

Summary of a hearing with the Northern Ireland Independent Retail Trade Association

Background

1. The Northern Ireland Independent Retail Trade Association (NIIRTA) told us that it had approximately 900 members the majority of which were symbol group store operators. It had five wholesale members: Henderson Wholesale, which operated the SPAR/VIVO/VG franchise; J&J Haslett, which operated Mace and XL Stop & Shop; Musgrave Supervalu, which operated under Supervalu and Centra; Costcutter; and the Nisa-Today's Ltd (Nisa) members which in Northern Ireland were mainly larger retailers trading under their own name but belonging to the Nisa buying group.
2. The structure of the market was in many ways different from England in that there were very few chains in Northern Ireland. NIIRTA's members were mainly owner operators who only had one shop. However, there were a couple of members with several outlets, and a few with two or three. Henderson Retail, which was a sister company of Henderson Wholesale, operated 57 outlets, and MAXOL operated convenience stores from its 40 sites.

The market

3. NIIRTA told us that convenience stores in Northern Ireland tended to be larger than their English counterparts with an average store size of around 177 sq metres (1,900 sq feet) as opposed to 122 sq metres (1300 sq feet) in England. The convenience stores in Northern Ireland were either a member of a symbol group or a buying group such as Nisa.
4. The supermarket multiples had not been able to buy into the small store sector in Northern Ireland in the way they had in England because there were only a few chains. If the multiples wanted to acquire 150 outlets they would have to buy them individually. Members of NIIRTA were mainly sole traders who had invested in their premises with the assistance of wholesalers who saw the threat from the multiples. Convenience stores in Northern Ireland were the best quality convenience stores in the UK, if not Europe.
5. The market for the multiples was still very immature in Northern Ireland as they had only been there since 1996. Northern Ireland was the most brand conscious market in the UK. Consequently, own brand was much less developed in terms of multiple own brand and symbol store own brand. For example, one well known brand had penetration of about 19 per cent in GB through its 2,700 stores. However, in Northern Ireland the penetration of the same own brand was only about 6.5 per cent. Brand loyalty applied to more local brands than it would to national brands.
6. Another difference from the rest of the UK was that many symbol store outlets in Northern Ireland sold fuel, particularly those in rural areas. Sunday opening was different in Northern Ireland and large shops were allowed to open only between 1pm and 6pm. However, there was an exemption for shops that sold fuel so this meant that a significant number of NIIRTA's members were not subject to the Sunday opening requirements. The fact that shops that sold fuel could stay open all day, to some small degree, helped to preserve the competitiveness of small shops in Northern Ireland. If a large multiple had a fuel facility, only the shop on its forecourt could stay open.

7. There were substantial duty differentials on tobacco and fuel between Northern Ireland and the Republic of Ireland. There was substantial smuggling of tobacco and fuel into Northern Ireland which distorted the market and took valuable revenue away. The duty on alcohol was greater in the Republic of Ireland so Northern Irish shops attracted substantial alcohol sales from residents south of the border. Sainsbury's in Newry was Britain's busiest off licence.
8. The licensing system in Northern Ireland was different from the rest of the UK. It was uncompetitive and detrimental to the sector. Very few convenience stores sold alcohol. To obtain a new off licence, you had to surrender either a new or existing public house licence or off licence. Licences currently traded on the open market at up to £140,000, but then you had to prove to the County Court that there were not an adequate number of such premises in the vicinity of your premises. The terms 'vicinity' and 'adequate number' were open to debate, and there were also substantial legal costs attached to obtaining a new licence. Every existing licensee had a right to object to the new licence, and pay-offs to objectors totalling six figures were not uncommon. There had been a review of licensing legislation to address the competitive issues. By 2009 it was proposed that licensing applications would move to the local authorities, that there would be a system of personal and premises licenses, and, the surrender principle would be abolished. Need would still have to be proved.

Local competition

9. NIIRTA told us that there was evidence of below-cost selling for reasons other than promotion. Henderson Retail had 57 company owned stores in Northern Ireland of which 43 had petrol forecourt sites although their primary purpose was to sell groceries. Asda, for example, entered the market in Coleraine and Henderson Retail took the decision to price match it on fuel. During one quarter it lost £330 on the sale of fuel before taking labour and other overheads into account. The Henderson Group believed it bought fuel around the same price as Tesco, Asda and Sainsbury's on PLATS (an international standard for working out the cost price of fuel on the open market) pricing, so it assumed the supermarkets must also be losing money. Asda had stated that its price was the same all over the UK but this was not the case. Asda put a local operator under pressure to the point where it was significantly less profitable. Henderson Retail had had to increase the price of its fuel because the situation was not sustainable. However, this approach meant it undoubtedly lost grocery sales because customers perceived that this price increase would also be reflected in the cost of its groceries.
10. Musgrave Supervalu also had a store in the same area which reduced its price to 1p above Asda's price, yet its fuel sales dropped by 40 per cent which reduced profitability. Another consideration was that supermarkets offered fuel discount vouchers related to grocery sales. The loyalty points on rewards cards also drove fuel sales. There were many parts of the province where it was difficult to buy petrol because so many outlets had closed down as a result of competition from the multiples.
11. NIIRTA told us about a new Tesco superstore which had opened in Carrickfergus in 2005. Local filling stations saw sales fall by up to 39 per cent, and many units within the local shopping centre became vacant as Tesco took business away. To combat these effects, costs would have to be cut as much as possible. Specific promotional activity could be implemented and stores could be improved to give customers a better experience. In an attempt to maintain viability the small stores could not take on the multiples on price.

12. The multiples did not sell tobacco below-cost but their tobacco price was considerably lower than that offered by NIIRTA's members (by as much as 35p or 40p a packet). NIIRTA members could not match this price. Lower prices were good for the consumer in the short term but in the long term competition and consumer choice would be removed thereby creating the potential for higher prices and greater travel times.
13. The maintenance of margin was one of the easiest ways to help the disparity in trading terms. For example, a supplier could engage in a promotion where the shared margin for wholesaler and retailer was 10 per cent, but for a multiple there would be a margin of 20 per cent. This was not in the long-term interests of the consumer because ultimately the lack of profitability would push businesses out of the industry and reduce competition.
14. The supermarket multiples did not have a significant share of the convenience store sector in Northern Ireland. There were only five Tesco Expresses and three Marks & Spencer's Simply Food stores. The barriers to entry were higher due to the lack of an independent chain to buy and the licensing laws. Where Tesco Express had opened it had had an impact on the local stores in terms of lost sales. To compete with the large supermarkets, NIIRTA members focused on providing locally sourced products to differentiate their offering, as there was consumer demand for this.
15. Consumers now had less choice with regard to where to buy products. In the past four years the number of butchers had decreased by 20 per cent, and there were now only three fishmongers in the whole of Northern Ireland. Another consideration was that the supermarket multiples might offer just the leading brand, or, an own-brand and perhaps one or two others, with the result that secondary brands disappeared. It was particularly noticeable with CDs and books. Grocery retailers would only stock the top 20 books and CDs. This resulted in the disappearance of specialist book and music sellers to the detriment of the public who lost access to less mainstream products.
16. NIIRTA expressed general concerns about the way in which the multiples manipulated consumer behaviour with regard to misleading special offers and pack sizes.

The supply chain

17. The multiples could exert significant pressure on suppliers to obtain lower prices which the buying groups could not do. This was because multiples promised to deliver specifics (e.g. price and in-store positioning) which buying groups could not guarantee to do, and suppliers feared the threat of de-listing by the multiples. Tesco sometimes sold products below the price at which small shops could buy them. Tesco could be losing money on these products or its supplier might be subsidizing them by offering a promotion or advertising allowance to make up the loss in revenue. However, NIIRTA had no evidence to prove this was the case because suppliers would not admit anything on record for fear of losing supermarket contracts. Two major processors in Northern Ireland had gone out of business recently and NIIRTA believed it was because they could not afford to service their supermarket contracts.
18. NIIRTA said that suppliers had not charged their members more following entry by multiples in the Northern Irish market, but was of the view that the suppliers now had to work harder. Comparisons could be made by looking at the accounts of the major suppliers that operated a computerized SAP (computerised business control system)

system where details of account profitability regarding the various outlets could be seen.

19. NIIRTA said that suppliers and retailers needed to work together to drive innovation but had not seen much evidence of this.

Land and planning

20. NIIRTA said that planning policy was dictated by the Department of Regional Development. Individual planning decisions were made by divisional offices of the Department for Environment, Food and Rural Affairs not by local authorities. The system was presently being reviewed. Planning Policy Statement 5 had been drafted in 1995, and due to constant challenges by the multiples over the last ten years, had been watered down considerably. A new draft proposal had been published, and the final policy would be published in summer 2007. The main thrust was intended to prevent further out-of-town shopping developments in Northern Ireland and to put the focus firmly on town centres, which is what the 1995 policy should have done. The language, however, was weak and NIIRTA had made a detailed submission to tighten it up so that it could be properly enforced. The Barker Review did not extend to Northern Ireland.
21. The Department of Regional Development's report published in February 2003 concluded that Northern Ireland was at saturation point in terms of food shops. There was, however, some growth to be had in comparison retailing.
22. There were no third party appeals to the Planning Appeals Commission in Northern Ireland so there was no remedy for objectors to large supermarkets. The only remedy they had to planning decisions was judicial review in the High Court, which was very expensive. Regardless of who won, the matter would be appealed which doubled the costs, and then there was the threat of another appeal to the House of Lords and beyond that to Strasbourg. As a trade association, NIIRTA had limited resources. It had contested some cases but the supermarkets continued to throw money at the problem until their objectors ran out of resources.
23. NIIRTA said that there was no evidence of land banking in Northern Ireland. The multiples tended to buy out-of-town sites which were intended for housing and then tried to overcome the planning difficulties. These sites were usually green field as the development costs were lower and they could accommodate a larger store than the town centre could. One of the issues that NIIRTA wanted included in the new policy was the principle of disaggregation, whereby the planning authority agreed to a specific size for a development provided this was split into different elements on different sites in the town centre. This was a key tool to securing town centre retailing. Presently in anticipation of this policy, the multiples were quickly pushing ahead with out of centre development. Tesco had bought an out-of-town site in Ballycastle and proposed to build a 14,325 sq metre (47,000 sq feet) store. The town had a population of 7,000 and its total turnover in all retailing at present was £12 million. The store had a projected turnover of £16.6 million so Tesco would totally dominate the area rather than just compete.
24. The next area of development was Express stores. Tesco was looking for 12 sites in Northern Ireland as were Sainsbury's and Marks & Spencer's. NIIRTA said that its members had a better chance of competing with shops in towns because there were different pricing levels for Tesco Local's and Tesco supermarkets—the Tesco Local's and Express' charged higher prices because they had higher operating costs. The main threat to NIIRTA's members was acquisition of independent operators by the

multiples in order to build market share. NIIRTA believed Tesco had put aside money to buy stores in Northern Ireland.