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## Online shopping and business

# All that is solid melts into air

**Britons do more of their shopping online than almost anyone else. The move to cyberspace is shaking up retail—and many other industries besides**

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BRITAIN, Napoleon once supposedly scoffed, was “a nation of shopkeepers”. Nowadays it is a nation of online shoppers. The British do a greater share of their retail spending online than almost anyone (see chart). And, in spite of the prospect of Brexit, the industry has been growing fast this year. By 2020 online sales could rise by almost 50% to reach £63bn

(\$74bn), according to one recent forecast. The transformation in the way households do their shopping is squeezing some industries, while creating whole new ones.



One reason for the take-off of e-commerce in Britain is its geography. Its 65m people are crammed into an area the size of Oregon. From warehouses in central England such as Amazon’s cavernous Peterborough site (pictured), lorries can deliver to almost any household within a day. Another is the penetration of smartphones, which account for a growing share of purchases. IMRG, an industry association for online retailers, reckons that sales through smartphones in Britain increased by 90% from January to September. “Black



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Friday”, an American pre-Christmas discounting frenzy which has crossed the Atlantic, is expected to see online orders reach new heights on November 25th.

To succeed in this new game, retail companies have had to become logistics companies. E-commerce relies on parcel management. The number of packages dispatched around the country rose by 13% in just the first nine months of this year. IMRG says that this year British retailers will send out 1.2bn parcels; in 2014 the figure was 920m. The once-ailing Royal Mail, which delivers most of Britain’s post, has been saved largely by its parcel business.

For years the standard internet model for bricks-and-mortar retailers such as John Lewis has been to set up a giant distribution warehouse (or “fulfilment centre”) in the Midlands, from which fleets of lorries deliver online purchases. The growth in e-commerce has contributed to a rise in the number of warehouses, which now cover 40m square metres (424m square feet) of the country. But the model is evolving. To stand out in a crowded market, e-retailers are competing aggressively on reducing delivery times and windows. On November 16th

Morrisons announced that Amazon would begin delivering orders from its supermarkets to customers in and around London within the hour. The desire to provide rapid-delivery services like this is creating demand for warehouse space on the edges of big cities, to be nearer to customers.

Online retailers have other reasons for wanting to be close to cities. Graze, a snack-delivery firm set up in 2008, bought a unit in Hayes, west London, in 2012. Two million little punnets of food are made up on-site every week from imported ingredients and then shipped to customers in Britain and America. “We are really a tech company,” says Tom Carroll, the chief operating officer, so the company has to be within reach of the tech community in east London. He employs about 30 people to devise the algorithms that track his customers online, to anticipate demand and to ship the punnets out in the most efficient way.

One consequence of this, argues Kevin Mofid of Savills, an estate agent, is a mismatch between the supply of and demand for warehouses like Graze’s on the edge of London. The political priority is to build homes, which has limited the potential to increase warehouse capacity. Warehouse rents have risen by 17% over the past six years in London, and by 11% in the south-east more generally, squeezing the margins of e-retailers. One idea is to start building mixed developments of homes, industrial space and warehouses. Barratt, a housebuilder, and Segro, an industrial-property developer, have proposed such a plan for another site in Hayes.

Margins are being pinched further by the legal requirement for online retailers to accept returns from customers within two weeks of sale (which high-street shops are under no obligation to observe, though many do anyway). Generally, about 6% of items are returned, but this can rise to as much as 40% in clothing. This adds further to firms’ costs. But returns now constitute a booming logistics business in their own right. Companies such as iForce now run specialist returns services for retailers such as Tesco and B&Q. Returns make up about a quarter of iForce’s overall logistics business (worth £60m a year), says Neil Weightman, a director.

With most of the big supermarkets now running successful home-delivery services, the roads are ever more clogged with delivery vans. The number of miles travelled by such vehicles rose by 4% last year, while overall traffic increased by only 1%. Such is the demand for deliveries that there is now a shortage of 45,000 drivers, according to the Road Haulage Association, a lobby group. The work is arduous and poorly paid, with delivery companies competing fiercely on cost. Trucking has thus become another bottleneck. The industry hopes that driverless lorries will one day transform the business. The government announced earlier this year that trials would start on Britain’s roads in 2017.

As more people shop from home, physical stores are being closed and shop assistants laid off. The retail industry could shed as many as a third of its 3m or so jobs by 2025, according to the British Retail Consortium, a lobby group. Some shops have been reborn as “brand

experiences”, to excite people about a product rather than merely to sell it. M&M, a chocolatier, has opened a vast emporium in central London, for customers to sample the “world” of M&M. In a few cases, online retailers have set up bricks-and-mortar stores: last year Boden, a mainly online fashion brand, announced that it would open a string of new physical outlets in Britain and America.

As Andrew Mulcahy of IMRG says, this is just the beginning of the online shopping revolution. There will be plenty more surprises, and many of them will come to Britain’s click-happy consumers first.

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