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The Deloitte Consumer Review
Reinventing the role of the high street

A Deloitte Insight Report

Contents

About this research
The research featured in the Deloitte Consumer Review is based on a consumer survey carried out by independent market research agency, TNS, on our behalf. This survey was conducted online with a nationally representative sample of over 1,200 UK adults aged 18+ between 1-3 October 2013.

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Foreword

Welcome to the sixth edition of the **Deloitte Consumer Review**.

While many have proclaimed the 'end of the high street', Deloitte UK takes a different view. We believe that the high street will continue to be an important place where innovative, consumer-focused businesses will grow and thrive.

We do not deny that the high street is facing unprecedented challenges from the combined threat of online shopping and the reduced spending power of the squeezed consumer. However, growth opportunities do exist especially in sectors beyond retail such as leisure and services. Businesses that use the power of digital technologies in-store and bring the best of shopping online to the high street will lead the regeneration.

This structural transformation is being driven by 'digital disruption', economic challenges and changing consumer habits. As a result, the high street is taking on a new role. It is becoming more than just a place to do routine shopping, it is being transformed into a destination to 'experience' and socialise, as seen with the growth of coffee shops. Consumers will continue to visit their local high street for its convenience and because it offers social experiences that cannot be replicated elsewhere.

In this edition we discuss the regeneration of the high street as it contends with both cyclical and structural pressures. We review how the high street will continue to play a role by adapting its offering to meet changing demands. We consider the challenges local authorities face with managing the high street and discuss how involving local businesses and communities in managing their high street can have a positive impact on its prospects. Finally, we consider how high-street businesses can adopt digital technologies and integrate them with their online strategy not only to become truly 'omnichannel', but also to attract and retain consumers and improve their overall experience.

Throughout the report we also highlight some of the fundamental changes businesses need to consider implementing to ensure their high-street operations remain relevant to consumers.

We hope this report gives you the insight and data you need to enhance your understanding of consumers and the issues facing your sector, and welcome your feedback.

Nigel Wixcey
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Deloitte LLP

Executive summary

Much has been written about the future of the UK high street but, as yet, no clear consensus has emerged on a way forward. The only thing commentators seem to agree on is that the high street of the future will be very different to the cloned parades of the 1980s.

While vacancy rates in certain towns and cities are coming down year-on-year, in others they continue to increase. Different strategies are being pursued across the country by local authorities and landlords seeking to prevent further closures. Indeed, there is no shortage of ideas. In their recent high profile reports on the future of the high street, Mary Portas and Bill Grimsey set out their recommendations to save the UK's high streets. As a result, we are witnessing a 'pick and mix' approach as local authorities and their private sector partners work their way through an extensive menu of recommendations.[1]

While there may be no clear consensus on the solutions, there is some consistency when it comes to identifying the underlying issues:

Oversupply – Years of unchecked development and expansionist policies by retailers have resulted in a surfeit of shops across the country. The ones under most threat are in towns and high streets, not in large cities or out-of-town retail parks and shopping centres.

Affordability – Bricks and mortar retailers not only have to pay staff and rent costs but also have to pay business rates which many say are inflexible and unaffordable. Collectively, these costs put traditional retailers at a material disadvantage to online retailers. It is no surprise that they have pursued a strategy of retrenchment, focusing only on those locations with sufficient footfall and retail critical mass to ensure that their stores are profitable.

Not fit for purpose – The needs of high-street operators have changed over time but the configuration of retail space on the high street has failed to keep pace. Consequently the vacant shops on the high street no longer meet the requirements of modern retail or leisure businesses.

Change of focus – With shopping evolving from a necessity to a leisure activity, retail spaces need to adapt to meet increased demands for lifestyle and leisure offerings. Consumers demand an environment that is attractive and convenient, a place where people enjoy meeting and want to spend their leisure time.

Changed behaviours – The coming together of the virtual and physical worlds is fundamentally changing consumer behaviour. Consumers are seeking an integrated shopping experience and expect retailers to deliver it consistently across all channels. Online activities, including social media, will continue to influence consumer shopping patterns and can be used to attract people back to the high street.

Digital acceleration – With the growth of omnichannel retailing many retailers are reducing their high-street estate in net terms especially in secondary and tertiary locations. Strategies geared towards national retailers re-entering these locations are going to be very difficult to deliver. This provides opportunities for independent stores to return and new retail entrepreneurs to acquire a high-street presence close to prime locations.

There is a need for a coordinated and long-term approach to high-street revitalisation. Moreover, addressing all the issues highlighted above requires a new governance model. Highlighting the lack of investment or the absence of an overarching tenant-mix strategy for the high street is pointless, if there is no entity capable of exercising overall control.

The fragmented ownership structure of the typical high street, with control split between a large number of competing landlords, owner occupiers and the local authority, puts it at an immediate disadvantage to the neighbouring shopping centre with a unified ownership structure and top-down ability to manage the overall space.

Until the issue of fragmentation can be overcome, high streets will remain at a disadvantage in three principal areas:

Strategy – All high streets are different and the strategy required to secure their health and long-term vitality will differ subtly for each of them. Decisions affecting one area of the high street could have an impact on other areas so the ability to set a holistic strategy is paramount.

Investment – A number of the key components for recovery, including the reconfiguration of space or the installation of the infrastructure to support online retailing in the high street, require the ability to raise and invest capital. Without a clearly defined creditworthy entity in control of the high-street, investment is likely to be piecemeal at best.

Management – Strategy and investment require skilful and dedicated management. Shopping centres have dedicated property managers who coordinate the input of contractors and professional advisers to ensure that the agreed business plan is put into effect. Without a similar structure, the high street will continue to be at a serious disadvantage.

It would be easy to conclude that the future of the high street is a lost cause. However, in our view, this is far from the truth. There are already many indicators that suggest the high street has a role to play in the changing retail landscape:

The rise of the convenience format – Major supermarkets are concentrating their strategies on convenience formats which could spark the recovery of high streets.

Deloitte's research shows that not only 59 per cent of consumers use the high street when shopping for groceries, 34 per cent want to see more small convenience format on their high street.

Omnichannel – Click and collect models are turning the opinions of the last few years upside down as retailers seek more physical collection points for online orders and pure online retailers are starting to recognise the need for a physical presence. Our research shows that 47 per cent of consumers think empty stores on their high street would make convenient collection points to pick-up goods.

Direct local involvement – Local populations are being mobilised by crowdsourcing sites such as Spacehive and taking a material and financial interest in their own high streets. A large majority of consumers (73 per cent) believe they should play a role in helping to decide which shops and services appear on their local high street.

While the challenges confronting this sector are huge we remain optimistic that the future will see high streets tailored to and reflecting the needs and aspirations of the local population – an exciting prospect indeed.

Recipe for future success:

1. Convenience
The high street's unique selling point remains its convenience – consumers want certainty of product availability, they like immediacy and they like it to be local.

2. Experience
Create an experience that cannot be replicated online to attract and engage with consumers.

3. Omnichannel
Capitalise on the high-street convenience and its ability to offer an experience by using technology to merge the physical space with the online channel.

The state of the high street

The UK high street will survive but it will need to play a very different role, one that is better adapted to the new retail landscape and more focused on offering convenience and experiences that cannot be replicated online.

Defining the high street

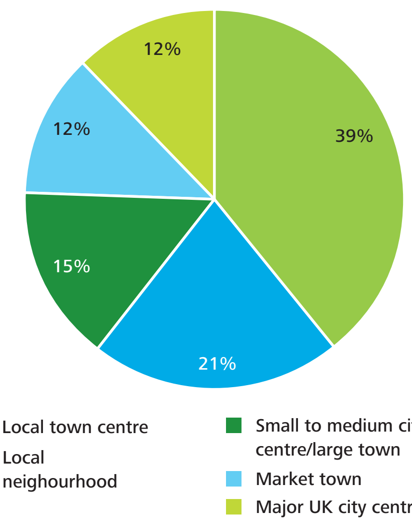
Traditionally the high street has been defined as a retail centre that serves the needs of the local community. It includes other facilities beyond shops such as leisure and cultural facilities and public and private services. It is also close to offices and other non-retail businesses and is accessible by a number of transport options.[2]

The high street should be the nerve centre of a town or city, a place where people can get together. Its success often depends on the health of the local economy and its ability to attract footfall. Building and maintaining a successful high-street economy is complex and requires landlords, local authorities, trading communities and consumers to all share the same vision and have the right leadership and tools in place to execute it. This is particularly challenging given there is more than one type of high street.

According to Deloitte research, 39 per cent of UK consumers describe their local high street as being located in the town centre, 21 per cent in a local neighbourhood parade, 15 per cent in a small to medium city centre/large town, 12 per cent in a market town and 12 per cent in a major city (see Figure 1). The dynamics within each of them will be radically different as will their economic viability.

Figure 1. UK high streets by location

Question: Now thinking of your 'local high street', which one of the following best describes where your 'local high street' is located?



Source: Deloitte research, October 2013
Base: UK consumers 18+ (n = 1223)

Proximity to their local high streets continues to be the number one reason why consumers chose to visit it so frequently. The research shows that 87 per cent of consumers live within a five-mile radius of their nearest high street. It also found that 38 per cent of consumers visit their local high street several times a week, if not daily, while 44 per cent visit their high street several times a month.

The migration of consumers towards out-of-town parks and shopping centres has been mainly driven by value, convenience and choice. High streets which have succeeded in maintaining the right mix of shops remain popular. Moreover, recent figures from the Local Data Company show a positive net balance of store openings versus closures for the first half of 2013 on the high street, a sign the high street remains an attractive location for businesses (see Figure 2).

Figure 2. Net store openings and closures by location

(% net change)

As tracked across over 2,700 locations in & out of town centres in the UK January – June 2013

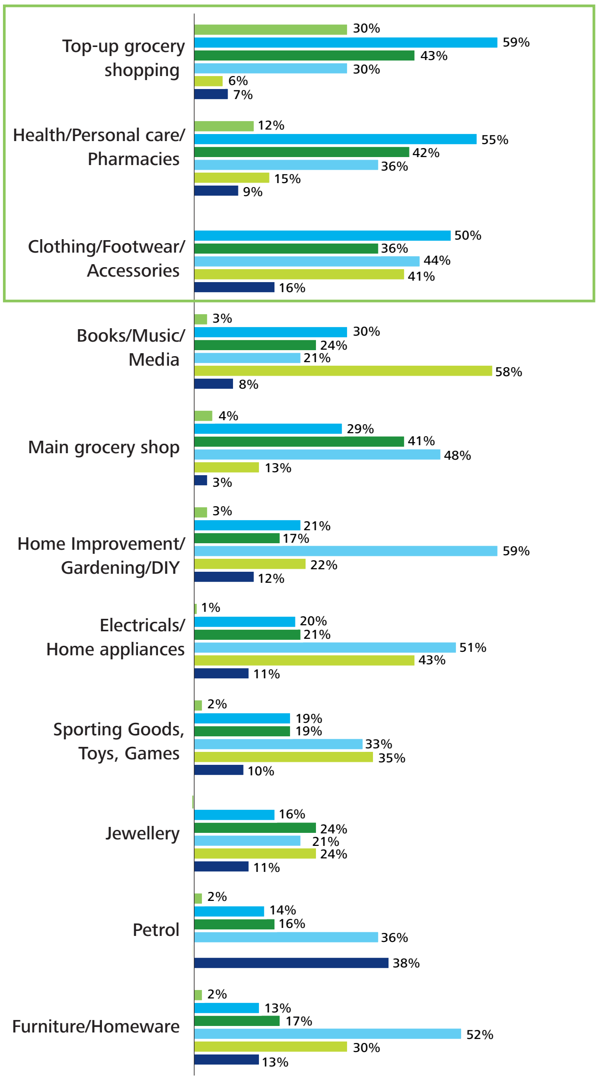
Source: The Local Data Company (LDC)

Still a destination

The high street remains a key destination for many consumers. According to Deloitte research, the majority of consumers use the high street as a main shopping destination for top-up grocery shopping, health and personal care, and clothing and footwear products (see Figure 3).

The research also shows that for a majority of consumers the high street is the main destination for services such as banking, or for leisure activities such as visiting coffee shops. A large proportion use the high street for eating or going out, for health services such as visiting their GP and for everyday services such as dry cleaning or beauty services (see Figure 4).

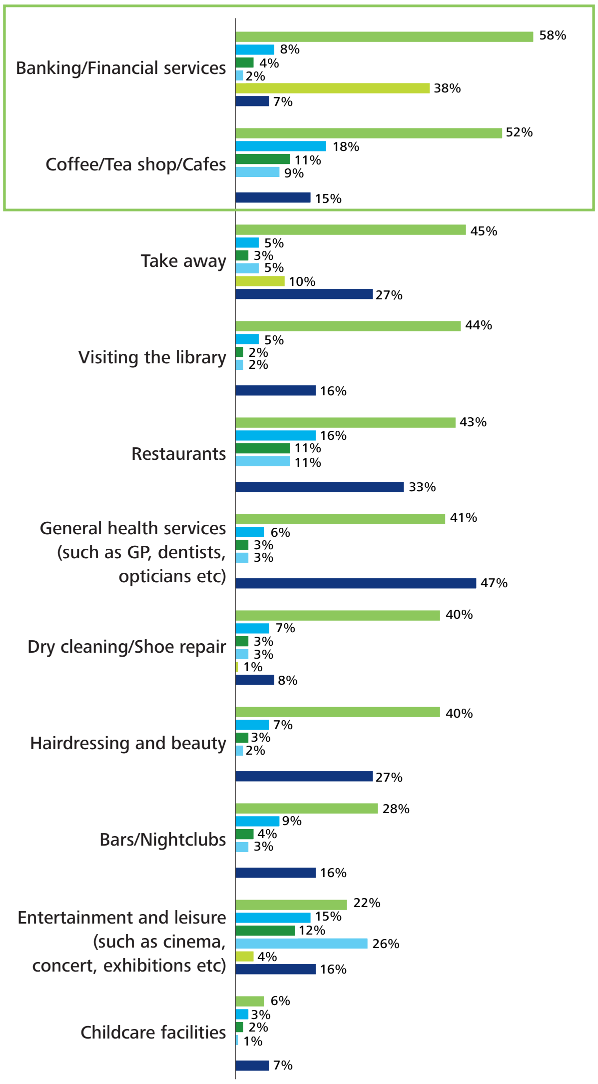
Figure 3. Category shopped by channel
Question: Where do you shop for each of the following categories?



- In a corner shop/local convenience store but not on the high street
- On the high street
- In-town (not on the high street)
- Out-of-town
- On the Internet
- Somewhere else

Source: Source: Deloitte research, October 2013
Base: UK consumers 18+ (n = 1223)

Figure 4. Services access by channel
Question: Where do you usually go to access the following services or activities?



- On the high street
- In-town shopping centre (such as Westfield in London or Manchester Arndale)
- Out-of-town shopping centre (such as Bluewater or the Trafford centre)
- Out-of-town retail park
- On the Internet
- Somewhere else

Source: Deloitte research, October 2013
Base: UK consumers 18+ (n = 1223)

While our research demonstrates the complexity of the various roles fulfilled by the high street in a town or city centre, it also highlights how interdependent the high street's success is with wider social and economic activities.

Fit for purpose?

The high street is by definition a convenient place to visit, with 61 per cent of consumers in our research expressing satisfaction with their local high street (see Figure 5).

There is also a limit to out-of-town and online retail's ability to fulfil people's everyday needs. Our research shows that consumers are satisfied with the foodservice facilities on offer such as the choice of coffee shops and restaurants, the amount of public spaces available and the choice of health services.

However, a third of consumers are dissatisfied with the selection of stores, the choice of leisure and entertainment venues.

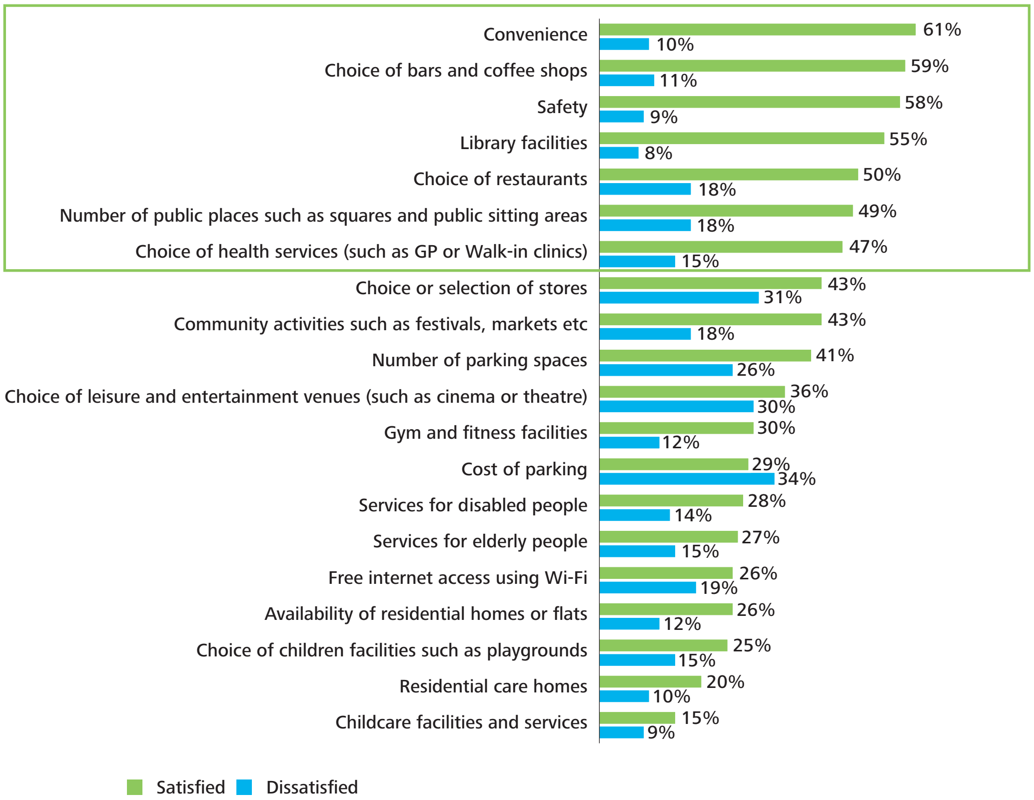
While those results at the total level are the same across the five types of high streets identified in Figure 1, the findings tend to be more negative for consumers close to smaller town centres and more positive for those close to larger city centres. This indicates that local authorities need to review the mix of shops and leisure offerings in their high streets to adapt to local demand, despite years of homogenisation of the UK high streets.

Unsurprisingly, while consumers are satisfied with the amount of parking available, more than a third are dissatisfied with the cost. This has always been a controversial issue and is likely to remain a key area of discord as parking fees are a source of revenue for local authorities (see Figure 5).

Parking is a critical feature in the reinvention of the high street if it is to become a place for people to collect goods purchased online, for example.

Figure 5. Consumers' satisfaction with their local high street

Question: Based on your experience of your local 'high street', how would you rate it against each of the following



Source: Deloitte research, October 2013
Base: UK consumers 18+ (n = 1223

Drivers of change

Just over one-third of town centres across the country can be categorised as either degenerating or already failing according to a report commissioned by the Department for Business, Innovation and Skills. The report concluded that the UK is approaching a tipping point regarding the town centre's role in economic life and noted that in 2011 the proportion of retail floor space accounted for by town centres dropped below 50 per cent for the first time.[3]

The UK market is oversupplied with shops, and often those most under threat are in smaller town centres, not in the large cities or out-of-town retail parks or shopping centres. The economic downturn has accelerated this trend. However, the drivers are more structural than cyclical. Vacancy rates were rising well before the financial crisis because consumers had begun to shop in very different ways. Traditional town centres have failed to respond to shifts such as the development of large out-of-town retail parks and the rapid growth of online shopping.

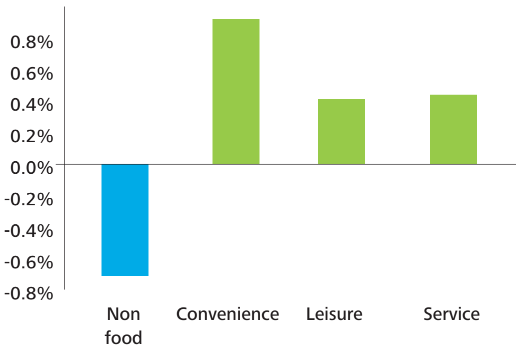
In addition, there are a number of more cyclical issues affecting the high street. The recovery in retail sales since the beginning of 2013 is masking an underlying dichotomy: while many food retailers are able to pass increased costs to consumers, non-food and online retailers continue to discount and as a result are under greater cost pressures. This in turn makes it harder for non-food retailers to maintain a presence on the high street. As a result, many have invested heavily in developing their online channel which has become a major revenue channel for categories such as electrical goods and media (see Figure 3).

Indeed recent figures for the first half of 2013 show that the convenience store format has the highest positive net balance of store openings versus closures, followed by leisure and service categories. The growth of the convenience format is likely to create a 'halo' of increased footfall encouraging more businesses to return to the high street. In the meantime the net balance of store openings versus closures for non-food was negative, a sign of the changing structure of the UK retail sector (see Figure 6).

Only businesses with healthy finances are able to afford prime locations. As retailers review their store portfolio many are focusing on key locations, deserting the less strategic ones around secondary areas (see Figure 7).[4] Given this changing landscape, high-street revitalisation needs to focus on a long-term strategy that will radically alter the function of the high street. This can be achieved through careful, sympathetic adaptation of existing premises for modern retailing, for non-retail use or even for residential.

Figure 6. Net store openings and closures by type

(% net change)

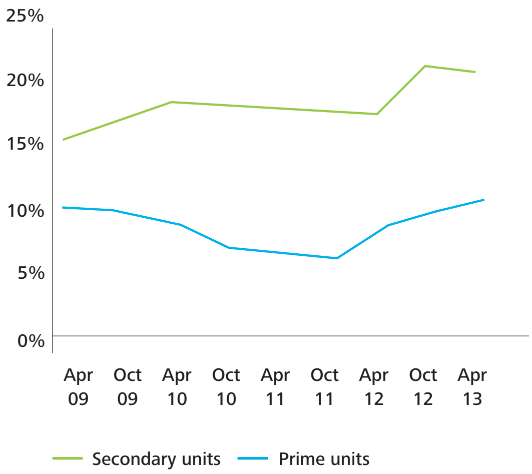


As tracked across over 2,700 locations in & out of town centres in the UK, January – June 2013

Source: The Local Data Company (LDC)

For smaller players this change will be difficult and will result in yet more of them disappearing from the high street. However, independent businesses may benefit from the gap left as well as the likely increase in footfall as supermarket retailers continue to expand into convenience formats.

Figure 7. Vacancy rate by type of location



Source: Colliers International

A more agile high street

For the high street to evolve, its fragmented ownership and management structure needs to be addressed and planning has to reflect its catchment area.

Most commentators tend to agree that the current inertia surrounding the future of the high street can be explained by the fragmented ownership structure and the operating costs associated with 'bricks and mortar' compared with online retailers.

There are a number of key areas to focus on including:

- creating a more level playing field between online and physical retailers by modifying the regulatory and tax environment to reflect the economic and retail landscape
- reorganising the ownership and/or leasing structure to attract retail entrepreneurs back into the high street
- supporting and encouraging better management with a combination of the relevant local authorities and their private sector partners
- allowing local communities to influence the planning system.

New sources of funding

There is little doubt that funding issues, such as the recent government cuts, have had a negative impact on local authorities' ability to regenerate their high streets.

In his report, Bill Grimsey has called for national chains with a turnover of more than £10 million to invest 0.25 per cent of annual sales in a local economic development fund to help sponsor new ventures.[5]

More flexible leases

Traditional UK retail leases are still perceived as archaic compared to other European markets, with too much power in the hands of landlords. Ten-year leases are longer than in continental Europe and, despite the majority of leases including a five-year break clause, what can actually be achieved depends on the location and the retailer.

If the high street were to be turned into a managed asset, landlords would need to take more of an investor's approach which would require more flexible lease structures. For example turnover leases, which link rent payments to turnover, offer more financial flexibility.

Different use of space and planning implications

The high-street space will also need to be reconfigured in a more efficient way. As high-street retail space shrinks, new layouts and store configurations need to be introduced. Existing shop space will become more like 'business unit' space and be opened up for other uses. For example, 'click and collect' areas will become more popular as retailers seek to use their floor space more efficiently and cut overheads.

Already there has been some positive attempt to review the regulatory environment for town centres especially regarding planning laws and licensing powers. This includes a more flexible approach to 'changes of use', for example some local authorities have used existing planning laws to create temporary facilities such as 'pop-up' shops.

The 'pop-up' concept makes sense; it responds to the need for more 'experiential' initiatives on the high street and gives retail entrepreneurs the ability to respond faster to a trend than can come and go as quickly as people post 'likes' and 'dislikes' on social networking sites.

In a recent survey 82 per cent of online enterprises viewed pop-up shops as crucial to their long term success, with more than a third saying they would eventually like to open a permanent shop of their own.[6]

Rewriting business rates and changing the tax system

There is growing pressure on the Treasury to modify the property-led rates system to reflect a changing retail environment. Business rates are increasingly seen as unaffordable and not linked to profitability. Business rates are a property-based tax, in an industry that is increasingly neither property-based nor town-centred.

The role of local authorities

Local authorities are ideally positioned to oversee the regeneration of the high street as they are the public custodians of their town centre. Partnership models are likely to emerge that will drive consolidation and defragmentation of land ownership in town centres. Other partnership models could be applied where landownership is largely managed as one asset. In such models landlords have the ability to set prices, make physical improvements, reinvest in their stock and deliver services to tenants. This more direct management approach needs to be underpinned by an accelerated local asset management model that seeks to deliver the best that the town can offer to its residents and visitors. For this model to succeed, local authorities will have to be a core investor, not just a custodian and act in the high street's commercial interest.

Local authorities used to be core investors. They funded and built significant parts of our towns and cities, with the private sector taking over as retail expenditure grew and drove investor returns.

Over the next decade investment models will probably mitigate against large-scale private investment, other than in very prime locations. As a result the public sector will need to re-enter the market if it wants to drive change and growth in the high street.

In a commercial context, the public sector reinvesting in high-street assets provides the opportunity for local authorities to create new revenue streams. Over the longer term a healthy high street will also benefit the wider community.

Local authority initiatives to regenerate the high street in partnership with their private sector partners could include:

- reduced parking costs, for example 'free after 3pm' or free on a Sunday – or even free at all times in some locations

- subsidised bus or rail travel on Sundays

- more events, particularly on Sundays to encourage more visits

- grants to shop owners – delivered at the local level to improve quality

- acquisition of vacant properties to improve and re-let premises

- rental incentives – offered by landlords to let space at a lower rent

- relaxed planning to encourage easier change of use, for example between shops and restaurants

- conversion of shops to other uses such as business or residential to reduce the overall number on a high street.

Looking ahead, the concept of the 'local authority as landlord' or, at least, ownership coordinator and asset manager is likely to be back in vogue, ending a significant period of disinvestment by the public sector.

Those local authorities that embrace a multi-dimensional approach to high-street renewal can look forward to lower vacancy rates and a more vibrant and diverse town centre environment. Those that do not could face a very long and painful period as the dynamics of the retail and leisure sector continue to challenge the traditional high-street model.

Engaging local trade

Another initiative for the regeneration of the high street includes the creation of a business improvement district (BID). Participating businesses pay a levy and decide together how to develop a vision for their high street. BIDs pool funds and deliver projects to improve safety, support local traders, establish parking initiatives and help to regenerate the high street.

Over 150 business improvement districts are already operating across the UK. While it currently only allows businesses to formally pay into and vote in a BID, the Government is considering how property owners can also be added. Reforming the scheme would enable property owners to have a direct say and play an active part in regenerating trading areas.

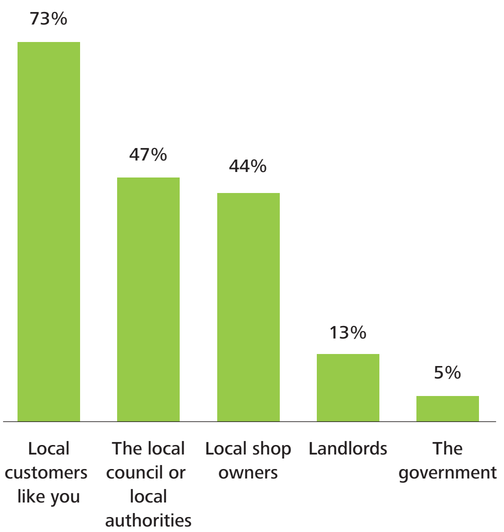
Empowering local consumers to shape their high streets

More local community involvement in planning is also attracting a lot of interest. Deloitte research shows that consumers are not only keen to influence what goes into their local high streets, they also think they should play a role in managing the high street (see Figure 8).

Initiatives such as the 'crowdfunding' site Spacehive could also become popular, allowing local consumers to back ventures for their local high street.[7]

Figure 8. Consumers' attitudes to high-street management

Question: In your view, who should decide which shops and services your local 'high street' includes?



Source: Deloitte research, October 2013
Base: UK consumers 18+ (n = 1223)

What should businesses do?

- Retail entrepreneurs should consider partnering in taking over unused space on the high street.
- Landlords need to look into reconfiguring unused retail units for non-retail use, or even convert it back to residential.
- Purchase additional space and offer it to local traders where synergies exist to complement an existing leading chain's offering.
- Work with local authorities to co-fund development and regeneration projects delivering tangible benefits to local communities.

Case studies

Spacehive – the world's first funding platform for civic projects

Spacehive is a crowdsourcing platform which allows people, companies and councils to fund projects that make places better – like new playgrounds or park improvements.[8]

Spacehive promotes various projects and helps these to raise funds directly from local, communities or individuals. For contributors it is a way to transform where they live by pledging a contribution to a chosen project. If enough people do, the projects gets the funding and the go ahead.

Appearhere.co.uk – A market place for pop-up shops

Appearhere.co.uk says their mission is to create a global network of spaces so people can take their idea to destinations near and far.[9]

Marylebone High Street – Management structure to revitalise the high street

Marylebone High Street is a good example of a high street where the local authority works with an investor, Howard de Walden Estate, who successfully owns and manages the group of properties on the high street.[10]

Urban regeneration project at Elephant and Castle in south London – Lend Lease has been commissioned to build a high street fit for the 21st century as part of an urban regeneration project at Elephant and Castle in south London. The plan is to replace Heygate Estate with 3,000 new eco-friendly homes, 25 per cent of which will be affordable housing, plus a new high street of 50+ units.

Interestingly it also will all be controlled by a single landlord, something the developer claims will bring cohesion and avoid the space falling "victim to the clone virus" and the risk of losing its individuality.[11]

Changing the mix

The high street of the future will not focus solely on retail. It will also provide leisure, health care, education and other services, and be increasingly 24/7.

The end of the cloned high street

Over the past 30 years the high street has become 'homogenised'. With high-street units owned by a multitude of landlords, there has been little or no control over the tenant-mix in town centres, apart from some restrictions in the 'user' and planning clauses of leases. To obtain the best possible return on their investment, landlords let their units to the highest bidder, inevitably the big multiples who 'priced out' small, local independents. This in turn has led to a 'sameness' about many UK high streets.

However, this trend is being reversed with real estate experts talking about a new retail property cycle where demand for space is no longer elastic. If a retailer is unable to lease a property in a prime location it is unlikely to look for space in a close secondary location.

In the traditional view of the high street, retail plays a key role, but more and more the high street of the future is likely to be a multifunctional destination. Its main focus will be around public services, leisure, cultural and civic uses. The success of Liverpool's high street, for example, is not purely based on its retail offering; despite the 99 per cent occupancy rate at the Liverpool One shopping centre, it is also driven by its leisure and cultural offering. Indeed, the strong demand for food and drink and leisure outlets resulted in twice as many bars and restaurants opening than closing in the year to June 2013.

British Land has now divided retail assets into three types of destination: functional, convenient and experiential. The functional destination caters for items consumers cannot do without such as grocery and DIY goods. The 'convenient' destination tends to offer larger choice and easy access, examples include flagship stores or retail parks. The experiential destination is characterised by higher levels of 'dwell time' because of its multifunction mix, something many shopping centres are focusing on with some visitors spending a full day and evening there.[12]

Decision makers need to consider how to reinvent the high street as an experiential destination using its convenience and proximity to consumers. By attracting more innovative and diverse propositions, retail entrepreneurs, leisure and entertainment offerings, tomorrow's high street will be able to create the right mix and bring consumers back as a result. Under this vision, retail will not be the only element defining the high street, it will also act as a support to the high street's other social uses.

Fewer but better high streets

With the focus being more and more on prime locations, there will be fewer high streets as the peripheries will be reabsorbed back into the housing stock or used for social purposes.

In August 2013, the Government announced a policy to ensure councils concentrate their efforts on regenerating their high streets around prime retail locations. The proposed relaxation in planning restrictions would allow conversions from retail to residential, retail to banks and building societies, or commercial to nurseries.[13] Yet according to Deloitte's research, only 14 per cent of consumers agree that part of their local high street should be converted to residential flats or homes, a sign that these proposals will require further consultations (see Figure 10).

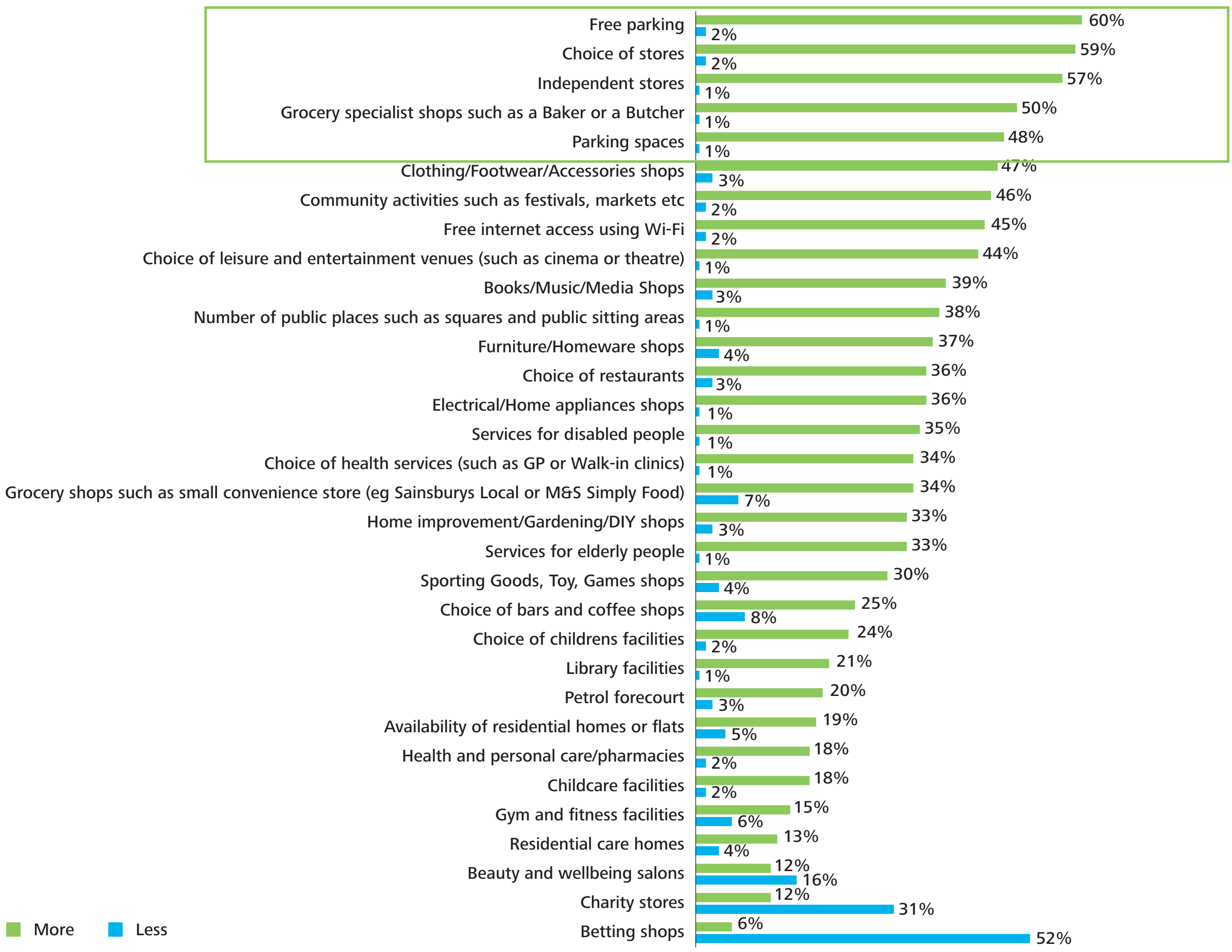
Deloitte research shows that the main improvements consumers want to see on their local high streets relate to parking and store choice, with 60 per cent of consumers wanting more free parking and 59 per cent wanting a better selection of shops. Moreover, 57 per cent want to see more independent stores and one-in-two want more specialist grocery shops such as a baker or butcher. Nearly half of consumers would like to see more community activities such as festivals and markets in the high street as well as free Internet access using Wi-Fi. A third of consumers would like to see more services for the elderly and more public places to socialise. The research also indicates that the majority of consumers want to see fewer betting shops and a third want to see fewer charity shops (see Figure 9).

Adapt to local demand

Many high-street configurations are not aligned to their local demand and tend to be based on landlords filling their properties regardless of the existing business mix in the area. This creates inconsistencies with the rest of the high-street offering which can be detrimental to the health of the entire high street. Consumers need to be brought back to the heart of every proposition in the high street. For example, as the 'grey' pound becomes more important, an ageing consumer base will increase the requirement for accessible facilities, health services and public conveniences.

Figure 9. Consumer opinion on the offering on their local high street

Question: If you could have your say on what goes into your local high street, which of the following would you want to see more or less of?



Source: Deloitte research, October 2013
Base: UK consumers 18+ (n = 1223)

Convenience: A popular format

Changes in consumer habits have driven a return to smaller and more frequent shopping trips. Moreover, the growth of online shopping has weakened many out-of-town large format stores. As a result there has been a renewed interest in the convenience format and this is likely to continue. The potential is great for the development of smaller store strategies where the convenience format is used for additional services such as click and collect.

Focusing on the experience

The growth of online retail has commoditised some of the retail experience and changed consumers' expectations, while the period of prolonged contraction in consumer spending forced many retailers to cut costs to protect their margins. With the cost of in-store staff being the retailer's largest cost, customer service was one of the areas where investment was withdrawn. This has made it difficult for store staff to compete with the collective knowledge consumers gain from the Internet. Yet high level of customer service has proven to be one key differentiator of those retailers who continued to do well during the economic downturn, the obvious example being John Lewis.

Regaining consumers' trust and loyalty by focusing on an experience and level of service that cannot be replicated online will be critical to improving the bottom line. Focussing on improving in-store customer service represents an opportunity for a retailer's physical space to replicate the best of online shopping in the store while also considering the store's role as part of an omnichannel delivery model.

Case studies

J Sainsbury -– Convenience fight back

In October 2013, Justin King, chief executive of Sainsbury said sales from convenience stores rose 20 per cent year-on-year for the quarter, compared to 15 per cent in the preceding three months. In contrast, online sales growth slowed from 20 per cent to 15 per cent.

Commenting on the increase in convenience sales, he added: "It shows you what you can do when your business format is aligned with changes in consumer shopping behaviour". Mr King said Sainsbury opened 31 convenience stores in the quarter, making a total of 50 such openings in the first half of 2013. Sainsbury could pass the 1,000 convenience store mark, roughly double its current estate, in 2016.[14]

What should businesses do?

- Combine their offering with other sectors to create a 'combo store' which is one part retail, one part leisure and one part foodservices.
- Optimise the store portfolio using analytics tools to adapt the store offering in terms of stock and layout to the catchment area.
- Empower in-store staff to deliver better customer experience through the use of digital technologies including providing real time access to product information and inventory, and offering alternatives to access the product, via online for example, if there is no availability in-store.
- Repurpose surplus or under-utilised space for use by community groups.
- Support local businesses particularly online businesses by giving access to a physical distribution point either via pop-up concessions or stocking product in-store.

The digital high street – a new frontier

Successful high-street businesses will harness the power of digital in adapting their offering to their omnichannel strategy.

The store counterattacks

There are aspects of shopping in a store that will never be replicable online, whether it is seeing and touching the product or seeking further advice from store staff. The physical space needs to learn from what online retailers do well and develop some of the same capabilities, for example using technology and data to offer a rich and personalised customer experience. By combining the strengths of both online and in-store channels, the retail experience becomes seamless, unlimited and satisfying for the consumer who sees each channel as an extension of the other.

Merging offline and online

Deloitte research on the influence of smartphones in-store shows that they will influence £18 billion of UK store sales in 2013. The research also shows that people who use their mobile while shopping spend 61 per cent more than the average.[15] The store has a role to play in an increasingly omnichannel retail environment. In a sign that the digital and physical worlds are slowly starting to integrate, some traditional retailers are using technology in-store to give customers access to their online platforms, while some pure online retailers are recognising the potential of having a physical presence and have started to open stores on the high street.

A good example of online retail merging with the physical space is the introduction of Amazon's collection lockers which allow people to collect orders without waiting for home delivery. Consumers are sent a personal code that enables them to open lockers located in large shopping centres, convenience stores, news agents and train stations.

Auction site eBay recently worked with Argos on a similar initiative. A total of 50 eBay merchants are involved in a pilot system to fulfil click-and-collect orders through 150 UK Argos outlets.

Online luxury fashion retailer Net-a-Porter launched several one-off pop-up graphic stores called The Window Shop, which allow customers to shop using augmented reality from the windows of the store.

Thomson's 2,000 square feet 'Next Generation Store' in the Bluewater shopping centre integrates digital technology to improve the experience of booking a holiday. Staff are at hand to co-create holiday packages with consumers using laptops at the 'Advice Bar'. Consumers are also greeted by a large video wall showcasing holiday content and can use interactive maps and tables to research holidays. They can compile 'top 10' lists, view live weather information, read reviews and view videos of potential destinations. Social media feeds are also streamed onto the screens to inform consumers before they book. Alongside the 'Advice Bar' there is a 'pool area' that has Wi-Fi so consumers can browse using their own devices, as well as large private booths to view selected video content.[16]

Deloitte has identified a number of key considerations when choosing an app versus a mobile site. These include the frequency of usage, whether online access is required, whether native features are required and the level of reporting complexity (see Figure 18).

Supply chain implications

The growth of online shopping and the need for ever quicker fulfilment times have created opportunities for more flexible fulfilment solutions including branded collection points on the high street such as Amazon's lockers.

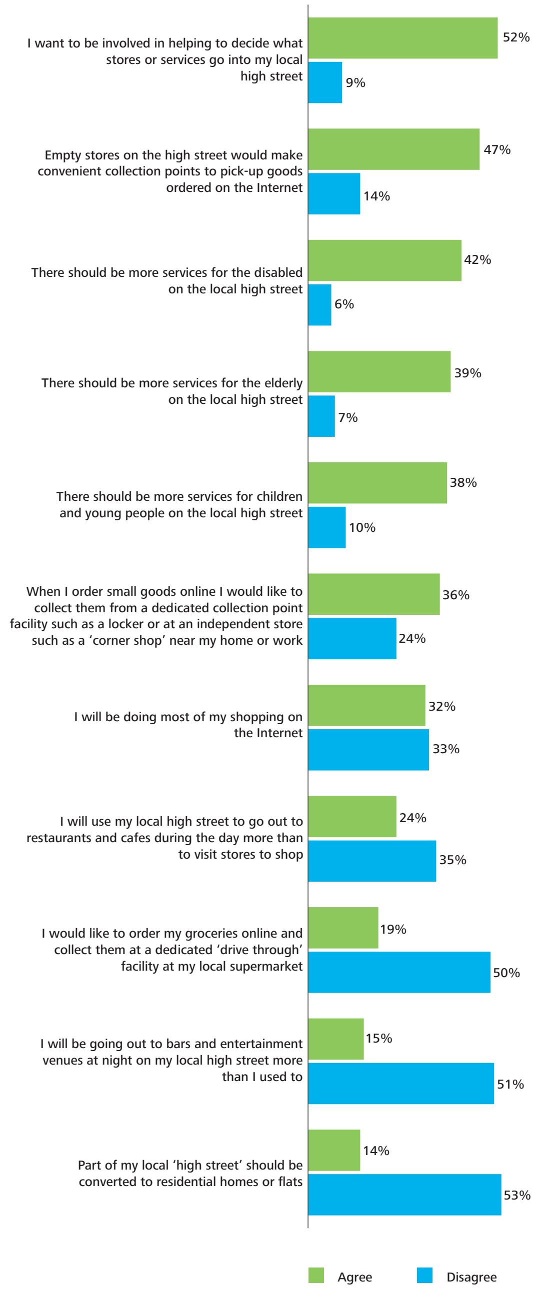
According to a recent report, online retail sales are set to account for more than a quarter of all retail sales by 2020.[17] However, this is already putting pressure on a stretched supply chain. The same research predicted that the current shortage of warehouse space coming onto the market, combined with a large increase in order volumes and higher return levels, will put further pressure on supply chain networks.

This creates an opportunity for locations or stores on the high street to be used as a fulfilment solution to the problem of stretched online supply chains. This would be welcomed by consumers as Deloitte research shows that nearly half of them say that empty stores on the high street would make convenient collection points to pick-up goods ordered on the Internet (see Figure 10).

John Lewis has already launched a service where, for a minimal fee, consumers can collect their order from a local Collect+ shop. Collect+ is a network of over 1,500 local shops across the UK.

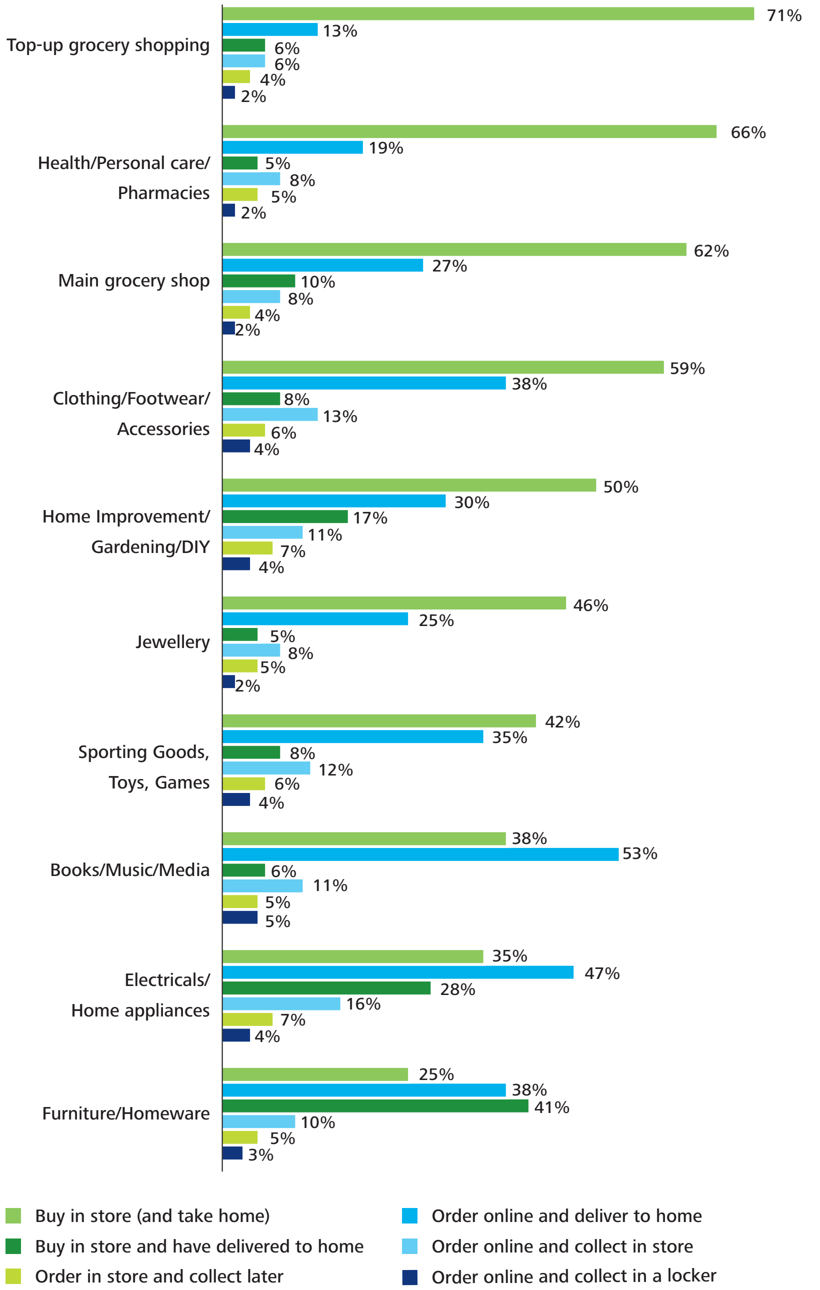
Deloitte research also shows that while a majority of consumers still prefer to buy a product in-store and take it home, in some categories, such as books, media, electrical items and furniture, consumers prefer to order online and get the product delivered to their home. Consumers are starting to show more omnichannel behaviours for categories such as clothing and footwear, with one-in-ten consumers claiming to order their products online and collect them in-store (see Figure 11).

Figure 10. Consumers' attitudes towards the future of the high street



Source: Deloitte research, October 2013
Base: UK consumers 18+ (n = 1223)

Figure 11. Consumers' attitudes to delivery options



Source: Deloitte research, October 2013
Base: UK consumers 18+ (n = 1223)

Network optimisation

With consumers starting their shopping journey in one channel and finishing it in another, retailers have to redefine the role of the physical space as a real extension of the brand, offering consistent service across all channels. As a result retailers with a strong online offering need fewer high-street stores to create a national presence, but need to ensure they are in the right locations.

The increasing popularity of click and collect services presents a challenge to the configuration and size of the current stores. Therefore, it is not all about downsizing but getting the footprint right. According to the Local Data Company, so far in 2013 retailers with six or more stores across the UK are closing a net 28 stores a day compared to 20 a day in 2012.[18]

This question of the optimum footprint affects all high street operators, including retail banks and building societies. Using a wide array of open data and licensed data covering England and Wales, Deloitte has conducted an in-depth analysis of the impact of future shifts in local consumer demography and behaviour on branch networks. Contrary to popular opinion, the findings of this new research suggest that bank and building society branches are poised for a renaissance – although not necessarily with their current footprints or formats. While the increase in take-up of digital channels does by itself represent a risk to the number of branches, the inclusion of a wider array of demographic, economic and business factors supports an alternative hypothesis: that banks will prosper under a more unified approach, which seamlessly merges online and physical service provision.[19]

Stores will remain a key element of the omnichannel world. The flexibility of the physical space and its ability to adapt to changing retail models will be paramount whether it is through acquiring new space, renewing existing leases or downsizing an existing retail portfolio.

Case studies

Argos – an omnichannel retailer

Bricks-and-mortar stores have been critical to the relative resurgence of Argos. While 43 per cent of sales at Argos now come from its website, stores remain at the heart of their proposition, according to their chief executive Terry Duddy: "people want certainty of product availability. They like immediacy and they like it to be local". The retailer hopes to achieve 75 per cent of sales via online in the next five years, as click-and-collect proves popular with customers.[20]

Tesco – in-store innovative technology

Tesco's new ad screens will be installed at the tills in the retailer's petrol stations to deliver personalised ads while people are queuing to pay.

The 'OptimEyes' technology includes a scanner that reads the shopper's face to determine their gender and group them into one of three possible age groups.

The adverts being shown are then tailored to fit the demographics of people in the queue, as well as changing depending on the time of day and the date. The system is also able to monitor the types of products being purchased.

Tesco has signed a five-year deal to use the screens in 450 of its petrol stations and predicts that the ten second ads will reach an audience of more than five million adults each week.[21]

What should businesses do?

- Identify new profit pools and reinvent the role of the store as part of a wider omnichannel strategy.
- Develop and invest in new revenue sources such as added in-store services.
- Integrate online and offline so there is consistency across all channels, creating a seamless experience for consumers.
- Incorporate insight about shopper behaviour from all channels to create a more tailored and personalised experience regardless of the channel used.
- Assess their network footprint in terms of retail assets to address the challenges of surplus and ill-adapted retail portfolios.
- Invest in enterprise-inventory capabilities to allow stock to be accessed across all channels to offer consumers better fulfilment options.

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Notes

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