

Current and future retail structures for Scotland

Supporting discussion paper prepared for Symposium on

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Our theme this afternoon is Tomorrow's Retailing in Scotland. What does tomorrow hold for Scotland? And, importantly, how do we manage the systems to achieve, in the future, the retailing that is wanted by all groups, including consumers, retailers, politicians, land-use planners, property developers and owners?

The aim of this paper is to explore three questions about retailing in Scotland and, in attempting to consider answers, to provide the basis for some debate on what future shape we would wish for retailing in Scotland.

The three questions are:

What is the current situation of retailing?

What is the reality of current changes?

What, as a result, can we expect over say the next 5 years?

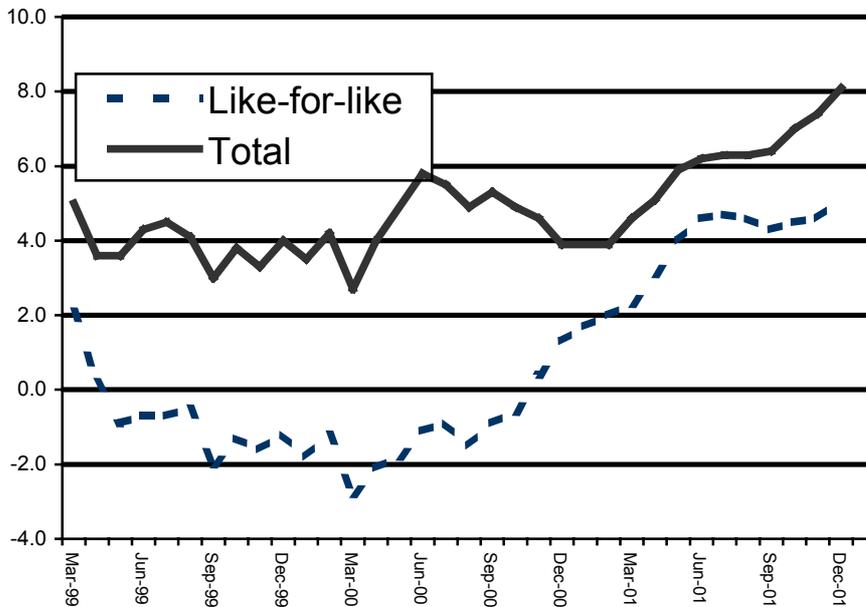
What is the current situation of retailing?

The statistical base for knowing the current position of retailing in Scotland is not good. We do not know for sure how many shops there are neither do we know accurately the value of retail sales. We have fragmentary data on where the shops and their sizes. The invisible hand of the market does its work without us being able to assess how it is performing.

But we do have some rough, in some cases very rough, estimates of the size and structure of retailing and we have qualitative information because we are all, to some extent, shoppers and have frequent contact with retailing. In the same way that we all have views on education or the health sector, whether we are specialists or not, we all have views on retailing. The difference is that there are some fairly sound statistical underpinnings for our knowledge of the education and health sectors.

It is estimated that there are about 22,500 shops in Scotland. This is a decrease from about 30,000 in 1990. Of the 22,500 we can estimate from VAT figures that over two thirds have average sales of less than £5,000 per week. We do not know the amount of floorspace in retailing but the excellent series from Scottish Executive now report the additions to floorspace accounted for by new large schemes. Thus in the two years 1998 and 1999 an additional 392,000 sq. m. of retail space was opened for trading. Estimated retail sales in Scotland are £19.1 billion. We also have some indication of the change in sales from the monthly figures of the Royal Bank - Scottish Retail Consortium retail monitor (see figure 1). This shows year on year change in sales and indicates the increasing rate of growth in sales in recent months. The total sales at an estimated £19.1 billion is slightly less than the global retail sales of Tesco and slightly more than the annual growth of Wal-Mart. In macro-retail terms therefore Scottish retailing is small. Nonetheless at our local level it is a major sector in the Scottish economy being a substantial employer and accounting for considerable investment in cities and their suburbs.

From the limited evidence we have, sales space has tended to grow faster than retail sales such that sales per sq. m. over recent years have fallen in real terms. The very recent increase in sales values has reduced the rate of decrease. Older retail space has been retired at a slower rate than new space has come to the market. The quality of space has been upgraded with vacancy of poorer quality space probably increasing. There is a general tendency for the market to create excess retail capacity measured in crude terms of sq. metres but with the quality of space constantly increasing so the demand for 'good' space remains strong. In recent years there have been several major additions of high quality space in Scotland not only in shopping centres, of various types, but also in superstore schemes.



[Source: RBoS-SRC Retail Sales Monitor]

Figure 1: Year-on-year percentage change in retail sales - three month moving average

The sector in Scotland has become increasingly polarised along several dimensions to generate the current retail structure.

Shopping centres have increased in importance and traditional shopping streets have declined. To an extent town centre management schemes have limited the degree of the demise of some shopping streets but often these schemes include a shopping centre and seek to promote a whole town centre. In this way it becomes possible to manage the growing differential between the planned centre and the traditional groups of individual shops in a town centre, so finding alternative uses for the redundant space. But for those places without town centre management schemes the erosion of the traditional network of individually owned and operated shops can be considerable, not least in the middle suburbs of the Scottish cities.

Large firms have increased their market share and small firms, particularly micro-firms, have declined. As far as we can tell the largest 10 firms have increased their share from around 33% in 1990 to close to 40% today. The concentration level varies greatly by product area with grocery being the most concentrated. In this case over 75% of the market is estimated as accounted for by the five largest firms.

There is growing gap in productivity between new space and old space. Productivity of new space has increased and productivity of old space has declined. Thus as new space is added less is needed to generate the same volume of sales.

City centres have increased in attractiveness to consumers and retailers whilst inner and middle suburbs and rural retailing have declined substantially. With the increasing mobility of consumers so they are able and willing to travel to major foci of retail activity. The city centres still hold this attraction but the newer edge and out-of-town developments also are more attractive than the older shopping areas in the middle suburbs. Rural retail provision has declined dramatically.

A further dimension of polarisation is the growing strength of the broad general merchandise retailing and the very specialist retailing whilst retailers that provide neither an extremely wide range nor an extremely deep range have lost their appeal to customers.

Retailers headquartered out of Scotland have increased in number and power and retailers headquartered in Scotland have declined. English based and non-UK based retailers have grown in significance with Glasgow particularly attracting foreign retailers seeking expansion from London which had been their initial entry place. Several of Europe's largest retailers are notable by their absence in Scotland -for example, Ahold, Carrefour, Metro, and Auchan. Nonetheless, it is interesting that the largest privately owned grocery retailer in UK is based in Scotland, namely Farmfoods.

A final dimension is that of innovation. The differentiating characteristic between successful and unsuccessful firms has been innovation. The successful firms, whether large or small, have been driven by innovation. Without innovation the two cycles of sales growth, illustrated in figure 2, do not happen.

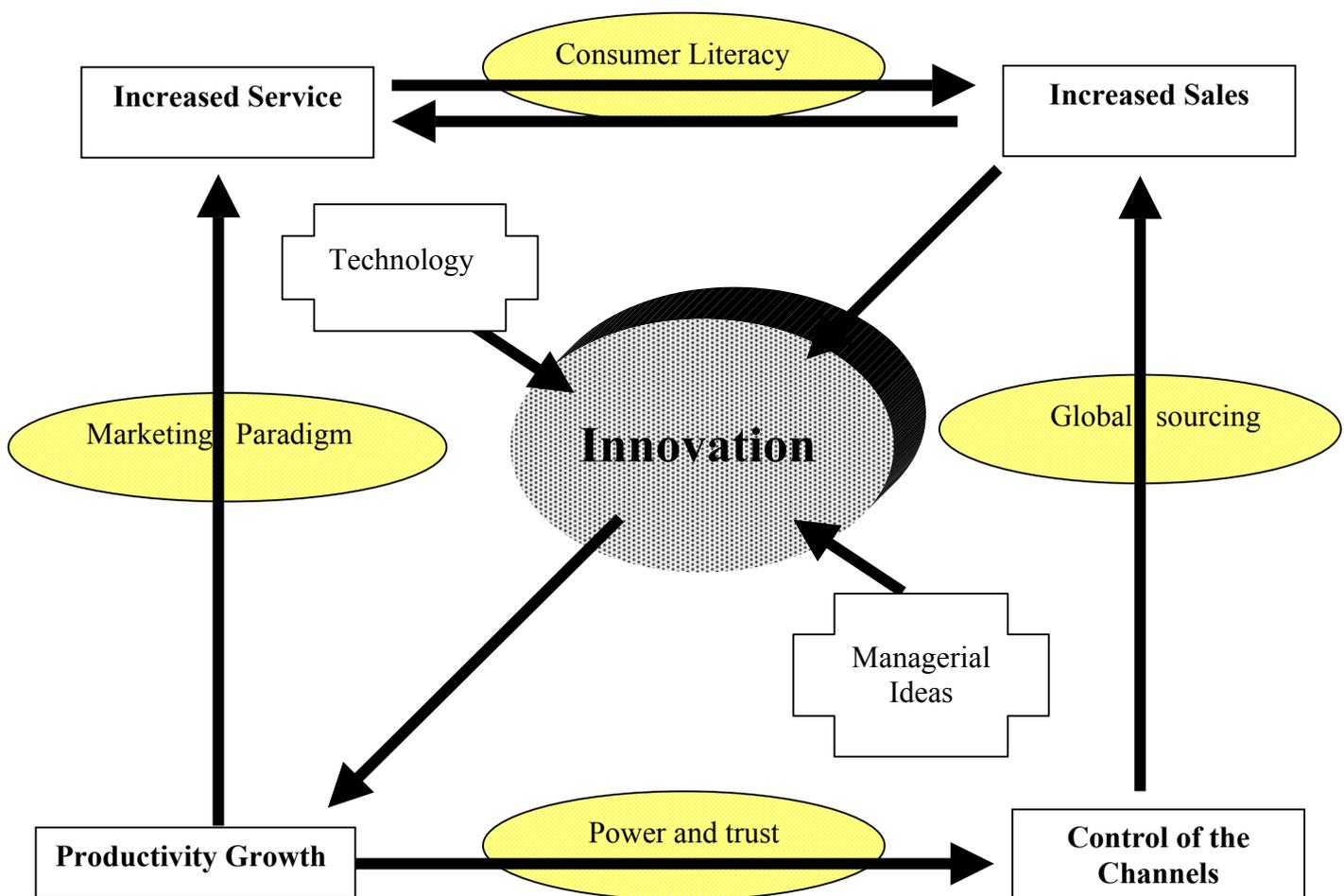


Figure 2: The two cycles of growth of retail sales driven by innovation

The extent of structural change in retailing in Scotland therefore is related closely to the extent to which Scottish retailing exhibits innovation.

What is the reality of current changes?

Innovation, both in terms of creation and diffusion, is thus a central concept to understanding how retailing is changing. Success in large and small firms alike is driven by this innovation activity. There is innovation in format exemplified by the small store formats of Tesco and Sainsbury, the new hypermarket format of Safeway and in-store operations at Wal-Mart Asda but equally this innovation is shown by small firms formats of House of Bruar and Margiotta amongst several dynamic Scottish based firms. New format concepts are not limited to the large firms. There is also process innovation that can be illustrated by very rapid product development. Zara, the international clothing retailer with branches in Scotland, takes only 6 weeks to design, make and get to their shops a new collection. A third aspect of innovation is item innovation with new product development. Consumer demands for new products turn previously staple items into fashion items such that new product innovation is at a premium. Many food categories now have a fashion element to them with items having a short life cycle. For example Tesco have launched over 1000 new organic items over the last two years with some products already replaced by new items. This shortened life cycle is very apparent in clothing with a consumer demand for more and more new products. Zara develops 20,000 new clothing products per year across its 5 formats. This requirement of innovation at item level again is seen in large and small firms and is well illustrated in a small firm Scottish context by Ortak, the Orkney based jewelry company.

The requirement for constant innovation, as we saw earlier is facilitated by knowledge and technology and is the first of the current realities for retailers.

A second reality in the retail marketplace is the change in retailer strategies towards multi-format and multi-channel operation. The retailer develops a format to create an individual formula and this in reality is **the product** of the retailer. The retailer takes a variety of components and creates this product as a 'selling machine' - this may be a physical building, a catalogue, a kiosk, a home party-plan, a vending machine and many other types of 'selling machine'. In general retailers traditionally only operated through one format - for example a department store or a supermarket or a mail-order catalogue. Now retailers operate through multiple formats and so have created a range of company branded formulae. In this way the larger retailers can extend their market into places previously unsuited to them. Therefore we see, for example, Marks and Spencer chiller cabinets at railway stations, and Boot's stores in Sainsbury, and the Tesco range of shop formulae - Tesco Extra, Tesco superstores, Tesco supermarkets, Tesco Metro, Tesco Express, and Tesco.com - and the Arcadia range of shops. The addition of different formulae in a company range provide additional sales capacity but each formula targets a different group of consumers and may be developed under very different planning controls. Within the Dixons group, for example, the planning permission for a large Curry's electrical superstore is a very different exercise from getting permission for a Link mobile phone store and the Dixons.co.uk web-site allows expansion of capacity without the need for any planning permission.

Alongside the move to multi-format is also a move to multi-channel operation in some cases to support new formats but in others to support diversification of the service offering. The diversification draws on some of the key competencies, brand values or sunk investment costs of the retailer and enables Tesco and Sainsbury to move into financial services, Dixons to move

into maintenance of electrical items, Boots to move into healthcare, and so on. Which large retailers might provide legal services in the future?

The multi-format and multi-channel approaches operate independently of shop size. Whilst some new formats are large superstores other new formats are very small units, but operated as part of a large firm.

A third reality is the politicisation of retailing. Until a few years ago retailers were largely ignored by the politicians but, whether by design or accident, they now feature much more highly on political agendas. Issues such as social exclusion/inclusion and food deserts, food and other product safety, referrals to the Competition Commission in response to so called 'rip-off Britain' charges, the delivery of low inflation, and, into the future, the possible implementation of the Euro as the consumer currency, all result in a new political awareness of the retail sector. There is also a new social awareness of retailing with TV documentaries and newspaper and magazine features highlighting, with various degrees of accuracy and understanding, the operations of retailers from the cosy village shop in rural Scotland to system driven food superstore at the edge of city Scotland. Such spotlight exposure was not seen previously. Thus, the expectations of retailing are changing from it being viewed as a simple business of buying goods and re-selling through shops to being multi-faced in creating consumer experiences, in being a leisure activity, being part of a globalization of taste, being linked to the problems of agriculture and rural areas, and so on.

These present realities have one aspect in common. This is the increasing speed with which retail processes are operating, again driven by the processes of innovation. It is this rapid rate of development that causes many of the difficulties of adjustment in economic, social and political structures that often are not suited to accommodating such rapid change. The increasing rate of change is the result of innovation and intense competition.

The retailers that are embracing rapid innovation have a new and different view of what constitutes retailing and it is a view that many consumers find attractive. This new view of retailing that we now see entering Scotland has been termed *New Commerce* in other quarters but promises to bring substantially more changes over the next 10 years than have occurred in the last decade. In the old commerce the dominant species was a chameleon that was at one with location, location and location. The new commerce dominant species is the cheetaphant - a very large animal that can move very quickly.

What can we expect as a result?

As the cheetaphant breeds what can we expect in Scottish retailing over the next 10 years assuming intervention in the market remains much as it is today? This is essentially the steady as we go approach to policy interventions.

First, there is likely to be an increasing concentration in the core retail market in both structural and spatial terms. In structural terms we can expect an increasing dominance of the largest firms with the top 10 companies accounting for around 50% of the market by 2010. These highly efficient and profitable firms will be operating multi-format strategies to provide retailing to a number of different target markets across a range of settlement sizes. In spatial terms concentration is also likely into the major city centres, with intensification of the shopping core of these cities, and into the major out-of-town centres. These out-of-town schemes, although small in number, together with the bigger town centres will account for an increasing share of

sales as they combine the core retailing offer with a range of leisure and other consumer service functions. This mix of leisure activities with shopping will also be present in any new large retail schemes that move into development stages in the next few years, for example if a large shopping centre is to become part of the re-development of Ravenscraig. The losers in these concentration processes will be the small firms and to a lesser extent the micro-firms. There will be fewer but stronger small Scottish based chains and fewer, but still many, micro-firms. In spatial terms the losers will be shopping areas in the middle suburbs, the centres of towns which lose out in the strong inter-town competition and the rural settlements of around 3000 population that do not innovate to become specialist providers in some way. Shops have disappeared from the small villages over the last decade. During the next decade it will be the turn of these large villages and small towns to lose their retailing.

The trends suggest that there will be an increasing amount of poorer quality retail space that is no longer needed for retailing. In some shopping areas there may be conversion to other types of consumer services as retailing-style operations are applied to more consumer services, for example in financial and legal services, walk-in health and lifestyle services, and leisure services. This extension of what is now termed retailing will be substantial but is unlikely to absorb all the lower quality space that will be released, because some of these new retail formats will seek prime space or space in shopping centres. The replacement of old with new poses the problem of what to do with the old.

Innovation with new formats, both large and small, in established shopping areas and also in some unconventional locations including transport interchanges, the countryside, heritage locations, and very importantly on screen. Internet based formats are likely to increase in importance such that these formats could be accounting for an average 8-10% of retail sales by 2010. In some product areas the share is likely to be well above this. The implications of these new formats will depend on where their share is taken from - both spatially and by existing format. The one aspect that is now becoming clearer with internet retailing is that it is likely to be the existing large retailers who are successful in developing the new internet formats.

A greater proportion of Scottish retailing will be controlled by firms with headquarters outside Scotland and also outside the UK. Does this matter? In many countries external ownership of retailing is commonplace. Perhaps, it would matter less if the Scottish market was considerably bigger. The relative smallness of the market may make it a peripheral part of the overall operations of a company with extensive retail interests across Europe, USA and East Asia. Such peripherality could make Scottish operations vulnerable if the firm got into difficulties. Of more importance is that with foreign ownership it is likely that fewer items in the stores will be made in Scotland. A high degree of external ownership also has implications for opportunities for the cadre of Scottish managers with head office opportunities only available outside Scotland.

The emergence of New Commerce in Scotland over the next decade presents some major challenges for the professions. Challenges will be presented to politicians in creating policies to balance access to retailing by all social groups, to planners to create new environments, both rural and urban, that can support the new concepts, to retailers in keeping a flow of innovation as the motive force of the sector, to surveyors, designers, economists and not least academics who try to make sense of it all.

But without better data than we have now we will not know what is happening until it is way too late to shape it?