

RESEARCH REPORT 2001-2002

Executive Summary

The empirical research in this report reveals that government retail planning policies are restrictive to the point of being out of touch with consumers, out of touch with retailers and out of touch with the property industry.

Current policy restricts the development of out-of-town superstores.¹ Few town centre and edge-of-centre sites are large enough to accommodate the bigger retail formats. But research shows consumers like superstores and retailers gain economies of scale from them. Despite this, councils are interpreting the planning policies rigidly and unrealistically, leading to a *de facto* ban on out-of-town.

The embargo strengthens local monopolies and is anti-competitive in its effects. It has contributed to the consolidation of retailer sectors, entrenches the dominance of well-established retailers with a portfolio of large stores, blocks the national expansion of regional operators and prevents new entrants coming into the UK market. This anti-competitive policy deprives the shopper of consumer choice, but the ultimate loser is the economy as a whole.

This report also highlights an unresolved conflict at the heart of government. The environment secretary seeks to restrict superstore development while other departments want to promote retail competition and encourage inflation-busting price cuts and economic growth. But there is a lack of political will in the UK government to deal with this policy conflict.

Overview and policy context

- Government policy in 1972 encouraged superstores because they provide a wide range of goods at competitive prices in a convenient one-stop venue. Ministers recognised larger stores were a bid by retailers to find economies of scale.
- But since the publication of the revised retail planning policy guidance, PPG6,² in 1996 retailers have found large store development more difficult. **To make matters worse, ministers have further tightened policy over the past two years** with the 'class of goods' approach,³ while statements intended to 'clarify' policy have only confused retailers and developers.
- In the **confusion, planning** inspectors have opted for caution and rejected retail applications that are in line with the 1996 policy. Councils have gone further and

¹ For the sake of simplicity, large food stores and retail warehouses are both termed 'superstores' in this report. This report does not relate to Regional Shopping Centres such as Bluewater, MetroCentre and Merry Hill.

² Department of Environment (1996): *Planning Policy Guidance Note 6: Town Centres and Retail Development*.

³ This approach argues the same goods can be sold equally well from town centres, possibly from several shops, than from one large out-of-town store.

interpreted the policy as an embargo on out-of-town development. The effect has been to constrain competition.

- But these effects need to be placed in a wider policy context. While the environment secretary seeks to restrict development, the trade and industry secretary and the Competition Commission want to promote retail competition. Elsewhere, the Treasury has been able to deliver historically low inflation with the help of retail price cuts, a product of superstore competition which planning policies constrain.
- Instead of resolving the competition-planning conflict, the UK government has adopted an over-riding policy effectively banning out-of-town development partly because of its dependence on cars. The government has naively failed to distinguish between trolley shopping for which you need cars and basket shopping, where people can use public transport. Ministers have even claimed, at the time of the **dotcom** boom, that there is no convincing argument for superstores as goods sold there can just as easily be sold from smaller town centre shops. But e-commerce and home delivery have not grown as predicted and superstores have remained popular.
- The report concludes current government policies are inconsistent. But ministers lack the political will evident elsewhere in Europe, like The **Netherlands**, to resolve the contradiction between planning policy, competition policy and economic policy.
- Accessible Retail, formerly the British Council of Out-of-Town Retail, dismisses the approach of the UK government as outdated and based on unverified assumptions about shopping patterns. Town centres and superstores have entirely different functions, working in tandem to satisfy local needs. The policy ignores the advantages of superstores to consumers and retailers and unrealistically forces developers to cram schemes into town centres. The result is a shortage of suitable sites for superstore operators. This in turn stifles retail innovation and creates inflationary pressures in the retail sector in the form of higher land prices and rents.

Findings and conclusions

- Accessible Retail research found 76% of retailers surveyed believe larger formats allow economies of scale. Distribution costs on out-of-town superstores are half that of high street outlets and there are considerable savings from maintaining fewer buildings. The majority, 82% of respondents, identified **lower** rents with larger stores typically 10% to 15% cheaper per unit of floorspace than smaller ones on retail parks.
- Retailers, developers and planning consultants listed the main advantages to consumers of superstores as: **the convenience of one-stop shopping; bigger product ranges mean more choice; they were less likely to run out of stock; and bigger shops allowed retailers to offer 'retail-tainment'**. Economies of scale enable retail price cuts, but this cannot be separate **from** efficiencies obtained elsewhere in operations.

- The overwhelming majority of retailers surveyed, 94%, said policy was hindering the development of their optimal portfolio of stores. Retailers report new applications are increasingly blocked and the shortage of suitable sites is leading to greater competition for the few that are available. The result is inflationary pressure on land costs and rents. Half the retailers surveyed reported more procedural difficulties in the processing applications. Applications that used to take one year to get through the system are now taking three at an average cost of £200,000 an application. Developers reported similar difficulties.
- The problem is particularly acute for companies in the early or middle stages of growth. Tougher planning restrictions introduced in the past two years are preventing them from expanding out of the regions while entrenching the market dominance of well-established retailers who already have large stores in their portfolios.
- The call by ministers for retailers to compromise and use smaller town centre stores was dismissed as impractical. Only 29% of retailers surveyed said they had developed in a few cases in less-than-ideal locations. The overwhelming consensus was that retailers are limited in how far they can compromise on size and location. Given the investment required and the pressures to show a satisfactory return from individual stores, they are unwilling to risk development in locations that do not meet strict criteria. Selling the same goods from a number of smaller separate town centre stores is also seen as impractical in terms of operational costs and consumer expectations.
- The research supported the evidence from the Competition Commission of local monopolies among food retailers. We also encountered reports of similar monopolies in other sectors. But respondents were most concerned about the national effect of numerous local monopolies. Regional retailers are finding it difficult to expand nationally and overseas retailers are struggling to enter the UK market.
- Accessible Retail concludes the consequences of planning restrictions are undermining other government policies intended to promote retail competition and avoid monopoly situations, which can lead to less choice for consumers and higher prices.
- Environmental policy aims appear undermined by the pressure on retailers to build smaller stores encouraging more shopping trips and longer trips to existing large stores outside the catchment where a full customer offer is provided and generating more distribution trips.
- Nearly all the respondents called for a more balanced approach to planning policy. They and Accessible Retail recognised the need to maintain the vitality and viability of town centres, but the research did not support the idea that restricting the supply of superstores would force more development back into smaller store equivalents in town centres.

- The report concludes some of the constraints on superstore and retail park development must be lifted if partial sclerosis of the retail system is to be avoided and economic efficiency and productivity is to be improved.

Recommendations

- Government must clarify planning policy and simplify the planning system. The confusion over tests under PPG6 must be cleared up and delays in processing applications must be cut. Developers and retailers need a clearer picture of the likely outcome before they will commit substantial sums to proposed developments.
- Retailers and developers must look more closely at edge-of-centre sites, which might have more potential than previously believed. They also need to stress the sustainability, the regeneration and the employment benefits their proposed scheme can bring to the area.
- There needs to be more research into the assumptions that underlie current government policy, providing a better understanding of the benefit, function and symbiotic nature of various forms of retailing. These assumptions include choice of travel, consumers' requirements for different shopping trips and on the suitability and availability of town centre sites for retail development.

Research

- The research sought responses from retailers, developers and planning consultants on the advantages of superstores and whether efficiency gains were to be made from them. The survey looked at whether planning policies were restricting development of superstores and if developers and retailers were willing to compromise on size and location. Finally, we sought views on whether the restrictions had led to monopolies.
- The research involved inter-related data collection from secondary and primary sources. Academic literature on economies of scale in retailing provided a starting point for the research while an exploratory series of interviews with a representative retailer, developer and planning consultant allowed us to clarify the issues raised.
- The ensuing empirical work consisted of surveys of retailers, developers and consultants, supplemented by in-depth personal and telephone interviews. Reports from relevant recent planning inquiries were also examined.
- Our three surveys had response rates of between 43% and 53%, which compares well with the typical rate of 30% for business surveys of this type. The retailers represented all the major sectors found in retail parks or freestanding off-centre locations, many of the national operators as well as more specialist ones and single and multiple format operators. The developers surveyed included specialists in retail parks and superstores and those involved in both town centre and off-centre locations.

- A central feature of the research design has been to address each question through a combination of different sources rather than being reliant on any one. This ensures the validity of the findings.

Chapter 1: Overview

1. Introduction

Accessible Retail commissioned the research outlined in this report from Prof Cliff Guy at Cardiff University and David Bennison at Manchester Metropolitan University in January 2001. Accessible Retail represents the interests of retailers, developers and investors, property agents and planning consultants involved in out-of-centre retail development particularly of large food stores and retail warehouses rather than enclosed shopping malls.

For the sake of simplicity, large food stores and retail warehouses are both termed 'superstores' in this report. These are designed for customers to buy household items in a functional environment, at a convenient location and at low prices. This makes superstores complementary to town centres and shopping malls where the focus is on shopping as a leisure activity.

1.1 The Policy Debate

The aim of the research was to inform the debate on retail policy by exploring the economic and other advantages of superstore development, particularly to the consumer. The survey was also intended to assess the impact of current policy on where retailers choose to locate their stores and on retail competition.

The economic advantages of superstore development was recognised by planning policy as early as 1972:

"Changes in retailing methods and shopping behaviour are leading to great changes in the character and needs of shops and shopping centres. There is a trend towards larger shopping units in order to achieve increased efficiency in terms of turnover per square foot of floor space, thus enabling the economies of scale and of more efficient operation to be passed on to the consumer in the form of better value for money. For efficient operation, such shops must have a large floor area, ready access for trade vehicles, which are often very large and spacious car parks close at hand for car borne shoppers".⁴

⁴ Department of the Environment and the Welsh Office (1972): *Development Control Policy Note 13: Out-of-Town Shops and Shopping Centres*. Para 2

Current policy is the opposite. Superstore retailers and property companies have found development increasingly difficult over the past five years since the publication in 1996 of planning policy guidance on retail, known as PPG6.⁵ Since then, policy has been tightened in favour of town and district centres. Over the past two years ministers have used parliamentary statements to further restrict development. In response, planning inspectors have rejected applications that are in line with the 1996 version of PPG6.

But while environment ministers have tightened development policy, other parts of government have sought policies to encourage retail competition. Retailers argue their price cuts have contributed to the historically low rates of inflation of recent years. Press claims of monopoly abuses by supermarkets prompted the government to ask the Competition Commission to investigate the sector. Their report, published in 2000,⁶ found largely in favour of current practices of store development and operation in the food sector. But the Commission was not authorised to look at non-food retailers.

Accessible Retail-commissioned research examines the Commission report and seeks to fill in the gaps by looking at non-food retailers as well as food retailers. We conclude policies promoted by different government departments are inconsistent and contradictory. PPG6 and Planning Policy Guidance 13, which deals with Transport, devalue the importance of retail competition by effectively banning certain types of development. Elsewhere the Department of Trade & Industry and the Treasury are seeking to prevent monopoly abuses and promote competition in the UK in a low inflation environment.

Previous policy accepted superstores as a legitimate and valued form of development. Building in out-of-centre locations was viewed as acceptable provided the new scheme did not negatively affect existing town centres. But now retailers and developers are forced to comply with the over-riding policy favouring town centre development. To make matters worse, in 1999 ministers toughened their stance when they claimed there was no convincing argument to build superstores *per se* as goods sold there could be sold equally well from groups of smaller town centre stores. Accessible Retail believes this approach is based on outdated, unverified assumptions about shopping behaviour. It fails to recognise the range of goods and services now available or the changes in lifestyles. Shoppers now use a 'repertoire' of store types and locations depending on need and circumstance. This makes superstores a key element of choice available. A more holistic view of shopping provision than contained in current policy is needed.

The experience of Accessible Retail members provides strong support for a more holistic approach. We believe superstores provide a wide range of goods at competitive prices within a convenient one-stop venue with easy access and parking for the car-borne consumer. These advantages frequently require an out-of-centre location if they are to be delivered. But current planning policy ignores these benefits and unrealistically forces developers to focus resources in town centres. This approach has led to a shortage of

⁵ Department of Environment (1996): *Planning Policy Guidance Note 6: Town Centres and Retail Development*

⁶ Competition Commission (2000): *Supermarkets*

suitable property for superstore traders, will stifle retail innovation and could create cost disadvantages and inefficiencies for operators.

This report was commissioned by Accessible Retail to contribute to a more informed debate on these issues. It seeks to address five basic questions:

- a) Are there cost or efficiency gains to retailers from developing superstore formats?
- b) Are there advantages to consumers from superstore formats, in the form of increased product range and lower prices?
- c) Are retail planning policies seriously restricting the development of superstore formats, both free-standing and in retail parks?
- d) Are superstore developers able to compromise with government retail planning policy, through developing town centre, district centre or edge-of-centre stores? Do these compromises lead to additional costs and possible loss of competitiveness?
- e) Have restrictions on superstore development led to local monopolies for earlier entrants?

To address these questions, we adopted the research strategy and techniques described in the next section. Chapter 2 of the report puts the research in a wider context. It focuses on government concerns about competition and monopoly issues in the retail sector, and looks at the way in which retail planning policy has recently changed. Chapter 3 goes on to discuss the results of our research, organised around the five questions above. Finally Chapter 4 summarises our findings and draws conclusions about the overall effect of planning policy on retailers, developers and consumers.

1.2 Methodology

The first stage of the research involved a preliminary examination of relevant literature, discussions with Accessible Retail representatives and a set of three face-to-face interviews with a major retailer, a retail developer and a leading planning consultant. This enabled us to design an effective research programme within the constraints of time and resources.

The fundamental principle of the research design was that each of the major questions be addressed through a combination of different data sources. Triangulation of secondary and primary sources (Figure 1.1) allows as complete a picture as possible of the issues to be drawn up. It also strengthens the validity of the findings and the conclusions drawn.

Secondary Sources

- (a) Literature, including the Competition Commission Report⁷, dealing with economies of scale, competition and monopolies in the retail sector provided the academic and policy contexts.

⁷ Competition Commission (2000): *Supermarkets* Vol 2

- (b) Company and Market Reports provided data on consumer profiles, behaviour and attitudes as well as information about individual companies.
- (c) Recent decision letters and published summaries from planning inquiries were examined to determine how policy was working in practice.

Figure 1.1. Relationship between research questions and data sources

	<i>Secondary Sources</i>			<i>Primary Sources</i>		
	Literature	Market and Company reports	Planning inquiry reports	Retailer Survey / Interviews	Developer Survey / Interviews	Consultant Survey / Interviews
Q1 Cost or efficiency gains to retailers from superstores?	X	X		X	X	
Q2 Advantages to consumers from superstores?	X	X		X		
Q3 Planning policies restricting development?			X	X	X	X
Q4 Compromise possible with planning policy?			X	X	X	X
Q5 Monopolies created for earlier entrants?	X			X	X	

(X indicates principal sources of data used to address questions)

Primary Data

Three major questionnaires (Appendix 1) were sent to retailers, developers and planning consultants. They comprised precisely worded questions to explore the advantages of large-scale retail development and more open-ended questions to allow respondents to present their own views on the constraints or opportunities afforded by the current planning regime. Some compromise was needed in designing each questionnaire to meet

the time constraints of the project and of individual surveyed. The flexibility in the surveys allowed responses to take account of variations in the terminology and units of measurement respondents use as well as their experiences of development and planning.

The questionnaires then formed the basis of face-to-face or telephone interviews with seven retailers and four developers. This enabled issues to be explored in more depth. The interviews of between 60 and 90 minutes were recorded and transcribed.

Sampling and Response Rates

(a) Retailer Survey.

The questionnaire was sent to individually named contacts within retail companies known to have edge-of-town or out-of-town stores. The list of potential respondents was compiled from a combination of the Accessible Retail membership register and personal contacts outside the Accessible Retail. Most were senior company members like property directors. They were first telephoned to find out whether they were willing to participate in the survey. Given their seniority it was difficult to establish immediate contact with many of the individuals, and their secretaries or personal assistants were the ones spoken to. Most said the questionnaire should be posted or emailed. Eventually 32 were sent out with accompanying letters. Follow-up calls and emails were made to check the questionnaires had been received, and to encourage completion and return.

The survey took place over the summer holidays and this led to delays getting hold of respondents. Seven of those sent questionnaires declined to participate because it was against company policy to do so. Another seven failed to reply to letters, emails and telephone messages. After a minimum of three attempts, they were deleted from the list. One respondent agreed to take part in a face-to-face interview, but was away from his office on the agreed day and subsequently failed to respond to either telephone messages or emails. Seventeen completed questionnaires were finally received, a 53% response rate.

Respondents to the questionnaire came from all the sectors commonly represented in out-of-centre locations: grocery (2), electrical (2), DIY (2), household/furniture (7) and others (4). Most operated exclusively from off-centre or edge-of-centre stores but three companies trade both in and outside of traditional centres. Most operate store portfolios with two or more different sizes of store. Store sizes vary considerably within individual companies. The grocery sector had the biggest range with units varying from 3,000 sq ft to over 65,000 sq ft. But in most cases, unit sizes were between 10,000 and 30,000 sq ft although three companies were developing and operating units of at least 80,000 sq ft in size. The largest formats were recent additions to store portfolios introduced and had been rolled out since 1996.

(b) Developer survey.

The list of potential developer respondents was compiled in a similar way to the retail list and similar problems were experienced with delays. Telephone contact was particularly successful and most developers contacted were willing to participate. Altogether 23 questionnaires were posted or emailed. Six were returned, three developers agreed to a face-to-face interview and one to a telephone interview. Ten questionnaires were completed, a 43% response rate.

(c) Consultants survey

A list of 51 individually named contacts with retail experience within planning consultancies was compiled using a similar method to the other two surveys. Most of the respondents were senior members of the practices involved such as Directors and Associates. As with the survey of developers, people on the list were first e-mailed to see if they would be willing to participate in the survey. Questionnaires were sent to 39 consultants who had agreed to take part, and seventeen were returned completed, a 44% response rate.

Collation and Analysis

Questionnaires were generally completed satisfactorily, although in many retailers and developers did not answer some questions. The most common omissions were for those requiring detailed statistical or financial information. In some cases, there were obvious concerns about commercial confidentiality. But many retailers also said they did not hold the data in a form suitable for the survey. Most were unwilling or unable to compile it. Retail companies are notoriously 'data rich but information poor', and research in other contexts has demonstrated the problems of acquiring, organizing and communicating information within them.⁸ The costs incurred by the major supermarket companies, reputedly millions of pounds, in providing data for the Competition Commission report is indicative of the size of the task involved.

In the survey of consultants, some respondents had difficulty answering section 2 (see Appendix 1c) as they would have preferred clearer specification of the hypothetical situation used in formulating the question. In addition, some did not provide answers to the open-ended questions in sections 3 and 4. Arguably, these required more time than the respondents had available to them.

All the data from the questionnaires was inputted into databases and this formed the core of the analysis in Chapter 3. Assurances given about the confidentiality of information supplied has meant the analysis is presented at a high level of aggregation. The relatively small sample size, the number of sectors covered and the unique characteristics of each company would otherwise make the identification of many individual companies relatively easy, particularly as most of the retailers are household names.

⁸ Hernandez, T. and Bennison, D. (2000): "The art and science of retail location decisions" in *International Journal of Retail and Distribution Management*, 28 (8), pp 357-367; also Byrom, J., Bennison, D., Hernandez, T. and Cooper, P. (2000): "The use of geographical data and information in retail locational planning" in *Journal of Targeting, Measurement and Analysis for Marketing* 9 (3), pp 219-229

The following discussion of research findings shows the qualitative information, a mixture of factual observation and opinion, turned out to be much richer and more enlightening than the quantitative. Although there was no consensus on a few issues, we found generally the views of the various parties concerned backed up a number of assertions from the literature. They also supplied substantial material for a critical review of the problems caused by current planning policies for both demand and supply sides.

Chapter 2: The Policy Context

There is an unresolved policy conflict in the UK with large store development. On the one hand, the Government encourages economic competition and opposes monopoly abuses. On the other hand, planning intervention restricts new superstore development, so distorting competition. This has resulted in a clear ministerial trade-off between competition policy and planning policy.

Chapter 2 looks at different approaches taken to this competition-planning trade-off in Ireland, the Netherlands and the UK. While two out of the three countries have seen some debate on this conflict, there has been no such public discussion in the UK. While the UK government appears to accept the economic arguments for innovation and competition, restrictive planning policies appeal more to ministers. Any inconsistency between the two policy agendas is conveniently ignored.

The report goes on to look at recent 'clarifications' to UK planning policy. We conclude the changes have damaged superstore retailing, a vital sector of the UK retail industry, which Verdict estimates takes almost one-third of all consumer retail expenditure.

2.1 Relationships between Competition Policy and Planning Policy

In this section we look at relationships between economic retail policy and retail planning policy. Recent developments in the Irish Republic and The Netherlands indicate 'joined up thinking' even though the policy outcomes have been different. In contrast, in the UK the inconsistencies and contradictions have been glossed over and the two areas of policy are becoming less connected as time goes on.

2.1.1 Irish Republic: Competition Policy and the Floorspace 'Cap'

Ireland, along with several other European countries, has recently introduced a maximum size limit or 'cap' on store developments. But at the same time policy-makers have looked at issues of retail competition and local monopolies.

The first retail planning guidance in Ireland was issued in 1982 under the General Policy Directive. It took the form of a broad policy with general guidelines for large-scale additions to existing retail capacity. But it soon became clear the guidance was inadequate. Rapid economic growth in the 1990s and increased demand for retail space made it difficult to assess proposals and prepare development plans.

The minister, in response to these problems, issued the Local Government (Planning and Development) General Policy Directive (Shopping) in June 1998. This contained legislation based on the initial policy directive but, significantly, added an embargo on planning consents for superstores, or extensions to them, in excess of 3,000 sq m.

Then in April 1999 the government published Draft Retail Planning Guidelines (RPG) outlining five primary objectives (Table 2.1). The guidance provides the context for planning decisions. RPG ensures County Councils and County Borough Corporations prepare retail policies for their administrative areas; it includes a list of issues to be considered in all future development plans (Table 2.2); and it states development plans should indicate the general scale and form of retail development required in future.

Detailed regulations for control over superstore development (Table 2.3) recognise the value to the consumer of superstores but there is no equivalent to the sequential test contained in PPG6. The 'caps' on store development was also retained and set at 3,000 sq m sales area for food stores (3,500 sq m in the Greater Dublin area) and 6,000 sq m for retail warehouses, which are also restricted to bulky goods sales.

The Irish government based their guidelines on research recommendations by Roger Tym and Partners.⁹ Another study, by Goodbody Economic Consultants,¹⁰ into the impact of the draft guidelines on retail competition concludes the guidance does not conflict with domestic or EU competition law. But a further report by Peter Bacon and Associates,¹¹ commissioned by Tesco, warns embargoes could raise retailing costs and consumer prices, reduce competition, limit choice and hinder innovation.

If 'caps' were placed on stores below 3,000 sq m, the Goodbody report warned it would severely restrict consumer choice. But the effects of existing embargoes on stores *over* 3,000 sq m would be marginal as economies of scale had already been exhausted on these outlets. The negative effect of caps could be to create an unattractive region for inward investment by potential retail developers reluctant to compete with more profitable large existing stores. Tesco, Sainsbury and Safeway, who had proposals at the time for several stores that exceeded the size restriction, subsequently had to abandon the plans.

The Bacon report said:

"Larger stores, particularly those over 30,000 sq ft (2790 sq m) are less costly and more economical to operate, and can assist with [delivering] lower prices to consumers and reduced inflationary pressures whilst also meeting the needs of a growing number of consumers."

As far as retail warehouses are concerned, Goodbody believes the embargo to be an advantage. The report points out the 6,000 sq m cap is larger than the majority of

⁹ Roger Tym and Partners (2000): *Draft Retail Planning Guidelines for Ireland*

¹⁰ Goodbody Consultants (2000) : *The Impact of the Draft Retail Planning Guidelines on the Retail Sector*

¹¹ Peter Bacon and Associates (2000): *Competitiveness of Retailing in Ireland*

warehouses currently located in Ireland. New and bigger warehouses could result in considerably increased consumer choice. They also maintain this is the most beneficial size as larger warehouses of up to 14,000 sq m can lead to local monopolies.

Table 2.1: Irish Planning Policy Objectives
<ul style="list-style-type: none"> To ensure that in future all development plans incorporate clear policies and proposals for retail development including floorspace caps.
<ul style="list-style-type: none"> To facilitate a competitive and healthy environment for the retail industry of the future. The guidelines explicitly state (paragraph 23): "In interpreting these guidelines local authorities should avoid taking actions which would adversely affect competition in the retail market."
<ul style="list-style-type: none"> To promote forms of development, which are easily accessible – particularly by public transport – in a location, which encourages multi-purpose shopping, business trips on the same journey.
<ul style="list-style-type: none"> To support the continuing role of town and district centres.
<ul style="list-style-type: none"> A presumption against large retail centres located adjacent or close to existing, new or planned national roads/motorways.
<i>(Government of Ireland - Circular PD 1/2001, pp.2)</i>

Table 2.2: Issues for Development Plans in Ireland
<ul style="list-style-type: none"> Confirmation of the retail hierarchy, the role of centres and the size of the main town centres.
<ul style="list-style-type: none"> Definition in the development plan of the boundaries of the core shopping area of town centres.
<ul style="list-style-type: none"> A broad assessment of the requirement for additional floorspace.
<ul style="list-style-type: none"> Strategic guidance on the location and scale of development.
<ul style="list-style-type: none"> Preparation of policies and action initiatives to encourage and improvement of town centres.
<ul style="list-style-type: none"> Identification of criteria for the assessment of retail developments.
<i>(Government of Ireland - Circular PD 1/2001 pp.3)</i>

Table 2.3: Policies for Superstore Development in Ireland
<ul style="list-style-type: none"> The embargoes introduced in the draft retail planning guidance are intended to reduce local monopolies and encourage competition at a local level.
<ul style="list-style-type: none"> These floorspace caps are to be introduced immediately regardless of whether they have been incorporated into an authority's local plan.
<ul style="list-style-type: none"> Planning permission should also be denied for any change of use, which would result in a retail outlet contravening the floorspace caps recommended in these guidelines.
<ul style="list-style-type: none"> Food stores: a floorspace cap of 3,500 sq m is to be applied in the Greater Dublin Area and 3,000 sq m elsewhere. The cap will apply to the total net area of convenience goods sales; hence, supermarkets must mark in their planning application drawings the area demarcated to food sales.
<ul style="list-style-type: none"> Retail warehouses are also seen as important elements of the retail hierarchy and it is acknowledged that "they do not fit easily into town centres given their size requirements and the need for good car parking facilities". The guidance suggests that it is often better to develop retail warehouses within close proximity to one another in order to minimise the number of trips taken by car.
<ul style="list-style-type: none"> The range of goods sold in retail warehouses should be limited to DIY, carpets, furniture, automotive products, and white electrical goods.
<ul style="list-style-type: none"> In order for town centres to maintain their vitality and viability, warehouses should be a minimum size of 700 sq m. The subdivision of units to accommodate units smaller than this minimum floorspace requirement is not permitted.
<ul style="list-style-type: none"> The guidelines also introduce a maximum floorspace limit of 6,000 sq m on retail warehouse developments.
<ul style="list-style-type: none"> Large-scale single retail warehouse developments should be discouraged by local authorities as these would increase the number of car journeys undertaken by consumers and also have an effect on the

aesthetic quality of the environment.

- Retail Warehouse Clubs are to be treated similarly to other retail warehouse developments.

The Goodbody report goes on to deny the floorspace cap on retail warehouses would deter potential overseas operators, as this limit is larger than the majority of their existing developments. The research found no evidence scale economies persist up to 6,000 sq m.

At about the same as the reports were published, the Irish Competition Authority was quoted as saying the embargoes were "*anti-competitive and not in the best interests of the Irish consumer*". They felt:

*"Competition would help rather than hinder the long-term development of the Irish retail trade, [furthermore], reliance on smaller stores will have consequences in creating more urban sprawl, failure to meet consumer shopping needs and will negatively impact prices charged to consumers."*¹²

The Goodbody Report recommends the guidelines advise local authorities of the need when preparing retail development policies to consider competition in local markets and how this contributes to the vitality and viability of town centres. Councils should prevent controls acting as a 'barrier to entry' serving to protect the interests of existing retailers. Planning policies are intended to maintain a vibrant local retail sector while also attracting inward investment and further retail development.

2.1.2 The Netherlands: Competition Policy and Planning Relaxation

In the Netherlands a similar debate to the Irish one took place but with different results. Until recently, central government strictly imposed planning policy and ruled out any major off-centre development apart from a few large stores in the largest urban centres.

But in a bid to open the country to international investors, the Ministry of Economic Affairs in 2000 produced a report, *More with Less*. This proposed modernising policy and relaxing controls on large store development. National planning guidance was abolished and retail planning control was devolved from central to municipal or provincial government (Tables 2.4 and 2.5).

The relaxation of centrally imposed restrictions was in response to concerns about the economic dimension of retail development. During the 1990s, the Ministry of Economic Affairs sought to encourage overseas investment in The Netherlands. Ministers argued existing retail planning policy increased commercial land prices and could have an "*adverse effect on economic growth and hamper retail dynamics*".¹³

¹² *Irish Independent* 16.11.2000

¹³ Evers, D. (2000): *Towards an Abolition of National Retail Planning in the Netherlands*, Proceedings of Manchester Conference for Contemporary Issues in Retail Marketing (p. 112)

Then in 1993 the Minister for Spatial Planning admitted restrictive planning policies did not allow for growing economies of scale. In a letter to Parliament he said the primary objectives of national retail planning were to maintain the retail function of inner cities and other existing shopping centres, as well as promote dynamism in the retail sector.¹⁴ By 1997 attention shifted onto research and several studies into the economic effects of government policy were undertaken, one of which was the report known in English as *More with Less* (Tables 2.4 and 2.5).

The changes that followed the research amounted to a major policy u-turn on out-of-town development. Until 1988 retail planning policy allowed virtually no off-centre development. Since then constraints have been relaxed on furniture and DIY retailers and eventually home furnishings.

In response to the changes, leading Dutch food retailer Ahold has proposed building up to 200 food superstores and there is speculation American-owned Wal-Mart may soon enter the market. The more relaxed regime has also allowed IKEA to introduce its formats.

Table 2.4: Government Intervention and when it should be Employed¹⁵

- The government should only intervene if a public interest exists that must be protected. The work group is of the opinion that, in the context of retail locational decisions the following public goals are relevant: open space, mobility, environment, and the liveability and quality of the city.
- If government intervention is necessary, this must be formulated in the gentlest possible way.
- If government intervention is necessary, the correct area and level of scale must be chosen. The government must intervene where it is most effective. Where possible, responsibilities must be placed with decentralised governments and societal organisations.
- The central government will only intervene when there are effects at the national level, in relation to spatial planning and mobility.
- The municipality is first and foremost responsible for its own liveability and vitality and will formulate parameters to this end regarding the spatial establishment of retail in its local plan.
- In order to prevent developments that are optimal for an individual municipality but will produce unacceptable impacts on the vitality of neighbouring municipalities, the province will play a directing role in the establishment of retail with super-local effects.

¹⁴ Evers, D. (2000): *Towards an Abolition of National Retail Planning in the Netherlands* (p.100)

¹⁵ Ministry EZ (2000): *Meer met Minder: naar een nieuw ruimtelijk beleid voor de detailhandel, Eindrapport van de MDW-Werkgroep PDV/GDV*

Table 2.5: Recommendations from 'More with Less'¹⁶

- "The right business at the right location." Establishment of companies and facilities occurs at locations where they will contribute the most to spatial quality, accessibility, economic dynamics and urban vitality
- The establishment of retail must only be accommodated within urban areas, or areas to be urbanised within the time horizon of the current spatial planning policy document. Retail development in rural hinterlands (out-of-town supermarkets) is currently not permitted and should remain so.
- The establishment of retail facilities should be concentrated. They should be developed in or next to existing retail concentrations such as city, district and other centres and where necessary the possibilities can be increased by urban regeneration. This pro-active policy is desired to improve the business climate in those concentrations so that they become more attractive to entrepreneurs and customers. It is the job of the municipalities to offer sufficient development potential to promote a dynamic retail offer.
- When it is impossible to accommodate all retail initiatives in or bordering on current retail concentrations the municipality will need to find sites elsewhere within its urbanised or to be urbanised area keeping the current retail structure in mind.

For such sites the following criteria must apply:
 - Visitor intensive retailing should be concentrated as much as possible in locations that are well connected to public transportation or are centrally located in or near (or within walking/cycling distance) from (*sic*) residential areas and/or urban centres.
 - For retail initiatives with impacts that extend beyond municipal boundaries, regional co-ordination should take place. The higher tier of government will monitor this.
 - The location policy for businesses and facilities has been developed in order to give direction to the development of economic activities which has (*sic*) now been updated with the 5th Report for Spatial Planning and the National Transport Strategy (NVVP).

2.1.3 The UK: Competition Policy and Planning Policy Drifting Apart

Competition is clearly also of significance to UK ministers. They have stressed its importance to the economy in a number of recent speeches. The Labour Government has also passed the 1998 Competition Act, which deals with agreements between firms and market dominance. This is buttressed by merger policy, governed by the Fair Trading Act 1973, and the UK is subject to EU Competition Policy and EU merger regulation under the European Treaty.

The laws seek to promote competition by prohibiting cartels and restrictive agreements, the abuse of a dominant position or by preventing horizontal mergers. The underlying

¹⁶ Ministry EZ (2000): *Meer met Minder: naar een nieuw ruimtelijk beleid voor de detailhandel, Eindrapport van de MDW-Werkgroep PDV/GDV*

reason for them is the belief better competition will benefit consumers. As the new Director General of Fair Trading John Vickers said:

*"Meeting the needs of consumers - the general public - is of course the ultimate aim of economic activity. But there is no automatic guarantee that all economic activity will be directed to that goal. Hence, the importance of effective policies to combat unfair trading and to promote competition. These policies, in tandem, help to ensure both the incentive and proper direction of business enterprise - that it is aimed productively at what people want."*¹⁷

With this in mind retail planning guidance has for years included the statement that *"it is not the function of land use planning to prevent competition between retailers and between methods of retailing nor to preserve existing commercial interests as such"*.¹⁸ While the most recent English guidance states one of the key objectives of policy is: *"To maintain an efficient, competitive and innovative retail sector."*¹⁹

The debate about the relationship between retail competition and planning policy in the UK has become rather confused. It is often claimed:

*"The growth of the major companies in the [food retailing] industry, the impact of their out-of-town superstores on traditional town centre shopping areas ... [has led to] a reduction in competition."*²⁰

But the 1998 OFT study of grocery multiples found:

*"Some multiples showed evidence of excess profits, others did not, and those that did might be enjoying local monopolies sustained by planning restrictions."*²¹

In other words, planning control of superstore development has been blamed for both maintaining and reducing competition. Studies have tended to support the latter argument. A comparison of retailing in Cardiff (UK) and Charlotte (USA), where there is virtually no retail planning control, has shown Charlotte has a much higher provision of retail floor area per inhabitant,²² and land prices and retail rents are lower. This suggests competition is more intense in the US.

In February 1999 a meeting at No 10 Downing Street took place between Prime Minister Tony Blair and Bob Martin, head of Wal-Mart's international division. The substance of the meeting has never been disclosed but it has been assumed its purpose was to explore

¹⁷ Vickers, J: "Making Markets Work Well For Consumers" Speech given to the Trading Standards Institute Conference, 19.06.2001.

¹⁸ Department of the Environment and the Welsh Office (1972): *Development Control Policy Note 13: Out- of-Town Shops and Shopping Centres*, para.6

¹⁹ Department of the Environment (1996): *Planning Policy Guidance 6: Town Centres and Retail Developments*

²⁰ Competition Commission (2000): *Report on Supermarkets*, Para 3.15

²¹ Competition Commission (2000): *Report on Supermarkets*, Para 3.20

²² Lord, J.D., and Guy, C.M (1991): "Comparative retail structure of British and American cities: Cardiff (U.K.) and Charlotte (U.S.A.)", *International Review of Retail, Distribution and Consumer Research*, vol. 1, pp. 391-436

ways in which Asda Wal-Mart could enter the British economy. One way to do this would be to relax planning restrictions on out-of-centre development.

Soon after the Downing Street meeting the government asked the Competition Commission to investigate supermarkets. It was widely anticipated the Commission would recommend some relaxation of planning control and in its interim statement on 'possible remedies', the Commission said:

*"[It] provisionally does not believe there is a case for any major change in the [planning] regime or the land use principles incorporated in the current guidance, but seeks views on some possible changes which, consistent with these principles, might, if necessary, enable the system to be more responsive to the needs of competition in grocery retailing. These include measures to facilitate assembly of suitable sites, including more positive guidance on the use of existing compulsory purchase powers by local authorities, and any mechanisms through which the extent of local competition or consumer choice could have some influence on which companies were permitted to acquire or develop a site, for example, by restricting use of some sites available for grocery retailing to certain named supermarkets."*²³

The Commission's final report concluded planning control has contributed to higher land prices by intensifying competition for scarce sites suitable for superstore development and likely to be granted planning consent. This has led to land hoarding and attempts to avoid selling unwanted sites to commercial rivals. But the Commission also found evidence the planning system serves the public interest in other ways by safeguarding the vitality and viability of town centres. These social and political objectives clearly override commercial concerns.

Even so, the Commission found some monopoly abuses like price manipulation in areas where there were only one or two food superstores. But it rejected the idea of restricting planning consents to particular food retailers. Instead, the Commission recommended any store acquisition or planning application by a company which already operated one or more stores within 15 minutes' drive time of the proposal should be referred to the Office of Fair Trading before consent could be given. This requires new legislation for which there are still no firm proposals.

It should also be pointed out the Commission took evidence from major food retailers before the effects of recent changes to planning policy had become obvious. It is likely that if the same investigations were held now retailers would be more vehement in their criticism of the current planning regime and the effects of planning restrictions on store development and competition.

²³ Competition Commission (2000): "Remedies Statement" on www.competition-commission.gov.uk/10-00rem.htm

2.2 Retail Planning Policy in the UK since 1996

Much uncertainty surrounds current retail planning policy largely because ministers have been vague as to what some of their statements on retail development mean. This section reviews recent policy changes and explores their implications for superstore retailers.

2.2.1 Statutory Guidance since 1996: PPG6 – Town Centres and Retail Developments

National planning policy guidance on retail (PPG6) was first introduced in 1988 and then revised through parliamentary statements in 1996. The main policy objectives are:

- To sustain and enhance the vitality and viability of town centres
- To focus development ... in locations where the proximity of businesses facilitates competition from which all consumers are able to benefit and maximises the opportunity to use means of transport other than the car
- To maintain an efficient, competitive and innovative retail sector
- To ensure the availability of a wide range of shops ... to which people have easy access by a means of transport

The revisions appear less concerned with the impact of development on town centres, the main theme of the earlier versions, and more concerned with sustainability and transport access. The more recent versions also introduced the sequential approach and the 'need' test. This means a council must demonstrate the need for new retail development when officers propose it in the development plan.

2.3.3 Scotland and Wales

Scotland and Wales operate their own planning policy, based on English policy, and summarised through documents known as NPPG8 (Scotland) and PG Wales/TAN4. The result is very similar guidance to that used in England.

The biggest difference lies in the Welsh policy which introduces the word 'attractiveness' to its discussion on the vitality and viability of town centres. NPPG8 and the 1999 version of the Welsh guidance also extend the policies to include leisure and entertainment uses as well as retail. But the similarities are sufficient for us to include the policies of Scotland and Wales in the discussion on guidance and PPG6.

2.3.4 The Sequential Approach

This approach aims to minimise out-of-centre development and enhance the vitality and viability of town centres by maximising the number and quality of shops there.

The test was initially straightforward and clearly understood. But ministers became concerned superstore retailers were interpreting it to mean only out-of-centre sites were suitable for their needs. The problem was complicated by the uncertainty of Planning Inspectors on how to apply the sequential test.

There are two approaches to the sequential test:

- The *Format Driven Approach*. The developer has a preferred format, which they believe does not fit into town centres and so is exempt from the policy.
- The *Class of Goods Approach*. This argues the same goods can be sold equally well from town centres, possibly from several shops rather than one.²⁴

The 'class of goods' approach found favour with government and was introduced in a speech by Planning Minister Nick Raynsford in early 2000. He said:

*"Recent research ... found that there was inconsistency in the approach taken by decision-makers. Some accepted a format-driven approach ... Others took the view that it was the class of goods that was important ... We take the latter view. Most goods can be sold from town centres – wanting a large showroom or warehouse is not itself a sufficient justification."*²⁵

But Raynsford's statement was delivered in the context of predictions the rapid growth in on-line shopping would make superstores redundant. This has failed to happen.

Even so, Inspectors and Environment Secretaries since 1999 have widely applied the 'class of goods' approach to the detriment of superstore retailers. In effect, the policy now means smaller sites in or on the fringe of town centres have preference. Developers and retailers must show 'flexibility and realism' in design when considering the suitability of central sites. That is, they must propose smaller stores with reduced car parking. This maintains the competitive advantage of existing out-of-town superstores with their free car parking and accessible car-borne locations.

The other debate is what constitutes an edge-of-centre location. These are usually seen as 200-300m from the town centre, although inspectors will consider *"the local topography, including barriers to pedestrian movement such as major roads and the attractiveness of the route to the site"*²⁶. In certain circumstances sites over 400m from the town centre have been accepted as town centre sites. A district centre may be considered as equivalent to an edge-of-centre site, but some schemes will be inappropriate on these sites.

PPG6 also identifies the need for *flexibility* in the approach to the selection of sites for retail development. But Rhodes²⁷ points out that forcing retailers to be flexible has little regard for the PPG6 requirement that *"local planning authorities should be sensitive to the needs of retailers"*.

Historically, people did not have as much available leisure time or disposable income as they have today and access to cars was limited. But more and more people are using their

²⁴ DETR (2001): "The Governments Response to the Environment Committee, Transport, and Regional Affairs Committee" *Second Report. Environmental Impact of Supermarket Competition* pp.2

²⁵ Raynsford, N. (2000) Speech to British Council for Out-of-Town Retail Lunch, www.AccessibleRetail.co.uk/AccessibleRetail_business.htm

²⁶ *Ibid.* pp.11

²⁷ Rhodes, J. (2000) : *Planning* 27.10.00 pp. 20

cars to shop and this is unlikely to change. These lifestyle changes have led to demand for better quality stores, services and product choice.

There is also the argument used by superstore developers that off-centre stores can encourage 'clawback' from neighbouring centres, prevent leakage, create an economic advantage for the area and a better retail offer for its inhabitants. In addition, "*some bulky goods retailers believe they can't trade in centre, they would not be able to provide low prices on which trading format depends*".²⁸ They believe their store formats provide advantages for themselves and the consumer (Table 2.6).

Finally, retailers and developers accuse councils of applying the sequential approach as a rigid 'test', which was not intended. The result is an effective embargo on off-centre retail developments at the risk of 'town centre cramming'. Instead, developers want more consideration given to the physical capacity of town centre and edge of centre sites. They are also frustrated that many sites which officials suggest through the sequential approach to be *suitable* and *available* are often not so.

Clearly, the sequential approach is having a significant effect on superstore development and CB Hillier Parker suggests a number of areas that need to be clarified (Table 2.7).

Table 2.6: Advantages of Large Store Development		
Consumer	Retailer	Developer
<ul style="list-style-type: none"> • Increased product range, breadth, depth, availability • Can incorporate leisure aspect or features • Reduces trips to other stores • Car parking provision • One-stop shop • Pleasant or safe environment • Create employment or regeneration 	<ul style="list-style-type: none"> • Efficiency gains in large store development • Cheaper land costs out-of-town • More attractive to consumer and therefore more profitable • Fewer distribution difficulties • Increase competition • Create employment or regeneration 	<ul style="list-style-type: none"> • Less concern over land assembly problems – quicker development process • Less concern over flexible formats and innovative designs • More sustainable • Encourage further store development • Create employment or regeneration

Table 2.7: Clarifications that have been suggested in order to improve the Sequential Approach
<ul style="list-style-type: none"> • The definition of edge of centre ought to be redefined with consideration of functional linkages. • The 'Class of Goods' interpretation ought to be considered as a good practice guide rather than a rigid rule. • Further consideration ought to be given to the degree to which retailers can be flexible, with consideration of land costs, product range and consumer interests. • Research ought to be undertaken to examine the maximum physical capacity of town centres and their retail offers.

Source: CB Hillier Parker

²⁸ CB Hillier Parker (2000): *The Sequential Approach to Retail Development* p. 76

2.3.5 The Issue of Need

Major government revisions of PPG6 have been in response to confusion about the issue of 'need', but the 'clarifications' have done little to clear up the muddle.

The judge ruled in the Hambleton case (1998) that although the need for a development was an issue to be considered when preparing the development plan, it was not a material consideration at the planning application stage.²⁹ He based his findings on the fact PPG6 makes no reference to the demonstration of need in relation to planning applications.

Goddard³⁰ agreed with this view, arguing PPG6 is purely concerned with the vitality and viability of town centres and with the effect on private sector investment. He concluded PPG6 implies a 'harm' test rather than a 'need' test.

In response to this public debate, ministers sought to 'clarify' PPG6. Richard Caborn said in Parliament that demonstrating need involved more than simply showing there is physical capacity and demand, in terms of available expenditure within the catchment area, for the proposed development.³¹ But when asked to define 'need' Caborn was unable to do so. He claimed it would be for the local planning authority *"to determine if need could be taken as a grounds for councillors to refuse planning permission"*.³²

Caborn's 'clarification' of need is a major revision of PPG6. Now 'need' must be shown where proposals are located at an edge-of-centre or out-of-centre location and:

- Are not in accordance with an up to date development plan strategy;
- Are in accordance with the development plan strategy but the plan is out of date, is inconsistent with national planning policy guidance, or otherwise fails to establish adequately the need for new retail and leisure development and other development to which PPG6 applies.³³

What 'need' means, in effect, is that out-of-town applications are only permitted if:

- Developers or retailers demonstrate there is sufficient available expenditure to support the new floor space, so protecting existing stores;
- The application satisfies some additional need.

As a consequence of the ministerial qualifications, the new town centre formats like Tesco Metro and Safeway Locals are 'basket formats' offering 'top-up' shopping rather trolley shopping which would which would not compete with existing superstores and so maintain the competitive advantage of the existing superstores.

The minister admitted capacity and demand could demonstrate 'need', but he said there were other factors to be considered as well and these were up to the decision-maker.³⁴

²⁹ JPEL (1999): *Current Topics: Need and the Sequential Test* pp.307

³⁰ Goddard, C. (1999): *Planning* 19.02.1999 pp.13

³¹ Caborn, R: www.nds.coi.gov.uk

³² Response to Mr Matthew Taylor 24.06.1999 www.parliament.the-stationery-office.co.uk/pa/pcm199899/cmhnsrd/.../90624-5.ht

³³ JPEL (1999): *Current Topics: Need and the Sequential Test* pp.307

³⁴ JPEL (1999): *Current Topics: Need and the Sequential Test* pp.308

These factors include employment creation, redevelopment of a brownfield site and improved access to public transport (Table 2.8).³⁵

Despite arguments raised by commentators, planning ministers have stressed³⁶ the government is content with the guidance and will not be making any alterations. They claim it is for the developer or retailer to be more flexible with their proposals.

Table 2.8: Factors (qualitative and quantitative) that demonstrate 'Need'³⁷

- Access to premises – social inclusion
- 'Clawback' of leakage to surrounding towns
- Reduction in travel costs and congestion
- Overtrading of existing stores
- Shortage of comparison units
- Poor layout, congestion, lack of amenity
- Lack of competition locally, higher prices
- Non-food traders serving market from remote locations
- Amount of available expenditure in the area (capacity) in relation to exiting turnover of stores.

2.3.6 Case Studies: Food Retailing Applications

As the CB Hillier Parker³⁸ points out, superstore retailers still face difficulties, like the costs of sites, site assembly problems, multi-ownership, when developing in town centres. As a result, they continue to try and develop traditional large, off-centre formats despite their awareness of the need to be flexible.

The two examples below have been selected from nine recent planning inquiry decisions, which are set out in more detail in Appendix 2 to this report.

- An application for a Tesco store in Birmingham on the former Quinton bus depot was refused because it did not meet the sequential test. The Environment Secretary took the view the approach was insufficiently flexible and he felt the applicants could have adopted alternative sites in more central locations accommodating similar schemes.³⁹
- But a Safeway extension of 650 sq m to a store in Liskeard, Cornwall, was granted consent because a qualitative need was recognised in the local community.

³⁵ Holt, G. (2000): *Planning* 20.10.00 pp.17

³⁶ DETR (June 17th 1999) Response to the report in *the Guardian*.

³⁷ Bore, J (June 2001): "Retail Issues Arising in Appeals and Call-ins: An Inspectors View". Speech to RTPI conference

³⁸ CB Hillier Parker (2000): *The Sequential Approach to Retail Development*

³⁹ DTZ Piedad Consulting (2000): *Retail Appeals* pp.2

2.3.7 Non-Food Retailing Applications

In contrast to the food retailers, large bulky goods retailers have little flexibility in their formats. Alternative sites within town centres are unsuitable because of size, location and access, according to CB Hillier Parker.⁴⁰

There have been several recent appeal and call-in decisions⁴¹, but we have focused on refusal of planning permission for a DIY warehouse in Bexley. Although the Inspector admitted there was a need for a DIY store in the area, he did not feel the traditional format was appropriate. While accepting employment generation and regeneration benefits were material considerations he did not consider they amounted to retail need.⁴²

And in an example of pre-1999 policy, a Homebase store at Crownhill in Plymouth was granted consent on the grounds it would improve the existing range of DIY goods available to the local population, the visual amenity of the area and generate employment. In this decision there was no mention of flexibility or the 'class of goods' interpretation.

2.3.8 Discussion and Conclusion

This discussion has shown planning outcomes are inconsistent. But decision-making is also arbitrary. It rests solely at the discretion of the Inspector or Environment Secretary with no clear guidance or precedent to reassure developers or retailers.

The 'class of goods' test is inappropriate for superstore retailers. Food retailers can build viable smaller centrally located stores where 'trolley shopping' stores are unsuitable.

Planning expert Sir Peter Hall has noted the absurdity of the current government policy,⁴³ while Tesco Town Planning Executive Andrew Lowe suggests the 'class of goods' test simply recreates the past.⁴⁴ Further guidance is needed to end the confusion about what constitutes 'need'. Current retail planning policy opposes superstore development and this is at odds with other policy aims, which seek to promote retail competition

We call for a rationalisation and simplification of policy to emerge out of the Planning Green Paper issued by Lord Falconer. He intends planning to become a "*promoter of things that are worthwhile rather than a series of complex, hard to understand and often contradictory rules that people find it difficult to pick their way through.*"⁴⁵

⁴⁰ CB Hillier Parker (2000): *The Sequential Approach to Retail Development*

⁴¹ See for example the ACCESSIBLE RETAIL Planning Newsletter, www.AccessibleRetail.co.uk/AccessibleRetail_business.htm

⁴² Partridge, T (2001): *Planning* 13.04.01 pp.22

⁴³ Hall, P (2001): *Regeneration and Renewal* 27.04.01 pp.16

⁴⁴ Lowe, A (June 2001): Speech to RTPI Conference

⁴⁵ Lord Falconer: *Estates Gazette* 13.10.01 pp.51

2.4 Current Difficulties for Superstore Retailers in the UK and Research Implications

There is policy conflict at the heart of government. While economic policies are intended to encourage greater retail competition, planning policies deter store development. But there does not appear to be any serious attempt to resolve this conflict, unlike elsewhere in Europe where the issues have been explicitly addressed.

Both policy objectives have worked against superstore developers and retailers. Research by the Competition Commission in 1999 and 2000 is said to have cost the food retailers millions of pounds providing the data demanded. The investigation was prompted by media allegations of monopoly abuses by some food retailers, like overpricing, interference in the land market and manipulation of supply chain relationships. The Commission's report largely cleared the companies concerned but identified planning restrictions as a possible contributor to local monopolies.

These restrictions have become more acute over the past two years as government has tightened policy. Development is more difficult as the changes have led to refusals which would almost certainly have been allowed before 1999, as they complied with the sequential approach set out in 1996 and were unlikely to cause 'demonstrable harm'.

The current version of the sequential test restricts competition and leads to inefficient outcomes while the 'class of goods' approach, which asks, "*can the goods supplied be sold from smaller, more central sites*", allows planners to block larger developments at edge-of-centre and out-of-centre locations.

The main losers are likely to be consumers as planning restrictions tend to lead to less consumer choice and fewer convenient, one-stop shopping venues. Other services and inducements, like loyalty cards, may also be withdrawn in the absence of strong competition between retailers.

But retailers will also lose out from an inefficient allocation of resources and the inability to take advantage of the economies of scale. Planning restrictions, by preventing the development of new stores, could act as a 'barrier to entry' for newcomers to the UK market and reinforce 'first mover advantage' for those firms with existing large format stores.

Superstore operators are under considerable pressure to reduce prices, more so because of the growth in competition from internet retailers. But it is becoming more difficult to roll out the new store formats or extend existing stores needed to realise scale economies.

These costs must be weighed against the advantages of protecting town centres and promoting smaller store development. We believe the costs to be substantial, particularly if consumers prefer the greater choice and lower prices likely to arise from development of larger stores. The purpose of this report is to consider evidence of such costs and in the next chapter we set out our research findings.

Chapter 3: Research Findings

This Chapter sets out the main findings from our research and is organised around the five research questions outlined in Chapter 1. Much of the evidence from the surveys was provided on a confidential basis so we have taken steps to conceal the identities of the companies where necessary.

3.1 Are there cost or efficiency gains to retailers from developing superstore formats?

3.1.1 Evidence from the Literature Review

Theory puts consumers at the centre of promoting competition. They benefit directly through lower prices, better quality products, more choice and, indirectly, from economic efficiency. Under certain conditions, the market operates to produce an efficient outcome in production efficiency and in the allocation of resources to areas of highest demand. The presumption is competition will promote economic efficiency benefiting consumers.

There is extensive literature on economies of scale in industry.⁴⁶ Most studies use a cross-sectional approach that looks at firms of different sizes within an industry. They assume all firms have the same technology, observed outputs are close to planned levels and firms seek to minimise their costs at planned output levels.⁴⁷ Two models are used. One where firms have U-shaped average cost curves and one where cost curves are L-shaped. In the U-shaped model scale economies exist up to a certain output and then diseconomies of scale set in. In the L-shaped model scale economies operate until a minimum efficient scale (MES) is reached beyond which costs remain constant.

Several problems arise in these studies. Firstly, estimates of cost curves using standard regression techniques can be biased by the lower bound on costs set by the long run cost curve. Secondly, the assumption all firms use the same technology may not hold. Asda Wal-Mart, which operates from larger stores than its rivals, experiences substantial scale economies in 3,000 sq m outlets. This suggests the retailer uses a different 'technology' compared to its rivals. A similar situation is likely to occur in the DIY sector. This means different estimates of scale economies should be made for different types of store.

Ideally, one would want to consider all types of costs including operating costs, capital costs, treatment of stocks and depreciation but the data is not always available. Instead, studies have focused on operating costs, like labour, while ignoring other important costs like capital cost or potential distribution cost savings. This could make a significant

⁴⁶ For example: Johnston, J (1960): *Statistical Cost Analysis*. New York. McGraw-Hill; Walters A.A. (1963): "Production and cost functions: an economic survey" in *Econometrica*, vol. 31. pp. 1-66; Walters A.A. (1970): *An Introduction to Econometrics*, 2nd ed. London. Macmillan; Wiles, P. (1963): *Price, Cost and Output*. New York. Praeger; Gold, B. (1966): "New perspectives on cost theory and empirical findings" in *Journal of Industrial Economics*, vol. 14, pp. 161-94.

⁴⁷ Intriligator, M.D; Bodkin R.G. and Hsiao C. (1996): *Econometric Models, Techniques, and Applications*, 2nd ed. London. Prentice Hall.

difference to the results, as distribution costs may be higher for town centre shops than for out-of-town stores.

A number of studies have also looked at cost gains to retailers from large store formats. In an early study, Tilley and Hicks⁴⁸ showed store expenses initially fell with store size but tended to increase with larger outlets. Thorpe and Shepherd⁴⁹ concluded labour costs declined as shop size increased, but found no relationship between other operating costs and store size. Meanwhile, Nisbett and Dawson⁵⁰ found minor scale economies with labour costs but diseconomies in other store costs.

More recently, McKinsey Global⁵¹ has argued labour productivity increases with store size in the food retail sector of the UK. Stronger consumer preferences for larger stores could create higher levels of output per employee while, on the supply side, greater labour productivity might reflect economies of scale in staff costs. But as the interpretation is ambiguous, we choose not to infer scale economies here.

The Competition Commission⁵² recently tested for economies of scale in food retailing and we consider their estimates here. They used data on staff costs and other operating costs for the five largest supermarket chains. Labour costs account for 53% of in-store costs, excluding goods purchased for resale, while other costs account for another 29% and capital costs for the remaining 18%.

The results (Table 3.1) suggest there are economies of scale in four of the five store groups, the exception being Safeway where a non-significant coefficient was obtained. In the case of Morrison, a 100% increase in store size from 2,000 to 4,000 sq m is expected to increase staff costs by only 70% while, for Tesco the same change would increase staff costs by 85%.

But the evidence of scale economies in stores of different size (Table 3.2) is mixed. Asda Wal-Mart, which tends to build larger outlets than the other food retailers, shows significant economies in staff costs only for shops of over 4,000 sq m. In the case of Tesco, the most significant savings in costs, with increasing size, occur in stores of over 2,500 sq m but below 3,500 sq m. For other operating costs, not shown in Table 3.2, there is some evidence of economies of scale for Asda Wal-Mart and Sainsbury but not for Tesco, Morrison or Safeway.⁵³

⁴⁸ Tilley, R.P.R and Hicks, R. (1970): "Economies of scale in supermarkets" in *Journal of Industrial Economics*, Vol. 19, pp.1-5

⁴⁹ Thorpe, D. and Shepherd, P. (1977): "Some aspects of economies of scale in food retailing" in *Research Report 26*, Retail Outlets Research Unit, Manchester Business School

⁵⁰ Shaw, S.A., Nisbet, D.J. and Dawson, J. (1989): "Economies of scale in UK supermarkets: some preliminary findings" in *International Journal of Retailing*, Vol 4, No.5, pp.12-26

⁵¹ McKinsey Global Institute (1998): "Driving productivity and growth in the UK economy", McKinsey and Co.

⁵² Competition Commission (2000): *Supermarkets*, Vol. 3, Appendix 10.2

⁵³ The evidence for other operating costs (vol. 3, Appendix 10.2, Table 7) suggests elasticities of 0.87 for Asda Wal-Mart and 0.84 for Sainsbury.

Table 3.1: Evidence of Economies of Scale in Staff Costs

	<i>Tesco</i>	<i>Sainsbury</i>	<i>Asda Wal-Mart</i>	<i>Safeway</i>	<i>Morrison</i>
<i>Net store area</i>					
<i>Coefficient</i>	0.8455**	0.8455**	0.8757**	1.0107	0.7023**
<i>s.e.</i>	(0.0105)	(0.0200)	(0.0222)	(0.0136)	(0.0716)
<i>R²</i>	0.981	0.977	0.948	0.979	0.949
<i>Sample size</i>	573	408	227	498	95

Notes: These regressions control for sales density and additional services supplied by stores.

** Indicates significantly different from 1 at the 5% level.

Source: Competition Commission (2000): Vol. 3, Appendix 10.2, Table 6.

Table 3.2: Evidence of Economies of Scale by Size of Store (in sq m)

	<i>1500+</i>	<i>2000+</i>	<i>2500+</i>	<i>3000+</i>	<i>3500+</i>	<i>4000+</i>
Asda Wal-Mart	-	-	-	0.927	0.850	0.762**
				(0.053)	(0.090)	(0.112)
Morrison	-	-	-	-	0.937	-
					(0.076)	
Safeway	0.908	1.030	0.824	-	-	-
	(0.063)	(0.086)	(0.167)			
Sainsbury	-	0.864	0.840	0.802	-	-
		(0.077)	(0.110)	(0.156)		
Tesco	-	-	0.823**	0.907**	0.927	-
			(0.044)	(0.044)	(0.062)	

Notes: These regressions control for sales density. Coefficients are given with standard errors in parentheses below. Missing values show insufficient data to run the test.

** Indicates significantly different from 1 at the 5% level.

Source: Competition Commission (2000): Vol.3, Appendix 10.2, Table 3

The results show some evidence of economies of scale for staff costs and operating costs in larger stores. This is particularly so for Asda Wal-Mart, which specialises in larger stores and has expressed concern about the shortage of sites for large 6,500 sq m supermarkets especially in London and the south east.⁵⁴ So, the evidence supports the view there may be significant economies of scale in large store formats.⁵⁵

Retailers may secure other benefits from building superstores on out-of-town or edge-of-town sites. The company may have developed expertise in superstore retailing, which is successful in out-of-town outlets and would not want to locate in-town where the catchment group is different and where they would have to operate from smaller stores where they have less expertise. In this situation, competition would be reduced. There could also be differences in distribution costs in supplying smaller in-town sites or higher rents might lead to higher capital costs of in-town development, costs that would ultimately be passed onto consumers in higher prices.

⁵⁴ See Competition Commission (2000): vol. 1, para. 2.174.

⁵⁵ It is necessary to qualify this. The results reported by the Competition Commission appear to fail the RESET test which suggests specification error. This may be due to the presence of sales density in the regression, which is clearly endogenous to the model, and hence should be instrumented. It cannot be ruled out that the results would change if this model was used.

3.1.2 Evidence from the survey of retailers

We asked the retailers for specific evidence of economies of scale. Four of the seventeen respondents said there were no scale economies from operating larger stores, but they were all companies with one standard format and no basis for comparison. But 76% said they gain from economies of scale, although most did not have evidence to verify this. The difficulty is that separate aspects of their operations would generate these economies, precise quantification of their overall impact had not been made and it was seen as an unproductive use of managers' time to do so. One interviewee did note the issue of scale economies relates to specific types of location where the company has some control over its immediate environment. In those circumstances, more control over fixed costs with the ability to dominate a catchment with a wide product range is 'very appealing'.

The sources of possible economies of scale were seen as varied. But operating efficiencies through more productive use of labour and lower running costs per unit area, like heating and lighting, were cited by half of the respondents. Some respondents also talked about more efficient distribution networks. One retailer, operating both high street and out-of-centre stores, calculated the cost of distribution per pound of turnover for out-of-centre stores was half that of high street units. This was because congestion led to longer journey times to town centres, fewer restrictions on delivery times meant better use of the lorry fleet and councils were anti-HGVs. This required satellite depots and replacement of the fleets with smaller vehicles making more journeys.

Another economy in larger stores stemmed from more efficient stocking of the shelves. Whole pallets could be brought to the shop floor rather than being split up in the storage area. One interviewee described this:

"There are economies of scales, clearly, in productivity with a larger store because you'd have what we call larger picking areas in the self-serve. So, ... you'd fill that up once and perhaps that fill would take care of two or three days' trade and I suppose maybe half of that trade if you haven't got the space in the first place ...you're into half containers and half pallet loads that you have to manhandle down and ... back up into storage."

Another retailer said:

"Well, there's definitely a gain there because ... they'll have a lorry load of bricks turn up ... and the store can accommodate that whereas in (the smaller stores) ... they deliver a pallet ... move it into the garden centre and someone will come in and order it so they'll move it out of the garden centre again by hand, into the (smaller store) by hand, put it on the delivery lorry by hand and deliver it to the customer.... We...can get a much better pricing from buying a lorry load at a time."

While a third interviewee summed up the question of overall savings in operating costs:

"... operating costs (have) got to be the number one... you can save in store management (and) maintenance costs because you've got fewer buildings to maintain ... you get more value from your contract, be it cleaning or be it the maintenance.... Obviously the bigger the property the more attractive you are to a landlord so the rent is more competitive... . I can't think of any... apart from heating, lighting and power per unit ... for the large unit it would go up in total, but probably be cheaper per sq ft."

Several respondents identified another important dimension to the issue, namely, larger stores make it less likely customers will experience stock-outs because more goods can be kept in the store. This obviously affects customer retention and means fewer lost sales while for shoppers it means potentially fewer journeys.

A respondent in a company gradually replacing its original stores with a standardised, larger format operation raised an unusual source of scale economies. He said the current store diversity meant managers in small stores have little in common with managers of larger ones, there being a difference of over ten times the floorspace. The new format is expected to lead to *"common learning and sharing of experiences"*, because all store managers will face similar issues. This will ultimately be reflected in overall better performance, although he admitted this might be difficult to quantify.

The survey did not generate any conclusive evidence about the existence of economies of scale in store development. Most respondents said there were no economies at all, while a couple considered the equation was complex because size alone was not the only factor. They thought the cost of land was more important. But this varies according to the region of the UK, proximity to a town centre and competition for the site. One of the retailers who built their own large stores said the company plans on the basis of a fixed construction cost of so many pounds per unit of floorspace. This remained constant, despite the fact some stores were 50% larger than other stores.

The issue of rent was more clear-cut. Three of the respondents did not think larger stores were cheaper to rent than smaller ones in terms of pounds per sq ft. But two of them operated only standard sized units. The remaining 14, or 82% of the retailer survey, did think larger stores were cheaper depending on regional location, proximity to a town centre and demand for units. There were some variations in respondents' estimates of the difference, but most put it at between 10% to 15%, amounting to £1 to £2 given an average rental across the UK of £15 per sq ft pa. Although one retailer said the difference between a 10,000 sq ft and a 35,000 sq ft store could be up to £5 per sq ft.

3.1.3 Evidence from the survey of developers

Developers were asked about possible economies of scale in retail development, particularly of retail parks, and the results show some economies:

"Larger schemes do provide definite economies of scale for building contracts."

Several respondents said building larger schemes was a more effective use of 'director time' because certain costs of a scheme, like negotiations with landowners, local authorities and construction companies, tend to be similar irrespective of the size of development.

But the biggest advantage of larger schemes was their ultimate capital value. Larger schemes attract a wider range of tenants making the venue more attractive to the public. The owner can also be more flexible and innovative in his attempts to maximise capital value through control over tenant mix or redeployment of space.

"Values are sometimes better on larger schemes with say five plus tenants, as it is perceived that this will allow more proactive management in the future with a better prospect for moving tenants around and increasing values.... Having few of the larger schemes, it's got to be more profitable than doing lots of little ones."

Generally, developers contacted did not think there were economies of scale in the marketing and maintenance of retail parks.

3.2 Are there advantages to consumers from superstore formats in the form of increased product range and lower prices?

3.2.1 Evidence from the literature review

Available evidence, some of it anecdotal, suggests consumers prefer superstores for a variety of reasons.

- Superstores offer more choice for consumers because they carry more product lines than smaller shops.
- Larger shops often charge lower prices on some goods than smaller outlets.
- Larger stores tend to offer additional services valued by the consumer, like petrol stations, coffee shops and ATMs.
- Out-of-town or edge-of-town superstores provide free parking, which offers easier car access than town centres.
- The shopping experience is less stressful in large out-of-town or edge-of-town stores than in high street shops.

While these arguments do not work in all circumstances for all consumers, many shoppers choose to use larger stores if available. This is supported by a DETR study in 1998⁵⁶ which looked at the impact of new large, out-of-town or edge-of-town supermarkets in towns and district centres. In Fakenham, Norfolk, a new Safeway opened in 1994 competing with a small town centre Budgens and an Anglia Co-op on the edge-of-town. Safeway was able to attract significant sales from existing shops while sales of the Anglia Co-op fell by 36% and town centre food sales fell from 14% to 5%.

⁵⁶ CB Hillier Parker and Savell Bird Axon (1998): *The Impact of Large Foodstores on Market Towns and District Centres*, DETR

Consumer preference for large format stores has similarly contributed to the popularity of large retail parks with their wider range of large format stores.

The Competition Commission also provided some indirect evidence of consumer preferences for larger stores in its analysis of sales by store size.⁵⁷ This provided strong evidence turnover increases with store size suggesting consumers take advantage of the greater choice available in larger outlets. This is supported by data on the size and number of transactions. Transaction size increases with store size for four of the leading supermarket chains with the exception of Asda Wal-Mart. While transaction numbers increase with store size, again, for four groups with the exception of Morrison.⁵⁸ Larger stores attract more customers, more transactions and more spending per customer.

The McKinsey Report also lends some support to this conclusion. They found output per employee increases strongly with store size. But their results are at odds with the Competition Commission, which found sales density does not increase with store size.⁵⁹ The reasons for this difference of opinion are not clear.⁶⁰

Another benefit of customers using larger stores is the overall savings in car travel. A consultants' report written for B&Q⁶¹ reveals customers of the larger Warehouse format make fewer trips and spend more on average per trip than they would have done at smaller DIY stores. The survey found:

"Any effect of increased emissions for the average shopping trip are much more than offset by the increase in shopping basket size, that is, the large stores lead to a substantially greater transport efficiency."⁶²

Superstore retailers have put forward similar arguments at planning inquiries and inspectors have recognised the reduction in overall travel that can result from new superstore development is in line with government policy.⁶³

3.2.2 Evidence from the survey of retailers

Most respondents said there was a strong relationship between the size of store and the number of products on offer. In some companies, the larger stores carried a wider range of categories of goods and a higher number of stock keeping units (SKUs). More

⁵⁷ Competition Commission (2000): *Supermarkets, Vol. 3, Appendix 10.1*

⁵⁸ Competition Commission (2000): *Supermarkets, Vol. 3, Appendix 10.1, Figures 7 and 8 respectively*

⁵⁹ Competition Commission (2000): *Supermarkets, Vol. 3, Appendix 10.1, Figure 10*

⁶⁰ The Competition Commission focuses on sales density for each of the 5 leading supermarket chains whilst the McKinsey report contrasts productivity between groups of food retailers (for example, the largest four retailers versus other large format retailers, and so on), and this could explain the differences between the results. But there are significant data problems, in particular in the McKinsey study. (For example, their measure will also pick up any scale economies, as already noted, they use profit margins to proxy value added and data for small retailers, in particular, may be hard to obtain); hence, it's difficult to know which effect dominates in the overall effect.

⁶¹ Symonds Group Ltd (1999): *Research into Transport Sustainability of B&Q Warehouse Stores*

⁶² Symonds Group Ltd (1999): para. 5.6

⁶³ Bore J. (2001): "Retail Issues Arising in Appeals and Call-ins: An Inspectors View" Speech to RTPi conference

specialist operators, like electricals or furnishings, reported the difference was only in the number of SKUs, so underlining a greater depth of offer within the standard categories.

The sharpest contrasts were found in the grocery sector where retailers operate a wide range of unit sizes, and which carry between 2,000 SKUs in the smallest to over 60,000 SKUs in the largest. This reinforces the widely held view that larger formats offer shoppers greater choice and convenience. In one company, all product lines are found in every shop, but the number of article numbers ranged from 6,500 in the smallest to 9,000 in the largest. A DIY operator said there were typically 25 to 30 types of power drill in the smaller stores, and 60 to 70 in the larger. While in another selling compact discs, the week's Top Ten would be found in the smaller stores, and the Top Fifty in the largest.

As one respondent put it:

"This does not necessarily just mean more choice for the customer, but also more interest."

Eleven of the seventeen, or 65%, of the retailers surveyed said the prices of goods in their stores were uniform across the UK. Those reporting differences said they related either to particular specialised formats with higher operating costs and a less price sensitive target market, or to the extent of local competition. Advertising campaigns to promote price points are often national and reflect competition at that level rather than the local. But at least one surveyed retailer reported a very sophisticated monitoring of competitor prices that were fed into a GIS system and enabled prices to be changed at individual stores although the discretion once given to individual store managers to do this had been removed. Instead, if a customer reported a lower price in Store X nearby for a specific item, then the information was sent to the centre, and the price for the item in all stores across the country that had a Store X in their vicinity was cut.

All the respondents saw advantages to customers using larger stores. They stressed the greater number and depth of ranges provided more choice and convenience. Nearly a quarter also spoke of the greater likelihood of doing a one-stop shop, saving the individual time and money and benefiting the environment. Other benefits include improved access around the store because wider aisles and more tills could be provided, the ability to provide more specialised or dedicated staff, the space to use concession operators, and the opportunity to provide 'retail-tainment'.

"They've got a complete choice ... it's a retailing experience. Theatre is a word we talk about... more dedicated staff."

"All under one roof, increased stock quantities, expert advice available ...It's a significant part of our business to stock all these stores with ... as much stock as we can put in front of the customer's face. There's a greater choice within each type of product."

"The larger store means more circulation space, the larger store means more choice and it also means more excitement for the retail offer so ... we're experimenting with sort of new displays, bedrooms, kitchens, bathrooms, conservatories and the customer is responding well to that."

"I think in general terms, (the company) has definitely driven down the cost to the consumer of ... products over the last four or five years, largely as a result of building up the (large store) format and driving up the volumes. And also we've increase the choice of ... goods available to customers, by having bigger stores and bigger display areas and bigger buying teams who've gone out, searched the world and brought in completely new products and innovated new ones."

3.3 Are retail planning policies seriously restricting the development of superstore formats, both free-standing and in retail parks?

3.3.1 Findings from survey of retailers

Nearly all, 94%, of the surveyed retailers said current planning policy hindered the ability of their company to develop their ideal portfolio of stores in a variety of ways. Four main problem areas emerged from our reading of the literature, and we used these to structure the retailers' comments.

(a) The inability to open new stores in particular towns because of planning refusals

Almost all of the retailers had experienced this. One said this is a *"common problem"* and added, *"many outstanding requirements are due to this"*. Three others said the refusals were having a detrimental impact on company's growth targets. In the case of a rapidly growing company, it was felt the policy was proving *"a major drag on the ability of the company to invest"* and compromising its ideal portfolio of another 100 stores in areas where it is currently not well represented. Respondents were also very frustrated at what they see as arbitrary and inconsistent decisions by council, planning inspectors and the Environment Secretary. This is captured in the following interview extracts:

"Two or three sites in (town in South West England) and you thought 'oh, they'll be excellent sites, nice and flat, old bus garage on there,' but you think well planned. It's just not what they want to see built there, I don't know what they want, residential? We had (another) one in (north London) which was a change of use for an existing property that was a retailer ... could have been made very good, had a lot of car parking but they wouldn't change the use for whatever reason, albeit the building physically was actually there ... McDonald's in front of it and what have you."

"There was a store in (town in South West England) which is an existing (Company X) store, which is cash and carry, it's ... adjacent to a retail park and down the road from a major supermarket so it's a recognised retail location for the town. It's an existing shed so there's no building to do and we were going to look at applying for permission because to be honest with you it wasn't changing the nature of the area, the car parking was there, the building was there.... We made enquiries of the planning authority who said that as far as they were concerned the retail area for (town in South West England) out-of-town went down the middle of the road that separated us from the retail park opposite... No way would they grant consent, absolutely no way, even though the building was there, hardly any building work needed, car parking there, established, as I said everything was established and they turned it down, that made no sense, rhyme or reason and what else can I think of. God, there have been so many. ...!"

(b) Downsizing of proposed new stores to allow development on physically restricted sites

Four of the seventeen respondents, or 23%, viewed this as an issue for their companies, although they were reluctant to compromise to get development on a restricted site. One retailer referred to an instance in London where they had not been allowed to build the store of the size they wanted, had gone ahead with a smaller unit, but almost immediately after it opened put in an application for an extension. One specialist operator said their problem was getting small enough units especially on retail parks. While another drew some consolation from the fact that smaller sites were easier to assemble and did not attract as much resistance from planners. But he was only working on a smaller format in response to this situation and was not in a position to evaluate its success.

(c) Development in less-than-ideal locations

Only five of the companies surveyed, or 29% of the respondents, admitted this happened, but only limited compromise was possible given the inherent importance of having the correct location. One said it *"often results in poorly performing stores"*.

Another summed up the overall attitude:

"The problem ... is that if it becomes too less than ideal then we will look elsewhere, the company will say 'oh that's no good we don't want that one' and it will go."

The application of sophisticated decision support techniques and specific targets set for returns on investment are clearly factors in deciding whether or not to develop in less-than-ideal locations. Although another retailer was prepared to compromise with the ratio of parking space to floorspace if the location was right.

There is also a possible link between a company's stage of growth and the extent to which management is prepared to compromise. Most of the respondents were from well-established companies. But one was still in the early stages of growth where management is

having to settle for less than ideal. The example used was a development in a poor area of a large city in need of regeneration:

"It's a less than ideal location for us at the moment... a dreadful part of (large city) ... in need of major regeneration. There is an existing retail park there ... Immediate surrounds of the area are desperately poor and we're pleased we're there but we notice that as the immediate surrounds are in desperate need of regeneration from a residential point of view that we get a very good local trade, but you have to watch them like a hawk. Shrinkage is high but consequently because of that and the reputation of the immediate area your destination customer is almost sceptical about travelling into that store and leaving their car outside... We went there because there was an existing planning consent and obviously the existing planning consent was there because of regeneration I do believe that it will be a slow crawl and it will always get better because we pay our £1.5m in salaries to the immediate local population so it does create wealth within the area."

(d) Delay and inconsistency

Some respondents again mentioned the delays in the planning process. Even if they were not undertaking the main development themselves, proposals like putting in a mezzanine floor were not always straightforward. Extensions to existing stores was also an issue, but mentioned primarily in the wider context of the problems of restricted consents. These were seen as unnecessarily detailed in their specifications and lacking any underlying appreciation of either modern retail operations or shopping behaviour.

"Running a planning inquiry is over £200,000 these days. We've actually got the site, we've got the misfortune of holding on to the site, paying interest charges while you're running the planning inquiry, that could treble, quadruple the cost."

Another issue for nine of the sixteen, or 57%, of retailers surveyed was procedural difficulties with plans for refurbishment, expansion or changes in use. The grocery, DIY and electrical retailers were worst affected. The problems stemmed mainly from restricted consents and definitions of categories of goods used. A number of respondents were frustrated at what they saw as inconsistency and arbitrary nature of many planning decisions. As one put it:

"It always comes back to planning and dealing with local authorities because they just don't have an understanding of commercial reality and the need that if you're going to make a decision then you've got to get on with it and sort it now and not by next Christmas, when the customer has already moved on You miss the trend because you just can't move fast enough.... It's a major barrier to being able to satisfy the customer which is after all what we're all here to do."

3.3.2 Evidence from the survey of developers

We also investigated the problems developers face when submitting their proposals and asked for examples of developments where difficulties have arisen, where satisfactory edge-of-centre schemes were allowed and where 'fruitful working' with councils took place. The responses stressed policy restrictions in general rather than drawing attention to particular cases.

The consensus was that current planning policy is too restrictive:

"Government policy determined through PPG6 and PPG13 is restricting the company's development programme, through the sequential test and its subsequent restriction on permitted goods to be sold, thus limiting tenant occupation."

"Local Authorities ... blindly rely on PPG6 and 13 to restrict all retail warehouses without ever attempting to make town centre sites available."

"Whilst local authorities all have comprehensive negative policies about retail warehousing, very few have positive ones such as identifying either the demand, need or sites for them."

We asked whether companies were able to provide recent examples of 'fruitful working' with councils to achieve the goals of the company. One respondent said:

"All our consents have to greater or lesser extent been fought for and even when the principle is agreeing design details, it is [still] very difficult."

Another developer said: *"It doesn't stop activity, but it slows it down."* He added the majority of local plans provide sites for retail warehouse development, if not directly, by providing sites for employment use. The developer believes this to be a way of saying, *"if somebody comes along and builds a big shed that employs 600 people perhaps we'll go for retail"*.

This raises the issue of encouraging retail development as a means of urban regeneration. Examples where developers had 'worked fruitfully' with councils tended to be in areas where regeneration was a priority:

"I think the key things for us to get across with our operating companies are the regeneration benefits of some retail schemes and the function that the retailers themselves perform in a lot of cases bringing some life back into a community... Regeneration...I think that's where the future may end up having to be on retail planning."

3.3.3 Evidence from the survey of consultants

The consultants generally took a more positive view of current planning policy than the retailers and developers. They identified the most significant objectives of PPG6 as:

"...sustaining and enhancing the vitality and viability of town centres, and focusing development in locations where the proximity of businesses facilitates competition from which all consumers are able to benefit and maximise the opportunity to use means of transport other than the car."

The majority also thought the decision-making process should attach more importance to *"ensuring the availability of a wide range of shops (both high street and superstores)...to which people have easy access by means of transport."*

A large number of the respondents considered *"maintaining an efficient, competitive and innovative retail sector"* to be of least significance in current government policy terms. Many felt policies that favoured 'town centre cramming' would stifle efficiency, innovation and competition. The majority also felt that it was important to strike a balance between town centre and out-of-town development, contrary to the view expressed by Richard Caborn in 1998 when he said:

*"Our policy of putting town centres first is here to stay. Let me be quite clear, we are not trying to strike a balance between town centres and out-of-town shopping."*⁶⁴

Most of the consultants believed the 1996 version of PPG6, before recent changes, was the policy most supportive of town centre business and consumers. They felt it provided for a wide retail offer, enhanced competition and offered the most protection for existing retailers. But they added consumers, especially the car-borne shoppers, like and benefit from off-centre retail developments. Although current policy does enable councils to provide for off-centre retail developments, they are rarely willing to do so:

"PPG6 is now being interpreted in many cases as an embargo on out-of-town development following ministerial statements, whereas the original approach was more balanced."

The consultants thought a more balanced approach was necessary in order to meet local needs and to prevent retailers from having to re-think their formats to the detriment of the consumer. Instead, the view was *"no-one has really benefited to date"*, strengthening comments by other respondents that current planning policy has negatively impacted upon developers, retailers and consumers. Restraints on land acquisition have resulted in increased land costs with one respondent pointing out, *"land prices for out-of-town will be at a premium because of the limited supply."*

Instead, the consultants suggested the government should focus town centre policies only on retail development essential for the vitality and viability of town centres rather than on all forms of retail development.

⁶⁴ Caborn, R. (1998): Speech to the BCSC Conference, Birmingham, 5 November

One consultant claimed *"the pendulum has swung too far the other way"* from the more relaxed attitude of the previous planning system. The general attitude now is that too tough a planning regime will have an adverse effect, with investors going elsewhere instead. Another respondent said:

"The alternative to developing out-of-centre is not to develop in town centres. It is to develop in Hungary or Poland, as many entrepreneurial developers are now doing. This does nothing for the economy or society of Britain."

The consultants also argued it is difficult to apply a national policy to a local level particularly when the policy is:

"Designed from a London and south eastern perspective concerned more with urban congestion and an overheated economy than with the need to create economic stimuli in depressed areas."

Some of the respondents viewed government policy as too restrictive and too difficult to reconcile with the need for economic growth in impoverished areas. They were concerned current policy is too uncertain, with one pointing out it is ridiculous that the same tests must be applied to both a 100 sq m kiosk at a petrol filling station and to large scale retail developments of regional impact. One consultant claimed:

"Inspectors making visits to B&Q Warehouses, etc. tend to recommend approval...rejections are based more on theory than real life."

3.4 Are superstore developers able to compromise with government retail planning policy, through developing town centre, district centre or edge-of-centre stores? Do these compromises lead to additional costs and possible loss of competitiveness?

3.4.1 Evidence from survey of retailers

We have identified three main problem areas in our discussions with retailers.

(a) Sites identified through the operation of the 'sequential test' proving inadequate

Some of the companies had experienced this, but there were clear limits as to how far retailers felt able to compromise their offer and profitability of their stores. One said:

"Again if we can't get near to what we want, we can be flexible to a degree but not to the nth degree and then again we'll walk away and it won't happen. We're certainly finding that sites that are identified through sequential testing

are in the main proving inadequate because of the way the sequential approach is applied now."

Most retailers did not even consider such sites, either because they sought units in retail parks or because they believed an edge-of-centre location was unsuitable for their operation. One interviewee highlighted this:

"These sites are always sites that are [at a] premium. The high street, it's not a location that we want to be. We looked at one ... last Friday, in (market town in south west England) ... There's less car parking than I need, there's all these walkways into the high street. All I can see is a nightmare of people parking in the car park free and walking into the town centre doing their shopping, ... [It's] not what we like."

Another respondent linked store size and location:

"Larger stores may be cheaper because they may not be central ... obviously, the nearer the centre you are the higher the rental ... and that's one of the concerns we have. I mean certainly in the case of [Company X] I'm sure ... the whole moving out-of-centre was very much for that reason, and then they could reflect that in lower costs to the customer."

(b) Additional costs due to site problems, higher land values or extraction of 'planning gain'

Retailers who do not develop themselves admitted this was an issue for their landlords, that higher costs incurred would be passed on to them, and ultimately to the consumer. But these land costs were more important to retailers actively developing themselves.

Some felt strongly the main cause of added costs was the planning system, in particular, difficulty in getting consents, planning gain, delays to the processing of applications and opportunity costs.

"... rather than taking a year you're taking three to get a permission, your consultants costs are escalating, if that then leads ...to a call- in [then] you've got to redo the whole thing again ...and what people don't seem to realise is that ...a planning appeal from our point of view can be anything from £250, £350,000, it's not a £10,000 outlay, it is very very major and at the moment we've got ten or eleven (twelve) call in inquiries."

"Just timing, commercial reality, lengths of appeal....We have to use planning consultants because of the planning system. ... If you think that to get a planning consent and to get a store open takes about two years, by the time you've got that store opened life's changed."

Planning gain has also become a bigger issue in recent years, particularly with more emphasis being placed on urban regeneration. Some of the demands significantly alter the cost of a development and return on investment. One company cited the case of two similarly sized stores, both in edge-of-centre locations. The one required a deck car park to be built and this contributed to a doubling of construction costs. While highway improvements were generally seen to be a worthwhile use of funding, benefiting both the retailer and wider community, other types of 'gain' produced much scepticism about their value. One respondent said:

"There's always additional costs to development. Even if you can get the consent then you can guarantee that the planners will only grant it if you enter into a Section 106 and demand something...often...totally unrelated to the site."

(c) Pressure to develop stores below company size norms

We have already pointed out the survey did not generate conclusive evidence of economies of scale in store development. But some evidence came forward to show stores below the company size norm were seen as unsuitable. One respondent dealt with the question in a slightly different way. He pointed out that if planning policy was restricting the size of new stores, then the provision and operation of a given amount of new floorspace, say 100,000 sq ft, is done more economically with a single unit of that size rather than four units of 25,000 sq ft. He said:

"Land cost is obviously an economy of scale from our perspective.... If say we wanted a 100,000 sq ft in the area and somebody said we could have four twenty-fives, it's not a case of saying well a 100,000 sq ft would say take ten acres you don't then have to go and buy four two-and-a-halves. You ... still have the same servicing area requirement. The car parking will probably go up because demand will be higher ... You still have to overall buy a bigger area of land to accommodate the same facilities."

"Build cost will increase because ... you've still got to put in four lots of drainage, four lots of everything so ... physical costs ... could be quite significant. And you'd have to have four delicatessen counters, four wet fish counters and so four times as much refrigeration."

Retailers also noted four stores could not be four components of a larger whole. Each has to be an entity in its own right because a customer would expect certain items in any store run by that company.

3.4.2 Evidence from survey of developers

The final question in this section of the survey looked at whether there were benefits to developing retail parks in or close to town centres. Most of the respondents believed there were. They suggested such developments could attract 'spin-off' trade through

pedestrian linkages and opportunities for extended opening hours. Development near town centres would also be in line with planning guidance and transport policy.

One respondent said:

"If we wanted to build an existing retail warehouse park ironically we'd probably want to build it close to an existing retail park so people go to the same area on the same trip."

This echoes government advice⁶⁵ that new off-centre development should be located next to existing schemes in order to make public transport links more viable. The comment would seem relevant to edge-of-centre developments too.

But one respondent suggested this could result in increased pressure in the town centre for car parking. These sites take longer and cost more to assemble because they are often in multiple ownership.

Finally, we attempted to find out whether typical construction costs differed between town centres and off-centre developments. Many of the developers thought this was difficult to answer, as costs were generally site specific. Even so, typical construction costs for an off-centre development were put at £40 - £45 per sq ft including site highway works, but excluded unpredictable costs like decontamination. One developer said it was typically around £20 more expensive per sq ft to build in the town centre, although whether this was due to land costs or variations in centre design and layout was unclear. In addition, there are the costs of planning gain, but as one respondent claimed:

"If you've got to build a library, then you've got to build a library."

3.4.3 Evidence from survey of consultants

The consultants took a wider view of the benefits and costs of edge-of-centre development. They identified the most important considerations used at public inquiries as:

- The length and quality of pedestrian linkage between the proposed development and the town centre.
- The likelihood of linked trips between the proposed development and the nearby centres.
- Access to the site by public transport.

The following considerations were of less importance:

- The extent to which the site meets the retailer's own criteria for that type of retailing.
- Highways and environmental issues like the generation of extra traffic into the town centre.
- Alternative uses for the site like leisure or residential.
- Access to the site by car.

⁶⁵ Department of the Environment (1996) *Planning Policy Guidance 6*, para. 1.17

- Visual impact on the townscape, historic sites and viewpoints.

So, there was an awareness of the difficulties that edge-of-centre development could present, but it was also clear these did not figure strongly in inspectors' judgements on edge-of-centre proposals.

The consultants felt most types of retailing could possibly be accommodated at an edge-of-centre location (Figure 3.1). Their preference was for food stores of all sizes and standards, particularly limited-line discounters of less than 1,500 sq m. Only a few respondents thought it unsuitable for food stores to be located at edge of centre locations. Small bulky goods stores of 2,500-5,000 sq m, like a Focus, were seen by many as appropriate. But a larger DIY outlet, like a B&Q Warehouse, was generally viewed as inappropriate. More respondents than not were in favour of a large sports shop or warehouse or small retail park at an edge of centre location.

Retail park developments of over 10,000 sq m created the most uncertainty among the consultants. They split almost equally between those for and those against, with a small majority against. Finally, consultants thought edge-of-centre sites were unsuitable for a hypermarket or a store of over 5,000 sq m, like an Asda Wal-Mart or Tesco Extra.

We then asked for views on which types of store proposal could most easily be dealt with under the 'class of goods' approach, which claims goods can be sold in smaller stores. Respondents were unsure whether the goods from a 1,500 – 2,000 sq m food store could be accommodated in a town centre store. But most believed they could. The majority did not think it possible for a 2,500 sq m or larger food store like Asda Wal-Mart or Tesco Extra, to accommodate their produce in smaller town centre stores.

Bulky goods operators, especially those in stores of over 5,000 sq m, and sports shops/warehouses of over 3,000 sq m were seen as definitely unable to accommodate their goods in smaller stores. The only retail development no consultant thought able to comply with the 'class of goods' rule was a bulky goods outlet of over 5,000 sq m like a B&Q Warehouse. One respondent even said some councils were aware bulky goods shops were not the best way to develop a town centre site. As one consultant pointed out:

"There are problems in assembling and developing town centre sites".

The majority of planning respondents identified the benefits of bulky goods shopping in out-of-town locations as convenience, one-stop shops, car parking and wide product range. Although it was noted these stores do not cater for the non-car borne shopper. One consultant suggested the solution was an integrated transport system rather than a restriction on out-of-town development.

"Town centres need support and have a key role in retailing but that is not at the exclusion of out-of-town facilities. Town centres will really benefit when there is an integrated transport policy."

Another respondent thought bulky goods retailers should consider non-car borne shoppers in their development proposals:

"Retailers that need out-of-town sites should be required to ... consider ways in which they can embrace interests of all consumers and provide good quality service."

3.5 Have restrictions on superstore development led to local monopolies for earlier entrants?

3.5.1 Evidence from the Literature Review

Planning restrictions on superstore development could restrict entry to the market and so distort competition. If existing stores were set up under a more liberal planning regime, they may have 'first mover' advantage, which enables them to set higher prices and earn higher profits. Effectively, restrictions on superstore development create barriers to entry leading to a misallocation of economic resources.

This has been an issue in food retailing. Consumers prefer large store formats but the current planning regime restricts new entrants from building more large outlets, enabling existing firms to set prices above competitive levels.

The Competition Commission found some consumers have a restricted choice of stores for one-stop shopping, in some cases with just one or two stores within a reasonable travelling distance and in other areas the majority of larger stores were owned by just one group. While the Commission recognised in rural areas the market was too small to support more than one large store, they were concerned about the possibility of local monopolies. They also found prices were higher where less competition seemed to exist.⁶⁶ The Commission used an isochrone analysis⁶⁷ to assess the extent of the problem and to identify areas where problems might exist. From a population of 1,895 stores suitable for one-stop shopping, it found 78 stores in non-urban areas where a local monopoly might exist and 137 shops where a local duopoly might exist.⁶⁸ The analysis suggested retailers might raise prices in these areas to the detriment of local consumers.

The Commission concluded development restrictions on large stores might prevent new entry into existing markets, leaving consumers worse off. Asda Wal-Mart and Morrison in particular were being prevented from aggressive expansion of large stores by the unavailability of suitable large sites.⁶⁹

⁶⁶ Competition Commission (2000), Vol.1, para. 2.599.

⁶⁷ This analysis involves determining travelling times around a fixed geographic point.

⁶⁸ In non-urban areas a cut-off of 15 minutes travelling time between stores was used, whilst a 10 minute time limit was used in urban areas.

⁶⁹ Competition Commission (2000) Vol. 1, paras. 2.174-5.

3.5.2 Evidence from the survey of retailers

We got a mixed response from retailers as to whether the current restrictions were giving rivals an unfair advantage by making it impossible to develop or rent suitable premises.

Six of the seventeen respondents, or 35%, did not think this had happened. Another two believed it had but were sanguine about it, recognizing this was compensated for in other parts where they were present and their rivals were disadvantages. The remainder mentioned a number of places throughout the UK where this did occur, like, Mablethorpe, Bath, Kirklees BC, Leeds, Newcastle, Preston, Exeter, Guildford, Orpington, Peterborough, Solihull, Tunbridge Wells, Crawley, and Leamington Spa.

But one retailer that operates a very successful portfolio of specialist stores based on an aggressive price-led marketing strategy raised a wider issue of competitiveness. There were centres where this company had not been able open. But, more important, was the aggregate effect of the restrictions at the national level where they were impeding the growth of the store network to its optimum size. This had two outcomes. Firstly, it deprived shoppers in certain areas of the country from the benefits this company considered it brought. Secondly, by operating a sub-optimum network, it constrained the buying and marketing power of the company, and so its ability to cut prices. This respondent said:

"PPG6 is being used to stifle competition and destroy innovation. The loser will be the British shopping public....Why do planners dictate the format in which (goods) are sold?"

This neatly sums up the case presented to us by many respondents to our survey.

3.5.3 Evidence from the survey of developers

Developers were also concerned with issues of competition and monopolies. Companies that had acquired sites and planning consents in the early 1990s now have an advantage over similar companies that wish to develop nearby.

One respondent argued the current difficulties plaguing retail park development inhibited the entry of new and innovative retailers to the UK market. This was partly because scarcity led to increased rents and partly because strong demand for good quality premises enabled retail park managers to restrict tenancies to established retailers of 'good covenant'.

Chapter 4: Conclusions

This project sought to establish answers to the following five questions:

- a) Are there cost or efficiency gains to retailers from developing superstore formats?
- b) Are there advantages to consumers from superstore formats, in the form of increased product range and lower prices?
- c) Are retail planning policies seriously restricting the development of superstore formats, both free-standing and in retail parks?
- d) Are superstore developers able to compromise with government retail planning policy, through developing town centre, district centre or edge-of-centre stores? Do these compromises lead to additional costs and possible loss of competitiveness?
- e) Have restrictions on superstore development led to local monopolies for earlier entrants?

These are complex questions and the research involved inter-related data collection from secondary and primary sources. Academic literature on economies of scale in the retail industry provided a starting point for the research and an exploratory series of interviews with a representative retailer, developer and planning consultant allowed us to clarify the issues raised in the literature. The follow-up empirical work consisted of surveys of retailers, developers and consultants supplemented by in-depth personal and telephone interviews. This was supplemented by detailed examination of the reports from relevant recent planning inquiries.

Our response rates of between 43% and 53% compare well with the typical rate of 30% for business surveys of this type. The retail respondents came from companies in all the major sectors found in retail parks or free-standing off-centre locations, many of the national retailers as well as more specialist ones, and single and multiple format operators. The developers surveyed were all specialists in retail parks and superstores and were involved in both town centre and off-centre locations.

The data collected from this diversity of sources was quantitative and qualitative although there is an emphasis in the report on the latter. Retailers provided little detailed quantitative data on economies of scale. While there was a clear issue of commercial confidentiality here, most retailers were unable to provide more information because the kind of data required was not readily available and they do not undertake any detailed analysis to get it. Even if the data was available, it is arguable whether any meaningful analysis could have been carried out given variables like the range of store sizes, formats and location. Instead, the research was designed to ensure the validity of the findings by using a triangulation of data sources, that is, each question has been addressed through a combination of different sources rather than being reliant on any one.

This chapter presents our conclusions for each of the five questions and then goes on to provide an overall summary of the findings and their implications.

Q.1. Are there cost or efficiency gains to retailers from developing superstore formats?

Existing literature and our surveys reveal significant cost and efficiency gains to retailers from superstore formats. Where it has been possible to undertake detailed analysis, like the Competition Commission, then measures of the economies of scale resulting from larger formats are available, although this work also highlights the complexity of the issue. Companies vary on the size of store where savings and efficiencies accrue and where the upper limit is. In part, this variation is due to differences between firms in their operations and the technologies they employ. Even so, the fact superstores secure efficiency gains from size was not contradicted at any point in our work, even if these gains cannot always be easily identified through statistically robust analysis.

The question of scale economies is inextricably linked with the issue of labour productivity and there was considerable evidence to support the belief this is greater in larger stores than smaller ones. There are several reasons for this. Average transactions are higher partly because of the greater range of products available and partly because there are fewer stock-outs. Distribution and in-store stock management is more efficient as loads do not have to be broken up. Finally, there are greater savings in heating, lighting and maintenance per unit of floorspace.

While operating large formats is widely seen as producing efficiencies, the evidence was more mixed on the issue of actual development costs. The degree of competition for sites and the costs of assembling and preparing sites make comparisons on the basis of size alone difficult. But developers still favour larger schemes because of savings on the central management costs with any new development and because they often had greater capital growth potential. These contributed to savings for tenants in rents, with larger units typically 10% to 15% cheaper per unit of floorspace than smaller ones.

Q.2. Are there advantages to consumers from superstore formats, in the form of increased product range and lower prices?

Although this study did not involve any primary study of consumers, there is ample evidence in the literature and market reports to confirm the simple observation that many enjoy superstore formats. Larger formats can stock bigger product ranges offering greater choice and the convenience of one-stop shopping. The potential to do a wider range of shopping on the one trip yields further personal savings and has beneficial environmental outcomes. Free parking, wider aisles and the provision of complementary services all contribute to a less stressful shopping experience. As one retailer commented it can also make shopping more interesting. This has also been helped by the development of 'retail-tainment', made possible by larger formats.

Superstores also offer consumers lower prices. But these cannot be divorced from overall efficiencies in the supply chain coming from manufacturing and distribution in an

integrated channel where the superstore is the final component. Apart from some special circumstances, there was generally no clear evidence of consistent price differentials between larger and smaller stores operated by the same company.

Q.3. Are retail planning policies seriously restricting the development of superstore formats, both free-standing and in retail parks?

Our research found the development of superstore formats is now more difficult as the supply of sites with planning consents granted in less restrictive times is reduced. Most of the retailers in our survey said the development of their optimal or ideal portfolio of stores was being hindered. They are frustrated by the inability to open new stores as the application of revised planning guidelines, and in particular the adoption of the 'class of goods' approach to specific proposals, increases the likelihood of the application being blocked. The problem has been compounded by inflation in land costs and rents resulting from the restricted supply of new developments.

The issue is most acute for companies in the early or middle stages of growth where restrictions are holding back expansion out from their original territories. This deprives potential customers of the retail offer they provide and makes it difficult to secure efficiencies throughout the company's operations, not least in their buying power. Downsizing stores to comply with the guidelines is one response to the restrictions, but there is a limit as to how far companies can compromise on this. Formats are sensitive to the size and catchment composition as well as to site attributes. Given the investments required and the pressure to show a satisfactory return on individual stores, companies are unwillingly to develop in a location that does not meet quite strictly defined criteria.

Q.4. Are superstore developers able to compromise with government retail planning policy through developing town centre, district centre or edge-of-centre stores? Do these compromises lead to additional costs and possible loss of competitiveness?

Our research showed only limited compromise was possible by retailers and developers. Formats have particular 'locational positioning'⁷⁰ and will be unviable if site parameters are not met. While some food retailers have developed formats specifically designed for town centres, this is impractical for household goods and DIY retailers. Clothing and sportswear retailers often have a town centre store, but their retail park units are pitched at a different market.

Town and district centre sites were seen as most problematical. While developers viewed edge-of-centre locations as having some benefits for smaller supermarkets, retailers were less enthusiastic, expressing concerns over land costs and the potential cannibalisation of existing town centre stores if they had one. Most of them also viewed the idea of selling

⁷⁰ Davies, M and Clarke I (1994): "A framework for network planning" in *International Journal of Retail and Distribution Management*, 22, (6), pp. 6-10

their goods from a number of smaller separate town centre stores to be impractical in terms of operational costs and consumer expectations.

While the policy itself was producing difficulties for many retailers and developers, the planning process was another major source of frustration. The time taken to process applications, especially if they went to inquiry, was seen as costly not only in terms of actual financial outlay but also in terms of the opportunity costs incurred as a result of the delays. Planning gain was seen as an added burden, particularly if it was on items that did not directly benefit the retailer or developer. Only the largest retailers actively engaged with the planning system if permission was refused. Most simply preferred to avoid the costs by abandoning attempts to set up in a locality if it seemed the planning authority was likely to object.

Q.5. Have restrictions on superstore development led to local monopolies for earlier entrants?

The Competition Commission found some evidence of this in the grocery sector, while our survey also encountered reports this was happening in other retail sectors. There was a large number of towns where retailers said they had been unable to obtain a store and where consumers were having their choice restricted. For retailers, this can be a two-headed coin. While a company may be excluded from one town, it might find its rivals were unable to set up a store in their vicinity. This disadvantaged consumers primarily in the reduced choice available to them rather than in the prices they might have to pay, since pricing adjustments to local competition did not seem widespread in most sectors.

A wider issue than the question of local monopolies was the aggregate effect of numerous such situations at regional and national levels. In particular, a number of growing retailers reported finding it difficult to enter some parts of the country and to establish a nationwide presence. As retailers that are expanding can be inferred to have a format and offer with market appeal, consumers in areas where these companies cannot get established are being deprived of their benefits. This has two further consequences. It fails to maximise efficiencies in the supply chain, which may work through to lower prices, and it impedes the development of innovative formats and companies. Had such a policy been rigorously applied 25 years ago, for example, it is difficult to believe there would ever have been a DIY sector, or companies such as DFS, which have brought much change to the market segments they cater for.

Implications

Overall, our research has found planning policy in the UK, as currently formulated and interpreted, is having a detrimental impact on superstore and retail park development. The suitability of town and district centre locations for this kind of retailing is limited, with relatively little potential for compromise, not least with the 'class of goods' test. The consequences of this are inconsistent with government policy in at least two other important areas. The first of these is the aim to improve efficiency in the distributive

system by encouraging competition between retailers and avoiding monopoly situations, with benefits being passed on to consumers in the form of greater choice and lower prices. Second, by implicitly encouraging more shopping trips and generating more lorry journeys, policy outcomes run counter to those intended to encourage sustainability and the minimization of the environmental impacts of new developments.

We do not advocate a return to the *laissez faire* policies of fifteen years ago, but rather recommend a balance. All parties recognise the importance of maintaining the vitality and viability of traditional town centres and the need to nurture good quality local shopping provision. But the idea that restricting the supply of superstore floorspace will result in new development being forced in to town and district centres is not supported by our research. We believe it implies a rather simple and historical view of shopping behaviour which does not fully recognise the complex patterns that are now found and to which efficient retailers must respond if they are to remain profitable. The maxim that the only constant thing in retailing is change must be recognised by the planning system rather than ignored by it.

The reality is that a large number of households shop across a spectrum of locations. People can use town centres, local shops, superstores, retail parks and factory outlet centres all in the course of a week or month depending on their circumstances and needs. Mintel⁷¹ found retail parks were regularly used by at least a third of people who also said they regularly used local shopping parades, high streets and covered malls. This feature of shopping behaviour is now recognised by many retailers in their locational strategies and they have developed a range of formats suitable for these different locations. Whereas ten or fifteen years ago, most retailers had a single format there is now considerable diversity. Boots, for example, operate high street stores, local pharmacies, retail park units, and shops in railway stations and airports. Marks & Spencer is adding small food-only shops and factory outlet units to complement their portfolio of high street and out-of-town stores. Meanwhile Tesco and Sainsbury have developed town centre formats, which serve a different type of customer to their superstores and hypermarkets.

By limiting the capacity of retailers to respond to consumer needs in the ways that they have been doing until recently, higher operating and distribution costs are potentially incurred resulting in sub-optimal performance of the system. It also hinders innovation in retailing and related sectors, particularly where larger floorspace units are required, and restricts the entry of foreign retailers in to the UK market other than by corporate acquisition. The current regime is also producing particular problems for regionally based indigenous retailers who have a successful proposition but find themselves unable to develop a full national presence.

It is clear to us the recent tightening of the constraints on superstores and retail parks needs to be reduced if partial sclerosis of the retail system is to be avoided. There is no doubt retail development is already making significant contributions to the regeneration of urban areas and this should be encouraged. Likewise, it is important to maintain the health of the high street and local shopping. But we would argue this is best achieved by

⁷¹ Mintel (2000): *Survival of the High Street*, Mintel International Group Ltd

recognizing the inherent dynamism of the retail sector and facilitating its ability to respond to rapidly changing consumer needs and expectations. This will not necessarily be attained through tight controls on building and land use. A much more holistic approach is required where a more flexible planning regime is integrated with the training and support of smaller retailers and the provision of incentives to encourage new enterprise at one level, and the more effective marketing and management of town and district centres at another. Superstores and retail parks have a very important role to play, but they are simply one element of a dynamic retail system, fulfilling an important function within it that needs to be recognised by policy makers.

Against that broad perspective, our research has highlighted a number of specific actions we believe government and developers might take to improve the functioning of retail policy and redress any damaging consequences. These are as follows:

- (a) *Government* should try to simplify and clarify planning policy, speed up the processing of applications and inquiries and be stricter about its regulation of planning obligations. This may be addressed in part in the new Green Paper. But it is also clear some of the ambiguity which surrounds PPG6 and results in apparently contradictory decisions needs to be removed, so both developers and retailers have a clearer picture of the likely outcome before they make substantial commitments to a proposal.
- (b) *Local authorities* need to do their part to speed up the processing of applications and recognise the current system adds substantial real and opportunity costs to applicants, ultimately paid for by final consumers. They also need to consider how their development plan mechanisms might better promote off-centre retail development. Retailers and developers would also welcome a greater degree of consistency and expertise from councils when dealing with planning applications. We would support any move to outsource the treatment of major retail applications to planning consultants.
- (c) *Retailers and developers* should attempt to co-operate with councils, seeking pre-application discussions wherever possible. They should look more closely at the possibility of edge-of-centre sites, which may have more potential than is sometimes perceived. In addition, they should emphasise to local authorities the sustainability benefits of their proposals and the scope they offer for regeneration and employment.
- (d) *Research*. We welcome the recently started project examining the effectiveness of PPG6, and the forthcoming project to clarify indicators of 'need' and 'impact', both funded by DTLR. We intend to make the research teams concerned aware of our findings. In addition, we feel that there is a need for more fundamental research into some of the assumptions that appear to underlie current Government policy. For example, on choice of travel mode, on consumers' ideal requirements for various types of shopping trip and on the suitability and availability of central area sites for retail development.

