



Making a positive impact:

The contribution of retail & wholesale to communities and the economy



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Business at the service of the nation

Once again, we find ourselves at a turning point for the UK economy. With rising inflation, energy costs and interest rates, alongside other challenges like labour shortages and the transition to net zero, these are tough times for businesses. It's also been a period of instability – political, market and economic. Instability in markets matters because it leads to instability for households.

Yet even against such a testing backdrop, firms are standing up for their people and their customers – stepping up in the service of the nation, just as they did in the pandemic. And they are also firmly focused on growth. But to unlock this growth potential, we need to restore stability in the short-term. Without stability there will be no investment, no bringing down of debt, and no growth to raise living standards and help households cope with the cost of living. Ultimately, that is the only way out of the current crisis.

One sector leading the charge on growth is retail and wholesale. It's a UK-wide contributor to growth, helping millions of people get in, and on, in life. Retailers and wholesale businesses invest heavily in training their employees; they not only decarbonise their own operations, but help their customers reduce their carbon footprint too. And they're levelling-up in action, as anchor points on British high streets. Retailers and wholesalers support all of us, even in the most trying of times.

Retail and wholesale businesses are famous for their ability to get the basics right. But we hear a lot less about the broader contribution this sector makes to both the economy and society. And how competition and choice deliver better outcomes for all. That's what our analysis focuses on.

The findings are inspirational. I hope they will inspire both businesses and government to learn from the retail and wholesale sector so that together, we can bring about the growth the UK so urgently needs.



Tony Danker

Director General, CBI

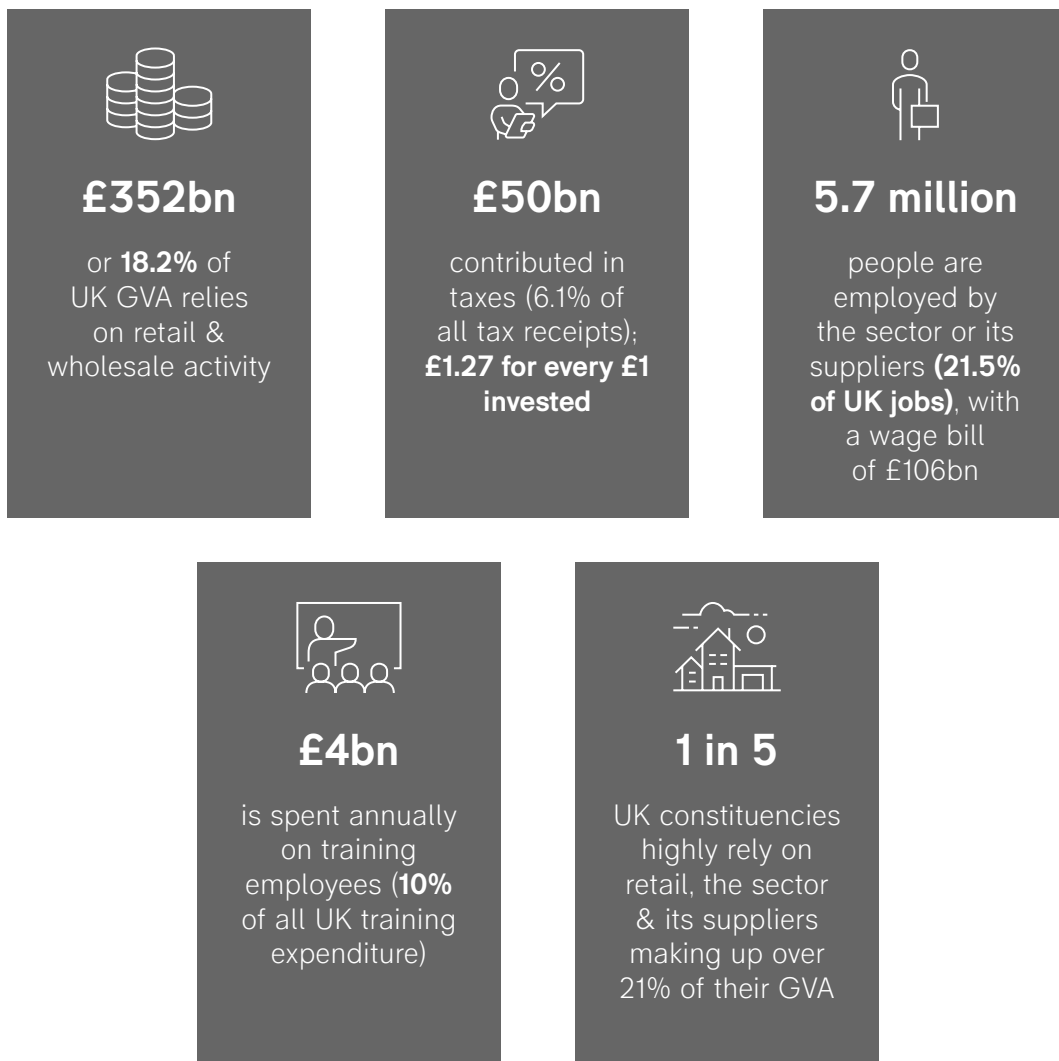


Executive Summary

Retail and wholesale touches all parts of the economy, supporting a fifth of jobs up and down the country and delivering value for money for taxpayers

Retail and wholesale is a key sector of the UK economy, supporting a fifth of all jobs from across a range of industries and supporting economic activity equivalent to more than double the annual budget for the National Health Service.¹ This means it is a key contributor to the public purse, paying £1.27 in tax for every £1 invested. The tax contribution of the wholesale and retail sector, its suppliers, and employees delivers enough revenues to the Exchequer to build 110 new hospitals every year.*

Figure 1 Overview of the total retail and wholesale economic contribution



Source: CBI Economics analysis

* Based on Institute for Fiscal Studies (2019) estimate of an average of £450m per hospital

Furthermore, the sector has a large presence up and down the country, with one in five UK parliamentary constituencies relying on the sector and its suppliers for more than a third of their employment.

The sector is natural problem solver in times of crisis, but also a dependable source of economic opportunity – from maintaining low prices for consumers to investing in apprenticeships in the most deprived parts of the country, the sector is the first line of defence in the battle against the challenging economic headwinds

With the new Government facing into unprecedented levels of inflation and a cost-of-living crisis, it has never been more important to have retail and wholesale firing on all cylinders. Despite a challenging landscape for a high-cost and low-margin sector, retail and wholesale businesses are adapting their business models and continuing to contribute significantly to the UK economy and local communities. Their contribution has never been more important as households are grappling with a cost-of-living crisis, with inflation set to peak at more than 13% in the autumn and the economy forecast to contract by 2.3% in the last quarter of 2022.²

The sector is already playing a significant role in providing economic opportunity to all in society through:

- Providing apprenticeship opportunities in the most deprived parts of the country, with a quarter of all apprenticeships created by the sector found in the UK's most deprived 20% of areas
- Investing in its workforce, with £100 billion spent on wages – more than ten times the cost of the London Olympic games.³ The sector is also spending £4 billion every year on training more than half of its employees in the skills required now and in the future, supporting social mobility through upskilling employees for new roles
- Helping consumers manage the current cost-of-living crisis, by absorbing some of the cost pressures themselves to lower prices, as well as providing discounts and donating meals to the most vulnerable to food poverty.

Despite the challenges the sector faces, its resilience provides a playbook for how the UK economy can defy the downturn by continually adapting and investing, upskilling its employees and creating high-value growth opportunities

The retail and wholesale sector invests more than £17 billion annually – almost the same cost as the total Crossrail project⁴ - (accounting for 8.3% of total UK business investment, or 10.6% of the sector's GVA), whilst also spending more than £1 billion on Research & Development (R&D) - matching the amount spent in this space by the MoD.^{5, 6, 7}

With technology providing opportunities for new business models, the sector is investing to improve the customer offer and increase efficiency. As it continues to capture the growing opportunities of the e-commerce market, the sector is expected to increase its expenditure on R&D and capital over the next decade in key areas such as automation, robotics and cybersecurity.

To support this digitalisation, new roles are being created in digital technology, data science, engineering and digital marketing. The sector is making significant strides in ensuring their existing workforce can benefit from these opportunities, investing in upskilling and reskilling its employees with digital skills and supporting career progression.

Moreover, the sector is continually adapting to changing consumer preferences, investing in repurposing stores, creating local fulfillment centres, and developing partnerships with digital companies to deliver products faster – such as offering same-day or even one-hour delivery.

Retail and wholesale businesses are also showing their commitment to supporting the transition to net-zero by investing to improve energy efficiency across stores and distribution centres, installing solar panels and heat pumps, and upgrading their vehicle fleet to electric and low-emission vehicles.



With the sector focused on ensuring households can cope with rising costs, now is the moment to get deeply practical about the role retail and wholesale can play in driving sustainable, long-term growth.

While the sector is already making substantial contributions to the UK economy, it could go even further if changes were made to both the apprenticeship levy and business rates. These policies in their current form present barriers for retailers to investing in both upskilling their employees and making digital and green improvements to their stores.

Greater flexibility in the use of the sector's apprenticeship levy funds could unlock additional investment in training, enabling a shift in the occupational profile of the sector's workforce towards higher value roles and preventing job losses at lower skill levels. One major retail business, for example, has stated that they could create 8,000 new apprenticeship opportunities if the apprenticeship levy was reformed, providing a 36% boost to the sector's apprenticeship opportunities and boosting lifetime earnings for trained employees by over £500 million.⁸

Investments in digitalisation and decarbonisation are taking place even as cost pressures continue to squeeze the sector's margins, and many businesses in the sector would be able to accelerate these investments if these cost pressures were alleviated. A large and growing proportion of this cost base continues to come from business rates, and inflation is exacerbating this further. Reforming the business rates system would enable the sector to continue to invest both now and in the long-term, and enable it to play a greater role in supporting households and employees through the cost-of-living crisis in the short-term.

It may be a fragile moment for the economy. But with the focus on restoring macro-economic stability, there is real ambition from the sector to get behind a plan to unlock the huge growth opportunities for UK businesses. And there is also belief that we can look forward to a 2023 not of instability and concern, but promise, potential and prosperity. The offer from the sector to the new government is clear and simple: work in partnership with industry to help unlock the value that retail and wholesale can bring as part of business' vital role at the service of nation.

Introduction

The retail and wholesale sector has undergone significant change, but continues to adapt to long-term and short-term challenges alike

Over the decade preceding the pandemic, technology and other factors have changed the way consumers shop. Online sales now represent 25% of all retail sales, compared to 9% a decade ago.⁹ This shift has led to the emergence of new business models, as well as an increase in the online presence of incumbent retailers to meet consumer demand.

Short-term projections indicate the growth and transformation of the sector. The digitalisation of online retail is a key long-term trend, with online retail sales doubling by 2030, compared to 2018.¹⁰ Retailers across Europe are also expected to hire 0.8-1.5 million employees each year to 2030, while 40-50% of the total workforce are likely to require upskilling for new roles, particularly in digital skills.¹¹

Alongside long-term changes in consumer preferences, the sector is also grappling with short-term challenges, both in terms of supply constraints – particularly around skills and labour – and a fall in demand. While average household spending steadily increased over the last decade, the pandemic saw spending contract by 18% in 2020/21 as many households instead increased their savings.¹² Average weekly expenditures per household had fallen in 2020/21 to the level seen in 2010 (£205, down from nearly £250 just before the pandemic).¹³

More recently, a combination of supply chain and labour shortages, rising energy prices and other inflationary pressures have started to dampen business confidence and hit retail and wholesale margins. According to the CBI's Distributive Trades Survey, July 2022 marked the fourth consecutive month in which retail sales have failed to grow and retailers expect a 14% contraction in sales in August, including a 22% fall in online sales.¹⁴ As inflation continues to squeeze incomes and reduce spending power, household spending on non-essential goods is likely to remain subdued. This is evidenced by a fall in consumer confidence over the second quarter of 2022.

Despite a challenging landscape for a high-cost and low-margin sector, retail and wholesale businesses are adapting their business models and continuing to contribute significantly to the UK economy and local communities. Their contribution has never been more important as households are grappling with a cost-of-living crisis, with inflation set to peak at more than 13% in the autumn and the economy forecast to contract by 2.3% in the last quarter of 2022.¹⁵ This comes at a critical time as the fourth quarter of the year is key for the sector in normal times, so these challenges will only exacerbate this.



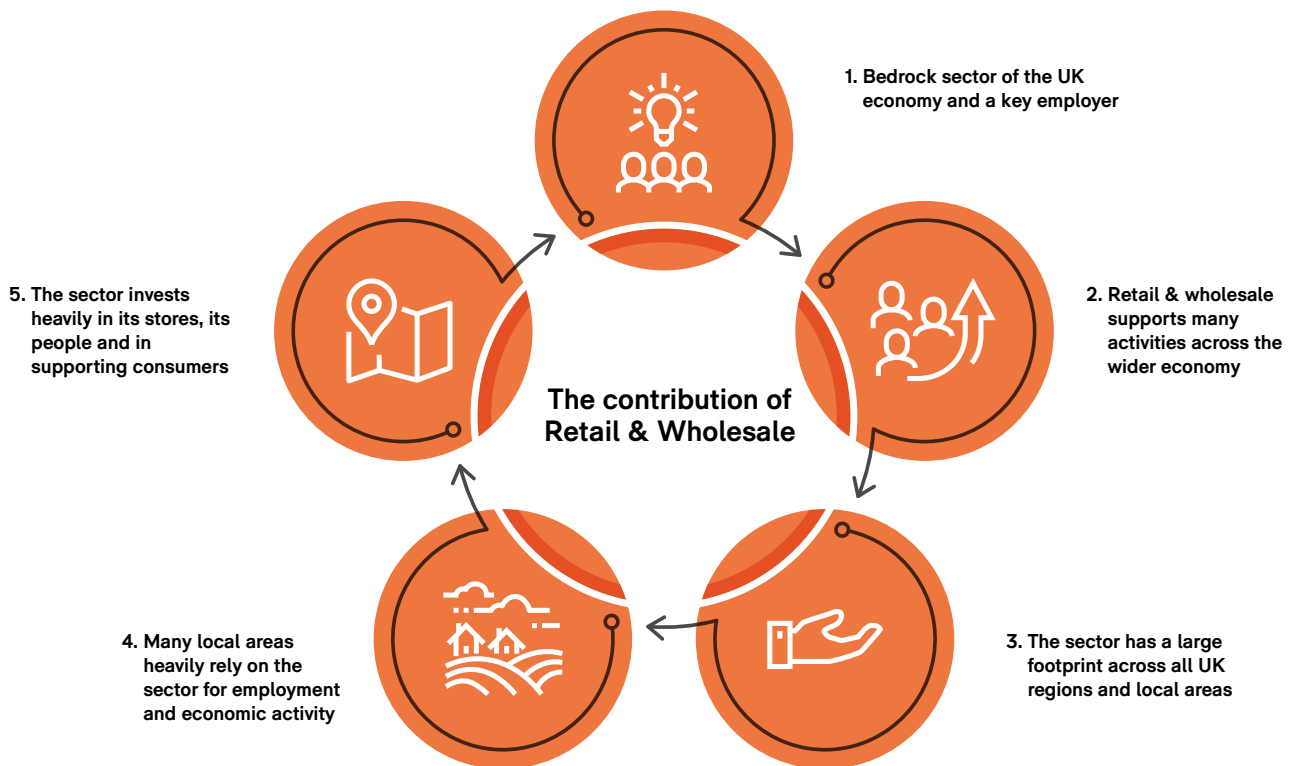
The sector has often been the first line of defence during challenging economic headwinds and is yet again prioritising supporting households, as well as their employees, through these short-term challenges. Anecdotal evidence demonstrates that retailers are already absorbing much of these cost pressures and supporting employees in troubled time through increased wages and discounts, while continuing to face a disproportionately large business rates bill. These business rates liabilities are set to rise from April 2023 in line with the September 2022 CPI inflation rate*, adding further cost pressures for businesses. Given the sector's reliance on property and, therefore, their large contributions to business rates, these inflationary pressures are likely to limit the sector's ability to invest. It will also limit its ability to continue to support households through lower prices as inflation is set to reach 18% in the spring.¹⁶

* The Uniform Business Rate (UBR) is up-rated every April by the CPI inflation rate as at September the previous year.

Retail and wholesale are at the epicentre of every economic ecosystem in the UK with analysis demonstrating the importance of the sector to the national, regional and local economies

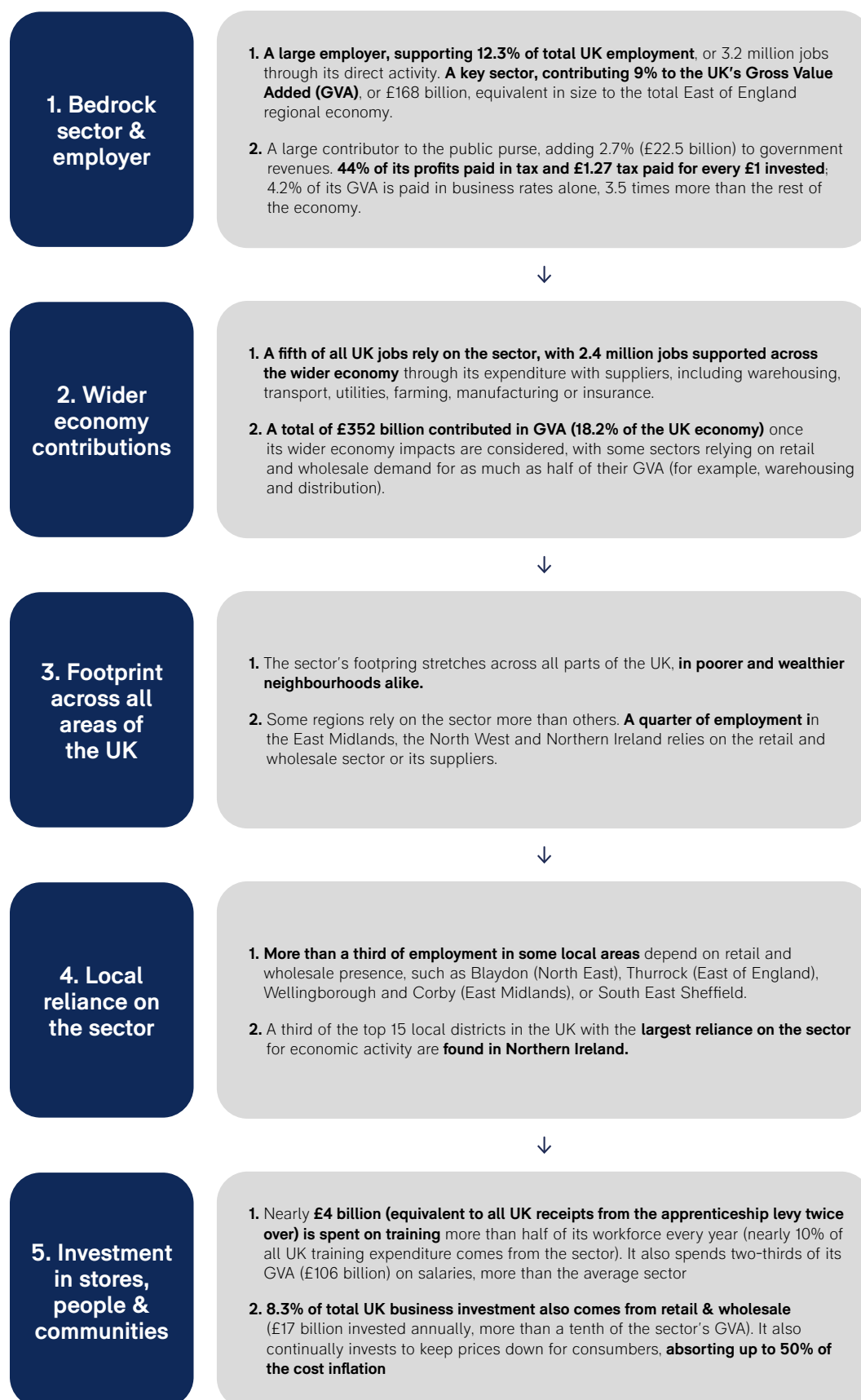
CBI Economics analysis demonstrates the sector's significant contributions across five key areas. **Figure 2** below provides an overview.

Figure 2 Overview of retail and wholesale contributions



It is clear the sector contributes to both society and to the economy in many ways through the jobs it creates, its investment and its regional footprint.

Figure 3 below provides a summary of the sector's contributions across the five areas described above.

Figure 3 The UK and local economic contribution of retail and wholesale

Source: CBI Economics analysis

The remainder of this report sets out the different ways in which the sector contributes to the economy and to society. It is structured as follows:

- Chapter 1 presents the economic contribution of the retail and wholesale sector in terms of employment, GVA and tax, and highlights the sector as an established bedrock sector and employer. It also presents the economic contribution to the wider economy such as the spillovers to other sectors
- Chapter 2 demonstrates the scale of the footprint of the sector across the whole of the UK. It highlights the local reliance on the sector, enabling an assessment of the geographic distribution of the retail and wholesale sector
- Chapter 3 analyses the wider growth of the sector. It presents the scale of investment that the sector is making in stores, people and communities. Public data and case studies are used alongside modelling to understand the impacts of skills shortages.



Bedrock sector and employer

Retail and wholesale is both a key sector and a significant employer, supporting a fifth of all UK jobs

The retail and wholesale sector is a key segment of the UK economy, contributing not only to jobs within the sector itself but also through its supply chain and the further economic activity this generates. Analysis by CBI Economics shows that a fifth of UK employment and economic activity is reliant on the retail sector. This means that, for every £1 in Gross Value Added (GVA)* created by the retail and wholesale sector, a further £2.1 is created throughout the rest of the economy and for every job, a further 1.7 jobs are created across the wider UK economy.

To understand the full contribution of the retail and wholesale sector, we need to look at its relationship with the wider economy. The sector requires inputs which need to be sourced through their supply chain. The impact of this additional activity created by the immediate supply chain as a result of the retail and wholesale sector activity is known as the direct contribution. Taking this one step further, to the activity of the wider supply chain (the onward supply chain activity of those initial suppliers, generated by their retail and wholesale specific activity), this is the indirect contribution. Finally, the spending of employees in the retail and wholesale sector creates further value throughout the economy, and this is known as the induced contribution.

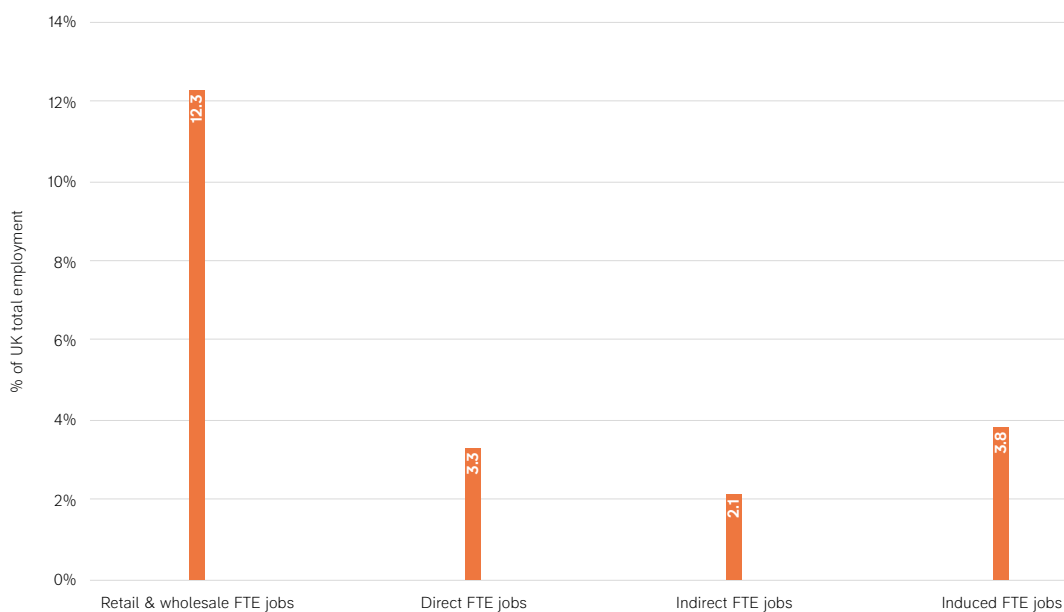
It is through these knock-on effects that the retail and wholesale sector can impact the wider economy, stimulating additional value creation, economic contribution and additional jobs. This also results in increased fiscal contributions throughout the wider economy.

The contribution of the retail sector by itself is significant. It contributed £168 billion to UK GVA before the pandemic, equivalent to the size of the East of England regional economy.¹⁷ A large proportion of this (63%, or £106 billion) was spent on wages and salaries paid to its employees and 13% (£22.5 billion) was paid in business taxes, net of subsidies or reliefs.** The sector also contributed over 12% of UK Full Time Equivalent (FTE) employment through its activity. These contributions are illustrated in **Figure 4** below.

* Gross Value Added is calculated as the sum of compensation of employees (including pension contributions, bonuses, redundancy payments etc.), taxes (less subsidies), and gross operating surplus (profits).

** The remaining 24% of the sector's GVA represents gross profits

Figure 4 Retail and wholesale sector FTE employment (% of UK total employment)



Source: CBI Economics analysis

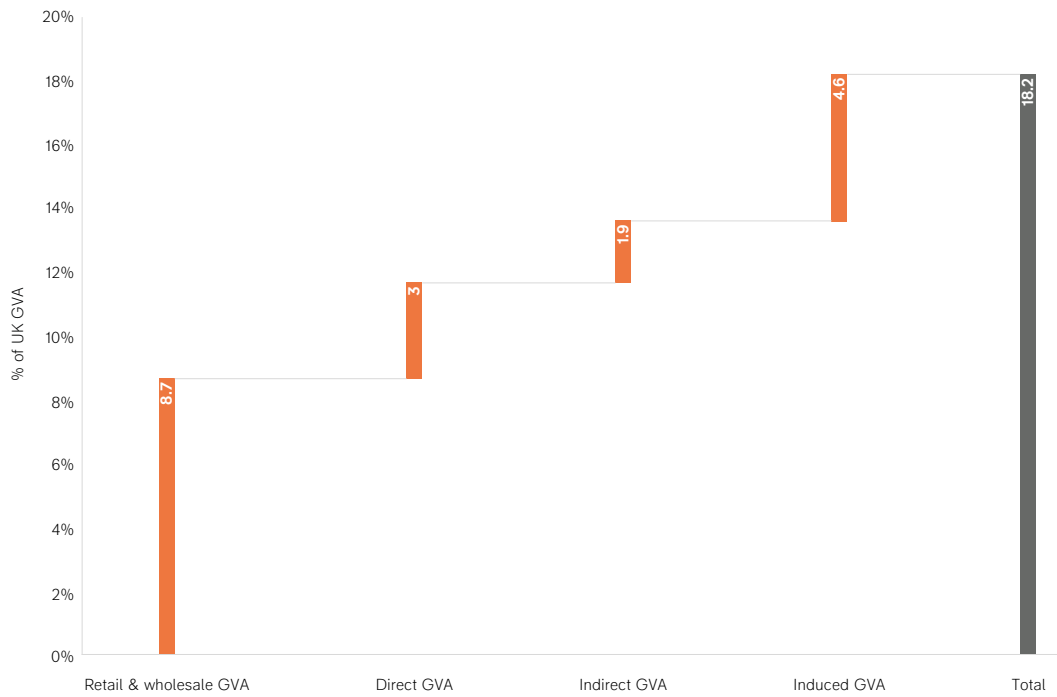
When the wider supply chain impact is also taken into account (through the direct, indirect and induced effects) the total GVA contribution across the sector and its supply chains stood at £352 billion (18% of the UK economy).

From this:

- the retail and wholesale sector contributed £168 billion
- the direct supply chain (immediate retail and wholesale suppliers) contributed £59 billion
- the indirect supply chain (the rest of the UK supply chain) contributed £37 billion
- the induced effects (employees' expenditure on UK goods and services) contributed £88 billion.

These contributions are illustrated in **Figure 5** below, as a % of total UK GVA.

Figure 5 Retail and wholesale sector economic activity (% of UK GVA)



Source: CBI Economics analysis

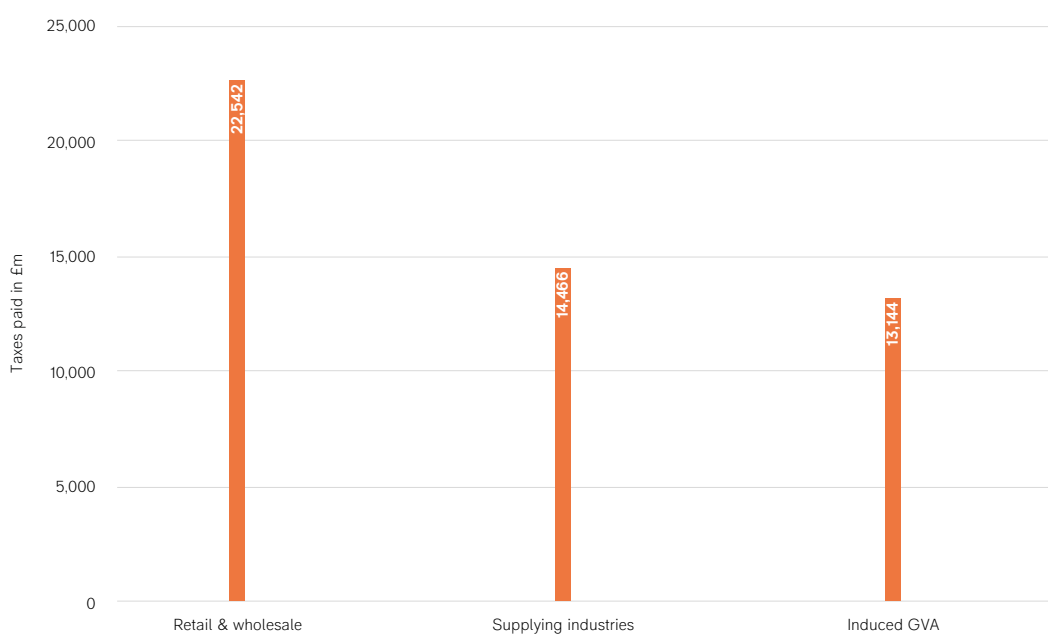


Retail and wholesale businesses directly contribute 2.7% of total tax receipts to the public purse, with £1.27 in tax paid for every £1 invested

The wider, additional activity generated by the retail sector is also a big contributor to the public purse, supporting 6.1% (£50.1 billion) to government revenues. In 2019, this was enough to fund more than a third of the Department of Health & Social Care budget or over 110 hospitals being built.¹⁸ *

This includes business taxes, income taxes, and taxes on products for the sector, its suppliers, and its employees. The full fiscal contribution and its breakdown is shown in **Figure 6** below.

Figure 6 Retail and wholesale sector fiscal contribution to government finances (Taxes paid in £m)



Source: CBI Economics analysis

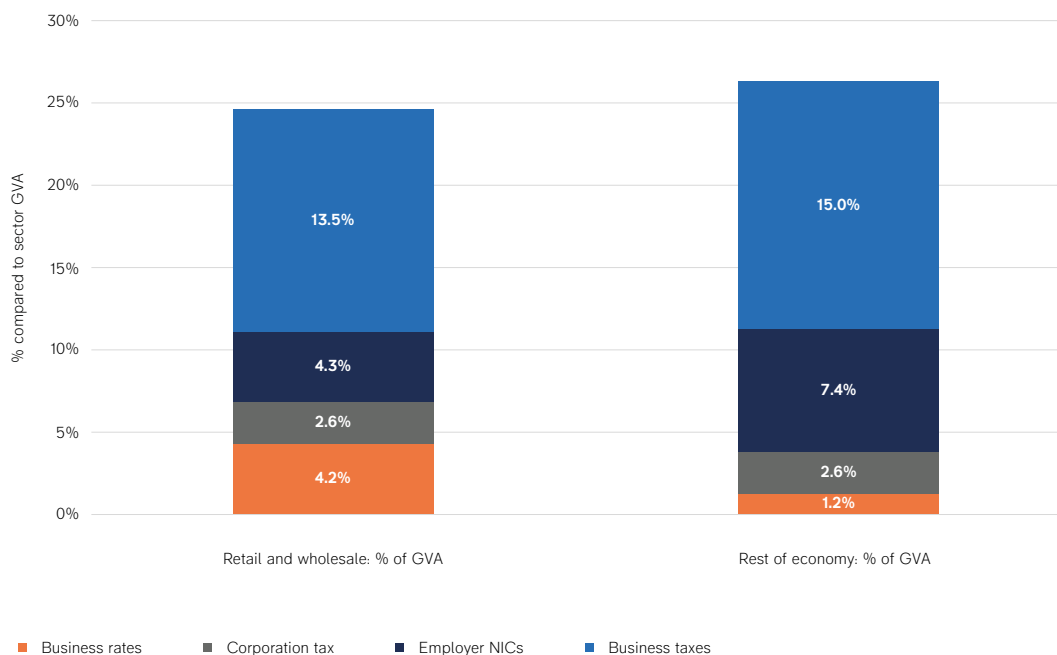
* Based on Institute for Fiscal Studies (2019) estimate of an average of £450m per hospital

The sector's fiscal contribution of £50 billion is made up of the following three contributions:

- **The direct contribution of the sector** stands at 2.7% (£22.5 billion) of government revenues. This means 44% of the sector's profits is paid in tax, the equivalent of over 13% of the sector's GVA
- **Supplying industries** contribute an additional £14.5 billion. This covers the tax contribution from their activity which is reliant on retail and wholesale sector activity and takes the total contribution to 4.5% of public sector tax receipts (or £37.0 billion) when combined with the £22.5 billion direct contribution
- **Employees** within retail and wholesale and its supplying industries also contribute through taxes paid on income – this tax contribution is enabled by the wages and salaries the sector pays its employees, which support further spending and taxation on products. This expenditure contributed over £13 billion in taxes, representing nearly 2% of all public sector tax receipts.

Corporation tax, business rates and social contributions form the three largest individual contributors to this. Figure 7 shows a comparison of how three of the main headline taxes affect the retail and wholesale sector compared to the rest of the economy, when considered as a proportion of their respective GVA. Most striking is the disproportionate effect of business rates. 4.2% of the sector's GVA is paid in business rates alone, making up a much higher proportion of its tax bill than the rest of the economy (3.5 times more).

Figure 7 Retail and wholesale sector fiscal contribution to government finances (% compared to sector GVA)

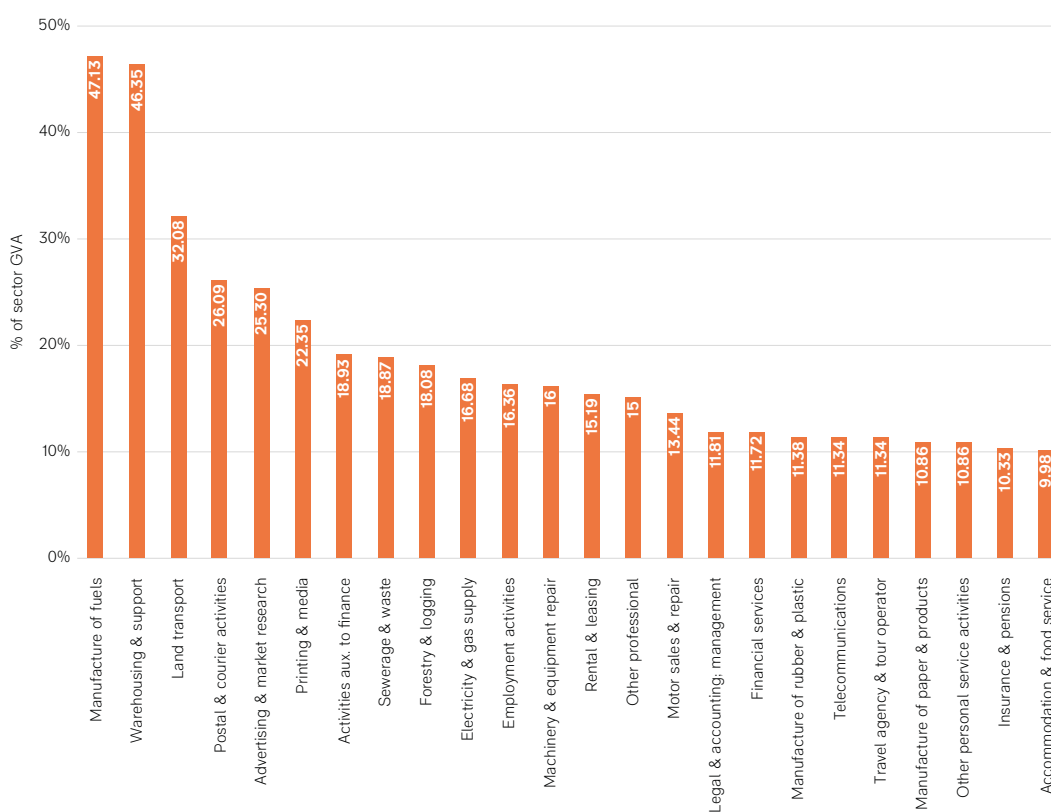


Source: CBI Economics analysis

Many industries across the UK economy rely on retail and wholesale demand, with over 9% of UK employment supported by the sector's supply chain expenditure

The retail and wholesale sector is particularly important to many businesses across certain industries, as shown by **Figure 8** below. Some sectors, such as the warehousing and distribution sector, rely on as much as half of their own activity on demand from retail and wholesale.

Figure 8 Percentage of each industry's GVA reliant on retail and wholesale (% of sector GVA)

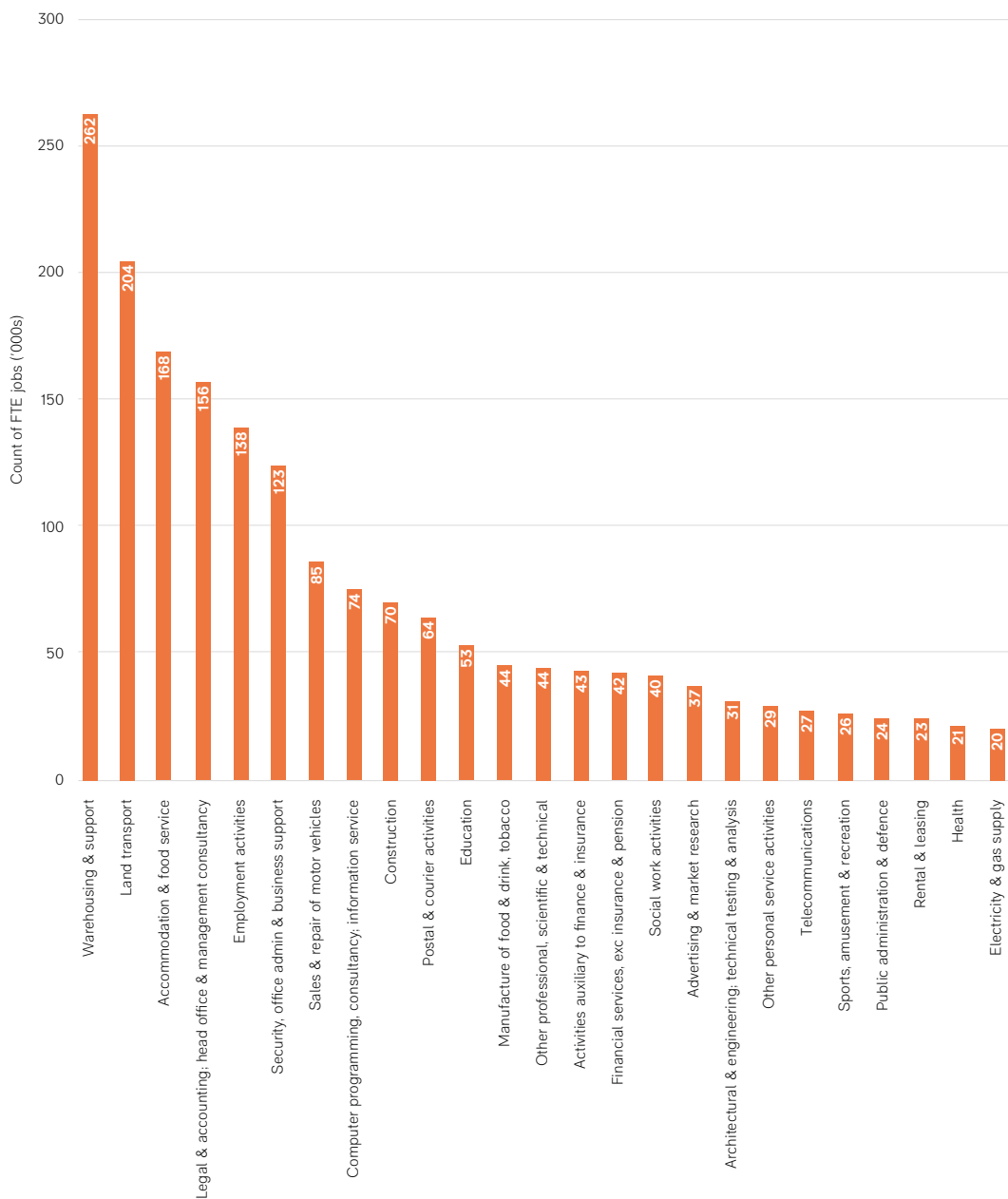


Source: CBI Economics analysis

Notably, nearly half of fuel manufacturing as well as warehousing and transport activity is reliant on the sector. A third of land transport activity, a quarter of advertising & market research activity, and nearly a fifth of the energy sector are also reliant on retail and wholesale demand.

Moreover, from the total 5.7 million jobs generated by the retail and wholesale sector, more than 2.4 million employees are employed by industries in its supply chain (9.2% of UK employment). This occurs through the sector's expenditure with its suppliers, including warehousing, transport, utilities, farming, manufacturing or insurance. **Figure 9** below shows the main industries in which these employees are found.

Figure 9 Main industries supported by retail activity (count of FTE jobs (2019))



Source: CBI Economics analysis

This demonstrates the vast spillover effects the retail and wholesale sector has in growing the economy as a whole.



The regional and local footprint

Regions across the UK consistently depend on the retail and wholesale sector for employment and economic activity

As demonstrated in Chapter 1, the UK retail and wholesale sector makes a significant contribution to the UK economy, with more than 2.4 million people employed by industries in its supply chain (equating to 9.2% of all UK employment). This inevitably impacts many sectors and regions across the UK, leading to large footprints across all UK regions and nations.

The footprint of the sector is demonstrated in **Table 1** below, which shows the employment contribution of the sector, including through its supply chain expenditure and the spending of its employees on goods and services.

Table 1 The retail sector's regional footprint

Region	Real GVA (£m, 2019)	% of region GVA	FTE jobs (2019)	% of region FTEs
England	307,317	18.4%	5,022,795	21.5%
Northern Ireland	8,625	20.9%	148,553	22.0%
Wales	10,926	16.6%	223,408	19.8%
Scotland	24,722	17.1%	417,993	18.8%
North East of England	8,974	16.6%	190,070	20.1%
North West of England	35,523	19.3%	677,027	22.4%
Yorkshire & The Humber	23,486	18.7%	460,946	21.5%
East Midlands	22,073	19.9%	440,424	23.5%
West Midlands	27,076	19.2%	511,692	22.0%
East of England	31,881	19.4%	541,736	21.9%
London	78,203	17.0%	899,161	19.4%
South East of England	54,862	19.2%	831,010	22.3%
South West of England	25,239	17.9%	470,728	21.4%

At a high-level, broadly a fifth of employment in each region is linked to the retail and wholesale sector. More specifically, the East Midlands region stands out with the highest share of retail and wholesale employment of total regional employment. This is followed by the North West, the South East, and Northern Ireland. At the other end of the spectrum, Scotland and London have the lowest reliance on retail and wholesale sector activity.

Similarly, when looking at economic activity using GVA, this is also consistently high amongst the regions. This is demonstrated in **Table 1** above.

Northern Ireland and the North West of England also stand out with the shares of regional GVA, which is reflective of a larger presence of some its supplying industries – such as the manufacturing of food and drink products and agriculture in Northern Ireland; and energy production as well as manufacturing of food and drink in the North West.

The sector has a large footprint across all areas of the UK, with some local economies relying on the sector for more than a third of all jobs

The retail and wholesale sector has a wide presence across all UK regions and local areas, as a key part of these local economies and as a key source of demand for many other sectors' activity, from farming and agriculture, manufacturing or utilities, through to professional service activity such as advertising or insurance.

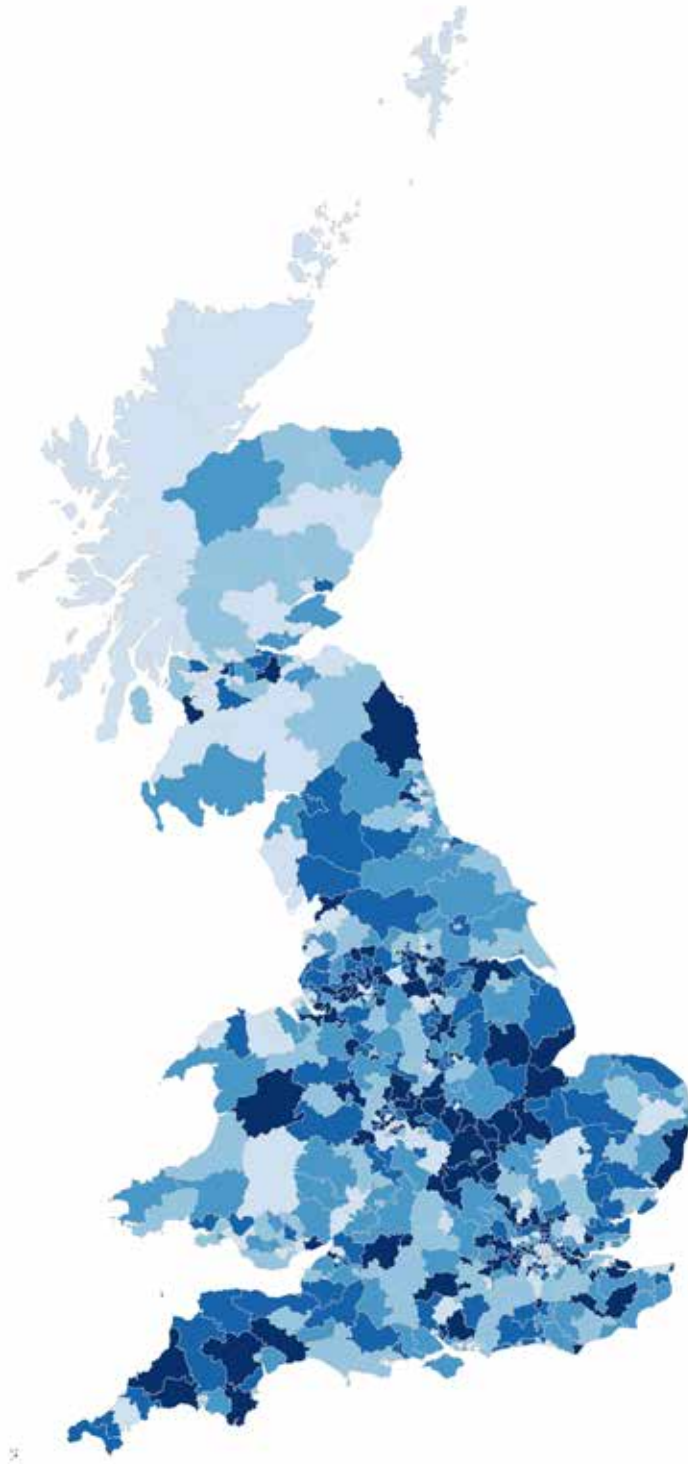
Figure 10 below shows the footprint of retail and wholesale employment, including their contributions to the wider regional economies, across the UK's constituencies.



Figure 10 Local employment footprint by constituency

Employment as % of area

- 9-16%
- 16-18%
- 18-19%
- 19-21%
- 21-27%



Source: CBI Economics analysis

Nearly a quarter of employment in some regional economies is reliant on retail and wholesale or its supply chain, with 23.5% of East Midlands' employment reliant on retail and wholesale and 22.4% in the North West. It also contributes 22% of employment in Northern Ireland, where more than a quarter (27%) of all local areas depend on the retail and wholesale sector activity for more than a fifth of their GVA. In fact, six of the top 15 local authority districts with the most reliance on the retail and wholesale sector for economic activity are in Northern Ireland.

The higher concentration of sector employment and GVA in Northern Ireland and the North West of England is reflective of a larger presence of some its supplying industries, such as the manufacturing of food and drink products and agriculture in Northern Ireland, and energy production as well as manufacturing of food and drink in the North West.

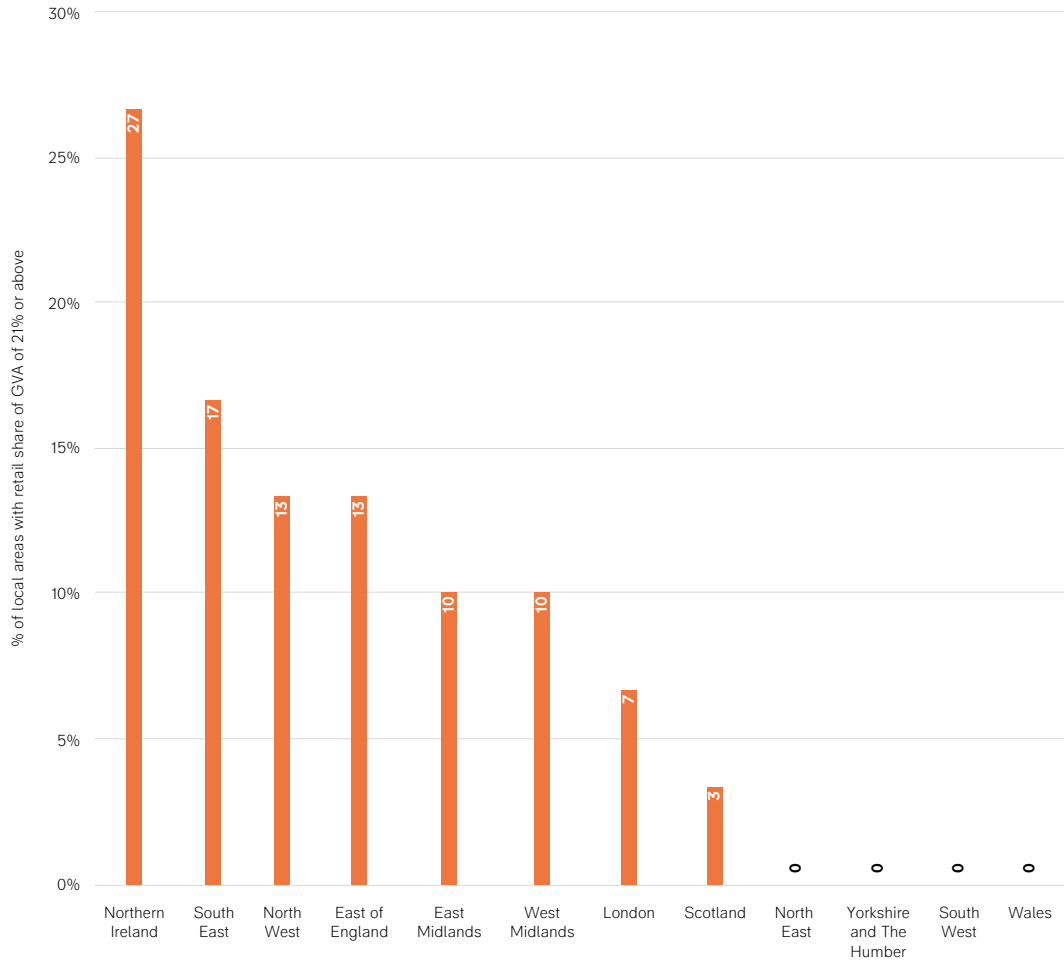
Local authorities in Northern Ireland, the South East, East, and North West tend to be more reliant on retail and wholesale economic activity

The sector undoubtedly has a large presence up and down the country, and the evidence shows it contributes in wealthier and poorer areas alike. However, the regions with the highest employment and GVA reliance on the retail and wholesale sector are largely located in Northern Ireland, the North West, and the Midlands (East & West).

The local variation shows just how much the sector contributes in some areas. For example, the sector contributes over a third of employment in some local areas, with 36% of all jobs in Blaydon (North East), 35% in Thurrock (East of England), Wellingborough and Corby (East Midlands), and 33% in South East Sheffield depending on retail and wholesale presence.

Looking at the distribution of local authority districts with a retail and wholesale GVA share above 21%, the top quintile of local authorities selected in order to identify the most reliant districts, these are concentrated more in Northern Ireland (27%), the South East (17%), the East of England (13%), and the North West (13%).

Figure 11 Local areas with above-average reliance on retail and wholesale activity, by region (Regions with retail share of regional GVA of 21% or above)



Source: CBI Economics analysis



The retail and wholesale sector delivers opportunity and growth irrespective of economic geography

The sector clearly has a large presence across all parts of the UK, and the evidence shows it contributes to wealthier and poorer neighbourhoods alike, cutting across all communities. As Figure 12 above shows, over 20% of regional employment in the retail and wholesale sector is observed across regions with vastly different socio-economic levels.

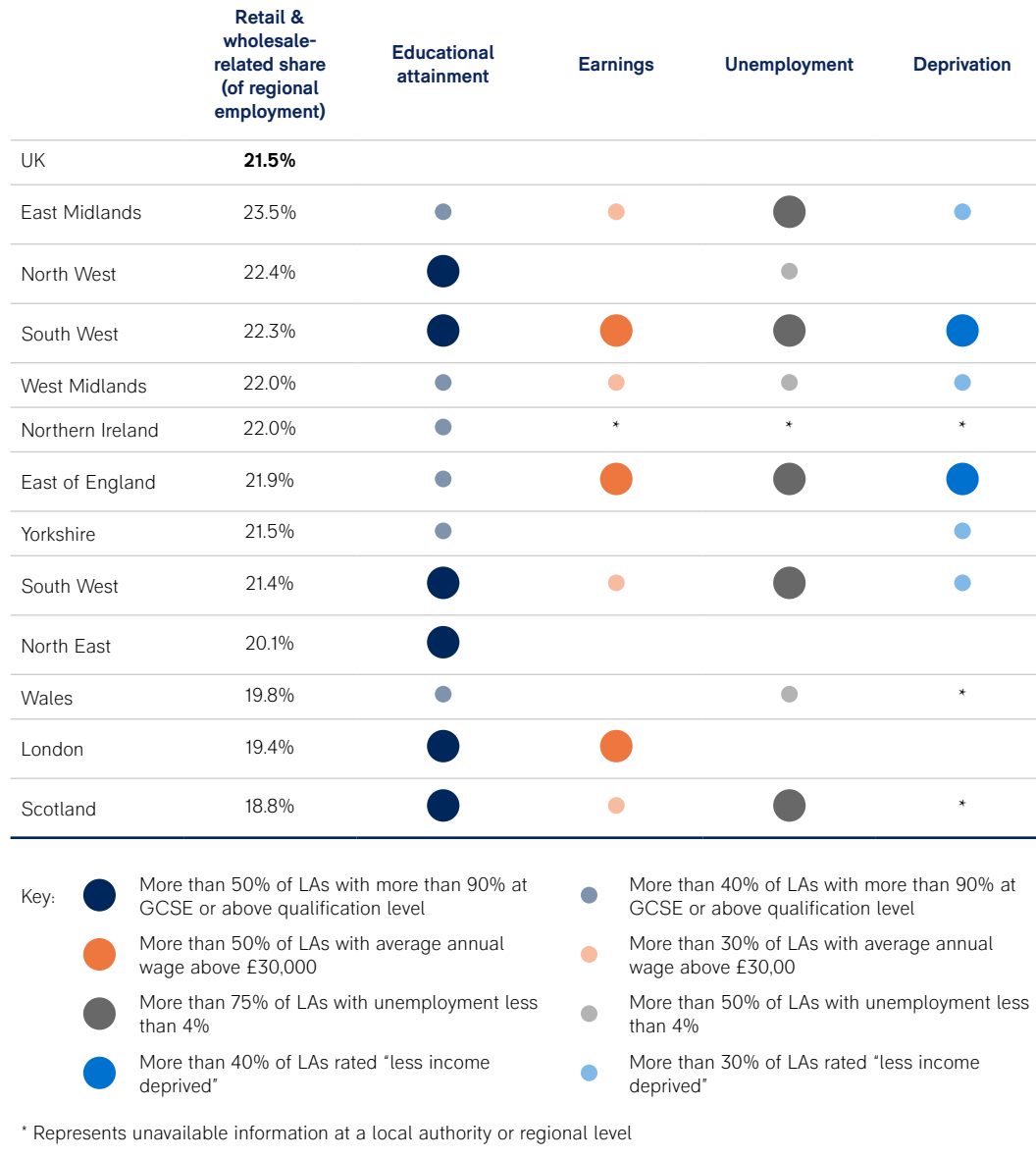
There is high employment reliance on this sector regardless of regional size. In the North East, there are no local authorities with an unemployment rate of less than 4%, however 20% of the workforce is still dependent on retail. Equally, at the other end of the spectrum, the South West has the highest number of local authorities with less than 4% unemployment (97%), and just over 21% of the workforce there is dependent on retail.

In terms of earnings, there is a similar picture. Outside of London, the South East is the region with the highest proportion of local authorities where average earnings are greater than £30,000, and here just over 22% of workers are in the retail and wholesale sector. This proportion is not vastly different from the proportion of workers in Yorkshire and the Humber, however this region has the second lowest number of local authorities (19%) where average earnings are greater than £30,000.

All regions have more than 40% of their local authorities with at least 90% of economically active workers qualified to GCSE level or above. Reliance on the retail and wholesale sector is relatively evenly split between those regions with higher proportions of local authorities and those with lower proportions.

Finally, when stepping back and looking at the statistics around deprivation, the narrative remains broadly similar. The South East has the highest proportion of local authorities rated "less income deprived" (60%) and the North West has the second-lowest proportion (13%). However, when reliance on employment in the retail and wholesale sector is considered, these regions are nearly identical.

Figure 12 Regional comparison of socio-economic metrics, ranked by regions with greatest reliance on retail and wholesale employment



Source: CBI Economics analysis, ONS (Annual Survey of Hours and Earnings), ONS (Annual Population Survey), English Indices of Deprivations 2019



A growing sector continually adapting and investing

Retail and wholesale demonstrate the best of business leadership in addressing societal challenges and providing opportunities for growth

The contribution of retail and wholesale goes beyond the jobs and GVA created throughout the economy and the contributions to the public purse. Retail and wholesale is an innovative sector continually adapting to improve its offer to consumers, providing solutions to societal challenges, and creating opportunities for all in society. The sector is already playing a significant role in helping employees and consumers manage the current inflationary pressures, as well as continuing to invest in training their workforce, improving their online offer and investing in energy efficiency.

They are contributing in these areas by:

1. Investing in training to upskill employees for the skills required today and in the future, including around digital skills, helping to support social mobility and creating high-value new opportunities
2. Investing to grow, innovate and decarbonise, growing their online offer and repurposing stores, investing in energy efficiency and upgrading to an electric delivery vehicle fleet, as well as working with suppliers to reduce the carbon footprint further down the value chain
3. Supporting households through the cost-of-living crisis, by absorbing cost pressures to keep prices down for consumers and investing in employee pay.



The sector is investing heavily in training its workforce and providing high-value opportunities in e-commerce, data science and cybersecurity

Retail and wholesale businesses are collectively spending nearly £4 billion on training annually, equivalent to all UK receipts from the Apprenticeship Levy (£2.7 billion) nearly twice over.^{19,20} Nearly 40% of businesses in the sector are investing in management skills training and nearly 60% are spending on training in new technology and digital skills. Furthermore, two thirds of all training expenditure is utilised on apprenticeship training. The sector created more than 22,000 apprenticeship opportunities in 2020/21 across England, a quarter of which were in the 20% most deprived areas, and 75% of which were funded through the apprenticeship levy.²¹

The sector also advertised nearly 120,000 vacancies in 2021, with a third estimated to be skills-shortage vacancies. The sector hired across a range of roles, including managerial, professional and technical occupations, needing approximately 20,000 people (29% of vacancies) at middle skill levels and just over 17,000 (24% of vacancies) at high skill levels in 2021. One of the largest hiring retail businesses also noted that a third of their vacancies in 2022 were in professional occupations and approximately 45% in technology roles supporting the e-commerce side of the business.

Retailers and wholesalers continue to be severely impacted by the shortage in Heavy Goods Vehicle (HGV) drivers and warehouse operators following the pandemic. Given the increase in consumer demand for online sales, this is an area constraining growth for the sector, particularly as apprenticeship training for HGV drivers takes over a year in England.

One of the key ways in which the sector is working to address these skills shortages and develop the skills of the future is through the development of flexible training opportunities to upskill and reskill existing employees, as well as to attract a young workforce into the industry. Recent analysis shows that up to half of the sector's workforce will need to be upskilled in future years, with new skills required in data analytics, digital marketing and cybersecurity.²² This is likely to drive a significant increase in productivity in the sector and create better-paid employment opportunities across a range of new roles.

The sector is already heavily investing in growing their online offer by creating new high-skill employment opportunities in data science, engineering and technology, as well as cybersecurity. As part of this, companies have provided training opportunities to help up-skill their existing workforce and provide opportunities for a career change and progression. Two examples of how companies are investing in digital skills training are presented below.

Spotlight – investment in digital skills:

Sainsbury's has illustrated the significant levels of investment it is making in technology, data science and engineering skills, supporting early careers for individuals from non-traditional points of career entry. Examples of their programmes include:

- Industrial placements for university students
- A 'jumpstart' two-year programme for technical skills training, removing the graduate degree entry requirement
- A technical training 'bootcamp' to re-skill employees from stores and depots in engineering, enabling them to re-start their careers. 82 individuals have been hired through this route in the year to date, with an expectation that this would double next year
- Longstanding Annual Data Philanthropy event, supporting charity pro bono with two-day hackathon of engineering and analytics talent across group businesses.

The company is also focusing their training efforts outside London for Engineering and Product Technology talent, with Tech Hubs in Coventry and Manchester.

Spotlight – investment in digital skills:

Kingfisher is also prioritising investment in digital, technology and data as they scale up for the next phase of e-commerce growth, led by their e-commerce marketplace technology. They have invested in specialist expertise to deliver growth and extended their capability in key areas including digital marketing, CRM, e-commerce, design services, engineering, data science and supply/logistics. As part of this, the company has been supporting employees to develop their skills and fulfil their potential through almost 2.3 million hours of learning across all company functions.

Throughout the pandemic, the same company has continued to recruit talent in digital, technology and data to grow their e-commerce capability. This is allowing them to better understand customers and help them through their home improvement journeys, from research and inspiration to installation and after-care.

They are also accelerating investment in customer data, as an integral part of their plan to identify and retain loyal customers and sell more to them. Data science and analytics are increasingly used to maximise customer retention and spend, including improving inventory availability and personalisation.

The sector is already making significant investments to upskill and reskill their existing workforce to help them transition into higher-value roles required by the sector as it continues to invest in technology. However, these investments are currently constrained by scope limitations in the apprenticeship levy. For example, a retail company notes that the apprenticeship levy constrains their efforts to support upskilling and reskilling efforts in the company, as many of them fall outside its scope. This makes it particularly difficult to support employees who are looking for a career change or want to improve their skills.

Businesses in the sector are pointing to an immediate need for greater flexibility in the apprenticeship levy to help unlock new opportunities, alleviate skills shortages and ensure training can be delivered in an agile way. With the retail employment landscape changing, jobs are changing as the sector adopts more technology. One major retail business has stated that they could create 8,000 new apprenticeship opportunities if the apprenticeship levy was reformed, providing a 36% boost to the total sector's apprenticeship opportunities and boosting lifetime earnings for trained employees by over £500 million.²³

A retail company highlighted that one benefit from greater flexibility in the length and scope of the apprenticeship levy would be supporting them retrain and upskill employees on shop floors to enable a career change in line with business requirements and prevent further job losses at lower skill levels. The company said they would look to use a flexible levy to ensure employees have skills fit for the future, by upskilling employees in data literacy without having to place them onto an apprenticeship.

Another retail company has said they would use levy funding to retrain existing staff to fill skills gaps. The ability to invest in in-house training for vocational training such as chefs would give them the opportunity to upskill staff far quicker. Moreover, if they were able to fund 'bolt-ons' to apprenticeships, the company would use it to top up the Vehicle Maintenance apprenticeship to cover electric vehicles.

While large employers in the retail and wholesale sector have been unable to fully benefit from their expenditure on the apprenticeship levy to fund training opportunities for their employees, their levy contributions have helped small and medium sized businesses throughout the wider economy. The case study below illustrates the ways in which one retail company has helped create apprenticeship opportunities over the past two years.

Spotlight – apprenticeship levy transfer:

Large employers paying the government apprenticeship levy can transfer any unused funds (up to a maximum of 25%) to help other non-levy paying organisations pay for apprenticeship training.

So, in 2021, **Asda** pledged £1.2m of their unused levy to support small and medium enterprises (SMEs) in clusters around Leeds, London, Manchester and Leicester. As a trailblazer among UK retailers in this area, this transfer enabled more than 140 apprentices to start an apprenticeship at more than 40 SME businesses during the last year, giving young people the opportunity to develop new skills and small businesses the support to develop talent that they may otherwise not be able to afford.

In 2022, they are so far investing an additional £600,000 which is already supporting 52 new apprentices across 15 businesses.

CBI Economics has modelled the potential impact of filling the skills-shortage vacancies reported through further investment in training to upskill its existing workforce to the levels required. Based on this analysis, it is estimated that there is potential to generate a further £600m in additional GDP annually due to increased productivity through the existing workforce.*

The sector is investing to cater to changing consumer preferences, to grow and to reduce carbon footprint

The retail and wholesale sector invests more than £17 billion annually (8.3% of total UK business investment, or 10.6% of the sector's GVA) and spends more than £1 billion on Research & Development (R&D).^{24, 25} The sector's digitalisation transformation means more expenditure on R&D is expected over the next decade in key areas such as automation, robotics, digital marketing, and cybersecurity.

Moreover, the sector is already investing in repurposing stores, creating local fulfillment centres, and developing partnerships with digital companies to deliver products faster – such as offering same-day or even one-hour delivery.

Retail and wholesale businesses are also showing their commitment to supporting the transition to net zero, with the British Retail Consortium developing an ambitious roadmap for net zero by 2040 for all products sold within the UK. This has been signed by over 60 leading retailers and stands ahead of the 2050 target set in legislation for the UK.²⁶ Retail and wholesale businesses are also uniquely positioned to influence its extensive supply chains, including farms and factories, to adopt sustainable practices and decarbonise.

* We have modelled a scenario where skills-shortage vacancies are filled through upskilling the current workforce to the levels required by these vacancies, based on the occupational profile of the sector's vacancies and its occupation and qualification profile of its existing workforce.

Retail and wholesale businesses are investing to improve energy efficiency across stores and distribution centres, installing solar panels and heat pumps, and upgrading their vehicle fleet to electric and low-emission vehicles. Decarbonising warehouses and its energy consumption also have significant impacts to the sector's emissions. These activities fall under Scope 1 emissions.

Some of the largest businesses in the sector are already powered by 100% renewable electricity across their entire estates and have rolled out LED lighting to all their stores, addressing Scope 2 emissions. Most retail businesses are also planning to upgrade their vehicle fleet to fully electric by 2028 and are already installing a network of electric vehicle charging points across their stores. One retailer has already introduced fully electric refrigerated trailers to their delivery fleet this year and are investing in R&D to design and deploy electric Transport Refrigeration Units.

Spotlight – investment in decarbonisation:

In 2021, Asda increased their bio-gas HGV fleet to 342 vehicles and invested in six bio-gas stations, the largest bio-gas powered HGV fleet in the UK. Their aim is to operate almost 1,000 biogas trucks and invest in 10 further biogas stations by 2024.

Meanwhile, their fleet of 3,000 vehicles for home deliveries were all upgraded to Lightfoot software that enables drivers to operate more efficiently and safely. Connected to the vehicle's on-board computer, the system converts data into live driving advice in order to reduce fuel and carbon emissions.

Their next priority is to electrify all its delivery fleet by 2028 and they are already underway with work to overcome range, charge speeds and infrastructure challenges.

On employee travel emissions, they have become the first British supermarket to commit to switching all 600 company cars to electric by 2025. And, not forgetting the impact of customers driving to their stores, they have installed free electric vehicle charging points at 19 West Yorkshire sites, thanks for a new partnership with Engie.

In 2021, they have passed more milestones on their path to becoming a net-zero carbon business by 2040. Alongside actions to reduce direct and indirect greenhouse gas emissions, they have also mapped their value chain so that they can extend climate actions into their supply chain.

The majority of greenhouse gas emissions from retail and wholesale stem from Scope 3 emissions (caused across its supply chains). Data across Europe shows that over 90% of greenhouse gas emissions for the retail and wholesale sector fall under Scope 3.²⁷ This is both upstream in the production of goods, as well as downstream in the consumption and usage of the goods.²⁸

The sector is supporting its employees and customers through the cost-of-living crisis

The sector spends more than £100 billion annually, or 64% of its GVA (10% more than the average UK industry), on employee salaries across a range of occupations, 18% of them at manager level, 23% at high skill levels and 17% at middle skills levels.²⁹

Many businesses in the sector are already paying their youngest employees above the National Living Wage and continue to provide all employees discounts, saving them more than a month's spending on essential items, and up to £1,500 per year in total rewards including programmes of support for mental, physical and financial wellbeing. Some have also gone further and paid their employees 50p above the National Living Wage and increased pay across its workforce by 25% over the last five years, and up to 40% over the last decade. One retailer has also recently introduced a programme providing its store-based employees the opportunity to become shareholders and, in 2021, it allocated matching shares to nearly 75% of its employees up to the value of £1,500 per employee.

Moreover, the sector is recognising the current impact of inflation on its employees and is stepping up to provide pay increases and bonuses. For example, some larger retailers have invested between £100 million and £200 million into employee pay this year, which delivered between a 5% and 6% pay increase, with further increases planned in the second half of the year. This is despite retail sales having slowed since March 2022 and volumes being expected to have declined further in August (-14% on previous month), including across online sales channels (-22%).³⁰

The sector is also making significant efforts to support households through the cost-of-living crisis, by absorbing some of the cost pressures themselves. Two of the sector's largest retailers have collectively invested £1.5 billion to deliver lower prices for consumers and introduced a price freeze until the end of the year at these reduced prices over a large number of essential products across categories where consumers continue to spend most. Some retailers have taken this even further, with recent announcements of free meals to be provided for all staff during the winter period to help employees cope with the cost-of-living crisis.³¹

Spotlight – supporting employees through the cost-of-living crisis

Sainsbury's is investing £135 million in colleague pay to help address the current cost of living crisis. As part of this, they are bringing forward their annual pay reviews for some hourly paid retail, Travel Money, LFC and Contact Centre colleagues.

This will result in hourly rate increases of 25p, with base rates of pay outside of London rising to £10.25 per hour. For inner and outer London this will rise to £11.30 per hour.

Alongside this, they are increasing their colleague discount over key periods such as the Christmas holidays, on a graduated scale moving from 15% between 18th November 2022 to 3rd January 2023, to 20% between 1st December to 5th December.

They are also providing basic food items for colleagues based in stores, depots, contact centres and elsewhere, alongside current refreshment provision, for colleagues to make use of before, during, and after shifts.

Many businesses are also utilising their customer rewards schemes as a channel for delivering further savings, as well as improving affordability for healthier products and incentivising consumption of fruit and vegetables through higher rewards or greater savings. Some retailers are also providing more affordable options for meals, such as a campaign offering recipes to feed a family of four for under £5, or options in cafes to feed children for £1 without a minimum adult spending requirement. Another retailer has dropped and locked prices for many of the household essential products until the end of the year.

One retail business is donating over 2 million meals per month to local communities, while another has developed pre-packed bags of groceries designed around the needs of local food banks. One supermarket chain alone redistributed over 4,000 tonnes of surplus food to local communities in 2021-22 and launched a scheme which allows each store to nominate a partner organisation, NGO, registered charity or community group which supports food poverty, to receive a grant of up to £500.

Conclusion

Retail and wholesale is a bedrock sector of the UK economy, supporting jobs, local communities, and the public purse

Retail and wholesale is a key sector of the UK economy, supporting a fifth of all jobs from across many sectors of the economy and generating economic activity equivalent to the size of the East of England regional economy. It is also a significant contributor to the public purse, paying £1.27 in tax for every £1 invested, its tax contribution providing enough revenues to the Exchequer to build 100 new hospitals every year.

Furthermore, the sector has a large presence up and down the country, with 1 in 5 UK parliamentary constituencies relying on the sector and its suppliers for more than a fifth of their economic activity and more than a third of their employment.

The sector is undergoing significant change, but is continually adapting and investing, upskilling its employees, and creating high-value opportunities

The retail and wholesale sector invests more than £17 billion annually (8.3% of total UK business investment, or 10.6% of the sector's GVA) and spends more than £1 billion on Research & Development (R&D).^{32, 33} As the sector becomes even more digital, more expenditure on R&D is expected over the next decade in key areas such as automation, robotics, digital marketing, and cybersecurity.

Moreover, the sector is already investing in repurposing stores, creating local fulfillment centres, and developing partnerships with digital companies to deliver products faster – such as offering same-day or even one-hour delivery.

Retail and wholesale businesses are also showing their commitment to supporting the transition to net-zero by investing to improve energy efficiency across stores and distribution centres, installing solar panels and heat pumps, and upgrading their vehicle fleet to electric and low-emission vehicles.

The sector is supporting all in society, as well as helping to alleviate the impact of the cost-of-living crisis on both employees and consumers.

The sector is well-placed to support households and is already making significant efforts to help households through the cost-of-living crisis while continuing to pay a disproportionately larger business rates bill. Two of the sector's largest retailers have collectively invested £1.5 billion to deliver lower prices for consumers and introduced a price freeze until the end of the year at these reduced prices over many essential household products.

There is potential for the sector to step up to provide further support to households as incomes continue to be squeezed by inflation. However, retail and wholesale businesses are facing rising cost pressures from energy prices and business rates. These challenges are likely to limit the extent to which the sector can continue to absorb inflationary pressures and keep prices down for consumers.

Longer-term, as the sector grows, recent analysis shows that up to half of the sector's workforce will need to be upskilled in future years, with new skills required in data analytics, digital marketing and cybersecurity.³⁴ This is likely to drive a significant increase in productivity in the sector and create better-paid employment opportunities across a range of new roles. CBI Economics analysis has showed that this could generate a further £600m in additional GDP annually due to increased productivity through the existing workforce just by upskilling those in lower-paid roles.*

However, the apprenticeship levy is currently constraining these investments in upskilling and reskilling employees to support progression in line with business requirements, prevent job losses at lower skills levels and ensure employees have skills fit for the future. Businesses in the sector are therefore pointing to an immediate need for greater flexibility in the apprenticeship levy to help unlock new opportunities, alleviate skills shortages and ensure training can be delivered in an agile way.

The retail and wholesale sector brings significant opportunities for growth and high-value investment, helping to re-shape the job market and drive productivity improvements. The current economic backdrop is posing significant challenges for the sector, but it nevertheless has shown the role that the sector can play in supporting all in society. With a supportive policy environment, government can unlock additional investment and contributions from the retail and wholesale sector, helping to re-build the economy and drive long-term growth.

* We have modelled a scenario where skills-shortage vacancies are filled through upskilling the current workforce to the levels required by these vacancies, based on the occupational profile of the sector's vacancies and its occupation and qualification profile of its existing workforce.

Appendix: Methodology

Modelling the economic & fiscal contribution

To model the economic contribution of a sector, we have used our in-house Economic Contribution model. This draws on the input-output framework which allows for the computation of multipliers which capture the inter-dependencies between this sector and other sectors of the economy, both through supply-chain channels and through the spending of employees' wages and salaries on goods and services provided in the wider economy.

We have adopted this methodology to provide you with a robust and independent evidence base that quantifies the economic contribution of the retail sector in its totality (i.e.: the direct effects plus the knock-on effects through the supply chain and on the labour market).

Figure 13 Overview of the economic and fiscal modelling



The input-output framework draws on the Input-Output Analytical Tables derived from the UK and Scottish National Accounts. It traces the transaction flows between both different industries and other sectors of the economy which capture all the potential sources of demand for an industry's economic output (e.g.: households, government, export demand, capital investment). This shows both the supply chain relationship (through industry inter-dependence) and the consumer/producer relationship within the economy. It also outlines the sets of inputs required in the production of one unit in addition to inputs purchased from other industries. These are the primary inputs, which include GVA, imports, and taxes on products.

The total economic contribution of a sector is estimated through this model by quantifying the interactions between the sector and its supply chain and household income. Type I include the direct (first tier of supply chain) and indirect effects (rest of the supply chain), and Type II includes direct, indirect, and induced effects (the effects attributable to further spending generated with industries by the wages and salaries of the jobs supported). These multipliers essentially add up the effects across all industries, capturing the extent of the economic contribution throughout the wider economy. For this modelling, Type II multipliers were used.

To model the fiscal contribution of a sector, we have used UK government information on Public Receipts Data. The tax receipts are separated into those directly attributable to businesses and those directly attributable to consumers. For those taxes where both businesses and consumers are liable for payment, we use additional government and publicly available statistics to attribute a proportion of those tax receipts to businesses.

Following this, we then need to understand the contribution at a sector level. The proportion of sector-specific GVA which makes up the total UK GVA is calculated, and this ratio is used to understand the amount of business taxes attributable to the sector in question. Receipts are evaluated at a tax-by-tax level. For some taxes, more bespoke calculations may be undertaken to understand their tax contribution share, if appropriate. For example, for calculation of social contributions we use UK government data on the number of employees in each sector and the proportion of contributions attributable to employers, rather than employees. Equally, as this project focused on the retail sector, we were able to discount some taxes which businesses are entirely liable, but which do not apply to the retail sector, such as Lighthouse Dues.

Modelling of upskilling & training

To understand the potential upside of additional investment of upskilling and training of staff, we built a proprietary in-house model. This builds on existing government modelling techniques to understand the impact to GDP of movement of employees between different skill levels.

The current skills training gap was identified using data on vacancies, and in particular hard-to-fill and skills shortage vacancies, from the Employer Skills Survey. Using this information, we calculated the number of vacancies specific to the retail and wholesale sector which were attributable to skill shortages. The working assumption was that as the labour market has not been able to meet the demand, and so there may be benefits to employers to upskilling their additional employees to fill these positions instead. Following this, we looked at further data from the Employer Skills Survey to understand if these vacancies depended upon skills or qualifications specifically. This allowed us to differentiate between upskilling via soft-skills training and national recognised qualifications.

Existing government modelling techniques which look at movement of employees using productivity differentials alongside average GDP per employees to understand the impact of the move were adapted. Here we looked at the movement between skills level rather than industry or location. Wage differentials were used as proxies for productivity differentials. ONS data on wages by occupation by age group and user-requested ONS data on occupation by qualification was combined to produce average wages by qualification. Average wages by qualification rather than occupation were used to try and minimise any occupation wage bias.

Average GDP per worker for the retail and wholesale sector was taken from the economic contribution analysis.

A scenario was modelled which combined both soft-skills training and training towards nationally recognised qualifications, reflecting the skills gap and possible causes of this previously identified. The model does not account for any additional employees joining the labour force, which is appropriate here as our focus is the specific benefit of upskilling and training of these current employees.



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