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**SHORT PAPER 26**

# Pricing Retail Space

This research was commissioned by the IPF Research Programme 2011– 2015



**JULY 2015**

## Pricing Retail Space

This research was funded and commissioned through the IPF Research Programme 2011–2015.

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### Pricing Retail Space

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# Pricing Retail Space

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## Pricing Retail Space

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## 1. EXECUTIVE SUMMARY

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- Existing data sources do not provide the level of detail required to understand how the role of the store has evolved in a multichannel environment. This is a fundamental consideration for occupiers and investors to enable an accurate assessment of the value of physical retail space in the current, highly competitive marketplace.
- Through estimating the sales change, margin and additional channel benefits attributable to a store in a multichannel market, the Theoretical Productivity Model draws comparisons with store productivity for retailers in a pre-multichannel retail market.
- The pre-multichannel store productivity model is assumed to be:  
Store Productivity =  
(In-store Sales - In-store Cannibalisation) x In-store Margin
- The multichannel store productivity model is assumed to be:  
Store Productivity =  
(In-store Sales - In-store Cannibalisation - Pure Play Impact<sup>1</sup>) x In-store Margin  
+ (Online Halo x Online Leakage) x Online Margin  
+ Click & Collect Sales x Click & Collect Margin
- The Theoretical Productivity Model supports the hypothesis that multichannel retailing brings additional value to some retail property, but is dependant on the nature of the product sold and the type of location.
- Based on modelled outputs, a clear polarisation effect is evident – with higher productivity for fashion, catering and health & beauty retailers in prime city centres and regional shopping centres and weakening productivity for grocery and electrical retailers, particularly in secondary high street locations.
- Currently, few UK retailers provide consumers with access to a genuinely multichannel offer. Thus, to maximise the value of location potential, retailers must continue to invest in technology and enhancing customer experience.
- Furthermore, retailers that do not provide their customers with a multichannel offer will continue to lose trade to pure play and other, store-based, retailers that offer the ability to transact online supported by Click & Collect.

<sup>1</sup> Pure play: a retail organisation that trades only through the internet and has no physical stores. For example, ASOS.

## 2. INTRODUCTION

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The rise in multichannel shopping has fundamentally changed the retail industry. The assessment of the value of physical stores by retailers and landlords has become increasingly complex and is an area that requires investigation. Whilst a retailer may not recognise a sale via an alternative channel within an individual store's turnover, the store may still have played an important role as a customer 'touch point' in the transaction process. There is currently no established way of recognising this role and measuring the impact on overall retailer performance.

As a relatively under-researched subject, lacking meaningful data, a number of questions need to be addressed:

- How should the contribution of physical stores be recognised in the online sale process?
- How has multichannel retailing changed store affordability and what impact will this have across retail sub-sectors and retail locations throughout the UK?
- If physical store performance cannot be tracked, how can retailers determine their 'bricks and mortar' store strategy?

This paper explores the extent to which physical stores add value to retailers, beyond their traditional role as 'transaction space'. For example, for some retailers, in-store sales, as a contribution to overall sales, are declining. However, in many cases, the presence of physical stores remains essential to maintaining competitive advantage and increasing overall sales and profitability.

In a multichannel environment, the role of the bricks and mortar store for some retailers is shifting from driving sales of products in-store to being a brand showroom and supporting completion of a transaction through Click & Collect. Moreover, from primary research undertaken for this study, a number of retailers reported a 'halo' effect to local online sales following the opening of a physical outlet. Such synergy between channels, whilst yet to be quantified, will add incremental value to a typical bricks and mortar store.

### Measuring Store Contribution

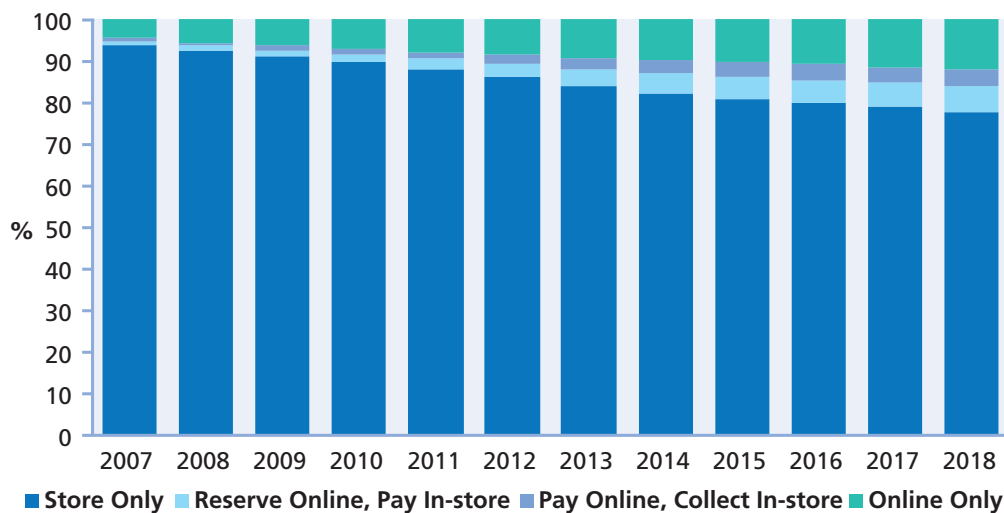
Prior to the rise of multichannel retailing, the relationship between cost and productivity of a store was expressed using a rent-to-sales ratio. Whilst this metric still provides a benchmark to both occupier and investor, in a multichannel environment it does not take account of the incremental benefits to remote sales channels that are driven by the presence of a store. Qualifying and quantifying the relationship between differing core sales channels (In-store, Online and Click & Collect) is crucial to measuring the broader role of the store today. Underpinning this is the need to improve understanding of cross-channel customer behaviour.

Whilst online trade has reduced the proportion of sales taking place in-store, the importance of bricks and mortar remains high within the overall transaction process. Figure 2.1 illustrates the change in shopping channel spend over time and records that, even today, 90% of all retail spending involves a physical store – forecast to reduce to 88% by 2018.



## 2. INTRODUCTION

Figure 2.1: Shopping Spend by Channel (2007-2018)



Source: Conlumino

When addressing the role of the store in a retail transaction, A.T. Kearney's (2014) report of omnichannel shopping preferences splits this process into five stages (Discovery, Trial & Test, Purchase, Delivery or Pick Up and Return). Kearney identifies 30 different combinations of these five stages that customers can use for a single purchase. If retailers and landlords are to recognise the changing role of the store then understanding these combinations at a catchment level is imperative. To fully understand the impact of changing consumer behaviour across all location types and retail sub-sectors, local level data is essential.

### Data Availability

The vast majority of data on retail sales does not sub-divide sales by present-day core sales channels. The data available is primarily for the purposes of providing an overview at a national level and remains heavily biased towards store-based sales. The lack of data on sales performance by channel and by retail location type limits its capacity for more meaningful analysis.

Table 2.1 sets out the three main sources of retail data that are publically available. Whilst not an exhaustive list, it is clear that these existing sources of retail data do not provide the level of detail required to understand how the role of the store has evolved in light of changing consumer behaviour. It is evident that these sources of retail data, although providing credible coverage of the UK retail market, deliver an aggregated output at a national level that is of limited use in the context of quantifying the value of the physical store.

## 2. INTRODUCTION

**Table 2.1: Comparison of Existing Retail Sales Data**

	<b>ONS (RSI)<sup>2</sup></b>	<b>BRC (RSM)<sup>3</sup></b>	<b>CBI (DTS)<sup>4</sup></b>
Sample Size	95% of total UK retail sales value (64% response rate per month)	60% of total UK retail sales value (100% response rate)	Between 850-900 companies (average response: 121 companies in 2013, of which 66 in retail sector)
Method (Data acquired)	Total retail turnover. Includes sales via internet and other forms of mail order	Sales values across range of 12 product categories	Qualitative indication of general direction of retail sales volumes, based on surveys
Data Published	Retail sales values and volumes	Changes in total, like-for-like and online sales values compared with one year ago	Change in sales volume compared with one year ago
Channels Covered (In-store, Online, Click & Collect)	In-store & Online	In-store & Online	In-store & Online
Geography	National	National	National

A better understanding of multichannel purchasing patterns might be achieved through monitoring the performance of leading retailers that publish data relating to sales by channel. However, given the varied definitions of each core sales channel used by retailers, establishing a consistent data set would be difficult. Furthermore, such data cannot explain performance across UK location types to determine the effects of different channels on a range of physical stores.

### Store Productivity

For retailers and landlords to effectively calculate the value of a bricks and mortar presence in the present-day multichannel environment, understanding the change in productivity of a unit when compared with a pre-multichannel environment is important. Productivity is defined in this context as the profit made on sales of products across all channels in which the store plays a part in a customer's purchasing activity.

Significant shifts in productivity of retail space occur as a result of changes in the transaction process when compared with a pre-multichannel environment. Store productivity will vary inherently, due to the nature of the goods sold and the attractiveness/convenience of a particular location. Thus, multichannel consumer behaviour will impact upon different retail locations and sub-sectors in different ways. A model has been developed, therefore, to describe how changing store productivity is shaping retail locations, which clearly identifies the gaps that exist in published data.

<sup>2</sup> Office for National Statistics (Retail Sales Index)

<sup>3</sup> British Retail Consortium (Retail Sales Monitor)

<sup>4</sup> Confederation of British Industry (Distributive Trades Survey)

### 3. THEORETICAL STORE PRODUCTIVITY MODEL

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The Theoretical Store Productivity Model (TSPM) has been designed to improve understanding of the change in productivity of the physical store in a multichannel retail market, across retail sub-sectors and a range of location types. Through estimating the sales change, margin and additional channel benefits attributable to a store in the current multichannel environment, the model draws comparisons with store productivity of retailers in a pre-multichannel retail market.

For the purposes of the model, it is assumed that in a multichannel market, a retailer is trading via three main channels: In-store, Click & Collect and Online (for home delivery). Variations of the typical sales channels such as 'check & reserve' and delivery lockers are not common across all retail sectors and have not been included in this study.

**The pre-multichannel store productivity model may be expressed as:**

Store Productivity =  
(In-store Sales - In-store Cannibalisation) x In-store Margin

or

$$SP_1 = (IS_1 - IC) IM$$

**The multichannel store productivity model may be expressed as:**

Store Productivity =  
(In-store Sales - In-store Cannibalisation - Pure Play Impact) x In-store Margin  
+ (Online Halo x Online Leakage) x Online Margin  
+ Click & Collect Sales x Click & Collect Margin

or

$$SP_2 = (IS_2 - IC - PC) IM + (OH \times OL) OM + (KS \times KM)$$

where:

**Output**

$SP_1$  = Store Productivity (pre-multichannel),  $SP_2$  = Store Productivity (current)

**Channel**

I = In-store, O = Online, K = Click & Collect, P = Pure Play competition

**Measure**

S = Sales, C = Cannibalisation/Impact, M = Margin, H = Halo, L = Leakage

The model defines the productivity of a physical store as the sum of sales contribution through in-store sales, Click & Collect sales and the online sales halo. Model inputs are underpinned by cross-sector sales analysis, retailer interviews and desktop research, as described in Section 4.

The model is used to illustrate store productivity across six retail sub-sectors and four types of location. By modelling variations in productivity by channel across a number of chosen sectors (grocery, fashion, electrical, discount, catering and health & beauty), it is possible to assess how changing store productivity in a multichannel environment is shaping selected retail locations (prime city centres, secondary high streets, out of town retail parks and regional shopping centres).

## 4. MODEL INPUTS AND RESULTS

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The TSPM brings together the key data inputs required to monitor the impact of changing consumer behaviour on store productivity, with the aim of providing an robust platform from which the general direction of development for each retail sector and location type can be assessed. Due to a lack of detailed and reliable data, primary research was undertaken in order to produce realistic model inputs, defined in this section and set out in detail in Table 4.1, together with modelling results. This primary research included interviews with retailers across the defined sectors, reviews of company accounts and anecdotal insights from real estate industry experts. Whilst every effort was made to use actual data, a number of model inputs had to be based on informed assumptions.

### Parameter Definitions

**Productivity:** The total sales contribution of a store to a given retailer, including in-store sales, Click & Collect sales and online sales halo.

**Pre-multichannel:** The pre-multichannel era is presumed to have ended in the mid-2000s (c. 2005).

**Prime city centre:** A key regional city centre, such as Central London, Manchester, Leeds or Cardiff.

**Secondary high street:** Exemplified by a regional high street, such as found in Margate or Rochdale.

**Regional shopping centre:** A regional shopping centre, such as Meadowhall, Trafford Centre or Metro Centre.

**Retail park:** A strong performing retail park in a large town, such as Middlebrook in Bolton, Castlepoint in Bournemouth or Glasgow Fort.

### Model Input Definitions

All input data is quoted as the percentage change since the pre-multichannel era. Change is benchmarked against in-store sales pre-multichannel. Data inputs are listed in Table 4.1 and data sources are referenced in the Bibliography.

**Pre-multichannel In-Store Sales ( $IS_1$ ):** All sectors and location types are based on an index of 100 in order to illustrate the total percentage change in multichannel in-store sales.

**Multichannel In-Store Sales ( $IS_2$ ):** States the assumed percentage change for in-store sales compared to the pre-multichannel environment. Figures are estimations, based on sector and location sales trends extracted from third party data.

**In-store Cannibalisation (IC):** Describes the anticipated percentage of sales cannibalisation of a retailer's existing store estate following the launch of a new store, underpinned by insights from the property sector.

**Pure Play Impact (PC):** Estimation of the total percentage impact of pure play online retailers (e.g. Amazon, AO World) on physical in-store sales; that is, where the existence of the store has not played a role in the transaction process and a sale has taken place online, thus directly replacing the traditional store-based sale. Such estimations are corroborated by online sales penetration data at the sub-sector level.

**In-store Margin (IM):** States the total percentage profit achieved by a retailer following the sale of a product in-store, before expenses. Assumptions are supported by data stated in company reports.

**Online Halo (OH):** The incremental sales uplift experienced by a retailer's online channel following a store opening. Primary research was based on retailer sales data, supported by insights obtained from retailer interviews. The figure is stated as a percentage of total pre-multichannel in-store sales.

## 4. MODEL INPUTS AND RESULTS

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**Online Leakage (OL):** Factor representing the reduction in the online halo that is directly lost to pure play competition. It allows for a reduction in the online halo as a result of sales inspired by the store being lost to online competitors (consumers use physical outlets to trial goods before purchasing at pure play online retailers). Operators trading branded products experience higher levels of online leakage due to the homogeneous nature of their goods, as prices can be compared easily between retailers. The factor is expressed as a percentage of the sales retained by the retailer: from 100% retention (no leakage) to 0% retention (no online halo). Estimations are supported by third party data.

**Online Margin (OM):** States the total percentage profit achieved by a retailer following the sale of a product online, before expenses. Assumptions are based on data stated in company reports.

**Click & Collect Sales (KS):** States the assumed percentage of a retailer's sales driven by Click & Collect fulfilment, expressed as a percentage of pre-multichannel in-store sales. Figures are estimations based on sector and location sales trends derived from third party data.

**Click & Collect Margin (KM):** States the total percentage profit achieved by a retailer following the sale of a product online and collected in-store, before expenses. Assumptions are supported by data stated in company reports.

### Online Sales Halo Analysis and Effect

In-store and Click & Collect sales can provide a direct measure of the value of a property to a retailer. Conversely, measuring the value added by a property to a retailer's online sales is a more complex issue. Whilst it is likely that a retailer today will already be taking online orders from a catchment prior to a store opening, the value of the store lies in the additional online sales captured following its launch – whether or not the sale is accounted for through the till of that store. This halo effect is primarily the result of customers using the store at the 'Discovery' stage of the purchasing process, touching and feeling/testing the product before purchasing online, i.e. 'Showrooming'.

It is known that the impact of a store launch can have a positive effect on online sales growth. N Brown Group<sup>2</sup> has previously reported a halo effect of 5-6% in online sales within a catchment, following the launch of a new store. In the case of a new Made.com<sup>3</sup> showroom in Soho, this retailer also reported that 5-6% of brand sales were generated from customers who visited the branch following its opening. The level of the halo effect is linked to the role of showrooming and the experiential nature of the product range. Furthermore, the existing provision of physical retailers within a catchment is likely to dictate the level of the halo effect, the drivers of which are described below.

### Online Sales Halo Driving Factors

1. Showrooming
  - a. Product Type: Is it easily transferable online? How important is touch and feel before purchase? Internet penetration rates by retail sector can provide guidance.
  - b. Store Location: Stores in prime destinations are likely to experience higher levels of showrooming than secondary locations.
2. Existing Provision
  - a. Retailer store presence in catchment: A retailer can expect a larger online sales halo from a store opening if it has no other existing presence within the catchment.
  - b. Presence of competition: A retailer can expect a larger online sales halo from a store opening if it has no competition present within the catchment.

<sup>2</sup> An internet and catalogue home shopping company, specialising in clothing and footwear across different age ranges.

<sup>3</sup> A furniture retailer, manufacturing to order.

## 4. MODEL INPUTS AND RESULTS

Table 4.1: Sector and Location Assumptions and Inputs to Theoretical Sales Productivity Model

Channel	In-Store (IS <sub>1</sub> - IC) IM				Online + (OH x OL) OM				Click & Collect + (KS x KM)			Output = SP <sub>1</sub> = SP <sub>2</sub>								
	Pre-Multichannel Formula	Multichannel formula			IS <sub>1</sub>	IS <sub>2</sub>	IC	PC	IM	Pre-multichannel In-Store Productivity	Multichannel In-Store Productivity	OH	OL	OM	KS	KM	Click & Collect Productivity	SP <sub>1</sub>	SP <sub>2</sub>	CHANGE IN PRODUCTIVITY
<b>Fashion</b>																				
Prime City Centre	100%	120%	0.0%	2.9%	45%	52.7%	6%	85.4%	60%	3.1%	8%	55%	4.4%	45.0%	60.2%	33.7%				
Secondary High Street	100%	70%	0.0%	2.9%	45%	30.2%	1%	85.4%	60%	0.5%	7%	55%	3.9%	45.0%	34.5%	-23.2%				
Retail Park	100%	100%	0.0%	2.9%	45%	43.7%	1%	85.4%	60%	0.5%	5%	55%	2.8%	45.0%	46.9%	4.3%				
Regional Shopping Centre	100%	112%	0.0%	2.9%	45%	49.1%	5%	85.4%	60%	2.6%	6%	55%	3.3%	45.0%	54.9%	22.1%				
<b>Grocery</b>																				
Prime City Centre	100%	95%	1.6%	1.2%	34%	31.3%	0%	94.0%	11%	0.0%	0%	29%	0.0%	33.5%	31.3%	-6.3%				
Secondary High Street	100%	96%	2.0%	1.2%	34%	31.6%	4%	94.0%	11%	0.4%	1%	29%	0.3%	33.3%	32.3%	-3.2%				
Retail Park	100%	90%	2.1%	1.2%	34%	29.5%	10%	94.0%	11%	1.0%	1%	29%	0.3%	33.3%	30.8%	-7.5%				
Regional Shopping Centre	100%	92%	2.4%	1.2%	34%	30.1%	6%	94.0%	11%	0.6%	1%	29%	0.3%	33.2%	31.0%	-6.7%				
<b>Catering</b>																				
Prime City Centre	100%	116%	0.0%	0.0%	85%	98.6%	0%	100.0%	0%	0.0%	0%	0%	0.0%	85.0%	98.6%	16.0%				
Secondary High Street	100%	102%	0.0%	0.0%	85%	86.7%	0%	100.0%	0%	0.0%	0%	0%	0.0%	85.0%	86.7%	2.0%				
Retail Park	100%	102%	0.0%	0.0%	85%	86.7%	0%	100.0%	0%	0.0%	0%	0%	0.0%	85.0%	86.7%	2.0%				
Regional Shopping Centre	100%	110%	0.0%	0.0%	85%	93.5%	0%	100.0%	0%	0.0%	0%	0%	0.0%	85.0%	93.5%	10.0%				
<b>Electrical</b>																				
Prime City Centre	100%	90%	0.0%	9.3%	30%	24.2%	4%	53.4%	35%	0.7%	1%	30%	0.3%	30.0%	25.3%	-15.8%				
Secondary High Street	100%	85%	2.0%	9.3%	30%	22.1%	1%	53.4%	35%	0.2%	4%	30%	1.2%	29.4%	23.5%	-20.1%				
Retail Park	100%	95%	1.2%	9.3%	30%	25.3%	2%	53.4%	35%	0.4%	7%	30%	2.1%	29.6%	27.8%	-6.1%				
Regional Shopping Centre	100%	92%	2.0%	9.3%	30%	24.2%	3%	53.4%	35%	0.6%	1%	30%	0.3%	29.4%	25.1%	-14.7%				
<b>Discounter</b>																				
Prime City Centre	100%	105%	0.0%	0.0%	25%	26.3%	0%	100.0%	0%	0.0%	0%	0%	0.0%	25.0%	26.3%	5.0%				
Secondary High Street	100%	102%	1.4%	0.0%	25%	25.1%	0%	100.0%	0%	0.0%	0%	0%	0.0%	24.6%	25.1%	2.0%				
Retail Park	100%	101%	0.0%	0.0%	25%	25.3%	1%	100.0%	0%	0.0%	1%	0%	0.0%	25.0%	25.3%	1.0%				
Regional Shopping Centre	100%	104%	0.0%	0.0%	25%	26.0%	0%	100.0%	0%	0.0%	0%	0%	0.0%	25.0%	26.0%	4.0%				
<b>Health &amp; Beauty</b>																				
Prime City Centre	100%	118%	0.0%	1.2%	60%	70.1%	2%	94.1%	75%	1.4%	1%	70%	0.7%	60.0%	72.2%	20.3%				
Secondary High Street	100%	75%	0.0%	1.2%	60%	44.3%	0%	94.1%	75%	0.0%	0%	70%	0.0%	60.0%	44.3%	-26.2%				
Retail Park	100%	100%	0.0%	1.2%	60%	60.0%	0%	94.1%	75%	0.0%	0%	70%	0.0%	60.0%	59.3%	-1.2%				
Regional Shopping Centre	100%	108%	0.0%	1.2%	60%	64.1%	1%	94.1%	75%	1%	1%	70%	0.7%	60.0%	65.5%	9.2%				

## 5. MODEL APPLICATION TO RETAIL SUB-SECTORS AND LOCATIONS

In most situations, the primary role of the store in a multichannel environment is still to generate till-based sales. However, a retailer will also benefit from a boost to its broader channel offer, although the quantum of multichannel productivity added by the physical store is likely to vary according to the retail sub-sector and the type of location.

To provide context to the retailer assumptions for each sub-sector, Table 5.1 provides examples of the six retail sub-sectors to which the TSPM has been applied across the four locations types defined in Section 4. The inclusion of named retailers should not be taken to imply that any or all of these organisations were consulted in the course of this research.

**Table 5.1: Examples of Retailer Types**

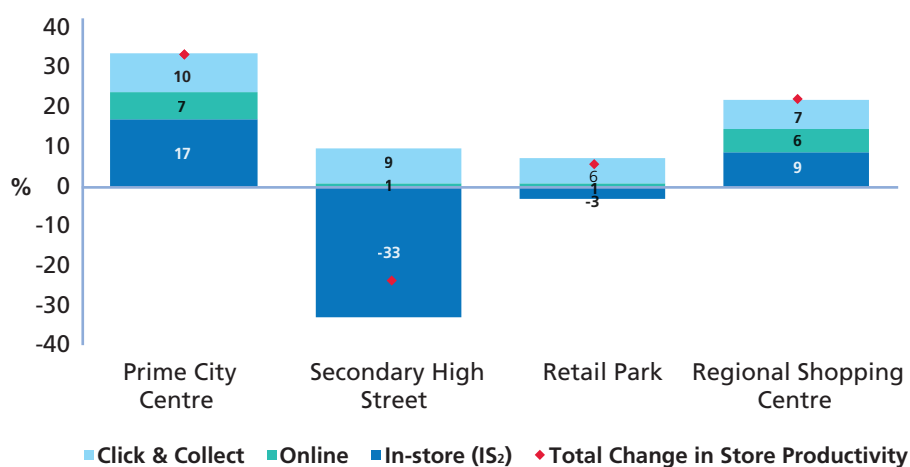
Sub-sector	Fashion	Grocery	Catering	Electrical	Discount	Health & Beauty
Retailer example	Topshop Urban Outfitters	Tesco Sainsbury	Starbucks Pret a Manger	Currys PC World	Poundland 99p Stores	Kiko Estee Lauder

The overall change in productivity for a unit is based on by a number of estimations, thus only a view as to the general direction of productivity growth of a retail sub-sector or location should be interpreted from the model outputs reported in Table 4.1.

The percentage change in productivity for a typical retail unit, relative to the pre-multichannel environment, is illustrated in each of the figures in the remainder of Section 5. The contribution of each channel and the overall change in store productivity, post the pre-multichannel environment, is stated in each instance.

### Fashion

**Figure 5.1: Fashion – Change in Store Productivity**



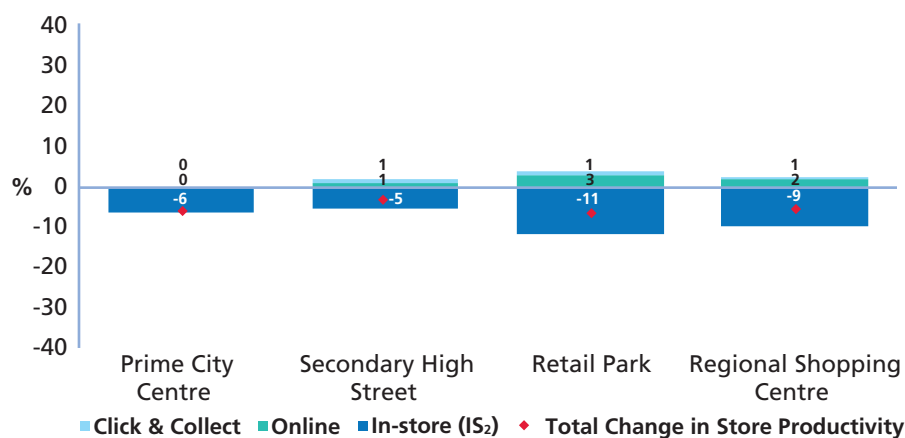
- Significant growth in prime city centre productivity (34% in total) is driven primarily by stronger in-store sales densities. Flagship stores attract higher footfall and increased customer spend in these locations. Click & Collect generates further productivity, due to the convenient nature of the location, near both home and workplace.

## 5. MODEL APPLICATION TO RETAIL SUB-SECTORS AND LOCATIONS

- Prime city centre fashion retailing also benefits from an additional online sales halo from flagship stores, as new customers engage and acquaint themselves with the brand, encouraging online purchases.
- Secondary high street locations are less productive in a multichannel environment, due to weaker in-store sales densities, as consumers prefer to shop at prime locations or choose home delivery options. Additional Click & Collect sales are not sufficient to offset the fall in sales.
- Outside prime city centres, fashion retailers on retail parks benefit from easily accessible and convenient locations for Click & Collect fulfilment. This leads to higher store productivity compared with the pre-multichannel environment, although any change in in-store sales densities or impact of an online halo are negligible.
- Similar to prime city centre locations, higher regional shopping centre footfall and higher customer spending drive stronger in-store sales densities for fashion retailers in this type of location. Upgrades to Click & Collect facilities also support higher productivity for fashion retailers using this channel.

### Grocery

Figure 5.2: Grocery – Change in Store Productivity



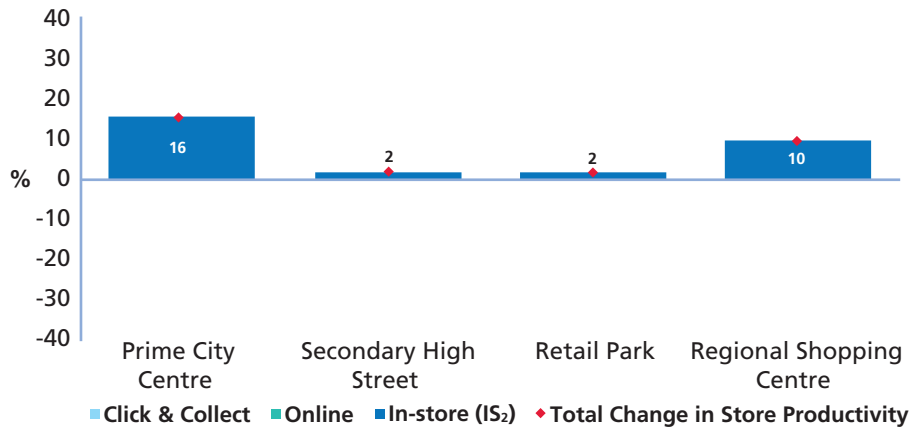
- A fall in prime city centre productivity, driven by a reduction in in-store sales densities, is the result of an increasingly competitive market. Negligible benefits from any online halo and Click & Collect cannot offset the fall of in-store sales.
- Retail units in secondary high street locations have experienced a sharp fall in productivity due to declining in-store sales and a shift towards online shopping. Limited growth in online and Click & Collect is not enough to prevent an overall decline in productivity.
- Out of town retail parks are increasingly moving towards 'online hubs', with more customers using online delivery in a multichannel environment rather than shopping in-store. The lower margins achieved through the online home delivery model are insufficient to offset falling in-store sales densities, resulting in lower productivity for this type of retailer in these locations.
- Regional shopping centres have experienced stronger growth in Click & Collect in a multichannel environment than have secondary high streets and retail parks. However, falling in-store sales have caused grocery retailers' overall productivity to decline in these locations.



## 5. MODEL APPLICATION TO RETAIL SUB-SECTORS AND LOCATIONS

### Catering

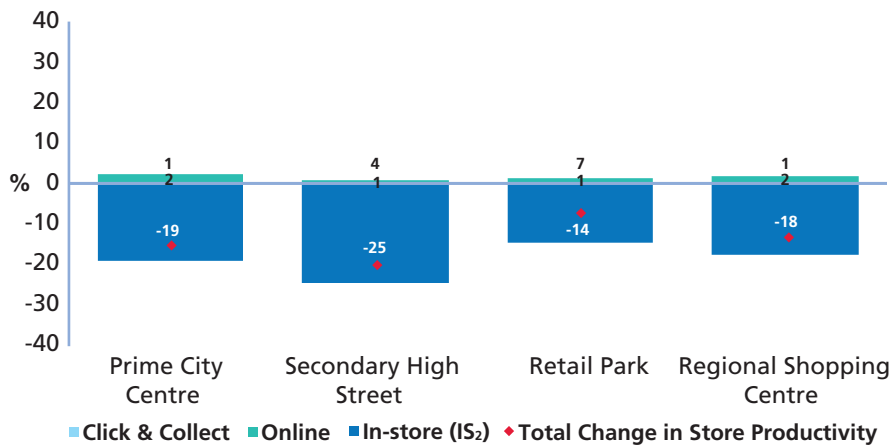
Figure 5.3: Catering – Change in Store Productivity



- With catering outlets, such as Pret a Manger, effectively unable to sell products online, productivity breakdown remains much the same as in the pre-multichannel environment, being almost wholly reliant on in-store sales.
- With footfall increasing in prime locations, such as key city centres and regional shopping centres, catering outlets are capitalising on growth in demand.
- New fascias and maturing brands are generating footfall in non-prime locations, such as secondary high streets and retail parks. Higher levels of consumer spending in the food and beverage sub-sector is supporting higher productivity across the sub-sector.

### Electrical

Figure 5.4: Electrical – Change in Store Productivity



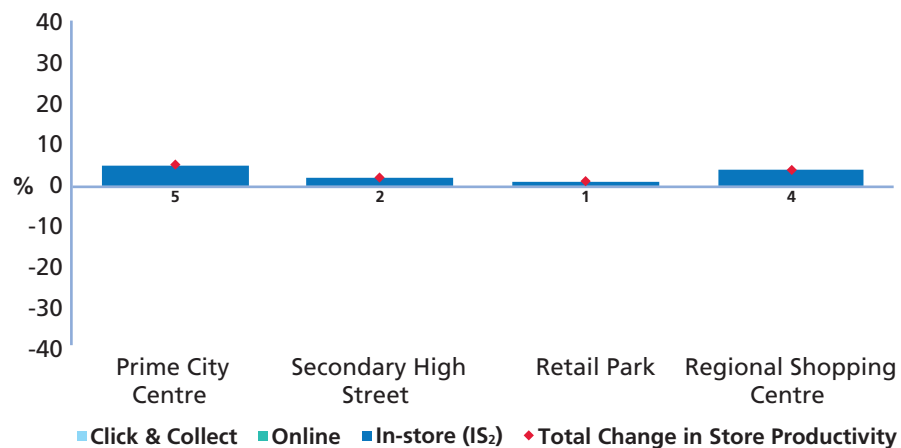
- The need for customers to sample and test electrical goods before purchasing remains unchanged in the multichannel environment. However, price comparison through online websites drives consumers to test products in-store (showrooming) and then shop online. This has led to a sharp decline in in-store sales and a stronger online halo than in other retail sub-sectors.

## 5. MODEL APPLICATION TO RETAIL SUB-SECTORS AND LOCATIONS

- Stores in prime locations, such as central London and regional shopping centres, have experienced strong online sales halos, driving higher productivity in these locations.
- Secondary high street productivity has fallen in a multichannel environment, resulting from declining in-store sales densities as consumers choose to shop in prime locations for these goods. This cannot be offset by a slight rise through Click & Collect.
- While retail parks have suffered from a fall in in-store sales densities, productivity has grown through Click & Collect sales and the online halo phenomenon in prime retail park locations, due to large-format stores allowing consumers to test larger product ranges. Additional productivity from remote channels does not compensate for lost productivity in-store, however.

### Discount

Figure 5.5: Discount – Change in Store Productivity

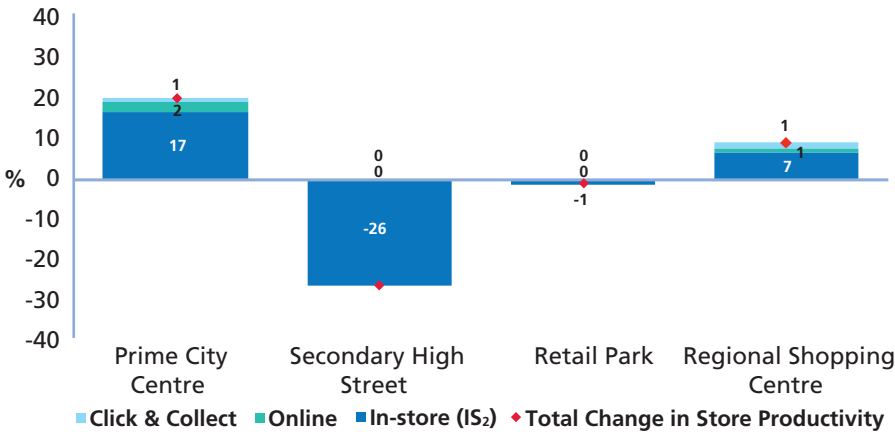


- With discount retailers, such as Poundland, still in the early stages of online order fulfilment, productivity breakdown remains much the same as in the pre-multichannel environment, namely, driven by in-store sales.
- Growth from in-store sales densities is largely ubiquitous across location types for discount retailers and demand remains buoyant in all retail locations for a discount offer. However, this sector will struggle to build on existing levels of productivity, particularly when compared with other retail sectors, due to their limited channel offer.

### 5. MODEL APPLICATION TO RETAIL SUB-SECTORS AND LOCATIONS

#### Health & Beauty

Figure 5.6: Health & Beauty – Change in Store Productivity



- Flagship stores in prime city centres and regional shopping centres showcase the health & beauty brands and provide excellent platforms for customers to trial and test products. These stores support stronger sales densities in the multichannel environment, whilst driving a small online halo, and act as convenient Click & Collect locations.
- The need for customers to test a full product range, as now found in flagship stores in prime locations, has led to a significant fall in in-store sales densities on secondary high streets.

## 6. PRE-MULTICHANNEL VERSUS MULTICHANNEL – MODEL CONCLUSIONS

The modelling of changing store productivity in a multichannel environment supports the idea that multichannel retailing brings additional value to retail property, but is the extent of this added value is influenced by the nature of the product sold and the type of location. Table 6.1 summarises the general trend of such change within both retail sub-sectors and location types, as indicated by the colour denominated in the respective 'Rating' column and row. Based on the modelled data, a clear polarisation effect is evident, with higher productivity for fashion, catering and health & beauty retailers in prime city centre and regional shopping centre locations.

**Table 6.1: Projected Changes in Productivity by Sector and Location (%)**

	Prime City Centre	Shopping Centre	Retail Park	Secondary High Street	Sub-sector Rating
Fashion	34	22	4	-23	Green
Catering	16	10	2	2	Green
Discount	5	4	1	2	Green
Health & Beauty	20	9	-1	-26	Amber
Grocery	-6	-7	-7	-3	Red
Electrical	-16	-15	-6	-20	Red
Location rating	Green	Green	Amber	Red	

Table 6.1 also provides an indication of the general direction of growth for both retail sub-sectors and location types. The conclusions drawn from the model show a movement in demand for different retail locations but retail sub-sector and location types are not the sole drivers of store affordability. Currently, few UK retailers offer consumers a seamless multichannel shopping. To maximise the value of a location's potential, retailers must continue to develop their sales channels, which may require considerable investment in new technology as more options, such as the beacon app, become available to consumers.

Flagship stores in prime city centres contribute towards showcasing retailer brands; this is particularly important for new retailers entering the UK market. New entrants can expect stronger online sales uplift following a flagship store opening, as new customers engage and acquaint themselves with the brand, in addition to driving strong in-store sales densities. Unique ranging and store formatting in flagship stores bring higher levels of brand engagement, result in stronger online performance, particularly for established retailers.

This clear link between in-store and online sales in prime city centre locations brings additional value to a retail property and supports rental affordability in an otherwise seemingly unaffordable market, particularly for fashion retailers that are subject to the greatest change in multichannel productivity across all the retail sub-sectors. In view of this, central London's key shopping streets are likely to experience an increasingly diverse mix of new international fashion retailers that will seek to capitalise on the strongest levels of non-store productivity. Furthermore, UK multiples are likely to experiment with new store formats, including growth into upper levels, as a result of the additional value added for both retailer and landlord in this type of location. Conversely, retailers with limited online operations, such as discount retailers and grocers, are more likely to feel the pressure from rising rental levels in key shopping streets in prime city centres across the UK.

By their very nature, secondary high streets are, typically, convenient locations, with many well-placed to complement a retailer's multichannel offering. However, whilst the high street was once a one-stop location

## 6. PRE-MULTICHANNEL VERSUS MULTICHANNEL – MODEL CONCLUSIONS

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for consumers, with a full range of retail offer, it is only the discount and catering sub-sectors that have experienced an improvement in store productivity here in the multichannel environment.

Driven by a weakening of in-store sales densities in the multichannel environment, particularly in sectors such as fashion and electrical goods, many UK high streets now suffer from a surplus of retail space. Whilst these types of retail sub-sector will maintain a presence on many key high streets, these are likely to be in a smaller format, to drive stronger sales densities and to fulfil Click & Collect orders. Many high street tenant mixes will continue to polarise in favour of low price point, top-up retailers<sup>5</sup>. This excess of retail space in many UK high streets, resulting from major multiples exiting these locations, presents an opportunity for catering or independent operators to capture trade from high street footfall. Additionally, surplus high street space may benefit from a change of use to residential or to community activities, particularly in the South East, where housing demand is strongest.

Retail park locations are well-placed to support retailers in the delivery of a multichannel offering. However, the additional productivity from non-store channels witnessed by the grocer and electrical retailers is shown to be insufficient to offset the decline of in-store productivity.

The result is that many retail parks are likely to experience a shift away from electrical and grocery retailing towards fashion retailers and catering services. As retail park tenant mixes adapt further to a multichannel environment, key regional retail parks could become as strong as regional shopping centres in terms of spend and footfall levels. The most profitable locations are also key targets for growing A3 operators (restaurants and cafés), that will be attractive to landlords as they seek to increase dwell time on site.

Unique flagship store formats in regional shopping centres have been shown to drive stronger in-store sales densities for fashion and health & beauty retailers. The improving in-store performance in a multichannel environment is coupled with additional value to the online sales channel, particularly in light of free wifi in these centres.

As demand for space continues to grow in these key centres, particularly for larger space occupiers, developers will continue to exploit refurbishment and extension opportunities to support demand and maintain rental growth. Such continued investment will reinforce the strong outlook for shopping centres with regard to retail sales growth across all retail sub-sectors. Fashion, electrical and health & beauty retailers have delivered significantly stronger levels of productivity in regional shopping centres in a multichannel environment. The additional benefits from Click & Collect fulfilment and an additional online sales halo allow these sectors to support higher rental levels than discount, grocery and catering operators.

With fashion and health & beauty sectors the biggest winners in terms of productivity from additional sales channels, other sub-sectors, such as discount, grocery and electrical retailers might be expected to rationalise their store footprint as a consequence of squeezed rental affordability.

Taking an overall location-based view, whilst it is clear that secondary high streets are suffering an excess in supply of retail space, there has been little demonstrable additional productivity from retail parks. Investors need to be particularly aware of the importance in targetting tenants that offer their customers a full multichannel service, to ensure their assets maintain and grow footfall in order to support rental growth. In addition, retailers that currently do not provide their customers with a multichannel offer will lose trade to pure play and other store-based retailers that offer Click & Collect and a transactional online website.

<sup>5</sup> Convenience-led retailers, trading low value goods with, typically, small customer basket size and high visit frequency. For example, Tesco Express.

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