THE RETAILER

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A BREXIT CUSTOMS PLAN FIT FOR BUSINESSES AND CONSUMERS

// SHOP PRICES ON THE EDGE OF INFLATIONARY TERRITORY AS FOOD PRICES REACH FOUR-YEAR HIGH

// RETAIL CRIME: IF WE CAN'T MEASURE IT...

WE NEED TO BUILD ON THE STRENGTHS OF OUR CUSTOMS SYSTEM, NOT FALL BY ACCIDENT INTO ONE WITH AVOIDABLE DELAYS, RED TAPE AND DISRUPTION, AS THE UK PREPARES FOR BREXIT.

NEWS FROM THE BRC

A BREXIT CUSTOMS PLAN FIT FOR BUSINESSES AND CONSUMERS

HELEN DICKINSON OBE
CHIEF EXECUTIVE
BRITISH RETAIL CONSORTIUM

As the clock ticks inexorably towards March 29, 2019, the UK's future trading relationship with the EU and the wider world will have profound implications for retailers' supply chains and the price and availability of the goods they provide.

Our paper on customs, as part of our A Fair Brexit for Consumers campaign, shows just how dependent consumers and businesses are on efficient customs, haulage, shipping and logistics systems to get goods delivered quickly, provide choice, keep prices low, and raise quality.

Our customs system is currently the sixth most efficient in the world, according to the World Economic Forum. We need to build on the strengths of our customs system, not fall by accident into one with avoidable delays, red tape and disruption, as the UK prepares for Brexit.

It was encouraging that the Government's position paper on customs acknowledged the need to avoid a cliff-edge after Brexit day. But what it didn't talk about were the challenges posed by the sheer scale and volume of goods that cross our borders – four million lorries and 55 million customs declarations per annum.

With the latter expected to increase fivefold to 255 million if a customs border exists, the port of Dover, or any other, simply isn't geared up to handle additional procedures, documentation and checks of this scale.

As we've illustrated in The Customs Roadmap, the reality is that a deal on customs alone cannot mitigate the new frictions, such as delays at ports, which would affect trade.

The UK and EU must also reach agreement on regulatory standards, security, VAT, haulage, transit and on drivers to ensure goods can continue to move from A to B as efficiently as possible.

The absence of any one of these agreements could create avoidable cost and regulation burdens for business and, hence, consumers.

Products bogged down in additional customs red tape at ports and docks mean longer waiting times for consumers to receive goods.

What's more, given that three-quarters of the food we import comes from the EU, much of which is fresh, these delays to perishable goods could threaten to increase food waste and mean extra costs for refrigeration and storage – an estimated £500 per day for a delayed refrigerated lorry soon starts to add up.

Take VAT as another example; the imposition of import VAT on all goods being imported from the EU could represent a major cash flow burden for importers.

But this could be avoided under a special agreement for EU-UK goods transactions that would limit delays and red tape for businesses as well as extra costs for HMRC in administering taxation of imported goods.

The stakes are high – a deal short of a transitional customs union and a suite of agreements supplementing customs will mean importers will face new compliance burdens and checks.

Extra costs, delay and food waste are highly plausible downsides if the UK leaves the EU without a deal, or has only weak customs cooperation with the EU 27 in the years after Brexit.

A strong, workable, deliverable and mutually acceptable deal on the transition and final status agreement is absolutely essential to deliver a fair Brexit for consumers.

THIS ISSUE

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NEWS FROM THE BRC

SEPTEMBER SEES GROWTH OF RETAIL ESSENTIALS

Covering the five weeks 27 August – 30 September 2017

- In September, UK retail sales increased by 1.9% on a like-for-like basis from September 2016, when they had increased 0.4% from the preceding year.
- On a total basis, sales rose 2.3% in September, against a growth of 1.3% in September 2016.
- Over the three months to September 2017, In-store sales of Non-Food items declined 1.5% on a Total basis and 2.0% on a Like-for-like basis.
- Over the three months to September, Food sales increased 2.5% on a like-for-like basis and 3.5% on a total basis.
- Over the three-months to September, Non-Food retail sales in the UK increased 0.5% on a like-for-like basis and 0.9% on a total basis, above the 12-month Total average growth of 0.7%.
- Online sales of Non-Food products grew 10.7% in September, above both the 3-month and 12-month averages of 10.0% and 8.8% respectively.

HELEN DICKINSON OBE, CHIEF EXECUTIVE, BRITISH RETAIL CONSORTIUM

"September saw a second consecutive month of relatively good sales growth which should indicate welcome news for retailers and the economy alike. Looking beneath the surface though, we see that much of this growth is being driven by price increases filtering through, particularly in food and clothing, which were the highest performing product categories for the month. Retailers have worked hard to keep a lid on price rises following the depreciation of the pound, but with a potent mix of more expensive imports and increasing business costs from various government policies, something had to give at some point.

"From a consumer perspective, spending is still being focussed towards essential purchases; with consumers buying their winter coats and back to school items, but shying away from big ticket items such as furniture and delaying the renewal of key household electrical goods. Online has been the biggest beneficiary of the resilience in consumer spending capacity in the last two months, sustaining a return to double digit year on year growth figures as shoppers responded well to discounts and the ongoing investment by retailers in improving the mobile shopping experience.

"September's overall growth may increase the likelihood of an uplift in interest rates in November. So with stronger headwinds brewing, its vital government keep a tight lid on those costs under its control, which impact on retailers, the cost of doing business and ultimately consumers. The Chancellor has a great opportunity to do just that in his upcoming budget by not adding yet another rise on the business rates bill of every retailer in the country."

SHOP PRICES ON THE EDGE OF INFLATIONARY TERRITORY AS FOOD PRICES REACH FOUR-YEAR HIGH

Period Covered: 04 - 08 September 2017

- In September, Shop Prices reached the shallowest deflation level in the last four years of 0.1%, with prices falling just 0.1% compared to a 0.3% year-on-year decline in August.
- Non-Food price deflation accelerated to 1.5% in September, from 1.3% in August, although Non-Food prices are less deflationary than in September 2016, when they had fallen 2.1% year on year.
- Food prices increased in September to 2.2%, up from 1.3% in August.
- Fresh Food inflation gained a full percentage point in September, up to 1.8% from 0.8% in August.
- Ambient Food inflation rose to 2.7% in September, a gain of 0.8 percentage points on August inflation of 1.9%.

HELEN DICKINSON OBE, CHIEF-EXECUTIVE | BRITISH RETAIL CONSORTIUM

"Overall shop price deflation reached an all-time low in September with prices now teetering on the edge of inflation.

"A number of factors have combined to drive a sharp jump in food price inflation to 2.2 per cent over the year to September. A global milk shortage has pushed up butter prices, while rising global cereal prices earlier in the year are now feeding onto shop shelves. At the same time we are starting to head out of the UK season for some vegetables and, as we flagged last month, that means enhanced exposure of food prices to the Sterling exchange rate.

"Meanwhile retailers' efforts to shield shoppers from the impact of higher import prices of basic non-food items are holding out for now. However, as more non-food retailers' hedging facilities come to an end this autumn, and as public policy costs mushroom, consumers are likely start feeling an additional pinch on these products.

"This more challenging outlook for consumers going forward is made more ominous by the recent uptick in producer price inflation - the first since February - which is adding further inflationary pressures on the horizon. Stretched family budgets will continue to feel the strain as increases in the price of the weekly shop add to overall rising inflation which continues to outpace wage growth.

"Consumers and businesses need the Government to reach prompt agreement with the EU on the terms of a Brexit transition, to ensure they aren't faced with a cliff edge scenario that could mean tariff-related price increases on top of those they are already paying."

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

NEWS FROM THE BRC

WHY FOOD TRADE IS IN THE SPOTLIGHT

ANDREW OPIE
DIRECTOR OF FOOD POLICY
BRITISH RETAIL CONSORTIUM

THE OUTCOME OF THE BREXIT NEGOTIATIONS ARE HUGELY IMPORTANT TO EVERY SHOPPER IN OUR SUPERMARKETS. IT COULD HAVE A HUGE AND ALMOST IMMEDIATE IMPACT ON THE PRICE AND AVAILABILITY OF FOOD.

It is the first and potentially most acute impact of Brexit that all of us, as food shoppers, will feel, which means securing the best deal with the EU on food trade has to be a priority.

Approximately a quarter of all the food that major retailers sell is imported and four-fifths of those imports come from the EU. The single market means our supply chains are fully integrated across Europe and predicated on a single regulatory system that allows food to move seamlessly across borders. That is why our campaign, A Fair Brexit for Consumers, has a tariff-free deal with Europe supported by frictionless trade as its key recommendations, to ensure we maintain the choice and availability of high quality products for consumers at prices they can afford.

Our supply chains will always be rooted here in the UK for good reason and there is no doubt retailers will be working with farmers and producers to source even more. But we mustn't underestimate our dependence on Europe; not only for imports but for exports too, enabling farmers to make the most of their produce and deliver well regulated, efficient supply chains. Europe also offers us products that we can't produce in the UK, or to supplement our seasonal production.

Our Tariff Roadmap highlights the need to put UK consumers at the heart of the Brexit negotiations to protect them from the costs of unwanted new tariffs, particularly when it comes to food bills. Based on current import data from the major supermarkets, we were able to calculate that reverting to the EU WTO rates would raise food tariffs by 22 per cent on average. New tariffs will mean higher prices for consumers and tariffs on agricultural produce are particularly steep. Our latest analysis, taking into account how much we import, estimated that UK shoppers could pay up to a third more for everyday food items should goods from the EU face WTO tariffs. The estimated increase is particularly high if we assume that UK producers react to higher import prices and push their prices up to align with them. The price of cheese for instance could rise by more than 30 per cent and tomatoes nearly 20 per cent.

There will be opportunities from new trade deals in the medium to long term, but there's a pressing need to avoid a cliff-edge situation on Brexit day. This is why the immediate priority for the UK Government has to be securing the continuity of tariff- free trade with Europe from March 2019.

Whilst a free trade agreement with the EU is key to ensuring prices remain low for consumers, co-operation on customs and border controls is essential to guarantee continued availability of goods on shelves after Brexit. Much of our imports from the EU are perishable food with a short shelf-life and getting it through the food supply chain in a timely manner requires as little disruption as possible at every stage of the process, including at our ports.

Our Customs Roadmap set out the scale of the problem that a no deal Brexit on customs would mean for business and consumers both here and in the EU-27. Though the Government has recognised the need for a customs union, that in itself won't solve the problem of delays at ports. Currently, a shared regulatory and inspection system across the EU means food moves across borders unchecked. If we replicate the current system for imports outside the EU we will introduce a range of new checks, for which our ports are not equipped.

We have put forward a number of recommendations that could help meet the challenge of operating new border controls. These include investment in the UK's ports, roads and infrastructure to get systems ready for Brexit day and thereafter, considering how mutual recognition of regulatory and enforcement in Europe can reduce the need for additional checks coming into the UK and ensuring a suite of new agreements supplementing customs on security, transit, haulage, drivers, VAT and other checks that are co-ordinated to avoid delays at ports and docks. Getting this right is essential to ensure UK consumers are able to buy the products they want after Brexit.

Parallel to achieving the tariff-free, frictionless trade deal with the EU, we also need to ensure we transfer existing bilateral trade agreements the EU has with other countries. Though these don't account for the same volumes of food trade as from the EU, they are still significant. Included in those negotiations needs to be an agreement on our share of existing quotas that the EU operates, covering key imports such as New Zealand lamb. All of this is necessary to secure our current supply chains and only once that is done should we look to future trade deals. In terms of the future, there are opportunities for consumers from better trade deals, although realistically they are unlikely to have a huge impact on food prices. The risk, however, of not achieving a deal with the EU is enormous and its impact would be felt immediately by millions from Brexit day.

View the BRC's A Brexit for Consumers Report **here**.

UPCOMING EVENTS 2017-2018

15 NOV 17
Brexit Webinar:
The European Union Withdrawal Bill

DETAILS:
Featuring live Q&A

23 JAN 18
Future Retail Leaders Lecture
30 Euston Square

DETAILS:
Evening event
FREE for Retail Members

21 FEB 18
Brexit Webinar: Brexit, Immigration and the Retail Workforce

DETAILS:
Featuring live Q&A

MAR 18
The Brexit Debate - 1 Year to Go | The British Library

DETAILS:
Evening event
FREE for Retail Members

10 MAY 18
Retail 2020: The Journey to Better Jobs

DETAILS:
Full-day conference

12 JUN 18
Annual Retail Industry Lecture
Ham Yard Hotel

DETAILS:
Evening event
FREE for Retail Members
GUEST SPEAKER
Doug Gurr, UK Country Manager, Amazon

COMING UP

Event categories to look forward to:

- CYBER CRIME
- FRAUD & THEFT
- SUSTAINABLE RETAIL
- PAYMENTS

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NEWS FROM THE BRC

TWO YEARS SINCE THE 'DEVOLUTION REVOLUTION', BUSINESS ENGAGEMENT REMAINS CRITICAL

JIM HUBBARD
POLICY ADVISOR - LOCAL ENGAGEMENT, PROPERTY AND PLANNING
BRITISH RETAIL CONSORTIUM

IT HAS BEEN TWO YEARS SINCE FORMER CHANCELLOR GEORGE OSBORNE ANNOUNCED A 'DEVOLUTION REVOLUTION' AT THE CONSERVATIVE PARTY CONFERENCE IN MANCHESTER. IN OCTOBER, THE CONSERVATIVES RETURNED TO MANCHESTER AND SINCE THEY MET THERE TWO YEARS AGO, THERE HAS BEEN THE UNEXPECTED EU REFERENDUM RESULT, A NEW PRIME MINISTER CHOSEN AND A GENERAL ELECTION RESULTING IN MINORITY GOVERNMENT.

Following this tumultuous period, many observers have questioned whether devolving to localities in England has the same commitment that it had in the not-so-distant past. However, much of what has been previously announced is already in motion and there appears to be continued commitment to the core elements of regional devolution.

Last year, Secretary of State Greg Clark, another early proponent of devolution, was promoted by Theresa May from Communities Secretary to Business Secretary. Within his Industrial Strategy Green Paper published earlier this year he has placed particular emphasis on 'place' and the importance of attracting people. And at conference, Osborne's successor Chancellor Phillip Hammond has announced an additional £400m in funding for transport links in the Northern Powerhouse and Midlands Engine to improve connectivity between HS2 and cities not along the route.

The BRC has released its latest guide Making a Success of Devolution to assist retailers navigate England's regional and local engagement opportunities including combined authorities, Local Enterprise Partnerships and Business Improvement Districts. The guide includes a checklist for retailers to ensure they are getting the most value from local partnerships and background information on recently elected mayors. This past May, voters in Cambridgeshire and Peterborough, Liverpool City Region, Greater Manchester, Tees Valley, West of England and West Midlands elected mayors for the first time to provide opportunities for growth.

In addition to identifying engagement opportunities for retailers, the guide also sets out the importance of central and local government to engage businesses. Devolution creates opportunities for business, but also uncertainties. That is why the BRC has set out its devolution framework making the case for Government to ensure robust business engagement, publish a devolution road map, encourage powers at the optimal level, introduce local fiscal mechanisms and establish local capability. A significant portion of Osborne's revolution speech two years ago focused on devolving more business rates powers to local government and today there are six pilots where combined authorities are retaining 100 per cent of growth in business rates revenue (and more pilots likely underway next year). However, rates continue to increase for retailers and take no account of how well a business has performed.

In April 2018, rates will increase by a quarter of a billion pounds for retailers following September's RPI which the April increase is based on. While many local authorities recognise the damaging effect business rates are having on their communities (1 in 10 shops remain vacant), and despite having the power to reduce through discretionary relief the reality is local government has too few fiscal powers to substantially reduce business rates and encourage local growth.

There is no doubt Government is busy dealing with pressing issues like the future of the United Kingdom outside the European Union, however, transferring powers from London to English regions remains an important commitment. If nothing else, the Conservatives may have surprised themselves by winning four out of the six mayoral elections held earlier this year in places like the Tees Valley making it even more likely they will remain committed to the devolution experiment.

Retail remains critically important to the success of communities as the largest private sector employer employing 3 million people and as the largest contributor of business rates funding vital local government services. As Government continues on this journey the BRC will remind it of the importance of instilling robust business engagement to make the most of opportunities and to publish a roadmap to minimise uncertainties so that ambitions for balanced economic growth across the UK are realised.

The BRC's Making a Success of Devolution guide is available to members and can be found on the BRC's website after logging into the members' area.

RETAIL CRIME: IF WE CAN'T MEASURE IT...

JAMES MARTIN
CRIME AND SECURITY ADVISER
BRITISH RETAIL CONSORTIUM

RETAIL CRIME IS A KEY AREA OF OUR WORK AT THE BRC. FROM LOW-VALUE THEFT BY CUSTOMERS, WHICH SOON MOUNTS UP AS AN EXPENSE, TO THE MOST COMPLICATED CYBER-ATTACKS AND, MOST CONCERNINGLY, THE RISING TIDE OF VIOLENCE AND ABUSE OF STAFF, IT STRIKES DIRECTLY AT STAFF WELLBEING AND AT PROFITABILITY.

Peventing and dealing with it adds cost and complexity, which can, particularly when margins are already tight, make the difference between a site or an offering being viable or not.

Retail crime also has more subtle implications for members. It influences the design of the bricks and mortar and the web-based offerings, and how the two interact. It affects staff engagement and retention. It shapes how purchases are made and payments managed. Unless a retailer is on top of these issues it can, more than just about any other area, have damaging implications for the customer experience and for customer trust.

That is why the BRC maintains a continuing Crime and Security policy portfolio which aims to help deliver secure retail environments. Part of our work is to look to set the terms of debate as a way of helping to refine the public sector's offer.

On 20 January 2015 the BBC, amongst others, reported that retail crime was at a ten year high, with shoplifting, cyber-crime and fraud at their highest levels since the data began to be recorded comprehensively some ten years earlier.

Fast forward two years, to February 2017, and a range of national and specialist outlets carried stories arguing that the authorities should do something about the rising tide of violence and abuse of staff and fast-increasing scale of cyber-crime.

Each perspective directly reflected members' real-world experiences and priorities for the future as set out in the BRC's annual Retail Crime Survey.

The survey gives us a platform to make the case for a better response by the authorities on the key issues. Although we are still pressing for more to be done, and done better, over this period we have seen the creation of the National Business Crime Centre (part of the Metropolitan police), the National Cyber Security Centre (whose increasing focus on cyber-crime has, for example, assisted the production of the BRC Cyber Crime Toolkit hugely) and the National Retail Crime Steering Group, which the BRC co-chairs with the Home Office Minister and which we anticipate agreeing to our Violence and Abuse Strategy in November.

These would be real achievements in 'ordinary' circumstances, but against the backdrop of austerity spending policies, significantly increased reporting of other crimes, such as sex offences, and an increasing preoccupation with the EU and Brexit they take on an even more impressive quality.

None of the developments came about purely because of the survey but, equally, without it each would have been much less likely.

Of course, the real issue is about us knowing what members really want, and focusing organisations such as the Steering Group on tackling the issues members want them to. Again, the survey allows us a great way to do that: without it, we would not know what is important; where things are getting better, and why; and where things most need to get better but aren't, and why they aren't. Knowing that allows us to set our own priorities.

Finally, the survey gives members a much clearer view of what is going on across the industry. It does not paint a perfect picture, but it does allow for an understanding of whether trends that one member is seeing are fairly common, or whether they are more specific. We know how valuable that can be for business-planning and -strategy decisions.

The 2017 survey process has now begun, with the questionnaire here. New areas included a more detailed section on violence, questions aimed at getting us a better way of understanding how much of the cost of retail crime is unrecorded, opportunities to highlight areas of the country where the police or courts are particularly good, or bad, and a request for feedback on the BRC's Cyber-Security Toolkit, and where we think it should go next. So in a few months we will be working on what those questions tell us – perhaps to focus anti-violence work on particular cities, to build relationships with MoJ's court transformation programme and to create a new Toolkit that gives Boards and NEDs the support they need to test their organisations cyber-preparedness.

We encourage all of our retail members to download and complete it as fully as possible, and let us know here that they're doing that. We've made this year's edition shorter and more user-friendly, and can reassure you that each member's return will be kept completely confidential and that only aggregated data will be published or shared.

That's why members should answer it, and send us a completed return by Wednesday 22nd November.

INFLUENCING CUSTOMER BEHAVIOUR – A MOBILE ANSWER

MICHAEL ROLPH
CO-FOUNDER AND CPO
YOYO

THE RISE OF MOBILE PAYMENT OFFERS HIGH STREET RETAILERS A CHANCE TO ENGAGE AND DRIVE CUSTOMER BEHAVIOUR LIKE NEVER BEFORE...

High street retailers are constantly looking for new ways to better engage with their customers in the hope that it will increase retention.

For most, this comes in the guise of a traditional loyalty scheme - branded plastic card or paper stamp card campaigns, which attempt to persuade customers to keep spending with a retailer in the hope of being rewarded with freebies, special offers or advanced access to new products.

And while we certainly are loyalty scheme adopters in the UK (94% of us are said to belong to at least one loyalty scheme), customers usually find it difficult to see their value, are unimpressed with the benefits on offer and frustrated by the process of redeeming rewards.

In an age of instant gratification, customer experience is, or should be, a fundamental part to how a brand is perceived. As it stands, most retail loyalty schemes don't cut the mustard.

Much of this comes down to loyalty schemes placing too much of the work on the customer themselves, whether it's going through complex multi-channel sign-up processes, remembering to have loyalty cards each time a purchase is made, or needing to go through laborious red tape to redeem rewards.

However for some time now, something has been slowly entering the retail market that has the potential to dramatically improve retention and enhance the brand experience for customers at the same time.

> "THROUGH MOBILE, RETAILERS CAN GET TO KNOW WHO THEIR CUSTOMERS ACTUALLY ARE BY MATCHING THEM TO THEIR BASKET DATA."

MOBILE PAYMENT

In 2015, Apple Pay launched in the UK, with Android and Samsung Pay following a year later - this marked the first major introduction of mobile payment to UK consumers.

Payment through mobile reached £370m in the first six months of 2017, according to Worldpay, representing a whopping 336% increase compared to the same period in 2016.

Mobile payment is here to stay and it's getting bigger.

However, payment companies have so far provided little to no added-value for retailers or their customers. While Apple Pay and others have come along and made accepting mobile payment a no brainer - bottom line, it's just another payment method.

There was no problem with payment before mobile - whether cash, card or contactless, the retail world worked.

CUSTOMERS WANT MORE THAN WHAT "WORKS"

Mobile payment has been in the mainstream for two years now and, while adoption is increasing, it's been slower than first predicted. Its future success will be in making mobile payment core to the customer experience.

Unlike any other payment method on the high street, mobile allows customers to pay for goods, join a loyalty scheme, positively engage with retailers and be rewarded at the most convenient times – all in a single moment at the POS.

Also, think about a full end-to-end transaction experience, with fully-itemised digital receipts, in-store details, location and time information etc, provided to the customer in a single moment to give a fully immersed in-store experience.

KNOW THY CUSTOMER

Mobile as payment can also give retailers the ability to actually know their customers. There's still some confusion on what "know your customer" actually means. For many, it could just go as far as having customers who have signed up to your loyalty programme.

Bringing mobile into the fold, retailers can get to know who their customers actually are by matching them to their basket data at the POS, giving them the ability to learn individual buying preferences and behaviours.

Through basket data analysis, a retailer can know who their customer is, what they're buying and when. With this insight, not only could a retailer reward individual customers based on what they most like, they could also set loyalty conditions to influence behaviour.

INFLUENCING BEHAVIOUR

If business was slow on a certain day or a new product line wasn't gaining enough attention, a retailer would have the data insight at their fingertips to create a campaign that could tell customers, through their mobile devices, that they would receive extra rewards if they shopped on that slow day or bought that new product line.

One retailer, who has been taking advantage of this is Vietnamese fast food chain Hop.

Earlier this year, Hop wanted to increase the frequency of purchases on a slow business day - Tuesdays. Through their combined mobile payment and loyalty platform, Hop decided to offer double loyalty points to all customers who came in on that day.

Activity on a Tuesday for the month after the campaign launched looked very different: Unique customers increased by 85%, transactions went up 51% and revenue increased by 61%.

BASICS BEFORE MOBILE

Mobile becoming core to bricks-and-mortar retail is inevitable. If you are a high street retailer, who hasn't already put mobile at the centre of your customer retention strategy, you're already behind the competition. Think of those retailers who thought e-commerce wouldn't amount to anything.

However, simply combining mobile technology with an existing loyalty programme isn't going to provide a winning retention strategy. Before administering that tech injection, a retailer will still have to have a strong foundation in place.

LOCATION, PRICE, PRODUCT, ENVIRONMENT AND SERVICE.

These are the five elements that create a customer's brand experience. If a retailer is not getting these right, it won't matter how you try to build loyalty amongst your customer-base.

Once these are in place, a retailer is in a strong position to begin work on a long-term customer retention strategy. It begins through a payment and loyalty programme seamlessly driven through the highest converting channel – a mobile app.

MICHAEL ROLPH
// michael@yoyowallet.com
// Twitter: @michael_rolph
// Linkedin: Michael Rolph
// yoyowallet.com

> "THE SUCCESS OF MOBILE PAYMENT WILL LIE IN MAKING THE TRANSACTION PROCESS A CORE PART OF A POSITIVE CUSTOMER EXPERIENCE."

BE AWARE: UNCONSCIOUS BREACHES OF THE NATIONAL LIVING WAGE REGULATIONS UNDER SCRUTINY

MATTHEW LEWIS
PARTNER AND GLOBAL HEAD OF RETAIL
SQUIRE PATTON BOGGS

LAURA MCLELLAN
SENIOR ASSOCIATE, LABOUR AND EMPLOYMENT: RETAIL SPECIALIST
SQUIRE PATTON BOGGS

THE HMRC IS TARGETING RETAIL. ARE YOU READY IF AN INSPECTOR TURNS UP TO INVESTIGATE YOU FOR POSSIBLE BREACHES?

Retail is one of the primary sectors currently targeted by HMRC investigating companies for breaches of the National Minimum Wage and National Living Wage Regulations. The NLW of £7.50 applies to all staff aged over 25.The NMW applies to those under 25: £7.05/hour for age 21-24; £5.60 for 18-20; £4.05 for 16-17 year olds.

The retail sector has a large numbers of low paid employees with a raft of policies and practices that may conflict with ensuring employees are paid the correct wage. Inspectors can turn up on site at any time, without any warning, and ask to speak to your employees. They don't need your permission and you ou cannot prevent this happening. What you can do is make sure staff are paid correctly.

It is not as straightforward as simply paying an hourly rate of £7.50 or £7.05; there are several ways that you could be unconsciously breaching the Regulations. As the potential consequences can be very costly, retailers should look at this now, audit pay and practices and correct any processes that present a risk.

HMRC CAN ORDER ARREARS PAYMENTS TO BE PAID TO EMPLOYEES, WHICH CAN GO BACK 6 YEARS.

SO WHAT DO YOU HAVE TO DO?
YOU WILL NEED TO REVIEW:

- **Uniform policy** – do you require employees to provide any part of their own uniform? Black trousers for example?
  If you are a fashion retailer, do you require staff to wear your clothing and to buy this (even at a discount)? If so, the cost to the employee of policy compliance will reduce National Living Wage pay because it is a specific requirement imposed on staff by the employer. The effect is that the cost of the item of clothing is deducted from their pay, meaning there is a failure to pay NLW in that month.

  You should either provide the entire uniform free of charge (or ensure the cost is discounted so the employee is still receiving the NLW) or consider a dress code instead. The advantage of a dress code means the cost of compliance with this will not reduce NLW pay, but could mean the employee is not on brand.
- **Deposits** - If you require an employee to pay any kind of deposit, for example for a uniform or locker, even if this is returned at the termination of their employment, it will count as a deduction reducing NLW for the month of payment.
- **Salary sacrifice** - Where a salary sacrifice is in place, the amount of it will count as a deduction from NLW. This does feel counter-intuitive since salary sacrifice arrangements are popular as they provide benefits to a worker in a tax efficient way but it is a common mistake.
- **Training** – If the cost of training is paid by the employee, it will reduce NLW pay. Any time spent at training, should also be paid at the NLW rate.
- **Clocking in/out** – If you require your employees to clock in and out, you need to be careful about a system, that rounds up or down in favour of the employer. For example, if an employee clocks in one minute late and your system then deducts 15 minutes of pay, the employee may not receive the correct NLW pay for the time worked.
- **Breaks** – If employees are not paid for their breaks, can you guarantee that they always take them? If they work through an unpaid break, they may not be receiving NLW for that shift.
- **Coming in early/leaving late** – do you require your employees to come in early, for example, for a weekly team briefing or to fire up tills, turn lights on, before their shift starts? Or perhaps they won't always leave on time, because they are required to queue for a bag search. This time counts as working time and they should be paid for it, on top of their normal shift hours, to achieve NLW across the whole shift.
- **Annualised hours** – there are many benefits to using annualised hours contracts in retail. However, retailers must ensure contracts contain an ascertainable number of hours per year. Some contracts express the number of hours as a number of weekly hours. HMRC does not consider this enables workers to ascertain their annual number of hours, since it is not a straightforward calculation (there are 52.2 weeks in a year). If they cannot ascertain their annual hours, HMRC will not view the arrangement as a true annualised hours contract and therefore they must be paid NLW for every hour in the week/month, even if this is a peak period, which is intended to balance out over the year.

WHAT ARE THE POTENTIAL CONSEQUENCES OF BREACH?
The cost of non-compliance outweighs the perceived difficulty of putting in place the right measures, for example:

- HMRC can order arrears payments to be paid to employees, which can go back 6 years. This arrangement can cover both current and former employees and the employer will have the task of hunting down previous employees.
- HMRC can also order a Penalty Payment. There is a £100 minimum and the current maximum penalty is 200% of the underpayment, capped at £20,000 per worker.
- Potential criminal charges could be faced for a persistent non-compliance or refusal to co-operate with HMRC compliance officers, which can attract an unlimited fine if found guilty
- Your reputation could be tarnished. HMRC must also refer the case to Department for Business who will then "Name and Shame" the employer on the Government's website and this inevitably attracts negative press coverage, as we have seen on a regular basis.
- Finally, an employee who believes that they are not being paid NLW can bring an Employment Tribunal Claim.

MATTHEW LEWIS
// 0113 284 7525
// matthew.lewis@squirepb.com

LAURA MCLELLAN
// 0113 284 7048
// laura.mclellan@squirepb.com

SQUIRE PATTON BOGGS

"HMRC MUST ALSO REFER THE CASE TO BIS WHO WILL THEN 'NAME AND SHAME' THE EMPLOYER ON THE GOVERNMENT'S WEBSITE"

IGD INVESTIGATES THE SKILLS GAP IN THE FOOD AND GROCERY INDUSTRY

FIONA MILLER
HEAD OF EMPLOYABILITY AND SKILLS
IGD

IGD, THE EDUCATION AND TRAINING CHARITY FOR THE FOOD AND GROCERY INDUSTRY, HAS LAUNCHED NEW RESEARCH THAT INVESTIGATES THE NATURE OF THE SKILLS GAP IN FOOD AND GROCERY. THIS RESEARCH WILL HELP TO UNDERSTAND THE UNDERLYING CAUSES OF THE SKILLS GAP AND WHAT CAN BE DONE TO ADDRESS THE ISSUES.

IGD's research, Bridging the Skills Gap, took place during the first six months of 2017 and includes input from more than 1,000 Year 9 and Year 12 students. In addition, more than 200 professionals from some of the biggest companies across the food and grocery industry took part in our research and we discovered some revealing insights.

The main findings from the research are:

ENGAGING WITH YOUNG PEOPLE IS VITAL TO BUILD AWARENESS

Highlighting the role that the industry can play to inspire the next generation, three quarters (75%) of secondary school students say they want to learn more about jobs through work experience and just under two-thirds (63%) say they would like more opportunities to interact with employers face-to-face. Furthermore, of people aged 16-25 who have recently started working in the food and grocery industry, 58% claim that work experience was a major influencer in deciding to join the industry.

It is clear from our research that teachers are key gatekeepers of advice for secondary school students, alongside parents – 64% of students gain careers advice from teachers and 77% from parents. However, teachers acknowledge that they are often unable to give industry-specific advice due to limited resources and time.

The role that the food and grocery industry can play is clear, with 88% of teachers agreeing that more interactions with industry professionals would help and nearly two-thirds (63%) valuing long-term engagement with a local company.

A TALENT PIPELINE OF ENGINEERS IS EMERGING

The science, technology, engineering and maths (STEM) skills shortage across the UK is well documented and this is a consistent theme we see for the food and grocery industry. Recruiting managers confirmed that engineering roles are the most difficult to recruit, with nearly half (48%) citing these roles as hardest to fill.

However, nearly one in 10 (9%) Year 12 students claim that engineering is their dream job, showing that much of the work that has been done to encourage young people to study STEM subjects appears to be paying off and paints a positive picture.

There are plenty of opportunities for young people to develop engineering careers in the food and grocery industry. According to the ONS Annual Business Survey, food and drink manufacturing is worth £96 billion and is the UK's largest manufacturing sector, bigger than new vehicle production and aerospace manufacturing combined (worth £72.6bn).

CAREER DEVELOPMENT IS IMPORTANT TO YOUNG PEOPLE

Our research revealed that the most important factors for Year 12 students when looking for a job are work/life balance, promotion opportunities, on-the job training and company values, all coming ahead of salary.

Our research also confirms that career development is highly associated with our sector – young recruits in food and grocery overwhelmingly agree that the industry has much to offer, with 89% saying that the opportunities for career development were a key reason for entering food and grocery.

RAISING AWARENESS VIA FACE-TO-FACE INTERACTIONS

IGD's research shows that the more students learn about the food and grocery industry and the opportunities available, the more likely they are to consider the industry for their future career. Before students take part in one of IGD's Feeding Britain's Future workshops, where students meet industry professionals and learn about employability skills, 43% say they would consider a career in the industry; this rises to 73% after a workshop.

The value of face-to-face interactions with industry professionals, even in a relatively short time-frame, are further highlighted by IGD's research. Prior to attending a two-hour Feeding Britain's Future workshop, one quarter (25%) of school students claim they have good knowledge of food and grocery, with the number of students describing their knowledge of the industry as 'good' rising to 87% after participating.

ABOUT FEEDING BRITAIN'S FUTURE

IGD has developed a series of programmes that provide lifelong learning for the food and grocery industry, which start with informing and inspiring school children about the world of work (Feeding Britain's Future), equipping people to get started and upskilling them throughout their career (Leading Edge).

Feeding Britain's Future brings the food and grocery supply chain to life for students by taking industry professionals into schools, with 90% of students saying they feel more prepared for the world of work following a session. Since 2015, Feeding Britain's Future has trained over 15,000 students supported by 3,000 industry professionals in schools across the country and aims to highlight the diverse range of careers the food and grocery industry offers, while also helping to develop the skills needed to thrive in the workplace. The feedback we get from teachers about the programme is consistently high with 100% saying the workshops have helped developed the skills of students.

This research highlights how important IGD's learning programmes are for the future of our industry and we're constantly working to increase the impact of our training so even more young people learn about the exciting opportunities the food and grocery industry offers. In 2017, we're aiming to train 10,000 students in Feeding Britain's Future workshops, which happen in schools across the country.

Read the full IGD skills research 'Bridging the Skills Gap' here.

FIONA MILLER
// +44 (0)1923 857141
// fionamiller@igd.com
// igd.com

> "THREE QUARTERS (75%) OF SECONDARY SCHOOL STUDENTS SAY THEY WANT TO LEARN MORE ABOUT JOBS THROUGH WORK EXPERIENCE"

WE NEED TO TALK ABOUT PRODUCT DATA

JIM DICKSON
HEAD OF RETAIL GROCERY
GS1 UK

AS RETAILERS STRUGGLE WITH POOR PRODUCT DATA, IT'S TIME FOR THE INDUSTRY TO TACKLE IT HEAD-ON.

We all know that shopping habits are changing, driven by different lifestyles and technology. Today, customers are buying their groceries more frequently and in smaller amounts. Larger shopping trips have been replaced by online deliveries and click-and-collect. Many customers have become concerned about health, wellbeing and the environment, and have specific dietary and allergen needs.

This means customers expect ever more information about the products they buy to be readily available, both in-store and online. And of course, they expect this information to be complete, correct and consistent across the channels they use.

But this is presenting enormous challenges to the grocery sector, with retailers and brands alike struggling to keep up.

For many years the sector has had a problem with managing product data. It's often inconsistent, inaccurate or incomplete, and multiple versions of the same data create unnecessary headaches. These inefficiencies are often hidden in duplicate processes and manual checks. It's estimated the UK grocery sector is being hit by £200m in costs and lost sales each year due to poor product data. This impacts the bottom line but also the speed and efficiency of moving products through the supply chain.

The problem is only going to get worse as the number of required product attributes keeps growing. And as more shopping channels open up, brands are having to deal with more trading partners, requiring more data, in different formats.

A TRANSFORMATIONAL SOLUTION FOR THE INDUSTRY, BY THE INDUSTRY

Grocery retailers and brands are rightly concerned about product data and it became clear this was a universal issue when the GS1 UK Retail Grocery Advisory Board first met to discuss common problems they faced. This group of prominent retailers and brands quickly recognised the need for an industry-wide solution to solve the product data problem.

Using countries such as Sweden, the Netherlands and Australia as inspiration, where the issues were addressed many years ago, here in the UK we initiated the Digital DNA programme. This industry-wide project, led by retailers and brands, has the ultimate goal of enabling everyone across the sector to share the same high-quality product data.

Essentially, Digital DNA will provide a single industry product data catalogue for the grocery sector, where suppliers put data in using a harmonised data model and retailers take data out in a way that suits them, when it suits them.

The data will be independently quality assessed to ensure everyone is confident in it and importantly, the data will be royalty-free – owned by the suppliers.

This will be transformational as it will reset the fundamentals of product data sharing between retailers and suppliers by providing one way of introducing new products and one way of making changes to products, using just one language to describe those products.

"AS AN INDUSTRY, IT IS ESSENTIAL THAT WE WORK TOGETHER TO SOLVE THE PROBLEM OF PROVIDING QUALITY PRODUCT DATA TO ALL OUR CUSTOMERS."
Mark Watson, Director of Planning and Supply Chain, Ocado

THE BENEFITS FOR RETAILERS AND BRANDS

- Digital DNA will develop a common language for high quality, validated data that has been agreed by the industry, built on GS1 industry standards
- There'll no longer be a need for constant checks as a single source of image, product and logistics data will be used throughout the supply chain, from the brand to the retailer and to the shopper
- Digital DNA will increase confidence among retailers that the product data being provided is accurate and consistent, while suppliers can choose their preferred way of putting data in and controlling who can securely take it out
- Digital DNA is designed to avoid data being locked in to one vendor and the data usage rights will be agreed by the industry, so no-one will be trapped by other's commercial agendas. The governance and funding is also being managed by the industry, ensuring a fair deal for all

We believe Digital DNA will provide value for everyone as it's run by the industry, for the industry and managed through GS1 UK – a neutral, not-for-profit standards organisation.

IT'S ALL ABOUT THE SHOPPER

It's not just the retailers and brands that will benefit as Digital DNA will provide complete and accurate information for shoppers so they can make safe and confident purchasing decisions – based on health, wellbeing or lifestyle choices.

And in the long-term, retailers and brands in the grocery sector won't be the only ones to benefit. A similar model could be implemented for other sectors across retail, ensuring they can also benefit from a single and unified product data catalogue.

"CURRENTLY BRANDS PROVIDE PRODUCT INFORMATION IN MULTIPLE WAYS TO DIFFERENT RETAILERS AND THIS ADDS BOTH COST AND COMPLEXITY."
Gianluca Branda, Associate Director, Product Supply for P&G Northern Europe

PROGRESS TO DATE

We've been working on Digital DNA for the past year and over the summer 12 leading retailers and brands, including Tesco, Unilever and Waitrose, signed up to the Digital DNA Industry Charter making a commitment to move to a single industry solution to manage and exchange product data.

Digital DNA is being tested today by some of the companies involved in the programme. The full service will be available for industry in 2018, uniquely offering business-to-business and business-to-consumer data exchange through a single service, available to companies of all sizes.

Essentially, Digital DNA is a game changer for the grocery sector. And through better management of product data, retailers and brands can spend more time on what really matters – delivering innovation, growth and excellent customer service.

JIM DICKSON
// jim.dickson@gs1uk.org
// gs1uk.org/digitaldna

GS1 UK

"IT'S ESTIMATED THE UK GROCERY SECTOR IS BEING HIT BY £200M IN COSTS AND LOST SALES EACH YEAR DUE TO POOR PRODUCT DATA"

GDPR & E-PRIVACY:
WHAT DO ONLINE RETAILERS NEED TO KNOW?

DECLAN GOODWIN
ASSOCIATE
CAPITAL LAW

DECLAN GOODWIN, COMMERCIAL LAWYER AT CAPITAL LAW, LOOKS AT THE UPCOMING GENERAL DATA PROTECTION REGULATION AND E-PRIVACY, AND EXPLAINS WHAT RETAILERS NEED TO CONSIDER.

WHAT IS GDPR?

The General Data Protection Regulation (GDPR) will come into force on the 25th of May 2018. This will be the most significant change in data protection law in the last 20 years, replacing the Data Protection Act 1998. It will change the way organisations are able to capture, use and share personal data – both within their business and externally.

There's no major news story there – this change has been on the cards since 2016. But, it's coming around quickly, and organisations – across all sectors, and particularly in retail – need to start preparing.

WHAT IS THE E-PRIVACY REGULATION?

Also coming up in 2018, the E-Privacy Regulation will replace the current legislation that governs electronic marketing (like email and text messages), the Privacy and Electronic Communications Regulations 2003 (PECR). Given how extensive e-marketing has become in recent years – particularly for online retailers, this could mean big changes to the way that retailers do things.

WHAT ARE THE SIGNIFICANT CHANGES?

Under GDPR, you'll need to think much more carefully about how you collect and process customer data – taking into account why you're processing it. Traditionally, you could've relied on consent to process personal data – like email addresses, or contact information. But, under GDPR, this type of consent will be much more difficult to rely on.

You need to take a granular approach, with specific consent for different purposes. For example, when emailing a receipt to a customer, you won't be able to send details of the latest offers or promotions in the same email, unless the customer has signed-up to receive marketing communications. Even if the customer has provided marketing consent, you'll need separate specific consent to be able to email details of offers available from you, or your partners.

On the 14th September, the Government published the new Data Protection Bill, which essentially translates the European Union's GDPR into UK law – and will be retained post-Brexit.

According to a report, 80% of people feel they don't have complete control of their online data. To help combat these fears, the new law:

- Makes it easier for people to withdraw consent for their personal data to be used
- Expands the definition of personal data to include IP addresses, cookies, and DNA
- Includes the 'right to be forgotten' so that people have more power to ask companies to wipe their data
- Requites an opt-in, rather than ticking a box to opt out. The E-Privacy Regulation will allow for the current 'soft opt-in' approach in certain circumstances.

> "THIS INCREASED LEVEL OF TRANSPARENCY WILL REQUIRE A BIG CULTURE CHANGE – AND IS SOMETHING ALL BUSINESSES WILL HAVE TO GET USED TO."

It'll also be your legal duty to report data breaches within 72 hours of becoming aware of them, especially if they could affect someone's confidentiality or financial position.

At the moment, most retailers follow the 'soft opt-in' rules provided by PECR. So, for example, when your customers buy something, you collect their data – and then continue to use their data to send them marketing emails, selling similar goods or services. You're allowed to do this under the PECR, and this isn't expected to change significantly under the new E-Privacy Regulations.

But, if you're collecting that information other than in the course of a sale, you can't use it for marketing purposes – whether that's sending them emails, offers, or promotions. The GDPR consent mechanism will catch you out.

WHAT IF THE CHANGES AREN'T FOLLOWED?

Once the regulations come in, all organisations must be compliant – size doesn't matter.

Failing to comply with the new regulations could leave you open to enforcement action, which could damage your public reputation – as well as your bank balance. The maximum penalty could be up to £17m (€20m) – or 4% of your global turnover, whichever is higher.

Individuals will also become increasingly aware of their rights under the GDPR – and are likely to complain if they suspect a breach. The Information Commissioner's Office will take complaints seriously, and is likely to come down hard on you if you haven't reported a breach. You could be opening yourself up to two fines – one for not reporting a breach, and the other for the breach itself.

WHAT DOES THAT MEAN FOR RETAILERS?

You'll need to make sure that safeguarding your customers' personal data is at the heart of what you do.

Conduct a thorough assessment of your current practice. Look at the data you're collecting, why you're collecting it, and how you're processing it. Once you've done this, you can assess how the new laws apply to you and establish what needs to change for you to comply with them.

Under GDPR, a customer's consent for you to collect and process their data must be specific, informed, and given freely. You also need to make sure that customers can give, or withdraw, it, at any time.

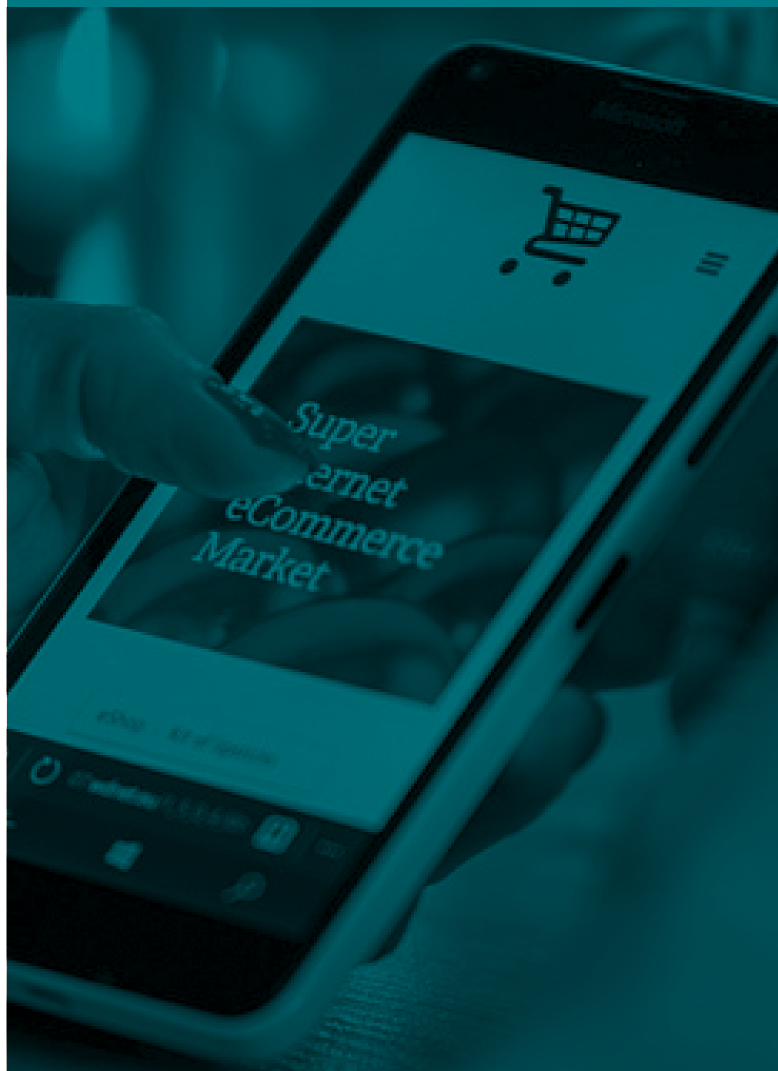
You'll have to think about exactly how and why you're using customer data – ideally relying upon alternatives to consent. For example, processing to fulfil a contractual obligation, like shipping an order, or processing for a 'legitimate interest', like fraud prevention.

GDPR is coming around quickly, and organisations – across all sectors, and particularly in retail – need to start preparing.

DECLAN GOODWIN
// 029 2047 4480
// d.goodwin@capitallaw.co.uk
// @capitallawllp
// capital-law.co.uk

CAPITAL LAW

> "ACCORDING TO A REPORT, 80% OF PEOPLE FEEL THEY DON'T HAVE COMPLETE CONTROL OF THEIR ONLINE DATA."



IOT TO THE RESCUE?

MALCOLM DOWDEN
LEGAL DIRECTOR
TRANSATLANTIC LAW FIRM
WOMBLE BOND DICKINSON

TED CLAYPOOLE
PARTNER
TRANSATLANTIC LAW FIRM
WOMBLE BOND DICKINSON

CAN TECHNOLOGY PROVIDE A SOLUTION TO POST-BREXIT RETAIL SUPPLY CHAINS ISSUES?

For retailers, speed and efficiency in supply chains are paramount. With the possibility of a "hard" or "no deal" Brexit, retailers must adapt to a new operating environment. The UK government is exploring the potential for highly streamlined technology-based procedures to preserve frictionless borders. The Internet of Things (IoT) could play an important role, but also comes with a range of legal implications.

GETTING INTO THE BLUE LANE?

Theresa May has acknowledged the possibility of a "no deal" Brexit and confirmed that the government is making contingency plans in case of this outcome. Of particular concern is the movement of goods entering or leaving the UK through Roll-on-Roll-off ports or terminals due to limited holding space and pressures stemming from up to 130,000 businesses trading with Europe having to grapple for the first time with border checks. The UK could learn a lot from Singapore's technology-based "single window" import system, allowing customs declarations and other regulatory or security requirements to be dealt with through one portal, rather than having to navigate different systems or departmental websites. However, that would not in itself speed commercial traffic through border checks. Physical checks, and therefore delays, would remain a feature of border procedures. Consequently, there is a pressing need to explore further layers of technology-based support to achieve something closer to "frictionless" borders.

Any viable solution requires a combination of technologies. In the containers themselves, optical number plate recognition systems might confirm the identity and origin of tractor units. IoT tags and GPS data could confirm that container units are tracked and that they are associated with the correct tractor unit. The container's contents might also be tagged to confirm provenance together with other key data points such as the relevant product code for customs purposes. IoT-connected temperature gauges and CO2 detectors might be added to provide data relating not only to the condition of perishable goods, but also to alert border officials to any need to check for illegal immigrants. Once checked at its point of origin or at the first border crossed, real-time data transfers confirming that nothing has changed would allow authorised traders to speed unimpeded through a border control "blue lane". Mobile and fixed sensors at the UK port could test for contraband, disease, weapons and other undesirable contents as containers are offloaded from trucks and ships. Port authority analysis may begin to forgo opening vehicles for faster external scans using IoT equipment. Deeper analytics will allow the port master to make more accurate predictions of theft, smuggling, and damage with minimal stoppage of flow.

Any such system would, of course, involve cost and require either a compelling business case or strong regulatory drivers.
One possible avenue would be to include participation as a component of Approved Economic Operator (AEO) status, qualifying a business for "blue lane" access. Given that it stems from the World Trade Organisation "trusted trader" concept, and has both customs and security aspects, AEO status will remain crucial whatever the outcome of Brexit negotiations.

DATA AND CYBERSECURITY

Security and data law compliance are key areas of concern, both for retailers and in relation to any government decision to implement or tap into technological solutions to overcome trade barriers.

The proliferation of IoT devices presents risk. Inadequately-secured IoT devices may be hijacked for their valuable commercial data and even combined to launch large-scale distributed denial of service attacks. Discussions about liability for such attacks remain speculative. Lawyers are actively discussing whether negligence-based liability might land on the owner or operator of insecure equipment in addition to the criminal instigators of such attacks.

The General Data Protection Regulation (GDPR) comes into operation on 25 May 2018. Its key features will be replicated post-Brexit by the UK's Data Protection Bill. The legislation sits uneasily with the blockchain and distributed ledger technology likely to underpin any IoT-connected border solution.
In particular, distributed ledger involves replicating data to each node (or participating computer) within the network, creating multiple avenues for data exposure and a significant risk of breach. Those concerns mean that any solution adopted by the UK government could require a "permissioned" or access-controlled blockchain.

Retailers would also have to be confident about security in any such system. Incidents such as the "DAO hack" of June 2016 demonstrate that coding vulnerabilities can be exploited for fraudulent purposes. Committing commercially sensitive information, such as contract terms or product volumes, to a distributed ledger requires a high degree of security assurance, bringing administrative burdens which potentially limit its ability to cope with the anticipated scale of post-Brexit customs, security and compliance checks.

The UK government had a headstart in relation to blockchain and distributed ledger. In January 2016 Chief Scientific Adviser Sir Mark Walport's report flagged the technology's potential to reduce fraud, error and the cost of paper intensive processes. Since then, UK government attention has been diverted by Brexit. Other jurisdictions are pulling ahead. Singapore aims to deploy the technology to secure its position as a global trading hub, while in the US States such as Delaware have legislated to encourage blockchain, distributed ledger and IoT as key enabling technologies for business. The UK has some catching up to do. Brexit may yet be deferred for a transition period. However, the clock is ticking and any technology-based solution to border issues may be deployed soon. To meet the challenges identified in the BRC Customs Roadmap, retailers should consider the risks and engage in the process of implementing a technology-based system capable of meeting the post-Brexit challenge.

MALCOLM DOWDEN
// +44 (0) 23 8020 8428
// malcolm.dowden@bonddickinson.com
// www.womblebonddickinson.com

WOMBLE BOND DICKINSON

"FOR RETAILERS, SPEED AND EFFICIENCY IN SUPPLY CHAINS ARE PARAMOUNT. WITH THE POSSIBILITY OF A 'HARD' OR 'NO DEAL' BREXIT, RETAILERS MUST ADAPT TO A NEW OPERATING ENVIRONMENT."

SMART LOCKERS IMPROVE CLICK & COLLECT FOR CUSTOMERS & RETAILERS ALIKE

JON WALKINGTON
HEAD OF REAL-TIME RETAIL
APEX SUPPLY CHAIN TECHNOLOGIES

A SIMPLE, AUTOMATED TWIST OF TECHNOLOGY HELPS RETAILERS GIVE CUSTOMERS A TRULY SEAMLESS SHOPPING EXPERIENCE

The retail industry has been under attack since e-commerce brands began disrupting shopping and raising customers' expectations in the process. More than 200 UK retailers have failed since 2012 as the retail industry scrambles to meet constantly changing customer needs, according to the Centre for Retail Research.

Successful, surviving retailers realise that giving customers what they want requires changes to touchpoints and workflows across an online, mobile and bricks-and-mortar presence.

One fast and simple way retailers can start to adapt is by improving on their click-and-collect programmes, arguably the fastest-growing area within omnichannel retailing.

Apex is revolutionising the well-established click-and-collect model with a unique alternative to the rudimentary processes currently used in most stores and to the remote locker networks owned by the likes of Amazon.

The Apex self-serve, automated smart locker is an easy, secure way for customers to collect orders at their convenience and without the queues. This can all be done without adding staff or disrupting retail operations in the process.

Consumers want the option to choose how and when they will buy, pay and receive their purchases. Expectations are driven by a need for the utmost convenience. Technology like our smart lockers will help retailers respond more easily than they might realise.

The rapid emergence of click-and-collect is sometimes attributed to the customer's desire to avoid delivery charges and the inconvenience of waiting around for a delivery. As high street brands, such as Tesco, Argos, Next and Currys, adopted the counter-queuing model, the concept was initially well received by customers. In fact, John Lewis reported 56 per cent of its 2016 Christmas orders were bought online and collected in-store.

> "AUTOMATED SELF-SERVE LOCKERS CAN MAKE PURCHASE COLLECTION AS FRICTIONLESS AS ORDERING AND PAYING ONLINE"

Since it is more profitable for retailers than home delivery, the click-and-collect solution is good for retailers as well. This is in part because customers tend to make impulse purchases when collecting their order. It is also because the cost to process and fulfil orders through an automated on-premise locker system costs less than counter-queuing click-and-collect.

Retailers often come up short with click-and-collect programmes, creating customer frustration instead of a seamless experience. Nearly a third of online shoppers, according to Forbes, said they endured "long waits" while store staff rummaged for their parcels in the back of the store.

This is usually the result of inefficient operations, from a lack of staff to assist customers and issues locating click-and-collect orders, to inaccurate inventory data making it difficult to fulfil orders from store stock.

A shopping experience isn't seamless if poorly conceived store processes don't complement the overall omnichannel philosophy. Retailers who succeed in offering click-and-collect without long collection queues will gain a greater share of customer minds and wallets. To be part of retail's future, they must solve these problems – and fast.

Eliminating the frustration and inconvenience of queues, by itself, is a significant improvement to the customer experience. But it's just one of the benefits smart lockers bring to click-and-collect.

Once an order is ready, the customer is automatically notified by e-mail or text. At their leisure, they visit the store and simply scan a barcode or enter a pick-up code to gain access to the secure compartment holding their purchase. And with rugged, outdoor lockers, retailers can even offer 24/7 collection for the ultimate in collection flexibility.

For the retailer, smart lockers free up store staff and streamline the customer's purchase journey. They also generate valuable insights into customer behaviour. Through the Apex Trajectory Cloud platform, which store managers can access online, every device action is recorded in real time. Retailers can identify customer trends, upon which informed decisions and improvements can be made to enhance the customer experience further.

Our smart lockers offer a simple way for retailers to turn the issue of long queues into a competitive advantage. Automated self-serve lockers can make purchase collection as frictionless as ordering and paying online.

As retail continues to reinvent itself, using technology such as smart lockers for click-and-collect is critical to improving the customer experience and optimising operations.

Speed and convenience is a standard customer expectation, but current solutions were never developed with today's volume of click-and-collect orders in mind. Smart lockers make it easy and cost-effective for retailers to extend the convenience of 24/7 online ordering to the kind of seamless pick-up services that customers expect.

The future of retail belongs to those who deliver what their customers want, when and how they want it, while driving out waste and cost from their operations.

JON WALKINGTON
// 0800 840 4776
// apexsupplychain.com

> "ONE FAST AND SIMPLE WAY RETAILERS CAN START TO ADAPT IS BY IMPROVING ON THEIR CLICK-AND-COLLECT PROGRAMMES, ARGUABLY THE FASTEST-GROWING AREA WITHIN OMNICHANNEL RETAILING."

CAR PARK INCOME FROM SHOPPING CENTRES SHOULD NOT BE UNDERESTIMATED

JORDAN JEFFERY
HEAD OF RETAIL MANAGEMENT
PROPERTY & ASSET MANAGEMENT
JLL UK

HOW CAR PARKS ADD VALUE TO THE RETAIL EXPERIENCE ACCORDING TO JLL'S JORDAN JEFFERY

A shopping centre car park provides a regular and stable source of income for landlords, equivalent to another anchor tenant. The customer's overall impression of the shopping facility starts and ends at the car park, so the parking experience needs to be faultless. It might not seem glaringly obvious at first, but the role of car parks in enhancing footfall and income in the longer term should not be underestimated and certainly not ignored.

This year, JLL released its annual shopping centre car park survey which provides shopping centres with a benchmarking tool for running costs, tariffs, profitability and the impact of technology on the sector. The survey analysed the performance of car parks with an average of 722 spaces across the UK over the last three years.

Interestingly, the report showed that in 2016, 20 percent of car park income was received by debit or credit cards. In the same year, 29 percent of the car parks surveyed had installed contactless payment. Under the new Payment Card Industry (PCI) regulations due to come in force in December 2019, unless you have contactless you will no longer be able to pay with credit or debit cards. With this in mind, JLL estimates that the number of car parks providing contactless payment will increase by 50 percent in the next two years. In a world where technology is dramatically shaping business, it is vital that shopping centres adapt to these changes or face the consequences of reduced footfall.

Meanwhile, parking apps are changing the way customers utilise car parks, through the ability to pre book parking spaces and plan journeys.

> AS APPS BECOME WIDELY AVAILABLE, JLL BELIEVES THAT COMPANIES SHOULD HAVE THIS TECHNOLOGY ADDED INTO THEIR FUTURE BUSINESS PLANS TO IMPROVE THE OCCUPANCY LEVELS OF THEIR PARKING FACILITIES.

While car park incomes remain broadly static, costs are increasing. Business rates are the largest cost component with average rates taking up 25 percent of the total running costs. The business rates revaluation that came into effect on the 1st April 2017 has seen an average rate increase of 58 percent for car parks across the UK. With the rates burden taking hold, it is vitally important that property management does everything it can to help drive retailer footfall and spend by focussing on customer service and targeted investment into key infrastructure.

Speaking of key infrastructure, shopping centres with electric vehicle (EV) charging points are becoming destination car parking facilities. New EV registrations are growing at a dramatic rate year on year, with approximately 305 registrations in 2016 alone. The ban on the sale of new petrol and diesel vehicles in the UK from 2040 and the proposed £38m cash injection for public charging points by the Government, means EV ownership is set increase. However, shopping centres are yet to catch up. Approximately, 75 percent of shopping centre car parks JLL surveyed did not have any EV charging points. Interestingly, local authorities do not have budget to increase their number of the EV charging points, most prominent in petrol stations and car parks according to a 2017 survey conducted by JLL, the British Parking Association (BPA) and a quarter of all Local Authorities (LA). This highlights the scale of opportunity for shopping centre car parks to provide this type of infrastructure and reap the significant income opportunities.

With all of that said, what can landlords and owners actually do to improve performance and ensure customers revisit their centres? In a nutshell, it is vital that customers have a positive parking experience. Centres need to adapt and develop their car parks to make them work harder in an ever more demanding retail environment. Important consideration needs to be given to the cost to income ratio or total running costs vs gross income, particularly now business rates are taking a much larger slice of the pie. Technology is another key consideration for centres. New payment methods such as contactless, mobile apps and electric vehicle infrastructure will ensure that customers have an efficient and convenient parking experience that matches up to their overall tech focussed lifestyle. It's also vital that analysis is given to pricing policy, promotional tariffs and joint discounts with retailers. Revenue opportunities are also available from advertising and night-time use of parking facilities should centres wish to use them. Finally, thought needs to be given to the overall parking environment. Good security, lighting and cleanliness might seem obvious but getting the basics right is critical to ensuring customer satisfaction; there really is no excuse.

Shopping centre car parks, like the retailers they serve, are inextricably linked to the current economic environment and suffer the same consumer spending pressures. Prior to the economic down turn and most recently, Brexit, shopping centre car parks did not require much assistance. But that isn't necessarily the case at present. With growing demand for superior customer service in all aspects of daily life, coupled with continuing technological advances, centres and landlords must be willing to reassess their business models if they want to be successful. Although it can be challenging, it certainly isn't impossible to transform and thrive in even the most demanding of economic environments.

JORDAN JEFFERY
// + 44 (0) 203 147 1469
// Jordan.jeffery@eu.jll.com

JLL

> "THE ROLE OF CAR PARKS IN ENHANCING FOOTFALL AND INCOME IN THE LONGER TERM SHOULD NOT BE UNDERESTIMATED AND CERTAINLY NOT IGNORED."

WHY RETAILERS NEED TO TRANSFORM COLLEAGUE ENGAGEMENT

CHRIS TAYLOR
RETAIL PRACTICE DIRECTOR
QUESTBACK

THERE IS NO TIME TO LOSE – THE TIME TO ACT IS NOW

EFFECTIVELY ENGAGING WITH COLLEAGUES IS CENTRAL TO DRIVING BUSINESS SUCCESS, LISTENING TO THEIR FEEDBACK DELIVERS REAL COMPETITIVE ADVANTAGE.

As the new BRC chairman Richard Pennycook points out in a recent podcast, retailers are facing significant challenges: the pace of change is accelerating, impacting future employment, while trust between employer and colleague is at all-time low. Competition is increasingly fierce and rising consumer expectations mean that customer loyalty is a thing of the past. These forces of change have led the BRC to predict that the retail workforce will shrink, but in its Retail 2020 report it states that the jobs of the future will need to be more productive, more engaging and more customer centric.

People are at the heart of any retail organisation and making sure you are listening to and engaging with them is going to be crucial during the turbulent times ahead. If you want your business to survive, then attracting, retaining and aligning these employees is going to be critical. Staff increasingly want to work for a retailer with a purpose, yet 77% of UK colleagues are not engaged with their company brand values. Given that these are your brand ambassadors and the people that most frequently interact directly with customers, it is vital that this trend is reversed. The effective engagement of colleagues is a fundamental part of successful workforce management and therefore business success. Listening to your colleagues to understand not only their levels of engagement but also their ideas on areas as diverse as how to improve customer service, business performance and evaluating store manager effectiveness will provide you with a competitive advantage.

So how can you drive business success through better colleague engagement? At Questback, we're advocating a new approach to engagement, focused on these four areas:

1. LISTEN TO COLLEAGUES AS YOU WOULD YOUR CUSTOMERS

We live in a world of social media and review sites, where consumers give their feedback instantly; there are 280 new Trip Advisors reviews every minute. Many retailers have embraced this collecting customer insight instore and online, but retailers need to adopt the same approach to continuously listening to their teams. Colleagues are also consumers and they are used to giving feedback, comment and opinion so give them the chance to share their thoughts and insights, when and where they want. Make it easy for them to give their views through their own smartphones and tablets. By letting them use their own devices you can reach your geographically spread, shift-based workforce and start a real dialogue with them. Remember, if you don't provide the opportunity, they'll still talk, but through other channels, and you won't be able to hear what they are saying.

> AT A TIME OF ENORMOUS CHANGE, LISTENING TO STAFF JUST ONCE A YEAR IS SIMPLY NOT ENOUGH

2. SHORTEN THE TIME BETWEEN FEEDBACK AND ACTION

Traditionally, retailers have focused engagement efforts on a single, annual employee survey (AES). At a time of enormous change, listening to staff just once a year is simply not enough – a lot can happen in a year and chances are that colleagues who are unhappy will leave long before they get the chance to provide you with their feedback. The sheer size of the exercise also means that it takes significant time to report back relevant results to the right managers, leading to delays in fixing problems. Retailers need to move beyond the AES, increasing continuous listening and embedding action planning within the same process. That means that managers can immediately pinpoint any issues, and see exactly what they need to do, drawing on best practice from across the organisation to turn feedback into faster action.

3. UNLOCKING INNOVATION

Frontline colleagues are closest to your customers, and closest to the processes that your business runs on. The Retail 2020 campaign found that 72% of colleagues have ideas of how things can be done better - but only 44% felt that their ideas would be taken seriously. One retailer I know successfully introduced a whole new product range, based on a suggestion from a colleague, while others have changed processes to make them more efficient, and simpler for staff, saving time and increasing effectiveness. An annual survey or a static suggestions box is unlikely to capture these innovations, so encourage staff to share their ideas through online forums and communities that they can access anytime. These could focus on specific areas, such as returns, or known problems that you want to solve. Colleagues want to help drive improvements – give them the channel to share their insights.

4. MEASURE IN REAL-TIME

Staff engagement levels are critical to how your business performs and the experience you provide to customers. Retailers already give their managers the tools to see how they are performing against financial metrics such as sales and revenues – the same approach needs to be extended to engagement. Track colleague engagement and alignment through continuous listening, and deliver the results in real-time to managers, personalised to their role and responsibility. This means that not only can individual managers spot problems, but you can uncover wider trends and pinpoint areas of best practice that can be replicated across your organisation.

For too long employee engagement has been focused on a single, annual exercise, and while this delivers some benefits, it doesn't go far enough. Disengaged employees hit the customer experience, reduce innovation and add to costs through absenteeism and churn. It is time for all retailers to understand that engagement is no longer a nice to have – it is a business priority. Think about your engagement strategy - what are you doing to drive success?

CHRIS TAYLOR
// chris.taylor@questback.com
// questback.com

questback

> "STAFF INCREASINGLY WANT TO WORK FOR A RETAILER WITH A PURPOSE, YET 77% OF UK COLLEAGUES ARE NOT ENGAGED WITH THEIR COMPANY BRAND VALUES."

PSD2: GET READY FOR THE OPEN BANKING REVOLUTION

NEIL BURTON
CAO & HEAD OF CHANGE MANAGEMENT
VERIFONE EUROPE

A ONCE-IN-A-GENERATION CHANGE IS OPENING A NEW ERA OF PAYMENTS. HERE'S WHAT IT MEANS FOR RETAILERS:

Usually we equate disruptors with startups and innovators. PSD2 proves that regulators qualify, too. In January 2018 the Second Payment Services Directive (PSD2) will come into force; altering the retail payments ecosystem. Whilst the impact may initially be small, it is intended to drive a great deal of change.

PSD2 mandates Open Banking, opening the door for non-banks to access data held exclusively within banks today, and to provide account-account payments services. There are of course strict safeguards, including customer opt-in. New entrants quite rightly must adhere to bank-like standards, including security and financial propriety. As with the first PSD, already-large companies as well as startups will join the ecosystem. Some may already be retailers. They are expected to bring innovative new approaches and services. In conjunction with Instant Payments – near-immediate account-account transfers, which are today live in many European countries, with a pan-European scheme launching in November – we should expect to see new players touting a new retail payment method for both online and in-store. In PSD2-speak, these are PISPs – payment initiation service providers.

For merchants, Instant could be cheaper than card payments, and come with other benefits. According to Accenture[1], 'the PISP model presents other benefits to merchants, including the removal of the liquidity risk within the transaction and the potential for faster clearing of funds'. However, few merchants have the purchasing power to cause a change in consumer behaviour, so consumer preferences play a major part. If it's less convenient, why change. And here another element of PSD2 is unfortunately working in the opposite direction.

> SECURE CUSTOMER AUTHENTICATION ENFORCES MULTI-FACTOR AUTHENTICATION FOR MANY USE CASES (CONTACTLESS AT THE POINT OF SALE BEING A MAJOR EXCEPTION).

By seeking to increase consumer protection from fraud, the regulation inadvertently nobbles its market-disruptive ambitions. As a result of a great deal of industry pushback, the Secure Customer Authentication requirements are not yet finalised – which, since their timeframe is different from that of the bulk of PSD2, means they won't be imposed until after Brexit. In this fast moving world, at least one event horizon is certain.

AHEAD OF THE GAME?

As is often the case, the Nordics offers some strong pointers. Banks have collaborated (remarkable in its own right) to establish mobile payments schemes; which are remarkably successful. MobilePay, which started in Denmark in 2013, grew to more than 3.6 million users (about half the population) in three years. Norway's VIPPS and Sweden's Swish are two other very strong models. VIPPS had one million users within six months of launch and is Norway's largest payment application. These schemes support bank account to bank account transfers – a different model to the now-familiar use of a smartphone to initiate a card transaction – as well as card-on-file.

Because of the strong adoption, retailers need to support those payment modes instore. Retailers are understandably reluctant to place additional technology instore, and providers of their card and contactless acceptance devices have responded by enabling instant payments at the POS. More than 55,000 Danish shops accept payments via MobilePay.

Concurrently, those upgrades spawn further innovation; what was once a payment acceptance device now has new roles in onboarding and delivering loyalty, and in enabling upsell and cross-sell. Technology is enabling change to the in-store consumer experience.

And experience is where the value lies. At a recent industry event, a senior exec of Saxo Bank[2], another Danish innovation, used the coffee industry to outline the difference between a commodity and an experience. A bean costs \$0.02; fresh ground beans \$0.30; a mundanely-presented fresh cup of coffee \$2; and a coffee experience, \$5. Whilst on-line has changed dramatically, the in-store shopping experience hasn't, and disruptors are looking to change that. PSD2 and open banking will change consumer expectations, concurrent with a technology refresh in-store. Where older-gen devices' role was firmly at the checkout, today it's across the entire store walk. In some models, it may no longer be necessary at the checkout at all. And of course, it must be consistent across marketing and purchasing channels; omnichannel is a prerequisite.

1. Seizing the Opportunities Unlocked by the EU's Revised Payment Services Directive, Accenture.
2. Benny Boye Johansen, Senior Director, Head of OpenAPI at Saxo Bank, at FS Club London 12 Oct 2017

GOOD NEWS ALL ROUND

Overall, assuming its potential teething problems are overcome, PSD2 is good news. It should herald an onset of a greater number, and more importantly, greater type of players in the payments ecosystem; and by opening up (properly controlled) access to bank accounts, catalyse innovative products and services. A bigger market with more choice is a good thing, for firms which are able to adapt quickly. Perhaps it will help to drive improved experiences for customers in-store – which, unlike so many other areas, hasn't changed much recently, and itself is probably ripe for disruption.

VERIFONE UK
// +44 (0)20 3264 3100
// verifone.co.uk

Verifone

> "PSD2, OPEN BANKING, INSTANT AND NEW-GEN TECHNOLOGY WILL CHANGE MORE THAN PAYMENTS; ALSO THE SHOPPING EXPERIENCE, BOTH INSTORE AND ONLINE"

UNOPPOSED LEASE RENEWALS – A QUICKER AND MORE COST EFFECTIVE APPROACH?

LYNSEY NEWMAN
CONSULTANT SOLICITOR
SA LAW LLP

A PILOT FOR THE TRANSFER OF CASES FROM THE COURT TO THE FIRST TIER TRIBUNAL (PROPERTY CHAMBER) FROM 1 DECEMBER 2017.

For those of you following the BRC Property Group news, you will have heard that the BRC has been representative at discussions seeking reform to the Landlord and Tenant Act 1954 seeking a quicker, more cost effective system with decisions by expert bodies. As a result of these discussions a suggestion was made that the First Tier Tribunal (Property Chamber) could offer a solution. The Tribunal were keen to take the opportunity which has led to the launch of the pilot, anticipated to commence from 1 December 2017.

The driver was to remove delay and cost from the current system, making it a more viable option to resolve disputes, particularly in relation to lower level rental disputes, where the costs can be disproportionate to the sums involved.

The pilot will be mandatory for those cases that fall within the boundaries of the Central London County Court's remit. Cases will be automatically transferred from Court to Tribunal with standard directions issued leading to the disposal of the matter from as early as 12 weeks. The Tribunal will allow an initial 3 month stay of the proceedings if both parties agree, failing which a stay in the proceedings will be the exception rather than the norm.

A tight timetable allowing for the exchange of leases identifying any disputes in terms, early exchange of valuation details and meeting between the experts, followed by expert reports 2 weeks before the hearing will mean that the parties, once engaged in the Court process, will need to be ready to resolve any outstanding issues. In trying to achieve the objectives outlined above some of the current practices will see substantial change.

STAY IN PROCEEDINGS

Perhaps the biggest issue for the parties to consider is whether they will be able to gain the Tribunal's approval for a stay during the proceedings. Whilst the Court proceedings will no doubt focus the minds on settlement encouraging the parties to compromise their positions (particularly on rent), it is quite common for there then to be a period of time in which any disputed lease terms are dealt with between the lawyers to produce the final lease. Essentially if heads of terms are agreed, the parties would ordinarily like to step out of the court process to finalise the lease.

However, it is unclear how such an application will be treated and therefore early agreement on as many issues as possible is likely to be key to avoiding the need to progress to trial.

SPECIALIST DETERMINATION

Should the matter proceed to be determined by the Court, the matter will be heard by a Judge with an expert valuer appointed as an assessor to assist in evaluating the valuation evidence. The additional expertise is designed to address the concerns expressed over the need for a specialist Judge. The Tribunal will also consider whether a site visit will be of use.

DISCLOSURE

There will be no order for disclosure. The Tribunal encourages the parties to comply with their duties to exchange all relevant information at an early stage. If disclosure is required an application for specific disclosure will be necessary. Concern has been expressed about whether this will weaken the ability for a retailer to obtain appropriate information about comparables where the landlord holds multiple lets. If you have concerns about the information forthcoming it may be that an application should be made with the issue of proceedings to ensure the best opportunity of complying with the standard directions or seeking bespoke directions for a case that you anticipate will fall outside of the standard procedure.

ISSUES OTHER THAN RENT

The directions anticipate, probably quite correctly, that the main issue in dispute will be the level of rent. However, quite commonly there will be disagreement over other terms, mainly the length of the lease with the landlord ordinarily requesting a longer lease than the tenant desires. The directions do not provide for the exchange of witness statements of fact and therefore it is difficult to see how these issues may be determined. Again an early application for bespoke directions may be appropriate where it is clear that lease terms, other than rent, may be in dispute.

EARLY ISSUE OF PROCEEDINGS

A landlord can issue proceedings as early as 12 months prior to the contractual termination of the Lease. The new procedure anticipates that the parties will have been in pre-issue negotiations for some time so that when the matter is in the hands of the Court, although negotiations will be encouraged it will not be at the expense of the Court timetable. However, the Tribunal acknowledges that where cases have been issued early (and perhaps for tactical reasons), that the initial stay of proceedings may be granted even where both parties are not in agreement.

PACT

Proceedings can still be referred by Consent for PACT determination.

At the first user group meeting the President of the Tribunal simply asked for the users to maintain an open mind. This is a different way of doing things and perhaps it will require a shift in culture. With that in mind it will be important to check your portfolio to see which properties may fall for renewal within Central London's area within this pilot period and ensure that you are properly prepared well in advance to deal with this new and quicker process. Copies of the guidance note and draft directions can be found at https://salaw.com/views-insight/

LYNSEY NEWMAN
// 01727 798092
// Lynsey.newman@salaw.com

"THIS IS A DIFFERENT WAY OF DOING THINGS AND PERHAPS IT WILL REQUIRE A SHIFT IN CULTURE."

DISRUPTIVE CYBER ATTACKS – ON TREND FOR A/W 2017

JAMES HAMPSHIRE
SENIOR MANAGER
PWC

JAMES RASHLEIGH
DIRECTOR
PWC

CYBER SECURITY IS INCREASINGLY ON RETAILERS' AGENDAS, WITH MANY FOCUSSING SENIOR ATTENTION AND BUDGET ON THE INTRODUCTION OF THE EU'S GENERAL DATA PROTECTION REGULATION (GDPR) IN MAY 2018. ALTHOUGH ATTACKS AIMED AT STEALING PERSONAL AND FINANCIAL DATA ARE STILL A PRIMARY THREAT TO RETAIL ORGANISATIONS, DISRUPTIVE ATTACKS CAN ALSO HAVE SIGNIFICANT AND DAMAGING BUSINESS IMPACT.

Retailers have been dealing with distributed denial of service (DDoS) attacks[1] since the inception of e-commerce and dealing with these kind of attacks has become almost 'business as usual' in the sector. However, 2017 has seen an increase in businesses suffering significant disruption from ransomware attacks, with the most recent high profile campaign, NotPetya, proving a game changer.

13% OF RETAILERS REPORT THAT THEIR BUSINESS OPERATIONS HAVE BEEN DISRUPTED BY RANSOMWARE IN THE LAST 12 MONTHS.[2]

RANSOMWARE: HOSTAGE TAKING IN THE DIGITAL WORLD

The basic aim of ransomware attacks is to encrypt critical data or systems, rendering them inaccessible or unusable unless the victim pays a ransom (usually in Bitcoin) to obtain a decryption key. As the name suggests, these kind of attacks are effectively criminals holding the victim's data to ransom.

Historically, ransomware has generally been targeted at individual computer users and smaller organisations, with its business model relying on a large number of victims paying a relatively small ransom. However, recent high profile attacks, in particular WannaCry and NotPetya have seen a much wider range of targets hit, including larger and multinational organisations. One of the primary reasons for this more widespread impact has been the fact that whereas traditional ransomware attacks were usually spread by phishing emails (requiring a user to click on a malicious link or attachment), WannaCry and NotPetya used other techniques to spread themselves across and between networks without user intervention.

NOTPETYA: A GAME CHANGER IN ONLINE HOSTAGE TAKING

In June 2017 organisations around the world were disrupted by a ransomware attack dubbed "NotPetya". This was an advanced campaign, with the attackers compromising a Ukrainian software provider and using a routine update to one of the firm's software packages to gain a backdoor into the clients' systems to encrypt business critical data and IT assets.

As with WannaCry a month earlier, infections spread worldwide incredibly rapidly. Within hours, networks in over 65 countries were severely affected, with organisations losing access to business critical systems including email, applications, directories and virtual meeting/collaboration services.

Although NotPetya initially appeared to be a ransomware designed to collect payments – as with WannaCry – reports soon emerged that rather than being financially motivated, NotPetya may instead have been intended to cause disruption as it was designed to destroy data, with no possibility of restoring that data even if a ransom was paid. One detail that bolsters this argument is that both the email address and Bitcoin wallet the attackers set up to collect payments were quickly closed down.

WHY ARE RETAILERS AT RISK?

Retail businesses are characterised by a number of factors that make them particularly vulnerable to ransomware attacks, and therefore make them attractive targets to attackers.

- E-commerce and digital channels: retailers are increasingly reliant on selling to and engaging with customers via digital channels. As the importance of these channels to retail businesses increases so do opportunities for cyber criminals to disrupt them.
- Digitised supply chains and back office: back office functions are increasingly managed through software, with larger retailers running global operations through large enterprise resource planning (ERP) systems, offering attackers opportunities to close down key business processes. These systems increasingly integrate with third parties (e.g. suppliers), increasing the impact of a disruptive attack.
- Brand / reputation: retailers rely on their reputation and brand name so disruptive attacks can have a significant impact on customer perception. This factor increases the risk/reward equation for attackers.

WHAT CAN RETAILERS DO?

Retailers can take a number of simple steps to help avoid disruptive cyber attacks, or respond to attacks effectively.

1. Understand your risk and identify single points of failure: retailers should understand the likelihood of them being a target for a ransomware attack, but also the business impact that would occur if key websites, systems or data were not available. In particular it is important to identify single points of failure in networks and business processes.
2. Ensure strong security hygiene, vulnerability management and user awareness: disruptive attacks are often successful because of weaknesses in basic IT processes, or user awareness. Ensuring strong basic security controls at the boundaries of your organisation, keeping software up to date, managing privileged access (administrator) accounts and training your staff will all reduce the likelihood of becoming a victim in the first place.
3. Make your business processes resilient: if you do become a victim, the resilience of your business processes will come under severe strain. Ensuring there is redundancy for key systems and business critical data is backed up appropriately will go a long way to achieving this.
4. Test and exercise, and test again: the first time many organisations test their crisis response and business continuity plans is during an attack; unsurprisingly they find they do not work as expected. Running realistic simulations not only allows you to confirm processes actually work (e.g. you can actually restore your critical data from backup), but also ensures that everyone involved in the process from IT technicians to crisis management teams are comfortable with their role and better equipped to fulfil that role under pressure.

"RETAIL BUSINESSES ARE ATTRACTIVE TARGETS TO ATTACKERS AND ARE PARTICULARLY VULNERABLE TO DISRUPTIVE RANSOMWARE ATTACKS."

ABOUT THE AUTHORS

JAMES HAMPSHIRE
James is a Senior Manager in PwC's cyber security practice, and leads PwC's cyber security team in Birmingham. James has worked with a number of major UK retailers to advise them on developing their cyber security strategy, maturity and operating models.

JAMES RASHLEIGH
James is a Director and leads PwC's retail cyber security practice. James has led PwC's responseto major cyber breaches in the sector and advises retail organisations as to how they can minimise the cyber risk.

JAMES HAMPSHIRE
// james.hampshire@pwc.com

JAMES RASHLEIGH
// james.m.rashleigh@pwc.com

// www.pwc.co.uk

pwc

1. Distributed denial of service attacks involve an attacker denying a legitimate user access to a system. In a retail context this usually involves flooding a targeted website with superfluous requests in an attempt to render it unusable by customers.
2. Source: PwC Global State of Information Security Survey 2017.

A MAJORITY OF CONSUMERS WILL PAY MORE FOR PACKAGING SUSTAINABILITY

TOM HALLAM
BUSINESS DEVELOPMENT DIRECTOR
BILLERUDKORSNÄS

CONSUMERS WANT PACKAGING THAT HELPS THEM BECOME MORE SUSTAINABLE – HELPFUL BRANDS WILL BE THE FIRST TO RESPOND.

The BillerudKorsnäs Consumer Panel asked citizens in 16 megacities all over the world about their view on the role of packaging in everyday life and as a contributor to a sustainable future. The answers are as clear as they are enlightening: Packaging sustainability is top of the agenda for many consumers.

Product packaging is set to play an increasingly important role in creating a more sustainable global economy and consumers are ready to play their part in this world-spanning movement. They are increasingly keen to choose brands that help them make sustainable choices – with packaging as a key factor.

This is one outcome from the BillerudKorsnäs Consumer Panel on packaging sustainability, where consumers from cities all over the world described their view on the role of packaging in their everyday life and as a contributor to a sustainable future.

> "CONSUMERS ARE READY FOR ACTION. THEY WANT PACKAGING THAT HELPS THEM CHANGE BEHAVIOUR AND ARE READY TO PAY FOR IT."

The consumer panel used an NPA (Net Positive Attitude) index to measure trends in attitudes. The scale goes from -100 to +100, with +30 as an indication of a very positive attitude. "Packaging sustainability" got a global score of +54.1, a very high indication that this is something consumers are passionate about.

In the overall analysis of the Consumer Panel, it is clear that some 72% of consumers around the world are willing to pay more for products with packaging that brings sustainable benefits. The research was conducted by BillerudKorsnäs, a leading developer of sustainable packaging materials and solutions for the global consumer goods market. These include world-leading paper and board material, and innovative solutions that increase brand profitability while reducing environmental impact.

"We conducted one of the first consumer panels on packaging sustainability because we wanted to really understand how aware consumers are of packaging sustainability and how willing they are to act, and we were very encouraged by the results," says Jon Haag, Director of Consumer Insights at BillerudKorsnäs.

"What we discovered is that consumers are ready for action. They want packaging that helps them change behaviour and they are ready to pay for it. But they want to see some benefits in return."

This might include avoiding food waste. On average 15% of the contents of a jar of mayonnaise, for example, will be wasted because the packaging isn't well designed.

"Consumers want to avoid wasting food like this," says Jon Haag. "According to our survey, the top two dream results from better packaging are clearly to 'reduce food waste' and 'make it fun and easy to recycle'."

To achieve this BillerudKorsnäs has recently collaborated with engineering company Bosch Packaging Technology to create a new variety of consumer bag for dry foods made entirely from mono-material paper. These are easier to recycle because consumers and recycling plants don't have to separate out its different constituent parts.

The solution directly impacts brand owners by leading to lower packaging waste fees. The consumers get paper-based dry food packaging that has sustainable benefits in addition to being dust-free, which both gives a better experience and minimises food waste. The solution is called "The world's first sealed paper packaging" and is ideal for free-flowing goods such as sugar, flour, pasta, grains or powders.

"It's an exciting example of Bosch's packaging technology and our expertise in packaging papers," says Jon Haag. "The result is that you get a better consumer experience, you save on production costs and waste less natural resources."

To meet consumer demand for easier recycling, BillerudKorsnäs is also creating packaging that can be used up or consumed once the product is finished, and is already enjoying considerable success in the construction sector with its award-winning product D-Sack.

Developed with building materials manufacturer LafargeHolcim, this cement packaging goes into the concrete mixer, along with its contents, minimising litter and cement waste at the same time as helping to create a cleaner, healthier and safer workplace. The disappearing paper sack optimises time needed for handling and mixing, and as an added benefit there are no costly waste-disposal requirements. Similar products to D-Sack are set to enter the consumer market.

"Consumers are more and more aware of the effects of packaging on the environment, from litter on the streets to pollution in the oceans," says Jon Haag. "They want to take action and so empowering them to recycle more is already paying off. Increasingly, we'll see this as a brand differentiator. As well as the design and feel of packaging, shoppers will choose products with packaging that is easier to recycle. Collaboration will be key to solving the challenges of the future and we encourage all stakeholders to reach out to find those partnerships."

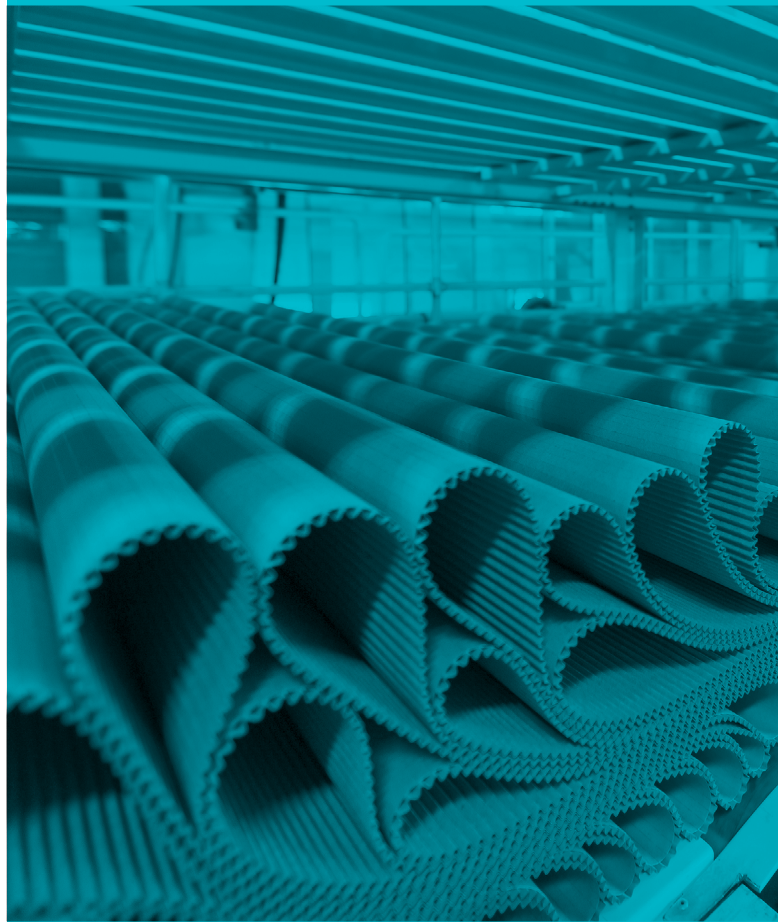
The consumer survey was performed in megacities such as Jakarta, Shanghai, London, Berlin and Karachi and shows regional differences in the level of customer dedication to sustainability. Most notably Manila, Mumbai and Delhi score very high. There are also other indications.
"We discovered that packaging sustainability is particularly important to Asian consumers," says Jon Haag. "You normally see 5 to 7% of respondents making the effort to add an additional comment to a survey, but we had over 20% globally and 31% in Asia. That's a remarkable level of engagement."

"Differentiating your brand with sustainability benefits in packaging will have a quick impact in Asia today, and will happen shortly in Europe and the US. So brands have to start taking action now."

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

BILLERUDKORSNÄS

> "DIFFERENTIATING YOUR BRAND WITH SUSTAINABILITY BENEFITS IN PACKAGING WILL HAVE A QUICK IMPACT IN ASIA"



REDUCING THE TREMENDOUS COSTS AND BURDENS OF SUPPLIER DEDUCTION MANAGEMENT

JOSHUA J MORRISON
SENIOR CONSULTANT
PRGX GLOBAL

HOW TODAY'S INDUSTRY LEADERS ANSWER THE CALL FOR BETTER SUPPLIER COLLABORATION, CONTROLS, COMPLIANCE AND PROFITABILITY.

DEDUCTION MANAGEMENT & THE RETAIL INDUSTRY
There are more challenges facing the retail industry today than perhaps ever before in history. Whilst organisations seek to maintain competitive advantage and profitability, more corporate leaders realise the tremendous value of effectively managing the supply chain. With that, there are many significant obstacles that exist in managing a complex and often multi-national supplier base. One of the most painful and costly aspects of this is managing post-payment supplier disputes and claims against supplier deductions. Facilitating this process provides no value to the buying organisation, but is absolutely necessary to support positive ongoing supplier relationships and to maintain service levels. Within this, shared visibility, collaboration and access to the right data continue to be significant challenges. Ineffective Deduction Management negatively impacts and costs the organisation in many ways.

THESE DRIVERS MAKE IT NECESSARY FOR BUSINESSES TO FIND INNOVATIVE WAYS TO DERIVE PROFITS FROM THE SUPPLY CHAIN... THEREIN ARISE CHALLENGES.

HOW DOES INEFFECTIVE DEDUCTION MANAGEMENT IMPACT THE ORGANISATION?
Supply chain collaboration & visibility challenges
Business today moves at an increasingly rapid pace. There is far more information to manage that is ever changing over time. This is true as well with business technology and the regulatory environment. Competition is increasing while profitability margins are harder and harder to maintain. There is a massive expansion effort as well, both to further globalise the organisation as well as to grow in new and emerging markets. All of these drivers make it necessary for businesses to find innovative ways to derive profits from the supply chain and supplier relationships. As such, various rebates, incentives and other promotional allowances become integral to the daily function. Therein arise challenges.
With limited and untimely support provided to suppliers related to payment deductions, buying organisations dedicate considerable resources to support supplier inquiries, requests for backup and challenges for repay. Technology solutions are often not considered to manage this laborious and non-value-added function, leaving inefficient and manual processes in place. Compounding this further are the drivers to expand business with new suppliers and products in a global market. When buying companies fail to meet supplier demands against outstanding claims, it results in supplier abrasion and directly impacts the ability to attract new customers, maintain service levels and negotiate for profitability.

INVOICING & POST-PAYMENT PAINS
Poor supplier collaboration and limited transparency impact transactional processes as well. Limited visibility into unpaid invoices, missing deduction backup and lacking technology result in:

- An inability to accelerate invoice approval, request early payment as part of a Supply Chain Financing or Dynamic Discounting programmes or quickly and accurately resolve matching differences. This results in...
- Slow and inaccurate payments made to suppliers, which results in...
- Supply chain abrasion and poor credit reporting scores, which results in...
- Potential for supply chain disruption, reputational impact, or a GCA investigation (grocery related), which results in
- Diminished profitability and competitive advantage

Moreover, organisations must incur greater internal resource costs to not only facilitate the payment process but the Help Desk and Deduction Management processes as well. The processes are manual and cumbersome and impact stakeholders throughout the entire organisation. This is a no-win situation for both buyers and sellers.

WHAT DOES INEFFECTIVE DEDUCTION MANAGEMENT COST THE ORGANISATION?
Companies that fail to effectively manage the supplier deduction process suffer in many ways, but the hard costs associated are frightening. Environments from five leading global retailers ranging between £20B and £120B of annual turnover were assessed and the results revealed the following:

- £10M-£25M in deduction disputes occur per every £100M in deductions processed
- 5,000 inbound queries for every £50M in deductions processed
- 50% - 85% of disputes are repaid
- 25%-40% of repays are unnecessary
- Massive profit loss resulting from unnecessary repays
- £Millions in unnecessary repays in every sample
- £500K - £1.5M in wasted operational cost
- 6-25 full time equivalents to address queries
- Minimum repay thresholds in every sample

What does this mean? It means that companies are bleeding from poor Deduction Management processes and may not even know it. Given the ever-growing challenges facing retailers today, this is an area that can no longer be ignored.

WHAT CAN ORGANISATIONS DO TO ADDRESS DEDUCTION MANAGEMENT PAINS?
But solutions exist today for forward-thinking leaders. More and more businesses are moving to cloud-based SaaS solutions to answer the growing demands and complexities of managing their supply chain. Whether it is providing suppliers and internal contacts with visibility to payment and deduction information, facilitating post-payment inquiries and disputes or adhering to the new UK Duty to Report regulatory rules, organisations are finding enterprise-wide solutions to meet all of these challenges using Supplier Collaboration cloud-based SaaS software.
An organisations' ineffective or lack of response to these demands is detrimental and will lead to incrementally greater supply chain costs and fewer data and process controls.

Deduction Management solutions provide a centralised platform for companies and their supplier(s) to engage in an organized, repeatable and scalable process to collaborate and resolve any open issues related to disputed deductions. A Deduction Management solution provides the governance, controls and visibility to manage these conversations and processes in an optimal fashion. Leading SaaS-based portals supporting these solutions are highly secured and support user-specific requirements in a multi-faceted and collaborative environment. Leveraging buyer and supplier side workflows, notifications, approvals and document management, companies now have new and innovative ways of addressing these pains directly.

JOSH MORRISON
// 0800 046 1420
// joshua.morrison@prgx.com
// linkedin.com/in/joshmorrison

"FACILITATING (DEDUCTION MANAGEMENT) PROVIDES NO VALUE TO THE BUYING ORGANISATION, BUT IS ABSOLUTELY NECESSARY TO SUPPORT POSITIVE ONGOING SUPPLIER RELATIONSHIPS."

THE GRINCH THAT STOLE CHRISTMAS - BREXIT

MARK THORNTON
CHIEF OPERATING OFFICER
MAGINUS

FOLLOWING THE EU REFERENDUM, EU MIGRATION LEVELS ARE DOWN. WITHOUT THE RESOURCE NECESSARY TO DELIVER CHRISTMAS, BREXIT COULD RUIN CHRISTMAS.

An estimated 1.184 billion parcels were sent by UK retailers through UK carrier networks in 2016 according to the IMRG-MetaPack January delivery index. Stop for a moment and think about that. 1.184 billion parcels. All needing to be picked, packed and despatched. The last year has also witnessed an increase in retailers offering same-day and next- day delivery in an attempt to gain consumer sales in a crowded market. The delivery index highlights that the carrier network faced heavier demands at the end of November and the week before Christmas. The amount of parcels and the period to deliver them in and around Christmas, places a massive demand on the carrier network.

The Office for National Statistics (ONS) reported that the average spent weekly online, is steadily growing on 2016 levels, with August 2017 average figures at £1.1 billion; an increase of 15.6% compared with August 2016.[1] With the statistics implying that the average spent online in the run up to Christmas 2017 will be higher than 2016, it is clear that there will be a greater number of parcels to be picked, packed and delivered. Achieving successful order fulfilment at Christmas is dependent upon having a seamless, integrated and agile supply chain. Critical for all retailers is labour resource, the ability to hire boots on the floor and hands on the packages is no longer a viable option.

> "THE PROPORTION OF MIGRANT LABOUR INVOLVED IN PICKING, PACKING AND DELIVERING CUSTOMER ORDERS IS TOO SIGNIFICANT TO IGNORE."

In a recent speech in Washington, Mark Carney, the governor of the Bank of England highlighted that thanks to Brexit 'abrupt decreases in migration could result in shortages in some sectors that have become reliant on migrant labour'. His speech has particular acidity when weighed against the level of migrant workforce in the UK, which is approximately 11%, a staggering 3.4 million people according to recent statistics from the Office for National Statistics (ONS).[2]

The drift towards a decrease in migration is highlighted in the ONS Migration Statistics Quarterly Report: August 2017, which details that 'net migration in the year to March 2017 was +246,000, a decrease of 81,000 compared with the previous year, two-thirds of this was due to EU net migration'.

The ONS report also highlights that '51,000 non-British citizens emigrated to return home to live in YE March 2017 (up from 34,000); these were mostly EU citizens (44,000).' With 81,000 less migrants in the UK, and a movement that sees EU migrants retuning to live at home, it is clear-cut that the results of the EU referendum have made an impact on migration levels.

Retailers may feel complacent that the retail sector is unlikely to encounter any impact from Brexodus on their workforce, with migrant labour in place in a small selection of roles. However, upon true visibility of supply chain, logistics and inventory, it quickly becomes apparent that the proportion of migrant labour involved in picking, packing and delivering customer orders is too significant to ignore. Retailers must widen their scope, when lobbying the government on Brexit issues, incorporating the effects of migration policies, along with the more prevalent issues such as imports and exports, governance and consumer spending levels.

A discernable trend sees the growth of online shopping against a sharp decline in migrant labour. As the demand for online shopping has been steadily increasing, the resources required to fulfil this is diminishing. To offer an omnichannel experience retailers must consider and pay attention to all aspects of getting a purchase from the warehouse to the door of a customer. How can retailers offer effective order fulfilment if the resources required in delivering this are inadequate?

A solution could be to outsource picking, packing and despatching elements to a 3PL, order fulfilment is mostly transactional and repetitive- no risk is involved. By outsourcing fulfilment needs to a third party the responsibility for finding the resources to deliver Christmas orders, is no longer a retailers concern. Same-day and next-day deliveries will be picked, packed and dispatched by the 3PL, achieving the delivery promises made by retailers to consumers, it's a win, win solution. However, if as the statistics suggest, labour shortage problems will be a UK wide issue, the 3PL will experience the same fulfilment problems over Christmas. What are their contingency plans? Do they have any?

If retailers already outsource their fulfilment needs to a 3PL then true visibility of the 3PLs delivery network and warehouse operations is essential, allowing retailers to examine if the 3PL is ready for Christmas. Make sure you can view their data, through for example, one system in the cloud. If a 3PL is not ready then ultimately it is the retailer's brand that is damaged when its product does not arrive when promised, leaving customers without the Christmas gift they were waiting for. It is the responsibility of retailers to ensure that they or their 3PL are ready to deliver Christmas, with excellent customer service at the centre of operations. After all, the customer will direct their complaints at the retailer, not the carrier.

In summary, if the effects of Brexodus are ignored, it will leave retailers without the resources necessary to deliver customer orders this Christmas, Brexit will be the Grinch that stole Christmas. Brexit means Brexit, to counteract the effects of Brexodus create a solution that uses IT to maximise current resources, implement an ERP and an OMS solution that provides improved warehouse management capabilities and efficiencies at the click of a button.

MARK THORNTON
// 0161 946 0000
// mark.thornton@maginus.com
// www.maginus.com

Maginus

> "AS THE DEMAND FOR ONLINE SHOPPING HAS BEEN STEADILY INCREASING, THE RESOURCES REQUIRED TO FULFIL THIS IS DIMINISHING."

1. https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/august2017#whats-the-story-in-online-sales
2. https://visual.ons.gov.uk/migration-the-european-union-and-work-how-much-do-you-really-know/

REDUCING THE TREMENDOUS COSTS OF SEASONAL CHARGEBACKS

MONICA EATON-CARDONE
CIO AND CO-FOUNDER
THE CHARGEBACK COMPANY

THERE ARE MORE CHALLENGES FACING THE RETAIL INDUSTRY TODAY THAN PREPARING FOR FESTIVE SHOPPERS: RETAILERS' BLISS OR LOOMING NIGHTMARE.

Criminal behaviour is becoming normalised with fraudulent chargebacks – and peak chargeback season is upon us.

The latest retail sales data is a huge warning for merchants about faltering consumer spending. Although growth in ecommerce saw a 2.8 percent rise in September 2017, this was the slowest rate of expansion in the current five-month sequence of interest, according to Visa's latest UK Consumer Spending Index .

The recent trend of belt tightening has been blamed on rising living costs, stunted wage growth and ongoing uncertainty in the UK economy hitting consumers and retailers hard.

> DESPERATE SHOPPERS ARE BEGINNING TO NORMALISE CRIMINAL BEHAVIOUR AND FRIENDLY FRAUD. WITH A FEW WHITE LIES, SHOPPERS CAN MANIPULATE A SYSTEM TO ACCOMMODATE THEIR MALICIOUS BEHAVIOUR.

The combination of tough economic circumstances and the festive period upon us can be bad news for merchants. Desperate shoppers are beginning to normalise criminal behaviour and friendly fraud. All it takes is a few white lies and shoppers are able to manipulate a system to accommodate unusual customer behaviour.

Ahead of peak shopping periods, such as Black Friday and Christmas, ecommerce merchants will be putting all of their energy into attracting consumers. We can expect to see more promotional sales than ever before in a desperate bid to secure customer attention. However, by focusing primarily on bringing in customers, often chargeback and risk mitigation preparation are overlooked.

UNEXPECTED RISE IN FRAUD RELATED LOSSES

Merchants are faced with the difficult task of managing fraud and chargeback disputes – I know first-hand how overwhelming chargebacks can be; prior to tackling them at The Chargeback Company, I too was faced with them in abundance as a retailer. While individual sales projects for the Christmas period may bring hope for what was not a prodigiously successful retail year, the volume of chargebacks can ultimately threaten to decimate seasonal profits.

The chargeback process, which sees customers going over the merchant's head to ask the bank to forcibly remove funds from the business's bank account, is intended to protect consumers against fraudulent transactions. However, more often, consumers are making illegitimate chargeback claims, leaving merchants struggling to meet their desired annual turnover.

CHANGING CONSUMER BEHAVIOUR

Today's customer is an evolved version of its former self. Due to a manifold of retailers on the scene from which consumers pick and choose, those who were once loyal shoppers are now choosing convenience instead. Since every online competitor is leveraging customer service policies as a way to entice buyers, modern retailers must now be experts at creating revenue opportunities as well as retaining customers.

Brand loyalty is dying as a dire consequence of increased options and reduced prices, which means that merchant expenses are also on the rise. We work in a realm of prompt delivery and rapid processing times. Consequently, customer demand for a smooth and quick checkout experience overwhelms retailers each sales season. Customers, who have grown used to having items at their fingertips in next to no time, are drawn in by big sales and make spontaneous purchases.

INSTANT PURCHASES = INSTANT REGRET

During 2016's Black Friday, Cyber Monday and the post-Christmas sales season, Barclaycard found that UK shoppers splashed out an average of £183 each , but planned to return £128 worth of goods – a huge of 70 percent of their total spend.

Once the new year begins, customers find themselves with items that they no longer want and they begin to feel remorse for excessive spending. Last year, one in five shoppers regretted purchases that they made on a whim. Combined with two-thirds admitting to not knowing when the returns window closes, retailers can expect a surplus of fraudulent claims in a desperate bid to retrieve money.

Fraudulent claims arise when customers cannot easily return items. In fact, 86 percent of cardholders will not even try to return stock, but initiate a chargeback without ever consulting the merchant. Customers turn to their bank and instigate a chargeback to get funds reimbursed – charging merchants fees in the process and potentially losing them the disputed item(s). This may seem a quick fix for customers, but it has potentially detrimental effects for merchants, who collectively see £80bn in revenue go to tackling the issue.

WHAT CAN BE DONE?

Luckily, there are several steps that can be made to prevent the rise of illegitimate chargebacks and promote longer-term revenue growth.

1. Traceable delivery: Tracked packages and signed evidence of receiving an order can save merchants thousands by disproving friendly fraud charges.
2. Fast delivery: Today's customer prefers immediate gratification for their purchases. The longer time between purchase and delivery, the more likely customers will get frustrated with their purchases.
3. Round-the-clock customer support: Much like the desire for fast purchases, customers also require immediate responses to queries. From our experience, consumers will often resort to chargebacks for a refund if they're unsatisfied with an online retailer's customer service.
4. Have a clear returns process: Let customers know what they need to do to get their money back so they don't feel compelled to turn to chargeback claims.
5. Fraud prevention: Increased risk mitigation and chargeback management during the holiday season is proven to reduce merchants losses.

MONICA EATON-CARDONE
// +44 (0) 203 750 5550
// www.thechargebackcompany.com
// monica@chargebacks911.com

THE CHARGEBACK COMPANY

> "THE CHARGEBACK PROCESS, WHICH SEES CUSTOMERS GOING OVER THE MERCHANT'S HEAD TO ASK THE BANK TO FORCIBLY REMOVE FUNDS FROM THE BUSINESS'S BANK ACCOUNT, IS INTENDED TO PROTECT CONSUMERS AGAINST FRAUDULENT TRANSACTIONS."

THE EVER-CHANGING RETAIL LANDSCAPE

DIANE WEHRLE
MARKETING AND INSIGHTS DIRECTOR
SPRINGBOARD

THIS YEAR HAS CERTAINLY BEEN ONE OF UNCHARTERED WATERS, WITH THE IMPENDING EXIT OF THE UK FROM THE EU MOVING US INTO UNKNOWN TRADING TERRITORY.

Throughout the first half of the year there was little evidence of any adverse impact on consumer activity, in terms of either footfall or sales, despite a weakening in published consumer confidence indices and rising inflation. In Q3 however we saw the first signs of a shift in footfall that suggests a more concerning time ahead, suggesting a sea change in consumers' willingness to spend generally. What is the likely impact on the key Christmas trading period?

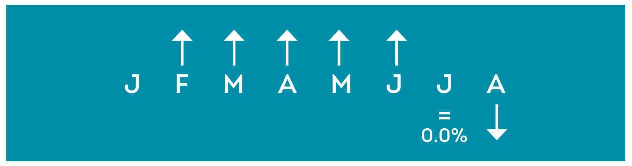
The first half of the year seemed to demonstrate a subtle strengthening of performance of retail destinations – an average increase of +0.1% between January and June vs -1.2% in 2016. But needless to say, nothing stays the same for long in retail, and shifts in activity in Q3 suggests greater challenges are afoot. From the headline rate the change in footfall over the last three months seems innocuous, but the underlying data conveys the real trend.

> THE GROWING IMPORTANCE OF THE LEISURE BASED TRIP BECAME A KEY PART OF THE NARRATIVE ABOUT RETAIL DESTINATIONS OVER THE FIRST HALF OF THE YEAR.

Between January and June, footfall from 5pm to 8pm rose by +1.6% compared with -0.7% between 9am and 5pm. And given that most stores don't trade beyond 5pm, it is clear that consumers are seeking non-retail experiences, either as part or instead of transaction focussed trips.

But July saw the first sign of slowing activity post 5pm, with a flat 0.0% change in footfall, breaking the continuous annual growth post 5pm that has occurred since February which averaged +2.4%. And this shift accelerated in August with footfall post 5pm dropping by -1.4% alongside a drop in daytime footfall of -0.9%. Moreover, it was the first time that footfall dropped across both retail trading hours and into the evening since January. Despite a deceleration of this change in September to a drop of just -0.1% post 5pm, Q3 footfall concluded -0.5% post 5pm and -1.1% during the daytime, the poorest performance since 2016.

POST 5PM FOOTFALL 2017



So, what distinguishes trading conditions as we head into Christmas from those in January? Well, weaker footfall now follows a period of poorer bricks and mortar sales, indicating that it is not necessarily taste but budget that is driving footfall down.

Over the three-months to March, In-store sales declined -3.0% on a Total basis and -3.4% on a like-for-like basis, the declining -0.7% on a Total basis and -1.2% on a like-for-like basis in the 3 months to June. However, over the three months to September, Non-Food retail sales in the UK increased +0.5% on a like for like basis and a +0.9% on a total basis, above the 12-month Total average growth of +0.7%, whilst in-store sales of Non-Food items declined -1.5% on a Total basis and -2.0% on a like-for-like basis[1]. September's sales rose due to inflation, but the accelerating decline in footfall is a strong indicator of consumers railing back spending. Aggressive early season sales indicate retailers are spooked, and they will be on edge with the six-week countdown now on to the start of the festive shopping season.

ANNUAL % CHANGE IN FOOTFALL JANUARY - JUNE

> AND THE DECLINE IN FOOTFALL DOESN'T JUST MEAN REDUCED SPENDING ON RETAIL GOODS; THE DROPS IN FOOTFALL ACROSS ALL PERIODS OF THE 24-HOUR DAY DEMONSTRATE THAT LEISURE AND HOSPITALITY SPENDING IS ALSO BEING CURTAILED.

Despite the overall decline in footfall, retail parks continue to increase their appeal with a rise of 1.1 per cent; the seventh consecutive month of footfall increase. The appeal of their accessibility and free parking, alongside an increasingly attractive proposition, comes to the fore when household budgets are squeezed through inflationary pressures and minimal wage rise.

It is this less favourable trading landscape that suggests a more concerning time ahead. With fewer shoppers, retailers that maintain in-store footfall are at a clear advantage. However, high consumer borrowing and weak consumer confidence suggest that trading conditions could be reaching a tipping point into a period of restraint.

DIANE WEHRLE
// enquiries@spring-board.info
// www.spring-board.info

> "IT IS THIS LESS FAVOURABLE TRADING LANDSCAPE THAT SUGGESTS A MORE CONCERNING TIME AHEAD. WITH FEWER SHOPPERS, RETAILERS THAT MAINTAIN IN-STORE FOOTFALL ARE AT A CLEAR ADVANTAGE."

1. Source: BRC-KPMG Retail Sales Monitor.

PHYSICAL STORES ARE AN ENGINE OF ONLINE GROWTH

BEN DIMSON
HEAD OF RETAIL BUSINESS DEVELOPMENT
BRITISH LAND

NEW RESEARCH BY BRITISH LAND TAKES ITS 'TRUE VALUE OF STORES' RESEARCH A STEP FURTHER.

IN TODAY'S RETAIL WORLD, THE TRUE VALUE OF STORES REPRESENTS MORE THAN PURELY PHYSICAL PURCHASES; PHYSICAL AND ONLINE STORES REINFORCE ONE ANOTHER, AND THOSE RETAILERS THAT SEAMLESSLY BLEND THEIR CHANNELS ARE POISED TO REAP THE REWARDS.

Our latest research using data from Connexity Hitwise reveals a symbiotic relationship between a brand's physical stores and its ecommerce platform which reveals more on the True Value of the Store.

You may recall that we launched our inaugural report in 2016 which quantified for the first time the value of click & collect and online sales browsed in store by surveying 30,000 shoppers about their online purchases over the previous 12 months, splitting their online sales between pure-plays and store operators. Here's a quick recap of the findings:

- 89% of all UK retail sales touched a store, through physical sales, click & collect and online sales browsed in store. This boosts physical retail by +5% and demonstrates how physical and online complement each other.
- The boost to physical sales varied considerably by sector. For example sales of Electricals are boosted by +32%, while Health & Beauty sales only see a +3% boost.
- When looking at age and gender we found that women use click & collect more than men, and engage more with stores overall as part of their shopper journeys. Similarly, Londoners are more likely to visit a store when they shop compared with the rest of the UK.
- However, one of the most interesting finding was that the age groups most attracted to stores are 16-24 and 25-34 year olds. Their use of online pure-play retailers is low, and they are comfortable shopping across more than one channel, whether it means browsing online before a trip, using click & collect, or buying online after asking for advice in store.

One question raised by the research was around the broader role of a store for brand awareness, trust, a route for returns and customer service. This came about as we observed stronger online sales in areas close to a store, even for home delivery.

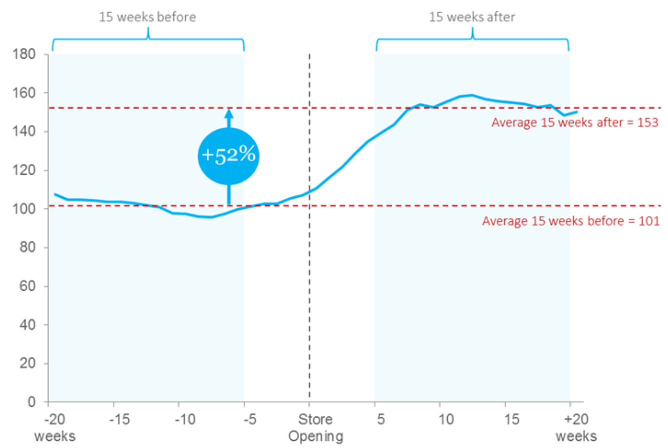
Working with Connexity Hitwise on our latest research takes us a step closer to understanding this.

We looked at new retailer openings over a two and a half year period and measured online traffic to a retailer's website in the local postal area around our Regional and Local centres. Setting a high bar for data quality and excluding non-transactional retailers, like coffee shops, meant we could analyse around a sixth of our openings although we are hoping to increase this to around half in the future.

The findings shows that when a new store opens, traffic to the retailer's website from the surrounding postal area increases by 52% on average within six weeks of opening. Importantly, digital traffic from the local area then remains around this level (Figure 1), demonstrating that a physical store has a significant, positive and sustained impact on digital interaction with the brand.

Figure 1:

POSTAL AREA SHAR OF RETAILER WEBSITE VISITS
Indexed vs start of store opening period



Brands with fewer than 30 stores enjoyed the greatest positive impact from store openings, with uplifts in local traffic to their websites of 84% on average, showing that a physical store can make a critical contribution to the online success of expanding brands.

Last year's research built on our knowledge of why people shop and helped us better understand how they shop across channels. This new analysis goes one step further and starts to quantify the 'halo effect' of stores. More work is already underway, in partnership with Revo, to measure the distinct contribution of each channel and ensure leasing models and valuation methods reflect the benefit of the store to retail businesses as a whole.

The importance of a seamless omnichannel experience is most evident in the continuing trend for online pure-plays such as Missguided, Finery London, MADE.com and of course Amazon to recognise the value of stores and take physical space. In our retail portfolio, Joe Browns recently opened its first store at Meadowhall, Sheffield.

We're also witnessing an increasing trend for retailers to use stores as distribution hubs, which gives them a cheaper, convenient and efficient way of fulfilling last mile delivery and returns. For Schuh, around 40% of their online orders are now fulfilled through their store network, versus 60% from distribution centres.

eBay's tie-up with Argos is another great example of this with more than 10 million items collected through the service since 2013. Many of the Argos stores in our portfolio have reported over half of their sales are generated online. There is also the rise of food delivery services like Deliveroo, Just Eat and UberEATS, which are taking physical only propositions into online. Similarly, Wagamama now offer delivery through three quarters of its restaurants including several in our portfolio.

At British Land, we use insight and data to take decisions on where to invest or divest, what to develop and how to make the most of our existing assets to ensure they match the needs of consumers, both today and in the future.

One year on from the True Value of Stores report, the findings are more relevant than ever. Blending channels is increasingly common, pure-plays are still moving to physical and click & collect, an increasingly important link between physical and online, is continuing to take ground.

BEN DIMSON
// Ben.Dimson@britishland.com
// www.britishland.com

British Land

BUSINESS

"THE TRUE VALUE OF STORES REPRESENTS MORE THAN PURELY PHYSICAL PURCHASES; PHYSICAL AND ONLINE STORES REINFORCE ONE ANOTHER, AND THOSE RETAILERS THAT SEAMLESSLY BLEND THEIR CHANNELS ARE POISED TO REAP THE REWARDS."

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

BANKING

SANTANDER UK PLC
W | www.santander.co.uk
E | sukhjeeven.nat@santander.co.uk
C | Sukhjeeven Nat

CONSULTANTS

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

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

FOOTFALL/CUSTOMER COUNTING

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

INFORMATION TECHNOLOGY

APEX SUPPLY CHAIN TECHNOLOGIES
W | www.apexsupplychain.com
E | allison.pawley@apexsupplychain.com
P | +1.513.701.9853
C | Allison Pawley

BABCOCK INTERNATIONAL GROUP
W | www.babcockinternational.com
E | Helen.Lovell@babcockinternational.com
P | 01454204217
C | Helen Lovell

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

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

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

MEDALLIA
W | www.medallia.com
E | schesters@medallia.com
C | Sophie Chesters
P | +44 (0) 20 3680 5750

THE CHARGEBACK COMPANY
W | www.thechargebackcompany.com
E | s.underwood@chargebacks911.com
P | +44 (0) 203 750 5550
C | Stephanie Underwood

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

RETAIL SERVICES DIRECTORY

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

YOYO WALLET
W | www.yoyowallet.com
P | 07933587940

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)

DP WORLD LONDON GATEWAY
W | www.dpworld.com
E | matt.abbott@dpworld.com
C | Matt Abbott
P | 01375 648343

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

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

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

MARKETING AND INSIGHTS

EPSILON ABACUS
W | www.epsilonabacus.com
E | roger.williams@epsilon.com
P | +44 (0) 20 8943 8013
C | Roger Williams

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

QUESTBACK
W | www.questback.com/uk
E | Susanne.Brunner@questback.com
P | +44 (0) 207 403 3900
C | Susanne Brunner

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

DLA PIPER
W | www.dlapiper.com
E | donna.mcenery@dlapiper.com
P | 0113 369 2237
C | Donna McEnery

RETAIL SERVICES DIRECTORY

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

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

TRADE SHOWS

INTERNATIONAL TRADE SHOWS LINK LTD

W | www.itsluk.com/contact-us/
E | simona@itsluk.com
C | Simona Novelli MBE
P | +44 (0)1564 781871

TELECOMMUNICATIONS

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

WORKPLACE AND WORKING ENVIRONMENT

TIMEWISE FOUNDATION
W | www.timewisefoundation.org.uk
E | emma.Stewart@timewisefoundation.org.uk
C | Emma Stewart
P | 020 7633 4559

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

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