

Online Shopping:

Views from the (Virtual) Checkout

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About Coadec

The Coalition for a Digital Economy (Coadec) is an independent advocacy group that serves as the policy voice for Britain's technology-led startups and scale ups.

Coadec was founded in 2010 by Mike Butcher, Editor-at-Large of technology news publisher TechCrunch, and Jeff Lynn, Executive Chairman and Co-Founder of online investment platform Seedrs.

We fight for a policy environment that enables early-stage British tech companies to grow, scale and compete globally. We have over 3000 startups in our network and have been instrumental in building proactive coalitions of businesses and investors on issues that are integral to the health of the UK's startup ecosystem. Our work has seen many successes, from the establishment of the Future Fund and the expansion of the Tier 1 Exceptional Talent Visa, to the delivery of the UK's Patient Capital Fund.

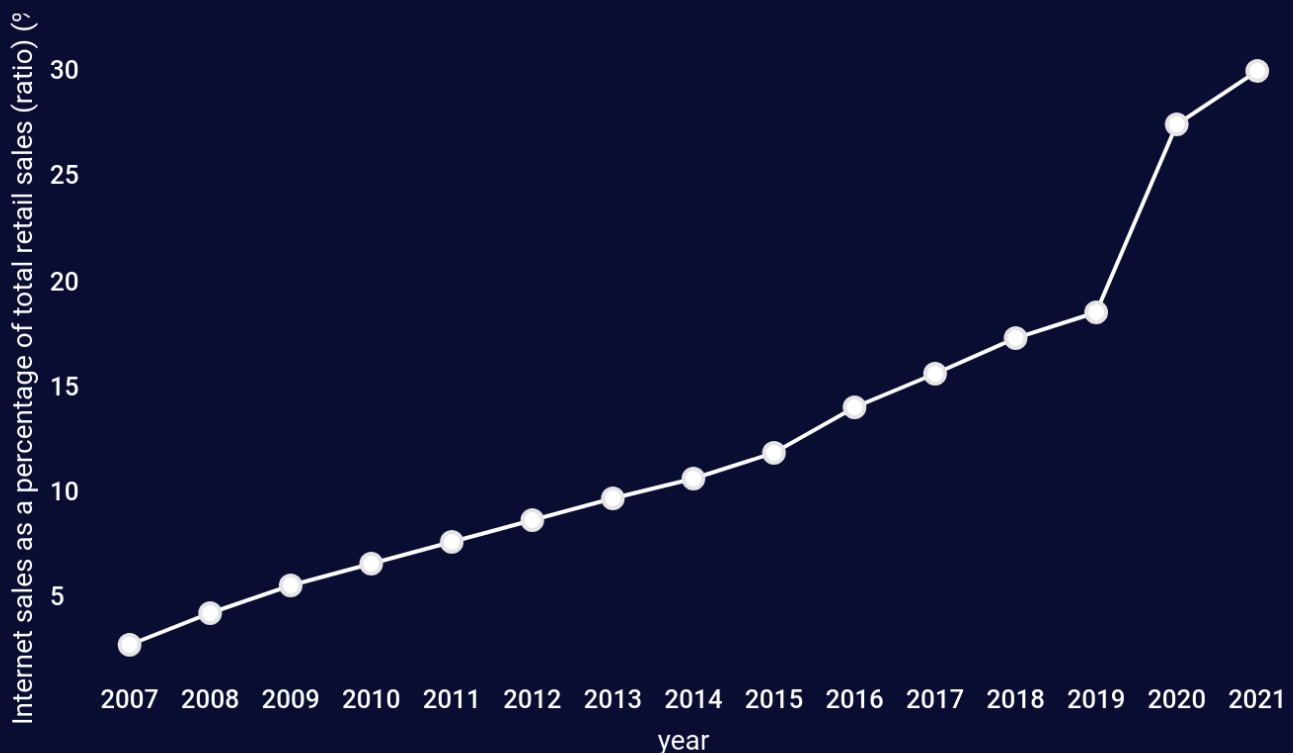
We represent the startup community on the Government's Digital Economy Council, and the UK on the board of the international group, Allied for Startups.



The State of Play

With a high level of both internet and mobile penetration and an extensive logistics network the UK is one of the world's largest e-commerce markets, ranking behind only China and the US. Internet sales as a percentage of total retail sales have grown steadily year on year since 2007 in the UK, accelerating sharply because of the Covid-19 pandemic which forced shops and businesses to close physical premises and find new ways of reaching those they served (Figure 1).

Figure 1: Internet sales as a percentage of total retail sales (ratio) (%)



This trend has created new businesses and jobs, contributing to the UK's overall economic health and prosperity. Data recently published by Royal Mail revealed that 315,000 companies started up in the UK during the first lockdown, a 7% year-on-year increase. Breaking down the data by industry and subsector, the data reveals that the highest rates of new businesses were created within the ecommerce space.¹ Enabling this entrepreneurialism is a plethora of ecommerce platforms and digital startups. This growth has been spread right across the UK with bright spots in the capital and Manchester.

¹ <https://www.royalmailgroup.com/en/press-centre/press-releases/royal-mail/lockdown-fuels-rise-in-start-ups-as-entrepreneurial-brits-drive-ecommerce-boom/>

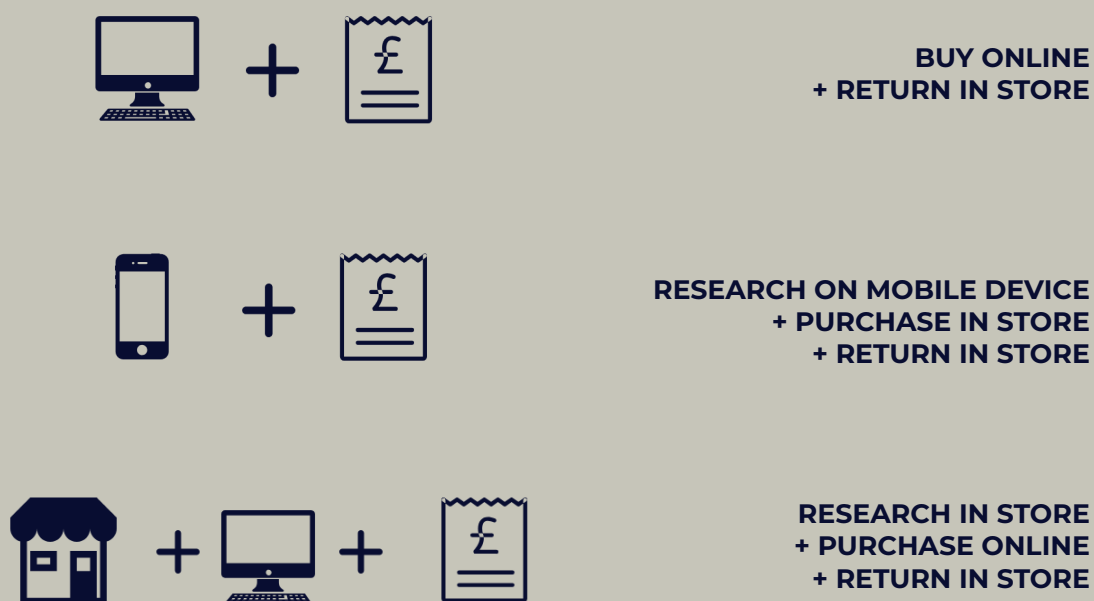
Omnishopping

Yet the story of the UK's ecommerce success is all too often framed as a battle between online retail versus bricks and mortar shops. In reality, businesses have developed new customer journeys providing, as we will explore in this report, greater convenience, choice and cost efficiencies.

The illustration below (Figure 2) shows just some of the new customer journeys that have emerged in what has come to be known as 'omnichannel retail'. A term that describes the ability for a client or customer to "interact with multiple sales and media channels at once, and have their information retained by the retailer as they move between them. For example, omnichannel retailing allows your clients to browse on a desktop, compare prices on a mobile device, then visit your brick-and-mortar location to finalise a purchase — all without having to restart their customer journey. Omnichannel retail connects all channels, combining the store experience and the website to create a single experience."²

This retail experience has been enabled by the rise of digital tools and technologies from cloud computing, helping to integrate business functions and data to e-commerce platforms such as Shopify.

Figure 2: Examples of Omnichannel Shopping



Using new consumer and business polling data, this report explores how consumers and businesses alike have adapted to meet the opportunities afforded by e-commerce and how best to support businesses evolve to meet consumer demand as it continues to shift and evolve.

² <https://www.salesforce.com/uk/learning-centre/ecommerce/omni-channel-retail/>

Methodology

Consumer polling

Coadec commissioned Public First to conduct a nationally representative poll of 1,000 UK Adults between 4th March - 10th March 2022

Business polling

Coadec commissioned Public First to conduct a business poll of 1,000 UK business decision makers between 8th April – 17th April 2022. All results are weighted using Iterative Proportional Fitting, or 'Raking'. The results are weighted by region and business size to Nationally Representative proportions.

Public First is a member of the BPC and abides by its rules.

Modelling

In order to calculate the potential for additional online sales revenue, Public First combined:

- ONS data from 2019 on the proportion of retail businesses who used e-commerce, uprated by data from our business poll on the proportion of businesses that have started selling online in the last few years.
- ONS data on total internet sales for the last twelve months.
- The proportion of businesses in our business poll who both did not currently sell online, and who did not say that this was because it would be unsuitable in their sector or industry.
- An estimated proportion of online revenue that is additional, rather than substitutive, based on the average of three other studies: Pozzi (2013), Duch-Brown et al (2017), Collison (2020)

Public First then estimated the additional VAT and Corporation Tax that would be paid as a result of this revenue, drawing on Government statistics for current average rates of VAT and Corporation Tax paid within retail.

We also make three recommendations for the Government to support and encourage businesses to embrace their digital journeys and ensure that our high streets and city centres can continue, not only to provide shop fronts for businesses to reach their customers, but also form the beating heart of our communities.

Summary of Recommendations

- 1. The UK Government should support greater coordination between local initiatives to build and share best practice**, and also resource local communities to build the necessary infrastructure to support modern work practices, like co-working spaces. Local authorities should explore repurposing vacant premises to better serve a new community of hybrid workers to reinvigorate high streets, including through consultation to better understand their needs.
- 2. Government must encourage digital adoption and ecommerce of all businesses**, with a specific focus on small businesses, through the expansion of the scope and eligibility criteria of the Help to Grow: Digital scheme.
- 3. Government should resist adding other regulatory pressures that could dissuade businesses from adopting technologies of the future.** Most notably, the Online Sales Tax (OST).

The Consumer Perspective

Shifting trends

The way we purchase and consume things has evolved dramatically over the last decade and technology is undoubtedly one of the largest driving forces behind this evolution. Price comparison websites, online marketplaces and better infrastructure and hardware such as smartphones and roll out of 4G has helped people shop smarter, faster and more consciously.

As well as changing *how* we shop, it has also impacted where we shop. Mobile shopping continues to grow helping people shop on the go. UK shoppers are the second most active on mobile and estimates suggest that by 2024 UK customers will spend almost £105bn through their phone.³

This explosion in e-commerce, alongside the fact that from 2014 store sales have remained relatively flat (with the exception of covid years which saw sharp falls due to pandemic related measures), has sparked concerns about our local town centres and high streets.⁴ In response, Governments have over the years introduced a slew of measures to support towns and high streets, the Coalition government introduced an “innovation fund” to help bring empty shops back into use, while the previous Conservative administration rolled out a £675 million Future High Streets Fund to “renew and reshape town centres and high streets”. The current government has launched an ambitious £3.6bn Towns Fund to level up regions.

These funds and the policies underpinning them, however, have fallen short of the ambition necessary to embrace this new era of shopping but even without Government support and intervention businesses have changed and adapted to meet consumer needs and wants.

³ <https://fashiondiscounts.uk/what-percentage-of-online-shopping-is-mobile/>

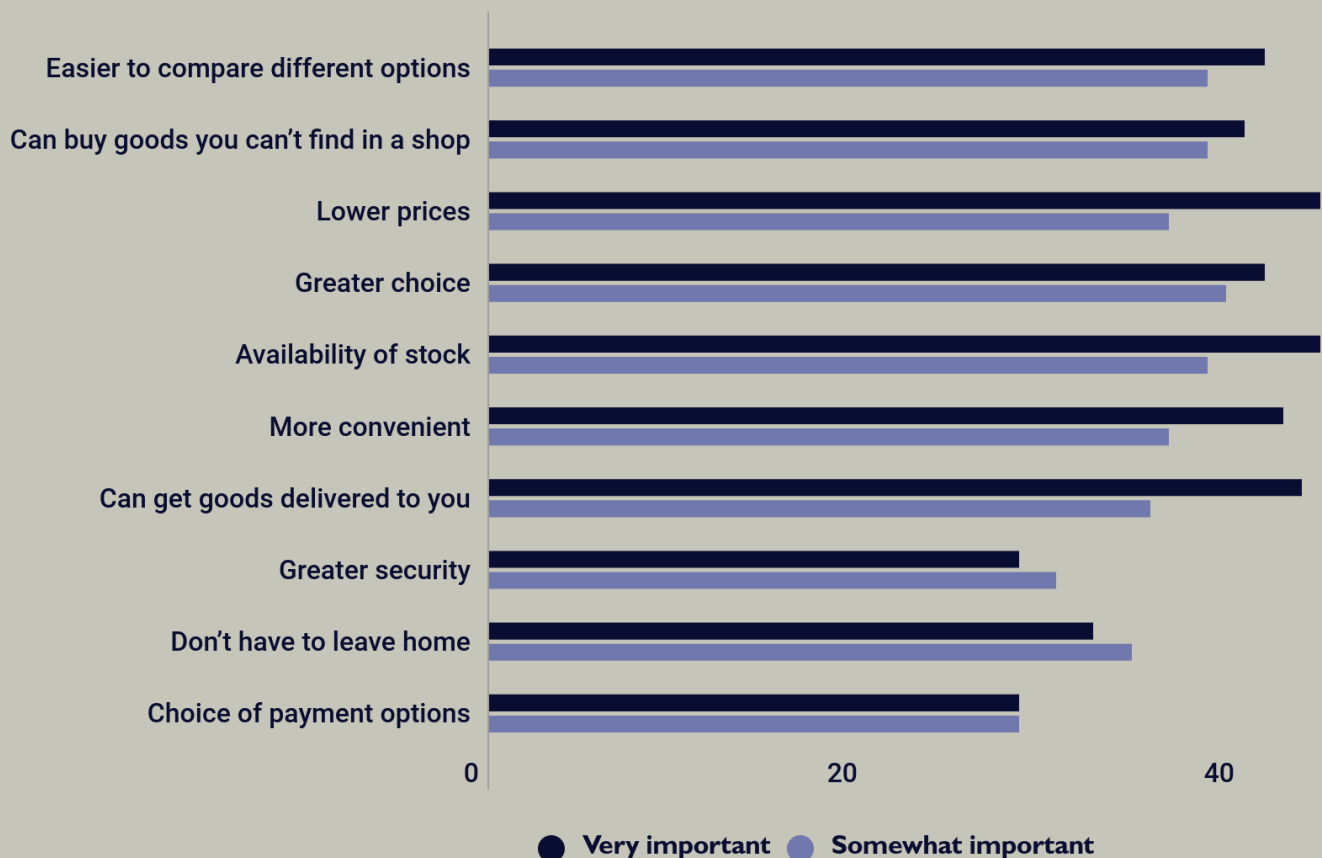
⁴ <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/articles/comparingbricksandmortarstoresales-toonlineretailsales/august2018>

Giving Customers what they want

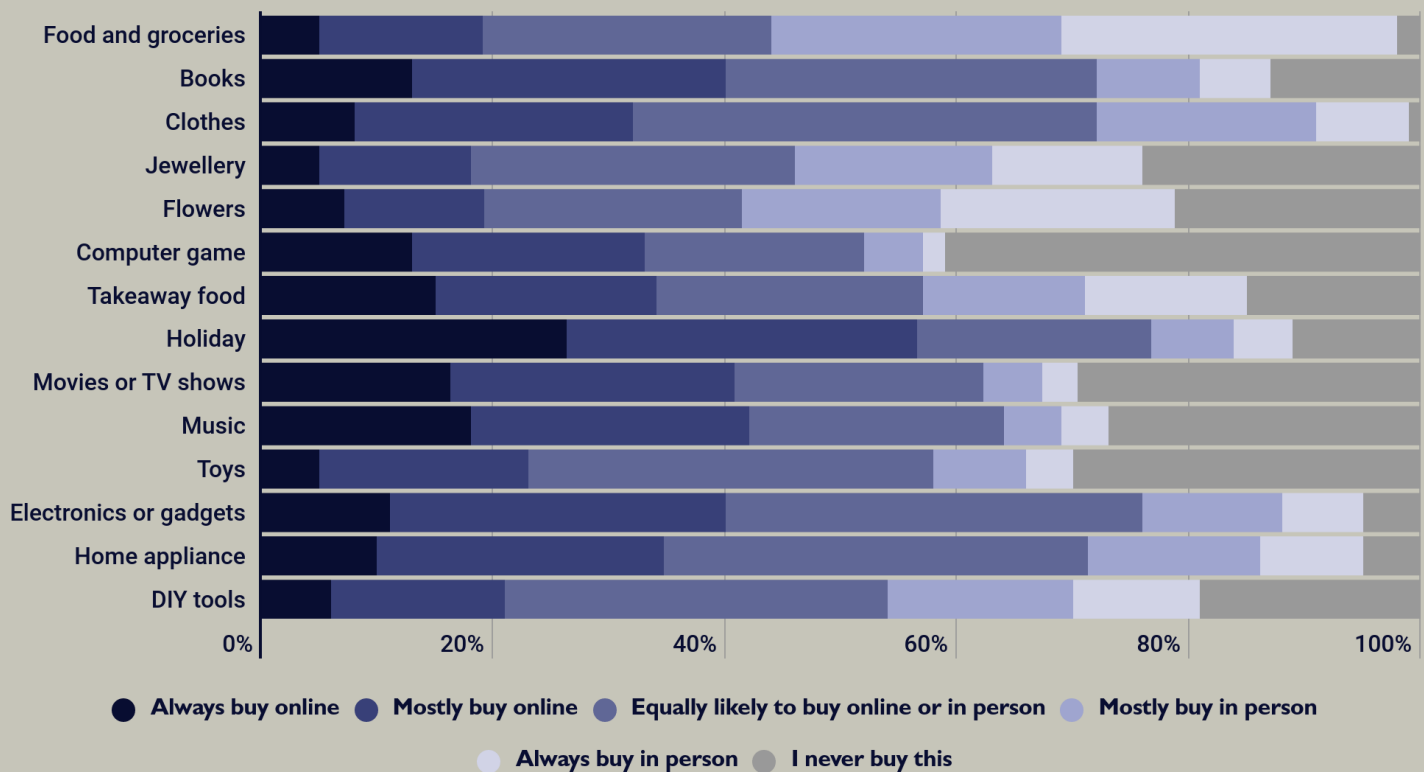
“Give the customer what they want” has long been a mantra of businesses of all shapes and sizes. Our poll revealed that 58% of people would find it hard to buy the products they need without online shopping. The British public look for the **3 Golden C’s** when choosing where and how to purchase goods or services:

- **Choice:** 80% reported that “choice” was an important factor when choosing whether to buy online or in-store
- **Cost:** 80% reported that “cost” was an important factor when choosing whether to buy online or in-store
- **Convenience:** 79% reported that “convenience” was an important factor when choosing whether to buy online or in-store

Figure 3: How important or unimportant are the following reasons in deciding whether to buy something online rather than in person?



This would suggest that online purchase would be the only way to shop – and indeed our polling showed 71% of Britons bought online in the last week. However, the picture is far more complicated, Britons take a different approach depending on what sort of purchase they're looking to make (figure 2). For example, while 56% of Britons mostly or always book a holiday online this figure falls to only 18% when we asked about jewellery. This is reflected in the fact that despite the popularity of online shopping, over half of UK adults visit their local high street at least once a week.

Figure 4: Are you more likely to buy the following in person or online?

Supporting small, local businesses

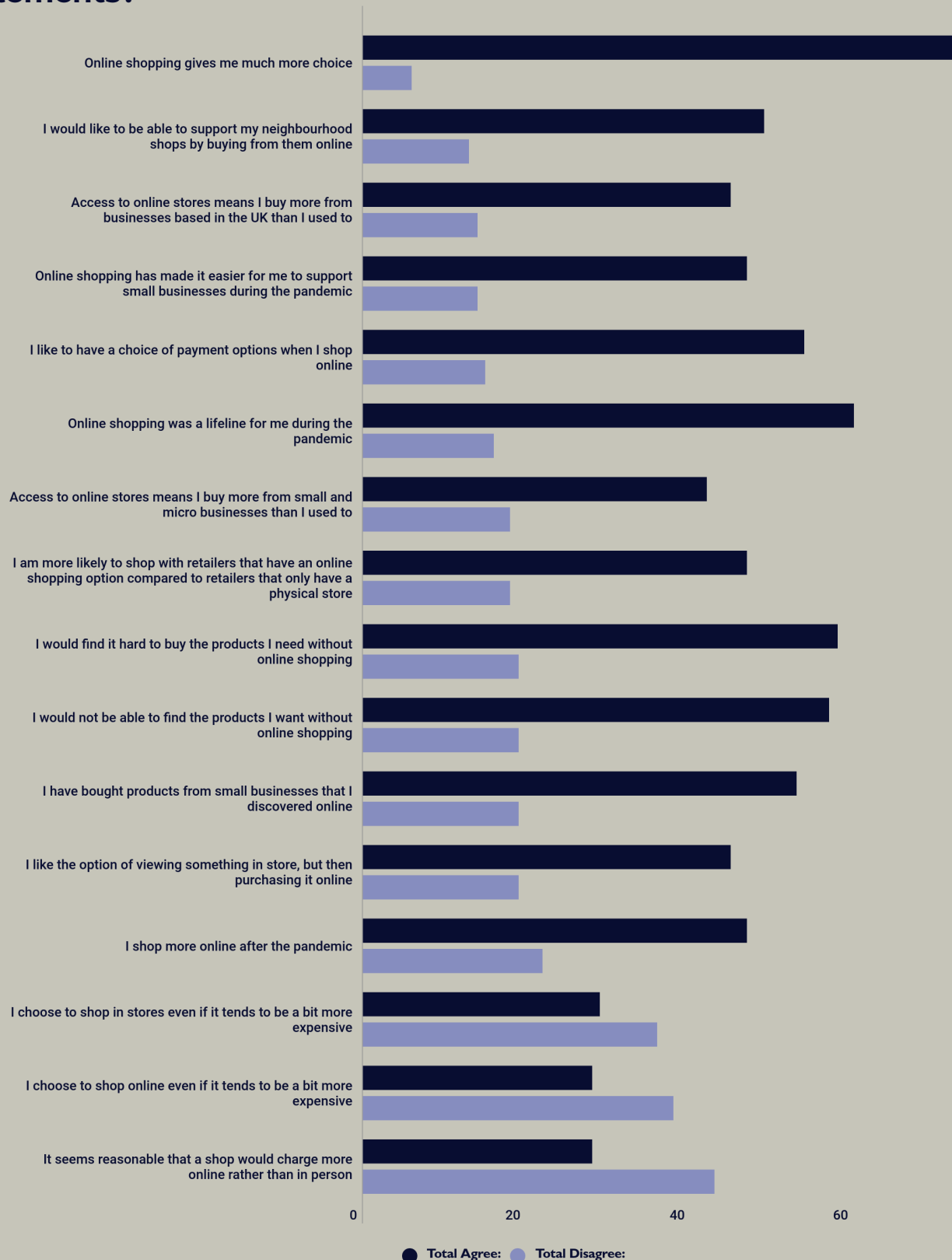
E-commerce platforms, marketplaces, and seamless payment options have been credited with helping small businesses export – although in reality this number remains stubbornly low.⁵ Meanwhile, our research reveals a strong local impact too.

Half of Britons said they would like to support neighbourhood shops by buying from them online, and a similar number of the general public said that online shopping had made it easier for them to support small businesses during the pandemic. Almost half of Britons felt that access to online stores meant they bought from more businesses based in the UK than they had previously.

⁵ Results from the SME FM survey suggest that 9% of the UK's 5.9 million SMEs are exporting, <https://www.british-business-bank.co.uk/wp-content/uploads/2020/02/UK-SME-Exporting-FINAL-VERSION.pdf>

With over a third of working adults still working from home at least some of the time in 2022 local shops can capitalise on this by digitising to reach not only those at a distance but those in their area who are still looking for the convenience that omnichannel offers.⁶

Figure 5: To what extent do you agree or disagree with the following statements?

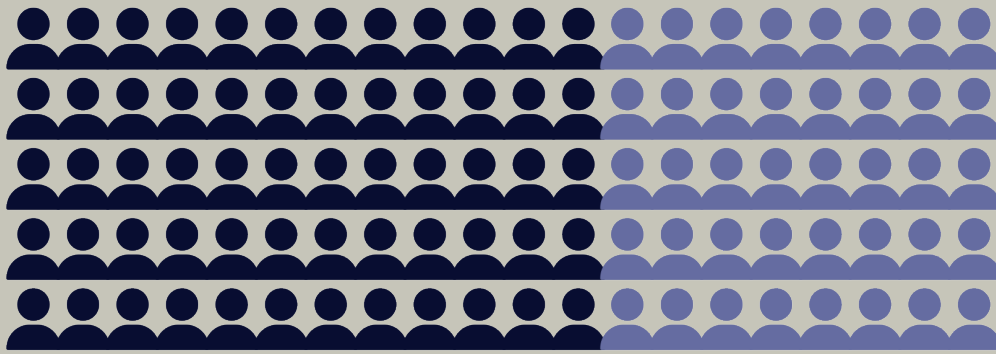


6 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/homeworkingandspendingduringthecoronaviruscovid19pandemicgreatbritain/april2020tojanuary2022>

Impact of the pandemic

Since March 2020 the UK has experienced a number of lockdowns in response to the Covid-19 pandemic, with more consumers staying at home, the impact on ecommerce was notable. Our survey found that 60% of Brits saw online shopping as a lifeline during the pandemic. Despite the lifting of all restrictions, 47% of respondents told us they will continue to shop more online after the pandemic than before, and 30% of respondents see the amount they spend online continuing to increase in the next year, despite the return to “in person” shopping.

Figure 6



60%
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the pandemic

Views on an Online Sales Tax

Against the backdrop of changing consumer behaviour, the Government is exploring a proposal to introduce an Online Sales Tax that fails to recognise that the retail experience today is not black and white - i.e. either in store or online. Some have suggested that the proposed tax could help rebalance the tax system through funding a reduction in business rates for the retail sector - and 52% of those we polled believe revenue raised from an 'online sales tax' should go towards offsetting business rates. Nevertheless, it is disappointing that rather than fix an old tax (business rates) the Government is simply proposing a new tax.

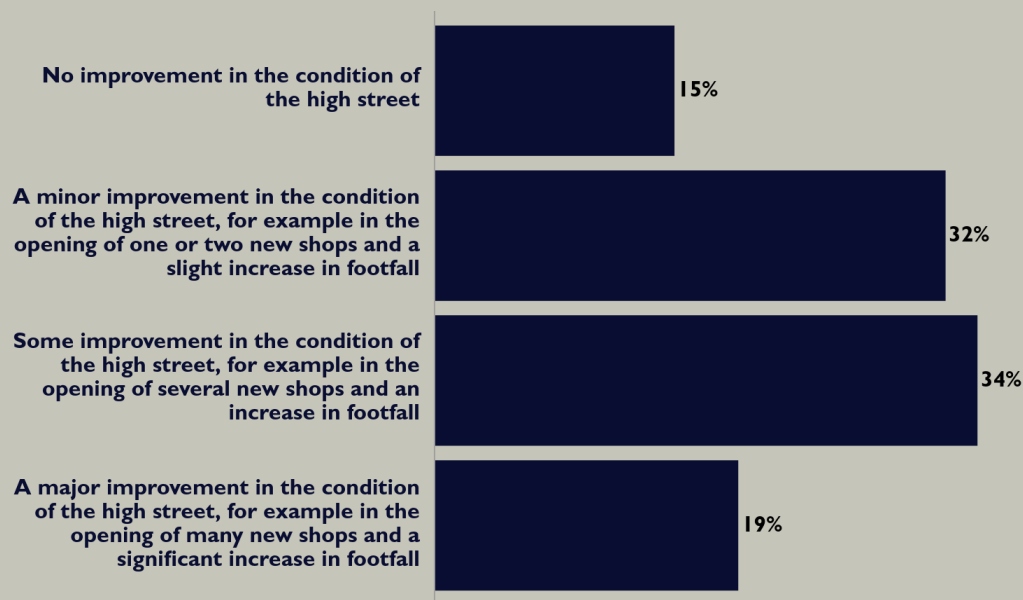
52%

of the British public believe that revenue raised from an 'online sales tax' should go towards offsetting business rates

Consumers, who are already being squeezed by a cost of living crisis, do not favour an introduction of an online sales tax that undoubtedly would be passed on to them - 46% disapprove of this idea while only 29% support it. Moreover, at a time when small and independent retailers are also struggling with increasing costs and bills, 60% of the public supported an exemption for SMEs.

This penalisation of those who have made efforts to digitise their businesses by offering an online offering would only be accepted by the British public if there was some level of improvement in the condition of their high street such as increased footfall or the opening of new shops. However, with a decades-old business rates system remaining untouched it is unclear that these improvements would materialise.

Figure 7: The Government has said that they could use the money raised through a tax on things sold online to improve your local high street. This could lead to an increase in the cost of the things you buy online. In your view, what would make this additional cost to things online worthwhile?

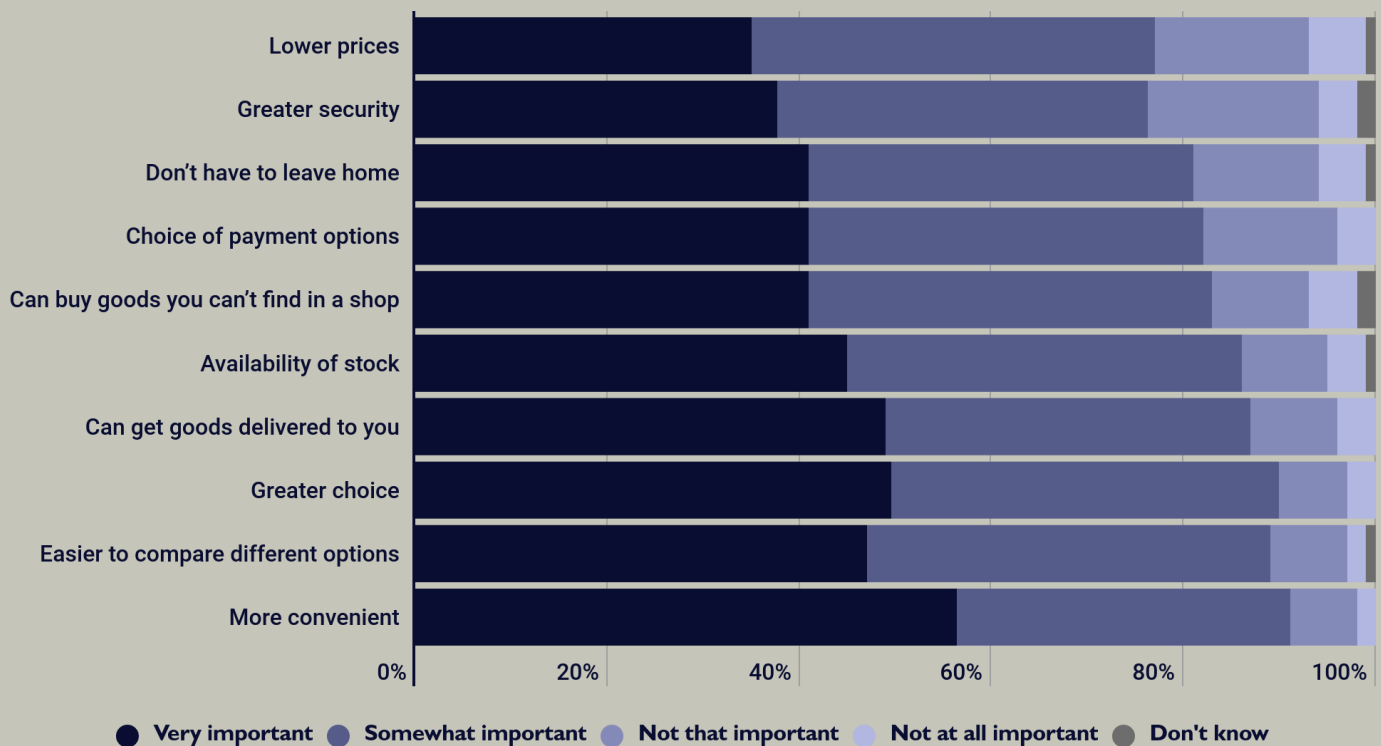


The business perspective

Understanding their customer

As we explored in Section A the trend has been towards more digital for some time, with more businesses going online and using ecommerce tools than ever before. Business owners recognise the benefits of online shopping, mirroring back the benefits we heard from consumers – particularly when it comes to convenience and choice (Figure 5).

Figure 8: Which, if any, of the following do you think are important reasons why consumers choose to buy something online rather than in person?



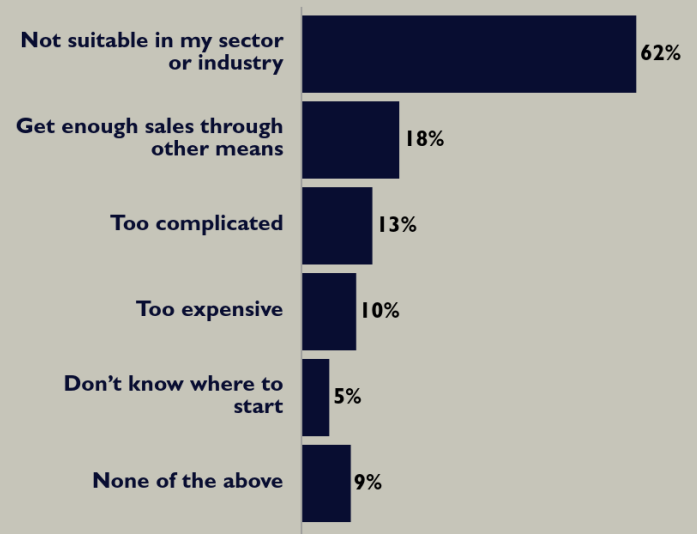
More than half of the business decision makers we surveyed now sell products online, with 56% selling products directly to customers. Of those who do not sell online, the vast majority (62%) do not sell online as it is not suitable for businesses in their sector – suggesting that most businesses who can sell online, do sell online.

Our research also found that online sales are an increasingly important part of business revenue. 58% of businesses who sell directly to customers estimate that more than half of their sales come from the online part of their business.

This both suggests that online is crucial to the success of their business, but that it has not entirely replaced other pathways such as in-person sales. Similarly, even those with an online presence value a physical shop front - 66% of e-commerce enabled businesses that we spoke to told us that a physical premises will be important to their business in the future.

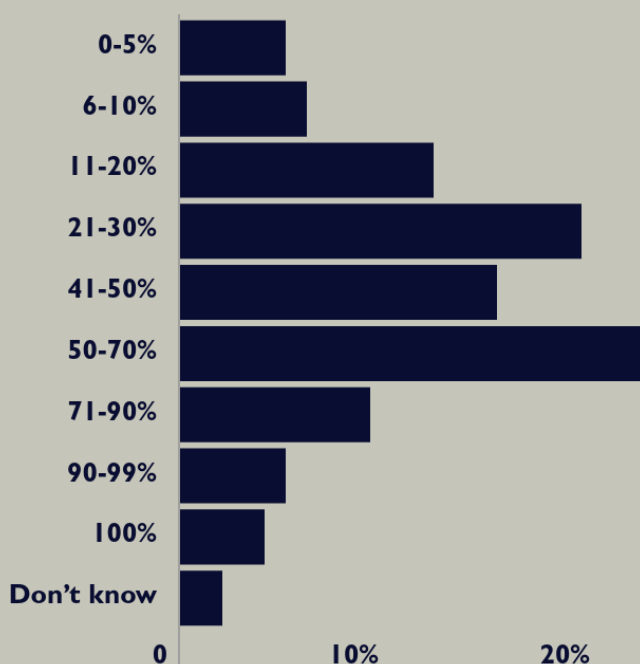
Offering omnichannel options can therefore help to grow sales and revenue, whilst also increasing resilience. This will be crucial as more consumers move to shopping online or on mobile. We estimate that helping more businesses move to online sales could help them increase their revenue by over £13 billion a year, generating at least an additional £1.2 billion in tax revenue for the Government.

Figure 9: You said that you currently do not sell any goods or services online. Which, if any, of the following are reasons why your business does not sell online? Please select all that apply.



Yet, our research shows that barriers to adoption of ecommerce tools continue to exist. These can be broadly categorised under two buckets – confidence and cost. Research has shown that while businesses, particularly SMEs, recognise that digitisation can offer a competitive advantage and enable business efficiencies they feel cost and skills hold them back from making the most of the technologies available to them.⁷

Figure 10: What proportion of your sales would you say come through direct online sales?



Barriers to ecommerce tools adoption

Awareness and Confidence: 15% of businesses surveyed who do not currently sell online reported that it was too complicated and 5% said they would not know where to start. For businesses with fewer than 10 employees this was as high as 18%.

Cost: 10% of businesses not selling online today felt that it would be too expensive to start selling online. This was significantly higher in Wales, where over a quarter of businesses (26%) not selling online reported cost as a factor in their decision.

The impact of the Pandemic

In response to the pandemic's lockdowns and restrictions, 280,000 UK businesses started selling online for the first time.⁸ E-commerce was a lifeline for many retailers whose physical stores were forced to shutter. 55% of those who sold online reported an increase in online sales since the pandemic, and 73% of e-commerce enabled businesses said that selling online kept their businesses afloat during the pandemic. For many this shift to digital is likely to be permanent. A recent survey suggested that "58% of businesses - or 180,000 in total - who have started selling online for the first time as a result of the pandemic say that they are likely to continue doing so in future."⁹

55%

of those who sold online reported an increase in online sales since the pandemic

73%

of e-commerce enabled businesses said that selling online kept their businesses afloat during the pandemic.

However, with the world opening up it is likely that the new normal will be a mix of both online and instore offerings. 66% of e-commerce enabled businesses say that a physical premises will be important to their business in the future, and 85% of e-commerce enabled businesses agree that people expect to be able to have the choice of going either into a physical store or shopping online.

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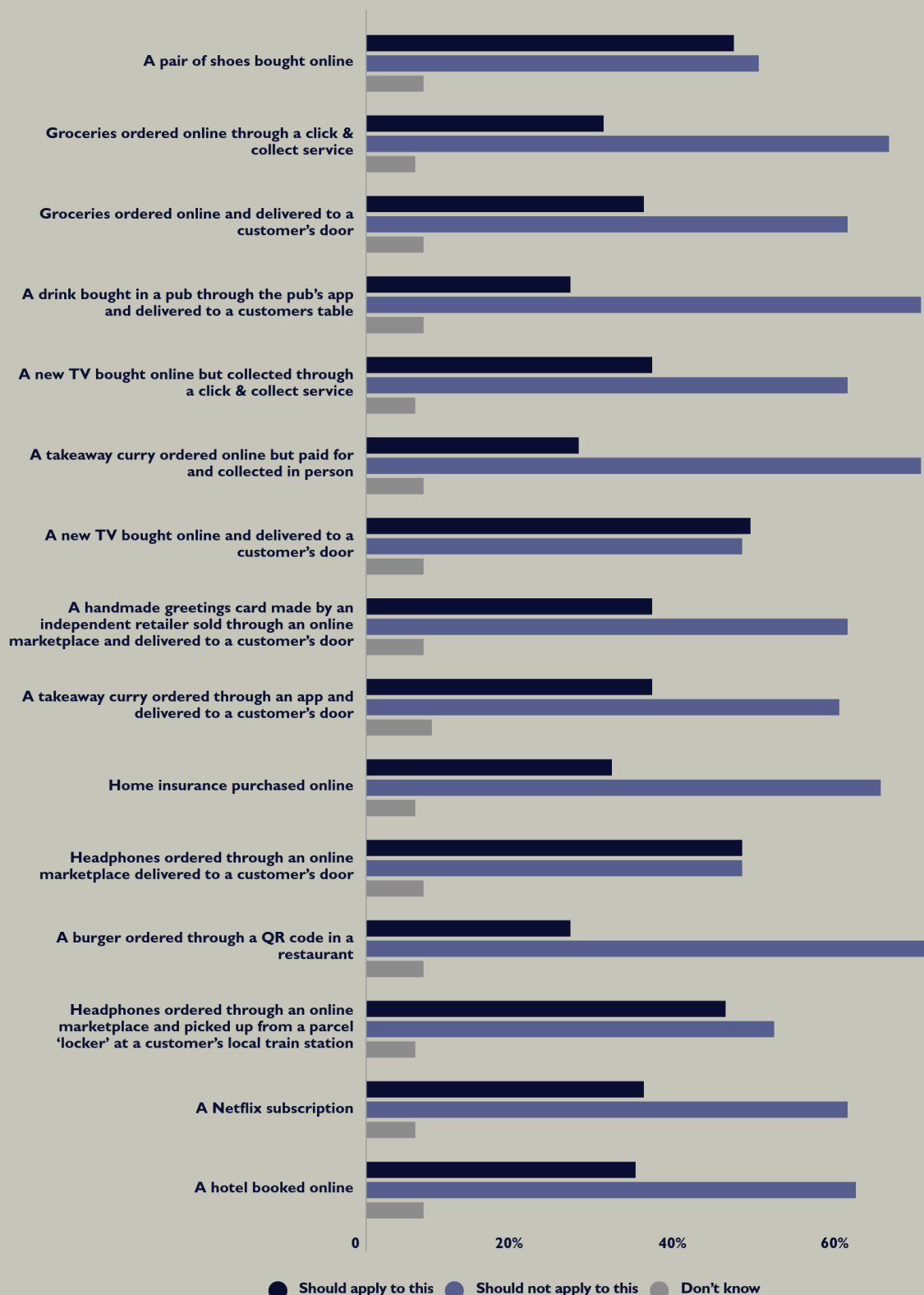
Omnichannel approaches are therefore likely to become ever more developed and sophisticated, responding to customer need and underpinned by continued digitisation and innovation.

⁸ <https://googleimpactreport.publicfirst.co.uk/uk/>
⁹ <https://googleimpactreport.publicfirst.co.uk/uk/#c3>

Views on an Online Sales Tax

While business leaders are broadly in support of an Online Sales Tax (44% support vs 33% oppose) the support is superficial and ill-defined as evidenced by the graph below.

Figure 11: If the Government was to introduce a new tax on things bought online, which of the following do you think the tax should apply to?



Moreover, this support is heavily caveated by type of business as well as type of transaction. 74% of senior decision makers believe there should be an exemption for SMEs and 62% think there should be an exemption for click and collect. This hints at the complexity facing the Government in terms of design and scope of such a tax.

Another issue the Government will grapple with is how much the tax should be set at. Our polling of senior decision makers suggest that a significant proportion (39%) would want to see a reduction in their Business Rates of between 6% and 10% for a new tax to be worthwhile. These results represent the challenge of introducing any form of online sales tax that applies to a very specific type of sale, does not apply to small businesses, and does not apply to click and collect, but still leads to significant reductions in Business Rates.

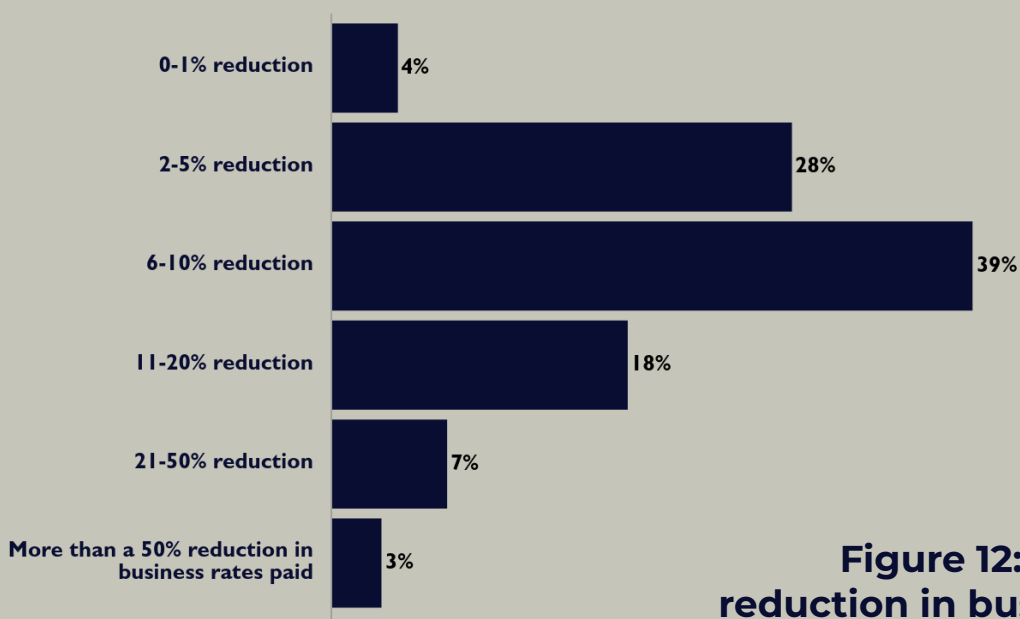


Figure 12: In your view, what reduction in business rates paid by high street shops would make this additional tax on purchases made online worthwhile?

Recommendations

1. Redefining the High Street

First, in a post-pandemic, hybrid world, Government and Local Authorities should be looking to maximise the potential that a more decentralised way of working enables. Levelling Up the country by enabling people to stay, and spend money, close to home.

Government and Local Authorities should be looking to maximise the potential that a more decentralised way of working enables. This means Levelling Up the country by enabling people to live, work and spend money close to home.

People no longer need to commute into large city centres for work – but this does not mean that individuals do not value community, fast broadband and office environments where they can focus. Ireland, a country that has historically struggled to rebalance opportunities between rural and urban centres, has leaned into remote working. The Irish [National Remote Working Strategy](#) creates a new network of Connected Hubs to support individuals work remotely in their localities. In doing so they hope to support people to prosper and progress where they are, but also re-energise local high streets.

Indeed, these innovations to create the right environment to support businesses are already happening in the UK. The [‘Work Hull: Work Happy’](#) is just one partnership between the public and private sector to create co-working spaces closer to home to help attract people to Hull building on full fibre connectivity and a welcoming spirit.

Our research has shown that convenience is indeed king and encouraging footfall in a local centre will in turn offer omnichannel opportunities such as trying in store but buying online, click and collect, or ahead of time reservations. Local authorities should particularly explore repurposing vacant premises to better serve a new community of hybrid workers, including through consultation, to better understand their needs.

2. Expanding Help to Grow: Digital

Secondly, the Government must encourage digital adoption and ecommerce of all businesses, and particularly small businesses, through the expansion of the scope and eligibility criteria of the Help to Grow: Digital scheme.

The Help to Grow: Digital scheme was a welcome intervention from the Government to boost business productivity. However, the specific details of the first wave of the scheme meant it was destined to fall short of its potential in the near-term. The criteria, as currently defined, would fail to support the majority of small businesses and leave some of the most productivity-boosting technologies out of reach. Coadec has convened the “Sign for Small” coalition to outline the case for reforming the scheme to better meet its objectives, and to help encourage businesses (of all sizes) to embrace omnichannel retail.¹⁰

To fulfil its potential the Help to Grow scheme must be reformed to:

- **Expand the size of business eligible to apply:** currently the scheme is only open to businesses with 5 – 249 employees, shutting out 95% of small businesses in the UK. Previous research has shown that by widening the eligibility to allow businesses employing 2 – 249 employees would deliver a GVA boost of £933.7m.¹¹
- **Expand the software scope:** widening the sort of support available under the umbrella of Help to Grow: Digital would better meet the needs of SMEs, and could support with harnessing the possibilities of e-commerce. This starts with delivering the e-commerce software wave, which remains a work in progress, and should then be supported by expanding to include software like Enterprise Resource Planning (ERP) software. Through this, Government would nudge more businesses to take the leap and seek new opportunities available through e-commerce. Again, research shows that adding to the list of software available under Help to Grow could support a massive boost to GVA while keeping ratio of GVA to cost essentially flat.¹²

¹⁰ <https://www.signforsmall.uk>

¹¹ https://coadec.com/wp-content/uploads/2021/05/Help-to-Grow_-Report.pdf

¹² https://coadec.com/wp-content/uploads/2021/05/Help-to-Grow_-Report.pdf

3. No Online Sales Tax

Finally, at a fragile time for the economy, in particular small business, the Government should resist adding other regulatory pressures that could dissuade businesses from adopting technologies of the future. Most notably, the Online Sales Tax (OST). Business Rates relief and reform is both necessary and long overdue; however, to attempt to combat it through an Online Sales Tax is both ineffective, at best a sticking plaster for a few businesses, and inefficient.

The research underpinning this report has shown that first, the dichotomy of offline and online retail is a false one for businesses and consumers alike and second, all businesses should be encouraged to diversify by going online in order to remain competitive and relevant. By placing an additional tax on those businesses who are innovating to survive or simply placing bureaucratic hurdles that pile on more headaches, the Government risks a perverse outcome whereby it encourages innovation and investment on the one hand with schemes such as *Help to Grow* only to penalise the fruits of that endeavour further down the line.

