YORKSHIRE RETAIL

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Facing up to a changing retail landscape

FEATURING

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in association with BAKER TILLY SQUIRE SANDERS

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Contents

2

EDITOR FOREWORD

Keeping pace

RETAIL is a fast paced sector – and the implementation of new technologies is seeing that pace quicken every day, to the point that consumers can find it hard to keep up at times.

That's been evidenced by the announcement, as this supplement goes to publication, that Tesco is installing face-scanning technology at its 450 petrol stations to target adverts on digital screens to individual customers at the till. The technology will use a camera to identify a customer's gender and approximate age, before showing an advertisement tailored to that demographic.

As the saying goes, retail is detail and the same is true of the drivers for changes within the sector – they are varied and far from straight forward.

Rather than decrying the death of the UK high street, in this supplement, supported by Baker Tilly and Squire Sanders, we aim to look at ways high street retailers can adapt to maintain their bricks and mortar presence and at how the use of mobile and online sales channels need not be a threat to physical stores but in fact help to boost in store revenues.

I hope you find it useful. ■

David Parkin
Founder and director, TheBusinessDesk.com

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The pulse of retail

Jim Whittaker
head of retail for Yorkshire, Baker Tilly

RETAIL has experienced unprecedented change in recent years. Rapid developments in technology, the loss of imported price deflation (remember the strong pound?) plus the worst consumer recession in living memory. This year we've had the coldest weather for 50 years in the first quarter replaced by a heat wave in the second.

How things change. Not long ago supermarkets were aggressively expanding their general merchandise ranges and causing problems for retail specialists by creaming off seasonal profits on gardening, camping and such like.

If you build it, they will come. Not anymore. Tesco was the first to put the brakes on the expansion of hypermarket formats, as it began to feel the squeeze from online players. Space has been freed up for gyms and Giraffe Restaurants. Sainsburys will have more convenience stores than supermarkets by the end of the year. The race for space has switched to the 'corner shop'.

Retaining customer loyalty in the digital space is a genuine challenge for retailers who have relied upon a store presence. At least the grocers should have a head start with commercial exploitation of 'big data', as they have the most mature loyalty cards. Now more than just a buzzword, some of the biggest changes in big data are coming from the apparel side of retail, as they experiment with multiple digital channels, tailored offers and targeted campaigns. The reason we dislike junk mail is because most of it is irrelevant. Big data is changing that.

So after several years in and out of casualty, what's our current diagnosis? We think the pulse of retail continues to beat. Recent retail press has been largely positive and so far this year the general retail sector has significantly outperformed the market. Leeds has had a retail shot-in-the-arm thanks to a sparkling £350m development called Trinity.

The fact that retail is ever-changing and unpredictable is both its joy and its challenge. Those retailers that have tackled their operational issues, invested in technology, have a distinct offering and understand their customer should be able to look ahead to 2014 with justified confidence. ■

BAKER TILLY

Change for the better

Matthew Lewis
partner and head of retail, Squire Sanders

WITH the retail landscape constantly evolving, it is vital that businesses embrace new technologies and processes to strengthen their brand and increase customer loyalty.

Even small changes in businesses' approach to retail can be the difference between success and failure in the marketplace. This is not always an easy balance and is one of the reasons a number of retailers find themselves under operational and financial pressures.

Recognising the challenges the sector faces, Squire Sanders was the first law firm to take a 360 degree view of multichannel retail and publish our findings: *The Multichannel High Street: A Nation of Shoppers – But is it a Nation of Shopkeepers?* This was undertaken in conjunction with Kantar Retail and the Retail Trust.

Using the report as a basis, we held retail debates in Leeds and London with industry leaders to discuss the future of the retail sector, to help understand how we can better help retailers to succeed.

The output from the retail debates and our research demonstrated that businesses which can provide genuine and seamless multichannel offerings are likely to succeed in this new retail environment.

Indeed, in years to come, we may not be talking about "multichannel", it may just be "shopping" but for now shoppers are the drivers of the industry and they are currently empowered by digital technologies.

But their needs have changed; they are increasingly looking for a high-level of personalisation in their interaction with a brand. Suppliers also have to be alive to this to ensure their brands are at the forefront of change.

Over the next year, the high street needs to work out how to successfully integrate physical stores, online and mobile in order to win back consumers from online-only businesses and deal with the threat of showrooming. ■

SQUIRE SANDERS

Destination shopping

Fundamental changes to the retail landscape mean councils need to look at changing the use of properties on the high street to increase the leisure offering and drive footfall.

THE opening of Land Securities hugely successful Trinity Leeds scheme - more than 12.5 million people have visited since its opening in March - has been a major boost for the overall attractiveness of Leeds city centre, drawing more shoppers to the city in general.

Whilst rents in Leeds have fallen 11% in the last five years, it is the only centre in the Yorkshire region to witness growth in the last 12 months, with average rents increasing 1.9% to £275 per sq ft, according to property agent Colliers International's retail report, published in July.

But retail rents across Yorkshire and the Humber as a whole remain 5% below average, having declined 20% over the last five years to £125. Encouragingly, however, the decline from 2012 to 2013 was just 2.1%.

Colliers' report also revealed that the number of empty shops on high streets across Yorkshire continues to rise with a vacancy rate of around 17.5%, higher than the national average of 14.5%.

It forecasts that the long delayed recovery in the retail market will start in 2014 but that it will be focused on the big centres, such as Leeds and Sheffield, and smaller convenience locations.

Matthew Lewis, head of retail at Squire Sanders, says that although there have been more high street failures over the last 12 months, with those stores being replaced with a proliferation of charity shops, cheque cashing outlets and betting shops, there is talk of a return of consumer optimism.

"Portas and Grimsey have both tried to get to grips with the problems of the high street and they both agree that this is a wider and more endemic issue than poor retailers and the impact of online," he says, adding this view was expressed by participants at a recent retail debate, hosted by Squire Sanders at the Everyman Cinema in Trinity Leeds.

Unless local authorities in second and third tier locations take action, there is a good chance their situation will worsen as good locations suck footfall from the bad.

Jim Whittaker
partner, Baker Tilly

Jim Whittaker, partner at business advisory firm Baker Tilly's Leeds office, says the answer lies with politicians, adding there is a lack of skills and money to deal with the issue within local authorities.

"It will take significant investment to create that skill with a mandate to make change. Planners have to follow national and local guidelines and they need to change. But they need to be given a reason to change."

He continues: "Portas, whatever her personal motivations, did a good job and elevated the conversation, interest and discussion about the high street. There are numerous other reports that don't get air time. The debate will continue until something is decided by government."

Some of the suggestions from veteran retailer Bill Grimsey, previously of Iceland, in his report published in September this year are not dissimilar to those made by celebrity fashion retailer Mary Portas back in 2011.

Prew Lumley, property partner at Squire Sanders in Leeds, says: "Portas was dead until Grimsey came along to reinvigorate the debate. Grimsey came out on the morning Portas was due in front of the committee deliberately for publicity.The press reports were all about the battle between the two but, in reality, both were looking at town centre organisation, parking and business rates. Although they had different viewpoints, they were both coming from the same angle."

Prew Lumley
partner, Squire Sanders

Whilst free parking will not be the deciding factor for a consumer that wants to visit an already thriving high street or shopping centre – Trinity has not been impacted by the fact it does not have onsite parking – for those second and third tier towns and cities that are already on the wane, it does have an impact.

However, implementing some of the recommendations from the respective reports are easier said than done, according to Lumley.

"It is all well and good to say that we need free parking but the local authorities can't afford that as it is a significant income when they have had other income slashed," she says.

"There are cash flow issues – councils will get more rates if there are more shops because more people come in to a centre with free parking. They would have to take an immediate hit for longer term gain."

Baker Tilly's Whittaker calls the parking issue a "red herring".

"It's Catch 22 – poor parking doesn't encourage people to go but nor does a poor shopping experience and what comes first?" he says.

But fundamental changes to the retail landscape mean high streets just do not need as many shops.

Greg Styles
head of retail development, Colliers International

This is where Cathy Barnes, professor of retail innovation at Leeds Metropolitan University, sees more fundamental differences between the Portas and Grimsey reports.

"Portas was saying we need to see the high street revived whereas Grimsey is trying to say that we need to redefine the high street and that might not be about retail. Portas was about driving footfall whereas Grimsey wants to see a change of use and different types of retail," she says.

"Retail will follow if there is a hub where people will congregate but the point of a centre is not always retail. We just do not need as much retail space as we have."

Greg Styles, head of retail development at Colliers International and based in Leeds, adds: "The day of new retailers entering into the UK and rolling out 300 new outlets is over. The new model is to open 20 to 50 units in the major retail centres and to have a strong internet →

Trinity Kitchen keeps the buzz going

TRINITY Kitchen, which opened at Trinity Leeds in October, will select five of the best street food vans from across the UK to set up stall for a month, offering consumers the chance to try something new each time they visit.

It provides consumers with a mix of street food vendors, pop-up market stalls and emerging high street food and drink brands in a 20,000 sq ft indoor food hall.

The street food vendors, chosen with the help of food journalist and curator of the British Street Food Awards Richard Johnson, will be launched each month from the street by hydraulic lift up and into an opening in the wall of the first floor of Trinity Kitchen, in an event named 'Swap out Sunday'.

The first five street food vendors to trade during opening month include local Leeds-based company The Marvellous Tea Dance, joining the likes of London's most renowned hot dog trader, Big Apple Hotdogs.

Land Securities has also brought in seven permanent high street food and drink brands, all of which are new to Leeds.

Gerald Jennings, portfolio director at developer Land Securities, says Trinity Kitchen forms part of its response to the evolution of the retail market, which has seen food and beverage facilities at Trinity Leeds increase from 13% to 24% in response to demand from consumers.

A combination of warehouse and street alley styling, it features vibrant, individual zones inspired by urban environments and has been configured to allow the flexibility to provide intimate seating areas alongside spaces for regular live entertainment and events.

Gerald Jennings
portfolio director, Land Securities

Jennings says: "With leisure such a key component of our offer, Trinity Kitchen has added an innovative and exciting new ingredient to the Trinity Leeds mix that will help to drive footfall throughout the day, while also boosting the city's night-time economy.

"This unique proposition is the next chapter in the Trinity Leeds story. We have worked hard to ensure that it really is a destination that everyone will want to come back to time and time again. Trinity Leeds promises to be ever-evolving to constantly offer visitors something new." ■

presence that runs symbiotically, providing the consumer with both traditional and online shopping options."

That means councils have to look at change of use, both to fill the physical space and to encourage greater footfall for those retailers that remain by increasing the leisure offering.

"David Lloyd and other gym operators have had huge battles on planning permission for small city gyms on the high street because planners say that's not what they want the high street to look like. That counters the need to get the high street out of retail and into other uses," says Lumley.

LMU's Barnes argues that Trinity Leeds is an example of how an evolved high street could look.

"Land Securities has just put a roof on it; the entrance being open to the street reflects that. It has created a destination shopping experience with mixed-use space and it does have a real buzz. It is showing what the future could look like and it takes business to do that rather than the council," she says.

Whittaker concludes: "There is a great future for great quality shopping centres but the name is old fashioned, they have become leisure destinations and now the high street must do the same, with planning authorities becoming more flexible and open to a mix of different uses." ■

Cathy Barnes
professor of retail innovation at Leeds Metropolitan University

A polerised landscape for retailers and landlords

DVD and games rental chain Blockbuster is the latest big brand high street name to enter administration - and for the second time this year despite closing more than 250 branches and cutting staff levels.

It collapsed for the first time in January and was sold to private equity firm Gordon Brothers Europe in March.

Gordon Brothers Europe said it had: "striven to turn around the historically loss-making company by restructuring the business, investing significantly in strategic marketing activities and negotiating with the landlords of its retail outlets."

It has also attempted to launch a digital platform to take on the likes of Netflix and Lovefilm but ran into licensing difficulties when the US parent company scuppered the plan.

Stores will continue trading while a buyer is sought.

Christine Elliott, chief executive of the Institute for Turnaround, says while there is overcapacity in the market, there are still segments of the business that could have a future, as is the case with Jessops and HMV.

"It's a sad fact that over the next five or so years as much as 30% of the current high street is potentially vulnerable to failure.

"The 'Comet effect', which is an example of a botched turnaround, not the real thing, is having a serious knock on effect, the most worrying of which is to spook suppliers. Blockbuster is another example of this," she says.

Cathy Barnes, professor of retail innovation at Leeds Metropolitan University, agrees that there is hope for those companies that went into administration.

"Ultimately they are great brands and people bought into the brand. The issue is the business model that goes behind that. Some are about price – different products are more sensitive – but it is usually about the full deal, the experience of the purchase and after sales and how much people pay for the knowhow," she says.

Phoenix insolvencies – people putting their own company into administration and immediately buying it back as a means to renegotiate terms and drop failing stores – are a result of the realisation by retailers that they do not need to cover every town and city in the country.

Christine Elliott
chief executive, Institute for Turnaround

Rules currently state that if a business is placed into administration immediately following rent quarter day, then it can continue to use the property for up to three months without paying any rent.

Last month, The British Property Federation took the unprecedented →

step of advising landlords to take extra security from tenants, including guarantees from parent companies and extra deposits of up to three month's rent, to protect themselves against the widespread use of the tactical timing of insolvencies and the losses that this creates.

Ian Fletcher
director of policy, British Property Federation

The BPF said that it took the step "reluctantly" given the extra cost it would place on occupiers, and urged the government to act quickly to restore creditors' faith in the rules governing insolvency.

Ian Fletcher, director of policy at the British Property Federation, says: "There have been some horrendous examples of small landlords and pensioners losing their savings via dubious pre-packs, while the owners of the companies that use them to strategically restructure their businesses lose nothing, and gain a competitive advantage over their competitors.

"Unfortunately, government policy on this issue is one of dither and delay. First, they were going to tighten regulation, then they weren't, then they asked the insolvency profession to implement the most minor of changes to self-regulation, and now they are having a review."

Teresa Graham will report her preliminary findings to ministers by the end of 2013.

Fletcher continues: "While we very much welcome Teresa Graham's Review we can't stand by and watch smaller landlords and pensioners being robbed of their savings."

Many retail administrations are triggered by a quarter rent date. The Michaelmas quarterly retail rent date passed without event , which is not unusual as many banks will let a retailer limp on to the busiest time of year when margins are highest – but it is immediately after Christmas that we will get an idea of how retailers are really fairing.

Prew Lumley, property partner in the Leeds office of law firm Squire Sanders, says there is increased polarity and while good businesses are seeing an upturn and are starting to thrive, poor businesses will continue to suffer.

"Most will push through to Christmas now and the banks will allow them to find a way to keep trading. If Christmas doesn't work for them, then it'll be the December quarter date's rent demands that could trigger a series of new insolvencies in January," she says.

She adds that zombie businesses are "still happening" and there remains a lot of hidden debt that the banks do not yet want to crystallise.

Jim Whitaker, partner at Baker Tilly, doesn't expect this January to be as bloody as last year.

"A lot of names have gone and that does free up the existing ones who benefit from capacity in the marketplace. The market has been allowed to adjust," he says.

'What about stores that are basing their rent on turnover but using the store as a showroom – how do the landlords capture those online sales?'

The retailer/landlord relationship has to evolve in response to the drastic changes across the high street and in shopping centres – turnover rents,where a retailer's rent is based partly or purely on the store's turnover, have been around for a while but once again, online shopping has an impact on this model.

"What about stores that are basing their rent on turnover but using the store as a showroom – how do the landlords capture those online sales?" asks Lumley.

She suggests the next step is variations in rent based on the success of the surrounding area.

"So if a shopping centre loses the anchor tenant, the other retailers will get a reduction and if the footfall reduces, they get a reduction. This should mean that the Landlord and Tenant are working in partnership to make sure both the store and the centre are a success," she says.

The challenge for landlords is that they cannot guarantee the income, which affects investment returns.

"In a big centre that idea can work because the risk can be blended across all tenants and the landlord controls the surrounding environment, but if they only own one property on the high street – that's a huge challenge. Funding is so often a block because landlords are too highly geared with borrowing so they can't afford to be flexible or take a long-term view on rents recovery," adds Lumley.

Nigel Duxbury, property director at A S Watson (Health & Beauty UK Ltd), is responsible for the retail property portfolio at Superdrug, Savers Health & Beauty, The Perfume Shop and 3 and the company manages 1,800 stores across the UK. He spoke at a recent retail debate, hosted by Squire Sanders at the Everyman Cinema in Trinity Leeds.

"I will have 20/25 leases with the largest single landlord. The larger landlords have the capital and the vision to deliver flexible terms and an environment that shoppers want to visit," he says.

"Landlords are so diverse in the UK – you can have one woman who has inherited one shop versus a multinational company.

"My shareholders are Hong Kong-based and they are horrified that we talk about five year leases. In Asia it's one year leases and turnover rates, they are very flexible," he says.

But, he adds, change has to be industry led.

"This industry is all about people. People want flexibility so we need to model the industry as much as possible to the flexibility that people want," he says.

Duxbury predicts that shopping centre service charges will be "the next big bombshell" for retailers. Not for those in tier one centres that are well maintained but tier two and three schemes where there has been no investment.

"They are tired and at locations people don't want to shop. The costs of investing in those schemes will in some way fall back on retailers who remain in those schemes. Today we talk about the high street, tomorrow it will be those tier two and three shopping centres," he concludes. ■

Using technology to make connections

High street retailers need to embrace technology if they want to stop losing sales and help facilitate a purchase while the customer is in store.

THE future of retail lies in connected stores, where shoppers have access to free wi-fi, ordering kiosks, sales assisted devices and smartphone scanning.

All of these services put the power of the sale in the hands of the consumer, who can still buy the products they want from the retailer of their choice, even when items are not immediately available.

A surprising high 38% of consumers left a shop empty handed within the last month of being polled due to items either not being in stock, or unavailable in the right size, colour or style, according to *The Missing £Billion Basket Report 2013* report, which commissioned YouGov to poll more than 2,000 people and was published in September by digital commerce provider Venda.

Matthew Hopkinson
director, The Local Data Company

Customer loyalty is increasingly important for retailers, however, it is put at risk if they fail to provide desired stock in store.

But there is another way to look at this – 44% of women would still make a purchase with the retailer if they had items unavailable in-store ordered on their behalf and delivered to an address of choice. So the leveraging of technology in-store can mean that stocking a full range in each shop becomes less crucial – especially if good logistics mean retailers can guarantee next day delivery.

Matthew Hopkinson, director of The Local Data Company, formed part of the team that wrote *The Grimsey Review: An Alternative Future for the High Street*. He says the supply chain is critical and often the issue with multi or omni-channel is the final mile.

'The leveraging of technology in-store can mean that stocking a full range in each shop becomes less crucial - especially with good logistics.'

"It's the logistics and the cost of logistics that will make or break. Fashion retailer returns are between 25% to 60%. At what point does that become unprofitable?"

He adds: "I'm at the peak of excitement when I pay for something online with Paypal. If the product doesn't come quickly that wanes. It's about prompt and efficient delivery – too many fail on that."

The *Missing £Billion Basket* report finds that 38% of shoppers would automatically look for the products they wanted on a retailer's website

if they were not available in the shop – highlighting the importance of an omni-channel approach.

Alex Craven, chief executive of Leeds-based digital agency Bloom, underlines that retailers must adopt an omni-channel approach if they are to optimise sales and says the best customer experience is created by bringing together influence, experience and value.

"Today's consumers expect to be able to research products and make purchases online, via mobile and tablet devices, and through social recommendations... Across the top 50 e-commerce sites, there is an average 2% conversion rate, leaving 98% of an active audience untouched," he says.

He adds that marketing is moving from 'shouting' to developing one-on-one communication.

"Personal recommendation has always been one of the most effective ways to sell something. Retailers must now use social media and communities to enable customers to help build the brand through their own discussions and recommendations. Social is definitely part of an omni-channel retail shopping experience as experiments in stores prove."

Cathy Barnes, professor of retail innovation at Leeds Metropolitan University, says very few retailers have a truly converged omni-channel strategy.

"Most have a key channel and then use the technology to support that. They are online with a physical presence or vice-versa - the back room operations show they are not truly omni-channel but have physical and virtual offerings that meet," she says.

Keith Nesbitt, chief operating officer of shirt maker TM Lewin – which sees 25% of its online orders delivered in store - agrees: "For us it's the complexity of marrying the two without distracting from the core strategy of the business. Multichannel is absolutely crucial, but as part of the overall strategy not a separate strategy... There should be a seamless interaction between the website and store," he says.

Encouraging in-store collection has another advantage: impulse point of sale purchases – of those products placed in reach of the queue or at the till itself – are hard to replicate online. It's something that certain retailers are turning to their advantage.

Matthew Lewis, head of retail at law firm Squire Sanders, says: "For most retailers, it's usually free to have something delivered to a store but they will charge to deliver at home – that's because up to 40% of people who collect from a store will also make an additional purchase in store and retailers want to encourage the extra footfall." ■

CASE STUDY

High Street TV eyes rapid growth

HARROGATE-based High Street TV is the largest infomercial producer in the UK, with up to 100 hours a day of infomercials shown on three different channels. Despite being a hugely popular industry in the US, it's a concept that is still relatively new to the UK market.

The retail company offers a combination of selling goods through its TV channel, the High Street TV website and through partnerships with retailers, which stock its products so customers can buy them in store.

Founded in 2008, the business has continued to flourish at a time when many retail businesses have struggled.

Executive chairman Andrew Malcher says: "We have been profitable every year for the past five years and this year we should smash through turnover of about £35m and expect to get to £60m-£70m within the next two years.

"We also have a very large export business we are growing and I expect international business sales to grow to £50m in the next three years. We expect to see 70% growth next year."

Its As Seen On High Street TV dedicated retail areas are based in a plethora of major retailers including Asda, Next, Boots, John Lewis, Debenhams and Argos. The business has more than 5,000 locations across retailers and deals with 35 different retail groups.

The firm also owns the rights to major products including Zumba and has recently completed a deal with Disney to sell its Stompeez slippers.

"More and more retailers are giving us more and more locations," says Malcher. "Our ability to grow to 12,000 retailers is definitely on the horizon."

The company employs 82 people at its Yorkshire base, but this will increase to over 100 by the middle of 2014, according to Malcher. ■

Information nation

THE leveraging of big data and use of a customer's information to provide a more relevant, targeted offering both online and in-store is an area where even the most advanced and sophisticated retailers – such as Tesco with its Clubcard and the recently launched Hudl – are still just scratching the surface of what's possible.

"Successful retailers are the ones who have made the most progress with big data but there is still a real gap between what they could do with all this information and what is being achieved at present," says Rupert Eastell, head of retail at Baker Tilly.

Alex Craven
chief executive, Bloom

Tesco was one of the first retailers – and certainly the first supermarket – to kick-start the use of information gathered through a loyalty card with the launch of its Clubcard nearly 20 years ago (1995) – it was a tool that quickly saw the supermarket kick Sainsbury's off the top spot in terms of market share.

Today, online shopping gives an even greater ability to collect data on buying habits and to make specific offerings to people.

Alex Craven, chief executive of Leeds-based digital agency Bloom, says: "At the heart of the opportunity is the ability to anticipate and personalise the shopping experience. Digital channels provide a wealth of data about what a customer is looking for and the price they expect to pay. This can be tailored to a personalised shopping offer and delivered to a mobile at the point of purchase."

In store there is the opportunity for technology to support a more personalised service from a shop assistant, who can access information through a tablet device, while location-based social media like Foursquare and Facebook Places allows retailers to use social channels to market to local customers and reward engagement and loyalty.

Craven says: "Retailers looking to exploit this channel can offer discounts, sale information or carefully targeted marketing messages that are delivered when the consumer is receptive to them."

Eastell adds: "Your smart phone will alert the store to your arrival, which might trigger targeted offers to that phone. When you go to a till they can identify you by name and they will bring up details of other things you have bought, along with stuff you have looked at on the website but not bought. It is the personalisation of shopping – rather than bombarding consumers with messages."

Information – from the location, to the browsing habits and profile of a visitor to a retail website can be used to build targeted strategies for growth.

Baker Tilly's Jim Whittaker gives the example of Harrogate-headquartered Up & Running, which has more than 30 stores across the country.

"It tracks everything so it knows where to set up the next store based on where it is are selling most online. It is using that data to understand where there is interest in the UK," he says.

The same principle should be applied when looking to potential new overseas markets, he adds.

But retailers also recognise that there is sometimes a need for a softer approach as a question mark remains over how comfortable people are with the use of detailed and personal information.

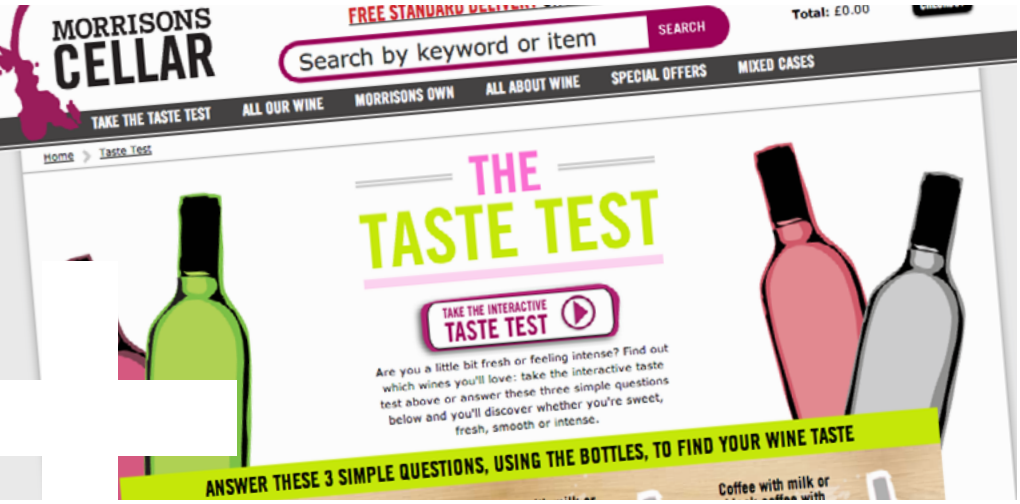
"Already the use of information is quite explicit - like online ads that relate to the last product you viewed. Many people feel slightly uneasy with that," says Matthew Lewis, head of retail at law firm Squire Sanders. "Will people push back if they don't think the use of their data gives them value for money?"

However, that attitude is largely generational and for younger consumers communicating and sharing on social media networks such as Facebook and Twitter is commonplace and not viewed as an erosion of privacy.

Older consumers need not get too panicked by what the future holds just yet - Cathy Barnes, professor of retail innovation at Leeds Metropolitan University, thinks that ultimately, the leveraging of big data is an area that still has a long way to go.

"We've not really touched on the potential for this yet. The reason we haven't is because there is no algorithm that can replicate human behaviour. You can take all the information in the world but if you can't use that to predict the behaviour... that's the missing link – being able to predict human behaviour.

"Yes, we will be cracking certain things with predictive software but the real power will be when we get that algorithm." ■



CASE STUDY

Last mover advantage for Morrisons?

BRADFORD-based Morrisons is to finally enter the world of online grocery sales and home deliveries in January, following its deal with Ocado.

According to Morrisons, the agreement will enable it to enter the online grocery market quickly, with a profitable business model and chief executive Dalton Philips calls its online offer "the final pillar of our strategy".

It could be argued that Morrisons has timed its entry to online just right, as it has "last mover advantage," says Baker Tilly's Jim Whittaker.

Richard Manners
director, retail improvement, Morrisons

"Setting this up and getting it right is a real technical challenge, hence the deal with Ocado, although a 25-year agreement is a long time in technology terms," he says.

However, the supermarket chain is not entirely inexperienced in the world of online retail. Its first foray came in 2011, when it bought online children's clothing and accessories retailer Kiddicare in a £70m deal, with the intent of leveraging both the technical and physical infrastructure for entry to other online market segments.

Towards the end of 2012, launched wine website www.Morrisonscellar.com. One key feature of Morrisons Cellar is its 'Taste Test', which has since won an industry award for innovation.

It asks customers three non-wine related questions and then assigns them a flavour profile based on their preferences for sweetness or bitterness. The customer is then given a number between 0 and 12, which they can match against available wines.

Whittaker says: "It has been slow to the table but already proven with one small part that it can do something different."

The big question is how will Morrisons' online grocery offering be different? The supermarket has suggested the differentiator will be the same as in store – vertical integration and a focus on fresh produce.

Richard Manners, retail improvement director for Morrisons, says it is something the supermarket's customers will increasingly value.

"We are very committed to vertical integration. We own our own butchers, bakers etc. That's an expensive way of doing business compared to getting things processed in a factory but as we discovered earlier this year [with the horse meat scandal] that approach was really useful. We were the only retailer with no trouble at all apart from branded lines of Findus," he says. ■

Digital order pad

IT is hard to believe but the UK's fourth largest supermarket chain has only very recently moved from paper-based shop floor stock management to a digital system.

Richard Manners, retail improvement director for Morrisons, says: "The operating model was broadly designed 30 years ago in a world of pen and paper."

It has been working with software consultancy ThoughtWorks to bring each store into the digital age with the introduction of the electronic Order Pad to replace its manual inventory process.

Manners says: "People were working off three to 10-day-old data and it is very dependent on the skill of the person writing an order. That is unusual in our industry but there are elements of that process that we wanted to keep.

"You can't take from a central system local influences such as the impact the fact it is raining will have, or a football match down the road and you can't get individual responsibility: 'the machine does it'. We wanted to retain some of that ownership and autonomy."

The Order Pad allows Morrisons' employees to input and track data electronically on a tablet, making stock management a more accurate and streamlined process.

It is similar in look and feel to the old paper process but it eliminates administration and gives access to real time information.

Manners says a key aspect of the transition from paper to pad was that it was user-friendly, which resulted in rapid adoption rates and a limited need for training.

The tablets are wirelessly linked to the store's network and transmit the orders to the mainframe, saving hours of data entry, increasing accuracy and giving greater flexibility.

"It will enable many other store processes to become streamlined and mobile, ultimately helping us to provide a better customer facing service in the stores," says Manners.

The Order Pads will be used in all Morrisons stores by the end of the year. ■

People power

Retail is a sector that experiences high employee churn rates and where the vast majority of staff are on lower pay.

THE industry employs nearly 2.8 million people and makes up around 11% of the total UK workforce - but of those 1.6 million earn less than £8 an hour, according to research company Datamonitor.

So how can retailers ensure staff are not just well trained but motivated, given pricing pressures mean it is an industry where wages for the vast majority have to remain low?

Matthew Lewis
partner and head of retail for Squire Sanders

Matthew Lewis, partner and head of retail for Squire Sanders, says that having low paid staff doesn't mean they can't be engaged with the company, its brand and goals.

Having disengaged staff is likely to equate to poor customer service. It's a key point for Lewis - ensuring staff actually know what the company's long-term aims are and what they as a team should be working towards.

"Irrespective of pay, they need to know where they fit in with the business and why they are valued," he says. "Messaging is important. Most retail store managers will have a conversation with staff at the start of each day or shift to tell a key message. But part of that is also making them feel they are doing a good job - hone in on the positives not the negatives."

'If there are to be sales incentives these should be based on shop turnover, not individual sales, so people feel engaged to work as part of a cohesive unit.'

Lewis suggests that if there are to be sales incentives these should be based on shop turnover, not individual sales, so people feel engaged to work as part of a cohesive unit.

"Commission for a sale can lead to poor service and a less cohesive unit because all are fighting for the customer's attention rather than focusing on who is best for that shopper," he says.

David Bannister is a former HR director for fashion retailer New Look. He is now the managing director of business and HR consultancy Empowering People and is one of ten top executives

David Bannister
managing director, Empowering People

behind a soon-to-be-launched consultancy that will help businesses of all sizes manage change, called the Leading Heads Partnership.

He says that it is crucial for staff buy-in to attribute an online sale to the nearest store but beyond that adds that financial incentives for staff - primarily commission structures - don't work.

"You have to take money off the table. Let's get rid of incentives, then how do you motivate people to do all the things you want them too?

He makes a distinction between staff recognition and incentives.

"Recognition schemes are totally different and do work. Recognition that costs nothing is getting people to say thank you," he says.

Rupert Eastell, head of retail for Baker Tilly, adds that factors other than pay are important for retention, citing fair working conditions, being treated as part of a team, encouragement and development.

"I like the idea of treating your staff as you do your customers. Creating success in both areas starts at the top. It is the quality of management that makes the difference," he says.

Eastell says the way a retailer looks at its business – by channel or as a customer – is at the heart of the retail skills and training debate.

"If you put the customer at the heart of how the business operates then the staff and management will follow this in their behaviour," he says.

If retailers' high street stores are becoming more experiential and showroom-like, staff that have good customer service skills with strong product knowledge are critical to converting a shopper's 'try' into a 'buy'.

Rupert Eastell
head of retail for Baker Tilly

Bannister underlines that retail is all about experience, adding that comes from committed, passionate staff that engage with the brand and do more than simple tasks.

He says: "If staff truly are engaged with the business as a whole then they will do the harder stuff because they believe in the brand and the bigger picture.

"What business are we in? The business of being chosen. Why should someone buy from you when they can get it elsewhere? The ultimate difference is staff and commitment."

The industry as a whole needs to find ways to reduce churn – thereby reducing the costs of recruitment and training – and for more people to consider the sector as an option for a viable, long-term career with progression opportunities.

Cathy Barnes, professor of retail innovation at Leeds Metropolitan University, and Eastell both make the point that retail is an industry that needs many foot soldiers at the base of the pyramid and not everyone can climb the ladder to become chief executive.

Yet the industry has a long way to go improve its reputation and a lot still needs to be done so people see it as an aspirational career choice.

Lewis says: "People see retail as essentially just working in a shop and maybe they could progress to shop manager. What they don't see are the buyer, marketing, branding, distribution or overseas opportunities. There is a wide and varied career to be had in retail and those who take the opportunity do benefit from having had the shop floor experience and customer contact."

There are very few retail specific degrees on offer in the UK at present, let alone masters or PhD programmes – Barnes says this is partly because it's a subject area yet to be accepted as a key academic discipline.

To that end, Leeds Metropolitan University is going some way to bridge the gap with the introduction of an omnichannel retail masters degree, which it is running in collaboration with consultancy firm BlueFin Solutions and will commence in September 2014.

Cathy Barnes
professor of retail innovation at Leeds Metropolitan University

"The issue is that a lot of retail companies a consultancy like BlueFin work with just don't have the skills to do the work that's needed within the business. We are working together to up-skill the industry," says Barnes. ■

CASE STUDY

Multichannel strategy suits TM Lewin

FOR shirt maker TM Lewin the in-store experience is a hugely important part of its offering, regardless of the sales channel a customer ultimately chooses.

All staff wear a tape measure to demonstrate they are trained to fit and measure, for example.

"The confidence that engenders for the online business is remarkable," says its chief operating officer Keith Nesbitt.

The interaction with staff in store helps to build confidence in the brand across all channels and staff also use tablets on the shop floor to allow shoppers to access its full range.

Keith Nesbitt
chief operating officer, TM Lewin

"Around 70% of our in-store iPad sales are for suits - people don't see what they are buying in the flesh first but having been measured in something similar they are happy to then go ahead and buy for home delivery or collection at a shop."

Staff training focused on introducing technology to an existing customer experience rather than on the tool itself.

"The technical training [on devices] was 10% of the time. The other 90% of the training was about the customer experience. Trust is important - people don't need to check against the John Lewis price promise because they already trust it," says Nesbitt.

Richard Small, head of HR for TM Lewin, adds that the training focused on creating excitement and enthusiasm for the tablets as a new sales channel among staff, and that part of that process was ensuring sales made through the tablets were attributed to each store.

He denies the possibility that by selling more through an online channel, staff are potentially making themselves redundant.

"We are trying to get colleagues to think how they can play a part in the long term. It is not on our agenda to reduce bricks and mortar as we build online. The ease and convenience includes free delivery to the store which proves popular and gives the opportunity to link sell and up sell. If we reduce the estate we take away that ease and convenience," he says.

Richard Small
head of HR, TM Lewin

Wider changes TM Lewin has made, in terms of brand positioning, have also positively impacted on staff morale.

"It's a much more sophisticated product in look and feel and there is more pride in the business and being part of something that's going somewhere," says Small.

"That's why people bought into multichannel for which there is no bonus. We simply say 'this is a key focus' and formally recognising those people who do well – by mentioning them in the weekly focus email." ■

BAKER TILLY

Baker Tilly ticks everything on the shopping list

In today's fiercely competitive retail market, achieving a strategic advantage is a complex challenge. Retailers have faced rising costs, property and branding issues and increased complexity in consumer buying habits for over 5 years. What is now different is the talk of recovery and growth which creates opportunity - but are retailers ready to take advantage of this in 2014?

Baker Tilly's Retail Team can provide practical and relevant solutions to help your business succeed. We have been assisting our retail clients for many years. Whether you are multi-channel or pure e-tail we can provide practical solutions to help you save cash, manage your cost base, drive down tax bills, attract and retain the best people and develop and optimise your estate.

Baker Tilly is the 'one stop shop' for all of your accountancy and business advisory needs.

For more information please contact Jim Whittaker, Head of Retail for Yorkshire on +44 (0)7798 823629 or at **jim.whittaker@bakertilly.co.uk**

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17

ROUND TABLE

1. **Simon Oxby** *corporate sales manager, Berry's Jewellers*
2. **Prew Lumley** *property partner, Squire Sanders*
3. **Edward Chary** *retail director, High Street TV (Group) Limited*
4. **Gerald Jennings** *portfolio director, Land Securities*
5. **Edward Ziff** *chairman and chief executive, Town Centre Securities*
6. **Rupert Eastell** *head of retail, Baker Tilly*
7. **Phil Anderson** *e-commerce & marketing director, Damart*
8. **Richard J Donner** *chairman, The Wakefield Shirt Company Ltd*
9. **Michael Bates** *managing director, Joe Browns*
10. **Jim Whittaker** *partner, Baker Tilly*
11. **David Parkin** *founder, TheBusinessDesk.com (discussion chairman)*
12. **Matthew Lewis** *partner and head of retail, Squire Sanders*

The UK high street – a tale of two halves

THE changing face of the UK's high streets is very much a tale of two halves – on the one hand large cities like Leeds are doing well, particularly those that have embraced the concept of building a destination, where consumers indulge in shopping as part of a wider leisure offer.

But on the other side of the coin, smaller towns and cities continue to struggle. That gap is widening, with no obvious solution for those in distress.

The state of Yorkshire's retail offer and how changing shopping habits are impacting on retailers was up for discussion at TheBusinessDesk.com's retail round table, held at Squire Sanders' offices in Leeds.

Gerald Jennings is portfolio director at Land Securities, which owns the Trinity Leeds scheme that opened in March and is the only major retail and leisure development in the UK to have done so this year.

He said he was positive about the future outlook for retail but only for selected locations because of structural changes in the retail sector as a whole, adding that "retail has changed forever".

He admitted that in the depths of the recession, Land Securities' capital values fell by 44%. "Not many businesses can manage such a seismic change in the world," he added.

While larger city destinations like Manchester and Birmingham will do well, that is not the case for second and third tier towns across the country.

He said: "We collectively in Leeds can be confident. Trinity provides a platform for Leeds and the wider city region – it, along with the arena which has also opened, lets us sell on an international platform."

Jim Whittaker, partner at Baker Tilly, emphasised the north/south divide, saying that one in five North West units are empty compared with less than one in 10 in London.

It is something Edward Ziff, chairman and chief executive of Town Centre Securities, whose portfolio includes the Merrion Centre in Leeds, has seen.

"We do see that divide. We don't own much in the south - values inside the M25 are as though there has been no recession but in other areas it is hard work," he said.

Jennings pronounced there was "simply too much" retail space in the UK, whereas Ziff specified that it was the wrong type of retail space.

« Previous | Back to Contents | Next »

Rupert Eastell, head of retail for Baker Tilly, said recent business failures meant that a lot of capacity had gone out of the market, making life somewhat easier for those that remain.

He too agreed that London was a different market, emphasising it was London alone and that other locations in the south were suffering the same issues as northern towns.

He pointed to the Croydon Village Outlet, which opened in late September on the site of the iconic Allders department store, and was forced to close hours after opening because it couldn't cope with the volume of shoppers.

The 550,000 sq ft store stocks well-known and designer brands at reduced prices.

Richard J Donner, chairman of The Wakefield Shirt Company, said: "We are in there. They have really cleaned the shop up and now it works with a 20/30% discount on the theoretical RRP. All the investment costs have been transferred to the supplier, including staff, so they are a [multiple] landlord within one shop.

"Lots of people want brands they grew up with and can't find. This has brought them all together under one roof. I think that's a formula that will work."

There has been a recognition by those in retail sheds like B&Q and some supermarkets that they can achieve the same sales with 20% less space in store.

Michael Bates, managing director of clothing retailer Joe Browns and former buying and marketing director at Morrisons, said some stores are now getting other retailers in that space within their store – so a B&Q might introduce a food retailer, for example.

Matthew Lewis, partner and head of retail for Squire Sanders, said that was part of a strategy to make the stores more of a destination to keep people there for longer.

"Supermarkets have also taken the view that the high street is the place to be, not making people drive out of town. Retailers had previously seen 250 shops needed for a national presence but with online they don't need that much space. This leads to more pressure on landlords," he added.

Donner said empty shops were not just down to overcapacity but to rental prices too.

"If rental prices are wrong then people won't take it up. New entrants will come into the marketplace if the price is right," he said. "Landlords have really got to get that mix so there is everything for everyone. If you only have people who

'Recent business failures meant that a lot of capacity had gone out of the market, making life somewhat easier for those that remain.'

can afford that rent, you don't get that mix of shops."

Ziff explained that the issue around rentals has come about because of the way property is financed – that often landlords are not allowed by their banks to offer lower rents because of repayments that are owed on property that was over leveraged before the recession.

It is often the second and third tier towns that will see more single property landlords on a high street, that can't afford to lower rents because they have leveraged the property for use as a pension, for example – resulting in a Catch 22 situation.

"Our portfolio is 98% let because we have been realistic about rents. Those that need to go to the banks are in a real mess. You can ask for £20 a sq ft and never get it – if the right price you will. But not everybody has the ability to recognise that," he said.

"We need a sustainable model from a property perspective but also for retailers because we are inextricably linked. That's a worry for me when looking at new business. We are all tied together."

He added that made it harder to strike a deal with the likes of good retailers such as Philip Green, because they "know the value of the business" they bring.

Prew Lumley, property partner for Squire Sanders, agreed that strong tenant occupiers are in a good position to drive difficult deals.

"Now is the time if you are a retailer to negotiate good terms that work for you but they also have to work for the landlord," she said.

Jennings said that although retail landlord/tenant relationships are changing they still remain quite adversarial, adding that increasingly →

a partnership approach is what's needed in response to changes in consumer shopping habits.

Edward Chary, retail director for High Street TV, said changes to the high street are mostly being driven by the way consumers are changing their shopping habits, with more and more people want to shop at their convenience.

"That's either at their TV with a mobile – which is what we do – or they do that and decide they want to touch and feel. There is an element that requires a change in usage to make people stay on the high street for longer," he said.

Whittaker and Lumley both said that was about the consumer experience and introducing more leisure and hospitality.

Jennings echoed the fact that people now shop less frequently but that when they do it is seen as a 'day out'.

"Footfall is down across the UK but the amount of time they spend when out is up," he said.

'There will be a late surge because people know they can get things delivered the week before.'

Lumley added that the "arena effect" is having a positive impact on bricks and mortar retail in Leeds city centre.

"That is building on the extended hours – filling that gap between finishing work at 5.30pm and the cinema at 8pm," she said.

Jennings said: "Because we have extended trading hours in the city we will see more people coming in the evening. The food and beverage and leisure offer will escalate with more people coming in for a meal and the cinema and some shopping at the same time. It should be a good Christmas for Leeds city centre."

As thoughts turned to Christmas – the most critical time of year for any retailer – there was recognition that consumers are doing their Christmas shopping later and later every year. That's partly because of improved logistics and express delivery for online orders and partly in the hope that the early pre-Christmas sales of recent years will materialise once again.

Anderson said: "If you have got the web for 24/7 shopping and express delivery then surely that will impact and people will get later and later every year."

Simon Oxby, corporate sales manager for Berry's Jewellers added: "There will be a late surge because people know they can get things delivered the week before Christmas. We now hold more in stock so we have it there for the customer. It's a stock cost for us but a necessity."

Some thought the potential for industrial action around the privatisation of Royal Mail could impact on consumer confidence in online orders being delivered in time – resulting in a possible boost for bricks and mortar retailing. ■

The silver shopper

Most seniors don't rate the high street or shopping centres – and why would they when they are clearly not the target demographic. Many have migrated to another retail destination that does cater for their tastes and requirements, with shopping, leisure and food all offered under one roof: the garden centre.

Phil Anderson is e-commerce and marketing director for Bingley-headquartered catalogue and online clothing retailer Damart, which caters for the senior market.

He said: "What fashion stores are targeting that age group? You struggle to find that proposition. There is a constant focus on the younger generation, even though we have an ageing population profile.

"My dad is 80 – he's not got a garden so why does he visit a garden centre? It's not a garden centre but a great destination."

Richard J Donner, chairman of The Wakefield Shirt Company, another traditional brand with a long history, agreed, adding that his company sees the best returns in garden centres.

Prew Lumley, property partner, Squire Sanders, said: "What they are running is a retail destination with a few plants on the side."

A lack of choice on the high street and the ease of using new technology like tablets means the 'grey' market increasingly doing its shopping online too.

Damart makes 10% of its sales online - but it's a percentage that is rapidly growing, according to Anderson.

He said: "That's down to the age profile of our customers but also we think tablets will have a time bomb effect - I imagine it will be one of the biggest retirement presents."

Donner agreed, adding: "A product for old people is not really on the high street at all. The web is better for them in terms of choice." ■