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Developments in the Retail Sector

Speaker: Alan Giles, Chair of the Advisory Board of the Oxford Institute of Retail Management and Non-Executive Director of the CMA

Date: 19 June 2018 at 12.30 pm

Venue: Addleshaw Goddard, London

In his illuminating talk on current developments in the retail sector, Alan Giles ("**AG**") focussed on the changes that consumers are facing in today's world with the continual rise of technology. He discussed three key categories of change and how the retail industry is responding to these changes. He also provided his view on the main challenges faced by regulators as the retail sector continues to evolve.

Key changes in the retail sector

AG set out the following three key areas of development in the retail sector:

1. There has been a relentless growth of discounters, such as Aldi and Lidl, at the expense of the 'Big Four' supermarket chains. There is some evidence that this trend is abating but it is still concerning to the main supermarkets. This change is taking place not only in the groceries sector but also in apparel and other sectors.

2. E-commerce continues to be a key area of development - every three or four years a new breakthrough in technology occurs that has a significant effect on consumer habits. Amazon continues to be a dominant player in this area, spending more money on research and development than any other US company and investing in long-term strategies. Amazon has recently made a number of acquisitions, with two principal aims: a) to invest in and develop new technology; and b) to gain access to new customers.

3. Changing consumer habits and expectations is the third key area of development in the retail sector. Consumers are increasingly technologically literate; two thirds of consumers, while shopping in one store, will simultaneously compare the prices of the store that they are in with those of other retailers using their smartphones. Retailers are under increasing pressure to cope with these knowledgeable customers. Consumers also want instant gratification, a seamless and frictionless consumer journey, and increased transparency from retailers.

Retailers' responses to the changing landscape

AG explored a variety of ways that retailers are adapting to these three areas of change. These include:

- More sophisticated price comparison services, such as Flipper – an app which automatically switches users between energy suppliers to the best available deal;
- Increasing numbers of retailers offering next/same day delivery;
- Increasing the in-store speed of purchasing a product, for example customers using self-scanning and self-checkout apps on their phone;
- Meeting the growth of fulfilment costs with new delivery solutions. For example, Amazon are developing a system whereby a local fulfilment centre could stock a product or make it with a 3D printer before it is even ordered, by anticipating the future needs of the customer; and
- Introducing rental options or subscription models of ownership, or moving to selling services rather than selling goods, to suit consumers' increasingly asset-light lifestyles.

AG made a side-by-side comparison of cost structures of online and bricks-and-mortar grocers. While online grocers do not have to pay for store rent and personnel costs, they spend more on fulfilment, marketing and technology than grocery stores. This means that, if differences in gross margin are corrected for, there is not a great difference between the costs of running physical stores vs online stores.

Most retailers now have too much shop floor space, and many are likely to be making a significant number of closures in the near future. However, some stores are opening much smaller local high street branches, while, for example, Sainsbury's is using its acquisition of other retail companies to fill some of the space in its larger supermarkets.

Potential areas of concern for regulators

It is generally acknowledged that more active consumers get a better deal from retailers, and so as technology plays an increasingly large role in the retail sector, AG believes that a potential area of concern for competition authorities and regulators will be that vulnerable and disadvantaged consumers may not be able to benefit from technological developments.

Other practices mentioned as possible areas of concern for regulators include the misrepresentation of provenance, use of time-limited discounts to pressure consumers into quick decision marking, and the continued use of drive-time contours model for analysing how people shop, which does not take account of online options. Additionally, some developments such as the rise of consumer-to-consumer commerce and the use of electronic shelf-edge labels may appear to be pro-competitive, but may in fact result in poorer quality goods on the market and unjustified differential pricing.

Extremely dominant e-commerce platforms such as Amazon, whose dominance is already viewed by some as a failure of the antitrust authorities, are likely to continue to strengthen their position on the market. Competition authorities will undoubtedly continue to take an active interest in any future collaborations between competitors and in new 'mega-mergers'.