

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 business 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	<ul style="list-style-type: none"> • Planning Policy • National Debate 	<ul style="list-style-type: none"> • land use policy control over location and attitudes to issues of sustainability, accessibility and transportation • perceptions and understanding of the structure of the sector, ownership and behaviour, and the implications of market power

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

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

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
- <i>Books, Stationery, & Newspaper Stores</i>	4 078	4 812	+18.0
- <i>Clothing & Footwear Stores</i>	26 100	30 902	+18.4
- <i>Non-Specialist Non Food Stores*</i>	15 035	19 034	+16.6
- <i>DIY Stores</i>	5 642	7 955	+41.0
- <i>Electrical Goods Stores</i>	7 727	10 895	+41.0
- <i>Food Stores</i>	74 914	93 193	+24.4
- <i>Furniture Stores</i>	6 400	8 512	+33.0
- <i>Health & Beauty Stores</i>	3 165	3 798	+20.0
- <i>Music Stores</i>	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 14th 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"> • Blurring of “Retailing” Boundaries • Product/Service Balance 	<ul style="list-style-type: none"> • horizontal and vertical blurring of retail boundaries; definition of “retail”; retailing as a process not a product delineated sector • movement into service markets and products with service element; innovation in ranges and service expansion to grow retail market
Competitive Structure	<ul style="list-style-type: none"> • Polarisation of Organisational Scale • Mergers and Acquisitions 	<ul style="list-style-type: none"> • dominance of multiples and "organised" retailing; scale through growth, franchising and co-operation • in an open market all companies are available at a price; future of middle sized chains as independent businesses
Organisational Structure and Competition	<ul style="list-style-type: none"> • Vertical Power 	<ul style="list-style-type: none"> • dominant retailers with strong vertical power, exercising control, administration and command over supply chain

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

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	<ul style="list-style-type: none"> • Rising Costs • Scale and Leverage • Data Utilisation • Crime 	<ul style="list-style-type: none"> • rising cost of space in all locations and impact of upward rental reviews; compliance costs for smaller retailers • ability to spread costs with scale; efficiency of space use and leverage of assets; cycle of growth • tactical use (labour utilisation, stock management, targeted promotions); strategic use (market segmentation, location decisions, channel management and reconfiguration) • recognition of cost and source of crime; management of crime as cost activity
Employment Characteristics	<ul style="list-style-type: none"> • Labour Use • Perceptions of Jobs • Self-Employment 	<ul style="list-style-type: none"> • 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) • tension between low skill/ routine job elements and service and personal skill requirements; poor perceptions of sector and some retailers; recruitment and retention issues • perception versus reality of running own shop; limited training and support; time management and succession issues

Marketing Activities	<ul style="list-style-type: none"> • Branding • Stakeholder Communication 	<ul style="list-style-type: none"> • 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 • 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
Supply Chain Management	<ul style="list-style-type: none"> • Channel Management • Technology • Out-Sourcing • Global Sourcing 	<ul style="list-style-type: none"> • manage and organise channel as single entity; functional (material handling and logistics) approach to supply chain management perspective; • information management to deliver cost and service benefits; demand (not supply) chain attitude (reduction in time to market, response times, stock levels) • specialist service providers (eg transport and warehousing) to manage channel as a process • scope enhanced by technology, need for innovation, consumer demands and pressure on costs and prices