

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.