

**RETAIL  
AGILITY**

# Full Speed Ahead

Meeting the delivery challenge in UK retail

**warehousing, logistics & fulfilment**

# Introduction

**Retailers have been feeling the effects of digital's growth for years; but our latest research reveals that retailers have reached a tipping point and now face unprecedented pressure to adapt their warehousing and logistics to meet changing demands from consumers.**

The ubiquity of online and the growing number of retail channels – including the growth of social media and voice assistants – is having a profound and lasting effect on the consumer psyche and their shopping habits, not least their expectations around delivery.

Consumers want delivery that is fast, free and flexible, and this can make the difference between making a sale or an abandoned shopping cart.

We spoke to the UK's top 100 retailers and found that these expectations are now so deeply entrenched that every part of the supply chain needs to be agile enough to keep up. One of the top 100 says: "All areas are under pressure mainly because of uncertainty for 2019 and beyond. We need to reduce costs while increasing capacity and flexibility."

.....  
"All areas are  
under pressure  
mainly because  
of uncertainty for  
2019 and beyond."  
.....

Retailers plan to invest more in logistics over the coming years to improve delivery times, improve the customer experience, minimise returns and manage risks. These risks include increased regulation from trading online and uncertainty around imports and additional Brexit costs.

Warehouse management systems and data analytics will play a significant role; retailers will need to collaborate more with other retailers and non-retail businesses; real estate needs will change; and urban warehousing (including new uses for existing stores) will gather momentum.

We hope you find this report useful. For further insights from our retail and consumer goods team please visit our website, or to arrange a meeting please get in touch.



**Perran Jervis**

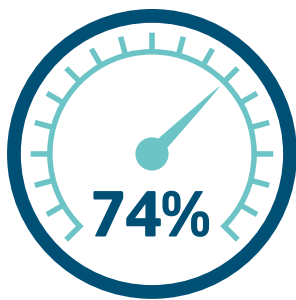
Head of retail & consumer goods

**T** +44 (0)333 006 0320  
perran.jervis@TLTsolicitors.com

## Fastest delivery first

### Rapid delivery is becoming the deciding factor for consumers.

Consumer motivations are many and varied, but three quarters (74%) of retailers say expectations around rapid delivery are driving investment in logistics – second only to the overall trend towards online shopping (86%). While having the right product to sell at the right price will always be important, this suggests that speed of delivery is now also a deciding factor for consumers when making a buying decision.



**74% of retailers say expectations around rapid delivery are driving investment in logistics**

This is a major challenge for retailers: the speed at which you can deliver a product depends on various factors, many of which are beyond your control or difficult to change quickly (unlike say the commercial decision around delivery charges).

Retailers are rising to the challenge, with many planning to improve delivery times – although some will still be capable of delivering goods faster than others.

.....  
'...speed of delivery is now also a deciding factor for consumers when making a buying decision.'  
.....

For the current 62% of retailers offering next day delivery or faster, competition will increase significantly, with 83% saying they will offer this in the future.

While only 19% of retailers currently offer same day delivery or faster, this is also expected to increase – by around 50% in the coming years to just under a third (29%) of retailers.

Only 7% of the top 100 believe that 10-minute deliveries will be possible for any retailer to offer.



**62% of retailers offer next day delivery**  
**83% plan to in the future**

**19%** of retailers currently offer same day delivery or faster  
**29%** will offer same day delivery or faster in coming years



**Only 7% of the top 100 believe that 10-minute deliveries will be possible for any retailer to offer**

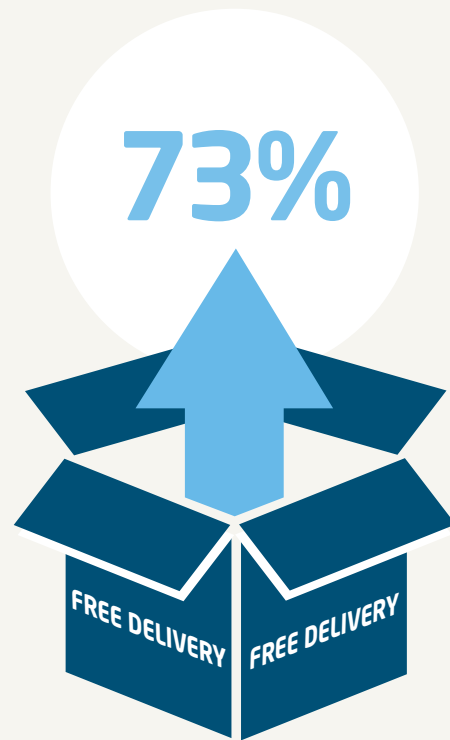
## Who pays?

**Rapid delivery, however, comes at a cost – but not necessarily for consumers. To speed up delivery times without increasing prices retailers will need to make efficiencies elsewhere in the business, including through the use of shared journeys and resources.**

Three quarters (73%) of retailers believe more companies will offer free delivery in the future to compete for sales. At the same time, the average amount retailers spend on logistics is expected to rise from 9% of total annual revenue to 12% over the next five years.

A third (33%) of retailers admit that free delivery is becoming increasingly difficult for them to offer, emphasising the scale of the challenge to balance these commercials.

“...free delivery is becoming increasingly difficult to offer”

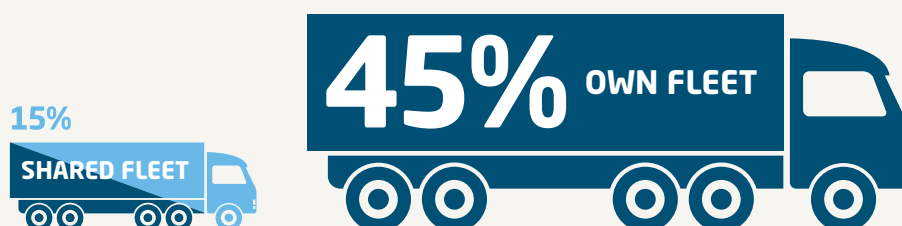


**Three quarters (73%) of retailers believe more companies will offer free delivery in the future to compete for sales**

Retailers that don't charge for delivery will need to find efficiencies elsewhere, while those that do will need to offer consumers value in a different way. This might be through branding, quality of product, value for money, customisation, lifestyle choices or another mechanism that adds sufficient value to the overall experience.

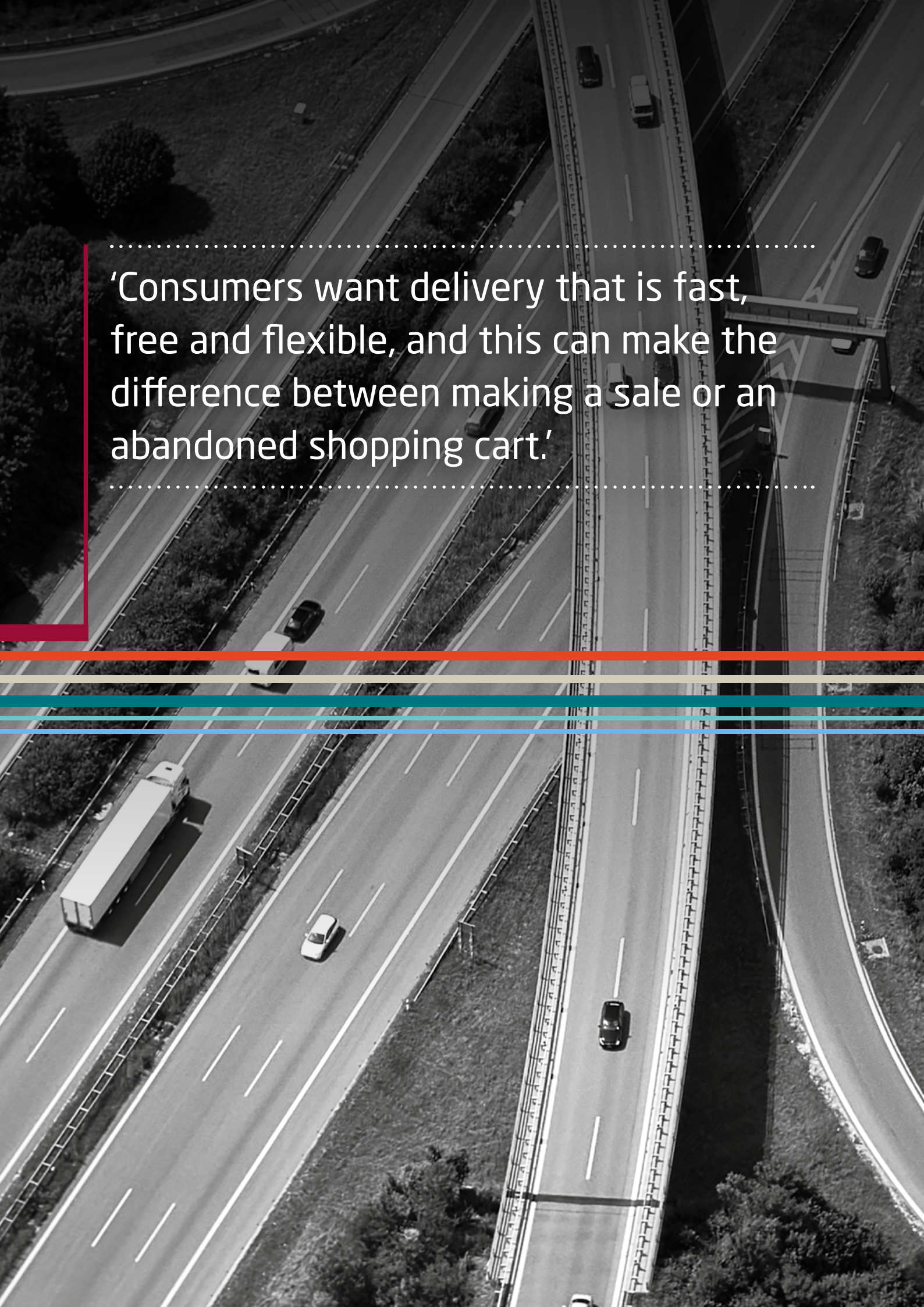
Despite the pressure on costs, 45% of retailers are planning to invest in their own fleet while only 15% are looking at shared logistics. While operating your own fleet can give you greater control over your brand and the customer experience, it is also the most expensive option for many retailers.

Perran Jervis, commercial partner and head of retail and consumer goods at TLT, explains: “Retailers had historically used third party logistics providers to manage demand for fast and affordable deliveries, but this is no longer enough. Now they have to go one step further, sharing resources and journeys – whether that’s their own fleet or third party journeys – to get products to consumers and their stores. Retailers will need to identify where the biggest opportunities are and ensure that their partnership agreements meet the interests of both parties and minimise any risks.”



**45% of retailers are planning to invest in their own fleet while only 15% are looking at shared logistics**





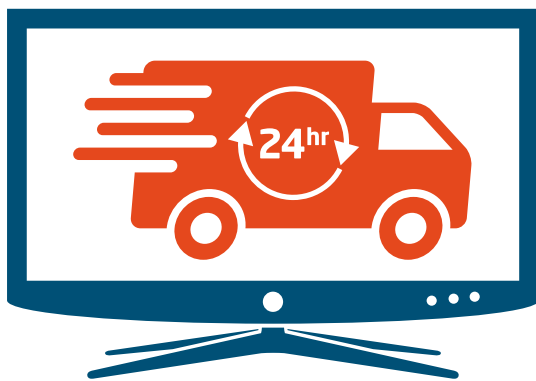
.....  
'Consumers want delivery that is fast,  
free and flexible, and this can make the  
difference between making a sale or an  
abandoned shopping cart.'  
.....



## Regulatory risk

With retailers competing based on delivery promises, the majority (64%) are expecting more regulatory activity around these assertions and related advertising campaigns in the future. This may be further compounded by Brexit, with 94% of retailers admitting they are concerned about delayed imports into the UK from the EU post-Brexit (47% are “very” concerned).

This follows high profile rulings by the Advertising Standards Authority in 2018, with ‘next day delivery’ claims from major retailers such as Amazon being ruled unlawful.



### The top legal concerns regarding logistics



Changes in import/export regulations  
(69%)



Data privacy and protection  
(62%)



Contracts with third party logistics companies  
(51%)



Environmental compliance  
(48%)



Contracts with warehousing owners/operators  
(47%)



Contracts with IT/robotics suppliers  
(37%)



Workers' rights  
(34%)



Health & Safety  
(29%)



International contracts under local laws  
(22%)

“We are working with retailers to reduce this risk by ensuring their advertising accurately reflects their delivery offering.”

Duncan Reed, regulatory partner at TLT, says: “We are likely to see a growing battle between marketing and logistics as consumers demand faster delivery times. Retailers are feeling exposed because if they have a compelling delivery proposition then they want to promote it, but at the same time those promises can be difficult to guarantee. We are working with retailers to reduce this risk by ensuring their advertising accurately reflects their delivery offering.”

Other legal issues that retailers are particularly concerned about in relation to logistics include

changes in import and export regulations generally (69%). Regardless of the Brexit outcome, the UK’s changing relationship with the EU will have cost, compliance and customer service implications for retailers and other businesses in the retail supply chain. Regulatory issues arising from Brexit will impact packaging and labelling, product checks and testing and product availability.

Another major legal concern is data privacy and protection (62%). Following the introduction of the General Data Protection Regulation on 25 May 2018,

retailers must ensure their use of personal data – including data sharing with technology and third party logistics companies – complies with their obligations under the new law. Compliance programmes may be complete, but businesses are continuing to face challenges to ensure they remain compliant and avoid a breach and potentially a hefty fine. With retailers under pressure to use customer data more to adapt to changing customer needs and offer a more tailored service, transparency and privacy by design will become increasingly important to protect customers and their brand.

Half (51%) of retailers are also concerned about contracts with third party logistics companies. With delivery performance playing on customers' minds, contracts are key. They should contain service level agreements and KPIs that service providers must meet to protect the retailer's brand and reputation, as well as explaining the supplier's duties to protect the retailer from certain regulatory obligations, for example to do with employment conditions, data privacy and protection and food safety and hygiene. This applies equally to warehousing and IT.

.....

**'transparency and privacy by design  
will become increasingly important to  
protect customers and retailers' brands.'**

.....

## Viewpoint: PwC



**Adam Sloan**  
Senior Manager (Logistics) at PwC

With the growth of online shopping, efficient management of logistics is an increasingly core component of retail operations.

Consumers increasingly expect retailers to offer fast (and potentially free) delivery for online orders. Furthermore, this move to online shopping is resulting in a progressive transfer of sales space away from the high street and into warehouses, pushing up rental costs

All of this adds cost to the business. Retailers have had to absorb elements of this. However, many retailers are updating their models accordingly. With Prime, Amazon has bundled delivery charges with other services, such as TV streaming, into a single subscription so

that consumers might not even think about the delivery fee. Others are looking to increase the use of click and collect and third party pick-up/drop-off points to reduce the cost of outbound orders and returns.

We are also seeing greater investment in technology to support logistics, with an increasing interest in robotics and automation, as well as tracking capabilities to enhance the overall customer experience.

Logistics however ultimately needs to be fully integrated with the rest of the customer journey to work effectively. Retailers need to think about utilising all of their space, stock and channels and make decisions based on how to deliver the best customer experience, rather than thinking in silos.

Managing an 'omnichannel' environment doesn't mean retailers have to physically do it all themselves. There are some really interesting and specialised eCommerce service providers that enable this level of integration and can offer significant savings across all delivery channels, including the management of eCommerce returns.

## Emerging technologies

**Technology will play an important role in getting products into the consumer's hands. Questions remain however over where quick wins and investments should be targeted. As one of the top 100 UK retailers says, "The biggest barrier to tech and digital adoption to improve fulfilment and logistics is that there are so many demands and no one knows where to make improvements first."**

More than half of UK retailers identify the biggest barriers to investment in technology to improve fulfilment and logistics as uncertainty in the market (66%), challenges integrating new technology with legacy systems (58%) and not knowing where to invest (53%).

A third (32%) of retailers also report difficulty in finding the right technology partners.

The research provides some useful insights into where technology investments are being made. While only 21% of retailers are currently investing in warehouse management systems and robotics, 44% plan to invest in this in the future – the biggest reported increase.

The use of newer technologies like drones, warehouse robotics and autonomous vehicles is also expected to increase, albeit from a very low base.

This is likely to remain something that is trialled on a smaller basis, but could grow as the market matures.

AI is still relatively low on the investment list, with 14% of retailers currently investing or planning to invest in AI to improve logistics. This may be symptomatic of the disconnect between the hype around AI and retailers not knowing where to invest to realise sufficient ROI.

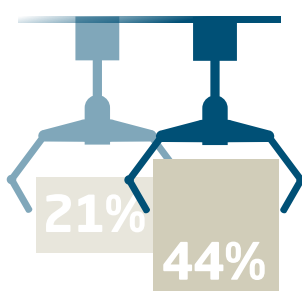
The most popular model for tech and digital investment in fulfilment and logistics is proprietary development (52%) – double the proportion of retailers entering into business partnerships with tech and digital vendors (26%) and more than double the proportion buying technology off-the-shelf (24%). Proprietary development is expected to remain the most popular model moving forward, with slightly more (57%) retailers planning to develop their own solutions.

A mere 9% of retailers are entering business partnerships with other retailers for proprietary investment and only 6% are acquiring technology and robotics companies.

Dan Read, technology partner at TLT, says: "Choosing what technology to invest in is always a significant challenge as the tech moves so quickly – often far quicker than most large businesses

can implement with confidence. With consumer expectations fuelled by the tech giants, retailers increasingly have to deploy new technology at the consumer end without having sufficiently capable fulfilment and logistics systems to keep pace.

Further investment in fulfilment and logistics systems is clearly needed – although interestingly, retailers are continuing to look at developing proprietary solutions rather than off-the-shelf software or tech collaborations. This is out of step with what we are seeing in other sectors where standardisation and commodity IT products and services are now the preferred option to avoid the recurrence of 'legacy systems' issues that continue to inhibit digital innovation."



**While only 21% of retailers are currently investing in warehouse management systems and robotics, 44% plan to invest in this in the future – the biggest reported increase in IT spend**

### Changes in technology investment



**Warehouse IT systems/robotics**  
Current 21%; Planned 44% (+23%)



**Drone delivery**  
Current 4%; Planned 18% (+14%)



**Autonomous vehicles for delivery**  
Current 3%; Planned 14% (+11%)



**Robot delivery**  
Current 2%; Planned 11% (+9%)



**Improving customer communications**  
Current 27%; Planned 22% (-5%)



**IT systems / databases**  
Current 45%; Planned 34% (-11%)



**Stock / inventory management**  
Current 42%; Planned 19% (-23%)



## Spotlight: returns

The rise of online shopping has also led to an increase in returns, this being the third biggest driver of investment in fulfilment and logistics (67%).



Retailers must find a way to reduce and manage this, whether that's through better information on the site, sizing detail, 360 degree photos or technology like augmented reality to illustrate what the product would look like in the home. The majority (56%) of the top 100 admit that effective management of returns is key to the profitability of online sales.

The average proportion of returns for UK retailers has reached a significant 27%, climbing to 58% for some. For others, this can be as low as 2%. Some recent examples of innovation and success in minimising returns include:

- **ASOS** – using virtual fitting solutions (including images, video and information) to help consumers decide if a product is right for them
- **Amazon** – offering a voucher instead of a return, for when a product isn't quite right but the customer is happy to keep it on this basis
- **House of Fraser** – allowing customers to input measurements to get an automated recommendation on what size clothing to buy

## Viewpoint: Andrew Starkey



**Andrew Starkey**  
Managing Director at Spiral4  
Solutions and head of e-logistics  
for IMRG

Online shopping is growing in terms of value and volume, which is good news for retailers. The challenge is that the industry has helped to create a false expectation around delivery – including speed – which everyone is struggling to meet.

Indeed, retail data shows that as speed goes up, delivery performance goes down. This is due to retailers having reduced capacity and a lack of operational contingency.

There is a lack of information flow between the retailer and consumer that could help to address some of these challenges. What customers really care about is that they receive the item; same or next day delivery might actually be inconvenient for them.

We have reached a tipping point and retailers have got to find a new model. Retailers need to be more flexible, offering customers a more tailored service that's also more sustainable for them, and that's got to be supported by perfect inventory visibility.

Over the years, we've seen a rise in middle players, including dynamic data and warehouse management systems to improve accuracy of information and efficiency. Investment in this kind of technology will need to grow further still, to support the need for real-time dynamic data and customer communication. With perfect inventory visibility, retailers can consolidate orders and dynamically change routes in-flight, increasing their drop efficiency.

Urban warehousing is also happening, but retailers will need to do this cost effectively and that means more collaboration between brands.

Retailers need to be proactive about finding a new model that works for them and above all, they need to do that in partnership with consumers and take them on that journey with them.

## Mind the gap

### A flexible fulfilment model and urban warehousing can ease pressure on logistics.

It was said that it took 900 stores to have a truly national footprint. This is now generally recognised as being closer to 300. With the rise of digital shopping, warehousing and delivery networks could become the new indicators of a retailer's geographical reach.

With the top 100 UK retailers having on average just four central distribution centres (CDCs) in the UK and the number offering same day delivery options expected to increase, two thirds believe urban warehousing (66%) and urban lockers (67%) will become a genuine trend.

The majority (64%) of top retailers expect urban warehousing to take place in retail parks.

### Top 4 urban warehousing trends that retailers think are most likely

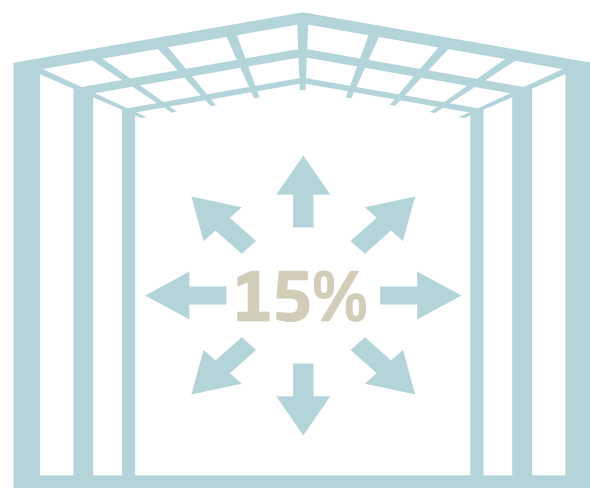


The most popular regions for CDCs in the UK are the West Midlands (69%), South East (61%), North West (58%) and East Midlands (51%), with France (6%), the United States (5%) and Germany, Spain and the Netherlands (4%) dominating internationally. Moving forward, we are likely to see more of a 'hub and spoke' model where retailers create smaller warehouses and fulfilment centres that are nearer to the consumer, alongside the larger sheds.

Sally Duggleby, head of industrial and logistics occupier advisory at Savills, agrees: "Using retail parks for local delivery hubs is definitely on occupiers' minds. It's a case of waiting until valuations become more viable. Planners also need to be receptive to the shift in building use."

Retailers expect to need 15% more warehouse space over the next five years on average, rising to as much as 42% for some.

With retailers more likely to say there is a lack of suitable warehouse space available (38%)



**Retailers expect to need 15% more warehouse space over the next five years on average, rising to as much as 42% for some**

.....  
 '...many are preparing  
 to enter more sharing  
 arrangements with  
 other businesses.'  
 .....

than an adequate supply, many are preparing to enter more sharing arrangements with other retailers and non-retail businesses. The proportion investing in their own warehouse space to improve fulfilment and logistics is expected to drop from 42% to 19% in the future, while the proportion investing in shared warehouse space is expected to rise from 14% to 20%.

Investment in own  
warehouse space  
expected to drop from

Investment in shared  
warehouse space  
expected to rise from

42% to 19%  
 14% to 20%



## Viewpoint: Savills



**Sally Duggleby**

Head of industrial and logistics  
occupier advisory at Savills

The amount of warehouse space taken up by occupiers in 2018 rose by 8 million square feet compared to the previous year. This is a continuing trend encompassing retailers, underpinned by the move from bricks and mortar stores to multi-channel retailing.

We saw vacancy rates in “big box” warehouses fall dramatically from 2016 and as a result, we are now seeing a record number of developments coming out of the ground. The supply pipeline is healthy, but there is no such thing as a perfect site and retailers need to get ahead of the game if they want a particular location.

Build-to-suit warehousing is a growing trend for retailers; the occupier benefits from design input, and can beat market rent for what is a value-engineered property based on its network needs.

The location of distribution centres is also changing; the same prime areas are still growing, but new areas that are cheaper or closer to population centres – while still enabling next day deliveries – are becoming more popular such as the North West of England.

There is a place for urban warehousing too and the Mayor's draft London plan supports the preservation and intensification of industrial use. In London, occupiers are being priced out of central locations so policy to support urban locations is welcome.

Parcel carriers increasingly need a local presence to facilitate retail deliveries and this requires agility. The growing use of urban local hubs in the form of “micro warehousing” and sustainable urban delivery methods, such as electric vehicles and bicycles, are examples of this shift.

Ultimately, occupiers should conduct whole-portfolio reviews and consider their future network needs. They need to decide what can be disposed of or retained and then follow a structured procurement process.

## Conclusion

**While market uncertainty prevails, retailers can be sure that the trend towards online shopping and the need to compete on delivery times will continue.**

Those retailers that can meet these expectations will be well positioned to compete as 'generation now' increases its spending power and new technologies and agile business models intensify the battle for faster and more flexible delivery options.

That won't be easy – it requires significant changes to infrastructure and technology and brand new ways of thinking, not least a willingness to embrace opportunities to partner with other businesses to deliver the rapid gains in efficiency that will deliver real change.

Key trends to watch out for and questions to consider include:

- Speed is becoming the deciding factor for consumers, disrupting the traditional retail model.
- Can retailers find a more flexible and agile approach that is sustainable and keeps pace with consumer demands?
- How can retailers quickly find efficiencies to ease the pressure and enable improvements in logistics? Shared journeys and resources with other retailers and businesses will be critical to tackling the logistics challenge.
- How can retailers reduce the cost of picking to fund more warehouse investments and unmanned collection points, whether that's driverless vehicles or lockers?

.....

**'...new technologies and agile business models intensify the battle for faster and more flexible delivery options.'**

.....

## About TLT

**TLT advises many of the UK's leading retailers and consumer goods businesses. Our clients represent over 15,000 stores, 1 million employees and £100 billion of retail sales.**

Our national retail team has an in-depth understanding of the industry, offering advice in context and solutions that work. We provide strategic advice on major projects, as well as support for in-house teams on day-to-day matters.

We are ranked among the very best law firms in Chambers UK 2019 for Retail (UK-wide), an independent guide to the legal profession.

We also support retailers through our retail-specific training programme, seminars, e-alerts, industry reports, risk reports and are actively involved in retail industry groups.

**To find out more visit [www.tltsolicitors.com/retail](http://www.tltsolicitors.com/retail)**

**Perran Jervis** | Head of retail & consumer goods  
**T** +44 (0)333 006 0320  
[perran.jervis@TLTsolicitors.com](mailto:perran.jervis@TLTsolicitors.com)

## Research methodology

To gain a sector and category view of the retail sector, independent research was conducted by GlobalData on behalf of TLT LLP.

GlobalData interviewed 100 leading UK retailers. In all cases, interviews were carried out with senior

management. The sample was representative of sectors within the retail space.

All charts, data and statistics featured in this report are the product of the research. All rights reserved, April 2019.







[tltsolicitors.com/contact](https://tltsolicitors.com/contact)

**Belfast | Bristol | Edinburgh | Glasgow | London | Manchester | Piraeus**

TLT LLP and TLT NI LLP (a separate practice in Northern Ireland) operate under the TLT brand and are together known as 'TLT'. Any reference in this communication or its attachments to 'TLT' is to be construed as a reference to the TLT entity based in the jurisdiction where the advice is being given. TLT LLP is a limited liability partnership registered in England & Wales number OC308658 whose registered office is at One Redcliff Street, Bristol, BS1 6TP.

TLT LLP is authorised and regulated by the Solicitors Regulation Authority under ID 406297.

In Scotland TLT LLP is a multinational practice regulated by the Law Society of Scotland.

TLT (NI) LLP is a limited liability partnership registered in Northern Ireland under ref NC000856 whose registered office is at River House, 48-60 High Street, Belfast, BT1 2BE.

TLT (NI) LLP is regulated by the Law Society of Northern Ireland under ref 9330.

TLT LLP is authorised and regulated by the Financial Conduct Authority under reference number FRN 780419. TLT (NI) LLP is authorised and regulated by the Financial Conduct Authority under reference number 807372. Details of our FCA permissions can be found on the Financial Services Register at <https://register.fca.org.uk>