

Performance of the UK retail sector and the role for government policy

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Background

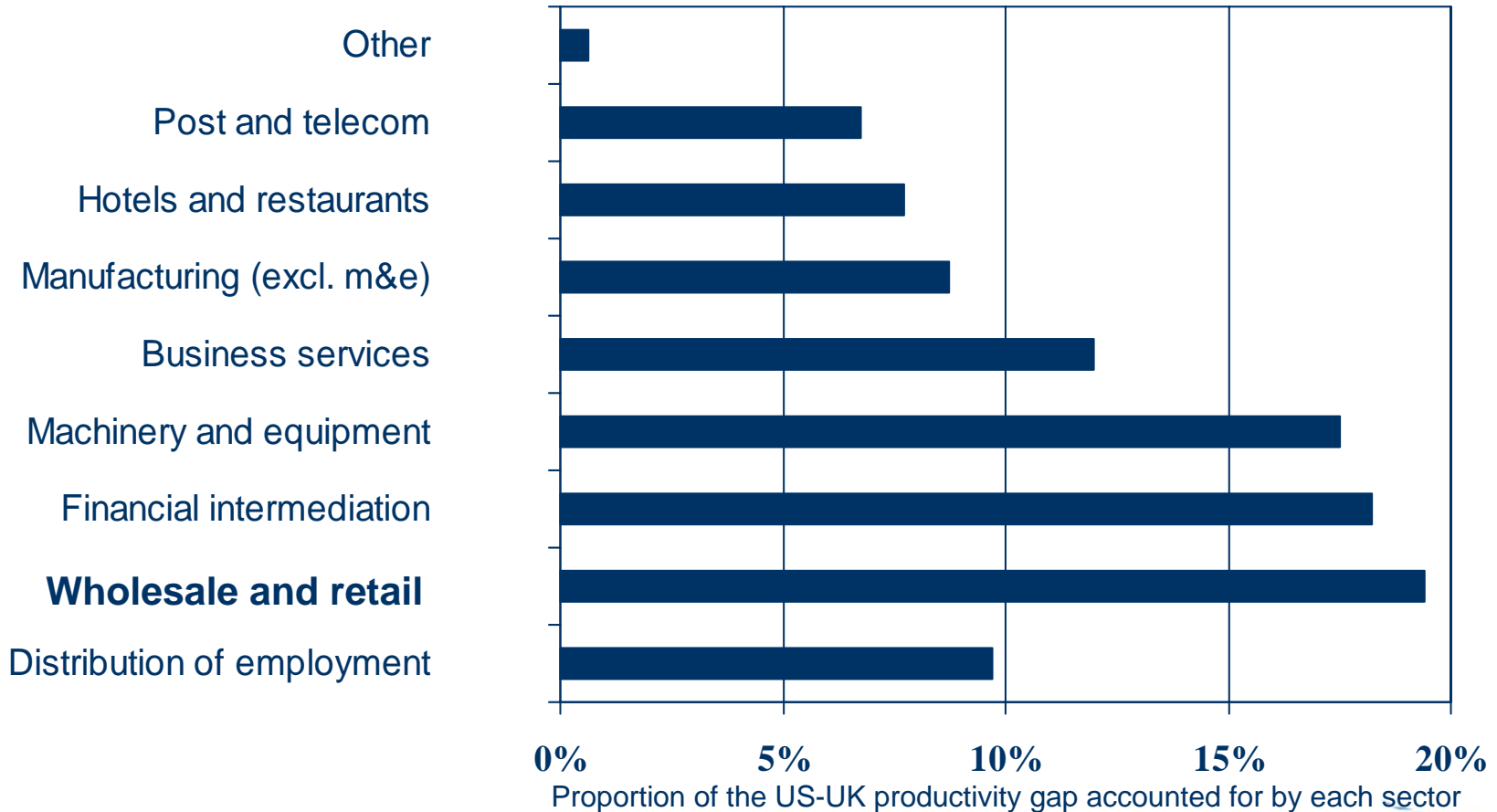


- **IFS (www.ifs.org.uk)**
 - The **Institute for Fiscal Studies (IFS)** is an independent research organisation that aims to promote effective economic and social policies through rigorous analysis of their impact on individuals, families, firms and the public finances
- **AIM (www.aimresearch.org)**
 - The **Advanced Institute of Management Research (AIM)** was established in 2002 with the mission to:
'significantly increase the contribution of and future capacity for world class UK research on management'

- **One of a group of projects looking at firm and consumer behaviour in retail markets**
 - **how can UK policy makers evaluate and address concerns surrounding the UK's performance in relation to other countries?**
 - **bring together data on firms and consumers, policy interventions and the physical and economic environment**
 - **carry out econometric analysis to provide evidence base**
- **Within UK and international comparisons**

UK productivity gap with US, 2001

Value-added per worker was 40% higher in the US than in the UK



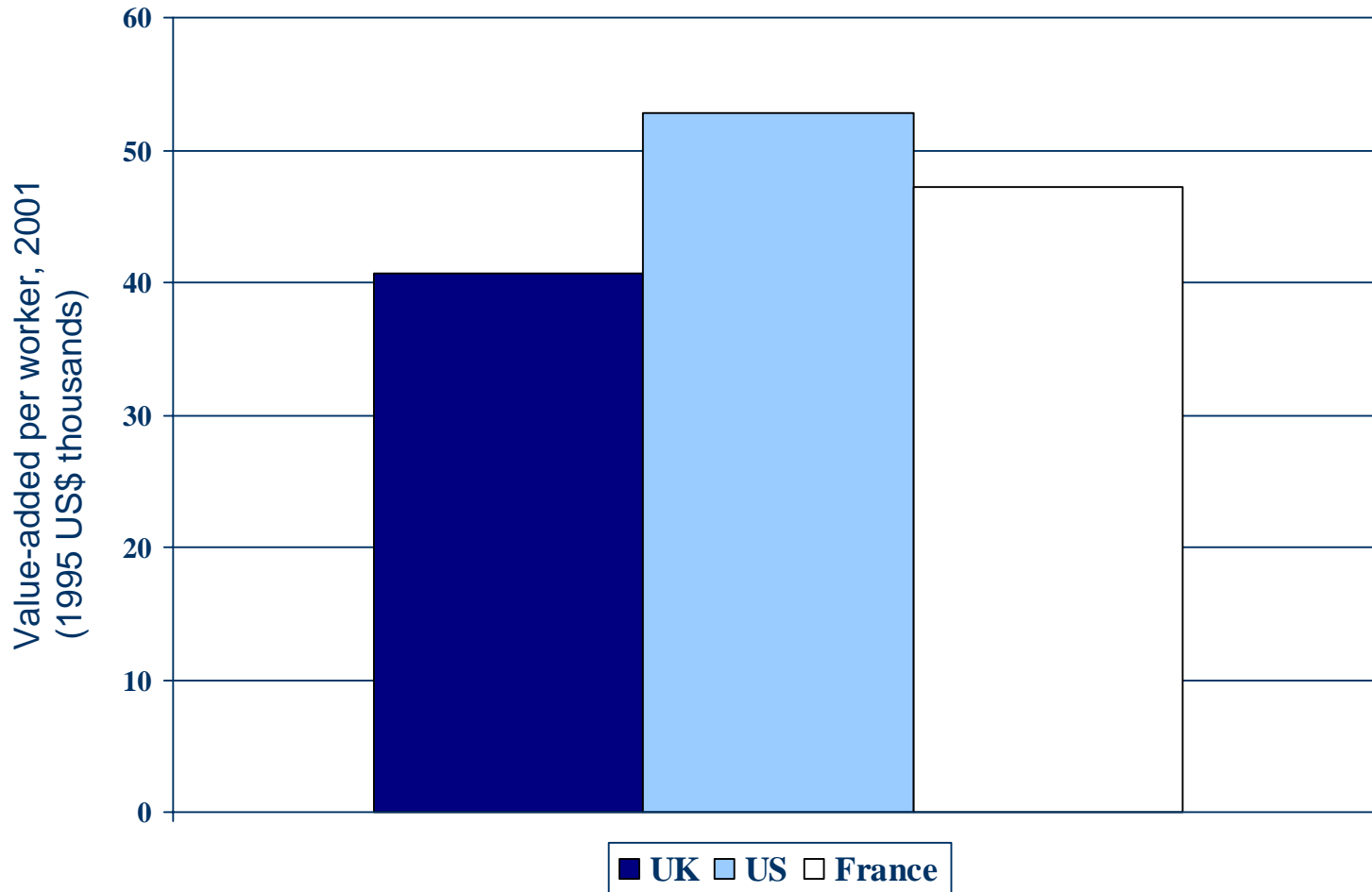
Source: Griffith, Harrison, Haskel and Sako, "The UK productivity gap and the importance of the service sector"
<http://www.aimresearch.org/publications/rgbrief.pdf>



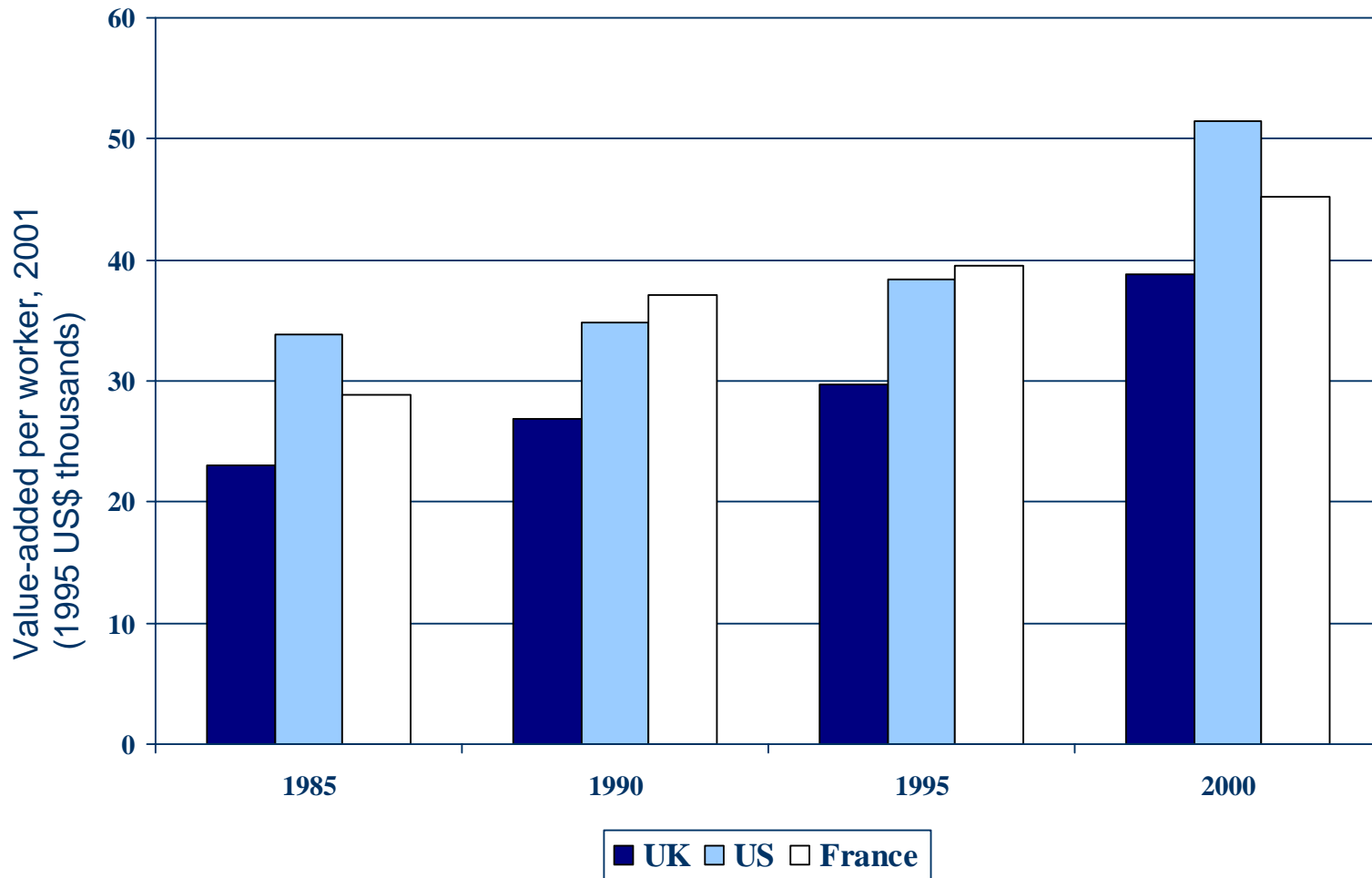
Advanced Institute of
Management Research

- **What is productivity?**
 - Value-added per inputs
 - How much value is created per unit of input, i.e. how efficient and effective are we at using resources
 - What inputs?
 - Labour
 - Capital (land and machinery)
- **Productivity**
 - focus of government policy
 - determines wealth of the country

Value-added per worker wholesale and retail sector

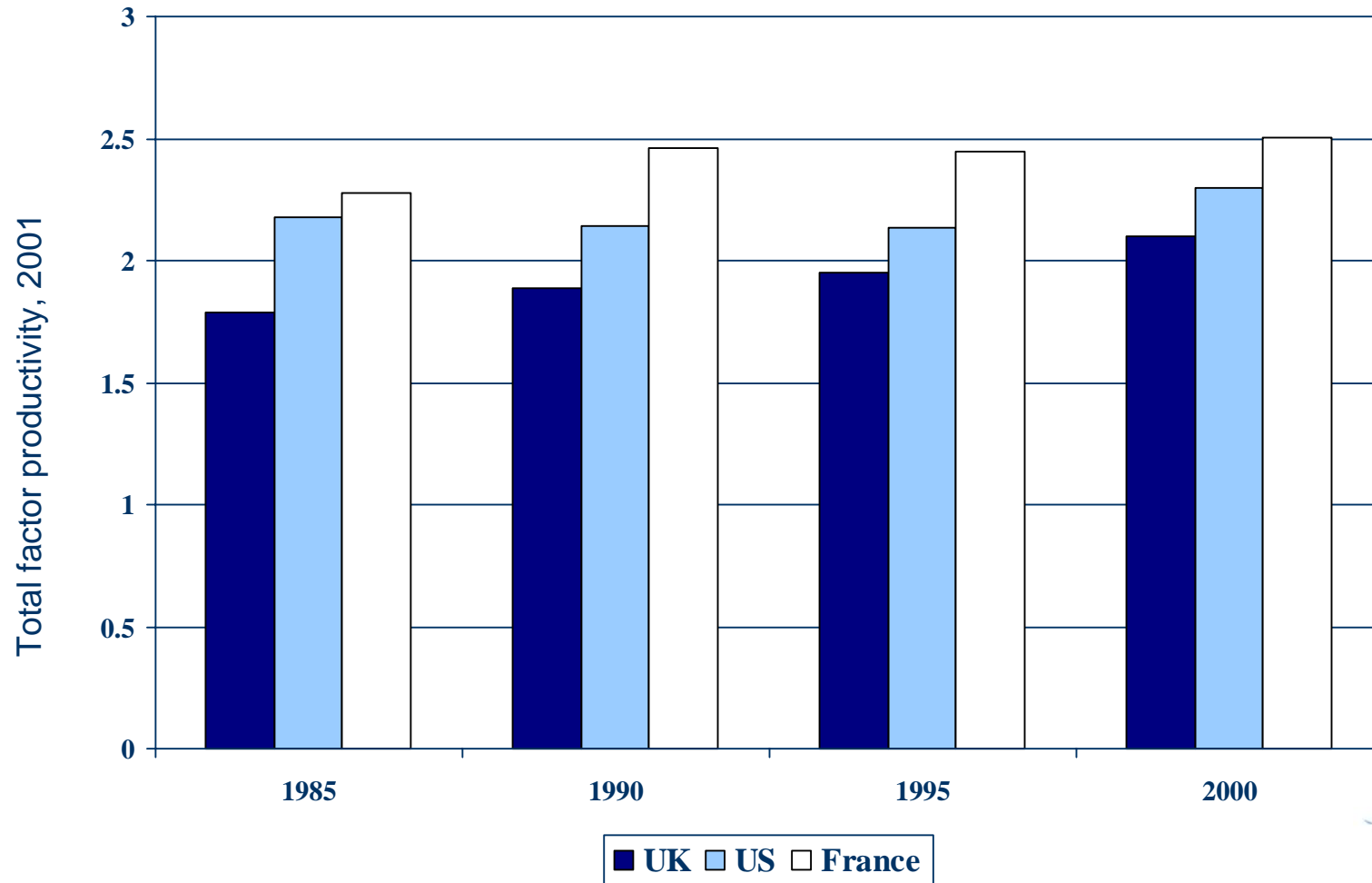


Value-added per worker wholesale and retail sector



- **Wholesale and retail responsible for largest part of UK productivity gap with US**
 - US is 30% higher, France 13% higher
 - large sector so large part of aggregate story
- **Firms in UK use more labour**
 - is this because land expensive, dense population
 - is this the whole story
 - what about ICT and other forms of capital?

Total Factor Productivity wholesale and retail sector



- **What determines productivity growth?**
- **Entry**
 - **in the US most productivity growth comes from new establishments**
 - **entry rates high in the UK**
 - **but in the UK most productivity growth comes from existing establishments**
 - **why is that?**

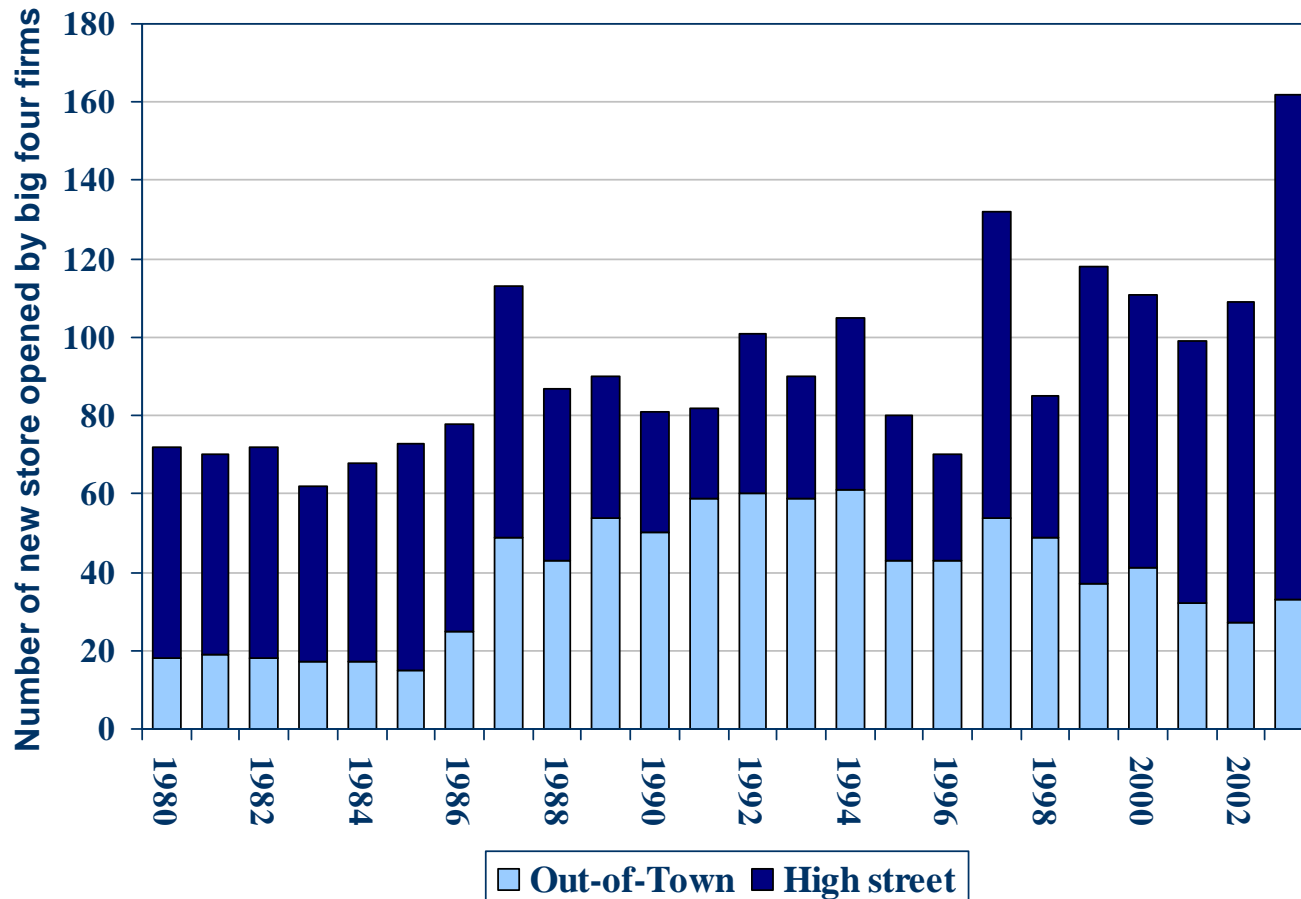
Planning regulation and supermarkets

- **Planning regulations blamed for poor productivity performance and high prices in UK retail sector**
 - **Could planning regulation be reason for lower productivity and higher prices?**
 - **What impact have planning regulations had on supermarket entry, market structure, prices and efficiency?**
- **How have they affected firm strategic choices - entry and pricing decisions - and how have these affected the prices consumers pay**

Research question

- **What impact have planning regulations had on new store openings?**
- **Planning regulation changes have favoured town centre over out-of-town development**
- **ODPM evaluations suggest that 1996 reform reversed downward trend in town centres**
 - **how important were changes in planning regulations, what about other factors?**

Store opening by big four



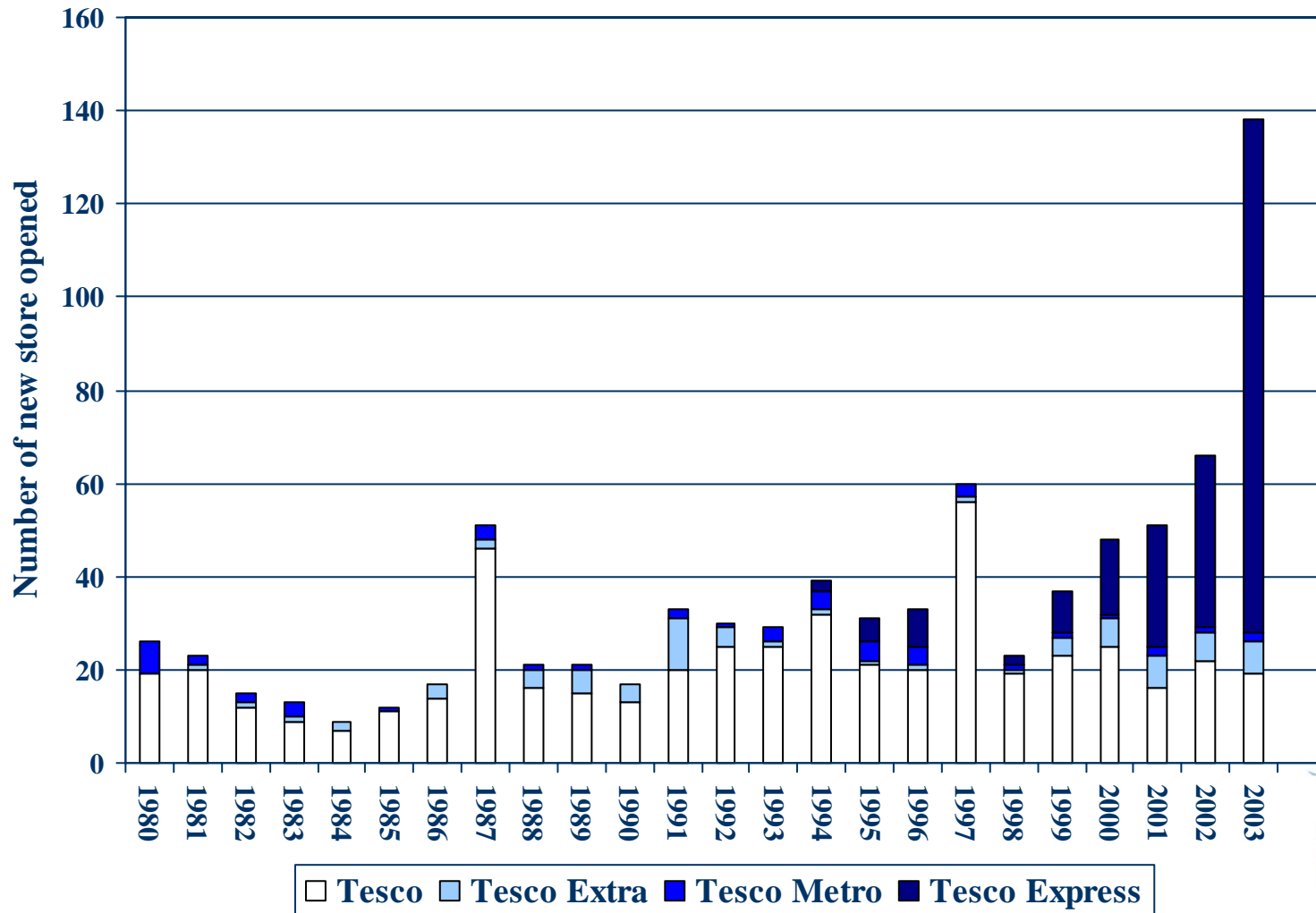
Out-of-town includes edge-of-town, industrial and retail centre

High street includes forecourt, neighbourhood and shopping centre

Big four are Asda, Sainsbury, Safeway/Morrison, Tesco

Source: Authors' calculations using IGD

Store openings by Tesco



Research on store openings



- **Part of the IFS/AIM research**
 - **Econometric model of store openings across UK**
 - **What factors are driving store entry and exit**
 - **What impact have planning regulations had on new store openings?**
- **Findings will be useful for policy**
- **Also an important input into other research on productivity and pricing behaviour of firms**

Competition concerns



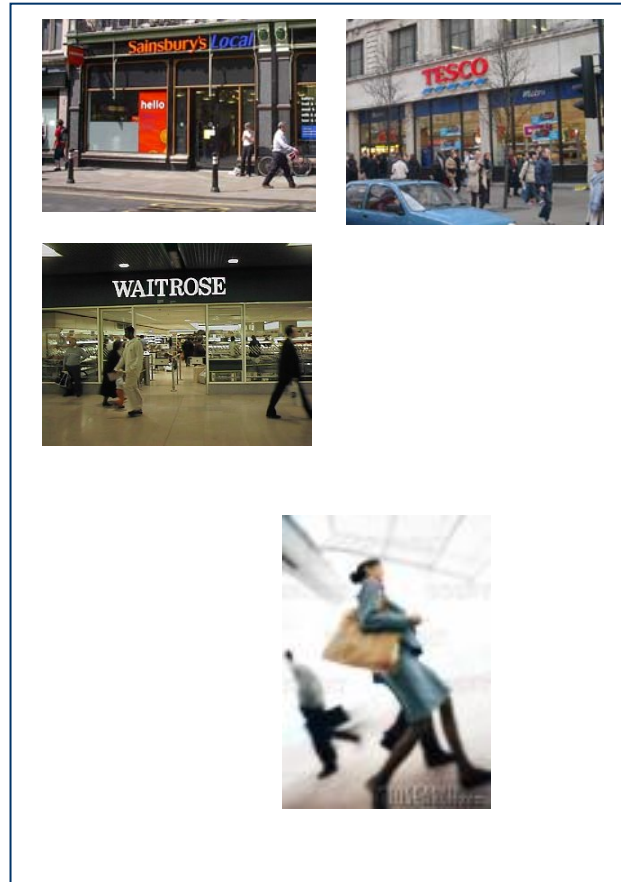
- **Competition Commission investigations of supermarkets**
- **Comparison of price levels and price dispersion**
 - Are these due to a lack of competition, or other factors?
- **What impact have planning regulation changes had on**
 - store size and efficiency
 - competition and market structure
- **How were prices that consumers pay affected?**

The idea

Market 1



Market 2



- **Consumer data (household panels)**
- **Store data (IGD)**
 - **Store location, date opened, characteristics**
- **Planning regulation (ODPM)**
 - **Decisions approved for specific retail use (A1 and A3)**
- **Firm characteristics (company accounts, FAME)**
- **Physical and economic environment (ONS)**

The role for government policy

- **What should government policy do?**
- **Intervene when markets fail**
 - **when the actions of firms or consumers affect others (externalities)**
 - **when consumers are not well informed (information asymmetries)**
 - **to provide the right incentives in other ways**
- **Ensure that regulation does not impose a disproportionately large burden on firms, and that it does not stifle innovation and beneficial change**

What market failures

- **Productivity**
 - what lies behind difference between US and UK performance?
 - are firms constrained in their ability to invest?
 - is lower capital investment due to limited supply of land?
 - how should scarce land be allocated, is the current regulation effective?
- **Competition and pricing**
 - how and why do prices vary across markets?

Expected outputs



- **Better evidence base for policy formation**
- **Better understanding of**
 - **productivity in retail and wholesale sector**
 - **importance of planning regulation in determining**
 - **store entry**
 - **market structure and pricing**
- **Policy and academic papers on these topics**