

ACS Response to Retail Marketing Monitoring Report: Towards more Efficient and Fairer Retail Services in the Internal Market for 2020.

1.0 Introduction

The Association of Convenience Stores (ACS) welcomes the opportunity to respond to “Towards more efficient and fairer retail services in the internal market for 2010”.

ACS represents 33,500 local shops operating in villages, town centres and neighbourhood areas throughout the United Kingdom, where our members play a fundamental role in the communities that they serve.

ACS welcomes the Commission’s report and would like to take this opportunity to give some insight into the issues covered therein in the context of convenience retailers in the UK. Within this submission we will outline the important role that local shops and specifically convenience stores play in the UK retail industry as well as outlining the challenges facing our members in the context of the problems facing the retail sector laid out in the Commission’s report.

2.0 The Contribution of Convenience Retailing to the Quality of Life of Citizens

We echo the Commission’s assertion that the operation of the retail market directly affects the quality of life of consumers. Indeed interaction between retailers and customers is nowhere more important than in the case of local shops. This interaction manifests itself in a number of ways:

2.1 Location and Social Inclusion

Along with previous research undertaken for ACS highlighting the fact that people want to have a shop within 5 minutes of their home¹, existing research also highlights, as does the Commission’s report, that proximity of a shop is particularly important for older and disadvantaged consumers who may otherwise fall victim to the effects of so-called ‘food deserts’². It is frequently local shops - including convenience stores - that fulfil this role, not only providing grocery retail opportunities, but often increasing social inclusion and interaction for these disadvantaged members of the community³ in the process, who may otherwise suffer significantly.

¹ Clarke, I. and Banga, S., 2008. The Economic and Social Role of Small Stores: A Review of the Evidence. *Policy*, November Issue.

² Whelan et al., 2002. Life in a ‘Food Desert’. *Urban Studies*, 39 (11), pp. 2083-2100.

³ Bromley, R. D., Thomas, C. J. And Tallon, A. R., 2005. Engaging SMEs in Community and Social Issues. London: Business in the Community.

2.2 Access to Products and Services

Our research highlights that significant social benefits can be associated with the extensive and often specialised product ranges in c-stores. Not only are stores reported to be increasing own label and bargain ranges⁴, contrary to traditional research in this area, some studies also suggest that the fresh produce offer in c-stores has improved significantly and is comparable to that offered in continental Europe⁵. There is also some evidence to suggest that the provision of carefully targeted imported goods can encourage interaction between groups of the community that may otherwise not interact⁶.

C-stores also offer a wide range of services to community members from bill paying and post-office facilities to job centre terminals and police surgeries. Research into the needs of older and disadvantaged community members highlights the significant value of these extra services especially where they would otherwise be lost.

3.0 The Importance of Employment in Convenience Retailing

The Commission's report references some of the challenges faced by retail SMEs referring to employment practices and working conditions in the informal economy. While improvement is clearly always possible, ACS believes that local shops contribute to employment in a number of significant and positive ways.

3.1 Direct Employment

Convenience stores offer significant 'gateway' employment opportunities to local people, allowing employees to develop basic skills⁷. Local Shops also often offer part time employment opportunities to local people such as women, students and older people who wish to combine their work and non-work commitments⁸. Moreover, recent evidence suggests that many local shops are taking opportunities to train their staff as well as supporting staff development through participation in partnerships with local colleges⁹.

⁴ Euromonitor, 2010. *Convenience Store – United Kingdom*. Euromonitor.

⁵ Pettinger, C., Holdsworth, M. and Gerber, M., 2008. 'All under one Roof? Differenced in Food Availability and Shopping Patterns in Southern France and Central England. *European Journal of Public Health*, 18 (2), pp. 109-114.

⁶ Jamal, A., 2005. Playing to Win: An Explorative Study of Marketing Strategies of Small Ethnic Retail Entrepreneurs in the UK. *Journal of Retailing and Consumer Services*, 12 (1), pp. 1-13.

⁷ Dixon, T., 2005. The Role of Retailing in Urban Regeneration. *Local Economy*, 20 (2), pp. 168-182.

⁸ Broadbridge, A., Maxwell, A. and Ogden, S., 2007. Experiences, Perceptions and Expectations of Retail Employment for Generation Y. *Career Development International*, 12 (6), pp. 523-544.

⁹ Rexworthy, J., 2010. 'Changing Spaces: How can we Breathe Life Back into our Empty Shops?', *Presented at Saving Britain's Highstreet Conference*, Birmingham, 18th March 2010. Retail Week.

Moreover it has been suggested that retail positions in SME retailers offer employees greater opportunities to carry out varied work and undertake responsibility more rapidly¹⁰. Although there is room for further progress to be made in this area, it should be recognised that local shop proprietors are subject to significant employment regulatory burden and cost, indeed the UK represents one of the most restrictive environments in Europe in this regard. This will be covered further in paragraph 5.2.

3.2 Induced Employment

As well as direct employment, local shops also support employment throughout the communities in which they are based through the sourcing of goods and services¹¹. This is particularly important to maintain the local economies and communities in which the stores are based as well as contributing significantly to the viability of members of the supply chain locally, nationally and internationally.

4.0 The Economic Importance of Convenience Stores

The UK convenience sector is worth £30.9bn and accounts for 20.9% of all food and grocery retail spending¹². As well as the resulting contribution to the national economy, local shops are also uniquely important to the local economies of the communities they serve.

The UK Convenience sector forms part of the UK Grocery Market which accounts for £147.5bn¹³. This market is one of the most concentrated in Europe.¹⁴ Given the concentration of supermarket retailing in the UK there are immense barriers to market entry and expansion especially for SMEs in this retailing format. Convenience retailing therefore plays a crucial role in preserving diversity, affording opportunities for market entry and crucially provides a route to market for a range of products, especially small scale and locally sourced that are often excluded from entry into the centralised and closely controlled supply chains serving the supermarket sector.

Consolidation remains a pressing threat to the diversity, innovation and fairness of the grocery market in the UK, especially given the dramatic expansion of small format outlets by the existing dominant supermarket chains (this is discussed in more detail in para 5.1 below)

¹⁰ Booth, S. and Hamer, K., 2006. Labour Turnover in the Retail Industry. *International Journal of Retail and Distribution Management*, 35 (4), pp. 289-307.

¹¹ Lyon, F. et al, 2002. *Measuring Enterprise Impacts in Deprived Areas*. Small Business Service.

¹² IGD, 2010. *Global Convenience Retailing – Maximising the Opportunity*. IGD.

¹³ *Ibid.*

¹⁴ Office of Fair Trading, 2006. *The Grocery Market*. Office of Fair Trading.

4.1 The Importance of the Horizontal Nature of Retail Services in the Context of Convenience Stores

The Commission's report highlights the horizontal nature of retail services and the resulting knock on effects that should be considered of any actions affecting the retail industry. ACS supports this idea and has conducted research which highlights that convenience retailers are particularly important to the organisations that supply them with goods and services. Through supply chain networks that often encompass local, national and international businesses, convenience stores contribute to economies on each of these levels but are particularly important to the local businesses and the local economies of the communities they serve.

4.2 The Multiplier Effect

Moreover, research suggests the existence of successful local shops increases the viability and vitality of the local area by driving footfall to other enterprises and encouraging local money flows¹⁵. The so-called 'multiplier effect' concept asserts that shop employees and suppliers will go on to spend a proportion of their income in the local community: employees by spending their wages, and suppliers through their own local expenditure, and thus that money spent in the economy will multiply as it is recycled¹⁶. This highlights once more the fundamental role that c-stores play in their local economies.

Indeed some research goes as far as to suggest that the existence of a successful local shop encourages others to act entrepreneurially, increasing the number of enterprises in the community, the business networks therein, the employment opportunities, contributions to local money flows and by extension the viability of the area¹⁷.

5.0 Problems Impacting on the Performance of the Convenience Retail Sector

Having outlined the value of local shops within the grocery retail industry, and following on from the Commission's summary of the problems facing the retail sector it seems appropriate to layout the challenges impacting on the performance of the convenience retail sector specifically.

¹⁵ Ward B. and Lewis, J. 2002. *Plugging the Leaks. Making the Most of Every Pound that Enters your Local Economy*. London New Economics Foundations.

¹⁶ *Ibid.*

¹⁷ Minniti and Bygrave, 1999 in Ring, J. K., Paredo, A. M. and Chrisman, J.J., 2010. Business Networks and Economic Development in Rural Communities in the United States. *Entrepreneurship Theory and Practice*, 34 (1), pp. 171-195.

5.1 Entrenched Dominance of Major Supermarket Chains

Concerns about the anti-competitive effects of markets that are too consolidated, including significant barriers to entry and allowing routes to market for good quality and innovative suppliers are highlighted in the report. This is of particular concern in the UK market place. Where there has been significant debate about the supermarkets' interaction with the planning system. Through a number of competition investigations, significant problems have been identified and remedies are being implemented¹⁸.

Supermarkets and the Planning System

The Commission's report suggests that restrictions to entry in the retail market that serve to protect existing local businesses may be preventing entry and competition in the market. This may be the case in some EU markets, but is certainly not the case in the UK. The UK has had specific national planning policy in place since 1996¹⁹ that sought to more closely regulate where new retail development could be located. The so called town centre first planning policy has been criticised by some supermarkets as inconsistent and restrictive. However these concerns are easily overstated. The rate of supermarket development in the UK remains high. The problem is not building new stores but that the companies that do so are only the existing large national companies²⁰. We have argued strongly that the barriers to entry in the UK market are not associated with planning and that measures that weaken existing planning rules would serve only to accelerate the growth of the existing dominant players and make a bad situation worse.

The impact assessments that must be completed as part of current planning applications are fundamental to try and ensure that supermarket developments will not destroy the existing businesses and that there is in fact a 'need' to meet over and above that fulfilled by the existing shopping provision. ACS therefore strongly supports the requirement to complete detailed impact assessments within the planning process and would discourage the Commission from intervention to seek to reduce the ability of local decision makers to control where and how major retail developments are developed in their communities.

Supermarket Buying Power and Supplier Abuses

As ACS made clear in our significant intervention into the UK Competition Investigation into the Grocery market in 2006-08, we believe that the barriers

¹⁸ Competition Commission, 2008. *The Supply of Groceries in the UK Market Investigation*. Competition Commission.

¹⁹ Planning Policy Guidance 6

²⁰ Competition Commission, *Op. Cit.* P. 10.

to entry, expansion and innovation in our market place reside very clearly in the entrenched dominant position of the major supermarket companies.

The UK supermarket sector is essentially a closed shop, with virtually almost no scope for new competitors to enter. This is in spite of continued expansion in the number of supermarkets developed by existing players. The reason is because of the significant buying and supply chain advantages resulting from the dominant position in the market.

Whilst dominance is not in itself considered to be harmful to consumer interests, it does give opportunity for abusive practices that lead to anti-competitive and harmful consumer effects. It is for this reason that we should be so concerned about the Competition Commission finding that supermarkets engaged in harmful commercial/contractual practices that had a negative impact on suppliers, leading to reduced innovation and harmful consumer effects. The resulting recommendation was both a strengthened binding code of practice and a recommendation for independent oversight.

This recommendation has since been endorsed by the UK Government and they plan to introduce a new Grocery Code Adjudicator to ensure that supermarkets do not engage in abusive practices²¹.

5.2 The Burden of Employment Costs

Convenience retailers have been subject to spiralling employment costs for more than a decade. Since 1999 the national minimum wage in the UK has increased by 60% and continually above inflation²². This, along with increased holiday entitlements and forthcoming increases in national insurance and pension contributions results in significant pressure forcing retailers to reduce employee hours, and reduce staff levels. This also reduces available resources to increase and improve training and development provision for remaining provision.

5.3 Measuring Social and Environmental Impact

Part of the Commission's report refers to the challenge facing consumers when choosing where to shop as they know little about the social responsibility of particular retailers. Our research suggests that this issue of measurement of contribution and impact in social and environmental terms is something that small retailers will struggle to address²³. While large organisations have the resources to generate social responsibility reports, small retailers do not. Indeed where the Commission's report refers to the

²¹ Department for Business Innovation & Skills, 2010. *Taking Forward the Establishment of a Body to Monitor and Enforce Compliance with the Groceries Supply Code of Practice (GSCOP)#; The Groceries Code Adjudicator*. BIS

²² Office for National Statistics, 2010.

²³ ACS, 2010. *Social, Economic and Environmental Contributions of Local Shops: Existing Research Review*. ACS.

challenges facing SME suppliers who cannot afford to measure and report their social and environmental performance, the same applies to small grocery retailers. While ACS would welcome the introduction of rules to govern and standardise the measurement of social and environmental impact, consideration would need to be given to the limited resources of SME retailers.

6.0 Conclusions

This submission highlights that convenience stores play a significant role in improving the quality of life of citizens through both the provision of retail goods and services, and the social contribution they make to the communities in which they are based. This is often largely due to their positioning as a “local shop”.

The employment opportunities that local shops offer and support are fundamental within the communities they serve and although there are a number of areas for improvement, there is also evidence that local shop positions often have valuable and unique facets precisely because they are smaller operations such as opportunities to experience more aspects of the business and undertake responsibility more rapidly.

Retail is vital to the UK economy and the convenience sector represents a significant portion of food and grocery retail spending. Our research indicates that convenience retailing contributes greatly to economies at the international, national but particularly at the local level. Convenience stores often represent an anchor for local economies and are fundamental in developing and maintaining local business networks and money flows.

The regulatory framework within which retailers operate has to strike the appropriate balance between the competing economic and social priorities of the community. In the case of planning policy, for example, concerns that restrictions prevent new entrants establishing themselves in existing markets should not override the greater need to preserve coherent social and economic centres. In the UK ‘town centre first’ planning policy is, an imperfect, but necessary ballast against the depopulation of high streets.

Convenience retailers face a range of challenges that must be taken into consideration by the Commission. It is certain that given the correct regulatory and economic conditions local shops will contribute significantly to a more efficient and fairer retail services in the internal market for 2020.

We are keen to continue to assist the Commission in its ongoing programme of work and should you have any questions or require any further information, please contact Shane Brennan, Public Affairs Director at shane.brennan@acs.org.uk.