

The Future of the Great British High Street: Voice of the Consumer

Prepared for Groupon UK

By Kantar Retail

October 2013

Foreword by Richard Jones, VP, National Accounts at Groupon UK & IE

The Great British High Street is in the midst of a storm. The internet has given shoppers access to more information than ever before, making them even more difficult to please. On one hand they want to review, research and discuss products and services online but on the other, they still show a desire to go in-store to get a feel for products in the flesh and demand impeccable personalised customer service across whatever channels they might be using. Unsurprisingly this, and the on-going economic pressures, is making life hard for high street businesses – particularly independent ones.

As a supporter of independent businesses and at a time when the government is predicting what will save the Great British High Street, we have commissioned this research report¹ to look at what consumers actually want to see changed to make them visit their local high street more often. It's very encouraging that there's clear support for independent shops with nearly three-quarters (71%) saying a greater range here would see them visit their high street more. However that is only half of the story. There is a clear message that shoppers want a back to basics approach. We have seen online shopping rise exponentially and self-service facilities become more popular in-store but there is still a demand for physical stores with 58% preferring this way of shopping and nearly half (46%) are calling for improved and more personalised customer service. The British shopper still needs to emotionally connect with the brands they choose to shop with, which often means talking to experts and physically seeing and touching the product.

It would also suggest that it is the independents rather than chains who are doing a better job of appealing to the consumer on an emotional level. However to drive an actual purchase, there are other forces in play. Unsurprisingly in the current climate, consumers want more bang for their buck with three quarters (73%) of shoppers looking for discounts and promotions before parting with their cash.

Our research also pointed to how the British high street might change in the future, with shoppers wanting to see more clothes (31%), artisan food and drink (30%) and book shops (20%). At the same time betting shops (26%), mobile phone shops (18%) and estate agents were given the shortest shelf life, with consumers predicting they wouldn't exist on the high street in 5-10 years time.

This report explores in more depth the findings of our shopper research, how retailers are reacting to the changes afoot and what is needed to revive the much loved high street.

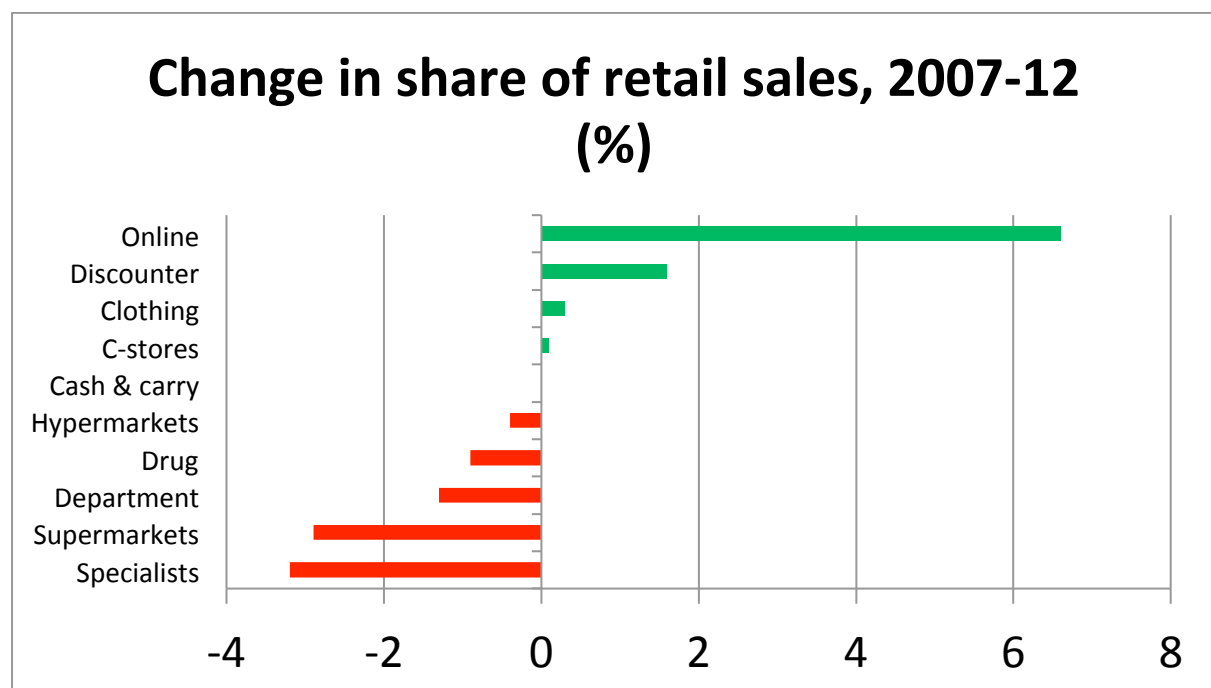
¹ Research report by Kantar using research carried out by One Poll on behalf of Groupon UK. They polled a nationally representative sample of 2,000 UK adults, aged 16+ during September 2013.

Introduction

The parlous state of the British high street has become one of the dominant preoccupations of the current decade. Legions of retailer collapses and thousands of store closures have prompted government and independent reviews, fierce public debate and extensive media coverage into the high street malady and potential cures to return our town centres and shopping centres to good health.

Without action, the outlook for the UK high street is gloomy in the extreme, with projections from the Local Data Company and Centre for Retail Research suggesting the next five years could see the further closure of 5,000 and 62,000 stores respectively.

Issues such as structural changes in retailing (largely the rise of out-of-town shopping and the subsequent shift to online retailing), business rates, parking charges and antiquated planning regimes have all been identified as creating a difficult environment for retailers both large and small. The British public have become justifiably concerned at the weather-beaten state of local high streets, although it must be remembered that is the very same public's shopping behaviour that has contributed to the ailing fortunes of the high street retail sector. Government, both central and local, is being forced to balance out the need to generate revenue with the need to encourage high street retail, while retailers themselves are undergoing a period of rationalisation and reinvention as they seek to ready themselves for the multichannel future.



Source: Kantar Retail

In terms of seeking remedies for the high street's malaise, business rates and parking charges have been almost universally picked out by retailers as the two key problems that need to be rectified. From the shopper's point of view, parking fees tend to top the list of changes that need to be made to turn around the fortune of town centres. Another important issue for shoppers, in a somewhat chicken and egg situation, is the need for a greater variety of (independent) retailers on the high street.

Shoppers looking for greater variety

As with many things in life, there appears to be a sizeable disconnect between what people say and what they do. While it is heartening to see that shoppers yearn for more independent stores, it is worth remembering that aggregated shopper behaviour, with its flight to out-of-town malls and superstores and enthusiasm for the low prices and convenience of online shopping, has left independent retailing and the state of the British high street in a precarious position. That said, it is heartening to see a groundswell of support for the concept of more independent stores trading on the high street.

UK shoppers are keen to see a wider variety of independent retailers trading in their local centres, with a particular focus on fashion, specialist food and drinks stores and bookshops. Women shoppers were keen to see more independent fashion boutiques trading on their local high street, while more sports stores would be well received by male shoppers. Given Amazon's growing stranglehold on the book market, together with the rapid growth of e-readers, it might be too optimistic to expect a bookshop revival anytime soon, but there are several independents out there proving that it can be done. It is also noteworthy that shoppers would be pleased to see more foodservice outlets on their high streets – testament to the fact that the high street of the future will be less reliant on retail, encompassing a broader mix of leisure and other service locations.



These sentiments come on the back of signs that shoppers are growing weary of 'clone town' Britain. There has become very little to differentiate between an increasingly homogenized set of town centres and shopping centres across the UK and it is noteworthy that towns like Totnes in Devon, which have actively sought to protect local independent traders and repel the advances of major national chains, could be said to have a more vibrant high street and thriving local economy as a result.

The quest for value

With retailers like Aldi and Poundland recently revealing barnstorming results, it should come as little surprise that value continues to come very high up the agenda for British shoppers. Around three quarters of our respondents said that they are eagerly scouring stores for discounts and promotions when they are shopping, with over half of shoppers stating that an escalation of promotional intensity would see them using their high street on a frequent basis. While this might be the case, the margin implications for retailers might not be so welcome, with many retailers trying increasingly hard to manage stock levels in order to avoid excessive discounting.

It is often too easy to equate the concept of 'value' with low prices or promotions, and many retailers have fallen prey to this oversimplification. Giving real value to shoppers means finding appropriate combination of price, quality and service. A good example here would be the fact that both Aldi and Waitrose are winning market share in the grocery sector, despite having a wildly different approach to pricing. It's essential to remember, therefore, that retailers can still win despite an absence of buying power and low prices, by really enhancing the levels of quality and service they can offer shoppers: shoppers will happily overlook a pricing disadvantage if the shopping experience is superlative in other aspects.

Retailing: part of the service economy

In an era that has been reshaped by the growth of the impersonal out-of-town retail development and faceless online selling, it should come as no surprise that shoppers see customer service as one of the strengths of high street retail. Ironically, this comes at a time when several high street players have cut back on the number of instore staff in an attempt to protect profitability in the face of declining sales. While it is tempting to protect shareholder value in this way in the short term, such a strategy does not seem to be a viable one in the longer term. Poor service and unkempt stores will create a vicious circle of declining sales, while there are so many cost cutting exercises that can be completed to prop up the bottom line.

Shoppers, empowered by technology, are increasingly seeking a tailored and personalised service from retailers. By providing such a service, retailers should theoretically be able to nullify the low prices and (theoretical) convenience of online retailers. By offering services that minimise the time and angst expended by shoppers on their path to purchase, retailers will be better equipped to minimise the threat from 'showrooming'. Instead of bemoaning the spectre of showrooming, it might be more useful to see the phenomenon as an inability of store-based retailers to close the deal. With appropriate pricing (perhaps through selective price-matching), decent ranges and merchandising, strong customer service and a choice of fulfilment mechanisms, high street retailers would be well placed to fend off the online challenge. Underperforming on price, range and service will see high street retailers lose the sale to online competitors.

A good example here would be Dixons. In the face of weakened consumer demand and strong supermarket and online competition, many rival electronics retailers have faltered and disappeared. Dixons, meanwhile, has invested heavily in staff training and its instore environment and has collaborated with suppliers to enhance the levels of interactivity and retail theatre that shoppers can enjoy in its stores. By aligning these investments alongside the ongoing development of a compelling multichannel capability, Dixons is seeing growth in sales, market share and profits.



Technology can be utilised to enhance customer service. Several retailers and service providers are using apps and other mobile-enabled technologies to enhance their dialogue with shoppers, before, during and after purchase. By harnessing technology to create personally resonant communication and interaction with shoppers, savvy retailers should be able to build loyalty with key shoppers and perhaps also positively impact shopper frequency and basket size in their physical stores.

Online vs. offline

The tension and rivalry between online and store-based retailing is reframing the competitive landscape of the British retail industry. As evidenced by the shoppers surveyed here, of whom around 60% still enjoy the personal service available instore and 40% prefer the convenience of online shopping, both channels have key attributes and advantages that will see physical retailers attempt to build a more seamless multichannel capability, while pureplay online retailers will continue to dip the occasional toe into the world of store-based retailing.

For the majority of retailers in the UK, the emergence of online retailing has seen them attempt to create an ecommerce capability on the back of a pre-existing store estate, melding together the benefits of both channels to offer shoppers a multichannel experience that harnesses the best of both. This has been exemplified by the burgeoning growth of 'Click & Collect', with retailers as diverse as Tesco, Argos, John Lewis and Next seeing very strong growth in the number of shoppers that wish to order online and collect instore. Indeed Argos has been quick to point out that its stores play a role of some description in the vast majority of its transactions, suggesting that the obituary of store-based retailing may have been written a little prematurely.



Even so, the overall prognosis for stores remains somewhat stark: in the Internet age, many retailers simply have too many stores, and – in non-food retailing at least – it can be concluded that retailers need fewer, better physical outlets. Indeed, research suggests that retailers used to need 250 stores to count themselves as having national coverage. Today, against the backdrop of online retail, that number is more like 70. Stores still retain a number of assets compared to online retail that make them an attractive proposition for shoppers. The ability to gauge the look and feel of products prior to purchase is one such advantage, as are the ability to receive products immediately, enjoy shopping as a social activity and have a physical point of contact to both collect and return online orders.

This latter point is one of the drivers that it seeing pureplay online businesses establish a physical presence on the high street. Amazon has begun installing collection lockers in convenience stores across the country; several online retailers have engaged with collection/return networks such as Collect+, while eBay has recently announced a pilot deal with Argos to install Click & Collect facilities within around 150 Argos stores. A number of online-only retailers have sought to enable shoppers to touch and see products prior to purchase through the opening of pop-up stores at key seasonal periods, but, despite plenty of speculation, we have yet to see the likes of Amazon open physical stores.

The shopper prognosis:

As part of Groupon's research, we asked shoppers which types of high street outlets looked the most vulnerable from the ongoing evolution in the retail and service sector. Interestingly, shoppers highlighted betting shops (26%), bookshops (19%), mobile phone stores (18%) and estate agents (18%), as store-types that might not be around on the High Street in five to ten years' time – perhaps because these services can be easily found and used online. While that logic holds a degree of logic, the fact remains that betting shops (encouraged by

the desire to host more lucrative fixed odds betting terminals) are opening new stores at a rapid pace and estate agents continue to proliferate in many town centres.

The exponential growth of discount stores has seen a handful of retailers open hundreds of stores across the UK's high streets, shopping centres and retail parks, tapping into shoppers' increasingly frugal attitudes. As shown by recent trading data from some of the major players in high street discounting, these retailers are succeeding in taking both shopping trips and market share away from their supermarket counterparts. Despite this clear success, 15% of shoppers who participated in our research noted that they would actually prefer to see fewer of these sorts of stores on their high street, perhaps a reflection of some lingering snobbery that the discount end of the market can attract.

In a reflection of the fact that parking remains one of the most problematic issues besetting the state of the high street, over half of shoppers told us that improved or more numerous parking spaces would encourage them to shop in high street locations more frequently. Whether improved also includes 'free' or 'cheaper' remains a moot point, but the conflict within local government between the need to increase high street visitor numbers and to protect a valuable revenue stream will remain a real dilemma at the heart of any debate on how best to resurrect the fortunes of the high street.

Online retailing and a greater use of technology are firmly on the agenda of shoppers when it comes to looking ahead to the future of store-based retailing. On one hand, this has shoppers foreseeing a need for ecommerce retailers to open physical stores of their own (45% of respondents asserted this would be a welcome move in order to enable them to look at and touch products as well as enjoy improved customer service), while on the other it sees a third of shoppers wanting store-based retailers to better enable them to order online or via mobile while perusing items instore.

The role of technology is set to gain in importance, with around a third of shoppers extolling the possible virtues of augmented or virtual reality in both the in-home and instore environment as a way of improving their shopper experience. The need to enhance the use of technology within store-based retailing is one not lost on retailers. Retailers such as M&S, Tesco and Asda have been introducing kiosks and touch-screens into stores to offer shoppers the wide ranges and convenience of online shopping in the instore world, while the likes of CSL and IKEA have been quick to use technology to make online shopping for home furnishings more compelling, enabling shoppers to visualise products in the context of their own homes.

The advance of technology comes with a caveat. While retailers have advocated the introduction of self-checkout as an enabler for greater shopper convenience and choice, nearly half of our respondents regard the deployment of self-service technology as an unwelcome development.