RETAIL LOCATIONS AND DISTRIBUTION CHANNELS: PAST, PRESENT AND FUTURE

3

3.1 Introduction

In this chapter, we wish to explore the major transformations in the retail landscape, partly brought about by the broad trends identified in Chapter 2. We also wish to look at the future of traditional retail locations, especially the high street, shopping centres or malls and retail parks. Although we have pointed out new planning legislations that prevent certain types of growth (Section 2.4), we argue that the traditional locations still have a lot to offer retailers and that much growth will take place in these environments (Sections 3.2–3.6). However, we also introduce new retail formats and distribution channels, and attempt to understand why geography or location is still crucial in understanding new distribution channels and why it forms a crucial part of the framework for successfully managing change and creating future retail landscapes (Sections 3.7–3.9).

3.2 The High Street or Town Centre

Despite the huge increase in out-of-town retailing (see next section) the high street still remains the retail heart of most towns and cities in Europe and will undoubtedly be a major retail landscape of the future. According to Field (1997), three quarters of all shopping is still done on the high street. That said, it is also true that the nature of retailing on the high street has changed considerably since the 1960s. An historical look at a range of European cities in the 1960s reveals a retail landscape dominated by clothing, footwear, jewellery, furniture and electrical goods. Food, fresh meat and vegetables were also prevalent. For example, an examination of the high streets of Leeds in the 1960s reveals the dominance of clothing, footwear and jewellery in the heart of the city centre, whereas away from the central area were increasingly larger numbers of wholesale food outlets, decoratins products (DIY) and furniture stores. As more bulky goods such as DIY and electrical goods moved out of town (along with food), the nature of many high streets changed. It is now difficult to buy any of these goods on the high street. Today clothing and footwear is joined on the high street by a range of more niche outlets such as music shops, travel agencies, café bars and sports shops.

The buoyancy of fashion retailers, in particular, has helped maintain, and in many cases increase, the levels of rents and rates in many European high streets, and also make them popular destinations for other retailers. In the United Kingdom, for example, the growth of Next in the 1980s and 1990s almost parallels the growth of high street rents as they were prepared to pay very high premiums for the best pitches (which did, however, cause them some financial problems in the mid-1990s). Fernie *et al.* (1997) note how the recent influx of top fashion stores in the West End of London has shot rents to more than £250 per sq. ft. Figure 3.1 shows the current rents for many top European cities to be high and buoyant.

However, the future of the high street has long been a concern to planners, especially as fears of the competitive effects of out-of-town developments increased. In Europe, for example, there are fears that cities may follow US dynamics, where downtown cores are office and service centres as opposed to core retail areas. Therefore, there is now much interest in what makes a successful city centre, and how the city centre can remain an important future retail landscape. Peter Shearman Associates (1996) undertook an exercise to try and answer this question by comparing the cities of Hanover, Bordeaux and Bristol. They concluded that a successful city centre must:

1. create a broad retail offer to consumers
2. provide a thriving leisure environment
3. maintain large-scale office development
4. build high-quality public transport access

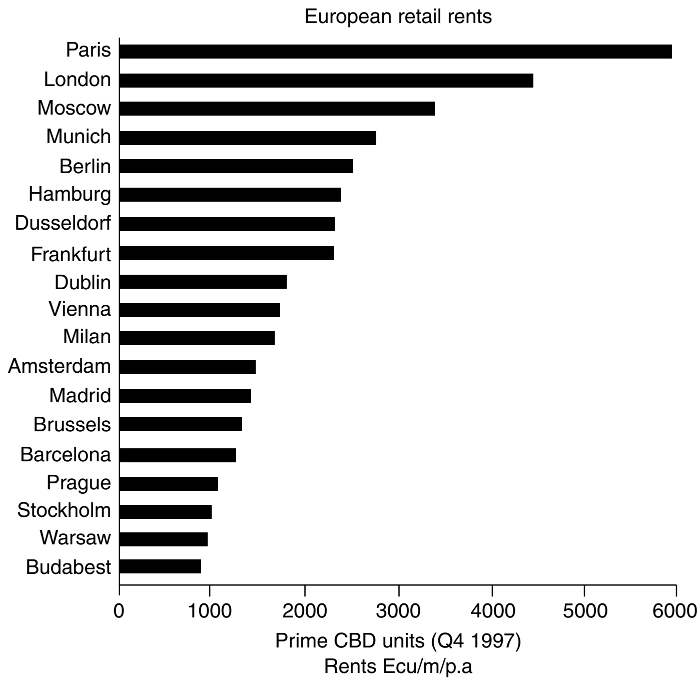


Figure 3.1 European retail rents. Source: Jones Lang Wootton, 1998

5. maintain accessibility for car owners
6. create compact, pedestrianized cities
7. restrict out-of-town developments

Thus in a sense, town and city centres need to reinvent themselves (Field 1997). The appointment of town centre managers in the United Kingdom will undoubtedly help implement such action plans in the future. It is clear that many city centres are fighting back. It is interesting to note that rents in Sheffield increased by 25% in 1997–1998, suggesting finally that the centre may be coming to terms with Meadowhall, the large regional out-of-town shopping centre only a few miles away.

The action plans identified by many city authorities are likely to indicate that the high street remains as a core retail landscape of the future. Opportunities will continue to appear as local planners revitalize older, more run-down areas of the city centre and build new arcades and waterfront developments. The latter is becoming a phenomenon in most modern world cities (see Goss 1996). Leeds has recently announced a £8 million redevelopment of Granary Wharf, while Manchester's canalside developments have transformed a run-down industrial environment into one of United Kingdom's most trendy bar and restaurant areas. In addition to the list of factors identified by the Shearman Associates in the preceding text, many would argue that residential (re)development is also crucially important. It is clear that city centres outside the United Kingdom have had a head start in this respect. Many cities such as Hanover and Bordeaux have always had a significant residential population, often living in flats above the main shopping arteries. These types of development are laying the foundations for concepts such as the 24-hour city. The combination of office development, residential development and more leisure facilities means that people can enjoy the attractions of the city at all hours of the day.

It is likely that the high street will continue to see new fascias and perhaps more stores of traditional fascias. Many traditional and new high street retailers in the United Kingdom have announced ambitious growth plans. In 1999, Debenhams announced plans to open a further 15 stores over the next four years. Oasis stores is to open nine new fashion stores to take its high street total to 140. Clinton Cards is planning to open 40 new greeting card stores a year for five years, and Whitbread is planning both 50 new Costa coffee shops and 100 new Pizza Hut stores by 2001. The New Covent Garden Soup Company is planning to open 200 new soup bars on high streets throughout the United Kingdom by 2004. In 2001, the following organizations announced major expansions: Merchant Retail (from 67 stores to 150), Officers Club (150 new stores over 3 years), Greggs (from 1100 to 1700), Fast retailing (150 new stores), Hair Cuttery (100 new stores) and Coffee Republic (from 76 to 200 by 2004).

The influx of high fashion retailers is also beginning to boost other retail centres outside London. Diesel, Versace, Tommy Hilfiger and Calvin Klein are rumoured to be interested in King Street in Manchester, following the letting to DKNY in the late 1990s. Other European fashion retailers such as Mango, Zara, River Island, Hennes and Mauritz are all said to be seeking large amounts of UK floorspace (Cavanagh 1999). There are likely to be opportunities for other European countries to attract major fashion retailers in the future. Lamey (1997) notes that Germany is now attracting European players in the boutique sector, mainly as a result of the new wave of luxury shopping malls (especially CentreO near Dusseldorf). She cites the example of New Look opening its first outlet in Germany at CentreO, but announcing at the same time that they estimate Germany could support 500 of their stores. Oasis too is reported to be looking at 60 to 70 stores in Germany over the next ten years. (Lamey 1997, p.16).

However, many analysts predict that some retail activities face difficult times ahead and may well disappear from the high street. According to Cope (1996), Internet/telephone shopping will, by 2006, cause the demise of the high street banks, travel agencies, video shops and record outlets. Other variety type stores may also disappear as they too face competition from Internet shopping. Littlewoods, for example, put all of their stores up for sale in March 1997. Field (1997) responds to these issues by speculating on the possible replacement stores of the future: wine bars, restaurants, hair salons, pharmacists, delicatessens, fishmongers, cake shops, high fashion boutiques, burger bars and food convenience stores. He believes that these activities could also revive the smaller high streets associated with small and medium sized towns.

Part of this process of transformation will be achieved by large, international retailers, and part by independents. Many of the more specialist shopping areas of our major cities now encourage small, independent retailers with niche products. The condom shop in the Corn Exchange at Leeds is a good illustration. Field (1997) talks about the use of these types of outlets to stimulate retailing by appealing to very different sorts of community. Such specialist shopping areas may well help reduce the existing differences between primary areas and secondary areas. Primary areas are likely to remain the strongholds of major multiple retailers. These more specialist shops could be a way of revitalizing secondary areas, which are often currently occupied by cut-price stores, charity shops and market stalls.

3.3 The Superstore and Hypermarket

The conditions described in Sections 2.3.1 and 2.4 allowed an unprecedented period for the growth of superstores in the late 1970s and 1980s in many developed countries. Figure 3.2 shows the growth over the key period 1975 to 1995 in a variety of European countries.

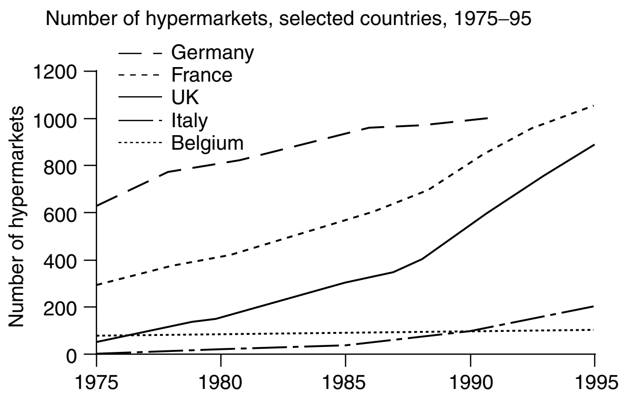


Figure 3.2 Number of hypermarkets, selected countries. Source: Guy, 1998b

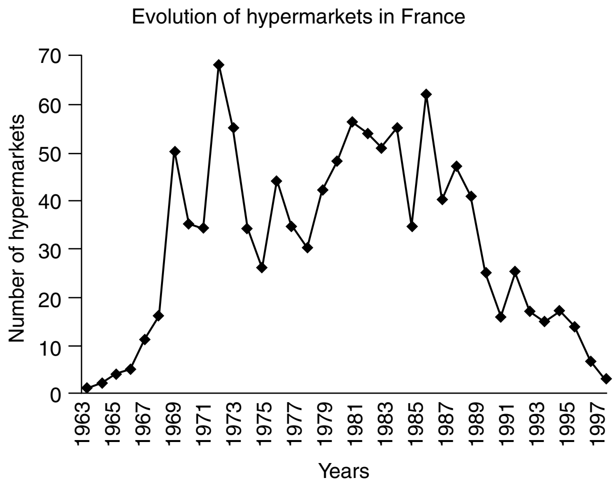


Figure 3.3 Evolution of hypermarkets in France. Source: Cliquet (2000a)

However, it is clear that hypermarket growth has slowed down significantly since the late 1980s across Europe. Figure 3.3 shows the dramatic decline of new developments in France. Much more stringent legislation in 1996 (Loi Raffarin) has finally it seems stopped major new store developments. Similarly, the ‘Ley de Ordenacion del Comercio’ in 1995 has made it much harder to obtain planning permission for out-of-town developments in Spain. The strictness of these new legislative environments will have a major impact on future retail landscapes. Besides preventing further growth of French companies, foreign retailers too will be discouraged from entering the French market. Even in countries such as the former East Germany (which allowed a period of laissez faire activity after reunification) new out-of-town developments have been banned. The same is true in Portugal and Belgium (which insists that an impact study must be carried out by the applicant). In the United Kingdom, the revised Planning and Policy Guideline (PPG) 6 legislation has also tightened up on out-of-town developments. European laws are now beginning to harmonize and agree that unrestricted retail development is harmful to existing retail infrastructure. This means that sites with existing planning permission are especially attractive and expensive (see the discussion on retail warehouses in the following text). Guy (1998b) also notes the recent trend of reducing the upper size limit of new stores, especially in Belgium, France, Portugal, and Spain. The French, for example, have recently set an upper limit of only 300 sq. m.

However, in some countries there are signs that there may well be a more liberal planning regime in the years to come. Italy provides a good example. It has often been said that Italy has been Western Europe’s most regulated country. In 1998, the new left-wing government presented a plan to throw the business of retailing open to the market. This means that no permission is now required to begin small store trading, there are longer opening hours, and a simpler food, non-food retail category has been introduced (replacing 14 categories of retailing that required a licence for each). However, the plan is unlikely to extend to more freedom for the large store format. Indeed, a new law was passed in April 1998 to re-evaluate the opening of new planned shopping centres. This is good news for the incumbent Italian retailers who understand they are small by other European standards, and are continually requesting time to grow in their home market before having to face foreign competitors (Pellegrini 1995).

However, it is evident that despite the tighter planning legislation referred to above, new store developments are continuing. A search through recent UK press releases and Web sites reveals much expansion. In 2000, Tesco alone opened 3 new 'Extra' stores at Wrexham, Leeds and Cambridge, and announced plans for another large store at Walsall. Morrisons opened 12 new superstores in 2000 and plan to open a further 7 in 2001 and 4 in 2002. Asda has opened 60 new superstores between 1996 and 2001, with plans for another 30 to 40 over the next three years. Outside the United Kingdom, Lidl is poised to open 25 new supermarkets in the supposedly saturated market of the Netherlands.

The question is how this can happen, given the tighter legislation discussed in Section 2.4? A number of explanations are plausible. First, retailers could have acquired the land prior to the revised legislations becoming operational. Thus, they already possess planning permission on that land. Second, it seems clear that the power in planning enquiries and, indeed, in the drafting of planning law does not simply lie with the local or national government. Hallsworth (1997) and Pal *et al.* (2001) suggest that retailers have been very proactive in helping shape legislation. In particular, Pal *et al.* (2001) argue that they have encouraged a sense of vagueness in the planning documents, a vagueness that allows them to exploit loopholes when negotiating with the Government at planning appeals. Third, it may well be the case that local authorities actually wish to promote retail development in their localities, despite national planning guidelines that discourage this. Retailer planners across Europe are still faced with the issue of trying to equalize accessibility to retail facilities at the local level. In addition, there are usually good tax reasons why local authorities may wish to encourage development within their localities.

Metton (1995) notes that the power of the private sector to choose the most desirable locations has led to 'commercial wastelands'. The late 1990s has also seen huge interest in the United Kingdom in so-called *food deserts*, areas where many lower income households (including low mobility households such as pensioners and the disabled: areas that the private sector has generally shied away from) face poor accessibility to good quality grocery retailing. It is likely that planners will continue to look for retailers who would be prepared to invest facilities in these locations (perhaps for reduced rent or land costs). Metton (1995 p74) described the initiatives to revive rural commerce in many of the commercial wastelands in France and concludes that the future implementation of Loi Royer is likely to be very different in different parts of France. Similarly, local planners in Leeds have recently given planning permission for a large 90 000 sq.ft Tesco store in Seacroft, on the outskirts of the City. Permission was granted solely because it is deemed to be in a 'food desert' area (and it is part of a wider scheme by Tesco to invest in inner city areas: the 'London Initiative', for example, entails a 20 million pound refurbishment scheme in Beckton, involving Tesco and a range of public and private sector organizations). It will be interesting to see how such a superstore trades in such a low-income environment (see more discussion on food deserts in the following text).

Despite the success of superstore operators in continuing to open stores, it is clear that the rate of growth has declined. Along with the stricter planning regimes outlined in the preceding text, superstore operators have faced stiffer competition from discounters (see Section 3.4), and in some countries, have experienced problems associated with recession and overvaluation of stock and assets (see Wrigley 1996). Poole *et al.* (2002a) explore the extent to which these conditions have varied across Europe. How have the superstore operators responded to these difficulties?

One major response has been to increase investment in refurbishment and store enlargements. In the 1990s, Tesco announced plans to refurbish a large number of their now older superstores. They will add significant new floorspace to their asset base. In some cases, significant extensions will allow stores to be revamped according to a new 'Tesco Plus' fascia (with significantly extended product ranges). The first opened in Essex in 1998, and at 90 000 sq.ft, is currently the largest in the United Kingdom. Perhaps the biggest refurbishment programme in recent years has come from Safeways. In 2001 they announced a 450 million pound refurbishment programme for 100 of their stores.

A second major response has been to diversify into non-traditional supermarket product lines. The modern superstore has seen a fresh injection of new products and longer opening hours. Tesco now operate financial services and their share of the petrol market is growing fast (Bennett 1998). The product range is growing continuously. Plans for stores to stock motor scooters and Intel Pentium computers in 1999 are now in operation. Also, by 1999, 100 of their 568 stores have greatly extended opening hours (including 81 stores that now operate 24 hours per day). In addition, they operate a rigorous price campaign called *unbeatable value* and a very successful loyalty card called *Clubcard*. Asda too is increasingly devoting more of its floorspace to non-food product lines, especially since the takeover by Wal-Mart (Burt and Sparks 2001). Items such as clothing, brown and white goods, books, CDs, and so on are now commonly available in large stores. Of course, this has been the case for a long time in some European hypermarket formats, especially in Belgium and France. The activities of GIB in Belgium now include groceries, DIY, toys, perfumes, stationery, clothing and fast food. ASDA plan to increase non-food activities through their new 'Supercentre' concept, which will increase the size of existing stores to between 100 000 and 130 000 sq.ft, and offer computer software and hardware, small electrical goods, branded sportswear and sports goods for the first time (Mills 1999). Perhaps, more interesting has been the development of what might be seen as rather radical new products and service offerings, particularly in the financial services sector. Both Tesco and Sainsburys in the United Kingdom are now offering a limited range of banking products in their stores, which, although branded as 'Sainsbury's Bank and Tesco Bank' are, in fact, provided by major financial services providers such as the Royal Bank of Scotland (also see Alexander and Pollard 2000).

A third response has been to invent new formats. This takes us away from discussion on superstores and will be looked at in Section 3.8.

The key question is where might future stores be built that will gain planning permission? The answer is almost certainly tied up with the food desert argument raised in the preceding text. This is worth elaborating on further. As we noted in the preceding text, there is concern the world over about the impacts of the superstore on traditional town and city centres. In addition, there is increasing concern that the superstore developers have neglected certain parts of towns and cities as they search for sites containing more affluent consumers. It seems to be the case that in many towns and cities, the geography of superstore development has not been spatially uniform and access to such stores is highly variable. This has led to a new term in the literature–the food desert. Such areas may offer the best opportunities for retailers to build larger stores in the future, as this is likely to be encouraged by local planners. But how can these be measured or recognized?

One such study to measure and identify food deserts is provided by Clarke *et al.* (2002). They used performance indicators derived from a spatial interaction model (see Chapter 8). Figure 3.4 shows the 'effectiveness of delivery' of grocery retailing to residential locations. This performance indicator was introduced by Clarke and Wilson (1994). The higher the indicator score, the greater the degree of accessibility. Figure 3.4 maps this indicator for the Leeds/Bradford area. The map clearly shows pocket of poor accessibility that we could now label as food deserts (though see Clarke *et al.* 2002 for a more thorough discussion). Eight such areas are identified in Leeds and Bradford. These areas tend to be urban concentrations located towards the edge of the conurbations, which therefore have poor access to city centre food retailing opportunities, and are also located away from out-of-town superstores. It should be recognized that these are areas of poor provision relative to the rest of the city. However, simply having relatively poor access to grocery provision is unlikely to convince planners that all of these areas are food deserts. An area might only be classified as a food desert if the residents of that area have little or no means of travelling significant distances to purchase food (see Williams and Hubbard 2001 and Piacentini *et al.* 2001 for accounts of how residents in deprived estates have very poor accessibility levels). It is therefore necessary to look at the social class structure of the

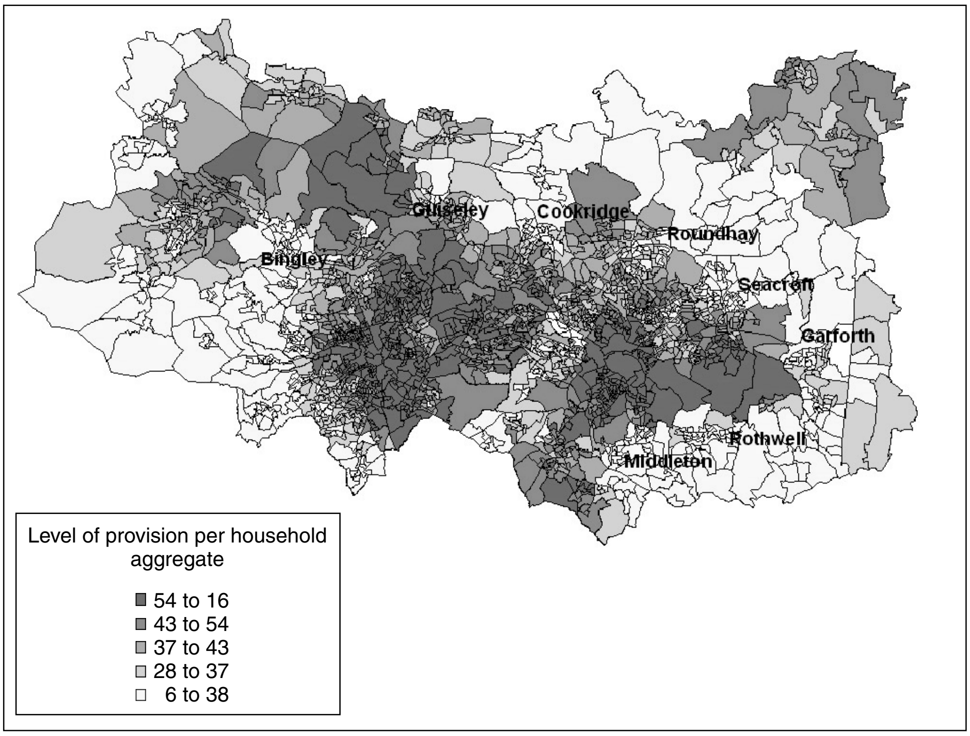


Figure 3.4 Level of provision per household in Leeds/Bradford. Source: Clarke *et al.* (2002)

Table 3.1 Social composition of possible food desserts in Leeds and Bradford

	%AB	%DE	% Retired	% Inactive	% No car
Leeds/Bradford	21.6	11.9	28.0	12.4	39.7
Bingley	31.5	7.9	28.8	10.4	32.5
Cookridge	26.8	6.3	32.7	11.6	30.9
Garforth	20.5	11.7	27.1	7.3	26.2
Guiseley	27.5	13.0	28.3	5.8	35.2
Middleton	6.8	20.6	24.3	15.8	61.2
Rothwell	16.0	11.6	32.9	10.2	38.1
Roudhay	30.6	6.6	30.1	13.5	26.2
Seacroft	5.6	15.4	32.8	17.4	60.9

Source: Clarke *et al.* (2002)

households in each of the areas of poor provision in order to identify food deserts. Areas with a high percentage of DE, retired and inactive households will be less likely to own a car and therefore more reliant on grocery shops in their local area.

Table 3.1 shows the social composition of the areas of poor provision in Leeds and Bradford, as well as the average composition of the area. Of the eight areas of poor provision, two (Middleton and Seacroft) stand out as containing a low proportion of AB households and a percentage of DE and inactive households well above the average for the Leeds/Bradford area. These are also areas where more people do not have access to a car and are therefore reliant on stores in their local area. The poor level of provision in these areas then might constitute a food desert. The other areas in Leeds and Bradford that experience poor provision contain a higher proportion of AB households and a lower percentage of households with no car. Residents of these areas are therefore more likely to be able to travel to purchase food and are less reliant on the poor facilities in their local area. Perhaps these areas should not be identified as problematic food deserts, although for some residents the problems are as great as those we find in Middleton and Seacroft.

The same concerns over food deserts exist outside UK towns and cities. Nayga and Weinberg (1999) provide a good US illustration. They observe:

> One of the most pressing problems in Urban America today is the serious shortage of supermarkets in many inner cities despite America's abundant food supply and state-of-the-art food distribution system. (p141).

They go on to explain the consequences of this problem. First, such inner city environments are left only with independent stores with their much higher prices. Second, although discount retailers may find a niche market in such areas (see Section 3.4), there is concern that such retailers provide less fresh produce and less choice of produce, thus resulting in poorer diets. This issue is explored in relation to the Leeds case study outlined above by Wrigley *et al.* (2002).

3.4 The Discount Store

In the previous section, we argued that superstore retailers have tended to search for greenfield sites in and around the more affluent suburbs of western towns and cities. As Wrigley and Clarke (1999) argue, those strategies left two interrelated gaps in the marketplace. First, a 'value platform' gap–a vulnerability to low margin, limited-line discounters. Second, a 'locational' gap–urban high streets and less affluent suburban areas felt to be too unprofitable for traditional superstore operations (until more recently–see preceding text). In most western countries, some of these gaps were filled by the arrival of the discount store. The importance of the discount store in terms of total sales varies between countries. Figure 3.5 shows the penetration of deep (or hard) discounters across Europe in the late 1990s. As the graph shows, Germany, Austria and Belgium lead the way, with Germany having some of the most important discount retailers in Europe.

To understand the geography of discount retailing, it is useful to look at the United Kingdom as an example. As the major superstore retailers grew in the 1980s, only a few retailers chose to exploit the value platform and locational gaps mentioned in the preceding text. In England and Wales, Lo-Cost and Kwik Save emerged as important players in towns and cities across Wales, central and northern England in particular, while Shoprite began to make inroads into market share in urban areas of Scotland. The growth of Kwik Save and Shoprite is discussed in detail by Sparks (1990, 1996b respectively). The success of these companies was significant as they enjoyed almost monopoly positions in the poorest areas of the United Kingdom (facing competition from independent retailers and local Co-ops rather than the major superstore players). Then, in the early 1990s, the United Kingdom saw the invasion of more discount retailers from continental-Europe, led by Aldi and Netto (Burt and Sparks 1994, 1995), and followed by Lidl and Ed. As Figure 3.5 shows, the discount retailers were already well established in other parts of Europe. They were attracted to the United Kingdom because of the success of the incumbent UK discount operators and the relatively high profit margins available in UK grocery retailing at the time (typically 6% margins compared with 2% in many other European countries). Not surprisingly, Netto and Aldi targetted the very areas where the UK discounters were present–the heart of less affluent urban areas. Figure 3.6 shows the growth and location of Aldi stores during the 1990s. From their initial strongholds of Birmingham and Manchester, they became a significant retailer in most parts of northern and central England by 2000.

The impact of these deep discounters was significant on all grocery retailers in the United Kingdom. First, they had an immediate impact on Kwik Save and Shoprite, as they

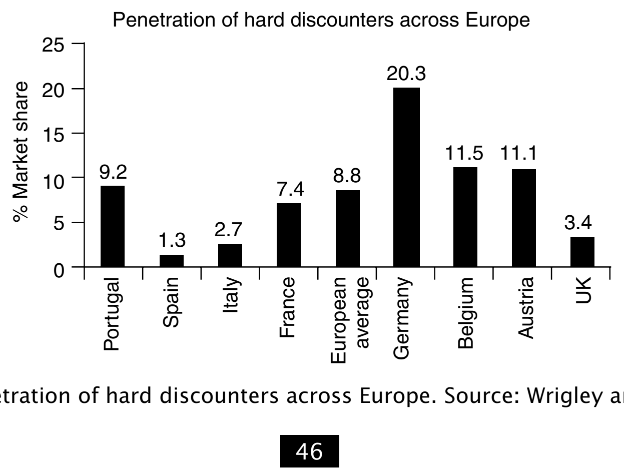
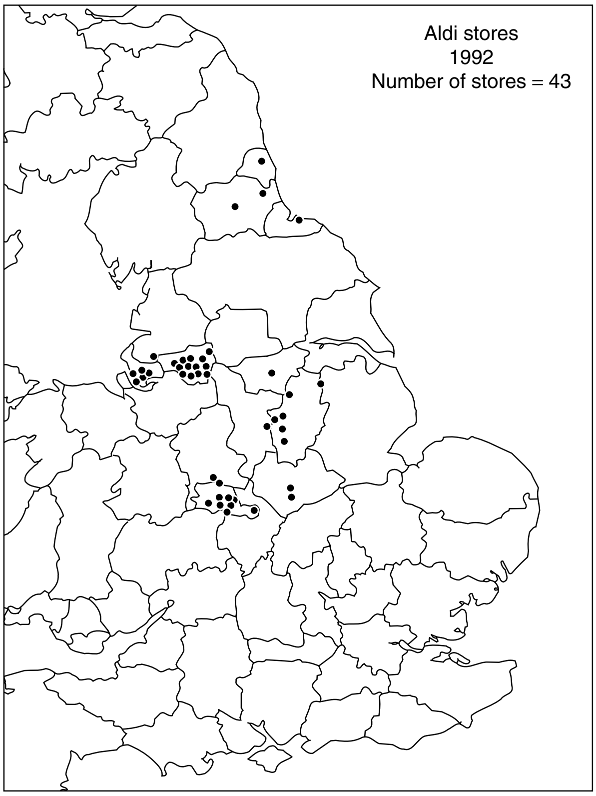


Figure 3.5 Penetration of hard discounters across Europe. Source: Wrigley and Clarke (1999)

competed head on in the traditional heartlands of the UK retailers. Shoprite were in serious trouble by 1994 (Sparks 1996b), and, in 1998, Kwik Save was effectively taken over by Somerfield. As Wrigley and Clarke (1999 p1) maintain, 'This was a logical outcome of an increasingly desperate struggle by Kwik Save to arrest an accelerating decline in its like-for-like sales, operating profits and market capitalization.' Second, even the large superstore retailers began to feel the heat, forcing them to review their pricing structures. However, the outcome of this review produced interesting geographical variations in the response of the major players. Prices were often reduced in areas where deep discounters were present (but not in other areas where the retailers enjoyed monopoly or duopoly power–a fact that partly led to the Monopolies Commission report on the grocery market in 1999, which expressed considerable concern over monopoly retail power in many areas of the United Kingdom). In the poorest urban areas, where the battle was fiercest, the major players even reconfigured to limited-line or 'discount superstore' fascias. For example, Asda announced



(A)

Figure 3.6 (A) Aldi stores 1992 (B) Aldi floorspace share in 2000. Source: Wrigley and Clarke (1999) & Poole *et al.* (2002a)

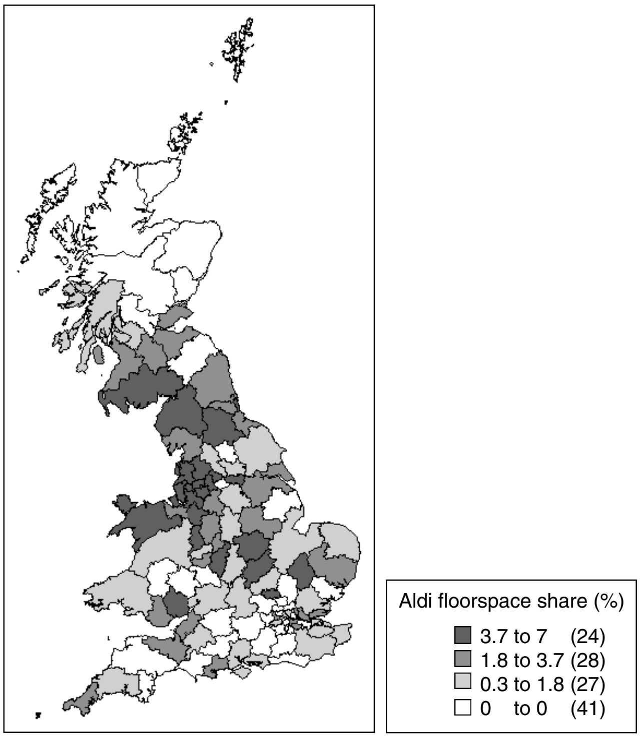


Figure 3.6 (*continued*)

the conversion of many northern stores (closest to inner city areas) to the Dales Discount format. By late 1993/1994 then, it was clear that the entry of the limited-line discounters had help trigger a profoundly destabilizing shift in competitive conditions in UK food retailing (Wrigley 1994). However, the competitive response of the major players (mainly the concentration on price for many day-to-day items) meant that the share of the deep discount sector peaked in the United Kingdom in 1994 at around 10.0%. As Table 3.5 shows, by 1997/98, the discounters' share of the packaged grocery market had fallen significantly, although by the end of 1998 they had opened 438 stores between them.

However, it is interesting to note that the penetration of the discounters in the south of England by 1998 was still very low. It is an interesting geographical question to ask where the discount market could be exploited further over the next ten years, especially given the fact that many of the Kwik Save stores taken over by Somerfield are likely to be targeted for disposal. So the key question to be briefly looked at here is do market opportunities still exist for limited-line food discounter expansion? The analysis that follows is based on Wrigley and Clarke (1999). Their technique for identifying potential sites begins by establishing that in 1996 the average number of socio-economic group D and E households (the lowest socio-economic categories in the UK census) in postal districts that contained a limited–line discount store lay in the range 1500 to 2000. They then established a 'potential demand' map, defined on the basis of the number of postal sectors that have 500 or more D and E households within 5 minutes drive time of their centroids (Figure 3.7).

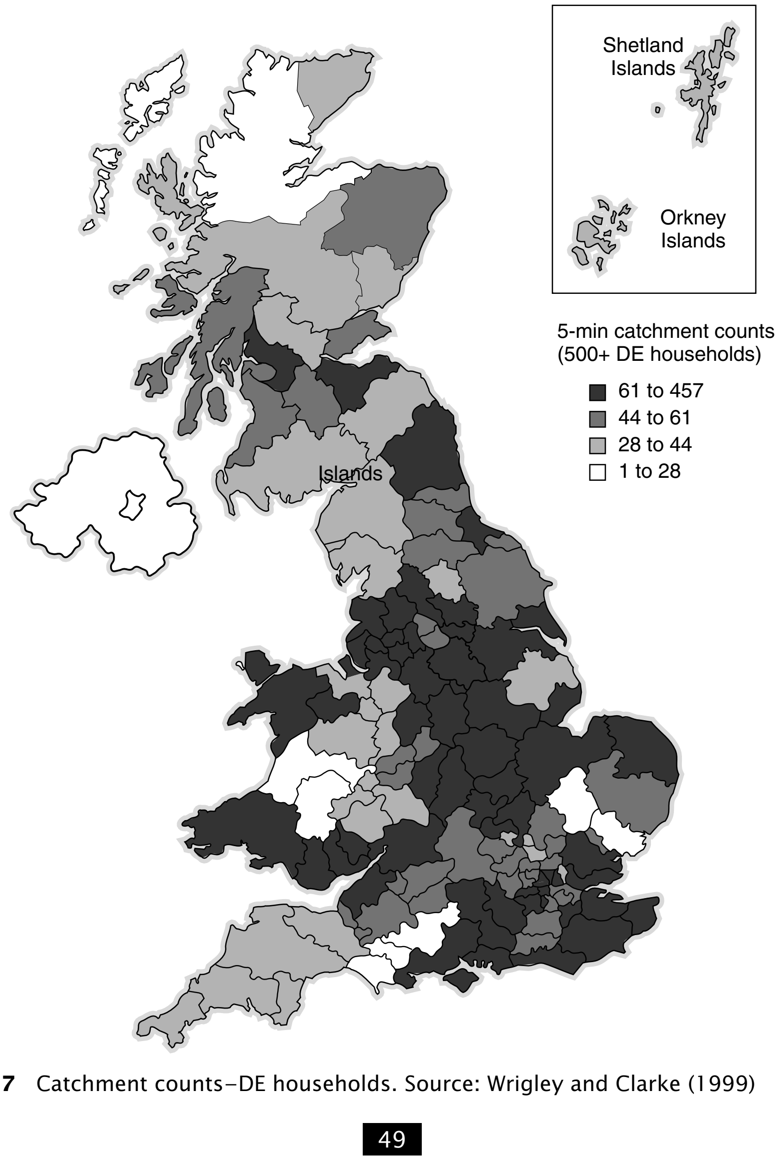


Figure 3.7 Catchment counts–DE households. Source: Wrigley and Clarke (1999)

Clearly, some areas identified in Figure 3.7 will already have a discount retailer present in the catchment area. Figure 3.8 thus maps the areas of unserved demand, which therefore offer the greatest opportunities to limited-line discounters. Those areas are most heavily represented in southern England, including East Anglia and parts of the southwest.

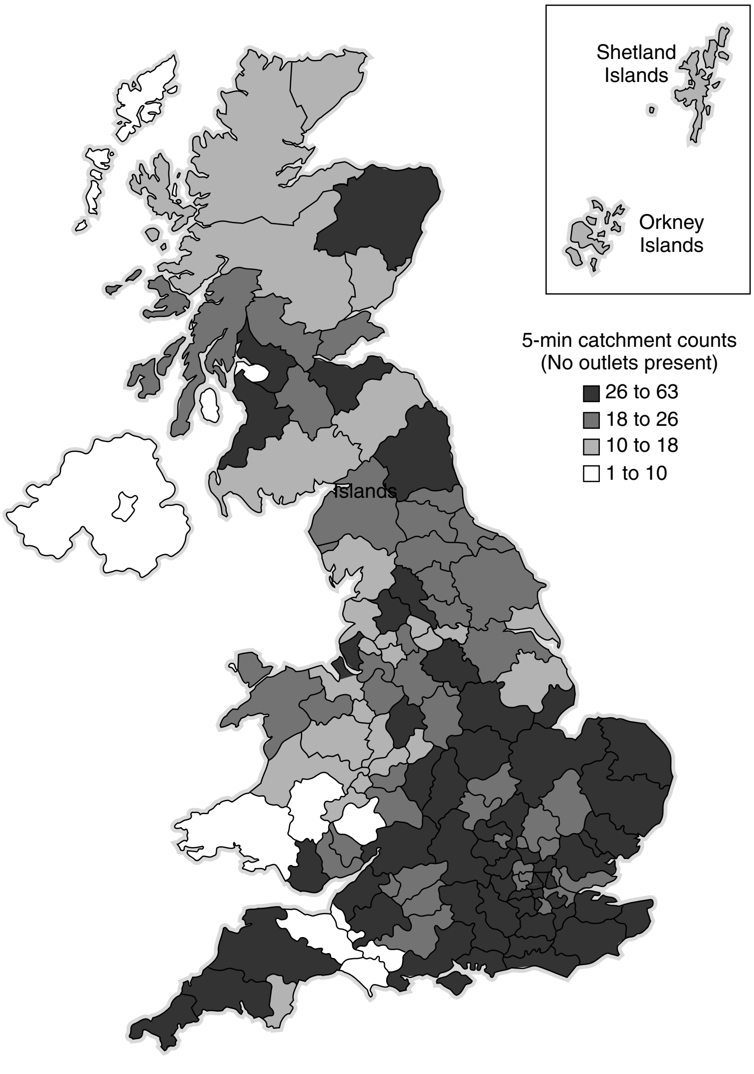


Figure 3.8 Catchment household counts–low provision. Source: Wrigley and Clarke (1999)

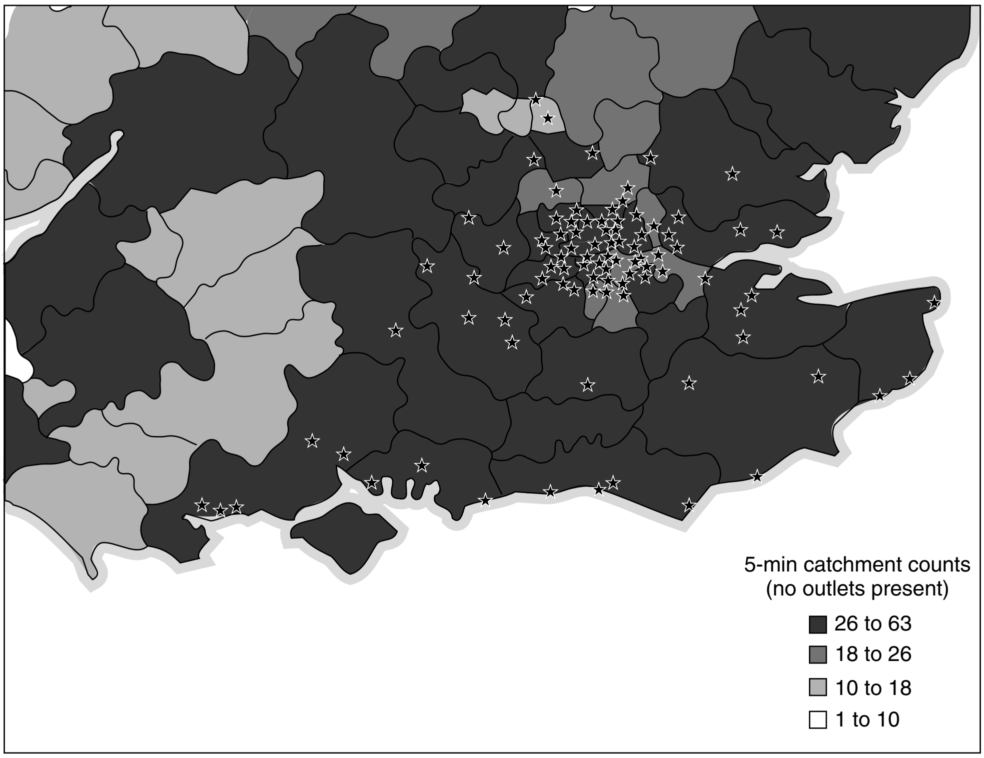


Figure 3.9 Catchment counts (detail). Source: Wrigley and Clarke (1999)

Finally, Figure 3.9 focuses on the southeast and, hence, prioritizes the previous map of opportunity (Figure 3.8). Figure 3.9 identifies the best 100 target sites (out of more than 1000 possibilities) for a new limited-line discounter. 'It is our view that the future scale and direction of the discount food retail sector rests to a large extent on how real the potential of such sites turns out to be' (Wrigley and Clarke 1999 p14).

3.5 The Shopping Centre or Mall

The shopping mall is another US invention that began to grow in Europe from the 1960s onwards. Today the shopping malls of Europe tend to have the highest turnovers of any of the retail formats. According to the UK Index of Retail Trading Locations published in 1998 by DTZ, the malls at Meadowhall (Sheffield), Merry Hill (Birmingham), Metro Centre (Gateshead) and Lakeside (Essex) are the most successful retail locations in the United

Kingdom in terms of turnover. The analogy has been made between these centres and what might be termed *edge cities*, such is their size and importance in the retail hierarchy (see Lowe 2000).

According to Guy (1998b), around 75 of the 108 shopping centres in Europe larger than 50 000 sq. m lie in France, United Kingdom and Germany. He identifies two key stages of development: 1970 to 1975 and 1990 to 1995. Table 3.2 lists the location of the major shopping centre developments in Europe. The vast majority are off-centre or out of town, although there are many examples of city centre developments. Some have

Table 3.2 The Super League[a] of European shopping centres, 1997

Country	Centre	Space (sq m)
UK	Metro Centre (Gateshead)	140 000
France	Grand Littoral (Marseille)	140 000
France	Creteil Soleil (Paris)	140 000
Portugal	Colombo (Lisbon)	133 000
UK	Merry Hill (Dudley)	130 000
France	Belle Epine (Paris)	130 000
UK	Meadowhall (Sheffield)	116 000
Austria	Shopping City Sud (Vosendorf)	115 000
Spain	Nuevo Centro (Valencia)	112 000
Germany	CentrO (Oberhausen)	100 000
UK	Lakeside (Thurrock)	93 000
Germany	Saale-Park (Leipzig)	93 000
Ireland	Blanchardstown (Dublin)	90 000
Spain	ABC Serrano (Madrid)	90 000
Italy	Shopville (Turin)	82 000
Germany	Flora-Park (Magdeburg)	80 000
UK	Brent Cross (London)	79 000
The Netherlands	In De Boogard (Rijswijk)	70 000
Turkey	Icerenkoy (Istanbul)	68 000
The Netherlands	Hoog Catharijne (Utrecht)	65 000
Norway	Stovnersenter (Oslo)	60 000
Denmark	City 2 (Copenhagen)	58 000
Italy	Auchan (Milan)	57 600
Italy	Valecenter (Venice)	56 000
Sweden	Frolunda Torg (Vastra Frolunda)	54 000
Belgium	City 2 (Brussels)	53 600
Spain	Glories (Madrid)	53 000
The Netherlands	Zuidplein (Rotterdam)	52 000
Hungary	Polus Ring (Budapest)	52 000
Switzerland	Glatt-Zentrum (Zurich)	45 300
Finland	Itakeskus (Helsinki)	36 000
Czech Republic	Praha West (Prague)	32 000
Greece	Continent (Thessalonika)	22 000
Poland	Globe Trade Center (Warsaw)	na

[a]See text for explanation.
Source: Corporate intelligence on Retailing, 1997.

also been built to serve new settlements such as Creteil in France and Milton Keynes in the United Kingdom (Guy 1998b p 963). The latest mall to open in the United Kingdom is Bluewater Park in Kent. This development includes 320 shops, three leisure villages with cafes and restaurants, an entertainment centre and a 12-screen cinema complex. The entire site is surrounded by 50 acres of landscaped parkland. In Germany, Centre O vies with Bluewater for the distinction of the largest centre in Europe. Built on the site of a former steel mill near Dusseldorf, the retail centre provides parking for 11 000 cars. International retailers include Gap, Coca-Cola, Levis, Warners, Planet Hollywood and Ronnie Scotts. The centre is as much a theme park, as it is a retail mall (see also Chapter 3). Other recent major developments include the Colombo Cente in Lisbon and the Grand Littoral centre in Marseilles. The Diagnol Mar in Barcelona was scheduled to open in 2000.

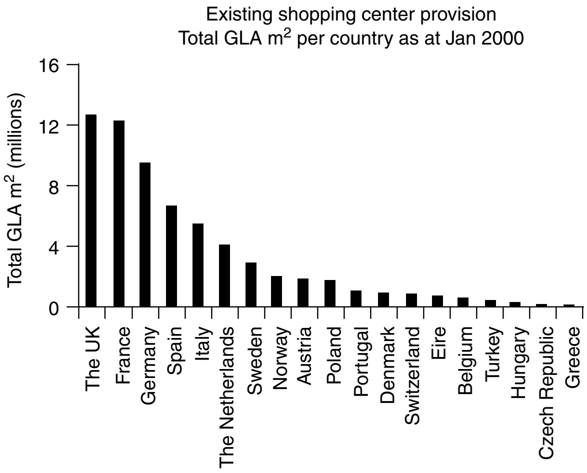
A key question is where may development take place in the future? It is clear that many European countries still have economies dominated by small shops. Figure 3.10 shows the number of retail shopping centres by country in Europe and the number of retail outlets per thousand habitants. The table shows that Greece, Portugal, Spain, Belgium and the Netherlands have the highest total number of centres. There is currently 69 m sq.ft of lettable floorspace in Europe, with France and the United Kingdom ahead of the rest. On a per capita basis, Sweden, the Netherlands and France lead the way. These variations are more prominent within countries. Table 3.3 shows the variations in the distribution of shopping centres in Austria in the mid-1990s. If profits can be made in Vienna, Lower Austria and Tyrol (where there are high floorspace rates per resident), then surely there are opportunities in Burgenland, Carinthia and Vorarlberg, even if these have relatively less income per capita.

However, given the tighter planning legislation across Europe, it is likely that the pace of development will slow down rapidly. Indeed, in some countries there is concern that there may now be too many shopping centres, which will inevitably lead to closures. Borchert (1995) discusses a recent stocktaking study in the Netherlands that concluded that there was no future for approximately half of the existing neighbourhood shopping centres. However, it seems, that in the short term at least, there are many new developments in

Table 3.3 Distribution of shopping centres in Austria

Land	Number	Selling area (m^2)	Annual turnover (billion Schillings)	m^2/100 inhabitants
Vienna	23	262 000	12.0	17
Lower Austria	17	267 800	11.4	18
Burgenland	3	13 700	0.6	5
Upper Austria	16	170 000	6.7	13
Salzburg	8	72 600	2.6	15
Tyrol	9	104 900	4.2	17
Vorarlberg	4	33 500	2.0	10
Styria	14	151 200	5.4	16
Carinthia	6	44 000	1.9	8
Total	100	1 119 700	46.8	

Source: Nielsen, quoted in *Linzer Volksblatt*, 20 June 1994: 22.



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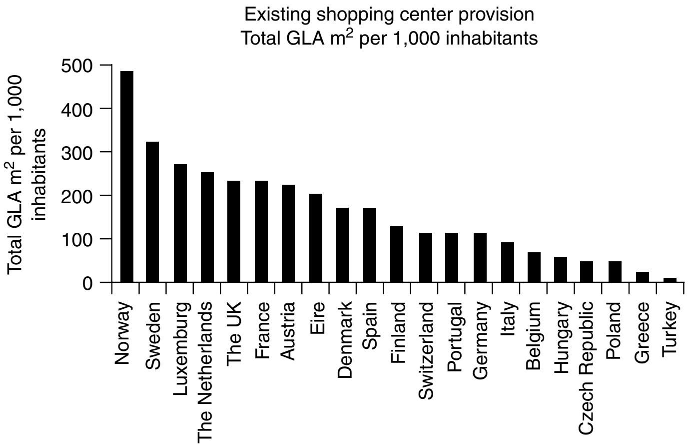

(b)

Figure 3.10 Shopping centre provision

the pipeline across Europe as a whole. Figure 3.11 shows European variations in shopping centre developments in the pipeline in mid-1998. There is an estimated 8.2 m sq.ft of floorspace under development. The United Kingdom leads the field with 1.4 m sq.ft in the pipeline, closely followed by Italy and Germany, with 1.2 m sq.ft each. Despite the pessimistic noises coming from the Netherlands (see preceding text), there are still new opportunities for growth, although these developments are largely planned for existing

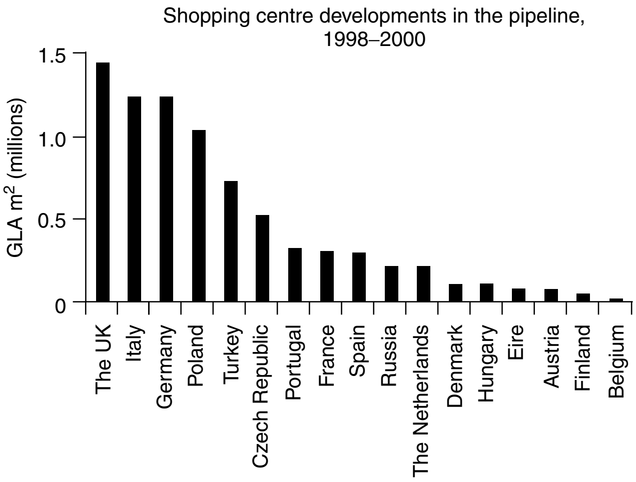

Figure 3.11 Planned development of shopping centres. Source: Hillier Parker

town or city centres. Many southern and eastern Europe countries have a relatively high proportion of shopping centre development owing to their less restrictive planning regimes and interest shown in these areas by foreign investors. A useful summary of the opportunities offered by Central Europe is provided by Jones Lang Wootton and Oxford Institute of Retail Management (OXIRM) (1998).

It is likely that floorspace will also continue to grow through redevelopment programmes. In the United Kingdom, in the mid-1999s, there were a number of major redevelopment programmes under construction, including Serpentine Green in Peterborough, Prince Bishop Centre in Durham, Priory Meadow in Hastings, Oracle Centre in Reading, Birmingham Bull Ring, Thistle markets in Stirling and Buchanan Galleries in Glasgow. The National

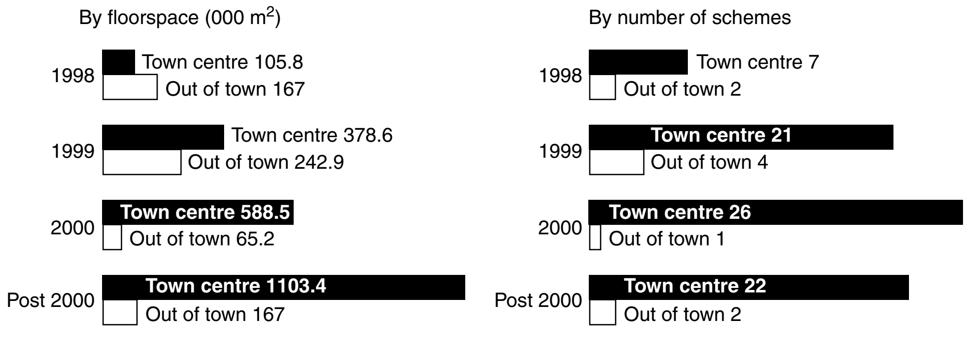

Figure 3.12 Predicted shopping centre openings. Source: Hillier Parker

Retail Planning Forum (1998) discusses a number of the major UK schemes in the pipeline, and Figure 3.12 summarizes the predicted growth in floorspace in the United Kingdom alone.

3.6 The Retail Warehouse and Retail Park

As with all forms of retail format, there are widespread variations in the provision of retail warehousing. Retail warehouses tend to be single developments, while retail parks are clusters of individual retail warehouses. Figure 3.13 shows how Belgium, France and the United Kingdom top the European league table. Guy (1998a) identifies a number of waves of retail warehouse developments in Europe.

1. Mid-1970s onwards–household and DIY
2. Early 1990s–electrical retailers
3. 1995/96–more traditional high street retailers (Marks and Spencers, JJB Sports, Shoe City, etc.) plus new leisure activities and a new wave of bulky goods, such as pet equipment and office supplies

Table 3.4 summarizes the range of retail sectors now investing in retail warehouses and the variations in these across Europe. It is likely that the gaps in this matrix will be filled as we enter the next Millennium.

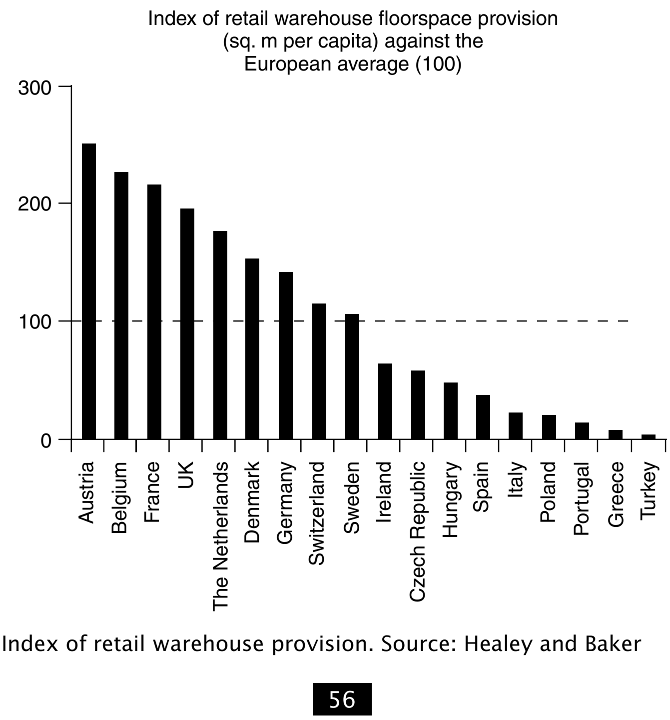

Figure 3.13 Index of retail warehouse provision. Source: Healey and Baker

Table 3.4 Table showing retail warehouse occupiers in Europe, by sectors

Country	DIY	Furniture/ carpets	Electrical goods	Car accessories	Clothing	Footwear	Sports goods	Other	Typical anchor
Austria	•	•	•	•				•	Hypermarket DIY furniture
Belgium	•	•	•	•	•	•	•	•	Hypermarket DIY
Czech Republic	•	•	•				•		Hypermarket DIY
Denmark	•	•	•		•			•	Hypermarket furniture
France	•	•	•	•	•	•	•	•	Hypermarket DIY electrical
Germany	•	•	•	•	•	•	•	•	Hypermarket DIY furniture
Hungary	•	•	•					•	Hypermarket DIY electrical
Italy	•	•	•	•	•	•	•	•	Hypermarket furniture
The Netherlands	•	•	•	•				•	DIY Furniture electrical
Poland	•	•	•	•				•	Hypermarket furniture
Portugal	•	•						•	Hypermarket DIY
Spain	•	•	•	•	•		•	•	Hypermarket furniture
Sweden	•	•	•	•	•	•	•	•	Hypermarket furniture
Switzerland	•	•	•					•	Hypermarket
UK		•	•	•	•	•	•	•	Supermarket DIY Some without anchors

Source: Healey and Baker

The future of the retail park looks very secure. In the United Kingdom, B&Q is planning to open 25 new warehouse stores in 2001. JJB Sports announced their plans in 2001 to expand the chain of superstores from 214 to 500 over the next five years. Similarly, MFI are planning 60 new outlets over the next three years and Matalan plan to grow from 123 to 240 outlets over the next eight years. With such growth, the retail park has become more sophisticated in recent years. Guy (2000) talks about the transition from 'crinkly sheds to fashion parks', which are extremely attractive to investors. Rental growth is very buoyant in most European countries and reached record levels in the United Kingdom in 1996. For example, between 1990 and 1995, UK high street prime rentals fell by 9% on average, whereas retail warehouse rents grew by 34%. The reason for this growth is that demand is high, whereas supply is limited. Demand is high because as Table 3.4 suggests, there is a new wave of products that are moving out of town: pet stores, computer outlets, toys and so on. In addition, newer retail warehouses require less floorspace (10 000 to 15 000 sq.ft as opposed to 25 000 to 40 000 sq.ft). This has led to subdivision of original premises in many older retail parks and allowed the new demand to be satisfied, thereby increasing rents. Lawson (1996) predicts a new wave of redevelopments mainly consisting of subdivisions into many smaller retail warehouses. The most promising sites for the future in the United Kingdom are those that have 'open A1 consent'. These are parks that are not restricted to particular goods only. They are generally parks developed before the publication of the revised PPG6 legislation and now enjoy three to four times the level of rents typical of restricted retail parks. The new legislation will not generally allow 'open A1 consent'. Thus, as Guy (1998a) notes, 'Occupiers seeking to expand into new geographical areas may as a result have their last chance for several years to find the spacious and accessible premises they require (p.10).'

What about prospects in other European countries? Healy and Baker (1998) note that in Italy, the concept of the retail park is barely established and investment activity is limited. This is also true in Spain and Portugal, although both countries have witnessed new interest in retail warehouse development. The best growth prospects would seem to be in central and eastern Europe, especially Poland, Hungary, the Czech republic and Turkey. These areas are forecast to be major growth areas for the sale of white electrical and DIY goods. Already, firms such as Praktiker, Castorama and Obi have gained footholds in these markets. Praktiker are also opening new retail warehouses in Greece and Turkey.

In an interesting new trend in the United States, a small number of very large retail warehouse operations are clustering together to form so-called *power centres* (Bodkin and Lord 1997, Hahn 2000, Jones and Doucat 2000). Interestingly, research suggests these are not strongly integrated centres in the traditional sense. According to Bodkin and Lord (1997), there is little cross shopping at these centres and, hence, they are best described only as a 'loosely connected' group of stores.

3.7 New Retail Locations

There is a growing interest in the retail geography literature on new retail spaces or locations. The first new space of interest has been centres of communication and transport, especially airports and railway stations. Freathy and O'Connell (1998) describe the growth in airport retailing and how this area might develop in the future. Interestingly, Connex, the UK transport company, announced a 15 million pound package to introduce convenience stores in major railway stations in the South of England in 2001.

Another major new development has been the factory shop. Indeed, Norris (1999) states that since the 1980s, factory outlet shopping has been the most dynamic growth sector in the European property market. Figure 3.14 shows the rapid growth across Europe since 1990. Factory outlets are generally discount superstores selling a wide range of non-food goods. As the name suggests, most are manufacturer outlets. This helps manufacturers sell direct to the public, normally through the sale of surplus or out-of-date merchandize. Locations for factory outlets are usually chosen so as not to compete with 'up-market' or major high street locations–hence the location of such outlets in places such as Hornsea and Street in the United Kingdom. Despite the new stricter planning regime, many analysts believe they will still grow substantially across Europe in the future. Figure 3.15 shows the variations in existing and planned developments of factory outlets across Europe in 2000. A new company called Festival Parks Europe is being set up to build and operate 10 large factory shopping and entertainment centres across Europe. The first was opened in Majorca in 2000.

As Crewe (2000) points out, more recently, a range of unconventional spaces and practices have been recast as legitimate areas of study in retail geography. Of particular interest here has been her own work with Gregson (Crewe and Gregson 1998, Gregson and Crewe 1997) on the car boot sale. Crewe and Gregson (1998) explain that the car boot sale (with its haggling, fun, and unpredictability) provides a 'compelling alternative to the uniformity and predictability of the mall' (p.50). Such spaces are important as they bring a sense of 'quasi-fun and quasi-leisure', and hence support the belief that for many consumers shopping can be social and recreational rather than simply economic and passive. In many ways, therefore, such new spaces resonate more with the excitement and unpredictability of traditional markets and fairs than they do with modern superstores and malls. There is an interesting geography to explore here–do the locations of these matter in a large urban area? In other words, which type of consumer may be most attracted to these sales and where are they located?

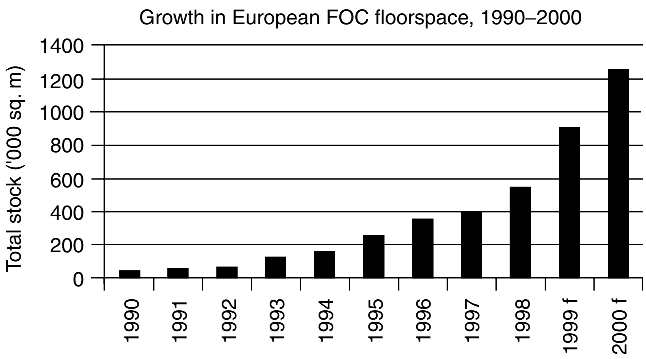

Figure 3.14 Growth in European Factory Outlet Centres (FOC) floorspace. Source: DTZ Debenham Thorpe (1999) Research Department

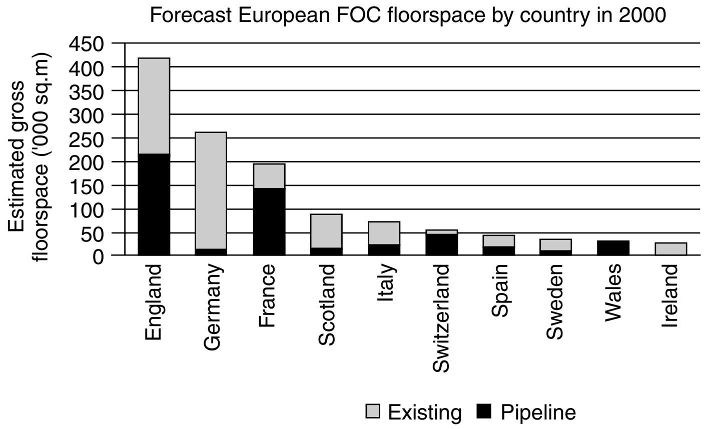

Figure 3.15 Forecasts of European FOC floorspace. Source: DTZ Debenham Thorpe (1999) Research Department

Interest in car boot sales has also led to other research on the second hand market. The importance of this sector is often underplayed in retail analysis. More recent work on the role of markets, charity shops and newspaper advertisements remind us that for many residents of low-income households the second hand market is more important than new goods and services. For example, Williams and Windebank (2000) report on a survey of 200 deprived households on an estate in Southampton, United Kingdom. For comparison-shopping, they noted that only 46.5% of the sample would typically buy consumer goods from traditional shops (a figure that ranges from 62.5% for the most affluent within the group, to only 37.7% for the lowest income earners on the estate). For many households, obtaining goods from friends and relatives, markets and from answering advertisements in shops or newspapers was more important.

3.8 New Retail Formats and Distribution Channels

3.8.1 Introduction

In addition to new retail spaces, there are many examples of new retail formats or distribution channels. Indeed, it is increasingly argued that the task of network management is now shifting towards one of *channel* management as new forms of product and service delivery, such as telephone and Internet, emerge as both competing and complementary methods of connecting customers to suppliers. For example, financial services are now available through branches (and sometimes agencies), supermarkets, ATMs, kiosks (automated branches), the telephone and the Internet. In this section, we wish to explore some of the changes that are taking place within the retail market place and the threats they pose to the traditional branch distribution network. For each of these major trends we argue here, and in later chapters, that geographical analysis will remain crucially important in addressing these new distribution issues. The argument is that retailers need to develop flexible, local strategies for channel management based on a coherent unit of both customers and outlets (see Chapters 6 to 9).

3.8.2 Compact and convenient stores

Retailers are very resilient to change and difficulties. One of the major changes we have witnessed in the grocery market in recent years is the appearance of smaller supermarkets back on the high streets. This is partly in response to the new planning legislation that prevents out of town developments (see Sections 2.3.1, 2.4 and 3.3). In the United Kingdom, both Tesco and Sainsbury's have developed new formats. New store development continues in smaller or medium sized towns for a new range of 'Compact' and 'Metro' stores. By the end of 1996 to 1997, Tesco had opened more than 50 Compact stores (16 000 to 26 000 sq.ft) in towns that had previously been considered too small for a superstore. In Wales, for example, targets include towns such as Aberystwyth, Bangor, Cardigan and Milford Haven. In England, recent stores have been opened in Ashford, Faversham, Penzance and March. The Metro stores are even smaller developments associated with the traditional high street of many larger town and city centres. These are typically below 16 000 sq.ft. Recent examples include Manchester, Belfast, Richmond and Dundee. These Compact and Metro stores are not only inexpensive to build but also bring similar operating margins to the superstores. Thus, the return on investment of these formats is much greater (see the more detailed discussion in Guy 1995, Wrigley 1998).

Tesco have also targetted the growing convenience retail sector at petrol stations. As we discuss elsewhere, the convenience sector is now one of the fastest growing in Europe. Tesco's 'Express' format is based around convenience stores at the petrol forecourt. Latest openings in the United Kingdom include Leicester and Birmingham. They announced plans in 1998 to set up a nationwide chain of more than 100 Express stores in petrol station locations. Also, at the end of 1998, they announced a joint scheme with Esso to open Tesco Express convenience stores at Esso petrol station locations.

C-Store formats (under the brand names Tesco Metro, Tesco Express and Sainsburys Local), cater to a diverse customer base in local markets including pensioners, students, housewives and young professional workers who have a requirement to top up and, in some cases, even replace their weekly supermarket shop through a new channel. The first Sainsburys Local opened in Fulham in 1998. The store was small, only 3000 sq.ft, and thus offered only 2000 basic lines from the company's usual 23 000 products. The main emphases of the store are fresh produce and longer opening hours (6 a.m. to midnight).

It is useful to draw attention to the (re)emergence of the convenience store (C-store) format across Europe. The C-store concept has largely been drawn from the United States, where there exists a huge network of small stores selling products that are usually consumed within a relatively short period post purchase. In Europe, the C-store market is developing rapidly, usually through a franchise format (such as Spar, Alldays, etc.) whereby the C-store franchise operator has access to the buying power of the larger group. In the United Kingdom, Budgens announced in 2001 that it planned to open 20 to 25 new C-stores over the next few years, whilst the small C-store Jacksons announced plans to double the number of its stores in the United Kingdom by 2005 (mostly in the north of England).

Similarly, the new entrants to the UK grocery market in the early 1990s, such as Aldi and Netto, not only targeted the neglected deep discount sector but also targeted geographical locations in Britain's poorest urban suburbs (see Section 3.4). There are now other good examples of 'niche spatial marketing'. In Germany, the restrictions in building larger stores has led to the proliferation of a new wave of smaller, specialist shops. These are new self-service stores, specializing in a range of goods that previously could be obtained in discount markets and department stores (Vielberth 1995).

Table 3.5 summarizes the range of contemporary formats for Sainsbury's. The consumer is now served in many different ways by the leading grocery retailers; and, of course, it is not only the United Kingdom that now enjoys so many different formats. As Dawson (2000) notes, other European retailers are following this multi-format model of brand extension, such as GB, Casino, and Ahold.

3.8.3 Call centres

The main development in telephony as a distribution channel has been the creation of 'call centres', which link state-of-the art telecom technology with sophisticated customer relationship management systems. Caller information can quickly be accessed by the operator from the database and their account details and transaction behaviour received. The telephone offers two potential advantages: first, the ability to order *services* to be undertaken without the need to visit a branch. The financial service market has been quick to tap into this potential. First Direct, a subsidiary of Midland Bank, pioneered telephone banking in the late 1980s in the United Kingdom and others followed rapidly. Direct Line, which started life as a provider of motor insurance via the telephone developed a savings

Table 3.5 Sainsbury's store formats

Format	Sales Area Sq.ft. (approx)	Offer	Location
Local (pilot stores)	3000	Serving local communities: top up/grab and go	Towns, villages or railway stations
Central (pilot)	8–12 000	Catering for city centre shoppers' differing needs throughout the day	Major cities throughout the UK
Country Town	10–20 000	Small supermarket format–serving needs of weekly shoppers in small towns	Typically market towns throughout the UK
Supermarkets	15–30 000	Offering a wide range of products expected in a modern supermarket	Where possible, in line with planning policy
Superstore	30–65 000	Full 'superstore' offer demanded by today's customers	Where possible, in line with planning policy
Savacentre	65 000 and above	Complete superstore offer, plus hypermarket offers catering for the demands of today's shopper	Where possible, in line with planning policy

product in late 1995. In the first seven months of 1996, it generated £200 million of deposits, with a predicted growth of £600 million per annum (Reece 1996). Second, the telephone is increasingly used to order *goods* directly, especially price-conscious products such as car insurance. It seems clear that the inducement to shop by telephone comes from inexpensive products and better deals:

> Consumers who continue to use bank and building society branches to look after their financial affairs are losing out on cheaper loans and higher savings rates offered exclusively to the telephone based customers of the same financial organizations (Reece 1996).

There is an interesting geography to the location of call centres. Increasingly, these are located in areas of inexpensive labour rather than close to headquarters. India has emerged as a major call centre location, as has Scotland for many UK companies.

3.8.4 TV shopping channels and mail order

The growth of satellite and cable TV in Europe has allowed the introduction of US style shopping channels such as QVC and TV Shop. These channels specialize in lifestyle type products, such as kitchen utensils, fitness equipment, jewellery and so on. Owing to the low programme production and transmission costs they can devote several minutes air time to each individual product. Mail order is also a growing business expanding beyond the traditional 'multipurpose' catalogue into niche catalogues targeted at specific consumer groups. These have been dubbed 'specialogues' and include catalogues such as Kingshill, Mini Boden and Racing green. As Crewe (2000) argues, such niche catalogues have gone a long way in revamping the tired image of conventional mail order catalogues. Recent developments in digital printing will lead to unique catalogues being produced for separate households and individuals–true one-to-one marketing.

3.8.5 Automated branches

One of the major drivers of change in retail banking is the emergence of new channels for products and service delivery. Perhaps best known among these new channels is the automated teller machine (ATM) that has emerged as the most popular method for dispensing cash to consumers over the last 20 years. Figure 3.16 shows the growth of ATM usage worldwide, and Figure 3.17 shows the level of ATM provision growth and usage in Europe.

The automated retail branch is a growing retail phenomenon. Argos has created small order-only 'kiosk' stores in market towns. These kiosks hold no stock, but simply a catalogue to order from stores in nearby larger towns and cities, and have limited storage space where orders are delivered. Similarly, Nationwide Building Society is examining a new automated branch in areas too small for a traditional manned branch. Aylesbury has been chosen for the trial automated branch, which has voice and video links to head office, an ATM and a 'multimedia computer kiosk' (see Field 1997, p.150).

3.8.6 Multi-franchise outlets

Another major change in distribution is likely to emerge from retail outlets that currently enjoy a monopoly in terms of the goods they sell. This is the case with most banks, building

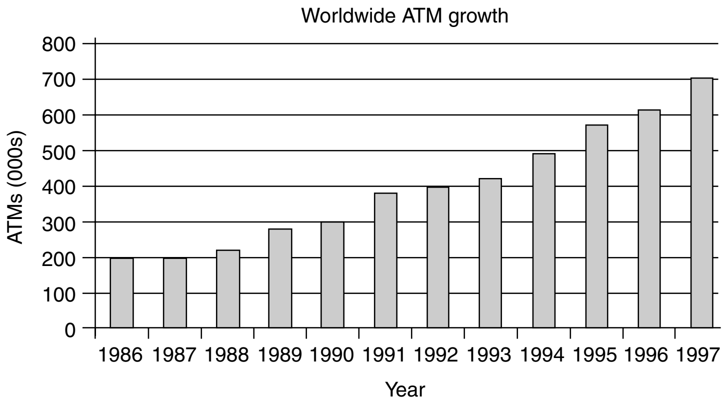

Figure 3.16 Worldwide ATM growth

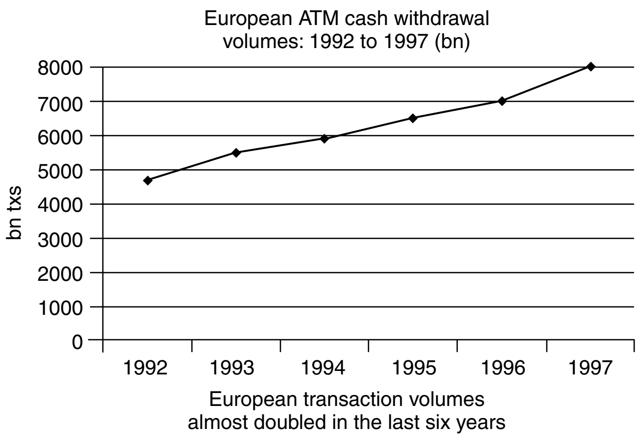

Figure 3.17 European ATM cash withdrawals

societies and motor vehicle dealers. The latter provides a good example of the change we might expect in the future. Presently, individual dealers, in the main, are only allowed by their manufacturers to retail a single brand. From a consumer perspective this means that brand comparison (for example between a Ford Focus and Vauxhall Astra) requires visiting two or more retail locations. In most of the retail sectors brand comparison takes place within the retail outlet. For the last 30 or more years, the automotive sector has been exempted from the Treaty of Rome that requires and allows retailers to offer multiple brand propositions to their customers. This so-called block exemption has been strongly protected by the manufacturers who argue that specialist dealers who are selling complex products with significant safety components require specialist and brand exclusive service repair facilities. The European Commission has, until recently, generally supported the manufacturers' position, but the review of block exemption in 2002 will no longer allow the manufacturers to insist that their dealers restrict their brand representation to a sole manufacturer's brand. It is likely therefore that we shall witness the development of a variety of multi-franchise retail formats, whereby consumers can compare different manufacturers' products in the same way they can currently compare washing machines, TVs and personal computers. Also likely is the emergence of department store type retail outlets that sell a variety of brands and the unbundling of a range of services currently offered by the traditional dealer (servicing, parts, body shop).

3.8.7 The home and office: E-commerce

However, the biggest challenge to the current retail market place is likely to come from e-commerce. Essentially, this involves some form of communication and/or transaction between customer and supplier through a computer terminal. One of the fastest growing mediums is the Internet. The German company Otto Versand, the world's biggest home shopping company, launched what it claimed to be the largest Internet shopping mall in Germany in 1997. It began with 13 companies, retailing 1.4 m articles for sale. Reynolds (1998) presents a useful discussion of the opportunities for e-commerce across Europe. He notes that despite overall impressive growth figures, the penetration of Internet use remains a 'patchwork quilt' affair (see Figure 3.18):

Strong growth comes from smaller European markets (most recently Norway and Belgium) as well as from the two largest markets, the United Kingdom and Germany. There is also some evidence of catching up from southern European countries (particularly Spain and Portugal). Yet, growth in France still remains disappointing, partly because of the dominance of Mintel (Reynolds 1998, p.5).

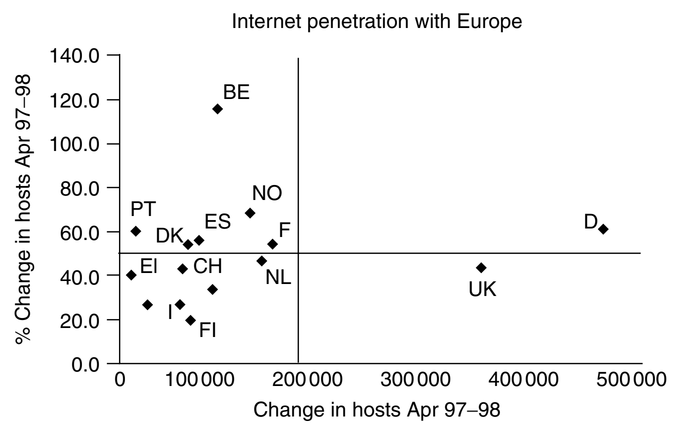

Figure 3.18 Internet penetration within Europe. Source: RIPE NCC

Another form of diversification that supermarkets are increasingly adopting is a provision of a direct home delivery service. Iceland was the first UK organization to offer a nationwide service. Tesco soon followed suit by announcing their home delivery service, through which customers can order primarily through the Internet, select foods from their entire supermarket range, and pay only a £5 premium for their basket of goods to be delivered to their home address at a time that is convenient to them. A slightly different approach is being adopted by Asda in the United Kingdom, where they are targeting home delivery services through a mixture of telephone and internet access in areas where they have little or no supermarket presence (for example, South London). The motor industry is also exploring e-commerce in a big way. Buying a car from a conventional dealership is often cited as more fearful than going to the dentist! Dealers, almost invariably, only sell one manufacturer's brand (though see discussion in the previous section) and shopping around therefore requires a consumer to visit several dealerships in different locations. Once inside a dealer's premises, an aggressive sales person, whose remuneration package is very much geared to the level of sales, often confronts the consumer. The tradition of haggling over the price of a new car and debating about the value of the trade-in often leaves a customer confused and irritated. It would therefore seem that an approach based on selling cars on the Internet would prove very attractive for a range of consumers. First, in the United States, but more recently in Europe, Autobytel has become the Amazon.com (the large book retailer) of the car-retailing world. Autobytel is essentially a new car brokerage service that allows dealers to bid for a customer. Autobytel signs up dealers who pay a monthly membership fee. A customer requests a quote on a certain brand and model line (e.g. Ford Focus 1.6, five-door hatchback) and this referral is then passed onto the appropriate dealers in the network. They then quote a price for the vehicle and Autobytel responds to the inquiry by passing on the lowest price quotation. The customer then makes contact with the dealer in the normal way. Autobytel can also arrange an appropriate finance package, insurance, and extended warranty for the customer.

In the United States, Autobytel has about 2700 car dealers associated with its network. It has recently launched similar services in the United Kingdom and Sweden. According to the market research company JD Power Associates, Autobytel currently leads, in terms of new car sales, with about twice the volume of its closest two competitors combined. It also ranks top in terms of dealer satisfaction and boasts the highest deal-closing ratio.

However, Autobytel is not offering a true e-commerce solution, but is effectively acting as a broker, introducing potential customers to a dealer who is prepared to make the best price offer to them. As such, it does not yet threaten the traditional dealer structure. Manufacturers enter into dealer agreements with their retailers, which prevent the manufacturer from supplying customers directly. The only company in Europe that sells directly through the ownership of its own retail network is Daewoo. Although the Internet is an ideal format for researching information about new vehicles and their price and specification, for most customers, the complexity of the transaction involving a trade of a used vehicle and the putting together of an appropriate financial package suggests that the Internet will remain a popular channel for information, but a niche channel for actual purchase. In the United States, it is estimated that only 2% of new car purchases are actually transacted on-line.

Given the hype over the future of the Internet and e-commerce, we explore this new distribution channel in more detail in Chapter 5.

3.9 The Old versus The New

It is our assertion that existing retail channels are likely to sit alongside the newly emerging ones rather than be taken over by them. However, retailers must learn to live with them both and adapt to take advantage of all types of format. In this section, we draw on our own pilot GMAP Channel Usage Index. This reveals not only very interesting up-to-date facts and detailed information about customer usage of distribution channels but also has far reaching implications for retail companies. The example we will use here draws on operations in the United Kingdom Financial Services Market. The study enumerates a number of key changes in customer behaviour in their use of different distribution channels and points out that companies operating in this area have not responded well to meeting those needs in the most effective way, both from the customer's and their own point of view.

The main highlights from a strategic viewpoint are:

1. Customers are becoming major multichannel users and unless steps are taken to prevent this, all the signs point to increasing channel usage by nearly all customer types. Without more radical action from companies in the financial services area customers will continue to use a wide variety of channels offered to them, and continue to drive up the total distribution bill for each company.
2. Far from disappearing, the branch role is still extremely strong. Many customers continue to view the branch as playing a critical role for them in delivery of financial services. The majority of customers are still fairly regular users of branches, with few indicating any significant change in this behaviour.
3. Branches are used by far too many low value/high transaction customers. On the whole, most banks have not been successful in wooing these customers to lower cost alternative channels.
4. In overall terms, banks demonstrate poor performance in attracting customers to use low-cost alternative channels to the branch. Fewer than 1 in 10 customers use alternative channels in the branch regularly and those that use them do so for collecting information rather than buying.
5. Use of the Internet is still very limited and is seen by most customers, at present, as an addition to branch usage rather than as a replacement for it.
6. Bank performance in converting branches to sales channels vary considerably. Some banks have been very successful in creating a high level of sales meetings, but others have branch networks that are heavily transaction orientated.
7. Many of the new channels, which banks have developed in the last few years, are simply not being used by customers–7 of the 15 channels reviewed in the survey have not been used by more than 1 in 10 respondents in the last three months.
8. Not only are a very limited number of customers accessing the Internet channel, but they are largely using it for collecting information and comparing prices rather than purchasing financial services products.
9. Although customer usage of new channels is limited, the take-up by different types of customer varies considerably. Substantial scope exists, however, for banks to target more specific customer groups by promoting the use of new channels; for example, the older age groups for internet delivery.

10. There are also considerable geographical differences in channel usage. This indicates that banks are not currently managing their distribution channel mix to meet the needs of their customers in the most cost-effective way. Perhaps, not surprisingly, Internet take-up is much higher in the southeast and London than elsewhere in the country (see Chapter 5).

The results of this survey indicate a strong need for more radical action to be taken by financial service companies in the distribution strategy area. There are five key areas that require more focus and attention:

1. Education and training of customers to use different channels.
2. Migration tactics and strategy for moving customers to lower cost channels.
3. Optimal distribution mix for each geographical market.
4. Focus on market segments and geographical markets requiring most attention.
5. Innovative and more radical solutions –Alliances/Partnerships, Branch Sharing, Franchising.

Let us look briefly in a little more detail at what might be done in each area:

1. Education and Training: Many customers are not utilizing new channels, simply because they are not knowledgeable about the way new channels operate and how they can access them. Banks need to invest more in demonstrating to key customer groups how to use a new channel and what the advantage of doing so are. Simply providing a new channel and expecting customers to use it will not work.

2. Migration Tactics: UK Banks and Financial Service Companies have been slow to use some of the pricing tactics successfully utilized by US and Australian banks to divert customers to lower cost channels. The use of pricing alone is probably not sufficient, but a more aggressive approach on utilizing a variety of different tactics is required to bring about a significant change in customer behaviour on channel usage.

3. Optimal Distribution Mix: Many banks have the same type of mix of channel for each geographical market they operate in. Some of the more advanced banks use geodemographic models and other leading edge decision support tools, to help them build a different mix of channels for each geographical market they operate in. GMAP has already successfully developed the CMA (Customer Market Area) concept that helps banks address this particular issue. By matching the distribution mix to a particular market's individual customer needs, distribution costs can be better controlled and customer needs more readily satisfied. What is clear is that banks cannot continue to provide the same number and type of outlets in all the different markets they operate in.

4. Market Segmentation: There are considerable differences in customer channel behaviour between different customer types. Financial Services Companies will, in future, need to tailor their channel strategies to more specific groups. We are already seeing examples of physical branch outlets aimed at specific groups. In future, we are likely to see different pricing and promotional strategies for each market segment. This could also vary by geography as well as by product or social type.

5. Innovation: The need to drive down cost in the distribution area, but at the same time provide increasing customer convenience, is causing some banks to consider more dramatic action in the distribution area. We have already seen a number of examples of

Branch Sharing in different parts of the world and these are likely to increase further. Other areas being developed and explored include strategic alliances and partnerships with other types of retailers, franchising, automated branches, outsourcing, and more radical branch closure programmes. Although not all these strategies will suit every individual bank, we are likely to witness increasingly innovative and radical approaches to solving the key distribution dilemma, that is, how to provide customers with increasing convenience and access, but control and reduce costs at the same time.

3.10 Conclusion

In this chapter, we have looked at the future of traditional retail destinations and explored a number of new distribution channels likely to be more important in the future. It is clear that many traditional retail destinations will continue to be major retail growth locations, perhaps, with the exception of the superstore in many western European countries. Slowly, but surely, however, the new distribution channels will increase in importance until they eventually find some kind of natural equilibrium, when sales and market share will stabilize. Our argument is that retailers will need to be able to manage all these destinations and channels in the future. In geographical terms, this presents quite a challenge as retailers seek to find the right channel to serve the right location and the customers within them. Any competitive edge that a retailer can obtain in such an environment may prove to be precious. The pursuit of an optimal, intelligent location strategy has the potential to provide such an edge. Chapters 6 to 10 will aim to show the range of techniques currently on offer and how they can be effectively used in practice.