RETAIL 2020

FEWER BUT BETTER JOBS

February 2016

THE BRC IS THE GO-TO TRADE ASSOCIATION FOR ALL UK RETAILERS, DELIGHTING OUR MEMBERS, PROMOTING THE STORY OF RETAIL, SHAPING DEBATES AND INFLUENCING THE ISSUES AND OPPORTUNITIES THAT MATTER TO THE INDUSTRY.

CONTENTS

INTRODUCTION 04

Key findings 05

THE INDUSTRY TODAY 06

Retail is central to our economy **06**

Structural change **06**

THE FUTURE 08

Government policy 08

The implications 09

Fewer jobs 10

Regional variation 11

Vulnerable people 12

Small business 13

FEWER BUT BETTER JOBS 14

Business rates 15

The National Living Wage 16

The apprenticeship levy 17

CONCLUSIONS 19

INTRODUCTION

Retail is an important industry to the UK economy. It is the largest private sector employer, providing employment and services in communities across the country. It's also a changing industry. Retailers are the most directly customer-facing of all businesses and as our behaviour as customers changes, so too do retailers.

As an industry we expect the years ahead will see accelerating change. Retailers will develop better propositions and compete harder across an increasing range of business models from modern multi-channel formats through to discounters and online businesses. Recent policy announcements, in particular the National Living Wage and the introduction of the apprenticeship levy, will increase the pace of some of these changes.

Against this backdrop, the industry has come together and undertaken detailed research to consider the implications for jobs in the industry, to understand the profile and aspirations of the workforce and to look forward to 2020 and beyond.

This report is the first of three the BRC will publish. *Retail 2020: Fewer but better jobs* sets out how we expect the retail workplace landscape to change and how it will affect people and places across the country. We have drawn on research and modelling across the industry that has been led by the BRC, involving the most senior executives in retail businesses.

Our second report, *Retail 2020: What our people think* will include the detailed findings from a survey of those working in retail across the country. The third report, *Retail 2020: Solutions* will describe how the industry plans to tackle these challenges and opportunities.

HELEN DICKINSON OBE
Chief Executive
British Retail Consortium

KEY FINDINGS

Numbers employed in retail have declined since 2008 but the incidence of low pay have been rising in retail for several years.

Cost pressures have increased markedly at a time when growth in consumer expenditure has been subdued.

The rate of change within the workforce is now set to quicken as the digital revolution reshapes the industry, assisted by many more leases being up for renewal and accelerated by the diverging costs of labour versus technology.

The retail industry is supportive in principle of the National Living Wage but the effects on employment have been underestimated.

Together these effects could mean there are as many as 900,000 fewer jobs in retail by 2025 but those that remain will be more productive and higher earning.

However, the effects will be uneven across the country and in how they impact on different sizes of business and groups of people within the industry.

Areas that are already economically fragile are likely to see the greatest impact of store closures and some of the people affected by changing roles will be those who may find it hardest to transition into new jobs that are created.

Retailers will work both individually and collectively to improve productivity and the customer offerings, and we would like to work with Government both to ensure the successful implementation of policy and to mitigate the impact of the changes we expect to see in places and on people who may be most vulnerable.

There are three areas where this should happen. The first is to rebalance the burden of taxation. Second is to ensure the remit of the Low Pay Commission is strengthened and clarified with regard to the National Living Wage. Thirdly, there must be greater employer leadership of the apprenticeship levy including more discretion for employers over how and where it is spent.

THE INDUSTRY TODAY

RETAIL IS CENTRAL TO OUR ECONOMY

Retail is at the heart of local communities, delivering positive social and economic impact every day. Fierce competition has helped reduce inflation, keeping costs low for customers and supporting consumer confidence which is the engine of the economic recovery. Retailers serve 60 million customers a week, generating £340 billion of sales in 2015.

The industry is the largest private sector employer in the UK, with 3.0[1] million people working in retail. More young people start their working life in retail than in any other industry and many go on to pursue long and rewarding careers. One in three employees is under 25. As the largest private sector employer in locations throughout the country, retail spreads wealth across the UK and sustains economies beyond London and the south east.

The industry boosts exports and helps to balance the trade deficit. The UK is one of the most competitive and advanced retail markets. It is rated as the most advanced ecommerce market in the world.

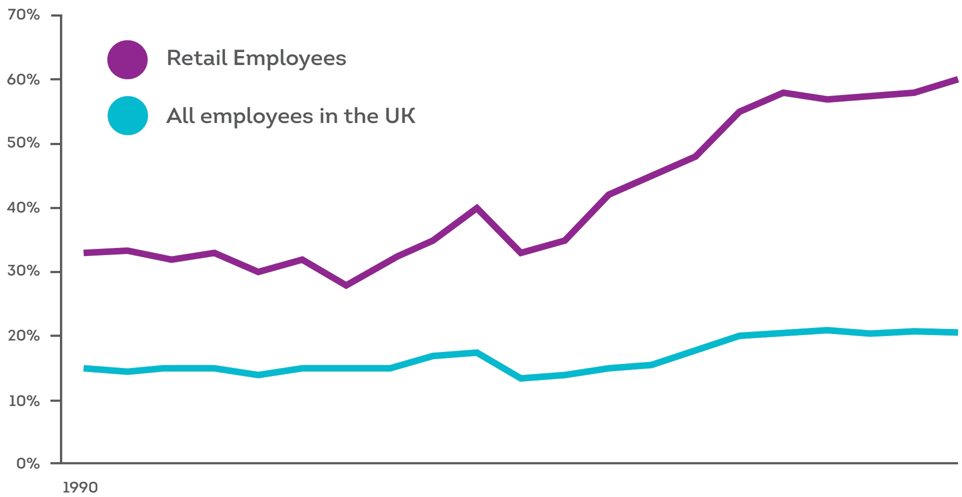
STRUCTURAL CHANGE

The number of people employed in retail has been declining slowly since 2008, which marked the high point in employment with 3.2 million people. By 2014, this had declined to 3.0 million.

> IN 2014 191,000 FEWER PEOPLE WORKED IN RETAIL THAN 2008

Over a longer period of time there has been a rising incidence of low pay[2] across the industry. Chart 1 shows that throughout the 1990s about 15 per cent of all employees and about a third of retail employees were in low pay. In the last few years the figures have stabilised at around 21 per cent of all employees and at around 57 per cent in retail.

CHART 1: % of people in retail earning less than 1.2 times the (actual or estimated) minimum wage

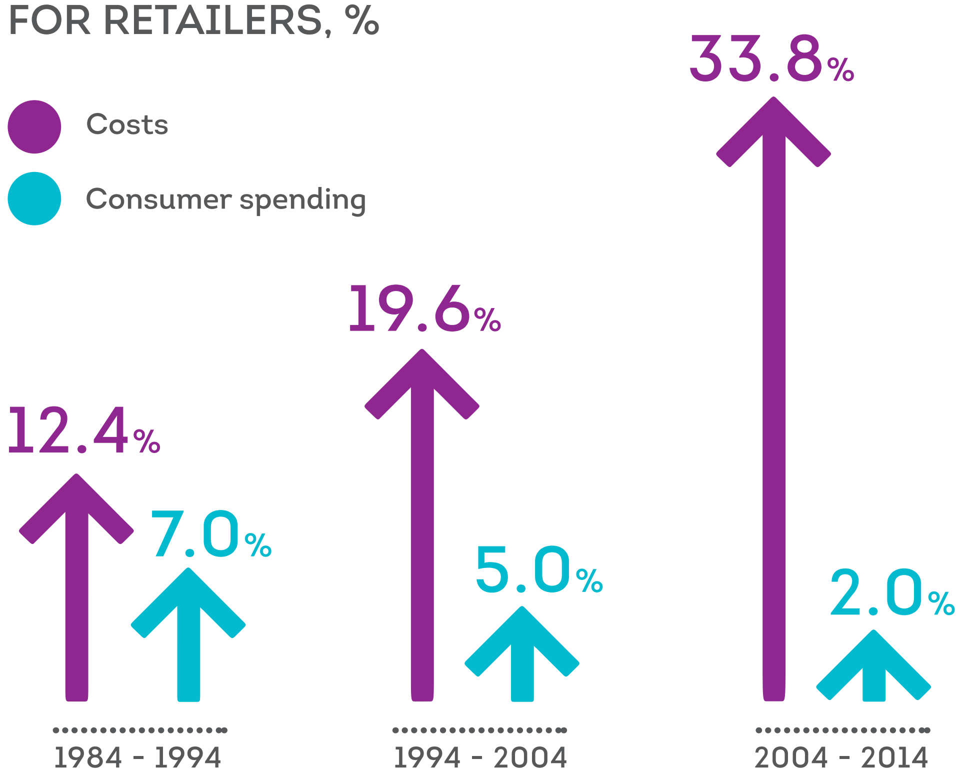


Source: ONS data, Tooley Street Research analysis

1 ONS
2 Where the low pay threshold is defined as being 20 per cent above the national minimum wage.

The decline in retail employment and the increase in the incidence of low pay are a consequence of several factors. Firstly, cost base increases are outstripping market growth. We have seen slower market growth following the financial crisis. Retail sales are currently growing by about two per cent. This is low by historic levels.

GROWTH ACROSS PERIOD FOR RETAILERS, %



Source: BRC analysis, Conlumino

Secondly, greater price transparency enabled by the digital transformation along with overcapacity and intense competition in the market has led to a sustained period of price deflation.

And thirdly, the impact of increasing investment in digital. This has been funded to an extent by lower investment in physical infrastructure. Approximately 15% of retail sales are conducted online, and there are approximately 40,000 fewer shops today than there were in 2006.

The net result of all these changes is that profitability for the industry has declined. Across the industry as a whole net profitability has fallen from 6-8 per cent of sales pre-2007 to 3-5 per cent today.

33 MONTHS OF FALLING SHOP PRICES

INVESTMENT IN DIGITAL

THE FUTURE

GOVERNMENT POLICY

Since the May 2015 election there have been two major announcements – on the National Living Wage and the apprenticeship levy, plus the delay of announcements for the fundamental reform of business rates – that create a new overlay to the ongoing structural change.

The retail industry is supportive in principle of the National Living Wage but the effects on employment have been underestimated. Our modelling shows that the additional cost to retailers, over and above assumptions for wage growth, will be between £1 billion to £3 billion annually by 2020. The lower figure assumes underlying wage growth of 4.5 per cent. The higher figure assesses the nominal cost. Nationally wage growth is forecast to be 3.7 per cent this year[3] and 3.6 per cent on average over the next few years. These projections also assume that differentials for individual performance are maintained up the pay scale as the pay floor rises. However, the modelling excludes consequential cost impacts on National Insurance and pay-related benefits such as pension contributions.

> "POLICY ANNOUNCEMENTS CREATE A NEW OVERLAY TO STRUCTURAL CHANGE"

We have also assumed that the National Living Wage is likely to be adopted as the effective minimum for people working in retail. The National Minimum Wage now only applies to those aged 21-24 and although some retailers are planning to adopt different pay rates by age, our study suggests that most are not.

There will in reality be a variety of responses to the National Living Wage. However, it seems likely that the starting point in terms of additional cost will be towards the upper end of the range. The actual costs are likely to be reduced by a narrowing of the differentials in pay for performance, the reduction of premium payments and consolidation of benefits into pay. There may also be some increases in input prices due to higher wages within the supplier base of retailers whose products are manufactured within the UK.

Our research also shows that in addition, projected increases in business rates[4] if left unreformed and the apprenticeship levy will add a further £400m annually by 2020.

The costs of the National Living Wage, projected increases in rates plus the apprenticeship levy potentially add an *additional* £14 billion of costs onto the retail industry in the next four years. This amounts to approximately 20 per cent of industry profitability.

> "PROJECTED POSSIBLE COSTS: 20 PER CENT OF INDUSTRY PROFITABILITY"

NLW:
£1.5BN - £3BN P.A

BUSINESS RATES:
ADDITIONAL £1BN

APPRENTICESHIP LEVY:
£140M - £160M P.A.

UP TO £14BN BY 2020

Source: BRC analysis

3 OBR Forecast
4 Assuming RPI uplifts based on OBR forecasts of RPI

THE IMPLICATIONS

It is unlikely that the additional cost burden will pass through into prices paid by consumers. The long term trends point towards continuing deflation in non-food and food prices are continuing to fall[5]. Furthermore, with newer competitors gaining share, any inflationary headroom is likely to be competed away.

Individual retailers will find their own paths to 2020 and beyond, but from an industry perspective we can conclude two things.

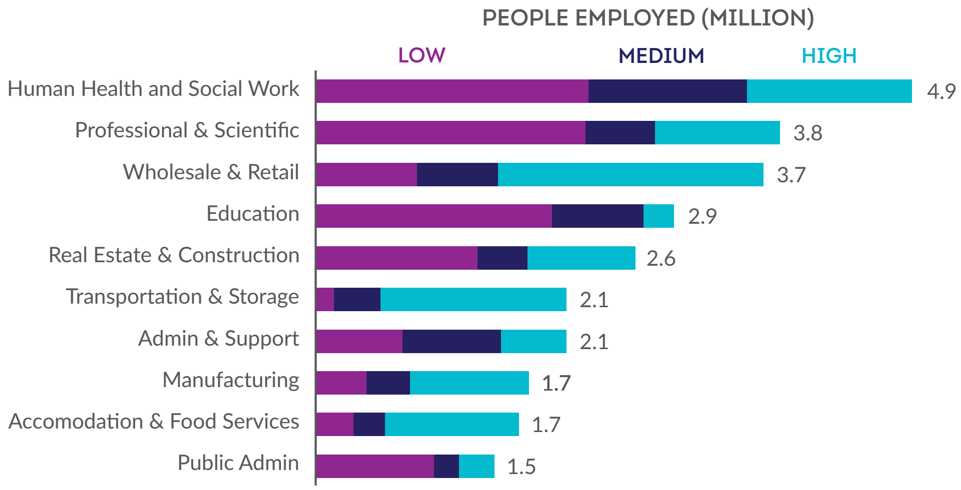
Firstly, rising labour costs and falling technology costs will stimulate greater productivity. This has already started to occur. Productivity, measured as output per hour, increased in 2013 and 2014 across the industry[6].

With the introduction of the National Living Wage, labour costs are now set to rise more quickly against a backdrop of greater technological capability and falling costs.

The sources of potential productivity will vary by retailer but greater automation is likely to play a bigger role. A recent Deloitte study[7] suggests that 60 per cent of retail jobs are at a high risk of automation in the next 20 years, higher than any other industry as highlighted in Chart 2.

"PRODUCTIVITY WILL RISE"

CHART 2: Jobs at high risk of automation by industry



Source: Deloitte

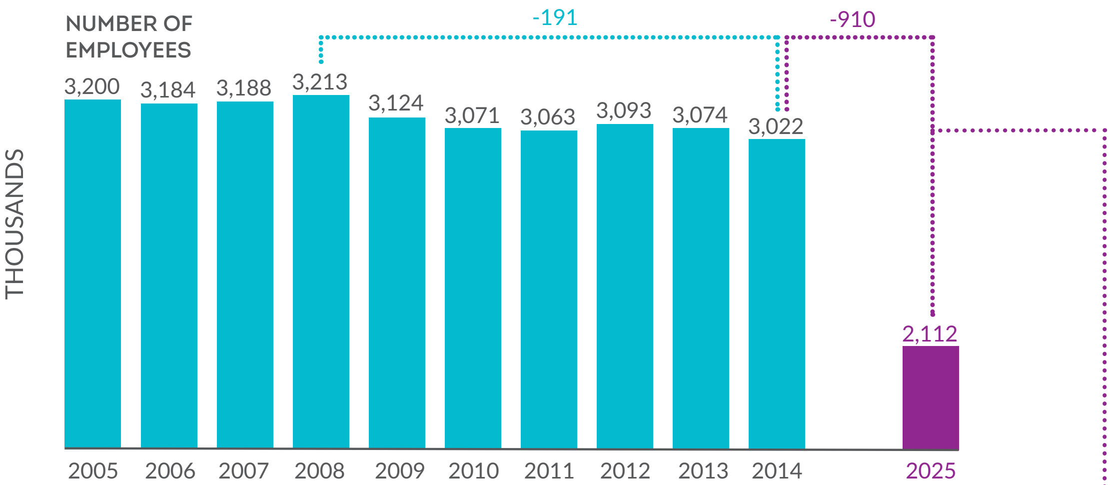
Secondly, the rate of store closures is likely to increase. The rate of reduction in retail space will accelerate as growth in grocery space slows sharply and because 60 per cent of retail leases are due for renewal in the next five years, many more than in the previous period. This equates to approximately 20 per cent of existing retail space[8].

5 January 2016: BRC: Neilson Shop Price Index recorded 33rd consecutive month of deflation
6 ONS Labour Productivity for UK wholesale and retail services
7 Deloitte: Transformers, 2016
8 Centre for Retail Research: Retail in 2018

FEWER JOBS

Our study suggests that the combined effect of ongoing structural change, an accelerated rate of store closures and productivity improvements mean it is possible that there could be 900,000 fewer jobs in retail by 2025.

CHART 3: Employee numbers

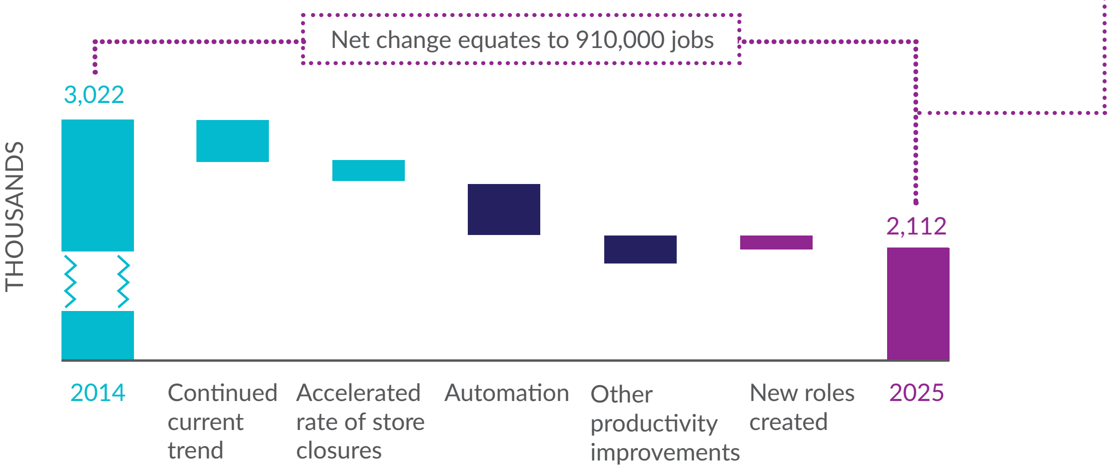


Source: ONS data and BRC estimates; Centre for Retail Research

Undoubtedly the impact of existing drivers such as technological change would have reduced the roles needed in the future. However, the combined effect of different labour-technology cost equation and physical space-digital investment equations will increase the rate of reduction in roles.

We have broken down the projected evolution of the number of employees from 3.0 million to 2.1 million in Chart 4.

CHART 4: Projected evolution of number of Retail employees



An increase in store closure rate from the current 2 to 3 per cent represents the closure of 74,000 shops out of the 270,000 today. This equates to 440,000 job losses: 300,000 being the continuation of the current trend and 140,000 due to the rate acceleration.

After taking account of store closures, a 60% risk of automation of retail jobs over the next 20 years is equivalent to the displacement of approximately 77,000 jobs per year. However, this is unlikely to materialise immediately nor is automation to be indicative of full job replacement, and therefore we consider a more realistic assessment to be approximately 37,000 jobs per year, which equates to 370,000 jobs.

In order to fund the automation investment and deal with the costs associated with the new government policies, retailers will seek further sources of productivity improvement including supply chain and logistics efficiencies and labour scheduling improvements, which would not necessarily lead to job losses. However, a level of efficiency will come from job substitution which we have assumed equates to £2.5 billion over 10 years, equivalent to 200,000 jobs.

As the skills requirements of the industry change, there will be a greater need for creative, service and analytical roles. Based on our analysis of data from *UKCES** we have assumed the addition of 100,000 new retail jobs. An accelerated rate of job loss will have a far-reaching effect. It will be felt differently in different parts of the country, by different groups of workers within retail and in smaller retailers.

REGIONAL VARIATION

The regional pattern will not be uniform. The National Living Wage is planned to reach 60 per cent of median earnings nationally by 2020. This will have little or no impact in affluent areas, especially London and south-east, where starting rates are often at or above this level already.

However, £9 per hour by 2020 is forecast to be equivalent to at least 70 per cent of median earnings in many other parts of the country and will force employers to consider if they can afford those roles. This will be most acute in regions where economic growth is weakest.

As shown in Chart 5, the projected rate of store closures is already expected to be considerably greater in these areas, and this will exacerbate the impact on employment in already fragile communities.

CHART 5: Percentage decline in store numbers by region

Source: BRC analysis; Centre for Retail Research (Retail Futures 2018, May 2013)

*UKCES Working Futures 2012 - 2022 Projections.

VULNERABLE PEOPLE

As part of our research we surveyed the lower paid people in the retail workforce and explored what is important to them. Table 1 shows the profile of low paid workers in retail. We surveyed in detail[9] those in each cohort.

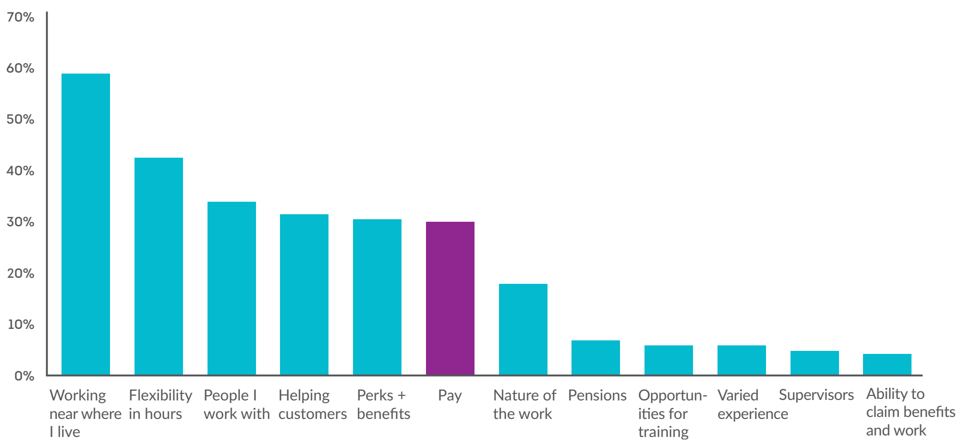
TABLE 1: Profile of low paid employees in Retail

GROUP	% OF TOTAL	DEFINITION	MEAN AGE	% FEMALE	% IN RECEIPT OF TAX CREDITS
All retail low paid	100	All retail employees earning less than 20% above minimum wage	35	70	21
Students	17	Currently a student	19	70	6
Young and ambitious	23	Non-students aged 16 to 25	21	58	10
Established	14	Non-students aged 26 to 34	29	62	36
Middle-aged	17	Non-students aged 35 to 45	40	78	44
Older workers	18	Non-students aged 46 to 57	52	79	19
Pensioners or nearly	11	Non-students aged 58 plus	64	75	4

This survey explored the most important reasons to work in retail. Chart 6 shows the findings, highlighting that across all age groups, locality and flexibility are the top reasons. Pay is ranked sixth. These people are putting care for children and others at the centre of their lives and may be less inclined or able to take jobs with more travel or hours that don't work for them.

CHART 6: Most important reasons to work in Retail

% OF RESPONDENTS CHOOSING THESE AS TOP 3 REASONS



Source: Tooley Street Research of front line retail employees (October 2015)

Furthermore, the middle core of lower paid workers, 70 per cent of whom are women, are also the most exposed to any reduction in tax credits. In addition, more people in this group report that working in retail is the only job they can find.

9 BRC forthcoming report: *Retail 2020: What our people think*

SMALL BUSINESS

All retailers are being impacted in some way by the ongoing evolution of the industry. However, smaller retailers generally have fewer ways in which to respond and are therefore likely to be more affected than larger retailers.

Our study looked at the range of responses retailers expect to employ to address the backdrop of rising costs. They will clearly vary significantly across the industry but larger retailers have more options than smaller retailers to drive productivity improvements needed to sustain employment at higher rates of pay.

While not binary by size, Table 2 summarises the options generally available to smaller and larger retailers.

Smaller retailers are more restricted to cutting posts or reducing differential rates between junior and more senior roles and have less scope for step change investment in areas such as logistics, technology or training.

TABLE 2: Options available to different types of business

	SMALLER	LARGER
Increase prices	X	X
Reduce staff	✔	✔
Reduce pay differentials	✔	✔
Invest more in technology	X	✔
Find supply chain efficiencies	X	✔
Offset against other cost savings	X	✔
Invest more in training	X	✔

Evidence highlights that this is already happening. The number of independents, which account for 65 per cent of outlets nationally, have gone into decline for the first time since 2012. BIRA and Local Data Company analysis shows that the number of closures of independents outstripped new openings in the first half of 2015.

FEWER BUT BETTER JOBS

Retailers themselves will respond individually to the changing environment of doing business and the cost pressures of new Government policies. A reduction in the number of jobs seems inevitable. However there will undoubtedly be positive outcomes for some. Productivity will improve and increasing rates of pay will provide added impetus for improving the quality and contribution of the remaining jobs in retail.

A number of retailers are working together under the leadership of the BRC to explore what steps can be taken across the industry to ensure that the employment opportunities across the industry are as attractive, accessible and well remunerated as possible.

- Best route to social mobility ("get in, get on" in life)
- Reach rewarding career while maintaining flexibility
- Community hub, positive role in society
- Diversity and inclusion leader

- Some tasks are automated to enable higher value added roles – better use of "human touch"
- Wide variety of roles

- High calibre leaders – widely recognised training ground for general management, highly sought after jobs
- Leadership in local community

- Opportunities for progression regardless of academic background
- Training ground for core employability skills
- Most jobs above NLW, attractive rewards and benefits package
- More entrepreneurship in the industry
- Higher job satisfaction
- Lower turnover – and more accepted practice of people leaving and returning

Our aspiration is that the jobs that remain are better jobs. Part of achieving this relies on constructive engagement between Government and the retail industry.

We are keen to do this and our subsequent reports will seek to influence thinking further.

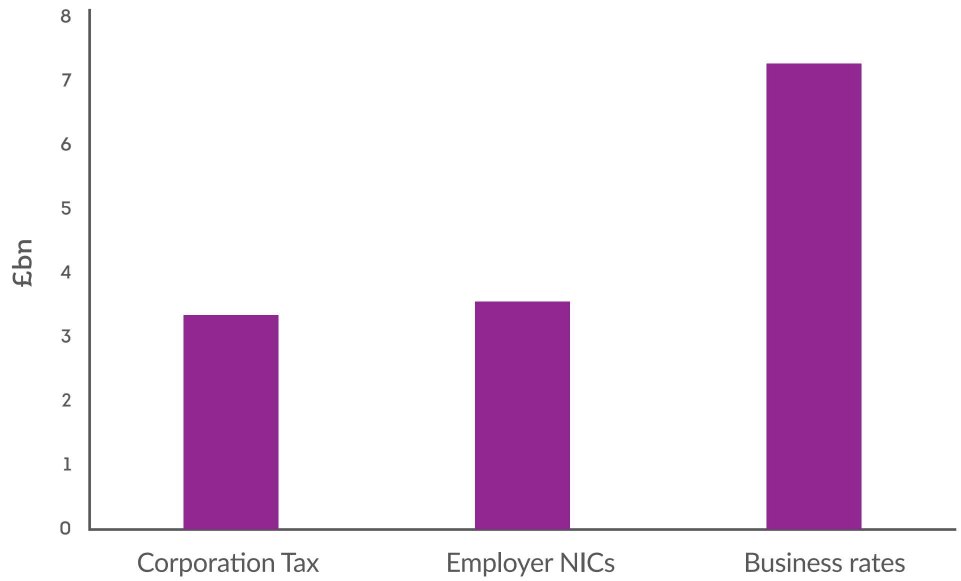
However, we believe there are three areas – business rates, the National Living Wage and the apprenticeship levy – where we see immediate opportunities to move toward achieving the aspiration of fewer but better jobs.

BUSINESS RATES

The need to reduce the burden of business taxation on the retail industry has become urgent. The Government has a stated aim to create a low tax, high wage economy. Retail is committed to playing its part but the balance of business taxation has become increasingly weighted against people and property intensive businesses, which is contributing to store closures and unemployment.

Business rates and National Insurance account for around 75 per cent of the taxes paid by the retail industry. The profile of the main taxes paid across the industry is shown in Chart 7 and highlights the significance of business rates.

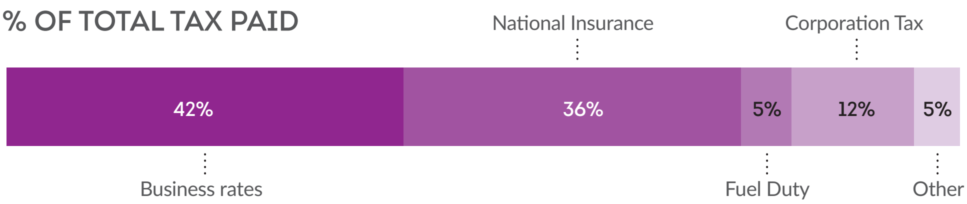
CHART 7: Profile of main taxes paid



Source: ONS

More detailed data on the breakdown across all taxes is available for large retailers. PWC's[10] Total Tax Contribution survey for the 100 Group shows that business rates are the second largest tax borne for the first time since the survey began in 2005.

CHART 8: Profile of a large retailers tax paid



Eight retail businesses participated in the survey and the tax profile of one participant is shown in Chart 8. Across the eight over 50 per cent of the taxes borne was business rates. Their total tax rate, measured as total taxes borne as a percentage of pre-tax profit was 57 per cent in 2014[11]. Seven of the eight are BRC members and represented 6.7 per cent of the participants by number in 2015, but 17.3 per cent of the taxes borne.

FOR EVERY £1 OF CORPORATION TAX, RETAIL PAYS £2.30 IN BUSINESS RATES

6% OF THE UK'S GROSS VALUE ADDED (GVA)
12% OF BUSINESS TAXES
23% OF BUSINESS RATES

10 PWC: 2015 *Total Tax Contribution Survey for the 100 Group*
11 This increased in 2015 but as the sample size decreased due to some companies being loss making, this has not been disclosed as its deemed non-representative

Headline reductions in Corporation Tax may encourage some businesses to move their tax domicile to the UK, but they are effectively being paid for by businesses who are large users of property, large employers and significant users of fuel.

The burden of taxation on the retail industry has become unsustainable and must be rebalanced. We have laid out our suggestions in the BRC submission to the Budget[12]. We believe the consequential implications of the accelerated impact of job losses through store closures could be softened if the burden of rates is lessened.

TACKLING BUSINESS RATES

1. Cap the national multiplier now and include plans to reduce it over time as part of the Business Taxation roadmap
2. Implement more frequent valuations
3. Remove indexation and introduce a flat rate
4. Remove the smallest properties
5. Review all reliefs

THE NATIONAL LIVING WAGE

The industry supports the payment of the National Living Wage. The rising incidence of low pay within retail suggests that pay does need to be addressed. However, given there will be significantly different impacts across the country and among those working in retail, we need to have a considered evidence-based approach to how it is set.

If retail is to have fewer jobs the preference is that they are better jobs. The retail industry wants to offer continuing opportunities for progression and development and have better jobs to support individual companies to compete with each other. We also want to give our employees a better prospect for staying in employment.

We would like to see the remit of the Low Pay Commission strengthened in the context of a raised ambition for low pay, to make independent recommendations on the rate of increases, taking into account the impact on employment for the most vulnerable groups and regions particularly in industries like retail, hospitality and care.

MODERATING THE IMPACT OF NLW

1. Maintain the independence of the LPC
2. Give them clear mandate to moderate impact of increases and review new structure including the potential for regional variation
3. Align the timings of the NLW and NMW
4. Provide certainty that 25 years threshold does not have age discrimination implications

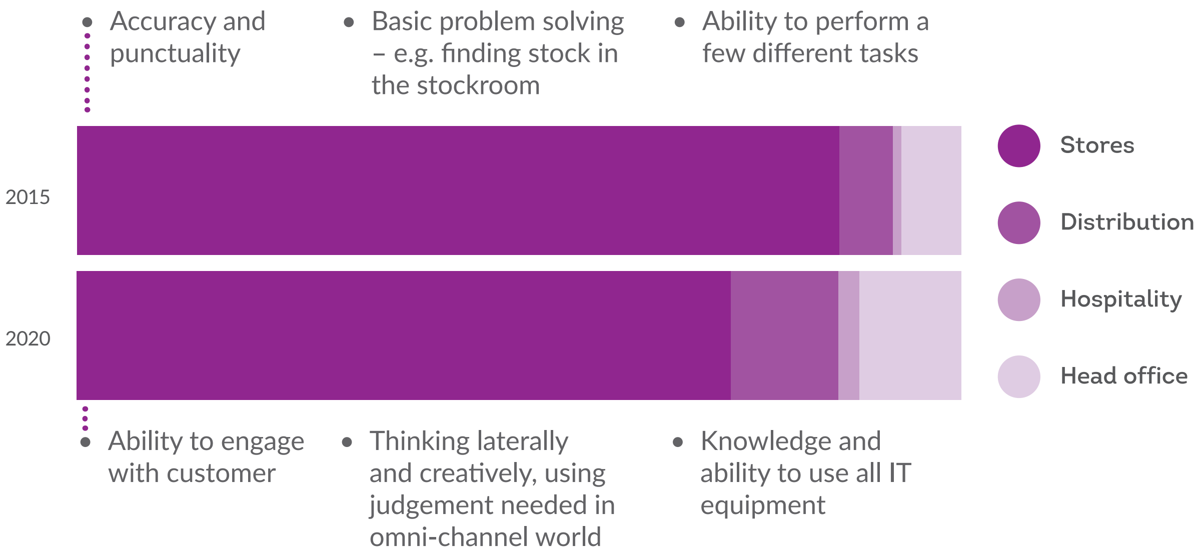
12 *Getting safely off the burning platform*

THE APPRENTICESHIP LEVY

The BRC's group of HR Directors has already been focusing particularly on raising standards in skills development and job design, as well as developing opportunities that may arise from the apprenticeship levy. We know that the nature of retail skills we need in the future is going to be very different. Chart 10 highlights the changing nature of skills.

CHART 10: Shift in top 3 core skills and types of roles

Source: BRC analysis



FROM: PREVALENCE OF FUNCTIONAL ROLES...

Administrator
Warehouse worker
Driver
Selling assistant

TO: A WIDER VARIETY OF CREATIVE ROLES...

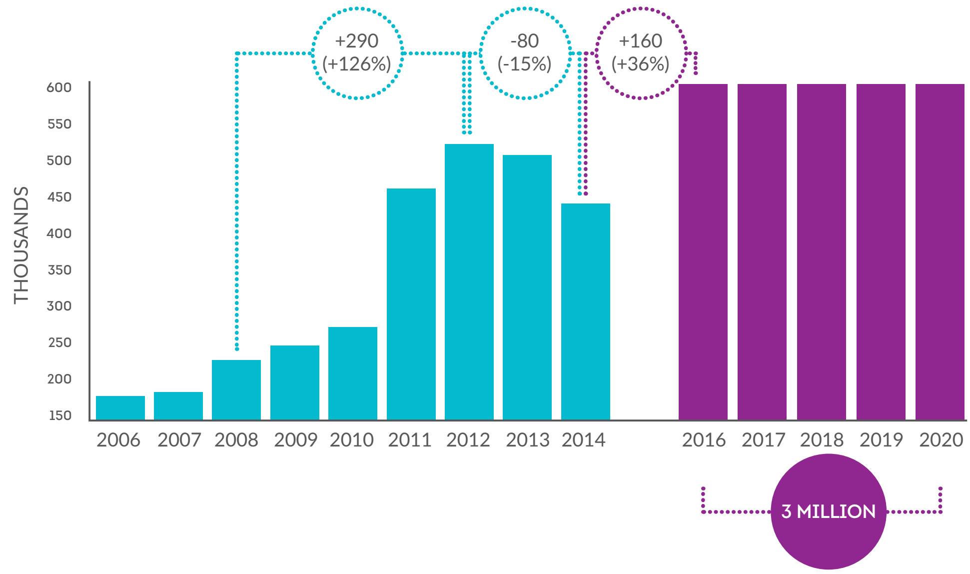
Analyst
Designer
Delivery service
Loyalty manager
Personal shopper
Computer specialist
Concierge
Category expert
Product advisor

The levy is potentially an opportunity to support this change in skill base and to support those most vulnerable in the workforce. It could provide the opportunity to develop the new skills needed for new and more productive roles in the future.

However, we are concerned that the implementation process and how the levy will work has been insufficiently thought through and is being conducted without the input of industry. This puts at risk the growth rates required (see Chart 11) in apprenticeship starts required to reach the three million target by the end of this parliament.

CHART 11: Growth required in apprenticeship starts

RETAIL & COMMERCIAL INDUSTRY =
20% OF ALL CURRENT APPRENTICESHIPS



Source: BIS, Cebr report *"The Benefits of Apprenticeships to Businesses"* (Mar 2015)

The industry has a strong track record in training its people and Government could gain great benefits from involving it more. Employers will need to have more control than is currently envisaged to use the funds raised to help employees attain higher skills and higher pay.

MAKING THE APPRENTICESHIP LEVY PART OF THE SOLUTION

1. Gear up the Institute of Apprenticeships
2. Ensure employer led, sector specific involvement
3. Measure outcomes not process/inputs
4. Phase it in
5. Ensure funds can be directed to training most valuable

As an immediate action, Government needs to ensure the Institute for Apprenticeships is ready for the project's launch date in 2017 and that the levy itself is phased in line with that state of readiness. We need to ensure employer-led, industry-specific involvement and measurement of outcomes, rather than processes and inputs. It is essential that funds can be directed to the most valuable type of training.

CONCLUSIONS

Retailers are adaptable by nature. Change is a constant and the retail industry in the UK has evolved more effectively than in most other advanced economies, with the result that the UK is one of the most competitive markets in the world and a leader in ecommerce.

That rate of change is now set to quicken. The result will see improvements in the quality and variety of the offer to customers, continuing competitiveness in pricing, and greater productivity from fewer but better jobs. These changes are already obvious and they are being driven predominantly by changing customer behaviour and increasing competitive capability. However there are downsides, in the impact on employment and in particular on where that will be felt most, for people, places and size of businesses.

The primary responsibility for managing all these impacts rests with the industry and key retailers are working closely and effectively to attain the best possible outcomes.

However, Government is also a key player. It determines where and how the burden of taxation falls across the economy. That burden is already weighing heavily on employers of large numbers of people and users of space. Without rebalancing, the impact on jobs and the health of communities, especially in areas that are already weaker will be greater. Government also sets policy. The National Living Wage and apprenticeship levy are two current examples. Both have sound intentions but both could fail on implementation. In publishing the findings of our research, our hope is to inform a wider audience on the changes that are underway and the outcomes they are likely to drive. This is already providing impetus to work being led by retailers, and we hope it will provide the basis for effective engagement with Government and wider stakeholders on key issues.

For more information contact Helen.Dickinson@brc.org.uk

BRC – RETAIL 2020:
FEWER BUT BETTER JOBS

ISBN: 978-1-78490-030-4

BRITISH RETAIL CONSORTIUM
21 Dartmouth Street, London SW1H 9BP
+44 (0)20 7854 8900 | info@brc.org.uk | brc.org.uk