

House of Commons

All-Party Parliamentary
Small Shops Group

**HIGH STREET
BRITAIN: 2015**

TITLE	All-Party Parliamentary Group for Small Shops	
PURPOSE	To highlight the problems of the smaller retailer (as distinct to large multiples) and to draw attention to their social as well as commercial role.	
OFFICERS		
Title	Name	Party
Chair	Jim Dowd	Lab
Vice-Chair	Nigel Evans	Con
Secretary	Bob Russell	LD
TWENTY QUALIFYING MEMBERS		
Government Party	Main Opposition Party	Other
1 Jim Dowd	Nigel Evans	Bob Russell LD
2 Lord Carter	Derek Conway	Andrew George LD
3 Stephen Hesford	David Amess	Angus Robertson SNP
4 John Grogan	Stephen Crabb	Danny Alexander LD
5 Linda Gilroy	John Randall	
6 Janet Anderson	James Brokenshire	
7 Nia Griffith		
8 Jim Cousins		
9 Piara S. Khabra		
10 David Hamilton		
CONTACT DETAILS FOR CORRESPONDENCE AND GENERAL ENQUIRIES ABOUT THE GROUP		
Mr Jim Dowd, House of Commons, London SW1A OAA. Tel: 020 7219 4617		
BENEFITS RECEIVED BY GROUP FROM SOURCES OUTSIDE PARLIAMENT		
Independent Retailers Confederation (via Quintus Public Affairs Ltd) provides secretarial support (correspondence with members and other groups, minutes).		
PAID EMPLOYMENT OUTSIDE PARLIAMENT OF STAFF WHO HOLD A PARLIAMENTARY PASS		
None.		
DATE OF GROUP'S LAST REGISTERED ANNUAL GENERAL MEETING		
8 June 2005		
CATEGORY OF GROUP		
On Approved List; All-Party Parliamentary Subject Group.		

The All-Party Parliamentary Small Shops Group

The All-Party Parliamentary Small Shops Group was set up by a cross party group of MPs to raise awareness among Parliamentarians of a broad range of issues of concern to small shopkeepers, including retail crime, excessive insurance premiums, planning reform, red tape and environmental legislation. The group also looks at the vital social and economic role played by independent retailers in community stores.

Wafer thin margins, combined with the constant threat of unfair competition from supermarket behemoths, mean that small shops, once an essential part of the fabric of rural and urban life, are disappearing in their thousands each year. The group provides a forum for informed discussion of the obstacles faced by small shopkeepers. It aims to promote better and fairer laws to help preserve and foster retail diversity.

Current membership

Officers of the Group

Jim Dowd (Lab) – Chair
Nigel Evans (Con) – Vice Chair
Bob Russell (LD) – Secretary

Members

Anderson, Janet	Dunne, Mr Philip	Lepper, David
Alexander, Danny (LD)	Efford, Clive	Liddell-Grainger, Mr Ian
Amess, Mr David	Gale, Mr Roger	Luff, Peter
Ancram, Rt Hon Michael	George, Andrew (LD)	McDonnell, John
Austin, Mr Ian	Gillan, Mrs Cheryl	Meale, Mr Alan
Banks, Gordon	Gilroy, Linda	Moon, Mrs Madeleine
Bellingham, Mr Henry	Goodman, Helen	Mountford, Kali
Benyon, Mr Richard	Griffith, Nia	Mulholland, Greg (LD)
Blizzard, Mr Bob	Grogan, Mr John	Olnier, Mr Bill
Borrow, Mr David S.	Gummer, Rt Hon John	Öpik, Lembit (LD)
Bottomley, Peter	Hamilton, Mr David	Pelling, Mr Andrew
Brazier, Mr Julian	Hammond, Stephen	Randall, Mr John
Brokenshire, James	Heald, Mr Oliver	Riordan, Mrs Linda
Brooke, Annette (LD)	Hepburn, Mr Stephen	Robertson, Angus (SNP)
Brown, Mr Russell	Hesford, Stephen	Simmonds, Mark
Caton, Mr Martin	Hollobone, Mr Philip	Singh, Mr Marsha
Clapham, Mr Michael	Holmes, Paul (LD)	Smith, Ms Angela C.
Conway, Derek	Humble, Mrs Joan	Vis, Dr Rudi
Cooper, Rosie	James, Mrs Sian C.	Walter, Robert
Cousins, Jim	Kawczynski, Daniel	Wicks, Malcolm
Crabb, Mr Stephen	Khabra, Mr Piara S	Williams, Mark (LD)
Cunningham, Mr Jim	Laing, Mrs Eleanor	Williams, Mr Roger (LD)
Davies, David T. C.	Law, Peter (Ind)	Wilson, Sammy (DU)
Dean, Mrs Janet	Leech, Mr John (LD)	Wright, Mr Iain
Dobbin, Jim		

Committee staff

John Byrom, Alan Hallsworth, J. Saira Khatun, Ojay McDonald and Cathy Parker.

Contact

The telephone number for general enquiries 020 86992001

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Contents

Report	<i>Page</i>
 Summary	6
1. Introduction	8
2. Background	10
3. Current trends	19
4. Predicted outlook for 2015	49
 Conclusion and recommendations	66
Annexes	
A: Consultation Questions and Terms of reference	76
B: List of written evidence	78
C: List of oral evidence	86
D: Glossary	88

Summary

This report provides the analysis of the evidence, both written and oral, submitted to the Inquiry held by the All-Party Parliamentary Small Shops Group, entitled 'High Street Britain: 2015', concerning the long term prospects of the United Kingdom's small retail sector.

Concern for the future of traditional shopping areas arose amidst recognition from many in, and associated with, the retail industry: 'traditional' local small shops or independent convenience stores are disappearing rapidly. Once a 'tipping point' is reached many small shops could be lost instantly as wholesalers no longer find it profitable to supply them, resulting in the urgent need for a review of the market.

The vast majority of contributors agreed that all small shops are important to, and influenced by, economic, social and political trends. The small retail sector is a key driver of: entrepreneurship, employment, skills, local economies, innovation, and sophisticated business networks, as well as accessibility to vital goods and services, diversity, social inclusion and community activities.

However, contributors are concerned by the intense pressure small shops face, from both market-led forces and external (macro-environmental) forces. Witnesses cite the aggression of larger competitors, distortion of the supply chain, the cost of property, crime, poor planning decisions, a lack of appropriate business support and disproportional regulatory burdens as problematic.

There is widespread belief therefore, that many small shops across the UK will have ceased trading by 2015 with few independent businesses taking their place. Their loss, largely the result of a heavily unbalanced trading environment, will damage the UK socially, economically and environmentally. People (as consumers and members of communities) stand to be disadvantaged the most with restricted choice, entrenched social exclusion and a vulnerable supply chain caused by consolidation.

We make the following recommendations:

- Implement a moratorium on further mergers and takeovers until the government has brought forward proposals to secure the diversity and vitality of the retail sector
- Establish a retail regulator
- Revise the two market ruling
- Introduce comprehensive codes of practice across the retail sector
- Review the tax system and close the Jersey VAT loophole
- Review application of rate relief system as applied to independents trading on the threshold of viability
- Introduce a new requirement for all local authorities to adopt a retail strategy within the Unitary Development Plan
- Develop regeneration units in all local authorities within the UK
- Develop retail focused regeneration units in all RDAs within the UK
- Delegate greater decision-making power to people locally (consumers and communities)
- Rapidly implement the recommendations of the Hampton review
- Make revisions to the retail property market
- Encourage the transformation and innovation of the Post Office network
- Implement measures to restrict the environmental impact of shifts in the retail sector

1 Introduction

Concerns for the future of traditional shopping areas arose amidst recognition from many in, and associated with, the retail industry that 'traditional' local small shops or independent convenience stores are disappearing rapidly. Some contend that the rate of decline is 2,000 a year.¹

There are also concerns that small shops in other sub-sectors are struggling on account of local, regional and national Government policies, the aggressive policies of larger businesses and the liberal stance taken by the competition authorities. Consequently the purpose of this report entitled 'High Street Britain: 2015', is to contribute to the growing debate on issues relating to retail competition by analysing evidence, both written and oral, submitted to the Inquiry held by the All-Party Parliamentary Small Shops Group (APPSSG) from:

- Academics;
- Business Support Groups;
- Charities;
- Competition Authorities;
- Consumers;
- Government Departments;
- Non Government Organisations;
- Retail Employees;
- Retailers;
- Think tanks;
- Trade Associations; and
- Wholesalers.

This report examines what commercial, political and social factors will influence the development of local retailing up to 2015 in line with APPSSGs terms of reference.

¹ IGD Convenience Retailing Report 2005

Therefore the report aims to:

- make an assessment of the current structure of the market,
- predict how the market will develop to 2015 if current trends persist,
- assess the future costs and benefits of these trends,
- and make recommendations to the Secretary of State and the Director General of the Office of Fair Trading as to whether the market needs to be investigated further; and makes recommendations as to how public policy in this area should be developed to the benefit of consumers. These recommendations recognise that regardless of the needs of business, people as consumers and members of communities must come first.

The report will focus on small independent retailers operating in urban areas, rural areas, neighbourhood conurbations and secondary shopping areas. As such, the focus is not just on the high street as the title might suggest but on small shops wherever they are located.

It is important to note that businesses that provide goods for consumption on the premises are presumed to be service providers and not retailers, and are thus not taken into consideration within this analysis, nor are those who sell motor vehicles and property. The report covers all food and non-food sub sectors, but recognises at the same time that food (grocery) has a higher social and political importance as the consumption of food is a basic, physiological human need².

² 32a

2 Background

Retail sales in the UK reached £246.3 billion in 2004,³ a figure larger than the combined economies of Switzerland and Ireland.⁴ There are 184,695 different businesses operating 278,630 shops in the UK, which constitutes 11% of all UK businesses.⁵ Retailing is a valuable UK business sector that exerts a major influence on the lives of people. With over a third of consumer spending typically being spent in the retail sector, retailers play a major role in sustaining the economy. Retail outlets are usually the end point for any supply chain; they are the main channel for consumers to access goods. In addition to their practical role, they also serve the social and leisure needs of consumers as 'shopping' is no longer just a practical necessity, it is a major past-time for many people. This section provides the context in which the report is grounded and outlines the interdependence of independent small shops with the economic environment, social environment and political environment.

The retail sector is made up of diverse markets and different store formats. Various scales exist including convenience stores, supermarkets, superstores, hypermarkets, market traders, discount stores, retail cooperatives, department stores, mail order companies and warehouses - each providing consumers with a different offer.

However, the trend has been to see the retail sector consolidate in many sub-sectors (such as grocery) resulting in a dominance by larger shops, and more multiple chains with shops throughout the country. These are often located away from the high street for example, in shopping areas either on the edge or outside the town centre.⁶ Between 1986 and 1997, the number of out of town shopping areas increased four-fold.⁷ Social and business changes have

³ 30a

⁴ 30a

⁵ 30a

⁶ Schiller R, 1986, "Retail decentralisation: the coming of the third wave" *The Planner* **72** 13-15. Fernie J, 1995, "The coming of the fourth wave: new forms of retail out-of-town development" *International Journal of Retail & Distribution Management* **23**(1) 4-11

⁷ OPDM., Making the Connections: Final Report on Transport and Social Exclusion available at www.socialexclusion.gov.uk

meant that the rise of multiple and multi-national retailers was inevitable.⁸ These changes have coincided with the loss of retail outlets on the high street, reflecting wider patterns of social and economic transformation.⁹ Therefore shops are less likely to be found clustered together in the central market place of towns and villages and small specialist retailers are no longer as prevalent.¹⁰ Instead, many traditional retail areas have seen a proliferation of catering-based service providers such as restaurants and fast food takeaways,¹¹ as well as a rise in office-based businesses on the high street. The convenience store market has grown in recent years as independent retailers and small chains seek to find a way to provide an alternative to the major multiple retailers trading mainly in out-of town locations.¹²

2.1 Independent Small Shops and the Economy

Of the 278,630 shops that operate in the UK almost half of these are owned and managed by a sole trader and a further 103,000 have fewer than five employees.¹³ Small shops are an integral and valuable part of the UK economy in terms of providing employment, investment, diversity and innovation.

The retail sector in the UK employs 3.1 million people, 11% of the working population, or one in nine jobs¹⁴ and small retailers, through family owned businesses, provide more jobs per sale than large retailers.¹⁵

In 2004, the convenience store sector accounted for over 500,000 employees from a turnover of around £21bn. By comparison, the Big Four superstores employed 800,000 people against a turnover of around £76bn. This equates to £42,000 turnover per member of staff in the

⁸ 44b

⁹ 36b

¹⁰ 36b

¹¹ 20a

¹² 6a

¹³ 14a

¹⁴ 30a

¹⁵ 3b

convenience store sector, versus £95,000 turnover per member of staff in superstores.¹⁶

The retail sector is also an easier route to employment for many people who can be discriminated against in other business sectors. For example, 61% of all retail employees are women, who benefit from flexible working conditions, thus easing the burden of domestic responsibilities¹⁷. Furthermore, in part due to the traditionally low barriers to entry into retailing, it provides the opportunity for self-employment to other groups such as migrants to the UK. African, Caribbean and Asian people are more likely to start their own business than Caucasian people.¹⁸

People of South-Asian origin contribute more than £5 billion annually to the British economy.¹⁹

Retail is often a 'stepping-stone' for entrepreneurs to start up in other business sectors.

Retailing is also important in rural areas. In rural England retailing is, in fact, the single largest employer with 480,000 employees and owners.²⁰ A further 200,000 employers and employees are supported by wholesale enterprises. Retailing thus provides employment for 15.5% of people who work in rural England.²¹ Increasingly, rural retail outlets are seen to be part of the offer for rural visitor destinations and attractions.²² The breadth and diversity of small shops in rural areas is influenced by the proximity of urban centres²³ and consequently changes in the urban retailing structure will impact upon rural retailing. Accordingly there is also a geographical interdependency that involves rural shoppers purchasing groceries locally but

¹⁶ 6a

¹⁷ 30a

¹⁸ 40c

¹⁹ 40c

²⁰ 18a

²¹ 18a

²² 18a

²³ 18a

also travelling to urban centres to acquire higher value goods such as furniture, electrical equipment, clothing and leisure items.²⁴

Small shops clustered together also rely on each other as well as other services to generate consumer spend in traditional areas. Outlets such as banks, post offices, newsagents, butchers and grocery stores may all depend on each other to attract footfall to a location, rather than any one specific outlet.

The retail sector relies on many other industries, such as agriculture and manufacturing. As such, in order to understand the retail sector, it is important to understand the whole supply chain. For example research on local food networks in East Suffolk illustrates complex trading links between a high number of local and regional businesses.²⁵ A survey revealed a dense network of interdependent producers, wholesalers and retailers, with 81 food shops sourcing from around 295 local and regional producers.²⁶ The loss of a few small shops results in the increasing vulnerability of the supply chain and wider business network.

This demonstrates that local shops and retail business networks form an important part of many local economies. A Friends of the Earth study of local food schemes found that on average just over 50% of business turnover was returned and invested back into the local economy. The study included farm shops, farmers' markets, box schemes and community-supported agriculture.²⁷ The size of the retail contribution to a local economy does not, necessarily, follow the same principles of scale economies found within the economy as a whole. In other words, small retail businesses can contribute more to the local economy than large ones if they are purchasing from local suppliers, employing more staff per sale and if the shareholders or owners of the business are spending any profits in the local area.

²⁴ 18a

²⁵ 67a

²⁶ 67a

²⁷ 3b

Independent retailers commit themselves to investing long working hours²⁸ and have a passion for the goods they sell.²⁹ Due to this fact, independent retailers - specialists in particular - possess a comprehensive knowledge of their products. This allows them to offer a worthy customer service that takes into account variations in the marketplace, which are brought on by changes in the global economy³⁰. Their size and lean decision-making structure allows them to adapt rapidly; especially those who form part of the production process.

“being producers and retailers, we do control our own production and its very easy to accommodate the demand as the demand arises. This is not just in volume, but also in new ideas”³¹

Not only are small shops able to respond to changes in the marketplace but they are also able to bring about change through innovation at many levels. These changes have an impact on the market and can be adopted by large retailers elsewhere. For example independent bakers have been responsible for successful product innovations with sour dough and organic goods, which have been mainstreamed by supermarkets. Local grocers evolved into convenience stores in the face of competition from out of town shopping developments.³² This has also been replicated by supermarkets due to the convenience store format’s success in meeting the needs of the consumer.

2.2 Independent Small Shops and Society

There are few business sectors as important to the community as retailing. Shops are more than just distribution points, they provide a vital service and mainstay for town centre and rural communities.³³

Areas where there are few or no shops selling fresh, wholesome and affordable food have been described as ‘food deserts’. This refers to an area in which food retailers have moved

²⁸ 47a

²⁹ 1a

³⁰ 10a

³¹ 37a

³² 6b

³³ 30a

away and shops have closed, with remaining shops offering only a very limited range of foods.³⁴ Food and nutrition are a major public health issue because poor diet is a major contributor to health problems. This, in turn, introduces costs, for example the obesity epidemic, into the economy. Therefore, it can be argued that the accessibility and affordability of healthy food is a basic human right.³⁵ People living on low incomes suffer disproportionately from diet related diseases. Improved food access can offer gains for everyone, delivering on social inclusion, community cohesion, crime reduction, urban regeneration, and improved business opportunities as well as health.³⁶ In the right trading conditions small shops can help tackle this by offering affordable, healthy food through a number of outlets made accessible through their geographic spread.

Communities contain groups of people with diverse demands and needs.³⁷ Small shops will reflect this in their offering. For example, the Muslim population of Britain have to rely on small shops to purchase 'halal' meat, which is an essential practice in following their religion.

Trading at the level of 'the neighbourhood', convenience stores in particular are well placed to understand their customers and meet such needs by effectively tailoring their services. It is believed this is the reason small shops are heavily relied upon in less affluent urban areas. A survey of shopping habits found that consumers in these areas (including council estates and multi-ethnic low-income districts) were more likely to use independent retailers for their main shopping.³⁸ This also applies to elderly residents in urban areas as they tend to be less mobile.

Local shops can therefore provide the opportunity to buy fresh produce in quantity and quality.³⁹ Otherwise deprivation can potentially result in exacerbation of health inequalities.⁴⁰

³⁴ 43b

³⁵ 45a

³⁶ 3b

³⁷ 3b

³⁸ 3b

³⁹ 45a

⁴⁰ 43b

Small shops provide social cohesion as an essential centre for social contact.⁴¹ For example, retirement and subsequent migration to rural areas results in a high concentration of elderly people. This group of consumers rely on small shops to provide a hub for interaction with others and fulfilment of their day-to-day needs. Small shops can often quickly recognise their community role and take responsibility for community led initiatives.

As a local business we are very much a part of the local community. School children come to us on visits, we offer work experience, we do Company history talks to local pensioners groups, we support many local charities with raffle prizes and cakes or bread when they hold special events.⁴²

2.3 Independent Small Shops and Policy

The ODPM, through its social exclusion unit has recognised the importance of retailing in tackling exclusion, such as access and affordability of food in deprived areas and the need for alternatives to out of town shopping developments.⁴³ Success of retail is dependent on good accessibility⁴⁴ and the sector has, therefore, been recognised, again by the ODPM, as being an integral part of the planning process. Consequently effective planning can lead to vibrant retail districts when it takes into account issues of accessibility. Local authorities and/or planners recognise the function that retailing can play in regenerating an area and building sustainable communities⁴⁵ and the role of suitable transport infrastructures. For example, customers must be able to access food using a variety of modes of transport. This is especially important for small shops as they are, by and large, 'stuck' with their respective locations and cannot implement the same flexibility in terms of choice of location as larger stores can. DEFRA is involved in the development of policy regarding the environment and recognises the impact the retail sector can have on this. Planning decisions should therefore aim to reduce

⁴¹ 57a

⁴² 1a

⁴³ 30a

⁴⁴ 30a

⁴⁵ 43b

dependence on car use, especially for everyday journeys to meet everyday needs such as food shopping⁴⁶, which could focus attention back onto the high street and its offering.

Planning authorities also have a large role to play in allowing the development of new retail sites, the impact of which varies on those retail locations that already exist. For example street markets and covered markets often serve low-income ethnic groups – among the very people most in need of fresh foods – but their contribution is not always measured.⁴⁷

The importance of small shops is also recognised by various public sector agencies concerned with health and nutrition. The maxim to eat five portions of fruit and vegetables a day are inconsistent with a culture that apparently supports the spread of the large supermarkets, and the subsequent inevitable closure of local shops. The practice of shopping once a week at a large supermarket is not supportive of the 5-A-Day ideal, as carrying and storing large amounts of fresh produce will be difficult.⁴⁸

Given the ‘societal’ importance of the retail sector, it is not surprising that there are policies at local, regional and national level that, in some way, regulate the sector. Small shops are bound by regulations developed by various local and national agencies. Like other businesses, small retailers are affected by the rates and tax set by Government. Also, given the importance of food to a nation, the grocery sector has received intense scrutiny over the past few years. For example, the investigation by the Competition Commission, (*‘Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom’, 2000*), revealed intense competition in the market; with two complex monopolies having formed. The report included evidence of practices that are not in the consumers’ long-term interest. Examples cited include: predatory pricing (where aggressive pricing is aimed at putting smaller competitors out of business), below cost selling (where goods are sold below the cost of production), and price flexing (where prices will differ from other regions) and adverse buying power.

⁴⁶ 43b

⁴⁷ 43b

⁴⁸ 43b

As a result of the Commission's report, the Supermarkets Code of Practice was established to provide a forum for complaints for the suppliers of large supermarkets. The OFT was unable to guarantee the anonymity of suppliers and this has led to widespread criticism of the effectiveness of this voluntary code of practice.

3 Current trends

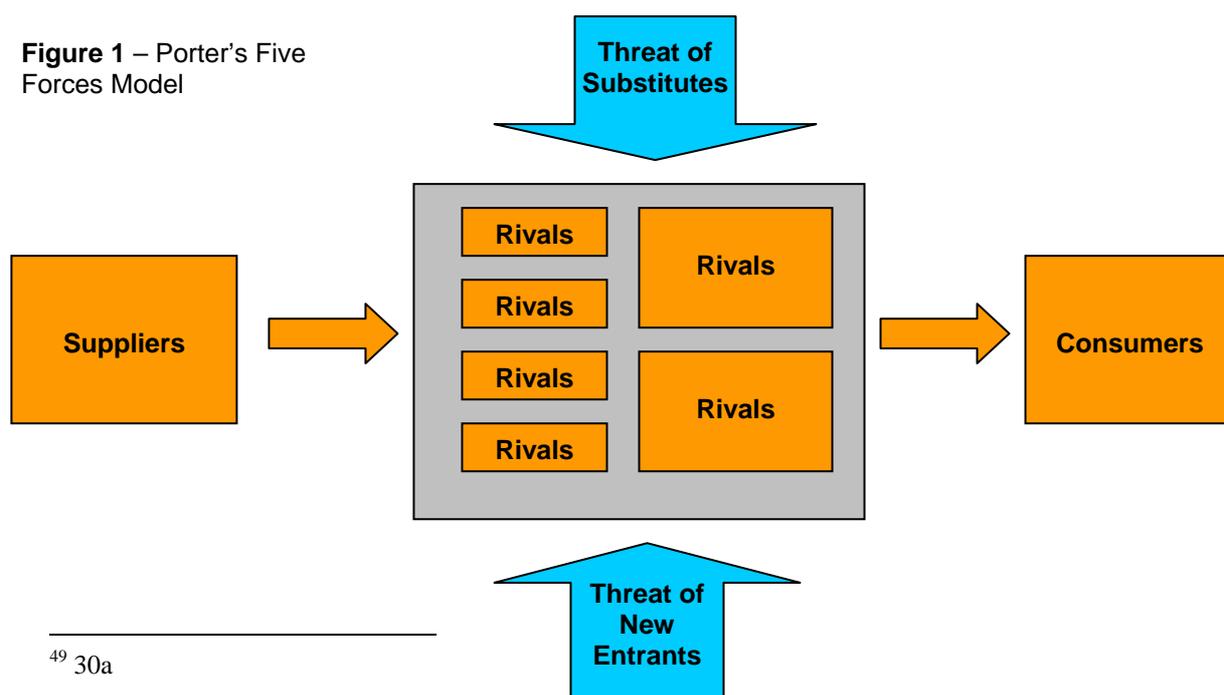
The retail landscape has changed over the past 40 years in terms of changes in the locations of shops, shop formats and product offerings.⁴⁹ UK retailing shows high levels of market concentration with the decline of the small independent retail sector an emerging theme. Undoubtedly this trend continues. What is unclear is whether these changes are beneficial for the UK as there are polarised arguments for and against consolidation. In view of estimating the impact of these changes in 2015, a detailed review of the current trends must first take place.

This section is predominantly evidence based, examining trends internally, specific to the retail sector and wider trends which impact upon the retail sector.

3.1 Market Forces

The market forces that shape the structure of the retail industry and impact on small shops and traditional retail areas are described here using Porter's five forces model. The model (Figure 1) provides a basis for a logical and thorough review of a multi-dimensional and complex sector.

Figure 1 – Porter's Five Forces Model



⁴⁹ 30a

3.1.a Consumers

It is perceived that consumers are the ultimate power in the retail sector. By 'voting with their purse' consumers can exercise control as to which retailers thrive, survive or fail as they can choose which shops they will spend their money in, how much they will spend and what they will spend their money on.

The purchasing decisions of consumers are based on their perception of value from a 'set' of alternatives. Value, to the consumer, can be derived from one or more of the following factors including;

- Convenience (including proximity of offer and accessibility via available transport links);
- Price;
- Quality of goods;
- Quality of store/product brands;
- Range of desired goods available;
- Customer service; and
- Social/environmental responsibility.

These factors will vary from consumer to consumer depending on their individual circumstances and priorities. Such factors can change on a daily basis in line with consumers' circumstances.

Demand on the time of consumers is rising and will continue to rise.⁵⁰ As such demand for convenience shopping is growing. Consumers see increasingly little difference between 'top-up' and 'one-stop' shopping.

Some consumers are thinking more ethically about the goods they purchase. The Co-operative Bank has published the Ethical Consumerism Report 2005 that illustrates a 15% rise in the sales of ethical goods and services. Last year UK consumers spent £25bn on ethical

⁵⁰ 60a

goods and services.⁵¹ This has led to some consumers avoiding supermarkets and/or some brands, preferring to use local shops and/or brands instead.

Consumers are concerned about their health, a trend that will continue to rise.⁵² This concern runs parallel to a demand for more locally sourced products. Consumers believe independents are better able to meet demands for local sourcing than large retailers because they do not rely on central distribution.

We need to make the consumer aware of why foods in supermarkets have 'long life' dates. (I recently brought a pre-packed sliced loaf in a supermarket and was quite surprised to see how many E numbers and additives were in it).⁵³

Demand for healthier, locally sourced products has led to an 11% increase in demand for organic products over the last year.⁵⁴ Sales of organic products through box schemes, farm shops and farmers markets' increased by 33% in the last year, while independent retailers saw a growth in sales, of organic goods, of 43%. The percentage of organic sales made by supermarkets fell for the third consecutive year from 81 per cent to 75%.⁵⁵

Nevertheless, despite the potential for smaller and more local retail organisations to satisfy this increasing demand for healthy food, consumers believe independents are dying out and the majority believe local culture and identity will die with them.⁵⁶

Other consumers are attracted by the supermarket offer. Sophisticated pricing strategies are implemented in conjunction with sales promotions to draw in consumers using key footfall drivers.

⁵¹ Cooperative Bank and NEF: Ethical Consumerism Report 2005

⁵² 60a

⁵³ 42a

⁵⁴ Food & Drink Europe.com: Supermarkets lose out to independent retailers in growing organic market. <http://www.foodanddrinkeurope.com/news/ng.asp?n=63980&m=1fden17&c=rrdcejaxowpfxe>

⁵⁵ ⁵⁵ Food & Drink Europe.com: Supermarkets lose out to independent retailers in growing organic market. <http://www.foodanddrinkeurope.com/news/ng.asp?n=63980&m=1fden17&c=rrdcejaxowpfxe>

⁵⁶ 9a

Tesco's policy on cash machines completely changed. Tesco's cash point machine is free..... so those customers that I had on the cash point machine moved immediately to Tesco.⁵⁷

Consumers are also attracted towards the supermarket brand.

The first instance in the combination that you put to me, Mr Chairman, is a loss of customer, because the Tesco brand is so strong that people have actually gone.⁵⁸

Another factor that may affect the choice of consumers in the medium to longer-term is the UK's 'ageing population'. The age of the population will continue to rise as will the number of people living alone.⁵⁹ An elderly 'travel-poor' consumer, without a car and who finds the use of public transport difficult, is unlikely to make the same shopping choices as a younger, car-owning consumer. As consumers grow older they become more dependent on local shops and services and it is important that these are available to them.

The changing demographics may affect rural areas even more than urban areas as migration to the countryside by those retiring increases. This means a concentration of less mobile people in rural areas, placing an importance on locally accessible retail. At present, rural areas do not always provide profitable sites for retailers since many villages contain people who live there but work in urban areas.⁶⁰

Strong concerns however, have been raised over whether consumers genuinely have the ultimate power in the retail sector. Accessibility limits all consumers in terms of the shops they can use. Immobile consumers and those on low income are the most restricted in terms of choice. Growth in the number of sites occupied by the 'Big Four' has resulted in the

⁵⁷ 41b

⁵⁸ 41b

⁵⁹ 60a

⁶⁰ 57a

emergence of monopolies and duopolies in specific regions across the UK. Data from CACI⁶¹ illustrates that Tesco holds incredibly dominant market shares in Inverness (51%), Milton Keynes (50%), Twickenham (47%), Southall (47%) and Hemel Hempstead (46%). In such areas 'voting with their purse' is not always a viable option, due to the lack of alternative offers.

The concentration of sales to supermarkets and the loss of a geographic spread of small shops have also induced market failure where sections of society are unable to access any vital services, in particular fresh produce.⁶² In recent years areas such as East Manchester and Sandwell have been cited as relevant examples.

3.1.b Rivalry

The retail sector in general is fiercely competitive. The grocery sector in particular has produced the most aggressive players in the industry with Tesco, Asda-Wal-Mart, J Sainsburys and Wm Morrisons dominating the market. Smaller players, like Marks & Spencer's and Somerfield along with symbol groups such as Spar and Musgraves also operate in this sector, alongside independents.

The grocery market is of importance primarily because of the sensitivity of food.⁶³ This market is worth £76 billion⁶⁴ annually for food alone and £120 billion⁶⁵ annually when non-food groceries are included. There are concerns regarding the activities of multiple grocers, as their growth and their drive towards non-food sectors are believed to have had an adverse effect on both small and large businesses in other sub-sectors.

Growth has taken place organically through the purchase of undeveloped sites and artificially through the acquisition of smaller retailers. The 'Big Four' have all benefited from acquisitions in recent years.

⁶¹ 68a

⁶² 32a

⁶³ 32a

⁶⁴ 3b

⁶⁵ 62a

The activities of the 'Big Four' have had a number of adverse effects on small retailers. First and most notably is the growth of out of town shopping developments which competed against town centres for the consumer spend of affluent car borne consumers by offering free parking, and fewer outlets to visit in order to complete a 'total shop'. This offer has diverted consumer spend away from urban town centres and many have seen a gradual deterioration through a loss of footfall.

Out of town stores have had an impact on rural areas because of their proximity, however research has neglected this effect. The effect has been equally harmful to rural retail districts as to urban town centres.⁶⁶ Between 1965 and 1990, 15 per cent of small rural settlements experienced the closure of their last general store or food shop. Between 1991 and 1997 a total of 4,000 food shops closed in rural areas.⁶⁷

In response to these changes, local greengrocers evolved into convenience stores by opening longer opening hours and increasing their offer to consumers through offering a wider range of goods and services such as postal and banking facilities.⁶⁸ The new convenience stores grew through embracing consumer changes, bringing back an emphasis on shopping in the neighbourhood. The market for convenience stores is growing by 5% annually⁶⁹ as its offer to an increasingly 'time poor cash rich' consumer outweighs the value of shopping in bulk and using the car.

Large retailers have become very successful in exploiting the convenience market at the expense of smaller retailers. Tesco, for example, have a market share of 5.4%, which is only 0.2% behind market leader Spar.⁷⁰ This has occurred despite the fact that Tesco opened its first convenience store 10 years ago in Northern Ireland⁷¹ as opposed to Spar, who are long

⁶⁶ 49b

⁶⁷ ESRC., Agriculture, Farming and Rural Policy in the UK available at <http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/facts/index46.aspx?ComponentId=12663&SourcePageId=6970>).

⁶⁸ 6a

⁶⁹ 41a

⁷⁰ Verdict Research: Neighbourhood Retailing 2006

⁷¹ 60a

standing innovators in the market. Tesco have made the quickest progress this year in the convenience store market by increasing sales by £200 million to £2.4 billion⁷².

Asda Wal-Mart are looking to develop convenience stores in order to compete with Tesco and Sainsburys. Asda's smaller stores will also compete with Lidl and Aldi. The first store will open in Northampton during 2006 and will be between 8,000 sq ft and 12,000 sq ft, stocking own label Asda foods and some basic non-food goods.⁷³

This trend is resulting in small shops having to fight 'head on' with large retailers in urban areas such as town centres and neighbourhoods deemed as profitable sites. The brand power of the larger players, compounded with consumer perceptions of the relative pricing levels, are likely to have led to the loss of custom to small shops in their catchment areas.

Evidence from contributors illustrates that large retailers will compete using 'conventional' means such as competitive pricing strategies on key footfall generators. If, however, the performance of the larger operator is considered poor when compared to the smaller retailers competing in the same catchment, then, on occasion, anti-competitive practices are undertaken.

The Inquiry took evidence from a local supermarket in Withernsea called Proudfoot. Proudfoot is considered to be a good business, winning an award for the best independent retailer of the year in 2002. The Proudfoot Supermarket offers Post Office services, a restaurant and car park. Following the unsuccessful attempt to purchase the Proudfoot Supermarket, Tesco opened a competing store which struggled to attract consumer spend. Tesco resorted to a campaign of offering customers £8 off for every £20 spent in their Withernsea branch. This amounted to a 40% discount across the range. Despite a lack of transparency in the margins of national multiple grocers it is estimated that Tesco operate on a margin of between 25% - 30%, which indicated that this was below-cost selling. That this promotion was limited to the

⁷² Verdict Research: Neighbourhood Retailing 2006

⁷³ Financial Times: Asda says Sainsbury's set to sneak into second, 10/12/2005, Page 1

Withernsea catchment, further indicates that this was a predatory act which has damaged the Proudfoot Supermarket.

The impact of this promotion has been devastating for our business. Whereas we used to be a thriving part of the high street, we are now a marginal business. This not due to inefficiency or any lack of innovation or quality of service on our part.⁷⁴

Following increased footfall for the Tesco store, their prices returned to a level closer to the national average.

Evidence has also been presented of similar discounts from superstores ranging between 33% and 40% both in England and Scotland, which are strongly believed to be predatory pricing⁷⁵.

Similar tactics have been used with petrol forecourts, which generate consumer spend from the car borne consumer. Fuel is viewed as a distress purchase by customers⁷⁶ so its availability can dramatically increase the proposition of retailers using fuel as a key footfall generator.

Fuel has a published commodity price for which the Platts assessment provides a commonly accepted index.⁷⁷ Taking into account likely operating costs it is believed that the 'Big Four' sell fuel below cost price until local competition can no longer sustain the loss margins. This is followed by a sharp rise in price at the multiple retailers' forecourt. The Association of Convenience Stores contend that even superficial research into local markets illustrates price flexing by J Sainsburys in towns in close proximity to each other.

⁷⁴ 15a

⁷⁵ 6e

⁷⁶ 6d

⁷⁷ 6d

Table 1: Fuel Prices in Different Local Markets⁷⁸

TOWN	PRICE (LITRE) USLD	FEATURES OF MARKET
Farnham	86.9	Strong local competition
Alton	89.9	Limited local competition
Basingstoke	86.9	Strong local competition

Consequently between 1991 and 2004, 8380 forecourts have gone out of business with hypermarkets now selling over 30% of fuel sold in the UK despite only operating from 10% of the sites.

The cessation of trading by many small retailers located close to national multiples seems inevitable. One such example is Cupar in Scotland.

Prior to Tesco, Cupar had 4 petrol stations – now we have only the one, at Tesco. Prior to Tesco we had 5 bakers –now we have 3. Prior to Tesco we had 3 butchers - now we have 1 Etc... Etc...⁷⁹

The UK has lost nearly 30,000 independent food, beverage and tobacco retailers over the past decade.⁸⁰

Multiples are looking to utilise their economies of scale and distribution channels to diversify into non-food areas. For example, Asda opened its first Living store in Walsall, West Midlands, during 2004 selling clothing, homewares, electronics and entertainment items.⁸¹ Tesco is following suit, piloting a 30,000 sq.ft non-food store – Tesco Home Plus – at the Crownpoint Shopping Park at Denton, Lancashire.⁸²

⁷⁸ ACS C

⁷⁹ 19a

⁸⁰ 40c

⁸¹ 63a

⁸² 63a

Rivalry between retailers of all sizes is not as intense in locations viewed as less profitable. The prospects for retailers in rural areas that do not have the critical mass of consumers needed by larger retailers are slightly better.

I think there are some really excellent retail businesses that will prosper, because they are enterprising and they are innovative. I think those that are not and that are undercapitalised in particular will really struggle, because they will struggle to innovate against the competition of people effectively living elsewhere, even though they sleep in the village, and the competition of IT and internet shopping and so on.⁸³

Internationally there have been similar trends towards consolidation from those retailers who possess skills in distribution and supply management. Large scale grocers, such as Carrefour and Wal-Mart are growing at a fast pace, both organically and artificially with varying degrees of success. Evidence presented to this Inquiry suggests that the long-term implications on local markets of international large-format retail entry are usually negative⁸⁴.

From studies investigating a variety of markets in America and Europe, there is evidence to suggest that the positive effects of increased convenience, choice and lower prices for the 'average' consumer, together with the growth in certain commercial sectors, advantages for some local suppliers and some short-term job creation, the overall and long term effects are detrimental. The local as well as nearby communities suffer general retail and associated business decline, unemployment, changes in job quality, loss of revenue and thus lower resources for communities.⁸⁵

⁸³ 57a

⁸⁴ 52a

⁸⁵ 52a

Further investment for Wal-Mart in the shape of consolidation of Seiyu in Japan, will also be followed by an acceleration of international expansion which will see 225 new stores open in foreign markets (markets external to the US) during the Fiscal year of 2007.⁸⁶ Consolidation is also expected through CARHCO (Central American Retail Holding Co) in Argentina, Asda in the UK, Germany, Bompreco and Sonae in Brazil, Mexico and South Korea.

This has provided challenges for both consumers and Governments worldwide. In the US for example, consumers do not have easy access to basic products because of the sparse placement of large stores⁸⁷ with their corresponding strangleholds on specific regions leading, in many instances, to a consumer backlash.

Once dominance of an area is achieved larger retailers will even close their own stores to avoid the cannibalisation of their own business and to maximise efficiency.

Rapid market penetration of new formats leads to retail concentration, which subsequently results in a further decline in traditional supermarkets and small retail outlets in the market of entry. If new entrant closes (as is frequently the case in US retailing) this leads to an under-supply of retail provision as local retailers have disappeared.⁸⁸

The growth of hypermarkets in new territories such as Eastern Europe has been dramatic. Tesco for example have half of their retail floor space abroad.⁸⁹

We are in 12 countries. Our leading countries are: Ireland, Hungary, Thailand and Korea, where we have big businesses, and our newest areas are Japan, China and Turkey, where we are small, and then Slovakia, Czech, Poland, Taiwan and Malaysia.⁹⁰

⁸⁶ IGD: Sample research findings from IGD report on Wal-Mart 2006

⁸⁷ 42a

⁸⁸ 52a

⁸⁹ 60c

⁹⁰ 60c

The intense rivalry of multiples on a national and international scale is having a severe effect on small retailers, many of whom do not have the sophisticated tools, resources or skills, possessed by the larger operations, to compete. Long term competitiveness of smaller retailers is hampered by a lack of ability, due to minimal profit margins, to invest in learning and skills development. This is in addition to the inherent barriers to training and learning that already exist in the sector.

Currently, only 1.2% of the (retail) workforce participates in life-long learning within Further Education, in contrast with a 19% participation in FE across all sectors. Only 13.2% of the retail workforce engage in any form of work-based learning, compared to 15.5% across all sectors. QLFS statistics show that only 19% of retail employees have a level 3 equivalent qualification, falling far short of the 52% target set by the LSC in 2004.⁹¹

3.1.c Suppliers

Evidence from contributors illustrates the importance of the supply chain to small retailers, and how it can greatly impact on the success or cessation of businesses in the future. Seemingly the most important factor is how closely the supply chain is linked to multiple retailers.

Those who share their supply chain with large retailers multiples will be at a distinct disadvantage. Primarily, the larger retailers' core skills are based on maximising efficiencies through a combination of scale and good logistical management. This issue of scale means national retailers can obtain price advantages not possible for the wholesalers purchasing on behalf of the small retail sector. Wholesalers for independents believe large retailers will obtain a natural price advantage over them on a scale of 1-2%.⁹²

⁹¹ 17a

⁹² 9a

Considering 80% of the grocery market spends goes to multiples,⁹³ each individual multiple has a substantial amount of buying power, especially when purchasing goods centrally, despite a two market ruling within the grocery sector. As a consequence there exists a complex monopoly, as many suppliers are dependent on a few large retailers for the distribution of their goods. This creates a 'waterbed' effect as the preferable terms are negotiated with large retailers, therefore squeezing the margins of suppliers that will have to be subsidised by wholesalers.⁹⁴ The Competition Commission identified that multiples with a market share of 8% and over, a category that includes the 'Big Four', have an imbalance of power over (potential) suppliers. It is estimated that the price advantage held by large retailers is actually around 10-11% due to an abuse of that power.⁹⁵

The complex monopoly brought about by a market share of 8% and above leaves suppliers and small retailers increasingly disadvantaged through what is known as a 'vicious circle'.⁹⁶ The continued growth of large retailers will increase this buying power, in turn resulting in an untenable market for smaller competitors. According to a survey by The Grocer,⁹⁷ 36% of small shop owners are buying special offer goods from supermarkets and reselling it in their stores as supermarkets can sell products to them cheaper than wholesalers.

The relationship between suppliers and large retailers has been debated as much as the future of small shops and is believed to be the fundamental flaw that results in an imbalance across the entire sector.

The terms which giant superstores extract from suppliers are the seed of the imbalance and flawed structure of the UK grocery market today.⁹⁸

Large retailers command so much shelf space that suppliers are vulnerable to closure should they lose such an account.

⁹³ 3b

⁹⁴ 6b

⁹⁵ 9a

⁹⁶ Competition Commission: Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom, 2000

⁹⁷ British Chamber of Commerce: Shops admit to reselling supermarket goods, available at

<http://www.chamberonline.co.uk/YeNUGqVoHMvRUA.html>

⁹⁸ 9a

It is very often that someone will get a phone call on Friday, they say: we do not want your product on Monday...and it has happened through someone who is a personal friend of mine – lost £100,000 worth of business on one phone call. The firm essentially went down making 30 odd people redundant.⁹⁹

This puts the supplier under enormous pressure to comply with the demands of their larger customers. According to an anonymous source,¹⁰⁰ the relationship between Asda and its larger suppliers (such as Unilever and P&G) tends to be good although there is a natural fluctuation of power depending on the performance of the particular retailer or the product itself. For example, Asda might find itself in a position of power over Andrex because Asda overtrades in its own label toilet paper. More often than not both will work together to increase sales and market share.

Regardless, the market share obtained by Asda has led to inequities in this power with large suppliers despite the implementation of the mandatory code of practice. Asda is able to derive a portion of its staff costs from suppliers. For example, the retailer is able to employ placement students whose salaries are paid for by individual suppliers.

Trading categories within Asda will also force suppliers to contribute large sums of money for marketing costs, often well above cost price. Suppliers can pay £8,000 to feature in a 'What's New at Asda' direct mail supplement, feature space which will only cost the trading category £1,500. Suppliers can also be charged £5,000 to feature in Asda Magazine although that feature would be free to the trading category.

Suppliers will also be charged heavily inflated marketing costs for in-store promotions despite little guarantee of these promotions being implemented. It is understood that a new product that was regarded as innovative, was performing poorly in Asda's stores. The supplier was asked to pay £5,000 for point of sale flags despite the production cost only being £800, with a

⁹⁹ 44b

¹⁰⁰ 64a

threat of the product being withdrawn completely if the supplier did not pay. However, despite payment of the in-store promotions being received, Asda only implemented the point of sale flags in around 30% of their stores, according to an independent audit undertaken by the supplier.

It is believed that the money derived directly from suppliers is used to fund Asda brand marketing and in-store events.

Large suppliers are also forced to divert money from traditional advertising techniques to fund sales promotions. Promotional periods lasting three weeks will see a number of branded goods on special offer before they are replaced by other goods. This successfully drives consumers into Asda. The long term implications however, are that consumers' image of branded goods are eroded as it effects their perception of the quality of branded goods. In response the perception of the supermarket is enhanced as a brand that offers value.

Smaller suppliers find themselves disadvantaged by Asda's market share in other ways. Asda recognises that smaller suppliers do not have large budgets for marketing and consequently Asda places little pressure on them to pay staff costs, heavily inflated marketing costs or fund sales promotions. Smaller suppliers are however, forced to fit into Asda's 'Every Day Low Pricing' strategy.

Asda and smaller suppliers will set an agreed price at which to sell products. To attract consumers however, Asda will drop the price below what has been agreed. This meets the short terms needs of both Asda and consumers however, the complex pricing structures that exist in industries means there is a downward pressure on prices across an entire industry which can have severe implications for the margins of smaller suppliers.

Asda disputes much of the information claiming that it does not hold a large enough share of the market to be in a position of power over any suppliers.

You will be aware that Asda accounts for only 13.3% of grocery sales in the UK (based on TNS share of all outlets for 12 weeks to 1/1/06 for grocery products). On any basis this can not lead to market power or inequities between us and our suppliers.¹⁰¹

Although no suppliers have come forward with specific evidence against the other large retailers in terms of the abuse of buying power, mainly due to the lack of anonymity in the complaints procedure, they have offered no evidence to the contrary

The increasing competitive pressures on the smaller retail competitors in the grocery sector and the lessening of such pressures on the larger competitors means that there is continuing consolidation, which is being mirrored further up the supply chain. Between 1997-2002, there was a 10% drop in wholesale suppliers.¹⁰²

Although suppliers and retailers have general, contractual, terms and conditions governing their relationship there are no written contracts concerned with price, level of business or specific arrangements. Such details are usually communicated through email or telephone calls.¹⁰³ This results in little transparency and little protection for suppliers who may be abused through the existence of a complex monopoly.

Consequently the competitive pressures at a retail level have become difficult for small shops. This has been highlighted in sub-sectors where small shops source from the same suppliers as larger competitors. Independent newsagents are struggling, for example. Not only is it believed that the newspaper and magazine industry enjoys immunity from effective competition law, as newsagents can only rely on one regional distributor for their goods,¹⁰⁴ but there is also concern that large retailers will abuse their power to distort the market against them.¹⁰⁵

¹⁰¹ 29b

¹⁰² 40c

¹⁰³ 60a

¹⁰⁴ 41a

¹⁰⁵ 41b

Tesco has centrally awarded contracts and they have whatever. They have 18 packing benches in WH Smiths in Newport and there is a rota, so when there are shortages, they move from packing benches. So one day in 18, if there is a shortage of any particular title, it is rota'd out on my particular run from Newport to Blackwood, and you suffer the shortages pro rota to your supply. Except the Tescos that are on my run. Them supplies, Mr Chairman, cannot be touched.¹⁰⁶

Independents, such as those in the convenience market and petrol forecourts are also challenged with selling standardised products like larger competitors and are vulnerable to supply chain distortion.

In contrast, the small retailers who do not share their respective supply chains with larger retailers and who even form a part of the production process can survive so long as they continue to innovate. Bakers, for example, are able to evolve in order to survive. They are able to innovate to sustain a competitive advantage. Independent bakers are responsible for product innovation and other innovations to meet and even influence the needs of consumers, such as sour dough and organic products. Supermarkets appear to only copy and mainstream these innovations. The national multiple retailers will only sell a restricted range of baked goods¹⁰⁷.

Independent bakers source from regional flour mills or BAKO. They do not use the national flour mills used by national multiple grocers, in part due to competitive reasons.¹⁰⁸ This minimises the contacts between retail bakers and national multiple grocers.

Being able to form part of the production process will also mean new concepts such as farmers markets and box schemes continue to be successfully developed although they are not widely available across the UK. This is not just supply-led innovation, it has coincided with

¹⁰⁶ 41b

¹⁰⁷ 44b

¹⁰⁸ 44b

a demand from consumers for local produce¹⁰⁹ and the challenge of sourcing locally because Symbol groups and wholesalers consider rural shops too small to service.¹¹⁰

3.1.d New Entrants

Barriers to entry have become increasingly high for entrepreneurs due to costs, regulation and competition. Over a five year period VAT registrations for small scale food manufacturers fell by almost 12%¹¹¹ However, consolidation has meant some of the medium to large retailers will become attractive prospects for a takeover by foreign grocers due to the potential of achieving instant market penetration.

3.1.e Threat of Substitutes

Technology, in particular the Internet, will predictably continue to have an effect on consumer behaviour, with differing degrees of impact on various sub-sectors. By 2015 sub-sectors that often deal with the distribution of information will be the most affected.

This is having a severe impact on newsagents due to changes in the way people consume their news and entertainment. The UK national newspaper market has been in decline for over a decade.¹¹² Despite sales volumes being static for several years, the UK magazine market in the three month period to May 2005 was 1.1% down on a similar period the previous year.¹¹³ This is compounded by the issue of publishers relying on lower margin weekly magazines, and price cuts to consolidate circulation figures and advertising revenue, all of which only affects the profitability of such publications at a retail level.¹¹⁴

¹⁰⁹ 14a

¹¹⁰ 49b

¹¹¹ 40c

¹¹² 41a

¹¹³ 41a

¹¹⁴ 41a

The Post Office has been partly affected by the growth of the Internet. Over the past 20 years, 32% of the UK's Post Offices closed – a reduction from 22,000 in 1984 to 15,000 Post Offices today.¹¹⁵

Banks that were once seen as a key footfall driver to traditional shopping areas have been disappearing, a trend now strongly influenced by the Internet.

During the 1990's, the number of high street bank branches fell dramatically. Britain lost over a quarter of its branch network between 1990 and 2000.¹¹⁶

3.2 Forces External to the Market

Trends external to the retail market must also be taken into account if an accurate assessment of the environment for small shops is to take place. This section also looks at the wider factors affecting small shops.

3.2.a Rents and Rates

The retail sector prefers to lease out commercial property since buying is deemed to be a costly option. Leases are regarded to be a commercial necessity and a valuable business tool, providing retailers with greater flexibility and improved cash flow. Without the flexibility of leasehold units, retailers are unable to react swiftly to changes in the business cycle which could leave them vulnerable to market downturns.¹¹⁷

However, retailers are subject to upward only rental contracts, which sees the rents of property go up and rarely decline¹¹⁸, to levels that are often unaffordable to small independent retailers.

¹¹⁵ 7a

¹¹⁶ 49b

¹¹⁷ 30a

¹¹⁸ 30a

The UK is the only country in Europe where upwards only rent reviews, lengthy leases and a modified form of privity of contract co-exist.¹¹⁹

Property costs are the second biggest cost for retailers, after wages, and they are currently rising much faster than sales growth.¹²⁰ To compound this small retailers do not have the awareness necessary to successfully negotiate a favourable deal nor is there much assistance to help fill this knowledge gap.¹²¹

3.2.b Tax and VAT

There are also rising concerns about the VAT loophole created by the Low Value Consignment Relief (LVCR) in the Channel Islands. Jersey, for example, is not part of the EU for such VAT purposes. LVCR is a deregulatory measure to facilitate simple trade and avoid the administrative burden and disproportionate cost of recovering VAT on low-value consignments from outside the EU¹²²; therefore goods, valued below £18, sent from Jersey are exempt from VAT.¹²³ This VAT loophole is being exploited by large UK retailers who are simply channelling the orders through the island VAT free.¹²⁴ The Internet has exacerbated this situation, as expressed by an Internet music retailing company

It is affecting us to such a degree that -- we are a specialist retailer, but we cannot move into mainstream products because we could not possibly compete with the price...If they were to sell their products for no profit whatsoever, and you would sell yours at no profit, they would be still making money on the VAT margin.¹²⁵

Examples of retailers who are exploiting this loophole include Asda and Tesco. Both retailers are selling CDs for £8.99 and DVDs for £11.89. The normal online price of a CD is between

¹¹⁹ 30a

¹²⁰ 30a

¹²¹ 40b

¹²² 55e

¹²³ 55e

¹²⁴ 55a

¹²⁵ 55e

£9.99 and £11.53.¹²⁶ Consumers may benefit from this but there are wider negative effects. For example the impact of this revenue loss to the Treasury is enormous, an estimated £80m a year rising to £200m in the next few years.¹²⁷

The Treasury also loses out in other ways to supermarkets. For example, Tesco adds some small print at the end of their till receipt, which says that 2 ½ % of the transaction – payment by plastic or of another description - is not being paid to Tesco, in fact it is actually going to Tesco Financial Services, or the equivalent in the other stores.¹²⁸ This means that this particular part of the transaction has outwitted the VAT regime, as a financial service transaction, and therefore a supermarket gets away with the 2 ½ % element of the supply that is subject to VAT.

Now you might say that that is not a vast sum of money, but if you add it up in terms of Tesco's overall turnover, that is a colossal amount of money that the Treasury is haemorrhaging.¹²⁹

FPB also cite the unfair application of VAT on hot and cold food required by Customs and Excise, the latter being subject to VAT and the supply of hot food for instant consumption in supermarkets is not.¹³⁰

Tesco and the like, because of the way in which they are able to use their enormous legal clout, and they do have findings in VAT Appeal Tribunals to support them, are getting away with not charging VAT on this, for the spurious grounds that this food (hot), and the temperature at which it is served, is incidental to the supply because that is how it came out when it was cooked.¹³¹

¹²⁶ 55a

¹²⁷ 55a

¹²⁸ 55e

¹²⁹ 55e

¹³⁰ 55a

¹³¹ 55e

The tax and VAT system, in essence, is being manipulated by large retailers, allowing them to reduce costs creating an unfair advantage over smaller retailers who can not compete on this level.

3.2.c Crime

Retail crime costs the sector over £2 billion per annum¹³²; this does not include the hidden unquantified human cost of destroyed businesses and the physical and emotional harm that criminals often inflict¹³³ not just to the employers, but also to employees, customers and the wider community.¹³⁴

Retail crime is not just shop theft; it includes graffiti, vandalism and fear created from abuse and threats that demoralise staff.¹³⁵

Retailers hold increasing unease at the lack of seriousness afforded to retail crime by police, politicians and the courts.¹³⁶ In order to create safer retail environment and communities, the retail sector has been creating and supporting crime partnerships for almost a decade.

Geographical differences must not be forgotten. Deprived urban areas suffer from higher crime rates which result in an incredibly difficult environment the small shops that tend to be located in such areas.

3.2.d Planning

Standards may be set by Government but local priorities are set by the local council.¹³⁷ Local planning authorities decide whether a development should go ahead although decisions can be overturned at a national level.¹³⁸

¹³² 30a

¹³³ 30a

¹³⁴ Home Office: Business & Retail Crime, available at <http://www.homeoffice.gov.uk/crime-victims/reducing-crime/business-retail-crime/>

¹³⁵ British Retail Consortium: Stop Crime Against Retail, available at <http://www.brc.org.uk/policymaster.asp?id=48&sPolicy=RETAIL+CRIME>

¹³⁶ 30a

¹³⁷ 2a

Planning developments have left small retailers severely disadvantaged, since decisions taken have had adverse effects on traditional retail districts.¹³⁹ For example, the planning policy of councils has reduced footfall, thereby reducing the attractiveness of high streets for retailers to invest in, therefore persuading them to go out of town.¹⁴⁰ In addition many small retailers in traditional retail areas operate out of listed buildings and thus planning is particularly tricky¹⁴¹. The cause of many of these problems is a lack of understanding of the importance of small shops and how certain actions may impact upon their trading environment.

Retailers of all sizes are concerned about planning decisions which, although are made with good intentions for local residents, are not thoroughly examined. Schemes aimed at cutting congestion and making town centres more attractive places for pedestrians can have unintended consequences for the accessibility of the car borne consumer.

It is self defeating to make it difficult to park: customers simply go elsewhere. There must be adequate parking in local neighbourhoods.¹⁴²

Planning Policy Statement 6 (PPS6) specifically looks at planning for town centres (replacing the revised Planning Policy Guidance Note 6: Town Centres and Retail Developments). The Government's key objective for town centres is to promote their vitality and viability. They aim to achieve this through planning for the growth and development of existing centres rather than have out-of-town developments act independently of town centres. As well as promoting and enhancing existing centres, there should be a focusing of development into such areas to encourage a wide range of services accessible to all.¹⁴³

¹³⁸ Planning Portal: The Planning System – Creating Better Places to Live, available at www.planningportal.gov.uk/england/genpub/en/1108751860476.html

¹³⁹ 5a

¹⁴⁰ 1a

¹⁴¹ 5a

¹⁴² 29a

¹⁴³ Planning Portal available at www.planningportal.gov.uk/england/professionals/en/1020432884848.htm

PPG6 has made contributions to reversing the decline of town centres, encouraging renewed investment in UK's high street¹⁴⁴ and providing a better understanding of the necessary issues for local councils. The revised PPS6 aims to be more effective in achieving this; however loopholes are being exploited where omissions or gaps have been identified.

To compound, this local councils do not have many resources at their disposal. A symptom of this is that whole sections of society are being priced out of housing markets, often including key service workers like teachers and nurses.¹⁴⁵

A lack of understanding and a lack of resources have created an environment where large retailers are able to strongly influence the decisions of local authorities. For example, councils have relied on section 106 to secure funds from large retailers to address the lack of affordable housing for people.

Though they may never have heard of it, many people on low pay might owe their new homes to Section 106 of the Town and County Planning Act 1990.¹⁴⁶

In return the retailers gain planning permission for new developments which otherwise might not have been approved due to the anticipated damage to local economies.

The use of knowledge and power can manifest itself in a number of ways. With the decline in the number of new out-of-town developments, large supermarkets are focusing on edge-of-town developments to get around what they perceive to be restrictive planning policies. Although planning authorities believe this should widen the retail provision, the retailers are using edge-of-town sites to aggressively compete with the high street employing tactics such

¹⁴⁴ 3e

¹⁴⁵ 40b

¹⁴⁶ 40b

as ensuring free car parking is time restricted so consumers are unable to use other shopping areas.¹⁴⁷

Tesco has also been accused of using the legal system to gain planning permission as they have greater resources than councils. Winning by appeal against Councils who reject applications brings a heavy cost for local Government. In Sheringham, North Norfolk, Tesco has taken 8 years to win approval against a campaign opposed to a new superstore.¹⁴⁸

Portwood in the North West has seen clear abuse of the planning system from Tesco. The Stockport Metropolitan Borough Council imposed a limit on the total size of a new Tesco development as a result of a request from the Highways Agency in the interests of road safety. The council also imposed a limit on the size of the sales area to protect the vitality and viability of existing retail centres.¹⁴⁹ It was revealed that Tesco contravened the restriction on the total size of the store.

The people who were fitting the store decided that they needed more space, mainly for back room operation, and so therefore built the store bigger than the original planning permission, I do not know quite why, but they did.¹⁵⁰

It has since been discovered that Tesco also contravened the condition imposed on the sales space specifically by excluding the checkouts area from its measurements.¹⁵¹

3.2.e Business Support

The most important issue facing our members in the retail industry in the future, along with all our business members, is access to a skilled

¹⁴⁷ 3e
¹⁴⁸ 3e
¹⁴⁹ 3a
¹⁵⁰ 60a
¹⁵¹ 3g

workforce. Retail is a 'people industry' where the interface with the customer is paramount. Consumers are more and more discerning and educated, and businesses that do not satisfy customer needs will struggle.¹⁵²

The retail sector is a priority in terms of training needs¹⁵³ and existing support is fragmented.¹⁵⁴ Support which is widely accessible and often funded by central Government does not meet the needs of small retailers. The Department for Education and Skills has been slow in realising this, creating matched funded skills academies to develop business sectors. With match funding however, those with small margins cannot participate as they cannot offer the financial resources necessary. Consequently, independent retailers are overlooked. Larger employers who will already implement their own in-house training benefit from further Government investment, and in turn, further widen the competitive gap.¹⁵⁵

Support often does not meet the time sensitive needs of small shops. With fewer staff to rely on, each employee must undertake more job roles, making time to train or access support is a key factor with regards profitability.

He is open 76 hours a week and then spends over 20 hours a month on paperwork and regulation, and in many cases, at the end of that, he then needs to travel to the nearest cash and carry, which could be many miles away, to collect his supplies.¹⁵⁶

There is some support for small retailers, usually through schemes that have grown organically to meet the needs of local retailers. The Birmingham Chamber of Commerce and local Business Links deliver a programme called SHOPEASY which supports 124 food retailers in

¹⁵² 14a

¹⁵³ 17a

¹⁵⁴ 11a

¹⁵⁵ 53b

¹⁵⁶ 49b

the West Midlands.¹⁵⁷ The Retail Academy is a consortium of public, private and voluntary sector organisations who aim to address the balance of support for small retailers. However, what is lacking is integration and accessibility for all retailers across the country.

3.2.f Regulation

Legislation can cost a small retailer anything from under £100 to over £10,000 a year.¹⁵⁸ The burden of red tape on small retailers is disproportionate compared to that of larger retailers.¹⁵⁹ Red tape covers all aspects of business from tax to access issues, environmental health to licensing. 69% of retailers surveyed highlighted legislation, or red tape, as a factor affecting the business longevity and profitability of their business. 50% of small retailers said that red tape associated with meeting the burden of legislation would be a key factor in deciding whether or not to continue in business.¹⁶⁰

Official agencies and regulators are failing to provide the necessary information or the advice retailers seek on how best to meet legislative requirements. There is a cross over in the role of various agencies such as Environmental Health Officers and Trading Standards.¹⁶¹

The Lake District National Park in Cumbria is subject to the authority of no less than 10 levels of Government. These bodies competing for funding and influence work to the detriment of the whole economy. In order to implement the changes desperately needed many authorities would have to work together for a unified agreed plan and this unfortunately is very difficult to achieve because it runs counter to their established cultures of non co-operation. Very sad and frustrating but unfortunately true.¹⁶²

¹⁵⁷ 14a

¹⁵⁸ Rural Shops Alliance/Countryside Agency: Legislation – Regulation: The red tape burden on rural retailers, February 2005

¹⁵⁹ 1a

¹⁶⁰ Rural Shops Alliance/Countryside Agency: Legislation – Regulation: The red tape burden on rural retailers, February 2005

¹⁶¹ 1a

¹⁶² 10a

The problems concerning small retailers with regards to regulation considered excessive, in relation to the size of their business, has been recently highlighted in the Hampton Review.¹⁶³ It is hoped the regulatory burden will ease in the near future.

3.2.g Competition Authorities

Although the Competition Commission stated that acts of an aggressive nature such as predatory pricing, is not in the interest of the consumer in the long term, the OFT has not intervened in many of the anti-competitive practises put forward to the inquiry, under the premise that consumers are currently benefiting purchasing from a typically cutthroat industry. The difficult issue for the OFT is knowing how to protect competition in the long term without restricting competition in the short term.

Foreign competition authorities have also been greatly challenged by changes in the retail landscape in line with views that high levels of consolidation can cause problems at differing regulatory levels within a country. The US Government, for example, has placed restrictions on the ability of Wal-Mart to lobby other nations' of Governments through the Foreign Corrupt Practices Act 1977.

Concerns in the Republic of Ireland about the growth of multiple grocers led to the establishment of the Groceries Order, with its 'ban on below cost selling', in order to protect small retailers and consumer interests. However, the results of this Order have led to uncompetitive grocery prices at store level. The order has recently been lifted. This is broadly similar to retail environments across Europe for both established and emerging economies.

3.2.e Environmental Issues

Climate change is the single biggest environmental threat facing the planet¹⁶⁴ and the food chain could be responsible for producing up to 1/5th of greenhouse gas emissions. The main concern regarding the loss of small shops is the growth of 'food miles', a measurement that is calculated as the distance travelled by food from the farm to the consumer.

¹⁶³ 2a

¹⁶⁴ 3c

The assumption that supermarkets are responsible for greater damage to the environment based purely on increased food miles both in the UK and abroad is too simplistic¹⁶⁵. The increasingly efficient loading of Heavy Goods Vehicles (HGVs) results in a reduced impact per tonne of food when transported. Supermarkets can also be responsible for energy efficiencies, for example, importing tomatoes from Spain is more environmentally sustainable than using heated greenhouses in the UK outside the summer months.¹⁶⁶

Such trade offs however, do not cover the damage to the environment both in the UK and abroad. The transportation of food accounted for an estimated 30 billion vehicle kilometres in 2002 which can be split between HGVs, Light Goods Vehicles (LGVs) and cars, producing 19 million tonnes of carbon dioxide was produced in 2002 (AEA). The fastest growing mode of transport involved in the transportation of food is air, which has the highest CO₂ emissions per tonne of food. Although air transport only accounts for 1% of food kilometres, it produces 11% of food transport CO₂ equivalent emissions.¹⁶⁷

The direct environmental, social and economic costs of food transport are over £9 billion each year, and are dominated by congestion.¹⁶⁸

Traffic congestion is already a problem for many towns and cities,¹⁶⁹ around one in ten car journeys in the UK are for food shopping and the estimated carbon dioxide emissions generated are equal to that generated by commercial transportation of food within the UK.¹⁷⁰ Accidents lead to social costs of around £2 billion a year with air pollution, noise pollution and infrastructure costs also weighing heavily on the environment.¹⁷¹

Supermarkets encourage other environmentally damaging practices such as pesticide use and food shortages. Supermarkets place specifications on their suppliers relating to colour, shape

¹⁶⁵ 57b

¹⁶⁶ 57b

¹⁶⁷ 57b

¹⁶⁸ 57b

¹⁶⁹ 3c

¹⁷⁰ 3c

¹⁷¹ 57b

and size of produce.¹⁷² As a result such requirements force farmers to use environmentally damaging pesticides in order to meet these demands, and the rejection of products which do not meet these specifications, encourage waste within the food chain. For example, between 40% and 50% of raw vegetable and salad (by weight) are rejected at some stage of the production line before reaching the shopper.¹⁷³

Packaging also creates waste. Buying fruit and vegetables from independent shops, markets or farmers' markets can produce less waste but supermarket policies make it difficult to avoid purchasing heavily pre-packaged goods.¹⁷⁴

¹⁷² 3c

¹⁷³ 3c

¹⁷⁴ 3c

4 Predicted Outlook for 2015

Determining the prosperity of small shops in the year 2015 and beyond is not a precise art. These predictions can only be based on current trends, which are themselves subject to change as a result of factors including consumer behaviour, technology and/or changes in policy. Nonetheless, this section considers how the High Street may look in 2015.

To begin, it is recognised that based on current trends the resilience of small shops differs from outlet to outlet depending on a number of circumstances. A number of factors are involved, both internal and external to the market, which may be relevant to the survival of the small retail sector.

The following chart offers a simple way to judge the success or failure of various sub-sectors depending on the various pressures placed on them. It assumes that all small shops suffer from moderate pressure placed on them from forces external to the market, be forced to innovate due to buyer power and will face a similar threat from new entrants to the market. 'Survival' is taken here to represent presence of a critical mass of retailers in a given sub-sector. It must also be recognised that this is a very simplistic tool for judging the fate of small shops noting that these businesses cannot always be pigeon holed into sub-sectors as has been done here due to the various hybrids that exist.

Table 2: The state of independent retailing in 2015, by sub-sector

	Rivalry	Supplier Power	Threat of Substitutes	Outlook for 2015
Convenience Stores/ Grocers	High	High	Low	Unlikely to survive
Newsagents	High	High	High	Very unlikely to survive
Rural Shops	Low	Low	Low	Likely to survive
Pharmacies	High	Moderate	Low	Moderate chance of

Petrol Forecourts	High	High	Moderate	survival Very unlikely to survive
Post Offices	Moderate	Low	High	Moderate chance of survival
Bakers	Moderate	Low	Low	Likely to survive

4.1 Business and Economic Impact in 2015

4.1.a The UK Retail Sector

This section offers a view of how the small retail sector will be shaped economically, socially and politically should current trends continue. It follows on from Table 2, commencing with further discussion regarding how the trends that are envisaged will lead to the scenario predicted for each sub-sector.

4.1.a.1 GROCERY SECTOR

Despite 5% annual growth in the convenience market,¹⁷⁵ non-affiliated independent convenience stores see a reduction in sales of about 5% annually.¹⁷⁶ Since the year 2000, there has been a decline of 5,000, or 11%, in the number of independent retail operators.¹⁷⁷ Around 2,000 independent convenience stores disappeared last year.¹⁷⁸

If current trends persist, the grocery sector will have dramatically altered. Small shops in the grocery sector cannot compete with larger competitors, in terms of buying power, promotional activity, etc. The limitations offered to them by the supply chain in terms of differentiating their stock means there is likely to be an acceleration of shops going out of business, as reduced market share continues to impact on the price advantages enjoyed by the larger retailers.

¹⁷⁵ 41a

¹⁷⁶ 41a

¹⁷⁷ 6a

¹⁷⁸ IGD Convenience Retailing Report 2005

As such, the wholesale sector, upon which small shops (including convenience stores, off-licenses, newsagents etc.) are reliant, will inevitably become unviable, forcing its contraction. This shrinkage will lead to greater price differentials obtained between wholesalers and national multiples which will decrease demand, eventually leading to the virtual collapse of this part of the supply chain. Wholesalers themselves may not necessarily go out of business but may be forced to concentrate on other markets, such as catering.

As major suppliers consider independents too small to trade to and sell to individually, many small shops could be lost if they cannot find alternative sources of supply. For better chances of survival, smaller businesses would need to be a part of the production process, such as rural grocers and those who sell their produce at farmers' markets.

Growth of the national multiple grocers will continue in other sub-sectors, such as clothing and other non food products, as they maximise their knowledge of consumer behaviour and logistical efficiencies. Acknowledging the pressure placed on them by competitors, each of the 'Big Four' will imitate each other's movements in the market to avoid the threat of losing ground. J Sainsbury are likely to make the move into non-food to, like Asda and Tesco. Asda will diversify into the convenience store sector, like J Sainsburys and Tesco. The movement of the 'Big Four' into non-food will also render multiple retailers in books, music, and electronics vulnerable; as competition from non-store retailers (such internet-based retailers) and the grocery multiples intensifies.

The growing market share of large retailers will continue to damage suppliers of all sizes. Smaller suppliers will face increasing downward pressure on their margins that could eventually force many out of business by 2015. Larger suppliers will be increasingly challenged by the prospect of their brand value being diluted.

Much of the damage done to suppliers appears to be largely unintentional and is borne out of the fierce rivalry of a handful of players who have a large amount power in the market.

Regardless, any short term benefits for consumers are unsustainable, with the dramatic change expected in the supply chain limiting the availability of a range of products.

It is likely the only suppliers that can guarantee a future are those who are awarded contracts to produce own label goods on behalf of retailers. Own label goods are often higher margin products for retailers and are therefore these suppliers are treated favourably.

The only other suppliers who are expected to perform well are those who can counter act the balance of the power relationship with larger retailers. Suppliers who can grow either vertically or horizontally and who can protect the value of their brand will survive. The Lynx brand, for example, is a rare case where its image has remained protected despite the growth of supermarkets. Nevertheless, larger retailers who continue to dominate are expected to favour own label brands over competitors' brands in the future.

4.1.a.2 NEWSAGENTS

Between January 2005 and October 2005 around 700 newsagents went out of business.

¹⁷⁹During 2004 the National Federation of Retail Newsagents lost 540 of its members due to business failures and forced bankruptcy.¹⁸⁰

Independent newsagents are not expected to survive in their current form. The continual improvement in Internet access and flexibility will impact on the consumption of news and leisure resulting in a reduction of demand for traditional products such as newspapers and magazines. This compounded with the distortion of the supply chain by larger competitors, in relation to both core products like newspapers and magazines and non core products, such as groceries, make the market untenable for professional independent newsagents. Recent proposed changes to the current distribution arrangements, as suggested by the Office of Fair Trading, may also result in the loss of thousands of newsagents; as multiple retailers come to dominate the supply chain.¹⁸¹

¹⁷⁹ 41a

¹⁸⁰ 41a

¹⁸¹ Gerber M, Dobson P, 2005, "Closed shop", *Regeneration & Renewal*, 28 October, pp. 20-22.

The impact of this will be felt by publishers of specialist publications in the newspaper and magazine industry, and consequently the consumers of such publications. A portion of these titles in the magazine industry particularly, are not-for-profit interest titles, which will have no physical outlet through which to be distributed, as the national multiple retailers only sell the top 200-250 publications.¹⁸² If this continues many of the 3,800 specialist publications face extinction.

4.1.a.3 RURAL SHOPS

Small shops in rural areas will encounter varying fortunes depending on individual circumstances. As long as they are able to draw from an independent supply chain and continue to adapt to changing consumer behaviour and lifestyles, they can continue to survive. For some rural shops much of this depends on transforming the Post Office part of the business to something relevant and profit-making which needs to be done in conjunction with Post Office Ltd and Central Government. It is also vital that the retailer integrates this business with the traditional retail operation. Without the critical mass of population, however, movement by larger retailers into rural areas will be slow as they concentrate resources on international expansion.

4.1.a.4 PHARMACIES

There are strong concerns over the deregulation of community pharmacies. Implementing proposals put forward by the OFT could result in the number of community pharmacies decreasing dramatically over the next few years. The New Economics Foundation has suggested a decline of 4 per cent per year, the equivalent of 1 pharmacy per day. The UK can expect such a projection to continue to 2015 unless the market is carefully reformed.¹⁸³ Competition from large scale grocery retailers introducing a pharmacy offering is likely to result in the virtual halving in the number of local pharmacies. This will result in restricted access for the more vulnerable sections of society such as the sick and the elderly as these groups struggle to access large format stores, given their reduced mobility.

4.1.a.5 PETROL FORECOURTS

¹⁸² 41b

¹⁸³ 40d

With supermarkets having moved into the petrol sector, there seems little hope for independent petrol forecourt retailers. Continued pressure on margins will result in more independents ceasing to trade, as petrol becomes an even greater means of competition amongst the supermarkets. There is some hope for those in the more remote areas of the country, but it is unlikely that they will be able to compete closely on price.

4.1.a.6 POST OFFICES

Without support and assistance combined with innovation from banks and Government, Post Offices cannot survive despite their recognised importance to local communities. It is believed that the Post Office network will be heavily depleted by 2015.

4.1. a.7 BAKERY SECTOR

The Craft Bakery retail industry is a sub-sector characteristic of a supply chain divorced from that of large businesses, with independents being able to offer a larger range of goods with higher quality than can be achieved elsewhere. Craft bakers have an advantage in not offering identical products to larger competitors. They can continue to exist so long as they can continue to innovate and meet and influence the needs of consumers, but are dependent on well thought out Government policies, that do not (even unintentionally) undermine their distinct capabilities/competitive advantage.

4.1.b International Retail Sector

Consolidation is likely to continue on an international scale with growth in existing and new territories for all international multiples. With scale becoming such an important factor it is also likely that major players in the grocery market will only be those on an international scale.

.....because there is going to be very little growth in real terms going forward -- the drive for scale will intensify, subject only to the barriers the Competition Commission puts in place to prevent further mergers and acquisitions. But in a mature market there is always pressure for existing players to come together to get more scale in order to lower their

cost base, because especially if you are a public company, that is the only way that you can meet your shareholders' expectations.¹⁸⁴

The prospect that current players in the market who are not operating on an international basis will not have the economies of scale or resources to compete in the long term is a possibility. This makes them potential targets for acquisition by companies that are operating internationally. Essentially J Sainsbury, Wm Morrison, Somerfield and other smaller players who broadly fit the profile required, are potential takeover targets for businesses such as Carrefour or any other international retailers aiming to consolidate their presence in the UK market.

The growth of multiples is also likely to lead to more sophisticated distribution centres operating on larger scales throughout continents, in order to meet the need of maximising efficiencies and remaining competitive.

4.1.c Other Implications

4.1.c.1 EMPLOYMENT AND ENTREPRENEURSHIP

There will be an adverse affect on both employment and entrepreneurship. There will be a moderate net reduction in the number of people employed in the UK in retailing. A sharp reduction in the number of people in self-employment is also envisaged, as one of the most accessible sectors for entrepreneurs traditionally will have much higher barriers to entry. Much of this is a consequence of the burdensome nature of 'red tape', as regulation continues to impact upon smaller retailers disproportionately. Other sectors will suffer as a result if retailing is not able to offer the entrepreneurial stepping stone to people looking to move into other sectors.

¹⁸⁴ 30b

A further worrying aspect of this relates to migrants entering into the UK. This section of society often relies on the retail sector as a way of earning a living to develop an opportunity to progress into other industries or to provide subsistence for children and other family members.

4.1.c.2 SKILLS

Many skills present in UK economy will be lost if specialist independents are no longer able to survive. Many of these relate to the entrepreneurial retail operational skills which are intrinsic to many of those working in the sector. Others relate to traditional craft processes surrounding many smaller businesses, craft bakery, for example.

4.1.c.3 LOCAL ECONOMY

Without the widespread existence of local businesses, money will be drained from local economies. This will have a long term adverse affect on local and regional areas in the UK as there will be a discontinuation of local cash flows. Some studies show that 50% of turnover from local retailers is returned to the local economy. However large retailers may return as little as 5% to the local economy.¹⁸⁵

4.1.c.4 PRICE

Consumers in the UK value and expect reasonably low prices. Multiples, despite not actually offering the very low prices perceived by consumers because of the use of headline prices on known value items (KVIs), have maintained reasonably low prices for consumers. It is believed that the price of products will remain fairly low until consolidation reaches a saturation point and the attention of multiples turns to increasing value to shareholders by growth through margin. Prices are then likely to increase with fewer competitors in the market.

4.1.c.5 CHOICE

Retailing has traditionally been a highly competitive business where consumer behaviour and preferences are, of course, crucial. However, consumers cannot exercise the choice not to shop at any stores if only one store format exists. Experience from other sectors illustrates that

¹⁸⁵ 3b

large organisations can alter consumer behaviour to their own economic advantage and the detriment of society. The main UK banks, for example, have closed down large numbers of branches over the last two decades, especially in rural areas and secondary urban locations. Whilst this led to increased profits, the social benefits of such a move are highly questionable.

Such developments will create immense pressure on producers of all kinds. Consolidation at the retail level will be mirrored further up the supply chain. As larger retailers use efficient forms of category management, only producers of own label brands and producers of 'mega brands' are likely to have access to consumers. The survival of many other producers of diverse products is unlikely. For those producers that can survive, they will continue to operate within very tight margins, as they will be faced with little choice of customers and a great imbalance of power. The strain placed on the producers of groceries will be a cause for concern as cost cutting can often be a severe disadvantage to consumers, especially in relation to health.

4.1.c.6 INNOVATION

Innovation will be severely reduced in certain areas without the widespread presence of small shops. With the dominance of larger shops innovations will only continue in the form of cost cutting efficiencies and the management of distribution. In order to counter this, small shops have frequently looked to progress in meeting the needs of consumers. These improvements, if successful, have then been adopted by larger retailers. With the closure of small retailers, these drivers of innovation will largely be lost across the sector, to the detriment of consumers.

With supplier margins also being further squeezed as a result of the power of their customers, it is likely that product innovation will also be severely reduced.

4.2 Social Impact in 2015

4.2.a Accessibility

The present market is already failing in urban and possibly some rural areas.¹⁸⁶ Many areas of the UK will only have access to the surviving international multiples limiting general consumer choice. This gives rise to the 'clone town' phenomenon.¹⁸⁷ For many areas of the UK however, this is a scenario preferable to that of no retail provision at all.

There are serious concerns about accessibility to life's necessities for those who live in areas that will not be serviced by larger retailers. In areas where there is not a critical mass of people, such as the rural domain, or areas where spending is low, such as in deprived catchments, there will be little in the form of retail provision if there is no infrastructure for small shops. Places where 'food poverty' and 'food deserts' exist will increase and are likely to spread to all deprived urban areas, with people disadvantaged by mobility being the worst affected. This will potentially have a devastating effect on the health of the population's low earners and the elderly. It will also bring about serious questions regarding inequality in the UK and also why people are being deprived of what are basic human rights.

There are however, potentially worse scenarios associated with large scale consolidation, as has been demonstrated in the last few years by the so called 'petrol crises'. The essential products upon which the UK is dependent for sustenance become increasingly vulnerable if their distribution is limited to very few routes to market as a result of a limited supply chain. Any major problems with just one part of the distribution system, such as supply by road for example, means large part of the UK will not have any access to food, or will suffer from ill health as a direct result of problems with food. The possibility of a shortage caused by consolidation has already been seen in the petrol industry. In September 2005 there was a perceived petrol crisis, linked to the high cost of oil, which led to exceptional demand. In a market that is currently dominated by a few players, the larger retailers were unable to meet

¹⁸⁶ 32a

¹⁸⁷ 40b

this demand and suffered shortages. Only the smaller competitors dependent on alternative sources of supply were able to cater for this demand.¹⁸⁸

.....quite simply because the events back then point out a very simple and stark message relating to the way in which the retail market can be dominated by the major multiples, and consumers' vulnerability . . . The consumer is my livelihood and I think that is all our concern, and by having all the eggs in one basket it makes the consumer very vulnerable. There were no product shortages, there were no blockades, and three truck drivers driving slowly down the M4 hardly constituted a crisis. What we did have was a period of exceptional demand.”¹⁸⁹

4.2.b Diversity

It is likely that diversity in many forms will be lost. Diversity in terms of the supply chain, as considered above, is likely to be surrendered as multiple retailers continue their consolidation into other product categories and formats. Whole categories of shops, including newsagents, non-symbol group grocers, and bookshops are likely to become an increasingly rare feature of our high streets. Additionally, the homogenisation of supply will lead to few traditional or niche products being available to consumers. Essentially, the situation highlighted by the New Economics Foundation of ‘Clone Town Britain’ is likely to develop.¹⁹⁰ The range of suppliers is also likely to be diminished. This will reduce the scope of products offered, with many regional products being lost and the retail offer becoming increasingly standardised across the country.

4.2.c Social Contact

Social contact will be reduced if small shops are lost. The importance of this cannot be underestimated for people in less populated regions, such as rural areas, and people who are less mobile, such as the elderly. For example, it is estimated that around 30% of people over

¹⁸⁸ 49a

¹⁸⁹ 49b

¹⁹⁰ 40b

65 do not see any friends at least once a week¹⁹¹. For many, the small shop forms their only form of regular social contact. Its loss, therefore, has a much wider social impact.

4.2.d Communities

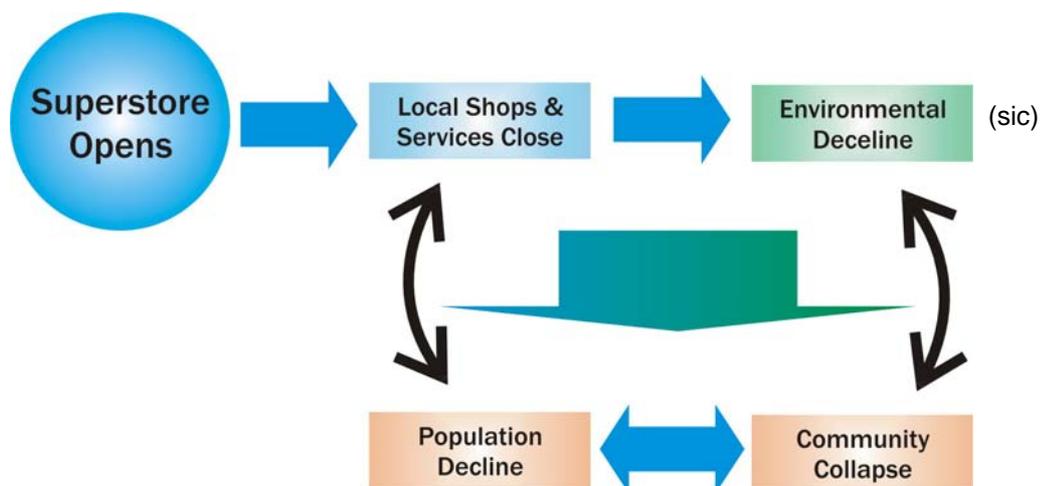
Many communities will be severely disadvantaged by the loss of their small shops. Such local businesses can be a focus for community activity, as well as providing employment and vital products and services. Many communities will no longer be able to cater for the needs of its residents if the retail sector is too heavily disrupted, leaving those affluent enough, both shops and homeowners, to relocate to other areas. Scenarios in which the traditional shopping areas become abandoned as illustrated in Figure 2 will become increasingly commonplace.

If the decline described above materialises, then, over the next 10 years or so, many smaller centres will cease to exist in their current form. This is likely to lead to a 'spiral of decline', as illustrated in the diagram, below. The reduction in local shopping facilities and associated environmental decline (vacant/boarded up premises; disjointed/sprawling retail area; and so on) could trigger population losses – whilst good quality local shopping facilities can 'sell' housing in an area, turning it into a desirable place to live and creating distinctiveness, the converse can occur if core facilities are missing.¹⁹²

¹⁹¹ODPM: Excluded Older People: Social Exclusion Unit Interim Report, available at <http://www.socialexclusion.gov.uk/downloaddoc.asp?id=710>

¹⁹² 63a

Figure 2 – Community Collapse¹⁹³



Local businesses, in areas seen as potentially profitable, will be replaced by national or international businesses with a much more limited view of their community roles. These types of businesses do not tend to have a proactive role in activities that are not seen to be profit-making in the long term. In these areas there is unlikely to be any replacement to local businesses for communities.

4.2.e Employment

For many people who are discriminated against in other sectors and larger businesses, the most basic self-employment opportunities in the private sector will be lost. A large reduction of small shops in the UK will increase levels of social exclusion in the UK. Those who rely on local businesses for reasons of mobility or family businesses may, for reasons of discrimination, struggle to find appropriate employment elsewhere.

4.2.f Environment

Food transport has a significant and growing impact, socially; economically and environmentally. The loss of small shops will continue to contribute to pollution, congestion, accidents and noise. Food miles will continue to increase with potentially devastating impact

¹⁹³ 63a

on climate change with an inflation of CO₂ emissions arising from increased use of air transport and car transport.

4.3 Political Impact in 2015

4.3.a Local and Regional Government

Local Governments will lose a certain amount of control over the ever-expanding large retailers. With the number of businesses decreasing, a declining number of retailers will become responsible for the distribution of many products, essential and otherwise, and will become increasingly responsible for private sector employment in each area. This scenario will greatly exacerbate the current trend of large retailers influencing planning policy.

4.3.b Central Government

Increasingly, Government will be completely reliant on implementing policies, on a number of issues, through large retailers.¹⁹⁴ If there is a conflict in the needs of the Government and the needs of the retailer then the Government will find it difficult to achieve compliance.

The difficulties in Government trying to implement policy go much further than the retail sector alone. There are a number of present Government policies and objectives (many of which are interlinked) that will become extremely hard to achieve if current trends persist.

HM Treasury: The Treasury is responsible for the operation of the economy and works with other Government bodies to ensure the UK remains in a state of financial good health. As such, it is recognised how important entrepreneurship, innovation, a skilled workforce, competition and nominal levels of inflation are to maintaining this health in the long term. All of these will, in part, be harmed by consolidation in the retail sector. This may be slightly offset by the continuing need for large retailers to implement efficiency gains and reduce costs. However, it is believed the costs to the Treasury will outweigh the benefits.

¹⁹⁴ 44b

The Local Enterprise Growth Initiative provides a specific example of how a retail sector dominated by large players might work against the aims of the Treasury. With the recognition that enterprise in deprived areas is significantly and consistently lower than enterprise in affluent areas, around £50 million annually in 2006-7 rising to £150 million by 2008-9 will be made available to the Local Enterprise Growth Initiative (subject to confirmation in the 2006 Spending Review). The initiative is designed to stimulate and encourage economic growth in deprived areas with support primarily from HM Treasury but also the ODPM, the SBS, Government Offices and RDAs.

It aims to:

- Increase total entrepreneurial activity among the population in deprived local areas.
- Support the sustainable growth – and reduce the failure rate – of locally-owned business in deprived areas.
- Attract appropriate investment and franchising into deprived areas, making use of local labour resources.

If opportunities for entrepreneurial activity through the retail sector are limited, due to the disruption of the infrastructure for small shops, then the aims of the Local Enterprise Growth Initiative will become difficult to achieve successfully. Taking into account the linkages between a local retail sector and the local business network, it will be hard for many entrepreneurs to survive, thus limiting the type of business they can create.

Office of the Deputy Prime Minister: The ODPM's social policies and objectives will be harmed. Creating sustainable communities, tackling social exclusion and neighbourhood renewal all in part rely on accessible, affordable and diverse local retailing to provide job opportunities, entrepreneurial opportunities and vital products and services to all residents of a community. A retail sector dominated by large retailers cannot guarantee the ODPM success in this area as they will be aligned economically, not socially, with communities.

As a specific example, the ODPM have highlighted that a decline in social contact for elderly people is a leading cause of social exclusion. The loss of small shops across the country can only accelerate this.

Department of Environment, Food and Rural Affairs: The objective of achieving sustainable development economically, socially and environmentally will be compromised if current trends continue. The impact of an ever increasing concentration of power in the retail sector is at best unclear, but at worst negative on aspects such as environmental protection, farming, food & drink and horticulture. Much of DEFRA's work is directly aligned with the grocery sector through agriculture and the environment, yet the increasing power of retailers will not help the implementation of policies. It will become difficult to progress towards Government objectives, such as Sustainable Farming and Food Strategy and the proposed Food Industry Sustainability Strategy.

Department for Health: The growth of health inequalities will be in sharp contrast to the aims of the Department for Health if current trends persist. Those on low incomes who live in deprived areas are already somewhat disadvantaged by poor access to fruit and vegetables, which are central to public health policy. Without an infrastructure supporting independent retailers, retail provision will become concentrated and with a lessening of competition there will not be a natural downward pressure on prices. These inequalities are likely to increase placing serious questions on the health of the nation's lower earners.

Competition Authorities: if the current trend continues, much greater levels of regulation will need to be enforced in the retail sector than has been previously thought necessary. Once the potential for growth has become saturated, as small shops go out of business leaving the potential for shifts in market share at a minimal level, it is likely that growth will have to be derived through increased margins. With fewer players in the market both suppliers and consumers could find themselves the subject of exploitation through monopolistic situations. This will increase the level of burden on the competition authorities as the structure of the market will mean the retail sector is unable to regulate itself.

4.3.c Representation for Small Shops

Existing small shops will continue to require representation at many levels to ensure the public, private and voluntary sectors understand the needs of those remaining businesses. However, if the number of small shops falls below a critical mass many organisations will cease to offer this service on behalf of these shops. Trade bodies such as the Association of Convenience Stores and the National Federation of Newsagents will not have the critical mass to continue. Small retail businesses who are able to survive the current climate will come across tougher challenges as they will have no lobbying power and little chance of support from central Government or Government agencies.

Conclusion and Recommendations

It is believed these problems arise as a result of years of under-representation of small shops. The structure of the market has been shaped by how the stakeholders have interacted with their external environment. Large retailers with greater resources have made their voices heard amongst Government bodies locally, regionally and nationally. Despite being much fewer in number, individually and collectively they have developed a strong presence politically.

Smaller retailers despite being greater in number have been under-represented at many levels. The SME retail sector is fragmented.¹⁹⁵ To compound this they lack sufficient finances to develop the infrastructure they require in order to offer a fair balance against the influence of larger businesses to shape their environment. Over time these inequalities have heavily tilted the playing field against small shops that now exist in an environment where their needs are largely misunderstood or ignored.

Not all changes to the retail sector are damaging to the UK. There are costs and benefits to current trends. The following table illustrates these, assessing the changes in the short, medium and long term.

Cost	Benefits
<p>Small shops most vulnerable to the pressure of market forces will not exist in 2015. Concerns are greatest over convenience stores, newsagents, off licenses and other specialist retailers with little control over their supply chain especially, in urban areas where local rivalry is high.</p>	<p>Continued innovations in efficiencies, logistics and distribution are expected as large retailers continue to work on increasing margins.</p>
<p>Small shops most vulnerable to forces external to the market will not exist in 2015,</p>	<p>The national market will remain competitive in the long term, with power divided between a</p>

¹⁹⁵ 53a

<p>forced out by factors such as disproportionate burdens and poor planning policy.</p>	<p>handful of large retailers.</p>
<p>There will be a reduction in the overall employment levels with jobs lost in the retail sector and related sectors such as wholesale and manufacturing.</p>	<p>In the short term little intervention will be required from the competition authorities.</p>
<p>There will be a reduction of start ups in the retail sector.</p>	<p>There will be a rise in entrepreneurs undergoing their first venture in other sectors rather than the retail sector.</p>
<p>There will be reduced (self) employment opportunities for disadvantaged communities such as ethnic minorities, immigrants, the elderly etc</p>	<p>Consumers will have recognisable brands wherever they go, both in terms of choice of stores and choice of products within.</p>
<p>The livelihoods of families who currently rely on family owned businesses will be lost.</p>	<p>Independents who form an integral part of the production process, which large retailers cannot replicate, or those that can profitably serve areas not seen as attractive to large retailers, have the opportunity to survive. This is dependent on the effect of other external pressures.</p>
<p>The vast array of skills demonstrated by specialist retailers will be lost to the UK economy.</p>	<p>Government will find it easier to implement policies through the retail sector, which concur with the needs of larger retailers as there will be fewer businesses to align with.</p>
<p>Local economies will be severely damaged across the country as consumer spending by residents goes to national retailers rather than local businesses.</p>	
<p>Retailers will be unable to respond to consumer demand as quickly without small businesses with micro decision-making structures.</p>	

Dense business networks and complex trading links will be lost.

The retail sector will be less innovative, due to the lack of independent businesses that evolve through natural competitive pressure.

In general the needs of people in local areas will not be met due to a loss in locally immersed businesses. For example, the specific dietary needs of ethnic groups will not be catered for unless larger retailers deem there is a critical mass to offer the service profitably.

Access to affordable, healthy food will deteriorate as the geographic spread of shops become more concentrated. Lower earners and immobile people will suffer the most with a widening of inequalities in terms of health, low access to important products, and lower access to employment opportunities.

Regular social contact will be lost for certain members of the community, thereby entrenching social exclusion.

Citizens will become less devolved from the decision-making process surrounding planning policy in the areas in which they live, due to the growing dominance of large retailers over local Governments and councils.

Many Government policies, whether directly or indirectly linked to the retail sector, will not be implemented successfully if those policies are adverse to the needs of large retailers. The number of policies which will be reliant on large retailer co-operation will also increase

due to their growing dominance and horizontal integration.

Once a monopolistic situation has become clearly visible at different points of the supply chain, the competition authorities will have to regulate markets further in order to protect suppliers and consumers from exploitation.

The environment will suffer in terms of increased food and air miles resulting in greater congestion, additional need for road transport infrastructure, noise pollution and air pollution accelerating climate change

There will be a huge reduction in real choice of both shops and products available to consumers, as category management functions within stores limit the brands available to only the most popular.

Niche products that are unable to find alternative methods of distribution will struggle to survive if they are not stocked by large retailers.

Large scale consolidation will put the food supply chain for the entire nation at risk. Any severe problems with the production process or distribution channels could have dramatic consequences, as the UK will rely on fewer alternative sources.

Existing small shops are unlikely to have any representation resulting in a lack of understanding of their needs.

Different categories of retailers will be severely reduced as larger retailers diversify to accommodate more products and services.

It is clear that the loss of small shops will damage the UK socially, economically and environmentally. It is accepted that the business world is changing and the UK economy has to adapt with it. It is, therefore, it is accepted that some sub-sectors within the retail sector will come under pressure, especially small shops that do not have access to the resources they require, which could help them to survive in a highly-competitive marketplace. However, it is not accepted that good, and in many cases vital, businesses should be placed under undue pressure because of a great deal of insensitivity to their needs within the UK. By the OFT's own admission the retail sector is not working well, if size is the determining factor between success and failure.

The OFT's goal is to make markets work well for consumers. Markets work well when there is vigorous competition between fair-dealing businesses. When markets work well, good businesses flourish.¹⁹⁶

Certain bodies from local Government through to central Government have yet to realise how greatly their decisions impact upon the retail sector, both directly and indirectly. Issues such as planning policy, skills development and red tape have not been dealt with in a systematic manner by the various bodies involved.

As an unintended consequence the larger competitors have greatly benefited through a disproportionate environment, which allows them the opportunity to employ anti-competitive practices in the face of tough, local/regional, competition from small businesses. Large retailers find it much easier to offer improved propositions to affluent consumers, attracting enough spend away from small shops to stop them from trading, resulting in all consumers, within a specific catchment to become reliant on the large retailers.

What is also a concern is the role of the competition authorities in the emergence of the current market. Despite an accurate recognition of the problems inherent within the sector in the 2000 report published by the Competition Commission, the regulation of the sector has

¹⁹⁶ Office of Fair Trading, Statement of Purpose, available at www.offt.gov.uk/about/Aims+and+objectives/default.htm

been poor with few effective measures to sustain a competitive market in the long term. The implementation of a Code of Practice that suppliers feel too intimidated to use because it cannot guarantee anonymity is reflective of this. It is now believed that abuse of suppliers by larger competitors, whether intentionally or unintentionally, is now so widespread that even transparency in the prices paid by to suppliers by all retailers would not fully reveal the unbalance within the market. Suppliers find themselves paying the staff costs and funding the brand marketing for a handful of large buyers. This is the result of an apparent monopolistic situation and highlights the inherent problems with the current market structure and the power it affords a few key organisations.

Even seemingly superficial arguments, such as owners of small shops complaining about the brand power of supermarkets, is reflective of scale if this brand power is created through a complex monopoly between suppliers and retailers.

Damage will not be limited to small shops if current trends persist. The inequalities will lead to adverse effects across the primary, secondary and territory sectors. This is inevitable with producers, suppliers and other businesses seeing their customer base eroded. The wider business network will thus be affected with a negative impact on the economy.

The biggest losers however, will be the consumers. Restricted choice of store brands, restricted choice of available products restricted choice of shopping locations, higher prices and reduced customer service are all strong possibilities in 2015. Although some consumers today may be benefiting from a competitive market this is entirely unsustainable and cannot continue.

People will not just be disadvantaged in their role as consumers but also as members of communities. The erosion of small shops is viewed as the erosion of the 'social glue' that binds communities together, entrenching social exclusion in the UK. Ethnic minorities, immigrants, the elderly and those living in deprived areas are expected to be the worst affected. In addition, everybody has the basic human right of access to healthy and affordable food.

Consolidation will take this right away from many people depending on their mobility, income and the area in which they live.

A concentrated supply chain extends a risk to the whole nation which can become vulnerable to severe problems, for example, contaminated food, or food shortages brought about by disruption to the distribution system. With this in mind alternative sources of supply should be protected regardless of their profit making efficiency.

What is required is a range of progressive policies and measures: locally, regionally and nationally over the: short, medium and long term that will redress the balance and, therefore, help to sustain a healthy and competitive market, and protect people and local economies. We therefore, believe that it is in the UK's best interest that the following recommendations are strongly considered by the Secretary of State for Trade and Industry, the Director General of the Office of Fair Trading and other relevant Ministers and officials.

- **IMPLEMENT A MORATORIUM ON FURTHER MERGERS AND TAKEOVERS UNTIL THE GOVERNMENT HAS BROUGHT FORWARD PROPOSALS TO SECURE DIVERSITY AND VITALITY OF THE RETAIL SECTOR**

There should be a moratorium on any further mergers and takeovers until there has been sufficient structural change regarding the regulation of the retail sector for a market study to commence.

- **ESTABLISH A RETAIL REGULATOR**

We have found that the responsibility of maintaining a vibrant, diverse and sustainable retail sector falls outside the remit of the OFT who are principally bound to consider competition concerns to the exclusion of the other social and non commercial benefits generated by independent retailers. The new regulator would:

1. Undertake full investigation of grocer sector and non-food retail;
2. Oversee the moratorium;
3. Bring forward proposals for the maintenance of a vibrant, diverse and sustainable retail sector; and

4. Provide support to local authorities developing retail strategies

- **REVISE THE TWO MARKET RULING**

The lines between 'top up' shopping and 'one stop' shopping have become increasingly blurred with the presence of large retailers in both markets taking advantage of central buying. The ruling in 2000 of the two market definition as such is believed to be out-dated and therefore needs to be revised.

- **INTRODUCE COMPREHENSIVE CODES OF PRACTICE ACROSS THE RETAIL SECTOR**

To address many of the natural power imbalances that exist within the retail sector, there must be revisions to existing and the implementation of new codes of practice. This includes a revised code of practice between suppliers and retailers in the grocery sector, a comprehensive code of practice encompassing retailers of all sizes across the UK regarding the supply of newspapers and magazines and a code of practice that extends to all other non-food sectors.

The Government must provide whistleblower protection under the supermarket code for all those who highlight abuses. Evidence shows that a simple anonymity clause fails to address the concerns of those unwilling to bring forward complaints.

- **REVIEW THE TAX SYSTEM AND CLOSE THE JERSEY VAT LOOPHOLE**

The UK Government should immediately apply the lowest threshold applicable for the relief of low value consignments and permissible in the directive, which is currently 10 euros, (approximately £7) – this would eliminate the vast majority of exploiting trade almost immediately. The enforcement, by government bodies like Customs and Excise, of VAT should be reviewed to ensure a level playing field.

- **REVIEW APPLICATION OF RATE RELIEF SYSTEM AS APPLIED TO INDEPENDENTS TRADING ON THE THRESHOLD OF VIABILITY**

The Government should extend the rate relief system to support retailers, especially those operating on the high street or community locations. Consideration should be given to alternative measures of support. Small retailers operate on very tight profit margins but are recognised as being an integral part of a local economy/community. More options should be available to local authorities to achieve targets established under local retail strategy.

- **INTRODUCE NEW REQUIREMENT FOR ALL LOCAL AUTHORITIES TO ADOPT A RETAIL STRATEGY WITHIN THE UNITARY DEVELOPMENT PLAN**

This include a Drive from government to achieve objectives regarding mixed use development and a better utilisation of use class orders considering the impact or prevalence of low footfall premises, such as estate agent proliferation, on viability of high street as retail destination.

- **DEVELOP REGENERATION UNITS IN ALL LOCAL AUTHORITIES WITHIN THE UK**

Regeneration units, tasked with strategically and positively managing town centre growth, should be developed. These units need to develop a long term strategy for local retailing, researching the local business environment and taking into account related trends such as housing and employment. These units should then form an important part of the consultation process, in particular providing a link between the business community and local planning decisions such as traffic flow measures, car parking, assessing the cost and benefits of Section 106 etc.

- **DEVELOP RETAIL FOCUSED REGENERATION UNITS IN ALL RDAs WITHIN THE UK**

All RDA's, similar to councils, should develop regeneration units which recognise the importance of retail. Each unit should be tasked with co-ordinating with local councils to develop regional long term retail strategies building up a picture how many of its objectives can be met through the existence of a healthy small retail sector. This should further provide knowledge on how best to direct resources for local business support.

- **DELEGATE GREATER POWER TO PEOPLE LOCALLY**

There needs to be a revision of the financial and planning powers of local authorities with more explicit consideration given to protect diversity and vitality of local retailing. There needs to be a review regarding alleged abuse of resources by large businesses. This should be compounded with greater consultation between the council and local communities regarding the developments within the area.

- **RAPIDLY IMPLEMENT THE RECOMMENDATIONS OF THE HAMPTON REVIEW**

More work needs to be done to promote greater synergy between planning authorities, Town Centre Managers, community workers, market officials, Environmental Health and Trading Standards Officers and national departments and agencies such as RDAs, LSCs, SSCs, Business Links, the SBS etc. The importance of training provision needs to be better promoted to the retail sector.

- **REVISIONS TO THE RETAIL PROPERTY MARKET**

Examine use of upward-only rent-review clauses and length of commercial leases. Local councils could also extend the use of Section 106 to secure affordable premises for start-ups in their area to offset the possible damage to local communities anticipated by large retailers thus creating highly competitive local markets.

- **ENCOURAGE THE TRANSFORMATION AND INNOVATION OF THE POST OFFICE NETWORK**

The Government should directly support and expand the specific services offered by the sub post office network.

- **IMPLEMENT MEASURES TO RESTRICT THE ENVIRONMENTAL IMPACT OF SHIFTS IN THE RETAIL SECTOR**

Research, initiated by DEFRA, into the full impact of food miles on the retail sector needs to be extended to create a better understanding and bridge any knowledge gaps. All businesses should be made accountable for their respective damage to the environment with the clear view that, as a deterrent, they must provide some reparation to maintain the environment.

A: Consultation Questions and Terms of Reference

The All Party Parliamentary Group for Small Shops wishes to hold an inquiry into the future of local shopping and the High Street. This follows concern from many in the retail industry regarding the current structure of the market. The report will aim to contribute to a growing debate on issues relating to retail competition, including the OFT's recent request for evidence on barriers to entry into the convenience store sector and the practice of below cost selling.

The inquiry will examine what commercial, political, social and regulatory factors will influence the development of local retailing up to 2015.

The inquiry will aim to:

- make an assessment of the current local retailing market;
- make predictions on how the market will develop to 2015, and assess the costs and benefits of future trends;
- make recommendations to the Secretary of State and the Director General of the Office of Fair Trading as to whether the market needs to be investigated further;
- make recommendations as to how public policy in this area should be developed to the benefit of consumers.

The inquiry will take written evidence to the end of June 2005 and begin to hear oral evidence in July 2005. The Group anticipate publishing its report in Autumn 2005.

Interested parties were invited to offer comment on the following questions

1. How is the supply chain for grocery and non-food products supplied to retail developing and how might it look in 2015? What implications do you think this will have for the High Street in 2015?

2. What do you think the High Street will look like in 2015, in respect of the following factors:
 - a. Diversity
 - b. Consumer choice
 - c. Prices
 - d. Service to customers

3. What are the implications of changes in the market by 2015 for:
 - a. Communities
 - b. The economy
 - i. Competition
 - ii. Employment
 - c. The provision of local services
 - d. The environment

4. Do existing enforcement regimes operate equitably across enterprises of all size in the retail sector?

5. What policy initiatives could be taken to promote a healthy High Street in 2015?

B: List of Written Evidence

Witness	Author(s)	Code
WH Oddie Limited , Bakers and Confectioners		1a
Local Authorities Coordinators of Regulatory Services (LACORS)	Wendy Martin (Assistant Director)	2a
Friends of the Earth (Covering letter)	Viki Hird (Senior Campaigner Food and Farming)	3a
Friends of the Earth (Briefing – ‘Good Neighbours? Community impacts of Supermarkets’)		3b
Friends of the Earth (Briefing – ‘Checking out the Environment? Environmental Impacts of Supermarkets’)		3c
Friends of the Earth (Briefing – ‘The Tesco Takeover’)		3d
Friends of the Earth (Consultation Response – Planning Policy Statement 6: Planning for Town Centres)		3e
Friends of the Earth (Calling the Shots)		3g
A G Parfett & Sons Ltd	Steve Parfett (Managing Director)	4a
Jarrold the Store	Richard Smith (Deputy Managing Director)	5a
Association of Convenience Stores High Street 2015	David Rae (Chief Executive)	6a
Association of Convenience Stores (Appendix A – ‘The Impact of Supermarket Expansion in the Convenience Retailing Sector’)	Europe Economics	6b
Association of Convenience Stores (Appendix B – ‘Market Concentration and the Decline of the Small Shop in Britain: An Approach Using Cross-National Comparisons’ and ‘Implications for the Convenience Store Sector of Recent Changes in Supply Chain Control’)	Alan Hallsworth (University of Surrey)	6c

Association of Convenience Stores (Appendix C – Below Cost Selling: Hypermarket Fuel Pricing)		6d
Association of Convenience Stores (Appendix D – Price Flexing: Deep Discount Vouchers: Below Cost Selling: Easter Eggs)		6e
Association of Convenience Stores (Appendix E – Independent Consumer Research into Attitudes)		6f
Association of Convenience Stores (Follow up evidence to oral evidence session)	David Rae (Managing Director)	6h
Association of Convenience Stores (Him!: turning question into answers)	Ricky Coombes (Assistant Client Developer for Him!)	6i
National Federation of Sub Postmasters	Annabel Barnett (Research and Policy Manager)	7a
Ainsleys Family Bakers	Martyn Ainsley (Chairman)	8a
Federation of Wholesale Distributors	John Murphy (Director General)	9a
Federation of Wholesale Distributors (Annex 1 - Correspondence with the Office of Fair Trading)		9b
Federation of Wholesale Distributors (Annex 2 – ‘The Call for Balance, Choice and Diversity’)		9c
Federation of Wholesale Distributors (Annex 3 – Press Cuttings)		9d
Freeman (Windermere) Ltd	Richard S. Freeman	10a
Skillsmart Retail Ltd	Anne Seaman (Policy and Research Director)	11a
Wycycle Ltd	Richard Boden (Managing Director)	12a
British Shops and Stores Association Ltd	John Dean (Chief Executive)	13a
The British Chambers of Commerce	Pula Houghton (Policy Adviser)	14a
Proudfoot Supermarket	Ian Proudfoot (Joint Managing Director)	15a

Holbrook News	Colin Murfin	16a
Retail Academy	Rob Arntsen	17a
Commission for Rural Communities	Roger M Turner (Head of Enterprise and Skills)	18a
Fisher and Donaldson Bakers	J.Eric Milne (Managing Director)	19a
Brian J Davis	N/A	20a
Godsall's Bakery	A.D. Godsall (Manageress)	21a
National Market Traders Federation	Joe Harrison (National President)	22a
J Sainsbury plc	Erica Zimmer (Head of Public Affairs)	23a
Federation of Small Businesses	Natalie Brill (Administration Department)	24a
Waitrose	Christian Cull (Marketing Director)	25a
Waitrose		25b
Which?	Peter Vicary-Smith (Chief Executive)	26a
The Packaging Federation (Supermarkets)	Ian S. Dent (Chief Executive)	27a
The Packaging Federation (Supermarkets' Code of Practice with Suppliers)		27b
Lyndale Foods Ltd	Tony Gearty (Chief Executive)	28a
Asda	Bernard Hughes (Head of Government & Public Affairs)	29a
Asda (Asda Response to a Submission to the All Party Group Small Shops Inquiry on the Future of the High Street)	Bernard Hughes (Head of Government & Public Affairs)	29b
British Retail Consortium	Sarah Winterton (Director of Public Affairs)	30a
British Hardware Federation		31a
Professor Alan Hallsworth	N/A	32a
Aktfast Ltd	John Beswick	33a
Institute of Directors	Richard Wilson (Head of Business Policy)	34a
The Bakehouse	A J Herbert	35a

Town and Country Planning Association (Covering Letter)	Robert Shaw (Sustainable Development Policy Officer)	36a
Town and Country Planning Association (Policy Statement – Planning for Accessible and Sustainable Retail)		36b
Patisserie Viennoise Ltd	Trevor Backhouse (Managing Director)	37a
Fresh Solutions	Jim Cooper	38a
Boots Group plc (Covering Letter)	Peter Gibson (Head of UK & EU Public Affairs)	39a
Boots Group plc (PPS6: The Consultation Paper: A Response from the Boots Group plc)		39b
New Economics Foundation (Covering Letter)	Andrew Simms	40a
New Economics Foundation (Clone Town Britain: The survey results on the bland state of a nation)	Andrew Simms Petra Kjell Ruth Potts	40b
New Economics Foundation (Ghost town Britain II: Death on the High Street)	Julian Oram Molly Conisbee Andrew Simms	40c
New Economics Foundation (Ghost Town Britain – A Lethal Prescription: The impact of Deregulation on Community Pharmacies)	Molly Conisbee	40d
New Economics Foundation (Ghost Town Britain: The threat from economic globalisation to livelihoods, liberty and local economic freedom)	Andrew Simms Julian Oram Alex MacGilluray Joe Drury	40e
National Federation of Retail Newsagents	Catherine Tong (Marketing & PR Manager)	41a
Bernadette Grzybowska		42a
The Food Commission (Covering Letter)	Kath Dalmeny (Senior Policy Officer)	43a
The Food Commission & Sustain (How London's planners can improve access to healthy and affordable food)		43b
The Food Commission & Sustain (Notes)	Mark Ainsbury (Food Strategy Unit,	43c

<p>from the Food Access & Local Retailers Seminar)</p>	<p>London Development Agency) Angela Blair (Community Food Development Worker, Sandwell) Belinda Boerkamp (Policy & Implementation Officer, Hackney Planning Dept) Kath Dalmeny (Policy Officer, The Food Commission) Fahmida Din (5-a-day coordinator, Brent PCT) Liz Dowler (Department of Sociology, University of Warwick) Peter Griffin (Retail Specialist, Sandwell Traders Association) Alex Hearn (Planner, Forward Planning & Transportation, Newham) Olayinka Jacobs-Bonnick (Project Manager, Islington Enterprise Agency) Tim Lobstein (Director, The Food Commission) Mumtaz Meeran (Lewisham PCT) Kate Millington (Project Officer, Food Access, The Food Commission) Les Moore (East London Food Access) Tejal Patel (Project Officer, Food Access, The Food Commission) Jonathan Pauling (Coordinator, Newham Food Access Partnership) Claire Pritchard (Greenwich Co-operative Development Agency) Ben Reynolds (Coordinator, London Food Links, Sustain) Helen Sandwell (Project Officer, Food Access, The Food Commission)</p>	
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	Victoria Taylor (Community Dietitian, Croydon PCT) Johanne Trautmann (Community Nutritionist, Tower Hamlets PCT) Matthew Waite (Senior Economist, Greater London Authority) Qaim Zaidi (Ethnic Strategy Co-ordinator, British Heart Foundation)	
National Association of Master Bakers	David Smith (Chief Executive)	44a
Sandwell Food Policy Team	Angela Blair (Community Food Development Worker, Sandwell), John Middleton (Director of Public Health, Rowley Regis & Tipton Primary Care Trust)	45a
Dunn's	Christopher Freeman (Managing Director)	46a
Corner News	Anonymous	47a
Camelot (Covering Letter)	Lynette Huntley (Head of Policy and Public Affairs)	48a
Camelot (Submission to the All Party Group for Small Shops)	Lynette Huntley (Head of Policy and Public Affairs)	48b
Rural Shops Alliance	Sean Carter (Chief Executive)	49a
Sandwell Traders' Association	Peter Griffin	50a
Scottish Grocers Federation	Scott Landsburgh (Chief Executive)	51a
Dr. Elke Pioch	N/A	52a
Retail Enterprise Network (Gran Centre Granollers – “city, culture and commerce”)	J. Andres Coca-Stefaniak (REN Transnational Manager) Cathy Parker (REN Director) Amadeu Barbany Xaiver Garrell Enric Segovia	53a
Retail Enterprise Network (Decline in the British small shop independent retail sector: exploring European parallels)	J. Andres Coca-Stefaniak (REN Transnational Manager) Alan Hallsworth (university of Surrey Management School) Cathy Parker (REN Director) Steve Bainbridge (REN Deputy	53c

	Director) Ruben Yuste (D'Aleph)	
Royal Borough of Kensington and Chelsea	Graham Foster (Head of Forward Planning)	54a
Forum for Private Business		55a
Forum for Private Business (UK Import VAT Accounting Scheme: Application Form)		55b
Forum for Private Business (Typical – CD Pricing Structures)		55c
Forum for Private Business (DMS Jersey Limited Screenshot)		55d
Association of Town Centre Management (ODPM Technical Report: Using town centre statistics to indicate the broad location of retail development – initial analysis)		56a
Department for the Environment, Food and Rural Affairs (The Validity of Food Miles as an Indicator of Sustainable Development)	Alison Smith Paul Watkiss (AEA Technology Environment) Geoff Tweddle Professor Alan Mckinnon Professor Mike Browne Alistair Hunt Colin Treleven Professor Chris Nash Sam Cross	57b
Tesco plc (University of Southampton: Consumers respond to transformation in UK convenience store sector)	Sarah Watts (Media Relations for the University of Southampton)	60b
Tesco plc (Re: All Party Parliamentary Small Shops Group Inquiry into the Future of the High Street)	Lucy Neville-Rolfe (Group Director of Corporate Affairs)	60c
Office of Fair Trading (Opening Statement to Oral Evidence)	John Fingleton (Chief Executive)	62b
Somerfield Stores Limited (High Street Britain 2015 – All Party Parliamentary Group For Small Shops)	Roger Tym & Partners	63a
Anonymous		64a
Waitrose		65a

Caroline Cranbrook (Supermarkets and the East Suffolk Food Story)		66a
Campaign to Protect Rural England	Tom Oliver (Head of Rural Policy)	67a
CACI (Grocery Catchment Analysis GB 05)		68a

C: List of Oral Evidence

Witness	Speaker(s)	Code
Friends of the Earth	Robin Webster (Supermarkets Campaigner)	3f
A G Parfett & Sons Ltd	Steve Parfett (Managing Director)	4b
Association of Convenience Stores	David Rae (Managing Director)	6g
National Federation of Sub Postmasters	Colin Baker (General Secretary)	7b
Federation of Wholesale Distributors	John Murphy (Director General)	9e
The British Chambers of Commerce	Emmeline Owens (Acting Head of Policy) Pula Houghton (Policy Adviser)	14b
Proudfoot Supermarket	Ian Proudfoot (Joint Managing Director)	15b
British Retail Consortium	Kevin Hawkins (Director General)	30b
Professor Alan Hallsworth	N/A	32b
Town and Country Planning Association	Gideon Amos	36c
New Economics Foundation	Andrew Simms	40f
National Federation of Retail Newsagents	Colin Finch (Deputy Vice Chairman of the Legal & Parliamentary Committee)	41b
National Association of Master Bakers	David Smith (Chief Executive)	44b
Rural Shops Alliance	Sean Carter (Chief Executive) Adrian Borman	49b
Retail Enterprise Network/ Retail Academy	Cathy Parker (REN Director)	53b
Royal Borough of Kensington and Chelsea	Graham Foster (Head of Forward Planning) Michael French	54b
Forum for Private Business	Nick Goulding (Chief Executive) Richard Allen (Panel Member)	55e
Association of town Centre Management	Simon Quin	56b
Department for the Environment, Food and Rural Affairs	Jim Knight MP (Parliamentary Under-Secretary for Rural Affairs)	57a
Department for Trade and Industry	Gerry Sutcliffe MP (Competition and Consumer Affairs Minister)	58a

Office of the Deputy Prime Minister	Yvette Cooper MP (Minister for Housing and Planning)	59a
Tesco plc	Lucy Neville-Rolfe (Group Director of Corporate Affairs)	60a
Londis (Oral Evidence)	Mike Talyor	61a
Office of Fair Trading (Oral Evidence)	John Fingleton (Chief Executive) Hannah Priest (Legal Advisor, Market and Policy Initiatives Division) Jonathon May (Divisional Director, Market and Policy Initiatives Division)	62a

D: Glossary

Below-cost selling: Retail price resulting in a negative gross margin.

BCC: British Chamber of Commerce

BRC: British Retail Consortium

Catchment Area: Geographical area from which a store's customers are drawn.

Category Management: The analysis and control of a group of products (e.g. coffee or detergent) as opposed to single products.

Convenience Store: A store of about 600 sq metres (6,400 sq feet) or less (net sales area) selling groceries and other products, traditionally open for longer hours than a conventional supermarket.

DEFRA: Department of the Environment, Food and Rural Affairs.

Distressed purchase: A product which a consumer desires urgently

EDLP: Everyday low prices: a policy of maintaining steady prices below those of main competitors, as opposed to the use of limited period promotions.

EU: European Union

Footfall: Number of potential consumers who visit a shopping area.

Footfall Generators: Any product/service that is able to draw in a large number of visitors to a shopping area.

FPB: Forum for Private Business

Groceries Includes food, drinks (alcoholic and non-alcoholic), cleaning products, toiletries and household goods, but excludes petrol, clothing, DIY products and financial services.

Hypermarket: A supermarket of about 5,600 sq metres (60,000 sq feet) or more net sales area, with broad product mix, including groceries.

IGD: Institute of Grocery Distribution.

KVI: Key or known value item, a product that is high profile or well known, where price awareness among consumers may be higher than for most products. The perception of which products are KVIs may vary among retailers.

Local Duopoly: A store with only one significant competitor nearby. Within the market structure stores are described as local duopolies, if within a given isochrone around the store, there is only one competitor that meets the stated criteria to be an effective competitor.

Local Monopoly: A store with no significant competitors nearby. Within the market structure section there are no competitors that meet the stated criteria to be effective competitors.

LVCR: Low Value Consignment Relief

Main Shop: A shopping trip accounting for the majority, or bulk, of a shopper's weekly expenditure on groceries.

Multiple/Multiple Grocery Retailer: Operator of a chain of supermarkets.

ODPM: Office of the Deputy Prime Minister

OFT: Office of Fair Trading.

One-stop shopping: A type of shopping in which a large range of products is purchased at the same time and in the same store, rather than on different shopping trips or from different stores.

Own Label/Own Brand: Range of products carrying the retailer's label and produced to retailer's specification, typically, but not necessarily, sold at lower price than main brand competition.

PPG6: Planning Policy Guidance Note 6: *Town Centres and Retail Development*, 1996, DETR.

PPS6: Planning Policy Statement 6

Price flexing: The practice of setting different retail prices for the same product line in stores of the same fascia.

Predatory pricing: This refers to the behaviour or tactic to restrict or eliminate a competitor's market share or its ability to grow by price flexing or below cost selling.

Promotion: Any offer for sale for a limited period of a product line at less than the normal price per unit, or with some additional benefit.

REN: Retail Enterprise Network

Top Up shopping: Shopping trips to buy a few grocery items to top up or complement purchases made previously during a primary shop.

Section 106: Previously known as Section 52 Agreement under the 1971 version of the Act.

Allows concessions for organisations involved in planning applications in return for investment in the area as agreed with the local authority.

Store: An individual retail outlet.

Supermarket: Self-service grocery store where the space devoted to the retail sale of groceries exceeds 600 sq metres (6,400 sq feet) and where the space devoted to the sale of food and non-alcoholic drinks exceeds 300 sq metres (3,200 sq feet).

Superstore: At least 2,325 sq metres (25,000 sq feet) (net sales area).

Supplier: A manufacturer or wholesaler that sells products to a grocery retailer.

The Big Four: Tesco plc, J Sainsburys plc, Asda Wal-Mart and Wm Morrisons

Upward Only Rent Review: When the cost of renting for tenants can only increase and there is no possibility of a decrease.

Used Class Orders: The categorisation of the use of premises.

VAT Value Added Tax