Assessing the economic contribution of the UK's specialist online retailers

February 2021

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Foreword

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This Grant Thornton research was commissioned to provide independent analysis into the sector's significant ongoing economic contribution, demonstrate its growth potential, and emphasise how its success must be nurtured. Clearly much has changed since then. When the report was commissioned in late 2019, no one could have forseen the dramatic crisis the world was about to face in the form of the Covid-19 pandemic.

Before going further, I must pay tribute to the staff of the NHS and other essential services who have put themselves in harm's way to protect the nation. This gratitude extends to other key workers – delivery drivers, warehouse and production staff – who have also worked in the front line and kept e-commerce operations running and consumers supplied. Their efforts made the lockdown enforceable and they undoubtedly saved lives as a result. I am also proud of the response of the businesses themselves, which moved quickly to protect employees with safe working environments, reconfigured warehouses and offices to enforce social distancing, made substantial contributions in the form of support for charities and the NHS, together with strenuous efforts to support employees financially without recourse to government funding initiatives.

Huge challenges remain, but the time feels right to begin looking forward and consider how the British economy must change to meet and overcome those challenges. This report focuses on the online retail sector, but given how critical this sector has become, there are also wider social and economic implications. Before the pandemic, online retail was already witnessing major growth and had become a well-established trend. That trend has accelerated, with those changes very much here to stay.

Specialist online retailers have made huge investments in infrastructure and created thousands of highly skilled jobs which have benefitted all regions of the UK, together with modernising the way we shop. The UK e-commerce industry is something of a rarity in that we have a number of Europe's leading businesses located and thriving here. At a time of uncertainty following the UK's exit from the EU, these businesses continue to expand and invest and are seizing the opportunities of a global market.

Even prior to Covid-19, much had been written about the decline of the UK high street, with blame too-often levelled at the rise of online retail. While physical retailers have faced a number of challenges, such as higher business rates, the seeds of the current troubles were sown many years ago. Whilst there are some notable exceptions, many of the dominant retailers in the 1990s and early 2000s ignored the significance and potential of online. While many of the major store groups continued to pay dividends to shareholders and often costly debt repayments from leveraged private-equity buyouts, the focus of their expansion remained the opening of 'more of the same' new space which delivered predictable short-term returns whilst online only businesses took long-term strategic decisions to invest heavily developing compelling customer propositions framed around price transparency, value and convenience.

The online retail sector has come from nowhere to one which employs nearly 55,000 people across the country. As this report goes on to explain, online retailers are typically (on average) paying their employees a material amount more than their offline counterparts.

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Of the current UK Digital Business Association (UK DBA) membership, while profitable as a Group, all continue to re-invest in their businesses to fund growth rather than pay dividends. All are UK domiciled companies and pay their taxes (directly and indirectly) without the benefit of complex offshore tax structures.

However, online retailers often come under criticism relating to tax despite their continued creation of UK-wide jobs and substantial economic contribution. Too often an overly simplistic comparison is made of their tax take versus store-based retailers. In reality the tax mix is usually very different with a disparity in the number and type of employees paying tax. Taxes related to shops and warehouses are also different and the flow of goods is often different too.

In terms of government policy, UK DBA members are supportive of the current tax framework with the UK benefitting from a relatively low rate of corporation tax with capital allowances and R&D tax credits encouraging and incentivising investment.

Recent media reports have suggested the Treasury is considering various measures to tax shoppers online, including a ‘digital sales tax’ and delivery taxes as a mechanism to fund subsidies to support a rescue of the High Street. We believe it would be a mistake to tax shoppers who have increasingly come to rely on the safety, choice, value and convenience of online shopping at a time when many are already facing financial challenges.

No-one can deny the challenges that Covid-19 has brought to the High Street, and communities need a thriving commercial centre. While there are many arguments to support the reform of business rates, penalising it was clear consumers who were rapidly shifting their spend online even before COVID-19 would be misguided.

The digital economy in all forms, is and will continue to be of huge benefit to the UK economy. The opportunity exists for the UK to assume a position of world leadership in e-commerce, generate highly paid jobs in the technology sectors and produce much needed export earnings and corporation tax revenues. The sector’s continued success must be supported as one of the country’s fastest long-term growth engines.

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Introduction and methodology of Grant Thornton analysis

This report addresses the economic contribution of specialist online retailers to the UK economy.

In order to undertake this analysis a cohort of specialist online retailers has been identified and has been benchmarked against: the founding members of the UK DBA, traditional retailers with a predominately physical store presence; and the FTSE350 retailers and wider Index.

The report assesses economic contribution in the form of:
- Growth
- Value creation for the wider economy
- Impact on local economies
- Profitability
- Employment
- Taxes
- Exports.

The findings are primarily based on desktop analysis of key financial data and national and international datasets. This evidence base has then been enhanced through a series of interviews with some of the UK's largest specialist online retailers and members of the UK DBA. The purpose of these interviews was to add colour and insight to the data analysis.

The report begins by providing an overview of some of the key characteristics of the different cohorts before unpacking a number of key themes that emerge through the data.

The data used in this analysis runs to December 2019 and therefore demonstrates the impact of the specialist online retailers in a pre-Covid-19 world. There can be little doubt that Covid-19 has fundamentally changed the world as it was previously known and is having, and may continue to have for some time, a profound impact on economies and consumer spending around the world.

The retail industry has not been immune to these challenges. Retailers who have a particularly strong physical store-based presence, have been severely impacted. However, for those with an omnichannel presence or specialist online retailers, it has also demonstrated how vital this channel is not only for business continuity but, as has been evident, to ensure consumers are able to access essential items such as grocery and household cleaning supplies.

Given the impact of Covid-19 on the retail industry, it is likely that some of these consumer purchasing habits will be long-lasting and, if that is the case, then online retail will be an important part of the industry's recovery.

Specialist online retailers
In order to establish a cohort of specialist online retailers, SIC codes from Bureau van Dijk's Fame database were used. Following cleansing of the data, this identified a total of 105 retailers, the majority of which are headquartered in the UK and are independent businesses. In some instances, the specialist online retailers are parts of larger companies or are owned by an internationally headquartered company. In these circumstances, where financials are available for the specialist online, UK business, these have been used. For the purposes of this analysis, Amazon has been excluded, although its significant contribution to the industry is recognised in the initial pages of this report.

The UK Digital Business Association
For the founding members of the UK Digital Business Association we have used: ASOS Plc, AO World Plc, Boohoo.com Plc, Gymshark Ltd., Ocado Group Plc, and The Hut Group Ltd.

FTSE350 retailers
The FTSE350 retailers are taken from the London Stock Exchange and represent 19 of the biggest retailers in the UK, including: Dixons Carphone Plc, JD Sports Plc, Next Plc, Marks and Spencer Group Plc and Tesco Plc.

Physical retailers
The cohort of traditional retailers has been established through identifying retailers with a dominant physical presence and are a similar size, either by turnover or number of employees, and based within the same geography as their specialist online counterparts.

Key findings

The UK's specialist online retailers are contributing significantly to the UK economy and the international standing of the UK retail industry on a global stage.

It is an industry that recognises the importance of listening to its consumers and adapting and shaping services to meet that demand. As a result of this understanding it is reaping clear benefits in terms of the pace and scale of growth.

The analysis in this report has found that:

1. Between 2009-2019 the UK retail industry has grown by 38%. Over the same time period, online retail has grown by 285.3%, going from sales of £4.1 billion in 2009 to £17.3 billion in 2019. Such significant growth over a relatively short space of time, points to the changing consumer demand for online shopping.

2. Although the issues and narrative around taxation in the retail industry are complex, specialist online retailers are positively contributing to the UK economy via taxes and within this analysis are paying a comparable amount of tax compared to retailers with a predominant store-based presence. Having accurately anticipated and adapted to consumer demand, specialist online retail is already an important part of the current industry and a vital part of the future of the industry.

3. Specialist online retailers are paying more than the wider retail sector in the regions in which they are based. Analysis based on the ONS Annual Survey of Hours and Earnings, found that on gross average weekly salaries, specialist online retailers across the country are paying between 8.43% and 95% more for certain roles, than the wider retail industry.

4. There are more specialist online retailers than ever before; growing from 9,540 in 2010 to 39,105 in 2019, a growth rate of 233.2%. This has meant that by number of businesses, they have gone from representing 5.5% of retail businesses in 2010, to 20% of the industry in 2019.

5. Across turnover, EBITDA and number of employees, specialist online retailers within this analysis are significantly outpacing the growth of retailers with a predominantly store-based presence, the FTSE350 retailers and the FTSE350 index as a whole.

6 Within this analysis, specialist online retailers are more productive than their peers with a predominant store-based presence, contributing 25% more in GVA between 2018-19. However, GVA as a percentage of sales shows that specialist online retail cohort represents 15.8% of turnover, and the retailers with a predominant store-based presence represents 18.8% of turnover.

7 Specialist online retailers are continually innovating and demonstrating their ability to evolve and adapt to consumer demands and preferences. The nature of the industry means that a significant proportion of this innovation is technology-led and not only enhances the capabilities of the industry as a whole, but also highlights and supports the UK's strengths as a centre for technology development.

8 The capital expenditure (Capex) of the listed members of the UK DBA in 2018 was £313 million. They are consistently investing in their businesses, particularly in relation to technology in order to stay ahead of the pace of growth and to meet consumer demand.

9 Fast-paced growth and innovation requires a highly skilled workforce. This report has found that specialist online retailers are enhancing the skills base of the industry through innovation and investment. One retailer spoke about how its software development team will grow from 200 in 2013 to around 2,000 in 2020. Therefore, in creating jobs, the industry is not only developing employment opportunities, but is also building a valuable talent pool for the UK. This will be especially important in light of the Industrial Strategy and its focus on digital technology.

10 Specialist online retail is a global business which puts the UK on the map and generates valuable income for the UK economy through exports. It also demonstrates the UK's capabilities as a world-leading, innovation-led economy. As online retail will continue to grow around the world, supporting the development and growth of these businesses will be hugely beneficial to the UK economy as a whole.

Establishment of a peer group and comparator set

This chapter details the establishment of a specialist online retail peer group, identified by turnover and ownership. It also explains how a comparator set of companies, with a predominantly store-based presence has been created.

Establishment of a peer group and comparator set

Establishment of the specialist online retailer peer group

Analysis of the turnover of the specialist online retailers shows that in the last full financial year of reporting, the specialist online retailers generated £37.7 billion in sales. Of this, Amazon's UK company accounted for £22.15 billion, two-thirds of the sales of the cohort.

For this reason Amazon has been excluded from the rest of the analysis on account of some of the ways it reports its financials and its size, both of which would lead to distorted figures.

Excluding Amazon from the totals, the other 104 companies in the cohort accounted for approximately £15 billion of sales, with those in the UK DBA accounting for 40.2% (£6.2 billion) of sales in the cohort.

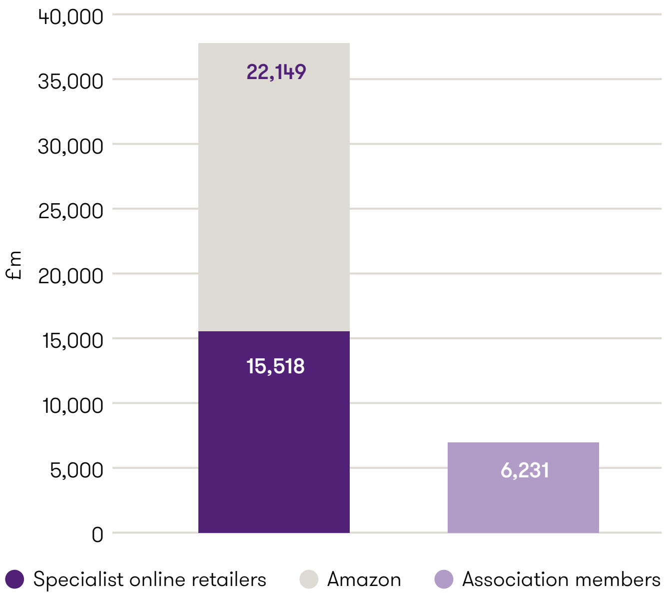
Even at this top line, this analysis demonstrates that within the specialist online industry there are companies of all sizes, and although there are some very large, international players, there are also smaller, more niche organisations. This is discussed in more detail on the following page in relation to ownership analysis.

Establishment of the comparator set

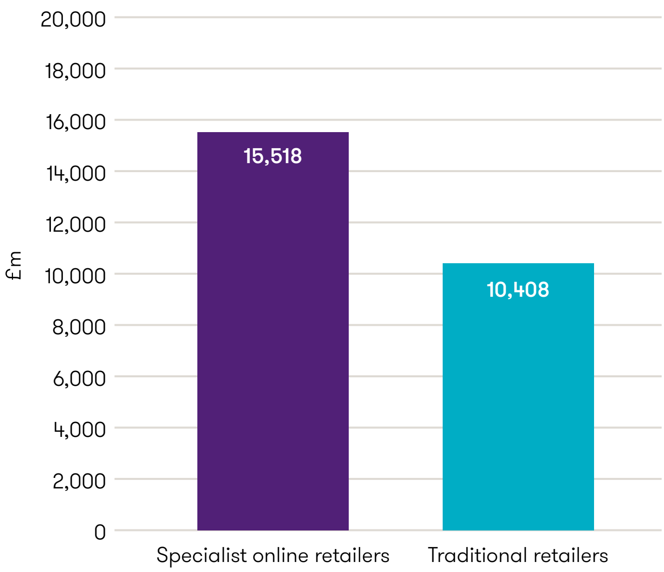
To create a peer group of traditional retailers with a predominant store-led presence, data from Bureau van Dijk was used to identify, on a company-by-company basis, traditional retailers which match our specialist online retailer cohort in geographic location (by county) and either their turnover or their number of employees.

The chart opposite highlights the comparator groups by turnover. Where possible this has been the main indicator of size comparison, although it should be noted that at this aggregate level the specialist online retail cohort is around £5 million larger in terms of turnover.

Last financial year turnover figures for specialist online peer group vs. UK Digital Business Association members



Turnover of specialist online retailers vs. the comparator, predominantly store-based retail, group



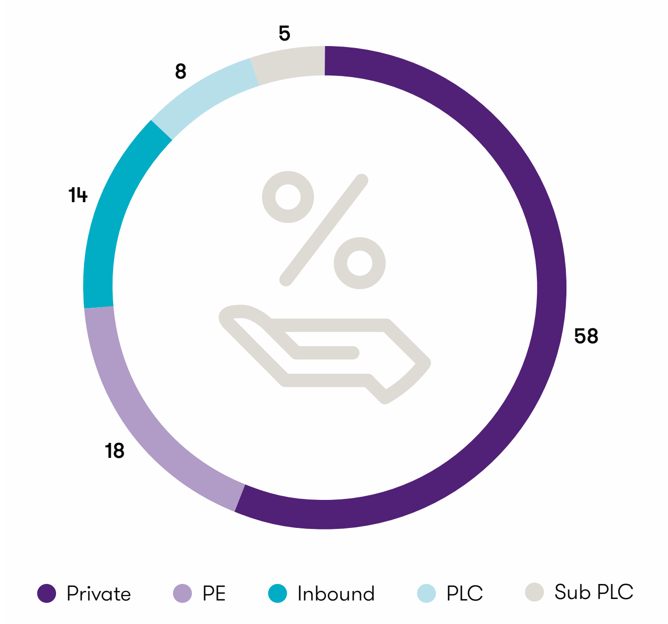
Ownership

The majority of companies within the specialist online cohort are privately owned (58%) including: Shop Direct, Missguided, Buy IT Direct. These companies represent 11% of aggregate turnover, a finding that suggests that there is a strong entrepreneurial element to specialist online retail. A further 18% of companies within the cohort are Private Equity (PE) backed, including: The Hut Group, Net-A-Porter, Wiggle/Chain Reaction Cycles, Ebuyer and Made.com. These companies represent 7% of aggregate turnover.

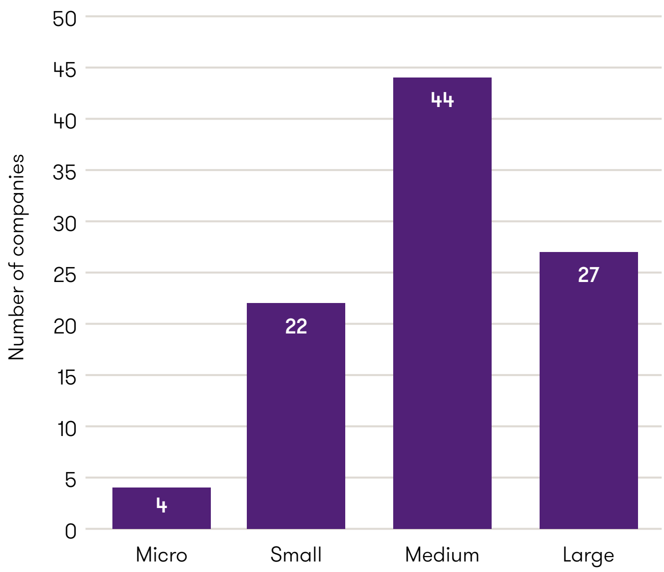
Fourteen per cent of companies are inbound, with an international owner. However, these include very large, international companies, such as Amazon and Ebay and therefore account for 63% of aggregate revenues for the last financial year.

Of the cohort, 8% are Plc's including: Asos, Ocado and BooHoo. This cohort represent 19% of aggregate turnover and predominantly comprised of large companies. A further 5% of the companies are subsidiaries of Plc's, such as FunkyPigeon, which is part of the WHSmith Group.

Specialist online peer group ownership segmentation (%)

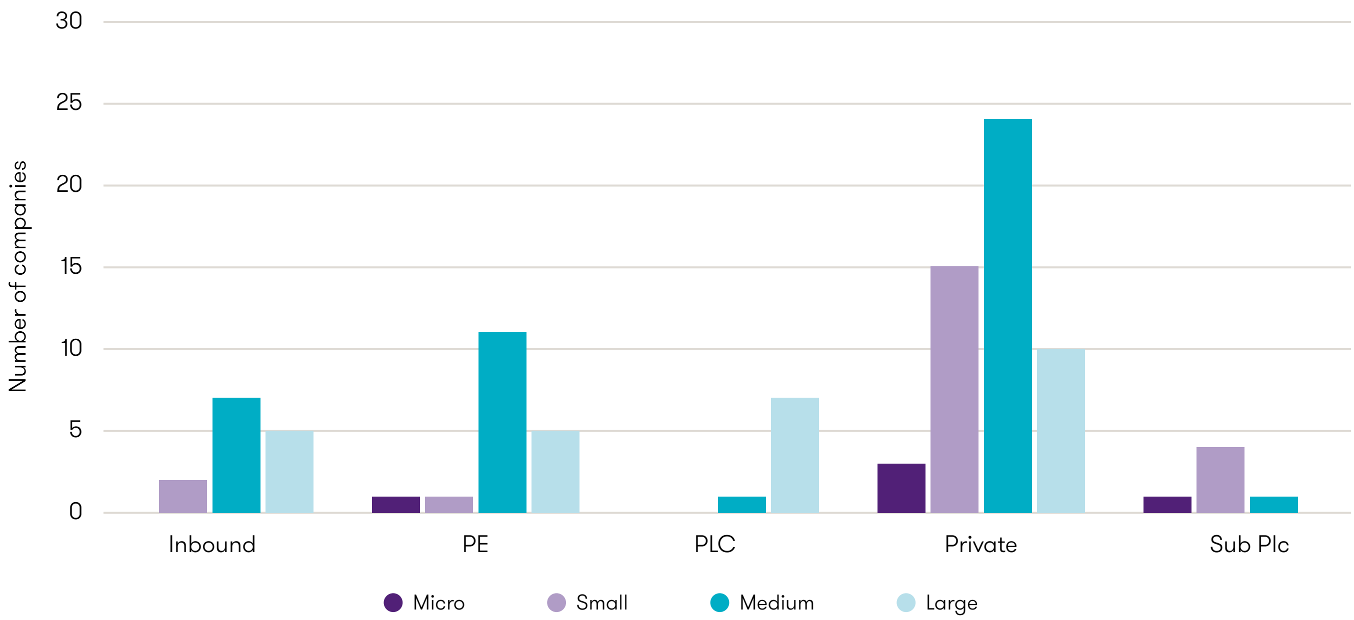


Specialist online peer group by size of company



Note: There was no employee data available for six of the companies in the cohort.
Size definition is Micro: less than 10 employees, Small: less than 50 employees, Medium: less than 250 employees, Large: more than 250 employee

Specialist online peer group by size of company and ownership



Notes: According to the UK government definitions of business size, a Micro company has 0-9 employees, a Small company has 10-49 employees, a Medium company has 50-249 employees and a Large company has 250+ employees

Key themes

This chapter focuses on the key themes that have emerged through the analysis. The themes highlight the economic contribution of specialist online retailers, not only to the UK economy but also to the UK's international presence and the future of skills in the country.

Online retail is growing...

Between 2009-2019 the UK retail sector as a whole grew by 38%. Specialist online retailers are a key contributor to this growth and their importance in the future of the industry has become increasingly apparent in recent years.

Covid-19 has had a profound impact upon the UK retail industry. Shop closures on a national scale for three months, with possible localised closures to follow, has led to concern around job losses and has heightened some of the concerns around the future of the UK high street that existed pre-pandemic. Although a sense of normality is beginning to return to the high street, it is clear that things will be different for the foreseeable future as social distancing and queueing become the norm.

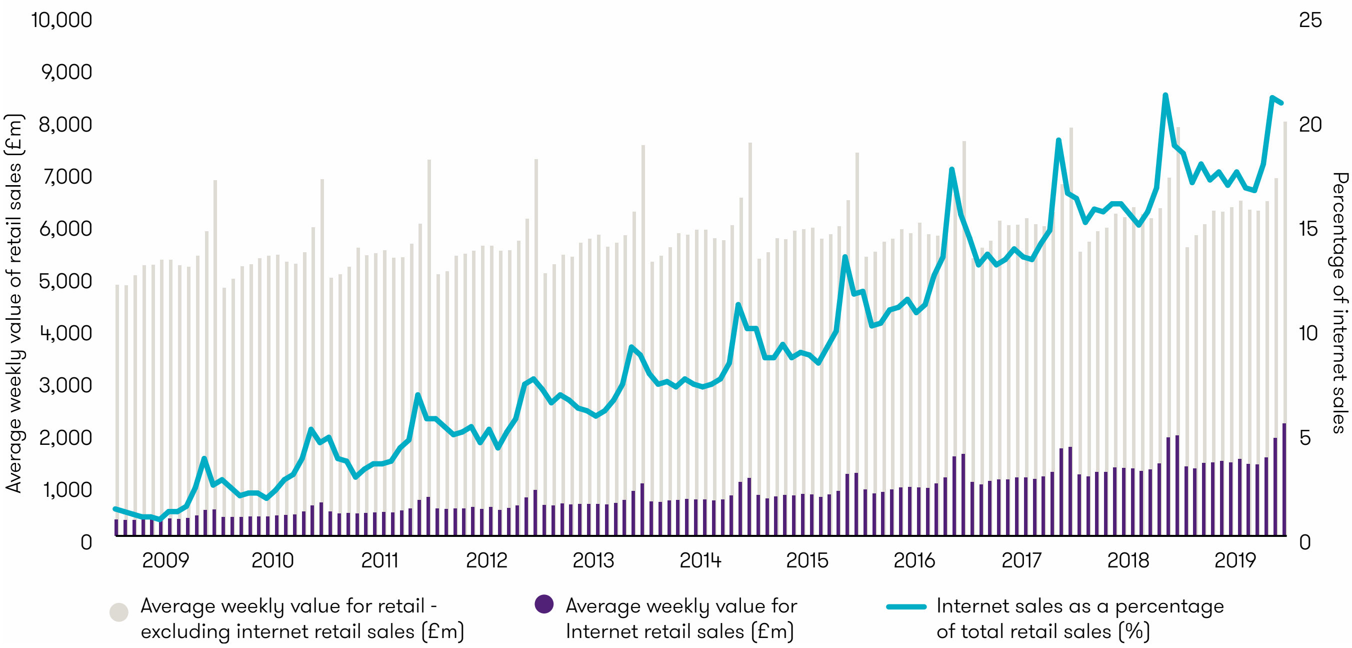
As a consequence of the pandemic, online retail has been a source of vital income for omnichannel retailers, who have adapted quickly to changing circumstances and consumer demands. Whilst for omnichannel and specialist online retailers who provide grocery and healthcare goods, they have demonstrated how vital they are in the modern customer buying process.

Prior to the pandemic, there was little doubt that as a result of the growth in popularity of online retail, the wider UK retail industry was changing. Post-pandemic it is clear that its importance as a channel to market cannot be ignored.

Looking specifically at the pace of growth of online-only retailers, it is notable that they were, pre-pandemic, growing faster than their high-street counterparts with a predominant physical presence, faster than the FTSE350 retailers and faster than the FTSE350 Index more broadly.

The chart below highlights that between 2009-19, the UK retail industry as a whole has grown by 38% with sales of £65.6 billion in 2009 to sales of £90.5 billion in 2019. Within this, online retail has seen a higher level of growth than non-online retail, with a 322% increase over the time period, growing from £4.1 billion in 2009 to £17.3 billion in 2019. Despite this growth, in 2018 online retail still only accounted for 19.1% of the retail market suggesting that there may be considerable future growth. The most significant point to note is that since 2009, the peak for online retail trading has been in November. This is a marked departure from store retailing for which the peak period has remained December, and demonstrates that even before the introduction of “Black Friday”, online retail was shaping the golden quarter of Christmas trading.

Internet sales as a percentage of total retail sales, 2009 - 2019



Source: ONS - data accessed January 2020

… and accounts for a larger share of the market

There are more specialist online retailers than ever before…

The number of specialist online retailers has grown considerably over the past 10 years. The chart below highlights that since 2010, the number of online and mail order retailers (SIC2007 definitions – with an assumption that mail order companies would have an online presence but no store presence) has grown from 9,540 to 39,105 in 2019, a growth rate of 309.9%. For retailers with a physical store presence, there has been a slight decline of -4.2% in the number of businesses in the industry between 2010-19.

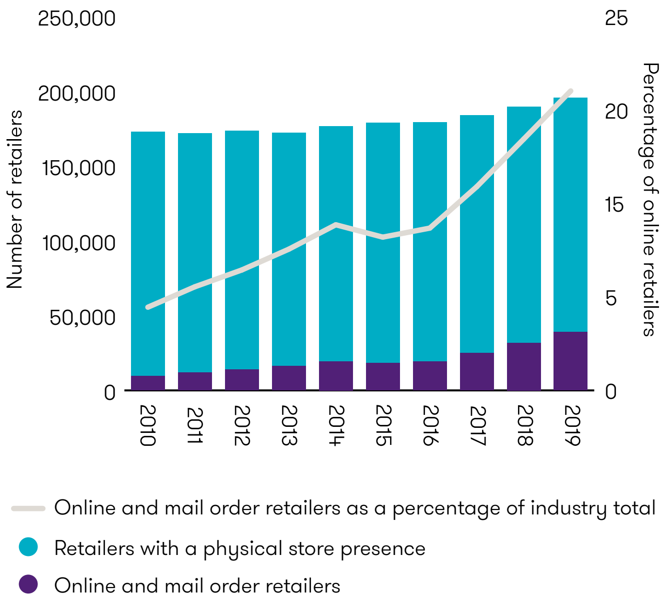
Consequently, although retailers with a physical store presence represent a larger proportion of the industry, the specialist online retailers have grown from 5.5% of the industry in 2010, to 20% of the industry in 2019.

… and they are taking a greater share of sales

Looking at the share of online sales between online-only retailers and traditional store-based retailers with an omnichannel offering, shows that in January 2008, the store-based omni-channel retailers had a greater share of the online market, accounting for 58.5% of all online sales. In contrast, the online-only retailers accounted for 41.5%.

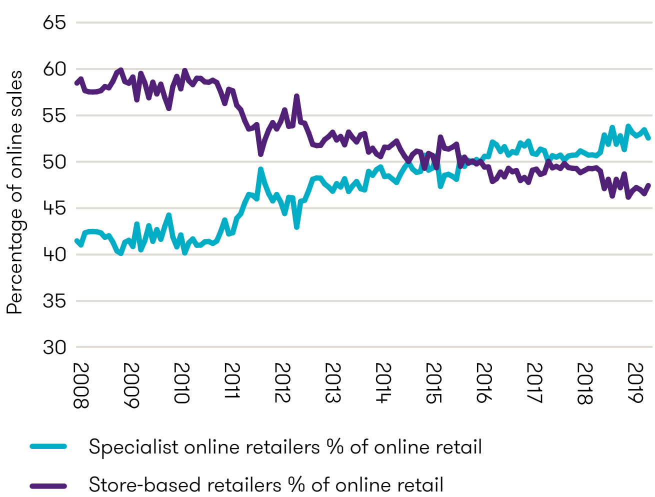
Between 2008-2015, the store-based omnichannel retailers continued to account for a larger percentage of online sales. However, since 2015, the online-only retailers have increased their share of the market, and overtaken the store-based retailers with an omnichannel presence. By December 2019, the gap had widened with stored-based omnichannel retailers accounting for 47.4% of sales and specialist online retailers accounting for 52.6%.

Growth of specialist online retailers as a proportion of all UK retailers



Source: Nomis and ONS
Notes: Specialist online refers to the UK SIC 2007 definition of online only retailers and mail order companies. In this instance, mail order companies are perceived as having a strong online presence

Specialist online retail sales vs. online sales of retailers with a predominant store-based presence



Source: ONS - data accessed January 2020

Growth of specialist online retail is outpacing its peers

Between 2016 and 2019 the growth rates for turnover, EBITDA and employee numbers show that across all three metrics, specialist online retailers out perform their peers with a more physical, high street presence, the FTSE350 retailers and the FTSE350 Index as a whole.

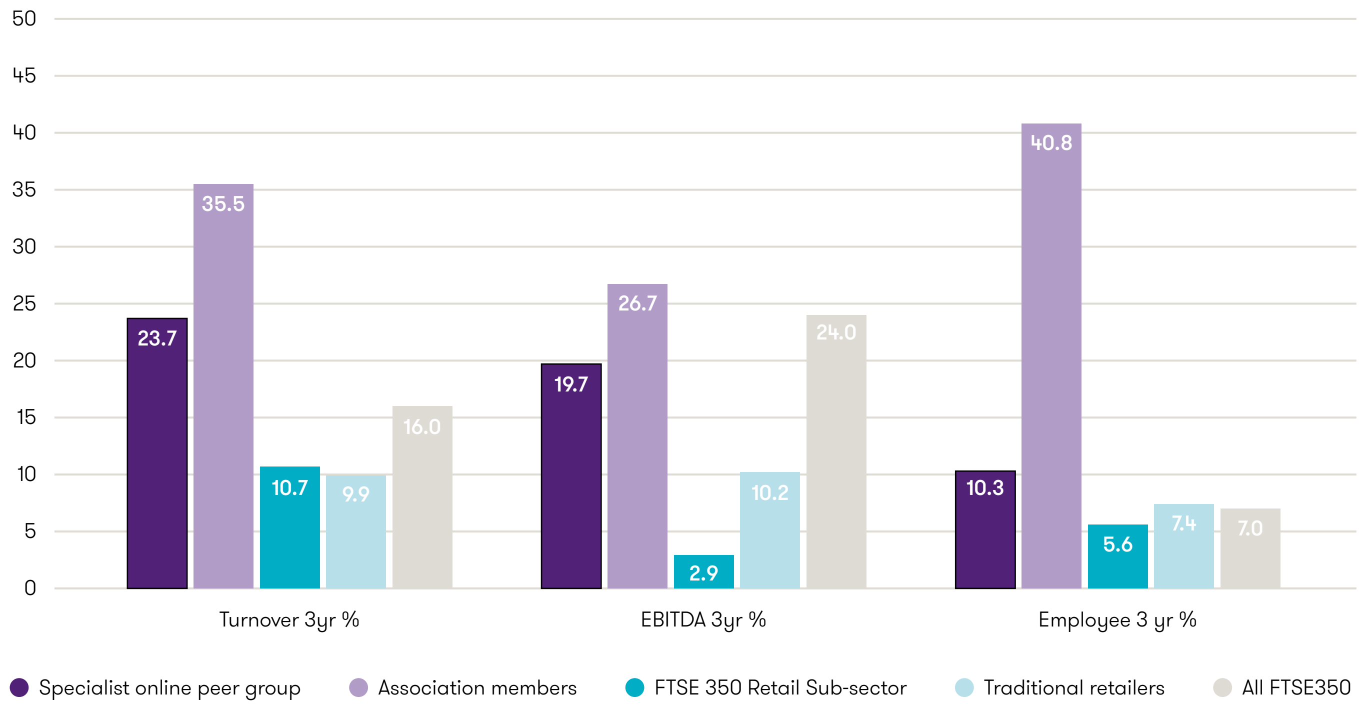
For the founding members of the UK DBA, growth over the past three years is particularly strong. Employee numbers have grown by 40.8% (online peer group: 10.3% and FTSE350 Retailers: 5.6%), whilst turnover has increased by 35.5% (online peer group: 23.7%, FTSE350 Retailers 10.7%).

The members of the UK DBA also reported the biggest growth in profitability with a 26.7% increase (specialist online peer group: 19.7%, FTSE350 Retailers: 2.9%). However, it is worth noting that there are some outliers who have been deliberately excluded from this analysis as they would disproportionately affect this. For the specialist online retailers Gymshark, widely regarded as the UK's fastest growing retailer, reported three year turnover growth of 183.9% and EBITDA growth of 283.3%.

This clearly demonstrates that online retail is an industry that is growing at pace, is profitable and is providing significant employment opportunities. These contributions will be discussed in more detail throughout the report but it highlights the need for the industry to be encouraged and supported in its future growth ambitions.

As the retail industry better understands the long-term impact of Covid-19 on its customers and supply chain, this may be increasingly important. Whilst specialist online retailers may lead the industry in digitisation, it is something that companies of all sizes and levels of digitisation will need support in.

Three year growth rates (%)



Source: BvD Fame and LSE
Notes: Several companies have been excluded from this analysis as they would disproportionately skew the data. These are : Almost Everything (turnover), Gymshark (turnover and EBITDA), Meika (EBITDA). Marks & Spencer (EBITDA)

Specialist online retail is contributing to the UK economy

Analysis of GVA suggests that the cohort of specialist online retailers contributed more to the UK economy between 2018-2019 than the comparable cohort of high-street retailers with a predominant physical presence.

The fact that they are doing so with fewer employees suggests that, overall, they are more productive than traditional retailers. Given the government's focus on improving the UK's productivity, this industry should be encouraged and supported to grow further.

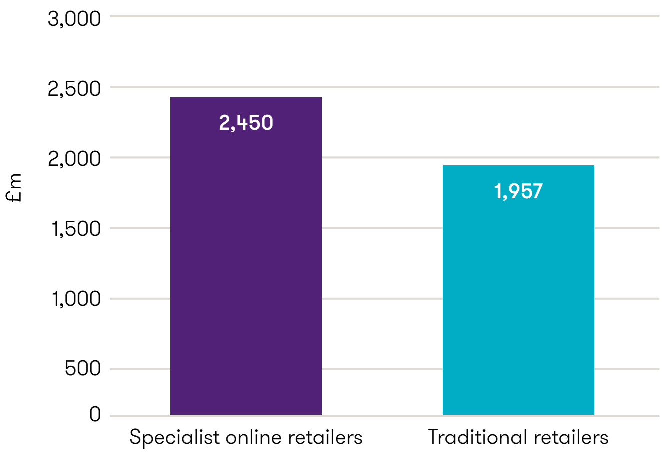
Measuring the economic contribution of specialist online retailers by their GVA contribution to GDP shows that the specialist online peer group contributed £2.45 billion in the last 12 months, with the UK DBA members accounting for 44.2% of this with £1.1 billion.

It is worth noting that on an industry basis the equivalent GVA contribution for the specialist online cohort is mining support activities (£2.2 billion) and the manufacture of wearing apparel (£3 billion). Whilst the members of the UK DBA contribute more to the UK economy than forestry and logging (£675 million), fishing and aquaculture (£697 million) and manufacture of leather products (£702 million). Although these industries appear disparate at first, it is symptomatic of the changing face of the UK economy, that specialist online retailers have been able to so significantly out grow traditional industries, within a relatively short space of time.

Assessing the GVA contribution to GDP within our cohorts of specialist online retailers and traditional high street retailers with a physical presence, shows that the specialist online peer group contributed £2.45 billion in GVA in the last 12 months. In comparison, the traditional retailers contributed £1.96 billion, a difference of 25% and therefore demonstrating that within this analysis, the cohort of specialist online retailers are contributing more to the UK economy than their traditional retail counterparts. However, if GVA is measured as a percentage of turnover, then the specialist online retail cohort represents 15.8% of turnover, and the retailers with a predominant store-based presence represents 18.8% of turnover.

Last financial year GVA figures for specialist online peer group vs. UK Digital Business Association members

Last financial year GVA figures for specialist online peer group vs. retailers with a predominant store-based presence



Source: BvD Fame
Notes: GVA calculated by adding Operating Profit, Amortisation, Depreciation, Remuneration. For some companies it was not possible to calculate a GVA figure owing to incomplete financial data, therefore these have been excluded from the analysis. Gross Value Added (GVA) measures the economic contribution of an individual company, industry or sector.

Specialist online retailers are profitable

EBITDA figures over the last financial year are £899 million for the cohort of specialist online retailers. Of this the UK DBA members represent 35% with, EBITDA of £314 million. This suggests that the UK DBA members may be more profitable than some of their immediate peers.

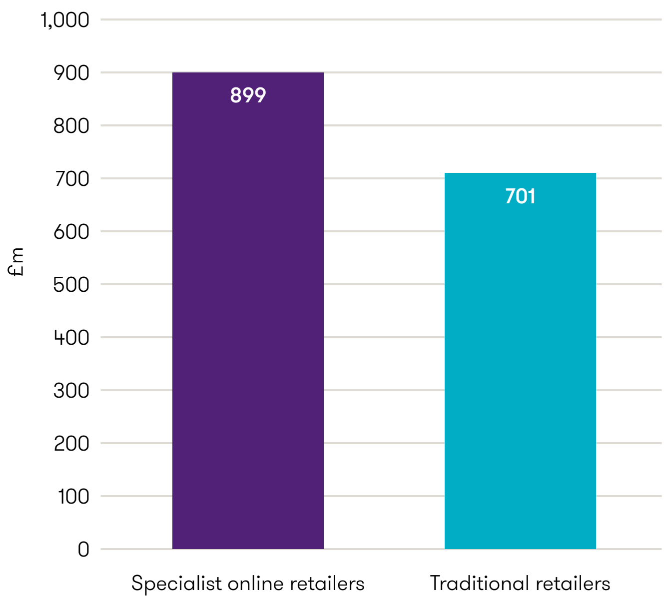
Using EBITDA as a measure of profitability shows that the specialist online retailers are more profitable than their comparable traditional retailer counterparts.

Specialist online retailers reported EBITDA of £899 million, a figure that is 28.2% higher than traditional retailers at £701 million.

However, as a percentage of turnover, the specialist online retailers are less profitable than their traditional retail counterparts. EBITDA for the specialist online retailers accounts for 5.8% of turnover, whereas the traditional retailers account for 6.7%. This suggests that online retailers may need more support in order to reach their potential. Given the situation post-pandemic, it is clear that this support for online retail should also benefit those with an omnichannel presence.

Last financial year EBITDA figures for specialist online peer group vs. association members

Last financial year EBITDA figures for specialist online peer group vs. traditional retailers



Specialist online retail impacts across the UK

Analysis of the headquarter locations of the cohort of specialist online retailers shows that they are spread throughout the country. This is important because it demonstrates that, like traditional store retail, they are positively impacting local economies through job creation. Not only this, but the growth of specialist online retail is also providing new sources of income to the wider retail supply chain.

A consequence of the growth in online shopping is the rise of click and collect services and the associated benefits they have had on the wider economy and connected industries. In particular, the impact they have had on local economies and smaller retail outlets, such as convenience and corner shops has been pronounced and offered a new source of revenue for Britain's nation of shopkeepers.

CollectPlus, was incorporated in 2009 and in its first full 12 months of trading, in 2010, made £411,000 in turnover. In 2018 it had over 7,000 stores nationwide and turnover of £59.6 million, an increase of 14,400%. Hermes has also grown over the same time period, with over 4,500 collection points and going from revenues of £199 million in 2010 to £749 million in 2018; growth of 276.4%. It is worth noting too that relatively early on in the Covid-19 pandemic some companies, such as DPD, sought to significantly increase their employee numbers in the UK, owing to the increase in online sales and their impact on next-day delivery. Although the long-term implications for employment within the wider retail industry remain unclear at present, it may be that there is a change in emphasis towards greater online resources and supply chain.

There is little doubt that online retail has contributed to this and although some of it may be attributable to multi-channel retailing, it would be a fair assumption that specialist online retailers are more reliant upon this network because they lack their own stores for click and collect services. The Amazon Counter proposition, which allows Amazon customers to collect their parcels from Next stores, is testament to this.

From a consumer perspective, click and collect allows them to fulfil the last mile delivery on their own terms; at a time and location that suits them and their lifestyle.

So important is this factor in the customer journey that research from Mintel found that checking the delivery/ collection/returns options is the second most important factor in the online customer journey, with 42% of respondents to a Mintel* survey saying that it forms part of their purchasing journey.

In particular, returns play a significant role in the consumer journey with 69% of respondents to a Mintel survey saying that limiting the ability to return items would make online shopping less appealing. Click and collect is a fundamental part of the customer returns journey, with convenience stores in particular providing a service that could be considered more accessible, both in terms of convenience of location and through longer opening hours.

Online retail is making a valuable impact on local economies

*Mintel: Online Retail report - July 2019

Locations of the headquarters of the specialist online retail group

Pay on specialist online retailers is greater than the wider retail industry averages. The analysis found that from a sample size of companies in 2019, pay at specialist online retailers was greater than the wider retail industry averages.

Not only are specialist online retailers impacting local economies across the UK through job creation and developing a highly skilled workforce in the process, but analysis undertaken as part of this report shows that they are also paying more than the wider retail industry.

For this report, some of the specialist online retailers were asked to provide average salaries within their companies. These were then benchmarked against the regional retail, weekly gross pay figures in the Annual Survey of Hours and Earnings (ASHE).

One of the specialist online retailers in the North West of England stated that the average annual rate of pay within their company was £20,480, which works out at £393.84 on a gross weekly level. Another specialist online retailer in the region said that average annual salaries in their business were £33,473 or £643.7 per week. Data from the ASHE shows that in the North West the average weekly salary for people in retail is £329.90.

This shows that one specialist online retailer is paying £63.94, or 19.38% more per week, than the wider retail industry and the other is paying almost double the wider industry rate in that region with £313.8 or 95% more per week.

A similar picture emerges in the South East. One of the specialist online retailers stated that their average salary across the company was £21, 200. On a weekly gross level this works out at £407.69. Data from the ASHE shows that in the South East the mean weekly gross salary for people in retail is £376. This means that those employed by specialist online retailers may be earning up to £31.69, or 8.43% more per week, than the wider retail industry.

For highly skilled software engineers, the difference in salaries is even more pronounced. One of the specialist online retailers in the South East and London said that the average salary for their software engineers and developers was £58,000 per annum, on a gross weekly basis this amounts to £1,115.38. Another of the retailers said that annual salaries for their senior software engineers was £70,000, which amounts to £1,346 on a gross weekly basis. Data from the ASHE shows that average gross weekly salaries in the South East for people working as computer programmers and consultants is £934.50 and for those in London it is £1,036.

This means those employed as software engineers by specialist online retailers in the South East and London may be earning between £180.88 (19.3% increase) and £310 (29.9% increase) more than software engineers in other industries.

For these specialist software engineering skills it is important to note that competition doesn't just come from the retail industry. In London, where there is a higher proportion of technology companies, such as Facebook, Google and emerging businesses like Monzo, the competition for software engineers is incredibly high and employment packages and benefits, including things like share options, are increasingly common. Consequently, specialist online retailers are having to provide similar benefits in order to attract and retain the top talent. This is especially true for the highly specialised, niche roles in relation to Big Data, Machine Learning and Cyber security, where salaries are rising incredibly quickly. One of the retailers Grant Thornton interviewed for this report highlighted that this growth is reflected in the salary surveys that they use as a benchmarking tool. They cited the 2018 Wills Towers Watson survey and found the following:

2.8%
average UK salary increase

3.0%
average salary increase for those in technology roles

3.5%
average salary increase for those in specialised, niche technology roles

Employment in specialist online retail is growing

Looking at number of employees within the industry the specialist online retailers employ 54,641 people, with the UK DBA members representing 48% (26,025) of the total. The UK DBA members have seen the highest levels of growth in employee numbers over the past three years, with a 40.8% increase. This suggests significant levels of growth and a degree of scaling up the businesses as demand grows.

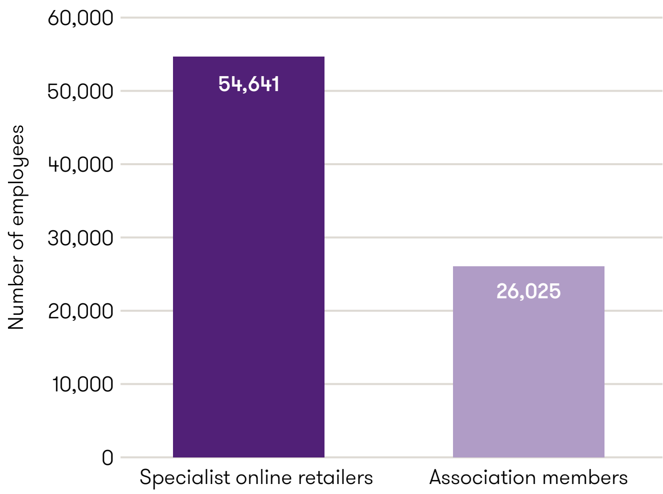
The number of people employed by specialist online retailers and traditional retailers shows that although employment within specialist online retailers is growing faster, they currently have 46.3% fewer employees than their traditional retailer counterparts. However, it is important to note that despite current changes to the retail sector, within this analysis both the number of employees in specialist online retail and traditional retail are growing.

That the specialist online retailers are effectively doing more with less and are therefore more productive bodes well for the future of the industry. The UK government's focus on productivity as part of the Industrial Strategy, has a specific aim of increasing the earning power of people through the UK with investment in skills, industries and infrastructure. An area where specialist online retailers can play a particular role in this is in relation to the Industrial Strategy's Grand Challenges and the digital technology skills base, something that is covered later on in the report.

In Grant Thornton interviews with specialist online retailers, productivity was something that was often cited as the focal point of innovation and is something that is continually measured and assessed. In relation to employment specifically, one retailer interviewed spoke about each process within the business having its own productivity measure and that there is a constant comparison between how a team of people might undertake a process and what, if any, the benefits of automating that process may be.

Another retailer Grant Thornton interviewed mentioned that when their company was founded, they bought the best software package available at that time but soon found that their business superseded the capabilities of the software and so they had to develop their own. The software they currently use is 2,000 times faster than the original "off the shelf" software and being able to write better, more efficient algorithms in-house is fundamental to their continued innovation and success. However, they also went on to note that productivity isn't always about technology and one of the biggest productivity interventions they had rolled-out in recent years related to reducing the capacity of a screen wash container on their delivery vehicles and how that had ultimately saved money.

Last financial year employee figures for specialist online retail vs. association members



Last financial year employee figures for specialist online retail vs. traditional retailers

Issues around taxation are complex

Corporation tax paid by specialist online retailers in our cohort was £62.7 million, demonstrating a significant contribution to the exchequer. In interviews with specialist online retailers, several stressed that as the majority of their operations are based in the UK, they are paying the appropriate amount of UK corporation tax. There was frustration amongst the interviewees that the common perception was that they were not paying adequate tax and that issues in relation to taxes for specialist online retailers were often conflated with concerns around rents retailers with a predominantly store-based presence have to pay.

Specialist online retailers sometimes come in for criticism in the media but comparing the tax take of online versus store based retailers is often too simplistic. The tax mix is often very different with a disparity in the number and type of employees paying tax, taxes related to shops and warehouses being different and the flow of goods (hence customs related taxes) often being different too. Changes are happening to try to ensure global consistency and it remains to be seen what difference this makes to the overall picture.

Nevertheless, it is worth noting that any tax that is introduced specifically to target specialist online retailers may also inhibit the online growth ambitions of retailers with a predominant store-based presence. As online retail is set to continue to grow, not only in the UK but internationally, its importance and relevance as a sector will only increase and this growth must be encouraged.

From a broader tax perspective, there was a consensus that the current UK tax regime is relatively beneficial. One specialist online retailer we spoke to said that the corporate tax rate is relatively low and the R&D and capital allowances benefit a lot of businesses and encourage innovation.

Several of the retailers we spoke to mentioned the impact of employment-related taxes on their business. One noted that although there is a broad range of roles within their business, there are also a large proportion of highly skilled workers, who have high salaries not only because of their skill set but also because it is incredibly difficult to recruit in the UK and consequently there is an element of incentivisation attached to that.

Another retailer interviewed noted that as well as having higher salaries than a retailer with a predominantly store-based presence, they also use share options as part of their staff rewards and remuneration packages. This is particularly true within the middle tier of management, where there is a need to attract and retain the right people. However, there was a feeling that the current tax regime didn't support share options in a way that accurately recognised the inherent risk and reward element and that this not only deters employee engagement but it also acts as a barrier to growth.

Case study

Obtaining granularity in relation to tax payments can be difficult as retailers, regardless of whether they are specialist online or not, do not have to disclose a detailed breakdown of their tax payments. However, as companies are under increasing pressure to be more transparent and as the rhetoric in relation to tax becomes more heated and divisive, then several retailers are providing more detail in relation to taxation.

The analysis below compares the tax payments of two retail companies. Although they are of different sizes, analysis on their tax payments as a proportion of turnover highlights some key similarities and differences.

	Company A A large, heritage high street retailer with a predominant store portfolio	**Company B** A specialist online retailer
Total tax payment	8.6% of sales	5.4% of sales, despite being smaller
Corporation tax	9% of total tax paid	0.8% of total tax paid
Business rates	20% of total tax paid (likely to represent the size and scale of Company A's store portfolio)	7.4% of total tax paid
Employment taxes	The proportion of tax Company A pays in National Insurance and PAYE amounts to 29% of their total tax bill	The proportion of tax Company B pays in National Insurance and PAYE amounts to 91.4% of their total tax bill, despite being smaller and having fewer employees

This difference may reflect the higher skills base referenced by some specialist online retailers in interviews and is indicative not only of the battle for talent, but also of an emerging and different retail workforce.

The UK has the strongest online retail market in Europe

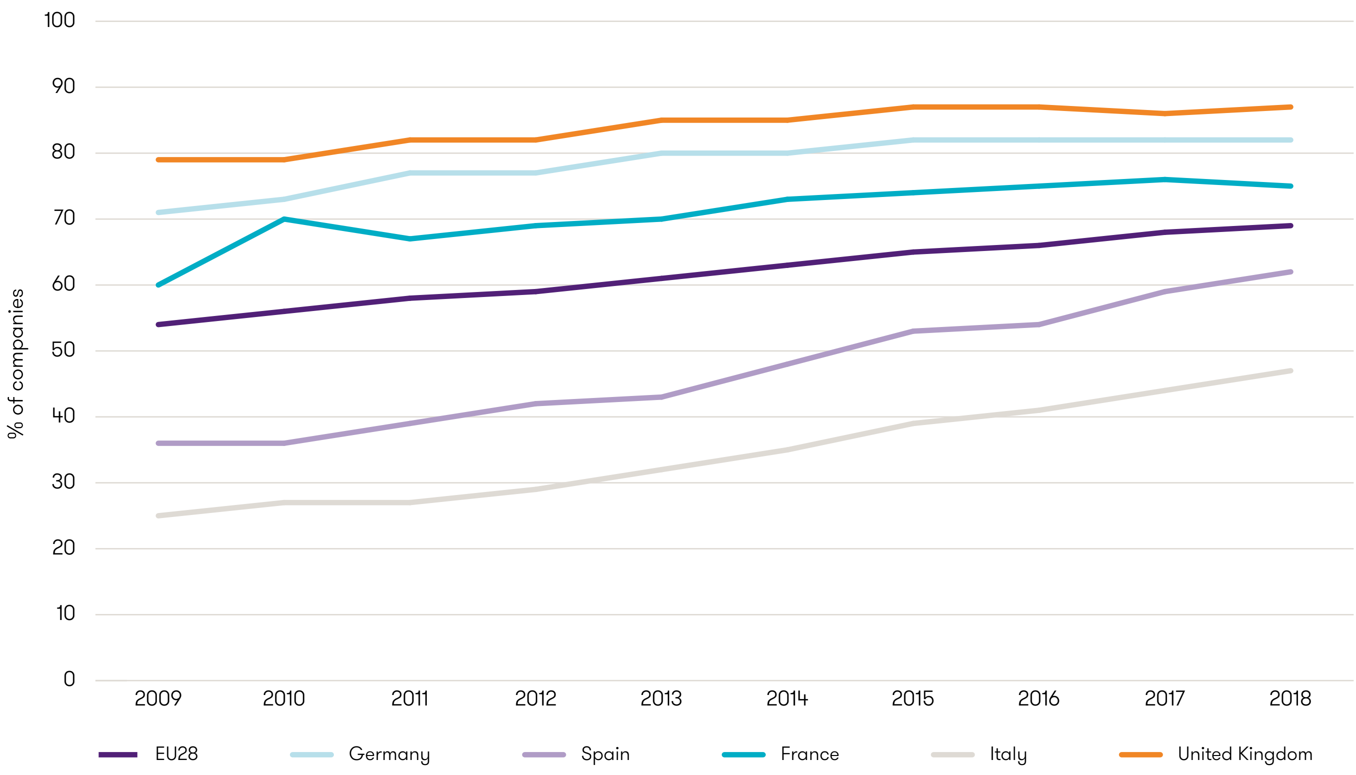
The UK is a leader in e-commerce and enjoys one of the most developed online retail offerings in the world.

According to data from Eurostat, 87% of UK consumers made an online purchase in the 12 months to December 2018, making it the strongest online retail market in Europe. The chart below shows that against Europe's largest economies, this has consistently been the case for the past decade and places the UK significantly above the EU28 average of 69%. Denmark (86% of consumers), Sweden (84%) and the Netherlands (84%) had the next highest penetration of consumers making online purchases, whilst Romania (26%) had the lowest in Europe.

Domestically, 18.6% of all UK retail sales are now made online, suggesting that although the UK is a leader there remains scope for further growth. However, cross border sales are set to grow at an even faster rate, with research from PayPal suggesting that they will outpace UK online growth by four times in 2020. This represents a key source of growth for specialist online retailers, many of which are already obtaining the majority of their sales from overseas.

Social media is playing a major part in this dynamic and as the UK's role in the world changes and the world becomes more connected and global in its outlook, the ability to attract international sales with limited barriers will be vital to growth.

Percentage of customers who have shopped online in the past 12 months



Source: Eurostat

Specialist online retailers are growing internationally

The UK enjoys one of the strongest and most established retail industries in the world. This, coupled with a strong entrepreneurial spirit, approach to innovation and some factors inherent to the UK, such as a geography that enables effective delivery and a high internet penetration rate, have meant that the UK's specialist online retail industry has flourished.

Leveraging all of these factors in an industry not defined by physical-store infrastructure has also meant that the UK's specialist online retailers have been able to expand internationally.

The retailers interviewed by Grant Thornton as part of this report, at the end of 2019, highlighted the ways in which their international strategies have developed in recent years. All of the companies said that their international sales have grown over the past five years and that they were anticipated to continue to do so. For many, there has been an element of organic growth to this success.

An ability to ship to almost every country in the world means that driving a brand presence and experience is less reliant upon physical infrastructure of offices and warehouses and instead built upon assets such as social media.

For the retailers interviewed for this report, the success and strength of their international sales is clear. In just four years, AO's European sales went from £55.6 million in 2016 to £153 million in 2019, a growth rate of 175%. ASOS has experienced consistent growth across all of its geographies in the years from 2014 to 2019, and whilst the UK still dominates as the largest single geography, its fastest growth is in Europe and the US, where sales over that time period have grown by 222% and 269%, respectively. Ocado has built strategic partnerships in countries around the world and The Hut Group now generates 66% of its sales internationally.

In most instances, these international centres aren't direct replicas of the UK model but instead form a network of bases around the world which include warehouse facilities, software development centres and offices. However, expanding internationally is often also a delicate balancing act of customer demand, business risk and investment. One of the retailers we spoke to now has international sales of £368.7 million (44% of total group revenue), including £166.3 million in the USA, but still dispatches everything from the UK. The reason for this comes down to cost versus customer proposition; in offering the fullest range of products via the website you are compromising on speed of delivery. However, to increase speed of delivery it would mean establishing warehouse facilities in different countries but this would invariably lead to a reduction in the number of products offered.

It is important to note that the global impact of Covid-19 cannot be underestimated. As it continues to impact countries at different rates and with differing levels of severity, it is unclear just what the impact will be on cross-border retail.

However, it is likely that with delays in both the supply chain and consumer delivery, as well as fluctuating demand as different parts of the world go into, or emerge from, lockdowns at different times, may all become commonplace.

For the UK's omnichannel and specialist online retailers, the advanced nature of the industry arguably means they have been better placed to adapt to these changes than similar operations in other countries. Some countries, including those with comparable online activity, have received government support to ensure an online channel is as accessible as possible. In South Korea, this has included support for small businesses to gain access to online channels, whilst in Japan business continuity subsidies have been issued to allow companies to diversify their sales channels.

The majority of retailers spoken to had made some adjustments to their international offer. For some this means a transactional website in a different language or currency, but for others there are legislative impacts of selling certain products, such as alcohol, in different countries. Geography also plays a significant part in international expansion with one retailer talking about how it has had to adapt its presence in the USA to take into account the likelihood of earthquakes and the impact they could have on their data centres, warehouses and ability to deliver.

For some UK retailers, particularly predominantly-store based retailers that have a long heritage, there is value to be derived from being a British brand. This is especially true when expanding overseas as a British mark is often perceived as representing quality, heritage and style. For specialist online retailers there are fewer connotations with "British-ness". Some of the retailers Grant Thornton interviewed mentioned that the benefits to being a British brand are that there is an awareness that their product has been developed to high standards and that if a brand is doing well in the UK, a traditionally competitive market, then there must be an element of quality to the product. However, one of the fashion brands Grant Thornton spoke to mentioned that although being a British brand may lead to an association with style, they would prefer to be perceived as a global brand.

The main challenges to international expansion are capacity within the specialist online retailers to scale at pace. Not only is it incredibly expensive, with one retailer noting that for every new facility it opens internationally it costs them approximately £60 million, it's also a significant risk to the business, with one retailer noting "we want to grow internationally, but not at any cost".

Nevertheless, international expansion will continue to be a fundamental part of the growth of the industry and is not only fuelling investments, such as The Hut Group's 2018 acquisition of translation company, Language Connect, but is also a growing source of income for UK Plc. One retailer interview mentioned that its platform effectively generates £2 billion of income that comes into the UK and consequently it is not only already having a significant impact upon the country's economy, but its further growth and development should be supported by the government.

Specialist online retailers are continually innovating...

Establishing a company as an specialist online retailer demonstrates an entrepreneurial spirit, a willingness to be innovate and an ability to keep pace with consumer demands.

It is hard to measure innovation on the basis of a cohort of companies as innovation is often highly subjective. As a result of this, the information included in this section of the report is drawn from interviews conducted by Grant Thornton with leading specialist online retailers.

It comes as little surprise that for specialist online retailers, innovation is at the core of their business and impacts a wide range of processes and procedures. Testament to the importance of continued innovation is the way in which innovation spend has increased as companies have grown. In 2018, the listed members of the UK DBA spent £313 million on capital expenditure (Capex).

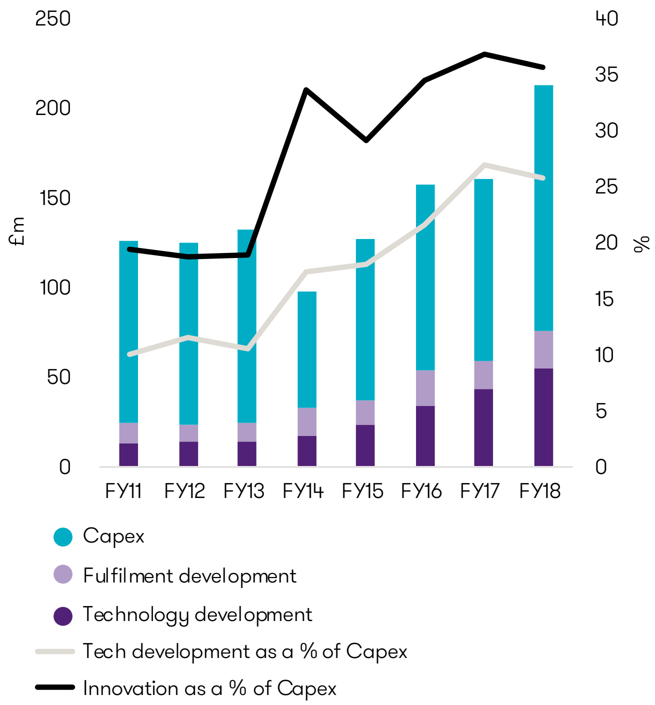
The chart opposite highlights the Capex Ocado has made over the past decade and breaks it down into technology or fulfilment investment. From this it is possible to observe that total capital expenditure has increased 69% from £126 million in 2011 to £213 million in 2018. Within this, the combined spend on technology and fulfilment development increased 210% from £24.5 million in 2011 to £76 million in 2018. Technology represented the majority of this with growth of 333% over the time period, up from £12.7 million to £55 million. This demonstrates that specialist online retailers are investing ahead of the curve in relation to innovation and technology.

All of the companies Grant Thornton interviewed as part of this study highlighted the fundamental importance of the customer journey and behaviour on innovation. The reason for this is that there are fewer points of contact between specialist online retailers and consumers, than there are between traditional retailers with a predominant high street presence, who will have stores, websites, concessions and wholesale opportunities to sell and build relationships through. Therefore, enhancing the customer experience is vital; whether that relates to making transactions easier, having a more user friendly interface or using customer data to anticipate needs and demands before they arise. One of the specialist online retailers interviewed noted that a failure to innovate would mean that their websites, and therefore main consumer channel, would quickly become obsolete.

They then went on to say that traditional retailers with a predominant store-based presence may struggle to build an online presence because the pace and scale of innovation needed is so great.

There is also an ever evolving social media landscape that many specialist online retailers, particularly those with a younger core demographic, have to factor in and adjust their offering towards. Although social media products may not offer an immediate commercial opportunity, it is more about building relationships with customers and developing innovative marketing campaigns.

Ocado Capex, 2011-2018



Source: Ocado, Annual reports

… and are future-proofing the retail industry

Another core aspect of innovation relates to efficiency; from improvements to the pace of delivery, to showcasing products, to making robot-picking lines more productive are all examples of the ways in which specialist online retailers are making their businesses more efficient.

Such pace of innovation can only be underpinned by an experienced and knowledgeable workforce. Two of the specialist online retailers Grant Thornton interviewed in this study mentioned that they have their own proprietary software and that the regular maintenance of this requires a unique skillset. One company noted that their software development team had grown from 200 employees in 2013 to around 1,600 employees currently and is expected to grow to 2,000 in 2020.

Although software developers may be at the core of innovation, one retailer noted that they also require a really broad range of skills, including data scientists, AI specialists, physical engineers, structural engineers and designers. If the future of retail is perceived to be more online and more digital, the specialist online retailers are playing an important role in developing key skillsets and future-proofing the industry. The changing nature of employment within the industry has been borne out in previous research conducted by the British Retail Consortium, which found that in 2016, 100,000 people were employed in jobs that hadn't existed just seven years earlier.*

Attracting the right talent to scale at such a rate is a challenge for some of the specialist online retailers. One interviewee said that recruiting people with the right skillset in the UK isn't easy, but it is possible through the right recruitment campaigns.

The retailers interviewed were mindful of the future workforce, not only for their own industry, but also as the UK transitions from an industrial economy to a knowledge economy.

Ocado is particularly notable in this through its Code for Life initiative; a non-profit that provides free, open-source games to school pupils round the world. The platform currently has 200,000 users globally and is run in collaboration with primary school teachers.

In order to stay ahead of the curve in relation to innovation, all of the online retailers interviewed collaborate with other businesses and educational institutions. Several of the retailers interviewed have partnerships with universities around the UK, whilst others are partnering with technology companies to develop greater AI capabilities.

In relation to the future leaders of the retail industry, there has been a lot of discussion as to whether they will primarily be technology leaders, rather than retail leaders. The retailers interviewed for this analysis felt that there was an increased requirement to understand technology and to quickly adapt and get up to speed with technologies as they emerge, such as AI. However, there is also a huge amount of importance in having the skills and experience to build a brand and these more intangible skills will remain just as crucial to the industry in the future.

Innovation also means an ability to see the likely future trends of an industry and to adapt accordingly. Although the competitive nature of the retail industry means that there isn't a huge amount of collaboration between retailers in addressing the future needs of the industry, there are definite concerns around issues such as sustainability. Some of the retailers we spoke to were mindful of their role and responsibility in addressing these and at least two are actively investing in technologies in response to this. One retailer has invested in vertical farming solutions, whilst another has invested in start-up technologies aimed at reducing the amount of clothing that goes to landfill. Although this technology is embryonic, there is potential for is to be scaled-up and a more collaborative approach taken to help address this. These are both examples of ways in which specialist online retailers are investing to future-proof the industry.

The UK's online retail is innovative, world-leading and playing a significant role future-proofing the industry.

*BRC Retail 2020 - Fewer but Better jobs report, 2016

Investing in employees

Employee wellbeing

Given the increased awareness of the importance of diversity and inclusion within the modern workforce, several of the specialist online retailers interviewed for this report spoke about the importance of their employee wellbeing and commitment to a sustainable and diverse workforce.

Employee benefits play a role within employee wellbeing. One of the retailers interviewed spoke about access to gym classes, subsidised meals in the staff canteen and life assurance policies. They also mentioned that in order to encourage more sustainable and environmentally friendly commuting, they had a company bus that had a specific route through areas where employees lived and therefore allowed them a cheaper, more sustainable way to commute.

Another retailer mentioned that wellbeing and mental health within its employees was one of its core initiatives. As a consequence of this, it had trained almost 350 employees in mental wellbeing and mental health awareness in the workplace.

The workforce within specialist online retailers is ever increasing in its diversity. One particularly strong area would appear to be diversity of nationality. One of the retailers interviewed by Grant Thornton in this report has staff from over 100 different countries, whilst another recognised the important of helping some of its international staff to integrate into the UK through the provision of free English lessons.

Learning and development

One of the specialist online retailers interviewed by Grant Thornton as part of this report, stated that their annual learning and development spend was around £5 million.

Technology training is fundamental to the development of the workforce within specialist online retailers and, understandably, several of the retailers interviewed for this report highlighted this as being core to their learning and development programmes.

From the perspective of internal training, several of the specialist online retailers mentioned that a lot of their training was now delivered online to ensure that it was accessible for as many team members as possible. However, face-to-face training still played a role with one retailer mentioning a three day course tailored to its software engineers, with a focus on "best of breed" approaches to software development.

For one retailer, collaboration was key to this development as they spoke about how one day a month their technology team stop active development in order to participate in a series of targeted events, with each month focused on a different theme, in order to develop skills and share knowledge. External events and networking were also highlighted as playing an important role in developing skills and understanding the future direction of the technology used to enable the industry

This kind of learning and development is crucial not only to maintain skills and keep pace with technology advances but also to fulfil a skills gap within the workforce for skilled technology roles.

This skills gap would appear to have two main implications. The first is the need for people with technology skills. Amongst the specialist online retailers interviewed for this report, several noted that they were using the Apprenticeship Levy to upskill both new and existing staff for a transition into a more technology-focused role. One of the retailers interviewed said that they currently had 43 people on their Apprenticeship training programme, including school leavers from the local community. Whilst another spoke about a software engineering bootcamp which is specifically targeted at graduates, interns and apprentices to give them exposure to a range of technical and soft skills that will help them develop in their roles.

The second implication of the skills gap relates to managers. Again, several of the retailers interviewed stated that they have a high proportion of first time managers and consequently, there is evidence of a strong investment in management and leadership. One of the retailers interviewed by Grant Thornton has a specific programme of training to support those entering their first management position, which so far has trained over 100 people.

These efforts to attract, retain and support staff within one of the UK's fastest growing and most dynamic industries is paying additional dividends in the form of employee loyalty. Given that the specialist online retail industry is relatively new, retailers reported that there are large proportions of their workforce that are recording five and ten years service.

Conclusion

In conclusion, there is little doubt that the UK's specialist online retailers are making a significant contribution to the UK economy.

This analysis highlights that 2019 was a year in which the sector experienced growth not only in revenue but also in numbers of employees and its presence in the global market. However, what could not have been predicted is Covid-19 and the way in which that has affected life, and consequently, business operations and consumer spending, around the world. Whilst the depth and severity of disruption caused by the pandemic on the retail industry may take a while to truly understand it has shown that online retail is, more than ever before, a vital channel to market.

Given this, it is likely that online retail, whether through omnichannel presence or specialist online retailers, will play a crucial role in the industry's recovery. This will not only support economic growth but, as is evident, will likely also lead to job creation, therefore impacting the UK on a local, national and international basis.

Specialist online retailers are at the forefront of this and have consistently demonstrated their capabilities and growing significance to the industry.

This success is leading to significant rate of growth, in which specialist online retailers are outpacing their retail peers who have a predominantly store-based presence, the FTSE350 Retailers and the FTSE350 Index in relation to turnover, EBITDA and employee numbers.

This rate of growth and success is no accident. specialist online retailers are continually innovating; adapting to consumer demands and behaviours, developing newer, faster software and assessing the benefits of man versus machine. This innovation is underpinned by a highly skilled workforce, the development of which will be fundamental to the future of the wider retail industry as it inevitably becomes more digitised.

The UK's specialist online retailers aren't just leading the way in the UK, but also having a significant impact upon the global marketplace too. The strength and competitiveness of the UK's online retail industry means that they are viewed positively on an international stage and this is having tangible benefits on the UK economy. However, although there remains a huge amount of potential for further international growth, the specialist online retailers are aware of their limitations and the need to provide a wide range of products, coupled with a consistent, positive customer experience means that they are often mindful of overstretching themselves.

However, as this analysis has shown, the retail industry in the broadest sense is still growing and specialist online retailers are offering new revenue streams to high street businesses and convenience stores through the click and collect model. It is also worth noting that specialist online retailers are just as susceptible to a downturn in consumer demand as retailers with a predominant store-based presence. In the current climate, retailers that understand their customer base and can adapt to changing demands will do well, regardless of whether they are online or store-based, and those that can't, sadly, won't.

In relation to tax, the UK's specialist online retailers may be perceived as not contributing enough. This is largely attributable to the business structures and tax regimes of several large, multi-national businesses. This analysis highlights that not only are specialist online retailers paying tax but that they are paying an amount that is broadly in proportion to that of retailers with a predominant store-based estate. However, it is worth noting here that the picture from 2019, will differ to that of 2020 with the exceptional circumstances around Covid-19 impacting upon taxation collection.

Given the existing economic contribution of specialist online retailers in the UK, it is vital that they continue to operate in an environment that supports and encourages growth. They represent an industry that is at the forefront of innovation, that is investing in a modern and highly skilled workforce and is only likely to increase in its relevance and importance.

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