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The Distribution Sector in the United Kingdom

John A. Dawson

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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THE DISTRIBUTION SECTOR IN THE UNITED KINGDOM

This paper forms part of an OECD project which addressed the issue of the structure and change in the distribution systems of seven OECD countries.

The paper gives a comprehensive view of the distribution system in the United Kingdom. Namely, it assesses the contribution of this sector to the overall economy and gives a set of market structure indicators. The public policy issues related to the distribution system are also discussed.

*   *   *

Ce document fait partie d'un projet de l'OCDE qui avait pour objet l'analyse de la structure et des changements dans les systèmes de distribution dans sept pays de l'OCDE.

Cette étude donne une vue d'ensemble du système de distribution dans le Royaume-Uni. Notamment, elle donne une évaluation de la contribution de ce secteur dans l'économie et une série d'indicateurs sur sa structure de marché. Sont aussi discutées les questions de politique économique dans le secteur de la distribution.

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EXECUTIVE SUMMARY

1. The distribution sector in the UK is large and complex. For several decades it has been undergoing sectoral readjustment as small independent firms have given way to large public companies.

2. Although the distribution sector includes retailing and wholesaling discussion is usually limited to the distribution of products. It should be appreciated that retailing and wholesaling are very different activities and are defined by different processes. Within both retailing and wholesaling there is great variety of subsector with, for example, motor vehicle and petrol retailing contrasting with grocery retailing and consumer goods wholesaling contrasting with the wholesaling of industrial goods. Generalisations about distribution are often dangerous and may have little meaning.

3. Retailing in the UK is dominated by a small number, fewer than 300, large companies despite the presence of a total population, including the motor trades, of over 300,000.

4. Within the retail sector there appears to be a long term trend to transferring costs from the retailer to the consumer.

5. The large firms in retailing operate within an integrated multi-establishment framework which fundamentally alters management compared to similar sized firms in the manufacturing sector.

6. The percentage contribution of distribution to GDP in UK has increased during the 1980s suggesting that output from the sector has grown faster than GDP as a whole.

7. There has been a long term increase in the ratio of retail stocks:retail sales.

8. Consumer demand in the 1980s was characterised by a period of increased indebtedness and a decrease of the proportion of expenditure accounted for by food and other basic products. The volume of consumer expenditure rose considerably during the middle years of the 1980s.

9. The number of firms in retailing has fallen considerably over the long term but rates of decline have lessened in recent years. Entry and exit rates are high at 12-13% with exit rates slightly higher than entry rates. Entry and exit barriers for small firms appear to be low. The number of large firms, i.e. those operating over 100 outlets has been stable in the last few years after several years of falling numbers. Entry into this group would appear to be more difficult. The number of firms in wholesaling has risen by 30% during the 1980s.

10. Within retailing recent patterns show an increase in number of firms in specialist retailing and a decrease in general retailing.

11. There is increased activity involving the development of horizontal associations of small and medium sized retailers, such as voluntary chains, groups undertaking co-operative advertising and buying groups.

12. The number of shops has fallen at an average of 154 per week over the last 20 years. Declines have been greatest in general forms of retailing and least in the specialist trades. The few large firms are getting larger in respect of their store networks.

13. Increases in numbers of superstores has been substantial. Over 700 grocery superstores have been developed in 20 years and these account for approaching 40% of sales of grocery products. Almost 1000 DIY superstores have been developed over much the same period. Other types of store which have increased in numbers are stores which clearly target a particular consumer group, for example convenience stores.

14. Within wholesaling trends towards fewer but larger depots and cash and carry depots are evident. This is evident in food wholesaling but is not limited to this sector.

15. The volume of retail sales increased substantially between 1982 and 1988 since when growth has faltered. This pattern corresponds to that of general growth of the economy. The percentage of consumer expenditure accounted for by retailing has fallen steadily even during the period of real increase in retail sales. Within the overall pattern the increase in sales of large firms has been substantially

greater than the average, the increase in sales of specialist retailers has been higher than the average (the exception is the grocery sector where large general grocers have grown the fastest).

16. Five and ten enterprise concentration ratios have increased to 19.3 and 30.0 for retailing in total. Much higher figures are apparent in some sections of the sector.

17. Specialist non-food retailing and particularly that carried out by large firms has had a substantial increase in stock carried roughly in line with the increase in sales but in some sectors stock increases have outstripped sales increases. As a result stock turn has changed little in these areas. Food retailing shows a decrease in real stock values and notable increases in stockturn.

18. Capital investment has become increasing concentrated into a relatively small number of firms. In 1988, 25 per cent of all capital expenditure in the sector was accounted for by the building activity of fewer than 15 firms, all in the grocery sector. Tesco and Sainsbury have committed over £3,000 million on purchase of fixed assets in the two years 1990 and 1991.

19. There has been a large increase in new retail floorspace in shopping centres with an oversupply of new space becoming apparent in 1989 with a consequential fall in rents. The amount of new floorspace between 1963 and mid 1991 was 140 million sq ft.

20. The number of employees in retailing and wholesaling has increased slightly over the last 20 years but over the same period the number of self-employed workers has decreased and the percentage of part-time workers has increased. Overall the labour input into retailing has decreased at the same time as sales output has increased in real terms.

21. Over 40 per cent of all employees in retailing are female workers working part-time. This is an increasing percentage. Of female workers over 60 per cent work part-time. The percentage of part-time workers who work less than 16 hours per week has increased and this has particularly been the case in food retailing where the percentage of part-time workers is very high.

22. The introduction if information technology has had important effects on employment patterns of sales floor, supervisory and managerial workers. Information technology has been one of the factors causing the increase in labour productivity in retailing.

23. Gross margin as a percentage of sales for the retail sector in 1989 was 29.0 percent. This has risen steadily during the 1980s. Differences in margin as amongst small, medium sized and large firms vary by product type of retailer. Overall margins of small firms have risen faster than large firms. Within grocery retailing which is a highly concentrated market with heavy capital investment by large firms the gross margin of large firms has been rising faster than for small firms.

24. Figures for net margin have increased. This has ben notable in grocery retailing where there appear to be scale related factors with large firms reporting higher net margins than smaller firms.

25. Within the grocery sector increases in net margin may be due to changes in product mix and increases in scale of store operations. Both of these factors can be shown to result in increases in net margin at the firm level.

26. There was a general rise in return on net assets during the expansionary years of the mid 1980s.

27. Net margin and profitability appear to be lower in wholesaling than in retailing and within grocery retailing there are not the apparent returns to scale seen in grocery retailing.

28. Cost structures in retailing differ between food and non-food retailing and also are different for the discount retailers compared with congruent price retailing. Occupancy costs are particularly different being about 10 per cent of sales in non-food retailing but nearer to 1 per cent of sales in large supermarkets. But, there is considerable differences in cost structures associated with different firms. It is difficult to establish a significant change in wages as a percentage of sales over the past 5 years.

29. The majority of large firms in retailing are companies quoted on a stock market. Investment in these firms has been undertaken by the large financial institutions including pension and insurance funds. This form of ownership is an important factor driving the restructuring of the retail sector generally.

30. The large firms often have well developed formal strategies which guide their corporate development. The major strategies followed, sometimes in combination, are ones of market sector domination, least cost operation, corporate diversification and market diversification. All four have been pursued successfully and there appears to be no best strategy.

31. Retail brand development, taking control of logistics, introducing information systems based on collection of item level sales at point of sale, and creation of stores aimed to meet needs of clearly specified consumer groups are operational policies which have proved to be successful. All of these have helped retailers to co-ordinate the vertical relationships (transactions) in the distribution channel with the aim of improving their competitive ability in their horizontal market.

32. A variety of arguments have been advanced to justify public policy intervention within the sector. Competition policy is used to review mergers when a market share of more than 25 per cent is involved or when the target company has assets of over £30 million. Reviews of proposed mergers have resulted in takeover procedures not being allowed to continue. Restrictive trade practices are subject to review.

33. Legislation controlling shop opening hours is widely ignored particularly in respect of Sunday opening where confusion exists over an apparent conflict between English law and European law.

34. Control over new developments exists within the land use planning legislation which requires permission to be obtained for any new building, major redevelopment or change in use. This is generally administered by local government. Plans of preferred physical development are made which guide new retail development but many retailers consider it worthwhile to apply for permission on any suitable site and if permission is refused to use the appeal procedure to seek permission.

35. The recent restructuring of the distribution sector is part of a long and continuing process. Retailers and wholesalers have a history of responding sympathetically to changes in the market. Failure so to do often simply means failure. Change can be seen in a three factor framework of structural and organisational change, operational change, and thirdly, change in the firm's external environment. Levels of competition and contestability in retail and wholesale markets depend on the balance of changes in all three areas.

36. Distribution is not a single monolithic industry.

37. Competitiveness and contestability might be increased by a rationalisation of the law on shop opening hours and by aiding small and medium sized business to gain access to more of the benefits to be obtained from information technology and EDI.

1. INTRODUCTION

1.1 The Distribution Sector in the U K is large and complex. It is a sector which is going through considerable structural readjustment. This structural change is driven by forces which are external and internal to the sector. Externally, on the one hand, there are significant changes taking place in consumer demands, expectations and behaviours, and, on the other, there are developments, particularly at the European level, in the technical and managerial organisation and operation of the manufacturing of consumer products. Internally the change is driven by new managerial concepts and techniques being applied in retail and wholesale firms. Whilst some of these techniques are being transferred from the manufacturing sector, one of the features of the distribution sector over the last decade has been its capacity to generate, and apply, new and innovative approaches to management. External and internal driving forces interact to generate the new structures and relationships which define the sector. The purpose of this paper is to review and attempt explanations of these newly emerging structures.

1.2 Structural change is a long standing feature of the sector. The OECD report of 1973 on **The Distribution Sector** argued,

> "The distribution sector in particular has undergone a fundamental change. From the quantitative stand-point, to meet the rise in private consumption, the distributive trade has had to reorganise and adjust to a new scale of operation. In qualitative terms, greater product diversification and the increased share of durables in private consumption have forced the distribution sector to invent means of distribution for new products, the better to respond to the new qualitative structure of both supply and demand."
>
> (OECD 1973 p.3)

In many ways this view was a reiteration of that in earlier OEEC reports on the sector (OEEC 1960; OEEC 1954) which appreciated and forecast the likely spread to post-war Europe of the types of distribution then growing rapidly in the USA. Whilst the period to the mid 1960s was one in which Europe borrowed heavily from the USA, not least through European participation in the NCR seminars in Dayton, Ohio the last 25 years have been a period where indigenous European ideas have emerged strongly. Retailers in the UK have been well to the fore in the two pronged shift of European distribution away from a simple copying of American methods and away from a role of being the passive agent in distribution channels previously dominated by manufacturers.

In this respect the processes of change and restructuring in the distribution sector have been in evidence for at least the last 30 years. The U K is no exception to this general European pattern.

1.3 This report considers, for the U K, key elements in this restructuring process by describing the changes taking place and suggesting explanations for the changes. Rigourous proof of causal relationships is difficult in the Distribution Sector partly because of the relative paucity of sound relevant theory, a notable lack of understanding at a conceptual level of many aspects of change, the heterogeneity within the sector and an inadequate statistical base for detailed study. These problems are not unique to the U K.

1.4 In considering changes in the distribution sector a number of dichotomies become apparent very quickly. First, the retail and the wholesale sectors are substantially different from each other in organisational structure. Much of wholesaling is concerned with satisfying the needs of industrial buyers or other wholesalers and only a minority of activity is associated with consumer products in essentially there final form. The opposite is true of retailing. Secondly, a key feature of the large, market dominating, firms in retailing (and to a lesser extent in wholesaling) is their spatially decentralised multi-plant structure yet there are strong economic and managerial processes which result in spatial and organisational centralisation of decision making. Thirdly, whilst there are substantial scale economies of organisation (and lesser but still important ones of establishment) the over-riding form of firm is the small enterprise which accounts for over 95% of all firms. Fourthly, whilst retailing is concerned with providing a service to consumers there has been a long term trend to transfer the costs of the consumer-retailer transaction from the retailer to the consumer. This is notable in the long term shifts, through self-service in retailing which moves store labour costs onto the consumer, through home technologies which move storage costs onto the consumer, and through the consumers' increased responsibility for transport costs. A final dichotomy lies in the need for firms and their operations to be short-term, locally competitive but within business strategies where product or store development may take many years to accomplish. These dichotomies are neither unique to the U K nor to the distribution sector, but they are present in the U K and awareness of them is important to understanding the variety of change present in retailing and wholesaling in the early 1990s.

1.5 The definition of the distribution sector taken for this report is essentially that of the U K Standard Industrial Classification (SIC). This definition excludes the distribution of motor vehicles and petrol and to get over this problem these motor trades are shown separately in the tables and, where possible, additional total figures are provided which include these activities. This SIC definition focuses attention on the retailing and wholesaling of products and largely ignores the distribution of services, such as catering, finance and personal services. Service retailing through restaurants, bars etc is explicitly excluded from the study. This separation is made for statistical convenience rather than because these types of retailing are fundamentally different from the retailing of products through shops. There is increasing similarity in structural and managerial issues between the distribution of goods and of services. Many of the issues and trends discussed in the following pages have applicability to the retailing and wholesaling of services although explicit mention is not made of these activities. For some statistics, notably those on the contribution of distribution to GDP, a different definition of the sector has to be taken because of data availability. When different definitions are taken mention is made in the text. A detailed review of statistical sources is available in Moir and Dawson (1992).

1.6 In the following pages more attention is paid to retailing than to wholesaling. The reason for this is pragmatic. More information is available on retailing than wholesaling and there is a better understanding of the processes of structural change underway in the retail sector than of those which are changing the wholesale sector. In general the information used is for the United Kingdom, but in some cases, and these are generally indicated, data are limited to Great Britain.

1.7 This report is divided into several sections. Within each section an aspect of input or output in the sector is described and the reasons for changes are consider. As an introduction the broad position of distribution in the economy is viewed. This is followed by consideration of the numbers and form of firms, of establishments, of sales and stock, of capital input, labour input and of margin and profit. The final three sections before the conclusion consider the changing nature of cost structures in distribution, the changes in managerial behaviour and decision making which are occurring and the role and influence of public policy on the distribution sector.

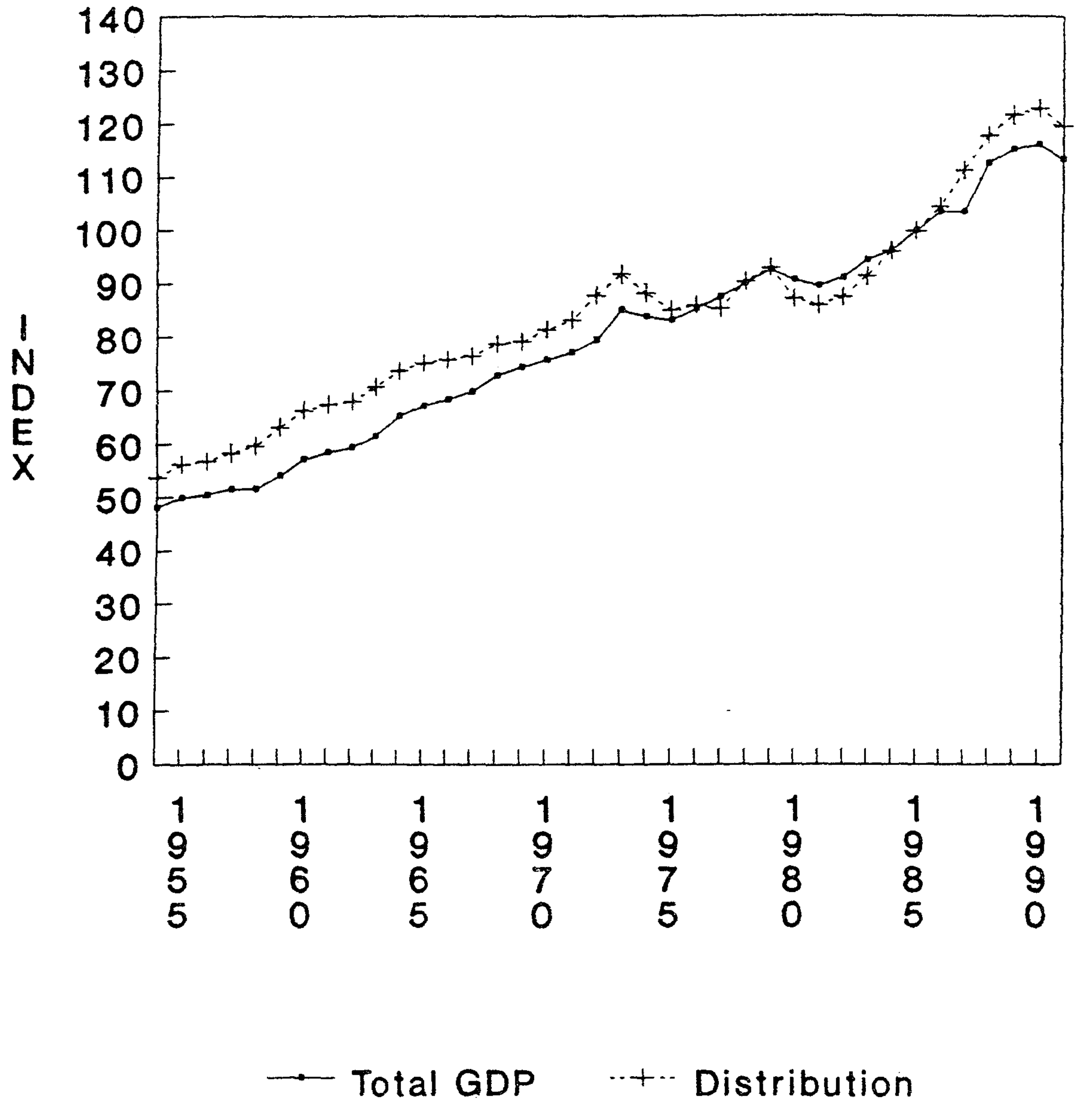
2. SECTORAL CONTRIBUTION IN NATIONAL ECONOMY

2.1 Official statistics on distribution's contribution to GDP are grouped with those for the hotel and catering sector. This is unfortunate but unavoidable. In 1990 the contribution of the distribution sector (including hotels and catering) to total value added in the economy was 14.7 per cent. During the 1980s this contribution rose steadily from 12.9 per cent in 1980. After several years in which the rate of growth of distribution was similar to that in the economy as a whole, the indexed growth of the contribution of the sector to GDP shows the sector to have grown more slowly than overall GDP in the 1970s and at a faster rate than GDP in total during the 1980s. The respective indices at 1985 real values are shown in Figure 2.1. The index for distribution increased from 87.3 to 122.6 between 1980 and 1990 whilst over the same period the index of total GDP increased from 89.6 to 116.2 (Central Statistical Office 1991). The difference in growth rates is notable but the difficulty of having more than wholesaling and retailing included in these figures makes their interpretation difficult.

2.2 In 1980/81 activity in the distribution sector was at a relatively low level. This situation is also shown in Figure 2.2 which graphs the change in stocks in retailing and wholesaling. The figures for wholesaling include the wholesaling of industrial as well as consumer products. Some of the substantial variation in the late 1970s probably was due to a taxation policy which encouraged stockholding by retailers and then removed these tax allowances. During the 1980s there has been an increase in stockholding which might be hypothesized as a result of the increase in retail sales during these years. During the 1980s the general economy grew rapidly and growth in distribution was considerable, providing for and benefiting from the increase in consumer spending. The recession after 1989 resulted in de-stocking in both wholesale and retail sectors.

2.3 Although stockholding at retail level probably has increased as a response to increased demand and retail sales the level of increase in stocks has outstripped the increase in retail sales such that the ratio of retail stocks:retail sales has increased in the long term and also during the years of general growth in the 1980s. Figure 2.3 shows this ratio. The long term increase, at first sight, is surprising. It suggests that stock levels in retailers have increased despite trends to more efficient stock management, managerial policies to increase stockturns, more effective buying practices and increasing size of shop - all of which might have been expected to reduce relatively the value of

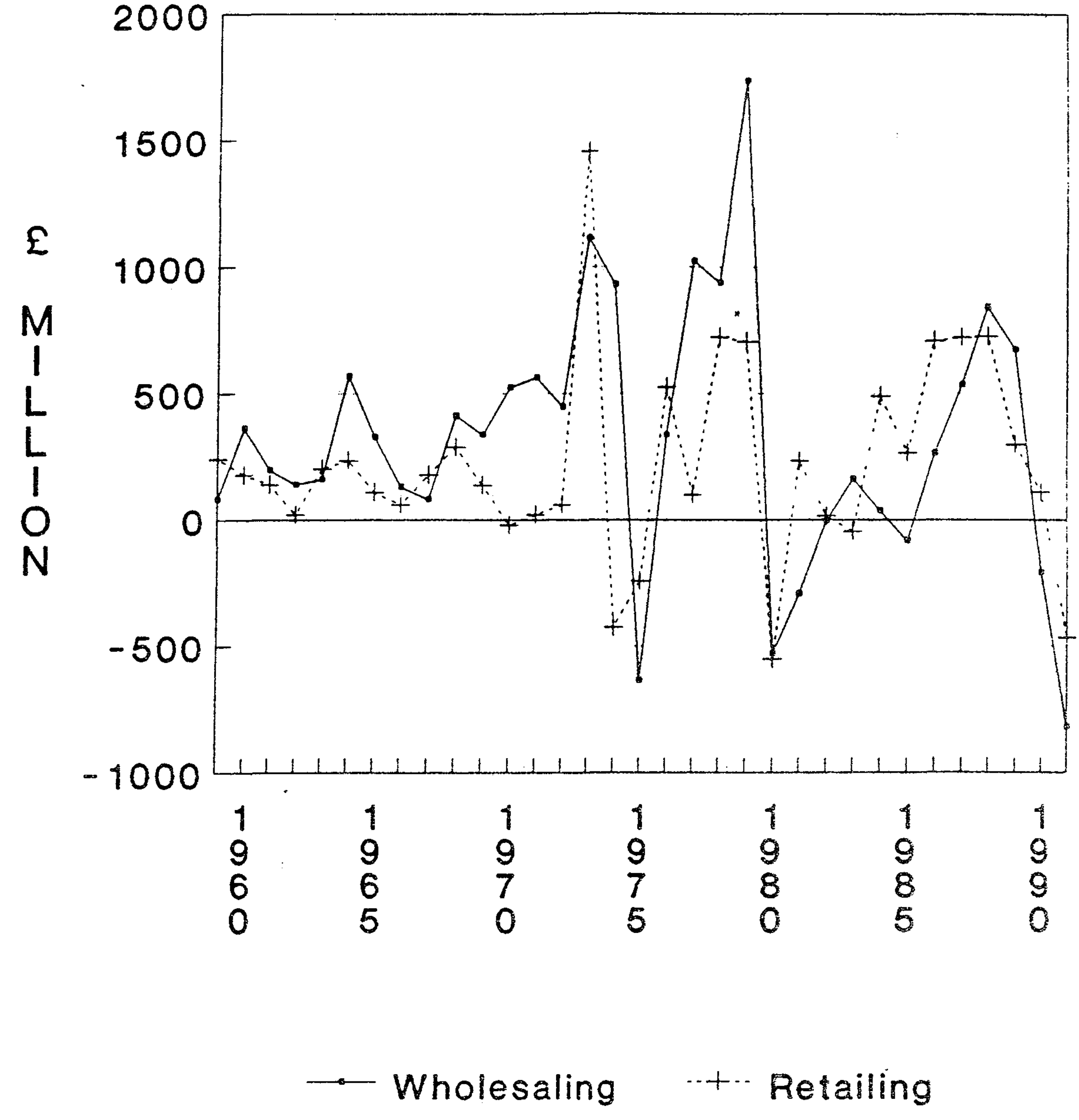
Figure 2.1
Indexed Change in Total Value of GDP and Contribution of Distribution. 1985 = 100



SOURCES: CSO

(Distribution includes Hotels and Catering)

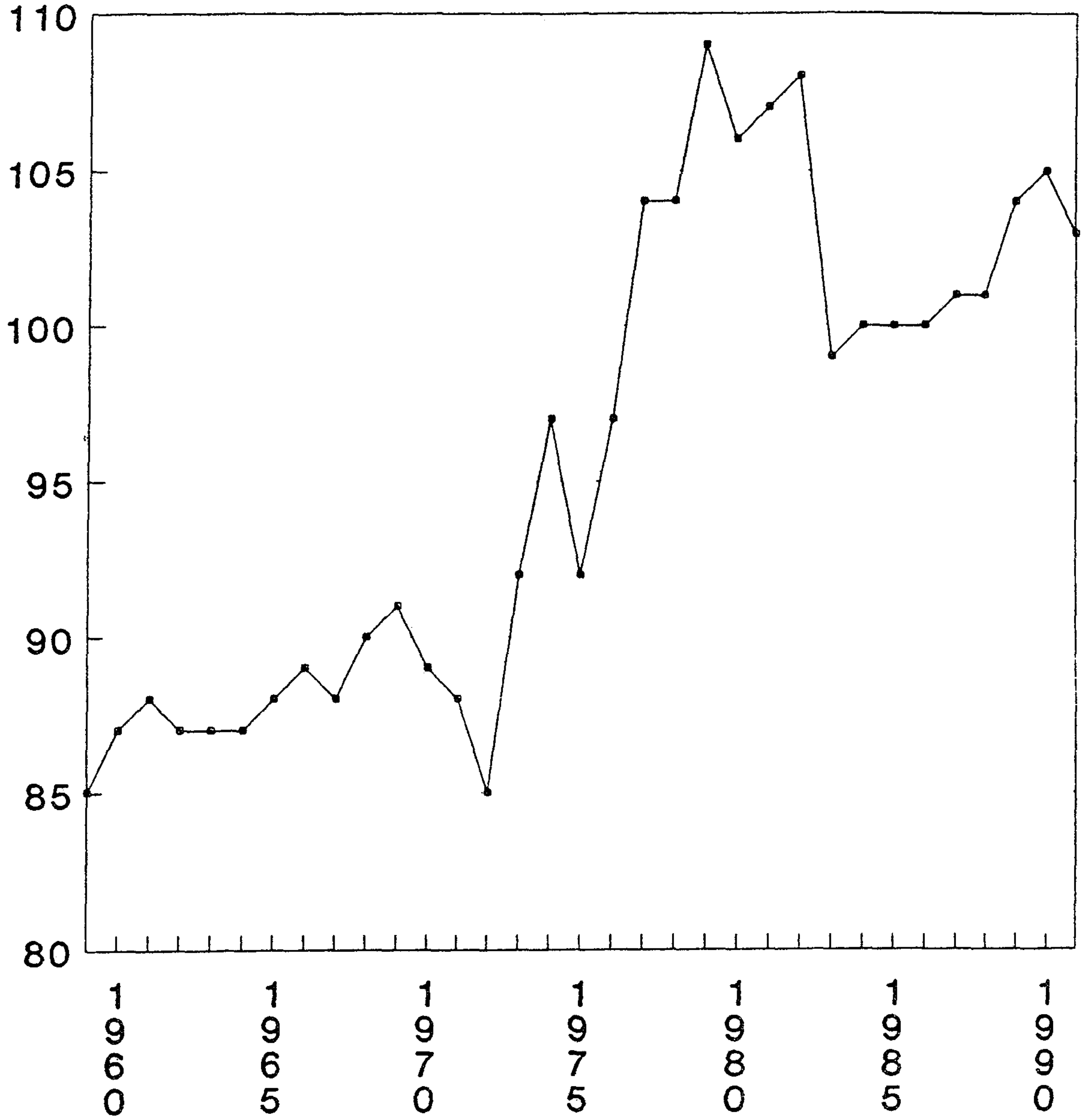
Figure 2.2
Value of Physical Increase in Stocks in Wholesaling and Retailing: 1985 prices



SOURCE: CSO

(excludes motor trades)

Figure 2.3
Ratio of Indices of Retail Stock:Sales
1985 = 100



SOURCE: CSO Based on seasonally adjusted quarterly figures, current prices, excludes motor trades stock held by the retailer compared to retail sales. The increase in the ratio shown in Figure 2.3 might result from retailers increasing their number of product lines and acceptance by retailers of stockholding functions previously undertaken by wholesalers or manufacturers. This later factor may be an important one in influencing the stock:sales ratio for retailers. Issues concerning stockturn and stock management are considered further in section 5 below.

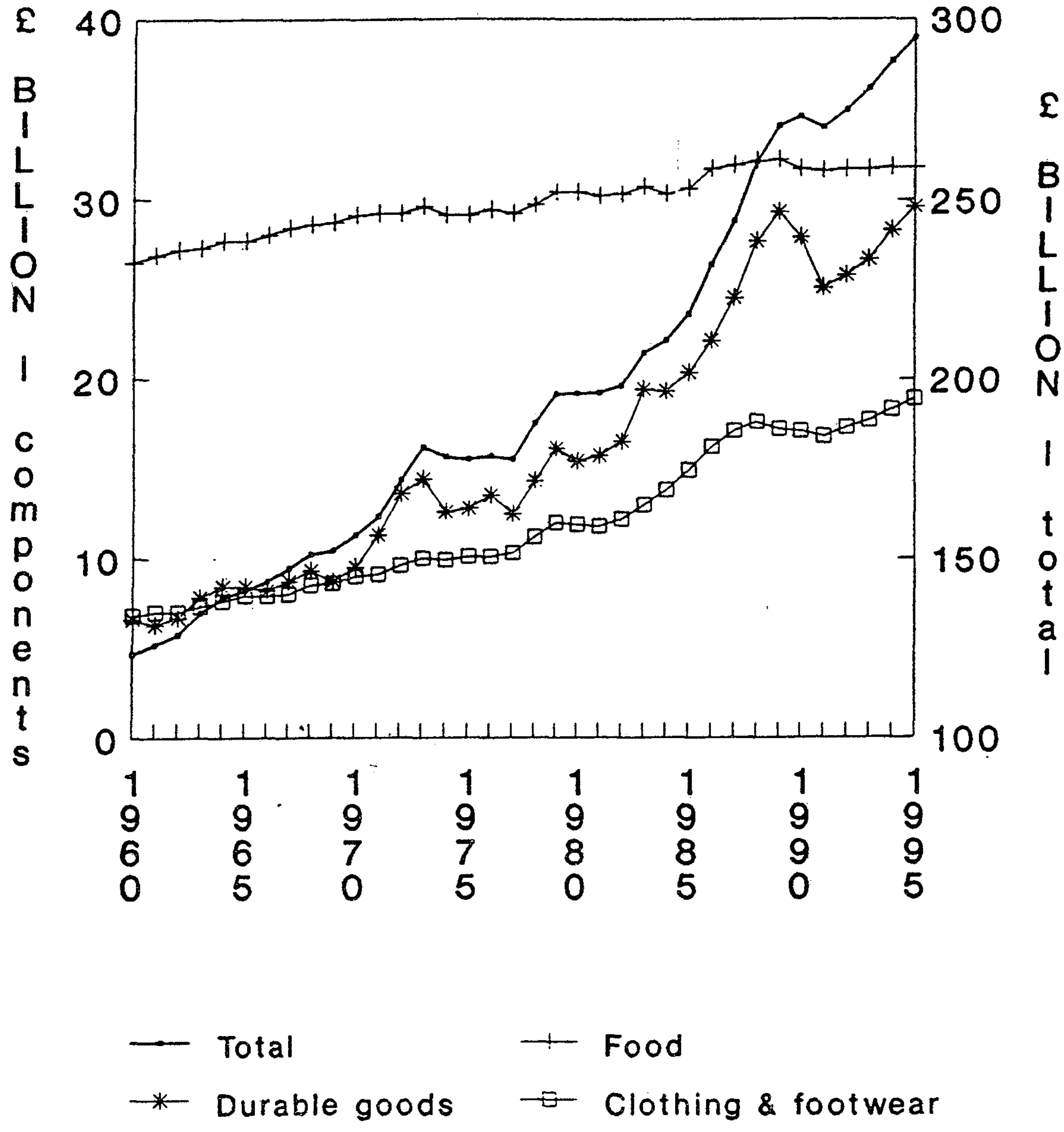
2.4 Consumer demand increased substantially in the 1980s but not all of this growth was transmitted to retail spending (see section 5 below). Figure 2.4 shows the growth of consumers' expenditure and also charts three component areas of particular importance to distribution. Between 1980 and 1990 total consumers' expenditure increased in real (1985 prices) terms by 75 per cent compared with approximately 20 per cent over each of the 1970s and 1960s decades. The growth in the 1980s was fuelled not only by real growth in the economy and rising real incomes, but also by a major increase in consumer credit, a release of savings with the savings ratio falling from 13 per cent in 1980 to 5.2 per cent in 1988, and some release of money from the housing market consequent on rapid growth of house values. Table 2.1 shows the critical data on personal disposable income and savings. From this it can be seen that disposable income rose steadily during the 1980s but gross savings remained at around 23 to 25 per cent of disposable income. The reason for the fall in the net savings ratio was that borrowing rose faster than saving. Borrowing as a proportion of income (borrowing ratio) rose to 13 per cent in 1988 and whilst much of this was accounted for by house purchase some was used to fuel the growth of retail sales (Chrystal 1992)

TABLE 2.1: GROSS AND NET SAVINGS 1980-1990

	Personal disposable income £M	Savings ratio % net	gross	Borrowing ratio %	Loans £ M for house purchase
1980	160735	13	24	4.6	7368
1981	177594	12	24	5.3	9483
1982	192614	11	24	7.3	14128
1983	207457	10	24	7.0	14520
1984	223092	11	23	7.6	17031
1985	241350	10	23	7.9	19033
1986	263229	8	24	10.3	26985
1987	283593	6	24	10.3	29256
1988	314032	5	25	12.8	40050
1989	349623	7	23	9.6	33658
1990	378854	9	23	8.5	32067

Figure 2.4

Actual and Forecast Consumers' Expenditure - 1985 prices



SOURCES: CSO and EIU

2.5 The composition of consumers' expenditure (Figure 2.4) shows the low growth in spending on food which accounted for a steadily decreasing proportion of total expenditure, from 15.5 per cent in 1980 to 11.5 per cent in 1990. In contrast expenditure on durable goods (including vehicles) almost doubled in real terms and by 1990 was close, in total, to spending on food having increased from barely half in 1980. Expenditure on clothing and footwear grew less quickly but still substantially during the 1980s but by 1989 the effects of the general slowing of economic growth affected this area of expenditure. The recession which began in the late 1980s began to show in consumers' expenditure more generally by 1989 with the major effects becoming apparent in 1990. Some implications for retail sales are considered in section 5 below.

2.6 Figure 2.4 also shows forecasts to 1995 prepared by the Economist Intelligence Unit. These indicate the possible impact of the recession in 1991 and 1992 on total expenditure. The short term effect on durable and clothing expenditure is considerable before growth begins to show again in 1993 after which there is a continuance of the trends in component expenditure apparent in the 1980s.

3. NUMBER OF FIRMS

3.1 In Great Britain the number of businesses in 1989 as reported in the Annual Statistical Surveys (Business Monitor SDA 25, SDA 26 and SDA 27) were, in retailing 242,356, in wholesaling 118,727 and in the motor trades 74,225. Broadly comparable figures are recorded as organisations registered for Value Added Tax (VAT) in the two sectors. Numbers recorded as VAT registrations are slightly higher because some firms operate from more than one VAT registered organisation and data are for the UK (ie they include Northern Ireland). In respect of the Annual Survey, Table 3.1 shows the decrease of 5.4 per cent in the number of firms in retailing and the increase of 29.9 per cent in wholesaling since 1980. Directly comparable figures for earlier years are not available. Estimates of numbers of retail firms can be calculated, however, and are shown in Table 3.1 but must be treated with caution because of considerable changes in the survey base of the statistics. The decrease between 1961 and 1980 is substantial with a decline of approximately 40% in the number of retail firms. An average annual net decrease of about 8,000 firms occurred over the 20 year period. Meaningful comparable estimates for wholesaling prior to 1980 are not possible to determine.

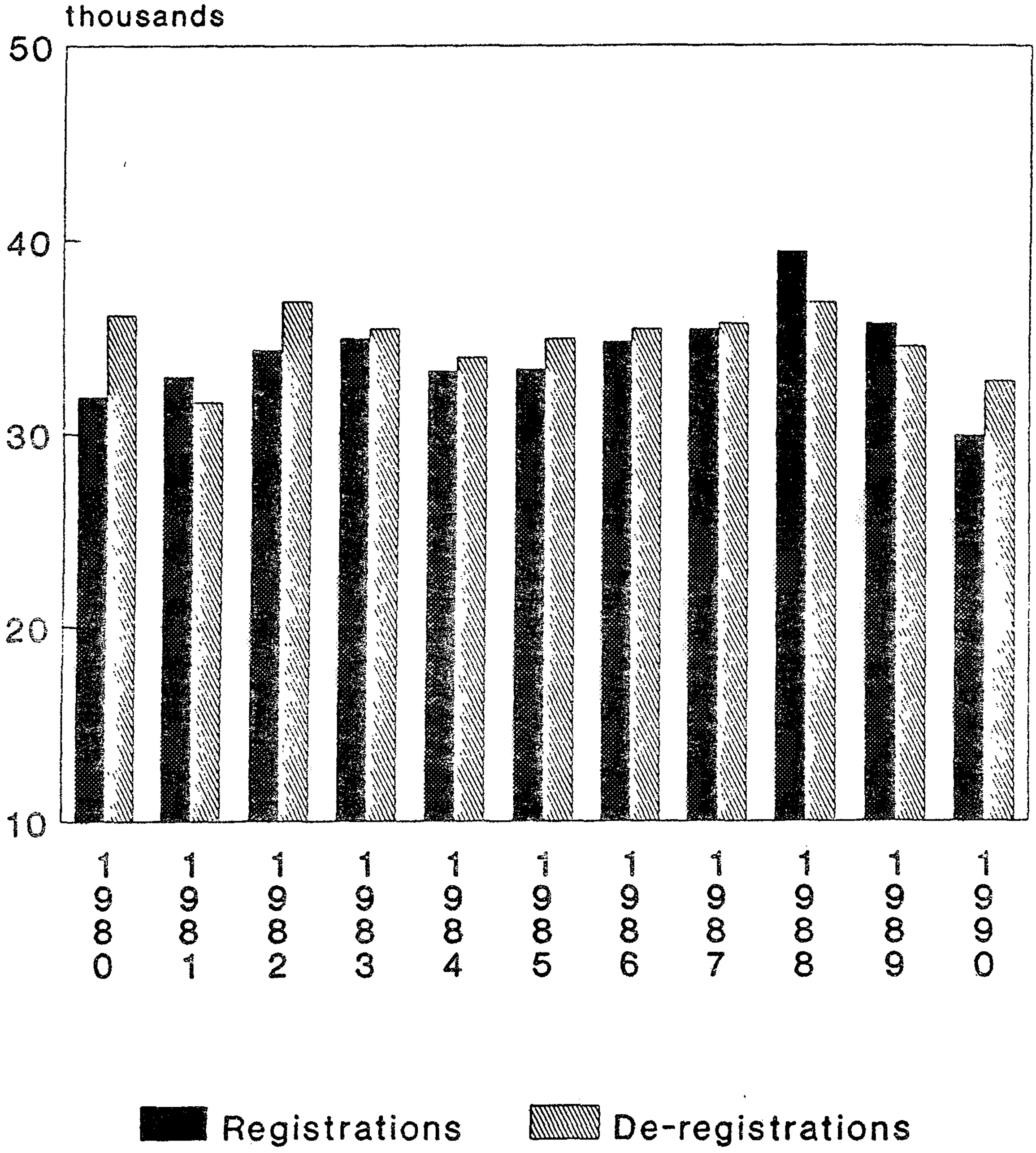
3.2 Entry and exit rates of firms are very high. The net figures shown in Series B in Table 3.1 hide substantial gross changes in number. A study of registration and de-registration, in the U K, for VAT showed that between 1980 and 1990 a net decrease of 8,000 in retailing resulted from 375,600 new VAT registrations and 383,600 de-registrations over the period. Typically each year 12 to 13 per cent of firms de-register and are replaced by slightly fewer new entrants. Within wholesaling the level of change is also substantial with an increase of 30,800 VAT registrations over the decade being the result of 176,100 new registrations and 145,300 de-registrations. Entry rates are also high in the motor trades with 102,700 new registrations and 89,000 de-registrations. Figure 3.1 shows for the retail sector the pattern of entry and exit over the decade. During the 1980s, 25 per cent of all new firms registering for VAT in the U K were in either retailing or wholesaling and 24 per cent of all de-registerations were in the two sectors. Irrespective of the net figure of change the absolute and percentage level of birth and death of firms are suggestive of relatively low entry and exit barriers in the two sectors.

TABLE 3.1: NUMBERS OF FIRMS IN DISTRIBUTION SECTORS

	RETAILING		WHOLESALING		MOTOR TRADES	
	A	B	A	B	A	B
1961	420000					
1971	370000					
1976	280000					
1978	262800					
1979						
1980	256139		91403			
1981		280004	95968	110863	67166	76094
1982	248950	274835	100660	113552	67289	76082
1983		273961	104426	119376	68573	76996
1984	246931	269576	108112	123169	69156	76716
1985		268567	110779	124244	67704	76771
1986	244006	266695	112225	125598	68109	76627
1987	240853	265843	114978	127156	69660	76859
1988	237832	265233	114963	129335	69628	78290
1989	242356	267704	118727	131849	74225	80806
1990		267986		135886		83733
1991		263849		142707		84025

Sources: Series A: Figure for GB. From 1980 figures are comparable year to year and are from SDA25 Retailing 1989, SDA26 Wholesaling 1989 and SDA 27 Motor Trades. Prior to 1980 figures are estimates derived from reworking figures in SDA Retailing, SDO25 Retailing, SD22(13) Census of Distribution 1971
Series B: Figure for UK. Organisations (legal units) registered for VAT as reported in Business Briefing, 3(35), 1991

Figure 3.1
VAT Registrations and De-registrations
in Retailing



3.3 The decrease in retail firms is a long term trend evident since at least the mid 1950s (Dawson and Kirby 1979, Hall 1971). The decrease has slowed in the 1980s but remains substantial. Many factors underpin the process including:

* widespread and large scale urban reconstruction (1950s) and re-development (1960s and 1970s) which changed the physical fabric of towns and reduced the number of retail firms which had been operating in old premises in and around town centres and within inner city residential areas

* an increasing reluctance (due to changed aspirations and education levels) on the part of younger generations to take over small family owned retail firms on the death or retirement of the older family owner/founder (1960s and 1970s)

* increased consumer mobility (and other consumer factors, particularly in the 1970s and 1980s) which has encouraged development of larger stores (which are more likely to be operated by large firms) at the expense of small firms with a single shop

* continuing changes in the cost structures of firms in retailing which have favoured larger firms operating many shops, notable is the increased importance of economies of scale in buying which became steadily more important after the abolition of RPM

* periods of high inflation which created cash flow problems for small firms (particularly in the 1970s) and periods of large increases in energy (1970s) and occupancy (1980s) costs which differentially and adversely affected small single shop firms

* emergence of successful business strategies which are based on a combination of sector dominance and multi-sectoral retail operations with a single firm operating several chains of stores, each in a different product market and each aiming to be dominant in a particular market (see section 10 below).

3.4 In opposition to these factors are processes which have encouraged the development of firms in retailing and which have been partly responsible for the high birth rate of firms. These factors include:

* low entry barriers particularly in respect of expertise and finance allowing creation of new firms by 'hobby' retailers and immigrant entrepreneurs

* increases in the real level of consumer retail spending generating a larger retail market

* emergence of new sectors in the market based on new consumer demands, shifts in population and new product/service availability

* the development of methods of business management which reduce risks in new firm formation and in their continued trading, notable in this respect are franchising, buying groups and wholesaler sponsored voluntary chains.

* governmental policies to encourage the establishment of new firms both through financial aid schemes targeted at inner cities and at potential entrepreneurs from specific groups such as women and the unemployed and through support and advice centres supported by public funds (Watkins, Stanworth and Westrip, 19).

3.5 Despite the factors encouraging new firm formation and the large number of new retailers the net change has been a substantial decrease in numbers. Because of these several reasons for the decline in business numbers there are different degrees of decline associated with different types of organisation, sizes of firm and kind of business (differentiated by product sold). Table 3.2 shows, for selected groups, changes in numbers during the 1980s and estimates for the previous decade.

3.6 The number of small independent businesses remains very large despite the decrease in number. The number has fallen by about 130,000 since 1971 with most of this occurring in the 1970s. Although detailed accurate statistics are not available, a large proportion of this total, probably at least 60,000 has been in the food sector.

3.7 A contrast exists between the 1970s and 1980s. During the 1970s numbers of both general and specialist food retailers fell generally. During the 1980s decreases in small general food retailing has slowed (about 18,000 fewer in 1988 than in 1980) and has been offset slightly by small increases in the specialist retailing of meat, fish, fruit/vegetables and bread and flour products. Although a response of small general food retailers has been to readjust their product range to become more specialist this has been within the general grocery trade and does not account for the increase in specialist businesses requiring particular trade skills such as butchery, fishmongery and baking. The move towards specialisation by general grocers has been a method of survival for them within the general food trade, perhaps by developing health foods, fine foods or convenience foods.

TABLE 3.2: NUMBERS OF RETAIL BUSINESSES OF SELECTED TYPES

	Businesses with 1 outlet	Businesses with over 100 outlets	Consumer Co-operative Societies	Food retailers	Clothing Footwear etc retailers	Household goods retailers	Other Non-Food specialist retailers
1971	342000	232	313	150000	56000		
1976	250000	179	236	107000	42000	45000	35000
1980	225907	150	186	90475	35282	45298	35835
1982	220219	144	144	87070	32216	43351	35984
1984	218700	140	111	81680	32000	42916	38617
1986	217247	119	98	77137	32656	43002	39110
1987	213378	130	90	73681	31162	42760	38973
1988	212711	130	83	67755	30170	45678	39604
1989	215736	129	79	67849	31429	48735	39156

	Distribution, repair and servicing of motor vehicles	Petrol filling stations
1982	59198	8090
1984	61043	8113
1986	60046	8063
1987	61640	8021
1988	61931	7697
1989	66573	7652

SOURCE: From 1980 figures are comparable year to year and are derived from SDA25 Retailing and SDA27 Motor Trades.
Prior to 1980 figures are estimates derived from reworking of SDA25 Retailing 1976 and Census of Distribution 1971 and should be treated with great caution.

3.8 The increase, during the 1980s, in specialist food retailing, per se, appears to be a response to consumer demand for specialist products sold in the environment created by the small business. In these product groups it is possible for the retailer to add value, in the shop, to the retail offering by adjusting the selling environment, including the service being offered. This stabilisation and even increase in numbers follows a substantial decrease during the 1970s in numbers of small specialist food retailers. Not all specialist food retailers have increased in number during the 1980s. The number of off-licences has fallen by 50 per cent and it is interesting to note that this product group is more strongly branded which reduces opportunities for independent added value opportunities in small firms.

3.9 The decrease in small firms in retailing is also seen in the clothing sector. General and widespread reductions in numbers during the 1970s have given way to a more complex pattern in the 1980s. Throughout the 1980s decreases in numbers have persisted in retailers selling female and children's clothing but numbers in menswear and footwear appear to have stabilised. Again there are indications that small scale retailers aiming at the general market have either re-positioned themselves to address more specialist consumer needs or have disappeared.

3.10 Within the household goods sectors numbers of small businesses have changed by relatively small amounts compared with other retailer groups. There have been decreases in numbers of small retailers in the electrical and furniture markets and an increase in the china and giftware markets. Again this suggests a switch in emphasis towards the retailing of more specialist product by small firms.

3.11 Such a move is again suggested by the increase in number of small firms in the retailing of non-food specialist products. The total figures hide both increases and decreases with notable increases in the 1980s in florists/nurserymen (50% increase to 6700 between 1980 and 1988) and booksellers/stationers (25% increase) but a small decrease in specialist photographers. Groups such as toy/sports retailers, chemists, and jewellers show broadly stable numbers during the 1980s after a modest decline in the 1970s.

3.12 The very large number of small retail firms allows the trend from general retail activity to specialist to be seen in the number of firms in different types of trading. The overall decline in the number of firms, however, is the over-riding feature.

3.13 This decrease is also seen in the number of large firms (Table 3.2). Considering businesses with over 100 outlets, generally shops, the number of firms of this size has fallen, by approximately 100 since 1971, to 129 in 1989. The share of retail sales accounted for by these firms (see Table 5.2) has increased although their number has fallen.

3.14 The reasons for the decrease in number of large firms are:

* increased merger and takeover activity as large firms have sought market sector dominance by taking over other medium sized and large firms. Table 3.3 shows the number of merger proposals involving distribution companies examined by the Office of Fair Trading under its review powers (assets in excess of £30 million or market share of over 25%) and the number of large scale acquisitions and mergers in retailing. The mid 1980s were years of considerable activity on this front.

* in a few cases, financial failure of the large company

* difficulties of rapid internal growth through expansion of the store network because land-use planning regulations makes entry into this group difficult other than by takeover

* break up of large firms through management buyouts and selling off of trading divisions

* rationalisation of the store network of a firm with closure of non-profitable branches.

3.15 The extent of the decrease in the number of these large firms is surprising, however, because it might have been expected that mergers amongst medium sized firms, to provide additional scale economies, would have ensured a surplus of entries over exits into this large firm category. Considering only this category of large firms the decrease in number from the relatively small base suggests the possible presence of entry barriers for large firms.

TABLES 3.3: MERGER CASES REVIEWED BY THE OFFICE OF FAIR TRADING AND NUMBER OF LARGE ACQUISITIONS

	Target company in distribution	Total number all reviews	Number of mergers and acquisitions (1) of	
			£10-99M	over £100M
1983	28	192		
1984	21	259	11	4
1985	25	192	19	6
1986	30	313	25	7
1987	42	321	33	15
1988	33	306	32	7
1989	27	281	12	7
1990	23	261	10	1

(1) Involving retail companies

SOURCES: Annual Report of the Director General of Fair Trading 1990; Retail Rankings 1991

3.16 The decrease in the number of Consumer Co-operative Societies is due to friendly merger and, in addition, the takeover of financially weaker societies by stronger ones to preserve a network of co-operatively owned stores. The rate of merger in this sector has slowed in respect of numbers of societies involved but in recent years larger societies have been involved in the mergers.

3.17 Horizontal associations have developed in retailing and most of them involve small firms who, by joining with others in some way, increase their effective scale. The three main types are Business Format franchising, buying groups and voluntary chains. The distinctions amongst these types is sometimes blurred.

3.18 Business Format franchising is present, but, whilst of increasing importance, is not widely used in the retailing of products. there are approximately 240 franchise organisations but fewer than 10 per cent are retailers in the narrow definition. There are probably less than 3,000 shops which would be classified in this way. The method is more widely used in catering, business and personal services. Where franchising is used in retailing it involves a tightly designed retail format which is targeted at a very specific consumer group. Typically a medium sized company operates franchised outlets alongside company owned shops.

3.19 Buying groups have been formed in attempts to combine the buying power of smaller firms. Within toy retailing approximately 12 per cent of sales are controlled through small retailers who are part of buying groups. The situation of the four largest in January 1992 is shown in Table 3.4. In addition to these are several small groups. The functions of the main groups are:

* negotiation with suppliers to get better purchasing rates by combining buying power, to get sole distribution rights and import agreements, etc

* central collation of ordering and invoicing

* projection of image of professionalism and quality through standard merchandising and display and good promotional point of sale material and catalogues

* group advertising

* organisation of group trade shows and conferences

* provision of retail services including shopfitting services, advice on legal matters, help with IT, etc

Similar organisations have developed in other product areas. In grocery, NISA, for example, is national in coverage and has 1300 members. Detailed information on the number of buying groups and the retailers involved is not available.

TABLE 3.4: MAJOR RETAIL BUYING GROUPS IN THE TOY SECTOR January 1992

Group	Trading name	Number of members	Number of shops
Toymaster	Toymaster	130	200
Associated Toys	Associated Toys	107	130
Upper Thames	Group One	105	142
Concorde Toys	Totally Toys	60	90

3.20 Voluntary groups, which are co-ordinated by wholesalers, exist in several sectors of distribution. They have been developed furthest in grocery trading where there are about 7,000 members. Probably one of the most important influences on the independents' survival generally in retailing has been the development of voluntary groups during the 1980s. They have a substantial presence in the chemists' sector (over 6,000 members some of whom belong to more than one group), in DIY (3 main groups serving 2,000 stores) and in sports goods through the internationally organised Inter-sport. The effect of their development has been:

* improved buying strength through central purchasing and distribution

* greater marketing co-ordination with a national identity being combined with local flexibility

* more investment in new retail formats, with the groups developing model store concepts, and in new merchandising layouts

* greater discipline in product purchasing through customer (retailer) loyalty incentives from the wholesaler

* extension of product ranges, for example in food into fresh and chilled products, as wholesalers have invested more heavily in warehouse facilities and as group brands have been developed

* help with information technology involving POS developments and EDI networks for order processing

Although strong in the grocery sector their share of the market has been eroded in the 1980s with the growing power of the major chain store organisations. Table 3.5 shows within the declining independent sector the market shares of voluntary groups in the grocery sector.

Table 3.5: SHARE OF THE INDEPENDENT GROCERY SECTOR ACCOUNTED FOR BY VOLUNTARY GROUPS

	Shares of		Share of total
	Three major groups (1)	Other groups	market held by independents
1981	27.5	8.2	23.6
1983	24.3	7.9	20.7
1987	22.4	4.1	16.1
1990	21.0	7.1	14.5

(1) Spar, MACE and VG

SOURCE: Nielsen Marketing Research

3.21 The situation in the motor trades (Table 3.2) shows an increase in the number of firms involved in distribution and repair of vehicles but a decrease in the number of petrol filling stations. A major reasons for the increase in repair services is the increase in number of vehicles whilst reasons for the decrease in filling stations are more complex and include:

* closure of low volume stations in rural areas

* a highly concentrated market in the production and distribution of fuels which encourages rationalisation of networks

* general unwillingness of land-use planning authorities to give planning permission for new site development

* an increasing share of the market being accounted for by fuel sales at grocery superstores

There are 6 firms each operating over 1000 units, including company owned and independently owned.

3.22 The increase in number of wholesale firms (Table 3.1) has taken place across all product areas, with the exception of dealers in scrap and waste, identified in the Annual Wholesale Inquiry. Between 1980 and 1988 numbers of wholesalers in food and drink increased by 25 per cent to over 16,200, for machinery and industrial equipment by 44 per cent to almost 11,500 and for household goods, hardware, pharmaceutical, medical and general wholesalers numbers increased from 38,900 to 55,300 over the same period. Neither the reasons for this increase, other than as a response to general growth in the economy, nor the pattern of changes in the size distribution of firms, are clear.

4. NUMBER OF ESTABLISHMENTS

4.1 In the retail sector of GB the number of establishments has decreased in association with the decline in numbers of firms. The number has fallen from around 510,000 to 350,000 between 1971 and 1990. Table 4.1 shows the pattern of this decline in numbers with a major decrease in the early 1970s. Because much of the decline in numbers of firms is amongst small, single outlet, firms the decrease in establishment numbers has a similar pattern and the same causes have generated the decrease. Thus, as with numbers of firms the major decreases of the 1970s slackened in the 1980s although the overall decrease is still substantial. Within food retailing the number of outlets has fallen at an average of over 3000 per year during the 1980s but it was three times this figure during the 1970s. Specialist retailing and particularly non-food specialist retailing has undergone a smaller change in numbers and in some types of retailing the number of stores has increased. Figures of the number of establishments in the motor trades are not available.

4.2 Although the number of firms with over 100 outlets has declined steadily the number of outlets accounted for by these firms has fluctuated around 44,000 through much of the 1980s with a slight increase in recent years. The few large firms are getting larger in terms of the number of units which they operate. The major restructuring of the consumer cooperative sector which was apparent in numbers of societies also is seen clearly in figures of number of outlets where the store network has decreased by 75 per cent since 1971.

4.3 Some of the reasons for the decrease in number of shops are the same as for decrease in firms (see section 3) particularly where the shops are operated by firms with only a few or a single outlet. To find reasons for the decrease in outlet numbers in larger firms it is necessary to consider the processes of merger, takeover and absorption and of expansion which have occurred in medium-sized and larger firms. Reasons for the decrease in numbers of outlets in these types of firm are:

* rationalisation of networks to remove competing or non-profitable stores after an acquisition has occurred

* replacement of several small units by fewer large units in those sectors where scale economies of establishment are important or have become more important

TABLE 4.1: NUMBERS OF RETAIL ESTABLISHMENTS IN BUSINESSES OF SELECTED TYPES

	All businesses	Businesses with over 100 outlets	E S T A B L I S H M E N T S I N				
			Consumer Co-operative Societies	Food retailers	Clothing Footwear etc retailers	Household goods retailers	Other Non-Food specialist retailers
1971	510000	49490	16480	204000	89000		
1976	408000	48497	11117	156500	75000	66000	47000
1980	368253	44740	8197	121600	61489	64697	48224
1982	356590	43352	6653	114481	58044	62050	48160
1984	349728	44649	5569	105953	58552	60104	50858
1986	343387	40592	4859	99751	59286	60676	50915
1987	345467	43696	4691	98016	58380	60406	52473
1988	338248	46416	4270	87758	57768	63795	52944
1989	350015	47373	4207	90075	58538	69599	52543

SOURCE: From 1980 figures are comparable year to year and are derived from SDA25 Retailing. Prior to 1980 figures are estimates derived from reworking of SDA25 Retailing 1976 and Census of Distribution 1971 and should be treated with great caution.

* closure of unprofitable units as organisational scale economies are exploited and the required profit contribution per establishment rises

* changes in cost structures (notably labour, technology, occupancy and logistics) which change the threshold size for store operation or make some locations uneconomic to operate or service.

4.4 These factors have been particularly important in the food sector. Several, although not all, major food retailers, as shown in Table 4.2, have reduced their store numbers but increased the sales area.

TABLE 4.2: CHANGE IN STORE NETWORK AND FLOORSPACE OF SELECTED RETAILERS 1985-1989

Company	Number of stores		Floorspace (m.sq.ft.)	
	1985	1989	1984	1989
Food companies				
Sainsbury	294	292	4.4	6.0
Tesco	441	374	6.9	8.5
Kwik Save	442	643	2.3	3.8
Non-food companies				
Next	424	1458	0.6	2.2
Burton Group	1428	1865	3.3	9.2
Sears	2150	3059	2.6	4.3
Dixons	838	959	1.6	2.3
Kingfisher	1200	1920	14.5	19.3
John Lewis	77	107	3.3	4.1
Boots	1055	1199	5.5	6.5
Marks and Spencer	265	281	7.2	8.3

SOURCE: Company Reports

4.5 Counter to these processes are those which result in more outlets per firm and thus potentially increase the number of outlets operated by the large firm sector. These growth mechanisms include:

* the opening of additional outlets to extend spatial market penetration or to increase penetration in an existing market. This has been most notable in the non-food sector with Table 4.2 showing the scale of increase in the store network of selected major firms in non-food retailing

* benefiting from economies of replication associated with the design of the store and its operating systems and also probably associated with IT infrastructure costs whereby new stores only carry marginal costs

* technological developments in information transmission and network communication which enable a larger span of control to be exercised by a central head office thus allowing larger numbers of stores to be managed centrally.

4.6 Particular types of store have increased in number. In the 1960s and 1970s there was substantial increase in the number of supermarkets and although the rate of increase slowed in the 1980s the number still continues to rise. Food superstores, defined as mainly food stores with over 2500 sq. m. selling space, began to be developed in the late 1960s. By 1991 there were well over 700 of these stores. Only a small number of firms are involved in the development and operation of these stores with, in 1991, Tesco and ASDA together accounting for 50 per cent of stores in operation and the next largest operator being Sainsbury with 18 per cent of the stores. Table 4.3 shows the increase in numbers and market share of these stores. The increase in numbers is small compared with the total number of shops but the significance of the increase in sales terms is substantial. These stores account for a quarter of food sales and if only the sales of groceries are considered then their market share rises to over 35 per cent.

TABLE 4.3: FOOD SUPERSTORE DEVELOPMENT

	Number of stores	New stores opened	Total sales £ billion	Share of of grocery sales
1970	19	6		
1972	46	13		
1974	85	23		
1976	123	22		
1978	176	26		
1980	238	27	4.07	
1982	314	35	5.37	12.8
1984	372	27	6.75	
1986	432	36	8.34	
1988	500	43	10.25	29.9
1989	578	78		
1990	644	64	12.62	37.2
1991	733	89		

SOURCE: Institute of Grocery Distribution (1991)

4.7 Superstore development is not limited to the food sector with most product areas having examples of large floorspace self-service stores being operated usually at non-traditional locations outside older established shopping areas and town centres. Often these stores are built to operate on their own or in association with other superstores in different product areas on specially provided retail parks (see section 6). Table 4.4 shows estimates of the numbers of superstores operating in different product areas. No official survey of this type of shop is undertaken so estimates have to be generated from reports of openings. The use of the term superstore within the different product areas relates to stores of various sizes, although few even in specialist product areas would be below 1000 sq m. The over-riding characteristics are that the superstore is much larger than traditional stores in that product area operating in town centres, the superstore operates on self service principles and car parking is provided.

TABLE 4.4: ESTIMATED NUMBER OF SUPERSTORES BY TYPE OF PRODUCT GROUP

	1986	1989
Food	430	580
DIY	640	820
Furniture	340	430
Carpets	160	205
Soft furnishings	70	95
Electricals	200	320
Motor accessories	30	115
Garden products	170	190
Toys,etc	10	30
Other		20
Total	2050	2805

SOURCES: Trade Magazines and Trade Estimates

4.8 The reasons for the development of these stores are:

* the benefits to be obtained from the economies of scale reputed to be associated with larger store operation

* the ability to offer a wider range of products

* the utilisation of lower cost land outside established commercial districts

* responding to consumer demand to drive to shops and park easily

* the relatively short time needed to develop and build this type of store

4.9 There has also been growth in numbers of other types of shop which, in marketing terms, are directed at specific consumer segments. Convenience stores have increased from 1,200 in 1985 to 4,000 in 1988 and to 7,500 by 1991. Some of these are new store developments but many are conversions of previously general grocery stores or traditional newsagents whilst others are associated with petrol filling stations. Franchise type arrangements and voluntary groups have been important in undertaking innovation in this particular sector (Euromonitor 1989; Corporate Intelligence Group 1990).

4.10 Numbers of outlets in the wholesale sector are not reported in the Annual Wholesale Inquiry and it is not possible to know the extent to which the increase in the number of businesses has been translated into increased number of outlets. The variety of outlet types in wholesaling complicates the matter further with some wholesalers operating out of office premises whilst others are more closely tied to the traditional idea of a wholesaler in a warehouse or depot. The most recent figures on warehouse numbers are for 1986 and are derived from Inland Revenue returns. These figures which relate only to England indicate 253,210 covered warehouses and 10,810 open land storage warehouses. There was an increase of 17 per cent in the number of covered warehouses between 1978 and 1986. Whether this continued later into the 1980s is not clear. Over 58 per cent of the covered warehouses present in 1986 were small, having less than 200 sq m floorspace, but this figure had declined only slightly from 60 percent in 1978.

4.11 Changes in the structure of the retail trade inevitably have an effect on the wholesale sector. This is clearly evident in grocery distribution where the considerable reduction in the number of retailers resulted in a major change in the number of outlets in grocery wholesaling. In the early 1970s there were large numbers of small grocery outlets served by a delivered wholesale trade sector and by a growing number of cash and carry depots which small firms (and caterers) visited to purchase supplies. Cash and Carry depots reached a maximum number in the mid 1970s since when their number has decreased but their average size has increased. Table 4.5 shows the change in number of depots and the change in size of cash and carry depots.

TABLE 4.5: WHOLESALE GROCERY TRADE DEPOT NUMBERS

	Delivered Trade	Cash and Carry Depots Number	Average size (000'sq ft)
1975		640	
1977		591	26.4
1979		590	
1981	369	589	31.9
1983	280	555	36.8
1985	227	551	39.8
1987	207	538	43.2
1989	193	547	40.7

SOURCES: Institute of Grocery Distribution and Economist Intelligence Unit

4.12 The extent to which this scale of reduction in establishment numbers is present in other product areas of wholesaling is not clear. Increases in the quantity of imported products during the 1980s might have been expected to result in an increase in the number of wholesale establishments used to handle this trade but figures are not available. Again during the 1980s there has been a move for the larger retailers to undertake more of the wholesaling functions themselves rather than employ wholesalers. Thus retailers have operated their own depots. This may be a factor in reducing the number of wholesale establishments. The balance of these various factors on the total number of wholesale establishments in not known.

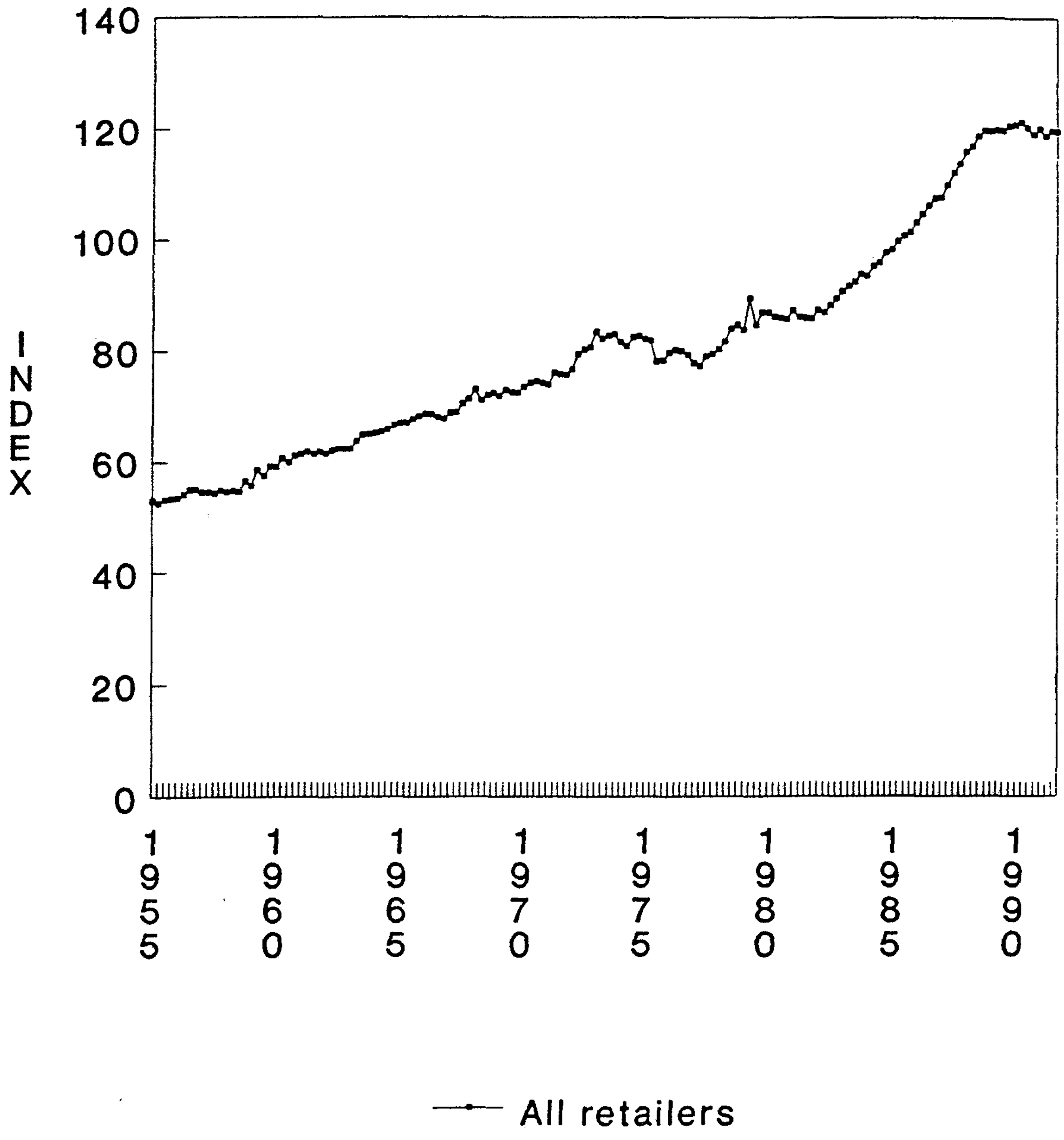
5. SALES AND STOCK VOLUMES

5.1 Figure 5.1 shows, in index form, the volume of retail sales on a quarterly basis since 1955. The gradual increase in volume of activity prior to 1973 was replaced by a period of little real growth for much of the rest of the 1970s, when inflation was at a high level and the economy was stagnant. From 1982/3 until 1988/9 there was a period of extremely rapid real increase in sales, associated with the rapid growth in income mentioned in section 2 above. This finished abruptly.

5.2 These figures and the pattern of Figure 5.1 reflect and are related to general levels of growth in the economy and consumer spending. The proportion of consumer spending accounted for by retail sales has decreased steadily as shown in Table 5.1. It has fallen from 43 per cent in the mid 1970s to 38 per cent by the late 1980s. Nonetheless because of the overall real increase in the amount of consumers' expenditure, the amount of consumer retail spending has increased by an average, in real terms, of 2.0 per cent per year between 1971 and 1989 and between 1981 and 1989 at 3.6 per cent per year. Retail sales through the firms and establishments shown in Tables 3.2 and 4.1 are shown in Table 5.2. These figures are in current values and although heavily affected by inflation and price changes serve as a comparison to Tables 3.2 and 4.1. As with the figures on number of firms and establishments, the figures for retail sales show higher growth of specialist retail firms than in more general retail sectors. Sales in the motor trades have increased at a faster rate since 1982 than have retail sales in general.

5.3 The differences in real terms between growth in sales volume by types of retailer can be seen in Table 5.3 and Figure 5.2. Table 5.3 shows the changes in sales adjusted to 1985 levels since the mid 1980s, through the period of rapid increase in real sales levels to the current recession, for the major types of retailers. The figures for food retailers show a larger increase than shown in figures of expenditure on food because the food retailers have extended their product ranges to include alcoholic drink and non-food convenience goods. Figure 5.2 shows in index form for a slightly longer period, volume of retail sales, seasonally adjusted, in food retailers and household goods retailers. Retail sales by food retailers have grown only slightly, despite the broadening product ranges, and retail sales on specialist and comparison goods, typified by household goods retailers, have increased substantially. Consumer credit was a particularly important underpining for sales growth in the

Figure 5.1
Volume of Retail Sales
Seasonally Adjusted 1985 = 100



Source: C S O

Figure 5.2
Volume of Retail Sales
Seasonally adjusted 1985 = 100

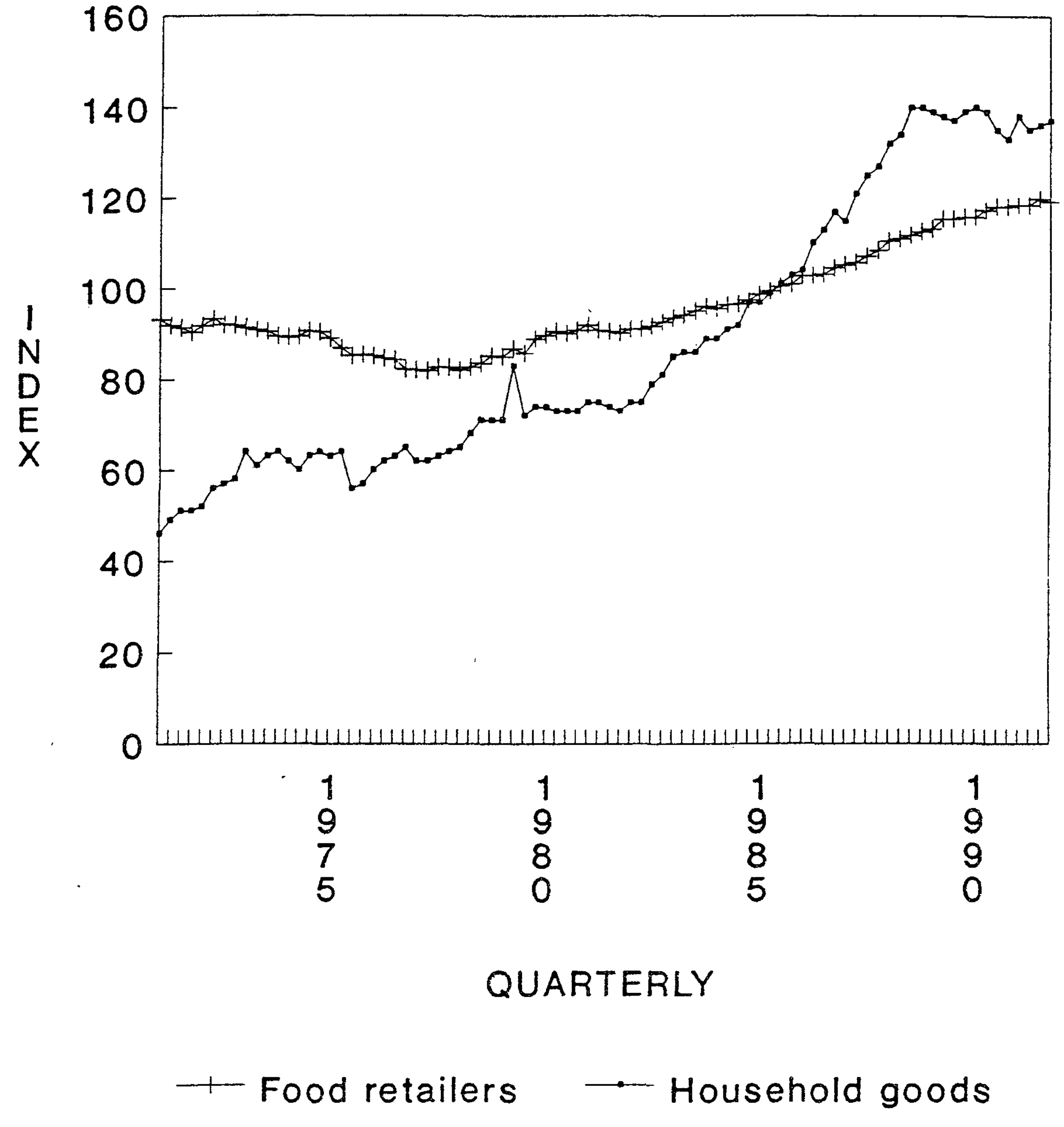


TABLE 5.1: PERCENTAGE OF CONSUMER EXPENDITURE ACCOUNTED FOR BY SELECTED TYPES OF RETAILER

	All retailers	Food retailers	Mixed retail businesses	Household goods retailers
1982	40.2	15.7	7.4	6.2
1983	40.1	15.4	7.3	6.5
1984	40.5	15.5	7.3	6.7
1985	40.5	15.2	7.3	6.8
1986	39.9	14.7	7.2	6.9
1987	39.4	14.3	7.1	7.0
1988	38.8	13.9	6.9	7.1
1989	37.8	13.8	6.6	6.7

ANNUAL RETAIL EXPENDITURE PER HEAD FOR THE UK AND PERCENTAGE CHANGE ON PREVIOUS YEAR (1985 prices)

	All goods		Convenience goods		Comparison goods	
	value £	percent change	value £	percent change	value £	percent change
1971	1222		734		488	
1972	1287	5.3	744	1.4	543	11.3
1973	1355	5.3	764	2.7	591	8.9
1974	1349	-0.4	756	-1.1	593	0.4
1975	1331	-1.3	748	-1.1	583	-1.7
1976	1345	1.0	751	0.4	594	1.8
1977	1334	-0.8	741	-1.4	593	-0.1
1978	1405	5.3	760	2.6	645	8.8
1979	1461	4.0	776	2.0	685	6.2
1980	1440	-1.4	772	-0.5	668	-2.5
1981	1431	-0.7	762	-1.3	669	0.1
1982	1452	1.5	756	-0.7	696	4.1
1983	1508	3.8	765	1.2	742	6.7
1984	1529	1.4	756	-1.2	773	4.1
1985	1578	3.2	762	0.8	816	5.6
1986	1671	5.9	781	2.5	890	9.1
1987	1743	4.3	786	0.6	956	7.4
1988	1830	5.0	788	0.3	1042	8.9
1989	1854	1.3	788	0.0	1065	2.3

SOURCE: Central Statistical Office

NOTE: Convenience goods defined as food, alcoholic drink, tobacco, cleaning materials, newspapers and magazines. Comparison goods defined as clothing and footwear, DIY goods, household goods, recreational goods and other specialist non-food items

TABLE 5.2: RETAIL SALES IN BUSINESSES OF SELECTED TYPES

	Sales in all businesses £ billion (excl. motor trades)	PERCENTAGE OF SALES BY						
		Businesses with 1 outlet(s)	Businesses with >100 outlet(s)	Consumer Co-operative Societies	Food retailers	Clothing Footwear etc retailers	Household goods retailers	Other Non-Food specialist retailers
1971	17	41.8	29.9	7.4	38.4	11.6		
1976	32.9	33.8	35.1	7.1	34.2	9.7	13.4	8.0
1980	54.95	32.2	36.7	6.4	39.5	8.9	13.5	7.8
1982	64.62	31.0	37.2	5.6	40.1	8.2	13.0	8.2
1984	76.06	30.1	38.1	5.1	39.0	10.0	14.1	8.4
1986	89.23	28.3	45.8	4.6	38.6	9.4	14.8	8.4
1987	95.77	28.2	47.6	4.4	35.5	9.4	15.8	8.6
1988	104.87	27.6	47.8	4.4	36.2	9.5	16.1	9.0
1989	112.96	27.2	47.7	4.4	36.8	9.6	15.9	9.1

	Distribution, repair and servicing of motor vehicles	Petrol filling stations
1982	28.15	4.94
1984	33.43	6.02
1986	39.98	6.81
1987	47.19	7.02
1988	56.66	7.62
1989	65.36	8.27

SOURCE: From 1980 figures are comparable year to year and are derived from SDA25 Retailing and SDA27 Motor Trades. Prior to 1980 figures are estimates derived from reworking of SDA25 Retailing 1976 and Census of Distribution 1971 and should be treated with caution.

NOTES: Figures for 1971 include purchase tax, all other years sales figures are exclusive of tax. (Value Added Tax)

TABLE 5.3: RETAIL SALES BY TYPE OF BUSINESS IN CONSTANT 1985 PRICES (£ billion)

	All businesses	Food retailers	Clothing Footwear etc retailers	Household goods retailers	Other Non-Food specialist retailer	Mixed Retail Businesses
1983	83.02	31.88	7.63	13.44	14.84	15.16
1984	85.50	32.64	8.10	14.05	15.29	15.39
1985	87.92	32.99	8.68	14.72	15.68	15.68
1986	92.58	34.10	9.45	16.34	15.98	16.65
1987	97.32	35.20	9.98	17.95	16.77	17.39
1988	103.48	36.81	10.41	20.02	18.02	18.15
1989	105.41	37.93	10.41	20.31	18.81	17.98
1990	105.85	38.72	10.33	20.16	18.40	17.73

SOURCE: Based on Business Monitor SDM28

1980s boom for this group and the high interest rates of the late 1980s affected retail sales of this group severely. From Tables 5.2 and 5.3 it can also be seen that the share of retail sales accounted for by specialist non-food retailers has increased steadily during the 1980s.

5.4 This sectoral difference is conditioned by size of firm. Although there has been growth in sales for all sizes of firm, in the larger firms the rate of increase has been greater. Approaching half of all retail sales is accounted for by firms with over 100 outlets (Table 5.2). Sectoral change and size related change combine, thus, in the food sector the large firms show substantially higher rates of growth of sales than the small firm sector. Considering the index of the **value** of retail sales at current prices then the change, indexed to 1985=100, is from 84 to 132 from 1982 to 1989 for small firms and from 75 to 144 for large firms. (Small firms, for this purpose, are defined as having sales of less than £2 million in 1986, large retailers are the remainder) Within the grocery trade the difference between large and small is particularly apparent. This total market has grown only slightly yet sales of the large firms have been substantial through the new grocery superstores (see section 4) For example, the value index of retail sales for small grocers increased from 109 in 1982 to 112 in 1989 whilst for the very large grocery firms (sales over £11 million in 1986) the index increased from 71 to 151.

5.5 A similar situation is apparent in non-food areas. In the clothing sector small and large retailers of women's and infants' wear retailers illustrate the difference in sales growth by size of firm (Table 5.4). Substantial differences also are seen in household goods retailers which has been a growth market in total. One illustration of the extent of this growth is seen in the figures for DIY retailers who benefited from the rise in real incomes, the increase in leisure time and the increase in home ownership.

TABLE 5.4: INDEXED VALUE OF RETAIL SALES AT CURRENT PRICES FOR SELECTED TYPES OF LARGE AND SMALL NON-FOOD RETAILER

	Women's and infants' clothing		Household goods retailers		DIY retailers
	small	large	small	large	all sizes
1982	75	58	82	66	60
1985	100	100	100	100	100
1989	130	178	143	153	196

TABLE 5.5: PERCENTAGE OF SALES ACCOUNTED FOR BY THE FIVE AND TEN LARGEST ENTERPRISES

	Total retail trade		Sales of broad commodity type						Selected specific items					
			Food		Clothing etc		Household		Meat		Footwear		DIY items	
	5	10	5	10	5	10	5	10	5	10	5	10	5	10
1980	13.0													
1982	14.1	22.0							19.1	27.3	43.3	52.8	21.7	35.3
1984	15.6	23.8	28.2	41.1	30.3	39.9	15.7	25.5	24.4	32.9	44.2	53.3	28.0	39.5
1986	18.1	27.3	34.6	47.3	36.7	48.9	19.9	29.4	30.1	38.9	44.1	53.6	34.6	44.0
1988	19.3	30.1	40.7	52.8	37.8	51.3	20.0	30.1	34.1	44.8	46.0	55.4	39.6	56.3
1989	19.3	30.0	41.3	54.1	36.5	49.5	18.5	28.7						

SOURCE: Central Statistical Office, Business Monitor SDA 25 Retailing

5.6 The basic dimensions to change (sectoral shift and size of firm) suggested in the sections on businesses and establishments is apparent very strongly in sales.

5.7 One important result of these changes in sales volume results from the differential performance of large and small firms. There has been a substantial increase in the level of market concentration in retailing generally, in the various types of trading and also in the sale of individual product groups. In 1989 the five largest enterprises in retailing (measured on sales volume) accounted for 19.3 per cent of all retail sales and the 10 enterprise figure was 30.0 per cent. In 1980 the five enterprise figure was 13.0 per cent. Within the consumer co-operative sector merger activity has resulted in the two largest societies now controlling 47 per cent of sales through the sector.

5.8 Table 5.5 shows the way that the concentration ratios have increased during the 1980s. This is the continuation of a long term trend (Tucker 1978, Akehurst 1983). In some commodity areas, such as footwear, the level of concentration has been high for some time and the increase over the 1980s has been slight. In other products, for example DIY supplies, the large increase in demand during the 1980s was met by exceptional growth by a few firms such that the concentration ratio increased substantially. In other cases, such as meat, the growth in the total market has been, at most, modest (sales of fresh meat increased by only 16 per cent in current prices between 1984 and 1988) but the larger firms have been able to increase their market shares by a variety of strategic moves (see section 10 below). Concentration ratios have increased generally and, by 1988, only in the 4 product groups of newspapers, flowers, antiques and second hand goods out of the total of 39 groups identified in the official retail survey is the 10 enterprise concentration ratio below 25 per cent. These ratios are calculated on national figures and give the spatial nature of retail supply the implication is that at a regional or local level effective concentration ratios may be much higher. With the levels of increase in concentration seen in the 1980s it might be expected that retailer gross and net margins will have risen as companies have sought monopoly profits (see section 8 below).

5.9 Seasonality is a very important feature of retail sales. In some sectors such as toys and jewellery the 4 or 5 weeks before Christmas account for the majority of year sales, in clothing the seasonality of fashion collections introduces peaks and troughs in the yearly sales cycle, and in motor trades the annual change in car registration identification in August results in a major sales peak in August and September. Retailers in some sectors attempt to reduce seasonality, for example in the fashion clothing sector, product ranges are changed more frequently with less stock held at any one time so generating a lower seasonality element associated with the former major seasonal launches of new product ranges.

5.10 Available statistics on the sales in the wholesale sector allow very modest analysis. Within the official statistics no distinction is made between wholesaling of consumer and industrial goods. Total wholesale sales in 1988 were £205 billion compared with the £105 billion of retail sales (ex VAT). Compared to 1980 when the comparable figures were £91 billion and £54 billion then the increase in the wholesale sector has been greater than that of retailing, but the inclusion of industrial wholesaling makes meaningful conclusions difficult to draw. If the motor trades are included in the retail figure then the ratio of wholesale:retail sales in 1980 was 1:0.92 and in 1989 1:0.90.

5.11 Some sales trends in the wholesaling of convenience consumer goods can be illustrated with grocery wholesaling. These involve the activities of wholesalers supplying retail, catering and service trades and exclude food wholesalers supplying food processors. Sales of the wholesale grocery trade, in these terms, are shown in Table 5.6 which differentiates between delivered trade and cash and carry.

TABLE 5.6: SALES IN WHOLESALE GROCERY TRADE

	SALES (£million current prices)			Percentage in
	Delivered trade	Cash and carry	Total indexed	delivered trade
1981	1823	3166	71.6	36.5
1982	1836	3356	74.6	35.3
1983	2020	3670	81.7	35.5
1984	2130	3950	87.2	35.0
1985	2463	4520	100	35.3
1986	2634	4950	108.6	34.7
1987	2818	5686	121.8	33.1
1988	3033	7040	144.3	30.1
1989	3496	7454	156.8	31.9

SOURCE: Institute of Grocery Distribution

5.12 The increase in sales during the 1980s was well below that shown by large grocery retailers but at approximately the same level as for the grocery retail sector in total. It must be remembered however that not all sales of grocery wholesalers are to retailers with approximately 35 per cent being accounted for by caterers and other non-shop outlets. The decrease in the proportion of delivered trade is partly accounted for a higher use of cash and carry depots by caterers. Nonetheless the shifts in grocery retailing with the decline of the market share of small retailers who use delivered wholesalers partly account for the shift towards more sales through cash and carry.

5.13 The grocery cash and carry market is highly concentrated. A series of takeovers and the creation of purchasing groups has resulted in the 5 enterprise concentration ratio increasing from 48% in 1983 to 76.7% in 1989 but more importantly the largest 2 organisations have moved their combined market share from 27% to 40%. The major cash and carry wholesalers operate nationally. Within the delivered trade, concentration levels are much lower (5 enterprise ratio of 25.6% in 1989) because regional firms, each of which is associated with a voluntary group, are the norm. Regional market shares of these firms are very high but national concentration ratios are relatively low. Nonetheless, recent corporate activity is resulting in increased concentration as regional firms merge with or takeover firms in other regions.

5.14 Value of stocks held by retailers are shown in Table 5.7. In current prices these inevitably show a considerable increase during the 1980s.

TABLE 5.7: VALUE (£M) OF END-OF-YEAR STOCKS HELD BY DISTRIBUTION

	Retail trade		Motor trades		Wholesaling	
	value	index	value	index	value	index
1971	1850	24				
1976	4000	51				
1980	7026	90			10256	92
1982	7817	100	3524	100	11099	100
1984	8833	113	3941	112	12842	116
1986	10369	133	4655	132	14666	132
1987	11140	143	5354	152	15715	142
1988	12331	158	6292	178	17274	156
1989	13135	168	7283	207	18349	165

SOURCES: SDA 25 Retailing, SDA 26 Wholesaling, SDA 27 Motor Trades. Figures for 1976 and 1971 are reworked from SDA 25 1976 and Census of Distribution 1971 and should be treated cautiously.

5.15 Table 5.8 is more revealing in showing stock values indexed to 1982 for trade types but again in current prices. The modest increase in stock held in the small shops reflects their decreasing number and market share whilst the large increase in firms with over 100 outlets results from their increase in market share and their move from systems of direct delivery to shops by manufacturers to systems involving a retailer controlled depot with the retailer taking ownership of stock earlier in the supply chain. The low levels of stock increase in the food sector require explanation. For the large grocers although they have increased market share and expanded depot distribution the volume of stock held has not increased as much as might be expected. This is due probably to improved management methods and the benefits of information technology in-store and in-depot. Major companies such as Tesco and Sainsbury claim to have used IT to reduce stock held out of the shop and to have improved stock movement in-store. In-store stock not on the sales floor has been removed to the distribution depot. Table 5.9 shows change in stocks for major grocery retailers as reported in annual accounts. Decreases in the late 1980s have been substantial and these must be seen against trends to increase product ranges. For other food retailers the figure in Table 5.8 show stock levels have not increased in current prices which signifies a substantial decrease in real terms. Many of these food retailers are specialists in fresh products (dairy, fish, meat, etc) so stock holding is low and stock turn is high. A decrease in numbers will have kept any potential increase in stock volumes low but again some advances in stock management may have influenced the real decrease in stock values.

TABLE 5.8: INDEX OF END-OF-YEAR STOCK VALUES BY TYPE OF RETAILER

	Businesses with 1 outlets(s)	Businesses with >100 outlets(s)	Food retailers Large grocers	Food retailers Others	Clothing footwear etc retailers	Household goods retailers
1971	29	21			35	18
1976	50				56	45
1980	67	90	92	97	93	90
1982	100	100	100	100	100	100
1984	110	130	113	96	107	115
1986	124	163	126	93	142	145
1987	131	183			159	159
1988	143	207	143	100	171	173
1989	148	220			176	191

SOURCES: SDA 25 Retailing. Figures for 1976 and 1971 are reworked from SDA 25 1976 and Census of Distribution 1971 and should be treated cautiously.

TABLE 5.9: CHANGES IN STOCKS (£M) FOR MAJOR GROCERS

	1986	1987	1988	1989	1990	1991
Sainsbury	2.9	-4.2	-6.1	-46.5	-14.6	-52.3
Tesco	-12.8	8.6	3.5	-13.2	-20.6	-18.7
Argyll	-9.4	-60.7	9.6	-17.9	-19.8	-25.1
ASDA	-26.3	-27.6	38.1	-34.5	-153.5	-16.8
KwikSave	-4.1	-4.5	-6.1	-19.8	-10.4	-36.4

SOURCE: Company Financial Reports

5.16 Figures 5.3 and 5.4 show the trend in stockturn calculated as yearly sales divided by end of year stocks. The index has changed little over the 1980s for retailing in total. Stockturn is essentially the reverse of the stock ratio figure shown in Figure 2.3 although this Figure refers to UK whilst Figures 5.3 and 5.4 refer to GB. The contrast between Figures 2.3 and 5.3 is difficult to understand and no simple explanation is available. Within the food sector (Figure 5.4) stockturn has increased. This is due probably to a combination of factors including extensions of product ranges, improved stock management, particularly associated with new logistics and information systems, and increased margins.

5.17 Stock levels in the motor trades (Table 5.7 and Figure 5.3) are dominated by the repairs and sales activities. Stockturn since the mid 1980s has been surprisingly stable.

5.18 The figures on wholesaling are confused by the inclusion of industrial wholesaling. The variation in stockturn is surprising but is difficult to interpret with the breadth of coverage of the figures. What is clear, however, is the considerable difference between retailing and wholesaling within the overall distribution sector.

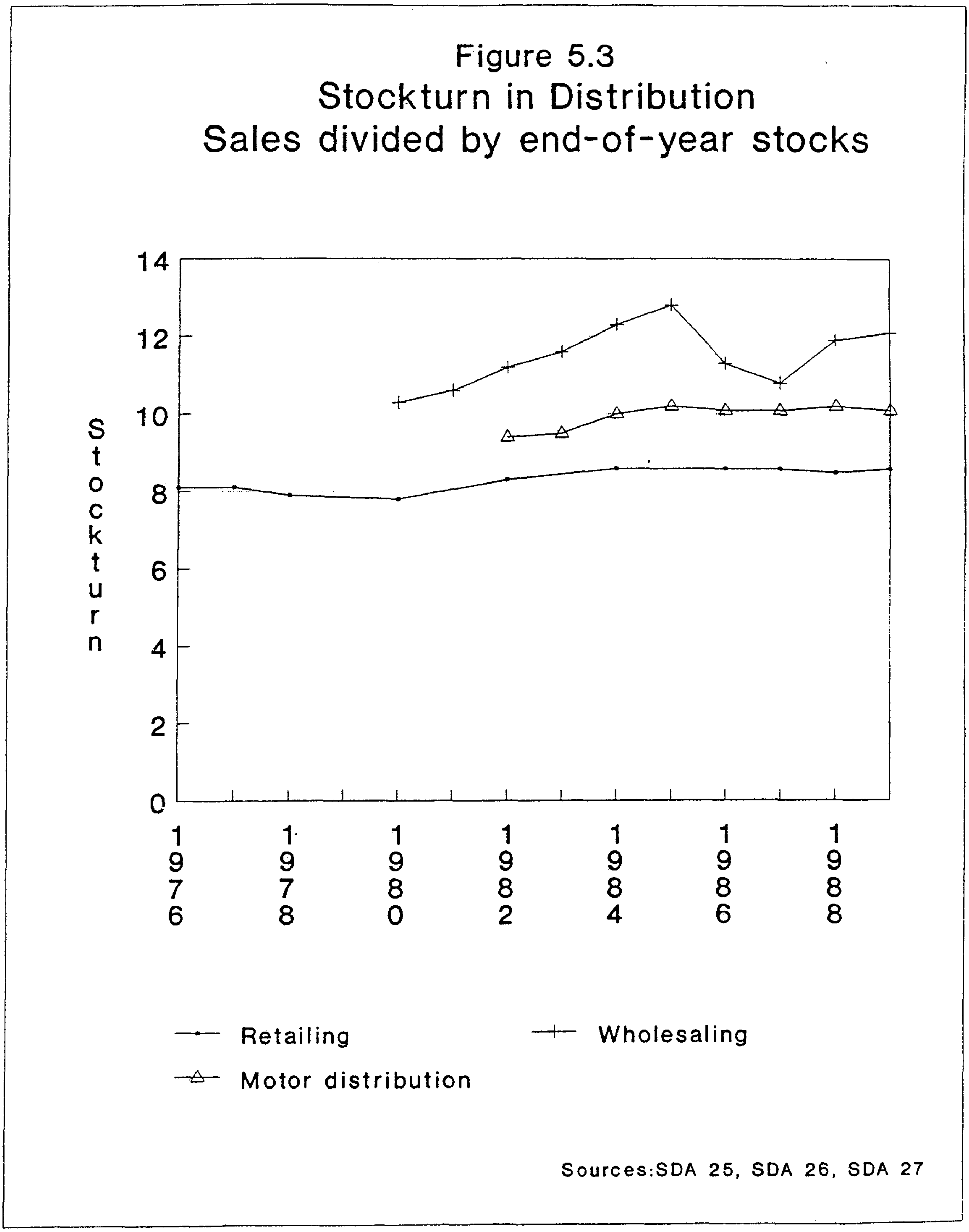


Figure 5.3
Stockturn in Distribution
Sales divided by end-of-year stocks
Stockturn
14
12
10
8
6
4
2
0
1976
1978
1980
1982
1984
1986
1988
Retailing
Wholesaling
Motor distribution
Sources:SDA 25, SDA 26, SDA 27

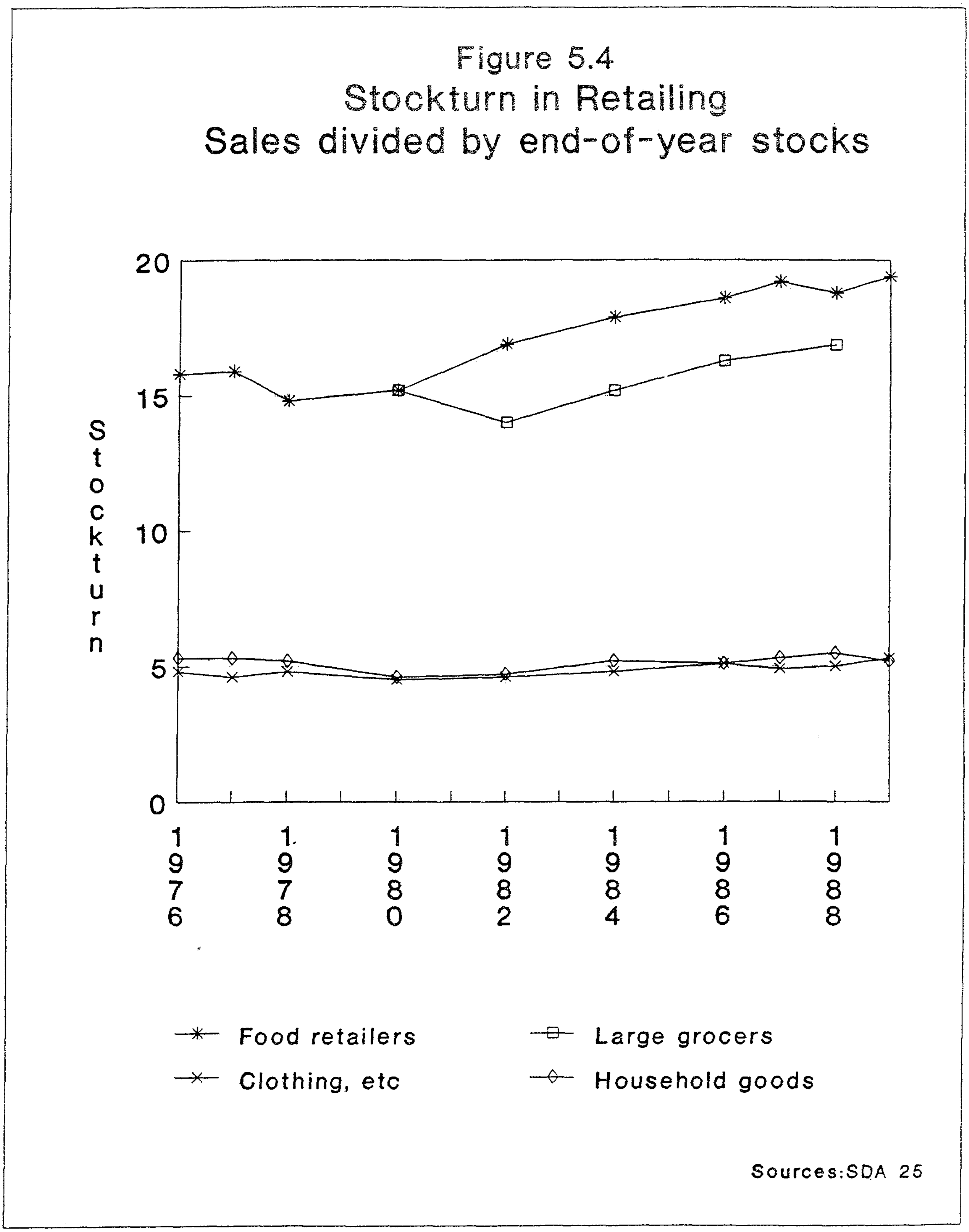


Figure 5.4
Stockturn in Retailing
Sales divided by end-of-year stocks
20
15
10
5
0
Stockturn
1976
1978
1980
1982
1984
1986
1988
Food retailers
Large grocers
Clothing, etc
Household goods
Sources:SDA 25

6. CAPITAL EXPENDITURE

6.1 Capital expenditure in 1989 by retail businesses was £4,555 million and by wholesale businesses £3,708 million. The amount has grown substantially during the 1980s as is shown in Table 6.1. This figure covers only the investment made directly by the distribution businesses. Investment by property developers in new shopping centres or warehouses which provide new retail and wholesale capacity for rent or lease to distribution companies is not included in these figures. An indication of the growth in this type of investment is given later in this section.

6.2 Table 6.1 shows that capital expenditure as a percentage of gross margin has grown steadily during the last decade. Investment levels amongst large firms is substantial with in 1988 the investment as a percentage of gross margin at 20.6% for firms with over 100 outlets and at an average of 33% for the 19 food retailers operating over 100 outlets in that year. The proportion of all investment accounted for by these large firms is now over 60 per cent of all expenditure. Alongside this has been the reduction in percentage terms and, in recent years, probably in real terms of the investment by single establishment enterprises although 1989 shows an interesting reversal of recent trends. The food sector accounts for a large proportion of capital expenditure despite the sector showing little overall growth in sales. The reason for this apparent anomaly is that the sector is dominated by a relatively small number of companies who have been investing heavily to gain market share in a slow growth market. Much of this investment has been expended on new building work with approximately 25 percent of all capital expenditure in retailing in 1988 being spent on the new building activities of fewer than 15 grocery retailing organisations. The increase in grocery superstore numbers shown in Table 4.3 indicates one result of this investment.

6.3 Capital expenditure in wholesaling has risen steadily as shown in Table 6.1. In recent years the growth has been notably slower than in retailing as shown by the ratio figures but in 1989 there was a large increase in capital expenditure by wholesalers. It must be stressed, however, that all wholesaling is included in these figures.

Table 6.1: NET CAPITAL EXPENDITURE BY BUSINESSES IN RETAILING, WHOLESALING AND MOTOR TRADES

	RETAIL BUSINESSES						WHOLESALE BUSINESSES	RATIO WHOLESALE: RETAIL EXPENDITURE	MOTOR TRADES
	Total in all businesses £ million	As a % of gross margin	Percentage accounted for by Businesses with 1 outlet(s)	Percentage accounted for by Businesses with >100 outlet(s)	Consumer Co-operative Societies	Food retailers	Total in all businesses £ million		£mill
1971	395	7.8	19	54	4.0	25			
1976	745	8.4	18.9		7.1	24.0			
1980	1594	10.9	19.9	50.6	5.5	40.1	1318	1:1.21	
1982	1921	11.2	20.1	54.5	5.4	35.9	1413	1:1.36	308
1984	2244	10.8	20.5	56.1	4.3	40.8	1878	1:1.19	429
1986	2930	11.6	16.0	56.9	3.4	47.4	2853	1:1.02	527
1987	3581	13.0	13.6	61.4	3.3	46.8	3223	1:1.11	634
1988	4623	14.9	12.6	62.9	4.1	48.3	3398	1:1.36	803
1989	4555	13.9	15.2	61.7	3.7	46.7	3708	1:1.23	929

SOURCE: From 1980 figures are comparable year to year and are derived from SDA25 Retailing, SDA26 Wholesaling and SDA 27 Motor Trades. Prior to 1980 retail figures are estimates derived from

reworking of SDA25 Retailing 1976 and Census of Distribution 1971 and should be treated with caution.

NOTES: Figures for 1971 include purchase tax, all other years figures are exclusive of tax. (VAT)

6.4 The composition of spending in the two sectors differs as indicated in Figures 6.1 and 6.2. The contrast between the sectors is in new building work. Within retailing expenditure growth has been strongest in new building and in plant and machinery whilst within wholesaling plant and machinery investment levels rose to 1986 but have since decreased in absolute and proportional terms. Moves to the use of third party operators of vehicles has reduced retailer demands for capital expenditure on vehicles with the costs being transferred to non-capital accounts.

6.5 An indication of the high level of capital spending by the large retailers is given in Table 6.2 which shows the capital expenditure of the major companies as reported in annual accounts and in announcements of planned developments. Tesco and Sainsbury, both in the food sector, have committed over £3,000 million to the purchase of fixed assets over a two year period.

Table 6.2: PURCHASE OF FIXED ASSETS BY SELECTED MAJOR RETAILERS IN U K (£ million)

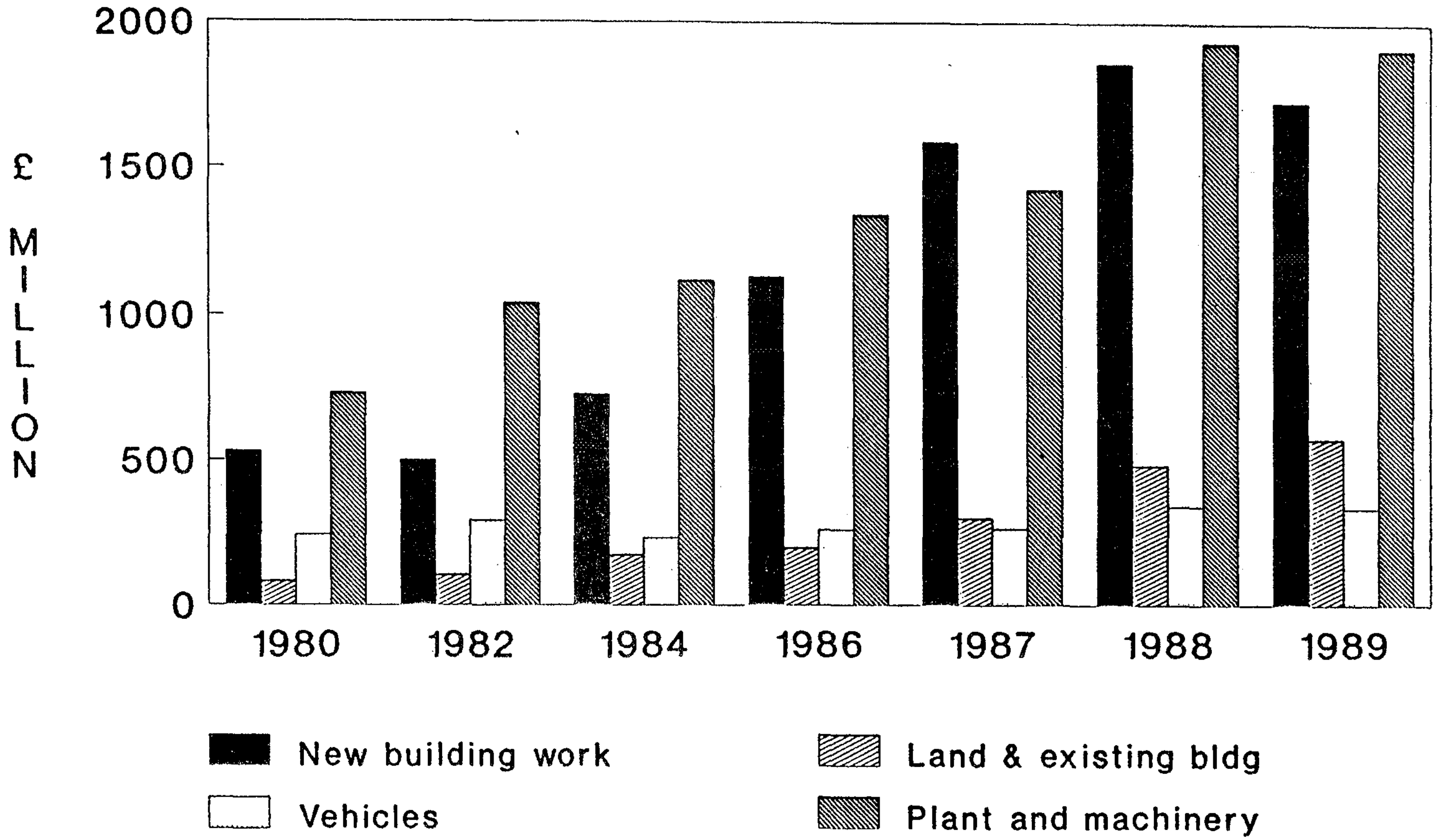
Company	1988	1989	1990	1991	1992F
J Sainsbury	291	434	693	780	750
Tesco	495	485	651	952	800
ASDA	271	452	926	143	NA
Argyll	177	276	281	344	NA
Marks and Spencer		208	276	300	350
Kingfisher		242	225	325	280
Boots		118	151	165	110

F = Forecast; NA = Not available

SOURCE: Annual accounts and company statements

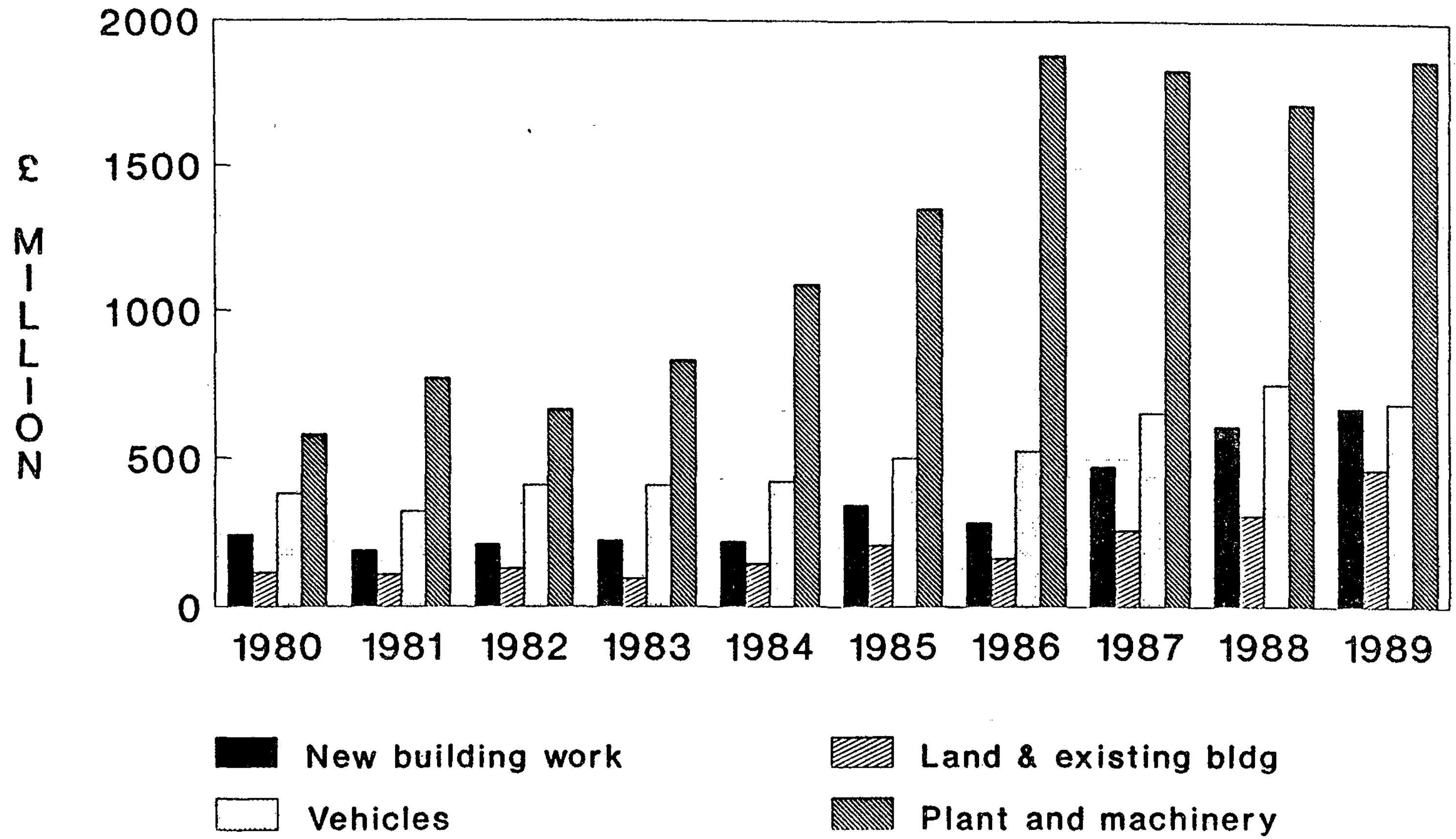
6.6 The figures discussed so far relate to the capital spending undertaken by retailers and wholesalers to support their businesses. In addition property developers have invested in new retail capacity. Figure 6.3 shows the amount of new retail floorspace generated from the development of shopping centres. Data refer to shopping centres over 50,000 square feet and show actual floorspace completed and for 1991-93 the anticipated completions given current construction projects. Also shown is the amount of space in the total which is attributable to retail parks (see section 4).

Figure 6.1
Net Capital Expenditure in Retailing
by Type of Asset



Source: SDA 25

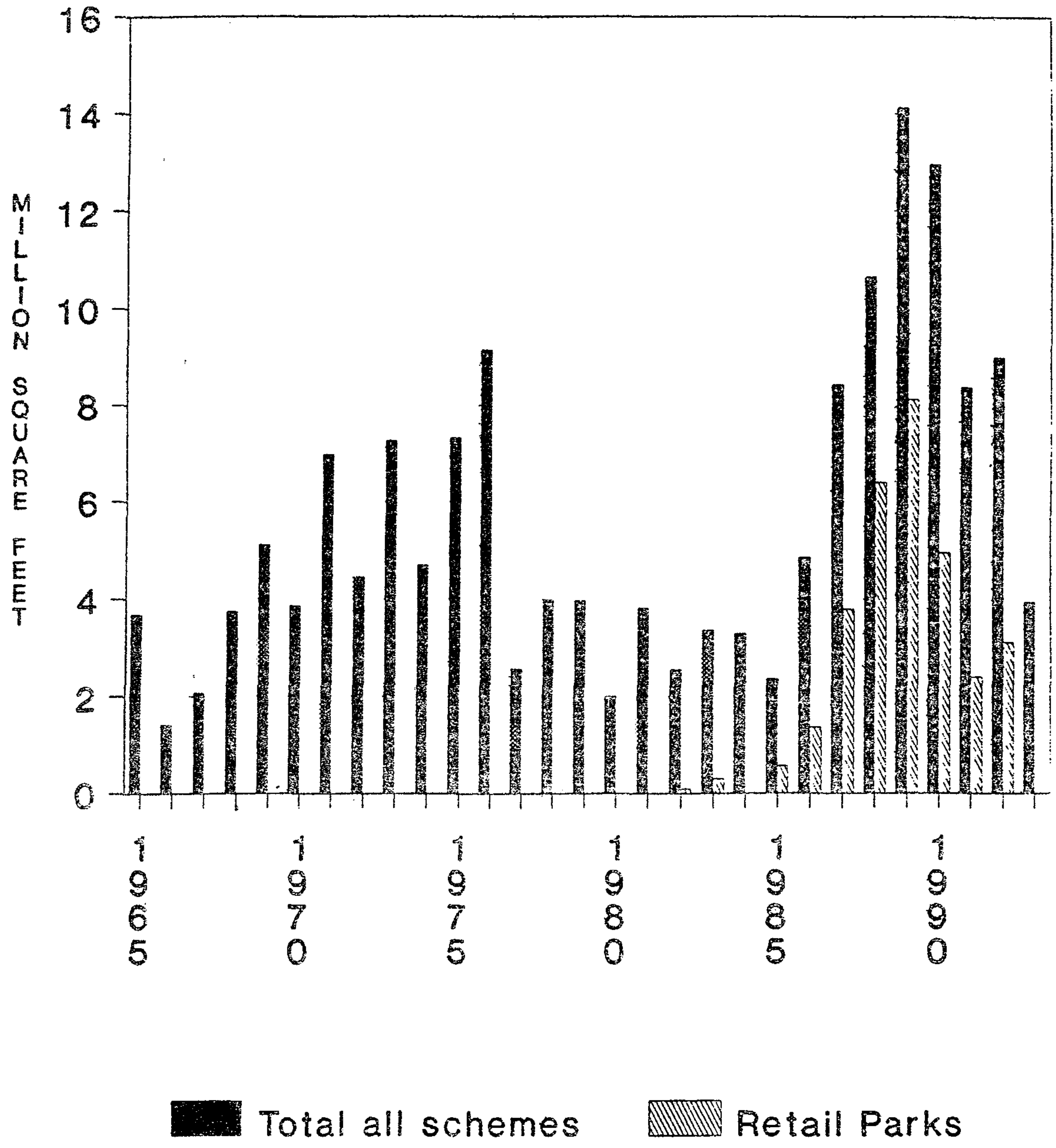
Figure 6.2
Net Capital Expenditure in Wholesaling
by Type of Asset



Source: SDA 26

Figure 6.3

New Shopping Centre Development Space Opened - Gross floorspace



Source: Hillier Parker Research

6.7 Between 1963 and the middle of 1991 a total of 140 million square feet (gross) of retail floorspace was completed in shopping centres in the U K. During the late 1960s and early 1970s demand for retail space ran ahead of supply which encouraged new schemes which given their nature take at least 2 years, often longer, to complete. The peak in completions in 1975 came after the economy had gone into recession so that the property market had an excess of space through much of the mid and late 1970s. This same cycle was repeated in the 1980s when retailers demanded new space to allow them to respond to the increased consumer demand. The consumer spending and retail boom of the 1980s encouraged the development of substantial amounts of new retail floorspace which has become available at a time when the increase in retail sales has slowed and in some markets stopped. As a result, although capital expenditure has remained high because of committed spending the return on this investment is low and property costs have fallen (see section 9 below). The share of space accounted for by retail parks increased particularly rapidly because there was strong demand (for example from DIY retailers, see Table 5.4) and they were quickly constructed. Their cycle of development is more responsive to retailer demand. The development of shopping centres represents a major capital investment in retailing but one made by the property development industry rather than by retailers. Partly in consequence of this the matching of supply of new space to the demand for it is far from perfect.

6.8 Capital spending on equipment has remained at a high level in retailing with the continued introduction of information technology, particularly electronic point of sale systems (Dawson and Sparks 1986). Table 6.3 shows the growth in use of bar-code scanning equipment at point of sale in the grocery sector and is indicative of the commitment to capital expenditure. No accurate figures are available on the amount spent on IT equipment by retailers and wholesalers other than in 1987 when the expenditure by retailers was £255 million on this equipment, representing 7 per cent of all capital expenditure. The widespread use of leasing and similar financing arrangements for this type of equipment makes estimates of spending difficult to determine and indicative figures as in Table 6.3 remain useful indicators of the increase of spending in this area.

Table 6.3: SCANNING STORES IN THE GROCERY SECTOR IN GREAT BRITAIN

	Number of stores with scanning	Percentage of GB grocery sales in these stores
1981	6	
1982	12	
1983	39	
1984	96	2
1985	249	7
1986	382	11
1987	473	17
1988	535	30
1989	972	43
1990	1497	55
1991	2169	66

NOTES: Figures to 1988 refer to April each year and from 1989 figures refer to 1 January. Excludes mixed retailers, such as Marks and Spencer, with grocery sales.

SOURCES: Article Numbering Association, Nielsen

7. EMPLOYMENT

7.1 The total number of employees in retailing, motor trades and wholesaling in GB 1991 was 3,497,000 with in addition some 456,000 self employed people. Of the employees 1,978,000 were in retailing. The numbers of employees in the distributive trades has increased slightly during the 1970s and 1980s as shown in Figure 7.1. In this figure the motor trades are included in retailing.

7.2 There has been a substantial move to using part-time workers (defined as working less than 30 hours per week). The real labour input into distribution, particularly retailing has fallen. The shift to part-time workers has been undertaken in order to schedule work more efficiently and to respond to variations in activity during the day, week and season. The shift to part-time labour use has also helped reduce wage costs to the retailer. This cost saving results from lower direct wage costs and also a reduction in the costs of pension schemes and other benefits from which many part-time workers are excluded (Robinson and Wallace 1984). In 1990 50.1 per cent of all employees in retailing (excluding motor trades) worked part-time but the percentage is higher amongst females at 58.1 per cent. Table 7.1 provides a breakdown of the composition of the retail employed workforce and shows that in 1990 41.2 per cent of all retail employees were females working part-time. The percentage has increased steadily during the 1980s. Table 7.1 shows this increase for retailing including the motor trades and for 1990 figures excluding the motor trades.

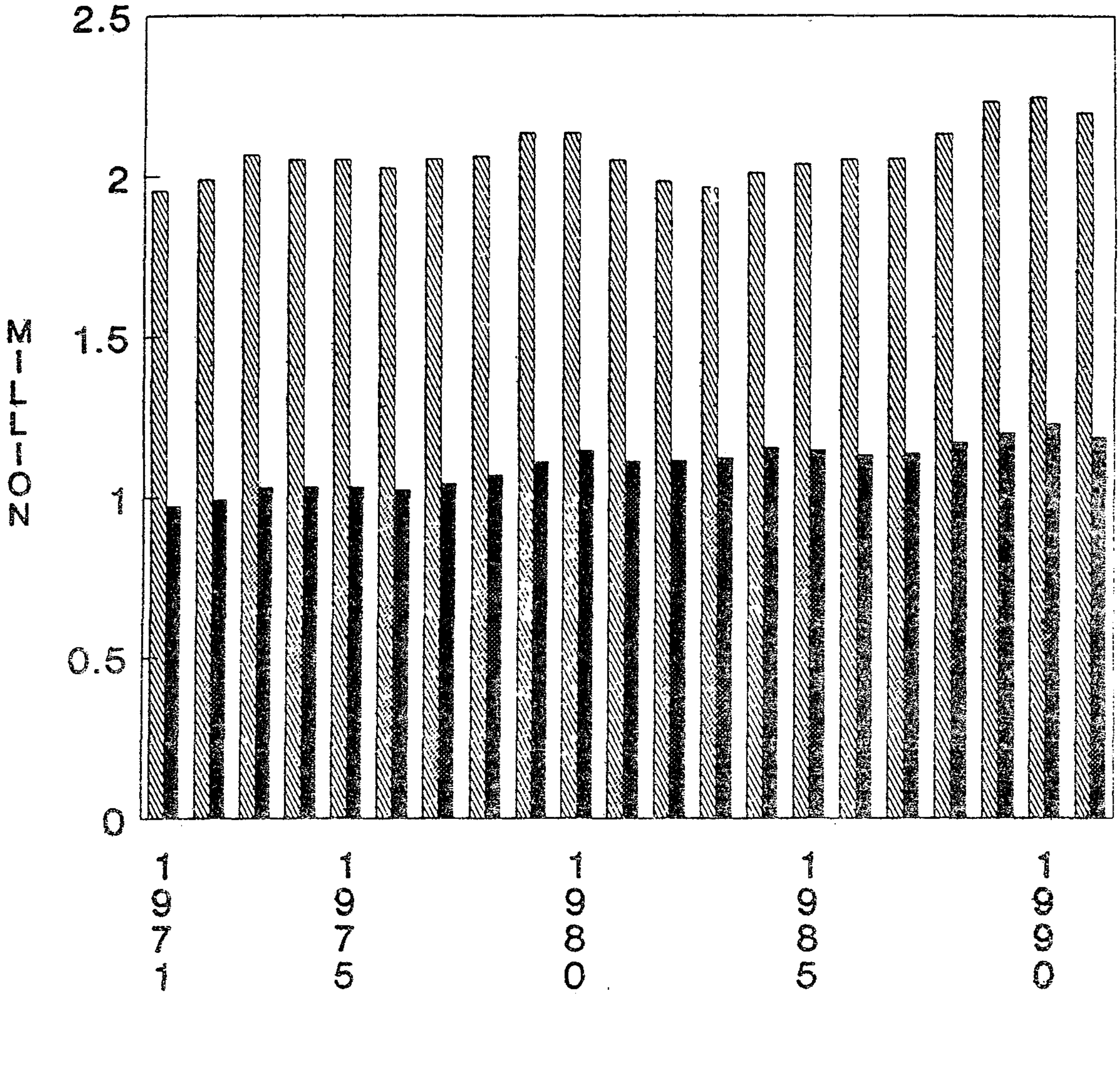
TABLE 7.1: COMPOSITION OF THE RETAIL EMPLOYEE LABOUR FORCE (including motor trades)

	1982	1984	1986	1988	1990	1990(1)
	%	%	%	%	%	%
Female employees	62.3	62.5	62.7	63.5	64.0	66.8
of which:						
part-time	34.2	35.9	37.1	38.2	37.5	41.2
full- time	28.1	26.6	25.6	25.2	26.5	21.6
Male employees	37.7	37.5	37.3	36.5	36.0	33.2
of which:						
part-time	6.1	6.2	6.3	7.3	6.4	8.9
full- time	31.6	31.3	31.0	29.2	29.6	24.3

(1) These figures relate to retailing excluding motor trades

Source: Employment Gazette

Figure 7.1
Number of Employees in Distribution
Great Britain



Employees in June each year
Source: Employment Gazette

7.3 Within the motor trades over 70 per cent of employees are male full-time. Within wholesaling, in 1991, the workforce is dominantly male full-time (67%) and only 11 per cent of the workforce is part-time. Figures for wholesaling can be seen in Table 7.2.

7.4 During the 1970s and early 1980s there was a shift of women into the retail workforce, whilst this trend has decreased in magnitude during the late 1980s, the result is that a large proportion of the workforce are female (see Table 7.1). During the late 1980s there was a notable shift towards the feminisation of the wholesale workforce with 31.6 per cent of employees being female in 1984 and 34.2 per cent in 1990. The feminisation of the workforce and the increase in part time working reinforce each other. Table 7.2 shows the comparisons with the totals for all employees. In this table it has been necessary to include the motor trades within retailing but even with this addition of a predominantly male full-time workforce the general trends can still be seen.

7.5 The number of hours worked by part-time employees has reduced steadily. The hours worked by female part-time sales assistants, for example, has declined significantly. The proportion of female sales assistants working less than 16 hours per week rose from 26.2 to 45.6 per cent between 1972 and 1987 and the proportion of check-out operators working less than 16 hours more than doubled from 21.3 to 46.8 per cent over the shorter period of 1977 to 1987.

7.6 There has been a substantial increase in labour productivity. Increases in margin have occurred alongside the switch from full-time to part-time workers within a more or less stable total workforce. Productivity increases have been obtained through more efficient management practises and the introduction of information technology, which has been a factor in facilitating the shift to part-time working (Distributive Trades EDC 1985, 1988, Smith and Hitchens 1985)

7.7 These general trends are apparent across all types of retail trade and sizes of firm although the detail varies. The shift to part-time working has been particularly prominent in food retailing such that in 1991 57 per cent of employees were working part-time. The growth of superstores has also affected employment patterns with part-time worker percentages being even higher in grocery superstores. Table 7.3 shows employment patterns in grocery and DIY superstores in the mid-late 1980s.

TABLE 7.2: EMPLOYMENT STRUCTURE IN DISTRIBUTION

	1971	1976	1981	1986	1991
All industries					
Total employment '000	21646	22048	21309	21166	21486
of which					
male full-time	12840	12398	11506	10829	10262
male part-time	586	699	718	843	969
p-t as % all males	4.3	5.3	5.8	7.2	8.6
female full-time	5468	5366	5304	5374	5713
female part-time	2757	3585	3781	4120	4542
p-t as % all females	33.5	40.1	41.6	43.3	44.3
% of part-time employees	15.4	19.4	21.1	23.4	25.6
Retailing	1786	1851	2049	2116	2167
of which					
male full-time	528	502	639	640	656
male part-time	90	123	131	132	164
p-t as % all males	14.6	19.7	17.0	17.0	20.0
female full-time	633	553	582	534	531
female part-time	535	673	697	768	816
p-t as % all females	45.8	54.9	54.4	58.9	60.6
% of part-time employees	35.0	43.0	40.4	43.3	45.2

TABLE 7.2 (continued)

	1971	1976	1981	1986	1991
Wholesaling	769	819	875	906	923
of which					
male full-time	516	537	569	595	605
male part-time	18	22	25	15	15
p-t as % all males	3.4	3.9	4.2	2.4	2.4
female full-time	179	179	190	204	216
female part-time	57	80	91	91	87
p-t as % all females	21.1	30.8	32.3	30.8	28.7
% of part-time employees	9.7	12.5	13.2	11.6	11.0

SOURCE: Employment Gazette

TABLE: 7.3 EMPLOYMENT IN SUPERSTORES

	Food superstores	DIY superstores
Average number of employees	285	46
Percentage full-time	38	50
Percentage female	72	54
Percent of males who p-t	36	33
Percent of females who p-t	72	64
Number of stores in sample	175	336
Average floorspace	3650	3415

SOURCES: Dawson, Findlay and Sparks (1986), Sparks (1991)

7.8 One of the effects of information technology on employment has been, in the late 1980s, a reduction in managerial hierarchies in many of the larger firms and also there has been a requirement for multi-skill workers on the sales floor.

7.9 The traditional recruiting area for retailers seeking sales, store and clerical staff is school leavers and so the pattern of demographic change has a major effect on the ability of retailers to recruit new staff. The change in structure of trade in the 1980s with the expansion into new stores by large firms and the closure of small stores and small firms resulted in a very dynamic market with considerable worker recruitment, redundancy and turnover.

7.10 Most occupations in retailing remains relatively low pay work with a low level of union participation in a rapidly changing workforce.

7.11 Subcontracting of non-core work such as store security, maintainence and cleaning has increased but there are no clear trends as to whether, in the larger firms, these are a centrally organised contracts or whether they are the responsibility of local or regional management.

8. MARGIN AND PROFIT

8.1 Gross margin in retailing in 1989 was 29.0 percent of sales. This percentage has increased steadily during the 1980s from 26.5 per cent in 1980. Figures for wholesaling have not been collected since 1984 when the gross margin was 13.4 per cent of sales. This compares with 27.4 per cent for retailing in 1984. Gross margin figures are not available for the motor trades.

8.2 Within all sections of retailing the trend has been towards higher gross margins during the 1980s. Table 8.1 shows the pattern of change and the differences amongst different retail types. Although margins in food retailing are relatively low they have increased by 3.4 percentage points between 1982 and 1988. Both large and small retailers have increased their gross margin over the period. Comparing the trend of small firms with that of large shows the increase in gross margins to have been greater in the small firms such that by 1988 gross margin in small firms was higher than that in large firms. This may be the result of the ability of large firms to obtain, and pass onto the consumer price benefits of, better purchasing terms and particularly quantity discounts than can small firms. The relationship of gross margin to size of firm differs by type of retailer. Figure 8.1 shows the situation for 1988 for three types of retailer. Within food retailing, where quantity discounts are an important feature of negotiations between retailer and manufacturer, gross margin is lower for the larger firms. In clothing and footwear retailing the reverse situation is apparent whilst for household goods the variation with firm size is small. With this type of evidence it is difficult to draw firm conclusions.

8.3 The situation in grocery retailing (Figure 8.2), which is a subset of food retailing shown in Table 8.1 and Figure 8.1, presents an interesting picture. Gross margins of smaller grocers have risen steadily. Early in the 1980s there were increases of gross margin in small retailers but decreases amongst others implying that for small retailers either their costs of trading were rising faster or they enjoyed more opportunities to increase prices or buying power of larger firms had increased more than smaller firms. Generally the gross margin of smaller grocers is below that of the larger grocery retailers and since the early 1980s the difference is increasing. The higher gross margin in large firms is as would be expected if the smaller firms were paying more for their goods and had less monopoly power than the larger firms (Moir 1991; Baden Fuller 1986). An alternative explanation is that the larger margins in the large firms reflect more value-added generated through

TABLE 8.1: GROSS MARGIN AS PERCENTAGE OF SALES IN BUSINESSES OF SELECTED TYPES

	All businesses	Businesses with 1 outlet(s)	Businesses with >100 outlet(s)	Consumer Co-operative Societies	Food retailers	Clothing Footwear etc retailers	Household goods retailers	Other Non-Food specialist retailers
1971	29.3	28.4	30.4	23.8	22.7	36.4		
1976	27.0	27.4	27.1	22.6	19.0	38.4		32.8
1980	26.5	25.2	26.5	24.3	19.6	38.3	31.1	31.8
1982	26.6	25.9	26.4	22.9	19.4	40.5	31.8	30.9
1984	27.4	26.6	26.9	23.9	20.7	40.7	33.0	30.1
1986	28.3	27.3	27.5	23.0	21.2	40.5	32.2	31.0
1987	28.8	28.2	27.6	23.0	21.9	41.4	32.0	33.2
1988	29.4	28.5	28.2	23.1	22.8	43.4	34.1	33.0
1989	29.0	28.6	27.6	22.1	22.9	43.1	33.1	34.6

SOURCE: From 1980 figures are comparable year to year and are derived from SDA25 Retailing and SDA26 Wholesaling. Prior to 1980 retail figures are estimates derived from reworking of SDA25 Retailing 1976 and Census of Distribution 1971 and should be treated with great caution.

NOTES: Figures for 1971 include purchase tax, all other years figures are exclusive of tax. (VAT)

Figure 8.1
Gross Margin as a Percentage of Sales by Size of Firm and Type of Retailer 1988

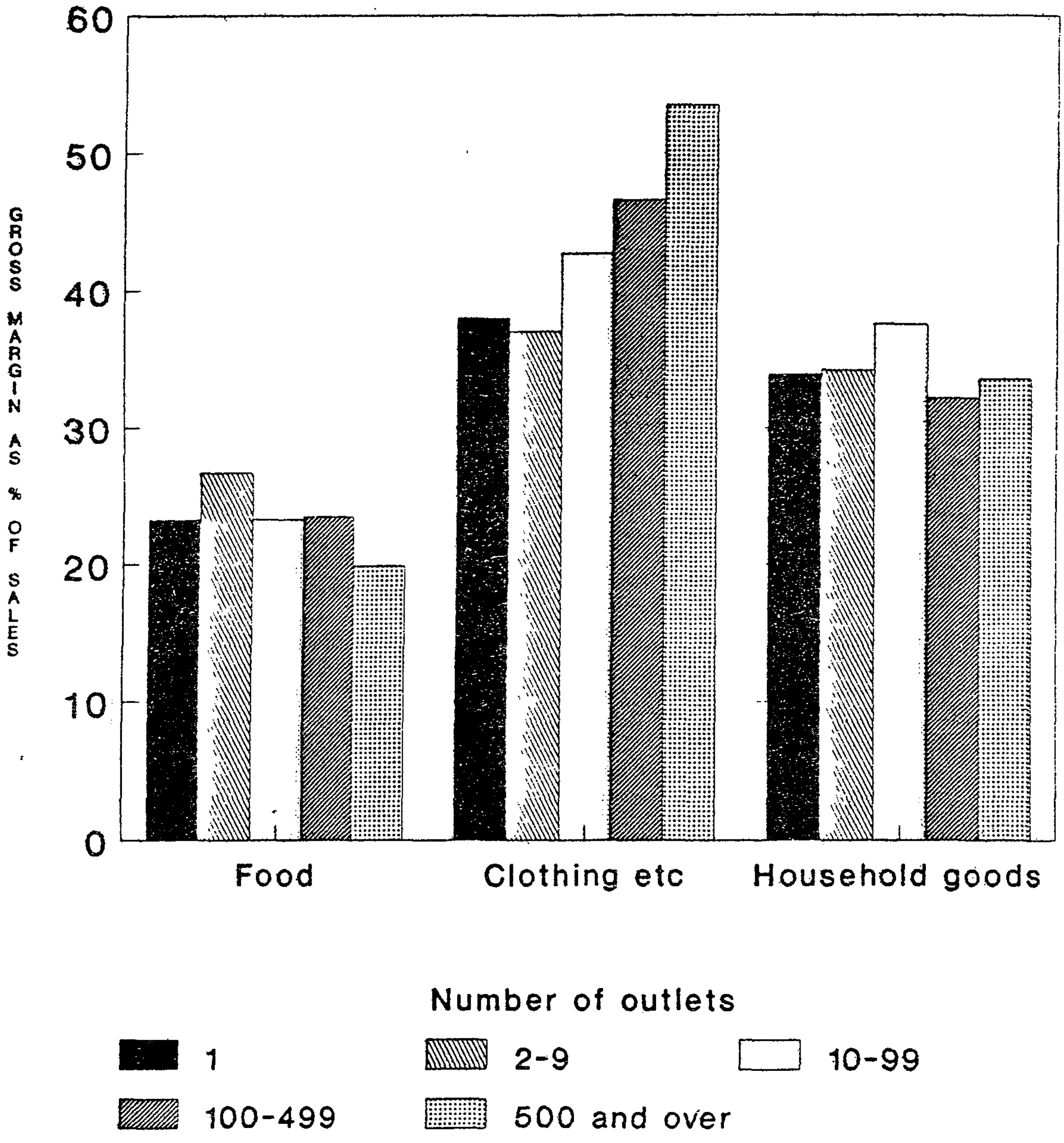
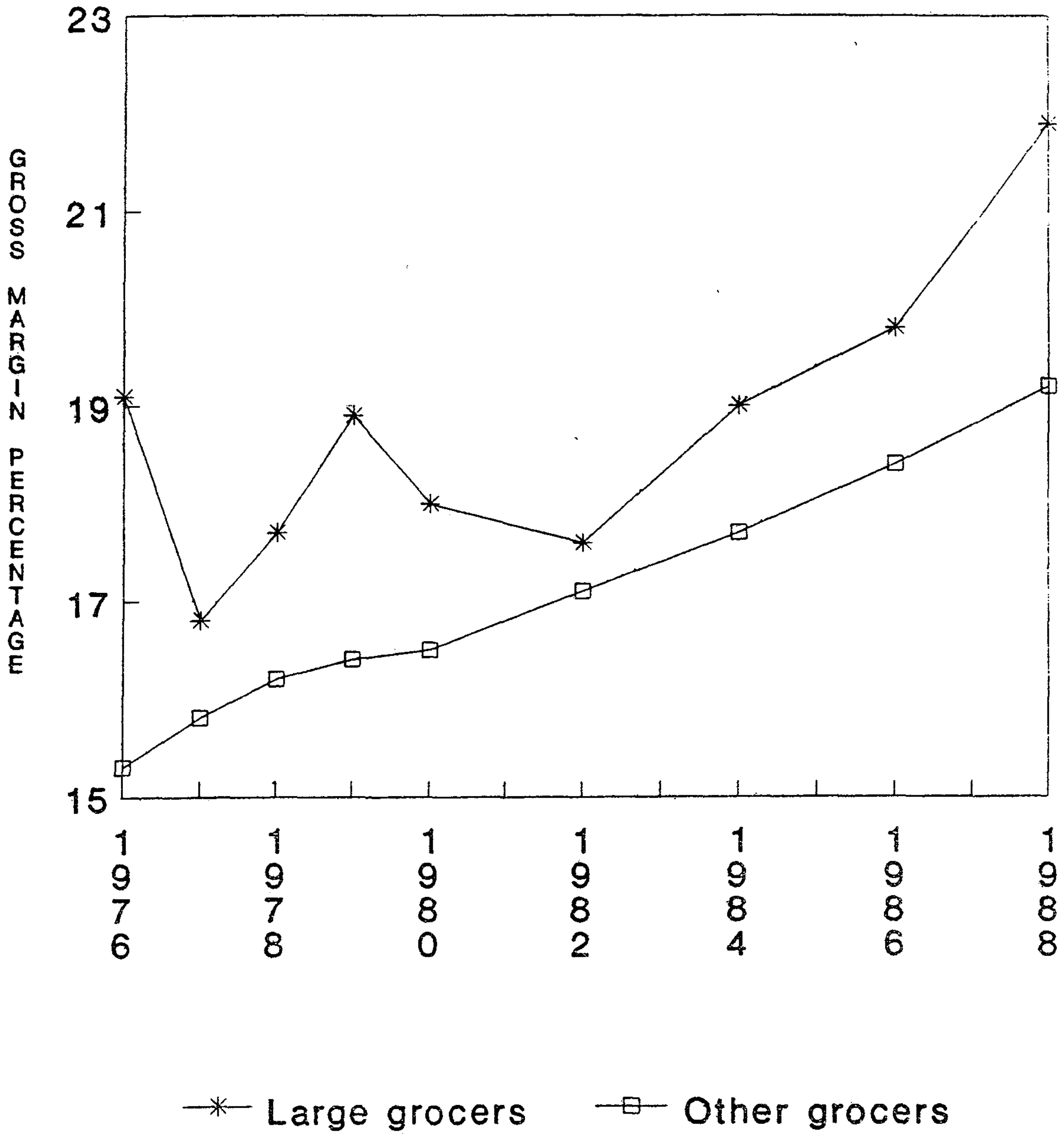


Figure 8.2
Gross Margin as a Percentage of Sales in Grocery Retailing

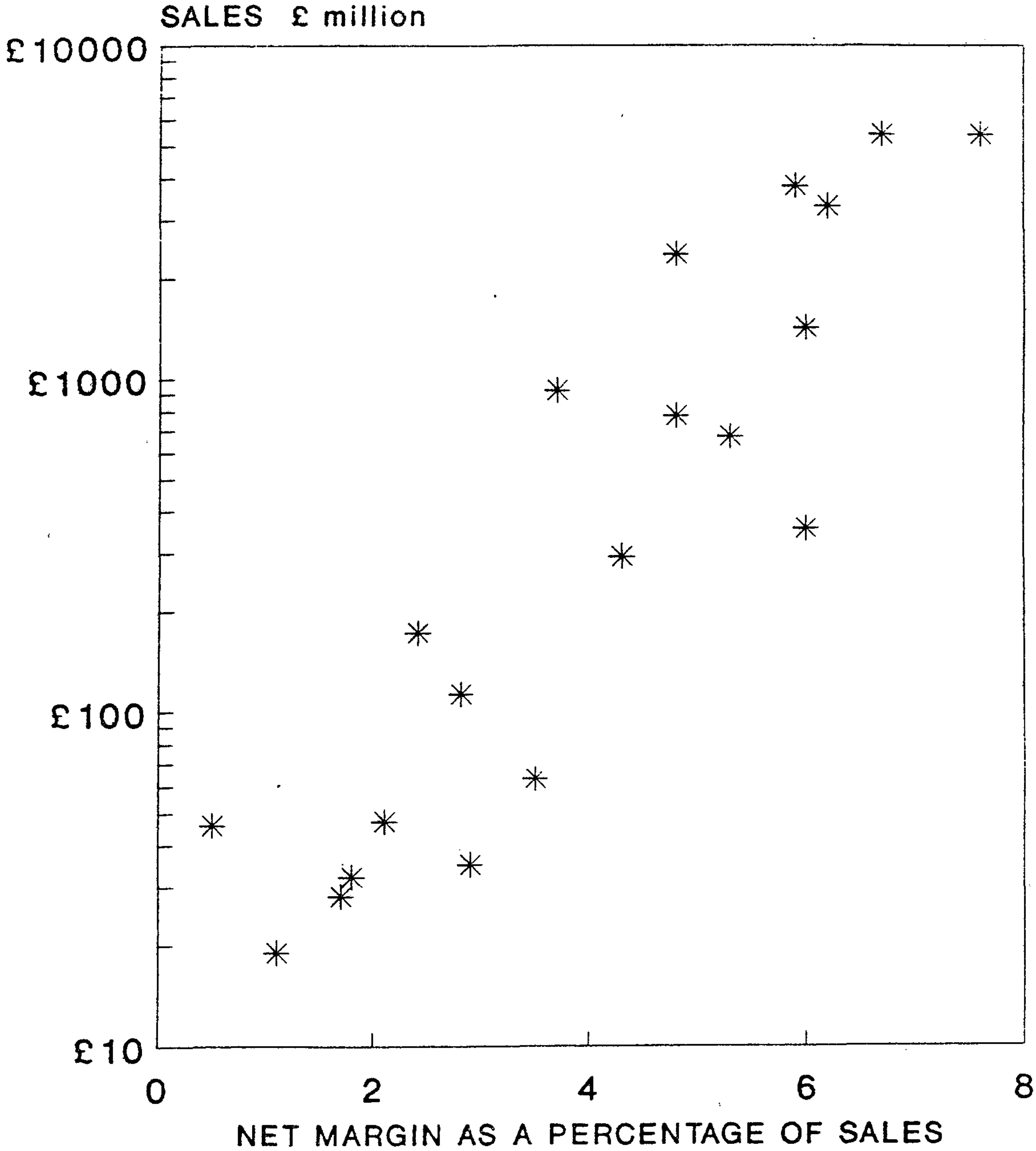


skilled selling of high margin items such as fresh foods and through providing wider ranges and new products. If this latter argument is to be sustained then the higher level of expertise in the larger firms should be reflected in higher net margins.

8.4 The increase in the differential between large and small in respect of gross margin may possibly be explained in the following way but with a significant caveat. Considerable care has to be taken in interpretation of the data for different years because the sample changed from year to year and the number of businesses classified as large grocery retailers fell from 193 in 1976 to 69 in 1988. The inclusion in the sample in later years of a higher proportion of consumer co-operatives, in which gross margin is traditionally lower because of their culture and organisational form, may also result in the recording of a lower gross margin than is actually the case on a like for like basis with earlier years. The difference between large and small grocers may be even wider than is shown. The widening of the difference may occur because large grocery retailing firms are obtaining more scale related benefits in respect of buying discounts; large firms also have an element of spatial monopoly in intertype competition because in the development of large grocery superstores they pursue an initial policy of spatial avoidance. Smaller firms also are attempting to compete on price with the larger firms and thus there is intertype competition. It can be argued that these factors are acting in combination to increase the differential between large and other firms. In the future, after some period there will be even fewer small firms so that they begin to benefit from potential local spatial monopolies, they also may retreat from price competition with the large firms and as they form associations and groups for joint purchasing so they will obtain some of the scale related buying economies previously associated with the large firms. The large firms meanwhile will have increased their network of large stores and spatial avoidance is no longer possible so interfirm price competition will occur and the margins of large firms will come closer to others. We might expect therefore the difference in gross margin to decrease as the large increase in numbers of grocery superstores (Table 4.3) begins to result in interfirm competition.

8.5 Figures for net margin across retailing are difficult to obtain. Net margins of larger grocers have risen from an average of around 3 per cent in 1980 and 1981 to an average of about 4.5 per cent in 1989 and 1990. If the increase in gross margins can be related to the increase in monopoly power in the grocery sector then the increase in net margins reflects increased effectiveness of trading. Figure 8.3

Figure 8.3
Net Margin and Sales of 20 Largest Grocery Retailers in UK 1989-90



shows the relationship between sales size and percentage net margin for the twenty largest firms in the grocery sector. Examples of the change in net margins amongst large retailers is shown in Table 8.2. The variation across companies in the figure of percentage net margin is substantial. The general trend is upwards for most companies during the 1980s. The companies in Table 8.2 have all increased their sales volumes considerably during the 1980s and at the same time increased their market shares in their respective markets.

TABLE 8.2: NET MARGIN AS A PERCENT OF SALES FOR SELECTED LARGE RETAILERS

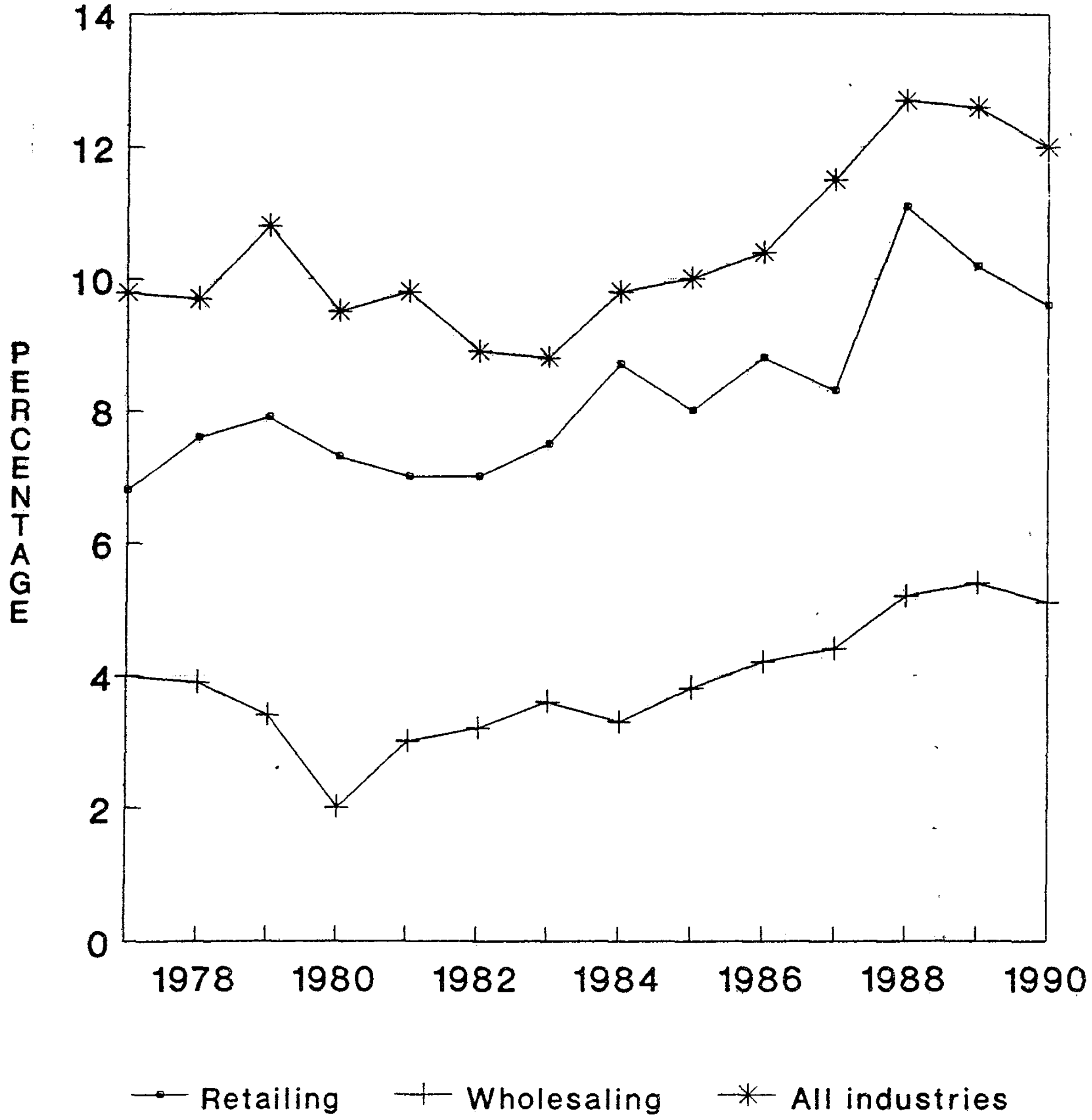
Company	1980	1982	1984	1986	1988	1990
J Sainsbury (1)	3.7	4.5	5.2	5.6	6.4	6.8
Tesco	2.4	2.1	2.6	3.1	5.6	6.2
Argyll				3.7	5.0	5.7
Kwik Save	4.6	4.8	5.0	5.5	5.7	5.6
GUS	10.9	11.4	11.1	13.1	14.9	15.1
Marks and Spencer	10.4	10.1	9.8	9.8	10.9	10.8
Boots	5.7	4.9	8.1	9.9	9.9	10.6
Sears	7.4	7.0	8.3	8.1	10.4	11.1
W H Smith	3.3	2.7	4.1	4.0	4.3	4.1
Kingfisher				4.6	8.2	10.1
Argos			7.0	7.6	8.6	8.3
Burton	5.8	10.4	13.6	12.1	13.3	7.4

NOTES: Net margin is calculated as pre-tax net profit on all company activities
(1) Sales figures include VAT

SOURCES: Company Accounts and Stockbroker Reports

8.6 A further source of information on profitability is an annual official survey of company finance. This survey covers about 180 large retailers and 150 large wholesalers each year but the number varies slightly each year. Broadly comparable figures are available from 1977 and are shown in Figure 8.4. The figure for 1990 is provisional. The trend over the 1980s is again for an increase in profit as a percentage of sales. Profit in this case is pre-tax and before allowing for depreciation provision. Although the measurement of profit is different the upward trend is the same as in Table 8.2. Comparison can be made with a figure for all industries which suggests low levels of return in the retail sector, at least on this measure.

Figure 8.4
Gross Profit as Percentage of Sales
(large companies)



Source: Business Monitor MA3

8.7 There are potentially several reasons for the increases in gross and net margins. Three important ones are changes in the product mix sold by the company, changes in the size distribution of stores operated by the company and a change in the cost structure. The first and second factors are illustrated in Tables 8.3 and 8.4 whilst changes in the cost structure are considered in the next section.

8.8 The effect of a change in the product mix sold is illustrated in Table 8.3 which relates to food retailing. Figures are indicative of the typical situation in 1985 and 1990. By changing the product mix at a departmental level and with only slight increases in gross margin at departmental level overall gross margin can be raised substantially. This has occurred in food retailing and in departmentalised types of retailing in the non-foods area. In food retailing most of the major firms have either added new or expanded existing product offerings in higher margin departments, partly to respond to consumer demand, partly as a competitive policy of extending product variety and partly as a trading mechanism to increase gross margins. A comparable process of analysis to that shown in Table 8.3 can be undertaken within departments at product group level and even within product groups at individual product level. An enabling mechanism for this type of gross margin management (and enhancement) is the presence of information technology at point of sale which allows data to be collected on exactly what is being sold (see Table 6.3).

8.9 A second reason for margin increase is the changed size distribution of stores within a corporate portfolio. Table 8.4 illustrates the situation with the UK supermarket operations of J Sainsbury. During the second half of the 1980s the share of selling area accounted for by large stores has increased. Large stores have been developed because they provide

* scale economies of operation particularly in labour cost, logistics and technology

* more space to add high margin departments and product groups (see Table 8.3)

* consequential higher net margin than small stores.

8.10 Between 1986 and 1990 the number of supermarkets operated by J Sainsbury increased from 280 to 291. This increase resulted from 102 new openings (77 of which were over 25,000 sq ft) and 91 closures (50 of which were below

TABLE 8.3: HOW CHANGE IN SALES MIX AFFECTS GROSS MARGIN IN A TYPICAL SUPERMARKET

Department	1 Sales Participation %	2 Gross Margin %	3 Contribution to gross (3 * 2)	4 Share of £'s gross profit %
1985				
Packaged grocery	45	12	5.4	29.3
Frozen foods	11	30	3.3	17.9
Dairy/provisions	15	20	3.0	16.4
Fresh produce	10	25	2.5	13.6
Meat/poultry	10	25	2.5	13.6
Alcoholic drink	6	15	0.9	4.9
Toiletries/HBA	3	25	0.8	4.3
TOTAL	100	18.4	18.4	100
1990				
Packaged grocery	39	18	7.0	30.3
Frozen foods	9	30	2.7	11.7
Dairy/provisions	18	25	4.5	19.5
Fresh produce	15	30	4.5	19.5
Meat/poultry	10	25	2.5	10.8
Alcoholic drink	5	15	0.8	3.5
Toiletries/HBA	4	27	1.1	4.7
TOTAL	100	23.1	23.1	100

TABLE 8.4: EFFECT ON COMPANY PROFITS OF CHANGED DISTRIBUTION OF STORE SIZES - THE CASE OF J SAINSBURY

Store size group	1986				1990			
	Share of selling area %	Average net margin %	Contribution to net margin	Share of net profits %	Share of selling area %	Average net margin %	Contribution to net margin	Share of net profits %
less than 15,000 sq ft	26	2.31	0.60	11.4	12	4.75	0.56	7.8
15-25,000 sq ft	50	5.56	2.78	52.6	33	6.78	2.24	30.8
more than 25,000 sq ft	24	7.92	1.90	36.0	55	8.09	4.45	61.4
TOTAL	100		5.28	100	100		7.25	100

SOURCES: Derived from Annual Reports and Year End Statements

15,000 sq ft). Net margin in all store sizes increased between 1986 and 1990 but by restructuring store size more sales were moved into larger stores with a higher intrinsic net margin. Overall corporate net margin rose as a result of increased store margins and a change in the store portfolio. Assuming the 1986 store portfolio and the 1990 margin level by store size then overall margin in 1990 would have been 6.57 compared with the actual of 7.25 - but this is a misleading calculation as part of the increase in store margins for each store size resulted from the closure of low margin stores within the small store group and the opening of new stores (which tend to have higher margins than existing stores) in the large store group.

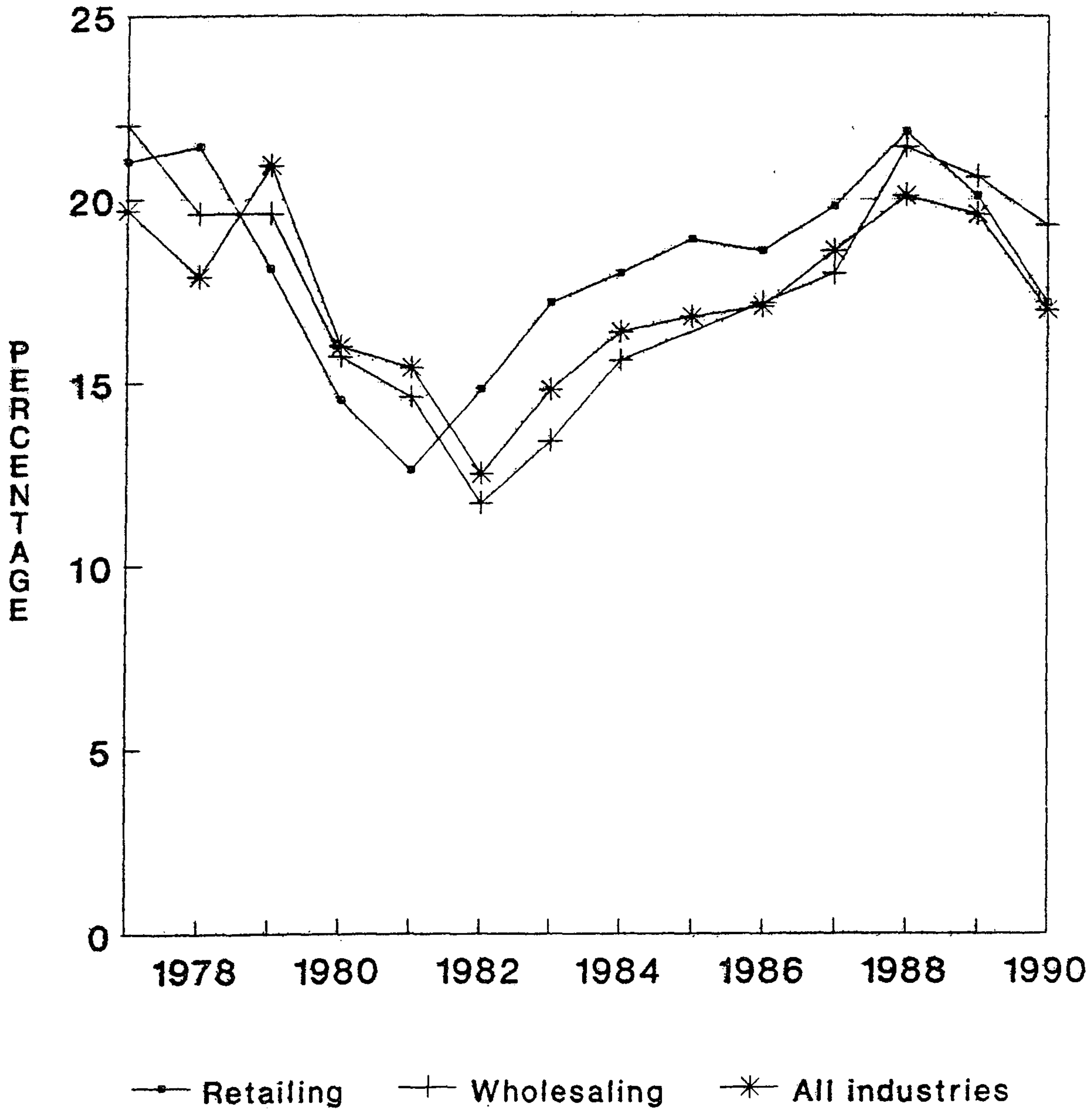
8.11 The examples developed in Tables 8.3 and 8.4 are in the food sector but the principles are the same for other sectors and underpin some of the change shown for the firms listed in Table 8.2. One of the benefits accruing to the larger firm is that more opportunities arise to manage both gross and net margins.

8.12 Alternative measures of profitability may be considered. Figure 8.5 shows rate of pre-interest return to net assets. The recession of the late 1970s and early 1980s corresponds to a general lowering of rates of return with the expansion of the mid 1980s resulting in increasing returns. These figures cover retailers from many sectors so it is useful to disaggregate these for recent years.

8.13 The range of performance levels in respect of return on capital is considerable across companies. Table 8.5 shows profit before tax as a percentage of trading capital employed. It is difficult to generalise from this sample other than to point to the considerable variation across large firms and a general reduction in the recession year of 1990. Davis and Kay (1990) point out that measures of rate of return, such as Table 8.5, say more about, "the financial structures of the firms with (the sector) than they tell us about the effectiveness of the different competitors" (p.6). It is not surprising therefore, that there is wide variation amongst companies with neither a sectoral pattern nor a consistent short term temporal trend.

8.14 Net margins in the wholesale sector are considerably below those in retailing (Figure 8.4). Again the trend is of increases in profit as a percentage of sales. Reasons for the increase in profitability are usually ascribed to more productive use of labour and the benefits of information technology but proof for these assertions is absent. Information on gross margins is unavailable except for 1984

Figure 8.5
Rate of Pre-interest Return to
Average Net Assets (large companies)



Source: Business Monitor MA3

when the sectoral gross margin was 13.4 per cent of sales. Again this was well below the retail figure of 27.4 per cent for that year. Reasons for the lower gross margin in wholesaling have not been analysed but may be due to fewer opportunities in wholesaling for the development of spatial monopolies and so a higher level of competition prevails. The position of wholesalers as true intermediaries may also influence margins with retailers and manufacturers having the power to by-pass, albeit at a price, the wholesaler.

TABLE 8.5: RETURN ON CAPITAL EMPLOYED FOR SELECTED MAJOR COMPANIES

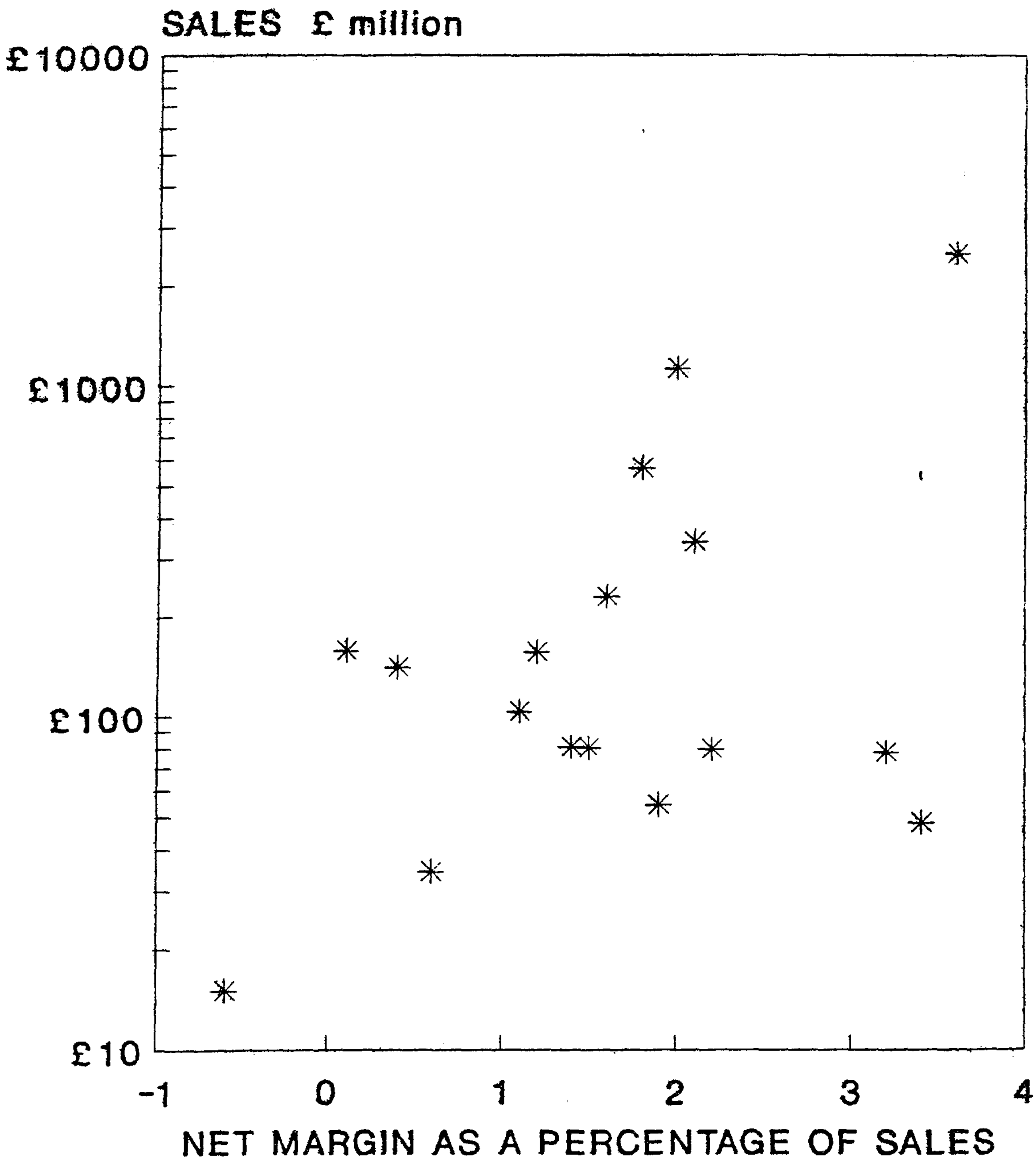
	For financial year ending					
	1985	1986	1987	1988	1989	1990
Food retailers						
Sainsbury		25.8	26.5	24.6	24.1	22.5
Tesco		18.4	21.5	19.9	19.6	21.5
Argyll		33.2	25.7	24.7	28.3	28.3
KwikSave		33.8	32.1	31.9	40.3	38.9
Non-food retailers						
Marks and Spencer		24.2	26.6	21.6	23.3	23.8
Kingfisher		10.1	12.6	16.9	18.8	23.4
W H Smith		22.1	19.8	18.9	21.8	17.6
Burtons		23.3	16.0	23.0	22.1	13.9
Dixons		39.2	23.5	25.1	13.7	13.5
Argos		44.1	46.4	47.6	69.6	40.5

SOURCES: Company Accounts

8.15 It is interesting to consider the situation in grocery wholesaling as a comparison with retailing. Margins are much lower even for the firms with large market shares in the concentrated cash and carry market. Figure 8.6 shows the relationship between size of firm and net margin as a percentage of sales for the largest 18 firms. The scatter of values lacks the strength of relationship shown for retailing with a wide range of firm sizes generating the higher net margins. Furthermore, there have not been the same increase in net margin in the large wholesale firms that are seen amongst the large retailers. This might indicate a more competitive market despite the large effective market shares held by the larger grocery wholesalers.

Figure 8.6

Net Margin and Sales of 18 Largest Wholesalers in UK 1989-90



9. COST STRUCTURES

9.1 The cost structure for typical food and non-food retailers are shown in Table 9.1. These figures are indicative and considerable variation occurs across companies. The main items of labour and occupancy (rent and local tax) are the subject of considerable difference across types of retailing and across companies.

TABLE 9.1: TYPICAL COST STRUCTURES IN RETAILING 1990

	Non-food retailer %	Modern supermarket %	Discount food retailer %
Sales	100	100	100
Gross margin	38	26	18
Labour	13	9	6.5
Occupancy	10	1	1
Depreciation	2	1.5	1
Other	7	6.5	3.5
of which			
distribution		4	2
advertising		0.2	0.3
NET MARGIN	6	8	6

9.2 Table 9.2 illustrates the range of different values for a sample of firms. The rental figure is a net figure with some firms receiving as well as paying rent. The range of values in Table 9.2 is considerable. Historically retailers in the UK tended to own the shops they traded from and did not therefore pay rent. When a property was rented however, leases were long, often in excess of 21 years. The real costs of occupancy were hidden and some of the figures in Table 9.2 reflect the legacy of some companies owning their property and not accounting real rents. The increased volume of retail activity in the 1980s and the large number of shopping centre developments (Figure 6.3) combined to move retail expansion into new rented property with short rent reviews (typically 3 or 5 years). Rents rose sharply with the demand for space by the expanding retailers (Figure 9.1) but have stabilised since mid 1988. Rent costs have become a significant element in the cost structure of retailing. In reality they always have been present as a substantial item but because of the accounting frameworks and cost measurement systems used by retailers this aspect of costs remained hidden for many years. The rent costs listed in Table 9.2 understate, in most cases, the real cost of property occupancy.

Figure 9.1
Index of Shop Rents - 1977 = 100
Capital values - annual % change

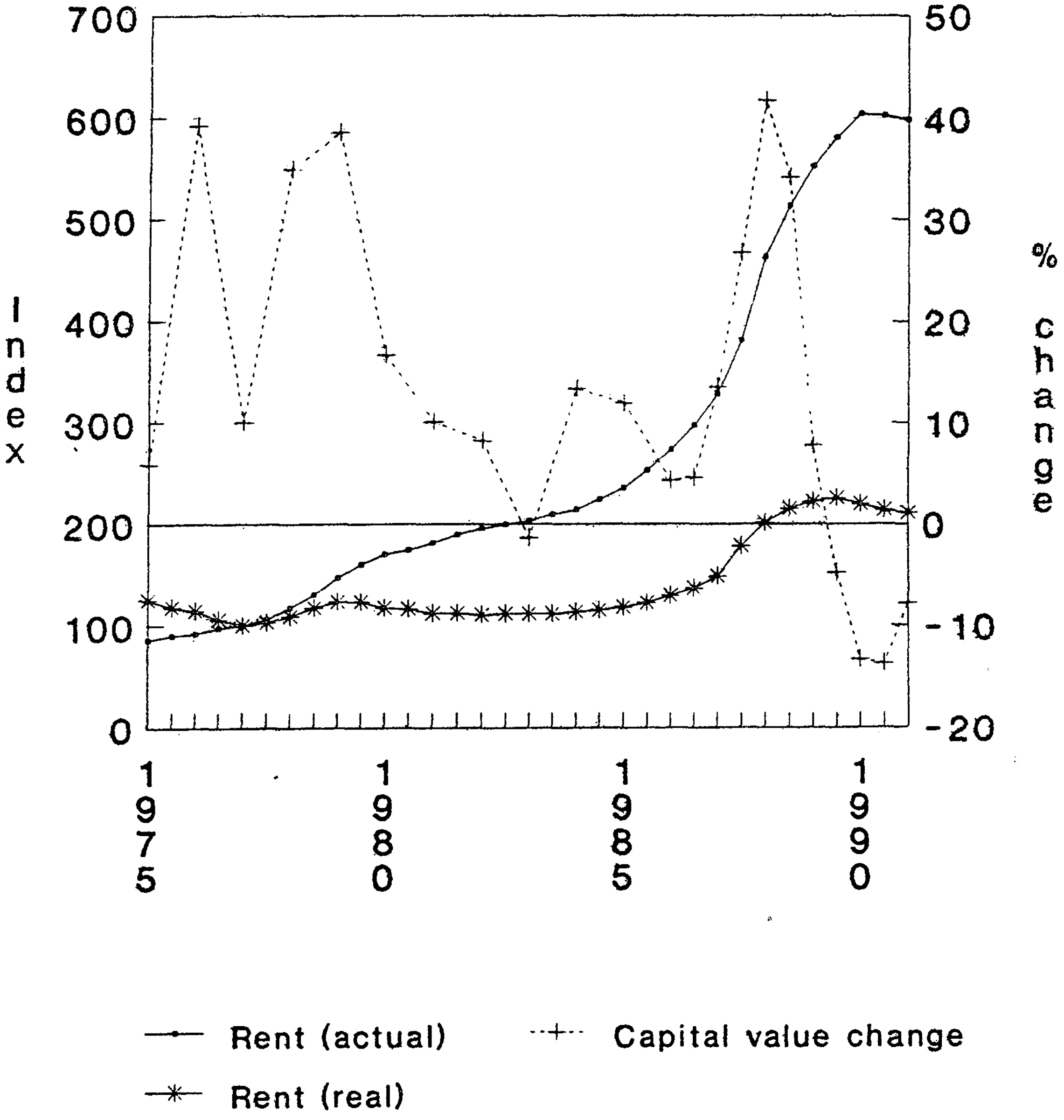


TABLE 9.2: RENT AND LABOUR COSTS AS A PERCENTAGE OF SALES FOR SELECTED RETAILERS 1990

	Rent (1) %	Labour %
Kwik Save	0.7	6.8
Marks and Spencer	1.1	10.3
Argos	2.3	7.8
Boots (2)	3.6	16.3
Kingfisher	4.0	12.0
Dixons	4.2	10.2
WH Smith (3)	4.3	11.8
Sears	5.9	13.7
Laura Ashley	7.0	22.9
Ratners	7.3	16.9
Pentos	8.4	17.3
Burton	8.4	15.3
Etam	10.6	16.6

NOTES: (1) Calculated as rent as a percentage of sales
(2) Retail operations only
(3) Calculated on Group sales

9.3 The trend over recent years has been for an increase in occupancy costs as a percentage of sales. Figures for 1985 comparable to those in Table 9.2 show for Marks and Spencer rent to have risen from 0.69 per cent, for W H Smith from 2.19 per cent and from 6.0 per cent for Burton.

9.3 Changes in local property taxation add a further increased cost element to these rental figures. As an indication of the extent of this local tax, it represents for Marks and Spencer approximately 1.8 per cent of sales additional to the figure in Table 9.2.

9.4 The labour costs stated in Table 9.2 are a more accurate reflection of reality than are the rent costs. There is still considerable variation amongst companies which relates to:

* mix of occupations employed associated with the type of retailing operated

* the extent of use of full-time and part-time labour and of young people

* the details of local wage bargaining

* the regional pattern of trading activities

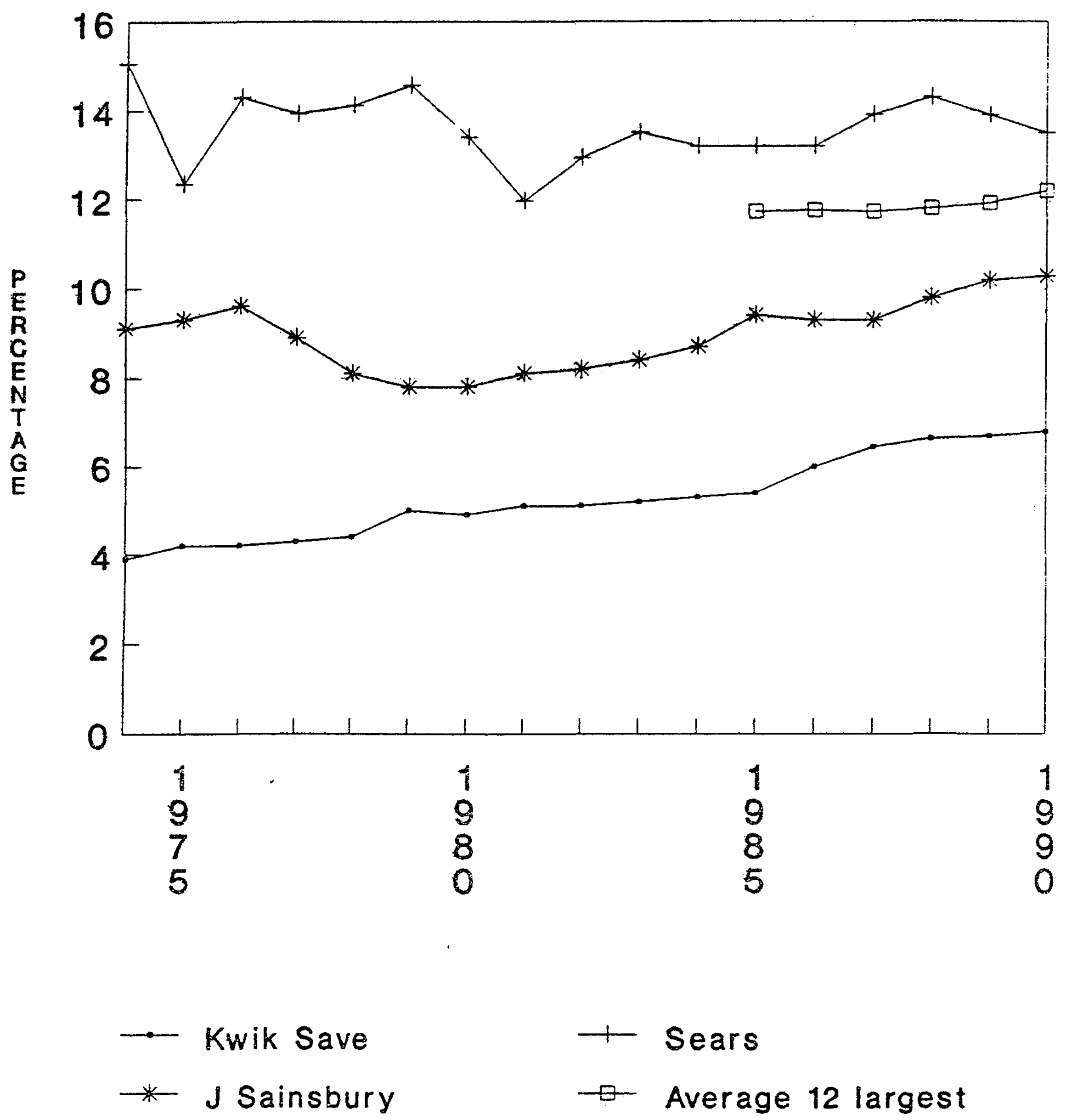
* the extent to which companies undertake their own distribution activities

It has been shown (Shaw, Nisbet and Dawson 1990) that labour costs are one of the cost areas responsive to establishment scale so that the growth of large stores has played a part in controlling labour costs.

9.5 The company with the lowest wage cost is Kwik Save which is in the discount food sector with a considerable use of part-time labour and trading strongly in the lower wage regions of England and Wales.

9.6 It is useful to consider the trend in wage costs during the 1980s (Figure 9.2). Amongst the large food retailers the trend has been for labour costs as related to sales to increase over time. Retailers suggest that there has been, at the same time, an increase in margin per employee, but difficulties in measurement are substantial with the increase in part-time workers and the taking in-company of logistics activities and the sub-contracting of store maintenance, etc. Within the large firms in the non-food sector no consistent long term trend in wage costs is discernible (see Sears graph in Figure 9.2). Taking the 20 largest firms (food and non-food with size measured by total sales) and considering the past 5 years there has been a slight upward movement in wages as a percentage of sales but this is slight and well within sample error. Within the wholesale sector wages as a percentage of sales is much lower than in retailing as might be expected. Wage cost in the larger food wholesalers averaged 4.2 per cent of sales in 1990 but the much lower gross margin must be remembered. There is a slight upward trend in the figure, with the same sample of large wholesalers having a wages to sales percentage of 3.71 in 1985.

Figure 9.2
Trend in Wages as Percentage of Sales



10. MANAGERIAL ISSUES

10.1 The statistical descriptions of the earlier sections indicate the directions and patterns of change in retailing and to a lesser extent wholesaling. In order to understand these changes it is necessary to consider issues in business policy and the management of operations in distribution companies.

10.2 Unlike many other European countries the majority of companies in the distribution sector in the UK are public companies. Table 10.1 lists the largest public companies world-wide in retailing and it is surprising that 6 of these are from the UK and none are based elsewhere in Europe.

TABLE 10.1: TWENTY LARGEST RETAIL COMPANIES RANKED ON MARKET VALUE - MARCH 1991

	Billion $US			
Company	Market value	Sales	Net income	Percentage return on sales
Wal-Mart	43.88	25.81	1.076	4.2
Seven-Eleven Japan	13.06	5.55	.186	3.4
Ito-Yokado	12.19	11.84	.416	3.5
Sear Roebuck	11.99	56.00	.890	1.6
Marks and Spencer	11.23	9.81	.681	6.9
Limited	9.23	4.85	.347	7.5
J Sainsbury	9.18	12.70	.550	4.3
Tesco	8.60	10.03	.445	4.4
K Mart	8.19	29.53	.323	1.1
Toys R Us	7.88	4.79	.321	6.7
May	6.62	9.46	.515	5.4
J C Penney	6.31	17.06	.802	4.7
Albertson's	6.29	7.42	.197	2.7
Home Depot	6.26	2.76	.112	4.1
Boots	6.17	5.92	.429	7.2
Marui	5.56	3.79	.209	5.5
Melville	5.43	8.69	.385	4.4
G U S	5.29	4.71	.478	10.1
Dayton Hudson	4.96	13.64	.287	3.0
Argyll	4.76	6.86	.219	4.1

SOURCE: Morgan Stanley

10.3 The implications of the financial openness of UK retailing are several and important to understanding sectoral change and the restructuring. Implications are:

* companies have been required to develop, articulate, publicise and implement development strategies in order to satisfy investors

* companies have been expected to generate short term financial returns for their investors within a longer term development strategy

* because of their success on the first two points some retail (and to a lesser extent wholesale) companies have become respectable and acceptable (some are AAA rated) vehicles for major investments by pension funds, assurance and insurance companies

* growth has become an expected attribute of success for retail companies

* an important consideration in retail decision making is the effect any decision has on share value with a reduction in company worth opening the prospect of takeover

* merger and takeover is an obvious mechanism for corporate growth with some activity being prompted by financial institutions

* UK companies may be bought by non-UK retailers thus making market entry into the UK relatively easy

* a small number of very large and powerful companies have emerged (see Table 10.1) who are able to undertake major investments

10.5 The requirements of the large companies to operate within the framework of the financial markets has influenced the structure of the sector.

10.6 Four broad strategic objectives have been addressed by the major distribution companies. These may be classified as:

* market sector domination
* least cost operation
* corporate differentiation
* market diversification

In order to implement these strategies a variety of policies have been used and a number of structural features of the sector have resulted.

10.7 Market sector domination is characterised by increases in market share within a segmented market. Table 10.2 indicates market shares of firms within several product segments.

10.8 Within one of these product segments it is not unusual for a firm to have developed several store types in order to address different age, lifestyle and income related segments. British Shoe Corporation (part of Sears) operates 6 store types with each focused on a particular age-income-lifstyle segment. Burton in the men's and women's clothing sector has followed a similar policy, with 4 formats for women and 3 for men. In this way not only are several consumer target segments addressed but as consumer demand evolves so new store types are developed and older ones closed. Thus in 1991 with the emergence of a bargain orientated segment Burton have developed a discount store format to address this growing consumer market.

TABLE 10.2: MARKET SHARES IN SELECTED PRODUCT SEGMENTS 1989

Product segment	Company	Market share %
Footwear	British Shoe Corporation	22
Babywear	Mothercare	20
Jewellery	Ratners	23
Electrical products	Dixons	16
	Comet	7
DIY	B & Q	25
	Texas	14
Menswear	Marks and Spencer	17
	Burton	13
	Sears	10
Womenswear	Marks and Spencer	15
	Burton	10

SOURCE: Verdict and Mintel

10.9 A second approach to market domination is to develop store operations which cover a broad range of items within a product market. Toys R Us have entered the UK market with this type of operation. With each new store the firm captures approximately a half percent of the national market for toys. This is achieved by a wide range of products but also a deep assortment in each product area. This approach also has been used in the grocery sector with the development of food superstores by a small number of firms (notably J Sainsbury, Tesco and ASDA) who, in consequence during the 1980s, have achieved significant increases in market share.

10.10 A third approach to market domination has been followed by some smaller firms. This involves establishing a locally dominant position within a small, spatially circumscribed market. A small firm may become the only supermarket in a small town and adjust the size of the supermarket to ensure insufficient market is available for any other operator. Similar policy can be undertaken in other convenience good areas such as newspapers or bread and flour confectionery. The provision of a range of customer services (delivery, long opening hours, etc) may be used to establish a position of local dominance. It is not necessarily a price based competitive approach which is used. This general approach can be enhanced by horizontal association or voluntary grouping with similar firms in other comparable spatial defined markets. Firms may come together for purchasing and combine their buying power to achieve larger discounts for suppliers; they may come together for joint advertising again combining their buying power to gain more or wider advertising; they may come together to share expertise and development expenses in store design or IT system design and operation. In all these cases the small firm joins with others in the same product market but a different spatial market in order to enhance local market domination.

10.11 It is interesting to note that this approach of forming horizontal associations is being used also by large firms in two situations. First is the joint development of new stores. Thus Marks and Spencer and Tesco and Marks and Spencer and ASDA have undertaken joint site development to create two large out-of-town stores which trade adjacent to each other. Each firm operates independently but with the sharing of some development costs, car park provision, some promotional activities and some maintenance costs. Secondly such horizontal associations are appearing involving companies in different countries. This is similar to the activity of small firms operating in different spatial markets except that the spatial markets are national and the firms are large. Within the food industry in Europe several such associations exist and several involve a UK member. The combining of buying power is achieved by these associations or consortia but the sharing of other functions, including promotion, IT development and logistics capacity, also is undertaken. In such cases horizontal co-ordination is undertaken to enhance market share.

10.12 The strategy of market sector domination, if successful, has important implications for both horizontal competition and for retailers' relationships with their suppliers. In horizontal competition local monopoly and regional oligopoly become commonplace. In vertical relationships retailers increase their power in the supply chain mainly but not exclusively due to their large buying power and their control of the consumer-product interface.

10.13 A second approach, a strategy of least cost operation often, but not always, is associated with a marketing policy based on price competition. The strategy of least cost operation involves the exploitation of several cost economies and benefits existing in retailing, notably associated with scale of organisation, with the scope of products and services, with the replication of establishments, with supply chain co-ordination and with the use of information. Some of these issues are discussed in section 8 above.

10.14 A least cost strategy is more likely to be pursued by a large firm than a small one simply because of the a combination of the high proportion of total costs which are associated with the cost of products and the importance of quantity discounts in negotiating the procurement of these products. If smaller firms pursue this strategy then special arrangements over product procurement usually are important, as for example in some clothing discount retailers where opportunistic buying occurs of product which is out of season, remaindered by full-price retailers or the result of stock clearance by wholesalers or manufacturers. In large firms a number of methods are available to enhance buying power, Kwik Save for example limits the range of products on sale in order to focus buying power more strongly.

10.15 Although buying terms are important there are other attributes associated with a least cost strategy. As noted above labour and occupancy costs can be substantial in retailing. Within a least cost strategy, management of the cost of the labour input, through sophisticated labour scheduling, must be combined with systems (often IT based) to increase labour productivity. The use of 'just in time' methods involving EDI within the supply chain is used to reduce stock holding and so minimise stock costs. Again Kwik Save provides an example of this strategy. Laser scanning at point of sale was introduced in 1987 and by October 1991 was installed in all 741 stores (economies of replication being obtained quickly). An automatic replenishment system is driven by the sales data collected at store check-outs. Automatic replenishment has reduced stockholding costs and improved labour productivity by removing the need for manual reorder procedures. It has also helped increase sales by reducing out-of-stock on the store shelves.

10.16 A least cost strategy has quite different implications for horizontal competition and vertical relationships than a market domination strategy. Horizontal competition is likely to be price based on products on which direct price comparisons can be made. Vertical relationships are likely to be either opportunistic and transactional and/or technology controlled and system driven.

10.17 The third alternative strategy is that of corporate differentiation. This has become necessary as firms have grown large and often pursued similar strategic approaches which has resulted in consumers being less able to differentiate between firms and thus reducing their loyalty to any one firm or shop (Duke 1991). The most widespread form of this strategy is in the development of retail brand products which, by definition, give exculsivity of product offering. Table 10.3 shows the extent and recent growth of retailer brand sales in packaged groceries in selected firms.

TABLE 10.3: RETAILER BRAND SHARES IN PACKAGED GROCERY MARKET

	Share of sales accounted for by retailer brand items					
Retailer	1985	1986	1987	1988	1989	1990
Marks and Spencer	100	100	100	100	100	100
J Sainsbury	56.0	55.8	55.4	55.1	54.8	53.4
Tesco	36.2	36.7	34.0	36.4	38.0	39.4
Gateway	16.7	14.1	17.5	20.0	22.7	24.4
Argyll	35.7	34.7	36.0	35.8	33.5	28.2
ASDA	7.6	18.2	28.1	30.0	29.8	30.6
Kwik Save	0	0	0	0	0	0
Spar	19.9	19.2	18.2	17.0	13.4	13.1
All grocery retailers	28.0	28.9	29.1	29.6	29.4	30.0

SOURCE: Audits of Great Britain and Institute of Grocery Distribution

NOTE: Figures refer to 73 fields of package groceries

10.18 The creation of a strong retail brand has been the basis of differentiation strategy of Marks and Spencer in which all items of food and non-food carry the retailer brand. J Sainsbury developed their brand strongly in the 1970s and early 1980s and more recently have expanded product variety, whilst retaining a strong retailer brand presence, as a means of differentiation. Tesco continue to expand their retailer brand offering to provide a means of differentiation. ASDA were late into this area initially depending on differentiation through very large stores and a wide range of non-food items alongside the food offering. Kwik Save is a discount retailer depending on a strategy of low cost operation. Spar is a voluntary group depending on a strategy of local market domination.

10.19 Retailer brand development occurs in almost all product markets. It is used as a differentiating factor in department stores and catalogue showrooms, and in the markets for DIY products, household electricals, jewellery, household textiles and many other product areas.

10.20 An important attribute associated with the use of retailer brands in a differentiation strategy is the need for the retailer to work with a supplier in the development and delivery of a retail brand item. The retail brand item carries the name and reputation of the retailer, not the manufacturer, and satisfaction or dissatisfaction with the product reflects directly on the whole operation of the retailer. The retailer therefore has to be involved directly in the product design and development and not be simply a passive sales agent for a manufacturer's product. Vertical relationships are created and nurtured therefore by both retailer and supplier. Having decided to have a retail brand the retailer is then required to move into activities traditionally the preserve of the manufacturer. The retailer, for example, has to keep a steady flow on new products into the retail brand range. Retailer selection of supplier is very important to the retailer but equally the decision of a supplier to work with a retailer on an exclusive product is a major decision. Supply chain co-ordination involving a variety of shared costs and joint activity is necessary for retail brand products to be developed. Vertical co-ordination, which may incur cost, is undertaken to achieve horizontal competitive differentiation by the retailer.

10.21 The retailer brand is one, albeit an important one, of several ways to implement a differentiation strategy. Other approaches involve:

* operating a unique form of store - for many years Argos were the only company to operate catalogue showrooms

* establishing a unique style and design of product and operation which carries a cultural or philosophical statement - Laura Ashley and Body Shop have pursued this type of differentiation, both supported strongly by retailer brand development

* creating a unique operating system which is then replicated by some form or variant of franchising - Benetton (although not a British based retailer operates widely in the UK) have used the unique nature of their business system to generate horizontal competitive differentiation.

10.22 Within the differentiation strategy mechanisms are sought to minimise horizontal interfirm price competition through the vertical co-ordination of inter-firm relationships. A variety of non-price competitive mechanisms are used to establish the market position and power of a firm.

10.23 The fourth strategy is that of market diversification. In this approach different product markets are addressed by different retailing operations. Thus for example a food retailer may move into the DIY market, or a clothing retailer may diversify into the retailing of sports goods. Within any particular product market any of the three strategies may be adopted and the consumer may be unaware that store chains with different names and having different trading styles belong to the same firm. The main reasons for adopting this strategy are:

* a belief that management systems, trading style or operational know-how are transferable to other product markets

* a perceived limit to growth within the existing market which requires the firm to diversify in order to continue to grow

* the better use of an existing property and space portfolio which might allow higher profits to be made by converting some shops to trade in different products

* operational synergy between similar trading styles in different product markets, for example the site acquisition, store design and development activities, IT systems and store operation procedures might be similar for out-of-town DIY shops and out-of-town superstores selling electrical products

* a desire to reduce risk and produce a more even company performance through the business cycle by operating types of retailing which have cyclical and counter cyclical tendencies or are in retail areas with different cyclic periods or respond to different demand criteria, for example being based on personal demand or household demand

* acquisition of another company undertaken with market domination as an objective brings with it a store chain in a different product market

* chairman's strongly held view or entrepreneurialism which results in a desire to be a force in several product areas

10.25 This strategy, in combination with others is common in the large firms in UK retailing. Many examples exist. The activities of Kingfisher Group are shown in Table 10.4 as illustration. The divisional structure is firmly established with each in a particular market segment, DIY, electricals, etc. The mix of businesses is cyclical and non-cyclical with B & Q and Comet linked to the housing market and Superdrug and Woolworths with a stable sales pattern.

TABLE 10.4: THE RETAIL ACTIVITIES OF KINGFISHER GROUP 1990

Divisions	Trading formats	Number of units	Sales £ m	Profits £ m
B & Q	B & Q	267	829	87.1
	Charlie Browns	53	32	
Comet	Comet	350	440	17.9
Superdrug	Superdrug	656	452	29.7
	Titles	5		
Woolworths	Woolworths	675	1072	55.6

10.26 The market diversification strategy is also used quite commonly by smaller retail companies with an entrepreneur retailer in a small town owning several shops and operating them in different product markets. The reasons for adopting this approach are the same for a small firm as a large firm but for the small firm alternative strategies may be more effective in the long term.

10.27 The move to international operation is a form of the market diversification strategy but the market is defined in spatial rather than product terms. The same reasons underpin the decision to pursue an operational approach of retailing in more than one country as underpin moves into different product markets:

* a belief that a trading or management style is transferable successfully into new markets in other countries.

* the perception that the national market has limited growth potential (for a wide variety of reasons)

* an alternative more attractive cost structure exists in another country.

10.28 The competitive characteristics of the diversification strategy are varied because different divisions within a single company may have different approaches to horizontal and vertical relationships. No generalisations are possible in this case.

10.29 The different strategies are implemented through various functional policies relating to marketing, finance, personnel etc. In recent years various changes have taken place in the relative strength and importance of the different functions. For example, marketing has grown in importance compared with buying with in some firms buying activities being part of marketing. This change has come about because of a belief that the consumer should 'pull' products through the retailer from the supplier rather than the supplier (and consequently retail buyer) 'push' the product to the consumer. The need to determine the nature of consumer demand and then to seek to satisfy it with judicious purchasing from suppliers has changed the nature of the relationship between retailer and supplier. This change coupled with the emergence of large retailers with substantial buying power and the collection by the retailer, at point of sale, of information on what exactly the consumer is buying, have placed the retailer in an increasingly powerful position within the supply chain. Many retailers now believe they manage the supply chain and draw off products and services from manufacturers and logistics companies in order to co-ordinate the supply of products to the consumer. Information technology and its management have become important in enabling the establishment of this pivotal role for marketing. Electronic data interchange has had major impacts on the speed, transparency and mechanisms of transactions in the supply chain such that some retailers now make it a requirement of their suppliers to be part of the EDI network. This requirement can constitute a barrier to trade for the smaller manufacturer wishing to access the large consumer markets commanded by the large retailers.

10.30 The increased formal importance of marketing in retail firms has resulted in more sophisticated approaches consumer segmentation being used. Store formats become designed in total and targeted at a particular consumer segment. This means that more variables are used in non-price competition and there has been a general move away from price competition although it has certainly not disappeared.

11. PUBLIC POLICY ISSUES

11.1 Before considering some specific areas of public policy affecting the distribution sector it is worthwhile to consider the reasons why British governments intervene, at various levels, in the markets in which retailers operate. The reasons are not unique to the UK with intervention in distribution commonplace (Boddewyn and Hollander 1972, Commission of European Communities 1978, 1985). The same or similar rationales for intervention are used also in other countries. Nonetheless they provide a foundation on which to consider some specific policy activity. It might be expected that retailing and retailers (and wholesalers to a lesser extent) operate in a market which requires little intervention there being in the UK many shops from which the many consumers can choose whether to buy or not to buy. The marketplace might be considered as synonymous with efficient retailer-consumer transactions. Why then does government pursue policy to influence how retail transactions are accomplished?

11.2 A variety of arguments have been advanced to justify intervention. Some of the arguments are relevant to intervention in a general context, others are specific to distribution activities. Because retailing operates on a local basis location becomes a critical factor in retailers' effectiveness and therefore policy interventions in retail location have particularly important effects for retailers. Because transport is a core activity in wholesaling, transportation policy in particularly influential in this sector (Commission of European Communities 1991).

11.3 Among the more widely advocated rationales for intervention in the distribution marketplace in the UK are:

* **control of competition in order to avoid or to control the use of monopoly power in the retail market.** This is most commonly applied in the framework of general competition and mergers policy (see below for details) which can have wide reaching structural impacts across the whole economy. In 1990 the proposed takeover of Dixons by Kingfisher in the UK was in effect halted by this policy. Some critical issues arise over definitions of markets in which monopoly is measured. Because retailing is essentially local in delivery of its service, although often national or international in procurement of goods, a key question is whether local or regional market monopolies should be addressed by this type of policy. Answers vary from country to country and, potentially, over time as the interpretation of legislation and policy changes. In general within the UK a national view has been taken which has resulted in some

firms obtaining very high market shares in local markets. Central to the argument for this type of intervention is the belief that monopolies (or large market shares) at retail level are not in the consumer interest.

* **protection of public and moral health.** The registration, licensing and inspection of retail trading premises is widespread in trades which are thought to represent potential hazards to physical and moral health, and social well-being. Restrictions may be placed on the method, including time, and location of sale of particular products. Thus sales (including location) of various types of fresh foods, alcohol, taxi services, second-hand cars, pornographic products and other such items are controlled via agencies implementing public policy on registration, licensing and inspection. Store opening hours are controlled to a similar end. Within logistics and wholesaling there are restrictions on noise generation, vehicle size and a variety of types of emission which might be injurious to health. Central to this argument is that government is required to uphold moral values and protect public health.

* **encouragement of small firm activity and associated entrepeneurialism.** The vast majority of retail companies can be defined as small firms and prevailing political philosophies may result in legislation which protects these firms from the full rigours of the market's hidden hand and provides direct or hidden financial or other subsidies. Stores may be encouraged and even supported to operate at particular locations. Removal of barriers to entry and exit from the sector may be an aim of policy which helps to stimulate new firm formation whilst the creation of entry barriers may be the aim of legislation to protect currently operating small firms. Opportunities for policy dissonance are considerable in this area. Particular difficulties also arise in the definition of a small firm which is relevant in both a retailing and manufacturing context. Central to this argument for intervention is the belief that the presence of small firms is inherently in the public interest.

* **ensuring access by all consumers to essential retail services.** Many situations exist in remote rural areas, in inner city and outer estate socially deprived urban areas, with mobility impaired consumers, and other members of society in which the free play of market forces in retailing can result in sub-standard and inequitable provision or access to basic retail services. Financial aids are available to retailers in certain types of urban area in UK and various aid supports are available in some remote rural areas. Central to this argument for intervention is the belief that all consumers should have equitable access to a minimum level of provision of retail services.

* **ensuring an acceptable level of transparency in the transaction between retailer and consumer.** Policy in this area, usually termed 'consumer policy' (OECD 1991) relates to the forms of transaction which are acceptable or unacceptable, may cover the provision of information detailing price or product content and also provides mechanisms for consumer redress. Some types of retailing, for example pyramid selling are banned; certain types of labelling are mandatory; providing detailed information on interest levels and credit conditions is a further area of intervention of this type. Prohibition, at particular times and places, on the advertising of certain products such as alcohol and tobacco might be seen as counter to this general approach but is justified on the physical and moral health argument (see above). Central to the argument for intervention to improve transparency is that consumers should be given 'full' information in respect of retail transactions in which they are involved.

* **conservation of the physical environment.** Retailing represents a substantial land use in urban areas, so store location and design affects the structure and visual appearance of towns. Public policy on land use zoning and conservation of historic buildings or areas has influence on the establishment of new stores and the redevelopment of existing ones. These policies can constrain the decision making of retail firms in respect of the evaluation of capital investments. Policies are enacted to encourage retailers to invest in conservation projects. Alternatively policies may be restrictive in limiting the options for redevelopment of buildings or sites even to the extent of providing mechanisms to stop retail development at some sites, for example out-of-town, because of assumed negative impacts on historically or culturally important sites, for example in town centres (Distributive Trades EDC 1988B). Central to this argument is the belief that the urban land market for retailing should be constrained by non-market factors associated with heritage and conservation factors of retaining established urbanistic values.

* **avoidance or limitation of public costs often of infrastructure or environmental disruption.** Public policy is frequently enacted to limit retail development or operations of particular types which are believed to cause public costs which cannot be recovered from the retail sector. For example the size of new developments may be reduced or limited or the times when deliveries may be made to stores may be controlled. Many British towns have lorry bans in their areas for certain times of the day. The bases of the argument in this case are that public sector investment should not subsidise private sector activity and that environmental and infrastructure costs may be long term with no certainty that the retailers and wholesalers will be able to pay them.

* **protection of economic sectors for which retailers provide a market.** Various types of policy and procedure, including definition of standards and product specifications, tariffs, import clearance regulations and the creation of government sponsored marketing agencies, can be (are) used to protect domestic productive capacity in order to give it an advantage in accessing domestic retailing. Such policies can be directed at products which are bought by retailers for resale, at services used by retailers and at products bought by retailers for use themselves. European-wide initiatives are reducing the range of options of policies of this type. Central to this argument for intervention is the, declining, view that domestic industry should be protected from the market competition.

* **encouraging a more efficient allocation of resources and more effective operating practices.** Policies of this type provide support for activities or investment which will increase productivity in the retail trades, for example by encouraging, sometimes financially, investment in new information technologies and improvements in logistics. Recent policy initiatives by the UK government and the Commission of the European Community are of this type in encouraging greater use of EDI within the supply chain. Central to this argument for intervention is a view that government has a responsibility in improving efficiency and productivity in firms in the domestic economy.

11.4 Alongside these various arguments for specific intervention in retailing are the more broadly based arguments and policies of economic management. These also have a substantial influence on the retail sector. The effects of many of these general measures are probably no greater for retailers than for other sectors. Thus interest rate manipulation, tax allowances on investment, regional policy, VAT rates on food and non-foods, alcohol tax and petroleum tax policies, credit controls, labour legislation and so on affect the retail sector along with other sectors.

11.5 The potential for public agency intervention in retailing is considerable and the opportunities for policies to work against each other are substantial. Policy co-ordination for the retail sector is notable for its absence in UK. This lack of co-ordination may be apparent at a formal level with different policies being counter effective. It may also be apparent at the level of implementation with either ineffective administration, for example in the licensing of used car dealers in Scotland, (Scottish Consumer Council 1989) or local variation in interpretation and application, for example in the interpretation of land use planning guidance from the Department of Environment. Responsibilities are fragmented across several functional ministries and divisionalised in several sectoral ministries. In the UK policy dissonance can be, and is, widespread.

11.6 The general principles affecting the rules on competition in the UK apply to retailers and wholesalers. Competition law comprises measures for the control of restrictive agreements in the supply of goods and services, monopolies, mergers and anti-competitive practices.

11.7 Restrictive practices are supervised through the requirement to register, and have a judicial review on, agreements affecting the supply or acquisition of goods and services when such agreements have restrictions, for example on price or terms and conditions of sale, on them which are accepted by two or more people. In general, the procedure is that at registration either the parties agree to change the agreement or the Director General of Fair Trading advises that the agreement is not significant enough to refer to the Court for review. A public register exists of agreements which are acceptable.

11.8 A 25% market share constitutes a dominant position in UK legislation. A discretionary power exists for such monopoly positions to be investigated. In such examinations matters adverse to the public interest are considered, such as refusal to supply, marketing policy or recommendation of prices.

11.9 Under the Competition Act 1980 the Director General of Fair Trading has discretionary powers to investigate practices of individual firms which restrict, distort or prevent competition in the production, supply or acquisition of goods or the supply and securing of services.

11.10 Actual or proposed mergers qualify for investigation under the Fair Trading Act 1973 if they create or enhance a 25% market share or if the value of assets taken over exceeds £30 million.

11.11 The situation on refusal to supply is that the Resale Prices Act 1976 makes it unlawful for any supplier of goods (other than books and proprietary medicines, which are exempted in the Act) to refuse to supply a dealer on the sole ground that the dealer has sold the goods at less than the supplier's recommended resale price, unless the supplier has reasonable grounds to believe that the dealer has been using the goods as loss leaders. Other than this, refusal to supply is not unlawful unless it results from a restrictive practices agreement.

11.12 Resale price maintenance is not allowed with the Resale Prices Act 1976 imposing a general prohibition on individual or collective minimum resale prices being applied to goods. There are provisions for exemptions. Books and proprietary medicines are exempt. It is not unlawful for a manufacturer or wholesaler to issue recommended resale prices provided that these are not enforced and it is left to the commercial judgement of the dealer as to whether these prices are used.

11.13 Demanding payment for unsolicited goods is prohibited. Price comparisons can be made but it is an offence to make misleading comparisons. There are no laws preventing a product being used as a loss leader but a manufacturer may refuse to supply a product being used as a loss leader. There are no special rules regulating winding up sales and clearance sales.

11.14 The Government has powers to make orders requiring the indication of the unit and/or selling price of goods. These powers have been used to require unit pricing of food items which are often sold loose, for example meat, cheese, fruit, vegetables. There is a requirement, with a few exemptions, to display prices, for food and drink, in a form easily recognisable to the purchaser.

11.15 All businesses conducting sales on credit terms require a credit licence. Certain information on the cost and terms of credit have to be displayed in advertisements and agreements.

11.16 The hours of business for retail outlets are laid down in the Shops Act 1950. Shops have to stop serving customers by not later than 20.00 hours on weekdays (21.00 on one late day each week), although local authorities may make the time earlier but not before 19.00. Shops have to close by not later than 13.00 on one weekday, although local authorities may exempt shops in its area from this requirement. In effect many local authorities have granted this exemption. Shops must be closed on Sundays except for the sale of a list of specified items including newspapers, tobacco and confectionery. There is considerable disquiet over non-compliance with the opening hours requirements in the Shops Act. Several attempts have been made to produce new legislation but these have failed. Retailers have conflicting interests in greater liberalisation of the opening hours. The cost implications are not clear (Moir 1987). Consumers appear, from public opinion surveys, to be in favour of longer opening hours. There is a gradual movement to more widespread opening of shops, particularly on Sundays, although this is illegal. Different laws apply in Scotland where trading on Sunday is legal.

11.16 The Trade Descriptions Act 1968 and Consumer Protection Act 1967 prohibit the mis-description of goods and services and make it an offence to give misleading price indication for goods and services. Codes of Practice apply to promotional activities, including advertising. Consumers are protected from inaccurate weights and measures and faulty goods.

11.17 An important further area of government policy is in the matter of right of establishment of shop, warehouse or depot. All development requires permission. Development is defined in the various planning Acts as " the carrying out of building, engineering, mining or other operations in, on, over or under, land or the making of any material change in the use of any buildings or other land". This definition encompasses many activities undertaken by retailers and wholesalers in establishing or changing the premises from which they do business.

11.18 Permission for development has to be sought usually from a department of local government, but in some cases where major retail or wholesale developments are involved permission resides with central government. A system of appeals exists by which retail and wholesale companies who have been refused permission may have their application considered by Inspectors appointed by central government (Davies 1989).

11.19 Granting of permission is on the basis of the development being in accord with a general plan for development for the area. This is important for retailers because part of the general plan involves definition of a structure for the retail provision in the area, usually including effective maxima on the floorspace allowed in the area. Proposals for new stores, particularly large ones, have to conform with the plan if development permission is to be granted by the local authority. Plans may also show areas where proposals for new development would be welcomed. Proposals not conforming to the plan will generally be refused and the applicant, retailer or property developer, may choose to appeal against the refusal. The process may be a lengthy one taking several years before a final decision is made on a major development.

11.20 The degree to which land use policies affect the decisions of retailers (Davies 1984, Guy 1980, Davies and Howard 1983, Burt Dawson and Sparks 1983) and wholesalers (McKinnon 1989) is open to considerable debate. The pattern of recent years lends support to the argument that the planing system has little effect on the forms and types of retail development that take place, but it does affect the speed at which change occurs. For example, although in general there has been a presumption in the various plans against superstores, both food and non-food, nonetheless over 2,500 such stores have been developed in the last 25 years.

11.21 One widely voiced view of the response of retailers to planning policy is that it is largely ignored. Retailers look for a good site and seek permission for development. If it is refused an appeal is undertaken and there is a reasonable probability that the appeal will be decided in favour of the retailer, although the delay may be considerable. If this is the accepted system then the delay element is simply built into the overall system and the system works as a protection from potential entry by non-UK based retailers. A number of the larger retailers employ a specialist urban planner as part of their development team but this is not really a realistic option available to the medium sized company.

11.22 The scope, variety and nature of distribution means that there is no unique prescription for the formulation of public policy towards the sector. In the UK price intervention has been tried but found lacking, a selective employment tax was introduced but was removed, tax allowances on stocks were tried and removed, RPM was removed, but, consumer policy initiatives have increased in number and variety, the controls on development have remained in place, albeit in variously revised forms, and competition policy similarly has changed but the essential form has remained. The situation in respect of shop opening hours is currently in a state of flux with deregulation, of some form, apparently likely within the next few years. This appearance of imminent change has occurred several times before but each time has faded before change arrived.

12. CONCLUSIONS

12.1 Most of this report has focussed on the changes in retailing and wholesaling during the 1980s. More has been said about retailing than wholesaling. Change over the last decade has been considerable but in drawing some conclusions about the nature and cause of change, and its impact on competition, it is important to place these recent changes in the context of both broader social changes and of longer term changes in distribution.

12.2 Developments in retailing particularly have been used by some commentators to illustrate the broader social changes taking place in U K which is seen by many to be moving towards accepting post-Fordist values across a wide front not least in consumer behaviour. The large retailers are being assessed against various models of the flexible firm and post-modern management. Because the retailers are in direct contact with consumers so changes in consumer values are quickly perceived, for example in moves towards a greener set of values or towards more acceptance of technology. Retailers can be seen to be directly involved in this broad social change and so the changes described in this paper need to be appreciated in this broader context of cultural change.

12.3 The longer term pattern is also relevant because it is easy to see the substantial change in the 1980s and think that earlier years were less dynamic. It is instructive to remember how retailers responded to earlier changes in their operating environment. In the 1920s the growth of a mass market linked to the prosperity of middle and artisan classes generated a response from retailers in the creation multiple retailers with extensive branch networks. In the utility period for the 10 years after 1944 there were building constraints and restrictions affecting price and quality. In this period the consumer co-operative movement strengthened its position. Between 1954 and 1974, urban renewal, town centre redevelopment and the abolition in 1964 of Resale Price Maintenance contributed to the decline of independent retailing and the rise of the variety chain and supermarket. The depression after 1973 marked the emergence of the superstore originally with an image of price leadership which gave way to its image of quality and variety in the unparalleled boom of the 1980s. The changes in the distribution sector in the 1980s and its incipient problems in the 1990s are simply the continuation of a long term pattern of change in a highly dynamic economic sector.

12.4 The changes in distribution can be placed in a framework first, of changes in structure and organisation of the sector, secondly of changes in the way business is carried out in the sector and thirdly of changes in the external environment of the firm and sector. In considering change in this way it is apparent that differences between retailing and wholesaling are considerable and generalisations about distribution in total have little meaning.

12.5 Within retailing in the first group of sectoral and structural changes there are shifts to fewer independent retailers, to fewer but larger firms and the growing strength of large chains of retailers. The organisational scale economies which have potentially been present for many years are now being obtained more widely. Although entry and exit of small firms is relatively unconstrained the requirements for success and growth of small and medium sized firms are becoming more onerous such that failure rates are high. Amongst the larger firms growth by merger or takeover of smaller firms is relatively unconstrained by competition policy but successful post-merger integration in retailing is particularly difficult because of the multi-establishment nature of retailing and often well established business systems and cultures of target firms. The emerging structure of the retail sector is one in which within each subsector, for example grocery, specialist food, footwear, DIY, jewellery, etc, there are a small number (typically 8 or fewer) of major and dominant firms accounting for 40-60 per cent market share and a large number of small firms with high entry and exit rates. There still exists a body of medium sized firms who if successful become the takeover targets of the larger firms who are constrained by competition policy in merging with each other.

12.6 Sectoral business behaviour is very different in the large firm and small firm parts of this structure. Amongst the large firms we see increases in both horizontal corporate integration and vertical contractual integration. Amongst the small firms we see a substantial increase in horizontal contractual integration but only a modest increase in vertical contractual integration displacing former transactional forms of relationship. In all parts we have seen a reduction in policies of competition by price during the 1980s.

12.7 Although markets are concentrated, levels of competition, in general, remain high because of the multi-locational nature of the operation of large firms. It is in some particular local situations that the level of competition may be lower with local spatial monopolies. This can occur with outlets of large firms or with small firms who are operating from the critical site in a locality. The land use planning procedures can ensure continuance of the monopoly by refusing permission for the development of a shop out of which a potential competitor can trade. Such situations exist on some low income housing estates and when a superstore has obtained first mover preeminence, but they are of decreasing number despite the increasing structural concentration.

12.8 The second area of change is in the way that business is carried out. Notable changes here have been in the reduction in shop numbers, the reduction particularly of general retailing and increase of specialist types, adoption of new managerial methods and advances in the use of technology. Access to and use of more accurate information on costs and on the sales of individual products has enabled more rational decision making to occur, including more focussed approaches to marketing. Investments in information and communication technology, particularly EDI, have been important facilitators of change. Advances have been made particularly in product range management, buying, physical distribution and financial management. Not all firms have the technology or the managerial expertise to allow them to benefit from these potential operational efficiencies. Few, if any, firms have the managerial capacity to benefit in full. Smaller firms have not been able to make the necessary investment partly because of the high relative cost of these investments for small firms but mainly because of the unwillingness of management in smaller firms to make a commitment to improving control over the firm through the application of these technologies. Larger firms, as a consequence have been at a relative advantage but, nonetheless, substantial investment in technology and people has had to be made by the larger firms.

12.9 Within the third area of change suggested in para 12.4 three important features are relevant to retailing in the UK. First, there has been substantial change in consumer demand and behaviour, in quantitative and qualitative terms. Social attitudes as well as economic standing have changed considerably in recent decades and retailers have been required to respond to these changes. Secondly, changes in the overall condition of the British economy have a profound effect on the structure of the sector and the performance of retail firms. Thirdly, the changing perceptions, of the retail sector, held by major investment institutions, such as pension and insurance funds, has been an important factor in encouraging or discouraging investment by retailers and even merger activity. The high proportion, compared with other European countries, of large retailers which are quoted companies has meant that strategies and actions of retail companies have to be undertaken with a view to the effect on the company's share price. This openness of the retail sector, compared with many other countries, may well result in a higher level of competitiveness and efficiency of resource use than in other countries.

12.10 Placing wholesaling in a similar framework for consideration of change poses some difficulties because of the paucity of information and research on the sector. Furthermore the wholesale sector is more functionally fragmented than retailing and it is difficult to establish an activity common to all wholesalers.

12.11 It is wrong to think of distribution comprising a single industry within the economy. Several distinctly different industries are present in the sector. These different industries have different structures, respond to different processes of change, serve different purposes, exhibit different patterns of resource allocation and probably require different public policy interventions. In the past there has been little real understanding of the nature of the distribution sector. This is due to several reasons. The political lobbying and power of distribution has been highly fragmented. Its social status and remuneration levels have been below many other service industries such as banking or the civil service and also below large parts of manufacturing so that distribution has not attracted many of the highest managerial talents. Distribution has an extraordinarily inadequate base of official statistics. Thus, although Central London based on Oxford Street/Regent Street is probably the second or third largest concentration of retailing in the world and supporting several hundred thousand jobs in stores and servicing industries no statistics exist on it; wholesaling represents a critical activity in the whole functioning of the economy yet only once in the last 12 years has an attempt been made in official surveys to measure gross margin. Many other reasons could be provided for the lack of appreciation of the variety and complexity within distribution.

12.12 In considering possible ways to improve efficiency and contestability a first step might be to undertake some fundamental research on the economic processes operating in the various parts of the distribution system. This, of course, is more easily said than done. But, without some better detailed understanding of what is going on, particularly in wholesaling, there are obvious dangers in trying to improve on the staus quo. It must also be remembered that public policy, particularly as it affects the retail sector, may be present for reasons only partly related to efficiency issues in distribution. For example, the land use and development policies act, at the least, as a retarding influence on retail development but these policies are in place as part of a more fundamental integrated approach to control of changes in the whole environment. To change radically the part relating to retailing would have far ranging repercussions.

12.13 Despite these caveats it is possible to suggest an area where the relaxation of public policy might well increase competitiveness. This is the relaxation of controls over store opening hours. Another area where policy activity might increase efficiency is in supporting and aiding smaller and medium sized firms gain access to more of the benefits accruing from information technology and EDI.

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