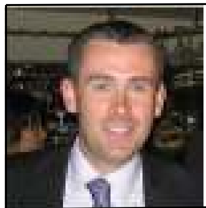
LIFE AFTER PPG 6:

RECENT FOOD RETAILER RESPONSES TO PLANNING REGULATION TIGHTENING IN THE UK



Steve Wood, School of Management, University of Surrey, Guildford, Surrey, GU2 7XH

Michelle Lowe, School of Management, University of Surrey, Guildford, Surrey, GU2 7XH

Neil Wrigley, School of Geography, University of Southampton, SO17 1BJ.

Introduction

- We are in a period of continued retail planning tightening for UK food retailers
- PPG 6 – made planning permission for out-of-town stores more difficult
- BUT….

  Sustained growth of the major food retailers

- So what is happening?

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Discussion organisation

- **Background to UK retail planning**
- **Working within the constraints of regulation**
  - Urban regeneration partnership stores in deprived communities
  - Using superstore sites more intensively
- **Exposing & exploiting flaws in regulation**
  - The mezzanine loophole
- **Circumventing regulation – new market entry**
  - Entry of major food retailers into the convenience market
  - Development of stand-alone non food stores

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Brief background to UK retail planning

- **1996 – PPG 6**
  - Incorporation of the ‘sequential test’
  - Makes gaining planning permission for OOT stores progressively more difficult throughout the 1990s
  - Gradual tightening of policy with the onus on the retailer to prove “need”
- **2005 – PPS 6 (Replaces PPG 6)**
  - Retains the principle of the ‘sequential test’ and ‘need’

RESULTS IN A PRIVILEDGING OF TOWN CENTRE DEVELOPMENT VERSUS OOT

Working within the constraints of regulation

<u>Urban regeneration partnerships in deprived communities</u>

- Food retailers have to become more flexible in their site assessment
- Post 1997 “social exclusion” rises up agenda
- Opportunities to “kick start” regeneration in partnership with local authority
- Retailers able to mount strong arguments for involvement in such schemes based on the contribution they could make to tackling social exclusion.
- Asda and Tesco at the forefront

Working within the constraints of regulation

1998 – Asda’s Hulme, Manchester store

2000 – Sainsbury's £23 million Castle Vale development in Birmingham.

Castle Vale Pre

Castle Vale Post

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Working within the constraints of regulation

- Tesco opened 11 regeneration partnership stores by the end of 2004 with a further 5 to open from early 2005
- These 16 stores equate to 1 mill sq ft
- Accusations of ‘piggy-backing’ on local centres & not catering to locals

- But….the creation of 5,500 jobs

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Working within the constraints of regulation

<u>Using superstore sites more intensively</u>

- Sequential test places a focus on edge of town sites
- But these sites are small & often insufficient for a non food offer
- Solution….build on stilts! (albeit at a cost)
- Benefits: adequate car parking AND sufficient size for a strong offer

Working within the constraints of regulation

- Tesco
  - Altrincham (2002)
  - Burnley (2003)
  - Long Eaton (2004)

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Exposing & exploiting flaws in regulation

Exploiting the mezzanine loophole

- Adding a mezzanine floor, did not previously fall within the definition of “development” in sub-section 55(2)(a) of the Town and Country Planning Act (TCPA) 1990.

Exposing & exploiting flaws in regulation

- Potential for 10,000 sq ft+ net of non food selling space
- Asda at the forefront of exploiting this loophole
  - First mez at York opening in Nov 2002
  - By Jan 2005 14 floors constructed with a further 15 in 2005
- Tesco play catch-up
  - First mez at Swansea opening in Oct '03

Swansea Tesco Extra – mezzanine floor

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Exposing & exploiting flaws in regulation

<u>Exploiting the mezzanine loophole</u>

- March 2005 - OFDPM publishes a consultation document to insert new sections into the TCPA to bring into the meaning of “development”, ‘operations which have the effect of increasing the internal gross floor space of a building’

Circumventing regulation – by expansion into new & fragmented markets

Entry into convenience markets

- Why can the leading food retailers enter this market?
  - The Competition Commission argue there are two separate markets – primary/one stop (superstores) vs secondary shops (c-stores)

- Tentative initial entry by major food retailers
  - Tesco/Esso joint venture with “Express” stores
  - Sainsbury's first “Local” store 1998

Circumventing regulation – by expansion into new & fragmented markets

Entry into convenience markets

- Tesco purchased 862 T&S/OneStop stores ('03) then 45 Admin stores in London ('04)
- Sainsbury's purchased 54 Bells stores then 114 Jacksons stores (both '04)

- Sensitive issue in local communities as T&S stores are converted to Tesco Express
- Research project to report on consumer behaviour changes with Express arrival in Oct '05: 'Consumer Responses to Supply Chain Transformation in the UK convenience store sector'

Circumventing regulation – by expansion into new & fragmented markets

Development of stand-alone non food stores

- Lack of opportunities for super/hyper market development frustrating to Asda

- ‘What is frustrating is that we cannot get new sites. We have a business model that works. There is demand out there. But we cannot get planning consents… Large parts of the country do not have access to the company’s non-food product range due to lack of space’

(Tony De Nunzio, former CEO, Asda, 2004).

•George High Street stores

•Trials started Sept '03

•6,000 – 10,000 sq ft

•Slightly off pitch location

•13 stores portfolio planned for end '05

•Asda Living 100% non food stores

•Retail park locations

•1st store opened in Walsall Oct '04 at 38,000 sq ft

•Additional stores in Altrincham and Barnsley.

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Circumventing regulation – by expansion into new & fragmented markets

Development of stand-alone non food stores

- Tesco play catch up
  - First two units to open in Oct ’05 in Aberdeen & Manchester branded “Tesco Homeplus”

- But considerable challenges…
  - Generation of adequate footfall?
  - Performance away from weekend retail park peaks?

Conclusions

- Lessons about organizational adaptation and corporate restructuring in response to regulatory tightening
- Leading food retailers experiment with entrepreneurial strategies in the face of regulatory assault
- "Continuous restructuring" is the mantra – continuous adaptation to the external environment
- Regulatory practice is continually re-interpreted and re-made

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Conclusions

- Re-emphasises the importance of core competencies in approaching new initiatives
- Underlines the power of retailer brands that can be leveraged into new store formats
- Though risks damaging the brand with entry into new markets
- Continued threat of “supermarket dominance” argument…..


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Tesco Taking Over High Street

Jun 24 2005

Tesco's growing market share is bad for British business, bad for consumers, bad for the environment and must be checked, Friends of the Earth said today (Friday 24th June), as shareholders attend the supermarket giant's annual general meeting