

PART IV : APPENDIX

ANALYSIS OF RETAIL SUB-SECTORS

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

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

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

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

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

1. The Books, Stationery and Newspaper Retail Sector

1.1 Drivers for Change

Political Structure and Trends

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

Economic Structure and Trends

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

Socio-Cultural and Lifestyle Aspirations

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

Demographic Structures and Trends

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

Production Process and Innovation

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

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

Environmental Changes and Trends

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

1.2 Sector Structure and Control

Size and Scope

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

Competitive Structure

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

Organisational Structure and Competition

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

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

International Opportunities and Threats

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

1.3 Internal Characteristics and Competencies

Retail Operations

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

Employment Characteristics

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

Marketing Activities

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

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

Supply Chain Management

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

2. The Clothing and Footwear Retail Sector

2.1 Drivers for Change

Political Structure and Trends

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

Economic Structure and Trends

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

Socio-Cultural and Lifestyle Aspirations

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

Demographic Structures and Trends

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

Product and Process Innovation

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

Environmental Changes and Trends

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

2.2 Sector Structure and Control

Size and Scope

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

Competitive Structure

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

Organisational Structure and Competition

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

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

International Opportunities and Threats

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

2.3 Internal Characteristics and Competencies

Retail Operations

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

Employment Characteristics

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

Marketing Activities

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

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

Supply Chain Management

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

3. The Department Store Retail Sector

3.1 Drivers for Change

Political Structure and Trends

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

Economic Structure and Trends

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

Socio-Cultural and Lifestyle Aspirations

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

Demographic Structure and Trends

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

Product and Process Innovation

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

Environmental Changes and Trends

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

3.2 Sector Structure and Control

Size and Scope

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

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

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

Competitive Structure

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

Organisational Structure and Competition

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

International Opportunities and Threats

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

3.3 Internal Characteristics and Competencies

Retail Operations

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

Employment Characteristics

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

Marketing Activities

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

Supply Chain Management

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

4. The DIY Retail Sector

4.1 Drivers for Change

Political Structure and Trends

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

Economic Structure and Trends

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

Socio-Cultural and Lifestyle Aspirations

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

Demographic Structures and Trends

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

Product Process and Innovation

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

Environmental Changes and Trends

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

4.2 Sector Structure and Control

Size and Scope

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

Competitive Structure

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

Organisational Structure and Competition

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

International Opportunities and Threats

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

4.3 Internal Characteristics and Competencies

Retail Operations

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

Employment Characteristics

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

Marketing Activities

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

Supply Chain Management

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

5. The Electrical Goods Retail Sector

5.1 Drivers for Change

Political Structure and Trends

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

Economic Structure and Trends

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

Socio-Cultural and Lifestyle Aspirations:

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

Demographic Structures and Trends

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

Production and Process Innovation

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

Environmental Changes and Trends

- Energy efficiency – marking now compulsory.

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

5.2 Sector Structure and Control

Size and Scope;

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

Competitive Structure

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

Organisational Structure and Competition

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

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

International Opportunities and Threats

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

5.3 Internal Characteristics and Competencies

Retail Operations

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

Employment Characteristics

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

Marketing Activities

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

Supply Chain Management

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

6. The Retail Food Sector

6.1 Drivers for Change

Political Structure and Trends:

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

Economic Structure and Trends:

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

Socio-Cultural and Lifestyle Aspirations:

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

Demographic Structures and Trends

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

Product and Process Innovation:

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

Environmental Changes and Trends

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

6.2 Sector Structure and Control

Size and Scope

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

Competitive Structure.

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

Organisational Structure and Competition

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

International Opportunities and Threats

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

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

6.3 Internal Characteristics and Competencies

Retail Operations

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

Employment Characteristics

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

Marketing Activities

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

Supply Chain Management

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

7. The Furniture Retail Sector

7.1 Drivers for Change

Political Structure and Trends

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

Economic Structure and Trends

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

Socio-Cultural and Lifestyle Aspirations

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

Demographic Structures and Trends

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

Production Process and Innovation

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

Environmental Changes and Trends

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

7.2 Sector Structure and Control

Size and Scope

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

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

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

Competitive Structure

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

Organisational Structure and Competition

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

International Opportunities and Threats

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

7.3 International Characteristics and Competencies

Retail Operations

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

Employment Characteristics

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

Marketing Activities

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

Supply Chain Management

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

8. The Health and Beauty Retail Sector

8.1 Drivers for Change

Political Structure and Trends

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

Economic Structure and Trends

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

Socio-Cultural and Lifestyle Aspirations

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

Demographic Structure and Trends

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

Production and Process Innovation

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

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

Environmental Changes and Trends

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

8.2 Sector Structure and Control

Size and Scope

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

Competitive Structure:

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

Organisational Structure and Competition

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

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

International Opportunities and Threats

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

8.3 Internal Characteristics and Competencies

Retail Operations

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

Employment Characteristics

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

Marketing Activities

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

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

Supply Chain Management

- Role of wholesaler and manufacturer sponsored distribution system important

9 The Music Retail Sector

9.1 Drivers for Change

Political Structure and Trends

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

Economic Structure and Trends

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

Socio-Cultural and Lifestyle Aspirations

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

Demographic Structures and Trends

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

Production and Process Innovation

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

9.2 Sector Structure and Control

Size and Scope

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

Competitive Structure

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

Organisational Structure

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

International Opportunities and Threats

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

9.3 Internal Characteristics and Competencies

Operations Processes

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

Employment Characteristics

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

Marketing Activities

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

Supply Chain Management

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