

## Written evidence submitted by Dixons Carphone [SHS 050]

### Introduction

#### *About Dixons Carphone*

Dixons Carphone plc is a leading omnichannel retailer of technology products and services, operating through 829 stores and 16 websites in seven countries, including 314 stores in the UK&I, trading as Currys PC World featuring Carphone Warehouse.

We are the market leader in the UK & Ireland, throughout the Nordics and in Greece, employing 35,000 capable and committed colleagues across the Group. Our full range of services and support makes it easy for our customers to discover, choose, afford and enjoy the right technology for them, throughout their lives. The Group's operations are supported by a sourcing office in Hong Kong, state-of-the-art repair facilities and an extensive distribution network, enabling delivery to stores and homes.

Our brands include Currys PC World and Carphone Warehouse in the UK & Ireland and iD Mobile in the UK; Elkjøp, Elgiganten and Gigantti in the Nordics; and Kotsovolos in Greece.

In recent years, we have seen a shift in customer behaviour in how and where they are choosing to shop. Our customers value stores and online alike, and are increasingly shopping across channels to discover and buy amazing technology.

We've also seen them shift away from visiting high streets, towards buying online and from bigger stores, that offer the best of both worlds. As a result of that change, our physical retail presence has also shifted away from the high street. Today, 98% of our UK stores are now situated in out-of-town retail parks which are able to accommodate the larger store format we know our customers prefer, and that are home to our omnichannel offering.

#### *The impact of Covid-19*

British retailers have faced one of the most challenging years on record, as the impact of Covid-19 has affected consumer confidence and measures to contain the virus have limited the ability of shops to open. The pandemic has elevated existing issues and challenges facing the retail sector and British high streets.

At Dixons Carphone, nothing is more important than the safety and wellbeing of our colleagues and customers. Like many other retailers, we have made significant investments in all our stores, warehouses and offices to meet strict government guidelines on social distancing and hygiene standards. We have also successfully adapted to a changing market, working hard to come up with innovative, digital-first, safe ways to continue to provide vital technology to customers and enable them to stay connected with loved ones, keep their families fed, clean and entertained, and work productively from home.

Unfortunately, as we know, the same cannot be said for many other retailers who have been unable to cope with the demands of the pandemic.

Nonetheless, it is clear that retail will be a critical engine of the post-Covid recovery, and while the pandemic has accelerated trends towards online shopping, we strongly believe that bricks and mortar stores will continue to play a hugely important role in consumer shopping habits – alongside, not supplanted by, online. Retailers like Dixons Carphone, with a large physical presence across all

regions of the country, know the value our stores bring to the customers who use them, the colleagues they employ and the communities within which they operate.

While we are not strictly a high-street retailer, our submission to the committee is based on years of experience on UK high streets and a firm belief in the value of stores, and therefore in-person shopping, to British consumers. The issues affecting high street retailers are issues affecting all retailers with a bricks and mortar presence, and it is our view that without significant and timely reform of the business rates system, high streets across the country will continue to decline. For this reason, our submission is focused on reform of the business rates system, which has unfairly penalised bricks-and-mortar stores over online-only competitors for many years now.

### **The key points of our response:**

- Each business will have a different view on the role of stores, depending on the category and the customer. We sell technology, which customers find exciting, but often confusing and expensive. They value expert, face-to-face advice in making the right choice of laptop, TV, washing machine or mobile phone. This is where the geographical convenience of stores comes in.
- While the pandemic has accelerated trends towards online shopping, shoppers and society still want the option to visit their local store, be it for help choosing a product, or simply to experience it before they buy. For many products, the in-store experience is still a significant part of the purchasing journey.
- Our stores have performed strongly through the pandemic when open, and three in five of our customers still prefer to shop through a mix of stores and online. It's clear that stores have a central role to play in retail's future – alongside, not supplanted by, online.
- However, stores are only viable when they make economic sense for the business they are serving. No business will keep a store open if it isn't profitable. This is driven partly by customer behaviour, and partly by the associated costs of running a shop, for example rents and business rates.
- Retailers have long been hit hardest by business rates, and they now make up a much greater proportion of the costs of operating a shop. Business rate liability is a key determinant when we consider whether to renew leases or close stores at expiry, and without urgent reform, the nation's high streets face the risk of increasing numbers of shuttered stores.
- Wholesale and urgent reform of the business rates system should be a Government priority, to ensure bricks and mortar retailers are neither shouldering a disproportionate share of taxation when compared to online-only retailers, and are not doubly taxed by new fiscal initiatives such as online sales taxes.
- This should start with a rebalancing of business rates towards warehousing and away from retail stores and is a matter of boosting the economy when it needs it most, just as much as it is a matter of retail survival.

## **The likely long-term consequence of the COVID-19 outbreak on the future of the high street**

### *Costs*

It is no secret that consecutive lockdowns have disproportionately impacted those businesses categorised as 'non-essential' during the pandemic. As we've seen through the lockdowns, technology has played a vital role in helping to keep people fed, cleaned, productive, entertained and connected. We were, nonetheless, deemed to be "non-essential", and our stores went through lengthy periods of enforced closure.

### *Consumer trends*

It is still too early to definitively draw conclusions from any consumer patterns that have arisen from the pandemic, however, it has certainly accelerated trends towards increased online shopping – although this is supplementary to in-store shopping and does not detract from the value of stores, when they are open.

- Our research shows that 60% of our customers, when shopping for technology, prefer to use both channels. There is no doubt in our mind that a closely connected digital and physical experience is the future of the sector.
- For us, it enables customers to access the full online range in-store, quickly get hold of their technology through order and collect, and get expert face-to-face advice from colleagues in-store across the country, through ShopLive, our 24/7 live video shopping service.
- One question is whether store-based restrictions, such as social distancing requirements, mask-wearing, and limits on the number of customers allowed on the premises, will have a long-term impact on consumer satisfaction with the in-store shopping experience.
- We await the Government's review into social distancing with interest, however as a responsible business which takes the safety of its customers and colleagues extremely seriously, we will continue to abide by government guidelines regarding these measures. Only when safe to do so will we start to assess how our operations may change.

### *The value of property*

- There is no doubt that we have seen a fundamental change in the way retailers' leases are negotiated with landlords as a consequence of the pandemic.
- Alongside disproportionate business rates, the pandemic has shone a spotlight on whether current (pre-pandemic) rental levels and leasing formats are sustainable.
- Furthermore, warehousing values have increased, and continue to increase, whilst store real estate value is declining. This shift in property value is contributing towards the deterioration of the high street. As online-only retailers thrive with high-value warehouses and low rates bills, bricks and mortar sites have seen their value shrink whilst paying unfairly high business rates bills.

## **Assess the Government's previous and current measures to bolster the high street; including the effect of the business rate holiday during the COVID-19 outbreak and the impact of its ending**

Government support for the retail sector during the pandemic has been vital. We appreciate all the support government has given to businesses like ours, including through business rates relief, the

furlough scheme, and access to loan financing and other targeted schemes, which have for many in the sector helped prevent job losses.

For businesses deemed “non-essential”, store closures have had a significant impact, especially when competitors are online-only, had “essential” stores in sister businesses which they could continue to sell through, or whose sister businesses were permitted to continue to sell “non-essential” products in their stores. Thankfully, we were able to use the scheme responsibly and as intended, and as a result we preserved thousands of jobs. More recently, we announced (in April 2021) that, given our strong financial position, the Group has reimbursed the full amount of furlough paid to UK & Ireland colleagues during this year, totalling £73m.

The support in the form of business rates relief was also very welcome, and it has been a long-standing view of almost everyone within the industry that the current system is no longer fit for purpose.

Business rates particularly affect bricks and mortar retail, and account for a significant proportion of our total tax bill. The sector accounts for 5% of the UK economy by GVA but pays 10% of business taxes and 25% of all business rates. In addition, today’s business rates are based on 2015 rental values but, as all retailers know, rents have fallen precipitously since then – rates haven’t.

The importance of this tax to the health of our business and the retail sector overall – the largest single employer by sector, with over three million people working in it – cannot be overstated. Business rate liability is a key determinant when we consider whether to renew leases or close stores at expiry, or even when looking at opening new stores.

If there is not an urgent and fundamental reform to the business rates system, then it is highly likely that retailers will be forced to close a high number of stores when leases expire, risking many jobs in doing so.

Jobs aside, our stores also help us carry out activities that are good for the planet. We don’t just help people choose, afford and enjoy technology – we also help them recycle and repair it. We are the largest recycler of waste electricals in UK retail, a proportion of which is received through our store network. Across all our channels, we encourage everyone to bring old or unwanted technology into our stores to be recycled or reused – whether they bought it from us or not. We want to make environmentally friendly choices as easy for people as possible, and stores are essential to this. Furthermore, our stores and the colleagues they employ are also vital to the local communities they serve, with colleagues fundraising for local initiatives and organisations, supporting vulnerable customers with advice and expertise, and simply contributing to the local economy.

With the above in mind, our preferred approach to reform is as follows:

- Our priority outcome for this process is to ensure that the business rates system is adjudicated in a better, clearer and fairer way for all.
- We do not support any measure that increases the overall tax burden on the retail sector. Any new tax burden on the sector would not be the answer to the problems of an already overtaxed industry.
- We caution against simply replacing part of business rates with an equivalent online sales tax as that will not assist businesses that trade both online and through traditional bricks and mortar properties and runs the risk of creating increased tax liabilities for omnichannel retailers.

- In addition, the existing tax rates (multipliers) are far too high; the multiplier should be reduced to 35% initially while consideration is given to it being brought into line with corporation tax.
- We believe that rebalancing business rates away from stores and towards warehouses is a proportionate and sensible solution.
- Over the past decade, a significant proportion of the growth in retail has come online and, as a consequence, the only part of the commercial property market where rents are growing – and they are growing dramatically – is distribution warehouses. Yet rates bills for warehouses are proportionately a fraction of those for stores.
- We need much faster resettlement of rates to reflect changing rental values. This would be fairer, rebalancing the bill away from the struggling high street towards those better able to pay.
- If necessary, a form of self-assessment could be used, at least initially. It would largely be self-funding: the bill would go down for stores, but up for sheds; and it wouldn't just benefit retailers, but also hard-pressed pubs, restaurants and landlords. Omnichannel retailers like us would pay more on our warehouses, as is fair. And pure-play online retailers would have to start paying their fair share of tax too, rather than getting a free ride on the infrastructure other retailers are funding today.
- A rates resettlement would affordably and rapidly ease the burden on high streets, redistribute it more fairly among online and physical retailers, help other sectors, and light a fire under the nation's post-pandemic recovery.

Thank you for the opportunity to contribute this submission to the Committee. We would be more than happy to provide additional information on any aspect of our submission.

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