This study looks at the central role retail plays in the Scottish economy and how the industry supports its people, society and other industries.
**Economic**

**Retail contributes** 5.5% of Scottish GVA

**Retail sales** totalled £26 billion in 2013

20% of Scottish GDP

In Scotland, retail accounts for nearly a quarter of all business rates

**Sector**

Open

23,115

Retail outlets in Scotland, 2013

9% of Scottish businesses are retailers, 13,695 current total

Across the UK, retail pays £27bn tax per year

**Employment**

257,000 retail jobs in Scotland

Retail

Largest private sector employer in Scotland

Retailers invest £1,440 in training each employee

**Consumers**

Scottish consumers pay 5% less for their basket than the eurozone

5.3 million customers in Scotland

28 million transactions per week

The weekly food shop

% of earnings

1970 2014

21% 11%
Scotland’s retail industry is dynamic, diverse and exciting. It has over 23,000 shops and provides 257,000 retail jobs, equivalent to 14 per cent of total employment in Scotland. Many of our indigenous retail brands are market leaders both domestically or further afield, and millions of Scottish consumers benefit from a quality retail experience each and every day.

The sector has faced up to significant structural changes over recent years, and this has tested the business model of every retailer.

However there is a lot to shout about. This paper, Scottish Retail: The Economic and Social Contribution, using the latest available data, brings to life the economic and social impact of the industry in Scotland.

The paper explores the importance of retail jobs to the economy, providing a regional breakdown, as well as the sector’s contribution to the public purse through the taxes it pays. It examines the positive impact retail has on other industries in Scotland, notably agri-food and construction, and looks at the effect that the highly competitive retail market has had on price and quality, and what this has meant for household budgets.

Retail is a Scottish success story and a force for good. I commend this publication to you and would welcome your feedback on it.

David Lonsdale
Director
Scottish Retail Consortium
Box 112
12 Southbridge
Edinburgh
EH1 1DD
www.scottishretail.org.uk

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The shopping experience in Scotland is diverse. The Scottish high street is represented by international and home grown retailers, stylish and exclusive brands, potters and knitwear designers, weavers, silversmiths and kiltmakers, music stores to name but a few. High streets are more than an outlet for consumer choice – they are of historical and social importance to the communities they serve. Supporting town centres to develop and maximise their social capital is making an investment into Scottish life. We look to town centres to meet friends and colleagues, to shop, for entertainment, public services and cultural events. Individuals depend on town centres for employment and businesses depend on it for profit making and growth. Retail has been constantly evolving but it isn’t an exaggeration to say that retail has changed more in the last five years than it has in the previous 50 years. The modern consumer has vastly different and more sophisticated expectations of product, service, value and environment than five years ago. In the new multichannel world, the lines between the virtual and physical store has become blurred and retailers have had to change the way they provide their services to their consumers. The changing nature of retail has created some pressures for the industry; however retail in Scotland has strong foundations.

If you travel to Livingston, you are travelling to the home of Schuh, a shoe retailer employing over 1,700 employees across 100 stores. The quintessentially sounding Scottish retailer, Edinburgh Woollen Mill Ltd was born in Langholm in 1946, now owns 375 stores in the UK with a workforce of nearly 4,000 people. Slaters of Glasgow, known for its excellent service, now have 23 stores in Scotland and across England and Wales, M&Co has its roots in the West of Scotland and one of Scotland’s most successful retailers, Scotmid Cooperative, turned over nearly £500m in 2013 and operates 350 stores throughout the UK.

Household expenditure makes up about 60 per cent of Scottish GDP, and as a result has an important part to play in economic growth. As a key driver of economic prosperity, the retail industry generated £26bn of retail sales in 2013 – equivalent to one fifth of Scottish GDP – and plays a vital role in the regeneration of towns, cities and local communities. Retail is Scotland’s largest private industry employer, providing over a quarter of million jobs and so is responsible for 10 per cent of total Scottish employment. Retail also accounts for 10 per cent of Scottish business with over 23,000 outlets in 2013. Scottish retailers also source over £3bn from other industries in the UK. Clearly, the retail industry is vital to the Scottish economy.
Retail sales growth in Scotland showed a slight fall of 0.5 per cent in October 2014, on a twelve month rolling average basis, compared to the twelve months to October 2013. However, adjusted for deflation measured by the BRC-Nielsen Shop Price Index, total Scottish sales increased by 0.6 per cent in October. The grocery market remains particularly tough for retailers. Food price inflation is at a record low, and whilst the intense competition in the grocery industry brings benefits to Scottish consumers in terms of keen prices, it can be a challenging environment for the firms involved. The escalation of price cutting by the major supermarkets, in response to consumers’ changing attitudes and increasing competition, has seen food retail sales enter negative territory, making food retail trading particularly difficult and has led to below-normal profit margins.

**FIGURE 1: SCOTTISH RETAIL SALES MONITOR**

Food price inflation is at a record low whilst the intense competition in the grocery industry brings benefits to Scottish consumers.

As the SRC/BRC measures retail sales values, the headline growth rate continues to be pushed down by falling prices. Indeed, annual growth in the BRC-Nielsen Shop Price Index recorded its nineteenth month of deflation in October 2014 equalling its lowest rate on record of 1.9 per cent in July 2014. Taking this into account, it seems likely that retail sales volumes might have held up pretty well.
Comparison of category rankings performance

<table>
<thead>
<tr>
<th></th>
<th>October 2014</th>
<th>Last 3 months</th>
<th>Last 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Other Non-Food</td>
<td>Other Non-Food</td>
<td>Clothing and Footwear</td>
</tr>
<tr>
<td>2</td>
<td>Food</td>
<td>Food</td>
<td>Other Non-Food</td>
</tr>
<tr>
<td>3</td>
<td>Clothing and Footwear</td>
<td>Clothing and Footwear</td>
<td>Food</td>
</tr>
</tbody>
</table>

Over the last twelve months, clothing and footwear was the best preforming category. Food retailing underperformed over the last 12 months, mirroring the retail climate of the UK.

**FIGURE 2: GFK CONSUMER CONFIDENCE INDEX**

Consumer confidence in Scotland has continued on an upward trajectory since early 2012 but Scottish consumers are more cautious than UK consumers as an average. There are good reasons to expect consumer confidence to keep rising again. One is the continued housing market revival. Another is that Scottish unemployment, which is currently lower...
than the UK, looks likely to fall further over the next couple of years. And, arguably most importantly, real earnings should return to positive rates of growth by the end of 2014. Improved consumer confidence gives retailers more buoyancy when looking at their future prospects.

**FIGURE 3: AVERAGE WEEKLY HOUSEHOLD SPENDING SCOTLAND, 2012**

Source: ONS Family Spending Survey 2012

The ONS Family Spending Survey 2012 reveals how 1,450 households surveyed in Scotland spend their money. The latest family spending data shows that UK households spent £489 on average per week in 2012, while the figure for Scotland was £437. Transport was the most costly part of the family budget in Scotland last year with spending in that area higher than housing, fuel and power, data on household expenditure has revealed. The average weekly household spend on transport in Scotland was £62, compared to £54 for housing, fuel and power. The average weekly household spend on food and non-alcoholic drinks were £53 in Scotland, compared to £57 for the UK as a whole.

When we look at the UK and compare current spending trends with 1970, households spent a smaller proportion of their income on food, fashion and alcohol, but a bigger slice on housing and fuel and transport. While food and non-alcoholic drinks took up the largest proportion of our household expenditure in 1970, at 21 per cent, this is now down to 9 per cent. Instead, housing and energy now take up the biggest chunk, at 13.9 per cent of household expenditure.
We see the same trend when we look at Scottish specific data over the last few years. The proportion that Scottish households spent on housing, which includes household bills, has increased substantially from 17 per cent to 22 per cent between 2006 and 2013 respectively. Also, transport now accounts for 16 per cent of total household expenditure while food and non-alcoholic beverages accounts for only 10 per cent in 2013. This proportion is set to fall over the next few years as the effects of lower food inflation, currently at a record low filters into next year’s data.

Thanks to fierce competition within the food retail industry, prices have been driven down as retailers battle to retain their market share. Deep and widespread discounting across the grocery industry is intensifying and the rise of the discounter is driving the competition further. Shop prices continue to experience deflation and we expect no inflationary pressure coming from the retail industry in the medium term. Looking forward, we expect the recovery in consumer spending to maintain its solid pace over the next few years, supported by further growth in employment and real pay. As the labour market tightens and inflation eases, real pay is set to increase. There are no signs of upward pressure coming from the supply chain.
In addition to employing almost 10 per cent of the Scottish workforce, retailers play a vital role in supporting other industries of the Scottish economy. Scottish retailers support £3 billion of output from other sectors. Retailers source around 41 per cent of their intermediate inputs from Scottish financial and business services, 17 per cent from construction, 11 per cent from manufacturing, while transport and communications firms and accommodation and food contribute 10 per cent and 5 per cent respectively. Within business activities (£842m), retailers’ spend (£304m) in real estate, with management consultancy (£229m), and financial and insurance firms (£112m) also substantial beneficiaries. Scottish retailers also purchase services from outside of Scotland with imported services from the rest of the UK adding up to almost £800m.

**FIGURE 5: SCOTTISH RETAIL INDUSTRY VALUE ADDED DEMANDED FROM OTHER INDUSTRIES, 2011 (£M)**

- Agriculture, forestry & fishing £7
- Mining & quarrying £10
- Manufacturing £220
- Electricity, Water, Waste £110
- Construction £351
- Wholesale & Retail Trade £88
- Transportation & Comms £263
- Accommodation and Food £98
- Business Activities £842
- Public Administration and Defence £15
- Education and Health £20
- Other £24

Source: Scottish Gov/ONS
WHAT IS THE IMPORTANCE OF SCOTTISH RETAIL TO OTHER INDUSTRIES?

Scottish retailers’ spend £842m on banking and other financial services

Scottish retailers purchase services from outside of Scotland with imported services from the rest of the UK summing to almost £800m

FIGURE 6: SCOTTISH RETAILERS USE OF BANKING AND OTHER FINANCIAL SERVICES, 2011

Source: Scottish Gov/ONS

The indirect value added to other industries by retail is substantial. The retail industry in the UK purchases around £220bn worth of goods for resale and in 2013 retailers paid out over £3bn in dividends to shareholders.
The UK retail industry pays £28 billion in the four largest taxes per year, 8 per cent of the UK total. Retail employment in Scotland equates to 10 per cent of all employment in the economy. Wages in the industry tend to be lower than other industries in the economy with an average wage in 2013 of £279 per week compared with around £475 across the economy as a whole. This is largely due to the greater proportion of part-time workers and their age profile. Retail also plays an important role in drawing people into work from unemployment, which reduces the burden on taxpayers of Jobseekers Allowance payments. Overall, government receipts in Scotland from National Insurance Contributions paid by the retail industry were £351m in 2011/12 and a further £335m was paid in income tax in the same period.

**FIGURE 7: SCOTTISH RETAILS CONTRIBUTION TO VAT**

Source: HMRC

VAT paid for by the retail industry in Scotland clocked in at £300 million in 2012/13, up 22 per cent on the previous year.
Business rates revenues have increased 30 per cent from 2009 to 2014. Scottish retail also makes a substantial contribution to corporation tax, and retailers pay approximately a quarter of all rates paid. The amount of corporation tax paid by retail in the UK was £3bn in 2012. Retailers also make substantial contributions to the public purse through fuel duty, landfill tax, the Climate Change Levy and, in future, the Carbon Reduction Commitment.
The price of food in the UK remains lower than the European average, the positive impact of stable commodities prices have been passed on to consumers. The UK offers customers cheaper food across every category apart from vegetable, fruit and potatoes – on average food in the UK is 7 per cent lower than the Eurozone. Clothing retailers have been more effective in shielding consumers from rising cotton prices than their European counterparts with customers in Scotland paying on average 8 per cent less than the Eurozone.

**FIGURE 9: FOOD PRICE INDICES 2013**

Source: BRC/Eurostat

**The price of food in the UK remains lower than the European average**

**On average food in the UK is 7 per cent points lower than the Eurozone**
A category breakdown shows that the UK is more competitively priced in all categories except alcohol and tobacco. Tobacco duty is almost double the rate of that in France and Germany, while the UK is one of a few countries to impose any substantial duty on wine, the third highest in the Euro Area 28. Clothing and footwear prices are about 8 per cent cheaper in the UK than the EU-15.
Consumers in Scotland and across the UK pay on average 8 per cent less than their Eurozone counterparts and 6.5 per cent less the EU-28 for clothing and footwear. Consumers remained relatively well shielded again from the substantial rise in cotton prices between last 2010 and early 2012. Sterling’s sharp depreciation against the dollar in 2008 had meant that commodities priced in dollars – such as foodstuffs and cotton – as well as products made using these commodities, have become more expensive. Despite this, Scottish consumers were safeguarded from this price spike by intense competition among UK clothing retailers. With sterling currently strong against the euro and dollar, clothing retailers have clearly passed on this benefit to their consumers in the form of reduced prices as reflected in the BRC-Shop Price Index. The clothing and footwear category has reported deflation for every consecutive month since April 2010.

**FIGURE 12: CLOTHING AND FOOTWEAR PRICES**

Source: BRC/Eurostat
Retail is currently the largest private industry employer in Scotland, employing over 257,000 people. In 2013, the health industry was the largest employer in Scotland, accounting for 16.0 per cent of all jobs, followed by 9.7 per cent in the retail industry, 7.9 per cent in the education industry and 7.7 per cent in the accommodation and food industries. Overall the proportion of total employment accounted for by retail has declined marginally from 9.9 per cent to 9.7 per cent between 2009 and 2013, as competition has honed retail operations and retailers struggle with rising business costs, like business rates, and falling profit margins. The retail workforce differs from the rest of the economy in a number of ways. Retailing employs a far greater proportion of part-time staff (60 per cent versus 40 per cent). The exceptional flexibility of retail work, with a higher proportion of part-time roles than other industries, gives workers greater freedom and wider opportunities for career development. Parents, usually mothers, are better able to achieve a sustainable work/childcare balance, students are able to fund further and higher education, and people without formal qualifications are able to gain an important first step on the career ladder. Unfortunately, retail in Scotland will remain fragile, unless we can ensure that additional costs are not imposed, avoiding losses of retail jobs. People and property are the main input costs for retailers and, therefore, the two primary areas to realise savings when margins are under pressure.

**FIGURE 13: SCOTTISH RETAIL EMPLOYMENT BREAKDOWN**

Source: Scottish Gov, ONS, BRC analysis
Twenty local authorities in Scotland are more heavily dependent on the retail industry than the Scottish average (9.8 per cent) and in many more regions it comprises a significant proportion of total employment. A loss of retail jobs would have significant social implications. Retailing is unique in offering flexible working hours that enable many people to work who would otherwise be excluded from economic activity. In some cases this is likely to be related to tourist activity, for example in historic towns or near major landmarks, or the presence of major retail developments such as Braehead or The Gyle Shopping Centre.

**FIGURE 14: BREAKDOWN OF SCOTTISH REGIONS MOST HEAVILY DEPENDENT ON RETAIL, 2013**

<table>
<thead>
<tr>
<th>Region</th>
<th>Retail as % of employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Ayrshire</td>
<td>13.6%</td>
</tr>
<tr>
<td>East Dunbartonshire</td>
<td>12.8%</td>
</tr>
<tr>
<td>Clackmannanshire</td>
<td>12.8%</td>
</tr>
<tr>
<td>North Ayrshire</td>
<td>12.3%</td>
</tr>
<tr>
<td>West Lothian</td>
<td>12.2%</td>
</tr>
<tr>
<td>Midlothian</td>
<td>12.1%</td>
</tr>
<tr>
<td>Dundee and Angus</td>
<td>11.9%</td>
</tr>
<tr>
<td>Inverclyde</td>
<td>11.7%</td>
</tr>
<tr>
<td>Moray</td>
<td>11.7%</td>
</tr>
<tr>
<td>Angus</td>
<td>11.7%</td>
</tr>
<tr>
<td>Dundee City</td>
<td>11.5%</td>
</tr>
<tr>
<td>Stirling</td>
<td>10.9%</td>
</tr>
<tr>
<td>Perth and Kinross</td>
<td>10.8%</td>
</tr>
<tr>
<td>East Ayrshire</td>
<td>10.6%</td>
</tr>
<tr>
<td>Fife</td>
<td>10.4%</td>
</tr>
<tr>
<td>Scottish Borders</td>
<td>10.3%</td>
</tr>
<tr>
<td>Highland</td>
<td>10.2%</td>
</tr>
<tr>
<td>Glasgow City</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

Source BRC/ONS

Many young people get their first job opportunities in retail and take the training and experience they receive in customer service, team work, and personal organisation and responsibility, on to their careers in other industries. Contrary to myth, retail is one of the country’s most technically advanced and innovative industries, offering varied and rewarding career possibilities. Many retail jobs involve high degrees of skill, whether in food hygiene or nutrition, logistics, planning and construction, design, marketing or buying.
Retailers invest an average of £1,440 per person per annum in training their employees. 20% of retail and wholesale employers have recruited at least one person in the last 2-3 years straight from school, 12 per cent directly from further education and 11 per cent from higher education.

Equally, the industry is vital in providing employment opportunities for those with no or limited formal qualifications. Retailing develops talent across all its staff, regardless of their educational background.
Retail not only provides excellent job specific training, the industry also provides training that is transferable and can be utilized throughout a person’s career, regardless of the industry, like training in new technology, management and supervision.
WHAT IS THE CHANGING SHAPE OF RETAIL IN SCOTLAND?

High Streets need to be more competitive for retailers, consumers and investors. In many instances it is more expensive for retailers to operate on the high street than in other locations. We see that the inexorable rise in business rates have had a negative impact on the high street and retailers have had to scale down on floor space or close up shop altogether. High Streets are not just commercial centres; they also have commercial and historical importance. The growth of large-scale formats in out-of-town locations over the past 30 years has been accompanied by a rapid expansion in non-store (online, mail order and TV) retail sales that has changed the structural landscape of retail. During the last 10 years there has been a significant shift in shopping channels used by consumers. In 2004, 47 per cent of total retail sales occurred in town centres which is estimated to fall to 39 per cent in 2014. While the proportion of spend in out-of-town and neighbourhood has remained relatively stagnant, the growth of non-store has come at the expense of town centres. During the same period the proportion of online retail sales has more than tripled from around 3 per cent in 2007 to over 10 per cent in 2014. Total retail internet sales reached over £35bn in 2013 and expected to grow to £57bn by 2019. Awareness of technology as a driver of shopping patterns and behaviours is crucial. As customers choose to research and purchase goods in varying combinations of location and channel, retail operations need to flex and respond accordingly. Retailers need to re-define the store proposition and identify how they can best address the changing customer needs within the physical store.

The decline in vacancy rates over the last year has been very encouraging. Shop vacancy rates in Scotland reduced between November 2013 and October 2014, from 11.1 per cent to 9.0 per cent, falling below the UK average rate. This reflects a growing flexibility and responsiveness of landlords in the face of tough trading conditions, which has increasingly included the introduction of “pop up” shops and temporary lets. That said, one in every 11 shops is still empty, and so government and local authorities need to focus on making it as simple and cost effective as possible for retailers to invest in new or existing premises.

A thriving retail environment has huge benefits for local communities and to continue to attract businesses to our high streets we need to see the right environment to support economic growth. The cost of doing business in town centres has increased in relative terms. Business rates set in advance of the recession now account for a disproportionately high percentage of total occupancy costs for retailers. In Scotland, retail accounts for nearly a quarter of all business rates.
During the last 10 years there has been a significant shift in shopping channels used by consumers.

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**WHAT IS THE CHANGING SHAPE OF RETAIL IN SCOTLAND?**

**FIGURE 17: VACANCY RATES IN SCOTLAND AND THE UK**

During the last 10 years there has been a significant shift in shopping channels used by consumers.

As customers choose to research and purchase goods in varying combinations of location and channel, retail operations need to flex and respond accordingly.

**FIGURE 18: FOOTFALL IN SCOTLAND AND THE UK, % CHANGE YOY**

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As customers choose to research and purchase goods in varying combinations of location and channel, retail operations need to flex and respond accordingly.
The percentage of adults using the internet for personal use in Scotland was 79.8 per cent in 2013. This was 2.4 percentage points higher than in 2012, and 17.1 percentage points higher than in the baseline year of 2007.

A report published in July 2013 by Ofcom found that the use of mobile phones to access the internet has grown faster in Scotland than any other UK nation over the last year. Some 44 per cent of people in Scotland access the web on their mobile, an increase of 13 percentage points on last year. Mobile phone users in Scotland also reported greater use of online activities than the UK average for visiting websites (50 per cent compared to 39 per cent), accessing email (45 per cent compared to 37 per cent), and social networking (44 per cent compared to 37 per cent). This increase has been partly driven by the rise in smartphone ownership in Scotland: up 13 percentage points to 45 per cent of adults, but still below the UK average of 51 per cent. Around two-thirds of internet users in Scotland say they now shop online, on par with the UK average. Seventy per cent of these online shoppers feel secure when making online payments. Three-quarters of online shoppers in Scotland are confident that goods bought online will be delivered on time and in good condition, the same as the UK average.
Most retail and consumer goods companies have reacted swiftly to address the changes brought about by the emergence of the internet and new consumer spending habits, as online retailing competes headlong with the high street. The unstoppable move to multichannel retailing presents a steep learning curve, with real costs as well as enormous benefits. What works in a purely online environment does not necessarily transfer seamlessly to established store-based retail. More channels do not always mean more demand.

Although consumer spending has improved, retailers’ net profit margins have been on a downward trajectory and since 2010 over two fifths of retailers have seen their net profit margins fall, on average, by 5.2 per cent. Profit margins have been squeezed and are now only slightly higher than where they were at the height of the recession. We’re expecting net profit margins to fall further in 2014 as structural changes in the industry continue to provide significant challenges for retailers – especially for food retailers.
The Scottish Retail Consortium (SRC) is the trade association of Scotland’s retail sector and is the authoritative voice of the industry to policy makers, opinion formers and to the media.

The SRC was launched in April 1999 to represent the full range of retailers in Scotland, from well-known high street, out of town and online retailers, to grocers and a number of trade associations representing smaller retailers and sub-sectors.

The SRC works with its members and stakeholders to maintain the political and industry profile of the retail sector in Scotland, through information sharing, policy & research activity and developing links with key sector partners, including the Scottish Government and Holyrood Parliament. We publish leading indicators on retail sales, footfall and vacancies.

The SRC seeks to champion the best interests of the industry and enhance the sector’s significant economic and social contribution even further. Our position statements on public policy matters are determined by our SRC Board, after consultation with our wider membership.