THE RETAILER

SPRING 2017

A FAIR BREXIT FOR CONSUMERS

// ARE YOU READY TO LEVY?

// RETAILERS CONTINUE TO REASSESS STAFFING LEVELS

// GROWTH DISTORTED BUT SIGNS OF INTEREST IN SUMMER RANGES

THE TARIFF ROADMAP FOR THE NEXT GOVERNMENT, AS PART OF OUR A FAIR BREXIT FOR CONSUMERS PROJECT, FOCUSSES ON THE TARIFF ASPECTS OF BREXIT; ILLUSTRATING BRITAIN'S CURRENT IMPORT TRADE RELATIONSHIPS WITH DATA AND FACTS TO HIGHLIGHT THE RISKS AND OPPORTUNITIES PRESENTED BY THE JOURNEY AHEAD.

NEWS FROM THE BRC

A FAIR BREXIT FOR CONSUMERS

HELEN DICKINSON OBE
CHIEF EXECUTIVE
BRITISH RETAIL CONSORTIUM

The Prime Minister has called an election in the belief that it is essential in order to 'make a success of Brexit.' The BRC's goal in our *A Fair Brexit for Consumers* project is to support the next Government in ensuring a fair deal for consumers in the forthcoming negotiations with the EU. We believe that promoting the interests of consumers – and we are all consumers – will lead to the fairest settlement for our country as a whole.

We argue for neither a hard nor a soft Brexit but believe our efforts should concentrate on mapping out what a smart Brexit looks like for the UK. This will be a key point in the forthcoming election. *A Fair Brexit for Consumers – The Tariff Roadmap For The Next Government* focuses on the tariff aspects of Brexit. It clearly shows Britain's current retail import trade relationships, illustrated with data and facts and assesses the journey ahead – a journey which we stress presents both risks and opportunities.

Ensuring this journey is positive for retailers and consumers requires the Government to lead an orderly and sequenced process, where we renegotiate to continue across the board tariff-free arrangements with the EU before securing new trading relationships with the rest of the world. By preserving the openness in trade we already have with our existing partners in the short-term and reaping the benefits of new trade deals in the medium-term, consumers get continued and even greater access to a diverse range of goods at competitive prices. Ahead of the general election and into the next parliament, the BRC's *A Fair Brexit for Consumers* project will look at how we can keep prices low for consumers by achieving frictionless customs arrangements; how we can provide certainty for EU colleagues working in the UK; and how we ensure the continuity of existing EU legislation as it transfers to the UK.

View *A Fair Brexit for Consumers – The Tariff Roadmap For The Next Government* here:
https://brc.org.uk/making-a-difference/priorities/brexit

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NEWS FROM THE BRC

RETAILERS CONTINUE TO REASSESS STAFFING LEVELS

- The equivalent number of full time jobs fell by 3.9% compared with the same quarter a year ago. Both Food and Non-Food retailers contributed to the decline in FTE employment, although it was Food that saw the deepest falls.
- In the first quarter of 2017, the number of outlets rose by 0.6% compared with the same quarter a year ago. Food retailers drove the overall increase in the number of stores.
- All three months of the quarter reported a decline in FTE employment, with January's decline only marginally shallower than that seen in February and March.

HELEN DICKINSON OBE, CHIEF EXECUTIVE,
BRITISH RETAIL CONSORTIUM

"Today's fall in full-time equivalent employment from our sample of retailers shows a continuation of a year-long downward trend of retailers reducing the number of hours being worked.

"We expect retailers to continue reviewing how they work with their people as they look to address the changing face of retail and keep prices low for consumers. Building inflationary pressures and public policy costs, alongside intense competition, are taking their toll and retail, as a people intensive industry, is being hit hard. That said, many retailers are actively investing in their people to improve the quality and productivity of jobs per employee.

"Looking ahead to the Brexit negotiations for the next government; certainty for the EU colleagues working in the industry and a business tax environment fit for purpose in the 21st century are what's needed for the retail industry to drive productivity with better jobs, innovation and new skills for the digital age."

GROWTH DISTORTED BUT SIGNS OF INTEREST IN SUMMER RANGES

- In March, UK retail sales decreased by 1.0% on a like-for-like basis from March 2016, when they had decreased 0.7% from the preceding year.
- On a total basis, sales fell 0.2% in March, against flat growth in March 2016. This remains below the 3-month average of 0.1% and the 12-month average of 0.8%, but is negatively distorted by the timing of Easter.
- Over the three-months to March, Food sales decreased 0.2% on a like-for-like basis and increased 1.2% on a total basis. This is the first time in four months that the 3-month average Total growth has been below 2.0%. The 12-month Total average growth rose to 1.5%, the highest since April.
- Over the three-months to March, Non-Food retail sales in the UK declined 1.1% on a like-for-like basis and 0.8% on a total basis. This is the slowest 3-month Total average growth since May 2011, and drags the 12-month Total average growth to 0.3%, the lowest since April 2012.
- Over the three-months to March, Online sales of Non-Food products grew 7.4% while In-store sales declined 3.0% on a Total basis and 3.4% on a like-for-like basis.

HELEN DICKINSON OBE, CHIEF EXECUTIVE,
BRITISH RETAIL CONSORTIUM

"First impressions of March's sales figures are underwhelming, with the first decline since August last year. That said, the distortion which results from the timing of Easter always makes Spring a tricky period to assess and the later timing of the holiday this year certainly detracted from last month's performance.

"Mother's Day gift purchases provided some compensation, boosting sales of beauty and stationary items in particular. Looking at the bigger picture though, the slowdown in non-food growth persists and it now stands at its lowest three-month average for nearly six years.

"Meanwhile, food sales continue to outperform non-food sales as shoppers focus their spending on essential items. This marginal growth in food was bolstered by slightly higher shop prices following increases in global food commodity costs and a weaker pound. The pressure on prices continues to build, albeit slowly, and will inevitably put a tighter squeeze on disposable income and so to ensure consumers continue to enjoy great quality, choice and value on goods, securing tariff free-trade must be the priority as the Brexit negotiations begin in earnest."

For **REGULAR INSIGHT INTO UK RETAIL, INCLUDED IN YOUR BRC MEMBERSHIP:**
BRC.ORG.UK/RETAIL-INSIGHT-ANALYTICS

NEWS FROM THE BRC

ARE YOU READY TO LEVY?

FIONNUALA HORROCKS-BURNS
POLICY ADVISOR – EMPLOYMENT AND SKILLS
BRITISH RETAIL CONSORTIUM

NEARLY TWO YEARS AFTER IT WAS ANNOUNCED, THE GOVERNMENT'S APPRENTICESHIP LEVY CAME INTO FORCE EARLIER THIS MONTH. THE TAX – SET AT 0.5% OF AN ANNUAL PAY BILL OF MORE THAN £3 MILLION – WILL OVERHAUL THE WAY IN WHICH APPRENTICESHIPS IN ENGLAND ARE FUNDED. WITH THE TARGET OF 3 MILLION APPRENTICESHIP STARTS BY 2020 THE SHIFT IN POLICY DIRECTION AIMS TO DELIVER A BOOST TO PRODUCTIVITY THROUGH INVESTMENT IN SKILLS.

At a time of growing cost pressures for the retail industry, the apprenticeship levy will have a significant impact. It has been estimated that retailers will contribute £235 million to the levy this year alone and BRC analysis estimates the levy will cost the industry between £140 and £160 million per year to 2020.

With such significant sums going into the levy, how can retailers access the money for training?

THE LEVY IN ACTION

From April 2017 retailers with a pay bill of more than £3 million will start paying their levy contribution on a monthly basis alongside PAYE and NI payments as part of their HMRC return. Levy payers are required to set up an online account through the Digital Apprenticeship Service into which digital funds are paid alongside a 10% government top-up. Retailers training apprentices can then draw down the digital funds to purchase training from a list of approved providers.

The total spend is subject to a cap – which varies according to the apprenticeship programme on offer. Providers are paid on a monthly basis through the digital accounts, with 20% of the total cost held back until completion of the apprenticeship. Unspent funds in the digital account will expire after 24 months and from 2018 employers' will be able to transfer up to 10% of their digital funds to another employer's account.

For non-levy payers looking to engage with the apprenticeships system in England, they are required to co-invest with the government towards the cost of the training.

RETAIL TO HIT THE GROUND RUNNING

The retail industry has a strong track record in training and is no stranger to apprenticeships. In 2011/12 there were more than 108,000 apprenticeship starts in retail and commercial industries, accounting for more than 20% of all apprenticeship starts in England that year. Retailers are clear that training must be high quality. With the government's target of 3 million starts, it is important that quantity does not overshadow quality.

More recent figures show retail and commercial industries continue to invest in apprenticeships. In 2015/16 the sector accounted for some 16.5% of apprenticeship starts in England – the third highest sector. As the levy comes into operation it is important that the political focus on quantity does not negatively impact the quality of training delivered.

A UK TAX BUT A DEVOLVED SKILLS SYSTEM

The devolution of skills policy across the UK has added a further complication to the government's apprenticeships policy and an unwelcome headache for retailers. Retailers operate across the UK, with stores and operations in the devolved nations. Members have told us it is not unusual to operate UK-wide training schemes.

The tax itself is UK wide but the way in which that money is spent on skills programmes and apprenticeships will be determined by the devolved administrations. Currently it is only clear how employers will be able to access the levy funds in England.

It is estimated that retailers in Scotland will be contributing between £12-15 million per year in levy payments while retailers in Wales will contribute £5 million per year. As the policy continues to develop, ensuring an integrated approach in the devolved nations remains critical to retailers.

MAKING THE LEVY WORK FOR RETAIL

Retailers are committed to developing their workforce and creating opportunities to progress in to higher skilled and higher paid roles. As the industry continues to go through a period of transformation establishing a strong skills base is critical.

The BRC have consistently called for employers to be at the heart of the apprenticeship system and as the levy system beds in we will continue to call for:

- An integrated approach across the devolved nations, ensuring maximum compatibility of use with the original scheme;
- Refine the processes for identifying and developing new Apprenticeships Standards to ensure that emerging skills requirement can be rapidly addressed;
- Ongoing support for users of the digital accounts to ensure any technical issues are rapidly resolved.

NEWS FROM THE BRC

IS IT POSSIBLE TO STOP THE INTERNET FROM BEING USED AGAINST US?

HUGO ROSEMONT, PH.D.
CRIME AND SECURITY POLICY ADVISER
BRITISH RETAIL CONSORTIUM

THE SCALE AND COMPLEXITY OF THE CYBER THREATS FACING THE UK ECONOMY, AND SOCIETY MORE GENERALLY, ARE INCREASINGLY APPARENT. ACCORDING THE OFFICE OF NATIONAL STATISTICS, THERE WERE 3.6 MILLION FRAUD AND 2 MILLION COMPUTER MISUSE OFFENCES IN THE YEAR ENDING SEPTEMBER 2016. IN THE RETAIL INDUSTRY ALONE, THE BRITISH RETAIL CONSORTIUM'S LATEST ANNUAL CRIME SURVEY FOUND THAT 53% OF FRAUD LEVELLED AGAINST THE SECTOR IS CYBER-ENABLED, REPRESENTING A DIRECT COST OF AT LEAST £100M PER ANNUM. ASIDE FROM THE FINANCIAL HARM BEING INFLICTED, IT IS NOT AN EXAGGERATION TO SAY THAT THE REPUTATIONAL IMPACT OF A 'SUCCESSFUL' CYBER-ATTACK COULD BE EXISTENTIAL.

This does not mean, however, that we are powerless in our ability to mitigate the worst forms of cyber-attack or other digitally-enabled crime; on the contrary, much can be done to prevent cyber-crime and protect vulnerable individuals online. For example, retailers can make use of the BRC's new cyber security 'toolkit' launched in March 2017 and formed under the auspices of our Fraud and Cyber Security Member Group. The first of its kind, the toolkit is designed to serve as a practical, step-by-step guide to prevent and manage cyber security threats and protect customers. Available on the BRC's website as a free resource for the whole retail industry, it was launched by Home Office Minister Sarah Newton MP and has received support from, amongst others, the UK's new National Cyber Security Centre.

In the wake of a series of high profile data breaches, businesses across all industries are now allocating more time and effort into their cyber protection, investing in the skills that they need to ensure their digital resilience. Companies are also engaged in the essential, country-wide effort underway around improving the public's awareness about the character and impact of cyber risk, and what individuals can do in practical terms to protect themselves.

Of course, the British state will need to play the lead role in protecting UK cyberspace, given its primary responsibility for national security. Reflecting the evolving threat, the Government has correctly identified cyber-attacks as a 'tier one' risk to national security, and has more than doubled its own investment since the last Parliament. It has also placed a high priority on developing effective public-private cyber security cooperation through the recently-established National Cyber Security Centre (NCSC), and through law enforcement bodies including the National Cyber Crime Unit (NCCU).

Industry also believes that an effective cyber security strategy must involve strong cooperation between the public and private sectors, which is why the creation of the NCSC in October 2016 has been so warmly received. It is seen to have got off to an excellent start, displaying a willingness towards developing strong, genuinely collaborative partnerships with all sectors of the economy. Provided that it maintains this attitude, continues to be resourced appropriately, and proves able to attract the best talent, the NCSC promises to become the embodiment of the now well-versed mantra that neither Government nor industry can achieve cyber security on their own.

The cyber security challenge in front of us is undoubtedly daunting, if not monumental. But a strong, closer partnership approach will help to stop the internet being used against us.

View the *BRC Cyber Security Toolkit* here:
https://brc.org.uk/media/120731/brc-cyber-security-toolkit_final.pdf

NEWS FROM THE BRC

SCOTLAND: HIGH STREET REVIVAL STARTS WITH COUNCILS

DAVID LONSDALE
DIRECTOR
SCOTTISH RETAIL CONSORTIUM

THIS IS A FASCINATING TIME FOR SCOTTISH LOCAL GOVERNMENT. ELECTIONS ARE BEING HELD IN EARLY MAY, FURTHER CITY REGION DEALS ARE IN THE PIPELINE, AND COUNCIL FINANCES ARE SET TO BE ASSIGNED A PORTION OF INCOME TAX RECEIPTS UNDER HOLYROOD GOVERNMENT PLANS.

An effective, efficient and properly funded local government is in the interests of households and businesses. Long term budgetary pressures coupled with constraints on the public purse are causing local authorities to think differently about how and which services they deliver, and how they deploy resources as efficiently as possible.

Maintaining public satisfaction with council services can be difficult alongside attempts to cut costs and reinvent the way they are provided. However, so far, according to the Scottish Household Survey, councils have risen to the challenge. Transformation is also underway in Scottish retail, leading to fewer but better jobs in the industry and a smaller store footprint. These changes will have profound implications for Scotland's local councils, especially for employment prospects in communities more reliant on retail jobs, for the health of our town centres, and for tax revenue that councils rely on. Newly-elected council administrations should ensure their policies and approach towards retail are supportive and effective. This is about more than backing Business Improvement Districts and acknowledging the impact council tax rises have on disposable incomes.

For example, town centres and high streets have a great deal to offer. But with one in 11 shops lying vacant, action is required to spur additional private sector investment and make it easier and less costly for retailers to expand their property footprint. Many shopkeepers view the building standards system as a bugbear. Concerns include the length of time needed to secure consents to open new or refurbished shops, particularly in listed buildings, but also for things like putting in seats, toilets and signage.

Costly and restrictive car parking should be near the top of the in-tray too. If we are to see greater shopper footfall and more vibrant high streets then new thinking is urgently required, with parking made easier and more affordable. There are good example of councils taking a positive approach but this needs to become widespread.

Thanks to the 2015 Community Empowerment Act local councils have the power to reduce business rates in their areas. High business rates have become a heavy burden for many retailers and implementation of this new power could help. However, 18 months on, the policy risks being a flop due to lack of use. Only one area has so far benefited from a rates reduction, and widespread adoption is – for the moment – missing.

> BUILDING STANDARDS, PARKING, TARGETED RATES RELIEF. NO ONE SAID RUNNING A LOCAL AUTHORITY WAS GLAMOROUS. HOWEVER, THESE CHANGES COULD MAKE A REAL DIFFERENCE TO THOUSANDS OF RETAILERS AND DELIVER VIBRANT TOWN CENTRES.

ADVERTISING OPPORTUNITIES NOW AVAILABLE IN THE RETAILER

THE RETAILER IS NOW OFFERING ADVERTISING OPPORTUNITIES FOR OUR MEMBERS. IF YOU WOULD LIKE TO ADVERTISE OR WOULD LIKE MORE INFORMATION, PLEASE CONTACT THERETAILER@BRC.ORG.UK.

To book or for more information, please contact us at **events@brc.org.uk** or visit brc.org.uk/events

BRC

UPCOMING EVENTS 2017

RETAIL 2020: THE JOURNEY TO BETTER JOBS
TUESDAY 16 MAY
Kings Place, London

The BRC's new flagship event flows directly from our Retail 2020 project. It aims to provide a forum for all retail professionals concerned with talent, productivity and engagement and give delegates the opportunity to further understand the challenges the industry faces; as well as to share thoughts and ideas to help anticipate how individual businesses and retail as an industry should react. The conference is aimed at both Directors of HR, Talent and People and HR teams, as well as Senior Level executives/managers on the operational side who will always be looking to engage their workforce.

DIVERSIFYING YOUR RETAIL REVENUE - STRATEGIES FOR ECOMMERCE (PRIVATE EVENT)
WEDNESDAY 24 MAY
The Gherkin, London

Following BRC CX in March, continue the conversation with Webloyalty, one of our partners at the event, with this exclusive roundtable for ecommerce and finance professionals. We will further explore diversification of revenue for retailers.

BRC VOICE: CYBERCRIME, THE ROLE OF THE BOARD (PRIVATE EVENT)
WEDNESDAY 14 JUNE
The Gherkin, London

The BRC in association with PwC have created a dynamic interactive workshop focusing on the role of the board in managing risk, preparing for the eventuality of a high-profile data breach and your company's ability to respond to a cyber attack. Find out who is attacking you and why, as well as the real risks facing the retail industry.

ANNUAL RETAIL INDUSTRY LECTURE (FREE FOR RETAILERS)
THURSDAY 22 JUNE
Ham Yard Hotel, London

Celebrating 10 years of retail CEO speakers, this year's lecture will be delivered by Richard Pennycook, outgoing CEO, of the Co-op.
Free to Retail Members, no other single speech in the retail calendar has the power to set the agenda and motivate its audience, quite like the Annual Retail Lecture.

ANNUAL RETAIL INDUSTRY DINNER
THURSDAY 28 SEPTEMBER,
Banqueting House,
Whitehall, London

After nearly 20 years our Annual Dinner is now an exclusive event for BRC members. This year will bring together a group of 350 of the major players in UK retail with guests enjoying an evening of high level networking, political discussion and leading business insight, coupled with a 5-star dining experience in the exemplary surroundings of Banqueting House, Whitehall.
There are a limited number of tables available.

SCOTTISH RETAIL CONSORTIUM RECEPTION
WEDNESDAY 14 JUNE
Harvey Nichols, Edinburgh

WELSH RETAIL CONSORTIUM RECEPTION
WEDNESDAY 28 JUNE
The National Assembly for Wales, Cardiff

The SRC and WRC Parliamentary Receptions are the premier events in the Scottish and Welsh retail calendars, respectively.
Our 2017 SRC Reception is being kindly hosted by Harvey Nichols Edinburgh. The Scottish Government's Economy Secretary, Keith Brown MSP, and SRC Chairman Andrew Murphy will be the principal speakers.
The WRC Reception is being kindly sponsored by Hannah Blythyn AM and will feature a keynote address from the Cabinet Secretary for the Economy, Ken Skates AM.

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Event Sponsorship Executive
+44 (0)20 7854 8982
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CHANGING DATA PROTECTION RULES FOR RETAILERS
ARE YOU READY FOR THE GDPR?

BEVERLEY FLYNN
PARTNER, COMMERCIAL AND DATA PROTECTION
STEVENS & BOLTON LLP

The new EU General Data Protection Regulation (GDPR) is set to change existing data protection legislation from 25 May 2018, resulting in tighter data management rules for retailers that collect, use and share employee and customer "personal data" such as names, email addresses and transaction history. We set out some of the key implications of the GDPR for retailers below.

OVERVIEW
The GDPR will replace the existing EU Data Protection Directive and introduce one set of largely uniform data protection standards across all EU countries. The new rules have broad scope and will be relevant to organisations operating in or providing goods and services to the EU, whether or not those organisations are located in the EU. As it is unlikely the UK will have left the EU before the GDPR go-live date in 2018, it is expected that the GDPR will apply in the UK initially and that there could also be equivalent legislation post-Brexit.

ACCOUNTABILITY
The "accountability" principle is a significant factor of the new rules and prompts businesses to develop a demonstrable, active culture of data governance and compliance. Retailers will need:

- to adopt internal policies and procedures, which are reviewed and updated from time to time;
- to keep records about their processing activities (some retailers with fewer than 250 employees will be exempt from this requirement);
- to consider appointing a protection officer (DPO) (see Data Protection Officers section);
- to implement a privacy by design and default process (e.g. putting in place suitable safeguards for each project and ensuring that only necessary personal data are held), so that any processing of personal data is properly considered and appropriate in each context;
- where carrying out high-risk processing, such as using CCTV in store or profiling customers, to conduct privacy impact assessments and consider how any risks can be mitigated prior to processing. Some high risk projects will need to be notified to the regulator in advance; and
- to notify data breaches to the regulator and to individuals in certain circumstances (notifications to the regulator will normally need to be made within 72 hours).

DATA PROTECTION OFFICERS
Under the new rules, organisations that regularly and systematically monitor individuals, or process sensitive personal data or criminal offences data, on a large scale as a core activity of their business will need to appoint a DPO with "expert" knowledge of data protection law and practice. Retailers that track and profile customers online, for example, for the purposes of behavioural advertising or that use CCTV in shopping centres or stores may meet the threshold for a mandatory DPO. Even if it does not apply, current guidance positively encourages the voluntary appointment of DPOs.

Whilst some retailers may already have an in-house DPO, the DPO role is more pronounced under the new rules with its own framework – including protection for DPOs against dismissal and penalties, and some obligations on organisations (for example, to provide resources). Retailers needing a mandatory DPO should ensure that any existing DPO role will satisfy the requirements. Those without a DPO should start to consider whether they will hire someone or use existing personnel. The former may be preferred from a cost perspective, but will only be feasible if the DPO can balance the role with their other duties and will not be conflicted.

Where appointing DPOs voluntarily, retailers should be aware that the mandatory rights and obligations could apply and therefore should take care when scoping the role.

ACCOUNTABILITY PROCEDURES:

- PRIVACY BY DESIGN & DEFAULT
- DATA MINIMISATION
- ENHANCED FINES
- MANDATORY BREACH NOTIFICATIONS
- CONSIDER PRIVACY IMPACT ASSESSMENTS
- DATA PORTABILITY & PROFILING

PREPARE FOR CHANGES TO CONSENTS AND PRIVACY NOTICES
Consents to various marketing and affiliate marketing activities and loyalty schemes currently use a mixture of opt-in (for example, unticked boxes) and opt-out methods (pre-ticked boxes). The new rules, together with recent guidance, will mean that the use of pre-ticked boxes and terms that bundle consents to everything will need to change. The GDPR favours methods which enable people to specifically and actively opt-in and out to different uses of their data.

Privacy notices need to be more detailed and retailers will need to be prepared to state, for example, the planned data retention period or criteria. Retailers should review their privacy notices and (if they rely on consent) their existing procedures for obtaining consent to ensure that they can comply with the enhanced requirements under the new rules.

NEW RIGHTS FOR INDIVIDUALS?
The new rules will strengthen existing rights of individuals and introduce new rights. For example, individuals will have the right to have portable personal data and to have personal data erased. Individuals will still be able to make subject access requests for personal data, although retailers will have less time to fulfil a request (30 days rather than 40 calendar days) and will have to provide more information.

INCREASED MONETARY PENALTIES
The enhanced obligations will be backed by new and larger monetary penalties. The current threshold of £500,000 will increase to a maximum of EUR 20 million or 4% of annual worldwide turnover in the previous year, whichever is higher. This represents a substantial increase and means that data protection will become a significant risk factor to retailers when appointing third party data processors. They should therefore use the remaining time before 25 May 2018 to ensure that they are compliant with the new requirements.

If you have any queries or would like further information on GDPR and DPOs, please contact Beverley Flynn, Partner, Commercial and Data Protection:

BEVERLEY FLYNN
// +44 (0)1483 734264
// beverley.flynn@stevens-bolton.com
// www.stevens-bolton.com

S&B Stevens & Bolton LLP

PREPARATION IS KEY:

- CONDUCT A DATA AUDIT
- APPOINT A DATA PROTECTION OFFICER
- REVISIT CONSENTS & PRIVACY NOTICES
- RECORD KEEPING

RETAIL SUCCESS:
ENABLED BY TECH, DELIVERED BY PEOPLE

NEIL PICKERING
RETAIL INDUSTRY AND CUSTOMER INSIGHTS MANAGER
KRONOS

WHAT ROLE WILL HUMANS PLAY IN THE ERA OF AI, MACHINE LEARNING AND AUTOMATION?

When Abraham Maslow proposed his hierarchy of needs in his paper "A Theory of Human motivation" he coined the term "metamotivation". Used to described the motivation of people who go beyond the scope of their basic needs and strive for constant betterment, it seems to describe well the demands of most retail customers today.

The expectation of low price, high quality and good service is higher than ever, driven by digital transparency. Mobile technology allows people to browse and purchase goods at any time and from any place. Combine consumer expectation with rising costs, and the need to homogenize sales channels, and there's little wonder retailers are turning to latest technology -AI (Artificial Intelligence), machine learning and automation- to drive down costs and improve performance.

Ten years ago, who would have thought that 'not owning inventory' would be one of the most profitable forms of retail, but here we are today with businesses like 'Not On The High Street', Alibaba and Amazon all relying heavily on technology to control their complex supply chains.

> RAPID ADVANCEMENTS IN TECHNOLOGY ARE IN THE HEADLINES FOR 'WONDER' AND 'FEAR' IN EQUAL MEASURE. THE RECENTLY PUBLISHED RETAIL 2020 REPORT BY THE BRC (BRITISH RETAIL CONSORTIUM) FORECASTS 900,000 FEWER RETAIL JOBS BY 2025, MANY OF WHICH REPLACED BY TECHNOLOGY.

ARE WE RIGHT TO BE WORRIED?
Technology is an enabler, but great businesses are powered by great people. And human capital will remain the last differentiator.

Retailers must look for marginal gains across their operation and supply chain to remain competitive. For this, technology plays a critical role. But working in lock-step at every stage are humans. Multiplicity of calculations is what computers do well – the ability to consider thousands of factors and produce results rapidly and accurately. Humans may be good at pattern matching, but we generally hate repetition. When faced with a complicated, boring or repetitive task we will instinctively apply many avoidance tactics – most of which result in errors or poor quality. Allowing tech to do the complicated and boring stuff makes complete sense.

Where computers perform poorly are emotional intelligence, creativity and adaptability. Silicon and wire clusters have yet to match the scale of sensory input and output to match human capabilities.

Distinguishing stress and emotion by tone of voice. Recognising confusion and ability through body language. Changing actions based on received eye contact and facial expressions. To date, only humans perform these actions efficiently. And, great customer service depends on these abilities. In a world where virtuality and information overload are stressing consumers, interaction with a person at the right time and place can make all the difference.

WILL HUMANS ALWAYS HAVE A ROLE TO PLAY?
Well...yes....but only if we (assuming you're a human reading this) are willing to adapt. You see, the critical differentiators to business in this era of high technology are skills and talent.
In the future, there probably will be fewer jobs in retail but the skills requirements will be different. We need skilled people to develop new technologies; to analyse and implement new solutions; to train users on how to use new technology; to interpret output and to make operational corrections.

Unfortunately, it's not only retailers who are battling to acquire these skilled employees. Competition is fierce across all industry sectors with teams working hard to change industry perceptions and business culture.

Never has there been such an unequivocal need to understand and engage associates at an individual level. Engaged associates deliver greater productivity, are loyal and deliver better customer service. Three key principles are important if we are to build that engagement: Transparency, Trust and Respect.

- Transparency – objectives are clearly defined and new ideas are shared
- Trust – individuals are given the autonomy and tools to make their own decisions
- Respect – everyone recognises the important role they play in delivering business success

Retailers who focus on making their employees feel valued will be the ones who maximise the return on both their human capital and their technological investments. Achieving this will require careful change management – and change is never easy at both a business or associate level. Clear objectives, a solid plan, perseverance and trust are key components to successful change.

In fact, the 'trust' element is something many people find hard to accept, especially when it relates to data output from new systems. Manual adjustments by tenured staff, to things such as optimised staff rosters, are often seen as the last bastions of control for many managers. Unfortunately, in almost all cases those manual edits will have adversely affected profits. Change management and training are key to getting new technology and workers aligned.

A recent visit to a client in Manchester proved older workers can embrace change – given the right support. A 65-year-old supervisor who steadfastly refused to have anything to do with computers went from "You won't get me using that" to "I love it, wouldn't go back to the old ways now" in short order. By taking the time to understand her needs and fears, and by providing appropriate training and support, the client retained a great supervisor and bolster the self-esteem of an important worker. Retailers yet to embrace new technology are already behind the curve. But investments in technology and people are not mutually exclusive. Technological solutions inevitably fail without the creativity, flexibility and adaptability provided by our most vital resource – our workforce.

For more information please contact:

NEIL PICKERING
// www.kronos.co.uk
// @ZamberP

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> "TECHNOLOGY IS AN ENABLER, BUT GREAT BUSINESSES ARE POWERED BY GREAT PEOPLE. AND HUMAN CAPITAL WILL REMAIN THE LAST DIFFERENTIATOR."

THE RISE OF AI AND ROBOTICS IN RETAIL

CHARLOTTE WALKER-OSBORN
PARTNER AND HEAD OF TECHNOLOGY
MEDIA AND TELECOMS SECTOR
EVERSHEDS SUTHERLAND LLP

CANDICE O'BRIEN
ASSOCIATE
EVERSHEDS SUTHERLAND LLP

AI AND ROBOTICS IN RETAIL HAS UNSTOPPABLE MOMENTUM. IT WILL BE A KEY FOCUS AND POTENTIAL DIFFERENTIATOR FOR RETAILERS

Earlier this year, MEPs voted for a set of regulations to be drafted to govern the use and creation of robots and artificial intelligence (AI) in the EU, hot off the back of the UK government setting up a commission to look at the issues surrounding AI. Competition in the retail sphere is fierce and more brands are looking to use AI and robotics to draw in consumers and drive up sales. Businesses that ignore this rising trend are likely to find themselves struggling in the ever competitive race to become innovative – as many retailers already use or are beginning to adopt AI and use of robots to better understand, connect with, and create superior experiences for consumers. However, the law is yet to catch up with the technology; across continents, the law is unclear and differing and is likely to evolve. This article will primarily focus on addressing the position in the UK.

FIRSTLY, WHAT IS AI? AI IS THE SIMULATION OF HUMAN INTELLIGENCE PROCESSES BY COMPUTER SYSTEMS AND OTHER MACHINES. THIS INCLUDES MACHINE LEARNING, REASONING AND USE OF RULES TO REACH CONCLUSIONS AS WELL AS AN ELEMENT OF SELF-CORRECTION.

As of 12th January, MEPs from the parliament's legal affairs committee passed Mady Delvaux's report into robotics and AI. As a result, the European Parliament will be pushing for the creation of regulation around the use of robots and AI.

UPTAKE IS RISING; WHERE IS THE LAW?

One of the key issues customers and suppliers are grappling with is intellectual property ownership and rights to use output of these technologies. In the UK, copyright law generally envisages there will be human intervention in creation, which is technically not always the case, making ownership far from clear cut. It is arguable that the organisation who has set up the rules for the system has made the arrangements necessary for the creation (and is therefore the owner) but this is not the definitive conclusion.

Patents are also relevant. The Patents Act 1977 expressly carves out from patent protection inventions which are implemented by computer programs if they "relate to that thing as such". Traditionally, for the UK, that has meant that only certain types of patent applications which involve computer systems will be granted and these need to have a certain "technical" contribution. If this hurdle is overcome, the Act sets out that the inventor is the devisor of the invention. So, potentially, certain types of AI inventions will be patentable. In other countries, it may be easier to patent certain AI/robotics and some countries have granted patents already. Retailers should think carefully about this aspect early on in the procurement process including any rights to use created output/content from AI technology.

BUSINESSES THAT IGNORE THIS RISING TREND ARE LIKELY TO FIND THEMSELVES STRUGGLING IN THE EVER COMPETITIVE RACE TO BECOME INNOVATIVE.

It is also important to consider how liability might be apportioned if things go wrong, whether AI or robotics is being used in back office systems or in a business' own customer-facing solutions. The law is unclear in many territories in relation to an "owner", manufacturer and/or user's liability for acts and omissions by robots/AI. General principles around product and software liability are likely to be applied in the UK in the meantime.

2017 is the year many countries are seeking to generate legislation which will give at least some framework in these areas. For example, the 2017 report from Mady Delvaux examines if robots should have legal rights and be given legal status as an "electronic person" as well as whether a robot can be held liable for accidents. There is much talk about whether robots should have a "kill switch" so they could be switched off if needs be. The EU report sets out proposed principles which include robots not injuring humans and obeying human orders where it does not conflict with the earlier principle.

It should be noted that there are not yet regulations which specifically address consumer or privacy and AI/robots in the UK, but both consumer laws (where the AI/robots are for use by consumers) and data protection laws are relevant and current laws must be respected. In relation to use and collection of people's personal data, normal privacy laws need to be applied including (from 2018) the new European General Data Protection Regulation. The GDPR includes provisions that promote privacy by design, accountability, governance and includes an obligation to demonstrate compliance with these principles. This will place a legal requirement on retailers using AI/robots which use personal data to add appropriate safeguard mechanisms throughout their data governance processes. Mady Delvaux's report emphasises the need to ensure the security of data systems to prevent potential breaches, cyber-attacks or misuse of personal data and current and upcoming other laws are heavily focused in this area for technology. If AI/robots interact with consumers, consumer laws will need to be applied as with other technologies. It will be interesting to see which (if any) of these laws are updated by other regulations specifically for AI and robotics in the future. It is expected that the UK will look to update their laws to deal more comprehensively with AI in 2017, probably via EU laws pre-Brexit. In relation to commercial arrangements where retailers are procuring AI systems or consultancy from a third party provider or are offering these services, it is essential to give clarity in contract(s) to the parties' intentions around ownership, licensing and exploitation as well as data protection, product and other potential liabilities.

For more information please contact:

CHARLOTTE WALKER-OSBORN
// +44 121 232 1220
// charlottewalker-osborn@eversheds-sutherland.com
// LinkedIn: Charlotte Walker-Osborn

CANDICE O'BRIEN
// +44 1223 443 639
// candiceo'brien@eversheds-sutherland.com

// consumerhub.eversheds-sutherland.com
// @ESconsumerlaw

EVERSHEDS
SUTHERLAND

"ONE OF THE KEY ISSUES CUSTOMERS AND SUPPLIERS ARE GRAPPLING WITH IS INTELLECTUAL PROPERTY OWNERSHIP AND RIGHTS TO USE OUTPUT OF THESE TECHNOLOGIES. "

‘PAYMENT LINKED LOYALTY’ CAN HELP CAPTURE THE ‘HEARTS & MINDS’ OF CONSUMERS IN THE DIGITAL AGE

JAMES DAY
PARTNER MARKETING AND GROWTH STRATEGY
BINK

In today’s digital world, consumers expect more choice and immediacy. Many are now actively choosing not to engage with certain brands and those that do, are doing so in a more circumspect way. This customer behaviour is forcing the loyalty industry and the players within it to innovate, or risk being left behind for refusing to or adapting too slowly.

Consumers are now savvier than ever about their purchasing decision. They can read reviews, compare prices, check product capabilities and gain clear visibility of how products stack up against the competition. With all this information at their fingertips, brand loyalty can fall by the wayside in the face of a better deal elsewhere.

The loyalty industry is recognising the change that’s afoot and is adapting. The traditional approach of collecting points or rewards with a plastic loyalty card and redeeming them in the form of paper vouchers posted to a customers’ home is fast becoming an outdated solution for today’s digitally enabled customer. Plastic loyalty cards that are left in glove boxes or vouchers that remain in a pile of unopened mail mean ultimately, it’s the customer that misses out. Whilst change is happening, it’s not happening quick enough – since 2014 eight million fewer people in UK are using loyalty schemes (Worldpay).

‘Payment linked loyalty’ from Bink offers the answer to drive increased customer engagement. It’s a digital innovation aimed at re-invigorating the global $100billion loyalty market and it’s fast capturing the hearts and minds of customers by saving them time, hassle and money. It allows customers to link their enabled loyalty schemes to their payment cards so that they are able to seamlessly collect all their points and rewards at the checkout, along with receiving their offers, coupons and e-receipts.

By negating the need for plastic loyalty cards, customers free up space in their wallets and Bink’s new, seamless process also saves them time at the till. We estimate it will save approximately 8 seconds per transaction (something beneficial for both consumers and retailers). In five years, we’ll look back at ‘loyalty cards’ the way we looked at prepaid public phone box cards, following the smartphone revolution.

Payment linked loyalty is also streamlining the entire loyalty app process – with Bink’s free app, customers can see all their loyalty points and rewards from all their preferred retailers simply and seamlessly with a glance at their smartphones (rather than searching for individual apps by retailers). Bink’s loyalty app aims to be the platform for this giving partners brands control, in much in the same way that Facebook has become the platform for consumers to view all their news and social updates.

Payment linked loyalty also aims to build better relationships between brands and their customers. It’s estimated that there are £6.2bn worth of loyalty points unclaimed each year - too often customers passively receive their rewards meaning they don’t redeem them. Do you know how many points you have on all your loyalty cards at this moment in time? Brands can’t expect to capture customers’ hearts and minds if their customers aren’t engaged and don’t know the value that they’re being offered.

> THE DISRUPTORS DRIVING THIS CHANGE MAY BE CHALLENGING THE ESTABLISHED ORDER THROUGH OFFERING STARKLY DIFFERENT BUSINESS MODELS, BUT THEY ARE A VITAL CATALYST FOR THE SECTOR TO EVOLVE.

Take Uber for example; it offered cheaper travel, took away the customer need to carry cash and it did it through a seamless, simple app experience. It then innovated further by launching UberPool (where customers can share rides) allowing cheaper fares and a more environmentally free option.

At Bink, we want to do for the loyalty sector what Uber did for the travel sector. Our aim is to make the whole loyalty experience easier and better for consumers so that they can more easily collect their points and rewards for shopping at their favourite brands and more easily redeem their points and rewards that they have earned. It’s also worth noting that every year a significant number of plastic loyalty cards go into landfill, and with each plastic card taking approximately 450 years to biodegrade that’s a huge environmental challenge. This is a problem we as Bink want to tackle head on with our customer centric solution. In today’s digital world, it’s a truism that the days of plastic loyalty cards are becoming increasingly numbered.

Nurturing and sustaining loyalty with consumers remains critical to delivering successful, long-term commercial growth. However, it’s never been harder for companies and brands to establish meaningful consumer relationships to underpin their commercial performance and maintain a competitive edge.

But agile, forward thinking disruptors are changing the status quo, by offering loyalty value to customers in a seamless, relevant way. Loyalty can’t be replicated; it has to be earned – relationships need to be nurtured and often over long periods of time. Loyalty is too valuable an asset for brands not to prioritise, but the way to build and maintain loyalty with customers is changing – those that don’t change and evolve with the times risk falling behind. or more information please contact:

JAMES DAY
// jd@bink.com
// www.bink.com
// @HelloBink

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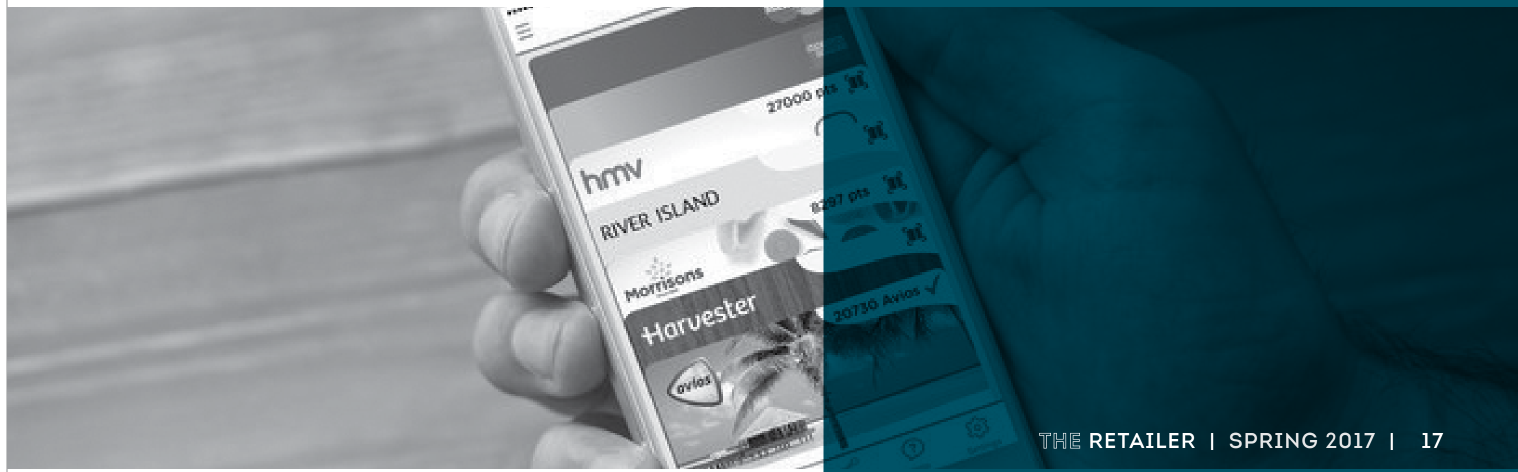
or miss out

> “IT ALLOWS CUSTOMERS TO LINK THEIR ENABLED LOYALTY SCHEMES TO THEIR PAYMENT CARDS SO THAT THEY ARE ABLE TO SEAMLESSLY COLLECT ALL THEIR POINTS AND REWARDS AT THE CHECKOUT, ALONG WITH RECEIVING THEIR OFFERS, COUPONS AND E-RECEIPTS.”



INTERNATIONAL E-COMMERCE ENVIRONMENT:
3 TIPS FOR ENSURING YOU ARE LOCAL

LUCA SENATORE
DIRECTOR OF STRATEGY
GENIE GOALS

BY THOROUGHLY UNDERSTANDING THE CHALLENGES AND OPPORTUNITIES OF INTERNATIONAL E-COMMERCE, RETAILERS CAN START FORMING STRATEGIES TO GROW GLOBALLY AND PROFITABLY.

Internationalisation is a key factor in the rapidly changing e-commerce environment. By 2018 the value of UK based e-commerce is estimated to be £60 billion, up from £10 billion in 2013 (UKTI), with much of this revenue being generated from overseas sales.

Our retail clients are no longer competing with just the high street - they're competing with the world. And this battle is being fought beyond just price; it also means delivering a hyper local experience relevant to the target audience. The payoff of this local experience is simple: sales and profit are not left on the table.

> ONE OF OUR CLIENTS SAW A 200% INCREASE IN C/R ON ITS GERMAN WEBSITE JUST THROUGH IMPROVING TRANSLATION, WITHOUT ANY EXTRA ADVERTISING SPEND.

At Genie Goals we've overseen the internationalisation of a large number of e-commerce brands including Calvin Klein, Amara Living, The Conran Shop, Hackett London, Karl Lagerfeld and Naked Wines. The large accounts we manage have provided us enough data to create the methodologies, frameworks and strategies to consistently achieve good results when approaching local strategies in international markets. Here are three of the many aspects we look at when dealing with international e-commerce:

1. UNDERSTAND CULTURAL VARIATIONS

So you've spent time building your marketing strategy around the platforms you know. Unfortunately, it is quite simply wrong to assume what works well in one market will work well in another.

This seems obvious, but many brands fail to take time to consider cultural variations in the required depth. Search behaviour, product popularity, brand perception, payment gateways and purchasing habits all differ from one region to another and these things can have a phenomenal impact on conversions.

The questions we always start with are:

- How is this brand perceived in the target market? One of our clients is perceived a luxury brand in one nation and almost as an everyday-buy brand in another. This will influence everything from demographic targeting to messaging to campaign prioritisation.
- Who are the key competitors? What are their USPs? How big are they?
- How big is the market?
- How do people like to pay? In some countries, they pay on invoice or cash on delivery. This might have a detrimental impact on conversion and will inform decisions related to the payment gateways we choose.
- What are the costs involved to deliver? This will inform our CPA/ROI strategy so that we're in control of profitability.
- What are the returns in this market? Do people order, try stuff on and return most of it?
- What is the percentage share of mobile versus desktop shopping?

2. UNDERSTAND MARKETING VARIATIONS

At a marketing level, platform choices vary too. Naver, a search engine in South Korea, has a 77% market share over Google's 11%. You also have to be a Korean registered company to advertise on its site. In Russia, Google and Yandex are the two players with 40% and 60% of market share respectively. Likewise, your Facebook strategy is unlikely to hold much weight in China due to censorship laws and other social media platforms such as Renren being more popular.

A first good step is to obviously carry out the research that allows you to know the facts and data. Next, it's always a good idea to approach the platforms directly and ask for stats, trends market insights and, crucially, train your staff (or make sure your agency is trained) on these platforms; understanding the tools we use is vital to achieving best results.

Google and Yandex work in different ways from the number of characters in the ads, pricing, auctions algorytm, types of users etc. We see this with Bing and Google as well - the users of each platform interact with the brands we advertise in very different ways. In some countries Shopping just isn't a thing - in others they play a massive part. Even trademark policies and laws are different market by market - in Germany one can protect the ™ for 'Black Friday' for example, meaning that you won't be able to mention the phrase 'Black Friday' in your adverts.

Research, research and research before you launch.

3. GET YOUR TRANSLATION RIGHT

Accurate advert translation should be the most obvious first step, but it is still unbelievably neglected. Translation isn't just about getting the words right; it's also the context, tone of voice and the way people use the language in a given country.

For example, we recently solved a case where the word 'Urlaubssaison' was used in a marketing campaign. While this translates as 'holiday season' in German, it is more commonly associated with summer holidays rather than the Christmas campaign it was advertising.

Results are often instant. One of our newest clients saw a 200% increase in conversion rate on its German website just through us improving the translation, without any extra advertising spend. This was achieved through using an in-house native speakers dedicated to translation - the only way we have found to guarantee translation success.

Ultimately, from the website to paid ads, each instance of incorrect translation desperately misrepresents a brand. Google Translate simply doesn't cut it.

WRAPPING UP

Taking your e-commerce operation abroad is fraught with risk and should not be undertaken without due care, research and proper implementation. However, the risk can prove very rewarding when done correctly. Genie Goals works with retailers to revolutionise their digital marketing efforts and has successfully doubled and even tripled accounts year-on-year since its inception in 2012.

We manage accounts globally and have 10 in-house native languages to do so. We take internationalisation very seriously and believe that if done correctly, globalization can be very very lucrative for UK-based retailers.

To find out more about Genie Goals, or for a free paid search account audit to know where you could be doing better, head to GenieGoals.co.uk or email hello@geniegoals.co.uk.

LUCA SENATORE
// 0844 415 5532
// www.geniegoals.co.uk
// hello@geniegoals.co.uk

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people just click with us

> "OUR RETAIL CLIENTS ARE NO LONGER COMPETING WITH JUST THE HIGH STREET - THEY'RE COMPETING WITH THE WORLD."

PAPER CARRIER BAG - RETAIL HERO IN COMBATTING CLIMATE CHANGE

TOM HALLAM
BUSINESS DEVELOPMENT DIRECTOR
BILLERUDKORSNÄS

SWITCHING FROM PLASTIC TO PAPER IN THE RETAIL SECTOR WILL HELP MITIGATE CLIMATE CHANGE.

EU citizens consume an average of 200 plastic bags per year, many of which are used only once which then end up in landfill or oceans.[1] This plastic pollution has huge negative consequences for marine life - do you recall the reports of a whale stranded off the coast of Norway with 30 plastic bags in its stomach? Furthermore, plastic bags are commonly made from oil, a non-renewable resource, greatly contributing to global fossil emissions and climate change. An EU directive was launched in 2015 with the target of reducing the number of plastic bags to 40 per person, per year, by 2025. France recently banned the use of plastic bags in stores altogether and so have countries outside the union, such as Morocco and Rwanda.

When it comes to plastic bags, the retail sector has the power to make a great positive contribution to society and the environment – simply by switching to paper carrier bags.

NEW STUDY PROVES THAT PAPER CARRIER BAGS HAVE THE LOWEST CARBON FOOTPRINT

At the end of last year BillerudKorsnäs, a producer of paper-based packaging material, asked IVL (Swedish Environmental Research Institute) to conduct a Life Cycle Assessment (LCA), measuring the environmental performance of different products. In the assessment, we chose to analyse the impact of four products; - our own paper carrier bags from fresh wood fibre, a recycled paper bag, a recycled plastic bag as well as a bio-based plastic bag (a carrier bag made from sugarcane ethanol).

The IVL-study showed that BillerudKorsnäs' paper bag, made using fresh wood fibre, was significantly less impactful on the climate than all other carrier bags in the assessment. Even if plastic is recycled and used for new products, the paper bag is still better from a climate perspective with 50 percent less emissions throughout the value chain.
The remarkably low impact of the paper bag can be attributed to BillerudKorsnäs' efforts in using renewable energy in the production process. Here, bio-fuels play an important role in reducing fossil emissions. By-products from the forest and agriculture are a great source of fossil free fuel.

RECYCLING IS OF GREAT IMPORTANCE IN A CIRCULAR SOCIETY

The results of the study should not however be seen as criticism of the recycling process. A sustainable paper cycle relies on both the extraction of renewable raw materials for new wood based products, and the collection of post-consumer waste that can be given a new lease of life. Both of these processes carry equal importance for a circular system which increases resource efficiency in society. But we must work together to ensure that waste streams are efficiently sorted and recycled to help prevent the ongoing pollution of our land and waterways.

JOINING FORCES TO REDUCE PLASTIC POLLUTION

The future is fossil free. The Paris Agreement and the United Nation's Sustainable Development Goals (SDG) all agree on this. But in order to reach the global goals, companies need to take the lead and offer consumers good choices – and consumers need to keep demanding these good choices. Co-operation between the retail industry and consumers will be crucial in solving the environmental challenges that we currently face. We will also need to see closer working relationships between business partners, NGOs and public institutions in order to generate new sustainable solutions and business opportunities.
BillerudKorsnäs partners with the French sea research institute, Tara Expeditions, to investigate how oceans are being affected by plastic pollution. Research results have confirmed that an imbalanced marine ecosystem is less effective in mitigating climate change and can cause permanent damage to marine life. Cooperating with Tara is our way of making a positive contribution to SDG Goal 14: Life below water. We believe that using paper-based packaging solutions can be a crucial piece of the puzzle in reducing plastic pollution in the oceans. And by offering renewable and recyclable products, our company can contribute to a greater cause - not merely providing our customers' packaging material.

GOOD FOR THE ENVIRONMENT - AND FOR BUSINESS

'Sustainability' has become an overused term in corporate literature so it's important to understand what we mean by this. For BillerudKorsnäs, sustainability goes beyond protecting the environment. We make significant time and financial investments to manage our social responsibilities and to ensure that we have business model that means we are financial sustainable too. Without this our 2,000 customers would not have a viable supplier to work with. With this approach we are able to provide our packaging manufacturers (converters), brand owners and retailers with genuinely sustainable packaging solutions.

BUT WHAT ABOUT THE TREES?

Some people would have you believe that the best way to protect the climate is to leave all forests untouched. But if we want to generate climate benefits, it is in fact better to harvest trees when they have grown to their optimal size. Forests that are in the early stages of growth absorb much more carbon dioxide than old forests, where the pace of growth has slowed down. Research indicates that responsible forest management produces excellent climate benefits, as does replacing fossil and resource-intensive raw materials with renewable wood. Retailers have a responsibility to ensure that the wood used in their products is responsibly sourced and has been grown in conditions where biodiversity is being protected.

In summary, 3rd party research and the results of the LCA-study make a strong case for using products made from responsibly managed forests. The results also give retailers the opportunity to review their carrier bag offering. Communicating to consumers on how to make a low-carbon choice at the checkout counter is not just in our company's interest, but in everybody's interest.

Go to our website for the full report on the LCA of paper carrier bags. And please visit Tara Expeditions' website.
Help fight plastic pollution in our oceans.

For more information please contact:

TOM HALLAM
// +44 (0) 7942 800 160
// tom.hallam@billerudkorsnas.com
// www.billerudkorsnas.com

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1. http://ec.europa.eu/environment/pdf/25_11_16_news_en.pdf

"WHEN IT COMES TO PLASTIC BAGS, THE RETAIL SECTOR HAS THE POWER TO MAKE A GREAT POSITIVE CONTRIBUTION TO SOCIETY AND THE ENVIRONMENT – SIMPLY BY SWITCHING TO PAPER CARRIER BAGS."

MANAGING YOUR ENERGY SUPPLY CHAIN: THE KEY TO BUSINESS EFFICIENCY

KIRSTEN TUCHLI
SENIOR CORPORATE BUSINESS MANAGER
BRITISH GAS BUSINESS

IN A CHALLENGING BUSINESS ENVIRONMENT, ENERGY SUPPLIERS CAN HELP RETAILERS REDUCE THE BOTTOM LINE.

Whether it's negotiating better rates on raw materials, optimising logistics or using technological advances for slicker customer service, reducing the bottom line has never been more important to retailers looking to maintain and grow market share. Many businesses are facing the same issues: – how to reduce financial obligations, improve customer experience and enhance corporate social responsibility activities. To meet these targets, many retailers are already using energy management techniques with great results.

When a buyer identifies a new source for raw materials that offers lower purchase price, with no deleterious impact on quality, the merits in changing supplier are clear. The Carbon Trust estimates that typically, a well-managed energy reduction campaign could save an organisation up to 10% of total energy cost with minimal capital outlay. It is therefore important to manage internal energy consumption and the energy supply chain as intently as other categories.

Societal drivers are leading people to consider a brand's reputation on sustainability issues when making spending decisions. This is most evident amongst millennials but a recent online global study by Nielsen shows 51% of Baby Boomers are also willing to spend a little bit extra with companies that demonstrate sound environmental stewardship.

One of the simplest ways to boost a company's environmental credentials is by buying renewable energy. Most suppliers support renewable electricity through ordinary supply agreements. Electricity from wind, hydro or other generation classed as renewable is backed up by Renewable Energy Guarantees of Origin (REGO) certificates which can be used in Corporate and Social Responsibility reporting. This requires no investment in infrastructure or change to administration processes.

Going green is important. But costs matter too, and never more so than at present. According to the GfK Consumer Confidence Index, consumers remain cautious about their personal finances. As growth in wages fails to keep pace with the rising cost of living, retailers feel the impact at the tills. Competitive pricing is critical, but to offer best value to the customer it is necessary to have a slick and efficient operation in the background.

Again, energy management has a key role to play. To control energy spend, it is important to optimise the procurement strategy, reduce demand and avoid unwarranted costs.

The best way to achieve this is to work closely with your supplier to develop a bespoke trading approach designed around the organisation's procurement and risk management strategy. Most large retailers opt for a flexible purchasing contract, whereby the supplier works with the Energy Buyer to procure the volumes of energy needed according to an approved hedging strategy. This helps manage the inherent volatility in the commodities market by focusing on the long-term.

WITH HOUSEHOLD BUDGETS SQUEEZED AND WORRIES ABOUT BUSINESS COMPETITIVENESS, COST REDUCTION ON ENERGY SPEND IS A MAJOR FOCUS FOR RETAILERS.

Historically, flexible energy procurement has usually delivered prices below average market rates for the period, but successful execution depends on securing the right product for the needs of the business. It is therefore important to ensure the buying team understands the business's energy strategy and risk requirements and demonstrates the expertise to analyse comprehensive market information. At British Gas Business, our preference is always to work directly with the customer to ensure we make informed decisions about when and how to buy.

Forward energy pricing is not just about the commodities costs. The non-commodity cost element of delivered energy prices has increased significantly and can now account for up to 55% of electricity and 35% of gas prices. Updates to network codes and distribution charges as well as other regulatory issues place continual upwards pressure on these non-commodity, or "third-party" costs. The latest analysis by the Office for Budget Responsibility suggests Treasury revenue from environmental levies on energy could rise from £6.9bn in 2016/17 to £13.5bn per annum by 2022 so knowing how future trends will impact your budgets is invaluable.

Certain non-commodity costs can however be substantially reduced through effective demand management, for example cutting consumption at times when grid-level distribution and transmission of power is more expensive.

A first step to doing this is to understand exactly how you're using energy on site. Working with Centrica's Distributed Energy & Power business, our Panoramic Power solutions offer customers device-level insights that allow energy management teams to access live demand profiles and identify opportunities to make savings.
The solution combines cloud based analytics with wireless sensor technology that turns virtually any energy-consuming device into a smart device. Self-powered and wireless, the patented sensors 'snap and fit' onto the outgoing electrical wire at the circuit breaker, tracking energy consumption and sending it to a cloud-based analytics system every 15 seconds. From here, data is sent to an easy to use app that can be accessed from both smart devices and computers, bringing actionable insights straight to the customer's fingertips. Knowing your demand profile turns energy management into a proactive regime with the ability to identify consumption anomalies quickly and control costs. For example, during a trial installation with outdoors retailer The North Face, an air handling system was found to be using more energy than would be expected – often a sign of imminent failure. During the trial across four locations, savings of almost £13,000 were identified in six months. That's in addition to savings on maintenance and avoided loss of retail space as a result of early warning and diagnosis.

Good use of data not only reduces direct utility and maintenance costs but is helpful in running energy reduction campaigns. As a retailer, effective supply chain management is crucial to business success. Managing the energy supply chain should be no different. Retailers that work with their energy supplier to identify and implement cost and carbon saving opportunities are already reaping the rewards and with ever improving technology the journey has just begun.

For more information please contact:

KIRSTEN TUCHLI
Senior Corporate Business Manager
// kirsten.tuchli@britishgas.co.uk
// 07979 563818
// www.britishgas.co.uk/business

British Gas

"ENVIRONMENTAL LEVIES ON ENERGY ARE ESTIMATED TO INCREASE BY 95% BY 2022. AN APPROPRIATE LONG-TERM PROCUREMENT STRATEGY IS THEREFORE ESSENTIAL."

DISRUPT OR BE DISRUPTED IN THIS CHANGING RETAIL LANDSCAPE

ADRIAN CLAMP
UK HEAD OF CUSTOMER
KPMG

THE RETAIL LANDSCAPE IS FAST CHANGING, AS IS CUSTOMER BEHAVIOUR. DISRUPTION ACROSS THE SECTOR IS RESHAPING CUSTOMER EXPECTATION AND TO STAY AHEAD, RETAILERS ARE CONSTANTLY HAVING TO REINVENT THEMSELVES.

New technology, regulatory reform and the volatile economic environment, combined with changing consumer needs, expectations and demographics have created unparalleled opportunities for businesses with fresh ideas and new business models to change retail fundamentally. And there is no sign that the next few years will be any different.

Retailers who fail to respond to these disruptive shifts are being punished – often severely. Meanwhile those who deliver are being rewarded – often handsomely. So how can retailers ensure they are winners in this brave new world? Well, it's vital to recognise that customers are, in essence, seeking value, convenience and a unique experience. These are the driving forces behind disruption within existing markets and business models. Neglecting these influences will almost certainly put a retailer's survival in jeopardy. After all, today's customers are better informed, better connected and more demanding than ever before - this is the age of the customer.

In KPMG's Global CEO survey in 2016, 88% of CEOs said they were now concerned about customer loyalty – recognising that mastery of the customer agenda is essential. Furthermore, in the same survey, 79% of CEO's said that their current business models were not disruptive enough. Whilst customer centricity is vital, it is no longer a differentiator in this digital age. All businesses, including retailers, need to navigate the challenges of digital disruption to find new ways of creating economic value and drive profit growth, whilst putting the customer first.

The cost of a product or service to the customer has long been a factor in consumer behaviour, but in recent years the perception has changed considerably. The 2008 recession gave rise to discounters easing household budgets, however today's consumers now leverage price comparison websites to make informed purchases that balance quality, function, style and brand preference against their willingness to pay. As such, retailers need to think broadly about value. Far from a race to bottom on price, retailers are now looking to improve convenience and customer experience too.

Like value, convenience is not a new driver of change within the retail sector. It has long been something consumers are willing to pay for. However, consumers are bombarded by demands on their time. New technology and other innovations have opened the door to more sophisticated supply chains and logistical operations for example, allowing many retailers to offer larger product ranges, whilst giving the customer the opportunity to meet more of their needs in one place. Over time, convenience innovations have also become the market norm, with customers expecting a seamless 'anytime, anyhow, anywhere' shopping experience. If customers don't get it, they will go elsewhere, placing further importance on not only convenience but customer experience too.

> KPMG FOUND THAT THROUGH INVESTMENT IN CUSTOMER EXPERIENCE, THE LEADING CUSTOMER BRANDS ACHIEVE DOUBLE THE REVENUE GROWTH OF THEIR FTSE LISTED COUNTERPARTS. MOREOVER, 89% OF CEOS EXPECT TO BE COMPETING ON THE BASIS OF CUSTOMER EXPERIENCE, YET ONLY 7% DELIVER IT EFFECTIVELY, ACCORDING TO RESEARCH BY GARTNER.

It's not just a case of customer experience for the sake of it. By understanding the economics surrounding customer expectations, and focusing on the behaviours that define leading customer experience, retailers can deliver better experiences that improve the bottom line. So how can retailers improve and compete?

Providing the right product at the right price is no longer enough, nor is providing outstanding service or an attractive and memorable retail environment (online or in-store). Today's customers are looking for retailers to provide a unique and personalised emotional connection, one that provides a relevant and valuable experience worth paying for. This requires retailers to know their customers at an intimate level, and most importantly, to act upon that knowledge.

Customers are willing to invest time and effort into building relationships, as long as the retailer delivers a differentiated offering with more perceived value. The bonus for retailers who get this right is that the more customers invest in this relationship, customer loyalty increases and ultimately, so too does profitability.

So what tools can be used to make such an impression? Experience-driven retailers are combining digital technologies, data insights and deep understanding of their target audience to provide personalised interactions via curated offerings, location-relevant services and much more.

A key characteristic of experience-focused retailers is that the experience-driven value proposition is reflected throughout their operating model. This requires the retailer to have a customer centric culture that is dedicated to delighting customers, as well as a focus on data and data driven insight. The end-to-end customer journey – including different functions and partners - also needs to be clearly defined, and all parties need to embrace this shared objective. Only then can customer experience be improved.

Disruption in value, convenience and experience will continue to shape the future retail landscape. Whilst it can be uncomfortable - dismantling the old paradigms – disruption also opens up a wealth of opportunity for growth. With no template for success, retailers must develop unique solutions to add value to their customers, whilst remaining relevant to their value proposition. Customers are demanding more and there is no shortage of competitors willing to rise to the challenge. Responding to disruptors is the single most important challenge. In this brave new world, it is disrupt or be disrupted.

For more information please contact:

ADRIAN CLAMP
// customerexcellencecentre.kpmg.co.uk
// www.kpmg.co.uk

KPMG

> "PROVIDING THE RIGHT PRODUCT AT THE RIGHT PRICE IS NO LONGER ENOUGH, NOR IS PROVIDING OUTSTANDING SERVICE OR AN ATTRACTIVE AND MEMORABLE RETAIL ENVIRONMENT (ONLINE OR IN-STORE.)"

BELFAST: AN EVOLUTION OF THE RETAIL LANDSCAPE

IAN HENTON
DIRECTOR
RETAIL AGENCY, LAMBERT SMITH HAMPTON

BELFAST'S RETAIL OFFERING HAS MADE HUGE PROGRESS, AND DEMONSTRATED RESILIENCE TO CHALLENGES, OVER THE LAST 20 YEARS.

The signing of the Good Friday Agreement in 1998 was a truly significant moment for Northern Ireland. Today, post-conflict Belfast is a compact metropolitan city rich in culture, history and character. More than that, Belfast is an attractive place to live, work and invest.

This article explores the key drivers of the retail evolution in Belfast from 1998 and presents our retail market outlook for Belfast.

Until 2007 Belfast experienced one of its most economically prosperous periods in recent history. But like many other cities, was negatively impacted by the global financial crash in 2008. Despite this, the city weathered the storm, continuing to attract increasing numbers of tourists and opening Victoria Square Shopping Centre.

More recently, the local economy has once again shown positive signs of growth and new brands have arrived including Patisserie Valerie, Five Guys, Zizzi, Greggs the Baker, Yo Sushi, Mango, Hugo Boss, Michael Kors, Boux Avenue, Kiehl's, KIKO Milano, Stradivarius, Skechers and Søstrene Grene.

Notwithstanding the significant achievements of the city since 1998, the city is still under performing in comparison to other UK cities. Ranking only 16th out of the top 20 UK shopping venues.

THE RETAIL MARKET

The retail market benefited from economic growth and normalisation of the city's physical characteristics. This was reflected in prime pitch rents which grew steadily from 1998 to a peak of £275 per sq ft in 2005. Rents fell with the global financial crash to a low of £112 per sq ft, but since 2013 recovery has been observed.

The most significant developments in the retail market occurred from 2008. Specifically the opening of Victoria Square, a rationalisation in financial sector premises, a significant physical shift in the location of the city's retail core, the business rates revaluation and the expansion at Primark's Bank Buildings.

Beyond Belfast, macro changes in the retail market have included the digital evolution, the growth of omni-channel shopping, integration of offline and online markets, shopping as a leisure pursuit, and the growth of food and beverage. Belfast has responded with city centre regeneration, retail development and the growth of new brands.

TECHNOLOGY

1998 was not only significant because of the Agreement, but was also the year that Google launched. Since then online retailers, home and mobile internet connections, and smartphone ownership has grown rapidly. Today customers expect retailers to provide multiple channels to satisfy pre-purchase research, actual sale and customer service. The 'Super-connected Belfast' project improved digital access in Belfast City Centre for both consumers and retailers.

LEISURE, TOURISM AND CULTURE

The Agreement kindled Belfast's tourism potential and visitors to Belfast have quadrupled since 2000 to over 4 million per year. The city is now one of Europe's hottest short-break destinations, known for its independent culinary establishments and home to the world's best tourist attraction 2016, Titanic Belfast.

BUSINESS, DEVELOPMENT AND INVESTMENT

Stability in Northern Ireland was a catalyst for inward investment, attracting new businesses and development. Belfast has generated over £2 billion of investment in the last decade and is a top location for financial technology and software development companies. The local film industry has also flourished and Northern Ireland is the primary filming location for the international smash hit Game of Thrones.

INFRASTRUCTURE

The establishment of a devolved Executive enhanced investment in infrastructure. Belfast has two airports, expansive arterial road access, a maritime gateway, high-speed internet access and advanced, secure digital hubs. This infrastructure enhances the city's access to shoppers from the Republic of Ireland, short-break tourists, global markets and investment, and brings in new business and brands.

POLITICS AND ECONOMICS

Political stability has been crucial for economic growth and the political history is an important aspect of the region's unique selling point to visitors. The impact of Brexit and current political instability remains to be seen. Whilst a weakening pound may drive up inflation, retailers in Belfast generally find that some of this impact is offset in a change in consumers' behaviour and an increase in shoppers from the Republic of Ireland.

BELFAST – THE RETAIL MARKET OUTLOOK

The retail market in Belfast will continue to be influenced by both local and macro drivers of change. Despite the climate of uncertainty in 2017, we are looking forward to development of the retail offer in Belfast City Centre along with rental growth, sound investment opportunities and the arrival of new European and international brands.

There will continue to be demand for city centre retail space, particularly from food and beverage operators. It is anticipated Zone A rents will reach £125 per sq ft by the end of 2017 with gradual and sustainable growth in the medium term thereafter. There is a requirement to regenerate and redevelop city centre buildings to meet new retailers' requirements. The continuing availability of investment/development finance at competitive rates of borrowing is also imperative, enabling landlords to actively create the space that retailers require.

Retailers will continue to seek innovative ways to satisfy the needs and aspirations of the increasingly sophisticated customer. Store location is now just the first element in an increasingly complex brand proposition which must include meticulous customer service, engaging store environment and, cutting edge technology and online presence.

As we look to the future much still needs to be done, but if driving factors work in the sector's favour then there is every reason to believe retail in Belfast can go from strength to strength.

To read the full report click here.

For further information please contact:

IAN HENTON
//+44 (0)28 9032 7954
// ihenton@lsh.ie
// www.lsh.ie

Lambert Smith Hampton

"RETAILERS WILL CONTINUE TO SEEK INNOVATIVE WAYS TO SATISFY THE NEEDS AND ASPIRATIONS OF THE INCREASINGLY SOPHISTICATED CUSTOMER. "

1998

2017

CHANGE IS COMING. HOW WILL YOUR FINANCIALS BE IMPACTED?

PAUL FRY
PARTNER
STRATEGIC CONSULTING EMEA
CUSHMAN & WAKEFIELD

HANNAH COLEMAN
ASSOCIATE
STRATEGIC CONSULTING EMEA
CUSHMAN & WAKEFIELD

IN 2016, A NEW STANDARD ON LEASE ACCOUNTING WAS PUBLISHED. THIS STANDARD, IFRS 16, WILL FUNDAMENTALLY CHANGE THE WAY LEASES ARE RECOGNISED IN FINANCIAL STATEMENTS AND THE IMPACTS WILL BE SHARE-PRICE SENSITIVE.
THE NEW RULES ARE EXPECTED TO IMPACT RETAILERS MORE THAN ANY OTHER SECTOR. INDUSTRY-WIDE, RETAILERS' BALANCE SHEETS ARE EXPECTED TO INFLATE BY >20% ON IMPLEMENTATION.
IFRS 16 NEEDS TO BE IMPLEMENTED BY 2019, ARE YOU PREPARED?

WHY IS THIS CHANGE NEEDED?

It is estimated that there are currently £2.6tn worth of lease commitments globally. Of these £2.2tn do not currently show up on the Balance Sheet.

There have been a number of high profile retail failures where the extent of lease commitments entered into had been significantly underestimated by the market, ultimately proving fatal for the retailer. In the UK notable examples include Clinton Cards, HMV and Woolworths, each of which had lease commitments of between 7 and 11 times greater than reported debt at the time of insolvency.

IFRS 16, and the equivalent US standard, seek to provide visibility of lease commitments and enable investors to easily compare the performance of comparable companies on a like-for-like basis.

WHY IS RETAIL HEAVILY IMPACTED?

In future all leases will appear on Balance Sheet as an Asset and Liability. The P&L profile will also change; leases will be recognised in a similar way to a repayment mortgage with a high initial charge that decreases over the term of the lease.
This will impact key financial metrics including:

- debt ratios;
- equity;
- profit.

Retailers generally have relatively small Balance Sheets and enter into long-term property leases, as a result the impacts will be disproportionately large compared with other sectors.
Recent analysis has indicated that Tesco will see net debt increase by more than 100% from £8.6bn to £17.6bn solely as a result of the new lease accounting rules. To put this into context Tesco is estimated to lease only 40% of its real estate portfolio, so 40% of its stores, warehouses and offices will have the impact of effectively doubling the company's debt.

ARE THERE SPECIFIC OPPORTUNITIES / RISKS FOR RETAILERS?

For retailers there are a number of areas to consider, including whether various contract types will fall inside / outside of the scope of the new standard and opportunities to mitigate the impact through specific lease terms.

Some non-lease contracts may fall within the scope of the lease accounting standard. For retailers there is a risk that certain third party logistics contracts (3PLs), where a retailer outsources it logistics operations to a third party, may be treated as a lease. This will mean that the contract for logistics operations may also come on Balance Sheet.

Concessions within department stores or stands in shopping centres are unlikely to fall within the scope of the new standard. As a result, those retailers with a proportionately large number of these types of retail space will be less impacted by the new standard.

Turnover based rents will also reduce the potential impacts of the new standard and are therefore likely to become more popular. As the 'turnover' element of the rent is uncertain, it is ignored for the purposes of the calculations, therefore resulting in a lower Balance Sheet and P&L impact.

DATA IS KING!

Detailed and accurate lease data is the starting point for implementing IFRS 16. Don't underestimate the time and resources required.

The days of running a property portfolio from an Excel spreadsheet are over; retailers may therefore need to invest and upgrade their data systems. Given the volume of calculations required for a typical retail portfolio to generate accounting entries, it is essential to put in place the right technology platform.

The key data points:

- **Non-cancellable lease term**
  Where leases include breaks or extension options, the occupier will need to make a judgement whether they are likely to be exercised or not. Store trading performance will provide a good indication for this judgement.
- **Discount rate**
  The applicable discount rate will need to be assessed on a lease-by-lease basis
- **Rent reviews**
  The type of rent review mechanism will directly impact how the lease is recognised. Uncertain future increases in rent are ignored from the Balance Sheet calculations, providing a clear advantage for open market and CPI based rent reviews.

INFORMED DECISION-MAKING CAN MITIGATE THE IMPACTS

When an occupier first adopts IFRS 16 there are various options available for recognising existing leases. Each of these options will result in a significantly different result for the Balance Sheet and P&L. Companies therefore have the ability to select the option that provides them with the best financial outcome.
For retailers the focus is likely to be on mitigating impact to P&L and retaining profit margins. Ensuring that these decisions are based on robust financial analysis will be the key to obtaining the best outcome.

NEXT STEPS

Change is coming! Implementation in 2019 will lead to fundamental changes to financial statements and key performance indicators. Not only this but there is a significant resource requirement to implement the standard, make sure you are prepared for the change ahead.

1. **Validate existing leased portfolio**
2. **Undertake financial assessment of impacts**
3. **Determine optimum approach for transition of existing leases**
4. **Lease data audit / data collection**
5. **Identify preferred technology solution**
6. **Implement IFRS 16**
7. **Review real estate strategy**

For more information please contact us on:

CUSHMAN & WAKEFIELD
// +44 (0)20 3296 3000
// www.cushmanwakefield.co.uk

PAUL FRY
// paul.fry@cushwake.com

HANNAH COLEMAN
// hannah.coleman@cushwake.com

CUSHMAN & WAKEFIELD

"DETAILED AND ACCURATE LEASE DATA IS THE STARTING POINT FOR IMPLEMENTING IFRS 16. DON'T UNDERESTIMATE THE TIME AND RESOURCES REQUIRED."

NEW GUIDANCE FOR RETAILERS ON PRICING PRACTICES


PAUL WALSH
PARTNER
HILL DICKINSON


LEANNE DOLAN
ASSOCIATE
HILL DICKINSON

THE CHARTERED TRADING STANDARDS INSTITUTE (CTSI) HAS PUBLISHED NEW GUIDANCE FOR RETAILERS ON PRICING PRACTICES. "THE GUIDANCE FOR TRADERS ON PRICING PRACTICES" (THE GUIDANCE) REPLACES THE 2010 PRICING PRACTICES GUIDE PRODUCED BY THE THEN DEPARTMENT FOR BUSINESS, INNOVATION AND SKILLS (BIS). IT HAS BEEN DESIGNED SPECIFICALLY TO ASSIST TRADERS IN MAKING DECISIONS ABOUT THEIR PRICING PRACTICES, AND PROVIDES AN OVERVIEW OF CONSUMER PROTECTION LAWS RELATING TO PRICING AND ASSOCIATED PRACTICES FOR TRADERS.

The Guidance was produced at the request of the Department of Business, Energy and Industrial Strategy (BEIS) and the Consumer Protection Partnership, driven by a succession of recent consumer complaints relating to misleading and confusing pricing practices, including a 'super-complaint' from the consumer association Which? in April 2015. The complaint was investigated by the Competition and Markets Authority (CMA), who found that, whilst misleading practices were not widespread, new guidance was needed to clarify for retailers how the relevant legislation applies to promotional pricing practices.

The Guidance therefore aims to provide helpful advice to traders on compliance with consumer protection legislation, the main principle being that promotions "should not in any way mislead, deceive or take advantage of consumers".

BUT WHAT DOES IT MEAN FOR RETAILERS?

The Guidance applies to anyone who regularly sells or engages in the process of selling products to UK consumers. It covers all consumer goods and services and all platforms used for business to consumer selling. The Guidance focuses on the obligations required by the Consumer Protection from Unfair Trading Regulations 2008 (the Regulations), however, the Guidance itself is not statutory – the courts are not bound to accept it but it will be strongly persuasive, and it is certain to be referred to by courts and regulators alike when making enforcement decisions about a pricing practice.

The Guidance is in a much more accessible format than its predecessor. It is more visual and user-friendly; it is well laid out and gives colourful examples which are helpful for both traders and consumers. The Guidance focuses on the behaviour of the average consumer, who is defined in the Regulations as a person who is "reasonably well-informed, reasonably observant and circumspect". Practical examples of good practice are provided, together with examples of when a practice is likely to be held to be misleading and the consequences of getting it wrong.

DETAIL ON THE GUIDANCE

The Guidance moves away from the old approach of establishing clear and specific rules, to a structure which takes a principles-based approach. In essence, the retailer bears the burden of deciding whether the pricing practice is compliant with the Guidance or not. Whilst this will provide greater flexibility for those incorporating more modern pricing practices, this new approach may lead to questions in respect of perceived 'grey areas' and may raise some uncertainty over what is and is not acceptable. However, the new Guidance emphasises the importance of considering the circumstances of each case.

There are several important new or revised guidelines, examples of which are:

- **Reference Prices**
  Previously a product had to be on sale at the higher price for at least 28 days before a saving could be claimed against a reference price, but this rule is absent from the new Guidance. This does not necessarily mean that 28 days will no longer be sufficient, but the Guidance suggests it is likely to be fair only if the discounted price does not apply for a longer period than the higher price.
- **Use of RRPs**
  Where the price comparison is based upon a recommendation from a manufacturer or supplier, retailers should take extra care. They should consider obtaining substantiation from their suppliers or manufacturers that the RRP represents a genuine selling price, and make it abundantly clear that the price is an RRP rather than the retailer's own previous price. Where the comparison is against a competitor's price rather than the RRP, it must be objective, and retailers should ensure that the information remains up to date so as to remain fair for the consumer.
- **Volume Offers**
  The Guidance suggests that retailers should not advertise volume discounts (for example, combination offers or multi-buys) unless the consumer is genuinely receiving better value. They are more likely to be misleading if it is difficult for the consumer to actually calculate the saving they are getting.
- **"Up to x% off" and "from" claims**
  Previously, these types of pricing methods could be used as long as the claim applied to at least 10% of the products on offer; however the Guidance now states that these offers can only be used if the maximum price reduction stated applied to a "significant proportion" of the range of products in the promotion. Whilst unstated, this is likely to mean a larger proportion of the products than before.

- **Card Charges**
  There is an express prohibition on applying credit/debit card charges which exceed the cost of the equivalent fees charged to the retailer.

ADVICE FOR RETAILERS

The legislation has not changed, and it must still be complied with. Enforcement authorities are giving traders until April 2017 to adjust to the new Guidance. This is an ideal time for all retailers to review their pricing practices for compliance and reassess their fairness and effectiveness.

Retailers should, at the very least, ensure all information given to the consumer is accurate and retain evidence of how price communications are conveyed to consumers and the evidence which is the basis of any price comparison.

It appears that ultimately it is for each retailer to make an assessment as to whether their practices are fair, and retailers are therefore encouraged to develop their own internal guidelines to ensure consistent compliance and assist the overall marketing process.

To view the full guide here.

For further information please contact:

PAUL WALSH
// +44 (0)151 600 8985
// paul.walsh@hilldickinson.com

LEANNE DOLAN
// +44 (0)151 600 8496
// leanne.dolan@hilldickinson.com

// www.hilldickinson.com

HILL DICKINSON

"THE GUIDANCE... AIMS TO PROVIDE HELPFUL ADVICE TO TRADERS ON COMPLIANCE WITH CONSUMER PROTECTION LEGISLATION, THE MAIN PRINCIPLE BEING THAT PROMOTIONS 'SHOULD NOT IN ANY WAY MISLEAD, DECEIVE OR TAKE ADVANTAGE OF CONSUMERS.' "

FREEHOLD OR LEASEHOLD: WHICH IS A BETTER INVESTMENT CHOICE?

JUSTIN MASON
PARTNER
CAPITAL LAW

THE ASSOCIATION OF CONVENIENCE STORES' ANNUAL LOCAL SHOP REPORT (7 SEPTEMBER 2016) CONTAINED A SURPRISING STATISTIC. IN THE CONVENIENCE STORE SECTOR, 57% ARE OWNED FREEHOLD, 10% ON LONG LEASEHOLD, THE REST SHORT-TERM. IN THIS ARTICLE, JUSTIN MASON DISCUSSES THE ADVANTAGES AND DISADVANTAGES OF THE DIFFERENT WAYS OF HOLDING PROPERTY IN THE RETAIL SECTOR.

Now that Article 50 has been triggered, we at least have a modicum of certainty in that whatever shape it finally takes, Brexit will happen. However, this combined with the increase in rates in recent times, has resulted in uncertainty for those operating in the retail sector. Therefore, existing businesses large and small need to consider carefully how their property holdings are structured.

Holding your property on a leasehold basis provides your business with significant advantages in terms of flexibility, with the ability to agree rent free periods; break clauses and limitations on the repairing obligations etc. There is certainty as to rent, and in most cases, service charge. If things do not go well, the lease can be assigned, or potentially a sub-tenant found. Further, this flexibility is becoming more and more evident with lease terms shortening, with many now less than 10 years.

> THEREFORE, IT IS PERHAPS SURPRISING THAT IN THE CONVENIENCE STORE SECTOR, 57% OF THE 50,095 CONVENIENCE STORES IN THE UK ARE OWNED FREEHOLD (WITH A FURTHER 10% HOLDING THE PROPERTY ON A LONG LEASE – ESSENTIALLY A VIRTUAL FREEHOLD).

Owing the freehold to your Property has numerous advantages – bricks and mortar have consistently been an asset that has held its value. It is potentially easier to raise finance against and allows for creative internal arrangements. For example, the freehold to the premises can be held by the owners of the business which then takes a lease of the property with the rental liabilities, and other outgoings being costs incurred as part of normal trading.

As online shopping develops, creative use of space has been embraced by the convenience store sector. For example, the advent of click and collect has potentially silenced those who advocated that the internet would sound the death-knell for the high-street. Internal diversification – Food to Go; Post Office Outlet and in-house Cafes are becoming common place. Further, convenience store owners tend to invest heavily in their businesses (£600 million in the period August 2015 to September 2016 – source ACS Local Shop Report) and are more likely to do so if they own the substantial asset behind it. In short, they are adding value to their asset.

The disadvantage is that as the freeholder you are responsible for the insurance and repair of the building and any parts which are unoccupied. This can often result in expensive practical problems, particularly from an operational point of view. The traditional terraced property with a flat above a ground floor shop whilst attractive from a rental income perspective, can often present problems with recalcitrant tenants and voids. Any increase in value of the freehold may be difficult to realise immediately and potentially has a different tax treatment on any proceeds. Acquiring the freehold is, of course, a potentially expensive exercise as it is a capital sum which needs to be invested.

Further, not all retailers have the luxury of being able to acquire the freehold to a building from which they wish to trade. Many high-street locations and shopping centre destinations are owned by pension funds, investors, or large property companies. It is generally the smaller single properties which become available from time to time. This may explain the high-level of owner-occupiers in the convenience store sector.

It should be remembered that leasehold interests are diminishing assets, and although there are statutory rights under the Landlord & Tenant Act 1954 in respect of renewal at the end of the term, the process is cumbersome and can prove to be expensive. Further, the legal nuances of landlord and tenant matters can be complex and contain pitfalls for the unwary. This is particularly true when it comes to recouping the cost of investment the business has made in a property they ultimately do not know. Landlord and Tenant law - in respect of the treatment of "improvements" - is not particularly straightforward and whilst modern leases do now address the prospect of multiple uses within one property, older leases have not been drafted with these advances in mind.

For retailers, there are a myriad of different things to consider on a day to day basis and many just want to concentrate on what they are good at, which is running a business and selling goods and services to the public. However, taking time to consider whether to acquire premises on a freehold basis, or on a leasehold basis needs to be part of their business planning from the outset.

For further information please contact:

JUSTIN MASON
// 029 2047 4465
// j.mason@capitallaw.co.uk
// www.capital-law.co.uk

CAPITAL LAW

> "NOT ALL RETAILERS HAVE THE LUXURY OF BEING ABLE TO ACQUIRE THE FREEHOLD TO A BUILDING FROM WHICH THEY WISH TO TRADE."

RETAIL SERVICES DIRECTORY

ACCOUNTANCY

GRANT THORNTON UK LLP
W | www.grant-thornton.co.uk
E | eve.moore@uk.gt.com
P | 020 7383 5100
C | Eve Moore //
Senior Executive Marketing and BD

KPMG
W | www.kpmg.co.uk
E | david.mccorquodale@kpmg.co.uk
P | 020 7311 8255
C | David Mccorquodale // Head of Retail

NFU MUTUAL
W | www.nfumutual.co.uk
E | frank_woods@nfumutual.co.uk
C | Frank Woods //
Retail and Wholesale Development

PWC
W | www.pwc.co.uk/retailandconsumer
E | louisescutt-richter@uk.pwc.com
P | 020 7212 5554
C | Louise Scutt-Richter //
Marketing Manager, Retail and Consumer

RR DONNELEY GDS
W | www.rrd.com
E | matthew.connaughton@rrd.com
P | 023 80632211
C | Matthew Connaughton //
Marketing Manager

RSM UK
W | www.rsmuk.com
E | neil.thomas@bakertilly.co.uk
C | Neil Thomas // Audit Partner

ASSET MANAGEMENT

REALM LTD
W | www.livingston-designer-outlet.co.uk
E | kstewart@realm.ltd.uk
P | 01506 423600
C | Karen Stewart

CONSULTANTS

CAPITA CUSTOMER MANAGEMENT LTD
W | www.capitacustomermanagement.co.uk
E | jo.knight@capita.co.uk
P | 020 84325200
C | Jo Knight // Managing Director

CHANGE MANAGEMENT GROUP
W | www.changemanagementgroup.co.uk
E | info@cmg-change.com
P | 020 8819 9459
C | Jay Dickieson

ELI LILLY & CO LTD / ELANCO ANIMAL HEALTH
W | www.elanco.com
E | van_den_ordel_linda@network.elanco.com
P | 01256 779226
C | Nigel Underwood //
Market Access Manager UK/IE

GL HEARN
W | www.glhearn.com
E | andrew_hetherton@glhearn.com
P | 020 7851 4900
C | Andrew Hetherton //
Business Rates Director

IPSOS RETAIL PERFORMANCE
W | www.ipsos.com
E | tim.denison@ipsos.com
C | Tim Denison //
Director of Retail Intelligence

KORN/FERRY WHITEHEAD MANN
W | www.kornferry.com
E | sally.elliott@kornferrywhm.com
P | 020 7024 9000
C | Sally Elliott // Senior Client Partner, Retail

LIFETIME TRAINING GROUP
W | www.lifetimetraining.co.uk
E | matthew.robinson@lifetimetraining.co.uk
P | 0333 2400489
C | Matthew Robinson // Operations Director

OC&C STRATEGY CONSULTANTS
W | www.occstrategy.com
E | contact@occstrategy.com
P | 020 7010 8000
C | James George

PRACTICOLOGY
W | www.practicology.com
E | martin@practicology.com
P | 020 7323 0539
C | Martin Newman // CEO

PEOPLE 1ST
W | www.people1st.co.uk
E | patrick.nobbs@people1st.co.uk
C | Patrick Nobbs //
Director of Marketing & Communications

THE MET OFFICE
W | www.metoffice.gov.uk
E | barbara.napiorkowska@metoffice.gov.uk
C | Barbara Napiorkowska-Dickson //
Retail Marketing Manager

ENERGY AND HOME PROVIDER

BRITISH GAS TRADING
W | www.britishgas.co.uk/business
E | Jess.putt@britishgas.co.uk
C | Jess Putt //
I&C Marketing Manager

ENVIRONMENT

VALPAK LTD
W | www.valpak.co.uk
E | info@valpak.co.uk
P | 08450 682 572
C | Contact Centre

FINANCIAL SERVICES

AMERICAN EXPRESS EUROPE LTD
W | www.amexnetwork.co.uk
E | oz.b.mehmet@aexp.com
P | 020 7834 5555
C | Oz Mehmet //
Director - Everyday Spend, UK

AON
W | www.aon.co.uk/retail-trade
E | info.corporate@aon.co.uk
C | Jason Wilkinson //
Sector Development Manager

BARCLAYS
W | www.barclays.com/corporatebanking
E | richard.lowe@barclayscorporate.com
P | 07775 540 802
C | Richard Lowe //
Head of Retail and Wholesale

EPAY
W | www.epayworldwide.co
E | jshakles@epayworldwide.com
P | 020 32964380
C | Joni Shakles // Brand Manager

PAYPAL (UK) LIMITED
W | www.paypal.com
E | gohalloran@paypal.com
P | 01908 244000
C | Gill O'Halloran //
Enterprise & SMB Marketing Manager

PRGX UK LTD
W | www.prgx.com
E | martin.merryweather@prgx.com
P | 01582 395 800
C | Martin Merryweather //
VP Client Services

REALEX PAYMENTS
W | www.realexpayments.co.uk
E | alex.taylor@realexpayments.co.uk
P | 01483 243545
C | Alex Taylor // Corporate Channel Manager

SCAN COIN LIMITED
W | www.scancoin.co.uk
E | sfitton@scancoin.co.uk
P | 01268 242222
C | Stephen Fitton // Sales Director

VISA EUROPE
W | www.visa.com
E | leisslel@visa.com
P | 0161 8318204
C | Elmar Leisslе //
VP Head of Regional Marketing

WORLDPAY
W | www.worldpay.com
E | david.craig@worldpay.com
P | 020 87707000
C | David Craig // Account Director

FOOTFALL/CUSTOMER COUNTING

SPRINGBOARD RESEARCH LTD
W | www.spring-board.info
E | steve.booth@spring-board.info
C | Steven Booth // Director

INFORMATION TECHNOLOGY

LOYALTY ANGELS NEW
W | www.bink.com
E | sbhatt@bink.com
P | 07815 799247
C | Shetal Bhatt //
Director of Partner Management

BROCADE COMMUNICATIONS (UK) LTD
W | www.brocade.com
E | pauchter@brocade.com
P | 020 7092 3500
C | Peter Auchterlonie //
Regional Marketing Manager

INGENICO UK LTD
W | www.ingenico.com
E | helen.soutar@ingenico.com
P | 020 7887 1000
C | Helen Soutar // Marketing
Communications and Propositions Manager

JDA SOFTWARE UK LIMITED
W | www.jda.com
E | Gavin.Hunter@jda.com
P | 0151 236 5400
C | Gavin Hunter

KRONOS SYSTEMS LTD NEW
W | www.kronos.co.u
E | leanne.cobb@kronos.com
C | Leanne Cobb // Retail Marketing EMEA

MAGINUS SOFTWARE SOLUTIONS
W | www.maginus.com
E | enquiries@maginus.com
P | 0161 946 0000
C | Janice Mawhinney // Marketing Manager

MANHATTAN ASSOCIATES LTD
W | www.manh.com
E | aonasanya@manh.com
P | 01189 228000
C | Adebisi Onasanya //
Marketing Assistant

QLIKTECH UK LIMITED
W | www.qlik.com
E | michael.mann@qlik.com
P | 0131 4598800
C | Michael Mann // Senior Marketing Manager

SONATA SOFTWARE
W | www.sonata-software.com
E | anujkumar.s@sonata-software.com
P | 01908 682700
C | Anuj Saxena // Senior Executive

VERIFONE
W | www.verifone.com
E | manishav1@verifone.com
P | 01865 824 031
C | Manisha Vieryra

WEBLOYALTY
W | www.webloyalty.co.uk
E | Martin.Truong@webloyalty.co.uk
P | 020 7290 1650
C | Martin Truong // Head of
Communications & Digital

WEB MARKETPLACE SOLUTIONS LTD
W | www.wmps.com
E | victoriay@wmps.com
P | 020 31476040
C | Victoria Yates // PR + Marketing Manager

YOTI LTD
W | www.yoti.com
E | julie.dawson@yoti.com
P | 0203 058 3463
C | Julie Dawson // Policy & Regulatory Affairs

ZITRA UK
W | www.zitra.com
E | derek.binns@zitra.com
P | 020 7111 2222
C | Derek Binns // Director UK

INSURANCE

RSA
W | www.be.rsagroup.com
E | ann.butterworth@uk.rsagroup.com
P | 020 7588 234
C | Ann Butterworth

INTERNET SERVICES

GOOGLE UK
W | www.google.com
E | tilde@google.com
C | Mathilde Donovan

LOGISTICS

ALLPORT CARGO SERVICES LTD
W | www.allport.co.uk
E | Clyde.Buntrock@allport.co.uk
P | 0333 0143669
C | Clyde Buntrock //
Divisonal Director (Supply Chain)

INPOST UK LTD
W | www.inpost.co.uk
E | ian.caminsky@inpost.co.uk
P | 01506 423600
C | Ian Caminsky // CEO

XPO LOGISTICS
W | http://www.xpologistics.com/
P | 0115 9438300
E | carl.robinson@xpologistics.com
C | Carl Robinson // Development General
Manager Temperature Controlled & Ambient

ROYAL MAIL GROUP
W | www.royalmail.com
E | val.walker@royalmail.com
P | 01789 204211
C | Val Walker // Strategic Insight Manager

UNISERVE GROUP
W | www.ugroup.co.uk
E | sg@ugroup.co.uk
P | 01604 737100
C | Iain Liddell // Managing Director

GLOBAL MARKET INTELLIGENCE

HITWISE
W | www.hitwise.com
E | kbaker@connexity.com
P | 0118 9240000
C | Keisha Baker

RETAIL REPORT
W | www.retailreport.com
E | richard.fountain@itvet.co.uk
C | Richard Fountain // Director

MARKETING

GENIE VENTURES
W | www.geniegoals.co.uk
E | francesca.poglia@genieventures.co.uk
P | 0844 4155532
C | Francesca Poglia

PACKAGING

BILLERUDKORSNÄS AB SOLNA HK
W | www.billerudkorsnas.com
E | patrik.bosander@billerudkorsnas.com
C | Patrik Bosander //
Business Development Director

PROPERTY

BRITISH LAND
W | www.britishland.com
E | charles.maudsley@britishland.com
P | 01189 229238
C | Charles Maudsley // Executive Director

CUSHMAN & WAKEFIELD LLP
W | www.cushmanwakefield.co.uk/
E | christopher.church@cushwake.com
P | 020 31785370
C | Chris Church // Associate

HAMMERSON PLC
W | www.hammerson.co.uk
E | datkins@hammerson.co.uk
P | 01622 882300
C | David Atkins // Chief Executive

JONES LANG LASALLE
W | www.eu.jll.com
E | tim.vallance@eu.jll.com
P | 01279 464470
C | Tim Vallance // Head of UK Retail & Leisure

WESTFIELD SHOPPINGTOWNS LTD
W | www.westfield-uk.com
E | paul.buttigieg@westfield-uk.com
P | 0203 0475241
C | Paul Buttigieg // General Manager Shopping Centre Management

SECURITY

G4S CASH SOLUTIONS (UK) LIMITED
W | www.westfield-uk.com
E | paul.buttigieg@westfield-uk.com
P | 0203 0475241
C | Alex Shephard // Marketing Communications Manager

LOOMIS UK LTD
W | www.uk.loomis.com
E | donal.keane@uk.loomis.com
C | Donal Keane // Marketing Manager

SOLICITORS AND LAWYERS

BOND DICKINSON LLP
W | www.bonddickinson.com
E | gavin.matthews@bonddickinson.com
P | 0113 2847000
C | Gavin Matthews // Partner

CAPITAL LAW LLP
W | www.capitallaw.co.uk
E | n.cooper@CapitalLaw.co.uk
C | Nia Cooper // Partner, Employment Law

GATELEY LLP
W | www.gateleyplc.com
E | james.white@gateleyplc.com
C | James White // Partner

EVERSHEDS SUTHERLAND LLP
W | www.eversheds-sutherland.com
E | dalbanwait@eversheds-sutherland.com
P | 20 7919 0508
C | Dal Banwait // Head of Business Development – Consumer

HILL DICKINSON
W | www.hilldickinson.com
E | martyn.smith@hilldickinson.com
P | 0870 1601300
C | Martyn Smith // Business Development Manager

KING & WOOD MALLESONS
W | www.sjberwin.com
E | helen.macrae@sjberwin.com
P | 01375 856060
C | Helen MacRae // Head of Sector and Practice Development

PINSENT MASONS LLP
W | www.PinsentMasons.com
E | allison.thompson@pinsentmasons.com
P | 020 7418 7000
C | Allison Thompson

SQUIRE PATTON BOGGS (UK) LLP
W | www.squirepattonboggs.com
E | matthew.lewis@squirepb.com
P | 020 79378111
C | Matthew Lewis // Partner

SA LAW LLP
W | www.salaw.com
E | Mike.Lewis@salaw.com
P | 01727798000
C | Mike Lewis

STEVENS & BOLTON LLP
W | www.stevens-bolton.com
E | nicola.broadhurst@stevens-bolton.com
P | +44 (0)1483 734228
C | Nicola Broadhurst // Partner and Head of Franchising & Retail

TELECOMMUNICATIONS

EAGLE EYE
W | www.eagleye.com
E | jo@eagleeye.com
P | 0845 3016251
C | Jo Taylor

FOR MORE INFORMATION

To view the BRC Retail Services Directory online please visit:

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C | Yessra Nawaz // Membership, BRC
P | 020 7854 8963
E | theretailer@brc.org.uk

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MEMBERSHIPS // YESSRA NAWAZ
DESIGN // MIKELA BURNHAM

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THE BRITISH RETAIL CONSORTIUM
4TH FLOOR, 2 LONDON BRIDGE
LONDON SE1 9RA

E | THERETAILER@BRC.ORG.UK
W | WWW.BRC.ORG.UK
T | WWW.TWITTER.COM/THE_BRC

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