

UK RETAIL: TRAVERSING THE SHIFTING TRENDS





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UK RETAIL: THERE'S HOPE DESPITE E-COMMERCE & BREXIT

A WNS PERSPECTIVE

OVERVIEW

U.K.'s retail industry is coping with the same challenges from e-commerce disruption as the rest of the world. The industry is also facing ambiguity due to the political situation and Brexit. Collectively, this has caused a momentary slowdown in the industry.

The sharp rise in the number of store closures between the first half of 2017 and 2018 alongside record online sales in August 2018 points at the growing significance of online stores. The category of clothing and department is witnessing more growth online as compared to food, with growth

trend of the latter remaining flat in the last four years. While U.K. shoppers are gravitating towards online shopping for items such as clothes and shoes, they seem to still prefer the traditional way of shopping for food.

The uncertainty around Brexit has led to retailers grappling with questions about the future and customers showing patterns of conservative spend. The retail sector Gross-Value Added (GVA) declined in the month following the Brexit referendum. While the sector recovered, growth has been flat in 2018, with customers

being cautious even during peak shopping periods such as Black Friday.

2019 is expected to witness a slow growth, given the six-month delay in Brexit, continued ambiguity in the political situation, rising costs of import and supply chain pressures. However, once the new trade framework is defined and stabilized, a faster pace of growth can be expected between 2020 and 2023.

WNS DecisionPoint™ deep dives into trends in the U.K. retail sector, and explores the factors impacting growth and future outlook.

INTRODUCTION



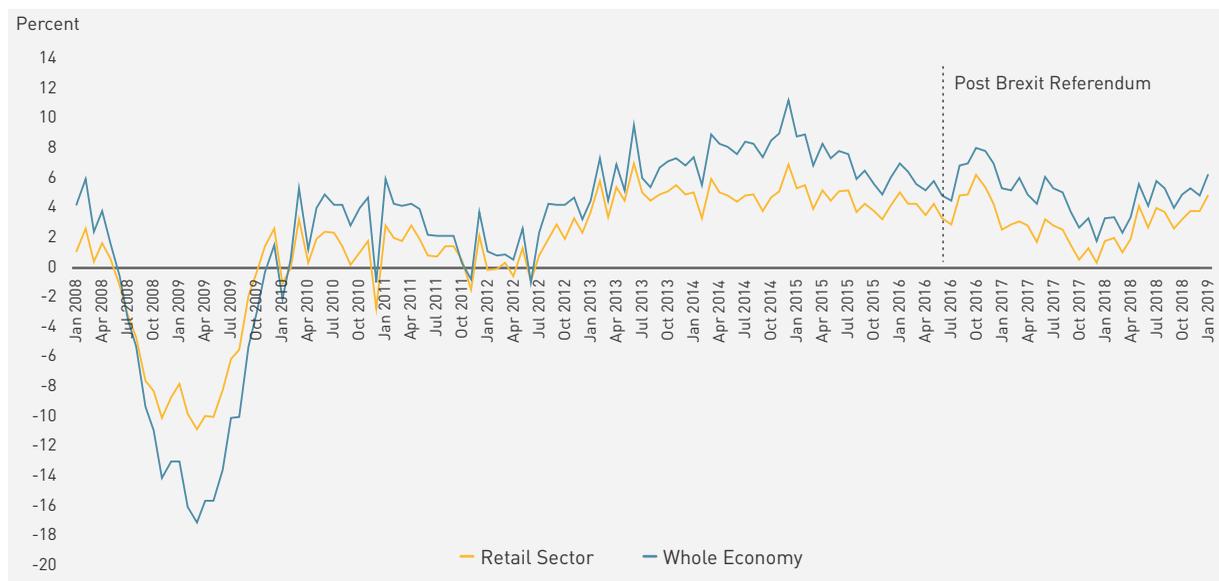
Retail Sector and the U.K. Economy

The retail sector is an essential backbone of the U.K. economy. With a total contribution of GBP 91.6 Billion to the total U.K. GDP in 2017, it accounts for over 5 percent of the U.K. economy.¹ The retail sector has gone through a prolonged period of disruption. Shifting consumer behavior, increase in online stores, and shopping and uncertainty in

economic outlook brought on by Brexit are some of the key factors impacting the way retailers deal with consumers and plan their business strategies for the future. We assess the current swings in the retail sector and forecast the course of the sector in the wake of current political and Brexit developments.

The retail sector fell into a slump following the financial crisis of 2008, and continued to witness a steep decline until 2012. The sector started to recover in 2013 and continued to grow stronger until late 2016. However, 2017 and 2018 witnessed a slight slowdown in sector output (see Figure 1).

Figure 1: The Ups & Downs in Retail & the Economy
Period-on-Period Growth, Monthly GVA for Retail and Overall Economy



Source: ONS & WNS DecisionPoint™ Analysis, March 2019

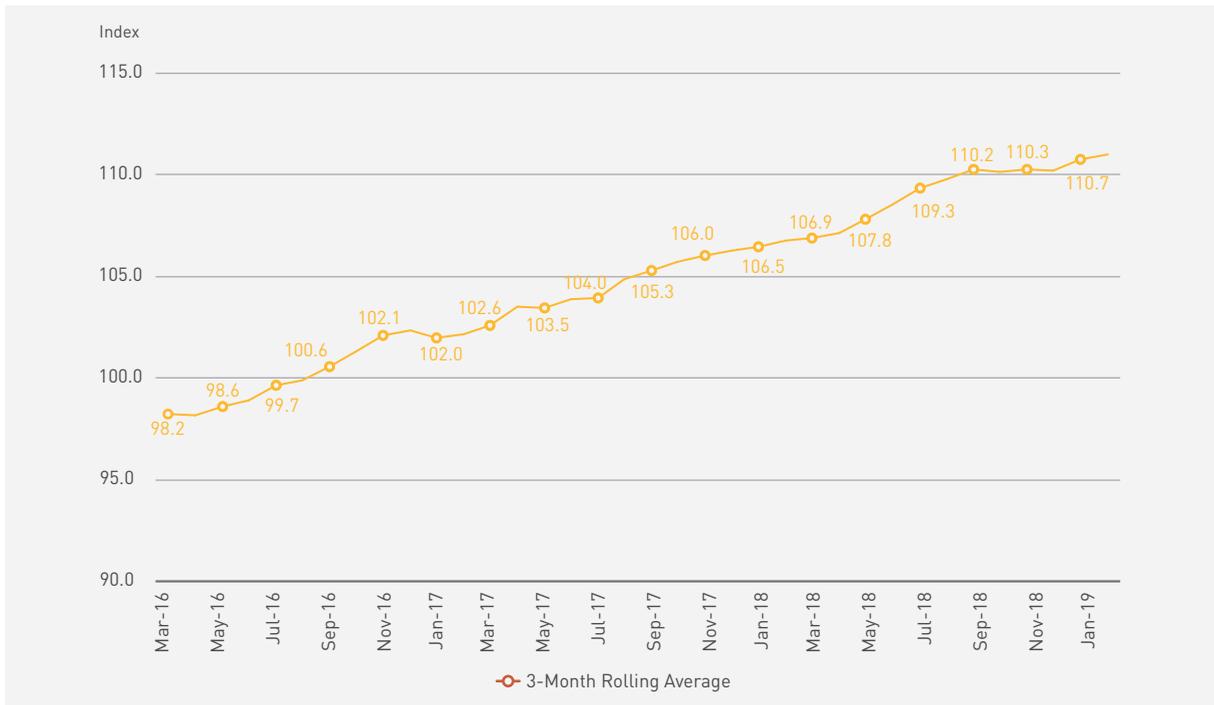
The retail sector GVA experienced a steep drop in the month following the Brexit referendum, but soon picked up pace from October 2016

onwards. The decline can be attributed to an uncertain outlook perceived by businesses in the

aftermath of U.K.'s surprise decision to leave the European Union (EU).

¹ ONS Regional Gross Value-Added Reference Tables, December 2018

Figure 2: Slow Growth in Retail Sales
Retail Sales Index 3-month Rolling Average



Source: WNS DecisionPoint™ calculations based on ONS data. All retailing, excluding fuel prices. Retail sales based on current prices. Index 2016=100.

Retail sales in the latter half of 2018, specifically December, were flat in volume terms, as shown by the

three-month rolling average index (Figure 2). Consumers refraining from further spending after Black

Friday promotions and the U.K.'s looming exit from the EU were primarily accountable for the decline.





Online Shopping: A Rising Challenge for Retailers

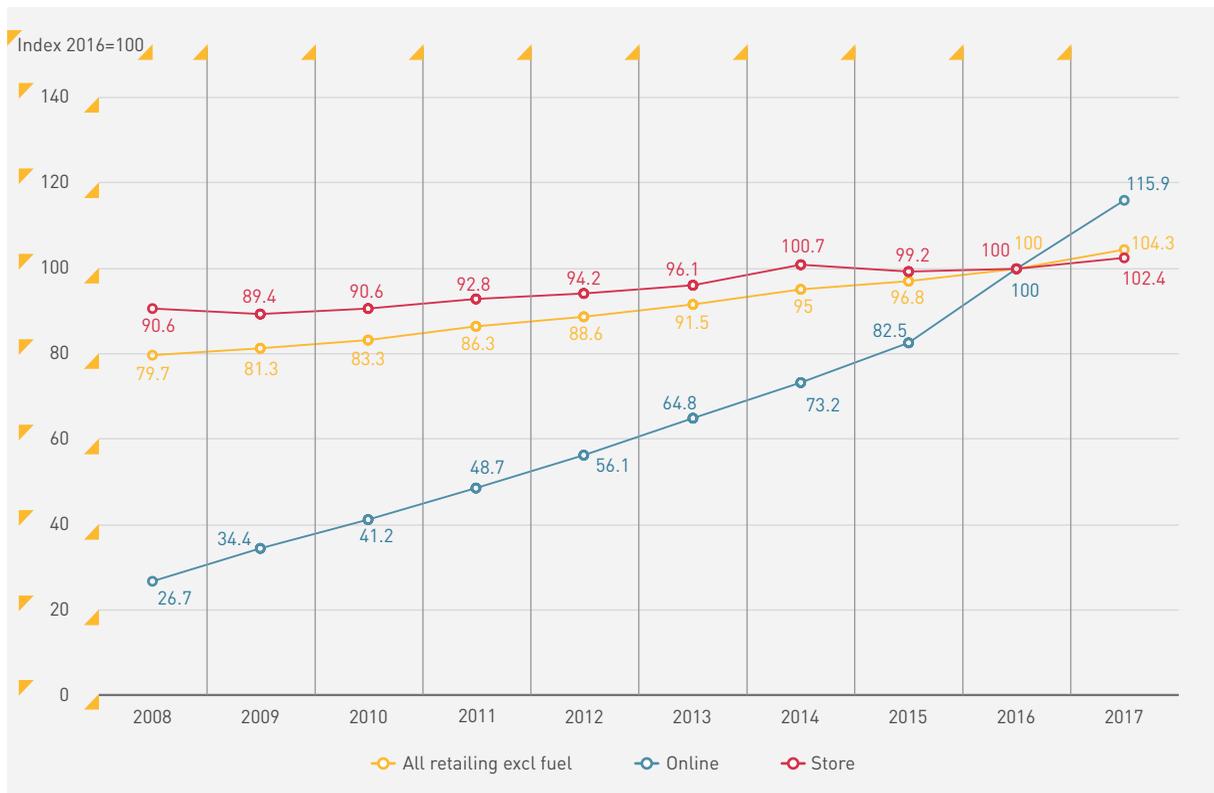
One of the key concerns plaguing retailers is the continued growth of

online shopping, with market turbulence across the industry

creating ideal conditions for new entrants to flourish (Figure 3).

Figure 3: Growth in Online vs. Store Sales

Great Britain, 2008 to 2017



Source: Monthly Business - Retail sales Inquiry - Office for National Statistics



Figure 4: Online vs. In-store Retailing

Proportion of Online & In-store Sales Across Retail Sectors in August 2018



Source: ONS

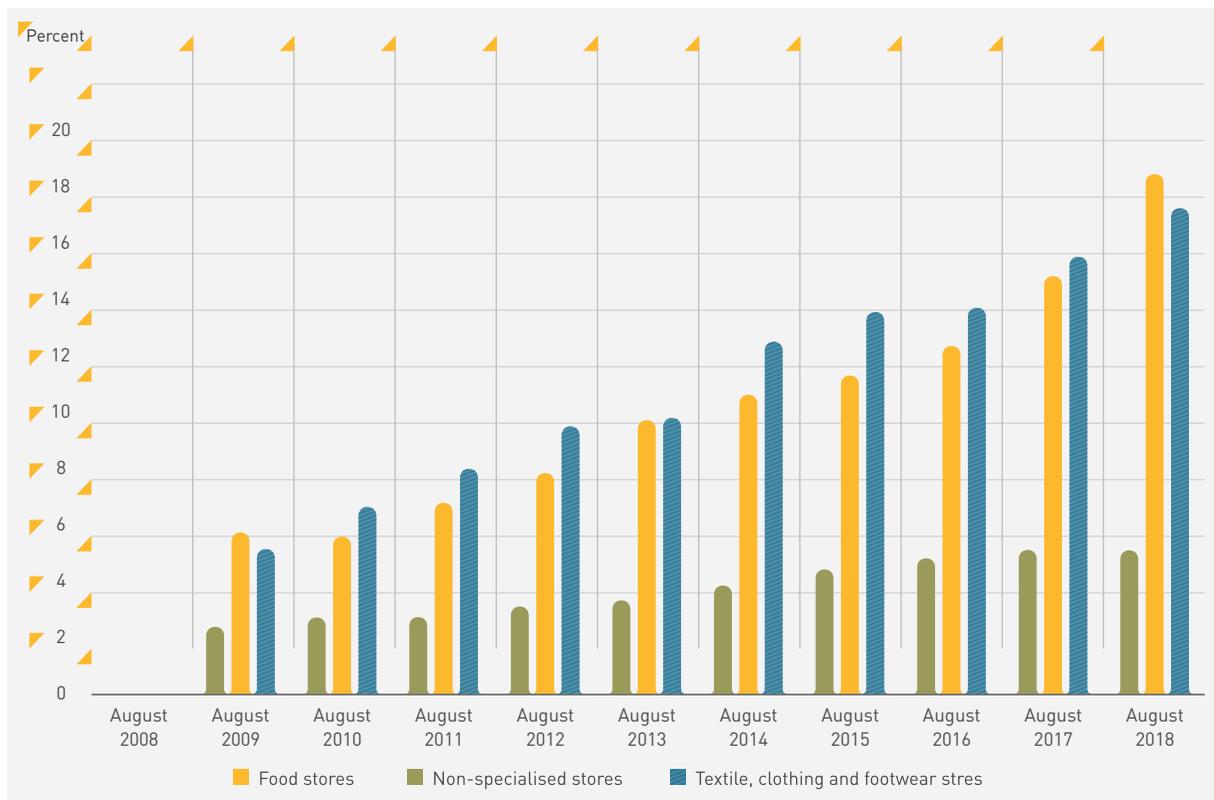
Online sales were approximately 18 percent of all retailing in the U.K., accompanied by strong

growth in clothing and department stores. Department stores, in particular, saw record online

sales of 18.4 percent in August 2018 (Figure 4).

Figure 5: Impact of Online Retailing

Increase in Online Sales as a Percentage of All Retailing in Food, Clothing & Department Stores



Source: ONS

Online sales in food stores grew at a strong pace from February 2018 to May 2018, but were witness to a slowdown in growth, with sales at 5.5 percent in August 2018.

An assessment of the 10-year growth in online sales shows significant increase across the

non-specialized and clothing store categories, but a much slower pace of increase in the food store category, with online sales remaining relatively flat in the last four years. This trend reflects consumers' growing preference for purchasing majority of clothing and footwear items online, while at the

same time sticking to more conventional modes of shopping in the food store category.

The resulting impact of the increasing popularity of online retailing is perhaps best reflected in the number of physical store closures in the U.K. in the last five years.

Figure 6: Openings & Closures

Store Openings & Closures During First Half of Years 2014-2018



Source: Local Data Company & WNS DecisionPoint™ Analysis

The number of store closures rose drastically, from approximately 20,000 in the first half of 2017 to

over 24,000 in the first half of 2018 (Figure 6). Burgeoning occupational costs and rising

competition forced many retailers to announce a slowdown in store openings.



The High Street: Preparing for Turbulence

The year 2017 was a tough one for high-street retailers as they were up against rising import costs

resulting from a falling pound. A surge in employment costs and escalating investment in

technology upgradation and store experience further eroded retailer margins (Figure 7).

Figure 7: A Tough Year

3-month Rolling Average, High Street Sales



Source: WNS DecisionPoint™ calculations based on data from BDO High Street Sales Tracker

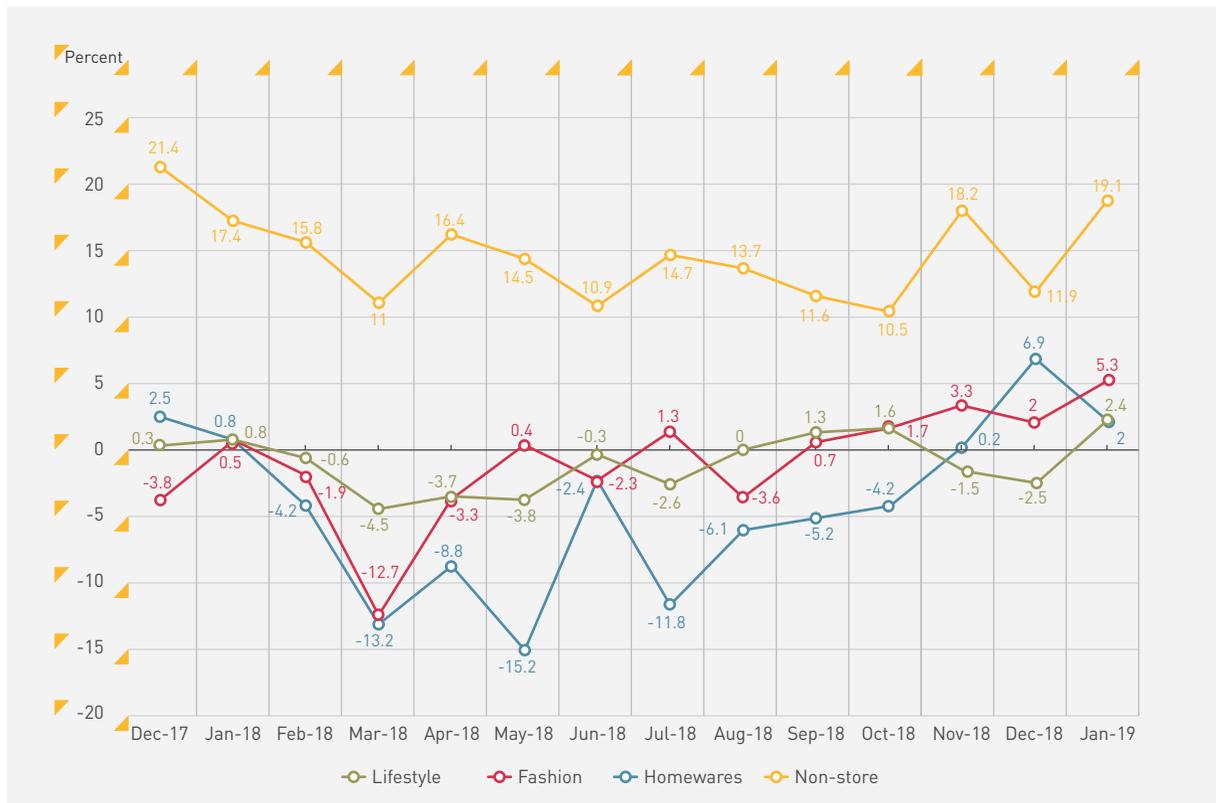
Many retailers had hoped for an improved outlook in 2018. However, freezing temperatures led to a slowdown in high-street sales in

the first quarter of the year. In the wake of the royal wedding and the World Cup fever, the middle of the year did witness a slight uptick,

steered primarily by increased spending on food and entertainment.

Figure 8: Mixed Results

Month-on-Month Change in High Street Sales Across Categories



Source: BDO High Street Sales Tracker; WNS DecisionPoint™ Analysis

Homeware sales on the high street recovered significantly towards the end of the year, after experiencing a

major slowdown during the middle of the year (Figure 8). Non-store sales witnessed several upheavals

throughout the year, reflecting the volatility in consumer spending and sinking consumer confidence.

Source: WNS DecisionPoint™ calculations based on data from BDO High Street Sales Tracker



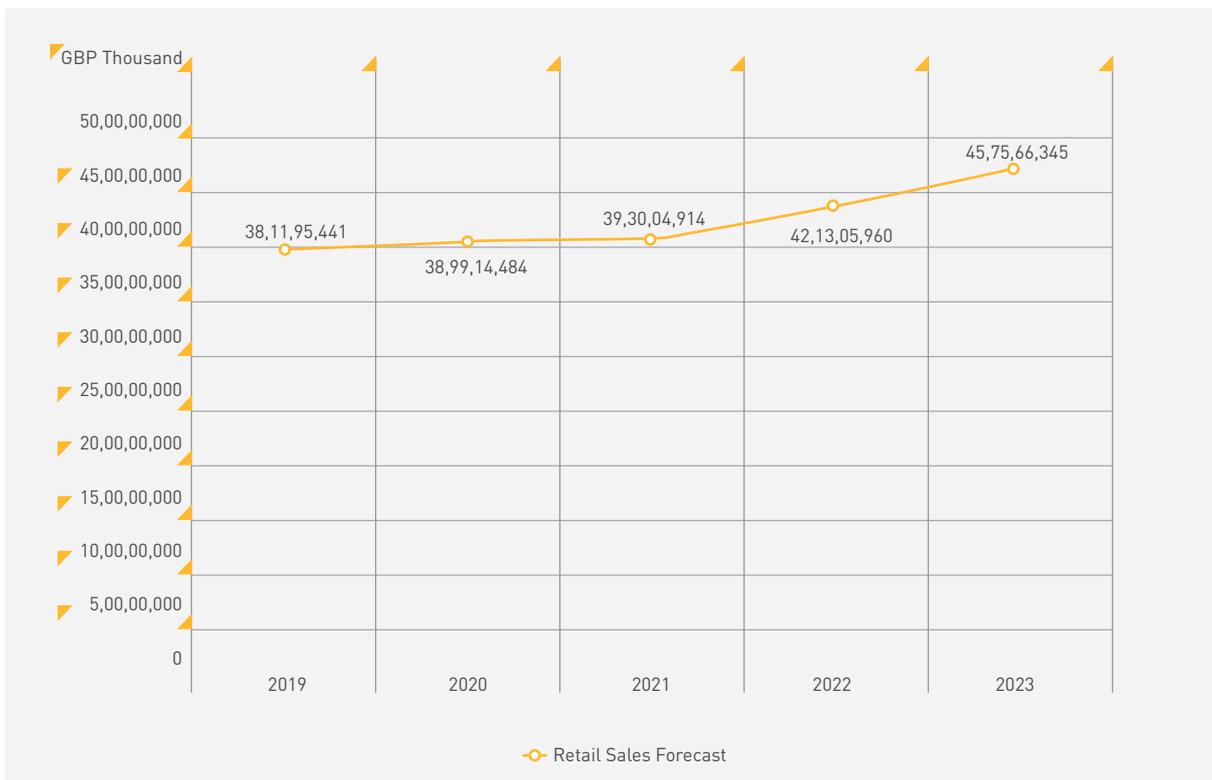
Retail Outlook: Five-year Scenario

The U.K. retail industry will continue to battle headwinds in the form of low consumer and

business confidence brought on by the current Brexit turmoil, disruptive technological

trends and volatile consumer expectations.

Figure 9: Looking Ahead
5-Year Forecast, Retail Sales



Source: WNS DecisionPoint™ forecast based on data from ONS

With the six-month Brexit delay, we expect retail sales to rise at a slow pace for the rest of 2019 (Figure 8). Continued political uncertainty and supply chain pressures will result

in increased import costs for retailers and rising cost pressures for end consumers. Retail sales are expected to pick up faster from 2021 to 2023, as trade pressures on

the U.K. recede with a definite trading framework with the rest of the world in place.

CONCLUSION

The retail sector is undergoing massive transformation, with non-store retailing dominating consumer spending across categories. Online shopping has been the biggest disruptor across retail categories, with high street witnessing never-seen-before peaks in their online category.

Many retailers with predominantly physical store mode of retailing have been compelled to upscale their businesses by adopting state-of-the-art technology to compete with advanced modes of online offerings of new entrants.

Another factor headlining the sector is the current Brexit

deadlock. With Brexit extended by six months, retail businesses in particular will continue to seek definite answers with regard to the EU-U.K. trading relationship and how the U.K.'s departure from the EU will impact their import and supply chain costs.





About DecisionPoint

Making key decisions that improve business performance requires more than simple insights. It takes deep data discovery and a keen problem solving approach to think beyond the obvious. As a business leader, you ought to have access to information most relevant to you that helps you anticipate potential business headwinds and craft strategies which can turn challenges into opportunities finally leading to favorable business outcomes.

TM WNS DecisionPoint™, a one-of-its kind thought leadership platform tracks industry segments served by WNS and presents thought-provoking original perspectives based on rigorous data analysis and custom research studies. Coupling empirical data analysis with practical ideas around the application of analytics, disruptive technologies, next-gen customer experience, process transformation and business model innovation, WNS aims to arm you with decision support frameworks based on 'points of fact.' Drawing on our experience from working with 200+ clients around the world in key industry verticals, and knowledge collaboration with carefully selected partners including Knowledge@Wharton, each research asset comes up with actionable insights with the goal of bringing the future forward.

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