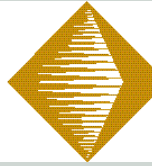


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The Dynamics of the Retail Sector in Ireland

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Forfás



The Dynamics of the

Retail Sector in

Ireland

THE NATIONAL
POLICY AND
ADVISORY BOARD
FOR ENTERPRISE,
TRADE, SCIENCE,
TECHNOLOGY AND
INNOVATION

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- forbairt na tionsclaíochta, na teicneolaíochta, na margaíochta agus acmhainní daonna a spreagadh sa Stát
- bunú agus forbairt gnóthas tionsclaíoch ón iasacht a spreagadh sa Stát, agus
- Fiontraíocht Éireann agus GFT Éireann a chomhairliú agus a chomhordú ó thaobh a gcuid feidhmeanna.

Forfás is the national policy and advisory board for enterprise, trade, science, technology and innovation. It is the body in which the State's legal powers for industrial promotion and technology development have been vested. It is also the body through which powers are delegated to Enterprise Ireland for the promotion of indigenous industry and to IDA Ireland for the promotion of inward investment. The broad functions of Forfás are to:

- advise the Minister on matters relating to the development of industry in the State
- to advise on the development and co-ordination of policy for Enterprise Ireland, IDA Ireland and such other bodies (established by or under statute) as the Minister may by order designate
- encourage the development of industry, technology, marketing and human resources in the State
- encourage the establishment and development in the State of industrial undertakings from outside the State, and
- advise and co-ordinate Enterprise Ireland and IDA Ireland in relation to their functions.

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Foreword

The services sector will be the largest contributor to employment growth over the period to 2010. The retail sector is the largest part of services, accounting for 11 per cent of total employment in the economy.

The retail sector plays a critical role in sustaining competitiveness. Strong competition in the sector has kept prices low and contributed to Ireland's low inflation. The retail sector also contributes to competitiveness by influencing Irish manufacturers and suppliers to increase productivity. Forfás data indicates that around 50 per cent of the output of Irish-owned food and clothing firms is sold on the Irish market. Over the years, retailers have played a key role in providing a 'shop window' for Irish manufacturers and assisting them in launching new products and developing the scale and competitiveness required to compete on international markets. Supplying to the international retail market has served to enhance innovation, quality and competitiveness of Irish manufacturers.

The pace of structural change in the retail sector in Ireland, underway for the last decade, has significantly accelerated with increased international ownership. This is evidenced in the development of larger sized outlets, variations in formats to meet locational and demographic needs and the growth of symbol groups. Structural change is being driven by the search for economies of scale, increased market share, vertical integration of the supply chain, consolidation among the major companies and the integration of information and communications technologies. The last five years have witnessed a dramatic increase in cross-border retailer expansion and the internationalisation of large retailers across Europe and the US.

In order to better understand the impact of these changes on Ireland's economy, Forfás commissioned this review[†] of the dynamics of the retail sector. The review was undertaken in consultation with the retail sector itself and with suppliers and distributors in Ireland and internationally. The review analyses the nature of the change underway and sets out the strategic and operational implications for:

- Retailers;
- Manufacturers and suppliers;
- Distributors; and
- Consumers.

A high level of competition in Irish retail markets is ultimately good for the consumer and for national competitiveness. This requires Irish retailers and manufacturers to heighten their awareness of the changes underway and consider how best to respond.

The major strategic challenge for Irish retailers is how to respond to the increasing flow of international retailers into the Irish marketplace. For Irish manufacturers, the challenge is how best to respond to the emergence of a small number of multinational retail chains with significant market share. Increasing retail concentration will result in purchasing for the Irish market being centralised. The 'own-label' share of the Irish grocery market is forecast to exceed 20 per cent within three to four years. These developments require manufacturers to strategically reposition their businesses, to develop the scale required for supplying retailers' national and international needs and to increase their supply-chain efficiencies.

[†] review was undertaken by a consortium of KPMG Management Consulting, Fitzpatrick Associates Economic Consultants and
the Centre for Retail Research, UCD

Distributors will face challenges posed by the centralised distribution systems of the major retailers. Efficiencies in distribution will reduce the number of deliveries to each retail outlet. The benefits of increased competition and efficiency are being passed on to the consumer in lower prices. However, the retail industry needs to continue to respond to the changing lifestyles and purchasing requirements of consumers.

The Government support agencies, particularly Enterprise Ireland, Shannon Development and An Bord Bia, have a key role in assisting Irish suppliers respond to the challenges. The regulatory environment has an important contribution to make in retaining the spatial balance of retail activity in the regions and in ensuring balanced development in urban areas.

Irish retailers and manufacturers that are leading and adapting to the structural changes are reaping the benefits of the buoyancy in consumer demand in the Irish economy. In particular, Irish manufacturers are benefiting from the opportunities for accessing new markets by supplying to multinational retailers abroad. For those adopting a 'wait and see' approach, the need to develop a response is immediate.

These and associated issues are discussed in detail in this review. The analysis set out and conclusions drawn will be of interest to retailers, manufacturers, distributors, consumers, the State development agencies and policy makers.

The Dynamics of the

Retail Sector in

Ireland

Report prepared for Forfás by:

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The Centre for Retail Studies, University College Dublin*

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EXECUTIVE SUMMARY

1.0 INTRODUCTION

In its long term strategy report '*Shaping Our Future: A Strategy for Enterprise in Ireland in the 21st Century*', Forfás noted that the dynamics that drive the development of the services sector, in particular of the domestic services sector, are poorly understood. As a first step in examining the dynamics of this substantive sector of the Irish economy and its role in improving and sustaining competitiveness, Forfás commissioned a study on the retail sector in Ireland and internationally. The study was carried out by a consortium comprising KPMG, Fitzpatrick Associates, Economic Consultants and the Centre for Retail Studies, University College Dublin.

This study of the retail sector provides an important insight into the changes underway in the services sector overall. The Irish retail sector is in a phase of significant development driven by the strong growth in the economy in recent years and continuing internationalisation of the sector.

The objectives of the study were to:

- Examine the role of the retail sector in competitiveness and to determine how the competitiveness and productivity of the Irish retail sector compares with that of other countries. The aim was to identify whether there are inefficiencies/barriers in the retail market to realising the full potential of the sector for employment and wealth creation and determine the policy implications;
- Examine the trends, impact and implications of the structural change taking place in retailing and the implications of these changes for Irish retailers;
- Examine the implications of these changes for suppliers of goods and services dependent on the retail sector as an outlet to consumer markets. The objective was to make proposals to assist Irish suppliers of goods and services prepare for, and respond to, the changes underway and to develop proposals for increasing the linkages between Irish suppliers and the retail sector;
- Identify potential growth areas and ICT-based opportunities in the retail sector.

The study focused specifically on the food and clothing retail sectors in Ireland and internationally, given their important linkages with the manufacturing sector in the country.

2.0 CONTRIBUTION TO THE IRISH ECONOMY AND COMPETITIVENESS

The retail sector contributed 6.0% of GDP in 1997, a rise from 5.1% of GDP in 1994¹. This performance contrasts with that of the services sector overall, whose contribution to GDP remained at 54 per cent overall between 1994 and 1997. Overall, the contribution of the retail sector to GDP is commensurate with Ireland's level of economic development².

1 Annual Services Enquiry, 1997.

According to CSO data, in 1998, retail accounted for 10.8% of total employment, above the EU average for retail employment. It accounted for a third of employment in the private services sector. Female participation has also increased from 40% in 1990 to 49% in 1998. Part-time work in retail has been increasing, rising from 27% to 40% of total employed between 1988 and 1994. While only one in eleven men in retail are part-time, one in three women work part-time. On the basis of the historical trend the proportion of total employment accounted for by retail is likely to remain at about the same level into the future, and overall employment could rise from 161,000 persons in 1998 to almost 199,000 by 2003.

The retail sector plays an important role in the overall competitiveness of the economy by keeping inflation low. The food, clothing and footwear sectors account for 29 per cent of inflation, as measured by the consumer price index (CPI). The sectors of food, clothing and footwear combined contributed only 0.07 of a 1.2% increase in inflation in the twelve months to July 1999. Keeping prices low and price increases to a minimum in these two sectors through increased competition can make a significant contribution to sustaining Ireland's low inflation performance³.

In this regard, it is estimated that a significant increase in the penetration of 'own-label' (products sold under the retailer brand) products in Ireland, which can be 25-30% lower in price than branded products, coupled with increased competition, could benefit competitiveness through an incremental constraint on inflation of up to 2.7% over the next three to five years.

The retail sector accounted for 7% of total national wages and salaries in 1997. This indicates that wages and salaries are lower in retail than in other sectors of the economy, given that the sector accounted for 10.8% of total employment in that year.

From a regional development perspective, the retail sector tends to support balanced development with employment in retail broadly commensurate with Ireland's population distribution.

The retail sector is also a significant part of the value chain of the manufacturing sector in Ireland, providing an outlet to consumer markets. Up to 50% of the output of Irish-owned food and clothing firms is sold on the Irish market, with associated employment of up to 17,500. The sector provides an important 'shop window' for many Irish manufacturers. It has played a key role in assisting Irish manufacturers launch new products and develop the scale and competitiveness in their home market required to compete on international markets. The links and levels of co-operation between the retail sector, whether Irish or foreign, and the manufacturing sector are therefore important issues from an industrial development perspective.

Retail is also a significant source of tourism revenue. According to Bord Fáilte 47% of overseas visitors cite shopping opportunities as a reason for visiting Ireland. Retail shopping accounts for 18% of total expenditure by visitors to Ireland.

Based on comparative international data, on operating margins, productivity, revenue per square foot and employee costs, the performance of the retail sector in Ireland is not far behind that of other countries. On a number of qualitative measures Irish retailers may not yet be as competitive as retailers in other countries in areas such as purchasing functions, category management, supply chain management, consumer marketing and store management. With regard to the competitiveness of Irish department stores, the leading Irish stores compare favourably with their international counterparts.

³ Over the 12 month period to July 1999 inflation (CPI) increased only by 1.2%; food prices increased by 1.9% over the period

3.0 THE IRISH RETAIL MARKET

Ireland has a number of key attractions as a retail market despite its relatively low overall population density: 57% of the population live in urban areas, it has a young population with 88% below 65, strong forecast rates of GDP growth and GDP per capita now above that of the EU average. Retail growth has been strong in Ireland; retail sales have increased by 52.4% since 1991, or 35.9% in volume terms. Retail sales increased by 9.1% in 1996 alone in real terms. However, retail sales per capita remain below the European average indicating scope for further growth.

While Dublin has 29% of the population of the country, it has 21% of retail outlets. Retail outlets in Dublin are however larger in terms of floorspace than in the rest of the country. Turnover per employee is also lower outside Dublin, with a variation of +/- £10,000 around the average. The average size of outlet in Dublin is approaching that of the average in the UK and France. The number of grocery stores in Ireland per 1,000 population is between 3-4 times that in the UK, France and Germany. However, the relatively smaller size of Ireland's retail sector is illustrated by the fact that Ireland's largest retailer is only ranked 97th in Europe by size of turnover. Ireland also has one of the highest food to non-food retail store ratios in Europe, with 36% of outlets in Ireland being food outlets.

Compared with other European countries Ireland has a level of concentration i.e., the market share held by major retailers, is similar to that in Nordic countries. Low growth or stagnation in retail spending across Europe is giving rise to intense competition and increasing concentration in the European retail sector. The Nordic countries have the highest levels of concentration and limited foreign presence. The North Mainland European markets and the UK are characterised by medium levels of concentration. The Mediterranean countries are characterised by large numbers of small outlets.

Outlet Type	1988	1998
Grocery	10,670	9,181
Pubs/Off Licences	8,020	8,642
Other Food	3,110	2,857
Drapery/Footware	4,788	4,259
Restaurants	1,911	3,102
Other	16,207	24,723
Total	44,706	52,764

Source: AC Nielsen, 1998

As in other countries, there have been some significant changes in the structure of the retail sector in Ireland over the last decade as shown in Table 1. In overall terms, the number of retail outlets grew by 8,058 units between 1988 and 1998, a growth of 18% over the period. However, grocery outlet numbers declined by 1,489 units or by 14% over the period, while the number of other traditional outlets such as drapery and footwear declined by 11% over the same period.

The overall growth in retail numbers over the last decade has been in the 'other' category.

This growth is attributed to the development of a wide range of new shop formats, many of which are in the personal service segment and in high technology sectors, e.g., computers and communications. The share of outlets in the 'other' category has increased from 36% of retail outlets in 1988 to 47% in 1998.

TABLE 2: Food Retail Outlets, 1988, 1991 & 1998

Outlet Type	1988	1991	1998
Multiples	149	154	157
Symbol Groups	1,134	999	1,152
Independents	9,387	9,119	7,872
Total	10,670	10,272	9,181

Source: AC Nielsen

In the food sector, the number of independent food outlets declined by 16% over the period 1988 to 1998 as illustrated in Table 2. Analysis of the data indicates that independent specialist shops such as butchers and greengrocers have been quite resilient to change and the decline in the independent sector has been mainly in the general grocery type shop outlets. While the increase in the number of outlets of the multiples appears small from 1988 to 1998, the market share of this category has increased significantly over the period. The Symbol Groups (e.g., Mace, Spar) have shown some recovery in recent years increasing their outlet numbers by 15% from 1991 to 1998. Recent growth in the outlets of symbol groups has been concentrated in smaller sized convenience stores and garage forecourt shops.

It is also worth noting that there has been significant growth in the market share of quality own-label products in the rest of Europe, as retailers seek out higher margins and more innovative and higher quality convenience products. The market share of own-label in the Irish grocery market, while below that in other European countries, continues to grow strongly, in particular in the food sector. Bord Bia estimate own label penetration to have reached 15 per cent in 1999 compared with an EU average of 22 per cent. Own label is estimated to have reached a high of 20% in the grocery sector overall in Ireland in 1987.

Own label penetration is higher among retail multiples than in symbol group retailers and independents. A detailed review of 20 product lines in the food sector in Ireland with own-label products, for which own-label penetration averaged 7.8% in 1998, indicates that own-label penetration ranged from 9.3% among retail multiples, 6.2% in symbol group stores and 2.5% among independent retail stores in 1998.⁴

Growth in the Irish retail sector, in the form of increasing shop numbers and employment contrasts with the stagnating retail markets in the UK and mainland Europe. It is safe to assume that the retail sector will continue to grow in tandem with overall growth in the economy. Such potential increases the Irish sector's attractiveness to international retailers and is likely to further increase competition in the market.

4.0 RETAIL CHANGE

4.1 Drivers of Retail Change Internationally

There are significant changes underway in the international retail sector. Some are already evident in the Irish retail market while others are now beginning to show an impact. The key drivers of change in the retail sector are:

- Consumer shopping habits and meal preparation habits are changing. This is driving the food retail structure to one of large stores for once-weekly shopping trips and smaller convenience stores for top-up purchases;
- Relatively low growth in retail spending across Europe, particularly in the food sector, which is generating substantial competition between retailers;
- A shift in the determinant of consumer demand from price consciousness to value-for-money;
- A stronger preference for service and convenience, both in retail service and also in product choice;
- The development of a more international outlook and a greater awareness of international brands;
- More focused marketing methods, referred to as 'mass customisation', and competition for consumer loyalty;
- The retail sector is still relatively highly regulated in many countries, specifically in the areas of planning regulations in respect of new store development and working hours;
- Developments in information and communications technologies (ICTs) are enabling improvements in market research and analysis, and supply chain management. This is driving significant change in international retail supply chains as retailers seek out increasing efficiencies and seek to reduce inventories.

4.2 Key International Retail Trends

There are four key trends in the retail sector internationally, that are already in evidence in the Irish market to a certain degree. As summarised in Figure 1 these include the trend to larger size, to increasing diversification, to competing on customer service offered and to increasing retailer influence over supply chains.

FIGURE 1: International Retail Change

Size & Structure	Diversification
<p>The structure of the retail sector is changing as:</p> <ul style="list-style-type: none"> retailers are growing larger through mergers and acquisitions both in domestic and international markets; the number of large sized stores is increasing significantly; levels of concentration in retail markets are increasing; order sizes and deliveries from suppliers are growing; and suppliers are increasing in scale. 	<p>Retailers are pursuing growth through diversification into:</p> <ul style="list-style-type: none"> new product areas, by food retailers into non-food goods, and into new markets such as DIY and music; new business sectors such as banking and insurance; and new geographic markets, nationally and internationally, mail order, tele-shopping and e-commerce.
Customer Service	Supply-Chain Management
<p>Customer service is developing rapidly through:</p> <ul style="list-style-type: none"> home shopping and delivery; Internet shopping; longer opening hours; loyalty card schemes; better in-store service; micro-marketing to individual customers; and improved mail order. 	<p>Retailers are increasing their control over the whole supply chain by implementing:</p> <ul style="list-style-type: none"> centralised distribution; efficient consumer response (ECR); increased traceability of goods; increased investment in Information Technology; supplier rationalisation programmes; and greater involvement in supplier operations.

4.3 Future Trends in Ireland

The expected future trends in the retail sector in Ireland are that:

- The retail sector can be expected to continue to grow in line with the overall growth of the economy, thereby providing further employment and an increasing contribution to economic activity;
- Retail shop numbers are likely to continue to grow. Food shop numbers are expected to decline, in particular in the independent sector, either through closure or through migration to Symbol Groups. Clothing shop numbers are expected to remain at current levels;
- The level of concentration, i.e., the market share held by major retailers, in both the food and clothing sectors, is expected to continue to increase;
- Further consolidation in the market can be expected through mergers and acquisitions of Irish retailers by Irish and foreign retailers in the Irish market. Acquisition is likely to be the mode of market entry for large scale foreign retailers into the future. The expansion by foreign retailers out of the new retail complexes in the main cities to

other complexes within the country can be expected. The current cap on 'green field' retail developments is likely to contribute to these trends;

- Average store sizes will increase, but the maximum size may be capped by planning regulation;
- The introduction of the euro should significantly increase the level of price transparency in the Irish retail market. It can be expected that Irish price levels will converge with those of other European countries, leading to some price reductions;
- The major retail chains are likely to develop a range of new shop formats to meet the requirements of towns of various population sizes. The development of new formats is likely to increase competition further between the multiples, symbol group stores and independents;
- The market share of own-label goods in the Irish market is forecast to increase from 15% at present to over 20%, towards the average of other European countries;
- Centralised distribution for supplying the retail sector in Ireland is set to increase dramatically and thereby transform the retail supply chain structure in Ireland. This is expected to significantly impact on the economics of Irish manufacturers' distribution strategies. Outsourcing to specialist logistics management firms is likely to increase substantially;
- New retail formats, including factory outlets, retail warehouse parks and 'hard' discounters are likely to emerge. Some of these will be developed by new entrants to the Irish market.

In the long term, the structure of retailing in Ireland will be determined by the pace of economic development, the emergence and speed of adoption of new technology, planning regulations and the rate at which consumers adopt new buying patterns. If the experience in the US is replicated in Ireland, then, as personal incomes rise there is likely to be a continuous shift to eating out and purchases of cooked meals. It can be expected that the proportion of basic food products purchased by consumers in stores will decline as they shift to ready-to-serve meals, both cooked and uncooked.

5.0 IMPLICATIONS OF RETAIL CHANGE

Ultimately Irish consumers and the competitiveness of the economy generally will benefit from a strong, competitive retail market. The changes underway however will have a significant impact on retailers, suppliers and distributors for which they need to prepare.

5.1 Implications for Consumers

Irish consumers have already benefited significantly from the changes underway in the retail sector in recent years as retailers have invested in innovative formats, wider product ranges and improved customer services. The consumer is likely to continue to benefit further from sustained high levels of competition and the internationalisation of retail markets. For example, one possible scenario of the likely consumer benefits, is that if:

- the share of own-label products in Ireland increased to 20 to 25 per cent and that the historic differentials between the price of own-label and branded products remain;
- the projected supply chain efficiency improvements and streamlining of the distribution continuing; and
- the savings and efficiency gains are passed directly to the consumer;

benefits of up to an estimated £300 million per annum could develop over the period 1997 to 2002. This would be equivalent to about 7% of current food spend in Ireland. There is however, no guarantee that these benefits will accrue in total to consumers, other than through a fully competitive market.

5.2 Implications for Retailers

The rapid pace of change in retailing and the internationalisation of the sector poses both opportunities and threats for Irish retailers. Irish retailers need to maintain a focus on their competitiveness, cost structures, levels of investment and innovation. Retailers need to assess their options both to take advantage of the growth in the economy and increasing disposable income while also ensuring they respond to the competitive challenge from both foreign retailers locating in Ireland and the development of electronic retailing. These changes will require retailers to:

- increase their use of information technology in marketing, operations and supply chain management strategies to extend their influence or take control of supply chains and to develop electronic commerce activities;
- continue to develop collaborative arrangements with other retailers to purchase more competitively from international sources;
- develop new store formats in new areas and expand existing units;
- diversify into new businesses and new markets;
- continue to develop new and improved customer services;
- extend own-label ranges either through direct purchasing from manufacturers or through membership of larger retail groups;
- develop more focused marketing programs; and
- improve product development and innovation activities and capabilities.

5.3 Implications for Distributors

There is potential for rationalisation in the retail distribution structure in Ireland and the research undertaken indicates that there is potential for significant efficiency improvements in Ireland's distribution system by European standards. Key implications for distributors include:

- Imported products for major retailers may be supplied from distribution centres in other countries. This could reduce the volume of goods carried by Irish distributors unless there are demonstrable efficiency benefits from using Irish distributors;

- Retailers are pushing for more centralised distribution system for Irish supplies, and this is likely to be developed through dedicated third party carriers;
- The economics of distribution in Ireland are set to change. This will require distributors such as Cash & Carrys to develop a stronger role as regional consolidators to enable independents to remain competitive;
- Major retailers are likely to drive developments such as Efficient Consumer Response (ECR) which will require substantial investment in systems and capability by suppliers for efficient supply chain management.

5.4 Implications for Suppliers

Increasing concentration in the retail sector in Ireland is likely to result in purchasing for the Irish market being centralised into a small number of large retailers. The 'own-label' share of the Irish retail market is forecast to increase to over 20% over the next 3-4 years. The number of brands in some product categories carried by retailers is set to decrease markedly and is likely to generally include the brand leader, an own-label product and perhaps a third budget brand.

The main implication for Irish suppliers to both the grocery and clothing sectors is that foreign retailers entering the Irish market are extending their existing supply chains to Ireland using existing 'preferred partner' suppliers. The quality, product innovation, production, systems and distribution requirements of these retailers may differ from those that many suppliers may previously have had to meet. Accordingly, Irish suppliers that may not previously have supplied substantially to foreign multiples and are seeking to maintain their access to supply chains serving the Irish market may face significant competitiveness challenges.

Specifically:

- Branded product suppliers will need a continuous focus on product innovation, differentiation and marketing to ensure their branded products are 'must carry' lines;
- The capacity of Irish suppliers to supply 'own-label' products competitively will need to be significantly increased, for example, through strategic repositioning, increasing operational efficiencies, increasing scale, reducing product lines, forming value-added partnerships with other suppliers, productivity improvement agreements and training;
- Significant resources will need to be devoted to proactive new product development by suppliers, in particular, for own-label products. These activities should be based on the market research of retailers and on international developments, in conjunction with the national food research bodies;
- Quality production and management systems will increasingly be determined by retailers and compliance with these standards will be a prerequisite for supply;
- With respect to production planning and management, suppliers will need to have a strong customer response capability, including just-in-time supply with stock minimisation, and they will need to undertake a radical shortening of the throughput time of production;

- In-house information and communications technology (ICT) systems and capabilities for supply chain and logistics management, will require to be upgraded to be compatible with the changing electronic data interchange (EDI) and systems requirements of the retailers, including Internet/Extranet systems;
- Suppliers need to undertake a fundamental review of the economics of their distribution systems and strategies, in the context of the move to centralised distribution. It is estimated that up to 50 per cent of food distribution in Ireland may be centralised over the next 3-4 years;
- In the future, almost all supplier relationships with the multiples and large retail groups are likely to be centralised. Suppliers will need to build strong working relationships with the centralised buying teams of retailers, in Ireland and abroad. Suppliers need to determine and understand the purchasing requirements and procedures of the retailers, in particular having regard to the category management strategies of the multiples for specific product lines so as to identify competitiveness gaps at a strategic or operational level that may be barriers to supply.

5.5 Growth Areas and Opportunities

Niche and Specialist Expansions Abroad

Ireland has already seen a number of specialist and niche retailers expanding their networks overseas. The opportunities for the expansion of specialist and niche Irish retailers into the UK and other European markets can be expected to continue.

E-Commerce and Tele-shopping

Tele-shopping and retailing on the Internet are forecast to be the most significant growth areas in retailing into the future. In May 1999, 171 million people across the globe had access to the Internet, over half of them in the US and Canada⁵. By 2001 it is forecast that up to 300m people will be using the Internet. Online retail trade is estimated at between \$7.0 billion and \$15 billion in 1998, and could range between \$40 billion to \$80 billion in 2002⁶. A number of supermarkets in the UK already have trials on the development of teleshopping. One Irish retailer plans to provide a full teleshopping service in Ireland by the year 2000.

The development of the Internet and electronic commerce presents significant opportunities for Irish retailers, particularly for retailers of high-value, non-perishable goods and Irish-themed products that can be cost-effectively delivered by post. Ireland has already gained a leadership position in the remote selling of computers and a number of Irish retailers have a presence on the world-wide-web.

There are significant opportunities for employment and wealth creation in Ireland throughout the electronic retail value chain. These include multimedia content creation for advertising, web pages and virtual shopping malls, transaction processing, and the packaging, warehousing and distribution of physical goods. There is also the opportunity for Ireland to take an early leadership position as an international location/hub for Internet-based shopping activities in the above areas, provided Ireland can develop the required broadband telecommunications infrastructure and international logistics services for competitive parcel delivery. Key growth areas for Ireland and Irish retailers include gourmet and luxury foods, clothing, crafts, books, and the digital transmission of entertainment products, music/audio, films, videos and software.

5 For complete survey results, definitions and methodology see <http://www.nua.ie/surveys>.

Cross-group Sales

For manufacturers, while the entry of foreign retailers into the Irish market can mean extra competitive pressures, it can also offer significant opportunities for international cross-group sales. These can be facilitated in particular through back-loading on delivery containers returning from Ireland to distribution centres abroad. An Bord Bia and Enterprise Ireland are working with a number of Irish-based suppliers to increase such cross-group sales and there are likely to be continued opportunities in the medium term.

6.0 CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

Recognising the dynamic role played by the retail sector in economic development, employment growth and wealth creation, the following future objectives for the sector are proposed:

- To maximise consumer benefits through full price and quality competition in the Irish retail market;
- To deliver retail services to world class standards;
- To ensure full adherence to competition rules on monopolies and mergers;
- To continue to develop a competitive and innovative retail sub-supply sector maximising the links between Irish sub-suppliers and the retail sector;
- To develop a strong Irish internationally trading retail sector taking full advantage of developments in e-commerce.

The following policy principles are proposed to guide the future approach to the retail sector:

- A full recognition of the key role of the retail sector in the economy in future national policy formulation and an integration of the requirements of the retail sector with other aspects of economic policy and enterprise strategy e.g., in transport and land use planning;
- A retail market fully open to competition, ensuring fair and competitive practices, in particular to protect the interests of consumers;
- Planning guidelines that encourage sustainable retail development and encourage a balanced assessment of retail's impact on transport infrastructure and town planning;
- The major responsibility for the development and growth of the sector must be with the industry itself and its trade and representative associations, with the state providing a facilitating and enabling environment.

6.2 Retailers

Significant structural change is underway in retailing and a strategic response is required from the Irish retail sector and its trade and representative associations. There is a need

for these associations to continue to proactively raise the levels of awareness of the structural changes taking place in the retail sector among their members and, to identify strategic responses and initiatives to improve their competitiveness. Based on the findings of this study, initiatives in the following areas are needed for Irish retailers to respond and manage the change underway:

- The Irish retail sector needs to increase the levels of information disseminated on the changes taking place, and develop appropriate action plans to respond, remain competitive and drive the change process. Representative and trade associations have a key role to play in this respect, in monitoring, informing and supporting Irish retailers to prepare for the changes underway;
- Irish retailers need to increase collaboration and information dissemination on technology and management practices, e.g., in forging alliances to achieve economies of scale and increase their purchasing power in the sourcing of goods and services;
- Retailers need to work closely with other sectors of economic activity, such as banking and finance, to improve and extend the range of services offered to customers. There is potential for considerable synergies to be achieved between such sectors in the changeover to the euro, for example, and in accelerating the development of electronic commerce;
- Retailers will need to adapt quickly to the use of information and communications technology (ICT) in their operations and to develop appropriate ICT deployment strategies for exploiting electronic commerce. Such strategies need to focus, in particular, on the deployment of ICTs in supply chains where it can impact on efficiency and competitiveness. The Internet can also increase the market research capabilities of retailers, enabling them to both monitor changes in consumer demands and respond to consumer demands for value added services such as loyalty cards;
- FÁS, in conjunction with representative organisations, already plays a role in developing the capability of the retail sector through the provision of training and re-training programmes and management development programmes. The focus of resources allocated to the provision of training services in the retail sector by FÁS, require to be continually assessed in light of the changing needs of the sector;
- Specialist and niche retailers need to work with the development agencies, to determine opportunities for international trade, either through outlet expansion abroad or electronic commerce. They need to assess the potential for internationalisation and to determine the actions required to prepare for and to take advantage of the opportunities presented by the internationalisation of retailing.

6.3 Suppliers

The major challenge for Irish suppliers is to bring their operational systems and processes up to the competitive standards required for supplying retailers into the future. This is particularly the case for suppliers that do not have a strong brand leadership or niche market position and for whom the only other option may be to reposition as an own-label supplier. There is an urgent need for manufacturers to assess their ability to meet the requirements of Irish and foreign retailers for competitive supply. There is also a need for a focused agency response to assist Irish suppliers develop their capability, capacity and competitiveness for supply.

The *Retail Supplier Development Programme* being developed by Enterprise Ireland is an important initiative. It should be strongly supported and extra funding should be allocated to the programme to increase the number of participating firms. It is recommended that the development and work of the programme be guided by a broadly based Steering Group involving the development agencies, retailers and suppliers. The number of agencies involved in the programme requires to be expanded to include An Bord Bia, An Bord Glas and the Food Safety Authority. Both food and non-food firms need to get actively involved in the programme. The activities of each of the agencies with respect to seeking to increase supplies to the retail sector need to be fully co-ordinated through the Group. The establishment of retailer specific teams with suppliers and retailers' needs to be considered as part of the programme.

In overall terms the following require to be given a high priority by the development agencies and the retail sub-supply base:

- The capacity and capability of the Irish food and clothing sectors to meet the ever more demanding requirements for supplying to the retail sector, both in Ireland and internationally requires continuous assessment. Suppliers need to continuously focus on building their capability and capacity to meet the exacting requirements of Irish and foreign retailers. Increasing the levels of collaboration between suppliers should be used as a means of increasing the ability of suppliers to develop the scale needed for volume supply to the larger retailers;
- The requirements for the deployment of information and communications technologies (ICTs) throughout the supply chains of supplier enterprises need to be more widely understood by Irish suppliers. Suppliers need to adopt supply chain management strategies and Efficient Consumer Response (ECR) strategies in order to improve the efficiency of the retail supply chain in Ireland. The use of Electronic Data Interchange (EDI) and e-commerce by Irish suppliers requires to be significantly increased;
- It is recommended that the National Institute for Transport & Logistics give a priority in its work to assisting Irish food and clothing suppliers respond to the structural change in the retail sector and to the potential restructuring of the retail supply chain in these sectors in Ireland;
- The levels of product research, development and innovation in the food sector, in particular in the chilled convenience food sector requires to be significantly increased. In this regard Enterprise Ireland's Supplier Development Programme needs to involve and draw on the expertise of the national food research bodies. The need for increased investment or a specific initiative in the product development infrastructure requires to be assessed;
- The stringent quality, hygiene and food safety management systems required for supplying into the retail sector into the future require continuous monitoring to ensure Irish suppliers maintain the high standards required. Suppliers should be assisted in developing action plans to address deficiencies identified;
- A particular emphasis needs to be placed on identifying opportunities for Irish suppliers in own-label products, both nationally and internationally, and on assisting suppliers to take advantage of opportunities identified;

- The relationships between Irish suppliers and the global sourcing departments of major retailers need to be strengthened;
- A benchmarking system should be established to monitor the market share, exports, productivity and ICT investment levels of the Irish food and clothing sectors. It should use the methodology developed as part of the ESRI study for the Department of Enterprise, Trade and Employment with Enterprise Ireland and An Bord Bia, to monitor the performance in terms of purchases by Tesco from Ireland against commitments given to the Department on its acquisition of Quinnsworth/Crazy Prices. This benchmarking work should include all retailers with significant market power.

6.4 Distributors and Wholesalers

As noted above the retail supply chain in Ireland is likely to be significantly shortened, as retailers take control of their own supply chains to optimise efficiencies. Distributors will need to develop partnerships with and adopt the structures of the major retailers. In the future, unless retailers can identify benefits and economies in linking up with Irish distributors they will continue to develop their own distribution structures and transport arrangements. In the future:

- Distributors will need to adapt to the structures being developed internationally. Significant investment in ICTs and tracking systems will be required. They will need to work with the National Institute for Transport & Logistics in preparing for the changes underway;
- Locally-based wholesalers and Cash & Carry groups, will have a key role in assisting the independent retail sector adapt to the changes underway in the retail supply chain, as it becomes uneconomic for suppliers to distribute both to central distribution centres and to the independents. Independent retailers will need to benefit fully from the purchasing power of these wholesalers if they are to compete effectively in a changing retail environment and increase investment in ICTs and new formats. Wholesale groups will also need to give a priority to developing ranges of quality own-label products as the perceptions of quality and value of own-label goods increase and consumers move away from branded goods.

6.5 Environment Enabling

The retail sector faces the same competitive pressures as other sectors in the economy. It requires a supportive regulatory environment that encourages competition and promotes innovation. The availability of advanced infrastructures and a competitive cost base, impact on the competitiveness of the retail sector in the same way as on other sectors. The competitiveness and requirements of Irish suppliers and retailers needs to be monitored and benchmarked on a continuous basis.

6.5.1 Telecommunications Infrastructure

Increasingly information exchanges on orders, production planning and invoicing are facilitated through the introduction of EDI (Electronic Data Interchange) networks and the use of e-commerce by retailers and suppliers. Retailers increasingly require total traceability throughout the food chain, which can be enabled by e-commerce. In relation to EDI, the key issue is the development of a national EDI infrastructure providing real time links between retailers and suppliers. There are concerns among small companies that they are at a competitive disadvantage in relation to communications costs and services relative to competitor suppliers in other countries.

The rapid growth of electronic commerce is opening up new markets and providing new means of delivering products and services. It is also increasing the levels of competition in home markets. The availability of broadband national and international links will also be critical for the development of trade in goods and services via the Internet and specifically for increasing the opportunities for smaller and niche Irish retailers and manufacturers to enter international markets. The provision of the required broadband telecommunications infrastructure could enable Ireland to develop a leadership position in Internet based shopping activities.

6.5.2 Planning Regulation

The current review of planning regulations in respect of retail developments being undertaken by the Department of the Environment and Local Government is an important initiative. In June 1998 the Minister for the Environment and Local Government made a Policy Directive and Regulations under the Planning Acts to limit the size of supermarket development to 3,000 sq. metres, pending the carrying out of a detailed study and publication of Planning Guidelines by the Department. Draft guidelines were published in April 1999, which recommended retaining the 3,000 sq. metres limit outside Dublin and a limit of 3,500 sq. metres in greater Dublin.

The appropriateness of the proposed limits to national economic and social needs and for a competitive and locally accessible retail sector require to be assessed by the Department of the Environment and Local Government and the Department of Enterprise, Trade and Employment. The key concerns must be to retain the relatively spatially balanced distribution of retailing that is currently in evidence in Ireland from both an economic and social perspective, while ensuring that consumers and the country benefit fully from full competition in the retail market. Future retail planning should be based on a consistent and coherent national transport and land use policy plan.

6.5.3 Groceries Order

The Restrictive Practices (Grocery) Order, 1987 bans below cost selling, requires that suppliers be paid on time and restricts the payment of 'hello money'. The issue of the payment of 'hello-money' is of increasing importance as the supply-chains of retailers extend across borders and purchasing functions are increasingly centralised. A harmonised regulatory approach across the EU in respect of the payment of 'hello money' would be of considerable benefit by increasing the transparency in the purchasing practices of retailers in international markets. The development of a harmonised approach on this issue should be actively promoted at EU level by Ireland.

The conclusions and recommendations of the Groceries Order review being undertaken by the Competition and Mergers Review Group need to be quickly developed and implemented so as to provide certainty to retailers and suppliers into the future. It needs to focus in particular on the impact on competition in the retail sector of the ban on below cost selling and social benefits of the order.

1.0 OVERVIEW OF THE RETAIL SECTOR

1.1 Introduction

A consortium comprising KPMG, Fitzpatrick Associates, Economic Consultants and the Centre for Retail Studies, University College, Dublin was retained by Forfás to study the dynamics of the retail sector in Ireland and internationally. The objectives of the study were to:

- Examine the role of the retail sector in Ireland and to determine how the comparative competitiveness and productivity of the Irish retail sector compares with that of other countries. The aim was to identify whether there are inefficiencies/barriers in the retail market to realising the full potential of the sector for employment and wealth creation and determine the policy implications;
- Examine the trends, impact and implications of the structural change taking place in retailing and the implications of these changes for Irish retailers;
- Examine the implications of these changes for suppliers of goods and services dependent on the retail sector as an outlet to consumer markets. The objective is to make proposals to assist Irish suppliers of goods and services prepare for, and respond to, the changes underway and to develop proposals for increasing the linkages between Irish suppliers and the retail sector;
- Identify potential growth areas and ICT-based opportunities in the retail sector.

The study focused in particular on food and clothing, two of the major retailing sectors in Ireland, which have seen significant international involvement in recent years.

The last 30 years have seen substantial changes in the retail sector, both in Ireland and internationally. The retail base in Ireland was once made up of large numbers of small shops offering specialised services, e.g., butchers, bakers, shoe shops and small general stores offering ranges of dry goods and fresh foods. These were complemented by large department stores offering a range of clothing and household items. High streets in cities and towns contained an array of small shops and small, by comparison to today's outlets, general stores. Manufacturers had considerable market power. They distributed goods through third party retail outlets, their own outlets or, particularly in the area of fresh foods, through doorstep sales.

As the economy developed, consumers became more mobile, tastes changed, new emphasis on prices emerged. The retail sector has responded to these changes. The key change has been the growth of the major retailers, particularly in the food sector.

As the large food retailers grew, they widened the gap with the smaller, more traditional retailer, which in turn led to further growth in the large retailer segment. Increased concentration in Ireland mirrored that of other countries which led in turn to the 'internationalisation' of retailing and the emergence of retailers with operations in a number of countries. This growth has produced a range of retailers which are larger than many of their suppliers. Food retailers in particular have taken the role of 'channel captaincy', where they have substantial power over the supply chain, and are driving much of the change currently taking place.

Footwear and clothing retailing has also experienced increased concentration but not to the same extent as in the food sector. In many European countries, the independent retail

segment has remained strong in the non-food sector by adapting to changing consumer tastes and trends.

1.2 Study Approach and Methodology

The study involved substantial desk research on the European and US retailing markets. The desk research material was supplemented by research data previously gathered by the members of the consortium, both in Ireland and internationally. The desk research was complemented by over forty structured interviews carried out in Ireland and the UK.

Interviews were held with representatives of:

- the food and clothing retail sector in Ireland and the UK;
- the wholesale sector;
- the distribution sector in Ireland and the UK;
- the cash and carry sector;
- the manufacturing sector in Ireland and the UK; and
- trade associations.

We wish to thank all who contributed to the study.

1.3 Definitions

Retailing is defined as the means by which goods and services are provided to consumers in exchange for payment. Retailing thus excludes wholesaling and business-to-business selling.

Retailing can be segmented into three distinct categories:

- Predominantly Food Stores;
- Predominantly Non-Food Stores; and
- Non-Store Retailing.

The following is a description of the elements of these categories as used in the report.

Predominantly Food Stores

Hypermarkets

Hypermarkets are very large retail outlets, which are defined by the OECD as over 2,500 sq metres, but which are typically much bigger. For example, the average size of new hypermarkets in Europe is typically 7,500 sq metres. Hypermarkets carry a wide range of food and non-food items. Hypermarkets are sometimes referred to as Superstores, though Superstores focus primarily on food. They are normally sited on the periphery of towns and cities.

Supermarkets

In the main, supermarkets⁷ are 1,500 to 2,500 sq metres and are on the edge of towns or town centre locations. Supermarkets contain much of the product ranges and customer services of hypermarkets.

Symbol Groups

Symbol Groups are a group of outlets, that are generally independently owned, operating under a symbol name and co-operating to gain purchase cost savings and, in some instances, develop own-label products. Symbol groups are essentially managed or grouped around a wholesaler.

Convenience Stores

Convenience Stores are small stores, such as forecourt shops and small supermarkets, with a wide food and non-food product range. They are often part of a Symbol Group and sometimes offer a range of own-brand products. These stores are characterised by convenient town, city or suburban locations, generally have extended opening hours and are used mainly for 'top-up' shopping.

Category Management

The practice of category management is increasingly used by large scale retailers and involves developing a category or range of processes including product development, consumer marketing, promotions to maximise the yield from that category.

Category Killers

Category killers exist where large retail outlets offer a specialised product range in substantial depth but not in breadth.

Independent Stores

These include specialists such as greengrocers, bakers, fishshops, delicatessen as well as large general grocery stores such as family owned Spar, Mace, Supervalu or Londis stores, and are typically owner-managed.

Discounters

These are retail outlets that offer a range of goods while focusing on offering substantial discounts over other retailers. Discounters are referred to as 'hard' or 'soft' depending on the levels of discounts provided. Own-label products and dry goods often feature significantly in these outlets.

Predominantly Non-Food Stores

Department Stores

Department stores are typically large city centre shops, generally multi-storey, offering a range of clothing, footwear, personal care and household products. Areas within department stores may be franchised to specialist operators and leading brands.

Boutiques

Boutiques are typically small, single outlets specialising in one manufacturer's products, or a specialist range of clothing and other merchandise.

Multiples

Non-food multiples are supermarket size outlets selling mainly clothing and footwear, but occasionally other items e.g., sports goods. These shops tend to be at the lower end of the clothing market in price terms, whereas department stores are in the middle to upper price ranges.

Factory Outlets

These are outlets selling the products of a factory, typically branded goods such as clothing.

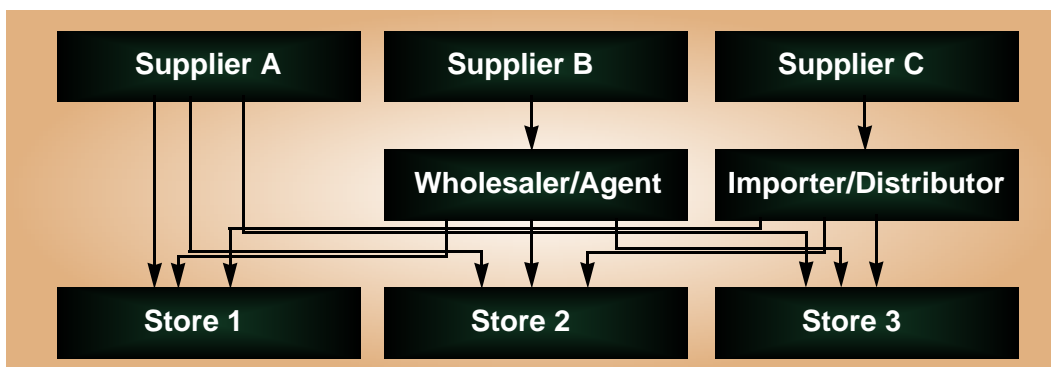
Non-Store Retailing

This sector traditionally includes mail order, door-to-door, vending machines and repairs to products. However, the boundary between this sector and store retailing is becoming blurred as store retailers develop into non-store selling via the Internet, telephone selling and TV shopping.

1.4 Supply Chain

The supply chain is the sequence of companies or individuals involved in the process by which raw materials are transformed into products and delivered to the retail outlets for consumer markets. Historically, manufacturers delivered their products to individual stores using their own transport, distribution agents or wholesalers, or some combination of these. This results in numerous deliveries to shops by many suppliers which is seen as ineffective and inefficient. Schematically, the traditional structure in Ireland is as shown below:

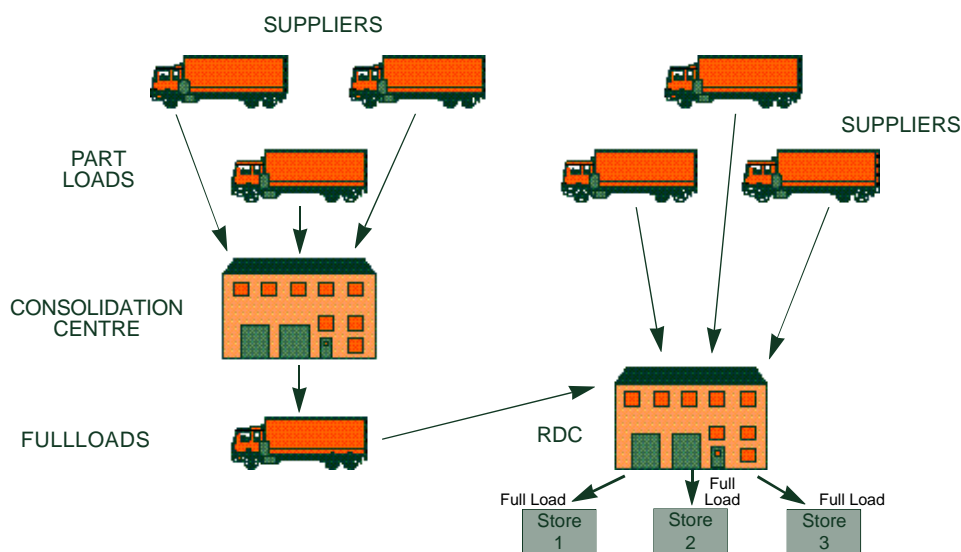
FIGURE 1.1: Ireland's Traditional Distribution Structure



In other countries, where appropriate to market conditions, RDCs (Regional Distribution Centres) and Consolidation Centres have evolved to simplify the distribution system and rationalise deliveries to stores. This aim is to maximise the use of full loads, and optimise the efficiency of the distribution system.

The function of the RDC is to consolidate the products of various suppliers into deliveries for individual stores and thereby minimise the deliveries to individual stores. To improve the efficiencies of RDCs, consolidation centres are used to receive part loads from suppliers and to consolidate supplies into full loads for delivery to RDCs, as shown in figure 1.2.

A key feature of the food retail sector in Ireland is the current emergence of a centralised distribution structure amongst major retailers.

FIGURE 1.2: Ireland's Emerging Distribution Structure**Efficient Consumer Response (ECR)**

ECR is an approach to analysing the value chain from suppliers of raw materials through to the consumer to identify opportunities for performance improvement. It is based on the principle that consumer demand should 'pull' products through the supply chain. The ECR approach involves co-operation between all players in a supply chain on a range of aspects including:

- replenishment of stock;
- new product introduction;
- promotions; and
- in-store layout and design.

Efficient Consumer Response practices are also emerging in Ireland at present.

2.0 INTERNATIONAL RETAIL SECTOR**2.1 Summary****2.1.1 Food Retailing**

The retail models of particular interest to Ireland are those in Europe and the US due to similarities in economic characteristics. In Europe, there are three main categories of food retailing national models as follows:

- The Nordic countries, which are relatively small retail markets in European terms, are characterised by a small number of powerful wholesalers and co-operatives, that dominate the retail segment, resulting in high levels of concentration and limited foreign presence.
- The north mainland European markets, including the UK, which are relatively large food markets, are characterised by a number of large scale retailers, that are intensely

competitive and that have a highly developed range of shop formats. Concentration is at a medium level in these countries and foreign competition is strong.

- The Mediterranean countries have varying market sizes and are characterised by large numbers of small retail outlets. Foreign competition is largely precluded by the regulatory environments in these countries, with the exception of Spain, where a more open policy has allowed substantial French involvement.
- In the US, the larger shop formats dominate the food sector, with supermarkets accounting for over three quarters of national sales. The key difference with European markets is that to date in the US, regional rather than national chains are important, though there are strong recent indications that the retail sector is consolidating. The US is a major retail innovator, though most innovation in retailing reaches Ireland via Europe.

2.1.2 Non-Food Retailing

Non-food retailing is generally more fragmented than the food sector in Europe. There has generally been a decline in the numbers of department stores, and a polarisation to a structure with hypermarkets and large scale specialists on the one hand and a wide range of small specialist stores on the other. International brand names and franchises are widely evident in Europe.

In the US, many department stores have eliminated certain departments, and have effectively become large speciality stores.

2.1.3 Drivers of Change

Key drivers of developments in retailing internationally include:

- Low growth or stagnation in retail spending in developed economies, particularly in the food sector, leading to intense competition between retailers to grow sales and margins;
- Increasing power of the retailers throughout the supply chain;
- Changing consumer tastes demanding higher levels of service and convenience;
- Changing consumer shopping practices;
- An increasingly international outlook on the part of consumer;
- Technological developments facilitating improved data collection and analysis of consumer buying behaviour, faster communication and improved customer services;
- Developments of more focused marketing to consumers.

2.1.4 Key Developments

Four key trends in the retail sector in Europe and the US, as in Ireland, are:

- A trend towards large sized units. Retail companies and retail outlets are growing in size, particularly in food retailing. Concentration, i.e., the market share of the largest retailers, continues to grow in most major European countries.
- Diversification, particularly by food retailers into new product areas such as DIY, clothing and household products, into new geographic markets and into new businesses such as retail financial services. International expansion by retailers is particularly evident in mainland Europe.
- Provision of improved services to customers such as the use of scanning at point-of-sale, the development of home shopping and the introduction of home deliveries.
- Extension of retailer influence over the whole supply chain, where centralised distribution is now the standard, and where much new product development is retailer driven. Concepts such as Efficient Consumer Response (ECR), that 'pulls' production based on consumer demand, are now being introduced and are being used to eliminate costs from the supply chain.

2.2 Retail Structure and Structure Trends

2.2.1 The US Food Sector

Many of the major retailers in the US are providers of a mixed range of products which generally, but not always, includes food, and which can include drug stores, household goods and electronics, as shown in Table 2.1. Many new retail formats have developed in the US. In general, the retail formats which the US initiates tend to enter Europe via the larger retail markets such as France, the UK or Germany.

Food sales in the traditional US grocery stores have slowed in recent years due to competition from new store formats such as discounters and supercentres, and also due to increased use of fast food restaurants by the general public. However, food retailing remains one of the largest retail sectors in the US.

TABLE 2.1: Top 20 US Retailers

<i>The top 20 retail companies in the US by total (group) sales, 1998</i>		
		\$ Billion
Wal-Mart	Household goods and food	139.2
Sears Roebuck	Household goods	41.3
K-Mart	Household goods and food	33.7
J C Penney	Department Stores	31.8
Dayton Hudson	Department Stores	31.1
Kroger	Food	28.2
Home Depot	D-I-Y	30.2
Safeway	Food	24.5
Costco	Food Discount Club	24.3
American Stores	Food	19.9
Federated	Department Stores	15.8
Albertsons	Food	16.0
Walgreen	Drug Stores	15.3
Winn Dixie	Drug Stores	13.6
CVS	Drug Stores	15.3
May	Department Stores	13.4
Rite Aid	Drug Stores	11.4
Ahold US	Food	11.2
Publix	Food	12.1
Toys 'R' Us	Toys	11.2

Source: Fortune 500, 1999

Within the grocery industry the larger stores dominate, with supermarkets accounting for over three-quarters of sales. Table 2.2 indicates some of the general features and performance of the supermarket industry in the US.

TABLE 2.2: Profile of US Supermarkets, 1998

Total number of supermarkets	30,700
Average size (square feet)	28,155
Average number of checkouts	8.9
Average sales per supermarket (\$)	11,259,000

Source: Progressive Grocer Annual Report, 1998.

What has been notable in US food retailing until recently was the importance of regional rather than nationally-based chains. There are some nationally-based retail chains such as Sears and Wal-Mart, which operate primarily in a range of sectors such as household goods and electronics, but amongst predominately food retailers, the regional chains are the more important. This is in part as a consequence of the Robinson Putman Act which prohibits price discrimination by wholesalers/manufacturers between retailers. These regional chains have proved to be attractive modes of entry for overseas multiples, such as for example, Sainsbury's purchase of Shaws, a New England supermarket chain.

The US grocery industry has historically been fragmented. Estimated to be worth \$357 billion in mid-1998, the US grocery trade traditionally had no real dominant national player. The Cincinnati based retailer Kroger, was the market leader in food retailing with 1998 revenues in excess of \$28 billion, a market share of just over 7%. The traditional supermarkets have come under attack from a variety of sources in recent years, notably large scale discounters, warehouse clubs and non-food retailers. Wal-Mart, which has a turnover of \$139.2bn in 1998 has opened 441 supercentres in the US. In June 1999 Wal-Mart acquired ASDA in the UK for £6.7bn, as part of its overseas expansion strategy. Coupled with centralised buying and efficient distribution centres, Wal-Mart has underpriced its traditional competitors, even though net profit margins have traditionally been of the order of 2% in US supermarkets. Some analysts suggest that Wal-Mart operates its grocery business on a break-even basis to attract customers to its traditional non-food discount areas of electronics and home furnishings.

The response amongst traditional grocery retailers to the increasingly competitive market in the US has been a succession of mergers and acquisitions in 1997 and 1998, culminating in the proposed takeover of American Stores Company by Albertson's Inc in August 1998 for \$11.7 billion. The size of the combined firms will exceed that of Kroger, making it number one in the market place. The ultimate size will be determined after consultation with regulatory authorities, as it is likely that the new business will have to dispose of a number of its existing stores to prevent it having a monopoly in some areas. The combined firms would have 2,970 grocery and drug stores in 37 states and an estimated 215,000 employees.

The 1998 sales of the two companies combined, is estimated at \$36 billion, which is equivalent to a 10% market share. The merger of the companies is expected to generate savings of \$300 million annually or just under 1% of revenues.

Mergers and acquisitions of this scale may make it more difficult for overseas retailers to enter the US market, though existing non-US retailers are also contributing to the trend. Royal Ahold NV, the Dutch retailer, which already owns four chains on the US East Coast bid to take over a fifth chain, the Giant Food Inc., which was previously co-owned by Sainsbury.

An expected outcome of industry consolidation in the US is that national retailers will have substantial leverage in negotiating with national manufacturers such as Kellogg Co. and Kraft Foods. This will make them more competitive buyers and may ultimately lead to a structure of a small number of large scale national grocery chains and a number of regional chains. Such a development will be likely to provide the large national retailers with substantial power over the supply chain, comparable to that of the major food retailers in the UK and may lead to a diminution of the relative power of major branded product manufacturers.

Regarding the issues and challenges currently facing the grocery trade, ECR (Efficient Consumer Response) which was prominent a few years ago does not seem to have brought the results which were hoped in the US. Some 50% of US food companies have implemented ECR, at least in part and a further 33% expect to do so by 2000. Many perceive that ECR has not brought about the qualitative changes in trade relations that were hoped for. Furthermore, ECR has benefited the independent sector least.

The perceived potential direct benefits of ECR have failed to trickle down through the supply chain as yet, the perception being that retailers have retained much of the benefits.

The current major concern of the grocery sector is that the percentage of disposable income spent on food for home consumption has been declining in recent years. The supermarket operators are continuing to lose volume to fast food and other restaurants. Home Meal Replacement (HMR) is the major issue of concern to grocery operators who are seeking to regain consumers' spending by providing greater ranges of ready-to-cook and ready-to-serve meals in a variety of ethnic formats. Despite efforts to develop HMR services, the problem being encountered is that HMR from supermarkets is not popular with consumers. However, the potential for growth in this sector is so large, and the consequences of losing consumer spending are so great, that supermarket operators are continuing to seek a solution and retain their customers.

2.2.2 The US Clothing Sector

The top five clothing chains in 1997 were Limited, TJX, Woolworth and Gap, who ranked 24th, 27th, 31st and 33rd respectively in the top 100 retailers in the US. The store formats involved in clothing retailing in the US include department stores, discount department stores, specialists, factory outlets and traditional clothing chains and independents.

Department stores in the US faced some serious problems in recent years and the pressure is still evident. The problem often noted is that in the US the department store is no longer a store where one can find everything. Many department stores in the US have eliminated specific departments such as bridal, electrical appliances and even restaurants, and instead of selling a full range of goods, are merely becoming large speciality stores.

However, while the department stores in general have been losing market share for many years, the larger ones have been performing quite well. Increasingly, it is the discount department stores that have been taking market share from the conventional department stores. Factory outlet centres in the US have been growing but they still have only a small share of the overall non-food market. There is however a market for reduced price items, as is seen by the success of the discount stores.

US clothing retailers have internationalised more than the food retailers. Woolworths was one of the earliest international retailers and although absent in Ireland now, the name is still familiar in Britain. TK Maxx, the clothing discounter, has also expanded into Britain, and more recently, to Dublin.

2.2.3 The European Retail Sector

While, the number of retail outlets in Europe overall has increased through the 1980s and into the 1990s, within individual countries, there have been significant variations in the development of total outlet numbers.

TABLE 2.3: European Retail Outlet Growth Sector, 1992-'97

Country	% Change in Outlet Numbers
Portugal	+46.4
Netherlands	+6.0
Germany	-3.7
Ireland	+2.5
Belgium	+5.1
Norway	+6.6
Austria	-1.3
Italy	-35.6
Denmark	+0.6
France	-1.8
UK	-19.9

Source: European Market and Media Guide, 1999.

Key European markets are experiencing both increases and decreases in retail numbers. The UK, Italy and Germany have witnessed significant reductions in outlet numbers while in countries such as Belgium and the Netherlands, which are also regarded as mature retail economies, there has been significant growth in numbers, arising from both the expansion of 'hard' discounters and niche retailers. In the less well-developed retail economies such as Portugal, retail numbers have grown rapidly, indicating a rapid development in this sector.

Where declining retail numbers are in evidence, it is reported that there has tended to be reductions of outlets in the food sector. This is the case for Denmark, France and the UK. In many countries, non-food retail outlet numbers have increased. In Ireland, as will be discussed later, food outlet numbers have fallen whereas other types of outlets have increased.

The structure of retailing in Europe can be viewed on the basis of three geographic areas. These are:

1. Nordic countries
2. North Mainland Europe, UK and Ireland, and
3. Mediterranean countries

TABLE 2.4: Retail Sales in Europe, 1998.

Country	Retail Sales € billion	Population million	Sales per Capita € '000
Group 1 Nordic Countries			
Denmark	27.79	5.25	5,249
Norway	24.06	4.29	5,446
Sweden	39.69	8.67	4,482
Finland	18.76	5.04	3,641
Group 2 North Mainland Europe, UK and Ireland			
Switzerland	49.08	7.06	6,913
Germany	317.21	81.54	3,866
France	302.86	58.27	5,178
The Netherlands	62.30	15.49	3,943
United Kingdom	257.65	58.70	4,366
Belgium	53.81	10.14	5,278
Ireland	16.05	3.58	4,332
Group 3 Mediterranean Countries			
Italy	329.14	57.27	5,722
Portugal	23.93	9.92	2,405
Greece	24.16	10.47	2,279
Spain	88.16	39.24	2,239

Source: European Retail Handbook, Corporate Intelligence Group, 1999.

It can be seen that the retail market sizes of group 1, the four Nordic countries, are relatively modest. Three of the four largest countries in retail market terms, Germany, France and the UK, are in group 2, while the group 3 countries vary widely in size.

The value of retail sales per capita varies substantially throughout Europe, though some regional trends are noticeable. The highest per capita sales are mainly in the largest European economies, France, Germany, Switzerland and Italy, though Denmark and Norway compare quite well with these.

The remaining Nordic countries, Sweden and Finland, together with Belgium, Holland, the UK and Ireland form a second group, while the Mediterranean regions are in the lower categories. Ireland lags behind other north mainland European countries in a number of aspects of retailing, referred to later in this chapter, which indicates that as the retail structure develops, per capita spending should increase also. The structures of retail in the three areas differ substantially and differ from sector to sector.

2.2.4 The European Food Retailing Sector

In the food sector there is a very high level of concentration, over 70%, in the Nordic countries, a medium level of 40-50% in north mainland Europe, the UK and Ireland, and a low level of less than 20% in the Mediterranean region, as shown in table 2.5.

TABLE 2.5: Food Retailing Concentration, 1998

Country	Market Share of Top 3 Food Retailers 1998
Group 1 Nordic Countries	
Sweden	91%
Norway	86%
Finland	80%
Denmark	69%
Group 2 North Mainland Europe, UK and Ireland	
Belgium	58%
The Netherlands	47%
Germany	43%
UK	53%
Ireland	55%
France	52%
Group 3 Mediterranean Countries	
Spain	20%
Greece	17%
Italy	11%

Source: A C Nielsen and European Retail Handbook, 1999

- **Nordic Countries (Norway, Sweden, Finland, Denmark)**

The Nordic retail structures are dominated by powerful wholesalers and consumer owned co-operatives which have established very efficient nation-wide supply chain operations. This effectively precludes the entry of large scale operators from other countries.

The populations of these countries are small (Sweden is the largest with 9m) and population densities are quite low. In effect, small retailers have little option but to join one of the large national wholesalers to take advantage of the buying power and distribution structures that exist, which increases concentration further. The relatively small sizes of these markets, combined with the highly integrated retail-supply chain structures makes this region relatively difficult for overseas entrants.

- **North Mainland Europe, UK and Ireland**

In this geographic area, concentration in the food sector is growing as shown in table 2.5, though it is somewhat below Nordic levels. The markets in these countries are substantial and are capable of supporting a number of large retail organisations.

For the most part, these food retail markets reached maturity some time ago and competition between retailers is intense. Competition is reducing price levels in food retailing in Germany by about 1% per annum at present. Hard discounters are increasing their market shares.

Major retailers are expanding to other countries in search of increased revenues and profitability. Tengelmann the leading German retailer is active in 11 countries and some 50% of its sales are derived outside Germany. Carrefour the leading French retailer is active in 15 countries and derives some 38% of its sales outside France.

The development of own-label products has been particularly noticeable in Belgium, France and the UK. It is estimated that up to 50% of UK retail sales are now own-label. Some own-label sales are increasing operating margins substantially as will be discussed later. The market share of the top three in Ireland (Dunnes Stores, Tesco and Musgraves) would be higher if the symbol group outlets supplied by Musgraves were included.

From a political perspective, much concern has been expressed amongst consumer groups and legislators in the north mainland European countries, particularly France and Germany, on the levels of concentration and increases therein. There has been much discussion in these countries on the need for increased regulatory powers to limit concentration and on the need to restrict further retail space development, particularly in out-of-town locations. The concern is that high levels of concentration will reduce the level of competition. Proposals to stimulate city centre shopping by extending opening hours are also under discussion.

- **Mediterranean Countries**

In Mediterranean countries, developments in the retail sector have been limited both by the relatively slow pace of economic development and by local regulations, mainly proposed by independent retailers.

Spain's economy has developed rapidly in recent years and this has facilitated both development of the retail sector and the entry of foreign retailers. The effect has been that French companies now dominate Spanish food retailing, and there are concerns within Italy, Portugal and Greece that liberalisation of existing regulatory controls would bring about similar foreign retailer domination and impact on the industries that supply them.

2.2.5 European Non-Food Retailing

- **Nordic Countries**

In the non-food Nordic retailing sectors, developments in recent years have seen the department stores losing out to speciality stores in the middle to up market segments and to the hypermarkets in the lower price segments. Some department stores changed to variety stores offering narrower product ranges.

International retailers are evident in Nordic countries, including major fashion names and franchises such as the Body Shop and, in Denmark, there are some German retailers.

- **North Mainland European Countries**

In this region, non-food retailing has seen a decline in the relative importance of the department store and a move towards hypermarkets and large scale specialist stores such as those focused on segments like DIY, household, or product specialists e.g., Toys 'R' Us. This trend is augmented by the growing impact of international firms in specialist areas, e.g., C&A in clothing and IKEA in furniture.

- **Mediterranean Countries**

In the Mediterranean countries, non-food retailing is characterised by a very large number of small retailers. Traditionally department stores have not been significant in these countries. This is due largely to consumer preferences for small independent stores. However, there are increasing signs of price consciousness in Italy, which may facilitate the development of chains with stronger purchasing power or joint ventures between national and overseas retailers.

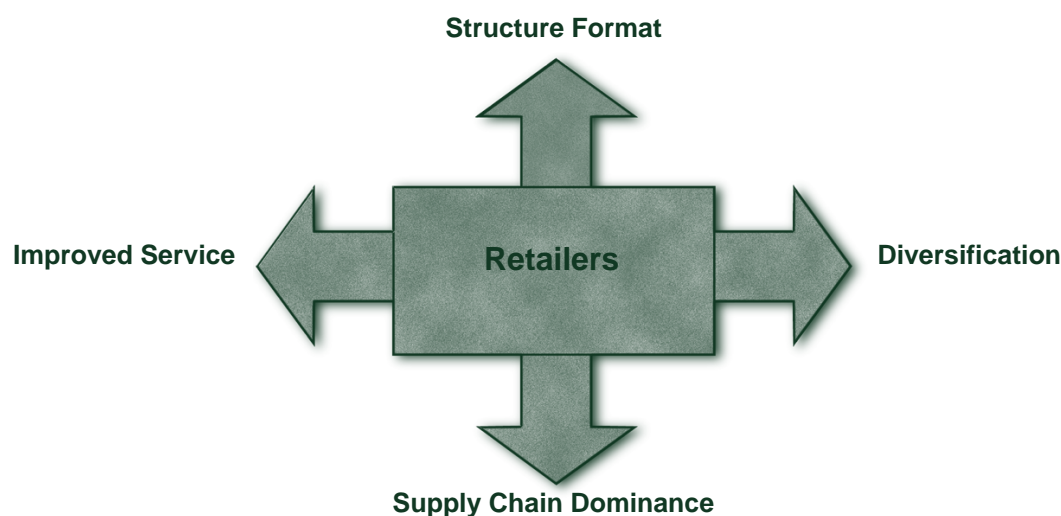
2.2.6 Non-Store Retailing

Non-store retailing was up to recently regarded as a relatively mature retail segment, however, the recent development of the Internet is now regarded as providing significant potential for non-store retailing. There are as yet no clear indications of that potential emerging, but industry sources are confident of substantial progress in non-store retailing over the next two years or so. This is evidenced in Littlewoods announcement in the UK of its plans to divest its chain of 135 stores and focus on the Mail Order business. The Mail Order sector has seen new entrants recently from the traditional retail sector, e.g. Marks & Spencer and the Burton purchase of the Racing Green home shopping company. Companies within the sector have expanded, e.g. Brown has grown through direct customer targeting and with catalogues, aimed at the young fashion-conscious segment. On the other hand, Sears encountered much difficulty in seeking to sell its Freemans catalogue business and in 1997, GUS, the UK market leader, announced its first profit decline in 48 years. Profits declined further in 1998, falling from £161.3m in 1997 to £155.7m.

Industry sources suggest that the key to success in Mail Order may be to abandon the traditional big book catalogue and focus on improving direct customer marketing and developing a range of speciality catalogues.

2.3 Developments in the Retail Sector Internationally

Internationally, the retail sector has been developing in a number of ways simultaneously, as shown in figure 2.1. Overall, there is increasing diversification in retail structures and markets, new formats are emerging, service is improving and critically, retailers are extending influence over supply chains.

FIGURE 2.1: Strategic Directions in the Retail Sector

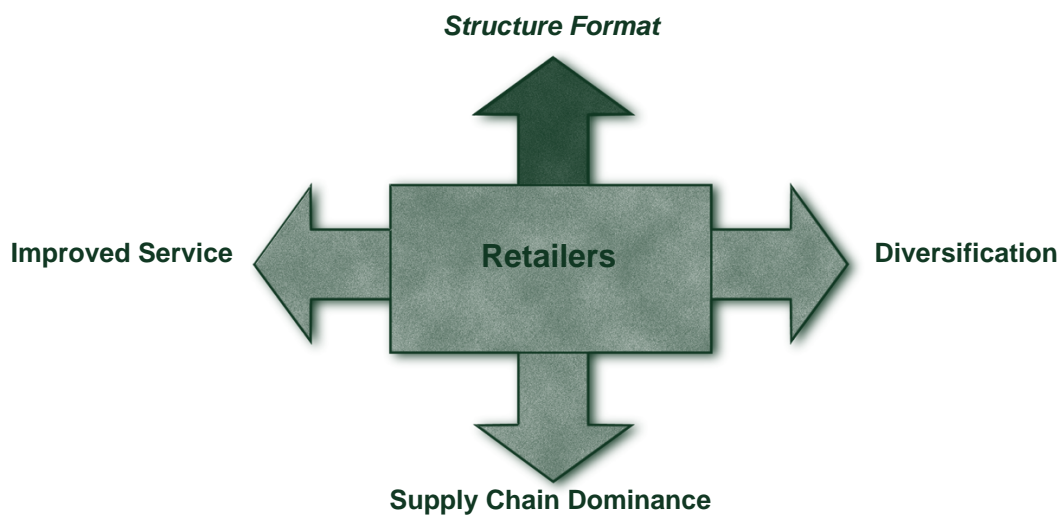
The developments that are occurring are responses to a number of drivers, including:

- Low growth in retail spending by consumers, particularly in the food sector, which is leading to greater efforts on the part of retailers to generate more revenues and better margins. This is a driver impacting on all of the strategic directions shown above;
- More concern on the part of the consumer for value for money, facilitating diversification by retailers into own brand products and discounted ranges;
- Increasing purchasing power of the retailer leading to dominance over the supply chain;
- Changing consumer tastes leading to specialisation in some outlets and more acceptance of international retailers;
- Changing lifestyles which demand improved service levels, more convenient store locations and moves to electronic retailing;
- Consumer shopping and food preparation habits are changing, with a focus on spending less time on shopping and on home meal preparation and move to convenience food purchases;
- Increased consumer mobility which is driving the development of more out-of-town shopping centres and more retail parks;
- Technological advances are driving efficiency gains and the use of IT is enabling new developments in service and marketing;
- Improving customer knowledge is providing better target marketing;
- Regulation that is limiting retail developments and practices is increasing.

The key underlying driver is the desire of retailers to continue to achieve strong growth in sales and operating margins in periods of low inflation, low growth market conditions and changing consumer lifestyles. This has resulted in the four dimensions of development that are examined below.

2.3.1 Structure Formats: The Drive to Size and Specialisation

FIGURE 2.2: Drive to Size



Taking Europe as a whole, the key trends in the retail sector are

- retail companies becoming bigger;
- market shares of big retailers increasing; and
- individual store sizes increasing;

particularly in the food sector, though the trend is also evident in the clothing sector.

Table 2.6 shows the top 20 retailers in Europe, all of which are food or predominantly food retailers. The exceptions are Karstadt and Marks & Spencer.

TABLE 2.6: Top 20 European Retailers

<i>The top 20 retail companies in Europe by total (group) sales, 1998</i>		
		€ Bn
Metro	Germany/Switzerland	46.55
Intermarché	France	34.50
Rewe	Germany	32.32
Promodes	France	32.31
Edeka/AVA	Germany	30.29
Tesco	United Kingdom	27.45
Carrefour	France	27.41
Tengelmann	Germany	27.07
Ahold	Netherlands	26.48
Aldi	Germany	23.72
Auchan	France	22.56
Leclerc	France	21.18
J Sainsbury	United Kingdom	21.03
Casino	France	14.15
Karstadt-Neckermann	Germany	13.54
Delhaize Le Lion	Belgium	12.80
Lidi & Schwartz	Germany	12.50
Marks and Spencer	United Kingdom	12.17
ASDA	United Kingdom	11.05
Kingerfisher	United Kingdom	11.04
Safeway	United kingdom	10.12

Source: European Retail Handbook. Corporate Intelligence Group, 1999.

The trend to larger size and to seek increased turnover has led to mergers and acquisitions in Europe, much as in the US as described previously. However, no major pan-European retailers have emerged as yet. The experience of the US suggests that there is potential for such pan-European entities to emerge, given the greater harmony of EU regulations and the introduction of the single currency. There are issues for potential pan-European retailers such as language differences that may limit the potential for pan-European chains to develop.

In the interim, mergers and acquisitions are occurring throughout Europe such as the planned takeover of the Austrian supermarket chain Julius Meinl AG by the German company Rewe. Rewe bought Billa, another Austrian food retailer in 1996, and the takeover of Meinl would give Rewe a 40% share of the Austrian food market. At the time of drafting the Austrian government has asked the EU to refer the takeover to Austria's own anti-trust authorities. In Italy, Rinascente acquired Colmark Spa, a regional supermarket chain in mid-1998. In Norway, Statoil entered an agreement with two food retailers to operate the shops, fast food and car services at its 1,500 filling stations, while Somerfield in the UK announced it was in merger talks with the UK food distributor, Booker, following on from Somerfield's acquisition of Kwiksave.

The increases in individual company size coupled with low growth markets, have produced more concentrated markets in food retailing, which the recent merger and acquisition activity would have increased still further, as shown by the following data.

TABLE 2.7: Food Retail Concentration Trends

	1992	1995
<ul style="list-style-type: none"> • Germany Market share of top 5 food retailers 	52%	59%
	1980	1995
<ul style="list-style-type: none"> • France - Market Shares Large retailers Small/medium retailers Others 	45% 41% 14%	65% 23% 12%
	1981	1995
<ul style="list-style-type: none"> • UK Multiples market share 	59%	82%

Source: Market Sources, compiled by KPMG

Although the data shown above come from a range of sources and cover different time periods, they nonetheless show a trend towards increased concentration in all countries. These increases in concentration are facilitated by the numbers of large stores in various countries. Table 2.8, reproduced for the most part from the OECD, defines supermarkets as between 400 and 2,499 sq metres and hypermarkets as 2,500 sq metres and over.

TABLE 2.8: Supermarket/Hypermarket Numbers in Europe

Country	Number of Supermarkets	Supermarkets per 100,000 people	Share of food retailing in Supermarkets %	Number of Hypermarkets	Hypermarket Density per 100,000 people	Share of food retailing in Hypermarkets %
Germany	9,831	12.1	32	1,100	1.4	28
France	7,306	12.6	27	1,074	1.9	42
Italy	4,253	7.4	19	182	0.3	5
UK	7,267	12.9	31	733	1.3	24
Austria	1,764	22.0	47	83	1.0	13
Belgium	2,003	19.8	58	98	1.0	18
Denmark	900	17.3	n.a.	18	0.3	0
Finland	1,047	20.6	47	75	1.5	13
Greece	1,521	14.6	67	21	0.2	0
Ireland	550	15.4	n.a.	5	0.1	0
Luxemb.	n.a.	13.5	n.a.	5	0.6	n.a.
Nether.	n.a.	13.8	54	40	0.3	4
Norway	1,343	31.0	63	30	0.7	n.a.
Portugal	613	6.2	25	31	0.3	40
Spain	7,478	19.1	44	221	0.6	32
Sweden	2,063	23.5	59	74	0.8	8
Switz.	548	7.8	n.a.	55	0.8	n.a.

Source: *Paper on the Distribution Sector, OECD, 1997; KPMG*

Care should be taken in seeking to draw significant conclusions from this data because in many countries, retail developments are subject to national or local regulations for planning, which are binding in varying degrees to the development of large-scale retailing outlets. These rules, and not market forces, have played a considerable part in determining the patterns of retail sector structure. Furthermore, the data refers to the numbers of units, not the total shop floor areas and, while two countries may have a similar number of outlets in unit terms, they may differ substantially in retail space terms and it is likely that there has been further expansion in a number of countries, including Ireland.

It is evident from the table that the greatest number of shops are in the countries with the highest levels of retail sales, i.e., Germany, France, Italy and the UK. These countries also have the major share of hypermarkets. However, while Germany, France and the UK have c.14 large retail outlets per 100,000 population, Italy has a ratio of just 7.7, which can be attributed to Italian regulations inhibiting such developments.

Some medium sized markets, e.g., Austria, Belgium and Finland, have just over 20 large outlets per 100,000 people, while Portugal and Switzerland, at 6.5 and 8.6 outlets per 100,000 people respectively, are similar to Italy.

Ireland's retail market is much smaller than many other European countries, and Ireland has a lower population density than many other regions in Europe. Given these factors, Ireland's large outlet number of 553 overall, or 15.6 per 100,000 people appears to compare quite well with other countries. However, the data indicates that there is scope for the development of hypermarket size outlets in this country. Comparisons with countries such as Denmark and Portugal indicate that Ireland could support of the order of 11 hypermarkets. Comparisons with other countries would show much higher numbers but these would relate to larger economies, larger retail markets and countries with greater population densities.

The trend to larger sized outlets is demonstrated in table 2.9, in which superstores and hypermarkets are defined as units of 2,500 sq. meters and over.

TABLE 2.9: Superstore and Hypermarket Numbers in Europe, 1981-1993

Country	1981	1989	1993	Change '81-'93
Germany	821	982	1185	+44%
France	433	743	945	+118%
Italy	12	45	165	+1275%
UK	279	578	861	+209%
Belgium	79	98	98	+24%
Denmark	13	13	14	+8%
Ireland	3	4	5	+67%
Netherlands	4	16	40	+900%
Spain	31	86	157	+406%

Source: KPMG

The data in this table is provided from different sources than the data in table 2.8 and refers to different years. While specific figures differ, the overall scale is consistent with the previous table.

The rates of growth vary substantially. Germany, Belgium and Denmark, for example, appear to be exhibiting significant levels of market maturity, though they continue to achieve growth. France and the UK show substantial growth. Italy and Spain show much greater growth rates but they started from a low base, and while Spain's growth is attributed to a more open economic environment, Italy's growth is in spite of constraining regulations. The data indicates that despite its relatively low market size, Ireland's growth in large outlets has lagged behind its European counterparts. Although the percentage growth is higher than, say Germany, the actual number is minuscule in comparison.

Shop number and floor space data for individual countries is difficult to source and, in some cases, it can be relatively old. For example, data on floorspace in Ireland is available in the 1988 Census of Services, which shows the average size of retail units vary from 1,117 square feet in Dublin to 717 square feet in Connaught/Ulster and the gap

can be expected to have widened significantly since. Data available from the UK shows the growth to larger size units.

TABLE 2.10: UK Grocery Stores by Size, 1992-1996

	1992	1994	1996
Hypermarkets (7,500-15,000 sq.m.)	7	7	6
Hypermarkets (2,500-7,500 sq.m.)	689	779	866
Supermarkets (1,000-2,500 sq.m.)	1,187	1,234	1,235
Supermarkets (400-1,000 sq.m.)	1,632	2,124	2,030
Small Supermarkets (100-400 sq.m.)	7,151	7,699	7,885
Traditional Grocers (<100 sq.m.)	29,054	27,675	27,161
Total Grocery	39,720	39,518	39,183

Source: AC Nielsen Data

While the data in table 2.10 does not show the average floorspace for grocery outlets, it illustrates that the number in each category of size is growing, with the exception of the smallest (<100 sq. m) and largest, (7,500-15,000 sq. m). It also shows the continued decline in total grocery numbers.

The trend to larger size in the retail sector as a whole, is also a factor in the emergence of what is known as 'category killers'. These are retail outlets, usually very large, which offer a specialised product range in great depth but not in breadth, and which offer branded goods at low prices. Examples include Toys 'R'Us, a US firm specialising in toys, and IKEA, a furniture specialist from Sweden. The description 'category killers' comes from the inability of other retailers to differentiate their offering from the specialists and also their inability to provide a competing depth of product range. It is the combination of low price and substantial choice that draws customers away from the non-specialist shop, effectively killing that category for the non-specialist retailer.

While the overriding trend in both food and clothing retailing is towards larger sizes, it should not be inferred that speciality shops will not be successful in the future retail environment. The emergence of forecourt retailing and local convenience stores owes much to a consumer demand for convenience and 'top-up' shopping. These stores meet those needs with stores in convenient locations and extended opening hours. Other specialist retailers such as sandwich bars offer convenience, service and differentiated products and succeed in their respective niches. The continued success of boutiques and specialist clothes shops, based on high service levels is also likely to be ensured in any new retail environment.

The growth of multiples has had a substantial effect on smaller retailers. In Britain, the symbol groups and independent grocers have diminished substantially, while the impact of the multiples on non-store retailing, such as door-to-door milk deliveries, has also been substantial. In the UK, the decline in sales of doorstep milk has been as high as 15% per annum in recent years and was 7% in 1997.

The amalgamation of specialist retailers is one method being used to maintain competitiveness with the multiples. Examples include the planned merger between off-licences Victoria Wines and Threshers, owned by Allied Domecq and Whitbread

respectively, in the UK. The merged entity will have a relevant market share of 14%, marginally lower than Tesco and ahead of Sainsbury's at 12%. The merged company is expected to generate £15 million of annual savings which will boost the current combined profitability of £25 million substantially and should give the off-licences bargaining power close to that of the multiples. However, price competition is not expected to be part of the off-licence's strategy as the multiples have the power to cut drink prices and recoup the losses in other product areas.

Experience from other EU countries indicates that to be successful, supermarkets will need to provide a specialist retail offering which is tailored to the needs of its customers. Many are ensuring that the store on offer suits the needs, size and preferences of local consumers. One example is where Tesco has added three formats to its traditional offering in the UK to suit locations where one of their conventional stores would perhaps not have succeeded so well. The formats are:

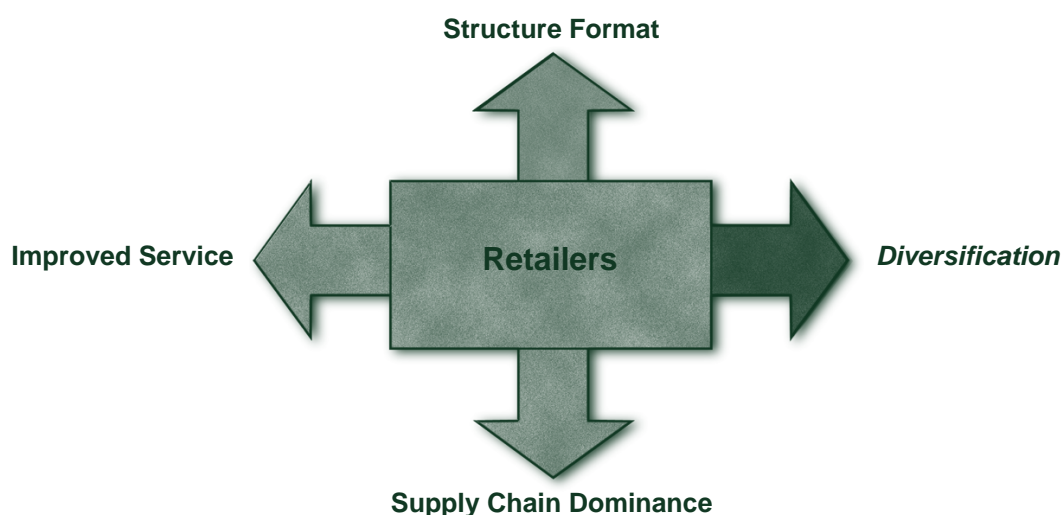
1. Tesco Metro – 'top-up' shops in town centre sites, in sizes ranging from 3,700 to 19,000 sq. ft. Equivalent to small to medium size supermarkets in Ireland;
2. Compact Stores – 16,000 to 26,500 square feet. In edge of town locations or in market towns. These are comparable to many of the largest supermarkets currently in Ireland. They contain the product range and some of the customer services of the superstore; and
3. Tesco Express – stand-alone petrol station and convenience store with wider than usual products including own brands.

This trend in the development of other, often smaller formats is evident elsewhere. J. Sainsbury has developed a forecourt format store, while in Belgium, the GIB Group has recently introduced the 'Contact GIB' store which ranges between 4,000 and 6,500 square feet and carries 6,000 to 8,000 lines, much of them in fresh food and produce. GIB plans to open 35 such stores by the end of 1999.

A Tesco superstore would typically carry 26,500 lines while a Tesco Express would carry just over 2,000 lines. The proliferation of shop formats by multiples has significant implications for others, particularly the independent sector.

2.3.2 Diversification in Retailing

FIGURE 2.3: Diversification



Slow growth in retail sales and the continuing search for new sources of revenue and profitability have driven many retailers into diversification strategies, the second key trend evident in the retail sector internationally. Three types of diversification are apparent.

- Product Diversification
- New Business and
- New Markets

- **Product Diversification**

A trend visible in the food sector has been diversification of food retailers into non-food goods. The majority of large food shops (excluding specialist butchers and greengrocers etc.) and in particular the supermarkets, sell a large range of non-food goods encompassing DIY, household, personal care, garden and entertainment sectors.

The fact that margins are higher on these goods than on food items is the main driver behind this move. In addition, the supermarkets are tending towards becoming one-stop shops and increases in product ranges aid this trend. Recent product diversification moves of note by food retailers in Ireland and the UK include leading brand name clothing and music CDs.

- **New Business**

A strategy adopted by some retailers has been to diversify into other sectors of retailing. Sainsburys of the UK acquired Texas Homecare to develop its Homebase operation. Ahold of Holland and La Rinascente of Italy have also developed into the DIY sector.

Some retailers are developing into the financial services sector. Tesco had an alliance with Nat West Bank and has now joined with the Royal Bank of Scotland to develop a range of financial services including credit cards and life assurance. Safeway has joined with Abbey National to provide an interest bearing account for Safeways' ABC Bonus Card holders, which now number over 5 million. Sainsbury has joined with the Bank of Scotland to provide debit card and telephone banking services. The nature of such alliances is to expand retail banking into existing retail outlets and hence provide potentially significant growth opportunities for retailers operating in mature markets. Superquinn and TSB in Ireland have also formed a joint venture TUSA to provide financial services in Autumn 1999.

There are strong indications that retailers are making a significant impact in the retail financial sector. The Halifax Building Society has announced plans to open its branches on Sundays, apparently to compete with the multiples for savings.

While data from the UK indicates that there is substantial growth in the financial services activities of retailers, in the US there is a debate as to whether such activities will have an impact on traditional bank branches. In a report issued in August 1998, by the Mentis Corporation and MarkeTech Systems in the US, it was concluded that the consumer's response to bank branches inside supermarkets was 'lacklustre'. In the US, the general practice has been for banks to establish branches within supermarkets and it was found that the average set-up cost of such branches is about one-third that of traditional branches. It was also found that supermarket branches' operating costs are about 60% of those of traditional branches. However, the study found that the supermarket branches generate less deposits than traditional branches. Supermarket branches of between three and five years old reported deposits of \$5 million while traditional branches of the same

age had deposits of \$9 million. Supermarket branches of ten years and over had deposits of \$16 million, half that of the other traditional branches. The report concluded that supermarket branches' performance was disappointing. The reasons given were that staffing for extended hours dissipated the operating costs savings and that loans and banking products are not 'impulse' purchases and the high volume of supermarket traffic does not easily translate into more revenue.

The findings of the Mentis/MarkTech report are contested by promoters of supermarket banking who say that one-third of banks operating supermarket branches see monthly profits being generated within the first year. It accepts that supermarket branch performance can vary substantially depending on the strategy used.

There is strong likelihood that established retailer loyalty cards will be developed into smart cards, which, coupled with the offering of other retail financial services, could provide retailers with a very substantial stake in the financial services sector. Smart cards, which are equipped with a chip rather than a magnetic stripe, offer a much wider range of functions, e.g., the electronic purse, a reloadable electronic cash facility operating from special terminals. Smart cards can offer off-line payments at cash registers, saving communications costs. A number of Smart Card systems have been operating in test scenarios in countries such as the UK (Mondex), Belgium (Proton-Card), Germany (Geldkarte), Portugal, Switzerland and Holland.

- **New Markets: Internationalisation**

A further strategy of diversification has been to enter other country markets. Retailers who have internationalised have tended to open stores in a limited number of countries. The home bases of these retailers tend to be mature retail markets such as Germany, France and the UK, and only a small number of the larger chains within these countries have internationalised.

The most common first step in internationalisation has been 'border hopping', that is moving to an adjacent country in the belief that this will be the country with greatest similarities. Common forms of internationalisation have included cross border alliances, mergers and take-overs. Table 2.11 shows the numbers of retailers who had operations abroad in 1991, firstly by country of origin and secondly by country of destination. For example, 44 German retailer companies had operations in other countries, while 112 non-German retailers have stores in operation in Germany.

TABLE 2.11: Internationalisation in the European Retail Sector

Country	National retailers operating in other countries 1991	Foreign retailers operating in named country 1991
Germany	44	112
France	95	113
Italy	14	66
UK	71	142
Belgium	10	128
Denmark	9	35
Greece	0	32
Ireland	9	50
Netherlands	18	99
Norway	18	99
Portugal	3	43
Spain	8	125

Source: Paper on the Distribution Sector, OECD, 1997

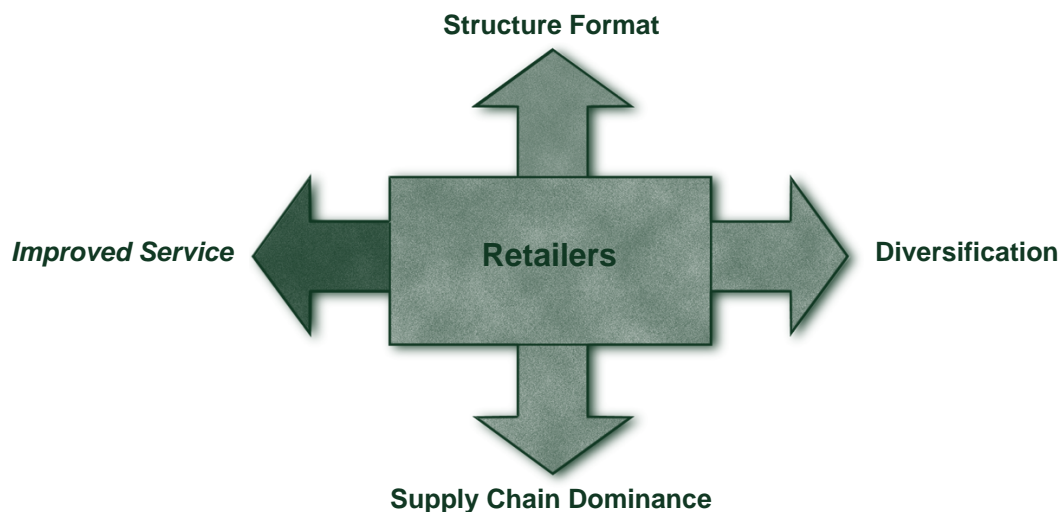
Internationalisation is undoubtedly a major trend affecting both the food and clothing sectors at present. However, what is perhaps more surprising is that the process is not as developed as might be perceived. Few retailers, particularly in food, extend across the whole of Europe and there seems to be a considerable amount of caution involved with any moves. It may be that European retailers may follow the US model in the food sector. In the US, food retailers tended to be composed of strong regional rather than national chains until recently, and the formation of large national chains has just become evident. It may be that in time, pan-European retailers may emerge through takeovers or mergers between regional chains.

The trend towards the internationalisation of major retailers is evident throughout Europe in the clothing sector. Stores which are perceived as brands in themselves such as Benetton and the Body Shop, are truly international retailers.

One outcome of the internationalisation of retailers is the high degree of 'sameness' which dominates high streets throughout Europe. Fashion retailers such as Benetton and Laura Ashley are known to shoppers all over Europe and the suggestion is that the internationalisation of retailing has undermined high street individuality.

2.3.3 Improved Services

FIGURE 2.4: Improved Service



The third key trend evident internationally is that retailers are developing a wide range of improved services aimed at attracting and, perhaps more importantly, retaining customer loyalty. Examples of these improvements in service include:

- Adoption of Point of Sale scanning
- Loyalty cards
- Home shopping and
- Revised opening hours
- **Point of Sale Scanning**

The use of scanning in Europe's retailers has been growing in recent years, though survey data indicates that further scope remains for it to develop.

The advantages of scanning and the key drivers of its expansion are:

- faster, more accurate till operations
- more convenient for customers
- more efficient collection of sales data and
- provides a basis for EDI and ECR.

TABLE 2.12: Market Share of Food Shops Utilising Scanning - 1995

	Marketshare of Shops Scanning
Finland	85%
Sweden	75%
Belgium	70%
UK	70%
Denmark	66%
France	60%
Netherlands	53%
Norway	51%
Spain	48%
Portugal	46%
Austria	41%
Italy	41%
Germany	31%
Ireland	30% (c.60% 1999)
Switzerland	6%
Greece	1%

Source - Euro Handels Institut, Köln, 1995

The relative use of scanning in Ireland is now significantly higher as a result of implementation of scanning technologies by major retailers such as Dunnes Stores, Symbol Groups and Independents over the period 1996-1998, and could be up to 60% by end 1999.

It is evident from this table that in general scanning is more in use in the Northern European countries than in the Mediterranean countries. However, there are notable exceptions to this statement, particularly Germany, Austria and Switzerland.

In the case of Germany, the food market is not growing, the influence of discounters is increasing and, in real terms, food prices have been falling. Historically, profit margins in mainland European supermarket groups have been low relative to Ireland and the UK, (typically 3% in the former compared to 5% to 8% in the latter). The issue of affordability of scanning technologies may be of primary importance to some retailers.

Austria and Switzerland, on the other hand, have high levels of concentration (56% and 75% respectively) but, until recently, have not been subject to international competition to a significant extent. In Austria, a direct consequence of integration with the EU has been a substantial reduction in food prices, e.g., 9% to 15% reductions in dairy products. New foreign competitors are emerging in Austria and it is likely that increased competition will promote the use of scanning and promote further developments in IT use. In Switzerland, there is substantial concentration, based on an efficient distribution structure, and a lack of foreign competition within the country. Swiss food prices are high relative to neighbouring countries that are in the EU and there are estimates that cross border shopping accounts for 7% of Swiss food turnover. It is likely that scanning will develop in

Switzerland also to facilitate a more efficient supply chain.

- **Loyalty Cards**

The development of scanning systems is now being linked more closely with loyalty cards. In the UK, two retailers, Safeway and Sainsbury are developing systems whereby their 13 million loyalty card holders will have access to self-scanning services. Early reviews indicate that there may be significant benefits for the retailer from such systems. The traditional loyalty card scheme provided customers with a gift voucher once they had reached a certain spending threshold, e.g., a £2.50 voucher for every £250 spent. This arrangement could represent a sizeable element of the retailers profits and was not regarded as significant by some customers.

The new systems however, mean that possession of a loyalty card provides access to self scanning, which is potentially a major source of convenience and added value to the customer, and may be valued more highly than the discount arrangement. For the retailer there is a greater incentive for the customer to use the loyalty card, which in turn adds to the retailers database of customer information.

It is interesting to note that while European retailers are developing self-scanning systems where the customers carry the scanners with them and scan the items as they pick them off the shelves. In the US, Kroger, the largest grocery retailer, has developed an express-lane checkout system, whereby the customer scans his/her purchases at the checkout facility. The European system has a particular advantage in that it can prompt or provide special offers to the customer while he/she is shopping.

While scanning systems can provide much sales data, the real value of loyalty card schemes is to allow the retailer to relate purchases to customer buying behaviour, to demographics, lifestyle and geographic profiles. This allows for better marketing by retailers.

There is no published data on the impact of loyalty card schemes on consumer shopping patterns, but individual retailers claim that such schemes provide a significant impact on customer loyalty, which is becoming a key measure for retailer performance.

There is now an estimated 55 million loyalty cards in the UK - Mintel estimates that 74% of shoppers have such cards. Many shoppers hold more than one card, for example, Mintel estimates that 35% of Sainsbury Reward Card holders also have Tesco Clubcards. However, there is no evidence to suggest that stores which do not offer cards as yet are losing out. It is expected that this will change as retailers amass customer data and develop more targeted promotions. Preferred loyalty card benefits in the UK are as follows:

TABLE 2.13: Preferred Loyalty Card Benefits UK, 1997

Discounts at check outs	62%
Spending vouchers for store	47%
Petrol discounts	36%
Spending vouchers for other stores	25%
Donations to charity	23%
Travel promotions	21%
Leisure attractions	19%

Source: *Mintel, 1998.*

It is estimated that about 55% of food shoppers in Ireland have a loyalty card from at least one of the multiples. Dunnes Stores and Tesco in Ireland, both claim to have issued about 600,000 cards. There appears to be a high level of possession of more than one card amongst shoppers. Loyalty cards are perceived as relatively recent introductions to Ireland, though Superquinn's is long established and has been used as a model for similar schemes in other countries. Superquinn is widely recognised as one of the key developers of the loyalty card internationally. Within the retail and supplier segments, there is much speculation as to the future direction of the schemes, particularly the nature and scope of point earning potential and consumer rewards.

Loyalty schemes are also being developed in non-food outlets. In some cases these are being developed on existing store charge cards or affinity cards. Their development is not yet as advanced as card schemes in food retailers.

- **Home Shopping**

Home shopping is of two types:

- non-interactive, comprising teleshopping or catalogues on CD-Rom; and
- interactive shopping which comprises the Internet, Minitel and other on-line services.

It is estimated that as of mid-1998, that 90,000 US households carry out grocery shopping on the Internet and spend the equivalent of \$1 billion annually (equal to £152 per week). EMarketer, a leading US specialist on business online, projects that by 2002, online grocery sales will be \$33.6 billion, or just under 10% of total 1998 US grocery sales. It also projects that online shopping households will increase to 6.9 million by 2002 and that penetration may reach 20% of families in the US by 2007. While appearing to be impressive, the growth rate in online grocery shopping may be surpassed by a number of other retail products, including music, software and films. It is believed that online grocery shopping will encounter relatively slow growth for three reasons:

- there is a need to change entrenched consumer shopping patterns;
- there is a need to provide detailed information on products, including ingredients, nutritional information etc.; and
- the logistics problems associated with delivery.

Peapod Inc. is a fast growing company which entered the grocery business in 1989 with a telephone ordering and delivery service operated through local supermarkets. Peapod subsequently developed into online shopping though continuing to fulfil orders through local supermarkets. In mid-1998, Peapod announced that it was offering combinations of prepackaged dry goods and household items which would be dispatched by courier from central warehouses direct to customers, effectively establishing non-store retailing services to its customers.

Home shopping requires either a collection arrangement or a delivery service and, in the UK, Tesco is providing home deliveries to customers living within the M25 motorway around London. In this scheme, customers can place orders through telephone, fax or the Internet and there is a charge of £5 for the delivery. Iceland, a frozen food retailer, also operates a scheme wherein customers can order by telephone or fax from a catalogue with free home delivery for orders above Stg£40 within a two hour time window specified by the customer. Sainsbury is understood to be backing an independent home delivery service in the London area.

A US model for order fulfilment is Streamline which operates in Boston. Streamline charges customers \$30 per month (£21.42) for a weekly delivery service which includes groceries, laundry, dry cleaning and video tapes. Streamline set up refrigerators in customers' garages so that deliveries can be made to empty households. Orders are received by telephone, fax or e-mail and Streamline is now selling groceries direct from its own warehouse at competitive prices.

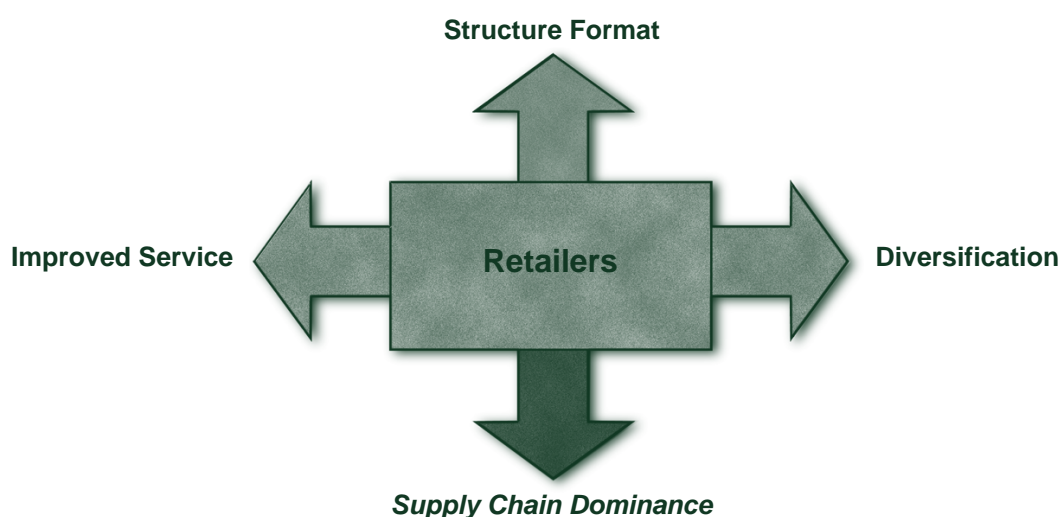
- **Opening Hours**

At another level, improved customer service is being defined in terms of longer opening hours and Sunday trading. There are substantial differences in opening hours across Europe, ranging from Scotland which has no restrictions, to Germany, Austria and Switzerland which prohibit opening on Sundays and restrict Saturday opening. Some major retailers indicate that late weekday opening hours and Sundays can account for as much as 40% of weekly turnover in particular locations.

The experience of Irish retailers is that Sunday trading is now a significant element of the overall trading pattern, though no published data is available to illustrate this.

2.3.4 Supply Chain Dominance

FIGURE 2.5: Supply Chain Dominance



The fourth key international development is the increasing influence over the supply chain by major retailers such as Tesco and Marks & Spencer which has given the retailers substantial control over distribution, while at the same time, ownership of the warehouses and operation of the vehicle fleets is largely carried out by third parties.

The key to the development of dedicated supply networks is having sufficient volume to get economies of scale from RDCs (regional distribution centres) and from the vehicle fleet. The RDC will receive goods direct from suppliers and will schedule deliveries to individual retail outlets.

With the increase in average store sizes referred to previously, goods volumes carried on vehicles from RDCs are such that vehicle capacity utilisation is improved significantly. In addition, deliveries of products can be made on a daily basis and this obviates the need for stores to maintain 'back room' storage space. In the case of clothing shops and department stores in Dublin, it is increasingly the case that all stocks are carried on the shelves or racks and that 'back room' stores do not exist. This optimises the selling space and hence the turnover of a particular premises.

The typical structure of an RDC system is one of:



In many cases, the ownership and operation of the RDC is separate from the retailer, though not always so. In the UK for example, Tesco is understood to own two RDCs while its remaining eight are third party operations.

Sainsbury in the UK operates 18 distribution centres of which eight are operated directly and the remainder are operated by third party logistics specialists. Three of the eighteen distribution centres are specialist frozen food facilities.

The major advantages of dedicated RDCs are that:

- inventory for a number of stores can be centred in one location and therefore kept to a minimum; and
- goods can be delivered to the retail outlets quickly thus keeping inventory levels down within the retail outlets.

There are a number of conditions that must be met however, in order for RDCs to operate at an optimum level.

Firstly, volumes must be of a size that will justify the investment in developing an RDC.

The second aspect of the central distribution is the operation of the retail stores. In the UK, retailers own each store whereas many stores in chains in continental Europe are actually independently owned. Ownership of the retail chain is essential to ensure uniformity of goods stocked and uniformity of IT systems and ordering processes. This implies a very high level of central control, which in turn is reflected in common merchandising practices, common promotional activity and common retail formats.

Thus, in the UK, central contact is very high. All marketing and promotional activity is agreed centrally; merchandising and sales visits by suppliers to individual stores are unnecessary. This central control is done in order to ensure predictable consumer demand and, in turn, to maximise efficiency in the supply chain.

The development of RDCs can have significant implications for manufacturers of branded products, who benefit from cost savings by delivering to RDCs rather than to a number of individual stores, (though many UK manufacturers say that the retailers gained most of the cost savings in subsequent negotiations) but who see a vital loss of control over how the branded product is merchandised and presented to the buying public. While the branded product manufacturers can seek to develop consumer demand through extensive advertising, their control over other aspects of the marketing mix is greatly reduced.

A third aspect of RDCs is the need for suppliers to develop their IT and communications systems to fit with those of the retailer and the RDCs. The supply chain has been engineered so that retailers stocks are kept to a minimum, while out-of-stocks are avoided. This necessitates a well engineered structure in which information flows are timely, rapid and accurate, primarily through EDI.

The fourth aspect of RDCs is the key role of information and the timely transmission of accurate data. Using POS scanning systems and EDI links, RDCs can be advised quickly of sales in individual stores and hence can fine tune the delivery from the RDCs to the retail outlets to minimise stocks at the retail level. The major basis for ordering product is to replenish goods purchased by consumers.

Arising from this, the ex-factory deliveries can be planned to conform as closely as possible with consumer demand and, in turn, minimise stocks at RDCs. The final link in the chain is for the manufacturers to balance production to get the best efficiencies from their production and delivery processes, using the sales data provided by the retailer. This linkage of producer output to consumer demand is effectively a reversal of the traditional 'push' type process wherein manufacturers sought to push output down the line. Instead, products are now pulled up the supply chain.

For branded product manufacturers, this raises issues of generating demand. For all manufacturers, it can mean re-engineering the production process to achieve higher efficiencies with shorter production runs, and often requires balancing the benefits of longer production times with the costs of carrying inventory.

This in turn, means that the system must be driven by predictable consumer demand, which means that promotional activity must be carried out in a planned way and that the effect of promotions, in the form of increased sales must be predicted with a reasonable degree of accuracy, to prevent stock outs or a build up of unused stocks.

- **Efficient Consumer Response (ECR)**

ECR is a co-operative approach amongst all the parties in the supply chain to analyse the value chain from suppliers of raw materials all the way to the consumer to identify opportunities for performance improvement. The ECR approach involves co-operation throughout the supply chain on a range of aspects of the relationships including:

- replenishment of goods throughout the supply chain
- new product introduction
- promotions and
- in-store activities.

The anticipated benefits of ECR are broad. They include:

- **cost reduction** - ECR has the potential to reduce non-value-added activities and also to lower inventory. The financial benefits estimated in the initial US study by Kurt Salmon Associates amounted to around 5% of retail sales;
- **improved timeliness** - ECR promotes better transmission of data and the synchronisation of activities within the value chain;
- **better quality** - ECR enables consumers' expectations to be met in a better way, through higher process and delivery reliability and the avoidance of the degradation of perishable goods;
- **higher levels of customer service** - ECR leads to improved customer service in areas as diverse as the avoidance of stock-outs, the ability to be responsive to particular customer requests and the provision of better designed store layouts and displays;
- **adaptability** - ECR explicitly targets new product introduction as a process to be improved.

In 1996, the European Value Chain Analysis Study, published by ECR Europe estimated benefits of 5.7% of retail sales from the use of ECR strategies.

Despite the variation, there is consensus within the industry that the scale of the benefits attributable to ECR in Europe should amount to some 5% of retail sales.

To achieve the benefits, ECR involves four strategies:

- **improved replenishment** - the replenishment of goods to be carried out with greater efficiency. In the grocery industry in the US the level of inventory within the value chain exceeds 100 days whereas in the UK the figure is less than 30 days, of which about one third, or 10 days stock, is held in the retail outlets. Despite the low level of inventory, UK retailers obtain service levels in excess of 98%. Differences between countries are not only confined to inventory levels, the level of non-value-added activities varies widely as does the inherent efficiency of the physical distribution network. ECR seeks to generate savings by reducing the overall level of inventory and eliminating non-value added activities in the supply chain;
- **new product introduction** - in the groceries market it has been estimated that over three quarters of new products introduced do not subsequently obtain a significant presence. The inherent loss is substantial, both as regards the wasted effort in developing and launching the failed products and in the lost potential sales. ECR seeks to improve the success rate of new product introductions;

- **promotions** - lack of co-ordination on product promotions within the value chain can lead to increased levels of inventory and misdirected incentives. ECR seeks to improve the efficiency and effectiveness of promotions;
- **store assortments** - the joint planning of displays and layouts has been shown to boost sales, providing joint benefits to both manufacturer and retailer. ECR seeks to generate benefits through improved activities.

There has been some uncertainty over the scale of the potential benefits, as these will vary substantially, depending on particular situations. The relatively costly distribution structure in Ireland, alluded to in Chapter 3, suggests that opportunities for performance improvement within the supply chain exists. Furthermore, interviewees consider that scope exists in Ireland for improvements in the areas of new product introduction and in-store activities.

If one extrapolates the Coca-Cola Retailing Research Group estimate of benefits of 2.9% of retail sales onto the Irish food and confectionery market, then one would deduce potential benefits of £124 million in that sector alone. This is less than the potential cost savings of £150 million estimated independently by interviewees in the trade and may indicate that the potential benefits of ECR in the food sector could be more of the order of the 5% financial benefits estimated for the US by Kurt Salmon Associates.

Industry sources in the UK indicate that retailers are only now beginning to drive the development of ECR principles and that no concrete benefits are yet evident. As noted previously, there are some concerns that the full potential benefits are not being achieved in the US, and that the independent retailer may be benefiting to a much smaller degree than major retailers. Nonetheless, one must conclude that should any benefits be achievable, then it is virtually certain that ECR will be developed to a large extent in Ireland.

A number of pilot schemes have been undertaken in Ireland in areas as diverse as laundry products and soft drinks. Through improved category management, the benefits of increased sales values and volumes, improved stock turnover, reductions in total stock levels and reductions in SKUs (stock keeping units) have been achieved.

2.4 Vertical Integration

Examples of vertical integration within the retailing sector are rare and in many cases, what are perceived to be examples are, in fact, cases where retail owners also have interests in certain manufacturing activities.

The concept of vertical integration however requires some consideration of the concept of control without ownership. Developments in the supply chain of retailers such as Tesco and Marks & Spencer have given the retailers substantial control over the distribution and processing system, while at the same time, ownership of the warehouses, operation of the vehicle fleets and manufacturing plants rests with third parties.

In the retail sector much of the changing balances of power in favour of the retailer stems from them extending their influence over the supply chain and few examples of true vertical integration can be identified in Europe. Of those that do exist, most relate to manufacturers seeking to develop retail outlets. An example of vertical integration in the

retail sector that is often cited, is that of Benetton, which operates in excess of 8,000 outlets in over 100 countries. In our view, Benetton is not a retailer but a manufacturer. This view is based on Benetton's ownership of its manufacturing operations while the retail outlets are franchise operations.

In a similar vein, Laura Ashley was a manufacturer initially and moved into retailing in 1967 with a very clear, distinct and focused brand image which has remained quite constant over time since then. Laura Ashley operates over 500 stores internationally and all Laura Ashley products are sold only through those stores. The stores focus on clothing and home furnishing and are a combination of directly owned and franchised outlets.

The view expressed by the retail sector is that other examples of vertical integration by manufacturers will emerge, but will most likely come from specialist manufacturers, who focus on a particular product category, be it in the clothing, fashion, household or food segments, and who will trade mainly through small to medium sized outlets, as they will not have the product range to fill large stores. To be successful, they will need to develop a unique brand image.

There is a conflict of views as to whether stores such as Marks & Spencer, which carry only own-label products, should be regarded as vertically integrated. Such stores are seen by some as exporters of the ranges they carry, and that by concentrating on own-label, they minimise the opportunities for local suppliers. The majority of views is that such stores are not inextricably tied to particular producers, and as such, cannot be realistically described as vertically integrated.

3.0 The Irish Retail Sector

3.1 Summary

- The number of retail outlets in Ireland has grown from just under 40,000 in 1977 to nearly 53,000 in 1998. There has been a significant reduction in grocery shops, which has been more than offset by increases in the numbers of shops providing personal services.
- Within the food sector, there has been a reduction in shop numbers over that period largely amongst the independent general grocers.
- The rate of growth of concentration in the food sector has levelled off in recent years. There is an expectation that concentration will increase as a result of increased competition arising from the recent entry of major UK food retailers into the Irish market.
- The level of own-label food product sales in Ireland is low compared to other countries. There is an expectation that own-label sales will continue to increase in the near future.
- The number of clothing shops has remained constant in recent years. The independent specialist is a significant participant in this sector.
- The direct economic contribution of the retail sector, measured as gross value added (GVA) as a percentage of GDP, has been growing in Ireland in recent years. Comparisons with other countries indicate that the ratio of GVA to GDP does not change significantly as an economy grows.
- Employment in the retail sector in Ireland accounted for 10.8% of total employment in 1998. Employment in the retail sector is high in Ireland compared to other European countries.
- There have been significant trends towards part-time and female employment in the retail sector. As the Irish economy develops, further employment is likely to be created, but it is anticipated that many of the jobs will be part time.
- Retailing has significant linkages within the Irish economy. 50 per cent of employment in food and clothing manufacturing companies which employ 20 people and over, are dependent directly on the Irish retail market.
- Irish retailers compare reasonably well with the performance of UK retailers when quantitative comparisons are carried out. Industry sources are of the view that Irish retailers could be much more competitive in aspects of retailing such as purchasing, category management, logistics management, store management and consumer marketing.
- Likely retail trends in Ireland in the next three to five years include:
 - in the Food Sector
 - An increase in the level of concentration
 - Increases in the size of retail shops
 - Continued increase in the level of own-label products
 - A further reduction in the number of independent retailers

- Development by the multiples of a range of shop formats and sizes to suit local market conditions
- Continued development of forecourt retailing
- Entry of a 'hard' discounter into the Irish market

in the Clothing Sector;

- A modest increase in the level of concentration
- Emergence of further specialist retailers bearing international brand names
- Continued development of department stores trading at the leading edge of fashion
- The development of further retail outlet types including factory outlet centres and retail warehouse parks
- The potential entry of a large scale clothing discounter

3.2 Consumer Spending and Shopping Patterns

The key trends in consumer spending in Ireland in the period 1987 to 1994/1995 are shown in the following table:

TABLE 3.1: Average Weekly Household Expenditure, 1987 and 1994-95

Main Commodity Groups	1987		1994-95		% Increase in Expenditure 1987 to 1994-95
	£	%	£	%	
Food	56.26	25.2	70.75	22.7	+25.8
Drink & tobacco	17.81	8.0	23.85	7.7	+33.9
Clothing & footwear	15.04	6.7	19.92	6.4	+32.4
Fuel & light	14.00	6.3	15.48	4.9	+10.6
Housing	19.66	8.8	30.5	69.8	+55.4
Household non-durables	4.64	2.1	7.26	2.3	+56.5
Household durables	8.75	3.9	11.28	3.6	+28.9
Miscellaneous goods	7.75	3.5	11.89	3.8	+53.4
Transport	30.30	13.6	44.73	14.4	+47.6
Services and other expenditures	48.87	21.9	76.01	24.4	55.5
Total expenditure	223.08	100.0	311.73	100.00	+39.7

Source: CSO Household Budget Survey, 1997.

Overall household weekly expenditure grew by 39.7% over the period, but expenditure on fuel and light, food, household durables and clothing and footwear grew at lower rates. Expenditure on food fell from 25.2% of weekly spend in 1987 to 22.7% in 1994/95. The low growth in the commodity groups listed previously is counteracted by high growth in other groups including housing, household non-durables (which include toiletries and personal care products) and services and other expenditures (which covers a range of

segments including entertainment, education and personal services such as hairdressing and childcare). These trends are not unique to Ireland, but are typical features of growing economies.

The average annual increase in the spend on food was 2.9% over the period 1987 to 1994/95. Analysis of the CSO data for food expenditure highlights particular trends of interest to retailers and producers. These show, for example, that:

- expenditure on fresh meat, poultry and seafood increased by just 1% per annum
- expenditure on fresh vegetables increased at 2.8% per annum, virtually identical to overall food spend
- expenditure on fresh and frozen vegetables increased by 7.4% and 6.4% per annum respectively
- expenditure on prepared food increased at 15.1% per annum, and
- expenditure on hotel and entertainment meals increased by 6.5% per annum.

In summary, the expenditure data shows a shift in consumer expenditure from fresh to frozen products, from basic products to more prepared products and from buying food for home consumption to eating out.

These trends are consistent with current consumer trends to devote less time to shopping and meal preparation and providing more time for family related and leisure activities.

In the area of clothing and footwear, the annual increase in expenditure over the period has been 3.6% on average. There has not been a significant variation within the segments, the highest rate of change being in boy's clothing and footwear which increased at 4.5% per annum and the lowest being girl's clothing and footwear which increased at 3.1% per annum over the period.

3.3 Retail Enterprises, Outlets and Formats

In comparison with other European countries, Ireland has a relatively high number of retail enterprises, as shown in table 3.2.

TABLE 3.2: Retail Business Numbers ⁸ - Europe, 1998

	Enterprises per 10,000 people	Sales per Capita €
Greece	N/A	2,279
Belgium	110	5,278
Spain	142	2,239
Italy	105	5,722
Ireland	76	4,332
France	59	5,178
Netherlands	157	3,943
Denmark	66	5,249
Germany	37	3,866
UK	35	4,366

Source - European Retail Handbook, Corporate Intelligence Group, 1999

It was noted in Chapter 2 that three models can be deduced for retailing in Europe, namely the Nordic model, the North Mainland European model and the Mediterranean model. It was also noted that Ireland did not fit any of these models precisely, but appeared to fall between the North Mainland European and the Mediterranean models.

Table 3.2, which ranks the countries of these two models on the basis of the number of retail enterprises per 10,000 population, confirms Ireland's position between the two models. The Mediterranean countries have a relatively high number of retail enterprises per unit of population, while the North Mainland European countries generally have a much lower ratio. Thus, Ireland is positioned between countries which have consolidated into markets of large scale retailers (in both the food and clothing sectors), with high levels of concentration and where the retailers dominate the supplier base and, countries where modern retailing structures are emerging and where the balance of power in the supply chain is moving towards the retailers.

In Ireland, overall retail outlet numbers have increased since the late 1970s, as shown in table 3.3 below. While the number of grocery and clothing outlets has been falling, this has been more than offset by the increase in the number of other outlets.

⁸ Figures relate to latest year available, which in most cases is around the mid 1990s.

TABLE 3.3: Retail Structure in Ireland

	1977	1988	1993	1998
Grocery (1)	13,780	10,670	9,669	9,181
Pubs/Off Licences	7,286	8,020	8,273	8,642
Other Food (2)	2,588	3,110	2,946	2,857
Drapery/Footwear	-	4,788	4,486	4,259
Restaurants	1,034	1,911	2,603	3,102
Others	15,009	16,207	23,293	24,723
Total	39,697	44,706	51,270	52,764

Source: AC Nielsen, *Retail Census 1998*, Nielsen, Dublin.

1. Includes garages with shops
2. Butchers, greengrocers, fishmongers and bakeries

The growth in total retail outlets has been driven mainly by specialist outlets, such as DIY shops, restaurants, licensed clubs, jewellers and hairdressing salons, and the emergence of retail outlets specialising in new retail segments such as mobile telephones.

The changes in the retail structure in Ireland mirror the shifts in consumer spending noted previously. In the food and clothing sectors, relatively low growth in consumer expenditure, coupled with competition between retailers, has led to a reduction in outlets in these sectors. On the other hand, the increases in expenditure in eating out and on services reflect the growth in restaurants and in other non-food and non-clothing outlets.

One segment within the grocery trade that has shown a notable increase in numbers is garage forecourt shops. These have grown as follows:

TABLE 3.4: Forecourt Shops in Ireland

	1988	1993	1996	1998
Garages with shops	673	979	1,282	1,429

Source: AC Nielsen, *Retail Census 1998*, Dublin.

This growth in numbers of forecourt shops, coupled with the relatively slow decline of 'specialist' food outlets, i.e., butchers, greengrocers, fishmongers and bakeries, supports the view within the trade that food retailers are developing into a structure comprising:

- large general grocery stores;
- smaller sized convenience and 'top-up' shops; and,
- specialist niche retailers such as butchers, greengrocers and fishmongers.

The sizes of the outlets may vary, depending on the size of population being served. While major centres such as Dublin could support a number of large scale food shops, some provincial towns would support perhaps two or three medium sized outlets. The data indicates that the decline in grocery shop numbers is largely attributable to the small, independent general grocery outlets.

Within the grocery sector the number of multiples has remained relatively constant. Many of the forecourt shops noted above are part of symbol groups, which have contributed to the recent growth in this category. There has been a substantial reduction in the independent segment as can be seen in table 3.5.

TABLE 3.5: Retail Grocery Shop Numbers: 1977-1998

	1977	1983	1988	1993	1998
Multiples	141	161	149	160	157
Symbol Groups	1,802	1,715	1,134	1,015	1,152
Independents	11,832	9,694	9,387	8,494	7,872
Total	13,775	11,570	10,670	9,669	9,181

Source: AC Nielsen, Retail Census 1998, Nielsen, Dublin.

The reduction in the number of multiples shown in this table is attributed to the take-over of the L&N stores by Musgraves in 1996 which has been largely offset by the addition of over fifteen new multiple outlets in recent years.

3.4 Food Sector Retail

A key development in food retailing has been the growth in the level of concentration over the past two decades as shown in Table 3.6.

TABLE 3.6: Food Sector Retail Concentration in Ireland

	1988 Market Share %	1993 Market Share %	1996 Market Share %	1998 Market Share %
Top 5%	58	61	68	65
Top 10%	66	70	77	74
Top 20%	75	80	87	84
Top 50%	89	94	96	95
Top 100%	100	100	100	100

Source: AC Nielsen, Retail Census 1998, Nielsen, Dublin.

The level of concentration in the Irish market had been growing consistently up to 1996, but more recent data suggests a reversal of this trend has become evident. This is attributed in the main to the rapid increase in smaller convenience store numbers and competition between the symbol groups, particularly those with small 'top-up' shops, and the multiples. There is an expectation that the growth in concentration will resume, particularly as a result of the expected increases in new shop sizes and the development of out-of-town centres.

Data provided by AC Nielsen for 1998 shows that 91.7% of the multiples' outlets are 5,000 feet or more in size. By way of contrast, the symbol group shops, which have grown rapidly in number in recent years tend to be much smaller. Only 10.3% of these outlets exceed 5,000 square feet. Of the other types of outlets, the independent grocer and garage shops, over 85% of these outlets are of a size under 1,000 sq ft.

The estimated shares of major grocery retailers in Ireland, for 1997, was as follows:

TABLE 3.7: Grocery Retail Market Shares

Multiples	%	Symbol Group	%	Independents	%
Dunnes Stores	21.6	Super Valu	15.0	Independents	15.1
Quinnsworth/Tesco	16.0	Spar	4.0		
Crazy Prices	8.8	Centra	3.2		
Superquinn	7.9	Mace	2.0		
Roches Stores*	1.8	Others	3.6		
Total Multiples Share %	56.1	Total Symbol Groups %	27.8	Total Independents %	15.1
Stores as % of Total Stores	1.7		12.5		85.7

Source: KPMG/Attwood 1998 * Food now supplied through Musgraves

The acquisition of Quinnsworth and Crazy Prices by Tesco in 1997 provides it with a 25% share of the Irish market. The symbol groups have performed particularly strongly in recent years to reach a situation where the largest symbol group, Musgrave's Supervalu and Centra, accounts for some 18% of the retail market. The symbol groups have been successful in competing with the multiples for market share. Together with Dunnes Stores and Tesco these three retail chains control about 65% of the retail market.

In regional terms, there are some market share variations which should be noted:

- The Dublin area is the most densely populated area of the country. It accounts for 31% of grocery turnover but only 16% of grocery stores;
- The multiples are estimated to have an 81% share of the Dublin market as against just over 56% nationally. The share of the symbol groups which is 26% nationally is of the order of 10% in Dublin.

Industry sources expect that competition in the Dublin market will become increasingly intense in the near future, given the scale of the Dublin market in national terms and the level of disposable income in that area. There is also a view in the industry that of all the population segments, Dublin consumers are more likely to accept international retailers and will be more willing to try new products and new retail formats.

Outside the Dublin region, towns are smaller and therefore stores of smaller size are more suitable. It is in such towns that the symbol groups and independents are stronger at present, but are likely to face competition from the introduction of a range of formats by the multiples.

Private Label

Ireland traditionally has not had a high degree of own-label penetration in the food sector compared to other countries as shown in Table 3.8, which relates to 1998.

Table 3.8: Own-label Food Market Share - 1997

Country	Volume (%)
UK	44.2
France	23.8
Germany	18.5
Belgium	40.7
Netherlands	27.4
Ireland	15.0

Source: *International Private Label Retailing, AC Nielsen, 1998, Bord Bia for 1998.*

The growth in own-label food sales has varied for different countries as shown in Table 3.9.

Table 3.9: Growth in Own-label Food Sales, 1996-1997

Country	Volume growth in own-label 1996-1997(%)
Germany	+2.2
France	+1.3
Belgium	+1.0
UK	-0.0
Netherlands	+0.1
Ireland	+0.7

Source: *International Private Label Retailing, AC Nielsen, 1998*

Precise detailed information on own-label sales in Ireland for the overall retail market is not readily available. Industry sources have varied opinions on the level of own-label sales, with many holding the view that Dunnes Stores, through its St. Bernard label is the leader in own-label sales, followed closely by Tesco, with Superquinn developing its own-label ranges rapidly. The industry is watching developments closely to see in which product segments own-label sales are seen to be successful. It is estimated by An Bord Bia that own-label sales are of the order of 15% of total grocery sales at present. Currently, the focus appears to be on the higher value added products such as ready meals, but some fresh food segments e.g., rashers, are now emerging. The pace of own-label development has accelerated during 1999.

One of the key attractions of own-label sales for retailers is the higher gross margins achieved. Industry sources indicate that non-food own-label products generate gross margins in excess of 20% compared to 6% or so for branded products though this saving is not necessarily passed on to consumers in full. Margins on food products vary substantially but are generally much higher on own-label products.

It is anticipated within the industry that own-label product sales will continue to grow internationally, particularly in countries such as Ireland where own-label shares are relatively low. There is considerable uncertainty amongst industry sources as to whether there is a natural upper limit to own-label sales. There is a view that branded products are an essential element of the retail trade, partly as a response to consumer choice and partly to provide comparisons for own-label products. However, some sources note that Marks and Spencer has grown strongly, both in the UK and internationally with a completely own-label range. Some of the views expressed in interviews are that where own-label sales are high, e.g., in the UK, further development will depend on new product introduction e.g., in prepared meals, rather than by replacement of branded products.

There is a consensus within the industry that there is significant potential for own-label sales to increase in Ireland in food products. This is discussed later in section 3.7.3.

3.5 Clothing Sector Retail

The trend in the number of clothing and footwear outlets in the country, excluding department stores, has been as follows:

Table 3.10: Selected Clothing and Fashion Outlets, 1977-1998

	1977	1983	1988	1991	1993	1996	1998
Drapery & Boutiques	*	*	4,117	4,039	3,780	3,798	3,648
Footwear	585	691	671	727	706	638	611
TOTAL	N/a	N/a	4,788	4,766	4,486	4,436	4,259

Source: AC Nielsen, *Retail Census*, 1998.

Since 1996, the number of drapery stores and boutiques has declined by 150 outlets. The number of footwear outlets increased from 1966 to 1983 and from 1988 to 1991. Since 1991, the number of footwear outlets has declined.

The clothing sector is marked by a relatively high turnover of outlets, mainly in the small sized independent boutiques, many of which avail of attractive lease terms in shopping centres. Within the retail trade, there are views that the clothing sector is relatively buoyant at present, particularly at the up-market levels and that the decline in shop numbers indicates that it is existing traders rather than new entrants that are benefiting from the current buoyancy.

The clothing and footwear market in Ireland is dominated by multiples and department stores who have the largest market share and turnover. In terms of outlet numbers, the sector has a significant number of small, independent retailers, the majority of which are family owned and operated.

The major organisations in the clothing and footwear sectors are Dunnes Stores and Penneys, both of which are multiple clothing retailers. They both aim at the lower priced end of the market. Together these two retailers control approximately 40% of the total clothing market. The department stores are also very important in both the fashion and footwear sectors.

In the footwear sector there is increasing concentration with approximately 65-75% of the market controlled by the top seven multiples in Ireland (including Northern Ireland). Some indigenous retailers remain in the footwear sector, but strong competition has emerged from British retailers in their various formats.

Detailed market shares are not available for the clothing sector as in the food sector. The view of industry sources is that the level of concentration is increasing but at a modest rate.

A key factor in the clothing sector retail structure has been the development of shopping centres. Generally, these centres depend on a major food retailer as anchor tenant and other retail units in the centres provide a ready basis for setting up independent fashion and footwear retailers. Shopping centres have provided access to the Irish market for some overseas retailers in this sector.

3.6 The Role of Retail in the Economy

Retail is one of the major parts of the services sector and up to now has been generally a non-exporting one. It is an important wealth generating sector in the Irish economy.

3.6.1 Gross Value Added

The total estimated sales of the Irish retail sector, current prices, were £7.2 billion in 1987 and rose to an estimated £17.9 billion in 1997, the latest year for which data is available. However, in looking at retail's contribution to the economy, gross value added (GVA) is a more useful concept. The GVA of the retail sector in 1997 was estimated to be £2.91 billion. This represented a contribution of 6% to total Irish GDP, a small increase over the 1994 level of just over 5%.

Between 1991 and 1994, the estimated value added of the retail sector grew by 28.5% (in current prices) and by 64% between 1994 and 1997. As a result of this rapid growth, the contribution of retail to GDP rose slightly over this period, even as GDP itself grew very rapidly. The slight increase in retail GVA as a proportion of GDP contrasts with the proportion of GDP accounted for by services as a whole, which fell from 56% in 1991 to 54% over the period to 1997.

TABLE 3.11: Estimated Gross Retail Value Added as a Share of GDP, 1991-1997

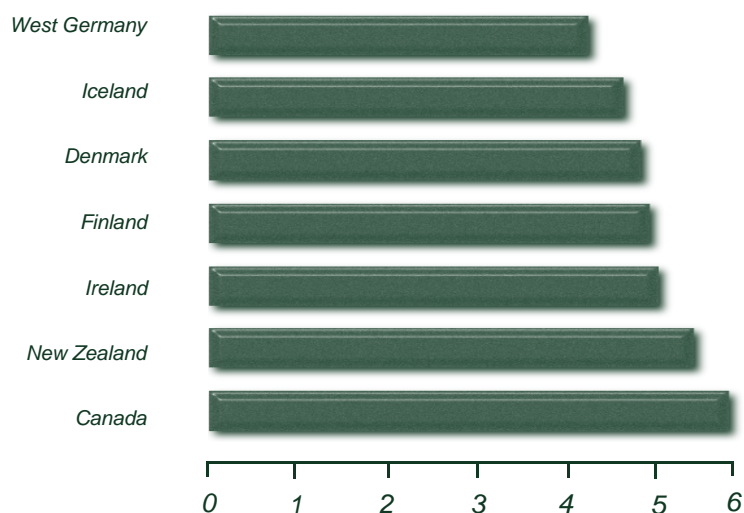
	GVA of Entire Retail Sector as % of GDP	GVA of Three Outlet Types as % of GDP*
1991	4.9	2.4
1994	5.1	2.5
1997	6.0	2.9

Source: Annual Services Inquiry 1991, 1994; 1997 National Income and Expenditure 1998, CSO

*The three types of outlet are grocery; other food, drink, tobacco and newspapers; and footwear, drapery and apparel. This excludes public houses and off-licences; garages and filling stations; and all other non-food outlets. The 1994 data for grocery are merged with other sub-sectors in Annual Services Inquiry. The grocery figure is estimated using the 1991 proportionate breakdown.

A comparison with other countries is set out in table 3.12:

TABLE 3.12: Retail GVA as a % of National GDP for Seven OECD Countries (1992)



Source: OECD Services Statistics on Value Added and Employment (1996), EIU World Economic Outlook (1995), OECD Economic Surveys - Ireland (1995), CSO Annual Services Inquiry (1992)

While the date relates to 1992, this comparison indicates that the level of GVA is relatively constant, irrespective of the stage of development of a country's economy. Amongst the countries shown, the per capita GDP range from \$13,000 to \$21,500 per annum, yet the retail sector GVA varies little. This suggests that as Ireland's economy continues to grow, retail GVA will increase broadly in line with GDP.

3.6.2 Employment

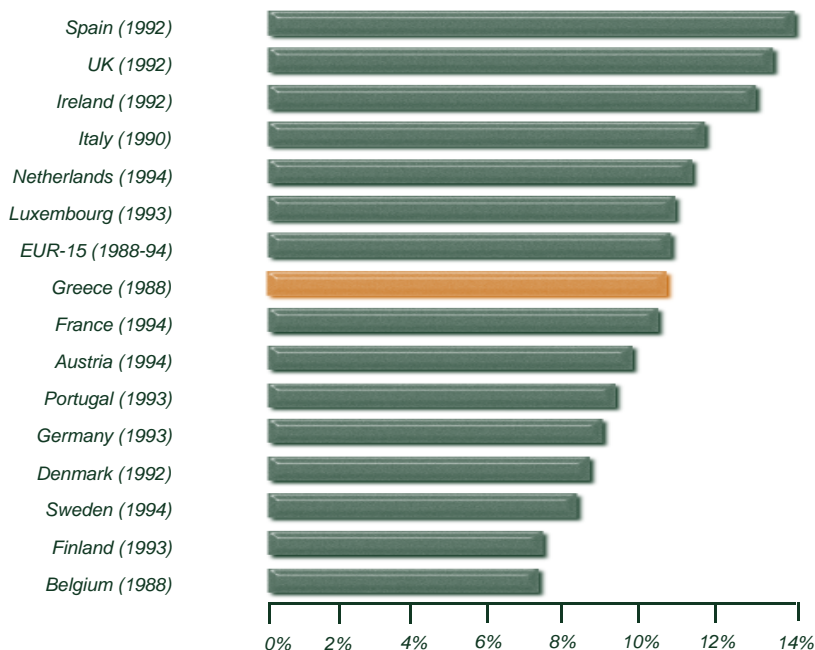
The CSO Quarterly National Household Survey estimated that there were 161,100 people at work in the retail sector in 1998. This relates to all those who perceived this work as their 'usual principal occupation'. Included in the figure are paid employees, employers and unpaid workers (e.g., family members).

The estimated number of people at work in the retail sector rose by almost 15,400 between 1988 and 1997.

The estimated 161,100 people who worked in retail in 1998 represented 10.8% of total Irish employment in that year. This is a slight decrease from the 1988 figure of 11.7%.

Table 3.13 shows the proportion of total employment accounted for by retail across the different EU Member States.

TABLE 3.13: Retail Employment as % of Total Employment for EU Member States



Source: Eurostat, *Retailing in the European Economic Area, 1996*

The table shows a wide variation in the proportion of total employment which is accounted for by retail. While there is not a precise correlation, there is some tendency for richer EU countries to have a lower proportion of their workforce in retail. Reviewing the statistics, Eurostat comments that *'this seems to indicate that the modernisation of commerce (wholesale and retail) that goes hand in hand with economic growth reduces the sector's high employment to some extent'*. However, the UK and the Netherlands have relatively high employment levels, both being above the EU average. This is attributed to a relatively high level of part-time workers in retail in these countries. Based on the Eurostat data above, the share of part-time employment accounted for by retail as a percentage of commercial part-time employment was 42.9% and 52.2% in the UK and Netherlands respectively, compared to Ireland's 36% in 1992 and an EU average of 22.3%.

3.6.3 Full-time and Part-time Employment

There has been a clear movement towards part-time working in the sector in recent years. In 1988, 27% of employees⁹ worked on a part-time basis. By 1998, part-time employees accounted for an estimated 56% of all retail employees.

⁹ This information refers to employees only, i.e. it excludes employers and family members not paid wages or salaries. The CSO

TABLE 3.14: Estimated Breakdown of Retail Employment into Full-time and Part-time, 1988-1997

	1988 %	1991 %	1992 %	1993 %	1994 %	1996 %	1997 %
Full-Time	72.6	68.0	64.5	62.3	59.8	58.8	44.4
Part-Time	27.4	32.0	35.5	37.7	40.2	41.2	55.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Census of Services 1988; Annual Services Inquiry 1991-97, CSO

3.6.4 Male and Female Employment

A second noticeable trend in recent years has been an increase in the proportion of women at work in retail.

TABLE 3.15: Estimated Males and Females at Work in Retail, 1994-1998

Year	Male (‘000s)	Females (‘000s)	Total (‘000s)
1994	70.4 (54.8%)	58.0 (45.2%)	128.4
1995	70.9 (53.1%)	62.5 (46.8%)	133.4
1996	73.0 (53.2%)	64.1 (46.8%)	137.1
1997	73.9 (50.7%)	71.7 (49.3%)	145.6
1998	82.1 (51.0%)	78.9 (49.0%)	161.0

Source: Quarterly National Household Survey, 1994-98, CSO

This table shows that, of the estimated 32,600 extra jobs in retail between 1994 and 1998 20,900 (64%) were taken by women and only 11,700 (36%) by men. If the current trend continues, women will outnumber men in retail employment within five years.

3.6.5 Growth in Female Part-time Employment

Combining the two trends described above, it is of interest to ask how male and female workers in retail differ in regard to full-time and part-time work. Table 3.16 shows how this has evolved in recent years.

TABLE 3.16: Estimated Breakdown of Male and Female Retail Employment into Full-time and Part-time, 1994-1998

Year	% Total Male Employment		% Total Female Employment	
	Full-time	Part-time	Full-time	Part-time
1994	92.3	6.7	69.1	30.9
1995	92.1	7.9	66.9	33.1
1996	91.6	8.4	67.9	32.1
1997	90.4	9.6	67.9	32.1
1998	84.8	15.2	57.0	43.0

Source: CSO, 1999.

Over the period 1994-1997 just over 30% of female retail employees perceived themselves as working part-time, whereas only one in eleven male employees so described themselves. This proportion increased to over 40% in 1998, while the proportion of males working in part-time employment also increased significantly in 1998. Furthermore, there has been a greater increase in the proportion of women working part-time over the period 1994-98 than in that of men.

3.6.6 Wages and Salaries

The last year for which full reliable data exist as regards the total wages and salaries paid out by the retail sector is 1997. For that year, retail wages and salaries amounted to £1.458 billion. This was equivalent to about 6.9% of total wages and salaries paid in the Irish economy in that year up from 5.5% in 1987.

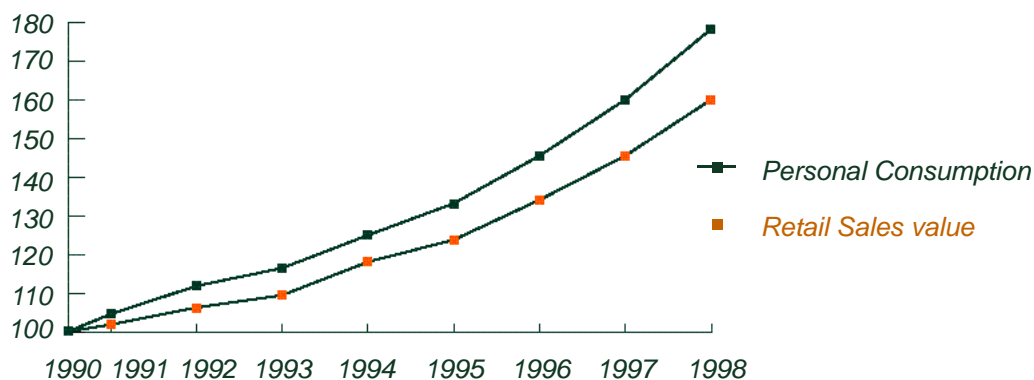
The figure of almost 7% compares to an employment figure for retail of 11% of total Irish employment. The difference between the two is due to:

- the relatively high number of people working in retail who are not paid a wage or salary, i.e. employers and unpaid family members;
- the high level of part-time work in the sector;
- generally lower average wages and salaries in retail than for the economy as a whole.

3.6.7 Retail Spending

The strong growth in the Irish economy in the 1990s has been accompanied by strong growth in personal consumption. In 1996, personal consumption was 45.8% higher than in 1990. As one would expect, this strong growth in personal consumption fed into strong growth in retail sales, which grew by 60% in current prices over the period 1990 to 1996.

TABLE 3.17: Personal Consumption and Retail Sales (Current Prices), 1990-1998



¹ The figure for personal consumption in 1998 is an estimate

Source: *National Income and Expenditure 1999, Retail Sales Index - December 1998 and January 1994, CSO*

The growth of retail sales by less than total personal consumption is due to the items contained in each of these categories. The latter includes items such as expenditure on overseas holidays, entertainment, education and recreation. These have accounted for a growing proportion of Irish personal consumption between 1990 and 1998.

The overall strong retail growth masks different rates of growth for different store types. Within the retail sector, data exist in relation to the rate of sales growth, by volume, for 14 different types of retail outlet, over the 1990-98 period:

- strongest growth was in department stores, which saw growth of almost 45%;
- two outlet types (hardware and electrical goods) saw growth of almost 35%;
- three outlet types (drapery and apparel, chemist and other non-food) grew by between 23% and 27%;
- two outlet types (garages/filling stations and footwear) grew by 16-17%;
- two outlet types had 1996 sales volumes almost identical to their 1990 volumes - public houses/off licences and other food, drink and tobacco;
- three types of outlet actually saw sales volumes fall between 1990 and 1996 - grocery/public house combined, tobacco/sweets/newspapers and fresh meat outlets. The biggest drop related to fresh meat as the multiples and groups increased their share of fresh meat sales and butchers accounted for a declining market share.

These trends are consistent with Household Budget Survey 1994-1995 which showed that while consumer spending rose by 39.7% in the period from 1988 to 1994/95, spending on food rose by 25.8% and on clothing and footwear by 32.4%. By contrast, spending on other services and household non-durables increased by 55.5% and 56.5% respectively.

3.6.8 Purchase of Goods for Resale By Retailers

In 1997, purchases by Irish retailers of goods for direct resale were estimated to amount to approximately £7,315m. The breakdown of these purchases by different types of retail outlets is shown in Table 3.18.

TABLE 3.18: Estimated Purchases of Goods for Resale, 1997.

<i>Type of Outlet</i>	<i>Purchases of Goods for Resale (£mn)</i>	<i>% of Total</i>
Grocery	3,975,488	(54%)
Retail Sale in Non Specialised Stores	443,693	(6%)
Chemists	388,343	(5%)
Textiles and Clothing	508,697	(7%)
Footwear and Leather	83,721	(1%)
Furniture and Lighting	164,603	(2%)
Electrical Goods	367,493	(5%)
Hardware	352,536	(5%)
Books, Newspaper and Stationary	231,661	(3%)
Other Retailing Specialised Stores	718,857	(10%)
Other Retail Sale	79,899	(1%)
Total	7,314,991	(100%)

Source: Annual Services Inquiry, CSO 1997.

Table 3.18 shows that grocery outlets are clearly the largest store type in terms of purchases of goods for direct resale, followed by garages and filling stations. The data refers to total purchases for resale by retail and do not break down as between purchases from domestic and overseas manufacturers.

3.6.9 Domestic Sales of Irish Manufactured Goods

Approaching the link between the Irish retail and manufacturing sectors from the manufacturing perspective, Table 3.19 shows the value of sales by manufacturing firms in Ireland on the Irish market. However, these sales are not necessarily to retailers as:

- manufacturers sell intermediate goods to other manufacturers; and
- manufacturers sell finished products to non-retail customers such as public sector procurement bodies or catering establishments.

As the data is not broken down by type of customer, specific sales by Irish manufacturing firms to the retail sector cannot be identified.

TABLE 3.19: Domestic Sales of Selected Manufacturing Sectors, 1996

	Domestic Sales (£m)
Food, Drink and Tobacco	
- Meat	1,265,048
- Fish and Fish Products	80,878
- Fruit and Vegetables	137,409
- Dairy Products	2,075,412
- Other Food Products	634,731
- Beverages and Tobacco	2,010,173
Textiles and Clothing	
- Textiles	129,012
- Wearing Apparel and Fur	125,682
Total	6,458,345

Source: Census of Industrial Production, CSO 1996

In the manufacturing sub-sectors shown, the proportion of Irish output which is sold in Ireland varies from under one quarter (other food products - a variety of mainly processed foods - and fish/fish products) to over three quarters (fruit and vegetable products and beverages/tobacco products).

3.6.10 Irish Imports of Manufactured Goods

Data on imports further help to build an understanding of where Irish retailers purchase goods. Import data for 1994, 1997 and 1998 relating to food, drink, tobacco, clothing and footwear are shown in table 3.20. This data includes goods used as inputs for further production processes by Irish manufacturers. It is valued at import prices rather than the prices paid by the retail sector.

TABLE 3.20: Irish Imports of Selected Manufactured Goods, 1994, 1997 and 1998

Food, Drink and Tobacco	Value (£m) 1994	Value (£m) 1997	Value (£m) 1998
Meat and Meat preparations	113.0	152.1	172.1
Dairy Products and birds' eggs	100.2	160.3	181.5
Fish, crustaceans, etc.	41.5	54.7	66.6
Fruit and vegetables	268.9	295.3	336.9
Sugars, sugar preparations and honey	80.9	110.4	87.3
Coffee, tea, cocoa, spices and manufactures thereof	131.0	155.8	179.1
Beverages	165.9	225.7	270.1
Tobacco and tobacco manufactures	42.8	50.8	52.3
Textiles and Clothing			
Articles of apparel; clothing accessories	522.2	713.5	802.7
Footwear	190.7	164.6	178.6
	1,657.1	2,084.2	2,327.2

Source: Trade Statistics, CSO, 1998.

The data in Table 3.20 cannot be compared directly with the data in Table 3.19, as the classifications used for the two tables are slightly different¹⁰ However, based on the two tables, and other research undertaken for this study, a number of points can be made about specific manufacturing links to retail¹¹:

- Household consumption of meat accounts for over £800m in Ireland. Virtually all of the fresh meat is sourced from producers in Ireland and Northern Ireland as is the vast majority of meat products.
- In the dairy sector, virtually all of the £250m worth of consumer milk sold annually is sourced in Ireland and Northern Ireland. Less perishable items, such as ice cream and cheeses, are also imported from Britain and other countries.
- The retail market for fish was estimated at about £75m in 1997. Of this, the fresh fish market, accounting for approximately 50% of the retail fish market, was supplied almost exclusively by Irish and Northern Irish producers. The frozen fish market was shared by domestic producers and importers, with imports of prepared and preserved fish significant for some species (e.g. tuna) and crustaceans.
- In the 'other food products' sector, most bread and cakes sold through Irish retailers are made in Ireland. In the biscuits and confectionery product areas, the markets are shared by Irish and UK manufacturers. The vast majority of tea products are produced by Irish manufacturers based on imported tea.
- The proportion of fruit and vegetable products which retailers buy from domestic manufacturers varies considerably by product and season. Some fruit and vegetable

¹⁰ The Census of Industrial Production is compiled using the NACE classifications. The Trade Statistics are compiled using SITC classifications.

¹¹ The Census of Industrial Production is compiled using the NACE classifications. The Trade Statistics are compiled using SITC classifications.

products are, by their nature, imported into Ireland. Strawberries are the dominant soft fruit product and Irish producers have a strong share in the summer months. Data in relation to apples indicate that 8.5% of eating apples sold by retailers in 1997 were imported. The vegetable market (£162m in 1997) has a strong Irish presence for part of the year.

- In the beverages market, the beer market (worth £1.85 billion) is mainly served by Irish manufacturers. The exception is the niche market premium bottled beers, which are mostly imported. Irish manufacturers also have a majority of the spirits market (worth £520m), although this varies by spirit type. Wines (worth about £150m in 1997) are imported. The majority of tobacco products sold in Ireland are manufactured in Ireland.
- Irish clothing firms sell about £100m of goods in Ireland, of which 80% is to retailers. However, this accounts for only 14% of the clothing sold by retailers to consumers in Ireland.

Therefore, while a precise figure cannot be identified for purchases of goods for resale by Irish retailers from Irish manufacturers, it is clear that this multi-billion pound link is of considerable importance to Irish manufacturers.

3.6.11 Irish Market Dependence of Irish Manufacturing Employment

The dependence of Irish manufacturing on the Irish retail market is shown in table 3.21. There are approximately 1,000 Irish-owned food firms in Ireland employing nearly 32,500 people. 640 of these firms employ less than 19, with an average of 7 employees per firm and a total employment of 4,200. Based on the Forfás IEE Survey data, for Irish-owned food firms employing greater than 19, 55% of their output is sold on the Irish market, with associated employment of approximately 16,000. About 40% of firms employing greater than 19 export more than half their production and almost 50% export less than a quarter of their production.

TABLE 3.21: Food and Clothing Sector Destination of Output 1997 (Employment >19)

Sector	Total Employment 1997	Employment in firms > 19	Total Sales £m*	Exports % Sales*	UK Exports % Total Exports	EU Exports % Total Exports	World Exports % Total Exports
Food - Overseas	8,148	8,022	2,270	82%	38%	30%	33%
Food – Irish	33,208	29,243	5,991	45%	42%	43%	29%
Clothing & Footwear – Overseas	2,395	2,334	108	94%	48%	32%	23%
Clothing & Footwear – Irish	6,543	5,560	230	56%	73%	33%	12%

* Sales and Export data relate to firms employing greater than 19 only

Source: Employment Survey, Forfás. Irish Economy Expenditures Survey, Forfás.

In the Irish-owned Clothing & Footwear sector, 44% of output is sold on the Irish market, with associated employment of 2,400 among firms employing greater than 19. 62% of these firms export less than half their output indicating a high dependence on the Irish retail sector as an outlet to consumer markets.

3.6.12 Purchases of Other Goods and Services

This section relates to goods and services purchased by retailers but not sold on to consumers. These fall into a number of categories. While data is not available to quantify these purchases by type of good/service, in 1997, the total expenditure was £1.19m, an estimated 14% of total retail purchases¹². Given the growth of the sector in recent years, this figure is likely to have been over £1 billion in 1996.

These figures relate to purchases of both Irish and foreign goods and services, and there is no breakdown of this. However, the nature of the purchases means that the majority are likely to represent linkages to other parts of the Irish economy.

Rents on Retail Property

Retail rent per square foot varies considerably, with key factors being location and size of retail unit. Sherry Fitzgerald data¹³ for rents in Dublin in 1996 showed Zone A rents (for the part of the outlet closest to the entrance) of up to £170 per sq. ft. in Grafton Street. Of course, Grafton Street rents are untypical as it is an established prime retail location. Average rents for a number of shopping centres around Ireland are shown in Table 3.22.

**TABLE 3.22: Rent per Square Foot
- Selected Shopping Centres (1997)**

Shopping Centre	Location (Sq. ft.)	Unit Size (Sq. ft.)	Rent
Dunnes Stores	Portlaoise	1,020	£6.50
Abbey Centre	Enniscorthy	600	£8.00
Boyne	Drogheda	600	£10.00
Eyre Square	Galway	913	£23.00
Courtyard	Letterkenny	700	£23.00
Tallaght	Dublin	-	£30.00
Crescent	Limerick	750	£30.00
Blackrock	Dublin	-	£40.00
Merchant's Quay	Cork	600	£55.00

Source: Centre for Retail Studies, *The Irish Shopping Centre Digest (1997)*,
Dublin data from Sherry Fitzgerald Research, *Commercial Overview (May 1997)*

¹² Estimated in the CSO's Annual Services Inquiry, 1997, excluding the motor trade.

¹³ Supplied by Sherry Fitzgerald Research

Logistics

The transportation of goods to retail premises is an important retail link to the wider economy. Again, there are no specific data on the value of this link. However, a 1995 report by Goodbody Stockbrokers on food retailing in Ireland concluded that “the cost of logistics in Ireland is higher than for other countries due to a combination of factors”.

Three reasons were given for this conclusion:

- the relatively poor condition of the Irish road network, which increases transport time;
- the low absolute population, which results in a relatively large proportion of groceries being imported;
- additional costs associated with imported goods due to air/ferry freight being more expensive than overland transport.

The estimated logistics expenditure by Irish food retailers as a proportion of turnover is shown in Table 3.23.

TABLE 3.23: Food Retail Logistics Expenditure, Selected Countries, 1991 (% of sales)

Country	Total	Storage	Inventory	Transport	Administration
France	7.2	2.7	2.0	2.1	0.4
UK	5.2	1.9	1.1	1.8	0.4
Germany	6.3	2.9	1.1	2.1	0.2
Italy	6.8	1.0	1.4	3.5	0.9
Netherlands	4.6	1.7	0.6	2.1	0.2
Spain	4.7	1.5	1.5	1.4	0.3
Average	5.8	1.9	1.3	2.2	0.4
Ireland	6.8	1.6	1.4	3.4	0.4

Source: Goodbody Stockbrokers Research, Food Retailing in the Republic of Ireland

If this figure of 6.8% of sales were true across all Irish retail, it would imply expenditure of over £600m in 1991 on logistics services. Of the different logistics expenses shown, most would be incurred in Ireland. For imported goods, some of the transport and storage expenses would be incurred to non-Irish service suppliers.

3.7 Competitiveness of the Retail Sector

The competitiveness of Irish retailers is examined from the perspectives of profitability, productivity and a number of qualitative measures.

3.7.1 Profitability

Retailers in Ireland do not publish profit figures that are comparable to UK and European data. Table 3.24 shows the estimated operating margins for Irish retailers in the context of actual margins for selected foreign retailers. The data on Ireland are derived from interviews with industry specialists and are likely to be on the lower range of the estimate. The estimated operating margins for non-Irish retailers covers the periods 1996 and 1997.

TABLE 3.24 Retailer Profitability, 1997

Company	Country	Operating Margin
Tesco	UK	5.1%
Kwik Save	UK	4.0%
Asda	UK	4.0%
Stewarts	Northern Ireland	2.5%
Irish Retailers	Ireland	3.5% - 5.0%
Carrefour	France	3.2%
Ava	Germany	2.6%
Ahold	Netherlands	2.9%

Source: KPMG from company reports and industry interviews

The UK grocery business has traditionally been much more profitable than other markets. Historically, UK retailers in food recorded net margins of the order of 8% compared to 3% in Western Europe and 1% to 2% in the US. The Office of Fair Trading in the UK initiated a review of the trading practices of the UK multiples to inquire into these high margins. The high margins are attributed to a number of factors:-

- increasing consolidation of retail locations and development of large regional retail centres;
- their large scale which gives them substantial purchasing power and hence the ability to exert significant pressure on suppliers and through below cost selling;
- improvements in logistics in recent years, particularly the development of central distribution;
- the relatively high volumes of 'own-label' sales;
- the addition of non food sales; and
- the relative absence of hard discounters and international competition.

UK multiples are regarded as innovative in retailing practices and the development of new areas such as the introduction of financial services; they are also reported to be increasing spending on IT and on a range of customer oriented programmes such as their loyalty card schemes. The costs of such developments have combined to drive net margins down, as illustrated by the performance of Tesco, the leading UK retailer.

Table 3.25: Tesco Operating Margin (UK)

Year	1993/94	1994/95	1995/96	1996/97	1997/98
Margin %	7.0	6.2	6.2	5.8	5.1

Source: KPMG from company reports and industry interviews

In cash terms however, Tesco's profits have grown in the UK from £600 million in 1994/95 to £912 million in 1997/98, although overall operating margins have declined between 1993 and 1998.

While the major UK grocery retailers have traditionally been more profitable than their counterparts in other countries, an analysis by Deutsche Morgan Grenfell of 1997 results, published in 1998, showed the Return on Capital Employed (ROCE) for various countries to be as follows:

British (6 Companies)	16%
U.S. (9 Companies)	21%
French (8 Companies)	20%
Belgium (3 Companies)	24%

This study showed a similar pattern to other research, that although UK grocers are more profitable than those of other countries, the higher capital investment involved in the UK means that the UK retailers do not necessarily achieve higher returns on investment.

3.7.2 Revenue Per Square Foot

Data collected by the Institute of Grocery Distribution in the UK indicates that turnover per square foot per annum for major retailers is as follows:

TABLE 3.26: Sales per Square Foot - UK Food Retailers, 1996

	Sales Per Sq. Foot per Annum - 1996
Tesco	£1,026
Sainsbury	£972
Safeway	£771

Source: Institute for Grocery Distribution, 1996

There is no comparable data for Ireland. However, published estimates on the major multiples turnover, coupled with estimates of average store sizes, indicates that the turnover per square foot for Irish multiple retailers is between £550 and £700 per square foot per annum. This would put the best Irish multiple retailers close to the Safeway level, but somewhat distant from the Tesco and Sainsbury UK levels. However, population densities are lower in Ireland and there may be wide variations between the different regions in Ireland, and the lower population densities may be a major factor behind the differences shown.

Data for individual retailers indicates that annual growth rates in sales per square foot have varied between 1% and 8% per annum. Industry estimates are that Irish food retailers have performed well in comparison with international trends.

In the Department Stores sector, the leading Irish stores compare favourably with their UK counterparts. The key data for the UK is shown in table 3.27

TABLE 3.27: UK Department Store Sales

Year	Number of Stores	Sales £M	Sales Area 000 Sq. Ft.	Sales £/Sq. Ft
1991/92	50	42,000	21,000	214
1994/95	55	49,602	24,500	221

Source: Corporate Intelligence on Retailing, 1998

This Corporate Intelligence on Retailing survey above covers operations in the UK with sales in excess of £3 million per annum. Irish department stores are generally located in the major population areas and the lower population density in Ireland may be less of a factor in this sector than in the food sector. The figures shown in this section are averages over all stores and for a year. Particular stores in prime locations can exceed these averages by substantial amounts.

Data provided by management of individual department stores in Ireland, that were interviewed during this study, indicates that major Irish department stores have turnovers per square foot which are in excess of the UK levels and in particular cases, are over twice the UK average. The data provided showed turnovers per square foot in Ireland of between £250 and £440. Interviewees expressed the view that the most successful UK department stores in terms of sales per square foot, net margin and sales per employee are the up-market stand-alone stores such as Harrods, Harvey Nichols and Fortnum & Mason. Within the Irish market, the major department stores are more analogous to these stand-alone stores, than to chains such as John Lewis, Debenhams and House of Fraser. Consequently, Irish departments stores would be expected to outperform the average turnover per square foot for the UK industry, given that John Lewis, Debenhams and House of Fraser together have an estimated 57.5% share of the UK department store market.

3.7.3 Employee Costs

Based on CSO data, staff costs in retail in Ireland are as set out in 3.28 below;

TABLE 3.28: Wages and Salaries as % of Turnover

	Turnover	Wages and Salaries	%
Food and Drink Enterprises	6,858,026	626,584	9.14
Clothing Retailers			
Textiles and Clothing	739,223	90,243	12.21
Footwear and Leather	126,452	14,403	11.39

Source: Annual Services Inquiry 1997, CSO

It is difficult to provide substantial amounts of comparable data for Irish and other countries as much of the relevant data for Ireland is not published, and data that is published sometimes includes non-pay items such as redundancy costs. Published staff cost data for a range of stores in the UK is shown in table 3.29. It can be seen that Irish retailers fit into the middle of the following employee cost levels.

TABLE 3.29: UK Employee Costs, 1996

Employee Costs to Sales - 1996	
Kwik Save	6.7%
Iceland	6.8%
Tesco	9.8%
Safeway	9.8%
Sainsbury	11.1%
Marks & Spencer	11.7%
Next	15.9%
Burton	17.0%
Laura Ashley	19.5%
Liberty	21.8%

Source: KPMG from company reports and industry estimates

3.7.4 Productivity Measures

In seeking to compare Irish and other country retailers on the basis of productivity, a number of issues arise:

- The traditional measure of productivity, i.e., volume or units of output per unit of labour input, is difficult to use in the retail sector. There is a number of reasons for this:
 - It is difficult to obtain published data on suitable measures of output other than sales. For example, data on customers served or numbers of items sold is not available in sufficient volume to facilitate analysis;
 - The high level of part-time employment in the sector makes it difficult to measure units of labour input;
 - Employee definitions are not comparable across countries. In the UK for example, employee data can include persons working in distribution centres, whereas employee data for Ireland may not include such staff;
 - Price differentials between countries can distort measures such as sales per employee.
- Other potential measures, e.g., sales per labour hour; wage costs per hour; sales per customer; sales per checkout; wage costs per hour; items per hour; customers served per hour are not measurable using available data.

For these reasons, measures such as employee costs as a percentage of sales and turnover per square foot, as shown above, are used as the best available measures of productivity in the sector.

An analysis of turnover per employee of major retailers in Ireland, in both food and clothing, shows that there are substantial variations within the country.

TABLE 3.30: Turnover per Employee, 1998

Name	Turnover 1998 £M	Employees No.	Turnover £000/Employee	Euros
Dunnes Stores	1,250	9,500	131,579	167,480
Tesco Ireland	810	10,000	81,000	103,101
Primark	360	3,000	120,000	152,742
Superquinn	310	3,250	95,385	121,410
Roches Stores	250	3,800	65,789	83,740
Marks & Spencers	110	1,100	100,000	127,285
Brown Thomas Group	74.6	850	87,765	111,711
Cleary & Co.	38	290	32,500	41,368
Eight to Twelve	65	2,000	32,500	41,368

Source: *Business and Finance*, 1999

Care should be taken in interpreting this data, as employee numbers may include staff engaged in distribution activities, whether in central distribution activities or delivery of household goods to customers.

Notwithstanding these reservations, it should be noted that retail is a service, and that some retailers will obtain a competitive advantage by providing a higher level of customer service than competitors. A higher level of customer service implies a lower level of productivity if the results of an analysis such as Table 3.30 are used. However, if ratios such as staff costs to sales were used, such retailers may be very competitive.

3.7.5 Qualitative and Cultural Measures

In terms of revenues per square foot and employee costs, the gap in competitiveness between Irish and particularly UK retailers appears to be quite small. In terms of profitability, the differences between Irish and UK retailers appears small at present, but this is seen by interviewees as possibly a short term situation.

The relatively high profits of UK retailers is attributed by industry participants to:

- high own-label product volumes among UK food retailers; and
- dominance over the supply chain, which has led to retailer driven cost reductions, portions of which have been retained by the retailers.

If UK practices in the food sector are brought into the Irish market, then, in the opinion of the interviewees, it is very likely that:

- own-label product sales will increase significantly; and,
- retailers will drive the development of a low cost supply chain.

The competitiveness of major Irish food retailers will depend on their ability to respond to these developments. There are views that Irish retailers are competitive in areas which do not lend themselves readily to quantitative measures, such as

- category management
- consumer marketing and
- store management.

There is a view that the relationships between Irish retailers and suppliers have not been as aggressive as those that currently pertain to the UK. There is also a view that UK retailers have much better developed staff training facilities. Some industry sources believe that the staff structures of UK retailers are more heavily weighted to professional staff, rather than shop floor employees, than is the case in Ireland. In particular there is a view that UK retailers have much greater food technologist resources than Irish retailers or Irish suppliers.

In certain instances, Irish retailers' knowledge of their customer bases is regarded as being greatly superior to that of UK retailers. There is also a view that Irish store management is superior to that of the UK retail chains. This view is based on the perception that major UK retailers regard each shop as an entity in a chain supplying a national market and that therefore UK retailers supply similar goods in a similar manner in all their shops. On the other hand, the Irish multiples regard each shop as a separate unit supplying primarily a local market, and the products carried in each outlets are geared to satisfying that local demand. For this reason, there is a widely held view that individual store management in Ireland is of a much higher quality than is to be found in UK retailer chains.

3.8 Future Scenarios

Food Sector

3.8.1 Ownership Concentration in the Food Sector

The acquisition of Quinnsworth and Crazy Prices by Tesco gave it a 25% share of the Irish grocery market. The stores were acquired from Associated British Foods so there has been no change in ownership concentration arising from the acquisition, nor has there been an increase in foreign ownership of Irish retail interests arising from the acquisition. At present control of these operations is effectively being carried out in Ireland rather than being centralised to the UK.

The potential entry of other UK multiples such as Safeway or Sainsbury as they have in the North, into the Irish market coupled with the Tesco acquisition provides a potential scenario of two or more major UK multiples competing with each other and with established Irish-owned retail chains for both market share and profit.

Industry participants consider that if Safeway, for example, expands in Ireland, these two UK multiples could acquire an increased market share for UK owned multiples, but are likely to be competing with each other for specific market segments and are facing strong competition from Irish retailers. Marks & Spencer is not regarded as a competitor to these multiples, although it has announced plans to open new stores in Ireland.

Industry sources regard the possibility of further acquisitions by UK interests as being limited at present, given the planning limits introduced in mid-1998 as their preferred entry mode is through large out of town retail units. Joint ventures between Irish and overseas retailers are regarded as a possibility. The general view is that there is little likelihood of major acquisitions by existing retailers within the Irish market, and that any major future developments will involve foreign interests.

From this it may be deduced that a consensus exists that future changes in ownership concentration will come about from long term competition in the marketplace, and not from merger and acquisition activity between existing market players.

The views expressed in interviews are that Irish retailers are responding to the competitive environment by continuing to develop new services, by increasing efficiency throughout their supply chains and by driving out costs through better stock management, by developing store management and category management skills and by redeveloping their stores. Irish retailer competitiveness depends to a large degree on the cost competitiveness of the supplier and distribution sectors. There is a clear implication that unless Irish suppliers can provide the necessary goods competitively, Irish retailers will extend their supply base to other countries rather than accept an un-competitive position

3.8.2 Food Sector Trends – Size of Outlets

The average size of food outlets in this country is increasing. Further large scale supermarkets are planned to be opened as large scale shopping centres are constructed both on the perimeter of Dublin city and elsewhere in the country, and the majority of these developments will be anchored by a food retailer.

A key issue in any future scenario is the possibility of the introduction of hypermarkets and superstores into Ireland. Both of these concepts require large scale premises. The possibility of the construction of such large scale units is dependent upon planning regulations. A review of these regulations was initiated in 1998 by the Minister for the Environment and Local Government with a cap of 3,000 square metres placed on retail developments pending the outcome of this work, and a cap on the maximum size of new developments has been ordered, pending the outcome of the review.

To date, the tendency in planning has been to attempt to direct development into town centres rather than suburban or out of town locations. Where out of town developments were permitted they were often limited in size.

If Irish retailers are to follow international trends and engage in product diversification, it is likely that supermarkets which intend to do so will need to increase their size. This implies that there may be substantial expansion, probably entailing refurbishment, in existing supermarkets throughout the country in the coming years, so that they can accommodate new product ranges.

3.8.3 Private Brand Development

In Ireland, own-label brands traditionally account for a comparatively small percentage of the food market and have traditionally had an image as being of considerably lower quality than manufacturer brands. This situation is changing now with higher quality retailer brands being introduced into the market. The major retailers are developing their ranges of own brand goods and introducing them into their shops at present.

In the medium term it is likely that indigenous retailers will continue to expand their own-label ranges and increase development and improvement of such products.

The consensus amongst interviewees is that own-label sales in Ireland could increase from the current level of about 15% to the order of 20% to 25% of grocery sales in the near future, and remain at close to that level subsequently. The view is that own-label sales in Ireland will not reach the UK levels of up to 50% of food sales.

The main basis for this view is that many Irish consumers will continue to show a preference for branded Irish products over own-label goods. Irish consumers are regarded as having a preference for higher quality than their UK counterparts and some own-label products developed for the UK are unlikely to gain acceptance in this country. In addition, some observers believe that retailers in Ireland will continue to supply branded products in some segments e.g., milk, which are substantially own-label in the UK

There is much speculation on the likelihood of the introduction of the COD (cheapest on display) own-label category into Ireland. COD is seen as primarily a response to competition from hard discounters, and is not therefore seen as a requirement for the Irish market. However, COD can help to position other own-label products at the premium end of the market, and thus they might help to develop the own-label segment in Ireland. There is no consensus on whether COD products will become a part of the Irish market.

3.8.4 The Future for the Independents

The independent retailers have generally suffered a decline in numbers with the introduction of large scale multiple retailers. However, their problems have also been caused by the introduction of a new competitor, the forecourt retailer. There will always be a place for the independent retailer if they can find their niche in the marketplace.

To do so they may need to differentiate themselves from the larger operators by finding either a geographic area not covered by the multiples, or a product offer not currently available in that location. Some may be more suitable to speciality food stores than general stores. They must be open to the possibility of operating longer hours and providing a high level of service. Their willingness to identify market niches and act upon them will be the difference between those who survive, those who flourish and those who fall by the wayside.

The consensus of opinion in the industry is that, in the medium term, it is virtually certain that the number of independent stores will continue to fall, particularly if the major retailers adopt a range of formats, varying in size to suit particular towns or geographic areas. It is not possible to predict how much the number of independent food retailers will fall by, however, it is likely that increased competition among the major retailers will accelerate the recent rate of decline. This could reduce the number of independents from 7,872 in 1998 to the order of 7,200 by the year 2002, and a continuous reduction in the years following immediately.

Table 3.31 illustrates a potential scenario derived from the interviews held with retail sector interests.

TABLE 3.31: Retail Food Shop Numbers: 1998-2002

	1998	2002
Multiples	157	190
Symbol Groups	1,152	1,300
Independents	7,872	7,200
Total	9,181	8,690

Source: KPMG, 1998

A key element in determining the likely future number of grocery shops, is the impact of Ireland's relatively low population density on the shop sector. Data supplied by AC Nielsen shows that Great Britain has 39,183 grocery stores supplying a population of 58.7 million, whereas Ireland has 9,454 shops supplying a population of the order of 4 million. However, the population density of the UK is 243 people per sq. Km., compared to Ireland's 51 persons per sq. Km. While no formal assessment of the impact of lower population densities on retail outlets numbers has been sourced, it is logical to postulate that low densities will increase the retail shop numbers, though it is not possible to quantify the impact.

Competition amongst the major retailers is likely to have a negative impact on the market share and numbers of small independent retailers in Ireland.

The numbers of symbol group outlets could fall in the face of competition from the multiples, but that some independents will in turn join the symbol groups to maintain competitiveness and consequently the symbol groups will more or less maintain their existing numbers of outlets.

3.8.5 The Future for the Supermarkets

Experience from other EU countries indicates that, to be successful, supermarkets will need to provide a retail offering which is tailored to the needs of its customers. To this effect, it is anticipated that a range of formats similar to those of Tesco, described in 2.3.1 above, are likely to emerge. These formats are:

1. top-up shops in town centre or convenient sites;
2. compact stores in edge of town locations or market town locations;
3. stand alone petrol station convenience stores with wider than usual products including own brands.

It is the potential proliferation of such a range of formats that will accelerate the level of concentration in the Irish market and provide intense competition for the existing independent outlets.

3.8.6 Discounters in Ireland

Although there is a divergence of views regarding the likelihood of Irish consumers accepting the hard discount format, there is no evidence to point to the fact that the format will not be successful and so Ireland is likely to be the target of one or more of the large discounters within the medium term.

The views of interviewees is that historically Irish consumers have not supported the hard discount formats and, in addition, the relative size of Crazy Prices (8.8% market share), which is seen as a 'soft' discounter, indicates that hard discounters are unlikely to succeed in a very competitive market. On the other hand, some industry sources regard it as inevitable that a hard discounter e.g., Aldi, operating in the UK, may seek to enter the Irish market.

If discounting is introduced into Ireland, the experience of other countries shows that it is likely to hit certain sectors more severely than others. These include dry goods, pet food and confectionery in particular. However, as regards competition with established supermarkets, there is not necessarily a direct conflict as, to a large extent, they operate in different sub-sectors.

The traditional supermarkets will still offer well known brands not usually sold in discount outlets. Also, the one stop shopping factor means that many people will still want to do all their shopping in one location and that is more likely to be a traditional supermarket.

Traditional supermarkets are also likely to respond with their own discounted brands and economy ranges, as has happened in the UK.

Case Study - Aldi

In the space of 36 years, the German chain Aldi which opened in the Irish market in November 1999, has risen from the opening of its first shop to become the largest "hard discount" chain in the world, with annual sales estimated at US\$32 billion. Aldi does not disclose details of its financial performance or internal operations. However, a recently published book by a former manager ("Konsequent einfach Die Ald" - Erfolgstory: Dieter Brandes) gives an account of the company and its operations.

Aldi focuses on maintaining a low cost base and its staffing costs are said to be 3% of sales, compared to an average of 13% for other German retailers. Low staff costs are achieved through minimal service and high productivity.

However staff pay is amongst the highest among German retailers - check-out operators memorise product price codes to provide efficient check out service while saving the expense of bar coding scanners. Aldi's low cost formula enables them to undercut nearly all its competitors in terms of price.

An element of Aldi's formula is its relatively small range of product lines. Aldi shops typically carry 600 to 750 products whereas some competitors' stores may carry 20,000 lines and some competing chains may carry 50,000 lines through its various stores. The average product line has sales of about US\$16 million, according to Brandes, giving considerable scope for low cost manufacturing and also providing Aldi with substantial leverage over suppliers.

Several of Aldi's own-label products are manufactured by leading international suppliers such as Nestle and Unilever. Such companies have, in close co-operation with Aldi, developed highly efficient logistics systems, based on moving large volumes of product, and highly effective quality control systems. Both these elements are crucial to retaining consumer loyalty and maintaining a low cost base.

Aldi has expanded internationally, into France, Belgium, The Netherlands, the UK and the US amongst others. The company has shown some signs of expanding its product range in recent years, introducing some frozen food and pharmaceutical lines. These product line developments have led commentators to suggest that Aldi is under threat from competitors offering wider product choices. The product range expansion in Aldi is limited to date and, as yet, does not appear to detract from the Aldi formula of stripped-down, limited assortment retailing with a focus on maintaining a low cost base.

3.8.7 Forecourt Convenience Stores

Forecourt retailing is developing rapidly in Ireland through the development of linkages between petrol companies and symbol groups and the branding of the forecourt shops, e.g., Texaco/SPAR, Shell Select, Mace/Maxol and Tedcastle/Londis.

The development of forecourt retailing is also a key element of the European wide strategy of major petrol companies, who have seen hypermarkets gain substantial petrol market shares in the UK (22.3% market share) and France (48.9% share). The response of the petrol companies involves high levels of customer service, in particular the forecourt shop offering. It is likely that Ireland will follow other European country trends in this regard.

Data from the UK shows that tobacco accounts for 40% of forecourt sales (excluding petrol) and lottery tickets for a further 11%. Groceries account for 10% of forecourt shop sales. The new forecourt facilities are likely to focus on top-up shoppers and impulse buyers, and in urban areas, may develop into convenience stores offering a range of fresh and bakery products as well as traditional groceries.

Clothing Sector

3.8.8 Concentration in the Clothing Sector

In the Republic of Ireland Dunnes Stores and Penneys have a large percentage of the lower end of the clothing sector, while the department stores have traditionally dominated the upper end of the market.

In the short term, concentration in the clothing sector is likely to be linked to internationalisation. Concentration is expected to increase as new retailers from Europe enter the Irish market and generally open a number of stores. These retailers are likely to take up space offered in the large shopping centres that continue to be constructed throughout the country. These shopping centres provide perhaps the easiest opportunities for foreign retailers to obtain large units with car parking, in both town centre and suburban locations.

New shopping centres introduce the opportunity for smaller scale multiples such as Monsoon, Oasis, Next and others to expand throughout the country. As they do this, the process of concentration will continue into the short and medium term.

However, the independent retailers are still strong in this sector, particularly outside Dublin, in smaller towns, and are likely to remain so, though their business volumes will diminish to some degree.

3.8.9 Internationalisation in the Clothing Sector

In Ireland internationalisation in this sector commenced with the gradual movement of mainly UK multiples into the market, with some moving in as concessions within department stores to test the market. However, there has been a rapid influx of UK fashion retailers in recent years, so much so that relatively few indigenous retailers now remain on the main shopping streets of Ireland's largest cities.

Significant UK retailers include Marks & Spencer, BHS, Next plc, Foster Trading Co., Debenhams plc and Burton Group plc. Ireland has also seen the introduction of UK niche retailers such as Tie Rack and Sock Shop, and recently US stores such as Gymboree, specialising in baby and children's clothing.

The proliferation of UK retailers is likely to continue in the short term as more local fashion retailers cannot afford the price competition from foreign retailers for prime high street locations. The spread of retailers from other countries throughout the Republic has been linked very closely with the spread of large and medium sized shopping centres. In almost every large shopping centre constructed in the past five years foreign retailers have opened units. This spread of foreign retailers outside the main cities and into the smaller towns will continue as towns such as Athlone, Sligo and Letterkenny acquire new shopping centres.

3.8.10 Uniformity in the Clothing Sector

As concentration increases and European retailers expand here, the high streets throughout Ireland will continue to develop a significant degree of uniformity. Many high streets in Ireland now include a Next, Principles, The Body Shop, Bennetton, Bally, Dunnes Stores, Penneys or other department stores. It is only the latter three stores that makes Ireland different to the retail mix which might be encountered in almost any English high street.

There may be a move against this trend, with customers perhaps tiring of similar stores wherever they go and seeking out a more unusual retail mix. However, the power of these retailers together is a formidable attraction to shoppers.

3.8.11 Clothing Sector Trends – Specialists vs Generalists

Specialisation has hit the European clothing and footwear sector so that shops can be classed as leisure clothing shops, business clothing shops, up market clothing shops for 25 to 40 year old women and so on.

In other countries many types of specialist store now exist. The first are the concept stores such as Benetton, Bally, Stefanel and Aquascutum, who specialise in a narrow segment, selling mainly luxury goods and relying on their own brands. These have already been introduced to Ireland. Increasing homogeneity of purchasing patterns and culture in general across Europe will support further expansion of these and other international brands.

A trend related to increasing specialisation is the increasing demand for designer label brands some of which are exclusive such as Christian Dior and Gucci, but others such as Levis and Nike are also important. The trend towards buying brands has increased, especially in the casual and sports/leisure clothes and footwear sectors in this country.

The selling of a range of brands at lower than usual prices from factory outlet centres, such as those planned for Killarney, Dundalk and Naas will become a feature of the Irish market and may become a very important element of the future retail mix. The Killarney project has planning permission, but no definite starting dates have been fixed for these outlets.

However, major new competition from specialist retailers is likely to arise in this country in the medium term, if the experience of other countries is repeated here. This will include the introduction of the efficient large-scale discounters such as Wal-Mart. The trend elsewhere has been towards a growing numbers of non-food discount stores which compete in many sectors of the retail market.

3.8.12 The Future of Department Stores

Problems remain for department stores into the late 1990s. The value of their sites may prove to be a considerable attraction for an international chain store. Also, they face considerable pressure from a new concept which has not yet been introduced into the Irish Republic – the discount department store. Stores such as Wal-Mart and Kmart, which are discount department stores in the US, may be opened in this country and this may prove to be a significant competitive threat to traditional department stores.

However while it is most likely that there will be casualties among traditional department stores, they still have significant advantages. Department stores will become even more valued as the sameness of retail outlets spreads throughout Europe as they usually have a unique character and individuality. Industry views are that department stores, particularly up-market stores, have highly developed customer loyalties. By providing a high quality mix of fashion, food (in some cases) and household products, department stores have attractions that neither a range of independent stores nor the clothing multiples can emulate. It is also suggested that the ageing of the population will produce natural customers for department stores.

Furthermore, they do have an advantage over smaller, conventional stores when attempting to provide a new retail mix, as they can experiment more easily with concessions and can have the space to introduce new products or restaurants, and fuller service.

A potential threat to department stores may be the departure of concession holders to independent high street outlets. However, the view of the industry is that this threat is relatively small for two reasons. Firstly, few customers of concession shops restrict their shopping to that one area of a department store. They tend to be customers of the store in general, rather than of the concession in particular. Secondly, leading department stores are reducing the amount of space let to concessions, preferring the direct managed structure.

3.8.13 The Emergence of Factory Outlet Centres

Factory outlet centres comprise groups of manufacturers who trade from individual units on a common site. This is a new distribution channel whereby manufacturers sell their own brand of merchandise at prices significantly below the recommended retail level. High fashion clothing is the most important item sold in most factory outlet centres.

It is probable that there will be an Irish market for factory outlet centres because there are always consumers who are value conscious and do not worry over having last year's lines if they are brand names. It seems likely that Irish factory retailers will construct centres which are similar to those in the US in terms of attractiveness and facilities. Such centres are retail stores in their own right, rather than annexes to factories.

However there is concern regarding the number and size of factory outlet centres that the country could accommodate. It is suggested that the UK is capable of supporting approximately 15 factory outlet centres. In this country it is likely that no more than three to four centres will open. This could be increased, however, if the assumption that manufacturers will not produce lines specifically for factory outlet centres, proves incorrect.

3.8.14 Retail Warehouse Parks

Retail warehousing commenced in the UK as individual retail warehouses and progressed to retail warehouse parks with multiple entry into the market. Growth of retail warehousing has been significant in the UK since the 1980s. The development of retail warehousing in Ireland followed the UK example, commencing with individual retail warehouses and moving on to retail warehouse parks in the early 1990s. There are now five retail parks in the Republic of Ireland and a large number of retail warehouses. There is also a proposed retail warehouse park scheme for Cork and Blanchardstown. These schemes rely heavily on Sunday trading.

It seems likely that increased growth in this sector will be experienced and that at least one further retail warehouse park will be developed in each of the five largest centres of population throughout the country.

4.0 SUPPLY CHAIN IMPLICATIONS

4.1 Summary

This chapter assesses the implications of the changes in the retail supply chain for Irish retailers, suppliers, distributors and consumers and sets out possible strategies and competitive responses for retailers, suppliers and distributors.

4.1.1 Implications for Retailers

The key implication for Irish retailers is the need to develop internal operations and capabilities so as to remain competitive and grow market share in the Irish retail market. Competitive responses need to include:

- Increased investment, innovation and development of new larger stores, or redevelopment of existing stores to facilitate diversification into new products and to increase efficiencies;
- Diversification into new businesses, possibly with joint venture partners;
- Development of more influence and control over retail supply chains and development of supply chain management practices and processes such as ECR;
- Continued development of customer service, including electronic shopping options, home shopping and delivery;
- Extending ranges of own-label products.

These developments will require investment both in new and existing stores, in information technology, and in the relevant people skills and management techniques, to develop the own-label products and exploit new business opportunities.

4.1.2 Implications for Distributors

The distribution sector will see a transformation from the traditional system, where a supplier services a range of stores, to one where a small number of distributors supply a dedicated service to a single chain or a small number of retail chains, giving rise to rationalisation in the distribution sector. This will improve the efficiency and costs of supply to major retailers. It will also have significant implications for smaller retailers, if the diversion of larger retailer volumes into dedicated distributors renders the remaining distribution network of suppliers uneconomic. Alternative competitive structures, e.g., local distribution agencies, based on existing cash and carries, may need to rapidly emerge.

4.1.3 Implications for Suppliers

There is an urgent need for suppliers to assess their ability to meet the requirements of retailers for competitive supply into the future and for a focused agency response to assist Irish suppliers develop their capability, capacity and competitiveness for supply.

Specifically:

- Branded product suppliers need a continuous focus on product innovation, differentiation and marketing to ensure their branded products are 'must carry' lines;
- There is a need for an increase in the capacity of Irish suppliers to supply 'own-label' products competitively, for example, through strategic repositioning, increasing operational efficiencies, increasing scale, reducing product lines, forming value-added partnerships with other suppliers, productivity improvement agreements and training;
- Given the high barriers to supplying existing product lines, significant resources will require to be devoted to proactive new product development, in particular, for own-label products, drawing on the market research of the multiples and national food research bodies and based on international developments;
- Rapid adoption of retailer-determined quality production and management systems is required;
- Information and communications technology systems and capabilities for supply chain and logistics management will require to be upgraded to be compatible with the electronic data interchange and systems requirements of national and international retailers;
- Suppliers will need to undertake a serious review of the economics of their distribution systems and strategies in the context of the move to centralised distribution. It is estimated that almost 50 per cent of food distribution in Ireland may be centralised over the next 3-4 years.

4.1.4 National Implications of Retail Trends

The implications of the expected changes are shown in Table 4.1.

TABLE 4.1: Summary of Implications of Structural Changes in Ireland

Potential Benefits	Challenges/Costs
<p>Retailers</p> <ul style="list-style-type: none"> • Opportunities for internationalisation • Opportunities for niche retailers and concept/lifestyle stores • Higher levels of quality and product innovation from suppliers 	<ul style="list-style-type: none"> • Increased competition in price and quality • Increased pressure on independents • Contraction of distribution infrastructure for independents • Ability to respond to price wars
<p>Suppliers</p> <ul style="list-style-type: none"> • Access to international supply chains of multiples through back loading • Potential for competitive supply in own-label products • Opportunities in cross-group supply 	<ul style="list-style-type: none"> • Increased competition for supply • Increased power of retailers • Capacity for bulk supply a prerequisite • Requirement for innovative product development • Increased pressure on quality and price
<p>Distributors</p> <ul style="list-style-type: none"> • Potential to gain single large contracts for multiples • Opportunities to be Irish partner in international retail supply chains 	<ul style="list-style-type: none"> • Loss of control of supply chain • Job losses of up to 2,000
<p>Consumers</p> <ul style="list-style-type: none"> • Increased price and quality competition • Increased choice and convenience • Increased service and added value services such as loyalty cards 	<ul style="list-style-type: none"> • Social costs from the closure of independents in small towns, villages and rural Ireland • Growing level of sameness in retail outlets
<p>Nationally</p> <ul style="list-style-type: none"> • Benefit of £150m from increased efficiencies in distribution • Dampened inflation by up to 3% incrementally • Increased investment in new and existing outlets • Significant increase in technology deployment in the sector • Potential for early leadership in electronic retailing 	<ul style="list-style-type: none"> • Repatriation of profits • Possible job losses resulting from productivity gains and centralisation of functions • Growing level of sameness on streets/threat to tourism

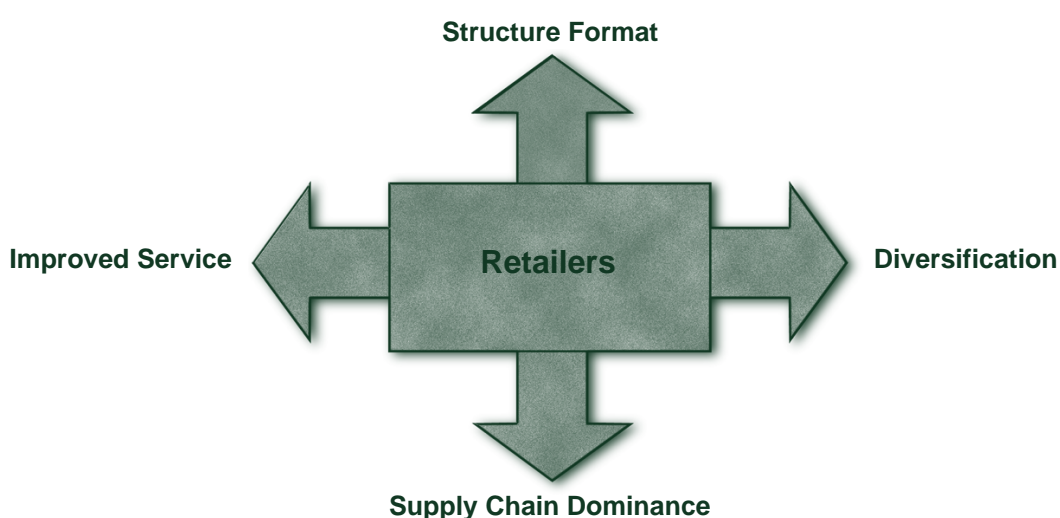
4.2 Implications for Retailers

Introduction

This Chapter assesses the implications of the major changes in retail supply chains for retailers, distributors, suppliers and consumers.

In Chapter 2, the current trends in retail development internationally were discussed. It was noted that developments in four directions are taking place simultaneously. These are in the structure and formats of retailing, in diversification, supply chain dominance and improved service, as illustrated in Figure 4.1.

FIGURE 4.1: Retail Strategic Directions



The implications of these trends for retailers in the context of the current and future scenarios in Ireland are discussed below.

4.2.1 Trend to larger size and specialisation

The trend to larger sized retail units was noted in Chapter 2 above and the statistical data presented in this report shows scope in Ireland for the emergence of larger sized retail units comparable to those in other European markets and also for the development of the range of formats, to suit particular local markets.

Retailers in Ireland will need to continue to develop a retail structure that will enable them to be successful. For large retailers, particularly in the food sector, this is likely to require investment in new larger stores and a refinement of existing stores, perhaps into a range of formats to suit the market needs of their various locations.

At present, developments in Ireland, particularly very large retail units, are controlled by the planning regulations. These regulations mean that establishing hypermarkets or very large stores are unlikely to be developed in Ireland in the short term at least. This will mean competing with the existing stock of retail units and redeveloping these units as required, together with developing new stores, some of which may be considered to be sub-optimal in size.

At the other end of the scale, opportunities will arise for specialist retailers to emerge to satisfy new consumer needs. A key driving force in the current retail environment is the desire for convenience which is satisfied in a number of ways including:

- easy to access locations;
- extended opening hours;
- prepared foods and ready to serve meals;
- increased range of disposable products; and
- increased range of services offered by retailers.

Specialisation is increasingly evident in the fashion, clothing and footwear sectors, in particular through focusing on customer segments or lifestyles. Specialisation is also apparent in personal service retailing, with new prepared food formats for example. New product retail opportunities are also emerging, such as retail telephone shops, a concept that may not have been foreseen some five years ago.

Retailers will increasingly need to sustain high levels of investment into the future and continue to expand in new locations.

The trend to larger sized retail units has implications for the retail supply chain. It is likely to mean that the total number of outlets to be serviced will fall, and that volumes being delivered to the larger units will increase. At present many large stores suffer from delivery congestion to varying degrees. Increased volumes of goods are likely to lead to the pre-consolidation of loads, which will drive the distribution structure in Ireland further in the direction of the structure in the UK, which is heavily dependent on centralised distribution.

For the general public, the key implication of large retail units would be the opportunity for retailers to increase their product ranges and provide 'one stop' shopping.

Industry sources indicate that an increase in retail unit size, and a corresponding increase in shelf space will be used to expand the product ranges offered, rather than to provide more shelf space for existing products, thus increasing competitive pressures on suppliers.

4.2.2 Diversification

The trend of diversification in the retail sector is creating new competitive pressures as the leading retailers engage in:

1. diversification into new products;
2. diversification into new business; and
3. diversification into new markets.

The major constraint on diversification by retailers into new product areas is the availability of shelf space to carry and merchandise those products. This may require either a rationalisation of existing products and replacement with new ones, or the addition of new retail space. In general, diversification into new products has the least barriers to entry of the three options as it implies little change to existing structures, either to the stores or to the buying and logistic structures. Where space constraints exist for retailers, the development of larger stores may need to be considered to facilitate diversification into new products.

Diversification into new businesses, such as the move by retailers in the UK into retail financial services is more difficult, as it generally requires a different range of skills and capabilities on the part of the retailer. Such skills can be acquired through joint ventures with other parties as it can significantly reduce barriers to entry and can open new markets for both partners to the joint venture.

While the diversification by retailers into financial services in Ireland is already underway, there is doubt in the industry as to the likelihood of UK retailers offering financial services in Ireland from their UK base, unless and until Britain joins the European Monetary Union and exchange rate risks are eliminated. Irish retailers will probably eventually provide a range of retail banking services, most likely as agents for retail banks.

Internationalisation by retailers and diversification into other countries can be problematic as it may often require a host of new suppliers and new supply chains to be established, as well as identifying the needs of consumers in the new locations. Retailers overcome these problems by encouraging existing suppliers to supply their international operations.

Some Irish retailers have already engaged in overseas diversification, such as Dunnes Stores in Great Britain, Musgraves in Spain and BWG in the UK, and by specialist clothing and food retailers into the UK also. The Irish pub theme is developing strongly in Europe. It indicates that an attractive retailing concept can develop overseas and can develop as outlets for exports of manufactured products. E-commerce is also providing opportunities for internationalisation

Diversification into new business areas or new markets generally require that existing operations are of sufficient scale and competitiveness to support the new businesses. Irish retailers do not compare in scale terms with major retailers in Europe and therefore may be at a disadvantage in seeking to develop such opportunities and will need to differentiate their retail offering.

4.2.3 Supply Chain Dominance

Supply chain dominance by retailers has not developed as strongly in Ireland as it has in the UK. While there is evidence of Irish retailers formulating and implementing more sophisticated supply chain management strategies as a means of developing competitive advantage, it is likely that the entry of foreign retailers to the Irish market will accelerate this trend.

Supply chain dominance comprises a number of elements including:

1. Centralising all commercial contacts between suppliers and retailers; and
2. Electronic ordering of deliveries to centralised distribution centres or consolidators.
3. Enforcing unique quality, food safety and logistics requirements; and
4. Developing a detailed knowledge of the supply chain dynamics and cost structure.

There are a number of views within the industry of the potential nature and scope of centralisation of retailer/supplier contacts.

In relation to store operations, the view is that Irish retailers have generally allowed individual stores to tailor themselves to local markets, and thus Irish stores have developed strong shop management skills. UK retailers on the other hand treat each store

as a 'standard' unit serving part of a homogenous national market. A key issue is the extent to which individual stores in UK-owned chains in Ireland will retain the level of uniqueness found heretofore. This will depend on the style of retailing the Irish consumer will demand. Should the Irish consumer accept the UK format, then it is likely that highly centralised structures will emerge. However, industry sources point to the recent establishment of a butcher's counter in a major UK retailer in Ireland as an indication that UK retailers will have to adapt to Irish consumer demands, rather than importing UK formats. It is expected that commercial contacts between suppliers and retailers will be increasingly centralised. The impact of recent UK entrants has been to accelerate this trend.

The supply chain structure that exists in the UK:

- provides a cost advantage over the structure that still exists in Ireland; and
- reduces suppliers' input on how their goods are merchandised.

There is a strong expectation that major Irish retailers will seek to derive the benefits of a more efficient distribution structure. This will have implications for some Irish suppliers, particularly agents of branded products which are manufactured outside Ireland and which are currently supplied to the UK chains. The opinions expressed in interviews is that UK retailers are very likely to regard Britain and Ireland as a single market and seek to supply that market on a 'single source of supply' basis where possible, while Irish retailers will extend their supply bases beyond Ireland if competitive pressures force them to do so.

If Irish retailers are not to place themselves at a cost disadvantage with other retailers, it will be necessary for them to develop new supply structures and to change the nature of their relationships with suppliers. It will also require the development of appropriate sales forecasting and ordering systems to facilitate efficient operations in a new structure, which may require investment in IT systems and development of in-house skills. These developments have been taking place within the retail sector. Irish owned multiples and symbol groups have been piloting developments in Efficient Consumer Response (ECR) and other supply chain improvements in recent years.

The challenge for convenience stores and independents will be to develop and maintain a competitive national logistics infrastructure, to enable them to maintain competitive positioning with the multiples.

The key issue in relation to the convenience stores and independents is what will happen to the logistics infrastructure in Ireland. The expectation on the part of industry sources is that dedicated distribution channels serving the multiples are likely to emerge. At present, many suppliers deliver to multiples and small outlets using the same vehicles. If large volumes of goods are transferred to dedicated multiple vehicles, the economics of the remaining volumes are questionable.

In recent years, some Cash & Carry operations have been undertaking local deliveries of products to independent shops. There is a view in the industry that this role may develop in the near future and that Cash & Carry outlets may in effect become local consolidators for a range of grocery products, serving a local geographic market.

In the clothing sector, the key element of retail strategy will be to develop in line with changing consumer tastes, particularly in the demand for internationally recognised brand names, while developing loyalty in the customer base.

A key aspect of dominance over the supply chain is the drive by retailers to eliminate costs from the chain. In the UK, there is an on-going process of reducing the number of suppliers to major retailers. This not only reduces the administration needs of the retailers and reduces costs, but it also develops larger scale suppliers who can in turn obtain lower costs in return for higher volumes from their material suppliers e.g., packaging materials. For retailers, consolidation of the supplier base can be an effective way of reducing supplier input costs which can be then retained by the retailers by way of additional profit margins or passed on to customers by way of lower prices.

4.2.4 Improved Service

Improved service covers a range of options from providing home shopping facilities to price competition. In this respect, Irish retailers in the food sector have initiated certain developments in the recent past, including home delivery. However, it is in the areas of

- price competition; and
- provision of own-label products;

that retailers in Ireland are likely to face major competitive pressures.

- **Price Competition**

Price surveys covering more than one country are very difficult to carry out as there are a range of factors which can cause price differences. Currency differentials can impact on the findings of surveys carried out at different times. VAT rates can vary on some of the goods contained in the 'shopping basket'. Pack sizes can vary; the impact of specific promotions can distort results; the alcohol content of beers can vary, which can affect excise duties; and a whole host of factors specific to some products can make reliable comparisons different.

A range of surveys were carried out by the Sunday Times in 1995 and extended to Ireland by Goodbody Economic Consultants and by Checkout magazine. The early surveys showed a substantial differential in retail selling prices of own-label goods between Irish-based and UK-based multiples. At the time there was very little differential between the currencies, the survey related to own-label products only and where VAT may have been applicable, e.g., on non-food items, no adjustment was made. The overall conclusion of these surveys in 1995 was that a basket of own-label goods in the UK cost an average of 38% less than a similar basket of own-label products in Ireland.

An extension of the previous survey was then made by Goodbody's on branded goods, which identified a differential of 12%, much smaller than in the own-label category and one which could be partly explained by the transport costs of bringing goods to Ireland. As in the previous survey, no correction was made for currency differentials or any VAT implications.

Discussions with industry participants indicate that price differentials between the UK and Ireland, particularly for branded products have narrowed since this survey was carried out. This has arisen from two sources:

- (a) UK retailers selling goods in Ireland at the same price in punts as the good is sold for in sterling in the UK, i.e., a coat priced at Stg£159.99 in London being sold for IR£159.99 in Dublin. Irish retailers have adapted their prices to compete with these levels.

(b) The development of direct imports by some Irish multiples, mainly in the food and drink sector, and the potential for Irish multiples to source branded products from Britain and Northern Ireland where price differences exist.

Some recent surveys, including by RGDATA in September 1999, have shown that Irish food prices are now lower than those of the UK and may reflect the increasing competition in the Irish market, despite the recent strength of sterling.

The recent surveys indicate that there is limited scope for importing price reductions in branded products, but some scope may exist in the area of own-label goods.

- **Own-Label Products**

Given the volumes of own-label sales in the UK of over 40% of grocery sales, it is inevitable that Irish retailers will face strong competition from UK retailers in this area. Should the UK multiples rely on existing suppliers, there is likely to be a price gap between Irish own-label products, which suffer relatively poor economies of scale compared to imported products.

Irish retailers will be faced with the choice of meeting the challenge by developing counter offers or suffering a permanent disadvantage. To achieve competitive price levels, if Irish retailers cannot source products competitively in Ireland, they will be compelled to source products direct from other countries, which may offer better economies of scale and more efficient production.

To develop a range of own-label products, Irish retailers will also have to develop in-house product specialists and quality control functions as own-label products increase in quality and market position.

Industry sources expressed the view that own-label range development will be important not only for the multiples, but also for symbol groups and that in the new competitive environment these products will have to be competitive not only on price but also on quality and product presentation.

Price competition in branded products will have to be met through competitive buying and, in effect, will increase pressure both on suppliers and the retailers to reduce costs.

4.2.5 Summary

In summary, the strategic options for major Irish retailers facing international competition include:

- to develop larger retail outlets containing more diversified product ranges;
- to seek new business opportunities;
- to develop their product ranges, particularly in own brand products in the food sector;
- to monitor and keep abreast of international developments;
- to focus on developing customer loyalty;

- to redefine supply chain relationships; and
- to develop a cost efficient operating base that will facilitate price-based competition.

4.3 Implications for Distributors

The consensus amongst interviewees is that the impact of the changes in the retail sector are likely to fall more heavily on the distribution and wholesale sector than anywhere else in the supply chain.

As noted in Chapter 3, distribution costs in Ireland are relatively high and, though these are to some extent driven by the population spread, there is a general belief that the existing distribution structure is inefficient.

There is a number of reasons why retailers would wish to use third party distribution, including:

- potential cost reductions;
- reduced commitment to capital;
- flexibility in vehicle types, warehouse mix;
- efficiency gains through consolidation or shared services;
- access to specialist management skills; and
- capacity to improve competitiveness by changing logistics providers.

The influence of retailers on the logistics sector has changed the distribution structure in the UK, where the growth of the multiples has produced a distribution structure containing a small number of very large companies that can service the multiples and that can invest in the fleets, warehouses and IT systems to support national distribution.

The implication of the changes underway in retailing for distribution in Ireland is that a structure of a small number of national distributors, serving large retail outlets may ultimately emerge. In this event, the distribution activity of many suppliers will reduce significantly. This restructuring is likely to improve the cost base and efficiency of the sector, though it is likely to result in lower employment.

Industry estimates have placed the potential level of savings on the 1997 cost structures at up to £150 million or 15% of estimated national distribution costs. Job losses of the order of up to 2,000 personnel could occur over 1997 levels, although the growth in retail activity in the economy is likely to result in an overall increase in employment in the distribution sector. Job losses may occur in supplier despatch functions, warehousing, transport and retail checking-in. There will be some compensating jobs created in Regional Distribution Centres (RDCs). It is not clear, nor are there clear views on how many RDCs will be established or how many jobs will be created.

A further implication of the centralisation of distribution is the impact on smaller retailers not serviced by the large distributors. At present many of these are serviced by manufacturers or importers. If manufacturers divert major volumes to centralised

distribution points, it may be increasingly uneconomic to distribute to small outlets. This may in turn lead to a development in the role of Cash & Carry outlets described previously, many of which have been developing a role as consolidator in regional towns in recent years.

Developments of this nature in the Cash & Carry segment may have significant implications in terms of IT system requirements and stock planning practices. If these independent channels are not competitive, then it is possible that many independent retailers will link up with symbol groups to compete with the multiples.

4.4 Implications for Suppliers

4.4.1 Introduction

The following discussion on the implications for suppliers of the current and possible future developments in the retail sector assumes that suppliers are producers, manufacturers or processors of food products, or manufacturers of clothing products and are not distributors, agents or brokers.

Sector Trends

In recent years, foreign *clothing* retailers have been taking a growing share of the Irish clothing market. These retailers have, for the most part, well established sources of supply in their own countries and their Irish shops continue to be supplied by these established producers. Irish clothing manufacturers have seen their retail customers' market share decline, which, coupled with a shift of some clothing manufacturing from Ireland to lower cost countries in Eastern and Southern Europe, has led to a considerable decline in clothing manufacturing in this country. It is likely that no major clothing retailer in Ireland sources more than 20% of its supplies from Irish suppliers.

In the *food* sector, the take-over of Quinns/Crazy Prices by Tesco has, in the opinion of many in the trade, exposed food producers in particular to direct competition from overseas suppliers who, in most cases, are established preferred suppliers. This increased competition is not confined to suppliers to these retailers. All retailers are increasingly looking to their suppliers to become significantly more competitive in order to enable them to compete more effectively. The introduction of the euro will increase the level of competition in the supply sector by facilitating price comparisons, free of currency fluctuation risks.

Ownership: Powerful International Retailers

The most significant implication of the growth of large international retailers is that they have established supply chains and distribution arrangements, with a number of barriers to entry. The supply chains and distribution systems of retailers are increasingly international and tightly controlled. These retailers have significant market share and buying power in their home markets, are internationally competitive, and have a significantly different approach to management, structures, supply requirements and practices than existing retailers in the Irish market. Partnership arrangements with preferred suppliers are a key part of international distribution channels.

For many Irish companies already supplying international retailers, their entry into the Irish market may not pose a significant competitiveness challenge. However, for others, the requirements and operations of these international retailers are likely to pose challenges and are likely to quickly become the norm in the Irish retail sector. Over the longer term, in order to compete, Irish retailers are also likely to increase their quality and service requirements from suppliers so as to increase their operational and supply chain efficiencies and to go international. Supplying to international retailers will require an ability to compete as a part of dynamic international supply chains based on close relationships between retailers and suppliers. The entry of foreign retail interests presents an opportunity to increase the competitiveness in the Irish sub-supply base.

Market: Smaller Number of Larger Retailers

Increased concentration in the retail sector in the multiples, symbol groups and the independents is likely to lead to a smaller number of larger retail groups. Suppliers will be faced with a situation where a limited number of larger retail groups control a significant proportion of the retail market.

EMU is likely to accelerate this trend internationally, leading to the creation of increasingly large retail enterprises operating right across the EU and beyond. Cross-border retailing which has been increasing will also be considerably facilitated and accelerated by EMU. The impact of this increasing concentration will be strengthened as retailers continue to reduce the number of brands and suppliers in each product category. This will significantly increase the competition for shelf space among suppliers because if a supplier's product is not a brand leader and the supplier is not already a preferred supplier of own-label products, it will be increasingly difficult or impossible to get an outlet to large consumer markets.

The key threat is replacement by an existing preferred supplier, or by a new supplier to the Irish chain. The threat of de-listing of products, which may be preceded by a gradual reduction in shelf space, is significant. The power of the retailers is likely to continue to increase and this is likely to place Irish suppliers under significant competitive pressures.

On the positive side, retail groups will also require long-term supply relationships for quality products and these requirements provide opportunities for suppliers who can meet the need for quality at competitive prices.

4.4.2. Strategic Implications

UK multiples, for example, are heavily dependent on the sales of retailer-branded or own-label products. The £25bn own-label market in the UK is forecast¹⁴ to grow from 45% of total retail sales to 50% over the next five years. The share of own-label products varies by retailer in the UK, accounting for 45% of Tesco sales for example and virtually 100% of Marks & Spencers. In Ireland, the market share of own-label products is currently estimated at up to 15%. This share is forecast to increase to 20-25% of the Irish market in the near future. This will be a significant change for many Irish manufacturers which up to now may have been supplying their branded goods to multiples in Ireland or the UK.

Producing own-label products will present opportunities for competitive Irish suppliers to supply locally and internationally but it will also generate competitive pressures for suppliers of branded products. In the UK, many multiples do not encourage sales of supplier branded goods but rather own-label products manufactured to the retailers' specifications. All retailers in Ireland are likely to increase significantly the sales of own-label products in their outlets.

¹⁴ *Source: IFA, UK Grocery Retailing, 1999*

Competitors: Part of International Supply Chains

In supplying the Irish market, competition from suppliers will no longer be mainly from within Ireland but will increasingly be international. Retailers entering the Irish market will already have their own preferred suppliers with which they have been working for a number of years. These suppliers will have proved over time that they can meet the exacting requirements of the retail groups. Many also enjoy significant economies of scale built up in partnership with the retailers and they are likely to be significantly more competitive as a result.

International retailers are likely to regard Ireland and the UK as a common sourcing area for both branded and own-label products. There is likely to be increased integration of distribution systems, as retailers try to rationalise the sources of supply for products. World sourcing for basic/commodity goods is likely to increase. UK retailers in particular with centralised distribution centres will see Ireland as even more attractive if they are able to take advantage of their sourcing operations and deliver competitively priced items.

Currently between 40-50% of the products sold in Ireland are sourced in the UK. In the context of a stable or appreciating sterling exchange rate for sterling against the euro after EMU, Irish suppliers will have a significant opportunity to expand their market position in the UK as well as in other EMU member countries. If sterling depreciates significantly, certain sectors may become vulnerable.

Strategies and Opportunities

There is no one generic strategy that can be recommended to Irish companies. Much depends on the product sector, company resources, level of development, management capability and the long term objectives of the producer in question. What is clear is that many suppliers need to reassess their strategies in the light of current and future retail sector developments.

Case Study - Unigate plc

Unigate plc is an example of a large manufacturing company with diverse interests covering branded and own-label products. In its recent past, Unigate's strategy has focused on expansion in fresh foods, underpinned by strong brands and high capital investment. Unigate plc comprises four main units. Firstly, it is the second largest manufacturer of yellow fats (cheese, butter etc.) in the UK. Secondly, Malton Foods is the largest processor of pig meat products in the UK. Thirdly, Wincanton Logistics is one of the major specialist distribution companies in the UK providing and operating centralised distribution systems for major retailers and manufacturers. Fourthly, it has a dairy business which processes and distributes dairy products.

Unigate plc combines operations with strong brand names such as Kraft and St. Ivel with own-label manufacturing. It is widely believed that the largest exposure to own-label is in Malton Foods which supplies both basic commodity and added-value cuts of pork, bacon and cooked meat. Branding in these product categories is very low in the UK; own-label products dominate the segment.

Own-label products have a relatively low share in other markets such as dairy spreads and yoghurts. This position is sustained to some extent by a high level of marketing support for branded products. Recent trends are showing that this marketing support is becoming more expensive in relative terms as market growth slows and imports have taken increased market share.

In the margarines and spreads market, brand advertising has held back own-label penetration, but this is increasingly difficult to sustain in static markets. Mergers of operations to generate cost reductions has been carried out, but there are suggestions that more product innovation is needed to continue to stave off the threat of own-label products.

There are three main strategic options for suppliers to respond to the changes underway:

- To have or develop a brand leadership position;
- To be or develop as a highly competitive own-label supplier;
- To be or develop as a niche supplier with a high value-added or luxury product or catering for specialist tastes.

Repositioning a product or company based on one of these options will require significant investment by suppliers. Suppliers will also need to widen their horizons and to look beyond servicing just the local and the near European markets, such as the UK market, and seek out opportunities for supplying retailers in Europe, in particular those in the euro zone. They will need to build the capability and capacity required to supply internationally across retail groups.

For suppliers with a strong brand or dominant brand the objectives must be:

- to ensure that the brand is a 'must carry' brand through continuous marketing and innovation;
- to maintain consumer demand for their products. This will require continuous marketing and promotional expenditure and a focus on differentiation. Continuous evaluation of market positioning relative to competing branded and own-label products will become even more essential. New product development and innovation in existing products will be very important, especially in the context of the category management strategies of the major multiples which emphasise product innovation and differentiation. It is estimated that of Marks & Spencers 2,700 food lines, for example, at least 1,000 new or improved products are introduced each year;
- where appropriate, to exploit opportunities to leverage off strong local brands to supply own-label product for cross group sales in other markets where the supplier's brand may not be well established.

For existing and potential own-label suppliers the objectives must be:

- to meet the retailers highly demanding operational requirements in terms of volume production, quality, delivery, and service and for continuous product and production innovation;

- to achieve continuous increases in production efficiencies to meet retailer requirements for increased margins and development of close ongoing relationships with the retailers;
- to have the capacity for continuous product development and innovation, and for increased margins through increased efficiencies in the supply chain.

For niche suppliers the objectives must be:

- to maintain a continuous focus on product innovation, differentiation and specialist merchandising, so as to maintain market positioning and avoid the threat of replacement by an own-label product;
- to focus on speciality and high value-added product categories that larger suppliers may not either be currently supplying or where a smaller supplier can supply more competitively;
- to develop time-based competitive advantage in supplying multiples operating in Ireland by providing fresh produce quicker than international suppliers in product categories where time to market, service and freshness are essential or where local suppliers can best produce to meet local tastes;
- to develop potential niche markets in luxury foods, chilled and ready to serve meals.

For all suppliers, other options include:

- developing value added partnerships to achieve critical mass and economies of scale among Irish suppliers, to supply international retailers so as to fulfil large contracts and for cross group sales;
- developing time-based competitive capability which will become an increasingly important competitive factor for suppliers. This is where Irish suppliers can use their local presence for competitive advantage through careful production planning and providing faster responses on day to day supply;
- adopting leading edge manufacturing and quality systems;
- increasing operational efficiency through, for example, reducing numbers of product lines to increase available capacity to produce for multiples, productivity improvement agreements and supports, re-engineering production and training and human resource development which upgrades the overall strategic and functional capability, productivity and efficiency of supplier firms.

In summary, Irish suppliers are grouped by retailers into three categories as follows:

- large scale suppliers of own brand food products, already serving UK and Irish multiples. This group may expect to see some sales increases, if the retailers they supply abroad move into Ireland or if their Irish customers increase their market shares.

- small scale producers of own brand food products, serving mainly Irish multiples, but in some cases serving UK retailers. These suppliers are facing substantial competitive pressures. The key threat is that of replacement either by the existing preferred supplier to a foreign owned retailer, or by a new supplier to an Irish owned chain, if the current producer cannot supply the products competitively. This type of business movement may become more likely after the euro introduction.
- suppliers of own-label clothing products. These suppliers have seen some erosion of the market share of their main customers and have responded in various ways, i.e. by improving their own efficiencies or by outsourcing the manufacturing and retaining certain skills, e.g. design, material sourcing, in-house. Competitive pressures on this category are expected to continue for the foreseeable future.

Potential Opportunities

To assess the potential opportunities and threats to Irish suppliers, it is useful to examine trends of own-label food and non-food items in the UK grocery trade. Table 4.2. shows the recent trends in this area in the UK.

TABLE 4.2: UK Own-label Product Trends

Year Ending First Sunday in August:	1994	1996
FOODS: Own-label Market Share, %		
Bacon	60.6	79.5
Milk	75.6	78.8
Packaged cottage cheese	77.3	78.7
Non processed nuts	67.3	75.6
Dried rice	69.7	72.2
Fruit juices	63.1	70.3
Honey	62.7	69.2
Canned kidney beans	60.9	68.9
Salted peanuts	58.2	65.8
Lard	63.5	64.8
Natural cheese	62.3	64.3
Olive oil	61.3	63.5
Cooking oils	60.2	63.4
Tinned peas	60.4	62.4
Chilled pastes & spreads	46.8	61.7
Ambient ready meals	57.6	60.8
Jam	45.3	55.5
Dry pasta	51.5	54.5
Ground coffee	47.8	53.0
Canned tomatoes	36.9	51.5
Pre-cooked sliced meats	31.7	50.2
Bread	45.2	48.9
Mineral water	44.3	47.8
Canned sweetcorn	44.7	47.2
Flour	45.6	46.9
Malt vinegar	46.1	46.8
Table jellies	40.5	46.3
Chilled yoghurt	42.5	45.2
Table salt	38.5	43.9
Savoury rice	36.3	41.7
Squashes and cordials	36.8	40.8
Bottled carbonates	35.1	39.4
Potato crisps	37.5	38.3
Canned tuna	35.1	35.6
Distilled malt vinegar	31.1	33.1

NON-FOODS: Own-label Market Share, %		
Aluminium foil	78.7	82.7
Plastic food bags	79.3	80.9
Bin liners	66.7	76.4
Household cleaning cloths & sponges	72.7	75.8
Cotton buds	67.7	69.7
Coffee filters	49.9	66.6
Kitchen towels	58.0	64.8
Cat litter	55.1	60.0
Facial tissues	55.8	54.2
Liquid disinfectants	51.5	52.5
Toilet tissues	46.3	51.2
Bleach	42.1	48.3
Bath liquids	40.4	37.3
Dishwasher products	34.8	36.1
Detergents	12.9	18.7

Source: AC Nielsen Homescan, 1997.

A review of the products shows that it is not possible to categorise own-label easily. The list includes fresh products (milk, bread), chilled products, canned products, dry goods as well as the range of non-food products. It is difficult to draw conclusions as to the potential for own-label by product category. For example, own-label has a market share of almost 80% in milk but is less than 50% in bread. Some products, e.g., bacon and pre-cooked sliced meats, have shown strong growth over the period, while others have remained relatively static. The range of own-label products shown is diverse and the potential impact on Irish suppliers depends on the Irish consumers' reaction to them, and the level of acceptance achieved. It is not possible to predict the likely impact on a product-by-product basis but it is essential that UK trends in each product area are considered as part of a company's strategic review.

4.4.3 Product Strategy Options

Irish suppliers will need to review their own strategies. Not all companies will have a choice of manufacturing own-label and/or branded products. Not all companies will have the scale required to compete in own-label supply. The first choice for many suppliers is which portion of the retail sector they wish to do business with. The multiples offer potentially large volumes at very competitive prices and significant emphasis on product development and quality systems. The non-multiple sector may appear to be a more profitable channel, but it will be subject to increasing competition from increasingly efficient producers, and any supplier who does not focus on competitiveness may suffer. In the food sector suppliers may wish to focus on the non-retail or cuisine sector, supplying caterers and restaurants.

- **The multiple/own-label segment**

The conclusion of the interviews with existing own-label producers was that multiples require two main attributes from their suppliers of own brand food products; continuous product development and innovation, and good margins. The view of many retailers is that product development and innovation is an essential requirement of suppliers. Product development includes improvement as well as new product introductions.

It is estimated that for major retailers, as much as 40% of the food lines are improved or introduced as new products each year.

New product development and continuous innovation are increasingly central to the operations and competitiveness of the retail groups and multiples, in particular in respect of own-label products. It is estimated that Tesco for example, has a product turnover of up to 2,000 new products per annum. Retailers are continuously looking for innovations that can increase the throughput of a product and optimise turnover per square foot, margins, service and convenience. Suppliers will need to be increasingly proactive and strongly drive the product development process. There is a view that in Ireland, in the past, Irish suppliers have relied on retailers to drive the new product development process.

Options

- Irish suppliers will need to work closely with retailers and become more proactive in new product development if they are to increase their linkages with retailers and grow;

- Suppliers need to have processes in place for monitoring and tracking consumer tastes and trends, retailer category management practices and policies and new and innovative developments in competing products. Specifically, suppliers will need to gain access to and make good use of the market research of the multiples on consumer profiles, choice, tastes and buying habits;
- Suppliers will need to work with material suppliers on new innovations and designs and work with the retailers throughout the product development process;
- Monitoring international developments will be critical as retailers themselves are purchasing for their international markets. Suppliers must change the focus from supplying to multiples to supplying customers through multiples. Continued and increased support for R&D on new and improved products will be critical. The overseas offices of the development agencies can play a key role in ensuring a continuous flow of information and market intelligence back to suppliers;
- The national food research bodies and product development infrastructure (e.g., third level food research centres) have an important role to play enhancing the levels of innovation in the sector.

The experience of many own-label suppliers in the UK is that it is the suppliers themselves who must be proactive in the area of new product development. The multiples will provide relevant market data and discuss category strategies; they will assist with consumer research and product development; they will provide consumer panel assessments and help in many ways; but it is the producer who must initiate the product idea. When a multiple has to approach a supplier, it is usually because other retailers have gained some competitive advantage from a new product and the multiple needs to react. Major multiples dislike being in a reactive mode.

The key advice for own-label suppliers is to be aware of consumer buying practices. For example, consumers are currently spending less time preparing meals than they did in the past. Consumers today tend to buy food for several days and in many cases purchase meal 'components', i.e., items such as chicken which can be mixed with various sauces, and added to vegetables to make a meal. Convenience foods, prepared foods and frozen foods are seen as potential opportunities. Market research of what consumers are doing and buying is seen by retailers as being of much greater value than studying data such as trade statistics. Import data is included in section 3.5.10 above, together with comments on current sources of supply to the Irish market.

To be successful, own-label providers must develop strong links at all levels of the retailer organisation and must establish a team which replicates the retailers' purchasing team. Such a team will need to include commercial people who can analyse and interpret market data, as well as staff involved in product development.

- **Branded Product Suppliers**

The key requirement for a branded food product manufacturer will be to maintain consumer demand for the products in the face of competition from other brands as well as own-label products.

This may require major advertising or promotional expenditure, which often can be provided in sufficient quantities only by large companies. For small manufacturers of branded products, some elements of differentiation and uniqueness will be essential.

If as anticipated, the food retail sector shifts towards own brand products, then manufacturers will have to seriously evaluate the relative positioning of their branded products vis-a-vis competing own-label products. Should substantial differentiation exist, then the manufacturer has an opportunity to develop its products.

Certain options, such as focusing on alternative channels of distribution or, in some cases, an advertising campaign, may not guarantee success. Product development, focusing on either new products or developing differentiation in existing products, may be the optimum solution. Such product development should be carried out bearing in mind the category strategies of the major outlets.

- **Exclusive Brands**

It is anticipated that a major development in food retailing in the near future will be the introduction of 'exclusive' brands for major food retailers, i.e., branded products which are exclusive to the retailer in question. Suppliers see this development as 'providing the best of both worlds' for the retailer. From the suppliers' perspective, there is little or no difference between an exclusive brand and own-label. However, there is a view that retailers need branded products to provide consumers with benchmarks for their own-label products. Exclusive brands could provide the consumer with such benchmarks while providing the retailer with the benefits of own-label. Exclusive brands are seen by some as a greater threat to branded product manufacturers than to own-label producers.

- **Fresh Products**

Fresh products include meat, fish and vegetables that are often supplied in commodity, unbranded form but that are increasingly supplied in branded form. Fresh meat is attributed to particular farmers, some fresh shellfish are now branded and vegetables are pre-packed and branded. Fresh product suppliers are often very small and the key issue for them will be developing economies of scale that will enable them to negotiate with the multiples and to achieve competitiveness in the face of non-Irish suppliers. Small suppliers of fresh products are particularly vulnerable as supply arrangements with the multiples often mean that the small supplier is a producer only and is not involved in marketing their products. Small suppliers can be replaced relatively easily and the multiples are not as dependent on small suppliers as they are on the large producers.

Fresh product suppliers can compete on being quickest to supply retailers and on less handling of products. However, this will not provide substantial price advantages, hence the need for competitiveness at all levels, i.e., price and quality.

- **Clothing**

In the clothing sector, the situation is viewed by those in the trade as being more evolutionary than in the food trade. The food sector is now being exposed to the competitive pressures that have existed in the clothing sector for most of the decade. Many companies have adapted to the development in the retail sector but the continued development of foreign retailers has meant that the future will continue to be very competitive and further outsourcing and transfer of production to low cost countries is likely to continue.

4.4.4 Manufacturing Operations

Trends

Changes that are evident within the manufacturing sector, and that may contribute significantly to retailer competitiveness include:

- improved production technology enabling manufacturers to offer shorter production runs and still maintain price competitiveness; and
- the emergence of time based competition based on delivery and service improvement, rather than pure price based competition.

Improved technology and ability to shorten production runs

The processes used in manufacturing, in both food and clothing are changing. The practice of the just-in-time supply, together with stock minimisation, involves lower batch sizes and radical shortening of throughput times. Changes in the methods of managing production, in the arrangement of facilities and sometimes investment in more flexible equipment are involved.

For manufacturers who use modern manufacturing processes in the appropriate ways, major improvements in customer response capability, together with cost savings, are generally obtained, which for the manufacturer can be a win-win situation. Modern processes enable the manufacturers to respond to the demand for higher quality products.

The importance of time-based rather than cost-based competition

The need for manufacturers to improve their time-based competitive capability further was referred to by many of the retailers interviewed during the research for this study. Timeliness and delivery responsive are becoming increasingly important competitive factors for retailers.

Time-based competitiveness needs to be considered at two levels. The first is the day-to-day servicing of retail outlets, supplying product for sale to customers. The second is new product development, and the timely introduction of innovative products.

The biggest impact on production for suppliers who gain business with the retail groups into the future will be the requirement to produce to supply the cross group requirements of the multiples for a particular product. Exclusive production agreements for particular products are increasingly becoming the norm. Bulk production and economies of scale will be critical. However, production runs will also need to be shorter and more flexible so as to minimise inventory costs and because orders will be placed more frequently in response to short-term demand forecasts. In the UK, for example, some suppliers carry as little as two days stocks. Production planning and zero inventory techniques are critical. The move from supplier assured quality to a situation where the retailer determines the required quality standards is likely to accelerate.

Time-based competition will intensify. Improvements in production technology are enabling manufacturers to offer shorter production runs and still maintain price competitiveness. Suppliers will be required to have a high customer response capability, just-in-time supply, with stock minimisation, involving lower batch sizes and radical shortening of throughput times. In sectors where there may be over capacity retailers will seek out lower prices. Close co-operation with retail groups will be essential for developing better production forecasting techniques, in the use of prior forecasts of demand and in

the use of preliminary production schedules in production planning. Increasing supplier scale is likely to result from the drive of the retail groups towards a continuing programme of reducing the number of suppliers in each product sector. Surviving producers with increased scale should be able to negotiate lower input prices from their input suppliers, generate lower production costs, and provide lower cost products to retailers thereby enhancing retailer competitiveness.

Opportunities

The general view of retailers is that manufacturers in Ireland need to develop a stronger focus on minimising stocks while assuring 100% availability of goods. This implies a substantial improvement in sales forecasting, production planning and production operations.

Major retailers will co-operate with suppliers to forecast demand. In the UK, the practice of the retailer providing suppliers with indicative sales forecasts, often during the week prior to the week in which the orders will be made, is common. This enables the manufacturer to prepare a preliminary production schedule. Again, depending on the product sector, daily orders from the retailer to the supplier are commonplace. A key element in the process is the ability of the retailer to forecast, with a reasonable degree of accuracy, and the ability of the supplier to adapt immediately to changing requirements.

In practice, some suppliers of products in the UK carry as little as two day's stocks, while suppliers of perishables carry less than one day's stock.

It is the view within the retail trade that Irish suppliers are not benefiting from the opportunities available to them to be the fastest. As local suppliers, they should be capable of providing faster responses on day-to-day supply requirements, and they should monitor international developments more closely to ensure they suffer no disadvantage from a lack of new product developments. The views of both food and clothing retailers is that, in the past, Irish manufacturers have relied on the retailers to drive the new product development process, whereas in other markets, the manufacturers have been more proactive in this regard.

While the entry of large overseas retailers to the Irish market, and similar multiples, can mean major extra pressures on Irish suppliers, they can also offer significant opportunities for international cross-group sales. A number of Irish suppliers have already won significant contracts with Tesco for cross-group sales and the development agencies are working with a number of Irish-based suppliers with reasonable prospects of achieving such cross-group sales and there will be further opportunities in the medium term.

In summary, the impact of the changes in the retail sector are likely to demand significant improvements in production planning, forecasting and manufacturing flexibility.

4.4.5 Distribution

Trends

Notwithstanding the recent arrival of major UK food retailers into Ireland, a restructuring of the distribution systems in both the food and clothing sectors had been underway, though at a relatively slower pace compared to that expected in the near future. This restructuring is attributed to a number of developments including:

- consumer shopping habits changing to favour the one-stop-shop concept, hence a demand for increased product ranges in stores;
- the significant growth in the numbers of British specialist clothing stores operating in Ireland, prior to the recent developments in the food sector;
- buying power being increasingly concentrated in both the food and clothing sectors;
- growth in sales of the retailers own brands in the clothing trade; and
- some of the larger clothing retailers selling only own-label garments.

The key change in the immediate future in Ireland is likely to be a further shift towards central distribution in the food sector. This has a number of possible implications for suppliers, including:

- potential loss of influence over merchandising and placement of product in shops;
- increased centralisation of retailer/supplier dealings;
- potentially uneconomic distribution structures, if major volumes are diverted by multiples to centralised distribution structures; and
- further erosion of the 'direct supply' base, if independent retailers close or join the symbol groups.

Opportunities and Challenges

The potential outcomes of a changed national distribution structure include:

- independent retailers becoming increasingly dependent on Cash & Carrys to act as sources of supply, or face increased charges from suppliers anxious to recover full distribution costs;
- Cash & Carrys developing a role as 'local consolidators' in defined geographic areas; and
- emergence of independent local hauliers distributing on behalf of a number of suppliers.

For Irish suppliers the key challenge will be to ensure that the costs of holding stock are not pushed up the supply chain to them. They will, therefore, need to collaborate more closely with retailers in the operation of sales-based ordering systems and of the logistics network.

The move to centralised distribution will have a significant impact on suppliers own distribution systems as it may become uneconomic for suppliers to provide both a dedicated delivery service for the large retail groups and to continue supplying to a range of other stores in particular independent retailers. It may no longer be economical for suppliers to maintain their own distribution fleet. The outsourcing of distribution will require to be considered. Changes to the national distribution system may result in a small number of distributors providing a dedicated service to a single supply chain or a small number of large supply chains. Cash & Carrys are likely to become important

consolidation centres for supplying to the independent sector. Cash & Carrys will need to invest significantly in information and communications technologies if they are to match the efficiency of the multiples supply chains and pass on the benefits to the independent sector so as to maintain the competitiveness of their offerings. They will also need to invest in their logistics and stock management capabilities.

In summary, the structure of the distribution sector is likely to change and increase efficiency. Companies and suppliers that are at the leading edge of the change will be more likely to succeed.

4.4.6 Sourcing of Materials

With increased pressure for cost reduction and improved competitiveness, manufacturers continuously need to seek out the most competitive prices from all input suppliers. Large-scale producers, coming from a position of strength, can negotiate competitive deals. Raw material innovation involving retailers is increasing. Retailers are demanding the use of the latest and most authentic ingredients in the preparation of food products. Retailers are increasingly requiring the use of their own preferred packaging designs and sources of materials, e.g., specific types of packaging only acceptable for particular products or categories.

Suppliers to the retail sector are likely to look in turn on their material suppliers as potential sources of cost reduction and improved competitiveness. However, the individual producer and the raw material supplier are often quite different in size and scale. Many material suppliers, mainly in packaging, are much larger in scale than the food or clothing producers.

This reinforces the view expressed by some major retailers that suppliers must be large scale or niche. Large scale producers can negotiate with raw material suppliers from positions of strength, while for niche suppliers, material costs may not be major competitive factors.

As in other aspects of competitiveness, the widespread view is that the food sector will have to adjust to the new environment to a much greater extent than clothing manufacturers.

Food producers may also have to become accustomed to situations where innovation in product or packaging design is driven by material suppliers and is 'sold' by them directly to the retailer, that in turn demands that the food producer change the product to incorporate the innovation.

There may be a greater risk than usual to suppliers in industry sectors that have overcapacity. Major retailers can exploit the existence of overcapacity in an industry to obtain lower prices than would often be available from sectors where capacity matches demand.

Finally, there is potential for major retailers to develop large scale suppliers by a continuing programme of reduction in the number of suppliers in product sectors. Reducing the number of suppliers of a particular product from four to two, not only reduces the retailers' administration workload, but the two suppliers should be able to reduce per unit production costs through economies of scale. These manufacturers should also be able to negotiate lower input prices from material suppliers, reduce the relative level of administration costs

and, in effect, provide a much lower cost product to the retailer, thereby enhancing retailer competitiveness.

- Small producers will need to examine ways to improve the deals they get from input material suppliers;
- Alliances in purchasing with other producers or negotiations through representative associations on material costs could be of considerable benefit in increasing the purchasing power of producers;
- Producers will need to work with retailers in deciding on material supply and, where possible, leverage these relationships for better deals from material suppliers.

4.4.7 Information and Communications Technologies

The use of Electronic Data Interchange (EDI)¹⁵ between retailers and suppliers is increasing both in Ireland and the UK. It is used to a significant extent in order transmission and invoice transmission. The development of suitable systems to communicate with major retailers should be regarded as an imperative by manufacturers.

Major retailers are also investing substantial amounts in IT systems to record customer transactions, develop sales forecasts and generate orders to suppliers. One UK retailer, for example, has developed a system to generate individual store orders, which are then aggregated by a system called SCION (Supply Chain Integrated Ordering Network) to generate purchase orders for suppliers. These orders are currently communicated by telephone, autofax or EDI.

Retailers also favour transmission of invoices by EDI as it reduces paperwork and improves processing and payment performance. Automatching of invoices with RDC or store receipts data is possible, which can reduce the processing costs of invoices considerably.

Some retailers have now developed their information systems capability to the stage where they no longer check all goods received, but rely on spot checks alone at RDCs/stores.

EDI is an enabler of efficient consumer response (ECR), whereby demand pulls production throughout the supply chain, from material input right through to the store shelf. Short-term demand forecasts are fed back through the supply chain, determining production and minimising stock levels.

The development of EDI will be accelerated by the implementation of ECR (Efficient Consumer Response). EDI is not an element of ECR, but is a necessary enabler, which must be in place in order for ECR to be implemented.

The principles of EDI are common to all sectors, and their implementation must be seen as a requirement, not merely as a source, of competitive advantage:

- Irish suppliers wishing to supply to the retailers will increasingly have no option but to ensure that their systems are compatible with the systems of the retail groups;
- Suppliers will need to have the in-house technical and planning expertise to manage

¹⁵ EDI is the digital exchange of information between the computer systems of various businesses.

the required systems for production management and systems logistics. Suppliers will need a significant on-going investment in technology in future;

- There is a need to move away from the current situation of lack of common technology standards among suppliers in Ireland and to promote and raise awareness of the systems requirements of the multiples.

Case Study - EDI

A company in the UK, which supplies pre-packed meat products to a range of multiples describes their use of EDI as follows:

“At the end of each week we receive a message via EDI, which outlines the expected orders, on a day-by-day basis for the next week. This allows us to carry out a production planning exercise and to determine the sources of our inputs. Normally we find that the multiples’ forecasts are quite accurate and they do give us some advance warning, i.e., two or so days, if the forecast needs to be changed.

Each day we receive an order from the multiple detailing all the information we need, e.g. quantities etc., and delivery points. We deliver to RDCs and we are allocated our delivery times. These delivery times are the initial points for our daily production plan. We work back from them through our dispatching hall and into the production areas. The orders from the multiples are generally received about 3.00 am, so we have just enough time to do our planning.

Production, i.e., pre-packing starts fairly quickly and we aim to start dispatching deliveries by mid morning. Most deliveries are made to the RDCs in the afternoon.

We send our invoices by EDI. Our invoices are based on dispatches. The multiples carry out automatching of our invoices with their records of goods received on their IT systems. They agree usually, but if they don’t, we have to sort it out. When our invoices are agreed they are scheduled for payment in line with agreed terms.

Bar coding is widely used for data gathering, checking dispatches and recording receipts.

The whole system works very well, but we are under continuous pressure to fulfil orders. Stocks are at a minimum and costs are kept as low as possible.”

Source: KPMG, 1998

4.4.8 Quality

The general attitude of retailers is that the highest quality of food or clothing output is regarded as a given, it is not an option. Food safety is regarded in the same light. Manufacturers must therefore adhere to the highest standards of quality and product safety. There is however some differences in the approach to quality assurance on the part of major retailers.

Department store buyers tend to work on their experience, their judgement and the reputations of suppliers, rather than documented formal quality systems while the larger clothing retailers tend to have dedicated quality manuals for private label suppliers. These manuals differ from ISO9000 in that they address technical issues rather than the management of quality.

The food sector is subject to a range of quality systems for example, ISO9000 and the Hygiene Mark, and interviewees state that the approach of retailers varies from manufacturers determined standards to annual compliance audits by retailers of their suppliers.

Production management techniques will increasingly be required to comply with the retailer-required safety and quality management systems. In many cases these systems are more rigorous than ISO as they focus not just on technical issues but also on the management of quality. Standards for own-label products are particularly rigorous as retailers need to guarantee consistent quality, appearance and ingredients. Retailers increasingly have their own teams of food technologists that complete tests and audits on production lines, with their own laboratories for testing.

Traceability throughout the supply chain is increasingly a requirement, from raw material sourcing through to production, to ensure consistently high quality and to maintain consumer confidence.

It is widely perceived that the most rigorous food quality systems are those operated by the major UK multiples in respect of own-label producers. The basis of these systems is that the retailer owns the brand and is not willing to allow a contract manufacturer to generate any negative reaction to the 'own brand' through poor food safety, inconsistent quality, poor appearance, substandard ingredients or any other source of product problem. Quality checks by these retailers are infrequent and producers are expected to display a proactive approach to quality improvement. Quality checks and audits are extended throughout the supply chain, and are carried out by teams of highly trained professionals. For example, horticulturalists will examine fruit or vegetable producers, microbiologists will test hygiene conditions at dairy plants etc.

For companies seeking to develop as own-label suppliers to food retailers, the development of highly capable quality departments is a prerequisite. It is regarded by retailers as an area where medium and small Irish suppliers may be deficient.

For many Irish suppliers, retailer determined quality systems are completely new and will require significant investments in training, quality management systems and new technologies. Coming from a situation of a lack of common quality standards may place Irish suppliers at a competitive disadvantage vis-à-vis other countries. The situation in Ireland where there is no widely accepted quality system for the food industry, in particular in the added-value food sector, will be partly addressed by the strict quality management systems of the retailers.

Speed of adaptation to retailer determined quality systems will be critical to convincing retailers that they can implement and produce to the required standards and supply competitively. The dissemination of the quality requirements of the retailers, and the provision of support for companies in upgrading their quality systems and capabilities, should be a priority for the development agencies.

4.4.9 Selling through the retail outlets rather than to the retail outlets

Major retailers expressed the view that the least competitive potential suppliers are those that are more interested in selling into retail stores rather than in generating sales through the store. The view of retailers is that manufacturers should see the shelf or rack space provided for their products in a retail store as an opportunity to generate profit for both the retailer and for the supplier, and that this opportunity deserves careful support and the constant development of the relationship with the retailer. Buyers in large retail chains do not buy products, they buy long term profit opportunities.

In order to reach the consumer through the trade, a product must be capable of competing for consumer choice and must also deliver a benefit to the retailer. In order to gain a listing, in general, a product must be capable of generating more profit and throughput than alternative products, and the supplier must be capable of providing the necessary level of service. Profit value is assessed on three main criteria:

- **Turnover:** The product range must be competitive to generate higher turnover per square foot of retail space than alternative products;
- **Margin:** The retailer margin must be attractive;
- **Service:** Retailers will specify the service requirements that must be met. These will typically include delivery instructions, packing and labelling requirements, product safety requirements, service standards, receipts procedures, invoice processing and environmental requirements.

Major retailers in both the food and clothing sectors generally want to develop long term partnerships with suppliers that can maintain the highest levels of product and customer service.

For those companies that develop partnerships with retailers, there can be significant benefits. Firstly, retailers are prepared to share knowledge about consumer choice, tastes and buying habits with suppliers, but not generally with non-suppliers. Secondly, manufacturers can often work with suppliers, e.g., packaging providers, in carrying out market research. Thirdly, the retailer will take an active role in new product development.

Developments in transport links between Ireland and the UK have improved the ability of UK distributors to respond rapidly to serving the Irish market, as well as for Irish suppliers to service the UK market. Manufacturers that are in local markets should be in a better position to manage the retailers' stocks and replenish retailers more effectively. There should be opportunities for Irish suppliers to develop their relationships with foreign retailers, provided they concentrate on selling to the consumer through the retailer, on managing the retailer stocks and not simply restricting their involvement to selling into the retail outlets.

4.4.10 The professionalism in buying in the multiples

Trends

The purchasing structures and procedures of the larger retailers are becoming highly centralised with suppliers having little if any contact with individual stores. This includes not just commercial arrangements such as prices and payments but also ordering, promotions, merchandising and shelf space management. These are functions that Irish suppliers up to now have had control over in individual Irish stores and have been managed by supplier merchandising teams. Contact between the supplier and the retailer is increasingly with a category or sector specific buying team that has specialist expertise in a product or category area. Senior buyers within these teams are changed frequently to maintain the pressure for competitive procurement across all product areas.

Buying teams are made up of a number of experts and professionals. These include; food technologists; microbiologists and horticulturalists to check for quality and consistency of input materials, production and products; category managers to determine whether a product fits in with the multiple's category management plans and policies and whether it has the potential to achieve increasing returns; market researchers to determine whether the product is the best available to meet an identified market or consumer demand; and, in department stores, floor managers that may be responsible for a number of product areas. The requirements of each functional and operational area need to be taken into account in competing to supply the retail sectors into the future. Suppliers need to match the professionalism of the retailer buying teams and to ensure they can meet the requirements of each functional area.

Options and Opportunities

Provided that the retailer can be satisfied on the operational issues, then the following are likely to be increasingly used as the broad criteria for negotiating purchasing agreements with suppliers:

- **Market Research:** The retailer will need to be convinced that the product meets an identified customer need, demand or emerging market trend. This should include analyses of customer profiles, point-of-sale information and the retailers own market research, in particular in respect of own-label brand development and market research;
- **Category Management:** The purchasing team will need to be convinced that the product fits in with retailer category plans;
- **Product Availability:** Suppliers will be required to commit to 100% availability of product, and demonstrate capacity to deliver;
- **Good Margins:** The product will need to offer the potential for increased margins, product throughput and shelf space optimisation;
- **New Innovative Products:** Retailers are increasingly seeking to be first to the market with new products and innovations, in particular in the own-label product categories. Products need to have the potential to drive increased consumer demand and enhance loyalty to the multiples own-label range of products. Suppliers need to be able to demonstrate a capability in these areas;
- **Quality:** Suppliers are required to prove their capability and capacity to meet retailers quality requirements;
- **Technology/Systems:** Electronic data interchange and related systems are critical for achieving substantial efficiency gains. ICT capability throughout the supply chain and ability to link into the multiples systems for all communications and interaction will be essential.

There is a view within the retail trade that many Irish food producers will have to improve their levels of professionalism significantly. In particular, developing a keen awareness of consumer wants and likely future developments is seen as important. Retailers want their suppliers to be more proactive than many of them have been in the past.

Retailers will also expect suppliers to develop sales structures which fit in with the retailer structure, providing a range of contact points between the retailer and the supplier. The buying function within various retailers varies somewhat and a key element at the outset of a relationship is learning the retailers' structure and how the buying activity will be carried out. For example, one retailer has separated the three roles of Buyer, Customer Planner and Product Developer and has formed category teams comprising these roles under a single Category Business Development Manager. Suppliers are expected to provide the necessary high quality resources to make the new structure and its relationships with suppliers work.

For smaller suppliers the barriers to supplying to the larger retail groups are likely to increase. Irish suppliers will be negotiating with experienced and professional buyers that have a range of international suppliers from which to choose. The negotiating power, therefore, lies essentially with these teams. For retailers, the incentives for changing to a new supplier need to be substantive, in terms of increased margins, quality and for stimulating consumer demand. For example, 80% of the suppliers to Marks & Spencers have been with them since they started. In almost all categories they will already have suppliers that have been supplying competitively for a number of years. The opportunities for test marketing to the public are also likely to be significantly reduced for Irish suppliers. The challenge is significantly greater where the retailer may not have a purchasing department in Ireland, but may be buying for group sales including the Irish market, from the UK.

Developing networks and alliances of Irish suppliers may need to be considered to offer complete coverage of the Irish market, as should co-operative programmes among suppliers to win contracts to supply to the multiples.

4.4.11 Purchasing/Contract Terms

Issues

Two potential issues are emerging that may need to be planned for by suppliers;

- the use of Long Term Agreements (LTAs); and
- the potential for the re-introduction of 'hello' money.

LTAs are arrangements whereby over time, a supplier will provide additional discounts when agreed volume targets have been met, the additional discounts often being retrospective over the sales from an agreed starting point. LTAs normally require a significant degree of monitoring to measure the actual level of sales and to trigger the discounts. In a context where retailers seek to forecast demand with a high degree of accuracy and where retailers wish to have flexible purchasing arrangements, agreements on supply at a particular price, irrespective of volume, are more common and in such a context the potential for a continuation of LTAs should be limited. The view expressed by some retailers is that LTAs place an onus on them to 'sell' the product to secure the discount, and this is alien to their philosophy of providing what the customer wants. However, LTAs are an important part of Irish trade relationships. Some suppliers have noted that the levels of LTAs being demanded by retailers are increasing annually and that there is little likelihood of them being displaced in the near future.

The issue of contracts will have to be carefully managed and negotiated by Irish suppliers. Suppliers need to make sure their operations and processes are adapted and sufficiently

flexible to meet demand as it arises, as contracted. This can have consequences for suppliers where demand exceeds forecasts or where the prices negotiated were discounted to secure an initial contract with the multiple.

4.4.12 'Hello' Money: Overseas-based Buying Departments

While the payment of 'hello' money is prohibited in Ireland, it does happen in other countries, although not for every deal. Irish suppliers may come under competitive pressure for such payments. It may arise, in particular, where Irish suppliers are competing for shelf space against other suppliers in a multiple on the Irish market that has its buying department for the Irish market in another country, or that has existing suppliers internationally. This may be the case in competing for access to international sales channels and where there may be over-capacity on the supply side.

Suppliers to retailers in the UK for example, note that the level of such payments does vary depending on competitive conditions within the supply sector and that occasionally 'hello' money 'wars' can break out. It is reported that in the US some retailers reserve a proportion of shelf space for new products and will provide the space on payment of a 'risk premium' or 'hello' money to stock new products for a trial period.

There is a view that Irish producers may have to pay cash up front for access to international sales channels if they are going to compete with other country suppliers.

Irish suppliers seeking contracts in the UK will have to take account of the possible need to pay 'hello money' when bidding for contracts, and where possible negotiate contracts for cross-group supply through Irish buying departments, where they exist.

4.4.13 EMU: Suppliers bear Risks

Currently Irish suppliers to the overseas markets normally invoice in the currency of the destination market and have a range of hedging strategies and currency management approaches to cope with exchange rate fluctuations. While EMU will significantly reduce the currency risk exposure of many Irish suppliers, retailers in the UK are certainly likely to continue to expect manufacturers to absorb currency fluctuations for sterling denominated purchases. However, a number of the internationalised UK multiples including Marks & Spencers required that their suppliers be euro compatible from the start of EMU, including their UK suppliers. This could place Irish suppliers at an advantage over their UK competitors. With a stable or appreciating currency exchange rate between sterling and the euro, Irish industry will have a significant opportunity to expand their market position in the UK as well as in other EMU member countries. If it depreciates significantly, certain sectors will become vulnerable.

With the introduction of the euro the best approach for suppliers should have been to seek to invoice in euros from the start. Irish suppliers should also actively seek to diversify their customer base and seek out opportunities to competitively supply to other retailers in the euro zone.

4.4.14 Merchandising: Loss of Supplier Control

The situation at present is that suppliers control merchandising, in-store promotions and shelf space management for their products. This is particularly important to suppliers given the wide range of brands on offer in product categories. In the future however,

suppliers will have little if any control over the merchandising of their products. Sales teams are not encouraged to visit individual stores for merchandising, shelf space management or market research. In future, retailers will control the merchandising as part of their category management plans and systems. Retailers are likely to only have a limited number of brands on offer, generally the brand leader, the multiples own-brand label product and perhaps a local preference or local supplier. Secondary brands may be increasingly excluded.

With loss of control over merchandising and loss of shelf space, as noted above, suppliers will have to decide whether to manufacture own-label products, the promotion of which is the responsibility of the multiple, or to promote and develop their own leading brands and try and build-in merchandising conditions as part of the initial negotiations.

4.5 Implications for the Consumer

The consumer will be a primary beneficiary of developments in the retail sector. The extent of the benefits derived will depend largely on the degree to which supply chain cost reductions are passed on by lower prices, to some extent on the development of cheaper own-label products and to some extent on the expected increase in the level of competition. The benefits will not be confined to lower prices, but will include:

- improved service;
- greater variety of choice; and
- improved standards.

Based on the cost structures and product ranges that existed in Ireland in mid-1997 the potential quantitative benefits from the changes underway in the sector over the period from 1997 to 2002 could be:

- Up to £150 million per annum, if the industry estimates of supply chain changes underway and cost savings noted previously are accurate and if all the benefits are passed on by way of lower prices;
- Up to £150 million per annum, if the expected levels of own-label sales of between 20% to 25% occur in Ireland and if the price differentials between branded and unbranded products which are anticipated are passed on in lower prices to consumers. It is not anticipated that the consumer will benefit to any significant extent by price reductions in branded products;
- maintaining high levels of local competition in the retail sector will be key to consumers gaining some of these savings through lower prices.

These benefits will not be achieved immediately but could be developed over a number of years, possibly as many as five or more. These benefits should also be regarded as a maximum. Retailers may decide to retain some of the benefits to increase margins and to invest in the potential new developments in both shops and services. The potential savings equate to about 8.5% of the Irish food and confectionery market. Food constitutes 22.85% of the consumer price index and price reductions of the scale shown would reduce the CPI by about 2.2%. As noted above, this would be experienced over a number of years.

An issue for the consumer, and the economy as a whole, is the potential for foreign retailers to repatriate profits from their Irish operations. On this issue, it should be noted that retail is a relatively low margin business, as demonstrated by the margins shown in 3.6.1 above.

The key to future levels of profit repatriation is the extent to which the Irish consumer and the policy framework seeks to reap the benefits of change, rather than allow such benefits to accrue to foreign retailers.

4.6 Implications for Retail Employment

The following table shows historic and projected employment levels in the retail sector, together with historic and projected GNP at constant market prices.

TABLE 4.3: GNP Growth and Retail Employment 1994-2003

Year	Employment	GNP at constant 1990 prices market price (£'000)
1994	128,000	28,552
1996	137,100	33,297
1997	145,600	36,010
1998	161,000	38,996
1999	172,000	41,553
2000	179,000	43,698
2001	186,000	45,989
2002	192,000	48,375
2003	199,000	50,756

Source: QNHS, various years; National Income and Expenditure 1998, and ESRI - Medium Term Review, 1999

On the basis of the historic relationship between retail employment and GNP, it is suggested that employment levels could reach almost 200,000 by 2003. This equates to almost 12% of projected national employment for that year, compared to just under 11% in 1998.

While the numbers employed in retailing are likely to increase, it is also likely on the basis of historic trends that an increasing number of jobs will be part-time. However, the increased jobs will more than offset the estimated loss of 2,000 jobs in the logistic area noted previously.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The contribution and importance of the retail service sector to employment and wealth creation in the Irish economy requires to be more widely recognised. The sector is a significant part of the services sector overall and competition in the sector is important to the competitiveness of the country. The pace of change in the retail sector is accelerating. Recognising the dynamic role played by the retail sector in economic development, employment growth and wealth creation, the following future objectives for the sector are proposed:

- Maximise price and quality competition in the Irish retail market;
- Full adherence to competition rules on monopolies and mergers legislation;
- Delivery of retail services to world class standards;
- A competitive and innovative retail sub-supply sector maximising the links between Irish sub-suppliers and the retail sector;
- A strong Irish internationally trading retail sector fully taking advantage of developments in information technology.

Retailers

The primary responsibility for the development of the sector should remain with the sector's trade and representative associations. The regulatory environment and the competitiveness of the Irish sub-supply base will be critical to securing the full economic and social benefits of the retail sector into the future. A number of actions are required on the part of trade and representative associations and others to assist retailers prepare for and adapt to the changing environment. These should include:

- raising awareness and disseminating market information to retailers of the strategic and operational implications of the changes underway;
- increasing collaboration among retailers in order to achieve economies of scale in purchasing and for information dissemination;
- increasing collaboration between the retail sector and other sectors of economic activity such as the financial sector to broaden the range of services provided;
- encouraging retailers to formulate and implement strategies to fully exploit information and communications technologies and electronic commerce for business operations;
- the development agencies encouraging and assisting specialist and niche Irish retailers to exploit new international retail markets being opened in electronic commerce;
- a continuation of the training and management development activities of FÁS to support the training activities of trade and representative associations.

Suppliers

There is an urgent need for suppliers to assess their ability to meet the requirements of Irish and foreign retailers for competitive supply. There is a need for a focused and co-ordinated agency response to assist Irish suppliers develop their capability, capacity and competitiveness for supply. Enterprise Ireland's Supplier Development Programme has a key role to play in increasing and sustaining the competitiveness of the retail sub-supply base in a rapidly changing retail environment. The following are required for the development of the sub-supply sector;

- Irish food and clothing sectors need to continually monitor their ability to meet the ever more demanding requirements for supplying to the retail sector, in Ireland and internationally;
- Suppliers will need to make the necessary investments in information technology to implement supply chain management strategies and Efficient Consumer Response (ECR) strategies;
- It is recommended that the newly established National Institute for Transport & Logistics give a priority in its work to assisting Irish food and clothing suppliers;
- The levels of product research, development and innovation in the food sector, in particular in the chilled convenience food sector, requires to be significantly increased;
- The stringent quality, hygiene and food safety management systems required for supplying the retail sector into the future, need to be monitored continuously, to ensure Irish suppliers maintain the high-standards required;
- A particular emphasis needs to be placed on identifying opportunities for Irish suppliers in own-label products, both nationally and internationally, and on encouraging suppliers take advantage of opportunities identified;
- The relationships between Irish suppliers and the global sourcing departments of major retailers needs to be strengthened;
- A benchmarking system should be established to monitor the market share, exports, productivity and ICT investment levels of the Irish food and clothing sectors.

Distributors

Distributors will be required to develop closer partnerships with, and adopt the structures of, the major retailers into the future. Increased investment in ICTs and tracking systems will be required. They will need to work with the National Institute for Transport & Logistics in preparing for the changes underway. Local wholesalers and Cash & Carry groups will have an increasingly important role in the future competitiveness of the independent retail sector, in developing the supply network of the independents.

Environment Enabling

Electronic Commerce

The availability of low-cost broadband telecommunications services is critical to increasing the efficiency and competitiveness of the retail supply-chain in Ireland and to enable Irish-based suppliers supply international markets. National and international connections to the Internet backbones are also required to realise the full benefits of electronic commerce in retailing.

Planning Regulation

The review of Planning Regulations in respect of retailing is an important initiative. The proposed limits of 3,500 square metres in Dublin and 3,000 square metres outside Dublin appear appropriate but the full social and economic impact of implementing these limits require to be examined. The key concerns must be to retain the relatively spatially balanced distribution of retailing that is currently in evidence in Ireland, from both an economic and social perspective, while ensuring that consumers and the country realise the benefits of full competition in the retail market.

Groceries Order

The coherence between the Office of the Director of Consumer Affairs in administering the Groceries Order and the role of the Competition Authority in respect of below-cost selling in the retail sector requires to be clarified.

Ireland should lead in seeking to harmonise regulations in respect of the payment of 'hello money' at EU level. The conclusions and recommendations of the review of the Groceries Order being undertaken by the Competition and Mergers Review Group need to be quickly developed and implemented so as provide certainty to retailers and suppliers into the future.

5.2 Introduction

The retail sector is an important part of the Irish economy, both through its direct contribution to GDP and employment and through its linkages with other sectors of the economy. Recognising the dynamic role played by the retail sector in economic development, employment growth and wealth creation, the following future objectives for the sector are proposed:

- Strong price and quality competition in the Irish retail market;
- Delivery of retail services to world class standards;
- Full adherence to competition rules on monopolies and mergers legislation;
- A competitive and innovative retail sub-supply sector maximising the links between Irish sub-suppliers and the retail sector;
- A strong Irish internationally trading retail sector fully taking advantage of developments in information technology.

The retail sector will require suitable economic conditions to sustain growth into the future including:

- sustained increases in disposable incomes;
- elimination of disincentives to provide employment; and
- attractive rewards to entrepreneurs.

The following policy principles are proposed to guide the future approach to the retail sector:

- A full recognition of the key role of the retail sector in the economy in future national policy formulation and an integration of the requirements of the retail sector with other aspects of economic policy and enterprise strategy;
- A retail market fully open to competition, ensuring fair and competitive practices, in particular to protect the interests of consumers;
- A balanced assessment of retail's impact on transport infrastructure and town planning; and,
- The major responsibility for the development and growth of the sector must be with the industry itself and its representative associations, with the state mainly providing a facilitating and enabling support role.

5.3 Retailers

Sustaining the competitiveness and success of the Irish retail sector and of Irish companies throughout the retail supply chain into the future will require a partnership approach on the part of Irish retailers, distributors and Irish suppliers to compete in an rapidly changing retail environment. From a national economic development perspective,

it is important that Irish retailers, as well as distributors and suppliers, are competitive and that they have the skills and capabilities to sustain competitiveness into the future in the context of the increasing internationalisation of the sector.

Significant structural change is underway in retailing. Business representative and trade associations in the retail sector and the large retail groups need to initiate information and business development programmes for Irish retailers.

The objectives of these programmes should focus on raising the levels of awareness of the structural changes taking place and on identifying strategic responses and initiatives to improve the competitiveness of Irish retailers. Based on the research for this study, initiatives in the following areas are recommended:

- The Irish retail sector needs to increase the levels of information dissemination on the changes taking place and develop appropriate action plans to respond, remain competitive and drive the change process. Representative and trade associations have a key role to play in this respect, in monitoring, informing and supporting Irish retailers prepare for the changes underway;
- Irish retailers will need to increase the levels of collaboration to achieve economies of scale in their operations and for dissemination of knowledge on technology and management practices, e.g., in forging alliances to achieve economies of scale and increase their purchasing power in the sourcing of goods and services;
- Retailers need to work closely with other sectors of economic activity, such as banking and finance, to improve and extend the range of services offered to customers. There is potential for considerable synergies to be achieved between such sectors in the changeover to the euro, for example, and in accelerating the development of electronic commerce;
- Retailers will need to increase their use of information and communications technology (ICT) in their operations and develop appropriate ICT deployment strategies. Such strategies need to focus in particular on the deployment of ICT in the supply chains of retailers where it can make a significant impact on efficiency and competitiveness. ICTs can also significantly increase the market research capabilities of retailers enabling them to both monitor changes in consumer demands and respond to consumer demands for value added services such as loyalty cards;
- FÁS already plays a role in developing the capability of the retail sector through the provision of training and re-training programmes and management development programmes. In this context, the focus of, and resources allocated to, the provision of training services to the retail sector by FÁS require to be continually assessed so as to determine whether they are an adequate strategic response;
- Specialist and niche retailers need to work with the development agencies to determine opportunities for international trade (through either outlet expansion abroad or electronic commerce), to assess their potential for internationalisation and to determine the actions required to prepare for, and to take advantage of, the opportunities presented by the internationalisation of the sector.

5.4 Suppliers

The structural change underway in the Irish retail sector and internationally holds significant implications for the future profitability and the strategic options open to Irish suppliers. A significant proportion of Irish manufacturers have successfully supplied and are continuing to competitively supply retailers in international markets. However, suppliers will need to continuously assess their market position and business strategies as they face increased competition in their home markets from foreign suppliers and in the context of the structural change underway.

The implications for suppliers of the changes in purchasing requirements and procedures brought about by the internationalisation of the Irish retail sector will require action by suppliers at three levels; strategic, operational and in terms of purchasing procedures. The future approach of suppliers with retailers requires to be based on developing long-term partnerships and a market-led approach for the adaptation and development of products and for continuously improving efficiencies and quality of production to meet the requirements of the market.

Based on the research undertaken for this study, there are a number of key areas that suppliers and the development agencies need to focus on to ensure that the Irish sub-supply base remains competitive and continues to grow in a changing retail environment.

The capacity and capability of the Irish food and clothing sectors, to meet the ever more demanding requirements for supplying to the retail sector, both in Ireland and internationally, require to be assessed on a continuous basis. Suppliers need to focus on building their capability and capacity to meet the exacting requirements of Irish and foreign retailers. Increasing the levels of collaboration between suppliers should be used as a means of increasing the ability of suppliers to develop the scale needed for volume supply to the larger retailers.

The need to deploy Information and Communications Technologies (ICTs) throughout the supply chains of supplier enterprises requires to be more widely understood by Irish suppliers. Suppliers need to adopt supply chain management strategies and Efficient Consumer Response (ECR) strategies to improve the efficiency of the retail supply chain in Ireland. The use of Electronic Data Interchange (EDI) and the use of the Internet and extranets by Irish suppliers requires to be significantly increased.

The newly established National Institute for Transport & Logistics should give a priority in its work to assisting Irish food and clothing suppliers respond to the structural change in the retail sector and to the required restructuring of the retail supply chain in these sectors in Ireland.

The levels of product research, development and innovation in the food sector, in particular in the chilled convenience food sector requires to be significantly increased. In this regard, Enterprise Ireland's Supplier Development Programme should involve and draw on the expertise of the national food research bodies. The need for increased investment or a specific initiative in the product development infrastructure requires to be assessed.

The stringent quality, hygiene and food safety management systems required for supplying the retail sector into the future need to be monitored continuously to ensure Irish suppliers maintain the high-standards required. Suppliers should be assisted in developing action plans to address deficiencies identified.

A particular emphasis requires to be placed on identifying opportunities for Irish suppliers in own-label products, both nationally and internationally, and on assisting suppliers take advantage of opportunities identified.

The relationships between Irish suppliers and the global sourcing departments of major retailers need to be strengthened.

A benchmarking system should be established to monitor the market share, exports, productivity and ICT investment levels of the Irish food and clothing sectors. This benchmarking work should include all retailers with significant market power.

5.4.1 Agency Response - Supplier Development Programme

Manufacturing companies can avail of a range of state agency assistance for capacity and capability development, for product and process research and development and for accessing new markets and developing marketing capability. Up to the time of the formation of Enterprise Ireland, assistance has been provided through a number of agencies including An Bord Bia and An Bord Glás.

During 1998, the food division of Enterprise Ireland piloted a Retail Supplier Development Programme (SDP). This initiative is to be strongly welcomed. Both food and non-food manufacturers supplying Irish and UK retailers are eligible to participate in the SDP. It is aimed at firms supplying both own-label and branded products and at intermediate raw material suppliers. The programme is to cover the areas of food hygiene, quality management systems and supply chain management. The process involves an internal diagnostic audit phase with consultants, and an implementation and review phase. Grants of up to 50% towards the costs of the consultants and/or a project manager are available. Training grants of up to £1,000 per employee are also available for employee re-training. The total amount of grant aid per company allowable is £50,000.

Further funds should be allocated to the SDP so that the maximum number of food and non-food firms can participate. In this regard, it may also need to be broadened to include a wider range of relevant state agencies, such as An Bord Glás and the Food Safety Authority, retailers and suppliers. It should also proactively seek out supply opportunities within the retail sector, both in Ireland and abroad, and seek to develop a base of Irish suppliers that can avail of these opportunities.

5.4.2 Supplier Teams

The concept of setting up specialised teams involving suppliers, retailers and business organisations, should be considered possibly as part of the Supplier Development Programme. This would entail the establishment of a number of teams, each of which would focus on a single major retailer and would seek to maximise the benefits for Irish suppliers dealing with that retailer. The setting up of such teams should maximise the leverage that the agencies and the companies involved could achieve with individual retailers. A forum for pooling information and knowledge, having due regard to commercial confidentiality, should be established in conjunction with such teams.

The objectives of the teams would be to identify opportunities to supply the retailers and to match those opportunities with suppliers or groups of suppliers that could meet the retailers' requirements in terms of product quality, availability, sureness of supply and cost.

It is considered that this programme would be availed of primarily by niche suppliers, though the opportunity to aid large-scale producers exists also. The formation of such teams should also help niche suppliers to achieve economies of scale in sales and marketing activities. In principle the beneficiaries of the initiative should contribute a major portion, if not all, of the funding for such teams.

5.5 Distributors

As noted above the supply chain in the retail sector is being significantly shortened, as retailers take control of their own supply chains to optimise efficiencies. Distributors will be required to develop partnerships with, and adopt the structures of, the major retailers. Unless foreign retailers can identify benefits and economies, in linking up with Irish distributors, they will extend their existing distribution structures and transport fleets to Ireland. In the future:

- Distributors will be required to adopt the structures of distributors in the UK and do so as efficiently as in the UK. Significant investment in ICTs and tracking systems will be required. Irish distributors need to examine the potential for alliances with UK third-party distributors to the retail sector in the UK. They also need to work with the National Institute for Transport & Logistics in preparing for the changes underway;
- Local wholesalers and Cash & Carry groups will have a key role in the future competitiveness of the independent retail sector. In particular, they will have a role with respect to developing the supply network of the independents, as it becomes uneconomic for suppliers to distribute both to central distribution centres, and to the independents. This will enable independent retailers, in particular, benefit from the purchasing power and distribution structures of such wholesalers. Similarly as the perceptions of quality and value of own-label goods increase and consumers move away from branded goods, wholesale groups will need to give a priority to the development of the ranges of own-label products they provide, to independent retailers, based on increasing quality and value.

5.6 Environmental Enabling

As noted earlier, the retail sector is the most significant part of the private services sector. It faces many of the same competitiveness pressures and requirements as other sectors of the economy. The impact that the infrastructures in Ireland, and that the overall cost base, has on the competitiveness of Irish suppliers and retailers, requires to be monitored and benchmarked on a continuous basis. The telecommunications infrastructure will be critical in this regard. In the regulatory environment there are two main policy areas that require to be resolved. These are the Ministerial Planning Order, 1982 and the Restrictive Practices (Groceries) Order, 1987.

5.6.1 Telecommunications and e-Commerce

The retail sector should be targeted as a major growth sector in electronic commerce. Initiatives and projects in tele-shopping and in the development of a strong Irish electronic retailing sector and presence on the Internet should be targeted by the development agencies. The national telecommunications infrastructure is critical to the future development and competitiveness of the retail sector and its sub-supply base for two main reasons.

Firstly, information and communications technologies now play a central role in the supply chain and logistics management strategies of retailers and of suppliers. Information networks between retailers and suppliers are critical to the operations and efficiency of the retail sector. A national EDI telecommunications infrastructure and services require to be planned and put in place. It should provide low-cost broadband access for retailers and suppliers to information networks within the country. There are concerns among small companies that they are at a competitive disadvantage in relation to communications costs, services and information sharing relative to competitor suppliers in other countries where the required services have been available for a number of years.

Secondly, there are significant new retail opportunities emerging with the development of secure electronic commerce. It is opening new consumer markets that may previously have required a physical presence. It is also providing new ways to deliver products and services. However, it will also increase the levels of competition from other international retailers that may not have a physical presence in home markets but can be accessed by Irish consumers through the Internet.

In relation to sales via the Internet of both products and services, higher bandwidth capacity is needed to provide good quality service. Given that the potential for Internet sales is significant and that the Internet may be highly lucrative for small Irish producers, the national communications infrastructure should be capable of providing such services cost-effectively. The provision of the required broadband telecommunications infrastructure and logistics services could enable Ireland develop a leadership position in Internet related shopping activities.

5.6.2 Planning Regulation

To date, retail developments in Ireland, particularly very large retail units, have been controlled by the application of planning regulations. Policy directives issued by the Minister for the Environment to An Bord Pleanála in 1981 and to local authorities in 1982 specified that the Bord and the planning authorities had to consider:

- The need for any proposed developments in the context of existing retail outlets;
- The suitability of the size and location of the proposed retail development in the context of existing retail outlets;
- The effect on existing communities and on established retail structures;
- The quality and convenience of existing retail outlets;
- The needs of the elderly, infirm and other dependent on existing retail outlets; and
- The need to counter urban decline and promote urban renewal.

In practice, planners have on occasion refused permission for developments where there is a substantial possibility of a development impacting on the existing retail structures of town and cities.

There are strongly held views that a 'laissez faire' approach of no planning regulation would allow retailing to become highly concentrated in certain areas, and consequently leave many areas un-served. This would be particularly detrimental to consumers in remote areas, and those that do not have access to transport to the retail centres as well as negatively impacting on the social fabric of the country. On the other hand, there are views that the current regulations are used in such a way that they inhibit developments which will make retailing competitive and efficient, and therefore anti-consumer.

Partly as a result of the limit on the size of outlets in the country, Ireland has not yet witnessed the growth of out-of-town superstores that developed in the UK in the 1980s. There is now a view in the UK that these developments have seriously eroded the social infrastructure of towns and villages in the UK. In 1996, the UK introduced planning guidelines for retail developments. The provisions of these guidelines are similar to those in the 1982 Ministerial Order in Ireland. Other European countries have also introduced similar regulations seeking to maintain a competitive and efficient retail sector while, at the same time, reduce the need for consumers to travel or to have access to motor cars. The pros and cons of the existing planning regulation can be summarised as follows:

<i>Pros of Planning Regulations</i>	<i>Cons of Planning Regulations</i>
Provide some measure of protection to city centre traders, vital to sustaining a community in city centres, a role made more important in the context of recent urban renewal initiatives.	Limits consumer access to larger stores offering wider choices with lower prices.
Ensures the provision of retail facilities and services for small communities and the disadvantaged in society, including those with limited transport facilities.	It is based on the assumption that out-of-town shopping will displace trade in town centres. This assumption ignores the growth of urban areas and growth in consumer demand.
It reduces dependence on the motor car.	It does not take account of the insufficient capacity of cities and towns to cope with increasing volumes of traffic.

The practice of regulatory authorities in other countries has been to seek to maximise consumer benefits by ensuring competition at local, rather than national levels. A key issue in considering future regulation on large store developments in Ireland is how effective local competition, which maximises the consumer benefit, can be ensured.

In effect, the current planning requirements may impose some cost on society by limiting consumer choice and possibly preventing lower prices. However, this cost should be measured against the potential loss to city centre and remote communities, and the costs of those assessing the remaining retail facilities. The Department of the Environment and Local Government commissioned a study on large scale retail centres which was published in April 1999 for consultation entitled 'Retail Planning Guidelines.'

The interim cap on planning developments of 3,000 square metres introduced by the Minister for the Environment and Local Government during 1998 was a very timely intervention. The limits proposed following the review noted above of 3,500 square metres on developments in Dublin and 3,000 square metres outside Dublin were deemed by the consultants Roger Tym and Partners and Johnathon Blackwell and Associates who prepared the report for the Department of the Environment and Local Government to be appropriate for Ireland.

Overall, the principles for development in the Irish planning process in respect of retail development need to be clearly defined and set out following a process of consultation. It needs to take account of the changes in retail formats, consumer demands and population spread that are under way and also take into account the impact of retail developments on the installed transport infrastructure and town planning.

5.6.3 Groceries Order

The Restrictive Practices (Groceries) Order was introduced in 1987. Its principle features are:

- a ban on below cost selling;
- a stipulation that suppliers be paid on time; and
- a ban on 'hello' money.

Following an initial review of the Order in 1995, the Minister for Enterprise and Employment decided to retain it for a period of two years. The Competition and Mergers Review Group (CMRG) was subsequently established in 1996 and was requested to examine the provisions of the Groceries Order.

A number of organisations wish to have the Order retained or replaced with primary legislation which would cover those areas of the Order not covered by the Competition Acts. Requests to abolish the Order have been made on the basis that it has been detrimental to the grocery sector by preventing retailers from competing with each other. The Fair Trade Commission recommended in 1991 that the Groceries Order be abolished. The Director of Consumer Affairs has suggested that if the Order is to continue in some form a new piece of legislation (probably a Groceries Act) would be required. The Chairman of the Competition Authority suggested in a paper to a Competition Press Seminar in February 1997, that the Order was an anomaly and that its removal might promote a greater degree of competition in the grocery trade. The pros and cons of the Groceries Order in respect of below cost selling are summarised below;

<i>Pros for Abolition of the Order</i>	<i>Cons for Abolition of the Order</i>
Could lead to lower consumer prices by lifting restriction on retailers' pricing practices.	Could have significant consequences for small and medium sized retailers that could not compete with the predatory pricing practices of multiples.
Would remove policing difficulties which create an administrative burden on retailers	Would allow predatory pricing by importers of own-label products and could thereby drive Irish branded products from retail outlets
Does not apply to fresh vegetables and fresh meats	Would not necessarily provide lower overall food prices as reductions in certain goods could be offset by higher prices elsewhere

The key concern referred to by both retailers and suppliers is whether the Order can be applied in full in a retail environment that is becoming increasingly international and where transnational retailers operate businesses in a number of countries. In the traditional structure, where retailers were Irish based, where most suppliers were also Irish based and where many imported products were channelled through agents or distributors, the policing of pricing arrangements, selling practices and payment arrangements could be carried out with relative ease and relative completeness. This is no longer the case.

With regard to 'hello' money the view within the industry is that as multi-national retailers have an international supply base, it is possible for supply arrangements to be negotiated outside Ireland. It is therefore possible for arrangements which are illegal in Ireland, but which are not illegal in other jurisdictions, to be negotiated, in respect of suppliers to Ireland, in other countries. Thus, for example, a supplier based in continental Europe could agree terms of supplying Irish stores with the retailer's buying department in another European country. Hence, product pricing arrangements and 'hello' money practices could be agreed in another jurisdiction by other suppliers for supply into the Irish market.

The Order may have limited benefits given the powers of the Competition Authority to act as described and the difficulty in policing activities outside Ireland although the Office of the Director of Consumer Affairs is satisfied with its ability to police the Order. Primary legislation may be required to better deal with the issue of below cost selling. A harmonised regulatory approach across the EU in respect of the payment of 'hello money' would be of considerable benefit by increasing the transparency in the purchasing practices of retailers in international markets. The development of a harmonised approach on this issue should be actively promoted by Ireland at EU level.

In any case, the conclusions and recommendations of the review of the Groceries Order, being undertaken by the Competition and Mergers Review Group, need to be quickly developed and implemented, so as provide certainty to retailers and suppliers into the future.

REPORTS PUBLISHED BY FORFÁS IN 1998/1999

Report	Date of Publication:
Irish Council for Science, Technology and Innovation (ICSTI) Statement on the £250 Million Scientific and Technological Education (Investment) Fund	January 1998
National Competitiveness Council (NCC) Annual Competitiveness Report 1998 & The Competitiveness Challenge Summary Statement	March 1998
Broadband Telecommunications Investment in Ireland	March 1998
Annual Survey of Irish Economy Expenditures Results for 1996	April 1998
Irish Council for Science, Technology & Innovation (ICSTI) Statement on a Partnership Approach to Research Funding – The Need for a National Science and Engineering Research Fund	May 1998
1997 Employment Survey	June 1998
Statement of the 3rd National Innovation Conference Partnership for Success: Collaboration for Innovation and Competitiveness	June 1998
Forfás Annual Report 1997	July 1998
Basic Research Support in Ireland An Evaluation of the Basic Research Grants Scheme Operated by Forbairt	August 1998
Irish Council for Science, Technology & Innovation (ICSTI) Statement on Science in Primary Schools	September 1998
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