



BRIEFING PAPER

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Retail sector in the UK

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Summary

The retail sector is going through a prolonged period of upheaval. Factors such as changing consumer behaviour, increased internet shopping and challenging economic conditions are changing the way retailers operate and engage with their customers.

This briefing paper describes the current state of the retail sector in the UK using data and recent reports on the industry. The pressures on the sector mentioned above are also explored. This paper does not provide information on government policy in the retail sector.

Key figures:

- Retail sector economic output was £92.8 billion in 2017
- Retail sector employment was 2.8 million in 2017
- There were 319,000 retail businesses in 2018

Retail sales:

In 2017, retail sales in the UK were worth £395 billion. For every pound spent:

- 39 pence was spent in food shops
- 12 pence was spent in clothing shops
- 9 pence was spent on automotive fuel
- 8 pence was spent in household goods shops (including electronics and furniture stores)

Internet sales

In January 2008 (when this data series begins), internet sales accounted for 5% of retail sales. In August 2018, internet sales accounted for 18% of all retail sales.

Internet retailing is more popular in the UK than in any other EU country. In the UK 82% of residents made at least one online purchase in 2017, similar to the proportion in Sweden, Denmark, Luxembourg and the Netherlands. In Germany, 75% of residents made online purchases in 2017. The figure for Ireland is 53%, below the EU-28 average of 27%. The figure for Romania is 16%, the lowest in the EU-28.

Store closures

In the year to August 2018, 28 retail companies with multiple stores have ceased trading, affecting 2,085 stores and 39,000 jobs according to the Centre for Retail Research (note that this should not be interpreted to mean that this many jobs have been lost).

The Local Data Company found that 11.2% of retail premises were vacant in the second half of 2017, up from 11.0% in the first half of 2017. This is the first time that the 'vacancy rate' has risen since the Local Data Company began collecting this data in 2012.

1. The retail sector in the UK: definition and statistics

1.1 Definition of the retail sector

The retail sector includes any business or individual involved with selling products directly to consumers. Related sectors include the wholesale sector (which supplies retailers), the logistics sector (which connects wholesalers and producers with retailers), and the manufacturing sector (which produces the products sold by retailers). This briefing paper focuses on the retail sector.¹

The retail sector includes shops, department stores, supermarkets, market stalls, door-to-door sales people and internet retailers.

1.2 Economic contribution of the retail sector

The following table summarises the economic contribution of the retail sector to the UK.

- Retail sector economic output was £92.8 billion in 2017
- Retail sector employment was 2.8 million in 2017
- There were 319,000 retail businesses in 2018

The retail sector in the UK, 2017		
		% of UK total
Economic output	£92.8 billion	5.0%
Employment	2.8 million	9.5%
Businesses	319,125	5.6%

Sources: Economic output: ONS, *GDP low level aggregates data*, August 2018 (Gross value added); Employment: ONS, *Business register and employment survey*, 2018; Businesses: BEIS, *Business population estimates*, 2018 (2018 data).

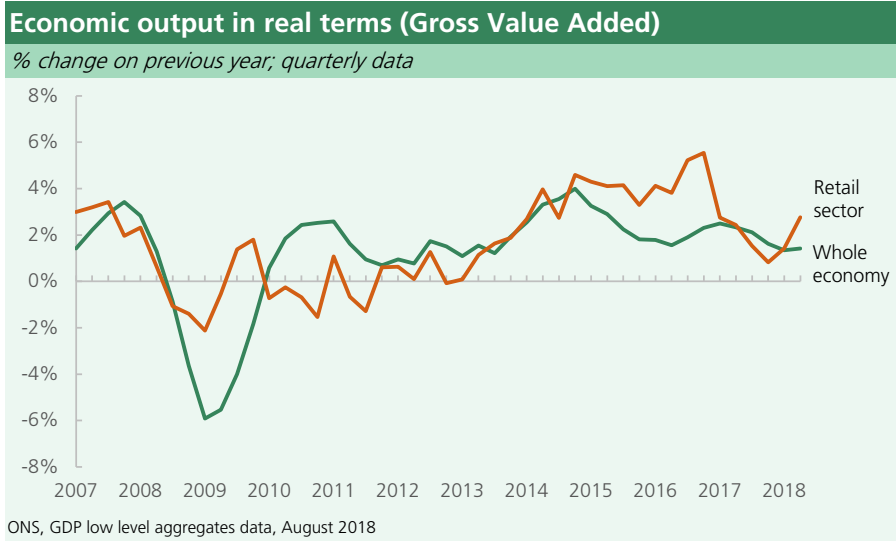
Economic output

The economic output of the retail sector (in terms of Gross Value Added, GVA, which is similar to GDP) in 2017 was £92.8 billion, which was 5.0% of the UK's total GVA.²

Over the past ten years, the retail sector's economic output has followed a similar path to the whole economy.

¹ The retail sector is defined as [Standard Industrial Classification \(SIC\) code 47](#): businesses engaged in the sale without transformation of new and used goods mainly to the general public for personal or household consumption or utilisation.

² ONS, [GDP low level aggregates data](#), August 2018 (Gross value added)



The retail sector saw a fall in economic output and then weak growth following the financial crisis and subsequent recession of 2008, until late 2012.

In 2013, the sector began to recover and grew strongly from 2014 until late 2016. The retail sector grew less strongly in 2017 and early 2018.

Employment

Employment in the retail sector in Great Britain was 2.8 million in 2017, up 48,000 or 2% compared to the total in 2016 (over the same period, total employment in Great Britain grew by 1%).³

The retail sector is fairly evenly distributed across the regions and countries of the Great Britain, as the following chart shows.



In the South West of England, 10.5% of employment is in the retail sector, compared to 9.5% in Great Britain overall. All of the other regions and countries of the UK have a very similar proportion of

³ ONS, [Business register and employment survey](#), 2018 (via NomisWeb database, 2017 data; Great Britain)

employment in retail, apart from London (8.1% of employment in retail).

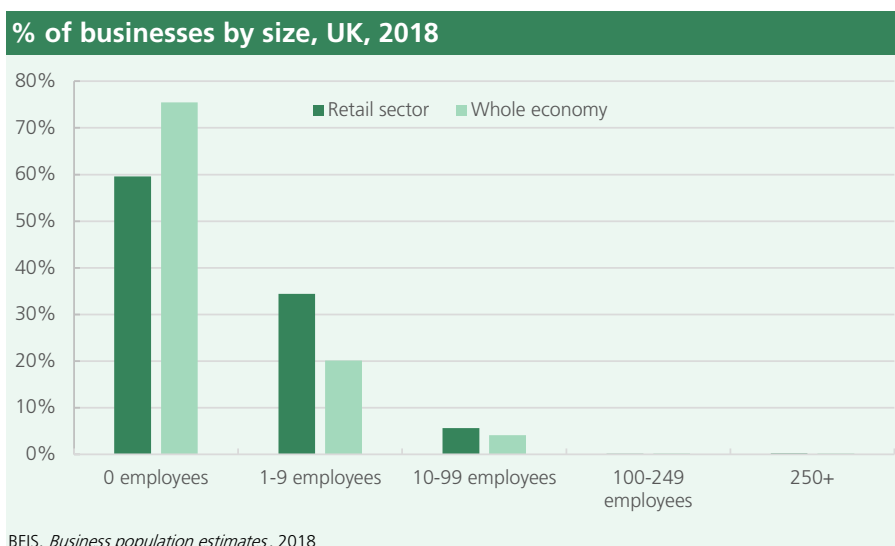
Businesses

There were 319,125 retail businesses in UK retail sector in 2018, 5.6% of all businesses.⁴

In common with most other sectors in the economy, small and medium sized enterprises (SMEs) made up over 99% of retail businesses.

However, the retail sector and the whole economy had differing proportions of businesses in other business size categories.

- 60% of businesses in the retail sector had 0 employees, compared with 76% in the economy as a whole.
- 34% of businesses in the retail sector had between 1 and 10 employees, compared with 20% in the whole economy
- 6% of retail businesses had between 10 and 100 employees, compared with 4% of all businesses.



1.3 Retail sales

In 2017, retail sales in the UK were worth £395 billion. For every pound spent:

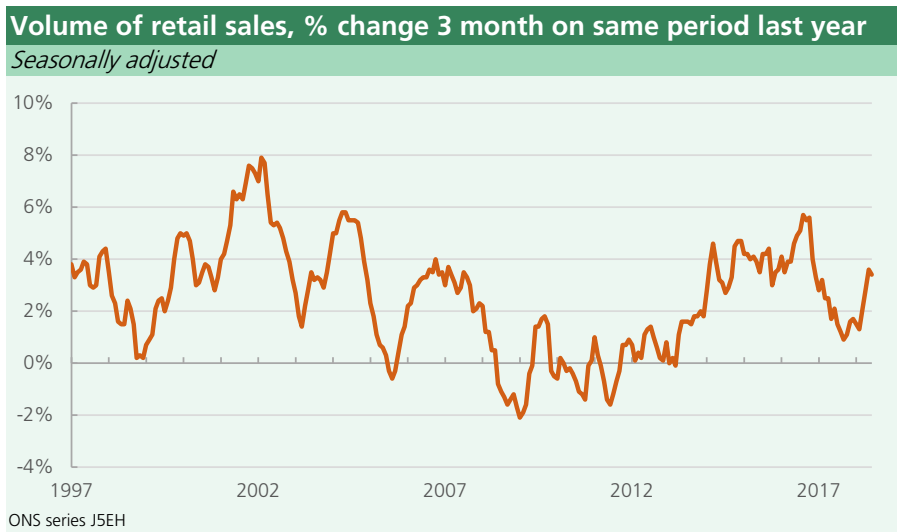
- 39 pence was spent in food shops
- 12 pence was spent in clothing shops
- 9 pence was spent on automotive fuel
- 8 pence was spent in household goods shops (including electronics and furniture stores)

The remainder was spent in other types of shops, non-specialist shops, or in non-store retailing, such as market stores, catalogues and internet retailers.⁵

⁴ BEIS, [Business population estimates](#), 2018, Table 6

⁵ ONS, [Retail sales](#), pounds, volume, seasonally adjusted data.

The following chart shows how the volume of retail sales has change over the past two decades (volume data are inflation adjusted).⁶



Only rarely have retail sales fallen in volume terms compared to the previous year since 1997. Average growth in rolling three month periods compared to the previous year was 2.5% between 1997 and 2018.

However, there was a period of sustained weak growth or falls in the volume of retail sales in the years following the financial crisis and subsequent recession in 2008 and 2009.

From the three months to August 2008 until the three months to September 2009 retail sales fell in volume terms compared with the same period a year earlier. Although there were some periods of growth in the following three years, it was not until the summer of 2013 that growth in retail sales became sustained again.

⁶ ONS, All retail sales including fuel, volume, seasonally adjusted, [Series J5EH](#)

2. Pressures on the retail sector

The retail sector has changed radically in recent years. Factors driving these changes include internet retailing, store closures and other changes on the high street, and an increasing consumer preference for large multi-purpose malls.

2.1 Shop closures

In the year to August 2018, 28 retail companies with multiple stores have ceased trading, affecting 2,085 stores and 39,000 jobs according to the Centre for Retail Research.⁷

This is a high number of affected stores compared with recent years, but not compared with 2012 or the years immediately following the financial crisis and recession of 2008 and 2009.



Since 2007, the retail sector with the most stores affected by company failures has been the clothing sector, accounting for 25% of all stores affected. Off licences accounted for 16% of stores affected and footwear stores accounted for 13% of stores affected.⁸

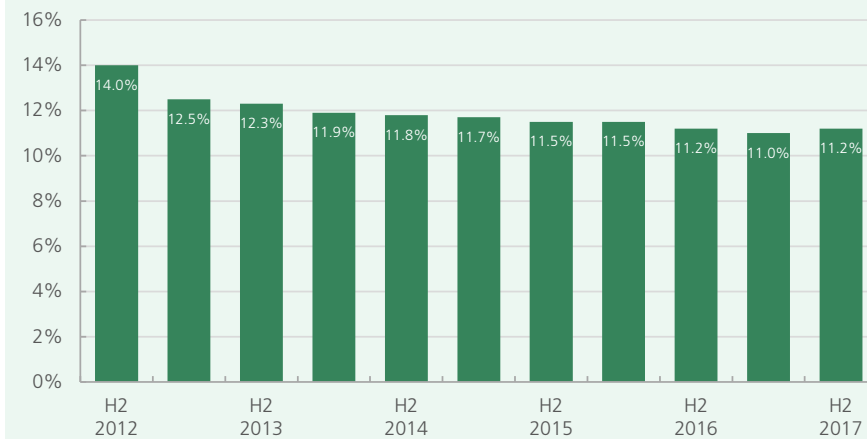
The [Local Data Company](#) collects information on town centres in Great Britain. Its latest report found that 11.2% of retail premises were vacant in the second half of 2017, up from 11.0% in the first half of 2017. This is the first time that the 'vacancy rate' has risen since the Local Data Company began collecting this data in 2012.⁹

⁷ Centre for Retail Research, [Who's gone bust?](#), August 2018. Note that some of the business that went into receivership may have recovered, been sold as going concerns but changed their name, or ceased to exist. Therefore, these figures should be used cautiously.

⁸ Centre for Retail Research, [Who's gone bust? – Further information](#), August 2018

⁹ Local Data Company, [Retail and leisure trends report H2 2017](#), May 2018, p5

Vacant properties as a % of all high street retail units, Great Britain



Local Data Company, Retail and leisure trends report H2 2017, p10

The vacancy rate varies by type of retail premises and region, compared to the national average of 11.2% in the second half of 2017:

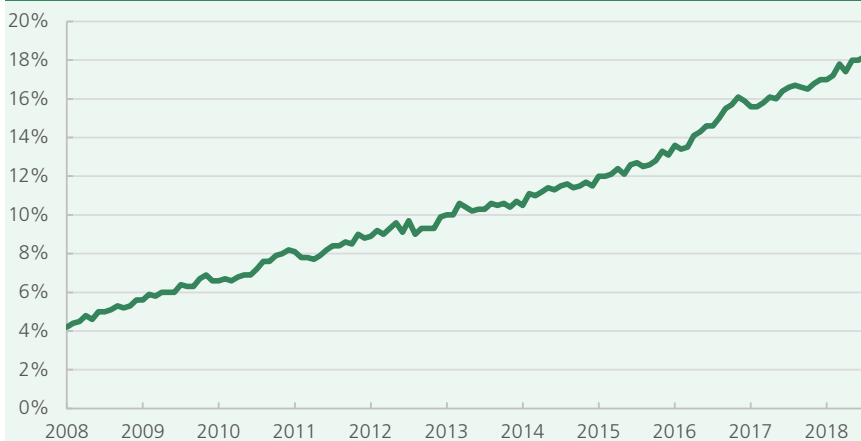
- The vacancy rate in shopping centres was 13.2%, and the vacancy rate in retail parks was only 4.9%¹⁰
- Of the regions and countries of Great Britain, the North East has the highest vacancy rate: 14.1%. Greater London has the lowest: 7.9%.¹¹

2.2 Internet retailing

Shopping on the internet is increasingly popular, and this is transforming the retail sector.¹²

In January 2008 (when this data series begins), internet sales accounted for 5% of retail sales. In August 2018, internet sales accounted for 18% of all retail sales.

Internet sales as a % of all retail sales (excluding fuel), UK



ONS, Series MS6Y, monthly data, seasonally adjusted

The popularity of buying goods via the internet varies considerably by type of shop.

¹⁰ Local Data Company, *Retail and leisure trends report H2 2017*, May 2018, p18

¹¹ *Ibid*, p24

¹² ONS, *Retail Sales August 2018*, [Internet sales index](#)



In the non-store shop sector (which mainly consists of internet sales, but also any retailers that do not have a permanent physical store, such as catalogue-order businesses, market stalls and pop-up stores) the vast majority of sales were via the internet – 78%.¹³

Non-specialist stores (including department stores) sell around 18% of their products via the internet, which is the average for all types of stores. Shops selling predominantly food (including supermarkets) sell only 6% of goods via the internet.

But all of these sectors have experienced huge growth in internet retailing. For example, over the year to August 2018, internet sales in department stores increased by 26% and food stores (including supermarkets) saw growth of 6%. Internet sales in total have increased by 14% on the year.¹⁴

Internet retailing is more popular in the UK than in any other EU country.¹⁵



¹³ ONS, *Retail Sales August 2018*, [Internet sales index](#)

¹⁴ ONS, *Retail Sales August 2018*, [What's the story with internet sales?](#)

¹⁵ Eurostat, [E-commerce statistics for individuals](#), 2017, [Data download](#)

In the UK 82% of residents made at least one online purchase in 2017, similar to the proportion in Sweden, Denmark, Luxembourg and the Netherlands. In Germany, 75% of residents made online purchases in 2017. The figure for Ireland is 53%, below the EU-28 average of 27%. The figure for Romania is 16%, the lowest in the EU-28.

2.3 Changing consumer behaviour

Physical shops, high streets and shopping centres have adapted to the rise of internet retailing by changing the experiences and services that they offer to customers. This can be seen in several broad trends.

The growth of **click and collect and omni-channel retailing**: online retailing has not resulted in a simple substitution of physical shopping for online shopping, although this has happened to some extent. Instead, successful physical stores have developed online services that are complimentary to their physical presence. Modifications include offering customers the option to browse goods in the store and then order them online, or pick up goods they have bought online in physical stores.¹⁶

In 2014, 14% of John Lewis customers researched and bought their goods online, 12% researched in the store and bought online and 23% researched online but bought in the shop (the remainder, 51%, researched and bought in the physical store).¹⁷ It has been suggested that the role of physical stores will increasingly be that of a “shop window”, with customers browsing and picking up in person, but most transactions occurring online.¹⁸

The increasing popularity of **beauty or personal service shops**: the Local Data Company reports that between in 2017, most retail sectors saw a net fall in the number of units across the country. But barbers, beauty salons and nail bars all saw net increases in the number of units.¹⁹ The increase in this sort of unit is indicative of the type of service that customers value and cannot get from the internet.

The growth of **mixed use malls** which include shops, cinemas and food and drink outlets. It has been argued that consumers should not be analysed in terms of discreet purchases, but rather by the trip they make to the shopping area.²⁰ This is because increasingly, what attracts people to the town centre or shopping mall is no longer just the shops (which have often been substituted by online vendors), but rather the leisure facilities that they can access there, such as cafes, restaurants, cinemas and children’s activities.²¹

¹⁶ Wrigley N., and Lambiri D. (University of Southampton), [British High Street: from crisis to recovery: a comprehensive review of the evidence](#), 2015, p65

¹⁷ *Ibid*, p66

¹⁸ *Ibid*

¹⁹ Local Data Company, [Retail and leisure trends report H2 2017](#), May 2018, p5

²⁰ Howard, E., [New shopping centres: is leisure the answer?](#), International Journal of Retail & Distribution Management, 2013

²¹ Deloitte, [Passion for leisure: a view of the UK leisure consumer](#), 2017, p9

2.4 Changing supermarket environment

Supermarkets are a fundamental component of the retail landscape in the UK. They are where many people buy their food and other essential items, they are innovative businesses that have transformed the retail environment and, in some cases, they are also significant global brands. But their role and position in the retail landscape has changed in recent years.

The decade to 2012 was a period of rapid expansion for the big four supermarkets (Tesco, Sainsbury, Asda and Morrison). These stores' market share in groceries grew from around two thirds in 2000 to over three quarters in 2011. This growth was accompanied by a number of other features: broadening product ranges, more and larger stores which were often located out of town, and increased multi-channel retailing (including home delivery and click-and-collect).²²

The five years since 2012 have seen many of these trends reversed. The market share of the big four supermarkets has fallen from 77% in 2011 to 68% in 2018.²³ The major supermarkets have also altered the profile of their estates, with a concerted move away from out of town stores towards town centre convenience stores and 'small supermarkets'. In 2014, Sainsbury's announced that it had more convenience stores than supermarkets; Tesco, the UK's largest retailer, announced that its convenience stores outnumber its supermarkets in 2013.²⁴

This decline in the market share of the big four was accompanied by the rapid rise of the lower costs, "no frill" competitors: Lidl and Aldi. In 2008, the combined market share of Lidl and Aldi in the Great Britain groceries market was 5%. In 2018 it was 13%.²⁵ These stores are characterised by a smaller range of goods and generally lower prices, compared to the big four supermarkets.

Changing consumer behaviour has also affected the big four supermarkets. In recent years, consumers have begun to make more frequent, smaller value shopping trips. Consumer preference has shifted in favour of single item purchases, rather than 'multi-buys'. And, the trend towards increased online purchasing means that a large stock selection in store is no longer crucially important.²⁶

²² Bank of England, *David vs Goliath: the supermarket's battle for the consumer* (via the [Bank Underground blog](#)), 8 September 2017

²³ Kantar World Panel, *Great Britain grocery market share*, 7 October 2018

²⁴ BBC, *The rise, fall and rise of the mini-supermarket*, January 2014

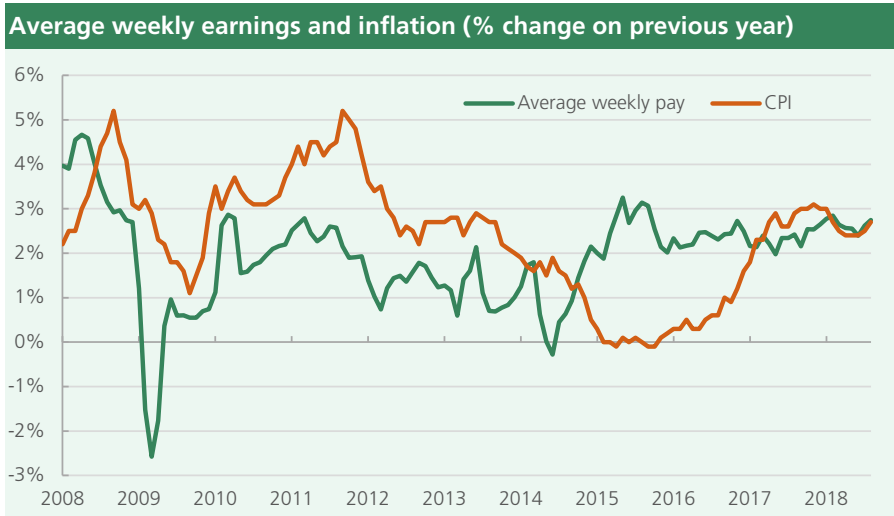
²⁵ Kantar World Panel, *Great Britain grocery market share*, 7 October 2018

²⁶ Bank of England, *David vs Goliath: the supermarket's battle for the consumer* (via the [Bank Underground blog](#)), 8 September 2017

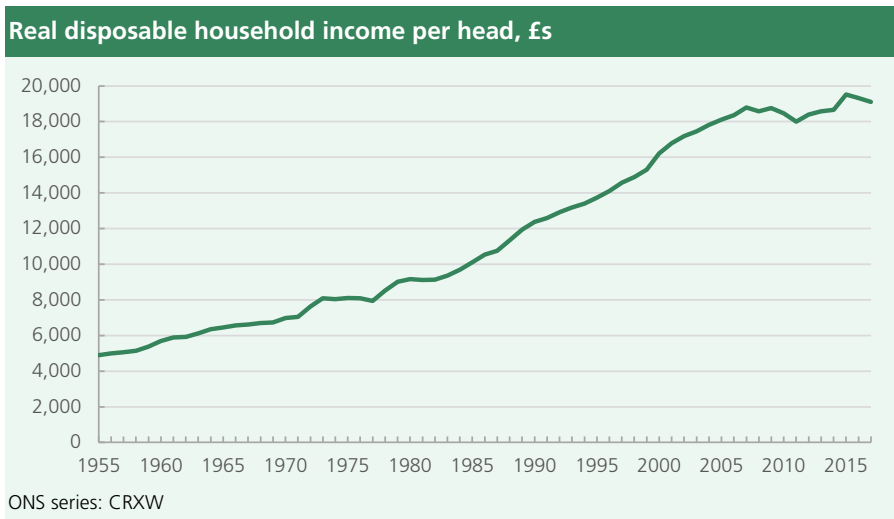
2.5 Economic factors

Since the financial crisis of 2008/09, average earnings have been subdued and disposable income has barely grown. These factors have affected confidence in the retail sector and contributed to some of the recent trends in retailing mentioned above.

Earnings have not grown in real terms for much of the past decade. Between July 2008 and September 2014, Consumer Price Inflation (CPI) was above average weekly earnings growth, meaning that earnings fell in real terms, in all but one month. There was sustained earnings growth from October 2014 until March 2017, but higher inflation has caused real earnings to fall or grow weakly in each month since then.²⁷



In conjunction with this long period of falling or weak growth in real wages, household disposable income has also grown far more slowly than in previous decades.

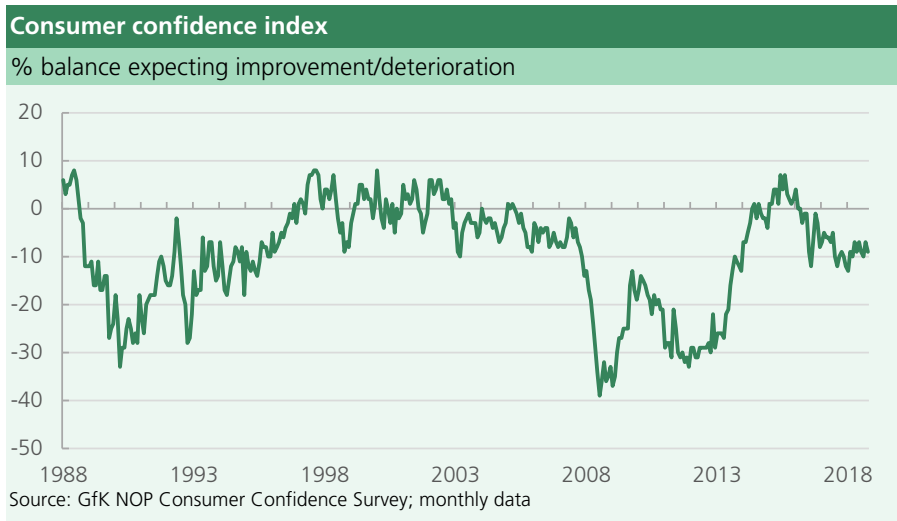


Between 1955 and 2007, the average annual growth in real disposable household income per head was 3% a year. Between 2008 and 2017, average annual growth was 0.2%.²⁸

²⁷ CPI=[ONS series D7GZ](#); Average Weekly Earnings=[ONS series KAC3](#)

²⁸ [ONS series = CRXW](#)

These factors have fed into weak consumer confidence since the financial crisis.



Consumer confidence has been weak since the early 2000s, according to GfK, but the five years following the financial crisis were marked by particularly weak consumer confidence. Throughout 2015 and early 2016, the balance of respondents expected an improvement in consumer conditions, but since April 2016, this has been reversed.²⁹

²⁹ GfK NOP, [Consumer Confidence Index](#)

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