eRPUK 2003

eCommerce and Retail Property in the UK: Third Annual Benchmarking Survey

Research report

October 2003

Authors:
Andrew Marston
Dr Tim Dixon

Whiteknights, Reading, Berks, RG6 6AW
Tel: 0118 986 1101
Fax: 0118 975 5344
email: research@cem.ac.uk
http://www.cem.ac.uk
Acknowledgements

Our thanks are owed to the following:

- All respondents and interviewees in our 2003 survey
- The marketing and website teams at both Meadowhall Shopping Centre, Sheffield and The Oracle Shopping Centre, Reading.
- The RICS Education Trust for funding the research.
Executive Summary

Key points

• Access to the Internet in the UK has continued to grow, although at a slower rate than in previous years. Some 47% of households are now online, compared to around 13% in early 1999. There is now evidence to suggest that broadband access is driving the growth in access now. Indeed this sector of the Internet service provision market is the fastest growing.

• Overall, our eRPUK 2001 survey reveals there has been a general relaxation regarding the impact of eCommerce on the retail property market. Responses are very similar to those from the 2001 survey, suggesting that the perception of the eCommerce as a threat to traditional retailing has eased substantially since 2000.

• Customer fulfilment and security issues remain the most important barriers to eCommerce growth. Other barriers have diminished in their importance over the last twelve months (for example bandwidth limitations). Indeed 74% of respondents felt that delivery and collection issues would become increasingly important.

• Banks and travel agencies are seen to be most at risk by respondents, although the overall threat is seen as being lower than in previous surveys.

• Comparison retailing is considered to be most at risk by respondents, particularly in secondary areas. This suggests that a polarisation of retailing could still be possible. Large cities are viewed to be the locations which are likely to weather any storm from eCommerce.

• Growth rates needed to fulfil online shares in the UK by 2005 have risen because of rapid growth in eCommerce over the last 2 years.

• New types of response to eCommerce are now being seen within the UK shopping centre market. A number of large UK centres have launched online stores over the last 12 months. These share characteristics of ‘hybrid’ models of eCommerce seen in the USA.

• Two models have emerged in UK shopping centres. One is ‘centre-led and operated’, designed for retailers with no existing online presence but with units in the shopping centre. The other is ‘brand-led’, where the centre buys in proprietary software to created a branded shop that requires the retailers have existing eCommerce operations.

• Questions remain over the long-term future of such schemes. All are still being tested at present, but should such service become more common there may be changes for the landlord and tenant relationship. Would the conditions of such schemes therefore become an intrinsic part of the lease contract, in effect creating ‘wired leases’?
What is different in 2003 compared with 2001?

This report presents the results of the third in a series of benchmarking surveys of retailers and retail property investors into their views on eCommerce and its implications for the retail property market in the UK.

Our three surveys have been able to track changing attitudes towards eCommerce amongst key players in the retail sector. The main overall change has been a major cooling-off in the negative perception of eCommerce amongst respondents between the 2000 and 2001 surveys. This has been followed by a period of further cooling-off between the 2001 and 2003 surveys, but less pronounced. The most recent survey has revealed the following key themes:

- Most retailers have websites and nearly half have transactional facilities on those websites. There is little evidence to suggest that mail order catalogue operators lead the way in eCommerce. Retailers without mail order enterprises are just as likely to move into eCommerce.

- Customer fulfilment and security issues remain the most important barriers to eCommerce growth. Other barriers have tended to reduce in importance (for example, not enough consumers online and limitations in bandwidth). For the future it is likely that these other barriers will continue to decline in importance as more people go online, broadband connections become more mainstream and powerful 64-bit PCs become available for general consumer purchase. Forecasts by Verdict (2003) suggest this could lead to an increase in the market value of online shopping with a major surge taking place between 2004 and 2006.

- In line with these forecasts, respondents consider that any impact from eCommerce on retail property values will not be seen in the short to medium term. Instead, any change will take place over the longer-term (up to and over 10 years) or not at all.

- Around half of respondents are considering adding to their existing retail floorspace, principally by opening new stores.

- Retailers and investors are now more relaxed about the possible impact on rents and yields.

- Banks and travel agents are seen to be most at risk by respondents, although once again the risk level has fallen. In most cases the 2003 results correspond closely with the 2001 findings. However, for some property types (prime standard shops and retail warehouses for example) the risk score has increased since 2001, although they are still below the 2000 levels.

- Comparison retailing is considered to be most at risk by respondents, particular in secondary areas. This suggests that a polarisation of retailing could still be possible. Convenience retailing is seen to be least at risk, with large cities being most in favour for all respondents.

Scenario analysis

Our scenario analysis shows that the growth rates needed to fulfil online shares by 2005 have increased since the last survey of 2001. This shows that online sales growth has slowed over the period 2001 to 2003. Using Verdict data as a base, the compound annual growth rates required to reach different online shares by 2005 have increased since 2001. This shows a cooling in growth therefore between 2001 and 2003. In order to reach a 2.5% online share over the period 2002-2005 a growth rate of 24% per annum is required, an increase from 17% per annum in 2001. The compound annual growth rates needed for 5% and 7.5% shares are higher still (56%
pa and 79% pa respectively). The pattern of slowing growth in online sales is therefore re-enforced.

The shopping centre response

As part of this year’s study we have examined recent initiatives by some UK shopping centres. These have involved the development of online stores, branded in the fascia of the shopping centre. To date we are aware of four UK shopping centres (Meadowhall in Sheffield, Trafford Centre in Manchester, The Oracle in Reading and West Quay in Southampton) that have introduced online stores. Two models for online position appeal to be emerging. These are:

- The centre-led approach: In this model, the shopping centre itself builds and operates the online store. They only feature retailers who are also tenants in the physical centre. Orders are handled by a central depot on site, which also doubles-up as the main store for supplying goods to retailer’s shop floors. Staff, employed by the centre are responsible for ensuring which products are featured on the site. They are also responsible for fulfilling orders. Payment and delivery are handled by the centre managers. This is the model used by Meadowhall Shopping Centre in Sheffield where the retailers appearing on the site had no previous online transactional presence.

- The brand or marketing led approach: In this model a third-party software provider supplies the shopping centre with proprietary software that allows users to gather prospective purchases from different retailers into a single shopping basket. Retailers are recruited by the third-party and may or may not have units in the centres concerned. The online shop is then branded with the centres colours and logo. The software behind the website enables orders to be made from a number of retailers in a single transaction. However, orders are fulfilled separately by the individual retailers concerned. The system is only suited to retailers with an existing online store that can be made compatible with the proprietary software.

In these schemes both the centre and the individual retailers can benefit by increased revenues and an enlargement of their catchment area. However, depending on the success of these schemes, the first approach may only be restricted to those large centres (such as the regional shopping centres) that have the economies to scale to deliver. The other model is more brand-led and involves the centre subscribing to a service that brings together existing online retailers and providing a front-end to the online retailing experience. The benefits of such a service are principally marketing oriented for the shopping centre, but such a set-up could encourage more people to shop online by providing a one-stop shop for a variety of different products.

The big question about these initiatives, should they be successful, is how landlord and tenant relationships will change. Will future lease agreements for shopping centre units include clauses pertaining to online sales through the centre’s website? Would revenues through the centre’s website count towards a retailer’s income when turnover leases are calculated? These will be important questions to address in the future.

About the research

Previous research by The College has highlighted the importance of tracking eCommerce and its impact on retailers and investors/developers in the retail sector. This is the third in the eRPUK series of benchmark studies (previous surveys having
been conducted in 2000 and 2001). The latest 2003 survey includes a common cohort of respondents from previous surveys.

**Research funding**

Our thanks are owed to the RICS Education Trust for funding this research.
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1 Introduction

1.1 Background to the research

Previous research by The College has been carried out in 2000 and 2001 to benchmark and track the impact of ecommerce on retail property. This resulted in the publication of two reports (Dixon et al., 2001; Dixon and Marston, 2002), and both research projects have been co-funded by RICS Education Trust. The 2001 ‘Ecommerce and Retail Property in the UK’ (eRPUK) Survey revealed a cooling in sentiment from the ‘cohort’ of respondents (Retailers and investors/developers) towards ecommerce since 2000. Nonetheless, certain categories of property were seen at still being at risk, with consequent implications for retail floorspace in towns and cities.

Moreover, despite the recent demise of dot.coms, other research shows (Verdict, 2002) that online retailing makes up a small but increasingly significant share of UK retail sales. Recent statistics suggest that the rapid growth of the Internet and associated technologies in the UK is having an important and specific impact on retailing. In the UK in 2001, for example, about 1.5% (£3.3bn) of national retail sales were online (Verdict, 2002) with a compound annual growth rate of some 142% from 2000, so that national sales are forecast to grow to 5.6% by 2006. Between 2000 and 2001 the number of online shoppers in the UK doubled from 4m to 8.2m, with an average spend of £367 pa. Official UK Government statistics also suggest some 32% of UK households now have online access.

Consumer research reveals that significant numbers of people perceive key benefits from shopping online, such as convenience, reduced time, and price transparency, particularly in certain sectors (Ernst Young, 2001). The emergence of online shopping as an adjunct to (and, some would argue, a replacement for) mail order and catalogue shopping has reinforced the role of the home as a specific focus of contemporary consumption (Wrigley and Lowe, 2002). At the same time, online shopping from the workplace is now possible for many consumers. These changes are likely to have important implications for the spatial and temporal patterns of store-based retail consumption and production in urban areas. Also, retail margins are already small, in some cases of the order of 2–3% (De Kare-Silver, 2001). In these circumstances conventional ‘bricks and mortar’ retailers are relatively vulnerable to small shifts and reductions in the number of people preferring to shop online rather than visit conventional stores.

The strategic response of retailers has been a trend towards an integrated ‘bricks and mortar’ channel mix combining the best of both worlds. In the same way, shopping centres have also attempted to put in place a strategic response to eCommerce that would enable retailers within the centre to enjoy the benefits of

Recently the geographic and spatial impacts that eCommerce may have on urban areas have been recognised by the DTLR Property Advisory Group (Property Advisory Group, 2002). These pressures from eCommerce come at a time when the trend toward retail decentralisation ostensibly has been arrested by such policy initiatives as PPG6, which encourages town centre redevelopment rather than out of town development. The Government has also made it clear that it wishes to stimulate regeneration of town centres using a neighbourhood renewal approach, which underpins the key policy concept of sustainable development. A crucial element of this is the expansion and retention of key service functions in town centre locations

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1 By 2002 (Verdict, 2003) the share was 1.4%.
which, it is argued, promotes and maintains access to consumption networks for deprived, transport-poor communities, whilst simultaneously reducing the use of and dependence on private transport. These developments must be viewed in the context of continuing market-driven changes in the spatial distribution of shopping space. For example, there is a continuing consolidation trend towards retailers locating in the best locations in prime regional locations, followed by district centres, followed by local and secondary high streets (Verdict, 2002). A key problem for retailers has also been that although many have expanded store numbers and space, their markets have moved towards maturity and the growth in demand has slowed. In turn, potential saturation may occur (see (Duke, 1998; Guy, 1996), with repercussions for floorspace mix.

There was therefore a need for a further benchmark survey to be conducted in 2003, which would enable further comparison with the two previous surveys co-funded by the RICS Education Trust.

1.2 Aim/Objectives

The overall aim of the continued benchmark research were to extend the existing research into a further annual UK survey carried out in 2003.

The new research is therefore intended to provide:

- Background and context to eCommerce trends in UK and Europe;
- An up-to-date survey of how eCommerce is impacting on UK retail property, comparing new results with previous years' results;
- A better understanding of how eCommerce is shaping UK owners' and occupiers' future retail property needs and requirements in comparison with those overseas;
- A clearer view of those retailers who are most likely to be affected and how strategic real estate decisions are being made to manage the resultant changes;
- An analysis of the drivers and barriers shaping the impact of eCommerce of real estate in retailing; and,
- An analysis of the strategic response of shopping centres to eCommerce.

1.3 Format of report

The report is arranged as follows:

- **Section 2 - Background and Context.** This examines some of the current and most important trends in eCommerce in UK and Europe.
- **Section 3 - eRPUK 2003 Results.** This section analyses the results from the retailers' and investor/developers' questionnaire survey. Further empirical work is presented on 'Scenario Analysis' of eCommerce growth over the period 2003-2005.
- **Section 4 - Shopping centre strategies.** This is a special section for the 2003 report that investigates new and innovative forms of business-to-consumer eCommerce being developed by major UK shopping centres. It discusses their place within the marketing remit of centres.
- **Section 5 - Conclusions.** Full conclusions and a summary of the main themes emerging from the results are presented.
2 Background and Context

2.1 Introduction

From 1999-2003 attitudes towards eCommerce within the property industry have fluctuated dramatically. This period was characterised by extreme views on the subject ranging from ‘hype’ to ‘apocalyptic predications’ (Nicholson et al., 2002:131). Over the last three years, since 2000-2001, and the end of the period of hype, there has been major consolidation amongst Internet businesses, including online. In total, since the beginning of 2000, there have been 962 Internet company closures and a further 3,900 mergers and acquisitions of Internet companies (Webmergers, 2003). In the retail sector many of these have been acquisitions made by high street retailers. Examples in the UK include the purchase of online electrical retailer Jungle.com by Great Universal Stores in September 2000, the purchase of buy.com by John Lewis Partnership in February 2001 and the development of a strategic partnership between Gameplay and Dixons Group.

This section of the report briefly outlines the current eCommerce trends in the UK and in Europe to set our results in context.

2.2 eCommerce trends in the UK

A feature of the hype surrounding eCommerce that was witnessed some three to four years ago was the growth in eCommerce and Internet related statistics. Many of these datasets were very short term, and have not survived through to the present day. A good example is the Forrester Online Retail Sales Index. There are, however, some data series that have continued and provide a useful indication of the changing nature of Internet usage in the UK and elsewhere. It is therefore worth examining these trends in more detail.

Verdict (2002) report for example that in 2002 UK retail online sales totalled £3.3bn, accounting for 1.4% of total retail expenditure. This represents market growth of 10.4%, a level that outperformed total retail expenditure growth of 4.3% but reflected a bedding down of consumer demand in the online market. In comparison, in the USA in 2002 total eCommerce sales grew by 26.9% from 2001 whereas total retail sales in 2002 increased 3.1 percent from 2001.

Internet access within UK residential households has risen gradually over the last five years from 9% of households towards the end of 1998 to 43% by the end of 2002 (National Statistics, 2003a). This represents an increase from 2.2m to 11.4m households over the last five years. However growth in the proportion of households that are online seems to have plateaued. This is confirmed by data from two other sources (Oftel, 2003; Verdict, 2003) both which show a levelling off over recent months. Importantly Oftel (2003) data now suggests that most households that own a personal computer (PC) now have access to the Internet. As of November 2002, 80% of households with PCs also have an active Internet connection. This compares with a level of 32% in January 1999. Therefore any future growth in the online population will now have to come from households entering the computer market for the first time. Those not currently online tend to share one or more of three characteristics, namely:

- Older consumers (55+)
- Lower income groups
- DE social grades
Online shoppers, in terms of spend, are dominated by those aged between 35 and 44. Verdict (2003) report that they alone were responsible for over £1bn of spending in the last year and make up more than a quarter of all Internet shoppers. This age group is considered to be the most valuable at present because of its high disposable income and high levels of computer literacy. However, Verdict suggests that this pattern could change in the years to come. At present 15-24 year olds are the most frequent online shoppers (7.4 ‘trips’ per year on average) but they have the lowest spend per trip (£45). This is mainly due to a lower disposable income and reduced access to credit facilities. As this group ages, so their importance should increase with increase income and a very high familiarity and acceptance of computing and the Internet. Indeed as Delaney-Klinger et al (2003) suggest:

‘As future generations continue to become more computer literate than those who came before them, it is also likely that offering the online option will become more of an expectation, a sort of order qualifier’

Figure 2.1 Growth of household Internet access in the UK (1999-2002)

National Statistics have also been collating data on the number of Internet connections in the UK. The monthly data series is based on a survey of Internet Service Providers (ISPs) of which a high response rate is received (82%). National Statistics (2003b) are still developing the data series and its operation. It is therefore often revised to take account of new estimating techniques of further evidence they receive from ISPs regarding connections. The data has been indexed from a base level in January 2001 and shows some interesting trends in the number of connections to the Internet. The index measures subscriptions that were active in the month in question, therefore disregarding accounts that have become dormant but may still be registered.

The Internet connectivity data shows the growing importance of broadband services. Although these cannot be regarded as mainstream technologies at present, there are
forecast to be important drivers for eCommerce in years to come (Verdict, 2003). Given the current trends and the heavy marketing push behind broadband services by UK ISPs and telecommunication companies, this is a realistic outcome. Figure 2.2 shows how Internet connectivity in the UK has changed over the last two years. Permanent (broadband) Internet connections are becoming increasingly important. In January 2001 they made up less than 1% of Internet subscriptions, but by March 2003 they constituted nearly 14% of subscriptions. The bulk of this growth is from user transferring from dial-up accounts to permanent connections. Over the six months from October 2002 to March 2003, the monthly growth rate for all Internet connections was just 0.25%. The number of dial-up connections have fallen by 0.72% on average, while permanent connections grew by 8.76%.

**Figure 2.2 Dial-up and permanent Internet connections (2001-03)**

Despite these trends there still remains a digital divide within the UK which has been an important focus for research. The UK government has a stated aim of ensuring that for all those who want to be online can and will be by 2005 (KPMG Consulting, 2002; OeE, 2003). As part of this strategy there has been a concerted push to make more central and local government services available online. This target seems to have spurred a growing interest by researchers in the social equity issues surrounding Internet access. There has been growing concern that some sections of society have and will increasingly be left behind as Internet technology advances and becomes more ingrained into everyday life leaving an underclass lacking the appropriate skills to access services, including public services – the so called ‘digital divide’. Foley et al. (2002) define the digital divide as:

‘the disparity between those who have use of and access to information and communications technologies and those who do not’

So although access is becoming cheaper and more households and individuals are using the Internet at home, there remains a part of society excluded from Internet use. As Forstater et al (2003) exemplify:

‘Digital exclusion has become a real disadvantage … for children unable to use the Internet to research homework projects, people unable to take advantage of lower prices available online and small business unable to get a broadband line because of their geographic location.’
It should be remembered that not all those who are not connected to the Internet are so my choice. A substantial number of people are just see no purpose for being connected to the Internet and are consequently not interested. In part this is due to a lack of compelling content online and a failure by the public sector to deliver on the online projects promised, but it is also due to the perception that the Internet is a complex technology rather than an essential tool for everyday life. Data from National Statistics (2003a) shows that 39% of adults have never used the Internet, of which over half (57%) had no need or interest for it and 39% felt they lack knowledge or the confidence to use it. In the same survey 60% of non-Internet users said they had consider using the Internet, but are unlikely to do so in the future.

Part of these patterns can be explained by age and income profile of Internet users, which is skewed to younger and middle age groups and higher income groups. Figure 2.3 shows survey data from May 2003 data on Internet access at home disaggregated by age, social class, household size and income (Oftel, 2003). What can clearly be seen is that access falls away substantially with age: only 22% of 65-74 year olds have Internet access compared to 63% of 35-44 year olds. Similarly lower social classes have lower rates of access: 73% of AB households have access compared to 23% of DE households. This is echoed in the income data which shows that over three-quarters (77%) of household with over £30,000 income per annum have Internet access. This compares with just 24% of those with an income of less than £17,500 per annum.

Figure 2.3 Internet access at home (Oftel, 2003)

However, universal Internet access is seen as extremely important by the government, principally because it legitimises much of the developments being made by in relation to online service delivery (Tambini, 2000). In turn such universal access should also provide a strong base of consumers for eCommerce services and also provide the economies of scale required to make such services cost efficient for
functions such as distribution of purchases. In addition, as Tambini (2000: 10) points out, there are also issues of social exclusion:

“There are ... dangers that consumers without access to e-commerce-capable technology will be excluded from the price, quality and convenience benefits of e-commerce, much as those who do not drive cars suffered the rise of supermarkets.”

In summary, although eCommerce continues to grow there are clear signs that the digital divide continues to persist with important implications for social inclusion and participation in public and private section web-based initiatives.

For the future it is likely that these disparities will even themselves out, particularly across age groups as younger generations get older and increase their incomes. Indeed Raynard et al (2003) suggest a scenario where the divide will close as technology becomes more reliable and cheaper. Crucially it would be unlikely to change existing patterns of wealth creation and exclusion (BT, 2001).

2.3 eCommerce trends in Europe

As the European Commission (2002) point out, the retail sector is a vital cog in the wheel of economic activity in Europe. There are currently about 3 million retail enterprises in the EU, employing just over 11 million and representing a turnover of €1.6bn. Competitive forces have always played a vital role in shaping the landscape of retailing and increasing globalisation and consolidation in the sector has also tended to drive initiatives with new technology. Indeed, the diffusion of Information and communications technology drives supply chain integration and the communication of products and services with customers (European Commission, 2002). Where retail differs from other sectors is in the complexity of networking within each organisation and with other points of sale and the distribution network as a whole. The Internet has enabled retailers therefore to redefine their value chains leading to a reduction in procurement to logistics phases and store management, which leads to benefits for building customer loyalty through online sales, for example.
Such initiatives build on the success of Electronic Data Interchange in the sector, and enterprises have evolved in the EU so that about 56% of retail enterprises have their own website and 21% of companies make online sales (Figure 2.4). Indeed, on this measure, the UK led Europe. Within the EU4 countries, the survey found that 12% of companies had online sales shares of more than 50%, but 53% had a share of less than 50% (Figure 2.5).
Retailers in the survey (59%) saw the main barrier to the spread of online sales as the fact that many goods simply did not fit the typical online profile, or that customers were hesitant to buy online (56%). However, changing customer lifestyles, a single European currency and reduction in points of sale cost may further drive online migration. The availability of credit cards in some countries was also highlighted as a barrier. As Figure 2.6 shows, the UK leads the rest of Europe in terms of credit cards per thousand residents. Laggard countries in eCommerce terms such as Greece, Spain and France also have relatively low numbers of credit cards.

2.4 Conclusions

This part of the report has presented the latest picture of the state of eCommerce and Internet access in the UK and Europe. Over the last three to four years there has been continued growth in the number of households accessing the Internet. However, growth has slowed more recently as existing users have increasing switched from low bandwidth dial-up connections to higher speed broadband connections. However, despite this, there remains clear disparities across society in relation to Internet access. Internet users still tend to be young and middle class. Future expansion of eCommerce will therefore need to add new users to those currently active in the marketplace, particularly from those sections of the economy where people are staying offline.
3 eRPUK 2003 Survey Results

3.1 Introduction

Since 2000 we have undertaken questionnaire surveys of parties within the retailing sector in order to investigate attitudes towards eCommerce and its potential impact on the retail property market. Two groups have been consistently surveyed in three separate surveys in 2000, 2001 and 2003: multiple retailers; and retail property investors and developers.

This section of the report therefore presents the findings from the most recent survey in 2003 and compares the responses with those received in the two previous surveys. The world of information technology and eCommerce is a fast changing one, so it could be expected that important shifts may be discernible amongst those active in the retailing and the retail property market in just a few years.

3.2 Research Methodology

The methodology employed was similar to that used by Worzala et al (2002) and later by Dixon and Marston (2002) with modifications based on the experience of carrying out these earlier surveys. Table 3.1 summarises the extent of the three surveys discussed in this report. Two questionnaires were written that were broadly similar to those used by Dixon and Marston (2002), but with minor updates and amendments. The intention was to keep the new questionnaires largely similar in order to assist with comparisons to the earlier studies. The questionnaires for the 2003 survey are reproduced in Appendix 1.

Table 3.1 Summary of eCommerce surveys carried out at CEM

<table>
<thead>
<tr>
<th>Survey</th>
<th>First</th>
<th>Second</th>
<th>Third</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of survey</td>
<td>August / September 2000</td>
<td>November / December 2001</td>
<td>March / April 2003</td>
</tr>
<tr>
<td>Total responses</td>
<td>263</td>
<td>95</td>
<td>41</td>
</tr>
<tr>
<td>Overall response rate</td>
<td>12%</td>
<td>36%</td>
<td>22%</td>
</tr>
</tbody>
</table>

For the 2003 survey questionnaires were sent to two broad groups: retailers and property investors/developers. Contact details for retailers were based on the recipients and respondents to the 2000 study. These had originally been sourced from the Newman’s Retail Directory (Newman Books, 2000), a UK trade directory for the retail industry. As some time had passed since these were originally used, the database was cross-checked against the 2003 edition of the directory (Hemming Information Systems, 2003) to ensure accuracy. The mailing list was also supplemented by using details of large retailers who are members of the British Council of Shopping Centres. Recipients for this cohort were all in a property role within their companies. Previous recipients of the investor questionnaire were used for the second group. As with the retailers, their contact details were cross-checked for accuracy against records on Estates Gazette Interactive (EGi) and other web-based sources, including the companies’ own websites.
3.2.1 Survey results and trends over time

The questionnaire itself examines the attitudes of retailers and property professionals towards eCommerce and its relationship with the property market. By involving both retailers and property professionals it is possible to explore attitudes from the tenant and landlord perspectives. The questionnaire addressed issues such as:

- eCommerce strategies adopted by retailers;
- barriers to further growth of online retailing;
- the extent of any impact on the retail property market and retailer’s sales;
- the relative level of risk to different types of retail property and shopping locations as perceived by these individuals; and,
- future trends for eCommerce.

The results presented in the remainder of this section of the report will address these five areas, and others, using data collected from the current survey and the two previous surveys.

3.3 Research findings

3.3.1 Profile of respondents

As in previous surveys, retailers outnumber property professionals amongst the respondents. Some 68% of respondents to the 2003 survey were from retailers. The remaining 32% were from retail property investors and developers. Although the total number of responses is low, the respondents form a cohort that has responded to the previous two questionnaires, enabling a consistent comparison of results longitudinally. As shall also be shown the responses received for the 2003 closely echo the findings of the 2001.

A wide range of retailers responded to the survey. They have been classified according to the number of stores they operate from. The smallest retailer operates from just two stores nationwide, and the largest from around 1,400. Just over a quarter of the retailers have five stores or less and 36% have 50 stores or more. Most of the retailers only trade through their own stores, although two also operate franchises and/or concessions within other, larger stores. The highest number of concessions operated by a single retailer is 70. Compared with previous years there are a greater proportion of larger retailers amongst the 2003 respondents (see Table 3.2). This is principally due to the lower response rate, particularly amongst smaller independent retailers.

<table>
<thead>
<tr>
<th>Table 3.2 Store size distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001 Survey</td>
</tr>
<tr>
<td>Number</td>
</tr>
<tr>
<td>15 or less</td>
</tr>
<tr>
<td>16 to 49</td>
</tr>
<tr>
<td>50 or more</td>
</tr>
</tbody>
</table>

3.3.2 Non-store retailing operations

Some 82% of retailers have a website, although not all of these are used for sales purposes. Of those with websites 52% are used for supplying information or have
basic interactive features, and 48% are transactional. In additional one-quarter of retailers operate a mail-order service using a catalogue. All these retailers also have a website, and all but one of these is transactional. Although the sample is small, this would indicate that retailers with existing mail-order capacity can more easily transfer their operations online.

All the retailers questioned in the 2003 survey have integrated their online operations into their existing business. None of the respondents have set up a separate Internet business unit compared to just 7% in the 2001 survey. Almost two-thirds of respondents plan to expand their Internet capabilities in the next twelve months. Not all retailers gave an explanation of how they planned to expand, but of those that did, the most common reasons were:

- the need to increase the range of products available through their website;
- the need to introduce transactional features;
- the need to add functionality, and;
- a desire to redesign their website.

### 3.3.3 Barriers to future growth in eCommerce sales

As demonstrated above, published statistics on the use of the Internet and eCommerce shopping channels show that activity has recently levelled off. Despite this, analysts such as Verdict anticipate future growth of the market. These forecasts are based on the recent trends in growth in online expenditure per person, but also the anticipated introduction and widespread uptake of new technologies (see Figure 3.1). Interestingly, Verdict’s (2003) outlook is very positive and does not address any of the potential barriers to future growth that may challenge retailers. For online retailers themselves the key barriers tend to be associated with non-technological issues (Borenstein and Saloner, 2001). In particular organisations this concerns issues such as inertial forces within companies, and difficulties with compatibility with existing internal systems.

The survey data suggests that two principal barriers are perceived to exist. These are issues associated with customer fulfilment, and security issues. Customer fulfilment relates to the need for retailers to deliver goods to the customer quickly, safely and at minimal cost. Poor service here will reflect badly on the retailer, even if a third-party delivery agent is used. This is particularly true for the grocery sector where fresh produce is being delivered\(^\text{ii}\). This finding is confirmed by a later question in the survey which shows that 95% of respondents agree or strongly agree that collection and delivery issue will be increasingly important in the future. Related to this are back office concerns that an online retailer has to address, including their policies towards delivery, returns and refunds for unwanted or faulty products. Security issues are associated with the privacy of personal information, including credit card details, much of which is now covered by legislation. Figure 3.2 shows the mean responses for the three surveys. The data is measured on a Likert scale of 1 to 4, where 1 represents ‘not important’ and 4 represents ‘very important’.

\(^{\text{ii}}\) See (Delaney-Klinger et al., 2003) for details of fulfilment models used within the online grocery sector and (Hendershott et al., 2000) for shopping centre fulfilment models.
Security, although still regarded as an important barrier, has shown the greatest decrease in importance since 2000 from a mean score of 3.29 in 2000 to 2.57 in 2003. Generally, all the barriers presented to respondents have shown a fall in the mean score over the three years of the research. Interestingly the perception of bandwidth limitations as a barrier has not fallen over the study period. This could suggest that the uptake of broadband service in the home has not, as yet, reached levels that could cause a strong ripple for eCommerce sales. Indeed Verdict’s (2003) analysis argues that broadband will not penetrate the market significantly until the
second half of 2004 and will gradually build to become a mass market product during the period from mid-2004 to mid-2006.

3.3.4 The relative impact of eCommerce on retail property

The survey examined the perceived effect on retail property from eCommerce at two levels. The first was at a general level, was addressed to both retailers and property professionals and concerned to length of time for eCommerce to have some deleterious effect on property values. The second level was addressed to property professionals only and focused on particular shifts in property investment performance indicators that may come about due to eCommerce.

At the general level the views amongst respondents is very mixed. The data suggests that in 2000 there was a reasonably strong view that eCommerce could have an impact on the property market in the short-term. However by the time of the 2001 survey, that attitude had shifted in favour of the longer-term (Figure 3.3). That attitude follows through into the results from the most recent survey and is consistent with the view that eCommerce is not the great threat to the retail sector that was once feared. Indeed just over 7% of respondents in 2001 and 2003 say that eCommerce has already done its worst to the retail property market and this must surely be very minimal compared with the effect of other pressures high street spending that have been of concern over recent years.

The retailers responding to the survey now seem to fall into two camps: those that are making an active use of online sales channels and those who have no intention of using the Internet for anything other than simple marketing. Just over half of those responding to the 2003 survey have no online sales. These are mainly smaller retailers with a concentrated regional market. Of those that do sell online, the Internet only constitutes less than 1% of their sales. In the longer term some retailers are optimistic about their eCommerce channels predicting online sales of 3% or more (25% of retailers). However, these tend to be retailers who are currently making good use of the Internet, rather than new converts.

3.3.5 Future scenarios 2002-2005

Looking forward to 2005, online sales growth will now have to be higher than current levels. To examine the rate of progress of eCommerce over the period 2001-2003, we looked again at the scenarios we produced in our last two surveys and compared them with new scenarios for 2002-2005.

The three scenarios, shown in Table 3.3, comprise 'sluggish', 'growing' and 'rapid'. All three scenarios are based on a 1.4% online sales share at the end of 2002 (or £3.3bn) as a percentage of all retail sales (including home shopping, but excluding financial services and travel).

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Real Retail Sales Growth (exc. online) 2002-2005</th>
<th>Online Share, 2005 (% all retail sales)</th>
<th>Online Share 2005</th>
<th>Growth of Internet access and propensity to shop online</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sluggish</td>
<td>2.8% pa</td>
<td>2.5%</td>
<td>£6.4bn.</td>
<td>Low</td>
</tr>
<tr>
<td>Growing</td>
<td>2.8% pa</td>
<td>5%</td>
<td>£12.8bn.</td>
<td>Medium-High</td>
</tr>
<tr>
<td>Rapid</td>
<td>2.8% pa</td>
<td>7.5%</td>
<td>£19.2bn.</td>
<td>High</td>
</tr>
</tbody>
</table>
Figure 3.3  Time until eCommerce will have a major impact on the retail property market

Figure 3.4  Compound annual growth rates required to fulfil online share by 2005 (2000, 2001 and 2002/2003 perspectives)
Using Verdict data as a base, the compound annual growth rates required to reach different online shares by 2005 have increased since 2001. This shows a cooling in growth therefore between 2001 and 2003. Figure 3.4 shows the growth rates needed from analysis carried out in 2000, 2001 and 2003. In order to reach a 2.5% online share over the period 2002-2005 a growth rate of 24% per annum is required, an increase from 17% per annum in 2001. The compound annual growth rates needed for 5% and 7.5% shares are higher still (56% pa and 79% pa respectively). The pattern of slowing growth in online sales is therefore re-enforced.

3.3.6 Retailers’ use of property

Town centre retail locations are the most popular amongst the respondents to the survey. The large majority of respondents (92%) occupy stores in high street locations, with units in town centre shopping centres being occupied by 41% of respondents. The same proportion have space in retail parks and 37% have units in out-of-town shopping centres.

Most retailers said that their retail space requirements would either increase (56%) or stay the same (30%) over the next three years. These requirements are not substantially different from those measured in the two previous surveys. In the 2001 survey 59% said they would increase their retail space and 36% would remain unchanged.

Of those retailers who said they intended to increase the amount of floorspace they occupied, all of them would either increase their number of stores or increase the size of their existing stores. However, the former solution was the most popular for 93% of those concerned. Very few retailers suggested that they needed to increase their distribution space, but for those that are looking to do this will do so by increasing the number of warehouses they use. Again these findings are very similar to those from the 2001 survey.

Most respondents also expected their occupancy costs to increase of the short and medium term. Some 89% said their costs would rise over the next 1-2 years, and 92% said an increase would occur over the next five years. This is therefore the third survey in a row where this proportion has increased.

3.3.7 Property investment performance

The property investors responding to the survey were asked about how they thought eCommerce would impact on key investment performance measures. In the 2003 survey there was universal acceptance amongst the investors that eCommerce could result in lower rental values, capital values and total returns, as well as higher yields. However, the magnitude of those changes shows that attitudes towards a potential deflationary effect on the property market have faded. Nearly all the investors (92%) felt that rental values would remain unchanged or fall slightly due to eCommerce. This was the same for the other forms of investment measures.

This shows a marked difference to the position in the 2000 survey where a very small proportion consider there to be no change. This proportion ranged from 7% to 14% across the four measures compared to a range of 46% to 61% in 2003. It should be stressed that the number of property professionals responding to the most recent survey is a lot lower than in 2000, but despite this there is evidence to suggest that attitudes have substantially relaxed.
3.3.8 Property types ‘at risk’

To garner attitudes regarding which property could be most at risk from eCommerce a selection of eleven different retail property types have been presented to respondents in all three surveys. Respondents were asked to grade the level of risk they perceived each property type could experience from eCommerce on a Likert scale of 1 to 3 where 1 represented low risk, 2 represented medium risk and 3 represent high risk. A score of zero was also provided for no risk.

The classifications of retail property used are differentiated by location and/or use. Within the list there are location specific property types (e.g. prime standard shops, secondary shops, neighbourhood centres) and use specific properties (e.g. supermarkets, department stores, banks).

Over the three surveys, relative to one another, the same property types have been viewed to be at the greatest risk (Figure 3.5). However, the magnitude of that risk, based on the Likert scale used, has dropped in most cases. Banks and travel agents have consistently been perceived to be at greatest risk from eCommerce. This will be because both services convert well to the online environment. Both offer goods and services which, at the point of sale, are intangible. A holiday, for instance, only becomes tangible at the moment it is experienced. Until that point it is forever a description in a brochure and in that sense makes it perfect for transition onto the Internet.

Overall properties located in best parts of major centres are perceived to have the least at risk from eCommerce related change. This includes major regional shopping centres (e.g. Meadowhall, Bluewater) and the large city centre shopping centres and the prime retail units in their vicinity. Secondary retail areas occupy the middle ground on this risk spectrum. The level of risk faced by properties in these areas is likely to vary depending on local circumstances and urban regeneration policies that are in place to enhance the vitality of these areas. After banks and travel agents, retail warehouses are seen to be the most at risk of the other retail property types.
These findings associated with retail property types also transfer over to the wider responses connected to retail centres and goods type. Respondents were presented with a matrix comprising four types of retail centre (big city, medium-sized town, small metropolitan town and small rural town) and three product categories (convenience, comparison and niche). They were asked to identify which combination of centre and product would be most at risk from eCommerce. The results from the three surveys are shown in Figure 3.6 sorted by the 2003 responses. A clear pattern has emerged here in terms of product types. Convenience retailing is seen to be the least at risk, particular in large city locations. Niche product retailing attracts a similar level of responses to convenience, and again the larger city locations have the lowest scores. Comparison goods retailing is regarded as the most at risk with a similar distribution for the centre types – large cities receiving a more favourable score than smaller centres.
Figure 3.6 Centres and products most at risk from eCommerce

### 3.3.9 The future path of online retailing

To gauge sentiments regarding the future direction of online retailing, respondents were given a series of statements and asked the extent to which they agreed or disagreed with them. The statements were broadly structured around three themes: fulfilment issues, future retailing channels and town centres impacts.

**Fulfilment issues**

As we have shown earlier, customer fulfilment is regarded as a significant barrier towards eCommerce. Indeed the perception of this as a major issue has strengthened slightly in the 2003 survey. Some 74% agreed that collection and delivery issue will become increasingly important for retailers. A further 21% strongly agreed with the statement. In the 2001 survey slightly fewer respondents either agreed or strongly agreed (a total of 88%), but a substantially higher proportion (41%) strongly agreed in this earlier survey.

**Future retailing channels**

Respondents were asked about the importance of digital television as a form of Internet access and in turn retailing. At present these services are restricted to the Sky Digital platform and some cable operators. These services enable customers to
browse and order directly through their TV, as opposed to services offered by shopping channels such as QVC. In 2001 views were mixed, with a 50:50 split between those agreeing that digital TV would lead the way in Internet access and those disagreeing. This view has shifted in the responses to the 2003 survey. Now, two thirds of respondents disagree or strongly disagree on this point.

Views were mixed regarding the future of multi-channel retailing. Some 58% disagreed or strongly disagreed that a multi-channel retailing environment would dominate. This is the same level of response received in the 2001 survey. This follows the pattern shown elsewhere in this survey that since 2000 attitudes towards eCommerce have relaxed with this new form of retailing being seen far less as a threat and in some senses quite benign. This follows through when respondents were asked about whether they thought dot.com retailers would shrink in importance. Just over half 45% agreed that they would. This again shows a shift of opinion from 2001 where 64% of respondents agreed with the same issue. One interpretation of this may be that the shifts in dominance in online retailing from the pure play dot.coms to existing retailers with a high-street presence has now occurred and have settled. Those dot.com retailers still trading (e.g. Amazon, Kitbag, lastminute) have now been in existence a substantial time may, and have proved resilient to market pressures and are likely to therefore continue successfully.

Town centres

Finally, respondents were asked whether they thought retail floorspace in town centres would change as a direct result of eCommerce. As in 2001, views were very even between those that agreed and disagreed. Overall 48% felt that retail floorspace could suffer in some way from eCommerce and 52% felt disagreed on this point. This compares 68% in 2001 that felt eCommerce would not result in problems for town centre retail floorspace.
4 Shopping Centre Website Strategies

4.1 Introduction

The casual observer of website use within the retail industry will have noticed the increased use in the technology by retailers and shopping centres. Only a few years ago Dixon et al. (2001) reported that as few as 8% of UK shopping centres had a website, compared to 88% in the US. Although exact figures are not available, this situation has visibly changed. What is also noticeable is that shopping centres are making more intelligent use of their websites. A recent innovation has been the introduction of online shops by a small number of major UK centres.

This section of the report therefore examines the development of shopping centre websites in the UK. It first looks at their position as a marketing tool and then a route to induce customer loyalty. This is followed by a discussion about the online shops introduced by shopping centres, using two very different case study examples.

4.2 Marketing tool

The use of marketing, across all forms of media, has been an important aspect of shopping centre management over recent years. The Internet is just the most recent incarnation of this type of activity. Within the industry as a whole, retailers have been most active in their marketing, particularly amongst multiples. This was facilitated from the late 1980s onwards by information systems in the forms of electronic stock management and point of sales systems (McGoldrick, 1990). In contrast, it has been discussed in the literature that managed shopping centres have historically been poor marketers (Howard, 1995; Kirkup and Rafiq, 1999).

Despite this, Kirkup and Rafiq (1999) identify the use of marketing mix strategies by shopping centre management. As the term ‘marketing mix’ suggests, there are many different aspects to successful shopping centre marketing strategies. This is because there are many different interests in shopping centres that have to be won and maintained at different times in a centre’s life. They marketing process begins at the very start of the decision to invest and develop a shopping centre and then throughout the development process in order to attract investment, anchors and other tenants into the centre. Finally, there is the need to encourage continued visits by consumers.

Kirkup and Rafiq (1999) therefore identify a number of different strands to the marketing process. First there are the hidden marketing elements associated with managing the physical nature of the centre. This will involve paying close attention to internal design of the centre and its tenant mix. This aspect will have to respond to long-term changes such as fluxes in the local retail market or varying consumer or tenant requirements. Short-term measures would include the general upkeep of the centre by maintaining a consistent image of the centre over time.

Communication with consumers is the highest profile form of marketing and is particularly important for a centre opening when shoppers need to be encouraged to visit, spend and return again to the centre. This is particularly important for out-of-town shopping centres, such as Meadowhall in Sheffield. These centres not only have to market themselves as new shopping centres, but also as new shopping destinations, geographically removed from the traditional retail locations in the vicinity (Kirkup and Rafiq, 1999). This is where the concept of branding has become particularly important. As LeHew et al (2002) point out, this has resulted in the strict use of common designs across the public face of the centre – from signage in the centre itself to print and television advertisement and the website. This use of
branding has spread to new in-town developments with developers replicating and enhancing this form of marketing. This has been particularly notable with recent developments by Hammerson (e.g. The Oracle in Reading and West Quay in Southampton) and Lend Lease (e.g. Touchwood in Solihull and the forthcoming Chapelfield in Norwich).

This form of branding has been taken further with a single brand being used across an investor’s whole portfolio of centres. This was memorably achieved in the early years of covered shopping centres in the UK, with the Arndale Centres, but has been revived by Capital & Regional with their branded shopping centres (The Mall) and retail parks (The Junction). In part this has been associated with the launch of two funds in which Capital & Regional’s centres and retail parks have been placed (Capital & Regional, 2003), but it is unusual how these brand have also been extend to the public side of the business.

Further marketing of a centre can be developed through direct consumer services offered by centres. This can include quite basic additions to a centre such as food courts, toilets and seating, but had been extended to other services, including event promotions, crèches and shopmobility services for shoppers with disabilities. Many of the features are now very common in UK shopping centres and would be considered as essential parts of the shopping centre experience. Of particular importance are good quality toilets and adequate provision of seating around centres (PMA, 2000). Ensuring that these basics are provided can therefore act as an inexpensive, subtle, but highly rewarding form of marketing.

With the arrival of the Internet a further marketing channel to target consumers has emerged. In research by Anderson et al. (2001), a ‘relationship marketing’ model for US shopping centres was developed by adapting an earlier model developed by Kotler and Armstrong (1996). The model uses five levels of relationship from basic to partnership, and provides a useful summary of the possible uses of a shopping centre website (see Table 4.1).

<table>
<thead>
<tr>
<th>Level</th>
<th>Basic Information</th>
<th>Facilitates</th>
<th>Event Promotion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>Map and directions</td>
<td>Phone number: general</td>
<td>Calendar with event names</td>
</tr>
<tr>
<td>Reactive</td>
<td>Store directory with categories</td>
<td>Written description</td>
<td>Calendar with event description</td>
</tr>
<tr>
<td>Accountable</td>
<td>Store directory with brands</td>
<td>Written description with images</td>
<td>Calendar with event description and images</td>
</tr>
<tr>
<td>Proactive</td>
<td>Store directory with hyperlinks</td>
<td>Phone number for reservations</td>
<td>Interactive event promotions: prizes or coupons/vouchers</td>
</tr>
<tr>
<td>Partnership</td>
<td>Store directory with hyperlinks and promotions</td>
<td>E-mail for reservations</td>
<td>Member registry: online registration</td>
</tr>
</tbody>
</table>

In the same study the researchers surveyed consumers regarding their use of shopping centre websites. It was found that consumers’ principle use of centre websites was to search for general information about the stores, services and goods for sales at the centre. A majority also indicated that they would return to centre websites to take part in competitions, prize draws and to access special offers. The Internet is therefore clearly a useful method for centres to advance to higher levels in their marketing relationship with customers by enabling a two-way dialogue. In part,
the higher levels are characterised by increased sophistication and more advanced use of technologies. However, as with many forms of successful technology, what begins as being innovative and used by the few gradually enters the mainstream and reaches maturity. Market saturation is reached and concepts become the ‘norm’ (Perez, 2002). Although the model developed by Anderson et al is now only two years old, it does already looks dated. For example it could now be regarded that a written description with photos of the facilities in a shopping centre should be classed as the basic function.

For the proactive and partnership levels in the Anderson et al (2001) model, interactive event promotions and registration by consumers is seen as important. A good example of this has been the targeting of shoppers with offers and the introduction of loyalty concepts by centres. These are considered in more detail in the next section.

4.3 Loyalty schemes

The importance of brand loyalty has long been recognised in marketing literature as part of a wider research agenda into consumer preferences. The work of Jacoby and Kyner (1973) for instance, went some way to better understand the nature of loyalty towards brands. They note that research has tended to be inconclusive as to whether brand loyalty actually exists. Indeed, as Passingham (1998) notes, it is remains a “difficult concept to measure” (p.57). Despite this, retailers and shopping centres managers have pursued the development of schemes that exploit and encourage consumer loyalty. Wright and Sparks (1999) suggest two reasons for this interest:

- The need to generate increased sales at low cost by encouraging existing customers to increase their personal expenditure rather than attempting to attract new customers from competing businesses.
- An attempt to “lock” customers into the business.

However, above both of these has been the information gathering potential of loyalty schemes. Indeed Passingham (1998) goes as far as suggesting that this factor is “potentially more important than their apparent reason for existence” (p.62). The benefits of collecting knowledge and information about consumers has always been important for the retail trade. It has helped retailers and retail property investors choose the best properties for their business and investment objectives. However, the data required for such decision-making has tended to be generic and anonymised. The loyalty concept allows businesses to gain and analyse very detailed information about personal retailing traits. Other benefits are suggested by KPMG (2002) who show that loyalty schemes can have positive effects on turnover and profitability. Their analysis of store based loyalty programmes has shown that they appear to break-even when turnover increase by between 3 and 4%. The importance of schemes to retailers profits is exemplified by Tesco (Humby et al., 2003; Mesure, 2003).

As marketing has become more consumer-friendly, so loyalty schemes have gained in popularity. Technology has played its part in making these schemes so prevalent amongst retailers. The concept itself is nothing new with Green Shield stamps (from the 1960s) and the dividend schemes of co-operative societies (dating back to the mid nineteenth century) being notable examples (Wright and Sparks, 1999). However, with technology has come the thirst from retailers for information about their customers. As Hallberg (1995) notes, retailers have been “eager new recruits of the database revolution” (p.233). The introduction of loyalty schemes has enabled retailers to collect personal information about their customers as well as powerful data on purchasing patterns that would previously have been very difficult to gather.
In the UK these schemes have been particularly associated with the supermarket sector. In the 1990s, the main UK supermarket chains aggressively turned to loyalty card schemes to gain market share. These initiatives use plastic cards (similar to credit cards) that allow consumers to collect points that can be exchanged for in-store discounts or complimentary goods and services. Examples include Tesco Clubcard (introduced in 1995 and still operating) and Safeway ABC and Sainsbury's Reward Card (both no longer operational, the latter being replace by the Nectar card).

High-street retailers also introduced loyalty schemes such as the Boots Advantage card the WH Smith Clubcard. These were distinctly separate from the credit-card style store cards that had been existence earlier, and mainly offered by clothing retailers and department stores. More recently still the loyalty card concept has evolved into loyalty networks with groups of different retailers coming together and offering a single scheme (KPMG Consulting, 2001). A high profile example in the UK is the Nectar card which has brought together a range of retailers (including Sainsburys, Debenhams, Adams, Thresher Group and BP). As technology has developed, so loyalty schemes have evolved. Recently Marks & Spencer launched its new loyalty and charge card (called &more). The card takes advantages of new Chip and PIN technology for credit card transactions, enabling Marks & Spencer to make strategic use of customers information, including the issuing of e-vouchers tailored to individual purchasing patterns (Clements, 2003).

The idea of loyalty cards and associated schemes has now caught the attention of shopping centre managers (LeHew et al., 2002). They have recognised the advantage, like retailers, of gathering personal information about the customers that use their centres and developing brand loyalty for their centre. This is particularly important for regional shopping centres whose face greater competition over their larger catchment areas. Once again technology has had a role to play in enabling these services to be developed. As with retailer led schemes this has involved the use of database systems to manage information about customers, but the use of promotions through centre websites has helped centres to gather the information they need.

To demonstrate this, Table 4.1 shows services and features offered by some of the largest UK shopping centres (principally those classed as regional shopping centres). The data has been collated by visits to each centre’s website. Five different services are listed, all of which require customers to give the centres some personal information which in turn can be used for marketing purposes (subject to compliance with data protection legislation).
<table>
<thead>
<tr>
<th>Table 4.2 Loyalty schemes operated by major UK shopping centres</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Metrocentre, Gateshead</strong></td>
</tr>
<tr>
<td><strong>Meadowhall, Sheffield</strong></td>
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<tr>
<td><strong>Brent Cross, London</strong></td>
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<td><strong>Merry Hill, Dudley</strong></td>
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<tr>
<td><strong>The Mall at Cribbs Causeway, Bristol</strong></td>
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<tr>
<td><strong>Lakeside, Thurrock</strong></td>
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<td><strong>Bluewater, Dartford</strong></td>
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<tr>
<td><strong>Trafford Centre, Manchester</strong></td>
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<tr>
<td><strong>West Quay, Southampton</strong></td>
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<tr>
<td><strong>The Oracle, Reading</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Loyalty card scheme</th>
<th>Gift vouchers</th>
<th>Newsletter</th>
<th>Online shop</th>
<th>Web-only offers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metrocentre, Gateshead</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Meadowhall, Sheffield</td>
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<td>Brent Cross, London</td>
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<td>The Mall at Cribbs Causeway, Bristol</td>
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<td>Bluewater, Dartford</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Trafford Centre, Manchester</td>
<td>1</td>
<td>●</td>
<td>2</td>
<td>●</td>
</tr>
<tr>
<td>West Quay, Southampton</td>
<td>●</td>
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<td>●</td>
</tr>
<tr>
<td>The Oracle, Reading</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
</tbody>
</table>

Notes:
1. Trafford Centre branded credit card
2. Online response form only

Data sourced from centre websites on 26 August 2003.

The whole issue of loyalty marketing has gained further attention in recent years with growth of online retailing, particularly through a programme of research involving KPMG and the Oxford Institute of Retail Management (OXIRM). As part of this work KPMG (KPMG, 2002) have identified eight benefits and costs that should lead to a successful loyalty programme. These are:

1. Marketing strategy
2. Customer attraction
3. Role of the brand
4. Development of customer trust
5. Customer service levels
6. Integrated channels
7. Management of risk – for example website security and data protection
8. Customer Relationship Management (CRM)

It is arguable that many of these factors apply to both the online and offline retailing worlds where loyalty programmes are being managed. KPMG (2002) go on to show that there are ultimately three principle drivers that retailers should consider when launching a loyalty programme. These are:

1. The need for excellent customer service across the business;
2. The maintenance of high levels of trust and security; and,

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*see for example (Cuthbertson, 2001)*
3. The provision of a fully integrated multi-channel offer.

Therefore for the online retailer looking at developing a loyalty programme, the latter driver is particularly important. Here retailers must maintain consistency between the online and offline retail environments, but also ensure strong linkages between the two. It is therefore important that retailers treat their online business as part of their whole strategy, rather than ring-fencing it into a separate business unit. Examples of where this should work would include the ability for consumers to return faulty or unwanted goods ordered online to a physical store, or in the specific case of loyalty programmes the ability to be able to use a store-based loyalty card within the retailer’s online store. Success here should assist in building loyalty towards a brand and increase the levels of trust in the retailer\(^v\).

4.4 Case studies

As part of this overview of shopping centre websites, two case studies have been carried out. The two were chosen in particular because of their introduction of their own online shops on their websites. For the research, both centres were visited and individuals responsible for the development of each centre’s website were interviewed. Screenshots for the two websites and online shops are shown in Figure 4.1.

4.4.1 Meadowhall Shopping Centre, Sheffield

The Meadowhall Shopping Centre opened in September 1990 and was one of a series of large regional shopping centres built close to major conurbations across the UK in the 1980s and early 1990s (Howard, 1993). The centre, owned by British Land, currently offers 123,000 sq m (1,323,966 sq ft) of retail space with an additional 12,000 sq m (129,167 sq ft) dedicated to leisure and is the fourth largest shopping centre in the UK.

Through our interviews at Meadowhall we were able to obtain more information about the centre’s use of the Internet. Meadowhall first introduced a website in 1995 and was probably one of the first UK shopping centres to do so. In its first incarnation it was designed as a glossy online advertisement. It featured a large amount of graphics and was difficult to use, particularly on the slower PCs and Internet connections of that time. To some extent the site was built as a statement, rather than something that was of practical use. In 1997 the site was relaunched to address these operational difficulties and make it more user-friendly. The site was once again revisited in 2000 to coincide with wholesale relaunch of Meadowhall for its tenth anniversary. At this stage the website was now being considered as part of the centre’s wider marketing strategy.

Meadowhall have also made good use of web technologies internally with the introduction of a centre-wide Intranet. Management and all the tenants have access to the system and it integrates in with the public website. These recent developments have led to the founding of a company, Comgenic, that is offering this web architecture to other centres across the country.

4.4.2 The Oracle, Reading

The Oracle Shopping Centre has become a focal point for retailing in the town of Reading. Unusually for an in-town shopping centre it has become a destination centre in itself (Sutton, 2000). The centre is a mixed retail and leisure scheme with

\(^v\) See chapter 3 for further discussion on the position of online retailing within retailers’ businesses.
61,000 sq ft (657,000 sq ft) or retail space. The centre has opened up the southern portion of the town centre along the banks of the River Kennet.

A notable feature of The Oracle marketing has been the high profile of the ‘The Oracle’ brand since its opening in September 1999. This has been revolved around the centre’s purple and white logo. Indeed this colour scheme has also been an important aspect of the centre’s branding, featuring in all marketing material, as well more subtle aspects such as staff uniforms and Christmas decorations. This style of marketing has remained part of the centre’s ongoing strategy and helped to form a strong visual identity across all media types.

Figure 4.1 Screenshots of the Meadowhall and Oracle websites

Being a relatively new centre, The Oracle has had a website since it first opened. As with all of The Oracle’s marketing material it fitted in with the all other aspects of the marketing campaign. Originally the website was informative, but basic in style. This was intentional. The management of the centre recognised the need to have a website for a new shopping centre opening in late 1999. At that time Internet usage, particularly in the Reading area was high. A research report by CACI (2000) from that time ranked the Reading retail catchment as the area with the highest Internet penetration rates in the UK (48% online). It was realised therefore that for many potential consumers a natural place to find information about the new centre would be over the Internet. Initially only the very basics were placed on the website such as opening hours, details of the shops and the history and archaeology of the site. This would most likely place the site as proactive in terms of basic information in the model by Anderson et al. (2001) discussed earlier. However, it would be at lower levels for facilities and event promotion.

Once the physical centre had opened and established itself The Oracle management began to focus more closely on their website and what could be achieved from it. Though the owners of the centre, Hammerson, appointed an individual whose role covered the management and development of websites for their shopping centre portfolio. This has enabled The Oracle website to expand and become more innovative, particularly with the addition of an online shop. There has also been the added benefit of bringing together traditional forms of marketing and e-marketing.

4.5 **Online shopping with shopping centres – the different models**

The two case studies presented above were chosen because of their innovative use of web technology. In particular both have an online shopping portal associated with their websites. This is undoubtedly a new venture of the shopping centre industry with the centre itself acting as a pseudo-retailer. As we shall see below, this is to some extent an illusion, but the consumer may come away from the experience with the impression that they have purchased from the centre and not individual retailers. Because of its recent introduction, very little research has been undertaken into this form of shopping centre activity. However Hendershott et al. (2000; 2001) have explored the concept of hybrid and virtual malls. Although both papers discuss the issue of eCommerce and store based retailing from a US perspective, they also present a theoretical model for how shopping centres can capitalise on web-based sales. This is described by Hendershott et al. (2000) as the hybrid model where customers order and purchase online, then collect their purchases at a local shopping centre or store. This could either be led directly by retailers or by shopping centres themselves. Indeed in their second article (Hendershott et al, 2001) this idea is taken further. They suggest that large shopping centres and networks of centre have the economies of scale and ability to aggregate information that will allow the hybrid model to succeed. However for this to work best loyalty programme should be introduced by centres.

The difficulty with this model, which Hendershott et al do not address, is how shopping centre owners can lead the way with providing an online sales environment which brings in their largest tenants. Many tenants of large shopping centres are not independent retailers. They are part of a larger company with many aspects of the stores’ offers being controlled through the retailers’ headquarters. In particular this includes online operations. Many large retailers have now invested large amounts into online shops and may be highly reluctant to create store for specific use through

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\*In the US this is a more compelling model given the ownership profile of shopping centres. Many of the large centres with comparison goods retailers are in the hands of just a few owners, in particular General Growth Corporation and Simon Property."
a shopping centre. This certainly seems to be an unsustainable way of running online sales channels.

Despite this a handful of shopping centres across the UK are experimenting with online stores. In the following case studies two models of online shops developed by shopping centres are discussed. Both models are made up of a collection of existing retailers so could therefore be regarded as virtual shopping centres. However, the operation, functionality and ‘landlord/tenant’ relationships that are associated with these virtual shopping centres do differ significantly.

4.5.1 The centre-led approach

The first model takes a centre-led approach. It recognises that many of the large multiple retailers that have units in the centre also have successful online ventures. At the same time it recognises that smaller, independent retailers with units in the centre may not have an online sales channel. In its initial stages therefore it signs only those retailers who presently have no online sales presence but would like one. This is the approach taken by Meadowhall, with their Gifts Online service. With the exception of House of Fraser, all the retailers signed up for the scheme are independents, including some that operate from barrow stall within the malls of the centre\footnote{House of Fraser is one of the few large national retailers without their own online sales channel.}.

The Meadowhall system takes advantage of the Intranet system that connects all the retailers to the centre management. It also allows tenants to manage stock between their unit in the centre and Meadowhall’s offsite storage depot. The centre management employ 1.5 people (full-time equivalent) to run the online store. The website itself features a selection of goods stocked by the retailers signed up to the scheme (although not all their stock lines). The site maintains the standard marketing image that characterises the rest of their website and other media promotions. The staff that run the store assist retailers in picking appropriate items to feature, and then prepare descriptions of the items and have photos taken.

Customers can order from one or more of the different retailers in the online shop. All orders are received by the centre management team responsible for running the shop. Orders are fulfilled at Meadowhall’s storage depot and are despatched as a single order in Meadowhall branded packaging.

At present the Meadowhall online shop is a live trial, disguised as a gift shop. The principle reasons for launching such a store has been to orient it around the marketing of the centre. In particular the management were keen to be the first in their large catchment area to introduce such a scheme. In turn they also hoped that a shop of this nature would allow the expansion of their existing catchment area. To date this has proved to be the case with many orders made from outside the traditional catchment.

Retailers themselves pay a commission to the centre for appearing in the online shop and receive a fee in return. The commission varies by retailer, but the net cost is very low to individual retailers. Therefore the vast majority of the online shop is being funded directly by the landlord. Through the collective nature of the system, individual retailers have been able to find a new cheap route to market. Importantly the margin on products they sell through the online shop are likely to be higher than if sold through the physical unit in the shopping centre due to the lower cost profile of the online offer.
4.5.2 The brand-led approach

The second model is very different and is, to some extent, an addition to the range of ancillary services offered by a shopping centre. It uses specialist software to create a virtual shopping centre branded in the livery of the physical centre. This is the model that has been used by a number of centres including The Oracle, West Quay and The Trafford Centre.

The online shops are hosted on a separate site to the parent centre sites, although they are heavily branded in the same style as the parent site to maintain visual consistency for users. The characteristics of the retailers represented within the shops differ significantly to those in the centre-led model. The bulk of retailers are well-known multiple retailers all with an existing online shop. This is therefore the principle distinguishing feature between the two models. Indeed the brand-led approach does not even require the retailers in the online shop to also be tenants in the physical shopping centre. As Table 4.3 shows the proportion of ‘guest’ retailers, i.e. those not occupying units within the physical centre, can vary substantially. In part this can be explained by the common third-party operator\textsuperscript{vii} of the Trafford Centre, West Quay and Oracle shops, who can come to agreements with a selection of retailers which will enable them to appear on all three shops, regardless of their existing relationship with those centres.

\textsuperscript{vii} In this case the Dublin based company ShopeCentre.
To order products customers effectively click through to each retailer’s existing online store. However, as they select the goods they wish to purchase, these are put into a global shopping basket. This enables customers to move onto a different retailer and select other products. Goods are then purchased as one, in a single transaction.

However, each individual retailer is ultimately responsible for the fulfilment of the orders and they will use their existing back-office infrastructure to deliver orders to customers. Therefore, unlike the centre-led model, goods from different retailers in the same order will not be delivered at the same time. This will inevitably be the case if the online shop is merely an extension of existing eCommerce architecture. For the shopping centres operating the shop this therefore eliminates the need for on-site management of the system’s back-office functions. For a centre such as The Oracle, this is seen as the best approach. There could be opportunities to promote the centre through Oracle branded giftwrap and packaging, but this would be difficult with orders being dispatched from different locations and at different times.

<table>
<thead>
<tr>
<th>Shopping Centre</th>
<th>Number of retailers in online shop</th>
<th>Proportion of retailers with presence in physical centre</th>
<th>Proportion of retailers without presence in physical centre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meadowhall</td>
<td>16</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Trafford Centre</td>
<td>18</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>West Quay</td>
<td>18</td>
<td>61%</td>
<td>39%</td>
</tr>
<tr>
<td>The Oracle</td>
<td>20</td>
<td>55%</td>
<td>45%</td>
</tr>
</tbody>
</table>
4.5.3 Property Issues

From a property management perspective such schemes provide an innovative addition to the landlord and tenant relationship. The property implications for both approaches are very different. For The Oracle model the online store and physical centre are ‘totally separate’ with the online sales channel being an additional service connected only in name with the physical centre. However, at Meadowhall the sales generated by individual retailers that participate in the online shop are credited back to the unit in the centre. For those retailers leasing space on turnover leases these sales will then be included with the calculations of their rent. The whole issue of capturing web based sales in this way was discussed heavily during the period of dot-com hysteria on stock markets worldwide during 1999/2000 (Baen, 2000; Dixon et al., 2001; Miller, 2000; O’Roarty, 2000).

In the US there was a fear that revenues could be lost from stores due to the increased sales online. This is because many shopping centre units in the US are let on percentage lease, similar to turnover lease in the UK. Any reduction in turnover through a store would therefore have implications for the shopping centre owner. This prompted initiatives to capture online sales (see O’Roarty (2000) for a discussion on the online sales activities by General Growth). Similarly Miller (2000) proposed a solution for adding an online element into the rent calculation. However this approach breaks down when multiple retailers establish their own eCommerce sites independently.

The models presented here get round this situation by either piggy-backing onto existing online store architecture or by involving retailers without any online sales presence. All these schemes are being piloted at present, but should they be successful and get used by other shopping centre owners thought must be given to the future contractual relationships between landlord and tenants. Could online store agreements be integrated into existing lease agreements and would those sales generated in this way be used for rental calculations in turnover lease agreements? And for more conventional leases, would the fact that sales are also generated online mean a recalculation of the rent for a physical unit, or would such services be part of a service charge? These will be important questions for the property industry to address should the uptake of such schemes become more widespread.

4.6 Conclusions

This section of the report has examined the growing importance of marketing conducted directly by shopping centre managers. In particular it has examined the emergence of online stores hosted by shopping centres. The centres that have introduced online shops have been some of the largest in the country and are concentrated amongst just two retail property investors. Therefore this is still a limited activity for shopping centres and it is likely to remain so. The schemes currently in operation can be regarded as pilots for this type of offer – indeed the Meadowhall is a live trial. If successful then wider introduction of such stores may occur but will invariably be limited to centres/investors that can justify the capital expense that would be incurred. The long-term development of these initiatives is therefore important.

Should such schemes become more common and mainstream, then there are potential implications for rental agreements between retailers and centre managers.
5 Conclusions

5.1 Overview
This section of the report draws together the main trends emerging from the literature and the research covered in previous chapters and provides conclusions to the study.

5.2 eCommerce Trends in the UK and Europe
An examination of literature from the UK and overseas reveals that:

Growth in eCommerce has levelled off….

Verdict (2002) report for example that in 2002 UK retail online sales totalled £3.3bn, accounting for 1.4% of total retail expenditure. This represents market growth of 10.4%, a level that outperformed total retail expenditure growth of 4.3% but reflected a bedding down of consumer demand in the online market. In comparison, in the USA in 2002 total eCommerce sales grew by 26.9% from 2001 whereas total retail sales in 2002 increased 3.1 percent from 2001.

Internet access within UK residential households has risen gradually over the last five years from 9% of households towards the end of 1998 to 43% by the end of 2002 (National Statistics, 2003a). This represents an increase from 2.2m to 11.4m households over the last five years. However growth in the proportion of households that are online seems to have plateaued. Therefore any future growth in the online population will now have to come from households entering the computer market for the first time.

Online shopping spend is dominated by 35-44 yr olds…

In the UK online spending is dominated by this age group, which comprises 25% of all Internet shoppers and was responsible for more than £1bn of spending in the last year. Younger shoppers in the 15-24 years old age group use the net more but spend less per trip on average, because of lower disposable income and lack of credit.

Growing importance of broadband but a 'digital divide'…

Increased Internet connectivity in the UK has recently been driven by a take-up of broadband services. Permanent broadband connections are becoming increasingly important. In January 2001 they made up 1% of Internet subscriptions, but by March 2003 they comprised 14% of subscriptions. Despite these trends there still remains a digital divide within the UK, which has been an important focus for research. The UK government has a stated aim of ensuring that for all those who want to be online can and will be by 2005 (KPMG Consulting, 2002; OeE, 2003). As part of this strategy there has been a concerted push to make more central and local government services available online. Internet access though still is concentrated amongst particular parts of the populations: the young and middle aged, higher social classes and households with high incomes. As tasks such as research for a child’s homework, become more associated with Internet use, so those without could become even more excluded.

Wider use of ICT in retail sector…

It is sometimes easy to forget that the Internet and eCommerce come in a long line of disruptive technologies in retail. eCommerce is designed to shorten supply chains. Where retail differs from other sectors is in the complexity of networking within each organisation and with other points of sale and the distribution network as a whole.
The Internet has enabled retailers therefore to redefine their value chains leading to a reduction in procurement to logistics phases and store management, which leads to benefits for building customer loyalty through online sales, for example. However in Europe barriers such as customer hesitancy and credit availability/trust continue to form important barriers to the widespread introduction of eCommerce.

5.3 What has changed in the UK between 2000 and 2003?

Our three surveys have been able to track changing attitudes towards eCommerce amongst key players in the retail sector. The overall change has been one that shows a major cooling-off in the negative perception of eCommerce amongst retailers and retail property investors between 2000 and 2001, followed by a levelling off between 2001 and 2003. The most recent survey has revealed the following key themes:

- Most retailers have websites and nearly half have transactional facilities on those websites. Despite the small sample in the survey, there is little evidence to suggest that mail order catalogue operators lead the way in eCommerce. Retailers without mail order enterprises are just as likely to move into eCommerce.

- Customer fulfilment and security issues remain as the most important barriers to eCommerce growth. Other barriers have tended to reduce in importance (e.g. not enough consumers online and limitations in bandwidth). For the future it is likely that these other barriers will continue to decline in importance as more people go online, broadband connections become more mainstream and powerful 64-bit PCs become available for general consumer purchase. Forecasts by Verdict (2003) suggest this could lead to an increase in the market value of online shopping with a major surge taking place between 2004 and 2006.

- In line with these forecasts, respondents consider that any impact form eCommerce on retail property values will not be seen in the short to medium term. Rather change will take place over the longer-term (up to and over 10 years) or not at all.

- Retailers and investors are now more relaxed about the possible impact on rents and yields.

- Banks and travel agents are seen to be most at risk by respondents, although once again the risk level has fallen. In most cases the 2003 results correspond closely with the 2001 findings. However, for some property types (prime standard shops and retail warehouses for example) the risk score has increased since 2001, although they are still below the 2000 levels.

- Comparison retailing is considered to be most at risk by respondents, particularly in secondary areas. This suggests that a polarisation of retailing could still be possible. Convenience retailing is seen to be least at risk, with large cities being most in favour.

5.4 The implications for property – shopping centre strategies

One response to eCommerce that this report discusses is the move into online retailing by shopping centre owners. This is an important new development for centre owners. At first sight it may appear that the retail landlord has become retailer. In reality the strategy is a transfer of the shopping centre model and structure into an online environment.

The examples discussed in this report appear to be the first of their kind in the UK retail market. However the broad principle is not new. Hendershott et al (2001) consider the online shopping centre or ‘virtual mall’, although their commentary
focuses on web-only enterprises. A good example is that adopted by Amazon.com zShops concept. This is a selection of different retailers who can ‘rent’ space on a part of the Amazon website. In return the retailers are able to be a part of a prominent online retail offer and make use of Amazon’s website architecture. This is therefore no different, in principle, from the notion of a shopping centre.

In this research we have presented two examples of the online shops as developed by UK shopping centres. The two types of shop may ultimately appear to have the same end goal, but both go about this in very different ways. One model is run and operated by the shopping centre managers and allows retailers without any existing online retailing presence to offer their goods in an Internet marketplace. Both the centre and the individual retailers can benefit by increased revenues and an enlarging of their catchment. However, depending on the success of these schemes, it may only be restricted to those large centres, such as the regional shopping centres, that have the economies of scale to deliver. The other model is more brand-led and involves the centre subscribing to a service that brings together existing online retailers and providing a front-end to the online retailing experience. The benefits of such as service are principally marketing oriented for the shopping centre, but such a set-up could encourage more people to shop online by providing a one-stop shop for a variety of different products.

The big question about these initiatives, should they be successful, is how landlord and tenant relationships will change. Will future lease agreements for shopping centre units include clauses pertaining to online sales through the centre’s website? Would revenues through the centre’s website count towards a retailer’s income when turnover leases are calculated? These will be important questions to address in the future.

5.5 The future

The eRPUK 2003 study is the third in the series of eCommerce benchmark studies and reveals a levelling off in attitude towards eCommerce from both retailers and investors. Yet our view is that there are dangers in become too complacent. Although eCommerce sales growth has levelled off in recent years, they are forecast to grow again once new enabling technologies become widely available and providing over consumer spending levels are maintained.

It is therefore important for retailers and others directly exposed to changing consumer preferences to be able to capture revenues from alternative sales channels. Many large retailers are currently doing this, but smaller retailers may not be able to commit investment into their own online ventures. Should the models described in this report of online stores managed by shopping centre owners prove successful, it could enable smaller retailers to benefit in part from online revenues. In effect these retailers would be joining together to form a collective for mutual benefit. In these examples presented here the shopping centre owners have enabled the process, but it could be initiated by town centre management schemes or a formal co-operative of different retailers. So just as the landlords of office space are increasing the service element of their tenants, so retail landlords are becoming more consumer-centric and ultimately providing added-value to their tenants.

Ecommerce is now developing to become an important part of the retail spectrum. Consumers are and will take a multi-channel approach to shopping in the future. Being able to adjust and capture sales in that changing environment will be important for retailers’ success and those of the retail property market.
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Appendix 1 – Questionnaires

eRPUK 2003 Benchmark Survey
The Impact of eCommerce on Retail Property in the UK
Retailers’ Questionnaire

The retail and property sectors are vital components of the UK economy and they face increasing challenges as the Internet economy evolves and ecommerce continues to grow. This continued research has been undertaken to show how retail property will be affected by the impact of ecommerce in the UK to 2005.

This is the third year we have carried out this survey. You may have completed similar surveys in previous years. This year’s survey is part of a major, independent study undertaken by The College of Estate Management at Reading, and funded by the Royal Institution of Chartered Surveyors Educational Trust.

This follows up previous surveys in 2000 and 2001 and is intended to benchmark trends in the sector both in the UK and overseas. It will include a major survey of retail property investors and developers. Further details can be found at our website: www.cem.ac.uk

### 1. YOUR COMPANY & THE INTERNET

1.1 How many of the following does your company operate from:

<table>
<thead>
<tr>
<th>Branches</th>
<th>In-store franchises/concessions</th>
</tr>
</thead>
</table>

1.2 Does your company operate a catalogue mail-order service?

- Yes [ ]
- No [ ]

1.3 Does your company have a website?

- Yes [ ]
- No [ ]

1.4 What is it used for? (Please tick one only)

- Information services only
- Interactive online services only
- Online transactions

1.5 Does your company have a presence on any of the following platforms? (Tick all that apply)

- Digital TV
- In-store Internet kiosks
- Mobile phones
- Other (please specify)

1.6 Which of the following best describes your company’s current online strategy / business model in the UK? (Please tick one only)

- Information only
- Export only
- Integrated with existing business
- Separate Internet business unit
- Internet only
- Physical stores only
- Other (please specify)

---

**Please turn over**

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Research Department, College of Estate Management, Whiteknights, Reading RG6 6AW
Tel: 0118 986 1101
Fax: 0118 975 5344

Office use only

# [ ]

[ ]
2003 eCommerce Benchmark Survey

1.7 Do you have plans to expand your Internet capabilities?

Yes [ ] No [ ]

1.8 If YES, how will you go about it, and over what timescale?
How: ____________________________
Timescale: ________________________

1.9 How important are the following barriers to Internet growth in your business over the next 2 years to 2005?

Not enough consumers online [ ]
Security [ ]
Slow Internet connections [ ]
Customer fulfillment [ ]
Lack of right customers for product [ ]
Cannibalisation of offline sales [ ]
Other (please specify) [ ]

2. YOUR COMPANY & REAL ESTATE

2.1 Typically, what type of space do you trade from in the UK? (Tick all that apply)

High street stores [ ]
In-town shopping centres [ ]
Out-of-town shopping centres [ ]
Retail parks [ ]
In-store franchises / concessions [ ]
Other (please specify) [ ]

2.2 What are your UK real estate space requirements for the next 3 years?

Retail space Increase [ ] Decrease [ ] Stay the same [ ]
Distribution space [ ] [ ] [ ]
Office space [ ] [ ] [ ]

2.3 What type / quality of space will you seek to add to / remove from your retail store portfolio?
Add: ____________________________
Remove: _________________________

2.4 How will you accommodate any increases in UK retail space over the next 3 years?

No increase [ ]
Number of stores will increase [ ]
Size of stores will increase [ ]
More franchises [ ]
Bigger franchises [ ]
Other (please specify) [ ]

2.5 How will you accommodate any increases in UK distribution space over the next 3 years?

No increase [ ]
Number of stores will increase [ ]
Size of stores will increase [ ]
More franchises [ ]
Bigger franchises [ ]
Other (please specify) [ ]

2.6 How do you anticipate your total UK occupancy costs (including rent) moving over the next...

1 - 2 years (to 2005) Increase [ ] Decrease [ ] Stay the same [ ]
4 years (to 2006) [ ] [ ] [ ]

3. ECOMMERCE & REAL ESTATE NOW AND IN THE FUTURE

3.1 How soon do you believe commerce will have a major impact on property values in the UK retail sector?

Already has [ ]
Within the next 12 months [ ]
2 - 4 years [ ]
5 - 10 years [ ]
More than 10 years [ ]
Not at all [ ]

3.2 What percentage of total retail sales does your company currently transact over the Internet?

None [ ]
Less than 1% [ ]
1 - 2% [ ]
3 - 5% [ ]
6 - 10% [ ]
More than 10% [ ]

3.3 What percentage of total retail sales do you expect to transact over the Internet by 2005?

None [ ]
Less than 1% [ ]
1 - 2% [ ]
3 - 5% [ ]
6 - 10% [ ]
More than 10% [ ]
2003 eCommerce Benchmark Survey

3.4 Compared with one year ago, do you think ecommerce is currently impacting on store based sales in your retail sector:
   - To the same extent?
   - To a greater extent?
   - To a lesser extent?

3.5 How much at risk from ecommerce over the next 2 years (to 2005) are the following UK property types?

<table>
<thead>
<tr>
<th>Property Type</th>
<th>No Risk</th>
<th>Low Risk</th>
<th>Medium Risk</th>
<th>High Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard shops - prime</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard shops - secondary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Out-of-town shopping centres</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large city centre shopping centres</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other In-town shopping centres</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neighbourhood / District centres</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail warehouses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department / Variety stores</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supermarkets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel agents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks and financial services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.6 What types of town shopping are most at risk from ecommerce over the next 2 years (to 2005)? (Tick those most at risk in the matrix)

<table>
<thead>
<tr>
<th>Type</th>
<th>Speciality / Niche</th>
<th>Comparison</th>
<th>Convenience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big Cities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium sized towns</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small towns (rural)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small towns (metropolitan)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.7 What is your reaction to the following statements?
   Over the next 2 years in the UK...

- Digital TV will lead the way in internet access
- Collection and delivery issues will become increasingly important for retailers
- Multi-channel retailing will dominate
- Online retail with no physical presence will shrink in importance
- Town centres will suffer floorspace changes as a direct result of ecommerce

3.8 Are there any other comments you would like to make?

3.9 Would you be prepared to participate in an interview?
   - Yes [ ]
   - No [ ]

3.10 Please complete the following personal details so that we can forward a copy of the executive summary once the research is complete.

- Name: ___________________________
- Company: ________________________
- Job Title: _______________________

---

Thank you very much taking time and trouble to complete this questionnaire. If you have any queries please contact Dr Tim Dixon or Andrew Marston at The College of Estate Management

You will receive a copy of the results in the form of an executive summary when the research is complete.
2003 Benchmark Survey
The Impact of eCommerce on Retail Property in the UK

Investors’/Developers’ Questionnaire

The retail and property sectors are vital components of the UK economy and they face increasing challenges as the Internet economy evolves and ecommerce continues to grow. This continued research has been undertaken to show how retail property will be affected by the impact of ecommerce in the UK to 2005.

This is the third year we have carried out this survey. You may have completed similar surveys in previous years. This year’s survey is part of a major, independent study undertaken by The College of Estate Management at Reading, and funded by the Royal Institution of Chartered Surveyors Educational Trust.

This follows up previous surveys in 2000 and 2001 and is intended to benchmark trends in the sector both in the UK and overseas. It will include a major survey of retail property investors and developers. Further details can be found at our website: www.cem.ac.uk

1. What is your role within your company?

2. How important are the following barriers to Internet growth in your business over the next 2 years to 2005?

3. How soon do you believe ecommerce will have a major impact on property values in the UK retail sector?

4. Compared with a year ago, do you think ecommerce is currently impacting on retail sector:

   - To the same extent?
   - To a greater extent?
   - To a lesser extent?

5. How much at risk from ecommerce over the next 2 years (to 2005) are the following UK property types?

<table>
<thead>
<tr>
<th>Property Type</th>
<th>No Risk</th>
<th>Low Risk</th>
<th>Medium Risk</th>
<th>High Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard shops - prime</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard shops - secondary</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Out-of-town shopping centres</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large city centre shopping centres</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other in-town shopping centres</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neighbourhood / District centres</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail warehouses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department / Variety stores</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supermarkets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel agents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks and financial services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PLEASE TURN OVER

The College of Estate Management

Researchers

Office use only

# [ ]

[ ]
### 2003 eCommerce Benchmark Survey

6. What types of town shopping are most at risk from e-commerce over the next 2 years (to 2005)? (Tick those most at risk in the matrix)

<table>
<thead>
<tr>
<th></th>
<th>Specialty / Niche</th>
<th>Comparison</th>
<th>Convenience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big Cities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium sized towns</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small towns (rural)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small towns (metropolitan)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. What will be the impact of ecommerce on the following UK retail property performance indicators over the next 2 years in your company?

**A Size of impact?**

<table>
<thead>
<tr>
<th></th>
<th>None</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental values</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yields</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital values</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**B Direction of impact?**

<table>
<thead>
<tr>
<th></th>
<th>Upward</th>
<th>Downward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental values</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yields</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital values</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total returns</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. How can investors reduce the risk of e-commerce and its potential impact on UK retail real estate?

9. What is your reaction to the following statements?

- Digital TV will lead the way in Internet access
- Collection and delivery issues will become increasingly important for retailers
- Multi-channel retailing will dominate
- Online retail with no physical presence will shrink in importance
- Town centres will suffer floor space changes as a direct result of ecommerce

10. Are there any other comments you would like to make?

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11. Would you be prepared to participate in an interview?

Yes [ ] No [ ]

12. Please complete the following personal details so that we can forward a copy of the executive summary once the research is complete.

Name: ____________________________

Company: __________________________

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