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TECHNOLOGY

Where the Web Really Rules Retail

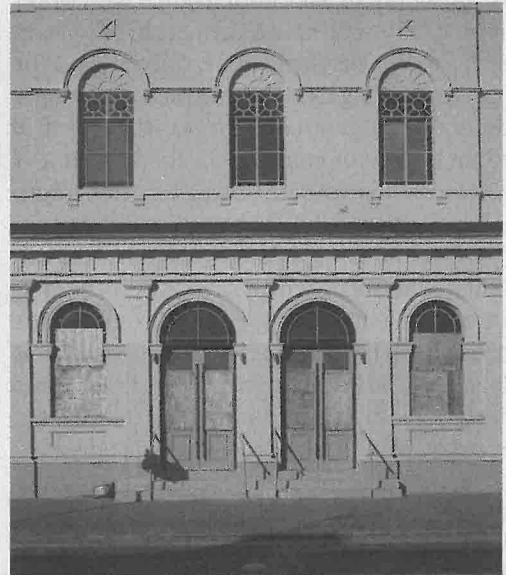
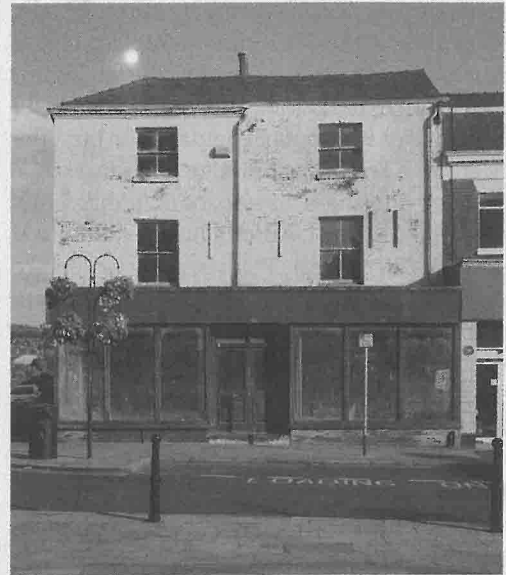
British shoppers make 18 percent of their purchases online, almost double the U.S. level

The streets of Burslem, a once-prosperous market town in the rolling hills of the English Midlands, are lined with grand Victorian-era edifices built to house tailors, tea shops, butchers, and greengrocers. But about a third of the storefronts are boarded up. Inside a deserted travel agency, a heap of unopened letters clutters the floor. A shuttered video game store showcases titles for the PlayStation 2, a console Sony Corp. stopped making a half-dozen years ago.

The town center has suffered as shoppers have defected to places like the Wolstanton Retail Park 2 miles to the south, where big-box stores such as Walmart Inc.'s Asda sprout from a sea of parking lots. Lately those problems have been compounded by another newcomer, 25 miles farther on: an Amazon.com Inc. distribution center the size of 10 football fields, one of 16 the company has in the U.K. E-commerce accounts for 18 percent of retail sales in the country—almost double the U.S. level and higher than anywhere else in the western world. “Why would you bother going to a shop when you can get it cheaper online?” Paul Dykes, a 65-year-old roofer, says as he sips a pint of Guinness in the Bulls Head pub in Burslem. “You’ll save on bus fare, too.”

Britain’s quality road network, high-speed internet connections—93 percent of households have them, vs. about two-thirds in the U.S.—and tens of millions of consumers packed into an area half the size of California have helped e-tailers thrive. Amazon’s U.K. revenue grew 19 percent last year, to \$11.4 billion. Online sales at web grocer Ocado Group Plc jumped 12 percent, to £1.3 billion (\$1.7 billion). U.K. revenue at internet fashion retailer Asos Plc rose 16 percent, to £698 million, and the company’s stock market value is higher than that of department-store chain Marks & Spencer Group ▶

▶ Burslem’s Queen Street, where a third of the shops are boarded up



◀ Plc, even though Asos's clothing sales are half as large. "The U.K. is miles ahead in terms of consumer choice online," says Richard Hyman, managing director of retail consultancy RAH Advisory. "It's the shape of things to come elsewhere."

Tesco Plc, the U.K.'s biggest retailer, has been a leader in the shift, launching its first e-commerce effort in 1995. Company executives, enthused by an exhibit on the "future of retail," figured Tesco's nationwide network of stores could serve as warehouses. Tesco mailed out floppy disks loaded with its catalog to households in west London and began taking dial-up-modem orders. It shifted to the internet around the turn of the century, offering deliveries to more than 90 percent of U.K. homes. Although the operation is barely profitable, Tesco has become the world's largest online grocer, with web sales last year topping £3 billion. "Grocers were quite dismissive about online, but Tesco was so far ahead of the curve," says Bryan Roberts, an analyst at researcher TCC Global NV. "They were happy to take a chance."

Online retailers typically benefit from lower overhead than their store-based counterparts, but in the U.K. that advantage is bigger than just about anywhere. The country has the developed world's highest commercial property taxes, and in many areas those levies have jumped even as store sales decline, because land values have risen since the financial crisis. Last year, Tesco paid £700 million in property

taxes, and J Sainsbury Plc, the No. 2 chain, paid £550 million. Amazon's bill: £14 million. "We start the year £500 or £600 million behind Amazon before we've even opened our doors," says Kevin O'Byrne, Sainsbury's chief financial officer. "We're fighting them with one hand tied behind our back."

The shift to e-commerce has devastated Britain's high streets, or central shopping districts. Until a few years ago, opening an outlet in a desirable area meant a 25-year lease with rent that could only be revised upward. Today it's hard for many landlords to get commitments for more than three years as chains such as Toys "R" Us, department store BHS, and electronics retailer Maplin shut down and dozens of other retailers close locations across the country. Jeremy Corbyn, leader of the opposition Labour Party, in March accused the government of "tearing the heart out of the country's high streets." Chancellor of the Exchequer Philip Hammond on July 5 said Britain "needs to find a better way of taxing the digital economy" to help level the playing field with traditional retailers. "Retailing is going through a generational change," says Charlie Mayfield, chairman of the John Lewis Partnership, which owns department stores and supermarkets. "The pace and the impacts it's having are greater than ever." —*Sam Chambers*

THE BOTTOM LINE The growing strength of online stores has devastated shopping districts across Britain and contributed to the woes of traditional retailers.

● Amazon's U.K. revenue in 2017

\$11.4b