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