

SPOT LIGHT

Retail Revolutions
**Exploring the impact
of E-commerce on
Local Physical Retailing**

In partnership with



Introduction

Despite challenges from rising ecommerce, increased costs, structural shifts, a spate of CVAs, and the rhetoric that accompanies these issues, retail is not yet on its knees.

Online retail continues to dominate the growth story, but it is becoming increasingly clear that for many brands retail places remain a key outlet for customers to interact with their omnichannel offer.

Equally there are some brands that are so convinced that shops provide the best means for engaging with their customers that they provide no online offer at all.

While no sector will be entirely immune from challenges brought on by ecommerce, for many retailers the physical space is proving to be both a complimentary and synonymous part of their overall omnichannel strategy.

The community shopping centre market and other local convenience driven centres, will continue to be occupied by a blend of retailers. For some occupiers ecommerce will be a sideshow, while other brands will use the store as a core part of their supply chain; a means to bring the online and offline channels together and customers in store.

This report considers whether convenience and community based shopping centres are impacted by ecommerce by looking at the consumer trends that surround them and the online businesses of the retailers that occupy them.

Our aim, far from implying that challenges to the retail sector from online do not exist, is to demonstrate that not all retail places are equal. Certain niches, despite the challenges present, will continue to have an important role in fulfilling consumers' needs in the future.

Hot issues in 2018

Plenty of challenges but positive stories remain

Performance barometers

Notwithstanding the challenges that face the retail market, metrics quantifying market performance can often be a poor measure of the actual state of retail when taken in isolation, and do not do justice to the continued success stories of different kinds of retail places.

National footfall trends have little bearing on retail sales even when internet sales are removed. Footfall across shopping centres has decreased year on year for the best part of a decade, with last year's springboard benchmark showing decline of -2.8% across the country.

In contrast spending levels across retail, food & beverage and leisure continue to see year-on-year growth. GlobalData expect retail sales in prime shopping centres to increase by 1.4% per annum 2018-22, with high street sales growing 1% per annum. In 2018Q2 sales volumes climbed 1.3%, lifting the annual rise to 3.9% and suggesting that the sector has made an outsized contribution to GDP growth (Oxford Economics).

So, while physical presence has decreased this doesn't mean people are shopping less, but instead points to a change in consumer behaviour around how they shop. Consumer confidence remains tentative, but there are some early signs that the consumer environment and in turn sales volumes will improve as we move through 2018; softening inflation and wage growth has seen real wage growth move back into positive territory.

Vacancy rates can also be misleading. The UK national retail vacancy rate at the end of 2017 was 11.2% (LDC). However, this rate varies significantly for different kinds of retail place. In the community shopping centre market Ellandi record unit voids in 2018Q2 at 5%, down from 7% yoy; well below national levels and broadly equivalent to regional malls. For these locations at least occupational rates have improved over the last year.

There are concerns too that the latest tranche of Company Voluntary Arrangements (CVAs) and administrations will cause significant voids. While retail failures are undoubtedly an issue, especially for landlords with multiple affected occupiers, the overall impact on retail occupational levels is relatively low. We have analysed the recent tranche of CVAs and administrations and while the full outcome is yet to be seen, our worst case scenario indicates that national retail vacancy will only worsen by 0.18% should all impacted brands fail completely. We should reiterate of course that not all places are affected the same way and some locations have been impacted by multiple CVA/administrations, causing above average voids.

Cost pressures are making for a tough trading environment and squeezing retailer's margins, as a perfect storm of increased staff costs, a weakened pound, cost of raw materials and over extended liabilities has resulted in several business failures. There are challenges too with rental levels and business rates with calls from the occupational market for reform in these areas. Rent reduction is also often a key objective of a CVA.

.....
 "The heritage of this business is a market town business so I'm not sure [closing more stores is necessary]."

Value fashion brand

The impact of CVAs on community retail

The story of 2018 has so far been around the series of high profile CVAs that have hit the market. This is ongoing and therefore analysis of the impact can be relatively short-lived. However, we have looked at the picture at the end of 2018Q2 to examine the impact on different kinds of retail places.

Most of the high profile CVAs from the first half of 2018 will not have an impact on community shopping centres because the retailers concerned are not well represented in these locations. However, the sector does have exposure to brands like New Look and Select, with 114 stores between them located in community shopping centres. Other high profile brands that have so far gone into CVA in 2018 have fewer than seven stores in community schemes between them.

The positive story so far regarding the impact CVA affected brands have on community shopping centres is that few stores have actually closed. While some portfolio consolidation is anticipated and necessary to eliminate under-performing stores, the businesses under CVA typically still have the need for their portfolios in local places to reach their customers.

New Look have reiterated the importance of local retail presence in reaching their target market and while ecommerce is an important area of growth for the business, 34% of online orders are collected in store demonstrating a close relationship between their customers and shops.

The primary impact of these particular CVAs is therefore not on high street vacancy, but on landlord's income with units having a rent reduction, or a movement from quarterly to monthly rents. 58% of these CVAs have resulted in stores with >40% decrease in rent, 21% with rents reduced up to 25%, while 21% have moved to a monthly payment.

Either action results in reduced rental pressure and increased rental affordability for the retailer. So, while there will of course be some pain for the landlord in terms of rental income and asset valuation, the theory at least is that the tenancy is more sustainable and occupational levels are maintained.

However, while a CVA can provide a positive fix for the retailers in the short term, there remains uncertainty on the future health of the brands affected and CVAs have been known to ultimately result in retailers disappearing from the high street completely.

Across the wider market there have been reports that some landlords have refused a CVA having identified an alternative occupier on a more favourable rent. It is assumed that this outcome will also succeed in avoiding increasing unit vacancy.

The fortunes of Poundworld remain a concern with 47 stores located in community shopping centres.

Growth of ecommerce

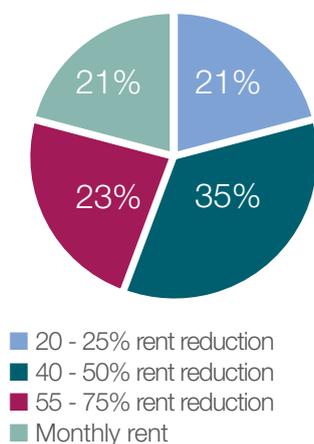
Ecommerce continues to be blamed for much of the impact on retail space. The online share of UK retailing is forecast to increase to 18.5% by 2022, however the rate of growth is starting to slow. Books and Music are dominated by ecommerce and a quarter of fashion sales are already made on line.

However, there are a number of sectors that will continue to see the majority of their sales via physical stores. Food & grocery sector is forecast to see 9% of sales online by 2022 and despite several very effective online businesses in the health & beauty sector, growth in online sales are expected to stay below 12%. Homewares also have below average online penetration.

As this report finds, for some brands the store remains the main point of engaging with customers, even in sectors (like games) where online has the greatest overall market penetration.

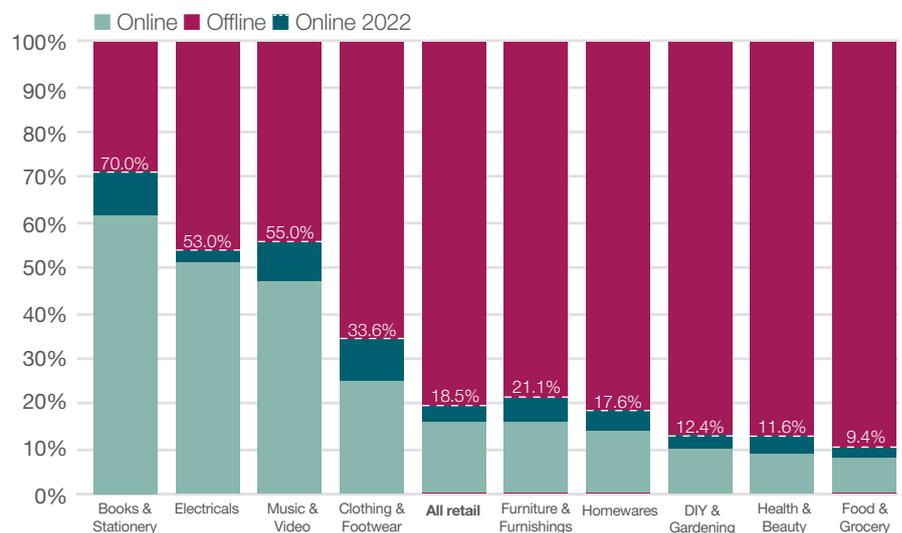
Click & Collect currently accounts for an estimated 10.5% of non store sales, yet its forecast growth is set to outpace that for e-tail delivery, providing a positive outlook for physical store presence. Click & collect is forecast to see average annual growth of 9.3% through to 2022, with e-tail growth of 6.1%.

FIGURE 1 Impact on CVA stores in Community Shopping Centres



Source: Savills Research

FIGURE 2 UK Online Penetration 2017-2022



Source: GlobalData

Consumer insights

The biggest online shoppers are still heading in store

Online is a complimentary offer

We have previously examined how visits to convenience and community based retail schemes typically still outweighs frequency of online shopping for all demographic groups. But what of the people for whom online shopping has become a frequent pastime? Consumer data shows that even the most frequent users of ecommerce are still choosing to shop in-store and are often using Click & Collect when they do to merge the two channels.

Results from the latest Ellandi shopper survey captures these changing shopping patterns across a geographically diverse sample of real people doing real shopping. The survey provides an excellent insight into the consumer behaviour in community shopping centres and suggests that those who shop regularly online are not shopping or spending significantly less in physical stores.

Ellandi's survey finds customers in their schemes tend to be local and loyal with 78% travelling less than 20 minutes to a store. Spending is based on a wide range of essential shopping needs with 48% of customers purchasing from household, fashion, discount and health & beauty as well as more conventional Convenience goods spend through grocery and retail services. This form of shopping requires immediacy, price point and convenience that is not necessarily offered by online channels. It reaffirms the necessity for physical, convenient, local, community driven shopping places.

However, with 39% of survey respondents shopping online frequently (more than monthly), how these shoppers continue to interface with bricks & mortar retail places is a key issue.

The consumer data indicates that online shopping does not appear to significantly impact visitation in convenience and community based shopping centres. The dwell time of the most frequent online shopper, i.e. those who shop online monthly or more often, is longer than might be expected given that they are shopping across different channels, with an average visit of 51 minutes.

Despite their high online penetration this is just five minutes less than those

who either never shop online, or do so infrequently. As well as having shorter visits, frequent online shoppers also visit schemes marginally less often (5% less) than those who shop online infrequently.

While these statistics seemingly highlight the fact that frequent online shoppers shop less in physical stores, in fact respondents who shop and browse online regularly tend to have a more purpose driven visit to schemes. With 52% of those who regularly shop online stating that they visit community schemes for a specific retail purpose, compared to 48% for less frequent online shoppers. This ties in with the notion of community shopping centre trips being largely 'needs based' essential goods. The importance of purpose driven shopping trips can not be underplayed as this directly results in a shopping trip that is best fulfilled instore.

The offer in community shopping centres has a strong emphasis on convenience (grocery) goods, retail services and convenience driven food & beverage, but an important element also includes fashion, Comparison and homeware. The fashion and Comparison goods offer in particular tends to be more value and discount driven, for which the cost of delivery and last mile logistics simply don't stack up for providing an ecommerce solution, while consumers also tend to see these products as largely convenience and needs based rather than a specialist or indulgent purchase.

In essence, many of the goods and services on offer in local high streets and community shopping centres are complimentary to consumer's online needs. This is further supported by the high instore fulfilment level of online shoppers, with 95% of customers finding everything they wished to purchase during their shopping centre visit with a purchase rate of 79%. When asked whether the shopper would have made the purchase they had bought that day online, 77% would have not.

Additionally, and perhaps surprisingly, the biggest online spenders are found to often outspend other shoppers when they visit a store. Those who shop online monthly or more spend an average of £38 per visit in a community shopping centre, compared to £32 per visit for those who shop online less than monthly.



39%

of community shopping centre visitors shop online frequently



Frequent online shoppers spend

19%

more in store than infrequent online shoppers



Click & Collect shoppers spend

37%

more instore than non users

Source: Ellandi

Consumers are evolving

The assumption that the Baby-Boomer generation are shopping primarily in-store and Millennial shoppers are searching for deals mostly online and eschewing traditional in-store retailing is outdated. Millennials are every bit as important to the vitality of local high streets and community schemes as Baby Boomers. While Millennials are much more likely to frequently visit a regional shopping centre than older shoppers, there is less difference when it comes to visiting a community based scheme at least monthly (>85% for both groups).

Millennials are shopping online three times as often as Baby Boomers, but despite uptake with online retail, Millennial

shoppers are still visiting their local centre as a primary means of shopping; 86% of Millennials visit a physical store monthly or more frequently, compared to 61% shopping online frequently. Additionally, Millennials are twice as likely as Baby Boomers to be using Click and Collect (C&C).

C&C plays an increasingly vital role in delivering a seamless omnichannel experience to customers and has grown by 60% since 2014. As such, C&C is currently used by 13% of visitors to community shopping centres, is highly effective at bringing shoppers in store, and has also been found to have a positive impact on in store basket spend. This is evidenced by the £40 basket spend of those who use C&C in the scheme, versus a basket spend

of £29 for those who don't use C&C, against an average spend of £35 for all shoppers.

Click & Collect has great synergy with local and community based shopping centres because it is all about convenience versus cost. But, for online shoppers there remain other important factors that keep people coming back to physical stores, besides convenience. Respondents of the survey stated that they still like to visualise, try-on and feel products before purchasing them, as well as interacting with staff and receiving a more personalised service.

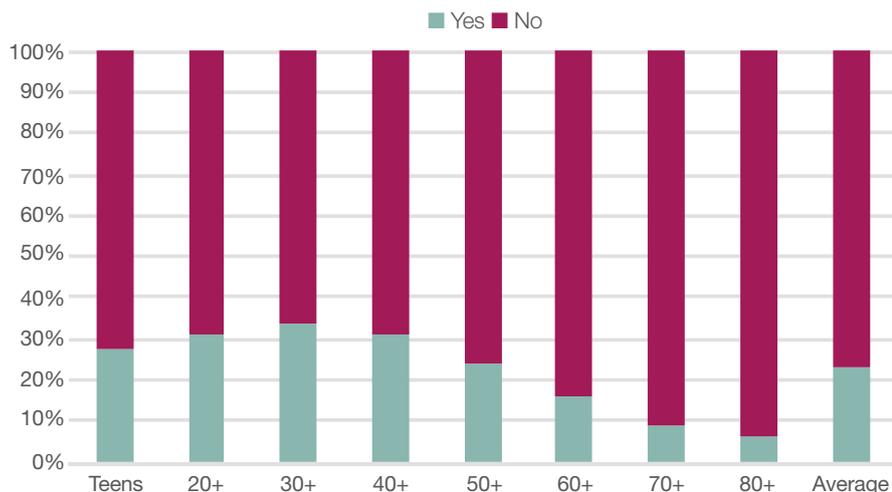
Equally the non-retail offer in local high streets and community shopping centres is cited as an important ingredient for driving footfall, purpose, convenience and fulfilment; 90% of Ellandi's schemes have

local amenities such as council office, GPS and dentist embedded within them.

The path to purchase is evolving and those who shop regularly, both instore and online are making use of the increasing number of shopping channels to do so. Bricks and mortar stores and brands must adjust themselves to the hybrid shopping habits of shoppers in order to prosper in this fast-changing environment.

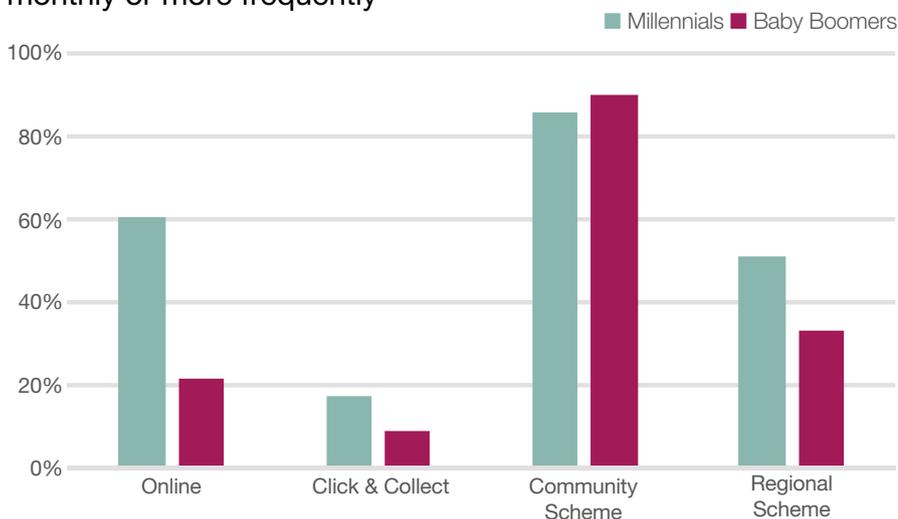
In fact, all consumers are visiting a wider range of retail locations more frequently and shopping multiple locations in one outing to find what they want. So, while time spent in shopping centres may be falling, purpose driven visits are increasing. This is an important and vital sign for the future health of bricks and mortar retailing. ■

FIGURE 3 Would you consider buying the type of products that you purchase at this shopping centre online?



Source: Ellandi

FIGURE 4 Millennials v Baby Boomers - % visiting/purchasing monthly or more frequently



Source: Ellandi

Change in consumer behaviour 2014-2017



Spending time in scheme

-13%



Basket Grocery

+40%



Leisure or Catering

+57%



Click & Collect

+60%

*Data refers to % of population that has changed their behaviour
Source: CACI

Ecommerce and local retail needs

What is the online offer of brands located in community driven schemes?

Ecommerce doesn't suit all brands

The overall growth trend of ecommerce does not account for the huge disparity between the internet offer and performance of different brands, different retail subsectors and different kinds of shopping centre. There is clear difference in the relationship that community shopping centres have with ecommerce through the brands represented within them, compared with prime retail destinations.

While many retailers have embraced omnichannel, the need for an online strategy is not universal and there remain those that do not see it as essential to meeting the needs of their customers, or have only implemented it at the margins. Compare Primark, who's confidence in providing a great instore experience and affordable clothing offer has so far meant avoiding ecommerce, while New Look's online business is estimated to be 18% of UK sales.

Our analysis indicates that ecommerce plays a smaller role in the total revenues

for brands in community schemes than in prime regional centres. Around 50% of 'Top100' brands in community schemes are value, convenience, F&B or service orientated, and ecommerce tends to represent a smaller proportion of these brands' sales.

As such, almost 1/3 of Top100 brands in community schemes have no internet offer at all. Could it be that online competition is of less significance to retailers in community shopping centres?

The online offer of brands in community schemes

For brands with an online channel, the contribution this makes to total brand sales varies significantly. This is of course partly due to varying degrees of success in growing an ecommerce strategy, but it also indicates that for some brands online does not sufficiently replicate the instore offer.

Of the Top100 brands in community shopping centres, 68% have an online channel, accounting for an average of

12% of their UK sales. In regional malls, 80% of the Top100 have an online offer, with an average 20% of all sales for those brands from online.

Across different goods sectors, such as variety stores, footwear, ladieswear and menswear, average online sales for key brands in community schemes are typically half that of brands in regional schemes. Furthermore, the proportion of internet sales by sector in community schemes are all well below the national average for ecommerce.

Fashion brands, which account for 20% of community mall and over 50% of regional Top100 brands, tend to have the most advanced online businesses and as such have the highest online contribution to their UK sales. The top 10 fashion brands in community schemes have an average of 12% sales online, while in regional schemes the average is 24%. This difference is predominantly a reflection of the type of fashion brands present; in community schemes 9/10 fashion brands are Value, while in regional schemes 6/10 are Aspirational and 4/10 Mass.

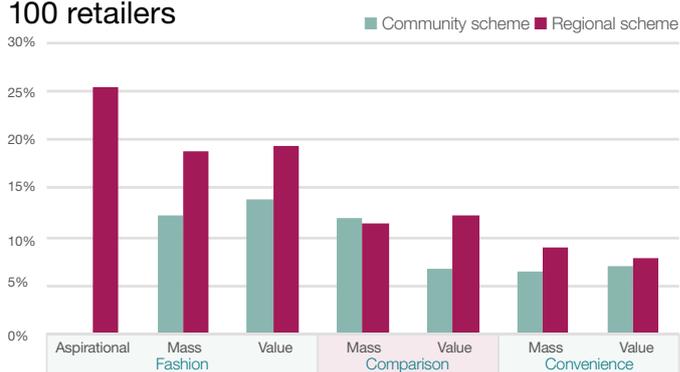
FIGURE 5 % of unit provision of top 100 retailers



FIGURE 6 % of top 100 retailers units by sector and how many offer online

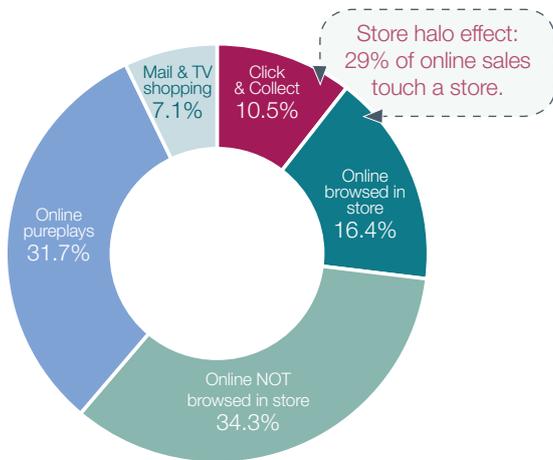


FIGURE 7 Average % sector sales online top 100 retailers



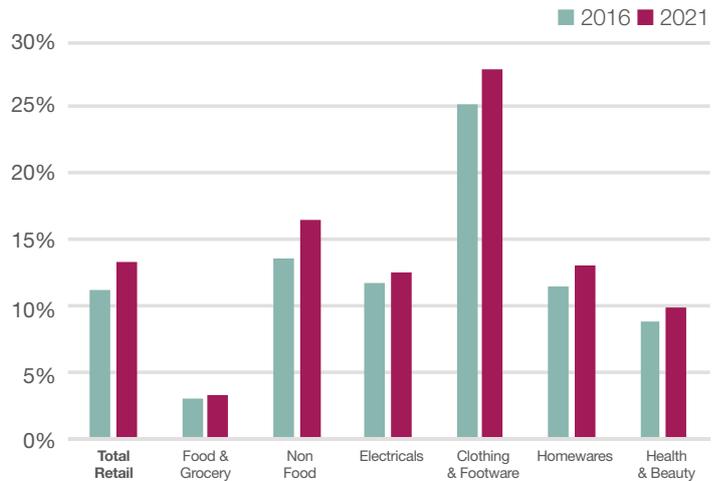
Source: Figures 5, 6, 7 - Savills Research

FIGURE 8 Non store sales breakdown



Source: GlobalData

FIGURE 9 Click & Collect as % of e-commerce



Source: GlobalData

Comparison goods account for 33% of top brands in community schemes (17% in regional). While 20% of these do not have ecommerce, those with internet revenues account for 11% of total sales. Value Comparison online sales are 7% of total brand sales in community schemes; almost half of the average for brands in regional malls.

Retail service sectors have always been an important feature of local high street locations, but this does not mean they are immune to ecommerce competition. Banks and travel agents have been moving their businesses online and with the news of RBS closing 1/3 of high street banks, future store requirements in retail banks remains unclear. Ten of the Top100 community scheme brands are banks or travel agents, (around 5% of units). So far these service retailers have retained presence due to the customer interface and service they can offer from a direct interface with their customers.

Other service sectors, such as health & beauty, are on a growth curve and physical space remains essential. Many other traders that are more familiar occupiers of community than regional schemes (e.g. bakers, pharmacy, charity shops, post offices etc), as well as F&B, continue to provide an offer that is best found instore and they therefore have a minimal online presence.

Mobile phone stores are both service and Comparison goods retailers, with customers switching between channels. Five of the Top100 brands in community schemes are in the telecomms sector with both online and instore service channels proving not only complementary, but essential to the overall customer experience.

Local retail places provide an important role in online fulfilment

Ecommerce may not prove to be the major threat anticipated for retailers in local and community schemes because many of these brands offer a distinct point of difference, with instore service, experience and convenience being paramount.

However, ecommerce and local retail are by no means wholly separate entities. For many brands in community schemes a comprehensive omnichannel offer plays a vital role in satisfying their customer's needs. There are often strong synergies between online and offline retailing and these opportunities need to be embraced by retailers. GlobalData predict that 29% of online sales have 'touched' a store, either through showrooming, point of m-commerce sale, or Click & Collect (C&C).

C&C supports local physical store presence, plays an increasingly important role in ecommerce and is a key attractor for customers visiting a store. In the next three years, C&C is expected to account for 13% of online transactions and is already used for 1/4 of clothing & footwear online sales; 1/3 of New Look's online sales are collected in store.

Savills has found that 61% stores of omnichannel retail brands located in community shopping centres offer C&C. For brands with an online offer that don't, it is typically because their online sales are too small (<5% total sales) to justify the infrastructure challenges. However, this will almost certainly have to be implemented in some way in the near future.

Furthermore, 66% omnichannel brands in community schemes have recorded returns to store, which is often more convenient or affordable for customers than by post. This can be a costly logistical headache for retailers, but it does provide their customers with what they need while also bringing them in store.

However, while the store continues to play a key role in the supply chain, few retailers are yet to perfect the most efficient operational model for managing stock movement. Some reports have questioned whether ecommerce is actually profitable given the cost of last mile logistics and supply chain challenges. Many pureplay retailers provide free returns services, but it is clear that this is in a drive to increase market share rather than profitability.

Click & Collect has the potential to reach online shoppers while minimising costly delivery charges that shoppers are reluctant to pay. Such is the importance of retail places in the supply chain that pureplay retailers and delivery providers are increasingly focussing on reaching them; Amazon Lockers are now in 2/3 of community shopping centres we analysed.

The significance of both the uptake of C&C and returns to stores provides a powerful demonstration of how consumers still interact with brands in the real world as well as online. C&C fits well with the role of local, community and convenience driven shopping centres and there is a key synergy between C&C/online fulfilment, local retail spaces and non-retail town centre functions. ■

HEADLINES

Hot market issues

- Footfall is down, but consumer spend is up
- There are pressures on retailers from rising costs, but not all retailers are affected in the same way
- Ecommerce and Click & Collect (C&C) increasing
- The impact of CVAs on community retail space is not all bad news

Ecommerce in community shopping centres

- The range of goods and services on offer in community shopping centres is different from that in prime regional schemes, with a strong focus on goods and services that are not as readily available online
- 68% of Top10 brands in community shopping centres have an internet offer, compared to 80% in regional malls
- Online accounts for 12% of UK sales for Top100 community shopping centre brands compared to 20% in regional malls. This difference is echoed across most goods sectors with online sales for community shopping centre brands accounting for half the levels of brands in regional malls
- With a greater proportion of retailers with no-online offer, or online accounting for a low proportion of their UK sales, while not immune from the impact from online, the stores in community shopping centres remain a core and relevant part of the retailers' businesses and the best opportunity for them to engage with their customers

Consumer Insights

- Online shopping does not appear to adversely impact visitation in local and community shopping centres
- Many of the goods on offer are complimentary to online needs
- Click & Collect has a positive impact on basket spend
- Millennials are as important to the vitality of local high streets and community schemes as Baby Boomers

Importance of retail places in online fulfilment

- While there are less sales online for brands in community schemes, Click & Collect plays a critical role for those with online businesses
- The store also plays a key role in returning unwanted goods, which supports providing a better service for shoppers and is more efficient within the retailer's supply chain
- Click & Collect also fits well with the role of convenience of local high street and shopping centre locations
- Key synergy between C&C/online fulfilment, local retail spaces and non-retail town centre functions

METHODOLOGY

Ellandi has commissioned a survey of 9,500 shoppers in 30 community shopping centre scheme to assess centre and online visitation and usage. This has provided a useful insight into the changing behaviour of consumers in these kinds of location and their relationship with online and shop based retail.

Savills has analysed the online businesses of the top 100 community shopping centre and top 100 regional mall brands, accounting for a sample of 180 shopping centre schemes and 9,000 occupied units. This has enabled us to assess the proportion of key retailer occupiers' businesses that are currently made online and through click & collect and compare the importance of each proposition within community and regional shopping centres.

Key brands in community and regional shopping centres are identified as the Top100 when ranked by number of stores in each scheme type. Note that the analysis looks at national store/online sales for brands and not specifically the performance of stores in community and regional shopping centres.

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