

THE CONTRIBUTION OF FOOD RETAILING TO SOCIETY & TO THE ECONOMY

EXECUTIVE SUMMARY

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. Whereas historically food retailers were regarded as mere intermediaries in the flow of goods between suppliers and shoppers, they now occupy an essential function in the lives of consumers. Retailers are thus close to consumers and are in an ideal position to understand their changing needs.

However, this primary role of food retailers is often either not recognised or else interpreted in a negative way. The retail sector as a whole is in many instances viewed as having a damaging influence, whether in terms of employment conditions, competition practices, product quality or environmental impact.

In order to measure the real record of food retailing, CIES – The Food Business Forum, in the framework of its Food Business *in* Society Initiative, decided to commission an “Audit” from Templeton College, University of Oxford, on the contribution of the sector to society. The report draws on a range of sources to measure the impact of food retailers in three interlinked areas:

- The economy
- Employment
- Society



KEY FINDINGS

The Audit finds that food retailers have a considerable impact in each of these three interlinked areas. Broadly, this is because they act as the main interface between consumers and suppliers, thereby acting as the key generator of business activities throughout the value chain. More specifically, the Audit makes the following observations:

- **Food retailing is one of the largest and most dynamic business sectors.** It is a vital economic activity that provides essential services, generates national wealth, creates jobs and stimulates other business activities. This important economic role is demonstrated by the positive effect of retailing on inflation and growth.
- **The economic impact of retailing has been driven by innovation and operational efficiency.** In responding to consumer needs, retailers have optimised supply chains in collaboration with suppliers and introduced a series of new retail formats.
- **Retailing is an inherently local and labour-intensive sector.** It is one of the biggest employers in the private sector. Food retailing provides a mix of job opportunities, from flexible, lower-paid and locally-based jobs to highly-skilled, higher-paid and centrally-located jobs. The flexible, part-time character of many retail jobs meets demand from population categories such as students, working parents and seniors.
- Food retailers are part of the fabric of everyday life and are natural focal points in local communities, contributing to employment, living standards and various consumer needs through products, services and information. **Food retailers play a fundamental part in educating consumers about new products and services.**
- **Retailers' brands and ranges act as a guarantor for product quality and safety.** Food retailers have introduced a range of initiatives in recent years, such as Corporate Social Responsibility (CSR) audits, certification for food safety and environmental assessment in transport and store design.
- **However, there is a basic lack of relevant and comprehensive data on the contribution of food retailing to society.** There is notably no single authoritative source of data on retailing, even less so on food retailing. More work is therefore required in order to establish clear definitions and measures for evaluating the contribution of food retailing.

THE CONTRIBUTION OF FOOD RETAILING TO THE ECONOMY

Food retailing plays a vital economic role in providing essential services, generating national wealth, creating jobs and stimulating other business activities. Broadly, the growth of food retailing has been driven by so-called modern retail distribution companies. Economies of scale have enabled modern retail chains to invest in information technology and logistics, thereby developing more responsive consumer-focused or 'pull' supply chains.

However, the sector's impact cannot be measured adequately by a single economic measure such as GDP. Food retailers are increasingly complex organisations and are also extremely diverse in size, type of ownership, geographical coverage and business models. Their economic contribution spans traditional indicators such as inflation and unemployment and other less-established criteria such as product choice and quality.

Moreover, 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 retailing. Official statistics in all countries appear generally much weaker concerning retailing than manufacturing. On a macroeconomic level, official retail statistics are often aggregated, without breakdowns for food retailing. It is therefore difficult to fully substantiate all of the arguments about the economic contribution of the sector, despite anecdotal evidence from individual retailers.

Summary of key economic findings

- The impact of food retailing on the economy is multi-faceted. It ranges from stimulating demand among consumers to increasing efficiency in logistics.
- At a general economic level, retailing is a major contributor to growth. In the US, the world's largest retail market, the sector as a whole accounts for 9.2% of GDP and \$3.5 trillion in sales. In the rapidly-growing Chinese economy, the retail sector has a current growth rate of 29%, compared to GDP growth of 8.5%.
- This important economic role is demonstrated by the positive effect of retailing on inflation and growth. In the UK, for example, retailing grew by an average rate of 3.4% during 1980-1999, well above average GDP of 2.4%. For the same period, average retail prices increased more slowly than the overall inflation rate.

- The sector is one of the biggest private-sector employers. 17.4% of the US working population is in retailing; in Europe, retailing employs 10% of the working population in the UK and 7% in Germany. The majority of these jobs are local jobs, since retailers' activities are based on stores in local communities. The sector also has an important 'multiplier effect' by generating jobs and growth along the supply chain, although this impact has not yet been properly measured.
- Modern grocery retailing has led best practices in the supply chain. Operators have applied IT on a large scale to areas such as inventory management and marketing. 12% of US productivity gains in the second half of the 1990s are estimated to be due to Wal-Mart alone. Such efficiency gains have significantly benefited consumers. In the UK, retailers as a whole passed on £17.6 billion in savings to consumers in 1999 as a result of efficiency gains.
- Food retailers are also pursuing data synchronisation and supply-chain integration in order to improve efficiency further. The Global Commerce Initiative (GCI) is attempting to secure the adoption of global standards for data exchange. It estimates that the equivalent of 3.4% of sales are lost annually because of continued inefficiencies in the supply chain.

THE ROLE OF FOOD RETAILING IN EMPLOYMENT

Food retailing is a major employment sector. It is a labour-intensive activity requiring a large number of flexible, lower-paid jobs, as well as a range of highly-skilled, higher-paid jobs. As a result, food retailers are among the largest business employers, led by Wal-Mart, the world's biggest private employer. The majority of these jobs are locally-based in stores.

Since grocery retailers provide a complex mix of products and services, they require a large, well-trained and motivated workforce capable of maintaining daily contacts with thousands or even millions of customers. Retailers thus see their human resources (HR) strategies as increasingly important levers for attracting and retaining people.

However, the sector as a whole still grapples with widespread perceptions that it is an unattractive career choice. Like in other industries, organisations vary in the size and quality of their HR programmes. Again, the lack of specific data (e.g. covering skill levels and investment in training) makes it difficult to assess the contribution of food retailers. At the same time, it is clear that the type of flexible, part-time work that is perceived negatively by many consumers does in fact create opportunities for certain population groups (e.g. students and working parents).

Summary of key employment findings

- Retailing is an inherently local, labour-intensive sector and is one of the biggest employers in the private sector. 17.4% of the US working population is in retailing; in Europe, retailing employs 10% of the working population in the UK and 7% in Germany. The local importance of retail jobs is indicated by a recent study from the University of Missouri, estimating that store openings by Wal-Mart have led to the creation of an average of 50 long-term jobs in local districts in the US.
- Food retailing provides a mix of job opportunities, from flexible, lower-paid and locally-based jobs to highly-skilled, higher-paid and centrally-located jobs. The flexible, part-time character of many retail jobs meets demand from population categories such as students, working parents and seniors.

- Retailing plays an important role in reducing long-term and youth unemployment. By recruiting, training and developing a high proportion of less-skilled employees, the sector contributes to the reduction of unemployment in those population groups where it tends to be highest (e.g. young people, over-50s). According to Eurostat, only 9.9% of retail employees in 1998 had a higher-education degree, compared to an average of 19.8% for the EU economy as a whole.
- Specific statistics about human resources in retailing are rare. For instance, the retail sector is one of the largest investors in IT but there is little information about the highly-skilled workforce which manages and implements retail IT systems.
- The retail sector as a whole still faces scepticism about the jobs and careers it offers, despite the fact that some retailers like Asda in the UK and Migros in Switzerland enjoy excellent reputations. Many food retailers consider their staff as their “most important asset” but HR still has limited representation at board level. A more concerted effort from the sector is needed to highlight and communicate job benefits and career prospects in retailing.

THE CONTRIBUTION OF FOOD RETAILING TO SOCIETY

Retailing's outputs are complex and difficult to measure. Beyond their economic role in supporting living standards, retailers are part of the fabric of daily life. Stores and shopping centres are places where consumers spend parts of their lives and are of regular significance in ways that manufacturing industries are not.

By virtue of their closeness to consumers, retailers can react rapidly to customer demand and lead change in the value chain. This translates into an evolving choice of products and a wider range of consumer-focused services. Such developments reflect changes in society, for example in working patterns and family structures.

Like other sectors, food retailing has responded to pressure for greater responsibility and transparency in business. Many operators have produced Corporate Social Responsibility (CSR) reports and have launched various initiatives, notably in food safety and quality. However, the sector has not developed measurements that describe this wider social role.

Summary of key society findings

- The role of retailing in society is increasing. In addition to stimulating demand, retailers play a fundamental part in educating consumers about new products and trends. Retailers' brands and ranges often act as a guarantor for product quality and safety. As an illustration of the importance of retailer brands, 61% of Tesco's total assortment in the UK consists of own-brand products.
- Retailers have thus 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. This public role is illustrated by the fact that an estimated 100 million people visit a Wal-Mart store each week.
- By providing a constantly evolving range of products and services, retailers react to changes in society. Speciality food ranges, new retail formats, extended opening hours and in-store technology are all examples of how food retailers have adapted to evolving lifestyles.

- Corporate Social Responsibility (CSR) has been taken on by retailers both internally and externally. Within companies, there have been many initiatives in human resources, such as lifelong learning, profit sharing and parental leave. Swiss retail group Migros, for example, offers 16 weeks' paid maternity leave, well above the legal requirement. Retailers have also developed CSR internally by improving transport efficiency – thereby reducing congestion and fuel consumption – and by reducing their environmental impact. Somerfield in the UK is one of several retailers to have introduced biodegradable shopping bags in order to reduce harmful waste.
- Externally, food retailers have engaged with different stakeholders concerning ethical, safety and quality standards. The EUREP group of European retailers has developed Good Agricultural Practices, while various individual retailers have established private schemes.

RECOMMENDATIONS FOR FURTHER RESEARCH

The Audit finds that there is a distinct lack of relevant and comprehensive data on the contribution of food retailing to society. There is no single authoritative source of statistics either on the retail sector as a whole or on food retailing in particular. This is partly because retailers' outputs are complex and difficult to measure. But this also reflects a traditional lack of attention towards retailing as a key engine of the economy. Official statistics in all countries appear generally much weaker concerning retailing than manufacturing. Where data does exist, retailing is often aggregated within statistics about the overall services sector.

Both the EU and the US are addressing this shortfall in statistics about services industries. Their respective statistics agencies have proposed more coverage of services, including in areas like employment and value-added activities. However, food retailing's complex outputs will not be fully covered by improved macro-economic data. The sector itself thus needs to agree on what measures most adequately reflect its net contributions to the economy, employment and society. The Audit provides a checklist of important elements – ranging from export/import figures to investment in training – to consider in measuring the role of food retailers. It is crucial to make any such measures clear, consistent and comparable with other sectors. Once such relevant and authoritative data is developed, food retailers will need to communicate it to key audiences as part of a two-way dialogue with society.

Methodology

The Audit is based on secondary research covering a wide range of sources, including market reports, economic and industry databases, press and web-based retail resource centres. The main purpose was to map out the field, identify key perspectives and summarise available market data. In geographical scope the study focused on three key market areas:

- North America
- Europe
- South East Asia

Given the lack of consistent and relevant data on the retail sector as a whole and food retailing in particular, the Audit does not attempt to generalise or compare disparate data sets. It rather identifies existing data gaps and, where available, presents country or company specific examples which highlight the contributions of food retailing.

Because these contributions are complex and not fully described by traditional measures of performance, the study has gone beyond conventional indicators and attempts to distinguish between three types of output:

- *Product-focused outputs*, which are broadly concerned with the quality of the goods provided.
- *Retail-focused outputs*, which are about more than the goods provided and are summed up in the retail 'proposition' or offer. Assortment, store environment, location and additional services are all part of this total retail offer.
- *Contributions to society and the environment*, such as the maintenance of urban fabric and improvements in food safety.