

Templeton College
University of Oxford



**The Contribution of Food
Retailing to Society and to the
Economy**

**Oxford Institute of Retail Management
Templeton College
University of Oxford**

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Commissioning Organisation

CIES - The Food Business Forum is the only independent global food business network. It serves the CEOs and senior management of 175 retailer and 175 supplier member companies, and their subsidiaries, in over 150 countries by:

- Providing a neutral platform for knowledge-exchange, thought-leadership and networking. CIES services are channelled through international conferences, benchmarking studies, publications and tailor-made member services. Current programmes include the Global CEO Forum, the World Food Business Summit, Management Development and the functional areas of Marketing, Information Technology and Supply Chain Management.
- Orchestrating positions and developing tools on key strategic and practical issues affecting the food business. These top-of-mind issues are identified by our ten retailer-led committees and taskforces. Priority projects include the Global Food Safety Initiative and the Food Business in Society Initiative.

CIES - The Food Business Forum has been growing with the food business for over 50 years. Its strength lies in the active commitment of its member companies and its privileged access to key industry players. CIES retailer members alone generate over USD 2,000 billion, employ 4.5 million people and operate close to 600,000 stores.

The Food Business in Society Initiative Mission Statement

Food retailing plays a major role in today's society and economy.

The importance of the sector lies in its position at the forefront of the value chain. It performs an essential function in the lives of consumers and provides a natural focal point for communities. It is also a vital economic activity that supplies essential

services, generates national wealth, creates jobs and stimulates other business activities.

However, the perception of the sector in public opinion does not reflect these real achievements.

In a concerted effort to support the sector with this issue, CIES - The Food Business Forum has initiated a programme that will help companies but also lobbying bodies in improving perceptions by better communicating the value retailers are bringing to society.

Food Business in Society is about communicating value for the Food Business.

Oxford Institute of Retail Management (OXIRM)

The Oxford Institute of Retail Management (OXIRM) is a leading centre of retail studies based at Templeton College, University of Oxford, United Kingdom. OXIRM was created in 1985 to relate sound scholarship to the practical needs of retailers, service companies and public sector agencies. It undertakes management development programmes for companies, conducts research with direct relevance to practitioners and acts as a centre for education and networking activity. For further information see www.templeton.ox.ac.uk/oxirm or email oxirm@templeton.ox.ac.uk.

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The Contribution of Food Retailing to Society and to the Economy

1 Introduction

This audit report, commissioned by CIES-The Food Business Forum and produced by the Oxford Institute of Retail Management at Templeton College, University of Oxford, sets out to explore the contribution of food retailing to society (see Vignette 1).

Vignette 1: Initial List of Suggestions by CIES-The Food Business Forum of the Contributions of Food Retailing

The project brief calls for limited in scope exploratory research on the availability of international data regarding contributions of food retailing to society with reference to the following areas:

1. Multiplier effect
2. SME supplier development
3. Keeping the lid on inflation
4. Urban regeneration
5. Local employment
6. Drives productivity improvements through the supply chain
7. Raise food safety standards and quality standards
8. Consumer information and education
9. Encourage emergence of middle classes in developing economies
10. Help raise the standards of living - broadening consumer choice
11. Encourage innovation and allow innovation to be distributed and marketed
12. Training and education of staff
13. Employer flexibility
14. Development of new technologies
15. Encourage competition by broadening ranges
16. Environment and energy initiatives
17. Allow consumer concerns to find outlets and be tested in the market
18. Corporate social responsibility
19. Local nature of retail business means stores are part of local communities

20. Employment opportunities
21. Possibility to develop careers from a low base
22. In-company training programmes

The review attempts to integrate available secondary data in relation to the debate about food retailing in society. It investigates the nature, extent and meaning of information available to support the aims of the brief and presents a summary of indicator and headline data on the topic. It also evaluates gaps and suggests a framework for future in-depth investigation of the issues identified.

The study focuses on three main areas which aggregate the points from Vignette 1.

- The contribution of food retailing to the economy
- The contribution of food retailing to employment
- The contribution of food retailing to society

Those three areas are interlinked and therefore not completely separated in the sections of the report.

Today, food retailing is an important economic activity that provides vital services, generates national wealth, creates jobs and stimulates business activities. The industry is very diverse both at business and store levels. "The leading retailers are huge, multinational businesses which dominate the industry. They operate a range of stores from major hypermarkets and supercentres through to small convenience stores¹". At the same time retailing also includes thousands of small and medium size enterprises (SMEs).

Food retailing has a major social impact. The importance of the industry is determined by virtue of its position at the forefront of the value chain. "Whilst economically retailing bridges production and consumption, in social terms it affects most of the population every day. It is a rare person who does not go shopping, or indeed has not worked in retailing or been involved in it in some way"².

¹ Burt, S. and Sparks L.- Institute for Retail Studies (2003) *Competitive Analysis of the Retail Sector in the UK*, <http://www.dti.gov.uk/retail/>

² Burt, S. and Sparks L.- Institute for Retail Studies (2003) *Competitive Analysis of the Retail Sector in the UK*, <http://www.dti.gov.uk/retail/>

The industry however faces a number of challenges. "Never has the food business been stronger, more powerful, more efficient, more creative, ... but, never has the food business been more vulnerable, more exposed, more contested"³. As Coupe⁴ points out "... supermarkets and brands are increasingly in the spotlight and more so with the internationalisation of the sector. While individual businesses may enjoy reputations of excellence, the sector as a whole is viewed with scepticism. Some of the accusations levelled against food retailers include exploiting suppliers, being unattractive employers, damaging the environment, destroying town centres and local businesses, as well as catalysts of nutritional and health problems."

While the industry has its share of problems it also has a fair share of contributions to economic prosperity and consumer welfare. Its future standing will depend not only on its ability to adequately respond to dynamic socio-economic changes but also on its capacity to comprehensively demonstrate its own positive impacts.

Historically, retailers were regarded as mere ciphers in manufacturers' distribution channels, working as intermediaries solely to enable the flow of goods and services between suppliers and consumers. The perception was that they added little value beyond the element of convenience to the end consumer. At the simplest level, food retailers were perceived to do two things:

- (a) Provide readily identifiable locations where final consumers enter into the transactions by which they acquire goods and services; and
- (b) Facilitate and encourage such transactions by providing support services, including displays, stocks, cash and credit facilities.

In practice, food retailers have become much more active agents within the value chain than previously suggested. Concentration of retail ownership has driven growth and increased buyer power. Modern retailers develop their own brands and introduce new formats in new locations. From the

³ Coste, D. L (2004) *Food Business and Society Workshop 2004*

⁴ Coupe, K (2004) *MorningNewsBeat.com, Food Business and Society Workshop, Dublin 2004*

point of view of the marketer, retailers are now working more closely with the consumer. This has two implications:

- First, retailers are better placed to gather information on the behaviour of consumers than organisations further up the supply chain.
- Second, this information-gathering puts them in a better position to understand the needs and desires of those consumers.

In terms of size, food retailing is a major and growing economic activity. In most markets it is usually the biggest retail sector. Furthermore food retailers often lead the way in productivity and innovation.

From a social point of view, food retailers are natural focal points in the lives of local communities, contributing to improvement in the standard of living and employment. According to Cap Gemini Ernst & Young,⁵ retailers increasingly operate as a kind of consumer buying agent or protector of consumers' interests. Such power, particularly evident in food retailing, ultimately leads to transparency in the food chain, where retailers are increasingly involved in monitoring production processes, including product quality and safety. Cap Gemini Ernst & Young identify six key consumer concerns: comfort, health, variety, individuality, enjoyment and security (quality and safety), which affect the way retailers operate but also underpin their social significance. They predict that within a few years, major retailers such as Wal-Mart, Tesco, Carrefour, Safeway (US), Delhaize, Royal Ahold, Aldi, Lidl, Kroger will significantly change the mass food industry on a worldwide scale, while at the same time, niche market innovation will also be coming from regional operators such as Wegmans (US), Superquinn (Ireland) and Waitrose (UK).

From a business point of view, food retailers provide a main interface between consumers and suppliers of product and services, and thus they act as the key generator of business activities throughout the value chain.

⁵ *Cap Gemini Ernst & Young (2001) State of the Art in Food: The Changing Face of the Worldwide Food Industry*

2 Research Methodology

2.1 Research Scope and Secondary Data Sources

The project brief calls for exploratory research on the contribution of food retailing in society. The research process involved secondary research where the main purpose was broadly to map out the field, identify key perspectives and collect available market data. In the process a wide range of materials were reviewed, which included market reports, economics and industry databases, periodicals, web based retail resource centres.

In geographical scope the study focused on three key market areas:

- North America
- Europe
- South East Asia

A number of national retail markets from those areas were selected and reviewed.

2.2 Issues of Data Availability

From a data availability point of view the research highlights several major information problems in identifying the contribution of food (grocery) retailing to the economy and society.

- Despite the significance of retailing, there is no single authoritative source of comprehensive and consistent international statistics on the retail sector as a whole and even less so on food (grocery) retailing. Official statistics in all countries appear generally much weaker concerning retailing than manufacturing.
- On a macroeconomic level official retail statistics are often aggregated. Therefore it is difficult to

disaggregate the data by industry sector (e.g. food⁶, grocery⁷ retailing from grocery wholesaling). Similarly international retail data varies in terms of methodologies, levels of aggregation, completeness, detail and time of collection. Therefore it is difficult to clearly set the parameters of those sectors within retailing. This is not simply a case of lack of statistics, but an issue related to the complex retail format and product range developments in grocery and general merchandise retailing. In industry and sector terms, broad classifications mask changing sales patterns and categories. For example while total sales at stores that sell food exclusively have grown only modestly, grocery retailers (i.e. with food and non-food retail ranges) who account for the majority share of food sales in most markets have grown at a considerable rate. Grocery retail stores often sell a variety of products and so it is not always possible to assign them precisely to any one specific product group. (e.g. Tesco, Wal-Mart, M&S, Carrefour and Metro)⁸ Therefore the review has focused mainly on modern grocery retailing⁹ which accounts for the majority of food sales across the markets in focus.

These problems are compounded, or perhaps meet their ultimate expression, in the surprising difficulty we have identified in defining and describing grocery retailing (see different classifications of retailing - Appendix 1). Neither official definitions by statistical bodies nor the

⁶ *Food retailing: All food and drink products sold through all retail outlets (i.e. supermarkets but also open air markets and independent traders) in a given market. (IGD, 2003)*

⁷ *Grocery retailing: All food, drink and non-food products (i.e. health & beauty, pet care, clothing, DIY, electronics, etc.) sold through all retail outlets selling predominantly food in a given market. This includes the total turnover of hypermarkets and Cash&Carry stores. (IGD, 2003)*

⁸ *Kent, T. and Omar, E. (2003) Retailing, Palgrave, Macmillan*

⁹ *An M+M Planet Retail methodology based on a universe called Modern Grocery Distribution. This is defined as a specific retail universe, comprising gross sales (i.e., including VAT or sales tax) generated from the following store types: Modern retail formats predominantly selling food, such as hypermarkets, superstores, supermarkets, discount stores, convenience stores and drugstores (including sales from independent outlets associated with a retail organisation or grocery retail company, but excluding sales from (independent) specialist food outlets, such as butchers, bakers, etc., as well as open markets). <http://www.planetretail.net/> (2004)*

descriptions used by various policy making bodies capture the nature, the activities, and the real value-added of grocery retailing. Statements such as: "Retailing is the purchase of goods in bulk and selling on to individual consumers" are not only inadequate, but positively inhibit a real understanding of what happens in the retail supply chain, the services grocery retailers provide to consumers, and the impact retailers have on manufacturing and other parts of the economy. A deceptively simple task for CIES would be to work with its members to provide an accepted verbal and diagrammatic definition of grocery retailing which encapsulates its real function today and therefore its contribution.

The output of grocery retailing encompasses a complex mixture of physical goods and services which are not described by simple sales or traditional value added measures. "The value of the goods retailers sell and that of the services they provide is clearly separate. Yet this has not been reflected in official statistics. While official statistics about the price and output of the combined good and retailer service abound, there are none on the price and output of the retailer services themselves. The lack of price and output measures for retail services is in marked contrast to the treatment of other industries by statisticians. For most manufacturing industries, official statistics permit changes in the value of the industry's output to be decomposed into changes in volume and price. Clearly the reason for this is that manufacturing industries with their physical outputs are easier to measure than the "invisible" outputs of service industries like retailing... Finally, because official statistics fail to treat retailing in the same manner as other industries, this may lead to the view that the output of retailing is not as valuable as that of any other industry. This view would suggest that retailing is merely a "tax" on economic activity. Yet retailing is a valuable sector in its own right"¹⁰. This basic lack of relevant statistics in most retail markets contributes to the difficulty retailers have in "telling the story" of the contribution of food retailing to society and in itself is a constraint. It also points towards an historic lack of attention towards food retailing as a key engine of the economy.

¹⁰ *London Economics (July, 2000) Shopping in Britain, Report for the British Retail Consortium*

Considering the above this study does not attempt to generalise or compare disparate data sets, but rather identifies existing data gaps and where available presents country or company specific examples, which highlight the contributions of grocery retailing. In addressing the issues, the study has gone beyond simple measures in discussing what food (grocery) retailers provide and attempts to distinguish between:

- Product-focused outputs, which are broadly concerned with the quality of goods provided.
- Retail-focused outputs, which are about more than the goods provided, and are summed up in the retail 'proposition' or offer which consumers desire and have chosen to pay for. Range, mix, price, store environment, added services, location, etc., are all part of this total retail offer. Such outputs are often not captured by conventional economic analyses. This is one of the reasons that the "contribution" of food retailers is difficult to measure.
- Contributions to society and the environment, such as the maintenance of the existing urban fabric, improvements in food safety, etc. As externalities, these factors are also outside the scope of conventional industry analyses.

Conventional descriptions of retail output as merely goods sold are gradually being added to in the academic and professional marketing worlds with a better analysis of what has meaning for consumers. For example: "Customer value is a customer's perceived preference for, and evaluation of, those product attributes, retail experiences and contributions that facilitate or block the achievement of the customer's goals and perceptions."¹¹ Such definitions have yet, however, to be translated into better, general measures of retail output.

¹¹ Woodruff, R. B., (1997) *Customer Value: the next source for competitive advantage*. *Journal of the Academy of Marketing Science*, 25(2): p. 139-153

3 The Contribution of Food Retailing to the Economy

3.1 Introduction

This chapter deals with the economic contributions. It brings together material available to demonstrate the economic significance of retailing. It also reveals the paucity of data to give the full picture about food retailing and indicates where research might be useful.

- Section 3.2 explores the macro economic contributions of retailing and food retailing. This is discussed in the context of a number key regional and national retail markets.
- Section 3.3 examines the economic multiplier effect in retailing.
- Section 3.4 highlights the leading role of grocery (food) retailers in the creation of consumer focused supply chains.
- A summary of the findings is presented in section 3.5.

Food retailers are a diverse group of businesses, which differ in size, type of ownership, geographical coverage and business models. However they are increasingly sophisticated and complex organizations therefore their economic and social impact can not be measured only by a single economic measure such as GDP.

Following the lifestyle trends of their customers some of them have successfully diversified into markets well beyond food distribution, such as, wholesale, financial services, travel and internet retailing, (etc.). They often call themselves grocery or mass merchandise ¹² retailers. Big grocery retailers nowadays dominate the retail markets of Europe, North America, Central and Eastern Europe and to a

¹² For example, a large "supercenter", offering a wide variety of food and non-food merchandise. Average size is about 150,000 sq ft, with 40 % of the space going to grocery items (The Food Institute, 1996)

certain extent South East Asia. The grocery retail sector is among the fastest growing economic sectors. As a consequence of that 6 of the top 10 US retailers sell food, similarly the 20 biggest retailers in Europe are grocery retailers and so are 19 of the top 20 global retailers¹³. On a global scale the majority of the 200 top retailers remain involved in the food sector and more than half (i.e. 108 companies) have supermarket, warehouse, hypermarket, and/or cash & carry formats.¹⁴

In the 2003 FT 500 list, the retail sector has climbed up to become the sixth-biggest sector of the world economy by market total capitalisation¹⁵. 22 mainly grocery retailers are on the FT 500 list. Wal-Mart, the US discounter is by far the world's biggest company in terms of sales and the fourth biggest in terms of market capitalisation¹⁶.

In addition to that M+M Planet Retail research suggests that the world's top 30 grocery retailers account for in excess of EUR 1 trillion worth of global sales, that equates to almost 10% of the global retail market. Wal-Mart alone has almost 2% share of global retail sales.¹⁷

Grocery retailers are increasingly a generator of innovative business practices. For a second year running Wal-Mart tops the Fortune (2003)¹⁸ list of most admired companies, while two of the biggest European retailers Tesco and Carrefour had the highest scores among companies in the UK and France. Tesco also tops the list for quality of products and services and scores high on the Fortune list for innovation.

It is now well acknowledged that modern grocery retailing is leading best practices in consumer focused supply chains. The implications are multifaceted:

- Economic; e.g. stimulating demand and providing efficient supply of food, the economic multiplier effect upstream, productivity gains, closer partnerships with manufacturers in product innovation, outsourcing and logistics more efficient use training agencies of transportation. etc.

¹³ Voyle, S. (2003) *General Retailers, FT*

¹⁴ Deloitte Touche Tohmatsu (2002) *Global Powers of Retailing*

¹⁵ *Going up two places in year 2003*

¹⁶ <http://news.ft.com/reports/ft500> (2004)

¹⁷ *M+M Planet Retail (10 May, 2001) http://www.planetretail.net/ (2004)*

¹⁸ *Fortune, (March 2004) The World's Most Admired Companies*

- Social; e.g. the provision of ever increasing choice of better quality food and wider range of consumer focussed retail services.

The following section briefly highlights the contribution of food (grocery) retailing to wards an efficient and customer focussed value chain.

3.2 Economic Contribution of Grocery Retailers (Regional and Market Reviews)

In terms of geographical scope the economic significance of the grocery sector will be addressed by reviewing the performance of leading grocery retailers in some of their key markets such as the US, EU, Central Europe, Japan and China.

3.2.1 Retailing in the United States

3.2.1.1 Retailing is a Principal Contributor to Economic Growth and Employment

The US market is characterized by a relatively low level of retail concentration but at the same time it is dominated by some of the largest retailers in the world. Single-store businesses account for over 95 percent of all U.S. retailers, but generate less than 50 percent of all retail store sales¹⁹.

The US is the biggest single retail market with annual sales of approximately USD 3,5 trillion²⁰. For ten years since the 1992 Retail Census the industry has achieved a compounded growth of nearly 55 %. Currently it stands among the top five biggest contributors to the US GDP. The retail trade accounts for 9.2 %²¹ (see Figure 1.) of the GDP and according to OECD it employs 17.4%²² of the total working population in the USA.²³

While recent figures indicate a trend of relative decrease in the number of people employed in the industry (i.e. retail employment in 2003 was 16.8 million), the industry contribution to the GDP continues to grow suggesting

¹⁹ [http:// retailindustryabout.com](http://retailindustryabout.com) (2003)

²⁰ <http://www.ibisworld.com> (2004)

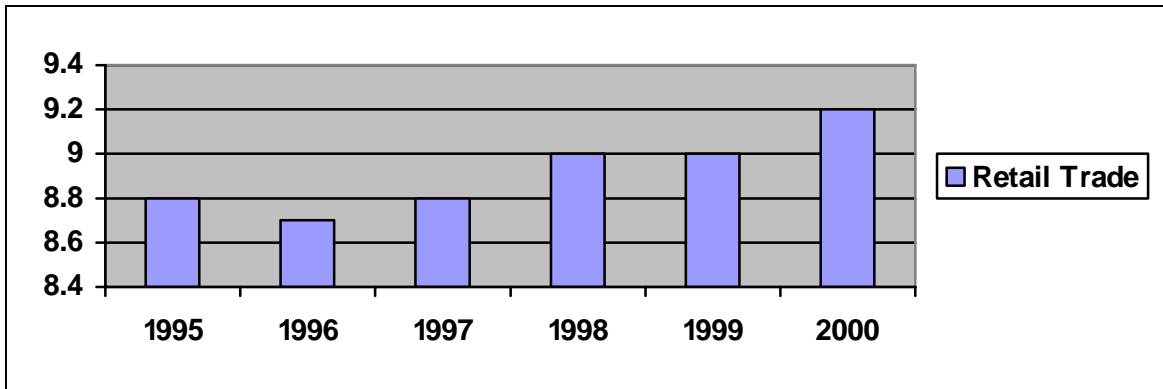
²¹ Bureau of Economic Analysis (2002)

²² Based on 1997, OECD (2001)

²³ *The Retail trade sector (sector 44-45) comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. (U.S. Census Bureau, 1997, Economic Census, NAICS Sector: 44-45)*

increased levels of productivity per capita. The number of retail enterprises shows an increase from 1,526,215 in 1992²⁴ to 2,432,240²⁵ in 2003, which signifies sustained consumer confidence and industry buoyancy. According to the McKinsey Institute (1996)²⁶ US retailers have become highly efficient at the fundamental elements of retailing, (such as sourcing, logistics, and merchandising) and have developed the skills necessary to provide services such as credit card financing, installation and repair, or systems integration services.

Figure 1. Retail trade as share (%) of GDP



US Bureau of Economic
Analysis (2004)

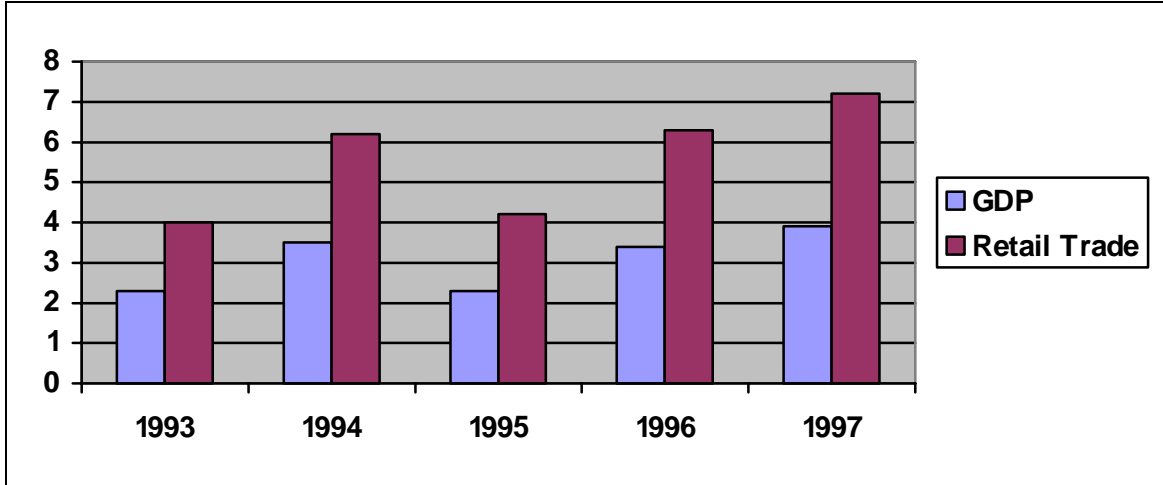
According to OECD data, between 1992 and 1997 the US retail industry grew consistently faster than the real GDP (see Figures 2 and 3), while the GDP average rate of growth was of 3.1%, the real gross product of retail trade grew by an average of 5.6%. In addition to that, data from the Bureau of Economic Analysis (2002) demonstrate that the trend is continuing and that the share of retailing in the national GDP is on an upward trend. In other words retailing is contributing an increasing share of increasing prosperity.

²⁴ US census (1992)

²⁵ <http://www.ibisworld.com> (2004)

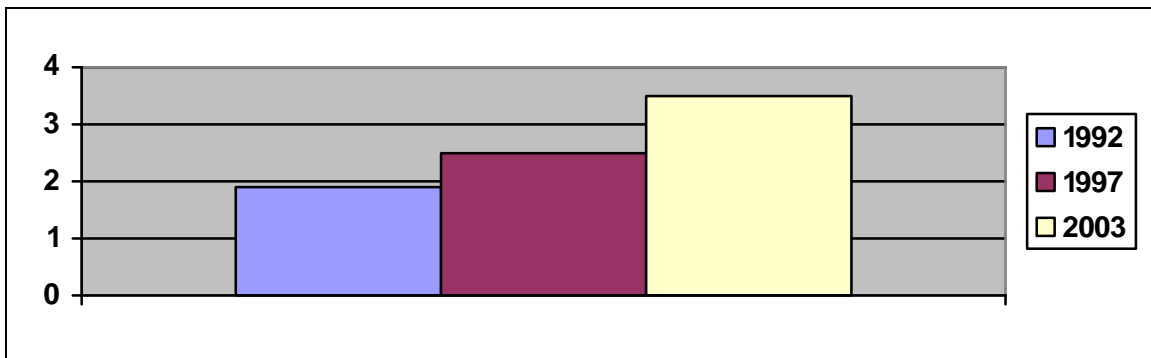
²⁶ Agrawal, R., Findley, S. (1996) *Capital Productivity: Why The Us Leads And Why It Matters*, The McKinsey Quarterly (1996), Number 3

Figure 2. Retail trade growth compared to GDP (%)



OECD (2001)

Figure 3. Retail trade growth (%) in the period 1992 - 2003



ibisworld.com (2004)

3.2.1.2 Food Retailing Responds to Customer Demand for Choice and Low Prices

Six of the top ten US retailers sell food. Food retailing is the second biggest retail sector by number of establishments, accounting for 21% of all retail businesses. General merchandise retailers account for 20%. Those two sectors roughly account for 28% of total retail sales. According to the IGD ²⁷, the US grocery sales are approximately USD 1 trillion, 60% of which are food. The IGD

²⁷ IGD (2001b) Market Focus NAFTA

defines the US market as an advanced retail market characterised by:

- Large spending power of the population
- Advanced retail infrastructure including the supply chain
- Presence of home meal replacement/ready meals
- Increasing levels of market consolidation

The sector continues to grow fairly steadily. According to data from the Department of Commerce, only in February 2004 the US grocery sector recorded USD 36.4 billion in sales, an increase of 5.6% in like for like sales, while food and beverage stores during the same month reached USD 40.4 billion worth of sales, up 6.7 % from a year before.

Grocery retailing as a sector employs 3.4 million²⁸ (see Figure 4.). Warehouse clubs and Supercenters are the fastest growing grocery formats with like for like growth exceeding 17%.²⁹

The US shoppers demand wide food variety, and healthy and easy meal choices. They increasingly seem to prefer "one stop shopping". As a consequence of that according to The Food Marketing Institute (FMI), the industry is rapidly changing its operational practices:

- Food stores are getting bigger and
- They are offering better selections and one-stop shopping solutions.

In 2002, the average number of SKUs³⁰ carried in a typical supermarket reached 35,000, while a typical supermarket size averaged 44,000 sq ft. With already extensive non-food ranges, discount hypermarkets such as Wal-Mart (Super Centers) and warehouse clubs such as Costco are also increasing the number of food items on their product list.

²⁸ U.S. Department of Labor, U.S. Department of Agriculture, Progressive Grocer magazine, U.S. Census Bureau, and Food Marketing Institute

²⁹ <http://www.progressivegrocer.com> (2004)

³⁰ Stock keeping unit, refers to each product item carried by a retailer to which a number is assigned for inventory purposes.

3.2.1.3 Retailers Raising Productivity and Generating Business

With the size of companies and the advanced business practices adopted, the grocery retail sector exerts considerable economic influence well beyond the retail industry. For example Wal-Mart, with a turnover of USD 244.5 billion (2003) is the biggest US company in terms of sales and by far the biggest US retailer. It outsells retailer number-two (Home Depot) by four to one. Only in 2002 the company imported from China merchandise worth USD 12 billion, which accounts for nearly 10% of all Chinese exports to the US³¹. Wal-Mart has a network of over 21,000 suppliers. According to McKinsey & Co its everyday low price (EDLP) policy has impacted on the low rate of US inflation, while about 12% of the economy's productivity gains in the second half of the 1990s could be traced back to Wal-Mart alone (see Vignette 2.)

The US grocery market is price sensitive which is reflected in the price competition existing in the sector. For example the CPI³² for food in 2002 registered its smallest annual increase since 1992 of only 1.8%³³. Increases of the food CPI are largely as a result of price increases in "away-from-home" food rather than the price inflation of food retailed for "use in home"³⁴. Although food spending has increased considerably over the years, the increase has not matched the gain in disposable income.³⁵ As a result, the percentage of income spent on food has declined, which could be an indication of actual price deflation in food.

Vignette 2: The Wal-Mart Effect

More than half of the productivity acceleration in the retailing of general merchandise can be explained by only two syllables: Wal-Mart. In 1987, Wal-Mart had a market share of just 9% but was 40% more productive than its competitors as measured by real sales per employee (the measure used for all company-level analyses in this study).

³¹ <http://www.fastcompany.com> (2004)

³² Consumer Price Index

³³ U.S. Fruit & Vegetable Outlook (2003)

³⁴ <http://www.npdfoodworld.com> (2004)

³⁵ Economic Research Service/USDA (1997)

A variety of Wal-Mart innovations, both large and small, are now industry standards. Wal-Mart created the large-scale, or "big-box," format; "everyday low prices"; electronic data interchange (EDI) with suppliers; and the strategy of expanding around central distribution centers. These innovations allowed the company to pass its savings on to customers. By 1995, it commanded a market share of 27 % and had widened its productivity edge to 48 %."

Johnson, B (2002) The Wal-Mart effect, McKinsey Quarterly, Issue 1, pp40

Figure 4. US Grocery retailing at a glance

Number of employees-2002	3.4 million
Number of grocery stores-2002	166,135
Total grocery store sales-2002	USD 535.4 billion
Total supermarket sales-2002	USD 411.8 billion
Number of supermarkets-2002 (USD 2 million or more in annual sales)	32,981
Net profit after taxes-2002/2003	0.95%
Typical supermarket size-2002	44,000 sq. ft.
Average Number of Items (SKUs) carried in a Typical Supermarket-2002	35,000
Weekly sales per supermarket-2002	USD 361,564
Weekly sales per square foot of selling area-2002	USD 11.13
Sales per customer transaction-2002	USD 24.63
Sales per labour hour-2002	USD 137.68
Average # of trips per week consumers make to the supermarket-2002	2.2

U.S. Department of Labor, U.S. Department of Agriculture, Progressive Grocer magazine, U.S. Census Bureau, and Food Marketing Institute

3.2.2 Retailing in Europe

3.2.2.1 The Significance of Retailing as Part of the European Economy

Research into European retail markets varies considerably in terms of geographical scope. Some of it encompasses 15 or 19 countries, other 28³⁶ countries, still other 30³⁷ countries grouped in five European regions. Therefore figures about the total size of the market vary and will be taken only as a broad indication. Europe can roughly be divided into three large regions: Western Europe with its highly-developed national economies (Western Europe could be subdivided into EU and non-EU members), Central and Eastern Europe (stretching out from the Baltic States to Hungary could also be subdivided into EU and non-EU members) and South Eastern Europe (reaching from Slovenia to the Balkans). (See Appendix 2.)

This section will concentrate on the trends associated with the contribution of retailing to the European economy. The audit provides a general overview of grocery retailing in Europe and then illustrates recent economic developments in grocery retailing by focusing on three developed retail markets (Germany, UK, France and Italy) and three emerging retail markets (Poland, The Czech Republic and Hungary).

Further to that the focus will be on what we earlier referred to as "modern grocery distribution"³⁸. Modern grocery distribution is based on large stores (super and hypermarkets). But even within this definition there are considerable geographical differences, for example the French modern retailing is dominated by hypermarkets, in the UK it is lead by supermarkets and in Germany it is dominated by discount operators.

³⁶ *Mintel (2003) Food Retailing in Europe*

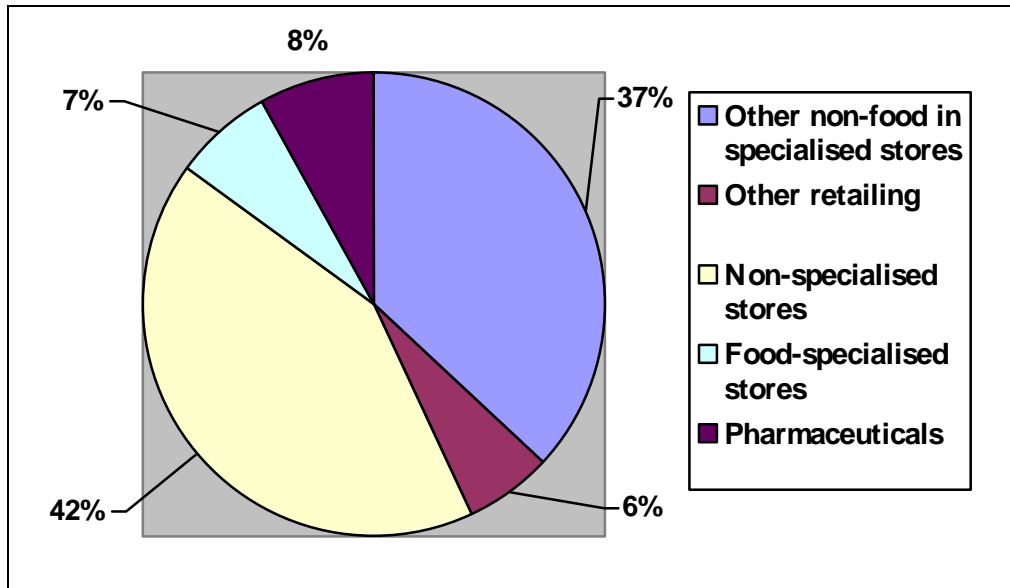
³⁷ *IGD (2003) European Grocery Retailing*

³⁸ *Modern retail formats predominantly selling food, such as hypermarkets, superstores, supermarkets, discount stores, convenience stores and drugstores (including sales from independent outlets associated with a retail organisation or grocery retail company, but excluding sales from (independent) specialist food outlets, such as butchers, bakers, etc. as well as open markets). <http://www.planetretail.net/> (2004)*

The European region as a whole accounts for approximately one-third of the global grocery retail market. As such, it is one of the three key regions for international retailers (Europe, NAFTA and Asia). Within the region the grocery market is concentrated amongst the ten leading countries which account for 78.8% of the total European grocery sales. The top five grocery retail markets in the region are Germany, France, UK, Italy and Russia. The food to non-food split in the European grocery market is approximately 86/14. On a regional and market by market basis there are many differences in this split, governed in the most part by relative market development. In general, the more mature the market, the higher non-food percentage within the grocery sector³⁹.

A challenge in defining the boundaries of the grocery industry is the fact that from a statistical point of view grocery retailers fall into more than one category of economic activity (see Figure 5).

Figure 5. Retail Trade - NACE Rev. 1 Division 52 (retail trade, except of motor vehicles and motorcycles, repair of personal and household goods)



<http://www.europa.eu.int>
(2004)

³⁹ *Institute of Grocery Distribution (2003) European Grocery Retailing*

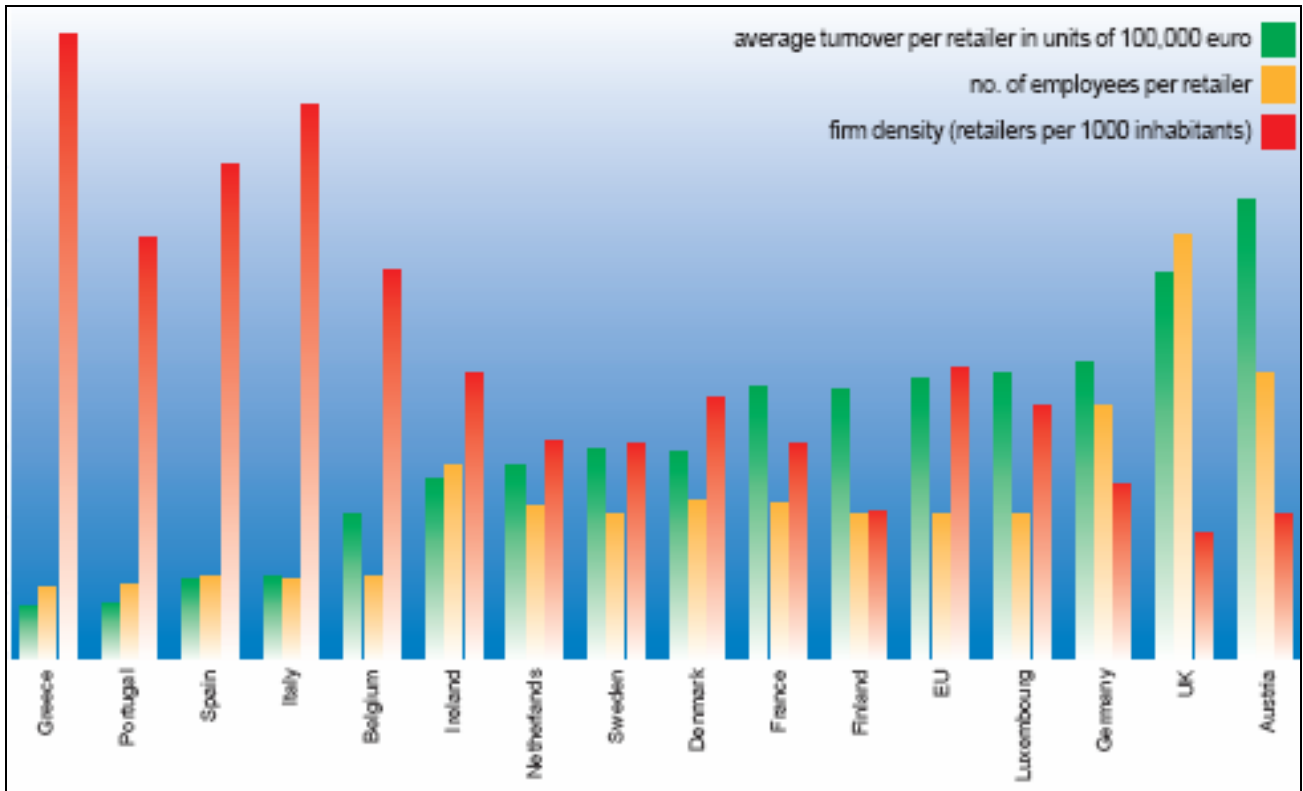
In addition to the above geographically the sector varies considerably in terms of levels of concentration, composition and size of enterprises. As highlighted by ERRT⁴⁰ measuring the size of the sector and the variability of firms both within and across European retail markets is difficult. Nevertheless, in addition to the data produced by the European Union and Eurostat, estimates can be constructed by using indicators such as:

1. Average turnover per firm
2. Number of employees per firm and
3. Firm density

There are considerable differences in size between retailers, with bigger firms in the northern part of the EU, and smaller ones near the Mediterranean. The two countries where firms are biggest in terms of average number of employees per retailer are the UK and Austria, whereas on this account firms are smallest in Southern Europe. In terms of (2) and (3) on average the predominant enterprises in the sector are small and medium enterprises (i.e. with less than nine employees) which accounted for 54.2% of retailers across the EU in 1995. Large enterprises which constitute only 27% of the total number of businesses dominate the market in terms of market share.

Figure 6. Cross-market comparison by average turnover per firm, number of employees per firm and firm density

⁴⁰ ERRT (March 2000) *Retailing in Europe*,
<http://www.errt.org/infosource/docs/retailingineu.pdf>



European Commission (1998)⁴¹

Most of the countries with a high retailer density are located in Southern Europe (e.g. Portugal, Greece, Italy and Spain, with Belgium as the exception). At the opposite end of the spectrum are markets such as Germany, the UK the Netherlands and Sweden⁴² (see Figure 6).

However all Top 20 European retailers could be broadly classed as grocery retailers who have extensive food ranges and have 50.4 % share of the food market. For the individual country markets this figure varies considerably, between the highly concentrated retail markets of Northern Europe to the more fragmented Southern and Central Eastern markets⁴³ (see Figure 7). However in those less concentrated markets gradual consolidation is taking place mainly as a result of market entry of the big European players or due to internal mergers and acquisitions.

⁴¹ European Commission (1998) *Retailing in the European Economic Area* (figures presented are for 1995 - latest data available)

⁴² ERRT (March 2000) *Retailing in Europe*, <http://www.errt.org/infosource/docs/retailingineu.pdf>

⁴³ Mintel (2003) *Food Retailing in Europe*

IGD⁴⁴ (2003) estimates the total retail sales in Europe at EUR 2,202 billion. The grocery market alone has a 59% share in value terms and sales of approximately EUR 1,305. EUR 996 billion of those sales are food (See Figures 9 and 10).

Figure 7. European food retailers: Pan-European concentration, 2002

Top 10 Retailers	36.0 %
Top 20 Retailers	50.4 %
Top 30 Retailers	57.4 %
Top 40 Retailers	61.7 %

Mintel (2003)

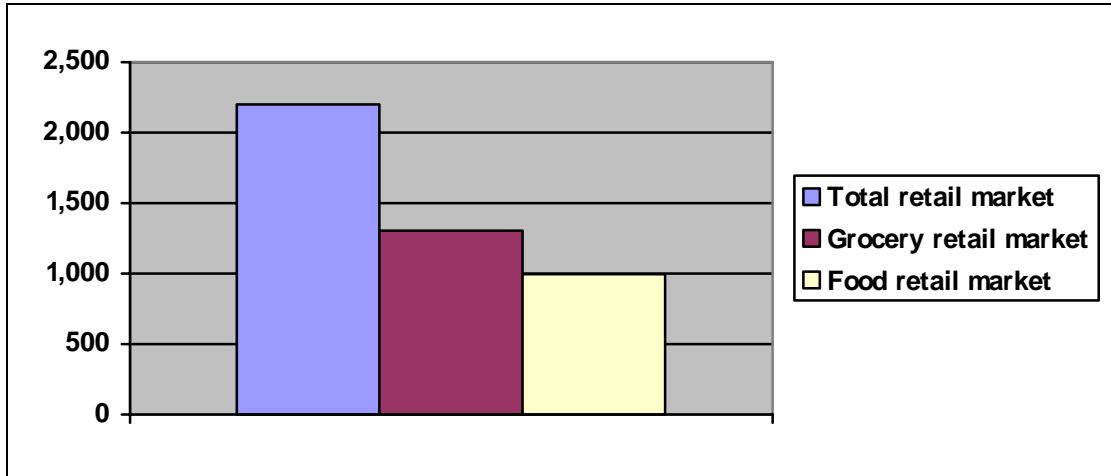
⁴⁴ IGD (2003) *European Grocery Retailing*

Figure 8. Top 5 food retailers share of all food retailers sales

Sweden	98.0
Norway	90.8
Denmark	87.7
Austria	85.8
Finland	84.2
Germany	77.9
Switzerland	64.5
Hungary	64.4
UK	61.6
France	61.1
Netherlands	55.0
Belgium	51.2
Ireland	49.4
Czech Republic	49.4
Portugal	47.4
Spain	38.1
Italy	30.4
Greece	30.1
Poland	10.1

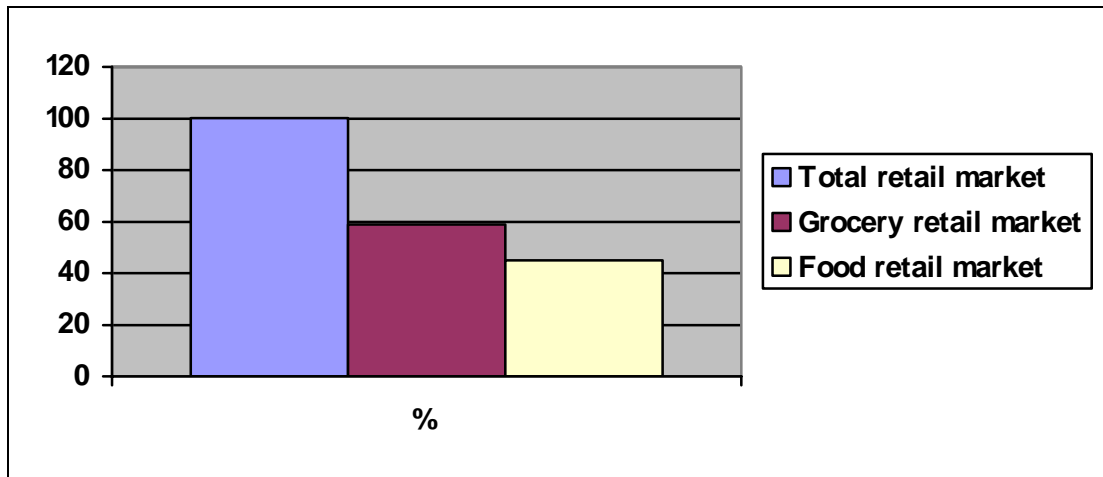
Mintel (2003)

Figure 9. European total retail sales (by value)



IGD (2003)

Figure 10. Shares of the grocery and food retail sales in Europe (in %)



IGD (2003)

3.2.2.2 The Economic Contribution of Grocery Retailing in the EU

Economic contribution can be measured in different ways. They can include:

- Share of GDP
- Share of employment and
- Number of enterprises

According to EU statistics the retail industry is part of a larger grouping of service industries. Services account for more than 65% of both total employment and value added. Distributive Trades (which include wholesaling, retailing and motor trade) is the largest sub-sector within services, accounting for 16% of total employment and 14% of value added. The sub-sector also represents more than 4 million businesses accounting for 43% of all European enterprises. Within the distributive trades, the retail industry is dominant, accounting for roughly three quarters of enterprises, with more than 3.2⁴⁵ million firms and 13 million workers. In Germany alone retailing employs over 2.5 million people⁴⁶ for Italy the figure is 1.7 million⁴⁷. According to Eurostat the wholesale and retail trade employs 17,574 million in the Eurozone and 23,405 million in the EU which accounts respectively for 22.6% and 22.2% of the services sector employment. For comparison the second biggest sector of health and social work (NACE group N) accounts for 13.7% and 14.3% of employment⁴⁸.

Apart from being among the biggest European employers, retailing has an increasing share of salaried workers, close to the level observed in manufacturing, while female employment is substantially higher in retailing than in any other industry. Women account for nearly 60% of the total workforce of retailing, compared to 32% of wholesale trade and for less than 18% of motor trade⁴⁹. Those figures in some of the member states are even higher, for example in Austria

⁴⁵ OECD (2001) *Assessing barriers to trade in services: retail trade services*

⁴⁶ Figure without employment in repair of personal and household goods - NACE Rev. 1 52.7

⁴⁷ European Communities (2001) *Distributive Trades in Europe*

⁴⁸ Eurostat (2002) *Labour Force Surveys*

⁴⁹ In the EU

and Germany they are respectively 68% and 67%. Retailing is also among the biggest part-time employers, thus providing employment opportunities for those that need more flexible working patterns.⁵⁰

Two activities clearly dominate the sector in terms of turnover and employment. Those are "retail sale in non-specialised stores"⁵¹, which consist of large-scale distribution outlets (i.e. including grocery retailers⁵²), and "other retail sale of new goods in specialized stores"⁵³, encompassing various categories of goods including food. Those two alone account for 75% of employment and 80% of turnover in retailing⁵⁴. The retail sale of food, beverages and tobacco in specialized stores'⁵⁵ is another important activity in the retail trade accounting for 19% of all retail enterprises, 10% of employment and 7% of turnover⁵⁶. It can be assumed that those three categories account for the majority of businesses under the earlier heading of modern retailing.

Retailers not only provide services to consumers, but also can perform vital functions such as stimulating consumer confidence or disseminating information to both producers and consumers. For example in 2001 the EU retailers were principal contributors to the smooth introduction of the Euro currency by absorbing a significant amount of the cost

⁵⁰ OECD (2001) *Assessing barriers to trade in services: retail trade services*

⁵¹ Non-specialist food dominant stores (NACE Rev. 1 52.1). Mintel (2003) classifies markets (under 'non-store retailing'); department stores are often quite significant retailers of food, but they have their own classification (non-specialist predominantly non-food retailers); some retailers combine food and non-food retailing but where the non-food predominates can be classified elsewhere, for example, Mintel classifies M&S in the UK and Hema in the Netherlands as clothing retailers. (Mintel, 2003)

⁵² Grocery retail: All food, drink and non-food products (i.e. health & beauty, pet care, clothing, DIY, electronics, etc.) sold through all retail outlets selling predominantly food in a given market. This includes the total turnover of hypermarkets and Cash&Carry stores. (IGD, 2003)

⁵³ NACE Rev. 1 52.4

⁵⁴ European Communities (2001) *Distributive Trades in Europe*

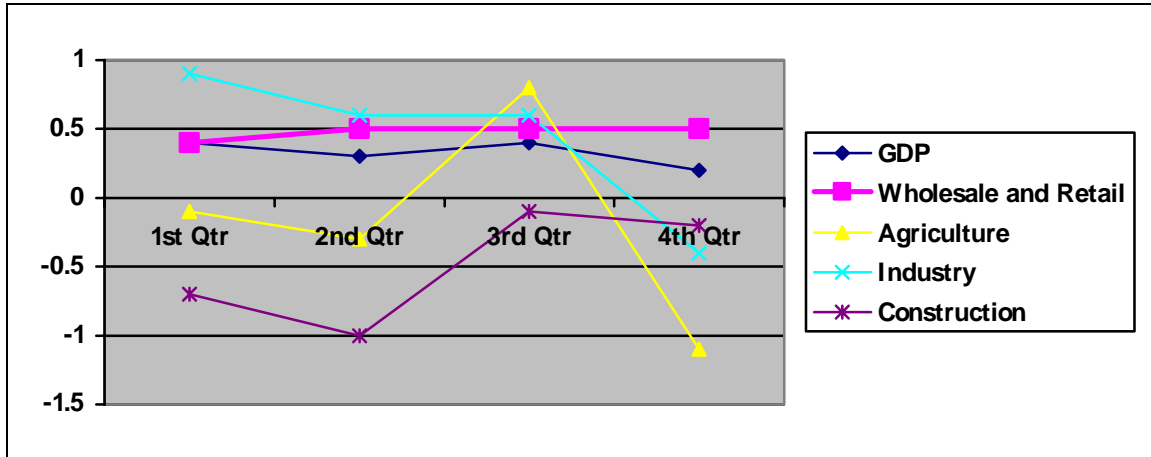
⁵⁵ NACE Rev. 1 52.2, including food retail: All food and drink products sold through all retail outlets (i.e., supermarkets but also open air markets and independent traders) in a given market. (IGD 2003)

⁵⁶ European Communities (2001) *Distributive Trades in Europe*

of changing the physical currency. Nowadays they are major drivers of efficiency and productivity throughout the economy, contributing to balanced economic growth⁵⁷. For example in 2002 against the background of a slow GDP growth in the Euro Zone the retail sector recorded positive growth above that of the GDP and outperforming other sectors such as industry, agriculture and construction (see Figure 11).

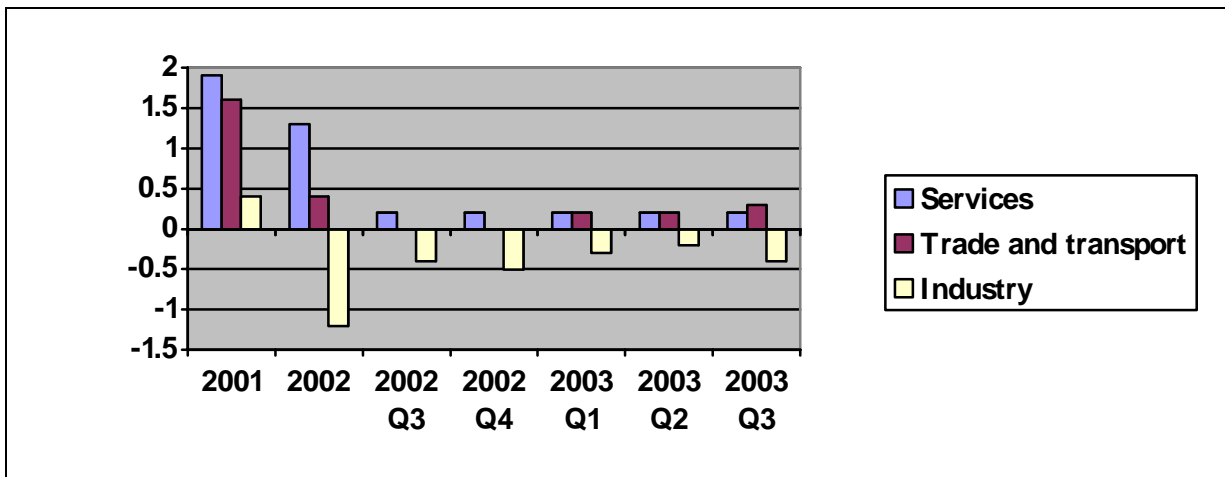
⁵⁷ *ERRT (March 2000) Retailing in Europe,*
<http://www.errt.org/infosource/docs/retailingineu.pdf>

Figure 11. Breakdown of 2002 growth by selected sector (Seasonally and working day adjusted)



IGD (2003)

Figure 12. Employment growth



ECB (2004)⁵⁸

Similarly ECB⁵⁹ research indicates that between 2001 and 2003, a period of slow economic growth and higher unemployment, services and trade with retailing in particular were the major drivers in job creation (See Figure 12). In this context, food retailers continue to achieve growth rates of output which are consistently higher than the GDP. As a consequence of that grocery (food)

⁵⁸ ECB Monthly bulletin (January 2004)

⁵⁹ The European Central Bank

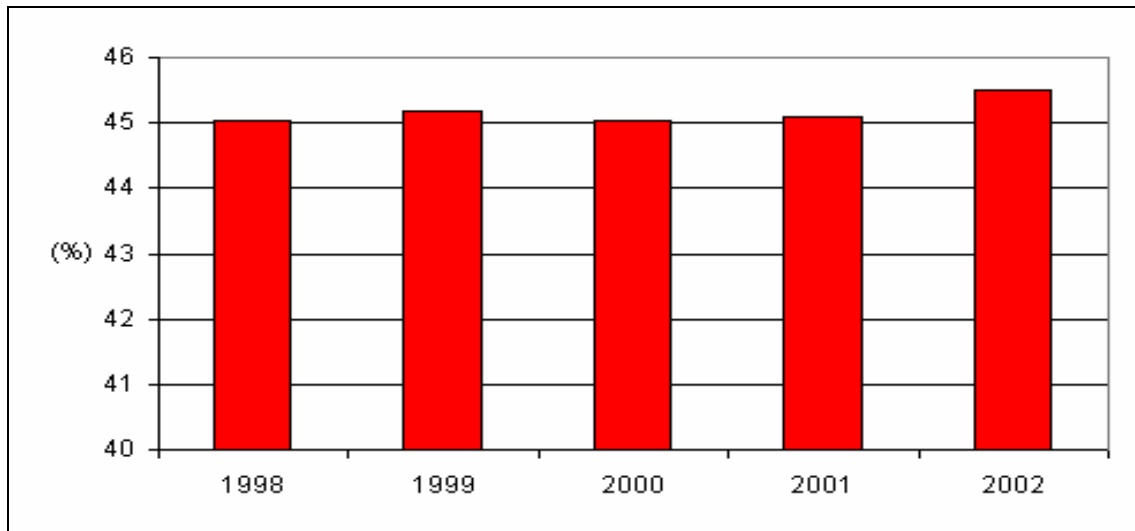
retailers have increased their share of the total retail market (See Figures 13 and 14).

Figure 13. Retail growth in Europe, between 1998 and 2002

	1998	1999	2000	2001	2002
All food retailers (€ bn)	724.06	760.97	804.65	840.66	875.6
Growth (%)	2.1	5.1	5.7	4.5	4.2
All retail sales (€ bn)	1,607.80	1,684.20	1,787.10	1,863.80	1,924.30
Growth (%)	2.8	4.8	6.1	4.3	3.2

Mintel (2003)

Figure 14. Europe: Food retailers' share of all retail sales, 1998-2002



Mintel (2003)

The dynamism of the European grocery (food) sector can be demonstrated by the fact that while in 1990, the combined market share of the top five grocery retailers did not exceed 14% of the market, the period between 1995 and 2000 saw rapid annual growth on average of 9%, which in 2000 resulted in combined sales of EUR 226 billion (USD 194

billion) and a market share of 26%⁶⁰. Such growth is even more impressive considering that in the EU food expenditure as a share of the total disposable income has been declining for some time now. Nevertheless the top grocery retailers have been able to sustain growth by diversifying into non-food areas, innovating with new products and services, and embracing new technologies.

In the process they have generated considerable efficiency savings, a high proportion of which has been passed on to consumers. For example in the period between 1980 and 1999 the UK retail industry has been growing on average by 3.4% compared to an average GDP growth of 2.4%. For the same period the average price increase (API) of retail services grew by 4.6% compared to 5.2% of the retail price index (RPI). This substantially contributed towards the lowering the rate of inflation for the period. In 1999 UK retailers saved their customers in total GBP 17.6 billion due to efficiency gains generated by the retail sector. GBP 14.1 billion of those savings came from more efficient use of labour, GBP 1.3 billion from improved use of capital and GBP 2.2 billion is due to improved use of intermediate inputs (i.e. the outputs of other industries used by retailers)⁶¹.

Vignette 3: Retail Price Deflation

Retailing is a major engine of employment growth in the economy, creating 58,500 new jobs (41,400 of them being full-time positions) during 1999.

UK retail is highly competitive as shown by the intense pressure on prices. Prices of retailed goods have fallen year-on-year in 16 of the last 17 months, according to BRC's Shop Price Index. The retailed goods element of the RPI showed prices in the shops fell by 0.2 per cent year-on-year to September. This has occurred within an environment of continual product and store improvements and innovation. Recent research conducted for BRC, again by London Economics, has put a value on the benefits flowing to consumers as a result of this investment. London Economics calculated that consumers benefited by around GBP 18 billion

⁶⁰ *M+M Planet Retail (November, 2000)*

⁶¹ *London Economics (July, 2000) Shopping in Britain, Report for the British Retail Consortium*

over 10 years as a consequence of the resulting increased efficiency of retailing. (British Retail Consortium, 2000)

Wal-Mart owned Asda in the UK has announced GBP40 million (USD72.7 million) of price cuts bringing its total since January to GBP110 million (USD200 million). The move is in anticipation of the completion of the Morrisons takeover of Safeway at the beginning of next week with the merged group becoming Britain's fourth largest grocery player.

M+M Planet Retail, (2004)

Vignette 4: Price Reductions

Tesco has upped the stakes in the supermarket price war by announcing a huge round of cuts. Tesco says the savings on 1,500 food and non-food items, to be in place by tomorrow, are worth up to GBP 70 million to customers. Sainsbury's, the chain's main rival, claims it has a "long-term approach" to low prices and shoppers will not fall for Tesco's ploy. According to Tesco director John Gildersleeve, a total of 15,000 prices are now cheaper at Tesco than they were in January last year. He commented: "Our determination to cut prices, and keep them low, is helping keep a lid on inflation."

The latest campaign is in addition to the series of price cuts in the last year totalling over GBP 200 million. A Sainsbury's spokesman said it had a wide selection of special offers reflecting its "constant, long-term approach to cutting prices". He added: "Price is really important but it's just one element of the shopping experience. We believe our customers appreciate quality and service as just as important." The spokeswoman said there were at least 3,000 prices cheaper at Sainsbury's than this time last year and that it is running offers including 50 buy-one-get-one free deals.

<http://www.ananova.net>, (2002)

For a review of individual EU Retail Markets (i.e. Germany, The UK, France and Italy) please see Appendix 2.

3.2.3 Retailing in Japan

The Japanese economy is the second largest in the world. However, the country is currently going through deep recession with deflation, high unemployment, high debts and low consumer confidence. In 1999 the Japan GDP fell below the level of that in 1997. Between 1992 and 1997 the economy grew by only 7.3%. Towards the end of the decade the contribution of retailing to the national GDP plummeted to below its share in 1994⁶². Similarly between 1999 and 2003 in local currency, total retail sales fell by around 5% (see Figure 23). Nonetheless, MGI⁶³ estimates that one in every ten Japanese nowadays works in retailing. Due to its size and impact on consumption, retail continues to be an important sector of the Japanese economy. Other estimates suggest that it accounts for 12 percent of total employment and 5 percent of the GDP. There have been signs of recovery with tentative retail growth in 2003.

The Japanese retail market is fragmented, characterized by a larger number of small retail businesses. According to the Japan External Trade Organisation⁶⁴ small and medium-sized stores continue to dominate the retail industry despite the emergence of some large multiple retailers⁶⁵. In 1997, there were 1.42 million retail stores employing 7.35 million people. 50% of all retail establishments employ between one and two people. Such fragmentation is illustrated by the fact that 1.15 million retailers account for only 15.8% of all retail employees. According to JETRO such a fragmented retail scene is due to the regulatory framework, namely the Large-Scale Retail Store Law and to the large number of wholesalers. Product distribution is often integrated and manufacturer centred.

The sector however experiences considerable structural and productivity problems. On average retail labour productivity in Japan is 50 % of that in the US. The figure is strongly affected by the low productivity of the "traditionals" which display less than 20% of the average US retail productivity. On the other hand in the large-scale formats such as

⁶²Dawson and Larke (2004) *Japanese Retailing Through the 1990s: Retailer Performance in a Decade of Slow Growth*, British Academy of Management

⁶³McKinsey Global Institute (2000) *Why The Japanese Economy is Not Growing*

⁶⁴ www.jetro.go.jp (2004) *Overview of the Japanese Retail Industry*

⁶⁵ www.jetro.go.jp (2004) *Overview of the Japanese Retail Industry*

discounters/general merchandise stores, and supermarkets) the figures is considerably higher - 84 % of the US retail average.

MGI⁶⁶ attributes the reasons for such a productivity gap to the high fragmentation in the industry which is still dominated by less productive "traditionals". Those account for 55 % of retail employment compared to 19 % in the US. Large-scale retailers account for only 12 % of employment compared to 35 % in the US.

According to McKinsey (2000) the shortage of large-scale retailers is particularly acute in food retailing. Grocery retail sales have followed similar trends to retail sales. Between 1999 and 2003, food retail sales fell by around 5%. As would be expected in a mature economy, grocery sales have declined as a proportion of total retail sales as consumers spend a growing proportion of their income on non-essential products such as transport, communications and recreation⁶⁷.

Based on choice, service, and price, Japanese grocery retailing can be broadly segmented into six groups:

- Discounters/GMS⁶⁸ are large scale self-service stores that are chained. They offer a wide range of products to consumers at a low price. This category includes hypermarkets, and wholesale clubs. The product line comprises of mostly general merchandize including food. Their share of grocery retailing is much lower than in Europe and the US.
- Supermarkets are large scale, self-service stores offering a wide range of food items (as opposed to primarily non-food items for discounters/GMS) at a low price. While in many parts of Europe and the US supermarkets dominate modern grocery retailing, in Japan supermarkets tend to be smaller, often regional, multiples. The top ten Japanese supermarkets account for about 10% share of the market. According to the Ministry of Economy, Trade and Industry in 2002 in Japan there were 3,641 supermarkets, accounting for a turnover of YEN 12,668bn.

⁶⁶McKinsey Global Institute (2000) *Why the Japanese Economy is Not Growing*

⁶⁷M+M Planet Retail, <http://www.planetretail.net/> (2004)

⁶⁸General merchandise stores

- The specialty chains vary in size from focusing on high service and narrow ranges to wide range retailers (category killers) pursuing low service low price strategies.
- Convenience stores are small stores selling primarily food items and some general merchandise products and generally open 24 hours. In 1999 there were an estimated 39,628 convenience stores, with a turnover of YEN 6,134,896 employing 536,927 people.⁶⁹
- Department stores are large scale retail businesses offering a broad range of mainly general merchandise products and also selling some food. In the climate of economic slowdown and reduced consumer confidence their high service / high price retail formula is under pressure, experiencing decline both in terms of numbers and sales. In 2002 there were an estimated 372 department stores: 45 less than in 2001, with a turnover of YEN 9,365 bn, a 2.1 decrease in like for like sales.⁷⁰
- The traditional stores as described by MGI are usually family owned, non-chained small businesses which offer neither product range nor low prices. In Japan many traditionals are located in town centres. Their share of the Japanese grocery market is higher compared to the US and Europe. They are also less product focused compared to their counterparts in the US and France, where in order to survive they have developed appealing to customers specialist ranges such as gourmet cheese shops, high levels of customer service and longer opening hours.

According to McKinsey the domestic competitive intensity of Japanese retailing is still relatively low compared to other developed retail markets. Insufficient large-scale retailers exist to pressure unproductive traditional food stores. Retail sales during the 1990s have grown mainly through the increase of floor space. Large retailers have tried to pursue strategies of new store opening but in a climate of low consumer confidence and lower productivity this has

⁶⁹ Japan Ministry of Economy, Trade and Industry, Research and Statistics Department, Minister's Secretariat (2004) Census of Commerce

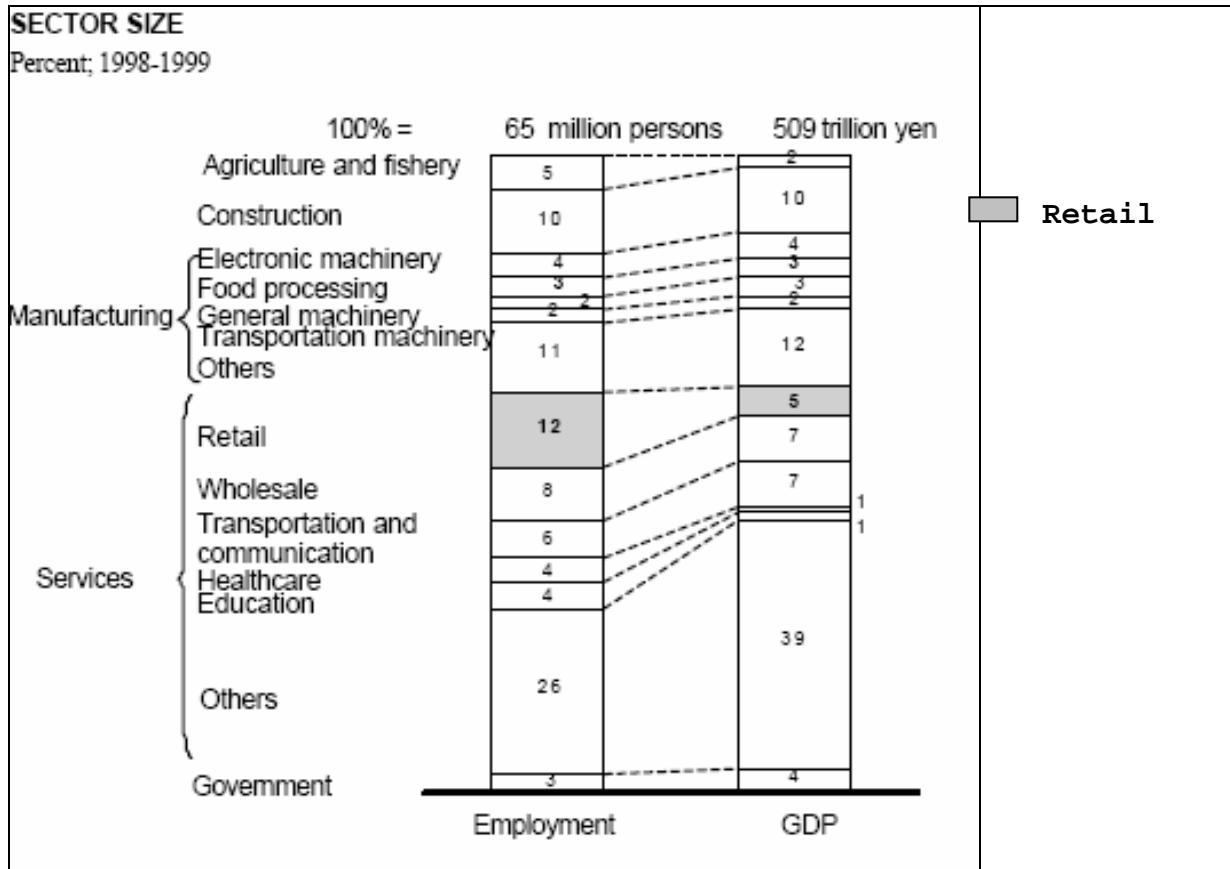
⁷⁰ Japan Ministry of Economy, Trade and Industry, Research and Statistics Department, Minister's Secretariat (2004) Census of Commerce

proved difficult. Three groups of retailers however have managed to obtain competitive advantages from the recession, namely those who responded quickly to emergent market segments, foreign retailers and e-retailers, while general merchandise and department-store retailers are in need of more innovative retail formulas⁷¹. While the traditional grocery shops have seen sales declining, the superstores, supermarkets and c-stores have all witnessed strong growth. According to government figures, between 1991 and 2002, supermarkets witnessed a 42% increase in sales, while c-stores experienced a 116% rise in sales. However, between 1999 and 2002, growth for even these channels has tailed off as the retail market has become increasingly difficult and competitive⁷². For a developed market Japan's grocery retail sector continues to be highly fragmented with the top five players holding a market share of less than 20% (See Figures 15 and 16).

⁷¹ Dawson and Larke (2004) *Japanese Retailing Through the 1990s: Retailer Performance in a Decade of Slow Growth*, *British Journal of Management*, (15) 1.

⁷² M+M Planet Retail, <http://www.planetretail.net/> (2004)

Figure 15. Retailing in Japan (sector size)



Annual Report on Labour Force Survey; Annual Report on National Accounts (year N/A)

Deregulation and price competition, however, is resulting in extensive market restructuring and the degree of control exercised by manufacturers is declining both in terms of intensity and numbers of products. Gradually larger-scale retailers, chain-store operators and franchisers are beginning to emerge as the dominant actors in Japanese retailing and distribution. The rapid shift toward electronic transactions and the computerized integration of manufacturers and retailers suggest that this trend will intensify⁷³.

⁷³ OECD (2001) *Assessing barriers to trade in services: retail trade services*

Figure 16. Share of modern grocery distribution (2003)

Company	Retail Banner Sales 2003 (USD mn)	Market Share (%)	Food Sales 2003 (USD mn)	Market Share (%)
Ito-Yokado	43,988	6.8	27,396	5.6
AEON	34,915	5.4	17,182	3.5
Uny	19,084	2.9	11,242	2.3
Daiei	17,695	2.7	7,632	1.6
Lawson	11,715	1.8	9,722	2.0
Sub Total	127,397	19.7	73,174	15.0
Other	519,753	80.3	414,078	85.0
Total	647,150	100.0	487,252	100.0

M+M Planet Retail (2004)

3.2.4 Grocery Retailing in Emerging Markets

3.2.4.1 Central Europe

At present nearly all Central and Eastern European markets are growing fast. With GDP rates higher than in Western Europe, and inflation rates slowly decreasing to the levels of Western European economies those markets are increasingly attractive to international grocery retailers. The audit will focus on three of them, Poland, The Czech Republic and Hungary. For individual reviews of those three retail markets please see Appendix 3.

The three countries have among the highest per capita GDP in the region, and also the highest presence of large European retailers. Rapid economic (and social) change in these countries is being accompanied by the substantial development of food retailing. Food retailing is a key contributor to, and enabler of, change.

Compared to the EU countries the accession countries from Central Europe (Poland, The Czech Republic and Hungary) have a more fragmented retail industry (due to the almost total absence of modern retail under the centrally-planned regime and due to the fact that their retail infrastructure has only recently been privatised). Compared to the EU average of 8.6 (1993) stores per 1000 inhabitants the Czech

Republic, Hungary and Poland have respectively approximately 25, 18, and 12 stores per 1 000 inhabitants⁷⁴, providing good potential for consolidation and future growth.

By 1997, the top ten European retailers held 53% share of food sales in Hungary (i.e. close to the EU average, but based on a different mix of supermarkets and shopping centres), 16% in the Czech Republic, and only 2% in Poland. The corresponding figures for total (i.e. food and non-food) sales were, respectively, 25%, 11%, and 1.5%, indicating that the non-food sector remains slightly more fragmented. These figures have increased considerably with many ongoing constructions of large retail stores. According to the OECD⁷⁵ now most of the top 10 retailers in any of those markets come from the EU (6 in the Czech Republic, 4 in Hungary and 6 in Poland) with Tengelmann, Julius Meinl and Ahold and Tesco taking the lead.

Since 1997 a significant concentration has taken place in all three markets driven by the substantial growth of discount and hypermarket chains. According to the Czech Government, while this has helped to modernise the retail sector, Czech companies have encountered difficulties in competing with the large financial resources of multinational corporations and the number of Czech companies among the top market players is limited. Interkontakt, has lost its dominant position and the Czech food retailer Vit, a top ten retailer in 1997, terminated its activities in 1999⁷⁶. According to the OECD the extent of growth opportunities in those three Central European markets will largely depend on the rapidity with which restrictive regulations on large scale business are introduced. Pressures for regulation could come from domestic large store firms which may feel they have insufficient financial capacities to face foreign competition. However beyond those concerns the entrance of top grocery retailers in Central Europe has brought considerable economic benefits, such as an increase in the levels of foreign direct investment, improvement of the retail infrastructure, multiplier effect for local suppliers, and transfer of advanced retail practices into the markets. Those are coupled with increased customer choice and improved product quality and convenience. The typical high standard hypermarkets in the

⁷⁴ OECD (2001) *Assessing barriers to trade in services: retail trade services*

⁷⁵ *op. cit.*

⁷⁶ *op. cit.*

region offer up to 50,000 product lines (including 25,000 food lines) and a high proportion of fresh food. Retailers like Carrefour are rolling out large investment programmes. For example in Poland during 2004 the company plans to open between three and six hypermarkets. One of them will be an anchor in the biggest shopping mall in Warsaw, the Arkadia Center, which will have a sales total area of 290,000 sq m, hosting 189 retail stores and the biggest multiplex cinema complex in Poland⁷⁷.

For a review of individual Central European Retail Markets (Poland, Czech Republic and Hungary) please see Appendix 3

3.2.4.2 Grocery Retailing in China

The Chinese retail market is very different both in terms of size and growth to any of the markets discussed above. It is still highly fragmented compared to the developed Western retail markets. The top 5 grocery chains account for less than 12% of the total grocery market (See Figure 17). A recent survey suggests that the total sales for the top 30 retailers in the country⁷⁸ amounts to CNY270.4 billion (USD 32.6 billion) in 2003. Considering the size of the market such a figure is relatively modest, however its growth rate of 29.2% is well above the 8.5 % growth of the GDP and indicates that the sector is making a substantial contribution to GDP growth. In 2002 the top 30 retailers achieved 52%⁷⁹ increase in sales. Growth is most spectacular among the top 8 companies. Nine of the top 30 retailers have sales exceeding CNY10 billion (USD1.2 billion).

Modern grocery (food) retailing is clearly seen as a significant element of economic development in China, as in other transforming economies. Government policy at national and provincial levels is encouraging and enabling its growth.⁸⁰

⁷⁷ *M+M Planet Retail (2004) Carrefour in the Poland, <http://www.planetretail.net/> (2004)*

⁷⁸ *Those include food and non-food retailers*

⁷⁹ *M+M Planet Retail, <http://www.planetretail.net/> (2004)*

⁸⁰ *Hua Xinxin. (2002) in (eds) Yahagi T. and Davies R. Proceedings of the Asia-Pacific Retail Conference. Oxford, OXIRM*

Lianhua⁸¹ is the largest single retail company in China with more than 2,200 stores and net sales of CNY18,330 million (USD 2,212 million in 2002). Among the top 30 retailers in the country are six foreign retailers - Carrefour, China Resources Vanguard, Suguo, Wal-Mart and Metro Group. Their total sales of CNY49.5 billion (2002) represent 18.3% of the total sales of the top 30. The statistics indicate that local chain store operators still dominate the industry despite challenges from foreign counterparts. As would be expected from a communist country, foreign investment has traditionally been limited. However a series of reforms as the country began its transformation into a market-based economy have gradually eased restrictions in the sector. At present, foreign retailers continue to be limited to only joint venture market presence in certain areas of the country. Such restrictions affect their growth. These are due to change as part of China's commitment to the WTO and by the end of 2004 such restrictions will be lifted and foreign retailers will be able to own 100% equity in companies, plus there will be no restrictions on where they can operate geographically. The expectations are that retail consolidation will continue over the next few years and foreign retailers will gain an increasingly prominent position in the rankings.

With sales exceeding USD 383.4 billion the food retail sector is by far the largest and most attractive retail sector (See Figure 18). Modern grocery distribution is experiencing strong growth particularly in the large urban conurbations and increasing share of grocery retail sales. Although there is vast number of small, often family-owned, independents and hawkers who still dominate the grocery sector, hypermarkets have emerged in recent years as the primary growth format in major cities such as Shanghai and Beijing. Discount stores are also expected to have a strong future impact on Chinese grocery retailing.

⁸¹ "The two largest retailers in China, Lianhua and Huilian, merged last year into one state-owned firm called Bailian Group, with annual sales of USD 8bn" - Wall-to-wall Wal Mart (2004) *Forbes Global 2000*, 12 April, 2004

Figure 17. Share of Modern Grocery Distribution (2003)

Company	Retail Banner Sales 2003 (USD mn)	Market Share (%)	Food Sales 2003 (USD mn)	Market Share (%)
Lianhua ⁸²	3,191	3.2	2,345	2.7
Beijing Hualian	2,511	2.5	1,507	1.7
Hualian Supermarket	2,388	2.4	1,828	2.1
China Resources Enterprise	2,228	2.2	1,349	1.6
Wal-Mart	1,633	1.6	743	0.9
Sub Total	11,951	11.9	7,772	9.0
Other	88,291	88.1	78,911	91.0
Total	100,242	100.0	86,683	100.0

M+M Planet Retail (2004)

Figure 18. Retailing in China

	2002	2003	2004
GDP (USD mn)	1,264,524	1,370,199	1,495,064
GDP (% real growth)	8.0	7.5	7.5
Retail sales (USD mn)	493,682	535,630	580,364
Food retail sales (USD mn)	330,596	356,141	383,444
Modern grocery distribution, total sales (USD mn)	91,132	100,242	109,300
Modern grocery distribution, food sales (USD mn)	80,264	86,683	93,863

M+M Planet Retail (2004)

⁸² Refer to footnote 83

3.3 The Economic Multiplier Effect

The contributions of food retailing, both economic and social, can be identified at two levels: the direct and the indirect:

- The direct contributions include those to the GDP, to the provision of food and jobs, etc.
- The indirect contributions are less easily recognised. They may be summarised as the "multiplier effect".

The multiplier effect indicates the relationship between some observed economic or social change and the amount of economic activity that this change creates throughout the economy⁸³. While individual retailers sometimes publish data on their multiplier effects, namely in terms of their local economic and social impacts, such data is patchy, often not aggregated on an industry or international levels. There is also a shortage of comprehensive national or international studies exploring this issue. Most of the studies of the "impact" of new retail development have been rather narrow and/or developed for use in administrative or political processes in order to gain permissions to develop.⁸⁴ "Impact studies" are generally not broad enough in terms of scope or aim to assess comprehensively the multiplier effect of grocery retailing.⁸⁵ A notable exception to this is a recent study in the US on retailer multiplier effects in employment conducted by the University of Missouri-Columbia. We shall refer to this work in section 4.

Food retailers generate multiplier effects through increased productivity, innovation and efficient distribution. Efficiencies and productivity gains create the potential for retail price deflation. This coupled with increases in consumer real incomes stimulates consumer spending and has a positive impact throughout the economy. In a similar way retailers who introduce new services, new formats, new products, or new stores stimulate demand which itself

⁸³ Campaign to Protect Rural England (2004)

⁸⁴ OXIRM and BDP (1992) explored this issue in the UK context in *The Effects of Major Out of Town Retail Development*, London:HMSO

⁸⁵ England, J. (2000) *Retail Impact Assessment: guide to best practice*. London: Routledge.

generates multiplier effects. Food retailers are major purchasers - of goods for re-sale but also of "intermediate inputs" - those finished products, which retailers buy from other industries to produce their output (e.g. transportation and construction services, consultancy, IT and advertising, etc.) Those purchases stimulate business and create employment for other industries and thus result in more multiplier effects. Food retailers who today lead "pull" supply chains have an even greater effect on other industries than in the past, as they promote new products and transmit consumer demand efficiently into the rest of the economy.

The following section highlights the contribution of food (grocery) retailing towards an efficient and customer focused value chain.

3.4 Grocery Retailers Drive Consumer Focused Supply Chains

Modern grocery distribution has had a profound effect on the integration and agility of its supply chains. Food retailers are the businesses most closely in touch with consumers. Their ability and increasing skills - in analysing customer requirements and ensuring that supply chains meet these requirements efficiently and effectively, are major contributions to the economy and to consumer lifestyles.

The retail supply chain of the large grocers is focused on demand, rather than supply. Supermarkets selling fast moving consumer goods (FMCG), such as grocery products, have developed efficient replenishment systems. The short shelf-life of some of the products sold necessitates it.

3.4.1 Fundamental Requirements

There are a number of fundamental requirements to achieve a pull supply chain, able to respond more quickly to changing consumer needs. These are based on the provision of effective information systems throughout the supply chain. The large retailers have made massive investments in information technology in order to become more reactive to consumer demand.

The use of scanning technology and the emergence of large integrated retail chains have led to a situation where each chain records sales per SKU⁸⁶ for all of its stores and then calculates the aggregate. Thus actual aggregate sales data can be used to drive the supply chain. Retail concentration, whereby four or five retailers account for up to 75% proportions of sales in a retail sector, enables actual data for product retail sales to be obtained for each sector. Manufacturers can therefore have access to actual retail sales of their products through all outlets. This contrasts with the accuracy of measures of domestic consumption. Such measures are obtained from a sample of consumer households. A panel with 20,000 households would be a sample size of one thousandth of the total households in a country the size of the UK. This relatively small sample will lead to grossing up errors in projecting national sales. This level of error is too large to drive a consumer pull supply chain, where the goal is stock minimisation.

3.4.2 Retailers are Applying IT on a Large Scale for Consumer Benefit

The capture of EPOS⁸⁷ data alone is not enough for retailers to develop a consumer pull supply chain. Such a supply chain embraces the retail functions of inventory control, depot management, marketing, category management, buying and finance. Planned marketing activities need to be communicated to retail branches and the required quantity of product ordered. Since invoices will not be paid without some form of purchase order, this information must be accessible to both the buying and finance functions. Integration of each of these retail operations is therefore necessary for a consumer pull supply chain to be introduced and is illustrated in Vignette 3. The linking of individual processes of distribution is often referred to as connectivity and is achieved by the application of information technology.

⁸⁶ *Stock keeping unit, refers to each product item carried by a retailer to which a number is assigned for inventory purposes*

⁸⁷ *Electronic point of sales*

Vignette 5: Marks & Spencer investing in IT

Retailers are major investors in information technology. For example, in the early 1990s, Marks & Spencer is estimated to have spent around 750 million US dollars or Euros (GBP 500 million) on IT systems for its 285 UK stores dealing with 700 suppliers and 150,000 product lines. Such investment has to be justified on increased efficiencies and greater competitiveness. The efficiencies are gained in lower operating costs, lower inventories and greater sales resulting from less out-of-stock situations in its branches.

3.4.3 Retailers are Leading Data Synchronisation

Since 'just-in-time' solutions are aimed at increased efficiency, it is important that different retailers (each of whom have many suppliers) and their suppliers (each of whom may supply many different retailers) communicate in a compatible manner. The use of separate complex communication systems would generate levels of administrative complexity that could negate the gains in operational efficiencies. The objective of data synchronisation is to establish a common framework for product and party data, offering businesses a single, streamlined gateway for standardised and constantly synchronised product data to drive all supply chain applications. It has been estimated in a Global Commerce Initiative⁸⁸ (2002) special report that 30% of transactions contain inaccurate data and 3.4% of sales are lost annually because of supply chain inefficiencies. The aim of data synchronisation is to help everyone in the supply chain implement compatible processes thereby reducing opportunities for error and the costs of duplicate data entry.

⁸⁸ *Global Commerce Initiative;*
[http://www.ecr.de/ecr/englisch/Content/e42/e308;](http://www.ecr.de/ecr/englisch/Content/e42/e308)
<http://www.globalcommerceinitiative.org/>

3.4.4 Integration of Grocery Supply Chains Depends on Retailers

The level of retail sales drives the consumer pull supply chain. It follows that the level of retail sales should be available to all entities within the supply chain. The time period for retail sales will be influenced by the replenishment cycle. In the case of fast moving consumer goods (FMCG), such as groceries, the time period could be daily. In the case of Japan, where shops are small in size, and the velocity of sales is high, then the replenishment cycle can be as short as every four hours. This rate of sale needs to be available to both the wholesaler or the regional distribution depot and to the manufacturer. Similarly the product flows between each link in the chain need to be visible to all parties. The replenishment cycle may vary between different links in the chain. For example, the Dutch grocery retailer Albert Heijn has a policy of guaranteed replenishment of its stores within eighteen hours and requires a six-hour response time from its suppliers to its depots. A large volume beverage supplier such as Heineken has full visibility of aggregate (all store) sales rates and has introduced a dedicated production line to service Albert Heijn. Such an integrated operation is only possible if Heineken can observe hourly aggregate sales rates and product movements between depots. The primary goal of a supplier such as Heineken is to ensure that there is neither out-of-stock nor excess stock at the Albert Heijn depots. The concept of visibility requires the retailer to supply sales data for specific products to each commercial entity up the supply chain. This integration of independent commercial entities is a fundamental element in improving service to the consumer.

3.4.5 Industry Programmes of Supply Chain Collaboration

A consumer pull supply chain aligns each participant within the chain to the common goal of maximising product availability to consumers, while minimising stock held within the chain. In the past, each commercial entity may have operated, largely in a vacuum, to maximise its own profit. Within a consumer pull supply chain, each entity must operate within a partnership to maximise customer service. Sharing of information between retailers, and their suppliers raises important issues of competition, since this

may increase barriers to entry and dampen competition. For example, if the supply chains are exclusive, so that some manufacturers supply only one retailer, then competition concerns may be heightened. The common goal of retailers and manufacturers is the development of an integrated consumer driven supply network. Such a network is common and accessible to all participants in the supply chain and avoids the risk of separate and exclusive supply chains. Industry-wide programmes such as ECR Europe⁸⁹ and the Global Commerce Initiative, that foster a common communication language and operating standards, contribute to reduced complexity costs and so minimise the entry barriers for both retailers and manufacturers, thus aiming to ensure high customer service while at the same time reducing the cost of distribution.

3.4.6 Collaboration and Concentration

The development of the consumer pull supply chain and the associated increase in retailer supplier collaboration is enabled by the growth of large food retailers.

Collaboration becomes an imperative when well-known retailers sell well-known manufacturers' brands. This situation is particularly prevalent in the food industry in both Europe and North America. Manufacturer concentration has existed since the 1980s at a national level and has developed during the 1990s with the emergence of global brands and international manufacturers. Companies such as Nestlé, Procter & Gamble, Unilever and Coca-Cola market their brands in many countries. Retailer concentration increased at the national level during the 1990s so that by 2000, the median market share of the top five grocery retailers in Europe was 83%⁹⁰. Since the mid 1990s there has been an acceleration of grocery retailers that have pursued international expansion. Retailers such as Wal-Mart of the US, Carrefour of France, Metro of Germany, Royal Ahold of The Netherlands and Tesco of the UK, each dominant in their domestic market, have substantially increased the number of countries where they have operations.

⁸⁹ ECR - efficient consumer response; a customer focused distribution management concept; <http://www.ecr.de>

⁹⁰ ACNielsen (2000).

Many of the recent initiatives in vertical co-operation, including ECR and GCI, can be interpreted as a response to increasing concentration at all stages of the supply chain. Cotterill⁹¹ demonstrates that co-ordination reduces double marginalisation increasing total channel profits and lowering prices to consumers. The presence of industry-wide programmes, such as ECR, provides a framework for co-ordination without the prospect of collusion, enabling the elimination of double marginalisation without breaking competition laws.

The drive to consumer pull supply chains is greatest when three factors are present: the presence of large producer brands, but also the presences of large retailers and the application of information technology by them to the retailing process.

The emergence of a consumer-oriented society has been the driver of the change from producer push supply chains to consumer pull supply chains. Advances in information technology that permit, at a lower cost, the linking of hitherto individual processes of distribution, have facilitated this change.

The emergence of large retail chains has provided the vehicle to implement consumer pull supply chains. The size of the retail chains enables economies of scale to be achieved for both the application of information technology and the restructuring of warehouses and vehicle fleets. The economies of scale allow a rate of return to be earned on the capital investment that is required.

The benefit of a consumer pull supply chain is the ability to respond rapidly to changing patterns of consumer purchases and demand for individual products. This faster speed of response is achieved whilst utilising less inventory. Consumer pull supply chains are most beneficial for products with a short shelf life (perishable foods) and with a pronounced seasonality of sales.

⁹¹ Cotterill R. (1999) 'Continuing Concentration in the US'. In Ramsay, W. (ed.), *The Future of the Global Food Industry*. London: *Financial Times*.

3.5 Economic Summary

- In all markets reviewed in this section, grocery (food) retailing is among the biggest and most dynamic retail sectors
- In countries with rapid economic growth and change, modern food retailing is growing fast, often above the overall economic growth and thus has a positive contribution to GDP
- The sector is invariably one of the biggest employers.
- The importance of the sector has been driven by businesses referred to as modern retail distribution. These have a major role in stimulating demand and satisfying consumer needs through the introduction of new retail formats and through optimising and integrating consumer supply chains
- Despite the significance of grocery retailing, there is no single authoritative source of comprehensive and consistent international statistics on the retail sector as a whole and even less so on food (grocery) retailing. Official statistics in all countries appear generally much weaker concerning retailing than manufacturing.
- It is difficult to fully substantiate all of the arguments about the economic contribution of the sector because official data on food retailers is often not specifically collected. The data available varies in terms of methodologies, levels of aggregation, completeness, detail and time of collection. Therefore it is difficult clearly to set the parameters of the sector within retailing. This is not simply a case of lack of statistics, but an issue related to the complex retail format and product range developments in grocery and general merchandise retailing. Food price deflation is often not obvious from the macro-statistical data, although there appears be anecdotal evidence about it from individual retailers.
- Generally the multiplier effects of grocery retailing or individual retailers are areas acutely under researched.
- The emergence of modern grocery retailers has provided the vehicle to implement efficient consumer pull supply chains.

4 The Contribution of Food Retailing to Employment

4.1 Introduction

This chapter builds upon the employment data already presented in chapter 3.0. It brings together additional materials and data related to the contribution of grocery (food) retailing to employment. Similar to chapter 3.0 it also reveals the paucity of comprehensive data sets on retail employment comparable across the markets in focus. The section also highlights some general employment patterns inherent to the sector and future trends.

- Section 4.2 explores the contribution of grocery (food) retailing to job creation.
- Section 4.3 highlights the contribution of grocery (food) retailers to providing flexible job opportunities.
- A summary of the findings is presented in section 4.4.

One way of measuring the employment significance of the sector is to define its share of the total workforce or its share of people employed in the retail industry. In section 3.0 we already presented employment figures by markets. Although incomplete, such data clearly indicate that modern grocery retailing accounts for the majority of people employed in the retail industry and that those retailers are among the biggest private employers in most of the reviewed retail markets. This is an inherent feature of a sector which provides a wide range of personalized services requiring high headcount. Also inherent to the sector are demand fluctuations which result in the need for a large part-time or temporary workforce.

The audit has identified a number of gaps regarding statistics about retail employment:

- Sector statistics on employment vary in quality, completeness and detail. On a company level employment data about large grocery retailers are generally available. However such data is collected by using

different methodologies which make economic or cross-industry comparisons difficult. This is largely due to the fact that there is no single common definition of grocery retailing, but rather different interpretations of the term. Much of the time we are simply unable to present proper measurements of the grocery retail industry. Figures for retailing as a whole have to suffice.

- There are also no "standards" for presenting employment data, with agreements on how to account for part-time and seasonal working. The lack of consistent reporting by retail firms is a considerable source of confusion in understanding labour productivity and total employment and in making comparisons or showing real improvements.
- In contrast to the available but fragmented company data on employment, the international industry classifications provide mainly aggregated data. Such data is difficult to disaggregate by industry sector (i.e. grocery or food retailing) in order to gauge exact shares of employment. In addition to that, data on food retail employment in emerging markets is even more difficult to come by.
- As a result of the above the employment multiplier effect of grocery retailing (i.e. positive net effect on job creation) is not always visible. With some notable exceptions ⁹² there is lack of independently assessed research in this area.
- Some secondary data indicate that there continue to be wide spread perceptions or misconceptions that retailers are unattractive employers. On the other hand there is increasing evidence of good practices in grocery retailing.

4.2 Grocery Retailers' Contribution to Job Creation

Grocery retailers provide a complex mix of products, services and facilities. Such a mix requires a large, well trained and motivated workforce capable of maintaining daily contacts with thousands and often millions of customers.

⁹² *E.g. a study by the University of Missouri-Columbia*

In a competitive market the abilities to build relationships with customers as well as to provide good customer service are seen as fundamental for the success of a retail business. Good customer service can be achieved through a motivated and competent workforce. Therefore retailers increasingly see their human resources (HR) strategies as important levers for attracting and retaining people with high levels of competence.

As in any other industry, retailers vary in the extent, sophistication and quality of their HR programmes. As a whole, retailing still grapples with negative perceptions about the jobs it creates. Many prospective employees, including graduates continue to perceive jobs in retailing as an unattractive career choice. According to research conducted by prospects.ac.uk⁹³ retailing trails behind other industries in terms of starter salary packages for university leavers. The highest graduate salaries continue to be offered by management consultancy (highest average salaries at GBP 19,513) followed by employers in engineering and finance at just under GBP 19,400. Services industries including retailing are lower down the list. The latter however record the fastest average salary growth of 8.8 %, whilst in the retail sector alone the average salaries grew by 8.9%. In terms of vacancy creation for graduates the 10.5% annual growth in retailing again trails behind other industries. Finance, engineering and technology have respectively 17.1%, 16.6% and 13.3% share of new graduate vacancies created⁹⁴.

As a whole international statistics on retail employment vary in terms of methodologies, levels of aggregation, completeness, detail and time of collection. Some countries report the total number of jobs without specifying their characteristics⁹⁵. Therefore it is difficult to carry out cross-market or cross-industry comparative analysis or illustrate evolving trends. Further to that employment structure analysis should be made in the context of the intrinsic industry characteristics.

In all of the reviewed markets, figures suggest that retailing is among the biggest employers. In the EU the Distributive Trades sector is the second largest employer,

⁹³ <http://www.prospects.ac.uk>, (2004)

⁹⁴ <http://www.prospects.ac.uk> (2004)

⁹⁵ ERRT (March 2000) *Retailing in Europe*,
<http://www.errt.org/infosource/docs/retailingineu.pdf>

representing as much as 16% of total employment. Retailing alone accounts for two thirds of all those employed in the Distributive Trades. It is also a vital sector for creating new job opportunities, especially for those categories more likely to need part-time or temporary employment, e.g. students, women and lone parents or retired people⁹⁶. In the EU women make up 58% of the retail workforce⁹⁷. In the case of Carrefour, Europe's largest retailer, women accounted for 54% of the Group's total headcount. They account for 38% of total staff, excluding check-out operators, but for only 29 % of managers. The company recognises that still very few women occupy high-ranking management positions. Cultural differences to a certain extent explain numerical imbalances: women are represented far more in management positions in Asia (40 % on average) than in Europe (29% on average)⁹⁸.

Retailing as an industry is among the biggest employers. According to Forbes 2000 the retailers on the list of the top 2000 global companies employ a total of 5.6 million people and constitute the biggest industry in terms of employees⁹⁹. In the UK retailing employs 3 million people, 10% of the total working population. In Germany it has a share of approximately 7% and is the second largest industry in terms of employment¹⁰⁰. According to the US National Retail Federation, between 1988 and 1998 the US retail industry has created 3.3 million new jobs, which is more than the jobs created by other sectors such as manufacturing, health services, finance and insurance. According to the U.S. Bureau of Labor Statistics the industry currently employs one in five Americans and by 2008 retail employment is expected to reach 25 million. The growth rate is expected to be higher than those of manufacturing, transportation, communications and utilities.

Grocery retailers as companies are also among the biggest private employers - e.g. with 1.4 million employees worldwide, Wal-Mart is the biggest private employer. Ahold

⁹⁶ *ERRT (March 2000) Retailing in Europe,*

<http://www.errt.org/infosource/docs/retailingineu.pdf>

⁹⁷ *European Communities (2001) Distributive Trades in Europe*

⁹⁸ *Carrefour (2002) Sustainability Report*

⁹⁹ *Forbs (2004) Forbs 2000, The Word's leading Companies, 12 April 2004*

¹⁰⁰ *Roland Berger Strategy Consultants (2003) A Leadership People Strategy for Food Retailers, The Coca-Cola Retailing Research Group, Europe*

and Carrefour employ respectively 450,000 and 397,000 (see Vignette 6) people, while Tesco is the biggest private employer in the UK with 193,000 employees¹⁰¹. Modern grocery retailers are major contributors to employment. According to Eurostat (1999) unemployment in the EU was 9.4% and 10.2% in the Euro area¹⁰². Based on the same study most of long term unemployment is concentrated among the young and the unskilled. It is also particularly high among women and lone parents. By the very nature of their businesses modern grocery retailers create increasing number of jobs in those categories and thus contribute to the reduction of unemployment in Europe. Nevertheless there is increasing recognition among the industry that if grocery retailing is to be competitive on the employment markets it needs to increase its share of skilled employees (See Figure 19).

¹⁰¹ Roland Berger Strategy Consultants (2003) *A Leadership People Strategy for Food Retailers, The Coca-Cola Retailing Research Group, Europe*

¹⁰² Eurostat (July 1999)

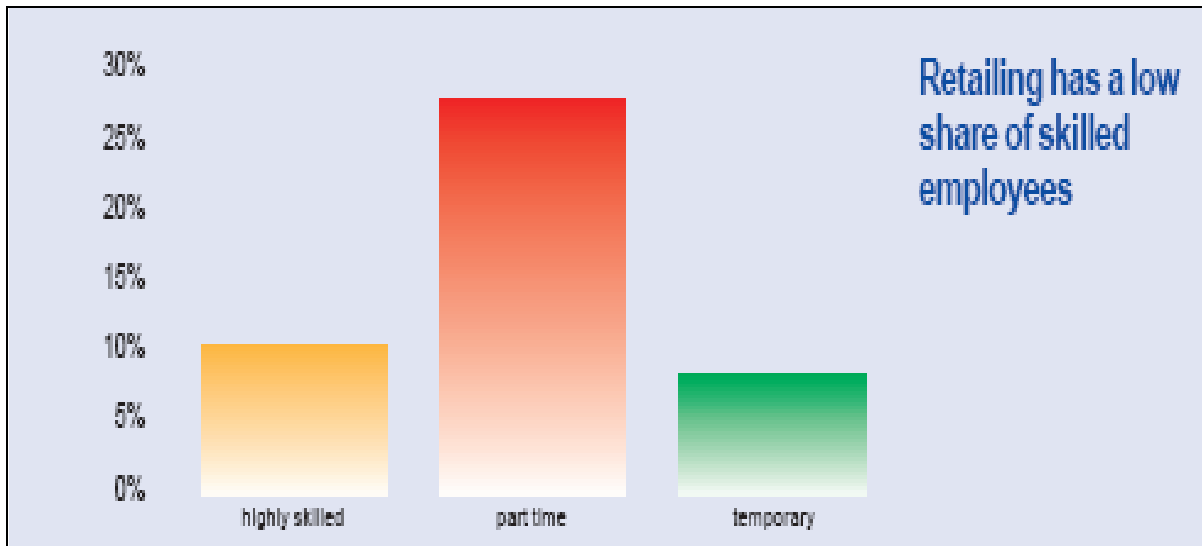
Vignette 6: Carrefour – Key Facts and Figures

Key Facts and Figures:

- 396,662 staff in the Group working in
- 24 countries (excluding partner and franchised stores), of which 690/0 are in Europe, 20% in Latin America and 11% in Asia, 13,841 jobs created in 2002
- EUR 6,330 million in payroll and employment related costs
- Share of women in headcount: 54%
- 4.2 million hours of training provided in 2002
- 43% of our staff took at least one training course in 2002

Carrefour Sustainability Report (2002)

Figure 19. Characteristics of Employees in Retailing



Eurostat (1998)¹⁰³

¹⁰³ Eurostat (1998) Services in Europe, quoted from ERRT (March 2000) Retailing in Europe, <http://www.errt.org/infosource/docs/retailingineu.pdf>

4.2.1 The Employment Multiplier Effect

As pointed out in the previous chapter the multiplier effects in retailing are not sufficiently researched. A notable exception is a recent study in the US on the employment multiplier effect of Wal-Mart, conducted in the University of Missouri-Columbia. The results from the study indicate, that communities where Wal-Mart has opened stores have over time seen a net gain in retail jobs. The study includes 1,750 US counties where 2,400 Wal-Mart have been opened between 1977 and 1998. The findings point towards about 100 jobs gained in year one of Wal-Mart's arrival. Then typically about half of those jobs are lost over the next five years as some small and medium-size retail businesses close or downsize. The study estimates that about 20 of the jobs lost in each community during the first five years are wholesale jobs largely due to Wal-Mart's ownership of its suppliers. Despite all this, in the long run those communities realised a net gain of about 50 retail jobs. The above survey, which has been accepted for publication in *The Review of Economics and Statistics*, is one of the more extensive studies of retailer multiplier effects.¹⁰⁴

A broader study by Vias¹⁰⁵ on retail restructuring in rural America also focuses on employment changes, and is unusual in its wide geographic scope. It shows the particular significance of food retail employment in rural areas where the traditional economic bases have declined and demonstrates an 18.5% increase in food store jobs between 1988 and 1999

4.3 Grocery Retailers' Contribution to Providing Job Flexibility

Due to the labour intensive nature of business modern grocery retailers have high headcounts especially of less-skilled workers. Unlike most industries, rather than exporting jobs to lower cost markets food retailers create

¹⁰⁴ Basker, E. (2004) *Job Creation or Destruction? Labor-Market Effects of Wal-Mart Expansion*, http://www.missouri.edu/~econwww/WP/WP2002/WP0215_basker.pdf

¹⁰⁵ Vias A.C. (2004) 'Bigger stores, more stores or no stores: paths of retail restructuring in rural America', *Journal of Rural Studies*, <http://www.sciencedirect.com>

jobs locally. They provide a mix of job opportunities which facilitate a wide range of job seekers from younger and less-skilled workers, who are looking for additional income while studying or for vocational training, to older people wanting to extend their working life. Retailing is seen as an important sector in the fight against long-term and youth unemployment. By recruiting, training and developing a high proportion of the less skilled, the young, female and the elderly the sector contributes to the reduction of unemployment in the very segments where unemployment tends to be at its highest. (See Vignette 7.)

Vignette 7: Tesco - Social and Employment Contributions

- Raised over £1.8 million for Cystic Fibrosis Trust, Tesco Charity of the Year 2002. National presenting sponsor for Race for Life with over 300,000 women taking part set to reach our target for fundraising of £17.5m for Cancer Research UK.
- Adopted a group-wide Human Rights Policy for Tesco.
- Tesco Pontypridd store has more older workers than any other store in Wales. A quarter of the workforce (117) are aged 50 years and over. In Mansfield, out of the 159 staff working there, almost a third (44) are workers aged 50 years and over.
- According to older staff currently employed at Tesco stores across the UK, working increases their sense of achievement and gives them a feeling of belonging. They enjoy working as a team, sharing experience and wisdom with younger workers. Work provides them with a chance to re-train, learn new skills and mentor others.
- Recycled over 350,000 of our customers' old mobile phones and 35,000 inkjet cartridges, raising over £1 million for charity.
- Improved energy efficiency in store by 5% per square foot, reducing our CO2 emissions by 45,000 tonnes - the equivalent of 75,000 trees.

- Increased the use of reusable plastic crates, known as green trays, by 5% on last year. These are replacing cardboard boxes for delivering and merchandising products, saving over 69,000 tonnes of packaging - the equivalent of 483,000.

<http://www.tesco.com> (2004)

4.3.1 Part-Time Jobs

Part-time work often attracts adverse publicity due to the fact that it can be low paid, associated with unsociable working hours and with limited training and career prospects. Although this is often the case, demand for part-time work remains high among certain social categories due to a number of factors:

- The changing employment needs and choices for families with children where one of the parents is in full-time employment.
- The trend towards a more balanced equilibrium between family and professional life. Women willing to work without giving up their family activities are often looking for part-time employment. Another phenomenon which is becoming increasingly widespread is that of lone parents.
- Generally extra source of income is another reason. People who need extra sources of income compatible with their responsibilities as parents or careers tend to turn to part-time (and temporary) work. This is clearly illustrated by the share of part-time workers among lone mothers, which increases with the number of children: 29% of mothers with one child work part-time against 46% of those with two or more children¹⁰⁶. Women, especially married women with children and those aged 25-49, account for more than 80% of part-time jobs in Europe. For example 49% of the total number of people employed in Migros are part-time workers (see Figure 20 and Vignette 8).

¹⁰⁶ *ERRT (March 2000) Retailing in Europe,*
<http://www.errt.org/infosource/docs/retailingineu.pdf>

- Combining work with education, especially among young people. Nearly 10% of part-time workers in the EU (22.9% for men and 6.2% for women) have chosen part-time employment in order to combine work with their training or education¹⁰⁷.
- Higher overall unemployment pushing some workers to opt for part-time contracts. Some 58.5% of those employed part-time in Europe (64.4% for women only) declare that this is due to personal choice, and not to external constraints¹⁰⁸. (see Vignette 9.)

¹⁰⁷ *op. cit.*

¹⁰⁸ *op. cit.*

Figure 20. Migros - number of employees

83,149	TOTAL NUMBER OF PERSONS, MIGROS GROUP
59%	= 48,659 women
41%	or approximately 34,000 part-time
81%	of which women
19%	quota of women management/general
6%	quota of women management/senior management

Migros Environment and Social Report (2002)

Vignette 8: Equal Opportunities in Migros

Migros allows part-time working, irrespective of sex. But it is a reality of today's society that it is mainly women who are responsible for household duties. Accordingly, four out of five of Migros 34,000 part-time workers are women. Thanks to Migros new national collective agreement, part-time employees now have the same protection as full-time ones. In order to strike a balance between career and family, Migros offers its workers 16 weeks' paid maternity leave, much more than provided by law. It's a comfort for female employees to know that they have the right to take up a vacant job up to 12 months after the end of their maternity leave. There are also annual working time models or home computer jobs available, enabling people to combine work with family duties. For Migros, job equality and equal opportunities also mean continually increasing the proportion of women in promotion programmes, to strengthen the base of female executives. To do this, it is important to have the possibility to be able to work part time as a member of the management. Two Cooperatives and Chocolat Frey have actively collaborated with the Institute for applied psychology and the female labour research foundation on an equalisation control system. The tool they have developed will be used in future to measure the progress on equalisation made by individual companies.

Migros Environment and Social Report (2002)

Vignette 9: ASDA - Best for Flexible Working

ASDA's range of working options are impressive. The supermarket operates an in-store shift-swapping scheme and allows students to switch to their home store during holidays. There is "school starter" leave, an unpaid half-day for parents or grandparents, and a "big break", an extra-long holiday for a special occasion such as a family wedding. Grandparents can have time off for the birth of grandchildren and a three-month unpaid "Benidorm break" from January to March. Career breaks are possible after three years' service, job sharing is offered to all, including managers, and there is religious festival leave. It has one of the highest part-time contingents in the survey, at 62%.

As well as benefiting staff, this makes good business sense. "There is a huge demand for flexible working, but it isn't just about employees, companies need flexible working to service customers in a global market that operates 24/7," says Carol Savage, managing director of Flexecutive, a recruitment consultancy specialising in flexible working.

<http://www.bestcompanies.co.uk> (2004)

4.3.2 Temporary Jobs

Due to seasonal variations in demand grocery retailers are also big providers of temporary jobs. In contrast to part-time work, temporary work is typically full time, but for limited period of time. Part-time work is the mode of choice for the majority of part-time workers and this may be the case with temporary employment. According to ERRT (2000) research however 41% of workers would prefer to be in full-time employment. Although temporary work is often the second choice for job seekers 10% of temporary workers indicate that training is an important reason behind taking up a temporary position. For example students often apply for retail summer jobs and internships to provide a source of income and complement their training and education.

4.3.3 Full-Time Jobs and Career Development in Grocery Retailing

Nowadays there is increasing competition among industries and companies for attracting and retaining the best employees. This has both competitive and cost implications for businesses. Employee expectations about what constitutes a good job are changing.

Many modern grocery retailers consider their staff "the most important asset of the organisation". And while this seems to be increasingly the trend there is scope for improvement. Despite the fact that employees are often their second largest "cost factor", HR still has limited representation at board level. Therefore while individual retailers such as ASDA, Aldi or Migros, etc. enjoy reputations of HR excellence, the sector as a whole still deals with the scepticism about jobs in grocery retailing. Those perceptions are often coloured by the highly visible store level jobs perceived to offer low salaries, high stress levels, long working hours and limited career prospects. In this respect a more concerted effort from the industry is needed to highlight and communicate job benefits and career prospects in retailing (as indicated in Vignette 10).

Vignette 10: Myths and Facts about Jobs in Retailing

MYTH 1: Retail jobs only consist of cashier and sales clerk positions.

FACT: Retailing offers perhaps the greatest variety of opportunities for ambitious and hardworking employees. With dedication and commitment, a sales associate can be promoted into many retail career path options, such as merchandising and buying; store, regional, and corporate management; inventory control; distribution; finance and internal auditing; marketing, sales promotion, and public relations; information systems; e-commerce; and human resources.

MYTH 2: Retail positions do not prepare young people for challenging, upwardly mobile careers.

FACT: Career paths in the dynamic, expanding retail industry are exciting, varied, and lucrative. At the store level alone, a general manager of a mass merchandiser department store oversees an average sales volume of USD 25 million to USD 30 million and employs an average of 150 people. Average department store manager salaries start at USD 80,000 and exceed USD 100,000. In addition, most of the skills needed to succeed in the retail industry are necessary to succeed in any industry. A retail employee develops excellent skills in:

- Problem solving and decision making
- Good work ethic and reliability
- Teamwork, enthusiasm and initiative
- Dedication to courtesy and customer service
- Cross-cultural awareness "People skills" - the ability to interact effectively with different personalities and writing
- Communication - listening, speaking and writing

MYTH 3: Retail jobs pay only minimum wage.

FACT: Salary levels in the retail industry are comparable, and exceed those in other industries' entry-level jobs. In fact, in 1999, the average hourly wage of a non-supervisory retail worker was USD 9.08.

MYTH 4: College and university degrees do not apply to retail careers.

FACT: While some individuals are promoted based solely on retail experience, most retail career level positions, from store manager to corporate executive, are easier to attain with a college degree. Over 150 colleges and universities, including Michigan State University, the University of Florida, and Santa Clara University, offer programs ranging from associate to master's degrees in retailing, retail management, retail merchandising, retail marketing, retail sales, and fashion/apparel merchandising.

MYTH 5: Because of the enormous growth of e-commerce, retailing is a declining industry.

FACT: Many retail companies, such as Eddie Bauer, the Gap, JC Penney, J. Crew, Lands' End, L.L. Bean, SEARS, and Target have created sophisticated websites on which consumers can purchase merchandise. However, e-commerce will only supplement, not replace, the other aspects of the retail industry. Moreover, retail employees with information technology skills will be more highly valued than ever.

MYTH 6: Retail is not projected to be a growth industry in the upcoming years.

FACT: Retail has been and continues to be an industry with enormous prospects for growth. In the United States alone, there are more than 1.5 million retail establishments and today retailing accounts for USD 3 trillion in annual sales. According to the U.S. Department of Labor, the retail industry, which currently employs over 20 million individuals, or 1 in 5 Americans, is expected to increase to almost 24 million employees by the year 2005.

MYTH 7: The retail industry isn't involved in education.

FACT: On the national, state, and local levels, thousands of retailers are involved with education – by hiring students, by contributing to the development of Retail and Sales & Service Skill Standards, by participating in activities that help students connect with work, and by working with teachers to communicate industry needs and resources. In 1998, the NRF Foundation (then the National Retail Institute) was awarded a grant by the National School-to-Work Office to implement the Retail Employer Link to Education (RELE) initiative. The grant will assist the Foundation in strengthening and increasing retail participation in employer-education partnerships across the United States by implementing programs like Youth Opportunities in Retailing (YOR) and Retail and Education Alliance for Development of Youth (READY). Currently, YOR or READY is being implemented by State Retail Associations in the following states:

- Arizona
- Iowa
- New Mexico
- Connecticut
- Kentucky
- Texas
- Hawaii
- Maryland
- Wyoming
- Illinois
- Massachusetts

Nationally, retailers participate on DECA's National Advisory Board, continuing a 50-year track record of involvement. Through this partnership, retailers provide local work-based learning experiences, guide skill standards integration in marketing education curriculum and DECA's Competitive Events program, and support a myriad of career-related DECA programs.

MYTH 8: The retail industry doesn't need to be involved in education.

FACT: Marketing and sales jobs will grow 24 percent by the year 2005, and the majority of those jobs will be concentrated in the retail industry. Between 1996 and 2006, retail employers will need 2 million more highly motivated and skilled team members for retail careers. Without retail involvement, students will not know about the high-paying and challenging careers available in the retail industry, nor will they develop the skills and experience necessary to be productive team members. By being involved in education, retailers communicate the skills needed and the career opportunities in the retail industry to teachers, students, and parents. Through involvement in programs like YOR, READY, DECA, and others, retailers help students connect what they're learning in school to what they're doing at their jobs today, and where it could lead them in the future.

<http://www.nrf.com/download/mythsandfacts.pdf>, National Retail Federation (2000) Retail Industry Indicators; Careers in Retailing

Research into retail employment¹⁰⁹ indicates that retailers could use segmentation to determine potential employee expectations. This would help them compete more effectively with other industries in the employment market. Food retailers increasingly recognise the importance of training and development programmes, which are attractive for different groups of employees and thus improve job satisfaction and reduce staff turnover (See Vignettes 11 and 12).

- Younger people (e.g. employees under 20 years of age) are driven by good training and learning opportunities on which to build the foundation for their careers. Their performance is driven by the degree to which they enjoy the work they do. The provision of a sound work/life balance is a major influence for career choice for 65% of younger people.
- Employees aged between 20 and 30 years expect challenging work and career progression opportunities while,
- Employees older than 50 are strongly motivated by good working conditions and targeted training.
- Women working in retailing expect jobs which offer a good balance between working and private life, social prestige and flexible working patterns. In Europe currently 60% of all women between the ages of 15 and 64 are at work and the expectations are that this figure will grow. A large proportion of them work in retailing. For example nearly 80% of the shop floor employees of the French retailer Casino are female. Working mothers often require part-time work and flexible working hours which can be adjusted according to their needs.

Although some retailers have a predominantly female workforce (many of whom are mothers), research indicates that the need for flexibility is still rarely met by the industry. The working conditions for this large group are often so disadvantageous that many do not stay in retail and even see unemployment as a more attractive option¹¹⁰.

¹⁰⁹Roland Berger Strategy Consultants (2003) *A Leadership People Strategy for Food Retailers, The Coca-Cola Retailing Research Group, Europe*

¹¹⁰Roland Berger Strategy Consultants (2003) *A Leadership People Strategy for Food Retailers, The Coca-Cola Retailing Research Group, Europe*

Vignette 11: Employee Training at Carrefour

To attract, train and retain young employees, the Carrefour training school in France set up a tailor-made training programme recognised by retailers for its quality. Since its inception at the end of 2001, the school has taken on 2,500 young people on employment and training contracts and delivered 1,400 diplomas after 7 months of training. Courses are delivered by in-house trainers in training rooms at Carrefour stores. The tutors, who have themselves, had 40 hours of training, assist trainees on the job. 700 young people were recruited by Carrefour at the end of their employment and training contracts.

Carrefour considers training to be a worthwhile investment: investing in staff training is a means for Carrefour to improve performance, and for staff to get promoted within the Group. In 2002, the Carrefour Group delivered over 4.2 million hours of training or 1.5 days of training per employee, per year. Training is provided at three levels:

The Group's Human Resources Department facilitates the transfer and sharing of Carrefour's know-how and corporate culture. It accompanies the process of change by providing tools to the countries such as a training Intranet site (now available in 14 countries), media tools that inform staff about the Group's Core Values and Mission, employee satisfaction surveys and local action programmes developed with our operational teams. The HR Department offers training to expatriates and top executives.

Each country has a dedicated training team which offers a range of training programmes geared to the strategic priorities of individual countries and retail banners and to needs identified by managers. Training programmes are also developed and adopted to local needs. Priority is given to in-house training.

Training programmes are devised and run by each individual store. Managers are responsible for identifying the training needs of their staff and for ensuring the follow-up¹¹¹.

Carrefour Sustainability Report (2002)

¹¹¹ Carrefour (2002) Sustainability Report

Vignette 12: ASDA Announces Major Workplace Training Pilot Including Modern Apprenticeships.

ASDA announced a workplace training pilot for 1000 employees following the validation of the company's own in-house training programme. Colleagues will be offered the chance to train toward National Vocational Qualifications (NVQ) in retail and Modern Apprenticeships.

In a trial commencing in March, 1000 ASDA employees in eight North London stores will train toward fully transferable retail qualifications. Employees over the age of 25 will work toward NVQ Level 2 qualifications and younger employees, aged 16-24, will work toward Modern Apprenticeships.

Also commencing in March, 1000 employees will train toward voluntary, paid, basic skills qualifications following a successful basic skills pilot in 2003. ASDA expects the pilot and the basic skills implementation to deliver similar business benefits to its 2003 basic skills pilot including increased productivity, improved staff morale and retention, and a higher level of internal promotion.

The Learning and Skills Council, the organisation responsible for developing skills in England, has contributed over GBP 500,000 to the pilot and the first stage of the basic skills roll out. ASDA's goal is to use the NVQ and Modern Apprenticeship trial to offer company-wide accredited workforce development.

The validation of ASDA's own in-house training as a Retail NVQ follows extensive consultation with the Learning and Skills Council and City & Guilds.

Stephen Gardner, Director of Skills and Workforce Development for the Learning and Skills Council said: "ASDA's commitment to workplace training and basic skills is nothing less than visionary. It is also an investment in the company's success and competitive edge.

Adult learning and Modern Apprenticeships will allow ASDA to train new and existing employees in the skills needs of their business, helping to increase productivity and profitability while staff remain as a resource for the business.

This commitment to accredited learning and training positions ASDA as a leader in the retail sector and we have been delighted to have been able to assist."

David Smith, People Director at ASDA said: "It's been great to work so closely with the Learning and Skills Council and City & Guilds to extend our adult learning offering, and in the future to create a well thought-out and relevant Retail Modern Apprenticeship for our stores. Their flexibility and can-do approach has meant that over a thousand colleagues will benefit from training programmes that offer a transferable qualification and life-changing basic skills. We're in no doubt that, not only does training like this make a real difference to our colleagues, but it also makes our business stronger."

<http://www.lsc.gov.uk> (2004)

Attracting and retaining employees is important. High employee turnover is costly. Food retailing continues to have high staff turnover: 30% rates are not exceptional. Such rates significantly impact on the bottom line, due to the constant need for attracting, recruiting and training new staff. Those hidden costs also impact on productivity levels. Although replacement costs per employee vary from market to market or types of positions, they are generally substantial. For example in the UK or Germany the replacement cost of a store manager could reach up to EUR 32,000¹¹².

According to the study conducted by Roland Berger Consultants "[...] improving employee retention rates leads to significant cost savings. [...] For example, a hypothetical UK retailer with 100,000 employees, employee turnover rates of 20% for store and department managers and 30% for non-managerial staff, ... if staff turnover rates could be reduced by 50%, it would generate for the retailer an annual cost saving of approximately EUR 90 million - a reduction in personnel costs of between 4% and 6% per store, depending on

¹¹²*Roland Berger Strategy Consultants (2003) A Leadership People Strategy for Food Retailers, The Coca-Cola Retailing Research Group, Europe*

their personnel costs ratio. This could equate to an improvement in operating margin of up to 0.5 %.”¹¹³

High employee turnover at store level can also have serious customer service impacts. Customers expect to receive a consistent standard of service and store employees with sufficient experience are better qualified to meet this requirement. As the demands and expectations of consumers change, so the focus on employee retention is becoming even more important¹¹⁴.

Another characteristic of the industry is the relatively low percentage of employees with higher education degrees. According to Eurostat, only 9.9% of the workers in the retailing sector have higher education degrees, as opposed to 19.8% for the total economy¹¹⁵. This can be interpreted either that workers in this industry are, on average, less skilled than workers in other industries or that some jobs in retailing better suit less skilled workers and therefore retailing provides jobs and training opportunities for those employees. Retail is one of the sectors where potential improvements in training for the low skilled could have the best and most widespread results. According to ERRT in 1997, 12.1% of the retail labour force in the EU received training. This figure varies considerably from market to market with the Southern European countries devoting less resources to training compared to those in Northern Europe. For example while in Denmark in 1997, 47.3% of retail workers received training, this figure for Greece was only 0.8%.

4.3.4 Salaries in Retailing

In terms of remuneration, perceptions about jobs in food retailing vary. On the one hand there is a view that jobs in retailing are not as well paid in comparison to other industries and that there are few profit sharing schemes around for retail employees.

On the other hand the industry argues that jobs in grocery retailing offer good opportunities for social interactions

¹¹³*Roland Berger Strategy Consultants (2003) A Leadership People Strategy for Food Retailers, The Coca-Cola Retailing Research Group, Europe*

¹¹⁴*op. cit.*

¹¹⁵*Eurostat (1998) quoted in ERRT (March 2000) Retailing in Europe, <http://www.errt.org/infosource/docs/retailingineu.pdf>*

and relationship building with customers and that retailing offers a diverse range of management jobs with competitive salaries and good promotion opportunities.

Remuneration in food retailing varies depending greatly on individual retailers. Managers at Target, Wal-Mart, Tesco or Metro could earn on par with those from top FMCG firms. However, retail remuneration and reward systems, is another area of retail management which is acutely under researched.

4.4 Employment Summary

- Sector statistics on employment vary in quality, completeness and detail. On a company level employment data about large grocery retailers is generally available. However such data is collected by using different methodologies which make economic or cross-industry comparisons difficult.
- There are also no "standards" for presenting employment data, with agreements on how to account for part-time and seasonal working. The lack of consistent reporting by retail firms is a considerable source of confusion in understanding labour productivity and total employment and in making comparisons or showing real improvements.
- In contrast to the available but fragmented company data on employment, the international industry classifications provide mainly aggregated data. Such data is difficult to disaggregate by industry sector (i.e. grocery or food retailing) in order to gauge their exact share of employment. In addition to that, data on food retail employment in emerging markets is even more difficult to come by.
- As in other industries retailers vary in the extent, sophistication and quality of their HR programmes. As a whole, retailing still grapples with negative perceptions about the jobs it creates. Many prospective employees, including graduates continue to perceive jobs in retailing as unattractive career choices.
- In all of the reviewed markets, figures suggest that retailing is among the biggest employers. The big grocery

retail firms are among the largest individual private employers. Grocery store jobs cannot in general be "off-shored" and food stores remain a staple of local employment.

- Even though detailed data on the educational composition of the labour force in Distributive Trades and retailing is not always available, it is a common perception that a large share of jobs in the retail sector are at the lower end of the skills spectrum. Such figures are generally interpreted as a weakness in the HR, training and development programmes of retail organisations. While this could be the case, it could also be due to inherent industry factors such as the nature of the retail business. The industry provides a mix of job opportunities for a wide range of job seekers from younger and less-skilled workers, who are looking for additional income while studying or for vocational training, to older people wanting to extend their working life.
- Grocery retailing is a labour intensive activity requiring a huge number of flexible lower-paid and locally based jobs, as well as some very highly skilled, higher paid centrally located jobs. Modern grocery retailers are also geographically dispersed businesses, operating steep population pyramids with relatively small head offices, and large headcounts in the individual retail outlets. The problem in describing retailing as a "low skill" industry is that of proportions and percentages. Grocery retailing by its very nature needs a large number of lower skilled store level and other staff. There are also of course large numbers of highly skilled technical and managerial jobs in retailing - just as there are in other industries. They are however out-numbered, and the store level jobs are highly visible to the public while technical and other roles are not. Statistics about skill levels and investment in training are rare. For instance, the retail industry is one of the largest of all investors in ICT¹¹⁶ but we have little information about the highly skilled workforce which manages and implements that ICT.
- Industry research indicates that working conditions, training and promotion opportunities and job flexibility can be improved. Employment practices vary largely from retailer to retailer and from market to market. Food

¹¹⁶ *Information and communication technology*

retailers increasingly recognise the importance of training and development programmes as levers to improve job satisfaction and reduce staff turnover.

- The employment multiplier effects in retailing are not sufficiently researched. A notable exception is a recent study in the US on the employment multiplier effect of Wal-Mart, conducted in the University of Missouri-Columbia. The results from the study indicate, that communities where Wal-Mart has opened stores have over time seen a net gain in retail jobs.
- Remuneration in food retailing varies depending greatly on individual retailers. However, retail remuneration and reward systems, is another area of retail management which is acutely under researched.

5 The Contribution of Food Retailing to Society

5.1 Introduction

This chapter brings together materials related to the contribution of grocery retailing to society as a whole. Data in this area can be grouped in the following categories:

- Section 5.2 explores the role of grocery retailers as providers of economic and social public services.
- Section 5.3 highlights the response of grocery retailers to changes in society.
- Section 5.4 addresses the trends towards Corporate Social Responsibility (CSR) in grocery retailing
- A summary of the findings is presented in section 5.5

On a macro level there is an array of data providing evidence of how individual retailers contribute to society. This data however is fragmented both in geographical origin and content. Most of it is company rather than industry focused and therefore difficult to compare. There is little evidence that such data has been collected for the purpose of demonstrating the impacts of the sector on society. There is also very limited independent research addressing those issues.

As discussed earlier the difficulties in defining retail "output" lie at the root of the difficulty in describing the contribution of retailing to the economy. For the same reason it is not easy to encapsulate the general contribution of retailing to society. Modern grocery retailing supports consumer standards of living, and provides environments for social and leisure interactions. Through its pervasive investments in every locality it is a major supporter of our physical environment. Stores and shopping centres are the places where consumers spend parts of their lives - and are of regular, weekly significance for

the average person in ways that manufacturing industries are not.

In response to concerns about the purpose and responsibilities of business enterprise generally, over the last several decades we have seen the emergence of a series of concerns to develop social and environmental reporting for business. These efforts have taken various forms and seen many initiatives though there are yet almost no national or international compulsory standards for these as for financial reporting. There is no overall picture which can be painted of grocery retailers "triple bottom line".

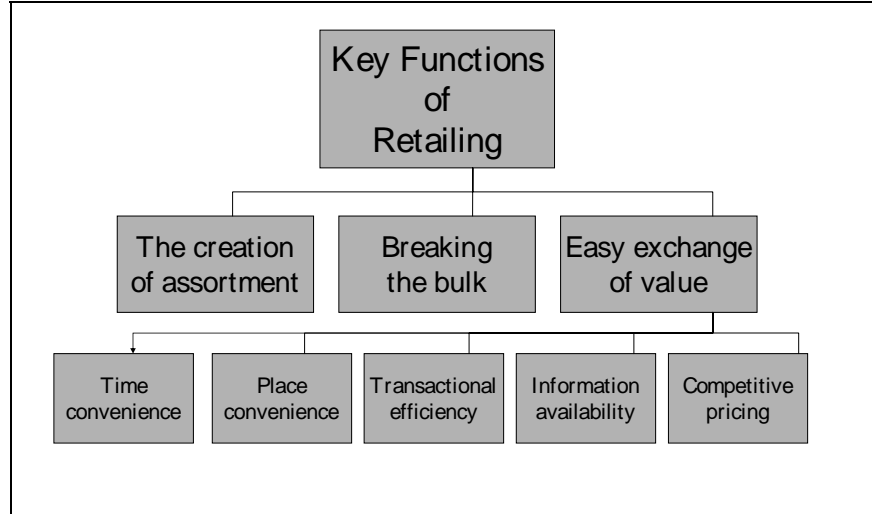
5.2 Grocery Retailers as Providers of Economic and Social Public Services

Academics often define retailing as the final stage of the value creation process facilitating the exchange of goods and services between manufacturers and the end users. Increasingly retailers are the focal point of the two way communication between the producers of goods and their customers. Therefore retailing has fundamental significance.

In brief the key functions of retailing could be described as:

- The creation of assortment
- Breaking the bulk
- Easy exchange of value which includes providing:
 - Time convenience
 - Place convenience
 - Transactional efficiency
 - Information availability and
 - Competitive pricing (see Figure 21)

Figure 21. The key functions of retailing



5.2.1 The Role of Retailing in Society is Increasing

There is more to retailer output than simply shifting goods ¹¹⁷. Food retailers add value through a variety of services:

- Retailers actively stimulate demand which impacts on economic growth. They play a fundamental part in educating consumers about new products. For example every week more than 100 million worldwide visit Wal-Mart stores, which defines the company's huge communication potential.
- Retailers' brands and ranges often act as a guarantor for product quality, traceability, authenticity and safety.
- Grocery (food) retailers provide social environments and naturally become the customer reference point with regard to a number of socio-economic debates. In this respect modern grocery retailers perform increasingly important public services.

And yet the sector does not seem to apply measurements that reflect its growing socio-economic role.

¹¹⁷ London Economics (July, 2000) *Shopping in Britain, Report for the British Retail Consortium*

Research by London Economics¹¹⁸ about UK retailing suggests that for the period between 1980 and 1999, unlike the available data for volumes of goods sold, there are no comprehensive measurements and available data sets demonstrating improvements and growth of the services provided by retailers. This is despite the fact that there is sufficient evidence - much of it ad hoc or anecdotal - to indicate that quality has improved and the key features of this improvement can be identified and measured in quantitative terms. The study suggests that " ... over the past 20 years, changes in the demand for, and supply of, retailer services have led to an increase in the quality of retailer service. Rising consumer incomes and changes in society have driven an increase in demand for better retail services. Meanwhile, technological innovation and increased productivity have improved retailers' ability to supply improved retail services at a price consumers are willing to pay."

In particular, quality improvements have come about through improving the management of the supply chain, introducing innovation in service and product provision, lengthening opening hours and developing systems for more effective marketing and dissemination of information.

These have fed through into benefits for the customer such as greater product choice and availability, increased flexibility, enhanced product knowledge and a generally more pleasant and convenient shopping experience¹¹⁹.

As providers of public services at the forefront of the value chain, retailers are strongly attuned to environmental changes. For example changes in socio-cultural and lifestyle considerations constantly fuel the industry responses to those. Attitudes and beliefs as well as wants and needs of consumers are continuously transforming and those include attitudes to work and leisure health and the environment etc. From a retailer perspective it is essential that those changes are reflected in the way they communicate with their customers.¹²⁰

¹¹⁸ London Economics (July, 2000) *Shopping in Britain, Report for the British Retail Consortium*

¹¹⁹ *op. cit.*

¹²⁰ Burt, S. and Sparks L.- *Institute for Retail Studies (2003) Competitive Analysis of the Retail Sector in the UK, <http://www.dti.gov.uk/retail/>*

Referring to the complexity of consumer behaviour, Burt and Sparks¹²¹ point out that "... modern consumers are a mass of contradictions, many of which are inexplicable on any rational basis. Some of them will travel for miles by car, with all the environmental consequences of that, just to refill a plastic bottle which costs virtually nothing, or to deliver bottles for recycling to a superstore car park. Branded products with conspicuous logos are purchased in preference to identical generic products selling at a vastly reduced price. For example some would pay 50% more for a 30% smaller microwaveable pot of baked beans rather than have to open a tin and heat the product "normally". Ready-washed salads or chopped vegetables in their millions are purchased to "save time" or to cover up for lost culinary "skills". Understanding and predicting such consumer behaviours is challenging". Nevertheless retailers have developed state of the art technology which is capable of generating instantaneous response to swings in consumer demands. For example nowadays grocery retailers are capable of responding quickly to consumer trends such as the adoption of the internet, time poor but health conscious shopping, the aging population trends and that of the increase of the number of single person households. Speed of response and often market anticipation are seen as competitive advantages in grocery retailing.

5.2.2 Providing High Quality and Value for Money

Ask the people [...] "What do you want when you go shopping?" I am sure - certain, in fact - that they will say that they want good value food; a well-stocked store, with plenty of choice; a convenient store, so they do not have to trudge from shop to shop in the rain to get odds and ends, but can get everything they want within easy reach of their car, or nip in on the way home from work. In other words, they want to shop at a supermarket¹²²".

Sir Terry Leahy

¹²¹ *op. cit.*

¹²² *Sir Terry Leahy's Speech to the University of Hertfordshire (26 February 2003)*

Consumer demands for higher quality and better price are driving retailers (and manufacturers) to innovate both in terms of products and management processes able to deliver those efficiently. Across a number of retail sectors and increasingly so in grocery retailing price deflation is quickly becoming a major strategic issue (see Vignettes 3 and 4). The economic downturns, supply chain efficiencies and growing discount competition have all contributed to deflation in retail prices in many of the reviewed markets. As observed by Food Business News¹²³ "[...] in non-food, deflation has spread from consumer electronics, which has experienced double-digit annual price falls, to other categories, notably clothing. In food, prices remain subject to fluctuations in commodities but discount competition and private label development have contributed to price declines in dry groceries. This deflationary trend could continue given that the main factors are likely to remain present for some time. Even if economic recovery accelerates, consumers may continue to be cautious in their spending. Supply chain efficiencies could also be multiplied, partly as a result of technological changes such as radio frequency identification (RFID), and partly due to more low-cost sourcing as trade restrictions are lifted between Western markets and manufacturing centres, led by China."

5.3 Grocery Retailers Responding to Socio - Cultural Changes

5.3.1 The Changing Structure of Households

"Changes in family structure are a very powerful driving force behind changes in retailing. Not only is the population in the EU growing older, but family structure is also evolving rapidly, with a strong tendency towards smaller units, where working patterns are a key issue in determining lifestyle and consumer preferences. This is easily seen by looking at past and projected increases in female labour participation, the increasing share of families with both parents working, and the growing share of lone parents (single mothers)".¹²⁴ For example Migros the

¹²³ *Food Business News (March 2004), CIES-The Food Business Forum, www.ciesnet.com*

¹²⁴ *Burt, S. and Sparks L. - Institute for Retail Studies (2003) Competitive Analysis of the Retail Sector in the UK, <http://www.dti.gov.uk/retail/>*

biggest grocery retailer in Switzerland employs a total of 83,149 people. 41% of those (34,000) are part-time workers. Four out of five (81%) of all part-time workforce are women. As a result of Migros' new national collective agreement, part-time employees have the same protection as full-time ones¹²⁵.

If they are to be successful, retailers must be particularly sensitive to changes in attitudes of individuals and the way they translate into shopping actions. Single-issue causes are becoming fundamentally important and look set to remain a force. Attitudes to corporate or government activities may lead to both small-scale individual behaviour changes but possibly to more aggregate consumer and corporate behaviour changing movements. Burt and Sparks¹²⁶ point out that the "battle" over GM foods and the rapid development of organic food sales are examples of the start of this rather than the end.

5.3.2 Grocery Retailing as a Contributor to Higher Standards of Living and Consumer Welfare

Those contributions directly stem from the fundamental functions of retailing. Modern grocery retailers provide greater variety of good quality products. For example 20 years ago an average Tesco stocked 4,000 SKUs in comparison nowadays a Tesco's typical store stocks 40,000 lines of products. Most of those stores receive at least two deliveries of the same product every day. As soon as a product is sold its sale is logged and a replacement is ordered. This level of service has been possible through investment to create the economies of scale and technology that are needed to run such a sophisticated operation. The effects are benefits brought to customers and society as a whole¹²⁷. Similarly the average number of SKUs in US supermarkets has consistently grown over the years reaching on average 35,000 SKU, whilst hypermarkets the likes of Wal-Mart Super Centres, Carrefour, Real (Metro), or Leclerc carry between 50,000 and 100,000 different product lines.

Institute for Retail Studies (2003) Competitive Analysis of the Retail Sector in the UK, <http://www.dti.gov.uk/retail/>

¹²⁵ *Migros (2002) Environmental and Social Report*

¹²⁶ *op. cit.*

¹²⁷ *Sir Terry Leahy's Speech to the University of Hertfordshire 26th February 2003*

The proliferation of consumer needs results in increased complexity of consumer behaviour. Research conducted for The Coca-Cola Retail Research Group (Europe)¹²⁸ identifies six main shopper modes:

- **Planned:** The classic mission-shopping trip, to buy all those products necessary to keep the household running.
- **Opportunistic:** Opportunistic shopping visits are fitted into our schedules, when the time and place is right to top-up groceries, fresh foods or snacks.
- **Immediate:** Immediate purchases are bought for instant consumption, including food for tonight's meal, snacks, treats and distress items. Speed and accessibility often outweigh low price.
- **Expert:** Expert shopping trips are used when catering for particular dietary needs such as allergies or organic food, for special occasions such as entertaining, Christmas, weekend treats or for 'eventing'.
- **Constrained:** In constrained shopping, consumers' choices are limited by a lack of money, immobility or a limited choice of stores, such as in rural areas or sink housing estates. Price is generally a concern.
- **Social:** The act of shopping fulfils many needs over and above the act of purchase. In all societies shopping is imbued with routines and rituals. For example, a trip to the shops can be a way to get out of the house and interact with other people¹²⁹.

Grocery retailers respond to such changes by introducing a range of retail formats to cater for the different shopper missions.

- **Hypermarkets** with a range exceeding 50,000 SKUs and a sales area of between 5,000 and 25,000 sq m (e.g. Wal-Mart, Carrefour, Globus, Real (Metro), Bilka, Lidl&Schwarz, Leclerc, etc.)

¹²⁸ *The Store (2001) The Store of the Future, A study conducted for The Coca-Cola Retail Research Group, Europe*

¹²⁹ *op. cit.*

- Superstores with a range of up to 50,000 SKUs (e.g. Tesco, Migros, Albertsons, Kroger, Albert Hein, Morrisons, etc.)
- Supermarkets, with a range between 3,000 and 20,000 and sales area of approximately 2,500 sq. m. (e.g. Tesco, Kaisers, Waitrose, Somerfield, etc.)
- Discount stores, with a range between 800 and 7000 SKUs and a sales area of approximately 1,000 sq. m. (e.g. Aldi, Lidl&Schwartz, Netto, Plus, etc)

Convenience stores with a range between 200 and 7000 SKUs and sales are ranging between 100 and 2,500 sq m (e.g. Tesco Express, Sainsburys Central, Delhaize City and Shop'n'Go, Ahold - AH to Go, Auchan 7D, etc.)

5.3.3 Grocery Retailers Dealing with Issues of Time and Money, and Leisure and Work and Health

Similar is the case with time, money, leisure and work trends. Grocery retail markets are increasingly segmented by behaviour and mood (at the store and the location level) as by product dimensions. Proliferation of retail formats, speedy check-outs, extensions of shopping hours, home shopping and the use of personal shoppers are standard responses. The retail solutions range from technological (e.g. agile supply chains providing scope for variety and food freshness, to process and product innovation (e.g. own label constitutes 61% of Tesco's total range¹³⁰))

5.3.4 Providing More Choice

Trends towards healthier lifestyle are affecting retailers' merchandising strategies. For example there are range adjustments to address the recent consumer trends towards organic and low carbohydrate food. (See Vignette 13.)

¹³⁰ M+M Planet Retail, <http://www.planetretail.net/> (2004)

Vignette 13: Wal-Mart and Tesco Offer Low-carbohydrate Options

"Wal-Mart and Tesco have each announced initiatives in response to the popularity of low-carbohydrate diets in the US and the UK. Wal-Mart is to replace its in-store restaurants with sandwich counters from Blimpie International at 100 stores in the US. The move is designed to add low-carbohydrate options not currently offered. ... Tesco, meanwhile, is planning to label own-brand food products with a carbohydrate index. It is estimated that 30 million people in the US and 3 million in the UK follow some kind of low-carbohydrate diet. Manufacturers such as Unilever have also reacted by introducing low-carb ranges. However, such weight-loss programmes, led by the Atkins diet, are controversial among doctors since they are seen to encourage a high intake of fat and protein"¹³¹.

<http://www.planetretail.net/> (2004)

5.3.5 Longer Opening Hours and Shorter Time to Check-Out

The opening hours of grocery retailers vary from market to market, but across the board there is an upward trend. According to London Economics¹³² "[...] longer opening hours provide flexibility and also act to reduce check-out times by spreading the load of customer shopping requirements over a longer period, so relieving some of the pressure on peak-hour shopping. Combined with the introduction of scanning technology to facilitate till operation, these measures act to reduce queues and improve retail service quality". Queues are further reduced by retailers' initiatives - such as Tesco's "one in front" committing to open new tills when queues reach a certain length. Customers benefit from those expanded service.

Check-out times are clearly a big issue for firms in the grocery sector. In general, a more pleasant shopping

¹³¹ *Food Business News (March 2004)*

¹³² *London Economics (July, 2000) Shopping in Britain, Report for the British Retail Consortium*

experience has been brought about, especially in larger superstores by the introduction of such facilities as in-store bakeries, delicatessens and better parking.

5.3.6 More Effective Marketing and Dissemination of Information

London Economics underline that "[...] for a competitive market to work effectively - and for consumer benefit to be maximised - it is essential that consumers are aware of relative prices and other relevant product information. The prerequisite for this is a high degree of consumer information. The increase in the availability of such information is evidenced by the increased prevalence of dual-price labelling (actual price and price per unit). However, it is not just sufficient for the information to be available, it is also important for it to be delivered. More recent developments in the retail sector have focused on providing customers with the kind of information they are likely to want to know (i.e. clear labelling) for example the origin of the product, nutritional or health information.

The increased prevalence of loyalty cards combined with the use of scanners can allow retailers to understand the demands for their products more fully. Careful analysis of this information means that retailers can adjust their supply of goods to meet the needs and requirements of their customers. The use of loyalty card data also means that retailers can provide individually tailored offers for customers, and product ranges can be made specific to the locality of each store. A deeper understanding of the tastes and preferences of customers also allows for more targeted product development as retailers have a clearer understanding of the products that consumers are likely to want which can then be developed"¹³³.

¹³³ London Economics (July, 2000) *Shopping in Britain, Report for the British Retail Consortium*

5.4 Trends Towards Corporate Social Responsibility (CSR) in Grocery Retailing

In 2001 the European Commission published a Green Paper "Promoting a European framework for Corporate Social Responsibility (CSR)" to which ever growing number of European grocery retailers are adhering.

First we shall briefly outline the notion of CSR, discuss some of its components and associated implementation challenges and in the process highlight grocery retailers' CSR practices.

According to the Green paper CSR can be described as a concept whereby companies integrate on a voluntary basis social and environmental concerns into their business operations and in their interaction with their stakeholders. Being socially responsible means not only fulfilling but exceeding legal expectations, and investing "more" into human capital, the environment and the relations with stakeholders. The experience with investment in environmentally responsible technologies and training, working conditions, management-employee relations beyond legal compliance can contribute to a company's competitiveness. The positive economic impact of CSR can be broken down into direct and indirect effects. Positive direct results are associated with improved staff morale and productivity, or with the more efficient use of natural resources. The indirect effects result from customer or investor support for socially responsible business practices.

5.4.1 Corporate Social Responsibility: The Internal Dimension

According to the EU Green Paper referred to above, within the company socially responsible practices primarily involve employees and relate to issues such as investing in human capital, health and safety, and managing change, while environmentally responsible practices relate mainly to the management of natural resources used in the production. They open a way of managing change and reconciling social development with improved competitiveness.

In terms of socially responsible practices a major challenge for enterprises today is to attract and retain skilled workers. In this context, relevant measures include:

- life long learning
- empowerment of employees
- better information throughout the company
- better balance between work, family, and leisure
- greater work force diversity
- equal pay and career prospects for women
- profit sharing and share ownership schemes, and concern for employability as well as job security
- active follow up and management of employees who are off work due to disabilities

For example in order to strike a balance between career and family the Swiss grocery retailer Migros offers its workers 16 weeks paid maternity leave, much more than provided by law. According to the company "... it is a comfort for female employees to know that they have the right to take up a vacant job up to 12 months after the end of their maternity leave. There are also annual working time models or home computer jobs available, enabling people to combine work with family duties. For Migros, job equality and equal opportunities also mean continually increasing the proportion of women in promotion programmes, to strengthen the base of female executives. To do this, it is important to have the possibility to be able to work part-time as a member of the management¹³⁴.

"An example of companies coming together voluntarily and imposing a code of responsible conduct on themselves is the Ethical Trading Initiative which includes major UK retailers with a combined annual turnover of more than GBP 100 billion. They have drawn up a base code, which they seek to ensure all the companies who supply to them comply with, in every part of the world. The code is based on the principles

¹³⁴ Migros (2002) *Environmental and Social Report*

set out by the International Labour Organisation and it stipulates that every employee in a supplier company should be free to join a trade union, is paid in accordance with a fair minimum wage for that company and so on. This is proving a very effective way to raise standards of employment in developing countries. There is a rigorous enforcement procedure, and if companies do not meet their obligations then they will be ejected from the Initiative".¹³⁵

The above illustrates the significant contribution which grocery retailers can make to changes in society. The effect of buyers on a situation is quite different from the impact of other actors.

According to the EU Green paper on CSR the management of environmental impacts and natural resources CSR encompasses:

- Reduction and consumption of resources
- Reduction of polluting emissions and waste
- Reduction of energy and waste disposal bills and lowering input and de-pollution costs

A retail example of that is the initiative of the UK retailer Somerfield to invest GBP 100 million in improving and updating its distribution network. Once completed the network will consist of seven Regional Distribution Centres with the capacity to hold the group's range and carry out composite deliveries to both its subsidiaries - Somerfield and Kwik Save. This network will effectively result in the closure of 11 depots and greatly improve transport efficiency. "The company has just secured land in the North West where they plan to build their next full composite distribution centre. Targets have also been set to reduce the annual 60 million road miles travelled each year and to improve vehicle fill through greater efficiencies and backhauling. GBP 14 million has been invested in new low-emission "clean-burn" diesel engines and GBP 4 million on "silent" roll cages to reduce noise in urban areas. In November 2002 Somerfield announced the launch of degradable carrier bags, which will replace the existing bags in all 600 stores [...]. The bags are the first supermarket bags to

¹³⁵ *Stephen Timms (2003) Italian Corporate Social Responsibility Seminar dti.gov.uk/ministers/speeches*

be supported by The Soil Association. They begin to degrade after 18 months - and will completely vanish within three years - leaving carbon dioxide, water and minerals to be absorbed into the soil naturally. Shoppers in Britain are estimated to use up to 20 billion plastic bags a year, an average of 323 bags a year to each household, or enough to carpet the entire planet every six months".¹³⁶

5.4.2 Corporate Social Responsibility: The External Dimension

Beyond the company initiatives, CSR extends into the local community and involves a wide range of stakeholders:

- Business partners and suppliers
- Customers, public authorities and
- NGOs representing local communities

Development of voluntary CSR practices can be seen as contributing to:

- The integration of companies in their local setting. Companies contributing to their communities, by providing jobs, wages, benefits, and tax revenues (see Chapters 3 and 4).
- Working closely with business partners, suppliers and consumers. For example selection of suppliers is not always exclusively through competitive bidding. Relationships with alliance and joint venture partners and with franchisees are equally important. In the long run building relationships may result in fair prices, terms and expectations along with quality and reliable delivery.

One example is the Fair Trade Foundation. This international body, supported by a growing number of retailers, is setting stable prices above the market price so that growers in developing countries of products like coffee, tea, cocoa, some fruit and wine are paid enough for their produce to support themselves and their families.

¹³⁶ <http://www.somerfield.plc.uk> (2004)

CSR has a strong human rights dimension, particularly in relation to international operations and global supply chains (See Vignette 14). Under increasing pressure from NGOs and consumer groups, companies and industries are increasingly adopting codes of conduct covering working conditions, human rights and environmental aspects, including their subcontractors and suppliers. They do so for various reasons, notably to improve their corporate image and reduce the risk of negative consumer reaction¹³⁷. One illustration that CSR implementation often requires the efforts of the whole supply chain rather than individual organizations comes from a recent CSR audit of Japanese manufacturers and retailers. The conclusions of the audit indicate that still few companies go beyond "green" purchasing and procurement. When goods are manufactured or sold using materials or parts consistent with CSR, responsibility extends beyond the retailer to the manufacturer and their suppliers. Among the Japanese firms who have submitted self-evaluations for the audit, 44% indicate that they have established procurement standards that incorporated CSR, but accompanying comments suggest that in the majority of cases, those standards do not yet extend beyond environmental responsibility in purchasing and procurement¹³⁸

137 Green Paper "Promoting a European framework for Corporate Social Responsibility" (2001) Commission Of The European Communities

138 Keizai Doyukai (Japan Association of Corporate Executives) (2004) Corporate Social Responsibility (CSR) in Japan

Vignette 14: Tesco on CSR

- Raised over GBP 1.8 million for Cystic Fibrosis Trust, Tesco Charity of the Year 2002. National presenting sponsor for Race for Life with over 300,000 women taking part set to reach our target for fundraising of GBP 17.5m for Cancer Research UK.
- Adopted a group-wide Human Rights Policy for Tesco.
- Tesco Pontypridd store has more older workers than any other store in Wales. A quarter of the workforce (117) are aged 50 years and over. In Mansfield, out of the 159 staff working there, almost a third (44) are workers aged 50 years and over.
- According to older staff currently employed at Tesco stores across the UK, working increases their sense of achievement and gives them a feeling of belonging. They enjoy working as a team, sharing experience and wisdom with younger workers. Work provides them with a chance to re-train, learn new skills and mentor others.
- Recycled over 350,000 of our customers' old mobile phones and 35,000 inkjet cartridges, raising over GBP 1 million for charity.
- Improved energy efficiency in store by 5% per square foot, reducing our CO2 emissions by 45,000 tonnes - the equivalent of 75,000 trees.
- Increased the use of reusable plastic crates, known as green trays, by 5% on last year. These are replacing cardboard boxes for delivering and merchandising products, saving over 69,000 tonnes of packaging - the equivalent of 483,000.

<http://tesco.com> (2004)

According to Hunt¹³⁹ the whole notion of CSR has increasing impact on business behaviour. He points out that due to the increased interest of consumers in CSR issues, whole industries are taking measures to address some of the criticisms they face. The food companies are gradually reducing the fat content of their products, and drinks manufacturers are beginning to advise their customers to drink more responsibly. Retailers are withdrawing products from the shop floor, from bullets to sun-tan lotions, in an effort to show moral responsibility. Companies are sending their employees on diversity training courses and encouraging them to learn ethical codes of conduct¹⁴⁰.

The British Retail Consortium (BRC) defines CSR as managing change at a company level in a socially and environmentally responsible manner, in order to contribute towards sustainable development. They point out that as far as best retail practice is concerned CSR is inherent to business strategy since it is a response to changes in the business environment. "Furthermore, with products being increasingly sourced from all over the world, retailers are expected to consider the principles of human rights, safety and decency of their supplier companies"¹⁴¹. An increasing number of multinationals have explicitly committed themselves to human rights in their codes of conduct while a growing number of retailers in Europe apply ethical standards of production to the goods they import. In 1998 Eurocommerce adopted a Recommendation on Social Buying Conditions covering child, forced and prison labour.

As a response to those trends towards ethical retailing a growing number of social labels and environmentally friendly manufacturing standards have originated from grocery retailers. One example is the Migros programme for social engagement, which has seen considerable growth in the past few years (See Figure 22).

The BRC points out that these are market-based (rather than regulatory) incentives, which help to deliver positive

¹³⁹ Hunt, B (2004) *Corporate Social Responsibility as a new Self Regulation*, <http://www.lse.ac.uk/collections/CARR/events/hunt.htm>

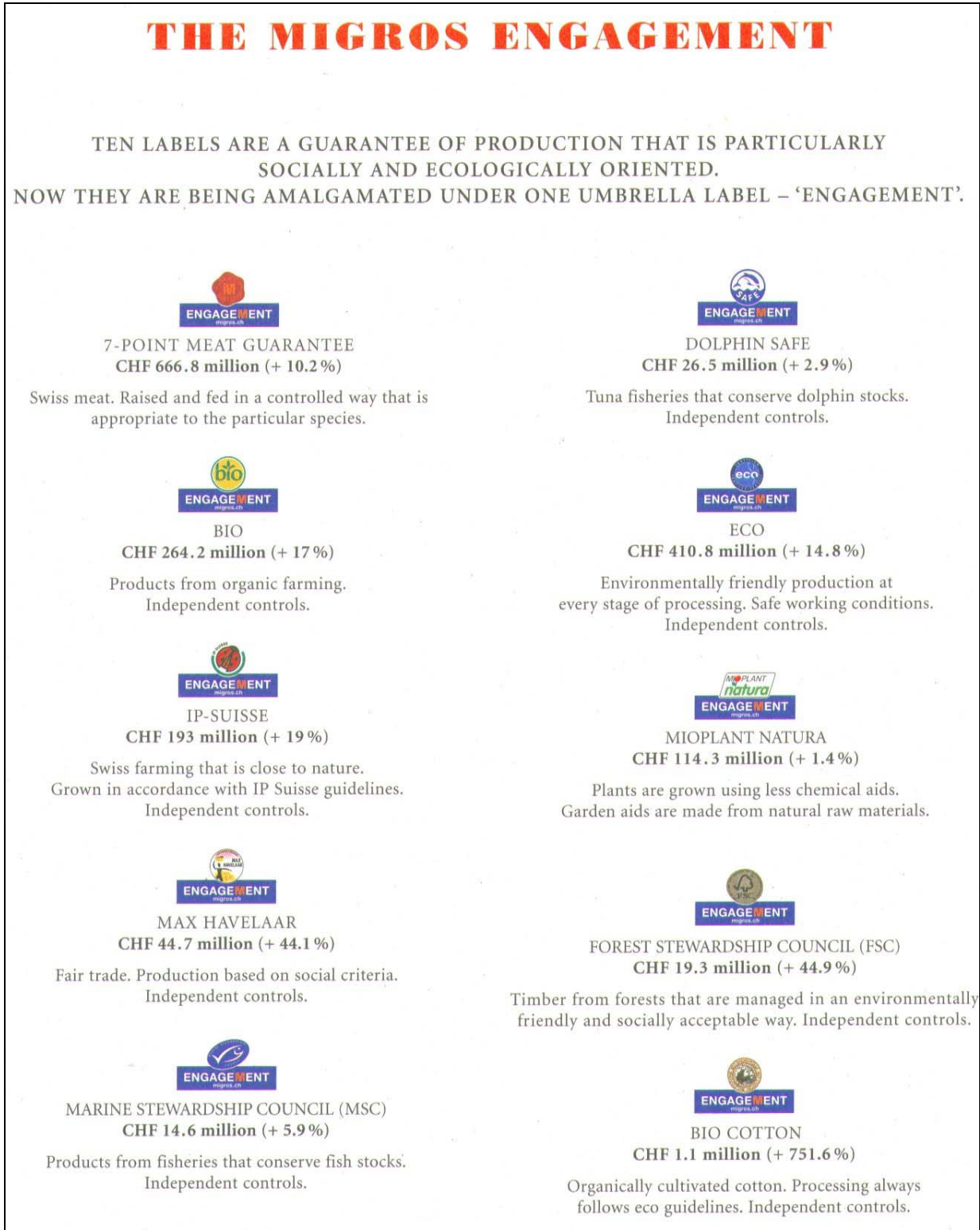
¹⁴⁰ Hunt, B. (2004) *Corporate Social Responsibility as a new Self Regulation*, <http://www.lse.ac.uk/collections/CARR/events/hunt.htm>

¹⁴¹ <http://www.brc.org.uk/BrusselsKI.asp?id=198&sKI=CORPORATE+SOC.+RESPONSIBILITY> (2004)

social change among enterprises, retailers and consumers. However it is widely acknowledged that across the board social and eco-labelling initiatives still have limited presence and their application needs to become a more common practice. For example some social labels are limited to imported products or only accessible through certain retailers, or available only to more affluent consumer groups. In this respect industry representatives have increasing role to play in promoting the CSR involvement among retailers and manufacturers and encouraging their members to take a lead in developing a social and environmentally responsible approach. Example of the importance attached to ethical sourcing is the 1999 establishment of the Euro Retailer Produce Working Group (EUREP) guidelines for Good Agricultural Practice (GAP) (see Vignettes 16. 17. and 18).

The GAP protocol is becoming the industry standard against which national assurance schemes are benchmarked. Central to GAP is a commitment to adopt Integrated Crop Management (ICM) practices, which include stipulations on worker health and welfare, and on wildlife and conservation. The introduction of the GAP protocol in Europe has positive environmental and social knock-on effect on farming practices worldwide.

Figure 22 . Migros programme for social engagement



Migros Environment and Social Report (2002)

Vignette 16: Marks & Spencer CSR Principles (2003)

Take care and act responsibly in delivering high quality products and services

- Recognising that when we take a profit we accept a responsibility
- Striving to achieve the best balance of quality, value for money, social wellbeing, environmental protection and animal welfare
- Listening and responding to the needs of our stakeholders in an open and honest manner.

Create great places to work

- Employees and suppliers feeling engaged in helping to grow a good and responsible business
- Valuing the quality of our relationships with each other and our stakeholders
- Encouraging the growth of diversity and responsive work: life balances
- Working with business partners who share our aspirations beyond our Global Sourcing Principles

Help make our communities good places in which to live and work

- Being at the centre of all the communities in which we trade and making a positive contribution
- Supporting the involvement of our employees in their communities
- Acting as good neighbours

<http://www2.marksandspencer.com/thecompany/corporatesocialresponsibility/csr/principles.shtml> (2004)

Vignette 17: Co-op.co.uk (2003) Responsible Retailing & the Co-op

The responsible retailing campaign was launched in 1995 after the biggest ever survey of consumer views.

More than 30,000 people responded and the message was clear: shoppers want to make informed purchasing decisions based on concerns about animal welfare, the environment and human rights.

In response, the Co-op pledged to give consumers the full facts on products, including details of who makes Co-op own brand products. A Right to Know policy was implemented to provide consumers with the facts they need to make informed purchasing decisions.

The Co-op has a democratic base of individual members. Each member has an individual vote no matter how much money they have invested in the Co-op. They belong to the Co-operative Movement because they believe in a wide range of consumer and social issues. As a unique consumer-owned retailer, the Co-op has a duty to serve consumers, not industry or the City.

The Co-op has always been at the forefront of retailing issues, leading industry and interpreting the law in the best interests of the consumer.

Among its campaigns are:

2000 Blackmail

A report on parental concerns about the advertising of salty, fatty and sugary food products to children

2000 Food Crimes

Launching a series of inquiries into the ethics of modern food production

1999 Breaking the Barriers

Co-operating for social inclusion

1998 Jury's Verdict

Reporting on complaints and adjudications under the Co-op's code of labelling practice

1997 Lie of the Label

A report calling for honest labelling

1996 Ending the Pain

Finding a solution to stop animal testing

1995 The Plate of the Nation

A report on the national diet

1995 Responsible Retailing

A report based on the UK's largest ever independent survey of ethical concerns

http://www.co-op.co.uk/ext_1/Development.nsf/0/8a4364c747626f9000256a41004dcb9e?OpenDocument

Vignette 18: EUREP: A shopping list for good practice?

The Euro-Retailer Produce Working Group includes fifteen leading supermarkets from throughout Europe, including Continent, Promodès, Delhaize Le Lion, ICA and Coop Italia. The Group launched its protocol on Good Agricultural Practice in response to rising consumer concerns about food safety, particularly in the context of widespread global sourcing. It seeks to provide a framework for independent verification of minimum social, environmental and food safety standards for the production of fresh fruits, vegetables and flowers. EUREP is also developing a protocol for animal production, which it plans to launch in Spring 2001.

Tomorrow Magazine, No. 5, Vol. 10, pp 22-24. (September - October 2000)

"For some retailers, however, harmonized standards under EUREP are not enough. Several supermarkets are trying to generate competitive advantage through superior environmental performance. Tesco is one such company. It

runs its own assurance scheme, Nature's Choice, which is ... significantly broader and deeper than EUREP. It includes guidelines on the use of chemical inputs, energy and water efficiency, worker health and safety, and wildlife and landscape conservation. At least 95% of Tesco's fresh produce sourced in the UK is now certified under the scheme and the standards are being introduced to suppliers worldwide."¹⁴²

There is no price premium for Nature's Choice produce and although it is unclear whether consumers are really aware of the benefits of the scheme, Tesco argues that it can raise standards more rapidly through its own scheme than if it relied solely on industry-wide initiatives.

"Sainsbury's, another major British retailer, is also looking to enhance its brand image by securing superior environmental performance from its suppliers. It has developed a policy on the sourcing of wild products, which seeks to ensure that threatened species and habitats are not harmed. Sainsbury's is also working with suppliers on an initiative that encourages farm-level biodiversity action plans. Implementation is marginal at this point: the initiative currently involves a small number of farmers and affects only about two percent of fresh produce and livestock."¹⁴³

Fox¹⁴⁴ (2000) points out that even if higher environmental standards can enhance brand reputation, retailers face another challenge in getting the message across to consumers through the development of tangible, quantifiable measures that assure customers in the efforts retailers and their suppliers take on social and environmental issues. For example Waitrose, the UK supermarket chain, is working on a labelling scheme that would enable customers to distinguish sustainably grown food from conventional produce. While this assumes that environmental improvements can create competitive advantage, not all retailers are persuaded this is so. Nigel Garbutt from EUREP doubts that the proportion of customers interested in buying more sustainably produced food is anything more than a niche. "I would challenge those

¹⁴² Fox, T. (2000) *Supermarket Squeeze*, Tomorrow Magazine, No. 5, Vol. 10 pp.22-24. September -October 2000

¹⁴³ Fox, T. (2000) *Supermarket Squeeze*, Tomorrow Magazine, No. 5, Vol. 10 pp.22-24. September -October 2000, Retail Sector, <http://www.iiied.org/cred/pubs.html>

¹⁴⁴ op. cit.

supermarkets that are seeking to differentiate themselves in that way," he says. He believes customers have high expectations of the major retailers and take superior environmental performance as a given. If supermarkets do start insisting on higher environmental performance from their suppliers and also manage to gain a competitive edge this way, it will be good news for the environment, but it may be bad news for farmers. Richard Baines of the UK's Royal Agricultural College believes that "farmers are not being rewarded for delivering extra animal welfare or environmental benefits." He argues that retailers, processors or customers should pay more for these added benefits if they involve extra costs for farmers¹⁴⁵.

These are complex and difficult issues. The material we have quoted in this section indicates something of the activities of food retailers and the kind of information which is made available. In the absence of reporting standards, of industry wide data, and more fundamentally while expectations of what constitutes the social responsibility of business are changing, it is not surprising that the impact of grocery retailing is at times hotly debated.

5.5 Summary on Contributions to Society

- Previous sections have attributed at least some of the difficulties in describing the contributions of food retailing to the nature of retailing itself. Its outputs are complex and difficult to measure. It is inherently local and labour intensive, etc. When it comes to social contribution, the issues are perhaps less to do with the special nature of retailing and more to do with general uncertainties about what it is appropriate to measure as the social impact of any sector and what responsibility any commercial enterprise has for issues of social and environmental concern. Like other industries grocery retailing is responding to changes in society. There are many initiatives in the CSR field by grocery retailers.
- On a macro level there is an array of data providing evidence of how individual retailers contribute to society. This data however is fragmented both in geographical origin and content. Most of it is company

¹⁴⁵ *op. cit.*

rather than industry focused and therefore difficult to compare. There is little evidence that such data has been collected for the purpose of demonstrating the impacts of the sector on society. There is also very limited independent research addressing those issues.

- Academics often define retailing as the final stage of the value creation process facilitating the exchange of goods and services between manufactures and the end users. Increasingly retailers are the focal point of the two way communication between the producers of goods and their consumers. Therefore retailing has fundamental significance, which directly stems from the key functions of retailing. Retailers actively stimulate demand which impacts on economic growth. They play a fundamental part in educating consumers about new products. Retailers' brands and ranges often act as a guarantor for product quality, traceability, authenticity and safety. Grocery (food) retailers provide social environments and naturally become the customer reference point with regard to a number of socio-economic debates. In this respect modern grocery retailers perform increasingly important public services.
- There are also matters which are particularly relevant to food retailing, to do with food safety, consumer choice and so on. These are a set of contributions which are important but not measured in a systematic way by the industry. Measures of change in product choice, or of the increasing speed of movement of products through the supply chain, for example, could be collated and published so that the contribution could be better explained and information be less driven by anecdote.
- Grocery retailing possibly touches more people more often than any other industry. It has social, cultural and economic significance in our lives. It is part of the fabric of everyday living. Its closeness to consumers and its ability to relate to customer demands and wishes is its key contribution to leading change in the value chain. It is also a visible face of the food business and subject to the contradictory and changing demands of consumers.

6 Conclusions and Recommendations

6.1 Limited Availability of Services Sector Statistics

Despite the significance of retailing, there is no single authoritative source of comprehensive and consistent international statistics on the retail sector as a whole and even less so on food (grocery) retailing. Official statistics in all countries appear generally much weaker concerning retailing than manufacturing.

On a macroeconomic level official retail statistics are often aggregated within larger industry groups. This is the case with all of our three areas of contributions. Therefore it is difficult to disaggregate the data by industry or sector. Similarly international retail data varies in terms of methodologies, levels of aggregation, completeness, detail and time of collection. It is difficult to clearly set the parameters of the grocery sector within retailing. For example almost 70% of the GDP for both the Eurozone and the EU is produced by activities which are traditionally classified as services. The services sector is formed by a wide and heterogeneous set of activities and it cannot be expected that the statistical requirements are the same for all services industries. Services are often defined as a residual item, i.e. the activity outside the industry sector, or the activity that does not deal directly with the production of goods. The retail industry and the food retailing sector are some of the most significant parts of the services activities.

In the 1998 report on information requirements in European Monetary Union, the Monetary Committee highlighted the need for progress in the development of a sound statistical basis for the services sector, and in particular "the cyclically sensitive service industries". The Economic and Financial Committee (EFC), in its 4th Progress Report on the implementation of the Monetary Committee's Report, reverted to this subject and concluded¹⁴⁶:

¹⁴⁶ Schäfer, G. (Eurostat), Nardelli (ECB) (2002) *Short Term Statistics on Services in the European Union: Proposals to improve the availability of infra-annual data*

"Yet, timely, comparable and high-frequency statistics on them are scarce in relation to those on the industrial sector. The qualitative business surveys introduced by the Commission (DG ECFIN) earlier this year, whilst welcome, are not a long-term substitute. The Regulation concerning Short-term (Business) Statistics provides for only a minimal set of data on service activities (employment and turnover in value)."

EFC acknowledges that some work is underway at the national level it considers as essential the co-ordination of objectives and efforts in order to achieve early results with good coverage at the EU level. The SPC (Statistical Programme Committee), in co-operation with the CMFB¹⁴⁷, is therefore invited to develop proposals on what action should be taken to improve the availability of monthly and quarterly data on service activities. While progress has been made for qualitative surveys on service business, there is still limited progress in terms of producing quantitative short-term indicators. For example there is lack of sufficient detailed information of value added activities and even employment data for the services activities. Short-term statistics, the requirements for statistics on services appear also unfavourable in term of coverage, frequency and timeliness.

Schäfer and Nardelli¹⁴⁸ (2002) point out that there are proposals to improve the availability and timeliness of short-term statistics for the services industries in the following areas:

- Compilation of output prices for services
- Compilation of gross wages and salaries and hours worked for services
- Compilation of a monthly indicator for turnover
- Improvement of timeliness of the turnover and employment indicators

¹⁴⁷ *The Committee for Monetary, Financial and Balance of Payments statistics*

¹⁴⁸ *Schäfer, G (Eurostat), Nardelli (ECB) (2002) Short Term Statistics on Services in the European Union: Proposals to improve the availability of infra-annual data*

- Collection of data on market activities currently not covered by the STS regulation (NACE¹⁴⁹ sections L to Q).

Similar issues regarding availability and timeliness of statistics for the services industries are flagged up by the U.S. Census Bureau. The Census Bureau publishes data for over 2,700 detailed sales of service categories. While the number of categories has increased substantially over the past twenty years, the richness of the data set pales in comparison to the manufacturing product measurement program that publishes data for about 9,000 product categories. Traditionally, detailed sales of service categories have been defined by trade sector or industry. It is acknowledged that a lack of a comprehensive system of detailed sales of services makes it difficult, and often impossible, to calculate market share by industry for many detailed sales of service categories. To address these measurement gaps, the statistical agencies of Canada, Mexico, and the United States conducted extensive research project in 1999 to identify the final products of service industries in the three countries. The ultimate goal is to create a comprehensive demand-based, market-oriented product classification system that will complement the supply-oriented industry classification system, the North American Industry Classification System (NAICS) that was introduced in 1997. The product classification system is known as the North American Product Classification System (NAPCS). The U.S. Census Bureau has begun testing the provisional NAPCS products with the 2001 annual surveys and the 2002 economic census¹⁵⁰.

¹⁴⁹ *European Classification of Economic Activities - NACE Rev. 1 Division 52 (retail trade, except of motor vehicles and motorcycles; repair of personal and household goods) breaks down into the following groups:*

- 52.1: Retail sale in non-specialised stores
- 52.2: Retail sale of food, beverages and tobacco in specialised stores
- 52.3: Retail sale of pharmaceutical and medical goods, cosmetic and toilet articles
- 52.4: Other retail sale of new goods in specialised stores
- 52.5: Retail sale of second-hand goods in stores
- 52.6: Retail sale not in stores
- 52.7: Repair of personal and household goods

¹⁵⁰ *Russell, A. (Assistant Division Chief in the Service Sector Statistics Division of the U. S. Census Bureau) (2002) 17 Annual Meeting of the Voorburg Group on Service Statistics, Nantes, France*

6.2 Limitations to Food Industry Statistics

On a sector level, grocery retailing market research provides a fairly detailed and timely set of market and company statistics. However such data has a number of limitations:

- (1) The retail data varies in terms of methodology which makes comparison difficult
- (2) Data collection is mainly focused on the sector itself and does not provide sufficient scope for cross-sector or cross-industry analyses. Therefore, from such data sets, it is difficult draw conclusions and comparisons in relation to performance and contribution of the food retail sector in a macroeconomic context.

6.3 Adequate Measurements of the Contribution of Grocery Retailing

Considering the specifics of the sector and the complexity of its value outputs and impacts, the sector needs to agree and define measures which most adequately reflect its net contribution to economy, employment and social issues.

We have highlighted how little "industry-wide" and "industry-specific" information there is to demonstrate clearly some of the contributions of grocery retailing. Of course data can have different meanings and be presented in different ways. The fact that there are many part-time jobs in grocery retailing can be interpreted to mean that the industry offers opportunities of a useful kind, or that it does not offer opportunities of another kind. We have not been concerned with questions of presentation in this report.

The following table provides a check list of some of the important items which could measure economic, employment and social contributions.

Figure 23. Checklist for evaluating the contributions

In the economy

- Gross value added
- Value of the retailer service
- Turnover
- Economic multiplier effect
- New orders
- Export/Import (domestic/external market)
- Business climate
- Output prices (i.e. retail sector price inflation/deflation)
- Employment (& hours worked)
- Wages and other remuneration

To employment

- Share of employment
- Net contribution to employment
- Workforce profile (e.g. race, gender, disability and age, etc.)
- Rates and rate of reduction of staff turnover
- Value of training and development provided to staff
- Wages compared against averages in other industries
- Perception measures of the industry (e.g. equal opportunities, work/life balance), etc.

To society

- Community programmes
- Improved educational attainment
- Contribution to local prosperity
- Contribution to local skills base - employment and social multiplier effects
- Sustainable development and social engagement programmes
- Perception measures of the retailer as a local community member

6.4 Communicating the Key Contributions to the Key Audiences

This audit report, commissioned by the CIES and produced by the Oxford Institute of Retail Management at Templeton College, University of Oxford, set out to explore the contribution of food retailing to society.

The review has explored available secondary data with reference to the three main areas of retail contribution:

- The contribution of food retailing to the economy
- The contribution of food retailing to employment
- The contribution of food retailing to society

Within the limitations of its scope and methodology it has investigated the nature, extent and meaning of information available to support the aims of the brief and has presented a summary of headline data. It also has identified a number of knowledge gaps on the topic which could be the subject of future research.

As with any successful industry sector, food retailers have a huge positive contribution to make, but this is not without some drawbacks. The development of modern grocery distribution has led to those contributions being increasingly driven by a consumer focus within the relevant regulatory constraints.

Above all, the following major points should be recognised and communicated when considering the contribution of modern grocery distribution to society.

- Modern grocery retailing is playing an increasingly influential role in the economy, employment and society. It is a very large industry which plays many parts. Summaries of these contributions are given at the end of each of Sections 3, 4 and 5.
- There are a number of characteristics of modern grocery retailing that are inherently different from other industries. Thus direct comparisons between industries can be misleading and must be treated with care and consideration. Perhaps the most obvious of these characteristics is the inherently local, service oriented and human nature of retailing.
- There is a distinct lack of relevant, comprehensive and respected data on the contribution of grocery retailing to the economy, employment and society. Some initiatives at official level are underway but many more aspects need to be described.

Finally we suggest that data collection alone is not sufficient.

There are many further steps in successfully communicating the contribution, as follows:

- Agree consistent and universal key contribution measures for the sector (i.e. indicators and benchmarks)
- Ensure data is comparable, understandable, relevant and reliable
- Identify and prioritise the key audiences
- Agree on the key messages
- Fund independent research to collate, audit and analyse the sector data
- Establish appropriate communications channels with the target audiences

7 Appendices

7.1 Retail Trade Definitions

Statistical Classification of Economic Activities in the European Community
(NACE REV.1)

NACE Rev. 1 Division 52 (retail trade, except of motor vehicles and motorcycles; repair of personal and household goods) breaks down into the following groups:

- 52.1: Retail sale in non-specialised stores
- 52.2: Retail sale of food, beverages and tobacco in specialised stores
- 52.3: Retail sale of pharmaceutical and medical goods, cosmetic and toilet articles
- 52.4: Other retail sale of new goods in specialised stores
- 52.5: Retail sale of second-hand goods in stores
- 52.6: Retail sale not in stores
- 52.7: Repair of personal and household goods

Retail Trade

The NACE Rev. 1 groups of retail trade comprise all units whose economic activity consists primarily in selling goods on own or third party account predominantly to households.

Retail trade is mostly carried out in premises accessible to anyone. There are, however, other forms of retail activity, such as mail and telephone order selling, trading from mobile vehicles and from temporary locations and repository services.

Retail trade is classified first by type of sale outlet. Specialized retail sale of new goods is further subdivided by the range of products sold.

No attempt is made to reflect other possible aspects of retail activity such as the kind of service (traditional service, self-service, etc.), outlets run by voluntary services or purchasing associations or to distinguish between cooperative and other retail trade.

Units carrying out several retail trade activities without one of them clearly prevailing are classified to group 52.1. This group comprises class 52.11 for units primarily selling food, beverages and tobacco and class 52.12 for units trading primarily in other commodities.

Retail trade in non-specialised establishments (52.1.)

- The activities of commercial establishments that, aside from selling mainly food, offer another broad range of goods such as clothes, furniture, household equipment, hardware articles, cosmetics, Hypermarkets, supermarkets, super-services and self-services are classified under this heading.
- The activities of all types of frozen articles.
- The non-specialised retail trade, without prevalence in food, in establishments that offer a broad range of general goods among which is included clothes, furniture, household appliances, hardware articles, cosmetics, imitation jewellery, toys, sporting articles, Large stores and popular stores are classified in this section.

Retail trade of food, beverages and tobacco in specialised establishments (52.2.)

Covers:

The retail trade in specialised establishments of fruits and vegetables, meat, fowl and hunting meat, delicatessen and cold meats, fish and shellfish, bakery, cakes, pastries, beverages, tobacco products, dairy products, eggs; fruit preserves, vegetables, meats and

Does not cover:

Retail sale of bread and bakery products, cakes, pastries and cakes in the establishments where they are elaborated.

Institute of Grocery Distribution (IGD) Definitions (2003)

Food retail: All food and drink products sold through all retail outlets (i.e. supermarkets but also open air markets and independent traders) in a given market. (IGD 2003)

Grocery retail: All food, drink and non-food products (i.e. health & beauty, pet care, clothing, DIY, electronics, etc.) sold through all retail outlets selling predominantly food in a given market. This includes the total turnover of hypermarkets and Cash&Carry stores. (IGD, 2003, pp 155)

Mintel Definitions (2003)

Non-specialist food dominant stores department stores are often quite significant retailers of food, but they have their own classification (non-specialist predominantly non-food retailers); some retailers combine food and non-food retailing but where the non-food predominates can be classified elsewhere, for example, we believe that M&S in the UK and Hema in the Netherlands are both classified in clothing retailing. (Mintel, 2003)

Statistical Classification of Economic Activities in the US - NAICS Definitions (2002)

Retail Trade (44-45)

The Retail Trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise; retailers are, therefore, organized to sell merchandise in small quantities to the general public. This sector comprises two main types of retailers: store and nonstore retailers.

1. Store retailers operate fixed point-of-sale locations, located and designed to attract a high volume of walk-in customers. In general, retail stores have extensive displays of merchandise and use mass-media advertising to attract customers. They typically sell merchandise to the general public for personal or household consumption, but some also serve business and institutional clients. These include establishments, such as office supply stores, computer and software stores, building materials dealers, plumbing supply stores, and electrical supply stores. Catalogue showrooms, gasoline services stations, automotive dealers, and mobile home dealers are treated as store retailers.

In addition to retailing merchandise, some types of store retailers are also engaged in the provision of after-sales services, such as repair and installation. For example, new automobile dealers, electronic and appliance stores, and musical instrument and supply stores often provide repair services. As a general rule, establishments engaged in retailing merchandise and providing after-sales services are classified in this sector.

The first eleven subsectors of retail trade are store retailers. The establishments are grouped into industries and industry groups typically based on one or more of the following criteria:

(a) The merchandise line or lines carried by the store; for example, specialty stores are distinguished from general-line stores.

(b) The usual trade designation of the establishments. This criterion applies in cases where a store type is well recognized by the industry and the public, but difficult to define strictly in terms of commodity lines carried; for example, pharmacies, hardware stores, and department stores.

(c) Capital requirements in terms of display equipment; for example, food stores have equipment requirements not found in other retail industries.

(d) Human resource requirements in terms of expertise; for example, the staff of an automobile dealer requires knowledge in financing, registering, and licensing issues that are not necessary in other retail industries.

2. Nonstore retailers, like store retailers, are organized to serve the general public, but their retailing methods differ. The establishments of this subsector reach customers and market merchandise with methods, such as the broadcasting of "infomercials," the broadcasting and publishing of direct-response advertising, the publishing of paper and electronic catalogues, door-to-door solicitation, in-home demonstration, selling from portable stalls (street vendors, except food), and distribution through vending machines. Establishments engaged in the direct sale (nonstore) of products, such as home heating oil dealers and home delivery newspaper routes are included here.

The buying of goods for resale is a characteristic of retail trade establishments that particularly distinguishes them from establishments in the agriculture, manufacturing, and construction industries. For example, farms that sell their products at or from the point of production are not classified in retail, but rather in agriculture. Similarly, establishments that both manufacture and sell their products to the general public are not classified in retail, but rather in manufacturing. However, establishments that engage in processing activities incidental to retailing are classified in retail. This includes establishments, such as optical goods stores that do in-store grinding of lenses, and meat and seafood markets.

Supermarkets and Other Grocery (except Convenience) Stores (445110)

This industry comprises establishments generally known as supermarkets and grocery stores primarily engaged in retailing a general line of food, such as canned and frozen foods; fresh fruits and vegetables; and fresh and prepared meats, fish, and poultry. Included in this industry are delicatessen-type establishments primarily engaged in retailing a general line of food.

General Merchandise Stores (452)

Industries in the General Merchandise Stores subsector retail new general merchandise from fixed point-of-sale locations. Establishments in this subsector are unique in that they have the equipment and staff capable of retailing a large variety of goods from a single location. This includes a variety of display equipment and staff trained to provide information on many lines of products.

7.2 Review of individual EU Retail Markets

7.2.1 Grocery Retailing in Germany

Germany is the biggest grocery market in Europe and host of six of the top 20 European retailers. The biggest German retailer Metro has a European turnover of USD 36,320 (see Figure 15), 50% of which is food. The sector (including grocery retailers and wholesalers) generates combined sales of USD 153 billion, which include USD 108 billion food sales. Recent growth of the sector has been driven mainly by the discounters which considerably outperform the supermarkets. M+M Planet Retail estimates the sector average growth at 3.7% (2001).

The grocery market is highly concentrated with the top five players on the German retail market combining 66% of the market share (see Figure 15) and each of them having a market share in excess of 10%. With the exception of Aldi all other top 5 retailers run a variety of formats. Although the German consumer is quality conscious, pricing continues to be of major importance on the German market, a factor reflected in the power of discounters on the market. The low average profit margins in the sector stimulate retailers to innovate in terms of new product development and operational efficiency.

Figure 24. Share of modern grocery distribution (2003)

Company	Retail Banner Sales 2003 (USD mn)	Market Share (%)	Food Sales 2003 (USD mn)	Market Share (%)
Metro Group	36,320	15.8	16,420	10.1
Rewe	34,466	15.0	24,564	15.1
Edeka	30,427	13.2	25,315	15.5
Aldi	27,106	11.8	22,360	13.7
Schwarz Group	24,283	10.6	19,577	12.0
Sub Total	152,602	66.4	108,236	66.5
Other	77,369	33.6	54,596	33.5
Total	229,971	100.0	162,832	100.0

M+M Planet Retail (2004)

Figure 25. Retailing in Germany

	2002	2003	2004
GDP (USD mn)	1,988,955	2,405,205	2,674,684
GDP (% real growth)	0.2	0.0	1.5
Retail sales (USD mn)	303,511	360,089	394,129
Food retail sales (USD mn)	122,772	149,189	163,616
Modern grocery distribution, total sales (USD mn)	188,691	229,971	251,761
Modern grocery distribution, food sales (USD mn)	133,210	162,832	178,649

M+M Planet Retail (2004)

7.2.2 Grocery Retailing in the UK

The UK economy is one of the strongest in Europe, with low unemployment and interest rates and rising levels of GDP growth and consumer spending.

The retail sector is very important to the UK economy - representing 7% of value added and employing 2.6 million people (see Vignette 4). The grocery market is the largest retail market accounting for USD 220 billion worth of sales with five retailers among the top 20 in Europe, and Tesco having the second highest turnover of food sales in Europe¹⁵¹. The sector has become increasingly concentrated with the top 5 modern grocery retailers having a 56% share of the market. The market leader Tesco alone has 20% share and is the biggest private employer in country. However, the market is under growing levels of scrutiny by the competition authorities in an attempt to prevent a monopoly situation. The result is that further large scale concentration is being strongly resisted¹⁵².

The UK grocery market is highly diverse with a wide range of formats from convenience stores up to hypermarkets,

¹⁵¹ *M+M Planet Retail (2002) Press Release*

¹⁵² *M+M Planet Retail (2004)*

warehouse clubs and virtual stores. Planning restrictions, which have impeded the development of large, out-of-town stores, have prompted retailers to rethink their store strategies resulting in a multitude of supermarket and convenience store formats meeting customer demand in town centres.

Figure 26. Share of modern grocery distribution (2003)

Company	Retail Banner Sales 2003 (USD mn)	Market Share (%)	Food Sales 2003 (USD mn)	Market Share (%)
Tesco	43,582	19.9	33,240	22.2
Sainsbury	25,860	11.8	18,725	12.5
Wal-Mart	23,420	10.7	16,431	11.0
Safeway (UK) ¹⁵³	15,984	7.3	12,730	8.5
Co-op Group	13,774	6.3	4,125	2.8
Sub Total	122,620	56.0	85,252	56.9
Other	96,452	44.0	64,487	43.1
Total	219,072	100.0	149,739	100.0

M+M Planet Retail (2004)

Figure 27. Retailing in the UK

	2002	2003	2004
GDP (USD mn)	1,566,037	1,781,698	2,097,260
GDP (% real growth)	1.9	1.7	2.4
Retail sales (USD mn)	311,264	354,182	414,881
Food retail sales (USD mn)	146,018	166,151	194,214

¹⁵³ Since the data was published Safeway has been acquired by Morrisons

Modern grocery distribution, total sales (USD mn)	190,788	219,072	257,159
Modern grocery distribution, food sales (USD mn)	129,791	149,739	175,364

M+M Planet Retail (2004)

Vignette 4: The Economic Impact of Retailing in the UK

[...] In the UK, retailing has sales of GBP 221 billion (current prices); It is comprised of over 215,000 businesses operating somewhat over 310,000 shops; Between 2.8 and 3 million people work in the sector which additionally contains a further 300,000 self-employed people.

The retail sector is very important to the UK economy - representing 7% of value added and employing 2.6 million people, 10% of the total. The sector created 200,000 jobs between 1998 and 2001, with the bias towards full time employment. All top five UK retailers come from the grocery sector.

*Department of Trade and Industry (UK) (2003)*¹⁵⁴ ; *BRC (2002)*¹⁵⁵ ; <http://www.lz-net.de> (2004)

7.2.3 Grocery Retailing in France

France is the fifth largest economy in the world and currently has one of the strongest economies in Europe, with GDP growing (with forecasted for 2004 GDP growth of around 3.5%). Consumer demand remains the main source of growth. Highly sophisticated grocery retailers are strong contributor to such demand. The grocery sector is dominated by a few large groups. The Top 5 players represent almost 74% of the national market (see Figure 19). The food retail sector consists of Grande Distribution (hypermarkets, supermarkets and discount stores) and Commerce de Proximité

¹⁵⁴ *Burt, S. and Sparks L.- Institute for Retail Studies (2003) Competitive Analysis of the Retail Sector in the UK, <http://www.dti.gov.uk/retail/>*

¹⁵⁵ *British Retail Consortium; <http://www.brc.org.uk/>*

(convenience stores). Hypermarkets and superstores are the dominant store format with around 40% market share. Supermarkets also continue to be a very popular option with the French consumer. The food sector is the largest retail sector. It accounts for USD 240 billion and 55% share of total retail sales in France (see Figure 20). Carrefour is the biggest French and European retailer which also has the biggest share of food sales in Europe. In second and third places are the co-operative-style buying alliances ITM (Intermarché) and Leclerc, both with significant foreign interests that are increasing in importance. The top five include Casino and the fast-growing food retailer Auchan. All the above companies are among the top 20 European retailers.

Figure 28. Share of modern grocery distribution (2003)

Company	Retail Banner Sales 2003 (USD mn)	Market Share (%)	Food Sales 2003 (USD mn)	Market Share (%)
Carrefour	52,485	23.5	41,290	26.1
ITM (Intermarche)	31,624	14.2	23,244	14.7
Leclerc	29,478	13.2	17,554	11.1
Casino	27,610	12.4	19,857	12.6
Auchan	24,403	10.9	12,814	8.1
Sub Total	165,600	74.2	114,759	72.6
Other	57,534	25.8	43,388	27.4
Total	223,134	100.0	158,147	100.0

M+M Planet Retail (2004)

Figure 29. Retailing in France

	2002	2003	2004
GDP (USD mn)	1,434,935	1,755,371	1,975,248
GDP (% real growth)	1.2	0.5	2.0
Retail sales (USD mn)	317,533	389,699	438,094

Food retail sales (USD mn)	171,776	210,816	236,577
Modern grocery distribution, total sales (USD mn)	180,071	223,134	251,287
Modern grocery distribution, food sales (USD mn)	127,503	158,147	177,755

M+M Planet Retail (2004)

7.2.4 Grocery Retailing in Italy

Italy's grocery retail scene is very different from the highly developed retail markets of Northern Europe. The market is fragmented with the top five players having less than 40% share of the market. Recently similar to GDP growth retail sales have been growing slowly and food retail sales account for 40% of the total retail sales compared with 75% in France and almost 70% in Germany. This is quite a low compared discussed above retail markets. Despite similar population the Italian food market is half the size of the French with relatively small grocery retailers. Coop Italia is the only grocer with a market share above 10%. Its operations in Italy are firmly based on its hypermarkets, supermarkets and neighbourhood stores. But even as a market leader Coop Italia still has a turnover worth less than 25% of the turnover of Carrefour. Number two and three places are occupied by French retailers Carrefour and Auchan with almost 8% and 7% market share respectively¹⁵⁶.

¹⁵⁶ *M+M Planet Retail (2004)*

Figure 30. Share of modern grocery distribution (2003)

Company	Retail Banner Sales 2003 (USD mn)	Market Share (%)	Food Sales 2003 (USD mn)	Market Share (%)
Coop Italia	12,681	12.5	10,604	12.9
Carrefour	8,132	8.0	6,428	7.8
Auchan	7,528	7.4	4,559	5.5
Cinad	6,384	6.3	5,809	7.1
Esselunga	4,044	4.0	3,437	4.2
Sub Total	38,769	38.3	30,837	37.5
Other	62,562	61.7	51,335	62.5
Total	101,331	100.0	82,172	100.0

M+M Planet Retail (2004)

Figure 31. Retailing in Italy

	2002	2003	2004
GDP (USD mn)	1,185,935	1,467,743	1,653,807
GDP (% real growth)	0.4	0.4	1.7
Retail sales (USD mn)	205,331	253,869	285,478
Food retail sales (USD mn)	84,276	104,160	116,952
Modern grocery distribution, total sales (USD mn)	81,460	101,331	114,120
Modern grocery distribution, food sales (USD mn)	66,186	82,172	92,389

M+M Planet Retail (2004)

7.3 Review of Individual Central European Markets

7.3.1 Grocery Retailing in Poland

Poland is the largest market in the Central Europe with a population of 40 million. Fragmented retail structure, strong economic growth in the mid-1990s, and accession to the European Union make the market attractive for foreign retail investment. Metro, Tesco, Carrefour, Casino and Ahold all entered the market between 1994 and 1998.

The market remains highly fragmented and the five leading players hold only a combined 23%. All five of them have market share of less than 10% (see Figure 22). However the impact of international retailing is clear since all the top 10 grocery retailers are non-domestic. The domestic independent retailers are responding to the challenge by forming alliances to leverage their purchasing power and lobby for government support. The Polish food market is the biggest retail sector with a share of 56% of the national retail sales. With sales exceeding EUR 44 billion it is also the biggest retail sector in Central Europe (See Figure 23).

The data available for store numbers is difficult to translate into meaningful international formats. As a guide, the leading international retailers had a portfolio of 29 Cash & Carry, 337 supermarkets, 146 hypermarkets and 910 discount stores in 2002.¹⁵⁷

¹⁵⁷ *Institute of Grocery Distribution (2003) European Grocery Retailing*

Figure 32. Share of modern grocery distribution (2003)

Company	Retail Banner Sales 2003 (USD mn)	Market Share (%)	Food Sales 2003 (USD mn)	Market Share (%)
Metro Group	3,245	9.9	1,899	7.1
Tesco	1,174	3.6	846	3.1
Jeronimo Martins	1,153	3.5	972	3.6
Ruch	1,075	3.3	563	2.1
Auchan	1,003	3.1	723	2.7
Sub Total	7,650	23.4	5,002	18.6
Other	25,006	76.6	21,912	81.4
Total	32,656	100.0	26,914	100.0

M+M Planet Retail (2004)

Figure 33. Retailing in Poland

	2002	2003	2004
GDP (USD mn)	189,757	207,051	220,758
GDP (% real growth)	1.4	2.9	4.1
Retail sales (USD mn)	74,969	81,422	86,386
Food retail sales (USD mn)	38,503	41,817	44,209
Modern grocery distribution, total sales (USD mn)	29,731	32,656	34,770
Modern grocery distribution, food sales (USD mn)	24,503	26,914	28,545

M+M Planet Retail (2004)

7.3.2 Grocery Retailing in the Czech Republic

After a period of fairly rapid GDP growth for the past three years the Czech economy has slowed down. Nevertheless the market is expected to regain its growth. The Czech food retail market remains fragmented characterised by thousands of small companies, which have come into existence since the privatisation of the economy in the 1990s. Exact store numbers by international format are difficult to establish, however estimates suggest that there are 21,500 stores, accounted for predominately by small traditional grocers.¹⁵⁸

However the share and significance of the top 5 grocery retailers is rapidly increasing reaching in 2003 - 41% of all food sales (see Figure 24). This share is expected to grow. The impact of international retailing on the market is clear since all the top 5 grocery retailers are non-domestic. The food retail sector is the biggest with above 50% share total retail sales (see Figure 25). The associated non-food element is therefore EUR 2.3 billion¹⁵⁹.

Figure 34. Share of modern grocery distribution (2003)

Company	Retail Banner Sales 2003 (USD mn)	Market Share (%)	Food Sales 2003 (USD mn)	Market Share (%)
Metro Group	1,265	10.8	886	10.0
Ahold	1,159	9.9	836	9.4
Schwarz Group	1,101	9.4	777	8.7
Rewe	858	7.3	772	8.7
Tesco	660	5.7	393	4.4
Sub Total	5,043	43.2	3,663	41.2
Other	6,638	56.8	5,217	58.8
Total	11,681	100.0	8,880	100.0

M+M Planet Retail (2004)

¹⁵⁸ ACNielsen, quoted in *Institute of Grocery Distribution (2003) European Grocery Retailing*

¹⁵⁹ *Institute of Grocery Distribution (2003) European Grocery Retailing*

Figure 35. Retailing in the Czech Republic

	2002	2003	2004
GDP (USD mn)	69,365	84,046	93,601
GDP (% real growth)	2.0	1.7	2.6
Retail sales (USD mn)	18,312	21,776	24,193
Food retail sales (USD mn)	9,517	11,317	12,545
Modern grocery distribution, total sales (USD mn)	9,153	11,681	13,007
Modern grocery distribution, food sales (USD mn)	6,933	8,880	9,864

M+M Planet Retail (2004)

7.3.3 Grocery Retailing in Hungary

The Hungarian economy is the third largest in Central Europe and is very similar to scale and growth to that of the Czech Republic. With comparatively few legislative restrictions and respectable GDP growth rate 3.3% (in 2002) the country is an attractive location for retail foreign direct investment.

Hungary still counts as a fragmented retail market but the share of the top 5 modern grocery retailers now exceeds 63% with both Metro and Tesco having above 15% share of grocery retailing. The food retail sector has reached sales worth EUR 10 billion which makes it the largest retail sector with slightly less than 50% share of total retail sales (see Figure 27.).

"The dominant retail format remains traditional grocers, which in 2002 accounted for 97% of stores. Although this figure is declining rapidly, it will be some time before modern formats have a dominant presence, as in developed Western European markets. It is important to note that no domestic chains have a significant market share nor do they operate beyond their home market".¹⁶⁰

Figure 36. Share of modern grocery distribution (2003)

Company	Retail Banner Sales 2003 (USD mn)	Market Share (%)	Food Sales 2003 (USD mn)	Market Share (%)
Metro Group	1,466	17.0	821	13.2
Tesco	1,357	15.7	958	15.4
Louis Delhaize	1,064	12.3	772	12.4
Tengelmann	922	10.7	652	10.5
Auchan	690	8.0	380	6.1
Sub Total	5,499	63.7	3,582	57.7
Other	3,128	36.3	2,625	42.3
Total	8,627	100.0	6,207	100.0

M+M Planet Retail (2004)

¹⁶⁰ IGD (2003) *European Grocery Retailing*

Figure 37. Retailing in Hungary

	2002	2003	2004
GDP (USD mn)	65,793	82,343	97,545
GDP (% real growth)	3.3	3.0	3.5
Retail sales (USD mn)	14,245	17,659	20,849
Food retail sales (USD mn)	6,664	8,262	9,724
Modern grocery distribution, total sales (USD mn)	7,020	8,627	10,216
Modern grocery distribution, food sales (USD mn)	5,094	6,207	7,326

M+M Planet Retail (2004)

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