How is the internet changing UK retail?

KPMG/Synovate Retail Think Tank White Paper #16

–Online retail is not killing the High Street says Retail Think Tank –

–Far from it: the internet is helping good retailers become even better as fundamentals of retailing remain the same –

Part I: Executive Summary

Introduction

The size of internet retailing has been the subject of much debate within the sector over the past few years and there is no definitive and consistent view. However, in its latest discussions the KPMG/Synovate Retail Think Tank (RTT) agreed that although online sales probably account for between six and eight percent of the total UK retail market, based on various data sources (see Part III), establishing its precise size is no longer particularly relevant.

Mainstream retailers' online strategies have evolved to become integrated into the traditional "bricks and mortar" and catalogue models, such that internet retailing now complements rather than competes with the traditional channels.

While a number of "pure-play" retailers have entered the market, they have not become as big a part of the sector as originally predicted. These businesses represent just about a third of the UK's total online retail spend and some also provide website and logistics infrastructure to support more traditional businesses.

Thus from a consumer and an operational perspective the lines differentiating the channels have become blurred. Indeed, the RTT considers that the internet is now an integral part of the fabric of British retailing and its future development rather than the threat to traditional retailing it was once perceived to be.

So if the debate about traditional retail compared with online is past its sell-by date, the more pertinent question is: what impact is the internet having on the retail sector now and where will it lead to in the future?

Online presence now a business imperative: mainstream retailers without one are at a disadvantage

Since the last time the RTT debated internet retailing in November 2006 it has continued to evolve at a pace. More and more retailers are joining the ranks of the multi-channel players retailers with Zara, Selfridges and Gap being examples of 2010 entrants.

Online retailing is now about much more than just straightforward transactional functionality. The internet provides retailers with a powerful marketing tool, with websites creating a huge “shop window” for products and valuable brand-building opportunities, as well as increased profile through third party tie-ups, whether price or brand related. This has been facilitated by the expansion of higher speed connectivity nationwide, developments in mobile technology and by the remarkable presence that the internet now has across all aspects of life.

Tim Denison of Synovate says: “Website searching is at the core of the everyday way in which many of us carry out product research, price benchmarking, preference- setting and generally support our in-store purchasing. Consumers embrace the internet and increasingly want more from it, reflected by the latest second-generation retail sites which offer so much potential power to shape opinion and further enfranchise shoppers.”

Consumers now want to squeeze more into their ever busier lifestyles, interacting with retailers when, how and where they choose. The development of increasingly sophisticated technology is allowing online shopping to be fitted into consumers’ lives to make the most of any “downtime”. For example, mobile applications allow groceries to be ordered online, perhaps on the daily commute or during lunch hours, and those such as Red Laser allow mobile price comparisons whilst pushing the trolley.

Incorporating online into retail processes and harnessing opportunities

We are seeing significant structural changes underway within retail businesses. To date, many have operated separate internal teams for e-commerce and store operations built around separate processes, but the more advanced are integrating them into one seamless business model. The RTT believes that the economic downturn has speeded this up as retailers seek to streamline, rationalise and secure cost savings and efficiency gains, although to some extent this been offset by the requirement to invest in IT for long term benefit.

The internet is having a positive impact on procurement and the supply chain by reducing costs for retailers and creating opportunities for growth. John Dawson of the Universities of Edinburgh and Stirling says: “The internet has enabled a reduction in sourcing costs and closer integration of supply chain activity as moves to global sourcing are not possible without web-based IT applications. These allow efficiency gains and cost reductions in the supply chain with retailers providing suppliers with real time access to sales information.”

The internet provides a powerful tool to harness customer data on preferences and to facilitate and respond to customer communication and feedback which a number of retailers are now using to create competitive advantage.

With online retail still in its adolescence, knowing where to direct effort now presents an unfamiliar conundrum for businesses. According to Richard Lowe of Barclays Wholesale and Retail Sectors: “This makes capital expenditure decisions even more difficult as retailers need to assess whether investment should be made in stores, websites or on the development of applications.”

On a positive note the internet allows retailers to gradually change their offer and branding more easily than traditional retailing, where store fascias and interiors are conventionally changed periodically on a rolling percentage basis. Websites allow continual development with updating and refreshing functionality possible on an ongoing basis which helps to maintain a current and relevant experience for customers.

A structural shift within the retail sector?

While statistics show that online retail is growing, the RTT questions whether this represents growth to the sector in real terms, although it considers it is possibly one of the reasons behind the more recent increase in retail spending as a proportion of total consumer spending which had been in decline for a number of years.

One obvious area which was always perceived to be vulnerable to online retail sales growth was the property market. Mark Teale of CB Richard Ellis points out: “Internet spending must have diluted shop-based sales to some degree but the impact in relation to property – as far as it can be measured – has been very uneven. The internet is not a main driver of structural changes in the property market. In primary locations demand remains strong while with secondary and tertiary sites demand is very sluggish. Space quality is the central issue. Online retail might have contributed in a minor way to the retrenchment of shop occupiers into primary and good secondary space but it has done little more than that.”

This retrenchment trend had been apparent for many years (as highlighted by the RTT’s white paper from June 2009 called “What impact do shop vacancies have on towns and cities across the UK?”) and is primarily due to the poor quality of property available in many secondary and tertiary locations. Many weaker High Streets have been progressively abandoned by retail and services multiples over the last few years, leaving a tail of stock obsolescence in their wake. The rapid growth of non- food merchandising by grocery majors, much of it out-of-town, is speeding-up the process.

The RTT, however, believes that as long as primary locations continue to prove profitable, retailers will continue to open new stores and this creates a ‘win-win-win’ opportunity. Shoppers enjoy the benefits of a desirable range of retailers in convenient and attractive locations; developers are able to realise and sustain rents in primary locations and retailers build their physical presence in high footfall, commercially strong sites.

Where will future growth come from?

The RTT agrees that online as a channel in a multi-channel world and its integration and influence on the wider retail market has yet to reach maturity.

Nick Bubb of Arden Partners said: "While there is some level of maturity within sectors which were forerunners of online retailing, such as music and entertainment, at the other end of the scale some large food retailers have yet to provide an online offer suggesting that a number of retail sectors will provide scope for future growth."

Vicky Redwood of Capital Economics adds: "According to the ONS, although 73.5 percent of firms in the overall economy have a website, only 15.2 percent use it to sell online, so there is surely scope for this gap to narrow."

There are still many consumers who are yet to integrate online activity into their shopping habits and the RTT expects this integration will quicken in line with the pace of technological developments. With much more to come in this area – broadband speed, mobile technology and applications – the RTT expects to see more consumers presented with more retail touchpoints entering the multi-channel world plus existing users taking more advantage of the increased functionality.

Demographics also have a role to play. For many younger consumers, online, retail or otherwise, is part of their norm. They do not differentiate between the various retail channels, but use them interchangeably within their daily routines, whether on their computer, walking along the High Street, or on their mobile phone. For future generations no doubt this will become standard practice, though for the current "older" generations there is a need to learn and adapt.

The RTT believes that the internet extends the reach of retailers both internationally and nationally, providing opportunity for them to enter new markets more easily. Flagship stores in key locations, supported by the internet to fill in geographical gaps, can create a "halo effect" as it is generally accepted that having some physical presence is desirable by providing consumers with a sense of security and adding to the validity to a brand. Retailers have used the internet to test new markets while fulfilling orders from overseas and while this can be logistically unwieldy, the level of capital expenditure is usually lower than that associated with opening new stores as the sole method of market entry.

Integration and innovation – the key to successful online retailing

Integrating successfully across all the channels from an operational as well as customer service perspective is one of the major challenges to be overcome. Consumers' brand expectations are not channel specific and hence the values and attributes of any multi-channel retailer need to be consistent. For example, although some of the stronger businesses already have integrated IT platforms which allow customer returns to be processed from internet sales into stores, in many cases these still need work to create seamless processes across the whole business.

Delivery slots and returns processes which work for the customer are essential and retailers need to ensure that third party distributors do not allow their experience to be negatively affected. According to Opinion Matters, 87 percent of people had experienced waiting all day for a delivery and 80 percent had endured the need to pick up from a parcel depot. Ironically, 'convenience'– one of the key attributes promised by the internet – has also proven to be an Achilles' heel.

However, the RTT noted that historic return rates for clothing ordered from catalogues were often as high as 35 to 40 percent, compared to 10 to 20 percent with the same goods ordered online or through a combination of online and catalogue, highlighting how retailers are providing better information about products through innovative use of technological advances such as 360 degree views.

Consumers want more than just a functional buying platform, and the success of services such as "click and collect", which have proved successful for some retailers, also highlights how innovation can become the norm.

While successful retailers have been exploring ways to exploit tools such as data mining and algorithms to identify further sales opportunities, the RTT predicts that social networking and online communities will have just as important a future commercial role to play by providing quick, free research and insights into what consumers want and in creating better informed communities that drive popular preferences and sales.

Conclusion

Consumers now have the best of all worlds when it comes to retail. They can choose how they interact with retailers and brands and regularly pass through more than one channel before making a purchase. Hence differentiating and seeing retail as various separate channels is no longer particularly relevant.

As a result of changing consumer habits, successful retailers have moved – or are in the process of moving – away from separate internal systems and processes to create a business in which all are integrated into one seamless proposition for the customer and are harnessing the power of the internet into other non-customer facing aspects of their business.

Online is no longer an "alternative" to store-based or catalogue business and the pace of change will only get quicker as technology continues to advance. But although the operation of retailing activity continues to evolve the fundamentals of retailing have not and will not change.

Helen Dickinson of KPMG concludes: "The only constant is the need to change – those who understand the evolving customer wants and needs, what drives loyalty (and this may be different across the different channels), and have the ability to
rapidly innovate to make the necessary changes, will be the ones best placed to take advantage of the opportunities in the future."

Part II: In detail – RTT members' views on retail and the internet

John Dawson, Universities of Edinburgh & Stirling: "Internet offers sourcing and supply chain benefits for retailers"

Because web-based activity adds to and speeds up information in the market it is having – and will increasingly have – impact on the structure of retail. But whilst the (r)evolutionary impact has been small in terms of sales so far, it is retailer buying activity and supply chain integration where more change has been seen.

It was believed that web-based retailing would provide many opportunities for small firms to access extensive groups of potential customers. In reality this has not proven to be the case as start-up costs and maintenance of a transactional website have proved to be heavy overheads for small firms. The consequence is, with the exception of a few small firms and successful single channel internet retailers, it is existing mid-sized and large retailers which have become the main internet players leveraging their internet channel off their fixed store operations.

To a large extent the internet has reinforced established trends in the structure of the market in terms of selling to consumers. Most of the transactions undertaken through internet channels are marginal additional sales for existing store-based retailers with an effective cross subsidy from traditional store-based operations.

Where it has had structural impact on retail is in procurement and the supply chain, enabling firms to grow larger and faster, while reducing relative costs. Web-based IT applications have helped to reduce sourcing costs, create closer integration of supply chain activity and improve global sourcing. Accessing enough products to support the expanding store networks of big firms would not have been possible without web- based applications in sourcing and the supply chain. And, by providing suppliers with real time access to sales information these applications have allowed efficiency gains and cost reductions through the whole supply chain. This closer integration of activities has not only increased the competitiveness but has also reduced costs for suppliers and retailers.

It seems likely that over the next few years the internet and related advanced web applications will impact on retail structure with increased vigour to integrate the supply chain. The result will be the reinforcement of established patterns of evolutionary structural change in the sector.

Vicky Redwood, Capital Economics "Transactional websites provide opportunity for growth of internet, but economic factors create uncertainty"

Based on what limited data is available, the UK's online retail sector is quite well- advanced compared to other countries. In 2007, online retail sales in the US accounted for 3.2% of total retail sales, compared to 3.7% in the UK according to the latest ONS figures. On that basis, there is little obvious scope for "catch-up" with other countries.

However, only 23.3% of firms in the wholesale, retail, catering and travel sector sold online in 2008 (according to the ONS' survey of e-commerce 2008) so although some sectors (e.g. catering) are never going to see a large online presence, there is surely scope for this percentage to grow further. After all, according to the ONS, although 73.5% of firms in the overall economy have a website, only 15.2% use it to sell online.

The looming squeeze on households' finances – Capital Economics expects overall real household incomes to drop in 2010 – should increase the price sensitivity of consumers and perhaps boost online shopping. Online share of retail sales continued to grow at a quick pace during the recession and, at the very least, people should use the internet more to shop around.

Otherwise, the fiscal squeeze is unlikely to be particularly helpful for the sector. Consumers are not the only ones likely to see taxes rise after the election. If firms face higher tax bills (e.g. reduced investment allowances etc), they may have less money available to invest developing online capacity. Note too that the government has failed to get through its "broadband tax" (whereby tax on fixed phone lines would fund super-fast broadband to those who could not necessarily afford it) before parliament was dissolved.

The key question, though, is whether an increased online sector actually creates "new" spending in retail or simply shifts spending between channels. If people enjoy shopping online and it is becoming increasingly easy to buy retail goods on line (as
opposed to other consumer products), then it is plausible that retail will "win" a great share of overall consumer spending. However, as online shopping becomes more advanced and it becomes easier to buy non-retail consumer services, this effect could easily shift the other way.

Mark Teale, CB Richard Ellis "Influence of online retailing too small to impact prime retail property"

While internet spending has clearly diluted shop-based sales to some degree the impact on property – as far as there has been a measurable impact at all – has been uneven, with some trading locations and types of property more affected than others.

Verdict estimates that retail spending via the internet accounted for 7.3% of the national spending total in 2009, up from 6.4% in 2008. About 4.6% was non-food spending. If goods that are predominantly sold out of town (electricals, DIY & gardening, furniture and floorcoverings) are excluded, the non-food element captured by the internet falls to just 2.5%. If books and videos are excluded the total falls to just 1.7%. So, bearing in mind that a significant chunk of non-food internet sales, particularly clothing, is transfer spending from traditional catalogue shopping, the impact of the internet on the High Street has so far been too minor to have much impact on shop demand per se.

Some modest impact on out-of-town markets might have occurred though, but it is impossible to disentangle the effect of recessionary/competition factors from internet sales growth in out-of-town goods. Even if it were, there are other much bigger elephants in the room including shops development activity, non-food merchandising by grocery majors and economic conditions generally. As non-food merchandising by grocers has a direct impact on local market shares (the internet does not) it has tended to be grocers in tandem with development activity and economic conditions - not the internet - that have impacted on shop demand trends locally.

Multiple retailers only occupy about 25% of shop units nationally. Services traders also occupy a lot of High Street shops. The shakeout in banks, travel agencies and other services has played a significant part in weakening High Street rents. Indeed, occupancy demand on the services side appears to have been more affected by the internet than retailing. Since the onset of the 2007 credit crisis retailer branch numbers have actually increased while service outlets have declined.

So while some of the overall occupational and rental weakness apparent in shop markets must be attributable to the internet to some degree, the impact so far is very limited. The internet does not appear to be the great threat to bricks-and-mortar shopping that pundits once predicted.

Richard Lowe, Barclays Retail & Wholesale Sectors "Multi-channel retailing now a boardroom issue"

The internet has come a long way since the early days of the crackling dial-up to obtain a connection and its speeds allowing you often make a cup of tea whilst moving from page to page! – to the first major internet failure of boo.com.

This all seems a long time ago with fibre optic broadband and 40mb download now available, together with a number of great success stories in the pure-play space such as net a porter and ASOS.

Although the internet is a pure-play space to many, the consumer has become ever more demanding and retailers need to service this demand by having a multi or cross-channel strategy – otherwise a competitor will. It is important for businesses to understand their multi-channel strategy and what risks and rewards this may bring.

A retailer's brand is very important and their multi-channel strategy needs to be executed to the very highest standards or it could damage its brand. This brings with it a number of new challenging operational issues for a pure "bricks" retailer including fulfilment, be it from store or warehouse, as well as delivery and returns. This often necessitates IT upgrades, ensuring all systems (particularly those relating to stock) are fully linked-in across the multi-channel operation. This investment will require funding for the upgrade and there will operational risks with implementation.

It is important to understand the contribution the internet is making to the business overall. With both web to store and store to web transactions, the analysis of where a retailer's customer acquisitions come from can prove difficult. It is important to understand the internet Key Performance Indicators (KPIs) that are being monitored, together with the more traditional store-based metrics that are tracked and to ensure that the internet proposition is continually adapted to be another profit centre for the business and not a marketing overhead.

The internet, through either pure-play or multi-channel retailing, is and will continue to be an important agenda item in the boardroom. And it is not too late to adopt as can be seen from the recently-launched Selfridges transactional website and the eagerly- awaited Gap transactional site in the UK.

Tim Denison, Synovate "Internet becomes essential part of customer strategy"

Without doubt online retailing is maturing as a valid means of shopping. However the principal benefits we thought it would deliver to customers are not the ones that drive its success and popularity. It transpires that buying online is neither necessarily cheaper nor more convenient. Hidden costs (e.g. shipment and return) and poor home delivery service records have seen to this. Fundamentally it is not the price- led, transactional channel – the panacea of mission-oriented, functional shoppers – that many predicted.

However, it is certainly accelerating retail evolution. Website searching is at the core of the everyday way in which many of us carry out product research, price benchmarking, preference-setting and generally support our in-store purchasing. Consumers embrace the internet and increasingly want more from it, and this is being reflected in the latest swath of second-generation retail sites that include better functionality as well as social networking opportunities, offering so much potential power to shape opinion and further enfranchise shoppers. Primark, for example, has 60,000 fans on its Facebook fan pages.

More influential still, certainly to the younger generations, will be the contribution that mobile technology brings to shopping. One only has to consider the power of current applications such as Red Laser, enabling shoppers to scan barcodes via their mobile phone and then to price search online, to appreciate that the future of shopping will be very different from the past.

"Clicks" is becoming an increasingly integral part of many retailers' offering that supports, rather than competes, with "bricks". For retailers, the prescience is to integrate the e-commerce team into mainstream operations and build seamless efficiencies, rather than leave it as a peripheral, standalone activity. Online retailing provides a valuable means to expand into new territories and reach new customers without the need to invest heavily in multiple physical sites. One flagship store can now be enough to provide new markets with a sense of security and validity. The internet also offers retailers a cost-effective alternative means to dispose of excess stock cost through the likes of E-Bay's Outlet.

Issues about the size and scale of internet retailing have become largely irrelevant and academic; the channel is part of a retailer's complete platform that communicates and sells to its customers.

Nick Bubb, Arden Partners "City views Argos and John Lewis as multi-channel success stories"

The best and most trusted retail brands should be available to consumers across all distribution channels and the city thinks that the two non-food retailers that have exploited the multi-channel opportunity the most, in terms of generating good sales and sales growth, are Argos and John Lewis.

John Lewis regularly reports 40% sales growth each week in its online operation and must now exceed 20% of total sales, going way beyond the old adage that online sales should be equivalent to a chain's best store. In the core furniture and electricals areas, online sales must be over 20% of the total, with fashions now catching up fast. Interestingly, John Lewis's online success is far more to do with range excellence, ease of ordering and delivery expertise than the "click and collect at store" service that Argos helped pioneer.

Multi-channel has been a great success for Argos, generating over 40% of its sales in some form and enabling it to "get out of jail". But its recent challenges show that multi-channel expertise is a necessary but not sufficient reason for retail success, with evidence growing that its competitors are starting to catch up fast.

And the continuing success and range expansion of Amazon in the UK shows that the most efficient online specialists don't need physical stores to showcase or deliver their products.

In terms of food Tesco is inevitably huge, with 2009/10 sales (including Tesco Direct) probably just ahead of Amazon's estimated £2.25bn UK sales last year. And Tesco.com's profitability appears to be good too, demonstrating that for the best retailers "clicks" should be as profitable as "bricks".

Helen Dickinson, KPMG "Internet acts as catalyst of retail polarisation"

Consumers are more empowered and demanding than ever before: they are technically savvy, have a greater choice of products, of where and how to shop, more information on brands, on price, on everything; and yet they are increasingly time poor. They are regularly crossing retail channels, making fewer shopping trips and sharing thoughts and ideas as the power of social networking and online communities increase, meaning that we are seeing a fundamental shift in the way people shop and the consumer being increasingly complex for retailers to understand.

From the retailer's perspective, this environment presents a number of challenges: being clear about how they will continue to respond to this new and fast-moving environment; linking up different parts of the business that may have developed separately up until now (thus moving from an online offering to being truly multi- channel); ensuring return on the investment made in further developing their multi- channel offer (e.g. through effective use of customer information, identifying overseas expansion opportunities); and dealing with the challenges the "last 100 metres" presents.

The only constant is the need to change – those who understand what the customer wants and needs, what drives loyalty (and this may be different across the different channels), and have the ability to rapidly innovate to make the necessary changes will be the winners.

The implications for the retail market as a whole are that we will continue to see all retail market growth absorbed by non-store (but that this measure will be increasingly meaningless as the differentiation between the channels continues to blur). Like-for- like store sales growth will become harder to achieve and the format of "conventional" retail outlets will evolve with a greater polarisation between convenience on the one hand and category killers (where the consumer can browse in a physical environment) on the other – leaving those in between dwindling in numbers. The development of new technologies will continue to shape the future as the mobile phone and our televisions play an increasing role in our retail experience.

At least, the fundamentals of retail remain unchanged – understanding the consumer and giving them what they want will always be the winning strategy.

Part III: Facts & Figures on internet retailing

The RTT acknowledges the research from a number of sources:

Verdict

- According to Verdict, online retail grew at an estimated 13.3% in 2009 and is expected to grow by 10.9% in 2010.
- The total online market was worth an estimated £20.88bn in 2009 compared with £18.43bn in 2008. This represented 7.3% of the total UK retail market which was worth £285.72bn in 2009.

•"Pure-play" retailers were worth £6.63bn out of total online retail sales of £20.88bn in 2009.

•Verdict estimates that online will grow to be worth 8% of total retail sales in 2010, rising to 10% in 2013.

BRC-KPMG Retail Sales Monitor

•In the BRC-KPMG Retail Sales Monitor in March 2010, Non-Food Non-Store sales were reported to have grown 15.9% year-on-year compared with the previous year.

•However, this statistic includes mail order and telephone sales along with those made online and does not calculate the proportion of overall sales which it represents.

•In the Retail Sales Monitor commentary for March 2010 the BRC stated: "Non- store retailing is consistently achieving double-digit growth, and slowly taking a bigger share of overall retailing, but still only represents six percent of all retail sales."

•The research represents approximately 60% of UK retail sales value.

IMRG/Cap Gemini Sales Index

•According to the IMRG/Cap Gemini Sales Index, £4.5 billion was spent online in March 2010, an increase of 15% compared with the previous year.

•In a Special Anniversary edition of the research in May 2009, the index recorded growth of over 5,000% since the index launched in April 2000 with the value of sales rising from £0.8 billion in 2000 to an estimated £43.8 billion last year.

•IMRG reported that UK online retail grew 14% in 2009 meaning the market was worth £49.8bn.

•Online sales are expected to reach £56bn in 2010, an increase of 13%

•The research includes data from over 100 organisations, although some of these are from the travel and leisure sector rather than pure retail.

ONS

•The Office for National Statistics (ONS) produces the monthly Retail Sales Index from a sample of 5,000 businesses in Great Britain including all large retailers and a representative sample of smaller businesses. This covers approximately 95% of the retail sector in terms of turnover.

•ONS found that the online sales were worth 6.5% of total sales in 2009, worth £18.5bn.

•As part of this monthly research the ONS announced in February 2010 that it had improved its approach to collating data with a dedicated question regarding the proportion of sales made online.

•According to the ONS "the use of additional information based on real returns from businesses from March 2009 onwards means that there is a change in the level of the series at this point".

•In its Retail Sales Index, based on ONS experimental sales series, the non- seasonally adjusted average weekly value of internet retail sales in March 2010 was £372m, representing approximately 6.9% of total retail sales (excluding automotive fuel).

Date Published: 7/1/2010 5:20 PM

Note to Editors:

The RTT panellists rely on their depth of personal experience, sector knowledge and review an exhaustive bank of industry and government datasets including the following:

Members of the RTT are:

- Nick Bubb – Independent Retail Analyst
- Dr. Tim Denison – Ipsos Retail Performance
- Jonathan De Mello – Harper Dennis Hobbs
- Martin Hayward – Hayward Strategy and Futures
- Maureen Hinton – Conlumino
- James Knightley – ING
- Richard Lowe – Barclays Retail & Wholesale Sectors
- David McCorquodale – KPMG
- Martin Newman – Practicology
- Mike Watkins – Nielsen

The intellectual property within the RTT is jointly owned by KPMG (www.kpmg.co.uk) and Ipsos Retail Performance (www.ipsos-retailperformance.com).

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

The RTT was founded in February 2006. It now meets quarterly to provide authoritative 'thought leadership' on matters affecting the retail industry. All outputs are consensual and arrived at by simple majority vote and moderated discussion. Quotes are individually credited. The Retail Think Tank has been created because it is widely accepted that there are so many mixed messages from different data sources that it is difficult to establish with any certainty the true health and status of the sector. The aim of the RTT is to provide the authoritative, credible and most trusted window on what is really happening in retail and to develop thought leadership on the key areas influencing the future of retailing in the UK. Its executive members have been rigorously selected from non-aligned disciplines to highlight issues, propose solutions, learn from the past, signpost the road ahead and put retail into its rightful context within the British social/economic matrix.

Definitions: The RTT assesses the state of health of the UK retail sector by considering the factors which influence its three key drivers.

1. **Demand** – Demand for retail goods and services. From a retro-perspective, retail sales, volumes and prices are the primary indicators. When considering future prospects, economic factors such as interest rates, employment levels and house prices as well as others such as consumer confidence, footfall and preferences are used
2. **Margin** (Gross) – Sales less cost of sales; the buying margin less markdowns and shrinkage. Cost of sales include product purchase costs, associated costs of indirect taxes and duty and discounts
3. **Costs** – All other costs associated with the retail operations, including freight and logistics, marketing, property and people

The Retail Health Index – how is it assessed?

Every quarter each member of the RTT makes quantitative assessments of the impact on retail health of demand, margins and costs for the quarter just completed and a forecast of the quarter ahead. These scores are submitted individually, collated and aggregated in time for the RTT's quarterly meeting. The individual judgements on what to score are ultimately a combination of objective and subjective ones, drawing upon a wide range of hard datasets and softer qualitative material available to each member. The framework follows the example of The Bank of England Agents' scoring system on economic intelligence provided to the Monetary Policy Committee.

The aggregate scores are combined to form the **Retail Health Index ('RHI')** which is reviewed at that meeting and occasionally revised after debate if members feel it appropriate. The RHI tracks quarter on quarter changes in the health of the UK retail sector and as such provides a useful and unique measured indicator of retail health. The index 'base' of 100 was set on 1 April 2006. Each quarter, it assesses whether the state of health has improved or deteriorated since the previous quarter. An improvement will lead to a higher RHI score than that recorded in the previous quarter, and with a deterioration leading to a lower score. The larger the index movement, the more marked the shift in the state of health. The RHI has two main benefits. Firstly, it aims to quantify the knowledge of the RTT members in a systematic way. Secondly, it assesses the overall state of health of the UK retail sector for which there is no official data.

For media enquiries please contact:

info@retailthinktank.co.uk

Max Bevis, Tank PR

Tel: +44 (0)1159 589 840

Email: max@tankpr.co.uk