Retail Strategy Group (RSG) Strategic Framework

Invitation to Contribute

Introduction

The Retail Strategy Group (RSG) is an industry led body, supported by the DTI, and made up of retailers (both large and small), Government Departments, employee representatives and academia. Its aim is to work in partnership to identify key issues that impact on the competitiveness and productivity of the UK retail sector and, together, take action to maximise the opportunities for, and minimise the threats to, UK retailers.

The RSG has identified four issues, seen to directly affect the competitiveness and productivity of the UK retail sector. They are Crime, Property, Planning and the Cost of Compliance. There are, of course other issues, for example skills, which are being addressed in the context of other Government policy initiatives and complement the work of the RSG.

In addition to addressing these four issues the RSG has commissioned a study into the productivity of the retail sector. This will form the basis for future-working relationships between the sector, its representative bodies and Government, and will add to the bank of knowledge on the sector. The DTI sponsored report on retail competitiveness (Competitive Analysis of the Retail Sector in the UK – January 2003 is accessible at www.dti.gov.uk/sectors_retail.html)

Project Teams and members

A member of the RSG chairs each Project Team. Membership is made up of stakeholders with the appropriate interest and level of expertise in the work streams being progressed.

For example, the Planning Project Team includes representatives from Local Authorities, a Regional Development Agency (RDA), town planners and commercial property developers.

The emerging findings of the Project Teams are focusing into three broad areas:

- The need for retailers and Government to work closely together to influence policy both at the UK and European level;
- The need for the retail sector to be closely engaged at a regional and local levels; and,
- The need to differentiate between the needs of small retailers and large retailers.

The Purpose of this paper

This paper aims to share the current thinking of the RSG with a wider community and to seek views and experiences.
In reading the paper we would like you to consider the following:

- Are the issues identified by the RSG relevant to you and, if so, how have you addressed them?
- Do the emerging findings accurately reflect your experiences?
- Do you have any examples of good or bad practice you would like to share?

It will not be possible to respond directly to all comments received, but they will be passed to the relevant Project Team for consideration.

The recommendations contained in the paper are currently suggestions and may change as a result of comments received in this exercise.

In the final RSG report we would like to illustrate the points made with case studies and live examples of how retailers and stakeholders have worked together to overcome problems or issues. If you are happy for your experiences to be considered please indicate in your response. No examples will be used without your approval.

Your comments should be sent to retail.strategy@dti.gsi.gov.uk before the 30 January 2004.

RSG Secretariat - DTI
October 2003

The Retail Sector

Retailing is a dynamic sector, which contributes to job creation and GDP. Given increasingly high customer expectations it needs to be innovative and highly responsive.

The retail sector comprises a large number of businesses varying in their size, locations, the goods they sell and the markets they serve. One policy or initiative will not therefore suit all retailers nor the diverse needs and expectations of consumers.

Commerce and distribution ("the distributive trades") accounted for about 12.25 per cent of added value in the United Kingdom in 2001, with the retail trade accounting for 5.25 per cent, the wholesale trade for 5 per cent and motor trades 2.5 per cent.[1]

Retail Productivity

Existing research, notably by McKinsey and NIESR, has identified factors influencing productivity levels and points to a gap between UK retailers and global competitors (particularly the US). Many leading retailers and other commentators find this analysis hard to understand In particular it is unclear whether the term “productivity” in relation to retail has been appropriately or consistently defined and understood.

A study has been commissioned, by the DTI, on behalf of the RSG, to examine the reasons for these divergent views, to analyse the evidence and suggest practical actions for the Government and the sector in response to any deficiencies in the productivity of the sector.

The study aims to:

- Reach a consensus on the factors determining retail productivity;
- Establish common performance indicators to use in measuring future productivity levels;
- Use the measures to benchmark UK retail productivity performance within the sector; and
- Make recommendations for improving retail productivity in the UK including identifying parties best placed to implement such actions and the benefits to be gained.

The Report will be available on the DTI website as a companion document to the RSG final report in the Spring 2004. An action plan will be developed for retailers and Government to take forward issues arising from the study.

[1] DTI estimated based on data published by Office for National Statistics

The Project Teams Emerging Findings

Crime

Aim: to reduce all forms of retail crime by 10% (5% external crime and 5% internal crime by 2005[2])

Possible Recommendations

- Existing work by both the Private and Public sector on retail crime to be developed into a coherent strategy and promulgated more widely;
- Closer links to be developed between Retail Crime Reduction Partnerships (RCRP) and the statutory Crime and Disorder Reduction Partnerships (CDRP)
- Consideration to be given to the development of an "Academy of Retail Crime" comprising the retail sector, Police, Government and other stakeholders to share experience and identify and disseminate good practice.

Background

It was estimated in 2001 that, retail crime increased the average household-shopping bill by over £100 a year, with an overall cost to the economy of £2.4bn. 37% of Retail Crime losses were due to staff thefts[3]

Much work is underway to tackle the issues of retail crime at a local and regional level but retailers do not appear to have a clear picture of the good practice and initiatives being developed and how these can be replicated across other retail sites and local communities.

The Government has supported the development of Retail Crime Reduction Partnerships (RCRP) since their inception but the development of partnerships across the country is patchy both in terms of coverage and quality. Retailers at a local level need to engage with the existing RCRPs or work together to develop new partnerships. Examples of good practice and success stories from existing RCRPs should be disseminated across the network to raise the standards to those of the best.

Retail Crime is closely linked to drug and alcohol abuse. Violence towards retail employees is of great concern. The 1999 Home Office/HSE Report "Violence at work: Findings from the British Crime Survey" estimated a risk of violence to retail staff as 4.9% compared with an average risk for all occupations of 2.6%. The Union of Shop, Distributive and Allied Workers (USDAW) have instigated the "Freedom from Fear Campaign" to raise awareness of the increased level of violence and abuse towards shop

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[2] Retail crime includes fraud, customer theft, violence towards staff, damage to physical assets, robbery, till snatches, burglary and staff thefts
[3] Figures from BRC Crime Survey Data

workers. The campaign involves retailers and Police and included the first National Respect for Shop Workers Day on the 17 September 2003.

The British Retail Consortium (BRC) and the Home Office have developed a close working relationship to try to address the underlying causes of crime and their effects on retailers and their employees. The aim of this work will be to reduce the instances of crime and help retailers and their employees to better deal with crime and the effects of crime.

The Project Team is identifying areas of work that can be undertaken after the RSG work has been completed. We would very much welcome ideas and views on how retailers can work together at a local level, to share experiences and information on how to minimise the instances of retail crime – including employee crime.

Working in partnership with each other, the Police and other community bodies will help develop a co-ordinated effort to tackling retail crime. This should include the sharing of intelligence on instances of crime and "mobile offenders"[4], sharing good practice on steps to deter crime, for example merchandising and store layout.

> **What crime prevention systems have you implemented – including staff training, Neighbourhood watch schemes, membership of Retail Crime Partnerships and capital equipment?**
> **Do you have any good practice or experiences to share?**

Property

Aim: a widespread adoption of more flexible leasing arrangements, which share the associated risks between retailers and landlords/investors**.**

<u>Possible Recommendations</u>

- Commission research to examine if financing of retail developments influence the leasing regime and consider recommendation in light of the research study;
- Produce Guidance for small retailers on the ODPM Code of Conduct, their rights to negotiate as part of the rental review and disseminate good practice and experiences;
- Consider the Reading University interim report and make appropriate recommendations

<u>Background</u>

Parts of the retail sector are concerned about the limited flexibility in current property leasing arrangements; in particular the process of determining rent reviews and the prevalence of upward only rent reviews.

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[4] Mobile offenders are those who move from area to area in organised gangs.

The issue of Property cost is a well-documented and researched area. The Project Team have consulted with Property experts and considered relevant studies to help identify any fundamental gaps in existing knowledge.

A case study based research project is being commissioned to look at whether the financing of retail developments influence the leasing regime and in particular create any impediment to the more widespread adoption of flexible leasing arrangements, for example a rent pricing mechanism which is related to the level of profitability. This study will provide a new and constructive contribution to the current bank of knowledge on the sharing of risk between landlords and retailers.

Government recognises that inflexible lease terms can restrict business growth and increase exposure to undue risk. The Office for the Deputy Prime Minister (ODPM) has commissioned Reading University to study the impact of the Code of Good Practice for commercial leases, which was introduced in April 2002. Part of this study will measure the degree of choice in the commercial property leasing market, focussing on alternative options to upward only rent reviews and the level of awareness of property matters amongst small businesses.

An interim report will be published towards the end of 2003 with a final report towards the end of 2004. The interim report will provide a snapshot analysis focusing on changes in the market since the introduction of the Code. The Government announced in the 2003 Budget that if the interim report shows little progress in the commercial leasing market towards flexibility, they would consult on possible legislative options to ameliorate the situation. If the interim report highlights no change in the levels of leasing flexibility retailers must consider what the ideal outcome would be for the sector.

> **As a retailer are you aware of the Code of Good Practice? Has the code influence the relationship with your landlord?**
>
> **As a landlord or property investor what underpins your decisions to invest in or own retail property?**
>
> **If you are operating in Scotland or Northern Ireland (where the code does not apply) can you identify any benefits or drawbacks of the different mechanisms and approaches in the locations?**

Planning

Aim: a more effective planning regime at a local and regional level, which fully engages retailers and other stakeholders

<u>Possible Recommendations</u>

- Closer retail engagement with planning bodies at a local, regional and national level;
- Establish a central retail body to ensure open consultation on Regional Spatial Strategies and Local Development Plans;

- Retailers to exercise the opportunity to engage in the consultation process;
- Establish regional retail groups to ensure the importance of retailing is fully understood and taken account of in developing planning strategies;
- Establish closer links between Development Planning and Transport Planning at local national and regional levels

Background

Planning Policy Guidance (PPG6) is a social policy for England and Wales designed to preserve town centres and retail developments. PPG6 will shortly be the subject of a Government Consultation exercise. The Project Team will feed into this process but is not examining PPG6 in detail before then.

In addition, the Planning Project Team has identified areas where the local and regional infrastructure and communication mechanisms can be improved.

Many retail developments are bedevilled by protracted time scales, often because of delays in bringing together control of the necessary parcels of land. The process is lengthy and often results in capital being tied up which in turn can influence the level of return.

A case study based research project has been commissioned to examine the issues of land assembly with the aim of identifying difficulties in bringing together land for retail development and suggesting possible solutions for a more effective system for the future.

The development of regional and local planning strategies indicates a lack of engagement with the sector and a low level of appreciation of the economic significance of retail across all English regions. The new Planning and Compulsory Purchase Bill aims to rectify some of these failings in England and Wales.

The East Midlands region will be used as a model to examine the Bill and to identify how retailers can engage better with the Regional Development Agencies (RDAs) and local authorities to influence the development of the Regional Spatial Strategies (RSS) and the Local Development Documents (LDD).

The development of the transport infrastructure and the ease in which consumers can access retail developments is a major component in the decisions of retailers when choosing locations (this is equally true of most sites – primary, secondary and out of town). There is a view that Transport Strategies and Development Planning are insufficiently co-ordinated at a regional and local level with further conflicts between the travel to work/shop catchments, which do not fit readily with local authorities or regional boundaries.

Improving relationships at a local and regional level and raising the profile of the sector with RDAs and local authorities will only achieve the key to well co-ordinated regional and local planning policies that satisfy the needs of the retail sector.

Do you have any good practice or experiences to share?

If operating in Scotland how do you feel the different planning regime (NPPG8) has worked, both generally and in comparison to PPG6?

Cost of Compliance

Aim: For Government and Retailers to work closer together in the design and implementation of regulations, which directly affect the sector

Possible Recommendations

- Create a forum through which the retail sector and Government can add value to the policy and legislative processes in the UK and EU;
- Introduce unified dates for the introduction of related regulations;
- Publish reports where UK implementation of EU regulations exceeds the basic requirements;
- Definition of SME to be unified;
- Officials to spend time with business as part of the consultation and Regulatory Impact Assessment Process (RIAs) at an early stage in the development of regulations to experience the effects.

Background

Independent analysts consider the UK to be a relatively lightly regulated economy. Regulation is however consistently listed as one of the top five barriers to business.

The Project Team has concentrated its attentions on the consultation process, employment regulations, regulations aimed at consumer protection and environmental regulations.

They consider that the complexity of some regulations can result in unintentional non- compliance and inconsistent enforcement across a range of local bodies. An area of particular concern is the mass of employment regulations, which impacts disproportionately on small retailers.[5]

The Project Team is gathering evidence to help judge the levels of over complexity in some regulations and to offer suggestions on how procedures linked to compliance can be simplified or generalised and how regulations can be modified or amended to take account of the changes in technology and consumer requirements.

[5] Natwest Quarterly Survey of Small Business in Britain September 2003.

Have you ever been involved in or responded to a Government Consultation exercise? If so, what involvement did you have and do you think the process could be improved?
How do you think regulations could be implemented better?

Next Steps

The RSG will continue its work into the New Year. A report, which will reflect (although not necessarily directly acknowledge) the comments, views and experiences received as a result of the paper, will be presented to Government Ministers in the spring. RSG will then cease to exist although it is hoped the successes and lessons learned from the RSG process will continue to shape and influence the relationship between the retail sector, its stakeholders and Government in the year to come.

RSG Secretariat
October 2003