other sectors of consumer spend, faces more headwinds. Sentiment is intrinsically rooted in changing economic circumstances but spend is now driven by a desire for more consumer experiences. Shoppers are proactively, due to changing priorities and aspirations or, or reactively, due to factors such as inflation, adapting their overall wallet allocation for discretionary spend (which much of retail is …).Which means less spent on goods or services that have low involvement or minimal investment.

The true state of spend in retail is no longer assessed on `location, location location` but on location, leisure and lifestyle. Retailers need to adapt in order to remain relevant when a shoppers` mind-set and intent matters more than physical presence, the comfort zone of many traditional retail brands.

Nick Bubb, Retail Consultant:

Department stores in particular have rushed on to the "experiences retailing" bandwagon, in the belief that consumers want more than just the usual products and services, but there is little evidence of these moves having any real impact.

House of Fraser picked the head of Goodwood two years ago to be their new CEO, hoping that he could transform the struggling chain into a “lifestyle-led experience”. But his fundamental lack of retailing experience proved to be a fatal handicap and he couldn’t reverse House of Fraser’s death spiral. Similarly, Debenhams made much of the new customer experiences in their new-look Watford store last autumn, but all this was much too little and much too late to offset the massive structural challenges to the business and six months later Debenhams was effectively bust. Their peer John Lewis operates on a longer-term timescale, but it is not clear that the much-vaunted customer experiences in stores like Oxford and Westfield White City have yet had much impact on the much reduced bottom-line of the John Lewis business, given the constant short-term discounting pressure from their department store rivals.

Department stores certainly have the space to offer new services to consumers, as well as attractive cafes and restaurants, but given their high fixed operating costs they are particularly vulnerable to the shift in consumer shopping behaviour and the growth in Online retailing.

But recent events have reminded us that consumers are still driven by basic wants and needs when it comes to spending their hard-earned money. At Easter the unusually hot and sunny weather drove many shoppers away from the sweltering High Street towards the beaches and parks and gardens, after a quick stop in the supermarket to pick up their barbecue and picnic fare.

And it was interesting to see in the controversial decision of the CMA (the Competition and Markets Authority) to block the planned Sainsbury/Asda merger that a particular concern was that a combined Sainsbury/Asda might be able to push up the price of petrol at their filling stations.

Whether the CMA was right or wrong to be concerned about Sainsbury’s potential petrol prices, the fact is that the cost of a tank of petrol is a material item for many consumers and that the family car is an important alternative area of “big ticket” spending.

Ironically, Asda themselves have done much to spell out the pressures on the average household budget, via the monthly Income Tracker survey that they have published since 2008. And their latest survey shows that although average household income is £800 a week, after essential spending (on items such as groceries, electricity, gas, transport costs, mortgage interest payments and rent) and taxes, the average household only has £211 a week to spend on discretionary goods and services (even if that was 5.6% higher than a year ago).

Reading the Asda Income Tracker is a salutary reminder that the average household does not have that much spare money to spend on “experiences” and that it is wise not to take too much of a middle class or London-centric perspective on these matters.

And although High Street shops clearly have to compete with other areas of spending, like eating out, the monthly Coffer Peach Tracker of pub and restaurant sales shows that this sector is not exactly booming either, notwithstanding continued new restaurant openings.

James Sawley, Head of Retail & Leisure, HSBC:

The country is in a rather unique state, macro economically speaking the data says we’re benign from a consumer perspective; wage growth, low interest rates, record employment etc. As Head of Retail and Leisure I have the privilege of speaking to customers across the spectrum of businesses vying for share of consumers wallets. It's a fact, people are still spending discretionary income, which according to the ASDA income tracker has been in growth mode for the past 12 months. However, it's no secret that the way this money is being spent has changed, with people electing to spend more on experiences (travelling, going out, socialising etc.) and more frequently of late opting to forego material objects or 'stuff', which is supported by data from Visa. The Visa figures show a continuing downward trend to negative territory for Clothing & Apparel, with only Leisure pursuits (Restaurants, pubs, hotel & travel) being in positive growth mode over the past year. Convenience is another well-known aspect effecting how consumer spending has changed in recent times. The phrase "time poor" has been brandished about more and more, and with improvements in logistics/fulfilment leading people to purchase more goods online to be delivered or picked up at the customers convenience. Subscription models such as the one Amazon uses, appear to be a popular mechanism to purchase non-descript monthly essentials, again saving the shopper time each month. All of these new channels and ways of shopping are ultimately freeing up time for people to enjoy themselves – which has led to a brand new leisure category being born which appears to be garnering more of peoples wallet, "Competitive Socialising". Whether this is a fad or here to stay we'll have to wait and see, but personally I'm supportive, anything that gets people out and about and spending time (and money) together can't be a bad thing. The casual dining and the squeezed middle operators are and will continue to struggle, it's no surprise with far too many operators vying for this same discretionary income. Pubs have arguably been through this period, with well invested, stronger operators emerging which can be seen through the Coffer Peach index. So where does this leave the true level of spend in retail versus leisure, in my opinion, less is being spent in retail but I expect this to plateau over the next 12-18 months and pick back up again as the wider economy and political backdrop stabilises. Once normalised growth returns (pending any global recession) we'll see the freeing up of some of this pent up consumer spend, and consumers will no longer need to choose between the 2 categories – having their cake and eating it.

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

According to sources such as the ONS, retail spend in general has not grown significantly over the past 10 years – though this masks seismic change in the WAY we spend, with online retail growing at a phenomenal rate; at the expense of physical retail. This has led to the loss of many physical retailers on the high street, and some retail sectors have been hit harder than others – principally commodity items such as books, music, DVD's and video games.

Physical retailers for the most part have now embraced online retailing, with many offering transactional websites, and we are starting to see signs now that things have come full circle, with online pure plays increasingly taking stores on the high street. Many people forget that the likes of White Company and Oak Furniture Land started out as online pure plays, for example.

Given the rise of online retailing, the high street is markedly different from what it was 10 years ago, with shoppers increasingly demanding experiences as part of their shopping trip – as a point of difference against online shopping. Not only has this exacerbated the decline of certain centres, which have lost out through retail business failures – or lack of retailer demand – it has also led to an increase in the presence of 'experience' stores, where the store is seen as an additional marketing channel. Clearly the number of locations that have the footfall to interest such operators is limited, and this has led to extreme polarisation in the high street.

Rather than look purely at spend, it is important to also examine the change in retail supply over the past 10 years. The graph below illustrates how the mix of occupiers in many centres has changed.

To a degree, this increase in supply has catalysed spend in these areas (ie: 'if you build it they will come') – such as in the case of restaurants and cafes – which have seen circa 12% growth in presence by floorspace. Other categories that have increased are vacant space – up by 22%, and health and beauty occupiers – up 20%. Vacant space is no surprise given the large volume of business failures we have seen over the past 10 years, and health and beauty operators have increased in presence as department stores have started to decline; seeking more control over how their brand is portrayed, particularly in light of considerable department store promotional activity.

Though recent CVA's in the Leisure sector have hit the headlines recently, Leisure is a major force on our high streets now, and the nature of Leisure has changed – with the rise of 'competitive socialising,' high end food markets, and other trends. In a recent assessment HDH undertook of shopping centres that opened pre 2013 vs shopping centres that opened post 2013, we found that Leisure as a percentage of total space in new malls has risen from 15% of space to 24%. Of the most recent retail developments we have seen – which originally were planned as pure retail centres – all have come down considerably in terms of the size of the retail component. Many are now 'mixed use' schemes – with a mix of retail, offices and residential, and the retail is designed to typically service the convenience needs of local residents. Leisure is a huge component of this, with some recent schemes up at 50%+ leisure – when F&B, competitive socialising, gym and cinema elements are combined.

In-store also – and especially in the new breed of 'experience' store discussed earlier, the nature of the offer has changed, with Nike offering running clubs, Lululemon offering yoga classes, Jo Malone offering 'Pamper Parties' and Gymbox featuring live DJ's. Retailers are increasingly selling a lifestyle that you can buy into, and extending brand equity into related areas to engender customer loyalty – in an increasingly competitive world – makes eminent sense. Stores can deliver this experience in a way online cannot, and the better retailers are leveraging this successfully.

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

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First mentions of the Retail Think Tank should be as follows: the KPMG/Ipsos Retail Think Tank. The abbreviations Retail Think Tank and RTT are acceptable thereafter.

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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