

The UK Retail Industry and its Effect on Construction Sectors

¹Rafiu Dimeji Seidu; ²Bert Ediale Young¹; ³Upeksha Hansini Madanayake;
⁴Harry Clark.

¹⁻⁴School of the Built Environment and Architecture, London South Bank University, 103
Borough Road, London, SE1 0AA, UK

Corresponding Author: Rafiu Dimeji Seidu

Abstract

The retail industry originated from the local high street to expanding shopping centres and out of town shopping centres. However, in the past 15 - 20 years the industry has taken multiple hits and is now currently at its lowest point ever. There is now a growing amount of shop closing, leaving multiple empty units due to previous recession and increase in online shopping. Ever since the recession, many businesses struggled to survive and had reported losses during this period due to lack of business, lack of investment in retail outlet, and shoppers having less disposable income for shopping. Online shopping is continuously growing, increasing from 5% in 2008 to 18% in 2019 as shoppers' habits change in terms of where and how they shop [1]. However, how frequent they shop will play major roles on future procurement opportunities for the retail construction industry. The recent pandemic (covid-19) with lockdown around the world, will change the way we shop though the effects are not yet fully established. Procurement for constructing retail units are not as low as earlier anticipated in comparison to the struggling market. Hence, this research aims to analyse the changes in the retail industry, its effect on procurement of retail outlets and longevity of the construction industry, with the objectives of creating an awareness within the industry and government policy maker so that the resulting effect can be address to prevent unemployment this might generate or loosing our high street retail outlet completely. The research uses secondary data and tender information from Building Cost Information Services (BCIS), and identifies the following changes in Retail Industry: increase online shopping, changes in consumer buying habits and changes to the customer shopping experience.

Keywords: Retail Industry, Construction Industry, Procurement, Online Shopping, High Street Shopping.

INTRODUCTION

The Retail Industry has undergone multiple changes in the past 20 years, often scrutinised and whether the Retail Industry will ever fully recover from the challenges it has faced to date and for the future [2] remains questionable. The Retail Industry is currently at its lowest point (in terms of sales) since 1995 [3], with online shopping as a major change that has affected the prominence of the Retail Industry. Currently, 18% of all sales are made online [1], in comparison to only 5% in 2008 and this figure is only going to grow within the coming years. The shift in online shopping has increased the demand for warehouse space, causing 235 millionsq ft of warehouse space to be leased/bought, which has increased tremendously and most of this been new construction [4].

Brexit is a main contributor to this change; it is currently leaving many businesses in uncertainty; until the transition period is over and U.K agree a trade relationship with the European Union (EU). How retail owners utilises the current space will affect construction and the provision of such spaces as it may

not be related to the construction of new infrastructure, but instead better utilisation of the already existing infrastructure [5] and/or to venture into out of town shopping centres and abandoning the local high street. These changes can have a significant impact on the procurement process previously used for the construction of retail infrastructure to new process/es which focuses on contractors that are more aimed at new works than those who specialises in fit out services with existing core infrastructure. there is lack of detail research in the cause of disappearance of high street retail outlet, creating a burden on employment and reducing the contribution of fit out services in the construction industry. Hence, the research is to evaluate the Retail Industry and its effect on the Construction Industry's Product and Services, it is necessary as it embraced capacity building in retail construction development and retail project planning.

LITERATURE REVIEW

The Changes in the Retail Industry

A common misconception is that, high street stores are closing, and Retail Industry is dying [6]. However, the

Retail Industry is in fact evolving and the way consumers are purchasing products keep changing [7]. Over the past 24 years, the industry has shown a

continued growth in terms of sales by retailers directly to the end consumers both in store and online as showcased in figure 1 below.



Figure No 1:

Title: Retail Business Index; **Source:** (Retail Industry - Office for National Statistics (17).

The industry is currently receiving the biggest influx of cash ever seen [8]. Retail businesses have multiple Capital and Operational Expenditure, which is included but not limited to Shop fit outs, monthly high value rents for prime shop locations and paying for staff to operate the shops. In comparison, online retailers have less overheads [9], such as the need for fewer staff as there will be no need for customer face to face interaction. They will also benefit from cheaper rents as stock is in delivery warehouses which are normally out of the city centres to maximise rental profits. Shopper activity is currently at the highest level it has ever been, and online retail shops are cheaper and more efficient to run in comparison to physical brick and mortar shops [10]. Unless a more streamlined and cost-effective method can be adopted for business operations

regarding traditional retail methods, more businesses will be opting for more virtual presence.

The most fundamental impacts on the Retail Industry are the prominence of the internet and online shopping, which currently stands at 18% of all online sales [1]. This figure is expected to increase to as high as 53% by 2028 [6]. With these statistics, it means that speculatively in 2028, more purchases will be made online in comparison to those made in store. As younger generations growing up now with the internet become older and they will soon be more than half of \

the UK's adult population [9] [12]. These 'millennials' currently lead the frequency in which shopping is conducted online. As showcased in figure 2 below.

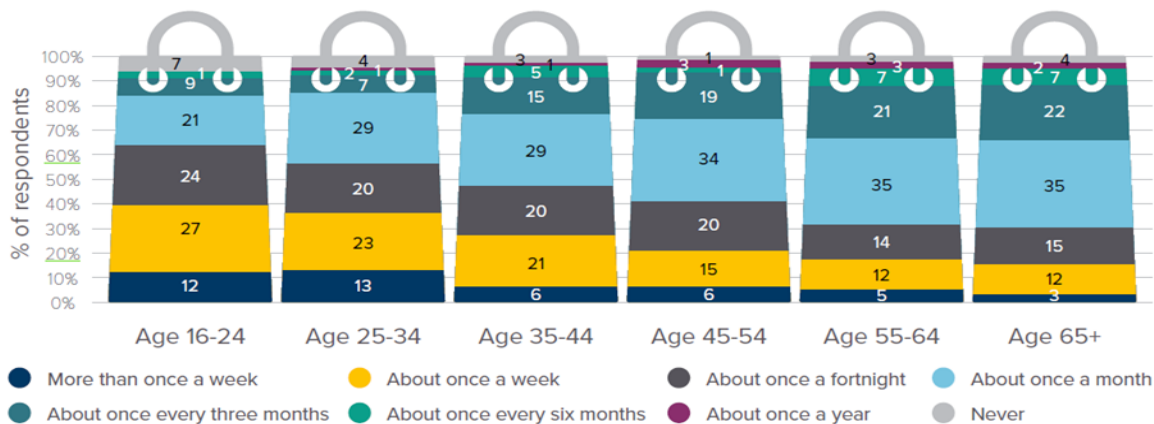


Figure No 2:

Title: Frequency of online shopping by age: **Source:** Womble Bond Dickinson (6).

This shift in sales made online in comparison to sales made in store do have a detrimental effect on the traditional brick and mortar stores that we have known to use for some time now[6]. The convenience and variety of options with online shopping is not comparable to what is obtainable with traditional brick and mortar stores, with stores having started to stretch their opening hours to accommodate additional footfall. However, online shopping is a 24/7 process that anyone can do from anywhere in the world, with advancement in online connectivity and smart phones [8]. Online shopping enables the consumer to shop for most products, compare to local high street/shopping centre, where you are limited to the produce that are in-stores [13]. Another influencing factor to these changes is the speed of deliveries which take weeks to arrive before now and has evolved to become a matter of days and in some cases, same day delivery. This added level of convince is an ever-pressing booster for online shopping with more stores closing and shop owners are routing for a more virtual retail experience to take wind of the storm with online shopping to maximise profits [9] [12].

It is projected that the Retail Industry is shifting to a bigger online presence with fewer purchases made in store [7]. This is due to the younger generation being more tech savvy and in 10 years majority of the present generations will be more technologically inclined. The long term is still undetermined as this is uncharted territory for the Retail Industry and consumers alike. however online shopping is a significant change in the Retail Industry, which will affect the way retail construction work and services are procured[9].

The Traditional Retail Experience

Shoppers are accustomed to doing their own research to ensure they are purchasing the correct product for the best value (low price and high quality), unless a shop is offering a competitive price. This monopoly that larger corporations are slowly dominating are causing smaller businesses to close, as they do not have the capacity to compete with these larger corporations, in turn leading to multiple store closures [14]. Main chain retailers are trying to encompass improvement of customer shopping experience. These includes investing money in updating their stores, smart technologies including implementing touch screen ordering, smart mirrors, Checkout-Free Stores [14]. These changes are part of Retailers incentives to entice customers into their stores and lessen the growth of online shopping. In addition, local councils are investing £1bn on buying shopping centres in town centres to redevelop town centres/urban realms[10]. This is a bid to help drive new business into the vacant high street shops. These changes are an attempt to change the consumers buying behaviours and support local high streets/businesses [5].

Where consumers shop is another key factor. In recent years, train companies (Network Rail) have changed their station interfaces to include retail opportunities for their passengers. Up to 207.7 million people visit Network Rail stations every quarter [15], with that number rising and train journeys doubling in the past 20 years [16]. More and more passengers are looking for convenience in their shopping, as such they are now turning to quick shops on their way home from work to satisfy their needs. Retailers are eating up this gap in the market to influence their traditional brick and mortar store approach. Network Rail are seeing a large surge of profits as more and more retailers are seizing this opportunity which contribute £748.4m in 2016/17 to Network Rail [16]. If retailers can improve shopping experience and consumers shopping habits to diverge from online shopping, there could be a second lease of life to the currently declining high street Retail Industry [16].

The Effects on Construction Product and Services

The changes that have affected the Retail Industry has led to changes within the Construction Industry and retail procurement has always been a quick venture[16]. Once contracts are let, new build stores of 6000 to 80000m² are typically constructed between 20 to 26 weeks [2], but with store closures happening around the country, fewer new build stores are being procured/constructed. However, it does not mean the Retail Industry is declining. Over the past 24 years, the Retail Industry has shown a continued growth in terms of sales by retailers directly to the end consumer [17]. Hence, the types of construction activity are shifting from what was previously known. Online Shopping is the biggest influence and key factor in the current changes to the Retail Industry. Increasing levels of online activity has changed the way in which Retailers are undergoing their methods of operations. With continued store closing across the UK, more retailers are opting for a more online method of shopping which has increase the demand for wear-house construction. Over the past decade 235 millionsq ft of warehouse space has been leased or bought which as double from the previous decade with more than half of this warehouse space built from scratch [4].

The way in which retail construction methods are being constructed is changing. The construction is made of portal frames with spine beams replacing omitted internal columns, allowing internal space maximisation [17]. This is a shift from the traditional Brick and Mortar shops that construction companies once used. With retailers investing in improvements in their stores to drive footfall into the shops, more shell and core construction works are being procured. The adaptations are chaining the store layouts, adapting stores to allow online pick up and technological advances such as touch screen ordering [10]. Transport companies are

providing shell and cores for shops with smaller workloads in comparison to the construction of new retail units. However, Retailers are acknowledging the importance of having a physical footprint as well as an online. The shift in construction patterns will increase contractor’s workload; however, the value and size will be changed too. There will be a higher prominence on smaller refurbishment/shell and core works [18]. Unless contractors win multiple smaller packages of works, their profits will be significantly lessened by the lesser viability of larger retail construction contracts to bid for. This will have a shift in supply chain; as the prominence of contractors used for the construction of retail infrastructure to contractors who are more aimed at shell and core works that specialise in strip out/building services (fit out contractors), depending on the success of these entries, retailers will ultimately affect the future of the Retail Construction Industry [19].

The type of infrastructure being constructed is changing, retailers who are expanding online shopping are opting for the construction of wear-houses in comparison to brick and mortar stores. Those retailers who are still on the high street are improving the already existing stores with refurbishments and consumer experiences. The economic impact this will have on the Construction Industry is still undetermined as this is ever evolving and changing environment. However, with more and more smaller strip/refurbishment contracts being let in comparison to the construction of new infrastructure for shops is putting strain on the profits that can be achieved in the construction supply chain. The full extent of the economic impacts of the construction Retail Industry is still undetermined. However, the way in which retail is currently being constructed is vastly different to the traditional construction of brick and mortar stores.

METHODOLOGY

The use of exploratory research is used as it simply explores the research question, allowing the collection of various sources of literature, whilst allowing supplementary researches around the research question to give a more general view and understanding of the research topic. As the nature of exploratory research is to purely explore the research question and does not aim to reach conclusive solution to the research question [20], further quantitative research in the form of analysis of secondary data and the use of qualitative research, gathering key industry views on the subject, backed up by data to support these views have jointly allowed for the analysis and discussions. Where possible attempt was made to use qualitative data from Building cost information services (BCIS), online retail report survey to maintain upmost validity with greater accuracy. The research is carried out with the UK retail

industry and the result can be applied in different places where such concern is envisage.

FINDING AND DISCUSSION

The Changes in The Retail Industry

The table below demonstrates retail construction between 2013 – 2019 within the UK, number of retail unit in the high street is 59 comprising new built, refurbishment and extension/fitout in existing unit. There is an increase in warehouse construction due to the changes in customer shopping behaviour, it is used to house goods met to be sold online why there is drastic reduction in new high street unit, this was improved by government policy encouraging refurbishment of existing store to enhance customer experience and maintain high street shopping whilst preventing job lost.

TableNo1:

Title:Showing retail construction between 2013 – 2019.

S/N	Retail Unit	No
1	New	35
2	Refurbishment	15
3	Shell only	9
4	Warehouse	55

Source:BCIS.

The data finding analysis has identify the following changes in Retail Industry: Increase in online shopping, Changes in consumer buying habits, Changes to traditional shopping experience and where retailers are shopping to maximise footfall. The financial implications surrounding all the above factors will be twin around the social factors and strategies retailers implement to deal with such changes. As a result, in the year 2028, more purchases will be made online in comparison to those made in store. A prove that online shopping will still be around in years to come and only excel in growth. Regarding changes outside online shopping, they are not as significant compare to online shopping in terms of effect the changes will have on the Retail Industry. All the changes outside from online shopping ultimately stem and are attributed to online shopping, whether tacking online shopping or embracing it, online shopping is the most significant changes to the Retail Industry.

The rate of online shopping is higher among youth as shown in table 2. This is because of increasing access to technology which enable online shopping, no matter how small the quantity, which can be done as many times as possible. This shift will influence the traditional bricks and mortar procurement system, which has encouraged clarity of cost, time and quality.

Table No 2:
Title: Online shopping by Age.

Age Range	Average purchases per month	Average spent per month (£)	Penetration rate (%)
16 – 24	2.7	64.59	16.4
25 – 34	2.6	110.45	22.1
35 – 44	2.1	123.17	21.6

45 – 54	1.9	136.51	20.3
55 – 64	1.6	114.04	16.3
65 – above	1.5	84.86	15.9

Source: Retail Report, 2019.

The factors responsible for these changes include lower price, cost of delivery and product availability, see figure 3. This improvement is as a result of faster reliable delivery system, improved logistic. Speed and delivery options is the motivating factor behind youth using online shopping instead of high street shopping.

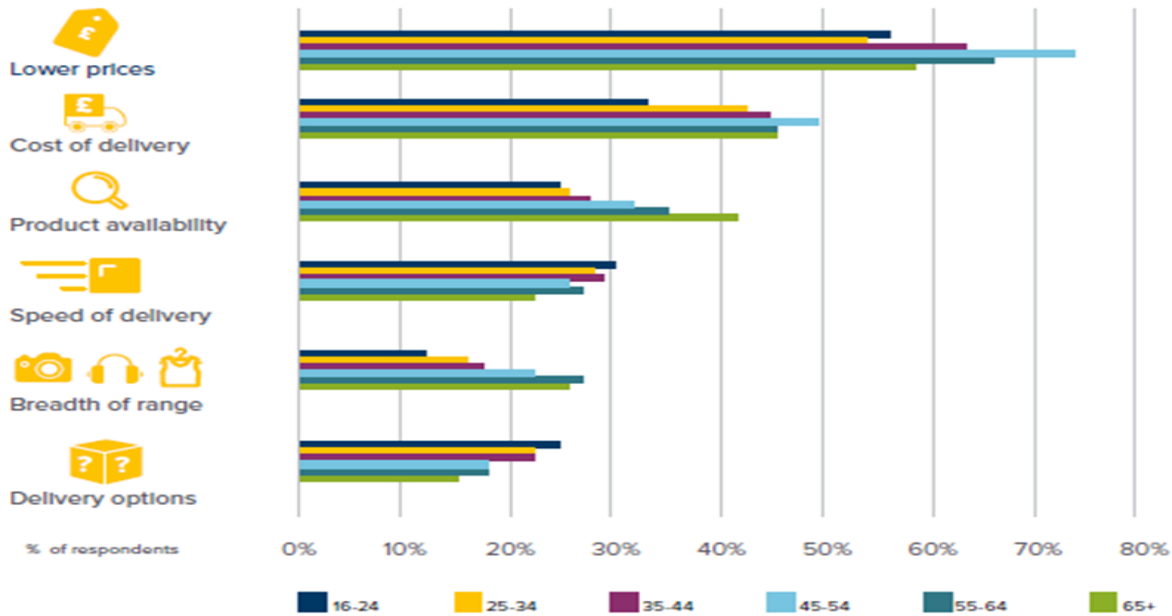


Figure No 3:
Title:Online motivating factors. **Source:** Retail Report (12).

How Changes in Consumer Buying Habit and Customer Shopping Experience Has Affected Construction Product and Services

Many changes have occurred in the retail Construction Industry, such as the types of contracts that are being let. Retailers are either closing down stores or making improvements to their existing stores to improve consumer retail experience. Retailers are moving to areas of high footfalls (e.g. National Rail Stations) and fewer new retail infrastructures are being procured and constructed. However, with this shift, retailers need to procure contracts that can construct the shell and core of their stores in Transport Rail stations or to improve their already existing stores. Contractors need to win many minor valued contracts otherwise, profits for contractors could diminish.

The supply chain will vary, as contractors who specialise in services (for the shell and core works or fitout) will be in much higher demand due to the works available. However, this will not affect major contracts development. With more retailers moving to online

shopping, retailers are now investing in large warehouse buildings to keep their stock before delivery. Over the past decade the warehouse space which has been leased or bought has doubled with more than half built from scratch [4]. Hence, the procurement of large warehouses has increased whilst the type of construction work on site has change [17]. Contracts are becoming smaller (minor) and frequent with the major contracts usually focusing around warehouses for online shopping storage. If online shopping continues to grow the way it is expected, more and more warehouse contracts could be let as a result of the demand. But the long-term changes for Construction is yet to be determined, as this is uncharted territory for the industry.

Research Limitations

The UK have regional differences in outputs concerning the Retail Industry. Therefore, this research paper focus on the Retail Industry as a model for the entire UK as an average, rather than specific regions of the UK. From the question this research paper is asking, it would be interesting to look back on the

industry in 10 years' time to see if the predictions from the data collected become reality and how the Retail Industry and Construction Industry has changed.

CONCLUSION

The changes in Retail Industry has resulted in multiple effect on the construction industry. Redevelopment, services and shell and core contracts are being procured in comparison to brand new retail infrastructure. This is due to retailers closing stores with very few new stores needing to be built, as there is already vacant infrastructure for new retailers to use. The stores that are still on the high-street are receiving redevelopments in retailers bid to entice consumers into the shops. This is by enhancing the consumers shopping experience. Retailers are maximising these areas with high levels of footfalls using Transport Rail stations, so multiple shell and core construction contracts are being procured. These types of contracts are shorter than the typical new build stores, which are typically constructed between 20 to 26 weeks [2]. They are usually of lower value and less profitable/desirable for contractors.

The changes in the Retail Industry detailed in this research are all attributed to Online Shopping. These changes are having significant changes on the Construction Industry. The type of infrastructure being constructed/contracts being procured are changing. Retailers who are expanding online shopping are opting for the construction of wear-houses in comparison to traditional brick and mortar stores. Those retailers who are still on the high street are improving the already existing stores with refurbishments and enhancing consumer experiences.

RECOMMENDATION

The Retail Industry has undergone multiple changes particularly in the area of consumer buying habits, changes to the traditional shopping experience and where retailer are locating their shops to maximise footfall which have led to procurement of large warehouses using portal frame. It is recommended that the government should continue injecting more money into redevelopment, services, shell and core contract procurement compare to new retail infrastructure to prevent further closure of high street retail unit.

REFERENCES

- [1]. Ons.gov.uk. Retail sales, Great Britain - Office for National Statistics. [online] Available at: <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales>. (2019) [Accessed 3 Nov. 2019].
- [2]. Ramaswamy, S. Shopping Then and Now: Five Ways Retail Has Changed and How Businesses Can Adapt. [online] Think with Google. (2013). Available at: [Accessed 27 March 2020].

- [3]. The Independent. UK retail sales slide in worst September since 1995. [online] Available at: <https://www.independent.co.uk/news/business/news/uk-retail-sales-brc-kpmgbrexit-nodeal-economy> (2019). [Accessed 3 Nov. 2019].
- [4]. Wearn, R. Online Trade Drives Demand for Warehouses. [online] BBC News (2018) [Accessed 20 March 2020].
- [5]. Butler, S. Council Investment in Shopping Malls Surges To £1Bn. [online] the Guardian (2019). [Accessed 27 March 2020].
- [6]. Womblebond Dickinson.com. Report Reveals Tipping Point for Online Retail - To Reach 53% By 2028 | Womble Bond Dickinson (2019). [online] [Accessed 27 March 2020].
- [7]. Sejin Ha and Leslie Stoel. Online apparel retailing: roles of e-shopping quality and experiential e-shopping motives Journal of Service Management, vol. 23 (2)(2012).
- [8]. Jihyun Lee and Yuri Lee. Does online shopping make consumers feel better? Exploring online retail therapy effects on consumers' attitudes towards online shopping malls. Asia Pacific Journal of Marketing and Logistics, vol. 31 (2) (2019).
- [9]. Wallace, T. Half of All Shopping to Move Online in The Next Decade. [online] The Telegraph (2019). [Accessed 28 March 2020].
- [10]. Stollard, Z. Construction and The Evolving Retail Industry. [online] Clarkewillmott.com (2018). [Accessed 20 March 2020].
- [11]. Butler, S. Half of UK Retail Sales Will Be Online Within 10 Years, Report Predicts. [online] the Guardian (2019). [Accessed 27 March 2020].
- [12]. Retail Report. The Digital tipping point, RetailEconomics. Online at www.retail Economics.co.uk, (2019). Accessed 22 March 2020.
- [13]. Minjeong Kim, Jung-Hwan Kim and Sharron J. Lennon. Online service attributes available on apparel retail web sites: an E-S-QUAL approach *Managing Service Quality: An International Journal*, Vol. 16 (2006).
- [14]. Wasserman, T. 10 Technologies That Could Change Retail Forever. [online] Available at: <http://www.goglobalconsultinggroup.com/10-technologies> (2017). [Accessed 27 March 2020].
- [15]. Railtechnologymagazine.com. The New Era of Station Retail. [online] Available at: www.steelconstruction.info. ND. Retail Buildings (2017). [Accessed 28 March 2020].
- [16]. Berti, A. Train Station Retail: Understanding Passengers' Shopping Habits. [online] Railway Technology. Available at: <https://www.railway-technology.com> (2018). [Accessed 28 March 2020].

- [17]. Ons.gov.uk.Retail Industry - Office for National Statistics. [online] Available at: <https://www.ons.gov.uk/businessindustryandtrade/retailindustry> (2020).[Accessed 27 March 2020].
- [18]. Constructuk.com. Retail Construction and Refurbishment Market Report - UK 2015- 2019 Analysis – New Report by AMA - Construct UK | Construction Sales and Marketing | Construct UK | Construction Sales and Marketing (2015). [online] Available at:[Construct UK - Construction Sales & Marketing Hub](#) [Accessed 28 March 2020].
- [19]. Stebbins, R. Exploratory Research in the Social Sciences, Sage (2001).
- [20]. Stollard, Z. The Retail Construction Climate Is Drastically Shifting. [online] Clarke Willmott LLP (2019). Available at:<https://www.clarkewillmott.com/news/construction-and-the-evolving> [Accessed 28 March 2020].