

INSIGHTS

Q3

RETAIL FOR REGENERATION

The power of retail to
boost economic growth





Mark Holmes

COO for Consultancy

Mark is the Chief Operating Officer for Consultancy at Mace. He joined Mace in 1992 and was made a director in January 1996. During this time he was responsible for the delivery of the £200m Waterside project for client British Airways. Throughout his career he has been driven by a desire to challenge conventional ways of doing things and to really make a difference to his clients' businesses.

After Waterside, Mark was instrumental in setting up and establishing the company's project management and consultancy business in the UK. By 2000 Mace had established a working relationship with 25% of the FTSE 100.

More recently Mark has been developing a strategy for our international cost consultancy business as well as growing our global facilities management capabilities through Macro, our FM business.

Jeremy Davey

Head of Retail

Jeremy joined Mace in 2005 working within the project management consultancy sector acting as lead cost manager for the Sainsbury's commission. In 2007, Jeremy took responsibility for the delivery of Sainsbury's commission including value management, cost management, project management and programme management.

In 2012, Jeremy took responsibility for a portfolio of retail clients including Adidas, Apple, Asda, Belstaff, British Gas, B&Q, Co Operative Group, Heathrow, Kingfisher Group, Metrobank, Microsoft, M&S, Nationwide, Next, Netto, Ralph Lauren, Sainsbury's, Selfridges, Stanhope and Tiffany.

Prior to joining Mace Jeremy started his career with John Laing Construction in the London region as a Quantity Surveyor and completed his university studies to gain his honours degree in Quantity Surveying. Jeremy subsequently joined Capita Beard Dove and successfully completed his professional examinations to become a member of the Royal Institution of Chartered Surveyors.

The UK's retail sector contains around...



businesses, and accounts for over...



...and employs close to



Growth in the last five years:



In 2015, the retail sector accounted for



INTRODUCTION

The retail sector is vital for economies across the globe. In the UK, it has accounted for a steadily increasing proportion of total economic output over the last 20 years. Now with around 300,000 businesses within it, the UK's retail sector accounted for over £94 billion of output and 5.7% of the economy in 2015. It employs close to three million people.¹ As a sector, it is the largest employer of private sector employees in the UK.

Retail is also a fast moving sector. With technological innovation, huge growth in internet sales and rapidly evolving consumer expectations and behaviour, the sector is undergoing significant changes. As a result, the face of high streets, stores and outlets are shifting constantly and with more changes set to come, there are real challenges for the future.

But there are also opportunities. With the growth of the global consumer, new markets to serve and rising middle classes in many East Asian countries, there is a huge opportunity for a thriving retail sector to be the lynchpin of a vibrant and growing economy.

That means that, as the UK takes its first steps into a post EU referendum world, plans for the future of the economy, trade and industrial strategy, it is a sector that cannot be ignored.

The question is how does business keep pace in a fast changing world and how can local and national governments support them to make the most of the opportunities to become world beaters on a global stage?

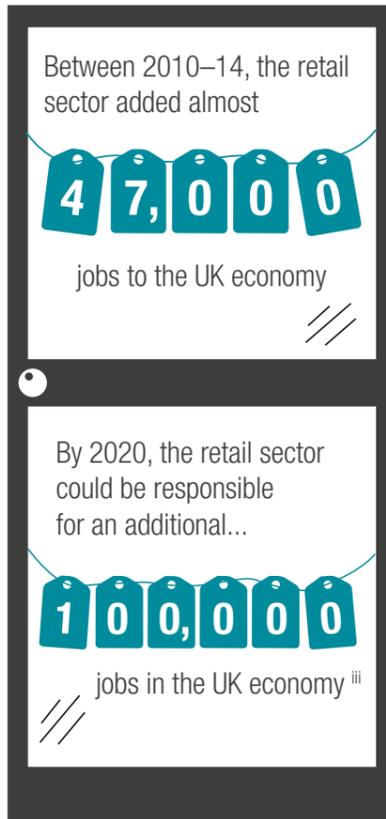
The past five years have underlined the importance of the retail sector to economies across the world. Post financial crisis, strong retail sales growth in the UK and USA has been a key driver of economic recovery. In the UK, relatively strong consumer confidence has led to GVA in the retail sector outstripping whole economy GVA growth by over five percentage points over the last five years.

The sector is also vital for employment. Between 2010 and 2014, the retail sector added close to 47,000 jobs to the UK economy, putting it in the top half of job-creating sectors. This ranking also understates the importance it has in some UK regions.

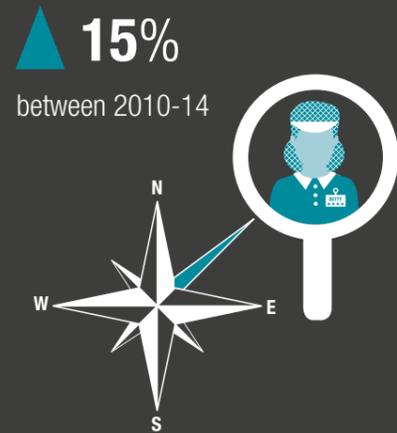
While growth across the Northern Powerhouse and Midlands Engine has been mixed, in the North East and East Midlands, it was respectively the second and fourth most important sector in terms of employment growth. Employment in the sector in the North East grew by over 15% between 2010 and 2014. As well as being important in their own right, research has shown that job creation in the retail sector has important knock-on effects on other parts of the economy, with every 100 retail jobs created leading to an additional 50 indirect and induced jobs elsewhere.ⁱⁱ

Looking to the future, with estimates of future employment growth in the retail sector of over 65,000 in the next five years, the sector could be responsible for an additional 100,000 jobs in the UK economy over the same period.ⁱⁱⁱ

If the distribution of retail jobs growth across the UK continues as it has in recent years, this would suggest growth in the retail sector leading to the creation of close to 25,000 new jobs in the Northern Powerhouse and 32,000 new jobs in the Midlands by 2020.^{iv} This makes the sector vital to the Northern Powerhouse agenda and, more generally, the new Government's industrial strategy and plans for growth up to and following the UK's exit from the European Union.



In the North-East, the retail sector was the second most important sector in terms of employment growth, growing by over



With every **100** retail jobs created...



...an additional

50 jobs are created elsewhere ⁱⁱ



In Birmingham...



	NEW STREET STATION	
	THE BULL RING	
	GRAND CENTRAL	

created over **10,000** jobs ^{vii, viii}

The retail outlets at these developments now support in excess of



Beneath the national and regional level, there is also strong evidence that retail can be a powerful tool for the regeneration of deprived areas. Retail-led regeneration has a long history in the UK, and experience shows that through construction, increased job opportunities and greater choice and quality of retail outlets, the approach can play an important role in:

- Bringing consumers improved access to quality, low cost products;
- Boosting employment opportunities in the short term as development and construction takes place and in the long term once stores are built;
- Providing business to a range of local firms who can take advantage of supply chain opportunities; and
- Attracting footfall to other established local businesses, for instance by attracting consumers from outside of the immediate vicinity to travel to new retail hubs.^v

Examples of success are easy to see in cities across the UK. A key example is in Birmingham. Here plans to renovate the Bullring shopping centre kick-started a complete transformation of the city centre that has since continued with the overhaul of New Street train station and the creation of the Grand Central retail centre and ongoing development as part of the Big City Plan.^{vi}

The impact on Birmingham is clear. Estimates suggest that over 10,000 jobs were created during the design, planning and construction work associated with redevelopment of New Street train station, Grand Central retail centre and the Bullring.^{vii, viii} Together, the retail outlets created now support in excess of 6,000 jobs.^{ix, x} As a result, the City has moved from twelfth to third in the national retail rankings and has seen an 11% increase in its visitor economy. It now boasts close to 40 million visitors, contributing over £5 billion to the economy, each year.^{xi}

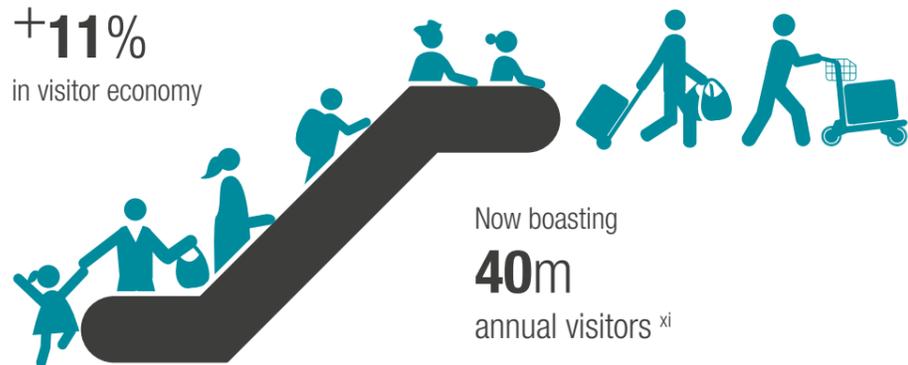
Retail regeneration can also be successful in supporting regeneration in towns and cities with declining industries. Recent examples include the Sheffield City Region, Stocksbridge in Yorkshire, County Durham and a similar approach is being suggested for Redcar following the closure of its steelworks.^{xii}

More generally, the example of Birmingham and cities like Sheffield, Liverpool and Leeds all show that retail can play an important role in the economic strategy of regions looking to tackle the skills deficit they have historically faced and increase their growth.

The reason here is that retail, leisure and social opportunities are key parts of creating an environment that attracts a highly skilled workforce to locate in a particular area.^{xiii,xiv} As more skilled workers are attracted to an area, agglomeration effects are created, growth is boosted further and this attracts even more high skilled workers. A virtuous circle is created.

With a significant skills and qualifications deficit in the Northern Powerhouse and Midlands Engine, and a desire to do more to attract a skilled workforce and boost growth, the potential role of retail to help tackle the so-called 'brain drain'.

Birmingham has seen an
+11%
in visitor economy



Birmingham has now moved from 12th to



and now contributes...



to the economy^{xi}

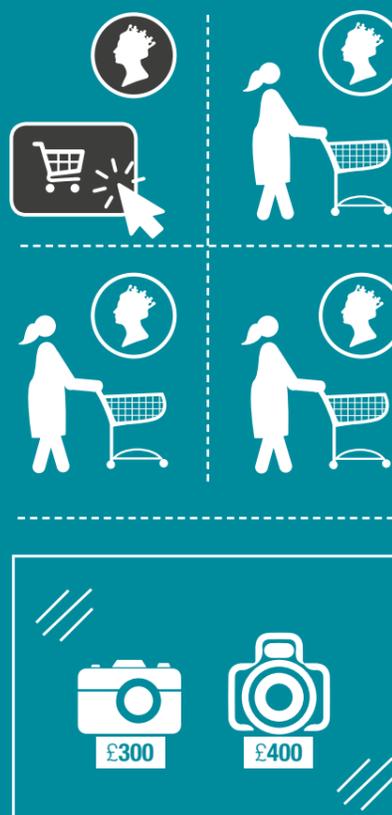
In the UK, the average weekly value of online sales has more than doubled in five years, now standing at



Within the next five years...

1 in 4

pounds spent in the retail sector could be spent online^{xvii}



36%

of consumers globally have used their mobiles whilst in store to compare prices with competitors^{xx}



CHANGES, CHALLENGES AND OPPORTUNITIES

With the clear importance of retail to growth and regeneration in the national economy and regions, plus the cities and towns within it, it is an obvious area on which policy makers should focus to drive future growth.

However, doing so will require an understanding of the way in which connections between consumers and businesses are changing and the risks and opportunities that this brings.

The past decade has seen an explosion in the proportion of consumers choosing to shop online. In the UK the average weekly value of internet sales has more than doubled in the last five years and now stands at £890million.^{xv,xvi} Within another five years, one in every four pounds spent in the retail sector in the UK could be spent online. These trends are not just evident in the UK. Online retail sales are growing fast across the globe.^{xvii} In China, two thirds of people shop via their mobile at least once a month.^{xviii} As technology and offerings improve, that trend is only likely to continue.

The impact that these dramatic changes have had, and will continue to have, on retailers, town centres and society more generally should not be underestimated. However, while the growth of online is clear, in-store retail is still king. Over 85% of sales in the UK take place offline and recent research has shown that consumers worldwide still prefer making purchases in store.^{xix}

But that is not to say that consumer behaviour has not changed. Consumers are more and more blurring the line between their online and offline experience. For instance, more than a third (36%) of consumers globally have used their mobile phones whilst in store to compare prices with competitors. The same proportion have used their phones to research products.^{xx}

More generally, the growth of comparison sites, online forums, apps, wearable technology and a range of new innovations allow users to seek support; provide feedback in real time; and learn from and act on the experiences of other consumers. By doing so, consumers are becoming better informed, better prepared and savvier and, in turn, they are demanding more.^{xxi}

The retail sector has clearly moved in response:

- **Retail is becoming personalised:** Combined with the growing popularity of loyalty / reward schemes (nine in ten consumers are a member of at least one), the rise of big data and advanced data analytics means that retailers are able to understand consumers better and tailor product offerings, advertising and offers at individual customers like never before.
- **Retail convenience is increasing:** Pop-up stores and the development of retail outlets at commuter hubs are just two examples. With average travel times to food stores and town centres meaning between a 20 and 40-minute round trip even before shopping has begun, the time savings linked to these innovations could be significant.
- **The online/offline distinction is blurring:** retailers are targeting consumer convenience and innovating to offer new modes of shopping that help consumers join up their online and store-based experience. A clear example is the growth of 'click and collect' shopping where consumers buy online but collect in store at their convenience. This boosts ease of shopping and also presents retailers with the opportunity to promote other purchases when the customer is in store.

Click and collect options are also becoming more diverse, with some stores offering consumers the chance to purchase online and pick up at a range of train and tube stations. Retailers trying such schemes include John Lewis, Argos, Asda and Waitrose.

- **Retail is no longer just about buying things:** With day-to-day shopping becoming more convenient, consumers are more likely than in the past to use retail as a social experience. Polling has shown that half of UK shoppers visit town centres (seven in ten of those going to an out-of-town centre) with at least one other person.^{xxii} Retailers are responding by offering combined leisure, social and retail experiences.

These innovations all point to significant changes in the retail sector that are likely to continue in the future. They also show that online and offline retail are not always direct competitors, instead they can be mutually beneficial. Consumers can enjoy the best of both worlds: boosting convenience online and still gaining the in-store experience as they pick up their goods and browse for others. This multi-channel experience also allows retailers and consumers to interact and engage more fully both on and off-line. Another clear example is the internet of things (IoT), which looks set to reshape consumer's retail experience in years to come.

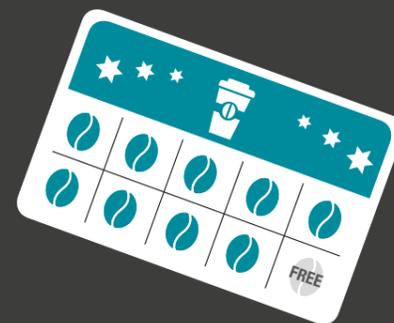
In China, over **33%** of people shop via their phones at least once a month^{xxviii}



In the UK, it is only **16%**



9 in 10 consumers are a member of at least one retail loyalty scheme



Books, music, movies and games are the most purchased items online with

60% of sales taking place online



The least purchased items are grocery, with only

20% of sales taking place online



Growth in this market is already significant, with the number of consumer-facing 'things' connected to the Internet expected to reach four billion in 2016 (up from three billion in 2015) and well over 10 billion by 2020.^{xxiii}

By automating retail purchases and bringing more consumers into an online world, there are clear risks to traditional bricks and mortar retailing, but the opportunities are also huge.

The global value of the IoT is expected to reach £5.2tn globally by 2017 and, on its own, wearable technology is expected to reach £49.7bn globally by 2024.^{xxiv} Taking advantage of this and putting UK retail at the forefront of the global market is essential. There are also wider opportunities.

By both increasing the ease of every day transactions and bringing retailers into ever closer contact with end users, new opportunities will open up to retailers looking to increase convenience, improve consumer experience and offer new services.



By 2017, the global value of the Internet of Things is expected to reach

£5.2tn^{xxiv}

These changes present significant risks and opportunities to the retail sector in the UK. Navigating them successfully will allow the sector to play the role it should in driving forward growth both in the UK economy and in living standards. In the context of unsteady business confidence and investment uncertainty following the UK's EU Referendum result, retail can also play a steadying role across the economy. The Government should have a role in ensuring this happens. There are two key ways in which it could do this.

First, policy makers should consider how existing and upcoming changes can impact on the sector and ensure that they are transitioned in carefully. For example, the National Living Wage, Apprenticeship Levy and rising costs of premises are all major concerns for the UK's retail sector. One report has suggested that, together, these factors might reduce employment in the retail sector by 900,000 by 2025.^{xxv} More broadly, many retail firms cite taxation, red tape and regulations and the availability and cost of premises as barriers to success.^{xxvi} Taking action both to ease planning and regulatory burdens and to carefully manage the transition to a higher pay, higher productivity economy will be essential.

Secondly, as the Government begins to set out its plans for an industrial strategy for the UK, policy makers need to be clear of the contribution that retail can play to that strategy.

In particular, they need to set out how they can support the sector build on the role it already has in delivering jobs and growth, attracting foreign investment and spending and regenerating regions and local areas.

Recognising the role of retail

This is the first time in many years that a UK government has explicitly committed to delivering an industrial plan for the UK. Given the important role retail plays in delivering jobs and growth, attracting high skilled workers and boosting the UK as a location for retail investment and tourists, the sector must be at the heart of this plan.

The sector will also be important as the UK considers its relationships with the rest of the world post-Brexit. While much of the discussion on trade focuses on manufacturing and financial services, the UK retail sector is the third biggest online exporter worldwide.^{xxvii} Some 12 million French and German shoppers bought from the UK in 2015 meaning that the Department for Exiting the European Union needs to be clear of the importance of the retail sector as it takes forward plans to leave the EU. Sights must also be set globally, with over 30 million shoppers from the USA and China alone and new markets emerging in countries like Nigeria and India, the opportunities for the retail sector of strengthened trade deals in the rest of the world are apparent.

4
10 retail business say that red tape and regulations are a major barrier to success of their business^{xxvi}



By 2025...

THE NATIONAL LIVING WAGE



...the Apprenticeship Levy...



...the rising costs of premises, might reduce employment in the retail sector by

900,000^{xxv}

The UK retail sector is the

...with over

30m

shoppers in China and the US buying from the UK in 2015^{xxvii}



France and Germany accounted for

12m shoppers

Retail for regeneration

Beneath the UK picture, national and local policy makers need to work together to ensure that the regenerative power of retail is effectively harnessed. In the Northern Powerhouse, Midlands Engine and in the South West, retail can and should play an important role in driving stronger growth.

There are clear examples of how this could work. In particular, lessons could be learned from the development of Birmingham city centre and New Street Station and London St Pancras and Kings Cross. Each shows the power that retail can have in improving convenience, creating iconic developments and bringing together social, retail and travel experiences. By doing so they have driven consumer wellbeing and job growth and attracted investment and a highly skilled workforce.

The approach could easily be mirrored elsewhere. For instance, infrastructure development through HS2, the wider strategy of Transport for the North and once a decision is made on the location of increased airport capacity in the South East of England, could all go hand in hand with iconic retail regeneration and development. The redevelopment of Manchester Piccadilly train station and the Leeds Hub are prime examples. Doing this and securing the regenerative impacts of retail will require decisions and direction from central government, but to be successful, local decision makers and particularly Elected Mayors should be given wider planning powers and be brought closely into the process to ensure that this forms part of a wider City Region-wide growth plan.

CONCLUSION

The retail sector is vital for the UK economy. With the potential for growth in the sector to lead to tens of thousands of jobs being created in regional economies outside of London, the new Government's approach to industrial strategy and agendas like the Northern Powerhouse must emphasise the strong role that retail can play.

Doing so requires a recognition of the evolving nature of the sector, where online and offline experiences are blurring, consumer expectations increasing and retailer's offerings changing beyond recognition. Ensuring that regulation, planning and wider government policy is in tune with future retail will allow the sector to be a driver of jobs, skills, growth and living standards both nationally and across all of the regions of the UK.

REFERENCES

- i Business Register and Employment Survey (ONS), 2014
- ii Business in the Community, (2008). Retail-led regeneration: why it matters to our communities. Available at: http://www.bitc.org.uk/system/files/retail-led_regeneration_study.pdf Accessed 04/09/16.
- iii WPI Economics approximations using UKCES, (2012). Working Future 2010-2020: sectoral report. UK Commission for Employment and Skills.
- iv Includes directly created and induced jobs. WPI Economics modelling using UKCES Working Futures 2012-2022 and of Business Register and Employment Survey (ONS), 2010-2014.
- v Business in the Community, (2007). Under-served markets: retail and regeneration. Available at <http://www.bitc.org.uk/our-resources/report/underserved-markets-retail-and-regeneration> Accessed 31/08/16.
- vi <http://bigcityplan.birmingham.gov.uk/>
- vii Emery, J., (2006). 'Bullring: A case study of retail-led urban renewal and its contribution to city centre regeneration'. Journal of Retail & Leisure Property. June 2006, Volume 5, Issue 2, pp 121-133.
- viii Brook-Carter, C., (2015). 'Grand Central Birmingham shows retail's power to rejuvenate cities'. Retail Week. 24 September 2015.
- ix Hammerson, (2013). Demonstrating the True Value of Shopping Centres: case study, Bullring, Birmingham.
- x Brook-Carter, C., (2015). 'Grand Central Birmingham shows retail's power to rejuvenate cities'. Retail Week. 24 September 2015.
- xi FT, (2015). Regeneration and quality woo savvy shoppers to Birmingham. FT, 28 September 2015.
- xii Heseltine, M., (2012). No stone unturned: in pursuit of Growth. BIS, London.
- xiii Costa. D. L., & Kahn. M. E., (2000). 'Power Couples: Changes in the Locational Choice of the College Educated, 1940-1990.' The Quarterly Journal of Economics, Vol. 115, No. 4, (Nov., 2000), pp. 1287-1315.
- xiv Glaeser, E., & Saiz, A., (2004). 'The Rise of the Skilled City'. Brookings-Wharton Papers on Urban Affairs 5 (2004): 47-94.
- xv Retail sales in Great Britain: July 2016, ONS
- xvi Centre for Retail Research, (2016). Online Retailing: Britain, Europe, US and Canada 2016. Available at <http://www.retailresearch.org/onlinereetailing.php> Accessed 31/08/16.
- xvii See <http://www.retailresearch.org/onlinereetailing.php> , <https://www.internetretailer.com/2016/02/17/us-e-commerce-grows-146-2015> , <http://www.itnewsafrika.com/2016/04/sa-online-retail-to-pass-1-of-total-retail-in-2016/> , <http://www.oxfordbusinessgroup.com/news/dubai%E2%80%99s-shift-digital-retail> and http://www.emarketer.com/public_media/docs/eMarketer_eTailWest2016_Worldwide_ECommerce_Report.pdf All accessed 18/09/16. Note that Dubai figure is medium-term projection, rather than 2015 data.
- xviii PwC, (2016). Total Retail 2016: They say they want a revolution. PwC.
- xix PwC, Total Retail Survey, 2016.
- xx PwC, Total Retail Survey, 2016.
- xxi Lloyds, (2016), Consumer Digital Index: benchmarking the digital and financial capability of UK consumers. Available at: https://goon-uk-prod.s3-eu-west-1.amazonaws.com/uploads/ConsumerDigitalIndex_280715AP_0116_v9_Web.pdf Accessed 03/03/16.
- xxii Morton, A., & Dericks, G., (2013). 21st Century Retail Policy: quality, choice, experience and convenience. Policy Exchange, London.
- xxiii www.gartner.com/newsroom/id/3165317 Accessed 01/09/16.
- xxiv techUK, (2014), Securing our digital future: The techUK manifesto for growth and jobs 2015-2020. Available at <https://www.techuk.org/insights/reports/item/2099-techuk-manifesto> Accessed 31/08/16.
- xxv BRC, (2016). Retail 2020: fewer but better jobs. British Retail Consortium, London.
- xxvi WPI Economics analysis of Department for Business, Innovation and Skills. (2016). Longitudinal Small Business Survey, Year One, 2015. [data collection]. UK Data Service. SN: 7973, <http://dx.doi.org/10.5255/UKDA-SN-7973-1>.
- xxvii Rozir, S., (2015). 'UK is world's third largest online exporter – thanks to Chinese shoppers'. Daily Telegraph, 24 November, 2015.

Mace

155 Moorgate
London EC2M 6XB
+44 (0)20 3522 3000

North America:

1350 Broadway, Suite 408
New York, NY 10018
+1 917 436 4600

MENA:

Aspect Tower: Business Bay
Executive Towers Zone A
Level 21: Office No. 2104
Sheikh Zayed Road, Dubai
+971 4 447 0207

Sub-Saharan Africa:

The Pavilion
12 Wessel Road, Rivonia
Johannesburg, 2128
South Africa
+27 (0) 10 591 0222

www.macegroup.com
info@macegroup.com