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**RETAIL STUDIES**

**COMPETITIVE**  
**ANALYSIS OF THE RETAIL**  
**SECTOR IN THE UK**



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# **DEPARTMENT OF TRADE AND INDUSTRY: COMPETITIVE ANALYSIS OF THE RETAIL SECTOR IN THE UK**

**Report submitted to  
The Department of Trade and Industry (Tender CGS/1239)**

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# EXECUTIVE SUMMARY

## 0.1 Background and Framework for Analysis

In early 2002 the Institute for Retail Studies at the University of Stirling was commissioned to carry out a 'Competitive Analysis of the Retail Sector in the UK' (tender CGS/1239) based on secondary sources and restricted to the UK rather than international comparisons.

The project had three objectives:

- to define and map the sector in terms of size and composition of the businesses which operate within it;
- to analyse the competitiveness of the sector now through SWOT, PEST and Porter's 5 forces and any other appropriate means and summarise the key issues facing the sector as a whole, and also sub-sector specific issues;
- to provide recommendations for industry and government.

The report is divided into four parts. In Part I we provide a background to the sector and explain the framework for analysis used in the study. Part II provides the competitive analysis of the whole (generic) retail sector based upon the three components of the framework: drivers for change; sector structure; and internal characteristics and competencies. Part III summarises the report and provides recommendations based upon our interpretation of the analysis. Part IV, presented as an appendix, provides a series of sub-sector analyses for the nine retail sub-sectors identified by the DTI.

Retailing is one of the major economic sectors of the country, with retail sales of £221 billion, employing around 3 million people and operating over 300,000 shops. Within the sector there is a scale polarisation at both the business and the store level. The leading retailers are huge, multinational businesses which dominate the sector. They operate a range of stores from major hypermarkets and supercentres through to small convenience stores.

Retailing is also significant in its social dimension as well. Whilst economically retailing bridges production and consumption, in social terms it affects most of the population every day. It is the rare person who does not go shopping, or indeed has not worked in retailing or been involved in it in some way. For some, retailers offer their major social intercourse of the day or week and act as a social network, setting or centre. The quality of UK retailing and its locations thus has both an economic and a social bearing on the perceptions of the country.

What we term retailing is however changing, both in horizontal and vertical terms. Traditional product boundaries have altered and strict lines of business have dissolved. Retailers have also extended their tasks to encompass the supply chain and intermediaries and suppliers are effectively managed and controlled by the retailers' channel dominance.

## **0.2 Competitive Analysis**

Retailing is the subject of a number of drivers of change, which affects the environment within which retailing operates. The overall effect of these drivers on retailing can be broadly summed up as concentration, price and cost pressures and complication. Concentration emerges in the sense of business concentration as the larger retailers continue to develop and the country engages more fully in the global retail economy. Concentration also emerges in the focus upon certain key retail locations ie. spatial concentration, driven by restrictive land-use planning and a desire for high quality and compact locations. Price and cost pressures are inevitable given the operating parameters of retailing and their need for a variety of inputs. Being efficient in use and operation is one response, but seeking out the best sources of supply is another. Complication arrives from the fragmentation of consumers and their volatility. This in turn adds to pressures on retailers to be rapidly responsive.

These drivers for change will impact, and have impacted on, the sector structure. The retail sector can perhaps be summarised as expanding, polarised, innovative and open. The sector itself is expanding in both horizontal and vertical dimensions as retailers take on more activities and develop broader strategies. As these are successful, so polarisation in the sector increases as the biggest companies continue to grow in scale and as they operate a larger range of store types. Innovation has thus been critical to development and has occurred at the store format, operations, products and branding levels. Finally, the UK market is open, allowing overseas retailers easy entry and thus raising competition. UK retailers have thus begun to expand overseas to seek out new markets and to exploit advantages.

The methods by which retailing is carried out and the activities undertaken are also changed by the drivers for change and the altered scope of retailing. Retailers have become very good at managing aspects of their business and developing their systems, approaches and practices. They have done this in terms of their own operations, outsourced or partnered activities and by exploiting their scale, data and reach. However, this process has perhaps made them less 'likeable' just as their need for high quality labour has expanded. As a consequence, the industry perhaps needs to re-engage with people and their desires in order to better promote the sector as a place to work. Too often the perceptions of the retail industry from outside are poor.

## **0.3 Recommendations**

Based on our analysis and the wider reading undertaken as part of this project we make a number of recommendations to assist the future development of the retail sector:

1. Retailing needs to be accorded a higher status within government departments in recognition of its significance. Government should seek to grant retail similar status to other sectors of the economy;

2. There is conflicting evidence about accessibility to retail outlets and research should be brought forward by ESRC/DLTR to investigate fully the dimensions of accessibility;
3. Competitiveness in British retailing will not be promoted by restrictions on merger and development. A looser regime on amalgamation may provide a more appropriate competitive sector, provided it is balanced with consumer interest issues;
4. Issues of accessibility should be considered before any major de-regulation of planning is contemplated. A full study of the negative externalities of de-regulation is a vital pre-requisite to such a policy;
5. Government should investigate how best to enhance the skill set of smaller retailers in terms of supply chains and other practices;
6. Government should examine and argue for the opening of markets to British companies, attempting to reduce barriers to entry and takeover;
7. Research should be commissioned into the capabilities and competencies of matched UK and non-UK retailers as regards their ability and reaction in non home market operations;
8. The retail sector should together, in an equal partnership with education at all levels, seek to provide a true seamless retail skills ladder and be prepared to fund staff and programmes;
9. A full review of the costs of compliance with legislation by large and small retailers should be undertaken;
10. Retail organisations would benefit from being more inclusive and from closer collaboration or even amalgamation;
11. Local authorities and other support agencies need to investigate how best to help smaller retailers at both the local level and nationally;
12. ONS should undertake an urgent review of the quality and quantity of retail data produced officially, whilst the retail sector should identify issue based data needs which would enhance the understanding of the sector.

## **PART I**

### **BACKGROUND AND FRAMEWORK FOR ANALYSIS**

#### **1. Introduction**

The terms of reference for this report are laid out in the Department of Trade and Industry tender CGS/1239 “Competitive Analysis of the Retail Sector in the UK” and the subsequent response from the Institute for Retail Studies, University of Stirling, dated January 2002.

The **aim** of the project is to produce a competitive analysis of the Retail Sector (and its main sub-sectors) in the UK. This exercise will allow consideration of how retailing contributes to UK competitiveness now, how this might change in the future and what needs to be done to maximise the potential of the sector for the long-term benefit of retailers, suppliers and customers.

In meeting this aim, the project has (according to the invitation to tender) three **objectives**:

- to define and map the sector in terms of size and composition of the businesses which operate within it;
- to analyse the competitiveness of the sector now through SWOT, PEST and Porter's 5 forces and any other appropriate means and summarise the key issues facing the sector as a whole, and also sub-sector specific issues;
- to provide recommendations for industry and government.

The invitation to tender indicated that the research method should be secondary in nature, and that the scope was the UK rather than international comparisons.

#### **2. Analysing the UK Retail Sector – Scale and Scope**

Retailing is a crucial sector and major contributor to the UK economy, as table 1 shows. At a simple level, for the majority of consumer goods and services it provides the link between production and consumption. All of us shop and many have weekly if not daily contact with some form of retailing. The sector is also a significant employer, particularly in the youth and female segments of the labour force. Furthermore beyond the large omnipresent chains, exists a large body of independent businesses, which provide self-employment opportunities.

Table 1 : Retailing in the UK Economy, 2000

	Retail Sector	Whole Economy*	as % of Whole Economy
Number of Enterprises	215 373	1 735 386	12.4
Turnover £ m (exc VAT)	218 936	1 960 686	11.2
Total Employment '000	3 050	24 693	12.4
Approximate Gross Added Value at basic prices £ m	49 275	606 228	8.1

\* whole economy defined as SIC sections C-O – Production, Construction, Distribution and Services (excludes Agriculture, Forestry and Fisheries etc)

Source : ONS Annual Business Inquiry

Despite its significance, identifying the dimensions of the overall retail sector is quite difficult. Official government statistics in the sector are poor and inadequate and the commercial providers often struggle to produce meaningful comprehensive data. Often data sets purporting to measure the same thing do not tally. The most recent Retail Inquiry for example does not even contain an estimate of the number of shops in the country. In general terms, broad identifiable scale parameters include:

- Retailing has sales of £221 billion (current prices);
- It is comprised of over 215,000 businesses operating somewhat over 310,000 shops;
- Between 2.8 and 3 million people work in the sector which additionally contains a further 300,000 self-employed people.

Within this sector there are many dichotomies. The size of business varies enormously from some of the largest in the country (Tesco with sales of over £22.7 billion) and components of the world's largest business (Wal-Mart) to the local corner shop or even car boot sale stall-holder. A single shop could employ many thousands of staff (Harrods) or could be a one-person enterprise. Many staff are paid at the minimum wage for a few hours work, whereas owner-directors such as Philip Green can take in over £100 million for turning around BHS, or even 'normal' directors such as seven of the current Tesco board can earn over £1 million per year.

For such a crucial sector of the economy detailed mapping of the sector is also far from easy. Analyses are traditionally conducted on product or store format based typologies eg the food retailing sector, or superstore sector or convenience store sector. Official data, produced by ONS, essentially follow a "line of trade" typology, and this approach pervades most of the reviews of the sector produced by consultancy and market research agencies. Although driven by the confines of data collection and presentation, any analysis of the sector should recognise that there is now a fundamental blurring of the "retail sector" in both horizontal (eg product line) and vertical (eg channel activity) dimensions.

With respect to the horizontal characteristics of the retail sector, as businesses have sought to grow and the physical size of outlet has expanded, traditional product boundaries have dissolved. Food retailers now no longer merely sell fresh and dry



groceries but also retail electrical products, financial services, clothing and entertainment products (CDs, Videos, newspapers, toys). The boundaries of traditional “hardware” retailing now encompass garden products, furniture, and home furnishings. The widening of consumer demand and changing consumer expectations, increased sophistication of stock control and management information systems, plus the appearance of new product markets (eg mobile telecommunications) all involve pressures which have encouraged retailers to think and operate “outside” the traditional retail product boxes.

Change in the vertical dimension of the retail sector is best illustrated by changes in who performs and manages channel tasks and activities. The traditional view of retailing has seen it as one function or activity within a distribution channel which links supply or production to demand or consumption. Tasks, activities and roles within this channel process were clearly delineated. Retailers were essentially passive, responding to the lead of brand manufacturers, and relationships between the various actors were dyad focused and transactional in nature. As retailers have used their increased organisational scale, and growing control over customer access and information to take the lead within the distribution channel, the management and organisation of tasks and activities has changed. Retailers have assumed a pro-active role in a demand (as opposed to supply) chain to manage the whole channel process. The need to meet a range of customer needs, desires and priorities has required retailers to manage costs and activities within the channel through a more co-ordinated, integrated approach to activities. This is well seen in issues such as the persistence or not of wholesaling, transportation or packaging businesses. The outcome is again a “blurring” of the traditional boundaries used to delineate retailing and assess its role and importance within the economy.

This fundamental change process for the leading retailers, and generally for the retail sector as a whole poses problems in understanding the contribution that retailing makes to a country and in any international comparisons. For the UK at least, any statistical process is further complicated by the poor quality and quantity of official statistics.

Within the UK for example it is almost unfair to consider the ‘average retailer’ or to talk about the retail sector as a whole. Analysis of the sub-sectors shows that there are considerable variations within and amongst parts of the retail industry. Although certain measures are derived from publicly quoted data, even these figures are open to question. It is unlikely that floorspace and labour input are measured accurately enough to allow meaningful productivity analysis at store, company, sector or country level. Answering a question over the productivity level of retailing over time is thus very complex given the lack of adequate data and the changed nature of the business. Much will also depend on the exact dimension of productivity that is examined (space, labour, capital) and the way in which externalities and other impacts are accounted for. In short, we believe that simplistic concentration on headline macro figures, be they productivity or price, is wholly misleading and does not further understanding of the competitiveness of the sector or its constituents.

This can be further considered by reference to international comparisons. The ‘rip-off’ Britain campaign demonstrated a clear misunderstanding of the relationship between price and costs and showed how headline figures could be misleading.

Current considerations of international comparative productivity may well be making similar errors. It is far from clear that like for like comparisons are being made or that all the activities required are included. Extreme care needs to be taken in examining such claims and in drawing sector wide conclusions from them. British retailing needs to be understood first and foremost in terms of the economic and social needs of this country.

### **3. A Framework for Analysis**

The framework for analysis used in this report is based upon three stages. First is the identification and assessment of key drivers for change influencing the retail sector. These factors are external to individual business within the sector but shape the broad competitive environment within which retailers operate. Secondly, there is a consideration of the structural characteristics of the retail sector. This allows analysis of the business organisation of retailing within individual sectors in respect of ownership, competitive structure and scope – in effect charting the shape and resource base of the sector. Finally, the focus is upon internal characteristics and competencies within retailing. This requires identification of core operating competencies, which contribute to success within retailing. This framework does not follow directly some other types of analysis (eg SWOT, 5 Forces), but can be clearly seen to derive from them. We believe our approach allows an accurate view of retail activity and competitiveness to emerge, which is more appropriate to the changed nature of the sector. As with all frameworks however artificial barriers between levels of analysis are inevitable and we would emphasise that linkages amongst the three stages exist.

This three stage analysis is provided both at the level of the UK retail sector as a whole and for all the individual retail sub-sectors identified by the DTI in the tender document.

Competitive analysis starts with an assessment of the environment within which a business operates. For the purposes of this report a framework considering key drivers for change will be utilized. These drivers are identified as :

- Political Structure and Trends
- Economic Structure and Trends
- Socio-cultural and Lifestyle Aspirations
- Demographic Structure and Trends
- Production and Process Innovation
- Environmental Changes and Trends

Change within each of these interrelated drivers contributes to the broad environment within which retailing operates.

The influence of the external environmental drivers and the capacity for retail organisations to respond to the opportunities and threats posed by these changes is moderated by the structural characteristics of the retail sector. These contribute to competitive analysis through an understanding of the implications for organisations arising from issues surrounding scale, scope, the organisation of businesses and resources. The key considerations here include :

- Size and Scope of Retail Sectors
- Competitive Structure
- Organisational Structure and Competition
- International Opportunities and Threats

An analysis of internal characteristics and competencies within retailing provides an assessment of core competencies and capabilities. Although operational areas are intrinsically inter-linked, for purposes of analysis core competencies are identified in :

- Retail Operations
- Employment Characteristics
- Marketing Activities
- Supply Chain Management

Modern retailing is inherently complex. As suggested above the traditional boundaries between product sectors, formats and channel activities and roles adds to this complexity. However, for the retail sector as a whole, common drivers, structural trends and competencies can be identified. Part II presents the overall competitive analysis of the UK Retail Sector. Part III provides the summary and conclusions for the retail sector as a whole and discusses policy implications. Finally, Part IV (the appendix) presents sector specific analyses for the sub-sectors identified by the DTI in the tender document, namely:

- Books, Stationery and Newspapers
- Clothing and Footwear
- Department Stores
- Do-It-Yourself
- Electrical Goods
- Food
- Furniture
- Health
- Music

## **PART II**

### **COMPETITIVE ANALYSIS – THE UK RETAIL SECTOR**

#### **1. Drivers for Change**

##### **1.1 Political Structure and Trends**

The activities of retailers and thus shoppers are affected by the political structure and trends in a number of ways. It would be wrong, however, to see this as a direct relationship derived through a body of legislation specifically targeted at retailing or shopping. Instead, trends in retailing and shopping are more dependent on a number of national debates and initiatives that have been developed recently by various levels in the political process.

The main direct effect that politicians have on retailing and shopping is through their exercise of power over location through the levers of the land-use planning system. Whilst land-use planning is a local authority activity, national government can intervene to provide directions and guidance on the assessment of development opportunities and proposals. Whilst land-use planning towards retailing in the 1980s allowed decentralised activity, since the early 1990s there has been a growing consensus on the tightening of restrictions on off-centre and green field development. Thus it has become much harder to obtain planning permission for developments away from existing town centres and newer forms of retailing such as factory outlet centres and regional shopping centres have become harder to accommodate. This consensus has emerged through a general concern with the health of town centres and a desire to see town centres as vital and viable parts of the urban structure, fulfilling traditional nodal activities, including providing a focus for shopping.

The concern over town centres and the cumulative impact of off-centre development (not only retailing) on various environments and on the general sustainable nature of the environment are the main drivers towards such restrictive policies. This is combined with the notion that concern over social exclusion indicates that access to modern shopping facilities is differentially available and that partly to counteract this, more effort should be focused on the most accessible shopping locations - generally held to be town centres. Issues concerning traffic generation at out-of-town locations interact with this, and although town centres may themselves be congested and difficult environments, it is assumed that future changes in transport and access will bring relief (although there are many issues unresolved in this area). Some have argued that planning control is a barrier to competition and enhanced productivity. This view however ignores the true social costs of de-regulation and assumes price is the only key signal for consumers.

In addition to land-use planning, politicians have been involved in the media campaign over 'rip-off-Britain'. This 'culminated' in the Competition Commission investigation of supermarket prices and profits, although other sectors have been and

are being investigated. The climate of shopping has changed over this period, in that there is a 'dichotomy of desire' between the leisure and experience component of retailing and the more functional price driven appeal of others. The latter price based approach has also gained momentum from technological changes including allowing price comparisons to be made more readily. Price however is a complex signal for consumers, and so there remains scope for varying price and branding strategies to allow retailers to position themselves differentially in the market. As the competition commission found out, consumers have valued many of the changes in the retail sector.

This issue about price is directly related to concerns about market power, as exemplified in the Competition Commission's interest in various retail sectors. Power and the potential abuse of power has exercised politicians' and regulators' concerns for some time and in the retail sector a number of possible mergers and take-overs have been blocked over a number of decades. This power to construct or de-construct the competitive landscape remains a powerful potential weapon in the government's locker, though one that may have to come to terms with pan-national changes in retail organisation. A number of regulatory options are possible in the future, and it is highly likely that there will be increasing references to investigative and merger authorities.

Whilst land-use planning affects the location of retailing, other instruments of government can affect the operations of the business, although as we note there is no overall retail trading legislation. Instead, shoppers are affected by a battery of public policy which attempts variously to regulate competition, safeguard consumer interests and to regulate trading conditions. Recent changes in this arena have seen an easing of restrictions on trading hours for example but a strengthening of powers over retail selling and employment practices. Concerns over public health have led to tighter regulation on food stores. In essence the approach could be summed up as ensuring that retailers do their jobs properly and that there is as much a level playing field as possible. Again there is no reason to suspect that this will change, though the scale of the legislation will change as globalisation continues in this market. Big retailers will be created on a pan-European level and will be subjected to standard operating conditions across for example Europe, which safeguard consumer interests.

The European dimension obviously has another political aspect as well, most notably in terms of the Euro. Whilst decisions about the Euro are beyond this report, retailers as a key service sector, will have to deal with its introduction (or not). For some this is already anticipated through their acceptance of Euros in the UK, their Irish and continental European experiences and in their forward planning of technological (eg POS) investment. Smaller retailers in particular however may be less prepared for any positive decision. Overall there will be costs in implementation, as well as potential trading disruption depending on timing of introduction.

Political acts have economic dimensions and vice versa, as witnessed by the Euro. However governments also have a raft of general legislation and activities that affects retailing. Aspects of the consumer side of these are discussed later, but governments also affect the supply side of retailing. For example, general issues about taxation on business such as VAT rates and business rates affect retailing like other businesses. Decisions about other taxation may have a disproportionate effect on retailers. For

example road pricing affects the costs of movement of goods, and fuel tax has a similar effect. Touted proposals to charge for parking at the workplace or at out-of-town locations might have even more of an effect on retailing.

These latter proposals are attempts to alter the behaviour of individuals and businesses and to adjust the shape of the economic activity. A more fundamental attempt in a similar vein has been the government's attempts to produce a technological revolution, particularly in the fields of computer infrastructure, the Internet and digital services. Whilst some of the proposals have potentially positive effects on certain retail sales, the assumption of a highly technologically literate sector of businesses and consumers may be false. Many smaller businesses may come under competitive pressure as a consequence of the rapid development of modern infrastructures.

## **1.2 Economic Structures and Trends**

To a considerable extent, the economic structures and trends driver for change operates at such a macro-level of the economy that it is very hard to consider it in any detail. The general economic position of the country will condition to a great extent the outcomes retailers experience from the shopping activity. Thus the volume and value of retail sales is of importance in this arena, but it is hard to be certain of magnitudes looking forward. Political policy can have an impact by its promotion of certain sectors and locations in the economy, in pursuit for example of greater social inclusion and a fairer distribution of wealth. However alternative policies could equally be considered. The economic structure also has an affect on the retail landscape through the encouragement or otherwise of the construction of landscapes for consumption. Businesses have to be willing to invest in the built environment and to feel comfortable that such investments will make a return.

Probably the only safe assumption to be made is that the broad economic structures will remain in place and that in the future Britain will be economically approximately ranked similarly to where it is now in the world. Taking this assumption, then it would seem that we can expect many of the trends we have seen in recent years to continue. Thus, there would seem to be scope for further growth in retail sales, if we take a broad definition of retailing. There will be developers wishing to invest in the UK in commercial property, but much of this development may take the form of redevelopment or enhancement of existing locations. The exceptions to this might be purpose built new facilities in areas of identified deprivation, though the exact form of these facilities will be open to question.

The economic structure has an impact on retailers and retail structure. British retailing is dominated by large corporate chains, many of which are head-quartered outside the country. Whilst there is in a sense a requirement to improve local knowledge to meet consumer needs, large retailers have demonstrated that computing power can be used to understand markets. Knowledge management becomes a key element in the future economy. There does not seem therefore to be any particular reason why current trends towards bigger and foreign retailers (eg. Wal-Mart) dominating more of the market should not continue, although they will probably structure some of their activities on a national (ie. local) basis. There will be

opportunities for local and new retailers, but overall the market structure is likely to remain dominated by such big and increasingly global players.

The interaction of the political will and the economic situation of the country and locations and individuals within the country will be important in determining the affluence of otherwise of the population, and thus the attractiveness of sites for retailers. This personal disposable income is critical to the future of locations, though it is tempered by the aspirations and lifestyle choices, and the costs of these eg. monthly rental of satellite television reduces out-of-home shopping. Most recently there has been announced major investment in the country's infrastructure, funded in part by increased tax and NI revenues. This could affect perceptions of affluence and personal disposable income for years to come. More worryingly perhaps is the possible pensions timebomb which is currently being exposed through the switch out of final-salary schemes. Continuing concerns over mortgage payments based upon endowment policies and the high level of credit in the economy reinforce these worries. National statistics show £127 billion of consumer credit outstanding in 2000, 30% of which is via credit cards. Comparable figures for 1991 were £54 billion and 18%. The overall message is that we as a nation have to save more and be less prepared to spend on immediate gratification and desires. This potentially has a huge impact on retailers.

From an economic perspective therefore, maintaining high levels of consumer confidence has become a more fundamental policy than before. This consumer confidence is multi-faceted, but undoubtedly is related to personal disposable income and thus to interest and tax rates. As noted above current policies may be making consumers feel less well off and less certain of the future. If this is combined with rising interest rates away from their current long-term lows, then a disposable income 'crunch' may be ahead for many people. This will have an effect on retailing.

### **1.3 Socio-Cultural and Lifestyle Aspirations**

Changing socio-cultural and lifestyle considerations have fuelled much of the change in shopping and retailing in recent years. Attitudes and beliefs as well as wants and needs have been transformed. They continue to develop and further change can be expected. In particular, attitudes to work and leisure are worth identifying separately as they are potentially so important.

Modern consumers are a mass of contradictions, many of which are inexplicable on any rational basis. Some travel miles by car, damaging the environment, to refill a plastic bottle which costs virtually nothing, or to place bottles in a bottlebank located on a superstore car park. Branded products with a conspicuous logo are purchased in preference to identical generic products selling at a vastly reduced price. People pay 50% more for a 30% smaller microwaveable pot of baked beans rather than have to open a tin and heat the product 'normally'. Ready-washed salads or chopped vegetables in their millions are purchased to 'save time' or to cover up for lost culinary 'skills'. Understanding and predicting change in this arena is therefore a little difficult!

What can be said is that there is a tension in this aspect of shopping. On the one hand consumers have ever broader experiences and expectations that have been increased by their exposure to new events, horizons, ways of doing things etc. So holiday experiences are brought back and combined with UK products and behaviours. Things that are seen in TV programmes become available in local stores. On the other hand, the very nature of the global experience, particularly through leisure products such as TV and cinema, tends to reduce things to the lowest common denominator - Pringles, Coke, Gap, Nike - and it is no coincidence that the majority of exemplars are American.

This differentiation/similarity paradox will also emerge in other ways, and in particular in terms of the attitudes and belief statements of individuals and the way they translate these into shopping actions. Single-issue causes are fundamentally important now and look set to remain a force. Attitudes to corporate or government activities may lead to both small-scale individual behaviour changes but possibly to more aggregate corporate behaviour changing movements. The 'battle' over GM foods and the rapid development of organic food sales are examples of the start of this rather than the end. Consumers and businesses will spend a lot of time in the future working out their positions on issues and changing behaviours appropriately. However, the number of individual positions by their very nature will outnumber choices available. This points to a continuing fragmentation of much of consumer demand, but overlain by certain common themes. For retailers, identifying these themes early will be critically important and reacting quickly will be vital.

This theme of fragmentation and similarity will also find echoes in the needs and wants of consumers. For some, the needs they have will represent the limit to their shopping activity. For others their position in economic terms will demand that their wants are the crucial factor. The interplay of economic and social aspects will be crucial, as individuals position themselves across this environment.

One specific aspect of socio-cultural and lifestyle aspirations that appears to be critically important is that of work/leisure. The tension between these for individuals and for society is fundamental to much of the shopping experience. Much has been made in the past of the time and money interaction that has led to a polarisation between time rich/money poor and time poor/money rich individuals and families. Whilst never too exact in dimensions, the basic concept is one that can be recognised in Britain. It is seen in town centres and other retail locations and highlights a problematic aspect of shopping; to what extent is shopping 'just looking' or 'buying'?

There are a number of responses to this basic dichotomy, some of which are emerging already. Finance and credit unions and local credit systems may offer some respite to those who are time rich/money poor, even if it is temporary. Economic changes probably hold out longer term hope. At the opposite end, extensions to shopping hours, home shopping and the use of personal shoppers are standard responses. This highlights not just the differential opportunity, but the different attitudes in place. Whatever 'solutions' are found, and some may be technological, it would seem that there will be a need for innovation in shopping to account for the desire for leisure but the need for work to pay for it. Even if there are substantial changes to the working week it would seem likely that consumers will on occasions seek to minimise their



shopping time, although of course on other occasions, the shopping will become the leisure activity, with all the implications this has for the quality of built environment.

Within this leisure/work relationship and its interactions with shopping it has to be remembered that a significant change has arisen in the proportion of women working. With this proportion still rising, and the impact this has on much of basic shopping (a gendered activity) being considerable, there remains a clear stimulus to retailers to accommodate variable patterns of shopping, work and behaviours. Shopping behaviour is as likely to be segmented by behaviour and mood (at the store and the location level) as by product dimensions. If the stores and locations do not suit the behaviour and/or mood, then technological and mobility changes will bring other options within reach.

The issue of mobility is complicated. It is clear that people's understanding of mobility has been transformed in a number of directions. The overall perception of mobility has extended significantly. This extension is both in terms of the mental view of locations and travel and a dramatic extension of what may be possible and also a willingness and ability to actually travel. The location of holidays and the influence this has on price perception and product purchase is one example of this. The willingness to travel longer distances to shop on a regular or an irregular (shopping centres) basis is another. It is also the case that as we are spending more time 'on the move', our needs in consumption terms have changed. We need to be able to consume as we go (food, music, information etc) and retailers have changed locations, products and shop formats to adjust to this.

#### **1.4 Demographic Structures and Trends**

Shopping and retailing are obviously heavily dependent on people, both as an industry, but also as the basic consuming unit. Changes in the population structure and the location of this population, as well as the make-up of the households in which people live, are fundamentally important to retailers and to understanding the shopping future. For example, population growth in specific locations or of age-groups of people encourage or discourage retailers to construct the retail environment differently. The 'baby-boomers' or 'Generation X' concepts have their reality in the shopping behaviour each group carries out and the demand for experiences and products they exhibit. Similarly, the growth of children as consumers and acknowledgement of the spending power of the "tweenies" represent new foci for retailers and service providers. Similarly, the breakdown of the nuclear family and the rise of single person households changed the consumption landscape, both in non-food because of the absolute number of households, but also in food due to pack size issues and so on. More but smaller households will have an effect on the type of products and services purchased and the shopping trips undertaken. In short, understanding likely future demographic structures and trends provides a good base from which to examine future shopping, and because of the nature of population dynamics provides us with a solid foundation of understanding. New births notwithstanding, we have good estimates of population demography for the next twenty years.

Population estimates for the UK suggest that there will be in the next twenty years an extra 4 million people in the country on the current base of 58 million. It is forecast that current trends will continue leading to a substantially older composition of the population than at present. There will be significant growth in the 45+ age groups, many of whom will be young in body and mind and will be able to finance their consumption (a group of time rich/cash rich). There is within this also an increase in the 75+ age group which will present significant issues for the delivery of shopping opportunities. The ageing of the population will present an opportunity to target older consumers, but it would seem to be likely that the differences within this group will be as great as differences between the 45+ age group and other groups.

The ageing of the population has another dimension of interest to retailing. Retailing is a traditional user of young people and the workforce in retailing has been seen as being more youthful and transient than many other sectors. With a decline in the youth cohort and a large increase in older consumers, retailers are going to have to question their hiring policies. Some retailers have been aware of this for some time, but it is going to become a wider phenomenon. Older consumers are going to want to be served by older well-informed staff and retailers are going to have to draw on this older workforce in order to keep their stores staffed in the first place. Willingness to work and the expectations of work for these groups may be much changed in the future.

One of the most controversial aspects of government forecasting in the last few years has been estimates of the number, type and location of new households. Estimates have varied, but it seems clear that a number of millions of new houses/flats are needed. As household composition has changed, becoming smaller, so there has been a need for more household locations and opportunities. With an increasing population predicted, this need will be exacerbated. As noted above, continued down-sizing of households does have implications for the provision of goods and services.

The location of these households is a matter of some concern. The current trends towards counter-urbanisation despite some changes in the heart of cities, does use up land quite rapidly and alter both the retail environment and the nature of the shopping trip. Retail trips of 'incomers' to rural areas for example often bear echoes of their urban past rather than utilise the rural retail provision. However the ability of these locations to accommodate massive new build is at least open to question. When this is concentrated, as many expect, in the South East of England, the pressures and the problems of such developments become more obvious. Current suggestions are that much of the required development will have to be accommodated via renewal and brown-land recovery rather than strict expansion of the built area. If this is the case then existing locations may get a stimulus and local facilities, because of the nature of the developments, will be even more important.

Demographics alone however are not the full story. Internal and external migration will add to the 'melting pot'. The geographical location of jobs and the demand for particular skills may not match the cost of living (especially housing) in these locations, with a consequent impact upon consumers disposable income and spending power. It remains to be seen the extent to which migration patterns produce ethnically homogenous clusters of population, effectively operating an internal economy, or whether assimilation and heterogeneity are more prevalent. Such

processes will lead to greater diversity in retailing perhaps, but whether at the store or the area level remains unclear.

## **1.5 Product and Process Innovation**

Of all the drivers of change, the one that is most obviously in the news with respect to shopping and retailing is that of product, or more particularly, process innovation. The rapid development of the digital revolution, linked on occasions to the development of electronic commerce has caught the imagination of many, but perhaps blinded them to some of the pitfalls. Despite the fall from grace of the B2C Internet, most large retailers have a web site and are seriously exploring the opportunities or dangers of this new channel. The implications of this wave of experimentation for home delivery and for the very nature of retail organisations needs to be considered. In short, is the Internet the new way of shopping and retailing, which will eventually conquer all, or is it a small additional channel of limited impact? Whilst it is crucial to consider the possible implication in this area, it is important to emphasise (unlike perhaps the UK Foresight process) that retail futures are not all technologically based or driven.

Product innovation is almost impossible to predict due to the rapid development and innovation of technology and other components. There are some possible 'straws in the wind' associated with developments in miniaturisation, communications and digitisation. Books, videos, films and music may all be transformed by product changes associated with new mechanisms for making, storing and communicating such material. Beyond that however it is almost impossible to predict what new products will be around and futile to attempt to predict in any detail what we will be buying.

Process innovation is however another matter. The process of shopping has for well over a century been composed of multiple channels, but process innovation in the form of e-retailing is challenging the balance amongst these channels, chiefly because the nature of the medium has changed. In addition, the current implementation of e-retailing has the scope to change the nature and cost structures of retail activities. The "traditional" model - in which the customer via self service undertakes most of the shopping tasks (and bears the costs) - changes with many tasks and the associated costs transferred to the retailer. The retail business economics of e-retailing differ from those of store based retailing.

Predicting the extent of Internet or e-retailing take-off is foolhardy given the breadth of experimentation and the pace of change. It is however worth reflecting on the use to which the new format is being put. It would appear that e-retailing is being used in three different ways at least for shopping. First, there are sites and opportunities that are essentially price driven. The focus is on getting the cheapest price for the product. Secondly however some sites are being used to provide a form of service delivery. In this case, products are sought because they are special, unique, different or distinctive or because they are hard to find and thus a broad data source is needed. In short, the Internet can allow the breadth of retailing to be consulted more quickly than might otherwise be the case. It is possible to identify a third type of use, namely the time-saver, when basic components of shopping (provisioning?) are routinised into some

form of home delivery service. These three illustrations are themselves further (and this time 'virtual') examples of the categorisation of shopping behaviour outlined earlier.

With the exception of downloadable digitised products such as video and music, most products purchased remotely will require some form of home delivery system. Shopping in the real world, with the exception of mail order places the onus for this aspect primarily on the consumer. However, Internet retailing separates these activities and thus reinforces the distinction between purchasing and obtaining. In order to obtain virtual purchased goods, home delivery points will probably be needed and solutions will need to be found to the problems of delivery timings, people absent deliveries and the like (though other solutions are possible focusing on local stores/distribution points). It is also the case that one of the conventionally perceived benefits of Internet retailing, namely the removal of many car journeys, might be obviated by the expansion of local home (or workplace) delivery services.

In terms of process, the emergence of the Internet has also had effects 'behind the scenes'. The introduction of B2B Internet Exchanges has been embraced by many leading retailers as an opportunity to investigate global and cheaper methods of purchasing and supply. Such networks are becoming increasingly common, but could be of interest to competition authorities depending on how their practices develop.

This B2B illustration is one example of a more general trend in process innovation. The Internet has received most of the attention and particularly in terms of B2C potential. However, many retailers have looked at the new wave of technology and seen that it represents an opportunity to change basic business processes. Channels and relationships are being reconfigured and reorganised and retailers are changing the nature of their interactions and activities with intermediaries and primary producers. Technological process reconfiguration is particularly the concern of the larger retailers and there are fears that smaller retailers will find it increasingly hard to compete with these reconfigured businesses, both in terms of price and availability of products and services.

## **1.6 Environmental Changes and Trends**

The UK is a congested set of islands, although this can be overstated by those living in the South East of England. As such the environmental aspects of shopping and retailing are particularly important given that the sector is a large user of land and the consumers are travellers to and from locations. Retailing of course is not only about consumers moving products, as shops are the commercial end of an entire supply chain. The way in which land is used for retailing and the retail supply chain have not remained static and there is good reason to presume that this will continue. Similarly the design and architecture of retail locations is not static and plays a considerable role in both the construction of the 'feel' of the retail location and experience and also, in environmental terms, its efficiency and effectiveness.

Retailing uses land and locations for its physical activities. Consumers tend to travel to the store or shop components of this system. Space use by retailers has changed dramatically with broad trends towards the polarisation of shop size. In the main this

has not led to any particular problems over space although many retailers have sought the prime locations. However some problems have been felt in secondary locations as concentration and competition effects have washed through the system. All the pressures being identified thus far suggest that there is not going to be a dramatic increase in space needs but rather that it is the quality of the space that will be most important. Current estimates of retail space, from CB Hillier Parker, suggests a stock of over 1.1 billion square feet of gross shop floorspace, which translates into 524 million square feet of net floorspace. Of the total gross floorspace 17.7% is in “managed” retail environments (town and out-of-town shopping centres and retail warehouses), compared to 13.5% in 1990 and 8% in 1980. Longer term however, it might be that existing space may be more problematical leading to either wholesale transformation or re-use as something else.

In addition to being consumers of land and space, retailers are also large consumers of energy. This is used both in terms of the stores themselves and also in terms of moving products through the supply chain. For retailers, the rising costs of energy in all forms is a concern and one that needs to be addressed in terms of energy efficiency and use reduction. At the store level, much is being done to ensure efficient use, but as large users of energy for lighting and heating, retailers are always going to have cost concerns.

The supply chain for retailers can be complicated despite the best efforts of retailers and some manufacturers. Food retailers in the UK are recognised as being very efficient at what they do, but there could be environmental questions asked about the movement of some products, particularly those from across the world, product quality and environmental impact and of transportation as well as issues over exploitation and monoculture and dependency. Road freight dominates British retail logistics and centralised distribution facilities have developed quite considerably around significant motorway intersections. Pressures on supply systems will continue and indeed seem likely to increase. Concerns about transport, storage, recycling, reuse of materials and packaging will ensure that this is one area that can not be neglected. Fuel tax and energy costs of transport add to the pressures to obtain an effective supply chain system. There will also be a need for enhanced revenue distribution systems to enable reuse and recycling to take place. Such concerns are rising up the agenda of governments and businesses.

Table 2: Drivers for Change - Summary

Driver	Agents of Change	Future Considerations
Political Structure and Trends	• Planning Policy	• land use policy control over location and attitudes to issues of sustainability, accessibility and transportation
	• National Debate	• perceptions and understanding of the structure of the sector, ownership and behaviour, and the implications of market power

	<ul style="list-style-type: none"> <li>• Business Regulation</li> <li>• Role of Europe</li> <li>• E-Society</li> </ul>	<ul style="list-style-type: none"> <li>• regulation of trading activities (selling and employment practices); “red tape” and costs of compliance</li> <li>• role of EU in business regulation; entry into the Euro (?)</li> <li>• infrastructure development, awareness and capabilities for customers and business</li> </ul>
	<p>Economic Structures and Trends</p> <ul style="list-style-type: none"> <li>• Economic Performance</li> <li>• Open Market</li> <li>• Personal Disposable Income</li> </ul>	<ul style="list-style-type: none"> <li>• investment potential of the sector and retail property</li> <li>• scale at national and international level; non-UK ownership of the sector</li> <li>• consumer confidence; role of credit and interest rates; potential pension "timebomb"</li> </ul>
	<p>Socio-Cultural and Lifestyle Aspirations</p> <ul style="list-style-type: none"> <li>• Beliefs and Behaviour</li> <li>• Work and Leisure</li> <li>• Mobility</li> </ul>	<ul style="list-style-type: none"> <li>• contradictions in behaviour, conflict between desire for differentiation/complexity and generic/simplicity; fragmentation of demand and behaviours</li> <li>• changing time budgets; importance of shopping "mood"; who shops, when, and where</li> <li>• perception of actual and mental distance and mobility have grown; desire for consumption on the move</li> </ul>
	<p>Demographic Structures and Trends</p> <ul style="list-style-type: none"> <li>• Population Structure</li> <li>• Household Change</li> <li>• Migration</li> </ul>	<ul style="list-style-type: none"> <li>• lifestyle and lifestage segments (Tweenies); ageing population as consumers and employees</li> <li>• demise of nuclear family and rise in single person households (products, size, shopping trips); location of new households</li> <li>• integration v enclaves - diversity in stores and locations; regional differences in cost of living</li> </ul>
	<p>Product and Process Innovation</p> <ul style="list-style-type: none"> <li>• Product Innovation</li> </ul>	<ul style="list-style-type: none"> <li>• difficult to anticipate; pressures for minimisation, convenience and durability; new ways to make, store and communicate; customer acceptance and adoption</li> </ul>

Environmental Changes and Trends	<ul style="list-style-type: none"> <li>• Shopping Process Change</li> </ul>	<ul style="list-style-type: none"> <li>• internet as a new way of shopping or an additional channel; segmentation of internet use (price, service, time); sector specific uptake and impact</li> </ul>
	<ul style="list-style-type: none"> <li>• Business Process Change</li> </ul>	<ul style="list-style-type: none"> <li>• changes in retail tasks and activities; delivery issues as move from “customer to shop” to “shop to customer”; B2B use and channel reconfiguration, reorganisation and relationships</li> </ul>
	<ul style="list-style-type: none"> <li>• Quality of Environments</li> <li>• Energy Use</li> <li>• Reuse and Recycling</li> </ul>	<ul style="list-style-type: none"> <li>• quality (not volume) of retail space; polarisation of shop size (large and small); re-use of space</li> <li>• transport related issues, (movement of customers and products); efficiency and costs of energy use in store operations</li> <li>• costs of recycling (borne by consumer or business)</li> </ul>

## 2. Sector Structure

### 2.1 Size and Scope of Retail Sectors

As has already been indicated, the definition of retailing has become more problematic. The horizontal and vertical blurring of activities and boundaries means that putting precise dimensions on the sector as a whole, and any component sub-sectors, is more difficult than before. Many examples of the issues abound, but we could for example contrast the coffee shop in the local Tesco, to the purchase of take-away sandwiches at Pret-a-Manager and the purchase of sushi for lunch at Sainsbury. Are they all retailing? Similarly Tesco sell pre-packaged insurance at the store but the same ‘product’ is available via the telephone and from banks and brokers. Where do we draw the line for retail sales? Even Delia Smith’s cookery programmes on the BBC could conceivably be seen as a retail activity, given the direct correlation between transmission and product purchase.

The boundaries of retailing are highly blurred and volatile and government conceptualisations and statistics focused on product are not necessarily the most appropriate or helpful. Categorisation of retail companies into specific product derived sectors is difficult. In the national statistics collated by ONS Marks and Spencer, Argos, and Boots all fall into the "mixed retailers" category - but how do customers perceive them ? who do they directly compete with ? Part IV of this report provides a review of key sectors, where some of these issues are evident.

However we define it, we are able to point to a long-term increase in the value and volume of goods and services purchased (table 3). There has been growth in product purchase, though of course in most cases the products themselves have not been static. New products have been introduced and dramatically changed categories, as computers replace typewriters and sunglasses, watches and fashion jewellery are sold by clothing chains. In non-food we can point to new products such as CDs and mobile phones, and in food ready meals would be a simple example. Furthermore in most product categories the range and choice available has expanded over time, for example the selection of yoghurts available in superstores.

Table 3 : Value and Volume of Retail Sales, 1995-2000 - by selected retail sub-sectors

Retail Sector	Retail Sales £000		
	1995	2000	% Change
ALL RETAILING - VOLUME	166 681	201 351	+20.8
ALL RETAILING - VALUE	166 681	207 851	+24.7
- Books, Stationery, & Newspaper Stores	4 078	4 812	+18.0
- Clothing & Footwear Stores	26 100	30 902	+18.4
- Non-Specialist Non Food Stores*	15 035	19 034	+16.6
- DIY Stores	5 642	7 955	+41.0
- Electrical Goods Stores	7 727	10 895	+41.0
- Food Stores	74 914	93 193	+24.4
- Furniture Stores	6 400	8 512	+33.0
- Health & Beauty Stores	3 165	3 798	+20.0
- Music Stores	N/A	N/A	N/A

\*non -specialist non food category includes department stores

Source: ONS, SDM28 Retail Sales

In terms of product expenditure, over the long-run it has become clear that there has been more growth in the non-food than the food market. Whilst food purchase in retailing remains substantial, it is falling as a proportion of spending. Food retailers have responded by expanding their product ranges, first within food and now increasingly into non-food products and services. Competition from 'eating out' in all its guises has affected the food retail market and retailers have responded by redefining parts of their offer as 'Food to Go' or the like.

In terms of service purchase, consumers have been increasing their consumption, whether it is 'traditional' services such as holidays or new services such as satellite TV. Insurance and warranty sales have increased and retailers have in some cases moved into the banking sector. Service expenditure has grown disproportionately faster than product expenditure. A particular aspect of this increase is that many products now come with some associated component of service expenditure. For example satellite or digital TV requires subscriptions to channels. Mobile phones often have calling plans or require top-up vouchers. In-home computers need Internet access. A product spend, commits the customer to a regular service spend - often of greater value than the original tangible product purchase. There is no reason to suggest that such bundling or blurring between product and service will reduce.



## 2.2 Competitive Structure

The UK market is an increasingly polarised market. In competitive terms it is polarised between the numerically dominant independent retailers and the handful of huge corporate chains. Nowhere is this seen more clearly than in sectors such as DIY and food. Independent retailers have been numerically and competitively in decline for some decades. Their style of operation, scale and general efficiency is often unable to compete with more modern and effective multiple retailers. This is not to say that there are not excellent independent retailers running brilliant shops – there are. However in the main independent retailing is a valuable consumer and social service, particularly in some locations, but one which ekes out in many cases only a marginal living. This has to be contrasted with the major corporate chains in the UK. These dominate not only their sector, but are a considerable proportion of the FTSE-100. There are 10 ‘pure’ retailers currently in the FTSE 100 with Tesco at 14<sup>th</sup> the highest in market capitalisation terms. Of these 10, four are essentially food retailers. They have grown substantially in recent decades through a combination of various operational economics and efficiencies, as well as tight managerial control.

Although providing accurate time series data is difficult owing to changes in the collection and presentation of data, the rise of the multiple retailer is evident. In broad organisational type terms, multiple retailers have grown from a market share of c23% in 1950 to over 65% by 1995. This has been at the expense of independent retailers (from 65% to 31% over the same period) and co-operative retailers (12% to 4%). The effect of this on shop numbers is clear with a reduction for example of single outlet retailers (typically small shops) from 325,000 in 1971, to 220,000 by 1982 and down to 180,000 in 1995. In some sectors, eg. food and grocery, this process of dominance has gone even further.

It is this combination of scale and management that has helped multiple retailers dominate the UK retail sector competitively if not in store numbers. As a consequence, smaller retailers have attempted to replicate the benefits of multiple organisation through combining their scale and management. We have therefore seen a growth in franchises and various forms of voluntary association to combat these larger players. Even the UK Co-operative Movement has now managed to persuade most societies to join its central buying group. Such voluntary associations or legal agreements provide small owner-operated businesses with a greater degree of marketing and other operational support and economics of buying, than they would otherwise have on their own.

Within individual sectors of retailing, the corporate chains dominate market share. In most cases, the degree of dominance is increasing and the largest firms continue to grow and develop, often through a process of take-over and merger. In some sectors eg. clothing, this pattern is ameliorated by the emergence in the UK of fast growing regional and national chains and by incoming overseas retailers. More often than not however, retailing is best characterised as being comprised of sectors dominated by two or three major companies. A middle range of smaller multiples having some particular expertise or place in the sector supports these. The remainder is made up by a numerically large but economically weak grouping of independent small shop

retailers, who nonetheless provide important (and in some cases essential) local facilities.

Acquisition is still occurring in the market. Much interest is in international acquisition to enter national markets, and the UK has seen its fair share of this. However, even within the national market, there is a steady stream of mergers and take-overs, as evident in table 4, and a general increase in scale of the leading retailers. Although patterns of activity change from year to year reflecting sector confidence (eg peaks of activity in 1987-89 and 1998-99), and major acquisitions (eg WalMarts £6.7 billion acquisition of ASDA in 1999), sustained merger and acquisition activity in both volume and value terms is characteristic of the sector. Almost inevitably, any regional or small multiple that is seen to be doing well, becomes a take-over target of larger businesses.

Table 4: UK Retailing Acquisitions and Mergers, 1982-2001

	1982-86	1987-91	1992-96	1997-2001
Total Value* £ m	9 323	14 893	5 339	23 104
- <i>within UK</i>	8 317	12 685	3 983	20 371
- <i>by UK overseas</i>	1 006	2 208	1 356	2 733
Total Number	265	449	293	433
- <i>within UK</i>	240	415	274	365
- <i>by UK overseas</i>	25	34	16	68

\* when value known

Source : derived from Mintel/Retail Intelligence, Retail Rankings, various years

## 2.3 Organisational Structure and Competition

In discussion of the competitive structure above, it is clear that retailer power has emerged as a key theme and issue in recent decades in the UK. As major retailers have grown in scale, so they have expanded their activities into new domains. With emerging scale has come a greater degree of knowledge and power in the channel. The pace of growth of retailers has been greater than for many manufacturers. Allied to operational changes such as the development of retailer brands and the better knowledge of consumer patterns and trends, retailers have reconstructed the traditional supply chain. In essence a dominant retail organisational type has emerged, characterised by strong vertical power which has been used to control, administer and command supply chains.

Major retailers have also been involved in the use of horizontal power through their construction and reconstruction of the retail landscape. Where retailing locates and the form it takes has been transformed by the activities of major retailers and developers. Decentralisation is a key theme in this, and 'waves' of off-centre or out-of-town development have been identified. In most cases, these developments represent retail formats (eg. the food superstore and non-food retail warehouse) that can not readily be accommodated in existing centres. Such new locations tap into consumer needs, but have an impact on existing retailers and customers not able to travel to them. Moreover, they are in virtually all cases operated by major retailers and thus reinforce the competitive imbalance amongst organisational types.

Some of the more recent developments out-of-town are clearly destinations in their own right and compete effectively as a 'town centre' against existing centres. Regional shopping centres fit this pattern. Again, in most cases the tenant mix of such centres is biased towards leading multiple retailers. Horizontal competition in retailing is thus spatially constructed.

Recent legislative alterations and changed government emphasis has restricted the market somewhat. There is more concern about cumulative impact of such developments and a greater awareness of issues of access to retail facilities. Some retailers have altered or compromised previously rigid design and scale parameters to fit shops on awkward town centre or brownfield sites. Others have become associated with a 'regeneration' facet of development and have emphasised their job creation or training potential for local areas. Constraints on horizontal power have thus been imposed, but seem unlikely to change the overall balance of power much.

Perhaps as a reaction to the 'sameness' imposed by the concentration of major multiples, or perhaps as a re-balancing of issues in the minds of consumers, some alternative forms of retailing have expanded quite rapidly. Whilst these occupy a very small proportion of retail spending, their visual presence and difference may add variety to retail locations. For example, there has been an explosion in the number of charity shop retailers, car boot sales, farmer's markets, farm shops and other less formal retail operations. These retail forms provide a sense of spectacle and bargain on the one hand and a sense of connection and trust on the other which attracts certain groups of consumers.

We also need to consider the impact of the Internet on the competitive structure. It remains a relatively small-scale but growing activity. The Internet has been embraced by leading retailers as much as by smaller retailers. Whilst it can provide a global opportunity for the true specialist retailer, the Internet does not 'level the playing field' for all retailers. Like many aspects of retailing the internet allows for low cost entry, but ultimately "making it work" requires skill and systems. The dominance of Tesco or Argos on the Internet signals clearly the need for brand recognition, trust and a good delivery system. As stated earlier, e-retailing has the potential to alter various aspects of the retail operation and cost structures.

The impact of the Internet at this time remains unclear. Projections of market penetration vary widely, but there are sectors where it is clearly becoming established eg. books, music and grocery. These three sectors reflect very different shopping needs. It would appear therefore that quite different impacts may be felt as penetration continues and that the channel will become one of a number used by consumers. Table 5 presents just one set of estimates for different retail sectors.

Table 5 : Projections of E-Commerce Market Share – by sector

Sector	1999		2005	
	£ million	%	£ million	%
ALL RETAIL	581	0.29	12 533	5.0
- Grocery	165	0.20	4 690	4.9
- Clothing and Footwear	5	0.01	1 843	4.0
- Computer Software	122	9.97	1 502	51.9
- Electricals	18	0.17	993	7.6
- Music and Video	85	2.87	782	20.4
- Books	106	5.15	473	18.3
- Health and Beauty	1	0.01	355	2.5
- Other	79	0.17	1 325	2.4

Source : Verdict (2000)

## 2.4 International Opportunities and Threats

British retailers have had a chequered history in terms of international operations. At the same time, Britain is an open market and retailers who wish to enter the market can in most cases do exactly as they wish. The exceptions to this are those formats eg. Supercentres, which are constrained by land-use planning on the grounds of space use and various dimensions of impact. Essentially though the UK is a retail supermarket with the best bits of many retailing cultures.

This open market is illustrated by the growing presence of many non-indigenous retailers in British retailing. This presence has been generated both by organic growth and by takeover. It encompasses most, if not all, retail sectors and formats. An increasing proportion of UK retail sales is therefore being captured by non-UK businesses operating here. This inward investment is a threat to the main 'British' retailers in competitive terms. Whilst international activity is risky, the retailers coming here are entering in many places a cosmopolitan market and one used to purchasing non-local products or travelling abroad. As such it seems not to matter to consumers where a retailer is from or who owns whom. If however competitive action combined with technological change means that more imports are then generated and managerial head office positions, including research and development, are located outside the country, then these should be issues of concern for the country. For retailers entering this market, they have to adapt to a different (generally higher) cost structure and this can create difficulties for their positioning and performance.

It is not likely that the pressure from overseas retailers will subside. Britain is a large market with a relatively small number of major cities and centres. For retailers looking for organic growth and being town or shopping centre-located, entry is relatively easy. More problematic is the entry for free-standing or off-centre stores, where sites may not be as available. More likely however is entry via take-over. Given most major UK retailers are publicly quoted, such an entry is available at any time at the 'right' price.

Whilst it is true to note that British retailers have not been overwhelmingly successful when they have internationalised, there is emerging evidence that some leading UK retailers are now seeing success. In a number of sectors, leading retailers have expanded across the globe, but particularly into Europe and Asia. Some of this expansion is due to opportunities to buy companies at reduced prices, and some is due to knowledge gained as international sourcing has expanded. Retailers such as Kingfisher, Tesco, and WH Smith are well known international retailers and have imported some of their experiences abroad back into their UK formats. Other smaller chains have also internationalised capitalising on niche strengths (eg Signet, Courts, Body Shop, Lush, Carphone Warehouse, Game, Thomas Pink).

There are a number of ways of look at internationalisation. We can for example, in table 6, examine the internationalisation of our top 10 retailers. This shows that with the exception of Kingfisher relatively few of these large retailers have an overseas presence which makes a major contribution to their total turnover – and Marks and Spencer’s actions will further reduce their international contribution. Alternatively we could look at companies from the UK who have made internationalisation a key strategic option and where international activity is fundamental to their business. Retailers such as Signet, Courts, and Body Shop have over 60% of their sales overseas. The trends here suggest that opportunities exist not just for the large, but for any retailer with a niche position or transferable skills base.

Table 6 : International Sales of Selected UK Retailers, 2000/01

Largest 10 Domestic Retailers	Non-UK Sales		Retailers with high non-UK % of sales	Non-UK Sales	
	£ mill	% of total retail sales		% of total retail sales	£ mill
Tesco	2616.0	12.5	Signet	70.5	978.1
Sainsbury	2823.0	15.3	Courts	61.1	447.1
Asda (Wal-Mart)	N/A	N/A	Body Shop	60.5	226.2
Safeway	0	0	Kingfisher	39.8	4836.1
Kingfisher	4836.1	39.8	Carphone Warehouse	32.5	361.5
Marks & Spencer	1419.6	18.4	Marks & Spencer	18.4	1419.6
Boots	37.4	0.7	WH Smith	16.7	284.0
Somerfield	0	0	Sainsbury	15.3	2823.0
GUS	897.2	8.6	Tesco	12.5	2616.0
Dixons	605.3	13.0	Game	11.4	3.5

Source: derived from Annual Reports

Turning it around, we can look at retailers who have come into the UK. Of the world’s largest 50 retailers (excluding the five based in the UK) only 8 have a UK presence. Similarly only 7 of the 50 largest retailers in the UK are foreign owned. This suggests great potential for non-indigenous retailers to take more sales in the UK. Again these headline figures only tell part of the story. The influence of non-UK retailers already varies with sector. IKEA is now the largest furniture retailer in the UK, and significant shares of the market are taken by foreign owned retailers in the grocery (Asda, Aldi, Netto, Lidl) and healthcare (Lloyds, Superdrug, Savers)

sectors. In contrast in other sectors such as electrical goods remain dominated by indigenous businesses.

We have to wonder therefore about the ability or desire of UK retailers to successfully internationalise. Is the failure due to some form of cultural arrogance or lack of management ability or are there other reasons? The UK represents a relatively large (in European terms) market, so attention has naturally focused on domestic sales first. Future growth opportunities may however lie in a wider stage. Internationalisation is a risky activity and what works in the UK market may not necessarily work elsewhere. Much depends on the quality of the management and the appropriateness of the offer to local consumers. Innovation in the host marketplace is important to differentiate the entrant from existing operators and attract consumer attention. This suggests that sustainable internationalisation by UK retailers occurs when there is good management with a broad vision and an ability to clearly understand markets and market change. It is the ‘best of British’ that has the capabilities in this regard and should be encouraged to develop in this way. There may also be some merit in focusing on small specialist niche markets, which represent particular attributes of the UK, and seeing if these can internationalise, perhaps through the virtual world.

Table 7 : Sector Structure - Summary

Structural Issue	Manifestation	Future Considerations
Size and Scope	<ul style="list-style-type: none"> <li>• Blurring of “Retailing” Boundaries</li> <li>• Product/Service Balance</li> </ul>	<ul style="list-style-type: none"> <li>• horizontal and vertical blurring of retail boundaries; definition of “retail”; retailing as a process not a product delineated sector</li> <li>• movement into service markets and products with service element; innovation in ranges and service expansion to grow retail market</li> </ul>
Competitive Structure	<ul style="list-style-type: none"> <li>• Polarisation of Organisational Scale</li> <li>• Mergers and Acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>• dominance of multiples and "organised" retailing; scale through growth, franchising and co-operation</li> <li>• in an open market all companies are available at a price; future of middle sized chains as independent businesses</li> </ul>
Organisational Structure and Competition	<ul style="list-style-type: none"> <li>• Vertical Power</li> </ul>	<ul style="list-style-type: none"> <li>• dominant retailers with strong vertical power, exercising control, administration and command over supply chain</li> </ul>

International Opportunities and Threats	<ul style="list-style-type: none"> <li>• Horizontal Power</li> </ul>	<ul style="list-style-type: none"> <li>• spatial nature of competition driven by the multiples; new locations and formats within the context of planning policy interpretations</li> </ul>
	<ul style="list-style-type: none"> <li>• Sameness and Standardisation</li> </ul>	<ul style="list-style-type: none"> <li>• scope to provide variety through alternative retail forms, small shares but locally important</li> </ul>
	<ul style="list-style-type: none"> <li>• Internet as Competition</li> </ul>	<ul style="list-style-type: none"> <li>• easy entry, but survival difficult; role of brand, trust and experience in long term success; variable sector impact; multi-channel rather than replacement</li> </ul>
	<ul style="list-style-type: none"> <li>• Inward Investment</li> </ul>	<ul style="list-style-type: none"> <li>• attractive market and relatively easy entry, but some format based barriers and cost structures different; scope for further inward investment</li> </ul>
	<ul style="list-style-type: none"> <li>• Outward Investment</li> </ul>	<ul style="list-style-type: none"> <li>• mixed experiences, large and small; competencies in management, local market awareness and innovation key; risky but future growth opportunities</li> </ul>

### 3. Internal Characteristics and Competencies

#### 3.1 Retail Operations

At its heart, retailing is a simple process to express. Retailers buy some product, place it in front of customers who then purchase it for more than the retailer bought it. Retailers provide time, space and product utility to consumers. In practice however retail operations processes are affected by many factors which in turn affect the process of obtaining and selling goods, or more likely affect the cost of ‘doing retailing’.

The cost of a shop varies enormously. It is affected by the price of land and the cost of building. If already constructed then rental costs are important. Retailers fitting out costs for the store can be considerable, particularly in a more quality and service oriented environment. Operating costs such as rates and staff wages add to the basic process and cost of buying product and distributing it to stores. With all these costs variable, and volatile, retailers have to make major decisions about their store portfolio and its appropriateness to their markets.

If we examine the cost base for retailing, then it is clear it has been increasing. Land costs (and rental costs) in prime sites have risen strongly. Even when retailers have moved out-of-town to suit their formats but also to reduce costs, there is now increasing price pressure on site costs as table 8 illustrates. The demand for retail warehouse space is particularly strong. A recent comparison of rental costs for non-food retail warehouses by Healey and Baker showed Britain as the most expensive country by some way (403 Euros/sq m, compared to 260 Euros/sq m in Ireland). Within town and city centres, the core of retail space has been shrinking as consumers elect to shop smaller areas, and rental prices have risen. Multiple retailers are better able to meet such demands. Independent retailers are not often found in prime space.

Table 8 : Rental Indices, 1990-2000 – year on year change

	Shops		Retail Warehouses	
	Index	% Change	Index	% Change
2000	150.3	+6.7	264.3	+38.3
1999		+8.3		+12.0
1998		+9.0		+17.5
1997		+5.3		+28.7
1996		+3.2		+21.0
1995		+1.7		+8.8
1994		-0.5		+10.2
1993		-4.2		+8.8
1992		-4.4		+5.0
1991		-2.1		-4.0
1990		+3.9		-
1988	100		100	

Source : CB Hillier Parker

The situation is complicated in the UK by the presence of upward only rent reviews in most cases. This historical legacy and characteristic of the UK market does have the effect of reducing adaptation to the market conditions and perhaps reducing innovation.

Other costs have also been increasing. Retailing has become a more technologically rich operation and whilst the price of computing power has fallen, the volume of computing needed has risen astronomically. Capital costs for technology and for buildings has therefore grown.

More subtly perhaps, the operating costs for compliance have increased in retailing. More often now retailers are expected to be able to demonstrate compliance with various legislation, be it safety and security, health and safety, labour laws or even tax and other revenue requirements. The costs of compliance for small retailers may well be greater than for the larger businesses, due to the latter's ability to centralise functions and spread costs

In short, costs of retailing have risen in many ways and this could be reflected in prices to consumers. It is certainly reflected in the differential ability of retailer organisational types to meet these increased costs. Scale brings with it potential cost



benefits and savings, as well as often enabling a longer pay-back period to be taken on.

One reaction to the increase in retailing costs, is to make sure that the facilities in place are leveraged as much as possible to improve performance. Thus for example shops open longer hours where there is a market so as to gain profitable trade for the company and layouts and merchandising methods are strictly controlled to maximise sales. Most fundamentally, the technology investment has been exploited by the best retailers throughout their business.

Major retailers are data rich. Retailers are involved in millions of transactions with customers and suppliers every day, and most of these are captured at the point of sale. The best retailers are utilising these data to adjust the operations of their business. These adjustments are both tactical, in the sense of store operations and activities such as shift planning and merchandise management, and strategic in terms of supply chain initiatives and store location decisions. The better use of data in retailing has led to enhanced decision-making about the business. In turn this has produced operational efficiencies which have changed the potential store sizes and formats. At the same time, initiatives in terms of customer knowledge are allowing retailers to better match store locations, formats, designs and products with the local catchment area. Stores are thus merchandised and operated on the basis of identified customer needs and wants rather than by simple product classifications.

The implication of these costs and efficiencies is that there is a cycle or spiral of business improvement. For major retailers investment in the sites and the processes in turn produces a better match to consumers. Better matching and knowledge enhances returns to the business allowing further refinement. For smaller retailers, or those unable to leverage the benefits, the distance between them and the better retailers grows in a number of dimensions, leaving them behind and marginalised.

Another cost area of concern for retailers is that of crime. The British Retail Consortium's annual crime survey estimates that the total cost of crime to the sector is in the region of £2 billion per annum in respect of loss and prevention costs. This has a number of dimensions. General levels and locations of criminal activity are important to retailers. Street crime is one aspect of this, but other 'non-victim' crime such as drink or cigarette smuggling also have an impact. Retailers themselves are victims of crime, attracting shop-lifting and attacks on staff for money and other items. Streets and shops need to be secure and safe to attract consumers. As a result, retailers have been pressing for more policing, both active and more passively eg. CCTV. The ability of retailers to act independently or collectively to protect shops and locations does vary however and there is some sense in which crime may be diverted to those least able to afford counter-measures.

However, retail crime has another component in that a considerable proportion is undertaken by staff of the stores. Approximately a third of theft is by employees. Employment policies and practices have therefore to not only protect staff from outsiders, but protect the business from its own staff.

## 3.2 Employment Characteristics

Retailing is a major employment sector. Moreover, it is a major employer of school leavers and ‘returners’ to the labour market. Much of retailing is seen as a low skill activity, though this perhaps undervalues the personal skills needed to sell in an enhanced service economy. Many tasks can be fairly routine and this together with the hours of opening in retailing makes the sector a prime one for part-time labour. The rhythms of the trading day or trading week are also overlain by various seasonal rhythms which for many retailers focus their operational attention and staffing concern on a few weeks around Christmas and the New Year. A transient labour force may therefore be required at these peak times as well.

The retail sector employs somewhere between 2.8 and 3 million people, many of these in part-time positions – see table 9. As such the FTE level is substantially less than this figure. As a major cost component to retailers, there is always a concern to get and keep good people. Labour costs vary considerably, but a target figure of 8-10% of total costs is common. Within this, some retailers have realised that some jobs and some types of people have higher recruitment issues and so are focusing on these, seeking to retain quality staff.

Table 9: Characteristics of the Retail Labour Market, December 2001

	Number ‘000	Male/ Female		Number ‘000	Full/Part Time
All Retail Trade*	2795.0	100.0 %	All Retail Trade	2795.0	100.0%
Male	975.3	34.3 %	Full-time	1173.4	42.0%
- <i>full-time</i>	612.9		- <i>male</i>	612.9	
- <i>part-time</i>	344.4		- <i>female</i>	560.5	
Female	1837.7	65.7 %	Part-time	1621.6	58.0%
- <i>full-time</i>	560.5		- <i>male</i>	344.4	
- <i>part-time</i>	1277.2		- <i>female</i>	1277.2	

\*SIC 52 (92) definition of Retail Trade

Source : ONS, Labour Market Trends

To a considerable extent therefore retailing is numerically dominated by a relatively low-skill, low-paid, part-time workforce. This workforce is primarily non-unionised and labour turnover in sections of this workforce is high. Perceptions of retailing as a job are often not good and retailers find it hard to recruit, motivate and retain good staff. This picture of the retail workforce however misses two important components. For many, part-time work in retailing offers an excellent compromise with other lifestyle choices eg parenting, retirement, academic study. Some sections of even the low-paid part-time workforce can therefore be quite stable. Secondly, it misses the dramatic rise in the professionalism of retail management. The characterisation of retailing above does not reflect the alternative side of the coin. Retailing also contains within itself a substantial cadre of well educated, well rewarded, highly motivated and professional managers. Whilst retailers may often claim they find it hard to find the right people, the demands for, and on, retail managers have risen dramatically.

Retailers however often view labour in a contradictory fashion. They are well aware that they need staff to run the business. However labour is the largest retail operating

expenditure after the cost of the goods sold. This means that very often retail labour is perceived as a 'cost' rather than as a 'service provider'. With such an attitude, it is no surprise either that consumers see poor service or that employee turnover is rapid. The best retailers are well aware that this mind-set is dangerous to the business. They have therefore spent considerable money and effort on attempting to make staff feel valued and to reward and retain them. The recruitment of particular types of worker for certain catchments or sectors, so as to provide appropriate service is one illustration. Share option schemes and pay and reward systems are another. It is symptomatic of this alternative view that Asda were recently voted Britain's best employer.

As with much of retailing, there are clear differences amongst companies and between types of retail business. Large companies have an advanced human resource management function which can respond to demands eg legislation and can in the best cases be highly proactive and strategically aligned. Independent retailers may not be in such a position and have to rely on the voluntary support organisations or on other outside help. Working in a small, local shop may not always be seen as a positive career choice and it is possible the pay is lower. The introduction of the minimum wage affected retailing in many ways, but as a generalisation large retailers were already paying above this rate. For some smaller retailers it was a big cost increase, and in some cases family labour has been used to take up the hours.

The scale of the labour requirement in the sector, as well as its costs and importance have raised the profile of employment and training. The skills needed throughout the sector are coming under question, and the ways in which employers and trainers meet demands is being re-thought. Developments such as the Retail Sector Skills Council are seeking to develop highly ambitious programmes. At other levels, educational providers are attempting to produce a seamless ladder of development from base skills through to high level managerial development. It remains to be seen however how much of the industry actively embraces such programmes and commits resources to supplying and researching educated staff. At the moment there would appear to be a gulf between the supportive rhetoric of many retailers and the dismissive reality.

The other dimension of retailing that makes it distinct to some extent is the scale of self-employment. For many people there is a dream about retiring from a 'real job' and going to the country to run a sub-post office. This dream is in fact a nightmare given the nature of the competition, consumers and changes in Consignia. But, for many owning and running their own business is a positive choice of lifestyle. There is no training for this, nor any licensing requirement. Self-employment in retailing however is a hard business. Nonetheless, there are c300,000 such businesses in the UK. One of the biggest issues that this component of the sector faces is finding people to take over from them when they retire. Succession planning is a problem in many cases, with family members recognising that this is not an easy profession and preferring not to take on the family shop.

### **3.3 Marketing Activities**

Retailers are predominantly marketers as well as merchants. Marketing has come to influence retail activity enormously. In many respects, retailers have led the way in some aspects of marketing. Price, despite recent media and other campaigns, is only one aspect of the bundle of attributes that consumers weigh in their decision-making.

The top retailers have become brands in their own right. It was normal to refer to retailers as offering 'own-labels'. This totally misses the point about the way in which leading retailers have constructed their brand and their brand image. A retailer brand today is not about the product that carries their name, but is about the values the business stands for and the total offer that the retailer provides. Retail branding has moved from copying manufacturer products to total corporate branding. The UK is very strong in this regard.

This corporate branding can be seen in the stores, on the websites, at head office and if done properly, through the behaviour of staff throughout the company. Many retailers are highly trusted by consumers. This trust has been earned by repeat performance over a sustained period. In product and service terms, it has allowed leading retailers to expand activities into related and un-related product and service sectors and will play a key role in the successful implementation of e-retailing initiatives. The attitudes and behaviour of staff providing the service are matched to customer expectations and seek to provide a tangible demonstration of the retailer brand values. In a volatile and more fickle market, but one which craves customer service and satisfaction, such investment in brand marketing is a mark of difference and holds the potential for relationship building.

The reinforcement of the brand and its values is undertaken throughout the business at any interaction with customers and suppliers. Being retailing however, it is focused on the store. Stores have been reorganised and redesigned. Merchandising is becoming increasingly sophisticated and coherent across store layouts and formats. Ancillary features of stores have expanded to attract attention and to provide enhanced service. The products on the shelves are tailored to the local market and have been simplified by range reduction to ease choice and provide more space for the retailer product brand. There is an attempt to align the store, brand and customer.

Many retail ideas are inherently copyable. Their implementation is a harder part of the process. With elements being able to be copied or replicated, then refurbishment cycles have shortened. They have also shortened to meet consumer needs, which are changing rapidly. The overall brand activity has therefore to be constantly reinforced and refreshed. In addition to direct brand activities therefore, retailers are large advertisers and sponsors in their own right, including in the local community. This extensive promotional spend reinforces the position and predominance of retailers over many manufacturers. In 2001 the total advertising spend of the "retail", "mail order" and "household stores" categories £1.1 billion.

### **3.4 Supply Chain Management**

We have already indicated that retailers have become dominant in supply chains and have taken over many of the functions previously organised by producers and wholesalers. This is not to say that retailers actively carry out all these activities, but that they are instead involved in organising, managing and controlling these activities. Indeed new intermediaries, logistics specialists, have emerged to formally carry out tasks such as transport, warehousing etc. This reflects a total change in approach over time. The movement of products has changed from a materials handling to a logistics and now to a supply chain management approach.

This revised approach has been introduced as retailers (and others) have become aware of the potential costs and service benefits to be had from organising produce supply on a channel wide basis rather than as a functional approach. It has to a considerable extent been enabled by technological developments, the strengthening of retailer branding and the increasing scale and power of the retailers. The supply chain has become technologically more sophisticated and logistics has become as much about information movement as about product movement. By operating on the channel level, retailers hope to be able to reduce costs of supply, but at the same time increase the quality of service and aspects of availability. Time has been taken out of the supply chain and 'time to market' and 'time to respond' have been shortened dramatically. But at the same time, inventory levels have been reduced and stock holding has been simplified. In essence, there has been a move from a supply chain to a demand chain, with orders being fulfilled on demand.

This tendency to manage the product supply as a chain has been driven as well by the introduction of international and global sourcing. Whilst international sourcing can reduce the price of products, unless managed effectively costs can rise in transportation and service levels can be badly affected. By focusing on the chain as a whole, and utilising data transmission to reduce time in the channel, such penalties of international sourcing can be reduced or eliminated. Internet technologies have recently expanded into this area and developments such as Continuous Replenishment Systems and Internet Exchanges are again focusing attention on the buying and supply linkages.

This concern about the supply chain as a whole has been reinforced by the trend to global sourcing. In many sectors of retailing, there is both a cost and service benefit to producing products in lower costs areas of the world or in areas which have a climate benefit in supplying the UK market. Thus, industries as diverse as clothing, furniture and food have moved sources of supply to for example the Far East. In so doing, they have traded off the costs and issues of supply with the price of products and their availability over time. Clearly there is no point in getting cheaper supplies simply to pay more on distribution, so global sourcing has focused attention on supply costs.

This process is of obvious concern to British manufacturers and producers. They can find themselves substantially undercut by overseas producers and much production in some markets has been lost to the UK. Retail innovation in terms of process has thus had an adverse reaction on other sectors of the British economy. A focus on price alone as a consumer signal has perhaps exasperated the situation. For British

business, there is a need to internationalise to attempt to capture this and other markets.

As with many of the developments suggested in this review, it is unclear whether smaller retailers can gain anything like the benefits that major retailers are achieving from their activities in the supply chain and on a global basis.

Table 10: Internal Characteristics and Competencies - Summary

Internal Characteristic	Feature	Future Considerations
Retail Operations	• Rising Costs	• rising cost of space in all locations and impact of upward rental reviews; compliance costs for smaller retailers
	• Scale and Leverage	• ability to spread costs with scale; efficiency of space use and leverage of assets; cycle of growth
	• Data Utilisation	• tactical use (labour utilisation, stock management, targeted promotions); strategic use (market segmentation, location decisions, channel management and reconfiguration)
	• Crime	• recognition of cost and source of crime; management of crime as cost activity
Employment Characteristics	• Labour Use	• labour efficiency through part-time deployment to match trading peaks; pressure on labour supply with demographic change; switch of labour management approach from “cost” (efficiency) to labour as “service” (retention and training)
	• Perceptions of Jobs	• tension between low skill/ routine job elements and service and personal skill requirements; poor perceptions of sector and some retailers; recruitment and retention issues
	• Self-Employment	• perception versus reality of running own shop; limited training and support; time management and succession issues

Marketing Activities	<ul style="list-style-type: none"> <li>• Branding</li> <li>• Stakeholder Communication</li> </ul>	<ul style="list-style-type: none"> <li>• retailers as brands in their own right; understanding role of total business values in creating “trust”; all elements of operation contribute to brand values not just products</li> <li>• communication of value and brand through behaviours (staff and service) and “visible” store (design/ refurbishment); importance of all stakeholders (customers; staff; suppliers); heavy use of advertising and promotions to emphasise values</li> </ul>
Supply Chain Management	<ul style="list-style-type: none"> <li>• Channel Management</li> <li>• Technology</li> <li>• Out-Sourcing</li> <li>• Global Sourcing</li> </ul>	<ul style="list-style-type: none"> <li>• manage and organise channel as single entity; functional (material handling and logistics) approach to supply chain management perspective;</li> <li>• information management to deliver cost and service benefits; demand (not supply) chain attitude (reduction in time to market, response times, stock levels)</li> <li>• specialist service providers (eg transport and warehousing) to manage channel as a process</li> <li>• scope enhanced by technology, need for innovation, consumer demands and pressure on costs and prices</li> </ul>

## **PART III**

### **SUMMARY AND RECOMMENDATIONS**

Finally, we can return to the objectives of the study. The report was designed to contribute to three areas of understanding. First, it was intended to contribute to our understanding of how retailing contributes to competitiveness. We would argue that retailing does this by:

- being overall an effective and efficient sector in its own right;
- providing on the whole ‘fair’ prices to British consumers;
- through innovation in terms of products, services and processes;
- offering a window for suppliers to present their wares, and developing these rapidly if successful;
- internationalising activities and thus placing Britain at the forefront of retailing.

However, it is undoubtedly true that retailing’s competitiveness and its contribution to competitiveness is restricted or affected by a number of issues:

- the potential for over-regulation of the sector and its operations, adding to costs and restricting innovation;
- the cost structure of the UK which makes it a high cost place in which to do business;
- the possibility of being purchased by foreign companies as a quick entry to the UK;
- the lack of capability to export retail operations and formats beyond the UK.

Secondly, the report was set up to consider how this might change in the future. We would identify a number of concerns:

- continually rising costs are a threat to the sector generally, and depending on the source of the cost increases could affect certain types of retailing adversely;
- technology generally will continue to advance and retailers will be reconfiguring their operations and processes to take advantage of this.
- the Internet remains potentially important in selected sectors and retail types and could be harnessed for wider goals;
- trends in retailing can leave groups within society without access (physical and economic) to adequate facilities and thus run counter to desires for inclusions etc;
- it is unclear the extent of preparedness of retailers to meet international competition, either within the UK or by developing their businesses overseas.

Finally, the report considered how the potential of the sector could be maximised. We conclude that there are a number of points to be made:



- internal pressures exist on the sector to be efficient and effective. However there remains a need for authorities to be vigilant and to ensure that consumers are getting a 'fair' deal in terms of price, service and facilities;
- partnerships should be encouraged within the sector to ensure that challenges and opportunities are met. Partnerships in the supply chain are one example, but spatially limited partnerships eg town centres represent another opportunity. format driven partnerships eg franchises, co-operatives etc could be encouraged more formally than they are at present. The sector could do more itself to ensure such opportunities are grasped;
- there needs to be a review of the potential for British retailers of all shapes and sizes to internationalise. The largest retailers are doing this, but may need assistance in breaking down institutional barriers in other countries. Other retailers are seemingly unaware of the need to act on a broader scale, both in store and supply terms;
- there needs to be substantial work undertaken to ensure that smaller retailers gain the management and technological capability to compete in the modern retail sector. Too many of the developments we can identify are focused on the larger business, thus ensuring the gulf increases overall.

The scale of the UK retail sector should be apparent to anyone through simple observation. This report has reinforced the scale and to some extent the importance of the sector. Within retailing are many businesses, with an enormous disparity of activity. Some of the largest, most effective and most admired companies operate in the sector. At the same time, whilst numerically dominant, but economically marginalised, many small retailers provide vital local services and facilities. The scale and diversity of the retail industry brings about a range of problems and issues however. When this is combined with the changing operational activities of the sector, boundaries and policies for the sector become harder to define. The recommendations that follow derive from the analysis above and from the wider reading undertaken for this study.

Retailing is now recognised as a more important sector of the economy than many have been willing to accept before. It is important to consumers through their daily interactions, and is obviously economically important in terms of jobs and contribution to GDP. Retailing forms a part of many people's lives and trends in the sector influence them to a great extent (and vice versa). The state of retailing in the UK also plays a part in how visitors to the country perceive their visit. As such, there could be greater recognition within government of the status of retailing. This is not to argue for a Ministry for Retailing, but there needs to be a higher profile for the sector within the DTI and possibly greater awareness in other government departments. There still remains too much emphasis on the primary sectors of the economy. The UK economy has changed and institutions and activities should change to reflect this. It also means that retailing should be granted similar status to other sectors of the economy in terms of allowances and such like.

**Recommendation 1 :**

Retailing needs to be accorded a higher status within government departments in recognition of its significance. Government should seek to grant retail similar status to other sectors of the economy.

Retailing serves the UK consumer well in the main. The range of products and services that are available are a vast improvement on what went before. There are concerns over the present and future shape of the retail sector however, which in the main derive from competitive realities in the sector. Perhaps the greatest of these issues is that of accessibility. The changes in retailing, and the changing demands of consumers have altered the spatial 'playing field'. There are fewer shops than before and they are farther apart. Whilst floorspace and products may have expanded and shops are, in general, better designed and managed to meet consumer needs, they are concentrated into fewer locations. As such there are sections of society that are not well provided for. The most obvious gaps occur in areas of economic deprivation and in areas where access levels are low. It is going to be important to identify realistic policies to overcome these problems. Whilst regeneration scheme experiments and local food production may affect some areas, much work remains to be done on the precise measures of lack of access and the best ways to solve the problems.

**Recommendation 2 :**

There is conflicting evidence about accessibility to retail outlets and research should be brought forward by ESRC/DLTR to investigate fully the dimensions of accessibility.

The other major concern over the sector derives from competitive changes in the structure. Concentration is a concern and has been increasing in most sectors within retailing. Concentration is a measure of market share and potential power. One issue arising from this is the belief that concentration could lead to market collusion and higher prices than might otherwise be the case. To date, it has been difficult to find situations which demonstrate that the consumer is suffering from retailer practices. High profile media studies of international prices, whilst headline grabbing, are insufficiently robust to stand critical review. Government and other studies have provided no compelling evidence. For the future, the questions arising will inevitably focus on the extent to which mergers and take-overs should be allowed in various retail sectors and the degree of investigation and/or regulation the market should bear. Trends towards concentration are international in nature and this probably means that measures of concentration should be directed not at the national level, but at the local (spatial monopoly) level and the pan-national level. Such a looser approach at the national level might be combined with a more investigative stance towards collusion, as has begun to be introduced.

**Recommendation 3 :**

Competitiveness in British retailing will not be promoted by restrictions on merger and development. A looser regime on amalgamation may provide a more appropriate competitive sector, provided it is balanced with consumer interest issues.

One of the most contentious issues that concerns retailing is the state and nature of the land-use planning regime. Land-use planning has become more restrictive in the 1990s, mainly due to problems of impact and environmental concerns over transport. Some have argued that this restrictive stance on development acts as a brake on the sector, impairs efficiency and raises prices. Overall, they would claim that consumers get a poorer deal through having constraints on development. The counter argument is that decentralised facilities will have considerable impact on existing

businesses, create problems of access and transport and generally diminish the social nature of many of the centres that currently exist. The view over this argument in the end comes down to a belief in what sort of society and facilities we want and the sustainability of transport to off-centre locations. Perhaps the balance at as present is the correct position to adopt.

**Recommendation 4 :**

Issues of accessibility should be considered before any major de-regulation of planning is contemplated. A full study of the negative externalities of de-regulation is a vital pre-requisite to such a policy .

The issues above are essentially but not completely horizontal competitive aspects. Retailers however compete in a vertical sense as well and major retailers have been working hard to improve and enhance their supply chains. Co-operation and collaboration have been key themes and have been enabled to a considerable extent by technology introduction. The technology has allowed both cost and service improvements to supply chains, even while their reach has been extending onto the global scale. The technology when used correctly also improves the speed of response and thus provides a better service to UK consumers. What is unclear however, is the extent to which smaller retailers can share in these developments.

**Recommendation 5 :**

Government should investigate how best to enhance the skill set of smaller retailers in terms of supply chains and other practices.

We have already seen a clear indication of the international trends in retailing. It is highly likely that more of British retailing will fall into the hands of foreign companies. Many are attractive investments as they provide access to a large, densely located, ‘developed’ market in a stable and growing economy, and through public stock market quotation are available for purchase. For British retailers with the potential to move overseas, it is important that barriers are not artificially placed in their way. A number of countries are now introducing legislation to slow down the entry of foreign retailers, particularly those developing larger stores. There are also issues about ownership of retailing. If Britain is an open market in these ways, then British retailers might expect that the government might push for open markets in other countries as well.

**Recommendation 6 :**

Government should examine and argue for the opening of markets to British companies, attempting to reduce barriers to entry and takeover.

Despite the risk, internationalisation is clearly on the agenda for retailers in all sectors and of all shapes and sizes. Whilst we monitor and have a good knowledge of who goes where, and when, our understanding of how international retail businesses operate is still limited. Many large, and apparently successful, domestic retailers have failed to transfer their operations to international markets with the same results. The managerial, cost and efficiency based, pressures to seek out standard “global” solutions are contradicted by the need to operate in a complex marketplace with established competitors and different business and consumer environments. Most understanding of international business has its origins in the production sector –

retailing is different. If we are to see our retailers successfully undertake international expansion (and to understand the approaches and behaviours of those entering the UK market) we need to learn from best practice and experiences elsewhere.

**Recommendation 7 :**

Research should be commissioned into the capabilities and competencies of matched UK and non-UK retailers as regards their ability and reaction in non home market operations.

Retailing is a major employer and people skills are fundamental to retail success, whether in the small corner shop or large superstore. In most retail contexts customers hand over payment to a member of staff, seek out advice and help from staff members in store, and complain and return products to staff members. The sector, however, suffers from an image problem. It is not the ideal first choice of place to work or career for many. With demographic trends pointing to a decline in the traditional retail labour-force, these perceptions will become vital in recruitment and retention. The importance of “good staff” in all aspects of the retail business is now acknowledged by the larger and more proactive companies, and the emphasis is switching from managing staff as a cost component to managing staff as service providers. Training and skills development however remains piecemeal and company based. The sector as a whole would benefit from a clear vision of the skills, training and education required in the retail workplace and how they contribute to an articulated career path.

**Recommendation 8 :**

The retail sector should together, in an equal partnership with education at all levels, seek to provide a true seamless retail skills ladder and be prepared to fund staff and programmes.

It should also be clear that retailing is a very fast moving sector, where high quality management can make an impact. Businesses can grow (and decline) quite rapidly, both through normal processes of internal growth but also through take-overs and mergers. As one of the leading service sectors, costs are critical in retailing and retailers’ responses to cost changes have to be rapid. Fast adjustment processes are required to make businesses work efficiently and any activities by government that slows up these processes runs the risk of producing a less than effective sector. Such additional costs become reflected in the price of products and services to consumers. Government therefore should consider very carefully the effect of legislation and other activities on the retail sector. Perhaps too little time is spent at the moment identifying the impacts on these service sectors.

**Recommendation 9 :**

A full review of the costs of compliance with legislation by large and small retailers should be undertaken.

An example of this might be the debate on travel and transport that has begun. Retailers are dependent on people coming to visit stores and anything that adds to the costs of this or to the costs of supplying goods will have a detrimental effect on individual businesses and prices of products. Nonetheless, it is clear that transport remains an area of national concern for other important reasons. For retailers, a

worked out and coherent policy in this area is of critical importance. The ad-hoc use of taxation to attempt to change behaviour or to raise money for infrastructure projects runs the risk of damaging current and future investment in retailing

The sector has been presented above as a very diverse one. It is therefore difficult on many occasions to present a ‘sector’ view that would be acceptable to all facets of retailing. Bodies such as the British Retail Consortium or the Institute of Grocery Distribution represent their members, but it remains questionable (and understandable) whether they represent all of retailing. With such differences in the retail voice, it is difficult to get retailers to work together, particularly when they see themselves in competition so readily. Nonetheless, much could be done by retailers working together in partnership with other bodies. Many of the issues that retailers get excited about and invite government to get involved with are probably better sorted out by those working within the sector. Whilst there could be some encouragement for actions from retailers on for example working with local authorities in town centre development schemes, a strong involvement from national or regional government would probably be counterproductive. Better organisation amongst retailers at the local level could well produce as stronger and more proactive voice.

**Recommendation 10 :**

Retail organisations would benefit from being more inclusive and from closer collaboration or even amalgamation.

However, and as noted above, the difficulties in this are that much of retailing is numerically dominated by an economically problematic organisational type. In much of this report the point has had to be made that many small retailers find it impossible to get the same benefits as their larger competitors. However, these smaller retailers often (but not always) provide a vital local function, and at least provide some variety. In the future, it is likely that smaller retailers will find it tougher to compete and to hang on to their market. Whilst some trends are supportive of local retailing, many trends would seem to affect their viability. We have to ask therefore whether there are measures that could differentially be targeted at local and small stores. Some financial measures are in place in parts of the country, but these perhaps need to be better thought out and more co-ordinated. In essence there is a ‘patchwork quilt’ of loans, grants and support, the regulations and details of which are highly confusing. The measures also might not just be financial. Many of the issues we have raised are about knowledge and competency and small retailers often need help in accessing and implementing modern practices. Guides are one thing, but the help needed is often more practical. For example smaller retailers need in-store support for enhancing their business rather than them having to leave the store to seek help out.

**Recommendation 11 :**

Local authorities and other support agencies need to investigate how best to help smaller retailers at both the local level and nationally.

Last, but not least, it has been stressed throughout this report that current data on the sector is inadequate. It does not match the realities of the marketplace and does not meet the needs of users. The definitions of retailing, in both a horizontal and vertical sense, are blurring and “product” based categorisations struggle to cope with this. In addition the speed of change in the retail sector, with new formats and product and

service markets appearing further complicates the data collection and presentation exercise. Whilst international agencies, particularly the EU, impinge on the ability to organise data presentation, our understanding of the sector would be enhanced by clearer definitions and more issue-based data collection of use to users and policy makers. Such data collection exercises represent a fundamental starting point in our understanding of the sector, its performance and efficiency.

**Recommendation 12 :**

ONS should undertake an urgent review of the quality and quantity of retail data produced officially, whilst the retail sector should identify issue based data needs which would enhance the understanding of the sector

This report has attempted to build a description and analysis of the competitive structure and activities of the UK retail sector. It was always intended to focus on secondary research materials and only on the UK. The description and analysis is hopefully one that would be recognised by many working in and commenting on the sector. It would be useful to test this. Similarly, it would be a useful exercise to develop the structure utilised here into an international comparison. There are issues of data standardisation and availability, but we have no doubt a comparison could be drawn. We would argue that such a comparison has to move away from a simple focus on price and/or productivity. Retailing has moved on from such elements comprising the core of the subject and occupies a more central place in consumers' and the nation's lives. Any analysis has therefore to reflect the wider concerns we have tried to bring to this report. The time is right perhaps to undertake such a study.

## **PART IV : APPENDIX**

### **ANALYSIS OF RETAIL SUB-SECTORS**

The Tender document specified that analysis should be carried out for a group of sub-sectors, namely :

1. Books, Stationery and Newspapers
2. Clothing and Footwear
3. Department Stores
4. DIY
5. Electrical Goods
6. Food
7. Furniture
8. Health
9. Music

These sub-sectors in themselves reflect the problems of mapping the retail sector as they represent a mix of retail product categories and store types, and in some cases cut across official categorisations for data collection purposes.

For each sub-sector the analysis shall be presented in the framework discussed in Part II of the Report, namely:

- X.1 Drivers for Change
  - Political Structure and Trends
  - Economic Structure and Trends
  - Socio-Cultural and Lifestyle Aspirations
  - Demographic Structure and Trends
  - Production and Process Innovation
  - Environmental Changes and Trends
- X.2 Sector Structure and Control
  - Size and Scope
  - Competitive Structure
  - Organisational Structure and Competition
  - International Opportunities and Threats
- X.3. Internal Characteristics and Competencies
  - Retail Operations
  - Employment Characteristics
  - Marketing Activities
  - Supply Chain Management

# **1. The Books, Stationery and Newspaper Retail Sector**

## **1.1 Drivers for Change**

### Political Structure and Trends

- Ending of the Net Book Agreement in 1995 opened up the sector to "other" retail practices and increased the number of locations for the selling of books
- Government sponsored investigations into newspaper wholesaling may lead to recommendations for change impacting on the supply chain
- Changes to the Use Class Order allows the combination of cafes and booksellers

### Economic Structure and Trends

- Expenditure on books, stationery and newspapers is static as a proportion of total consumer expenditure, although the group has seen a clear growth in consumer expenditure since 1997
- As a relatively low cost item, there so no major impact of recessionary pressures

### Socio-Cultural and Lifestyle Aspirations

- Growth in lifestyle and fashion related products (books and magazines) linked to TV/films and other "tie-ins" (eg cookery programmes)
- Increasing segmentation of the magazine market with specialist offers for lifestyle (home décor, health), emerging products (technology user) and age stage groups (teenage market etc)
- Increasing significance of "gift giving" occasions (eg Fathers Day, Valentines Day) stimulates sales of cards and books. The British buy more (volume and value) cards than any other nationality
- Reduction in letter writing as a means of communication, with a consequent transfer of spend from traditional stationery to other stationery spend
- Increased sources of news/information other than newspapers

### Demographic Structures and Trends

- Growth of product (books and magazines) for youth/teenage market and other segments
- Demographic profile important for "back to school" stationery sales etc
- Ageing of population creates growth potential as "better off empty nesters" are high consumers of books

### Production Process and Innovation

- Anticipation of market size and production run is a key issue for publishers (eg Dorling Kindersley Star Wars problems!). More items are taking on "fashion" (high volume/short life) characteristics which increases production risk.
- Introduction of ISBN (International Standard Book Number) in the 1970s, allowed product unique identification to assist ordering and invoicing, providing the scope for internet based applications
- Technology sourced products growing and threatening traditional hard copy purchases eg web based reference materials and increasing potential for home production/downloaded e-books



- Book trade is very susceptible to on-line sales – books are information rich, involve a wide range of titles (including backlists), are individually identifiable and trackable (ISBN), and have relatively easy order fulfilment characteristics
- E-commerce (B2B) potential is high for move towards J-I-T type practices, cutting stock holding, better management of advanced buying decisions, and reduced costs of returns

#### Environmental Changes and Trends

- Increased use of recycled paper products in production (especially stationery and newspapers)

## **1.2 Sector Structure and Control**

#### Size and Scope

- Market size circa £4.8-5.2 billion in traditional specialist retail sector
- Book market no longer just traditional printed books but has expanded to encompass CD-Roms, tapes, e-books and other “digitised information”
- Market encompasses not just the retail to consumer channel, but also academic and professional markets and the school market – latter two dominated by distributors, publishers, wholesalers
- Growth in sales attributed to non-store (on-line/bookclub) and non-specialist (food store) expenditure
- Traditional peaks in the market at Christmas (based on high volume sales from 5% of range), holidays, back to school etc
- Some extension of product ranges into broader entertainment categories (eg cards, music, games) and "new" stationery (PC ribbons, printer paper etc)
- A dual market comprising short-life volume demand for bestsellers (increasing driven by price), and lower demand for specialist products (requiring availability and access)

#### Competitive Structure

- Steady consolidation in the retail sector eg Waterstones/Dillons; WHSmith/J Menzies, failure of J Thin and Sons
- Increasing segmentation of the retail offer encompassing "mega-stores"; on-line and book clubs; best sellers (food stores), remaindered/over-runs (discount/bargain bookstores) and specialist ranges (eg sports books, childrens books, academic, professional)
- Growth of on-line channels, but also other non-store channels eg book clubs at home and work. On –line channels projected to reach 15-17% by 2005.
- On-line capability allows potential for publishers to provide e-books direct, changing channel structures

#### Organisational Structure and Competition

- Split structure in the major segments which are typically dominated by two/three major players supplemented by a large number of other retailers -eg WHSmith and Waterstones in the mainstream book/stationery market; Staples and Office World in the "industrial" stationery market; and Clinton Cards and Birthdays in the greeting cards market

- General trend towards range and choice (aggregation of range) via large stores or virtual stores
- Barriers to entry relatively low, but competing with major chains on availability and choice is difficult
- Scope for consolidation and expansion in fixed store retailing - but independents often have small outlets
- Independent sector numerous but declining, especially if have a generalist offer. Succession planning a problem.
- Second handbook retailers serve an existing market and increasing scope through fixed and virtual stores, dominated by independents but scope for increased co-operation on searches and supply

#### International Opportunities and Threats

- Arrival of Borders and Amazon has stimulated changes in operational practices
- The non-UK retailers Staples and Globus Office World dominate the “industrial” office stationery segment
- On-line offers widen scope and reach to international level
- WHSmith has had mixed international experience, now based on USA and travel related outlets

### **1.3 Internal Characteristics and Competencies**

#### Retail Operations

- Bookstores remain predominantly in-town, although trend towards large outlets raises rental charge issues
- E-capacity growing steadily
- Newsagents very diverse in location, traffic flow the key to success

#### Employment Characteristics

- Part-time employment levels are moderate circa 50% as a sector average and some signs of decline ie growth of full-time share
- Employment costs close to retail average at 12-13%
- Product knowledge and service levels of growing importance for most bookselling operations, less so in stationery/newsagent elements of the sector
- Tension between skills of store/stock management and product expertise

#### Marketing Activities

- Since demise of Net Book Agreement a growth of price related promotional activities, particularly for volume/bestsellers range (eg discounts, 3 for 2 etc), and seasonal related promotions (eg back to school, holiday reading)
- Traditional “value chain” activity of retailers was providing aggregation of range and ease of choice for consumers, increasingly navigation and authority (ie expert advice and recommendation) becoming key role
- Growth of entertainment related activities in-store to enhance leisure component eg book readings, author signings and addition of coffee shops
- In-store stock management and merchandising important – a large bookstore carries 80-100,000 titles.

- Merchandising remains predominantly traditional eg by book type and author (library cataloguing style), although supplemented by promotional desks, top 10 listings and staff recommendations
- Switch from "do not touch" to "handle the product" philosophy

#### Supply Chain Management

- Inventory management, stock control and availability a major cost and service factor in the sector, with circa 1million books in print and new product launch of circa 80,000 books per annum
- Large number of primary producers (authors) and suppliers (publishers) creates a role for wholesalers and distributors particularly to service independent retailers
- Most retail stock is on a sale or return basis (publishers and wholesalers offer different conditions/periods). Returned product either pulped or sold through bargain booksellers. Estimated cost of returns circa 11%; wastage costs circa 13-20% of production run
- Typically the book channel holds 52-56 weeks stock – 40 weeks with publishers/distribution element, 12-16 weeks with retailer
- Distribution costs of supplying books to customers is relatively high circa 13% of price
- Wholesaler control of newspaper supply under challenge. Newspaper publishers appoint exclusive territorial distribution rights to major wholesalers – who in turn lever "carriage" charges on retailers – for most retailers there is no choice of supplier

## **2. The Clothing and Footwear Retail Sector**

### **2.1 Drivers for Change**

#### Political Structure and Trends

- International trade agreements such as the Multi-Fibre agreement, EU quotas and methods of quota allocation and operation influence textile imports and sources of supply.
- Political and legal issues surrounding the "grey" market and parallel importing are important in parts of the branded clothing market
- Planning regulations and support for town centres reinforces traditional locations although off-price centres provide new locations for certain types of clothing and footwear retailing

#### Economic Structure and Trends

- Expenditure is declining both as a proportion of total expenditure and as a proportion of retail turnover. Competition from other fashion items (e.g. mobile phones) eat into expenditure on clothing.
- As a non-essential item, expenditure and retail sales are volatile in recession
- Expenditure on clothing is an almost constant proportion of income (5-6%) regardless of household income level.

#### Socio-Cultural and Lifestyle Aspirations

- Changing segments reflect lifestyle change :
  - decline in formality and social gatherings e.g. lower demand for wedding dresses etc., possible disappearance of formal school uniform.
  - growth in casualwear segments e.g. sportswear, leisurewear, and accessories
- Apparent segmentation of the clothing purchase - basics/classics v treat/fashion
- Friends and social networks are major influences in clothing shopping behaviours and purchases
- Regularity/frequency of clothing purchase is increasing
- Move from brand-led uniformity to individuality - tendency to mix shops/items from different shops, rather than by a complete "outfit" in one store
- Younger groups are more brand conscious and fashion literate than in the past
- Increased travel affects demand through either purchase abroad or creates a market for leisure/travel clothing

#### Demographic Structures and Trends

- Demographics more significant indicator of expenditure than income, in general terms, expenditure declines with age
- Consequent impact of ageing - the grey market spends substantially lower than other age groups and is inclined towards traditional brands and styles
- Growth of specific youth segments e.g. pre-teen market "tweenies" with own music, magazines and clothes
- Older age of parenthood has encouraged fashion-consciousness in childrenswear

### Product and Process Innovation

- Innovations in fabrics (e.g. lycra mixes, fleece) changes cost structures and product performance
- Fit and sizing a major issue - future role of technology in "solving" this problem via body scanning (e.g. national sizing survey) allowing scope for mass-customisation and "digital tailoring". Technology implementation may be more led by smaller companies operating in niches than mass market leaders
- Much standard production has been moved to low-cost production centres

### Environmental Changes and Trends

- Changing climate conditions influence requirements for particular types of clothing.

## **2.2 Sector Structure and Control**

### Size and Scope

- Market size circa £29-31 billion in specialist sector but volatile. Any overall assessment of market size and sales trends masks considerable variations in performance between specific segments of the retail sub-sector
- The discount/value segment of the market has grown strongly - estimated to account for 24% of the clothing market
- Market growth has been driven by :
  - the shortening of fashion cycles (e.g. movement away from "four seasons" to more frequent product range changes),
  - discounting known manufacturer brands
  - the growing "fashionability" of traditionally stable and small segments of the market (e.g. accessories, sportswear, childrenswear)
  - pricing structures within the market

### Competitive Structure

- The competitive structure of the sector is very diverse and difficult to map. Segmentation is less by age and more by lifestyle or theme e.g. discounters/value retailers, designer casualwear, formalwear, accessories etc
- Several channels are involved in addition to clothing and footwear specialists eg department stores, grocery chains, and catalogue/mail order retailers
- Shop-in-shop/concessions in large stores allows relatively low cost access in high street locations for some traders/suppliers
- Non-store retailing growing, including both store based retailers and non-store specialists e.g. Boden/Cotton Traders

### Organisational Structure and Competition

- A relatively fragmented sector in organisational terms, although there is increasing concentration in large businesses. The "large business" group extends much further than the top ten - there are a large number of "national" chains compared to most other retail sectors
- The breakup of the previously dominant BSC in the 1990s changed the structure of the footwear sector
- Barriers to entry are low and significant sized chains can develop very quickly

- The major chains have national coverage and are present in most urban areas
- Fortunes of individual companies can fluctuate markedly particularly in recession and due to changes in fashion/image
- Some established key players have struggled to meet new competition (eg C&A, Marks and Spencer, The Gap) which has affected concentration

#### International Opportunities and Threats

- The sector has witnessed significant outward and inward movements - from the wholesaling of product ranges, through to trial shops and the establishment of retail chains.
- Although only The Gap (clothing) and Brantano (footwear) appear in the “top ten” by size, there are a number of foreign owned chains in the next size tier – especially in clothing (eg Hennes, Zara, Benetton, Laura Ashley etc)

### **2.3 Internal Characteristics and Competencies**

#### Retail Operations

- Although out-of-town and non-store retailing is growing, clothing and footwear retailing remains a predominantly in-town/high street location. Consequently rents and rates are a significant element of cost structures.
- Complementarity and proximate locations are important as clothing and footwear are a traditional "comparison" and leisure related shopping activities
- A move to larger units is evident both in high street and in out-of-town locations.
- Lower edge-of-town/off centre property costs have allowed certain discount chains (e.g. Matalan) to grow rapidly.

#### Employment Characteristics

- Part-time employment characteristic of the sector (circa 60% clothing; 50% footwear)
- A significant employer of part-time labour to meet peak demand flows at weekends
- An attractive sector for youth employment - seen as fashionable and fun
- Employment costs 14-15% of turnover on average across the sector - ranging from an average of 17-19% in mainstream clothing retailers, falling to 10-12% in discount/value retailers

#### Marketing Activities

- Flexibility of product ranges and range innovation is a core competence in a fashion led sector - elements of product ranges are amended on 6-8 week intervals (rather than on the traditional "four seasons" basis)
- Tendency to focus on core brands and diversifying from this brand
- Product range extension has seen brand led diversification into accessories - e.g. watches, sunglasses, footwear, gifts and soft furnishings
- Heavily retail brand, although customers may not perceive the product as retail brand.
- Personal service initiatives increasing e.g. preview catalogues and events; personal shoppers etc

- Off-price outlets increasingly used to manage overstocks in addition to traditional in-store sales events.
- Refurbishment cycles for store fixtures and fittings shortening.
- Managing returns (can be 30% of in-store transactions) an important element of operation.

#### Supply Chain Management

- Flexibility and shortening of the supply cycle is sought in all elements of the business e.g. Zara, time in getting product "from catwalk" to shop etc
- Outsourcing of production has increased - few now own production capacity and non-UK sourcing is common
- Growth of mass-customisation may change the structure of the supply base with bulk sourcing supplemented by short order cycles produced more locally
- General reduction in number of suppliers and building up of key accounts likely to continue
- Grey market supply a significant source for certain segments of the sector
- Areas which offer most potential to cut costs are fabric, making process, importer's commission and duty/quotas

### **3. The Department Store Retail Sector**

#### **3.1 Drivers for Change**

##### Political Structure and Trends

- Planning policy has favoured town centre locations and this has given the department store sector a boost.
- Transport policy which may inhibit consumers willingness (and costs) to travel to city centres may impact on performance

##### Economic Structure and Trends

- Most products sold are non-essential items, so recessionary forces and customer confidence can impact on sales
- Location is a key characteristic of the sector, stores are linked to their locality and reflect local as well as national economic prosperity
- Department stores are a retail destination for tourists so strength of pound and cost of holiday in UK can indirectly influence sales of some stores

##### Socio-Cultural and Lifestyle Aspirations

- General drift away from in-town shopping has in general terms damaged the traditional pull of department stores
- Importance of making stores a destination shop by providing leisure facilities such as cafes and restaurants.
- Wedding lists and gift giving role of department stores still an important function and focus for purchasing

##### Demographic Structure and Trends

- Traditionally mainly patronised by older consumers, but now attracting younger shoppers due to range improvements (introduction of designer brands) and trying to change browsing to purchase by this group.

##### Product and Process Innovation

- Position of department store is to carry a wide range of product groups, so willing to be product innovators but usually within traditional categories – more characteristic of follower than leader

##### Environmental Changes and Trends

- For large traditional stores in-town, energy efficiency often difficult (eg heating, lighting etc)
- Distribution costs often high as locations not built to serve car borne traffic

#### **3.2 Sector Structure and Control**

##### Size and Scope

- As a retail format which retails across a range of product sectors, very difficult to map sector size. Traditionally found in “non-specialist non-food” sales categories



(estimated at £19 billion), but trade estimates suggest department store sector circa £7 billion

- Boundaries of sector difficult to delimit owing to range of companies and strategies eg “true to the ideal” department stores – Harrods, Selfridges, John Lewis with wide ranges and large number of departments, others closer to textile specialists eg House of Fraser, Harvey Nichols, Debenhams. General trend has been to add more traditional departments to a textile base.
- Few companies involved in the sector and store networks are small but top companies expanding store numbers. General trend towards store expansion, taking up new opportunities of available sites. eg John Lewis and House of Fraser at Bluewater, Selfridges in the Trafford Centre, and Harvey Nichols in Leeds and Edinburgh

#### Competitive Structure

- Original position as provider of everything has come under threat as new formats offer greater depth of range at more convenient locations – developing channels in virtually all product sectors have taken traditional role
- Traditional position potentially under further threat from internet based shopping
- Role is still as anchor tenants and destination shops – therefore some unique advantage (often based on reputation, as much as range etc) must be maintained

#### Organisational Structure and Competition

- Unconventional sector structure – largest chains have relatively few outlets eg Debenhams 90, House of Fraser 50, Alders 37, and others are single-two store outlets eg Harrods, Selfridges, Harvey Nichols, Jenners
- Geographical coverage of many chains consequently limited – only Debenhams, House of Fraser and John Lewis can claim anything approaching national coverage. These three chains claim 54% of the “sector”
- Scope for rationalisation and merger - rumour often concerns Alders and House of Fraser
- Ownership patterns vary from publicly quoted chains, to private ownership and the John Lewis Partnership staff-partners arrangement

#### International Opportunities and Threats

- The department stores does not generally travel except by dint of brand name based concessions – ie selling name not products
- All of the “top 10” companies are UK owned

### **3.3 Internal Characteristics and Competencies**

#### Retail Operations

- Buildings are often (but not always) architecturally attractive, use of space important to attract customers and to manage fabric – often high capital and maintenance costs
- Only common multi-level retail format - managing vertical movement of customers and stock important

### Employment Characteristics

- As reputation a key proposition for true department stores, customer service levels traditionally high
- Part-time average across the sector at 59%
- Employment costs at high end of scale at circa 15% of turnover
- Department managers retain information and expertise role in hierarchical structures

### Marketing Activities

- Range management a key feature. Most stores outside the “true to the ideal”/flagship category have reduced the number of departments (eg food) and placed more emphasis on clothing and fashion, effectively becoming textile led stores
- Retail brand is growing as retailers unlock the “trust” and reputation of their tradenames and customer familiarity
- Concessions of established manufacturer brands used to attract customers and manage mix
- After sales service, preview evenings and other customer service based events used to maintain customer loyalty

### Supply Chain Management

- Diverse product mix complicates supply chain – handling vast range of products with different characteristics
- Mixture of centralised distribution and direct to store delivery
- Most stores offer home delivery where a significant non-textile range is held
- Some products sold on sale or return policy with manufacturers/distributors

## 4. The DIY Retail Sector

### 4.1 Drivers for Change

#### Political Structure and Trends

- Policies encouraging home ownership stimulate the market e.g. public sector housing sell off, housing associations etc
- Planning regulations and limitations on new out of town stores make it harder for new developments on a similar format to existing developments
- “Softer” public messages – e.g. energy conservation, home security – promote specific product markets

#### Economic Structure and Trends

- Strong economy, consumer confidence and a strong housing market helps DIY, although sales tend to persist even if housing market stagnates.

#### Socio-Cultural and Lifestyle Aspirations

- DIY changed from a cheap way of achieving home improvement to home enhancement.
- Increasing "feminisation" of DIY, from building products to home enhancement.
- Lifestyle aspirations (encouraged by media) have seen the house become an expression of identity and prompted more frequent redecoration
- Market has become more fashion oriented stimulating new products such as laminate flooring, and widened traditional product groups e.g. cupboard handles.
- New concepts such as use of outdoor space - "garden rooms" (promoted by media).

#### Demographic Structures and Trends

- Ageing population but more of this group in one person households. Spend less on DIY than younger households
- Increase in number of households boosts the market as homes are created
- More single person households which boosts the market in terms of volume of units

#### Product Process and Innovation

- Growth of products facilitating DIY - making it more user friendly/less skilled e.g. click n' fix flooring, adhesives.
- Widening of ranges in most product groups e.g. fittings, mouldings, paints - colours, speciality use etc
- Customisation of products now possible e.g. paint

#### Environmental Changes and Trends

- Some environmental concern over sustainability of timber products and garden products (peat free compost)
- Other environmental concern over product characteristics e.g. health – odours in paints etc

## 4.2 Sector Structure and Control

### Size and Scope

- Market size circa £7.9 billion and steadily expanding. Retail sales index shows steady growth over past five years
- Natural growth enhanced by extension of traditional market boundaries into other product groups (gardening, kitchens, textiles and home accessories, floorcoverings) and edging into trade market.
- Media promotion (e.g. Changing Rooms) has broadened the perception of home enhancement and increased confidence, redecorating has become more frequent.

### Competitive Structure

- Consolidation of middle sized businesses virtually complete, leaving a market completely dominated by three large national chains.
- Some independent retailers very successful at local level due to no direct competition from major companies, accessible locations and high service quality.
- Some segmentation in the market - generalist v "soft" and "hard" DIY
- Chain development in some specialist segments (e.g. tiles, fireplaces), and independents still strong in certain segments.
- No clear indication concerning likely use of e-retailing – although some growth in specialist areas e.g. Screwfix.com (Retail Week e-tailer of the year 2002)
- On Continent tendency for major grocery led hypermarket companies to diversify into DIY sector, this has not happened in the UK. DIY operators remain sector specific businesses (since withdrawal of Sainsbury from Homebase)

### Organisational Structure and Competition

- At national level highly concentrated with 80% of the market in three companies (all UK owned). Scope for future consolidation limited with recent formation of Focus Do It All (FDIA) Group
- Economies of scale by major operators who can weather variations in the market more easily, though constant search for off-setting markets (e.g. Summer/winter) brings DIY into competition with other retail sectors.
- Some attempts to edge into the trade market, and for traditional “trade” operators to “soften” offer for the general DIY market (e.g. Wickes)

### International Opportunities and Threats

- Main perceived threat is Home Depot (USA) whose preferred format is the "Warehouse" format of B&Q, although they are also experimenting with smaller formats. B&Q would be the most attractive target for a global business, but Home Depot recently retrenching (e.g. withdrawn from South America). Home Depot ‘hub and spoke’ format could be attractive given planning restrictions.
- Kingfisher has taken B&Q overseas and is attempting to become a global player generally. UK market likely to become relatively less important.
- Wickes has withdrawn from earlier European venture in Benelux and GIB (Belgium) joint venture interest in Homebase sold off.

### 4.3 Internal Characteristics and Competencies

#### Retail Operations

- Clear move from in-town small hardware stores to large out of town sheds, providing space at low cost to display expanding ranges
- As "décor" element increases, benefits from locating in retail park alongside furniture, electrical, floor-coverings and home furnishings has grown.
- Product specific specialists locate on industrial estates, owing to trade focus.

#### Employment Characteristics

- Part-time element "moderate" circa 40%
- Employment costs 12.5-13% of turnover
- Sector not instantly attractive to school leavers, although some graduate recruitment programmes (eg Kingfisher) well received
- Increasing use of tradesmen to support and advise specific product ranges (e.g. plumbing, electrical); can provide added value
- Highly publicised B&Q over 60s recruitment to fill labour shortage

#### Marketing Activities

- As market moves towards home enhancement width of range, range extension and choice become key marketing tools. B&Q stocks over 40,000 products in the warehouse stores.
- More co-ordinated ranges to make consumers more confident about choices.
- Service quality has traditionally been relatively low but improving. More information ("how to" leaflets) and advice (tradesmen/customer service) to build customer confidence. Potential to add training/education.
- Growth of retail branding, moving from commodity lines (fixings, timber) to traditionally branded lines such as power tools, and materials e.g. paints.
- Most product is take home so instant availability on larger products such as kitchens and bathrooms is good practice
- Strong use of promotions at key trading periods (Easter, Bank Holidays) and off peak periods (eg pensioner discount days)

#### Supply Chain Management

- International sourcing becoming more common, for price/product reasons – although some concern over environmental issues
- Bulk of some products can create handling issues
- Warehouse style of outlets allows some vertical in store storage to maintain availability levels
- Garden ranges provide most seasonality and perishable product handling issues
- Supply chain delays/availability in kitchen ranges can damage image reputation

## **5. The Electrical Goods Retail Sector**

### **5.1 Drivers for Change**

#### Political Structure and Trends

- Planning constraints on formats and out of town stores particularly likely to impact on electrical retailers selling smaller sized products.
- Indirect market stimulation through policies opening up new product markets (e.g. digital TV, telecommunications networks etc)
- Health and safety regulation and environmental policies may boost replacement markets (e.g. cfc's, energy conservation etc)
- OFT investigation into warranty/guarantee sales has raised consumer awareness of add-on sales.

#### Economic Structure and Trends

- Larger ticket sales reflect general economic situation and consumer confidence - replacement sales can be postponed (e.g. building society windfalls boosted sales in late 1990s).
- Penetration levels of many household appliances high, so market is in replacement or enhanced performance models

#### Socio-Cultural and Lifestyle Aspirations:

- Desire for constant communication growing - stimulating specific product groups
- Move from fixed (household) location to mobile (personal) location for entertainment products e.g. personal stereos, gameboys, mobile phones, computers
- Trend for not only functionality but also fashion and design/style in domestic appliances.
- Time displacement needs satisfied by technology (e.g. microwave, VCR)
- Changing domestic room use allows scope for multiple purchases of entertainment products (TV, PC, music etc)
- Interest stimulated by specialist magazines and product information

#### Demographic Structures and Trends

- Lower expenditure amongst older age groups
- Growing (direct and indirect) spending power of the young - entertainment, education and security motivated

#### Production and Process Innovation

- Technological innovation is a key driver in this sector for household appliances, communications, computing and communications (e.g. DVD players, widescreen and digital TVs, computing hardware, WAP)
- Innovation which provides performance enhancement, increased capacity/capability, and fashion/individualisation (eg Dyson)
- Core products experience price deflation, so product enhancement vital for growth

#### Environmental Changes and Trends

- Energy efficiency – marking now compulsory.

- Recycling and disposals of electrical products on increase eg mobile phones and especially refrigerators (EU legislation) – who will bear the future cost?

## **5.2 Sector Structure and Control**

### Size and Scope;

- Market size circa £11 billion and exhibiting steady growth, although prone to peaks
- Natural growth in the market reliant on new products and innovation providing stimulus for new markets and replacement
- Service sales growth to support core/hardware product sale - essential to functioning (e.g. mobile phone network, digital TV/internet access) or support service (e.g. extended warranties/guarantees)
- Additional growth from supply of accessories, allowing personalisation (e.g. mobile phone covers), storage (CD, Video, PC related) and or enhanced performance (cables/leads, energy efficient lightbulbs etc)

### Competitive Structure

- Dual structure developing with generalist formats retailing all product groups under one roof, and specialists retailing specific products through distinctive formats e.g. mobile phones and computers.
- Entry of retailers in other sectors into particular parts of the market e.g. furniture retailers selling integrated household appliances as complementary to kitchens; grocery retailers, catalogue store retailers and department stores selling core (commodity) household products e.g. TVs, VCRs etc
- On-line purchasing is small but growing - comparative product information can be made available and prices can be reduced by shortening the supply chain.
- On-line price comparisons a big feature in this market with specialist “best price” sites.
- At local level independents (estimated 4500) may prosper but in general struggling to provide range. Membership of a buying group (e.g. Eurotronics) or support from branded supplier (e.g. Sony Centre) essential, providing access to buying power and marketing support

### Organisational Structure and Competition

- Market highly concentrated with 50% held by two companies, although Dixons clearly dominates though its four main chains (40% share)
- Clear market leaders in all major segments:
  - mainstream entertainment and household
  - computer
  - communication
  - photographic
 served by distinctive formats/companies with a tailored product range affording flexibility of products and matching to different retail environments.
- Consolidation of market virtually complete in mainstream segment (e.g. demise of the last former utility company), underway in specialist computer segment (e.g. Tiny/Time merger) and specialist mobile phone segment were further consolidation is expected

- Role of buying group Eurotronics to service the independent retailers. It also undertakes advertising and marketing activities

#### International Opportunities and Threats

- Sector strongly domestic owned – no significant international involvement
- International scale growing on part of the leading UK retailers to balance international scale of manufacturers
- Dixons moving steadily into international markets, as is Kingfisher via its electrical interests. In many European markets chain development in the electrical goods retail sector is less developed, although buying groups (e.g. Expert) are stronger than in the UK

### **5.3 Internal Characteristics and Competencies**

#### Retail Operations

- Strong move to out-of-town for mainstream household and entertainment formats, balanced by growth of small specialist formats in town
- Some formats at transit points which reinforce the “mobility” theme (eg Dixons at airports) and with price focus
- Growing development of e-tailing capacity by manufacturers, retailers and brokerage businesses

#### Employment Characteristics

- Part-time employment relatively low, circa 30%
- Employment costs typically 12% of turnover
- Growing move to service/information provision than selling mentality which has traditionally characterised the sector

#### Marketing Activities

- Strongly manufacturer branded sector, although development of retail brand growing at "value" end and in accessories
- Comparability of products makes the retail sector price led. As such in market with a "standardised" product offer visibility, and the image and trust of the retailer is important
- Heavy advertisers in print media with a price emphasis
- Service and customer care important for some consumer groups and used by some retailers such as department stores to differentiate their offer (e.g. John Lewis offers extended warranties as standard)

#### Supply Chain Management

- Product sourcing from Far East potentially high and price focused
- Product range enhancement and development policies produce a certain amount of "perishability" (models) for some stock
- Handling procedures vary from small/light cameras and phones to bulky/heavy washing machines and fridge freezers



## **6. The Retail Food Sector**

### **6.1 Drivers for Change**

#### Political Structure and Trends:

- Planning policy and guidance restricts the scope for further out-of-town development
- Transport policy (eg potential car park charging) would impact upon cost structures and customer use
- Government regeneration and inclusion policies include need for food retailing (big stores, local food)
- Competition policy has and will continue to look at competitive structure and pricing
- Possible introduction of VAT on food would impact upon pricing structures
- Business related tax increases will impact on cost structures (eg NI contributions)
- Minimum wage influences cost structures, especially for smaller operators

#### Economic Structure and Trends:

- Food is an essential product, so limited impact of recessionary pressures
- Income constrained consumers seek out low priced/good value food options
- Time constrained consumers (and others) using home delivery internet suppliers

#### Socio-Cultural and Lifestyle Aspirations:

- Changing time budgets influence when (and where) consumers shop and stimulate “convenience” product ranges and services
- Health scares and health related issues more in the public mind, stimulating growth of farm assured products, organic ranges, farmers markets etc
- Service expectations risen and must be met
- Core cooking skills diminishing, stimulating ready made meal demand, yet at same time cooking programmes stimulate demand for particular products
- Widening of travel horizons creates demand for non-traditional food products and food styles

#### Demographic Structures and Trends

- Changing size of family and household unit influences products purchased, pack size and shopping behaviour

#### Product and Process Innovation:

- Packaging and presentation innovation stimulates sales
- Innovation in product use is high eg convenience meals, steam cuisine etc
- Use of technology in supply chain increases reach of product sourcing
- Technology infrastructure and application high within the sector
- Store innovation quite high in terms of product display etc

#### Environmental Changes and Trends

- Waste disposal awareness high (reinforced by EU legislation)
- Energy efficiency sought in larger stores

## 6.2 Sector Structure and Control

### Size and Scope

- Market size circa £93-97 billion exhibiting steady low digit growth, less prone to peaks and troughs than most other sectors
- Natural growth in the market stimulated by sales of high value product and continued product innovation/new product development
- In large stores growth driven by extension of product range into non-food ranges (eg news, entertainment, clothing, electrical, household goods) and services (financial, pharmacy, cafeteria) as well as core food offer extension (ready to go, café cuisine, healthy options etc)

### Competitive Structure.

- Majority of sales through large units – typically the grocery based superstore - although major chains now developing range of targeted shop formats to maintain growth and suit local environments (small towns, in-town markets, and hypermarkets)
- National consolidation of major players took place during 1980s and 1990s, further national consolidation possible but format fit will determine viability and may attract monopoly consideration unless a chain is broken up. International involvement more likely
- Middle-sized tier of chains focussing on particular formats (eg Co-op and Somerfield on neighbourhood store/convenience market), rather than competing in superstore market
- Smaller store formats along the convenience store format serve locality “top-up” market or specialised products – major chains now moving into this segment
- Growth of transient farmers markets provides specialist niche and allows direct to customer sales, although issues are emerging
- On-line experimentation occurring, amongst which Tesco appears the most fully committed and fully resourced

### Organisational Structure and Competition

- Sector dominated by “big four” with 68% share of grocery market/55% of food market – but Tesco is a dominant player (circa 25% grocery market/20% food market)
- Operations extended from traditional regional locations, most chains now national (except Waitrose) although most have regional dominance.
- Independent sector increasingly organised via voluntary chains and buying groups (Spar, Londis, Mace)
- Traditional true independents in decline, as are specialist trades (butcher, fishmonger) unless strong local consumer franchise

### International Opportunities and Threats

- International arrivals have been format driven (ie not main line superstores/supermarkets) via limited line discount format and Cash and Carry/wholesale Club format
- Non-UK retailers (Aldi, Netto, Lidl) have created and dominate the limited line discount segment

- Wal-Mart arrival focused attention on price structures and reinforced move into non-food ranges, but hyped “devastation” of the sector yet to occur!
- Despite internationally recognised expertise of UK grocery retailers, companies have been slow to move outside the UK - Tesco now strategically developing an international business in emerging markets, but future of Sainsbury’s USA operation not clear
- British food retailing quite stereotyped and “boring” in its presentational skills - potential for local sourcing, good merchandising and “slow food” is quite high as reaction to sameness

### **6.3 Internal Characteristics and Competencies**

#### Retail Operations

- Cost economies and service benefits has driven the move to large units on edge/out-of-town sites
- Clear move from single format operation (superstore) to multi-format channel operations
- Strong centralisation of decision making throughout the sector

#### Employment Characteristics

- Part-time employment high, circa 75% - particularly at store level
- High labour turnover levels but switch to retention policies (higher hourly rates, share ownership etc)
- Many young people experience part-time/casual jobs in superstore sector - experience colours view of industry as employer
- Employment costs circa 9-10% of turnover as a sector average
- Increased graduate recruitment for store management and head office positions

#### Marketing Activities

- High proportion of retail brand and development of segmented retail brand (premier retail brand, standard retail brand, value retail brand, plus organic ranges, childrens ranges, healthy eating ranges etc)
- Segmentation of shop formats (and larger shops) by purpose of shop - understanding of customer in-store behaviours high
- Widening of product ranges (especially non-food) and addition of variety in core ranges
- Addition of services (service counters for meat, fish, bread etc) and general increase in service levels (checkout speed, car parking policies, range of trolleys)
- Scope for food customisation eg salad bars, create a pizza, hot-chicken meal ovens
- Category management approach to merchandising and supply chain activities
- Price focus on key product lines

#### Supply Chain Management

- Increased involvement in and management of all aspects of the supply chain
- Implementation of Efficient Customer Response systems and sales based ordering systems
- Centralised distribution systems via Regional Distribution Centres
- Very advanced systems and procedures - seen as industry leaders

## **7. The Furniture Retail Sector**

### **7.1 Drivers for Change**

#### Political Structure and Trends

- Interest rates, ending of mortgage relief and home ownership stimulate activity in the housing market
- Fire safety regulations impact on specific products eg upholstery and mattresses

#### Economic Structure and Trends

- Based on the replacement cycle, furniture is responsive to swings in consumer confidence and changes in disposable income e.g. unexpected “windfalls” from building society demutualisation stimulated “big ticket” sales in mid/late 1990s
- Activity in the housing market - house sales and house building activity (both volume and type) - stimulates furniture sales

#### Socio-Cultural and Lifestyle Aspirations

- Lifestyle aspirations have led to a greater emphasis on fashion within the market stimulating sales of certain products and shortening replacement cycles
- Shift from functionality to décor driven by the growth of media interest in the home (TV and print media)
- Changing use of the home and traditional room spaces influences product segments. eg decline in the conventional dining suite as casual dining replaces formal dining; home working creates a demand for home office furniture and children's bedrooms become multi-use: sleep, play, work and entertainment space

#### Demographic Structures and Trends

- Demographic trends ultimately influence the housing stock and size of new homes.
- The number of households, (particularly single person households) is increasing, and affects the nature of the housing stock, and furniture purchases .

#### Production Process and Innovation

- Fitted (rather than free-standing) units dominate the kitchen and bedroom furniture market
- Flatpack/self assembly is popular in cabinet furniture, bedrooms, kitchen and home office
- Upholstery is made to order as holding stock is uneconomic

#### Environmental Changes and Trends

- Some evidence of environmental concern in use of materials eg rubberwood

### **7.2 Sector Structure and Control**

#### Size and Scope

- Market size circa £8.5 billion and is strongly cyclical, reflecting the replacement cycle. Furniture and furnishing purchases are often major investments, and as

non-essentials can be delayed if circumstances change (particularly true for kitchen replacement)

- A blurring of traditional retail product boundaries has occurred as furniture specialists move into associated home furnishings markets in the search for growth, also other retailers are taking significant shares of certain segments of the furniture market (e.g. Argos, Next, Marks & Spencer)
- Fashion and contemporary styling has grown in importance at the lower priced end of the market, whilst the high price segment remains very traditional in styling terms.

#### Competitive Structure

- Several channels are involved in the retailing of furniture from specialists through to department stores and non-store retailers. The core retail furniture market remains dominated by furniture specialists (whether multiple chains or independents) taking 60-67% of the market.
- Department stores hold an established share in the more traditional end of the market, with the "new" growth channels seen as home shopping and DIY chains. These operators are gaining share in specific product segments e.g. basic cabinet and home office furniture

#### Organisational Structure and Competition

- The specialist retail furniture market is fragmented with a large number of relatively small companies - the largest five account for approximately a third of the market, but established leaders dominate specific segments e.g. IKEA (the value end of the contemporary furniture market), MFI (fitted kitchens and bedrooms) DFS (upholstery).
- Outwith the relatively small number of national companies, there is a distinctive regional feel to the market. Ambitious statements on store expansion from a number of the smaller/medium sized chains (20-25 stores), plus the regional nature of store networks and the structure of the sector, suggests scope for expansion and consolidation activity. Recent management buyouts of "second tier" operators suggests scope for future consolidation
- Second-hand market and antique shops play a significant role in certain communities
- Some co-operation amongst manufacturers/suppliers of specific types of furniture eg pine furniture to extend range and availability to order
- No clear indication of the impact of e-tailing

#### International Opportunities and Threats

- The impact of IKEA – from zero to market leadership in seven years, suggests that the UK market can be susceptible to new formats/developments in these sectors.
- Some international concepts may translate into the UK eg rooms to go, style, furniture mall centres
- Of the major indigenous retailers, Courts has an extensive international operation in the Far East and Caribbean, MFI trades in France; but Habitat has sold off its European operations

### 7.3 International Characteristics and Competencies

#### Retail Operations

- The retail furniture market has seen a strong move to out-of-town locations based upon large sheds with low rents, which allows more product to be displayed at low fixed costs per square foot.
- Stores are typically clustered on retail warehouse parks, so some form of agglomeration allowing comparison shopping exists.
- Some evidence of format diversification. There are some signs of a return to the high street/in-town locations with either a premium offer or as a showroom presence (eg Magnet, MFI trials, Moben, CP Hart).
- The household textile/homewares retailers still have a stronger high street representation, although the former is moving out-of-town and the failure of several “new” homeware chains suggests the trading economics of high street retailing are not favourable.
- Evidence of a growth of shop-in-shop operations to allow product range extension (eg into beds) or in other types of store (eg kitchens in electrical retailers).
- The majority of the “traditional” product made is to order, so delivery is a key issue in customer satisfaction. Take home product is limited to self-assembly cabinet furniture in the main.

#### Employment Characteristics

- Part-time employment relatively low, circa 30%
- Employment costs typically 12-13% of turnover across the sector
- Sector not attractive to school leavers as place of employment
- Remuneration of sales staff traditionally through commission, although being replaced by salary in some cases

#### Marketing Activities

- The retail sector was rather traditional in approach to retailing, display and marketing activities, until the arrival of IKEA. Chains were very similar in range and service offers.
- Manufacturer product branding is generally weak (with the exception of some specific styles of furniture), so the brand and image of the retailer is an important marketing tool and reference point in the decision making process.
- Switch from product line display to the presentation of furniture in "room settings" to respond to lifestyle expectations.
- Importance of continual range innovation and new product now recognised as are store refurbishment programmes to ensure that existing stores remain "fresh"
- Heavy users of print and TV advertising usually with a strong price message
- Interest free credit a key mechanism for stimulating sales in the early 1990s
- Movement away from traditional lines - with new market segments (office furniture, bathrooms) or diversification into soft furnishings and household accessories

### Supply Chain Management

- Majority of product is made to order and delivery scheduling to the home is a key element of customer service. Not many retailers are very good at this. Potential for improved performance, particularly linked to specialist outsourcing.
- Relatively low barriers to entry, especially in the upholstery market ensures that manufacturing capacity generally always available
- Lack of product brand emphasis means that buying economies have been less easy to leverage.
- Vertical integration is more common than in most retail sectors, and the leading chains (IKEA, MFI and DFS) all have significant manufacturing capacity. The ownership of manufacturing capacity also allows benchmarking of external suppliers
- Increased overseas sourcing of self- assembly furniture.

## **8. The Health and Beauty Retail Sector**

### **8.1 Drivers for Change**

#### Political Structure and Trends

- Pharmacy openings moderated by licencing requirements at local level
- Government policy on pricing of drugs a key future issue. With the ending of retail price maintenance for branded over the counter medicines in 2001, it was contended that this would not adversely affect smaller pharmacies serving local communities (OFT reports suggested over 80% of sales in independent pharmacies where NHS prescriptions unaffected by OTC deregulation).
- Monopoly investigations at national and EU level into perfume distribution and prices likely to reoccur
- Attitude to "grey" market and parallel imports significant for perfume market

#### Economic Structure and Trends

- Demand for prescription medicines, which draws customers into pharmacy stores, remains in recession
- Similarly many products are relatively low cost and non-essential items but part of everyday basic purchases - not overtly impacted by recessionary pressures
- Part of range closely associated with gift giving, so general economic confidence has some impact

#### Socio-Cultural and Lifestyle Aspirations

- Fashion and lifestyle pressures important stimulants for beauty products
- Increasing use of self medication promoted by time pressure and improved awareness and information creating a new market niche
- Alternative medicine market growing on back of information and celebratory endorsement
- Media encouragement of preventative medicines stimulates market
- Increased travel generates demand for travel related products - sun cream, sickness remedies etc

#### Demographic Structure and Trends

- Ageing of population has implications for both beauty products (eg hair colourings etc) and health products
- Differences between age groups and entitlement to free prescriptions affects where medicines are purchased and which OTC products are obtained on prescription
- Self-medication market among younger and middle aged consumers promotes OTC purchases
- Youth market for character toiletries and perfumes growing

#### Production and Process Innovation

- New drugs and designation between OTC and prescription drugs influences the market - some OTC products can only be sold under the authority of a pharmacist and so cannot be sold in non-pharmacy outlets.



- Continued drug and cosmetic development creates niche demand and restricts other markets - eg impact of laser eye treatment on contact lens and solutions sales

#### Environmental Changes and Trends

- Some environmental concerns and adjustments on packaging eg aerosols, secondary packaging on shampoo and toothpaste
- Environmental/ethical market initially addressed by niche retailers (eg Body Shop, Nectar) but now mainstream involved

## **8.2 Sector Structure and Control**

#### Size and Scope

- Sector very mixed and difficult to classify from traditional sources, owing to product range and mix of channels involved (Boots not classified in this sector by ONS and NHS prescriptions are excluded) - retail turnover of specialists estimated at circa £9 billion
- Growing division between beauty and health products - For many pharmacists prescriptions draw customers into the store and "add on" OTC and associated toiletries and beauty products generate sales and profit, for other "drugstore" type operations they are part of the regular shopping trip

#### Competitive Structure:

- Growing segmentation of the market with cosmetic and health sectors parting - health sector still the domain of "chemists" (including Boots) although superstore operators seeking to gain pharmacy licences
- The cosmetic/beauty sector is also segmenting to either a niche (eg Body Shop) or discount/value position (Superdrug/Semi-Chem) - the price focus of the latter a response to the High-Street dominance of Boots and growth of supermarkets
- Health and beauty now a key supermarket non-food department, some estimates suggest 5-6% of grocery chain sales - supermarkets are essentially taking toiletries and some OTC medicines
- Department stores still an important channel for beauty products, although discounters now prevalent in the perfumery market. Despite demise of duty free allowances, airports also still perceived by customers as important purchasing points
- Manufacturer brands still strong in most markets, particularly health and beauty

#### Organisational Structure and Competition

- Boots is the clear market leader and as a highly recognised and trusted brand. The movement of Boots into healthcare with its wellbeing concept services extends the market from the traditional retail sector reinforcing the expertise aspect of pharmacies and trust in the Boots brand
- The relationship between the pharmaceutical industry and retailing is important. Companies with the backing of a larger wholesaling parent best placed to take larger share of the market as have greater financial backing for new ventures.
- The role of wholesalers such as Unichem (owns E Moss) and Gehe (owns Lloyds) is crucial for support of independent sector, although moving into retailing themselves via community pharmacies

- Considerable consolidation through the 1980s and 1990s as smaller chains have been bought up by larger operators eg Lloyds
- In store pharmacies can often operate extended opening hours (24 hour stores) offering consumers a service not matched by the 'Sunday opening' chemist system. - big 4 grocery chains now have circa 450 in-store. These are increasingly being run in-house.

#### International Opportunities and Threats

- Manufacturers are on an international basis but this is not matched by retailers except through wholesalers eg Gehe and Unichem.
- Considerable foreign investment in the sector – Gehe (Germany) own Lloyds; Kruidvat (Netherlands) recently acquired Superdrug; Phoenix (Germany) owns L Rowland; and Hutchison Whampoa (Hong Kong) owns Savers Health and Beauty
- Boots has had a chequered history of attempts at retail internationalisation, in most international markets the independent pharmacy market dominates and presents a barrier to the full "Boots the Chemist" offer

### **8.3 Internal Characteristics and Competencies**

#### Retail Operations

- Community based locations and visibility important to the independent and high street sector
- Partnerships with other mainstream retailers growing eg Boots and Sainsbury's with Sainsbury's selling Boots products with Boots merchandising, Tesco acquisition of Nutri-centre.

#### Employment Characteristics

- Part-time employment across the sector average at 55%, reflecting drugstore and large high street operations
- Employment costs across the sector average at 11-11.5% of turnover - lower in discount segment
- Drugstore type operations not attractive to school leavers
- Pharmacy requirements for trained/qualified staff place a restriction on market expansion and succession

#### Marketing Activities

- Average spend relatively low, so important to generate footfall - cf importance of prescriptions for community pharmacists and growing promotion of price position in toiletries and everyday ranges
- Greater use of "supermarket" style promotions and merchandising throughout the sector
- Where relevant emphasising service levels and expert endorsement of staff (eg pharmacist, cosmetics adviser etc) – split developing between “healthcare provider” position and “drugstore” position, former based on service and expertise, latter on price and range
- Manufacturer brands dominant in most product markets, but retail brands growing in cosmetic (eg Boots No7) and particularly in toiletries markets

- Gift market significant for certain product ranges - Christmas, Valentines Day etc are more heavily promoted than in the past

#### Supply Chain Management

- Role of wholesaler and manufacturer sponsored distribution system important

## **9 The Music Retail Sector**

### **9.1 Drivers for Change**

#### Political Structure and Trends

- Controls on recording and copyright place potential limitations on formal distribution channels (eg on-line downloading of music)

#### Economic Structure and Trends

- Relatively low cost items, so little recessionary pressure on expenditure and sales
- Disposable income has some influence on access to technology which allows use of recorded music and media products (eg ownership of DVD player), and access to multiple opportunities to use (eg personal stereos)

#### Socio-Cultural and Lifestyle Aspirations

- Nostalgia trends provides opportunity of reissue of some recorded music, and require access to back-catalogue of product
- Exposure to product influenced by fragmentation of media (eg TV channels, radio stations etc) and print media tie ins
- Multiple opportunities to play music (eg home, car, personal, PC players) can stimulate demand for recorded music

#### Demographic Structures and Trends

- Strong youth/age related link to recorded music market – 45% of singles by those aged under 20; 45% of album spend by those 30-39 years old
- Gender differences in purchasing see men buying almost twice as many albums as women
- UK recorded music spend per capita is highest in world

#### Production and Process Innovation

- Technical capacity for on-line downloading of music exists, although copyright issues slowing market development
- Technological change creates market in replacement product and creates product obsolescence (vinyl to CD to mini disc; VHS to DVD)
- Multiple copies of product can be produced at home (piracy problem)

### **9.2 Sector Structure and Control**

#### Size and Scope

- Market size data not available in ONS retail sales categorisation. Commodity group data suggests a market size of circa £3.5 billion
- Large number of “new products” per year (circa 18-19,000 albums per year)
- Retail market for music widened through product related extension into video, games and accessories
- Sales stimulated through tie-ins with other media events (eg films, TV related activities etc)
- Durability of CD and newer media allow second hand market to develop

### Competitive Structure

- Range of channels available, particularly on-line, but also sales of mainstream and "best selling" lines through food superstores and generalist outlets.
- Awareness of on-line opportunity increased through publicity surrounding Napster in 2000 and free downloading. Growth of on-line channels expected.

### Organisational Structure

- Specific market segments dominated by large range "megastore" offers of HMV and Virgin, but also thriving independent specialist sector based on specialist music offerings or local reputation. Video market more concentrated in hire sector especially (eg Blockbuster, MVC, Global)
- Some regional chains have strong local market franchise, particularly with youth market

### International Opportunities and Threats

- Some entrants eg Tower Records, Blockbuster
- International moves with "megastore" format by both Virgin and HMV have had mixed results

## **9.3 Internal Characteristics and Competencies**

### Operations Processes

- Polarisation of store size - growth in store size through range expansion and smaller outlets with specialised theme. Physical size of product and handling "sensitivity" reduced.
- Primarily high street/prime locations with high rental costs, although specialists may use secondary (low cost) locations if customers are attracted by reputation and knowledge

### Employment Characteristics

- High part-time employment
- High employer of young people, an attractive sector for the youth employment market

### Marketing Activities

- Standardised/commodity product makes product differentiation difficult other than through service related aspects eg range and availability and price
- Promotional activities to stimulate sales remain "top 10" type listings, plus special offers (eg 2 for 3) to move excess production capacity and serve nostalgia market
- Experiential marketing activities allow "use" of product in store eg listening posts, video screens, playstations etc
- Standard in-town opening hours provide some vulnerability to the 24 hour offer of on-line offers
- Saturday a major purchasing day

### Supply Chain Management

- Importing an issue and "grey" market can be an issue as standard/commodity product
- Handling has become easier as product size has shrunk and durability increased