

Sector Skills Insights: Retail

Evidence Report 53
July 2012

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UK Commission for Employment and Skills

July 2012



Foreword

The UK Commission for Employment and Skills is a social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector. Our mission is to raise skill levels to help drive enterprise, create more and better jobs and promote economic growth. Our strategic objectives are to:

- Provide outstanding labour market intelligence which helps businesses and people make the best choices for them;
- Work with businesses to develop the best market solutions which leverage greater investment in skills;
- Maximise the impact of employment and skills policies and employer behaviour to support jobs and growth and secure an internationally competitive skills base.

These strategic objectives are supported by a research programme that provides a robust evidence base for our insights and actions and which draws on good practice and the most innovative thinking. The research programme is underpinned by a number of core principles including the importance of: ensuring '**relevance**' to our most pressing strategic priorities; '**salience**' and effectively translating and sharing the key insights we find; **international benchmarking** and drawing insights from good practice abroad; **high quality** analysis which is leading edge, robust and action orientated; being **responsive** to immediate needs as well as taking a longer term perspective. We also work closely with key partners to ensure a **co-ordinated** approach to research.

This report contributes to the UK Commission's work to transform the UK's approach to investing in the skills of people as an intrinsic part of securing jobs and growth. It outlines the performance challenges faced in the **Retail** sector, the 'real-life' skills solutions implemented by leading and successful businesses to overcome them, and the benefits from doing so. Similar reports are available for the following sectors: Advanced Manufacturing; Construction; Digital and Creative; Education; Energy; Health and Social Care, Professional and Business Services; Tourism. Each report is summarised by an accompanying PowerPoint slide pack. By understanding the key performance challenges employers face and the skills solutions available to address them on a sector-by-sector basis the UK Commission can make better use of its investment funds to support economic growth.

Sharing the findings of our research and engaging with our audience is important to further develop the evidence on which we base our work. Evidence Reports are our chief means of reporting our detailed analytical work. Each Evidence Report is accompanied by an executive summary. All of our outputs can be accessed on the UK Commission's website at www.ukces.org.uk

But these outputs are only the beginning of the process and we will be continually looking for mechanisms to share our findings, debate the issues they raise and extend their reach and impact.

We hope you find this report useful and informative. If you would like to provide any feedback or comments, or have any queries please e-mail info@ukces.org.uk, quoting the report title or series number.

Lesley Giles

Deputy Director

UK Commission for Employment and Skills

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GLOSSARY

This report uses data from several sources and uses a definition of the sector depending upon which data sources are available.

PRINCIPAL DATA SOURCES

Employer Perspectives Survey 2010

The UK Commission's Employer Perspectives Survey 2010 (Shury et al., 2011) gathered the views of approximately 14,500 employers on the UK's employment and skills system. The aim of the survey is to provide evidence to stakeholders operating in the system across the four UK nations to inform policy and improve service delivery.

<http://www.ukces.org.uk/publications/er25-employer-perspectives-survey>

The UK Commission's UK Employers Skills Survey 2011

The UK Commission's UK Employer Skills Survey (Davies et al., 2012) provides UK-wide data on skills deficiencies and workforce development across the UK on a comparable basis. It was undertaken at the establishment level and involved over 87,500 interviews, with a follow up survey of over 11,000 employers focusing on employers' expenditures on training.

<http://www.ukces.org.uk/publications/employer-skills-survey-2011>

Working Futures 2010-20

Working Futures 2010-2020 (Wilson and Homenidou, 2011) is the most detailed and comprehensive set of UK labour market forecasts available. The results provide a picture of employment prospects by industry, occupation, qualification level, gender and employment status for the UK and for nations and English regions up to 2020. The database used to produce the projections is held by the University of Warwick Institute for Employment Research and Cambridge Econometrics.

<http://www.ukces.org.uk/assets/ukces/docs/publications/evidence-report-41-working-futures-2010-2020.pdf>

Labour Force Survey

The Labour Force Survey (LFS) is a quarterly sample survey of households living at private addresses in the United Kingdom. Its purpose is to provide information on the UK labour market that can then be used to develop, manage, evaluate and report on labour market policies. It is conducted by the Office for National Statistics. Figures quoted in this report are based on a four quarter average.

<http://www.ons.gov.uk/ons/guide-method/surveys/respondents/household/labour-force-survey/index.html>

SECTOR DEFINITIONS

Two definitions of the sector have been employed in this report as no single definition of advanced manufacturing is available.

Standard Industrial Classification (SIC) Based Definition

Retailing is traditionally defined in SIC (2007) as Division 47 Retail Trade, except for motor vehicles. The principal data sources above use this definition of the retail trade.

Sector Skills Assessment (SSA) Definition

Information from the SSA for retailing is also used to inform the analysis in this report. This draws on data for the retailing and wholesale and sale and repair of motor vehicles sector.

EXECUTIVE SUMMARY

This report considers the current situation of the UK retail sector, the challenges it faces over the medium-term and the implications for skills. The intention is to provide a summary of the extent to which the performance challenges faced by the sector can be addressed through skill development and thereby bring about growth and contribute to the recovery of the UK economy.

The Importance of the Sector

- Retail is a major part of the UK economy, accounting for around 10 per cent of all employment and approximately five per cent of GDP. The sector is also important due to its direct supply of goods and services to consumers.
- The sector provides employment opportunities, through the provision of part-time employment and non-standard hours of work, to people who might otherwise struggle to find work which allows them to manage their commitments outside of work. It also provides employment to many young people.
- The recent recession has adversely affected employment in retail, though in relative terms, the decline in employment in retail (at around four per cent) has not been as great as in many other sectors (e.g. construction and manufacturing)
- In the post-recession period, harsh trading conditions have persisted as have lower levels of consumer confidence. As a result, a number of changes are taking place in the retail sector including growth in the discount / value sector and the increasing importance of multi-channel operations.

Key Challenges

- Technology has had, and is continuing to have, a major impact on the sector, through the advent on online / multi-channel retailing, but also in the increasingly sophisticated IT systems major retailers use to manage their supply chains and in-store operations.
- Globalisation is also affecting the sector through the capacity to source goods from all over the world, and in providing opportunities to enter foreign markets. UK retailers now operate in several countries across Europe, North America, and the Far East. At the same time, many foreign retailers have a presence in the UK.
- Consumer demand is also shaping the sector especially with the increasing number, and success of, discounters. Some luxury retailers have also continued to perform well in this current economic climate. At the same time, retailers have also entered new

markets, such as offering financial services (horizontal integration) and in developing their own branded goods (vertical integration).

- Demographic change will result in retailers needing to consider how they can better serve an ageing population, and how this will affect the supply of one of their traditional sources of labour – young people.

Employment and Skill Demand

- The scale of the retail sector is such that it will continue to have a large demand for labour over the medium term. The level of replacement demand, notwithstanding technology substituting for labour, will be substantial over the period to 2020, such that the sector needs to give consideration to how it will meet its labour needs (especially so as the economy begins to recover from the recession and employment demand picks up).
- Whilst much labour demand will be concentrated in relatively modestly skilled, low paid customer service jobs, the sector will also have a demand for an increasing number of managers and professionals who will have the job of ensuring the sector can meet its product market challenges.
- Whilst there is a need to raise skill levels, for that to take place effectively the sector needs to ensure that it has the employment practices in place which will allow it to recruit the labour it needs and retain it by providing career paths and career development to its employees.
- If the employment practices are in place, this provides an environment which is conducive to employers making investments in the skills of their workforce – *i.e.* if employees are retained then the employer will obtain the benefit of the training it has supplied.

Skills Supply

- There is a well-developed external skills supply infrastructure at Levels 2 and 3. Available evidence shows that the number of Apprenticeships being undertaken in retail has increased substantially over recent years.
- The National Retail Skills Academy provides a source of information and guidance to those looking to enter the sector, or for those who are already employed in the sector.
- Overall, however, employers in the sector engage less with the external skills infrastructure *e.g.* use of FE colleges, engagement with HE, *etc.* than is the case generally across all employers.

- Employer investments in training are generally lower than found in the economy generally.

Skill Mismatches: Meeting the Sector's Skill Needs

- The level of skill deficiencies measured with respect to hard-to-fill vacancies, skill shortage vacancies, or skill gaps, suggests that the sector is not adversely affected by any these. In other words, the sector can more or less meet its current demand for skills.
- But looking to the future, there are a wide range of challenges which the sector must adapt to - including increased use of the internet, more sophisticated supply chain management being used to drive down cost, making the in-store shopping experience more alluring – which will create a range of skill demands.
- Skill demands relate in part to improving the skills of those managers who will be charged with introducing many of the changes mentioned above. The evidence suggests that at present the sector has a relatively modest demand for higher level skills (e.g. those at Levels 4 / 5). But it will increasingly need to acquire these skills in order to meet future challenges wrought by technology and more discerning customers. There is an expected increase of 29 per cent of professional and associate professional and technical occupations by 2020, which compares to an expected increase of 15 per cent across all sectors. For managerial occupations there is expected to be an increase of 18 per cent by 2020 for the sector and similarly for the whole economy.
- It is not just at a senior, managerial level that skill demand will increase. 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.
- Where retailers have engaged with the external skills system they have found it beneficial to their businesses. This includes Apprenticeships and the provision of training leading to other vocational qualifications. There are examples provided in the report where employer engagement in these types of initiatives has been successful in improving organisational performance and/or offsetting skill shortages.
- This message needs to be transmitted beyond those retailers who are already fully engaged with the skills system. Achieving success would appear to about getting the long tail of SMEs, in particular, to be able to assess their training needs – which programmes such as liP are designed to achieve – which will then make manifest the need to further invest in skills of different kinds.

- The face of retailing is changing out of all recognition with the introduction of online shopping. Being part of this technological revolution in retailing, or being able to withstand its effects, is in large part a skills issue. Employers need to be able to assess and address, in good time, the implications of the manifold changes taking place in the sector. This will then make manifest future skill requirements and make employers – and their employees - more keenly aware of the way in which various skills and training programmes, such as the Apprenticeship or vocational qualifications, can assist them.

Conclusion

The retail sector is strategically important to the UK economy with regard to its contribution to output and employment, the distribution of a wide variety of goods to consumers, and its impact on the built environment. The sector is likely to remain a substantial source of employment demand in the UK even though automation will increasingly be a substitute for labour.

The sector faces a number of significant performance challenges over the coming years, including:

- keeping pace with technological change and ensuring that returns to investments in technology are optimised;
- being responsive to consumer demand with regard to multi-channel operations as well as offering enhanced customer service and offering value for money;
- entering and capturing shares of foreign markets and benefiting from international supply chains;
- the implications for labour supply resulting from an ageing population;
- fulfilling the low-carbon agenda by ensuring waste and energy use are minimised.

These challenges, and others, have implications for employment and skills in the retail sector. The response to these will depend somewhat on the market segment in which employers operate (*e.g.* discounters, high-end/luxury goods). Overall, realising the vision of the UK as a global retail leader depends largely upon the sector driving up its skill levels across the workforce and implementing high performance working practices. This, consequently, has implications for the management and leadership skills required to facilitate this vision.

1 The Economic and Policy Climate

Increasingly, the competitiveness of advanced industrial nations is explained with reference to the capabilities of their respective labour forces. Hence, national education and training systems are seen as providing comparative economic advantage. It is notable that over the recent past, education and training have taken centre stage in policies designed to foster the UK's competitiveness and lie at the heart of the current Government's plans to kick start the recovery against a backdrop of challenging global economic conditions. To understand the role skills development might play in stimulating growth within the retail sector requires some consideration of the current economic situation and current skills policy.

In 2012 the UK economy, and indeed the global economy, is still coming to terms with the repercussions of the 2008/9 economic recession. By comparison with previous recessions, 2008/9 was relatively deep and it continues to cast a long shadow over the country's medium-term economic prospects (see Table 1.1). The economic climate at the time of the 2008/9 recession and in the period afterwards has been characterised by low interest rates and a depreciation of sterling against other currencies, notably the dollar and the euro. Whilst these would usually be sufficient to give a fillip to the economy by boosting demand and, given time, increasing output, the potential for export led growth has been seriously undermined by continuing weak demand conditions across the global economy, especially in the Eurozone and the USA. Also the difficulties households and businesses have had gaining access to finance as the banks have sought to increase their capital has restricted growth. Moreover, the markets' continuing disquiet over developments in the Eurozone has contributed further to the climate of uncertainty in the global economy thereby further dampening demand.

Table 1.1 Four recent periods of recession in the UK

	Start date	Date of bottom of recession	Length of period from start to bottom of recession	Total decline in GDP (%)	Time taken for GDP to recover to level at start of recession
1	1974 Q4	1975 Q3	4 Quarters	3.8	7 Quarters
2	1980 Q1	1980 Q4	4 Quarters	5.9	13 Quarters
3	1990 Q3	1992 Q2	8 Quarters	2.3	11 Quarters
4	2008 Q2	2009 Q1	6 Quarters	6.3	?

Source: Office of National Statistics Quarterly Economic Accounts, 1975, 1981, 1993, 2010

As a consequence of the above developments, the rapid acceleration in growth observed after the recessions of the early 1980s and 1990s has failed to materialise. Nevertheless the economy is expected to resume its long-run growth path over time (see Chart 1.1) but in order to do so there are specific steps the UK economy needs to take. The UK Treasury has identified a number of weaknesses which need to be addressed if a sustained recovery is to be achieved (BIS / HM Treasury 2011):

- i. the level of debt funded household consumption;
- ii. the share of the economy accounted for by the public sector;
- iii. weak business investment;
- iv. an over-dependence upon financial and business services; and
- v. unbalanced regional growth.

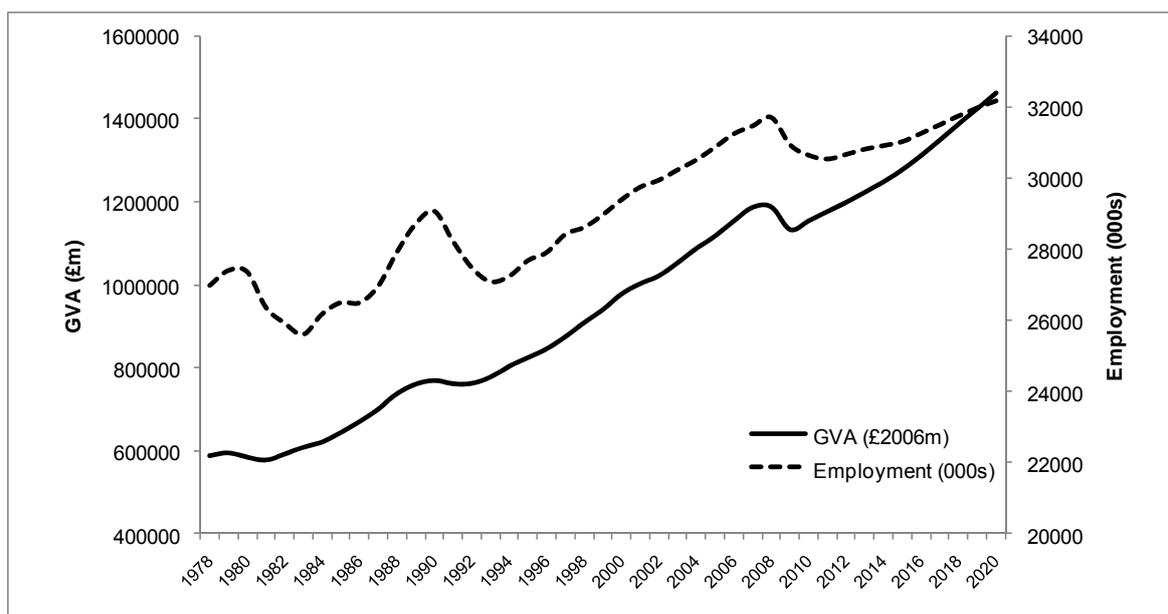
Government has identified four ambitions which need to be realised in order to restore long-term sustainable growth (BIS / HM Treasury 2011):

- i. creating the most competitive tax system in the G20;
- ii. making the UK one of the best places in Europe to start, finance and grow a business;
- iii. encouraging investment and exports as a route to a more balanced economy; and
- iv. creating a more educated workforce that is the most flexible in Europe.

Therefore, the role of skills in national economic policy is clearly an essential one; to bring about recovery and sustainability by creating jobs and growth.

From the employer's perspective there is a need to adapt to both global demand side conditions and the consequences which are likely to arise from policies designed to rebalance the UK economy. Depending upon the sector there are likely to be a number of skill-related performance challenges which employers will need to address as they seek to consolidate existing markets, develop new ones, and introduce technical and organisational changes to improve their competitiveness. The importance of these challenges become even more apparent if one considers the role of skills in the economic cycle. Evidence demonstrates that the recovery from previous economic recessions was hampered by skills shortages, and that these skill shortages then contributed to further downturns in the economy (Blake *et al.*, 2000). Therefore, the message is clear: a failure to invest sufficiently in skills now has the potential to dampen future growth.

Chart 1.1 Employment and Gross Value-Added 1978 - 2020



Source: *Working Futures 2010 -2020 (Wilson and Homenidou, 2011)*

At a time when capital investments are constrained as a consequence of problems in the global banking system, investments in skills, and human resources more generally, made through programmes such as Apprenticeships and Investors in People, and funded through initiatives such as the Growth and Innovation Fund, may be the most amenable to employers.

Based on the latest evidence available, this report considers the specific situation in the Retail sector to provide:

- i. an overview of the size and structure of the sector and the principal drivers of change over the medium term which are likely to have some bearing upon skill demand;
- ii. an outline of current and expected patterns of skill demand in the sector;
- iii. a description of skills supply and how this has adapted to changing patterns of skill demand;
- iv. an analysis of mismatches between the demand for, and supply of skills, and the implications of this for the sector.

In conclusion, the report identifies the performance challenges faced by the sector and highlights the skills solutions available to address them, thereby delivering increased levels of growth and contributing to the recovery of the UK economy.

2 The Importance of the Sector

As the UK's largest private sector employer - accounting for around 10 per cent of all employment - retail was included in the Government's first growth review together with seven other key sectors (HM Treasury, Plan for Growth, 2011, p.41). Despite significant challenges brought about by the 2008/09 global financial crisis, the share of employment in this sector has been increasing, though retailers face a number of challenges stemming from a lack of consumer confidence and the growth in online sales. The growth in online sales is both a threat and a challenge: it complements the traditional activities of many retailers, but poses a challenge to others which have not been able to establish a substantial online presence. Online retailing also increases competition between companies and, in some instances, competition between countries where online retailing open up international markets. Whilst this exposes the UK market to imports it may also present export opportunities where transport / delivery charges make such transactions cost-effective. How the sector responds to the economic and technological challenges with which it is faced is important for three main reasons:

- i. the sector makes a significant contribution to the overall performance of the economy measured through the generation of gross value-added (GVA)
- ii. not only is the sector an important source of employment in general, but it is a source of employment to people who often want to work non-standard hours because they are, for instance, combining work with study or have substantial caring responsibilities outside of work
- iii. the High Street is an important part of the built environment. A fall in the number of retail outlets and / or their relocation to out-of-town centres sometimes with cheaper rents has important consequences for the appearance of town and city centres.

The UK retail sector is the third largest in the world by sales (behind the USA and Japan) with a direct contribution of over five per cent to UK Gross Value Added (GVA).¹ Apart from the direct contribution it makes to GVA, to employment, and its crucial role in supplying products and services to consumers and companies (Oxford Institute of Retail Management, 2007, p.10). The sector has an important position in the supply chain. Being the closest to the customer, it ensures a flow of goods from producers to the consumer and is thereby the principal route to market for many sectors of the economy.

¹ www.bis.gov.uk/policies/business-sectors/retail

The sector has, in many respects, been a pioneer in providing non-standard hours of work. In the early 1990s, for example, B&Q, the DIY retailer, sought to attract people aged over 50 years to work for the company by offering a range of flexible working hours arrangements which would allow older people, some of whom had already retired, to balance their out of work commitments with those associated with a return to work (Hogarth and Barth, 1991). Similarly, the sector plays an important role in providing employment opportunities to women, notably to those who may require part-time employment in order to combine work with caring responsibilities. Young people too benefit from the range of flexible working hours on offer. Many young people gain their first experience of work from being employed in retailing where, for instance, they have a need to combine work with study. Employment contracts in retail are varied with significant use made of, for example, temporary work and zero hours contracts. Atypical working arrangements / hours have implications for access to training and progression possibilities, an issue addressed later in Sections 2.4 and 3.6.

Whilst outside the scope of this paper, mention also need to be made of the way in which the built environment is shaped by retailers either in city centres or in out-of-town shopping centres. Over recent years, the collapse of several prominent retailers such as Woolworths and MFI, the contraction in the number of branches of other major retailers, as well as the closure of many independent retailers, has had a substantial impact upon the High Street given the number of vacant shops. This adversely affects the overall environment in which people live, shop and work. This is one of the issues which Mary Portas has been addressing in her independent review into the future of the High Street undertaken for BIS (Portas, 2011).

In the Standard Industrial Classification (SIC) the retail trade is defined as:

47 Retail trade, except for motor vehicles

47.1 Retail sales in non-specialised stores

47.2 Retail sales in food, beverages and tobacco in specialised stores

47.3 Retail sales of automotive fuel in specialised stores

47.4 Retail sales of information and communication equipment in specialised stores

47.5 Retail sales of other household equipment in specialised stores

47.6 Retail sales of cultural and recreational goods in specialised stores

47.7 Retail sales of other goods in specialised stores

47.8 Retail sales *via* stalls and markets

47.9 Retail trade not in stores, stalls or markets

In the sections that follow, the tables and charts are based upon data for retail as defined by SIC2007 Division 47. The data from the Labour Force Survey and Working Futures are based upon this definition whilst data from the Employers Skills Survey combines wholesale with retail trade as this is the classification used in that survey and thus it is not possible to further disaggregate the sector with the data currently available.

2.1 Overall Output and Employment Performance

The retail sector accounts for the largest proportion of employment in the UK employing almost three million workers which is equivalent to 10 per cent of all employment. In 2010, the sector produced output valued at over £66 billion (2006 prices) - as shown in Table 2.1 – and had obtained an annual growth percentage growth rate of 3.4 per cent between 2000 and 2010 (0.4 per cent across all sectors) and this is not expected to keep this pace (growth rate 2010-2020 is expected to be 2.7 per cent compared to 0.5 per cent across all sectors).

A number of studies have found that the UK retail sector has significantly lower labour productivity than the USA, France, and Germany (HM Treasury, Plan for Growth, 2011, p.111), though productivity in the retail sector has risen substantially over the period 1995 to 2006 (Oxford Institute of Retail Management, 2007). In 2010, productivity in the retail sector in the UK was £22,464 GVA *per* employed person (in 2006 prices) compared to £14,186 in 1995 (2006 prices). It is interesting to consider this in the light of the figure for the wider sector of wholesale and retail, where the output per person (for 2009) was on a par with the all sector average of 37K. Potentially, the move to increased online sales might have the effect of boosting productivity given the differing mix of technology and labour / skills required in this type of retailing (Mosley *et al.*, 2012).

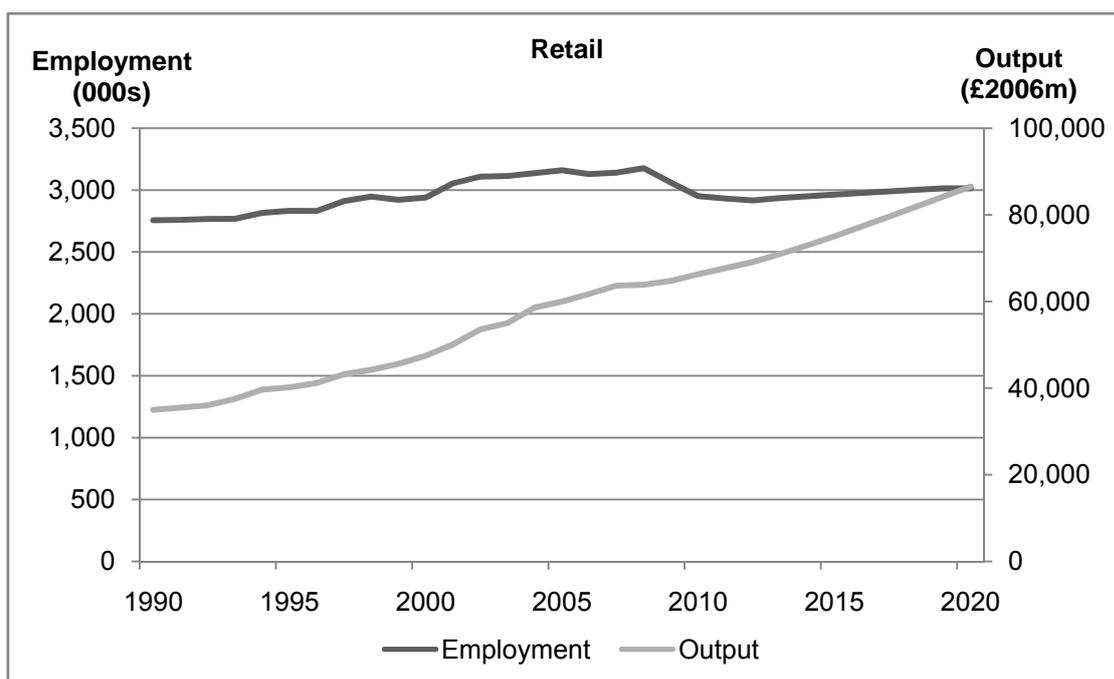
Table 2.1 Key Output and Employment Indicators

Retail	2010 level	Growth rate: 2000-2010 (% p.a.)	Changes (absolute)	Growth: 2010-2020 (%)	Growth rate: 2010-2020 (% p.a.)	Changes (absolute)
Output (£2006m)	66,298	3.4	18,790	30.5	2.7	20,243
Employment	2,951,252	0.0	10,993	2.2	0.2	64,278
Part time employment	1,542,702	0.4	62,071	10.2	1.0	157,315
Full time employment	1,156,748	0.0	-3,579	-4.3	-0.4	-49,229
Self employment	251,802	-1.7	-47,499	-17.4	-1.9	-43,808
Male employment	1,212,435	0.9	99,538	-0.4	0.0	-4,618
Female employment	1,738,817	-0.5	-88,545	4.0	0.4	68,896

Source: *Working Futures 2010 -2020 (Wilson and Homenidou, 2011)*

Output in the retail industry has been increasing since 1990. Although the rate of increase slowed during and immediately after the 2008/09 recession, output is expected to increase in the 10 years to 2020 (Working Futures, Wilson and Homenidu, 2011). There was, however, a sharp decline in employment between 2008 and 2011 (see Chart 2.1). The British Retail Consortium – Bond Pearce Retail Employment Monitor showed that there were 5,780 job losses (0.8 per cent of total retail employment) in the third quarter of both 2010 and 2011. The latest Working Futures projections show that retail employment is not expected to resume growing until 2013 – and thereafter growth will be slower in the period to 2020 than it has been in the past (Wilson and Homenidu, 2011). Total employment in retail is projected to increase by more than 64,000 (2.2 per cent) between 2010 and 2020 with a net increase of around 157,000 part-time jobs (from 52 per cent to 56 per cent of employment) and decrease of almost 50,000 full-time jobs and 44,000 self-employed jobs (from nine to seven per cent of employment). Across all sectors, little change is expected in the balance of self-employment and part-time employment: self-employment is at 14 per cent and is expected to remain at this level; and for part-time work, this is expected to increase slightly from its current level of 28 per cent to 29 percent by 2020.

Chart 2.1 Trends in Employment and Output



Source: Working Futures 2010 -2020 (Wilson and Homenidou, 2011)

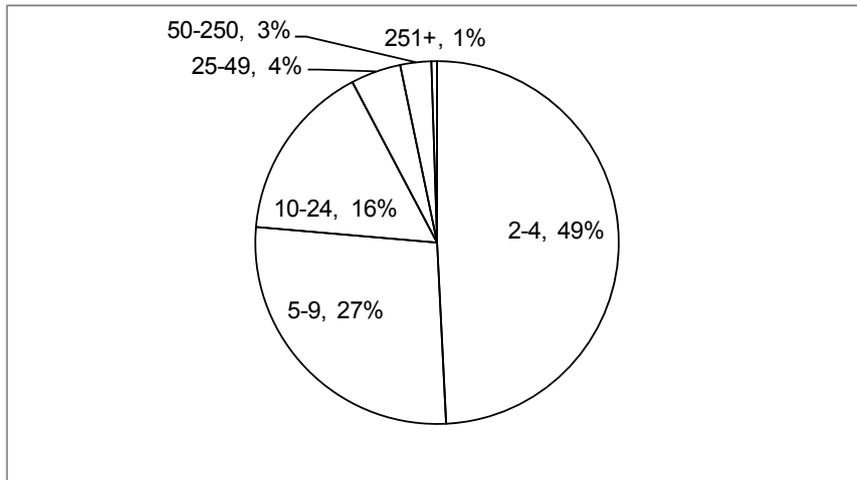
2.2 Employment Structure (for 2010)

Across the UK, there were 284,490 retail enterprises (defined as SIC07 47) in 2011.² Data for 2009 reveals that there was a net loss of almost 4,000 businesses in retailing, which was relatively high compared with nearly every other sector except construction. As a whole, the sector contains some of the country's largest employers (e.g. Tesco, Sainsbury, M&S etc.), but there is also a long tail of micro-employers. This poses a number of challenges in reporting on the sector. Overall, 49 per cent of retail enterprises had between 2 and 4 employees, and one per cent had 250 or more employees (see Chart 2.2a). The distribution of enterprises by employment size is similar across all regions of England and the UK's four nations.

As shown in Chart 2.2b, over 40 per cent of total employment in the UK retail sector is in companies with less than 25 employees. About 20 per cent is in companies with 50 to 249 employees. Companies with 250 to 500 employees have the smallest proportion of employment (10 per cent) whilst the largest employers (500 or more employees) account for 12 per cent of total employment. Employment with SMEs (under 250 employees) accounts for 77 per cent of employment in the sector which is higher than the average of 74 per cent across all sectors.

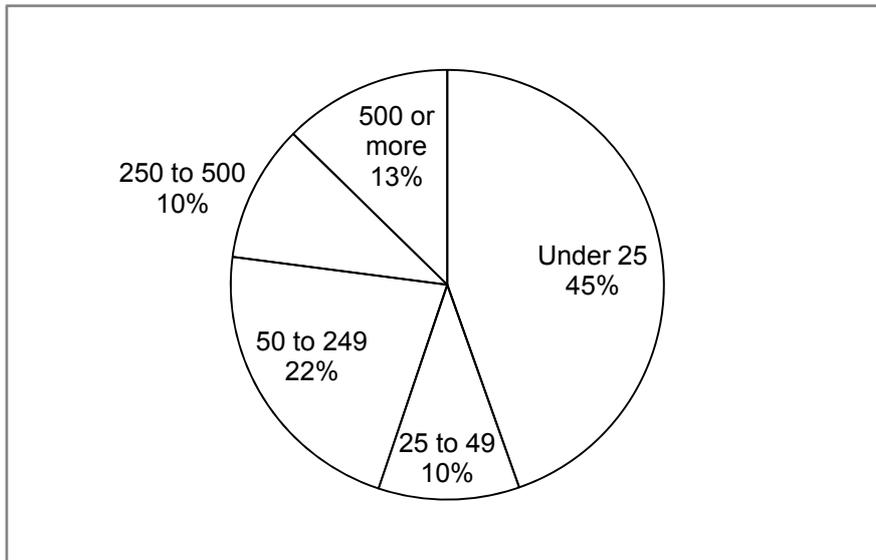
² Reported by the IDBR, 2010

Chart 2.2a Size Structure of Employment in the Wholesale and Retail Sector
 (% of establishments by employer size band)



Source: *Inter-departmental Business Register (IDBR), ONS, 2010*

Chart 2.2b Size Structure of Employment in the Wholesale and Retail Sector
 (% of employment by employer size band)



Source: *Labour Force Survey, 2010*

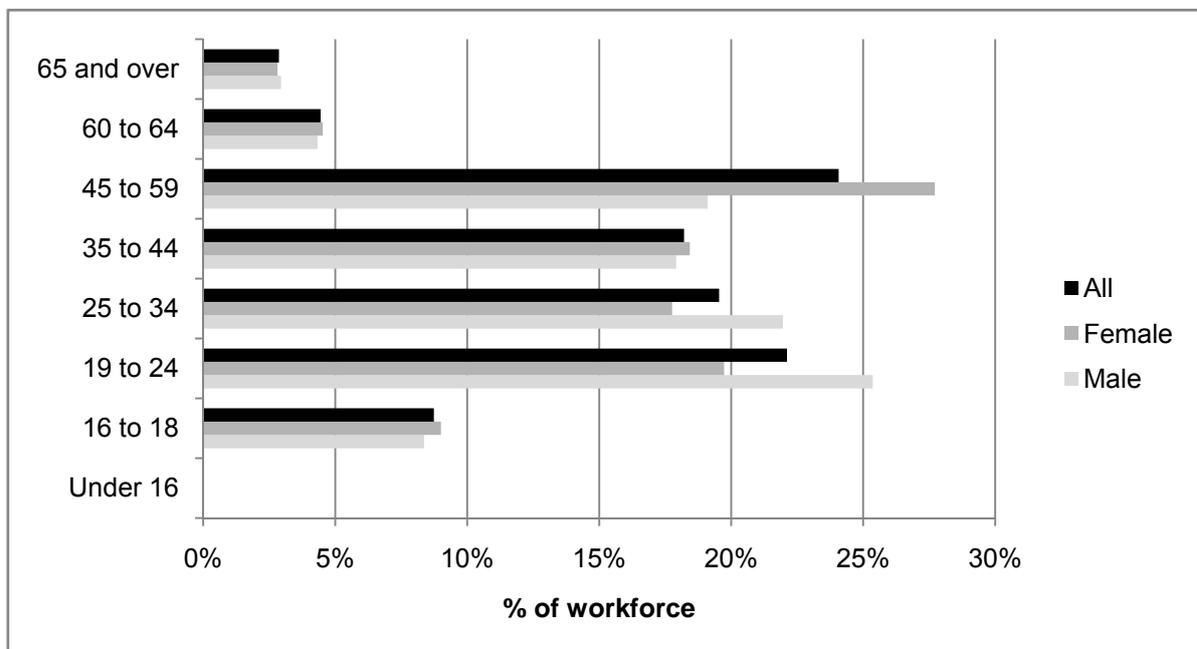
Employment in the sector is dominated by people working in sales and customer service occupations (51 per cent of employment) so much higher than the share for all sectors which is seven per cent). The workforce is comprised of 11 per cent of people working in managerial occupations and is lower than the all sector average of 15 per cent. To some extent this reflects the enterprise size structure of the sector with many people being employed as owner proprietors or store managers even though relatively few people are employed in the enterprise.

2.3 Age structure of employment

The retail sector relies heavily upon young people, as illustrated in Chart 2.3. More than 30 per cent of workers in the sector are aged between 16 and 24 years old compared with around 13 per cent across all sectors. Around 42 per cent of workers in retail are aged between 35 and 49 years whilst in the economy as a whole 56 per cent are in this age range. The sector is an important source of part-time jobs for students for whom it presents a source of income while studying and, accordingly, provides them with their first experience of employment.

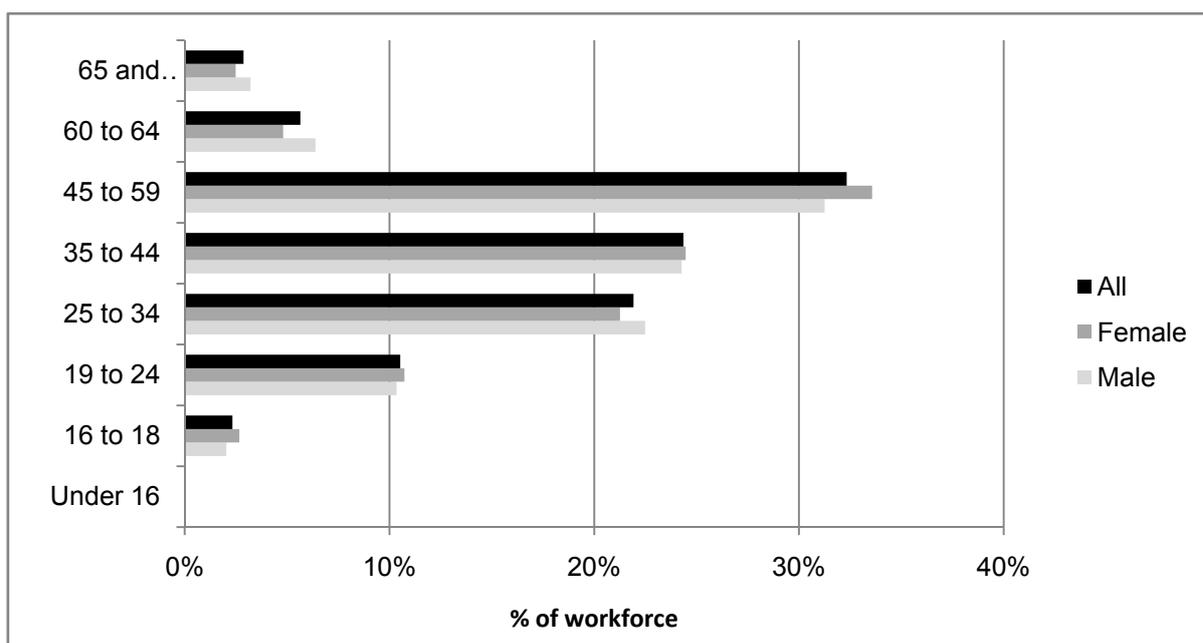
Women outnumber men in retail (58 per cent of the sector's workforce is comprised of women) and is higher than the all sector average where the breakdown of employment is 46 per cent female and 54 per cent male. The proportion of the workforce represented by people from Black, Asian and Minority Ethnic communities is higher than that across all sectors, in retail this is 12 per cent compared to the all sector average of nine per cent. This is particularly so in older age groups (45 years and older). Given the relatively large proportion of women working in retail industry, the rise in women's pension age is likely to affect the age structure of employment in the sector as women increasingly stay in labour market longer.

Chart 2.3a Age Structure of Workforce - UK Retail Sector



Source: Labour Force Survey, 2010

Chart 2.3b Age Structure of Workforce - UK / All Sectors



Source: Labour Force Survey, 2010

As noted earlier, historically the sector has championed the employment of older workers. As retailers, and other employers, come to terms with demographic trends in the 1980s, they increasingly sought to tap into new sources of labour supply. By offering flexible hours of work they were able to unlock a new store of labour supply, including older workers. B&Q, at the time were one of the companies which led the way in demonstrating that older workers, often past retirement age, had an important contribution to make (Hogarth and Barth, 1991).

2.4 Part-time Employment

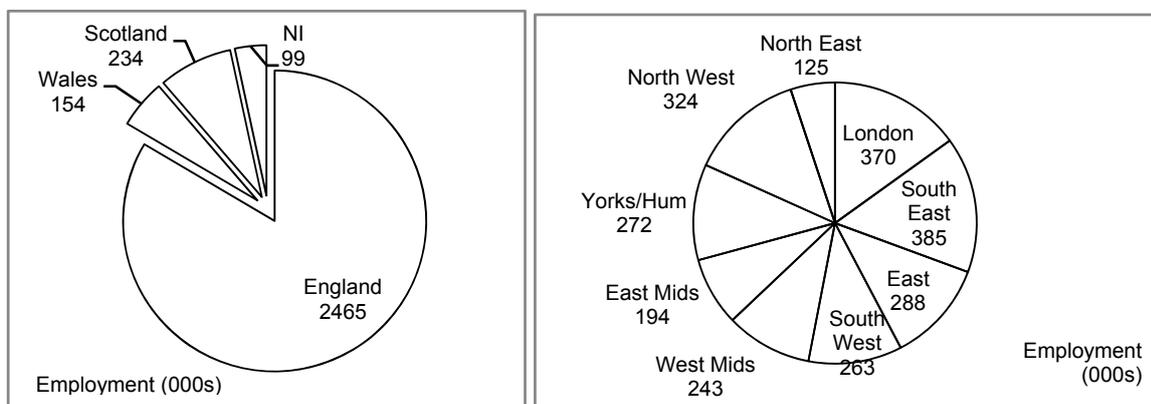
Part-time employment in the retail sector of the UK is particularly high compared with other EU countries and the USA (Oxford Institute of Retail Management, 2004, p.5). There is also a high incidence of part-time working in retail compared to most other sectors in the UK and the economy as a whole. In retail, 52 per cent of workers in this sector were working part-time in 2010 (see Table 2.1), compared with 28 per cent across the whole economy. The trend of increasing levels of part-time employment in retailing is projected to continue with Working Futures indicating that part-time employment will comprise about 56 per cent of total employment in retail by 2020 (Wilson and Homenidu, 2011).

Part-time employment in the retail sector encompasses a wide range of working hours arrangements. This has allowed it to employ groups of people who may otherwise struggle to work more standard working hours. Often employees can be working relatively short hours, working weekends, *etc.* Whilst this has the beneficial impact of opening up job opportunities to various groups, it may limit the amount of attachment between employer and employee which, in turn, may reduce opportunities to engage in training and other workforce development activities. It may also contribute to high levels of labour turnover.

2.5 Distribution of Employment by Nation and Region

Chart 2.4 presents the distribution of employment in retail by UK nation and region. Overall 84 per cent of employment in the UK retail sector is based in England, eight per cent in Scotland, five per cent in Wales and three per cent in Northern Ireland. Within England, the South East has the largest proportion of employment in the retail sector (16 per cent of all employment), followed by London (15 per cent), North West (13 per cent), and East (12 per cent). The smallest share of retail employment is in the North East (five per cent). The distribution of employment across the UK (by region and nation) is very much the same as for the whole economy.

Chart 2.4 Employment by Nation and Region



Source: *Working Futures 2010 – 2020, (Wilson and Homenidou, 2011)*

Table 2.2 Share of total employment by gender and status across regions (%) (2010)

Region	Men	Women	Full-time	Part-time	Self-employed
London	43	58	41	50	10
South East	41	59	40	52	8
East of England	41	59	39	54	7
South West	39	61	41	51	8
West Midlands	43	58	40	52	7
East Midlands	42	58	37	54	9
Yorkshire and The Humber	41	59	37	53	10
North West	42	58	39	51	10
North East	39	62	37	58	5
Wales	43	57	38	49	13
Scotland	39	61	39	54	7
Northern Ireland	39	61	38	53	10
UK	41	59	39	52	8

Source: Working Futures 2010 – 2020 (Wilson and Homenidou, 2011)

Across all regions and nations in the UK, women make up the largest part of the retail workforce (see Table 2.2). The lowest proportion of employment held is by men in the North East of England (38 per cent) whilst Wales has the highest proportion (43 per cent). Across all of the UK, 52 per cent of employment in retail is part-time. This varies from 49 per cent in Wales to 58 per cent in the North East. Whereas across all sectors part-time employment is not as prevalent with only 28 per cent of employment is part-time.

Self-employment is less common in retail than in the economy as a whole. On average in the UK, eight per cent of retail workers are self-employed. This compares to 14 per cent of workers across all sectors in the UK being self-employed. The highest incidence of self-employment in retail is found in Wales (13 per cent) and the lowest is in the North East (five per cent).

2.6 International Standing of the Sector

Employment in the sector in the UK is on a par with that of other countries in the EU: 14 per cent of total UK employment in 2008 was in the retail and wholesale sector compared with an average of 14 per cent in the EU-27. Employment in the UK retail and wholesale sector accounted for approximately 13 per cent of all employment in the EU-27 retail and wholesale sector in 2008.

The international standing of the UK retail sector is difficult to assess but it is possible to provide some observations:

- Tesco and Sainsbury are the only UK-owned companies represented in the IMAP top 50 retailers, most of which are US, Germany and France based (IMAP, 2011);
- several UK retailers are amongst the leading investors in retail related R&D compared with some of their European counterparts (EC, 2011);
- productivity levels are low compared with the US and European importers (Templeton College, 2007);
- leading UK retailers have established positions in foreign markets – including in the USA and in emerging economies in the Far East – though the results of entering such markets have been mixed to date;
- online sales are particularly strong in the UK (IMAP, 2011)

Data provided by CBRE (2011) provides a summary of the international standing of the sector. It reports that although global retail sales *via* traditional channels declined by four per cent in 2009, internet sales increased by 15 per cent to US \$348.6 billion in 2009 accounting for three per cent of total retail sales. The USA had the largest market for internet retail (taking 37 per cent market share) whilst UK online retail sales also grew by 21 per cent, reaching £50 billion in 2009. Of the top 50 retail companies in the world, 18 are US companies (the largest number); two are UK companies including Tesco Plc. (7th) and J Sainsbury Plc. (36th). In a survey of 323 major international retailers across 73 countries, 58 per cent of those retailers have businesses in the UK (the largest proportion). London is said to be the top target city for American retailers and 63 per cent of American retailers are present in London. Other key target cities in the UK for American retailers include Birmingham and Manchester (CBRE, 2011). The UK also leads the world as the most international retail market (CBRE, 2011; IMAP, 2010) with the highest share of international retailers operating in the UK market.

Although there are a number of foreign owned retailers in the UK, their presence is somewhat different than is the case in some other sectors. In retail it is not possible to shift production to other countries, as would be the case in, say, the manufacturing sector. While country of ownership may affect the number of senior executive positions available in the UK, the impact on overall employment may be more muted. There is still, for example, a need to have shops here in the UK and associated distribution centres.

2.7 Conclusion

The evidence presented in this section reveals that the sector is important to the UK economy with respect to both output and employment. Moreover over the medium-term employment demand is likely to grow albeit at a slower pace than in the past. But it is not just the size of the sector which makes it important. It provides many employment opportunities to younger and older people respectively. Many young people receive their initial experience of work in retail establishments through, for instances, Saturday jobs. The evidence shows that the sector employs a relatively large share of young people. The sector also provides employment opportunities to older people often *via* the variety of working hour arrangements it can provide people whose responsibilities or obligations outside of work make it difficult to work standard nine to five, Monday to Friday, hours of work. This also provides employment opportunities to women – who make up a majority of the workforce – who also have responsibilities outside of work, especially those relating to childcare of pre-school and school aged children. At the same time, the variety of working hours contracts on offer can have implications for skills development where it results in a relatively limited degree of attachment between employee and employer.

The next sections will reveal the challenges which the retail sector faces over the medium-term and the implications this has for overall employment levels and the skills which the sector requires.

3 Key Challenges facing the Sector over the Medium-term

3.1 Introduction

The retail sector faces a number of challenges that will be of particular importance over the medium-term given the recent and ongoing economic difficulties faced by the sector and the UK economy overall. The difficult trading conditions following the 2008/9 recession will influence the performance of the sector for years to come and will undoubtedly influence the strategies of retailers over the medium-term. The sector faces challenges related not only to the impact of economic conditions but also increased globalisation, technological change and changes in government policy, legislation and regulation. This section considers these challenges and others over the medium-term.

3.2 From Recession to Recovery

The retail sector has suffered a loss in sales turnover and employment during the 2008/09 recession and in the immediate post-recession period. Weakened trading conditions have continued during 2010/11 and appear set to remain over the short-term. Whilst manufacturing and construction had the largest percentage fall in employment over the first seven quarters following the start of the 2008/09 recession with reductions in employment of eight and 10 per cent respectively compared with four per cent in retail, the absolute number of jobs lost was greater in retail (ONS, 2010).

The impact of the recession on the sector has been the subject of much public attention, partly due to a number of well-known retailers closing down or going into administration, including Woolworths, MFI, Game, and Zavvi. In the post-recession period, difficulties have persisted and the number of retailers going into administration increased from 165 in 2010 to 183 in 2011 (an 11 per cent increase) (BRC, 9 January 2012). The business failure rate following from the 2008/09 recession has been predicted to be higher than that observed in the early 1990s.

The number of vacant retail premises increased - substantially in some areas - in 2011 due to both weak consumer demand in the economy overall and as a result of the increase in market share captured by online retailers which has reduced the need for some retailers to have physical presence in many high streets (BDO 2011). Online

warehouses are often concentrated around road network nodes, well away from the high street shops which have closed down.

The recession also presents opportunities for retailers who have been able to survive the downturn. After previous recessions, changes to supply chain processes and to the offer made to consumers by retailers resulted in structural changes in the industry which stimulated recovery (Retail Think Tank, 2008). Previous post-recession periods have seen many innovations implemented including the introduction of loyalty cards with the introduction of the Tesco Clubcard, which changed the way in which many large retailers interacted with their customers. The most recent recession is also likely to have long-lasting impacts on the sector including:

- enhancement of the retail experience as retailers compete to capture consumers' increasingly constrained budgets;
- enhanced in-store shopping experience to counter the draw of online retailing;
- increased globalisation of the industry and increased efficiency through cost reductions in the supply chain as retailers look to contain cost (Retail Think Tank, 2008).

Structural changes in the sector will affect the demand for skills in the future particularly in relation to growth in multi-channel retailing, implementation of new technologies (e.g. point of sales technologies), and the rise of value retailers. Developments in technology and multi-channel retailing are described in the sections below. First consideration is given to the role of value retailers.

A number of companies have been able to take advantage of growth opportunities presented by the economic downturn. The UK's discount retail market is estimated to be worth £24 billion annually. UK companies such as Yorkshire-based Poundworld have been able to capitalise on this as shown by the chain increasing its number of stores in 2011 and its plans to open 60 more stores in 2012 (The Guardian, August 2011). The consumer's search for value has provided opportunities for retailers, such as Primark, which have capitalised upon this by drawing in consumers from all social groups. Ultimately, the capacity of discount or value retailers to develop a customer offer which is seen to provide value for money has placed pressures on all retailers to drive down cost without compromising on quality as evidenced in the emergence of some major retailers developing 'basics' or 'essentials' value brands to run alongside their other product ranges.

At the other end of the scale, some luxury retailers based in the UK have been able to develop their markets, especially export markets, to reveal growing profits (e.g. luxury fashion retailer Burberry has recently reported increased profits and is looking to expand its operations in Central and South America).

3.3 Investment, Innovation and R&D

Innovation in retailing takes a number of forms, including the developments in:

- logistics and warehousing and managing global supply chains (e.g. the use of radio frequency identification to track goods);
- online retail service;
- the use of technology within stores (e.g. electronic point of sale technologies);
- the use of customer data in targeting advertising;
- the use of loyalty cards;
- widening the range of products and services provided.

According to the 2010 R&D Scoreboard (BIS 2010), four food and drug retailers and 14 general retailers were amongst the top 1,000 UK companies by R&D investment in 2009, accounting for more than £270 million of R&D investment in total. Amongst these companies, the largest investors were Tesco (£111 million), Marks & Spencer (£57 million) and John Lewis (£31 million). The average R&D investment *per* retail firm in the UK top 1,000 was £15 million.

Two UK firms, Tesco and Wm Morrison Supermarkets, were the highest R&D investors amongst food and drug retailers across Europe whilst a third UK firm, Ocado, was the eighth highest in Europe in 2011 (European Commission, 2011a). The top 13 general retailer investors in R&D in Europe included six UK companies.

Conventional measures of innovation may not capture the true extent of innovative activity in retail. The Oxford Institute of Retail Management (NESTA, 2007) found that the retail sector has a number of distinctive features that result in much of the innovation in the sector being overlooked. These characteristics include:

- retailers often serve an “innovation broadening” role where they act as innovation hubs within their supply chain
- innovations can be easily copied in the retail environment

- much of retail innovation is non-technological in nature – this is particularly true when compared to other sectors
- retailers themselves may have hybrid characteristics which makes them more than just service businesses (*i.e.* they are vertically integrated and they have their own production units or design facilities). Such retailers may exhibit many characteristics of manufacturers
- retailers may experience a reverse innovation cycle where associated costs are low at the beginning and high at the end of an innovation implementation - the reverse of the cycle found in manufacturing. In retail, the costs associated with scaling-up an idea across all stores requires significant innovation, investment and resources compared to a relatively cheap initial idea.

Retailers are aware of the importance of innovation in business performance and differentiate between operational and strategic innovation. Innovation in the sector is driven by external factors including customer preferences, international competition and the increased use of online retailing. Internally, innovation is driven by strategic considerations and requires strategic management to drive it forward. Whilst most retailers do not perceive there to be any barriers to innovation, those that do, cite costs and economic risks associated with innovation as the biggest challenges, particularly for SMEs.

The major technological change taking place in the sector is the development of online retailing (Burt and Sparks, 2003). As noted above, online sales have increased rapidly with many retailers reporting a substantial rise in their online sales during the Christmas 2011 trading period. Online retailing has taken two principal forms:

- i. large retailers developing their own online sales websites and logistics services
- ii. other retailers using portals such as Amazon.co.uk which provide an outlet to retailers of all sizes through their market places.

As will be discussed later, this has important implications for skills in relation to:

- how logistics are managed
- providing high levels of customer service remotely
- being able to develop an online presence and being the website of choice
- using the vast amount of shopper information which online sales generate (*i.e.* about the socio-demographic profile of the shopper and their shopping preferences).

Without doubt, this has the capacity to massively alter the face of the retail sector, with, ultimately, the future of the high street at stake. This has the potential to put out of business those retailers who have not developed an online presence (typically smaller retailers) and shift jobs increasingly into warehousing and logistics, unless high street retailers can develop a consumer offer which draws the customer into their stores.

3.4 Global Competition

Globalisation has a number of impacts upon the sector:

- i. retailers – especially the larger ones – are increasingly sourcing products through global supply chains and require the logistics systems to manage this process;
- ii. retailers are increasingly operating on an international basis. This means that the UK market is a target for foreign based firms many of which have established shops here, but it also means that foreign markets are open to UK firms;
- iii. from a UK employment perspective the country of ownership is likely to have a modest impact on overall employment levels, though some senior executive jobs may be based overseas;
- iv. online retailing does not recognise national borders. Potentially, online retailing increases the capacity of the individual shopper to import goods.

Global retailers have continued to expand into international markets despite difficult trading conditions with 40 per cent of new retail openings in 2011 occurring outside the retailer's home region (CBRE, 2011). KPMG highlighted emerging markets such as South East Asia and Latin America as presenting decent prospects for major and international food retailers (e.g. Tesco) (KPMG, 2010). A number of UK retail brands (e.g. Next) have expanded their online retail operations to capture international revenue in Europe, and other retailers have branches in other countries.

The potential for participation in international markets varies by sectors within retail. Fashion retailers tend to be more successful in foreign markets (with luxury and high end fashion being considered the most global) whilst supermarkets and DIY retailers do not tend to have as much global coverage (CBRE, 2011). The UK is also considered to be attractive market for foreign owned retailers. The UK is the most international retail market with 58 per cent of international retailers present (*ibid*, 2011).

There is potential for overseas expansion and significant sales growth, including online sales, for UK retail over the next five to 10 years (HM Treasury, 2011). A key inhibitor of such expansion is the current lack of European wide law regarding online sales so that retailers currently have to comply with up to 27 different national laws when selling in European markets online. In October 2011, the European Commission proposed an optional Common European Sales Law in order to facilitate trade and enhance consumer choice by offering a single set of rules for cross border contracts in all EU countries (European Commission, 2011b).

The success of UK retailers entering foreign markets is provided in the two examples below. TM Lewin shows how the development of a mail order business allowed it to capture a share of overseas markets which eventually led the way to open stores in the Far East (*see panel*).

Case study

TM Lewin

Since 1905, TM Lewin has been sending its shirts around the world by mail order, focusing initially on the British Empire. Over the years, the company's range of work wear became popular in Japan, the US and Europe and by 2009 its home shopping department was shipping to 163 countries around the world. Today, Australia is the number one destination for mail order shipments, followed by the US and Germany.

Meanwhile, in 1999, the company renewed its focus on the store side of the business. In May 2000, the fifth TM Lewin store opened in Ludgate Hill in the City. Today, just 10 years later, there are 81 TM Lewin stores and 11 concessions in House of Fraser department stores.

"Mail order has always been a core part of our business, and currently accounts for 15 per cent of our turnover," says Robert Isaac, Director at TM Lewin. "Australia has taken off in a big way, largely due to the high numbers of Australians that come to the UK to work for a few years, and then return home with a taste for our clothing line. In 1999, we decided to open more stores and expanded rapidly in the UK. But we were also aware of the need to take the brand overseas. Our first store outside the UK was in Dublin, followed by five stores through our franchise partner in Singapore."

Source www.invest.uktradeinvest.gov.uk

Tesco is an example of a company which has entered foreign markets directly. It has entered both the US market and, as the example below illustrates, has been able to gain a presence in China which, in turn, creates a demand for Tesco staff to work abroad.

Case Study -Tesco

In Tesco's stores in China, shoppers can buy pigs' heads, chicken feet, sea cucumbers and turtle. The exterior of Tesco's Dachengdong store on the outskirts of central Beijing is kitted out in the grocer's familiar blue and red livery. Hoardings inside promote its Club Card loyalty scheme in both Mandarin and English.

But that is where the similarities between the firm's UK outlets and its Chinese stores end. Asia is shaping up to be the crucial engine room of growth for the world's third largest retailer - already contributing 16 per cent to group sales and 13 per cent of profit after just 11 years.

And now Tesco has signalled that its operations in the People's Republic will break even for the first time within months. With Chinese profits in sight, a bullish Tesco also announced plans to quadruple sales in China to £4bn within five years. Tesco now offers graduate traineeships which include working abroad through its Graduates China programme:

<http://www.tesco-graduates.com/home/programmes/international-graduates/china-programme>.

Source: This is Money website, November 2010:

<http://www.thisismoney.co.uk/money/markets/article-1708435/Analysis-Tesco-set-to-profit-in-China.html>

As the evidence above indicates, the issue of globalisation is quite a complex one with respect to retailing. From an employment perspective, the country of company ownership may have relatively little impact upon overall employment levels, except with respect to more senior, high-skilled positions in various organisations. From a revenue perspective, the situation may be different depending upon how multinational corporations organise their finances. Whilst foreign owned companies have entered the UK market, it is also evident that UK companies have been able to enter foreign markets too. Where globalisation may have a more substantial impact is with respect to skills – an issue explored further in the next section – and the management of international supply chains.

3.5 Emerging Business Models

In the face of economic downturns, changing consumer preferences and advancements in technology, the retail business model has been evolving with a number of trends in operations becoming increasingly common in the sector. Developments include:

- Increased use of multi-channel retailing in which retailers operate in a number of different ways including physical stores, online sales, mail-order and various delivery service arrangements. A number of UK retailers have expanded their operations in this way in order to expand into other markets (e.g. Next using online sales in Europe) and to capture more of the market in the UK (e.g. Sainsbury's, Waitrose Tesco, Asda, etc., operate online shopping and home delivery channels for various parts of the product offer including food, homewares and clothing).
- The rise of discount / value retailers that use low prices and value as the main offer to customers whilst minimising operating costs. Such retailers carry a relatively limited product range, operate from relatively smaller store and have less focus on national brands than more traditional retailers. These characteristics, however, are evolving as the discount sector becomes more mainstream. The European discount market, led by German retailers such as Lidl and Aldi, was worth nearly €68 billion (£56 billion) in 2009.³ The UK discount retail market has been estimated to be worth £24 billion annually (Advent and others). The growth of this market provides opportunities to suppliers presenting volume growth opportunities as discount retailers appeal to a greater demographic range and have increased consumer acceptance – largely due to consumer desire to maximise value given squeezed disposable incomes.
- Vertical and horizontal integration⁴ of large retailers. The large retailers have, in some instances, engaged in vertical integration through their own brands of goods. For some retailers this is a long-established trend (e.g. Marks & Spencer's St Michael brand was one of the first). It is increasingly apparent that the larger retailers are also engaging in horizontal integration through provision of a much wider range of services e.g. insurance and banking, and consequently are entering in other sectors of activity requiring different skill sets.

The use of these newer business models have been crucial for the performance of many UK retailers, and are likely to continue to grow in importance in the sector in future.

³ IGD Research, www.igd.com

⁴ Vertical integration is the process whereby several steps in the production and/or distribution of a product or service are controlled by a single company resulting in increased power in the marketplace. Horizontal integration involves a company increasing its market share by buying-out or merging with another similar company.

3.6 Policy, Regulation and Legislation

In the Growth Review, businesses reported that with regulation posed a barrier to growth in retail see HM Treasury, 2011, Plan for Growth p. 111. The Government has introduced a number of reforms to simplify the regulatory situation. These include increasing certainty about future National Minimum Wage (NMW) levels so that employers can carry out more effective human resource planning, and implementing a regulatory reform package to simplify complex and inconsistent regulations, as in the case of age-restricted sales and licences for business, for which there are currently more than 20 separate pieces of legislation.

In addition to regulations related to selling, the retail sector, like other parts of the economy, is subject to numerous employment related regulations including the NMW, age restrictions in relation to employment and selling particular goods, and trading days and hours. The degree to which such regulations impact on retailers depends on their size (with SMEs being more sensitive to the additional costs of complying with regulations) and the channels through which retailers operate (*e.g.* online sales are not restricted to particular opening hours or Sunday trading regulation).

Regulatory changes can also have an impact on the type of employment available in the sector. As noted in Chapter 2 employment in the sector is (a) associated with atypical working time contracts of employment and (b) in occupations which are associated with relatively low rates of pay. Particularly in sales and customer services, which have traditionally been amongst the lowest paid roles (Lindsay and McQuaid, 2004), the need to increase wages in line with the NMW have resulted in changes in the structure of employment. In order to keep the overall wage bill at a similar level and maintain flexibility employers have increasingly recruited people to part-time roles or those with flexible hours or zero-hour contracts (Tomlinson and Walker, 2010). While this may keep wages at a level that is suitable to the employer, it has an impact on training within retail organisations. First, employers may see little benefit in training people who work few hours or whose positions are temporary because there is less opportunity to recoup investment, and second they may experience difficulty in providing training for people who work irregular hours (Hart *et al.*, 2007; Huddleston and Hirst, 2004). Added to this, high levels of labour turnover may also discourage employers from investing in their employees' skill.

Employees may also be more unwilling to undertake training if they see little opportunity for progression from roles that are regarded as being lower quality (Johnson *et al.*, 2009), and those who possess skills may be less willing to enter the sector if the roles available to them are unattractive because they do not come with enough hours to provide an adequate income or lack stability (Hart *et al.*, 2007). This has a particular impact on some groups, such as women and young people, who are the most likely to be working part-time or on other flexible contracts (Bradley, 2009; Cullen, 2009; Canny, 2004; Felstead *et al.*, 1999).

Some employers in the sector have responded to these newer business models by restructuring their workforce and instituting new employment practices (Bradley, 2009). This has had an impact both on the make-up of the workforce and recruitment into the sector. With a growing proportion of employees working on temporary or zero-hour contracts and recruitment through agencies becoming increasingly common (Tomlinson and Walker, 2010), the employees' attachment to the employer is sometimes tenuous. The entry requirements for this kind of employment are generally low, particularly in sales and customer service roles (Lindsay and McQuaid, 2004).

Planning policy has an impact upon the expansion of retailers in physical stores in the UK and the Government's plans to make planning procedures less bureaucratic in order to facilitate development and encourage growth should be to the benefit of the retail sector as well as other parts of the economy (HM Treasury, 2011).

3.7 Other Drivers of Change

Demographic trends potentially affect both labour supply and the customer base. The ageing of the population is not a new issue for retailers from the labour supply-side perspective (*c.f.* B&Q in the 1990s). The ageing of the population also creates demands in terms of what retail services are delivered (*e.g.* home deliveries).

The low carbon agenda also has implications for the sector in how it deals with the fuel costs associated with its supply chains, energy costs within stores, and how to deal with packaging of goods. Again, these have skill implications.

It is also apparent that multi-channel retailing also allows people to be more discerning. Information is often more readily available about price and relative quality to the would-be customer. Potentially this results in a less loyal customer base such that retailers need to be constantly appraising their customer offer relative to the competition (*c.f.* the

emergence of retailers providing 'price checks' in their stores and on their websites, indicating their main competitors' prices for the same goods).

The scope for many major retailers to expand their businesses might be relatively limited for the time being with a reluctance to invest in major new retail developments compared with the 1980s to early 2000s. Retailers, in many instances, are looking to maximise value for their existing stores or grow their businesses virtually.

3.8 Conclusion

Overall, the retail sector faces a number of challenges. There is evidence that employers in the sector are responding pro-actively to some of these challenges, for example in innovations in customer service and meeting the challenges of an increasingly global economy, and that skills demand and utilisation is being effectively managed to meet these challenges.

The demand for skills in the sector is looked at in greater detail in the next section.

Management skills play a key role in how well retailers respond to the challenges discussed above. The role of management is central to ensuring that new technologies and effective supply chain management systems are successfully introduced across the sector. Management skills are also central to capturing overseas markets and operating through multi-channels effectively.

Management in many retail organisations are drawn from the shopfloor and / or from graduate trainee programmes for larger retailers. To ensure that the quality of management is that required to facilitate growth and survival of UK retailers, employers must be able to recruit and retain graduate level employees or be able to offer the necessary support and management training to existing employees to ensure that they are equipped to fill management roles.

4 Employment and Skill Demand in the Sector

4.1 The Changing Demand for Employment

The previous section has outlined some of the principal drivers of change in the retail sector and how these are likely to affect employers' product market strategies over the medium term. As employers adapt their product market strategies this is likely to give rise to new skill needs which are assessed in this chapter alongside longer-term trends in the demand for skills in retail. The general conclusion is that technology will increasingly substitute for some of the sales and customer service jobs which comprise a relatively large share of employment in the sector, whilst other changes in the sector, such as the importance attached to **managing logistics, rolling out new technologies**, and the increasing use of customer data in **marketing**, will **increase the demand for managers, professionals, and associate professionals**. The effect of this will be to increase skill levels in the workforce. At first glance this might suggest that there will be fewer opportunities for people to enter the sector *via* customer service jobs, but as this chapter illustrates in relation to replacement demands for various occupations, there are likely to be very many new job openings, such that the sector will **continue to be an important source of entry to the labour market** for many groups (young people, people with family and eldercare responsibilities, *etc.*).

4.2 Factors Affecting the Demand for Employment and Skills

The National Strategic Skills Audit (UK Commission, 2010a) – and the previous section - identified a number of key drivers that will impact on the demand for skills in the future. The principal drivers of skill needs are:

- technical change
- globalisation
- policy and regulation
- product market strategies related to horizontal and vertical integration
- the low-carbon agenda
- demographic change.

Technical change has had, and will continue to have, significant impacts upon the sector's skills needs. The introduction and increased use of self-service tills, for instance, has resulted in some substitution for employment and has thus changed the skills needs of retailers that have implemented such technology. Similarly, online trading has had a significant effect on skill demand. The principal skill demands technical change will give rise to include:

- a greater demand for ICT skills in the design of online shopping websites, managing logistics, the introduction of in-store technologies (e.g. EPOS), and collating information about consumers
- more emphasis on managing warehousing where the shift to online sales is pronounced
- the development of marketing / financial skills which are able to target promotional campaigns at customers with a given consumer profile (via data collected through in-store technologies or online registration).

The impact of **globalisation** is twofold: (a) being able to manage complex supply chains where goods are sourced; and (b) possessing the skills necessary to capture foreign markets. In many respects these relate to management skills encompassing negotiation and logistics, but may also stress the need for managers to be able to speak the language of the countries in which they operate.

In the previous section the implications of changes relating to **policy, regulation and legislation** were outlined. The skill implications of these changes again relates to management's ability to remain abreast of these developments and respond accordingly. There are implications for human resource managers depending upon how future changes in regulation affect restrictions on employment (see HM Treasury, 2011).

Depending upon how product market strategies develop with respect to **horizontal** (i.e. entering new markets such as retail financial services) and **vertical integration** (e.g. developing own branded goods), this will affect the profile of skills demand. For many of the larger retailers these developments are already well advanced and they have acquired the skills to manage the related processes (e.g. obtaining the technical competencies to operate in the banking and insurance markets where retailers have decided to enter these markets). The evidence points towards retailers requiring, at relatively senior positions in their organisations managers and professionals who have the technical knowledge relating to these areas of activity. Where there is a wider range

of services being offered, it can also require sales staff to have **product knowledge** of the services they are selling.

The environmental low-carbon agenda is at the core of many customer, brand and operations decisions. Retailers are central to environmental solutions. Addressing environmental concerns in a commercially sustainable way creates a demand for new skills, including developing logistic solutions that reduce energy consumption, designing product packaging that reduces waste, and sourcing local products in order to reduce carbon footprints. Such developments require skills related to logistics, design, and supply chain processes. At present, however, the evidence suggests that the overall impact of the low-carbon agenda on skills is in how it affects generic skills (e.g. being aware of waste, reducing energy consumption through more appropriate driving behaviour *etc.*) rather than giving rise to a wide range of sector specific, technical skills (Cedefop, 2011).

The **demographic trend** of fewer young people coming through the education system over the next decade may bring significant challenges to the retail sector which relies heavily on younger workers. The extension of working lives, particularly through the increase in pension age, especially for women, may offset this to some degree, at least for some sub-sectors. Skillsmart Retail (2010) has estimated that the number of workers in retail over the age of 50 years is due to increase by 22 per cent by 2020. A number of retailers, such as B&Q with eight per cent of its 33,000 workers being over 65 years of age in 2009, have found that the experience and skills older workers bring to the sector are of much value.

Overall, the evidence suggests that technical change is, and will to continue to have, a profound impact on employment in retail as a result of the increasing shift to online sales and the opportunity this provides to collect a wide range of information about the customer base and, further, the opportunities this provides retailers in targeting advertising promotions. The skills required to optimise the use of technical change relate to ICT, financial, and marketing skills. These skills are typically in high demand in other sectors so acquiring these skills poses a challenge. The second major change affecting employment is demographic change and the capacity of the sector to obtain a ready supply of workers. The evidence points to the sector having been successful in tapping into new sources of labour supply in the past (see Hogarth and Barth, 1991). At the time of writing the impact of the recession may suggest that the sector will have relatively little problem in obtaining the labour and skills it requires, but as the economy picks up this

may prove to be an uphill struggle unless employers have in place the human resource strategies and policies to ensure that they can recruit the people the sector needs.

4.3 Changing Patterns of Skill Demand

Based on Working Futures data it is possible to provide a description of the historical and projected change in skill demand (Wilson and Homenidu, 2011). Table 4.1 presents the projected changes in employment demand for the retail sector. Between 2010 and 2020 growth retail is expected to be highest in professional occupations (33 per cent) and associate professional and technical (25 per cent) between 2010 and 2020. Whereas across all sectors, an increase is expected but it is not as high (15 per cent for professional occupations and 14 per cent for associate professional and technical). The decline in skilled trade occupations is expected to be 19 per cent whereas the comparative figure across all sectors is a decline of 6.5 per cent. The share of total employment in retail in managerial occupations is expected to increase from 11 per cent in 2010 to 13 per cent in 2020 whilst the share in sales and customer services is projected to decrease from 51 per cent to 47 per cent, largely due to the increased importance of some higher occupations (e.g. managers and professionals) and as well as to structural changes in the sector in relation to the use of automated point of sales and growth of online retailing. These changes relate very much to the factors described above.

Table 4.2 shows the changing demand for people according to their level of qualification (based on the QCF qualification framework). It confirms the general trends towards people being higher skilled – using qualification as a proxy measure for skill – in the sector. Even by 2020, however, the percentage of people working in the sector who are qualified to QCF levels 5 -8 will still be lower than in the economy generally. In other words, the percentage of people who have gained higher education qualifications will be lower than in the economy generally. This is likely to relate to the occupational structure of employment in the sector and the relatively large number of SMEs.

Table 4.1 Changing Pattern of Skill Demand

Retail:	2010	2015	2020	2010	2015	2020	2010-2020		2010-2020
Employment Growth	Numbers (000s)			% shares			Change (000s)	Change (%)	All sectors (%)
Managers, directors and senior officials	321	365	379	10.9	12.3	12.6	58	18.1	18.0
Professional occupations	185	225	246	6.3	7.6	8.2	61	32.8	14.9
Associate professional and technical	193	224	242	6.5	7.5	8.0	49	25.2	14.0
Administrative and secretarial	194	202	199	6.6	6.8	6.6	5	2.6	-10.5
Skilled trades occupations	148	137	120	5.0	4.6	4.0	-28	-19.0	-6.5
Caring, leisure and other service	13	14	15	0.4	0.5	0.5	2	18.3	11.5
Sales and customer service	1506	1407	1418	51.0	47.4	47.0	-87	-5.8	0.1
Process, plant and machine operatives	108	90	87	3.6	3.0	2.9	-21	-19.2	-10.9
Elementary occupations	284	301	310	9.6	10.1	10.3	26	9.0	3.2
All occupations	2951	2966	3016	100.0	100.0	100.0	64	2.2	5.1

Source: *Working Futures 2010 – 2020 (Wilson and Homenidu, 2011)*

Table 4.2 Changing Pattern of Skill Demand by Qualification

	Column percentages			
Retail	1990	2000	2010	2020
QCF8 Doctorate	0.1	0.1	0.1	0.3
QCF7 Other higher degree	1.1	0.8	1.9	3.8
QCF6 First degree	2.7	4.3	8.0	12.4
QCF5 Foundation degree; Nursing; Teaching	2.5	2.0	2.5	3.5
QCF 5 - 8	6.6	7.2	12.6	19.9
QCF4 HE below degree level	4.1	2.7	3.0	3.6
QCF3 A level & equivalent	17.0	18.9	21.1	20.5
QCF 3 and 4	21.1	21.6	24.1	24.2
QCF2 GCSE(A-C) & equivalent	27.4	26.3	26.3	25.8
QCF1 GCSE(below grade C) & equivalent	26.0	24.5	21.9	20.8
No Qualification	18.9	20.3	15.1	9.3
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Whole Economy				
QCF8 Doctorate	1.1	0.7	1.1	1.8
QCF7 Other higher degree	3.6	4.0	7.5	11.8
QCF6 First degree	7.6	10.2	15.3	19.3
QCF5 Foundation degree; Nursing; Teaching	7.4	6.0	5.6	5.2
QCF 5 - 8	19.7	20.9	29.6	38.1
QCF4 HE below degree level	5.6	4.4	4.7	5.2
QCF3 A level & equivalent	19.6	19.4	19.3	16.7
QCF 3 and 4	25.1	23.8	24.0	21.9
QCF2 GCSE(A-C) & equivalent	21.4	21.5	20.8	19.5
QCF1 GCSE(below grade C) & equivalent	19.4	19.5	16.4	14.8
No Qualification	14.3	14.3	9.2	5.7
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

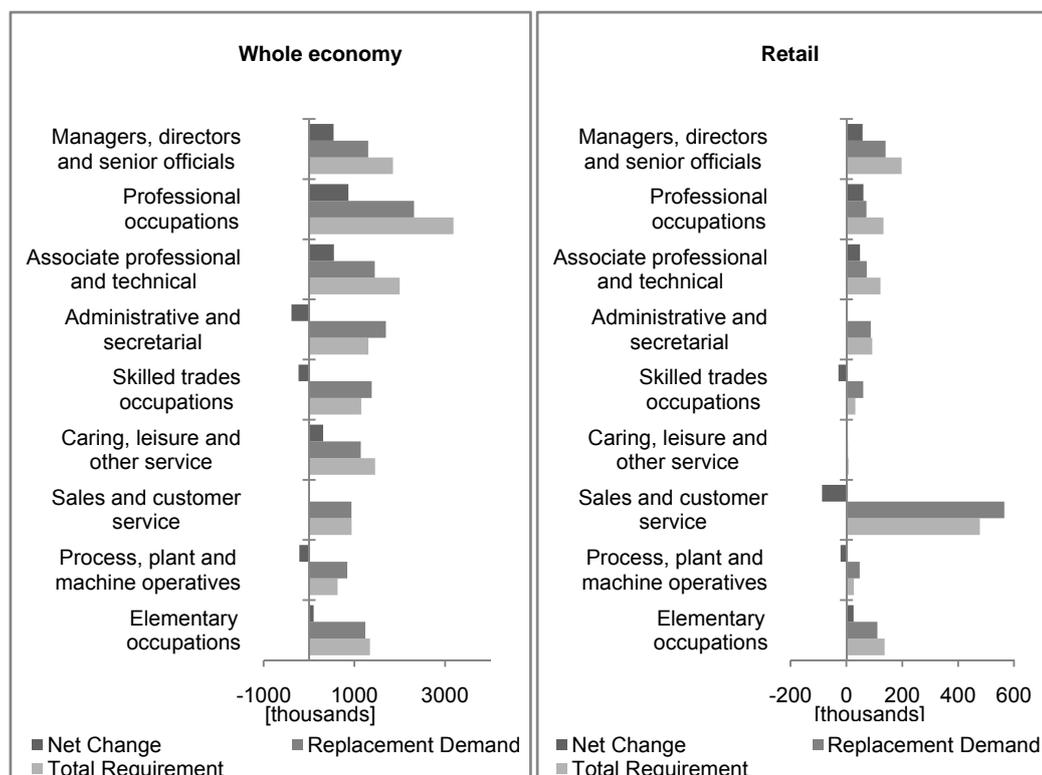
Source: Working Futures 2010 – 2020, (Wilson and Homenidu, 2011)

4.4 Replacement Demands

Chart 4.2 shows the net employment changes, replacement demands and the total requirements, in percentage terms, by occupation for the whole economy and the retail sector from 2010 to 2020. Across all sectors, there is a net decrease in employment forecast for administrative and secretarial occupations, skilled trades occupations, and projected, plant and machine operatives. This pattern differs somewhat from that found for the retail sector. There is a small net change expected for administrative and secretarial in retail and sales. Customer service occupations are also expected to experience a net decrease. In part this will relate to technology being increasingly able to substitute for workers.

In the retail sector, replacement demand is most significant in sales and customer service occupations, with around 565,000 positions needing to be filled in order to replace workers exiting the sector due to various reasons (e.g. retirement, death). Replacement demands for managers, directors and senior officials in retail are expected to be around 140,000. When compared with the whole UK economy the pattern is broadly similar apart from the stark difference for sales and customer service occupations. Looking across all sectors, where replacement demand is highest for professional occupations (around 2 million) and second lowest for sales and customer service (around 940 million).

Chart 4.1 Replacement Demands



Source: *Working Futures 2010-2020*, (Wilson and Homenidu, 2011)

4.5 Conclusion

The key drivers of product market change in the retail sector have a variety of implications for skills demand. The development and adoption of new technologies (including online trading, e-commerce, automation in-store and contactless payments) have implications for lower skilled employment in terms of substitution, but this also has implications for customer service and IT skills. Globalisation and operation in international markets will require managerial and leadership skills as well as language

and communication skills. Over the medium-term, demand is expected to expand most for managerial skills whilst replacement demand is expected to be most significant in sales and customer service occupations. The evidence suggests that these changes have, and are continuing to take place, across the sector. The key point is that the changes identified are on-going and, with reference to online retailing, intensifying. The capacity of retailers to provide consumers with what they want – with respect to a single source from which they can buy what they want, that they can be expertly guided in their purchase decisions, in confidence that it will be delivered in a timely fashion – will be the key to their sales and profitability performance. This section has indicated that the skill needs associated with this are substantial, especially so at a managerial and professional level, but also for shopfloor staff and the product knowledge they need to acquire.

Skills are important in determining how the sector responds to the challenges it faces. Skills are needed not only to operate retail premises (*i.e.* sales personnel) but also to ensure businesses behave strategically (requiring management and leadership), adopt relevant new technologies (IT and marketing skills) and adapt their business models in order to meet consumer demands and preferences (*e.g.* using multi-channels or considering discount operations).

The experience of the customer is becoming increasingly important with consumers looking for value and placing more emphasis on the whole experience. As a result, customer service skills are particularly important for businesses to thrive in the sector. Customer service and sales skills are required in all types of retailers and must be deployed in a number of different settings (*e.g.* in store, online, telephone). In addition, there are a range of skills required at higher levels related to finance, IT, management and merchandising.

There is also evidence that in other areas, employers are taking defensive, often short-term actions, and that this has had a negative impact on recruitment into the sector, skills development and training of employees and retention of highly skilled and trained employees. This is particularly the case when looking at the changing employment structure and working conditions necessitated by increased casualisation and reduced working hours. These types of short-term strategies may ultimately heighten the scale of the challenge in the long-term as the sector becomes increasingly deskilled and unable to reap the rewards of both economic recovery and new innovation.

5 Skills Supply

5.1 The Supply Infrastructure

Skills supply is dependent upon the supply of labour, the skills infrastructure (including compulsory education, further education and higher education), and employers' investment in skills. A sufficient supply of skills is required to increase productivity and to meet future demand for skills thus encouraging growth in the retail sector.

Skills supply in retail is provided through:

- further education with Apprenticeships and other vocation skills being available in aspects of retailing and customer service;
- higher education and the existence of business studies degrees which have retailing speciality;
- employers' provision of training *via* Apprenticeships, graduate training schemes and continuing vocational education.

Since 2009 there have been three categories of retail qualification:

- job-related qualifications - including the nine levels of qualifications that focus on retail knowledge and on retail skills which lead to awards, certificates or diplomas, Apprenticeships and Foundation degrees in retailing. These qualifications are designed to promote a coherent pathway into and through a retail career and can be started from the age of 14 years.
- licence to practice - primarily aimed at those working with food and ensure that people meet the Food Standard Agency requirements for food safety.
- qualifications aimed at individuals getting into retail.

The main Sector Skills Council for retail is Skillsmart Retail. Skillsmart Retail leads the **National Skills Academy for Retail**, which provides training to retail employees and those aiming to find employment in the sector *via* **retail skills shops**. These skills shops are run through partnerships of local retailers, training providers, developers and other interested parties. They are locally-focussed, with the aim of being responsive to the needs of the community, while standards and consistency are ensured by support from the National Skills Academy. Key partners are the charity Retail Trust, the Association of Town Centre Management and the British Council of Shopping Centres.

The skills shops provide services to both individuals and retailers. For individuals, these services include training, both on the job and pre-employment through the Skillsmart Retail Works programme, careers advice and work placements. For retailers, the skills shops give advice on training and business development, as well as Apprenticeships and programmes focussed on particular aspects of retail, primarily management, customer service and merchandising and replenishment. The National Skills Academy for Retail also provides short training courses on law and health and safety for retailers and delivers the Mary Portas Masterclasses designed to give retailers the skills they need to develop their businesses (*see panel*).

Case Study

The National Skills Academy for Retail

The National Skills Academy for Retail is a network of retail skills shops delivering training and business support across the UK linked by a web portal. The network of retail skills shops:

- Provides access to world-class skills and business support for retailers whatever their size, wherever they are located
- Leads the drive for professional, rewarding careers and skills development for everyone who works or aspires to work in retail
- Creates a consistent national approach for training and skills in the UK's largest private sector employer
- Attracts talented people into the sector
- Employer involvement is at the heart of the National Skills Academy for Retail's approach. Big names such as Debenhams, John Lewis Partnership, Marks & Spencer, Ryman and Boots support this initiative.

The National Skills Academy for Retail supports the development of locally managed retail skills shops which are operated on a day-to-day basis by a partnership of local retailers, developers, training providers and other stakeholders who together deliver high-quality training and advice. Retail skills shops are one-stop, walk-in centres based on high streets and in shopping centres, operated by trained staff who offer free advice and suggest courses and learning opportunities to retail employers, employees and those seeking to work in retail. A small number of retail skills shops operate virtually and can be fully accessed online.

The National Skills Academy can reach out to small employers too, often by bringing them together. As part of a project in Clitheroe retailers were invited to apply for free training on how to make a shop window that grabs customers' attention and draws them in. Ten retailers attended the training course conducted by Preston Retail Skills Shop. Over the day attendees learnt how to use creativity and technical skills to display their products and stores to maximise sales and entertain passers-by.

Source: <http://www.nsaforretail.com/>

There have historically been low or no specific skills requirements for entry into the retail sector, and there is little evidence that this is changing. The sector is often perceived as being one that young people pass through, taking short-term employment before moving on to other sectors. Younger people in the retail sector are the most likely to have formal qualifications, almost half (46 per cent) having a Level 3 qualification. Older (50+) workers

are least likely to have formal qualifications, and more than a quarter have no formal qualifications (Skillsmart Retail Analysis, 2010: 11-12). Younger employees are also more likely than older employees to receive on-the-job training, but they are also the most likely to leave the sector in any given period. There have been various interventions firstly to prepare people for entry to the sector and ensure that particular skills gaps are met, and secondly, to encourage people to consider retail work as a long-term career.

For entry-level jobs, the Skillsmart Retail Works programme is aimed at new recruits to the sector. It works with those hoping to enter the retail sector to prepare them and help them to find employment. Retail Ambassadors also work with schools and colleges to promote careers in retail. Employers are encouraged to consider taking people on work placements or offering extended interviews which allow potential new recruits to experience working in retail and gain an understanding of the types of work available and opportunities in the sector. Other innovations to allow those considering a career in retail such as practice retail units, have also been developed, which serve an additional function of providing basic training for those who are considering entering the sector before they begin work. Improving customer service skills have been consistently identified as a key area where training could be beneficial. Skillsmart Retail manages the WorldHost programme for retailers, which is designed to address these skills shortages.

Historically, there has not been a clear, recognised formal acquisition of retail skills. Much training has been of a largely *ad hoc* nature, undertaken on the job and lacking formal recognition, which has an impact on progression in the sector and transferability of skills across companies (Johnson *et al.*, 2009). While internal recruitment is common for higher level roles in the retail sector, the mechanisms through which skills development and progress in the work place may occur have often been unclear. Skillsmart Retail aims to promote a formalised career path with recognised qualifications which will lead to higher retention in a sector that is known to have high employee turnover. The high retail employment turnover, particularly amongst young people, is a key challenge for employers and others involved in training in the retail sector. Although the retail sector as a whole has not generally experienced problems recruiting individuals with suitable skills, recruiting and retaining skilled people into the sector is likely to become increasingly difficult, and high turnover of skilled individuals increases training costs in the sector (Hart *et al.*, 2007).

There is also great diversity in the amount of training offered to employees, depending on the sub-sector of the retail industry in which they work and the size of their employer. In 2008, research by ORC International for Skillsmart Retail found that in Scotland, all the businesses they surveyed that had more than 50 employees had provided training in the previous year, compared to only 70 per cent of retailers with five to nine employees, and that employers who were part of a chain were much more likely to have provided training (93 per cent) than independent single operatives (57 per cent). Larger employers and those that were part of a chain were more likely to provide in-house training, while the smaller employers, when they did provide training, were more likely to use off-site than on-site training, provided through colleges and private training providers (ORC International, 2008: 2-3).

At graduate level, a degree in retail is not a prerequisite for entry into a graduate-level job. Generic skills, such as commercial awareness, team-work, leadership and communication, are more sought after by employers than a specific retail-focussed degree. For graduate entry, many large employers have graduate recruitment schemes to recruit and train graduates for higher-level positions in the retail industry. For these employers, the perceived unattractiveness, compared to other sectors, of careers in retail for recent graduates is a key concern, and the sector has a lower level of graduate recruitment than the economy as a whole (Hart *et al.*, 2007).

5.2 Trends in Skill Supply: Individuals

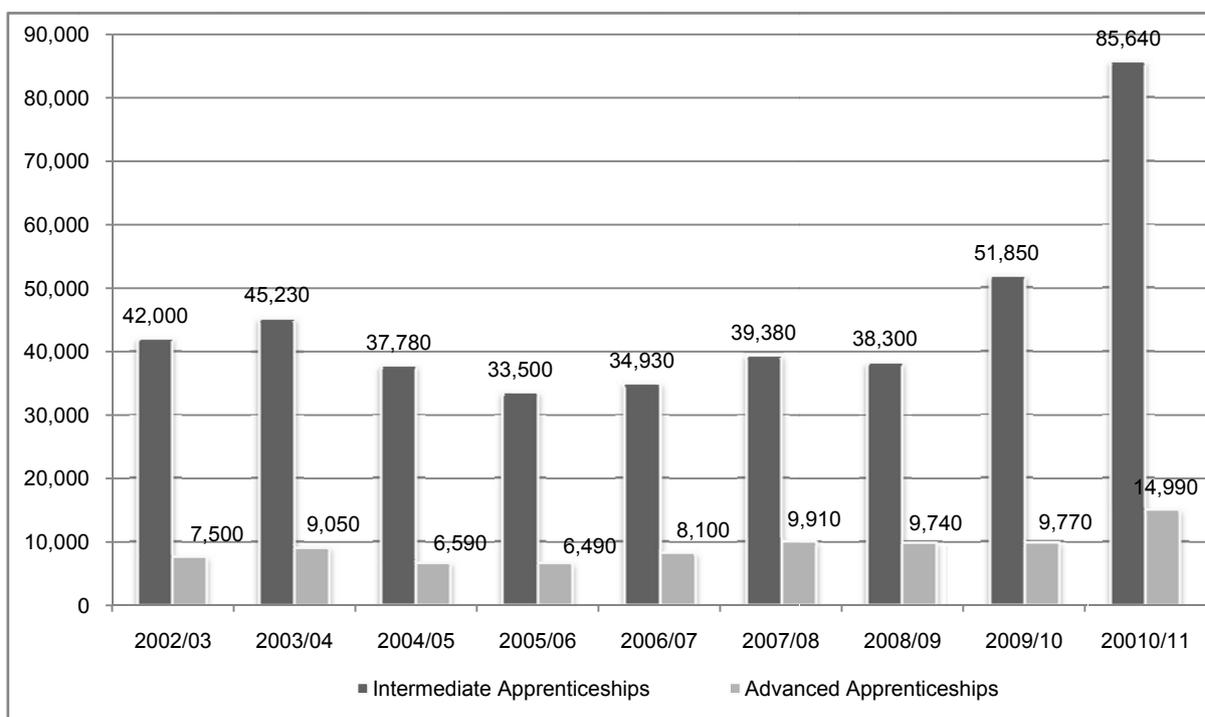
Apprenticeship is the principal means of obtaining initial vocational education and training whilst working. Retail and commercial enterprise frameworks have accounted for more than 20 per cent of all Apprenticeship starts in the three academic years since 2003/04 (ILR Statistical First Release). The Level 2 Apprenticeship is in Retail Skills, which covers customer service, merchandise handling storage and display, health and safety and security. Apprentices are able to focus on one specific sub-sector of the retail industry. The aim of the Level 2 Apprenticeships is to give employees or potential employees the skills they need to do the job. Level 2 Apprenticeships can be done alongside Level 1 qualifications in key skills in communication and numeracy.

At Level 3, specialised pathways are available in Retail Management, Sales Professional and Visual Merchandising. Within Level 3 pathways, apprentices work towards an NVQ in Retail as well as a technical certificate. Key Skills are at Level 2, except in Scotland where they are at Level 3.

On completion of an Apprenticeship, it is possible to do a Level 4 vocational qualification, a Foundation degree or an undergraduate degree in a subject such as Retail Management. Alternatively, further training in specialist skills, such as Bakery or Butchery may be undertaken.

The number of Apprenticeship starts in retail and commercial enterprise was relatively consistent between 2002/3 and 2010/11, as shown in Chart 5.1. The chart clearly illustrates the concentration of such Apprenticeships at Level 2 as opposed to Level 3. In 2009/10 the number of starts at Level 2 increased significantly to more than 51,000 after being less than 40,000 the previous year. Given Government initiatives to increase participation in Apprenticeships, the number of starts in 2010/11 was considerably higher, with more than 85,000 at Level 2 and almost 15,000 at Level 3.

Chart 5.1 Apprenticeship starts in Retail and Commercial Enterprise (SSA), 2002/03 to 2010/11



Source: ONS, *Statistical First Release* (Data Service (2012))

Table 5.1 indicates the number of employees in receipt of work-related training over the past 13 weeks. The proportion of the retail workforce in receipt of such training (18 per cent) is lower than the proportion across the whole economy (26 per cent). This is evident among both men and women and among young workers (under 25 years of age) – the percentage of workers aged 25 years and under who have received such training is lower in retail (23 per cent) than across all sectors (29 per cent) which given their presence in

the workforce accounts for the training participation of almost a third of all employees (31 per cent for retail (LFS, ONS, 2010)). For women, the difference in such training between the retail sector and the whole economy is greater than for men. In retail, 17 per cent of female employees received work-related training compared to 29 per cent in all sectors. For men, the percentage receiving training was 19 in retail compared to 23 in all sectors.

Compared to the whole economy, less training is provided to workers in most major occupational groups in retail. Only in professional occupations and elementary occupations is the percentage of employees in receipt of work-related training greater than the corresponding figure across all sectors. The greatest difference between the sector and the whole economy is found for associate professional and technical occupations (22 per cent received training in retail compared to 35 per cent in the whole economy). In sales and customer service occupations, which comprise the largest occupational group in retail, training is provided to 18 per cent of employees in the sector compared to 19 per cent of this group in the whole economy.

Table 5.1 Number of employees in receipt of work-related training over the past 13 weeks

Occupations (SOC Major Groups)	Retail		Whole Economy	
	Number	% of workforce	Number	% of workforce
Managers and senior officials	84,111	17	1,008,425	23
Professional	25,030	40	1,588,563	39
Associate professional and technical	29,172	22	1,505,022	35
Administrative and secretarial	29,668	19	670,009	21
Skilled trades	14,946	15	476,943	16
Personal service	1,325	28	927,704	36
Sales and customer service	255,019	18	416,531	19
Process, plant and machine operatives	10,173	13	288,954	15
Elementary	54,822	15	470,477	14
All	504,265	18	7,352,628	26
Women	278,807	17	3,868,241	29
Men	225,458	19	3,484,387	23
People aged under 25	195,293	23	1,091,698	29

Source: Labour Force Survey, 2010

5.3 Employer Investment in Skills

Employer Engagement with Training

In the Employers Skills Survey 2011, 56 per cent of employers in the wholesale and retail trade sector (including SIC 45-47) reported that they were providing training to their employees while 59 per cent of employers across all sectors provided training (see Table 5.2). The average number of days of training per trainee was 9.5 in the wholesale and retail trade sector, slightly more than the average of 8.9 days, across all sectors. Despite the average number of training days being higher in wholesale and retail trade, the average training spend per employee was lower in the sector than across the whole economy.

International evidence from the Continuing Vocational Training Survey 2005 reveals that 87 per cent of employers in the retail and wholesale sector (NACE G - Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods), for the UK, provided training to their workforce compared with an EU-27 average of 60 per cent for the sector. Average training hours were slightly lower at four hours compared with six hours in the EU-27.

Table 5.2 Employer Investments in Skills

	Wholesale and Retail	Whole economy
% of employers training	56	59
% of workforce receiving training	42	46
% average number of training days <i>per</i> trainee	9.5	8.9
Average expenditure on training <i>per</i> trainee	£2,350	£3,275
Average expenditure on training per employee	£1,225	£1,775

Source: UK Commission's ESS2011 (Davies et al, 2012)

Note: Based on SIC definition of sector (SIC2007 45-47)

Base for training: All establishments, 87,572 unweighted

Base for expenditure: All trainers completing the Investment in Training Survey 11,117 unweighted

Table 5.3 reveals the extent to which employers recruit young people straight from school, college, or university and reveals that sector is slightly more likely to take on 16 – 18 year olds, but slightly less likely to take on people straight from higher education. In actual fact the differences between the retail sector and the whole economy are small. Given the sector's reported reliance upon young people to work in the sector, it is notable that this is not apparent in Table 5.3 relative to the economy generally.

The sector's involvement with Apprenticeships is provided in Table 5.4 and indicates that despite the substantial growth in the number of apprenticeship starts presented in Figure 5.1, the percentage of employers in the sector which provide Apprenticeships is no different from employers in the economy as a whole.

Table 5.3 Recruitment of young people

	Wholesale and Retail (%)	Whole economy (%)
16 year olds recruited to first job from school	6	4
17 or 18 year olds recruited to first job from school	8	5
17 or 18 year olds recruited to first job from FE College	7	5
Recruited to their first job from University or other Higher Education institution	6	7

Source: UK Commission's ESS2011 (Davies et al, 2012)

Note: Based on SIC definition of sector (SIC2007 45-47)

Base: All establishments 85,069 unweighted (not asked in Scotland)

Table 5.4 Recruitment of apprentices

	Wholesale and Retail (%)	Whole Economy (%)
Currently have staff undertaking Apprenticeships	5%	5%
Currently offer but have no staff on Apprenticeships	3%	4%
Plan to offer Apprenticeships in future	6%	8%

Source: Employer Perspectives Survey 2010 (Shury et al, 2010)

Note: Data for retail and wholesale sector combined

Base: All establishments 14,390 unweighted

More generally in relation to employers' training decisions training activity would appear just as likely to be formally organised with respect to having a training plan or a training budget as is the case in the economy as a whole, or with respect to the provision of annual reviews. Where the situation does differ with respect to all employers across the economy is with respect to the percentage of retailers training towards vocational qualifications. This is lower at 35 per cent of employers providing training than is the case for all employers at 43 per cent.

In general, the data shows that retail employers are less likely to be training towards a Level 4 qualification (five per cent of employers compared with 12 per cent in the economy more generally). This is an issue returned to in the skills mismatches chapter which shows that overall a relatively low percentage of managers are qualified to Level 4 compared with the economy overall (64 per cent of managers and professionals in wholesale and retail without a Level 4 or equivalent compared with 39 per cent across all sectors) (LFS, ONS, 2010).

Table 5.5 Other Indicators of Training Activity

	Wholesale and Retail (%)	Whole Economy (%)
% all establishments with business plan	62%	61%
% all establishments with training plan	38%	38%
% all establishments with training budget	24%	29%
Annual review of staff (all establishments)		
All staff reviewed	48%	47%
No staff reviewed	40%	43%
Provide training (all establishments)	56%	59%
Train towards qualification (all employers providing training)	35%	43%
Training to Level 2 qualification	13%	14%
Training to Level 3 qualification	12%	16%
Training to Level 4 qualification	5%	12%
Assess training delivered	72%	65%
% of employees trained towards a qualification in last 12 months	9%	12%

Source: UK Commission's ESS 2011 (Davies et al, 2012)

Note: Based on SIC definition of sector (SIC2007 45-47)

Base: All Establishments 87,572 unweighted; Where the base is all Establishments providing training, this is 66,916 unweighted establishments

Skills Utilisation

Sometimes within organisations there are untapped sources of skill supply. Employees may have a wide variety of skills which are not deployed in the workplace for one reason or another. The evidence from the UK Commission's Employers Skills Survey 2011⁵ suggests that in the economy generally around 49 per cent of establishments have employees whose qualifications and skill levels are in advance of those required to do their jobs. This compares with 51 per cent in the retail and wholesale sector indicating that the sector is not different from the overall situation in the economy generally. Across all sectors this was reported by employers to affect 16 per cent of employees but for the wholesale and retail sector this was higher than average, with 18 per cent of employees reported as over qualified or over-skilled.

⁵ As noted elsewhere ESS2011 data refers to retail and wholesale.

Investors in People – which is addressed in Chapter 6 – is a specific programme which looks to effectively deploy skills in the workplace and which might ensure that employees' skills are fully utilised, but there are a range of measures employers can take themselves to achieve this end. One such is having in place those measures which allow employees with high potential or particular talents to be identified and nurtured. The data from ESS2011 indicates that the retail sector is just as likely to have formal or informal processes as those of employers in the sector generally. In the wholesale and retail sector, 14 per cent had formal processes in place (compared with 14 per cent across all sectors), and 31 per cent with informal processes (compared with 31 per cent in the economy generally). In the economy as a whole 52 per cent of establishments had no processes in place compared with 47 per cent in retail / wholesale.

Looking more broadly at high performance working (HPW), the score for the wholesale and retail sector is below average for the three remaining indicators of HPW: the extent employees have variety in their work, task discretion and access to flexible working. One of the potential outcomes of strong delivery of HPW is strong skills utilisation another is strong strategic and operational management.

The extent to which the Managers and Professionals receive training is well below that for the economy average: 47 per cent in wholesale and retail as opposed to 53 per cent across all sectors. As it stands, for wholesale and retail, *more than half* of its managers and professionals do not hold qualifications at Level 4 and above. Given the challenge of an innovation and technology, and global competition it could be expected that the need for strong management skills would be paramount in the sector.

Employer use of, and satisfaction with, the external training infrastructure

If it is possible to ratchet up the demand for skills and training within retail employers then there is a need to ensure that training suppliers are in place to meet that demand. The evidence suggests that employers in retailing are less likely engage with external training providers than employers in general:⁶ 44 per cent of retailing establishments had no contact with external providers compared with 29 per cent of all employers. The extent to which they are likely to use private training providers (43 *versus* 54 per cent in the economy as a whole), FE colleges (15 *versus* 23 per cent), third sector organisations for training (10 per cent *versus* 19 per cent), or HE institutions (eight *versus* 13 per cent), are

⁶ These data are from the Employer Perspectives Survey 2010 which combines retail with wholesale with repair of motor vehicles.

all lower than the average for the economy as a whole. Although retail employers are less likely to engage with external training providers where they do so their overall satisfaction with the use of FE colleges at 7.2 - out of 10 where a high score indicates relative satisfaction – was not much different from the overall average of 7.4 for all employers (Shury et al, 2010).

5.4 Migration

On the one hand the data indicate that migration has played a relatively small role in skills with relatively few in migrants working in sales and customer services occupations (Salt, 2005). That said, evidence from the early 2000s from areas with an excess demand for labour suggested that recent migrants were sometimes willing to take jobs in retail that were otherwise hard-to-fill (Hogarth *et al.*, 2003). Similarly, Mosley *et al.*, (2012) report that between 2004 and 2009 41,000 migrants were registered as retail employees – the sixth largest sector by registration (p. 86), but goes on to report that there were not seen to be skill shortages in the UK sector which would warrant targeting of migrant workers to meet existing skill demand.

5.5 Conclusion

There is extensive training infrastructure available to the sector. It is also apparent that many of the larger retailers have extensive training programmes providing both initial and continuing vocation education. That said, compared with the economy overall, relatively fewer employers arrange work-related training for their staff in the sector. This is, particularly so for women who make up more than half of the retail workforce. Involvement in Apprenticeships, however, has been roughly the same as that found across all sectors, but with much more involvement in Level 2 compared to Level 3 Apprenticeships. Involvement with Apprenticeships has increased in the last couple of years.

6 Skill Mismatches

6.1 Defining Skill Mismatches

Skill mismatches will result from ongoing processes of technical and organisational changes within firms, and shifts in the pattern of demand in external markets. To some degree these will be transitional mismatches as the demand side begins to fully articulate its skill requirements and the supply side responds accordingly. But there are also likely to be structural mismatches where the demand for, and supply of, skills remain out of kilter despite the market signalling what skills are required. The retail sector is one which has experienced relatively high levels of change over recent years, especially with the shift towards online shopping, the decline of the High Street, and the emergence of discount retailers.

As there is no direct measure of mismatches between the demand for, and supply of, skills at the sectoral level, inferences about the balance between the two are typically made through various means given that each measure provides only partial information. The common methods of gauging the level of mismatch are:

- i. **observing trends in wages** is a common method of measuring skills mismatches. This assumes that employers respond to difficulties finding the skills they need by increasing wages. In reality, not all employers respond in this way to an excess demand for skills. Regulation regarding pay, collective bargaining, and job-related risk factors will also affect wage rates, and non-wage incentives, including training, may be offered to potential employees to attract them to an organisation. There is also a more general question about the extent to which wage levels are responsive to the market. Evidence suggests that nominal wage rates are relatively more responsive in the UK than elsewhere, but this might be little more than a reflection of the demand for overtime.
- ii. estimating **the rate of return to obtaining sector related qualifications** provides a further indication of the extent to which a premium is attached to obtaining the skills deployed in a given sector. Qualifications, however, are an imperfect measure of skills and the rate of return to obtaining a given qualification and given that the measure of return is based on wages all of the caveats which relate to this as a measure of skills mismatch.

- iii. **employer reports of skill mismatches** in the form of hard-to-fill vacancies (HtFVs) and skill-shortage vacancies (SSVs) which provide an indication of the difficulties employers have in recruiting people from the external labour market with the skills and attributes they require. Surveys also capture information about problems employers experience with the skills of existing staff with respect to the extent they lack full proficiency in their jobs (*i.e.* skill gaps).

Each of these is now considered in turn with respect to the retail sector.

6.2 Evidence of Relative Wage Growth

Table 6.1 provides a comparison of hourly wage levels for employees in the retail sector compared with the economy as a whole. In general, the median and mean wage in the retail sector is substantially lower than in the economy as a whole, but over the past year wage levels have been rising slightly faster than in the economy overall.

Table 6.1 Hourly Pay - Gross (£) - For full-time employee jobs: UK, 2011

Description	Median	Annual Change (%)	Mean	Annual Change (%)
All Employees	£11.20	0.5	£14.80	1.3
Retail	£ 7.20	1.2	£10.06	2.2

Source: Annual Survey of Hours and Earnings, 2011, Table 16.7a

Note: Based on SIC 2007

The relatively low wages paid in the sector reflect the relatively low skill levels required in the principal occupational group – sales and customer service workers, many of whom are paid at, or just above, the National Minimum Wage (NMW). Pay levels, therefore, are sensitive to shifts in the NMW. The low wage commission estimates that eight per cent of jobs in the sector are paid at the NMW (Low pay Commission, 2011, P19).

6.3 Returns to Qualifications

The evidence overall for the retail sector reveals that there are positive rates of return at all levels, but that these are particularly high for women at Level 2 compared with men (Dickerson and Vignoles, 2007). The evidence from McIntosh (2009) in relation to Apprenticeships suggests that the net present value (NPV) of an Apprenticeship in retailing is relatively low compared with selected other sectors. The NPV is shown to be higher in sectors such as construction (£156,523) and engineering (£78,351) compared

to the service sectors considered, with the lowest estimated NPV in retailing (£31,928).⁷ This is further borne out in the evidence from the IER Net Benefits of Apprenticeship Training studies which indicate that employer investments in Apprenticeships, *per* apprentice are relatively low compared with sectors such as engineering or construction, and that the costs are recouped by the employer relatively quickly upon completion of the Apprenticeship (Hasluck, *et al.*, 2008, Hogarth *et al.*, 2012).

The evidence from Hasluck *et al.* (2008) reveals that whilst employers can recoup their investment in Apprenticeships relatively quickly upon completion by the apprentice, making it a relatively risk-free investment, employers do, at the same time recognise a wide range of benefits flowing from Apprenticeship than just financial ones. These include:

- a better fit between the skills and value of the employee and the needs of the business
- a cadre of skilled workers from which supervisors and managers can be selected
- a flow of new ideas into the business
- a process by which to attract people into the business and retain them.

In general the evidence in relation to wage levels and the returns to qualifications suggests that the level of mismatch between the supply of, and demand for, skills is relatively small, as reflected in relatively low wage levels and returns to either the employer or the employee from acquiring additional qualifications. Further evidence about mismatches is provided by employer surveys which are considered next.

6.4 Evidence of Employer Reported Skill Deficiencies

Tables 6.2a and 6.2b show the distribution of recruitment difficulties and skill gaps in the retail sector. In general the sector faces hard-to-fill vacancies and skill-shortage vacancies to the same extent as the economy as whole. It has, however, fewer skills gaps per 1,000 employees than in the economy generally.

⁷ McIntosh (2009) estimates the marginal returns to Apprenticeships. The estimated wage returns are then combined with (i) the increased likelihood of apprentices being in employment; (ii) costs of providing the Apprenticeship by employers and government; (iii) and the costs to the individual (foregone earnings). The future results are then discounted to give a net present value (McIntosh, 2009, p. 59).

Table 6.2a Incidence of Skill Deficiencies

	Wholesale and Retail	UK
Vacancies (total)	95,390	635,900
Vacancies / 1,000 employees	20.4	23.1
% of establishments with at least one vacancy	11%	12%
HtFVs (total)	17,441	143,550
% of establishments with at least one HTFV	3%	4%
SSVs (total)	12,619	103,453
SSVs / 1,000 employees	2.7	3.8
% of establishment with at least one SSV	2%	3%
Skill gaps	300,344	1,489,500
Skill gaps / 1,000 employees	64.2	54.1
% of establishments reporting a skill gap	15%	13%

Source: UK Commission's ESS2011 (Davies et al, 2012) Base: Vacancies as a % of employees based on all employment (N=87,571 establishments unweighted).
Hard-to-fill vacancies as a % of vacancies based on all vacancies (N=17,166 establishments unweighted)
SSVs as a % of vacancies based on all vacancies (N=17,166 establishments unweighted)
Skills gaps as a % of employees based on all employment (N=87,571 establishments unweighted)

Notes: numbers rounded to nearest 50 / Based on SIC definition of sector (SIC2007 45-47)

Table 6.2b Density of Skill Deficiencies

Density	Wholesale and Retail	UK
Vacancies as a proportion of employees	2%	2%
HTF vacancies as a % of vacancies	18%	23%
SSV as % of all vacancies	13%	16%
Skills gaps as a % of all employees	6%	5%

Source: UK Commission's ESS2011 (Davies et al, 2012)

Base: Vacancies as a % of employees based on all employment (N=87,571 establishments unweighted).

Hard-to-fill vacancies as a % of vacancies based on all vacancies (N=17,166 establishments unweighted)

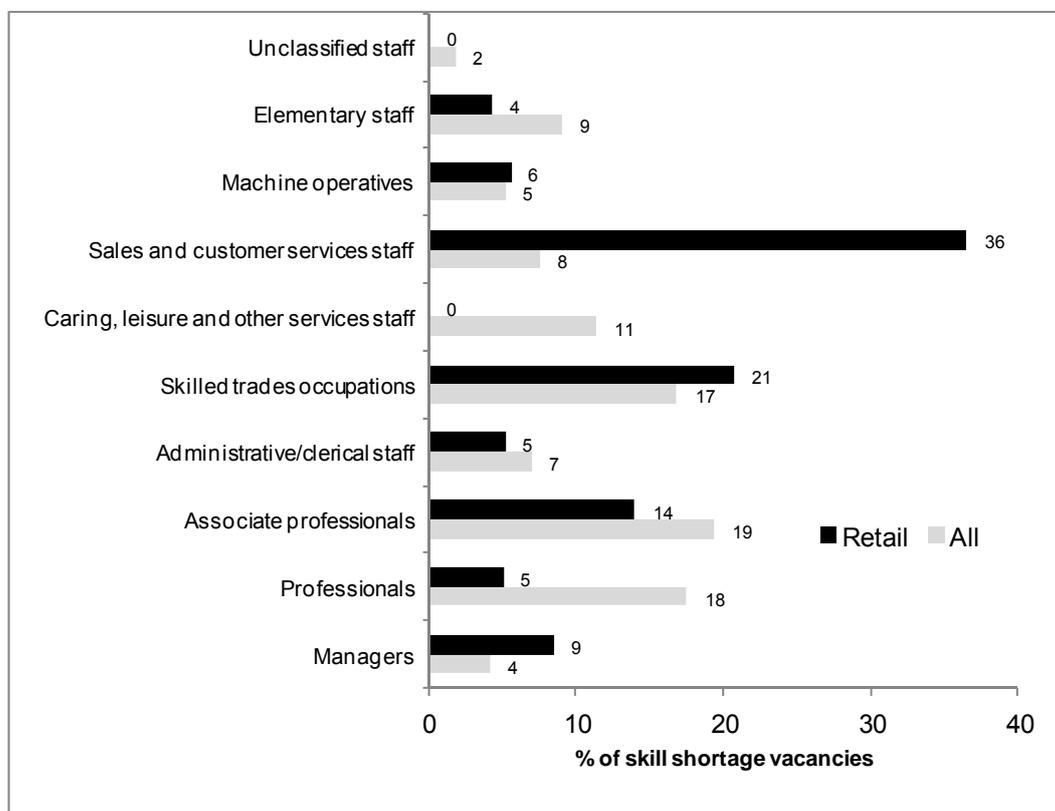
SSVs as a % of vacancies based on all vacancies (N=17,166 establishments unweighted)

Skills gaps as a % of employees based on all employment (N=87,571 establishments unweighted)

Notes: numbers rounded to nearest 50 / Based on SIC definition of sector (SIC2007 45-47)

Skill shortages tend to be concentrated amongst customer service staff but it is noticeable that skill shortages in relation to managers are relatively high in retail (see Chart 6.1).

Chart 6.1 Occupational Distribution of Skill Shortage Vacancies

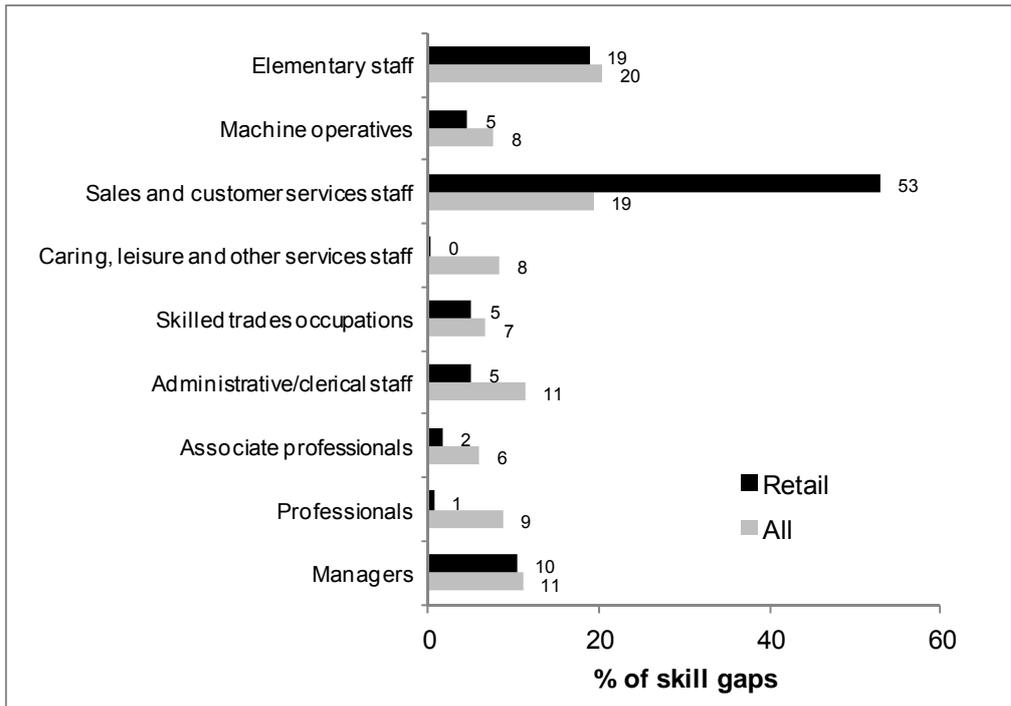


Source: UK Commission's ESS2011 (Davies et al, 2012)
 Note: Based on SIC definition of sector (SIC2007 45-47)

With respect to the causes of recruitment difficulties employers report the same reasons as employers generally across all sectors – that is, a shortage of applicants with suitable technical and job specific skills; customer handling skills, planning skills, etc.

Skills gaps are concentrated amongst customer service staff (see Chart 6.2). In relation to management, skill gaps are no more common than in the economy generally, despite relatively few managers being qualified to Level 4 in the sector (UK Commission, 2010a).

Chart 6.2 Occupational Distribution of Skill Gaps



Source: UK Commission's ESS 2011 (Davies et al, 2012)
 Note: Based on SIC definition of sector (SIC2007 45-47)

6.5 Other Evidence on Evidence of Skill Deficiencies

Data from the UK Commission's Employer Skills Survey 2011 indicates that skill gaps in the retail sector stem from employee's training being incomplete, staff being new to the business, or staff not being sufficiently motivated. More strategically skill gaps can be seen to stem from: (a) employers improving the level of customer service they want to offer which begins to stretch employee's proficiency; (b) relatively high levels of labour turnover, stemming in part from the relatively low wages offered in the retail sector, which mean that employees are constantly learning the ropes, which, as has been noted in Section 4, is a particular issue in sales and customer service; (c) a constant need to replenish the workforce given the high levels of replacement demand the sector faces; and (d) relatively low skill levels. With respect to (d) it is evident that the percentage of managers and associate professionals not qualified at Level 4 and Level 3 is relatively high in retailing (UK Commission, 2010a), and the percentage of people qualified to at least Level 3 or 4 is relatively low compared with the economy as a whole (Davies et al, 2012).

At the beginning of this report, a number of key performance challenges were highlighted relating to internet shopping, increased discounting, and the need to achieve higher levels of customer service in the context of challenging trading conditions. It is clear that

many employers have chosen to meet this performance challenge through the provision of training – for example through the National Skills Academy for Retailing – to raise the average qualification level of their workforces. Much of this training has been at Level 2 whilst there is some evidence that there is a latent demand for Level 3 training so that shopfloor employees can make the successful transition into management (Skillsmart Retail, 2010). Taking vocational qualifications at Level 2 and 3 is still a relatively common progression route into managerial and professional roles in the industry despite the large number of graduates who now enter the sector each year into graduate training programmes designed to fill these roles.

6.6 Skill Mismatches: Causes and Remedies

Below the skill challenges are mapped for the sector, but before doing so it is worth considering the wider employment challenges the sector faces. The sector needs to increasingly attract highly skilled and qualified individuals who are capable of implementing substantial technical change and realising the substantial opportunities this provides. As some retailers broaden their produce and service range they also have a need for more specialist customer service workers, especially so where financial services are being sold given the regulatory code which governs these. Accordingly, there are recruitment and retention issues which face the industry. These can be met through increasing wage rates, but as a sector which will remain relatively labour intensive over the medium-term notwithstanding automation substituting for workers, the scope for increase pay levels is constrained. There are, however, a number of other human resource practices, which are associated with high performance work practices, which the sector could utilise on a more widespread basis to encourage people to join the sector and develop their careers within it (Broadbridge *et al.*, 2007; Broadbridge, 2007). These relate, at least in part, to providing career paths, provision of career development to facilitate career progression, encouraging worker participation in decision making, encouraging work-life balance, *etc* (Tamkin *et al.*, 2008). These necessary prior conditions may well need to be in place if any significant return is to be obtained by employers from further investing in their workforce. These types of practice are seen as being important in improving organisational performance in its own right (Soderlund and Rosengren, 2010).

Increasingly many retailers recognise the need to train their existing workforces to meet the performance challenges the sector faces. At an initial training level there are many well established training courses at Level 2 (for the shopfloor) and Level 4/5 for graduate

entry. Although the two issues are clearly interlinked, in many respects, the evidence points to skill gaps in the existing workforce being a more substantial problem facing the industry than attracting new entrants into the sector with the skills employers need.

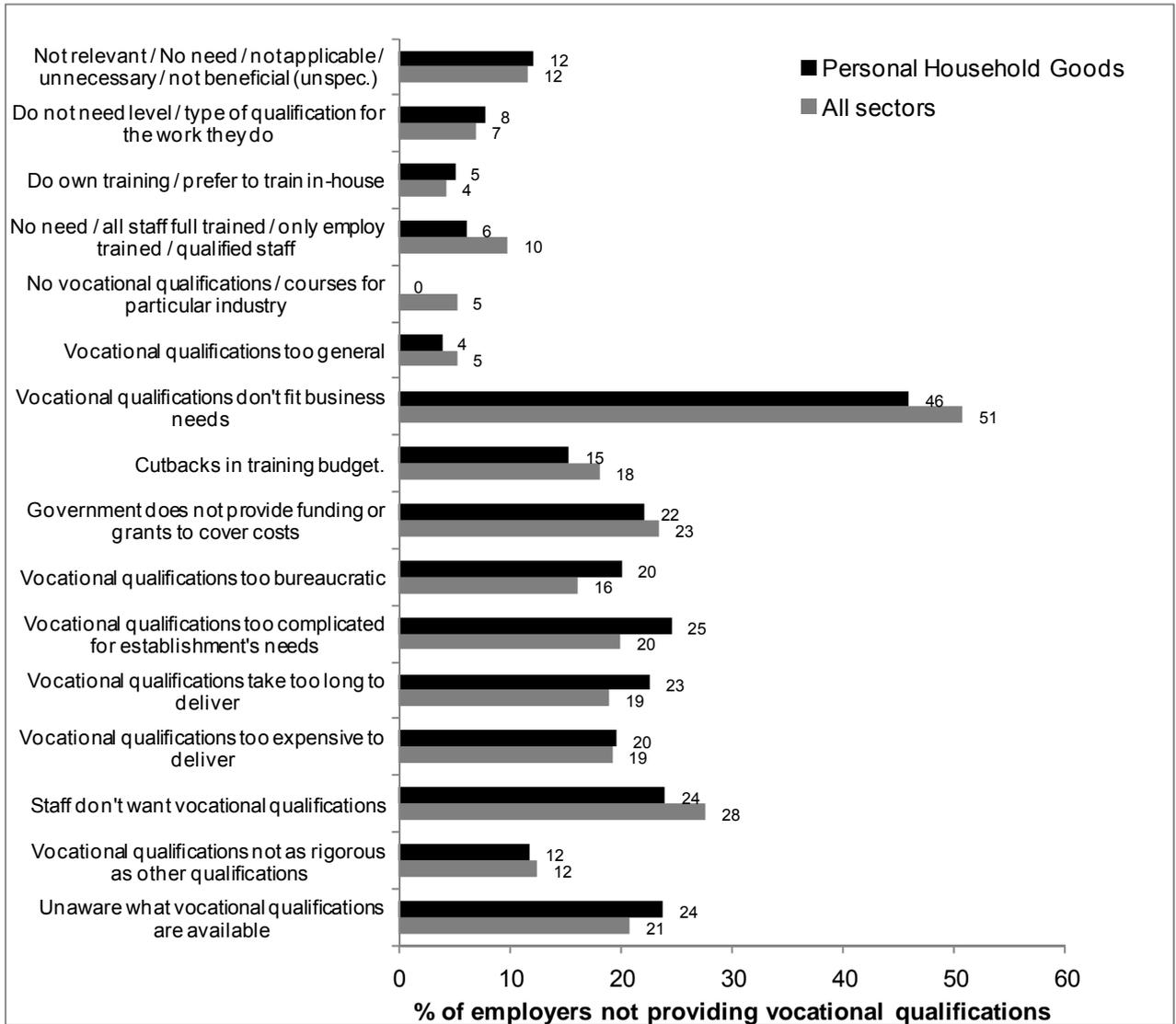
There are examples of employers:

- i. providing accredited training to employees through Apprenticeships and other qualifications to ensure that all employees possess what is considered to be the minimum qualification level one might expect;
- ii. engaging in partnership with the higher education sector to ensure that they obtain the exact skills they require, for example through Foundation Degrees and, in the case of Morrisons, designing a bespoke graduate course;
- iii. engaging in programmes such as Investors in People (IiP) in order to provide a supportive human resources framework within which individuals can develop their skills.

Engaging with the Education and Skills System

In order to persuade employers in the retail sector to engage more with the formal training system – given that relatively few provide training leading to vocational qualifications – is to understand the barriers to doing so. Chart 6.3 shows the reasons employers in the personal household goods sector (retail, wholesale and sale and repair of motor vehicles) reported for not providing vocational qualifications to their employees (as reported in the Employers Perspectives Survey 2010). Their responses do not differ much from the overall picture for all sectors with the principal reason being that vocational qualifications do not fit the needs of the business (46 per cent of respondents in personal household goods compared with 51 per cent across all sectors). Staff not wanting to work towards vocational qualifications, and employers being unaware of what qualifications were available, were also relatively frequently mentioned by employers in the sector but generally to the same extent as employers in the economy generally. Therefore the evidence points to their being no unique set of factors affecting the take up of vocational qualifications in the retail sector (Davies et al, 2012)

Chart 6.3 Reasons for Not Providing Vocational Qualifications



Source: Employer Perspectives Survey 2010 (Shury et al, 2010)

Note: Based on Personal Household Goods Sector

Base: All establishments 14,390 unweighted

The Employer Perspective Survey 2010 reveals that where employers invest in vocational qualifications they obtain significant benefits from doing so, including:

- an increase in knowledge and understanding (mentioned by 94 per cent of all employers providing vocational qualifications)
- the development of new skills (90 per cent)
- reliable standards of competence (88 per cent)
- better business performance (81 per cent)
- improved staff retention (73 per cent).

The case studies below give an indication of the types of benefit retail enterprises derive from investing in formal skills acquisition (*see panel*).

Case Study: Asda Skills Academy

The Asda Skills Academy has the ambition to give thousands of people the chance to “earn while they learn” through an accredited retail apprenticeship programme. The Asda Skills Academy is offering 6,000 Apprenticeships this year (2011) – giving colleagues the opportunity to gain City & Guilds recognised qualifications at Level 2 (comparable to GCSE) and Level 3 (comparable to A Level). As well as developing skills that are relevant to colleagues’ roles, the Asda Skills Academy also focuses on colleagues’ transferable skills around problem solving and communication.

CEO and president Andy Clarke – who himself went straight into work at the age of 17 – says: “Young people shouldn’t be forced to choose between their desire to learn and need to earn – the Asda Skills Academy gives them the opportunity to do both.”

Colleagues are able to get involved in the Asda Skills Academy after finishing their induction at Asda and working 16 hours per week.

Asda will continue to offer thousands of young people the opportunity to join its business or gain work experience. In 2011 Asda committed to create 15,000 retail Apprenticeships, 10,000 seasonal jobs, and 15,000 work experience placements (for 14-16 year olds).

Source: <http://your.asda.com/press-centre/asda-celebrates-first-graduates-from-the-asda-skills-academy>

Another example of retailer putting its existing employees through a Level 2 programme is B&Q (*see panel*).

Case Study: B&Q City and Guilds

Latest figures released by B&Q the UK’s leading home improvement and garden centre retailer, show that over 17,000 of its employees have either enrolled on or completed a work-related qualification this year. More than 50 per cent of their workforce has studied towards a Retail Skills NVQ, Home Improvement Knowledge Qualification or Retail Apprenticeship, developed in partnership with City & Guilds.

B&Q is now the largest user of City & Guilds qualifications in the retail sector. To mark this milestone, the retailer will be rolling out new badged aprons to its store teams so that customers will know that they are being served by an expert with a City & Guilds qualification.

Euan Sutherland, CEO of B&Q and Kingfisher UK says: "Investing in qualifications will help B&Q further achieve its aim of having friendly expert staff of all ages, and give our customers confidence that they are being advised by staff who are knowledgeable and able to offer trusted advice.

“If you walk in to B&Q and meet a friendly person with a badge saying they've got a City & Guilds qualification, you're going to know you're getting expert advice - City & Guilds is a powerful brand. This level of expertise gives our people a real point of difference in the market place“.

The Academy represented an investment of around £2 million.

Source: <http://www.cityandguilds.com/47659.html>

With respect to initial vocational education and training at Level 2, the IER Net Benefits of Apprenticeships series of studies reveal that employers recognised manifold benefits from delivering Apprenticeships to new entrants to the sector by being able to demonstrate that the sector is an attractive one to work in, which will provide employees with training opportunities, which potentially supports career progression (Hasluck, *et al.*, 2008).

Engaging with Higher Education (HE)

Although the sector is just as likely to recruit people straight from higher education as employers in the economy as a whole – see Table 5.3 above – there is a perception that graduates are not an integral part of the sector's workforce. Mosley *et al.*, (2012, p.46) point to a number of factors which result in this perception:

- there are a limited number of positions which require a Level 4 qualification;
- there are only a relatively small number of sector specific Level 4 vocational qualifications available;
- there is a perception that the sector is low paid and does not attract Level 4 candidates.

In summary a mix of supply and demand side factors which conspire to drive down demand and supply. The evidence also points to relatively few managers being qualified at Level 4. Yet all the major UK retailers have long established graduate recruitment schemes across a number of disciplines – typically store management, buying, marketing, IT, finance, and personnel - and, given the persistence of these programmes, must derive business benefits from their continued use.

Mosley *et al.*, (2012) draw attention to the limited extent of specialist provision of retail training or vocational preparation at Level 4 / 5, though there are several well established centres devoted to the retail sector in HE. Consequently, people need to be recruited from more general courses where they are entering general retail management rather than one of the specialisms such as IT or finance, and then be trained by the employer. But is not clear whether retail is any different from any other sector in this regard where specific technical skills are not being sought. That said, Morrisons, the UK's fourth largest employer, has developed its own BSc course with Bradford University Management School to ensure it is able to capture the high level skills the company requires (*see panel*).

Case Study: Morrisons BSc Management

This course, designed by Morrisons in conjunction with Bradford University, provides students with a debt-free university education whilst working in a fast paced business and then an exciting career on graduation, making it an attractive option for those looking to develop a career in the retail industry at Morrisons. The company already currently employs around 40,000 16-24 year olds and has 3,500 employees set to achieve retail Apprenticeships.

The three-year earn as you learn programme is a mix of block learning at the School, distance study, on the job work experience and work based projects in the food manufacturing division business.

The corporate degree builds on an existing partnership between Bradford University School of Management and Morrisons. The School advises on in-house training programmes for Morrisons Academy and delivers post graduate training for middle and senior managers who can go on to MBA study.

Norman Pickavance, HR Director, Morrisons said: "We believe it is vitally important that industry and education sectors deliver vibrant new solutions which enable people to keep developing and gaining qualifications whilst they learn.

"We've always focused on training our own and our former Chairman, Sir Ken Morrison, who retired after 50 years' retail experience, attended evening classes at Bradford School of Management in the 1960s.

"Our pathways for career development see young people progress from shop floor to the top floor, gaining relevant, practical qualifications as they go and the corporate degree programme is part of that picture.

"Over 30% of our top management started their career on the shop floor and a quarter of our operating board started with us, aged 17. We know it is an approach that gives us a strong culture, a committed workforce and a competitive edge, going forward."

"Graduates who successfully complete the three-year programme should be offered a permanent role within the business that allows them to progress their career as they choose, whether in food manufacturing or retail."

Source: <http://www.iwantafreshstart.com/about.asp?division=&divisionID=14&functionID=293>

Investors in People

Many of the larger retailers have well established graduate and Apprenticeship programmes, allied to their medium to long-term business goals. In many respects the aim is to encourage all employers to adopt the broad approaches adopted by the leading retailers – identifying product market goals in the light of emerging threats and opportunities and ensuring that the skills are in place to support those goals. Investors in People provides a framework within which employers can develop their skills strategies in support of their product market ones. Table 6.3 shows that in the retail sector has more or less the same percentage of establishments accredited to liP as in economy as whole but, at the same time, indicates that there is considerable scope for liP to expand within the sector.

Table 6.3 Investors in People Accreditation

row percentages

	IIP accredited (%)	Not IIP accredited (%)	Don't know (%)	Total (%)
Retail	18	58	24	100
All Sectors	16	69	15	100

Source: UK Commission's ESS2011 (Davies et al, 2012)

Note: Based on SIC definition of sector (SIC2007 45-47)

Base: All Establishments 87,572 unweighted

IIP offers the opportunity to tackle a wider set of employment issues than training and skills so that employers can obtain the most from the skills investments they make as the example of the Badham Pharmacy shows (see panel).

Case Study: IIP in Badham Pharmacy

Badham Pharmacy Ltd has been in operation since October 1940. Today with eight branches in Cheltenham, Churchdown, Evesham and Bishops' Cleeve, the chain of retail pharmacies remains family run.

The business employs over 100 staff, both full-time and part-time and has a turnover of just over £9 million. In 1999 the company was a finalist in the British Business Association Awards for its excellence in training. It was successfully reassessed in 2007.

Badham Pharmacy decided to go for Investors in People accreditation in 1998. It was felt that The Standard would set a formalised precedent for their employees' development, especially in terms of training – a key element to the business's success.

Since achieving Investors in People recognition in 1999 Badham Pharmacy has seen a significant increase in turnover. The company has also benefited from significant improvements in employee relations. As Jean Badham, Managing Director, said:

"We now have closer contact with our staff and are committed to being more involved with their development and well-being. This means that all our employees, both retail and ethical, now take a greater interest in the business – and are more motivated and satisfied in their work.

"As our staff are happier, they not only provide a better service to our customers, but also are better able to present the company's image to customers which ultimately enhances our organisation's reputation."

Source: http://www.investorsinpeople.co.uk/Documents/Case%20Studies/Badham_Pharmacy.pdf

6.7 Conclusion

Compared with many other sectors in the economy, the evidence suggests that retailing is a relatively low wage, low skill one. This accounts for the relatively low returns to qualification acquisition in the sector. The sector provides, recurrently, every year many job opportunities to young people either still in education (in the form of Saturday jobs and such like and thereby providing valuable work experience) and those entering the labour market upon leaving the compulsory school system. The relatively low level of

wage increase and the relatively low number of skill shortage vacancies points to the sector having few difficulties recruiting the people it wants. But skill gaps are relatively high suggesting that the current stock of skills is insufficient to meet the performance challenges the sector faces currently and which are likely to be accentuated over the medium-term. The evidence points to employers investing substantially in the continuing professional development of their employees and, they are convinced that for those employees who take part, the various training programmes available to them are paying dividends, both for the individual and the employer.

Training, however, remains predominantly at Level 2 and, in a sector which still promotes management from the shopfloor there is a need for training leading to Level 3 and beyond to provide the broad range of management skills which the sector needs. This suggests that there may well be unreported or latent skills gaps amongst management which are likely to persist, at least over the medium-term, though the evidence points to many employers undertaking a number of initiatives to successfully develop their managers.

7 CONCLUSION

7.1 The Sector Today and Tomorrow

The retail sector is strategically important to the UK economy not just in terms of both the volume of employment and gross value added it contributes, but also in its distribution of a wide variety of goods to consumers. The sector also occupies an important part of the UK's built environment, especially in city centres and out-of-town shopping centres. Many young people are employed in retail and for many of them the sector serves as an entry point into the labour market. Flexibility of employment in the sector in terms of part-time opportunities also makes it an attractive sector people looking for such work (e.g. mothers re-entering the labour market).

The sector is likely to continue to be a main source of employment in the UK in future even though technology will substitute some customer service jobs. The sector is becoming increasingly advanced technologically in the use of electronic point-of-sale equipment, targeted marketing, warehousing and logistics. And the sector continues to benefit from relatively good productivity growth and is a major play in the global retail market.

Looking to the future, the Government's Growth Strategy will endeavour to assist the sector (*see panel*).

- Inviting the Low Pay Commission (LPC) to consider how to implement the best way to give business clarity on future levels of the National Minimum Wage, including consideration of two-year recommendations.
- Introduction of a package of measures to support thriving town centres and build on the Town Centre First policy.
- Expansion of the Primary Authority model to apply consistent enforcement standards across a wider range of regulations and businesses and implementation of a package to simplify complex and inconsistent age-restricted sales regulations and licences.

Source: <http://www.bis.gov.uk/policies/growth/the-plan-for-growth#13>

These all have the potential to boost employment in the sector. These are issues which are external to the sector. Looking to what the sector can do for itself relates to ensuring that the industry is:

- a technologically advanced one which has kept pace with technical change in the global sector to raise organisational performance
- one which has been able to recruit the talent it requires to meet its performance challenges through utilising human resource practices which provide people with career paths through an organisation
- one where there are human resource practices which allow people to develop their careers. This should improve retention rates and provide a more conducive environment in which both employers and individuals to make investments in skills.

7.2 The Performance Challenge

The product market performance challenges which employers face in the sector include:

- keeping pace with technical change and ensuring that the returns to technology investments are optimised
- being responsive to consumer demand *vis-à-vis* online shopping, customer service, price awareness, etc.
- managing globalisation through capturing shares of foreign markets and gaining the full benefits of international supply chains
- managing vertical and horizontal integration⁸ in order to improve organisational performance
- being aware of demographic trends and the impact this will have on labour supply and the needs of customers in the context of an ageing population
- meeting the low-carbon agenda to ensure that waste and energy use is minimised.

These all have employment and skill dimensions associated with successfully meeting these targets. In general, how employers respond to these challenges from an employment and skills perspective will depend upon the segment of the market in which they operate. This report highlighted this with respect to the complexity of the operation

⁸ Vertical integration is the process whereby several steps in the production and/or distribution of a product or service are controlled by a single company resulting in increased power in the marketplace. Horizontal integration involves a company increasing its market share by buying-out or merging with another similar company.

and the position in the value-added chain. Complex retail organisations which operate in higher value sectors of the market will tend to need different employment and skill mixes to those which operate, say, as niche retailers in high value markets but with relatively simple operational models underlying the sale of goods. Overall, however, realising the vision of retail as a global leader in retail depends largely upon the sector being able to drive up its skill levels across the workforce and introducing the types of higher performance working practices which will make it an attractive sector in which to work.

The performance challenge for employers currently based in the UK is that of recruiting the skills needed by an evolving and increasingly technologically advanced sector. It is necessary that all employees are appropriately skilled and trained through accredited programmes and qualifications so that they add value to businesses. There is also a need to continue training existing employees to accommodate and fully exploit technical change. Training of existing employees gives many who have not received qualifications before entering the labour market an important opportunity to gain accredited qualifications. In order for this training to occur there needs to be in place an employment relationship where employers are confident of obtaining a return on the skills investment, and employees need to see that there will be a return on the investment in time and effort they make. At present this is not always in place in a sector characterised by relatively high levels of labour turnover and short working hours. There may well be a need for a preceding, or simultaneous, step of improving the employment relationship between employer and employee so that both are able to benefit from investing in skills.

Skills are needed at various levels, but mainly managerial and leadership roles and for customer service and sales occupations. Customer service and sales skills are needed in all sub-sectors of retail including, food retailers, department stores and specialist stores, and of course, in online and telephone settings.

7.3 Growth through Skills

There is a substantial training and skills development infrastructure provided through Skillsmart Retail, as well as the education sector and private training providers. Much of the externally accredited training for retail is at Level 2 hence there is considerable scope for significant increases in training and skills levels in the sector. This increase is largely dependent on improving labour retention in the sector. Progression in the sector from entry-level jobs is a challenge for the sector, which can limit retention. Recognition of skills acquisition, training for those in entry-level jobs, and the development of quality training which provides the foundation for progress are important. At higher levels (Level

3 and above), the acquisition of leadership and management skills is important. Training must be of a suitable breadth and depth both to attract highly skilled people to the sector with the opportunities for progression it provides and to provide a clear path for internal progression within the organisation, increasing retention at higher skill levels and providing opportunities for employers to reap the rewards of providing training.

For the sector to grow, multi-skilling is becoming increasingly important. Training in technical as well as retail skills is necessary if the sector is to meet the challenges presented by technological change, as well as reap the rewards that technological innovation can provide. A labour force which can be flexible in the skills they utilise, as well as a labour force which is numerically flexible to meet demand, is needed.

The customer service sector presents a particular challenge in terms of its skills requirements and potential for growth. Providing added value through quality customer service is important, but sales and customer service is an area where it has been identified that skills are lacking and replacement demand is high.

7.4 Business benefits

There are a range of business benefits that investment in training can bring about. Evidence across a number of sectors suggests that employers who invest in training are more likely to survive than those who do not (Collier, *et al.*, 2007). Further evidence presented in Garrett *et al.* (2010) highlights the various returns which accrue to individuals and employers who invest in skills. They summarise the evidence from a number of studies all of which point towards the productivity gains for firms from investment in training being higher than the increase in wages experienced by employees as a result of training. In relation to the retail sector there are a number of challenges the sector faces over the medium-term – as set out in Chapter 3 - where the skills of the workforce will be of paramount importance in turning those challenges into opportunities.

The evidence in this report indicates that many of the larger employers have invested in initial vocational preparation through their graduate traineeships and Apprenticeship programmes, and have invested in continuing training of their existing staff. These programmes are seen as essential in ensuring that relatively strong candidates are recruited in the first instance and that their skills are updated over time in order to meet the changes the sector faces.

The evidence suggests that there are significant business benefits from employers investing in Apprenticeships. University of Warwick Institute for Employment Research (IER) has been undertaking a series of studies on the net costs and benefits of training to employers engaged in Apprenticeship training including in the retail sector. The studies give an indication of the benefits which accrue to employers who invest in this form of training. The latest case study research (Hogarth et al., 2012) indicates that:

- The net cost to the employer of engaging in Apprenticeship training at Level 2 tended to be substantially lower than some other sectors, and employers were able to recoup much of the cost of their investment in about two years or so if they were able to retain the services of the apprentice.
- Typically, employers offered apprenticeships or work place learning to existing staff as a means of increasing confidence, morale and loyalty.

Certainly in relation to Apprenticeships retail employers can point to a range of business benefits relating to (Hasluck *et al.* 2008): improving the attractiveness of the company to would-be recruits, improving labour retention (especially where apprentices are new recruits), the inflow of new skills into the business and a tried and tested means of delivering the skills businesses require.

The evidence also suggests that where employers have invested in Apprenticeships they can recoup their costs relatively quickly once the apprentices have completed their training provided they staff with the company. It is also apparent that employers in the sector have long established graduate recruitment schemes which they regard as essential in meeting the various managerial and professional roles which need to be filled within their organisations.

In many respects the benefits listed above relate to larger organisations. Conveying these potential benefits to smaller employers however, is no easy task, though they too would reap at least some of these benefits as a result of training. A critical task is to provide retailers – outside the virtuous circle of the leading, large retailers – with the skills which will allow them to identify both product market developments and the skills they will need to respond adequately to those developments. Investors in People is one process which allows this to take place.

It is increasingly difficult to see, in the internet age, how many retail organisations can engage in online sales and multi-channel retailing, whilst taking advantage of global supply chains, unless they are willing to invest in the skills which will allow them to do so.

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Produced by the Institute for Employment Research,
Warwick University for the UK Commission for
Employment and Skills.

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www.ukces.org.uk under 'Publications'

ISBN 978-1-908418-20-3

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