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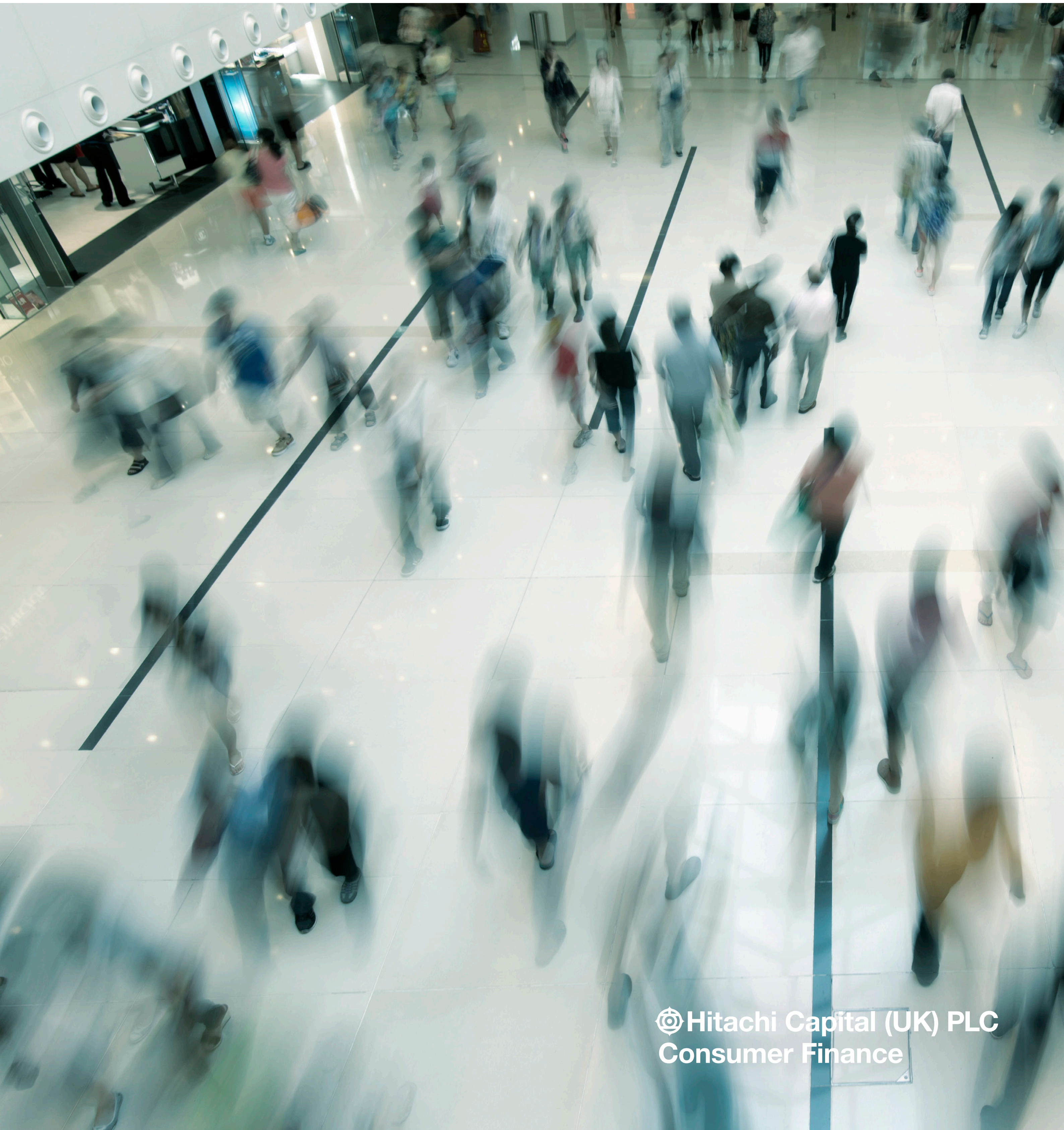
Inspire the Next

A Blueprint for Retail Investment
August 2018



Hitachi Capital (UK) PLC
Consumer Finance

Foreword

Another week, another embattled retailer. It has been a tough run for the high street in recent years, with changing consumer habits coming in tandem with an explosion of technology that has transformed the way we consume our world forever.

Within the hands of modern shoppers are their smartphones, which are challenging even established online retailers to rethink how they approach everything from technology and recruitment to marketing and supply.

It has been an expensive and complex path that retailers need to navigate to succeed.

The retail market is a crucial element of the consumer finance division at Hitachi Capital (UK) PLC. As the UK's largest point of sale finance provider, the business unit's expertise helps retailers, from niche e-commerce outlets to high street brands, create a frictionless purchasing journey for consumers. In the last 12 months alone, we lent £2.3bn to 700,000 customers, processing a loan every 60 seconds. As the UK's largest point of sale finance provider, we need to understand and tackle the challenges that influence the customer purchase journey so that we can give our customers the right products and advice to enable business success both in the short and long term.

That's why we've produced this in-depth whitepaper, which is a comprehensive study of the retail sector in the UK, and globally, today.

Alongside extensive supporting research into the sector, we've sought to hear from the retailers themselves on exactly how they see the market. We surveyed 500 senior retail figures, director level or above, to gauge opinions on a myriad of important issues to understand the trends and habits that concern them every day.

In addition, we delved deeper into our quantitative results through a series of qualitative interviews, with director-level or above, at top 10 retailers within furniture, ecommerce and jewellery.

What struck us is that, despite the headlines, there is real optimism within the retail sector on what the future holds. Our research found that more than half of UK retailers see our country as a global leader in innovation and implementation of technology within the industry. A greater proportion (71%) think the UK is doing enough to stay ahead in this regard.

This whitepaper is a comprehensive study of the retail sector in the UK, and globally, today

There are challenges, of course. For bricks and mortar stores, almost half (45%) of large businesses (1,000 employees or above) see running costs of their premises as the biggest pressure they will face in the next 18 months.

However, there is also drive among retailers to find the answers to the challenges they face. For example, we found that more than half (54%) of retailers are already leveraging blockchain technology within their business to streamline their processes and generate growth.

At Hitachi Capital (UK) PLC, we share that optimism. If retailers can take a savvy approach to their investment strategy, drawing on the right expertise to make the right decisions, whether that's in tech or the workforce, then the opportunities are there to be seized.

Vincent Reboul
Managing Director,
Hitachi Capital Consumer Finance

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Key Challenges for Retailers in 2018

1

Demonstrating provenance of products and quality of supply chain

Retailers recognise that the modern consumer has higher standards than ever when it comes to product provenance. Hitachi Capital (UK) PLC research found that 38% of retailers cite consumer demand for product traceability as one of their largest concerns. Retailers are tackling this demand through technology – more than half (54%) of retailers are implementing blockchain, a transformational process when it comes to transparency in the supply chain.

2

Attracting and upskilling employees to manage modern consumer and technology demands

Technologies such as automation and AI are changing the skills requirement, and retailers are caught between a rock and hard place. Human interaction is crucial to the retail space, but traditionally transient in-store staff are proving expensive, while the technological alternatives provide a cheaper option. Just 22% of retailers included in our research cited hiring for particular skills - such as IT - as an investment priority, while just 19% stated that they are prioritising expanding their workforce.

3

Balancing the need for innovative investment against the safety of stability

There is a desire from retailers to innovate, but there are still barriers to many taking the plunge into real investment in technology. More than a third (36%) of retailers hold a lack of trust in tech, while a similar proportion (35%) also confess to lack of understanding. Interestingly, non-tech investment priorities, such as expanding a retail footprint (29%) and reducing costs (28%) continue to feature strongly for retailers.

4

Defining the tipping point between the status quo and newer, often greener, solutions

Technologies and innovations are taking hold in so many areas that it can be difficult for retailers to know where to turn. Take delivery as an example: as online and omnichannel retailers scramble to provide consumers with the fastest delivery possible, Hitachi Capital (UK) PLC's research has found that the cost of managing and investing in fleets is now one of the biggest business pressures. Both DIY (39%) and furniture (38%) retailers are feeling the squeeze, in particular.

This is driving retailers to innovative investment: recent analysis from Hitachi Capital (UK) PLC found that there has been a 45% increase in the uptake of alternatively fuelled vehicles during the last 12 months, but this is coupled with continued nervousness for retailers who don't want to make large investments before technology has truly taken hold.

1. Retail in the here and now - the 2018 landscape

By purely analysing media headlines, it would appear that the retail sector is in trouble. In July, high street sales fell for the fifth consecutive month, and represented the worst first half year of trading in more than a decade, according to data from business consultants BDO.

Nevertheless, the picture is never that simple. There are success stories and struggles across the retail sector, with an interconnected and complex web of factors behind this volatility. But what is driving these success stories, and what are the trends that dictate them?

Trust is low, but can be earned

Research for this whitepaper involved more than 500 senior decision-makers from across the non-food retail spectrum. In addition, qualitative interviews were conducted with senior figures at retailers within furniture, ecommerce and jewellery.

The research, commissioned by Hitachi Capital (UK) PLC, found that the key challenges faced by UK retailers include new legislation (38%), consumer demand for product traceability (38%) and consumer demand for faster delivery (36%).

In 2018, more than ever, customers demand transparency from their brands.

On the surface, these may seem logical. Dig deeper, and we see how these major factors tie together. According to a report[1] into consumer trends by Mintel, trust is declining in big brands across the board. This means that in 2018, more than ever, customers demand transparency from their brands. For retailers, issues such as product provenance take a growing importance.

Interestingly, new technology is helping this happen. Explored later in this paper is the influence of blockchain, which can provide clear proof of product provenance for retailers looking to scrutinise their supply chain. One director within ecommerce agrees that blockchain is important when it comes to consumer trust. They said, “Blockchain brings in transparency, which is great for the customer.”

However, it appears there is more to be done on this front. Ingrained distrust across the social sphere is also echoed within the political and legislative environment. For retailers, the result of the EU Referendum has meant that there is a nervousness across all businesses around how EU law will equate to life on the outside. This has the potential to affect every area of business, from employment law to consumer rights.

The pressures on retailers have been manifold. While consumer spending remains steady, consumer confidence has long been at a relative low compared to pre-financial crisis level. Respected GfK figures have found that consumer confidence remains at rock bottom, and has done for a number of years. In July 2018, this situation continued despite a buoyant summer including a football World Cup, Wimbledon and warm weather – all factors that traditionally push consumer confidence up. Changing consumer habits and the migration to online continue to catch retailers out. The impact of global political and economic volatility on the cost of goods has meant that it is harder than ever to keep prices low for consumers, at a time when consumer demand for value has perhaps never been higher.

[1] **Source: Mintel Global Food and Drink Trends 2018**

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Across the high street, store closures are becoming a regularity. In recent months, the media has focussed on a landscape littered with once-almighty brands either folding completely or having to reinvent their model: Poundland, Mothercare, Toys R Us, Carpetright and House of Fraser, to name but a few. Growing staffing costs, driven by the introduction of the National Living Wage, and the influence of rising business rates, have not made things easier, either. Another influence, explored throughout this whitepaper, is the fact that, in many areas, major retailers have struggled to cater for changing consumer demand. Selecting the right technology investment strategy is a huge part of this.

Challenging environments are driving retailers to innovate

The cost of bricks and mortar and other associated running costs have been identified as an understandable challenge, with more than one in two (51%) omnichannel businesses feeling the pinch, according to Hitachi Capital (UK) PLC's research. Sharing space is one way to reduce this sizeable overhead. Politically, too, legislative changes, such as the rise in business rates, are causing uproar among retailers of all sizes, with steep rises in the past year having a huge impact on the high street.

Analysis by Altus Group, the global commercial real estate consultancy, found that the average rates bill for large high street shops in England and Wales rose by 10.8% (between 2016/17 and 2018/19). For department stores, the rise was an eye-watering 26.6%.

42% of larger retailers focussing on expanding their retail footprint in next 18 months

Interestingly, even in this challenging environment, retailers are bullish with respect to their business plans. Almost half (42%) of larger retailers (those employing 1,000 or more) have identified expanding their retail footprint as a key investment priority during the next 18 months, suggesting that far from withdrawing from the marketplace, expansion remains front-of-mind amongst executives.

However, a traditional 'land-grab' approach – quick, highly leveraged expansion – is being replaced by more innovative measures. While different brands sharing space is not entirely new, with one example being Costa Coffee's longstanding presence in Waterstones' bookshops, we are now seeing pairings that may be a bit more unexpected.

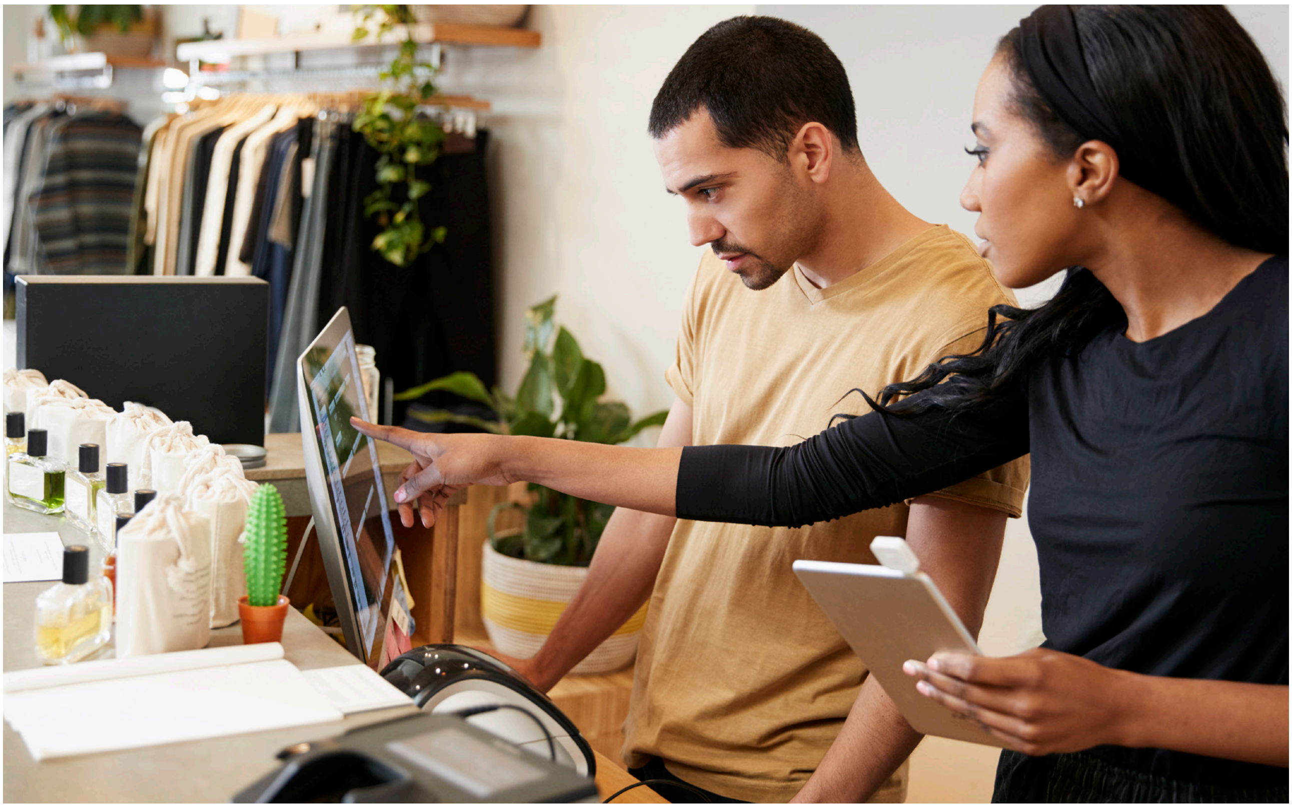
In July this year, Ford launched a retail site with Next, which perhaps embodies the new wave of interactive, virtual stores and showrooms that are becoming more prevalent. Automotive, in fact, has been making great strides into our city centres. In the Westfield shopping centres in London, car brands including Bentley and Jaguar Land Rover have utilised virtual reality and other technologies to offer customers an immersive experience and the opportunity to buy a vehicle in between clothes shopping and lunch. They've used the outside space innovatively, too, with examples of manufacturers also taking parking spaces at shopping centres to enable shoppers to test drive or drive away with new cars.

More recently, the decision in the UK to exit the EU, of course, had an immediate effect on exchange rates, with the pound falling sharply against other currencies and pushing inflation to 3% – above the Bank of England's target. This, in turn, has made imports more expensive, with many retailers passing on costs to consumers, thus contributing to the squeeze on retail sales, or absorbing some of the extra costs themselves, with an impact on margins.

The bursting skills bubble

Meanwhile, as retailers wrestle with the changing costs of their assets, and look to move ahead of rivals in how they deliver their socially-responsibly sourced products to customers in new, quicker ways, there is another huge ongoing worry for retailers outside of the material concerns: the workforce.

The high turnovers experienced in the retail sector are well established, but research and analysis for this paper indicates that the lack of workers is causing retailers to look elsewhere for solutions. Earlier this year, LinkedIn published their most sought after companies in the UK to work – and high street retail was notably absent from the 25 companies listed.



According to ONS figures, overall employment in the retail sector was down 2% in 2017 – that's a hole that needs to be filled, and technology appears to be the answer. From automation in the supply chain – exampled by Amazon introducing autonomous robots into their warehouses – to virtual shop assistants dictating and streamlining order management systems, technology is providing an alternative to a human workforce that, of course, won't quit its role, doesn't take breaks and, in most cases, increases productivity and profitability.

From automation in the supply chain to virtual shop assistants dictating and streamlining order management systems, technology is providing a solution to a human workforce

One director of a top 10 furniture retailer, who spoke to Hitachi Capital (UK) PLC as part of our qualitative research, said: "Cost of inventory management is rising so we are thinking to deploy some technologies which can reduce the reliance on human resources and use more technology to trim down the current expenses."

While public perception of such technologies, introduced to replace the menial worker, swings between positive and negative from one report to the next, retailers are feeling the pinch on all sides, and an unstable workforce may be one cost that they look to stabilise. There are ways to do this without technology of course, and retailers need to find the balance. Upskilling, training and re-training employees will become increasingly more important as technology changes the environment and requirements of our retail workplaces.

All of these factors play into the most pertinent questions that retailers should be considering – what is our business strategy for the next five years? Where will our focus be? Perhaps most importantly of all, where and in what should a business invest to ensure it is robust and successful both now and into the future?

2. Bricks and mortar V digital - the physical battle continues

Key trend: Lines between online and high street becoming blurred as retailers blend ease of internet versus demand for experiences and payment choice

Bricks and mortar stores continue to hold a large share of the overall consumer retail market.

However, while the current proportion of internet sales stands at around 17.1% of overall retail sales, the rise of online has been significant. Just 10 years ago, the online figure stood at just 2.7%.

The challenge for retailers in several sectors is how to harness online operations and make their offering relevant to consumers. For example, how can furniture stores use technology to provide shoppers with a realistic experience from the comfort of their own home? Consider that in the DIY sector, according to a report[2] by Mintel in May 2018, online sales are booming, increasing 18% to £1.6 billion between 2016 and 2017. It must be noted, however, that much of this is being driven by non-DIY specialists such as Amazon, Argos and eBay, with the traditional big brands late to develop their online proposition.

Retailers know there is an appetite for change. “The question is how well you can leverage the online platform,” said a director of sales at a top 10 jewellery retailer. “Alongside our competitors, we have new entrants who are starting to sell items alone. We need to work continuously on our online platform, to make it user friendly and drive traffic that converts into sales. Overall, the growth is going to come from online.”

For big ticket items such as furniture or DIY, retailers need to consider how to convert online interest into actual sales. This presents a separate set of challenges. With 80% of shoppers making decisions based on the credit options available at point-of-purchase, a priority should be generating awareness of the various forms of retail finance and the financial products that are most appropriate for different groups of consumers.

Flexible point of sale finance an important piece of the jigsaw

Hitachi Capital (UK) PLC’s research shows that 75% of retailers believe faster and more flexible point-of-sale finance is either very or extremely important to consumers when buying a product, but this must be matched by sufficient education and support for consumers within a digital environment, to ensure a frictionless experience wherever the transaction takes place. In additional research, commissioned in March 2018 by Hitachi Capital (UK) PLC, it was found that three in five (61%) of customers said that they would not have made a purchase at all if finance had not been available – retailers understand that this is a vital part of the point of sale.

“Point of sale finance is very important to our business,” said the director within ecommerce. “A vast majority of our customers are aware of the products available, and in our online environment, I would suggest that many have used it at least once.”

Some retailers actively avoid online, although it remains to be seen how long they will be able to do so. B&M and Tiger are two such examples – they both have online platforms, but simply for customers to browse rather than actually make a purchase. Others, such as Home Bargains, choose to only provide a limited stock online. Margins are a significant factor, particularly for goods at the cheaper end of the market, but how long can any store ignore the demand from the online consumer?

61% customers would not have made a purchase if finance wasn’t available

***Based on survey of 1,016 consumers in March 2018**

Conversely, leading online brands are now piggybacking on the success of prominent high street chains through internet order pick-up points, such as eBay deliveries via Argos and Amazon Lockers in supermarkets, too. The lines between online and physical continues to become ever more blurred.

[2] **Source: Mintel DIY Retailing - UK, 2018 Report**

Generation Z want fulfilling experiences

In order to appeal to new consumer segments, in-store operations must be fully supported by customer service. Recent research commissioned by YouGov highlighted how 59% of ‘Generation Z’ consumers – the post-Millennial group of shoppers – want a dedicated till for retrieving click-and collect items.

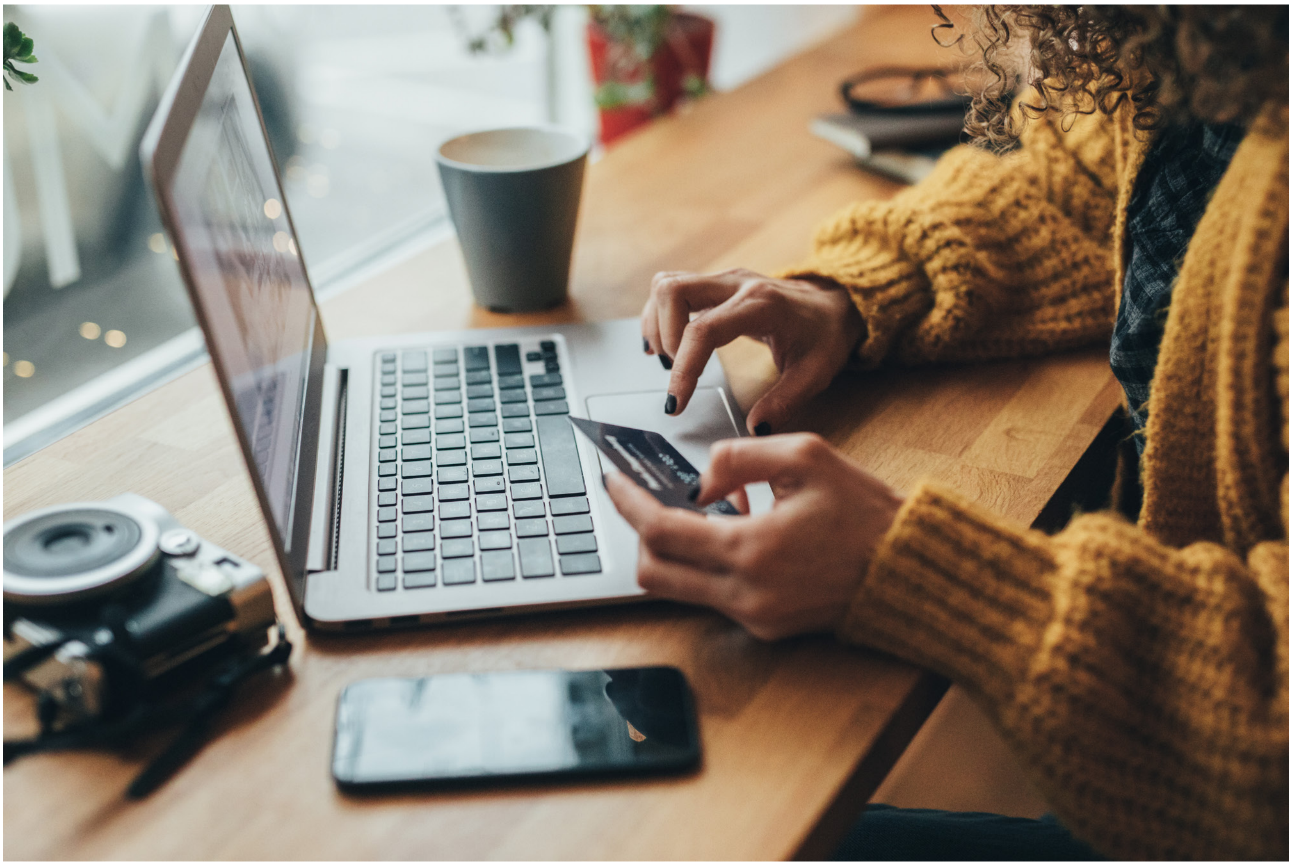
The director at a top 10 ecommerce retailer, interviewed for qualitative research by Hitachi Capital (UK) PLC, agrees, in part. “Technology is changing the way people are buying products, especially in the millennial category”, they said, “but you need to have a strategy that caters for both traditional buyers and millennials.”

75% of shoppers still prefer physical stores to online*

***2017 study by TimeTrade**

Most retailers are clearly aware that the future lies online, with more than three in 10 (31%) businesses stating that developing an online offering is a key priority during the next 18 months. There is clear sector diversity, with twice as many furniture retailers focusing on online than electrical (40% vs 20%), for example. This figure is also almost 10% higher than the average across the retail sector (excluding food & drink and fashion). This perhaps highlights the varying pace at which some sectors evolve.

Despite this, many leading online brands continue to experiment with physical stores. On the face of it, this may appear to be counter-intuitive, but physical shopping remains an attractive activity. A consumer study by Timetrade last year found that as much as 75% of shoppers still prefer physical stores to online, with personal experience, in-store promotion and, above all, the ability to touch and feel a purchase making in-store shopping a phenomenon that is going nowhere. With the younger generations now labelled as the ‘experience generation’, offering a compelling and well-differentiated physical retail experience may be one way to retain high street spending.



3. Technology & the impact of blockchain

Key trend: Forget cryptocurrency, blockchain is transforming the supply chain instead

The key shift during the last decade has been the evolution and emergence of a wide range of technologies that are helping consumers and retailers alike understand each other better than ever before.

Tech investment must drive consumer experiences

Research carried out for this whitepaper demonstrated that the changing demands of consumers (37%) has been identified as the biggest challenge to retailers during the next 18 months. This was closely followed by the cost of the implementation of new technologies (32%). These two factors are intrinsically linked when it comes to offering consumers a tailored and relevant experience.

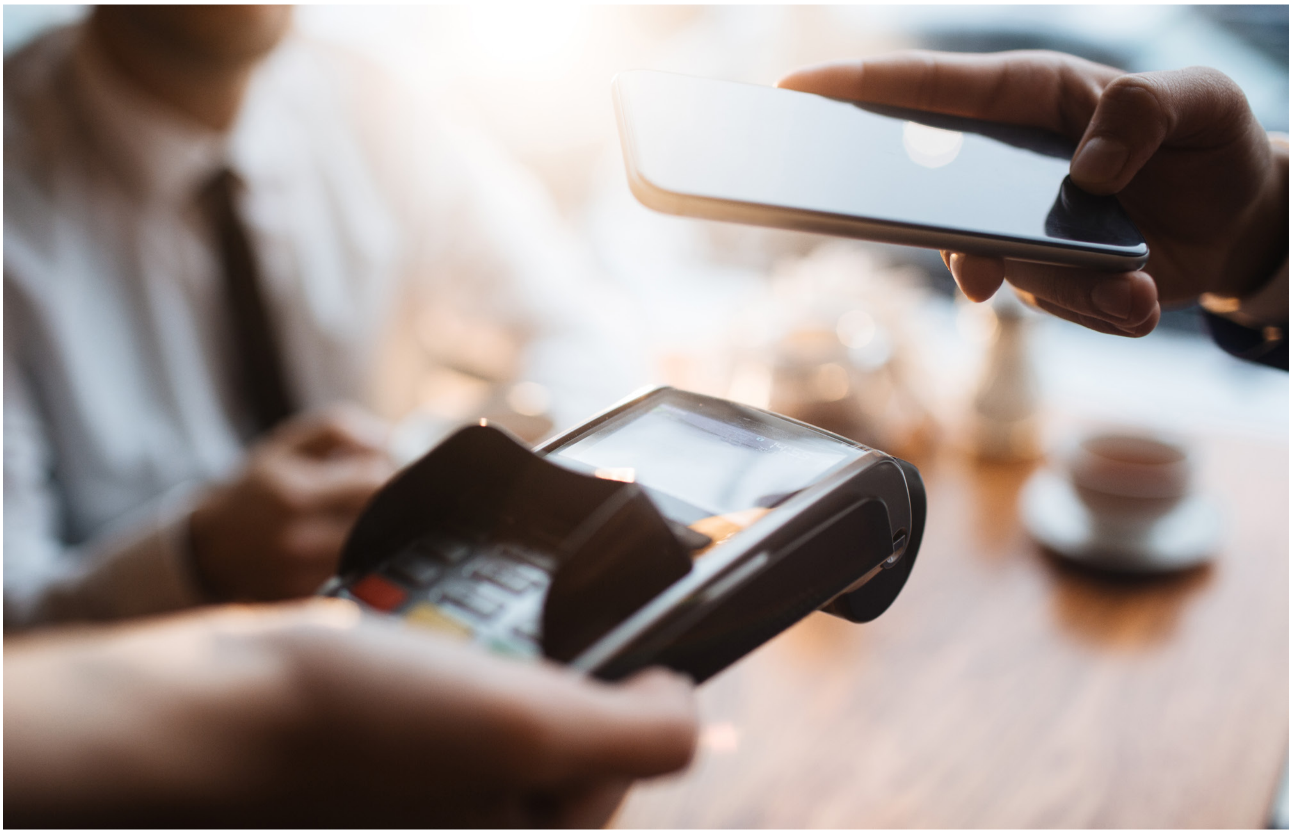
By and large, the perception is that UK retail sector is embracing technology, with 61% of retail decision-makers believing the UK is ahead of the rest of the world in terms of innovation and the implementation of technology.

Retailers have also identified technology as the number one investment priority during the next 18 months, with ecommerce businesses leading the way (47%), followed by DIY (37%) and electrical (36%) entities.

Although there was a consensus around the importance of technology, it has been notable how different business areas across varying sectors have assessed how technology can help their needs.

The changing demands of consumers (37%) has been identified as the biggest challenge to retailers during the next 18 months.

Overall, one in three retailers suggested customer service and product diversification were the key business areas where technology could have the greatest impact. Ecommerce (42%) and DIY (41%) firms are the two sectors that believe customer service outcomes will be improved with technology – there is a clear rationale for DIY in particular, where a large proportion of transactions continue to be carried out face-to-face. According to



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Hitachi Capital (UK) PLC's qualitative research, investment in this area is already happening. The director at a top 10 furniture retailer, which have a strong ecommerce arm, told us: "We recently invested in iBeacon technology [technology that enables location-based advertisements] and created an in-store app to capture customer preferences and their behaviour. The investment in these technologies helped us in understanding the buying behaviour of the customer and enable us to serve them better."

Brand loyalty among millennials, a group that are now a powerful generation moving into their optimum spending years, is well established as being much lower than those of their elders. One study by Cadent Consulting Group in August 2017 found that half of millennials have no interest in brand loyalty, another by marketing platform SmarterHQ discovered that just 7% of millennials identify as being brand loyalist. Technology has fuelled this; connectivity has provided consumers with a way to compare prices, find deals, and shift easily from store to store online. Customer services is just one way that retailers are looking to fill the marketing gap.

Technology investment taking place in the back room

The impact of technology can be seen across a multitude of areas. While Amazon is grabbing headlines with automated salespeople, the real revolution is happening in the backroom. Payment systems, the robustness of blockchain, streamlining the supply chain, or investing in new IT systems or databases, are just some of the ways that businesses are improving their ultimate offering to consumers.

One such tech investment, highlighted in Mintel's May 2018[3] research into the DIY sector, is B&Q's introduction of an 'assisted selling' tool for staff aimed at providing easier access to in-depth product information as a way of improving sales, alongside a new point-of-sale system which enables customers to pay for products in the aisle. An example of investment both in front and back of house.

Of those areas listed above, it is clear that the changing state of how goods are paid for should also be at the forefront of retailers' minds. Mobile payments, online and the decreasing use of cash has led to retailers needing to adapt.

As well as traditional payment methods, a rise in contactless and pay-by-app providers such as Apple and Google Pay has diversified the market even further. In addition, services such as iZettle and Square are making it easier for small retailers to accept cards.

The new arrival on the block has been cryptocurrencies. As of the start of 2018, there were over 1,300 different cryptocurrencies available, with around 40 having a market capitalisation of over $1bn, the most prominent of which is Bitcoin.

Realistically, fundamental concerns around security, portability and long-term viability of cryptocurrencies need to be addressed and greater consumer awareness is required before these forms of payment truly take off. Globally, very few retailers have moved to accept cryptocurrencies. One of the most notable was Expedia, which started to allow customers to pay for flights and hotels with bitcoin in 2014, but removed this payment option in June 2018. It appears that for many retailers this remains an area to 'watch and wait' rather than act upon.

More than half of retailers planning blockchain processes

However, the process behind cryptocurrency – blockchain – is already guiding itself into mainstream usage. The technology has the power to transform supply chain tracking, dramatically decreasing the risk of fraud and improving trust in provenance and transparency across all transactions along the product journey.

In the research conducted for this paper, 40% of retailers did identify security concerns around data and payments as a key barrier for further investment in technology. However, blockchain offers a broad range of potential applications and, in many cases, is seen as the antidote to issues around payments security and tracking.

54% of retailers currently are using or have plans to use blockchain

[3] **Source: Mintel DIY Retailing - UK, 2018 Report**

A surprisingly high number of retailers (54%) currently are or have plans to use blockchain processes within their business. Jewellery (69%) and ecommerce (63%) proved to be the two sectors where blockchain appears to have the greatest relevancy.

There have already been practical examples of this – Signet Jewelers has signed up to the blockchain-based Tracr platform, which has already successfully tracked high-value diamonds along the supply chain. The traceability of products is also a key consumer issue within the jewellery sector, dominated by scandals around blood diamonds, with traceability identified by 65% of jewellers as a major business concern.

The benefits that blockchain offers are certainly causing our retailers to think about how it can be implemented. The furniture director that Hitachi Capital (UK) PLC spoke to sees benefits, but is unsure how quickly they will take hold. They said: “It will take time for it to impact payments, but there is promise due to transparency and [blockchain] will definitely change the way we manage our finance offering”

For high value goods, blockchain looks to be a considerable opportunity. In China, the process is already being effectively used by premium clothing brand Kaltendin, which protects its high value goods against counterfeit through an authenticity traceability system.

“I am very confident that blockchain will help in building better consumer trust,” said the director within ecommerce. “With blockchain, you can provide much more information about a product to customers.”

Within the financial services sector, blockchain has significant potential in tackling processes and systems ranging from the recording and updating of customer records through to actual transactions. However, despite the huge potential, the uses of blockchain are currently more theoretical than practical, with few real world case study examples to point to.

There is also potential for blockchain to have an impact for retailers in digital marketing – something that IBM and Unilever have recently tested for media buying – in terms of assessing the authenticity of marketing channels. However, UK retailers probably have some way to go in being convinced, as only 26% of respondents to Hitachi Capital (UK) PLC’s survey believe technology will play a significant role in their marketing activities.

More awareness needed in tech benefits

An interesting takeout from Hitachi Capital (UK) PLC’s research is that many retailers (37%) cited access to funds as a key barrier to technology investment.

However, reading between the lines, other reasons for this sentiment appear. Within the same research, it was found that there was a stark lack of trust in new technology (36% citing levels of trust as a key barrier), and the understanding of tech capabilities (35%). With a key factor in access to funds often decided by the clarity of a business plan or proposal, is there more to be done in giving businesses the knowledge and the confidence to discover what tech can do and how it can positively impact the bottom line?

“Technology is expensive to purchase, but more often than not we don’t have much information on how long a certain technology will actually be useful. We need to see complete solutions that help our business strategically.”

Director of Sales, top 10 jewellery retailer

“Technology is expensive to purchase,” was the view of the jewellery director included in this paper’s research, “but more often than not we don’t have much information on how long a certain technology will actually be useful. We need to see complete solutions that help our business strategically for the future, not just changes that make us competitive for a couple of years.”

AI and automation driving efficiencies – but driven by workforce issues?

Retailers also felt that artificial intelligence is the other key technology currently influencing the sector, most prominently amongst DIY (46%) and ecommerce (45%) firms. A recent high profile example is a new partnership between Microsoft and M&S across customer experience, stores and wider operations.

According to Hitachi Capital (UK) PLC's research, 40% of UK retailers believe a greater understanding of consumer habits will be the key deliverable of AI or machine learning, closely followed by a 24/7 customer service offering (39%).

For furniture retailers however, it is the use of automation (45%) which appears to be having the greatest impact. Overall, 42% of furniture retailers questioned as part of Hitachi Capital (UK) PLC's research have already introduced additional forms of automation during the previous 12 months. Only ecommerce (48%) has seen a higher uptake, although one in three electrical, DIY and jewellery retailers have also implemented greater automation.

69% of UK retailers planning to investment in automation in the next year. In jewellery, this figure is 86%

The use of automation has been debated intensively in recent months. Although there is the potential for delivering efficiencies, improving productivity and enhancing the customer experience, there are concerns about an over-reliance on technology and its impact on jobs.

Despite this, 69% of UK retailers are planning to invest in automation during the next 12 months, most notably within the jewellery category, where 86% are planning to do so. The director of sales at a jewellery retailer, who took part in Hitachi Capital (UK) PLC's qualitative research for this paper, said that automation is here, and now.

"There is a certain degree of automation we have implemented within the supply chain. The technology enables us to have more, and better, real-time access to inventories, for example, which can help both for supplier planning and streamlining our own ordering process", they said.

The director at an ecommerce retailer said that automation is particularly important to their business. "Automation is live, and we are continuously applying it wherever we can."

It appears the 2% gap in retail employment (ONS figures, cited in Section 2) is forcing retailers into the technology corner.

4. Workforce innovation - the human impact

Key trend: Technology replacing the workforce as an investment priority

This whitepaper has examined at length the role of new forms of technology and automation that may come to the fore within the retail sector.

But retailers must not forget the role of people, and by extension ongoing skills development and training, to keep ahead of the competition.

A worryingly low proportion of retailers identified recruitment as a key business investment priority during the next 18 months, irrespective of whether that involved expanding the existing workforce (19%) or hiring to secure particular skills (22%).

Skills gap driving a tech-first approach

Moreover, these figures contrast starkly with those advocating a tech-first approach – almost twice as many businesses (36%) have highlighted technology as an investment priority over investment in people (19%).

There is a perception among many that the retail sector suffers from perpetually high turnover. But with respondents suggesting that increased competition is their biggest business concern for the future (34%), recruiting and retaining the best talent is a tried and tested method for maintaining a competitive edge.

The skills shortage has the potential to create a major headache for retailers, which could be one factor in business-decision makers opting to search for answers outside of their workforce. In the DIY sector, almost 40% of retailers consider recruitment to be one of the biggest challenges to their business over the next 18 months.

19% of retailers prioritising expanding the workforce, and just 22% hiring to secure particular skills

In addition, electrical (15%), healthcare (16%) and ecommerce (15%) sectors all rate recruitment well down their list of priorities, with the changing demands of consumers giving them bigger headaches (48%, 35% and 39% respectively).

Retail skills gap not a priority for UK Government

While the UK Government has acknowledged a wider skills gap within its Industrial Strategy, retail has not been a specific focus – in fact, the word retail does not receive a mention within the 256-page document. Moves were made in March this year to address the issues faced by the high street more widely with the creation of the Retail Sector Council, but its remit falls more widely than the specifics of recruitment and it will need more time to demonstrate an impact.

Whether retailers possess the appropriate skills and training to cope with the changes being brought about by technology is a significant question. Many of the technological advancements highlighted in this whitepaper will require a completely new skills base and retailers must consider scouring not just experienced retail sector specialists, but those with a purely technological background. The director we spoke to at a top 10 furniture said: “We are now hiring people with a technology background, people who understand SEO, digitalisation, social media marketing and even in terms of finance, those who understand the online security and risk assessment.”

Traditional organisations do not have the right tech people on board, and we’ve seen those retailers going through some difficult cycles to implement or pick the right technology for their business

Director at top 10 ecommerce retailer

Recent graduates, familiar with these fast-evolving trends, will also have an important role to play, as will educational institutions.

“We are lucky in that we have people in operations and management who understand technology. Broadly, however, traditional organisations do not have the right tech people on board, and we’ve seen those retailers going through some difficult cycles to implement or pick the right technology for their business”, said the director in the ecommerce retail sector.

Some retailers have seen the light and are making changes. Argos recently announced the creation of 150 tech roles to allow the business to go ‘toe-to-toe with Amazon’. Meanwhile, M&S has recognised the need to shift its culture to be more digital focused and announced plans to teach more than 1,000 of its employees about technologies such as machine learning and AI. “We have made a lot of changes”, said the director of sales within the jewellery sector. “With our focus currently online, having the skills within this area, or at least some experience of them, is very important.”

However, very few others, at least publicly, are doing the same.

If the industry isn’t proactive in dealing with concerns around the skills base of a future workforce now, the retail sector will fall behind in upskilling the right people to adapt to changing market needs and consumer behaviour

This is a huge contrast to other sectors. For example, financial services has seen a tenfold increase in the recruitment of technology specialists among European banking institutions during the last three years.

Will retail take heed and adapt? If the industry isn’t proactive in dealing with concerns around the skills base of a future workforce now, the retail sector will fall behind in upskilling the right people to adapt to changing market needs and consumer behaviour.

5. Delivery and fuel - the Movement of Goods

Key trend: Retailers looking for environmentally friendly, long-term answers when it comes to delivery

The impact of new technologies, but also the effects on the environment, are the two key factors influencing the debate around the movement of goods within the retail sector.

Around a third of retailers who responded to Hitachi Capital (UK) PLC's survey stated the cost of managing and investing in their fleet was one of their biggest business pressures – with both DIY (39%) and furniture (38%) retailers feeling the squeeze.

Much of the pressure is coming from a paradigm shift in opinion towards cleaner methods of delivery. The type of fuels used by retailers and their fleets is coming under greater scrutiny by industry, government and consumers alike. In the UK, the Government has been consulting on the implementation of clean air zones for cities, and of course, London has had a low emissions zone in force for several years, with the Ultra Low Emission Zone due to come into force from April 2019.

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The uncertain future for diesel posing challenging decision for logistics

There is also a great deal of uncertainty surrounding the future of diesel vehicles, and in the absence of a firm position from central government, there has been a drop of 28% in diesel vehicle registrations year-on-year according to data from SMMT.

The future of fleets mainly centres on alternative fuelled vehicles (AFVs), but there are many challenges facing retailers, most notably the significant upfront costs in transitioning to these forms of vehicles and the absence of a true national network of AFV infrastructure. Despite this, the signs are promising, with a 45% increase in the uptake of AFVs during the last 12 months.

Research commissioned last year by Hitachi Capital (UK) PLC on the future of fuels found that businesses could save £14 billion a year in fuel costs alone by switching to electric vehicles. Plus, 62% of respondents also stated that their fleets now contained AFVs, and 82% of those working within the fleet sector agreed on the importance of transitioning to AFVs.

More than four in ten fleets (42%) across all sectors have indicated they plan to add more AFVs within the next two years. For the retail sector, this is hugely important for their supply chain, and the industry must ensure it is leading the debate on an issue, which is critical for retail operations.

£14bn can be saved a year in fuel costs by UK businesses simply by switching to electric vehicles

Urban living changing how retailers approach the last mile

Many retailers are also trialling new forms of deliveries, particularly within the 'last mile'. This concept has appeared relatively recently, due to the rapid growth of major cities and urban areas, and highlights the difficulties, and costs, for many fleets in delivering to both consumers and business during the last mile of the journey. In a report by Business Insider Intelligence, the last mile was identified as the most expensive of a delivery journey, but that there are ways to tackle that expenditure.

"Consumers have less patience," said the director of sales at a top 10 jewellery retailer, "if standard delivery is seven days, then shoppers are now looking for four days delivery or less. You must also consider returns or reverse logistics, too. If the experience on either side is not good for the customer, they might never purchase from you again."

The use of drones in a pilot by Amazon was widely reported on, but there are many other examples of retailers using innovative forms of technology to react to this change in demand. In Hamburg, where the local government has pedestrianised a large proportion of the city centre, UPS has found the use of e-tricycles to be the most effective and efficient form of transportation. The use of e-tricycles eliminates carbon emissions, delivers more efficient routing and drastically improves congestion, as well as delivering an improved quality of life for residents.

Similar schemes are operational in Paris and other European cities, and are likely to become more widespread. However, the opportunities and solutions depend on the size and scope of the retailer – if your operations are heavily focused on inner cities, then fleet managers should consider these alternative delivery methods.

6. The Global outlook

Key trend: Mobile payment, everywhere from the shop to the street

Viewed at a high level, the UK is a microcosm of world retail trends. Changing consumer demands are being driven from the top. Whether its provenance being driven through protectionism in the US, or a huge focus on technology reinventing the way that consumers look to experience shopping in China, these two factors come to the fore time and again, and are constantly, intrinsically linked.

According to global data analysts IDG, trends such as hyperlocal-isation, whereby stores look to locally source their products and suppliers, will continue to be a real focus. Elsewhere, many of the issues experienced in the UK, such as a demand for digital, better and quicker delivery, and the rise of automation and artificial intelligence, all feature heavily in IDG's summary.

Technology and Provenance two key factors driving change in the global retail market

The 'Amazon effect' driving interesting cases in innovation

Across much of the world, the 'Amazon effect' – the impact of the tech giant becoming an aggregator and online megamarket for almost any sector – continues to take hold. In the US, while the Census Bureau reports strong growth for the furniture and electricals sectors (5.2% and 2.0% growth in the year to 2018 respectively), much of this is attributable to the tech giant and it appears, as with the UK, that this grip across the board will only tighten.

Ironically, Amazon is making forays into physical retail with its Seattle Amazon Go grocery store, a series of bricks and mortar bookshops across the US and its $13.7bn purchase of Whole Foods. One possible explanation for Amazon's move into physical retail has been that aside from the opportunity for consumers to make more impulse purchases, a physical presence gives the firm a greater understanding of human behaviours, trends, customer journeys and preferences.

The fallout from the impact of Amazon is, in some cases, both innovative and successful. Bricks and mortar businesses are experimenting with new ways that redefine their purpose as a store. In Montreal, clothing retailer Frank + Oak has produced an app that improves in-store and at home customer service and experience, from real benefits such as two-hour shipping from store, to nice-to-have free cups of coffee to app downloaders when they enter a Frank + Oak premises.

In the UK, examples such as furniture and home store Neptune are also making strides to introduce experiences, laying their stores out in such a way that shoppers might not realise they in a shop at all. Their owners also talk in the media about "contributing to society" and that retail should be about "interaction", not "transaction." The model is made for the growing millennial and Generation Z purchaser.

The ecommerce furniture director that we spoke to corroborated this type of experiential strategy: "We are looking to create a mobile app. It will be more of an AR app which help the customers to see how a particular furniture would look like in their room."

Other innovators are becoming more inventive (and frugal) with their expensive floor space. In October 2017, clothing brand Nordstrom Local opened a store that worked in tandem with its online offering to provide customers the ability try on, return or pick up items brought through the website in a physical store, without the need to stock a huge amount of inventory on site. This provides a store with a large inventory of choice to be more nimble in the locations they choose – a learning that can be adapted for any sector.

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While large markets such as the US share many of the similar Western traits as the UK – particularly given that many large brands are either intertwined or multi-territory, it is in the East that we can see real differences in approach and innovation.

China the trendsetter in global retail innovation

In fact, it is traditional in today's global market to look to China for innovation and in retail; some are already pushing the boundaries.

JD.com, one of the largest global ecommerce platforms, is thinking big, whether it is the use of robotics to fulfil customer orders, piloting the use of drones for remote, countryside deliveries, or the introduction of climate-controlled warehouses.

This vision has been enough to secure a $550m investment from Google, and JD.com's investment in such a broad range of technology has put it at the forefront of the sector. Crucially, it is also creating jobs – a reported 9,000 in northern China in the next three years, according to news agency Xinhua.

The business' planned expansion into Western markets should also serve as a warning for all retailers to be cognisant of looking further afield in terms of innovation.

There are similarities, too. While the big players can create the openings for jobs, it is another question to answer in filling them. As recently as March this year, China Daily was reporting that demand for blockchain is far outstripping talent supply in the world's most populous country.

In payments, too, China is leading the way. Driven by a retail environment that never took to credit cards in the same way as the Western world, mobile payments are now second nature and is the preferred method of payment everywhere, from street vendors to buskers, and the West is playing catch up.

Away from practicalities, the new retail landscape, both in China and elsewhere, taps into the widely accepted demand from younger generations for experiences over material possessions. Alibaba, the retail behemoth to rival Amazon, last year announced car vending machines, French retailer Auchan has opened unmanned convenience stores, and Changba, the mobile karaoke app, has developed its own bricks and mortar presence – of a fashion – by launching mini-karaoke kiosks in supermarkets.

As with the UK, the message appears to be loud and clear for all retailers – innovate, or stagnate.