

Federation of Small Businesses

Background

1. The Federation of Small Businesses (the Federation) told us that was a lobbying organization with 200,000 members, 30 per cent of whom were in the grocery trade, 25 per cent of their members were in retail industry and 3 per cent in agriculture. It worked closely with the Association of Convenience Stores and other associations such as the Rural Shops Alliance where there was common ground.

Distortion of the grocery market

2. The Federation said that local markets were being distorted by the activities of the large grocery multiples. In the past they had tended to pull retailing out of the cities but were now going back into the cities and destroying local shops. In the past five years 7,337 independent retailers had closed down. The market was being distorted by the massive buying power of the multiples and their tendency to undersell.
3. The Federation believed that there would be a reduction in consumer choice as diversity in the market fell away. It said that there were examples of products that were no longer manufactured because large multiples had decided to stop selling them, owing to insufficient demand and low margins. In such circumstances it was not always possible for a manufacturer to find an alternative niche market with viable sales volumes.
4. The Federation said that it was concerned about the big four supermarkets and the two discounters (Aldi and Lidl) that were projected to expand over the next five to ten years. Tesco, as the largest retailer, made a substantive difference to the issues that concerned the Federation, but the problems in the market could not be attributed to just one multiple.

Below-cost selling

5. The Federation commented that below-cost selling was banned in France, which created a fairer trading environment and a fairer deal for suppliers. The Federation would like to see a similar ban in the UK. It was aware of examples of below-cost selling, for instance of milk being sold in supermarkets at considerably below the farm gate price. The Federation recognized that there might be short-term benefits to consumers from such low prices, but believed that they could not be sustained over a long period. Prices would start to climb again after small businesses had been driven to the wall. This was likely to happen in the next 10 to 15 years. In the absence of diversity in the market, the major multiples would have less of an incentive to compete with each other and there would be less constraint on price rises.

Internet trading

6. The Federation told us that only 18 per cent of small businesses traded online. Survey evidence indicated that this figure had not increased over the past two years. The reasons for the apparent reluctance to use the Internet to market product were cost and security issues.

The Supermarkets Code of Practice

7. The Federation thought that the Code had been insufficiently publicized and was not well known among the smaller suppliers. The fact that it was not possible to make an anonymous complaint was also a deterrent to small parties. The appointment of an ombudsman, together with better publicity, might help to raise the profile of the Code. There was also a question about the term 'reasonableness' within the Code, but the Federation recognized that it would be difficult to arrive at a satisfactory definition that did not constrict diversity in supply contracts.

Retailers' buyer power

8. A main problem for suppliers was that they were told by the retail multiples what the price of goods or services would be and how much was required. This was very difficult for farmers and other growers, who were not always able to guarantee the quantity of natural products or produce them at the retailers' price.
9. The Federation gave an example of a business approached by Tesco to manufacture goods at a price that was not open to negotiation and on which it would have made a loss if it had accepted the terms. There was no invitation to tender or discussion about price. Large retailers were taking advantage of the pressures on small businesses to survive in order to get them to accept such deals.

Market definition

10. The Federation disagreed with the OFT's perspective that convenience shopping and one-stop shopping were two separate markets. In the Federation's view, in terms of economies of scale, supply and delivery, hypermarkets and convenience stores owned by the same business were in the same market.

Planning issues

11. The Federation said that there had been much out-of-town development in the mid-to late 1990s, which had drawn consumers away from their local town centres to places where they could get everything under one roof and enjoy free parking. This development had slowed more recently and the convenience store market had been growing, by 5 per cent a year. The multiple retailers were coming back into town centres with convenience formats, in some cases (for example, in south-east Wales) opening a number of satellite convenience stores within a few miles' radius of a large supermarket. The proliferation of multiple retailers in town centres was a barrier to entry by independent grocery businesses, because rents and business rates would increase.
12. The Federation said that one problem with the planning regime was that certain developments had taken place without planning permission or had been larger than the planning permission allowed. A case in point was Portwood, where the multiple retailer had permission for a 835 sq metre (9,000 sq feet) store and built one of 1,022 sq metres (11,000 square feet). It was possible for retrospective planning permission to be obtained but this just sanctioned the retailer's flouting of the law in the first place. The issue was that local planning authorities were not enforcing the law. Delays in the planning application process were also unhelpful: it could sometimes take ten years for a supermarket to be built.
13. The Federation suggested that the planning regime could be used not to distort competition but to benefit the local environment and assist the development of small

retailers. For instance planning permission for a large supermarket could be linked to smaller shops that would be able to take advantage of the supermarket's foot fall.

14. Car parking was also an issue that needed examination. It was an important part of the retail experience, so that any retailer who was able to provide free parking had a competitive advantage of those who could not provide, who were generally small retailers in town centres. Controlled parking zones in town centres (for example, in Cardiff) and congestion charges were also damaging to small retailers.