



Retail 2023: Trends affecting retail strategy over the next decade

Welcome to this RBS thought leadership series – a new set of publications, which aim to offer in-depth analysis of current and future trends and issues affecting retailers. The series will draw on the expertise of several contributors – from the RBS retail sector team to industry analysts and high-profile retail chief executives – to ensure we bring you the very latest thinking on the topic.

In this, the first of our reports, we focus on the opportunities for growth within the UK retail sector over the next ten years and look at the balance of short and long-term investments retailers should be considering to best position them for the future.

Featured in this report are my colleagues Ben Williams, Director for Retail and Wholesale at RBS, who has extensive experience in the sector, and Hamish Smith, Senior Economic Advisor at RBS. Hamish explains more about the economics of recovery and the factors that will influence retailer behaviour over the next ten years.

And, in a report that covers growth, there is perhaps no better retailer to speak to than Julian Dunkerton, chief executive of fashion retailer Supergroup. He has overseen huge growth over the last ten years since the Supergroup brand was first launched in 2003. It is now a business with more than 300 stores selling in over 100 countries, and is still growing fast.

And finally we draw on the expertise of independent industry analyst and retail consultant Nick Bubb – a specialist in the retail sector for more than 35 years.



Neil Parry
Head of Consumer Industries
UK Sector Corporate Coverage
Corporate & Institutional Banking
RBS



What will the market look like in 2023?

Not only do retailers have to ensure they keep up to date with the latest channels customers are using to shop, but also changes to the market itself. Only once all these rapid changes have been assessed can retailers begin to establish a growth strategy for the next decade.

From the increasing dominance of ecommerce to, in recent years, an explosion in mobile as a major channel to market, retailers have had to work hard to keep up with the pace of change. That challenge is unlikely to get any easier over the next ten years as retailers continue to face tough economic conditions.

In this chapter, we look at how consumer confidence will affect the market, why retailers will need to adapt to changing demands and some of the key areas in which our experts predict businesses will need to focus to achieve growth.

Consumer confidence will remain restrained

Consumer confidence is likely to maintain its current levels as shoppers seem to have learned their lessons from overspending, according to Hamish Smith, Senior Economic Advisor at RBS. "The severity of the financial crisis and high levels of household debt mean consumers are likely to remain more cautious, even as the economy recovers," he says.

"Modest consumer spending growth is now forecast. We expect growth in consumer spending to average around 2 per cent per year through to 2018" adds Smith, "though, this is well below it's 3.5 per cent average in the years leading up to the crisis."

Retailers are quietly confident too. In a recent RBS/BDO survey of retail FDs almost three quarters (74 per cent) said they believed consumer spending would grow gradually over the next five years.

Like the UK economy, consumer spending fell significantly in the wake of the financial crisis and has been slow to recover as individuals and households struggle with high unemployment, weak wage growth and relatively high inflation. As the UK economy recovers, consumer spending is also expected to gradually improve as the squeeze on incomes and inflation eases. Consumer spending is expected to grow around 1.5% this year, up from 1.2% in 2012, though it remains well below the historical average. Rising employment and improving real wages, albeit slowly, means more people being able to spend a slightly higher income which should be positive for retail sales.





Those aged 50+ represent more than one-third of the UK population. This share is expected to continue rising, making this demographic increasingly important for sales volumes ”

Hamish Smith, RBS Senior Economic Advisor

Adoption of new channels is key

With ever faster broadband connections such as 4G already a reality, mobile tablet devices will play an increasingly pivotal role in retail with Verdict Consulting predicting that by 2023 more sales will be made via mobile than via desktop PCs.

In addition, what is being termed as couch commerce – selling through the connected TV – could add yet another channel to the mix. Retailers must address all these new channels because those that don't will disappear, according to Nick Bubb, retail analyst and member of the KPMG/Ipsos Retail Think Tank.

Retaining relevance

As retailers adapt their channels they must ensure their offering continues to remain relevant to the changing market too, as demographics shift towards an older customer. “Those aged 50+ represent more than one-third of the UK population. This share is expected to continue rising, making this demographic increasingly important for sales volumes,” says Smith, who points out the share of 16 to 24 year-olds is forecast to fall.

A polarisation of incomes will also impact the balance of retail growth. “With a high proportion of workers on low incomes and a small concentration of very high earners, it is important for retailers to really understand who their audience is,” says Smith.

Restructure to survive

With restricted incomes, online competition and rising costs continuing to squeeze retailers into 2023 a continued re-evaluation of store portfolios is inevitable. Retailers who have concentrated on physical expansion previously are being forced to rethink such strategies and this is likely to continue.

A recent study by the Centre for Retail Research warned that 62,000 shops could fold in the next five years as online shopping surges to account for 22 per cent of retail by 2018. The report estimated that UK retail store numbers could also fall by 22 per cent – doubling the current store vacancy rate to 24 per cent if no action is taken.

A changing retail mix

In the last two years the mix of stores has changed with value shops up by 12.4 per cent, independent convenience stores by 17 per cent and health and beauty salons up 10.4 per cent suggesting the high street mix will continue to radically change into 2023 too. Chain stores are already down by 5 per cent and as a result there is likely to be a further divide of prime and secondary locations by 2023 and a continued rethinking of how retailers use their stores.



62,000 shops could fold in the next five years with online shopping accounting for 22% of retail by 2018.

Source: Centre for Retail Research, 2013.

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Hamish Smith, RBS Senior Economic Advisor

A complementary experience

As this trend continues to bed in, retailers have to ensure their portfolios match the requirements of their customers. For many retailers, showrooms supplemented by click and collect services will increasingly be the norm, as will the emerging trend of using stores to fulfil orders as well as to physically sell. This requires retailers move to a real time, single view of their stock that will test many retailers’ IT systems to the limit but that must be done to gain competitive advantage. “The ‘showroom model’ feels like a natural next step for many retailers,” says Ben Williams, Director for Retail and Wholesale at RBS.

Right locations remain important

Bubb believes shoppers will still want to shop in the right locations however. “High street stores still have a great future in key locations which intermingle the dominant flagship stores with the modern leisure and catering facilities that consumers now look for,” he says.

But Julian Dunkerton, CEO of Supergroup, says Government and councils must work together with retailers to ensure a more coherent, planned retail offering in towns. “The biggest issue is where towns and shopping centres haven’t planned for what a shopper wants,” he says. He believes towns need to be zoned with rates and red tape cut to enable growth.

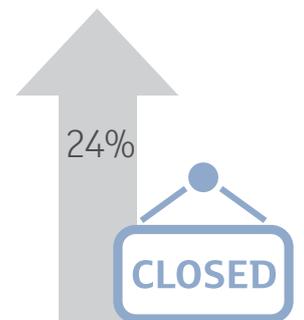
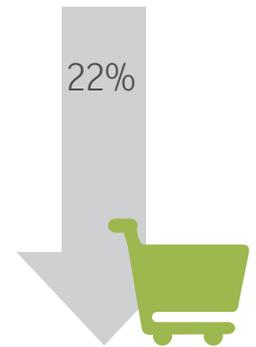
Instore technology to the fore

The increasingly important role of technology instore, as well as online, will also help ensure physical shops are part of future growth. Dunkerton believes that although technology will play a pivotal role in the future, the basics for retailers will remain the same: “Most people still want the experience of going into a shop and picking up an item. People aren’t going into a store to touch a screen, they are going into a store and saying ‘I love that’ and ‘have you got it in a different colour’ and if they haven’t, then the instore technology rolls in to assist them,” he says.

“It’s about the integration of technology into every store as a customer assistance tool. People have made the mistake of just dumping screens in store, but it’s about engaging and assisting the consumer,” Dunkerton adds.

Key takeouts

- Growth will remain modest as consumer spending begins to recover
- Online will account for up to half of retailers’ businesses in the next five years alone
- Technology will continue to be key with instore technology becoming a useful, integrated selling tool rather than a novelty gimmick
- Consumers will continue to become all powerful, retailers must respond to that
- Clever retailers will maintain a relevance for their stores that will keep customers coming back for more



UK retail store numbers could fall by 22%, doubling the current store vacancy rate to 24% if no action is taken.

Source: Centre for Retail Research, 2013.



Where will growth come from?

Retailers that have strengthened their internal processes, systems and departments to better weather the recession are likely to see the biggest growth. Those that embrace the opportunities that internationalisation and better use of technology offer should also see positive results.

While double-digit growth figures may be a thing of the pre-recession past, there are still opportunities for retailers to increase their figures. This will come not only from the predicted pick-up in consumer spending, but from new markets.

However, retailers will have to work hard to persuade customers to spend. "As incomes rise, along with a growing population, this will provide opportunities for growth in the domestic retail market. But in a weak economic environment, this won't be easy and retailers will continue to face more cautious consumer behaviour," says Smith.

Here, we look in some detail at how growth will be generated – through greater efficiency, improving technology and new infrastructure as retailers refine their proposition over the next decade.

Continued cost focus

The scrutiny on costs will have to continue. "Retailers are more aware of the need to continuously assess their business strategies, making sure they are correctly positioned to take advantage of both online and offline sales while assessing cost structures," says Smith.

The role of biometrics

Many believe retailers' increasing adoption of instore technology – from systems that automatically check you in instore to improve customer service, to a till free shopping experience in the short term, to services such as payment via biometrics in the longer term – will also drive sales.

Biometric systems such as fingerprint readers are already an option for retailers wanting to better secure their POS systems – a UK based company recently came up with a voice biometrics solution to secure m-commerce transactions using voicekeys to verify an individual's identity.

As the technology is increasingly adopted in everyday life – the market is set to be worth \$20 billion globally by 2018 – it's inevitable it will creep into retail too with payments and access to customer data its most obvious use.

Indeed, according to research published by WorldPay in June, biometrics could be a big part of retailing in the future with nearly half (49 per cent) of shoppers saying they would like to pay for purchases in the future using fingerprint, palm or iris scanners.

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Julian Dunkerton,
CEO, Supergroup

Assisted selling

In the shorter term, retailers will make more use of the tablet systems they have rolled out instore. Though the intention is to use these as a selling tool there is currently more to be done to educate staff and customers as to their merits, allowing both to better understand the potential of being able to access specific customer buying habits to upsell. This single customer view is vital to increasing sales.

Transparent stock list

Related to this is a move to a single stock file of products where all the data about the location of goods throughout the business – whether in stores or warehouse – is viewable in one place. This allows retailers to move stock where the demand is. So far only a handful of fleet-footed retailers have managed it, but by 2023 this will be the norm – resulting in lower inventory costs, better margins and improved customer satisfaction.

“Very shortly there will be no such thing as an item out of stock when you go into a store because the whole stock file will be accessible to the consumer. For a retailer that is moving with the times it’s a very exciting place to be,” says Dunkerton. “We could gain sales we’ve been losing for decades. How many times have shoppers been frustrated by going into a store, and not finding their size and not knowing when it will come in?” he points out.

Going international

Internationalisation will also play a more central role in driving growth over the next decade – whether through physical stores or via a broadened online presence. “As the world becomes more connected via the internet, retailers have the ability to explore growth opportunities overseas without necessarily having a physical presence. The positive association of the UK ‘brand’ allows our retailers to capitalise on the growing prosperity of developing and emerging markets,” says Williams.

Indeed, half of the respondents for the RBS/ BDO survey said they saw their future prime growth coming from overseas sales and all of those questioned were at least considering international expansion.

Vertical control

At Supergroup, Dunkerton is clear on where his growth will come from over the next 10 years. “For us it’s about international; about integration of internet into store, about increasing the end product design capabilities and about having complete control over a vertical process,” he says.

This vertical control of the entire supply chain, is a model more retailers would be wise to implement, it seems. “We are in complete control from design and sourcing and factories through to the end consumer. That means we sit in a much stronger position than a lot of people,” says Dunkerton.

A clear proposition

Standing out from the crowd will be even more key to delivering growth in the future marketplace, meaning that retailers will have to continue to clearly define both their product offers and their raison d’etre. “It’s all about having the right product and being very clear what your position is in the market,” says Williams. “It is about ensuring you are not a homogenous me-too product; that you are not reliant on a trend or fashion that could be short-lived, that you are adapting to what your customers want.

“Underpinning this, there has got to be a first class service proposition in terms of sales and route to market,” adds Williams. Get those points right and growth will come.

Key takeouts

- Retailers will have to embattle entrenched customer behaviour despite a market recovery
- A constant reassessment of business strategy is key to maintaining growth
- Technology and internationalisation both offer huge opportunities for boosting sales but both will require investment
- The opportunities offered by having a single view of stock are significant



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CEO, Supergroup



Inward or outward investment?

Understanding how and where to invest will be crucial to managing growth in the future with outward expansion needing to be supported by strong core foundations. Retailers have to assess the right balance of inward and outward investment for their business.

In order to achieve growth, retailers need to be willing to invest in their business, but investing in the right areas is crucial. Supergroup's growth has been despite the economic downturn and in one of the most competitive retail sectors there is. But, while the focus has, in the past, been on outward expansion both at home and overseas to get the scale required, the recession, and the change in the requirements for stores by retailers, has forced a rethink of strategy.

As confidence does pick up it's natural that retailers will think about investment once more, requiring them to choose the correct balance between inward or outward expenditure. Here, we examine the pros and cons of both while looking at how the most successful businesses, including Supergroup, have achieved the correct balance to support sustainable growth.

Outward investment

With a saturation of the domestic market and a push for internationalisation it can be tempting to focus on outward investment; however retailers must ensure this strategy is right for their business. "It is important to determine whether or not the existing business model is appropriate for a different market where consumers have different consumption patterns and shopping habits," says Smith.

"Outward investment provides an opportunity to expand a business in markets where growth is higher and market saturation lower. But knowing the foreign market is crucial and finding qualified, reliable business partners who know the market can be difficult," he says.

Williams says it is easy to be seduced by the opportunity. "The world is your oyster – you have a huge market to go for and in a lot of areas it's a new untapped market but it can be high risk and unproven and the payback can take time as you get up to scale," he says.

Inward investment

In contrast, inward investment allows retailers to ensure their business is as fit for purpose as it can be. It allows a strengthening of the support infrastructure – from technology to people to buildings – around which the company is based.

"Inward investment sets you up to increase and support your growth and ensure you are able to adapt to all the things that the market throws at you, but the con is that you don't see that immediate upturn in sales and margin as a result," says Williams. Though this long-term ROI is acceptable for some companies, for others more answerable to their stakeholders it may not be the right choice.



It is important to determine whether or not the existing business model is appropriate for a different market where consumers have different consumption patterns and shopping habits ”

Hamish Smith, Senior Economic Advisor, RBS



Inward or outward investment depends on a number of factors – have you grown significantly over the last 10-15 years and need to get your house in order, or are you at the start of a growth cycle and therefore there is a lot of growth to go for? Are stakeholders comfortable with medium term return or are they driving for shorter term benefits? ”

Ben Williams, Director for Retail and Wholesale at RBS

Timing the investment

To decide whether to focus more on inward or outward investment, retailers have to assess where they are in their growth cycles. “Have you grown significantly over the last 10-15 years and need to get your house in order, or are you at the start of a growth cycle and therefore there is a lot of growth to go for?” asks Williams. “Are stakeholders comfortable with medium term return or are they driving for shorter term benefits?”

For most businesses the best option is a balance of both inward and outward investment to seize on the opportunities for growth because of their complementary nature. Expand outwardly without strengthening internally and you are setting yourself up for collapse.

“Five years ago it was all about outward investment to roll out new stores and worry about the infrastructure later,” says Williams. “But retailers have learned harsh lessons because many have sites and store networks that are creaking from the rapid expansion and ever changing demands they have placed on them instead of ensuring that their infrastructure [from IT to warehousing and logistics] is fit for purpose,” he says.

Supergroup’s experience

At Supergroup the firm’s rapid expansion did lead to a faltering in processes – when logistical challenges caused by its growth affected profits in 2011. Supergroup was expanding so quickly that its infrastructure could not keep up, which in turn meant the business was not achieving the profit levels it should have been. Since then Dunkerton says the company has ensured a greater focus than ever on both inward and outward investment in its drive to succeed and grow.

This has included a planned move to a new 500,000 sq ft warehouse in Burton on Trent next year, as well as strengthening of management that in the last two years alone have included a new COO, FD, head of logistics, an international chief and a head of retail. All this is vital for growth according to Dunkerton: “The stronger the team you surround yourself by, the stronger your growth will be. We will continue to make key appointments because that investment is better than any other,” he says.

Dual approach

Dunkerton’s dual-pronged approach is applauded by Bubb: “The priority for capital investment for most ‘bricks and mortar’ retailers is now in web platforms, website functionality, distribution warehouses and parcel delivery and collection networks,” he explains. “However, retailers will still need to keep investing in keeping their flagship stores up to date, making sure they are exciting and attractive places to shop in.”

In an uncertain market that is, at least in the future, showing signs of growth, making the right investment decision is vital.



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Julian Dunkerton, CEO Supergroup

Key takeouts

- Retailers need to ensure their house is in order to prepare for growth
- The two big growth opportunities of technology and internationalisation both require investment to work
- A combination of inward and outward investment best places retailers for the future and is proven by the success of Supergroup

The Consumer Industries team

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Contacts to help you achieve your business aspirations

LONDON

Neil Parry

Head of Consumer Industries,
UK Sector Corporate Coverage,
Corporate & Institutional Banking
T: 020 7672 1256
E: neil.parry@rbs.co.uk

Ben Williams

Director, Consumer Industries,
UK Sector Coverage,
Corporate & Institutional Banking
T: 020 7672 0998
E: ben.williams@rbs.co.uk

Matt Campbell

Retail Director,
Consumer Industries,
T: 020 7672 0798
E: matthew.campbell@rbs.co.uk

Clive Hallam

Managing Director, Retail,
Consumer Industries,
Large Corporate Coverage
T: 020 7672 3944
E: clive.hallam@rbs.com

SOUTH

Daryl Gayler

Managing Director,
Corporate & Institutional Banking, South
T: 01293 643 020
E: daryl.gayler@rbs.co.uk

MIDLANDS

Andrew Harrison

Managing Director,
Corporate & Institutional Banking,
Midlands & East of England
T: 0121 262 7410
E: andrew.harrison@rbs.co.uk

NORTH

Richard Topliss

Managing Director,
Corporate & Institutional Banking, North
T: 0161 862 4070
E: richard.topliss@rbs.co.uk

SCOTLAND

Eddie Rintoul

Managing Director,
Corporate & Institutional Banking, Scotland
T: 0141 224 0621
E: eddie.rintoul@rbs.co.uk

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90377340 November 2013