

MESSAGE ON BEHALF OF CATHY PARKER OF THE RETAIL ENTERPRISE NETWORK

Dear Mr Oyler,

We welcome the decision to refer the grocery sector to the Competition Commission (CC) and agree with the broad issues highlighted by the Office of Fair Trading as being problematic and meriting investigation. As our previous submissions and comments demonstrate, the Retail Enterprise Network, believes that the grocery sector must be investigated in its entirety * a review of the practices of large operators (namely 'the big four'), will not generate the intelligence needed to make policy decisions that will ensure the UK has a competitive grocery retail sector that meets the diverse needs of consumers, both now and in the future. The aim of this letter is, therefore, to suggest ways in which the CC should focus the attention of its review and methods of data collections that will help ensure it will draw useful conclusions from its investigation, for the benefit of the entire UK grocery retail sector and therefore all UK consumers.

UNRESOLVED ISSUES FROM 2000

As a dynamic sector, grocery retailing has changed rapidly since the previous full-scale investigation in 2000. Some of the problems identified in this investigation have been exacerbated but the fundamental problem still remains the same, a reduction in consumer choice of retail operator. The investigation in 2000 provided a fair assessment of supermarkets, one type of operator in the grocery retail sector.

We believe careful consideration needs to be given as to how data for the new investigation needs to be collected to ensure that the grocery sector as a whole is investigated. Without this, this investigation may well only produce another 'snapshot' in time of the large retail sector. Without understanding factors that may be affecting the competitiveness of other operators (not just supermarkets) consumers may not, in the future, be able to enjoy an alternative offer. This will result in an erosion of diversity meaning consumers and businesses that rely on the grocery sector will have little choice but to depend on supermarkets. We have to stress that the solution to the objective of a competitive UK grocery retail sector can only be derived from a detailed analysis of the sector, including the SME retail sector and alternative formats such as farmers' markets.

INITIAL ASSESSMENT OF AN UNCOMPETITIVE SME RETAIL SECTOR

Our initial assessment of why SME retailers are struggling in the grocery sector is reflective of the dynamics of these businesses. Owners and managers are challenged by working very long hours, on very tight margins and as such are unable to participate in non-core business activities, such as taking part in government consultation exercises. The sector is also notoriously fragmented. This results a lack of coherency between retailers and a lack of understanding of the needs of the SME retail sector by many public and private organisations that significantly contributes to the sector's uncompetitiveness.

This lack of understanding can manifest itself in many ways. The SME retail sector consequently struggles to influence issues such as the planning system, rent or rates. Although not directly related to competition these issues can nevertheless negatively impact on the viability of businesses. Some manifestations are directly linked to competition and even impact on the work of the competition authorities. For example, the OFT in its document 'OFT845', concludes that the range of products offered to consumers of the grocery sector has increased (paragraphs 4.9 to 4.13). This is based purely on data provided by the big four. The OFT also, comments however, that there has been a sharp drop in the number of independents operating in the market. Given the freedom independents can exercise over sourcing or producing goods in comparison to the central buying structures of the big four, it is unhelpful to make such assumptions without any assessment of the erosion of product range triggered by the deterioration of the SME retail sector.

It is the belief of the Retail Enterprise Network that addressing these issues and supporting the competitiveness of smaller retailers will to differing extents provide an appropriate remedy to many of the competition issues identified in 2000. We expect this is still the case under the current market conditions and can take place with minimal interference in the operations of larger retailers and ultimately mean less regulation is required in the long term.

PROSPECTS FOR CURRENT INVESTIGATION

The terms of reference for this particular investigation allows the CC more freedom to be able to develop its understanding of the operations of businesses in the grocery sector outside the top tier in terms of size. We propose the CC use this opportunity to take a closer look at the SME retail sector in order to build on the knowledge already acquired in 2000.

The Retail Enterprise Network, an academic enterprise and research unit at Manchester Metropolitan University, understands the difficulties in achieving this with a fragmented sector that has difficulty participating in such investigations. It has gained extensive experience in exploring issues into the sector through projects such as Persephones, the largest ever transnational survey conducted on the SME retail sector (1200 individual interviews were conducted with SME retail owner/managers), High Street Britain 2015, on behalf of the All Party Small Shops Group and the first annual survey of the market industry. We are willingly to assist the CC by making the findings of these previous research studies available and in the collecting and analysing of new data related to the sector as far as resources will allow.

We also would like to suggest some of the research objectives the CC should consider before it commences the investigation which could be used to help build on its issues statement. We have also compiled a breakdown of some of the issues that specifically warrant attention in order to achieve these research objectives.

SME-RELATED RESEARCH OBJECTIVES

Broad objectives which we believe are important for this investigation are:

- * To develop an understanding of the dynamics of the SME retail sector;
- * To develop an understanding of the importance of SME retailers to consumers;
- * To develop an understanding of the importance of SME retailers to competition and the wider business network;
- * To develop an understanding of the interaction between SME retailers and the external environment and building a picture of how business viability is affected; and
- * To develop an understanding of any issues surrounding the viability of SME retailers that give rise to competition concerns and to investigate how these issues might be addressed.

POTENTIAL RESEARCH AREAS

In order to achieve the stated research objectives we believe that the following elements of SME retail grocery sector must be analysed. This includes:

- * **BUSINESS PROFITABILITY:** An examination of the overall profitability of small grocers based on the collection of evidence relating to cash flow, returns on capital, other costs and margins. Business profitability and the individual elements that make up 'business profitability' could be compared to individual stores operated by larger retailers (taking into account variances in overhead costs etc*).
- * **PRICES:** Building a picture of the prices charged to consumers by SME retailers in the grocery sector, identifying how these have altered over the past few years and how this compares to larger competitors.
- * **CESSATION:** Identifying the underlying reasons for the cessation of SME retailers operating in the grocery sector.
- * **AFFECTS ON LOCAL COMPETITION:** Comparing differences in local corporate behaviour and the offer to consumers in areas where competition from SME's exist and competition where SME's does not exist. This should include an analysis of promotional activity, pricing strategies etc, and the extent to which consumers benefit from local competition.
- * **CUSTOMER SATISFACTION:** Understanding to what extent consumers are happy with the offer of the SME retail sector. This should also be extended to investigating consumer satisfaction for grocery retail destinations which are dominated by SMEs, dominated by larger retailers and contain a mix of both.
- * **AFFECTS ON POTENTIALLY DISADVANTAGED CONSUMERS:** Gaining an understanding of the influence of SME grocery retailers on consumers on

low-incomes, consumers based in rural areas and any other group of consumers with potentially limited access to grocery stores.

* RESOURCES: Understanding the resources available to SME retailers (including but not limited to staff, finances, time) and how this may dictate the businesses operations.

* QUALITY: An assessment on how the quality of goods and stores provided by SME retailers has altered over the past few years and how this compares to the improving offer of larger retailers.

* SUPPLY CHAIN: Understanding the sources from which SME retailers procure their products and the nature of the relationship between suppliers and SMEs. This should include an assessment of the effects of buyer power, the ability of niche products to gain a physical route to market and the range of products consequently offered by SME retailers.

* PLANNING SYSTEM: An assessment of the impact the current planning regime has on SMEs specifically.

* PROPERTY MARKET: Identify key issues within the property market and how it affects the viability of SMEs.

* BUSINESS SUPPORT: A detailed look at the structure of business support for SME retailers in comparison to that of larger competitors.

* RED TAPE: An assessment of the extent legislation curbs the productivity of smaller retailers.

We are fully aware and understand the CC's trepidation regarding straying too far from issues not directly to competition. However, the Retail Enterprise Network is familiar with many of these issues and is aware that even if some are not directly related to competition, they have a negative impact on competition within the grocery sector. For example, in relation to business support, many larger retailers benefit from public-funded training subsidies that their smaller counterparts cannot access. As the precedent has already been set with a review of the planning system we would also like to see other areas such as business support and legislation being covered with the appropriate recommendations being suggested to the government departments and agencies.

We hope this information is useful to you and we hope we can be of further use to your investigation.

Regards,

Cathy Parker
Network Director
Retail Enterprise Network