



# Retail Sector

Labour Market Review

September 2013

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## Introduction

This labour market review is one of a series of labour market reports produced by People 1st. The report provides an analysis of the UK's retail sector based mainly on key secondary data. It outlines the size and scope of retail businesses and their workforce, and key recruitment and skill trends.

The research is intended to help sector employers plan and benchmark their current recruitment and training needs and experiences. It also underpins the work of People 1st.

People 1st is the sector skills body for the tourism and visitor economy, which is made up of three sectors: hospitality and destination services, passenger transport and travel, and retail.

More information on People 1st's research reports and activities can be found at [www.people1st.co.uk/research](http://www.people1st.co.uk/research)

## Summary

- Retail is a vital part of the economy. In 2011, the retail sector contributed £70.8bn in Gross Value Added (GVA) to the UK economy. It represents a substantial 7.2 percent of the UK's overall GVA.
- The sector employs 2,912,100 people and accounts for ten percent of the UK's working population.<sup>1</sup> It operates from 281,670 businesses units across the UK, the highest concentration of which is in London and the South East. Retail consistently makes up between ten and 13 percent of regional businesses.
- By incorporating retail into the wider visitor economy, the workforce is closer to one in five jobs. This includes the hospitality sector, such as pubs, bars and restaurants, and tourist and travel services, such as visitor centres and travel agents together with the supporting role that passenger transport plays in the visitor economy.
- Over half (54 percent) of the retail workforce is based in sales and customer service related occupations, which includes sales and retail assistants, retail cashiers and check-out operators. Between 2013 and 2020, the retail sector workforce is projected to grow by 54,800. Including replacement staff, around 873,100 people in total will be required in the next seven years to satisfy recruitment demand across the sector. This equates to almost a third of the existing workforce.
- The majority of employment growth (41,700) is expected to be in managerial positions. The demand for higher level skills has previously been described as modest, but the changes within retail and the service sector are likely to accelerate the need for more highly skilled managers who are equipped to meet the challenges brought by technology, customer trends and more sophisticated supply-chain management.
- Sales and customer service occupations are the largest group in the retail sector. Although the number of people working in these roles is projected to fall by four percent, this group experiences poor retention rates, which means a further 384,200 new sales and customer service staff will be required to replace those leaving the sector.
- Looking at recruitment and difficulties in finding particular skills among applicants, the retail sector compares well to the economy as a whole. However this may underestimate the rate of change in retail and the impact that both technology and customer trends have on the marketplace.
- The retail sector performs worse than the economy when it comes to skills levels within its existing workforce, with 17 percent of employers reporting skills gaps compared to 13 percent across the economy. Skills gaps within the workforce were most often attributed to staff being new to the role or the fact that staff training has only partially been completed. Both of these suggest skills gaps in the workforce are associated with high staff turnover.

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<sup>1</sup> People 1st analysis of the Labour Force Survey, 2011, Office for National Statistics

- Based on the customer trends we have found in our research it is likely that increasing expectations around the level of customer service, together with the rise of technology, will generate a need to develop these skills within retail across both management and sales and customer service occupations. The 2012 Sector Skills Insight report for retail emphasised both technology and customer skills as being important:

*“Staff in intermediate level positions will increasingly need to apply their skills in a more technology intensive, customer friendly environment which is likely to drive up skills requirements in a range of retail sector jobs”.*

- Looking to the future, employers have highlighted a number of key trends that present both opportunities and threats to their businesses. Key among them are customer trends, product and market trends, and social media and technology trends. All are affected by underlying economic uncertainty and instability. The economic downturn has changed customer values and behaviours and is giving consumers permission to seek out both value and quality.
- This behaviour is also leading to rising customer expectations and in an increasingly competitive market there is clearly a need to not only meet these, but to exceed them. The service provided – and the people providing that service – are also going to be key differentiators. Skilled sales and customer service staff and managers are therefore going to be crucial for employers, even in an increasingly digital world.
- Companies expanding into online or multi-channel retailing will need the right technical skills and knowledge if future skills gaps are to be avoided. Different types of roles will need to be created to support these functions, often behind the scenes.
- All employers need to rise to the challenge and engage with customers across multiple channels, combining traditional retailing and an online presence with the single objective of enhancing the customer experience.

## Economic contribution and performance

### What constitutes the retail sector?

The UK retail sector is large and diverse, although there is a considerable degree of crossover between the trading conditions across its sub-sectors. Generally speaking, the sector can be split into the following 13 sub-sectors:

- Books/newspapers/stationery
- Clothing/footwear
- DIY/hardware
- Electricals
- Florists
- Food/groceries
- Furniture/homeware
- Health/beauty
- Market traders
- Opticians
- Pharmacy
- Records/video
- Other

### Size and number of businesses

In 2011, there were 281,670 individual businesses operating across the retail sector, an increase of one percent from 2010.

Despite the fact that the retail sector is spread across the UK, the highest concentration of businesses is in London and the South East. These collectively make up 28 percent of all UK retail businesses.

The relative importance of retail to the UK economy is highlighted by the fact that 11 percent of all businesses are in the sector. This ranges from nine percent in the South East through to 13 percent in the North East. The retail sector therefore plays an important role in employment, growth and regeneration for many local areas.

**Table 1.1: Retail businesses by nation and region**

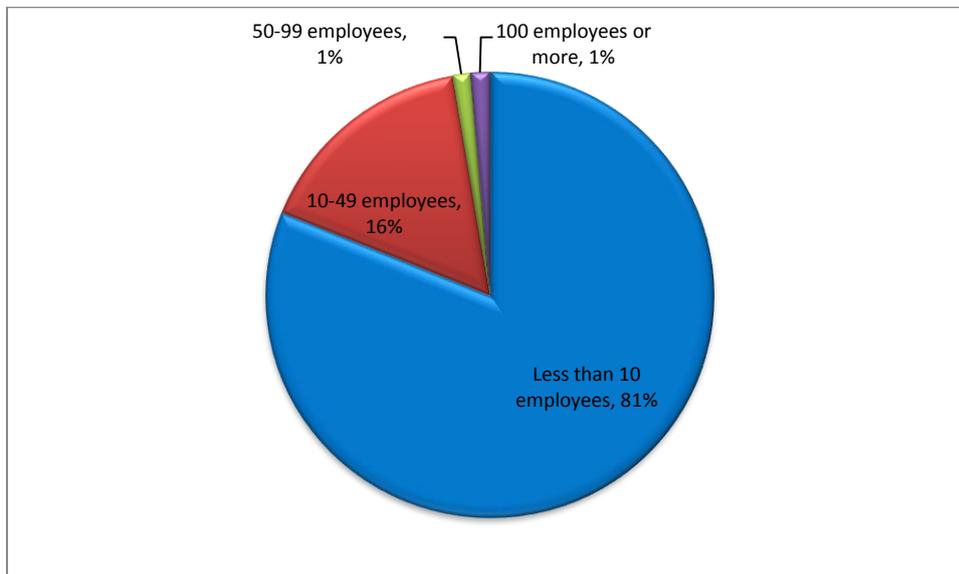
Region/country	Number of businesses	Percentage of UK businesses	Percentage of local businesses
North East	10,120	4%	13%
North West	31,400	11%	12%
Yorkshire and The Humber	23,135	8%	12%
East Midlands	18,940	7%	11%

Region/country	Number of businesses	Percentage of UK businesses	Percentage of local businesses
West Midlands	24,075	9%	12%
East	24,690	9%	10%
London	40,905	15%	10%
South East	37,685	13%	9%
South West	25,285	9%	10%
Wales	13,050	5%	12%
Scotland	23,135	8%	12%
Northern Ireland	9,250	3%	11%
United Kingdom	281,670	100%	11%

Source: Inter Departmental Business Register, 2012

There is considerable variation in the size of retail businesses. 81 percent of businesses employ less than ten people, while only one percent employ 100 staff or more.

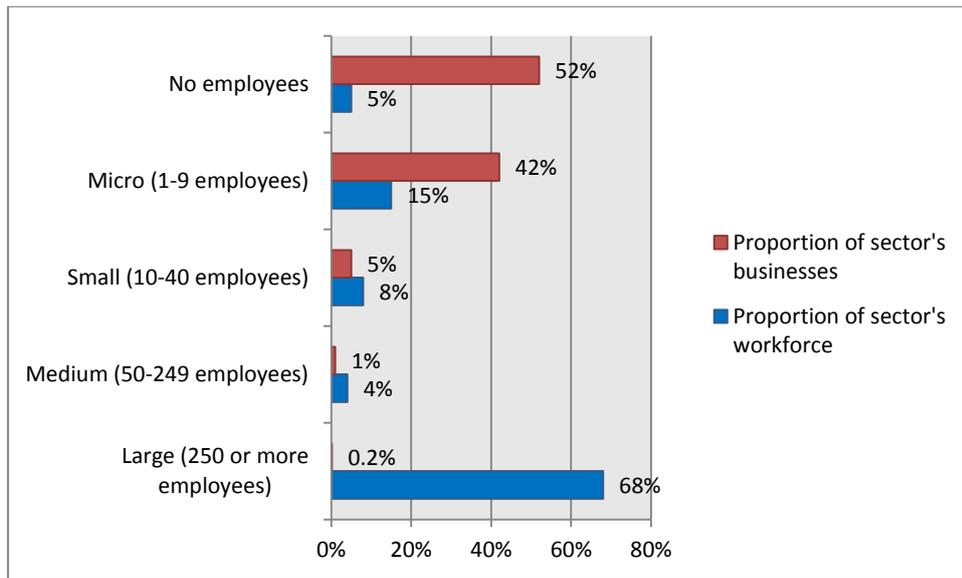
**Fig 1.1: Retail businesses by size, 2012**



Source: Inter Departmental Business Register, 2012

Despite the predominance of small businesses, the vast majority of staff are found in larger companies. Only 0.2 percent of businesses employ 250 or more people, yet they account for 68 percent of the retail workforce.

Fig 1.2: Sector businesses by size and employment, 2012



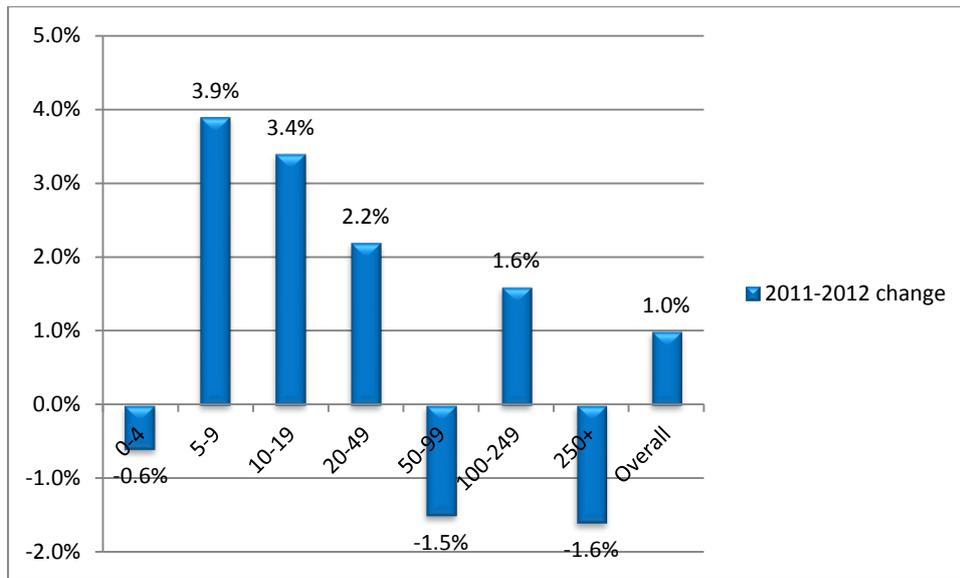
Source: Business population estimates for the UK and regions, 2012, Department for Business, Innovation and Skills

Note: Sector definition covers SIC (2007) 47 Retail trade, except of motor vehicles and motorcycles

Recent figures suggest significant variation in the way the downturn has affected businesses of different sizes. Difficult conditions have meant some major employers have ceased trading, while the relative ease of entry into the sector remains an opportunity for new operators or independents. Between 2011 and 2012, the proportion of businesses employing 250 people or more fell by 1.6 percent, while those employing five to nine members of staff rose by 3.9 percent.

While in some cases changes are minor, it does appear that businesses with fewer than 50 staff have performed better in recent years than their larger counterparts. This would seem at odds with the difficulties independent retailers report, many of whom have struggled to cope with increasing rental prices on the UK's high streets and the rising competition from out of town shopping centres and online trading.

**Fig 1.3: Changes in business size, 2011-2012**



Source: Business population estimates for the UK and regions, 2012, Department for Business, Innovation and Skills  
 Note: Sector definition covers SIC (2007) 47 Retail trade, except of motor vehicles and motorcycles

The latest figures also suggest that more retail businesses are opening than closing for the second year in a row since the economic downturn. This suggests that trading conditions are easing. In 2011, 22,895 new retail businesses opened while 21,110 ceased trading. This equates to a start-up rate of 10.5 percent and a closure rate of 9.7 percent.

**Table 1.2: Business start-ups and closures, 2008-2011**

	Sector	2008	2009	2010	2011
Start-up rate	Retail	9.9%	9.6%	10.3%	10.5%
	Whole economy	11.5%	10.1%	10.0%	11.2%
Closure rate	Retail	10.3%	11.7%	9.9%	9.7%
	Whole economy	9.6%	11.8%	10.6%	9.8%
Net rate	Retail	-0.4%	-2.2%	0.3%	0.8%
	Whole economy	1.9%	-1.8%	-0.6%	1.3%

Source: Business Demography, 2011, Office for National Statistics

Business survival rates in retail (76.4 percent) are slightly better than across the economy as a whole (73.8 percent). This is positive, although there is still a need to ensure support is available for small businesses to remain competitive.

**Table 1.3: Business survival rates, 2009-2011**

	New businesses	1 Year Survival	1 Year (percent)	2 Year Survival	2 Year (percent)
Retail	21,205	19,875	93.7	16,200	76.4
Whole economy	236,025	214,410	90.8	174,165	73.8

Source: Business Demography, 2011, Office for National Statistics

### Importance of the sector to the economy

The latest economic figures capture the improving trading conditions in the sector and the importance of the retail sector to the economy as a whole. In 2011, retail contributed £70.8bn in Gross Value Added (GVA) to the UK economy, slightly down from £71.5bn in 2010, but an increase of nine percent on 2008. Overall, the sector represents a substantial 7.2 percent of the UK's overall GVA.

**Table 1.4: Gross value added (GVA £m), 2008-2011**

	2008	2009	2010	2011	2008-2011 change	2010-2011 change
Retail	65,123	69,924	71,500	70,757	9%	-1%
Whole economy	963,921	904,625	923,640	977,416	1%	6%

Source: Annual Business Survey, 2011, Office for National Statistics

## Workforce size and characteristics

As well as supporting a significant number of businesses, the retail sector accounts for a sizeable proportion of the UK workforce. It employs almost three million people (2,912,100) or ten percent of the UK's working population. Recent figures also show a one percent increase in the size of the workforce between 2010 and 2011, higher than across the economy as a whole (0.5 percent).

This growth was not uniform across the country. For example, in Wales the workforce fell by ten percent, but increased by 22 percent in Northern Ireland, reflecting broader geographic economic trends.

**Table 2.1: Size of the retail workforce across the UK, 2010-2011**

	2010	2011	Difference between 2010 and 2011	Percentage change between 2010 and 2011
United Kingdom	2,894,400	2,912,100	17,700	1%
Great Britain	2,812,100	2,811,900	-300	0%
England	2,407,600	2,402,500	-5,100	0%
Northern Ireland	82,300	100,300	17,900	22%
Scotland	257,200	276,500	19,200	8%
Wales	147,200	132,800	-14,400	-10%
North East	129,000	122,400	-6,600	-5%
North West	337,100	334,500	-2,600	-1%
Yorkshire and Humberside	274,800	268,200	-6,600	-2%
East Midlands	211,800	208,100	-3,700	-2%
West Midlands	226,400	227,200	800	0%
Eastern	259,100	270,800	11,800	5%
London	327,800	317,200	-10,600	-3%
South East	382,700	383,600	900	0%
South West	259,000	270,400	11,400	4%

Source: People 1st analysis of the Labour Force Survey, 2011, Office for National Statistics

Over half (54 percent) of the retail sector’s workforce is in sales and customer service occupations, and the next largest occupational grouping – managers, directors and senior officials –accounts for 13 percent of the workforce. Elementary occupations follow at 11 percent.

**Table 2.2: Occupational profile of the workforce, retail**

Occupational grouping	Workforce number	Percentage
Managers, directors and senior officials	376,200	13%
Professional occupations	102,100	4%
Associate professional and technical occupations	163,800	6%
Administrative and secretarial occupations	169,500	6%
Skilled trades occupations	92,200	3%
Caring, leisure and other service occupations	28,200	1%
Sales and customer service occupations	1,571,900	54%
Process, plant and machine operatives	78,500	3%
Elementary occupations	323,800	11%

Source: People 1st analysis of the Labour Force Survey, 2011, Office for National Statistics

Looking at core occupations within retail, the largest number of people (1,089,300) are employed as sales and retail assistants. The next largest proportion of staff are employed as managers and directors in retail and wholesale (323,900). These figures suggest a flatter organisational structure when compared to industries such as hospitality, where there is a greater ratio of managers to front line staff.

**Table 2.3: Core occupations, retail**

Occupation	Number
Sales and retail assistants	1,089,300
Managers and directors in retail and wholesale	323,900
Retail cashiers and check-out operators	239,100
Shopkeepers and proprietors – wholesale and retail	128,800
Shelf fillers	97,200

Occupation	Number
Stock control clerks and assistants	87,500
Buyers and procurement officers	63,500
Merchandisers and window dressers	31,800
Elementary sales occupations nec	26,500
Market and street traders and assistants	16,900
Rounds persons and van salespersons	16,300
Undertakers, mortuary and crematorium assistants	15,900

Source: People 1st analysis of the Labour Force Survey, 2011, UK Commission for Employment and Skills

## Workforce skills and development

### Recruitment profile

Overall, retail has a similar recruitment profile to the economy as a whole. However the sector is more likely to report skills issues within its existing workforce.

Moderate growth across the economy means that 12 percent of employers in retail report having had at least one vacancy in the last 12 months, the same as across the economy as a whole. This equates to roughly 65,900 vacancies.

Three percent of employers report having hard-to-fill vacancies, which is similar to the four percent found across the economy as a whole. 15 percent of all vacancies are classed as being hard-to-fill, which is lower than the 23 percent across the economy.

Two percent of retail employers report having vacancies that are a result of skills shortages, a similar proportion to that across the economy (three percent).

Although retail performs similarly to the economy as a whole when it comes to recruitment and difficulty in finding particular skills in applicants, it performs worse when it comes to skills levels within the existing workforce. 17 percent of employers report skills gaps compared to 13 percent across the economy, while seven percent of the workforce is considered to have skills gaps, which is higher than the economy average of five percent.

**Table 3.1: Recruitment profile (retail and the whole economy)**

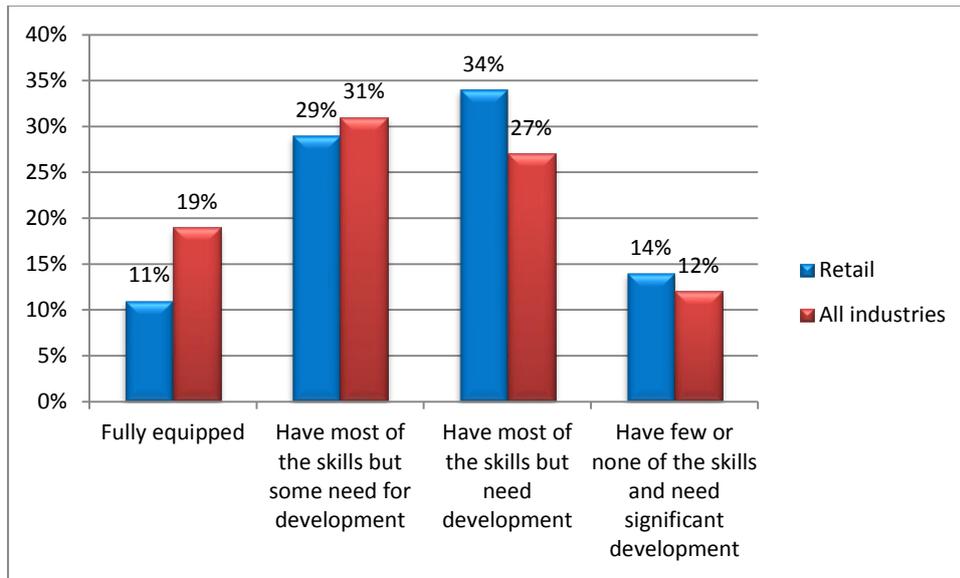
	Retail	Whole economy
<b>VACANCIES</b>		
Number of vacancies	65,900	635,900
Vacancies as a proportion of employment	2%	2%
Proportion of establishments with vacancies	12%	12%
<b>HARD-TO-FILL VACANCIES</b>		
Number of hard-to-fill vacancies	9,600	143,600
Proportion of establishments with hard-to-fill vacancies	3%	4%
Hard-to-fill vacancies as a proportion of vacancies	15%	23%
Hard-to-fill vacancies as a proportion of employment	0.3%	0.5%
<b>SKILLS SHORTAGE VACANCIES</b>		
Number of skills shortage vacancies	6,300	103,500
Proportion of establishments with skills shortage vacancies	2%	3%
Skills shortage vacancies as a proportion of all vacancies	10%	16%
Skills shortage vacancies as a proportion of hard-to-fill vacancies	65%	72%
<b>SKILLS GAPS</b>		
Number of skills gaps	229,700	1,489,500
Proportion of establishments with skills gaps	17%	13%
Skills gaps as a proportion of employment	7%	5%

Source: People 1st analysis of the Employer Skills Survey, 2011, UK Commission for employment and skills

## Key skills issues

Retail has traditionally attracted applicants with lower skill levels. The latest figures suggest that a significant number of applicants are not work ready despite the high rates of unemployment, with only 11 percent of employers reporting that new employees are fully equipped with the skills and attributes they are seeking. This rate is lower than across the economy as a whole (19 percent).

**Fig 3.1: Extent to which new employees are readily equipped with the skills needed**

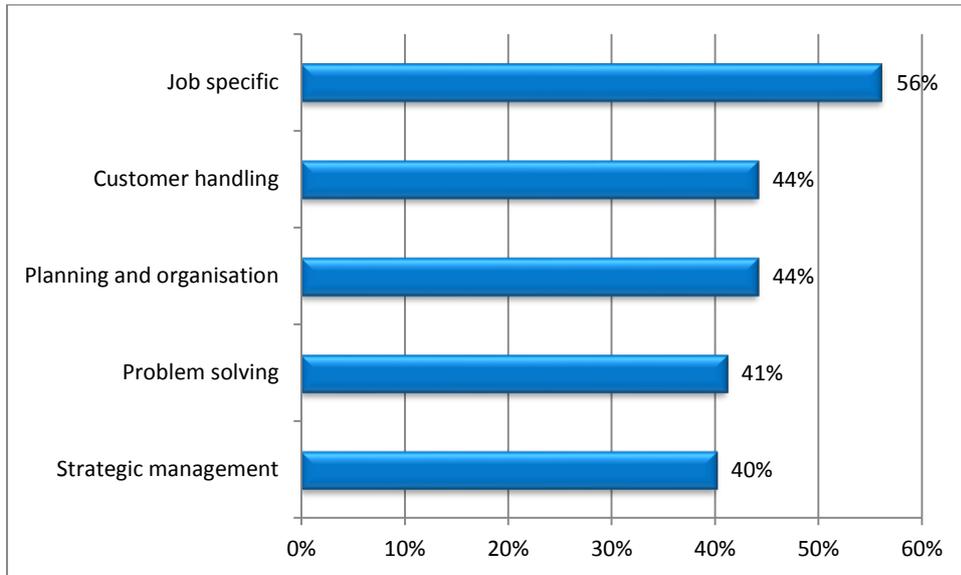


Source: People 1st analysis of the 2012 Employer Perspectives Survey, UK Commission for Employment and Skills

Job specific skills are the most commonly lacking in candidates (reported by 56 percent of employers), followed by customer handling skills (44 percent).

While both of these are common to all roles within the sector, skills often associated with higher level positions are also often hard to find. For example, applicants lack planning and organisation skills (according to 44 percent of employers) and strategic management skills (according to 40 percent of employers).

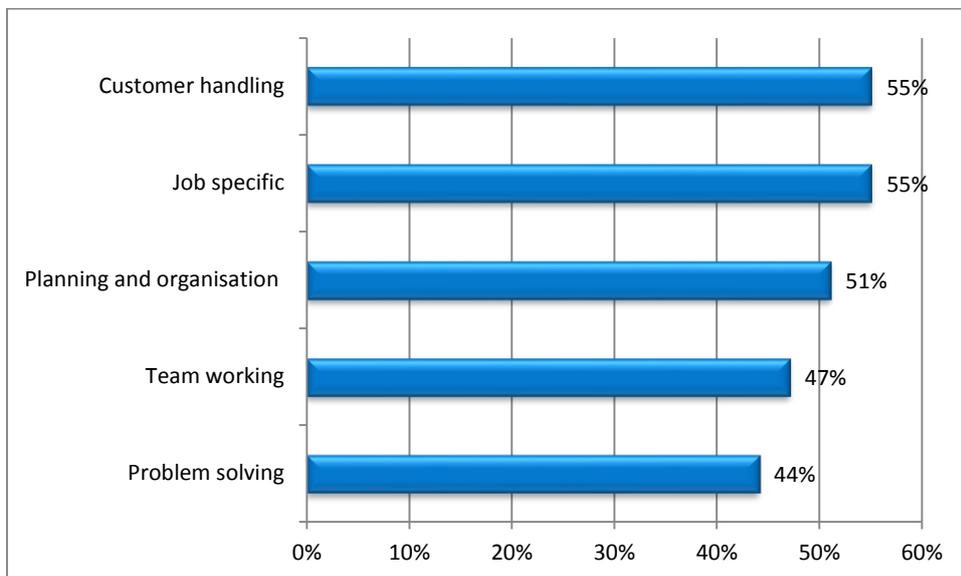
**Fig 3.2: Top five skills applicants lack:**



People 1st analysis of the Employer Skills Survey, 2011, UK Commission for employment and skills

Within the existing workforce there are a range of skills that need to improve, particularly the lack of customer handling (55 percent) and job specific skills (55 percent).

**Fig 3.3: Top five skills that need improving within the workforce**



People 1st analysis of the Employer Skills Survey, 2011, UK Commission for employment and skills

The main reason for these skills gaps in the workforce is that staff are new to the role (reported by 54 percent of employers with skills gaps). This is a result of high levels of labour turnover and is reinforced by the fact that 53 percent of businesses report that skills gaps exist because staff training is only partially completed.

Of greater concern is the fact that a third of employers stated that although their staff received training, their performance has not improved sufficiently. 39 percent of employers also say that skills

gaps are due to staff lacking motivation, while a quarter of employers feel that their staff have not received the appropriate training to bridge the gap. Given these results, it appears that there are some fundamental issues with the way employers engage with employees to develop their skills and keep them motivated.

Figures would suggest that there is less of a systematic approach to training in retail compared to across the economy as a whole, with only a quarter of retail employers evaluating the costs and benefits of training (compared to a third across the economy as a whole).<sup>2</sup>

**Fig 3.4: Top five reasons for skills gaps within the workforce**



People 1st analysis of the Employer Skills Survey, 2011, UK Commission for employment and skills

The recent Retail Sector Strategy highlights a focus on developing science, technology, engineering, and math (STEM) skills. However, based on the customer trends we have found in our research it is likely we will see an increase in demand for customer service and technology skills across management and sales and customer service occupations.

The 2012 Sector Skills Insight report for retail emphasised both technology and customer skills as being important:

*“Staff in intermediate level positions will increasingly need to apply their skills in a more technology intensive, customer friendly environment which is likely to drive up skills requirements in a range of retail sector jobs.”*

<sup>2</sup> People 1st analysis of the Employer Perspectives Survey, 2012, UK Commission for Employment and Skills

## Future trends

### Drivers of change

Our research has found a number of key emerging trends that employers believe present both opportunities and threats to their businesses.

Key among them are customer trends, product and market trends, and social media and technology trends, all working against a backdrop of economic uncertainty and instability. The economic downturn has changed customer values and behaviours and is giving consumers the ability to look for both value and quality.

Customers are also becoming increasingly knowledgeable and well-informed, using the internet and social media tools to research and engage with brands, which is leading to rising expectations. In this climate, brand loyalty comes under pressure as the sector witnesses greater 'brand promiscuity' or interchangeability of products and services. Rising to the challenge to meet the needs of customers and give them the experience they want has become key.

Employers are starting to understand this and Morrisons recently carried out a business model review to see how it could adapt its operations to changing consumer behaviours. The review recognised the urgent need to offer online shopping as an option for customers to ensure the brand remained competitive.

With rising expectations, increased competition and more knowledgeable customers, there is also a strong message that the service provided – and the people providing that service – are going to be the crucial differentiator for customers. For employers, this means they need to find skilled sales and customer service staff and managers, even in an increasingly digitised world.

In 2012, Thomas Cook put this into practise when it announced a number of store closures as a result of a rationalisation of their business model towards a high-tech, high-touch approach. The new model recognised that customers want personal service in addition to the convenience offered by technology.

Companies expanding into online or multi-channel retailing will need the right technical skills and knowledge if future skills gaps are to be avoided. Different types of roles will need to be created to support these functions, often behind the scenes or in contact centres.

## Future employment projections

Between 2013 and 2020 employers across the sector will have to recruit around 873,100 staff, the equivalent of over a quarter of the sector's workforce.

Up to 54,800 new roles will be required and the majority of these (41,700) are expected to be in managerial positions.

Sales and customer service occupations account for the greatest proportion of the workforce yet they are expected to fall by four percent from existing levels. Retention levels for these occupations are low and 384,200 new staff will be required to replace those leaving the sector in the next seven years. This is equivalent of 27 percent of the sector's existing sales and customer service force.

**Table 4.1: Retail sector employment projections, 2013-2020**

Employment levels (000s)	Net change	Replacement demand	Total demand
1. Managers and senior officials	41,700	97,900	139,600
2. Professional occupations	43,000	51,400	94,400
3. Associate professional and technical occupations	35,100	53,600	88,700
4. Administrative, clerical and secretarial occupations	3,500	64,200	67,700
5. Skilled trades occupations	-19,200	41,700	22,600
6. Personal service occupations	2,800	8,400	11,200
7. Sales and customer service occupations	-57,300	384,200	326,800
8. Transport and machine operatives	-13,800	34,400	20,700
9. Elementary occupations	19,000	82,400	101,400
<b>Total</b>	<b>54,800</b>	<b>818,300</b>	<b>873,100</b>

Source: Working Futures 2013-2020 (2008), UKCES/IER/CE, electronic resource

**Table 4.2: Retail sector employment projections, 2013-2020 (proportional change from 2013)**

Employment levels (000s)	Net change	Replacement demand	Total demand
1. Managers and senior officials	12%	29%	41%
2. Professional occupations	21%	25%	46%
3. Associate professional and technical occupations	16%	25%	41%
4. Administrative, clerical and secretarial occupations	2%	31%	33%
5. Skilled trades occupations	-14%	30%	16%
6. Personal service occupations	9%	28%	38%
7. Sales and customer service occupations	-4%	27%	23%
8. Transport and machine operatives	-13%	33%	20%
9. Elementary occupations	6%	27%	33%
<b>Total</b>	<b>2%</b>	<b>27%</b>	<b>29%</b>

Source: Working Futures 2013-2020 (2008), UKCES/IER/CE, electronic resource