

**APPENDIX 1:
CURRENT AND EMERGING RETAIL TRENDS**

Current and Emerging Retail Trends

Introduction

- 1.1 The retail market has been the subject of some profound changes over the recent past. The mix of social and economic conditions which prevailed in the 1980s triggered the arrival of a much more discerning consumer, driven not just by value for money but also increased selectivity and a demand for higher quality shopping environments. These conditions continue to impinge on the nature of today's retail market where consumer loyalty has become a vital ingredient in the success of retailers. Increasingly, successful shopping facilities have to fulfil the role of a destination location. In large parts this means providing a wide range of shopping and leisure facilities able to attract and retain the interest of the entire family. In return such schemes benefit not only from much wider catchment areas, but also from substantially longer shopping trips.

- 1.2 There is increasing evidence that polarisation of centres is occurring across the UK, whereby large, more dominant retail markets (both in terms of town centres and out-of-town malls) have continued to outperform the average retail growth terms. The reduction in the amount of new floorspace coming through the out-of-town development pipeline is likely to further inflate rents in the best retail parks and prime locations, adding further to the divide between primary and secondary retail property. Similarly, the more attractive and accessible town centres are likely to perform better than the less attractive centres. However, town centre expansion will allow new opportunities to develop within the heart of towns which could dilute sales and rental performance in some locations, whilst encouraging it in others. The effect of such development on existing businesses needs to be carefully monitored.

- 1.3 In the next twenty years the retail landscape will continue to evolve. Taking the anticipated rise in the volume of retail sales, the expected trend in sales productivity, as well as the retail schemes already in the development pipeline, it is reasonable to expect further increases in total retail floorspace in major retail locations in the future.
- 1.4 Certainly, future policy needs to be based on creating a balance between accommodating the dynamism of the market place, its increasing competitiveness and the widening gulf between differing shopping locations.

Current Trends

- 1.5 Currently the UK is undergoing a sustained period of retail growth, with the high level of consumer confidence witnessed in previous years holding up. However, this situation is fragile and could change rapidly. Slower earnings, coupled with speculation about changes in interest rates and job insecurity could affect the rate of growth.
- 1.6 Consequently retailers will suffer from even a minor economic downturn as profit margins have already been cut to sustain levels of sales. Overall, however, it is apparent that many retailers are committed to expansion with many new sites due to open over the next few years.
- 1.7 A significant change in the retail landscape in the UK occurred within the publication of Planning Policy Statement 6: Planning for Town Centres (PPS6). This document promotes the 'town centre' first philosophy with regards to new retail development, to be assessed through the sequential approach towards site selection. The sequential approach indicates that when considering new retail development, sites within existing town centres should be preferred followed by edge-of-centre sites, with out-of-centre sites considered only as a last resort. Consequently the focus for new retail

development is existing town centres, with growth in out-of-centre stores and retail parks being discouraged by national guidance.

Trends in Food retailing

1.8 Despite the historic rise in the edge and out-of-centre large format supermarkets which occurred during the 1990s, development of such facilities is now more limited due to stricter planning laws following the adoption of PPS6 and a lack of suitable space. As a result, the large stores in the food retailing sector are finding a range of other measures to improve their market share. These include:

- Offering a wider product range, for example financial and insurance products, petrol and non-food goods;
- Developing a wider range of outlets, for example small-format convenience stores in town centres (e.g. Tesco Express), smaller supermarkets mostly in town centres (e.g. Tesco Metro), superstores (e.g. Tesco) and hypermarkets (e.g. Tesco Extra);
- Extended opening hours;
- Offering cheap products and no-frills service;
- Providing an attractive and powerful brand image; and
- Offering a home delivery service.

1.9 Notwithstanding this, Verdict (2007) note that supermarkets increased their combined floorspace by some 2.2m sq ft in 2006, which is more than double the amount added in 2005. Tesco has been particularly prolific in this sector by aggressively targeting space as a means to boost sales. Significantly in 2006 the closure of the planning loophole regarding mezzanine floors led to a rush of floorspace expansions in supermarkets. However, Tesco is still expected to increase its UK floorspace by around 6% in 2007/08, with ASDA, Sainsbury's, Morrison's, Waitrose, Marks and Spencer's and Iceland all set to open

new stores. Growth at the discounter end of the market is more limited however, and notably in 2007 Kwik Save went into administration.

- 1.10 In terms of products, major areas of growth in the convenience market have been fair trade and organic produce, with customers willing to pay higher prices for food with the expectation of getting better quality produce.
- 1.11 The number of forecourt convenience stores once popular with consumers, is now declining due to static fuel sales and high operating costs, Although there are currently around 10,400 forecourt convenience stores in the UK this forecast to fall to around 8,500 by 2010 (UK Forecourt Retailing, IGD, 2005).
- 1.12 Farmers markets and specialist firms offering a home delivery service, for example organic food, are small-scale operations that are growing in popularity.

Trends in Non-Food Retailing

- 1.13 The most significant change in non-food retailing over the last few years has been the increasing non-food sales accounted for by larger supermarkets, which have boosted their non-food market share notably. The development of larger-format stores and increased allocation of non-food in existing stores has allowed Tesco, ASDA and Sainsbury's in particular to increase the range of foods which they sell. Indeed ASDA 'Living' and Tesco 'Homeplus' are smaller-format stores which sell exclusively non-food goods. ASDA is expected to accelerate the rate of openings in 2007, with Tesco extending the trial of its 'Homeplus' format.
- 1.14 Indeed by 2011 sales of non-food goods in supermarkets are expected to grow to account for almost £1 in every £5 spent at supermarkets. The successful execution of more structured range architectures,

improved non-food store environments, broader non-food offers online and enhanced service will be crucial in enabling supermarkets to maximise their non-food sales opportunities.

- 1.15 In terms of the comparison sector as a whole a concentration of national multiples into larger centres has occurred in recent times. As this takes place, the comparison retailing element of smaller centres has declined, with their role becoming principally a destination for convenience goods. Retail parks continue to be popular with comparison goods retailers, as these facilities allow large purpose built units to be obtained and often planning permissions permit the sale of a more diverse range of goods. Another effect of comparison traders increasingly seeking larger, more modern premises has been a trend for national multiples to favour covered, purpose built shopping malls within town centres, such as the new Grand Arcades development in Wigan. As a result the focus of retailing within town centres has shifted from the high street to managed shopping centres.

Special Forms of Trading

- 1.16 Special forms of trading comprise such shopping as e-tailing, TV shopping and catalogue or mail order shopping.
- 1.17 Internet shopping is a key growth area in retail and online sales, and as a proportion of total sales is continuing to grow year on year. Indeed between 2002 and 2005 online sales increased by some 1,500% (IMRG, 2005). The IMRG also predict that by 2012 online sales will have expanded by another 320% to represent almost 20% of all retail sales. As a result of the increasing popularity of the internet for shopping purposes, larger retailers are continuing to push online sales as a means of increasing market share.
- 1.18 The future impact of a rise in internet shopping remains unclear, however it is evident that the growth in e-commerce will affect some

sectors more than others. For example, consumers are more likely to shop online for electrical items than clothing. However, the British Council of Shopping Centres (BCSC) note that e-tailing will never replace the shopping experience, and the impetus is for retailers to create a comfortable environment for shoppers to attract shoppers.

- 1.19 The BCSC indicate that whilst online retailing will exert pressure on retail rental growth over the next five to ten years, this will be felt most acutely in smaller centres. Larger shopping centres will remain desirable destinations in which to shop, and are deemed virtually immune to the impact of online shopping. Physical stores will remain the most popular point of sale for retailers and expansions are set to continue, although greater use of websites will be made as a means of distributing goods to customers.
- 1.20 Although TV Shopping in the UK has still not taken off the number of shopping channels, such as QVC and Ideal World, on our TV Screens is growing as a result of the growth in digital TV. Generally however, in order to purchase from these service customers still have to phone, rather than use interactive systems.
- 1.21 Although catalogue and mail order shopping was expected to become redundant with the advent on online shopping, there has been a substantial increase in the number of catalogues, which are often launched in conjunction with websites. For example in September 2006 Tesco launched Tesco Direct, which comprises a catalogue and internet based non-food platform, and this will be a major thrust of its business in 2007. Although some are linked to high street names, many are small and specialised companies offering a wide range of products.