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Retail Change: a consideration of the UK food retail industry, 1950-2010.

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Ph.D

Middlesex University

Abstract

The immense changes to have taken place in UK food retailing during the second half of the 20th century are detailed, explained and analysed, with constant reference to theories of retail change. The result is not just a history of UK food retail change post-1950, but a comprehensive evaluation and extension of retail change theory, with new driving forces and ideas elaborated, and a forecast of likely key developments to 2010.

The thesis is based largely on the testimonies of key industry actors of the period, including past and present executives of leading food retail organisations, and followed an un-structured interview approach, allowing stories to be told without unnecessary constraint. The development of the industry is detailed and explained, drawing heavily on these testimonies, and this change is explained with reference to major factors with a direct bearing on the industry, such as government policy and socio-economic change.

Because of the emphasis on witness accounts, the theories of retail change are analysed with a heavy focus on the people driving change, a refreshing change in a field where the historical nature of the subject tends to drive research towards secondary sources of data. The thesis contributes a better understanding of the forces driving the theories of retail change, and proposes an extension to the domain of application.

The relevant elements of the theories of retail change are implemented to forecast likely developments in the UK food retail industry to 2010, which is complemented by an 'expert' Delphi forecast and a projection of current socio-economic trends.

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Chapter 1

Introduction, Aims and Objectives

1.1 Introduction to change, retail change and general background

"One aspect that distinguishes the second half of the 20th century from its first half is the speed of change in the political, economical, social and technological arenas. During the first half of the century, things had changed and developed fairly slowly and steadily; yesterday was like tomorrow. In the second half of this century, however, a number of events have taken place unexpectedly and trends have shifted in dramatic fashion."

[Ono and Wedemeyer, 1994]

It is widely accepted that the second half of the twentieth century has been a period of relentless and unprecedented change [Drucker, 1977, 1986; Ono and Wedemeyer, 1994; Peters, 1989]. Not since the industrial revolution has such dramatic and widespread change taken place [Drucker, 1977].

The rate of change slowed between the world wars of 1914 and 1939, the inter-war years being a period when existing technologies and industries were built upon rather than disappearing into the shadow of innovation [Drucker, 1977]. A factor attributed to the slowing of the rate of change during this period was the lack of industrialisation taking place around the world [Drucker, 1977]. It is argued that this drought in the invention of new technologies and industries resulted from the fact that no new countries became industrialised during the period; the previously industrialised nations had achieved a convenient 'status quo' where any change would rock the boat and was therefore undesirable. The industrialisation of countries such as Japan after the second world war disrupted any status quo that may have been, and reintroduced change as a way of corporate life.

Western economies and enterprises had become used to stability. In the 1970s, change gathered pace as the world was hit by the oil crisis, and western economies were forced to face up to growing competition from the Japanese and other emerging economies [Kanter, 1985]. The business environment of today is far removed from that of the 1960s, yet adaptation to the changes that have taken place has been slow, hampered by inertia, multiple layers of management, bureaucracy, and lack of innovative spirit [Kanter, 1985; Loonis, 1993]. Businesses that are coming to terms with rapid change, however, remain in danger from successive waves of change that sweep the world. It is not enough to keep the corporate ship afloat, corporations and executives need to constantly re-invent

themselves so as to keep ahead and benefit from the unprecedented opportunities presented by the new global society of change [Johnson, 1995].

Change has had important implications for businesses since its pace quickened in the 1950s and 1960s. The work force, patterns of world trade, technology and political sensibilities have been identified as the major catalysts in the process of change [Kanter, 1985; Ono and Wedemeyer, 1994]. Movement in any of these fields can stimulate change. Organisations that cope successfully with change, are prepared, flexible and fast-acting, and are expected to *prosper enormously* [Kanter, 1985] from future change, which will create *unprecedented opportunity* [Johnson, 1995].

Those organisations that expect the rate of change to slow and everything to 'return to normal' will suffer. Change is here to stay, or rather, nothing is here to stay except constant change.

"no-one is holding out any hope that the world is going to stop reshaping itself. Everyone has to understand that a fundamental metamorphosis is going on"

[Johnson, 1995]

The ability to adapt to change is therefore a critical factor in an organisation's fight for survival. Change will continue to shape the world, so the correct attitude towards it is imperative. The past holds valuable lessons for the future [Johnson, 1995] - in the case of change, the lesson to be learnt is that some of the world's largest companies, such as IBM, General Motors and Sears Roebuck, have been hit so hard by their failure to adapt to change that they fell down to being comparatively minor players in the global marketplace [Loonis 1993].

Retail Change

The fall from glory of US retailer Sears Roebuck serves as a pointed reminder to UK retailers that they must always face up to new threats before it is too late; stay one step ahead of the competition. There is no place for complacency in the changing world [Johnson, 1995; Kanter, 1985; Loonis, 1993].

"One reason Sears fell so far off the pace is that they wouldn't admit for the longest time that Wal-Mart and Kmart were their real competition. They ignored both of us, and we both blew right by them."

[Walton and Huey, 1992]

The UK food retail industry is no exception to the change that has swept the corporate world. A comparison of grocery shopping today with that of 1950 illustrates the extent of change that the industry has been through.

In 1950, the food retail industry was dominated by the independent grocer; the customer, normally known to the grocer by name, would present a shopping list at the grocer's counter. The grocer would cut, weigh and prepare the customer's merchandise, often delivering the goods to their home.

Contemporary food retailing is dominated by the supermarket and superstore, operated by a handful of companies. The early supermarket of the 1950s and early 1960s was defined as having a sales area of at least 2000 square feet¹, although this was soon made to look like a relatively small store [see Boswell, 1969], and a superstore of between 25000 and 50000 square feet². The average sales area of outlets operated by Asda, Sainsbury and Tesco are 40443, 26304 and 24356 square feet respectively³, demonstrating that size is important in food retailing.

In 1994, the leading five multiple food retailers accounted for 42.4% of the UK grocery market share, rising to 49.9% in 1999³. The grocery market share of independent grocery retailers declined from 17.1% in 1986 to only 8.4% in 1996⁴, and in the period from 1980 to 1992, the number of independent grocery outlets fell from 48000 to 20500⁵.

The small grocery retailer, thus, is in decline. Fewer and fewer operations are chasing a declining market share. The powerful food retail multiples are gaining more and more power, a trend that started soon after World War II. Currently, supermarkets and superstores are commonplace, and the shopping experience differs considerably from that of 1950 described above.

In the modern shopping experience, the customer need not come into contact with a member of staff until they arrive at the checkout. Customers are free to select their own goods, encouraging 'impulse buys'. Giant banks of refrigerators and freezers line many of the aisles. The smell of freshly baked

¹ *Self-service and Supermarket Annual Survey and Directory, 1967*; referred to in the *Census of Distribution, 1966*, p.2/109.

² source: *A to Z of Retailing*, 1989, London, Euromonitor.

³ source: IGD.

⁴ source: Nielsen Market Research

⁵ source: *Retailing in Europe - United Kingdom, 1995*, London, Corporate Intelligence Unit.

bread 'escapes' from the bakery department. At the checkout, purchases are scanned by infra-red devices, eliminating the need for the assistant to punch price after price into the till. Loyalty cards can be swiped, downloading the customer's profile for use by the store, generating discounts and free gifts for use by the customer.

In summary, the small independent counter-service grocery trade has been largely wiped out. In its place are fewer, larger, state-of-the-art stores, controlled by a small number of players. Whereas in 1950 it was customary to see grocery shops on almost every street, the food retail landscape of the new millennium is dominated by giant warehouses containing around 25000 lines.

The manifest changes that have occurred in retailing have been likened to the industrial revolution [Dawson and Kirby, 1980]. Unlike the industrial revolution, the retail revolution that has taken place has received little attention. The last major chronicle of change ends in 1950 [Jefferys, 1954], just as the present period of constant change began to gather momentum [Ono and Wedemeyer, 1994].

1.2 Introduction to thesis

The main purpose of this thesis is to evaluate and develop theories of retail change through an investigation of UK food retail change post-1950. Secondary aims are to detail and explain the changes that have taken place in UK food retailing since 1950, and to forecast the main likely developments to 2010. To achieve these objectives the thesis can be considered to have 5 parts, which are detailed below. The key methodological procedures employed are considered fully in [3.1](#) (p.69-82), but in brief are unstructured interviews, the analysis of these using a technique based on grounded theory, and Delphi forecasting.

The unstructured interviews were with the major drivers of UK food retail change of the period, and were focused on senior retail executives active during the second half of the 20th century. Their views were used to furnish the explanations in chapters 5 and 6 (see below). In chapter 6, their explanations are analysed using a technique based on grounded theory (see [3.1.ii](#)) to assess the relevance of existing retail change theory, to generate new explanations for existing theory, and to suggest new theory, grounded specifically in UK food retail change 1950-2000.

The Delphi forecast, the results of which appear in appendix 1, uses a panel of 'experts' to make a forecast in a given area, and the panel of experts are asked to respond to successive rounds of questionnaires, normally by post (appendix 5). It aims to get a consensus of opinion over the course of the exercise, or movement towards this. The panel approached were senior food retail executives, analysts, academics and retail consultants, and all were active in the industry at the time of the forecast. By approaching those in positions to drive change, a reasonably accurate result was anticipated, and the customary four rounds were condensed into two to reflect the time demands of those participating.

Introductory section:

Chapter 1 introduces the subject of change, outlines the significance of change in UK food retailing, explains the structure of the thesis, identifies the main issues in UK food retailing, and sets out the aims and objectives of the study.

Chapter 2 explains the main theories of retail change, and critically reviews the published literature on these and on UK food retail development post-1950, while chapter 3 outlines the methods chosen to pursue the objectives of the thesis.

Findings (past events)

Chapter 4 identifies the five key changes to UK food retailing post-1950, identified mainly from secondary sources. The aim of this chapter is to chart the changes, rather than to explain why they occurred. The five key trends considered are the changing market shares of multiple, independent and co-operative grocery retailers, the concentration of power in the industry, evolution of the retail format, retailers' geographical and product diversification, and the changing emphasis on price and service. Chapter 5 introduces the major factors shaping the industry over the second half of the 20th century, and is arranged by government policy, socio-economic change, technological change, and retailer change. Chapter 6 identifies the endogenous and exogenous forces driving the five key changes identified in chapter 4, explains why the changes occurred, and areas of relevance to theory are identified, grounded in the findings. Findings are derived from both primary and secondary sources, with the key emphasis being on the use of primary 'interview' data. Primary sources are the results of qualitative in-depth interviews with the major players of the period, or those who could tell

about them (3.1.ii). Secondary sources include published literature, journals, newspapers and professional reports (3.1.i).

Relevance of the body of theory

Chapter 7 uses the findings from chapter 4, 5 and 6 to critically evaluate the applicability of the theories of retail change explained (2.1) to UK food retailing post-1950, following a technique based on the ideas of the 'grounded theory' process (3.1.ii, p.74-75). The theories most suited to the explanation of UK food retail change post-1950 are used to make a forecast of likely developments in UK food retailing to 2010 (section 7.3). This provides an alternative to the Delphi forecast results, presented in appendix 1 and summarised in section 8.1. By using theory in addition to a forecasting technique, a control is introduced, and the risk of serious error is, theoretically at least, lowered.

Forecasts

The likely impact of future socio-economic changes are analysed in appendix 10, as these must be considered for the application of theory to be successful. The results of the application of the theory are presented in section 7.4, and section 7.5 assesses the implications of the application of theory, and provides recommendations based on the results.

Chapter 8 introduces the results of the Delphi forecast, as explained in chapter 3 and appendix 5. This forecasting technique is used to obtain a forecast from a group of industry experts, the results of which are summarised in appendix 1 and section 8.1. Section 8.2 deals with implications and recommendations derived from the Delphi forecast, and section 8.3 summarises the key elements of both the theory-based and expert-based forecasts.

Conclusion

The conclusion, chapter 9, brings together chapters 7 and 8, both of which have produced forecasts of likely developments in UK food retailing to 2010. Once again, the implications are assessed, and action is suggested.

Findings are related to the existing body of knowledge in section 9.2, enabling the identification of the areas in which this work is unique, and a critical evaluation of the validity of the existing body of

theory appears in section 9.4. Section 9.5 evaluates the study, outlines weaknesses and limitations, and section 9.6 suggests areas suitable for further research.

This study includes a major forecast of developments likely to affect UK food retailing to 2010. As highlighted in section 1.1, an appropriate corporate reaction to change is of paramount importance to the success of all organisations, and ultimately has a significant effect on profits, or even survival. All organisations affected by the UK food retail industry may benefit from the forecasts, implications and recommendations generated by this work. This includes obvious players such as the food retailers themselves, in addition, however, organisations and individuals suffering 'knock-on' effects should also pay attention to the results. These may include manufacturers, suppliers and importers, as well as building developers, financial institutions and distributors. Government and local government play a key role in many developments, they too can benefit from a close look at this study. Trade unions, food retailers of other European countries and those from further afield, and the developers of new technology also stand to gain from this study.

In summary, a large section of the economy is affected by UK food retailing. Any changes in the industry can be felt by many seemingly remote institutions. It is therefore important for anyone potentially affected by changes in UK food retailing to act on the results, implications and recommendations of this study. Failure to adapt to change can be catastrophic, as highlighted in section 1.1.

1.3 Identification of the main issues

The last major chronicle of British food retail development [Jeffreys, 1954] covered the period from 1850 to 1950. UK food retail development since 1950 has changed the UK retail landscape almost beyond recognition, yet there is no major chronicle of this development, and a key aim of this thesis is to fill this gap.

The theories of retail change, particularly the Wheel of Retailing, have been reasonably widely evaluated (2.1, p.11-66), but only on rare occasions are these evaluations related to the UK or the food retail sector, with the main exception to this being the polarisation principle (2.1.3, p.39-42). The Wheel of Retailing has received the lion's share of academic attention, while other theories of

retail change have been somewhat neglected in comparison, despite their apparent relevance in many areas. This study aims to redress this balance by concentrated on several theories of retail change, including the Wheel of Retailing, and evaluating them specifically, using a technique derived from grounded theory (3.1.ii, p.74-75), for relevance to UK food retail development post-1950.

Retail change theory, having been evaluated for relevance to UK food retail change post-1950, provides the basis of a forecast of likely developments to 2010 (chapter 7). In this way, past change is providing insight into possible future developments in the industry, and such explanation is a valuable characteristic and purpose of theory. Appendix 6 attempts to define *theory*, which shows that it can be interpreted either loosely, as Einstein did when he labelled theories '*free creations of the mind*' [Harvey, 1969; p.87], or in a stricter sense, as '*the general laws, principles, or causes of something known or observed*' [Oxford Dictionary Online]. It concludes that argument over whether the 'theories of retail change' technically qualify to be termed theories is pointless, and that they do fit some definitions of the term, and will therefore continue to be referred to as theories, as the academic press has done for several decades.

There have been three major studies of UK food retailing using Delphi forecasting (3.1.iii). These are by Walters [1976], the Distributive Industry Training Board [1980], and Treadgold and Reynolds [1989], who between them identified trends including the increasing penetration of private label, diversification of offering, increasing store sizes, adoption of bar codes and scanning, increasing pressure on manufacturers, the disappearance of first generation supermarkets and the likelihood of saturation in the UK food retail market (3.1.iii, p.81-82). This project also uses the Delphi forecasting technique, with the number of rounds was reduced to two in order to increase likely participation levels (3.1.iii, p.78).

1.4 Aims and Objectives

The aims and objectives of the thesis are to:

- evaluate the relevance of existing theories of retail change to UK food retail change post-1950.
- chronicle the development of UK food retailing during the second half of the 20th century.
- explain the forces driving this development, based on the testimonies of key actors driving these changes, and those who can tell about them, obtained via a series of unstructured interviews.

- generate new theory grounded specifically in UK food retail change post-1950, and produce new explanations for existing theories.
- forecast likely developments to 2010, based on the most relevant theoretical explanations grounded in UK food retail change post-1950.
- derive a second forecast of likely developments to 2010, based on the opinion of ‘experts’ in the field, using the Delphi technique.
- create a third forecast of likely developments based on the extension of socio-economic and technological trends, and to combine all three forecasts to create an overall summary of likely developments to 2010, with implications and recommendations for the UK food retail industry.

Chapter 2

Literature Review

Chapter 2 introduces the theories of retail change and the literature pertaining to them (2.1), and critically reviews the body of existing literature on UK food retailing (2.2).

2.1 An Explanation of the Main Theories of Retail Change, and Review of the Literature pertaining to them.

This section explains each of the main theories of retail change, outlines their strengths and weaknesses, and identifies the key hypotheses from which the theories have been developed. The identification of the key hypotheses serves as a tool to help identify the changes in UK food retailing to which theories of retail change may be suitably applied.

Retail change theories can be identified according to their approach - this may be broadly cyclical, environmental or conflict-based. Cyclical theories, whereby change takes place in an oscillatory fashion characterised by the recurrence of earlier patterns, include the Wheel of Retailing, the Retail Accordion, the Polarisation Principle, the Multi-Polarisation Model and the Retail Life Cycle (2.1.1-2.1.5). Environmental theories, namely the Darwinian approach (2.1.6), see change as a function of developments in an institution's operational milieu. Conflict-based theories, such as Dialectic retail evolution (2.1.7), focus attention on the inter-institutional strife occurring when a novel retail institution appears [Brown, 1987a; Brown, 1988a]. In reality, however, the theories possess elements of each approach [Brown, 1987b], but a broad categorisation is useful nonetheless.

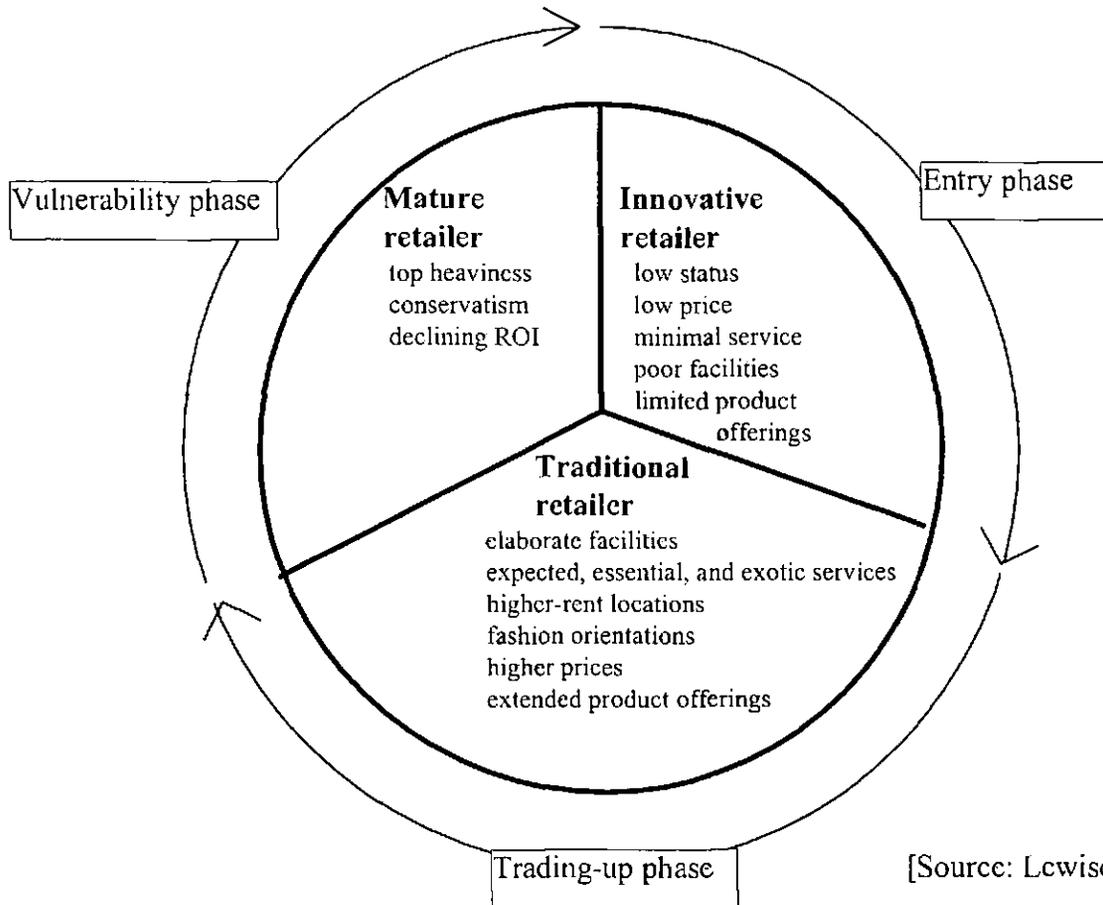
Cyclical Approach

2.1.1 The Wheel of Retailing

Sevcnty years ago, McNair [1931] suggested that retail formats tend to begin life as low-overhead, low-status, low-price operators, before *trading-up* the quality of merchandise and increasing the level of services, leaving them vulnerable to the next generation of low-cost entrants, basing his findings on US department stores of the period. He later extended these principles [McNair, 1958], contending that US department stores, originally having appeared as low-cost competitors to smaller retailers, had 'traded-up' and become vulnerable to new, low-overhead, low-status, low-price competitors such as discount houses and supermarkets. From this point, the 'Wheel of Retailing', as

the hypothesis became known, began to gather momentum, attracting significant protracted academic attention, far in excess of that given to alternative theories of retail change:

Figure 2.1.1. The Wheel of Retailing:



An inevitable result of academic attention is refutation and criticism, and the Wheel's universality began to be questioned, as did its accuracy in describing overall US retail development. It is often criticised for failing to address the competitive response of established operators, concentrating instead on the innovator [Izraeli, 1973; Swan, 1974; Goldman, 1975; Kaynak, 1979], inferring lack of competitive reaction to low-cost entrants, which is clearly not automatically the case. US supermarkets, for example, reacted fiercely to the threat of discount department stores [Brand, 1963], and to the entrance of European discount supermarkets in the mid-1970s [Patton and DeLozier, 1983], while UK and Scandinavian voluntary groups represent the response of the grocery trade to the rise of supermarkets and multiple organisations [Kaynak, 1979], although this sort of organised response is seen as the exception to the rule [ibid.].

More positively, much academic research supports the Wheel theory, particularly US retail change, although this does not necessarily imply greater adherence, rather that the bulk of research has been executed in the USA. The evolution of the following US retail institutions has been found to support the Wheel of Retailing: Department stores [Hollander, 1960, 1980; Regan, 1964; Duncan, 1965; Gist, 1968, 1971; Bucklin, 1972, 1983; Goldman, 1975, 1978; James et al., 1981; Kaynak, 1988], mail-order firms [Hollander, 1960; Regan, 1964; Duncan, 1965; Gist, 1971; Kaynak, 1979], variety stores (five and ten (cents) stores) [Hollander, 1960; Gist, 1968; Bucklin, 1972], variety chains [Gist, 1971; Kaynak, 1979], jewellers [Hollander, 1960; Gist, 1971], clothing chains [Hollander, 1980] appliance dealers [Hollander, 1960], discount houses [Hollander, 1960; Regan, 1964; Duncan, 1965; Bucklin, 1972; James et al., 1981; Cundiff, 1988], discount stores [Gist, 1971; Goldman, 1978; Kaynak, 1979; Korgaonkar, 1981], closed-membership discounters [Bucklin, 1972], warehouse membership clubs [Sampson and Tigert, 1994], discount operations [Gist, 1968], discount department stores [Brand, 1963; Hollander, 1980], outlet/off-price retailing [Lord, 1984; Kaikati, 1985], petrol retailing [Hollander, 1960], self-service petrol retailing [Dickinson, 1983], chains in general [Bucklin, 1972; Goldman, 1978; Cundiff, 1988], grocery chains [Kaynak, 1979], self-service grocery retailing [Goldman, 1974], supermarkets [Brand, 1963; Doody, 1963; Regan, 1964; Duncan, 1965; Gist, 1971; Bucklin, 1972; James et al., 1981; Kaynak, 1979], convenience stores [Dickinson, 1983; Kotler, 1988], drugstores [Hollander, 1960], discount catalogue showrooms [Sewall and Goldstein, 1979; Korgaonkar, 1981; Dickinson, 1983], greeting card shops [Dickinson, 1983], home improvement centres [Dickinson, 1983] leisure outlets [McNair and May, 1978; McGoldrick, 1990], fast food outlets [Dickinson, 1983], McDonald's fast food restaurants [Teepie, 1979], motels [Dickinson, 1983] and New York street vendors [Greenberg et al., 1980].

Soft goods of comparable quality are cheaper in US discount stores than department stores [Dardis and Skow, 1969], supporting the Wheel of retailing hypothesis, although US catalogue showroom price discounts may not be as large as some operators claim [Sewall and Goldstein, 1979]. US department stores, limited price variety stores, supermarkets and hard discounters' gross margins increased due to trading-up [Dreesmann, 1968], and overall US retail margins increased from 20% to 30% between 1840 and 1950 [ibid.], suggesting that this may have been an industry wide phenomenon.

The 1955 ending of US giant Safeway's aggressive price-cutting era, and the company's subsequent quest for higher margins facilitated the growth of low-price-oriented operators, providing an umbrella to nurture their growth [Dickinson, 1981, 1988].

Support of the Wheel outside the USA is more limited. British department stores upgraded considerably [Jefferys, 1954], particularly their food offerings [Hollander, 1960], allowing the entrance of chain stores, cut-price cash and carry, and then supermarkets [ibid.]. In the second half of the 19th century, English grocery retailers' slow turnover and extended credit facilities necessitated high margins and prices, in response to which many English co-operative societies emerged with fewer services, better quality goods, and lower prices (via the repayment of profits in dividends) [Pennance and Yamey, 1955]. By the late 19th century, co-operative price leadership faltered due to an influx of co-operative competition driving up their retailing costs [ibid.], and grocery multiples began to undercut co-operatives, able to offer lower prices by cutting costs through initiatives such as bulk-buying, stocking limited lines, and accepting cash-only payments [ibid.]. Trading-up of multiple grocers, who began to offer more services, facilitated the entry of cut-price grocery shops in the 1930s, which lowered costs by limiting both service and merchandise range [ibid.]

Also in the UK, mail-order firms initially appealed to low-income consumers who were attracted by credit facilities, before moving on to appeal to the suburban population [Dawson, 1979]. UK retail warehouses, particularly in DIY, entered as low-status operators before becoming more sophisticated, improving the store image by moving to purpose-built warehouses and improving service levels, which drove up operating costs, as did intense competition for sites which inflated land values [Gibbs, 1987; Brown, 1990b].

Peruvian supermarkets entered the market trading at a 10-15% discount to traditional retailers [Lockley et al., 1966], trading-up has occurred in Danish retailing in general [Agergard et. al., 1970], and Spanish department stores' concentration on the higher segments of the market, driven by intratype competition, created a gap at the lower end, which was filled by variety stores [Cruz and Mugica, 1988]. The first French and Belgian department stores, opened in 1852 and 1897 respectively, promised lower prices through innovative operating techniques, which were so fundamental to early department store retailing that the first Brussels department store took the name *Innovation* [Michel and Vandcr Eycken, 1974].

Extensive growth of Belgian multiple organisations, supermarkets and hypermarkets between 1968 and 1972 was accompanied by falling retail margins and costs, suggesting that emerging retail techniques enjoyed lower costs and margins than their predecessors [ibid.]. Belgian hypermarkets began '*le trading-up*' by the early-1970s [ibid.], Belgian department stores and variety stores evolved followed the Wheel pattern [Knee and Walters, 1985], and German book publishers failed to respond to late 19th century demand for low-price, popularised, 'pulp fiction', leaving aggressive entrepreneurs to do so, using new technology in the process [Fullerton, 1987].

Finally, Canadian chain stores, department stores, supermarkets and catalogue stores all entered the market on a lower-cost, lower-price basis, compared to the established retail hierarchy [Shaffer, 1973].

The many cases of retail evolution supporting the Wheel are countered by cases of non-conformity. Hollander [1960] was the first to outline these for the USA, suggesting that vending machines, department-store branches, and planned shopping centres all entered the market as high-cost, high-margin operations, in direct contradiction to the Wheel principles. Bucklin [1972] found that confectionery and cigarettes sold through vending machines had higher margins than those sold by competing retail types, primarily because vending operations must cover their higher costs, which arise from higher staff costs as a percentage of sales, the costs of buying and maintaining the machines, and high site rentals costs.

Convenience stores and boutiques were added to the list of high-service, high-price positioned entrants [Izraeli, 1973; Kaynak, 1979], although if convenience stores are viewed as a reintroduction of the 'country' general store of the 19th century, they have indeed traded up from low-status foundations [May, 1989]. The US superette, superstore, boutique, and 'novelty' and 'speciality' mail order companies failed to conform to the Wheel hypothesis [Goldman, 1978].

There are further examples of non-conformity outside of the USA. European supermarkets failed to conform to the Wheel hypothesis, according to Goldman [1974, 1978], although seems to be an overly-universal claim. More specifically, movement of the gross margins of French supermarkets and hypermarkets between 1972 and 1982 failed to support the Wheel hypothesis [Filser, 1984].

Japanese department stores' price competition of the early 20th century was in direct contradiction of the wheel hypothesis [Hollander, 1960], as was the necessity to introduce resale price maintenance to the UK in order to prevent price cutting by established merchants in the late 19th century [ibid.].

By far the bulk of non-conforming cases, however, centre on the Wheel of Retailing's failure to explain retail evolution in countries with low-level economies. This was first suggested by Hollander [1960], although he acknowledges a degree of ignorance of non-US retail history. Persia, Venezuela, Brazil, Puerto Rico [Hollander, 1960], 'some parts of Latin America', Asia (ex. Japan) [Bucklin, 1977], Turkey [Kaynak, 1979], Israel [Goldman, 1982], Saudi Arabia [Alawi, 1986; Yavas and Tuncalp, 1984], Guatemala [Ortiz-Buonofina, 1987], Hong Kong [Ho and Lau, 1988], China [Mun, 1988] and Malaysia [Zain and Rejab, 1989] are developing countries where retail institutions have entered the market at a level catering to small middle and upper income groups, rather than to low income groups, directly contradicting the Wheel of Retailing hypothesis.

Supermarkets in Saudi Arabia, Hong Kong and Singapore, and Singaporean department stores initially aimed at high-income minority segments, before extending their reach to lower-income consumers over time [Alawi, 1986; Yavas and Tuncalp, 1984; Ho and Lau, 1988; Lau and Lee, 1988; Tan and Teoh, 1988]

Peruvian supermarkets, however, entered the market on price appeal, undercutting the established retail hierarchy [Lockley et al., 1966], and there is limited evidence of supermarket entrants undercutting established food retailers in Brazil [Bucklin, 1977]. Venezuelan supermarkets initially undercut the established retail hierarchy of small stores by 8 to 10% [Kacker, 1988b], although there was a relatively fierce competitive reaction as small stores converted to self-service, and introduced pre-packaging, better displays, modern store fronts, and offered credit, in an attempt to neutralise the threat [Kacker, 1988b].

Despite a handful of cases where it is applicable, the Wheel of Retailing undoubtedly has a tendency to deflate when applied to less developed countries, a tendency so pronounced that Kaynak [1988] goes as far as saying that all supermarkets in developing countries are located in high-income areas which are populated by westernised consumers who have some familiarity with this type of store, perhaps an exaggeration but true in large measure at least..

Explanations of the Wheel of Retailing's inability to describe retail evolution in LDC's are based on either consumer characteristics and the economic level of the LDC (demand side), or the cost structure of the retail innovation differing between LDC's and developed economies (supply side), forces which are explained fully in appendix 7.

Causes of trading-up

Cases of application and non-application have their place, and are useful in assessing the validity of theories, but, arguably, fostering understanding of the causes driving change is of more validity. The causes of trading up are widely documented, a process which started with six '*tentative explanations of the Wheel*', based on existing literature [Hollander, 1960]:

- Retail personalities relax their vigilance over costs as they acquire age and wealth, and managerial deterioration causes movement along the wheel.
- Retail trade journals, implausibly, coax merchants into adding overly elaborate facilities using glossy advertising. However, there is no subsequent research supporting this.
- Fear of direct price competition drives retailers to favour service competition instead.
- Excess retail capacity drives trading-up.
- Adjustment of the retail offering to a changing and generally wealthier market.
- Scrambled merchandising means that overall margins increase, although the margins of original lines remains unchanged.

Five of Hollander's [1960] tentative explanations are supported by subsequent research, considered below, in turn, before alternative causes of trading-up are investigated.

Ageing of management

Reduced vigilance over costs as a cause of trading up is supported by Doody [1963], who contends that management do fail to control costs as they age and the company develops inertia, which Gist [1968] expanded, suggesting the existence of a managerial tendency to appoint inferior successors, in order to make the outgoing management appear more prolific. Management often become risk averse as they become accustomed to the 'comfort of success', management conservatism sets in and expenses gradually rise, according to Gist [1971].

Gable & Topol's [1988] investigation into machiavellianism (the degree to which a person is manipulative and unethical) among US department store executives supports the ageing of management hypothesis, finding that older, senior executives adopt a less aggressive approach than when they were younger, suggesting that costs and margins may be allowed to creep up. Similarly, Lord et al. [1988] found that Kwik Save founder Albert Gubay's 'competitive edge' eroded over time, and was a factor contributing to his failed US ventures.

Fear of direct price competition

Fear of direct price competition, or rather that it can be ruinous because it is so easily replicated, leads to non-price competition being favoured, as it is less easily neutralised [Gist, 1968; Entenberg, 1964], in particular when margins have become uncomfortably low [Hall et al., 1961]. Non-price competition, however, must be demanded by consumers to be successful [Bucklin, 1972] - trading stamps, for example, were quickly dropped when incremental sales gains began to fall away [Bucklin, 1972]. Non-price competition is frequently effective, however, for example French supermarkets faced with the opening of a nearby hypermarket were found to be most likely to survive if they improved customer services, extended opening hours, adjusted the product mix, and generally focused on non-price competition [Dawson, 1979], strategies that are common throughout Europe and the USA in similar situations [ibid.].

Fear of direct price competition is consistent with behaviour under oligopolistic competition conditions, as there comes a point on the demand curve where an increase in price would lead to a rapid loss of customers to other businesses, and a reduction in price would quickly be replicated by competitors, with the originator attaining only a small sales increase [Bucklin, 1972]. Under such conditions, non-price competition is induced, and a spiral of additional services and facilities begins, with the only brake on this being 'intertype' competition [ibid.], supporting the Wheel of Retailing hypothesis.

Competition increases, as do costs as 'pulling power' declines

Doody's [1963] study of Macy's department store, New York, between 1888 and 1919, found that it had initially been able to pull in customers from long distances due to its uniqueness, but as competitors appeared around 1900, copying Macy's advantages, its original appeal was neutralised somewhat as it lost its 'pulling power', and its costs gradually had to rise due to the slow erosion of

its market. The degree to which a successful innovation can be copied is immense, for example, Piggy Wiggly, the forerunner of the US supermarket established in 1916, attracted imitators including Jitney Jungle, Handy Andy, Savy-Wavy, Helpy-Selfy and Hoggly Woggly [Hollander and Omura, 1989].

Similarly, Bucklin [1972] contends that early innovators have near-exclusivity in any given marketplace, and can therefore draw in customers from a wider area. As more competitors move in, the geographic 'pulling power' of the innovator diminishes, and the initial low margins must rise to compensate. In effect, the geographical spread of an innovation appears to diminish the initial cost advantages [ibid.]. Productivity per square foot and per employee hour are high in the early stages of an innovation, but inevitably fall as imitators are attracted and the market becomes diluted [Hollander, 1980], when additional amenities must be offered to attract consumers [ibid.], kick-starting the trading-up process.

Dickinson [1983, 1988] also suggests that initially, low-price innovations generate free word of mouth advertising, but over time this decreases as competition from similar facilities increases, and the price-advantage is lost as 'intertype' competition becomes secondary to 'intratype'. Competing with these inevitably pushes up costs and margins, and trading-up tends to occur to compensate [Dickinson, 1988]. This process is largely inevitable and provides a permanent umbrella for the nurturing of price-orientated innovations, argues Dickinson [1983].

The first steps in Dutch low-cost, low-price institutions tend to be taken by a few innovative independent operators, and if successful these attract the attention of large-scale businesses, who follow, often through takeover [Nootboom, 1984]. As a concept gains popularity and its success becomes clearer, remaining independents are almost forced to follow suit, but by then the formula has become obsolete [ibid.], suggesting that over-capacity drives up the original retailing costs of the format, making it less effective. Margins of UK DIY retail warehouses increased because of competition for sites inflating land values, particularly when established retailers entered the field [Gibbs, 1987]. In effect, the 'loss of pulling power' effect is compounded by increased overhead costs.

Excess retail capacity as a cause of trading up is supported by English grocery co-operatives' late 19th century failure to maintain their price leadership due to extensive expansion of the co-operative movement, which ironically brought increased competition and higher retailing costs [Pennance and Yamey, 1955]. Trading-up occurred in Denmark because low-cost, low-price retail innovations which have been well received by consumers have quickly attracted the attention of established retailers, who begin to invest in similar facilities [Agergard et al., 1970]. In time, investment drives over-supply, competition intensifies as a result, and tends to be demonstrated in non-price competition - assortments are expanded, shop sizes rise, service levels rise, and costs increase [ibid.].

Financial returns on US supermarkets fell from impressive levels in the early-1950s because of intense intra-type competition, which, by the mid-1950s, forced stores to advertise more extensively, add services, open for longer hours, and give away trading stamps and game cards, driving up margins [Allvine, 1968]. By the mid-1960s such strategies had created a gap in the market for low-cost food, which was filled by discount stores, which eliminated the costs accumulated by supermarkets, and benefited from efficiencies of operation [ibid.].

By the early-1990s, North American warehouse membership clubs were faced with static like-for-like sales, 'overstoring' (over-supply of stores), and declining return on investment [Sampson and Tigert, 1994], in response to which they adjusted their inventories to push more profitable lines, and increased service levels [ibid.], suggesting that scrambled merchandising and increased service levels, in this case, were deliberate strategies actioned as stores began to lose 'pulling power' due to excessive expansion of the format.

Secular trends

Business orientates itself to the perceived demand of consumers, according to Regan [1964], who adds that the emergence of a large middle class should logically lead to a reorientation of the retail offering and services to suit. Further support is lent by Gist [1968, 1971], and the secular trends effect has been amplified by the boom in consumer credit, particularly in the USA [Duncan, 1965].

US department stores' trading-up process was driven by a combination of retailers jockeying for position to attract maximum numbers of customers, and increasing standards of living over time [Goldman, 1975], eventually resulting in a reduced differential between operators [ibid.]. Expanding

on this, Goldman [1978] suggests that an increase in the standard of living is felt most acutely by low-price, low-status operators, making them most likely to begin the trading-up process, which becomes a chain reaction as the next retailer up the price-service scale also trades-up in an attempt to maintain sales. Similarly, Tinsley et al. [1978] argue that trading-up is the result of retailers' attempts to improve profit margins by deliberately positioning themselves to take maximum advantage of opportunities available to them.

Modern consumers' definition of value has evolved to encompass not simply the merchandise, but also the purchase experience itself, the level of service, and the time and effort involved in acquiring the merchandise [May, 1989], driving trading up of the retail environment and services provided by retailers.

Finally, secular trends are supported, tongue in cheek at least, by Greenberg et al.'s [1980] investigation of New York street vendors, which found that in selected neighbourhoods with high-income shoppers, street vendors had begun to accept returned goods, take pre-Christmas orders and accept cheques.

Secular trends paradoxically increases demand for discounting

While retailers' trading-up occurs in response to secular trends [Duncan, 1965], consumers' strong desire to improve their standard of living tends to exceed their growth in income, oddly creating a market in which discount operations thrive [ibid.]. This is a strange phenomenon that has allowed discounting to develop in wealthy countries, adds Dreesmann [1980], because consumers fulfil older needs at discount outlets, in order to reserve purchasing power for new, more aspirational needs.

Scrambled merchandising creates the illusion of trading-up

US supermarkets' costs increased as stores became more luxurious and competition increased, driving down profits [Brand, 1963]. In response, supermarkets 'activated the expansion cycle', and began to 'cream' the best-selling products of other retail fields, such as pharmacies, hardware and variety stores. Scrambled merchandising was therefore a response to rising costs brought on by intense competition, as higher margins were required to cover the higher costs.

Bucklin's [1983] study of US department store margins from 1962 to 1980 found that scrambled merchandising was a deliberate action aiming to produce higher margins to cover rising personnel costs (see relative decline in efficiency, above). In addition, bargain basements were eliminated from the stores during this period, as they were suffering from the impact of discounters, compounding the scrambled merchandising effect [Bucklin, 1983].

Relative decline in efficiency

Rising US retail margins between 1840 and 1950 were due to productivity gains in retailing lagging behind other industries, manufacturing in particular [Dreesmann, 1968]. Bucklin [1972] later supported this, adding that in order for wages to remain competitive, increases had to come from higher gross margins to make up for relative poor productivity gains. Michel and Vander Eycken [1974] also supported the relative decline in retail efficiency hypothesis, based on an analysis of Belgian retail margins, although they found that accelerating retail institutional evolution in the late-1960s had begun to close the gap.

Bucklin's [1983] study of US department store evolution from 1962 to 1980 showed that rising labour costs, due to wage inflation, were not offset entirely by productivity gains. As wage inflation was exceeding price inflation, higher margins were required to fund the payroll, an effect that was compounded by the rising costs of fringe benefits provided for staff, such as pensions and medical services [ibid.], and department stores deliberately adjusted the merchandise mix to higher margin products in an attempt to cover such rising costs (see scrambled merchandising, above).

Undercapitalisation hypothesis

The spartan nature of embryonic retail institutions is due to a lack of funds, contended Berens [1980], advancing what became known as the 'undercapitalisation hypothesis'. Capital markets, bankers and other investors are generally wary of the institutional innovator, leaving them short of investment capital and forcing them to sell at low-prices from low-status establishments. By undercutting competitors, goods can be sold before suppliers are paid, generating positive cashflow which funds positioning of the business where it would have been initially if access to capital had not been an issue. In effect, Berens [1980] argues that, in certain circumstances, low prices can be merely an interim strategy designed to generate expansion capital.

Other causes of trading up

Dreesmann [1968], contends that trading-up is caused by numerous other factors, including the unprofitable nature of 'trading-down', which can quickly be copied by competitors, and low sales and

profits growth potential from lowering prices.

Trading up not resulting from service additions

Goldman [1975, 1978] argues that service reduction is only one of many methods used to reduce innovators' overheads (see criticisms, below), which is supported by Cundiff's [1988] findings that chain stores lowered costs by standardising operating methods, developing large-scale buying, and achieving high turnover, as well as service reduction. However, it is arguable that the method of cost reduction is not important to the Wheel of Retailing, rather, the fact that innovating institutions tend to cut costs and use this advantage to offer lower prices is of primary importance, and studies that take into account only service reduction are unnecessarily blinkered to other developments

Overview of causes of trading-up

Trading-up is caused by an amalgam of environmental trends and institutional antagonism, argues Brown [1988a]. Technological, economic, legislative and demographic trends, among others, create commercial opportunities which are recognised by perceptive individuals, but any innovation or competitive move is quickly adopted, adapted or avoided by other firms, and the balance of power is re-established until the next upset. This section has demonstrated that the causes of trading-up are indeed complex, and no one single explanation is sufficient to explain trading-up in all circumstances. Explanations advanced include lack of attention to costs, fear of direct price competition, excess retail capacity, adjustment of the retail experience and merchandise mix to secular trends, scrambled merchandising into higher-margin lines, declining retail efficiency relative to other fields, undercapitalisation at inception, and little potential profit from trading down

Forces preventing trading-up

US discount department stores, national chain department stores and traditional department stores compete over only a limited selection of their total merchandise offering, and each has areas of 'natural dominance' [Hirschman, 1978]. This makes trading-up difficult because needs in product

areas are often met better by other institutions [ibid.], although Cort et al. [1980] dispute this, finding that there is significant cross-over of shopping between the three store types.

Methods used by innovators to lower-costs

Off-price retailers in the USA achieved their lower costs, relative to the established retail hierarchy, through a combination of methods, including having double the sales per square foot of conventional retailers, suggesting a certain degree of 'pulling power', almost treble their rate of inventory turn, cheap buying (without insisting on perks such as promotional allowances, markdown money and extended credit), buying excess, bankrupt and end-of-season stock, returns, and over-runs, basic facilities, little or no service and advertising, and using cheap sites [Kaikati, 1985]. Similarly, from-home shopping has a cost advantage over store-based retailing, as 'looking' is a service that the latter must provide, while from-home shopping cuts this out and even drives consumers to separate looking and purchasing processes [May and Greyser, 1989]. Most innovations take advantage of new technology, argues Gist [1971], and take advantage of economies of scale in areas such as organisational scale or outlet size, or new techniques such as self-service.

Competitive reaction to low-overhead, low-price entrants is to take on their advantages:

The entrance of innovative, low-price retailers frequently drives established retailers to adopt selected characteristics of the new institution, while new institutions tend to trade up, adopting the characteristics of established institutions, a tendency that is addressed fully in appendix 8. In summary, the threatened and attacking institutions tend to become more similar through either gradual assimilation of practices, a more radical shift in retail strategy, or through established operators' acquisition of fledgling operators (appendix 8).

Criticisms of the Wheel of Retailing

The Wheel is criticised most frequently for failing to explain all retail evolution all economies. It is largely useless in explaining retail evolution in low-level economies, has major failures even in the setting of developed economies, pays little attention to the competitive reaction of established institutions, and addresses only the price-quality relationship, ignoring equally dynamic dimensions such as merchandise assortment and store size [Brown, 1990a]. McNair's choice of the Wheel as the

metaphor has been questioned [Gist, 1968; Deiderick and Dodge, 1983], and the 'wave' proposed as more appropriate [Deiderick and Dodge, 1983].

The Wheel rejects the possibility that existing institutional forms may adjust to new conditions, contends Bucklin [1983], citing the rejuvenation of department stores as 'proof' that the Wheel is in error. McNair, however, used the Wheel as a warning system rather than for prediction [Hollander, 1980], suggesting that its creator did not consider mature institutions to be inevitably vulnerable after all.

Because it 'assumes the same low-cost, trading-up pattern applies to every retailing institution in every socio-economic setting', and 'is predicated on the actions of conscious, free-thinking, self-determining, individual human beings', Brown [1995a] concludes that the Wheel is 'universalist'. The Wheel is weak because not all trading-up or trading-down is a direct result of the addition or reduction of services, claim Goldman [1975] and Kaynak [1979], numerous other methods of overhead reduction have been successful, such as increasing the scale of operation, eliminating marginal items, improving methods of operation and organisation, reducing product quality, purchasing odd lots and distress merchandise, increasing bargaining power over suppliers and cutting out middlemen [Goldman, 1975, 1978], although it is arguable that some of these techniques do involve reducing the level of service, and certainly involve reducing quality.

The Wheel implies that retailers control their environment, which is widely seen as unwise and even impossible [Deiderick and Dodge, 1983], and that geographical expansion is a service, which is inappropriate as branches are generally tailored to generate high margins [ibid.]. Similarly, merchandise array is not strictly a service, as increasing the array can improve an institution's profitability, and pricing stance can be market, rather than cost, driven [ibid.].

Literature on the Wheel of Retailing tends to be descriptive rather than analytical [Brown, 1990a], to generalise to an excessive degree, while the bulk of it is focused on the department store over a relatively short period of time [Savitt, 1989]. Supporting 'evidence' is often little more than casual observation or idle speculation [Brown, 1990a], and critics of the Wheel 'feel uncomfortable with the idea that a theory so well known and widely cited has so many flaws' [d'Amico, 1983]. There have been calls for research to cover a longer period [Savitt, 1989], and some widely cited

refutations are based upon decidedly unstable foundations [Brown, 1990a]. Most commentators, however, concur that McNair's hypothesis is valid, if not universally applicable [Brown, 1988a], accepting that 'the evolution of some of the most prominent retail institutions adheres, in large measure, to the wheel pattern' [Brown, 1990a]. In fact, 'its very lack of universality... acts as a stimulus to subsequent research activity' [Brown, 1990a].

Extensions to the Wheel of Retailing and Combinations with other theories

Arguably the most conceptually clear extension to the Wheel is Gist's [1968] combination of it with Dialectic evolution. Every maturing institution represents the thesis, and every challenging institution the antithesis. Because the maturing institution tends to 'emulate the attacker' by shedding encumbrances of all types, including services and organisational frills, both the attacker and the attacked move together, resulting in an intermediate or moderate form, representing either partial or full synthesis. The tendency of established institutions to take on advantages of the retail forms attacking them is addressed fully in appendix 8.

Because trading-up is linked to increases in the standard of living, which rises relatively consistently, Agergard et. al. [1970] contest that low-cost, low-price entry to retailing and trading-up are not accurately represented by a circular movement, as this implies that the standard of living stabilised. Proposing a spiral movement instead, where trading-up is a continuous process and the original state can never be regained, Agergard et al's [1970] extension was labelled as 'undoubtedly the most important conceptual advance since McNair's original hypothesis' [Brown, 1987b; p.25]. The spiral concept is modified by Brown [1987b], who proposes a coiled spring analogy instead, able to accommodate constraints upon the evolutionary process, such as anti-chain store legislation or restrictions on hypermarket construction – once the regulatory shackles of the institutional spiral are relaxed, a sudden surge of development can be expected, as was the case when UK superstore planning restrictions were relaxed in the late-1970s.

Izraeli [1973] proposes the 'Three Wheels of Retailing', a system of three inter-connected wheels, in which low-end entrants tend to trade-up on wheel #1, high-end entrants tend to trade-down on wheel #2, and established institutions trade-up or down on wheel #3, which is situated between and driven by movement of the other two wheels. An equilibrium point is reached, resulting in reduced differential between innovating and established firms, as innovators' differences diminish and they

become part of the establishment. A second wave of new entrants upset this equilibrium once again, and trading-up or down eventually produces a new equilibrium. Izraeli's [1973] extension is strong in that it can account for high-level entry to retailing, and the competitive reaction to new entrants, while having a wider domain of application than the Wheel of Retailing, albeit with considerably less conceptual clarity.

The interaction between small discount outlets and department stores, which opened 'bargain basements' as discount outlets traded-up, supports Izraeli's [1973] 'Three Wheels' hypothesis, as the differential between the two types diminished. Similarly, Aldi's 1976 entrance into the US discount grocery market drove established operators to open "stripped down" stores of their own, introduce low-cost generic private label, reduce selected services and narrow their merchandise range [Patton and DeLozier, 1983], effectively trading-down. The introduction of the retail warehouse to the USA also provoked conventional retailers into imitating the format, Wal-Mart and Kroger in particular [Kaikati, 1987].

The Wheel 'rotates and moves', propose Deiderick and Dodge [1983], in an extension that bears little resemblance to the original, bar the retention of some wheels. Geographical expansion, breadth of product line, pricing stance and the changing consumer are each represented by a wheel, and the four wheels are inter-related and inter-dependent. Their concept, however, is rather hazy, with no clear metaphor, and although it succeeds in overcoming some of the Wheel's shortcomings, it has failed to catalyse further academic debate.

A crescent theory of non-store retail evolution is advanced by Thomas et al. [1986], where evolution results from adapting behaviour, similar to that of ecological organisms, which develop into their strongest form and habitat for survival. This extension argues that new non-store retail structures tend to enter the market as low-status, high-margin operations with mass appeal, then move upward along the crescent to higher-margin, higher-status positions with a narrower appeal. Other retailers may fill in the voids behind, but not necessarily take the form of the non-store retailing structures already evolved, which then attempt to find a kind of ecological niche, but the concept is conceptually unclear in its attempt to combine the strong points of the Wheel and Darwinian evolution, and has also failed to generate academic attention.

Although not specifically extending the Wheel hypothesis, Wickström [1983] identified three types of innovators, lone-wolf, routine and defensive. Lone-wolf innovators, corresponding roughly to low-cost retail entrants, tend to be small scale retailers, who come up with a good idea, and can rapidly grow from this. Routine innovators, akin to retailers in the trading-up phase, are generally large scale, multiple retailers, who frequently introduce different innovations copied from elsewhere in the world. Defensive innovators, who correspond to retailers in the mature phase, will only adopt new ideas when forced to by initiatives of competitors leading to falling sales, and are typical adapters. Lord et al. [1988] suggest that the founder of UK food discounter Kwik Save, took ideas from Aldi (W.Germany) and 'baby shark' discounting in the US, combining them with his own ideas to form Kwik Save, representing an example of a lone-wolf innovator.

The key elements of the Wheel, Accordion and Retail Life Cycle hypotheses are combined by Brown [1988b], who argues that this combination resembles Porter's renowned model of competitive strategy. This 'strategic life cycle', which has exceptions and should not be taken too literally or applied in a deterministic fashion [ibid.], suggests that retail institutions tend to begin 'with a narrow range of discounted goods, which gradually expands to incorporate a more diverse mix of merchandise. A period of trading up then transpires and this eventually gives way to a narrower focus, due to the defensive rationalisation of lines threatened by emergent cut price specialists', which does not necessarily signal demise. The full turn has been completed by UK retailers Tesco and Boots, argues Brown [1988b], while the UK retail warehouse has undergone a partial turn, trading-up largely because of moves into purpose-built warehouses following their beginnings in converted properties [ibid.].

Criticising theories of retail institutional evolution for failing to explain evolution of the US wholesale membership club (WMC), Sampson and Tigert [1994] combine environmental (Darwinian) theory with a variation on the retail life cycle and conflict (Dialectic) theory, with the three elements of the model being interdependent. The model is based on the evolution of WMC's, and stresses the importance of the consumer as the catalyst for change, although the model is 'descriptive rather than predictive' [ibid.].

The attempts of Gist [1968] and Izraeli [1973] to extend the Wheel of Retailing to cover all institutional innovations miss the point that the great majority of new retail types in the US economy

have entered at the low end of the spectra [Hollander, 1980], while the original conceptual clarity has been immersed [ibid.], comments that can equally be applied to the bulk of subsequent extensions to the Wheel. In general, such extensions, although useful and providing some insight, have failed to generate wider academic debate, and suffer from muddled explanatory power due to their necessary deviation from vivid metaphor. This is common to theoretical extensions in all academic disciplines, and led to overly-complex extensions being labelled as 'explanatory impotent' [Hunt, 1983]. Although the metaphor aids understanding in terms of our subjective experience with other concepts [Rosenberg, 1984], a single metaphor can only shed light on selected aspects of a phenomenon, and emphasises some aspects of a concept while de-emphasising and hiding others [ibid.]. The single metaphor, however, retains the conceptual clarity necessary to aid understanding, as does the Wheel of Retailing, while extensions to it plainly do not.

Although d'Amico [1983] argues that McNair's greatest fame has come from commentaries on his work rather than from the work itself, such 'commentaries' have labelled the Wheel of Retailing a singularly vivid metaphor [Brown, 1990a], a prime example of metaphorical thinking [Brown, 1995a], one of the most frequently cited concepts in marketing thought [Brown, 1995a], a milestone in retailing thought [Brown, 1995b], and one of the oldest, most celebrated and energetically debated concepts in retail marketing's theoretical canon [Brown, 1995b].

A variety of forces are causing the Wheel to slow, according to Tinsley et al. [1978], including high shopping centre rents slowing the growth of discounters, although it is arguable that this hands discounters the opportunity to increase their cost advantage by locating elsewhere. The development of conglomerates, retailers owning several chains of stores with distinct images and different positionings, is a further retarding force, because companies will not allow their different chains to enter into competition with one another, contend Tinsley et al. [1978], which again is oversimplistic, as innovation and trading-up can still occur within these chains, and different institutions can still vary in importance within the organisation. Conversely, Bucklin [1983] believes that the pace of retail evolution had increased by the late 1960s and 1970s, and Dawson [1979] considers the Wheel of Retailing to be turning at an ever faster pace, leaving less time for adaptation and assimilation, and increasing the future potential for inter-institutional conflict in retailing. In the 20 years to 1980, the European hypermarket exceeded the floorspace accumulated by the European department store in over 120 years [Knee and Walters, 1985], and the development of the

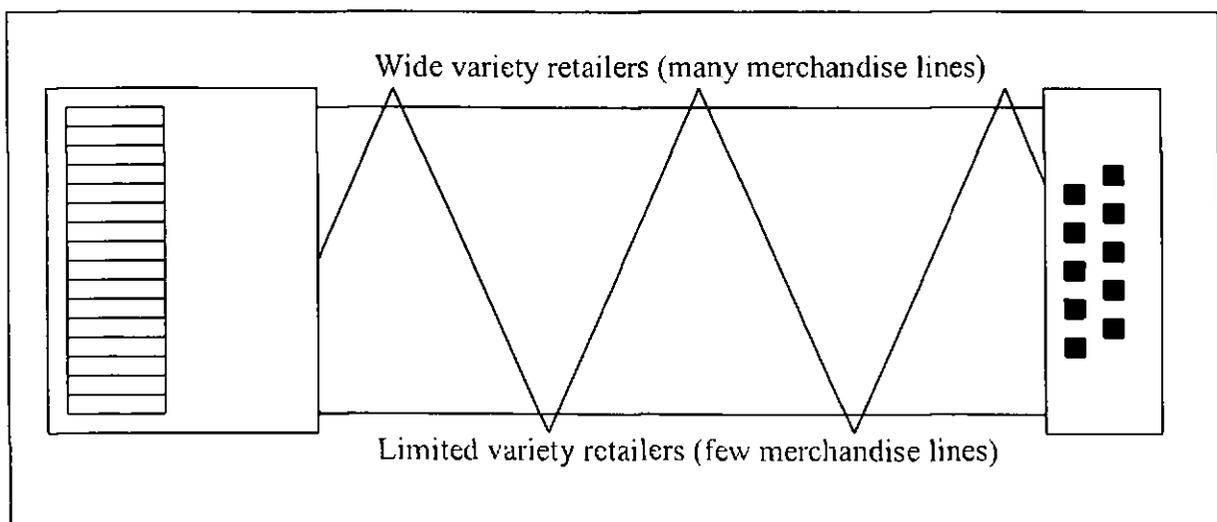
supermarket occurred even faster. May [1989] considers that the Wheel of Retailing accelerated in the second half of the 20th century.

Strangely, the Wheel of Retailing theory itself is considered to have followed the pattern that it stipulates for retail institutional change, leading to Brown's [1988a] conclusion that a Wheel of the Wheel of Retailing is in existence. The concept began as a short and simple hypothesis, attracting adopters who took on the discussion and popularised the concept, before academic debate became more heated and this and other theories were extended and modified in the late 1960s and 1970s, which Brown [1988a] likens to the trading-up process. The concept entered maturity in the late 1970s, and became vulnerable to a series of vigorous refutations and alternative approaches from the early-1980s, obscuring the concept and driving a return to academic basics [ibid.].

2.1.2 The Retail Accordion

The Retail Accordion hypothesis was advanced by Hollander [1966], who stated that 'the history of retail development seems to demonstrate an accordion pattern. Domination by general line, wide-assortment retailers alternates with domination by specialised, narrow-line merchants', adding that the lack of historical statistics on merchandise assortment makes the pattern impossible to prove. Drawing on past research that stopped short of the elaboration of a hypothesis, but had noted cyclical trends in the merchandise dimension of retailing [Hower, 1943; Brand, 1963], and retailers' tendency to 'poach' profitable lines of specialist operators [Hall et al., 1961; p.78-79]:

Figure 2.1.2. The Retail Accordion:



[Source: adapted from Lewison, 1997, p.642]

Advanced at a time of considerable expansion of the US retail offering, the Retail Accordion was intended to explain the evolution of the entire US retail system, but has often been applied to specific retail institutions [Brown, 1990b]. Hollander's [1966] findings rely heavily on secondary sources due to the long time-span involved, quoting for example Gold's [1963] assertion that *'retailing is smack in the middle of a merchandise scramble, the likes of which it has never before experienced... In short, everyone's in the act, and there's no end in sight.'* [Gold, 1963, pp.40-41].

The Retail Accordion describes a clearly discernible, if difficult to prove, 'rhythmic pattern of development, dominated alternately by shops selling a wide variety of wares and retailers specialising in a narrow range of goods' [Brown, 1988b; 1990b], and hypothesises 'perpetual alternation between generalist and specialist outlets' [Brown, 1995b]. Canadian retailing also developed along the lines of a general-specific-general cycle [Shaffer, 1973].

The Retail Accordion describes the relationship between retail outlets focusing on 'merchandise line width', provided by general retailers, and 'merchandise line depth', provided by specialists [Gist, 1971]. Kellerman [1988] identified four stages of US retail evolution: (1) In the 19th century, US retailing was dominated by general stores serving local communities, a by-product of the sparse population, according to Mason and Mayer [1990]. (2) The early 20th century was characterised by the evolution of traditional speciality stores, normally in Central Business District (CBD) locations, a change made possible by rising incomes and transportation changes. The improved assortment of goods more than offset the consumer inconvenience of shopping at several stores [Stevens, 1975] (3) The mid-20th century witnessed the mass introduction of general department stores and supermarkets, normally located in US suburban shopping centres, catering to families and offering mass-shopping facilities to meet the needs of the post-World War II baby boom generation, changes again made possible by transportation changes, this time the motor car. (4) Most recently, in the last quarter of the 20th century, speciality retailing flourished again, as boutiques, speciality food outlets, stylistic houseware stores and their like developed, driven by smaller, more affluent households [Kellerman, 1988].

Kellerman's [1988] fourth stage is supported by McGoldrick [1989] who contends that the introduction of concessionaires to UK department stores in the late 20th century aimed to provide specialisation within the diverse, overall framework of the department store, although such

concessions had begun to decline slightly by the 1980s [ibid.]. Similarly, superstore operators such as Asda grew with many concession arrangements, in travel agency, opticians, hairdressing, dry-cleaning and in-store pharmacies [ibid.], providing a certain degree of specialisation within a diverse overall offering, although it is arguable that adding concessions represents expansion of the product offering, particularly if the space for it is created through store expansion or more efficient use of the store, rather than the elimination of other lines.

Forces driving expansion of the Retail Accordion

Hollander [1966] considered expansion of the Retail Accordion to be a natural process, driven by retailers' efforts to improve profitability by adding profitable lines from other fields, and consumer demand for 'one-stop', rather than fragmented, shopping [ibid.].

Further forces driving expansion of the Retail Accordion were subsequently advanced:

- Joining complementary lines, such as meat, grocery and produce [Gist, 1968].
- 'Creaming'- taking the low-risk, largely pre-sold, high-turnover, low-margin merchandise from other outlets [Brand, 1963; Gist, 1968; Dawson, 1979]. For example, from the late-1950s US grocery outlets added faster-moving merchandise lines, including small appliances, convenience-food items, and paper products, often at a discount to traditional retailers of the products [Mason and Mayer, 1990], and US pharmacists 'creamed' other retailers' products [Brand, 1963]. Increasing costs and falling profits can drive retailers to 'cream' products [ibid.].
- 'Scrambling', taking the low-turnover, high-margin merchandise from other outlets [Gist, 1968; Dawson, 1979], has occurred in supermarkets, as merchandise becomes increasingly exotic and unusual [May, 1989], and as non-foods such as pharmaceuticals and cosmetics have been added [Mason and Mayer, 1990], in discount stores, which moved into soft goods [ibid.], and in variety chains, which adopted big ticket items such as televisions and household products [Mason and Mayer, 1990]. Scrambling led to the creation of the US department store, as some retailers adopted the lines of high-margin specialist retailers, slowly increasing the size of the store, and delegating responsibility for each 'department' [Bucklin, 1972].
- Creaming and scrambling are often major factors contributing to the closure of specialist outlets [Dawson, 1979], effectively driving further expansion of the Retail Accordion through the elimination of 'contracted' retailers. For example, US supermarkets' creaming of cigarettes was a

factor hastening to the demise of small tobacconists [Oxcnfeldt, 1961], made possible by the rapid development of cigarette brands [ibid.].

- Expansion of range can use idle or under-utilised capacity more efficiently, reducing costs as a percentage of sales, although it can also have the reverse effect, driving up costs through less efficient use of stock [Hollander, 1966].
- The growth of shopping centres drives expansion of the retail accordion, according to Gist [1968], although it could be argued that shopping centres allow greater specialisation.
- The post-World War II baby boom generation required mass shopping facilities catering to families, in suburban locations [Kellerman, 1988], driving expansion of the retail accordion.
- The legal and political environment, in the guise of town planning, affects the expansion of the retail accordion. For example the late 1970s relaxation of British planning controls led to more players opening large retail warehouses, driving expansion of the accordion [Brown, 1990b]. In China, the number of lines carried by a Chinese department store increased by 42% following economic reforms allowing stores to purchase direct from manufacturers and multiple sources, suggesting that legal restrictions tend to force compression of the retail accordion in communist countries.

Forces driving contraction of the Retail Accordion

Contraction of the Retail Accordion is driven by numerous factors:

- Early US general stores were a response to an economy characterised by pioneer agriculture, industry in the handicraft and domestic stages of production, small markets, slow transportation and communication facilities, and a relatively undeveloped monetary system; as progress was made in each of these elements, specialised retailing became more feasible [Jones, 1936].
- Specialist retailers were made necessary by the inability of US general stores to physically stock more products, at a time when industrialisation was creating a surge in the supply of consumer goods [Gist, 1968].
- Urbanisation of the US population made specialist retailing more feasible, itself driven by industrialisation, creating large consumer markets which permitted profitable market segmentation through specialisation [Jones, 1957; Gist, 1968; Mason and Mayer, 1990]. Rising incomes and improved transportation drove demand for specialised retailing in the early 20th century [Kellerman, 1988].

- Amid growing population density, specialist shopkeepers became attractive to consumers increasingly favouring the personal touch, and spread rapidly [Brand, 1963; Gist, 1968]. Specialist shops tend to be distinguished by the provision of consumption advice [Davidson, 1970], suggesting that changing consumer demand for this is a factor driving or constraining the Retail Accordion.
- Non-economic factors can drive specialisation. For example, many small furriers, florists and booksellers consider themselves to be craftsmen and artists, rather than growth-minded businessmen, although this explains supply of specialists, rather than consumer demand for them [Hollander, 1966]. Specialisation may also be driven by necessity - early US butchers, for example, had to be true specialists, in slaughtering, butchering and manufacturing, as well as retailing [Gist, 1968].
- 'Implicit voluntary restraint' can discourage retailers from raiding the lines of other traders, for fear of competitive retaliation [Hollander, 1966], although this explanation is more suited to small communities than an era of multiple retailing. Similarly, legal restraints can stop retailers from selling certain types of products, requiring them to be licensed, for example [ibid.].
- The failure of many merchandise mixes leads to merchandise being withdrawn [Hollander, 1966], representing contraction of the retail accordion.
- Established retailers tend to drop conventional lines when confronted with heavy competition from discounters [Hollander, 1966], driving contraction of the retail accordion. More typically, conventional retailers continue to stock the line, but an increasing share of the business goes to emerging specialists [ibid.].
- When established retailers fail, they tend to be replaced by new operators with 'compressed accordions' [Hollander, 1966].
- Lack of funding for stock and fixtures can force new entrants and continuing firms to concentrate on a limited number of lines [Hollander, 1966].
- Although expansion of range can use idle or under-utilised capacity more efficiently, reducing costs as a percentage of sales, it can also have the reverse effect, and drive up costs through less efficient use of stock [Hollander, 1966].
- Some consumers prefer to shop in specialised stores for certain purchases, while others report becoming confused and overwhelmed by the crowds and sheer size of large stores, and can resent the time necessary spent searching for products in large establishments [Hollander, 1966].

- In the US, the development of department stores as shopping centre anchors necessitated compromise in terms of space, range and services, bringing weaknesses that were exploited by specialist clothing retailers locating in the centres [Spalding, 1978].
- Declining household sizes and rising household incomes drove demand for specialisation in the last quarter of the 20th century [Kellerman, 1988]. Editing merchandise selections is a means of attracting ‘time-poor’ consumers, particularly as alternatives such as home shopping grow in importance [May, 1989].
- Late 20th century specialisation tends to be in the wealthiest communities, carrying ‘luxury’ items, suggesting that rising incomes drive contraction of the retail accordion [Kaynak, 1988].

In effect, the degree of specialisation in a retail system is a function of ‘environmental economics’, because stores emerge or adapt in response to a given set of circumstances, which are constantly changing over time [Bucklin, 1972].

Evidence of accordion-like movement

The US retail pharmaceutical trade became more specialised prior to the American Civil War, as specialist pharmacies emerged and took trade from dispensing physicians and general ‘druggists’ [Hollander, 1966]. These specialist pharmacies, however, began to add non-core lines from the late 19th century, diluting their specialism, driving expansion of the retail accordion. After World War II, however, specialism returned as the pharmaceutical trade splintered into traditional pharmacists, limited-line pharmacists, and ‘professional’ and ‘ethical’ outlets, concentrating on prescription and therapeutic items respectively [ibid.].

A continuum of general store – mail-order house – speciality retailing was noted by Brand [1963], while Davies [1976] notes that consumers of the 19th century were served predominantly by general stores, primarily by speciality stores in the first half of the 20th century, then increasingly by general stores again.

The 1960s development of the US food emporium and combination store represented expansion of the retail accordion, compared to the supermarket that dominated at the time [Allvine, 1968], while the simultaneous development of the convenience store and its larger counterpart the superette

represented contraction [ibid.]. Similarly, Dawson [1983] noted the development of both super-regional and speciality shopping centres.

Specialisation:

By the early-19th century, Boston (US) boasted shops specialising in bakery, books and stationery, boots and shoes, china and glassware, pharmaceuticals, dry goods, groceries, hardware, jewellery, millinery, chandelery, tobacco, working-men's clothing, confectionery, flour and feed, fruit, alcohol and musical supplies [Jones, 1936].

In the second half of the 19th century, contraction of the retail accordion took place in the USA as specialists made inroads into high-margin lines sold by grocers, resulting in dairy, tea, coffee and spice establishments being founded [Hollander, 1966]. US grocers' elimination of certain departments around the dawn of the 20th century represented contraction [ibid.], as did the abandonment of groceries by mail-order firms and department stores soon afterwards [ibid.]. Convenience stores represent specialisation of a different type, limiting stock to high turnover items generally bought without advance planning [ibid.].

Specialisation occurred as the US market for cycle, car, motor accessory and petrol retailing grew in size [Hollander, 1966], and some of these specialists later attempted to diversify their product offerings. The US field of booksellers has splintered, as the retail pharmacy trade did, into specialist paperback retailers, business booksellers, technological booksellers, and textbook and religious works specialists, again representing contraction of the Retail Accordion [ibid.]. In the mid-1960s, trends towards specialisation were also evident in fur and furniture retailing as well as catering [ibid.].

The 'general-specific-general cycle', as the Retail Accordion is sometimes labelled, was found to be relevant to US retail evolution by Gist [1968]. The earliest form of North American retailing, the rural general store, which, in a rough sense, rolled today's supermarket, department store, hardware outlet, auto agency, pub, stable and post office into one unit [Gist, 1968; 1971], was well suited to the self-sufficient, agricultural economy of the period. As industrialisation drove concentration of the population and the US consumer market grew, general stores gave way to more specialist traders – an era in which the butcher, the baker, and the candlestick maker were literally the norm [Gist,

1971]- before these in turn gave way to more general retailers, such as supermarkets [Gist, 1968], superstores [Brown, 1988b], hypermarkets [Brown, 1988b] and shopping centres [Gist, 1968], although the inclusion of the latter is questionable, as it could equally be labelled a collection of specialists. There is little doubt that the 19th century was a period of US retail specialisation - there were only 20 types of retail specialist at the start of the 19th century, and over 100 by the end [Jones', 1936, 1957].

In early 1950s USA, bookstores, phonograph record stores, garden supply stores and pharmacies emerged [Mason and Mayer, 1990], suggesting that a period of specialisation had begun. A reduction in the number of department stores occurred in the 1970s, while the number of specialists increased, particularly in clothing [Spalding, 1978]. The late-1970s were characterised, in the USA and Europe, by the emergence of very specialised retail outlets [Filser, 1984], in 1980 an upsurge of American speciality clothing chains was noted by Hollander [1980], and the 1980s saw specialisation in outlets selling ski equipment, computers, ties, socks, fine wines and gourmet foods [Brown, 1988a, 1990].

In short, analysis of literature suggests that the 19th century and the second half of the 20th century were periods of US retail specialisation, although there are examples of specialisation outside these periods, and of generalisation within them.

Generalisation:

Most American department stores began life as specialist establishments, adding more merchandise lines as the 19th century progressed [Brown, 1988a]. Since the beginning of the 20th century, however, a large number of departments have been discarded, and modern department stores are said to have become more like 'high fashion specialists' than the 'universal providers of yore' [Brown, 1988a; 1990]. It certainly remains a fact, however, that the department store is a general rather than a specialist retailer.

By the mid to late-20th century, expansion of the accordion had occurred in the field of automotive supplies, with about one quarter of US retail establishments being involved in retailing tyres, batteries, or other automotive parts [Davidson, 1970], and 40% of US grocery stores selling motor oil [Dawson, 1979]. Similarly, 87% of UK grocery stores were found to sell tights, and 77%

lightbulbs, neither of which is a traditional grocery item [Dawson, 1979], and the percentage of UK multiple grocers selling meat increased from 11% to 36% between 1961 and 1971, a period during which the comparable figure for cosmetics rose from 6% to 36% [Dawson, 1979]. In 1971 Britain, records were on sale in 13% of multiple tobacconists, 60% of multiple grocers were selling chocolate and sugar confectionery, 30% of greengrocers sold frozen meat, and 30% of butchers offered frozen fruit and vegetables [Dawson, 1979], suggesting that the 1960s were a period of considerable expansion of the UK Retail Accordion, and that creaming and scrambling by UK grocers was a major factor in the decreasing number of specialist shops [Dawson, 1979].

'Arrays of food in supermarkets continue to expand, offering consumers the opportunities to experiment with items that formerly were perceived to be exotic or unusual' [May, 1989], suggesting that scrambling is a major factor driving expansion of the Food Retail Accordion. Likewise, the range of goods sold through UK retail warehouses has broadened [Brown, 1990b].

The evolution of US supermarkets and pharmacies is characterised by expansion into non-core products [Filser, 1984], suggesting that expansion of the Retail Accordion within these formats is also driven by creaming and scrambling.

Food retail chains in developing countries have grown by creaming lines from competing outlets, initially into simple lines like canned goods, minimising capital investment for fear of failure [Goldman, 1974]. In an environment characterised by frequent, fragmented food shopping close to the home, this is one of the only viable means of growth, as it is unrealistic to expect immobile consumers to travel long distances to seek out better shopping facilities [Goldman, 1974].

The literature therefore suggests that the second half of the 20th century brought significant generalisation in both US and UK retailing, a strange phenomenon as it also brought much specialisation (p.35-37, above).

Weaknesses

The Retail Accordion is 'essentially devoid of explanation' [Gist, 1971], fails to explicitly identify the causes of cyclical change [ibid.], is 'essentially descriptive' [ibid.], has fragile conceptual foundations [Filser, 1984], and has limited predictive value because it is impossible to work out

whether specialisation or generalisation will occur, or around which groups of products this will be [ibid.]. Gist [1971] contends that Hollander's [1966] five forces promoting contraction (see below) promote expansion in equal measure, which in fact is true of many such forces put forward since. The model is developed with regard only for North American retailing, and, like the Wheel, fails to address the situation in developing countries, where specialists continue to dominate [Brown, 1990b]. In addition, it addresses only a single dimension of institutional change – merchandise range [ibid.].

Although difficult to validate due to the lack of merchandise assortment statistics [Filser, 1984], the Retail Accordion accurately describes the past evolution of retail formats [ibid.], a general-specific-general cycle is discernible in the retail structure of many developed economies [Roth and Klein, 1993], and specialisation has continued, despite many predictions to the contrary [ibid.].

To conclude, there is ample evidence of cyclical trends towards both specialisation and generalisation in retail merchandise assortments, trends driven primarily by changing consumer characteristics. The Retail Accordion is limited as a theory of retail change, however, because it bases retail evolution on just one variable, but more importantly because it is centred primarily on the USA, and on the retail industry as a whole, rather than on retail formats or even fields, although its transposition to these has met with some success, certainly offering a more promising and meaningful future for the theory.

2.1.3 The Polarisation Principle

Although Gist [1968] and Davidson [1970] noted tendencies towards polarisation in retailing, the 'polarisation principle' was elaborated by Kirby [1976a, 1976b] to explain the growth of the American convenience store, which occurred against a background of increasing store sizes and declining store numbers, an apparently strange phenomenon.

The polarisation principle [Kirby, 1976a, 1976b] contends that the trend towards larger, fewer, and less spatially concentrated supermarkets drives increased consumer demand for small stores 'conveniently located close to the consumer's place of residence'. Comparing the category sales and till-rings of US convenience stores and supermarkets led Kirby [1976a, 1976b] to suggest that US

consumers use the convenience store to augment shopping, either for 'emergencies' or the purchase of perishables and fresh food items, presenting the format as complementary to the supermarket, explaining why its growth is directly correlated to that of large scale supermarkets.

The polarisation principle is intended to apply only to 'high level economies', and contends that the retail systems of most such economies will polarise [Kirby, 1986]. At one end of the spectrum, the large retail operation will dominate the market, satisfying the majority consumer segments that are highly mobile, and able and prepared to shop in bulk. At the other extreme will be the small, efficient retail operation which satisfies the majority shopping needs of a consumer minority (those unable or unwilling to buy in bulk), plus the minority needs of the consumer majority (top-up and emergency shopping, and for forgotten and out-of-stock items) [Kirby, 1986].

Evidence of retail polarisation:

Kirby's [1976a, 1976b] polarisation thesis was based on the growth of US convenience stores at a time the US food retail industry was contracting into fewer, larger, more spatially displaced stores. The simultaneous US growth of small, high-margin convenience stores and large, low-margin food emporiums/combination stores was previously noted by Allvine [1968], who explained this as catering to shoppers requiring 'fill-in' purchases at conveniently located stores. Rogers [1984] preferred to explain the growth of US convenience stores as being specifically to 'fit' between the increasing numbers of large stores, while Kaynak and Cavusgil [1982] contend that polarisation into mass merchandising operations using supermarketing techniques, on the one hand, and highly specialised food stores carrying a deep assortment of a very specialised food line of food products, on the other, is a characteristic of food retail evolution in developed countries.

In Japan, both large food stores and convenience stores expanded rapidly in the late-1970s and early-1980s [Dawson, 1985]. There is further evidence of polarisation, this time in French food retailing: When under attack from low-cost hypermarkets, French supermarkets tended to either focus on non-price competition, namely service, or die [Dawson, 1979]. The development of the French convenience sector pre-dates that of Britain by several years, which may be due to the earlier development of hypermarkets and out-of-town retailing in France [Kirby, 1986].

In the decade to 1986, retail polarisation was a feature of most western-style economies [Kirby, 1986]. In the UK this is illustrated by the early 1980s development of convenience stores such as 7-Eleven, Spar *Eight Till Late*, and VG's *Late Shop*.

Forces driving retail polarisation:

The large UK food store has little effect on the trade of small shops in areas where supermarkets are already well established, because it was the first generation of supermarkets that was harmful to small shops, while superstore developments impact primarily upon these first generation supermarkets rather than small stores [Kirby, 1976a, 1976b].

More positively, larger food retail outlets require a larger market, or a larger catchment area, forcing them to be more geographically dispersed [Brown, 1987b], increasing the possibilities for small, more versatile units, hence the emergence of the convenience store and superette [Kaynak and Cavusgil, 1982]. In short, the rejuvenation of small stores is encouraged by factors such as a spatially and structurally concentrated retail system, the capacity to develop an efficient small store sector, and lack of restraint on small store trading hours, although restraint on large store trading can facilitate small store development [Kirby, 1986].

Uses:

When outlining the polarisation principle, Kirby [1976a, 1976b] applied it to forecast a need for small, well-located, well-stocked, efficiently managed and serviced shops, to complement superstores and hypermarkets, which at that time were in a phase of accelerating growth. The principle was later employed to rather accurately forecast the further development of CTN and forecourt-based convenience stores, including joint ventures between oil companies and food retailers for the latter [Kirby, 1986].

Weaknesses:

Useful as it is, the polarisation principle describes but a single facet of the changing retail scene, namely the relationship between large and small institutions, contends Brown [1987b], proposing its extension to include other relationships, creating the multi-polarisation model (see below), effectively overcoming this drawback.

Extensions:

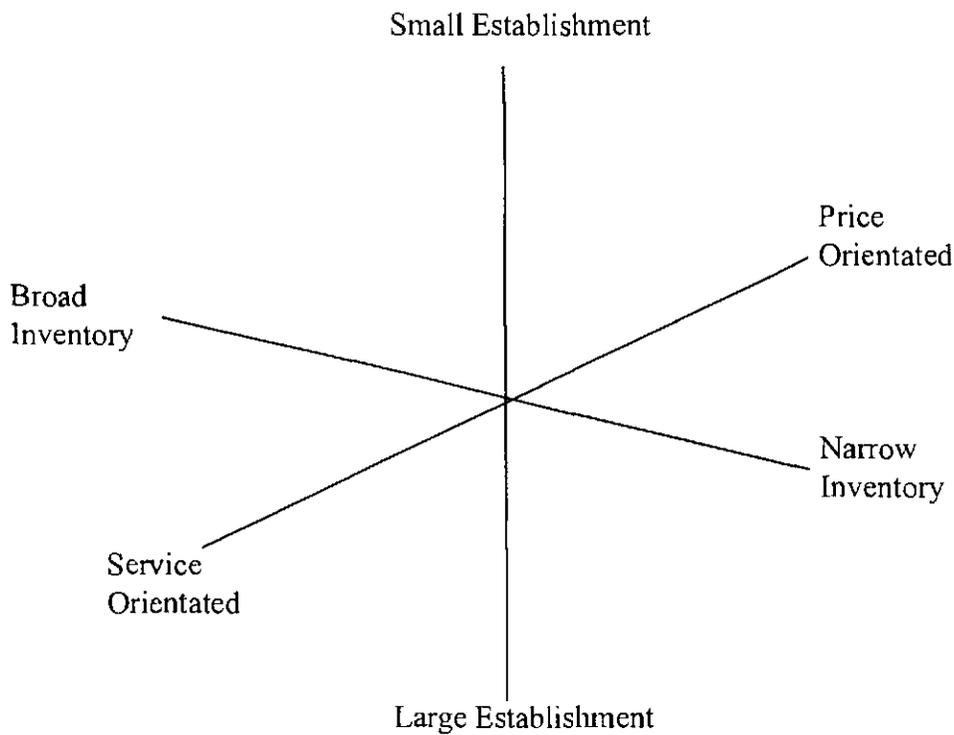
Filser [1986] investigated 'perceived polarity', in terms of price, quality, fashion and value, researching consumers' perceptions of different French retail fashion chains for each of these criteria. Perceived polarity could be of use in aiding the competitive positioning of chains, in the development of a portfolio of retail chains (for conglomerates), and in ascertaining the relative positions of competing firms [Filser, 1986]. By far the most significant and conceptually clear extension to the polarisation principle, however, is Brown's [1987a, 1987b] multi-polarisation model (2.1.4):

2.1.4 The Multi-Polarisation Model

While the polar extremes of low-margin/high-turnover outlets on the one hand, and high-margin/low-turnover outlets on the other, had been identified and represented graphically [Gist, 1968], and the polarisation principle had been advanced [Kirby, 1976a, 1976b], such formulations concentrate on a single aspect of institutional change, noted Brown [1987a]. Retailing, however, appears to evolve along several dimensions simultaneously [ibid.], meaning that changing store sizes have implications for merchandise assortment, for example.

To counter the key weakness common to the retail accordion, the wheel of retailing and the polarisation principle, namely that they address only one aspect of retail change, when in fact the three are closely inter-related themselves, Brown [1987a] advances the multi-polarisation model, contenting that inventory diversification inspires specialisation, large outlets beget small, and a high level of service gives rise to no-frills retail operations, with each of these dimensions being linked and interdependent:

Figure 2.1.4. The multi-Polarisation Model:



[Source: Brown, 1987b, p.159]

Evidence

Evidence of movement along each dimension of Brown's [1987a] model is presented under the Wheel of Retailing, the Retail Accordion and the Polarisation Principle, above. The multi-polarisation model also contends, however, that movement along one dimension provokes movement along another, and Brown [1987a] cites several examples of retail evolution involving such interdependent relationships:

Brown [1987a, 1987b] provides several examples of polarisation in one dimension affecting other dimensions, in the UK and other advanced nations. These include large outlets specialising in a relatively limited range of goods, discount electrical and carpet warehouses for example, small outlets handling a surprisingly wide variety of merchandise, such as modern convenience stores, price-cutting operations occupying sizeable premises, like hypermarkets, and small stores with a service-orientated sales philosophy, boutiques and specialists for instance.

Arguing that retailing polarises simultaneously along each of the price, assortment and size dimensions, Brown [1987a] lists examples of retail institutions that have polarised to one extreme in all three dimensions:

<u>Merchandise Assortment</u>	<u>Sales Policy</u>	<u>Establishment Size</u>	<u>Institutional Type</u>	<u>Examples</u>
Broad	Price	Large	Superstore, Hypermarket	Asda, Tesco.
Broad	Price	Small	Catalogue Showroom	Argos, Littlewoods Catalogue Shop.
Broad	Service	Large	Department Store	John Lewis, Debenhams.
Broad	Service	Small	Convenience Store	7-11, Cullens.
Narrow	Price	Large	Retail Warehouse	Toys R' Us, Texstyle World.
Narrow	Price	Small	Limited Line Discount Store	Kwik Save, Victor Valuc.
Narrow	Service	Large	Super Specialist	Ultimate, Hamleys.
Narrow	Service	Small	Specialist	Next, Tie Rack.

Source: Brown [1987a]

Uses and weaknesses

The multi-polarisation model underlines the fact that the appearance of an innovatory institutional form combining several polarised dimensions can create opportunities along each of the assortment, sales policy and size dimensions [Brown, 1987a]. The evolution of formats, involving movement along any of the three dimensions creates opportunity for newcomers as the food superstore did by upgrading from its cut-price origins [Brown, 1987a].

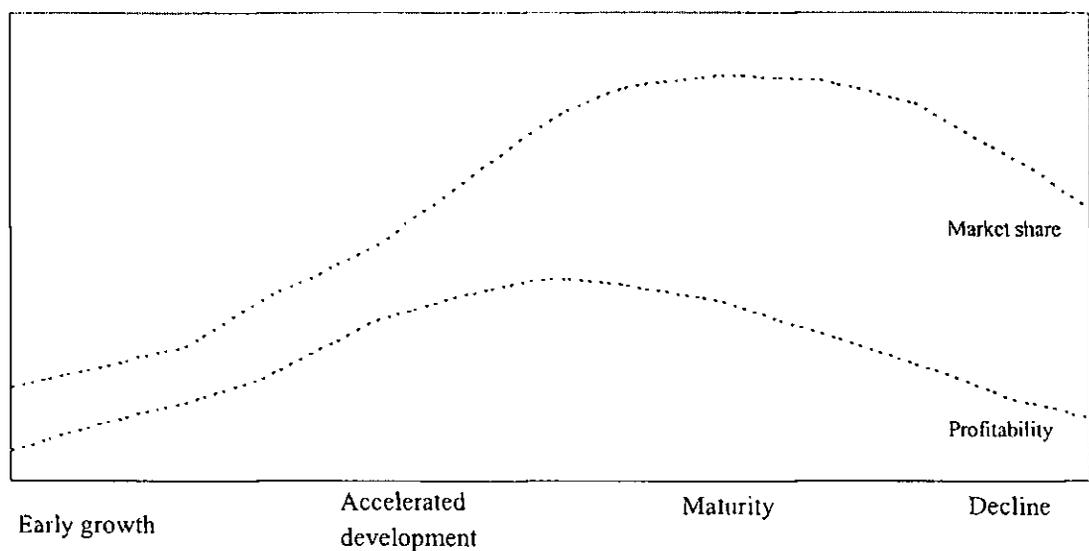
The main weakness of the multi-polarisation model is that it has failed to catalyse further research, meaning that it effectively remains untested [Brown, 1987b]. Brown's [1987a] initial article was intended to be exploratory, a first tentative step in the direction of integration of the retail change theories, and a theoretical basis for future discussion, but, sadly, its aims remain unfulfilled. The subjectivity inherent in the definitions of large and small retail establishments, wide and narrow ranges of goods, and price or service-based sales strategies, represent further weakness, warns Brown [1987a], because the real world is rather more complicated than the conceptualisation intimates.

Polarisation tendencies are discernible in changes in retail organisation and location, leading Brown [1987a] to speculate on the possible extension of the multi-polarisation model.

2.1.5 The Retail Life Cycle

The Retail or Institutional Life Cycle, advanced by Davidson, Bates and Bass [1976], builds on previous suggestions that retail institutions, like products, go through life cycles [Davidson, 1970; McCammon, 1975]. Expanding these works, and identifying four stages of innovation, accelerated development, maturity and decline, Davidson et al.'s [1976] concept aimed to counter key weaknesses of the Wheel of Retailing, namely its failure to include a time frame, and its ignorance of non-cost based retail evolution [James et al., 1981; Markin and Duncan, 1981]:

Figure 2.1.5. The Retail Life Cycle:



Note: The duration of the stages (horizontal stages) is variable, depending on many circumstances. The four stages are portrayed equally on the time scale for schematic purposes only.

[Source: adapted from Davidson, Bates and Bass, 1976, p.91]

The Retail Life Cycle is described as a natural evolutionary process that is impossible to stop [Davidson, Bates and Bass, 1976], implying that anticipation of change and adaptation of the organisation to its changing environment is of paramount importance [ibid.]. Anticipation of likely change is an important means of maintaining adequate profits, although this may prove difficult, particularly as competitors in the innovation phase are difficult to identify due to their small size [ibid.].

In the innovation phase, a new, usually entrepreneurial, retail institution emerges, representing a sharp departure from existing retail approaches [Davidson et al., 1976]. This tends to enjoy a significant advantage over established institutions, arising from a low cost structure, a distinctive

merchandise offering, easier shopping, locational advantages, or different advertising and promotional methods [ibid.]. High consumer acceptance drives sharp rises in sales, although profits may lag because of operating problems, lack of economies of scale, or high start-up costs, before they catch up towards the end of the phase as initial problems are overcome [ibid.]. The innovation phase is around 3 to 5 years long, with few, if any, direct competitors emerging [Mason and Mayer, 1990; McGoldrick, 1990]. The innovator's competitive advantage usually arises from a technological, operational or marketing innovation [Lewison, 1997], and is often demonstrated through low prices [James et al., 1981].

The accelerated development phase brings rapid rates of growth in both sales and profits [Davidson et al., 1976; McGoldrick, 1990]. Innovators of the format engage in geographic expansion, other companies are attracted to enter the field, and its market share increases steadily as interest in it surges [Davidson et al., 1976]. Sales and profits rise quickly in the early part of the phase, but market share and profitability tend to peak towards the end of the phase because of scale-related costs, such as the need for a larger staff, complex internal systems and increased management controls [ibid.]. The stage typically lasts 5 to 6 years [James et al., 1981] and is characterised by range extension [Mason and Mayer, 1990], upgrading of merchandise, investment in new stores, refurbishment of existing stores, and improved service and management controls [Lewison, 1997].

Maturity is characterised by retailers' loss of earlier vitality, stabilising sales and market share, and plummeting profitability [Davidson et al., 1976]. The quality of operations tends to slip because entrepreneurial managers do not necessarily direct large organisations in stable markets effectively [ibid.]. New firms are still entering the field [James et al., 1981], and over-expansion results in over-capacity, driving down the profitability per square foot of the format [Davidson et al., 1976], a situation which persists until a shakeout occurs. The maturity phase is characterised by a high likelihood of challenge from new retail forms, brutal price competition, efforts to improve efficiency, and declining marketing expenditure [Davidson et al., 1976; Mason and Mayer, 1990; McGoldrick, 1990].

The final decline era of the life cycle process is often avoided or greatly postponed by repositioning [Davidson et al., 1976]. Modified marketing concepts can prolong the maturity phase, but this is by no means guaranteed [ibid.]. The decline stage is typified by major losses of market share, falling

sales, marginal profits at best, a fatal inability to compete in the market, little or no investment, closure of obsolescent units, even among industry leaders, and increasing conflict with innovative forms [McCammon, 1975; Davidson et al., 1976; James et al., 1981; Mason and Mayer, 1990; Lewison, 1997].

Evidence of retail life cycles

Retail life cycles have been identified in the evolution of the US downtown department store, variety store, supermarket [Davidson, 1970], discount department store, home improvement centre [Davidson et al., 1976], rural general store [Mason and Mayer, 1990], supermarket, regional discount chain [Lewison, 1997], and warehouse membership club [Sampson and Tigert, 1994]. Dawson [1979] noted their existence in the evolution of the department store, supermarket and discount house, and May and Greyser [1989] found that door-to-door and 'party plan' selling had been driven into the decline phase of the Retail Life Cycle by a combination of demographic and social changes, and inter- and intra-institutional conflict.

The market shares of French retail institutions suggest that inter-related life cycles are in existence [Filsler, 1984], and a continuum of counter-service - self-service - supermarket - superstore - hypermarket occurred in Europe [Knee and Walters, 1985]. Concessions within UK department stores also followed a life cycle, reaching maturity in the 1980s [McGoldrick, 1989].

The initial success of US discount department stores attracted established retailers to the field, including Kresge, Woolworth, Federated, and Dayton-Hudson, pushing the format into the accelerated development phase [Davidson et al., 1976]. Over-capacity drove the onset of the US discount department store's decline phase from the late-1960s, which continued until shakeout occurred [ibid.], and American central city variety stores are said to have entered the decline phase [ibid.].

Forces driving the Retail Life Cycle

- An innovating retail institution normally enjoys significant competitive advantage over existing operators, enabling it to achieve public acceptability, causing sales to rise rapidly [Bates, 1979; Rosenbloom, 1981; Brown, 1987b, 1988a, 1988b, 1990b]

- Geographic expansion drives transit of an institution from the innovation phase to the accelerated development phase [Davidson et al., 1976; Dawson, 1979].
- Success breeds imitation and the technique proliferates [Bates, 1979; Brown, 1987b, 1988a, 1988b, 1990b], largely through established retailers' adoption of the format [Davidson et al., 1976; Dawson, 1979], again driving transition to the accelerated development phase. US discount department stores, for example, were initially pioneered as entrepreneurial, single-unit entities, but established chains metamorphosised into or acquired discount chains following World War II [Hollander and Omura, 1989].
- Conflict between new concepts and established, maturing techniques ends with the new concepts replacing the established ones, before the process starts again [Dawson, 1979], meaning that the concept of conflict is central to the Retail Life Cycle [ibid.]. Conflict between US convenience stores and supermarkets, for example, drove forward the life cycles of both formats [Kirby, 1976a], and department stores' failure to compete with the array and help offered by true specialists hastened their decline [Pennington, 1980].
- Over-capacity resulting from over-expansion of what was a profitable format can drive a retail format into maturity, as profitability declines [Davidson et al., 1976; Rosenbloom, 1981].
- Profitability can decline because of the costs involved in managing a complex, large organisation, causing the onset of maturity [Davidson et al., 1976; James et al., 1981], although some find it difficult to accept the presumption that large scale multi-unit organisations must have diseconomies of scale, and that entrepreneurial managers responsible for the birth of a retail form are incapable of sustaining their retail methods [Markin and Duncan, 1981]. The department store's maturity stage, for example, can be extended by an adept management that penetrates new markets and leverages their inherent strengths in the areas of assortment dominance, price assortment, fashion leadership, locational dominance, scale of unit, and store card penetration [Pennington, 1980].
- Demographic trends affect the Retail Life Cycles of formats. For example, the ageing, more wealthy population prolongs the maturity phase of the department store [Pennington, 1980].
- Decline is not automatic, argue Davidson et al. [1976] and James et al. [1981], it occurs because of an inability to compete with innovating institutions, which tend to challenge formats in the maturity stage [Brown, 1987b, 1988a, 1988b, 1990b]. Decline, however, can be a profitable stage in the life cycle, provided that enough competitors 'abandon ship' in the shakeout that is typical of the stage [Davidson and Smallwood, 1980].

Acceleration of the Retail Life Cycle

The Retail Life Cycle is accelerating, or shortening, a phenomenon addressed fully in appendix 9. Witnessed in numerous retail fields, this is driven by a combination of many factors (appendix 9), with profound implications for retail management – diffusion of innovations will occur more rapidly, leaving a shortened response time, and the physical life span of retail structures is likely to be longer than their economic life span.

Uses

Analysis of the Retail Life Cycle at individual store level facilitates the identification of basic market forces, enabling timely, effective management responses, including the planning, execution and evaluation of business activities [Holmes and Hoskins, 1977], keeping management alert to the need to open new stores to replace outlets that must eventually close [ibid.]. Such use of the Retail Life Cycle, on a micro, rather than macro, basis, infers that the Retail Life Cycle is at least partly manageable and only partly deterministic [Davidson and Smallwood, 1980]. Thinking in terms of an organisation's life cycle allows management to improve its strategic and tactical management [Davidson and Smallwood, 1980], although there is a danger of becoming over-reliant on the concept, ignoring the possibility of temporary setbacks, for example.

The Retail Life Cycle has a place in the formulation of growth, renewal and repositioning strategies, in market analysis, sales forecasting, capital allocation, store location decisions, consumer communications, and in all elements of the retail marketing mix [Davidson and Smallwood, 1980]. At each stage of the Retail Life Cycle, retailers must be willing to adapt their merchandising efforts and operating methods to meet the environmental circumstances of that stage [Lewison, 1997].

Retail Life Cycle concepts were used to forecast maturity in US discount department stores and fast food outlets by the mid-1970s, and US home improvement centres, furniture warehouse showrooms and catalogue showrooms by the early-1980s.

By operating in many retail fields, conglomerates are attempting to strategically avoid the impact of the decline phase [Davidson, 1970], an approach that also reduces vulnerability to economic downturns or changing consumer tastes [Pennington, 1980; Davidson and Johnson, 1981], while

allowing consistent growth. The importance of the store portfolio is illustrated by the UK food retail industry - the co-operative movement has too many stores in decline, compared to multiple competitors [McGoldrick, 1990], largely because of multiples' success in 'rejuvenating and rationalising' their stock of outlets.

The Retail Life Cycle highlights the fact that long-term retail planning requires planned succession of retail packages in order to meet changing customer needs and competitive challenge [Knee and Walters, 1985], and that management must focus on strategic renewal - developing new networks for the future, while maximising returns from existing networks [McCammon, 1975].

The Retail Life Cycle is used by the stock market, albeit rather unwittingly [Kerin and Varaiya, 1985] - negative return on investment is tolerated early in the life cycle of a new firm or retail concept, in the expectation that this will be reversed as maturity approaches. Shortening life cycles (appendix 9) suggest that long-term investments must be viewed with caution [McGoldrick, 1990], as satisfactory return on investment must be made within a short timescale.

Weaknesses

The Retail Life Cycle concept advanced by Davidson et al. [1976] was based on one retail format in one country, the US department store, and has failed to generate significant non-US attention. Moreover, the 1920s and 1930s reinvigoration of the US department store and its long run persistence cast doubt on the life cycle approach [Hollander, 1980]. It rejects the possibility of adaptation by older institutions to new conditions, and that retail forms may persist continually [Bucklin, 1983], and does not adequately reflect the ability of existing retail organisations to metamorphose in effective ways over time, as the US department store did in the 1960s and 1970s [Bucklin, 1983; McGoldrick, 1989].

Like the Wheel of Retailing, the Retail Life Cycle is an intriguing metaphor but a questionable theory of institutional change [Markin and Duncan, 1981], with the process unrealistically presented as 'inexorable, a fated end of economic and managerial determinism' [ibid.], whereas it should be seen as a dependent variable determined by marketing and managerial action [ibid.].

Criticisms levelled at the Product Life Cycle must also apply to the Retail Life Cycle [Filser, 1984], namely that it is difficult to forecast the likely timing of the beginning of a new phase, especially as life cycles shorten. Similarly, Brown [1987b] considers the Retail Life Cycle to be equally as flawed as the Product Life Cycle, but held in similar academic esteem.

The Retail Life Cycle, like other theories of retail change, concentrates on only one aspect of retail evolution [Brown, 1990b], and the term 'decline' is too strong a description, as retail institutions, unlike products, rarely disappear completely.

Extensions to the Retail Life Cycle

Applying the Retail Life Cycle at an individual store level, Holmes and Hoskins [1977] add a stage to each end of the Retail Life Cycle, embryonic and senescence. The embryonic, pre-opening stage is characterised by research, planning, recruitment and the raising of capital, while the senescence stage involves a steady decline in store traffic and deteriorating sales and profits, often caused by factors such as a declining population, urban decay, and falling incomes in the trading area [Holmes and Hoskins, 1977].

Like the Wheel and the Accordion, the Retail Life Cycle originally referred to retailing formats or institutions, but arguably the most significant application is to retail firms [Brown, 1988b]. Applying the Retail Life Cycle to companies, Roth and Klein [1993] found that the limited size of a population for a retail type, competition from imitators and new retail forms, and government control all contribute to the slowdown and decline of a company.

Davidson and Johnson [1981] fragment the Retail Life Cycle, into departments and classifications as well as products and retail outlets, arguing that a store is simply a composite of life cycles with each component moving at its own pace and scale, and that a retail organisation is a collection of stores, each with its own life cycle. Davidson and Johnson's [1981] extension implies that departments, as well as stores and organisations, must be managed with consideration for life cycles, and they continue to recommend the strategic development of a portfolio of stores, departments, locations and merchandise classifications.

Brown [1988b] proposed a combination theory of the Wheel, Accordion and Retail Life Cycle concepts, explained in full under extensions to the Wheel of Retailing (p.25-29, above).

Environmental Approach

2.1.6 Darwinian Theory

The transposition of Darwin's [1859] *Natural Selection* theory of biological evolution to retail institutional evolution means that retail institutions must be viewed as economic species confronting their environments and competing over scarce resources [Etgar, 1984], with only the fittest surviving [Gist, 1968]. Described as 'perhaps one of the most meaningful and relevant propositions contributing to an understanding of the transformation of retail institutions' [Markin and Duncan, 1981], it was advanced as Gist's [1968] 'adjustment theory', although some attribute it to Dreesmann [1968] who also suggested the 'existence of various retailing species' [see Filser, 1984]. Gist [1968] reasons that Darwin's 'survival of the fittest' theory, stripped of reference to specific biological types, holds that the species that best adjusts to its environment is most likely to survive. Because retail institutions are economic species, retailers confront an environment composed of customers, competitors, and a fluctuating technology, the transposition is suitable to explain, to a certain degree, the success of some institutional species and the failure of others [Gist, 1968].

Although not exhaustive, the *major* elements of affecting retail evolution are changes in the consumer character (demographic, social, economic, cultural), in technology, in competition [Gist, 1968], and in the legal environment [Brown, 1988a].

In summary, environmental forces driving retail evolution include changes in per capita income, income disparity, employment, urban form, population size, population density, rate of population growth, sociological forces (such as middle-class esteem), legal constraints (like anti-chain legislation), and, most significantly, technological development (mass transit, escalators, motor car, telephone and computer penetration, for example) [Brown, 1987b; Roth and Klein, 1993].

Evidence

The application of Darwinian evolution to retailing suggests that new retail forms are a manifestation of changes in underlying economic, social, demographic, legal and technological conditions [Brown,

1995b], and forms that fail to adapt to changing conditions will fade away. Evidence of the importance of environmental factors in the birth, growth, decline and death of retail institutions is widespread:

The department store was made possible by environmental change, although this subsequently caused its decline, contends Gist [1968], citing research by Mayfield [1949], suggesting that it emerged in response to the growth of cities, improved transportation systems, rising standards of living, increased capital, the coming of the electrical age, and the development of plate glass and retail advertising, catalysts supported by Bucklin [1972], to which the development of elevators and consumer acceptance of fixed price trading are added [Brown, 1987b]. The department store's decline resulted partly from failure to relocate when suburbanisation and growth of the motor car altered consumers' shopping patterns, and failure to adopt merchandise lines demanded by consumers [Gist, 1968], effectively failing to adapt to its changing environment.

The US mail-order house was also made possible by a changing environment, claims Gist [1968], citing Converse et al. [1958; p.322], including factors such as the development of railways, improved postal services, growing literacy and increased circulation of periodicals, and growing rural demand for a wider assortment of better quality goods than were available locally. By the 1920s, however, the environment had changed as urbanisation, motor car ownership, collapsing rural incomes and rising costs conspired against mail-order, the market leaders of which responded by moving into fixed store operations [Bucklin, 1972; Brown, 1987b].

Growth of the US supermarket was aided by changing environmental conditions, such as the Depression, rising car and refrigerator penetration, and technological advance in the packaging, processing and purveyance of foods [Bucklin, 1972; Brown, 1987b]. Similarly, UK food retail co-operatives, once pacesetters in retail innovation, failed to recognise and respond to the environmental opportunities of the 1970s and 1980s [Brown, 1987b], signalling their demise as the country's leading food retailers.

Discount operations were also driven by favourable environmental changes, contends Gist [1968], again citing Converse et al. [1958; pp.340-341], especially 'fair trade' pricing, successful brand advertising, and improved product quality and dependability. The spread of US suburbia, an

environmental change enabling the development of suburban shopping centres in the early post-war period, eventually worked against these first generation developments as suburbia spread further out, and new centres emerged closer to the majority of suburban consumers' homes [Mason and Mayer, 1990].

US warehouse membership clubs' rapid growth was aided by environmental factors including recession, the maturing of the packaged goods industry, technological advance in inventory control and product movement, and increasing consumer willingness to sacrifice choice and convenience for quality products at reasonable prices [Sampson and Tigert, 1994]. At company, rather than institutional, level, Sears' fall from the premier US retail position resulted from its 'caretaker mentality', which was dedicated to maintaining the majesty of Sears that management thought was unassailable, and its failure to adapt to changing consumer preferences.

In short, there are many examples of environmental changes facilitating retail development and hastening retail demise, and of retail formats failing to adapt over time. Academic attention also focuses on the identification of stages in the life cycle process:

Stages

A short 'mutation' or 'innovation' period is evident, whereby a new retail species (form) develops rapidly and violently, leaving imprints of lasting importance [Dreesmann, 1968], followed by a period of slower, more stable development, when small adjustments are made over a long period [Gist, 1968], although the sum of these changes represents major evolution all the same. Similarly, Markin and Duncan [1981] contend that retail change is shaped by a period of radical change followed by a series of small adjustments.

Three sequential stages of natural selection are proposed [Etgar, 1984] – *variation*, whereby several diverse retail species appear, *selection*, when only a subset of these survive and the rest fail, sooner or later, and *retention*, whereby successful forms are retained and diffused, or reproduced, ensuring survival. Similarly, Mason and Mayer [1990] make a distinction between 'adaptive behaviour', which explains the inception or development of an institution, and 'natural selection', meaning subsequent survival and prospering, or otherwise, of an institution.

Uses and strengths

Described as having ‘intuitive appeal’ [Brown, 1987b], the theory of natural selection, unlike other theories of retail change, does not generalise excessively about observations carried out on one specific sector [Filser, 1984]. It underlines the fact that no retail institution or retailer is immune from the effects of the changing environment [Gist, 1968], and that there must be market opportunity for a retail institution to survive [Markin and Duncan, 1981].

It also implies that a prolonged ability to adjust to changing environmental conditions at short notice is an extremely desirable characteristic of a retailer or a retail institution [Gist, 1968; Markin and Duncan, 1981], while failure to do so means risking being replaced by new institutions.

Continual adaptation to the surroundings is the real secret of retail growth and survival [Markin and Duncan, 1981], awareness of and rapid reaction to changes in the operating environment allows a retail institution to avoid ‘unfriendly’ or potentially harmful elements of change, while realising disproportionate gains from changes in ‘friendly’ elements that work in the institution’s favour [Gist, 1968].

The theory infers that fitness is a moving target, that what survives for the time being is fit now, meaning that the functions and services of the institution are deemed valuable by the marketing environment of the time [Markin and Duncan, 1981], underlining the importance of adaptation to the *prevailing* environment [Brown, 1987b]. In effect, institutional innovations will only prove successful when operational conditions are favourable and only those techniques which are able to adapt to alterations in their trading milieu will survive and prosper in the longer term [Brown, 1987b, 1988a; Sampson and Tigert, 1994], explaining the diversity in the number and type of retail institutions, both within cultures and between different cultures – different environments spawn different types of retail institutions [Markin and Duncan, 1981].

Retail changes are a result of planned or unplanned adaptive responses to threats and opportunities embedded in the environment, argues Etgar [1984], and identification of the key environmental forces affecting retail change is useful in forecasting, as it was in Arndt’s [1972] forecast of Norwegian supermarket development, using cross-country comparative economic indicators.

Weaknesses

Unlike animals, retail executives can think, meaning that retail firms can deliberately change their own forms and function, which is impossible for animals [Drechselmann, 1968; Roth and Klein, 1993]. Similarly, Brown [1987b] human foresight and ability to initiate, choose and plan for change is a key weakness of the biotic analogy, argues Brown [1987b], adding that the environment does not determine what will occur in retailing, it creates possibilities which individuals or organisations are free to exploit or reject as they please [Brown, 1987b].

The original objective of the transposition was to provide an original, non-deterministic path of retail change analysis, while stressing the importance of environmental factors in retail institutional evolution, but lack of empirical validation means that its original potential remains unrealised [Filser, 1984]. The lack of application of the thesis is due to Gist's [1968] failure to identify the mechanisms of selection and survival of novel retail forms [Etgar, 1984]. Brown [1987b] considers existing research on the environmental factors underpinning retail evolution to be almost entirely anecdotal, rather than analytical.

In short, the approach remains relatively unproven academically, although there has been almost universal adoption of an adaptive approach to doing business, while environmental monitoring and strategic planning have become key retail strategies [Brown, 1987b].

Extensions

Markin and Duncan [1981] adopt more biological terms in a largely ignored extension, suggesting that they are equally applicable to retailing. Parasitism occurs when one or two organisms needs the other to survive, as trading stamp companies need retailers. Symbiosis is when association between two or more species benefits all, as voluntary and co-operative chains do the retailer and the overall retail brand owner. Finally, commensalism occurs when organisms belonging to different species have nearly the same requirements, enabling them to live together in the same habitat, as retailers do in trade centres and clusters.

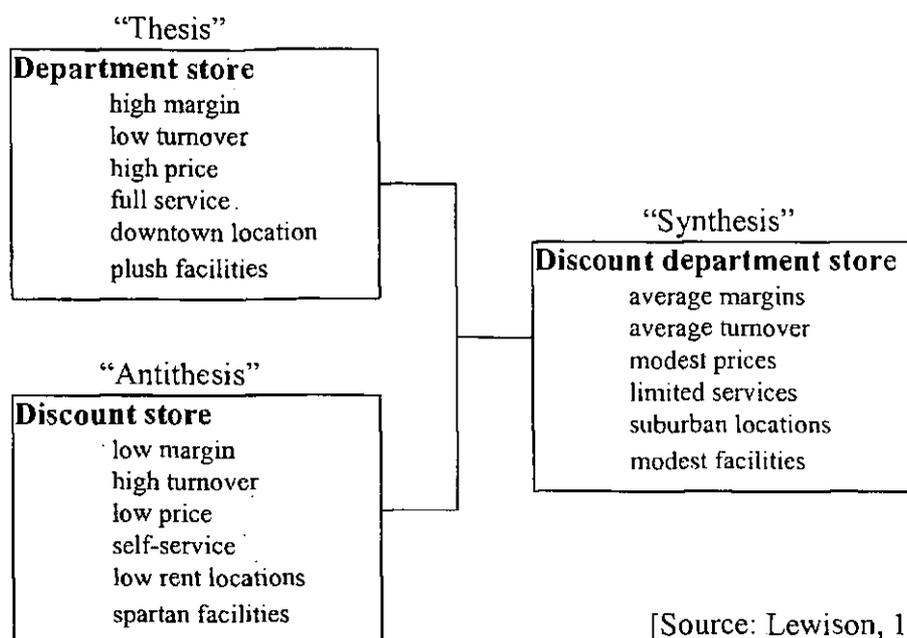
Conflict-based Approach

2.1.7 Dialectic Theory

Although Hollander [1963] had briefly referred to 'concepts of tension within retailing that seem to lead to almost automatic change, in a sort of Hegalian thesis and antithesis', Gist [1968] formally transposed Marx and Hegel's 'Dialectical Materialism' theory of evolution to retail institutional change, an application far from the socio-political and economic changes that it was intended for. Based on the old adage, 'if you can't beat them, join them' [Mason and Mayer, 1990], it argues that an existing thesis is challenged by its antithesis and a synthesis eventually emerges from the melding of the two [Brown, 1987b, 1988a]. It can be summed up as a three step process of retail change:

1. A thesis develops, which in retailing is an established retail institutional form, but in other cases may be a social, political or an economic institution, embodying a philosophical position regarding virtually any issue or question. For example, in politics, this could be a 'laissez-faire' or a 'hands-off' policy in government [Gist, 1968].
2. Over time, an innovative position opposed to the thesis develops, called the antithesis, with a philosophical position opposite that of the thesis, or in retailing, a position opposed to the thesis retail institution. In the political example, the antithesis to the 'laissez-faire' governmental policy could be a 'get tough' policy on big business. The antithesis is a challenge to the thesis, with opposite characteristics, although the two need not necessarily represent polar or complete opposites [Gist, 1968].
3. A subsequent melding or blending of the thesis and the antithesis results in what is called the synthesis, a philosophical position or institution between the original thesis and the antithesis [Gist, 1968].

Figure 2.1.7. The dialectic process:



[Source: Lewison, 1997, p.641]

Synthesis is not necessarily the end of the process, instead it can become the thesis in further evolution, provoking an antithesis which results in further synthesis, and so the process continues [Gist, 1968]. In effect, a synthesis of institutions can become a new thesis, open to challenge by an antithesis institution [Kaufman, 1985].

Described as a ‘mutual adjustment process’, the dialectic process is a form of compromise, accommodation or even regression of two competing value systems embodied in two different institutional types [Markin and Duncan, 1981], which may, over time, result in temporary resolution of the conflict between the two types. It holds that various retail types ‘negate’ their competitors’ advantages by taking on their strengths, thus mutually adapting [Kaufman, 1985], in a process labelled a ‘melting pot’ theory of retail institutional change [Lewison, 1997].

Evidence

US department stores developed because some retailers were attracted by the high-margins earned by specialists, and gradually added new lines, eventually resulting in the department store [Bucklin, 1972], implying that the early department store represented synthesis between the low-margin general retailer and the high-margin specialised retailer. The department store itself became a thesis, as mail-order companies emerged as a challenging antithesis; again resulting in synthesis as leading

mail-order companies Sears Roebuck and Montgomery Ward moved into fixed-store retailing and became department store operators themselves [Bucklin, 1972].

Later in retail evolution, Gist [1968] considered the US department store to be a thesis, challenged by an antithesis, the discount operation, which opposed the department store in terms of location, level of service, organisational structure, mark-up policy, level of stockturn and margin requirements. In time, the discount department store emerged, a synthesis of the two forms, with a margin and turnover policy mid way between them [Gist, 1968; Davies, 1976]. Similarly, Jung [1961], revealed a narrowing of the price differential between Chicago discount houses and conventional retailers of durable goods, particularly department stores, which he attributed to conventional retailers' elimination or modification of services in order to become more price competitive, and discount houses' addition of some service and costs in the form of better showrooms and more expensive locations, supporting the principle of synthesis before its transposition to retailing. Tillman [1971] also found that US discount stores moved to more expensive locations and added sidelines such as drug and grocery departments, until they resembled discount department stores, far from their original form.

Later department stores' focus on high fashion merchandising while abandoning many staple classifications contradicts department store-discount store synthesis [Hollander, 1980], while their adoption of self-service and high density display techniques, plus the emergence of 'upgraded' discount stores supports it [ibid.]. Department stores' discounting of merchandise similar to that offered by off-price retailers negated the challenger's strengths to some degree, argues Kaufman [1985]. Similarly, in the UK, London 'middle-class' co-operative societies of the 19th century, which were industry price-setters, forced competitors to follow their price-cutting, cash-sales policies, and eventually became largely indistinguishable from privately-owned department stores [Pennance and Yamey, 1955].

The fight between downtown department stores and suburban shopping centres led to the development of a synthesis, with department stores establishing branches in suburban shopping centres [Gist, 1971, and merchants establishing downtown shopping malls [Etgar, 1984], and discount department stores [Brown, 1987b, 1988a]. Similarly, Mason and Mayer [1990] consider that the department store (offering both hard and soft goods, a wide array of services, and attractive

surroundings) represented a thesis, the discount store (offering similar merchandise, but in unattractive, low-cost surroundings, without services such as credit and delivery) its antithesis, resulting in synthesis, namely the promotional department store such as K-Mart, a blend of the strengths of both.

Preferring to employ biological analogies, Dreesmann [1968] referred to a metamorphosis of superettes, drugstores and small variety stores into new forms which were indistinguishable to the untrained eye, while Bucklin [1972] states that in the US, the chain store system spread quickly from variety store retailing, where it originated in the late 19th century, to the pharmaceutical, clothing, furniture, shoe, food and department store fields, suggesting that a degree of synthesis occurred to which Kacker [1988a] added the field of toys.

Pennance and Yamey [1955] noted tendencies towards synthesis in UK grocery retailing, namely that in the second half of the 19th century, privately-owned grocers adopted characteristics of co-operative societies, including the payment of patronage dividends, while Duncan [1965] claims that the US independent grocery store and independent meat store merged into the combination food store, and then the supermarket, both writing prior to the formal transposition of the Dialectic process.

In the USA, the thesis of established food retail chains was challenged by independent operators, who seized the early supermarket initiative, representing an antithesis. Chains of supermarkets resulted from both established retailers moving into supermarkets themselves and the growth of independent supermarket pioneers into chains [Bucklin, 1972; Etgar, 1984]. These efforts soon became obsolete, however, and a second antithesis emerged as a second wave of larger supermarkets developed from the 1960s [Bucklin, 1972]. In the UK, melding of the traditional counter-service grocery store and the supermarket, its antithesis, resulted in a synthesis, the self-service grocery store [Davies, 1976; Brown 1987b, 1988a], while in LDCs, entrepreneurial retailers have created mini-supermarkets that are an intermediary step between traditional small food stores and supermarkets [Goldman, 1981], representing synthesis of the two.

The 'soft goods' discount house is a synthesis of soft and hard goods retailers, which were challenged by self-service supermarkets [Bucklin, 1972], and the 'Toys R Us' chain blends the

concepts of self-service, discounting and speciality retailing [Kacker, 1988a], while a catalogue showroom is a hybrid of traditional retail merchandising, with in-store counters and displays, and non-store retailing, offering telephone and mail-order shopping [Korgaonkar, 1981], supporting mail-order companies' moves into both traditional retailing and catalogue showrooms following the 1920s decline of the US mail-order market [Duncan, 1965].

There is further evidence of established retailers' dialectic reactions to low-cost entrants in Appendix 8. In short, however, there is significant evidence of dialectic tendencies in retailing, which has been observed between general and specialised retailers; department stores and discount operations; department stores and mail-order houses; department stores and supermarkets; co-operative and private retailing; superettes, pharmacists and variety stores; self-service and numerous retail forms; food chains and supermarkets; counter-service grocers and supermarkets; hard & soft goods retailers and supermarkets; and traditional retail merchandising and non-store retailing. Many retail forms have emerged due to partial synthesis, at least, occurring between conflicting retail types, including department stores, discount department stores, soft goods discount houses, suburban department stores, supermarket chains, self-service grocery stores, catalogue showrooms, and wholesale/warehouse clubs.

Forces driving Dialectic evolution

When attacked by a new retail form meeting with great success and expanding rapidly, established retailers can be driven to undertake a conscious revolution, wilfully transforming themselves as quickly as possible into the more modern type [Dreesmann, 1968]. Similarly, the penetration of local discount competition was found to be directly related to department stores' adoption of self-service and implementation of direct price matching and repositioning policies [Gross, 1964], suggesting that department stores were reactive rather than proactive. In the same vein, US food retail chains rapidly evolved to become supermarket chains when new and deadly supermarket competitors appeared [Dreesmann, 1968].

Any established retail formula will always attract an 'opposite' [Filser, 1984]. For example a retail sales format offering no service will emerge to compete against a format with high levels of service, forcing the latter to adopt certain characteristics of the innovator, driving a degree of convergence between the two [ibid.].

US department stores' adoption of private label, which was an attempt to develop a new differential strength, drove synthesis because private label is easily replicated [Kaufman, 1985]. Extensive upgrading of services, including the sales environment, also tends to move stores closer together, particularly when major players embark on extensive store remodelling programmes [ibid.] and common responses to the changing environment drive synthesis [ibid.].

In the eyes of US consumers, the differences between department stores, discount stores, mass merchandisers, speciality stores and off-price retailers are diminishing [Kaufman, 1985], due to a proliferation of branded merchandise at discount prices, growth of private label, extensive store upgrading, and improved services, yet stopping short of full synthesis.

Strengths, weaknesses and uses

The dialectic process is a means through which to observe and explain retail change more systematically [Gist, 1971], particularly that brought about through competition [Fullerton, 1987]. It is 'a comprehensive strategic tool in analysing today's rapid retail evolution', [Kaufman, 1985], a useful management tool for identifying potential strategic problems, that may also assist in the anticipation of future competitive response to strategies [ibid.]. Recognising a synthesised marketplace presents retailers the opportunity to differentiate and grow [ibid.], rather than trying so hard to emulate others' strengths that few real strengths of their own emerge [ibid.]. Conversely, efficient and successful retailers often profit from the entry of 'revolutionary' firms, by applying to their own business any new innovations they offer, turning a temporary disadvantage into a long-term benefit [Jung, 1961].

In effect, the dialectic process teaches retailers that they must maintain vision and institutional flexibility, as those that do are able to avoid the synthesis trap, identify new opportunities early, reposition themselves rapidly, and pre-empt competition in profitable growth markets [Kaufman, 1985]. When faced with the challenge of an innovator, established institutions must either respond or risk failure, but the melding process is by no means inevitable [Brown, 1988a], as it is still possible to develop non-emulatable strengths [Kaufman, 1985].

The Dialectic process explains what happens to a retail innovation once it appears on the retail scene and how it becomes accepted in the retail community, but fails to explain how and why a specific retail innovation appears and succeeds, while others fail [Etgar, 1984]. It is of 'limited interest' because of the difficulty in pinpointing the position of a format in its dialectical process, according to Filser [1984], and, like other theories of retail change, is accused of only addressing a partial aspect of retail change – evolution following inception [Etgar, 1984], but provides a clear, useful process of retail institutional conflict nonetheless.

2.1.8 Overview of the theories of retail change

Theory	Key hypothesis	Cases of application	Cases of non-application	Notes
Wheel of Retailing	low-price, low-quality operations 'trade-up' to become high-price, high-quality operations	Widely observed in many areas of retail change, in particular in high-level, developed economies.	Not applicable to all areas, even in the US and the UK. Not applicable to countries with low-level economics.	Has received the most academic attention, but addresses only one aspect - trading up. Numerous causes of trading up advanced, but no consensus reached.
Retail Accordion	wide-range, general retail operations give way to narrow-range, specialised retail operations, which in turn give way to wide-range, general retail operations, and so on.	Successfully applied to many areas of retail change, but these are concentrated in the USA and Europe.	Not applicable to all areas, several cases of non-application, even in the USA and Europe.	Again, addresses only one aspect - cycle in which traders alternate between specialisation and diversification. Less academic scrutiny than Wheel, but many causes proposed
Polarisation Principle	The growth of large institutions creates a market for small, convenience stores, located near to people's homes.	Successfully applied to several countries, notably the USA, the UK, Western Europe and Japan	Has not received sufficient academic attention for cases of non-application to arise.	Has not received large amounts of academic attention, and again addresses only one aspect - the relationship between large and small stores. Limited debate on causes of the process.
Multi-polarisation model	Suggests that developments at one end of the price, assortment or service level spectrum will induce counter-balancing activities at the opposite end.	Has not received sufficient academic attention for cases of application to arise, although those of the Wheel, Accordion & Polarisation Principle remain valid.	Has not received sufficient academic attention for cases of non-application to arise, although it must suffer the same criticisms as the Wheel, Accordion & Polarisation Principle.	Combines the Wheel, Accordion and Polarisation models, but is not thoroughly tested itself. Addresses multiple aspects of retail change, and retains conceptual clarity.
Retail Life Cycle	An institution goes through stages, or life cycles, from birth, through to growth, maturity and decline.	Valid for many retail formats in the USA, but has received little academic attention.	Has not received sufficient academic attention for cases of non-application to arise.	Not thoroughly tested. Observed parallel with the wheel of retailing. Limited academic attention means few causes have been advanced.
Darwinian Theory	The reaction of individual institutions to changes in their environment is the key to survival. "Survival of the fittest"	Has not received sufficient academic attention for cases of application to arise.	Has not received sufficient academic attention for cases of non-application to arise.	Not thoroughly tested. Easy to envisage, but in many ways a statement of the obvious, with no clearly stated cause of process.
Dialectic Theory	Retail change is a result of negation of competitors' advantages. In time, mutual adaptation takes place. "If you cant beat them, join them" [Mason and Mayer, 1990]	Part synthesis observed in UK food retailing, and other markets.	Full synthesis not yet observed.	Easy to envisage. Observed, at least in part. Fails to account for the influence of the operating environment.

2.1.9 Conclusion

The various theories of retail change are criticised most frequently for addressing only one aspect of retail change, not being applicable to all types of economy, having cases of non-conformity in qualifying economies, and for focusing excessively on US retail change. In response to this, proponents would argue that addressing only one aspect of retail change (three in the case of the multi-polarisation model) allows a model to retain the possibility of presenting a conceptually clear and un-muddled message, that the vast cultural and economic differences between the developed and the developing countries make it unreasonable to expect any single theory of retail change to apply universally, and that exceptions to the rule are common in many theoretical fields, meaning that examples of theories failing to explain retail development will always surface, no matter how sophisticated the theory, although this does not automatically mean that a theory should lose its respected position (see appendix 6).

Awareness of the criticisms of the theories is central to overcoming any bias that may be inherent in them, a theory should never be considered universal, as by definition this would mean it becoming a law (appendix 6), and there is always a possibility that the case in question could be an example of non-application. Excessive focus on the USA can only be addressed by research and application of the theories in other settings.

There is confusion as to whether theories of retail change should be applied to retail institutions or companies, far removed events are distorted by the lack of good historical information, definitions of institutions can be misleading, and, as with cloud watching, the data becomes vaguer and vaguer as it is approached [Hollander, 1980]. The ahistorical nature of the theories of retail change means that we can never be sure that the patterns will continue into the future [ibid.], and they are said to attempt to predict the future by taking the cultural/historical setting as static [Kumcu, 1987]. Analysis rests too heavily on selected examples [Hollander, 1980; Brown, 1897b], meaning that writing on the subject generalises excessively, claiming relevance beyond the single line of trade and short period into which research was carried out [Savitt, 1989].

Cyclical theories are described as simplistic, overly speculative, deterministic, offering insufficient explanation of how and why change takes place, failing to recognise that change can be explained only within the broader context of the society and culture [Markin and Duncan, 1981], being

preoccupied with pattern, lacking firm empirical support, and presupposing long-term retail institutional equilibrium [Brown, 1987b, 1988a]. In addition, most cyclical theories are considered as relating to partial, rather than complete, cycles, meaning that they deal only with the rise and fall of institutions, rather than with a repetitive, truly cyclical, wave-like phenomenon [Gist, 1971; p.364]. The environmental approach relegates the innovator to a role of secondary importance, presents retail institutions as passive and automatic, and ignores the decision-making element, contends Brown [1987b, 1988a], the majority of studies on the environmental approach are anecdotal rather than analytical [ibid.], and favourable environmental conditions by no means guarantee the emergence of a retail institution [ibid.]. Conflict models pay little attention to the reasons behind the success or failure of institutions [Etgar, 1984; Brown, 1987b], the origins of institutions, or the form they eventually take [Brown, 1987b]. Moreover, they fail to incorporate external influences, with all change rather narrowly being seen as resulting from inter-institutional strife [Brown, 1987b, 1988a].

Extensions to theories have generally disappointed due to their lack of conceptual clarity, despite notable exceptions such as Brown's [1987a] multi-polarisation model, and have failed to ignite academic imagination. The basic concepts of the various theories, however, are relatively well founded, and retail change in the developed, free world frequently demonstrates their relevance. The review of the literature pertaining to the theories of retail change (2.1) identifies many dozens of cases of application, and arguably more importantly, cases of non-application, driving forces, and consequential effects of retail change.

Arguably the most significant application of retail change theory, however, is to individual retail firms [Brown, 1988b], which maximises their strategic value and stimulates academic debate [ibid.]. This approach is gaining momentum, and alleviates the problem of lack of detailed statistics, side-steps the problem of institutional definition, gives institutional concepts managerial relevance [Brown, 1988a], and fits in with modern retail history, which is often set in the framework of company history and merchant biography [Hollander, 1963]. This study straddles the traditional 'institutional' approach and the more recent, company-specific approach, by allowing retail movers and shakers from various retail company backgrounds to explain their understanding of the UK food retail industry since 1950.

2.2 Review of published literature on UK food retailing

Although there is a considerable, albeit fragmented, body of published literature on the theories of retail change, little attention had been paid to the evolution of UK food retailing itself. The last major chronicle of UK retail development was published nearly 50 years ago by Jefferys' [1954], and was an epic chronicle of British retail development from 1850-1950 explaining retail evolution in general, while devoting significant attention to the grocery trade [pp.126-180], among other types of food retailers. Although it is impossible to do justice to Jefferys [1954] work in few words, the period covered is significant as it included the growth of co-operative societies, following on from the 1844 Rochdale Pioneers, finding that the key co-operative catalysts included the growth of mass-produced products in the industrialised society, which were better suited to retail by large-scale retailers, the unsatisfied food needs of the late-19th century working classes, to whom price became more important prior to World War I. In the inter-war period, rapidly growing large-scale manufacturers attempted to control the retailing of their products more closely, and private, skilled grocers lost ground to both multiples and co-operatives, who increasingly secured the prime locations and the largest customer bases, while multiple growth outpaced that of co-operatives.

The second half of the 20th century, however, suffered a serious drought in literature on UK food retail development. Books tended to concentrate on specific fields of retail development such as resale price maintenance, trading stamps and Sunday trading, or were specific retail company histories or key personalities' biographies. All these approaches are valuable and serve a purpose, but do not go a long way towards a comprehensive post-war food retail history, explaining how and why developments occurred. Recent moves redress this balance somewhat, particularly Seth and Randall's [1999] work outlining the development of the leading contemporary food retailers, providing an authoritative voice on the development of individual food retailers.

Literature focusing on a single element of retail development are a useful source of detailed information. The issues addressed tend to be the most hotly and longly debated ones, such as RPM [Yamey, 1954, 1964, 1966; MacDonald, 1964; Stamp, 1964; Crane, 1969], trading stamps [Fulop, 1973; Fox, 1968], and Sunday trading [URPI, 1983; Kay et al., 1984; Burke and Shackleton, 1986, 1989; Kay, 1987; Burton, 1993; Healey & Baker, 1996]. Company histories and executives' biographies concentrate on the longest established retailers. The co-operative movement takes the

lion's share of attention [see for example, Hollyoake, 1897, 1907, 1908; Redfern, 1913, 1938; Smith, 1932; Carr-Saunders et al., 1938; CWS, 1951; Bonner, 1970; Richardson, 1977; Kinloch and Butt, 1981], although like the movement itself, literature on it suffers from being rather fragmented in nature. Sainsbury's history is set out in detail by Boswell [1969] and Williams [1994a], while that of Tesco is addressed in the biographies of Cohen [Corina, 1978] and MacLaurin [MacLaurin, 1999] and the company histories of Powell [1983, 1991]. The development of Kwik Save, now part of the Somerfield group, is documented by Sparks [1988], and that of William Low, absorbed in 1994 by Tesco, by Howe [2000]. Although M&S have only a minority interest in food, in comparison to clothing, their long history has ensured a great deal of literary interest, through both company histories [see for example, Rees, 1969; Briggs, 1984; Tse, 1985; Bookbinder, 1989; Burns and Hyman, 1994;], and works of key executives [see for example, Sieff, 1970; Sieff, 1986; Goldenberg, 1989].

Jeffreys [1954], however, remains the reference yardstick of UK food retail development, and a sizeable void was left when this much quoted, oft referenced volume stopped at 1950. Although there is a significant body of literature addressing UK food retailing in the post-1950 period, this is focused on either individual companies, retail personalities, or specific developments, leaving an unfilled vacuum for a major chronicle of UK food retail change on the second half of the 20th century, taking an industry-wide, multi-development perspective, with an emphasis on explanation rather than merely chronicling developments, a vacuum that this present study seeks to fill.

Chapter 3.

Aims and Methodology

3.1 Aims and Methodology

A multi-stage approach was adopted to answer the aims and objectives of the research, which were identified as being:

- to identify the elements of the theories of retail change best suited to explaining UK food retail change post-1950, to use in forecasting.
- to develop new theory and better understanding of existing theory, grounded specifically in UK food retailing post-1950.
- to uncover the forces driving the changes identified as being important.
- to provide information to explain the key changes in UK food retailing post-1950
- to generate quotations and references to illustrate the changes, and to bring the project to life with a human dimension.

Although initially it appeared ambitious to attempt to fulfil multiple criteria, many of the areas shared common ground, and could therefore be addressed at the same time. In aiming to uncover the forces driving the changes, a by-product was a 'history' of the major events to have taken place, from the viewpoint of the interview subject, because the interviews were unstructured (see below). Likewise, the fifth objective of generating quotations and references with which to illustrate the chronology was amply fulfilled in the interviews.

Thus, the last three objectives were condensed into one main research agenda : to uncover the forces driving changes in UK food retailing post-1950. In uncovering the driving forces, a history of the main events to have taken place was developed, and quotations were obtained which were used to explain the changing retail structure in chapters 5 and 6.

The first two objectives were also closely related, as their common goal was to generate theory and understanding of theory, grounded in UK food retailing post-1950, whether existing or new in origin. Chapter 7 evaluates the success of this, and chapter 8's forecast of likely future developments in UK food retailing to 2010 is based upon it.

In summary, the main objectives of the qualitative research were to uncover the forces driving/constraining UK food retail change post-1950, and to identify the patterns of these forces so as to generate or verify retail change theory,

Secondary research and primary research both played a role, with primary research being the key tool. Secondary data was used to chronicle the development of UK food retailing between 1950 and 2000, and primary research in the form of unstructured interviews generated explanations for this, based on the testimonies of key actors of the period, and also reinforced the major trends identified from the secondary data. The qualitative data obtained from interviews with the decision makers of the period forms the basis of the explanations advanced in chapters 4 and 5, and is supported by reference to secondary materials.

The interview transcripts were analysed using a technique based on grounded theory to establish the relevance of existing retail change theory to UK food retail change post-1950, to generate new explanations and better understanding of the existing body of theory, and to suggest new theory, all grounded in UK food retail change post-1950.

Primary research in the form of a Delphi survey was used to make a forecast of likely developments in the sector to 2010, and a second forecast based on relevant theoretical aspects was compared to this. A third forecast, based on likely socio-economic and technological trends was produced from secondary sources, as socio-economic and technological change has been a major influence on UK food retail development post-1950, and is likely to continue to be.

3.1.i: Secondary Data

Books, industry reports, magazines and journals were studied before the primary research was undertaken, with the aim of developing a thorough understanding of UK food retail change post-1950, before beginning the interview process. This was necessary in order to be able to ask relevant questions in the interviews, to understand responses to questions, and to be able to probe further when necessary, as well as to find statistics suitable for illustrating the changing nature of UK food retailing. The primary aim, therefore, of the secondary research was to provide a background knowledge and understanding of the forces driving UK food retail change which could be expanded and extended during the primary research phase, and to uncover statistics for illustrative purposes.

The Grocer was studied in the early phase of secondary research, at the IGD which holds a collection dating back to the 19th century. *International Journal of Retail and Distribution Management* (replacing *Retail and Distribution Management*) approaches the material with more academic rigour, and provided some good reference articles from 1974 onwards. *Retail Business*, published by Economist Publications was another good source of materials, particularly of statistics, from 1969-1998. *Service Industries Journal* occasionally focuses on retailing, and provided a few useful insights from 1981, as does *The Economist*, which was studied from 1970 onwards.

Government publications provide valuable data on the structure of the UK food retailing, but data is limited post-1975, because "the provision of government statistics in general and those of the distributive trades in particular slowed down as the Government of 1976 to 1979 sought to cut government expenditure" [Moir and Dawson, 1992; p.26], a programme which the incoming government of 1979 accelerated [ibid., p.26]. The *Census of Distribution*, taken in the years 1950, 1957, 1961, 1966 and 1971 is a valuable source of statistical information, although some classifications change from year to year, sometimes making comparative analysis difficult. It was also based on a sample in 1957 and 1966, making data from these years less reliable. It was replaced by the *Retail Inquiry*, the results of which were published in *Business Monitor SDA25/SDO25: Retailing*, but was less useful because it failed to include statistics on shop sizes and the geographical distribution of retail outlets [ibid., p.25], and altered its definitions and classifications so frequently that it made use of the data difficult [ibid., p.26], and was published only for the period from 1976 to 1986, annually at first, then biannually. A full evaluation of government and non-government sources of retail and wholesale statistics has been carried out [Moir and Dawson, 1992], and the primary aim of researching such sources was to obtain statistical data. As the definitions employed have altered over the years, care needs to be taken when interpreting results in detail, but for the purposes of a qualitative study it remains valuable as a means of depicting long-term trends.

Finally, newspapers were not neglected, and of particular use was *The Financial Times*, which periodically addresses issues relevant to the food retail industry. *The Times* was also useful on occasions, as was *The Guardian*.

3.1.ii: Primary Data - qualitative research

Qualitative research was undertaken to establish ‘how’ and ‘why’ changes took place in UK food retailing post-1950. The primary aim of the research was not to discover ‘what’ the changes were, although this was in fact a desired by-product of the research, the principle objectives were to uncover the forces driving or constraining change, to corroborate the key changes identified from the secondary research, and to explain how and why change took place.

Qualitative research is particularly suited to answering ‘how’ and ‘why’ questions [Yin, 1994], so it was clear that this was an appropriate approach. In addition, the decision to undertake qualitative research was supported by the fact that numerous contacts were available in the industry, and were a potential source of original data that could provide new insight into the changes that have taken place. Qualitative research, through interviewing, seemed the natural and most effective way to benefit from this potential.

Quantitative research is well suited to the manipulation of raw numerical data, while qualitative research is likely to be of more use in discovering the forces at work behind the data. Qualitative research was deemed appropriate for this project because it is “a source of well-grounded, rich descriptions and explanations of processes” [Miles and Huberman, 1984], offering “opportunities to develop analytic perspectives” [Miller, 1997], and it allows the researcher to “preserve chronological flow” and “derive fruitful explanations” [Miles and Huberman, 1984].

The outlined advantages of the qualitative research technique fitted well with the main aim of uncovering the forces at work behind the changes. Qualitative research also has the advantage that the end result is in words, which to quantitative advocates may seem a disadvantage. In this case, however, the use of words has certain advantages, namely that they have a “concrete, vivid, meaningful flavour that often proves far more convincing to a reader than a page of numbers” [Miles and Huberman, 1984]. Qualitative research, thus, is conducive to the production of a readable end product.

Qualitative research is a broad term encompassing numerous different techniques such as “case studies...ethnography and grounded theory” [Yin, 1994]. Having chosen to undertake qualitative

research because of its general suitability to the research agenda, it was necessary to choose a specific technique.

Ideally, two or more sets of qualitative research could have been carried out, as the verification of existing body of theory would traditionally have taken a different approach from the generation of new theory. Time constraints, however, ruled this out at the outset. The research was limited by time, as were the interview subjects, so it was decided to interview key decision makers of the period, in a way that would accommodate both the key research objectives of the qualitative research.

It was decided to conduct unstructured interviews. A study of the literature and examples of qualitative research suggested that a structured approach to data collection can force or bend data to fit categories, encourage the overlooking of underlying phenomena [Miles and Huberman, 1984], and suppress unexpected revelations [Baszanger and Dodier, 1997]. The unstructured approach is more likely to uncover unexpected revelations and underlying phenomena, better suited to theory generation [Glaser and Strauss, 1967], and practitioners have found that "...generating theory goes hand in hand with verifying it" [ibid.]. The unstructured approach promised to satisfy all the research objectives, and presented the opportunity to allow subjects to digress, which often results in 'useful information' [Simon, Sohal and Brown, 1996], largely because it encourages subjects to behave in an 'endogenous manner...not influenced by the study arrangements' [Baszanger and Dodier, 1997], and enables people to tell "real" stories' [Simon, Sohal and Brown, 1996].

The unstructured interview approach aimed to encourage the subject to explain the changes important to him or her, and to avoid any 'leading' of the subject. Questions asked were to clarify understanding of points rather than to influence the course of the conversation, an approach which has been shown to bring many benefits, notably by Terkel [1972], who claims to simply turn on his tape recorder and invite people to talk:

"In short, it was conversation. In time, the sluice gates of damned up hurts and dreams were opened" [Terkel, 1972]

The unstructured interview technique was employed, based upon Terkel's technique, and the interviewer simply introduced himself and explained his objectives for the interview. The subject of the interview was then asked to explain what, in his or her mind, were the most important changes to

have taken place in UK food retailing since 1950, and to explain how and why they happened. Further questions followed in order to clarify points, while remaining sensitive so as not to divert the path of the interview. The questions were of a casual nature, as asked in a conversation, a technique that has been successful in Terkel's work, and were normally saved until the end of the interview to avoid interrupting the flow of conversation.

Bias is a problem inherent in qualitative research, and although hard to quantify, it is certainly impossible to eliminate. It has been shown to enter the research at several stages, including the selection of the researcher [Miller and Glassner, 1997], the way in which questions are asked [Holstein and Gubrium, 1997], asking the wrong questions [Kirk and Miller, 1986], and through the influence of subjects' opinions [Kirk and Miller, 1986].

In short, bias is inherent in qualitative research through interviewing. While the elimination of bias is unrealistic, the study aimed to minimise it by allowing the interview subjects to drive the direction of the interview, and by verifying stories and claims in later interviews.

Having established what the research aimed to find out, and established the basic format of the interview, it remained only to decide on the method of data analysis. A method based on the grounded theory technique was chosen [Glaser and Strauss, 1967; Strauss, 1987], although existing knowledge of the theories of retail change precluded use of the grounded theory technique in its purest form, as this involves the researcher approaching the data with little or no knowledge of existing theory in the area [Goulding, 1999; p.869].

The grounded theory approach, however, does allow 'concepts and theories from related fields (to be) explored to provide and enhance theoretical sensitivity throughout the process' [Goulding, 1999; p.868], although they should not be allowed to colour the perceptions of the researcher [ibid., p.868-9]. Prior theoretical knowledge is therefore not necessarily an impediment to the successful use of the grounded theory technique, and in fact plays a sensitising role [Glaser, 1978], as long as the researcher avoids constraint of vision, which can cut off the possibility of developing new theoretical insight.

Although not explicitly using the grounded theory approach, research using techniques drawing on ‘recommendations by Glaser and Strauss [1967] and Miles and Huberman [1984]’, has successfully established that ‘some elements suggested by the literature and prior intuitions could be grounded in evidence, while others could not’ [Sutton, 1987; p.547]. It was decided to adopt a similar approach, based on grounded theory, as proposed by Glaser and Strauss [1967] and Miles and Huberman [1984], to generate new understanding of retail change, whether entirely new theoretical ideas, or enhanced understanding of existing ideas, and to evaluate the relevance of the body of existing retail change theory, grounded in UK food retail change post-1950. The researcher remained sensitive to new theoretical developments throughout the interview process, allowing explanations of change to emerge, rather than forcing them to fit existing theories, despite a knowledge of the existing body of retail change theory prior to undertaking the interviews. In fact, it is rare for studies to genuinely interweave data collection and theorising of the kind advocated by grounded theory [Bryman and Burgess, 1994; p.6], and the technique ‘is widely adopted as an approving bumper sticker in qualitative studies’ [Richards and Richards, 1991; p.43], making an adapted approach seem more appropriate than bending a technique to fit the needs of the project.

A key principle in the grounded theory technique is its emphasis on ‘the generation of *theory* and the *data* in which that theory is *grounded*.’ [Strauss, 1987¹]. The researcher is said to benefit from ‘regarding all theoretical explanations as provisional; and following clearly defined research procedures’ [Carson and Coviello, 1996]. The fact that all concepts are initially regarded as provisional brings rigour to the technique, and the approach based on the grounded theory technique aimed to preserve this. The modified approach, based on the grounded theory technique, answered the research agenda of verifying existing theory, providing new explanations and generating new theory, grounded in the testimonies of key decision makers whose strategic vision and foresight was instrumental in shaping UK food retail change in the second half of the 20th century. In approaching only key decision makers, such as chief executives of the period, the research objective of developing an understanding of the key forces shaping change over the period was more likely to be answered, as these are the people who made the actual decisions shaping change in the industry.

The sample of interview subjects was drawn up over several brainstorming sessions with industry contacts, and was revised on each occasion. The sample focused on senior (board level) members of

¹ Reproduced in Glaser [1978].

the important food retail organisations of the period, or those who could tell about them, and on senior characters specialised in specific fields. Some of the key movers and shakers of the period were deceased, and others declined to be interviewed, but of the 39 subjects approached, 23 agreed to be interviewed, representing an uptake rate of 59%. Four of the recordings were sadly unusable due to their poor quality, and the 19 usable interviews undertaken for the research are detailed in figure 3.1.iii, which also briefly summarises their retail careers:

Figure 3.1.iii: Interview subjects:

Interview subject	Brief career history	Period of activity	Other appointments
Tony de Angeli OBE	Journalist, rising through local papers & Fleet Street agencies to become editor of the Grocer, and Marketing Director, Publishing Director and Editorial Director of William Reed Publishing.	1953-1996	Magazine Editor of the Year, 1971. Regular contributor on BBC Radio 4's Jimmy Young programme (Thursdays), for last 29 years. Regular contributor to leading magazines, newspapers, TV & radio. Has been a member of IGD Executive Council, chaired the 1995 MAFF Nutrition Task Force. Non-Executive Director of Blenheim Group, 1991-1996; Chairman, Tarsus Publishing, 1999-present.
Peter Asquith	Macgay Ltd. - Property Company. Asquith Dairies - ASDA. Supermarkets - Meat. Royal Navy. Family Business - Meat.	1980-2001 1965-1980 1947-1965 1945-1947 1943-1945	
Tony Campbell	ASDA, joined as Divisional Director, Operations Services rising to Operations Director, Joint Managing Director, Trading Director, and more recently Deputy Chief Executive. Formerly held senior management positions at J Sainsbury plc and Hillards Superstores.	1985-2001	Non-Executive Directorships for First Choice Holidays plc., Virgin Wines, Pets at Home Ltd., Blackwell Books, Red Devil and Alaska Food Diagnostics.
Denis Cassidy	Liberty plc, Chairman. Oliver Group, Chairman. Boddington Group plc, Chairman. Storehouse plc, Deputy Chairman. British Home Stores plc, Chairman, Chief Executive Director (various roles), Executive.	1995-1997 1992-1999 1989-1995 1986-1987 1969-1986*	* merger in 1986: Habitat-Mothercare

Trevor Dixon	Association of Convenience Stores, Chief Executive. Independent Consultant. Numark Chemists, Development Manager rising to Managing Director. Allied Grocery Distributors (VG Food Stores), Marketing Director, rising to Managing Director. Key Markets, Senior Grocery Buyer. Alliance Wholesale Grocers, Buyer. Lipton Ltd, Buyer.	1994-present 1989-1994 1984-1989 1970-1983 1967-1970 1962-1967 1956-1962	
Bob Fee	Responsible for Food Operations at Marks & Spencer, which included Marketing, Supply Chain & Store Development. Cost & Management Accountant, working in a variety of roles for British Rail, Unilever and Marks & Spencer.	1992-2000 1967-1992	
John Fletcher	Consultant, lecturer & broadcaster, re. food industry. Barker & Dobson, then Budgens plc., Chairman & Chief Executive. ASDA, Managing Director. Oriel Foods, Chief Executive.	1991-Present 1985-1991 1981-1984 1978-1980	Fellow, Institute of Grocery Distribution. Companion, Institute of Management.
Mike Groves	Retailing World. Founder/Editor. Trade Marketing Consultant. International, Marketing Director, rising to Managing Director/CEO. Tesco, Buying & Marketing.	1984-1992 1982-1998 1975-1981 1968-1975	
Michael Hague-Moss	Has worked in retail market research for over 20 years on behalf of many of Britain's leading retail organisations.	1970-present	
Clive Humby	Dunnhumby, Chairman. CACI, Chief Executive. CACI, Analyst.	1989-present 1985-1989 1976-1984	<i>Instrumental in the application of ACORN to retailing. Specialised in the application of loyalty scheme data.</i>
Sir Dennis Landau	CWS, Chief Executive CWS, Deputy Chief Executive. CWS, Controller - Food Division. Cadbury Schweppes Ltd.	1980-1992 1974-1980 1971-1974 1952-1971	
Lord MacLaurin of Knebworth DL	Tesco, Chairman . Tesco, appointed Deputy Chairman. Tesco, appointed Managing Director. Tesco, appointed to the Board. Tesco, Management Trainee, rising to senior level in Retail Operations.	1985-1997 1983 1973 1970 1959	IGD President, 1989-1992. Retail Consortium, Food Policy Group, Chairman, 1980-1984. Stock Exchange Advisory Committee member, 1988-1991. Non-Executive Directorships for Enterprise Oil, 1984-1990; Guinness, 1986-1995; National Westminster Bank; 1990-1996; Gleneagles Hotels plc, 1992-1997; Whitbread plc, 1997 to present; Vodafone, 1997-present, rising to Chairman, 2000.
David Malpas	Tesco, Managing Director. Tesco.	1986-1997 1966-1997	

Lord Sainsbury of Preston Candover KG	Sainsbury's, Chairman & Chief Executive. Sainsbury's, appointed Vice-chairman. Sainsbury's, appointed Director. Sainsbury's, entered service.	1969-1992 1967 1958 1950	
Alan K.P.Smith	Mothercare plc, Chairman. Kingfisher plc, Group Chief Executive. Marks & Spencer plc, Main Board Director. Marks & Spencer plc, Management Trainee rising to Executive.	1996-present 1993-1995 1978-1993 1964-1978	Current Positions: Non-Executive Directorships for Colefax & Fowler plc; Iceland plc; Whitehead Mann plc; Space NK Ltd; The Health Clinic plc; Governor, South Bank Centre; Board Member, Art & Business. Past Positions: Non-Executive Director, Textile Industry, 1979-1984; British American Chamber of Commerce, NYC, 1987-1990; Institute for Food Research, 1990-1992; London Business School Development Board, 1991-1995.
Sir Noel Stockdale	Associated Dairies, rising to Chairman.	1946-1986	
David Stoddart	City Retail Analyst. BhS. British Steel.	1985-present 1983-1985 1976-1981	
Richard Swaab	WCRS, rising to Vice President. Has worked in advertising for CDP, Ogilvy and Mather, and Lowe Lintas.	1975-present	
Bridget Williams	Has managed Sainsbury's Archives, developing it from a small collection into one of Britain's most respected business archives. Visiting fellow in business history, Reading University. Lecturer in economic & social history.	1982-present 1991-present 1982-1986	

This study makes use of extensive contacts with strategic decision makers in UK food retailing to explain why the industry evolved as it did. Included in the interview subjects are chairmen, chief executives and other senior executives of the largest UK food retail companies, who were instrumental in making the decisions that shaped the food retail geography of the UK over the second half of the 20th century. It is this proximity to the movers and shakers of the industry that lends the explanations contained in this study weight, and makes it unique and original.

Finally, it is necessary to justify what could be perceived as a largely historical approach. The literature on UK food retail change in the second half of the 20th century is severely limited (see above), marketing history provides an avenue for preparing for the future, adds a robust quality to a discipline [Savitt, 1980], while it can also be used in the verification and synthesis of hypotheses

[ibid.]. In addition, understanding the process of past change might make the future more manageable [Savitt, 1982], hence the decision to forecast likely change to 2010 using the theories of retail change found to be of most relevance in recent retail evolution.

3.1.iii: Primary Research. The Delphi Technique.

The Delphi technique was chosen to make a forecast of likely developments in UK food retailing to 2010, primarily because it is a forecasting technique that is based upon the 'expert' opinion of a panel of members. The panel was made up of key decision makers, in a position to influence the future development of leading companies, and therefore industries as a whole, which can be expected to yield a more accurate result than a lower level panel.

The traditional four round approach to Delphi forecasting (appendix 5) was considered too time-consuming for the high level executives approached to take part in the forecast, and it was felt that this would discourage them from taking part, bringing down the participation rate. An abbreviated two round Delphi forecast was adopted instead, a technique that has previously been used by Riggs [1983] and Ng et al. [1996], which promised to be a more acceptable proposition to those approached to take part. Further Delphi rounds have been found to drive convergence of individual forecasts, but the 'pull of the median' tends to be stronger than the 'pull towards the true value' [Brockhoff, 1984; p.419], and 'it seems that additional rounds yield small gains in accuracy' [Armstrong, 1985; p.119], suggesting that a shortened Delphi forecast can retain accuracy all the same.

Developed by the RAND Corporation, California, the Delphi technique was designed to overcome the disadvantages of traditional face-to-face expert discussions [Helmer, 1964], namely the tendency for the member with the loudest voice or perceived greatest authority to have undue influence [Helmer, 1967; Wolstenholme and Corben, 1994], unwillingness to abandon publicly expressed opinions [Helmer, 1967], and the 'bandwagon effect' of majority opinion, where minority members' opinions can be bulldozed by those of the majority [Helmer, 1967; Linstone and Turoff, 1975]. It aims to induce a panel of experts to refine their estimates of a quantity through a process of successive approximation [Helmer, 1964], and is normally executed by post.

The Delphi technique retains the advantages of 'expert consensus' type panels, namely that it recognises the importance of the personal expectations of individuals [Walters, 1976], and has the

advantage of being able to identify embryonic needs at an early stage [Bolongaro, 1994], creating the opportunity for the early exploitation of a market that may subsequently enter rapid growth. The use of a panel is designed to average out differences in opinion among experts, and supports the hypothesis that 'n heads are better than one' [Dalkey, 1972], which is backed up by research and experiment [Parenté et al, 1984]. Even an inconclusive Delphi forecast 'serves to crystallise the reasoning process' [Helmer, 1967b] and enables the investigator to identify the 'variables that are most likely to be sensitive indicators of the direction of change' [Wills et al, 1969]

Evaluations of the Delphi technique have, in general, supported the advantages of the Delphi technique over traditional face-to-face discussions [Dalkey, 1969; Riggs, 1983], and retrospective comparisons of Delphi forecasts with actual developments have also suggested a good performance [Ament, 1970; Kruus, 1983]. When accuracy is compared to results obtained from individual panellists, group consensus techniques, of which Delphi is one example, have been found to be more accurate [Parenté et al, 1984; Zarnowitz, 1984].

Although the process is lengthy, most faults leading to possible inaccuracies have been shown to occur in the early stages of the forecast, in particular the selection of the panel, the number of panellists, the questionnaire design and the wording of event statements (appendix 5). As each of these factors is under the control of the investigator, it is fair to say that they play a crucial role in eliminating bias and inaccuracy [Salancik et al, 1971; Dalkey, 1972]. The investigator must have a certain amount of experience in the field under investigation for the technique to be accurate [Turner, 1981], and they must bear in mind that nearly all avoidable faults are made before round one is even distributed:

"Success of the Delphi is dependent upon the ingenuity of the design team and the background of the respondent group." [Turoff, 1970]

"The answers may lie somewhere inaccessible to us simply because we have not learned how to ask the question properly." [Salancik et al, 1971]

Other problems are harder for the investigator to control. One of the main advantages of the Delphi technique over a straightforward round-table debate is that the panellists do not come into contact with each other. This eliminates the 'bandwagon' effect and dominance by certain members, referred

to above, but it has been found that 'experts' tend to meet in the course of their work [Dalkcy and Helmer, 1963], so therefore their views may not be 'strictly independent'.

Another frequently encountered problem is the definition of an expert, which is a subjective definition, and the investigator must be careful not to introduce bias when selecting the panel. For example, a character with a strong media presence may immediately spring to mind as a potential panellist, while several equally qualified experts may have been overlooked. The use of 'self-appraised competence ratings' has been found to be effective in overcoming this problem [Brown and Helmer, 1964]. A self-ranking is given by the expert for each response, the scale ranging from 1 to 5. A ranking of 5 means that panellists perceive themselves to be expert, while a ranking of 1 means they consider themselves unknowledgable in the area in question. Later applications of this extension to the Delphi technique found it to be of less use [Granger, 1989], although it has been found to be 'useful in screening out uninformed panellists' [Parenté and Anderson-Parenté, 1987], although self-ranking should not be relied upon to produce high levels of accuracy [ibid.]. For this forecast self-ranking was adopted, primarily as an indicator of how 'expert' panellists regarded themselves in each area of the survey, providing an overall confidence level for each question, and allowing comparison of confidence levels between rounds.

Formulating the Delphi questionnaire is an area highly prone to the introduction of bias, and this was done extremely carefully referring to several sources of possible questions. The interview process had been undertaken at this point, and on several occasions interview subjects had digressed to talk about likely future developments, which was actively encouraged to furnish ideas for the Delphi questionnaire. Consultancy reports were studied for ideas, as were press articles and recent annual reports. A trial run of the process with academics at Middlesex University generated further advice on the interpretation of questions, the design of the questionnaire, and other areas that could be covered.

The selection of the panel is the second area in which bias is often introduced. For this reason a highly meticulous approach was adopted, so as to ensure an even distribution of the questionnaire among leading food retail executives, leaders of trade organisations, leading academics in the field, retail consultants, and food retail analysts. The chief executives of the leading nine mainstream multiple food retailers were approached, as were those of four voluntary group retailers, two multiple

convenience chains, three hard discounters, two trade organisations, two retail consultancies and the two large co-operative organisations. In addition, eight food retail analysts and five leading academics in the field were asked to participate. Initial contact was made by letter, and the chief executives were asked if they, or a senior member of their team, would participate, while the analysts and academics were asked to participate themselves.

Figure 3.1.iiia. Sample approached to participate in Delphi forecast:

Tesco plc	J.Sainsbury plc	Asda Group plc
Safeway plc	Somerfield Group plc	M&S Foods
Wm Morrison Supermarkets	Waitrose Ltd	Iceland Group plc
CWS Ltd	CRS Ltd	Spar UK Ltd
Costcutter Supermarkets Ltd	Mace Marketing Services Ltd	Londis UK
Alldays Stores plc	Budgens plc	Aldi Stores Ltd
Netto Food Stores Ltd	Lidl UK Ltd	IGD (Institute Grocery Dist.)
Association of Convenience Stores	Dunnhumby Associates	Groves & Partner
OXIRM, Templeton Coll. x2	Portsmouth Business School	University of Stirling
University of Exeter	Merril Lynch	Investec Henderson Crosthwaite
Morgan Stanley Dean Witter	Credit Lyonnais Laing	Charterhouse Securities
Charterhouse Securities	BT Alex Brown International	SPP Investment Management

The response rate was relatively disappointing, with only 11 of the 37 approached agreeing to take part, representing a take-up rate of just under 30%. However, the panel of eleven exceeds the minimum of ten suggested by Parenté and Anderson-Parenté [1987], although this is less than the sample of fifteen that Martino [1983] considers acceptable. In effect, the survey went ahead using a smaller sample than had been anticipated.

The Delphi technique, to conclude, is generally considered to be a forecasting technique which produces better results than face to face questionnaires. In the area of food retailing it has been used in three notable cases: Treadgold and Reynolds [1989] used Delphi forecasting to analyse and reject possible saturation in British DIY and food retailing. The Distributive Industry Training Board [1980] carried out an extensive Delphi survey of UK food retailing which recognised some important future trends, such as the widespread adoption of bar codes and scanning, increasing pressure on manufacturers, and the disappearance of the first generation of supermarkets. Walters [1976] also undertook a Delphi forecast in UK food retailing, predicting the increasing importance of own-labels, and the increasing size and diversification of stores. Further details of Delphi forecasting appear in appendix 5, and the Delphi forecast results in appendix 1.

Chapter 4

The Structure of the UK Food Retail Sector in the second half of the 20th Century.

The UK food retail landscape of 1950 was dominated by independently owned counter-service grocery stores. Under the weight of a post-war regulatory system immense pressure was placed on the profit margins of these operators (5.1.i, p.115-116). By the end of the 20th century, the retail landscape had evolved so that it was dominated by large, out-of-town superstores (defined in 4.3, p.97) owned by multiple organisations (defined in 4.1, p.84).

Three interdependent trends, occurring simultaneously, have driven this radical alteration in the UK food retail structure. First, there has been a constant rise in the UK grocery market share of multiple food retailers, achieved at the expense of independent and co-operative grocers and specialist food retailers, outlined in section 4.1. Second, the number of major operators declined steadily over the period, through natural expansion of the leading operators, and accelerated by takeover activity. This resulted in 50% of 1999 grocery turnover being through the five largest UK food retailers (the big five). This is documented in section 4.2. Third, counter-service grocery stores have given way to self-service operations, which in turn have evolved into the supermarket and the superstore, and by the late-1990s development began to focus on small stores, examined in section 4.3.

Section 4.4 explains UK food retailers' long-term tendencies to enter new markets, whether through geographical expansion or diversification of product range, and section 4.5 examines the changing emphasis on price and service over the period of the study.

The purpose of chapter 4 is simply to chart the key changes of the period, while these changes are explained in subsequent chapters.

4.1. The rise of the multiple retail organisation.

The first trend to be considered is the rise of the multiple outlet food retailer, which has been achieved primarily at the expense of co-operative and independent food retailers. Before analysing the changing market shares of the different types of food retail organisation, it is a necessary prerequisite to define what they are.

A co-operative society is defined as "a Co-operative retailing organisation trading on Co-operative principles, affiliated to the national Co-operative movement and registered under the Industrial and Provident Societies Acts. Many of the Co-operative Retail Societies control a number of separate branch shops and therefore their organisational framework is somewhat similar to that of multiple shop organisations. There are however many differences between the two types of organisation in other respects, the chief ones being the Co-operative practice of democratic control by the members and the payment of a dividend on purchases." [Jefferys, 1954; p.465].

Multiple operators, however, are motivated by profit rather than democratic control, with a multiple shop organisation being defined as *"a firm, other than a Co-operative Society, possessing 10 or more retail establishments...in most trades significant economies of scale were not present until a firm operated from at least 10 branches." [Jefferys, 1954; p.465]*

An independent retailer is, in effect, neither of the above. An independent retailer normally operates only one store, although it is possible to operate up to nine and still be classified as an independent, rather than a multiple, retailer. Within the independent sector is a sub-sector of significance – symbol groups. While ownership of such stores remains independent, they have common buying, merchandising and marketing policies, and were formed in response to the massification of the multiple sector (6.2, p.204-205), in particular to gain efficiencies of centralised buying [Kirby, 1974a; p.526].

The primary vehicle for growth of multiple retail organisations has been the erosion of independent and co-operative food retailers' market share, as demonstrated by figure 4.1a

and the graph derived from it, figure 4.1b:

Figure 4.1a: Share of UK grocery trade by type of grocer, 1950-1996.

	1950	1957	1961	1966	1971	1976	1981	1986	1991	1996	2000
Multiples	21.9%	23.1%	26.9%	36.3%	43.5%	48.4%	57.5%	71.8%	77.8%	83.6%	87.8%
Co-operatives	24.2%	22.7%	20.8%	16.7%	14.9%	15.8%	14.5%	11.1%	10.4%	8.0%	6.7%
Independents	53.9%	54.2%	52.3%	47.0%	42.5%	35.8%	28.0%	17.1%	11.8%	8.4%	5.5%

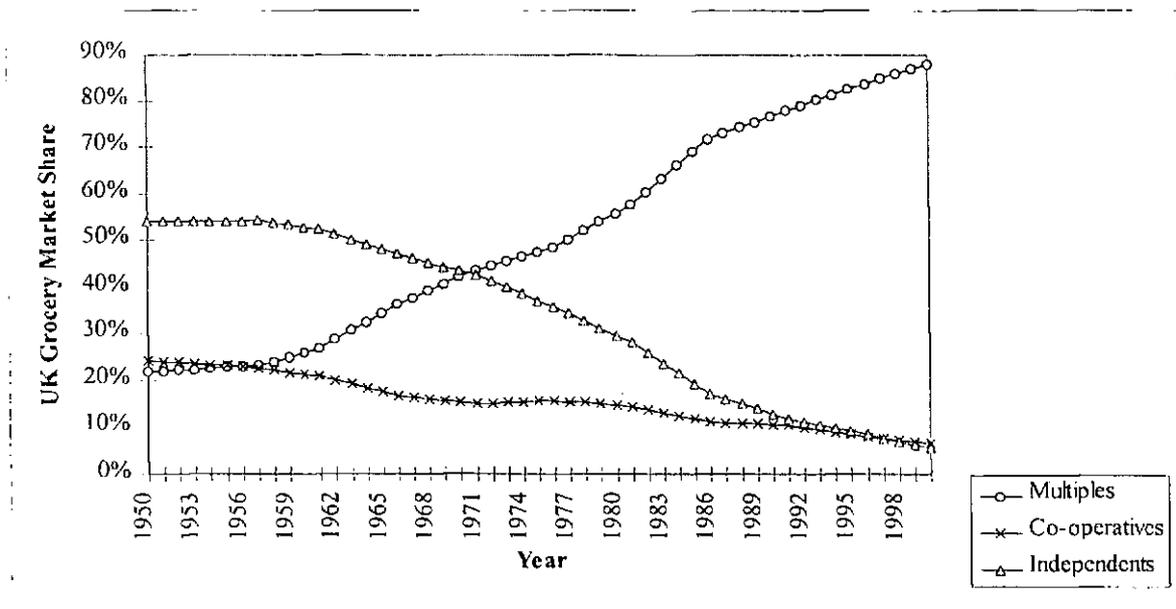
[Source: 1950-1957, *Report on the Census of Distribution and Other Services 1957*, London, HMSO, 1959.

Adapted from table 2, p.10-11.

1961-1981, *Retail Business Trade Review*, 28, November 1981, p.6:

1986-2000, *Nielsen Market Research*.]

Figure 4.1b: Share of UK grocery trade by type of grocer, 1950-1996:



Analysis of the rate of change in market share reveals that there has been a steady, continuous erosion in the market share of co-operative and, particularly, independent food retailers. This gradual change in market share has resulted in a reversal in the importance of the different types of retail organisations over the period of the study.

A closer examination of the rates of change in market share shows that the average (over 5 years) annual rate of change in the market share held by each type of retailer has varied significantly over the period, and highlights the primary loser at different times. The average annual rates of change in market share are presented in figure 4.1c, below:

Figure 4.1c: Average annual rate of change in the market shares of UK food retailers, 1950-1996.

	1950-57	1957-61	1961-66	1966-71	1971-76	1976-81	1981-86	1986-91	1991-96	96-2000
Multiples	+0.2%	+1.0%	+1.9%	+1.4%	+1.0%	+1.8%	+2.9%	+1.2%	+1.2%	+1.1%
Co-operatives	-0.2%	-0.5%	-0.8%	-0.4%	+0.2%	-0.3%	-0.7%	-0.1%	-0.5%	-0.3%
Independents	0%	-0.5%	-1.1%	-0.9%	-1.3%	-1.6%	-2.2%	-1.1%	-0.7%	-0.7%

The slowest period of multiple growth post-1960 was the five years to 1976, when growth slowed to 1% per annum, although it subsequently picked up to peak at 2.9% per annum over the five year period to 1986, which was also the period in which independent market share declined most rapidly, averaging an annual decline of 2.2%. A subsequent recovery slowed their annual rate of decline to only 0.7% in the five years to 1996.

The sharpest decline in market share of the co-operative sector occurred during the early-1960s, with market share decline in the five years to 1966 averaging 0.8% per annum, later recovering to show their best performance in the five years to 1976, when the sector showed an average 0.2% annual growth in market share.

In short, multiple growth occurred primarily at the expense of the co-operative sector initially, but soon moved on to make the majority of its gains from the independents as the co-operative sector showed a slight recovery. The primary engine driving multiple growth, therefore, has been the declining independent sector which has borne the brunt of multiple expansion, while less severe declines in the co-operative sector have aided multiple growth still further.

Changing numbers of retail outlets. Much of the changing market share is the result of shop closures and store development programmes, as the figures relating to the number of food retail outlets (figure 4.1d) demonstrate:

Figure 4.1d. Number of grocery outlets and turnover by type of organisation

	Total number of grocery outlets	Total grocery turnover	Average turnover per outlet	Total grocery turnover, 1998 terms	Average turnover per outlet, 1998 terms
1961					
Co-operatives	13,919	£488,089,000	£35,066	£8,403,325,030	£603,731
Multiples	16,522	£632,393,000	£38,276	£10,887,776,462	£658,987
Independents	116,336	£1,230,229,000	£10,575	£21,180,592,368	£182,064
Total grocery trade	146,777	£2,350,711,000	£16,016	£40,471,693,861	£275,736
1966					
Co-operatives	12,819	£485,503,000	£37,874	£6,982,955,772	£544,735
Multiples	14,115	£1,056,318,000	£74,837	£15,192,948,087	£1,076,369
Independents	103,424	£1,365,834,000	£13,206	£19,644,695,118	£189,943
Total grocery trade	130,358	£2,907,655,000	£22,305	£41,820,598,978	£320,813
1971					
Co-operatives	7,745	£549,943,000	£71,006	£6,252,773,464	£807,330
Multiples	10,973	£1,841,889,000	£167,856	£20,942,015,194	£1,908,504
Independents	86,565	£1,764,655,000	£20,385	£20,063,875,631	£231,778
Total grocery trade	105,283	£4,156,487,000	£39,479	£47,258,664,289	£448,873

Source: adapted from table 19, page 2/112-113, and table 25, page 2/124, *Report on the Census of Distribution and other services, 1966*, London, HMSO; and table 14, page 5/90, *Report on the Census of Distribution and other services, 1971, supplement*, London, HMSO.

Figures converted to 1998 prices using:

Department of Employment Gazette, April 1971, table 132, p.412; *Employment Gazette*, January 1980, table 132, p.94; *Employment Gazette*, January 1990, table 6.4, p.S54; and *Labour Market Trends*, February 1999, table H.14, p.S86

Analysis of the data presented in figure 4.1d suggests that the best retail performances of the 1960s were achieved by those operators who were actively renewing their retail facilities without suffering enormous net losses in the number of their retail outlets. In the decade to 1971, the turnover per outlet of multiple operators rose by 190%, compared to 34% for co-operative societies and 27% for the independent sector. Over the same period, the number of outlets operated by co-operative societies fell by 44%, compared to reductions of 34% in the multiple sector and 26% in the independent sector.

The decade to 1971, therefore, was a period of rapid retail renewal, resulting in a major change in shopping destination, as demonstrated by the figures in figure 3.1a, with the market share of multiple operators increasing by 62% at the expense of the co-operative and independent sectors, whose market shares fell by 28% and 19% respectively.

As this increase in market share of multiple food retailers was not achieved through increases in the number of outlets, it is fair to assume that the renewal programme provided better, larger and more profitable facilities, examined fully in section 4.3.

Erosion of the co-operative market share. Established in 1844 by the Rochdale Pioneers, the co-operative movement aimed to protect the working class masses from exploitation by commercial retailers, selling good quality merchandise at a market price, and returning excess profits to members in the form of *dividends*. They grew phenomenally, as a fragmented group of societies, right through to World War II, and following the war were instrumental in pioneering new trading techniques such as self-service and supermarkets [Fulop, 1961; p.28].

The post-war progress of the co-operative movement, however, was hampered by a number of problems. First, despite innovation, the movement failed to keep pace with multiple renewal of store formats and facilities, eventually leaving it with out-dated stores with little consumer attraction (6.1, p.200). This failure to renew was due to a handful of seemingly insurmountable obstacles:

- ✓ Excessive dividend payments which reduced availability of capital to invest in the post-war years (6.1, p.200)
- ✓ An ethical dilemma whereby moving to modern, out-of-town premises was seen as abandoning the working-class masses without access to motor cars (6.1, p.200)
- ✓ A fragmented structure, which meant that individual operators were too small to introduce contemporary techniques in management, training, buying and merchandising [Fulop, 1961; p.29]. Fragmentation of these activities also increased the co-operative cost-base relative to commercial operators [Seth and Randall, 1999; p.213], with the fragmentation issue only recently being addressed with the 2000 CWS/CRS merger, after many previous unsuccessful attempts.
- ✓ A lack of agreement between societies drove a lack of coherent strategy [Seth and Randall, 1999; p.213].
- ✓ Poor quality, under-qualified management, and disappointing retention of high flyers due to uncompetitive remuneration [Fulop, 1961; p.29].

Described as *unadventurous and pathologically uncommercial* [Seth and Randall, 1999;

p.211], the co-operative movement has effectively been decapitated by its own values and ethos, those same values that propelled it to become the leading UK food retail sector in the 100 years to 1950. Times changed, and the co-operative movement failed to adapt rapidly enough. To make matters worse, a newly invigorated post WWII multiple sector took on the co-operative mantle of innovation and change, leaving the co-operative movement standing still in a rapidly changing retail world. Were it not for the success of multiple operators, the co-operative movement may have retained a larger market share, but their inability to evolve and agree, coupled with an emergent, dynamic, multiple sector effectively pushed the movement into decades of decay and decline.

Erosion of the specialist food retailer market share. In addition to taking market share from independent and co-operative grocery retailers, multiple grocers were able to grow through erosion of the food market share of specialist food retailers, such as fishmongers, greengrocers and butchers. The market share of specialist food retailers as opposed to grocery retailers is presented in figure 4.1e, below:

Figure 4.1e: Market share of grocers compared to specialist food retailers:

% total food retail market	1950	1961	1971	1980	1990
Grocers and provision dealers	55.3%	57.2%	61.0%	77.2%	84.7%
Other food retailers	44.7%	42.8%	39.0%	22.8%	15.3%
Dairymen and butchers	21.8%	24.0%	21.4%	16.4%	10.0%
Fishmongers, poulterers	2.8%	2.0%	1.3%	0.7%	0.6%
Greengrocers, fruiterers	8.7%	7.8%	6.0%	3.8%	3.3%
Bread and flour confectioners	8.0%	5.7%	4.9%	1.9%	1.4%
Off-licences	3.4%	3.4%	5.2%	n/a	n/a

[Source: figures for 1950-1971: Adapted from table 1, page 1/15, *Census of Distribution 1971*, part 1; figures for 1980-1990: Adapted from *Business Monitor SDA25*, 1989 and 1990.]

Figure 4.1f: Specialist Food Retailers (excluding off-licences). Number of outlets, 1950-1990.

Number of outlets	1950	1961	1971	1980	1990
Dairymen and butchers	52,030	50,828	38,627	31,798	29,442
Fishmongers, poulterers	9,511	7,857	6,112	2,866	2,974
Greengrocers, fruiterers	43,948	42,070	28,608	17,778	14,339
Bread and flour confectioners	24,181	17,549	18,022	8,381	6,656
Total specialist outlets	129,670	118,304	91,369	60,823	53,411

[Source: as for figure 4.1e above]

The changing market shares of UK grocery and specialist food retailers have been profound over the period of the study, with the share of specialists falling from 44.7% in 1950 to 15.3% by 1990. Over the same period the number of specialist food retail outlets dropped from 129,670 to only 53,411.

Analysis of the data presented in figures 4.1e and f suggests that the most rapid decline in the fortunes of specialist food retailers occurred in the period between 1971 and 1980, assuming continuity of the data sets, while the rate of market share decline of fishmongers, poulterers, greengrocers, fruiterers, and bread and flour confectioners was slower during the 1980s than during previous decades, suggesting that stabilisation was beginning to occur. In contrast to this, dairymen and butchers suffered an acceleration in their rate of market share decline in the 1980s, although the rate of decline in outlet numbers fell, suggesting that this sector may also have begun to stabilise.

Erosion of the specialist food retailer market share and number of outlets occurred relatively slowly during the 1950s and 1960s, accelerating dramatically during the 1970s as superstore development began to gather pace. The 1980s brought a slowing of this erosion for all specialists except dairymen and butchers, who continued to lose market share at an ever faster rate, although the slowing of shop closures suggests over-provision is no longer occurring, and that a period of relative stability may be forthcoming.

In short, despite static or slow growth in the food market (4.4, p.101), the grocery sector's share of the total food market has increased markedly at the expense of specialist food retailers. Meanwhile, multiple operators have increased their share of the growing grocery sector at the expense of both independent and co-operative grocery retailers, thus multiple grocery retail chains have enjoyed a double boost to growth over the period of the study.

4.2. The growth of the 'big five' and the changing power relationship.

Between 1961 and 1990, the UK grocery market share of multiple food retailers increased from 27% to 75%, the market share of independent food retailers fell from 52% to 12%, and the co-operative share dropped from 21% to 13%. While acknowledging that different ways of calculating market share produce different results [Bob Fee], and that market share is a very difficult thing to get right [Lord Sainsbury of Preston Candover KG], it is clear that there has been an enormous shift in the importance of the different types of retail organisation during the second half of the 20th century (4.1).

Figure 4.2a: Market share of the largest UK food retailers, 1984-1992

Year	Largest 5 operators	6 th to 10 th largest operators	Largest 10 operators
1984	28%	13%	41%
1986	35%	13%	48%
1988	41%	12%	53%
1990	42%	14%	55%
1992	44%	15%	58%

[source: *Business Monitor SDA25*, 1984-1992]

Parallel to this important change, the second half of the 20th century also witnessed the rise to prominence of a limited number of major multiple food retailers, with 50% of grocery sales passing through the leading five food retailers in 1999 [IGD Research Services]. These retailers were Tesco, Sainsbury's, Asda, Safeway and Somerfield (including Kwik Save) - 'the big five'. Statistics for years prior to 1984 are not strictly comparable due to differing methods of calculating market share, but the market share of the 'top five' has risen from 28% in 1984 (figure 4.2a), and the enormity of the change is illustrated by the fact that the entire multiple trade accounted for less than 27% of grocery turnover in 1961 (figure 4.1a, p.89).

Figure 4.2a, above, illustrates the growth of the largest five and the largest ten UK food retailers from 1984 to 1992, a period during which the UK food retail industry became concentrated into the hands of a select few major players. Between 1984 and 1992, the

market share of the leading five players increased by 54%, from 28% to 44% of the UK grocery market. Over the same period, the market share of the 6th to 10th largest operators increased by only just over 13%, rising from 13% to 15%, and even fell between 1986 and 1988, suggesting that second division players were struggling.

Scale of organisation therefore became an issue during the 1980s, and power became increasingly concentrated into the hands of fewer key operators. Scale of organisation became more important as growth, due to the decline of the co-operative, independent and specialist food retailers, began to slow (4.1, p.85). In lieu of growth from weaker types of retail organisations and formats, multiple food retailers began to grow at the expense of multiple rivals:

"And in this 'competitive' market, there isn't much to go round, and if one of the majors starts to take more, somebody else has to suffer. If you have got two big players, and one suddenly puts up sales by 1 %, which is £millions per week, then there has to be a hit somewhere, and if you are not prepared for it, and you are not doing something which is an improvement over what you were doing before, you are left behind."

[Tony de Angeli]

Concentration in the sector, therefore, resulted from the erosion of the market share of co-operative, independent and specialist food retailers (4.1), and then from inter-multiple attrition of market share, whereby regional players expanded nationally, resulting in larger market shares, and takeover of smaller, weaker multiple players (5.2, p.210-211).

The Changing Power Relationship.

The evolution of the 1950 retail landscape, dominated by small scale, independent, counter-service grocery stores to that of the late 20th century, dominated by large scale, out-of-town, superstores controlled by only a few operators, has resulted in a profound change in the relationship between UK food retailers and manufacturers. As the food retail market share became more and more concentrated into the hands of fewer and fewer major players (see above), these players began to exert control over their manufacturers and suppliers.

Until the mid-1960s, the balance of power in the relationship was in favour of the

manufacturing sector. The introduction of self-service techniques and the consequent transfer of packaging to manufacturers allowed the development of brand names in products that had previously borne the guarantee of quality of the retailer - products such as flour, sugar and butter fell into this category. The emergence of manufacturers' brands was assisted further by the emergence of commercial television advertising in the mid-1950s [Richard Swaab], and reinforced by the resale price maintenance (RPM) system, which allowed manufacturers to dictate retail prices at which their products were sold (5.1.ii). Manufacturers were powerful because of the fragmented retail system, and were able to dominate the multiple operators, who at this time were small by contemporary standards.

The abolition of RPM in 1964 (5.1.ii) provided the first boost to retailers in a relationship that changed significantly over the following decades, resulting in the dominance of the relationship by the large food retail organisations. During the 1980s, the widely expressed fear that their large scale enabled UK food retailers to obtain 'discriminatory discounts' - discounts arising from the retailers' market dominance rather than through lower costs associated with bulk contracts - were confirmed by investigations carried out by the Monopolies and Mergers Commission [1981] and the Office of Fair Trading [1985]. Action to prevent such activity, however, was not taken, as evidence of 'some benefit being passed on to the consumer' was found [MMC, 1981; p.51]. In other words, the benefits of the lower prices obtained by the large operators tended to be passed on to the consumer, with the sector at that time found to be reasonably competitive.

The power of the manufacturers has been reduced over the period, therefore, as the strength of the multiples has increased, particularly that of the 'Big Five'. By 1998, the share of the UK grocery market held by the Big Five was 51.8%, with signs that it is increasing. Thus manufacturers must depend on five buying points for over 50% of their grocery consumables - higher still in some categories. On a European scale, in 1995, 'each of Europe's top half dozen retailers had larger sales than any of the continent's food manufacturers except Nestlé and Unilever' [Reid, 1995], thus manufacturers have understandably tended to become more compliant in their relationship with food retailers.

4.3. The evolution of the retail format.

The third key trend to have driven the dramatic change in the UK food retail structure is the evolution of the retail format. From a position in 1950 when local counter-service grocery stores were the dominant grocery format and the first self-service conversion had taken place less than five years earlier [Tanburn, 1960; p.50], the industry has evolved through self-service conversions, supermarket and superstore formats, to a position today where the retail landscape is dominated by large, out-of-town purpose built superstores.

Figure 4.3a. Self-service outlets in Great Britain

Mid-year	Approximate no. of self-service stores, including supermarkets	% increase on previous year
1947	10	
1948	250	
1949	400	60%
1950	600	50%
1951	900	50%
1952	1250	39%
1953	1700	36%
1954	2150	26%
1955	2500	16%
1956	3000	20%
1957	3700	23%
1958	4500	22%
1959	5850	30%

[Source: Tanburn, 1960; p.50]

The initial growth of UK self-service grocery stores from the late-1940s, presented in figure 4.3a above, occurred relatively steadily, and by 1961 the format had been adopted by less than 5% of all grocery stores, although these stores accounted for over 18% of overall grocery sales (figure 4.3b, below). By 1971, almost 25% of grocery stores operated on a self-service basis, accounting for nearly 65% of grocery turnover. These figures are based solely on whether each outlet operated primarily by counter-service or self-service. So they also include larger operations, such as supermarkets and some early superstores, but they do illustrate the declining importance of counter-service grocery stores, which were superseded by self-service operations which effectively became larger and larger in order to

benefit from economies of scale of establishment, finally becoming the modern superstore.

Figure 4.3b: Self-service Grocery Shops: Number of establishments and turnover, in figures and percentages, 1961 and 1971:

	ESTABLISHMENTS			TURNOVER		
	Number of self-service grocery shops	Total number of grocery shops	Percentage of total shops operating by self-service	Turnover of self-service grocery shops £'000	Total turnover of grocery shops £'000	Percentage of total grocery turnover passing through self-service
1961						
Co-operatives	3342	13919	24.0%	£176,021	£488,089	36.1%
Multiples	2763	16522	16.7%	£228,409	£632,393	36.1%
Independents	591	116336	0.5%	£23,527	£1,230,229	1.9%
Total self-service grocery trade, 1961	6696	146777	4.6%	£427,957	£2,350,711	18.2%
1971						
Co-operatives	6330	7745	81.7%	£508,045	£549,943	92.4%
Multiples	8315	10973	75.8%	£1,712,019	£1,841,889	92.9%
Independents	11252	86565	13.0%	£476,358	£1,764,655	27.0%
Total self-service grocery trade, 1971	25897	105283	24.6%	£2,696,422	£4,156,487	64.9%

[Source: adapted from table 19, page 2/112-113, and table 25, page 2/124, *Report on the Census of Distribution and other services, 1966*, London, HMSO, and table 14, p. S/90, *Report on the Census of Distribution and other services, 1971, supplement*, London, HMSO]

While the counter-service grocery store was succeeded by the self-service grocery store, this in turn was rapidly displaced by the supermarket, which at the time was defined as a store 'of at least 2000 square feet sales area, operated mainly on self-service, whose range of merchandise comprises all food groups including fresh meat and fresh fruit and vegetables, plus basic household requisites (i.e. soaps and cleaning materials)' ¹.

Larger, and normally purpose built rather than being a conversion of an existing outlet, supermarket development laid the foundations for subsequent moves into larger stores. Figure 4.3c illustrates the growth of the supermarket, which grew from 870 outlets in 1961 to over 5,000 ten years later:

¹ *Self-service and Supermarket Annual Survey and Directory, 1967*; referred to in the *Census of Distribution, 1966*, p.2/109.

Figure 4.3c: Growth of supermarkets, by number of establishments and turnover.

	ESTABLISHMENTS			TURNOVER		
	No. of supermarkets	Total number of grocery outlets	% of stores supermarkets	Turnover supermarkets	of Total grocery turnover	Supermarket market share
1961						
Co-operatives	308	13,919	2.2%	£31,392,000	£488,089,000	6.4%
Multiples	524	16,522	3.2%	£105,249,000	£632,393,000	16.6%
Independents	38	116,336	0.03%	£5,538,000	£1,230,229,000	0.5%
Total grocery trade	870	146,777	0.6%	£142,179,000	£2,350,711,000	6.0%
1966						
Co-operatives	642	12,819	5.0%	£78,468,000	£485,503,000	16.2%
Multiples	1,819	14,115	12.9%	£493,769,000	£1,056,318,000	46.7%
Independents	208	103,424	0.2%	£37,919,000	£1,365,834,000	2.8%
Total grocery trade	2,669	130,358	2.0%	£610,156,000	£2,907,655,000	21.0%
1971						
Co-operatives	1,211	7,745	15.6%	£208,873,000	£549,943,000	38.0%
Multiples	3,342	10,973	30.5%	£1,346,004,000	£1,841,889,000	73.1%
Independents	513	86,565	0.6%	£91,300,000	£1,764,655,000	5.2%
Total grocery trade	5,066	105,283	4.8%	£1,646,177,000	£4,156,487,000	39.6%

[source: adapted from Census of Distribution, HMSO, 1961, 1966 & 1977]

Over the same period the importance of the supermarket format grew significantly, as its share of the grocery market rose from just 6% in 1961 to nearly 40% in 1971. The 1960s, therefore, were the period in which the supermarket format made a significant impact on UK food retailing.

The main operators driving this rapid expansion of the supermarket format were multiple food retailers, and, to a lesser extent, co-operative food societies. Operations were being rationalised, with several small stores being replaced by one supermarket. Analysis of figure 4.3c shows that between 1961 and 1971, the co-operative sector showed the largest proportion of net store closures, with 44% of their 1961 outlet numbers closing, while multiples closed 34% of their stores and independents only 26%. Although the figures do not show the number of openings, an indication of the degree of rationalisation taking place is the number of supermarkets opened over the period. The rising number of supermarkets in the multiple portfolio suggests that rationalisation was fastest in the multiple sector -

increasing by 538% to 3,342 in the decade to 1971, compared to an increase of 293% to 1,211 for co-operatives and a surprisingly high 1250% increase to 513 for independents, although the small number of independent supermarkets in 1961 (38) makes this figure of expansion seem more impressive than it actually is.

The market share of the supermarket within each type of retail organisation also suggests that multiple operators were the primary driver of supermarkets, as the supermarket accounted for 16.6% of multiple trade in 1961, rising to 73.1% in 1971 (figure 4.3c). Over the same period, the contribution of supermarkets in the co-operative sector rose from 6.4% to 38%, and for independents from 0.5% to 5.2%. Over the same period, the market share of the multiple operators increased by 62%, while the co-operative and independent sectors' fell 28% and 19% respectively (4.1, p.84). The multiple trade was, therefore, the primary adopter of the supermarket in the 1960s, trailed by the co-operative sector, with the independent sector largely failing to move into the format.

While the supermarket was being developed, the North of England was witnessing yet another new type of retailing, which became known as the superstore. In effect, the self-service grocery store concept had been expanded to create what became known as the supermarket, which was again stretched into the format that became known as the superstore, defined as "*a self service grocery store with at least 25,000 sq. ft. of selling area.*" by the Institute of Grocery Distribution [Webb, 1982]. A similar definition adopted by the Unit for Retail Planning Information (URPI) stipulates the same sales area, plus additional characteristics - single level shopping and car parking [Jones, 1976]. The IGD definition is chosen for ease of manipulation of existing data, which rarely gives information on facilities such as car parking. Although some food superstores can be found in town-centres, they were normally situated in out-of-town locations [Euromonitor, 1994, p.4].

Often known as Retail Cash and Carries or Discount Stores, early superstores were typically crude conversions of disused industrial buildings such as woollen mills, and were

characterised by basic facilities and discounted prices (mid to late-1960s), later evolving to offer a more upmarket shopping experience. The development of the superstore was supported by the changing consumer and new technology (5.2 and 5.3), while UK food retailers were increasing the sales areas of their new stores so as to increase profitability through economies of scale and diversification of offering (4.4, p.100-101).

After a relatively slow start, the rate of superstore openings increased gradually throughout the latter half of the 1960s and the 1970s, before beginning a period of rapid expansion during the mid to late-1980s (figure 4.3d):

Figure 4.3d: Superstore openings, 1964-1996:

Year	Superstore openings	Year	Superstore openings	Year	Superstore openings
1964	2	1975	16	1986	36
1965	2	1976	22	1987	25
1966	2	1977	27	1988	43
1967	1	1978	27	1989	73
1968	3	1979	35	1990	64
1969	3	1980	27	1991	89
1970	6	1981	41	1992	102
1971	14	1982	38	1993	27
1972	13	1983	30	1994	128
1973	16	1984	29	1995	27
1974	23	1985	26	1996	35

[Source: Figures for 1964-1991 from Airy and Bresse, 1993. Figures for 1992-1996 from Barnes et al. 1997]

Trading up during the 1980s created a gap for ‘hard discounters’ to gain market share from the early-1990s, and their spread during the 1990s represents evolution of the retail format into small, low-cost premises in low-cost locations (4.5, p.108-109).

Superstore development is dependent on access to suitable sites and obtaining planning permission for large-scale retail development. From 1996 it became extremely difficult to get planning permission to build out-of-town superstores, as the government introduced new planning guidelines under PPG6 (5.1.iii, p.127). In response to this, food retailers in general began to focus their developments on alternatives to out-of-town outlets, primarily smaller stores in town centres or residential areas, and forecourt retailing (5.1.iii, p.127), as

a means of continued growth.

Tesco had 40 'Metro' stores in October 2000, with plans to increase this to more than 150 by 2003 ², and 27 'Express' forecourt shops which they expect to increase to 150 by 2003 in partnership with Esso ³.

Sainsbury's had 13 'Local' stores open by October 2000, of which one was a forecourt-based operation in partnership with Shell, and all were based in the London area, although a 'Local' was due to open in Birmingham in February 2001 ⁴. The small store format is being expanded to include a 'Central' fascia located in business districts, and Sainsbury's expect to have another 20 Local and Central stores by October 2001 ⁵. Sainsbury's had previously aimed to open 200 Locals by 2003, but later described this plan as "*far too ambitious*" ⁶.

Safeway had 40 stores on BP forecourts in February 2000, with plans to expand this total to 100 by 2002 ⁷. At the same time, Somerfield had 19 forecourt stores through their partnership with Elf, and were planning 10-20 more by 2001 ⁸.

In short, the retail format is evolving back into smaller stores and convenience retailing, and major multiples are driving its expansion rather than specialist convenience multiples. This is a direct result of changes in planning guidelines, and established multiples are able to provide an attractive small store retail offering due to their product expertise, particularly in fresh foods. The sophisticated distribution systems of established multiple operators allow complex, fresh foods to be stocked, and reduce the required back-room capacity (5.3.iii, p.170), meaning that such operations are efficient, despite operating from small stores, which do not benefit from the efficiencies of large stores.

² *The Grocer*, October 28, 2000; "Tesco Metro wins £50 million", p.6

³ *In-Store Marketing*, March 2000; "Tesco expands Express concept", p.7

⁴ *The Grocer*, October 21, 2000; "Sainsbury's squares up to Spar with first Local outside the M25", p.8

⁵ *J.Sainsbury plc Annual Report and Accounts 2000*; p.15

⁶ *The Grocer*, July 1, 2000; "Local c-store pulls into Shell's forecourt sites", p.6

⁷ *Super Marketing*, February 18, 2000; "Forecourt collection for home-shoppers", p.6

⁸ *Super Marketing*, February 11, 2000; "Petrol: burning issue", p.1

4.4 Geographical and product diversification.

During the second half of the 20th Century, UK food retailers have demonstrated a tendency of diversification into new products and different sectors, and expansion of geographical coverage. Initially, expansion of geographical coverage involved expanding throughout the UK. In recent years, however, UK food retailers have been moving into overseas markets, and overseas operators have been entering the UK market, either through the development of new facilities or through takeover activity. In short, geographical diversification and diversification of product has occurred through one or more of the following:

- Extension of range into new food lines
- Extension of range into non-foods
- Expansion beyond traditional regional heartland to become nationwide operators
- Diversification into new retail sectors, such as DIY superstores
- Diversification into non-UK markets

Each is considered independently, though this does not imply any sequential arrangement. Diversification of location has also been a key feature of UK food retailing, particularly as operators moved from high street to suburban locations, but this is addressed elsewhere (6.3, p.217-233).

Extensions of range into new food and non-food lines

In post-World War II Britain, extension to the range on offer in UK food retail outlets has been a reasonably consistent feature, characterising the development of the industry, and being driven primarily by larger store sizes. Initial increases in the number of lines stocked was fuelled by the increasing availability of foodstuffs after supply problems during the war and immediate post-war period (5.1.i, p.118). However, the trend to carry more lines continued past the point where all foodstuffs had become re-available (figure 4.4.a):

Fig. 4.4a: J. Sainsbury, average sales area of new stores and range sold, 1950-90 ⁹:

Year	Average sales area of new stores	Number of products sold
1950	3,000 ft ²	550
1960	4,270 ft ²	2,500
1970	11,500 ft ²	3,800
1980	14,830 ft ²	7,000
1990	33,500 ft ²	11,700

Early extension into what were known as ‘grocery non-foods’ [Jennifer Tanburn] were seen as a natural grocery offering, and included washing powder and soap. This was later followed by extension into other non-food areas such as toiletries, haberdashery, off-licences and sometimes domestic appliances, books, newspapers, magazines, flowers, kitchen hardware’s, petrol, clothing and financial services. While the spread of non-foods in UK food retailing has been gradual, and varies from retailer to retailer and from store to store, and depends on store and customer attributes, according to one source non-foods accounted for over half of UK food retailer turnover by the late-1980s:

“...the non-food area proved increasingly important and partly explains (UK food retailers’) success in holding on to 38% of total retail turnover, when food itself only accounts for 14% of customer expenditure.”

[Gardner and Sheppard, 1989]

A primary force driving diversification of product into non-foods was therefore the fact that growth in the market for food was slow or static from the mid-1960s. Extension of range into non-foods brought exposure to fast growing markets, driven by rising consumer affluence, fuelling growth despite a difficult food marketplace.

⁹ http://www.j-sainsbury.co.uk/company/main_his.html

National expansion

It was noted briefly (4.2, p.92) that in lieu of expansion at the expense of co-operative, independent and specialist food retailers, leading multiples began to take market share from weaker ones. This was in part due to natural competition for customers, but also due to the national expansion of the major multiple operators, where they expanded beyond their regional bases to develop a national presence. In effect, the geographical spread of the leading UK food retailers resulted in new competition with regional players, which ultimately led to concentration within the sector through erosion of market share and takeover. There follows a brief overview of the regional expansion of the five leading food retailers surviving in 2000. This details their means of growth, and appendix one presents a diagrammatic history of acquisition in the UK food retail industry.

Tesco developed a national presence through both organic regional expansion and takeover of regional chains, with acquisition playing a major role in the 1960s and 1970s. The acquisition of Irwin's in 1960 allowed Tesco to be the first to claim national coverage, with 400 shops, although the organisation was not sufficiently centralised and organised to be able to derive much benefit from this [Seth and Randall, 1999; p.27]. Cadena Cafes and Victor Value (1968) were absorbed by Tesco [ibid., p.28], although many of the outdated stores purchased had to be closed or undergo major renovation in the coming years.

From the early-1980s, under new management, Tesco began to tackle their problem of outdated stores, and takeover activity slowed. Organic expansion was slowed by the company's earlier disregard for planning regulations, however, which had given planners the impression that Tesco were 'cowboy' operators. To rectify this problem, which was stifling organic growth, planners were invited to see their most modern stores, shown what could be achieved, and Tesco's regional expansion through the development of large stores accelerated.

Takeover did not stop altogether, however, and in the early-1980s, Victor Value and an Irish venture were sold [ibid., p.31], before Tesco made a hostile bid for Hillard's, a north

eastern multiple, in 1987, beating Sainsbury's in the bidding [ibid., p.32]. A final domestic purchase, William Low in 1994, doubled Tesco's market share in Scotland [ibid., p.42], and was also won against Sainsbury's. This purchase aided Tesco's 1995 move into the leading position in terms of UK market share.

Sainsbury's regional expansion was almost entirely powered by organic growth, with their only successful purchase being of BHS's initial 50% stake in Savacentre in 1987. The company today remains strongly biased towards London and the south east [ibid., p.69], its original trading area, and only entered Scotland in 1992 ¹⁰ and Cornwall in 1994 ¹¹. Failed attempts to buy Hillard's and William Low, however, suggest that Sainsbury's have not achieved the level of national coverage that they once promised.

Asda was established by Associated Dairies in 1965, in combination with a small Yorkshire-based supermarket operator, and became a major player by recognising the early potential of large stores. In 1965 they purchasing two 70,000 sq. ft stores from Gem, which alerted them to the profitability of large stores, and they subsequently adjusted their criteria for new stores. Asda set out to offer branded groceries at discounted prices, shifting bulk volume through the business, including both food and non-food products [ibid., p.77-78]. The capital of Associated Dairies, the parent of Asda, allowed rapid organic expansion, converting mills and cinemas for example, and established multiples were unable to move into the superstore format for several years due to existing commitments (6.3, p.227-228), allowing Asda a significant head start.

This expansion was focused primarily in the north of England, however, and it was not until 1985 that real efforts were made to expand at any pace into the south of the country [Seth and Randall, 1999; p.81], and this came at the cost of high borrowing levels [ibid., p.83]. The 1989 purchase of 61 large stores from Gateway aided Asda's regional expansion, although the price of this purchase was regarded as high [ibid., p.81]. Store development was suspended in 1991 due to financial difficulties, before tentatively

¹⁰ *Super Marketing*, November 15, 1991; "Discounters no threat", p.10

¹¹ *Super Marketing*, July 1, 1994; "Norman's shows its wisdom", p.18

beginning again in 1993/94. Further geographical expansion was flirted with when proposals to merge with Safeway were made, but these were abandoned as it was considered unlikely that the competition authorities would allow the deal to proceed (5.1.vi, p.140-141), paving the way for US giant Wal-Mart to purchase Asda in 1999 (5.1.vi, p.141).

Safeway is the legacy of numerous grocery chains, primarily **Argyll**, later renamed Safeway following the 1987 £681 million acquisition of the UK retail operations of US-based Safeway. Prior to this major acquisition, a long list of companies contributed to the build up of Argyll, which between 1978 and 1980 absorbed Louis C Edwards, Cordon Bleu, Dalgety, Supervalu, Freezer Fare, Bonimart, and Oriel Foods which was mainly wholesale and manufacturing based but included the Lo-Cost chain. In 1982 Pricerite and then Allied Suppliers, including Presto, Lipton's, Templeton and Galbraith fascias, were added, and Amos Hinton joined the stable in 1984 [Seth and Randall, 1999; p,102-104].

These numerous multiple brands were reduced to just Presto and Lo-Cost by 1987, the same year in which Safeway UK was bought and adopted as the key brand of the group. Safeway was the most profitable element in Argyll, which in 1996 changed its name to Safeway plc to suit its trading profile [ibid., p,108] as it faded out the secondary Presto fascia.

The US-based original owner of Safeway UK, Safeway Inc., built the chain from the early 1960s, and expanded to 69 stores by 1978 and 133 by 1987 [ibid., p.107]. It stocked a detailed and wide range of foods, and was respected for the good way in which staff were treated, creating a culture of good relations from top to bottom, and for their excellent customer service and innovative ideas [Jennifer Tanburn]. A 1986 management buyout of Safeway Inc. meant that assets had to be sold in order to reduce debt [Seth and Randall, 1999; p.108], and their UK operations were sold to Argyll early the following year, although Tesco and Dee were also interested in the chain [Jennifer Tanburn].

All of these takeovers were of regionally-based chains, with the exception of Safeway, which was a national chain heavily biased towards London, the south of England and Scotland [Seth and Randall, 1999; p,108]. By 1987, the result of this frenzied takeover activity was a truly national operator, built up from a medley of regional players, and organic expansion superseded acquisition.

Somerfield is a legacy of the Gateway and Dee supermarket chains, and was also built primarily through acquisition. In the mid-1980s, the Dee Corporation grew by rapidly taking over regional retail chains such as MacMarkets, Pricerite, F.J.Wallis, Dee, Gateway, Mainstop, Shopper's Paradise, Fine Fare, KeyMarkets, International, F.A.Wellworth and Lennon's. They also bought hypermarkets from Woolco and Carrefour. In 1988, the Dee Corporation was renamed Gateway, and the group focused on the Gateway fascia. A 1989 leveraged buyout finally ended in Isosceles gaining control of the organisation, and 61 superstores were sold to Asda ¹² as part of the deal. This was followed by the sale of 42 north eastern stores to Kwik Save in 1991 ¹³.

In April 1993, Somerfield acquired the assets of its former parent company, Isosceles ¹⁴, and the chain focused on the Somerfield fascia, while fazing out the Gateway brand. In 1998, the company bought Kwik Save ¹⁵ with the aim of converting many of their stores to the Somerfield format. Sales at converted stores were disappointing, and sales at the remaining Kwik Save stores plummeted. Somerfield suffered financially from this, to the point that 46 prime Somerfield stores had to be sold after failing to sell the Kwik Save chain ¹⁶.

Diversification into new sectors and non-UK markets

Overseas expansion is said to have become a key element in the future success of food

¹² *Super Marketing*, August 2, 1996; "From little acoms...", p.85-86

¹³ *Supermarket News*, April 29, 1991; "42 Gateways are sold to discounter Kwik Save", p.52

¹⁴ *The Grocer*, August 27, 1994; "Rewarding time on the road to recovery"

¹⁵ *Super Marketing*, June 12, 1998; "The traffic lights test", p.20-21

¹⁶ Somerfield press release, see <http://www.somerfieldplc.co.uk>

retailers [for example see Moody, 1997]. It can enable the retailer to achieve global economics of scale and organisation, global purchasing power, and provides access to markets that are expanding faster than the UK. Internationalisation can also act as a protective mechanism, as a domestic-orientated food retailer is a more feasible acquisition for international retail giants (6.4, p.240):

I think there will be more and more internationalisation in retailing, you can see that from Tesco. When I left Tesco, we had businesses in Hungary, Poland, Czechoslovakia, within the UK, Scotland, and just before I left I bought a business in Southern Ireland. Since I have left they have bought a business in Thailand, and I would certainly expect them to add on to the business in maybe Korea and that sort of area of the world. So successful retailers are going to become, or are, international retailers. I have no doubt at all about that.

[Lord MacLaurin of Knebworth DL]

Similarly, UK food retailers have diversified into new sectors, notably Sainsbury's development of Homebase, a UK based DIY chain. However, the size of these secondary operations remains small at present, which is inevitable given the large size of the UK food retailing operations. J Sainsbury is one of the more advanced UK food retailers in terms of diversification, having expanded internationally through the acquisition of Shaw's supermarkets in the USA, and into new UK retail sectors with Homebase DIY superstores - however, their J Sainsbury supermarket operations (including Savacentre) accounted for nearly 80% of their turnover in 1998/9, with Shaw's (US) contributing over 12% to turnover and Homebase (UK DIY) under 8% ¹⁷. An analysis of Tesco annual reports¹⁸ provides similar statistics, with over 88% of group turnover being generated in British food retailing, the remainder being made up of Ireland and Northern Ireland (over 6%) and other Europe (5%). Diversification into new retail sectors and countries, therefore, may provide valuable opportunities for capital-investment. These operations, however, will remain small scale when compared to their main UK food retail operations for the foreseeable future

¹⁷ calculated from J.Sainsbury plc 1999 annual report, year ending 6 March 1999, see: http://www.j-sainsbury.co.uk/finres/1999_final/js_overv/g glance.html

¹⁸ calculated from Tesco plc annual report, year ending 28/2/98, see: <http://www.tesco.co.uk/indexn.htm>

despite rapid expansion - largely because they are dwarfed by the scale of the leading UK food retail chains' domestic food retailing activities.

4.5 The changing price/service relationship.

In the early post-war years, food retailers were prevented from entering into price competition by the rationing system, which dictated both the price and sales volume of foods (5.1.i, p.114-116). Even after the abolition of rationing, RPM meant that retailers could not lower the prices of many branded goods, as these were set by the manufacturers (5.1.ii, p.119). When RPM was abolished in 1964, UK food retailers were able to engage in pure price competition for the first time, and the adopters of low-overhead retail techniques, such as self-service, supermarkets and then superstores, were able to pass on the benefits of their lower overheads in the form of lower prices. When innovators' superstores began to build market share, industry-wide lowering of prices was provoked (6.3, p.227).

Price, therefore, became the primary competitive weapon from the mid-1960s through to the late-1970s, as these were made possible by moves into more efficient retail formats. From the mid-1970s, government imposed wage constraints, designed to curb inflation, were resulting in falling real incomes, which in turn contributed to a rising price consciousness in the UK consumer. In response to this, food retailers launched price-cutting initiatives such as Tesco's 'Operation Checkout' in 1977, followed by similar competitive reactions from other operators, when turnover was increased drastically through high profile price cutting campaigns, which brought price-conscious consumers flocking through the doors.

From the early-1980s, however, operators began to provide better facilities, services and products, making quality of shopping environment the primary competitive weapon, rather than price. This changing emphasis is strongly associated with moves to large, out-of-town stores, which provided the space necessary to develop a quality shopping experience through the provision of facilities such as restaurants, bakeries, ample parking and in-store

pharmacies:

"When we came out of shops in 1977 with Operation Checkout, which was phenomenally successful, our market share went up by spades. But we couldn't cope with it, so we had to look at our logistics - our warehousing situation, our buying, we had to look at everything - and we decided we would move out of town. So we then went about getting Tesco to move out of town, to the stores that you see today with the flat, free car parking, petrol filling stations, coffee shops. And I suppose that from 1977 right to the present day, we have closed down our smaller stores and developed these superstores, and with these superstores we started to develop a quality image. It took quite a long time for the quality image to come through and for it to be accepted, but we stuck at it with decent marketing and good advertising, and gradually became the number one grocery retailer in the United Kingdom..."

[Lord MacLaurin of Knebworth DL]

Thus there is a tendency for UK food retailers to compete over either price or quality of shopping experience. Price tends to resurface as a key issue periodically, but the general trend over the period of the study has been for UK food retailer investment in the quality of the shopping experience to take precedence over investment in lower prices, particularly during the 1980s and 1990s, and for retail margins to increase to cover the additional costs.

Although it was noted above that the improved shopping experience had been driven by the addition of facilities such as in-store restaurants, it has equally been achieved through trading up of the quality of the range on offer. In no area is this clearer than in the evolution of UK food retailer private labels, which have matured from *"inferior, 'me-too' products that competed with the leading brands on the basis of price"* [Doel, 1996; p49], through a close relationship with the *"pile it high, sell it cheap"* formula of the 1970s [ibid.], to have a *"vastly improved quality image"* today, as well as a much more significant market share [ibid.]. The increasing quality of private label is particularly important as it accounted for 40% of UK grocery sales in 1996 ¹⁹, and is therefore a key factor influencing the quality positioning of the food retail sector as a whole.

¹⁹ Taylor Nelson AGB

The trading up that occurred in the industry, however, left a void in the price-sensitive end of the food retail market, which European hard discounters moved into from the early-1990s. Duke [1993; p.36] suggests that the reduced emphasis placed on price-based competition during the 1980s allowed a steady rise in the net margins of most retailers, making the market more attractive to potential new entrants, and leaving the price-sensitive lower end of the market largely abandoned, defended mainly by Kwik Save. Significant trading up by established operators during the 1980s was followed by a rapid injection of capital into the UK by European-based hard discount chains in the early-1990s, occupying a low-cost, low-price, low-service position.

Described by Seth and Randall [1999; p.147-148] as stores where “*the queues are longer, the space limited, the wire baskets nastier and the whole experience a whole lot shorter on aspiration than British consumers have been used to*”, the entrance of hard discounters presented a formidable threat to the established retail hierarchy in the early-1990s.

Germany-based Aldi was the first European hard discounter to enter the UK retail market in April 1990²⁰, followed by Denmark-based Netto in December of the same year¹³. Their developments were initially focused on the Midlands and the north, areas badly affected by the deep recession of the period, which was perceived as shaping consumer price consciousness in favour of discount operations¹³. Discounting itself was not new to the UK, demonstrated by Kwik Save opening its 750th store in 1992¹³, but this type of ‘hard discounting’ was.

The difference between European discounters and existing UK operators such as Kwik Save is in their set-up. According to the IGD²¹, ‘limited-line discounters’, Aldi and Netto for example, carry less than 1000 lines and prices are 10% to 15% lower than in non-discount shops, while a discount supermarket carries between 1000 and 3000 lines and has a more flexible range including more fresh, frozen and chilled foods, with Kwik Save being

²⁰ *Super Marketing*, January 17, 1992; “Discounters on the march”, p.14-16

²¹ see *Super Marketing*, June 7, 1991; “The European discount phenomenon”, p.12

an example of this. These are also known respectively as 'hard' and 'soft' discounters.

Aldi announced in 1990 that it wanted 200 UK stores operating by the end of 1993²², but grew at a pace much slower than this, and had less than 100 stores in August 1994²³, and 230 by mid-1999, giving it a UK grocery market share of around 0.8%²⁴. Their growth was slowed by a combination of factors, namely simultaneous expansion into eastern Germany following reunification²⁵, difficulties obtaining planning permission²⁶ and established operators' extension of prices and ranges downwards into low-price private label²⁷, with Tesco Value, Sainsbury's Essentials, Safeway Savers, Asda Farm Stores, Somerfield Basics, Morrison Bettabuy, Iceland Everyday Super Value, Kwik Save No Frills, and Co-op Everyday, all being launched in 1993 and 1994²⁸.

At this point Aldi were expanding into the south, Carrefour-owned discounter Ed was concentrating on entering the UK via the south east, while Netto were continuing to focus on the north²⁹. In November 1994, Lidl of Germany entered the UK³⁰, and expanded to 40 stores within 6 months before slowing their expansion³¹. In 1995, Budgen's pulled out of its small discount operation, Penny Chain, selling five to Lidl and converting the remaining seven to the Budgen's format³², and Netto bought the Ed stores from their French owner Carrefour, and focused on expansion in London and the south east³³. A significant impact of hard discounters was on the fortunes of Kwik Save, supporting Porter's [1980, p.41-44] view that being 'stuck in the middle' with no clear strategy towards cost leadership, differentiation or focus, is extremely damaging:

²² *Super Marketing*, April 17, 1992; "Sounds of silence", p.58

²³ *Super Marketing*, August 5, 1994; "Who do you think you are kidding", p.17

²⁴ *Financial Times*, July 23, 1999; "Business is not so cheap and cheerful for discount stores", p.13

²⁵ *Super Marketing*, June 7, 1991; "The European discount phenomenon", p.12

²⁶ *Super Marketing*, April 14, 1995; "Stopped in their tracks", p.18-20

²⁷ *Financial Times*, July 23, 1999; "Business is not so cheap and cheerful for discount stores", p.13

²⁸ *The Grocer*, October 22, 1994; "Basic lines are here to stay", p.16

²⁹ *Super Marketing*, September 3, 1993; "Aldi, Ed, Lidl - move on south", p.8

³⁰ *The Grocer*, November 12, 1994; "Lidl arrives at last - with an instant national chain", p.18

³¹ *The Grocer*, August 19, 1995; "More changes at Lidl but we stay", p.4

³² *Marketing*, February 2, 1995; "Budgens drops its Penny chain", p.2

³³ *The Grocer*, November 23, 1996; "Taking the fast track with Netto", p.15

Asda were bearing down on Kwik Save from above, closing the gap as we managed to get our cost base down. In the end we were almost as price competitive as Kwik Save... then you had Lidl and Aldi coming in and completely stealing their clothes in the discount bracket, as they are properly structured for discounting, in every sense.

[Tony Campbell]

Although the threat of discounters appears to have receded somewhat, a major effect of their entrance was to drive Kwik Save into the hands of Somerfield, a merger which appears to have been harmful to both companies (4.4, p.105), and many outlets have been converted to the Somerfield fascia.

Conclusion

In summary, the second half of the 20th century witnessed profound change in the UK food retail structure. Multiple food organisations came to dominate the industry, at the expense of co-operative and, particularly, independent operators, and was largely driven by store rationalisation. Specialist food retailers also lost market share to the multiples, and the number of their outlets plummeted accordingly. While the multiples were coming to dominate the industry, a select few multiples were beginning to dominate the multiple sector itself, as the 'big five' rose to prominence and power became increasingly concentrated. This was a result of their geographical expansion, and of takeover within the sector. The growing scale of the leading food retailers forced manufacturers into a compliant role in the relationship.

The retail format evolved from counter-service, through self-service conversions to high street supermarkets, and then to out-of-town superstores, and was primarily driven by multiple organisations, hence their rise to prominence. These larger stores allowed extension of product offering, and slow growth in food sales encouraged this to be in the non-foods arena. Planning restrictions forced operators to consider opening smaller stores from the mid-1990s, and the retail format evolved once more. Geographic expansion sped

consolidation in the industry, as leading operators entered into competition with regionally-based players, often resulting in takeover. This geographical expansion developed an international flavour as UK opportunities diminished, and the greater potential for growth overseas was recognised. The lack of growth in the UK market for food also drove food retailers' moves into new sectors within the UK.

Over the period of the study, the focus of the price/service relationship has changed periodically. Service reigned in the days of counter-service, but the abolition of RPM in 1964 drove the development of efficient formats and lower prices. This price competition intensified during the 1970s, as real incomes fell, to be superseded once again by service from the early-1980s. By the early-1990s, price competition had been bypassed in favour of competition over service and quality to such an extent that European hard discounters became attracted to the market, and several such operators established themselves, although it seems their initial threat appeared larger than their actual impact. Price became more important from the late-1990s, largely due to competitive pressures, but in general, the trend has been towards providing a more upmarket shopping experience, although price remains an important element in this.

In short, the most marked change of the second half of the 20th century was to the retail landscape, which in 1950 was dominated by independent, counter-service grocery shops, and by 2000 had evolved to be dominated by large, facility-packed, service-orientated, out-of-town superstores, with 50% of UK grocery sales passing through only five major multiple retail organisations.

Chapter 5

Major factors affecting the UK food retail system post-1950

Before explaining the forces driving the major changes outlined in chapter 4, it is a necessary pre-requisite to consider the major exogenous and endogenous forces impacting upon the food retail industry post-1950. These are considered in four categories - forces due to government intervention and policy (5.1), those due to socio-economic change and the changing consumer (5.2), the impact of changing technology (5.3), and the effects of retailers' behaviour on the industry (5.4). This is necessary because chapter 6 draws on the findings of this chapter in order to explain the changes outlined in chapter 4.

5.1 Government Policy

Government policy was a key influence on the development of the UK food retail industry during the second half of the 20th century, impacting profoundly upon food retailing in many areas including pricing, planning, opening hours, merger activity, wages and taxation. This section examines the effects of rationing in the years of austerity following World War II, the effects of the return to the free market, and the impact of Resale Price Maintenance (RPM), its abolition, the planning regime, competition policy, the liberalisation of trading hours and other factors such as wage regulation.

5.1.i Post-war shortages, rationing and the return to the free market

World War II brought severe food shortages to the United Kingdom, necessitating rationing of the limited amount of food available, in order to ensure that everybody received a fair share, as indicated in chapter 4 (4.5, p.107). The retail landscape was dominated by independent counter-service grocery stores, with the independent sector accounting for 52% of grocery turnover, even as late as 1961, compared to 27% for multiples and 21% for co-operative societies¹, and rationing effectively preserved the existing retail system by suppressing competition.

Ration books were issued to all UK residents in January 1940. Each household had to register with a grocer and a butcher of their choice. The grocer carrying the registration of each household would be their supplier of butter, bacon, sugar, preserves, margarine, cooking fats and cheese [Williams, 1994a; p.115], provided that the customer surrendered their weekly ration coupon when paying the grocer. A points allowance scheme was also introduced, covering a wide range of grocery lines [ibid., p.116], whereby a certain number of points had to be handed over to the grocer for each product, with the least plentiful goods commanding higher point values than others. Consumers were free to buy whatever products they wanted from the scheme with their points, but were issued with a limited number of points per month.

¹ *Retail Business Trade Review*, 28, November 1981; p.6

The shortage of food remained acute after the war ended in 1945, and rationing continued into the 1950s, by which time the grocery trade was feeling the impact of prolonged food shortages. The transition from wartime to peace brought little change in the food rations allowed to the people of the UK, with rationing continuing because it was feared that restoration of the free market would drive food prices upwards and out of the reach of the poor, for two main reasons - basic food prices were subsidised by the government's Ministry of Food, thus the price of basic rationed foods was cheaper than would otherwise have been the case, and restoration of the free market may have meant that those who could afford to pay a premium would take more than their fair share of what was available, which would have driven up prices and created shortages.

Major losses in agricultural production had been suffered in occupied Europe, and continued rationing in the UK also aimed to create a surplus of food to send to the European mainland ². For several years after the war, there were no signs of a return to normality, in fact fat, bacon and soap rations, as well as the monthly points allowance ¹, were all reduced in May 1945.

Bar minor adjustments, rationing and other controls remained static until the early-1950s. The grocery trade was considered an essential part of the national wartime effort, charged with the fair and just distribution of food, and was proud of its part in victory³. But continuing short supplies, strictly controlled margins, rising wages and other expenses began to anger the industry in the early post-war years ³. The early-1950s were particularly difficult for UK food retailers ³, independents, co-operatives and multiples alike [ibid.], because the majority of their turnover was generated from the sale of controlled goods. This control not only governed the quantity that could be sold, it also dictated the price at which it could be sold, constraining grocers' turnover in both volume and revenue. Furthermore, retailers could not exercise their buying skills, as rationed

² The Grocer, January 12, 1946, p7

³ The Grocer, September 28, 1946, p8

goods were supplied by the Ministry of Food, meaning that gross profit margins were fixed beyond the control of the retailer. Net profits were also under pressure - staffing levels could not realistically be cut due to the large amount of administration generated by rationing and the points system, and the generally small sized shops tended to lend themselves to operation by a limited personnel, again making staff cutbacks difficult, as over 57% of stores had a sales area inferior to 1000 square feet in 1961⁴. Wages could not be reduced, in fact from September 1949, wages paid in the retail food trades were subject to statutory wage regulation through the Retail Food Wages Council, which resulted in *"a regular succession of wage "adjustments"... in the upward direction"*⁵.

A sharp increase in petrol and commercial vehicle purchase taxes in 1950, coupled with rising lighting charges⁶, exacerbated the problems of the grocery industry. In this situation over which they had little control, grocer's earnings fell, as they were meeting increasing business expenses from a static gross profit margin. The situation was so dire that trade associations, such as the National Federation of Grocers' and Provision Dealers' Associations, were sometimes successful in lobbying the Ministry of Food for increased margins on controlled goods⁷:

*"By deputation, by memorandum, by deputation again, every possible plea was made for improved margins. The fight continues"*⁸.

A shortage of skilled labour due to military service made grocers' problems worse, and pockets of food retailers attempted to reduce overheads by experimenting with self-service⁵. Conversion to self-service could alleviate the two key problems of staff shortages and falling net margins, as staff no longer needed to be fully trained grocers, and the proprietor's earnings could theoretically be raised through increased productivity per man-hour worked, plus gains in turnover could be achieved through increased

⁴ *Census of Distribution and other services*, 1966, 2, London, HMSO, 1971; table 25, page 2/124

⁵ *The Grocer*, March 29, 1952, p21

⁶ *The Grocer*, June 24, 1950, p30

⁷ *The Grocer*, January 4, 1947, p9-10

⁸ *The Grocer*, June 24, 1950; p30

patronage and “impulse shopping”. Shortages in pre-packaging materials impeded the development of self-service, however, as did the requirement to dispense rationed goods (6.3, p.224-225), but wartime controls did force retailers to seek ways of cutting fixed costs - price rises were not an option, so rationing effectively “*encouraged greater efficiency...*” [Howe, 1992, p24], primarily through conversion to self-service. At this time, there was control on entry into retailing [Howe, 1992, p24], removing the threat of a new store taking trade from an established food retailer, and suppressing competition, and in order to “*obtain the basic fixed rations, a customer had to register with a particular shopkeeper for a period of twelve months*” [Addison, 1995, p30], meaning that consumers were not particularly free to shop around.

Although war and post-war controls had made food retailing “*much less competitive in structure*” [Howe, 1992, p24], when a customer’s twelve month registration period was close to lapsing, certain grocers would tempt them with special favours, in a bid to win their continued registration. Using the margins allowed for wastage on controlled goods, the grocer could offer enticements to customers:

“*...you could gradually build up a little extra stock so that when it came to re-registering you could say to Mrs Jones, I can let you have another couple of ounces this week.*” - Mr.Mucklow, grocer in Stratford-on-Avon.

[Addison, 1995, p32]

The spirit of competition in the grocery trade was therefore not altogether dead, merely suppressed. Everyday grocery shopping, however, tended to be done in the same shop, day to day, year to year, driving a profound lack of competition: “*If there has been one thing that has been lacking during the years of control, it has been the spirit of competition and emulation that, in fact, built up Britain’s greatness*”⁹. The long period of government control generated a “*tendency... to blame others for difficulties, but the most valuable prizes were won by those who knew... their own business*”⁸.

There was a shortage of funds in the grocery business, primarily because of price controls

⁹ The Grocer, June 3, 1950, p23-24

on both the input and output sides. This lack of funds made the rebuilding of bomb-damaged sites unfeasible, as did government reluctance to issue building licences due to a shortage of building materials [Williams, 1994a], effectively reducing the number of grocery stores and hence the level of competition within the industry.

However, the early-1950s also saw world food shortages becoming less acute, and wartime controls slowly being wound down. In May 1950 the Points Rationing Scheme, in place since 1941, was abolished:

*"With something of the air of a returned warrior hanging up his sword in the hall, the (grocery) trade may now hang up its scissors, for the Points Rationing Scheme is dead."*¹⁰

Food rationing was gradually phased out over the following few years, with tea being freed in October 1952, followed steadily by other goods until the derationing of meat on July 3rd 1954, which marked the end of post-war rationing [Williams, 1994a], the return of free competition to the grocery industry after fifteen years, and the ending of the obligation to register with a particular shop in order to obtain rationed goods, as well as the obligation to patronise this shop. RPM, however, meant that there were many grocery lines over which food retailers could still not compete on price (5.1.ii, p.119).

After the abolition of rationing, each trader's profits were more closely related to the level of proficiency shown than had been the case under wartime regulations. While there was still much to complain about, and the *"tendency to blame others for difficulties"*⁸ remained, free competition had effectively returned to the industry. As Herman Kent, secretary of the National Federation of Grocers' and Provision Dealers' Associations, observed, the 1940s was *"a decade of permits"* and the 1950s was *"a decade of performance with proficiency"*⁸. Free of wartime controls, every trader bore the ultimate responsibility for his own success as *"margins, and consequently profits, became less and less dependent on collective negotiations between (trade organisations) and the*

¹⁰ The Grocer, May 27, 1950, "Epilogue on the Points Scheme"

Ministry (of Food) but more on individual bargains with manufacturers and first-hand distributors."¹¹

5.1.ii Resale Price Maintenance

Until 1964, manufacturers could dictate the price at which retailers sold their products, under a system known as resale price maintenance (RPM), defined as "*whenever a manufacturer sets the price at which a retail shop which he does not own must resell his product to the public, or at which a wholesale business he does not own must resell that product to a retailer.*" [MacDonald, 1964; p3]. Introduced in the 1890s [Jones, 1993], the practice spread rapidly, in particular during the 1930s [Yamey, 1966; p.5].

RPM had two key effects on the UK food retail sector. First, it enabled manufacturers to set retail prices high enough to fund major investment in the strength of their brands [John Fletcher], with many of the strong brands of today emerging during the 1950s and 1960s, aided by the dawn of commercial television [Richard Swaab]. Second, it prevented UK food retailers from entering into price competition on a large proportion of their range, effectively prolonging the existence of the fragmented grocery sector. Operators of modern self-service stores, benefiting from lower overheads, were unable to pass on their operating efficiencies in the form of lower prices, which in theory would have attracted customers away from traditional grocery stores, and driven out weaker competitors. Concentration in the UK food retail industry was therefore delayed by RPM, because until its 1964 abolition, inefficient food retailers with relatively high operating costs were able to offer the same prices as their more efficient competitors. It also prevented low-cost entrants to the retail market from passing on their lower overheads in the form of lower prices, as suggested by Hollander's [1960] 'Wheel of Retailing'. In effect, RPM bolstered the position of manufacturers relative to retailers, and, in line with Galbraith's [1952] Theory of Countervailing Power, opposition to the practice grew and it broke down, allowing retailers to increase their influence over manufacturers.

¹¹ The Grocer, February 14, 1953, p15, "Retail Margins: Hope and Warning"

Tools such as co-operative 'dividends' and 'trading stamps' issued by multiple organisations and some independent operators, offered a means of bypassing resale price legislation, providing an alternative to pure price competition (5.4.i, p.177):

Green shield stamps carried a discount, an infinitesimal amount... but the manufacturers could not trace how many of those coupons in a customer's purchase applied to their merchandise. So you bought £50 worth of goods and you got so many stamps. This is literally how discounts were given to overcome RPM.

[Sir Noel Stockdale]

Equally, RPM was a factor driving retailers' development of private label (5.4.ii, p.180), enabling retailers to compete over price, as they were able to undercut highly-priced branded products.

Co-operative societies wanted to treat all groceries equally and pay dividends relating to the purchase of all products, irrespective of whether or not the goods were the subject of RPM, which some manufacturers regarded as equivalent to discounting their stipulated price. In response, "*some manufacturers...either altogether denied supplies of their goods to retail establishments which distributed surplus trading profits to their customers or insisted that if a dividend was paid the price to the customer should be increased by the full amount of the dividend.*"¹²

In response to these conflicts, the government initiated the 1949 'Committee on Resale Price Maintenance', chaired by Lloyd-Jacob. Their key recommendation was that RPM should not "*obstruct the development of particular methods of trading*"¹³. Co-operative societies, thus, could continue paying dividends on *all* products sold. Multiple and independent retailers, too, could offer 'discounts' through stamp trading, (5.4.i, p.177) although its popularity did not peak until the 1960s.

The Lloyd-Jacob Report, as it became known, provided the first blow to RPM and hence

¹² The Grocer, June 11, 1949, p10

¹³ The Grocer, June 4, 1949, p9

to manufacturers. Other investigations into RPM, see MacDonald [1964, p6-9] for details, included the Committee on Resale Prices Act (1948), the Council of Prices, Productivity and Income (1958) and the Committee on Consumer Protection (1962). While each of these investigations made different recommendations, a trend towards liberalisation was evident: “...the pendulum had been gradually swinging against resale price maintenance since the first investigation in 1920” [MacDonald, 1964; p9]

While the pendulum may have been ‘swinging against RPM’ in legal terms, in retail terms its importance was increasing, with manufacturer price-dictated products rising from 3% of total UK consumer expenditure at the dawn of the 20th century to over 40% by the mid-1950s:

Figure 5.1.ii.a: Extent of influence of RPM:

Year	Percentage of total consumer expenditure spent on products affected by RPM
1900	3%
1938	30%
mid-1950s	40-50%

[Source: Howe, 1992; p.22]

In 1964, Edward Heath’s parliamentary bill abolished RPM in all but a few select categories of goods such as household medicines and books [Howe, 1992]. Despite active campaigning against the bill by manufacturers and independent retailers, parliament passed the bill with a majority of just one vote:

I wanted to abolish resale price maintenance because I believed it would lead to greater competition, and that would benefit the consumer. It would lead to lower prices, and that was in his benefit... We recognised at the time that, of course, many of the small retailers might be adversely affected, but that can't be an argument for holding up the whole of the development of sales in the modern community.

[Sir Edward Heath, speaking in *British Empires: Tesco*, Channel Four, MM]

In UK food retailing, RPM had largely broken down prior to the change in legislation, because self-service grocery chains were tending to focus their price cuts on private label,

for fear of prosecution. Manufacturers of price-maintained branded products found that their sales were falling, and that allowing price-cutting restored sales, hence manufacturers “tended to lose interest in price maintenance” [Stamp, 1964; p.11]. A second reason for the break down of RPM was competitive pressure between manufacturers, although it is not entirely clear whether this or legislative changes were the key cause of RPM’s demise [Pickering, 1966; p.121-122]. It is certain, however, that the legislation made the abolition of RPM permanent, and that this did indeed herald a new era of price competition, acting as a spur for retailers to run efficient, cost effective operations. Its abolition meant that operators of larger, modern stores, with low overheads and a low cost-base, could, in theory at least, pass on their cost savings in the form of lower prices for the first time. Lower prices should theoretically increase the appeal of the supermarket compared to the traditional counter-service grocery shop, and push many outlets, including some owned by multiple organisations, into marginal profitability or unprofitability, leading to their subsequent disappearance (6.1, p.197-198). Gardner and Sheppard [1989] note that the fate of the manufacturer was ‘inextricably linked to the survival of the local corner shop’, and that manufacturers would remain dominant as long as the food retail industry remained fragmented. The onset of price competition between supermarkets from the early-1960s, however, began to erode the base of corner shops - a side-effect that was fully understood by the government when deciding on the future of RPM [Stamp, 1964; p.7-8] - and to speed up consolidation between multiple operators:

So trading with independent grocers was always going to be difficult, and what manufacturers had to do was to find a way to accommodate that difficulty, which they never did. So it was goodbye to twenty or thirty thousand retailers over 15 years. Goodbye to very many independents and goodbye to the manufacturers of many branded products.

[Mike Groves]

To resume, supermarket retailers achieved economies of operation relative to smaller self-service and counter-service stores, which they were able to pass on in the form of lower prices on branded products following the abolition of RPM in 1964, although some operators’ continued use of trading stamps may partly have negated their price competitiveness. The ability to offer lower prices can be considered one of the key factors

driving the spread of larger stores. The mid-1960s were also the period when the first UK superstores were developed (4.3, p.97-98), initially basing their appeal on competitive pricing of leading branded products, effectively made possible by the abolition of RPM and the marked economies of scale achievable from the operation of large stores (6.3, p.219-222).

5.1.iii Planning restrictions

Although local authorities are responsible for planning issues, they are governed by guidelines issued by the Department of the Environment, and are ultimately answerable to the Secretary of State. The Department of the Environment, in its role as legislator, issues *Guidance Notes* to local planning authorities - the notes introducing major policy changes are summarised in figure 5.1.iii.a below. The role of enforcer is played by the Secretary of State, who has the power to overturn local authority decisions at appeal. The possibility of losing an appeal tends to force local authorities to follow central government planning guidelines reasonably closely, as losing an appeal wastes time and effort, plus the obligation to pay the applicant's expenses [Guy, 1994; p.77].

The UK government therefore controls the planning process relatively closely, although its delegation to local authorities produces discrepancies between neighbouring authorities, and differing attitudes according to broad geographic location. Local discrepancies occur when local authorities lacking a major town-centre allow substantial new development in order to build up retail capacity [ibid., p.89], and when local authorities fear that refusal of an application may result in an approval just inside the boundaries of a bordering authority, having a similar negative impact on existing retail provision, yet not bringing them the benefits of locally levied business rates [ibid., p.89]. Also, less affluent regions tend to have the highest concentration of superstores per capita, suggesting that planners may welcome development schemes perceived as creating employment in deprived areas [ibid., p.89], although these differences are being eroded with time [Lee Donaldson, 1991].

There follows a summary of the key changes in government policy since planning became a major issue in food retailing - essentially the mid-1960s when superstores began to appear:

Figure 5.1.iii.a: Key changes in regulatory planning policy towards out-of-town retailing:

Year	Summary of change	Reference
1972	Secretary of State became responsible for planning applications for stores in excess of 50,000 ft ² outside existing towns or districts.	Development Policy Control Note 13
1974	Distinction made between wholesale and retail to the general public, and between cash and carry wholesaling to trade and to the general public. Developments concerning cash and carry to the public must come under DPCN 13	Development Policy Control Note 14
1977	Secretary of State became responsible for planning applications for stores in excess of 100,000 ft ² outside existing towns or districts.	Development Policy Control Note 13 (revised)
July 1985	The impact of a proposed development on other retailers no longer a consideration, except in the case where a nearby town centre as a whole could be affected.	Department of the Environment, 1988; paragraph 7
1988	Green belt land, open countryside and industrial areas reserved for other uses	Department of the Environment, 1988
1993	New retail developments to be located in areas accessible by a choice of means of transport, and to encourage economy in fuel consumption	Department of the Environment, 1993; paragraph 36
1996	Revision to PPG6 - the preferred site for a big retail centre must be the town centre if there is a 'suitable' and 'available' site	Moir, 1995, p17.

According to Lord Sainsbury of Preston Candover KG, planning constraints stifled food retail development in several areas, notably early supermarkets and car parking provisions, and slowed superstore development in general [Tanburn, 1972; p.6]. Developers of superstores in particular encountered difficulties obtaining planning permission, and devised devious methods of gaining planning permission or avoiding the requirement altogether. One technique employed by early superstore developers was to exploit the inexperience of planners with the superstore format - claiming to be wholesale cash and carry warehouses instead of obtaining full retail planning consent [Kirby, 1974a]:

It was difficult, but we got several stores, with planning permission for wholesale, and retail cash and carry, to get around the planning, which allowed us to trade.

[Peter Asquith]

In effect, superstore developers were aided by the rapid expansion of cash and carry wholesale warehouses, which became a major element in the distributive trades in the late-1960s [Dawson and Kirby, 1977; p.119]. Ironically though, the true role of cash and carry was to supply independent grocers who were struggling to compete with the new generation of supermarkets and superstores. To planners therefore, applications for large wholesale grocery units were reasonably common, while only a minority of applicants were deliberately misleading. Development Control Policy Note 14 (1974) made a distinction between genuine wholesale cash and carry and retail cash and carry, effectively ending this as a means of developing retail superstores. Section 6.1 (p.204-205) analyses the impact of the development of cash and carry warehouses.

An alternative strategy was to seek permission just inside the boundaries of superstore-friendly local authorities, only a short distance from sites refused superstore planning permission by neighbouring local authorities [Gransby, 1984; p.50]:

We applied to put a store just inside the Lincoln boundary, but Lincoln were against it. We applied to put one on the North Hykeham side of the boundary and we got our permission.

[Peter Asquith]

Early superstores were something of an unknown quantity, the effects of which were not particularly obvious, especially to planning officials who sometimes failed to appreciate the possible negative impact:

... if you were interested in putting a superstore in a certain area you would get the planning people from that area up to a nice new Asda, to have a look at it. You weren't actually hiding from them what you were planning to do, but very often the right questions may not have been asked, in terms of all the issues. So for example there was always the issue of how many other shops would be affected, will the superstore close down lots of small shops, where will the trade come from, that type of thing, these questions were not always asked.

[John Fletcher]

The planning system is a much criticised force slowing out-of-town retail development [Brown, 1992a, p191]. Such techniques to avoid the planning system or mislead officials, illustrate the difficulties in obtaining planning permission for out-of-town retail units.

The UK planning system has also driven the development of retail units just under the size threshold at which they must be referred to the Secretary of State [Dawson, 1984; p178]. As a result, out-of-town superstores built between 1972 and 1977 tended to be just below 50,000 ft², increasing to just under 100,000 ft² post-1977 (see figure 5.1.iii.a, p.124, for changing size criteria).

A further option was to bypass the planning system entirely, by developing retail units within 'enterprise zones', set up by the government and local authorities to increase business activity and employment in designated areas from 1981 [Thomas & Bromley, 1993, p.128]. The key magnet attracting retailers to enterprise zones was '*speedier planning*' [Department of the Environment, 1987; p.60], although they also gained capital allowances and exemption from rates. Each enterprise zone had different criteria for the type of development permitted, and the more relaxed enterprise zones were subject to extensive retail development [Sparks, 1987; p.40]. A proposed development which satisfied all the criteria would be '*deemed*' to have been granted planning permission, although no application was actually necessary. Proposals exceeding the maximum criteria set down by the Secretary of State (figure 5.1.iii.a, p.124) still had to obtain full planning permission, although this was rushed through at a faster pace than normal [Sparks, 1987; p.6-7], providing "an irresistible opportunity for retailers and property developers alike" [Brown, 1992a, p.191]

Such devious techniques largely ended by the mid-1980s, when the planning system became less restrictive, with the period between July 1985 and July 1993 being the most superstore-friendly, demonstrated by the rapid growth of the format during this time (4.3, p.98), allowing a lag of 2-3 years for development to occur (see appendix 4). The number of appeals refused by the Secretary of State rose from under 50% pre-1993 to 68% between 1993 and 1997 [Ruston, 1999; p.7], also suggesting that it became harder to gain planning permission for large stores. Planning policy dictated that factors relating mainly to accessibility were to be taken into account from 1993, as the government became

concerned with existing town centres, and large-scale out-of-town development was effectively curbed by John Gummer (then Minister of the Environment) in 1996, when PPG6 was revised to favour town centre retailing whenever viable:

We were spending huge amounts of money on regeneration, vast amounts of tax payers' money to recreate the centres of our big cities, and yet we had a planning system which seemed to be encouraging out-of-town shopping. I thought that we had enough of that, and that we ought to change the direction fairly significantly.

[John Gummer, speaking in *British Empires: Tesco*, Channel Four, MM]

This planning policy U-turn forced a change of direction for food retailers, driving them to seek avenues of growth other than the out-of-town superstore, despite strong consumer demand for large stores with car parking [Lord Sainsbury of Preston Candover KG]:

Lord MacLaurin: *"In about 1996, John Gummer brought out PPG6, which curtailed out-of-town superstore operations and shopping centres, and redirected us to the edge of town and in-town. Now, in about 1995, we knew that this was coming, so through the sheer efficiencies of the business we started to think about going back into town, and we opened Tesco Metro and Tesco Express."*

Roger Clough: *"So the main impetus for these was the planning changes?"*

Lord MacLaurin: *"Yes. We adapted to the planning... John Gummer said "OK, you are not now going out-of-town, we are not going to allow any more out-of-town developments", and that is fine, we have to go with that, and build other stores, which we do often."*

[Lord MacLaurin of Knebworth DL]

'Planning gain' also became an issue from 1971, when the Town and Country Planning Act (1971) allowed for "section 52 planning agreements, popularly known as planning gains" [Association of London Borough Planning Officers, 1989]. Developers, including retailers seeking planning permission for a store, subsequently found that local authorities could ask them to finance improvements in the vicinity of the proposed store, with planning permission being dependent on their agreement. Planning gain is seen to be problematic only when planning authorities attempt "...to incorporate into the proposed development some element of public benefit or advantage which the developer, left to his own devices, would not have volunteered, but which he is expected to provide... at his own expense as part of his scheme." [Department of the Environment, 1981; p.2]

Tesco remarked that “in most cases as part of the application you need to consider and allow for things like road traffic improvements” [Barrett, 1995]. Other examples of retailer funded schemes, agreed as a package presented to planners, include town-centre enhancements, consultancy fees, funds towards appointing a town manager, the funding of roadworks, park and ride schemes, community centres, improvements to sporting and leisure facilities, hospitals, and new road schemes [ibid.]. Retailers tend to agree to finance local initiatives rather than see their application go to public enquiry [ibid.], While “there seems little sign of this tendency abating” [Healy et al, 1995; p.223], and it offers a constructive vehicle for regeneration [Association of London Borough Planning Officers, 1989], it drives up retailers’ development costs, putting upwards pressure on margins as suggested by the Wheel of Retailing (7.1.1, p.267).

The influence of the planning regime in retail development has been profound, particularly in the field of superstores, with “*The over-riding factor ... affecting the development of superstores appearing to be the attitude of government, taken in its broadest sense, including that of planning authorities*” [Tanburn, 1972; p6]. Developers devised clever methods to bypass strict planning regulations, but local authorities soon got wise to such behaviour, and the days passed when it was possible to ‘*gain planning permission for a superstore without the implications being appreciated*’ [John Fletcher]. In the 1980s, the development of out-of-town superstores became easier, in terms of obtaining planning permission at least, and devious behaviour was no longer necessary. Planners’ demands forced up the cost of superstore development (6.3, p.229), and by the mid-1990s the planning regime had once again turned against out-of-town retail development, forcing food retailers to re-focus their development strategies on the town centre and smaller stores with smaller ranges.

A key effect of the planning regime, therefore, has been to influence the development of the retail system, in terms of size and location, and to delay its development. In short, planning has influenced the shape of UK food retail developments, pushing outlets to be

just under the varying limits at which they would be referred to the Secretary of State [see Dawson, 1984; p178] (figure 5.1.iii.a, p.124). The planning regime has had a significant impact on UK food retail geography, slowing its development. Food retailers, however, have adjusted their developments to suit the planning regime at any given time, meaning that development has continued despite the constraints imposed, albeit in a different form and with significant difficulties and is frequently conditional on bearing the costs of improvements to facilities in the surrounding area.

5.1.iv Competition Policy

Competition Policy is an important exogenous force on UK food retailers. Until 1965, a company exceeding 33% market share could be regulated indirectly, using existing monopoly legislation, rather than by specialist institutions [Weir, 1993]. Subsequent changes to the system, however, resulted in a more complex system of institutions surveying and governing UK competition, with four main statutes in force at the end of the 20th century [Maitland-Walker, 1995; p.395].

The Restrictive Trade Practices Act 1976 is concerned primarily with agreements between competitors on price, as well as on quality and source of supply, and any such agreements must be registered with the Office of Fair Trading (OFT), who may request court action on the matter. The Resale Prices Act 1976 is concerned with resale price maintenance and minimum price maintenance, both of which are banned in most categories. The Competition Act 1980 allows the OFT to investigate anti-competitive practices, which if found to be in existence, are referred to the Monopolies and Mergers Commission (MMC), who advise the Secretary of State, who decides on appropriate action. An anti-competitive practice has, or is likely to have, "...the effect of restricting, distorting or preventing competition in connection with the production, supply or acquisition of goods..." [ibid., p.401]. Finally, the Fair Trading Act 1973 regulates monopolies and mergers, whereby apparent monopolies (at least 25% market share) are referred to the MMC for investigation, as well as complex monopolies, which occur when players with a combined market share of over 25% collude, having a similar effect to a

straightforward monopoly. Market share can be determined regionally as well as nationally [ibid., p.403].

The general effect of competition policy, of relevance to UK food retailing, is that the OFT can carry out short investigations into possible monopolistic behaviour, when one operator exceeds 25% market share, or dominates a local area [Weir, 1993], and refers the matter to the Secretary of State or the MMC if monopolistic behaviour is apparent. When referred a case, the MMC had to establish whether a situation or practice existed, whether it operated against the public interest, and what the likely effects on public interest would be [Gardner, 1996; p.63]. The OFT also has a surveillance role, and in this are responsible for the collection of data on UK commercial activities, and the monitoring of possible merger or monopoly situations. The OFT also advises the Secretary of State on solutions proposed by the MMC, and is responsible for seeking understandings from companies involved, and to ensure that these are followed. [ibid., p.55]

The Competition Act 1998, which came into force in March 2000, introduced the Competition Commission as an overseeing body, made competition policy in the UK 'more like Europe' [Hay, 1998; p.34], and provided better protections for victims of anti-competitive activity as well as harsher penalties for offending companies¹⁴. While this was an important legislative change, it's importance to the second half of the 20th century is minimal as it had not entered into force, and therefore no further analysis is required, although a key threat to retailers from this new legislation are new provisions prohibiting abuse of market power by firms in a dominant position in a particular market¹⁵, for example in one geographic area. Mergers can also be blocked by the European Commission, although this is rare, but did occur in the travel industry in the late-1990s¹⁶.

By the late-1970s and early-1980s, fears had arisen that large UK food retailers were

¹⁴ *Management Today*, March 2000; p.12, "In my opinion".

¹⁵ *The Grocer*, December 5, 1998; p.33, "Brakes on Power".

¹⁶ *Financial Times*, September 22, 1999; p.27, "Brussels moves to frustrate Airtours deal".

obtaining discounts from suppliers that were unrelated to lower costs per unit incurred by the manufacturer in distribution and account handling, raising fears that smaller retailers were unfairly disadvantaged and that manufacturers would struggle. It was feared that the scale and market dominance of leading retailers (4.2, p.92-93) drove manufacturers to offer favourable terms because of the fear of losing just one major retail customer. Investigations into such 'discriminatory discounts' by the Monopolies and Mergers Commission [MMC, 1981] and the Office of Fair Trading [OFT, 1985] found evidence that this was the case, however, they reasoned that the practice was good for competition because of evidence that retailers were passing on the savings to customers, concluding that controls were unnecessary.

Large food retailers were therefore allowed to continue using their commercial power to negotiate favourable terms with suppliers, irrespective of whether manufacturers enjoyed lower costs compared to dealing with smaller organisations. The inquiries' decisions bolstered the position of large multiple retailers, allowing them to develop buying strength and gain further competitive advantage over smaller organisations. Moreover, the recent findings (2000) of the Competition Commission inquiry into the industry - which looked for evidence of "monopolies that appear to operate against the public interest"¹⁷ - suggest once again that little action will be taken against the leading players.

Government sponsored investigations into the industry have therefore tended to conclude that while UK food retailers may abuse and exploit manufacturers and suppliers, the practice is good for the consumer because savings tend to be passed on through lower prices. As the number of major food retailers has fallen and the 'big five' have increased their market share (4.2, p.91), it is fair to assume that retailer influence over suppliers has increased, yet the 1990s witnessed a considerable softening in retailer attitudes towards suppliers [Hobson, 1992; Tenser, 1995]. It is suggested that the primary effect of the concentration of power in the industry is heightened competition, rather than abuse of

¹⁷ *Financial Times*, November 2, 1999; p.2

suppliers, as the surviving operators are those that were harder to compete with than those that have failed or been absorbed by other retailers:

I think the most important effect of concentration within the industry is greater competition - as they have got fewer, it has got tougher. It is quite simple, you take the most trade from the weakest competitor, although you may take a little trade from the strongest as well. There was a time when there were a lot of inadequate, smallish, medium sized supermarkets, which weren't very well run, and were very vulnerable, lots of names have gone, like FineFare, Allied Suppliers. These were weak competitors and they went out of business in the end. So this was concentration. So what it meant was that to do well, you had to take more trade from your biggest competitors, you couldn't rely on taking trade from weak ones. The Co-op was the biggest example, we were all taking a huge amount of trade from the Co-op. When I started they had a huge share of the trade, and now they have really a very small share of the trade, so there were always ways of building up trade from them. But now you have got to take trade from the big competitors, really, and you only do that by being very tough on price. So the answer to the effect of concentration is in my view is greater competition.

[Lord Sainsbury of Preston Candover KG]

5.1.v The deregulation of shopping hours

The Shops Act 1950 prohibited "...the sale of all but a very limited range of necessary items to the public" [Burke and Shackleton, 1996; p.60] on Sundays and after 8pm on other days [Morris and Jaffer, 1983; p.138], meaning that most shops had to close by 8pm on weekdays and remain closed on Sundays. With time, the anomalies of the law which allowed newspapers but not bibles, and fresh cream but not evaporated milk to be sold on Sundays [Burke and Shackleton, 1996; p.60-61] led to widespread discontent, and certain retailers began to illegally open their doors to the public on Sundays. As this became more common over the years, reform of the law became more desirable if only to regulate the length of Sunday opening and to encourage reasonable terms and a premium wage to compensate employees for antisocial hours. Thus 22 Parliamentary Bills between 1950 and 1993 sought to "reform or repeal" the Sunday Trading Act of 1950 [Burton, 1993; p.11], all of which were unsuccessful, in general due to the high levels of opposition.

Sunday trading caught on during the 1980s, despite the fact that it was illegal in England

and Wales (with the exception of a handful of retail types, such as newsagents). A 1984 study of Sunday trading in Cardiff found that just under half of all purchases made on Sunday were of illegal items [Wrigley and Guy, 1984; p.239], thus there was widespread law breaking. Local authorities were not keen on prosecuting retailers for breaking Sunday trading laws, retailers were keen to gain an extra day's sales, and consumers demonstrated demand for Sunday shopping through their patronage.

"In recent years, enforcement of the existing law has become very lax, with large retailing business openly flouting the legislation."

[Morris and Jaffer, 1983; p.138]

This open disregard for the law was particularly noticeable from the mid-1980s [Buckley, 1995], although even as far back as 1949, there was a marked movement towards Sunday trading by many grocers, who *"defended the small man's right to sell on his "best trading day of the week- Sunday". The law in this regard was ignored over a wide area from Carlisle down to parts of Wales."*¹⁸

Sunday trading laws were finally reformed when the Sunday Trading Act 1994 came into force on 26 August, 1994¹⁹. The new act permitted all goods to be sold on Sundays, while restricting large stores (defined as having a sales area in excess of 280 m², equivalent to just over 3000 ft²) to six hours trading. It also gave shop workers new rights, and made dismissal or other disciplinary action for declining work on Sundays illegal³. Further liberalisation of trading hours came in December 1994, when the Deregulation Act *"removed all restrictions on shop opening hours during the week, and for smaller ones on Sundays"* [Buckley, 1995]. All UK retailers could subsequently open for 24 hours a day during the week, and small stores could remain open continuously, seven days a week.

'For and against' reform of the 1950 Shops Act:

When retailers opened illegally on Sundays (or even legally in Scotland where Sunday

¹⁸ The Grocer, November 19, 1949; p.17

¹⁹ *International Journal of Retail & Distribution Management*, 1994, 22(8), pp.11-12

trading laws were different), the fact that the public responded and patronised these establishments suggested that the consumer was in favour of Sunday opening. Demand for Sunday opening was increasing as consumers changed over the years, with increasing numbers of dual income households, more single person households, and more shift work. Described as *evidently keen to shop on Sundays* [Burton, 1993; p.7], the changing demands of consumers provided the market necessary to make Sunday opening feasible for retailers from around the beginning of the 1980s:

"We were arguing in the 1980s, the 1970s really, to stay open longer. Tesco were seen to be revolutionary for staying open until 7 or 8 o'clock on a Thursday. You just couldn't stay open – except for one night a week. Saturday afternoons were still a half day. Multiple retailers wanted to stay open longer because there were more and more working women, and they wanted to provide the convenience, and the opportunity to shop outside of working hours. If you went into the shops, you had to queue, because the only time you could shop was when every one else could shop. It was ridiculous, so to actually spread the load had got to be hugely productive for all concerned."

[Mike Groves]

A key factor delaying reform of the 1950 Shops Act was the influence of trade unions, who feared that Sunday trading would affect the rest days of shop workers and disrupt family life. Certain retailers, particularly small ones, opposed changing the law, as small stores were permitted to open, and stood to lose their Sunday trading monopolies. Religious organisations were also opposed to reform of the law, for the obvious reason that they wanted the Sabbath to remain a day of rest for shop workers:

"What an unholy alliance of the trade unions and the Lord's Day Observance Society to say we shouldn't shop on Sundays!"

[Denis Cassidy]

Thus there was a strong alliance of powerful organisations lobbying against reform of the 1950 Shops Act, demonstrated by the 22 failed attempts at reform. The voice and actions of the consumer, strong demand, and widespread law-breaking by some large retailers, shifted the balance and Sunday and evening opening hours were deregulated in August and December 1994 respectively.

Winners and losers from the Sunday Trading Act 1994:

Any change in legislation results in winners and losers, and the Sunday Trading Act was no exception. Prior to the change in the law, those who would lose and benefit were summarised as follows:

“Those opposing such a change - notably the more established retailer and the trade unions - claim that the industry will be damaged. Those in favour - consumer groups, rapidly growing retail businesses, notably DIY retailers and superstore operators - argue that the change is widely desired by consumers and will generate additional retail sales.”

[Morris and Jaffer, 1983; p.139]

Consultancy reports suggest that little additional trade is created by Sunday trading, with Healey and Baker [1996] finding that free-standing supermarkets were the key gainers from Sunday trading, and that the same level of weekly consumer expenditure was re-arranged, rather than extra trade being generated. Similarly, Kay et al [1984; p.11-12] expected that “...the majority of Sunday sales would be drawn from other commodities, other retailers, or other days of the week”, resulting in increased retailing costs per unit of sales, and Kirby [1984; p.233-234] predicted that liberalisation of trading hours would “accelerate the decline of the small independent store, by removing one of their few trading advantages over large, multiple organisations” and “lead to an increase in the concentration of power”. Conversely, US research has found that Sunday trading drives increased economic activity through higher employment and increased per capita income [Laband and Heinbuch, 1987; p.205]

Competitive forces were expected to drive widespread Sunday opening, with Townsend and Schuller [1985; p.3] claiming that “the market operates in such a way that many retailers will open even though collectively it would have been more profitable for them to stay shut”. The pressure on marginal retailing would be intensified, because of the rising cost of sales [Kay et al, 1984; p.12], effectively driving “...acceleration of the trend towards the disappearance from the market place of independent traders and towards increasing concentration among multiples.” [ibid., p.12]

In short, there are two sides to the argument, one being that by opening for longer, fixed costs are used more efficiently, with overheads absorbed over a longer working week and a higher turnover. The other is that the retail market is relatively fixed, and that by opening for longer, variable costs increase, merely spreading the turnover over seven days instead of six, meaning that a store, chain, or industry effectively would have to absorb higher variable costs into a fixed turnover, reducing profit margins:

"... people like Sainsbury's and M&S didn't want Sunday trading. In fact trading on Sundays is a trade off, on the one hand you utilise your fixed costs more effectively, property for example. But on the other hand, your variable costs go up, labour costs... It is up to you now to make the most of the beneficial impact on the equation and reduce the others. Now, that is a case where consumer preference, as it were, was ahead of the government."

[Denis Cassidy]

The Institute of Fiscal Studies took the latter view, that extended hours would not result in sufficient gains in turnover and would therefore squeeze profit margins, particularly in small stores:

*"The Institute for Fiscal Studies thinks that after deregulation in England and Wales, over-capacity in retailing would mean tighter profit margins and more shop closures. The existing trends towards bigger shops and more part-time women workers would thus be accelerated."*²⁰

The importance of the outlet:

In fact, the Institute for Fiscal Studies were correct in their assertion that the small store would suffer, although it was perhaps not entirely because of falling profit margins, it was also connected with being forced to open by competitive pressures (see below), while not proving attractive enough to the Sunday consumer, who has more time to travel, browse and to generally shop than the weekday consumer. Thus outlets providing a large range of foods, non-foods, car parking, and services such as in-store restaurants proved to be the key beneficiaries of Sunday opening, because consumers were willing to travel further to reach such outlets, passing medium sized stores on the way, supporting Dunn and Wrigley's [1984] findings that store loyalty could be either negative, due to necessity, or

²⁰ *The Economist*, April 5, 1986, p.29

positive, due to choice. A resulting decline in small, local shops would further alienate 'disadvantaged shoppers', identified as the least mobile sectors of the community, those without the finance to bulk buy, households without adequate storage space or equipment, or the ability to plan meals in advance, all of which have particular need of small shops [Kirby, 1975; p.500; also see Westlake, 1993]. In effect, Sunday opening meant that non-disadvantaged consumers were able to exercise their choice without worrying so much about time spent shopping and travelling to the store:

"I think that the good, large supermarket, with all the conveniences that a large supermarket has, gains trade from Sunday trading, because it is worth going further to on a Sunday to get your supplies, as it were. You have got the advantages of all the things that you like, like lots of range, a coffee shop, petrol, all those things. And if you are a medium sized, fairly ordinary supermarket you lose trade. because those are the supermarkets that people go to because they happen to be the nearest, even though they don't think it's the best, but they haven't got time to go that bit further to the large Sainsbury's or the large Tesco, or whatever. So I would say that Sunday trading benefited the best large supermarkets, at the cost of the smaller ones. Not the small or smallest, but smaller. They still have to open to be competitive, as it were, but they wouldn't get extra business, they would probably lose it on the whole."

[Lord Sainsbury of Preston Candover KG]

In effect, the counter arguments put forward above are correct - that Sunday opening would either generate extra trade, effectively lowering fixed overheads, or that it would merely divert trade from other days, resulting in higher variable overheads. However, in reality, the counter arguments operate at individual store level, with the sum of the parts adding up to affect each operator as a whole. While larger stores, well suited to Sunday trading, gained turnover and therefore absorbed their fixed costs more effectively, small to medium sized stores inconveniently located for car access were faced with an overall loss of trade to the larger stores, while suffering increased variable costs through the forces of competition which tend to force them to open on Sundays all the same, see 'the influence of competition' below:

Tony Campbell: *"On the extended hours, and on Sunday trading in particular, we traded well, because we have a big non-food division, including a big clothing division. The clothing and the home & leisure department are categories that shop very nicely on Sundays, because Sunday is much more of a family occasion. If you go into a store on a Sunday you can see that it is mum, dad and the kids."*

Roger Clough: *"And they spend more presumably?"*

Tony Campbell: *"Yes, they spend more, and they spend more in those more discretionary categories, because they are together."*

[Tony Campbell]

In effect, Sunday trading drove the trend towards larger, multiple-owned stores which gained market share at the expense of smaller, independently-owned stores (4.1, p.85), by giving competitive advantage to large, out-of-town stores. It also removed one of the few advantages of small, independent shops, who no longer retained a monopoly on Sunday shopping, effectively harming their business, although the 6 hour Sunday trading limit imposed on medium to large stores went some way to redress this balance.

The influence of competition:

Once Sunday trading laws had been repealed, competitive pressure began to force retailers to adopt near 'universal' Sunday trading.

Roger Clough: *Have some smaller supermarkets been forced to open?*

Lord Sainsbury: *Oh some were, yes, certainly. Forced by pressure of competition.*

[Lord Sainsbury of Preston Candover KG]

In effect, many medium-sized supermarkets were caught in a no win situation. They could choose to remain closed on Sundays, and lose a proportion of their customers, who would choose to shop elsewhere on a Sunday. The store would therefore become less profitable through the loss of customers who previously shopped on weekdays, but now wanted to do so on Sundays. Yet by opening on Sunday the store may not gain any extra trade because customers tend to frequent large stores on Sundays (see above), meaning that turnover would merely be spread out over seven rather than six days, and may even decline, while staff and store running costs rise. The real question, therefore, is not who

gained most out of the deregulation of shopping, it is "how should retailers maximise profit in a new competitive playing field, by opening on Sundays or staying closed, bearing in mind most competitors will be open?". The real answer must be that competitive pressures have forced many medium sized stores to open on Sundays, with it being the better of only two unattractive options.

Benefits of continuous trading:

Sunday and night time opening bring further benefits unrelated to the increased turnover of the store, such as continuous restocking of products, particularly perishables. With no need to close the store on Saturday only to reopen on Monday with unsaleable goods past their 'sell-by' dates, a continuous cycle helps to reduce wastage if the necessary systems are operating efficiently:

"I think that they are now organising extended hours to improve efficiency. I am told that in terms of rotating stock and applying business activity, it is easier to do it on a seven-day week than it is on a six-day week. Uninterrupted. There is a flow. They are also quite canny, because they don't open everything all night, some of the departments are closed - they don't have cafeterias all night, the wines and spirits are closed because of the licensing regulations, they tend to put the brakes on a number of the fresh food counters, and so forth. They can run the stores with low staff costs, especially now that the legislation allows for contracts with employees to be much more flexible, so part-timers can turn up at nights. And I am sure that they can make a profit. And they are not doing it everywhere - they are doing it where it suits."

[Tony de Angeli]

Thus, the smooth operation of the longer week is a significant by-product of the deregulation of shop opening hours, and retailers are selective in the departments and stores that they open in order to maintain maximum profitability, although competitive pressures, rather than the carrot of additional profitability, can sometimes force longer opening hours.

5.1.vi. Miscellaneous government factors

Introduction of VAT

Although it did not explicitly disadvantage small operators, the 1972 introduction of

VAT did impose “a major burden on small businesses and many of the self-employed” [Dawson and Kirby, 1977; p.75-76] due to their lack of time and expertise. It can therefore be considered a factor disadvantaging the small operator [ibid.], promoting further polarisation into large and small organisations (7.1.4, p.274).

EU Single Market 1992-3

The birth of the European Single Market in 1993 gave European residents the freedom to shop in any member state they pleased. UK duty on alcohol and tobacco in particular is high compared to those of continental partners, and has driven at least 5% of the £30 billion UK market for alcohol ²¹, and 8% ²² of the £12 billion UK market for tobacco ²³, to be purchased in mainline Europe, whether legitimately or through smuggling. This results in lower sales of these products for UK retailers, including UK food retailers. Changes in indirect taxes were also found to substantially increase the volume of cross-border trade between the Republic of Ireland and Northern Ireland [Fitzgerald et al, 1988; p.1]. In summary, while taxation generally affects all domestic food retailers equally, it can cause diversion of trade to other countries, the development of a black market, and the perception of over-pricing compared to foreign food retailers, all of which are damaging to the trade of UK food retailers. Smaller operators are particularly disadvantaged by the loss of trade to continental Europe, as the convenience store sector holds over 65% of the UK tobacco market ¹⁹, and therefore feels the impact of any loss most severely.

The end of major domestic mergers?

The mid-1990s saw the government becoming increasingly concerned about local monopolistic tendencies in UK food retailing, resulting in the Office of Fair Trading becoming less likely to allow further consolidation among leading industry players:

²¹ *The Grocer*, December 19, 1998; p.79, “Top Products Survey: Wine, Beers, Spirits and Tobacco”.

²² *Financial Times*, March 3, 1999; p.21

²³ *The Grocer*, July 8, 2000; supplement, p.S2

You have got the further constraint of the Office of Fair Trading in this country, which basically keeps an eye on local monopolies and sought to prevent further integration which might allow some player to have a major monopoly in any particular community... So that's a dissuading factor.

[John Fletcher]

Government attitude in this respect has effectively reduced the market share and concentration of the country's leading grocery retailers, illustrated by Asda and Safeway abandoning 1997 merger talks because of the likelihood of the OFT referring the case to the Monopolies and Mergers Commission, meaning that even if eventually permitted, the merger process would be long and painful for the parties involved ²⁴. Indirectly, this government imposed brake on takeover, coupled with the near blanket ban on out-of-town development (5.1.iii, p.127), has reduced growth in the market share of leading UK food retailers, making them more likely targets for foreign predators. Asda were bought by US giant Wal-Mart in 1999, yet it is arguable whether this would have occurred had they successfully merged with Safeway.

Minimum Wage

Statutory wage regulation in the early-1950s resulted in successive salary increases for retail employees, putting pressure on the profit margins of the grocery sector (5.1.i, p.116). The introduction of the minimum wage in 1999 will have had little or no effect on the grocery retailers who already paid a reasonable wage. However, it will have had a more profound effect on the lower payers in the industry, although the low level at which it was introduced has meant that there has in fact been little impact. A higher minimum wage in the future would have little or no effect on those who pay well in excess of the current rate, and could work to their advantage by squeezing lower paying players. Stronger players therefore stand to benefit from minimum wage legislation, while weak players who pay poor wages will be badly affected, suggesting that Darwinian 'survival of the fittest', as proposed by Dreesmann [1968], can be driven by regulatory change.

²⁴ *The Grocer*, October 4, 1997; p.32

Effects of Taxation

The effects of taxation are broadly similar for all UK food retailers, as they all operate under the same taxation regime, meaning that changes have similar effects on each player. However, disparity with overseas taxation levels can create lower or higher costs in the industry when compared to overseas operations (see below). It is suggested that cross border comparisons are unfair to UK food retailers for several reasons, one of which is the UK fuel taxation regime resulting in higher distribution costs which are eventually passed on to the consumer:

"It costs £300 per lorry more in Britain to fill up with diesel than it does on the continent. They don't tell you that, they say environmental responsibilities are such that we are going to put higher and higher tax on it. They don't say, but the cost to you, the taxpayer, and you, the consumer, is that all the goods you buy in the shops are going to be fractionally more expensive than they would otherwise have been..."

[Lord Sainsbury of Preston Candover KG]

A counter argument to this is that high fuel duties enable lower VAT, business taxes, and national insurance charges ²⁵, all of which could counter-balance the effect of higher transportation costs on retailers' profits. In addition, high levels of duty on certain products such as petrol and tobacco has resulted in a degree of price inelasticity for these products, reducing the likelihood of retailers entering into fierce price competition over these lines (6.5, p.247-248).

General effects of government policy

Governmental policy has profoundly affected the development of UK food retailing post-1950, and continues to do so. It was shown above that rationing and government controlled profit margins drove UK food retailers to experiment with self-service as a low-cost alternative to counter service, and that the abolition of RPM drove consolidation in the sector, empowering UK food retailers over suppliers. Planning regulations stifled the development of early supermarkets and stores with car parking, particularly the

²⁵ see edited transcript of Tony Blair's speech given to the Labour Party conference on 26 September 2000, *The Times*, 27 September 2000, p.8

superstore. In response operators found ways around the system, but the planning regime has slowed UK food retail development and altered its course. The deregulation of trading hours in 1994 and the introduction of the minimum wage in 1999 rebased the industry, proving beneficial for some operators and detrimental to others. Reluctance to allow domestic merger activity has slowed concentration in the sector and created foreign interest in the industry, while taxation levels have increased the costs of UK operators and diverted the purchase of certain products to other European countries, driving down UK sales. In short, the effects of government policies have been far reaching in UK food retailing, and have led to operators having to improve business efficiency:

"...quite visibly within retailing circles generally, retailers were terrified by the weight of legislation that followed Labour coming back in 1974. They hadn't been particularly good employers, with some notable exceptions, and I think governments' attempts at controls or imposition of different laws only created the need for retailers to become better professional managers, which they did."
[Denis Cassidy]

Much government legislation has worked against smaller shops, particularly the decision to abolish RPM in 1964. The (abandoned) Food Standards Agency charges would have favoured large retailers over their smaller counterparts [Trevor Dixon], as uniform business rates do:

"...I think the government have been very unhelpful with things like uniform business rates on small shopkeepers. During a period of low inflation and very often deflation, smaller shop costs have gone up."
[Denis Cassidy]

To summarise, legislative changes and changes in government attitude (whether local, national or European) can favour large retailers over small, large store operators over small, UK food retailers over European competitors, or vice-versa in all cases. The regulatory environment is constantly changing, whether due to the influence of local government, the newly devolved regional governments, Westminster or Brussels, and it will continue to affect the structure of UK food retailing for the foreseeable future.

5.2 Socio-economic Change

The second half of the 20th century brought profound changes in the socio-economic status of UK consumers, with women becoming increasingly economically active, and the percentage of men in employment falling (5.2.i). Wages rose dramatically, which in hand with higher overall participation in employment provided a double boost to household income (5.2.ii), further complimented by the consumer credit boom (5.2.iv).

Consumer tastes changed over the period (5.2.iii), and the retail offering evolved in response. With a larger proportion of the population in employment, the retail system developed to suit the consumer with less time and more money, evolving from a pattern of fragmented daily shopping to offer 'one-stop shopping' facilities under one roof , while the retail offering progressively moved to favour convenience over price (4.5, p.108-109).

The importance of socio-economic change is evident, as it has profoundly influenced the retail structure, and those operators that have responded most effectively to it are those that have survived and prospered.

5.2.i The growth of female employment

From the mid-20th century the number of women in the workforce began to increase dramatically, with the first boost to this being World War II, when women filled the jobs vacated by men entering military service. Female employment levels remained higher after the war than before, despite trade union insistence on jobs being returned to men [Summerfield, 1989; p.187-188]. This increase was due primarily to increased participation from older, married women [ibid.; p.188], and the continuing gradual increase in the number of working women over the second half of the 20th century resulted in a profound change in the structure of society.

The proportion of men in work has fallen from over 80% in 1971 to just under 74% in 1991, and the fall appears to have been largely arrested by the late-1980s, while the

proportion of women in employment has continued to rise at a relatively constant rate, from just under 44% in 1971 to over 52% two decades later (figure 5.2.i.a). In effect the increasing number of women in work has more than compensated for the falling number of working men, resulting in an increase in the overall proportion of the population in work, and bringing increased prosperity to the country.

Figure 5.2.i.a: Civilian labour force economic activity rates, by gender and age:

%	Age							All aged 16 & over (includes those over 65)
	16-19	20-24	25-34	35-44	45-54	55-59	60-64	
Males								
1971	69.4%	87.7%	94.6%	96.2%	95.7%	93.0%	82.9%	80.5%
1976	70.5%	85.9%	95.1%	96.4%	96.1%	92.4%	80.4%	78.9%
1981	72.4%	85.1%	95.4%	96.0%	94.8%	89.4%	69.3%	76.5%
1986	73.2%	86.2%	93.7%	94.8%	91.8%	81.1%	53.8%	73.8%
1991	70.4%	85.6%	94.0%	94.7%	91.0%	80.3%	54.1%	73.7%
Females								
1971	65.0%	60.2%	45.5%	59.7%	62.0%	50.9%	28.8%	43.9%
1976	68.2%	64.8%	54.0%	67.4%	66.5%	54.3%	26.9%	46.8%
1981	70.4%	68.8%	56.4%	68.0%	68.0%	53.4%	23.3%	47.6%
1986	70.3%	70.7%	63.5%	72.1%	70.5%	51.8%	19.9%	49.6%
1991	69.1%	72.7%	69.7%	76.7%	72.7%	54.5%	24.1%	52.4%

Based on the percentage of the resident population who are in the civilian labour force, source: Department of Employment, (table 4.4, *Social Trends 1970-1995*, CD ROM, Central Statistical Office, 1995).

The group showing the largest decline in economic activity is males aged over 45, with the decline being larger in the over 55s and over 60s in particular. While there have been minor reductions in the percentage of men in work of most other ages, these changes are reasonably small compared to those aged over 45. Older married women were also increasingly entering into employment [Summerfield, 1989; p.188].

In short, the increase in working women has occurred as males in particular have retired earlier – whether voluntarily or not. The overall effect of the changing working population is increased economic activity, a larger workforce, and thus increased national prosperity.

Graph 5.2.i.b, derived from figure 5.2.i.a:



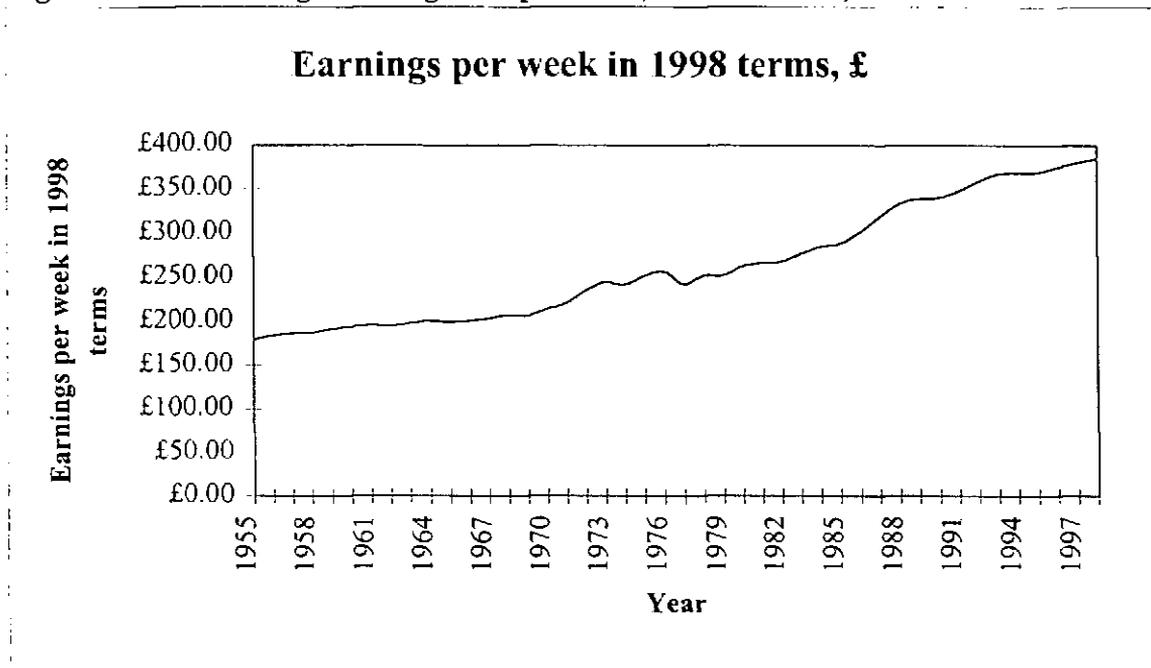
As more women went to work and the number of dual income households increased, time available for shopping fell. Whereas previously housewives had time to shop daily in a variety of shops, less price conscious households emerged without time for fragmented daily shopping. This drove the development of large stores with the facility to shop weekly or fortnightly for a full array of products (6.3, p.219), although this was made possible by consumer and retailer adoption of new technology (5.3.i, p.158-159 and 5.3.ii, p.162).

5.2.ii Rising (and falling) consumer incomes

Section 5.2.i considered the importance of working women to household income and retail provision. While working women have driven an increase in the working population, and hence household income, there was also a long-term improvement in earnings during the second half of the 20th century, with the average weekly wage increasing from £179 in 1955 to £384 in 1998, in real (1998) prices, more than doubling after taking account of inflation. There were periods when real incomes fell, notably the

mid-1970s, which was a product of the oil crisis of the mid-1970s leading to high levels of inflation. In 1975, the government and trade unions agreed to allow only below-inflation salary increases in order to curb runaway inflation [see Benn, 1989; p.411; p.528], which was running as high as 23% in 1976 ²⁶. While these measures helped control inflation, they resulted in declining real incomes:

Figure 5.2.ii.a. Average earnings in £ per week, in 1998 terms, 1956-1998:



Source of figures: adapted from: *Department of Employment Gazette*, April 1971, table 132, p.412; *Employment Gazette*, January 1980, table 132, p.94; *Employment Gazette*, January 1990, table 6.4, p.S54; and *Labour Market Trends*, February 1999, table H.14, p.S86
 Limitations of figures: Figures for 1972 to 1998 are based on earnings in all sectors of the economy, while figures for 1956 to 1971 are based solely on changes in earnings of manual workers. Figures to 1982 are based on males over 21 years of age and females over 18 years of age, while figures from 1983 are based on workers receiving 'adult rates'

The relationship between falling real incomes and price consciousness

Falling real consumer incomes in the mid-1970s created an increasingly price conscious grocery shopper, with Tesco reporting that *"the general public was becoming price-conscious in a way that had not been apparent for many years. These trends were intensified as inflation began to roar away and wages began to fall behind."* ²¹. At least one major UK food retailer, therefore, believed that consumers had become more price-conscious due to falling real incomes and would respond well to lower prices, resulting in Tesco's 1977 *Operation Checkout*, a price-cutting campaign which invested the savings

²⁶ *Department of Employment Gazette*, January 1979, table 132, p.96

achieved by dropping trading stamps in lower prices:

"In the famous Operation Checkout of 1977-78, Tesco drove its market share up from under 8 per cent to 12 per cent, by lowering prices 9 per cent."

[Raven et al, 1998; p.29]

With hindsight, the campaign was obviously successful, increasing their market share by 40 to 50 per cent [Killen and Pattison, 1987; p.76, Raven et al, 1998, p.29]. However, it involved a "calculated risk" [Ian MacLaurin, Managing Director, Tesco Ltd.²⁷], as although the basis of the decision rested on trading stamps being past their useful lifetime, there was disagreement within the company as to whether this was true [MacLaurin, 1999].

Both International and Sainsbury's joined the price-war started by Operation Checkout. International launched a low-cost, no frills range of household basics:

*"With an awareness of the price-conscious attitude which prevails at the moment, International have launched a 'Plain and Simple' campaign which answers housewives' fears of overspending their budgets and at the same time gives them value for money."*²⁸

Sainsbury's launched their own version of Operation Checkout, the deputy chairman, E.Roy Griffiths saying, "It would be a serious understatement to say that the food retail industry is presently highly price competitive"²⁹.

Other forces are also quoted as driving the grocery price wars of the late-1970s, such as the extra capacity gained from superstore development against a depressed market³⁰, the lower operating costs of superstore operations⁴, and a slowing in the rate of multiple growth at the expense of co-operative and independent operators (4.1, p.85). A "reversal in the previous long-term decline in the fortunes of the co-operative grocery sector"²²,

²⁷ *Retail & Distribution Management*, Nov./Dec. 1977, pp.29-31.

²⁸ *Retail & Distribution Management*, Nov./Dec. 1977, p.19

²⁹ *Retail & Distribution Management*, Jul./Aug. 1978, p.48

³⁰ *Retail & Distribution Management*, Nov./Dec. 1978, pp.10-15.

although short-lived, was also said to be a contributing factor, yet it is clear from retailers' comments that the primary force driving price-cutting in the late-1970s was the increasingly price conscious consumer of the period.

The relationship between rising real incomes and improvements to the shopping experience

The end of the period of intense price competition was also consumer driven, because while not expressly asking to pay more, consumers were increasingly "*looking beyond price alone for value.*"³¹, and the quality of the total shopping experience increased in importance as real incomes returned to growth (figure 5.2.ii.a, p.147). Campaigns such as Operation Checkout gave way to competition over services and facilities as the 1980s progressed:

Tesco has grown up with its customers. In other words, as the great working class masses started to change – change their outlook, change the things that they were interested in – Tesco has all changed too. So in many ways the change in Tesco has mirrored the change in society.

[Terry Leahy, speaking in *British Empires: Tesco*, Channel Four, MM]

Although other factors such as inter-superstore competition drove increasing investment in the shopping experience (6.3, p.229), causing revolution of the Wheel of Retailing [Hollander, 1960], the realisation among operators that fierce price competition "*leads to reduced profits for all*" [Killen and Pattison, 1987, p.76], and that the changing consumer no longer prioritised price alone was the key driver of change once again. Price wars therefore tend to be a function of falling real incomes, while improvements to the shopping experience tend to be driven by increasing real incomes, supporting the 'secular trends' hypothesis [Hollander, 1960], which argues that rising consumer incomes are the key force driving trading up of the 'Wheel of Retailing'.

³¹ *Retail & Distribution Management*, Jul./Aug. 1984, p.12

"The combination of the ordinary man's greater wealth and increasing house and kitchen size allowing room for fridges and storing food, meant that the frequency of shopping tended to go downwards. The frequency of purchase went down, and the size of purchase went up. And then of course the biggest factor of all was the car. The weight of purchase of shopping today is huge, so the car has brought shopping frequency down."

[Lord Sainsbury of Preston Candover KG]

Rising real incomes drove improvement in the quality of the grocery retail offering as consumers became more attracted to pleasant stores, with facilities such as restaurants, in-store bakeries, delicatessens, quality products and ample car parking. In effect, 'leisure shopping' was developing, whereby shoppers gain satisfaction and enjoyment from shopping in a pleasurable environment [Newby, 1993; p.213]. Price, although remaining important, declined in importance relative to the 'shopping experience' as consumers increasingly favoured it over price issues alone:

It was quite clear when we came out of stamps in 1977, that customers wanted more than just prices; they wanted a decent facility in which to shop, and they wanted quality merchandise at a good price. At that time you had two quality food retailers, Marks & Spencer and Sainsbury, who were very expensive - the quality was excellent, but it was expensive. We felt there was room for a quality retailer who was not so expensive. So we set our sights on the quality of Marks & Spencer, but a much more reasonable price, and that over the years we were able to achieve. Good retailing, is consumer driven."

[Lord MacLaurin of Knebworth DL]

As retailers traded up their facilities and offerings in response to the changing consumer, retailers previously occupying the highest quality pole found their differentiation falling, largely explaining the poor performances of Sainsbury's and M&S during the late-1990s. While price becomes more important in times of recession, and the number of 'sales' increases [David Kirby], over time consumers in general became more willing to pay for quality and value, rather than basing their purchasing decisions on price alone, and UK food retailers responded to this emerging trend, driven primarily by increasing household incomes:

"People don't mind paying for quality and convenience. It is a fallacy that price is all-important to people in the UK. Value is critical. Price is only part of that - people have proved time and time again that they will pay for better quality and better service."

[David Stoddart]

The more wealthy sybaritic consumer again drove retail change with the development of delivered shopping facilities in the late-1990s. Initially the income is necessary to enable the adoption of new technology - internet access via computer or television - as for fridges and motor cars in the 1960s. However the internet is accessed, the user must have the financial means to fund this access, although usage in the workplace is common. At present the consumer must also generally have the means to fund a delivery charge, although there are exceptions to this rule, with some retailers (Asda and Iceland for example) not charging for delivery, subject to a minimum order. The key force driving delivered grocery shopping, however, is the value of the consumer's time. Research suggests that over an average UK lifetime, two years are spent in a supermarket - or 3% of the working lifetime [Seth and Randall, 1999; p209 - quoting 1999 research completed by Cable and Wireless], and initiatives to reduce this are gathering momentum.

In short, the retail system reacts to the changing consumer, and the primary changes in the consumer have been driven by steadily increasing incomes and rising employment. The twin forces of rising household incomes and the associated lack of time for shopping resulted in the emergence of '*money rich, time poor*', sybaritic consumers, who attached different values to the shopping experience than the post-war consumer of the 1950s, who was primarily motivated by price.

The whole objective of the business was to move upmarket. That coincided with Thatcher's Britain, when many of our customers increased in wealth, their aspirations changed, and we had a marvellous period of about 6 or 7 years when we moved forward, ever upmarket, in wonderful harmony.

[Tim Mason, speaking in *British Empires: Tesco*, Channel Four, MM]

This created an opportunity at the price-sensitive end of the market, for a low-cost

discount proposition to fulfil the needs of the '*money-poor, time-rich*' households, known as '*frontier*' consumers, with tight budgets and shopping purchases that tend to be small and frequent [Kirby, 1987]. In the early-1990s, European-based hard discounters entered the market to fill this need (4.5, p.109-111)

5.2.iii Changing consumer tastes

It was noted above that rising consumer incomes result in only modest upgrades to domestic eating. People will spend a little more on food, but the percentage of total consumer expenditure spent on food tends to fall as incomes rise. Food for consumption at home is therefore a priority that is eclipsed by other product categories as incomes rise, meaning that there is inelastic demand for food for consumption at home.

A key issue outlined in sections 5.2.i/ii was the emergence of the '*money rich, time poor*' sybaritic consumer, with higher incomes and less free time than had previously been the case. UK food retailers tapped this emerging trend successfully with the introduction of time-saving prepared foods. Pioneered by Marks and Spencer, and adopted industry-wide, prepared foods range from washed and peeled vegetables to chilled ready meals. '*Money rich, time poor*' sybaritic consumers effectively value their time more than the price difference between prepared and unprepared foods, and are willing to pay a premium to make their lives easier. Consumer taste has evolved, therefore, driving a higher degree of processing in the food chain due to increased employment, resulting in a less price sensitive consumer with a time shortage. The retailer response to this has brought extension of the retail accordion (2.1.2) and increased margins through '*scrambled merchandising*', meaning that overall retail margins rise because of the addition of higher margin, more highly processed lines, while the margins of the original products remain static (2.1.1):

The grocery industry is benefiting from increased affluence, but competing with many other areas of leisure where people spend money - eating out, cinema, holidays, hobbies... what have you. There is also competition for time, so if somebody can offer you something for £1 that takes 5 minutes, or 30p that takes an hour, the customers may well spend £1. Competition is also about time.

[Tony de Angeli]

Increasing employment and rising incomes have also brought the means to travel further afield than was previously possible. Aided by falling real costs of long distance air travel and package holidays, people are better travelled than they were just a generation ago. Travel to foreign countries exposes people to foreign cultures and foreign cuisine [Tony Campbell], which, coupled with the development of a diverse ethnic UK restaurant scene, has resulted in higher demand for exotic food products. Immigration into the UK supports this demand, being said to have “*nourished the British palate... most of us grow up with a broad knowledge of Indian and Chinese food*”³², and food retailers have reacted by introducing foods sourced around the world, many of which were unavailable here just a few years ago. The evolution of consumer taste, becoming more exotic and adventurous, has therefore driven product diversification into high margin, exotic food, sourced on a global basis.

Consumers developed a taste for ‘one-stop shopping’ (5.3.i, p.159), and therefore increasingly favoured large stores over small to medium sized stores, a trend exacerbated by the legalisation of Sunday trading, which increased the appeal of larger stores (5.1.v, p.137-138). As consumers increasingly favoured large out-of-town-stores, there was a gradual reduction in the number of smaller grocery stores, which resulted in the dramatic decline in market share of independent traders and the less severe, yet alarmingly constant, decline in co-operative market share. Multiple market share has increased primarily because this sector has most actively developed the larger stores more suited to the needs of the changing consumer.

³² *New Statesman and Society*, October 27, 1995, 8(376), p.46(2).

Consumers have developed a taste for quality over the years, which they find very hard to relinquish once they have experienced it. This has resulted in an upwards trend in the quality of products, whether food, clothing or other products. Changing consumer taste has therefore driven the offerings of UK retailers upmarket:

"It doesn't matter whether you are talking about food or textiles. For quality shirts, cotton is quite good because it is a lovely fabric to wear, it hangs nice, and it feels nice. But when cotton was first talked about, it was so expensive, you go up the quality curve and then people decide to buy it because it is new - I don't care whether we are talking about new food products or a new video - the price goes up. But after a bit people say, no I want that quality but I want it back at that price- so it levels out. And then along comes another innovation, usually with quality, up goes the price again, and then it levels off or it comes down. The price goes up and down, the quality once you've got it goes remorselessly upwards, you never go back on quality, people never, ever go backwards, you never sacrifice quality..." [Denis Cassidy]

The improvements in the quality of UK food retail stores, facilities, services and products which began in the early-1980s were therefore food retailers' responses to a changing consumer with more money to spend (5.2.ii, p.150-152), who based purchasing decisions primarily on quality criteria, rather than price. In addition, consumers were unwilling to 'trade-down' once they had experienced quality products introduced by retailers, driving UK food retailers' offerings, facilities and the overall shopping experience upmarket, causing revolution of the 'Wheel of Retailing'.

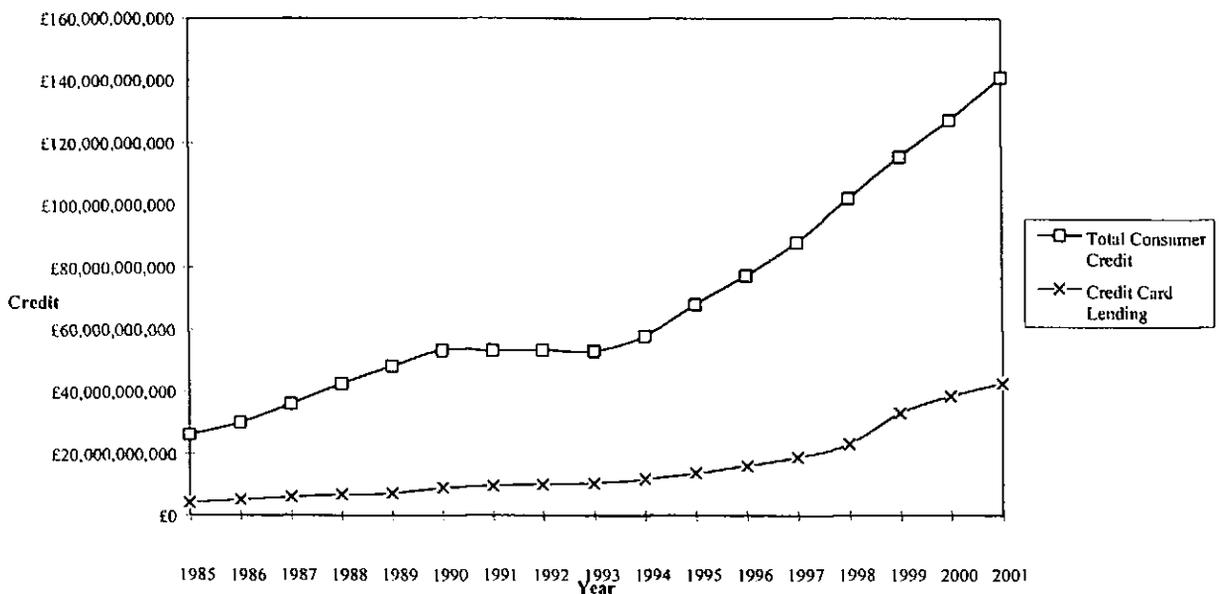
In short, changing consumer taste affects the food retail industry considerably, and impacts not only upon the product range, but also on the lifetime size of stores, the quality of products and the quality of the shopping experience. The successful operator must respond to and anticipate changing consumer tastes better than the competition, and this has tended to drive considerable upgrading of the food retail system.

5.2.iv The consumer credit boom

Consumer debt is a further influence on UK food retail development, with the amount of

credit extended to UK consumers increasing steadily from the early 1970s in particular³³. The amount of credit extended to consumers, excluding mortgage debt, is represented in figure 5.2.iv.a, as is the credit card debt component of this:

Figure 5.2.iv.a: Consumer credit levels, 1985-2001:



[source, *Financial Statistics*, London, HMSO; table 9.3, p.104, vol.338; table 9.3, p.104, vol.368; table 3.2b, p.60, vol.399; table 3.2b, p.60, vol.435; table 3.2b, p.73, vol.478]

The boom in consumer credit is an important influence on UK food retail development, and, in essence, exacerbates trends driven by rising household incomes. In other words, the consumer credit boom, in conjunction with rising household incomes, has given UK consumers the financial muscle to invest in consumer durables and motor cars. Similarly, it has given consumers the financial means to bulk-buy when grocery shopping, decreasing shopping frequency while driving up transaction sizes, breaking down the fragmented shopping patterns of the early post-war period (6.3, p.219).

In the same vein, the consumer credit boom can be considered to have had an effect on

³³ source: Office for National Statistics, via *Datastream*.

consumer price consciousness, driving society towards sybaritic, rather than frontier shopping (5.2.ii, p.152-155), although this does bring with it the increased risk that a sudden reduction in consumer debt could have the opposite effect.

5.3 Changes in Technology

During the second half of the 20th century the impact of technology was important, with consumer adoption of technology and advances in retail and distribution technology profoundly affecting food retailing. Without technological advance, the retail format could not have evolved, chilled foods would be harder to handle, and the large scale of retail organisations would be unthinkable. This section examines the developments in consumer technology, retail technology and distribution technology, including the supply chain, that shaped UK food retailing post-1950.

5.3.i Consumer adoption of technology

Consumer adoption of technology was an important influence on UK food retail development post-1950. Consumer adoption of televisions was followed by refrigerators, cars, freezers, microwaves and home computers, all of which had a varying but significant impact on UK food retail development. Although refrigerators and motor cars are discussed briefly in section 5.2.ii (p.150), this section assesses the impact of consumer adoption of technology in more detail.

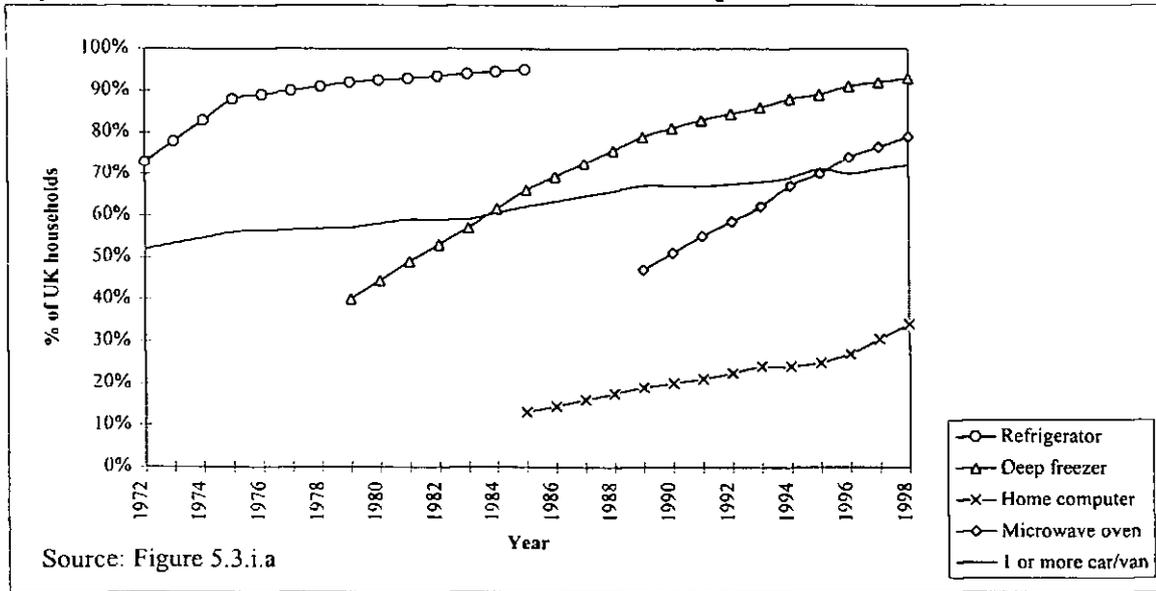
Consumer adoption of refrigerators gave fresh food purchases a longer life, enabling less frequent shopping, breaking the necessity to shop daily because of the rapid deterioration of fresh foods at room temperature. Rising real incomes and the move to monthly pay (5.2.ii, p.150), also drove less frequent shopping, but this could not have occurred without domestic refrigeration, which by 1972 had extended to 73% of households, rising to 95% in 1985 (figures 5.3.i.a and 5.3.i.b):

Figure 5.3.i.a: Consumer durable and motor vehicle penetration, 1972-1998:

	1972	1975	1979	1981	1983	1985	1989	1991	1993	1994	1995	1996	1998
Refrigerator	73%	88%	92%	93%	94%	95%							
Deep freezer			40%	49%	57%	66%	79%	83%	86%	88%	88%	91%	93%
Home computer						13%	19%	21%	24%	24%	25%	27%	34%
Microwave oven							47%	55%	62%	67%	70%	74%	79%
1 or more car/van	52%	56%	57%	59%	59%	62%	67%	67%	68%	69%	71%	70%	72%

[source of statistics: *Living in Britain: Results of the 1994 General Household Survey*, London, HMSO, 1996, table 2.6, p.26; *Living in Britain: Results of the 1996 General Household Survey*, London, HMSO, 1998, table 3.20, p.40; and *Living in Britain: Results of the 1998 General Household Survey*, London, HMSO, 2000, table 4.23, p.57]

Figure 5.3.i.b, consumer durable and motor vehicle penetration, 1972-1998:



Consumers' financial and technological ability to bulk buy and store foods in the home presented a new problem, that of transporting their shopping home. The motor car - owned by 52% of households in 1972 and 72% in 1998, answered this problem, facilitating the transportation of bulk purchases. Adoption of cars accelerated the trend towards larger, less frequent grocery purchases, set in motion by adoption of refrigerators, while also allowing retailers to slowly abandon congested high streets in favour of large out-of-town stores with car parking (4.3, p.97-98), offering 'one-stop shopping' as demanded by the consumer durable and car owning population (5.2.ii, p.150), causing acceleration of Davidson et al's [1976] retail life cycle (2.1.5) for larger stores at the expense of smaller stores:

"There was a complete change of attitude, and we sensed it from our wives, Peter Asquith's and mine in particular. I live on the outskirts of Leeds, and my wife couldn't park in Leeds; it was impossible, so she used to go to Otley and do the food shopping there, which was just as near but just a little town on the outskirts of Leeds. Well that's a start, and of course it got bigger and bigger. Non food retailers followed, for one reason, customers can park. You said it yourself today, you didn't come into Leeds in your car, because you didn't know if you would be able to park..."

[Sir Noel Stockdale]

The rise of the multiple (4.1, p.85) was aided by the introduction of commercial television in the mid-1950s, with over 90% of households having a television by 1972, enabling commercial television to reach most of the population relatively easily. The segmentation of the independent television network into regions aided the development of regional multiples [Richard Swaab] by minimising wasted advertising, while operators could adopt new regional advertising areas as they expanded geographically (4.4). The high cost of television advertising, and the ability of multiple operators to absorb costs over a larger number of stores (5.3.ii, p.166), lowering the cost of advertising per £ turnover, gave large multiples a competitive advantage over smaller competitors, and were therefore factors contributing to the decline of the independent sector (4.1, p.85) and subsequently to the decline of small multiple operators (4.2, p.91).

Consumer adoption of freezers, which rose from 40% of households in 1979 to 93% by 1998, also drove less frequent, higher volume grocery shopping, reinforcing the trend begun by adoption of refrigerators. Domestic freezers also drove the development of 'freezer centres', Bejam and Iceland for example, although in the long-term, success of this type of format foundered, with only Iceland remaining in business at the end of the 20th century. Freezers became particularly popular during the mid to late-1970s when high inflation drove consumers to stock up with food in order to save money by anticipating rapid price rises [John Fletcher]. Over time, dependence on the freezer decreased as consumers increasingly favoured fresh foods [Trevor Dixon], and freezer size decreased as chest freezers gave way to fridge freezers [Bridget Williams].

In short, consumer adoption of freezers was a third force driving less frequent shopping, and the development of specialised freezer centres. Consumer reliance on freezers, however, decreased during the 1980s, as consumer preference moved towards fresh foods, indicating a preference for quality over price, albeit while sacrificing convenience (4.5, p.108).

Most recently, consumer adoption of the computer, and more specifically the internet, has

begun once again to drive retail change. With home computers being developed from the early-1980s, household penetration reached 13% by 1985 and 34% by 1998, driven largely by falling costs. Many more people have access to computers elsewhere – at work, in libraries, or internet cafes for example. The development of internet-based home delivery systems from the late-1990s would not have been possible without the development and adoption of the computer, and total turnover was £50 million in 1999, expected to reach around £370 million in 2000 [Fletcher Research, 2000], representing 0.05% of the £94.7 billion³⁴ UK grocery market in 1999, expected to rise to 0.39% in 2000. While such operations are small scale at present, particularly compared to store-based operations, rising internet access and new means of accessing the internet (mobile phones, digital television), coupled with increasing pressure on consumers' time and declining fear of internet fraud will drive this new retail channel and influence the future UK food retail system, and is reflected by the rapid year-on-year growth. The number of UK adults accessing the internet reached 15 million in December 1999 [Fletcher Research³⁵], representing over 25% of the UK population³⁶:

Consumer adoption of technology has profoundly affected UK food retailing, because retailers have sought to satisfy changing consumer demand. Underpinning all consumer adoption of technology are increasing levels of employment and rising real incomes (5.2.i and 5.2.ii), which provide the financial means to adopt new technology. Consumer adoption of refrigerators, freezers and cars created demand for 'one-stop shopping' facilities with car parking, and enabled the evolution of the retail format – from local store to supermarkets and superstores (4.3). Meanwhile, consumers seeking 'one-stop shopping' broke down the fragmented retail system, causing the decline of many independent, co-operative and specialist food retailers located in high streets, while many multiple operators were actively moving out-of-town to provide for the changing consumer. The introduction of commercial television favoured multiple over independent

³⁴ source: IGD Research Services, June 1999 figures. See *Eurofood*, February 17, 2000; p.21

³⁵ source of internet penetration figures: <http://www.fletch.co.uk/content/monitor/findings.html>

³⁶ source of population figures:

http://travel.yahoo.com/Destinations/Europe//Countries/United_Kingdom/facts.html

operators, and aided the geographic expansion of leading operators (4.4), driving the decline of small multiples and increasing concentration in the sector (4.2, p.91). More recently, rapid consumer uptake of internet technology has begun to threaten the long-term fortune of out-of-town superstores, by enabling consumers to order their groceries from home, although the effect on the market share of the leading players as a whole will be negligible as they are also the leading players in the delivered groceries sector. Such developments were forecast for the 1970s by Doody and Davidson [1967], and Kirby [1982; p.14] suggested that the end of the century may be a more realistic time span for such a change.

5.3.ii Retail technology

Consumer adoption of new technology is driven primarily by rising household incomes (5.3.i, p.159), but retailer adoption of new technology is also an important factor in the development of food retailing post-1950, allowing developments such as self-service, supermarkets, superstores, temperature-controlled central distribution, bar-code scanning, data mining and internet shopping systems. This section explains the impact of retailer adoption of technology, as the previous section explained the consumer side of the equation.

The introduction of self-service to UK food retailing following World War II was the first 'revolutionary' change of the latter 20th century [Dawson and Kirby, 1977; p.20], and was made possible, like most changes, by advancing technology. Considered fully in section 4.3, self-service was enabled by improvements in packaging technology, resulting in the pre-packaging of products that were previously measured and packaged by individual grocers. The immediate beneficiaries of this were manufacturers [John Fletcher], who were able to build brands where previously they had dealt in commodity-like products, delivered in large sacks, the quality of which was largely attributed to local grocers. However, the development of packaged brands also facilitated self-service food retailing, as did advances in in-store refrigeration and cash registers. Technological advances therefore made self-service food retailing possible, and more effective once in place,

pushing self-service grocery retailing into the rapid growth phase of Davidson et al's [1976] retail life cycle. Subsequent evolution of the retail format (4.3, p.97-98) built upon these technological advances, as food retailers sought economies of scale while responding to consumer demand for 'one-stop shopping' (5.2.ii, p.150-151).

Central distribution and warehousing (5.3.iii), introduced by UK multiples from the mid-1970s, were enabled by advances in refrigerated lorries, improvements to the road network, and leading retailers' large scale. It has profoundly affected UK food retailing, boosting retailer power over manufacturers, causing the disappearance of some secondary manufacturers, and bringing improved buying terms and margins for retailers. These savings have tended to be passed on in the form of an improved shopping experience rather than lower prices (6.5, p.253-254).

Independent and co-operative operators were hit by these multiple efficiency gains and specialists were hit by multiple product diversification (6.4, p.240-241), enabled partly by temperature controlled distribution (5.3.iii). Concentration in the multiple sector occurred as central distribution facilitated regional expansion of key operators, at the expense of weaker regional operators (6.4, p.240-241).

Central distribution facilitated evolution of the retail format, because collated deliveries suit the replenishment requirements of superstores stocking over 25,000 lines, driving superstores' growth (4.3, p.97-98). Queues of suppliers vehicles unloading at the rear of superstores have been eliminated, and private label development was aided as operators no longer depend on manufacturers' co-operation to distribute private label products.

Fork-lift trucks, warehousing, cages and pallets simplify the stocking of large stores. The development of fork-lift trucks allowed warehouse storage space to be higher, meaning that the surface area could be reduced while maintaining storage volume. In turn this

meant that sales area could be extended by converting unnecessary warehouse space ³⁷, driving expansion of the retail accordion (7.1.2, p.268-269) and scrambled merchandising as a cause of trading up (7.1.1, p.261-262). Developments in fork-lift truck handling improved manoeuvrability, which had a similar effect, as warehouse space could once again be reduced by halving the width of the aisles, presenting further opportunity for extension of sales area ³⁵.

Caging, focused on fast-selling lines, involved manufacturers marking prices on products, and packing them into specified cages, which were placed directly in the store. This improved distribution efficiency, increased the storage capacity of the sales floor, eliminated outer packaging, disciplined space allocation on the sales floor, and allowed further warehouse space to be converted to sales area ³⁵, driving further expansion of the retail accordion (7.1.2, p.268-269) and scrambled merchandising as a cause of trading up (7.1.1, p.261-262), as well as reducing staffing costs by between 1 and 1.5% ³⁸.

Scanning, EPOS and automatic replenishment systems brought significant advantages to UK food retailers, despite the initial reluctance of some manufacturers to introduce bar-codes because of the increased costs [Sir Dennis Landau]. Price-coded scanning creates immediate sales information, facilitating management decisions and enabling the development of automatic product re-ordering systems, based on weekly, daily or even hourly sales of lines, plus other variables such as the weather, promotional activity, and time of year. This technology built upon benefits brought by central distribution, as *“major advantages in information technology greatly increased the relative advantages of centralised distribution”* [McKinnon, 1990; p.83], enabling ‘just-in-time’ ordering, which reduces stock holding and allows conversion of further storage space to sales area. Eventually, data obtained from scanning allowed automatic replenishment systems to be developed, although this took more than a decade [David Malpas]. The primary benefit of

³⁷ *Retail and Distribution Management*, November/December 1975; “Asda’s cost-cutting pays dividends”

³⁸ *Retail and Distribution Management*, March/April 1976; p.12, “Tesco’s biggest hypermarket opens at Irlam.”

scanning was the generation of sales data line-by-line, department-by-department or store-by-store, enabling retailers to access valuable information on current sales trends and business activity. It also reduced checkout error and dishonesty, facilitated stock control and enabled price changes to be made more easily [Sir Noel Stockdale]:

"I can sit in my office at Tesco House and look at Aberdeen's store, and I would know how much sugar the Aberdeen store has sold in the first three hours of trading in the morning. You have got all that information just flowing through to you all the time, so it helps the buyers, it helps the warehouse, it helps everything. So everything is becoming more and more automatic, especially now with Sunday trading of course."

[Lord MacLaurin of Knebworth DL]

Internet ordering of groceries for home delivery is being driven primarily by consumer adoption of internet technology (5.3.i, p.160-161), yet an equally important driver is retailer adoption of ordering and delivery facilities, resulting in e-commerce based delivery services to meet demand created by rising internet usage among 'time-poor' consumers.

A key factor affecting the success of UK food retailers is their ability to meet consumer demand, yet a key factor driving key operators' development of e-commerce based delivery services is the fear of a new entrant doing it instead, which would probably result in lost business for their existing stores [David Stoddart]. Thus, even if delivered services of the main UK food retailers remain small, unprofitable or marginal, it is preferable to losing business to new entrants as superstore customers move to home delivery. In effect, by introducing delivery services that compete with their own physical stores, major UK food retailers may have cannibalised a certain amount of their own business, but have eliminated a gap in the market that could be filled by a new entrant.

While internet technology created a new shopping channel, which may or may not benefit the existing key operators, it does bring cost savings over telephone based ordering, which can cost eight times as much to process as a computerised order [David Stoddart]. Further savings are achievable from dedicated delivery warehouses, with 'pick by lights'

systems in such facilities being four times more efficient than manual identification of products [David Stoddart]. Technology therefore drives cost reductions in retailing, although new retail channels driven by technological uptake can lead to increased costs overall.

Scale of organisation is an important driver of investment in technology because the increasing market share of multiple food retailers (4.1, p.85), and the concentration of it into fewer operations (4.2, p.91), has effectively enabled the surviving large operators to invest heavily in new technology, the investment costs of which are absorbed over a larger turnover, meaning that the cost of new technology per £ turnover is lower for a large operator than for a smaller one:

"The ability to make the investments, in superstores, EPoS, inventory control, etc. has been driven by scale. You can afford to spend £millions on a system because you can amortize that spend, and spread the benefits over a huge turnover. In the UK the bigger chains naturally adopt first. In the 1980s there was massive consolidation when Dee and Argyll hoovered up masses of smaller operators. This meant that money could be spent on systems, and enabled things like sales based ordering and labour scheduling systems to be developed, because the cost could be absorbed. Investment in these systems has been both offensive and defensive. It has been offensive because smaller players could not replicate it, it gave you a chance to get closer to your customers than smaller operators. It has been defensive because if Tesco don't do it then Sainsbury's will. This is common in retail, you have to have what your competitors have, even if you don't know what to do with it! If they have got it and I haven't, they may be able to do nasty things to me."

[David Stoddart]

In short, investment in technology has primarily been by large retailers, and similarly sized competitors tend to react by also adopting the technology through fear of being damaged by the competitor's innovation, effectively erecting a barrier to the entry and growth of small players [David Stoddart/John Fletcher]. Independent retailers, in particular, have been adversely affected by larger operators' adoption of technology, as they find it hard to justify the expense of adopting EPoS, although voluntary group members and convenience chains tend to adopt technology faster [Kirby and Turner, 1993; p.23]. Prior to the widespread adoption of EPoS by larger operators, it was feared

that, with automated stock control and EFT, it “would probably reinforce the trend towards fewer and larger stores, especially for food.” [Taylor, 1983; p.9]. In effect, independents appear to have lost further market share to multiple operators (4.1, p.85) due to their financial inability to adopt new technology.

Technology’s effect on costs and profits tends to be positive, for adopters, with technological adoption tending to reduce operating costs and therefore increase profits, proving a worthwhile investment. The interviews found no examples of technological innovations increasing costs without bringing distinct advantages to cover these costs. There are many examples of good investment, such as the development of the chill chain and supporting IT infrastructure, which reduced staff costs, increased sales of fresh foods, while minimising wastage [Bob Fee], and faster store construction techniques which cover their costs by enabling the store to open up to 25 weeks earlier [Tony Campbell]. In short, technological developments by UK food retailers have tended to bring either reductions in operating costs, or improvements to the retail offering, which although harder to quantify, normally brings tangible benefits in terms of profitability:

“Investment in new technology is always a clear business decision, but it is often not an easy one. You have to assess the value of it to the company. Sometimes it is easy, for example when it is a calculation of how this is going to reduce our costs in the longer term, even though it is expensive as an investment. Other times, it doesn't reduce our costs, it changes the way we do things, and ends up by giving the public a better service. Now that is a question of judgement - you say it is a better service, but do we all agree that doing x, y and z is really giving a better service - it is giving you a different service, now some people might think that's better, other people might not, and which do we go for, so it isn't always straightforward.”

[Lord Sainsbury of Preston Candover KG]

The consequences of non-adoption of technology by UK food retailers are possibly greater than the danger of investing in ineffective technology, largely explaining their inclination to copy technology introduced by competitors, whether or not the advantages are clear (5.3.ii, p.166). The pace of technological development has been phenomenal, and has tended to improve the performance of UK food retailers. From a situation in 1950

where few stores had cash registers, technological progress brought scanning, the development of logistical systems for the ordering and distribution of goods, replacing rows of head office clerks, and e-commerce, among other things, all within one retail career [Lord Sainsbury of Preston Candover KG]. The pace of development is also noted by other key actors of the period:

"When I first started I had a bit of paper and marked everything down on the back of a cigarette packet. When I left everything was done automatically. Now that is not that long, really. When you think how technology is taking over in all things now, heaven knows what is going to happen in the next ten years!"

[Lord MacLaurin of Knebworth DL]

"Compared to our paper & pencil days, the technology now is frightening. Buying or selling they would know to point nought nought something the effect on the bottom line."

[Peter Asquith]

In short, the impact of technology has been profound in many different areas. Advances in packaging technology enabled the development of self-service food retailing and subsequent expansion into supermarkets and superstores, which were in demand due to consumer adoption of domestic appliances and motor vehicles. Servicing of large stores was facilitated by the development of the motorway network, making central distribution possible, with goods dispatched centrally in temperature controlled vehicles. Fork-lift truck and caging technology reduced the need for warehouse space and brought labour efficiencies in large stores. Bar-code scanning and EPoS systems made central distribution more efficient, gave retailers rapid access to valuable sales information, and reduced stock loss through deterioration, staff error and dishonesty. E-commerce technology has driven closer relations with suppliers and the development of a new retail channel - internet-ordered groceries delivered to the consumer. Adoption of technology also drives retail change rather than the other way round, and the increasing scale of leading operators has facilitated their in-house adoption of technology.

5.3.iii Distribution technology

The primary change to distribution technology occurred during the 1970s and early-1980s, when UK food retailers centralised their distribution systems, which *revolutionised food retailing* [Alan K.P.Smith], created *the most efficient food retail system in the world* [Bob Fee], and was *one of the major developments* in food retailing [Tony de Angeli]. Central distribution involves manufacturers delivering to a few large, strategically placed warehouses, where the retailer assembles collated deliveries for each store, rather than manufacturers' lorries delivering to hundreds of stores.

Central distribution eliminated the queues of suppliers' vehicles at the rear of the store, brought efficiencies in restocking, and allowed retailers to re-negotiate terms with suppliers and make large savings in input prices [see Dawson and Shaw, 1990; p31], which more than covered the expense of their own distribution functions (see below), contradicting McKinnon's [1985] findings that savings from central distribution "*are never large enough...to finance multiples' warehouse and transport operations*". These cost savings tended to be passed on in the form of improved customer facilities and shopping environment, rather than lower prices (6.5, p.252-253). Central distribution also affected the manufacturer-retailer relationship (6.2, p.214), driving it further in favour of the retailer, who gained control over the entire distribution system, from farm-gate to store, as vehicles could be scheduled to collect goods from suppliers after having made their store deliveries:

"Tesco hadn't quite got to the point on their own where they wanted their own distribution, it was simply that the system broke down because of the sheer number of vehicles queuing to deliver to the stores. This made them say, we can't go on like this, we have to produce our own collated delivery. And it is this, the collated delivery - delivering into your own distribution centre and making composite loads in order to go to your own stores - that really makes the food manufacturer/producer/packer a kind of slave to the supermarket. It enables better buying terms, which more than cover the additional distribution costs. I mean when we did it at BHS, it gave us something like 2% or 2.5% margin improvement. Very, very substantial."

[Denis Cassidy]

Central distribution also presented multiple operators with the opportunity to expand beyond their regional bases without compromising quality [Denis Cassidy], and to add chilled prepared foods to their private label range (5.4.ii, p.183). In addition it ended food retailers' reliance on branded manufacturers for private label distribution (5.4.ii, p.184), while its effect of centralising the buying function increased buying power, and drove weak manufacturers of branded products out of business, or into private label as a means of survival [Mike Groves].

Manufacturers suffered from retailers' development of central distribution, particularly secondary manufacturers who subsequently found that running their own sales and distribution networks had become uneconomical [Mike Groves]. Specialist food retailers, such as butchers, also suffered, as central distribution allowed multiple food retailers to distribute short-life goods, fresh chickens for example, on a nationwide basis. Whereas previously, trade in these products was dominated by local specialists drawing on local supplies [Bob Fee]. In this area, therefore, multiple food retailers with central distribution achieved economies of buying because bulk purchases could be broken down and distributed nationwide. They also gained an important competitive advantage over specialist local distributors, and increased margins by handling higher profit products. Central distribution systems led to reduced in-store warehousing, with space being converted to sales area, in turn enabling diversification of offering and driving extension of the "retail accordion" (7.1.2, p.268-269) and moves into higher margin lines, as suggested by the 'scrambled merchandising' hypothesis (7.1.1, p.262). In addition, central distribution enabled retailers to extend store sizes and ranges, by providing the capacity to service them fully, although the early development of Asda without central distribution suggests that it is not a mandatory pre-requisite ³⁹:

Without central distribution the food industry couldn't have developed superstores. How could an out-of-town store, stocking ten thousand lines, have been serviced without central distribution? There would have been a line of lorries from London to Newcastle to go to a single store.

[Sir Dennis Landau]

³⁹ *Marketing*, August 1977, p.12

With so many advantages, why was central distribution not introduced until the mid-1970s? First, each individual food retailer must reach a certain size in order to make central distribution feasible - without the critical mass of stores and turnover, the servicing of large warehouses and distribution fleets is uneconomical. The scale of food retail organisations has therefore enabled the rationalisation of distribution functions (6.2, p.210). Second, development of the motorway network was a necessary prerequisite for central distribution to be feasible, meaning that outlying stores could be reached from a few central depots on the same day:

Without the motorways, you couldn't have superstores. You couldn't have central depots servicing large shops, the logistics were completely wrong. So once again, you have got one of these parallels. The big stores, yes, they are very important, but they came with the road network.

[Tony de Angeli]

In short, centralised warehousing and distribution enabled UK food retailers to negotiate terms with suppliers on a national, rather than local, basis, increasing retailer buying power [Sir Dennis Landau]. They also obtained discounts from manufacturers that more than covered the cost of extra functions taken on by the retailer, and were able to replenish stores daily, assisted by information technology. This reduced the need for stock-holding in the rear of the store, allowing increased store sizes through the conversion of obsolete warehousing. As multiple operators were the primary adopters of central distribution, it is a further factor contributing to the decline of the independent, co-operative and specialist sectors (4.1, p.85), despite co-operative attempts to reform their *outmoded, ancient system of fragmented buying*⁴⁰ through centralisation of their buying, distribution and marketing functions, which were largely unsuccessful because individual co-operative societies liked to retain control of their buying functions:

⁴⁰ *Retail & Distribution Management*, Jul./Aug. 1980, p6; "The Co-ops have lost the way".

I felt that provided the Co-op could buy together and market together, the fact that individual communities actually controlled their local societies was immaterial. In fact the CWS made great strides, we were great innovators, we were the first organisation in the UK to have central warehousing. In practice too many individual societies wanted to continue to control their own buying, negotiating, and selling. So although in theory all of the Co-operative societies could have been serviced by nine or ten strategically placed distribution warehouses, across the UK - and that was our master plan in the CWS - we never really achieved it because too many societies wanted to go their own way.

[Sir Dennis Landau]

Central distribution enlarged the gulf between the best and worst retailers, promoting further 'Darwinian' survival of the fittest (7.1.6, p.280-281), while also ending retailers' reliance on manufacturer distribution channels, giving retailers more power over manufacturers and enabling extensive development of private label (5.4.ii, p.169) into areas such as chilled and prepared foods which carry higher margins (6.4, p.236-237). Central distribution also reduced the number of store deliveries, eliminated back door congestion, reduced staff costs, and enabled retailers to expand nationally while maintaining consistent quality - driving polarisation of size of organisation by removing one of the few advantages of regional operators. Retailers were able to deal with "much more specialised, small niche suppliers" [David Malpas], achieve economies of scale in warehousing, decrease inventory levels [McFadyen, 1987], and store stock in cheaper locations [McKinnon, 1990, p79].

Central distribution, however, would not have been possible without the development of motorways, improved refrigeration technology in lorries, the large scale of retailers, and the geographical 'gift' of the UK being a small, densely populated country, the outposts of which are reachable in one day's driving from a few centrally located warehouses. Central distribution has not been developed in larger, less densely populated countries such as the USA, where retail margins and private label market share are consequently lower, and manufacturers continue to wield power over food retailers [Tony de Angeli, Denis Cassidy]. Central distribution was made more effective by developments in

information technology, which eventually enabled the translation of sales figures into 'just in time' replenishment orders.

5.3.iv The evolving supply chain

The concentration of UK food retailing (p.90-92), the resulting shift of power away from manufacturers to retailers (4.5, p.92-93), and the centralisation of distribution (5.3.iii, p.169-173) are three interdependent trends that gave UK food retailers increasing control over the supply chain. This control was extended, through the 1980s and 1990s, and used to grow profits and returns on investments.

Central distribution, introduced from the late 1970s (5.3.iii, p.169-173), allowed UK food retailers to re-negotiate wholesale prices, making considerable margin improvements a reality (5.3.iii, p.169). There were also other effects, however, including:

- ✓ Better control over the supply chain, giving retailers more power in the relationship with manufacturers.
- ✓ Ending of retailers' reliance on manufacturer distribution channels, particularly for private label.
- ✓ Ability to develop a full, comprehensive private label range.
- ✓ Greater retailer involvement, therefore, in traditional activities of manufacturing – including market research, product design, product testing and packaging design, in addition to distribution.

The 1980s introduction of scanning and Electronic Point of Sale (EPoS) technology (5.3.ii, p.164-165) brought an unprecedented amount of sales information, giving retailers a valuable tool in the areas of sales forecasting, stock ordering and product development. Coupled with retailers' extended involvement in manufacturers' traditional activities (see above), retailers developed knowledge and understanding of sales and consumer demand that manufacturers had previously had to estimate. Loyalty card data extended this access to data from the mid-1990s. In effect, retailers developed proximity to consumers while

manufacturers became increasingly alienated from their end consumers, in terms of information on their purchasing habits at least.

During the 1980s, this proximity to sales data and ownership of their own distribution networks was exploited by retailers to develop *just-in-time* ordering. In brief, this involved manufacturers dropping to central warehouses within tight delivery windows, with the stock being transferred to stores, via retailer distribution networks, with little or no delay at all. This reduced retailers' stock-holding, but meant that manufacturers often had to increase their stock levels to compensate [Marsden and Wrigley, 1996; p.35], improving retailers' levels of profitability and return on capital at the expense of those of their suppliers [ibid., p.35].

The implementation of technology, therefore, was responsible for a fundamental shift in ownership of information, and technology subsequently facilitated the sharing of this information, providing at least some redress in the balance of the relationship. The possibility of improving the efficiency of the entire supply chain, reducing stocks of both retailers and manufacturers, led the two parties to begin sharing EPoS and sales forecasts via Electronic Data Interchange (EDI) ⁴¹. Early initiatives grew into Efficient Consumer Response (ECR), which became a key strategy of the 1990s. By sharing relevant information, using a technology-based platform, the following benefits were realised:

- ✓ Improved stock availability.
- ✓ Faster replenishment.
- ✓ Fewer out-of-stock situations.
- ✓ Reduced waste.
- ✓ Reduced stock-holding *throughout* the supply chain, lowering costs and improving returns for both retailers and manufacturers.
- ✓ Better, more closely monitored, more effective promotions.
- ✓ Closer, improved relations between the two parties, as partnerships developed.

⁴¹ *Super Marketing*, March 6, 1992, "Perfect Partners", p.31-32.

- ✓ Manufacturers become closer to end-consumer

Initiatives in ECR continue, as does reform of the supply chain, as retail operators attempt to introduce 'factory-gate pricing', and assume more control of the chain. It is clear that the development of long-term partnerships has become a priority, as the changing supply chain demands closer co-operation and increased capital investment in order to bring tangible benefits to both retailer and manufacturer.

5.4 Retailer Change

The final major influence affecting the development of UK food retailing over the second half of the 20th century was the retailers themselves, and the way in which they traded. This section examines retailers' use of trading stamps, private label, customer loyalty schemes and internationalisation, and sets out the key effects of such trading techniques.

5.4.i Trading stamps

The rise of trading stamps:

Throughout the 1960s and 1970s, the use of trading stamps became common in the UK food retail sector. FineFare and Tesco began to give trading stamps in 1963 [Williams, 1994a; p.151], beginning what was referred to as "*the great Trading Stamp War of 1963/64*"⁴²:

"The first people into trading stamps were FineFare, the Weston's, and they were in terrible trouble, they weren't doing at all well. They brought over an American to run it... he brought over trading stamps, and that triggered Tesco to do the same. So Tesco weren't the first, but they were the biggest, and they were the first to make a big scene about it. I think, the fact is that Tesco's stamps appealed to their customers more than they would have appealed to ours, anyway, but we made a virtue out of good value, rather than gimmicks, and we both promoted our side of the story - Tesco promoted the illusion of value given by the stamps, and we promoted good honest value."

[Lord Sainsbury of Preston Candover KG]

Trading stamps were a relatively simple phenomenon. For every pound spent, a fixed number of stamps were given to the consumer. The consumer pasted the stamps into a book, which could be exchanged for free gifts, with higher value gifts requiring more completed books. The normal procedure was for retailers to purchase the stamps from specialist trading stamp companies, such as Green Shield, who would then provide the free gifts for consumers. Although influenced by North American retailers, the development of stamp trading techniques in the 1960s was not new to the United Kingdom. As far back as the 1880s, trading stamps were being used as a tool to entice customers [Fox, 1968; p.1].

⁴² *Retail Business*, 154, December 1970; p.28

Signing up to stamp trading schemes was said to bring numerous benefits to retailers. It was claimed that stamps gave the store “*continuous promotional appeal*” allowing it to move “*away from the temporary, transitory appeal of special sales and special promotional events to an integrated promotion with constant drawing power*” [Brand, 1963; p.86]. Stamps were also said to attract “*steady customers*” and to “*increase the average sales ticket*” [ibid.; p.86]. It was argued that stamp-collecting customers were less likely to do part of their shopping in other stores, thus stamps “*encourage total store shopping*” and “*increase the sale of general merchandise*”. Consumers were attracted to stores giving trading stamps during the 1960s largely because of the desirability of the ‘gifts’ on offer, such as steam irons and portable radios, which were strongly aspired to in the period following the deprivation of the war and immediate post-war years. In addition, incomes were low (5.2.ii, p.147), which made it difficult for many households to save up for appliances such as toasters and irons:

“ when Green Shield Stamps started, Great Britain was recovering from the war, so a lot of things that are absolutely commonplace nowadays weren't commonplace in those days. Things like toasters, steam irons, portable radios, all that sort of thing, you could collect Green Shield Stamps for.”
[Lord MacLaurin of Knebworth DL]

Retail operators were also driven to give stamps by the existence of RPM, which largely prohibited price competition (5.1.ii, p.119). In this period, when price could not be used as a competitive weapon, and ‘modern’ trading techniques such as self-service and supermarket retailing were bringing reductions in operating costs, trading stamps were seen as an alternative method to price reductions - they would bring in the customers, yet the retailer remained within the law, as explained by Sir Noel Stockdale (5.1.ii, p.119-120).

Trading stamps were attractive to the consumer, who could begin to amass consumer durables after years of deprivation, and to the retailer, who wanted to offer a discount in order to attract more customers, yet by law was prohibited from so doing. For Tesco, the

turnover gain when trading stamps were introduced was phenomenal:

“... you had turnover increases of 20-30% in the first two or three weeks – you didn’t quite maintain these, but it became a marketing tool, you would do double stamps on Tuesday.”
[Laurence Don, Tesco Director 1957-1971, speaking in *British Empires: Tesco*, Channel Four, MM]

Not all retailers, however, were keen to adopt stamps. It was feared that their cost would force up prices and would have a catastrophic effect if universal adoption occurred⁴³, a fear which predated the “*great Trading Stamp War of 1963/64*”²⁴ by many years. Concern was also expressed about how to abandon stamp trading without loss of customers and/or face⁴⁴. FineFare dropped stamp trading after only a year because its owner, Associated British Foods, also owned a bakery that supplied other supermarkets, and it was feared that they would lose the accounts of supermarkets opposed to stamp trading [Williams, 1994a; p152-3]. Meanwhile, Sainsbury’s focused their marketing activity on their good value, made possible because they did not issue stamps:

“Their trade went up through stamps initially, ours went up hugely because we made such a strong campaign for good value and good quality at a good price, rather than gimmicks like stamps, which was a terrific help for us. The two people who gained most out of stamps, in the short term, were us and Tesco, the two extremes of the argument, as it were.”
[Lord Sainsbury of Preston Candover KG]

Thus there was a certain polarisation of activity with the two key beneficiaries of this ‘stamp war’ taking opposing stances, yet both deriving significant benefit (7.1.4, p.275).

The Fall of Trading Stamps:

The fall of trading stamps in the late-1970s was largely initiated by Tesco dropping the scheme, much to the dismay of Green Shield who mistakenly believed they had a long contract with the company [MacLaurin, 1999, p.39]. It was sensed that their customers were no longer keen to collect stamps because the ‘gifts’ on offer that excited the consumer were effectively unattainable. Supporting the claim that the consumers reaction

⁴³ see: *The Grocer*, October 23, 1948, p17; *The Grocer*, October 30, 1948, p5; *The Grocer*, December 24, 1949, p15.

⁴⁴ *The Grocer*, June 3, 1950, p18

is "...the key to the system's existence" [Fox, 1968; p.13], Tesco decided to discontinue stamps and to reinvest the savings in more appropriate initiatives, which were deemed to be lower prices, through Operation Checkout (5.2.ii, p.147-148):

"Now, we gave stamps for 14 years. At the end of 14 years, people didn't want any more steam irons or portable radios for 20 books, they wanted a colour television set or even a motor car. A colour television set was 700 books! Now that is forever, I mean you can go on saving stamps for ever! I was going around the stores at the time, and it was quite clear to me that the customer was saying "well we don't want stamps" to the cashier. But it was costing Tesco £20 million a year to give stamps, and we were promoting them heavily, so you were getting double stamps, triple stamps, quadruple stamps, all that sort of thing, and in fact the customers said, you know "we don't want them, thanks very much". So we were actually giving away £20 million a year, and people didn't want it, so it was a waste of money. So we were far better re-investing that £20 million in cut prices, and starting to reposition the business."

[Lord MacLaurin of Knebworth DL]

Stamp trading had largely faded away by the end of the 1970s, displaying cyclical properties driven by changing consumer interest in the technique, which in turn was driven by economic conditions, as outlined by Fox [1968, p3]. This is supported by the view that *"the inflationary 1970s killed off these schemes, as shoppers sensibly sought out old-fashioned low prices instead of added frills."*⁴⁵. In addition, it follows that trading stamps are a self-devouring entity - as their penetration in a particular market increases, the incremental value to the retailer (in terms of additional sales) effectively must decrease. This must be the case due to falling differentiation and novelty of stamp trading retailers, and the saturation of the market - there are only so many consumers who are attracted by stamps. The retailer therefore becomes less likely to adopt stamps, and those that have adopted them become more likely to abandon them in order to follow alternative approaches. By the late-1970s, the main alternative to stamp trading was price competition, and a fierce price war erupted (5.2.ii, p.147-148).

⁴⁵ *Economist*, February 4, 1989; p.32

5.4.ii Private label

From their initial appearance in the early-1960s, private label groceries have matured from “*inferior, 'me-too' products that competed with the leading brands on the basis of price*” [Doel, 1996; p49], through a close relationship with the “*pile it high, sell it cheap*” formula of the 1970s [ibid.]. Currently, private label groceries have a “*vastly improved quality image*” in line with the improved image of the leading food retailers, as well as a much more significant market share (4.5, p.108)

The share of total grocery expenditure spent on private label in 1993 was 37%, rising to 40% in 1996 [Taylor Nelson AGB], pushing out second and third placed brands [Killen and Pattison, 1987; p62]. At Sainsbury's and Tesco, the share of private label was higher, at 55% and 42% respectively in 1992 [Williams, 1994b; p291]. Initially, private label emerged and grew for two key reasons. First, it developed naturally as supermarkets began to sell more and more fresh foods, extending their range into categories in which there had never been brands, naturally stamping their own name on the packaging. Second, private label meant that manufacturers were unable to dictate retail prices, thus private label was, in part, a tool to bypass the high prices of branded products, imposed by RPM (5.1.ii, p.119-120):

... all the fresh foods were then coming into the store, and that was important for the retailers, but there were basically no brands in those categories. Even in things like bacon, stores quite naturally started to put their own name on the label, and I think that kind of started to form the idea.

[Tony Campbell]

“Resale Price Maintenance...stimulated (Sainsbury's) to circumvent such restrictions by developing their own brands in direct response to proprietary products.”

[Williams, 1994b; p.300]

The development of private label made manufacturers more dependent on food retailers. While many of the manufacturers of leading branded products also make private label for retailers, and the leading brands generally stand up well to private label competition⁴⁶, the

⁴⁶ *The Economist*, December 24, 1988; referring to research of the Institute of Retail Studies, Stirling.

fact that they are manufacturing goods in partnership with a retailer tends to lead to them developing a subservient role in the relationship. Equally, as food retailers gained expertise in the development of private labels, they were able to respond to new branded product launches by quickly developing competing private label products:

...a lot of manufacturers have to make stuff for retailers anyway, obviously because it pays a lot of their overheads, and in the short to medium term that's incredibly sensible. In the longer term from their point of view it's more of an issue. Not least, because it can compromise manufacturers' freedom to market products with complete freedom.

Food manufacturer margins are generally not that high, costs of investment in innovation are pretty high - it's costly doing research, getting products to market, advertising them - and the speed at which retailers are able to pick up on it and develop their own label counterpart is getting quicker and quicker. So even when the manufacturers are ahead, you can reckon on a maximum of six months before there is a retailer equivalent. So it's not much fun being a manufacturer these days, long-term you are fighting a war where it is hard for you to win.

[Richard Swaab]

The increasing market share of private label in UK food retailing has brought UK food retailers higher gross profit margins. This is for two key reasons - first, the costs associated with creating a brand presence are not built into the own-label equivalent, therefore food retailers are able to undercut the price of the brand while maintaining higher retail margins than are achievable on proprietary products. Secondly, chilled goods and prepared foods tend to be private label, while they also tend to be high margin lines, thus the private label mix has brought increased margins for UK food retailers (6.4, p.236-237).

While early private label drove UK food retailer margins upwards and increased their power over manufacturers, it also left a gap for a retailer to compete over the prices of branded products. Asda bargained with manufacturers using the fact that it did not sell private label groceries as a tool to obtain better prices from branded goods manufacturers. While this was a new technique effectively enabled by the abolition of RPM, it was also made possible because of the increasing hold of the major grocery retailers over

manufacturers:

The key aspect I think of Asda and the basis for its growth was the fact they discovered at an early stage that the opportunity was right to discount the prices of the brands. This was the unique difference, and although others tended to follow, Asda was able to create the price perception that they were always the cheapest across the brands, and at that stage there was a wide range of branded foods. This created some difficulties with suppliers, who tried to maintain a degree of price level... but Asda managed to keep that position partly because their argument was always that they didn't have own label, therefore they had to be competitive on the brands.

[John Fletcher]

Increasing quality and sophistication of private label

Private label was initially introduced as a price-focused alternative to quality focused brands (5.1.ii, p.120), with the exception of Sainsbury's private label which came from an upmarket perspective, and the evolution of private label has broadly followed the overall retail trend towards better quality (4.5, p.108). Thus there has been a broad trend in private label towards higher standards of quality, with occasional periods where price takes precedence, driven by the changing demands of the consumer, who in turn is driven by the economic scenario at any given point in time. The widespread copying of Sainsbury's quality private label stance supports Gist's [1968] Dialectic principle. Although private label was certainly in existence before the introduction of central distribution systems, the development of retailer distribution functions enabled more extensive private label development, particularly in limited life products, as there was no longer a requirement to rely on manufacturer distribution to individual stores. This enabled higher standards of quality to be introduced in private label, which has contributed increasingly to the changing consumer perception that the food retail store was the primary brand rather than the manufacturer branded grocery products housed within it. In addition to increased customer loyalty, private label is said to give the retailer "a discrete brand identity and image of its own, which increasingly sets it apart from its competitors." [Gardner and Sheppard, 1989].

Although private label has tended to increase in quality over time, bringing notable

benefits to the retailer, there have been two notable examples of UK food retailers competing over price-focused private label. Low-cost, no-frills own-label products were important during the price wars of the late-1970s⁴⁷, and were once again launched alongside the standard private label offering in response to the threat posed by the entry of discounters such as Aldi, Lidl and Netto, in the early-1990s (4.5, p.108-111). Similarly, Private label grew rapidly in the US following the onset of the depression in 1929 [Harding, 1935; p.66]. Private label offerings have therefore attempted to respond to evolving consumer demand for price or quality focused food retailing (5.2.ii, p.152), supporting the secular trends proposed by Hollander[1960] as a cause of trading up, increasing demand for better quality services, facilities and offerings (including private label), although price tends to re-emerge periodically as a primary consumer concern. It is in responding efficiently to changing consumer demand that initiatives achieve success, and the successful evolution of private label as a competitive tool is illustrated by its high market share - 40% of total grocery expenditure in 1996 was on private label, higher still among leading operators such as Sainsbury and Tesco.

While the development of private label has had a negative impact on many manufacturers of branded products because of the transfer of consumer spending to private label, the increasing quality and sophistication of private label products has driven a closer relationship between food retailers and the manufacturers of their private label products, and has increased customer loyalty to the retailer⁴⁸. As retailers have sought higher quality private label products, and broadened their range to include products such as chilled prepared foods, their relationship with suppliers has necessarily become closer as retailers have exerted more influence over the manufacturing process:

⁴⁷ *Economist*, April 16, 1988; p.86

⁴⁸ *The Economist*, April 16, 1988, p86

I think quite clearly that M&S's focus on own brand has driven better relationships with suppliers, because you are specifying what product is under that brand, and as I said earlier it is M&S's policy that if you want to maximise your brand, you will therefore have to influence not only the specification, but the conditions of manufacture, and how you source the raw materials that go into the product. The only way you can do that is by having a close partnership with the supplier or manufacturer, unless you do it yourself, which M&S doesn't. One of the key elements that M&S has done, and a very important one, is to have a very close relationship with its supplier base. If you're going to do the job properly, I don't think you could achieve this without it. Yes you could go along and say give me a slightly different version of that packet of biscuits, you know put another four or five in it, wrap it up, and I will sell it as my own brand, but it depends what your marketing stance is - you can have own brand that is cheaper; you can have own brand product that's different, or our own brand that is far superior.

[Bob Fee]

The retailer, however, now controls the supply chain, and captures the data on consumer buying habits and wants, then specifies to the supplier what these are and what the product should be. The supplier has therefore become dependent on the retailer for market intelligence, driving the relationship in favour of the retailer (6.2, p.215-216).

5.4.iii Customer loyalty schemes

In the mid-1990s 'loyalty schemes' were widely introduced by UK food retailers. Customers join a scheme and receive a loyalty card, which they present at the checkout. In return for their custom, they are given money-off vouchers and/or other rewards, according to their level of spending. The first such scheme to be launched nationwide was the Tesco Clubcard in February 1995, which stimulated rival retailers to launch their own versions - Safeway's ABC card was launched in October 1995, followed by Sainsbury's Reward card, which was rolled out nationally in July 1996. Asda's limited trials of loyalty cards were halted in 1999, with the savings being invested in their 'Rollback' price cuts⁴⁹, while Safeway abandoned their ABC loyalty scheme in June 2000, citing consumers' boredom of points and vouchers, reinvesting the cost savings in price, 'offers

⁴⁹ *The Grocer*, August 14, 1999; p.10.

not gimmicks' ⁵⁰. In one respect, loyalty schemes are a relaunch of trading stamps, in that they give free products in return for custom, theoretically increasing sales sufficiently to cover the costs of the scheme. The Chairman of Sainsbury's at the time, David Sainsbury, famously denounced loyalty schemes as "electronic Green Shield Stamps" ⁵¹, and maintained that customers preferred price cuts [Springett and Chaudhary, 1995], shortly before the company performed a U-turn and launched their Reward Card scheme. The widespread adoption of such schemes suggests Dialectic-like behaviour whereby retailers attempt to negate advantages that could otherwise favour rival retailers, although universal adoption could theoretically negate the value of incremental sales increases from the schemes, and lead to upward pressure on margins and hence revolution of the Wheel of Retailing. The key difference between modern loyalty schemes and trading stamps of the 1960s and 1970s is the customer information that the schemes bring the retailer:

"And I think the big difference is that a lot of people, and certainly Sainsbury's in the early days, compared Clubcard to electronic green shield stamps, and I think that is fundamentally wrong. Green shield stamps were giving 1% away... that wasn't the case with Clubcard at all. What Clubcard does is it gives you a reward for being my customer, and as part of that reward programme. I understand who you are, and I can learn what to do with that data. Green shield stamps never gave anything back, other than effectively doing a price promotion. Clubcard, and all the loyalty schemes, now, do give back a lot. They give back this intimate knowledge of what 10 million shoppers do, what they buy, when they buy it, and what they buy instead if they can't find it. And that knowledge is there now, and it is your ability to exploit that knowledge that becomes the retail challenge."

[Clive Humby]

Thus the key benefit to retailers is the data they are able to capture on the shopping habits of their customers, but if this data is not used to the retailer's advantage the scheme can become a cost burden, causing upward pressure on margins and hence revolution of the Wheel of Retailing. The data captured is more reminiscent of the data available to the old-style grocer doing deliveries to local households than it is to the days of trading

⁵⁰ *The Grocer*, May 6, 2000; p.4

⁵¹ *Independent on Sunday*, November 19, 1995.

stamps, as grocers doing home deliveries could use their record of products purchased by each household to make suggestions to them, and to act on any changes in shopping habits:

"In the days of counter service, when you had home delivery, you knew what customers were buying because you had little account books like this (exhibits a book). Often the retailer would know his customers' preferences personally, but in fact Sainsbury's had a database of customers shopping habits on a punchcard system, and would send targeted mailing to customers, saying 'I notice madam that you are buying pork with us but not lamb, and if you take this letter along to your branch we will do...' whatever it is. So it is too unsubtle to say, nowadays we are able to do this, and in the old days we couldn't... It was home delivery that gave you access to people's shopping habits, that wasn't achievable under self-service"

[Bridget Williams]

The data obtained from loyalty schemes, however, is highly organised, collected electronically, and follows earlier advances in shopping basket analysis made possible through the introduction of bar-coding and scanning in the early-1980s [Sir Dennis Landau].

Retailers developed loyalty schemes for three key reasons - they hoped that the incentive to spend would generate sufficient incremental sales to cover the costs of the system and make a profit, they wanted to gain valuable customer data, and they were attempting to respond to consumer demand, thus loyalty schemes were driven, in part at least, by the consumer:

"One of the great marketing coups of the 1990s was Tesco Clubcard. That came to us from customers. Customers said 'we love your shop, fantastic, and we spend a lot of money with you. Why can't you give us something else? Why can't you do something like British Airways?' So we thought about it and said OK we'll have the Clubcard."

[Lord MacLaurin of Knebworth DL]

The operational costs of the schemes are reasonably high - Safeway's ABC loyalty card required a 2 to 3 percent rise in sales to cover its costs⁵², while Tesco calculated "that to

⁵² *Supermarket News*, October 23, 1995

cover the cost of the 1% discount it will need to increase sales by less than 5%”⁵³. If this increase in sales is not achieved, the net result is an erosion of profits, albeit while bringing valuable information which can be used in business decisions which may recoup any such losses.

Loyalty scheme data can be used in many different ways, with its primary functions at present being to reward customers for their spending, to encourage them to spend more in categories where their spend is low (indicating that they may use alternative facilities such as a greengrocer, butcher or off-licence), and to identify and attract back deserting customers:

“When anybody gives their Clubcard in to the checkout operator, we immediately know who it is, we know when they shop, we know what they buy, we can mail out to them every quarter, and say “Thank you Mrs. Jones for shopping with us, we appreciate your custom. Here are some vouchers you have earned over the last three months, here are some extra vouchers because we see that you haven’t bought any flowers and you haven’t bought any wine, so here’s £1 off the next bunch of flowers, and £1 off the next bottle of Rioja, and please continue to shop with us.” We also know when they don’t shop with us, so you can actually follow it up and say “Dear Mrs. Jones, we see that you haven’t been shopping with us, I hope that our service is still good, if it is not please let us know, and please come back. Here is a £5 voucher for your next shopping”. So that marketing initiative was absolutely key to Tesco, and part of the Tesco success.”

[Lord MacLaurin of Knebworth DL]

At a store level, the data can be used to measure customers’ advocacy to the store, based on whether the store is merely convenient for the consumer or whether they are willing to go out of their way to get to it - *“Do you shop with me purely because I am convenient, or do you put yourself out to come to me versus the competition. I would call that advocacy”*. [Clive Humby]. The data is also useful in deciding which products to stock in each particular store [Clive Humby] and in identifying and acting upon like-for-like sales trends, which can now be broken down much further than was previously possible without data on customer shopping habits:

⁵³ *Evening Standard*, February 10, 1995

"You have always been able to go to the store, and see store like-for-like. With Clubcard we can now go to each customer and see customer like-for-like. Sometimes it can get rid of issues very easily, for example, the school holidays started a week earlier this year - does that change like-for-like? You can bet your bottom dollar it does! And you can say, well wait a minute, why should young families have stopped shopping this week in those towns? Oh, well, the school holidays started this week in those towns! Well like-for-like is not down then, is it!

Or conversely, you know, this group of customers have stopped shopping, have we done something to cheese them off? You know, pensioners have stopped shopping, maybe we have not had enough single portion packs on the shelf. You can say, portion control is very important, portion control affects like-for-like. No-one could have proved it before, because at top-level data, the statistics would have been too spurious. You drill down, you can find a group of people where the like-for-like change is significant, and you can look at why that is happening. It gives you all of your steering wheel, all of your levers for pulling. And early warnings."

[Clive Humby]

At an individual customer level, data obtained from loyalty schemes gives retailers the facility to understand the customer better and to tailor their discounts to each individual customer [Clive Humby]. In addition to the factors discussed above, it can enable the identification of the top customers who account for a large percentage of a store's turnover, as suggested by Pareto's rule⁵⁴. These customers can then be incentivised and rewarded, and retailers can ensure that they continue to stock the products purchased by this group of people, even if a particular line would normally be withdrawn due to limited sales:

⁵⁴ *European Business Journal*, Fall 1994; p.28(11).

"In grocery retailing 70% of the people buy 30% of the goods, and 30% of the people buy 70% of the goods. Nobody knows why, but this figure is about right in retailing. You would think we would be saying, 'who are our loyal customers, spending a lot of money'. Instead, if you buy six items, all on special offers, you go through a fast checkout. But if you spend £500, you're in a queue for fifteen minutes, then they condescendingly accept your money. You then have to load it into the car. If a store runs a loyalty card system it will know who the 30 percenters, and the 70 percenters are. An American supermarket uses the knowledge to great effect by offering a free turkey to everyone spending specific amounts in the run-up to Christmas. The 30 percenters spend more to get their free bird; and the 70 percenters get a reward for their loyalty. And the store makes a bigger profit. Loyalty card information is overwhelming; using it to good effect is not an easy objective."

[Tony de Angeli]

In terms of business development, loyalty scheme data is an invaluable tool. It can be used to assess new initiatives such as home shopping [Clive Humby], to develop new products such as premium quality ranges [Clive Humby], effectively cutting out much market research and cost. In addition, promotional activity can be assessed and focused, effectively targeting promotional spending more efficiently:

"So the data tells us what you buy, it tells us when you buy it, it tells us about your use of promotions. If you think about how much is given away on promotions, versus 1% off with Clubcard, it is far more than the reward for Clubcard. If I can target that promotional budget more effectively, I will be more effective."

[Clive Humby]

Incentives, if cleverly thought out, can be used to invoke additional sales, rather than a reduction in price on a sale that would have been made anyway. The use of flat 'money-off' coupons, which work against like-for-like sales [Clive Humby] therefore, is likely to decline, to be favoured by initiatives that promote cross-selling of products and services:

"... the marginal cost to the retailer of points redeemed against ... services, the car wash or dry-cleaners, is less than money off at the till. It is extra spending in the store, not saving off the bill." ⁵⁵

⁵⁵ Scotsman, October 11, 1995

The database generated through the operation of loyalty schemes can also lead to savings in other areas such as advertising, which can be focused on existing customers, although there are obviously drawbacks in that this type of advertising can not attract new customers. All the same, loyalty scheme data can reduce costs in areas such as promotional activity, and enable a focused targeting of the consumer, as Tesco discovered in 1995:

*“Tesco... is scrapping the normal £3million pre-Christmas advertising splurge in favour of a direct-marketing campaign centred on its loyalty card.”*⁵⁶

Section 4.2 considered the changing relationship between retailer and manufacturer, finding that retailers were able to innovate more quickly than manufacturers, mainly due to their proximity to, and understanding of, the consumer. The use of directly obtained customer data (from EPoS technology and schemes like Tesco Clubcard) can be considered to have increased retailers' lead over manufacturers, empowering them further still in the relationship [Richard Swaab]. In addition, in times of limited growth from new store openings, loyalty cards give retailers the opportunity to exploit more effectively the stores they already have:

“...it's much more a real issue now that there will be a very limited number of new sites, and the key has got to be to exploit the ones that you've got. This explains the importance of loyalty cards, and the extension to other services like financial services - it is to exploit more and more out of the ones you've got, because these are going to be the only avenues to get the real growth that hitherto came naturally from opening new stores.”

[John Fletcher]

There is also a possibility that data ownership can create a barrier to entry to new players, as existing players have an understanding of consumer behaviour that new entrants are not party to [John Fletcher].

To conclude on loyalty schemes, the benefits can be simply classified in three areas - those relating to customers, retail chains or individual stores. Loyalty scheme data

⁵⁶ *Independent on Sunday*, November 19, 1995

enables retailers to identify the minority of customers who are responsible for a large proportion of their sales, and to ensure that the store is run to suit these customers. The discounts and incentives available to customers can excite them and lead to additional sales, while the data obtained on individual customers means that they can be incentivised in categories where their spend tends to be low, and deserting customers can be identified and tempted back. At store level, the data enables operators to measure consumer advocacy to a certain store - how strongly attached they are to the store, and to stock the products purchased by the top spenders. Like-for-like sales figures can be investigated more effectively than was previously possible, and like-for-like groups such as *young families* or *old-aged pensioners* can be identified, effectively giving the business the information to improve the performance of each individual store, and hence the whole retail chain. At head-office level, the data can be used to assess new initiatives such as home shopping, to develop new products, and to assess the benefit of promotional activities, leading to more accurate targeting of promotional spend as well as better targeting of the advertising budget. In short, the possibilities for the exploitation of customer data are extensive, and can be used at all levels of the business from individual customers to head-office strategic decision making.

Effects of the introduction of loyalty schemes:

Near sector-wide adoption of loyalty schemes among multiple food retailers could be considered to have negated a certain amount of the incremental sales increases brought by the introduction of the scheme by each retailer (5.4.iii, p.185), which is supported by two major operators dropping the schemes. While this in itself does not mean that loyalty schemes are unviable, it does invoke problems if customers hold multiple cards and shop randomly (promiscuous shoppers):

"Look up the word loyalty in any dictionary. It is hard to find a customer who does not have three to five loyalty cards. Now, it can't be working too well can it? They have millions of little bits of data about our transactions, and they have got to sort it out! When they do sort it out, what the hell do they do with it! There are so many variations in the customer profile, so many different needs, that at best, all they can do is respond to the total. For example, sales are going up in wines & spirits, maybe we should give more space? But you might be better off giving the space to something else. There are mathematical complications, and there is no quick answer."

[Tony de Angeli]

Promiscuity in grocery shopping and the multiple ownership of loyalty cards can therefore contribute to a muddling of the information available to the retailer, making it difficult to extract reliable data. Competitive advantage is gained by the retailers who are most effective at obtaining and applying data, which should build net profit. As the use of the data is key to the successful operation of the schemes, those that can not make it work could find themselves in a zero-sum game where incremental sales are cancelled out by competitors' schemes [Clive Humby], the data obtained is of little use, and the scheme can effectively become a cost: "...instead of customers holding a card for the store to which they are most loyal, it's common for consumers to have cards from all the major chains and simply use the one for the store they are in at that particular moment." ⁵⁷. In addition, customer loyalty schemes have acted as an enabler allowing the development of self-scanning, where a record of the customer is required in order to build a relationship of trust (or otherwise!). Self-scanning helps to reduce the amount of time spent in-store, and to reduce staff costs, yet would not be feasible without loyalty schemes: "...customers scan their own shopping and, hopefully, wave bye-bye to the hassle of loading and unloading trolleys of shopping and long checkout queues." ⁵⁸.

The near-widespread introduction of loyalty schemes among multiple operators in the mid-1990s was worrying for independent retailers, as membership of these gave card-

⁵⁷ *Supermarket News*, May 5, 1997; p.57-59

⁵⁸ *Scotsman*, March 3, 1995

holders incentive to shop in multiple, rather than independent stores. Although this threat has now receded somewhat due to the withdrawal of some schemes, it remains real, and independent operators' fears of the impact are illustrated by their development of a 'town centre loyalty card' in Leominster, among other towns. Although basic in comparison to multiple loyalty cards, the 'Loyal to Leominster' scheme was found to increase footfall in the town centre by 10% [Worthington, 1998], and is therefore partially successful in its objective of encouraging shoppers away from out-of-town developments back to the town centre. Such schemes are the exception rather than the rule, however, and it can otherwise be considered that multiple loyalty schemes have driven further market share in the direction of multiple, rather than independent, food retailers (4.1, p.85).

5.4.iv Internationalisation of UK food retailers

Internationalisation became a food retail buzz-word in the late 20th Century, often presented as the only way forward in an increasingly competitive market, but the reality of developing overseas operations is that the possibility of failure is high. Despite being *the* topic of the late 20th Century, internationalisation is by no means just a recent phenomenon, it is a long term trend [Alexander, 1997; p.77], which in UK food retailing is illustrated by the 1962 arrival of US-based Safeway Inc., although the UK operation that was established is now UK-owned (4.4, p.104-105). The pace and importance of internationalisation, however, did increase from the late-1980s, which is reflected by an increase in the literary output on the matter [see Akehurst and Alexander, 1995; p.5-6].

Forces driving internationalisation are separated by Alexander [1997; p.129] into 'push' and 'pull' factors, with the former being related to limited opportunities in the domestic market, particularly as retail saturation approaches, and the latter being driven by perceived opportunities overseas, particularly as consumer demand, necessary infrastructure and public policy progress to make new retail formats more feasible in previously under-served markets.

Tesco is the UK-based food retailer with the highest overseas sales, and perhaps the

greatest ambition. Analysis of their annual reports shows that overseas sales have risen from 12.5% of group turnover in 1997 to 19.3% in 2001, while the contribution to operating profits rose from 1.8% to 6.3% over the same period:

Table 5.4.iv.a, Tesco plc, Overseas sales and profits ⁵⁹:

	1997	1998	1999	2000	2001
% of group turnover generated outside the UK	12.5%	15.8%	14.6%	16.7%	19.3%
% of operating profit generated outside the UK	1.8%	4.1%	4.8%	4.8%	6.3%

Analysis of J.Sainsbury's US operation, Shaw's, reveals a similar level of international exposure, with 16.2% of non-discontinued operations' turnover being generated in the US, and 17.3% of operating profit ⁶⁰. The two companies, however, have chosen very different routes, with Sainsbury's acquiring a US chain, and Tesco entering alliances and partnerships to build overseas operations, primarily in Central Europe and South East Asia, areas where saturation of food retail outlets is far away and potential for growth is high, unlike the US, which, however, has established demand and infrastructure for large-scale food retail operations.

The second, equally important, feature of internationalisation in UK food retailing is non-UK ownership of UK chains, the key element of this being Wal-Mart's ownership of Asda. Wal-Mart's international (non-US) sales have increased substantially over recent years, and 2001 figures show the impact of their ASDA acquisition for the first time:

Table 5.4.iv.b, WalMart, Overseas sales ⁶¹:

	1999	2000	2001
% of group turnover generated outside the US	8.9%	13.8%	16.8%

Although UK food retailers are often criticised for lack of international progress, this is perhaps a little harsh, with Tesco in particular having great ambitions internationally.

⁵⁹ Figures adapted from Tesco plc Annual Reports, see <http://62.169.137.181/tesco/newinvestor/pubandresults/annandint/an2001/investor.htm>

⁶⁰ Source of figures: adapted from <http://www.j-sainsbury.co.uk/anrpt01/financial/finindex.htm>

⁶¹ Figures adapted from WalMart Annual Reports, see <http://www.walmart.com>

Only one of the 'big five' UK food retailers is currently under overseas ownership, and a significant non-UK presence in UK food retailing is by no means a new phenomenon (see Safeway example above). Remaining a domestic chain is a risky strategy in modern times, one that is likely to attract predators (6.4, p.240), and, despite notable failures in France for Tesco and Egypt for Sainsbury's, our leading food retailers have developed significant and profitable overseas interests, interests that continue to grow more rapidly than domestic operations, signifying that internationalisation is likely to increase steadily in importance.

Conclusion

Government decisions, socio-economic change, technological development and retailer change have all been instrumental in shaping UK food retail development post-1950. Figure 5a, below, presents a time-line of the key factors identified in chapter 5, which occurred against a background of rising employment levels, increasing real incomes, and growth in the number of dual-income households. These major socio-economic changes combined to drive real household income up significantly, which led to major change in the way people wished to shop. Higher levels of employment and dual-income households mean that there is less time available for shopping, and frequency of shopping declined. This was reinforced by consumer adoption of fridges, freezers and motor cars, made possible by rising incomes, which enabled the transportation and preservation of bulk food purchases.

The food retail response to the changing structure and demands of society was an evolving retail structure centred around larger stores with car parking facilities, and '*one-stop shopping*' emerged as the dominant retail channel. Many small stores closed as a result (4.3), and the multiple operators that invested in larger stores came to dominate the sector (4.1).

Figure 5a: Time-line of key factors affecting UK food retailing post-1950:

1950	<p>Early-1950s. Food retail profitability severely constrained by government-controlled margins.</p> <p>Early-1950s. Basic conversions to self-service being carried out, despite difficulties of rationing.</p>
1955	<p>1954. Rationing withdrawn. Free competition returns.</p> <p>1950s. Many retail prices controlled by manufacturers, meaning that all shops had to sell their products at identical prices.</p>
1960	<p>Early-1960s. Private label develops as a price-focused alternative to RPM controlled brands (except at Sainsbury's).</p> <p>Early-1960s. RPM failing in the grocery sector.</p>
1965	<p>1963. FineFare & Tesco introduce trading stamps.</p> <p>1964. RPM abolished by parliament. Free price competition, benefiting efficient operators.</p> <p>Mid-1960s. Early-superstores developed, generally conversions of disused industrial buildings.</p>
1970	<p>1971. <i>Planning gain</i> became an issue.</p> <p>1972. Planning guidelines become more favourable to out-of-town stores up to 50,000 sq.ft. Also, VAT introduced.</p>
1975	<p>1974. DPCN14 clarifies distinction between retail & wholesale warehouses, closes loophole to out-of-town development.</p> <p>Mid-1970s. Central warehousing & distribution introduced.</p> <p>1977. Planning guidelines eased, and become favourable to out-of-town stores up to 100,000 sq.ft.</p> <p>Late-1970s. Trading stamps largely abandoned, catalysed by intense price wars.</p> <p>Late 1970s. <i>Discriminatory Discounts</i> became an issue.</p>
1980	<p>1981. Investigation by Monopolies & Mergers Commission</p> <p>Early-1980s. Scanning & EPoS introduced.</p> <p>Early-1980s. Retailers develop superstores in enterprise zones to overcome planning difficulties.</p> <p>Mid-1980s. Illegal Sunday trading becomes widespread.</p>
1985	<p>1985. Investigation by Office of Fair Trading.</p> <p>July 1985. Out-of-town planning guidelines relaxed. Period to 1993 easiest in which to develop superstores.</p>
1990	<p>Early 1990s. European 'hard discounters' begin to develop UK chains</p> <p>1992/93. European Single Market comes into existence.</p> <p>1993. Planning guidelines begin to turn against out-of-town development.</p> <p>1994. Sunday and evening trading hours deregulated by parliament.</p>
1995	<p>Mid-1990s. Loyalty schemes widely introduced.</p> <p>1996. Planning guidelines redirect development to town centres, slowing out-of-town development.</p> <p>1996/97. OFT takes stance against further mergers within the 'Big Five'.</p> <p>Late-1990s. Loyalty schemes dropped by some operators. Only the 'Big Two' of the 'Big Five' retain them (2001)</p> <p>1999. National minimum wage introduced.</p>

Chapter 6

Explanation of the changing UK food retail system: the impact of exogenous and endogenous factors on the food retail system, 1950-1999

Chapter 6 explains the changes identified in chapter 4, and identifies the forces driving these changes, drawing on the major factors outlined in chapter 5. Both endogenous forces (internal to retailers) and exogenous forces (external to retailers), are considered, and a technique based on and inspired by grounded theory (3.1.ii, p.74-75) is used to generate chapter 7, which assesses the relevance of the various theories of retail change and proposes new explanations.

6.1 The domination of UK food retailing by multiple retail organisations

The rise of multiple food retailers in the UK is illustrated by their market share, which climbed from 27% to 86% in the 36 years to 1997 ¹. This dramatic increase came primarily at the expense of independent operators, but was also due to declining co-operative societies, a lack of retail renewal being responsible in both sectors - as multiple operators moved into supermarkets and superstores, co-operative operators fell behind the pace, and independents remained almost static. In addition, multiple rationalisation into fewer, larger stores brought expansion of the product offering, bringing them into competition with specialist food retailers such as butchers and fishmongers, who suffered as a result, particularly during the 1970s, when multiple attrition of specialist food retailers' trade was most severe.

This section considers the exogenous and endogenous forces driving the uninterrupted rise of multiple food retailers, and examines the (endogenous) competitive reaction of other retail types to their aggressive expansion.

Exogenous forces driving the rise of multiple food retailers

The regulatory environment was the primary exogenous force affecting the expansion of the multiple food retail trade during the second half of the 20th century. The first major change in the regulatory environment was the 1964 abolition of Resale Price Maintenance (**RPM**) (5.1.ii, p.119), allowing efficient operators to pass on their lower costs in the form of lower prices, giving efficient operators competitive advantage, while theoretically allowing entry of low-cost, low-price entrants, as

¹ Nielsen Market Research

suggested by Hollander's [1960] Wheel of Retailing (7.1.1, p.258-259). While the abolition of RPM did not favour the multiple sector per se, it favoured operators of large, efficient, self-service based grocery stores, to which multiple operators were best suited (5.1.ii, p.122). From the 1960s, multiple operators focused their efforts on this type of store, outpacing development by co-operative and particularly independent retailers (4.3, p.96-97), thus multiple grocery chains were the key beneficiary of RPM's abolition, which also laid the foundations for superstore development, initially attracting consumers by discounting major branded groceries. In short, the abolition of RPM drove the development of low-cost trading formats, and was followed by a period of intense restructuring into such formats, supporting the Wheel of Retailing (7.1.1, p.258-259), and causing acceleration of the retail life cycle for self-service and supermarkets formats (7.1.5, p.277).

The Government's attitude towards planning is clearly important to UK food retailers, with the development of supermarkets and superstores both slowed by the restrictive planning regime, particularly in early phases of their development. Planning restrictions on superstores began to be relaxed from 1972, and development was particularly rapid in the 1980s when planning permission was easiest to obtain. From 1988, successive guidelines made out-of-town development harder, with PPG6 (1996) effectively ending large-scale out-of-town development altogether (5.1.iii, p.126-127). In brief, the planning regime initially prevented the superstore format from entering the rapid growth phase of the retail life cycle (7.1.5, p.278), although developers found clever ways of beating the system (5.1.iii, p.124-126), and when planning laws were later relaxed, the format grew rapidly, before tougher planning guidelines once again arrested growth, supporting the idea that the planning system is a factor slowing out-of-town retail development [see Brown, 1992a; p.191] and therefore slowing the rise of the multiple sector that dominates superstore retailing.

By the late-1970s and early-1980s, the government had become worried that the large scale of the leading UK food retailers (4.2, p.91) had driven manufacturers to offer key players 'discriminatory discounts' (5.1.iv, p.130-131) catalysing government investigations into the key players [MMC, 1981; OFT, 1985]. While damning conclusions could have led to regulation of the industry, with serious implications for large operators, it was decided that further regulation was unnecessary, because retailers tended to pass on benefits achieved to consumers. This gave large operators the green light to use size as a bargaining tool in negotiations with manufacturers. The late-1990s again brought a Competition Commission inquiry into leading food retailers' pricing strategies and alleged

abuse of suppliers, which again found largely in favour of retailers, to the dismay of farmers. Government investigations into the industry, while creating much upheaval and uncertainty, have effectively failed to stop the growth of multiple food retailing.

Deregulation of shopping hours in 1994 put medium-sized food stores at a disadvantage, by driving consumer demand for large stores more suited to Sunday and evening trading (5.1.v, p.136-138), and is therefore a force driving recent evolution of the retail format (4.3). Because large stores are generally multiple-owned, the multiple sector as a whole has gained substantially from this change in legislation. While small stores initially suffered from the change in legislation due to the removal of their exclusive Sunday trading rights (5.1.v, p.138), stores under 3000 sq. ft. retain exclusive trading hours on Sunday mornings and evenings, which can now be considered to be driving polarisation of the industry into large out-of-town units and small, local shops, as suggested by Kirby's [1976a, 1976b] polarisation principle (7.1.3, p.272-273), by explicitly putting stores slightly in excess of 3000 sq. ft. at a disadvantage.

Adoption of technology is a further force driving the success of multiple operators at the expense of independent operators, which although an endogenous action, is enabled by the exogenous development of technology. Small stores, typically independent, failed to invest in technology or financially could not do so (5.3.ii, p.166), allowing larger operators to gain competitive advantage, reinforcing the trend towards multiple domination of the industry (4.1, p.85). Similarly, from the mid-1990s, multiple loyalty schemes reinforced the trend of multiple growth at the expense of independent operators, who generally do not operate loyalty schemes (5.4.iii, p.192-193)

Endogenous forces driving the rise of multiple food retailers

The independent and co-operative sectors' failure to keep pace with multiples in the renewal of their facilities is a key factor contributing to their decline, because self-service and larger stores were more efficient and profitable than earlier formats, and made existing facilities outdated and less attractive to the consumer. As rationalisation took place, and several small stores were replaced by one large store (4.3, p.96-97), existing multiple, independent and co-operative retail stores became less profitable [Kirby, 1974b, p14-18; Kirby, 1975, p469-500]. In the mid-1970s, the trade of a medium-sized food retail outlet was found to decline by an average of 16% when a superstore opened nearby, while the trade of independent operators was largely unaffected [Thorpe et al, 1976], supporting the

polarisation principle (7.1.3, p.272), and suggesting that multiple operators cannibalised their existing businesses in order to prevent new entrants from doing so:

People say, look at all the independents that have closed. But the multiples have closed thousands of shops. They have replaced three or four with one shop.

[Tony de Angeli]

Although co-operative societies' closed half of their stores between 1966 and 1975 [Dawson and Kirby, 1977; p.20], this was not accompanied by a large increase in the number of co-operative supermarkets (4.3, p.96-97), suggesting that many of these closures resulted from declining profitability rather than store rationalisation programmes, underlining the potential problems of failing to move into retail formats in the positive growth phase of the retail life cycle (7.1.5, p.277):

The history of the Co-op, really, is the history of British food retailing, and moving from the small local shop - the sociological changes of car ownership, of women going to work, and the Co-op did not respond quickly enough.

[Sir Dennis Landau]

Co-operative societies failed to keep pace with phenomenal multiple store rationalisation because individual co-operative societies' were competing over who could pay the highest dividend to members, reducing the capital available for store development, leading to under-investment relative to multiple operators, even in societies generating healthy operating profits. This under-investment relative to multiple operators eventually resulted in co-operative stores becoming out-dated and uneconomical:

I mean the tragedy for the Co-op was that they didn't reinvest in their shops after the war, because individual small local societies were proud of the dividend they were paying and they weren't visionary enough to develop the assets they had, when the Co-ops collectively had far more trade than Tesco, Safeway, Sainsbury all put together.

[Sir Dennis Landau]

A further factor slowing co-operative moves into larger stores was that co-operative societies were established to serve working class, local communities, and were presented with a dilemma of watching existing stores decline or abandoning their local shops, principles and roots in order to improve profits, deserting immobile members along the way:

"For a Movement that prides itself both on caring and sharing ... the question of trading through smaller shops is a searing one. It is just the disadvantaged, the immobile, who are likely to need such facilities, and the social conscience is pricked. Yet the Movement is socially owned in a trade dominated by private enterprise, and can only propound successfully its social commitment if it can achieve economic trading success also."

[Co-operative Union Ltd, 1981]

Co-operatives therefore fell behind multiples in large store development for the two key reasons of insufficient availability of investment funds after the payment of generous dividends, and reluctance to close small, local shops due to the clash of cultures between socially-owned ethical values and survival in a tough business environment.

Independent food retailers also lacked investment funds for large store development, as well as inclination to make such large investments, and struggled to attract external sources of finance:

Access to capital has been an important factor for independent operators. They haven't got the resources or access to finance. Traditional sources of finance, banks, etc., are not happy hunting grounds, and the wholesalers haven't been profitable enough to help with finance schemes, even for their own. In fact, one could argue that today if they do find a retailer who wishes to dispose of a business, then the wholesaler is likely to buy it as a wholly owned operation, rather than to help an independent purchaser.

[Trevor Dixon]

Self-service and supermarket developments were termed 'revolutionary' causes of change which allowed and encouraged larger and more profitable organisations by virtue of the necessary fixed capital expenditure [Dawson and Kirby, 1977; p.29], putting independent operators with little access to investment capital at a serious disadvantage, and ensuring that the independent sector continued to operate stores in the decline phase of the retail life cycle (7.1.5, p.277-278).

In short, the co-operative and independent food retail sectors suffered from a lack of investment relative to multiple operators, whose high levels of investment pushed the food retail life cycle into a new phase of 'one-stop shopping' in large, purpose-built stores with parking facilities (4.3, p.97-98). Meanwhile co-operatives and particularly independents continued trading from the old generation of small local or high street stores, which were progressively becoming less attractive to demanding consumers compared to modern multiple facilities. Reduced patronage and closure of unprofitable outlets drove their declining market shares, with their key failure being the retention of small outlets, which are intrinsically less profitable than larger stores, no matter what the form of ownership [Dawson and Kirby, 1977; p.29].

Multiple takeovers of small chains with less than 10 outlets, previously classed as independent operators, contributed to growth in multiple market share, with market share passing from the independent sector to the multiple predator, as Dawson and Kirby [1979; p.22] found was the case in

the department store industry. Similarly symbol independents have been purchased by their wholesalers in order to secure continuation of the business [Trevor Dixon], so statistics for 'symbol independents' should be treated carefully, as included in this definition can be large wholesaler-retailers such as C J Lang, a wholesaler owning 60 Spar stores², and A F Blakemore, another Spar wholesaler, which operated 165 stores in 1995³. The extent of vertical integration in the symbol group sector is therefore reasonably advanced, and symbol stores can appear to be independent operators when in fact they are wholesaler-owned retail chains.

The endogenous competitive reaction to the rise of the multiples

Independent retailers attempted to counter multiple buying power through the formation of symbol groups, which appeared in the mid-1950s following the ending of food rationing and building restrictions (5.1.i), and were pioneered by wholesalers Peter Keevil, Kinlochs, Danish Bacon Co., Stewarts, and Evershed, following similar developments in continental Europe and the USA [Fulop, 1961; p.12-13]. In the USA, the voluntary chain sector represented over 16% of grocery stores by 1930 [Harding, 1935; p.32]. In the UK, these pioneering wholesalers feared that the expansion of multiple and co-operative grocers into self-service would harm independent grocers, who were their chief customers, and symbol groups were formed in response to this [Fulop, 1961; p.12-13]. Early growth of voluntary groups was rapid (figure 6.1a), documented in detail by Fulop [1962], though it was noted that the field for further recruitment had become 'somewhat limited' by 1963 [BPC, 1966; p.4].

Figure 6.1a Number of voluntary group shops, 1954-1964.

Year	Number of voluntary group shops
1954	50
1957	2000
1958	8000
1960	12000
1962	25000
1963	26000
1964	25776

[source: BPC, 1966; p.4]

² *The Grocer*, January 9, 1999, p12.

³ *The Grocer*, April 8, 1995, p28.

Voluntary groups were formed to offer independent members centralised buying, distribution, advertising, promotion, private label and management support in order to be able to compete with the increasing power of multiple operators. While there remained a consumer market for the small, local store, symbol groups brought such stores advantages, particularly in economies of scale, buying power and retail skill, aiding their survival and therefore driving polarisation of the industry, supporting the polarisation principle (7.1.3, p.272).

Members of symbol groups normally remain independent and are obliged to place a minimum weekly order with the group, accept deliveries on specified days and times, pass on price reductions to customers, ensure that the shop conforms to minimum standards of hygiene and service, and display the insignia of the symbol group in the shop window [Fulop, 1961; p.13]. This enables the symbol wholesaler to reduce transport, handling and selling costs, which are passed on to the retailer in the form of cheaper supplies [Fulop, 1961; p.13]. In addition retailers increase stock turnover and reduce storage requirements, which means that capital is more productive and gives potential for conversion of storage area to sales space [BPC, 1966; p.20]. They also gain access to specialist skills, advice, training and contact with other retail members [BPC, 1966; p.20], in general equipping them better to compete with multiple retail organisations.

While independent operators gained many of the advantages of large chains through affiliation to a symbol group, symbol group market share began to decline in the 1970s, following stagnation in recruitment from 1963. This decline was relative to both the whole food trade and to the total independent food sector, meaning that symbol groups represent a declining proportion of a shrinking independent sector:

Figure 6.1.b: Share of food trade by type of retailer, 1976-1986:

Year	1976	1978	1980	1982	1984	1986
Symbol independents	12.4%	10.0%	7.9%	6.3%	5.0%	3.6%
Other independents	10.1%	8.1%	7.0%	6.1%	5.9%	5.5%
% independent trade through symbols:	55.1%	55.2%	53.0%	50.8%	45.9%	39.6%

[source: adapted from Gardner and Sheppard, 1989]

In the decade to 1986, symbol independents' share of the total UK food retail market fell from 12.4% to 3.6%, thus it is fair to assume that the economies achieved through symbol group operations diminished with time, although the contraction in the number of symbol groups⁴ and

⁴ *The Grocer*, 29 April 1995, p6.

severe decline in others, such as VG ⁵, leaving a few large symbol organisations to dominate the sector means that the purchasing power of those remaining is largely intact, particularly as buying groups such as NISA Today began to act on behalf of symbol groups rather than solely unaffiliated independents.

The development of cash and carry wholesaling in the 1960s was a major factor in the decline of symbol retailing, a conflict identified by Fulop [1964; p.167]. Cash and carry warehouses are generally 3,000 to 35,000 sq.ft., and operate on a self-service basis [Fulop, 1964; p.164-165]. It is “based on the retailer selecting, collecting and paying cash for his goods, thereby enabling the wholesaler to reduce selling, assembly, distribution and credit costs and to pass on the savings to the customer (retailer)” [Kirby, 1974a; p.527]. Ironically, cash and carry was developed largely by symbol wholesalers seeking both retail and catering clients [Richard Branston], and was also used by chemists, butchers and hardware retailers [Fulop, 1964; p.165]. Many symbol-affiliated retailers changed their wholesale channel to cash and carry [Richard Branston], with 75% of symbol retailers using cash and carry facilities by 1974 [Kirby, 1974a; p.527], effectively reducing the average percentage of products purchased from symbol wholesalers to just 66% [ibid.]. Symbol retailers were using cash and carry as a secondary source in order to broaden their range, to rectify wholesalers’ out-of-stock situations, and to achieve lower prices [Kirby, 1975; p.500]. It also reduced the financial benefits of joining symbol groups, as cash and carry undercut traditional wholesalers by around 4-6% [Fulop, 1964; p.165]. Effectively, symbol wholesalers sealed their own fate by claiming that collaboration with one wholesaler was the way forward, while providing alternative facilities that detracted from their symbol wholesale business:

Unfortunately it went slightly wrong, because the wholesalers felt that they had to develop in other areas, and they launched cash and carry. Cash and carry then appealed to the unaffiliated field, while they were trying to prove that the only way to success was through affiliation. It was a terrible contradiction. No matter what the wholesalers tell you, it does not make sense to preach that you should be Jewish and a Catholic at the same time! You can say you can be a Jew or a Catholic and it is OK, but if one minister is giving you two alternatives it can seem strange...

[Tony de Angeli]

Symbol wholesalers’ reluctance to serve small stores placing small orders led to their rejection of small retailers, driving cash and carry as a wholesale channel for those unable to, or unwilling to,

⁵ *The Grocer*, 21 September 1996, p43.

affiliate to symbol groups [Kirby, 1974a; p.527]. The competitive emphasis of independent food retailers changed direction over time, as it became clear that superstores had enormous pricing advantages, despite the introduction of cash and carry, and independents began to move towards convenience, in terms of both location and opening hours, effectively supporting the demand pattern suggested by the polarisation principle (7.1.3, p.272).

Co-operative food retailers attempted to counter the increasing buying power of the leading multiples by centralising individual societies' buying, marketing and distribution functions, which proved unsuccessful because individual societies preferred to maintain autonomy in these areas (5.3.iii, p.171-172). The full benefits of unified purchasing, distribution and marketing were therefore not achieved, meaning that co-operative societies remained unable to negotiate with the same weight as large multiples. In time, co-operative attention also focused on convenience rather than outright price competition with a lean multiple sector, again supporting the demand pattern of the polarisation principle (7.1.3, p.272).

Both co-operative and independent food retailers, therefore, made considerable efforts to achieve economies of scale in procurement, yet the long-term decline in their market shares has continued unabated, with the key factor being that such efforts only met with limited success, despite showing initial promise. In addition, there was scant expansion in independent store sizes, and the increases in co-operative store sizes remain small relative to those of multiple operators, meaning that sales area relative to the multiple sector, and hence buying power, fell.

Conclusion

The enormous change in market share that took place between 1960 and 1980 resulted in multiples coming to dominate the industry, at the expense of independent and co-operative operators. The rise of the multiple sector during the 1960s and 1970s reflected the inability of independent and co-operative operators to move out of small, local stores in serious decline at a fast enough rate, while multiple retailers pursued aggressive store development plans. Both the co-operative and independent sectors therefore suffered from a lack of investment, due to a lack of access to capital in both sectors, and also to conflicting commercial-social pressures within the socially owned co-operative movement.

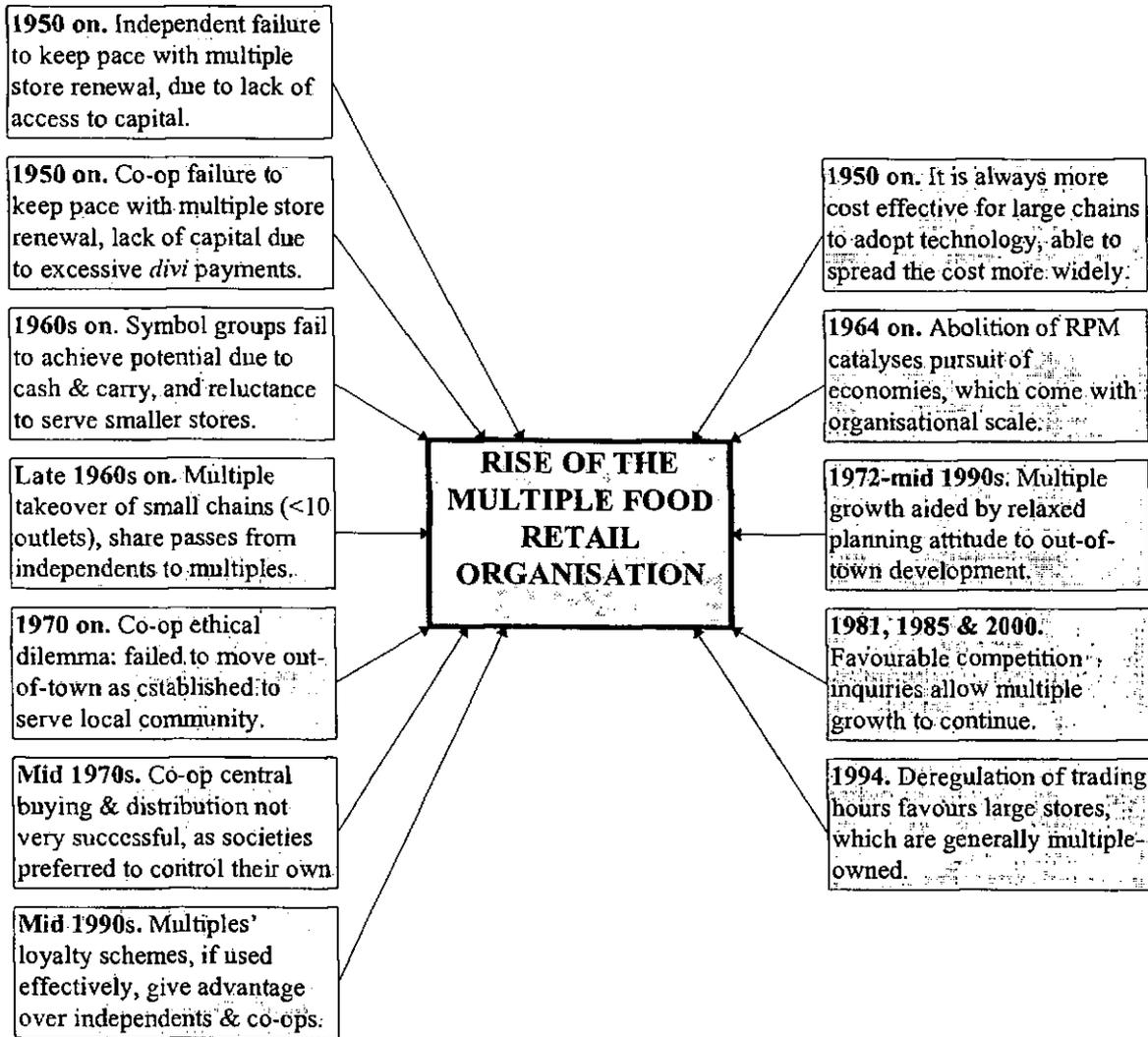
Equally, the rise of multiple operators was aided by the abolition of RPM, which favoured low-overhead up-to-date stores which tended to be owned by multiple operators, and by a gradual softening in planning attitudes from the mid-1970s until the mid-1990s, which enabled multiples to drive rapid evolution of the retail format (5.1.iii, p.126). Government inquiries have tended to find in favour of multiple operators (5.1.iv, p.131) allowing their growth to continue, and the deregulation of shopping hours (5.1.v, p.136-138) favoured the large, modern stores that are dominated by multiple operators.

In short, exogenous factors have generally originated at government level, and have tended to favour the trading style of multiples, rather than directly favour actual multiple organisations, and have supported multiple operators' endogenous store rationalisation programmes, which have placed them at a huge advantage over independent and co-operative operators. Independent and co-operative attempts to counter the buying advantages of multiples were based on the centralisation of buying, marketing and distribution functions, yet the fragmented nature of both retail types prevented these initiatives from achieving their potential, allowing multiple operators to maintain substantial buying power over independent and co-operative operators.

Figure 6.1c. Forces driving the rise of multiple food retail organisations:

ENDOGENOUS FORCES

EXOGENOUS FORCES



6.2 The concentration of power into the 'big five', and the impact on the relationship between retailers and manufacturers

In 1998, Tesco, Sainsbury's, Asda, Safeway and Somerfield collectively accounted for over 50% of the UK grocery market, representing a high degree of concentration within the industry. In 1984, the top five food retailers combined market share was only 28%, thus the rate of concentration in the industry was profound during the 1980s and 1990s (4.2, p.91).

The growth of the leading players was driven by many factors, and the key exogenous and

endogenous driving forces are considered below, followed by an analysis of the forces slowing concentration and an analysis of the impact of the rise of the 'big five'.

Exogenous forces driving the rise of the 'big five'

While takeover activity is an endogenous phenomenon, the exogenous environment determines its attractiveness to retailers. The first major exogenous force driving takeover in UK food retailing was the economic crisis of the mid-1970s, when real incomes fell and consumers became more price sensitive (5.2.ii, p.147-148), in response to which food retailers launched price cutting campaigns, such as *Operation Checkout* and *Discount '78*, and fierce price wars broke out. While these price wars were an endogenous response to exogenous change, one area of impact was retailers' profits, because price wars reduce profits and depress share values (6.5, p.250), meaning that takeover of weaker players becomes better value, and is therefore more attractive to the predator.

A further exogenous factor driving takeover activity has been the restrictive planning system (5.1.iii, p.123-129), whereby difficulties obtaining planning consent for new stores can drive retailers to consider takeover of operators with good stores, in order to maintain growth in periods when organic expansion is impeded by the regulatory environment:

Roger Clough: *Can one reason for takeovers be that it is so hard to get the planning permission?*
Peter Asquith: *Yes, if they have got decent stores. But there is always a lot to do, to get the stores into your style, to revamp them, to put them to the standard that Asda demand.*

Because the leading UK food retailers are public companies, they are bound to deliver shareholder value, and to respect shareholders' wishes. This can lead to takeover when a large proportion of the shares are owned by a few large institutional shareholders (pension funds for example) who may force takeover in the hope of driving up the share price, as was the case with Somerfield's 1998 purchase of Kwik Save:

The Somerfield deal with Kwik Save had no trading sense to it at all, it was almost certainly encouraged by Phillips & Drew, who had a 20% share of each company... There were only two shareholders that mattered in Kwik Save. Dairyfarms had 29% and Phillips & Drew fund management had about 22%. They had seen those shares go down from 700p to under 300p, dramatic falls, and they weren't going to go anywhere. The fact that Phillips & Drew fund management also had 20% plus of Somerfield, which was also under pressure, surely meant that they were instrumental in getting those two together.

[Mike Groves]

In addition to pressure from institutional shareholders, public companies are generally expected to show annual profit growth, and failure to meet City expectations normally hits the share price, leaving companies susceptible to takeover:

Roger Clough: *This growth, this pressure to grow year-on-year, is it related to being public companies, listed on the stock exchange?*

John Fletcher: *Yes, I think the evidence is that there hasn't been the same level of intensive growth with the Co-op, which is differently owned, and neither did FineFare show that sort of intensity when it was owned by AB Foods, it was hidden within the overall scheme of things, there wasn't quite the sort of pressure, comparatively speaking they weren't quite so aggressive. So generally speaking I think yes, obviously in any business the person at the top has set certain standards, but you would certainly have more flexibility if you didn't have to show year on year profit improvement, every year, every six months.*

The final exogenous factors aiding the rise of the 'big five' are the favourable findings of government inquiries into discriminatory discounts (5.1.iv, p.131). Successive investigations [MMC, 1981; OFT, 1985] found that regulation of retailer power over manufacturers was unnecessary, allowing leading players to develop, in terms of both scale and power, relative to suppliers, and an elite handful of multiple food retailers came to dominate the industry. In effect, there has been polarisation of organisational size, driven by 'Darwinian-style' survival of the fittest as many weaker multiples have been taken over (7.1.6, p.281). Further forces driving polarisation of organisational size include difficulties in obtaining planning permission, which made takeover more attractive as a vehicle for growth, the influence of stock market listings and institutional shareholders, which tend to drive takeover, and favourable inquiry findings, which allowed consolidation to continue.

Endogenous forces driving the rise of the 'big five'

The first endogenous force driving the rise of the 'big five' was the finite potential for growth due to the decline of the co-operative, independent and specialist sectors (4.1, p.89-90), which dramatically aided the development of multiple retailing. Growth could not continue indefinitely at the historic rate because of the sectors' small residual market share, meaning that growth had to come from other sources, namely other multiples - one multiple operator's gain became another's loss, and attrition of market share drove the rise of the big five (4.2, p.91-92). Attrition of a competitor's market share can reinforce the position of the big five, particularly if it leads to the competitor being taken over by one of the 'big five', as their entire market share then passes to one of the 'big five'. In short, the realisation that growth could not continue indefinitely from independent and co-operative operators suggests that 'Darwinian' survival of the fittest had resulted in relatively stable, albeit depleted, co-

operative and independent sectors, forcing multiple operators to fight each other for market share (7.1.6, p.281). In turn, 'Darwinian' survival of the fittest multiples resulted in the rise of the big five, particularly when takeover was involved.

Concentration of the business among the 'big five' was also driven by geographical diversification of major operators, with food retailers expanding beyond their regional heartlands to become national players (4.4, p.100-107). Thus the leading players became larger, through both natural expansion and takeover, demonstrated by the fierce battle between Sainsbury's and Tesco over William Low in 1994, eventually won by Tesco, albeit at a higher price because of Sainsbury's interest. Expanding regionally through takeover was not a new experience for Tesco, the company having used acquisition to expand beyond the South East in the 1960s:

Tesco moved on from just self-service stores into supermarkets in the back end of the 1950s and early-1960s, and continued to develop their business, both organically and by acquisition. By the mid-1960s, late-1960s, they had taken over businesses in the North, John Irwin's in the North, and had a number of self-service stores, and a few supermarkets.
[Lord MacLaurin of Knebworth, DL]

In effect, the regional expansion of multiple operators made 'fitness of organisation' a more critical issue, as they entered into competition with regional operators who were generally less fit (7.1.6, p.281). The regional expansion of the leading operators was facilitated by their adoption of central distribution systems during the 1970s, which enabled operators to expand beyond their regional bases while being able to assure the quality of their merchandise nationwide (5.3.iii, p.170), and the centralisation of buying functions brought them better buying terms, bringing further economies of scale of organisation, putting smaller players at a disadvantage. The development of advanced technological systems has made scale of organisation more critical, as large players are able to absorb the cost of systems over a larger turnover, meaning that it is harder for small operators to introduce technological systems (5.3.ii, p.166), again reinforcing the position of the 'fittest', according to the Darwinian analogy, as the least fit are unable to invest in technology that could make them more competitive, or 'fitter' (7.1.6, p.281-282). It also suggests further polarisation of organisational size by disadvantaging medium-sized organisations (7.1.4, p.274-275).

Takeover activity was extensive during the 1980s when some large food retail conglomerates were built up from many smaller operators, driving substantial concentration in the industry. At this time, 'survival of the largest' was evident (7.1.6, p.281), with Argyll being built up from the acquisition of

Cordon Bleu (1979), Freezer Fare (1980), Lo-Cost (1980), Pricerite (1982), Liptons, Templeton, Galbraith and Presto (from Allied Suppliers in 1982) and Safeway (1987), later undertaking conversions to focus on the Safeway brand:

In the 1980s there was massive consolidation, Dee and Argyll hoovered up masses of smaller operators. This meant that money could be spent on systems, and enabled things like sales based ordering and labour scheduling systems to be developed, the cost could be absorbed.

[David Stoddart]

The internationalisation of food retailing (6.4, p.238-240) suggests that the big five of the future will be determined internationally rather than nationally, and that international conglomerates will be created, following a similar pattern to consolidation in UK food retailing. Buying power, and hence competitiveness and profitability, is closely correlated to organisational scale, with the pursuit of buying power being a key force driving UK food retailers' concentration on increasing their scale:

"Tesco wasn't that big back in 1976/77, it was one of the smaller retailers really. As it developed and as we got more and more volume through the business, we were able to do better and better deals with the manufacturer, on the proviso that we sat down with them, and we ensured that everybody shared in the profits."

[Lord MacLaurin of Knebworth, DL]

Finally, on endogenous factors, the rising power of the 'big five' operators brought substantial competitive advantage over secondary operators, meaning that it became harder for these smaller retailers to compete and attract customers. One escape from terminal decline is the sale of the business, thus there tends to be a domino effect, where consolidation induces further consolidation.

Exogenous forces slowing the rise of the 'big five'

The key force retarding the development of the 'big five' in UK food retailing is the regulatory environment, with planning regulations slowing multiple development, particularly of those attempting to move into larger stores (5.1.iii, p.127), also slowing the phases of the superstore retail life cycle (7.1.5, p.278). The rise of the 'big five' was undoubtedly slowed by difficulties securing development opportunities, although such difficulties can induce takeover attempts, meaning that concentration, to a certain extent, occurs despite stifled store development programmes (6.2, p.208).

Takeover activity, however, became more difficult following Tesco's 1994 purchase of William Low, which was the last major domestic merger in the industry, with the exception of Somerfield-

Kwik Save in 1998. The mid-1990s saw not only a tightening of planning regulations that ended large-scale out-of-town development (5.1.iii, p.126-127), they also witnessed the end of major domestic mergers due to the Office of Fair Trading's reluctance to allow them, because of fears that local monopolies may develop, slowing concentration in the industry (5.1.vi, p.140-141). Further polarisation of organisational size has therefore been averted by the regulatory environment, while the Darwinian 'crunch-point', where the fittest survive and the weakest die has effectively been delayed (7.1.6, p.282).

Effects of the rise of the 'big five'

Concentration of power in UK food retailing has had two key effects. First, competition between remaining players has become more intense because it became harder to gain market share due to the disappearance of weak players (5.1.iv, p.132). Second, the power relationship between UK food retailers and manufacturers has altered dramatically (4.2), with Nestlé and Unilever being the only European manufacturers comparable in size to any of Europe's top half dozen retailers [Reid, 1995]. This growth of retailers relative to manufacturers means that leading food retailers can use their size to obtain favourable terms from manufacturers [MMC, 1981; OFT, 1985], considered fully below.

To summarise, the rise of the 'big five' multiple food retailers has been driven by many forces, including several exogenous ones, which influenced retailers' attitude towards takeover. Favourable government inquiries into the industry allowed concentration to continue. The rise of the 'big five' has also been influenced by several endogenous factors, such as the decline of weak multiples, particularly if this results in takeover, geographical diversification, aided by the development of central distribution, and retailers' pursuit of scale, driven by their desire to absorb the cost of systems over a larger turnover base and to gain buying efficiencies. Finally, there tends to be a domino effect, whereby the growth of leading organisations means that smaller competitors find it harder to compete, which can lead to them being absorbed by a larger operator. From the mid-1990s, however, concentration within the sector was slowed by OFT guidelines (5.1.vi, p.140-141).

The changing power relationship

As UK food retailing became more concentrated, leading players were able to use their size and market share to exert control over manufacturers, a profound change to the scenario in the mid-20th century when manufacturers wielded control over the fragmented grocery industry (4.2, p91-92).

With the 'big five' accounting for over 50% of the grocery market by the end of the 20th century, all but the largest manufacturers have been negatively affected.

Exogenous forces driving the changing power relationship

Until the mid-1960s, RPM was the key exogenous force empowering manufacturers over food retailers (5.1.ii, p.119), enabling manufacturers to generate sufficient profit to fund the building of brands, while prolonging the existence of the fragmented grocery industry, and therefore the relative size and power of manufacturers. Its abolition in 1964 was the first blow to manufacturers and set the foundations for the empowerment of food retailers (5.1.ii, p.121-123), through the transformation of the industry from a fragmented one dominated by independent counter-service shops to a highly concentrated one, dominated by out-of-town superstores.

Endogenous forces driving the changing power relationship

Endogenous forces also favoured manufacturers in the years following World War II, driving demand for packaged groceries. While grocers had previously weighed and packaged commodity-like products such as sugar, flour and butter, the introduction of self-service meant that this was largely transferred to the manufacturer, although some preparation took place in the rear of stores. Aided by the launch of commercial television in the mid-1950s [Richard Swaab], manufacturer packaging led to the development of some powerful brands, empowering brand-owners over retailers:

The main manufacturers wanted to reinforce the strength of their product and create an awareness of their product, and what emerged was the early development of branding of food products. There had been food brands before, but brand recognition, the reinforcing of brands and the creation of new brands through the 1950s was a key factor. Certainly you got the emergence of major brands around this time, and you got the packaging of the brand as well, so you shifted from the bulk product distributed by the retailer, commodities, to the fact that you got sugar, dried fruits, margarine, attractively packaged in packs, printed, with more information on the back than hitherto, but basically in a handleable unit, and that's the way it arrived at the distribution outlet. So in packaging and handling terms, it wasn't that big a step to move to the next stage of retailing which was self-service.

[John Fletcher]

Subsequent endogenous factors, however, aided the empowerment of food retailers over manufacturers. The increasing scale and market dominance of the leading UK food retailers, described above and aided by the abolition of RPM, meant that manufacturers became subservient to main operators, offering them prices unrelated to their buying power, through fear of losing key

retail clients (5.1.iv, p.130-131). The contraction of the industry into fewer, fitter operators therefore had a serious secondary impact on manufacturers, who were disempowered relative to retailers, and losing the business of just one major operator can seriously hit profits. For example, shares in Snackhouse fell 30% when it announced that profits had been hit by their loss of Asda as an outlet ⁶.

Leading food retailers' development of central distribution brought further power over manufacturers, as retailers no longer had to rely on their distribution channels, as well as higher margins for retailers and lower selling prices for manufacturers (5.3.iii, p.169-170). It is also credited with driving some secondary manufacturers into private label production (5.3.iii, p.170), which empowered retailers over manufacturers further still. Relations between retailers and their private label suppliers, however, have since been driven closer by improvements in quality of product, which necessitates closer co-operation between the two parties (5.4.ii, p.183-184), bringing substantial trading-up of offering because of the large market share of private label (5.4.ii, p.180).

Key effects of the changing power relationship

As UK food retailers became more powerful, numerous examples emerged of relations with manufacturers becoming strained. Food retailers have the advantage that manufacturers may well need retailers more than the retailers need them [Richard Swaab], and although manufacturers of major brands did not fear delisting [David Stoddart], it is fair to assume that the threat was greater for secondary brands. In short, the odds became more weighted in favour of food retailers, who could generally obtain a better price for a larger throughput of products, although this was not always the case, being largely dependent upon buying department skill:

In the early days of takeovers, there were countless examples of retailers going berserk after they had taken over a much smaller competitor because they discovered that the smaller companies were getting better deals from suppliers. I know that Gateway did, the Chairman told me himself! He went absolutely mad, a bread manufacturer was giving better prices to a minor competitor he had bought.

[Tony de Angeli]

Size of organisation was therefore not the only issue affecting the manufacturer-retailer relationship, retail expertise and negotiation skill also played an important role. Retailers' attempts to extend their offerings into new areas such as petrol, pharmacies and news, were sometimes unsuccessful because they were declined supply, with suppliers being unwilling to risk their relationship with established

⁶ *Financial Times*, October 5, 2000; p.32.

vendors of the products and disturb a status quo that worked well for both parties, meaning that expansion of the retail accordion is not always possible, regardless of consumer or retailer demand for products:

I wanted to sell newspapers and magazines, but it didn't matter what prices you sold at, you couldn't get them, because wholesalers didn't want to upset the traditional newsagents... they just said "you can't have them". They set this arbitrary rule about where and what the distribution level was, and newsagents were exactly that. [Mike Groves]

Although different retailers took different approaches in dealing with manufacturers, over time there was a general recognition that both parties needed to make a profit, and that size of retail operation could be used as a tool to obtain better terms, but in conjunction with good terms for the manufacturer, rather than food retailers simply driving manufacturers' prices as low as possible:

...Years ago, in the old days of Tesco, it was very 'anti' - manufacturers against the retailers. And certainly one of the things that I changed at Tesco was to get all the manufacturers in and say, you know, none of us actually make any money until we actually sell that product to the consumer, so we have got to work together... So there was not a bit of Tesco doing a deal with the manufacturer that was such a good deal that the manufacturer made no money. If they are not making any money, that is not the purpose of the game at all. The purpose of the game is to be as efficient as you possibly can through the chain, and you make sure that the manufacturers have the facility for keeping their plants up to speed, and efficient, and all those things, and also being able to have a partner to innovate and develop the business. That is what it is about. [Lord MacLaurin of Knebworth DL]

A further effect of the changing manufacturer-retailer relationship is the transfer of innovation in new products from the manufacturer to the retailer, with new products tending to originate in private label rather than as primary branded products, aiding margin improvement through 'scrambled merchandising', causing revolution of the Wheel of Retailing:

Nowadays all the big retailers launch around 2000 or 2500 private label products each per year, whereas somebody like Heinz or Mars may bring 4 or 5 products to market. So innovation has changed the pace of it all, now it is driven by the retailers, not the big brand manufacturers. [Tony Campbell]

When manufacturers innovate, retailers have the product development expertise and contacts to quickly imitate new products, reducing the benefits of manufacturer innovation, explained fully by Richard Swaab (5.4.ii, p.181). In effect, retailers tend to negate the advantages of manufacturers as well as those of other retailers, extending their 'Dialectic' tendencies (7.1.7, p.284):

So it's a kind of two-pronged thing - on the one hand there are areas where it is easier for the retailer to innovate than the manufacturer, so the retailers get ahead on that. When the manufacturers do get ahead, the retailers have got the technical skill and the muscle, in terms of the development, to match what the manufacturers are doing anyway. So they are caught in a pincer movement.

[Richard Swaab]

In short, the changing power relationship is primarily the result of the increasing dominance of the 'big five' UK food retailers, who have increased enormously in size relative to manufacturers. While manufacturers were the initial beneficiaries of the move to self-service, which enabled them to develop some strong pre-packaged brands, retailers gained momentum from the 1964 abolition of RPM, and as leading retailers grew, they generally obtained better buying terms, with manufacturers becoming intimidated by their scale. Retailers' development of central distribution broke manufacturers' control over distribution channels, and therefore over food retailers, increasing food retailers' control over private label manufacturers in particular, although relations later sweetened as the quality of private label improved (5.4.ii, p.183-184) and retailers accepted that both parties needed to profit in order to make the relationship work in the long-term.

Figure 6.2a. Forces driving concentration in UK food retailing:

ENDOGENOUS FORCES

1970 on. Finite potential for growth from ind & co-op meant that multiples had to grow at each other's expense

1970 on. Regional expansion brought leading players into comp with regional chains, who generally lost out.

Mid 1970s on. Development of central distribution aided regional expansion of leading players.

1980s. City-backed growth of Dee and Argyll removed many smaller operators through takeovers.

1980 on. Domino effect; economies developed by Big Five made it hard for smaller players to compete=takeover.

EXOGENOUS FORCES

1970 on. Difficulties getting planning permission for new stores can drive takeover as a means of gaining more stores

Mid 1970s to early 1980s. Economic crisis provoked a price war, which led to a shakeout of weaker players.

1980 on. Failure to meet 'City' expectations punishes share price, provoking takeover in some instances.

1980 on. Large institutional shareholders in plc's can sometimes force mergers that make little trading sense.

1981, 1985 & 2000. Favourable competition inquiries allow consolidation within the sector to continue.

Mid 1990s. Concentration within the sector constrained by OFT's anti-merger policies.

RISE OF THE BIG FIVE MULTIPLE FOOD RETAILERS

**RESULTED IN:
A dramatic alteration in the relationship between retailers & manufacturers**

6.3 The evolution of the retail format from counter-service grocery store through to the out-of-town superstore

The UK food retail structure of the 1950s was characterised by small, local counter-service grocery shops, which half a century later had largely been swept away by successive tides of new retail formats, with large out-of-town superstores offering 'one-stop shopping' and extensive facilities coming to dominate the food retail landscape (4.3, p.93-99). This evolution of the retail format had profound effects on the industry, yet was familiar, with counter-service grocery stores themselves having replaced market-based food retailing in the latter years of the 19th century [Jefferys, 1954]. In the same way that it had driven the decline of market-based food retailing, the counter-service grocery store was thrown into decline by the development of new, more efficient, retail formats (7.1.5, p.277).

Exogenous factors driving evolution of the retail format

The first significant evolution of retail format during the second half of the 20th century occurred when counter-service grocery stores were converted to self-service in the late-1940s and early-1950s, initially driven partly by exogenous problems specific to the decade following the end of World War II, when government control of input prices, output prices and sales volume resulted in declining grocery margins, forcing grocers to reduce operating costs (5.1.i, p.115-118), with conversion to self-service becoming a popular way to achieve this.

The development of UK self-service grocery retailing was partly inspired by US developments, with stories appearing in the press about "*Walk-round stores of America*"⁷, and "*Super-market technique, the American way*"⁸. In the USA, customers had embraced self-service because of faster service, the option of taking one's time, openly displayed prices, absence of sales talk, reduced danger of forgetting items, increased quality of produce and the fact that the stores seemed hygienic⁹. Sainsbury's [Bridget Williams] and Tesco, both adopted self-service following visits to the US:

When I went to America with my wife, in 1946, I saw these supermarkets in America, and I thought that our small stores, although they were so small, would be the beginning of it.

[Jack Cohen, speaking in 1967. Featured in *British Empires: Tesco*, Channel Four, MM]

⁷ The Grocer, December 25, 1948, p14

⁸ The Grocer, January 7, 1950, p20

⁹ The Grocer, November 22, 1952, p46

The British government believed that UK grocery retailing was inefficient, and therefore supported the development of self-service. One hundred special building licences were issued in 1949, which allowed self-service development to develop despite post-war restrictions of building materials:

"The Ministry of Food and the Ministry of Works announce that, after consultation with the trade associations concerned, arrangements have been made for licensing the structural alterations to a limited number of food shops selling groceries and provisions to enable them to be adapted to the 'self-service' system" - Ministry of Food Notice ⁶.

In effect, the government was attempting to gauge whether self-service could alleviate perceived inefficiency within the industry:

"To-day distribution is a costly process both in terms of cash and labour. An unduly large part of the family income is absorbed in meeting the charges of the distributors at the expense of other things the family want. It follows that the standard of living of the people is lower than it would be if distribution charges were lower" - U.S.D.A.W report ¹⁰.

The government encouraged conversion to self-service because they believed that it would prove more efficient. At this time, pressure groups were constantly lobbying government departments for increased margins on foods, lower wage increases among shop workers (5.1.i, p.116), and conversion to self-service was the government's way of putting responsibility for success and profitability back in the hands of the food retailer, who had developed a *"tendency... to blame others for difficulties..."* ¹¹ (5.1.i, p.118).

Manufacturers were a further exogenous factor driving the development of self-service retailing, as more branded products were being packaged at source rather than by grocers (6.2, p.213), which was necessary for self-service to develop, although a limited amount of products could be prepared and packaged behind the scenes of the grocery shop. As war-related difficulties receded, more products became available again, and manufacturers began to increase their product ranges [Bridget Williams], which suited self-service stores with more room to display products. Further evolution of the retail format was driven by expanding manufacturers' ranges, with outlets becoming larger in order to offer customers the full array of products that they came to expect over time.

Without consumer acceptance, the retail format could not have evolved. The wider range of products available in self-service stores helped gain consumer acceptance, as consumers were frustrated by

¹⁰ The Grocer, April 22, 1950, p32-33

¹¹ The Grocer, June 3, 1950, p23-24

lack of choice during the years of rationing and shortages [Bridget Williams]. Additionally consumers found that the service was faster because they only queued once at the checkout, rather than at each separate counter. Retailers found that they benefited from larger 'till rings', as consumer expenditure was driven upwards through 'impulse sales' (5.1.i, p.116-117).

Development of retail technology was necessary for self-service to be effective, particularly of pre-packaging materials, refrigerated display cabinets and cash registers (5.3.ii, p.162). As the retail format evolved into larger stores, retail technology moved on too, with fork-lift trucks facilitating their operation, blast chilling techniques enabling fresh foods to be stocked, and central distribution bringing better quality products and prolonged shelf-life (5.3.iii, p.170).

Several exogenous forces drove evolution of the retail format into larger units, which built upon the cost benefits brought by self-service. However, evolution into larger stores was driven primarily by the evolution of the consumer, who by the 1960s, was benefiting from rising household incomes (5.2.ii, p.147) and higher female participation in the workforce (5.2.i, p.144-146), giving them the financial means to adopt consumer technology, such as refrigerators, freezers and cars. This drove demand for 'one-stop shopping', rather than the fragmented daily shopping that had previously been the norm (5.3.i, p.158-159). Over time, as stores grew larger, their size dictated that they had to be located away from existing town centres, resulting in out-of-town superstores, which would not have been feasible without rising car ownership, driven further by the unsuitability of traditional town centres for parking (5.3.i, p.159).

The abolition of RPM was a key force driving the pursuit of low-cost retailing, achieved through larger stores, the supermarket and superstore (5.1.ii, p.122-123).

Early supermarkets and superstores were conversions of disused buildings, cinemas and mills for example, for which it was easy to gain planning consent because planners preferred almost anything to disused buildings [Jennifer Tanburn]. Developments became more sophisticated and had to confront planning authorities' early reluctance to allow large retail development, driving superstore developers to develop devious methods of gaining approval (5.1.iii, p.124-126). From the late-1970s to the mid-1990s government planning guidelines on out-of-town retailing were more favourable, assisting the evolution of the retail format into larger stores (5.1.iii, p.126).

The final exogenous force driving evolution of the retail format was the 1994 deregulation of shopping hours (5.1.v, p.132-139), which favoured large stores over smaller ones, because consumers became more willing to travel further to a larger store, particularly on Sundays, when they have more time to browse large product ranges, and shopping becomes a 'family outing', spending larger sums of money (5.1.v, p.136-138).

Endogenous factors driving evolution of the retail format

While many exogenous factors have shaped consumer shopping preferences and influenced the regulatory environment, evolution of the retail format is primarily retailers' endogenous response to a changing exogenous environment. Initially, the evolution into self-service was said to be driven partly by grocers' aspirations of easing their workload, with some grocers said to be "...almost flat-footed with walking about 20 yards for a packet of gravy powder, and another 20 yards for a packet of salt... it was time that the shopper helped the shopkeeper a bit. The modern day grocer shuffled more miles in a day than did a policeman." ¹²

More seriously, the fundamental endogenous factor driving evolution of the retail format was operators' quests for increased profits, achievable through operating efficiencies, improved turnover and higher margins, driving retailers to actively renew their facilities on a regular basis. Even simple conversion to self-service brought remarkable increases in turnover:

They turned the counters round, the shelves round, and we revolutionised all our shops – our stores started taking so much more money. I couldn't believe it myself.
[Jack Cohen, speaking in 1967. Featured in *British Empires: Tesco*, Channel Four, MM]

In addition to increased turnover, efficiencies in operating costs were achievable, with self-service bringing considerable staff productivity, demonstrated by analysis of data from the 1961 *Census of Distribution*:

¹² The Grocer, May 14, 1949, p11

Figure 6.3a: An analysis of grocery shops, by turnover per person engaged, 1961

Counting two part-time employees as equivalent to one full-time employee.

	Fully self-service grocery shops					Other grocery shops				
	Turnover £'000	Persons engaged			Turnover per full-time equivalent employee engaged, £	Turnover £'000	Persons engaged			Turnover per full-time equivalent employee engaged, £
		Full-time	Part-time	Full-time equivalent			Full-time	Part-time	Full-time equivalent	
Grocery shops	£479,561	68,742	18,467	77,976	£6,150	£1,873,209	338,445	123,469	400,180	£4,681
Turnover under £20,000	£22,031	4,821	1,993	5,818	£3,787	£976,644	196,757	82,007	237,761	£4,108
£20,000-£100,000	£275,912	41,017	10,737	46,386	£5,948	£753,715	120,613	37,245	139,236	£5,413
£100,000-£200,000	£97,398	12,981	3,319	14,641	£6,653	£68,437	10,777	2,317	11,936	£5,734
£200,000 and over	£84,220	9,923	2,418	11,132	£7,566	£74,413	10,298	1,900	11,248	£6,616

[source: adapted from *Census of Distribution*, HMSO, 1961; table 4, p. S/102]

Figure 6.3a shows that in 1961, economies of labour were achievable through conversion to self-service of all but the lowest turnover stores. As labour is the second highest cost in UK food retailing, behind the cost of stock, economies of labour are particularly beneficial to operators. Lower staff costs per £ turnover were therefore a key endogenous factor driving UK food retailers to convert to self-service, which resulted in an average productivity gain of 31% per employee, largely explaining the rapid uptake of the format during the 1960s (4.3, p.95-96).

Because low turnover stores did not achieve staff economies when converted to self-service, it is fair to assume that a certain critical mass was necessary for it to bring notable benefits, a factor that could drive retailers to consider larger stores. Economies of labour are more pronounced in larger turnover stores, thus scale of establishment became a critical issue, driving further evolution of the retail format into the supermarket and then the superstore. Larger stores also bring savings in other areas such as property and utility costs, driving retailers to rationalise their operations:

“Certain expenses, for example rent, rates, lighting and heating, tend to decline relatively as the area of a store increases. The ability to offer an extended range of related merchandise, supplemented by aggressive pricing, creates a degree of space and staff productivity and encourages a high average transaction value...When these (economies) are passed on to the consumer, even higher productivity is generated and further improvements become attainable”¹³

UK food retailers therefore found that larger stores brought many savings relative to smaller ones, which could theoretically be passed on to customers to encourage increased patronage and turnover,

¹³ *Retail Business*, 175, September 1972, p.14-23, “Economies of Scale in Retailing”

particularly after the abolition of RPM (5.1.ii, p.122-123). These savings were achieved in general overheads such as rent, rates and utilities bills, or derived from staff or space productivity:

... We found that the larger shops were more efficient, they had the economy of scale, and the great thing is that as the shops got larger they become more economic to run - costs were lower in relation to turnover... and most important of all, you were giving the customer what they wanted. To give a large range of choice, you had to have bigger shops to do it. And then if you introduce private label alongside the branded label, you need more space for that as well.

[Lord Sainsbury of Preston Candover KG]

In effect, forward-thinking UK food retailers were happy for the retail format to evolve into self-service and larger stores, which were demanded by a changing consumer (see above), yet also made retailers more efficient and profitable. Thus parallel endogenous and exogenous forces drove evolution of the retail format into larger stores, with further pressure being put on size by retailers wanting to offer extensive private label, driving higher gross margins through scrambled merchandising (7.1.1, p.261-262) and expansion of the retail accordion (7.1.2, p.268).

Lessons learnt from earlier increases in store sizes drove retailers to develop even larger stores, with superstores bringing extension of the economies of scale achieved earlier in supermarkets: *"We have concentrated on 'superstores' which we consider to be the logical development of 'supermarkets' in this country - that is to say supermarkets trading in conditions which allow maximum economies and comfortable shopping conditions"* [Peter Firmston Williams, Chairman, Asda, 1976; p9].

Further economies of scale, including economies of handling, came as stores grew larger, allowing *"new management techniques not attempted before in food retailing, like direct purchasing from manufacturers, mechanical goods handling in-store, and devolved departmental management responsibility"* [Jones, 1978; p1]. These economies in distribution and handling meant that superstores were *"more efficient operations"* [Barnes et al, 1997; p.134] than smaller outlets. Superstores' size generally dictated their out-of-town locations, avoiding the high property costs of the town-centre. In short, the numerous economies achievable through superstore operations drove UK retailers' adoption of the format:

"It became recognised that these stores could offer significant savings in most of the major cost centres - labour, administration, occupancy, distribution, buying, etc., savings which could be passed on to the consumer and generate higher sales volumes."

[Webb, 1982; p.3]

A further endogenous factor driving superstore development was their negative impact on existing medium to large stores (6.1, p.205), as operators' realised that if they did not cannibalise their own stores, they could be destroyed by the opening of another operator's superstore.

Killen and Pattison [1987; p.25] suggest that *"the reasons for the rapid growth of superstores can be divided into two main areas; the retailers' desire to satisfy consumer needs and the retailers' efforts to improve operating efficiency and margins"*. In other words, a combination of exogenous change and endogenous attempts to improve profitability drove the evolution of the retail format, gradually evolving from local, counter-service grocery shops to large, out-of-town, 'one-stop shopping' destinations during the second half of the 20th century.

To resume, evolution of the format into self-service represented the beginning of a new retail life cycle, which quickly entered the rapid growth phase, throwing the counter-service life cycle into decline. This was driven by World War II related difficulties, overseas influence, UK government productivity incentives, technological advances, manufacturer pre-packaging, the abolition of RPM, and consumer demand for modern shopping facilities with better choice. The life cycle of the converted self-service store, however, passed relatively quickly through rapid growth into decline, caused by the rapid growth of larger stores, which were driven by several exogenous forces, including technological advance, retailer awareness of modern, low-cost methods, staff efficiencies, increased profits, consumer demand for 'one-stop shopping' facilities, and finally the deregulation of trading hours. The forces driving changes in retail life cycle phases for any particular format therefore vary, although the primary factor appears to be the emergence of a new trading technique suited to consumers' changing lifestyles, but also bringing cost savings or profit gains to the retailer, although pressure of competition can also drive operators to adopt new formats.

Exogenous factors slowing evolution of the retail format

While self-service techniques and US developments were hotly debated in the early-1950s trade press (6.3, p.217), there was also comment on consumers' attachment to counter-service grocery shops, delivery and credit facilities, and the personal touch of the grocer¹⁴. Until 1964, RPM meant that retailers achieving economies of operation from new formats were unable to pass on the benefits in the form of lower prices to customers. This was an important factor slowing the adoption of self-

¹⁴ *The Grocer*, December 13, 1952; p30

service, as inefficient retailers with high costs could still offer the same prices as retailers benefiting from lower costs through self-service and larger stores (5.1.ii, p.119). Its abolition acted as a spur driving UK food retailers to adopt efficient operations (5.1.ii, p.121-123), as this became necessary in order to attract consumers and remain competitive.

Reports suggested that consumers resented the extra money spent on impulse purchases, with one retailer finding that customers' "...main worry seems to have been that they spent more money than they intended" ¹⁵. Thus fear of upsetting consumers slowed evolution of the retail format, partially explaining the slow initial uptake of self-service (4.3, p.94). Operators also feared that conversion to self-service would lead to widespread shoplifting by encouraging: "...shoppers with large baskets and elastic consciences... to slip goods into their own bags and thus escape the attentions of the checker-out, who would be concerned only with what was in the wire basket provided as part of the self-service method." ¹⁶.

Self-service was sometimes regarded with contempt and snobbery, for example when a new Sainsbury's self-service store opened in Eastbourne in February 1952 [see Williams, 1994a for details]:

This woman we knew came up to us, and said to my wife in a shocked fashion, 'Oh! Do you go into that new shop'. She was talking about the first self-service Sainsbury's in Eastbourne, which had just opened. She thought that she was above going round the shop and collecting her own groceries. She liked the idea of a leaving a list with a grocer, and him coming around to her house later with her order in a box.

[Sidney Ripley]

Consumer rejection therefore slowed the spread of self-service, and supermarkets suffered from a similar reaction:

"...to some customers 'supermarket' is a cheapening word and suggests an impersonal approach"

- Mr. David Galloway, Chairman, Key Markets, April 1966 ¹⁷.

Post-war shortages and rationing certainly slowed evolution of the retail format, with the shortage of building materials and building licences making the building, rebuilding or extension of shops difficult:

¹⁵ The Grocer, July 23, 1949, p15-16

¹⁶ The Grocer, October 9, 1948, p6

¹⁷ Self Service and Supermarket, April 1966, p38.

*"[The self-service system] has not been developed here, except on a small scale, because of restrictions on building, and of shortages of packaging materials and supplies."*¹⁸

The rationing system in place until 1954 also presented operational difficulties for self-service operation, because of a shortage of pre-packaging materials¹⁹, which are a pre-requisite for self-service operation, and also because rationed goods were difficult to incorporate into the self-service system, for the correct amount had to be weighed up, coupons had to be clipped, and ration books marked¹⁹. In effect, rationing slowed the spread of self-service and the supermarket by making their operation problematic, although strangely it also drove retailers to consider cost-cutting techniques, with self-service and supermarkets being the two key changes bringing substantial cost savings.

Certain innovative retailers overcame the problems of rationing and achieved full self-service:

*"... to keep the system entirely self-service, a large British Hussmann refrigerated display cabinet has been introduced into the wall fixture line. It contains four prepacked lots of rationed fats, grouped under the headings, "Rations for One," "Rations for Two," "Rations for Three" and "Rations for Four." The white paper bags contain margarine and butter to the amount of the weekly ration for the numbers quoted, allowing customers to serve themselves for this commodity, too. Cheese is also carried in the refrigerated display unit."*²⁰

The more common solution, however, was to retain a rationed goods counter:

*"The present-day difficulties of rationing help to stifle the even flow of customers in the self-service shop at the moment. Goods, such as canned meat, milk and dried fruit have to be kept in the staff-service shop or registered customers would be left without their goods and would take their registrations elsewhere."*²¹

The abolition of rationing and controls made self-service food retailing more attractive, driving evolution of the retail format, although the abolition of points rationing in May 1950 did little to help, because although this removed the chore of cutting coupons, grocers were still expected to ensure an even distribution of pointed goods, a form of "under-the-counter rationing of certain scarce items"²². Thus, despite the ending of the points scheme, it remained "unwise for the retailer to display openly goods such as syrup for just anybody to take"¹⁷. With time, however, self-service food retailing became easier and more attractive to UK operators of all kinds.

¹⁸ The Grocer, March 26, 1949, p8

¹⁹ The Grocer, June 24, 1950, p32

²⁰ The Grocer, September 13, 1952, p44

²¹ The Grocer, March 18, 1950, p25

²² The Grocer, August 12, 1950, p34

A further factor slowing evolution of the retail format, superstores in particular, was undoubtedly the planning system (5.1.iii, p.123-129). Planning influenced the shape of retail development, and slowed its progress, but retail development tends to continue all the same, in a different form than would otherwise have been the case (5.1.iii, p.128-129).

Endogenous factors slowing evolution of the retail format

Some grocers converting to self-service encountered staff reluctance to make the change, with staff fearing redundancy because self-service was widely said to bring economies in staff costs: "*Retailers find it necessary before adopting self-service to assure their staff that they need not fear redundancy*"²³. Sometimes staff also found it hard to adapt to the multi-tasking necessary in self-service stores:

*"Self-service staff have shown a certain objection to undertaking dual functions, according to some operators... Trained in an older school, the majority of assistants prefer to be one thing or other; that is an impossibility in a period when labour must be flexible and 'multi-purpose'..."*²⁴

Self-service conversions effected while rationing was in place tended to be basic due to grocers' reluctance to close the shop. Each shop had its own registered customers, who had to buy their rationed goods from the grocer with whom they were registered, and the very real threat of losing registrations (5.1.i) was normally enough to ensure that conversions to self-service were carried out while the shop was closed for business, over the weekend: "*The main problem of conversion is to effect it without closing the shop during normal business hours.*"¹⁹, hence their basic nature.

The evolution of the supermarket format was slowed by the structure of UK food retailing, which was dominated by small, neighbourhood grocery stores, simply too small to become supermarkets (4.3, p.95). The development of supermarkets therefore depended on access to suitable locations, and on access to capital for development or conversion. Independent grocers tend not to have access to large investment funds, thus multiple and co-operative operators were the key adopters of supermarkets, and co-operative investment fell behind that of multiples (4.3, p.96-97), hence multiples' domination of new formats has occurred largely because they are the type of organisation best suited to their development and operation.

²³ The Grocer, April 22, 1950, p32-33

²⁴ The Grocer, April 12, 1952, p44

In essence, exogenous and endogenous forces delaying the decline phase of counter-service grocery retailing, and hence the rapid growth phase of self-service, included consumer, staff and retailer resistance to change, the post-war rationing system and RPM. Likewise, such forces delaying the growth phases of the supermarket and the superstore included RPM, the existing retail structure, lack of access to capital, and planning difficulties, simultaneously prolonging the life cycle of the first phase of self-service conversions.

Reaction of established operators to superstore development

Multiple operators benefited substantially from early supermarket development, as did co-operative societies, although to a lesser extent (4.3, p.96-97). Superstores, however, were pioneered by new entrants to the industry, Asda and Morrison for example, who entered the superstore industry as low-price, low-status, low-overhead operators, subsequently trading-up and becoming established multiple operators themselves (7.1.1, p.259 and 7.1.7, p.283-285).

In the latter half of the 1960s, established multiple operators' initial reaction to the superstore threat was slow and ineffective, being based on lower prices – low-cost superstores were offering consumers lower prices, and established operators lowered theirs in an attempt to negate their price advantage:

"At that time we (Asda) went about 14% or something like that below the prices of the opposition which brought down prices throughout the country."

[Peter Asquith]

Established operators' dialectic reaction of price reductions (7.1.7, p.284), however, did not arrest consumers' attraction to superstores, as they were increasingly demanding 'one-stop shopping', driven primarily by rising ownership of cars and refrigerators (5.2.ii, p.150):

It would have been pretty rough and ready - it was cut cases, piled on wooden flat-boards, things piled up, and there was just a big cardboard price over the top. So it was pretty basic, but just captured the moment of the abolition of retail price maintenance, big stores, out-of-town, drive to it, big car park, all that sort of stuff. And Asda expanded at a colossal rate, from nothing all the way through to 100 stores.

[Tony Campbell]

Despite the rapid early growth of superstores, existing multiple operators failed to develop superstores for a considerable length of time, with growth driven by new entrants, notably Asda. Existing operators found themselves unable to invest in the format because they were already

committed to alternative developments for several years in advance, leaving insufficient funds for superstore development:

We'll never know, but I think some competitors just hoped that these things wouldn't take off, because they were already committed by covenants on new developments, which they couldn't get out of. So it was easy for people to criticise, and say other retailers were slow in catching on, but seven years on, they were opening them as fast as we were.

[Sir Noel Stockdale]

Superstore innovators therefore received a head start of several years, despite their threat and evident popularity, until established multiples' existing commitments lapsed and development capital became available, when they quickly moved into superstores, driving the format into a phase of rapid expansion from the mid-1970s. Again, this was dialectic-style behaviour (7.1.7, p.283), because established multiples moved into facilities similar to those that were working successfully for new entrants, therefore negating their advantages, and driving the superstore life cycle into rapid growth (7.1.5, p.278).

The evolution of the superstore format

As superstores became more common from the early-1980s, they began to evolve from a low-price, low-status format to become an all-service, air-conditioned, facility-packed shopping experience, a process which is still continuing, driven by a combination of exogenous and endogenous forces, with differing impacts at different times, resulting in substantial 'trading up' of the retail format, as suggested by the 'Wheel of Retailing' (7.1.1, p.259).

The primary exogenous factor driving improvements in the superstore shopping experience was rising consumer expectation of the format, accompanied by increasing real consumer incomes:

Conceptually, the superstore is all under one roof and you drive there - it is a response to a lifestyle that says 'I want to do all my shopping in one go, and I don't want to have to lug home 60 or 70 lbs. of shopping'. And the services that go alongside it - like adequate car parking, in-store bakeries, the re-introduction of service counters for things like delicatessen goods and fresh meat, and so on - they are the benchmarks of a superstore. And then there are coffee shops and baby changing facilities, a whole range of additional services that one sees.

[Bridget Williams]

As superstore pioneers expanded southwards from their northern bases, it was felt that consumers in the South would not accept the "rough" retail environment of the early superstores as those in the North had, and smarter stores were developed to suit. Effectively, superstore pioneers like Asda had

to upgrade their formats for customers outside their original trading area [Jennifer Tanburn], supporting 'secular trends' as a cause of trading up (7.1.1, p.264-265).

Equally, planning authorities drove improvements to superstore retailing, by insisting on high quality developments, resulting in higher building costs:

Superstores were forced to build in the 'vernacular', what we call the 'Essex garden' style of building. But certainly they were very attractive buildings, and indeed it has to be said, very expensive buildings.

[Tim Mason, speaking in *British Empires: Tesco*, Channel Four, MM]

Factors endogenous to UK food retailing also drove the trend towards providing a better superstore shopping experience, with inter-superstore competition being a notable one. As towns with no superstore became a rarity from the early-1980s, new developments began to compete locally with existing superstore facilities. This competition tended to be primarily over facilities and services, which began to escalate as superstores under threat of new competition attempted to attract customers through their high level of service and unparalleled facilities, rather than on the basis of price alone, supporting Allvine's [1968] view that fear of direct price competition drives trading up through competition over non-price related functions (7.1.1, p.265-266):

... in the old days the chairman of Asda used to say that people would walk over glass to come to Asda, but once you got another superstore which may be a newer one, say two or three miles away, with the same facility and parking and all the other things available, then suddenly you've got to start competing on a different basis, so at that time you started to get superstore competing against superstore. At that stage you start to see the beginnings of where the companies were trying to create their own image and their own style, and give their own superstores a personality.

[John Fletcher]

A further endogenous factor driving superstores upmarket was that operators became increasingly selective when developing superstores as they gained awareness of the variables affecting their performance (appendix 2). In effect, this resulted in over-valuations of the limited number of remaining sites suitable for superstore development [also see Segal-Horn, 1987; p.29]:

... in the early stages they would take what was available, in the form it was available. They learned fairly quickly, that if you could have a custom made store, with the right specifications, it clearly would be more effective all the way through.

[John Fletcher]

Evolution of the superstore supports the Wheel of Retailing hypothesis reasonably strongly, as customer expectation, planning guidelines, retailer fear of direct price competition, land shortages

and increasingly precise retailer site requirements combined to drive the format upmarket, and hence to increase their development and operational costs (7.1.1).

Results of superstore development and evolution of the format

The finite number of sites suitable for superstore development drove up property costs, a trend exacerbated by retailers seeking more specific qualities from sites over the years (see above). The cost of superstore development therefore increased, pushing up overheads, which inevitably puts upwards pressure on prices, partially supporting Hollander's [1960] view that reduced vigilance over costs causes trading up, although in this case it was retailers' inability to find suitable sites at low prices that drove up costs rather than a lack of vigilance (7.1.1, p.266).

While a formal definition of 'superstore saturation' eludes academics [Langston et al, 1997], diversification of offering improved retail performance and delayed the point of true saturation (6.4, p.242), supporting Hollander's [1960] idea that 'scrambled merchandising' brings higher overall margins (7.1.1, p.261-264), while providing a compelling reason to expand the food retail accordion rather than retract it (7.1.2, p.271). Secretary of State (1993-1997) John Gummer's revision of PPG6 [1996] effectively ended the problem of superstore saturation, by terminating the era of rapid development, and forcing polarisation into large stores already trading and future smaller stores (5.1.iii, p.127), and is also credited with allowing operators to escape from spiralling out-of-town development costs [see Wrigley, 1998].

As moves out-of-town eventually resulted in high quality shopping facilities (see above), leading players developed a reputation for quality, and began to be recognised as the brand, whereas previously the retailer's primary function was of distributing manufacturers' recognised brands. In effect, consumers had begun to place their trust in the retailer rather than the manufacturer, particularly M&S and Tesco [Denis Cassidy], enabling them to extend their offer into areas largely unrelated to their core product offering, such as financial services and life assurance (6.4, p.235), a trend expected to continue into new fields and to enable UK food retailers to maintain or grow profits in an increasingly difficult food market [Denis Cassidy]:

... if you want the greatest change of all in food retailing, it is that the store is now the brand... who would have said that they would be selling bank accounts as well as egg custard tarts, but they are the same brand values. Customers trust their supermarkets, making the brand extensible by a long way.

[Alan K.P. Smith]

In effect, retailers had gained their customers' trust, making them more likely to alter their shopping patterns and adopt new lines, enabling substantial diversification of offering into products such as private label, and even beyond the traditional limits of food retailing into areas such as pensions and financial services (6.4, p.235). Because branded grocery margins tend to be the lowest of all, this diversification has brought substantial margin improvement (6.4, p.236-237), supporting the scrambled merchandising hypothesis (7.1.1, p.261-262). Extension of the retail accordion was therefore made possible by evolution of the retail format and the development of consumer trust in the retailer as a brand (7.1.2, p.269).

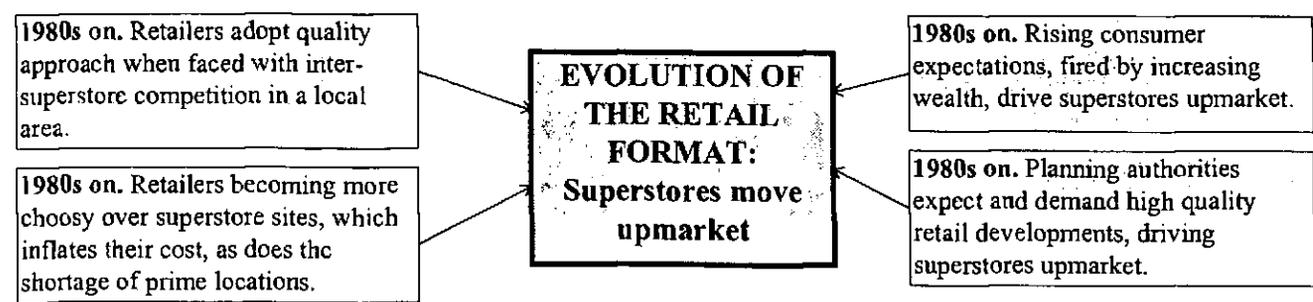
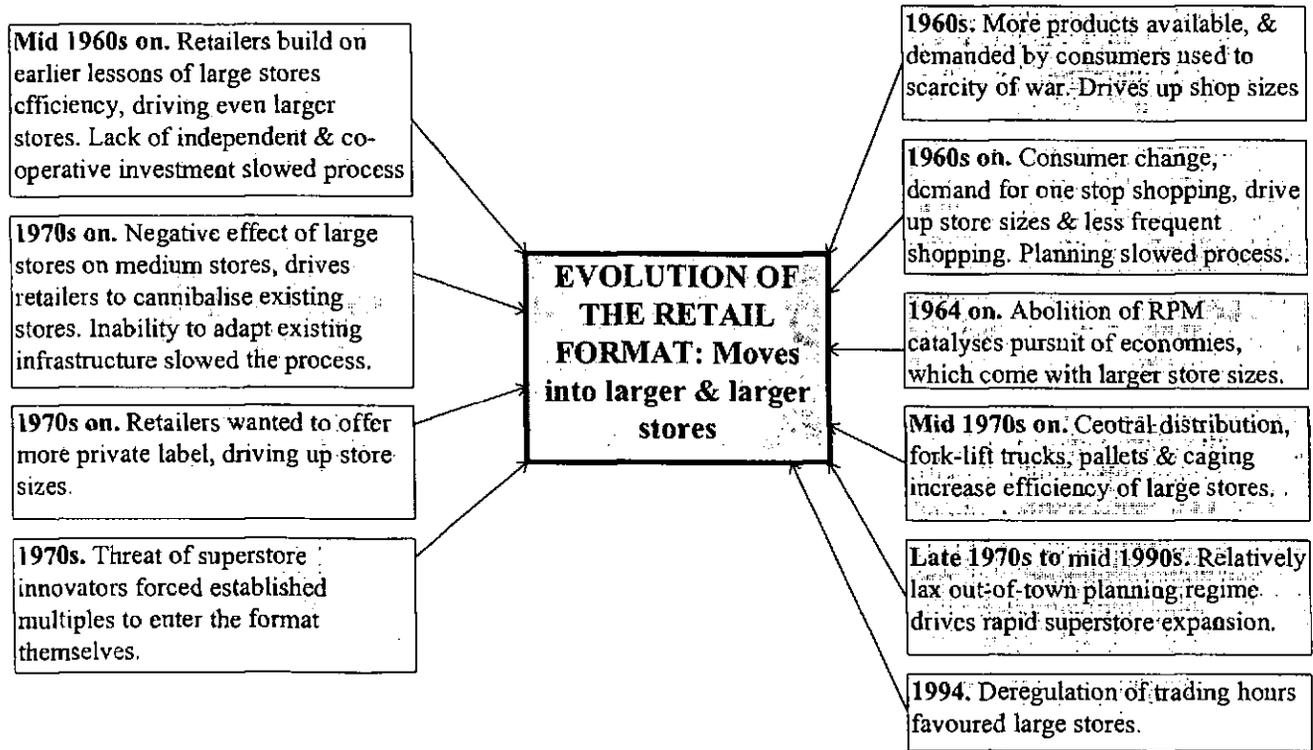
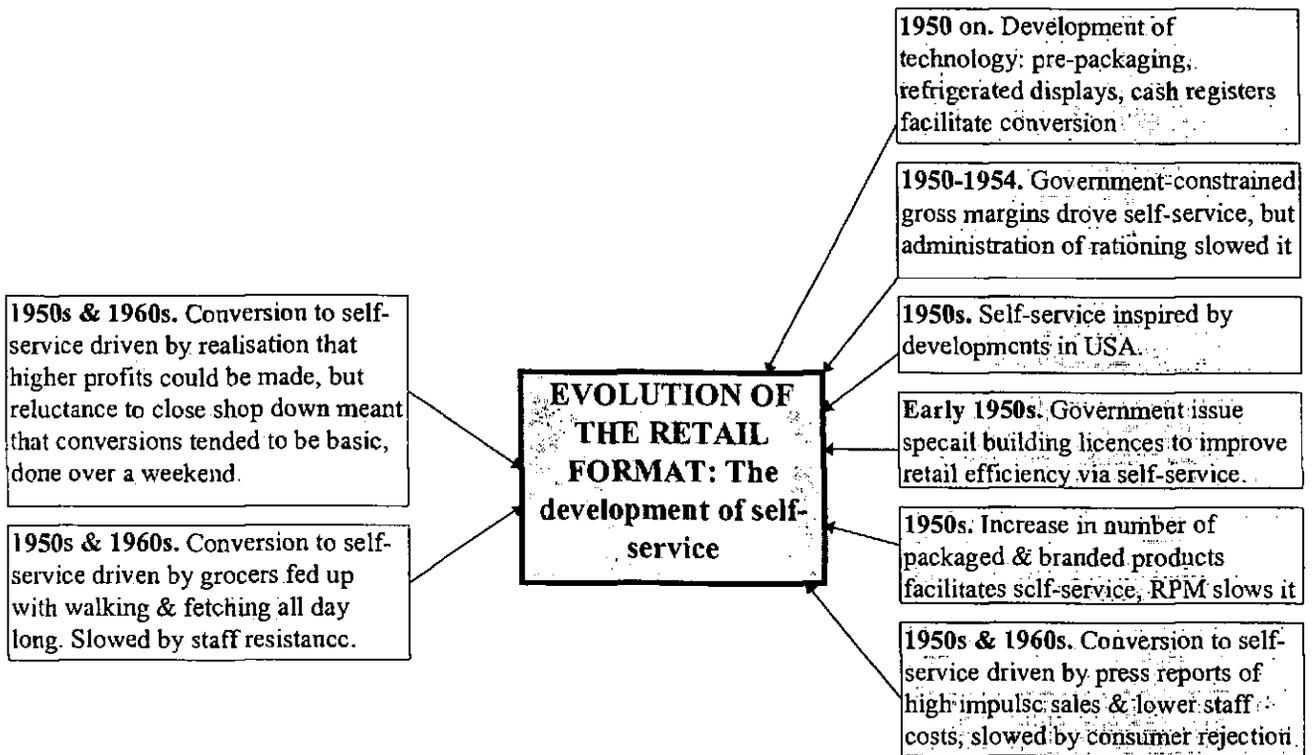
To conclude, the primary forces driving evolution of the retail format have been exogenous, although operators have been keen to respond endogenously because new formats have tended to improve profits through operating efficiencies or economies of scale. Retailer experience therefore provided a secondary thrust to exogenous change, as retailers sought to improve profitability. The three main exogenous forces driving evolution of the retail format were consumers, technological progress and the regulatory environment. The changing consumer drove demand for 'one-stop shopping', and hence larger stores. Technological advance among consumers made 'one-stop shopping' feasible (5.3.i, p.158-159), and among retailers enabled self-service and larger stores to be developed while lowering overheads (5.3.ii, p.168). The regulatory environment has profoundly affected the structural evolution of the retail format, as developers have to adapt their propositions to suit the planning environment at any given time, in terms of size, location and impact (5.1.iii, p.127-128). The immediate post-war regulatory environment of shortages, rationing and government-controlled margins drove retailers to adopt self-service, despite the difficulties, as a method of reducing costs in a constrained marketplace (5.1.i, p.116-117). The key regulatory issue driving evolution of the retail format, however, was the 1964 abolition of RPM, which reinforced the advantages of cost-efficient retailers, enabling them to lower prices in order to step up competition with higher-overhead competitors (5.1.ii, p.121-122).

While exogenous and endogenous forces combined to slow evolution of the retail format, these were generally hindrances rather than major barriers to development, and retail evolution continued nonetheless, although they did influence the pace of evolution. Factors endogenous to the different types of food retail organisations gave multiple operators a large advantage in retail evolution, resulting in their domination of the industry (6.1, p.205-206). The birth of superstores threatened the dominance of established multiple operators, and they allowed new entrants to develop the format exclusively for several years, before moving into the format themselves. In time, competition for customers drove the format upmarket as two or more superstores began to compete in one town. Retailers became more selective over sites for superstore development, resulting in escalating demand and prices for those that remained, pushing the format upmarket, which was encouraged by planning authorities and supported by the general upward mobility of consumers.

Figure 6.3b. Forces driving evolution of the food retail format:

ENDOGENOUS FORCES

EXOGENOUS FORCES



6.4 UK food retailers' diversification of offering and geographical diversification

Diversification into new products, sectors and geographical areas has been a long-term strategy of UK food retailers (4.4, p.100), achieved through extension of range into food and non-food lines, geographical expansion within the UK and overseas, and the development of autonomous chains in sectors outside food retailing, DIY retailing for example. While UK food retailers have diversified in many different ways, they have been driven by similar forces and are therefore investigated as a whole, making reference to the particular form of diversification. Again, driving factors are separated into exogenous and endogenous categories.

Exogenous factors driving diversification of offering:

Initial diversification of product offering during the 1950s was driven by re-availability of products as post-war shortages eased (4.4, p.100), which was the first factor driving extension of range during the second half of the 20th century, and was a temporary phenomenon related to the exogenous economic environment (7.1.2, p.268).

Technological developments were a critical factor driving diversification in UK food retailing, with advances in pre-packaging and in-store refrigeration enabling extension of the self-service offering into fresh products such as milk, fish, meat and chilled prepared foods (5.3.ii, p.162-163), although it can take years for consumers to change their shopping habits:

What I regard as the first change was the move to supermarkets having long life milk, and then it went to fresh cartoned milk, and this process of having to lift up wings and form a spout is inconvenient and it doesn't fit particularly well in a shelf of a fridge. Then you've got the move, which was possible because of technology, and was pioneered by Tesco, to little plastic bottles in a variety of sizes, which are friendly for the supermarket, they give you maximum shelf space but are far better for the fridge - they fit more easily, there is a little handle, it is a much more user-friendly pack and I think that is the thing that is finally killing off the milk round. It is this keep on pushing until you actually break the barrier which is preventing the customer from actually seeing the benefits, because they do need quite a strong push to knock them away from old habits.

[Denis Cassidy]

During the 1970s, because consumers adopted freezers and manufacturers launched frozen foods, supply of and demand for frozen products increased (7.1.2, p.268), effectively forcing UK food retailers to extend the product offering into frozen foods (5.3.i, p.160).

Increasing consumer demand for 'one-stop shopping' was a further exogenous force driving

diversification of product offering, and was created primarily by changing employment patterns, rising household incomes, and consumer adoption of domestic technology (6.3, p.219).

Consumers' development of trust in the leading food retailers, who have become a brand in their own right (6.3, p.230-231), was the final exogenous force enabling retailers to extend their offerings further than would otherwise have been the case, as consumers became confident that they would provide a good deal in other areas. Thus, diversification of offering was driven by the development of consumer trust in the retailer (7.1.2, p.268).

Endogenous factors driving diversification of offering:

There were many endogenous forces driving diversification of offering, in parallel to the exogenous ones outlined above. Retailers' introduction of self-service (4.3) brought larger sales area because preparation space was rationalised and moved behind the scenes, and more room could be given over to sales (7.1.2, p.269), supporting findings in North and South America [Goldman, 1974]:

A converted self-service store had more lines than it would have done as a counter-service store. In part this was due to the amount of space that was needed for preparation - in the early self-service stores of course, the preparation was still going on behind the scenes in the store, you just weren't doing it at the counter anymore. If you laid this same counter service store out differently, and people were helping themselves, you could pack an awful lot more in there. Plus the fact that packaged goods take up less space than goods in big sacks, or sides of bacon, for example, which take up disproportionate amounts of space on the counter.

[Bridget Williams]

This trend continued as store sizes increased throughout the second half of the 20th century (4.3, p.94-98). Much diversification of offering has been possible due to the high consumer traffic in grocery stores. Because groceries are an essential, they 'pull' customers into the store, presenting further opportunity to sell them additional items:

"The most telling reason (to diversify), however, appears to be that insufficiently exploited circumstance that the grocer's shop has the biggest customer-traffic of all." ²⁵

A simple extension of range, therefore exploits the presence of existing customers, providing extra sales opportunities for the retailer (7.1.2, p.268). There is more recent evidence, conversely, that non-food lines can also act as the 'magnet' attracting customers into the store, presenting an opportunity to sell food lines to them, although this remains the exception rather than the rule. For example the

²⁵ *The Grocer*, August 9, 1952, p.38

clothing range on sale at Asda has been noted as drawing customers into the store, as well as improving their perception of the shopping experience:

...there are three ways it works: (a) there are people that come to shop for food, basically, and while they are there they buy their clothes... (b) they come to buy specific clothes for a gift... so that is a specific trip to buy the gift, although they are primarily a food customer. And then there is another one, which is (c) people who don't shop with us for food, but specifically come for the clothes. Increasingly we are seeing this, and it gives us a great opportunity to convert them to food.

[Tony Campbell]

Similarly, there is evidence that Marks and Spencer's customers are sometimes drawn in by non-food products, and tempted with foods once they are in the store [Bob Fee]. It is also suggested that because women do most of the shopping, the key factor driving the successful cross-selling of food items at M&S is the quality of ladies clothing, as this is the area in which trust in the brand is strongest, which enables substantial cross-selling of products [Branton, 2000; p.23-25]. However, M&S's primarily business is not food retailing, and in mainstream food retailing there remain limits to how far the non-food offering can be extended - the food element of the product-mix needs to remain attractive enough to pull in consumers, and to build consumer trust in the brand.

Multiple food retailers' moves into petrol retailing were initially through petrol stations located in store car parks, and they subsequently developed stand alone petrol stations from the mid-1990s. The rise of forecourt food retailing (4.3, p.98-99) is described as a double-edged sword²⁶, as both oil companies and food retail companies are aggressively pursuing growth in the format. This suggests that, to a limited extent, synthesis is taking place between oil companies and food retailers, as suggested by the Dialectic theory (7.1.7, p.285), although this remains only a partial step.

Diversification of product offering has been an important strategy pursued by food retailers to improve margins, complimenting consumer demand for range extension because of 'one stop shopping' (see above). Margins on branded dry groceries tend to be the lowest in the store, therefore almost any diversification of product away from the core offering brings higher margins. Private label, fresh, chilled and prepared foods carry higher margins than most groceries, as do non-foods:

²⁶ *Super Marketing*, July 3, 1998, p.8; "Chains add fuel to forecourt battle"

"...branded goods sold in supermarkets command very low margins - a Mars bar, a packet of Walkers crisps, these are not high margin lines. If you develop a Sainsbury packet of crisps you are not paying for the branding costs of Walkers crisps - you are not paying for advertising, for their sales teams, for their form of distribution. All of those costs get ripped out of the cost which you eventually pass to the customer, which is why you find that Sainsbury's crisps are cheaper than Walkers crisps, for example. The public expect that to be the case, and the supermarkets can provide it, and still make a good margin as well... I think the other reason for margins going up is that their product mix has dramatically shifted towards chilled goods. But it is not the chilled goods themselves that are necessarily higher margin, it is the fact that most chilled goods are own-label which means that the margins are better. You don't see McVitie's Chicken Tikka Masala, you see Sainsbury's, Tesco and M&S Chicken Tikka Masala. There is price competition between the various chains, which keeps everybody on their toes, but the actual margin that the retailer is able to earn on own-label chilled food is much better than they can earn on, let's say, a can of Heinz beans.

[Alan K.P. Smith]

Diversification of product has therefore been pursued by operators in order to improve margins and retail performance, strongly supporting scrambled merchandising as a cause of trading up (7.1.1, p.261-264). When into non-foods, diversification can bring access to faster growing markets than UK food retailing, which has been static or slow growing since the mid-1960s, illustrated by UK expenditure on food, which rose only 10.3% in real terms during the 1960s, compared to a 26.9% increase in overall expenditure [Walters, 1975]. The food market grows more slowly than other product markets because the already high standard of living means that further increases in income are not generally spent on food for consumption at home, which in turn drove retailers' diversification into non-foods (7.1.1, p.262, and 7.1.2, p.271):

"By the mid-sixties it was clear that total food sales were stabilising and diversification into non-food lines was necessary" Ian MacLaurin, Managing Director, Tesco Ltd.²⁷

Retailer strategy when diversifying offering:

Leading UK food retailers have entered new markets, such as petrol retailing and financial services, using fierce price competition, which over time tends to subside as a satisfactory customer base is established. Interest rates paid on supermarket savings accounts have failed to maintain their "market-beating" launch levels²⁸, for example, and early market share gains in petrol retailing were achieved through intense pricing:

²⁷ *Retail & Distribution Management*, Nov./Dec. 1977, pp.29-31.

²⁸ see *Financial Mail on Sunday*, August 8, 1999

In the old days, Tesco would be aggressive on pricing, and on petrol they basically forced the big brands like Esso down on price, that's why they have gone from nothing to such a significant market share.

[Mike Groves]

In effect, established food retailers have entered new product markets in the same way that the Wheel of Retailing suggests new entrants tend to enter retailing - using low prices to build market share. Thus there are internal Wheel of Retailing-like movements occurring (7.1.1, p.263), with margins on any new line tending to increase as it gains market share. Food retailers are able to enter new markets using fierce pricing because they can leverage existing overheads, which are low anyway - as supermarkets of the 1960s onwards operated on a new set of economics to the traditional counter-service grocery store (6.3, p.221-222), the food superstore chain entering the fashion clothing market, for example, has a large cost advantage over traditional high street clothes retail chains, meaning that the offering of the food retailer in the non-food domain can be very difficult for traditional retailers to compete with, due to the less efficient nature of their operations:

Because of our location and size of store, we have been able to create a whole new set of economics, which makes us very competitive and difficult to match. We are out of town, so the rent and rates are a lot lower. We are using space that is effectively already there, so the cost per square foot is much lower. We are leveraging other existing overheads, like the checkout line which is already there, the heating and the lighting, so the incremental cost for us to sell clothes is much much lower than it is for someone like Next on the High Street. It is also primarily self-selection - there are sales assistants, but it is primarily self-selection, as opposed to the High Street which is all served. So the labour cost per sale is dramatically lower. We also distribute to 200 clothes departments of about 7 to 10 thousand square feet each, unlike Burtons who have got thousands and thousands of tiny little shops stretched out over all the high streets, meaning that distribution from the depot is a little box van travelling around high streets in the rush hours. Can you imagine the cost of that? Our economics are completely different, so we are able to sell the same product, quality wise, at 30 or 40% discount, and we can do it in an environment that today is very very attractive to the consumer. So not only are we creating something that distinguishes us from the other superstores, but I am absolutely clear that we are creating something unmatched by the people that operate in the High Street.

[Tony Campbell]

Domestic and international diversification:

The key endogenous force driving retailers' regional diversification, whether internal to the UK or international, are retailers' attempts to develop larger (global) economies of scale and better (global) purchasing power. Exogenous factors are also important, with the development of refrigerated

vehicles and central distribution allowing large operators to distribute fresh goods nationwide while retaining consistent quality, whereas previously, local specialists tended to draw on local supplies and offer a local guarantee of quality (5.3.iii, p.170). This meant that multiple operators could expand throughout the UK with consistent product quality, and removed a key advantage of regionally based multiples in sourcing fresh products.

With global expansion said to have become a key element in the future success of food retailers [see Moody, 1997], overseas markets can be penetrated through natural growth (i.e. European hard discounters UK penetration in the early-1990s - p.109-111), or more quickly through the acquisition of a national player (i.e. Wal-Mart's 1999 purchase of UK Asda). UK food retailing is a continuously evolving business and by the 1990s geographical diversification developed an international flavour. Tesco and Sainsbury have developed businesses abroad, with Tesco paying particular attention to international strategy. Wal-Mart (USA) acquired Asda in the summer of 1999, thus geographical diversification has truly taken on an international dimension, meaning that the 'big five' of the future are likely to be determined on an international basis. According to Darwinian analogy, this is critical, as future competitors will be fit by international standards, rather than national or even regional standards as has been the case in the recent past, suggesting further shake-up ahead (7.1.6, p.282).

Most forces driving geographical diversification, however, are exogenous to retailers. The saturation of grocery expenditure and slow growth in the domestic food market (see above, p.237) drove UK operators to enter overseas markets, where this saturation point has not been reached, so in developing economies for example, food retailers can expect large proportions of rapidly rising incomes to be spent on food. In addition, development costs are lower and general economic growth tends to be faster:

"Our aim to grow our business beyond the British Isles is now focused on the emerging markets of Central Europe. For Tesco, this means Hungary, Poland, the Czech Republic and Slovakia.

These markets are growing rapidly, at around 5% GDP per annum...Against this, average incomes and expenditure are much lower in Central Europe, but they are growing fast...Good sites are available now, at a cost per square foot of just one-third of that in the UK..."

[source: Tesco plc internet website²⁹]

Wrigley [1994, p.18] suggests that UK food retailers may be tempted to turn to international

²⁹ <http://www.tesco.co.uk/report98/review/page11.html>

expansion as a means of 'grounding' operating profits as domestic opportunities diminish. Failure to invest the large sums generated by a large operation can make the retailer an attractive target for other retailers, thus international expansion can serve as a protective mechanism:

It is simply not possible to remain a domestic supermarket, apart from anything else, because if one was only to do that, one would generate so much cash that somebody would come along and buy you, because they would want to use your cash for something else.

[Tim Mason, speaking in *British Empires: Tesco*, Channel Four, MM]

This need to maintain capital-investment coupled with slow growth in the domestic food market can be assumed to be a major exogenous factor driving retailers' development of alternative retail formats, such as DIY superstores. The major forces driving expansion overseas, and into autonomous formats are the desire and necessity to grow, and limited prospects for domestic grocery retailing. It is necessary to uphold capital investment and protect the business from predators, thus investment must continue. For many years, slow growth in food sales has been countered by diversifying the product offering and expanding throughout the UK, but in recent years, UK food retailers turned their attention to alternative retail formats and to international expansion, in a bid to maintain their growth as UK food retail capacity approaches saturation. These trends were strengthened when changes to planning guidelines ended the era of rapid superstore development in 1996 (5.1.iii, p.126-127), yet such ventures remain dwarfed by the large scale of leading UK food retailers' domestic operations, and appear set to remain a small, albeit growing, proportion of their overall business (see *effects of diversification*, p.240-243, below).

Effects of diversification of offering and geographical diversification

Diversification of offering and geographical diversification has profoundly affected the UK food retail industry, and retailing in general. There follows an analysis of the impact on specialist food retailers, retail type by form of ownership and private label development.

Specialist food retailers and other retail types suffered as multiple food retailers moved into superstores (4.1, p.89-90) and diversified their product offering. Effectively, dairymen suffered as multiples moved into fresh milk, greengrocers suffered as multiples adopted fruit, and so on. Although multiples were diversifying their offerings while still gaining substantial trade from co-operative and independent grocers, product diversification was partially driven by the realisation that gain from these retail types was finite, and that alternative avenues of growth had to be found. Specialist food retailers were the first to suffer, followed by non-food retailers such as clothes and

music retailers:

Most wet fish shops have been driven out, there are very few left. Not because the consumer doesn't want them, but because too many consumers only wanted to go to them when they wanted something special and were going for the standard pre-packed, very often chilled or frozen fish, because they didn't see it as as important in the diet as meat, and they would pick that up from the supermarket. So the growth of frozen breaded fillets just took enough slice, as it were, out of the market to render the economic viability of the local fish shop doubtful...

[Dems Cassidy]

Extension of the retail accordion and scrambled merchandising (7.1.1, p.258-259, and 7.1.2, p.268), made possible by moves to larger stores, have therefore driven the life cycle of smaller competing retail types into the decline phase.

Both diversification of offering and geographical diversification contributed to the rise of multiples and the growth of the 'big five' (6.2, p.210), at the expense of co-operative, independent, specialist and weaker multiple retailers. The market share of specialist food retailers declined because of diversification of offering, while geographical diversification eroded the market share of co-operative and independent food retailers, as well as that of regionally-based multiples, many of which disappeared as the fittest retail organisations survived (6.2, p.210), which made growth in market share more difficult as there remain no truly weak players to attack (5.1.iv, p.131-132), supporting the Darwinian analogy (7.1.6, p.281).

Diversification of offering into new areas, such as self-service butchery from the 1970s, in which there were naturally no branded products, encouraged food retailers to naturally stamp their own name on the packaging. Prior to this there had been no need to brand meat, for example, as it had always been dispensed by a specialist butcher, who provided his own local guarantee of quality and consistency, and eliminated the need for pre-packaging, although there were some multiple butchery chains which were established from the 1920s to import bulk quantities of meat from Australasia and South America. UK grocery chains diversified their offerings and put their own name on the packaging, which over time contributed to the development of trust in the quality of the product bearing the retailer's name, forming the basis for the future growth of private-label (5.4.ii, p.180), and bringing higher margins, as suggested by 'scrambled merchandising' as a cause of trading up (7.1.1, p.261-262).

A tendency for UK food retailers to adopt one another's best ideas means that diversification of offering into a certain area can become an industry-wide phenomenon over time, reducing the differential between operators and supporting the dialectic principle (7.1.7, p.283-285):

Marcus Sieff used to boast so often to John Sainsbury about his chilled chickens that eventually John Sainsbury said 'to hell with it, we're going to sell chilled chickens as well.' And then of course, they start to catch up.

[Alan K.P. Smith]

Diversification of offering also enabled UK food retail operators to expand floorspace capacity at a pace that may otherwise have outstripped demand, created over-capacity, and possibly resulted in lower returns for operators. If the amount of new food retail capacity being added by new store openings outstrips the pace of growth of the food retail market, diversification of offering can bring access to a larger total market, theoretically enabling growth in turnover and profits to continue, while preserving margins as more unusual foods and non-foods tend to carry higher margins than core grocery items (see above, p.236-237). The increased size of the market is illustrated by food retailers accounting for 38% of retail expenditure in 1989, although food itself represents only 14% of retail expenditure (4.4, p.101). In short, it is suggested that diversification of offering helped prevent the market for food superstores from reaching saturation point:

Superstore saturation is something which has always sort of been pushed a few years ahead, and what superstore saturation meant changed over a period of time. The market itself was not growing at the rate necessary to satisfy the growing number of superstores, but certainly the market was changing. For example they brought more non-foods, and basically a much wider range of merchandise, under the same roof, so that they could achieve the performance per store, but it wasn't on the same core product range as it had been ten years before.

[John Fletcher]

To conclude, food retailers' diversification of offering was driven by the exogenous forces of post-war re-availability of foods, the development of pre-packaging and in-store refrigeration, and more products being offered by manufacturers. Consumers were a key exogenous driver, with their development of trust in the retailer as a brand, their adoption of technology, and increasing consumer demand for 'one stop shopping', all driving diversification of offering. It was also powered endogenously, with retailers' moves into self-service bringing more sales area to fill with additional products, and the high consumer traffic in grocery stores presenting a golden opportunity for retailers to cross-sell products. Retailers' desires to increase margins, turnover and profitability, and to access growth markets are further endogenous factors driving diversification of offering, with almost any

such diversification bringing enhanced margins.

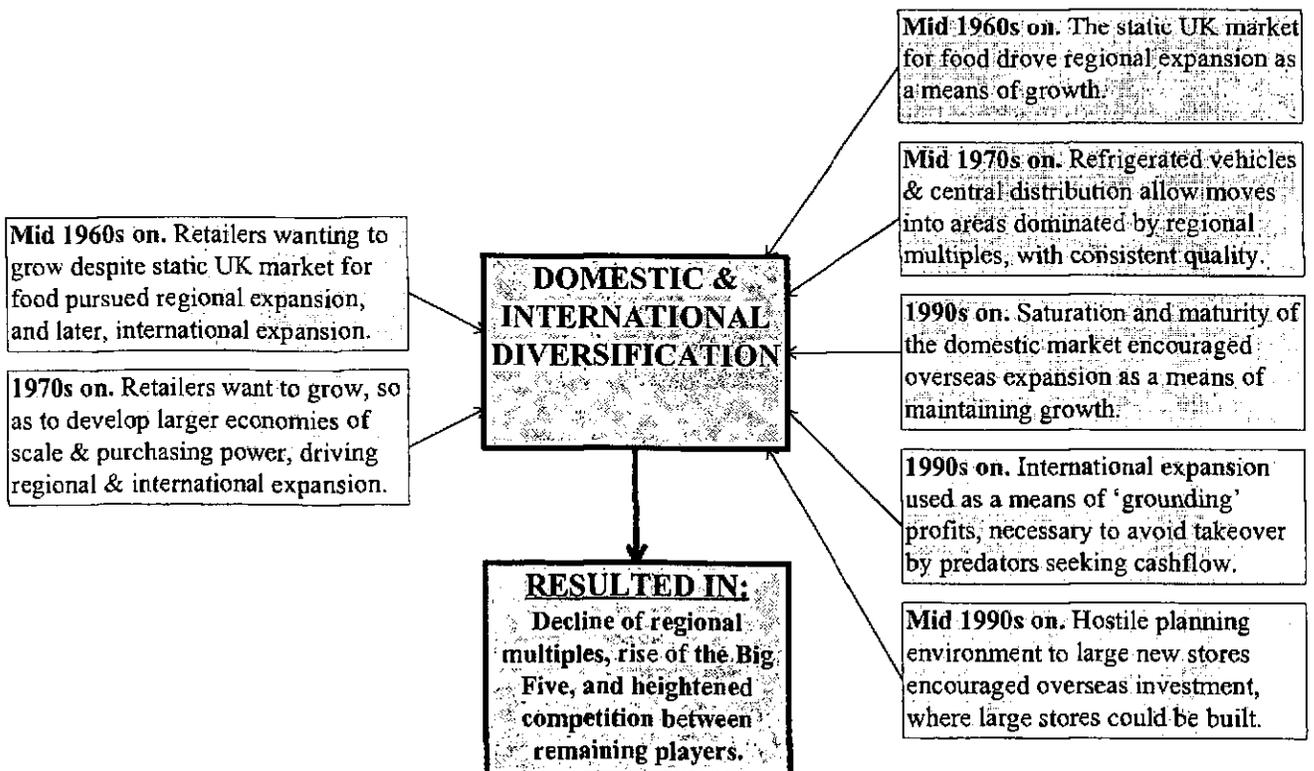
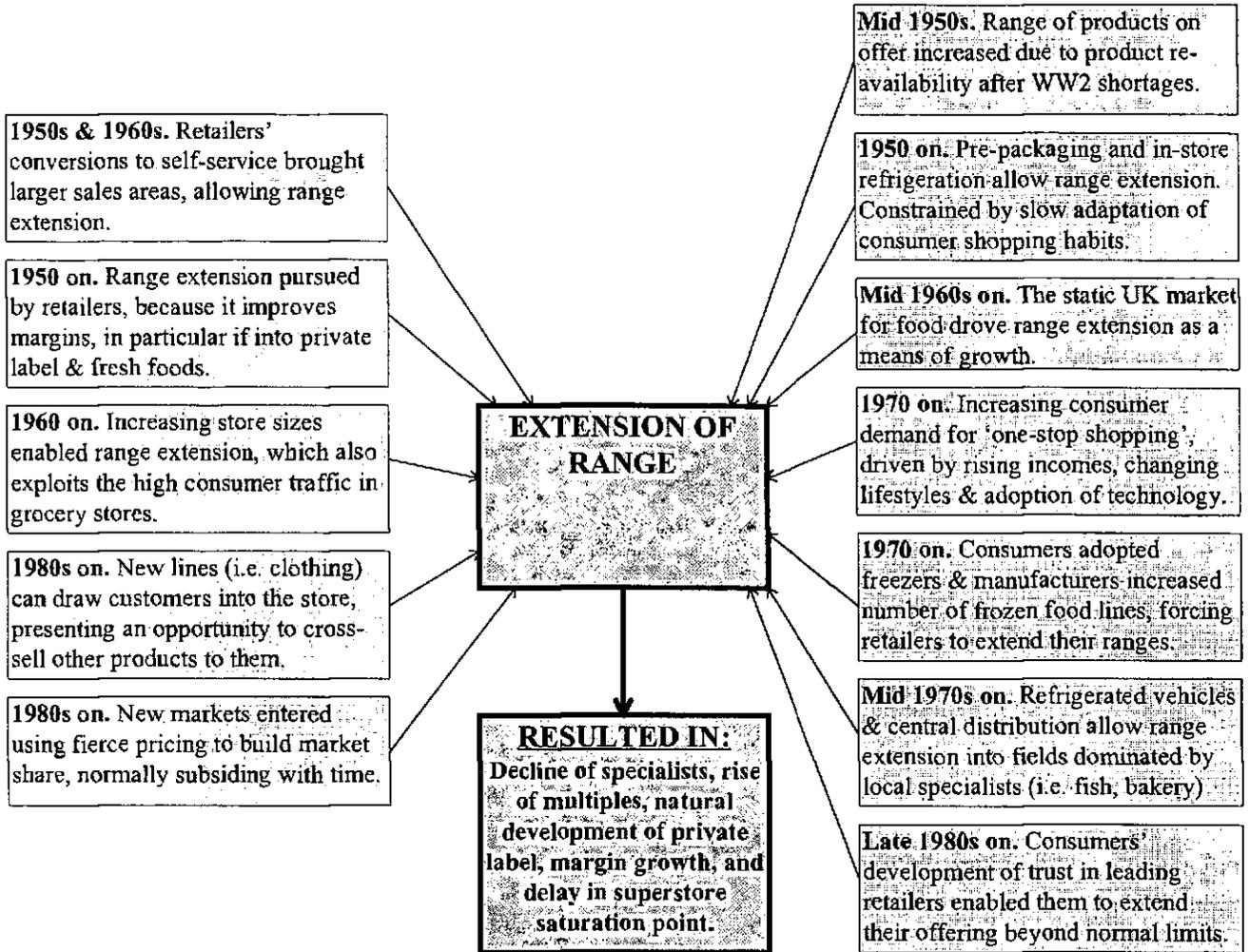
Domestic and international geographical diversification is driven endogenously through retailers' seeking growth of the organisation, economies of scale and buying power, but most forces driving it are exogenous. Developments in distribution technology, for example, enabled multiple operators to diversify throughout the UK while maintaining the quality of fresh products. Slow growth in the UK food market drove domestic expansion, which became international as the leading players began to saturate the UK market. Retailers find it necessary to ground their operating profits through investment, partly as protection against predators, and limited domestic opportunities drive this capital investment overseas or into new domestic retail sectors. Government planning guidelines introduced in 1996 effectively ended large-scale domestic superstore development, further driving capital investment overseas.

Diversification of product aided the rise of multiple operators at the expense of specialist retailers, while geographical diversification resulted in the rise of the 'big five', which sharpened competition within the sector. UK food retailers tend to enter new markets using low prices, which normally rise over time, and are able to undercut traditional retailers of products because of their efficiencies and scale. Diversification of offering also facilitated the development of private label, and was driven partly by retailers' tendencies to copy each other's innovations. Finally, superstore saturation and general over-capacity in the industry have been avoided/delayed by the contribution of non-foods, which effectively enlarged the size of the market in which UK food retailers compete.

Figure 6.4a. Forces driving food retailers' diversification:

ENDOGENOUS FORCES

EXOGENOUS FORCES



6.5 Forces driving the changing price/service relationship in UK food retailing

Until the mid-1960s, competition in UK food retailing was primarily over service provision and location, with price becoming the primary competitive weapon from the mid-1960s to the late-1970s. From the early-1980s, retailers pursued quality in terms of stores, offerings, facilities and overall shopping experience, leaving behind the price wars of the late-1970s (4.5, p.107-108). The exogenous and endogenous factors driving this changing competitive emphasis are examined below, as are the effects on UK food retailing.

Exogenous forces driving changes in the price/service relationship

Until 1964, manufacturers set the prices of most consumer goods under RPM (5.1.ii, p.119), meaning that price competition in UK food retailing was not possible for many branded products. Competition therefore tended to be over quality of service and convenience of location, illustrated by the domination of local, independently-owned, counter-service grocery shops (4.3, p.94). Post-1964, however, retailers set their own retail prices, which favoured operators of self-service and supermarkets, who were able to offer lower prices because of their lower operating costs (5.1.ii, p.122). The abolition of RPM also drove superstore development, which brought down prices throughout the industry (6.3, p.227), again supporting the Wheel of Retailing's central tenet that new formats begin as low-cost, low-status operations (7.1.1, p.259). These low-cost beginnings aid rapid development, pushing the format into the rapid growth phase of the retail life cycle.

The price wars of the late-1970s are attributed to the rapid addition of superstore facilities in the preceding years (5.2.ii, p.148), but are blamed more frequently on the exogenous economic problems following the mid-1970s oil crisis (5.2.ii, p.146-148). In short, these problems brought falling real incomes and rising consumer sensitivity to prices, driving demand for competitively priced groceries, to which price-cutting campaigns were a fitting response. In effect, lower prices increased throughput and spending sufficiently to fund the price cuts, and were therefore a successful business strategy at the time:

"Jack Cohen, who was the founder of the business and Chairman at that time had a reputation as "Slasher Jack". He cut prices. And it was the right sort of merchandising and the right sort of set up for the time."

[Lord MacLaurin of Knebworth DL]

From the early-1980s, price sensitivity among UK consumers declined as sybaritic consumers

emerged, with consumers' primary demand becoming 'one-stop shopping' facilities, although price remained an important factor (see [5.2.ii](#), p.145-152). Food retailers responded to this changing demand by moving into larger stores ([6.3](#), p.219), to be able to supply the necessary additional products, services and facilities. This drove the development of a quality shopping experience ([6.4](#), p.236-237) as well as ending the era of intense price competition. In short, rising incomes drove UK food retailing up-market, supporting Hollander's [1960] secular trends hypothesis ([7.1.1](#), p.264-265).

From the early-1980s, continuous improvements to the grocery shopping experience were driven by the parallel forces of increasing incomes and consumers' taste for quality. Rising incomes generated increasing demand for quality, 'one-stop shopping' facilities (see above), while consumers' reluctance to relinquish quality once they have experienced it ([5.2.iii](#), p.155) drove an inexorable improvement in the quality of shopping facilities, services and products.

In addition, a product purchased in a well respected, quality retail environment is itself well respected by the consumer, even if the product is not worthy, increasing the benefits of investment in the retail environment:

*"In 1970 ... I went to see a lighting manufacturer who used to make a kind of cottage ceiling fitting for us ... B&S were selling it I think for either 79s 11d or it might have been 59s 11d, and when I went round the factory I saw an identical light fitting with a Harrods label on it ... Harrods were selling it for 12 guineas
Now the person who went into Harrods and bought that would not have gone into B&S and paid 79s 11d, because they would probably have looked at it and decided that it was not as nice ... They would probably rationalise it by saying it's probably cheaper, it's probably not as well made, it's a copy. But it was from exactly the same factory, so the value equation is very often heavily influenced by where it is sold, and the environment."*

[Denis Cassidy]

Consumer behaviour is therefore affected significantly by the retail environment, meaning that investments in improvements to it are generally worthwhile, as they positively influence consumer perception of the retail offering. This supports the claim that the quality of the shopping environment has been improved as a response to the changing consumer, while also backing-up the fact that retailers stand to profit from responding effectively to evolving consumer demand. Trading up has, in short, been driven by the triple forces of rising disposable incomes, consumer reluctance to relinquish quality, and shoppers' apparent association of a quality retail environment with quality merchandise.

Consumer behaviour also affects the price/service relationship in other ways, with consumers in general only remembering a few prices, normally those of frequently purchased items. While the items and prices recalled are different for each consumer, the overall effect is the creation of price perception over a narrow range of high sales volume products. Because stores sell thousands of products, there is opportunity for retailers to 'profiteer' on low volume lines which rarely affect consumers' price perception of the store, meaning that 'scrambled merchandising' can prove a profitable retail strategy (7.1.1, p.263).

Consumers' limited price recollection also drove food retailers' short-term promotions on products, offering 'money off' or 'extra free', rather than permanent low pricing strategies. Those customers that do not recall the price of an item on promotion are reminded by the '*was Xp, now only xp*' sign, and those that do recall the price are happy to save money compared to last week, even though the same item may be on sale elsewhere for a lower price again. Limited price recollection assists retailers to move upmarket through 'scrambled merchandising' while promoting special offers on a limited range (7.1.1, p.263). While such short-term, promotional campaigns may excite the consumer, the more retailers take this stance, the greater the potential benefit of one operator adopting long-term low prices and creating a marketable point of difference (7.1.4, p.275). This is a similar phenomenon to that of trading stamps, which induced a polarisation of approach in the mid-1970s, when near-universal adoption created a gap for Tesco to abandon them and compete over lower prices (5.4.i, p.178-179). Taking an opposite approach to competitors also worked for Asda, in the short-term, when they obtained better prices for brands because they had no private label (5.4.ii, p.181-182). The 'permanent' price cutting campaigns of the major multiples that began in 1999 (particularly at Wal-Mart Asda and Tesco) are a further example of this polarisation of pricing strategy, as they follow a period of intensive 'multibuy' and short-term promotional activity. See section 7.1.4 (p.273-276) for a further explanation of these tendencies towards polarisation.

High taxation on petrol and tobacco means that intense price competition among retailers appears only marginal to the consumer, reducing retailers' benefits from competition over price. This is because the consumer receives too small a benefit from shopping around to improve turnover sufficiently to cover the cost of the price discount. In other words, high taxation on certain products reduces the benefits to retailers of fair price competition, thus discouraging it. Although there is price

competition remaining in these markets, the effect of high taxation is to suppress it artificially:

"I think food retailers have done a good job on petrol, but how much of a job can you do when the taxman takes so much? We go over to Canada twice a year, and it costs 49 to 52 cents a litre... you're looking at 20p per litre... so price competition is greatly clouded by the amount of tax, very clouded. We pay more in the UK than anywhere, in France or Spain."

[Mike Groves]

By reducing the incentive to engage in price competition, high taxation on these products has effectively driven retail margins upwards, as suggested by the Wheel of Retailing (7.1.1, p.267). Increasing levels of duty on diesel are also a factor putting upwards pressure on margins (5.1.vi, p.142), also driving revolution of the Wheel of Retailing (7.1.1, p.267).

The final exogenous force driving the relationship away from price and towards service was the influence of the planning regime. Tesco were forced 'upmarket', away from their 'pile it high, sell it cheap' stance from the late-1970s, because planning authorities viewed them as 'cowboy' operators, and were reluctant to allow them to develop new stores [MacLaurin, 1999; p.53]. Thus the negative attitude of planners towards price-focused operators drove revolution of the Wheel of Retailing by forcing Tesco to improve the quality of their operations (7.1.1, p.267).

Endogenous forces driving the changing price/service relationship

The initial phase of superstore development, when large industrial buildings were converted to sell branded products at low prices, was followed by a second phase, from the late-1970s, when the quality shopping experience began to emerge through the development of large, purpose-built, out-of-town stores, which provided the space necessary for car parking, in-store restaurants, bakeries, pharmacies, baby changing facilities and other additional services and facilities (4.5, p.107-108).

Larger stores also brought enough space to allow diversification of product offering, with delicatessens and fresh fish counters being introduced in addition to non-foods. As any diversification of product provides higher gross profit margins than the core grocery offering (6.4, p.236-237), retailers' motives are clear, yet standards had to be high, as operators were unwilling to risk consumer dissatisfaction with new lines, particularly in fresh foods, supporting the 'scrambled merchandising' hypothesis as a driver of the Wheel of Retailing. In addition, labour costs rose:

Roger Clough: *"These diversifications, into deli counters and the other things you mentioned, do they provide higher profits?"*

Ian MacLaurin: *"Yes they do, basically, but you have got to run it right. I mean, the quality standards in the chill chain have got to be really top class. You can't sell any fresh foods in a haphazard way, because firstly it is a health hazard, and if you sell sub-standard fresh foods, people will never come back to you. You know, you can open a can of soup, and a can of soup is a can of soup, but if you sell a topside joint, say, for the weekend and the family are all sitting round, and you have just carved, and somebody says "where did you get this from?", and mum says, "I got it from Tesco", and they say "bloody hell, don't go back there, it'll be awful". So your quality standards have got to be absolutely first class. I think that as far as grocery goes, my sort of bible was that everything we did had to be top quality, otherwise don't bother."*

[Lord MacLaurin of Knebworth DL]

A further factor causing escalation in the level of services and facilities was competition between operators to respond to consumer demand more effectively than other operators:

"What were the factors driving increased levels of service and facilities? It was competition, and the competition was only in what you are trying to do, which is serve your customer better than your competitor. So it was growing because the customers were responding and expecting a wider range as the years went on, it was customer expectation and competition. And the recognition of the local planning authorities that these types of shops were very popular, and the economics were of course that bigger shops were more profitable, at every level."

[Lord Sainsbury of Preston Candover KG]

This escalation of services and facilities was particularly apparent from the early-1980s when inter-superstore competition drove retailers' upmarket (6.3, p.229). Further, as large, out-of-town stores began to contribute significantly to the profits of major multiple operators, the profits required 'grounding' in order to avoid becoming a cash-rich takeover target (6.4, p.240). In other words, UK food retailers were generating strong cashflow, which was available for and encouraged investment in stores and systems. These updated stores and systems theoretically pay dividends again once established, catalysing further investment: and suggesting that investment breeds investment

"...as they did grow rapidly the sheer volumes that they were handling encouraged them to plough back into improvements, further improvements in distribution, in the quality of things in the shops, in the services they offered, and so on." [Denis Cassidy]

Increasing quality in UK food retailing therefore results from continuous investment by major players, which tends to be financed from strong positive cashflow [Jennifer Tanburn]. As previous investments begin to pay dividends, further positive cashflow is produced, encouraging further investment while discouraging price-cutting activity and protecting against predators:

“Superstore development requires a strong cash flow to finance site acquisition, as good sites are becoming increasingly scarce. The major multiples are not willing to enter into another price war, as it could jeopardise their chances of obtaining access to these limited sites. Smaller operators seem for the moment to be quite willing to accept this lead and to take the relatively high margins while they can.”

[Killen and Pattison, 1987; p.79]

Retailers invest in improved facilities, whether new or updated, because sales are generally increased sufficiently to fund the investment. Prices, however, must not rise significantly, gain has to come from increased patronage and turnover:

Roger Clough: *“Say you’ve got an old store, and you refurbish it - will that generally get enough extra people to spend enough extra money to cover the costs of refurbishment?”*
David Malpas: *“The short answer is yes, the slightly longer answer is that it doesn’t always work. It nearly does always work, because we’re pretty careful to plan what the market opportunities are in the area where we’re going to extend or refurbish the store... people won’t pay extra for having lovely stores and nice staff, they just won’t do it, so what you have to do as well is to sell them more, and to sell it to more people, and it really is as simple as that...”*

[David Malpas]

The move towards quality in UK food retailing that began in the early-1980s was also a defensive reaction to the intense price competition of the late-1970s. Price wars tend to ‘reduce headroom’ and squeeze profits, which in turn can precipitate takeover attempts [Mike Groves], largely because of depressed share prices [Tony de Angeli]. Pursuing a quality approach was seen as a means of escaping the problems brought on by price wars, meaning that intense price competition can induce retailers’ to move up-market and to compete over quality, supporting Allvine’s [1968] ‘fear of direct price competition’ as a cause of trading up (7.1.1, p.265-266):

“Food retailers went into high, gut-wrenching, head-butting confrontation with price cutting in the 1960s and 1970s, with a penny off this, a penny of that, two pence, three pence, and so on. Their shares weren’t worth a dime! And suddenly they woke up, they realised that they had to offer quality products and services, instead of just price cutting”

[Tony de Angeli]

Also there is a tendency for retailers to invest excessively in formats, eventually resulting in over-capacity. Under such circumstances, new stores tend not to meet their original turnover expectations, tempting operators to raise margins in order to make up the shortfall in profit that would have been achieved through a higher turnover. High margins, however, invite new entrants or existing competitors to build market share by undercutting prices:

“Retail always overshoots, always. You will go through a period when growth is very good, demand is very strong, and they have found a new formula that works, so they all put down as many of these things as they can, until the planners stop them or they run out of money. But because everybody else has done the same thing, the returns aren't quite as good as they expected. At that point, to try and service all this capacity, they try and hold the prices and gross margins up, to try and cut back that gap - 'what we can't get in turnover, we'll get in margin', and that creates a gap in pricing, against what you could trade at and someone like Aldi or Netto or someone says 'we can make a lot of money in this', and in they come, and the wheel starts to spin again, so you have a low priced offer...”

[David Stoddart]

In effect there is evidence of a polarisation of competitive focus, whereby price competition tends to induce a quality approach, and vice-versa. Price wars of the 1970s drove the quality approach from the 1980s, and excessive investment during the 1980s and high margins enticed continental discounters' UK-entry in the early-1990s (4.5, p.109-111), basing their appeal on low prices, which they were able to achieve because of their international buying strength, and by concentrating on key high-volume lines and low-cost premises. By the mid to late-1990s, margins of leading UK operators had risen to reasonably high levels compared to other countries, despite the presence of discounters, the industry was the subject of a Competition Commission inquiry, and also a frequent subject of press 'investigations' into UK grocery prices compared to other countries. Although much of the press treatment was unfair and over-simplified, with higher margins necessary to cover the higher costs of transportation, labour and property in the UK, such high margins attracted Wal-Mart to enter the UK, through their 1999 purchase of Asda. High margins, resulting from moves upmarket and prolonged investment, can therefore induce price competition, which in this case was catalysed by the sudden introduction of an extremely large international competitor, renowned for low prices. Again, this is an example of polarisation of pricing strategy, with movement too far towards one extreme inducing activity at the opposite pole, supporting the Wheel of Retailing's central theme that moving up-market creates a gap for a potential new entrant (7.1.1, p.259).

Retailers have an inherent fear of being harmed by the innovations of competitors, which contributed to the near industry-wide adoption of loyalty schemes in the mid-1990s [David Stoddart], and to the spread of in-store restaurants, bakeries and other facilities. In effect, an improvement to the retail offering can be adopted near industry-wide, despite having unproven benefits, suggesting 'trading up' through fear of being harmed by competitors' innovations (7.1.1, p.266):

Roger Clough: "Do ideas spread because consumers really want something - in-store bakeries, say - or because competitors copy each other's ideas."
Sir Dennis Landau: "Well I think a bit of both, if somebody puts something in that is a success, others will follow. It is like in-store restaurants, and whether using the space is sensible economically, but by and large, most of the large stores now have restaurants."
[Sir Dennis Landau]

There is also evidence of 'copying' in private label, with many operators following the high quality private label stance initiated by Sainsbury's (7.1.7, p.283). This drove up the overall quality of private label (5.4.ii, p.182), which was a particularly important factor driving trading up of the retail offering as a whole as private label accounts for 40% of total grocery expenditure (5.4.ii, p.183):

"...we developed private label in quite a different way from other people, you know the quality thing, with great success, which other companies have now followed, but many years after we started. Our starting point was that we were aiming to have a private label that was as good as the leading brand, or better, as well as cheaper. So it had to have an advantage - to be better than the leading brand, and also to be cheaper. And never less good than the leading brand. This was very different from others who just had private brand to get bigger margin and lower costs."
[Lord Sainsbury of Preston Candover KG]

Food retailers also 'adapt' manufacturers' branded products in a similar way, producing a private label equivalent within a matter of months of the launch of a new brand (5.4.ii, p.181). Over the years, private label has moved away from simple products such as flour and butter to rival the quality of brands, representing substantial trading up of the retail offering (7.1.1, p.261-262).

The introduction of new technology or trading techniques can reduce operational costs, savings which tend to be re-invested in improved customer service and facilities, rather than in lower prices, which is possible because the new systems initially enter into competition with established practices and formats. Until the practice becomes common and competition brings lower prices, profiteering can therefore be achieved, and the proceeds used to improve the shopping experience. This was the case with the introduction of self-service, and central distribution, although the introduction of superstores, which catalysed national price competition contradicts this, suggesting that this is a disposition rather than a universal rule. In short, when introducing cost-saving new practices, retailers tend to retain cost savings in order to fund improvements to the shopping experience, instead of lowering prices, supporting Allvine's [1968] fear of direct price competition as a cause of trading up (7.1.1, p.265-266):

"...self-service means you don't have to provide staff to serve, self-scanning means the customer is actually doing the ringing up, so all they are doing is making the customer do all the work. Having said that customers want better service, so what you then start to do is you end up with rear-service, doing things that are traditional, putting people back in but maybe in different ways... I suppose what you're doing is being more efficient at the basic fundamentals, and then investing your staff in giving better customer service, specific customer service."

[Bob Fee]

"...central distribution was a huge shift ... producing margin benefits, which you didn't give back to the customer in the shape of price at that stage. You gave it back to them in the shape of improved facilities. I'm not arguing that prices were bad, prices were quite keen, but the prices were quite keen by a totally irrelevant yardstick of what might be charged in the corner shop, which was satisfying a lot of criteria which initially the supermarket didn't. But it wasn't about price, it was about the quality of the environment, the quality of the product, the range, the access, the location..."

[Denis Cassidy]

It was noted above that consumers' poor recollection of prices enables retailers to push up margins on low volume products. Retailers also employ 'pricewatch' techniques, which supposedly assure the consumer that prices are not undercut by local competitors, but tend to stop short of guaranteeing to beat prices. It is suggested that the net result is that nobody will set prices lower than competitors, prices stabilise, and the key beneficiaries are the retailers:

"Petrol is the classic example of false competition. I say that because at this moment oil prices are at a ten year low, yet Sainsbury's, Tesco, Esso have created this 'pricewatch', which means that they guarantee the lowest price for x miles. What it really means is that they won't put the price lower than their competitors. Prices have not come down in line with oil prices, at the moment there seems to be no explicable reason: ... They say, 'Well, we are building stations, investing, we have got to put money into stores, and so on and so forth'. We have competition, with a tendency to inflate profits and prices, rather than to bring profits down. I think there was always a tendency for this, but I think now it is much more developed and much clearer. So, all the stores who claim to be effective and competitive are in contradiction because of it. They are not allowed to sell at prices which will give them a lower net profit compared with the previous year. They are on a treadmill, not necessarily a great thing for the consumer. The argument that competition is keeping prices down is not as clear as it should be."

[Tony de Angeli]

To resume, changes in the price/service relationship have been determined profoundly by factors both exogenous and endogenous to the industry. The key exogenous factor discouraging price competition until 1964 was RPM, which drove competition over service and location, and therefore favoured the local, counter-service store. Its 1964 abolition drove price competition for the first time,

favouring operators of low-cost formats such as self-service, supermarkets and then superstores. The 1970s oil crisis created a highly price sensitive consumer, which drove retailers to engage in unprecedented price competition.

From the early-1980s, the changing exogenous environment began to drive UK food retailers to compete over levels of service, facilities and the shopping experience, rather than price alone. Recovery from the oil crisis, rising incomes, increasing female employment and lack of time for shopping drove demand for 'one-stop shopping', to which retailers responded with the development of large, purpose-built, out-of-town superstores, packed with facilities. Consumers' 'taste for quality', which tends to move upmarket, drove continuous improvements to the retail offering and the shopping experience, as did rising household incomes.

Consumers tend to associate quality of retail environment with quality of offering, encouraging retailers to invest in their environment and image, which, theoretically at least, enables them to sell more expensive products, or even to charge more for the same products. Consumers recall few retail prices, enabling operators to profiteer on a large proportion of the range, and driving promotional activity in favour of consistent low pricing strategies, although competition tends to control this through polarisation of competitive approach. Finally on exogenous forces, high taxation on certain products reduces consumer price sensitivity, making price competition less worthwhile for the retailer, while planning authorities' reluctance to grant planning permission to operators perceived as 'cheap and cheerful' drove retailers to abandon such approaches and move upmarket.

The key endogenous issue driving the development of competition over quality of shopping experience and services was retailers' moves into larger stores. These have provided the space necessary to provide facilities such as car parking and in-store restaurants, yet also brought the capacity to diversify the product offering into higher margin products such as delicatessen and fresh foods. Diversification of product has tended to be high quality for fear of upsetting and losing existing customers. Retailer competition to respond most effectively to consumer demand has also driven increasing levels of services and facilities, particularly in superstores from the early-1980s.

Retailers have actively invested in store improvements, whether in new stores or refurbishment of existing ones, as these investments have generally produced good returns, achieved through

increased patronage and larger purchases rather than higher prices. As improvements begin to pay dividends, cashflow becomes stronger, encouraging further investment, while further discouraging price competition for fear that it could slow investment. Food retailers also tend to be reluctant to enter into price competition because of their 1970s experience of it, which harmed many operators and precipitated a shake-up resulting in the disappearance of many high street names. The quality approach is therefore partly an escape route from intense price competition. A tendency to avoid price competition, which has led to competition to be primarily over quality, however, creates opportunity for new entrants to undercut existing players, and a polarisation of approach can occur, whereby price competition drives the quality approach, which in turn attracts new entrants to the market who believe that they can build market share through competitive pricing.

Innovation in the industry, in terms of new facilities and services, tends to be copied by competitors because they fear that they could be harmed by the innovation if they do not adopt it themselves. This protective mechanism was also witnessed in private label development, when the quality-approach of Sainsbury's private label was seen to bring benefits, and was therefore widely adopted by competitors. Similarly, new branded products are widely copied in an attempt to neutralise their threat.

Finally, operators have a tendency to invest cost savings in better services and facilities, rather than in price cuts, which has driven up the quality of the grocery shopping experience. Widely employed 'pricewatch' policies tend not to undercut competitors' prices, often leading instead to development of a local pricing status quo.

Figure 6.5a. Forces driving the changing price-service relationship:

ENDOGENOUS FORCES

EXOGENOUS FORCES

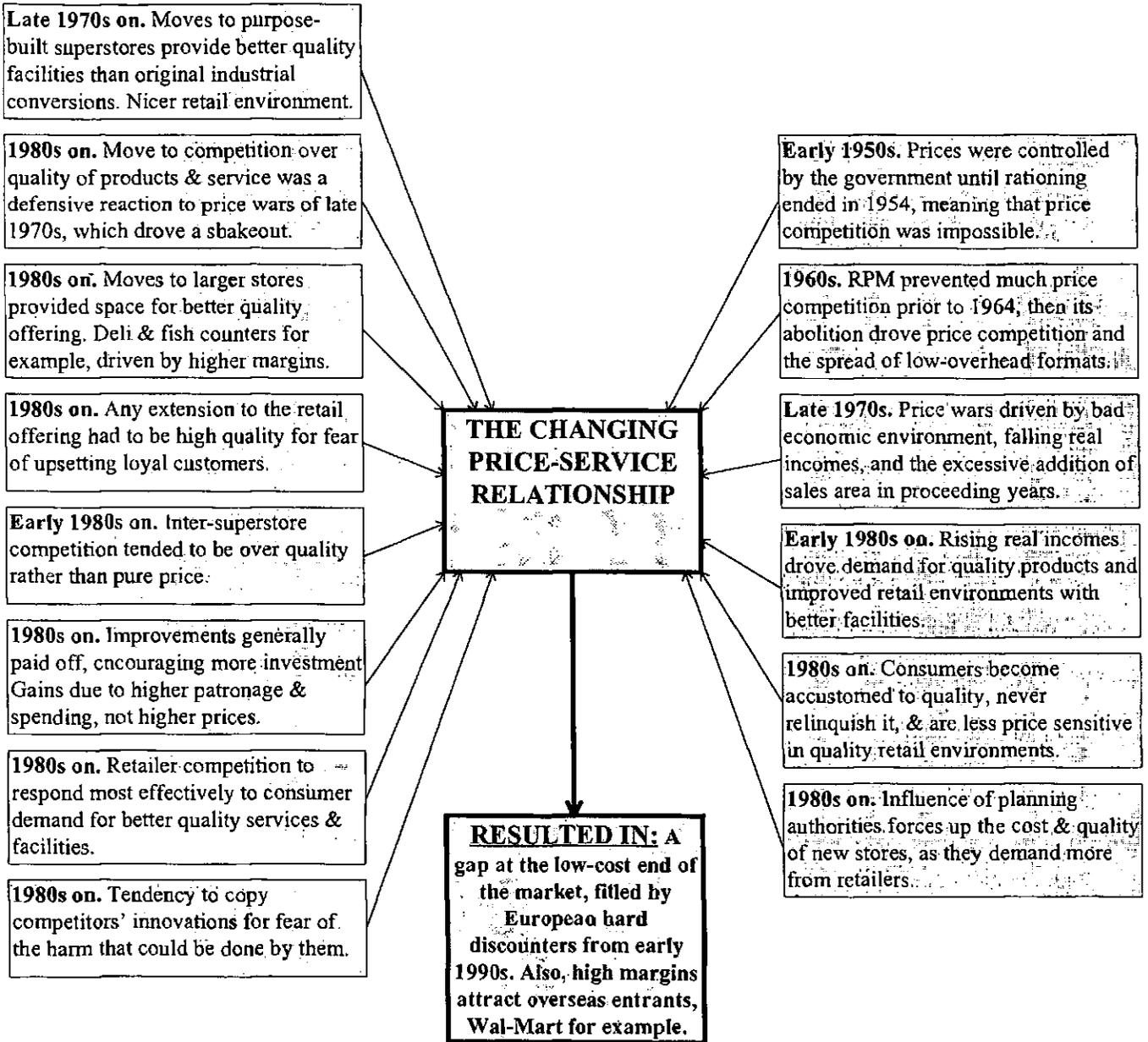


Figure 6.5b Summary of key trends identified by interview subjects:

Interviewee	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s
Rise of multiples, decline of co-ops, independents & specialists	✓	✓					✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Concentration into big five & takeovers					✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Changing retailer-manufacturer relationship	✓					✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Retail format evolution	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Geographic expansion - domestic						✓	✓	✓		✓	✓	✓		✓			✓	✓	✓
Geographic expansion - international						✓		✓				✓			✓				
Product diversification: range extension	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Product diversification: non-food retail formats	✓	✓				✓		✓		✓	✓	✓	✓	✓	✓			✓	✓
Changing price/service/quality emphasis	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓
Rationing			✓						✓	✓			✓	✓		✓		✓	
Resale Price Maintenance			✓						✓	✓		✓	✓		✓	✓	✓	✓	✓
Planning restrictions						✓	✓	✓	✓	✓		✓			✓	✓	✓		
Competition Policy		✓				✓				✓		✓			✓			✓	✓
Working women & dual-income households	✓		✓	✓		✓	✓					✓	✓					✓	✓
Rising incomes			✓	✓			✓		✓	✓	✓		✓					✓	
Changing consumer taste	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓				✓	✓	✓
Consumer adoption of domestic technology	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Retailer adoption of commercial technology			✓		✓	✓		✓	✓	✓				✓	✓	✓	✓	✓	✓
Delivered groceries			✓		✓	✓			✓			✓							✓
Central Distribution	✓	✓			✓	✓	✓	✓	✓	✓		✓	✓	✓		✓	✓	✓	✓
Just-in-Time		✓					✓	✓		✓		✓	✓					✓	✓
Efficient Consumer Response (ECR)		✓										✓							✓
Trading Stamps	✓		✓	✓			✓	✓	✓					✓	✓				
Loyalty Schemes	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓			✓	✓
Private Label	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓					✓	✓
Increasing quality of private label	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓					✓	✓
Extended opening hours & Sunday trading			✓		✓	✓	✓	✓	✓			✓	✓			✓	✓	✓	✓
Emergence of the retailer as a brand	✓	✓	✓				✓	✓	✓	✓	✓	✓	✓					✓	✓
Discounters	✓				✓	✓	✓			✓	✓	✓			✓			✓	✓
One-stop shopping & declining frequency							✓		✓				✓	✓	✓			✓	✓
Changing household sizes							✓						✓						✓

Chapter 7

Evaluation and application of the theories of retail change

This chapter uses a technique based on grounded theory (3.1.ii, p.74-75), applying the changes identified in chapters 4, 5 and 6 to evaluate the models and theories of retail change (2.1). Section 7.1 relates the changes and driving forces to the theories of retail change and their underlying causes, while section 7.2 illustrates this in a tabular format. Section 7.3 applies the theoretical underpinnings most relevant to UK food retail change post-1950 to forecast likely developments to 2010, and sections 7.4 and 7.5 summarise these and address the likely impact.

7.1 Application of changes in UK food retailing since 1950 to models and theories of retail change

7.1.1. WHEEL OF RETAILING:

There is significant evidence of 'trading up' in UK food retailing post-1950, as suggested by Hollander's Wheel of Retailing [1960], and of low-priced innovators seeing this as an opportunity to enter the market, normally using new technology, systems or trading techniques to achieve lower costs than established operators. Prior to the 1964 abolition of resale price maintenance (RPM), however, retailers were unable to discount the prices of proprietary branded groceries, as these were fixed by manufacturers (5.1.ii, p.119), stifling price competition and discouraging low-cost entrants. Prior to 1964, efficient, low-overhead food retailers introduced trading stamps as a means of discounting branded products (5.1.ii, p.119-120) and developed private label, which they could price as they wished (5.4.ii, p.180-181), while counter-service grocers tended to compete over quality of service and convenience of location (6.3, p.223-224), meaning that although low-price entrants were effectively barred from entering the market, as suggested by the Wheel of Retailing. In fact the Wheel contorted and there was revolution all the same, with private label and trading stamps providing an alternative to pure price competition.

The 1964 abolition of RPM (5.1.ii, p.121) meant that low-overhead operators could attract custom by lowering prices (theoretically possible because of their lower operating costs), driving further restructuring of the industry into self-service, supermarkets and superstores, each of which had cost advantages over earlier, more established retail formats (6.3, p.221-222). Lower prices could be offered by the operators of these new low-cost formats, with self-service and supermarkets being developed by existing independent, co-operative but mainly multiple operators (4.3, p.96-97), while early superstore development was exclusively by new entrants, such as Asda and Morrison, as suggested by the Wheel of Retailing. The superstore itself grew from humble beginnings in converted mills and cinemas into all-service, facility-packed stores, taking operators upmarket with it, particularly during the 1980s (6.3, p.228-230). In-store restaurants, delicatessens, fresh fish counters and salad bars are all examples of facilities that have become the norm over time (6.3, p.228), supporting the trading up suggested by the Wheel of Retailing.

By the late-1990s, the media and government were charging UK food retailers of being an accessory to 'rip off Britain', with higher prices than other European countries. Although many charges against operators were unfair (6.5, p.248), and the Competition Commission found no evidence of over-pricing (5.1.iv, p.131), these charges followed a long period of intense capital investment in stores, facilities and services and steadily increasing margins across the industry as a whole. In support of the Wheel of Retailing hypothesis, which suggests that excessive investment in the retail structure tends to create top-heavy industry leaders, leaving a gap in the market for a new player to grow through low pricing, this was the point at Wal-Mart entered the market, through their 1999 acquisition of Asda (6.5, p.251). In this case, therefore, entry into the UK food retail market was effected in the low-overhead, low-price form, with Wal-Mart being renowned for offering low prices, often cited as achievable because of their large stores, sophisticated systems and buying power, although paying £6.7 billion for the chain will not have brought such low overheads as they may have in other countries.

Trading up is also evident within individual UK food retail chains, particularly Asda, who left behind converted cinemas and mills, Tesco, who traded up from a market barrow through high street shops to superstores, and Kwik Save, who traded up their offering and margins, creating a gap in the market which European discounters were quick to fill in the early-1990s, ultimately driving Kwik Save's demise.

In the mid-1990s, UK food retailers rushed to adopt 'loyalty schemes', which if widely adopted bring scant incremental sales (5.4.iii, p.191-192), meaning that they then become a cost burden if the information gained is not used effectively (5.4.iii, p.192). Similarly, trading stamps had become a cost burden to Tesco by the mid-1970s, primarily because they had ceased to excite the customer, therefore reducing the incremental sales gain attributable to them (5.4.i, p.178-179). The example of Tesco pulling out of stamp trading in 1977 and reinvesting the savings achieved in price-cutting (5.2.ii, p.147-148) is important, as this strongly reinforces the idea that additional services lead to higher margins, because when abolished, prices and margins can be lowered, as they were in 1977. Similarly, Safeway dropped its ABC loyalty card in June 2000, and announced that the savings would go on reducing prices (5.4.iii, p.184-185).

Reaction of established retailers to low-cost entrants

When superstores were first developed in the mid-1960s, established food retailers reacted through price cutting (6.3, p.227). This was largely unsuccessful in slowing consumer demand for superstore shopping, as consumers were equally attracted by 'one-stop shopping' (5.2.ii, p.150). After a number of years, established operators changed their reaction to the superstore threat by developing superstores themselves (6.3, p.227-228), thus it is not only new entrants who can take advantage of low-overhead retailing, existing companies can sometimes re-invent themselves in order to benefit from new techniques.

To summarise, The Wheel of Retailing, as suggested by Hollander [1960] was contorted by the regulatory environment until 1964, with trading stamps and private label being

developed as an alternative to price competition over branded products. Despite this, new lower-cost formats replaced older ones, with self-service superseding counter-service, and larger stores replacing early self-service conversions. A mixture of existing and new operators drove these changes, suggesting that food retailers can reinvent themselves in response to, or in anticipation of, the threat of a new format. Existing operators response to the superstore threat was slow due to lack of development capital, allowing the development of two major new players, Asda and Morrison, who hold considerable market share to this day. There is evidence of trading up within store formats, particularly of the superstore, and of retail chains as a whole. Equally, there is evidence that additional services and facilities lead to higher prices and higher margins, as when trading stamps and loyalty schemes have been abandoned, the savings have been invested in lower prices.

Causes of trading up

The causes of trading up in UK food retailing are largely supportive of previous academic work, while several previously unidentified forces are also found to have driven trading up in UK food retailing post-1950. The following section examining the causes of trading up in UK food retailing is therefore separated into two parts - trading up following the pattern of the existing academic body of knowledge, and causes of trading up which appear to be undocumented at present.

Evidence of the validity of existing causes of trading up

Scrambled merchandising as a cause of trading up suggests that overall rising margins are caused by range extension into higher margin products, while the margins of the original range of products remains static. In UK food retailing post-1950 this is undoubtedly the case, as the margins on branded dry groceries, which formed the bulk of the offering in 1950, are the lowest in the store, meaning that almost all new lines introduced have enhanced margins (6.4, p.236-237). For example, the fresh, chilled and prepared foods sector, which carries higher margins than most grocery sectors because of the complex nature of the products, and is also dominated by private-label, which provides a second

boost to margins, as private label carries higher margins than branded products (5.4.ii, p.181). Private label dominates this sector because retailers' central distribution systems effectively enabled its extensive development (5.3.iii, p.170), meaning that there were few branded products to compete with, and general trading up of private label has driven revolution of the Wheel of Retailing (6.5, p.252).

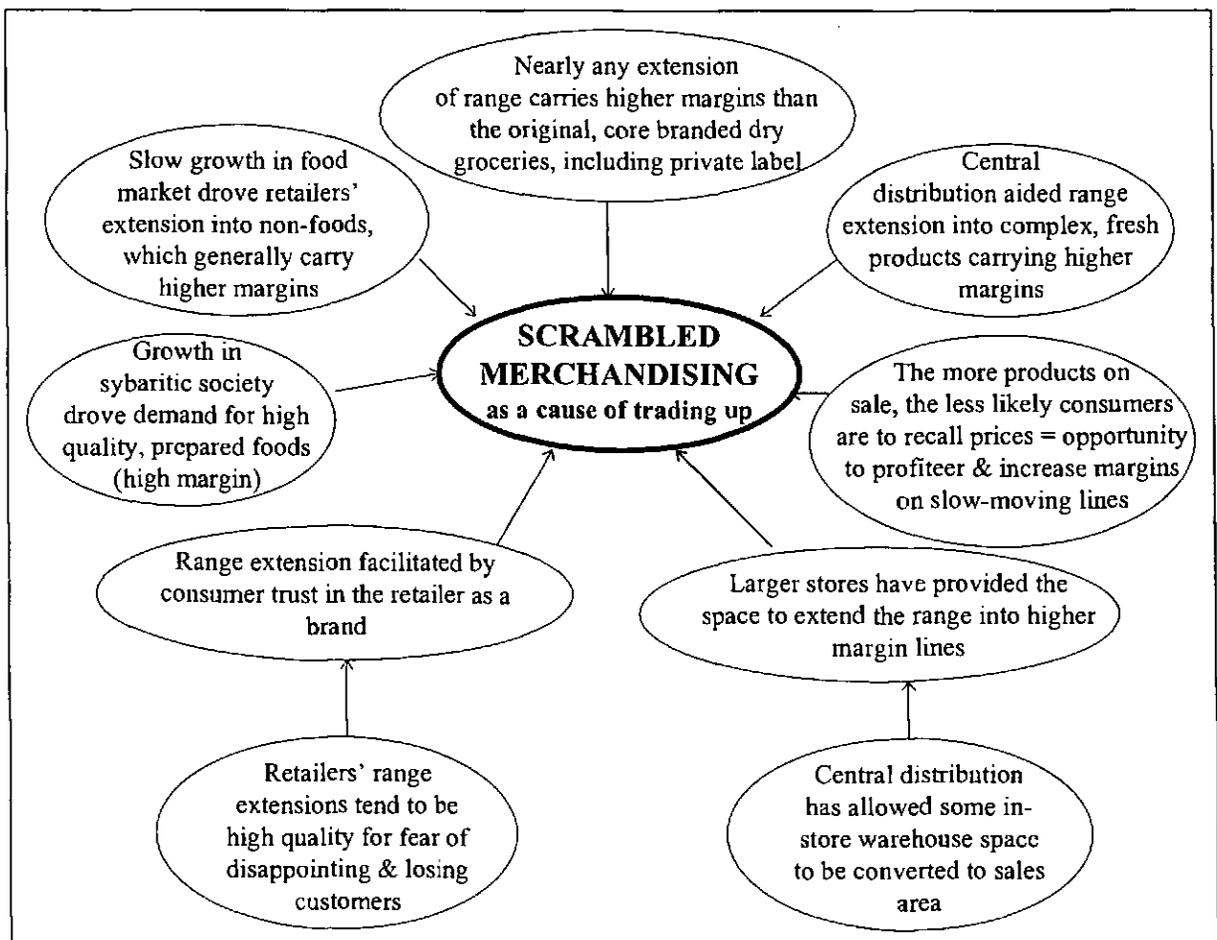
Central distribution also reduced the requirement for storage space both in-store and behind the scenes, liberating space which was filled with further high margin extensions to the range (5.3.iii, p.170), as did the development of fork-lift trucks and caging systems (5.3.ii, p.164). In brief, the development of central distribution not only allowed retailers to handle more sophisticated, higher margin products, and therefore to trade up, it also made more efficient use of store areas, prompting further 'scrambled merchandising'. Retailers themselves were keen to expand private label because of the higher margins available, to such an extent that larger stores were created partly in order to accommodate private label lines (6.3, p.222), and today, product innovation tends to be in the private label sector (6.2, p.215-216), suggesting that margin improvement may continue.

The development of UK food retailers into strong brands (6.3, p.230-231) facilitated range extension, meaning that scrambled merchandising as a cause of trading up became more important. As consumer trust in food retailers grew, they became more likely to try new products and services, and more likely to favour private label, while larger stores aided this transition by providing the space necessary for range extension (6.4, p.235). Expansion of the 'money rich, time poor' sybaritic society drove demand for 'time saving' foods (5.2.ii, p.150) and therefore drove range extension as a response, while retailers' range extensions have been high quality because of their fear of losing customers through disappointment with new products (6.5, p.248-249), and because of consumers' rising expectations of quality (5.2.iii, p.155). Diversification of offering into non-foods was also driven by the static or slow-moving UK grocery market, with non-foods offering the prospect of real growth (6.4, p.237)

Established UK food retailers sometimes use unsustainable low prices in order to build market share when diversifying into new product areas, which was the case when they entered petrol retailing and the financial services market (6.4, p.237-238). This is possible largely because they are able to leverage existing overheads and take low margins, and as an acceptable level of market share is attained, prices and margins tend to creep up, giving the impression of trading up, although this is not in fact the case.

Sunday trading brought increased demand for non-foods (5.1.v, p.137-138), and the limited number of prices recalled by consumers enables food retailers to 'profiteer' by pricing low volume products at a high level, while pushing good deals and prices on more prominent, high sales volume products (6.5, p.247), supporting the scrambled merchandising hypothesis.

Figure 7.1.1a. Forces driving scrambled merchandising as a cause of trading up:



To summarise, scrambled merchandising as a cause of trading up in UK food retailing was driven by the opportunities presented by high consumer traffic in grocery stores, retailers' technological advances, consumers' technological advances, new products, space efficient trading techniques, rising store sizes, slow growth in the UK food market, the development of consumer trust in the retail brand, and the deregulation of trading hours. In addition, it is said to have postponed the point of 'superstore saturation' (see retail 'accordion' below).

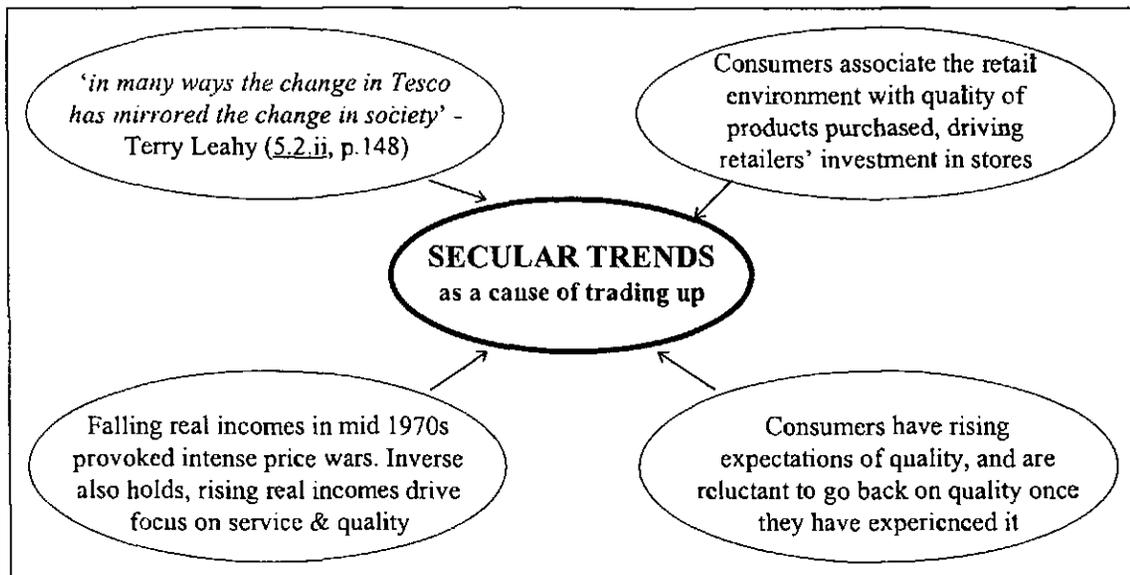
Secular trends as a cause of trading up argues that rising incomes drive improvements to the retail experience, and is best illustrated by falling real incomes in the mid-1970s, which provoked price cutting in the following years. Although this is the inverse of the relationship suggested by 'secular trends', it does demonstrate the close bond between changes in income and price sensitivity. In effect, falling real incomes create price sensitivity to which retailers respond, and rising real incomes result in less price sensitive, sybaritic consumers, more likely to prioritise 'one stop shopping' facilities, although price always remains an element in their decision (6.5, p.246). The secular trends theory is well founded, with changes in the affluence of society affecting both consumers' choice of store and choice of product (see expansion of the money rich, time poor society, above). Because real incomes generally rise, food retailers have generally responded by providing better shopping facilities and products. In times of particular price sensitivity, the late-1970s and early-1990s, for example, UK food retailers extended their use of 'no frills' style private label products, in an attempt to stop price-conscious consumers shopping elsewhere (5.4.ii, p.183).

Consumers tend to have rising expectations, and are reluctant to relinquish quality once they have experienced it (5.2.iii, p.155). Retailers profit from answering this consumer demand, which has driven an inexorable rise in the quality of retail offerings. The quality of the retail environment is also driven upwards by the consumer, who tends to correlate a quality retail environment with quality of product (6.5, p.246). In short, the consumer, fuelled by rising incomes, has indirectly driven the retail offering and the retail

environment upmarket, by making such strategies profitable for retailers.

Perhaps the clearest indication of the importance of secular trends as a cause of trading up is Tesco Chief Executive Terry Leahy's quote that *'in many ways the change in Tesco has mirrored the change in society'* (5.2.ii, p.149), with Tesco having undertaken a remarkable transformation during the last two decades of the 20th Century. In addition, as Asda expanded from its original trading area in the north of England, to the more prosperous south of the country, store environments were upgraded to gain acceptance of consumers with higher disposable incomes (6.3, p.228-229), suggesting that trading up of the store environment is closely related to levels of consumer income.

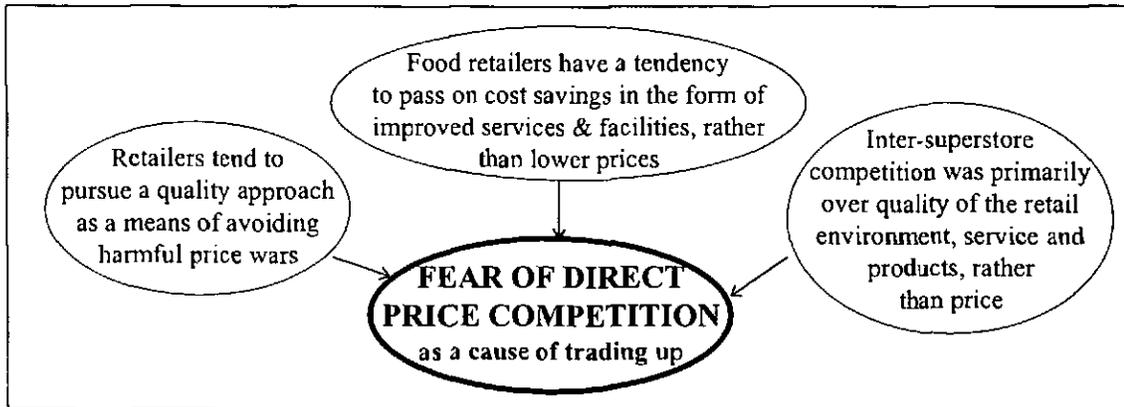
Figure 7.1.1b. Forces driving secular trends as a cause of trading up:



Fear of direct price competition was suggested as a cause of trading up by Allvine [1968], whereby retailers prefer to compete over quality of services, facilities and products rather than on price alone. This is supported by superstores, which began to compete over facilities and services rather than price once they faced losing their local monopolies (6.3, p.229). Adopting a quality approach from the early-1980s was also seen as an antidote to the severe price wars of the late-1970s, suggesting significant fear of price competition,

based on past experience (6.5, p.250). Food retailers' preference for passing on cost savings in the form of improved services and facilities rather than lower prices further supports the idea that they have a fear of price competition (6.5, p.252-253).

Figure 7.1.1c. Forces driving fear of price competition as a cause of trading up:



Reduced vigilance over costs [Hollander, 1960] as a cause of trading up is partially supported by the problem of escalating prices of superstore sites. While this does not suggest a lack of vigilance over costs, it does demonstrate that rising costs must be passed on to consumers in the form of higher prices and margins (6.3, p.229).

Previously undocumented causes of trading up

While the above findings support existing causes of trading up, in UK food retailing post-1950 it is found to be driven by other, original, undocumented forces. This section introduces new explanations causing trading up, which do not fit within the existing hypothetical framework:

'Blind' copying by retailers occurs because retailers fear being harmed by the innovations of a competitor. This drives widespread adoption of retail innovations (see 'dialectic' below), meaning that innovations can quickly become near industry-wide, at which point the incremental benefits of the 'innovation' decrease due to falling differentiation, and it can become a cost, feeding the drive for higher margins (6.5, p.251-252).

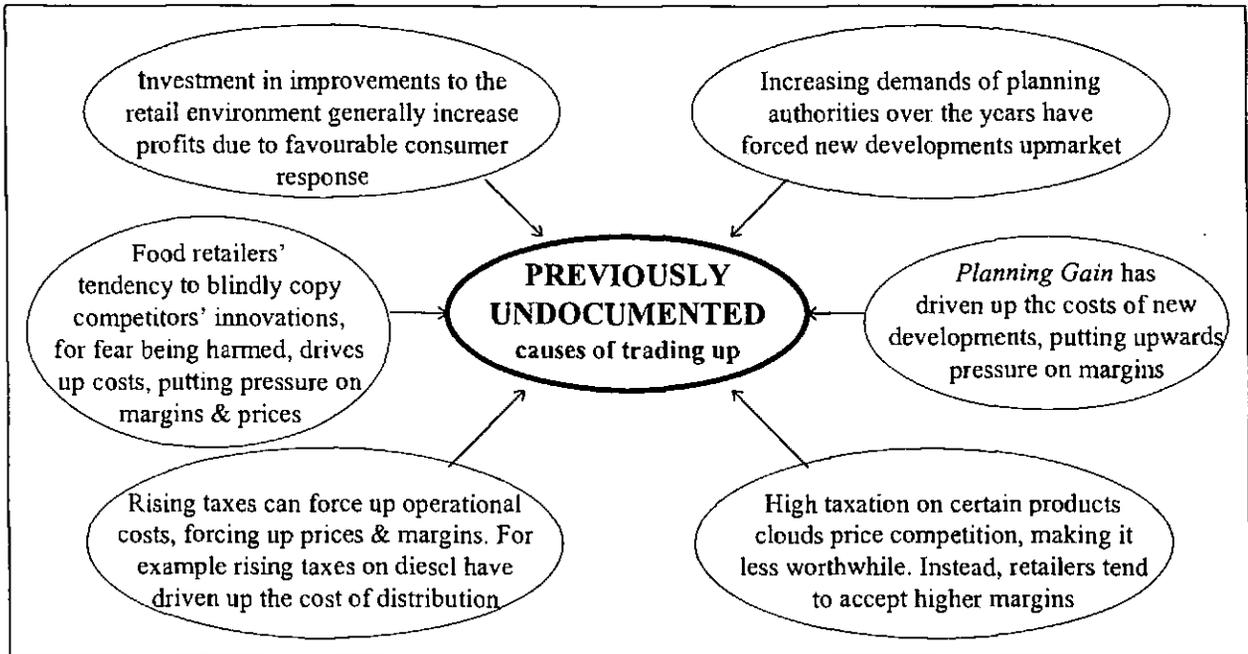
The problem of high taxation on some products, particularly petroleum and tobacco, makes intense price competition between retailers scarcely noticeable to the consumer at the point of sale (6.5, p.247-248). Thus high levels of excise effectively discourage retailers from entering into price competition, driving higher prices and margins.

The increasing demands of planning authorities, which became more exacting in their requirements for new food retail outlets over time (6.5, p.248), effectively forced food retailers to propose upmarket facilities in order to obtain planning permission, forcing up costs, and therefore margins. Planning gain, whereby planners expect retailers to contribute to the costs of local schemes when building new stores (5.1.iii, p.127-128), is also a major factor forcing up the costs of retail development, and hence margins and prices.

The benefits of investing in store improvements are reasonably clear, and this generally proves worthwhile because the turnover of the store increases sufficiently to provide a good return on the investment (6.5, p.249-250). Thus retailers have been driven to improve their retail facilities because of the likelihood of improving profits, which in turn is possible because consumers respond well to such improvements and make them successful financially.

The impact of rising taxes on businesses can be severe, and drives up prices and margins. For example, escalating duties on diesel forced up the costs of the products on sale (5.1.vi, p.149), driving up margins as suggested by the Wheel of Retailing.

Figure 7.1.1d. Previously undocumented causes of trading up:



7.1.2. RETAIL ACCORDION:

UK food retailers have consistently enlarged their retail offerings since 1950, which is largely explained under ‘scrambled merchandising’ above. Increasing store sizes and sophisticated systems provided space for more products (5.3.iii, p.170), while the move back into town centres and residential areas from the late-1990s necessitated smaller ranges once again, as did limited-line discounting introduced by European discount chains in the early-1990s.

What are the key forces driving expansion and contraction of the retail accordion?

One of the primary forces driving expansion of the retail accordion is that retailers want to improve profit margins, as basic branded groceries carry very low profit margins (6.4, p.236-237). Almost any expansion of the retail accordion brings margin improvements, particularly if it is into chilled, prepared foods or private label products, driving retailers to focus on these areas. Retailers’ desire to develop private label was a factor driving moves into larger stores (6.3, p.222), while moves into chilled, prepared foods would

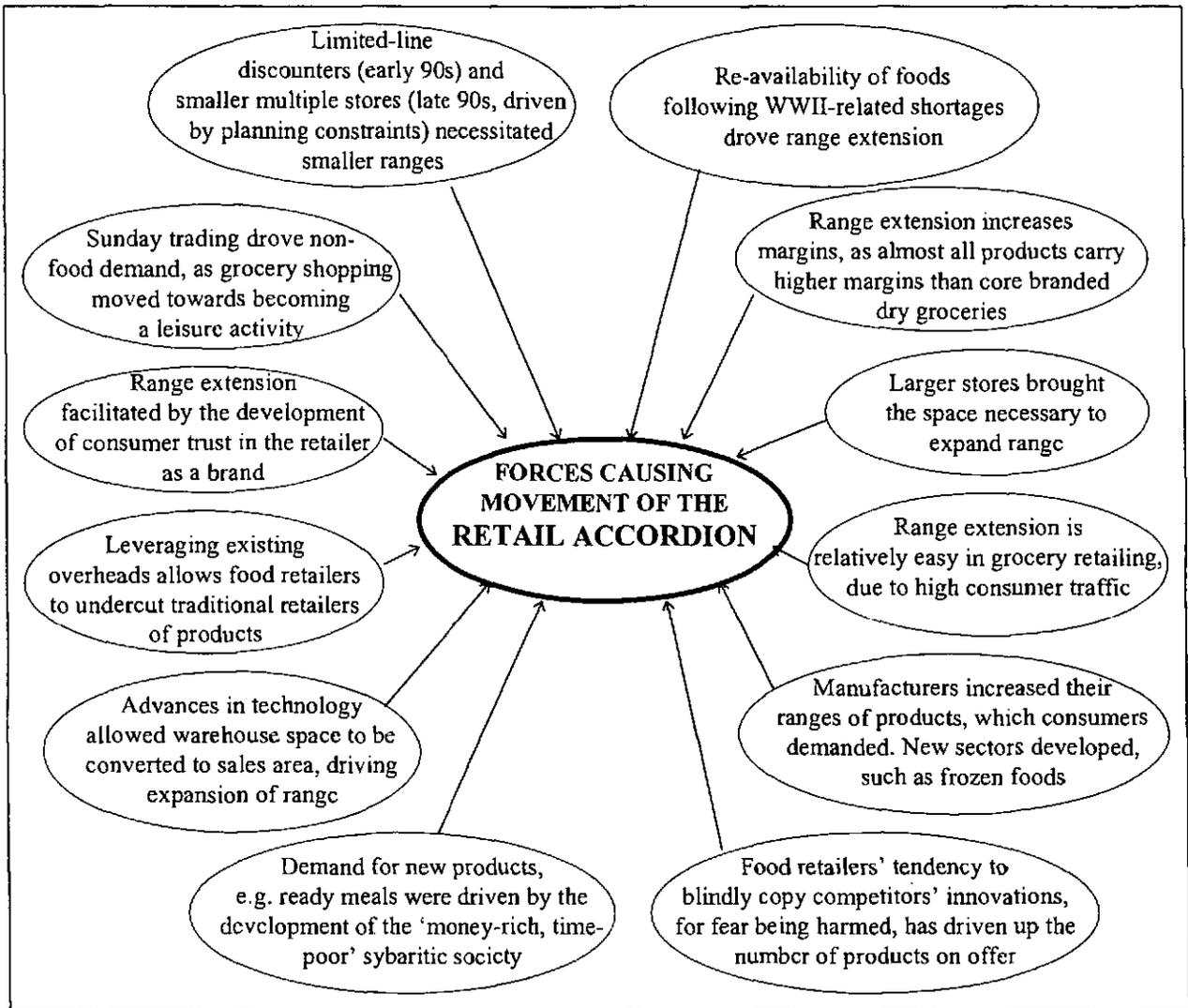
have been extremely difficult on a national scale without technological development in food preservation, packaging and distribution (6.4, p.242). Re-availability of foods after post-war shortages also drove expansion of the retail accordion in the late-1950s, although this was an extraordinary event related to the exogenous environment (6.4, p.234), and manufacturers' product launches and the development of frozen foods also left retailers with little option but to expand the retail accordion (6.4, p.234). The high consumer traffic in grocery stores also meant that expansion of the grocery retail accordion was relatively straightforward (6.4, p.235).

Expansion of the retail accordion was facilitated by consumers' development of trust in food retailers over the years (6.3, p.230-231). Equally, the 'money rich, time poor' society drove demand for ready-prepared foods (5.2.iii, p.153), provoking further expansion of the retail accordion, while Sunday trading drove demand for non-foods (5.1.v, p.137-138). The development of central distribution, fork-lift trucks and systems such as caging reduced the need for storage space, which was converted to sales area, permitting further extension of the retail accordion (5.3.ii, p.164; 5.3.iii, p.170). Retailers' tendency to 'blindly' copy product innovations of their competitors through fear of being harmed by them (5.4.ii, p.181) also forced expansion of the retail accordion. A key factor enabling food retailers to move into new markets, and therefore to expand the retail accordion, is their ability to leverage existing overheads, and to undercut the established competition until sufficient market share is achieved (see 'wheel' above). The over-riding key factor driving expansion and contraction of the retail accordion, however, is store sizes. Larger stores have provided space for more products (6.4, p.241), and moves into smaller stores from the late-1990s necessitated smaller product ranges (5.1.iii, p.127), as did limited-line discounting from the early-1990s.

The retail accordion has generally expanded, despite difficulties such as the existing retail structure, planning difficulties and escalating superstore development costs, yet the only two marked factors driving its contraction are the expansion of discounters and the

regulatory environment. Discount food retailers, particularly continental-based ones that entered the UK in the early-1990s, concentrate on selling fast-moving items at low prices from small, low-cost stores. Their entry and spread, therefore, represented a move into smaller stores and a contraction of the retail accordion (4.5, p.109-111). The regulatory environment drove contraction of the retail accordion from 1996, by terminating the large-scale development of out-of-town superstores (5.1.iii, p.126-127). This drove retailers to find alternative avenues of growth, the primary one being the development of small, local stores, which brought a significant contraction of the retail accordion, with the range being focused on convenience and top-up shopping. While consumer demand is necessary for a retail format to succeed, the primary factor driving operators back into small stores was the hostile planning attitude towards large out-of-town stores.

Figure 7.1.2a. Forces causing movement of the retail accordion:



Effects of expansion of the retail accordion:

The key effects of the significant expansion of the retail accordion since 1950 include an increase in retail margins (above), and the 'natural' development of private label (6.4, p.241). The addition of non-foods brought access to rapidly expanding markets compared to the static food market (6.4, p.237), as well as putting upwards pressure on store sizes. Expansion of the retail accordion delayed the point of 'superstore saturation' by maintaining retail performance (6.3, p.230), and drove the life cycles of specialist food retailers into decline (6.4, p.241).

Expansion of the retail accordion and the sheer number of products on offer presented the opportunity for operators to ‘profiteer’ on infrequently purchased lines, while promoting offers and prices on more frequently purchased products (6.5, p.247). Retailers’ insistence on high quality when expanding the retail accordion, for fear of upsetting loyal customers trying new products, drove the industry upmarket (6.5, p.248-249), while the retail accordion has at times been constrained because of supply difficulties, with distributors refusing to supply food retailers for fear of upsetting existing retail clients, although these problems have normally been resolved over time (6.2, p.214-215).

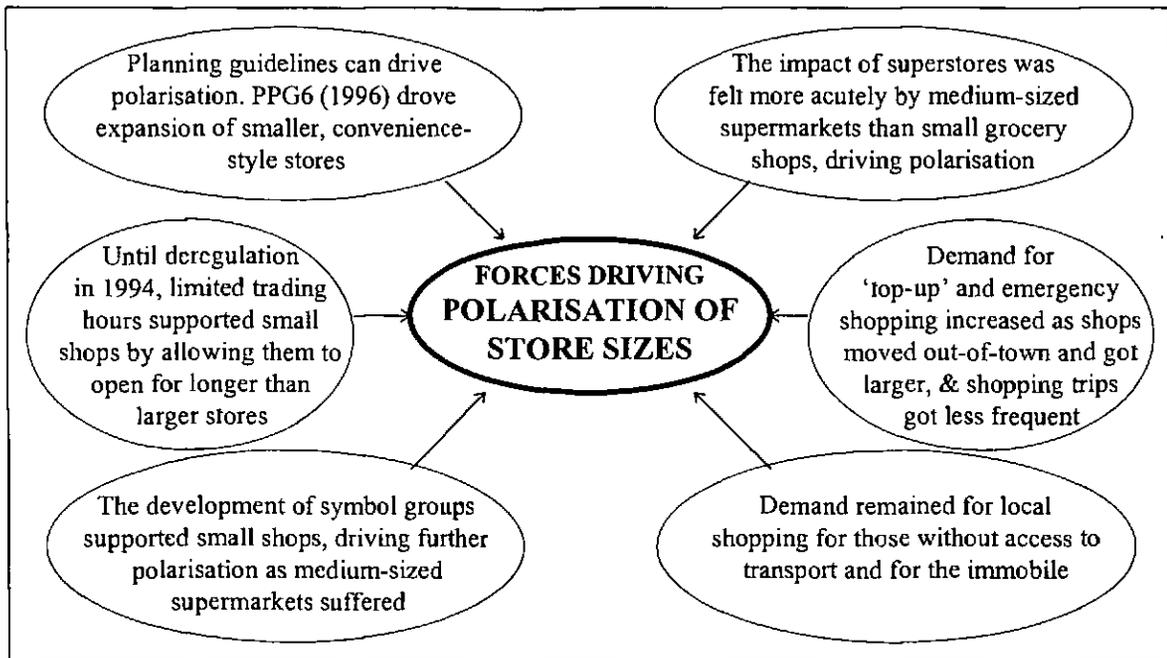
7.1.3. POLARISATION PRINCIPLE:

The negative impact of superstore development tends to be focused on medium sized stores, or rather stores that were large before the evolution of superstores, while the effect on small independent retailers appears to be relatively minor (6.1, p.199-200). This effectively supports the polarisation principle, which suggests that as larger stores are developed, the market for small, local stores remains, while the market for medium sized stores falls into decline. In addition, changes in planning attitude due to PPG6 (5.1.iii, p.126-127) have driven further polarisation as the major multiple food retailers have turned their attention to small local stores as a means of continued growth (5.1.iii, p.127).

Why does polarisation occur?

Price and choice are not consumers’ only requirement, at times convenience of location, ease of shopping and opening hours become key influences, in particular for ‘top up shopping’ and for those reliant on public transport, hence much of the independent and co-operative sectors’ move to focus on convenience rather than price alone (6.1, p.205). The development of symbol groups drove further polarisation by supporting small stores, aiding them with supply, marketing, distribution and retail expertise (6.1, p.203). The exogenous influence of the government, through regulation on shopping hours, has driven polarisation (6.1, p.199), although this influence is in decline due to general deregulation of trading hours (5.1.v).

Figure 7.1.3a. Forces driving polarisation of store sizes:



7.1.4. MULTI-POLARISATION MODEL:

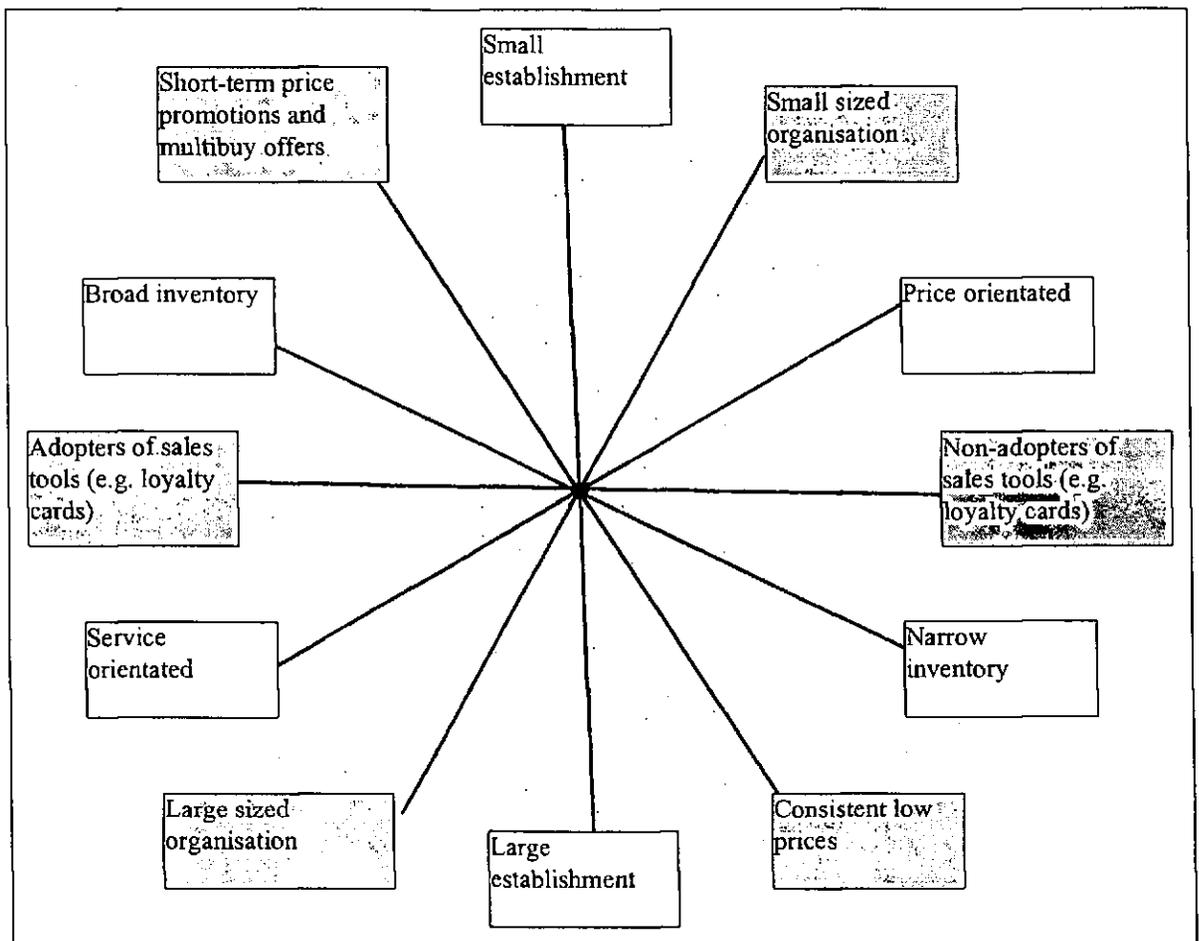
As Brown's [1987a] multi-polarisation model is a combination of the core themes of the wheel of retailing, the retail accordion and the polarisation principle, it is not appropriate to repeat the analysis of these themes here. To summarise, though, there is reasonable evidence that each of the three themes of the multi-polar model tend to occur in UK food retailing post-1950. Trading-up is a frequently observed strategy over the period, and there are cases when trading up to a service-orientated level has led to the entrance of price-orientated operators (7.1.1). Larger ranges of merchandise have accompanied this trading up, indeed new products have been the source of much trading-up (7.1.2), and larger stores have been built to house larger offerings (7.1.3). Yet food retailers trading limited ranges have proliferated in both the discount and convenience sectors, particularly post-1990. Such limited range retailers tend to have either a price or locational advantage to compensate for the reduced choice. As for size of establishment, this has polarised as medium-sized supermarkets have been cannibalised by out-of-town superstores, creating opportunity for local convenience stores as the primary shopping destination has become

more displaced from consumers' homes, hence multiple and co-operative retailers' return to small, local stores from the late-1990s.

Extension to the multi-polarisation model

New examples of polarisation tendencies were uncovered in UK food retailing post-1950, see below, and the following incorporates these into Brown's [1987a] multi-polarisation model:

Figure 7.1.3a. Extension to Brown's [1987a] multi-polarisation model:



Polarisation of organisational size:

Polarisation of organisational size has occurred in UK food retailing post-1950 for several reasons. Economies of organisational scale have increased, driving the quest for size, because of positive factors such as the development of buying power (6.2, p.212), the

ability to absorb fixed costs over a larger turnover (6.2, p.212), the suitability of large organisations to large store development and operation (6.3, p.226), and other cost saving factors. These advantages prompted intense takeover activity, particularly during the 1980s, which polarised organisational size further still by removing the bulk of medium sized and regional players from the market (6.2, p.210). Failure of government agencies to intervene in retailer-manufacturer relations [MMC, 1981; OFT, 1985] allowed and drove further growth of the larger organisations and therefore polarisation, as did stockmarket and institutional shareholder influence which tend to encourage takeovers (6.2, p.208-209). Government planning restrictions such as PPG6 (6.2, p.208) exacerbated the situation by making takeover one of the few avenues to obtain large stores, and government-sponsored bureaucracy such as the introduction of VAT bears down harder on smaller operators, driving further polarisation (5.1.vi, p.139-140).

On the other hand, OFT reluctance to allow further merger between major UK food retail players (6.2, p.211-212; 5.1.vi, p.140-141) has resulted in the cancellation of merger negotiations that would have led to further polarisation.

Polarisation of pricing strategy:

There is evidence that the widespread adoption of 'multibuy' and other temporary promotions in UK food retailing creates an opportunity for an operator to differentiate themselves by adopting permanent low-pricing strategies instead (6.5, p.247). Recent returns to 'permanent' price cuts (1999) are indicative of this tendency, as they follow a period of intense short-term promotional activity. Movement too far to one extreme (i.e. too many operators adopting one strategy) creates opportunity at the opposite end of the spectrum, which could be filled by a new entrant (6.5, p.251).

There is also a danger of being caught away from the poles of pricing strategy, for example when European discounters entered the UK in the early-1990s, Kwik Save found that they no longer occupied the most extreme 'low-price' position, and subsequently foundered:

Then you had Lidl and Aldi coming in and completely stealing Kwik Save's clothes in the discount bracket, as they are properly structured for discounting, in every sense. And that is quite important, because what it has left is a bigger gap...

[Tony Campbell]

Polarisation of incremental sales tools:

This theme is effectively self-destructive, and argues that a tool to increase sales, however successful at launch, can become ineffective if adopted by too many competitors, which can in turn lead to its withdrawal. In the case of trading stamps, there is evidence that after initially splitting the industry into two camps, pro-stamps and anti-stamps, trading stamps became the victim of their own success - as more retailers adopted them, the incremental sales achievable from the schemes diminished, until the point was reached at which they became a cost burden (5.4.i, p.178) and were abandoned. Allvine [1968] found that US chains' adoption of stamps was beneficial at first, then late adopters merely neutralised the advantages enjoyed by early adopters. Widespread adoption of stamps eventually created an opportunity for discounters to offer lower prices through the elimination of stamps [ibid.]

Loyalty schemes, introduced in the mid-1990s, have spawned many imitations, and also initially created two camps (5.4.iii, p.184-185). There is the distinct possibility that incremental sales gains will fail to cover the cost of these schemes, although in this case retailers will be willing to accept a certain level of cost-burden in exchange for valuable customer data (5.4.iii, p.185-186).

7.1.5. RETAIL LIFE CYCLE

Without doubt, different types and forms of retailing have grown and declined in the UK food retail industry post-1950. Specialist food retailers have suffered a general decline, with certain product specialists declining sooner than others (4.1, p.89-90), as has the counter-service grocery store and then the high street supermarket (6.3, p.218).

Causes of acceleration in the phases of the retail life cycle

Acceleration in the growth phase of self-service and early supermarkets was driven by many factors such as the abolition of rationing, the abolition of RPM, overseas influence, UK government influence, technological advances in packaging, refrigeration and distribution, and consumer demand for modernised shopping facilities (6.3, p.218-220). This acceleration in the growth of self-service and early supermarkets, however, was the key influence causing the retail life cycle of the counter-service grocery store to enter the decline phase.

The growth of self-service and early supermarkets proved to be rapid, yet short lived, as such stores were pushed into the decline phase by the growth of larger supermarkets and superstores, again made possible by several factors such as technological advance, the abolition of RPM, consumer demand for one stop shopping, retailer desire to capitalise on earlier gains achieved from modernisation, and eventually from the deregulation of trading hours (6.3, p.217-220).

In short, there are many exogenous factors that contribute to the emergence of a new trading technique, such as those mentioned above and forces like consumer adoption of technology (5.3.i, p.161-162), retailer adoption of technology (5.3.ii, p.162-163) including central distribution (5.3.ii, p.163). However, it is in fact the emergence and rapid growth of new trading techniques that tends to throw established retail techniques into the decline phase of the retail life cycle.

Other factors impact upon the retail life cycles of different retail formats, particularly product diversification within the major food retailers, which has driven the retail life cycle of numerous retail specialists into decline (6.4, p.240-241). Geographical diversification has aided the rise of the 'big five', while pushing the retail life cycle of co-operative, independent and regionally-based multiple organisations into decline (6.4, p.243). Government decisions also play an important role, with the abolition of RPM

driving self-service and early supermarkets into the rapid growth phase at the expense of counter-service grocers (6.1, p.197-198), and the eventual deregulation of trading hours aiding the growth of superstores at the expense of small and medium sized stores (5.1.v, p.135-138). Dialectic-like behaviour (see below) has also affected the retail life cycles of different formats, particularly when established multiples moved into superstores in the mid-1970s, throwing this sector, until then dominated by specialist superstore innovators, into rapid growth, at the expense of medium sized supermarkets in particular (6.3, p.228).

Forces slowing the retail life cycle

There are certain forces that can slow the phases of the retail life cycle, whether negatively by delaying growth, or positively by delaying decline. The positive growth phase of the self-service grocery store, and hence the decline phase of the counter-service store, were delayed by consumer, staff and retailer resistance to change, rationing until 1954, and RPM until 1964 (6.3, p.224-226). Similarly, RPM, the existing retail structure, lack of access to capital and planning constraints delayed the slowdown in first generation self-service conversions by delaying the positive growth phase of supermarkets and superstores (6.3, p.225-226), although superstore innovators normally found a way to get around these problems anyway (5.1.iii, p.124-126).

Figure 7.1.5a. Forces driving/delaying retail life cycles of food retail formats:

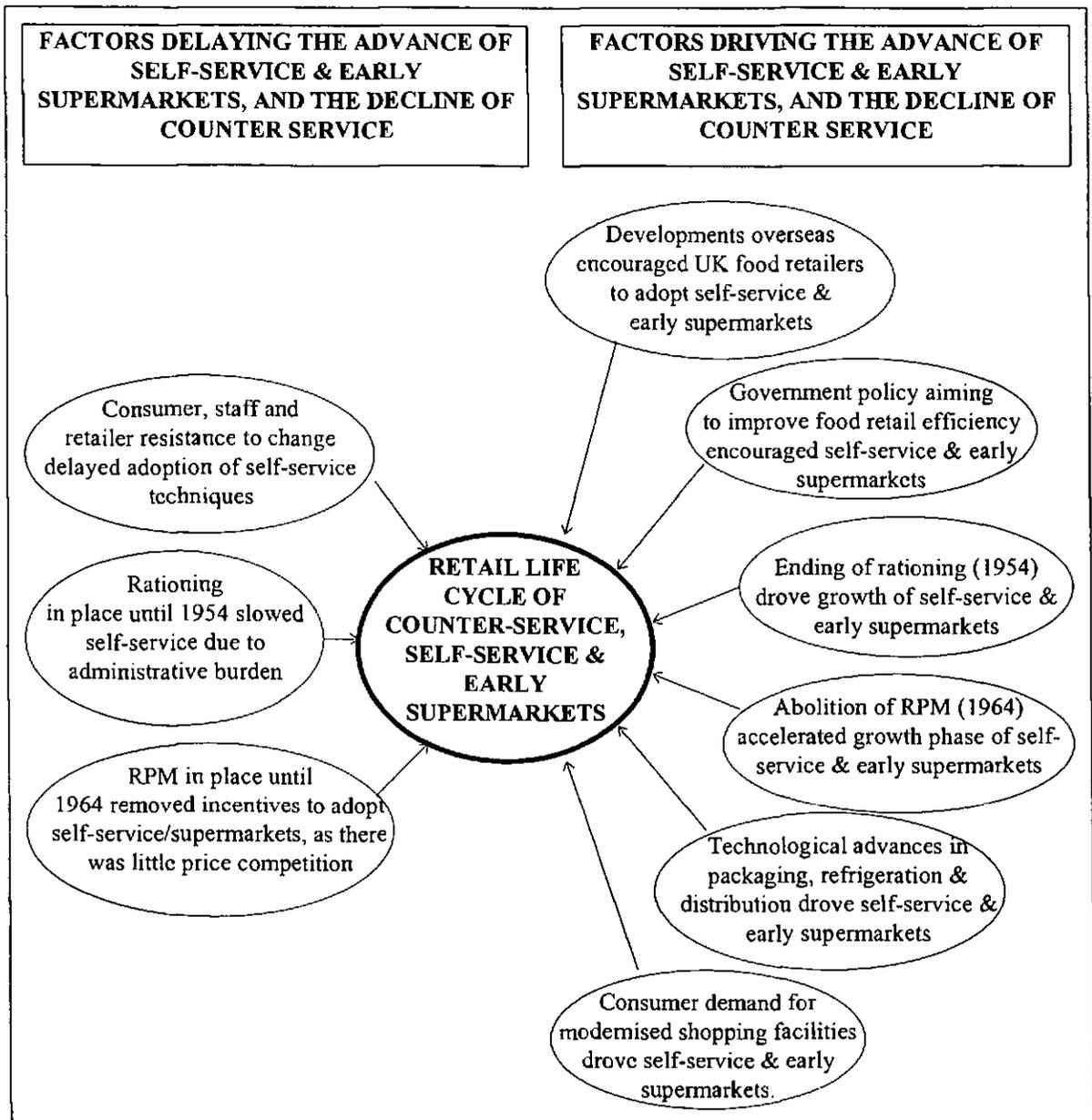
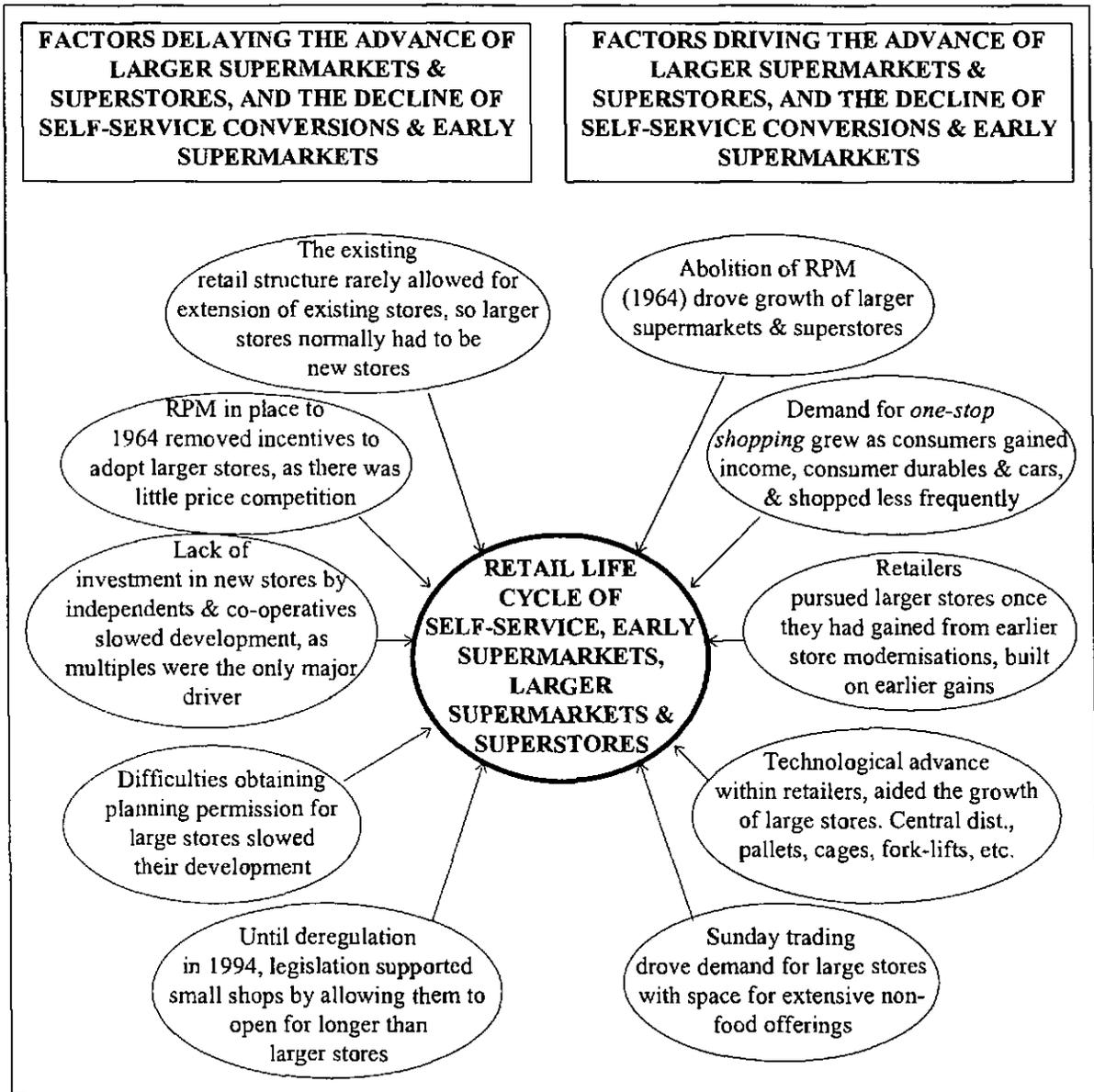


Figure 7.1.5b. Forces driving/delaying retail life cycles of food retail formats:



7.1.6. DARWINIAN EVOLUTION

Darwinian 'survival of the fittest' is well observed in UK food retailing post-1950, with the independent and co-operative sectors in particular having lost enormous volumes of trade to the multiple sector (4.1, p.85). The disappearance or contraction of such weaker food retailers has meant that trade has had to be won from stronger competitors, thus heightening competition (5.1.iv, p.131-132), suggesting that 'survival of the fittest' has been a key issue in UK food retailing post-1950, and has resulted in a lean, highly competitive industry, where the competition is much tougher (6.2, p.212). As 'survival of the fittest' wiped out much of the independent and co-operative trade, it went on to eliminate weaker multiple operators as the leading retailers contracted into the 'big five' through takeover and organic growth (6.2, p.209-210).

Size of organisation became a key factor affecting the fitness of operators, precipitating unprecedented takeover activity during the 1980s as retail conglomerates were built up through the takeover of many smaller operators (6.2, p.210-211). Geographical diversification was well under way as the larger operators expanded beyond their regional heartlands, bringing them into direct competition with regional players, which were typically weak in comparison, and the majority of which have now been absorbed by larger players (6.2, p.210). Thus by expanding geographically and being the surviving 'fittest' the major UK food retailers grew substantially in size, making size of organisation a critical issue. Large operators are able to obtain favourable buying terms (6.2, p.212), although retail expertise and negotiation skills remain an important element in this area.

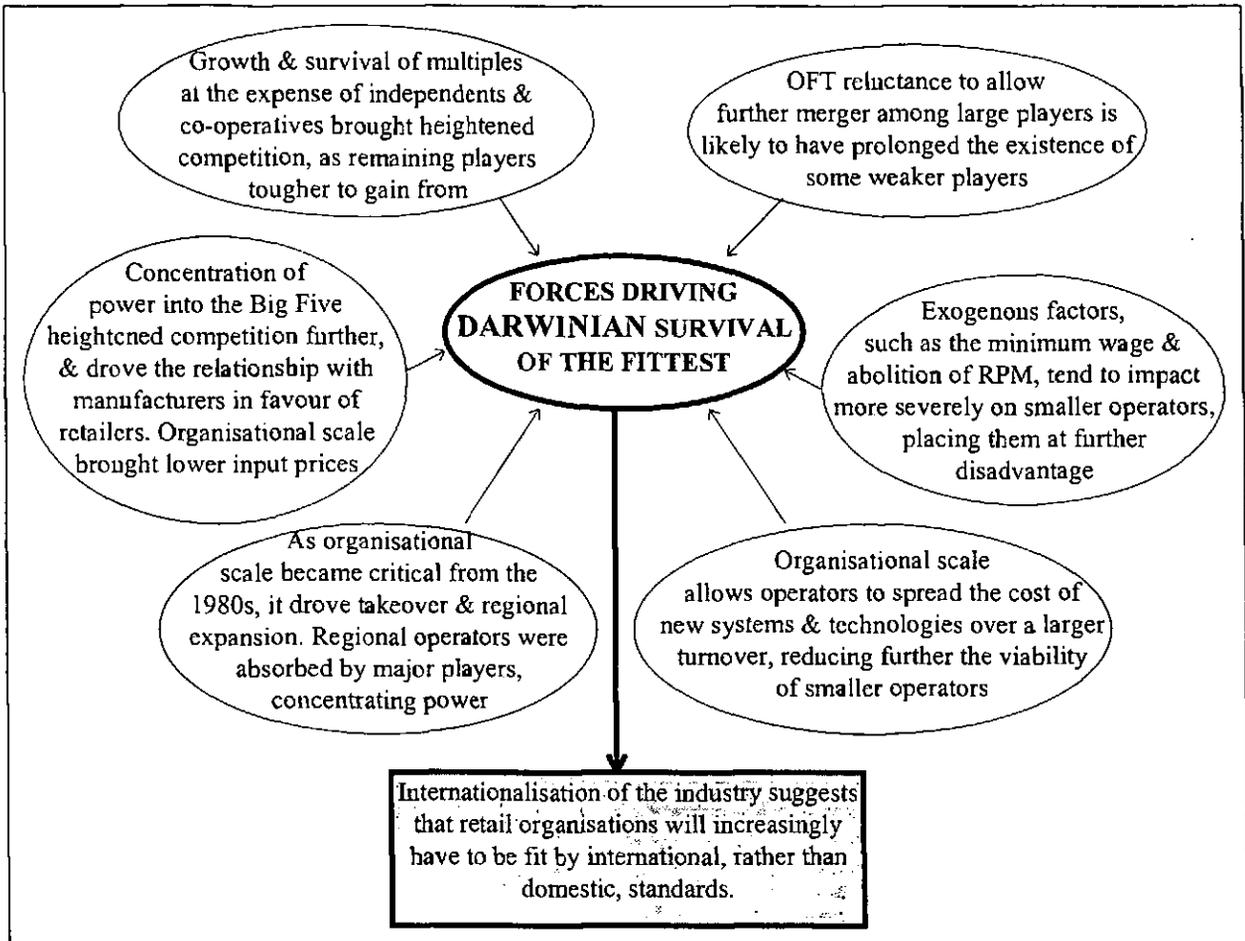
Large operators also have the advantage of being able to spread the cost of introducing new systems and technologies over a larger turnover, meaning that the cost per £ of turnover is lower. Investments in areas such as head office and distribution are therefore more viable for larger retailers (5.3.ii, p.166), reducing further the viability of smaller operators. The introduction of central distribution was an example of a system that large players were able to introduce, bringing excellent cost savings (5.3.iii, p.172) and

enabling the handling of more sophisticated, higher margin products (5.3.iii, p.172), making adopters 'fitter' than non-adopters (5.3.iii, p.172). The introduction of central distribution also allowed food retailers to obtain more favourable buying terms from suppliers, providing a double cost saving as the adopters of central distribution also tended to be the larger organisations who were already getting better buying terms than smaller operators. In short, size of organisation became a critical determinant in fitness of organisation (6.2, p.210).

Exogenous factors also affect the 'fitness' of retailers. For example, the introduction of the minimum wage had a financial impact on players who were previously paying poorly, and little effect on the better payers in the industry (5.1.vi, p.141). Assuming that the poor players were the weaker players, the introduction of the minimum wage will have made them weaker still, driving further Darwinian evolution. The abolition of RPM was also entirely negative for small operators, making them weak in comparison to larger operators (5.1.iii, p.122). Likewise, OFT reluctance to allow further merger within the industry must effectively prolong the life cycle of weak retailers (6.2, p.212), with break up of organisation or sale to overseas operators remaining the only viable alternatives as a means of disposal.

Internationalisation in UK food retailing is underway, with Wal-Mart's purchase of Asda in 1999, and Tesco and Sainsbury's expansion overseas. In future, therefore, retail organisations will have to be fit compared to international, rather than domestic, competitors, suggesting that the importance of fitness will increase (6.4, p.239).

Figure 7.1.6a. Forces driving Darwinian survival of the fittest:



7.1.7. DIALECTIC THEORY

Examples of UK food retailers adopting their competitors’ advantages are numerous, and these do tend to have the effect of reducing the differences between operators. They include the adoption of superstores by mainstream operators after innovators pioneered the format (6.3, p.227-228), although contractual obligations to existing development plans led to a delay of several years. Incidentally, this ‘dialectic-style’ behaviour also drove the superstore format into the rapid growth phase of the retail life cycle (see above). Sainsbury’s and M&S’s high quality focus on private label has also been widely adopted by competitors (6.5, p.252), and Tesco’s drive to be as good as M&S, but cheaper, (5.2.ii, p.151) is credited with driving Tesco’s good results and M&S and Sainsbury’s poor results in the late-1990s (5.2.ii, p.151). Similarly, innovations in

facilities such as in-store restaurants, delicatessens, fish counters, etc., have been so widely copied that it is hard to say who the innovators were (6.5, p.251-252), while also forcing increased costs onto the consumer through higher margins as the industry has been driven upmarket (see 7.1.1). Loyalty schemes in particular were widely adopted (5.4.iii, p.184-185), despite well-publicised initial dismissals of their benefits.

Why does 'dialectic-style' adoption of ideas take place?

Such behaviour is found to occur for several reasons. Loyalty schemes were found to have been widely adopted for fear of the damage that competitors could do with their new weapon, the loyalty scheme (5.4.iii, p.184-185). Adoption by non-innovators is therefore doubtless a means of negating a possible threat, although in the case of loyalty schemes widespread adoption can also negate many of the advantages in the field of incremental sales, threatening to turn the schemes into cost burdens (5.4.iii, p.191-192).

Food retailers also behave 'dialectically' in the product development arena. Manufacturers or retailers who launch a new product must expect retailers to quickly imitate the product in private label. One of the key reasons driving retailers to act in this way is that they can, very easily, work out the likely manufacturer of the product, its composition, and through their partnerships with manufacturers are easily able to get it copied (6.2, p.215-216).

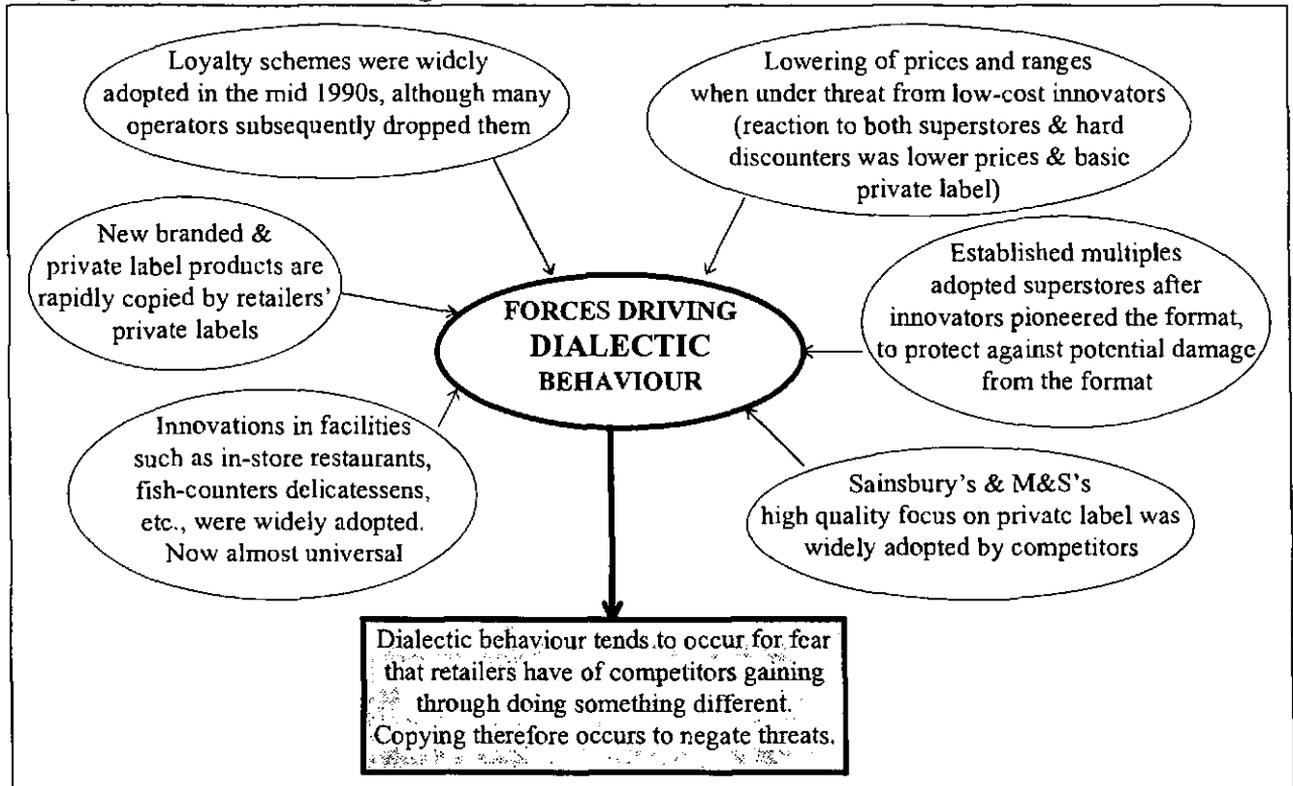
When faced with new, low-cost competitors, food retailers have a tendency to attempt to negate their price advantages. It was noted above that in order to negate the advantages of superstore innovators, established UK food retailers moved into the format themselves. Prior to this, however, they reacted dialectically by significantly lowering their prices (6.3, p.227) in order to negate the innovator's price advantages. Similarly, when appearing to be under attack from discounters in the early-1990s, established operators extended their ranges of 'no frills' basic private label dramatically, in a reasonably successful attempt to negate the price advantages of the discounters (5.4.ii, p.183).

Effects of 'dialectic-style' behaviour

Some threats have been 'neutralised' or lessened. The threat of discounters in the early-1990s is one which can be said to have diminished. Other threats, however, have developed successfully and become mainstream, for example, superstores. The dialectic behaviour of the established food retailers when faced with superstore innovation effectively ensured that they were at least involved in this format, having cannibalised much of their existing business which is preferable to having someone else destroy it.

New products and services have been widely adopted, sometimes without thorough evaluation of their benefits, through fear of being harmed by competitors' innovations. This has driven the industry upmarket as most extensions to the range bring higher margins than the core grocery offering (6.4, p.236-237), and most additional facilities bring higher staffing costs than self-service grocery retailing (6.5, p.248-249). Dialectic-like movement between oil companies and food retailers has brought them into competition with each other in both petrol and food retailing (6.4, p.236). The widespread move upmarket in private label pioneered by Sainsbury's has necessarily brought closer relations between retailers and manufacturers (5.4.ii, p.183-184). Finally, the number of lines has increased because of 'dialectic-style' behaviour, as have margins. For example, Sainsbury's blatantly copied M&S chilled fresh chickens (6.4, p.242), driving both the number of products on offer and margins upwards.

Figure 7.1.7a. Forces driving Dialectic behaviour:



7.2 Tabular representation of key findings of section 7.1

CAUSES OF TRADING UP	
Scrambled merchandising	
Mid 1950s on	Nearly any extension of range carries higher margins than the original, core branded dry groceries.
Early 1970s on	Slow growth in food market drove retailers' extension into non-foods, which generally carry higher margins.
Early 1970s on	Larger stores have provided the space to extend the range into higher margin lines.
Early 1970s on	The more products on sale, the less likely consumers are to recall prices, presenting opportunity to profiteer & increase margins on slow-moving lines.
Mid 1970s on	Central distribution aided range extension into more complex, fresh products carrying higher margins.
Mid 1970s on	Central distribution allowed some in-store warehouse space to be converted to sales area.
Early 1980s on	Growth in sybaritic society drove demand for high quality, prepared foods (high margin).
Early 1980s on	Retailers' range extensions tend to be high quality for fear of disappointing & losing customers.
Mid 1980s on	Range extension facilitated by consumer trust in the retailer as a brand.
Secular trends	
Mid 1960s on	Consumers have rising expectations of quality, and are reluctant to go back on quality once they have experienced it.
Mid 1960s on	Consumers associate the retail environment with quality of products purchased, driving retailers' investment in stores.

Mid 1970s on	Falling real incomes in mid 1970s provoked intense price wars. Inverse also holds, rising real incomes drive focus on service & quality.
Early 1980s on	'in many ways the change in Tesco has mirrored the change in society' - Terry Leahy (5.2.ii, p.149).
Fear of direct price competition	
Mid 1970s on	Food retailers have a tendency to pass on cost savings in the form of improved services & facilities, rather than lower prices.
Early 1980s on	Retailers tend to pursue a quality approach as a means of avoiding harmful price wars.
Early 1980s on	Inter-superstore competition was primarily over quality of the retail environment, service and products, rather than price.
Previously undocumented causes of trading up	
Mid 1950s on	High taxation on certain products clouds price competition, making it less worthwhile. Instead, retailers tend to accept higher margins.
Mid 1950s on	Food retailers' tendency to blindly copy competitors' innovations, for fear being harmed, drives up costs, putting pressure on margins & prices.
Mid 1960s on	Investment in improvements to the retail environment generally increase profits due to favourable consumer response.
Early 1970s on	<i>Planning Gain</i> has driven up the costs of new developments, putting upwards pressure on margins & prices.
Early 1980s on	Increasing demands of planning authorities over the years have forced new developments upmarket.
Early 1980s on	Rising taxes can force up operational costs, forcing up prices & margins. For example rising taxes on diesel have driven up the cost of distribution.
<u>FORCES CAUSING MOVEMENT OF THE RETAIL ACCORDION</u>	
Mid 1950s on	Re-availability of foods following WWII-related shortages drove range extension.
Mid 1950s on	Range extension increases margins, as almost all products carry higher margins than core branded dry groceries.
Mid 1950s on	Range extension is relatively easy in grocery retailing, due to the high consumer traffic in stores.
Mid 1950s on	Food retailers' tendency to blindly copy competitors' innovations, for fear being harmed, has driven up the number of products on offer.
Mid 1960s on	Manufacturers increased their ranges of products, which consumers demanded. New sectors developed, such as frozen foods.
Mid 1960s on	Leveraging of existing overheads allows food retailers to undercut traditional retailers of products.
Early 1970s on	Larger stores brought the space necessary to expand range.
Mid 1970s on	Advances in technology allowed warehouse space to be converted to sales area, driving expansion of range.
Early 1980s on	Changing society drove demand for new products, e.g. ready meals were demanded by the 'money-rich, time-poor' sybaritic society.
Mid 1980s on	Range extension facilitated by the development of consumer trust in the retailer as a brand.
Mid 1980s on (1994 legally)	Sunday trading drove demand for non-foods, as grocery shopping moved towards becoming a leisure activity.
Early 1990s on	Limited-line discounters (early 90s) and smaller multiple stores (late 90s, driven by planning constraints) necessitated smaller ranges.
<u>FORCES DRIVING POLARISATION OF STORE SIZES</u>	
1950 on	Until deregulation in 1994, legislation supported small shops by allowing them to open for longer than larger stores.
Mid 1950s on	The development of symbol groups supported small shops, driving further polarisation as medium-sized supermarkets suffered.

Early 1970s on	The impact of superstores was felt more acutely by medium-sized supermarkets than small grocery shops, driving polarisation.
Early 1970s on	Demand for 'top-up' and emergency shopping increased as shops moved out-of-town and got larger. Less frequent shopping trips drove more top-up & emergency shopping.
Early 1970s on	Demand remained for local shopping for those without access to transport and for the immobile.
Mid 1990s on	Planning guidelines can drive polarisation. PPG6 (1996) drove expansion of smaller, convenience-style stores.
FORCES AFFECTING THE RETAIL LIFE CYCLES OF SELF-SERVICE, EARLY SUPERMARKETS, LARGER SUPERMARKETS & SUPERSTORES	
Accelerating factors	
1950 on	Technological advances in packaging, refrigeration & distribution drove self-service & early supermarkets.
1950 on	Consumer demand for modernised shopping facilities drove self-service & early supermarkets.
1950s & 1960s	Developments overseas encouraged UK food retailers to adopt self-service & early supermarkets.
Mid 1950s	Government policy aiming to improve food retail efficiency encouraged adoption of self-service & early supermarkets.
Mid 1950s on	Ending of rationing (1954) accelerated growth phase of self-service & early supermarkets.
Mid 1960s on	Abolition of RPM (1964) accelerated growth phase of efficient stores (self-service, increasing size).
Early 1970s on	Demand for <i>one-stop shopping</i> grew as consumers gained income, consumer durables & cars, and had less time for daily shopping, driving the development of larger supermarkets & superstores.
Mid 1970s on	Retailers pursued larger stores once they had gained from earlier store modernisations, building on earlier gains to create larger supermarkets & superstores.
Mid 1970s on	Technological advance within retailers aided the growth of large stores. Central distribution, pallets, cages, fork-lifts, etc., drove the development of larger supermarkets & superstores.
Mid 1990s on	Deregulation of trading hours in 1994 drove demand for large stores with space for extensive non-food offerings.
Delaying factors	
Early 1950s	The rationing system in place until 1954 slowed self-service due to administrative burden.
1950s	Consumer, staff and retailer resistance to change delayed adoption of self-service techniques.
1950s & early 1960s	RPM in place until 1964 removed incentives to adopt self-service/supermarkets & superstores, as there was little price competition.
1950 to mid 1990s	Until deregulation in 1994, legislation supported small shops by allowing them to open for longer than larger stores.
Early 1960s on	Lack of investment in new stores by independents & co-operatives slowed development of larger supermarkets & superstores, as multiples were the only major driver.
Mid 1960s on	The existing retail structure rarely allowed for extension of existing stores, so larger supermarkets & superstores normally had to be new stores.
1960s & 70s. Late 1990s	Difficulties obtaining planning permission for larger supermarkets & superstores slowed their development.
FORCES DRIVING DARWINIAN SURVIVAL OF THE FITTEST	
1950 on	Exogenous factors, such as the introduction of the minimum wage & the abolition of RPM, tend to impact more severely on smaller operators, placing them at further disadvantage.
Early 1960s on	Growth & survival of multiples at the expense of independents & co-operatives brought heightened competition, as remaining players tougher to gain from.

Early 1980s on	As organisational scale became critical from the 1980s, it drove takeover & regional expansion. There was concentration of power as regional operators were absorbed by major players.
Early 1980s on	Organisational scale allows operators to spread the cost of new systems & technologies over a larger turnover, reducing further the viability of smaller operators.
Late 1980s on	Concentration of power into the Big Five heightened competition further, and drove the relationship with manufacturers in favour of retailers. Organisational scale brought lower input prices.
Mid 1990s on	OFT reluctance to allow further merger among large players is likely to have prolonged the existence of some weaker players.
Mid 1990s on	Internationalisation of the industry suggests that retail organisations will increasingly have to be fit by international, rather than domestic, standards.
FORCES DRIVING DIALECTIC BEHAVIOUR	
1950 on	Sainsbury's & M&S's high quality focus on private label was widely adopted by competitors.
1950 on	Dialectic behaviour tends to occur for fear that retailers have of competitors gaining through doing something different. Copying therefore occurs to negate threats.
Mid 1950s on	New branded & private label products are rapidly copied by retailers' private labels.
Mid 1960s & early 1990s	Lowering of prices and ranges when under threat from low-cost innovators (reaction to both superstores & hard discounters was lower prices & basic private label).
Early 1970s	Established multiples adopted superstores after innovators pioneered the format, to protect against potential damage from the format.
Mid 1970s on	Innovations in facilities such as in-store restaurants, fish-counters delicatessens, etc., were widely adopted. Now almost universal.
Mid 1990s	Loyalty schemes were widely adopted in the mid 1990s, although many operators subsequently dropped them.

7.3 Application of theories in order to forecast

This section applies the most relevant themes of the theories of retail change, identified in section 7.1, to produce a theory-based forecast of likely UK food retail developments to 2010.

The first key theme that is likely to continue for the foreseeable future is operators 'trading up' the quality of their stores, products, facilities and services. Changes to the retail offering will be the primary driver of this, as in the recent past. Continued growth in quality private label, fresh prepared foods and non-foods will be driven by rising consumer incomes, and retailer desire to stimulate growth in a static food market with limited expansion prospects. Increases in the number of products stocked will be

constrained by the current hostile planning environment for large stores, although extensions to existing stores and more efficient use of warehousing may enable conversion of additional sales area, providing at least some growth in sales area. Recent diversification into categories requiring little or no sales area, such as financial services, will continue due to limited growth in sales space, and will be facilitated by consumers' trust in the leading retailers as brands.

Trading up will also continue to be driven by other factors. Planners' high expectations will continue to force up the costs of developments, although the hostile planning environment since 1996 has neutralised much of this effect, and will continue to do so for the foreseeable future. The success of store refurbishment is a primary driver of trading up of the retail environment, and this will continue as long as consumer reaction is positive, and the effect on profits remains good. The tax burden on motoring is unlikely to decline significantly, despite government concessions to hauliers¹, so the cost of distribution in the UK will remain high by international standards, putting upwards pressure on UK retail costs, margins and prices.

Retailers' 'blind' copying of competitors' initiatives, driven by fear of the harm they could do, will continue to drive trading up. From time to time, however, initiatives adopted in haste will be abandoned as their true cost to overheads, margins and prices is realised, driving polarisation in the industry.

Polarisation will remain a key trend in UK food retailing to 2010. Polarisation of organisational size is currently constrained by the regulatory state, namely the OFT's reluctance to allow mergers between leading domestic operators, although this could change. Organic growth, however, will continue to drive polarisation of organisational size, albeit at a slower rate than leading operators would like. Conversely, polarisation in the size of stores is currently being hastened by the regulatory environment, because the

¹ *Economist* (US), November 11, 2000; "Farewell Coherence", p.25

1996 change in planning guidelines for large stores drove mainstream multiple operators to develop smaller, conveniently located stores. As development of such stores gathers pace, polarisation of store size will accelerate. Polarisation of loyalty schemes appears set to continue, and follows 'blind copying' of mid-1990s initiatives. More operators will drop the schemes if they can not turn them to their advantage, driving further polarisation. Polarisation in pricing strategy, between permanent low prices and temporary promotional and multibuy activity, is occurring, as Wal-Mart Asda focus on permanent low prices. Polarisation in the quality/price focus will increase, as Sainsbury's, for example, are pursuing quality as an alternative to outright price competition with Wal-Mart Asda and Tesco ².

Retail life cycles are long-term trends, and the period to 2010 is unlikely to see significant deviation from current trends. The market share of independent, co-operative and specialist food retailers will therefore continue to decline, as that of multiple operators continues to grow. Similarly, power will increasingly be in the hands of leading multiple operators, as weaker multiples suffer. Growth in superstores will be slow due to the constrained organic growth of the format, and the bulk of growth will come from exploiting existing superstores more effectively, assuming the planning environment remains constant. Multiples' smaller stores will continue to gain market share, as will delivered grocery services, with these retail channels representing the new engines of multiple growth.

Survival of the fittest will continue to be fundamental to the UK food retail industry, and indeed most industries. The lifetimes of domestic operators will be prolonged, however, due to the OFT's reluctance to allow merger within the industry, although break up of the failing operator, sell-off of selected stores, or takeover by a foreign predator would overcome this. The internationalisation of retailing means that fitness will increasingly be determined on an international, rather than domestic, basis, effectively making

² *Super Marketing*, June 2, 2000; "Davis admits defeat in race for top spot", p.1

organisational fitness more critically important.

Retailers' mutual fear of competitors' innovations will continue to drive dialectic behaviour in UK food retailing to 2010, and therefore convergence within the industry. It will also drive polarisation, however, when fear is superseded by the opportunity to differentiate, thus has conflicting effects. This was the case with loyalty schemes, which were adopted dialectically in the mid-1990s, to be abandoned by some operators just a few years later, in order to differentiate themselves through lower pricing. Dialectic tendencies will continue in product development, and in the addition of facilities and services. Spending on improvements to the retail environment and the retail offering will continue to put upwards pressure on margins and prices.

7.4 Results of the forecast

Trading up of stores, products, facilities and services will continue to 2010:

- Range extension will be a major driver of trading up to 2010. Better quality private label, fresh, prepared foods, and non-foods for some players, will all increase market share, and their uptake among consumers will be driven by rising real incomes.
 - Retailers will pursue range extension to combat continued slow growth in the food market coupled with limited store expansion prospects.
 - Range extension will be constrained by slow growth in store sizes, a result of the hostile planning environment for large stores, which seems unlikely to change.
 - Growth in sales area of existing stores will be pursued more vigorously because of the hostile planning environment for large stores, and will be achieved through store extensions and more efficient use of space, which allows conversion of backroom area to sales space.
 - The hostile planning environment to large stores will drive retailers to pursue new categories requiring little or no sales space, which is facilitated by consumer trust in the leading operators.
- Trading up will continue to be driven by the heightening demands of planners,

including planning gain, although the hostile planning environment to large stores makes this less critical than in the past.

- Store refurbishments and improvements will continue to drive trading up, as long as the consumer reaction to this remains positive and such investments continue to be successful.
- The high cost of UK distribution is unlikely to change significantly, and will therefore continue to put upwards pressure on costs, margins and prices.
- ‘Blind’, dialectic-style copying of competitors’ innovations will continue to drive the industry upmarket to 2010 (see below).

Trading up will allow growth in a static food market, and boost performance in a period of slow growth in retail floorspace. It will also put upwards pressure on costs, margins and prices, and create opportunity for retail differentiation through low-cost operating.

Polarisation will continue to be a major trend in UK food retailing to 2010:

- Polarisation of store sizes will accelerate as multiple operators’ development of small, local stores gather pace. This development is occurring a result of the hostile planning environment to large store development.
- Polarisation of organisational size will continue due to organic growth of leading operators, but will be slower than in the recent past due to OFT reluctance to allow further merger.
- Polarisation in the use of loyalty schemes is a current feature of the industry, and polarisation in the adoption of other services and facilities will occur. This is largely driven by retailers’ ‘blind’ adoption of competitors’ initiatives through fear of the harm they could do, and later considering them a cost burden in the cold light of day.
- Further polarisation between price-focused and quality-focused retailing will occur as Tesco and Wal-Mart Asda compete over price, while other operators rush to differentiate themselves by pursuing quality.

The retail life cycles of retail types and retail formats will continue their long-term trends:

- Independent, co-operative and specialist food retailers will decline further, although this will be slower than in the past due to the shake-out that has already occurred, and their small remaining market shares.
- Multiple food retailers will continue their growth at the expense of independent, co-operative and specialist operators.
 - Within the multiple sector, however, larger multiples will continue to grow at the expense of weaker, smaller multiples, although OFT influence means that this will be slower than in recent history.
- The retail life cycle of the superstore is effectively in suspense due to the hostile planning environment to such stores, which is unlikely to change. Better exploitation of superstores will provide some growth in the format, but the regulatory system is a major brake.
- Major multiples' development of smaller stores, forecourt operations, and delivered grocery shopping will drive forward the life cycles of these formats. The major impact of their small store programmes will be on independent stores and convenience multiples, while that of delivered shopping will be on superstores.

Survival of the fittest will continue, as it always has:

- OFT reluctance to allow further merger between domestic operators will prolong the life of weak operators. Despite this, truly weak operators will disappear eventually, either through break-up of the organisation, with stores being sold off individually, or through takeover by an overseas operators.
- Fitness will increasingly be determined on an international basis, as overseas operators eye up or enter the UK, and domestic operators pursue expansion overseas.

Dialectic-style behaviour will continue:

- Fear of the harm that could be inflicted will continue to drive retailers' 'blind' adoption of competitors' initiatives.

- This will continue to drive the industry upmarket.
- It will also drive polarisation when operators weigh up the value of their 'blind' investments and begin to see them as a cost burden, tempting them to abandon the initiative in order to improve their competitiveness.

7.5 Implications and recommendations for the UK food retail industry

Growth in real incomes will continue to power consumer demand for better quality products, services and facilities in UK food retailing. Retailers responding effectively to this will be able to counter the problems of slow growth in the market for food coupled with likely slow growth in retail floorspace. Investment in improvements to the retail environment will continue to 2010, provided that such investments continue to produce good returns, and the quality of the retail environment will therefore remain an important element of competition, suggesting trouble ahead for operators of substandard or outdated stores.

Significant trading up has occurred historically due to evolution of the retail offering, but range extension to 2010 will be more difficult than in the past because of the brake on increasing store sizes imposed by the hostile planning environment, assuming that this remains unchanged. Increases in retail sales area will not come from the addition of larger stores, as they did in the past, and will have to be gained through the more efficient use of space, which enables conversion of backroom space to sales area, and extensions to existing stores. Retailers must also attempt to counter the slow growth in retail sales area by diversifying into categories requiring little or no shelf space.

When seeking planning permission for large stores, retailers must be wary of excessive demands from planners. Although in reality they have little choice but to satisfy planners, negotiation in this area will be the key to minimising additional costs.

Upwards pressure on margins will continue to be applied by the high cost of

transportation in the UK, and by retailers' copying of competitors' initiatives (see below), presenting opportunity to differentiate through non-adoption, or by cutting out poor performing initiatives.

Polarisation will continue to be a feature of UK food retailing, and polarisation of store size will accelerate as multiple operators' development of small, local stores gathers momentum. The key effect of this will be heightened competition with independent food retailers, who must react appropriately or face further erosion of market share.

Polarisation of organisational size will continue, but this will be at a slower rate than in the recent past due to the influence of the OFT. Weaker multiple organisations will not be saved indefinitely by the OFT's stance, however, as break-up of organisations and foreign takeover are realistic alternatives to domestic merger, and their OFT may change their opinions.

Polarisation of marketing tools, and other initiatives, is well established in UK food retailing. Trading up, and the constant addition of services and facilities presents the opportunity for one or more operators to either shun an initiative at launch, or to drop it later. If the scheme in question incurs costs to the business, dropping it or shunning it effectively allows the retailer to operate at lower margins than competitors adopting the initiative. In short, retailers must thoroughly evaluate the potential value and cost of initiatives before adopting them, rather than blindly adopting them for fear of the harm they could do, because this can put unnecessary upwards pressure on margins.

Polarisation of focus between quality and price is a key trend at present, as certain operators are marketing themselves as high quality propositions, and others are becoming increasingly involved in price-cutting. Retailers should be wary of being caught in the middle ground, as this is a very difficult position to occupy.

Study of retail life cycles suggests that independent, co-operative and specialist food

retailers will continue to lose market share, although these losses will be slight in the historical context due to their small residual market share. Further shop closures will occur in these sectors, particularly as multiples move into small, local shops (see above).

Multiple food retailers, as a sector, will not grow as rapidly as they have done in the past, although the growth of individual companies will remain relatively strong as there are fewer remaining players. Multiple market share will also continue to concentrate into the hands of the few largest operators, at the expense of smaller weaker multiples, who will struggle to compete. The influence of the OFT, if it remains unchanged, means that domestic takeover is unlikely, and break-up remains the more likely means of exit for second division multiples.

The superstore format will experience slower growth, due to the brake on expansion of the format imposed by planning policy, which appears unlikely to change. In this environment of slow addition of superstore space, retailers must exploit their existing superstores as much as possible in order to grow their profitability through diversification of product offering and operating efficiencies.

Growth in UK food retailing to 2010 will come primarily from the development of smaller stores, forecourt operations and delivered grocery shopping, as these are the formats in which major operators are currently investing. Growth of smaller multiple stores will impact on independent operators (see above), while rapid uptake of delivered grocery shopping will harm the superstore business, as this is currently the primary destination for the weekly shopping trip.

Fitness of organisation is increasingly being determined on an international basis, reinforcing the need for UK retail organisations to streamline themselves as much as possible. The UK already has one major overseas player in Wal-Mart, and further internationalisation is possible, particularly as the OFT is unlikely to allow merger between major domestic operators, making them more vulnerable to international

predators. Further internationalisation of operators, however, carries the threat of them becoming more cumbersome and losing sight of the detail of the UK market, which would be likely to benefit smaller multiples and independents able to innovate and adapt to local demand rapidly and effectively.

Chapter 8

Forecast of likely developments in UK food retailing using the Delphi technique

The results of the Delphi survey conducted between July and November 1999 appear in full in appendix 1, and the technique and precise methodology employed are explained in section 3.1.iii. Section 8.1 interprets and analyses the results, while section 8.2 follows this up with an assessment of the implications. Section 8.3 summarises the key elements of the theory-based (chapter 7) and expert-based (this chapter) forecasts, essentially comparing and contrasting the results of the two forecasting techniques.

8.1 Interpretation of the Delphi results

The Delphi results (appendix 1) forecast that growth in the market share of multiple food retailers will continue to 2010, although at a slower rate than has been the case to date, rising from 85.6% in 1997 to 90% in 2005 and 92% in 2010. This growth will occur at the expense of independent operators, and to a lesser extent, co-operative societies, both of which will suffer a resulting decline in market share. Slowing in the growth of multiple operators is said to be largely a result of the physical size of the United Kingdom, changing shopping habits, planning restrictions, transport policy, and the likelihood of negative Competition Commission findings. Co-operative food retail market share is forecast to fall from 7.4% in 1997 to 5.5% in 2005 and 5% in 2010, and it is also suggested that the co-operative sector will find a niche and maintain market share after 2005. It is speculated that an inability to revitalise could lead to the takeover or acquisition of co-operative societies. Independent operators' market share will decline further still, from 7% in 1997 to 5% in 2005 and 4% in 2010, although a basic minimum of independent trading should be supported by 'social exclusion type policies', and the growth of electronic commerce could either adversely or positively affect this sector (see below).

Although growth of the multiple sector as a whole will slow, the dominance of the leading players is expected to increase; the market share of the leading five multiples will rise from 48.4% in June 1998 to 60% in 2005 and 65% in 2010, while that of the leading three will rise from 36.9% in June 1998 to 43% in 2005 and 48% in 2010. This growth will be achieved through the addition of a variety of retail formats and may be fuelled by the entry of overseas operators which is likely to catalyse price wars, shaking out weaker players or leading to takeovers. Increasing sales of non-foods will also contribute to sales of key players. These estimates are highly dependent on external factors such as

government legislation, regulatory control, competition policy, and planning restraints, which have already contributed to the slowing of store opening programmes. This slump in store openings, particularly of superstores, will result directly in slower growth, and may induce takeover activity. Takeover activity itself is largely governed by UK and European law, although respondents suggested that one of the top five operators may have to be 'rescued' by being broken up and sold to other operators, with the UK government unable to counter the move.

This growth of the leading multiple food retailers will be achieved 50% through acquisition and 50% through organic expansion, although panellists see this as almost entirely subject to regulatory forces. Regulatory control and concerns over the dominance of large multiples will slow (domestic) acquisition, and planning policy will drive natural expansion into the small store and e-commerce sectors.

Panellists found individual market shares of different types of convenience operator difficult to forecast because of the highly fragmented nature of the market, with the sector split between multiple, convenience multiple and independent ownership. Substantial takeover activity will occur in the sector, which will grow to account for 20% of the total UK grocery market in 2005, compared to 18% in 1998, stabilising post-2005. Mergers between convenience multiples and co-operative societies are a possibility, and convenience multiples will continue to buy up independent outlets. Symbol groups will suffer from the co-operative sector's concentration on convenience and the growth of major multiples in the sector, and may be taken over by or become franchises of major multiples, as may co-operative outlets.

The market share of discount food retailers will stabilise at 8% by 2005, falling from 8.5% in 1998, although there will be strong locational discrepancies, with the format being stronger in inner city areas. The entry of Wal-Mart will drive a diminishing differential between discount and other food retail operators.

The market share of groceries delivered to the home will reach 5% in 2005 and 10% in 2010, with respondents emphasising that 5% is a large market share, larger than that previously held by Kwik Save. Low figures were supported by suggestions that delivered groceries are still not big in USA, and that we are five years behind in internet usage, and by the fact that online shopping tends to be

restricted to a fixed amount of shoppers per store. Higher estimates were supported by claims that consumers are willing to pay the delivery fee due to a cost/time trade-off, and that growth may be achieved through the development of 'collection points'. Doubt was expressed as to whether the cost structures of existing businesses can be changed this way: if not, delivery facilities are an additional cost burden for the business to bear.

By 2010, 60% of delivered groceries will be despatched from specialised despatch depots, rather than existing stores, although there was an extremely high level of variation in the responses to this question. Despatch depots are not expected to be economical in servicing a 5% market share, yet store based picking is also uneconomical, with depot based picking the 'only way' to make it profitable. Ultimately, it will depend on the take-up of delivered grocery shopping, although '*current developments suggest depots will be common*'.

The likely impact of 10% and 25% of groceries being delivered by 2010 was investigated and the medians of the responses suggest that a 10% penetration of delivered groceries will have little or no effect on out-of-town superstores or local convenience operators, while a 25% penetration would decrease the trade of both formats. Although few participants believed that delivered groceries would reach 25% of grocery sales by 2010, an analysis of the interquartile range of responses is more enlightening. 10% of groceries being delivered will have no effect or will lead to slight improvements in the trade of local, convenience retailers, while 25% will harm them reasonably significantly. As for out-of-town superstores, a 10% delivered market share will have no effect or will lead to a slight decrease in their trade, while 25% would decrease their trade more severely than it would that of local, convenience retailers. This more positive outlook for local, convenience retailers is said to arise because deliveries will be of bulk commodities, not all groceries, so there will be a top up need, which will tend to be fulfilled closer to the home. Superstores are expected to suffer because people would not need to go to them so often, although there would be strong urban-rural differences in impact.

The means of ordering delivered groceries will be primarily by telephone/fax (40%) in 2005, and primarily via digital television by 2010 (42.5%), although it is stressed that the uptake of digital television remains an unknown. Digital television will overtake internet ordering as the dominant ordering channel soon after 2005, as it is less costly and less awkward to operate than computers,

although one commentator expects the internet to be the dominant channel until 2010, when digital television will overtake it. Other possible formats suggested are in-store ordering, telesales, and devices that have yet to be invented.

Finally on delivered groceries, the delivery charge is expected to be widely abolished around 2005, although there was widespread disagreement about whether and when this could happen. Some respondents suggested that the delivery charge is most likely to be incorporated into the prices. It was also suggested that competition will ensure that the charge is abolished, and that it would have to be loyalty or volume based if there were no charge, as the free delivery services of Iceland and Asda are at present (£40 and £99 minimum purchase respectively). It was also suggested that abolishing the delivery cost would be too big a cost to absorb long term while giving reasonable price/quality parity.

24 hour opening of superstores will become the norm around 2004, although there was confusion over the definition of 'norm'. 24 hour opening will vary by location, and will be driven by consumer demand locally.

Price consciousness among consumers as a whole will remain relatively stable to 2010, although it will vary according to customer lifestyles and groupings. Price consciousness is dictated by the economic cycle of the time, and is considered to be demonstrated more through the search for value for money than sheer price appeal. Consumers will be more aware of prices because of increasing competition and because of the increasing amount of information available to them, *'aided and abetted by increasing media attention on the industry'*. Rising incomes will fuel demand for service and quality rather than purely price, while value for money will remain important.

Price variations according to the time of day or day of the week are seen as more unlikely than likely, and if they were to happen it would be around 2005. Better systems would be required, as would further understanding of individual customer behaviour. It is made unlikely by the mature static market, with a relatively static volume of food sales, and the fact that market share can only be increased by taking it from a close competitor. In addition Competition Commission findings will have a bearing, and "extra loyalty points" are seen as a more likely means of incentivising shopping on quiet days. Price variations were also considered *'politically incorrect'* and a *'suicidal policy'*.

Competition in UK food retailing will increase significantly, largely as a result of international operators acquiring UK retailers. UK food retailers will attempt to differentiate their offerings significantly more than at present, which to a certain extent reflects the expected increase in competition.

Expenditure on the collection and use of customer data will increase significantly, continuing an existing upwards trend. The main element of this will be in the exploitation, or 'use', of the data gathered, which will require further investment in management and information technology beyond current facilities as it becomes more sophisticated. A possibility that '*loyalty fatigue*' among consumers may set in by 2010 was also expressed, which would partly offset these rising costs.

The amount of data shared between retailer and manufacturer will increase significantly, as will partnerships between the two parties. The primary cause of this is that strategic alliances, partnerships and networks are becoming more important than "out and out" competition, and that through information sharing, manufacturers can take the lead role in store replenishment. Partnerships are also created through global trading understandings, national supply chain integration, shared media and customer communications, and are facilitated by internet technology. With increasingly deep partnerships developing, vertical integration could be an easy step.

UK food retailer investment in overseas operations will increase by 2010, although it was stressed that this is likely to be concentrated mainly through Tesco and perhaps one other operator, as other operators are either expected to have been taken over or to have 'missed the boat' of international expansion. In effect, the degree of UK operator overseas investment will depend on the number of acquisitions by American and European retailers. Internationalisation will not be an optional extra, it will increasingly be essential for survival, which should also drive similar increases in overseas retailer investment in UK operations. However, this may be limited as one panellist senses that fewer overseas operators are large enough or interested enough in UK food retailers than was previously thought to be the case.

Investment in technology in 2010 will have increased significantly, and will focus largely on customer relationship marketing (CRM), and the efficient and profitable meeting of customer

requirements. Home shopping and developments to facilitate the shopping experience will also require IT investment. Advancing technology will ensure that IT investment has to step up, as will the accelerating pace of change.

Private label groceries will account for around 45% of grocery expenditure in 2005 and 47% in 2010, rising from 40% in 1996. These increases will largely be driven by the increasing market share of the major multiples, and through operators seeking 'points of differentiation'. Further rises are considered unlikely as *'Sainsbury's has shown a level over 50% is unsustainable'*.

The market share of ready meals will increase by 20% in the period to 2010, following developments in the USA, and largely driven by increasing disposable incomes and the increasingly 'time poor' consumer demanding convenience.

The quality of the shopping experience in 2010 (in terms of levels of service and facilities) will improve, driven by retailer efforts to differentiate themselves in a competitive market, and the requirement to invest more in order to retain customers. However, conflicting trends are seen, one towards cost-cutting, no frills operations, and one towards increasing levels of service. One participant added that *'Wal-Mart is not a high quality shopping experience'*.

UK food retailers will become more innovative by 2010, and although one commentator finds it hard to see what the innovations could be, another suggests that it will be imperative in order to maintain profitability and returns to shareholders. UK food retailers will continue to adopt one another's ideas at a similar rate as they do at present. Respondents suggest that *'imitation will continue'* and that *'there are no new ideas, just variations'*.

Convergence between rounds

A fall in the size of the interquartile range of responses for a certain question as rounds progress is indicative of convergence of opinion. Likewise, if the sum of the upper quartiles of all responses minus the sum of the lower quartiles for the same responses decreases between rounds, there is convergence of opinion.

While the two round Delphi forecast does not offer much scope for comparative studies of rates of

convergence, it is possible to quantify the difference between initial and final levels of convergence, and to give a percentage value of progress towards complete convergence, when the sum of the interquartile ranges would equal zero. In this survey, the sum of the upper quartiles minus that of the lower quartiles in round one was 348.4, falling to 273.6 in round 2. This denotes a 21.5% move towards complete convergence, as discussed above.

Values relating to responses to questions 12b, 13 and 15b were excluded from these convergence calculations as the upper quartiles involved 'later' or 'never' statements in either or both rounds, which as non-numeric values are impossible to manipulate in this way without making vague estimations.

Limitations

The general limitations of the Delphi forecasting technique are considered fully in section 3.1.iii and appendix 5, although there are two limitations specific to this forecast that are addressed here. First, the sample of respondents is not as large as would ideally have been the case. Senior industry figures tended to be unwilling to take part in the exercise, and despite more than 40 invitations to take part in the exercise, the final sample was only 11. Martino [1983] found that as long as a panel was actually 'expert', 15 would be sufficient to produce an accurate result, so a small panel should not affect the process too negatively. A second limitation arose when two panellists failed to return their second round responses. In these cases, a letter was sent to the panellists, and eventually their first round responses were carried through to the second round.

8.2 Implications of the Delphi forecast and recommendations for the UK food retail industry

Growth in the market share of multiple operators will slow dramatically, particularly between 2005 and 2010, and independent and co-operative operators will experience a corresponding slowdown in erosion of market share, although decline will continue. This slowing of the rate of market share change is dependent on many factors (7.3), and represents a period of forthcoming relative stability for independent and co-operative operators, although the competitive environment will remain tough.

While multiple growth as a whole will slow, leading players' growth will be maintained through erosion of the market share of weaker multiples. This will be driven by leading operators' addition of

new retail formats, and may be aided by intensive price competition shaking out weaker players. Again, this is dependent on many factors and will be driven in equal proportions by organic growth and acquisition, which in turn is also highly dependent on the regulatory environment. Second division multiple operators, therefore, do not have a particularly bright future, and some will have disappeared by 2010.

Superstore growth will be slow due to the restrictive planning policy, which may provoke takeover activity within the sector, as a means of growth. This is most likely to be in the form of a 'top five' operator being 'rescued' - broken up and the stores sold off individually, because of government resistance to further merger within the industry. Operators, even large ones, must continue to seek growth from existing outlets, and alternative formats to the superstore, and must also seize the chance to buy competitors' suitable stores, if and when they become available. Those operators that do not maintain growth are likely to be those that disappear.

The highly fragmented convenience store market will be the subject of substantial merger activity, and will grow slightly in comparison to the overall food market to 2005, when it is expected to stabilise. The entrance of major multiples and co-operative retailers to this sector will adversely affect symbol retailers; alliances may be formed and mergers are likely. This sector of the industry will be less fragmented in 2010, and it is a sector presenting opportunity for multiple operators to grow their market share.

The importance of the discount market will decrease slightly to 2005, when it will stabilise. This is attributed to a diminishing differential between discounters and price-focused major multiples, but inner cities will continue to be a strong market for discount operators. Discount operators, therefore, will struggle to grow at any great pace, bar merger within the sector, and must work hard to differentiate themselves from Wal-Mart Asda, while focusing their development in areas with growing demand for discount food retailing.

Delivered groceries will grow steadily to reach 10% market share by 2010, which is a significant market share, but is considered a level at which additional costs will be incurred by retailers offering deliveries. This level of penetration would have little or no effect on existing retail formats, although 25% market share, which is seen as highly unlikely by 2010, would impact on convenience stores

and particularly on superstores, with convenience stores forecast to suffer less due to the likelihood of increased demand for top up shopping. The effect of the growth of delivered shopping on the leading multiple operators will be relatively small, as they are the primary drivers of it. Multiples moving into convenience retailing are less exposed to the negative competitive effects of growth in delivered shopping, as are those moving into delivered shopping, while those concentrating on superstores will be hardest hit if there is rapid growth in delivered shopping.

Specialised despatch depots to fulfil home deliveries will grow because store based picking of orders is uneconomical, but this depends on the uptake of delivered shopping. Moves into specialised depots appear inevitable, particularly in areas with a high concentration of people, and will underline the negative effect of delivered shopping on existing superstores, as these will no longer be involved in the process of delivering groceries.

The growth of digital television will be a major driver of delivered shopping, and this will become the primary means of ordering soon after 2005. The growth of delivered grocery shopping is therefore highly dependent on the rate of uptake of digital television, which in turn is dependent on the consumer, the government and the pricing and marketing of digital television. The delivery charge for delivered shopping is likely to be abolished by 2005, or will increasingly be waived for larger orders, putting upwards pressure on costs and margins for delivered groceries.

Superstores will open increasingly for 24 hours, and this will be determined by local demand. Competition plays a role in this, and retailers will have to carefully assess local demand, likely costs, and the likely actions of local competitors before deciding whether to extend trading hours.

Price consciousness among consumers will remain relatively stable to 2010, although this is dependent on economic conditions. Price consciousness will be demonstrated through consumers seeking value for money, rather than shopping purely on price, and rising incomes will drive a focus on quality and service rather than just price. The quality of the shopping experience is expected to improve in the years to 2010, particularly as retailers seek differentiation in a competitive market, and polarisation of approach is expected, with Wal-Mart Asda representing the price-focused retailer. The opportunity for trading up is therefore clear, although this must not be to such an extent that price competitiveness is lost, as consumers will be more aware of prices due to increased competition

and significant media interest. Rising incomes and increasing numbers of 'time poor' consumers will drive up the market share of ready meals, for example, and such consumer changes present opportunities for retailers.

Competition in the industry will intensify due to internationalisation, with serious implications for weaker operators, who may be forced from the market. Heightened competition will drive differentiation within the industry, and is likely to cause trading up.

Expenditure on using the data captured by loyalty schemes will increase, as retailers seek to make their investments in the schemes pay dividends. There is a danger that customers may tire of loyalty schemes by 2010, meaning that they will become a cost burden if efficient use of the data is not achieved.

Relations between food retailers and their suppliers will become closer as they share more information to make the supply chain more effective and efficient, and form strategic alliances and partnerships. This has implications for smaller retailers who may not have the necessary scale to form alliances, and could possibly drive vertical integration in the long run.

Internationalisation will continue, with Tesco being the primary UK-based international player. Other domestic operators are unlikely to succeed in international expansion, and are more likely to be taken over by overseas operators. Internationalisation will drive heightened competition, discussed above, although the number of foreign operators interested in UK retailers now appears fewer than previously thought.

Retailers' investment in technology will increase significantly, and will be focused in the areas of customer relationship marketing and home shopping. Investment will be driven primarily by advancing technology, as old technology becomes obsolete.

Private label will continue to grow in importance, although it will begin to stabilise post-2010. This growth will be driven by the increasing market share of multiple operators and by retailers efforts to differentiate their retail offering from that of their competitors.

Innovation will accelerate to 2010, driven by retailers seeking to improve profitability. This trend will continue to be amplified by retailers' adoption of competitors' initiatives, which will continue at a similar pace.

8.3 Key elements of the theory-based and expert-based forecasts

<u>Theory-based forecast (section 7.4)</u>	<u>Expert-based forecast (section 8.2)</u>
<u>Trading up of stores, products, facilities & services will continue to 2010:</u>	
- driven by better quality private label, more prepared foods, and extension of non-foods (selected operators).	Price consciousness will remain relatively stable to 2010, and will be demonstrated by consumers seeking value for money, rather than pure price-appeal. Rising incomes will drive a focus on quality and service rather than just price.
- higher quality retail environment driven by high demands of planning authorities, and by positive consumer reaction to refurbishments.	The quality of the shopping experience will improve to 2010, as retailers seek to differentiate themselves.
- store extensions and more efficient use of space will allow some extension of range, but hostile planning guidelines will constrain it.	Polarisation of approach will be a key feature as operators seek to distance themselves from the pure price-focused approach, particularly Asda Wal-Mart.
- tough planning guidelines will drive range extension into categories requiring little or no space.	Trading up therefore presents opportunity, but must not be to such an extent that price competitiveness is lost, as consumers will increasingly be aware of prices due to media interest and increased competition:
- acceptance among consumers driven by rising real incomes.	- rising incomes & increasing numbers of 'time-poor' consumers will drive demand for ready meals, for example.
- pursued by retailers to grow profits despite a slow growing food market and limited new store openings.	Superstores will increasingly open for 24 hours, determined by local demand and local competition.
- retailers tendencies to blindly copy competitors' innovations will drive trading up, as will rising costs.	Retailers investments in technology will increase significantly, particularly in CRM & home shopping. Driven primarily by advancing technology making existing systems obsolete.
	Private label market share will continue to grow, although it will stabilise post-2010. Driven by the increasing market share of multiples, and by retailers' attempts to differentiate their retail offerings.
<u>Polarisation will occur in:</u>	
- store sizes, as the hostile planning environment forces	

the development of more smaller stores.	
- organisational size, due to organic growth of leading players, but will be slowed by OFT anti-merger stance.	
- services, facilities & tools, following re-appraisal of initiatives adopted 'blindly' in haste, as was the case with loyalty schemes.	Likelihood of 'loyalty fatigue' among consumers. Such schemes would then become a cost burden. Spending on use of the data captured will increase as retailers seek to make their investments in the schemes pay.
- price/service focus, as competition increasingly over either low pricing or high quality experience.	
<u>Retail life cycles will continue current & past trends:</u>	
- independent, co-operative & specialist food retailers will continue to decline, although slower than in past.	Independents & co-operatives declining market share will slow down, but decline will continue nonetheless.
- multiples will continue to grow, although the larger operators will be the primary beneficiaries, despite OFT anti-merger stance.	Growth in the market share of multiples will slow dramatically, particularly post-2005, although leading multiples will continue at expense of weaker multiples:
- superstore growth will be slower than in past due to planning guidelines, although better exploitation of existing outlets may allow some growth.	- this will be driven by their expansion into new formats, and intense price competition is likely to shake out weaker players.
- multiples' investment in smaller stores, forecourt operations & delivered services will drive expansion of these channels, impacting on independents, convenience multiples & their own superstores.	Convenience store market will be the subject of consolidation, as major multiples & co-operatives enter the sector. Symbol retailers will suffer, and alliances & mergers are likely. The convenience sector will grow in importance slightly to 2005, when it will stabilise.
	The discount market will decline slightly to 2005, when it will stabilise. Decline will be due to a diminishing differential between discounters & price-led multiples. Inner cities will remain a strong market for discounters, but growth will be slow, bar merger in the sector.
	Delivered groceries will grow steadily to reach 10% market share by 2010, although at this level, operators' costs will be forced up and the effect on existing retail formats would be negligible. Superstores are most sensitive to growth in delivered shopping, but as multiples are the primary drivers, the key result will be higher costs:
	- specialised despatch depots for delivered groceries will grow in importance, particularly in areas of urban concentration, due to the high costs of store-based picking. Delivery charges likely to be abolished soon

	after 2005, earlier for large orders.
	- the advance of technology, particularly digital TV, will affect delivered shopping uptake, & digital TV will become the main ordering channel soon after 2005.
<u>Survival of the fittest will continue:</u>	
- although OFT anti-merger stance will prolong the life of weak operators. Eventually, they will disappear by being broken up to be sold, or via a takeover by an overseas operator.	Superstore growth will be slow due to the planning environment, which may provoke takeover. Most likely to be achieved via the 'break-up' of an organisation due to OFT reluctance to allow further merger.
- fitness will increasingly be on an international basis as cross-border expansion & acquisitions take effect.	Competition in the industry will increase due to internationalisation, and weaker players will suffer. Heightened competition is likely to drive trading up as operators seek to differentiate themselves.
	Internationalisation will continue, although slower than previously thought due to limited overseas interest in the UK. Tesco will be the key UK-based international player, and other operators are more likely to be absorbed by overseas operators than succeed overseas themselves.
	Relations with suppliers will become closer as more information is shared to increase supply chain efficiency, & strategic partnerships are formed. Smaller retailers without the scale to form worthwhile alliances may suffer, and vertical integration may occur in the long-term.
<u>Dialectic-style behaviour:</u>	
- food retailers will continue to 'blindly' adopt competitors' initiatives for fear of the harm they could do, which will drive the industry upmarket & force polarisation of services, facilities & tools (see above).	Innovation will accelerate to 2010, driven by attempts to improve profitability. This will be amplified by retailers' adoption of competitors' initiatives, which will continue at a similar pace.

Chapter 9

Conclusion

Section 9.1 presents a summary of likely UK food retail developments to 2010, amalgamating the results of the theory-based forecast (7.4), the Delphi forecast (8.1), and likely socio-economic trends (appendix 10). Section 9.2 relates the findings of the thesis to the existing body of knowledge, which is critically evaluated in the light of the findings (9.4). Finally, the limitations of the study are outlined (9.5), as is scope for further research (9.6).

9.1 Summary of likely developments

The industry will continue to move upmarket. The addition of new products will be a key driver of this, as retailers extend into better quality private label, fresh and prepared foods, and non-foods. These sectors are set for faster growth than the overall food market, driven by rising consumer incomes (7.3) and retailers' efforts to maintain growth despite limited new store openings and the slow growing core food market. Restricted growth in large new stores, however, will constrain this range extension (7.3), assuming government planning policy remains broadly consistent, and space for additional products must come primarily from the extension of existing stores and the more efficient use of retail space (7.3). Gains in sales area will be sufficiently limited to force retailers to focus range extension on sectors requiring little or no sales area, such as financial products and services, which, for major players, will be aided by consumers' development of trust in the retailer as a brand (7.3). Private label will continue to drive the multiple industry upmarket (8.1), as its market share grows and retailers use it to differentiate their retail offerings.

Increasing real incomes will generate further opportunity for retailers to move upmarket. Declining unemployment and increasing real incomes will increase the size of the 'money-rich, time-poor', sybaritic shopping population (appendix 10), in turn increasing demand for complex, time-saving products, such as ready meals (8.1) as well as for better shopping facilities and services. However, current unemployment and earnings trends are not guaranteed to continue, and increasing unemployment or falling real incomes would have the opposite effect, driving up the size of the 'money-poor, time-rich', frontier shopping population, in turn increasing demand for good value, basic foodstuffs and discount retailers, as consumers focus increasingly on price.

Food retailers will continue to be driven upmarket by forces specific to the UK food retail industry (7.1.1), such as the growing demands of planners, which will drive new developments upmarket, and retailers' continuing investments in store improvements, which will continue as long as favourable consumer reaction makes this remain profitable (7.1.1). In addition, retailers will continue to adopt competitors' initiatives, largely as a defensive manoeuvre, driving the industry further upmarket (7.1.1).

Competition in UK food retailing will increase due to the influence of large international retailers in the UK market, and will be demonstrated by price competition between Wal-Mart Asda and Tesco in particular, while other retailers will seek to differentiate themselves by moving upmarket, concentrating on areas other than price. This suggests that polarisation of approach is likely, with one group of operators marketing themselves as low-priced and another pursuing the quality retail experience (8.1).

The cost base in UK food retailing will increase due to improved services, longer opening hours and increasingly sophisticated systems, all of which are driven by the industry's moves upmarket. 24 hour opening, for example, will increase due to local demand for out-of-hours shopping, in which case it is a profitable and sensible strategy (8.1), but will also be driven by pressure of competition, in which case it can drive up costs. Similarly, retailers' continued spending on sorting and analysing loyalty scheme data (8.1), will drive up the costs of retailers failing to use the data effectively. Finally, delivered groceries will attain 10% market share by 2010 (8.1), a level at which it will not cover its costs. In short, the cost base will rise due to improved services as retailers trade up, putting upwards pressure on prices and margins.

Polarisation will be a feature of food retailing to 2010. It will occur in store sizes, as multiple retailers move increasingly into small stores in the face of a hostile large store planning environment (7.3). Polarisation of organisational size will continue, despite the brake of current UK competition policy, which limits merger opportunities for large players. Polarisation is evident in loyalty schemes, with many players dropping them, and similar patterns will emerge in other services and facilities, driven by polarisation of the price-service competitive positioning (above), and retailers' tendencies to adopt competitors' initiatives in defensive haste.

The mature, saturated market place means that rapid growth in any one format or operator will continue to impact upon competing formats and operators. Multiple operators will continue to gain market share from independent, co-operative and specialist operators, although this will be slower than it has been in the past due to the small residual market share left to attack, particularly post-2005 (7.3). The fittest, leading multiple operators will also continue to gain market share from smaller, weaker multiple organisations, but this will be constrained to a certain degree by anti-merger competition policy (7.3), which will prolong the life of some weak operators. These will not be protected indefinitely, however, as weak players are still vulnerable to takeover by overseas operators, or being broken up and sold to a consortium of domestic players (7.3), which is made more attractive by the difficulties gaining planning permission for new superstores (8.1).

The planning environment for large stores is unlikely to change significantly, severely constraining growth of the superstore format. Moderate growth in the market share of superstores will be achieved all the same, through the extension of existing stores, the more efficient use of space (see above), and those superstore planning applications that do receive approval.

The market share of smaller stores, forecourt operations, and delivered grocery services will be driven up by multiples' investments in them. Significant growth in multiples' small stores and forecourt operations will impact most profoundly on convenience multiples, independents (including voluntary groups) and co-operative societies, while significant uptake of delivered shopping would have a particularly negative effect on superstores (8.1, also see below).

If further internationalisation of the industry were to occur, competition would be heightened, increasing the importance of organisational fitness (8.1), because competition and organisational fitness would increasingly be determined on an international, rather than a domestic, basis (7.3). It would also drive intensification of price competition, shaking out weaker players in the process (8.2), but the number of foreign operators interested in acquiring UK retailers is seemingly fewer than was previously estimated (8.1).

The activity of major multiples in the convenience store sector will make fitness of organisation more critical, increasing the likelihood of merger in the sector. Major multiples' activity in this sector will

impact upon symbol retailers (8.1), although this will be partly offset by a slight growth in the importance of convenience retailing in comparison to the overall food market (8.1).

The discount sector is faced with a falling market to 2005, and discounters' price advantages will be eroded somewhat due to lower pricing among mainstream multiples (8.1). In such a situation, survival of the fittest will occur, and struggling operators are likely to be absorbed by fitter ones, although the international dimension makes many of the key operators more secure, and conversion of Kwik Save outlets to the Somerfield fascia will allow competing discount operators to increase their store base.

Retailers continuing drives to improve profitability while differentiating themselves (8.1) will drive acceleration in the rate of innovation to 2010 (8.1), which will be 'amplified' by their defensive adoption of competitors' initiatives, which will continue at a steady pace (8.1).

Demographic change presents opportunity for retailers, with a key trend in this area being the increasing size of the elderly population. This sector of society controls a disproportionate amount of the country's total wealth, presenting significant opportunity from meeting its needs. The ageing population is also one of the drivers of the increasing number of single-person households (appendix 10), and of the growing number of couples without dependent children, who have higher household incomes than those with dependants (appendix 10), suggesting opportunity for 'trading up'. Such demographic changes must be grasped by retailers, as there are implications in many areas such as ranging, pricing, pack sizes, and the facilities and services demanded by consumers.

The UK is becoming more cosmopolitan due to increased tourism and travel, and rising numbers of overseas settlers, presenting opportunity for further moves into more exotic foods as consumers become more adventurous in their eating (appendix 10). Internal migration is a further factor, and is driving increasing concentration of the population in the south-east, which is where growth in the market for food will therefore be greatest (appendix 10).

Increasing real incomes, falling information technology prices, and new means of accessing internet services will drive significant growth in the potential size of the market for delivered groceries (appendix 10), forecast to reach 10% market share by 2010 (8.1), which would have little or no effect on existing retail formats. If delivered groceries were to reach 25% market share, however, which is

highly unlikely by 2010, the impact on convenience stores would be significant, and that on superstores would be major (8.1). In any case, the impact of delivered groceries on leading multiples will be minimal because they are the key drivers of the service, although it will drive some transfer of market share within this group.

The proportion of delivered groceries processed by specialised despatch depots, as opposed to existing stores, will grow, particularly in areas with a concentrated population, although this is dependent on the growth of delivered shopping itself (8.1). Soon after 2005, digital television will become the primary means of ordering delivered groceries, and will be a major factor determining the success of the service.

Finally, consumer price consciousness will remain relatively constant to 2010, although this is dependent on economic conditions (8.1), and will be demonstrated by a continuation of current trends to prioritise value for money, rather price alone.

9.2 Relationship of findings to the existing body of knowledge

The existing body of knowledge of relevance to the findings is in two areas - that pertaining to the theories of retail change, and that explaining UK food retail development.

In the first field, the theories of retail change, the findings support existing knowledge, and also advance a significant body of new understanding of the theories, while extending Brown's [1987a] multi-polarisation model to encompass more dimensions of retail change.

New driving forces are advanced for the Wheel of Retailing (7.1.1, p.266-268), expansion and contraction of the retail accordion (7.1.2, p.268-270), the polarisation principle (7.1.3, p.270), the retail life cycle (7.1.5, p.277-278), and Darwinian (7.1.6, p.281-282) and Dialectic (7.1.7, p.283-284) evolution. The most significant new understanding, however, is advanced in the causes of trading-up (7.1.1, p.261-268) and extension of polarisation tendencies (7.1.4, p.273-276).

The existing body of retail change theory focuses excessively on US retail development; by focusing on the UK this study goes some way to redress the balance. The approach taken, based on the grounded theory technique (3.1.ii, p.74-75), is appropriate in a setting with a lack of historical data,

and in a concentrated retail industry driven by a limited number of retail executives, many of whom were willing to tell their stories. In short, this work is a relatively major contribution to the body of retail change theory, but there is always scope for further research (9.6, p.323-324), whether into the same field, to confirm or reject past works, or into alternative fields, to broaden knowledge.

In the second field, the body of knowledge on UK food retail development, it is not unrealistic to claim that the work is of major importance, filling a gap in the literature (2.2, p.67-68) with a retail history based on a large-scale consultation with key food retail executives of the post-war period. This area of the study is concentrated in chapters 4 to 6, and the work goes a long way to filling the void between company and personal biographies, on the one hand, and issue-specific literature on the other, bringing together a rather fragmented body of knowledge.

Finally, this work is appropriate in that it takes up UK food retail development where the last major chronicle of the sector, Jefferys [1954], left off.

9.3 Implications and recommendations for the UK food retail industry

- Margin improvement will be driven by the addition of higher margin lines. Operators must keep up with this trend or their margins will fall behind those of their competitors.
 - this range extension will allow growth in a static food market, but will be difficult to achieve because of limited growth in large new stores. Instead it must be achieved by extending existing stores, using space more efficiently, and moving into products requiring little or no shelf space.
- The standard of living of UK consumers is likely to improve, presenting an opportunity for retailers to improve the quality of their offerings, facilities, services and the general retail environment. Increasing standards of living will drive demand for products such as ready meals, suited to 'money-rich, time-poor' suburban shoppers.
 - such an improvement in the standard of living will reduce the number of 'money-poor, time-rich' frontier shoppers, with negative ramifications for the discount sector, which is already static in terms of market share, and is facing increased competition from leading multiples' renewed interest in price competition.

- economic forecasting is notoriously risky, however, and an economic downturn may lead to decreasing standards of living and falling real incomes, increasing the number of frontier shoppers, increasing demand for discounters and reducing demand for sybaritic shopping, effectively reversing the situation. Any trading up, therefore, must not subject operators to undue risk from a possible recession.
- Improvements to the retail environment will continue due to planning authorities' demands and retailers' investments in store refurbishment. Retailers have little control over planners, and the refurbishment of stores will continue as long as it is profitable. It is important, therefore, for retailers to maintain the appeal of their stores, as this will remain an important element of competition, and this is generally a profitable strategy anyway.
- Retailers will continue to adopt competitors' initiatives, again driving the industry upmarket. Fear is the root of this defensive behaviour, and initiatives would be more effective if considered thoroughly before adoption, which would also limit the amount of money wasted on ineffective initiatives.
- Internationalisation of the industry is driving polarisation between price and service-focused multiple retailers, as certain players seek to protect themselves from the worst price competition by differentiating themselves in terms of quality. Retailers must be conscious of avoiding the middle ground, as it is important to have marketable points of difference.
- Rising costs are likely to be incurred in the areas of 24 hour store opening, loyalty scheme data processing, and delivered grocery services. A limited amount of cost is obviously acceptable in any of these areas, but retailers must be careful to keep costs under control. 24 hour opening of stores can be forced by the local competitive environment, but costs should be minimised by closing departments that are expensive to operate, such as delicatessen, at off-peak times. Loyalty scheme data is of little use if it is not turned into a usable form, and it is important for operators to decide exactly what they require of the data. Delivered groceries are a growth market, but one incurring large costs, which is acceptable to a certain degree, but retailers must continue to balance the likely future benefits against the current and projected costs.

- these rising costs will drive trading up of the range, as a means of compensating for higher costs through larger margins.
- Polarisation is likely in many areas, including store sizes, organisational size, adoption of marketing tools, such as loyalty schemes, and the price-service approach.
 - it is important for retailers not to allow themselves to occupy the middle ground as polarisation occurs in these areas. Retailers must carefully consider their position, at frequent intervals - losing what was previously an exclusive position has brought problems for Kwik Save, Sainsbury's and M&S, among others.
- Growth of any one type of format or organisation will continue to impact negatively on the fortunes of other types. Large multiples will continue to erode the market of independent, co-operative, specialist and weak multiple operators, although this will be at a slower rate than in the past. These competing retailers must ensure that they take advantage of their local knowledge, manoeuvrable size, and any other strengths in order to compete effectively with larger competitors.
- Operators of superstores should investigate alternative means of growth, as growth in the number of superstores is suppressed by the hostile planning environment, which seems unlikely to change. They should also seek to extend stores and use space more efficiently, so as to obtain growth through improved performance rather than additional stores. Sustained growth of delivered grocery shopping would impact severely on superstores in the long-term, so those operators most exposed to this risk should be those most actively pursuing delivered shopping, as a protective mechanism and a source of future growth.
- Growth of multiple operators in the small, convenience store format will have an impact on independent, voluntary and co-operative operators, although this will be partly offset by increased demand for top-up shopping generated by growth of delivered shopping. The impact of multiple activity in the small store sector, however, will be profound, and will drive consolidation in the sector.
- Mergers involving major domestic operators are unlikely due to the regulatory environment. This will encourage internationalisation of the industry by making purchase by a foreign operator one of

only two means of a struggling retailer leaving the industry, the other being the break-up and sale of assets to competitors. Retailers should be on the look out for opportunities to purchase elements of competitors' operations, as this will be one of only a few avenues of real domestic growth.

- further internationalisation of the industry would drive heightened competition between players, and weak operators would be likely to be shaken out. The likelihood of this is receding, however, as fewer international players are interested in breaking into the UK market than was previously thought.
- Consolidation is likely in the discount and convenience sectors. The former is a static market, faced with declining consumer attraction as mainstream multiple operators compete increasingly on price, which effectively reduces the benefit of discount store shopping. Discount operators must ensure that they remain extremely streamlined so as to be able to create maximum perception of price advantage, and may be able to grow through acquisition as competitors struggle, although the international nature of the sector means that it may prove more resilient. The latter is facing increased competition due to the entrance of mainstream multiple operators, which enjoy considerable efficiencies of operation. Competing operators must make the best of their strong points, but this is unlikely to stop consolidation in the sector if multiples are truly committed to it.
- Retailers should adapt their strategies to profit from demographic change. Rapid perception of the changing consumer provided M&S with a distinct advantage in ready meals in the 1980s, for example. In the period to 2010, the population will age, the number of single-person and single-parent households will increase, and the number of couples without dependants will grow, all of which present significant opportunity for retailers providing that the range, quality of offering, size of pack, store portfolio and other factors are adjusted to suit the changing consumer profile. Likewise, the increasingly cosmopolitan UK outlook presents opportunities to diversify into more adventurous, higher-margin foods.
- Delivered groceries will account for 10% of the UK food retail market in 2010, although this is dependent on many factors, particularly consumer uptake of internet technology. The impact of this on the existing retail hierarchy will be major, but further growth post-2010 may begin to have a major effect, particularly on superstores, and retailers must remain aware of this threat and take appropriate counter measures.

- Consumers will continue to prioritise value for money rather than price alone, with price consciousness remaining relatively stable to 2010. Retailers should avoid trading up the retail experience to such an extent that they are no longer able to respond to consumer demand for value, although retail surroundings do contribute to consumers' price-value perception.

9.4 Critical evaluation of the validity of the existing body of retail change theory

The existing body of retail change theory is of a significant size (2.1), but it is not addressed in a balanced way. First and foremost, it is rarely focused on the UK, or even European, retail change. Second, the nature of historical research has forced a major chunk of the literature to be based on secondary sources, and many seemingly important works merely re-iterate previous research.

The literature does, however, illustrate many cases of application in the developed world, particularly the USA. Granted, there are failures, notably in lower-level economies, but the success rate in the USA is reasonably high. Driving forces and effects are identified in detail, although extensions to the domain of application are generally disappointing.

The Wheel of Retailing, despite its often cited shortcomings, must be identified as the leading theory of retail change. It has the most cases of application, consequently the most cases of non-application, and is the best known and most keenly debated of the theories. Alternative theories are a disappointment because they have generated less academic debate, partly because this has been focused primarily on the Wheel of Retailing.

In short, the existing body of retail change theory suffers from over-emphasis on cases of non-application, pre-occupation with American retailing, the dominance of the Wheel of Retailing, and reliance on un-original, secondary sources. This study goes some way towards redressing this balance, and generates new and better understanding of the theories of retail change, based on UK food retail change in the second half of the 20th century, the key points of which are summarised briefly below.

The Wheel of Retailing, trading up in particular, is well suited to the analysis of food retail change over the period, with trading up being driven by scrambled merchandising, secular trends, fear of price competition, and previously undocumented factors such as retailers' tendencies to emulate their

competitors, high taxation clouding price competition, general rising taxation, planning authorities' heightened expectations, and the positive correlation between improvements to the retail environment and increased profits.

The key forces acting upon the Retail Accordion were identified, and include increasing store sizes, high consumer traffic, new product launches, the changing consumer, changing shopping patterns and technological advance. Again, a significant number of new ideas were advanced, contributing to the body of knowledge.

Forces driving polarisation of store sizes were highlighted, an area which is heavily influenced by the regulatory and competitive environment. Importantly, the multi-polarisation model has been extended, for the first time since its elaboration [Brown, 1987a], to include organisational size, pricing strategy, and use of incremental sales tools such as loyalty cards, with polarisation occurring in all these new dimensions, representing an exciting contribution to the body of retail change theory.

There is widespread evidence of Retail Life Cycles in UK food retailing, and the forces driving and constraining these are identified. This area is dependent on the regulatory environment, consumer change and technological development, but the main cause of acceleration in a retail format's life cycle is a competing retail format's movement into rapid growth.

Darwinian 'survival of the fittest' is also widely evident in UK food retailing, and is becoming more critical as the field takes on an increasingly international flavour. This is constrained somewhat, however, by the current regulatory environment, which inhibits domestic takeover.

Dialectic behaviour is also widespread and common, and is driven largely by fear of competitors' innovations. Full synthesis is difficult to prove, but retail chains that bear remarkable similarities in modern times have evolved from distinctly differing origins.

To conclude, no theory of retail change is entirely satisfactory, but this empirical research goes some way towards increasing understanding of them, proposes new forces that act upon them, and suggests extensions to improve their domain of application. This is a worthwhile contribution to the body of

knowledge, which results directly from original research into the key personalities driving retail change.

9.5 Limitations of study

This study, like any, has limitations, which simultaneously present opportunity for further research. It addresses only UK food retail change, creating an opportunity for similar research on other retail sectors and in other countries. Country-specific studies would be of particular interest due to the possibilities arising from cross-border comparisons.

The period covered was limited by the time of the researcher, availability of information, and access to key personalities. Although addressing a period of time up to and including recent history, time will move on creating further history to be documented and explained. The length of the study is a further limiting factor, particularly as the interview phase yielded excellent information that has been precluded from inclusion by space constraints. There are further stories to be told, in other words, and in the interests of clarity and focus these will have to be told elsewhere.

Delphi forecasting is a powerful tool, but depends heavily on the sample for accuracy. In this case, the Delphi panel was small, because requests to potential participants failed to solicit a good response. Only time will reveal whether this has affected accuracy, and even forecasts drawing on a huge panel are liable to significant deviation from actual events.

Finally, like any qualitative study, an element of bias is introduced by the researcher, the researcher's selection of interview subjects, the subjects themselves, and the researcher's interpretation of the subjects' stories. Much effort went into minimising the introduction of bias, however, in the hope that the final result would be an accurate, truthful representation of UK food retail change between 1950 and 2000.

9.6 Scope for future research

The theories of retail change, although originally intended to apply at institutional (format) level, are nonetheless an appropriate tool for application to individual retail companies. This became increasingly apparent as this study progressed, and the theories have been applied to retail institutions and retail companies alike. While many would criticise their application with regard to companies,

others call for further research of this nature [Brown, 1988a, 1988b], a call to which one voice is added here.

The quest for a universal theory of retail change is seemingly an unwise, time-consuming quest for the impossible, as is universal application of the existing theories. Future researchers should remain aware of the enormous differences between different retail systems, and concentrate on the generation of theoretical underpinnings that aptly describe certain retail evolution in defined markets, allowing applicability to be evaluated in detail later. In short, the theories of retail change describe common retail evolutionary tendencies in developed economies, they are by no means universal, and as universality approaches, clarity of explanation recedes.

Having concentrated on food retail change over a limited period in one country, the possibilities for similar future research are constrained primarily by the imagination. Other time periods, alternative retail markets, and non-UK countries are all likely to generate rewarding research outcomes, depending on access to key personalities associated with retail development. The development of UK food wholesaling and manufacturing over the same period would be an excellent corresponding work, and although such a study was originally planned to coincide with the publication of the present one, this project sadly failed to materialise, presenting a promising avenue of future research into a field that is subject to many of the same forces as the food retail industry.

To conclude, there is significant scope for future research into the theories of retail change. Work to date has been concentrated on US retail development, and much of this draws on a limited number of secondary sources. Although this is a key weakness of the body of retail change theory, it opens up encouraging avenues for future research.

Retail Change: a consideration of the UK food retail industry, 1950-2010.

Appendices and Bibliography

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Appendix One
Results from the Delphi forecast

Structure of Retail System:

1. The market share of UK food retail types in 1980, 1990 and 1997 and forecasts for 2005 and 2010:

Year	1980	1990	1997	2005	2010
Multiples	60.9%	75.8%	85.6%	90.0%	92.0%
IQR				89-90	90-92
Co-operatives	14.2%	10.3%	7.4%	5.5%	5.0%
IQR				5-6	4-5.25
Independents	24.9%	13.9%	7.0%	5.0%	4.0%
IQR				5-5.5	3.25-5

[source of 1980, 1990 and 1997 figures: Nielsen Market Research]

Confidence level: 3.1

2. The percentage of the total UK grocery market accounted for by the 5 largest UK food retailers in 1988, 1993 and 1998 and forecasts for 2005 and 2010.

% of UK food retail market passing through the leading five UK food retailers:

Year:	1988	1993	1998 (June)	2005	2010
	34.4%	41.9%	48.4%	60.0%	65.0%
				IQR: 55.5-60	60-65

NB: Figures for the 5 largest UK food retailers at June 1998 include Somerfield, but not Kwik Save. Kwik Save market share at June 1998 = 3.4%

[source of 1988, 1993 and 1998 figures: IGD Research Services.]

{Shares based on retailers where food related sales exceed 50%, small neighbourhood stores where food related sales exceed 35%, includes chemists, M&S food sales and VAT, excludes petrol and non-food sales}

Confidence level: 2.9

3. The percentage of the total UK grocery market accounted for by the 3 largest UK food retailers in 1988, 1993 and 1998 and forecasts for 2005 and 2010.

% of UK food retail market passing through the leading three UK food retailers:

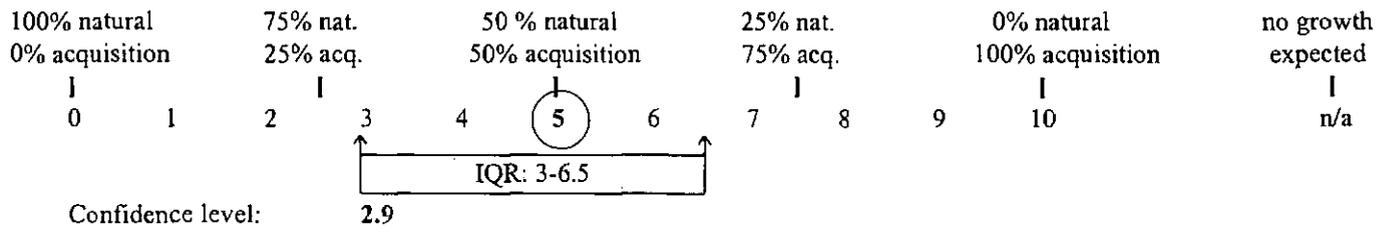
Year:	1988	1993	1998 (June)	2005	2010
	24.0%	30.8%	36.9%	43.0%	48.0%
				IQR: 42-46.5	45.5-52

[source of 1988, 1993 and 1998 figures: IGD Research Services.]

{Shares based on retailers where food related sales exceed 50%, small neighbourhood stores where food related sales exceed 35%, includes chemists, M&S food sales and VAT, excludes petrol and non-food sales}

Confidence level: 3.0

4. How the above growth will be generated, organically or through acquisition:



5. The share of each type of convenience retailer and the percentage of the UK grocery retail market accounted for by the convenience store sector (<3000 sq.ft. but not specialists such as bakers and chemists, selling ...predominantly food and drink, with long opening hours) in 1997 and 1998 and forecasts for 2005 and 2010

Trade sector:	Share of total convenience sector		IQR 2005		IQR 2010	
	1997	1998	2005	2010	2010	2010
Non-affiliated Independents	41.3%	38.6%	30-33.5	31.0%	27.0%	24-32.75
Symbol Groups (e.g., Spar, Londis)	23.4%	24.0%	23-25.5	24.6%	24.0%	21.5-25.5
Forecourts (of oil companies only)	20.2%	18.4%	15-20	17.4%	16.4%	14.5-19.5
Convenience Multiples (e.g., Alldays)	8.6%	11.0%	13-14.5	14.0%	15.0%	14.5-16
Co-operatives (e.g., CWS, CRS)	5.6%	5.8%	5-7.5	6.5%	6.5%	5-10
Major Multiples (inc. their forecourts)	n/a	1.2%	3.7-6.5	5.5%	9.0%	6.5-11.75
Off-licence based Convenience Stores	1.0%	0.9%	0.5-1.0	1.0%	1.0%	0.5-1.0
	100%	100%				
% of total UK grocery sales accounted for by convenience stores:	17.7%	18.0%	IQR: 18.75-20		IQR: 20-22	

[source of 1997 and 1998 figures: adapted from IGD Research 1999/ William Reed Knowledge Store]

Confidence level: 2.8

6. The UK market share of discount food retailers in 1994 and 1998 and forecasts for 2005 and 2010 (not individual retailer shares):

Retailer	1994	1998	2005	2010
Aldi	0.6%	1.0%	X	X
Netto	0.6%	0.9%		
Lidl	-	0.8%		
Kwik Save	6.5%	5.3%		
Food Giant	1.5%	0.5%		
Total discounters	9.2%	8.5%	8.0%	8.0%
			IQR: 7.25-9	IQR: 7-9.5

[source of 1994 and 1998 figures: IGD Research Services.]

{Shares based on retailers where food related sales exceed 50%, small neighbourhood stores where food related sales exceed 35%, includes chemists, M&S food sales and VAT, excludes petrol and non-food sales}

Confidence level: 3.3

Retail Formats & non-store retailing:

7. The market share of groceries delivered to the home is forecast to be 5.0% in 2005 and 10.0% in 2010

IQR: 4.5-5.5 IQR: 6.75-11

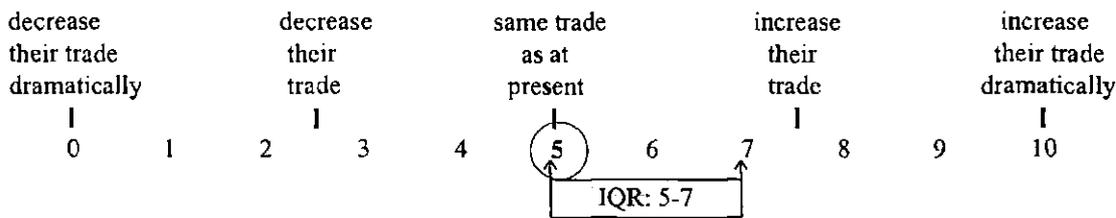
Confidence level: 2.7

8. In 2010, it is forecast that 60% of delivered groceries will be despatched from specialised despatch depots (depots devoted solely to home deliveries, rather than home deliveries picked from an existing food store open to the public)

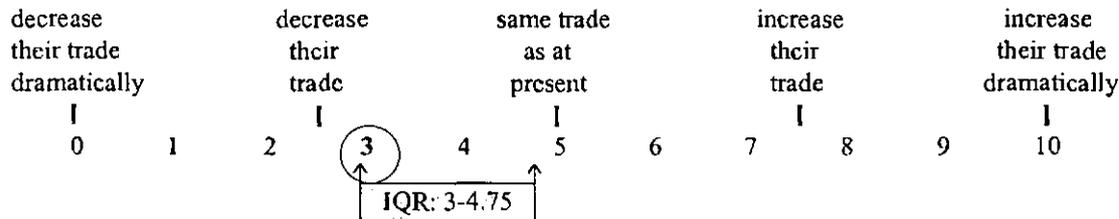
IQR: 15-67.5

Confidence level: 2.4

9a. If delivered grocery shopping ordered remotely (for example by internet, phone, fax) captures a 10% share of the market by 2010, it is forecast to have the following effect on local, convenience retailers:

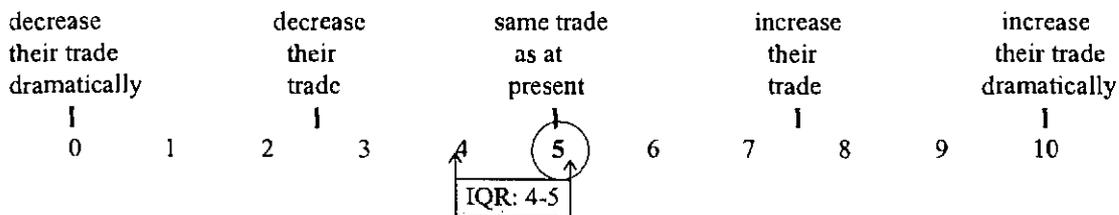


9b. If delivered grocery shopping ordered remotely (for example by internet, phone, fax) captures a 25% share of the market by 2010, it is forecast to have the following effect on local, convenience retailers:

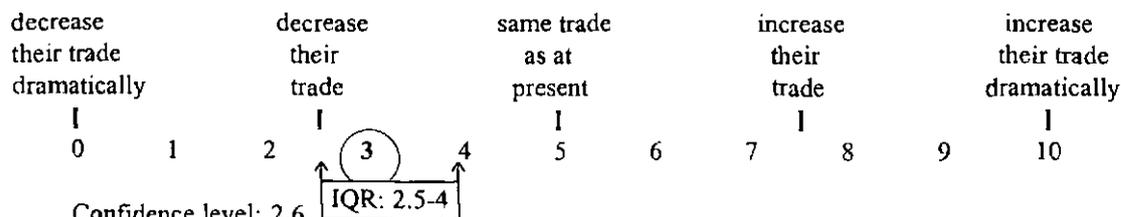


Confidence level: 2.6

10a. If delivered grocery shopping ordered remotely (for example by internet, phone, fax) captures a 10% share of the market by 2010, it is forecast to have the following effect on out-of-town superstores:



10b. If delivered grocery shopping ordered remotely (for example by internet, phone, fax) captures a 25% share of the market by 2010, it is forecast to have the following effect on out-of-town superstores:



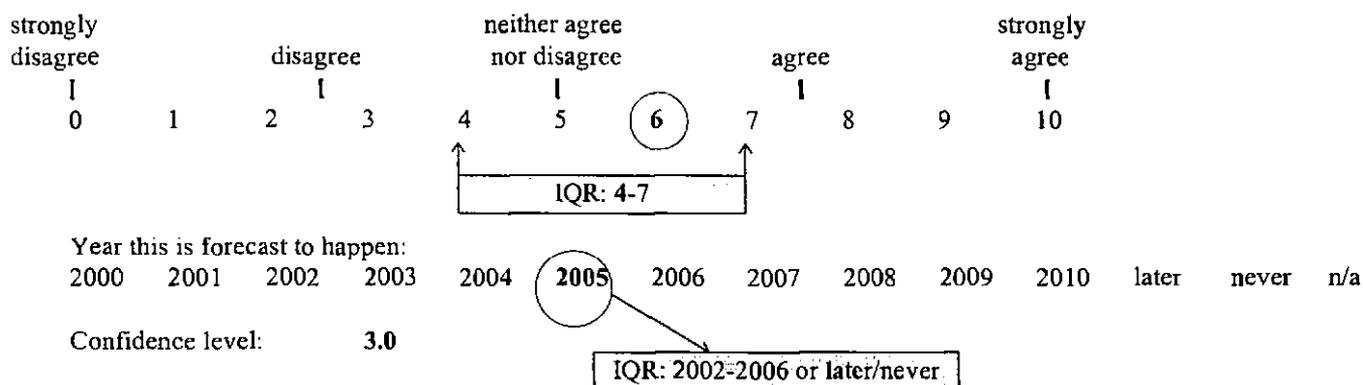
Confidence level: 2.6

11. Of the delivered grocery market shares in 2005 and 2010 forecast in question 7, the proportion ordered by format is forecast to be:

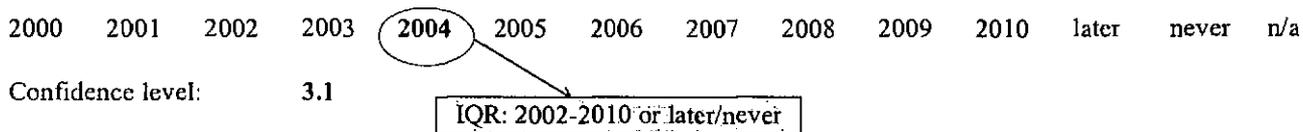
	IQR 2005	2005	2010	IQR 2010
Telephone/fax:	40-48.75	40%	22.5%	20-28.75
Internet (or intranet):	21.25-35	25%	27.5%	21.25-30
Via digital television:	21.25-30	25%	42.5%	31.25-48.75
Other formats (please state):	0-5	0	0	0-10

Confidence level: 2.7

12. Forecast that the delivery charge for delivered groceries will be widely abolished:

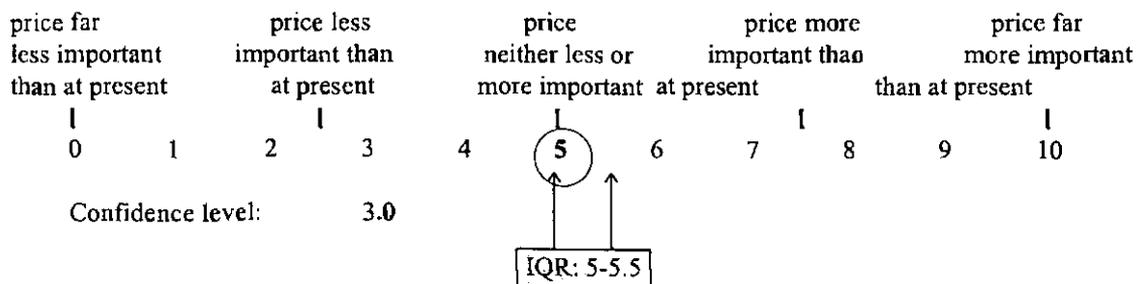


13. 24 hour opening of superstores is forecast to become the norm in year:

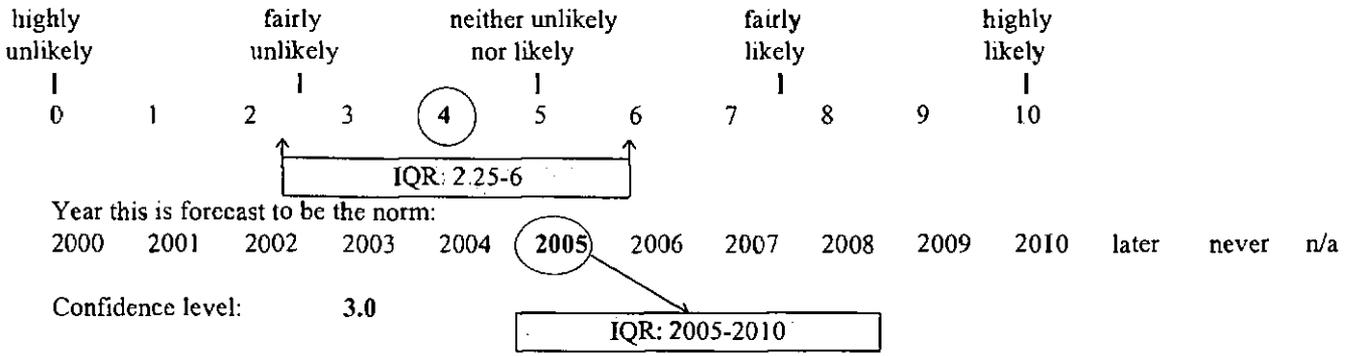


Consumer Behaviour & Pricing:

14. In 2010, price consciousness among consumers is forecast to be:

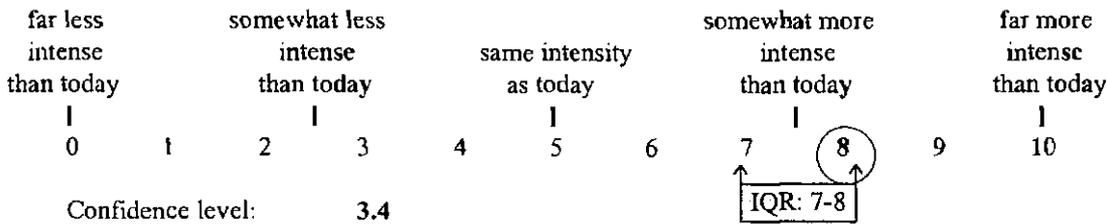


15. The probability of the use of price variations, according to the time of day or week, where prices are highest during busy periods, and lower at other times, is forecast to be:

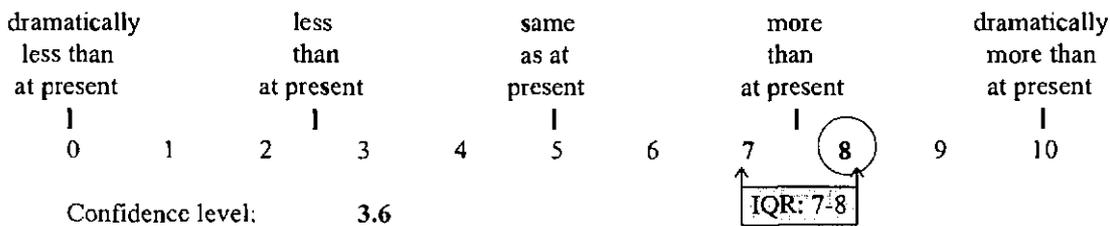


Competitinn:

16. Compared with today, competition in UK food retailing in 2010 is forecast to be:

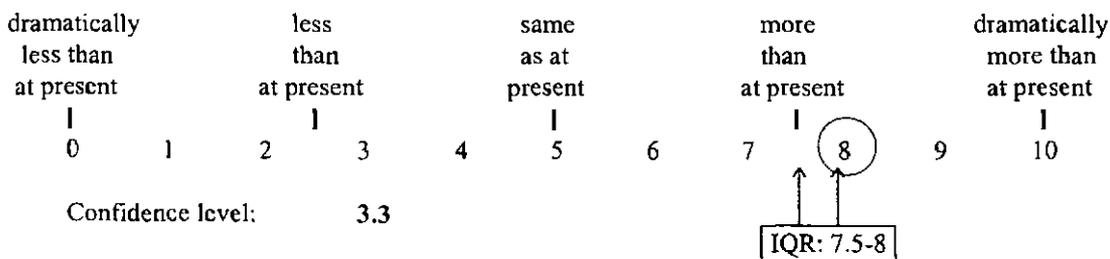


17. In 2010, UK food retailers are forecast to differentiate their offerings by attempting to create unique selling points:

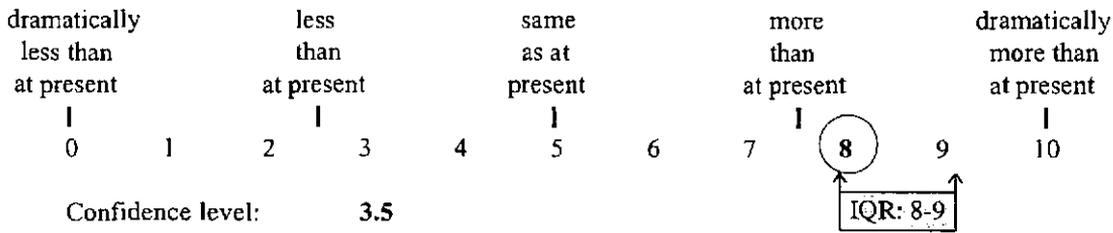


Use of customer data and retailer-manufacturer relations:

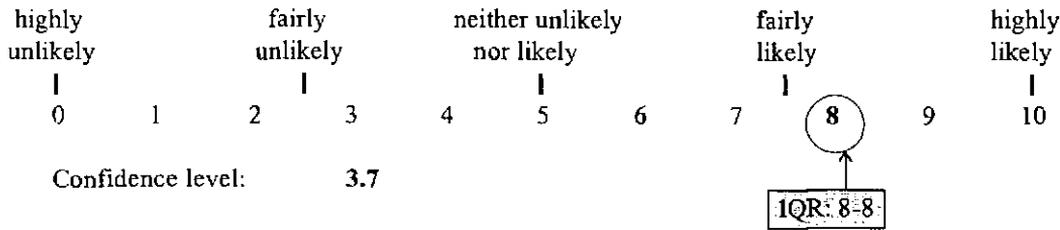
18. In 2010, UK food retailer expenditure on the collection and use of customer data to be (includes cost of loyalty schemes in money off vouchers, administration of the loyalty schemes, cost of hardware and software, and the cost of turning raw customer data into data suitable for use in business decisions) is forecast to be:



19. By 2010, the amount of data shared between retailer and manufacturer is forecast to be:

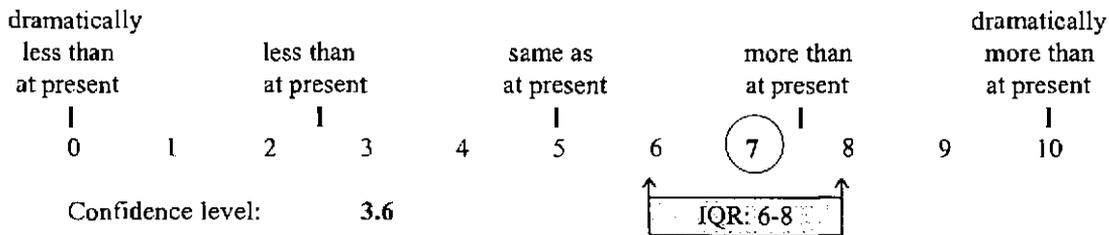


20. By 2010, partnerships between retailer and manufacturer will increase in number and in importance, is forecast to be:

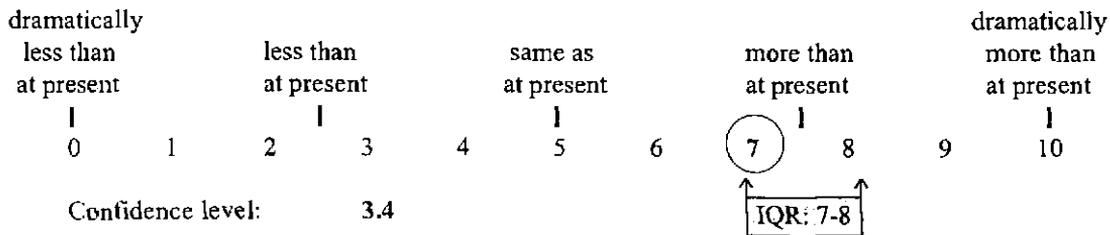


Investment and technology

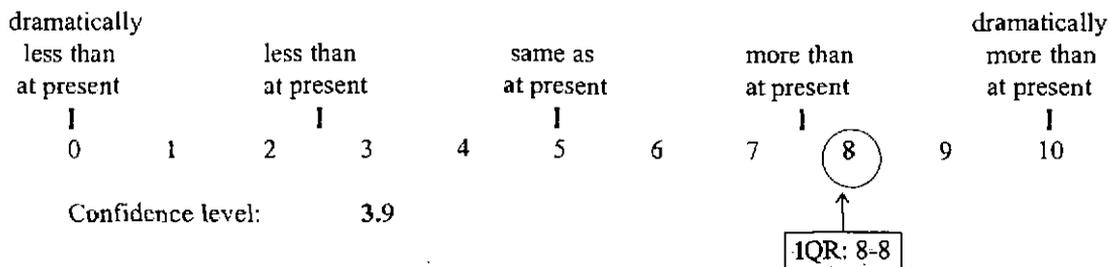
21. In 2010, UK food retailer investment in overseas operations is forecast to be:



22. In 2010, overseas food retailer investment in UK operations is forecast to be:



23. Investment in technology. In 2010 this investment is forecast to be:



Ranging:

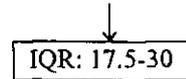
24. The share of total grocery expenditure spent on own-label groceries in 1993 and 1996 and forecast shares for 2005 and 2010.

1993	1996	2005	2010
37%	40%	45%	47%
		IQR: 42.5-46	IQR: 44-50

[source of 1993 and 1996 figures: Taylor Nelson AGB]

Confidence level: 2.9

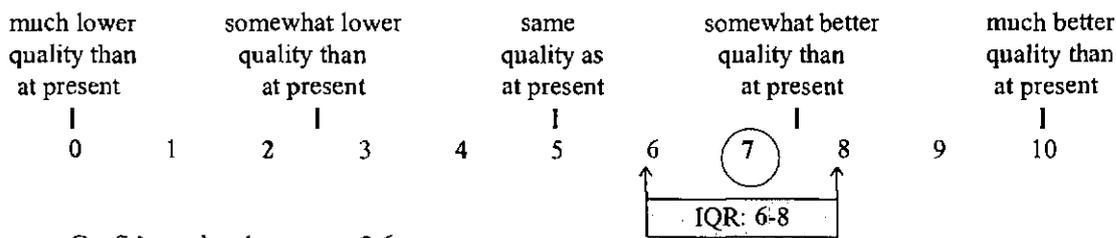
25. By 2010, the market share of ready meals and prepared foods is forecast to have increased by 20% compared to current levels



Confidence level: 2.9

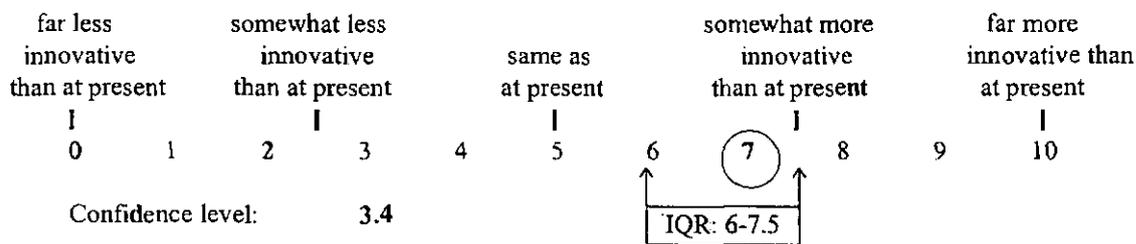
Assessment of theories of retail change

26. The quality of the shopping experience (in terms of levels of service and store facilities) in 2010 is forecast to be:



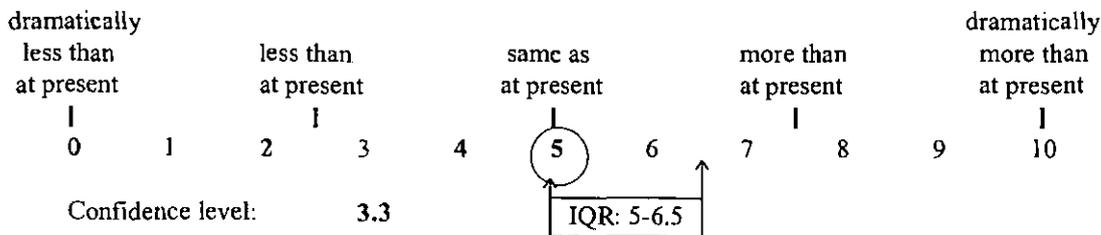
Confidence level: 3.6

27. In 2010, UK food retailers are forecast to be:



Confidence level: 3.4

28. In 2010, UK food retailers are forecast to adopt one another's ideas



Confidence level: 3.3

Appendix Three

Market research and site assessment techniques

Market research is a tool to aid managerial decision making, and its uses have been concentrated in the three areas of price comparison, site assessment and consumer perception. It provides valuable information on consumer behaviour, consumer demand, the business itself, or any other areas that may seem relevant. Market research provides business information, aiding management in decision making, can identify emerging opportunities and help to secure the present business. As a competitive weapon, the information obtained through market research provides insights and presents opportunities to exploit the findings. Market research in UK food retailing has evolved over time, the various phases of which are considered below.

Early market research was driven by the expansion of regional grocers in the early-1970s, who required information on why people chose to shop with them rather than with competitors in order to correctly identify opportunities for diversification - whether geographically or of product (4.4, p.100-105). Initially it aimed to forecast the probability of success in planned store locations, although there was initially no analysis of possible spending levels, with estimates being based on potential footfall instead:

"Some of the initial research that was done was really along the lines of, you know, we're intending to move into this particular town, have you heard of us, first of all, and secondly, do you know anything about us, and what you know about us is it good or bad, and what are the chances that you are going to shop with us when we open? The awareness one is obviously quite an important one and one of the things that Sainsbury's found, for example, as they slowly moved north through the country, was that their reputation went before them."

[Michael Hague-Moss]

With the UK food retail industry in a phase of rapid expansion and change, such simplistic techniques developed shortfalls, and there was a recognition that *"projections become very difficult with that sort of research"* [Michael Hague-Moss]. By the mid-1970s, site assessment exercises became more sophisticated, initially basing the size of the planned store on the projected turnover achievable:

"Supermarket companies that I have worked with, back probably in the mid-1970s, their critical issue was how big they should build this particular store, because they were able to get sites at that time. That was their critical issue, because the size of the store and the capital investment involved obviously had to have a pay-back fairly rapidly, and that was determined by how much turnover they could achieve and how much profit they could achieve once they started trading."

[Michael Hague-Moss]

By the late-1970s, the assessment of sites for food retail outlets developed further sophistication, and market research based techniques were superseded by techniques basing estimates on the performance of existing stores. Many factors were taken into account, whether internal such as the design of the store, or external like the catchment population and transport routes:

"... things rapidly moved on, and because they had each built up a sort of portfolio of stores, which were of different sizes, different configurations, different types of neighbourhoods, different amounts of car parking, or no car parking, different situations, they had a track record of the takings, by day of the week, week of the year, time of day, and so on. So they started to build models themselves, not with research, using all the variables that can affect performance. Some of them are internal variables like size, configuration, checkouts, number of staff, number of lines, car parking, and some of them are external, such as the nature of the catchment area, age profile, social class profile, how is it served by bus routes or trains, taxis, whatever the variable might be, what part of the country is it in, and so on, right down to the manager we have. And they really tried all the variables that they could possibly think of, an L-shaped store doesn't perform as well as a rectangular store, which is pretty obvious, but when you've got 200 odd stores and you start building those types of models, you can see what combination of internal and external characteristics gives you the best performance. That explains current performance. Then, moving forward to new stores, for example, you've got a pretty clear idea of the regression analysis, which are the really critical factors that are going to drive turnover. So, for example, must you move to an area that has got at least 45% that are ABC1, for your particular store, not for any store, but for your particular store. Must you have a thousand car parking spaces, must you have at least two bus stops within 50 yards, must you have aisles configured in this particular way, and so on and so forth. On that basis, they then say, we're looking for sites of this size, in these types of localities, with these facilities, and they would use that model to try and find their locations, and also to determine what size they should be."

[Michael Hague-Moss]

Market research, however, retained a key role in assessing consumers' interpretation of the corporate brand, and defining the catchment area in terms of its social status and size, for example. While models had become reasonably advanced, there remained room for further improvement, and such models are constantly refined [Michael Hague-Moss]. In cash and carry site assessment, further refinement was enabled by the data held on business clients, and demand models were built up using

customer information, a possibility that may now be opened up for mainstream food retailers with access to customer information from loyalty schemes:

"Our first client was Booker cash and carry, where we were building retail models for a business to business market place, so we were sourcing data on small businesses, retailing, restaurants, staff catering, and then building demand models. Cash and carry at that time had customer information, because it has always had the idea of registering the customer, giving you your membership card, etc."

[Clive Humby]

To summarise, market research and site assessment techniques have been and remain an important competitive tool. Their roles have developed and evolved as alternative techniques have emerged, yet the importance of understanding the forces driving the behaviour, perceptions and desires of consumers ensure that they remain important. The key roles of market research are "...to understand the customer and the customer's requirements..., to get an idea of what the customer wants, what the trends are, what sort of areas you ought to be developing...", while research into new products has tended to be supported by direct trials of the products as part of the retail offering [Bob Fee]. In competitive terms, market research aids understanding of what attracts the customer, how they behave in-store, identification of retailers' strengths and weaknesses, and understanding of the cross-over of shopping between rival stores [Michael Hague-Moss]. It enables retailers to build satisfaction among customers, which should in-turn build loyalty, although the important factors to consumers tend to change with economic conditions [Michael Hague-Moss], necessitating the constant adjustment of the retail experience. The development of loyalty schemes and the resulting data does not render market research redundant, instead the two sources of information compliment each other, generating more accurate estimations of consumer behaviour:

"Research was never particularly good at measuring exactly what people bought... the loyalty card tells the retailer what any individual customer has bought, but it doesn't tell them anything about what they didn't buy, and it doesn't tell them any of the reasons why... That's why competitive analysis is still important, and the attitudinal measurements are still quite critical. But, in terms of measuring behaviour, they are doing it themselves, and that is by far the best and most accurate method."

[Michael Hague-Moss]

Appendix Four.

Factors affecting the development of UK food superstores opening between 1986 and 1996.

Background

The development of the superstore is one of the most discussed and emotionally charged subjects on the British retail front [Tanburn, 1972, p1]. At the start of 1972 only 33 food superstores were in operation in the United Kingdom, compared to 1052 in 1996 (see table 2). It follows that the importance of understanding the forces driving this superstore development has also increased - this paper demonstrates the importance of the domestic economy as a factor in the rate of growth of the UK superstore, and suggests a typical lag time between economic output and superstore openings.

Phases of superstore development

Much academic attention has focused on attributing phases to UK food superstore development. The first example of this arose when Mills [1974; p.49] noted that the conversion of old buildings gave way to the construction of purpose-built superstores. The conversion phase was later labelled *opportunistic* [Guy, 1988, p.44]

More recently, phases of superstore development have been defined in more complex ways. Jones [1982] suggests that a *pioneer phase* is followed by a *speculative phase*, a *co-operative phase* and an *opportunist phase*. Dawson's [1984] study of European superstore development suggests that an *origin and innovation phase* proceeds a *diffusion and establishment phase*, a *rapid growth phase* and a *public policy control phase*. Davies and Sparks [1989] contend that an *innovatory phase* of development between 1962 and 1969 was followed by a *consolidation phase* between 1970 and 1972, a *period of resistance* between 1972 and 1980 and a period of *renewed development* between 1981 and 1986.

These three studies have much in common, one of the key points being that all three works found that their stages tended to overlap, rather than following a clear-cut chronological path. A further factor that they have in common is that their period of coverage ends where this study begins, the mid-1980s.

Superstore development as a function of the economy?

In general, the phases of development referred to have not been attributed to the economic backdrop. Thus, the effect of the economic well-being of the UK at any one given point has not been considered an important factor in the development of superstores. The sole notable exception to this suggests that the 1990 fall in the number of superstores with planning permission for development is due to the economic downturn of the period [URPI, 1990]. A counter argument to this idea is put forward by Wrigley [1988, p.13], who argues that recession hit local authorities are more welcoming of superstore development because of the employment benefits that it brings.

While academic works have recognised that the building of superstores has lagged behind companies' interest in the format because of the time needed for purchase of sites and construction of stores, as well as delays incurred in obtaining planning permission [Guy, 1994, p.130], the duration of this lag remains unquantified, and the increasing dependence of superstore openings on economic conditions is undocumented.

This paper sets out to illustrate the strong correlation between economic activity and superstore openings, and to determine the most likely lag between the two. This is achieved by calculating the correlation between UK GDP growth and UK superstore openings, with a 3 to 5 year lag built in to the calculations. This means that GDP growth is compared to the number of superstore openings three, four and five years later, and the results showing the

highest level of correlation are deemed to be the most likely reflection of the lag between the two sets of data.

Studies into phases of superstore development have been criticised for failing to take geographical location into account [Thorpe, 1991, p.363]. While it is true that the situation of a superstore is of paramount importance, i.e., where it is located in relation to the town-centre, this is more likely to be affected by government and retailer policy than by economic trends. The following analysis assesses the extent to which superstore development in general is affected by the UK economy, and seeks to quantify the lag between economic activity and superstore openings, and cannot as such consider the geographical location of superstores because of a lack of data and a lack of available space.

Presentation of data

The data on which this study is based is presented in tables 1 and 2, and graphically in figures 1 and 2.

Table One. UK Gross Domestic Product, 1959-1995¹

Year	GDP growth	Year	GDP growth	Year	GDP growth
1959	3.5%	1972	2.6%	1984	1.8%
1960	4.9%	1973	5.8%	1985	3.8%
1961	3.8%	1974	(0.1%)	1986	4.0%
1962	0.8%	1975	(2.0%)	1987	4.6%
1963	4.0%	1976	3.8%	1988	5.0%
1964	5.8%	1977	1.1%	1989	2.2%
1965	2.6%	1978	2.9%	1990	0.6%
1966	1.9%	1979	2.1%	1991	(2.1%)
1967	2.1%	1980	(2.1%)	1992	(0.5%)
1968	4.0%	1981	(1.1%)	1993	2.3%
1969	2.1%	1982	1.0%	1994	3.9%
1970	1.9%	1983	3.9%	1995	2.5%
1971	1.7%				

Table Two. Superstore openings, 1964-1996²

Year	Superstore openings	Year	Superstore openings	Year	Superstore openings
1964	2	1975	16	1986	36
1965	2	1976	22	1987	25
1966	2	1977	27	1988	43
1967	1	1978	27	1989	73
1968	3	1979	35	1990	64
1969	3	1980	27	1991	89
1970	6	1981	41	1992	102
1971	14	1982	38	1993	27
1972	13	1983	30	1994	128
1973	16	1984	29	1995	27
1974	23	1985	26	1996	35

¹ Figures adapted from *Annual Abstract of Statistics*, Central Statistical Office. Editions used: 1966, table 311, p.264; 1976, table 351, p.340; 1987, table 14.9, p.249; 1997, table 14.13, p.295.

² Figures for 1964-1991 from Airey and Bresse, 1993.

Figures for 1992-1996 from Barnes et al., 1997

Figure One. Percentage Annual GDP Change (UK), 1959-1995

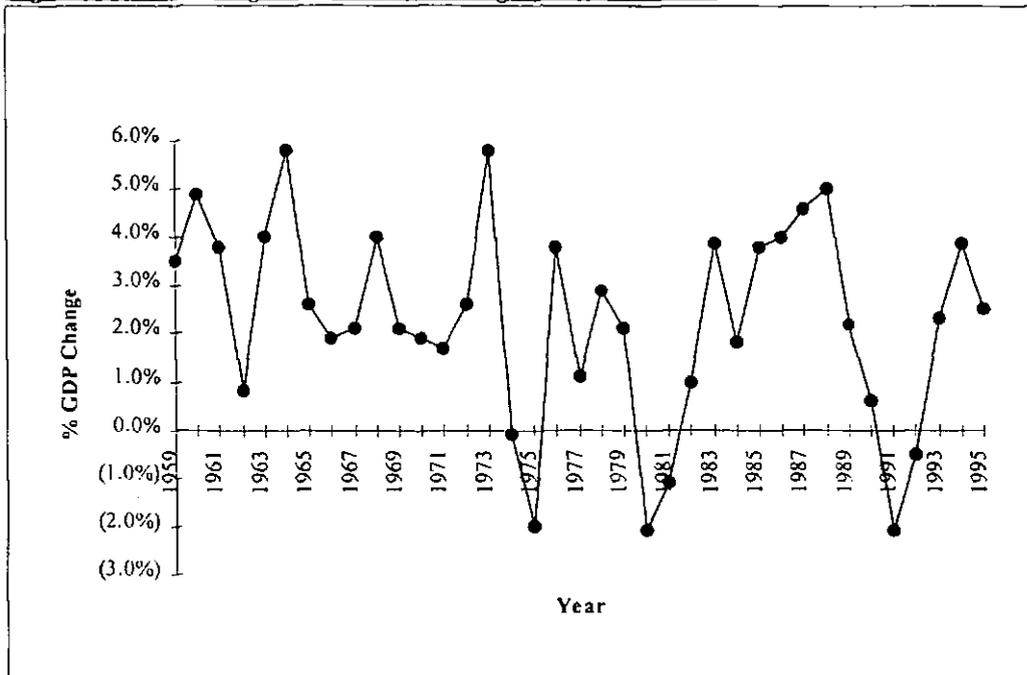
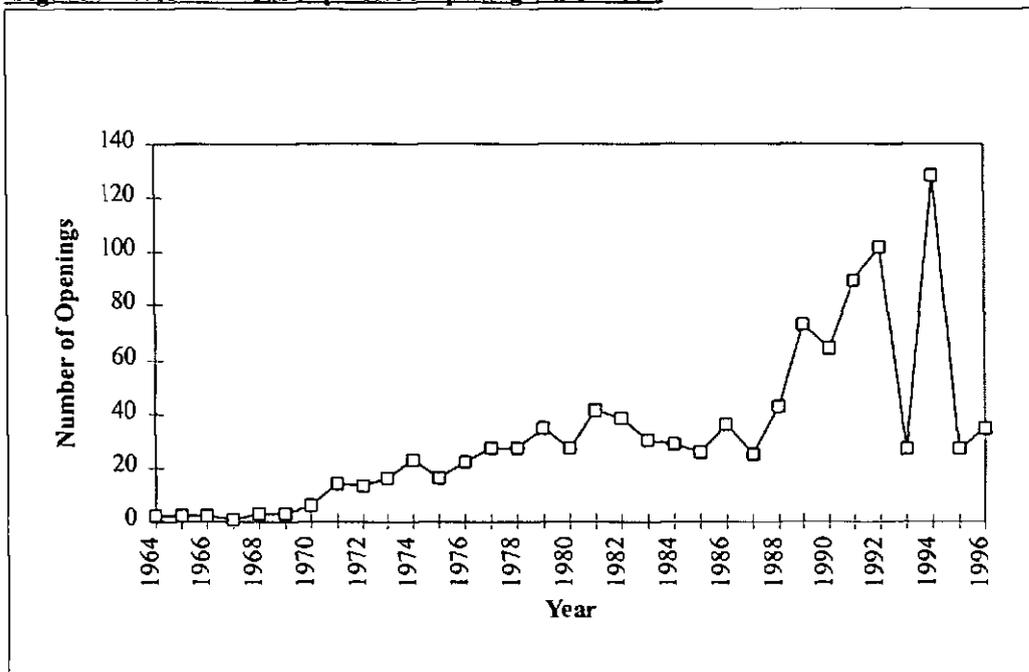


Figure Two. Annual UK Superstore Openings, 1964-1996



Manipulation of the data

While superstore openings show no evidence of correlation with economic activity in the 1960s and 1970s, the degree of correlation appears to increase post 1985. There follows an analysis which has the aim of determining whether correlation between economic activity and superstore openings increased in the decade to 1996. This analysis also determines the length of the delay between economic activity and superstore openings.

The data presented in tables 1 and 2 is analysed to produce a correlation coefficient for different periods between 1986 and 1996. Lags of three, four and five years are applied to the

data in order to determine the most likely delay between economic activity and superstore opening, and to assess whether this delay is in flux, see tables 3 to 6 below.

Table 3. Three year lag.

Year of Superstore Opening	Year of GDP Change	Correlation Coefficient
1966-1996	1963-1993	-0.143
1976-1996	1973-1993	0.181
1986-1996	1983-1993	0.037
1988-1996	1985-1993	-0.073
1990-1996	1987-1993	0.225
1992-1996	1989-1993	0.603
1994-1996	1991-1993	0.839

Table 4. Four year lag.

Year of Superstore Opening	Year of GDP Change	Correlation Coefficient
1966-1996	1962-1992	-0.002
1976-1996	1972-1992	0.418
1986-1996	1982-1992	0.537
1988-1996	1984-1992	0.328
1990-1996	1986-1992	0.597
1992-1996	1988-1992	0.794
1994-1996	1990-1992	0.933

Table 5. Five year lag.

Year of Superstore Opening	Year of GDP Change	Correlation Coefficient
1966-1996	1961-1991	0.061
1976-1996	1971-1991	0.586
1986-1996	1981-1991	0.837
1988-1996	1983-1991	0.674
1990-1996	1985-1991	0.596
1992-1996	1987-1991	0.687
1994-1996	1989-1991	0.710

Table 6. How long is the lag?

Year of Superstore Opening	3 year lag	4 year lag	5 year lag
1986-1996	worst fit	2nd best fit	best fit (0.837)
1988-1996	worst fit	2nd best fit	best fit (0.674)
1990-1996	worst fit	best fit (0.597)	2nd best fit
1992-1996	worst fit	best fit (0.794)	2nd best fit
1994-1996	2nd best fit	best fit (0.933)	worst fit

Results

Table 6 presents a summary of the correlation coefficients, and demonstrates a reasonable degree of correlation between GDP change and superstore openings 4 to 5 years later. It also suggests that the length of the delay between economic activity and superstore opening is becoming shorter with time. Since 1990, this lag has typically been four years, prior to this it was five years. It is also important to note that the degree of correlation between the two sets of data tends to increase over time, thus it is fair to propose that UK superstore openings between 1986 and 1996 have increasingly been dependent on the health of the economy.

Findings in relation to previous works

This contradicts conventional logic which argues that the high degree of federal or local government control over retail planning developments [see Guy, 1994, p90] would be the key influence on the pace of superstore development. While accepting that government attitude has played a key role in UK food superstore development, this point is hard to prove, given the failure of available data to define a development's location in respect to the established town-centre [Thorpe, 1991, p.363]. I would argue, therefore, that government guidelines have not affected the development of the UK food superstore as such. Rather, they have influenced the size and location of these developments, as suggested by Dawson [1984, p178] but not the actual number of superstores being opened. Table 7, below, outlines the key changes in government attitude towards large scale retail planning development:

Table 7. Government guidelines on large scale retail developments.

Year	Summary of change	Reference
1972	Secretary of State became responsible for planning applications for stores in excess of 50,000 ft ² outside existing towns or districts.	Development Policy Control No.13
1977	Secretary of State became responsible for planning applications for stores in excess of 100,000 ft ² outside existing towns or districts.	Development Policy Control No.13 (revised)
July 1985	The impact of a proposed development on other retailers no longer a consideration, except in the case where a nearby town centre as a whole could be affected.	Department of the Environment, 1988; paragraph 7
1988	Green belt land, open countryside and industrial areas reserved for other uses	Department of the Environment, 1988
1993	New retail developments to be located in areas accessible by a choice of means of transport, and to encourage economy in fuel consumption	Department of the Environment, 1993; paragraph 36

Reference to table 7 illustrates the problem of superstore penetration analysis. While the data used in this study is based on the Institute of Grocery Distribution definition of a superstore, the key criteria of which is to have a sales area of at least 25 000 ft², the changes introduced in 1972 and 1977 relate to proposals rather larger than this, and are widely credited with having increased the size of planning applications to just below the new limit for sales area [Gayler, 1984, p.75; Wrigley, 1988, p11]. July 1985 marked a change in planning direction, effectively reversed by 1993 legislation. Between these periods, the planning system effectively encouraged out-of-town developments [see Guy, 1984; pp78-79]. The 1988 legislation, also, can be considered to have merely changed the location of subsequent developments. The data used in this study, however, fails to make a distinction between the changing size criteria resulting from Development Policy Control Note No.13. In addition, the data does not differentiate between in-town or out-of-town superstores, thus the data is effectively immune to major planning policy changes.

In summary, this work has demonstrated that planning policies do not have a major effect on the pace of UK grocery superstore development as a whole. Planning policies have influenced the size and location of new developments, but have not significantly altered the pace of development of the format in its entirety. A key force affecting the recent development of the

UK food superstore is the economic state of the country, a force which is also becoming more important. In addition, the delay between economic health and superstore openings is becoming shorter, in 1996 this lag stood at four years.

Appendix Five

The Delphi Forecasting Technique

The first step is to establish the panel of experts. Some studies have found the expertise of the panel to have little bearing on the outcome of the forecast [Welty, 1974]. Other studies, however, emphasise the importance of the selection of the panel as being critical to the accuracy of the forecast [Helmer, 1967; Turoff, 1970; Martino, 1983]. A higher rate of participation will be obtained if the members of the panel agree to participate in the exercise [Johnson, 1976; Martino, 1983], rather than being sent a questionnaire 'out of the blue', thus panellists were initially approached by letter.

The more panellists taking part in a Delphi exercise, the greater the supposed accuracy. However, it is suggested that too many panellists can make the data analysis too great a task for the investigator [Martino, 1983]. Research has shown that if a panel is actually 'expert', 15 panellists will produce an accurate forecast [Martino, 1983]. A panel should be made up from experts with a wide variety of backgrounds and positions in the subject area [Johnson, 1976]. The selection of panellists, however, should be carried out in a methodological way. The population of individuals most likely to affect change should be calculated, and a representative sample of panellists selected from this population [Parenté and Anderson-Parenté, 1987]. In practice, a population of individuals was selected, and all of those willing to participate became the panellists.

While the panel is being selected, and the consent of members is being sought, the initial questionnaire is formulated. Research has provided many recommendations for the formulation of questionnaires. The Delphi procedure should be explained completely in the document [Martino, 1983], especially when many rounds will be taking place [Parenté and Anderson-Parenté, 1987]. This will alert the panel to the length of the process and outline the opportunity for them to further their knowledge. The questionnaire should be well designed, so as to make efficient use of the respondents' time [Turoff, 1970]. It should be easy to answer, with ample room for comments, and should rarely exceed 25 questions [Martino, 1983]. It is also suggested that a trial of the questionnaire is undertaken before its despatch, in a search for ambiguities [Johnson, 1976]. This seems a good idea, especially as questionnaire design and definitions have been highlighted as weak spots in the process [Parker, 1969].

Each question is supported by an 'event statement', which explains the phenomenon. Although this concept is simple, studies have emphasised the importance of the statements. Familiar ideas should be accompanied by a concise statement so as not to confuse the issue, while complicated issues should be supported by longer statements to help clarify them [Salancik et al, 1971; Martino, 1983]. General guidelines have been proposed where it is suggested that each event statement should be between 20 and 25 words long, although it is emphasised that there will be exceptions [Salancik et al, 1971]. At an early stage it became clear that the wording of event statements could 'lead' panellists [Dalkey and Helmer, 1963]. Thus, great care must be taken when writing event statements, so as to avoid the introduction of bias.

The formulation of the questionnaire is a particularly important stage in the Delphi process. The ability of the poll to adequately sample the issues has been found to be as important as the selection of the panel [Parenté and Anderson-Parenté, 1987].

Having decided upon the final format of the initial questionnaire, the wording of the event statements, and obtained the consent of the members to participate, round one can begin. The questionnaires are sent out to the members, who are requested to answer each question. Once all of the completed questionnaires have been received or the allocated time has elapsed, whichever is the sooner, the investigator computes the median and interquartile range for each question. The interquartile range serves as a tool to illustrate differing opinions, being the range in which the middle 50% of responses fall.

The above statistics are added to the questionnaire, and round two can begin. The updated questionnaire is sent out to the panellists, who are asked to reconsider their responses. If the panellist supplies an answer outside the interquartile range, they are asked to give their reasons for their 'extreme' response. Once again, the investigator calculates the median and interquartile range for each question.

The revised statistics replace those used in round two. In addition, a summary of reasons given in support of 'extreme' responses is added to the questionnaire. These reasons will normally have to be edited for brevity. Great care must be taken during the editing process in order to avoid the introduction of bias [Kruus, 1983]. The updated questionnaire is used as round three. It is distributed

to the experts, who are asked to consider the reasons given for extreme responses, and revise their response if they so wish. Participants supplying a response remaining outside the interquartile range are requested to give reasons why they have not been persuaded by the opposing arguments.

Once again, the investigator compiles the median and interquartile range values for each question. An updated questionnaire is formulated using the new statistics, to which the criticisms of the reasons given for extreme answers are added. In other words, the panel is supplied with the counter-arguments for extreme responses. This new questionnaire constitutes round four, and is the panellists' last chance to revise their responses. The median returned back from round four is taken to represent the group response [Brown, 1968].

Appendix Six **Problems Defining Theory**

The word ‘*theory*’ does not have a clear-cut definition, and suffers from being inter-changed with the words hypothesis and law. It is possible to produce definitions meaning that the ‘theories of retail change’ do not technically qualify as theories, although numerous alternative definitions do accept their status as theories. The purpose of appendix 6 is to establish a working definition of the terms hypothesis, theory and law, and to classify what are known collectively as the ‘theories of retail change’.

A hypothesis is defined as ‘*a supposition or conjecture put forth to account for known facts... a provisional supposition which accounts for known facts, and serves as a starting point for further investigation by which it may be proved or disproved*’¹. Equally, it is ‘*a tentative explanation that accounts for a set of facts and can be tested by further investigation*’², ‘*a tentative theory or supposition provisionally adopted to explain certain facts, and to guide in the investigation of others*’³, ‘*a concept that is not yet verified but that if true would explain certain facts or phenomena*’⁴, and ‘*implies insufficient evidence to provide more than a tentative explanation*’⁵. The definition adopted here is that a hypothesis is a tentative, unproven explanation of a phenomenon.

A theory is defined as ‘*a hypothesis that has been confirmed or established by observation or experiment, and is propounded or accepted as accounting for the known facts*’⁶, ‘*a scheme or system of ideas or statements held as an explanation or account of a group of facts or phenomena*’⁷, and ‘*a statement of what are held to be the general laws, principles, or causes of something known or observed*’⁸. Equally, it is ‘*an organised system of accepted knowledge that applies in a variety of circumstances to explain a specific set of phenomena*’⁹, ‘*a concept that is not yet verified but that if true would explain certain facts or phenomena*’¹⁰, ‘*systematically organised knowledge applicable in*

¹ *Oxford (English) Dictionary, The Shorter*, 3rd edition, 1992, London, Book Club Associates.

² *American Heritage Dictionary, The*, 3rd edition, 1996, Houghton Mifflin Company. Available at www.dictionary.com

³ *Webster's (Revised Unabridged) Dictionary*, 1998, MICRA Inc. Available at www.dictionary.com

⁴ *Wordnet 1.6*, Princeton University. Available at www.dictionary.com

⁵ *Merriam-Webster's (Collegiate) Dictionary*. Available at: www.yourdictionary.com

⁶ *Oxford (English) Dictionary, The Shorter*, 3rd edition, 1992, London, Book Club Associates.

⁷ *Oxford Dictionary Online*, available to subscribers at www.oed.com

⁸ *Oxford Dictionary Online*, available to subscribers at www.oed.com

⁹ *Wordnet 1.6*, Princeton University. Available at www.dictionary.com

¹⁰ *Wordnet 1.6*, Princeton University. Available at www.dictionary.com

*a relatively wide variety of circumstances, especially a system of assumptions, accepted principles, and rules of procedure devised to analyse, predict, or otherwise explain the nature or behaviour of a specified set of phenomena*¹¹, *'a plausible or scientifically acceptable general principle or body of principles offered to explain phenomena'*¹², and *'implies a greater range of evidence and greater likelihood of truth'*¹³.

The meaning of the term 'theory', therefore, is debatable, and depending on the definition adopted, a concept can be labelled a theory or a hypothesis. Similarly, the 'theories of retail change' are either theories or merely a series of hypotheses, depending on the definition chosen.

According to Baker et al. [1983], a hypothesis differs from a theory in that it has not been demonstrated to yield predictions with an accuracy greater than that which could be achieved if predictions were made by some random evidence. Once a hypothesis has been shown to be able to yield predictions with greater accuracy than would arise from such a random process, Baker et al. [1983] term it a theory, and in turn, if a theory can be demonstrated to yield perfectly accurate predictions every time it is used, then that theory takes on the status of a 'law'.

A law is defined as *'a generalisation based on consistent experience or results'*¹⁴; *'a theoretical principle deduced from particular facts, expressible by the statement that a particular phenomenon always occurs if certain conditions be present'*¹⁵, *'a rule of being, operation, or change, so certain and constant that it is conceived of as imposed by the will of God or by some controlling authority'*¹⁶, a *'generalisation based on recurring facts or events'*¹⁷, a *'statement of an order or relation of phenomena that so far as is known is invariable under the given conditions'*¹⁸, and *'implies a statement of order and relation in nature that has been found to be invariable under the same conditions'*¹⁹.

¹¹ *American Heritage Dictionary, The, 3rd edition, 1996, Houghton Mifflin Company. Available at www.dictionary.com*

¹² *Merriam-Webster's (Collegiate) Dictionary. Available at: www.yourdictionary.com*

¹³ *Merriam-Webster's (Collegiate) Dictionary. Available at: www.yourdictionary.com*

¹⁴ *American Heritage Dictionary, The, 3rd edition, 1996, Houghton Mifflin Company. Available at www.dictionary.com*

¹⁵ *Oxford (English) Dictionary, The Shorter. 3rd edition, 1992, London, Book Club Associates.*

¹⁶ *Webster's (Revised Unabridged) Dictionary, 1998, MICRA Inc. Available at www.dictionary.com*

¹⁷ *Wordnet 1.6, Princeton University. Available at www.dictionary.com*

¹⁸ *Merriam-Webster's (Collegiate) Dictionary. Available at: www.yourdictionary.com*

¹⁹ *Merriam-Webster's (Collegiate) Dictionary. Available at: www.yourdictionary.com*

The term *law* is clearly not applicable to the 'theories of retail change', Adopting Einstein's definition, for example, that theories are '*free creations of the human mind*'. *Any speculative fantasy may thus be regarded as a theory of some sort.*' [Harvey, 1969; p.87], firmly places the 'theories of retail change' in the theory category.

Theories do not lose their validity merely because there are cases of non-application. At some point, most theories have failed to explain phenomena in their field, leading Kuhn [1962, p.145] to remark that '*if any and every failure to fit were ground for theory rejection, all theories ought to be rejected at all times*'. The field of application also affects the definition of the term theory, as studies involving behaviour of human decision makers can never have the underlying regularity of the physical sciences [Roth and Klein, 1993], largely explaining why the expectation of universality is "one of the more elusive of the criteria for theory in marketing writings" [Bartels, 1981]. In addition, addressing the relevance of theories and explanations is difficult, as '*the criteria set up to judge whether or not a particular explanation is reasonable and satisfying are highly subjective, and there can be no denial of this fact*' [Harvey, 1969; p.15].

At this point it would seem reasonable to claim that the 'theories of retail change' qualify as theories, as many definitions accept their drawbacks, and cases of non-application have been shown to be common to many theories. Extreme views of the definition of the term 'theory', however, would preclude this. Popper [1974], for example, argues that no laws of historical development or of biological evolution exist, accepting only that casual laws may be at work [see Roth and Klein, 1993], while Hirschman and Stampfl [1980] consider the theories of retail change to be descriptive reasonings failing to meet the criteria for formal theory, seemingly by reason of their adoption of strict criteria of the term 'theory'.

Less extreme definitions, however, are more commonly adopted, and the 'theories of retail change' are generally accepted as theories, despite their shortcomings. Bartels [1981], for example, states that "a theory to some people is a hypothesis; to others it is a cohesive body of principles concerning a given subject". For many years, the 'theories of retail change' have been termed theories. This study follows the example of Brown [1988a], who acknowledged their failure to meet the formal criteria for theory, but retained the "theoretical" descriptor all the same, seemingly in order to conform to previous academic works.

The term theory, applied to retail institutional change, 'implies broadly based statements that explain or predict repetitive retail behaviour or that help describe retailing in new or more meaningful ways', contends Hollander [1981], implying that rejecting the 'theories of retail change' as true theories is overly zealous. This study accepts that these qualify as theories, in their context, albeit with certain reservations, and continues to use the term theory in line with the bulk of existing academic literature.

Appendix Seven

The Wheel of Retailing and less developed countries

There is widespread evidence that the Wheel of Retailing fails to describe retail evolution in less developed countries (LDCs). Retail institutions have entered the market at a level catering to minority middle and upper income groups rather than to low income groups, directly contradicting the Wheel hypothesis, in Persia, Venezuela, Brazil, Puerto Rico [Hollander, 1960], 'some parts of Latin America', Asia (ex. Japan) [Bucklin, 1977], Turkey [Kaynak, 1979], Israel [Goldman, 1982], Saudi Arabia [Alawi, 1986; Yavas and Tuncalp, 1984], Guatemala [Ortiz-Buonofina, 1987], Hong Kong [Ho and Lau, 1988], China [Mun, 1988] and Malaysia [Zain and Rejab, 1989].

Early self-service food retailing in Saudi Arabia, an LDC, catered to medium and high-income consumers [Alawi, 1986; Yavas and Tuncalp, 1984], before 'trading-down' to compete with grocery shops and public markets [Kaynak and Cavusgil, 1982], a trend specific to LDCs also noted on other occasions [Hollander, 1970; Bucklin, 1976]. Supermarkets were introduced to Hong Kong to meet the needs of high-income foreigners [Ho and Lau, 1988] representing only 2% of the population [Lau and Lee, 1988], their offering being downgraded repeatedly over time, to target the Westernised-Chinese, the younger generation and the general public in turn [Ho and Lau, 1988], driven partly by price wars between operators [Lau and Lee, 1988]. Similarly, Singaporean department stores initially catered to the upper-income group, and traded down as the middle-income segment grew [Tan and Teoh, 1988], while early Singaporean supermarkets also catered to upper-income consumers, but were followed by supermarket co-operatives, formed in order to offer price appeal to a wider audience, particularly for staple goods [ibid.].

In short, there is little doubt of the Wheel of Retailing's inability to account for LDC retail development, and the opposite often occurs. Reasons given to explain non-application tend to be based on consumer characteristics and the economic level of the LDC (demand side), or the differing cost structure of LDC retail innovation compared to that of developed economies (supply side):

Supply side

The key 'supply side' problems inhibiting the spread of LDC retail institutions are a lack of growth-orientated retailers, inadequate supply and distribution arrangements, limited access to capital [Goldman, 1974], municipal 'subsidisation' of traditional markets through unrealistically low rents [Bucklin, 1976],

and higher costs resulting from the need to undertake additional functions, such as retailers having to grade produce and perishables, pre-package goods themselves, or manufacture/ import pre-packaged goods [Goldman, 1981; Kacker, 1988a], which traditional outlets do not have to do. For example, processing and packaging costs, coupled with lack of buying economies, added 5% to the prices of Chinese supermarkets, compared to traditional outlets [Mun, 1988].

The fragmented supply system for produce and meats, the bad grading of agricultural products, the necessity to compete for supplies in central wholesale markets, high relative overhead costs, laws limiting hours and modes of operation, and the likelihood of having to bear disproportionately higher taxes than small food stores, in short, tend to wipe out the possible cost-savings of LDC supermarkets, claims Goldman [1982]. In LDCs, supermarket transactions take longer, as the lack of strong brands necessitates customer advice, driving up labour costs through both the extra time spent per purchase and the extra skill-level required [Goldman, 1981], while economies of buying scale are unlikely to be attained [ibid.; Mun, 1988].

In short, there are numerous issues causing difficulty in the operation of modern retail institutions in LDCs. Although they can generally be overcome, this comes at the cost of driving up costs relative to traditional operators, making low-cost, low-price entry extremely unlikely.

Demand side

A society has to be at a certain critical point to be able to support retail institutions [Hollander, 1963], and a certain increase in the standard of living is necessary to drive trading-up and to leave a gap for low-cost, low-price operators to fill [Agergard et al., 1970; Kaynak and Cavusgil, 1982]. Similarly, Arndt [1972] demonstrated that the structure of retail systems was a function of selected socio-economic characteristics of the societies they serve, even within developed economies, Michel and Vander Eycken [1974] highlighted a direct relationship between economic development and the importance of multiple retailers, who are so often instrumental in the evolution of new retail institutions, and retail structure is dependent upon the prevailing economic, technological, social and cultural characteristics of a country [Kaynak, 1979; Kaynak and Cavusgil, 1982; Kaynak and Rice, 1988; Kacker, 1988a].

Because they depend on retailing packaged and processed foods, which form only a small part of the diet of low-income LDC consumers, LDC supermarkets are effectively forced into focusing on high-income

consumers [Bucklin, 1977]. Extension into fresh foods is problematic because of LDC consumers' reluctance to buy meat and produce from supermarkets, which is often perceived as offering more expensive, less fresh food than bazaars and other traditional outlets, which retain a strong lure, carry a wider variety and offer social interaction [Bucklin, 1977; Lau and Lee, 1988; Zain and Rejab, 1989]. Alternatively, retail formats are "transplanted" into LDCs at roughly the same level at which they exist in the "exporting country", contends Kaynak [1979], a strategy often planned by governments as well as retailers [Kacker, 1988a], explaining, to a degree, why early LDC supermarkets and department stores tend to be high-service, high-priced institutions [Israeli, 1973].

Supermarket shopping is not widely adopted in LDCs because consumers' pattern of daily fragmented shopping remains largely unbroken [Goldman, 1974, 1981; Bucklin, 1976], due to a lack of in-home refrigeration and personal transportation, which prevents the majority of consumers from changing their shopping patterns [Kaynak and Cavusgil, 1982]. For example, Brazilians were found to shop for food four times a week, 90% of Bolivian's shop at least once a day, and many Moroccans buy staples such as bread every meal time [Yavas and Tuncalp, 1986]. Because consumers buy small quantities on a frequent basis, they are more loyal to nearby stores and traditional outlets, which therefore have a very small trading area [Goldman, 1974, 1982]. Travelling further to a supermarket can mean that the cost of getting there erodes much of the price advantage, if indeed the consumer is able to make the journey and there is a price advantage [Goldman, 1981].

In short, the level of economic, technological, social and cultural development of a country can inhibit low-price supermarket and department store retailing. There must be demand for their packaged products, and consumers must be able and willing to change their shopping patterns. In addition, loyalty to traditional outlets is strong, particularly among low-income consumers, inhibiting the spread of modern retail institutions, forcing them to target the small, high-income segments of society that do wish to, and are able to change their shopping habits.

To conclude, a combination of consumer-related and supplier-related difficulties conspire to force innovating LDC retail institutions to enter the market at a high-status, high-overhead, high-price position, in direct contradiction to the Wheel of Retailing, buckling its possibilities of universal application.

Appendix Eight

Competitive reaction to low-overhead, low-price entrants is to take on their advantages

Nineteenth century multiple grocers entering an English town offered lower prices, to which established local operators responded [Pennance and Yamey, 1955], sometimes forming local buying and advertising groups to counter multiples' economies of scale [ibid.]. Similarly, when barrow-traders began to undercut grocers between the two world wars, grocers responded through price-cutting [ibid.], suggesting the long-term existence of a tendency for established retailers to react to low-overhead, low-price entrants by taking on some of their characteristics. The late 19th century, for example, saw UK private traders adopt a system similar to that of co-operative dividends, and large department stores copy the practices of 'civil-service co-operative societies', to such an extent that the two forms became indistinguishable [ibid.].

This reaction is effectively Dialectic, brought on by conflict with operators entering as the Wheel of Retailing suggests. Nieshlag [1959], see Gibbs [1987], first claimed that a process of mutual adaptation of new and old reduces the conflict between innovators and retailers under attack from an innovation, to which Brand [1963] added that the response of established retailers to the threat of innovators was to become more like them. US supermarket operators, for example, countered growing discount department store competition by opening large discount stores themselves [ibid.], the US discount-house and discount store became more similar [Regan, 1964], and US supermarkets 'traded-up' into fast-foods and extended their opening hours in response to the growth of convenience stores [Kotler, 1988].

While Bucklin [1976] advised conservative firms to capitulate and adopt new trading methods, or be faced with problems in the coming years, McNair and May [1978] contend that the initial competitive reaction to retail innovations is to ignore them, then to attack them with legal and political efforts, before beginning to compete by lowering costs and prices. Finally, if this is unsuccessful, established retailers may adapt their business to become more like the attacking institution. Similarly, Berens [1980] contends that established retailers tend to begin by experimenting with the innovative idea, then acquire one of the fledgling operators, or enter into a joint venture with them.

The initial reaction of established US retailers to the rapid expansion of outlet/off-price innovators was to pressure manufacturers into not supplying them [Lord, 1984]. Several established operators subsequently moved into off-price retailing [ibid.], supporting McNair and May's [1978] hypothesis. Established retailers also held more sales in response to the off-price threat [Kaikati, 1985], and turned to private label, before beginning to pressure manufacturers, while a minority of established operators did nothing, preferring instead to wait and see what would occur, accepting a smaller market in the meantime [ibid.].

When appearing to be threatened by discounters, Kresge Stores experimented with the discount format [Shaffer, 1973], eventually closing down their original stores and concentrating on the K-Mart discount format [Dickinson, 1981; Omura, 1986; Hollander and Omura, 1989], although such an extreme response is rare, and was aided by the acquisition of discount innovators [Sampson and Tigert, 1994]. Similarly, Wal-Mart launched Sam's Club, a warehouse membership club, after seeing Price Club, the innovator of the format, develop successfully for over five years [Sampson and Tigert, 1994].

In the same vein, the reaction of UK supermarket chains to discounter Kwik Save's growth was to recognise the threat and establish discount chains of their own (Key Markets, International, Fine Fare, Argyll and Tesco all did this) [Lord et al., 1988]. In New Zealand, Kwik Save's main competitor, Progressive Enterprises, initially attempted to differentiate itself through the quality of its products, service and shopping environment, before tacitly stepping up price-competition through promotional activity, and then permanently lowering prices. Finally, Progressive Enterprises acquired Kwik Save's 3 Guys New Zealand subsidiary, running them in parallel to their original operation [ibid.]. Irish operators' initial reaction to the Kwik Save - 3 Guys threat was to successfully apply political pressure to slow its spread. As this hurdle was overcome and growth resumed, established operators lowered prices, before some established operators opened discount chains themselves [ibid.]. Established US retailers also applied political and legal pressure to stop the spread of chain stores in the 1930s [Hollander and Omura, 1989], and about 50% of US states levied anti-chain taxes as a result, although these were phased out over the years.

More common, but less noticeable, however, is for innovating and established types of retailing to gradually be assimilated as innovators trade-up and established retailers adopt the innovators' best

features and methods [Kaynak, 1988]. By the early 1990s, there was evidence of limited assimilation between US supermarkets and warehouse membership clubs [Sampson and Tigert, 1994], as supermarkets introduced large pack sizes at low prices, moved into WMCs specialising in food themselves, and took legal steps to slow WMC growth [ibid.], while WMCs began to open to all sectors of the public and improved their ambience [Sampson and Tigert, 1994], each effectively taking on the advantages of the other.

Similarly, Piggy Wiggly, the first US 'supermarket' attracted many imitators [Hollander and Omura, 1989], and established grocery chains moved into supermarkets when they realised that they *had* to change [ibid.]. Venezuelan small store operators neutralised a degree of the threat of overseas supermarket entrants by becoming more like them [Kacker, 1988b], leading to the emergence of three domestic supermarket chains [ibid.]. Conversion to self-service is a tactic that is widely used by traditional LDC operators pressured by the emergence of large retail outlets [Kaynak, 1988].

To conclude, there are a large number of cases where the entrance of innovative, low-price retailers has provoked a reaction from established operators that has been Dialectic in nature. This can be through the trading-up of innovators, or through established operators' adoption of innovators' characteristics (by means of lowering prices or copying buying practices and promotional tools), or even through established operators' moves into the format, by opening their own stores or acquiring fledgling operators.

Appendix Nine

Acceleration of the Retail Life Cycle

Retail life cycles are shortening, or accelerating, a trend first noted in the fields of the US department store, variety store and supermarket [Davidson, 1970]. Others agree that the length of retail life cycles is contracting, in common with the product life cycle [McCammon, 1975 and Davidson et al., 1976], and successive formats are reaching maturity faster than ever - it took 80 years for the department store to reach maturity, 45 years for the variety store, 35 years for the supermarket, 20 years for the discount department store and an estimated 15 years for the home improvement centre [Davidson et al., 1976]. Similarly, department stores took at least 50 years to reach maturity, supermarkets about 25 years, franchising and discount houses less than 20 years, and hypermarkets barely a decade [Dawson, 1979].

European hypermarkets added more sales area in less than 20 years than department stores did in more than 120 years [Knee and Walters, 1985], while US warehouse clubs, home shopping television networks and category killers have gone from birth to maturity in just a few years [Lewison, 1997]. The Retail Life Cycle is accelerating only in developed countries, however, while progress in developing economies remains slow [Kaynak, 1988].

There are many forces causing acceleration of the Retail Life Cycle, including a growing number of entrepreneurs and managers with inter-organisational administrative skills, and ready availability of stock market funding for promising new concepts [Davidson, 1970]. Advertising caused the Product Life Cycle to shorten [Cherington, 1924], and is likely to have done the same for its Retail Life Cycle counterpart, and while planners can speed or slow the spread of an innovatory form of retailing [Gibbs, 1987], they can not realistically 'kill' it [ibid.]. Finally, the shortened life cycle is attributable, in part, to the increased pace and affluence of society [Dickinson, 1981].

The time scale of the Retail Life Cycle model is variable [Davidson et al., 1976; Holmes and Hoskins, 1977; Davidson and Smallwood, 1980], with the total time scale and the duration of each stage being a function of changes in the market area, competition and management responses [Holmes and Hoskins, 1977], implying that management has a certain degree of control over retail life cycles, although this is rarely exercised successfully [Knee and Walters, 1985]. To conclude,

while the causes of accelerating retail life cycles are multiple, the impact is clear and profound – the physical life of retail structures will be longer than their economic lives [Dawson, 1979], spatial diffusion of a concept will occur more rapidly [ibid.], leaving management a shortened response time in which to act [McCammon, 1975], and the profitability prospects for future strategic innovations will be dramatically reduced [Bates, 1979].

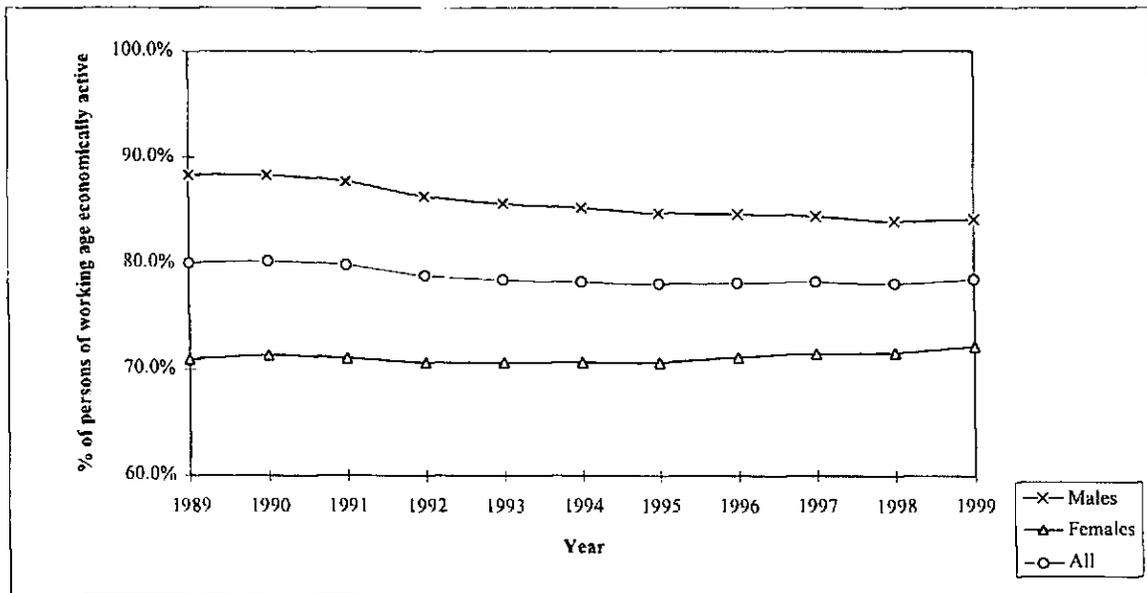
Appendix 10

The likely impact of future socio-economic and technological changes.

In this appendix, the rate of economic activity of the UK population is addressed first, by gender, followed by unemployment rates, also by gender. Trends in real income growth are analysed, and consumer adoption of technology is considered. Growth in the size of the UK population, and changes in its structure are investigated, as are the effects of international and inter-regional migration. Finally, the changing structure of UK households is considered, before the section concludes by summarising the likely implications of current socio-economic trends.

The rate of economic activity of the UK population is relatively stable, suggesting that significant increases in economic activity are unlikely to occur before 2010. While overall economic activity is stable, this masks a decline in the percentage of economically-active working-age men, and an increase in that of women (figure a):

Appendix 10, figure a: Percentage of working-aged persons economically active:



Source: *Annual Abstract of Statistics, 2000 edition, 136*, London, HMSO; table 7.1, p.85

Although still outnumbered by men, women represent an increasing proportion of the

adults increased by 2.3% to £411 ¹, exceeding the inflation rate of 1.9%, excluding mortgage interest payments ², real income growth is therefore continuing. The government considers average annual wage inflation of up to 4.5% compatible with their inflation target of 2.5% [Blake and Young, 2000], suggesting that real incomes may increase by an average of up to 2% per annum before attracting government attention, and that real income growth will continue. Likely increases in real income are supported by Euromonitor, who forecast that inflation between 2000 and 2010 will average 1.9% per annum, compared to average wage growth of 2.8% per annum ³. Falling unemployment and increasing real incomes are beneficial to retailers, although food retailers stand to gain less from this than other retail sectors because of the inelastic demand for food (5.2.iii, p.153), and competition for consumer spending from activities such as leisure activities, and particularly from eating out. They do, however, present opportunities for food retailers to grow through diversification of the product offering, into categories likely to take an increasing share of a rising consumer income, such as take-away foods, ready meals and non-foods (6.4, p.235-236).

Increasing real incomes drive adoption of consumer durables and motor cars (5.3.i, p.158-159), and further real income growth could be expected to drive continued uptake of existing products such as refrigerators, freezers and microwaves, although this will be constrained by their already high penetration. Penetration of motor cars may receive a boost from rising incomes and price reductions, which in the second half of 2000 were widespread following a damning Competition Commission report and warnings from the Department of Trade and Industry that manufacturers engaged in anti-competitive practices would be fined under the Fair Trading Act ⁴. This growth will also be constrained by the existing high penetration of cars (72%) and the high tax burden on motorists. Growth in home computers is likely to increase rapidly as incomes rise and the price of computer technology falls. In particular, consumer access to the internet is

¹ *Labour Market Trends*, 108(11), November 2000; "New Earnings Survey", p.479.

² *Monthly Digest of Statistics*, 658, October 2000; table 18.1, p.116.

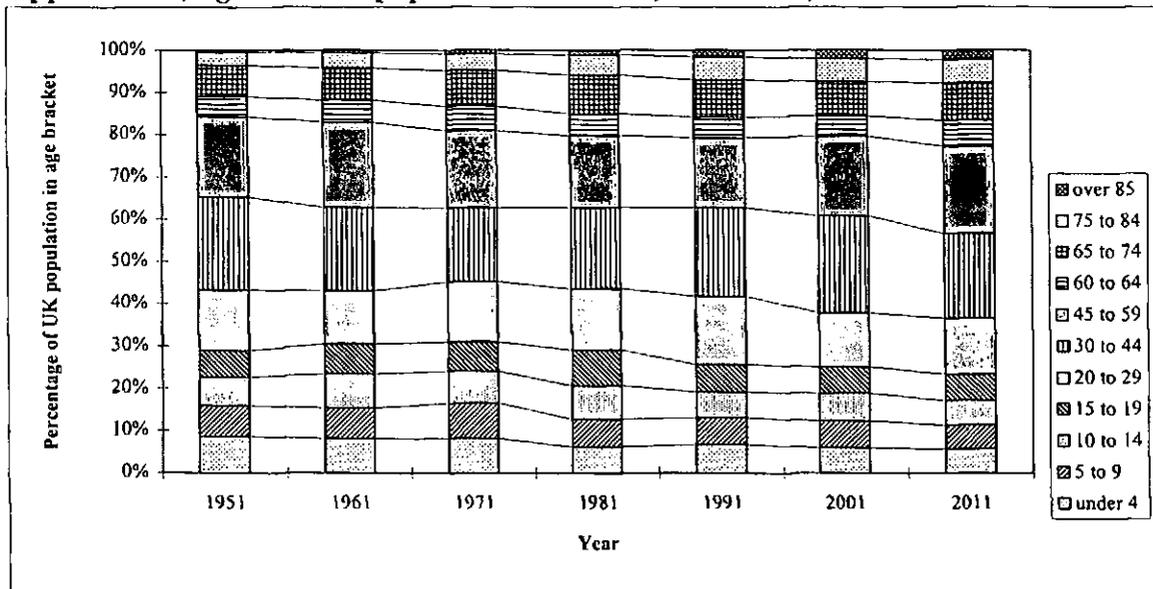
³ <http://www.euromonitor.com>

⁴ *Financial Times*, September 1, 2000; "BMW joins in showroom price-cutting", p.4.

expected to grow rapidly, due to increased penetration of home computers, and of new generation internet technology, such as WAP mobile phones, digital television and other appliances. Again, falls in the real prices of these should also stimulate growth, with this trend being of particular importance to the growth of delivered grocery shopping services (5.3.i, p.160-161).

Growth in the UK population is slow in comparison to historic rates - growth in the first half of the 20th century amounted to 31.4%, compared to only 19.4% for the second half⁵. In 1998, the UK population stood at 59.2 million, and is expected to grow to 61.8 million by 2011⁶, continuing its slow rate of growth. This apparently stagnant picture of the population disguises major changes to the age profile of the population, illustrated in figure c:

Appendix 10, figure c: UK population structure, 1951-1991, forecasts for 2001-2011:



Source: adapted from *Annual Abstract of Statistics, 2000 edition, 136*, London, HMSO; table 5.3, p.28

The fundamental change to the age structure of the UK population, like that of most developed countries, is that it is ageing. In 1951, only 10.8% of the population was over 65, and this is forecast to increase to 16.6% by 2011. More dramatically, the percentage

⁵ derived from: *Annual Abstract of Statistics, 2000 edition, 136*, London, HMSO; table 5.5, p.33.

⁶ *Annual Abstract of Statistics, 2000 edition, 136*, London, HMSO; table 5.3, p.28

of over 85s has risen from just 0.4% in 1951 and is expected to reach 2.2% by 2011 ⁷. These increases are driven by numerous factors, notably record low fertility rates, continued falls in death rates and increased life expectancy, and the post-World War II baby boom generation beginning to reach retirement age ⁸.

Retailers that successfully adapt to the ageing population structure will improve their chances of success. Advertising is currently aimed predominantly at the young, although the over-55s control 80% of the UK's wealth and account for 40% of spending ⁹. Older people are more concerned with the nutritional and health implications of food, so are more demanding in these areas ¹⁰. There are disparities within the 'grey population', with the 50-64 age group identified as healthier and more active than ever before, while the over-70s tend to suffer from loss of taste and smell, loss of teeth, dementia, and strokes as well as being poorer ¹⁰. In short, there are numerous opportunities for retailers to adapt to a changing society.

The structure of the population is also affected by international migration. In general, the net effect of this is to increase the UK population, although there are occasional periods when outflow exceeds inflow (figure d):

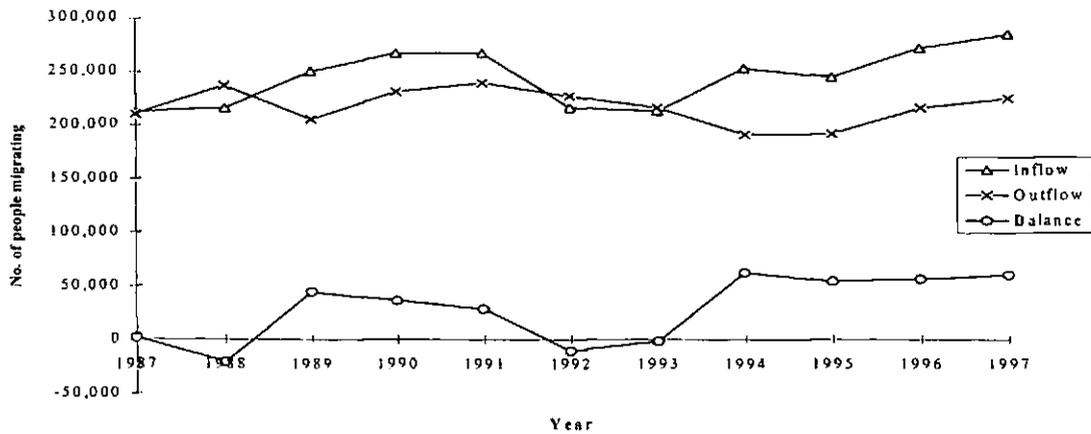
⁷ *Annual Abstract of Statistics, 2000 edition*, 136, London, HMSO; table 5.3, p.28

⁸ *Financial Times*, June 17, 2000; "Problem of ageing 'underestimated'", p.7.

⁹ *Marketing*, July 15, 1999; "Why grey is golden", p.24

¹⁰ *The Grocer*, June 10, 2000; "Not just our seniors - also our future selves", p.52

Appendix 10, figure d: Migration into and out of the UK



Source: *Annual Abstract of Statistics, 2000 edition*, 136, London, HMSO; table 5.7, p.35

Migration into the UK has been used to avoid labour shortages. In particular, Jamaicans were encouraged to emigrate to the UK when post-war reconstruction required extra workers ¹¹, and more recently a skills shortage in the IT industry has led to Indian nationals being accepted into the UK ¹². Migration is suggested as a possible solution to the problems presented by the ageing population, primarily because it could avert possible labour shortages [Mason, 1991; p.16]. Refugees and asylum seekers are also an important factor in UK migration, with over 46,000 applications for asylum received in 1998, excluding dependants, compared to 26,205 in 1990 ¹³. In short, the UK is becoming more cosmopolitan, and UK residents are increasingly travelling overseas (5.2.iii), demonstrated by the number of UK residents taking a holiday abroad rising from 30% in 1988 to 38% in 1998 ¹⁴, and the number of international passengers using UK airports increasing by over 75% to 125.5 million between 1988 and 1998 ¹⁵.

Immigration and increased foreign travel have influenced the UK palate, more exotic foods have been demanded by consumers, and supplied by food retailers (5.2.iii, p.154).

¹¹ *Financial Times*, May 30, 1998; "The ship that became an icon of black history".

¹² *People Management*, 6(17), August 24, 2000, "Recruiters turn to India for IT expertise as skills crisis bites", p.12.

¹³ *Annual Abstract of Statistics, 2000 edition*, London, HMSO; table 5.10, p.39.

¹⁴ *Annual Abstract of Statistics, 2000 edition*, London, HMSO; table 12.5, p.191

¹⁵ *Annual Abstract of Statistics, 2000 edition*, London, HMSO; table 14.22, p.226

Continuation of this trend seems inevitable as the population becomes increasingly cosmopolitan and subject to overseas travel, presenting further opportunity for UK food retailers to adapt their offering.

The UK also has significant movement of population within the country, demonstrated by table e:

Appendix 10, table e: Inter-regional migration

Year	1971	1981	1991	1998
England: North East	4.8%	4.7%	4.5%	4.4%
England: North West	9.7%	9.6%	9.4%	9.3%
England: Merseyside	3.0%	2.7%	2.5%	2.4%
England: Yorkshire and The Humber	8.8%	8.7%	8.6%	8.5%
England: East Midlands	6.5%	6.8%	7.0%	7.0%
England: West Midlands	9.2%	9.2%	9.1%	9.0%
England: South West	7.4%	7.8%	8.2%	8.3%
England: Eastern	8.0%	8.6%	8.9%	9.1%
England: Greater London	13.5%	12.1%	11.9%	12.1%
England: South East	12.2%	12.9%	13.3%	13.5%
Wales	4.9%	5.0%	5.0%	5.0%
Scotland	9.4%	9.2%	8.8%	8.6%
Northern Ireland	2.8%	2.7%	2.8%	2.9%

Source: *Annual Abstract of Statistics, 2000 edition*, 136, London, HMSO; table 5.5, p.33

Between 1971 and 1998, Greater London, Scotland, Merseyside, the north-east and north-west of England, Yorkshire/Humberside and the west Midlands suffered falls in the percentage of the UK population living there. Similarly, the percentage of the UK population living in the south-east, east, and south-west of England, the east Midlands, Wales and Northern Ireland increased. The net effect of internal migration is concentration of the UK population in the south of England. The north has higher levels of unemployment and redundancies¹⁶, and trails the south in incomes, driving migration from the north to the south¹⁷.

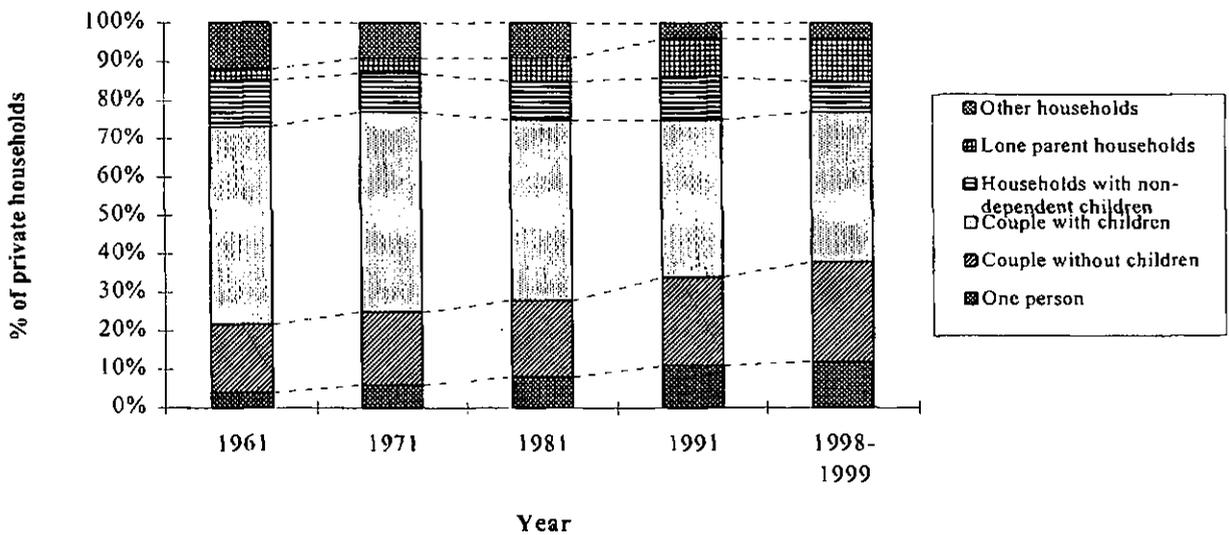
¹⁶ *Guardian*, June 6, 2000; "UK: North-South divide in labour market", p.11

¹⁷ *Financial Times*, December 7, 1999; "North-south divide remains in sickness and in wealth" p.2.

It is forecast that economic growth in the south will exceed that of the north by an average of 0.6% per annum between 2000 and 2005, and that growth in employment in the south will exceed that of the north by 0.4% per annum between 2002 and 2005¹⁸. The government expects continued concentration of the population into the south-east, and forecasts that the region will require a million new houses by 2015¹⁹.

The size and composition of households continues to change significantly, with long-term growth in the number of lone-person households, single parent households, and in households comprised of couples without children, illustrated in figure f:

Appendix 10, figure f: Size and composition of households



Source: *Social Trends 2000*, London, HMSO; table 2.3, p.35

Increases in the number of single-person households are driven by people choosing to live alone, divorce, bereavement, children leaving home, and the ageing population²⁰. The government expects 36% of all English households to be one-person households by 2016²¹. Divorce is the primary driver of single-parent households, being responsible for

¹⁸ *The Guardian*, October 20, 2000; "UK: Growth in north-south divide expected"; p.27.

¹⁹ *Economist* (US), 354(i8161), March 11, 2000; "The South-East: Manage and monitor", p.62.

²⁰ *Guardian*, February 1, 1997; "Now we are one", p.TW1.

²¹ *Guardian*, January 20, 1998; "Home Alone", p.13.

two-thirds of such cases ²². As the divorce rate rose by a factor of six between 1961 and 1991 ²³, it is reasonable to assume that growth in the number of single-parent households will continue. Other factors such as the increasing number of births out-of-wedlock also drive single-parent households, although around 55% of these are to cohabiting parents [Murray, 1995].

Increasing numbers of households are comprised of couples without dependent children, and 45% of such households have both partners in full-time employment, compared to only 24% for couples with dependent children ²⁴. This type of household is one of the highest spending household groups [Poyner, 1987; p.108], presenting a challenge to retailers that would generate healthy profits if successfully met.

Conclusion

The economic activity rate, at the time of writing, is relatively stable, and is therefore unlikely to bring substantial gains in household income as it has done in the past (5.2.ii, p.146-153). The rate of economic participation of women continues to rise, while that of men is declining, although this appears to be voluntary as it is not accompanied by an increase in male unemployment. Factors such as early retirement are causing the fall in male economic activity, which has a less severe impact on income than unemployment. As more women become economically active, this is likely to intensify demand for 'one-stop' and delivered shopping, although the impact of the economic activity rate is unlikely to be major in the years to 2010.

Unemployment is falling, which should drive up real incomes and reduce the size of the disadvantaged sector in society. This presents opportunity to trade up the retail offering, as the number of people prioritising price should fall. Real income looks set to continue its general trend of slow, steady growth, although this is by no means guaranteed, again

²² *Guardian*, October 13, 1993; "The new war on women", p.22

²³ *New Statesman* (1996), February 14, 1997, 126(4321); p.7

²⁴ *Labour Market Trends*, January 1999; "Labour Market Spotlight", p.15-19.

providing opportunity for trading up.

Real income growth should power significant growth in internet access, as should falling IT prices and alternative internet technology. Increased penetration of the internet will increase the size of the market for delivered groceries, although retailers should be aware of the impact of the internet in other areas such as advertising, and as a price comparison tool. Growth in other consumer durables such as domestic refrigeration, microwaves, televisions and cars is likely to continue to be slow due to their high existing penetration.

Population growth will continue to be slow, although the population is ageing considerably. As the older age groups control so much of the country's wealth, this presents opportunity for retailers to profit from the 'grey economy'. Older people are the primary source of the increase in single-person households²⁵, although it would be wrong to assume that single-living is the norm among older people. Older people are enjoying better health until at least the age of 70.

Internal migration is concentrating the population in the south of the country, particularly the south-east, and there will be a corresponding increase in consumer demand in the south and south-east, and a reduction in the north. Applications for asylum are increasing, and the country is becoming more cosmopolitan due to UK residents' increased tourism and travel, suggesting that recent trends towards more exotic eating will continue.

Finally, there is significant opportunity for retailers to satisfy growing segments of the population, in particular single-person households, single-parent households, and households of couples without dependent children. Single-person households require small portions and small packets, while relatively wealthy childless couples may be tempted to trade up to high quality products, for example.

²⁵ *Grocer*, June 10, 2000; "Not just our seniors – also our future selves", p.52

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