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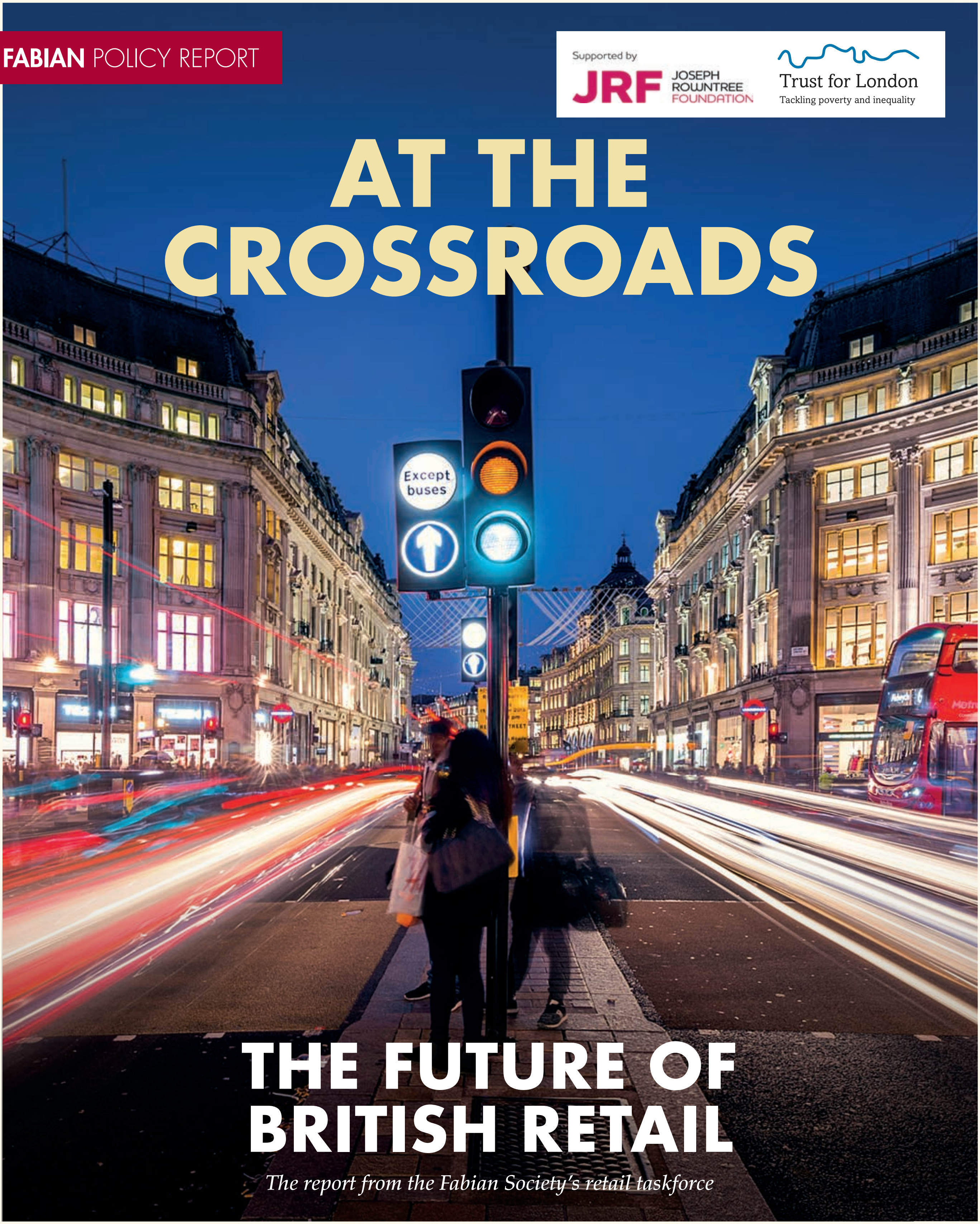

THE FUTURE OF BRITISH RETAIL

The report from the Fabian Society's retail taskforce

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FOREWORD

Britain's retail industry has often provided a lens through which we see British society. From wartime rationing to unparalleled consumption, retailers have met the demands of the British public in both the tough times and the good.

But today we are increasingly hearing that the future of the industry as we know it is under threat as margins narrow and a new wave of robots and machines stands ready to take over from human beings. This raises the question: what would such a shift mean for society?

Modern methods of British retailing were conceived in the aftermath of the second world war. Britain had been brought to its knees through wartime sacrifice, the destruction of industrial centres and crippling debt. The population endured a further decade of rationing and the gloom people had lived under took far longer to disappear. It was an era of scarcity.

As rationing came to an end, many of the retailers we now regard as household names opened their first self-service supermarkets. In 1963, the year in which my former employer Morrisons opened its first modern retail store, there was a growing confidence in the air. The Beatles released their first number one and Harold Wilson delivered his famous speech on the white heat of technology. One year later Habitat opened its first furniture and homeware store.

A decade of almost unprecedented experimentation in music, fashion and different tastes followed, and Britain's retailers were always ready to meet growing demand for a wider range of goods. This resulted in hundreds of small local and regional retail chains becoming established, each with their own look, format and flavour.

Products previously regarded as exotic or luxury could increasingly be bought for a reasonable price. And retail stores were updated too, with the sober browns and greys of the 1950s giving way to more vibrant colours and visually appealing interiors. Shops gradually became more enjoyable places to spend time in.

In the 1970s the pace of retail modernisation picked up with a period of mass market expansion and consolidation that would last over thirty years. Today's retail giants rose up rapidly with an incredible growth in the number of new stores, profitability, employment, productivity and quality.

> The race to see technology as the only answer to the challenges in the sector is potentially storing up deep problems for the future

A new era of mass consumption drove this growth as goods from all over the world became cheaper, more widely available and easier to store. Weekly shops and heavily loaded shopping trolleys at 'big box' supermarkets came to replace daily visits to the local store, and products that had been special treats became daily fixtures.

But by the time the financial crisis arrived in 2008, retail space had become saturated and the industry was in danger of becoming a victim of its own success. The crash led to reduced household spending, profits were squeezed and productivity plateaued.

Looking to maintain profits after the crash, many retailers squeezed their cost bases, increasingly passing risks on to their employees and suppliers through precarious contracting arrangements. Others invested heavily in their online offer and distribution networks, and by 2015 Amazon Prime Now was offering one-hour deliveries to customers.

However the race to see technology as the only answer to the challenges in the sector is potentially storing up deep problems for the future. The British Retail Consortium, the industry's leading employer association, has become the latest authority to warn that advances in technology and changes in the way we do business could threaten the livelihoods of vast swathes of the workforce. They put the toll at 1 million retail jobs by 2020. Others, including Oxford academics Carl Benedikt Frey and Michael Osborne, suggest the fallout could be even worse.

Forecasts for the reduction in employment in the industry suggest women – who make up the majority of the retail workforce – will be the hardest hit. Many will already be struggling to make ends meet after slow pay growth over the last decade.

While economists might argue that jobs may be created in other industries, it remains unclear which other industries have the capacity to replace millions of flexible jobs right across the country. Or to put it another way: how will a new software design job in Old Street help a former supermarket worker in Scarborough?

By any standards this would be a massive structural and social change. Were it happening in any other industry, there would be a national outcry and demands for a full-blown inquiry. However, leaders in the retail sector are claiming that such a decline in employment in the industry is an inevitable consequence of the march of technological progress, and government leaders appear to be oblivious, or worse, apathetic.

This report sets out to challenge some of these assumptions and oversights. It examines the role of technology within a wider economic, social and historical context, and in doing so aims to provide a better understanding of the role retailing has come to play in our lives, the productivity of the people who work in the sector, and the importance retail has for customers, communities, its workforce and the economy.

In doing so, the report asks fundamental questions about what the consumers of the future will want. In the last 60 years, retailers have overseen a shift from scarcity to abundance. As we look to the future, will this thirst for consumption endure as Jeff Bezos's dream of the 'everything store' becomes realised? Or have we reached the point of what IKEA executive Steve Howard calls 'peak stuff', with consumer priorities shifting away from ever-cheaper goods towards personalisation, curation and a more tailored service?

As the UK retail industry stands at the crossroads, the decisions made by retailers, government and consumers now will have profound effects on jobs, the economy, and above all, society in the future. The report suggests that if retailers are in a position to meet the growing demand for a more human, more connected model of retailing, we might all be better off for it.

Norman Pickavance
Taskforce chair

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SUMMARY

THIS IS THE report from the Fabian Society's retail taskforce. The report finds that changes in the retail landscape could lead to more than 1 million job losses or a race to the bottom on working conditions. Despite this, the government's industrial strategy continues to ignore the UK's largest industry.

The taskforce was established to look at how productivity and pay could be improved in the UK retail sector as it undergoes a dramatic transformation. Drawing on public hearings, expert testimony and the insights of people working in retail, the taskforce proposes a 10-point plan for how the government can support retailers to improve jobs, grow the economy and revitalise community spaces.

The end of the 'golden age'

The report finds that we have reached a critical point in the development of UK retail. The industry's 'golden age' came to an end around the time of the financial crisis and it is not yet clear which path it will now take.

Between the 1980s and mid-2000s, retailers enjoyed a period of prolonged growth characterised by an aggressive expansion of ever larger stores, standardised top-down structures, and a large but often poorly paid workforce. As a result, retail now accounts for one-tenth of the UK's economic output and employs more people than any other industry.

The taskforce finds that today retailers are experiencing a series of transformative challenges which are hindering their recovery from the recession. The growth of online retail is catalysing already intense competition among retailers, customers are demanding goods cheaper, faster and of a higher quality than ever before, and business costs are rising. There is a growing sense that low pay in the retail sector needs to be tackled. Growth, employment and labour productivity are still below their pre-recession peaks.

Three emerging models

There is now a battle of business models to define the next age of British retail. The taskforce has identified three emerging models and predicts that over time, one or some combination of these three models will play a leading role in the evolution of the industry:

1. **Squeezing the cost base**.
   A group of retailers are finding new ways to reduce their costs to keep their existing business models alive. This tends to involve outsourcing core business functions, aggressively squeezing supply chains and viewing labour as a cost to be minimised wherever possible. If this model develops further, the average quality of jobs in retail is likely to decline significantly, but there will be many 'gig' jobs available.

2. **Automating to efficiency.**
   Many retailers are investing in new automated technologies and moving large parts of their businesses online. The associated reduction in staff and store numbers significantly reduces business costs, but the jobs that do remain are likely to require a higher level of skills, and average job quality will increase. However, the development of this model could strip millions of jobs out of the UK workforce and lead to a further decline of high streets, town centres and community spaces.

3. **Competing on connectivity.**
   A number of retailers are investing in highly engaged workforces and in forging stronger relationships with customers to compete on the strength of their 'human touch'. These businesses tend to be reimagining bricks and mortar stores and using technology to meet the expectations of increasingly demanding customers. If this model develops, the higher level of skills needed will raise the average quality of jobs, and the enhanced role of bricks and mortar stores could revive high streets and retail spaces and guarantee strong levels of employment into the future.

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Cultivating connectivity

The taskforce believes the 'competing on connectivity' model provides the most positive impact on the workforce, society and the economy. While there should be room for different business models to compete, this is the only model that protects and improves jobs, enables businesses to be competitive, and revitalises local community retail centres.

But the taskforce believes that this model might not prevail unless the government actively supports it. Therefore, the government should broaden out its modern industrial strategy from its narrow focus on high-growth sectors with few employees. It should put support for the 'competing on connectivity' retail model at the heart of its industrial strategy.

The taskforce proposes a 10-point plan to support connected retailers to flourish:

1. **The government should place the future of retail at the heart of its modern industrial strategy.** The prime minister should acknowledge that the future of retail must not be taken for granted and pledge to include the UK's largest industry in its agenda for boosting the nation's productivity.

2. **The government should aim to diversify the mix of retail ownership models and encourage the voice of employees to be heard to support long-termism in the industry.** The government should encourage long-termism, boost employee engagement and unlock growth potential in the industry by extending the mutuals support programme into the private sector and by working with retailers and unions to boost the input of employees.

3. **The government should establish a new 'super skills council' for retail with a mission to drive up skills and standards in the industry.** The government should rechannel the funds paid by retailers into the apprenticeship levy into a ring-fenced training budget allocated by a new social partnership to support retailers and retail workers to develop the skills they need for the future.

4. **The secretary of state for business, energy and industrial strategy should ask the competition and markets authority to lead an inquiry into allegations of monopolistic activities by platform businesses and the effect they have on the UK retail market**. The government should join the United States and the EU in investigating potentially anti-competitive activity at businesses like Amazon and Google to ensure innovation is not being inhibited.

5. **The secretary of state for business, energy and industrial strategy should ask Innovate UK to establish an eleventh Catapult centre for retail.** The new centre, which would join a range of innovation centres in different parts of the economy, would be able to bring retailers and researchers together to develop new innovative managerial techniques that could boost productivity, performance and pay, while preparing the industry for the future of work.

6. **The chancellor should set up a review of tax paid by retailers with a mission to level the fiscal playing field between online-only, store-based and multi-channel retailers without reducing UK and local authority tax bases.** The current taxation system adds to an already unfair playing field between online-led and store-led retailers, but reducing business rates in the absence of wider reform would be disastrous for local authority budgets.

7. **Local authorities should work with retailers to establish local retail plans.** With high streets and retail centres seeing reduced footfall, local authorities should work with local retailers to reimagine retail spaces and find new ways to attract shoppers, and therefore revitalise town centres.

Ending exploitation

Responsible retailers should not be undercut by exploitative activity from unscrupulous employers. Therefore, the taskforce makes three further recommendations to protect the workforce:

8. **The government should introduce additional protections against exploitative contracts.** Government should add a clause to existing contracts legislation ensuring workers on zero-and low-hours contracts have the right to contracts that reflect the hours they work.

9. **The new director of labour market enforcement should establish quicker and more affordable means for workers to request a change in their employment status.** One in 10 retail workers are self-employed and reports of false self-employment and exploitation of self-employed workers are on the rise, yet employment tribunals are costly and lengthy processes out of reach for many workers.

10. **Further rises in the national living wage and government support for the voluntary living wage.** The government should continue with the course of progressive rises in the national living wage set by the chancellor in the 2015 budget, extending this to workers aged between 21 and 25. Government leaders should also champion the benefits of the voluntary living wage.

ABOUT THE FABIAN SOCIETY'S RETAIL TASKFORCE

In January 2016, the Fabian Society convened a taskforce to bring together business, trade unions and experts to examine how to improve pay and productivity in the UK retail sector.

The group of seven taskforce members, led by former Morrisons executive Norman Pickavance and supported by the Fabian Society, heard from retailers, trade unions, retail workers, experts and other stakeholders.

The work of the taskforce included a series of public hearings on the changing retail landscape, good work in the future retail industry, and progressive employment policy in retail, as well as a launch event in parliament with stakeholders.* Alongside the hearing programme, the taskforce held private roundtables with retailers and retail experts, conducted a focus group with retail workers in Manchester, and held a number of separate meetings with retailers, trade unions, retail workers, academics and civil society groups.

The taskforce considered the evidence that had been received and together agreed this report.

Taskforce members

Norman Pickavance is the chair of the taskforce and former group HR and communications director at Morrisons. Norman has been a partner at Grant Thornton, led an inquiry on zero-hours contracts for the former leader of the opposition, and is the author of The Reconnected Leader, published by Kogan Page.

Julie Abraham is head of salaries at Richer Sounds. Richer Sounds holds the record for the highest sales per square foot for any retail outlet in the world and it was awarded the Which? Retailer of the Year Award in 2015. Julie recently led the retailer's transition to becoming an accredited living wage employer.

Nita Clarke is director of the Involvement and Participation Association. Nita was vice-chair of the government-commissioned MacLeod Review of employee engagement and co-author of the widely praised report Engaging for Success. Previously Nita had a long career in the trade union and labour movement, having worked in 10 Downing Street with responsibility for trade union liaison.

John Hannett is general secretary of Usdaw. John has led the UK's fourth largest union since 2004 and is a member of the Low Pay Commission, which sets the levels of the national minimum wage and the national living wage. John also sits on the executive committee and general council of the TUC.

Daniel Johnson was a taskforce member until May 2016. Daniel was the managing director of the Studio One and Paper Tiger group of stores in Edinburgh, which were among the first living wage accredited stores in the UK retail sector. Daniel stepped down from the taskforce after his election to the Scottish parliament in May 2016.

Jill Rubery is professor of comparative employment systems at the University of Manchester Alliance Manchester Business School. Jill's extensive research has covered labour market regulation, the role of minimum wages and new forms of work. Jill was elected a fellow of the British Academy in 2006 and is a member of the ACAS board of arbitrators.

Cameron Tait was the secretary to the taskforce and is the lead author of this report. Cameron is head of the Changing Work Centre and a senior research fellow at the Fabian Society. He was previously head of research at the Archbishop of York's Living Wage Commission.

Fiona Wilson is head of research and economics at Usdaw. Fiona oversees the union's equalities and politics sections and prepares the union's responses to formal inquiries and consultations. Fiona is a member of the executive committee and general council of the TUC.

* Additional information on the hearings programme is provided in an appendix to this report.

ACKNOWLEDGEMENTS

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Thanks go to all those who shared their considerable expertise at the taskforce's public hearings programme and roundtables: Samad Massood, Yulia O'Mahony, Robin Winstanley, Anna Gowdridge, Paul Hunter, Tess Lanning, Joanne Cairns, Conor D'Arcy, Christine Armstrong, Kate Bell, Helen Dickinson, Bryan Johnston, Matthew Lewis, Jane Mansour, Karen Mumford, Eva Pascoe, Charles Seaford and Jonathan Reynolds. Dan Murphy and Patrick Briône also deserve special mentions for not only presenting evidence, but advising the taskforce throughout the process.

The taskforce would also particularly like to thank the group of retail workers that met with us in Manchester to discuss our work. Their names and the names of their employers have not been used in this report to give them the opportunity to speak freely, but they described the changing retail landscape with great clarity and their words have shaped the taskforce's inquiry.

At the crossroads: the future of British retail

The report from the
Fabian Society's retail taskforce

INTRODUCTION

The UK retail industry is at the crossroads. Depending on which road the industry takes, we could end up with millions of job losses in a soulless virtual world; growing exploitation in a race to the bottom on price; or a more human experience in which a renewed commitment to engagement, service and community flourishes.

As the golden age of British retail recedes from view, different models of retail are competing to define the next age. Retailers, shoppers and government all have a role to play in deciding which direction we take.

This taskforce has brought together retailers, trade unionists and experts to look at how new approaches to retail can boost business performance, provide higher quality jobs, support inclusive economic growth and give a fair deal to customers. To achieve this, the taskforce has heard from business leaders, retail workers, and a host of other authorities on the industry.

In this concluding report, the taskforce argues that government has a key role to play in supporting innovative, inclusive and responsible retailers to thrive. A modern industrial strategy can only create inclusive growth if it includes a plan for the biggest people business of all: retail.

Retail is a key pillar of the UK economy. As well as providing one in eight jobs in the UK, the industry accounts for £180bn of the UK's economic output, more than 10 per cent of the total. Retail outlets are a fixture in every town and community in the land, representing around one in 10 local businesses in every region.

But the industry currently faces serious challenges as it seeks to recover from the recession. For years, levels of low pay in the sector have marred generally successful economic growth overall. The recent growth of online retail is reducing footfall to bricks and mortar stores and placing big question marks over the future of the high street and retail centres. And the spectre of automation hangs over the millions of livelihoods the industry provides.

The challenge the taskforce has grappled with, therefore, is not simply how the retail industry can produce better jobs, but also how the retail industry itself can become sustainable in order to keep producing the number of jobs that it does.

The taskforce argues this mission should be right at the top of the agenda for the prime minister and her cabinet. It should no longer be acceptable to talk about a modern industrial strategy without discussing the future of retail, as cabinet members have done in major speeches on the industrial strategy so far.

> With the retail industry at the crossroads, decisions by retailers, consumers and government will shape the next age of British retail

This report lays bare the risks of not engaging with the changing retail landscape with the potential for jobs to be stripped away or for those jobs to become miserable and precarious. However, a number of retailers are developing a different vision of the future in which they compete on their ability to connect with customers in new ways.

These innovative businesses, which tend to be growing strongly in a tough market, paying their people above industry benchmarks, and making meaningful connections with the communities around them, deserve the support of government. If these connected businesses can go on to define the next age of retail, the industry, its workforce, the country and its communities will all be better off for it.

The government should place the future of retail at the heart of its modern industrial strategy with a new plan to diversify the mix of retail ownership, a new 'super skills council' to drive up standards, action to clamp down on monopolies, investment in research and development, reform to level the playing field by changing tax arrangements, and new powers for local authorities to work with retailers to revitalise their communities.

As well as supporting the best of British retail to flourish, action is needed to curb the worst excesses. Government should take action to protect workers in retail and other industries against exploitative contractual obligations or being forced on to the wrong contracts to start with. Doing this while continuing with further above-inflation rises to the national living wage will restore the most basic standards of occupational hygiene for those workers facing the toughest working conditions.

The return of industrial strategy to mainstream political discussion could not have happened at a more critical time for the retail industry. With the retail industry at the crossroads, a host of decisions by retailers, consumers and government will shape the next age of British retail. Government should be unafraid to firmly state its preference for the connected, engaged and inclusive vision of retail that this report endorses.

Retail has always been the business of relationships. The strength of relationships with consumers, suppliers and co-workers has defined the success and failure of countless businesses in the sector. And now is the time for retailers to form a new relationship with government. By working with government, retailers can guarantee the success and sustainability of their business for years to come. The future of retail will be better off for it.

Part 1

The changing retail landscape

A NEW AGE OF BRITISH RETAIL

THE UK'S RETAIL industry stands at the crossroads. Following decades of growth in stores, jobs and sales, the industry's golden age came to an end shortly before the financial crisis in 2008. Some older – or legacy – retailers are struggling to find new ways to keep their business models alive as others are reimagining what retail means today. And a growing number of those that have failed to adapt have fallen into administration.

Part one of this report looks at the fall of the golden age of British retail and the new models competing to define the next age.

The rise and fall of the golden age

The modern retail store began to emerge in the 1950s as post-war rationing came to an end. In order to satisfy growing demand for goods, retailers including Tesco and Sainsbury's that had previously run stalls or over-the-counter stores started setting up self-service stores with a greater range of goods on the shelves. Throughout the 1960s and 1970s, the range and sizes of stores gradually expanded, and stores were modernised, becoming more attractive places for shoppers to spend time in.

The golden age of British retail began in the early 1980s under a government that believed in a "natural evolutionary path towards a post-manufacturing or post-industrial service economy" in the UK.[1] The bigger retailers began to take advantage of cheap rents and property prices and started to build stores away from the traditional terrain of town centres and high streets.

Often supported by town planners, retailers began populating new retail parks and setting up 'big box' superstores in out-of-town areas. The layout of these stores borrowed from the major American supermarkets like Walmart, whose customers tended to drive larger distances to shop. These stores were far larger than their predecessors and therefore required more stock, more lines of products, and more staff than before.

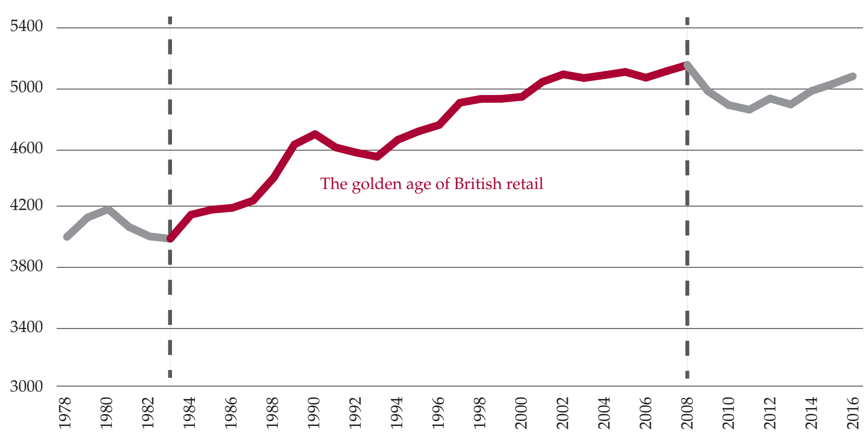
The speed at which new stores were being set up in new areas, often by international chains (and therefore also in new countries) meant that management structures had to be scalable and reproducible. Modern labour planning initiatives were introduced to ensure these stores maximised their efficiencies of scale. Top-down hierarchies were established, with the majority of staff at the bottom of the organigram completing routine and semi-routine tasks like the operation of tills, stacking of shelves, and sorting of stock.[2]

> The pace of growth began to slow before the recession and has not recovered since

This expansion continued into the 1990s, with retailers pursuing increasingly aggressive expansion into new areas, often competing with each other for real estate space. This decade saw further modernisation of retail in urban areas with the growth of shopping centres in towns. And into the late 1990s and early 2000s, low levels of inflation created an environment for the big supermarkets – led by Tesco – to thrive by offering a greater range of products at low prices while household disposable income was rising.

But the pace of growth began to slow before the 2008 recession and has not recovered since. Increasing land and property prices before and after the recession, reduced household disposable income over the course of the recession, and an increase in other business costs meant expansion became less affordable. Moreover, fewer people were visiting the big box out-of-

FIGURE 1: Employment in UK retail sector, thousands, 1978–2016



Source: Data from 'UK Workforce Jobs' in Labour Market Statistics. ONS, 1978 to 2016.

town stores, preferring to do more of their shopping online and at local convenience stores instead.[3] A number of major retailers began to cancel plans for further expansion.[4] And in recent years, a range of new challenges – described below – have led some major retailers to reduce the number of stores they run.[5]

The end of the golden age has seen entire retail chains fall into bankruptcy after they failed to keep up with the changing retail landscape. In 2008, Woolworths entered administration with 820 store closures and 30,000 job losses, followed by Peacocks with 550 store closures and 10,000 job losses in 2012. Most recently, BHS's demise has led to 164 store closures and 11,000 job losses.[6]

Until 2008 employment in retail increased steadily: while productivity improvements associated with modern labour planning meant fewer workers were required for each transaction, more and more stores were being built so labour demand was increasing on aggregate. Between the early 1980s and the mid 2000s, the number of people working in the industry rose from 4 million to 5 million (see figure 1) even though labour productivity nearly doubled.[7]

But a great many of these jobs were low paid. In 2015, 40 per cent of retail workers (1.7 million) were classified as being in low pay (paid below two thirds of median wages), a figure which has remained stable over recent years. And because retail is such a large sector, the industry now accounts for just under one-third of the total number of people in low pay in the UK.[8]

The end of the golden age has been compounded by a series of new challenges following the economic crash: technological developments, changes in customer habits and demand, and government initiatives increasing the retail cost base. Above all else, the rise of the internet has heavily disrupted the sector, transforming business models and permanently changing the relationship between customer and retailer.

FIGURE 2: Internet sales as a percentage of total retail sales in UK, %, Nov 2006–Oct 2016

Source: Data from Retail Sales Index, ONS, 2006 to 2016.

The growth of online retail is driving disruption

Online retail has boomed over the last decade, growing five-fold as a proportion of total retail sales between 2006 and 2016 (rising from just 3 per cent of sales to 15 per cent – see figure 2). This rapid growth has allowed a host of new disruptive market entrants all over the world to sell without a store, changing the face of retail.

Online-led retailers have been able to avoid the high cost bases of bricks and mortar stores (rent, taxes and other overheads) as well as many of the costs of the labour to staff those stores. The cheaper cost bases have allowed online retailers to offer a wider variety of stock at lower prices.

This removal of barriers to entry has intensified competition in the industry with many legacy retailers unable to compete on price with online-led retailers, and it has allowed international companies to trade in the UK without the risk associated with opening stores.

Amazon has epitomised this dramatic shift. Jeff Bezos created the company in his Seattle garage in 1994, began selling to customers in the UK in 1998, and Amazon surpassed Walmart as the world's largest retailer in July 2015, with a market value of $248bn. Bezos once summed up his low price strategy by saying: "There are two kinds of companies, those that work to try to charge more, and those that work to charge less. We will be the second."[9]

Customer habits are changing

The rise of the internet has also contributed to customers demanding more. In short, customers want goods and services faster and cheaper, without compromising on quality or service.

The internet now means more information than ever before is provided to customers, giving them more ability to compare price and services (for example, the speed of delivery) and to educate themselves about products, brands and retailers to such an extent that customers often know more about individual items of stock than retail staff do. Retail experts Alan Treadgold and Jonathan Reynolds argue that the availability of information has changed the relationship between customer and retailer forever, forcing retailers to be more responsive to the wishes of customers.[10]

The squeeze on household budgets following the 2008 recession is thought to have speeded up the adoption of online shopping in the UK as it provided new means for households to cut costs. Sainsbury's estimate that 83 per cent of their customers changed their shopping habits in response to a squeeze in household budgets,[11] which reflects the findings of separate research conducted by the Institute for Fiscal Studies.[12] Online adoption is also likely to speed up in the future, as demographics change and 'digital natives' represent a larger proportion of the population.

In a bid to address the challenges posed by the growth of online retailing and subsequent customer demand, store-led retailers have begun to invest in their distribution infrastructure and their ability to link their in-store and online offer, known as multi-channel retailing. Recent efforts to blend the channels together, creating as close to a seamless customer experience as possible, are known as omnichannel retailing.

But this investment has led to significant increases in capital and operating costs for traditional retailers. Serious questions have been raised as to whether or not current models of home delivery can be profitable for retailers. Reports suggest that having invested in nationwide delivery networks, most food retailers are running deliveries at a loss because of high storage and transit costs.[13] And in his oral evidence to the taskforce, Dan Murphy, retail industry partner at Kurt Salmon, said that he believes many retailers are "not being transparent" about their "massively loss-making" delivery models.

Government initiatives are adding to business costs

New government initiatives are also adding to the cost bases of UK retailers, many of which are paying increasing business rates too.

As the retail industry includes more low-paid workers than any other industry,[14] the introduction of the national living wage is having the biggest impact in this sector. The national living wage was introduced on 1 April 2016, raising the minimum wage for workers aged 25 and over from £6.70 to £7.20 per hour. Former chancellor George Osborne indicated in his 2016 budget that this rate would increase up to 60 per cent of median wages by 2020, or around £9 per hour (though revisions to forecast wage growth suggest it will be lower in practice).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The Low Pay Commission has predicted that by 2020 the statutory wage floor will apply to 925,000 retail workers, or 31 per cent of the retail workforce – nearly double the figures for 2016, in which the minimum wage applied to 511,000 jobs and 17 per cent of the retail workforce.[15] While the boost to the wage floor is benefiting more workers in retail than any other industry, research from the Resolution Foundation has estimated it will add 1.3 per cent to the average retail wage bill.[16]

Larger retailers in England are also set to face increased costs with the introduction of the apprenticeship levy in April 2017. Companies in England with a wage bill of more than £3m will pay a new tax of 0.5 per cent of their total wage bill to fund 3 million new apprenticeships. The British Retail Consortium predicts the retail sector as a whole will contribute between £140m and £160m to the levy each year.[17]

These additional costs add to the existing tax obligations of UK retailers, the most controversial of which (and the largest as a proportion of total taxes paid by the average retailer) is business rates. Mary Portas singled out the business rates regime for criticism in her government-commissioned review of high streets, saying it punished store-based retailers, which paid higher taxes than their online competitors.[18]

The simultaneous pressure to keep prices down, retain high-quality service levels and upgrade distribution infrastructure while business costs are rising has left many retailers walking a tightrope to survive. And in this race to remain competitive, a number of retailers have adopted supply and distribution practices which, as they are currently constructed, are likely to be unaffordable over the long term. Others, however, have instead tried to reimagine how they deliver retail in the context of the rapidly changing landscape. The next chapter looks at these emerging models in detail.

THREE EMERGING MODELS

As the old ways of doing business in retail have become less profitable, both new and existing retail businesses have begun to look at different ways of acquiring stock and services, selling and delivering to customers. The taskforce's analysis of movements in today's retail sector – and of where investments have been made that might shape tomorrow's practices – shows that many retailers are desperately trying to find new ways to keep their old business model alive. But some pioneering retailers are finding genuinely innovative ways of doing retail in the twenty first century.

In our analysis of developments following the decline of the golden age, we have identified three emerging models that are competing to define the next age of UK retail.

1. SQUEEZING THE COST BASE

The first of these, the model we have called 'squeezing the cost base', is driven by an aim to reduce business costs to keep the traditional top-down, standardised model of retail profitable. In this model, the 'big box', low-price stores continue to succeed, but average job quality is likely to reduce significantly with an increasing number of task-based 'gig' jobs.

2. AUTOMATING TO EFFICIENCY

The second model, which we have called 'automating to efficiency', is driven by a longer term goal to move customer relationships from the store to the internet, and to make associated savings from a reduction of staff and town centre stores. Online retail is likely to rapidly grow as a proportion of total sales in this model, but store closures would leave increasingly empty high streets and millions of jobs could be stripped out of the industry. The jobs that would remain, however, would likely be of higher quality.

3. COMPETING ON CONNECTIVITY

The third model, which we have called 'competing on connectivity', is driven by the need to provide customers with the standard of service, availability and range of products they desire through reimagining stores and using technology to enhance customer relationships. In this model, the average quality of jobs would rise, and the growth of stores alongside online retail would guarantee a strong supply of jobs while revitalising high streets and community spaces.

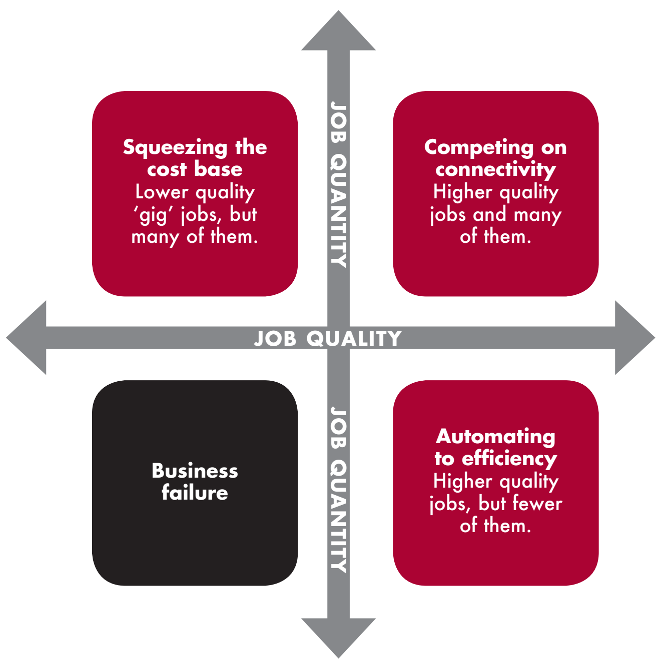
These models of change are separate but not mutually exclusive. Many retailers will pursue a mixture of the three models, possibly using a different model for different areas of their business. This chapter looks at what each model involves, and what the implications each holds for the retail workforce.

1. Squeezing the cost base

Our analysis of the retail industry has shown that a number of employers have pursued an approach of 'squeezing the cost base' in order to keep business costs low and therefore profits steady. Rather than representing a brand new business model, this approach covers actions by retailers to reduce their costs or pass on risks in order to put off fundamental changes to business practice.

The key characteristics of this strategy are the outsourcing of whole business functions in order to reduce costs and minimise responsibility; the aggressive squeezing of supply-chains, prioritising price over sustainable relationships; and

FIGURE 3: The three emerging models and the consequences for retail jobs



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an overall approach to labour that treats it just as a cost to be minimised. This leads to employment practices that sit as close to minimum legal standards as possible. It is most commonly found in the business models of employers with a low-price, low-service mentality.

We can see evidence of this practice across a number of both bricks and mortar multi-channel retailers, and online-only retailers.

Sports Direct's Shirebrook fulfilment centre has featured prominently in recent news coverage owing to reported exploitation of staff. Some staff had effectively been paid below the national minimum wage and according to reports many are working on highly flexible contracts that do not reflect hours worked, with some workers reporting they have been laid off after turning down shifts (even for reasons such as sickness).[19] This is a classic example of a 'squeezing the cost base' strategy in retail, not least because the warehouse itself is not run by Sports Direct directly – the operations are outsourced to Transline, which oversees the workforce there.

It is not just Sports Direct which is outsourcing whole functions of its business to third parties as a cost saving measure. Asos, the online-only fashion retailer, outsources its warehouse operations to XPO Logistics. And complaints have been made by workers about employment practice at its Grimethorpe warehouse near Barnsley. Many of the complaints, uncovered by a BuzzFeed News investigation, were similar to those in the Sports Direct operation, including highly flexible contracts and staff having their contracts terminated following time taken off sick, as well as other complaints of 'highly invasive monitoring'.[20] Complaints about invasive monitoring and poor working conditions have also been made about Amazon's fulfilment centre in Swansea.[21]

Whether it is the employment practice of outsourced third party organisations or the organisation itself, poor working conditions are a hallmark of the squeezing the cost base strategy. On top of the highly flexible contracts, these retailers are increasingly using people on self-employed contracts, rather than those employed directly. Hermes, a delivery and logistics provider used by retailers including the John Lewis Partnership and Next, has been picked out for criticism of its staffing operation. The company uses self-employed drivers to deliver packages, with some of them allegedly receiving less than the national living wage for each hour worked.[22]

The use of self-employed contracts runs much wider in the industry. ONS figures show that in the third quarter of 2016, more than 420,000 people in the retail industry were on self-employed contracts, representing 11 per cent of the retail workforce. While many of these workers will likely value the flexibility attached to such an employment status, the use of self-employment creates the potential for exploitation. Recent research from the Social Market Foundation has found that more than half (55 per cent) of self-employed workers in retail are paid below the national living wage after all working hours are accounted for.[23]

Many self-employed workers are treated by employers as 'independent contractors' which is used to avoid honouring the legal rights to the national minimum wage and paid holidays that even the self-employed are entitled to if they are classified as 'workers' (that is working primarily for one client and under their direction). Additionally, employers who treat staff as self-employed are not obliged to pay national insurance on their wages. This creates a potential incentive for employers who are keen to save on labour costs. Retailers looking to minimise cost bases are likely to exploit this.

Looking at the future of the squeezing the cost base strategy, new online platforms such as Uber and Deliveroo are providing new outlets for employers to create networks of low-skilled, low-paid workers at little cost. Retailers and businesses working in the retail supply chain that are pursuing this strategy will be following these developments closely with a view to adapting them into their existing models. It is likely that similar technology will make it easier for retailers to source self-employed labour and thereby avoid the associated costs of employment without government intervention.

We can see that the squeezing the cost base strategy tends to lead to lower paid, more insecure work in the retail sector. Indeed, that is what those employers taking this approach are looking for. But the other key consequence will be a growing fragmentation of retail jobs as they are broken down into easily managed, low-skill tasks rather than broad-based job roles.

The outsourcing of whole business functions will significantly reduce the room for progression for many workers. The separation of these outsourced operations makes it more difficult for staff to progress into different areas of the business, and they are less likely to benefit from company-wide training programmes. The low-skilled task-based jobs overseen by these retailers mean that they feel they are able to withstand comparatively high levels of churn, as new starters require little training.

The businesses pursuing this approach are able to continue to follow the model of retail that has provided continuous profits over recent decades – top-down standardised business models, 'big box' stores and vast fulfilment centres relying on a large network of low-paid, low-skilled staff to keep them running.

However, this approach does not come without risk. Changes to employment law will have dramatic effects on those retailers that set their standards and staff terms and conditions at the legal minimum. Businesses pursuing this low-cost strategy could be outmanoeuvred on efficiency and productivity by competitors choosing to make capital investment in technology and the development of their workforce. And most profoundly of all, the standardised, top-down, industrial model of retailing might lack relevance in a market that is increasingly demanding higher levels of service and a more tailored offer.

2. Automating to efficiency

The automating to efficiency strategy is the high capital investment approach taken by retailers which want to drive their cost bases down over the long term. Like the squeezing the cost base strategy, it involves finding efficiencies throughout the business. But retailers taking this route are not afraid to spend now in order to potentially realise returns in the future.

Given the difficulties in making online home delivery profitable, many retailers are likely to consider automating various aspects of the process in order to reduce costs in the long term while meeting customer demand. In his oral evidence, Dan Murphy, retail industry partner at Kurt Salmon, told the taskforce that he believed that "the only way that online home delivery can become profitable is if vast amounts of tasks are automated. You get rid of the boys and girls picking in the stores, [you invest in] drone delivery, driverless vans, all this technology and automation."

A fall in labour demand is a likely consequence of this approach, as Murphy points out, mirroring the experience of mechanisation in the manufacturing sector. This reduction in labour demand as a result of technology has been predicted by a growing number of economic authorities including Deloitte, which suggests that 60 per cent of retail jobs could be automated, and Oxford professors Michael Osborne and Carl Benedikt Frey, who suggest that 97 per cent of retail sales roles are computerisable.[24†]

We are already seeing some multi-channel retailers reduce their bricks and mortar presence while simultaneously investing in their online offer, with Marks & Spencer the latest to reduce their store count.[25] In her oral evidence to the taskforce, Yulia O'Mahony, sector lead on pay and productivity at the John Lewis Partnership, said that "automation, store closures and productivity improvements…all lead to quite a tremendous shift in terms of the number of jobs."

As part of the investment in new technology, self-service machines have become ubiquitous in grocery stores across the UK. But Robin Winstanley, project manager at IKEA, told the taskforce that new, more efficient technologies would soon be available (although IKEA had chosen not to invest in them thus far). These include near-field technology that could scan hun-

† However, recent OECD research has argued that the risk of automation has been overstated because a number of 'high risk' occupations still contain a number of tasks that are difficult to automate. When focusing on tasks, rather than occupations, the figure falls to around 9 per cent. Critics of mass unemployment predictions also tend to point to historical periods of technological change, which have always created more jobs than they have destroyed.

dreds of items at the same time rather than having to register each barcode.

But retailers are also seeing growing opportunities to automate and computerise functions in logistics and head offices. Amazon's investment into Kiva Systems shows that it is serious about mechanising its fulfilment centres. And EasyJet, Under Armour and Netflix are already using big data and machine learning to replace parts of their marketing and promotions operations. Many other businesses with retail operations are looking at artificial intelligence as customer relationships are moved online, with eBay, North Face and Shop Direct all testing online assistants powered by AI. In the future, driverless cars and delivery drones – both of which Amazon is investing in – could potentially replace huge swathes of current delivery functions.

Despite job losses, the growth in efficiency from this strategy will likely lead to significant improvements in labour productivity as greater sales will be made per hour worked by each staff member. And many of the jobs will require a more diverse and specialised range of skills, including working with advanced operating systems, robotics and software. This will mean that the jobs that do remain are likely to be higher in quality and better paid than existing jobs in the retail sector, and there might be a more diverse range of career progression options for those working in retail.

As well as costing jobs this model is likely to lead to a further decline of high streets, shopping centres, retail parks and other retail hubs as social and community spaces. The shift of not just stock and sales, but also promotions and the customer relationship to automated systems, means that if this strategy goes on to dominate, the world of retail will be an altogether less human experience. If this strategy wins out, come 2030, most things could be bought, processed, packed and delivered with no human-to-human interaction whatsoever. To some this will be a magnificently efficient process. To many, it will represent a drab, soulless transaction.

The assumption that lies at the heart of this strategy is that retail is about delivering the end product or service as efficiently as possible. The means by which that happens are not as important as speed and cost. Those retailers pursuing this approach will live or die by whether or not that accurately represents the attitudes of consumers, and continues to in the future.

3. Competing on connectivity

The competing on connectivity strategy is an approach in which retailers invest in their workforce and raise the levels of service they offer in order to meet the growing demands of customers. Unlike the other two models, the 'human touch' is essential to this model, which is based around strong relationships between retailers, customers and suppliers.

As Samad Massood, open innovation lead UK & Ireland at Accenture, said in his oral evidence to the taskforce, people will "want human contact. In the future it's going to be a novelty and it's going to be a value-add. People are going to pay for that."

Businesses pursuing this approach in various parts of their business strategy recognise the value of investment in their people, and in bricks and mortar stores. This is an approach that values connectivity and the customer experience. And rather than being luddite or retrogressive, the businesses following this approach are investing in technology and their online offer – and doing it in a way that improves the experience of their customers, rather than simply as a means to cut costs.

Too often investment in technology can reduce the quality of customer experience. Grocery retail workers at our focus group told us that customers in their stores would often avoid self-service scanners at all times, creating additional demand for tills. "People don't want to use self-scan because they'd rather have that personal touch," one person told us. "You then get pressure from the managers to say you've got to move [the customers] to the self-scan…[but] you're making your customer do something they don't want to do. "This user experience was confirmed by one senior manager at a leading supermarket, who said it has significantly reduced investment in self-service scanners following poor feedback from its consumer research.

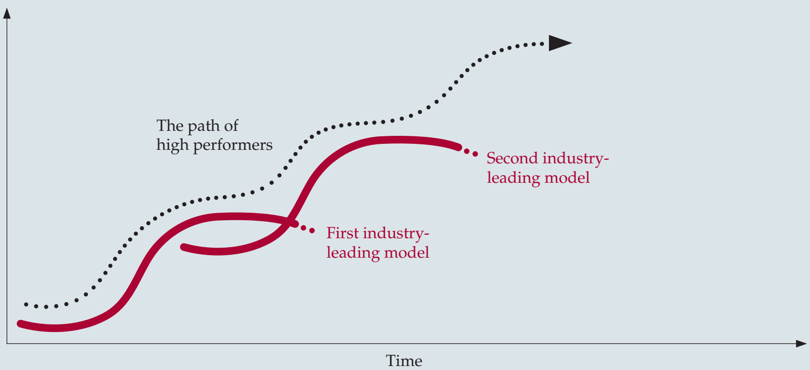
The competing on connectivity approach, recognises this demand for a human touch, and uses technology to enhance, rather than replace it. The furniture and homeware retailer IKEA views improvement of the customer experience as the primary purpose of technology. Robin Winstanley, project manager at IKEA, described the retailer's mission to create "an emotional connection between people working in retail and with the customers. If technology can help us do that, then great."

This idea that human connection is an essential characteristic of a thriving retail operation is shared by a number of other retail businesses. Julie Abrahams, head of salaries at Richer Sounds and a member of the taskforce, said that "there is a lot more that stores can do" to improve the customer experience, including higher standards of training for staff to allow them to make bespoke recommendations to customers. Too many retailers failed to offer the service that customers are looking for, she added.

As Norman Pickavance, former Morrisons executive and chair of the taskforce, pointed out in his speech at the launch of the taskforce, "Apple stores are crewed by geniuses not sales assistants, and they are there to help you find what you need." The presence of Apple's stores allows them to offer something few of their product-manufacturing competitors can: a human service. Apple customers know they can get their products seen to by somebody that can help. That creates trust, which drives sales. And this is why other previously online-only retailers, including Amazon, have recently been setting up

DEFINING THE NEXT AGE OF BRITISH RETAIL

FIGURE 4: S Curve theory, a diagram



Source: Nunes, P, and Breen, T, Jumping the S-Curve. Accenture, 2010.

In the first evidence hearing the taskforce heard from Samad Massood, UK and Ireland open innovation lead at Accenture, who discussed the 'S Curve' theory of how leading business models in given markets change over time (see figure 4). The 'S Curve' theory states that new models are shaped by early adopters at their outset, before ground-breaking ideas begin to be mainstreamed as competitors follow best practice, before the curve levels off and falls into decline as the adoption reaches a saturation point. At this point a new 'S Curve' begins.

Massood told the taskforce that in UK retail, we are simultaneously coming to the end of one 'S Curve' and the beginning of a new one. The taskforce agrees that we should view these emerging models in this context, and that we see the rise and fall of the golden age of British retail as the first curve. It is likely that one of the three emerging models described above will come to form the second curve over time. But this will depend on a range of factors – how customer habits change over time (and to what extent there is pushback against automated customer service), whether businesses are able to prove each model is sustainable over time, and, crucially, what role government plays in supporting and regulating against different approaches.

bricks and mortar stores to develop deeper relationships with their customers.

The Apple example is also useful because it reflects another key characteristic of the connecting on connectivity approach. This is a model that understands there is a direct relationship between employee engagement and customer experience. As Anna Gowdridge, head of people at Virgin Unite, told the taskforce in her oral evidence, retailers succeed when they are "talking about people as people, not as human resources." In this sense, this marks a major departure from models of retail that see labour as a business cost. Rather, these businesses looking to compete on connectivity see labour as an asset to be invested in.

This high-engagement aspect of the model is not necessarily new. As Robin Winstanley put it in his evidence, "golden rule retailing" – treating staff and customers how you yourself would wish to be treated – has long been a part of many high service retail offers.‡ But retailers are coming up with innovative new ways to do this.

If one of the big features of the golden age of British retail was the standardised, top-down, command and control management structures, a number of retailers are now completely rejecting this approach in favour of more horizontal structures. Empowerment of staff is a key feature of MIT Professor Zeynep Ton's Good Jobs Strategy, a plan for low-cost businesses to succeed by investing in their staff. Ton points to American convenience store chain QuikTrip, which lets staff in individual stores decide what to stock and how to process complaints.

In her evidence to the taskforce, Tess Lanning, head of business development at the Living Wage Foundation, drew from her recent research with a number of UK retailers looking at how they could adopt aspects of Ton's strategy. Lanning picked out BrewDog, a brewery with a growing retail and hospitality operation, which had recently simplified its pay structures to give more responsibility (and with it, higher wages) to staff who had previously been in more junior positions. According to Lanning's research, the change reduced staff turnover by 40 per cent and meant it no longer struggled to recruit for more senior roles.

IKEA has also devolved many important decisions on stock and promotions to local stores while giving more responsibility to junior staff within those stores. Winstanley told the taskforce if you "give people real responsibility, and you train, you build competence, it's much more likely they will be able to contribute in a better way." As well as the other high engagement approaches the company has taken, this move has increased both customer and staff satisfaction and significantly reduced turnover.

‡ Though as Dan Murphy put it in his evidence to the taskforce, retailers can often be guilty of 'happy talk' when discussing the ways in which they value their staff but fail to put it into practice in ways that their staff would recognise.

In the United States, the online fashion retailer Zappos (a subsidiary of Amazon since 2009) has taken this approach much further with what it calls 'holacracy', in which power is distributed right through the organisation, and employees make decisions (almost) democratically. In 2014, Financial Times journalist Andrew Hill said of Zappos' structure, "far from reducing infighting at senior level, hierarchy exacerbates it. The key to maintaining good relations between senior colleagues is not necessarily to flatten out all differences in rank, but to foster mutual appreciation of individuals' skills in fulfilling their clearly defined jobs [like] King Arthur's round table, where individual knights had a specified role."[26] It is clear that the devolution of responsibility and empowerment can not only greatly improve levels of engagement within the staff team, but also translate into far higher levels of customer satisfaction.

The common denominator for many of the UK businesses referenced in this section is not just high engagement employment practices, but also levels of pay. IKEA, Richer Sounds and BrewDog are all living wage employers, choosing voluntarily to pay every member of staff (and those working in their workplaces but contracted to another organisation) at least £8.45 an hour, and £9.75 in London, calculated by the Living Wage Foundation as enough to meet basic living costs. And higher pay is also a central aspect of Ton's strategy. Research has shown that pay increases associated with the living wage can lead to improved productivity from higher esteem, engagement and an openness to changing job roles.[27]

As well as making human connections with customers and staff, this model is also about connections and communities developed with suppliers and communities. While many retailers thrived during the golden age of British retail, it was a tougher time for suppliers, who faced increasingly hard bargains being driven by the growing buying power of the big retailers.

Cultivating relationships and simplifying supply chains are a key part of the connected approach to retail. Morrisons, for example, 'vertically integrated' many parts of its meat supply chain in the mid-2000s, bringing them back under the retailer's ownership.[28] This has allowed the grocery retailer to sell more British meat than its competitors and to have more direct control over quality, a process which is now central to its 'market street' offer in stores and features strongly in the company's marketing.

Aldi is a low-cost grocery retailer that has differentiated itself with its approach to its supply chain. Planet Retail research analyst Matthias Queck said "Aldi's suppliers know where they stand, the relationships are often long-term and built up on trust so it is generally a better partnership than traditional grocers."[29] Aldi's limited range means it tends to sell high volumes of the same product rather than constantly shifting between promotions as many of its competitors do, and therefore suppliers avoid a great deal of uncertainty.

Connected retailers are not only creating communities vertically down their supply chains, but horizontally with other retailers too. Whole Foods in the United States is leading the way in this area, taking the best parts of the 'golden age' shopping centre approach into its own stores. Its new '365' supermarket concept involves inviting smaller, independent retailers and services – like florists or small pop-up restaurants – into its stores to give them the feel of a social, community space. Far from being top-down national partnerships, local stores choose which outlets to include according to the needs of their local communities. So not only are these retail stores seen as community spaces, their managers are genuinely getting out and playing a role in the development of their local communities.

This development of new retail communities is not restricted to bricks and mortar stores. Etsy is providing a new platform for small, independent retailers to connect with customers across the globe without having to have the logistics and marketing functions this would have required a decade ago. Nicole Vanderbilt, vice president (international) at Etsy, says that as well as supporting global sales, Etsy is increasingly trying to "create more human connections" by "encouraging sellers around the world to connect in person" and to provide new spaces for sellers and customers to connect locally.[30] The Etsy Local app, for example, helps customers to find sellers in their area.

In this more connected view of how to do retail, retailers are reimagining relationships with their staff, their customers, their suppliers and their communities. Rather than simply pushing down on costs or finding new, more efficient ways to deliver more traditional models of retail, these retailers are developing new, highly engaged, highly distributed models of retail.

This approach has its challenges. Trying out new things can be risky when competition is so intense and margins are so tight. Creating a high-service, high-engagement retail environment creates additional costs for employers in the short term. The business model assumes that this investment will lead to a higher value and volume of sales, but if it does not work out this way it could simply become a costly experiment. And while many retailers are thriving by delivering high engagement and low prices, if customers increasingly decide it's not service and experience they want at all, and they are very happy with a low-service, low price, computerised retail experience, it is likely demand will not sustain the expansion of this model.

But what the competing on connectivity model does, and the other two models fail to do, is genuinely improve the quality of the customer experience. And in doing so, it can provide better jobs for the workforce without a significant reduction in quantity. The improved productivity will have considerable economic advantages. And it can also create better relationships with suppliers while developing social spaces and building communities.

Part 2

Cultivating connectivity

MODERN INDUSTRIAL STRATEGY

The second part of this report looks at the role of government in supporting retailers to improve jobs in the industry, enhance the contribution they make to the UK economy, and revitalise town centres and community spaces. It argues for the inclusion of retail in the prime minister's industrial strategy and provides a framework for deciding which elements of the industry government should support, followed by a plan to do this.

Industrial strategy has returned to prominence in British politics with new prime minister Theresa May calling for a "proper industrial strategy that focuses on improving productivity, rewarding hard-working people with higher wages and creating more opportunities for young people so that, whatever their background, they go as far as their talents will take them."[31] May has established a new department in government with responsibility for industrial strategy, as well as business and energy.

May has explicitly included the improvement of productivity, pay and jobs within the aims of a 'modern industrial strategy'. This is important because different journeys towards growth have different implications for the workforce and the economy, as we have seen in part one of this report.

However, the retail industry has so far failed to feature in descriptions of industrial strategy provided by the prime minister and her colleagues, despite it employing more people than any other industry and accounting for 10 per cent of the UK's output.

In the final months of 2016, the prime minister and the secretary of state responsible for the government's modern industrial strategy fleshed out their visions of what this strategy would look like in two major speeches. Theresa May and Greg Clark praised 15 industries for the growing contribution they could make to the economy in their speeches to the CBI and Institute of Directors annual conferences. But retail was not among them.[§]

As one retail worker said to the taskforce about their chosen career, all too often "we're not taken seriously as retail workers. I think people still have that attitude out there that, especially women retail workers, that you're out there for pin money."

But a number of commentators and institutions have begun to call for an industrial strategy for low-paying industries, including retail, as well as the traditional high productivity, high reward targets of industrial policy.

> Narrow prioritisation of productivity growth may not lead to improvements for the workforce

Recent research from the IPPR argues that low-paying industries can hold the key to Britain's productivity problem.[32] The research found that firms in retail, as well as hospitality and administrative services, are less productive in the UK than overseas, and on the whole they have not been investing in the adoption of new practices and technologies that would enable them to become more productive, and thereby improve jobs and pay.

Further to this, research by former government minister Kitty Ussher has found that training alone is unlikely to boost productivity and pay for frontline workers in retail, and she has proposed government takes a more active approach, working with employers, to improve jobs, pay and productivity in the industry.[33]

Part two of this report builds on previous research and proposes an agenda for supporting inclusive, responsible retailers to thrive.

A new approach to productivity

Given the UK's comparatively poor productivity performance and stagnating real wages, labour productivity has been commonly identified as a proxy for inclusive economic progress. But the taskforce's investigation into improving pay and productivity in the changing retail landscape shows that while this may be true at a national level if the UK remains close to full employment, a narrow prioritisation of firm-level productivity growth will not necessarily lead to sustainable improvements for the retail workforce.

The link between productivity and living standards at a macro level is clear. The economist Paul Krugman once famously said: "Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker." And this is borne out by the evidence: countries with higher levels of productivity have higher living standards.[34]

This has led many economists to prioritise productivity growth in order to boost real wage growth in the UK, which has been consistently low (and at times non-existent, or even negative) since the mid-2000s.[35] This fits with Krugman's living standards-productivity logic: before the stagnation of wage growth just before the financial crisis, UK labour productivity was growing year on year by around 2 per

§ The 15 industries were accountancy, aerospace, architecture, automotives, consulting, the creative industry, digital, education, engineering, finance, law, manufacturing, pharmaceuticals, technology, and transport.

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cent. But as with wage growth, it has been sluggish since then.

And this story seems to fit with the development of the UK retail sector too: the period of productivity stagnation coincides with the end of the golden age of British retail. Furthermore, the UK retail sector has some of the lowest levels of labour productivity when compared both to other UK industries, and to retail industries in other countries. And as we have seen earlier in this report, retail also accounts for more low-paid workers than any other industry in the UK.

Given this link between productivity and living standards, it is safe to suggest that in order to boost pay for the millions of low earners working in retail, there needs to be productivity growth. And yet, productivity – in its narrow economic sense – will not be enough to ensure there is sufficient quality and quantity of jobs in retail going forward.

This is because productivity measures output per unit of labour worked. So while a retail business working with its existing staff in new ways to increase the company's output will lead to improvements in productivity, employers cutting back on staff and still delivering the same level of output also leads to productivity improvement. And as we have seen in the previous chapter, the latter approach is what many retailers – particularly those investing in computerised and automated service – are aiming to do. So while productivity improvements in isolation are likely to lead to better paid jobs, it could also lead to fewer jobs in the industry.

Proponents of the link between productivity and living standards would likely argue that a reduction of jobs in retail would not be a bad thing if it led to the creation of higher productivity jobs in different industries. However, as well as the obvious difficulties former retail employees and their families would face from such upheaval, it is unclear where these replacement jobs would come from. Retail has traditionally provided entry level, part-time and flexible jobs for millions – mostly women – across the UK and has often provided livelihoods for people who have had to leave declining industries. It would take an unprecedented level of employment growth in other industries to account for a serious reduction in employment in the UK's largest industry.

Another important issue with productivity was raised by a senior retailer at a taskforce roundtable. Their view was: "If you want productivity growth at all costs, you have to ask where that takes you." When it considered the options in its own stores, this retailer said: "If I wanted to maximise productivity I could start timing [staff] toilet breaks and monitoring every second they spent not selling stock. But I don't want to do that, because it would make their jobs miserable." This is a somewhat darker side of productivity growth – because if retailers simply try to raise work intensity without making changes to job and company structures, or make investments in new technology and equipment, it is likely to lead to the squeezing of the workforce that we have seen in examples of the 'squeezing the cost base' strategy.

And there is also the issue of who gains from productivity improvements. In the taskforce's focus group with retail workers, a group of staff who had been in the industry for over a decade agreed that in terms of the "levels of work expectations, they have doubled" since they started in retail. And rather than being given new tools, responsibilities or technology to support them to do this, it was more about simply doing more in the allotted time, with one delivery driver saying "every single second of our day is scheduled so from clocking in to your van, to how you've got to drive to your drops, to how long at your drops. Every single part of your day is time-managed to the second and that puts so much pressure on you."

> This will lead to a further decline of community space and somewhat bleaker high streets and town centres

But when a taskforce member asked the group of retail workers whether they felt improvements in productivity had led to a pay rise or corresponding improvement in working conditions, a chorus of "no" reverberated around the room. "They demand more and want to pay less," one retail worker even said. This view was supported by Smith Institute research referred to by Paul Hunter in his oral evidence to the taskforce. The think tank's surveys with retail workers showed that workers were "working harder, rather than smarter" and few felt they had shared in the proceeds of productivity growth.

And finally, chasing productivity growth above all else is also likely to lead to a dramatic change in the social role of retail. In his evidence to the taskforce, Dan Murphy from Kurt Salmon presented a summary of labour productivity in a range of UK retailers. A clear trend was a comparatively higher level of labour productivity in online-only and online-led retailers, with online-only fashion retailer Asos scoring highest on productivity. If productivity is pursued at all costs, it will likely be at the cost of many lower productivity bricks and mortar stores, which are simply less efficient than online retail methods. This will lead to a further decline of community space and somewhat bleaker high streets and town centres.

The taskforce believes that instead of a narrow economic measure of productivity, government should look holistically at the benefits that retail can provide. This should take into account the sector's benefit to each of the different stakeholders: the economy as a whole, retail firms, the workforce, the customers, and society. A comprehensive means for measuring this should be established, which should include consideration of:

- The gross value added to the economy by the retail sector as a whole
- The number of jobs and hours worked in the retail sector
- The gross value added per hour worked by each retail worker, and the average pay per hour
- Indirect contributions made by retailers and retail spaces to local economic areas

This broader set of indicators will mitigate some of the unintended consequences created by a narrow focus on productivity. For example, any decrease in the number of jobs or hours worked in the industry as a result of productivity improvements would have a detrimental impact on the economy as a whole and local economic areas if unemployment rises as a result. Looking at this potential impact in the round is more likely to lead to an outcome that suits all stakeholders.

The rest of this part of the report looks at how government can support the development of the retail sector in a way that drives improvements on all of these measures.

SUPPORTING CONNECTED RETAILERS TO THRIVE

Assessing the different models that are emerging against the holistic definition of productivity set by the taskforce, it is clear that the 'competing on connectivity' approach is the one that is most able to deliver for all of the retail stakeholders.

This model is able to simultaneously boost retail growth, provide good jobs without a significant reduction in number, provide service and value to customers, and protect and enhance community spaces and the social role of retail. The other two models are likely to lead to worse quality or fewer jobs, mixed consequences for the UK economy, and a highly efficient but drab retail environment with low levels of service and declining community retail space.

By supporting the 'competing on connectivity' approach and enabling it to flourish, government would not be writing a new rulebook for retailers, nor dictating how the market as a whole should develop, but instead recognising that businesses taking this approach produce much more than just profit.

In order to support the retail industry to adopt and mainstream features of the 'competing on connectivity' model, government should focus on establishing the right environment in which connected retailers are able to thrive. This means making it easier for retailers to adapt their business models by minimising the risks associated with doing so, and supporting the industry as a whole to upskill and innovate.

The taskforce has come up with a series of recommendations for government to create the environment in which connected retailers can flourish.

Recommendation 1: Government should place the future of retail at the heart of its modern industrial strategy.

This report has set out the key role the retail sector plays in the UK economy, accounting for one in eight jobs and 10 per cent of the UK's output. Yet all too often, as one retail worker said to the taskforce, retail is "not taken seriously".

The absence of retail in discussions around the UK's industrial future is a serious oversight. If the prime minister is serious about her vision for a modern industrial strategy that drives up wages and the quality of jobs, the biggest people business in Britain must be at the heart of it.

A number of retailers are showing that the retail industry can be more productive and grow without shedding jobs, and the research shows that productivity improvement in the industry can be crucial in plugging the gap with the rest of the G7.[36]

The prime minister should make a major speech on how retail, and other similar industries like hospitality, are as much a part of the government's modern industrial strategy as the more fashionable industries like digital and high-value manufacturing.

The taskforce suggests that such a speech could be filled with policy proposals drawn from the following recommendations.

Recommendation 2: The government should aim to diversify the mix of retail ownership models and promote employee voice to support long-termism in the industry.

At the taskforce's second public hearing, Dan Murphy from Kurt Salmon delivered a dose of realism about the way that most public and private businesses are set up. "If they're the personal owner of a company, they want to maximise their own wealth," he said. "Or if they're PLCs, they're duty bound to maximise returns to their shareholders, otherwise they get fired."

Murphy's words by no means apply to every retailer – many responsible businesses including some of those referenced in this report would take exception to such a generalised summary of their multi-faceted approach to business. But they highlight the structural drive towards short-termism arising from the draw of profit or duties to shareholders.

This short-termism can lead to a lack of innovation. Too often retailers can be averse to changing their approach for fear of profits declining in the short term, yet recent events have shown that a failure to adapt a business model can lead to failure in the long term. However, many retailers using high engagement strategies, working with trade unions or operating under different ownership models have been able to thrive.

"Why is it that BHS has been managed very differently from John Lewis?" Claire McCarthy, general secretary of the Co-operative Party, asked at one of the taskforce's hearings. "Well that's because one was managed by its workers and one wasn't." Indeed, Sir Charlie Mayfield, chairman of the John Lewis Partnership, has said that the long-term success of the organisation has been due to the fact its owners "work in the business. They spend, in some cases, their whole careers with us. They care deeply about it. Their livelihoods and happiness are all tied up within it."[37]

A recent review of international studies on co-operatives and productivity by Virginie Perotin, professor of economics at Leeds University Business School, found that "conventional companies would produce more with their current levels of employment and capital if they behaved like employee-owned firms."[38] Perotin found that this is principally because workers at employee-owned firms tend to be more flexible in downturns (like the one experienced by BHS) and are also able to rapidly respond to exploit any opportunities when business picks up.

This increased flexibility and commitment from staff can also be found in other ways in workplaces that encourage their employees' voices to be heard. The research shows that workers in unionised businesses who are properly consulted and updated on business developments are able to be more flexible in downturns.[39] And organisations providing new spaces for staff to meaningfully engage with business decisions can also unlock some of this engagement potential.[40]

This increased dynamism from employees is particularly relevant at this challenging time for retailers. As one participant at the taskforce's roundtable pointed out, a number of big retailers are looking for ways to change their business radically in order to remain relevant.

For some retailers, a successful shift to a more highly engaged model could work for all stakeholders. Employees would be given greater influence and engagement at work, the improved productivity and performance at the company could renew its competitiveness, and the economy could benefit from the thousands of jobs saved and renewed success of the business.

In the case of moving a company into full employee ownership, owners of 'legacy' retailers entering a new phase of the business, or entrepreneurs looking to move on from a start-up would be given an exit route.

Government has experience of facilitating this transition in the public sector, but there has so far been less interest in promoting alternative ownership models in the private sector.

The mutuals support programme was set up in 2011 following the recommendation of the mutuals taskforce, an inquiry into boosting mutuals in the public sector, chaired by Julian Le Grand and including Nita Clarke, also a member of this taskforce.[41] The support programme is run by the Cabinet Office and provides advice to public sector organisations looking to mutualise. In many cases it also provides access to finance to support the development of early-stage mutuals.[42] Many of the organisations have been in health, such as the City Health Care Partnership in Hull, which since mutualisation has managed simultaneously to improve service and productivity and make business cost savings of £600,000 per year.[43]

The government should pilot a new private sector support programme in the retail industry. Its focus should be working with retailers who are entering a new phase of business to help and incentivise them to realise how the employee voice, through trade union involvement or employee ownership, can take their business forward.

A change in ownership will not work for every retailer. So the private sector support programme should carefully assess whether or not associated productivity and performance improvements, alongside a shift to a longer term vision, could be enough to turn the fortunes of each retailer around, and invest accordingly. It should also work with retailers to promote other forms of 'employee voice', including unionisation and staff forums.

This private sector support programme should be run out of the Cabinet Office, and it should be supported with a fund to further incentivise struggling retailers to explore the transition to employee ownership or other high engagement approaches. If successful, this scheme would drive growth and either save or create thousands of jobs. Therefore, the funding for this scheme would likely be returned from improved economic performance and lower unemployment in the long run.

Alongside the establishment of a new private sector support programme, the government should at least commit to continuing existing tax incentives for employee-owned and mutual organisations.

Recommendation 3: The government should establish a new 'super skills council' for retail with a mission to drive up skills and standards in the industry.

During the golden age of British retail, the industry relied on high quantities of low-paid, low-skilled jobs. As a result, retail now provides more jobs than any other industry, and it has played a crucial role in establishing the UK's record levels of employment. However, the industry also has a higher proportion of low-paid jobs than any other industry, and various studies have shown that opportunities for progression are few and far between.[¶]

The analysis of the changing retail landscape in part one of this report has shown that there is a risk that skill levels, pay and opportunities for progression could decline further. Indeed, a key characteristic of the 'squeezing the cost base' approach to retail is a view that labour is a cost to be minimised, and some retailers have sought to do this by outsourcing whole business functions to agencies, many of whom use low-paid self-employed workers to complete routine tasks.

However, other retailers have taken a different approach. The retailers following the 'automating to efficiency' and 'competing on connectivity' approaches outlined in part one have tended to upskill their workforce, either training workers up in a broader range of skills, or supporting them to develop skills not traditionally associ-

¶ The Resolution Foundation has published two reports on the lack of progression opportunities in retail and other low paying sectors: Hurrell, A, *Starting out or getting stuck*? (2013) and D'Arcy, C, and Hurrell, A, *Escape Plan* (2014). This issue was also referred to by retail workers in our focus group, who disagreed with the idea that if you worked hard and did your job well, there would be room to progress. One said: "You've got to be a certain type" to progress and: "If you've got a life outside of [the employer] then you've got no hope." Those that did progress tended to "go way, way above their contracted hours", according to another member of the group, because there are "less jobs now to fight for so everybody's struggling for" the same promotions.

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ated with retail, such as the operation of computerised systems. While the former could lead to fewer jobs, both models tend to create higher productivity, higher paid job roles for retail staff.

The taskforce is not alone in recognising the opportunities provided by a higher skilled retail workforce. The UK Commission on Employment and Skills has highlighted an increasing need for higher level skills "in order to meet future challenges wrought by technology and more discerning customers." [44] And in its recent work on the future of retail, the British Retail Consortium points to a "greater need for creative, service and analytical roles".[45]

Government can play an important role in addressing this skills mismatch, both in terms of supporting the retraining of existing retail workers to plug emerging skills gaps, and ensuring there are sufficient numbers of sufficiently skilled workers coming into the retail industry. Indeed, improving skills and pathways for progression could become even more important should the UK's exit from the European Union limit the ability of retailers to bring in skilled workers from abroad.

However, various approaches from government have not yet succeeded in laying the groundwork for such a skills transition. For example, Skillsmart, the Sector Skills Council (SSC) in retail, was introduced in 2002 with the aim of driving up employer demand for skills and influencing skills provision. However, while other SSCs established at the same time won the support of employers and went on to establish new standards and skills agreements, Skillsmart failed to do so.[46] In 2011, under a tougher licensing regime, Skillsmart lost its license as a SSC.

More recently, the apprenticeship levy – which will be introduced in April 2017 – has been established to support 3 million new apprenticeships by 2020. The levy is set to provide access to level 2 qualifications for many workers at the bottom of retail organigrams. However, retailers have warned that the initiative as it stands could fail to genuinely drive up the quality of training because the government is prioritising the quantity rather than the quality of the apprenticeships.[47] These concerns echo those made by Alison Wolf, author of the government's review into vocational education, who said that the levy as a whole "is far more likely to waste large sums of public money, and downgrade apprenticeship quality, than it is to provide the skills that a more productive economy requires."[48]

Given these warnings about the government's current apprenticeship plans, ministers should press pause on the introduction of the apprenticeship levy and undertake an immediate review into how a revised version of it can support the transition to higher-skilled jobs in every industry including retail.

In coming up with a new approach to ensuring future skills needs are met in retail, the government should revisit the Sector Skills Council model, which failed in the retail industry due to a lack of employer buy-in. A new 'super skills council' in retail could ring-fence and re-channel the apprenticeship levy funds that are set to be paid by the biggest retailers to a new fund to support apprenticeships in the retail industry.

The make-up of these new apprenticeships – and the standards that they should meet – should be decided by the newly formed council, giving employers the role in setting the parameters that they have asked for. In return, employers should give their commitment to the council process so as to avoid the lack of industry buy-in that underpinned the failure of Skillsmart.

But rather than being solely employer-led, the council should also learn from the success of social partnerships in the UK and abroad by including trade union representation. This would reflect the make-up of the Low Pay Commission, which governs the rates of the national minimum wage and national living wage and was voted as the most successful government policy of the last 30 years in a recent survey of UK political experts.[49] The German and French governments have worked closely with trade unions as well as business in their 'Work 4.0' and 'Industrie du Futur' programmes, resulting in higher levels of engagement and trust in new skills and new technologies in the workplace.[50]

This super skills council could also address shifts in the skills needed in retail as the nature of work changes in the industry. Over time, the remit of this new super skills council should be broadened to include progression for existing retail employees. This would provide retailers with new opportunities to retrain their existing workforce for the jobs of the future, and it would give those retail workers new transferable

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skills to manage industrial change. Led by employers, supported by trade unions and facilitated by government, the council would provide new assurances over future skills bases for those retailers looking to take a higher-paying, higher-skilled route to growth.

Recommendation 4: The secretary of state for business, energy and industrial strategy should ask the competition and markets authority to lead an inquiry into allegations of monopolistic activities by platform businesses and the effect they have on the UK retail market.

During the golden age of retail, entrepreneurs like Jeff Bezos were able to set up companies from their garages that would one day become global. In order to ensure major platform retailers are not preventing the retailers of tomorrow from being able to do the same, the Competition and Markets Authority should be given the resources to conduct a major review into the alleged activities of platform businesses and their effect on UK retail.

Under UK and EU law, businesses are required not to undertake anti-competitive activity, including abusing a dominant position in the market.[51] In recent months a number of commentators and politicians have alleged that a new class of 'platform businesses' has risen into dominant positions in various markets and some of these businesses are undertaking activities which are abusing those positions.

In the United States, Democratic senator Elizabeth Warren made the case last year that "Google, Apple and Amazon provide platforms that lots of companies depend on for survival…but Google, Apple and Amazon also in many cases compete with those small companies so that platform can become a tool to snuff out competition."[52] Warren has won a number of unlikely supporters to this view, with voices from business as well as politics agreeing with her. In the UK, Luke Johnson, chairman of Risk Capital Partners and Sunday Times columnist, recently claimed that this "new breed of monopolist…act[s] to stifle innovation and denude economic growth."[53]

Governments are beginning to look more closely at allegations surrounding these 'new monopolies' and while no allegation has been formally proven, there is a growing bank of evidence suggesting that practices that abuse dominant market positions are taking place. The European Commission is investigating the alleged manipulation of Google's search results, which are said to favour its own comparison shopping service and products.[54] And the United States Department of Justice is investigating how Amazon exercises its 'power over the book market' – using its dominant position as a seller to crush competition through predatory purchasing practices.[55]

If these alleged practices are happening, there is a real risk that they are stifling innovation in retail as they reinforce the dominance of today's leading online retailers. In particular, these are by definition online platforms, and if it is true that monopolistic activities are providing unfair advantages to online retailers, it only adds to an already uneven landscape that hinders rather than helps those retailers trying to reimagine bricks and mortar retail.

> At this stage, new innovation and disruption to established monopolies is needed more than ever

At this stage in the development of the retail industry, new innovation and disruption to established monopolies is needed more than ever. Therefore, the UK government should launch its own inquiry into whether or not monopolistic activities are being undertaken by platform businesses, and what effect this is having on the UK retail market.

In 2014, the UK Office of Fair Trading and the Competition Commission merged to create the Competition and Markets Authority, a new body with a responsibility for enforcing competition law. The authority has been criticised by the National Audit Office for not doing enough to clamp down on anti-competitive activity, but it has since tried to respond by handing out record fines, including an £84m fine to just one pharmaceutical company.

The Secretary of State for Business, Energy and Industrial Strategy should ask the Competition and Markets Authority to lead the inquiry, and allow it to use the revenues from fines levied in 2016 to resource such an investigation adequately. In undertaking the inquiry, the authority should work closely with the European Commission, the United States Justice Department and other state bodies also looking at similar issues, but it should restrict its inquiries to the effect these alleged monopolistic activities have on UK retail and other businesses.

As the UK prepares to leave the European Union, it will be important to take stock of the effect that the practices of international platform businesses have on UK business and the character of retail in the UK. If the Competition and Markets Authority finds that unfair activities have been taking place, the UK government should ensure it has the resources and teeth to put a swift end to them.

Recommendation 5: The secretary of state for business, energy and industrial strategy should ask Innovate UK to establish an eleventh Catapult centre for retail.

A new Catapult centre should be established to drive forward innovation in retail management, share best practice, and prepare the industry for the future of work.

At the third public hearing held by the taskforce, Conor D'Arcy, policy analyst at the Resolution Foundation, said that "the quality of management is key" and that right now "management in the UK generally lags world leaders, and particularly when it comes to lower paid people." A number of senior retailers agreed with this view at the roundtable held by the taskforce, with one saying that many big retail business leaders could easily improve their company's performance and productivity if they spent more time in their stores looking at how they could improve operations.

Retail workers also reported complaints about their managers at the focus group held by the taskforce, with two long-serving retail workers saying that they believed the quality of management in retail had declined over recent years. When asked how, one said: "When I started off, your manager knew you as a person." Now management seem to have lost that personal touch." The other added: "Years and years ago, your department managers would work with you with a lot of things. Now it's us and them, they've got their role and you're doing your role, there's no compromising."

The experience of the retail workers reflects some of the practices introduced in the golden age of retail, such as the standardisation of stores and top-down, hierarchical management structures. These approaches were easy to roll out quickly in new stores in new areas, but they came at a cost of a drop in personalisation, and an increasing feeling for retail workers, as one told our focus group, that they are "acting like a robot". And because of this, the roles at the bottom of the hierarchy (which represent the majority of jobs in retail) have tended to be more routine and less productive.

But recently, many retailers pursuing the 'competing on connectivity' model of retail outlined in part one have been showing that reintroducing the personal touch into management, as well as other innovative new techniques, can boost morale, initiative and productivity, and translate into improved sales and business growth.

Despite influential initiatives designed to spread best practice, such as Zeynep Ton's Good Jobs Strategy and the Living Wage Foundation's Good Jobs Toolkit, this

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managerial personal touch is only being practiced at a minority of retailers. As the other scenarios outlined in part one show, many more retailers are choosing to continue with the top-down, standardised managerial techniques that thrived in the golden age of retail.

The government should support the development and adoption of managerial innovation in retail with a new dedicated Catapult centre. Such a commitment would allow government leaders to show they are serious about developing a modern industrial strategy for the whole of the UK that will improve jobs and life chances for millions.

The Catapult centres are a network of hubs across the UK that are designed to boost innovation in certain sectors. They bring together businesses and researchers to work together to turn innovative ideas into practical settings, and in turn spur economic growth. The existing 10 Catapult centres are in sectors more commonly associated with productivity and economic growth, such as high value manufacturing and digital. A recent review of the centres has said that existing initiatives are rapidly closing the UK's innovation gap with leading countries.

The business, energy and industrial strategy secretary should ask Innovate UK to establish an eleventh Catapult centre for retail, and provide associated seed funding to develop this, in line with the support government provided to the existing centres. Over time, this retail centre should seek to win new research and development grants to supplement the income provided by Innovate UK.

If it is able to develop and mainstream innovative new approaches to management in the industry, the retail centre will support the development of thriving, connected retailers and improve the working lives of millions of retail workers.

Recommendation 6: The chancellor should set up a review of tax paid by retailers with a mission to level the fiscal playing field between online-only, store-based and multi-channel retailers without reducing UK and local authority tax bases.

The government should immediately set up a new review looking at how a reformed tax system could level the playing field between online-only, store-based, and multi-channel retailers without reducing the existing tax base for local authorities and the UK as a whole.

As part one of this report explains, online-only and predominantly online retailers have been able to avoid many of the cost bases faced by retailers with a strong store presence. This has allowed many online retailers to undercut store-based competitors on price, which has contributed to a rapid growth of online retail at a time of squeezed household budgets.

A number of these lower business costs involve cheaper business inputs. Online-led retailers can avoid the rental costs of stores in high footfall areas, the associated labour costs of staffing those stores, and can make more efficient use of space in a warehouse, rather than a store setting. Of course, online retail requires items to be picked (whereas in stores, customers tend to do this themselves) which creates additional costs, though the potential for automation is greater and the net savings tend to be greater for online-led retail.

But the government also contributes to the lack of a level playing field through the taxation system. As Mary Portas set out in her government-commissioned review into the future of high streets, the business rates regime in particular is placing an unfair burden on businesses setting up and maintaining stores. Indeed, business rates, and the taxation system in general have been raised by retail businesses on numerous occasions in this investigation.

Business rates tend to be the largest tax paid by traditional retailers. The British Retail Consortium estimates that 42 per cent of total taxes paid by large retailers are business rates (compared with 36 per cent going to national insurance, and 12 per cent to corporation tax). Business rates are based on the 'rateable value' of the property, which takes into account the location, size and usage of the property. The reason why business rates contribute to an uneven playing field is that the real estate used by online retailers tends to be in cheaper areas, fall into cheaper usage categories, and uses less land than the real estate used for stores. Therefore, it is easy to see why it is these taxes which have been singled out for reform.

However, the revenue created by business rates is relied on by local authorities. In October 2015, local authorities were awarded 100 per cent of the business rates they raise locally as part of changes to the ways local government is financed. These changes have been accompanied by a cut of around 40 per cent of funding from central government (with some local authorities experiencing cuts well in excess of this).[56] As a result, as more and more voices are calling for business rates to be reduced for retailers and high street businesses, local authorities have become even more reliant on those business rates.

The difficult reality is that while reforming business rates alone might seem a simple tweak from the point of view of retailers, the consequences could be disastrous for local authorities, some of which are already struggling to finance their statutory responsibilities. Instead, in order to level the playing field without creating unintended consequences, a wider review of taxes for retailers is needed.

Therefore the chancellor should set up a review of tax for retailers, with a specific brief to level the playing field between online-only, store-based, and multi-channel retailers without reducing the existing tax base for local authorities and the UK as a whole. This review should be done in partnership with the Department for Communities and Local Government.

The review should be undertaken jointly by both departments, and it should be time-limited to one year to provide certainty for retailers, investors and other stakeholders. The review should take evidence from retailers and retail workers as well as tax experts, and its recommendations should subsequently be introduced in the 2018 budget.

The review should also look at questions over corporation tax paid by big international, online retailers. For example, Andy Street, former managing director at the John Lewis Partnership, has publicly asked why his organisation has paid more corporation tax than Amazon in recent years, despite posting a fraction of the online retailer's sales and profits. In 2015, Amazon made £5.3bn of sales in the UK, and only paid £11.9m in corporation tax – representing just 0.2 per cent of its sales.

Recommendation 7: Local authorities should work with retailers to establish local retail plans.

The changing retail landscape is becoming increasingly challenging for retail centres and high streets, with stores facing rising business costs while having to compete with online retail. In order to retain relevance and business, retailers need to reimagine and modernise their stores. Local authorities should work with retailers to develop retail spaces of the future with a local retail plan.

Fewer people are visiting high streets and retail centres today, and this decline looks to continue in the future. Between 2000 and 2011, the proportion of total retail spending taking place on high streets and town centres fell from 49 to 42 per cent.[57] And separate figures show that this trend has continued, with high street footfall falling by 3.4 per cent over the year from November 2014 to 2015, and then by 0.7 per cent from November 2015 to 2016. Over the last year, footfall in shopping centres fell by 2.3 per cent.[58]

The taskforce is clear that the decline in high streets and retail centres is not

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simply an economic concern, but also a social one. Throughout the taskforce's work, a great many people – whether they were retail workers, retail leaders, sector experts, or other evidence givers – referred to the social experience of shopping. Shopping is rarely just a transactional experience, and stores and retail centres are often places for people to meet and connect with each other and those working there. The decline of high streets and retail centres means the decline of social spaces right at the heart of our communities.

The presence of strong retail centres in towns and communities also leads to considerable boosts to other industries. Retail centres tend to provide space and footfall for hospitality services and leisure attractions, supporting the local economy and providing community space.

When these spaces decline, it can blight local communities. In the US, the establishment of out-of-town malls has drained many town centres of both industry and a thriving social buzz. Sheffield council has made a similar argument about the effect the out-of-town Meadowhall development has had on its declining city centre.[59]

In order to maintain this important community infrastructure, local authorities need to play a stronger role in the development of retail space. The Mary Portas review generated a great deal of publicity for the plight of high streets and retail spaces, and led to the formation of a number of helpful schemes, including the formation of town teams to provide strategic oversight of town centres. However, government funding for this initiative was curtailed in April 2015.

Despite the short-termism on the side of UK government, local authorities have been developing their own local plans to boost retail spaces in their areas.

In 2013, the Greater Manchester Combined Authority commissioned a 'deep dive' review of threats and opportunities to its local retail environment, which found that there could be 31 per cent fewer stores in town centres in Greater Manchester by 2020 without action.[60] As a result, the authority developed plans with retailers for every town in the area, which included new retail spaces, refurbishments for existing areas, strategic positioning of new housing and office space, and improving transport options.

Also in 2013, the Gloucestershire Local Enterprise Partnership published a guide for local towns to develop their own town centre strategies.[61] The work, which was supported by the Association of Town and City Management and the Department for Business, Innovation and Skills, provided a toolkit for strengthening retail spaces and identifying new opportunities, which has since been used in Cirencester to create a new town centre plan.

All local authorities should follow the leads of Greater Manchester and Gloucestershire by developing their own local retail plans. If, as in the cases of both of these examples, it makes sense for individual towns and local authorities to partner with neighbouring towns and local authorities, they should do so. The development of such plans will allow local authorities to play a key role in supporting local retail centres to thrive.

While local authorities across the UK face an extremely difficult financial environment, the development of such retail plans will be a worthwhile investment that is likely to maintain existing income streams and develop new ones in the future. With 100 per cent of business rates now going to local authorities, there is a direct incentive for defending and enhancing retail spaces, as well as the additional economic multiplier effects of increased spending and footfall in local areas.

ADDRESSING EXPLOITATION

Last but by no means least, these recommendations for a specific retail strategy need to be supported by measures to reduce labour exploitation. Even if the 'competing on connectivity' model becomes dominant in UK retail, there will always be a diverse mix of approaches and elements of the 'squeezing the cost base' and 'automating to efficiency' models will continue. Raising employment standards will also nudge employers towards a more connected approach and away from a tendency to create low-paid and insecure jobs.

These changes to legislation and policy apply to contractual issues affecting workers across the UK economy but are of particular relevance to those working in retail, and they help to create a level playing field across the industry.

Recommendation 8: Protections from exploitative contracts.

The government should add new protections to existing legislation guarding against exploitative part-time and low hour contracts.

A number of examples of employees at retail chains being asked to be unfairly flexible were referred to in the collection of evidence. In these cases, employees were rarely given any medium – or long-term indication of what hours they would be expected to work, were asked to work shifts as and when they were needed, and reported fear of losing their jobs if they refused.

This did not allow employees to plan their time or future income, it meant they often felt 'on call' and unable to pursue other work or activities, and were unable to organise their work around other commitments. While it is clear that low – and zero-hours contracts can be appropriate when they suit both employer and employee, the specific sort of employee-employer relationship described is clearly exploitative and it should be guarded against.

The government should therefore legislate so that workers who are regularly working hours in excess of their contracted hours should be given contracts that reflect their hours worked. With the exception of seasonal work and other similar circumstances, after three months, workers should be given a right to request a contract that reflects their hours worked, and automatically moved on to a contract after six months.

Recommendation 9: Protections from false self-employment.

The new director of labour market enforcement should make it his first task to issue guidance to ensure everyone receives the rights associated with their current status, and establish a quicker and more affordable means for workers to request a change in their employment status.

There has recently been a rise in reports of agencies working in retail supply and distribution services using self-employed workers who, have been earning less than the national living wage. Not only are workers worse off, but companies taking this approach have an unfair advantage over those choosing not to do so because they pay less tax – an issue that is also undermining the UK tax base.

Under current UK employment law, workers working for companies as part of the business are entitled to 'worker' status, which affords them basic rights including the national living (or minimum) wage and paid holiday. Therefore, clear guidance and stronger enforcement is required to tackle false self-employment, in which people are placed on 'independent contractor' terms simply for the employer to save costs.

However, recent cases challenging employment statuses, including at Hermes and Uber, have been both lengthy and costly. Even when trade unions have put their weight behind such cases, they have been arguing against extremely well-resourced legal teams working on behalf of the companies in question. This creates a situation in which access to justice is only there for those with the organisational financial support behind then. And those working in retail will often have neither.

Given the high incidence of self-employment in retail and across the UK economy, together with high estimates of false self-employment,[62] the new director of labour market enforcement should set out new guidance for employers using self-employed workers to make it clear that false self-employment is unacceptable.

The director should also review the process by which employment status can be checked, in order to make it quicker and more affordable. To do this, the director should lead discussions between the Treasury, HMRC and his own department, with a view to creating a tool for self-employed workers to find information on their rights and subsequently make a claim for adjustment. Such a process would significantly reduce levels of false self-employment in the UK.

Recommendation 10: Further rises in the national living wage and government support for the voluntary living wage.

The introduction of the national living wage in April 2016 provided a welcome pay rise for more than 500,000 retail workers. The Low Pay Commission predicts that by 2020, in which the national living wage is set to reach 60 per cent of median wages, just under 1 million workers will benefit.

These progressive rises in the wage floor will of course add to the costs faced by retailers in a challenging environment.

However, improvements in pay for those at the bottom of the wage distribution are a sign that rewards are being fairly shared amongst retail staff. Therefore, the government and Low Pay Commission should, as a minimum, continue with the course set by George Osborne to raise the national living wage to around £9 per hour by 2020.

This will provide an incentive for businesses to follow a higher paying, higher engagement strategy and prevent a race to the bottom on pay. However, the initial introduction of the national living wage excluded workers aged below 25. Over the longer term, this could create an incentive for those businesses looking to minimise labour costs to employ younger workers simply because they are cheaper.

Therefore, the business, energy and industrial strategy secretary should use the announcement of the next increase of the national living wage to state that 21 to 24-year-olds are entitled to the national living wage.

Of course, the national living wage does not take the cost of living into account – since its reformulation by the then chancellor, it is now set as a proportion of median pay. The government should aim to increase take-up of the voluntary living wage in the retail sector by working with the Living Wage Foundation, businesses, trade unions and other civil society organisations to champion the benefits of a higher paying, higher productivity approach.

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APPENDIX: PUBLIC HEARINGS PROGRAMME

The taskforce held three public hearings to gather evidence from experts. Recordings of all the hearings are available to listen to on the Fabian Society's website.

Hearing 1. The changing retail landscape: what does it mean for the workforce?

Taskforce members Norman Pickavance, Julie Abraham and Jill Rubery were joined by Samad Massood (open innovation lead UK & Ireland, Accenture), Yulia O'Mahony (sector lead pay and productivity, John Lewis Partnership) and Robin Winstanley (project manager, IKEA) to discuss what the changing retail landscape means for the workforce.

Hearing 2. Good work in the future retail industry: how can employers boost productivity and pay?

Taskforce members Norman Pickavance and Jill Rubery were joined by Anna Gowdridge (head of people, Virgin Unite), Paul Hunter (head of research, the Smith Institute), Tess Lanning (head of business development, Living Wage Foundation), Dan Murphy (partner, Kurt Salmon) and Patrick Briône (head of policy and research, IPA) to discuss innovative approaches to boosting pay and productivity in the retail industry.

Hearing 3. Progressive employment policy: what is the role of government in supporting a more productive, higher paying retail industry?

Taskforce members Norman Pickavance, Julie Abraham, Jill Rubery and Fiona Wilson were joined by Joanne Cairns (senior researcher, Usdaw) and Conor D'Arcy (policy analyst, Resolution Foundation) to discuss the role of government in the changing retail landscape.

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