Conceptualising innovative customer-facing responses to planning regulation: The UK food retailers

While receiving extensive coverage across a wide range of industries, brand adaptation in the face of regulatory change has been largely under-researched in the field of retail marketing management. This paper seeks to fill this void by reviewing the strategic customer-facing responses of the leading UK food retailers to the tightening of retail land-use planning regulations; in doing so, this paper exposes a highly variable range of strategies that include store format adaptation, new format development, entry into new markets and more controversially the outright challenging of Government regulation. The findings underline that although regulatory intervention can serve to restrict continued expansion, it can also encourage customer-focused innovation where well established retail brands retain market focus but modify the shape of their ongoing growth.

Keywords: food retailing, brand management, retail planning, innovation

Introduction

This paper examines retail brand management in the face of planning regulatory tightening in the food retail market. A wide range of marketing literature has explored the consequences of the rise of retailer power in the UK (Burt & Sparks, 2003a), including the way leading UK food retailers have become powerful brands in their own right (Burt, 2000; Johansson & Burt, 2004), have developed extensive store estates, and have become sophisticated exponents of loyalty management (Rowley, 2007). However, what happens when their ability to construct their preferred customer contact points – large format stores in catchments ‘protected’ to a certain extent from further market entry – becomes blunted by tightened Government regulation? How, in these circumstances, do the leading retailers reconcile customer orientation and physical expansion under redrawn market rules? In a more general context, Shaffer (1995, p. 498) has suggested the most likely response is ‘adaptation’. However, what is important in this paper is what adaptation means in terms of customer contact points and the innovative outcomes that have emerged as a result of regulatory tightening.

We suggest that our findings on these issues have significance more generally in marketing management in terms of conceptualising customer-facing reactions to business environment change. As successful retailer brands have adapted and re-orientated their organisations to a new planning regulatory climate, where flexible store formats and customer-focused delivery mechanisms have

become central to strategic thinking, considerable day-to-day operational challenges have been found in terms of simultaneously operating networks of new types of store alongside existing large-format store networks which require constant investment and enhancement to remain competitive. Furthermore, there are considerable implications of moving towards more 'regulation sensitive' flexible store formats in terms of retail productivity and innovation. There have already been 'trade offs of efficiency against effectiveness' (Reynolds et al., 2005, p. 240) observed in the development of more flexible formats, but what this means in terms of retail productivity has only recently been explored (Griffith & Harmgart, 2008). By examining the various marketing management responses to regulatory tightening we can probe, not only the effect that changes in market rules have on industries and firms, but, more specifically, on the customer experience of retail brands.

This paper is organised as follows: first, we explore the importance of continual management of the brand and customer orientation in retailing in the face of regulatory change. Second, we briefly examine the nature of the tightening of UK retail planning regulation post the mid-1990s and its effect on retail marketing management. Third, we review the strategic options explored by the UK food retailers to provide innovative customer-focused solutions to constrained growth, and the extent to which these strategies have been adopted. Finally, the paper concludes with an assessment of the implications of our analysis for marketing management.

Retail brand management, market orientation and regulatory change

Corporate and retailer brand management

Over the past decade the marketing management literature has detailed the importance of corporate marketing and the active management of the corporate brand (Balmer, 1998). It is argued that a corporate brand is an 'explicit covenant or promise between the company, customers and stakeholders' (Balmer & Gray, 2003, p. 982) which acts as a navigational and decision-making tool for consumers. In doing so, it represents both the organization as well as products related to it (Aaker, 2004). Ultimately successful corporate brands can become viewed as 'customer advocates' and engender intense levels of customer trust (Lawer & Knox, 2006).

Clearly the corporate and retailer brand is much more than simply a mark or insignia, but is also related to image building and the construction of an outward-facing identity amongst consumers (Balmer & Gray, 2003). More broadly, Balmer (2001) notes the link between corporate, organisational and visual identity and the brand's perceived multiplicity of identities from a consumer perspective. This means that while managers may specify core values, these are interpreted, assessed, and redefined by customers on a daily basis (Kay, 2006). As a result, consistent positioning is critical across the whole corporation and particularly at its customer contact points, where its values must

become clear, constant and differentiated from the competition (Hatch and Schultz, 2003; Haynes et al., 1999).

However, as Elg (2007) notes, retailers are concerned with a mix of services, facilities and products. As a result, they need to attain effective coordination between a wide variety of different customer contact points often across multiple channels (conventional stores, online stores or catalogue) as ‘for a major retailer, branding activities can also include developing a set of different retail concepts where each chain of stores has its own overall brand’ (Elg, 2007, p. 571).

What this means is that brand management in retailing is multifaceted, with ‘the whole organisation from top to bottom and across functional units ...[being] involved in realising the corporate brand’ (Hatch & Schultz, 2003, p. 1045). Moreover, the management is not passive since there is a need for continual improvement to maintain differentiation and to protect the brand from depreciation, stagnation and market share atrophy (Duke, 1991). As Balmer and Gray (2003, p. 991) note, this process ‘will almost certainly include product and service performance, innovation, design, and style’. This observation is consistent with existing research on the leading UK retailers, which has shown how they have both managed their brands and, in particular, have extended their brand names into product and service markets beyond their core product offer (Burt, 2000).

Market orientation, customer-centricity and innovative culture

The role of market orientation is vital to effective marketing management and competitive positioning. Grunert et al, (2005, p. 428) argue that market orientation is commonly defined as ‘the extent to which an actor in the marketplace uses knowledge about the market, especially about customers, as a basis for decision-making on what to produce, how to produce it, and how to market it’. A retailer’s store portfolio is essential here – both in terms of being the terrain where the retailer’s brand is experienced on a daily basis and brand equity accumulated - but also as the environment where retailers can continuously monitor customer feedback to understand the changing nature of brand image, and, specifically, the difference between actual and desired image (Haynes et al., 1999). Retailers must learn to harvest in an effective way this knowledge created in a ‘bottom-up’ fashion, and feed its insights into strategic adaptation (Currah & Wrigley, 2004).

Although customer centricity is now widely accepted as core to successful business planning (Forsyth et al., 2006), the challenge, as Schieffer and Leininger (2008) note, is the integration of customer insights to make useful strategic decisions, while not becoming ‘customer-controlled’. Elg (2007) goes further, arguing that market orientation also concerns the organisational culture of a retailer. This means that there should be a focus on information collection, dissemination and responsiveness. However, as Harris and Piercy (1999) stress, all too often there are internal barriers within retailers

that prevent effective utilisation of this information due to a range of difficulties including too much formality, lack of communication, departmental rivalry and politics. Clearly then, market orientation, innovation culture and brand performance must be realised together to create a ‘market driving’ rather than ‘market driven’ philosophy (Grinstein, 2008; O’Cass & Ngo, 2007).

In his study of food retailers, Elg (2007) produces a tentative model of market orientation in retailing that displays its broad reach across the sector. In this paper, our focus is on understanding how retailers have constituted new customer contact points under redrawn market rules. In terms of Elg’s general model, this research therefore concerns both the *macro level* of ‘developing store concepts and format’ and ‘positioning the corporate brand and identity’, and also the manifestation of those decisions at the *micro level* in terms of ‘new store development’, ‘store location’ and ‘market positioning’ where customers interact with the brand in terms of the store format (see Figure 1).

[Take in Figure 1 about here]

The leading UK food retailers obtain customer insight through the use of both loyalty card data and a wide range of customer survey and focus group procedures – ranging from general ‘listening groups’ and ‘customer question time’ sessions to tightly focused pre- and post-store-opening customer surveys. In addition, mystery shopper programmes that continually monitor customer experience are widely used.

At the more data-intensive advanced end of market orientation, the leading food retailers have leveraged the strategic use of loyalty cards in order to build relationships with customers – for example Clubcard at Tesco and Nectar at Sainsbury’s (Rowley, 2007). Complex data mining is a challenging process given the scale of the data generated but can generate useable information to provide increased customisation in marketing rewards, offers and messages (Hair, 2007; Humby et al., 2007).

Following the lead of Tesco, the major UK food retailers have learned to place the customer at the centre of their strategic thinking. As Tesco CEO Terry Leahy explains:

‘Listening to customers is good. But if you are serious about learning from them, listening isn’t enough. You have to allow them right into the business. You have to be prepared to act on what they say. If you do, and if you trust them, I promise you this – your customers will give you the best advice you will ever get in your business’ (Leahy, 2005, p. 1).

Such customer focus then feeds through organisations into clear company values and informs strategic choice at both the macro and micro scale.

In a contemporary context and given their customer focus, it is unsurprising that the leading food retailers are reactive to changes in public mood. This is especially the case in a more challenging environment where corporate retail has increasingly been portrayed in a highly negative fashion by campaigning groups and been linked with untamed and anti-social connotations of globalisation (Palazzo & Basu, 2007). Correspondingly much recent UK food retailer brand management has focused on engaging in corporate social responsibility (Colls & Evans, 2008; Jones et al., 2007), promoting transparent and responsible sourcing strategies (Hughes et al., 2007; Wagner et al., 2005), and addressing the concerns of local communities. Tesco, in particular, has changed its strategic ‘steering wheel’ to explicitly include community responsiveness and a corporate social responsibility focus.

Responding to regulation

Marketing management research has clearly focused on corporate brand maintenance and market orientation yet has rarely examined strategies for sustaining brand equity and performance in the face of regulatory change. On the one hand, business does not operate within a regulatory vacuum but on the other, complete macro-level strategy is unlikely to be driven by any single piece of regulation. In our paper, with its focus on food retailing, evidently retailers operate in a competitive market where strategy formation is also affected by a broad set of wider issues including consumer and market-based trends, the responses of competition and wider issues related to supply and demand. However, regulatory conditions set by government and implemented through laws, advisory notes or guidance to maintain competitive markets provide important boundaries for market development – in affect setting the rules of the game for store development. As Nielson (2006, p. 396) notes more widely:

‘Rules and standards tell people and companies how to behave, and public agencies and their employees control and of course react if people do not comply. The purpose is to make sure that people and companies behave in the way that has been politically defined as preferable. The ultimate goal throughout this process is: compliance with the law without spending too many resources enforcing it—in other words efficiency’.

The role of regulation in influencing retail strategy has – to a limited degree – been recognised specifically in the retail management literature. For example, there have been several analyses of responses to individual pieces of legislation on both sides of the Atlantic (e.g. Blomley, 1986; Bluestone et al., 1981; Warnaby & Upton, 1994). Meanwhile work in Continental Europe has investigated how legislation outlawing below-cost selling has had considerable implications for the price of major brands and the nature of retail competition (Colla, 2006). Other research has focused on the implications of competition legislation in merger and acquisition retail activity (Poole et al., 2003; Wood, 2001), as well as the effects of regional policy in channelling and promoting spatial

developments of retailing (Lowe, 1991; Sparks, 1987). An interesting range of studies have also charted the emergence of ‘management based regulation’ where the retailer, in effect, replaces the State in policing specific aspects of its business (Marsden et al., 2000).

While the academic literature has pointed to the role that legislation – in a broad sense – has had for the nature of format development and the basis for retail competition in a country (Colla, 2004), there have been few attempts to conceptualise and investigate the implications of retail planning regulation on the strategies of retailers. Of the numerous commentaries and investigations into retail planning from a planning and business perspective (Findlay & Sparks, 2008), and across a wide variety of geographical markets (Davies, 1995; Mutebi, 2006; Spierings, 2006), the focus has often been on planning *per se* or on the *immediate* implications for retailers, rather than the consequent changes in long-term strategic direction. Some important exceptions include the work of Davies and Sparks (1989) and Dawson (1984) in charting the emergence of the superstore format in tandem with changes in planning regulation. Furthermore, Guy’s influential contributions (1994; 2007; Guy and Bennison, 2007) consolidate analyses of store development and planning regulations, though the focus tends to remain on retail planning more than retailer adaptation and innovation to planning regulation change. In contrast to the above perspectives, this paper more widely investigates emergent innovative strategies that retailers have adopted in order to achieve market growth amid regulatory assault on the key growth vehicles of out-of-town superstores and hypermarkets.

Ultimately then changes of influential market rules ‘dictate a need for firms to alter their strategies to cope with those new circumstances’ and seek a fit with the new environment (Corsi et al., 1991, p. 4). As Cronshaw and Thompson (1991, p. 91) argue, ‘successful performance requires identification of the opportunities and constraints imposed by the regulation authorities, prediction of how these constraints might shift over time, and identification of opportunities for influencing the way in which these things occur’. Hence, regulatory change demands flexible and adaptive organisational structures and responses. And, for retailers especially, that implies a strong focus on customer insights to orientate those responses appropriately.

Having positioned retailer responses to regulatory change within the broader context of corporate brand management, we now turn to a brief survey of the nature of changing UK retail planning legislation for food retailers, before moving onto more extensive examination of the subsequent strategic responses of the leading operators to that regulatory change.

Innovation, regulation and customer-facing implications

Planning tightening and strategic implications

In terms of planning policy, the UK is one of the areas that Davies (2004, p. 81) labels as a 'region of restraint' where, since the mid-1990s, Government policy has been directed to 'turn back the tide of out-of-town development by recommending the refusal of planning applications for new stores and shopping centres in suburban areas and encouraged planning applications for town centre-based schemes'. For reasons of brevity, this paper focuses on English planning policy though we argue that our findings share relevance across the UK.¹

Such restriction sets this regulation apart from the more 'laissez-faire planning climate' of the 1980s (ODPM, 2004, p. 20) that Guy (2007, p. 32) describes as a 'free for all' when a Conservative administration oversaw a regulatory environment that permitted robust out-of-town retail growth, aided in the mid and latter half of the decade by strong consumer expenditure. Clearly, this period before regulatory tightening had wide ranging implications for retailers in the UK with a marked degree of retail decentralisation away from town centres. Notably food retailers rapidly increased construction of food superstores that were strategically located out-of-town, were highly accessible for car travel, and offered extensive trading areas (Wrigley, 1991; Wrigley, 1993). The erection of such stores reached a peak in the late 1980s and early 1990s when the three major retailers of the period (Sainsbury's, Tesco and Safeway) were opening between 60-80 new superstores each year while simultaneously closing smaller high street supermarkets that were perceived as less accessible and were proving less profitable (Guy, 1996).

By the early 1990s the Conservative Government of John Major had become concerned with the wider social and economic effects of retail decentralisation and, in particular, that it was 'harming traditional shopping areas through trading impact and the diversion of new investment' (Guy, 1998, p. 971). Under Secretary of State, John Gummer, this catalysed radical shifts in planning policy, with the Government adopting a more pro-active role in tightening planning regulations to restrict retail development located out-of-town centres. Most notably, tightening in England was seen in the release in 1993, and the subsequent revision in 1996, of Policy Planning Guidance Note 6 (PPG6) (DoE, 1993; 1996), the latter of which sought to prioritise town centre development at the expense of out-of-town. In particular, it incorporated the so-called 'sequential test' which was incorporated in the 1996 PPG6 following a recommendation of the House of Commons Environment Committee and which significantly altered the nature of the retail development process for retailers (Wrigley, 1998). This ensured the prioritisation of town centre sites by requiring developers to consider these first, followed by edge of centre, district and local centre sites and only as a last resort, out-of-centre locations. Similar regulations were introduced in Wales and Scotland. Further constraints in legislation followed, with developers having to prove 'need' for retail space situated out of the town centre, while a series of Ministerial statements further tightened this policy (Wrigley et al., 2002). In common with this stricter view on retail development, the eventual replacement of PPG6 in 2005 with

Policy Planning Statement 6 (PPS6) (ODPM, 2005) retained a ‘town centres first’ focus and formally codified within policy the Ministerial statements on ‘need’ for additional floor space. Although PPS6 also noted regeneration and social inclusion as ‘other’ and ‘material’ considerations in development planning and control (Guy, 2007), it signalled that retail development out-of-centre would remain difficult and retailers would have to continue to adapt accordingly.

Implications for customer-facing innovation and sales productivity

The construction of large out-of-town supermarkets became progressively more difficult throughout the decade-long emergence of the PPG6/PPS6 regulatory framework (see Figure 2), despite considerable lobbying of government and local authorities by the retailers – notably in a direct meeting between the CEO of Wal-Mart and Ministers (Pal & Byrom, 2005; Pal et al., 2001). As Guy and Bennison (2007) acknowledge, while large stores do not have to be developed out-of-centre, *in practice* sites that are large enough for a store and car parking requirements are often difficult to obtain within town centres. Furthermore, these locations suffer from congestion that affects both customers and the operations of the store. In practice, many industry observers have regarded the tightened policies as ‘a virtual ban on superstore development’ (Guy & Bennison, 2002, p. 434).

[Take in Figure 2 about here]

Increasingly, concerns have been expressed about the potentially serious implications of such policies for economic efficiency and productivity in UK retailing. Superstores and hypermarkets are widely recognised as providing scale economies for operators in labour costs, operating costs, and logistics, whilst permitting the widest possible range of goods and services, and providing flexibility in the use of sales space for innovative customer-facing displays and merchandising (Guy, 2006, p. 759). As a result, Guy (2007, p. 149) contends that ‘planners [in the UK] generally lack understanding of economic concepts in retailing, and that planning policies may *inhibit innovation and productivity*, at the same time distorting competition between retailers’ (our emphasis). Indeed, Griffith and Harmgart (2008), in modelling the implications of retail planning regulation, found that customers paid higher prices as a result of the regulation which acted as a barrier to entry for retailers.

Importantly in the context of this study, it has been argued by some commentators that the land-use planning system is restricting what is viewed as the ‘natural’ and preferred form of store development – large format stores. The Interim Report of the Barker Review of Land-Use Planning (2006, p. 116), for example, concluded that: ‘the planning system is lowering retail productivity by raising barriers to entry and inhibiting the ability of more efficient firms to benefit from economies of scale’. However, in contrast to the conclusions of the Barker report, other commentators have suggested (see for example ODPM, 2004) that retail planning policies may have been instrumental in *encouraging*

innovation by food retailers. Griffith and Harmgart (2004, p. 5) draw attention to this thesis when they observe the conundrum that:

‘the literature seems to suggest that what is holding UK retail productivity back [is] the focus on the small store format...yet Tesco [which has been at the forefront of developing smaller food stores] has been one of the most successful UK firms with recent growth in value-added per worker and strong financial performance’.

So how can we explain what seems to be occurring? It is clear that planning regulation has not simply been ‘a brake on retail productivity’ but instead that there has been a complex blend of productivity, efficiency and innovation issues induced by the tightened regulation. In the next section, our paper explores this mix by considering how customer-focused innovation and flexibility have been employed to achieve retailer space growth in the face of sustained regulatory assault on out-of-town store formats since the mid-1990s.

Need for strategic innovation with external regulatory shock

The external market shock of tightened planning regulations has caused leading food retailers to formulate innovative and differentiated solutions to drive development (Wood et al., 2006). Changing planning regulation has required what might be termed, ‘discontinuous innovation’ – essentially rethinking the design of store formats and, to a certain extent, their location (cf. Phillips et al., 2006). This has challenged retailers to adapt their profitable and efficient larger store formats towards a more flexible view of how to achieve growth. The distinction drawn by between longer term ‘strategic’ and shorter term ‘operational’ innovation is useful context here. The former is guided by a strategic planning process and typically includes high cost/high impact investments. In contrast, ‘operational’ innovation is predominantly, incremental’ and ‘developed through experimentation’, underlining the degree to which change is a continuous process (Reynolds et al., 2007, p. 652). Hence, we find that much of the adaptation undertaken by food retailers in responding to a new regulatory landscape has involved this second type of incremental change with retailers experimenting with amended store formats, analysing the power of their brands to enter new markets and continually monitoring initial customer responses to these changes.

Adaptation in store format development has required a change in the mind-set of senior executives and an ability to accept the compromises that accompany the new market rules. The counter danger, as Schoenberger (1994) notes, has been that for a variety of personal reasons, managers might be slow in embracing the need for adaptation, or attempt to resist change (see also Mellahi et al., 2002). In that case, resistance would risk lower growth and the atrophy of market share as planning permissions for out-of-town units would invariably be refused. Such problems, as Jensen (1993) explains, are a particular concern for firms that have enjoyed long periods of commanding market leadership with

their strategic adjustment often being painful as a result of the engrained culture of these organisations.

By contrast, an innovative culture allows a business to adopt market driving behaviours that change market structures. O'Cass and Ngo (2007, p. 874) argue that such a progressive culture 'pushes an organisation to be external-positioning, competitive-seeking, and more interested in managing market intelligence including new business ideas, technological breakthroughs, and taking aggressive competitive moves'. To retain the required flexibility, Kaplan and Norton (2006, p. 102) argue that firms should not simply employ a single business model, but instead 'choose an organizational structure that works without major conflicts and then design a customized strategic system to align that structure with the strategy'. Similarly Williamson (2003, p. 852) advocates that a company 'maintain a portfolio of new options for its future by building new capabilities and simultaneously expanding its knowledge of new market segments and consumer behaviour'. This necessitates a degree of 'strategic ambidexterity' in order to pursue both exploitation and exploratory strategies simultaneously (Judge & Blocker, 2008) along with local flexibility and a lack of bureaucracy of retailers that may have considerable geographical coverage and market share - a significant challenge. The onus, as Peters and Waterman (2004) note, is to be 'tight' in terms of executing efficiency, but also 'loose' and adaptable to new circumstances.

Flexibility and brand risk

Flexibility and open-mindedness demand substantial risk-taking by leading food retailers. On the one hand, risk is most obviously seen in the considerable sunk costs associated with new format development (Clark & Wrigley, 1997; Wood & Tasker, 2008), and as Schoenberger (1994, p. 438) noted, 'firms flinch in the face of sunk costs'. Moreover, the integrity and meaning of the retail brand is put in jeopardy when customer-facing contact points are modified. As Kay (2006, p. 747) suggests in a more general marketing context:

'...as brands morph, managers can lose touch with consumers. Organizations may lose control of brand identities. As new brand meanings develop, consistency of brand meaning across cultures becomes highly complicated'.

This brings into question the malleability of the boundaries of the brand given that 'potential to extend into new product-markets, depends on the brand's heritage and business strategy' (Aaker, 2004, p. 13). At worst, as Alexander and Colgate (2005, p. 412) note in the context of food retailer brand extension, 'poor implementation may weaken a retailer's core brand in the customers' eyes'.

Exploitation of new markets: core competencies and understanding 'the customer'

By responding to regulatory tightening by embedding flexibility within their store development strategies in different ways, the leading food retailers have focused on understanding the customer-centric nature of their businesses (cf. Haynes et al., 1999). These firms have essentially concluded that they are focused on fulfilling customer requirements in the food and non-food markets in general rather than in the large-format store ('one-stop shopping') market *per se* (see Table 1). This has led to them confronting two key issues:

[Take in Table 1 about here]

First, the leading food retailers have had to reflect on what their core capabilities are and how they can be exploited in the current regulatory regime. Strategies that put together combinations of moves into areas adjacent to, and related to, the core business are known to achieve a greater probability of success (Teece et al., 1999; Zook, 2007). In practice, this means building on the existing vision and values of the firm 'rather than revolutionary shifts from one value set to another' (Hatch & Schultz, 2003, p. 1048). Such approaches carry less risk than radical diversification and have the potential to create significant competitive advantage because they stem directly from what the company already knows and does. Doing so offers the opportunity to build cohesive brand architecture by leveraging the pre-established equity and reputation of the corporate brand through a process of identity and image transfer, which retains consistency in vision and the values of the core brand (Uggla, 2006).

Second, whilst the leading food retailers have been driven to alternative markets and formats by restrictive planning regulations, success has required sufficient customer demand for such innovations. This has involved a renewed focus by retailers on listening to the demands of customers so that strategy can be aligned accordingly. As discussed above, the leading food retailers routinely conduct customer feedback sessions within stores, operate mystery shopper programmes, and extensively mine customer data from loyalty cards (Humby et al., 2007). However, it has become increasingly essential that this ongoing dialogue with customers and the 'customer insights' function more generally is deeply embedded within the core corporate strategic decision-making of the firms (Forsyth et al., 2006, p. 44).

In Figure 3 we divide the reactions of the leading food retailers into four strategies. First, a strategy of attempting to directly influence the regulators in the formation of market rules. Second, a strategy of regulatory 'opt out' where the retailer focuses on entering new markets which are not as constrained by retail planning legislation as the mainstream market. Third, a strategy of regulatory compliance involving the modification of store format and site location. Fourth, a strategy of challenging the interpretation of regulatory structures. It is to these strategic responses that the paper now turns.

[Take in Figure 3 about here]

It is important to note that some of these strategies may have occurred in the absence of planning tightening – notably those initiatives not directly related to UK store development or modification. For example, the internationalisation of retailing is widely known to have been motivated by dual catalysts of push and pull factors (Alexander & Doherty, 2009; Coe & Wrigley, 2009). Similarly the move to e-tailing was a strategy facilitated by technological developments, customer demands and a cost model that could broadly run in line with revenues if fulfilled via stores rather than warehouses (Burt & Sparks, 2003b; Delaney-Klinger et al., 2003). Meanwhile, the initial ‘return to the high street’ that occurred with Tesco’s ‘Metro’ format originated prior to the planning regulatory tightening. However, convincing growth in these ‘off-centre’ formats did not significantly occur until the end of the 1990s. Indeed, we maintain that many of the adaptations to, and introductions of, store formats and their spatial expression were clearly compromised solutions to growth compared to continued development of conforming large stores and therefore evidently direct responses to planning change.

Strategic customer-facing responses to regulatory tightening

Directly influencing regulators in the formation of market rules

The leading UK food retailers not only strategically respond to planning regulatory change, but have also played a role in the formation of the legislation and ‘been prominently involved in the consultation process’ (Pal et al., 2001, p. 242). Moreover, the firms are not only reactive in contributing their views when requested but also proactively attempt to shape the direction of regulation via ongoing communication with government. This has seen the retailers *independently* advancing their arguments in Select Committees, engaging in intensive lobbying, and meeting with government officials (including Ministers) in order ‘to safeguard market share through a process of enlightened self-interest’ (Pal & Medway, 2008, p. 762; Pal & Byrom, 2005). Notably Sparks’ (2008) use of a Freedom of Information request has uncovered how Wal-Mart’s influence extended all the way to Downing Street. More recently, the proposed introduction of a ‘Competition Test’ into UK retail planning policy (Hughes et al., 2009) saw robust support from Asda Wal-Mart through numerous submissions to the UK Competition Commission given the advantage that such legislation would likely offer the retailer. Indeed, at a global scale Wal-Mart is well-known for being pro-active in influencing regulation and even engaging in subsequent litigation to further its own interests (VanderVelde, 2006).

As Shaffer (1995, p. 498) notes, ‘when government develops public policies, firms act as interest groups and attempt to influence policy development’. Unsurprisingly therefore, the leading food retailers have also undertaken *collective* action where their common aims are communicated by

representative trade bodies such as the British Retail Consortium (BRC), Accessible Retail (AR) and Association of Town Centre Management (ATCM) (Pal and Byrom, 2005). Smaller food retailers have arguably been left with minimal influence. One exception is the UK representative body, the Association of Convenience Stores (ACS) that has been a persistent critic of the power of the major food retailers and found some sympathy at a political level (see All-Party Parliamentary Small Shops Group, 2006). However, large retailers possess far superior resources – often employing senior executives who possess considerable knowledge of, and arguably influence on, Government given previous experience as advisors to Ministers or as long-standing civil servants (Pal and Medway, 2008). The success of the leading UK food retailers in influencing the direction of regulation is, however, unclear. As Guy (2006, p. 760) notes in the context of retailers’ participation in one such Select Committee, ‘these arguments were not reflected in the eventual report and the recommendations of the Committee’.

Regulatory ‘opt out’ – new format and market development

In the face of tightening domestic retail planning regulation, one logical strategy has been for the leading food retailers to diversify, ‘using what they believe to be their core competence in managing infrastructure assets to expand *outside the scope of that regulation*’ (Parker, 2003, p. 93, our emphasis). Most simply this has been seen in increased investment outside of the UK via internationalisation strategies. However, it has also involved investment into non-store activities such as internet retailing and, via brand extension, into the financial services market. A considerable literature exists on the international investment response (see Coe & Wrigley, 2009). However, of key interest for this paper are the tactics employed in the domestic market via innovative format modification and new market entry. It is to these issues, summarised in Table 2, that the paper now turns.

[Take in Table 2 about here]

Expansion into the convenience store sector

Both Tesco and Sainsbury’s have significantly expanded their presence in the convenience store sector, further pressurising independent operators that traditionally locate in neighbourhood catchments (Sadun, 2008). In part this has been facilitated by the regulatory shelter provided by the Competition Commission’s consistent view (2000; 2003; 2007) that there are separate markets in the wider UK grocery sector: namely the highly regulated ‘one stop’ shopping sector (where the leading food retailers have high market shares), and the secondary/convenience store sector (historically highly fragmented and neglected by the leading firms). Despite protestations that this rule is outdated (All-Party Parliamentary Small Shops Group, 2006), significant investment has seen Tesco develop a convenience store portfolio of over 650 Express stores (plus a further 500+ ‘One Stop’ branded units).

This was largely due to its acquisition of 1,215 T&S convenience stores in January 2003 (the smaller units, less suitable for conversion were subsequently divested), together with the acquisition in London of 45 stores from Adminstore. Meanwhile, Sainsbury's has built a portfolio of over 300 convenience stores, significantly boosted by acquisitions of Jacksons and Bells in 2004 (see Table 3). Both retailers have set about reconfiguring the units acquired into their own convenience formats, i.e. Tesco 'Express' and Sainsbury's 'Local', as well as introducing a superior product offer and lower prices, facilitated by a sophisticated logistics system (Wrigley et al., 2007).

By entering this sector, the leading food retailers have involved themselves in a sub-set of the UK food retail market that had previously been viewed as having disappointing store and service standards (Coca-Stefaniak et al., 2005). Despite this being a robustly growing sector, as a result of what has been termed the shift to 'convenience culture', market entry poses risks – not least given the threat that the leading food retailers could dilute their brand equity by disappointing customers with purchase environments and product ranges inconsistent with their established stores (cf. Kay, 2006). As He (2008) notes in a general context, it is essential that the gap between corporate identity and strategic action is as narrow as possible. In the convenience store sector this has meant that units suitable for conversion to the retailers' own fascias have been rapidly redeveloped, while those stores considered to be of insufficient size have, in the case of Tesco, retained the original 'One Stop' nameplate thereby separating them from any explicit linkage to the corporate brand.

[Take in Table 3 about here]

Market entry into non-food only stores and new fascia development

Asda Wal-Mart and, less convincingly, Tesco, have also diversified 'outside the scope of tightened regulation' having embraced the opportunity posed by constructing specialist non-food stores. Asda Wal-Mart has been especially pro-active: 2003 saw the first stand-alone 'George' High Street clothing stores, seeking to capitalise on its strong apparel brand, while 2004 saw the more ambitious launch of an out-of-centre 100% non-food format branded 'Asda Living' that includes a much broader range of general merchandise. The retailer has expanded to ten outlets over the past three years and, heartened by its performance, has appointed a Managing Director for the format as it plans for a 300 unit estate.² As retail consultancy Verdict commented recently, these innovative trials – especially with non-food – are driven by Asda Wal-Mart's inability to develop its preferred large store format in sufficient numbers:

'Essentially, in an ideal world, Asda would most probably prefer to open more superstores. But in light of the tougher planning climate which restricts the development of large out-of-town food stores, and the need to continue growing scale of its non-food business, Asda really has been left with few options' (Verdict Research, 2007).

As Reynolds and Hristov (2009) have recently noted, format innovation in retailing is easily replicated and in this vein Tesco has quickly followed these initiatives with the launch of its own non-food format, Tesco Homeplus, focused in retail park locations and had seven such stores operational by the end of fiscal 2008.

Regulatory compliance – store location and format adaptation

Adaptation of the core large-format store proposition

With the town centre sites favoured by tightened planning regulation commonly too small to accommodate the retailers' desired food and general merchandise product offer alongside adequate car parking, the leading retailers have had little choice other than to explore more 'planning friendly' retail formats. However, designing such formats has involved risk. When retailers devise new formats in new locations, they are essentially testing the flexibility of their 'brand boundaries' (Aaker, 2004, p. 13) and some have been more successful in this process than others.

Asda Wal-Mart, for example, has experimented with diversification into a small discount food superstore format that is consistent with planning regulations – albeit exploiting only secondary locations in the town centre. In common with the retailer's non-food units, it sought to leverage its key competences and brand attributes – low price and value. The first of these stores, a 10,000 sq ft Asda 'Essentials' was launched in Northampton in 2006, with a further unit subsequently opening in Pontefract. It targeted value-conscious consumers with a product mix almost exclusively skewed toward own-brands. However, although six units were planned by the end of the first year, the strategy was discontinued in 2007 and no further stores have been opened. Underlining the limits to retail brand stretch, it appears that Asda Wal-Mart's private label merchandise was insufficient to drive sufficient customer traffic without the balance provided by the manufacturer-brands that are known to provide an essential part of the retailers' product mix (Elg, 2007).

More successful adaptation strategies have been realised by Tesco, which has proved particularly innovative in flexing its superstore format design to individual circumstances, often as part of the mixed-use development schemes promoted by Government (see Greater London Authority, 2004). To maximise the yield from these sites, Tesco has started to construct stores literally "on-stilts", offering customers a surface car park with an extensive trading floor located above ground level and linked to the car park via a traveller.

The ability to build stores in this style was refined in Tesco operations in Eastern Europe and Asia prior to introduction in the UK – the reverse of the conventional assumed knowledge flow from host country to developing economy (cf. Goldman, 2001). These skills were first employed in the UK at

Altrincham with a 60,000 sq ft store that opened in November 2002. Since then other stores such as Burnley (2003), Long Eaton (2004), Slough (2005) and Newtownbreda (2007) have opened following the same model. Comparable approaches to space maximisation have been pursued by Asda Wal-Mart, which opened its first purpose-built split-level trading store in Huyton, Merseyside in 2005.

Employing stilts and split-level trading in search of 'flexibility' are more costly in both the development and operational phases and are, therefore, only applicable to sites where higher yields are likely. However, such coping strategies offer an important option against the alternative of building a small superstore with a severely restricted car park that would undoubtedly leave customers, particularly in areas of high demand, frustrated and disillusioned.

Locational adaptation of the core supermarket format

Not only have the leading food retailers adapted their range of formats to ensure sales and retail space growth, but they have also applied a more flexible approach to store location. Strategically linking into the politically sensitive social exclusion and regeneration agenda they have adopted a policy of not discounting any area, however deprived, from the possibility of store development. Explicitly identified in PPS6, one of the Government's wider policy objectives has been 'to encourage investment to regenerate deprived areas, creating additional employment opportunities and an improved physical environment' (ODPM, 2005, para 1.5). By adopting a 'partnership' approach with local authorities, unions and community organisations seeking to promote urban regeneration, the major retailers such as Tesco have committed themselves to job guarantees and employment training linked to store development (Wrigley et al., 2002). While the majority of these stores are in locations which previously would have been regarded as having catchments insufficient to support the profitability of the stores, they do offer the rare opportunity for the leading food retailers to develop large format stores, as 'urban regeneration agencies are often able to secure some relaxation of planning policy' (Guy, 2007, p. 219).

The ability of these retailers to make a significant contribution to the revival of deprived communities remains controversial – some commentators have argued that it diverts retail expenditure away from local businesses (Instone & Roberts, 2006) – while others suggest it is a clear case of 'corporate opportunism' (Wachman, 2006, p. 7). Nevertheless, Tesco has strongly associated itself with the urban regeneration agenda, completing 15 such stores, principally in deprived urban areas in Northern England and Scotland. It claims to have created 4,000 jobs and helped 2,200 long-term unemployed and disadvantaged young people return to work (Tesco plc, 2007). Similarly, Asda Wal-Mart has also pursued this strategy, opening a path-breaking store in Hulme, Manchester in 1998, followed by a major hypermarket in the Eastlands area of the city (2002) with subsequent stores as far afield as Strabane (2007), Bletchley (2005) and Walsall (2007). Sainsbury's has rarely pursued this strategy,

arguably owing to the limited ability of its higher-end brand to perform in lower income areas, with the exception of one notable store in Castle Vale, Birmingham (Mitchell and Kirkup, 2003).

Challenging the interpretation of regulatory structures

Not only have the leading food retailers been active agents in the formation of planning regulation (Pal & Medway, 2008) and adapted the nature of their ongoing growth in response to regulatory tightening, they have been prepared, as Garvie and Lipman (2000) stress, to explore the option of challenging regulation in court. In this context, Asda Wal-Mart has been at the forefront of directly opposing commonly accepted interpretation of Government planning regulations. In the process, it has won some high profile battles by gaining store extensions at some of its highest performing stores via the erection of mezzanine floors – extensions which until 2006 fell outside the confines of the formalised planning system (Burt & Sparks, 2006; Wood et al., 2006).

Being relatively late to engage in convincing format diversification, and therefore having a dependence on larger superstore and hypermarket formats, Asda Wal-Mart has suffered disproportionately from regulatory tightening. As Burt and Sparks (2006, p. 254) suggest, this contrasts with Tesco's more convincing 'multiformat and multibrand offerings'. In part, this led to a markedly slower degree of selling space growth throughout the 1990s and into the 2000s compared to the industry leader (see Figure 4). Against this background, it is logical that the retailer has pursued strategies to enlarge its existing stores by challenging the interpretation of 'established' market rules.

[Take in Figure 4 about here]

The legal rationale for mezzanine extensions lay in ambiguity within Section 55(2)(a) of the Town and Country Planning Act 1990 – where the term 'development' was given an extremely narrow definition. Asda Wal-Mart argued that this definition effectively allowed additional construction provided the development did not affect the external appearance of the building and that the works were internal: conditions conducive to mezzanine extensions. Having won two cases against Local Authorities, notably in Tamworth, Staffordshire and Eastleigh, Hampshire, the retailer announced in 2004 that it aimed to construct 40 such 'mezzanines' throughout the UK. Tesco was initially slower to take advantage of this loophole but subsequently rapidly increased its mezzanine floor construction to follow the lead of Asda Wal-Mart. By reacting quickly to what was a brief regulatory vacuum, and commencing work on such extensions, both retailers ensured that they avoided the full effects of the subsequent regulatory re-tightening which occurred in 2006 and blocked new mezzanine construction in this manner. In Tesco's case, the strategy drove a considerable proportion of the selling space increase derived from store extensions in the post-2004 period, in practice allowing many superstores to convert into the Tesco 'Extra' hypermarket format (see Figure 5). Indeed, during 2005/06,

mezzanine construction made up nearly a quarter of Tesco's total new floorspace (BCSC, 2006, p. 24).

More generally these strategic responses provide excellent examples of Goldberg's assertion that 'not only will people pursue their self interest within the rules; they will also allocate resources toward changing the rules to their own benefit' (Goldberg, 1974, p. 461). In this case it has also included 'a change in strategy toward government itself' (Rugman & Verbeke, 2000, p. 379) – a more aggressive and pro-active challenging of market rules.

Conclusions

This paper has sought to examine the wide ranging customer-facing responses of the leading UK food retailers to change in regulatory regimes, namely tightening planning regulation – positioning that examination within a framework of corporate brand maintenance and strategies for sustaining brand equity. We show that these retailers have displayed a range of deft and pioneering reactions to these challenges by modifying their store formats, geographical locations and market focus, while maintaining investment in, and attention on, their core existing superstore operations. No single strategy has emerged across the industry but what has been consistently in evidence has been a degree of flexibility employed to achieve space and sales growth. While planning regulatory tightening and subsequent strategic adaptation has been experienced acutely in the food retail sector, it has also been in evidence elsewhere in the wider UK retail market. In particular, IKEA, the Swedish furniture retailer, has developed a scaled-down format to trade in more urban locations in the context of a planning regime that was curtailing its expansion in the UK (Kings Sturge, 2006). We now move to draw out a number of broader conclusions from our study for retail marketing management.

First, we note that our paper has underlined the importance of understanding the impact of regulatory structures in determining customer-facing strategies. Strategic responses are induced by business to environmental change but these must retain consistency with the identity of the corporate brand and the nature of its appeal with customers (Kay, 2006). Hence, while a retailer's corporate brand is a powerful tool that creates 'a sense of belonging to it' (Hatch & Schultz, 2003, p. 1046), the associated images that are projected to customers are multiple and fragile, requiring careful marketing management and brand adaptation. Specifically, we argue that regulation must be placed *within* strategy-building to align strategic vision and corporate image as companies must 'link up their regulatory strategies with their product, business unit, and corporate strategies' (Beardsley et al., 2005, p. 97).

Second, it is clear that changes to market rules can, in turn, catalyse innovative responses. Regulation is not necessarily simply a brake on development, but will direct development into different ground-

breaking forms if firms are flexible enough to manage their brand by integrating the insights of market orientation. This underlines Reynolds et al. (2007, p. 658) point concerning the incremental evolution of retail formats, as ‘success often comes from “capturing the moment”’.

Third, we observe that regulation can disproportionately affect some operators to the benefit of others – that is to say, the enforcement of regulation is never neutral. Tesco, for example, has developed a highly flexible organisational structure that is driven by and continually monitors customer preferences. These perspectives feed into strategy building within the firm that has ultimately allowed the retailer to successfully adapt to the new environment. This innovative culture is therefore one that is ‘market driving’, actively utilises customer feedback, and cultivates internal capabilities to exploit the potential of new ideas or strategies (cf. O’Cass & Ngo, 2007, p. 874). In contrast, Asda Wal-Mart has taken longer to modify its core large superstore and hypermarket proposition, which has contributed to its largely static UK market share over the past decade. As Shaffer (1995, p. 498) stresses, ‘firms with superior capabilities for adapting to regulatory dictates may also attain a position of competitive advantage over rivals’.

Fourth, our study underlines the interpretive and discursive nature of regulation. Although the process of corporate restructuring in retailing is clearly contingent upon the legislation which governs competition, its spatial expression may in turn transform that regulatory environment. From a governmental perspective, this may necessitate a round of re-regulation as loopholes are exposed and exploited.

Finally, in common with the findings of Burt and Sparks (2003a), this paper has emphasised the strategic role of retailer brands in British food retailing. While historically associated with the success of the leading food retailers in the expansion of private labels, this has evolved to the extent that the leading operators are increasingly considered as brands in their own right (Burt, 2000). As a result, it has been possible for retailers to engage in customer-focused innovation where well established retail brands are flexed whilst retaining market focus and pertinence across new formats, in new locations, and in new markets.

NOTES

¹ While not subject to any ‘single’ retail planning policy throughout the UK, the planning regulations of each constituent country share markedly similar objectives. From the perspective of the food retailers, such planning policy commonly represent a formidable brake on out-of-town development with PPS6 operating in England (ODPM, 2005), SPP8 in Scotland (Scottish Executive, 2006), PPS5

in Northern Ireland (Department for Regional Development, 2006) and Chapter 10 of PPW in Wales (Welsh Assembly Government, 2005).

² Most recently (March 2008) the retailer has announced plans to discontinue its High Street units and focus on the larger ‘Living’ stores.

Figure 1. Three retail market orientation processes on different levels

<i>Concept and brand development – macro-level, long term positioning</i>		
Focus of intelligence generation	Vehicles for intelligence dissemination	Issues requiring responsiveness
Aggregated consumer profiles	Mutual corporate-store interactions	Positioning the corporate brand & identity
Retail competition	Corporate functional integration	Developing store concepts & formats
Data on potential suppliers	Supplier co-ordination	Building retail brands
Trends/stakeholders in society		
Foreign markets		
<i>Product and category development – meso-level, strategic approach</i>		
Focus of intelligence generation	Vehicles for intelligence dissemination	Issues requiring responsiveness
Market data from suppliers	Supplier relationships	Retail branded products
Broad plus in-depth consumer understanding	Communication from stores to corporate level	Assessment of supplier products and brands
Local scanner data	Corporate functional integration	Retail buying
Customer complaints	Information technology	Managing product categories
Horizontal & vertical competition		
<i>Store development – micro-level, adjustments and tactics</i>		
Focus of intelligence generation	Vehicles for intelligence dissemination	Issues requiring responsiveness
Customer demographics	Staff-management interaction	New store location
In-depth shopper understanding	Communication from stores to corporate level	Market positioning
Competing local stores	Local team building	Store environment
Local government and	Reward systems	Training of employees
And public actors	In store supplier interactions	

Source: Elg (2007, p 582)

Figure 2. Supermarket Openings in the UK by the Big Four Firms (Asda, Sainsbury's, Safeway/Morrisons, Tesco) by Store Size

Source: Griffith and Harmgart (2008) using Institute of Grocery Distribution data

Table 1. Retailer Responses to Customer Demands amid Planning Regulatory Tightening

Customer Demand	Retailer Response
Quality food nearer home	Convenience store retailing
Cater to “time-poor” customer	E-tailing and home delivery
Non-food offer attractive but currently insufficient quantities in superstores	Non-food and clothing only stores Mezzanine extensions to existing stores

Table 2. Strategic Regulatory Avoidance in New Format and Market Development

Strategy	Regulatory avoidance strategy	Operators
Entry to convenience store sector	The Competition Commission's adopts a two market regulatory view of food retailing. Supermarket/hypermarket sector (single visit) separate from convenience store market (top-up visit)	Tesco ('Tesco Express' and 'One Stop' fascias) Sainsbury's ('Bells' fascia and 'Sainsbury's Local' fascia)
Entry into non-food "only" stores	Non-food less contentious than food retailing. Well suited to town centres in the case of small George format [and therefore 'planning friendly']. Asda Living and Tesco Homeplus format attuned to low rent, retail park locations.	Asda ('Asda Living'; 'George' fascias) Tesco ('Tesco Homeplus' fascia)
Develop town centre formats	Not exempt from PPS6 but smaller format ideally suited to town centres [and therefore 'planning friendly'].	Asda (Asda 'Essentials' fascia) Tesco ('Tesco Metro' fascia) Sainsbury's ('Sainsbury's Central' fascia)

Table 3. Supermarket Convenience Store Acquisitions

Date	Acquiring business	Acquired business	No. stores	Est. ave. t/o per store (£m.)
Jan 2003	Tesco	T&S Stores	1,215	2.1
Feb 2004	Sainsbury's	Bells Stores	54	1.0
Mar 2004	Tesco	Adminstore	45	1.6
Aug 2004	Sainsbury's	Jacksons	114	1.3
Nov 2004	Sainsbury's	Beaumont	6	2.2
Apr 2005	Sainsbury's	SL Shaw	5	2.2
Total			1,439	Ave. 1.98

Source: Association of Convenience Stores, 2006

Figure 3. Leading UK Food Retailer Strategic Responses to Government Planning Regulation (PPG6/PPS6)

Strategy	Influence the regulators in formation of market rules	Regulatory compliance – store location and format adaptation			Challenging the interpretation of regulatory structures	Regulatory “opt out” – new format and market development beyond the reach of UK planning restrictions				
						<i>NB These strategies are not necessarily explicitly a response to retail planning tightening</i>				
Implementation	Retailer’s lobbying & public protestations	Compromised store development schemes -	Construction of “partnership” stores in deprived areas	Develop town centre formats	Identification & exploitation of loopholes in Town & Planning Act	Acquisitive	Joint Venture – New Market	New Market Development		
Stage of regulatory life cycle	Formation	Implementation			Modification	External to PPG/PPS 6 Regulation				
Examples	Retailers’ Government lobbying & appearance at select committees	Stores on stilts & multi level trading	Build stores in deprived areas to gain planning permission	Experiment with smaller supermarkets and discount stores located in town centres	Construct mezzanine extensions without formal planning approval	Entry into the convenience store market	Entry into financial services	Entry into e-tailing and home delivery	Entry into non-food stores and non-food catalogues	Internationalisation – export UK formats
	Superstore and Hypermarket Development					New Market Development and Exploitation				

Figure 4. Asda Wal-Mart and Tesco Selling Space Comparison, 1993-2005

Figure 5: Increase in UK Tesco selling space as a result of extensions/refits, 2001-2008e

Note the net space increase from store extensions following the identification of the “mezzanine loophole” initially around 2003/04

Source: Tesco analyst information packs 2001 – 2007

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