

BRC RETAIL EMPLOYMENT QUARTERLY

QUARTER 3 2019

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- ONLINE OUTLETS ARE BOOMING, BUT SO ARE HOME-IMPROVEMENT STORES
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OCTOBER 2019

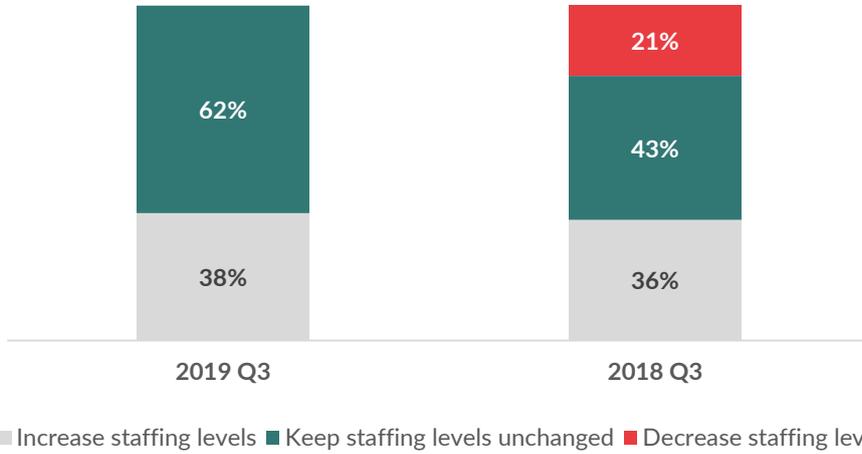


RETAIL MARKET CONDITIONS Q3 2019

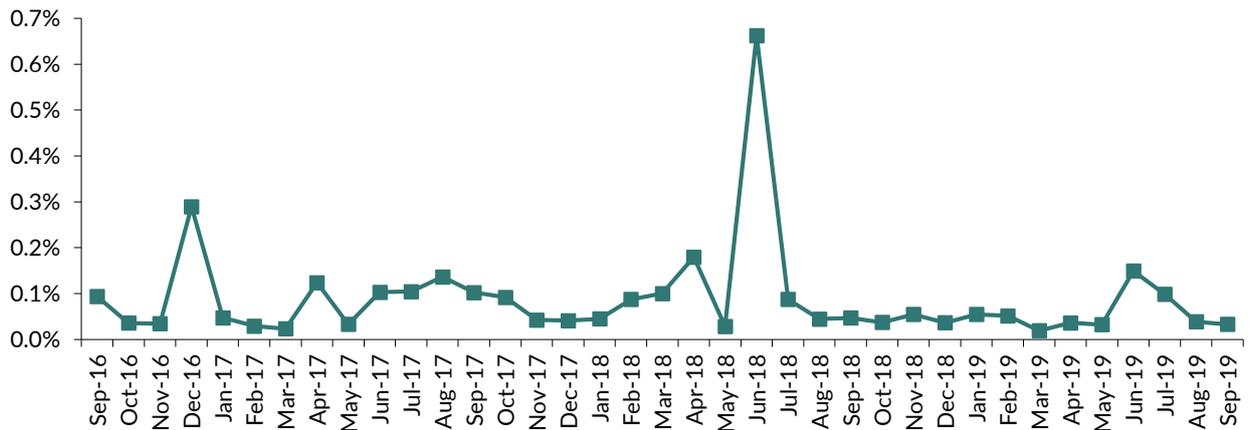
- The structural change in retail continues to unfold, with both employees and hours falling over Q3 2019 compared to a year ago. This is the 15th consecutive quarter of year-on-year decline in the retail workforce. This is also in stark contrast to the UK labour market as a whole where employment increased by 0.3 percentage points on the year, reaching 75.9% over the three months to August 2019, just below the record-high employment rate of 76.1%.
- In Q3, the total number of retail employees fell by 2.8% year-on-year. Full-time employment saw a decrease of 4.5% compared to the decrease in part-time employees of 1.5%. Total hours fell by 2.6%, with full-time hours also seeing a greater reduction of 3.2% than part-time hours reduction of 2.0%. This represents a slight acceleration in the fall in employment, the number of employees falling by 2.3% in Q2 and total hours falling by 2.5%.
- Examining individual performances within the sample, we find:
 - The median value for the change in total hours is -1.9%, but values range between -29.5% and 7.4% amongst all retailers in the sample.
 - The median value for the change in the number of employees is -2.7%, but values range between -31.9% and 7.2%.
- Stores growth continued its slowdown in Q3, when the number of stores increased by 0.7%, compared to 1.7% in Q2 and 2.3% in Q1. Within the sample, the median value for store growth stands at 0.0%, with values ranging from -12.6% and 6.9% amongst all retailers. Both food and non-food retailers added stores, but the primary source of growth is small-format stores.
- Our sample reflects the diversity of retail players in the market. Some of our respondents are retailers that felt the brunt of the structural change and underwent restructuring last year, some are responding to present market conditions, while others have unlocked the key to succeeding in the current environment. As such, a rise in small-format and new store openings from retailers successfully riding the wave of change are offsetting store closures brought on by the industry transformation.
- 62% of retailers indicated plans to increase staff in the coming quarter, above the comparable figure of 43% last year, and 38% seek to keep their staff numbers unchanged (in line with 36% last year). Unsurprisingly, as Black Friday and Christmas, the peak trading periods of the year are upon us, retailers are increasing their workforce. However, this pick-up in staffing is temporary, to help retailers to deal with increased demand during the Golden Quarter.
- We expect the long-term decline in employment to continue due to the combined effect of the ongoing structural change, weak consumer spending and high competition within the industry.



EMPLOYMENT INTENTIONS FOR NEXT QUARTER



REDUNDANCY RATE



RETAIL STORE GROWTH



ONLINE OUTLETS ARE BOOMING, BUT SO ARE HOME-IMPROVEMENT STORES

There are 4,000 fewer stores in 2019 in the UK than they were in 2015, and 20,000 more online outlets. Changing shopping habits have unleashed a wave of structural changes in retail, as the above numbers testify.

Unsurprisingly, as we shop more online, online retail outlets, in particular “micro” ones are flourishing. On the flip side, stores are closing, with the impact of decreased footfall compounded by the significant increases in rents, business rates and labour costs in the last several years.

The industry is still in the midst of a transformation. Over the last four years, the year-on-year decline in stores remained relatively constant, going from 0.5% in 2016 to 0.3% 2019. Internet outlets, on the other hands, have been growing by around 20% in each of the last three years, proof that the industry change is continuing at pace (Table 1).

TABLE 1: NUMBER AND GROWTH OF RETAIL LOCAL UNITS BY CHANNEL AND YEAR

YEAR	MULTICHANNEL			ONLINE ONLY			ALL RETAILERS		
	No of local units	Change on the previous year	Growth on the previous year	No of local units	Change on the previous year	Growth on the previous year	No of local units	Change on the previous year	Growth on the previous year
2015	263,040			27,250			290,290		
2016	261,710	-1,330	-0.5%	28,110	860	3.2%	289,820	-470	-0.2%
2017	260,630	-1,080	-0.4%	33,685	5,575	19.8%	294,315	4,495	1.6%
2018	259,900	-730	-0.3%	39,500	5,815	17.3%	299,400	5,085	1.7%
2019	259,010	-890	-0.3%	47,620	8,120	20.6%	306,630	7,230	2.4%

Source: ONS, NOMIS Business Counts.

But, these changes have different impacts on businesses of different sizes or different retail sectors.

“Micro” online outlets have boomed, their number rising by a sheer 20,330 (or 80%) between 2015 and 2019. This is not surprising. Online retailing is an attractive business opportunity, with relatively low entry costs, and potential for great returns. As such, it’s only natural this market is seeing many entrants, and that they are of “micro” size (employing 9 or fewer employees).

In contrast, multichannel retailers of all sizes are seeing their outlets decrease, with the exception of those employing between 10 and 49 employees. This is in line with our BRC findings amongst retailers contributing to this monitor, whereby small-format stores have seen a pick-up in recent years (Table 2).

An examination by subsectors reveals that home-improvement stores are thriving, while many clothing and footwear stores are closing down (Table 3). The retail sector seeing the highest gain in store numbers over 2015-2019 is the hardware, home-improvement one, with 1,000 new stores. Any home-improvement activity requires some knowledge, and the easiest way to obtain it is by going to the store. This kind of prerequisite service, which a customer can easily and readily obtain in store rather than going through a lengthy internet search, helps insulate these retailers from the threat of online retail.

The second largest store gain was achieved by supermarkets, which have 925 more outlets now than in 2015. This is to a large extent due to the discounters’ expansion.

At the opposite end of the spectrum, clothing and footwear have seen a significant number of stores disappearing (2,140), as buying such articles online does not require any service. This means entry costs for such online businesses are very low, hence attracting many of entrants.

Specialised stores selling meats, fruits and vegetables, bread or fish have all declined between 2015 and 2019. This, however, has been mainly driven by the increasing influence of large supermarket chains, and much less by the substitution from the online sector. This is an interesting shift, as many of the local specialised stores do provide significantly more service than supermarkets do, such as butcher shops, for instance. But it appears that for these kind of products, the “convenience” factor (of getting them with the rest of groceries from a supermarket in one go) weighs more than the benefit of service.

Some other interesting patterns on societal or behavioural changes emerge from examining the change in retail stores by subsectors:

- Opticians, dispensing chemists, orthopaedic goods, and hearing aids outlets are rising. As the UK population is aging, it is likely to need more subscriptions filled or more medical devices.
- The number of stalls and markets of food and beverages increased by 160 units (or 15%) over the last four years, reflecting the growing appetite for street food.
- Stores selling computer games and gaming hardware and peripherals are also rising. Video games as a form of entertainment gained significant ground in the recent years, as evidenced by very strong growth of the industry in the UK. This is interesting not just from the aspect of a new leisure preference within the larger society, but because both stores and online platforms are thriving in parallel.

What’s next? It’s likely store numbers will continue to drop. Currently, 75% of all sales are done in stores, and online penetration is set to increase further. However, shops are here to stay. Proof comes from the fact that a strong multichannel offer seems to be the key to success for many retailers, with some investing heavily in both stores and online platforms and logistics, while others opting for business alliances giving them access to their partners’ mediums. In addition, many shoppers enjoy the social aspect of shopping, and that desire cannot be satisfied in front of a screen in the privacy of one’s home. The retail stores most likely to ride the transformation wave successfully are the ones in niche sectors where substantial service is provided and the ones related to the medical field.

TABLE 2: NUMBER AND GROWTH OF RETAIL LOCAL UNITS BY CHANNEL AND SIZE

		2015	2019	Change between 2015 and 2019	Growth between 2015 and 2019
ALL SIZE RETAILERS	Multichannel	263,070	259,025	-4,045	-1.5%
	Online only	27,250	47,620	20,370	74.8%
	All retailers	290,320	306,645	16,325	5.6%
MICRO (0 TO 9 EMPLOYEES)	Multichannel	202,570	197,085	-5,485	-3%
	Online only	25,570	45,900	20,330	80%
	All retailers	228,140	242,985	14,845	7%
SMALL (10 TO 49 EMPLOYEES)	Multichannel	48,470	50,425	1,955	4%
	Online only	1,460	1,455	-5	0%
	All retailers	49,930	51,880	1,950	4%
MEDIUM-SIZED (50 TO 249 EMPLOYEES)	Multichannel	5,950	5,890	-60	-1%
	Online only	170	190	20	12%
	All retailers	6,120	6,080	-40	-1%
LARGE (250+ EMPLOYEES)	Multichannel	1,275	1,125	-150	-12%
	Online only	35	50	15	43%
	All retailers	1,310	1,175	-135	-10%

Source: ONS, NOMIS Business Counts.

TABLE 3: NUMBER AND GROWTH OF RETAIL LOCAL UNITS BY RETAIL SUBSECTOR (5-DIGIT SIC CODE)

	2015	2019	Change between 2015 and 2019	Growth between 2015 and 2019
MULTICHANNEL RETAILERS				
47520 : Retail sale of hardware, paints and glass in specialised stores	8,580	9,580	1,000	12%
47110 : Retail sale in non-specialised stores with food, beverages or tobacco predominating	47,270	48,195	925	2%
47750 : Retail sale of cosmetic and toilet articles in specialised stores	4,215	4,950	735	17%
47730 : Dispensing chemist in specialised stores	11,620	12,090	470	4%
47799 : Retail sale of second-hand goods (other than antiques) in stores	10,985	11,290	305	3%
47782 : Retail sale by opticians	7,220	7,510	290	4%
47510 : Retail sale of textiles in specialised stores	2,260	2,420	160	7%
47810 : Retail sale via stalls and markets of food, beverages and tobacco products	1,035	1,195	160	15%
47429 : Retail sale of telecommunications equipment (other than mobile telephones), in specialised stores	190	340	150	79%
47781 : Retail sale in commercial art galleries	1,540	1,680	140	9%
47190 : Other retail sale in non-specialised stores	13,630	13,765	135	1%
47650 : Retail sale of games and toys in specialised stores	1,445	1,580	135	9%
47749 : Retail sale of medical and orthopaedic goods (other than hearing aids), in specialised stores	1,075	1,205	130	12%
47610 : Retail sale of books in specialised stores	1,995	2,115	120	6%
47741 : Retail sale of hearing aids in specialised stores	665	760	95	14%
47530 : Retail sale of carpets, rugs, wall and floor coverings in specialised stores	4,640	4,730	90	2%
47820 : Retail sale via stalls and markets of textiles, clothing and footwear	315	390	75	24%
47640 : Retail sale of sporting equipment in specialised stores	7,875	7,930	55	1%
47770 : Retail sale of watches and jewellery in specialised stores	6,960	7,005	45	1%
47591 : Retail sale of musical instruments and scores in specialised stores	600	635	35	6%
47250 : Retail sale of beverages in specialised stores	5,540	5,510	-30	-1%
47260 : Retail sale of tobacco products in specialised stores	1,985	1,940	-45	-2%
47230 : Retail sale of fish, crustaceans and molluscs in specialised stores	1,255	1,205	-50	-4%
47791 : Retail sale of antiques including antique books, in stores	1,775	1,725	-50	-3%
47760 : Retail sale of flowers, plants, seeds, fertilisers, pet animals and pet food in specialised stores	8,125	8,060	-65	-1%
47630 : Retail sale of music and video recordings in specialised stores	680	610	-70	-10%
47890 : Retail sale via stalls and markets of other goods	925	830	-95	-10%
47240 : Retail sale of bread, cakes, flour confectionery and sugar confectionery in specialised stores	7,750	7,650	-100	-1%
47430 : Retail sale of audio and video equipment in specialised stores	900	800	-100	-11%
47722 : Retail sale of leather goods in specialised stores	1,285	1,105	-180	-14%
47540 : Retail sale of electrical household appliances in specialised stores	4,045	3,830	-215	-5%
47410 : Retail sale of computers, peripheral units and software in specialised stores	2,145	1,925	-220	-10%
47290 : Other retail sale of food in specialised stores	5,780	5,480	-300	-5%
47220 : Retail sale of meat and meat products in specialised stores	6,775	6,305	-470	-7%
47599 : Retail sale of furniture, lighting equipment and other household articles in specialised stores	13,880	13,340	-540	-4%
47421 : Retail sale of mobile telephones in specialised stores	3,645	3,070	-575	-16%
47620 : Retail sale of newspapers and stationery in specialised stores	6,035	5,405	-630	-10%
47210 : Retail sale of fruit and vegetables in specialised stores	3,400	2,690	-710	-21%
47721 : Retail sale of footwear in specialised stores	5,410	4,695	-715	-13%
47710 : Retail sale of clothing in specialised stores	25,465	24,040	-1,425	-6%
47789 : Other retail sale of new goods in specialised stores	17,480	15,155	-2,325	-13%
Online only retailers				
47990 : Other retail sale not in stores, stalls or markets	8,345	8,205	-140	-2%
47910 : Retail sale via mail order houses or via Internet	18,905	39,415	20,510	108%

Source: ONS, NOMIS Business Counts.

Note: The above analysis and the data used refer to the ONS "local units." A local unit refers to any outlet of a business. For instance, for a multichannel retailer, both its stores and warehouses would be individually counted. It is noteworthy that the physical stores constitute the large majority of local units for multichannel retailers.

FUTURE POLICY FOR APPRENTICESHIPS

As the UK's largest private sector employer, the retail industry is committed to creating jobs that are higher skilled, with clear progression routes that lead to higher wages and apprenticeships are one important way to achieve this. Upskilling and life-long learning will play a central part in the careers of the future in the industry. While greater use of technology and automation will reduce the number of traditional retailing jobs, the changes they bring also present an opportunity for the current workforce to retrain and for the industry to play a central role in training new employees in the future.

However, the current system is not working. The Secretary of State recently stated that further education and skills will be a big priority for the Government, however latest figures show a 24% decrease in the number of apprenticeship starts on the previous year overall and 27% reduction in starts across retail and wholesale.

As it stands, the biggest challenge facing retailers is that the levy is too inflexible to enable them to make a step change in the training and development of their people. The retail industry's levy contribution is significant; we estimate it to be £180m per year. The Government needs to act now to create greater flexibility in how levy funds can be spent, for example, businesses should be able to use levy funds for any form of accredited training for all levels and age groups to suit their skills needs.

Another challenge in the way the current system is set up is the 80/20 rule, whereby apprentices are required to spend 80 per cent of their time carrying out on the job training and 20 per cent learning. The 20 per cent absent rate is having a significant impact on business costs as retailers are having to employ extra staff to backfill these roles, in effect requiring a 20 per cent premium to be paid for any course. This could be alleviated by adopting a more flexible approach by moving towards blended learning, meaning that time dedicated to training and learning can be tailored for each apprentice to suit their needs as well as the needs of the business.

Our industry is critical to making this policy a success, but we need Government to act to reform the levy so that it is fit for purpose. Flexibility is key. We also urge Government to work towards changing perspectives in the education sector so that vocational and technical qualifications are recognised in the same way as GCSEs and A levels. Without these small changes, retailers are unable to fully engage with the policy and make the most of apprenticeships.

THE BRITISH RETAIL CONSORTIUM

The BRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

Retail is an exciting, dynamic and diverse industry which is going through a period of profound change. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.

The BRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership comprises over 5,000 businesses delivering £180bn of retail sales and employing over one and half million employees.



BRITISH RETAIL CONSORTIUM

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