



ONLINE SALES VS ONLINE RETURNS

**The relationship between
online sales and physical stores**
How are stores dealing with sales
and returns?

The relationship between online/click & collect sales and physical stores

Background

With retail sales currently showing limited growth, omnichannel has become crucial in boosting sales performance. However it is unclear as to what extent omnichannel sales (and subsequent returns) impact upon a physical store's P&L. For example, a sale made online or via mobile can be attributed to the closest physical store and included in that store's sales figures (often improving the performance of the store considerably).

Conversely, a refund for an item purchased online can be taken off a store's bottom line without it being

credited for the original sale. This can have a significant impact for leases where there is a turnover provision.

Until now, the relationship between omnichannel sales and returns and their impact on stores has not been explored. Savills has conducted a survey among nearly 2,000 occupiers across its managed shopping centre portfolio to understand more about the relationship between store and omnichannel sales.

NB – when referring to 'online' sales this includes mobile also.



Headlines

- On average 10% of store sales come from online
- In addition, an average of 8% of store sales come from click & collect purchases
- Nearly half of physical stores refund online returns
- One in five stores are credited for online sales in their catchment – however one in three have online returns / refunds deducted from the store's sales
- This means, on average, stores are 1.6 times more likely to be penalised for online returns than to be credited for online sales within their catchment
- At a category level, Accessories were nearly 10 times more likely to be penalised for an online return than to be credited for an online sale
- Conversely, Grocery and Food and Beverage categories saw a positive differential between online sales and online returns
- At a geographical level, stores in the South East were most likely to be credited for online sales, with stores in the North East least likely
- In addition, stores in the North East were most likely to have online returns deducted from store sales

The following report shows a breakdown of the various findings. Research was conducted with store managers within shopping centres managed by Savills across the UK between January and October 2017.

Recording of online sales at store level

Gyms, cinemas and leisure dominate compared with retail categories

A third of store managers overall (34%) said they recorded online sales.

There were wide variations between categories – particularly in those categories where online sales are becoming more integral to performance and mirrored the structural changes taking place within these categories.

Gyms and Cinemas were most likely to record online sales (91% and 83% respectively). Although the number of outlets in these categories formed a small part of the sample, all bar one in each category recorded online sales. The ease of purchasing gym passes and membership online (as well cinema tickets) is clearly visible here. In addition, the increasing trend for unmanned gyms and cinemas lends itself to online bookings.

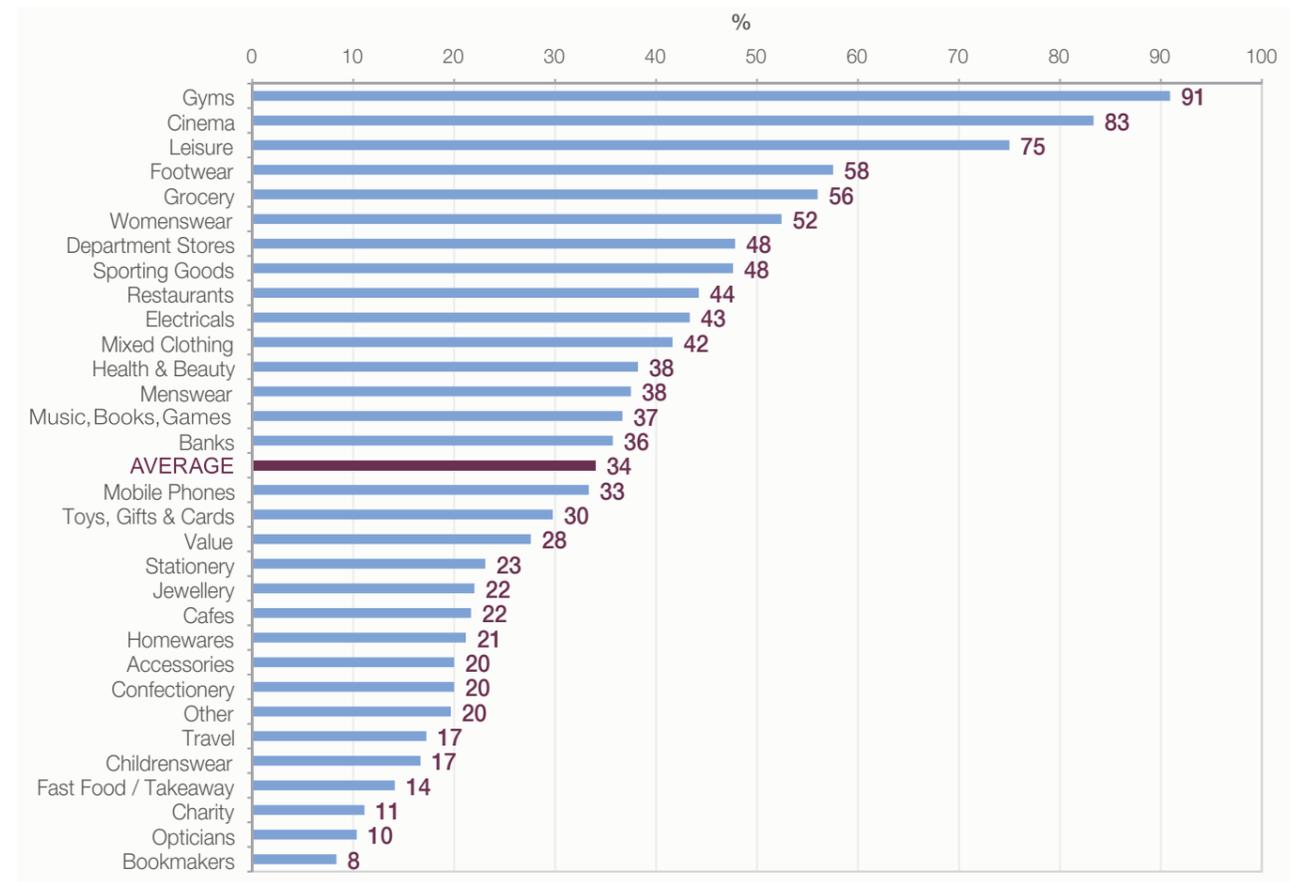
Bookmakers (8%), Opticians (10%) and Fast Food / Takeaway (14%) were least likely to record online sales. In the case of Bookmakers, there has been a move towards fewer betting shops in addition to a thriving online betting market which, if captured within the realm of a store, would likely boost store sales significantly.

In terms of Opticians, a purchase is likely to have been made as a result of a personal consultation with a professional in-store rather than an ad hoc purchase made online.

On a geographical level, stores in the South East were most likely to record online sales (38%) with stores in Scotland least likely (29%).



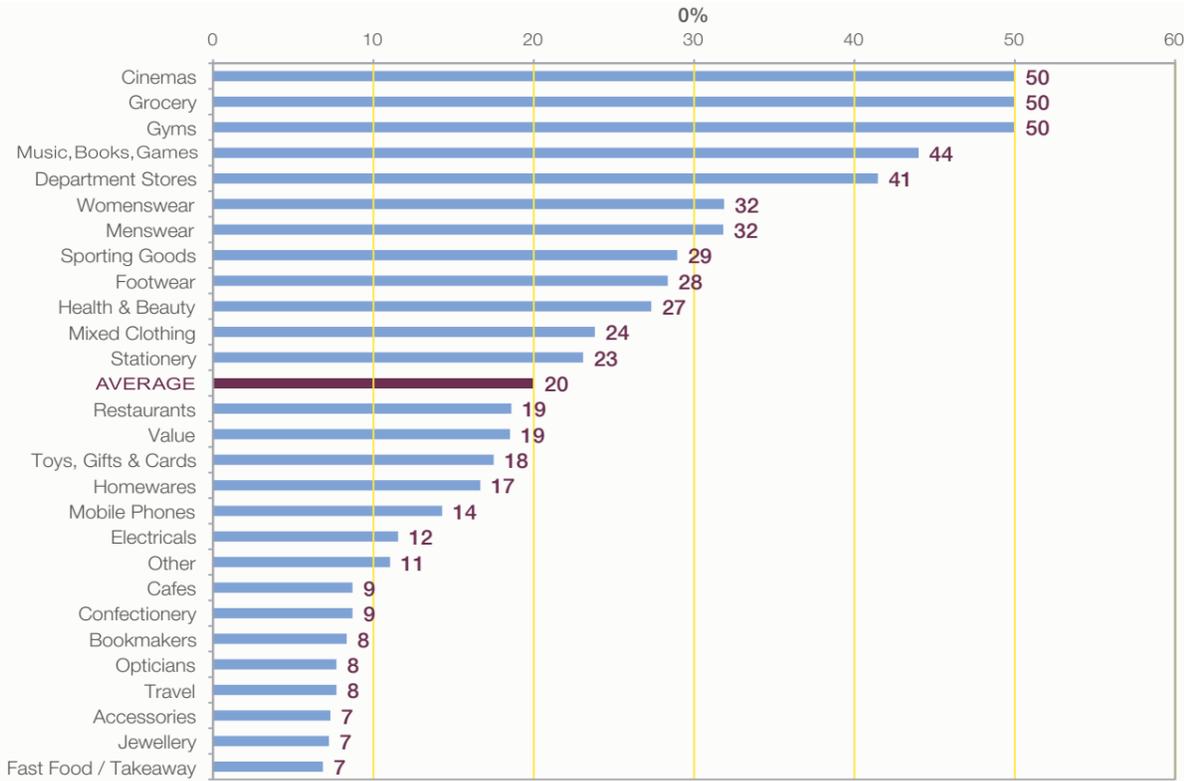
FIGURE 1: Does your store record online sales?



Source: Savills Research

Are stores credited for online sales within the catchment / region?

FIGURE 2: Percentage of stores credited for online sales within the catchment / region



Source: Savills Research

Many retailers credit a sale made online to the nearest store in the local catchment. This can be a way of acknowledging the store's role in the purchase process and can help to boost sales – considerably in some instances.

On average, one in five stores said they were credited for online sales within their catchment.

Gyms, Cinemas and Grocery retailers were most likely to be credited (half of stores within each category).

Fast Food / Takeaway, Jewellery and Accessories stores (all 7%) were least likely to be credited for online sales. This was closely followed by Travel, Opticians and Bookmakers (all 8%). For some of these categories (Jewellery, Opticians), the ability to either examine goods at close proximity and/or have face-to-face interaction with staff is crucial in the purchase process.

Travel (similar to Bookmakers) has seen a major shift to online purchases which,

if credited to the store, could boost performance significantly.

However, 11% did not know whether they were credited for online sales. In particular, 40% of stores in the Music, Books, Games category said they did not know whether they were credited with online sales in their region.

South East stores were most likely to be credited with online sales (26%) and nearly twice as likely as stores in the North East (14%). With stores in the South East most likely to record online sales, there appears to be a correlation in terms of stores being credited for online sales in this region.

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“One in five stores said they were credited for online sales within their catchment.”



Gyms, Cinemas and Grocery retailers were most likely to be credited for online sales in their catchment



Stores in the South East were twice as likely to be credited for online sales than stores in the North East



11% did not know if their store was credited with online sales made in their local catchment

What proportion of store sales come from online?

On average, 10% of store sales come from online.

Cinemas had the highest proportion of sales from online (35%), more than twice the amount of the next categories. The merging of online and physical sales has clearly been embraced here more than in any other category. Electricals and Homewares (both 16%) and Jewellery (15%) had the next highest proportion of store sales from online. This is despite being among the least likely to be credited for online sales in their region.

Value / Discount retailers had the smallest proportion of store sales from online (1%) followed by Confectionery (3%), Sporting

Goods and Menswear (both 4%). Interestingly, the latter two categories were among the most likely to be credited for online sales in their region. This suggests that these categories may be separating out sales from the different channels.

London and Home Counties stores had the highest average sales from online (16%) – this is despite being the region second least likely to be credited for online sales (17%).

Conversely, only 5% of sales in stores in Northern Ireland came from online despite being among the most likely regions to be credited.

Are online sales included in stores sales figures?

Looking at the 34% of the overall sample that recorded online sales, nearly two thirds of these said they included online sales within their store sales figures.

This meant that 22% of the overall sample included online sales within their store sales.

Of those stores in the Restaurants category capturing online sales, 92% included online sales in their sales figures (or 42% overall). Similarly, despite only 23% of cafes capturing online sales, more than 8 out of 10 of these units included them in their store's sales figures (or 20% overall).

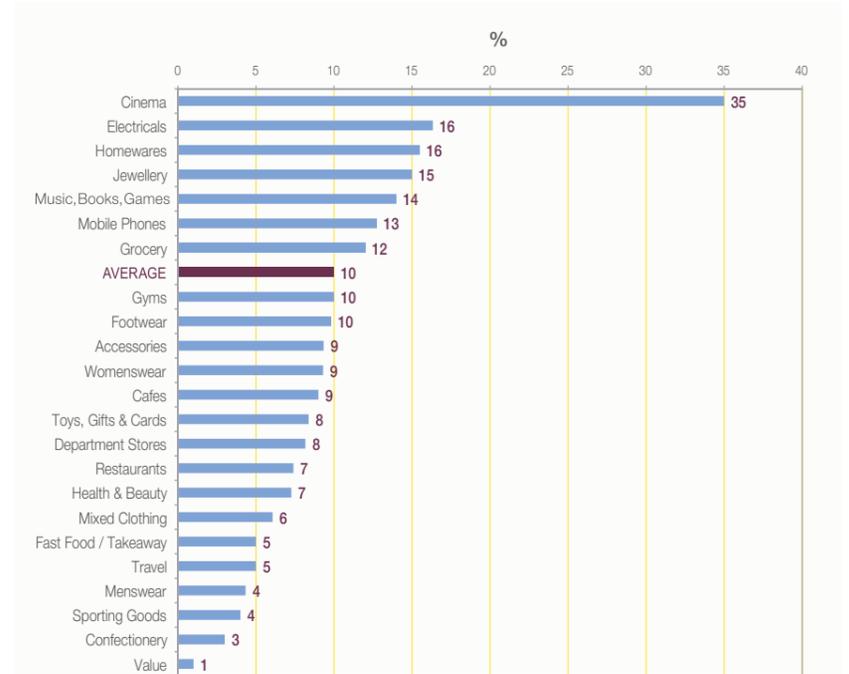
The introduction of the likes of Deliveroo, which has significantly boosted online ordering at Restaurants, as well as the major coffee shop chains allowing drinks to be ordered online prior to pick up, has seen these categories consider online and click & collect sales as an opportunity to increase store sales.

Mobile Phone retailers were least likely to include online sales figures in their store sales (26% capturing online sales, 8% overall). The Jewellery category was next least likely to record online orders (35% capturing online sales, 8% overall). Again these are categories where in-store service as well as the ability to examine products up-close is important.

On a regional level, 65% of stores in the South East recording online sales (or 25% overall) were likely to include these sales in their store figures. North East stores (18% overall) and stores in Scotland (20% overall) were least likely to include online sales at store level.

Again, it would be difficult to comment on the regional strategies of retailers; however there is perhaps an opportunity to boost store level sales figures by the inclusion of online sales in areas where retail sales growth is more of a challenge.

FIGURE 3: Percentage of store sales from online



Source: Savills Research



Mobile Phone and Jewellery stores were least likely to include online sales in store figures



9 out of 10 Restaurants include online sales in their store figures

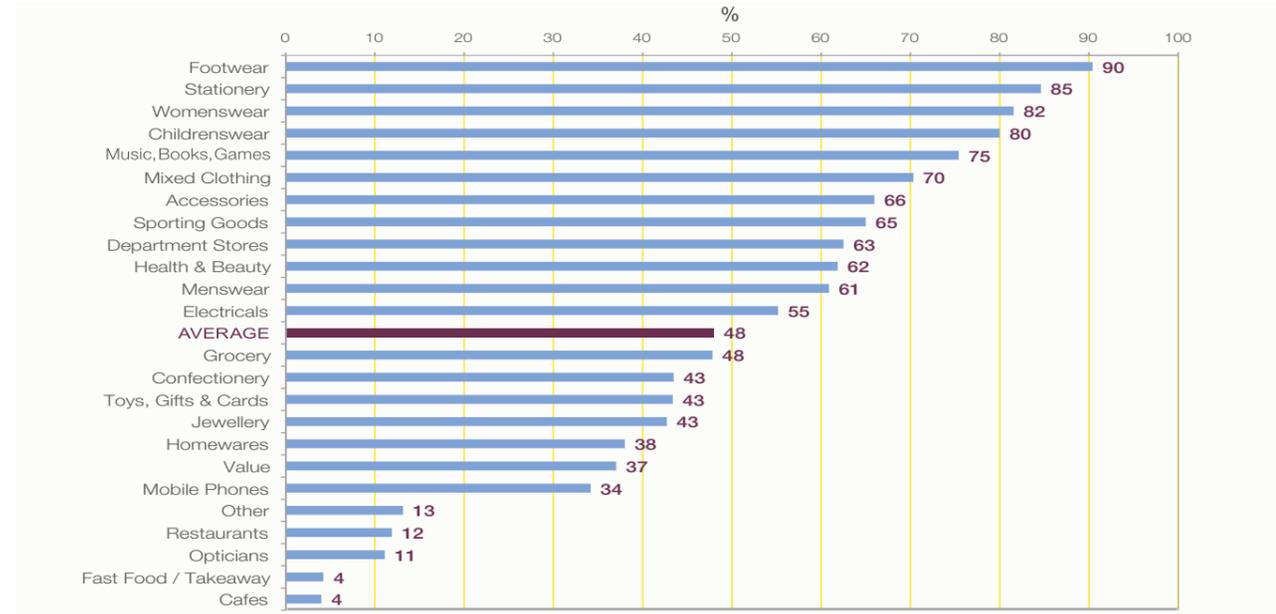


South East stores are most likely to include online sales in store figures

How are online returns reconciled with store sales?

Nearly half of stores refund online returns

FIGURE 4: Are online returns refunded in-store?



Source: Savills Research

Refunds for online returns can be an issue at store level from both an administrative and financial perspective, as they require staff resource to deal with (removing sales staff from the shop floor and thus affecting the service provided). Additionally, online refunds are often deducted from a store's bottom line.

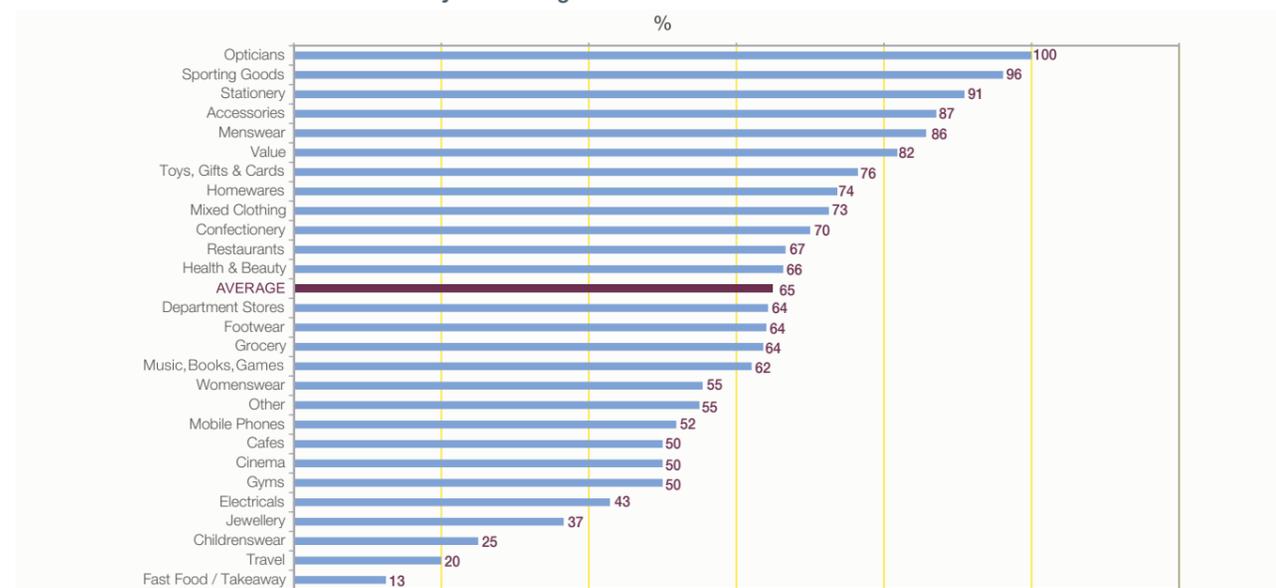
Overall, nearly half (48%) of stores refunded online returns. 9 out of 10 Footwear stores refunded online returns – the biggest category – followed by Stationery (85%) and Womenswear (82%). Both Footwear and Womenswear have struggled in the last year, in part due to the competition posed by online retail. It is therefore ironic

that stores in these categories are among the most likely to refund online returns.

Fast Food / Takeaway and Cafes were least likely to refund online returns – however the ability to replace a cup of coffee that has been returned with another is probably easier and has less impact on a store's sales than replacing a pair of shoes.

There was little difference from a regional perspective with South East stores most likely to refund online sales (52%) and North West stores least likely (45%).

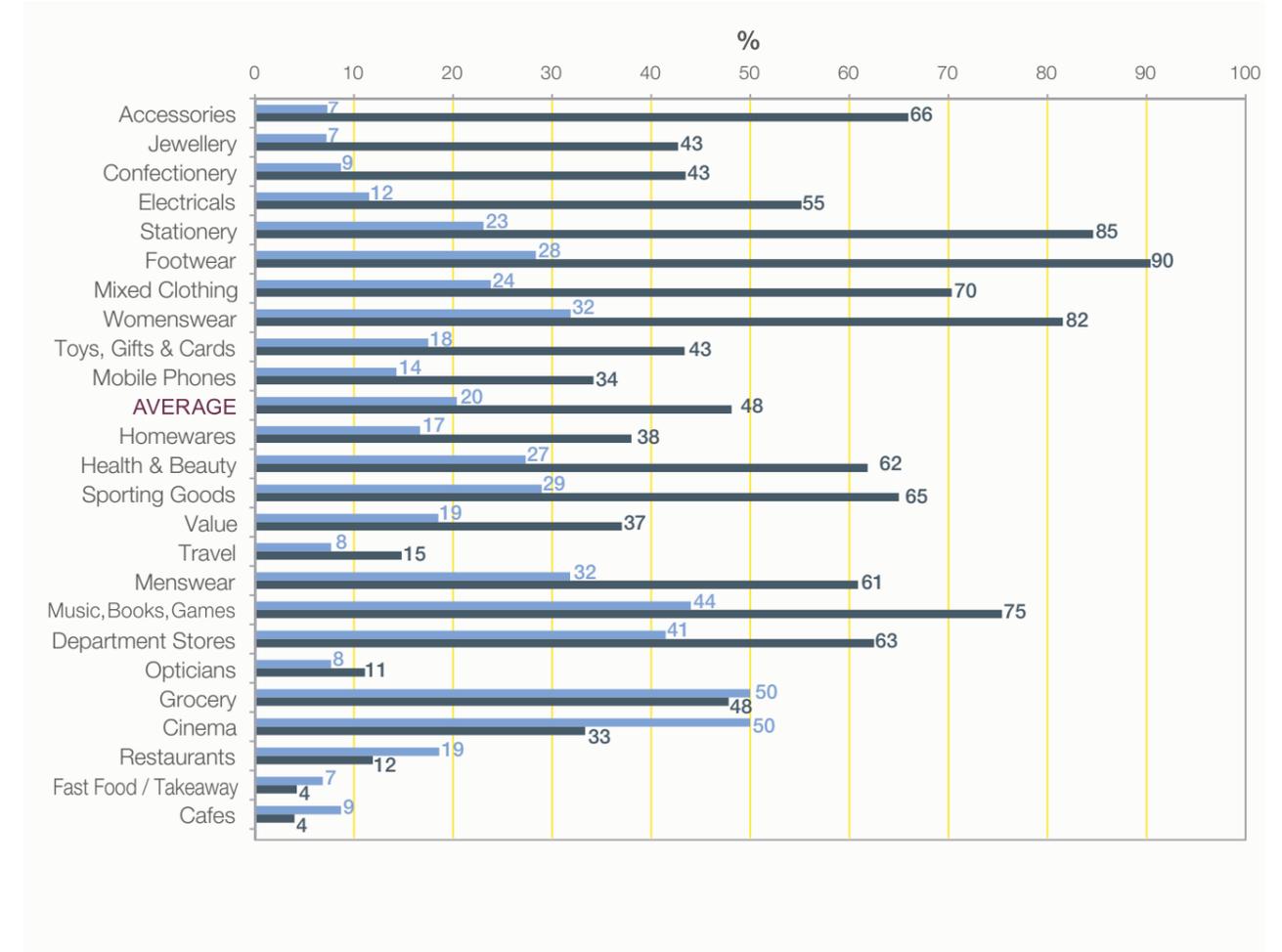
FIGURE 5: Are online returns deducted from your sales figures?



Source: Savills Research

Stores are nearly twice as likely to have an online return deducted from their P&L than to be credited with an online sale

FIGURE 6: Differential between online return deductions and online sales credits



Source: Savills Research

Figure 6 shows the differential between online returns deducted from store sales and online sales credited.

On average, stores were 1.6 times more likely to have online returns deducted from store sales than to be credited with an online sale in their region.

The category with by far the greatest disparity between online sales credits and online return deductions was Accessories – with stores nearly 10 times more likely to be penalised for online returns than to be credited for online sales. This was followed by Confectionery (3.5 times more likely) and Stationery (3.3 times).

The Clothing categories, which formed the biggest proportion of the whole

sample, were twice as likely to be penalised for an online return than to be credited for an online sale.

Conversely, Grocery, Cinemas and Food and Beverage categories were more likely to be credited for online sales in their catchment than to be penalised for online returns. In fact, only these categories saw a positive differential between online sales accreditation and penalisation for online returns.

Stores in the North East had the greatest disparity between accreditation and penalisation with stores in this area 2.8 times more likely to be penalised for online returns compared with being credited for online sales. Twice that of stores in the South East and North West (both 1.4 times more likely).



Accessories stores are nearly 10 times more likely to be penalised than credited



Grocery, Cinemas and Food & Beverage categories most likely to be credited for online sales than penalised for online returns

Click & collect sales and in-store online ordering

Does your store offer a click and collect service?

Click & collect sales are an increasingly important element of a store's sales as they are the glue that binds online and in-store purchases. In addition, figures have shown that a click & collect sale can generate additional purchases once a customer arrives in a store.

Just under half of stores (47%) offered a click & collect service.

Music, Books and Games stores were most likely to offer a click & collect service (84%) followed by Sporting Goods (83%) and Mobile Phone retailers (75%).

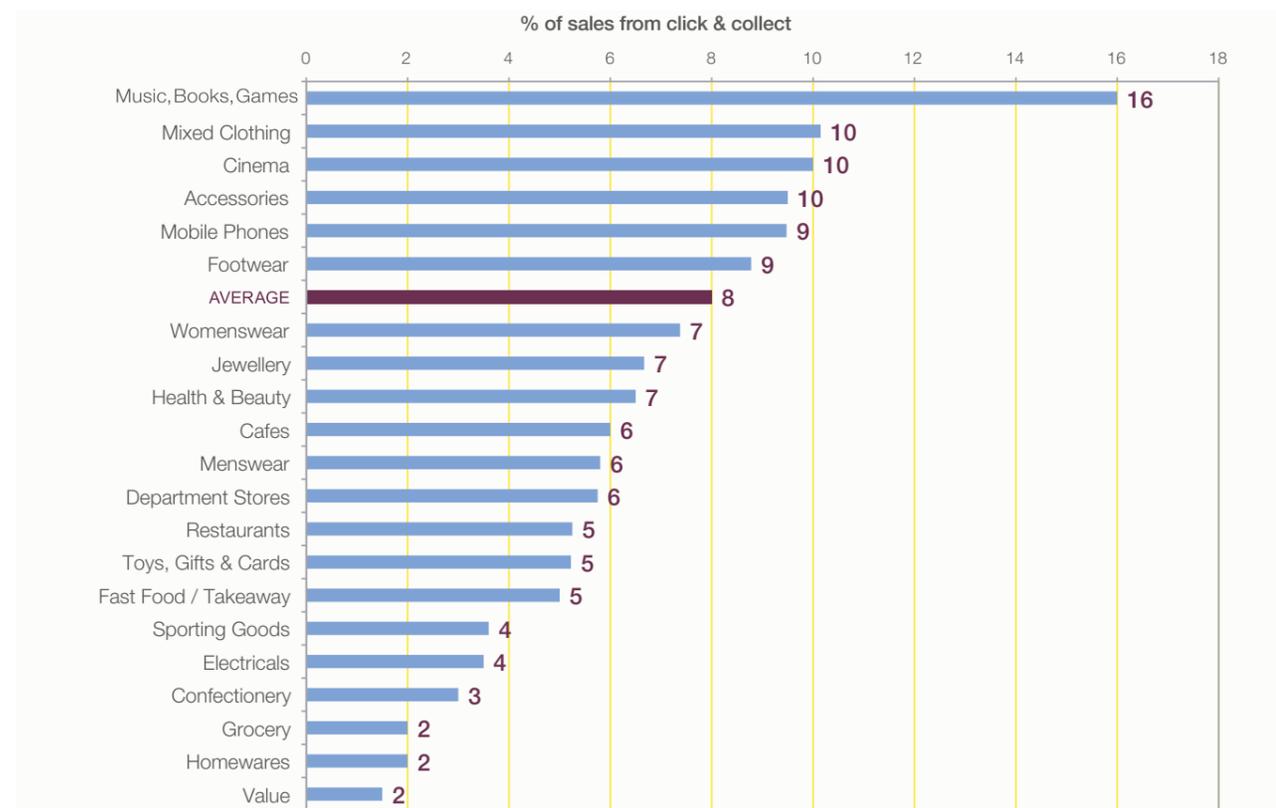
Opticians were least likely to offer a click & collect service (3%) along with Fast Food / Takeaway (7%) and Confectionery (9%).

Stores in London / Home Counties were most likely to offer click & collect (54%) closely followed by stores in Scotland (53%). North West and Midlands stores were least likely to offer a click & collect service (44% each).

Of those who do not offer a click & collect service, Stationery stores were most interested in providing this service (75%) followed by Womenswear (45%). Food & Beverage categories (Restaurants, Cafes, Fast Food / Takeaway) were least interested in a click & collect service (7% on average).

North East stores were most interested in offering a click & collect service (29%) with stores in Northern Ireland least interested (8%).

FIGURE 7: Percentage of store sales from click & collect



Source: Savills Research

On average, 8% of store sales come from click & collect.

Music, Books and Games stores had the highest proportion of sales from click & collect (16%).

This is in stark contrast to store managers' knowledge of online sales credits and deductions in this category whereby nearly one in three did not know whether online refunds were deducted from store sales.

The next highest percentage of sales from click & collect came from Mixed Clothing, Cinemas and Accessories (all 10%).

Value/Discount retailers along with Grocery and Homewares saw the smallest proportion of sales from click & collect (2% each).

Click & collect store sales were highest in London and Home Counties (11%) compared with 4% in the North East.



Footwear retailers are most likely to offer in-store online ordering



Just over a third of retailers offer the facility to order online while in-store



The ability to order online while in-store can help boost sales when products are not currently available there.

Just over a third (37%) of retailers offer the facility to order online while in-store.

Footwear stores (77%) were most likely to offer this facility followed by Womenswear (65%) and Music, Books, Games and DVDs (64%).

Fast Food / Takeaway (5%) and Opticians (7%) were least likely to offer this facility.

Stores in Scotland were most likely to offer an in-store online ordering facility (40%) with Northern Ireland stores least likely (32%).

Ship From Store is a fulfilment process by which retailers use stock from their store estate to fulfil orders. Fulfilling orders in this way turns the store into a virtual distribution hub and helps to ensure that orders are met without delaying the delivery process.

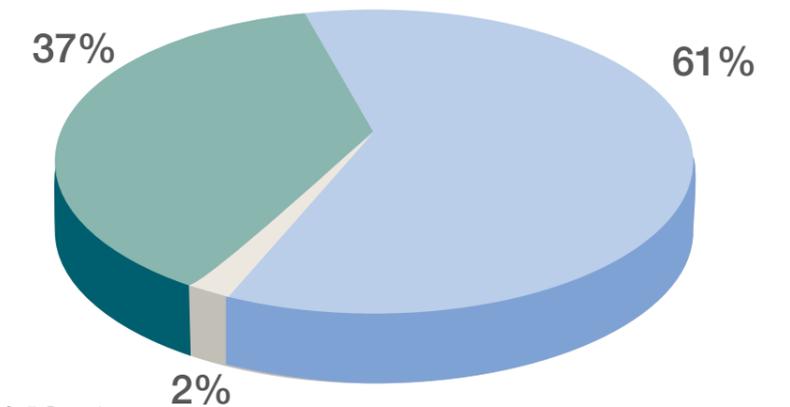
1 in 10 stores said they participated in 'Ship From Store'.

Footwear stores were most likely to participate (29%) followed by Grocery (28%) and Stationery (25%). Confectionery (4%) and Menswear (5%) were least likely.

Stores in the North East were most likely to participate in ship from store (17%) with Northern Ireland stores least likely (3%).

FIGURE 8: Are customers able to order online when in store?

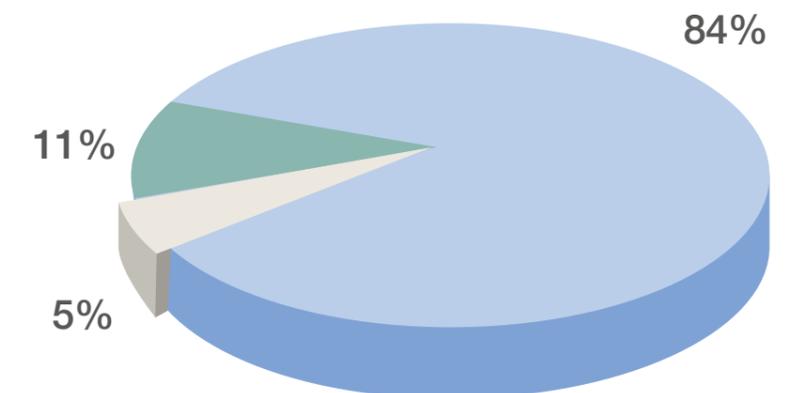
Yes No Don't Know



Source: Savills Research

FIGURE 9: Does your store participate in 'Ship From Store'?

Yes No Don't Know



Source: Savills Research

Summary

A round up of category-level findings

FIGURE 10: A summary of findings by category

Category	Credited for online sales	Online returns refunded	Online returns deducted from store sales*	% of store sales from online	% of store sales from click & collect
Category	%	%	%	%	%
Accessories	7	66	87	9	10
Bookmakers	8	-	-	-	-
Cafes	9	4	50	9	6
Childrenswear	0	80	25	-	-
Cinema	50	-	50	35	10
Confectionery	9	43	70	3	3
Department Stores	41	63	64	8	6
Electricals	12	55	43	16	4
Fast Food / Takeaway	7	4	13	5	5
Footwear	28	90	64	10	9
Grocery	50	48	64	12	2
Gyms	50	-	50	10	7
Health & Beauty	27	62	66	7	7
Homewares	17	38	74	16	2
Jewellery	7	43	37	15	7
Menswear	32	61	86	4	6
Mixed Clothing	24	70	73	6	10
Mobile Phones	14	34	52	13	9
Music, Books, Games	44	75	62	14	16
Opticians	8	11	100	-	-
Other	11	13	55	-	-
Restaurants	19	12	67	7	5
Sporting Goods	29	65	96	4	4
Stationery	-	85	91	-	-
Toys, Gifts & Cards	18	43	76	8	5
Travel	8	-	20	5	-
Value	19	37	82	1	2
Womenswear	32	82	55	9	7
AVERAGE	20	48	65	10	8

* Where refunds are given. NB: Non-responses are denoted with '-'

Source: Savills Research

FIGURE 11: A summary of findings by category

Category	Credited for online sales in region	Online returns refunded	Online returns deducted from store sales*	% of store sales from online	% of store sales from click & collect
Category	%	%	%	%	%
London / Home Counties	17	50	67	16	11
Midlands	18	46	74	7	8
Northern Ireland	20	50	67	5	5
North East	14	51	80	14	4
North West	21	45	62	10	9
Scotland	17	49	61	8	6
South East	26	52	62	10	8
AVERAGE	20	48	65	10	8

* Where refunds are given. NB: South West region not included due to small sample

Source: Savills Research

Conclusions

So what do the findings mean for the retail sector?

In many ways these findings raise more questions than answers. Further research is likely required to more closely understand the approach of the retail sector to the capture of online and store sales and how these impact sales at a physical level.

However it is becoming ever more clear that the days of 'bricks vs clicks' are disappearing with digital and physical sales beginning to merge. In addition, the implications from an occupier, owner and regional perspective differ somewhat.

Occupier Perspective

From an occupier's perspective, with operational costs on the increase, margins being squeezed as well as limited store expansion, crediting a store for online sales within their catchment can help to boost that store's performance.

However, there currently appears to be a disparity between the crediting of online sales to a store and penalisation for online returns. In addition, there are significant differences by category with, for example, Accessories stores nearly 10 times more likely to be penalised for online returns than to be credited for online sales.

In addition to the deduction of online returns from a store's P&L, the staff resource required to deal with these returns (as well as click & collect orders) can be significant. With customer service becoming an ever more important factor to the in-store experience, many retailers are having to remove staff from the shop floor while at the same time having to deal with the very thing that is hampering the store's profitability (i.e. the deduction of online returns from its bottom line). It is unclear whether this is a conscious or unconscious strategy among the different categories but it is clear this could be fatal to some physical stores if it continues.

Owner Perspective

From an owner's perspective, these findings have implications for leases which rely on a store's turnover as, in many instances, online sales are often not included.

Additionally, online returns are often deducted from official turnover with the consequent impact on rental income potentially significant. In the current climate (where rental growth is limited at best), this can often be the only way of securing this income and any shortfalls can have a major impact.

Owners therefore need to engage more closely with retailers to understand store performance as the better the performance, the more both sides are able to benefit. More than ever, owners and occupiers need to work together to ensure a win-win situation.

Regional Perspective

Geographically, there is clearly a north / south divide when it comes to the reconciliation of online sales and returns deductions. Stores in the North East are suffering most from the disparity and are least likely to be credited for online sales while at the same time being most likely to have online returns deducted from their sales figures. This is despite the North East having the second highest percentage of store sales from online.

Conversely, South East stores are most likely to have online sales credited to their store and are among the least likely to have online returns deducted from their bottom line. There could be an opportunity to address this disparity by adopting a more consistent / uniform approach to the online credit / deduction issue to avoid such geographical polarisation in performance.



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The Savills Team



Stephen Toal
Head of Property Management Research
0161 244 7735
stoal@savills.com

[Linked in](#)



Graeme Clark
Head of Shopping Centre Management
0141 222 5863
gclark@savills.com

[Linked in](#)



Richard Hulme
Head of London Retail Management
020 7 299 3069
rhulme@savills.com

[Linked in](#)



Tom Winter
Research Analyst
0161 602 8220
twinter@savills.com

[Linked in](#)

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