PART III

SUMMARY AND RECOMMENDATIONS

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

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

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

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

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

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

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

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

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

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

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

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

Recommendation 2 :
There is conflicting evidence about accessibility to retail outlets and research should be brought forward by ESRC/DLTR to investigate fully the dimensions of accessibility.

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

Recommendation 3 :
Competitiveness in British retailing will not be promoted by restrictions on merger and development. A looser regime on amalgamation may provide a more appropriate competitive sector, provided it is balanced with consumer interest issues.

One of the most contentious issues that concerns retailing is the state and nature of the land-use planning regime. Land-use planning has become more restrictive in the1990s, mainly due to problems of impact and environmental concerns over transport. Some have argued that this restrictive stance on development acts as a brake on the sector, impairs efficiency and raises prices. Overall, they would claim that consumers get a poorer deal through having constraints on development. The counter argument is that decentralised facilities will have considerable impact on existing businesses, create problems of access and transport and generally diminish the social nature of many of the centres that currently exist. The view over this argument in the end comes down to a belief in what sort of society and facilities we want and the sustainability of transport to off-centre locations. Perhaps the balance at as present is the correct position to adopt.

> **Recommendation 4** :
> Issues of accessibility should be considered before any major de-regulation of planning is contemplated. A full study of the negative externalities of de-regulation is a vital pre-requisite to such a policy .

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

> **Recommendation 5** :
> Government should investigate how best to enhance the skill set of smaller retailers in terms of supply chains and other practices.

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

> **Recommendation 6** :
> Government should examine and argue for the opening of markets to British companies, attempting to reduce barriers to entry and takeover.

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

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

> **Recommendation 7** :
> Research should be commissioned into the capabilities and competencies of matched UK and non-UK retailers as regards their ability and reaction in non home market operations.

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

> **Recommendation 8** :
> The retail sector should together, in an equal partnership with education at all levels, seek to provide a true seamless retail skills ladder and be prepared to fund staff and programmes.

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

> **Recommendation 9** :
> A full review of the costs of compliance with legislation by large and small retailers should be undertaken.

An example of this might be the debate on travel and transport that has begun. Retailers are dependent on people coming to visit stores and anything that adds to the costs of this or to the costs of supplying goods will have a detrimental effect on individual businesses and prices of products. Nonetheless, it is clear that transport remains an area of national concern for other important reasons. For retailers, a worked out and coherent policy in this area is of critical importance. The ad-hoc use of taxation to attempt to change behaviour or to raise money for infrastructure projects runs the risk of damaging current and future investment in retailing

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

Recommendation 10 :
Retail organisations would benefit from being more inclusive and from closer collaboration or even amalgamation.

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

Recommendation 11 :
Local authorities and other support agencies need to investigate how best to help smaller retailers at both the local level and nationally.

Last, but not least, it has been stressed throughout this report that current data on the sector is inadequate. It does not match the realities of the marketplace and does not meet the needs of users. The definitions of retailing, in both a horizontal and vertical sense, are blurring and "product" based categorisations struggle to cope with this. In addition the speed of change in the retail sector, with new formats and product and service markets appearing further complicates the data collection and presentation exercise. Whilst international agencies, particularly the EU, impinge on the ability to organise data presentation, our understanding of the sector would be enhanced by clearer definitions and more issue-based data collection of use to users and policy makers. Such data collection exercises represent a fundamental starting point in our understanding of the sector, its performance and efficiency.

Recommendation 12 :
ONS should undertake an urgent review of the quality and quantity of retail data produced officially, whilst the retail sector should identify issue based data needs which would enhance the understanding of the sector

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