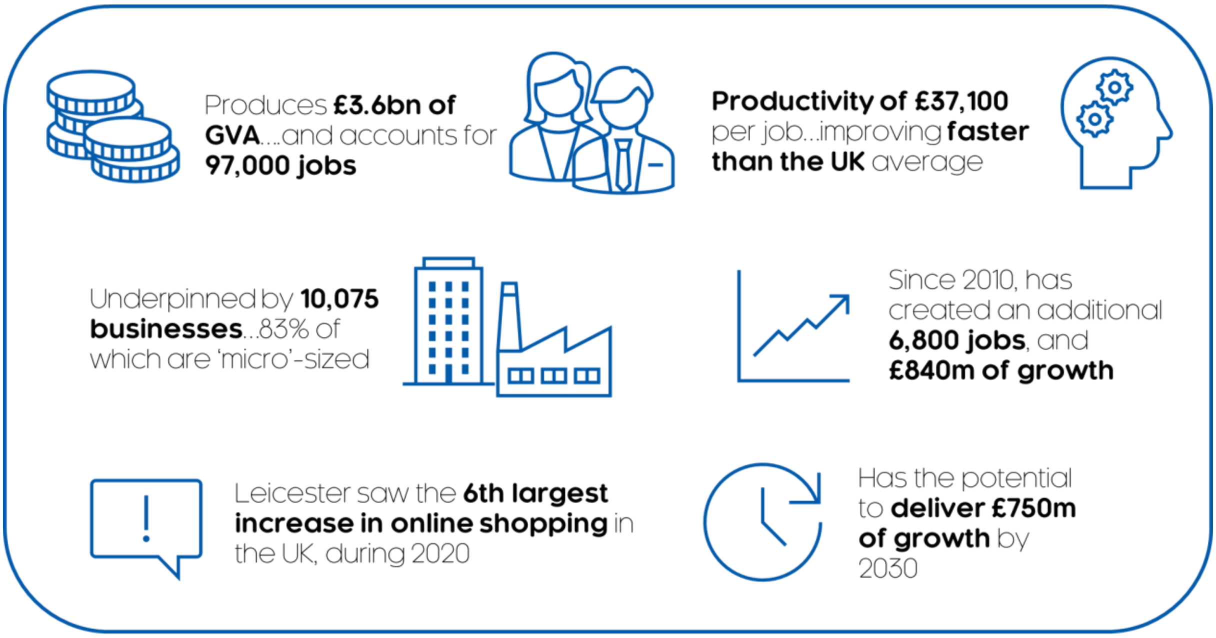
Sector profile: Retail and Wholesale in Leicester and Leicestershire



Source(s): See Economic and growth indicators.

Defining Retail and Wholesale

The retail sector involves selling products and goods to consumers, via physical stores and digital platforms. The wholesale market consists of sales of goods and related services to ultimate users by entities (organizations, sole traders and partnerships) that sell wholesale merchandise.

The wholesale trade comprises purchasing, storing and selling merchandise to retailers or to other wholesalers and providing related services such as breaking bulk. This industry includes wholesale agents and brokers who arrange the purchase or sale of the goods owned by others, on a fee or commission basis. The wholesale industry also includes business to business electronic markets and platforms and agents

Market and economic outlook

Global market

Throughout advanced industrialised countries, retail is undergoing massive shifts. Technological adaptation that would normally have taken years occurred during the Covid-19 pandemic in a matter of months.

The impact of the COVID-19 pandemic on the retail industry has been a global phenomenon, reflecting how governments across the world have introduced policy measures to reduce the spread of the virus. For the EU average, retail trade started to fall from March and by April was 20% below February's level. This was more severe in France (fall of around 27%), Spain and Italy (both falling by around 33%). By June, retail trade had recovered to pre-pandemic (February 2020) levels for the EU as a whole and remained above February's level, though this was not the case for all of the EU countries, with some of the countries that saw the most severe falls remaining below their February level.

In the USA, retail sales performed relatively better, declining less than seen across the EU. Nonetheless the US still saw a sharp fall following the start of the pandemic, with April's retail trade being around 16% lower than its pre-pandemic level. By June, it was 5% above its February levels.

Wholesalers have faced different challenges, from social distancing and hygiene measures, to delayed overseas supply chains. There's also a new need to predict rapidly evolving consumer demands. Wholesalers that have serviced the hospitality industry have been particularly affected, as demand ground to a halt in 2020 and has slowly recovered. Wholesaling companies have spent the past 12 months rearranging their operations and recovering from the impact of Covid-19, which had earlier led to restrictive containment measures involving social distancing, remote working, and the closure of commercial activities that resulted in operational challenges. A number of wholesalers that sold to shops, restaurants and caterers began to sell direct to the consumer (DTC) during the pandemic.

UK market

The Retail and wholesale sector generates 5.1% of UK GDP. The Covid-19 pandemic has had a significant impact on the Retail and wholesale sector. In 2020, total retail sales volumes fell by 1.9% compared with 2019, the largest annual fall on record (Office for National Statistics, February 2021). The impact on consumer retail sectors has varied with clothing and fuel volume sales seeing large falls of negative 21.5% and negative 22.2% respectively in 2020 and remain below pre-pandemic levels. Online sales rose to a record high of 33.9% as a share of all retail spending.

Consumer sentiment has been restored in the first half of 2021. PWC's Spring 2021 Consumer Sentiment Survey was at its highest level since the start of the pandemic in December 2019. This survey suggests that consumer spending intentions are expected to grow in leisure (particularly eating out and holidays) and fashion. Another key trend during the pandemic, which his set to continue in 2021 is the increase in shopping local. This has also been evidenced by fewer shops closing in small towns, aided by people working at home, and staying at home. The British Retail Consortium's monthly survey has highlighted that retail sales have increased by 10.0% in May 2021 compared to May 2019. However, footfall remains depleted – with May 2021 footfall 27.7% below May 2019. Separate figures from Barclaycard showed that May 2021 spending was up by 7.6% on May 2019's figure – the highest increase recorded since the first coronavirus restrictions were put in place last spring. Spending on essential items was bolstered by face-to-face purchases at food and drink specialists, where cardholders paid out 69% more than in May 2019. Barclaycard, which accounts for nearly half of the country's debit and credit card transactions, said this spending may have been buoyed up by people preparing to host friends and family after the lockdown ends.

Overall, the situation is improving for UK retail – as footfall increased by 12.3% between April and May 2021, but there remains a long road to recovery in terms of footfall and customers entering shops.

Business impacts of Covid-19 and Brexit

Deloitte's 2021 US retail industry outlook highlighted four priority areas where business rules are likely to be rewritten:

Digital differentiation: With the pandemic taking the volume of digital interactions to new highs, the majority of retailers expect a continued increase in demand for digital engagements through 2021. Many retailers are planning "major" investments in e-commerce, contactless capabilities, and store technology upgrades. In the long-term, the new rule of retail is about looking for new revenue models, like subscriptions or memberships, and forming new partnerships and alliances to create a profitable and digital omnichannel experience. Large tech companies and their access to consumers and their data are going to be a big shaper of the future retail market. With tech companies dictating channel preferences, differentiation becomes an even more urgent need.

Supply chain resilience: Widespread disruption in the second half of 2020 exposed inefficiencies in the supply chain, leading some retailers to realise how ill-equipped they are to anticipate and meet consumer demand amid unprecedented times. Responses are mixed – some retailers plan to further globalise supply chains; others are looking to onshore some of their supplier production to avoid the risk of running out of stocks and delays to restocking. Order fulfilment (e.g., last-mile delivery and curb side pickup) will see the heaviest investments, followed by warehouse management and procurement.

Health and safety: The need to build and maintain trust with consumers and the allay safety concerns, install sanitation devices and barriers is evident as we continue to emerge out of the Covid-19 pandemic.

Reducing costs and restoring profit margins: Heading into the Covid-19 crisis and 2020, retail was already in a depleted position with heavy debts, compressed margins and increasing competition. In 2021, retailers can now address their cost structures and implement long-term strategies such as rationalising store footprints and reducing business travel.

In the UK, there are a range of pressures affecting the retail sector that result from its decline over recent years, and impact of the Covid-19 pandemic. It is estimated (Remit Consulting) that there is £2.8 billion in retail rent arrears over the 12 months to June 2021. Retailers such as the Arcadia Group, Debenhams, Peacocks, Edinburgh Woollen Mill, Bonmarché and others have already fallen into administration. The reality is that many others will follow. This will likely mean fewer shops across high streets and the purpose of stores changing rapidly. Retaileconomics.co.uk suggest that there are 10 major challenges facing the UK retail sector:

1. **Changes in consumer spending behaviour**: The pandemic has changed buying behaviour and households' propensity to spend. Consumers are migrating towards businesses that are better aligned to their values.
2. **Consumer confidence**: Consumer perceptions about the threat, disruption and duration of the COVID-19 pandemic altered significantly throughout the course of 2020 and this will continue throughout 2021. The initial national lockdown in March 2020 caused a seismic shock to societal norms, uprooting everyday lives in the way people work, socialise, communicate and shop.

3. **Continued focus towards online channels**: The closure of leisure and non-essential retail during periods of national lockdown necessitated a shift towards online. Consumers were faced with an entirely new customer journey, ordering products online that they normally purchase at a physical store. This new wave of online shoppers has broken through the typical barriers of setting up online accounts, entering payment details and overcoming issues of trust. Research shows that 32% of consumers believe their shopping habits will change on a permanent basis.
4. **Prioritising digital within the customer journey**: The impact of the pandemic has completely rewired the customer journey for many parts of retail and leisure. The closure of nonessential retail outlets created an urgent need to engage with the online channel for many households, and the growing influence of digital across the entire customer journey will accelerate.
5. **The changing role of physical stores**: The continued fusion of physical and digital realms will be a key feature throughout 2021, with a renewed focus on repurposing physical stores in the context of evolving customer journeys. Businesses will need to reassess the value of properties and consider how to use them as powerful media assets, integrating digital strategies, rather than just as distribution hubs. Also, successful retailers and leisure brands will use more sophisticated techniques to assess the quality and value of physical interactions with them. This will include more wi-fi, video analytics and AI-powered insights. With AI, businesses can focus on generating a single customer view, where tracking in-store customer journeys will be correlated with online shopping characteristics.
6. **Brands connecting directly with their consumers**: Brands such as Nike, Adidas, Samsung, Dyson and others have made significant strides in recent years, boosting their online customer proposition while increasing their physical presence, usually with flagship experiential stores. The seismic shift towards online presents a significant opportunity for brands to embrace customer-facing online channels.
7. **Raising Environmental, Social and Governance (ESG) Credentials**: businesses and governments are considering how to build back better, with sustainability playing a key role.
8. **Developing more resilient supply chains**: Covid-19 has exposed weaknesses in many brands’ international supply chains. Strategies such as near-shoring, re-shoring and on-shoring are gathering momentum. There are clear indications that retailers want to source more locally where possible.
9. **Managing the implications of Brexit trade policies**: Brexit has established a level of certainty for UK retailers and leisure operators sourcing from the EU. ‘Red tape’ at the border and Rules of Origin conditions will have to be addressed. New international trade negotiations could deliver significant reductions in import costs.
10. **Updating business models**: Retail and leisure business models will need to adapt quickly to meet future challenges. Understanding the new shopping behaviours identified in this report will be crucial. Consumers require a creative use of digital and physical spaces to service them effectively.

Wholesalers also face a number of challenges, although they are less vulnerable to changes in retail formats and channels. The use of analytics in the wholesale trade market is enhancing supply chain efficiencies by anticipating future demand of the customer.

Predictive analytics uses historic data to predict future events. Some of the applications where wholesale trade companies use predictive analytics are to project profitability, model business scenarios and improve marketing campaigns. However, as wholesalers supply goods that are sold by retailers through digital and physical channels, the challenge is more one of adapting to new supply arrangements, and opportunities are emerging from direct-to-consumer (DTC) sales, where wholesalers effectively capture some of the retail market and activity. The wholesale market is expected to continue to benefit from steady economic growth forecasted for many developed and developing countries.

Activities and key organisations in Leicester and Leicestershire

Leicester is a major retail centre, with the Highcross, Royal Arcade, St Martins Square and Haymarket Shopping Centres, and national multiples such as John Lewis & Partners, Reiss, Next, and The Body Shop. Leicester Market is also an important retail destination. Outside the city centre, Fosse Park is an established out of town retail centre with Marks & Spencer, Sports Direct, Currys PC World and Asda Stores. Loughborough also has a retail presence, with the Regent Place Retail Park, and stores such as Currys PC World, Dunelm, Primark, Next and JD Sports. Towns such as Melton Mowbray and Market Harborough also have established retail centres.

Retailers with their national headquarters in Leicester and Leicestershire include: Next (Enderby), Dunelm Group (Leicester), The Watches of Switzerland Group (owner of Goldsmiths) (Leicester), Crown Crest (Wholesaler and owner of Poundstretcher) (Leicester), Topps Tiles PLC (Leicester), Joules Group (Market Harborough), Shoe Zone PLC (Leicester), Deichmann-Shoes UK (Market Harborough), and Giant UK (Cossington).

Economic and growth indicators

Table 1: Summary of key economic and growth indicators for the Retail and Wholesale sector in Leicester and Leicestershire

	Value, 2019	% of economy total	*% of economy total (UK average)*
GVA (£m)	3,599	14.7%	*13.0%*
Jobs	97,000	17.6%	*15.8%*
Businesses	10,075	20.3%	*18.4%*
Productivity (£)	37,100	83.3%	*82.7%*
	Value, 2010-19	% change p.a.	*% change p.a. (UK average)*
Real GVA growth (£m)	839	3.0%	*2.6%*
Jobs created	6,800	0.8%	*0.6%*
New businesses	785	8.4%	*7.0%*
Productivity growth	-	2.2%	*2.0%*

Source: ONS, Cambridge Econometrics.

Worth £3.6bn and accounting for a substantial 97,000 jobs (according to official statistics – see Table 1 above), Leicester and Leicestershire supports a large and fast-growing retail and wholesale sector, with a diverse and well-balanced profile.

Recent performance has been positive, with 6,500 additional jobs created since 2010, driving GVA growth of almost £1bn - the most of any sector. Equivalent to an increase of 3.0% p.a., growth in the sector is currently exceeding than the UK sector average (2.1%).

Productivity growth in the sector has also outpaced the UK average since 2010, and is improving faster than any other sector in Leicestershire. Despite this, local activity is still some 10% less productive than the UK sector average.

The sector comprises of over 10,000 local businesses, of which some 83% are 'micro'-sized (employing <9 people). With high rates of enterprise and business churn, an additional 780 retail and wholesale businesses have been established since 2010.

Additional evidence and research

Additional indicators and research on the sector in Leicester and Leicestershire shows:

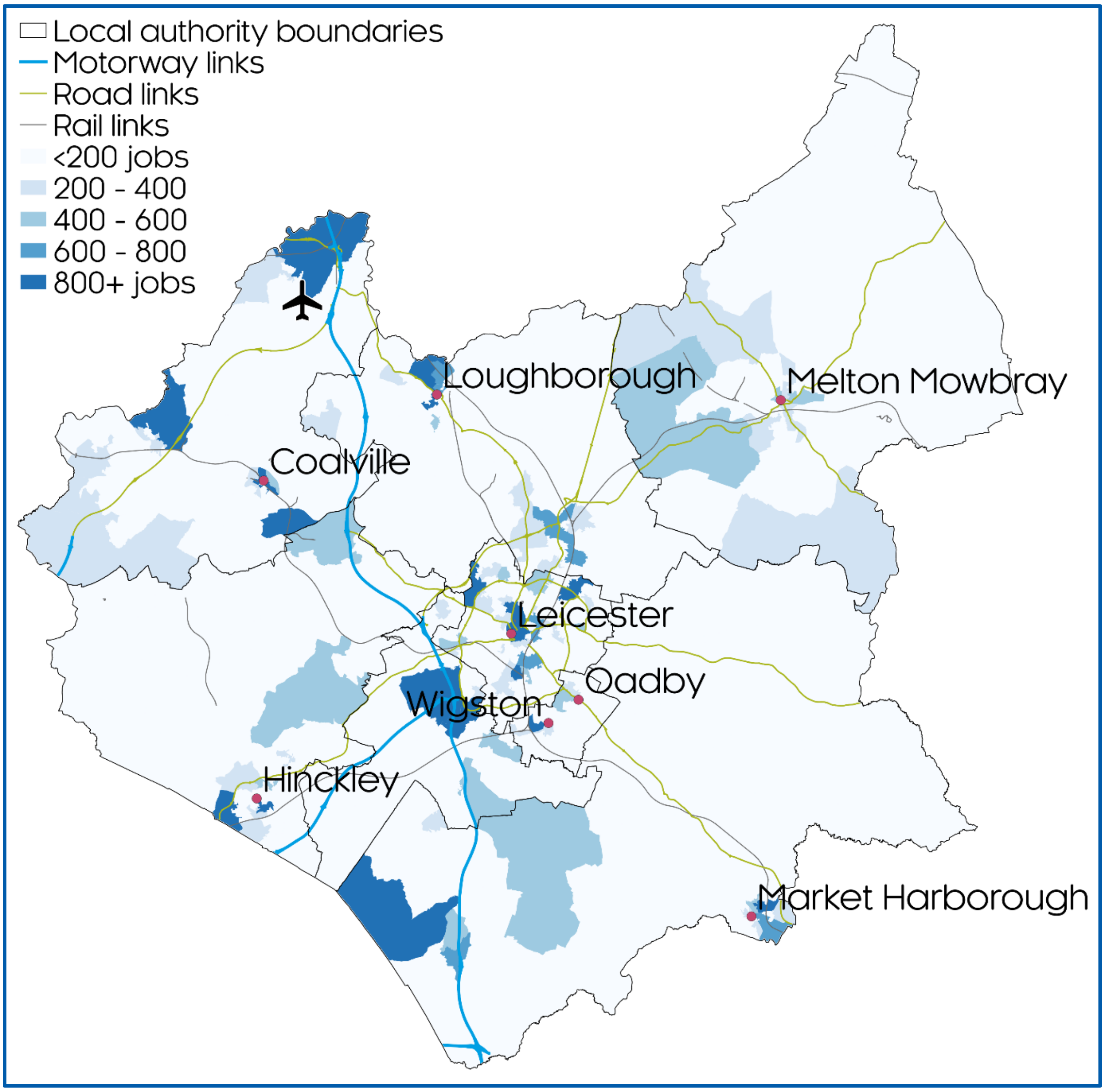
- According to the Centre for Cities, Leicester saw the 6th largest swing in the UK (out of 64 cities) to online shopping during the Covid-19 pandemic. A quarter of retail spend in the city is now online
- Mobility data published by Google showed retail and leisure footfall in Leicester and Leicestershire has been up to 80% lower during the pandemic. By September 2021 though, footfall in the county had almost recovered to pre-Covid levels, better than national and regional trends, which it has since outperformed

- VOA data shows there was 1,595,000 m^2 of retail floorspace present in Leicestershire in early 2020, with the average cost per m^2 some 14% lower than the national average

Spatial structure and clusters

Retail and wholesale activity is well represented across Leicestershire, particularly within urban centres and market towns, as Figure 1 below shows. Clustering is most evident within Leicester, reflecting the city's diverse retail offer and extensive wholesale activity, particularly relating to food and drink, fashion and e-commerce.

Figure 1: Retail and Wholesale clusters in Leicester and Leicestershire



Source: ONS, Cambridge Econometrics.

Pockets of activity are also evident within business and logistics parks along the M1 corridor – part of the 'Golden Triangle' - particularly head office functions and distribution-related activity. This includes Enderby on the outskirts of Leicester, Magna Park to the south, G-Park Ashby to the west, and Pegasus Business Park and Segro Logistics Park to the north.

Industry structure and specialisms

Leicester and Leicestershire retain some established and fast-growing specialisms in the sector, particularly relating to food and drink, fashion and textiles, raw materials and e-commerce, as Figure 2 below shows.

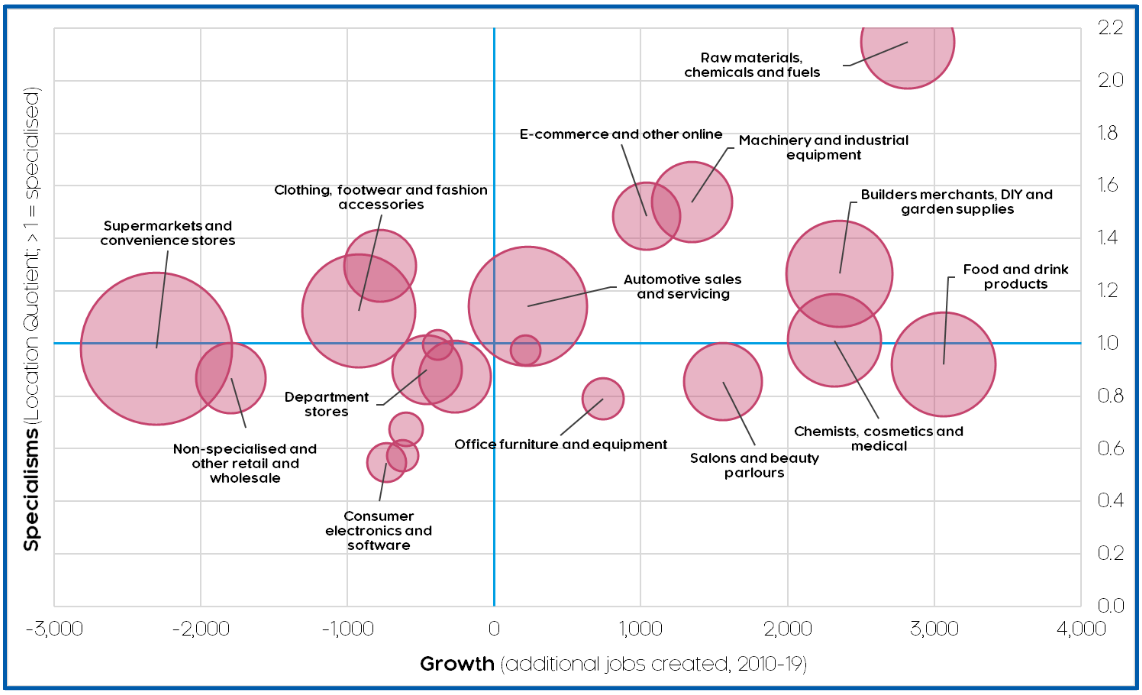
Given the upheaval in the sector as a result of the Covid-19 pandemic, it is particularly beneficial to consider the sectors profile in light of this crisis. For instance, **Leicestershire has a relative and growing overrepresentation of activity unaffected or seeing higher demand from the pandemic**, and if impacted is expected to bounce back quickly:

- **E-commerce and other online retail** - 3,300 jobs, £150m GVA
- **Food and drink products** - 7,800 jobs, £270m GVA
- **Builders merchants, DIY and garden supplies** - 8,300 jobs, £300m GVA
- **Chemists, cosmetics and medical** - 6,300 jobs, £240m GVA
- **Supermarkets and convenience stores** - 16,700 jobs, £430m GVA

Leicestershire also has a relative underrepresentation of sectors that have been highly impacted by the pandemic, and face a slow and uncertain recovery:

- **Salons and beauty parlours** - 4,400 jobs, £120m GVA
- **Department stores** - 3,500 jobs, £100m GVA
- **Office furniture and equipment** - 1,300 jobs
- **Non-specialised and other retail and wholesale** - 3,500 jobs, £130m GVA

Figure 2: Local specialisms and growth within Retail and Wholesale



Source: ONS, Cambridge Econometrics. Note: Size of bubbles relate to size of activity (in jobs terms). Bubbles above the blue horizontal indicate a specialism. Bubbles to the right of the blue vertical indicate growth (in jobs terms).

Sector prospects in Leicester and Leicestershire

Economic impact and recovery from Covid-19 and Brexit

The Covid-19 pandemic has presented significant challenges but also some opportunities for the sector. During a difficult and interrupted 2020, GVA losses could total £270m locally, though this will be inconsistent within the sector; the Centre for Cities notes some retail, such as food and essential retail, and new leisure activities (e.g. computer games, gardening, children's toys) have actually seen higher demand during the pandemic, whilst activities with a high online presence have also been more resilient.

Despite this, the impact is expected to be more severe in Leicestershire than the UK average, as Table 2 below shows, partly attributable to the additional lockdown restrictions imposed on the city of Leicester, the LLEP areas largest retail centre.

Table 2: Covid-19 impacts and recovery prospects for the Retail and Wholesale sector in Leicester and Leicestershire

Forecast Covid-19 impact (2020)			
	Value, 2020	% change	*% change (UK average)*
GVA impact (£m)	-269	-7.5%	*-6.6%*
Jobs impact	-4,600	-4.8%	*-0.3%*
Productivity impact	-	-2.9%	*-6.4%*
Forecast Covid-19 recovery (2021-30)			
	Value, 2021-30	% change p.a.	*% change p.a. (UK average)*
Real GVA growth (£m)	752	2.1%	*1.8%*
Jobs created	1,800	0.2%	*0.1%*
Productivity growth	-	1.9%	*1.7%*

Source: Cambridge Econometrics Spring 2021 Forecasts.

There is the potential for a robust recovery, however, with post-Covid rates of growth in the sector locally (2.1% per annum) expected to rebound faster than the UK sector average (1.8%). The £750m of potential growth by 2030 will more than offset the losses of 2020.

Furlough and related support will dampen the employment impact, though there could still be 4,600 permanent job losses over 2020-21, which will disproportionately impact the young, low-paid and those on flexible contracts, whilst the jobs recovery could be uncertain given skills shortages (compounded by retention and attraction challenges) and reduced migrant labour.

Skills needs and challenges

The sector will continue to rely on softer, customer-centric skills, especially given increased customer expectations and competition with online markets, according to research by UCKES. Effective management skills are also critical, to drive improved performance, whilst increasingly technical, analytics-based skills will be required for business-planning and management, and digital-related activity,

By 2024, UKCES expects over a third (32%) of the retail and wholesale workforce in the East Midlands will require high-level (QCF4+) qualifications, almost twice that of a decade ago. The sector can also continue to provide good, well-paid opportunities for those without higher-level qualifications.

If the necessary supply is not forthcoming, already high skills shortages and gaps could be exacerbated in the sector; according to the 2019 UK Employer Skills Survey almost a quarter (21%) of local vacancies in the sector were hard-to-fill. These issues have intensified post-Covid.

Appendix A: Sector definition and sources

Data has primarily been sourced from Cambridge Econometrics LEFM. For a full and detailed overview of definitions, sources and forecasting methodology, please refer to the Technical Summary report accompanying this profile.

The sector has been defined using 5-digit Standard Industrial Classifications (SICs), detailed as follows. These have been informed by government and/or industry recommended definitions, and aim to capture as much of the sectors value chain as possible:

45111: Sale of new cars and light motor vehicles

45112: Sale of used cars and light motor vehicles

45190: Sale of other motor vehicles

45200: Maintenance and repair of motor vehicles

45310: Wholesale trade of motor vehicle parts and accessories

45320: Retail trade of motor vehicle parts and accessories

45400: Sale, maintenance and repair of motorcycles and related parts and accessories

46110: Agents involved in the sale of agricultural raw materials, live animals, textile raw materials and semi-finished goods

46120: Agents involved in the sale of fuels, ores, metals and industrial chemicals

46130: Agents involved in the sale of timber and building materials

46140: Agents involved in the sale of machinery, industrial equipment, ships and aircraft

46150: Agents involved in the sale of furniture, household goods, hardware and ironmongery

46160: Agents involved in the sale of textiles, clothing, fur, footwear and leather goods

46170: Agents involved in the sale of food, beverages and tobacco

46180: Agents specialised in the sale of other particular products

46190: Agents involved in the sale of a variety of goods

46210: Wholesale of grain, unmanufactured tobacco, seeds and animal feeds

46220: Wholesale of flowers and plants

46230: Wholesale of live animals

46240: Wholesale of hides, skins and leather

46310: Wholesale of fruit and vegetables

46320: Wholesale of meat and meat products

46330: Wholesale of dairy products, eggs and edible oils and fats

46341: Wholesale of fruit and vegetable juices, mineral waters and soft drinks

46342: Wholesale of wine, beer, spirits and other alcoholic beverages

46350: Wholesale of tobacco products

46360: Wholesale of sugar and chocolate and sugar confectionery

46370: Wholesale of coffee, tea, cocoa and spices

46380: Wholesale of other food, including fish, crustaceans and molluscs

46390: Non-specialised wholesale of food, beverages and tobacco

46410: Wholesale of textiles

46420: Wholesale of clothing and footwear

46431: Wholesale of gramophone records, audio tapes, compact discs and video tapes and of the equipment on which these are played

46439: Wholesale of radio and television goods and of electrical household appliances (other than of gramophone records, audio tapes, compact discs and video tapes and the equipment on which these are played) n.e.c.

46440: Wholesale of china and glassware and cleaning materials

46450: Wholesale of perfume and cosmetics

46460: Wholesale of pharmaceutical goods

46470: Wholesale of furniture, carpets and lighting equipment

46480: Wholesale of watches and jewellery

46491: Wholesale of musical instruments

46499: Wholesale of household goods (other than musical instruments) nec

46510: Wholesale of computers, computer peripheral equipment and software

46520: Wholesale of electronic and telecommunications equipment and parts

46610: Wholesale of agricultural machinery, equipment and supplies

46620: Wholesale of machine tools

46630: Wholesale of mining, construction and civil engineering machinery

46640: Wholesale of machinery for the textile industry and of sewing and knitting machines

46650: Wholesale of office furniture

46660: Wholesale of other office machinery and equipment

46690: Wholesale of other machinery and equipment

46711: Wholesale of petroleum and petroleum products

46719: Wholesale of fuels and related products (other than petroleum and petroleum products)

46720: Wholesale of metals and metal ores

46730: Wholesale of wood, construction materials and sanitary equipment

46740: Wholesale of hardware, plumbing and heating equipment and supplies

46750: Wholesale of chemical products

46760: Wholesale of other intermediate products

46770: Wholesale of waste and scrap

46900: Non-specialised wholesale trade

47110: Retail sale in non-specialised stores with food, beverages or tobacco predominating

47190: Other retail sale in non-specialised stores

47210: Retail sale of fruit and vegetables in specialised stores

47220: Retail sale of meat and meat products in specialised stores

47230: Retail sale of fish, crustaceans and molluscs in specialised stores

47240: Retail sale of bread, cakes, flour confectionery and sugar confectionery in specialised stores

47250: Retail sale of beverages in specialised stores

47260: Retail sale of tobacco products in specialised stores

47290: Other retail sale of food in specialised stores

47300: Retail sale of automotive fuel in specialised stores

47410: Retail sale of computers, peripheral units and software in specialised stores

47421: Retail sale of mobile telephones in specialised stores

47429: Retail sale of telecommunications equipment (other than mobile telephones) nec, in specialised stores

47430: Retail sale of audio and video equipment in specialised stores

47510: Retail sale of textiles in specialised stores

47520: Retail sale of hardware, paints and glass in specialised stores

47530: Retail sale of carpets, rugs, wall and floor coverings in specialised stores

47540: Retail sale of electrical household appliances in specialised stores

47591: Retail sale of musical instruments and scores in specialised stores

47599: Retail sale of furniture, lighting equipment and other household articles (other than musical instruments) nec, in speci

47610: Retail sale of books in specialised stores

47620: Retail sale of newspapers and stationery in specialised stores

47630: Retail sale of music and video recordings in specialised stores

47640: Retail sale of sporting equipment in specialised stores

47650: Retail sale of games and toys in specialised stores

47710: Retail sale of clothing in specialised stores

47721: Retail sale of footwear in specialised stores

47722: Retail sale of leather goods in specialised stores

47730: Dispensing chemist in specialised stores

47741: Retail sale of hearing aids in specialised stores

47749: Retail sale of medical and orthopaedic goods (other than hearing aids) nec, in specialised stores

47750: Retail sale of cosmetic and toilet articles in specialised stores

47760: Retail sale of flowers, plants, seeds, fertilisers, pet animals and pet food in specialised stores

47770: Retail sale of watches and jewellery in specialised stores

47781: Retail sale in commercial art galleries

47782: Retail sale by opticians

47789: Other retail sale of new goods in specialised stores (other than by opticians or commercial art galleries), nec

47791: Retail sale of antiques including antique books, in stores

47799: Retail sale of second-hand goods (other than antiques and antique books) in stores

47810: Retail sale via stalls and markets of food, beverages and tobacco products

47820: Retail sale via stalls and markets of textiles, clothing and footwear

47890: Retail sale via stalls and markets of other goods

47910: Retail sale via mail order houses or via Internet

47990: Other retail sale not in stores, stalls or markets

95110: Repair of computers and peripheral equipment

95120: Repair of communication equipment

95210: Repair of consumer electronics

95220: Repair of household appliances and home and garden equipment

95230: Repair of footwear and leather goods

95240: Repair of furniture and home furnishings

95250: Repair of watches, clocks and jewellery

95290: Repair of other personal and household goods

96010: Washing and (dry-)cleaning of textile and fur products

96020: Hairdressing and other beauty treatment

96030: Funeral and related activities

96040: Physical well-being activities

96090: Other personal service activities nec