

The changing retail environment



In this essay I am going to critically examine the changing retail environment to assess why in recent times some UK high street retailers have failed while others have succeeded. I will discuss and examine different macro and micro economic factors and how these have impacted upon retailers. The marketing environment impacts as well as surrounds any firm; therefore the marketing environment always has considerable impacts upon any organisation (Nwagbara, U 2011). It is important for companies to adapt in order to have a competitive performance and increased yields in the speedily changing markets they face (Piercy, 2002).

The technology revolution has had a major impact upon the UK retail industry. The development and impact that the internet has had on retailers has been highly significant as traditional retailers suffer due to the success of Amazon and other online companies (Rigby 2011). The fall of previously leading retailers Comet, Jessops, HMV and Blockbuster, is largely blamed on their failure to adapt to online retailing. By not changing their business model to clicks & bricks from bricks & mortar, as others like Tesco and Argos have done, these previously market leading companies failed to spot an opportunity (Oliver, M 2013). Ten years ago HMV was highly successful in the entertainment industry and was valued at one billion pounds when it floated on the stock market. It can be argued that HMV possibly failed due to arrogance or a feeling of invincibility but, ultimately, it was overtaken by the pace of technological advancement (Oliver, M 2013). Comet had been battling the changing landscape of the electrical retail sector for many years. It had become increasingly difficult for it to compete with online retailers which did not face the same overheads such as store rents (Burton L, 2012).

Retailers who want to satisfy the modern consumer must follow customers desire to use technology. After more than a decade since the arrival of online shopping, customers are becoming increasingly comfortable shopping over the Internet (Groeber, J 2011). More than 30 million UK consumers now shop online and recent figures show that this market is growing by 12% per year. According to IMRG and the e-commerce trade body, UK consumers spent an estimated £78 billion at online retail stores in 2012. Online purchases of consumer electronics, music and video have grown dramatically which has caused the acceleration of decline of the traditional channels (Oliver, M 2013).

It is clear that technology has been a catalyst in changing consumer attitudes and behaviour. There has been an increase in access to information on a brand's product, price and performance which has enabled consumer empowerment. Technology will continue to be a game changer within the retail sector as a whole as consumers become increasingly able to use technology. Online retail is now an established shopping behaviour, and Smartphone devices have enabled the growth of multichannel retail.

Smartphones are already an essential shopping tool for a growing number of consumers, and, as a result, the path to purchase is becoming less linear and fixed, and more fluid, as they use different channels to research, locate and purchase goods. Retailers such as Amazon have launched " m-commerce" sites or software applications that allow shoppers to purchase products from their Smart Phones devices (Jana, R 2009). Also research from KPMG has discovered that 45 per cent of UK shoppers now use mobile devices to locate

the nearest store, while 32 per cent use them to research products and services (Aubrey, C & Judge, D 2012).

Digital retailing is quickly evolving and expanding and can now be described as an omnichannel retailing experience. Omni channel retailing reflects the fact that retailers will be able to interact with customers through several channels such as websites, physical stores, catalogues, social media and mobile devices. Unless traditional retail merchants adopt an entirely new perspective; for example one that allows them to integrate different channels into a single seamless omnichannel experience they are likely to be left behind (Rigby, D, 2011). Digital channels have clearly and decisively changed the high street by reducing business operating costs, and therefore the price paid by the consumer. HMV failed to match the multi-channel success of Apple and John Lewis and unfortunately for HMV, that digital destination was usually Amazon. Another company that has recognised the large potential of combining desirable retail spaces with efficient online operations is John Lewis. John Lewis is a prime example of a successful multi-channel retailer, and its model poses a challenge to online retailers like Amazon. Amazon's lack of any high street presence where consumers can go, browse and handle goods is a clear weakness (Gothard, P 2013). For retailers an optimal branding strategy and market structure exists for the dual-channel stores of a multi-channel retailer (Yan, RR 2010).

Many UK specialist retailers have been struggling because supermarkets now offer a more diverse range of products. Supermarkets have diversified into new product ranges, for example electronic goods appeared in-store and on their websites. Supermarkets have superior size and scale therefore they can

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undercut their specialist rivals on price, taking business away from what were once market leaders in niche sectors. This has had a big impact on stores such as Jessops and HMV which are specialists in their industries (D'Arcy, C 2013). Gaming retailers are struggling with independent stockists closing down, and even major High Street names such as GAME struggle to stay profitable due to Supermarkets increasing the amount of floor space for gaming products. Supermarket products tend to be very competitively priced and generally lower than other retailers, especially when compared to specialist shops. By making very little profit, retailers such as ASDA and Sainsbury's are using games and other electronic goods as a lure for people to come in and buy other items where they can generate high profits (Blast Process, 2011). In addition to the recession, the customer focus on price has had a significant impact on the market and has also had an effect on value. Nonetheless, the structure of markets is changing, as specialists have felt the full weight of competition from supermarkets and internet retailers. Online stores in particular gain from being able to stock greater stock ranges compared with the limited shelf space of high-street shops (Bainbridge, J 2011). But the immense buying power of bigger stores, such as Asda and Tesco, which are rapidly pitching up in the market, means that they can bulk buy middle-end products, and still massively undercut on price which should represent a cause for concern. Ultimately, many consumers have come to the conclusion that they are prepared to sacrifice service in favour of value. Argos is still the biggest homewares retailer in terms of sales and market share and its dominance sealed the fate of some of the country's specialist stores. Online brands, multichannel retailers and having many products on offer reflecting the buying power of the bigger stores, who are investing in <https://assignbuster.com/the-changing-retail-environment/>

furniture and homewares ranges, at the expense, to some extent, of the smaller independents (Bainbridge, J 2011). Woolworth, which had 800 stores in the UK struggled to reinvent itself over its last few years after facing increased competition from supermarkets, online retailers and specialist shops (Venkatraman, A 2008). At the time of Woolworths collapse, it had £385 million debts and its failure caused the loss of around 30, 000 jobs (Walsh, L 2008).

In addition, retailers must cope with a dynamic evolving market environment that changes independent of competitors' actions; for example changes in economic conditions, preferences, lifestyles and demography all affect the firm's future profitability. Successful strategic planning procedures, therefore, must take into consideration possible future reactions by competitors in response to actions contemplated by a given firm and the fact that the environment is changing (Ghosh, A, & Craig, C 1983). The extent to which the current economic difficulties have affected businesses primarily depends on the type of retail business. This comes down to the demographics being targeted by the specific businesses. Consumers are spending less money; hence the retailers lose their profit margins.

Consumers have begun to cut down on their monthly budget and are not spending as much on luxury items. This has a direct and visible impact on the retail sector. This leads to problems with loans from banks and creditors, they are unwilling to invest in a company which has not had profits, or whose profit margin has decreased (Srinivasan, S, & Sivakumar, S 2011). Low cost retailers are thriving in the current market place, whereby consumers have tight budgets. Primark, the cut-price clothing chain, continues to be one of

the few retailers prospering in the recession, with a 10% increase in profits (Guardian 2009). Sales are up 16%, while more upmarket rivals such as Marks & Spencer are struggling to maintain profitability levels. Primark has experienced success by differentiating itself from other discount fashion chains. It has focused highly on the quality of their store merchandising and design which gives a more premium perception to the brand (Poulter, S 2012). Discount supermarket chains Aldi and Lidl have been expanding rapidly with sales growth of close to 10%% which is more than twice that of larger rivals Tesco and Asda, which are growing in line with the market at around 4%. Consumers are currently struggling as they are faced with a combination of soaring food and fuel prices at a time when pay freezes affect their disposable income (Wood, Z 2011).

Due to the economic downturn that the UK economy has experienced, there has been an increase in VAT from 17.5% to 20%. Higher VAT means lower demand for goods and services as prices go up and companies' margins are hit, meaning they have to cut costs to keep trading and so employ fewer people or hold back on job creation. It can be believed that the VAT rise could have been the final straw for some fragile retailers (Thames, 2010). However John Lewis, Marks & Spencer and Tesco delayed the introduction of VAT increases on most or all of their products whilst assessing their rivals' actions. This gave them the opportunity to look at competitor performance and adopt the best strategies to maintain profitability (Bawden, 2011). Retailers today are incredibly cost-focused and, inevitably, the VAT increase has had an impact on margins in the short term. If retailers made the judgment that is better not to lose sales and market share and to take a hit

on margin instead, then they will have had less cash available for new shop fits and expansion, therefore reducing performance (Thame, D 2009).

Overall I believe the main factor for why some retailers such as HMV and Blockbuster have failed in the market is their late adoption of the use of technology. Consumers have been becoming increasingly aware of the latest ways to purchase goods, therefore it has been essential for companies to stay ahead of their competition. The most successful retailers have adopted an omnichannel approach whereby consumers have several different methods of viewing and purchasing their products for example through high street stores, internet websites and Smartphone applications. Supermarkets are becoming increasingly dominant within the market place as they increase their product lines at the expense of specialist retailers.

Supermarkets are able to undercut specialist retailers through their superior economies of scale and customers have followed the lowest price. The economic downfall has had a significant impact on the consumer. People have less disposable income to spend on products and are likely to favour inferior and low cost goods. This can be demonstrated through the increasing success and profits of Primark. Primark does not adopt a multichannel approach however its very low prices and quality design are an effective strategy in persuading customers to purchase its products. The retail marketing environment is highly changeable and the retailers that are most likely to survive and flourish in the market place are those that are able to adapt quickly and effectively to the external pressures, any company that cannot keep up is likely to fail.