**LIFE AFTER PPG6 - RECENT UK FOOD RETAILER RESPONSES
TO PLANNING REGULATION TIGHTENING**

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ABSTRACT

Despite ever tightening retail planning regulation in the UK, the leading food retailers have continued to add floorspace in a remarkably consistent manner, progressively increasing their domination of the market. This paper examines the innovative responses of those firms to planning legislation – responses which have included: working within the constraints of that regulation; exposing and exploiting flaws in the legislation, and circumventing its impacts by expansion into more fragmented markets. Such responses, have in turn led to the further adaptation of planning regulation in order to close a series of loopholes that the leading food retailers have been quick to exploit to aid their expansion plans. The paper concludes by examining more broadly what these developments imply for organizational adaptation and corporate restructuring.

KEYWORDS: regulation, food retail, PPG6, urban regeneration, convenience store retail, organizational adaptation

INTRODUCTION

The era of tightening retail planning regulation in the UK which began in the early – mid 1990s with the release of revised Planning Policy Guidance Note 6 –PPG6-(DoE, 1993, 1996) and the incorporation of the so-called ‘sequential test’ of new retail development proposals into the 1996 revision of PPG6, significantly altered the nature of the retail development process for the leading food retailers. Despite efforts by the major retailers and their trade associations to shape the interpretation of PPG6 and the sequential test (Pal et al, 2001), gaining planning permission for out-of-centre stores became progressively more difficult during the late 1990s. Notwithstanding this however, it is generally acknowledged that retailers ‘have been able to work within the policy’ (C B Hillier Parker/Cardiff University 2004). That is to say, PPG6 resulted in ‘an important sea change in the way that retailers and developers thought about retail planning [and] an acceptance of regulatory practices

and attempts to develop retail innovations within this framework' (Findlay and Sparks, 2005, 9). This paper charts these innovations from a food retail perspective. Despite the increasing tightness of the planning regulation environment in the UK, it is clear that new retail development – even large format out-of centre retail development – has not disappeared. In particular, the major UK food retailers have continued to add floorspace in a reasonably consistent manner – progressively increasing their domination of the market (Burt and Sparks, 2003) and prompting a growing wave of negative comment from popular writers who have focused on their role in the disintegration of Britain's town centres, their apparent unfair relations with suppliers, and the consequences for the wider stakeholder community of their remorselessly growing power (Blythman, 2004; Young, 2004). This expansion has been made possible by the innovative and agile responses of UK food retailers to tightened planning regulation (see Wrigley, 1998a; 1998b; Wrigley et al 2002; Guy, 2003). With the aid of a more pragmatic attitude to store location and the development of 'planning regulation friendly' store formats, the leading food retailers adapted to the constraints of the new era. But, in addition, they sought to confront and circumvent that regulation both by exposing and exploiting the opportunities which interrelated regulation presented to them to open up new trading environments.

Despite the existence of retail planning and retail management literature (Guy 2003; Guy and Bennison, 2002; Wrigley et al 2002, Marsden et al 1998; Hallsworth and Evers, 2002; Burt and Sparks, 2001) which touches on aspects of this story of adjustment to tightened regulation – particularly in its early phases – there exists no comprehensive account or debate of the more recent adaptive responses of the major UK food retailers. This paper attempts to fill this vacuum. Although in some respects specific to the UK, it is suggested, its content has pan-European significance. Regulatory tightening was a common feature of many European retail markets in the late 1990s (Poole et al, 2002) and has similarly had profound implications. Beyond that, the paper is also, and importantly, a documentation of organizational adaptation to market transformation. Ultimately it is the extent to which creative adaptation is encouraged by and rooted in, the organizational structures and culture of the firm (or not, as Schoenberger (1997) and others have documented) which determines, and has determined in the specific context of the UK food retail market, the firms that are able to ramp up competitiveness as the structure of markets transforms.

THE RETAIL PLANNING ENVIRONMENT

It is useful at this juncture, to provide some background on the retail planning environment which provides the policy context for the issues which follow. Our focus in this paper is on policy development in England. In Scotland and Wales separate policy statements - NPPG8 (Scottish Executive, 2004) and Chapter 10 of Planning Policy Wales (Welsh Assembly Government, 2002), respectively, have framed policy. Although broadly similar in thrust and orientation - stressing the 'vitality and viability' of existing centres, the necessity for those centres to be supported through the planning system, as well as including awareness of the potential dangers implicit in out-of-town retail development - Scottish and Welsh retail planning regulation has not been subject to the same degree of recent review and revision as that outlined below for Englandⁱ.

Contemporary retail planning policy in England owes its origins to a Government circular on planning for large new stores issued in 1977, but it was not until 1985 that concerns began to be raised in the House of Commons concerning the effect of out-of-centre retail developments on town centres (CB Hillier Parker/Cardiff University, 2004). These concerns stemmed in large part from proposals to develop a number of large out-of-town regional shopping centres - e.g. Metrocentre, Meadowhall, Merry Hill - which it was feared would damage existing town centres. Whilst accepting the general principle that it was not the role of the planning system to inhibit commercial competition, the acknowledgement that the 'vitality and viability' of town centres could be affected by such large scale developments heralded a significant step in the evolution of retail planning.

It was in 1988, with the publication of the first PPG6 which acknowledged 'cumulative effects' of recent and proposed large scale retail developments on town centres (Department of the Environment 1988) that this policy began to be 'codified' (CB Hillier Parker/Cardiff University, 2004). Responding in part to criticisms that the 1988 policy was insufficiently restrictive of new development (Guy, 1994) as well as the economic problems visible in town centres as a result of the recession of the early 1990s, a revised version of PPG6 was then published in 1993. 'This version referred to the need to secure a more balanced approach to town centre and out-of-centre development and elaborated on how the vitality and viability of town centres might be assessed.' (CB Hillier Parker/Cardiff University 2004). Though much stricter than its 1988 counterpart, the 1993 revision of PPG6 once again emphasised the importance of competition and was criticized for not doing enough to protect town centres. Indeed, it was not until June 1996 when a further revision of PPG6 was published, that many commentators argue

that the 'vitality and viability' of existing centres finally became fully prioritized, principally via the incorporation of the 'sequential test' (first suggested in the 1994 House of Commons Environment Committee report). This test essentially privileged 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 (DTI, 2004). Moreover, following a High Court judgement in 1998, whenever a development was proposed for an out-of-centre site, the developer was required to show that there was a 'need' for the retail space (Adlard, 2001), and that there were no suitable and available or more central sites. A series of Ministerial speeches, clarification statements, responses to Parliamentary Committee reports and so on (e.g. DETR, 2000), continued to tighten the policy - in particular, introducing a stricter 'class of goods' interpretation of the test (Wrigley et al 2002).

The Cardiff/Hillier Parker review of PPG6 (2004) demonstrated that the policy guidance had resulted in major impacts on applications and decision making, and in particular on the *pattern* of new retail development. But the review also highlighted areas for improvement - many of which were subsequently incorporated into a draft of updated planning guidance (Planning Policy Statement 6, PPS6) - released in December 2003 (ODPM, 2003a). More specifically the review focussed on issues regarding the interpretation of PPG6 whereby for example local authorities viewed it as *protecting* rather than *promoting* town centres; on 'loopholes' in the policy whereby for example, extensions to retail warehouses and supermarkets continued to divert retail turnover from town centres, and more generally suggested 'a more positive approach to planning as well as consolidation of the existing advice and greater clarity in how the policy is expressed' (Hill, 2004).

The review played an important role in informing draft PPS6 which was billed as 'the start of a new positive and proactive style of planning, far more ambitious than PPG6 in its vision for planning to town centres' (Hill, 2004). In addition, draft PPS6 was strongly influenced by two other significant recent issues in retail planning. First, the growing concerns regarding the poor quantity and quality of local shopping in areas of social exclusion and, second, the realisation that the majority of the new retail and leisure development in town centres had occurred in the top 50 or so cities, with little taking place in smaller places (DTI, 2004; Guy, 2004b). The primary objective of draft PPS6 remained the promotion of 'vital and viable city, town and other centres' but wider policy aims also referred to including the promotion of social inclusion, the regeneration of deprived areas, the promotion of economic growth, delivering more sustainable patterns of development, and the promotion of good

design (see Guy, 2004b). Draft, PPS6 also offered the promise of a more 'proactive' and responsive planning system to retailers and some concessions to Treasury pressure regarding the economic advantages of large format retail developments (Guy, 2004b). Nevertheless, it retained a strong commitment to the principles on which PPG6 and the sequential test had operated. This is to say, hostility to the free standing, out-of-town retail development which had characterized the 'store wars' era of the 1980s/early 1990s (Wrigley, 1994), a privileging of town centres for retail investment, and stringent appraisal of arguments mounted by retailers concerning the 'need' for new development and the 'impacts' of proposed developments on existing town centres.

The final version of PPS6 was published in March 2005 and was very similar to the draft version (ODPM, 2005a). Findlay and Sparks (2005) conclude that despite many months of deliberation PPS6 retains a plan-led emphasis and a focus on town centres, with the assessment of 'need' and the sequential test remaining key tools. In the latter context, changes have been made in respect of the issue of store extensions (where 200 square metres is the threshold at which the sequential test will be applied), and regarding additions to floorspace via internal modifications such as mezzanines which will now be subject to planning permission.

Having set the scene by outlining important changes in the retail planning environment which have taken place - since the mid 1990s in particular - the paper now moves on to consider the various ways in which food retailers have adapted to these regulatory changes

ADAPTIVE RESPONSES OF THE FOOD RETAILERS TO REGULATORY TIGHTENING

As Guy (1996) and Wrigley (1998b) demonstrate, initial responses of the major food retailers to the regulatory tightening of the mid 1990s included: a shift of investment into enlargement of the sales area of existing stores via extension of those stores; experimentation with and subsequent roll-out of a range of smaller and more 'planning regulation friendly' store formats; and interrelated reassessment of older or previously marginal locations of food retail profit extraction – for example High Street locations which now offered opportunities for profitable store development (Wrigley 1998a). In addition, retailers such as Tesco have invested heavily in trialling and rolling out Internet retailing that obviously enjoys the benefits of 24 hour customer access and extensive range depth (Rowley, 2003). It is not our intention to revisit these initial retailer responses, or indeed regulator reactions to them – for example

the incorporation of store extensions within the remit of the sequential test announced in a Ministerial Parliamentary Answer in 1997 (ODPM, 2003b, 25). Rather we will concentrate on more recent and less fully documented adaptive responses of the retailers to progressively tightening regulation. In particular, we highlight three main approaches. First, ways in which the major food retailers have attempted to work within the constraints of the planning regulation – for example, working in partnership with local authorities to develop sites in deprived areas, or attempting to maximise the yield from development of necessarily more expensive/constrained ‘planning regulation friendly’ sites. Second, ways in which the retailers have sought to drive development by exposing and exploiting flaws in the planning legislation – for example, by increasing the trading areas of existing out-of-centre stores via development which technically falls outside the need for formal planning permission. Third, ways in which the retailers have been able to exploit the opportunity for development and growth created via the Competition Commission’s interpretation of the competitive structure of the wider UK grocery retail market – particularly in the context of ever tightening competition regulation within the food retailer’s traditional core market which has occurred in parallel with tightening planning regulation (Competition Commission, 2000, 2003; Wrigley, 2001).

WORKING WITHIN THE CONSTRAINTS OF PLANNING REGULATION

(a) Urban regeneration partnership stores in deprived communities

As part of the wider reassessment of the potential of previously marginal locations of food retail profit extraction which accompanied regulatory tightening, former industrial ‘brownfield’ sites and deprived local authority housing-estate sites in locations which would previously have been passed over for development appeared increasingly viable and attractive possibilities. The major food retailers previously ‘not renowned for their contributions to the regeneration of our inner cities’ (Butterick, 2000, 13) increasingly saw the value of adopting an urban regeneration agenda to drive forward their store development programmes – particularly in the context of the rise to prominence on the political agenda of issues of social exclusion in deprived urban communities following the election of a Labour government in 1997.

Typically, the urban regeneration schemes which the retailers became involved in consisted of some form of partnership with a local authority urgently seeking both to kick start regeneration in a deprived community with the help of private sector investment, and to link regeneration with programmes of

skills training and employment favouring the local community, particularly the long-term unemployed.

The retailers freely described their motivation for being interested in such development as

‘enlightened self interest, both in terms of obtaining sites, and finding a workforce in a tight labour market’ (Martin Venning, Tesco plc, quoted in Brauner, 2001, 21)

and many commentators castigated such developments as merely ‘clever devices to get stores built and passed by planners’ (The Scotsman, 20 Sept 2000). However, the retailers were able to mount a strong argument for involvement in such schemes based on the contribution they could make to the tackling of social exclusion. First, they emphasised the employment benefits of the stores, not just in terms of total numbers, but also the special contribution which a large-scale reputable employer could offer in areas of long-term unemployment and low standards of motivation and skills amongst the workforce. Second, they emphasised the importance of providing access for the local community to high-quality food/convenience shopping and essential services in areas where existing retail infrastructures may have virtually collapsed.

Tesco and Asda/Wal Mart strongly associated themselves with the urban regeneration agenda (although other retailers e.g. Sainsbury in Castle Vale, Birmingham, also participated). In 1998, Asda opened a path-breaking store in Hulme, Manchester (Carley et al, 2001, 58-62) and followed that with the announcement of the development of a large store at the heart of the east Manchester urban regeneration area. Tesco became actively involved in eight similar developments. In 2000 the company appointed a ‘Regeneration Manager’ who rapidly became a high-profile source of information on the company’s programme of urban regeneration partnerships. In late 2000, following the opening of Tesco’s Seacroft store in partnership with Leeds City Council, the employment services agency, the shopworker’s union (USDAW), and local community organisations (Wrigley et al, 2002) – a store which provided 230 jobs to long-term unemployed local residents – the Prime Minister visited the store and used it to underscore Labour’s commitment to inner-city renewal. Indeed, it had become clear via Ministerial statements (Raynsford, 2000) that ‘tackling social exclusion’ was being promoted within some sections of government as a potentially important new criterion for retail planning policy in the UK.

By 2004, Tesco had opened 11 large regeneration partnership stores – all but one (Beckton) in cities in northern England and Scotland – with 5 further stores (Rugely/ Stafford, West Dunbartonshire, Mansfield, Saltcoats, Telford) due to open from early 2005 onwards, and a further three in the pre-announcement stage (Smith, 2004). Concerns have been expressed by some commentators (Carley et al, 2001) and in Ministerial statements that some of these large regeneration partnership stores might be merely ‘piggy backing’ on a local centre whilst, in practice, having ‘all the characteristics of free-standing superstores, relying predominantly on car-borne shoppers diverted from other out-of-centre stores’ (Raynsford, 2000, 5). These concerns have been echoed in focus group research with local residents in one of the deprived communities who expressed feelings of alienation and intimidation as a result of a perception that their regeneration partnership store was targeted at more affluent ‘outsiders’ (Wrigley et al, 2004). Despite this, however, the 16 regeneration partnership stores open, or shortly to be opened, will have added more than 1 million sq ft of operating space to Tesco’s UK store base. In addition, the company has been at pains to stress that the stores will have created 5,500 jobs in some of the UK’s most deprived communities, more than 70% of these being employed through Tesco’s ‘Job Guarantee’ for the long-term unemployed within those communities (Smith, 2004). Moreover, the draft PPS6 (ODPM, 2003a) now includes regeneration of deprived communities, and promotion of social inclusion, as ‘relevant matters’ which ‘may be material’ in obtaining planning permission for retail development (Guy, 2004b).

(b) Using superstore sites more intensively

The influence of the sequential test has placed a focus on edge- and within-town-centre development sites. The problem for the food retailers is that the sites are frequently constrained, being too small to accommodate their preferred levels of non food, lacking in adequate car parking, and poorly configured for good navigability by customers. They also tend to be extremely expensive due to the scarcity of ‘planning friendly’ sites.

Tesco has been at the forefront of innovative developments to realise large stores in these locations that also adequately serve their customers in terms of access and egress and car parking. To maximise the yield from these sites, the firm has started to construct stores on stilts. This allows it to offer customers a surface car park all on one level with an extensive trading floor located above ground level and linked to the car park via a traveller. The skills involved in this approach have been imported from Tesco’s

operations in Central Europe and were first employed in the UK at Altrincham within a 60,000 sq ft store that opened in November 2002 (see **Figure 1**). Since then other stores such as Burnley (November 2003) and Long Eaton (November 2004) have opened adopting a similar strategy.

The applicability of this approach is unlikely to be appropriate in all circumstances. The costs of constructing a store on stilts are significantly higher than a conventional ‘conforming’ store, and are thought to involve a premium of between £2mill and £3mill. Evidently the rate of return must be substantial enough to warrant this premium in construction costs. However, this strategy offers an alternative to the option of constructing merely a small superstore in an area of high customer demand, with a small car park which would undoubtedly be swamped, leaving customers frustrated and disillusioned.

EXPOSING AND EXPLOITING FLAWS IN THE PLANNING LEGISLATION

(a) Exploiting the mezzanine planning loophole

The effect of tightened planning regulation on the UK’s number two food retailer, Asda, cannot be over-estimated. The Wal-Mart owned retailer is fundamentally a hypermarket business by strategic orientation. Whilst its closest competitor, Tesco operates across *all* grocery store formats (Express up to 3,000 sq ft; Metro up to 15,000 sq ft; Superstores up to 60,000 sq ft, and Hypermarkets/Extra over 60,000 sq ft), essentially Asda has until recently employed one strategy – stores preferably greater than 40,000 sq ft with a strong food offer aligned with an ever increasing non food and general merchandise range, focused strongly on its George clothing offer.ⁱⁱ

It is therefore unsurprising that Asda has been at the forefront of investigating ways of circumventing the difficult planning regime - efforts which culminated in the identification of a loophole in current UK planning law that effectively allowed mezzanine floors to be constructed within existing superstores, significantly increasing their floorspace. The loophole lay in the narrow view of the term ‘development’ within Section 55(2)(a) of the Town and Country Planning Act 1990. Development approval, which did not affect the exterior appearance of a store was only required under the terms of that Act if the original planning permission for the building was granted subject to a condition

precluding a mezzanine floor or restricting the maximum floor space (see Radcliffes Le Brasseur, 2004 and Warren, 2004 for more detail).

Since the end of 2002 Asda has been actively adding mezzanines to its stronger performing stores with the first appearing in York in November 2002. By January 2005 the retailer had constructed 14 such floors and is expected to build a further 15 during 2005. Tesco has been slower to follow suit with its first mezzanine floor opening in October 2003 at Swansea (see **Figure 2**).

The addition of a mezzanine floor in excess of 10,000 sq ft to a large supermarket offers the potential for it to become a hypermarket. In practice, this allows the major food retailers to add ranges of non food to complement their core food offer. Strategically, Asda and Tesco have found it inappropriate to locate the food offer on the mezzanine floor. Partly this is due to operational issues but, more importantly, because customer research suggests that the preference is for the food offer to be on a single level.

During the construction of mezzanine floors, despite a temporary reduction in conventional trading area, Asda and Tesco have continued to provide a strong merchandise selection via the addition of 'temporary' stores. These range from little more than glorified marquees to high tech mobile stores with hard flooring. However, they can be extremely large which ensures that the turnover lost during construction work is kept at a minimum - especially important considering that a 60,000 sq ft store can typically trade over £900,000 per week.

An early example of a temporary store was Asda's store in Tamworth that was erected during construction of a 30,000 sq ft mezzanine extension to its 55,000 sq ft store in 2004. The temporary store opened in May 2004 with the extension to the main store not being completed until the following October. Tesco have also experimented with the concept of temporary stores – a trial of a 20,000 sq ft store at Evesham during the building of an on-site replacement store in 2004 is believed to have been a success.

Circumventing planning regulation via the addition of a mezzanine floor has been the subject of intense criticism from Friends of the Earth (2003) and other organisations who have lobbied for a closure of a loophole which they believe has the potential to blight the traditional town centres of the UK. Public

reaction of this type ultimately led to the ODPM publishing a consultation document in March 2005 with a view to close the loophole and bringing the erection of mezzanines coming under local authority planning control. Section 49 of the Planning and Compulsory Purchase Act proposes to insert new sections into the Town and Country Planning Act to bring into the meaning of “development”, ‘operations which have the effect of increasing the internal gross floor space of a building’. The threshold proposal is 200m² (2,153 sq ft)’ (ODPM, 2005b, p 6). Unsurprisingly, the food retailers are increasing the rate of the mezzanine extensions rapidly until the legislation is on the statute book.

CIRCUMVENTING REGULATION BY EXPANSION INTO MORE FRAGMENTED MARKETS

(a) The entry of the major food retailers into convenience store retailing

Superstore and hypermarket growth limitations governed by what the major food retailers regard as over-regulation has resulted in free cash flow which can be diverted to alternative retail sectors and markets. In the case of the UK’s market leader, Tesco, international expansion has absorbed £5.5 billion of capital investment, leading to 50% of its operating space being located outside the UK by 2004. Meanwhile, in the UK itself, Tesco and Sainsbury have aggressively entered the convenience store sector aided by the Competition Commission’s view that there are two separate markets in the wider UK grocery sector – the ‘one stop’ shopping sector, which following the Commission’s Inquiry of 2000 and its rulings in the case of the proposed acquisition of Safeway (Competition Commission, 2000, 2003), is now extremely tightly regulated, and the convenience store sector, historically highly fragmented and neglected by the leading firms.

The convenience sector has traditionally been regarded as a backwater of retailing, offering customers poor service and secondary ranges at prices often perceived as exploitative (see Mintel, 2004 for discussion and Guy 2004a for a review of pricing at neighbourhood stores) together with poor returns for the retailer. Indeed, as late as the end of 2003, the sector was extremely fragmented, with no retailer nearing market leadership, and almost one third of the sector made up of non affiliated independents (see **Figure 3**). This was clearly a fertile terrain for leading UK food retailers to pursue. Compared to the disparate independent operators, they possessed a wide range of competitive

advantages, not least scale economies of distribution and buying, brand equity with customers, and significant capital which they could invest into developing high quality store networks.

Clearly the major food retailers have historically preferred to sink capital expenditure into what they have regarded as higher yield projects. However, as the Institute of Grocery Distribution suggested in a recent report; 'planning policy has been an important motivation behind the development of alternative convenience retail offers by the leading grocery retailers' (IGD, 2004a, p134) – in short this move has been catalysed by the planning restrictions in the conventional superstore sector.

The first significant acquisitions in the convenience sector occurred prior to the intervention of the grocery majors with the Co-op effectively seeking shelter in neighbourhood markets from fierce competition in their superstore business. The retailer initiated a strategic review in 1997 that determined that there should be a re-emphasis on local and convenience shopping with a subsequent emphasis on small stores. An acquisitive strategy then followed with the purchase of the 600 unit Alldays chain in October 2002, followed by the acquisition of Balfour, a chain of 121 stores for a further £30m in July 2003. However, the balance of power in the competitive landscape of the convenience store sector was transformed by the acquisition of T&S convenience stores by Tesco in January 2003. At the time of the acquisition T&S operated 862 convenience stores under the One Stop, Day & Nite, Dillons and Supercigs fascias (Mintel, 2004). Tesco already had experience of the market - opening its first dedicated convenience store in 1994 with the establishment of a joint venture with Esso to offer small format c-stores on the oil company's forecourt locations. The initial success of that concept had subsequently given the Tesco Board the confidence to roll out the convenience store concept, without the support of an oil company, under the Tesco 'Express' banner.

Tesco's T&S acquisition strategy has been principally directed toward identifying and renovating stores for conversion to a stand-alone Express format. Stores not suited to this format have been divested - in November 2003 Tesco sold the 121 store Supercigs operation to Rippleglen, a Midlands-based CTN operation, while in August 2004, the 181-store Dillons newsagent chain was sold to TM Retail. All of the remaining stores have since been integrated into the Tesco distribution network and the retailer has set about renovating the 450 stores that it regards as suitable for conversion to the Express format.

The T&S acquisition was followed with an announcement at the end of January 2004, that Tesco had made an agreed offer to buy Adminstore, a 45-store convenience chain operating within the M25 under the Europa, Harts and Cullens fascias. Strategically this was a good move for Tesco as it contributed to expanded market share in London – an area where Tesco had historically lagged the local market leader, Sainsbury's - and gave access to affluent catchments where it could leverage its higher margin 'Finest' own-label ranges. In addition, the transaction promised many sites that were excellent candidates for conversion to the Express format.

While the deal was modest for the retailer and for the sector overall, it was notable for the lack of regulatory enforcement from the Competition Commission. The convenience store market continued to be regarded by the Commission as separate from the 'one-stop' superstore market:

'we believe that one-stop grocery shopping is a separate market from other, secondary, forms of grocery shopping. We consider that stores of over 1,400 sq metres will act as one-stop shops..... Stores below 1,400 sq metres typically cater primarily to other forms of shopping, such as secondary shopping, or in very small grocery stores (below 280 sq metres), convenience shopping' (Competition Commission, 2003, 166)

The Commission's decision was the subject of considerable criticism from the Federation of Wholesale Distributors (representing wholesalers supplying more than 75,000 independent local stores in the UK) and by other bodies. Responding to this criticism, the Office of Fair Trading concluded, however, that third party concerns regarding Tesco's size and potential for growth 'are not significantly affected by this merger' (OFT, 2004). By the end of 2004, the result was that Tesco had 500 Express stores (with a significant programme of conversions still to follow) - considerable growth given that at the time of the T&S acquisition the company only had around 100 Express stores.

Largely in response to Tesco's initial forecourt stores, Sainsbury's had similarly entered the convenience store market in 1998 with the opening of its first 'Local' store. Following the T&S acquisition, Sainsbury responded in February 2004 with the purchase of Bells Stores, a 54 unit chain located in the North-East of England. Many of these stores were quickly re-branded as 'Sainsbury's at Bells', benefiting from the addition of 500 Sainsbury's own-label products, and they are believed to be delivering positive results (see **Figure 4**). The acquisition of Bells was complemented with the

acquisition of the 114 strong Jacksons chain for an undisclosed sum in August 2004. Its store network is centred on North Midlands and Yorkshire – regions in which there is a poor presence of Sainsbury's superstores. Six more c-stores were added to the Sainsbury's portfolio with the acquisition of the six-strong East Midlands chain JB Beaumont in November 2004, and finally it acquired SL Shaw Ltd, a convenience store operator with five stores in the south east of England in April 2005. Less significantly, Somerfield has sought to upgrade its high street convenience offer with the development of its 'Market Fresh' format though at present there are only four such units, all of which located within the M25.

Clearly Tesco has been at the forefront of the push into the convenience store sector by the major food retailers, gaining considerable first mover advantages in the process. While there are no formal barriers to entry into neighbourhood retailing, the main first-mover benefit Tesco has achieved has been the pre-emptive acquisition of the convenience chain best suited to its business model for Express stores, echoing Lieberman and Montgomery's (1988, 44) suggestion that 'the first mover can often select the most attractive niches and may be able to take strategic actions that limit the amount of space available for subsequent entrants'. Meanwhile, Sainsbury has been relegated to playing 'catch-up', left to pick over smaller c-store acquisition candidates whilst simultaneously attempting to reorganise its overall UK operation in response to recent poor performance. Given the location of its small store acquisitions, the challenge for Sainsbury's convenience store operation will be to ensure its brand is well received in price-focused low affluence northern catchments where many of its superstores have struggled in recent years.ⁱⁱⁱ

(b) Development of stand-alone non food stores

Planning legislation has been a source of persistent frustration to the second ranked firm in the market, Asda/Wal-Mart. At the time of the Competition Commission Inquiry into the sale of Safeway, its former CEO, Tony De Nunzio suggested that:

'We cannot hope to meet significant customer demand through organic growth. Tight government planning controls on new retail development make it difficult for us to expand by building new stores. Tesco and Sainsbury's already enjoy a high level of national coverage. Asda does not' (Asda PLC, 2003).

In an attempt to circumvent that regulation, Asda initially explored the viability of constructing smaller superstores. However, it is believed its trial smaller stores – a 36,000 sq ft Bodmin store being the most noted example – were only qualified successes. Small superstores were clearly not particularly well-attuned to the strengths of the Asda brand which is centred on stores with strong non food ranges aligned to a main food offer in a hypermarket format. As a result, Asda began to evaluate the option of extending its core competency in non-food and general merchandise, via the construction of 100% non-food stores in both High Street and out-of-centre locations. As De Nunzio explained:

‘What is frustrating is that we cannot get new sites. We have a business model that works. There is demand out there. But we cannot get planning consents...Large parts of the country do not have access to the company’s non-food product range due to lack of space. [As a result] we believe that by putting those products together with George we will create a demand and a reason to shop at [our non-food stores]’ (quoted in Fletcher, 2004)

Asda’s non-food stand-alone strategy has to this stage been one of test and trial. The first trials, beginning in September 2003, were into stand-alone ‘George’ High Street stores, developed at Leeds, Croydon, Northampton, Preston and Liverpool, sized between 6,000 to 10,000 sq ft, and located slightly off the main retail pitch (see **Figure 5**). Strategically this allowed Asda to capitalise on its strong ‘George’ apparel brand - successfully developed in the early 1990s by ex-Next executive, George Davies, and then ramped up to a stage where Asda was challenging Marks & Spencer as the UK’s leading clothing retailer (Macalister, 2004). The entry into stand-alone general merchandise stores provides an excellent example of a business intelligently focusing on its ‘core competencies’ rather than merely slavishly following its closest competitors (Prahalad and Hamel, 1990). Indeed as Hamel (2000, ix) has noted more generally, ‘the most successful companies [aren’t] obsessed with their competitors; instead...what count[s] is not so much how they position themselves against long-standing rivals, but how creatively they use their core competencies to create entirely new markets.’

The initial success of the ‘George’ High Street stores inspired confidence in the stand-alone general merchandise concept. In November 2004 Asda announced that it was planning to open eight more stand-alone George stores in 2005 (to complement the five already trading), with a further 50 potential sites also being considered. In December 2004 it unveiled its largest stand-alone George store to date

at Cheetham Hill in Manchester – a store of 15,500sq ft, selling the full George clothing range, as well other associated Asda non food merchandise.

The second stage of the Asda non-food trials began in October 2004 with the more ambitious roll out of a out-of-centre 100% non-food format branded ‘Asda Living’. The first store (38,000 sq ft – see **Figure 6**) opened in Crowne Wharf Retail Park in Walsall and included not only George apparel but also a much broader range of general merchandise including electricals, music and video, household, health and beauty, and toys. Following the Walsall opening, Asda opened a second ‘Asda Living’ store in Altrincham, Cheshire, and plans further openings in the Dearne Valley, near Barnsley, Byker in Newcastle and Thurrock Essex later in 2005.

Having viewed the early performance of the ‘Asda Living’ initiative and understood the growth plans for the format, Tesco announced, in January 2005, that it was similarly intending to trial 100% non-food stores with the first two units to open in Aberdeen and Manchester in October 2005 branded ‘Tesco Homeplus’. While this represents a significant revision of its strategy, it is not a completely new venture for the retailer. In the early 1980s it had trialled Tesco Home n’Wear stores – a format that failed largely due to the poor quality of the non food offer both in terms of range breadth and depth, and price points. However, Tesco has now learned a great deal about merchandising non-food sales areas, both in its international operations and in its ‘Extra’ hypermarkets in the UK. It has also become a successful player in the global sourcing of these products.

The entry of the major food retailers into both convenience and non food has underlined the strength of these retail brands and the loyalty that they foster with the UK public (Burt, 2000). The leading food retailers understand how their relationship with the customer ‘frequently serves as the basis for long-term competitive differentiation and sustained loyalty’ (Aufrieter et al., 2003), and appreciate the potential transferability of this resource. In extending their brands into new markets they have continually monitored customer reaction via detailed consumer research (cf. Court et al, 1999; Henderson and Mihos, 2000). They have been aware that perceptions of the corporate brand are never static but continually change over time (see Davies and Chun, 2002), and have used their customer research/ ‘insight’ departments to monitor continuously customer feedback to help flex their merchandise selections and store environments.

Extending the retailer brand in this manner clearly involves a certain degree of risk and, if not executed properly, can result in what Keller and Sood (2004) refer to as ‘brand equity dilution’. As Bass (2004, 33) commented in a product rather than retail sense, ‘brand extension may result in loyal consumers feeling that their beloved brand has changed and lost its core values. If the extension overlaps the original too closely, the core brand loses definition and its strategic position is weakened’. In the cases of both non food stores and convenience retailing, however, the offer is consistent with the product ranges that customers are accustomed to receiving in the retailers’ main stores. Hence, in principle, that risk is attenuated. Nonetheless, there remain important risks of execution (see **Table 1** for a summary). It is essential that the merchandise and price points are consistent with core brand identities. In the case of convenience stores for example, prices must remain competitive as customer expectations are for ‘supermarket prices’. From the customer perspective, the additional costs associated with small-batch distribution are not understood as a justification for paying a price premium. Meanwhile, in the case of non food stores, there remains uncertainty regarding the extent to which the retailers can leverage their ranges into the higher price points and whether the brand is capable of driving footfall when not aligned to a core food offer.

Despite these risks, the logistical and sourcing ability of the leading retailers makes diversification viable (IGD, 2004b; Verdict, 2004). In the case of convenience retailing, for example, the major food retailers add a depth of expertise and systems that allows the unit cost of logistics to reduce drastically compared to the previous players in the sector (see Fernie and McKinnon, 2003). As Baron et al. (2001, 412) noted, traditional convenience specialists were not well equipped to cope with customer expectations:

‘suggestions made in the late 1990s – [that] small independent retailers adopt new technologies, and strengthen both vertical and horizontal alliances – are not being embraced widely. [However] they may be essential to embrace, in order to keep up with the times and the rising consumer expectations’.

This warning has evidently come home to roost for the independent operators.

CONCLUSIONS

We conclude by considering, briefly, what our analysis of the innovative and creative responses of the UK food retailers to tightening planning regulation reveals, more generally, about organizational adaptation and corporate restructuring.

First, it confirms, quite obviously, that corporate ‘renewal is not a one-stop affair but a process of continual struggle’ (Hurst, 1995, 17). It is clearly not adequate to restructure only when crisis looms, ‘a company needs to create a requisite fit with its current environment while remaining flexible enough to respond to (or even create) changes in that environment’ (Markides (2004, 10). However continued restructuring cannot be assumed to be wholly theorised or completely planned. This paper has uncovered many questions about the emerging strategies of the leading food retailers that will have to be negotiated through customer research or in-house testing and trials. Indeed, as Clark (1993, 108) once noted ‘restructuring is not neat or easily foretold, nor should it be assumed that economic imperatives are coherent and well defined ... corporate restructuring is a process of experimentation where the end-point is not known and where the costs and risks of restructuring are considerable’.

Second, it confirms the need to focus on core competencies in any diversification strategy, building on those competencies to launch into new markets and geographical locales (Prahalad and Hamel, 1990). As Post (1997, 714) suggests, strategy ‘means that a firm has to compete now by leveraging its current competencies to the greatest possible effect’ - it must ‘stretch beyond its managerial imagination to envision competences that are beyond the reach of the present system elements of the firm’. Clearly, the leading UK food retailers are pushing boundaries in this way as they enter non food and neighbourhood retailing. As part of these initiatives, the retailers are being forced to develop new procedures and norms of working – this clearly implies movement out of the comfort zone of conventional superstore operation, and the confrontation and solving of new problems.

Third, it suggests the need to develop a rich understanding of the power of retailer brands and the potential of transferring expertise and customer loyalty to new markets. As Dawar (2004, 31) notes, ‘at the strategic level brands are the platform for building relationships with customers’. There is a huge amount of customer trust invested in the UK food retailer brands that is built up and sustained by hundreds of thousands of customer visits each week. That loyalty can be leveraged into new store formats and new geographical locations if aligned to a robust distribution and sourcing infrastructure.

However, given the high exposure of the retailer-brands there will be considerable risks to negotiate going forward – not least ‘how elastic the brand and its associated images are’ (Burt, 2000, 886).

Finally, our analysis suggests that regulation is very much a ‘discursive practice’ - never fixed but continually re-interpreted over time with firms continually attempting to accommodate or circumvent its effects (Bakker, 2000). In the case of the UK food retailers, that has required innovative thinking and creative business acumen to solve problems of site location and use, to enter new markets, and to re-work the regulatory system to favour their private interests. As Harrison et al. (1997, 474) commented, ‘key actors are not passive recipients of regulatory practices; rather they will seek to shape regulation’. As such, ‘forms of regulatory practice do not simply function as an arena in which rules are implemented, enforced and reinterpreted. They also act as an important source for the *reformulation* of rules and regulation in their own right’ (Harrison et al., 1997, 485). In the case of the discovery of the mezzanine loophole in the current planning system, a temporary window of new growth became available and, in turn, rapidly led to a reformulation of regulation. Similarly, the Competition Commission’s view of separate retail markets between convenience and superstore retailing, having provided regulatory shelter for leading firm entry into neighbourhood retailing, could at any time be revised. The onus has been, and remains, on the food retailers to be pro-active in seizing these opportunities before their actions lead to a reinterpretation of regulation, and their differential competitive success is deeply rooted in the agility of their adaptive responses to these pressures.

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Figure 3: Convenience stores market shares, 2003
(Source: Mintel, 2004)

Table 1: Key issues for leading food retailers entering into neighbourhood and 100% non-food stores

Neighbourhood retailing	100% non- food stores
<ul style="list-style-type: none"> • How can the distribution model be adjusted to ensure prices are in line with supermarkets? • Can higher end ranges be successfully introduced? • Car parking – what level is appropriate? • Will they affect nearby superstores? • How to tackle long queues in small stores at peak periods? • Threat of the ‘supermarket invasion’ view - How can the popularity campaign be successfully tackled at a local level? 	<ul style="list-style-type: none"> • Is the food retailer’s brand strong enough to generate foot traffic independent of grocery retail? • Location – high street, mall or retail park? • Can higher ticket items be successfully merchandised in this format (e.g. plasma tvs?) • Will they effect nearby superstores? • Service issues – the customer expectation will be better service with higher ticket items • Car parking – what level is appropriate?

Notes

ⁱ It should be noted that the planning environment in Scotland is markedly more lenient than that of England. In Scotland the demand of proving “need” for retail development does not apply, nor do issues regarding the class of good in the same way as in England. Finally, the disaggregation of different “types” of good has not been an issue – a factor that has historically been such a brake on development for retailers such as IKEA (Sparks, 2005).

ⁱⁱ More recently, Asda announced its intention to trial new town centre formats – for example a proposed development in Folkestone that will feature a 13,500 sq ft George store, linked via lifts to the majority of its food and general merchandise offer above (Parker, 2005).

ⁱⁱⁱ Notably Sainsbury sold its Stockton Savacentre to Tesco in 2003 after a long running battle to compete in a price focused catchment and there has been considerable speculation that the retailer is also wishing to divest its Savacentre located in Washington, Tyne & Wear.

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