



UK COMMISSION FOR
EMPLOYMENT AND SKILLS

Understanding Skills and Performance Challenges in the Wholesale and Retail Sector

Executive Summary 87
October 2014

Understanding skills and performance challenges in the wholesale and retail sector: Executive Summary

Clare Vokes, Robina Boehnke

Pye Tait Consulting

Thomas Glynn, Project Manager

Dr Tim Willis, Project Director

UK Commission for Employment and Skills

October 2014



Executive Summary

Introduction

The vision of the UK Commission for Employment and Skills is to create the best opportunities for the talents and skills of people to drive competitiveness and growth. By having informed intelligence about the labour market, businesses and people can make informed decisions on skills and careers. Developing a deep understanding of the skills and performance challenges facing the UK economy now, and in the future, is integral to this vision.

The wholesale and retail sector is an important contributor to the UK economy and has been successful in achieving growth and remaining competitive, despite the economic downturn.

However, changes in technological advancements have created many challenges which in turn have consequences for the sector's skills supply and needs, and impact upon workforce development strategies.

The aim of this research was to investigate the skills requirements of the wholesale and retail sector in relation to a number of key themes and associated drivers of change (as listed below). Six themes were initially identified by UKCES along with the drivers of change, were refined through the research. The study involved a detailed literature review, data analysis and a series of depth interviews with employers and stakeholders.

Drivers of change	Key themes
Demographic change	1. Attracting talent
Technology and innovation	2. The image of the sector
Consumer behaviour	3. Employee retention and progression
Sustainability	4. Customer service management
Regulation	5. Managing innovation and technology
Globalisation	6. Business development, sales and marketing

The wholesale and retail sector

According to the Office for National Statistics (ONS) the retail sector generated a General Value Added (GVA) of £144bn in 2012, constituting 15 per cent of the UK total, making it the second-largest sector after manufacturing.

Despite a dip in 2009, the recession has not hindered retail sales with total industry turnover increasing year-on-year. There are over 358,000 businesses in the sector in the UK, providing a total of 4.87 million jobs making it the largest sector in the economy by employment. The wholesale and retail sector comprises three discrete subsectors:

- the retail subsector is the largest by a variety of measures (see below). Businesses in this subsector are involved in the distribution of merchandise to the public, with the exception of motor vehicles;
- businesses in the wholesale subsector provide goods (except for motor vehicles) to business or brokers, often retailers;
- finally, businesses in the third subsector are involved in the wholesale and retail trade and repair of motor vehicles and motorcycles

These three subsectors have a similar purpose of selling products; therefore, they are all included in this report and analysed jointly. Any differences between the three subsectors uncovered in the research are discussed in appropriate sections.

Characteristics of the sector

Over 50 per cent of businesses are classified as operating in the retail subsector. Across all subsectors 88 per cent of businesses are characterised as 'microbusinesses', employing nine employees or fewer.

In 2012, the sector workforce accounted for 15 per cent of all UK jobs. The number of jobs declined during the recession by 6 per cent between March 2008 and June 2011 (its lowest point) however it was not as hard-hit as some others. The sector is now slowly recovering, with 2 per cent more jobs in March 2014 compared to June 2011.

In terms of its skills profile, the sector has a workforce with relatively low levels of qualifications compared to others: only 22 per cent of the workforce holds a qualification at QCF Level 4/SCQF Level 8-9 and above.

Skills and training profile of the sector

According to the 2013 UKCES Employer Skills Survey (UKCESS), average rates of hard-to-fill vacancies and skills shortage vacancies in the sector compare favourably to those found in the whole economy. However, the automotive retail subsector in particular, as well as small businesses across all three subsectors, has difficulty finding suitable applicants. Hard-to-fill vacancies are most commonly found amongst skilled trades occupations and associate professional occupations. When looking at skills levels of the currently employed workforce, sector employers reported slightly higher than average rates of skills gaps compared to employers across all other sectors combined.

The wholesale and retail sector provided less training for its staff over the 12 months prior to the UKCESS compared to businesses in other sectors; this was also supported by the findings of the literature review and primary research for this study. On-the-job training is most prevalent in the wholesale and retail subsectors, whilst employers in the automotive retail subsector most typically provide off-the-job training. The comparison between the four nations revealed that employers in Scotland proportionally engage slightly more in training, than the other nations, while employers in Wales engage slightly less. However, the greatest predictor for engagement in training is the size of the business. Employees of microbusinesses are receiving less training than employees of larger establishments (42 per cent versus 71 per cent of employees, respectively).

Drivers of change

Mirroring the situation for the economy as a whole, the sector is currently experiencing demographic changes. As a result of the UK's aging population there are comparatively fewer young people available to enter the workforce. This will affect the wholesale and retail sector in particular as 63 per cent of all 16-18 year olds in employment work in the sector. To add to this, areas of low population density have, and are continuing to, suffer from out-migration of young workers.

Advances in technology and innovations, such as online, multi-channel and omni-channel retailing¹ are proving a challenge to businesses due to the changing and fast pace of developments. The introduction of new technology-based services demands changes to the structure of businesses in order that they can satisfy consumer demand for quality, price and speed of delivery. In response, companies are also using advancements in technology in other areas of the business. For example, marketing strategies are increasingly incorporating internet and social media-based channels. In order for businesses to provide a consistent brand experience and customer service, multi- and omni-channel retailing is becoming increasingly important. In addition, the introduction of in-store technologies requires a diversified and higher-level skills base in shop-floor staff.

The technological advances, along with innovations being made by some companies are fostering changes in consumer behaviour. Consumers are changing their shopping habits and this is reflected for example in the spread of the Research Offline Buy Online (ROBO) phenomenon. Due to widespread use of the internet, customers are also increasingly better-informed and discerning about their purchasing and companies are having to work harder and smarter to find innovative solutions and retain customer loyalty.

Additionally, companies are driven to more sustainable business models and processes, partly because of legislation regarding, for example, packaging waste, energy, and water efficiency. More efficient, and increasingly automated, supply-chains are driving retailers to collaborate and innovate. In the automotive subsector, the growing popularity of hybrid and electric vehicles is changing the skills and knowledge requirements of sales staff as they face more knowledgeable and sophisticated customers.

¹ Multichannel (or "Omnichannel") retail is selling and fulfilling retail goods and services across more than one sales and fulfilment channel, including physical stores, online commerce (fixed or mobile), telephone and catalogue selling. Choosing, purchasing and receiving are increasingly being integrated in a seamless experience for customers, who can perform different parts of the process in different combinations to suit their needs and preferences. BIS, A Strategy for Future Retail: Industry and Government Delivering in Partnership, (BIS October 2013).

Omni-channel retailing is best described as the appearance of a seamless customer experience navigating through all available retailing channels. It is considered as an evolution of multi-channel retailing, offering a more connected approach to improve the customer experience and improve customer loyalty and engagement.

Regulations, such as the European carbon reduction targets, challenge companies of all sectors to reduce the carbon footprint of their business processes, and in the case of the automotive subsector, of their products as well. Consumer demand is also a key factor in the drive for the development and improvement of ultra-low emission vehicles, and in the development of environmentally-friendly products more generally. The introduction of online retailing exposes businesses to international markets and associated legislation regarding e-commerce. Not only is legislation on the international level impacting on businesses, but also on UK legislation. Knowledge of the buyer's own nation's online trading law is essential for staff responsible for sales conducted over the internet.

As international markets open up and retail trade becomes steadily more global, this will have a major impact on the specialist skills needs of staff working in the sector. The importance of global supply chains cannot be understated when delivering products and resources quickly, but it does mean that customer service staff in online retailing will have more immediate exposure to international customers possibly demanding language skills. Employees will also need an understanding of cultural norms and differing customer needs and preferences.

Employment and qualification needs

According to the latest Working Futures report 2012-2022, the wholesale and retail sector is expected to experience net employment growth of almost 4 per cent over the ten years from 2012 to 2022 and in response to that, and replacement demand, over 2 million people will need to be recruited by 2022; particularly in customer service roles, followed by managerial occupations, professional and associate professional and technical occupations. In comparison with the skills profile of the sector as it stands now, moving towards 2022 there will be far greater demand for qualified workers, especially at QCF Levels 4-6 (SCQF Levels 8-12).

The drivers of change, together with the impact of predicted employment and qualification needs, presents a challenge for the wholesale and retail sector in terms of its future skills priorities. These priorities have been distilled into six key themes, presented in the table on the following page. Summarised under each key theme are the main findings from the interviews, literature review and data analysis, as they relate to the drivers of change.

Key themes for the future regarding skills and performance challenges

Attracting talent	Image of the sector	Employee retention and progression	Customer service management	Managing technology and innovation	Business development, sales and marketing
<ul style="list-style-type: none"> • High demand for skills in IT and web-related areas, analytics, big data management as well as commercial skills. • Young people with these skills are attracted to industries other than retail. • 'Traditional' recruitment channels are effective for lower-level roles. • The wholesale and retail sector will need to review its recruitment strategies to compete with other sectors for high level roles. 	<ul style="list-style-type: none"> • Some larger businesses have introduced schemes and initiatives to improve the image of wholesale and retail careers, to improve staff satisfaction and reduce turnover rates. • The image of the sector is still a significant challenge for many (smaller) retailers in attracting the right sets of skills. This is evidenced in the findings of the UKCESS. • A lack of appropriate careers advice is blamed as one factor, with little information available on less 'visible' retailing roles and the urgent need for ICT, technology and webdesign skills and qualifications in the sector. 	<ul style="list-style-type: none"> • Retention is a challenge in certain roles where the market is competitive, employees tending to move for little differences in wages, in particular: motor vehicle technicians; drivers in wholesale and logistics; sales assistants. • A lack of training compounds the problem, together with limited progression routes in small companies. • Businesses can find it easier to promote workers, rather than attract talent from outside the business, but a lack of training means that once in management positions these individuals can find themselves lacking necessary skills. 	<ul style="list-style-type: none"> • Customer service staff will need to operate in multiple channels. Customers will expect a higher-level and consistent shopping experience, in store and in all other channels, and the customer service strategy will need to be anchored at the top of the company to achieve that. • Customer service staff will also need a higher level of product knowledge, as customers are becoming more knowledgeable. • All of this will impact on and challenge the managers of customer service staff, as they need to engage and motivate the workforce, as well as provide up-skilling. 	<ul style="list-style-type: none"> • The inclusion and pervasiveness of new technology leads to new skills requirements in 'shop floor' staff and those managing them. • Leaders are expected to be entrepreneurial in their exploitation of new technologies, from managing supply chains to cross-channel integration and marketing. • Demand for workers with appropriate digital commerce, social media and web expertise is increasing. Managers in smaller businesses need ICT-related skills to take advantage of new opportunities, with new skills focused on innovations concerning new working practices. 	<ul style="list-style-type: none"> • Marketing approaches have developed to increasingly incorporate consumer endorsements, through a multitude of channels. • Online forums and symbol groups are being used by smaller companies to benefit from business support and information exchange. • Sales data is becoming more precise and transparent, requiring increased sales performance to meet targets. • At a strategic level planning becomes more complex, affecting business development, recruitment and responding to changes particularly considering the pace of change of technology.

Implications

Based on analysis of skills and performance challenges, the research has identified a number of implications the sector is advised to address in order to maximise future opportunities for prosperity and growth.

Business models and globalisation

As businesses focus more on multi-channel relating, new business models are emerging, perhaps the most complex of these being omni-channel retailing. This requires staff with a diverse skill set and the adoption of business models that promote the same standards of customer experience across all modes of wholesale and retail. Support and partnership working by sector bodies, employer organisations and providers for businesses of all sizes is required.

This business diversification combined with the exposure afforded by the internet creates real opportunities for businesses in the sector to expand into new, overseas markets. This will require new higher-level business skills to identify opportunities, language skills and knowledge of other cultures and business practices, combined with the ability to extend supply chains internationally. Retailers could benefit from the opportunities afforded by international growth to simulate interest in export.

Technology

Customer data is acknowledged as being underused within the sector and businesses are aware of the need to develop the skills of their employees to take advantage of new opportunities for marketing. The impact of technology is felt across all subsectors: in wholesale appropriate skills will be required to manage the ever more technical processes of stock-management and supply systems. In the automotive retail sector, the integration of new technologies into vehicles and a focus on low emissions vehicles requires knowledge of these evolving technologies and the carbon reducing targets driving them. Knowledge and skills will need to be regularly refreshed through appropriate top-up and Continuing Professional Development (CPD) training.

Attracting young people

The sector has long experienced difficulty in attracting graduates. Overcoming this challenge will intensify in importance as the demand for well-qualified (QCF Levels 4-6/SCQF Levels 8-12) individuals grows. The challenge is further compounded as the sector will be competing with other sectors seeking to attract graduates in IT-related disciplines as well as data-analytics, finance and business management. The management and analytics skills demanded by employers could usefully be embedded into existing programmes such as Higher Apprenticeships to ensure training meets employer need.

As wider skill sets are required and as an ageing population leaves a smaller pool of school leavers, wholesalers and retailers will need to be more outward-looking in their approach to recruitment. This will involve seeking to attract older workers from other sectors, as well as graduates, and school leavers, rather than relying on traditional internal progression routes.

The perceived negative image of careers in wholesale and retail – characterised as long hours, low pay and little opportunity for progression – could usefully be addressed by showcasing to potential entrants the changing face of the sector. Careers advisers require up to date recruitment information to illustrate how the sector is changing, and the new opportunities this brings, as well as efforts to raise the profile of less visible roles, such as management, marketing and e-commerce.

Issues associated with the negative image of the sector affect staff retention, mean that potentially good staff can be lost to other careers. One way of overcoming the challenge is to encourage the sector to invest more in training. Not only could this help to improve the sector image and improve recruitment and retention, it is vital for progression and productivity. Showcasing effective mechanisms and interventions that have been successfully employed by those firms who do train, could help companies to improve retention rates.

Training

Most of the hard-to-fill vacancies in the sector are caused by skills shortage vacancies, and these are more commonplace in SMEs than in larger businesses. The sector could usefully be encouraged to invest in training, particularly in managerial roles which are often filled from within the business. Other priorities for training, identified by employers contributing to this research and confirmed in the data analysis include:

ICT skills: a fundamental need for all levels of staff, particularly considering the low levels of general computer literacy reported;

Technical and product knowledge: businesses increasingly need to invest in developing the product and technical knowledge of their staff as customers become more knowledgeable and discerning;

Customer service and support skills: changes in consumer behaviour demand market segmentation knowledge to inform better customer service, both in customer-facing and virtual environments;

Managerial and leadership skills: excellent customer service management, technology management and general business management skills are required to address the changing business models seen in wholesaling and retailing businesses.

Employers may be encouraged to see the value that investment in training can bring by learning lessons from other trusted sources of information such as similar businesses. Case studies and strong messages on the benefits of training remain important.

Executive Summaries present the key findings of the research produced by the UK Commission for Employment and Skills. More detailed analytical results are presented in Evidence Reports.

UKCES
Renaissance House
Adwick Park
Wath-upon-Deerne
Rotherham
S63 5NB
T +44 (0)1709 774 800
F +44 (0)1709 774 801

UKCES
Sanctuary Buildings
Great Smith St.
Westminster
London
SW1P 3BT
T +44 (0)20 7227 7800

This document is available at
www.gov.uk/ukces

ISBN 978-1-908418-67-8
© UKCES 1st Ed/10.14