



8H: FORECASTS OF SPECIAL FORMS OF TRADING

Non-store retail sales (special forms of trading)

As reported in our March 2010 *Note on non-store retailing* the Office for National Statistics (ONS) announced in February changes to the methodology for calculating the value of internet sales. This resulted in a large increase in estimated internet retail sales and their share of the total retail market, which is now shown at 7.3% at end-2009, against 4.9% previously. The upward revision reflects the inclusion in the new methodology of all sales made over the internet by individual businesses using information derived from the monthly ONS Retail Sales Inquiry (RSI). This includes a specific question for all businesses, asking the proportion of sales made over the internet. Some 5,000 businesses in Great Britain are included, covering 95% of the retail sector in terms of turnover. Previously, the series used a sample of responses from businesses to produce the ONS' best estimate of internet sales.

Internet retail sales are collected as part of the RSI. Each business within the RSI is asked to provide retail turnover, including sales from stores, via the internet, mail order, stalls and markets, door-to-door and telephone sales. On-line sales by supermarkets, department stores and catalogue companies are all included. The ONS figure of internet sales plus their estimate of mail order and market/stalls sales is therefore a comprehensive estimate of special forms of trading (SFT) in retailing. Services are excluded as businesses are asked to separate out non-goods elements of their sales.

Recent strong growth in SFT is evidenced by the rising share of internet sales in total retail transactions. This stood at 7.9% in June 2010 against 5.6% in September 2008.

Internet retail sales

Not seasonally adjusted	Average weekly value for all retailing (£ million)	Average weekly value for internet retail sales (£million)	Internet sales as % of total retail sales
2008 Sep	5200	289.8	5.6
Dec	6800	435.1	6.4
2009 Mar	5100	336.8	6.6
Jun	5400	307.4	5.7
Sep	5300	337.7	6.4
Dec	7000	511.7	7.3
2010 Mar	5300	362.1	6.9
Jun	5500	397.7	7.2

Source: ONS, *Retail Sales Statistical Bulletin July 2010*

The following table based on ONS data shows Experian's estimate of growth since 2005 in all retailing compared with non-store retailing. No official breakdown is available between convenience and comparison goods – the market shares are Experian estimates.

Important points to note from the table are:

- Since the non-store retailing figures include supermarkets and other retailers that source internet goods sales from store space, the share of non-store retailing is over-stated from the point of view of those interested in physical retail outlets, particularly for convenience goods.
- There is a high degree of uncertainty about future trends in internet usage and non-store shopping in general and the assumption that market share holds constant after 2016 could under-estimate the threat to shops. However, even if non-store retailing outpaces store-based shopping for longer than we assume, **store-based shopping** is still expected to continue to expand annually at over 2% *per capita* to 2027 (see figure 1 of the main report).

Our previous forecast contained in *Retail Planner 7.1* showed non-store retailing increasing steadily and at a faster pace than total retail sales until 2016, reaching 8.1% of the total, before stabilising at that level for the rest of the forecast period. The new forecast, based on a higher starting point for non-store retailing, (£21.5bn in 2008 against £16.0bn) coupled with evidence of stronger growth in recent years, has non-store retailing reaching 12.6% of the total by 2016 and stabilising at that level as the market becomes mature and grows in line with total retail sales.

Estimated and projected market share of non-store retail sales

Volumes at 2006 prices	All retailing* £bn	Non-store** £bn	Growth in all retailing %	Growth in non-store %	Non-store retailing market share (%)		
					Total	Comparison	Convenience
2006	284.1	13.7	2.5	14.2	4.8		
2007	291.3	16.3	2.5	19.0	5.6		
2008	298.9	21.3	2.6	30.7	7.1	8.2	5.0
2009	297.0	26.1	-0.6	22.5	8.8	10.0	6.4
Forecast							
2010	300.2	30.8	1.1	18.0	10.3	11.7	7.4
2011	304.8	33.9	1.5	10.0	11.1	12.6	8.1
2012	312.4	36.3	2.5	7.0	11.6	13.1	8.5
2013	320.6	38.4	2.6	6.0	12.0	13.5	8.8
2014	329.3	40.3	2.7	5.0	12.3	13.7	9.1
2015	338.4	42.2	2.8	4.5	12.5	13.9	9.4
2016	348.0	43.9	2.8	4.0	12.6	13.9	9.6
2017	358.1	45.2	2.9	3.0	12.6	13.9	9.7
2018	368.5	46.5	2.9	2.9	12.6	13.8	9.8
2019	379.2	47.8	2.9	2.9	12.6	13.8	9.9
2020	390.3	49.2	2.9	2.9	12.6	13.7	10.0
2021	401.7	50.6	2.9	2.9	12.6	13.6	10.1
2022	413.4	52.1	2.9	2.9	12.6	13.6	10.2
2023	425.5	53.6	2.9	2.9	12.6	13.5	10.3
2024	437.9	55.2	2.9	2.9	12.6	13.4	10.4
2025	450.7	56.8	2.9	2.9	12.6	13.3	10.6
2026	463.9	58.4	2.9	2.9	12.6	13.3	10.7
2027	477.5	60.1	2.9	2.9	12.6	13.2	10.8

* Exc. automotive fuel,
**Internet plus mail order plus stalls and markets

Special Forms of Trading and demand for retail floorspace

The rise of internet sales has boosted SFT significantly in recent years. This was highlighted in Figure 1 on page 7, as the following extract from the table shows. In each of the years 2007-2009 retail sales growth per head excluding SFT was appreciably slower than the rate including SFT. This difference is expected to persist, but to narrow as we approach 2017, after which our projections assume that total retail sales and non-store sales grow at the same rate.

Vol growth per head (%)	2007	2008	2009	2010	2011	2012	2013-17	2018-27
Retail sales	1.9	1.9	-1.4	0.3	0.8	1.8	2.1	2.3
Retail sales ex non-store	1.0	0.2	-3.1	-1.3	-0.2	1.2	1.8	2.3

Calculations of how demand for retail floorspace will be affected by SFT remains an issue for the medium term as the volume growth in total retail sales projected in this report (averaging 2.6% per annum in absolute terms between 2010 and 2017) overstates the required rate of floorspace expansion (ignoring sales density changes) as SFT continues to eat into store-based sales growth. **Excluding SFT, retail sales volume growth over the period is forecast at 2.2% a year.**

However, it would not be appropriate to assume a growth rate in floorspace of 2.2% per annum as some stores notably large convenience stores sell on line but source sales from regular stores rather than warehouses. It is difficult to gauge the adjustment needed to take account of this and the position is changing quite rapidly. A recent move was Asda's

announcement in August 2010 that it is to open a warehouse dedicated to internet orders in Enfield, following the Ocado approach of distributing goods from warehouses rather than stores. If this trend continues, demand for retail floorspace as a result of internet shopping is likely to ease as supermarkets move to a centralised system to ease pressure on stores.

In providing estimates to aid planners on this issue, we consider the position for convenience and comparison sales trends separately. The following table provides indicative growth rates for sales on different assumptions for comparison and convenience goods. For comparison goods, we exclude from the deduction from total sales 25% of SFT sales to provide our best estimate of growth relating to required floorspace (column 4) and for convenience goods 50% of sales are excluded (column 7) as a higher proportion of internet convenience sales are effected through stores.

Growth in sales 2010-2107 (% per annum)

	Comparison			Convenience		
	Total sales	Exc. all SFT	Exc. 25% of SFT	Total	Exc.all SFT	Exc.50% of SFT
2011	1.9	0.8	1.1	0.7	0.0	0.4
2012	3.2	2.6	2.8	1.1	0.7	1.0
2013	3.2	2.8	2.9	1.5	1.0	1.3
2014	3.3	3.0	3.1	1.5	1.1	1.4
2015	3.3	3.2	3.2	1.5	1.2	1.5
2016	3.5	3.4	3.4	1.5	1.2	1.5
2017	3.5	3.6	3.6	1.5	1.4	1.5
Average	3.1	2.8	2.9	1.3	1.0	1.2

Percentage of UK Internet visits to retail websites	Catalogue retailers	High street retailers	Online only retailers
Jul-07	4.3	50.3	45.4
Dec-07	3.2	58.7	38.1
Jul-08	3.6	56.3	40.1
Dec-08	2.8	58.0	39.2
Jul-09	3.9	57.3	38.9
Dec-09	3.8	58.7	37.5
Jul-10	3.5	57.8	38.7

Internet visits for **store-based transactions** account for almost 60% of the total, against 50% three years ago. But as noted above, the non-store retailing figures include supermarkets and other retailers that source internet goods sales from store space.

Source:Experian (Hitwise)

Percentage of UK Internet visits to retail websites

	Jul-07	Jul-08	Jul-10
Apparel and Accessories	10.4	14.8	18.9
Appliances and Electronics	9.6	10.4	8.3
Automotive	3.7	3.4	3.1
Books	12.2	1.5	1.2
Computers	7.1	7.7	4.4
Department Stores	21.1	20.9	24.8
Flowers and Gifts	1.3	1.6	1.7
Grocery and Alcohol	2.8	2.5	2.6
Health and Beauty	2.1	2.5	2.6
House and Garden	7.0	8.7	9.5
Intimate Apparel and Accessories	1.1	1.1	0.9
Music	5.6	6.0	5.2
Office Supplies	1.2	1.5	0.9
Sport and Fitness	4.6	6.2	6.7
Ticketing	2.2	2.0	1.9
Toys and Hobbies	3.0	3.3	2.7
Video and Games	5.2	5.8	4.7

The table alongside tracks how the percentage share of UK Internet visits to retail websites have evolved in the last three years. There has been a marked shift toward visits to apparel and accessories websites with the share of hits to such websites rising from 10% in July 2007 to almost 20% in June 2010. The sudden shift down in retail sites selling book is down to a change in classification of Amazon as a 'department' store. The shares of most other categories have seen marginal changes.

Source:Experian (Hitwise)