

**RETAIL
AGILITY**



Mission Impossible?

Reconfiguring stores for the modern consumer

retail estates & shopping missions



Introduction

Make no mistake, stores will continue to be a vital part of the retail mix in 2020 and beyond.

Despite a high volume of closures in recent years, 82% of the UK's top retailers say stores are just as if not more important than they have ever been to their business. 38% say they are becoming more important, rising to 40% for home retailers and almost half (47%) for lifestyle and leisure.

Our research reveals that stores will look and feel significantly different in the future to how they do today: fewer, larger and tempting shoppers in with multiple experiences. Indeed, 43% of retailers say stores can't survive in their current format, rising to more than half (57%) for lifestyle and leisure.

In this report, we look at:

- How significant a shift is this?
- What does this mean in practice – for buildings, technology, shop floor staff, customers, the environment and landlords?
- Do retailers know where and how to invest?
- What risks need to be managed?

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“...stores will look and feel significantly different to how they do today.”
.....

Retailers' investment plans suggest that the purpose and character of bricks and mortar stores will change in the coming years. The focus will move from spaces full of shelves and tills to destinations where people can learn, shop, engage with the brand and its values and enjoy multiple services.

Customers will carry out multiple missions in one place because there will be multiple offerings in one store.

The growth of online will undoubtedly continue, and stores will need to perform as part of not despite online sales. Stores will need to use digital to drive footfall and increase spend, for example by having their own social media channel to promote their offering.

With any change comes risk. Retailers will need to consider the legal, regulatory and reputational implications of these changes, from the impact of digitisation and in-store automation on jobs to the case for renegotiating leases and the ethics and data privacy implications of biometrics.

While we are likely to see evolution not revolution, retailers have told us that things can't stay the same. As we discover in this report, the feedback in areas like customer-facing in-store automation indicates that focusing on the right ideas and taking the customer with you will be crucial to success.



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‘While we are likely to see evolution not revolution, retailers have told us that things can't stay the same.’
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Are you being entertained?

The future store will be geared around getting people through the door and increasing spend, with a particular focus on offering more of an experience and multiple services.

As the growth of online continues, retailers are realising that stores need to change. 43% say stores can't survive in their current format, rising to more than half (57%) for lifestyle and leisure.

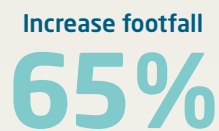
Far from tinkering around the edges, 45% of retailers say they have a dedicated project looking at future stores. This rises to 80% for food and grocery and 57% for lifestyle and leisure.

The future store will be designed to encourage more spending (70%) and to increase footfall (65%), but the top three objectives also include giving customers more of an experience (64%). This is of even more importance in lifestyle and leisure, where it is the top priority (80%).

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'Far from tinkering around the edges, 45% of retailers say they have a dedicated project looking at future stores.'
.....

Food and grocery has a unique set of objectives, dictated by the more functional nature of the category as well as the growing importance of online. The joint top objectives are increasing customer spend and converting store space into distribution hubs or warehousing to support online sales (70%). The second biggest objectives are increasing footfall, making shopping quicker and easier for customers, reducing costs and closer integration with digital channels (60%).

What are the main objectives driving your future plans for stores?



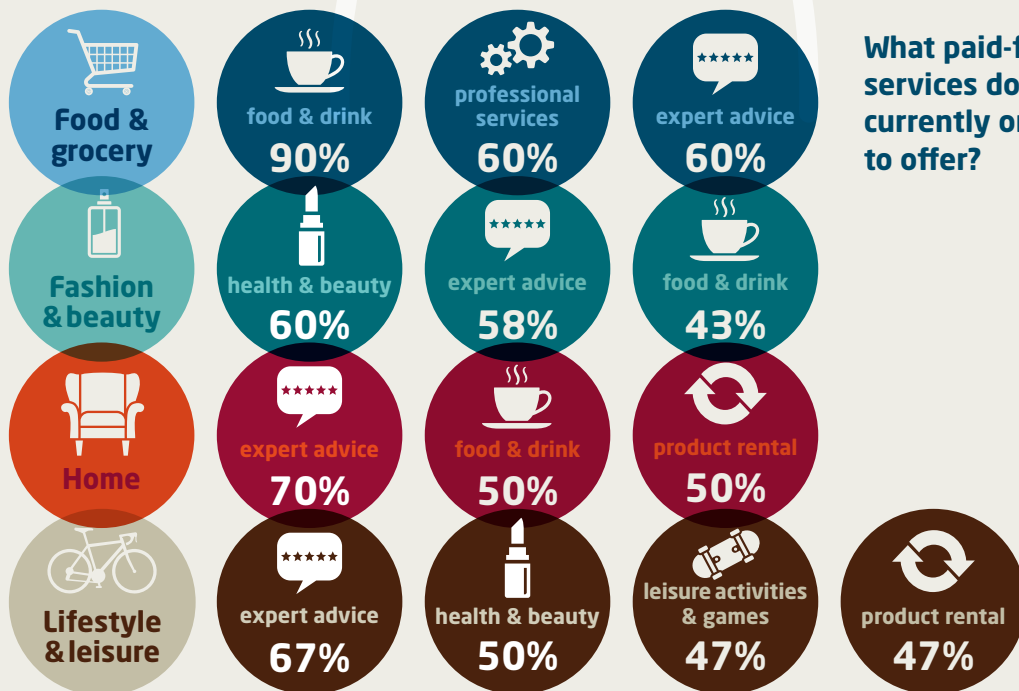
One stop shops

- Services at **Selfridges** in London include a cinema, skate bowl, health and beauty services, furniture and lighting consultation and a giant floor piano for children
- **Made.com** entices people in-store with personal style advice and workshops
- **Lush** offers spa treatments including massages and facials in several of its stores
- **Disney** brings the magic in-store with character meet and greets and play rooms

Non-retail services will form part of this in-store experience, with services tailored to the retailer's core offering. Susan Honeyands, partner at TLT, says: "Non-retail services are often seen as a way to increase footfall, dwell time and spend, while offering new experiences and convenience for customers. It can also help retailers to tap into new audiences, such as offering activities and venues for corporates. A new service often creates new risks and commercial requirements, which retailers will need to manage, and works particularly well where it complements the existing brand values."

When it comes to encouraging people through the door, Click + Collect and online returns for a retailer's own brands have been successful in maintaining a key role for stores in the community, with 78% and 79% of retailers offering these respectively.

While some retailers have expanded these services to allow customers to collect and return competitor brands (24% Click + Collect; 20% online returns), the lower adoption rate suggests that retailers are concerned about its relative value against the risk of their own brand dilution and sales.



What paid-for services do you currently or plan to offer?

Viewpoint



Chris McGarrigle
Retail property expert

Retailers and landlords have been talking a good game about offering customers more of an experience for some time, but do we really know what this looks like? There is a huge opportunity now to break free from the homogenised look and feel of the high street we perilously created, but the danger is failing to look at who will visit and what they seek.

The main reason why record stores are back in fashion – especially amongst millennials and generation Z (41% of the population) – is that this is a brand new experience for them.

The existing model is 40 years old, outdated and property investment centric, not community-focused. The future needs to be fluid and evolve with each population.

Retailers and landlords need to identify with millennials and find out what they want and how to deliver that. This can only be done with research, embracing technology and by improving diversity in the retail boardroom, something the likes of The Hut Group have already identified. It will take everyone to evolve to draw people in – not just one or two brands.

Consumers also have a lot more searching questions these days about things like sustainability and provenance. Retailers will need to have that knowledge and communicate it as part of this new experience. Apple of course, does this well, but most retailers have a much bigger product range than them.

Playing the long game

Retailers highlight a number of challenges with implementing their future store strategies, including the pace of change, property issues and delivering ROI.

Retailers are playing the long game, with half (50%) describing their future store strategy as a long-term view. Only a third (30%) describe it as medium-term and a fifth (20%) short-term.

This will be partly dictated by long leases, but retailers also identify a number of other challenges in carrying out their plans.

The top concerns are keeping up with the pace of change (54%), renegotiating leases (53%), failure to see any ROI (51%) and finding the right space (48%). This suggests that retailers need to find ways to respond to change in a more agile way, while the real estate market also needs to adapt.

Food and grocery cite general business disruption (60%) as a major challenge, while 58% of retailers agree that Brexit and general market uncertainty are holding them back.

The top concerns for retailers



RECEIPT

Fewer, larger stores

Around half (46%) of retailers believe they will have fewer stores in the future, rising to 50% for food and grocery and 55% for fashion and beauty. More than a third (37%) also expect the rate of store closures to increase.

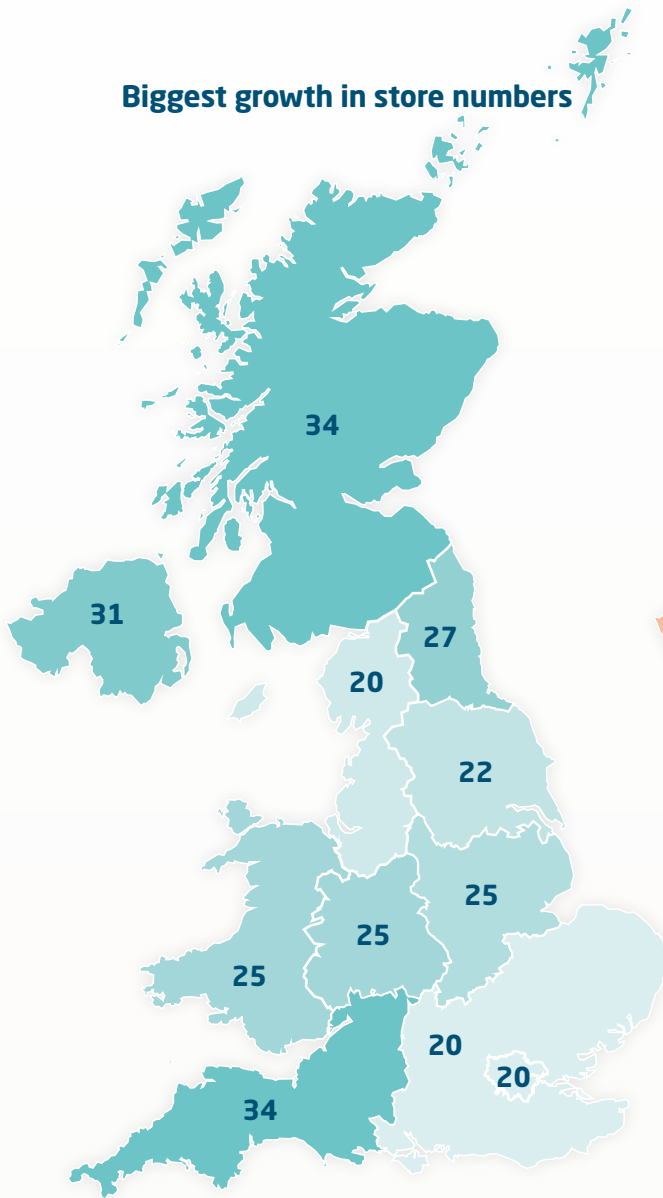
Stores are more likely to increase (33%) than decrease (25%) in size, apart from in food and grocery (20% say bigger; 30% say smaller). Perran Jervis, head of retail and consumer goods at TLT, says: "There was a time when people expected the rise of online to result in retailers carrying less stock and therefore smaller stores, but the latest outlook suggests this isn't the case. The shift towards offering more of an experience and non-retail services could simply result in a change of use, with retailers moving away from the traditional shopping aisles and using space for 'experience zones'. Also, online can drive shoppers to a physical store and stock needs to be available through both channels."

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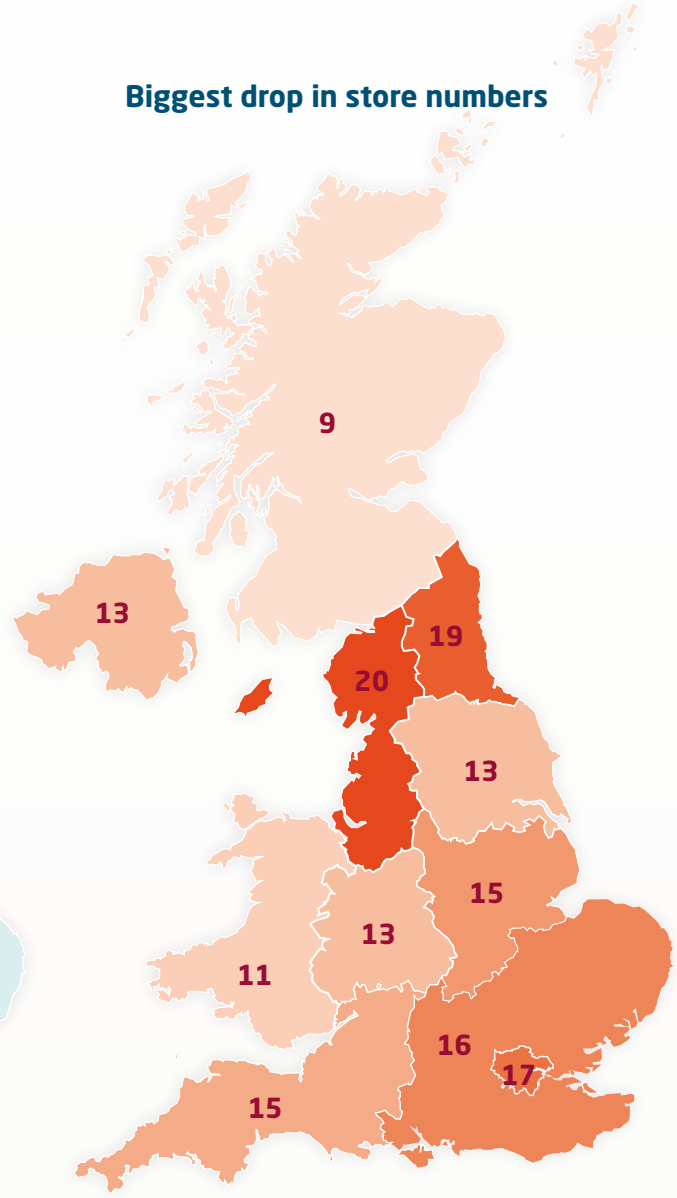


THANK YOU

Biggest growth in store numbers



Biggest drop in store numbers



| Region | Percentage of retailers predicting gains |
|--------------------------------------|--|
| South West | 34 |
| Scotland | 34 |
| Northern Ireland | 31 |
| North East | 27 |
| Wales | 25 |
| West Midlands | 25 |
| East Midlands | 25 |
| Yorkshire & Humberside | 22 |
| North West | 20 |
| East & South East (excluding London) | 20 |
| London | 20 |

| Region | Percentage of retailers predicting losses |
|--------------------------------------|---|
| North West | 20 |
| North East | 19 |
| London | 17 |
| East & South East (excluding London) | 16 |
| East Midlands | 15 |
| South West | 15 |
| West Midlands | 13 |
| Yorkshire & Humberside | 13 |
| Northern Ireland | 13 |
| Wales | 11 |
| Scotland | 9 |

Dan Sweeney, partner at TLT, says: "In areas where we have seen an increase in units, like the North West, retailers are constantly monitoring activity levels at these stores to establish whether this

warrants this growth. Store relocation and portfolio consolidation is a consistent thread in any property strategy meeting we have with our retail clients."

Next level technology

Technology spend will focus on speed, efficiency and experience, with greater investment in biometrics.

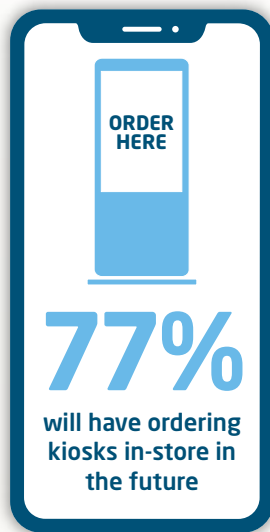
Technology will inevitably play a role in building the future store, with retailers' spending plans mirroring their primary objectives to increase spend and footfall and offer customers more of an experience.

A lot of technology to date has focused on increasing efficiency and payments. Indeed, the majority (89%) of retailers expect to furnish staff with handheld POS devices – giving them a bigger role in engaging with customers and making the experience more efficient.

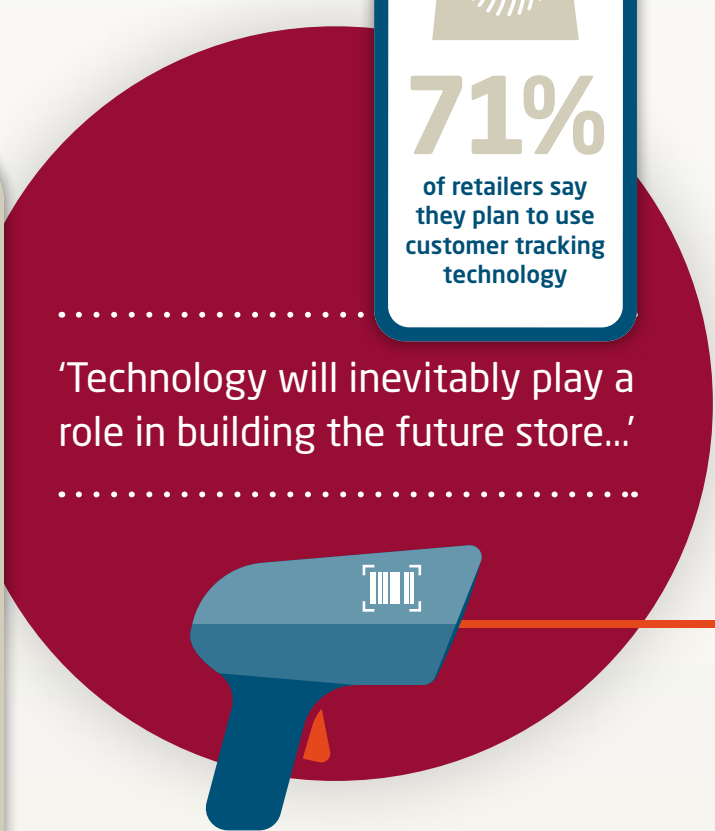
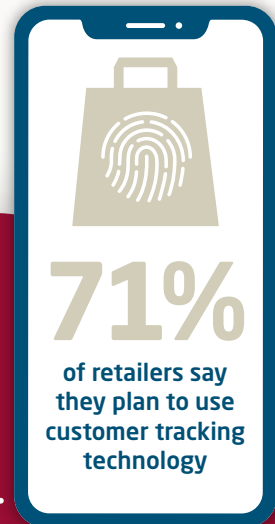
Three quarters (77%) of retailers will have ordering kiosks in-store in the future, recognising the interdependence between online and offline and potentially reducing the need to carry as much stock.

Around three quarters (71%) will also offer some form of customisation service, answering customer demand for one-off and “must have” products.

The same proportion (71%) of retailers say they already or plan to use customer tracking technology. While this technology varies in terms of the data captured and how it can be used, it will be interesting to see the extent to which retailers use these insights to design a better customer experience.



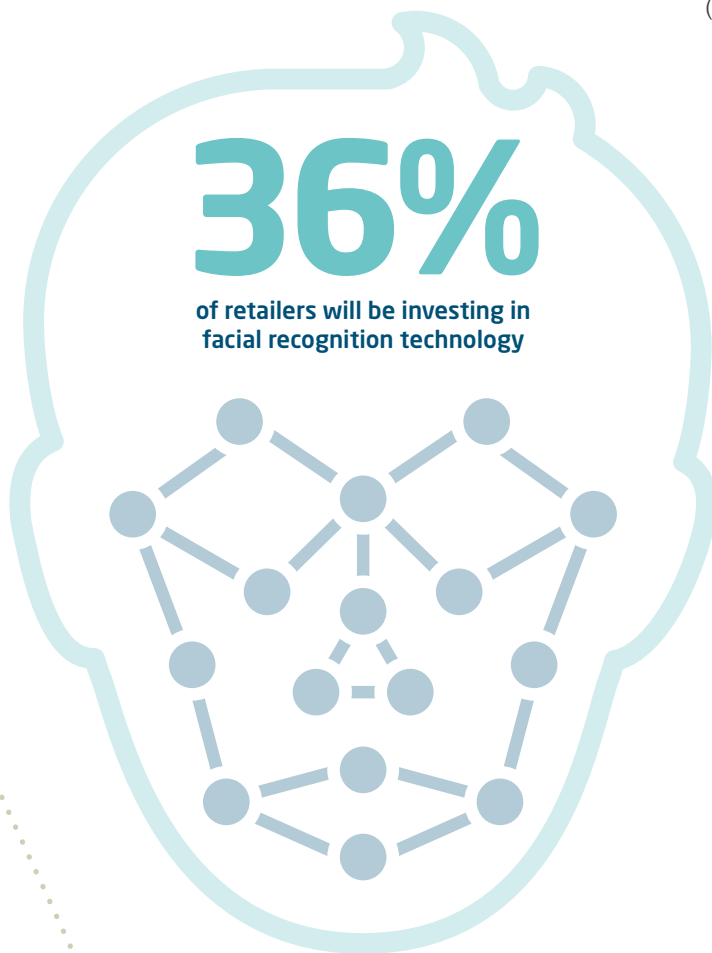
Retailers also suggest that we are moving away from the traditional “tills at the door” store format. In addition to handheld POS devices and ordering kiosks, 28% already or plan to operate checkoutless stores like Amazon Go and 32% say the same about biometric payments.



‘Technology will inevitably play a role in building the future store...!’

One of the biggest increases in investment will be facial recognition technology, from 12% to 36% of retailers. This has the potential to improve payments, customer service (including through personalised offers) and security, but poses regulatory risks and is a concern for some customers.

Technologies that used to be dismissed as entertainment but are now seen as important by customers will feature more heavily in the future retail experience. More than half (59%) of retailers say they will use augmented reality (80% for home), 46% will use virtual mirrors (67% for lifestyle and leisure), 44% virtual reality (50% for home) and 29% 3D printing (45% for home).



46% of retailers say they will use virtual mirrors



44% of retailers say they will use virtual reality



29% of retailers say they will use 3D printing

Regulating facial recognition

Facial recognition technology (FRT) and biometrics are gaining popularity as ways to improve security in retail – including identifying known shoplifters and combating payment fraud in line with Strong Customer Authentication.

The biggest drivers for their use amongst UK retailers include improving customer data capture (60%), improving customer experience (52%) and detecting and preventing fraud and crime (43%).

However, the technology has attracted concerns about bias in the algorithm, over-reliance by police authorities and ownership of the data. Retailers will need to have a clear reason for using FRT and biometrics and manage the risks as part of any rollout.

Data protection is a universal concern amongst retailers regarding FRT, affecting 88% overall,

90% of food and grocery and 93% of fashion and beauty. This is followed by data security (84%), risk of negative publicity (66%) and fear of customer resistance (66%).

Dan Read, partner at TLT, says: “While there are not yet any specific laws governing the use of facial recognition technology, the General Data Protection Regulation will significantly impact retailers’ plans to roll this out. The regulator has raised serious concerns around issues such as transparency and proportionality, and reputational damage as a result of failure to comply with the law is a key concern for retailers. It will be crucial for retailers to conduct thorough impact assessments to weigh up the benefits against the privacy risks and ensure that any rollout is carefully managed to maximise the value of the technology whilst protecting individuals’ data protection rights.”

Automation nation

Customer-facing in-store automation is being driven by cost saving, service improvement and operational efficiencies.

Customer-facing automation will play a key role in the future store. Not only does it have the potential to increase efficiency and reduce costs, it can improve services and bring tired stores up to date.

However, early experiences suggest that retailers need to think carefully about why they are doing this and the impact on customers.

Half (47%) of those retailers that have adopted automation in-store describe their experience as “mixed”, while only 24% describe it as positive. Consumers feel even less enamoured, with 42% describing their experience as negative. Only 26% describe it as positive.

The main reason why retailers automate in-store services is to improve customer service (66%), followed by the drive to reduce costs (58%) and improve operational efficiency (54%).



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The main reason why retailers automate in-store services



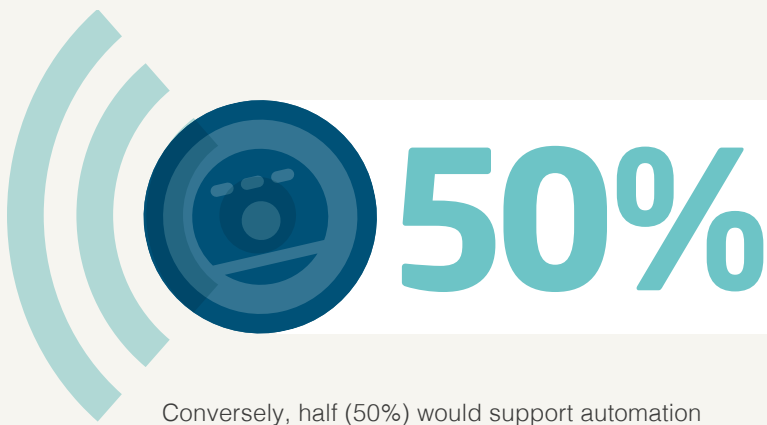
The processes that retailers already or plan to automate include suggesting items based on previous purchases (70%), stock management (67%), answering questions (60%) and directing customers to the right part of the store (59%). Retailers are much less likely to automate often-cited processes like stocking shelves (25%) and cleaning spills (13%).

However, consumers openly reject many of these use cases. Two thirds (67%) are against it being used to answer questions, 56% don't want it directing them to the right part of the store and they are more likely to be against (25%) than for (20%) it suggesting items based on their shopping history.

What processes do you currently or plan to automate?



47% of those retailers that have adopted automation in-store describe their experience as “mixed”, while only **24%** describe it as positive.



50%

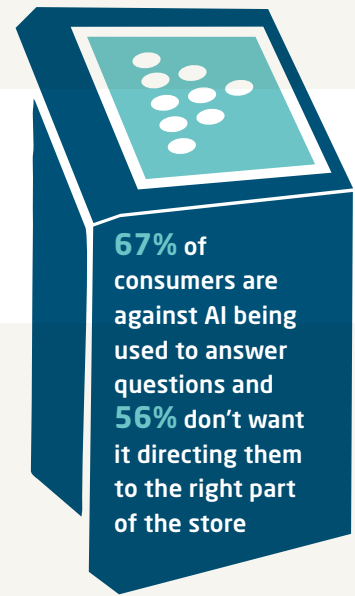
of consumers would support automation being used to clean spills

Conversely, half (50%) would support automation being used to clean spills. While any change can be disruptive at first, we are facing an automated future and retailers need to carefully consider the manner in which automation is introduced.

Indeed, more than half (54%) of retailers say not knowing how the customer will react is one of the biggest challenges they face with in-store automation, especially home (60%) and fashion and beauty (58%). The most common challenges faced include interoperability with existing IT systems (66%), up-front cost (66%), IT failure (65%), choosing a technology partner (57%) and configuration (56%).

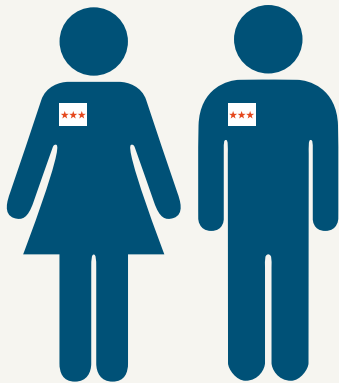


54% of retailers say not knowing how the customer will react is one of the biggest challenges with in-store automation



67% of consumers are against AI being used to answer questions and 56% don't want it directing them to the right part of the store

'While any change can be disruptive at first, we are facing an automated future..'



69%

of retailers say humans will remain critical to customer service

At your service

Two fifths (40%) of retailers say they will need less staff in the future, rising to 48% for fashion and beauty and 50% for food and grocery. However, 69% agree that despite the growing use of robotics and automation, humans will remain critical to customer service.

Roles will need to change, with staff becoming a more important part of the experience that's driving people to stores. The vast majority (80%) of retailers say communication skills will be more important in the future. Product knowledge (79%), customer relations (77%), team working (68%), decision making (64%) and problem solving (58%) will also be of increasing importance.

The way that a retailer communicates with its local customer base is also changing, with

staff embracing social media and using that to drive people to a physical store. Customers are particularly likely to visit a store if it's attached to some sort of experience, like a book signing.

Esther Smith, partner at TLT, says: "Retailers will often need to make changes to staffing resources in response to market conditions. If the future store has more staff engaging with customers and less stood behind tills, this could have a significant impact on jobs and the skills needed to perform those roles, and in turn affect the management of existing staff. Retailers will need to follow the right procedures to minimise the risk of claims when tackling these issues and consider the best way to handle organisational and contract changes."

We're in this together

A new dialogue between retailers and landlords is re-shaping the traditional relationship.

As a result of difficult trading conditions, retailers have started to seek more flexible leasing arrangements with their landlords. The traditional model is deeply entrenched, so this is currently resulting in a split market.

29% of retailers describe their relationship with their landlord as a partnership, while 28% say it is adversarial. However, retailers say the balance of power is slightly more in their favour, and more retailers would say this is moving in their direction (32%) than the landlord's (20%).

This new dialogue will be further shaped by retailers' willingness to share more customer and sales data

with their landlords, albeit from a low base. Retailers also plan to share more information around softer issues like ideas for promoting the area and the need for new customer facilities and services.

A fifth (21%) of retailers would be willing to trial turnover rents, and more than half (52%) think short term leases would be good for retailers and the high street. On average, retailers have a mildly positive view of landlords converting retail space into residential property, with less support for other uses including community services like schools and warehousing and distribution hubs.

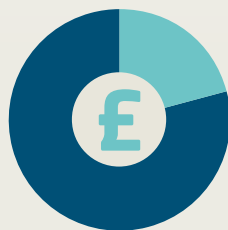
With local authorities investing in shopping centres, retailers say they should be investing in filling empty shops (65%), promoting the area (65%), technology (61%) and events (56%).



29%

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52% of retailers think short term leases would be good for retailers and the high street



21%

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28%

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'The traditional model is deeply entrenched, so this is currently resulting in a split market.'



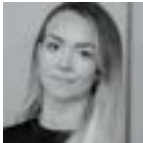
65%

promoting the local area

Dan Sweeney, partner at TLT, says: "There is value and great potential in the evolution of the relationship between retail landlords and their tenants. Both parties are ultimately invested in developing a sustainable and profitable relationship and the consistent recognition of Revo that both parties "have more that unites than divides" must be true. We are seeing the rebalancing of rents to recognise a changed market and the influence of CVAs on retail

estates. Consolidated lobbying by landlords and retailers on business rate reform also remains hugely important and appears to be developing post-Brexit traction. Sharing data for the smarter management of retail estates is something that retailers are naturally cautious about. However, they do increasingly recognise the great value of this data and it will be interesting to see how retailers leverage this with proactive landlords moving forwards."

Viewpoint: Ellandi



Isabelle Hease
Head of research
& analytics at Ellandi

The way people shop and interact with physical space is changing.

Over the next five years, this and the rise of online will mean that the market has no choice but to rethink how stores are configured. There will also be a far broader mix of retail types, from showrooming to regional click + collect-type hubs.

This is forcing occupiers and landlords – and the market as a whole – to work more openly together. I am seeing retailers hold open meetings with landlords about which stores work and which ones don't; and more data sharing to enable better conversations and earlier intervention where needed.

A high level of vacancies has a negative impact on everyone, so this move away from fragmented

ownership and siloed thinking is really positive. Now it needs to happen on a much wider scale. Sharing data and being more open about your strategy is the only way to build a successful relationship.

This is also driving a more flexible approach to lettings. To bring vitality to an area, you need to give people a variety of reasons to visit rather than the traditional "hub and spoke" model of putting retail in the middle and pushing everything else to the outskirts. There are some really good examples of blending national and independent retailers with local and community uses.

If landlords want locations to thrive, then continuing this shift towards a more open dialogue and talking about the benefits on both sides will be absolutely crucial. Change can take time and landlords will need to plan ahead with retailers and bring in some fresh interventionist thinking.

There is still some wariness on both sides, but I think this shift will continue. It's the only way retailers can succeed.



61%

Technology

Retailers say local authorities should be investing in:

65%

filling empty shops

CLOSED



56%

Events

From plastics to power

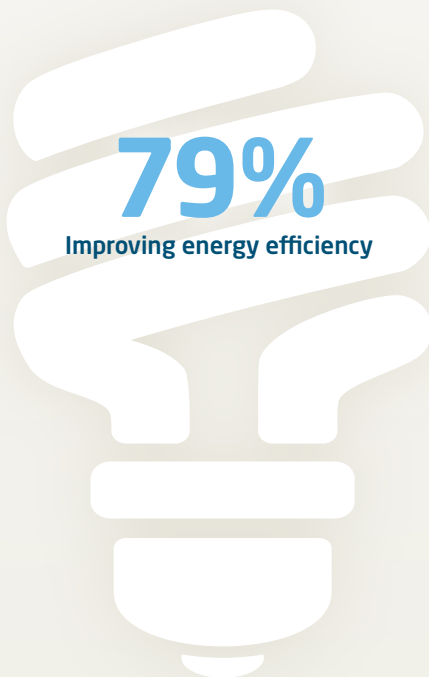
The green agenda is expanding from plastic, waste and recycling to include carbon reduction initiatives, which can generate revenue and manage costs.

Environmental issues have been re-shaping retail for a number of years, with recent efforts focusing on plastic reduction, waste and recycling. This has been driven in part by the consumer, partly by brands and also the law, from a plastic bag tax to a ban on microplastics.

Retailers' future plans suggest they are turning their attention to carbon reduction initiatives, including clean energy generation and electric vehicles. As well as reducing their impact on the environment, this can present revenue enhancement and cost optimisation benefits for retailers.

The number of retailers generating renewable power is set to double from a quarter (24%) to half (48%). This rises to 55% for fashion and beauty and 80% for food and grocery.

How are you reducing or planning to reduce the environmental impact of stores?



The number of retailers switching their fleet to electric vehicles is set to more than double, from a fifth (21%) to almost half (47%), and will triple in food and grocery, from 30% to 90%.

Food and grocery is also supporting consumer uptake of electric vehicles, with the number of retailers providing charging points set to grow from 40% to 70%. This is considerably higher than the retail market as a whole, which is predicted to grow from 14% to 31%.

Maria Connolly, head of clean energy at TLT, says: "The use of clean energy generation and electric vehicles is particularly attractive in retail. Retailers are significant energy users, meaning there is a financial incentive for being more self-sufficient while minimising their impact on the environment. Car parks are also an ideal location for electric vehicle charging points, helping to address a shortfall in supply while creating opportunities for people to shop while they wait for their vehicle to charge."

Conclusion

The future store will look and feel dramatically different to how it does today. It will cement its position in the multi-channel retail experience and feel just as much a part of the brand as its Instagram feed, social media influencers and online product videos.

Physical stores have been part of an omnichannel experience for some time, but the change will be recognising that each channel doesn't exist in isolation and physical stores need to work in conjunction with online, social media and any other touchpoints.

Many retailers have already dipped a toe in the water, but while this can teach the industry some valuable lessons, what works for one brand might not necessarily work for others.

We could be looking at a significant shift in the use of stores, but those retailers that are agile enough to evolve over time are likely to be the ones that stand out and have the most to teach.

Whether retailers are expanding, consolidating or transforming their physical estates, key trends to watch out for include:

- There's a real opportunity for retailers to leverage new ideas and technologies to respond to what the modern consumer is looking for, and offer more of an experience.
- Technology has a role to play; early lessons in customer-facing in-store automation for example show that change carries risks. This will need to be carefully managed to reap the benefits.
- Customers need to be taken on this transformation journey. Understanding their motivations and concerns will be critical to success.
- Shop floor staff will be crucial to delivering a brand enhancing experience and making shops work as part of a multi-channel strategy.
- Having started a new, more open dialogue with landlords, retailers need to consider what this new model looks like and capitalise on those relationships that are more partnership based.

About TLT

TLT advises many of the UK's leading retailers and consumer goods businesses. Our clients represent over 15,000 stores, one million employees and £100 billion of retail sales.

Our national retail team has an in-depth understanding of the industry, offering advice in context and solutions that work. We provide strategic advice on major projects, as well as support for in-house teams on day-to-day matters.

We are ranked among the very best law firms in Chambers UK 2020 for Retail (UK-wide), an independent guide to the legal profession.

We also support retailers through our retail-specific training programme, seminars, e-alerts, industry reports, risk reports and are actively involved in retail industry groups.

To find out more visit www.tltsolicitors.com/retail



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Research methodology

To gain a sector and category view of the retail sector, independent research was conducted by GlobalData on behalf of TLT LLP.

GlobalData interviewed 100 leading UK retailers. In all cases, interviews were carried out with senior management. The sample was representative of sectors within the retail space including: food and grocery; fashion and beauty; home sectors; and lifestyle and leisure.

To compare the retailer's perspective with the consumer's, GlobalData also interviewed a representative sample of 2,004 consumers.

All charts, data and statistics featured in this report are the product of the research. All rights reserved, March 2020.



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