INTRODUCTION

1. Retail is an exciting, diverse and dynamic industry undergoing transformational change. The SRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the retail industry and to the customers it serves. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture. The SRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry’s success – our 3Cs.

2. The SRC publishes leading indicators on Scottish retail sales, footfall and shop vacancies in town centres. We also hold policy positions which are informed by our 200-strong membership and determined by the SRC’s Board.

3. A thriving retail industry is good for jobs, for investment\(^1\), for tax revenues, for keeping down prices for consumers, for communities and even for our pensions\(^2\). The industry is also one of the most innovative. This is evidenced over recent years through significant new investment in store formats and layouts including online, in-store technology and order points, home delivery and distribution capabilities, click and collect services, digital customer loyalty and payment arrangements, and new and refreshed own-brand products.

4. However, these are testing times for the industry which is undergoing significant transition. Retail sales have consistently been at a low ebb over the past few years, at a time of profound structural, economic and regulatory change for the industry. Retail is Scotland’s largest private sector employer, employing 13 per cent of the private sector work-force. However, official figures show a decline in both the number of workers and shops in Scotland. Responding to these profound changes and becoming more productive will require retailers to invest in: new technology (both software and hardware), a higher skilled workforce, and better logistics capabilities.

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\(^1\) 14 per cent of private sector investment comes from the retail sector e.g. buildings, vehicles, software and hardware

\(^2\) 4 per cent of dividends into pension funds come from the retail industry
5. The SRC welcomes the opportunity to contribute to the Committee’s inquiry.

Responses

Retail Industry and the Scottish Economy

6. The Scottish Retail industry has faced significant challenges in the last decade. Digital disruption, technological advancement, intense competition, squeezed consumer incomes, and Government-imposed costs have all made life very difficult for retailers. The Scottish Government, and Scottish Retail Consortium, produce different statistical releases which indicate the challenges the industry faces.

7. Scottish Retail Sales. The Scottish Government has published a retail sales index since 2009, which updates each quarter with the latest retail sales and retail volumes for Scotland. These figures are unadjusted for inflation. As the graph below shows, the value of those sales has deviated over the last three years.³

![Scottish Retail Sales Index](image)

8. On this metric it’s worth noting overall that UK retail sales have broadly been slightly higher on the quarter by quarter comparative. The figures are similar if the twelve-month average is used instead. It’s a similar story when volumes are analysed, with the UK overall doing slightly better than Scotland.⁴

9. The picture is a little clearer using the SRC’s own Retail Sales Monitor, which publishes monthly Scottish sales data based on submissions directly

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⁴ [Ibid](http://www.gov.scot/Topics/Statistics/Browse/Economy/PubRSI)
from our members. As the below graph shows, Scotland has underperformed in comparison with the UK over the last three years.

SCOTLAND VERSUS UK TOTAL SALES GROWTH COMPARISON

Source: SRC/ BRC-KPMG RSM (including Food data from IGD).

10. As these are retail sales we track both like for like and total value sales. Both sets of figures are broadly comparable, showing that Scottish sales were broadly negative through 2014-16, with more volatility since then.

SCOTLAND 3M ROLLING AVERAGE GROWTH OVER FIVE YEARS

Source: SRC-KPMG RSM

11. When considering retail sales, it’s worth noting that inflation can have a very significant impact on the overall figure. Shop prices have fallen for over four years, although we expect that to end shortly due to the inflationary impact of the changes in the value of Sterling, higher food commodity prices and rising public policy costs. It’s worth noting that

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5 SRC/KPMG SRSM (September 2017)
6 SRC KPMG Scottish Retail Sales Monitor
inflationary effect may be a temporary phenomenon, it’s hard to be certain about the long term trend. The below graph illustrates the changes in shop price inflation since 2012.

![BRC-Nielsen Shop Price Index](image)

12. Since the financial crisis Scottish retailers have faced struggling sales, shrinking margins, and now increasing economic pressures. Over that period Scotland has underperformed compared to the rest of the UK. From 1999 to 2008, monthly year on year sales growth averaged 5.9% in Scotland; whereas since 2009, they have averaged 0.5% growth. This is in contrast to the UK overall, which saw 4.7% average monthly growth pre-crisis and 2.2% since 2009.

13. Scottish Retail Employment. Employment in the retail industry fell between 2008 and 2015, per the most recent sector specific labour market figures. Those figures show 6.3 per cent of retail jobs were lost over that period. We believe that trend has continued in 2016 and 2017, and we anticipate it will continue over the next few years.

14. Scottish Shop Numbers. Over the same period (2008 to 2015) there has been a fall in shop numbers of 7.5 per cent. This is reflective of the challenges facing the industry. A report by the SRC earlier this year estimated that if public policy, automation, and digital change continue in the same manner, that over a fifth of Scottish shops will close over the

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7 BRC-Nielsen Shop Price Index (September)
9 The Business Register and Employment Survey figures (which include provisional 2016 data) give a fall in employment of 7 per cent – but the SABS figures have been used to allow comparability with shop numbers and turnover for productivity analysis.
10 Ibid
next decade\textsuperscript{11}. Over the same period across the UK there has been a mixed performance with regards both employment. Some parts of the country have reflected a similar performance to Scotland; but that is offset by strong growth in London and the South East of England.

15. Scottish Retail Productivity. Using the same statistical base as before, we see retail productivity has been flat over the last seven years. However, that performance is disappointing considering the job losses, and slight growth, should at least on a statistical level boost productivity. However, retailers have been hit by a number of expensive public policy commitments over this period, such as ever-increasing business rates\textsuperscript{12}, which has both affected output but also investment in workers and technology.

16. Footfall since the beginning of our records (December 2013) have not fallen as rapidly in Scotland in comparison to the UK overall. Scottish monthly footfall fell on average by 0.6%, while the UK overall suffered a 0.9% decline during this period.

17. Scottish Vacancy Rates were below the UK from 2011 to July 2017, with an average of 9.7% for Scotland compared to 10.8% for the UK. However, our most recent data shows that shop vacancy rates in Scotland have worsened throughout this year, culminating in 10.5% vacancy in October, which is now above the UK average of 9.3%.

18. Earlier this year the SRC published a report into productivity and innovation in the Scottish Economy. "What’s Next, the Future of Scottish Retail"\textsuperscript{13}, examined the changes within the industry. As outlined already, some of those changes could have very significant consequences for the Scottish economy. Changing customer behaviour and technological development are making many traditional retail jobs, and indeed many premises, irrelevant in the modern economy. Retailers have no option but must adapt and develop within this multi-channel world.

19. In Scotland that has been made harder by interventionalist and costly policies by both the UK and Scottish Governments\textsuperscript{14}. Many of the measures individually have merit. However, the cumulative impact of public policy over the last decade has been to significantly increase the

\textsuperscript{11} What’s Next, the Future of Scottish Retail (SRC, April 2017)  
https://brc.org.uk/media/151895/10151-the-future-of-scottish-retail-report_v2.pdf

\textsuperscript{12} In 2011 the Scottish Government announced a Large Retailer Levy, which is estimated to have cost retailers £95 million between 2012-2015. In 2016 the Scottish Government doubled the Large Business Supplement, which currently affects over 5000 retail units.

\textsuperscript{13} What’s Next, the Future of Scottish Retail (SRC, April 2017)  
https://brc.org.uk/media/151895/10151-the-future-of-scottish-retail-report_v2.pdf

\textsuperscript{14} For example, Scottish retailers pay approximately £12 million per year as a result of the UK Government Apprenticeship Levy.
cost of people and property at a time when technology has started to make both redundant.

20. For Scottish retailers this has created a very difficult situation. Where retailers would want to invest in the technology of the future, the reality is many are struggling to keep pace with the current economic conditions. That could well lead to a more vulnerable industry in the future.

21. It is important to note we expect the impact of these changes to be asymmetrical. Some retail destinations will continue to succeed, and indeed will further thrive as destination hubs where a number of brands congregate. However, that increased trade will come at the expense of other, potentially more vulnerable, communities.

22. From a labour market perspective there is also the potential for many of the entry level roles in retail to reduce. Retailers are developing new and better jobs, and overall wages are rising in the industry, as evidenced by the recent ASHE data showing retail wages up 4.6%, more than double wages growth in the economy as a whole. However, the consequence will be that for less academically successful school leavers there are likely to be fewer opportunities in the retail industry in the future.

23. Our paper outlines a number of policy measures the Scottish Government should take forward to alleviate some of these issues, and to help the industry. We would note work has commenced on developing a retail industry strategy, something we are collaboratively engaging with the Scottish Government over. We would also note the first steps have been taken towards tackling the very significant burden of business rates with the implementation of the recommendations of the Barclay Review of Rates and the commitment to restore parity with England on the large business rates supplement. However, until the overall burden of rates is reduced the industry will continue to struggle.

24. Further policy measures which would aid the industry include maintaining competitive income tax rates for the majority of consumers, investing in GDP enhancing infrastructure which improves connectivity, and re-examining how best to use the Apprenticeship Levy revenues to support Levy-paying businesses in Scotland. With regards to the Levy, one of our member firms is now paying approximately £400,000 a year towards the Apprenticeship Levy in Scotland, but is only able to claim back up to a

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15 For more detail on the changes to Retail Employment please refer to the BRC’s Retail 2020 paper two on People.
16 SRC Pay and Reward Paper 2017
18 A more detailed account of the policy measures which would support economic growth and the retail industry can be found in the 2017 SRC Budget Submission.
maximum of £10,000 from the flexible workforce development fund. With developing skills and enhancing productivity a priority for retailers there is a real need for a fairer solution.

Scottish Retail Consortium