Retail Sector

Specialist Retail Accountants

Newsletter
Winter 2015

www.hawsons.co.uk

Introduction

Welcome to our Winter 2015 retail newsletter.

Although the recent Summer Budget has somewhat slowed down the growth and profitability of many UK retailers, particularly with the introduction of the new National Living Wage, the picture is largely positive. Now, on the back of another record-breaking Black Friday and Cyber Monday sales period, and with the Christmas period just around the corner, we look at what retailors can do to convert sales and retain key staff. We also review the latest Autumn Statement and its impact on the retail sector.

In this issue we look at:

- Autumn Statement retail review
- Forthcoming PAYE changes
- Recap: Black Friday and Cyber Monday
- Is your website converting sales?
- Retaining retail staff using bonus schemes

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.

Pete Wilmer
Partner

E: pjw@hawsons.co.uk
T: 0114 266 7141
Twitter: @Hawsons

Hawsons are specialist retail accountants

Hawsons has a dedicated team of specialist retail, wholesale & e-commerce accountants in Sheffield, Doncaster and Northampton. Our specialist team offers a wide range of services which are tailored to meet your individual needs. Our understanding of the issues faced by businesses in this dynamic sector means that we can proactively seek out ways for you to maximise your profitability and minimise your tax liabilities.

We can help in these areas through improving stock control, purchase re-ordering and reconciliation procedures. For retailers we have in-depth knowledge and experience of the sector from single sites to multi-channel retailers covering retail shops, e-commerce shops and many other sites such as Amazon, eBay, Shopify and Play.com. For more information on our retail expertise, including the services we offer and our experience, please visit: **www.hawsons.co.uk/retail**

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Autumn Statement and the impact for the retail sector

Last week, on 25 November, the Chancellor delivered his latest Autumn Statement. In a year which has already seen two Budgets - which have both brought big changes to the retail sector - retailers were perhaps understandably tentative about what this year's Autumn Statement might bring. In this article we summarise the key points arising from the Autumn Statement and focus specifically on what the changes may mean for the retail sector.

In summary (general):

- Tax credit cuts scrapped all together
- £12bn in targeted welfare savings to be delivered in full
- Small business rate relief to be extended for one more year
- NHS to receive £10bn more funding a year in real terms by 2020
- Basic state pension will rise by £3.35 to £119.30 a week
- New 3% surcharge on stamp duty for buy-to-let properties and second homes from April 2016
- Doubling of housing budget to £2bn a year
- Capital funding of transport projects to rise by 50%
- Increased devolution with 26 new or expanded Enterprise Zones announced
- Transport (37%), environment (15%) and energy (22%) departments all face funding cuts

In summary (retail specific):

- No news on retail business rate relief
- Significant investments in UK transport links
- Small business rate relief to be extended for one more year
- Bigger firms hit by apprenticeship levy
- No Living Wage acceleration

Autumn Statement retail impact

Pete Wilmer, Partner at Hawsons, commented: "Although the Autumn Statement didn't bring much news for the retail sector, there was a glaring exemption from the Chancellor's speech. The Chancellor failed to give any clarity on the retail business rate relief, which is critically important to the sustainability and stability of many high street shops, restaurants and cafes. The sector is being left in limbo, and with the culmination of rising staffing costs through the National Living Wage, auto enrolment and rising energy costs, this has led to unwelcome uncertainty."

"It is disappointing that the Chancellor has not recognised the ongoing and forthcoming financial pressures facing the retail sector. An extension of the retail business rate relief would have given businesses much needed support, but we will now have to wait until next year's Budget. It could be that we see more retailers focus their operations online in an attempt to reduce input costs."

Other issues

The government will introduce the apprenticeship levy in April 2017. It will be set at a rate of 0.5% of an employer's paybill, which is broadly total employee earnings excluding benefits in kind, and will be paid through PAYE. Each employer will receive an allowance of £15,000 to offset against their levy payment. This means that the levy will only be paid on any paybill in excess of £3 million.

Pete Wilmer added: "A focus on apprenticeships is good news for the retail sector. The sector relies heavily on logistics firms to collect and deliver products which are sold both online and in-store, which brings supply-chain opportunities…but it also brings challenges. It is fair to say the transport & logistics sector is facing a driver shortage; there are simply not enough new drivers entering the industry. The looming lorry driver crisis poses a major threat to the retail sector and could see orders take much longer to be delivered and costs rise. The new apprenticeship funding will support jobs and, hopefully, provide some much needed certainty to the delivery of retail goods."

Forthcoming PAYE changes

The introduction of the National Living Wage

The government has announced the introduction of the National Living Wage (NLW) for working people aged 25 years and above from April 2016. Initially the NLW is set at £7.20, which is 50p above the current National Minimum Wage (NMW). The NLW is set to rise to over £9 an hour by 2020.

Changes in Employment Allowance

The government has also announced that the Employment Allowance will rise from £2,000 to £3,000 from April 2016. The Employment Allowance gives businesses a reduction in the employer National Insurance they pay, so this is a welcome announcement. As this increase in Employment Allowance is focussed on businesses and charities that support employment, companies where the director is the sole employee will no longer be able to claim the Employment Allowance. This change in claiming Employment Allowance also comes into force from April 2016.

Forthcoming Scottish rate of income tax

From April 2016 the Scottish Parliament will have responsibility for a Scottish rate of income tax. From this date the Scottish rate will be charged on the non-savings income of Scottish residents. As such, from April next year it is likely that Scottish taxpayers will pay a different rate of income tax to the rate paid by the rest of the UK. The rate of Scottish income tax has not yet been finalised and it is expected that the Scottish Finance Minister will announce the thresholds and rates later this year.

Regardless of where the employer is based, all payrolls must operate the Scottish rates of income tax for Scottish residents. This means that businesses across the rest of the UK could have to apply Scottish rates of income tax in their PAYE.

Abolition of Employers' NI contributions for apprentices

From April 2016 employers of apprentices who are under 25 will no longer be required to pay employer NI contributions on earnings up to the Upper Earnings Limit. This will produce savings for all employers of apprentices. If this applies to you then please let us know.

Running a payroll properly is often a time-consuming and resource-demanding job, requiring awareness of constantly changing HMRC requirements and detailed legislation, as well as meeting strict deadlines. Additionally, with the recent onset of auto enrolment and compulsory workplace pension schemes, the increasing compliance obligation on employers makes now a good time to consider outsourcing your payroll. **If you are considering outsourcing your payroll please visit www.hawsons.co.uk/payroll to find out how we can help and to request a free quote.**

Recap: Black Friday and Cyber Monday

Black Friday and Cyber Monday break records again

Black Friday and the following Cyber Monday are becoming very important for retailers, small and large, in the run up to the busy Christmas period. Black Friday took the UK by storm last year, following a greater focus from some of the nation's largest retailers. Now, for the second year running, Black Friday (Friday 27 November) and Cyber Monday (Monday 30 November) have broken online sales records...but shopping on the high street was not as high as predicted.

With the cold and wet weather upon us (and changing customer preferences) this year more shoppers than ever took to the internet to shop on Black Friday and Cyber Monday. On Black Friday, in particular, there are indications that online sales were to have passed £1bn on a single day for the first time. Online sales figures have grown by more than was expected, unlike on the high street, underlining the online shopping revolution in the UK.

Some quick Black Friday initial reaction stats:

- Black Friday was the first time that online sales in the UK exceeded £1bn in just one day.
- According to Experian-IMRG, £1.1bn was spent online on Black Friday, up by around 36% compared to Black Friday last year.
- Electronics retailer Currys PC World reported eight sales per second.
- Footfall on the high street fell by 6.5% between 8am and midday.
- Data from IBM indicated that mobiles and tablets accounted for the majority of online traffic.
- Email marketing drove the most of sales, according to Custora.

A retailer's digital presence is becoming increasingly important

With online sales continuing to grow it is becoming increasingly important for retailers to optimise their website and online marketing strategies. With more and more customers now shopping on the move, it is perhaps unsurprisingly to see that mobiles and tablets are also becoming the go-to device when shopping online. A retailer's website must therefore be screen responsive (i.e. the content on the page is suitable for a mobile or tablet) if it is to convert sales. This is particularly important when marketing through email and social media channels.

But what about a retailers website? Is it converting sales online?

We have published an article further on in this newsletter about converting sales online.

Basket abandonment is unavoidable for online retailers, with the average number of abandoned shopping baskets sitting at around 65%. Some e-commerce sites may have basket abandon rates as high as 80% or even 85%, but is there anything they can do about it?

In that article we look at what retailers should be considering when looking to optimise their online sales conversations and provide a handy action point checklist which some key issues.

Is your retail website converting sales?

Whether you are a local independent retailer or a multinational retailer with a national/international focus, your website must be optimised to improve profitability. Your website is your online shop window; it needs to convert sales and minimise abandoned baskets.

This, simply put, comes down to two key points:

1. Getting prospective customers to your website
2. Getting prospective customers through the checkout

In this article, we look at the second point – getting prospective customers through the checkout – and what considerations retailers must make when selling online.

Almost 70% of baskets are abandoned at the checkout

Basket abandonment is unavoidable for online retailers, with the average number of abandoned shopping baskets sitting at around 65%. Some e-commerce sites may have basket abandon rates as high as 80% or even 85%, but is there anything they can do about it?

Pete Wilmer, Partner at Hawsons, notes: "Online retailers often overlook their basket abandon rates as a matter of course, but there are a number of ways this ongoing strategic challenge can actually be turned into an opportunity. By taking the time to review the design and functionality of a website, understanding the customer journey and the potential frustrations customers experience when trying to complete a purchase, savvy retailers can streamline their checkout process and increase conversions."

"The retail industry is more competitive than it has ever been, particularly with the growing prevalence and ease of online trading. Streamlining the online checkout process to reduce the number of baskets being abandoned at the checkout must now be a primary management focus. After all, an abandoned shopping basket is a lost sale; and lost profit."

What can retailers do to increase online conversions?

"One of the key strategies retailers have looked at to counteract high abandon rates has been to retarget customers that leave by offering discounts to return. For example, a customer that leaves a checkout before purchasing may get a personalised email an hour later with a 10% discount code. They return and the retailer completes the sale, albeit at a lower price. Now, this approach works to a point, but it is becoming more about shrewd customers taking advantage of retailers than retailers actually optimising online conversation rates."

"Other approaches and strategies that retailers can use to optimise online conversions include website (and checkout) responsiveness, delivery costs/flexibility, payment methods and progress indicators…we have listed some more in a checklist below."

"One of the keys areas that retailers should focus on is ensuring that delivery costs are competitive and delivery options are flexible. Research shows that nearly one third of all basket abandonments are due to delivery costs, so pricing must be competitive. Another key area is the amount of time it takes to complete an online purchase. Only request the essential information and look into using a progress indicator so that the customer understands the checkout process, what they have completed and what's left to do. Retailers should definitely see this as an opportunity to optimise online conversations whilst also gaining an advantage over the competition."

Action point checklist

- Ensure website is responsive on mobiles, tablets and all other devices (does the checkout process work on all devices too?).
- Ensure website is responsive on all browsers.
- Ensure delivery costs are competitive.
- Ensure delivery options are flexible and cover a range of dates/times.
- Ensure there are no unexpected costs added on at the end.
- Ensure there are a range of payment methods available.
- Ensure you provide payment security assurance to give customers the confidence to complete the purchase.
- Use a progress indicator so that customers understand the checkout process.
- Do not make it mandatory for customers to create a new account.
- Request only important information so that the checkout process is quick and simple.

For more information please contact your local office specialist.

Retaining retail staff using bonus schemes

Arguably one of the biggest challenges facing the sector is retaining retail staff and the associated costs involved through high staff turnover. Staff turnover in the retail industry has been, and still is, very high and is down to both the financial and career-driven motivations of employees who tend to leave the industry. This article looks at what retail employers can do to retain their key employees.

The cost of hiring new staff can cost thousands of pounds

The cost of employing a new member of staff – advertising the role, looking at applications, interviewing candidates and training new starters – can cost thousands of pounds. The actual costs of which are sometimes overlooked, because not all are directly financial. It is therefore essential that retailers, small and large, do their upmost to retain, encourage and support their employees…and this means looking beyond the wage/salary. In this article we look at the use of employee bonus schemes

Employee bonus schemes – a way of retaining retail staff?

From a financial standpoint and a productivity standpoint, retaining retail staff is a central management issue many UK firms are looking to overcome, and are using technology to do so more effectively. Employee bonus schemes and technology go hand-in-hand; retailers can track and analyse employee data quicker, more accurately and more efficiently than ever before. By monitoring hours worked, sales completed and customer satisfaction retailers can better gauge employee productivity and reward their high performing staff members. Retailers, along with firms from other sectors, are extending their bonus schemes to cover a wider range of business objectives. Customer satisfaction, measured through feedback cards, surveys and mystery shoppers is a particularly important objective in retail.

There are a number of share incentives that you may wish to use to retain staff. The use of employee share schemes and share-based payments can be a cost effective and tax efficient form of remuneration. For more information, please contact our tax specialists.

Key considerations and possible drawbacks

Although employee bonus schemes and share incentives can help to foster strong working relationships, incentivising and rewarding retail staff, it is also important to also consider the potential drawbacks that they may have on your business. For example, over time employees may come to expect a bonus, seeing it as the norm rather than as an incentive. There are also possible consequences if the scheme fails to achieve the changes or actions it was intended or if the scheme is too onerous to implement. There could also be possible adverse implications if the targets set are unrealistic and put unfair pressure on members of staff.

It is therefore crucial that any employee bonus scheme is carefully considered, with a forward-thinking approach. It is advised that you seek specialist and tailored advice on the suitability, implementation and any possible tax implications of employee bonus schemes as soon as possible.

For more information please contact your local office specialist.

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Your local specialist:

Sheffield	Doncaster	Northampton
Pete Wilmer	Paul Wormald	Richard Burkimsher
Partner	Partner	Partner
0114 266 7141	01302 367 262	01604 645 600
pjw@hawsons.co.uk	pw@hawsons.co.uk	richardburkimsher@hawsons.com

Sheffield
0114 266 7141

Pegasus House, 463a Glossop Road, Sheffield, S10 2QD

Doncaster
01302 367 262

5 Sidings Court, White Rose Way, Doncaster, DN4 5NU

Northampton
01604 645 600

Jubilee House, 32 Duncan Close, Moulton Park, Northampton, NN3 6WL

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