



# A Battle in Store?

**A discussion of the social impact of  
the major UK supermarkets**

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## **Note**

The views expressed in this publication are not necessarily those of the working party members, of anyone acknowledged, or of Sustain's membership, individually or collectively. All errors and omissions are entirely those of the authors.

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*by Vicki Hird*





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# 1 Introduction

The British supermarket has an ally in the typical consumer: £66 out of every £100 spent on groceries is at supermarkets.<sup>1</sup> Meanwhile, the very same stores have numerous critics. More often than not, the popularity of supermarkets is used to negate the critics (if you want supermarkets, you'll just have to live with their problems, or, if you are that worried about their disadvantages, then you'd stop shopping in them). This 'shrug your shoulders' mentality has long pervaded the supermarket debate.

To exemplify: as soon as complaints arise about losing green space and increasing traffic, we are told most consumers want out-of-town supermarkets. As soon as there are complaints about the baffling range of goods and services, it is pointed out how much time it all saves. As soon as complaints grow about high prices, we are reminded of the needs of good business and the high quality service we get in return. As soon as there are complaints about the closure of local shops, we are told we are being nostalgic, and should welcome the new jobs. If we worry about the poor state of British farming, we are pointed to the fresh foods section, with all its variety and quality at prices we can afford. And if people fight a new development in their neighbourhood, they are reminded that many deprived areas have no supermarkets at all. Even if the government questions their anti-competitive behaviour, they say that there is no proof that they are doing any harm.

In other words, people who question supermarkets are presented as not understanding the needs of consumers and good business practice, of being

nostalgic, pre-modern. It is true to say that the scope of human desire is now liberated to go beyond the capacity of the local economy. It is true that as we seek to fulfil our desires on the world market, production becomes more centralised and market share concentrated into fewer and fewer hands. It is true to say that this is part of modern life - the two earner family with the need for convenient, car-based shopping - and that these processes have given us the modern supermarket. Yet, arguably, the consumer isn't shaping everything.

This report shows how supermarkets are not just a product of consumer demand but also of strategy and policy, and the outcome of complex corporate practices. It details the two major contentious issues that still hang over the supermarkets (location and competition), summarizing the facts and the figures, the whys and the hows. The aim: to provide a greater understanding of why supermarkets are what they are so that they can be changed for the better, and so that the alternative food retailing provision can be given a chance to thrive. The argument: that we should all feel free to benefit from the modern advances of the supermarket - their convenience, their easy access and technological advances, their ever increasing range of services and long opening hours<sup>2</sup> - while at the same time educating ourselves about the ways that their resultant negative environmental and human impact can be minimized. We can then demand policy to create a balance between the supermarkets, other food retailers, the consumer and the environment.

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### 2.1 The growth of the out-of-town superstore and the Big Four

At one time in Britain, everyone shopped at small shops and markets. It wasn't until the 1960s that the supermarkets took hold: greater affluence and consumption in general made the mass marketing of goods a reality after the slumps of war and post-war periods.<sup>3</sup> This was followed in the late 1980s by the spectacular growth of out-of-town superstores (supermarkets over 30,000 square feet). In 1982 5% of retail sales were out-of-town; by 1994 that had risen to 17%. In 1971 there were 21 out-of-town superstores; in 1992 there were 719.<sup>4</sup> Now, in 2000, there are 960: Tesco has 255 (44% of its 586 stores)<sup>5</sup>, Safeway 250 (52% of 482 total)<sup>6</sup>, Sainsbury's 215 (50% of 433 total, not including 11 Savacentres)<sup>7</sup>, and Asda 240 (all defined as superstores though not all are over 30,000 square feet).<sup>8</sup>

The growth of the out-of-town store was a response to changing needs, both of the consumer, and the supermarkets. With the decline of the traditional family, and the rise of women working outside the home, the desire for speed and convenience grew. For busy working families, an easier life could be had by shopping in one store, once a week, and by car. The supermarkets were also able to benefit: having suffered in the 1970s from high inflation and price instability, in the 80s they began capitalise on the social changes that had been taking place since the 1960s. Part of this extensive restructuring was to open superstores, which achieved an average spend per visit around three times higher than the older and smaller stores.<sup>9</sup> Their success was such that they generated two thirds of annual sales increases. It was therefore worth it for the supermarkets to abandon the high street, both following and driving a further change in shopping habits.<sup>10</sup> And as more and more consumers shopped, out-of-town, profits rose. In 1978 the average operating margin was around 1.8%. By 1989 it was between 5% and 7%.<sup>11</sup>

By the early 1990s the success of the strategy of out-of-town expansion had allowed just four major

players to dominate the scene: Asda, Sainsbury, Tesco and Safeway. Now known as the Big Four, J Sainsbury was the market leader until 1995, when it was taken over by Tesco. With record profits in 1999, Tesco continues to reign supreme.<sup>12</sup>

### 2.2 Jobs and the environment

As most consumers, eager for a quick and easy one-stop shop, embraced the out-of-town stores, others were not so happy. People saw green space being eaten away, increased traffic, the closure of local shops, and declining local economies.<sup>13</sup> Local communities started to organise, environmental groups to campaign, the media to take notice, researchers to examine, and government to act. The message was that out-of-town superstores were causing urban sprawl, countryside loss, increased car use, pollution and the decline of both rural and town centre economies.<sup>14</sup> Local groups started to lobby their councils against superstores all over the country.

In the late 1990s hard evidence began to show that the campaigners might be right. On local economies an influential Campaign for the Protection of Rural England (CPRE) report presented quantitative evidence of the detrimental impact of an out-of-town store on farmers, local stores and employment in Suffolk. It showed that complex local networks of supply and demand would be destroyed by a superstore, and with it, jobs, shops and wholesalers. In relation to jobs, a 1998 National Retail Planning Forum report showed that, on average, when a superstore opens, 276 full time equivalent jobs disappear (a result of closure of food retailers, and subsequent effects on suppliers and nearby non-food retailers). On traffic, the publication 'Off Our Trolleys' showed that a typical out-of-town superstore causes £25,000-worth of congestion, pollution and associated damage to the local community every week<sup>15</sup> (over 90% of customers drive to out-of-town stores).<sup>16</sup> On the closure of small shops, government research in 1998 showed that out-of-town or edge-of-centre-supermarkets have resulted in disinvestment in market towns and district centres. This has led to a

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decline in market share of principal food retailers by 13-50%.<sup>17</sup>

In their defence, the supermarkets argue that their superstores are beneficial to local communities, creating jobs and 'clawing back trade'. 476,000 people are currently employed by the Big Four, and in 2000 they pledged to create 28,000 jobs.<sup>18</sup> Tesco still argue that: "when assessing the impact of large retailing in the UK, account should also be taken of the extent to which many small, local suppliers have benefited from supplying networks as wide and efficient as Tesco, and the boost that a store gives to the local economy. We create jobs and provide training that benefits a wide range of local people."<sup>19</sup> But at what cost to the nearby town and are the jobs and training of high quality? Safeway cite a report from the University of Essex that purports to show that superstores increase retail employment. Safeway also took on the anti-car lobby, stating that: "there is confusion amongst many that new food stores create extra car journeys. The opposite is most likely to be the case... the development of a new store will reduce miles driven for shopping by at least 750,000 km per annum."<sup>20</sup>

Supermarkets also point out that they have responsible store siting policies. Since 1990 less than 50% of Tesco<sup>21</sup> superstores have been built on greenfield sites, with 20% built on contaminated land. Of the 21 Sainsbury's<sup>22</sup> stores planned for 1998/99, 19 were in city centres or at edge of town centres, and they are involved with over 180 town centre management schemes. 70% of Safeway<sup>23</sup> stores are built on previously developed sites, with the remainder on sites already designated for development. 70% of all Asda stores are in town centres and 44 of the 49 stores built since 1990 were on previously developed sites; over £30 million has been invested since 1990 on site improvements and improving contaminated land.<sup>24</sup>

**Winners and losers:** Do the supermarkets really want to save green space and reduce traffic? After all, new superstores are still being built. Tesco opened four superstores in 1998/99.<sup>25</sup> The number of Sainsbury's stores over 40,000 square feet rose from 39 in 1998 to 61 in 2000. In 2000,<sup>26</sup> following its takeover by Wal-Mart, Asda announced its plans to

develop 13 new supercentres. The 13 new stores would represent a 5% increase in selling space.<sup>27</sup> Moreover, evidence presented by the struggling Somerfield shows that the majority of planning applications are for greenfield sites stating: "*it is the requirement for large, flat sites on or near major roads that drives the commercial market and such sites are usually in greenfield locations.*"<sup>28</sup> And while the environment is still under threat from development, the argument about job creation or destruction continues to rage.

### 2.3 Planning: Planning Policy Guidance 6 (PPG6)

That superstores were causing some problems does - and did - appear to be accepted by government. In 1993, the Conservative government introduced Planning Policy Guidance on Transport (PPG13) which encouraged the consideration of locally accessible shops in planning decisions. In 1993, and then again in 1996 they revised the PPG6 on Town Centres and Retail Development. The guidance explicitly states that an out-of-town site should only be considered if there are no viable alternatives closer to the town centre and if it is genuinely accessible by choice of transport. It also advises against planning permission for retail parks which allow the 'comparison shopping,' (i.e. a selection of clothing stores, electrical goods etc) typically the domain of the high street.<sup>29</sup> Though both PPG6 and 13 are guidance, not law, their introduction was met with a sharp reduction in approvals for planning applications by supermarkets.<sup>30</sup>

The recognition by the Conservative government that the growth of out-of-town stores needed limits, and planning should favour town centres, has thus far been continued by the Labour administration. Richard Caborn, Minister for the Regions, Regeneration and Planning has said that "*out-of-town superstores can seriously damage the health of small towns and district centres. Arguments about clawing back trade and creating jobs simply do not hold water...*[the Department of Environment, Transport and the Regions (DETR) Report on 'The Impact of Large Foodstores on Market Towns and District Centres']... *provides yet further justification for the Government's*



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*policy for concentrating appropriately sized new supermarkets in existing centres and resisting out-of-centre development. Local planning authorities now need to get their plans up to date and identify the town centre sites where new shopping development will be encouraged. Planning has got to change from being reactive and negative to being positive and proactive.*<sup>131</sup>

Yet there has been much speculation that planning restrictions will be relaxed, fuelled by the buy-out of Asda by Wal-Mart (the US-based 'big-box' retailer that operates exclusively out-of-town). Hypothetically this would allow greater competition and therefore lower prices.<sup>32</sup> There is also speculation of a rift between the Treasury and the DETR. In 1998 a report written for the Treasury suggested that the removal of PPG6 would increase productivity and "hence lower prices" - the report dismissed concerns about the displacement of "traditional high street retailers" as mere "social arguments" - ignoring the widespread economic consequences that this displacement can have. This conclusion was criticised by the Environment Select Committee saying that "*relaxation of the the planning regime in respect of out-of-town sites would do little to encourage new entrants. It would run the risk of returning to the laissez-faire policies of before 1993, which did so much damage.*"<sup>133</sup> In an extraordinary oversight, the Office of Fair Trading failed to consult with the DETR when preparing its brief on supermarket competition for the Competition Commission.<sup>34</sup>

**The Battle continues:** Richard Caborn insists that the Labour administration "*have no intention of changing the policy.*"<sup>135</sup> More recent media speculation has pointed out that the likelihood of relaxation is "zero" because "an out-of-town development frenzy would fall foul of the environmental lobby."<sup>136</sup>

### 2.4 Back into town

Whatever the future of PPG6, since its introduction, out-of-town growth has slowed (the so-called 'Gummer effect' after Minister, John Selwyn Gummer, who introduced it): there were 53 new stores in 1996, a decline from a peak of 85 in 1991 (but an increase from 46 in 1995).<sup>37</sup> Growth of floorspace now stands at around 3.5% compared to 15% during the late 1980s.<sup>38</sup> The growth in sales has also fallen, from 28% in 1989 to 8% in 1996.

Yet this slowed growth had its compensations for the supermarkets. In the mid-90s, the Big Four made up for reduced out-of-town expansion by developing successful new formats.<sup>39</sup> Smaller stores in the 'market town' format of around 15,000 feet and in city centres made sense, as did reinvestment programmes to make more use of space in existing superstores. Tesco led the way. By the end of 1996/7 Tesco had opened 30 Metro stores - 16 new stores, and 14 refits. They now have 42 Metro stores and 21 Express stores (in conjunction with Esso).<sup>40</sup> Their strategy was initially successful: the lower costs of reinvestment in city centre stores, coupled with high sales densities, resulted in increased returns in investment for Tesco compared to the early 1990s.<sup>41</sup> City centre stores were also made more efficient by technological innovations and their greater proportion of high margin products. In 1999 Sainsbury's, now struggling behind Tesco, entered the fray, opening a much publicised 'Local' at Paddington station in January 1999, and announcing in July its plan to open 200 Local stores by 2003.<sup>42</sup> Safeway, meanwhile, aims to operate 45 petrol forecourt shops (in conjunction with BP Amoco) by the end of 2000.<sup>43</sup> All these new stores, coupled with a decline of closures and an increasing number of extensions, mean that total new sales area added by the major supermarkets has remained remarkably constant.<sup>44</sup>

It is arguable that strategically, a reduction in out-of-town stores and reinvestment in city centres was beneficial with or without PPG6. In 1993-4, property overvaluation, non-recoverable initial investment and depreciation resulted in crisis for the supermarkets (the so-called 'store wars'); they had concentrated too much on their out-of-town strategy, and needed to

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spread their investments more widely.<sup>45</sup> Site diversification made good business sense. It also made sense to the consumer. Complaints that supermarkets were intent on shutting down town centres and leaving people without cars with no place to go seemed outdated. But the consumer soon faced up to the limitations of city centre stores: since they are best able to generate profits on busy high streets, they threaten the few remaining independent food retailers.<sup>46</sup> For example the Sainsbury's city centre stores are predicted to have negative effects on butchers, fishmongers and greengrocers, as well as multiples such as Co-op.<sup>47</sup>

Finding a city centre location that will generate enough profit is not easy, due to high rents and rates, difficult car access, potentially higher crime, and a rental system that gives a greater incentive for landlords to leave properties empty.<sup>48</sup> Moreover, with low customer expenditure a significant factor in store siting decisions,<sup>49</sup> the areas of most need - vacant high streets and low-income areas - are left untouched. Already there are problems with town centre stores. Sainsbury's has only opened 6 of its planned 200 'Locals'. And citing high rents, Tesco is now poised to close up to 10 of its Metro convenience stores, after poor financial performance.<sup>50</sup>

**Winners and losers:** Closure points to the strategy used by the supermarkets back in the 80s: do away with unprofitable stores (that will not benefit from reinvestment) to protect profits.<sup>51</sup> For instance, Tesco closes on average 4-5 smaller stores every year.<sup>52</sup> Over the past two decades, stores closed have often been those located in poorer neighbourhoods. The result: a so-called 'food desert' where people on low incomes have minimal access to good quality and affordable food.<sup>53</sup>

### 2.5 Food deserts: what's the problem?

Food deserts may be partly the result of supermarkets closing or failing to open planned) 'uneconomic' high street branches, while smaller multiples and independents in town-centres and more peripheral areas closing in response to competition with out-of-town stores. Food deserts discriminate against low-income shoppers, who have traditionally used the local or city centre shops more accessible by foot or public transport. Given that only 14-46% of households with incomes between £60-£150 per week have a car, often superstores are difficult to get to.<sup>54</sup> A report by the Institute of Grocery Distribution (IGD) showed that people in deprived areas had to travel at least one mile to reach shops with a wider stocking range, often requiring a change of bus and a return fare of £2-£3.<sup>55</sup> The problem is exacerbated because low-income shoppers tend to need to shop frequently owing to low cash flow, and lack of storage facilities such as a freezer.<sup>56</sup>

The food desert issue is not only about the absence of shops but also the presence of the wrong ones. For "while some low income areas are not totally deprived of a supermarket or other large grocery store, the choice of retailer or store format may be extremely limited. In some areas the overwhelming majority of grocery stores are discount stores or freezer centres, while in others there may be only one easily accessible mainstream retailer."<sup>57</sup> Some deprived localities may even have more food stores than affluent ones - but these are the discounts, freezer stores and pricier independents.<sup>58</sup> The complaint then, is the lack of access to a supermarket, the very same supermarkets that many claim are too numerous elsewhere.<sup>59</sup>

Not all would agree there is a problem. A survey carried out by the Social Exclusion Unit revealed that less than 5% of people questioned in estates including Moss Side in Manchester and Hyde town centre named poor access to shops - but this figure rose to 25% in the Blackbird Leys area of Oxford.<sup>60</sup> A MORI survey commissioned by the Social Exclusion unit's Policy Action Team (PAT) 13 Group also reported

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minimal concerns. Yet, other studies have recorded complaints about access to decent food in marginalised neighbourhoods.<sup>61</sup>

This apparent inconsistency is a result of genuine geographical variations, and the use of different survey techniques. There is no doubt that there are some deprived neighbourhoods that require attention. In fact, supermarkets are keen to show that they can play a role in regeneration. Asda stores have been siting in more deprived areas for several years. In 1998 a store opened in Hulme, a deprived estate on the outskirts of Manchester, after six months of consultation with the local community. The store hoped to benefit from commuter traffic.<sup>62</sup> Asda claim in their recent environmental report: "ASDA recognises that it can help put back into areas of urban deprivation and has an strong record of developing stores in such locations e.g. Mosside, Manchester; Maryhill, Glasgow; Walton, Liverpool."<sup>63</sup> The Cooperative Retail Society also has a high level of retail outlets in deprived areas. Supermarkets also advertise that customers without cars can reach them by public transport: for example, Sainsbury claim that all but two of their stores are located within 400 metres of a bus stop, and several edge-of-centre stores have a free shuttle service (1996 figures).<sup>64</sup>

Government has responded to the issue in part by luring superstores into estates. In July 1999, the Labour party announced the opening of a Tesco superstore in the Seacroft estate in Leeds. The scheme is a £20 million partnership between Tesco, Leeds council, the employment service and the shopworkers' union Usdaw, and will involve local skills training and employment. The project is being hailed as "one of the first occasions on which private and public sectors had combined to deliver a comprehensive solution to social exclusion in the inner cities," and Tesco are "looking forward to working with other bodies to regenerate inner cities."<sup>65</sup> This is the first of six planned projects.

But again there is the issue of the need to have a site that will generate sufficient profit. Take the example given by the Social Exclusion Unit PAT\* 13 report of an estate where the majority of people were

on low incomes with a large proportion of elderly people. The community needed shops, but attempts to persuade a large retailer into the area were unsuccessful: the population did not have sufficient spending power and the site car parking space was too small for the supermarket.

**Winners and losers:** Whether in a city centre, a market town, a low-income estate or out-of-town, the site has to be right for the supermarket. It has to generate profit, maybe not straight away, but eventually. It has to be a place that enough people can reach, where the consumer will be welcomed by passing enough cash over the counter. Some sites simply do not fit this description. So it is understandable that supermarkets leave these sites well alone. There would be less of a problem if these areas were served, instead, by local shops. So, what is the fate of the local shop?

### 2.6 The fate of the local shop: independence and competition

From 1980 to 1994 the percentage of food sold by independent retailers fell from 31 per cent to 22 per cent. Over the same period, the number of independent retailers declined by 25 per cent, with numbers employed declining by 35 per cent. Villages and market towns lost half of their small shops between 1991 and 1997.<sup>66</sup> A 1999 Women's Institute survey found that 30 per cent of villages had no shop. Over the last decade, more than 1,000 village shops, almost 500 post offices and 150 banks/building societies have closed down.<sup>67</sup>

We have already seen that this decline is partly due to competition with out-of-town superstores, competition that will continue into the future. The retail analysis, Verdict, predict that "*out-of-town superstores are likely to kill off more than 20,000 small retailers by 2001*", the most likely being butchers, bakers and grocers. This is an issue that the media love to shout about too.<sup>68</sup> There are also fears

\* Policy Action team on improving access to shops

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that the buy-out of Asda by Wal-Mart will hasten the decline (Wal-Mart is famous for low prices, and infamous for its destruction of smaller retailers and suppliers).<sup>69</sup> According to *The Ecologist*: "As Wal-Mart enters Britain, all it will do is be a predator on other retail outlets. Rather than generating 'new' sales, and helping 'consumers', it could instead signal the death of town centres and villages, which are already notoriously under siege."<sup>70</sup>

But while the decline of the local shop is regularly bemoaned, they are at the same time widely criticised for charging higher prices than supermarkets, for selling poorer quality goods and providing a poor service.<sup>71</sup> The most comprehensive study shows that on basic comparable items supermarkets are cheaper than smaller grocery shops.<sup>72</sup> However this does not apply to all products between all stores. For example, a lay market survey in the West Country found fruit and vegetables 61% cheaper in small grocery shops than in the chains (£2.84 compared to 4.60 for 6 identical items). A total of 31 products were surveyed and the local shops provided an overall saving of £5.12.<sup>73</sup> A survey in North London carried out for this report showed that fruit and vegetables were around 30% cheaper at a market stall than nearby supermarkets.<sup>74</sup> It is true, though, that small shops cannot benefit from the differential price discounts obtained by supermarkets for large orders, nor can they afford to have loss leaders (selling at cost price), or predatory pricing (selling below normal profit margins, or even below cost price), practices widely used by supermarkets.<sup>75</sup> The squeeze thus put on wholesalers by the supermarkets for these low prices may encourage them to charge the smaller shops even more.<sup>76</sup>

The UK government has done little to wipe out this competitive disadvantage.<sup>77</sup> Elsewhere in Europe they have. For example, France implemented the 'Loi Galland' in 1997. This regulation, intended to help small retailers, and smaller manufacturers unable to offer price discounts, forbade the sale of goods at less than cost price.<sup>78</sup> In Spain too there are laws that forbid the sale of 'loss leaders'. One outcome, however, was an average 4% increase in prices, explaining perhaps why examinations of this issue by the Monopolies and Mergers Commission (now the

Competition Commission, CC) in the UK have never resulted in any action.<sup>79</sup>

So is it really fair to blame the supermarkets for taking action to lower prices? They, after all, compete for their share of consumer cash, and do so by providing a wider variety and choice than a small store ever could. And what about the small shops themselves? Arguably, via entrepreneurship and innovation, they could also be competitive.<sup>80</sup> If they banded together more effectively, for example, they could expand their buying power. They could be more flexible to local supply and demand, and generate custom through the more personal contact that many shoppers desire. They could become increasingly specialised, catering to niche markets. Examples of these innovations as success stories already exist.<sup>81</sup>

With relatively little capital, however, innovation is a real challenge for independents. More support is needed and there have been several approaches taken. Sainsbury's, for example, are piloting an Assisting Village Enterprises plan (SAVE), to allow village shopkeepers to buy products at a local Sainsbury's and sell them on at a higher rate. Critics of this particular scheme point to the lack of real benefits for village shops compared to PR potential for the major multiple.<sup>82</sup> But there is also the potential to encourage independent stores into deprived neighbourhoods.<sup>83</sup> With the backing of the Social Exclusion Unit Mace has already started to promote neighbourhood stores in rundown areas in its Mace Millennium Initiative (MMI).<sup>84</sup> In April 1999 one such store, opened on Sheffield's Longley estate, with an emphasis on cheap fruit and vegetables.<sup>85</sup>

These types of approaches have been criticised as 'sticking-plaster'<sup>86</sup> and not sufficiently planning oriented. A paper from the Centre for Food Policy calls for more community-led local food retailing, burdened less by fiscal stresses, and encouraged by new planning policy.<sup>87</sup> The Urban Task Force set up under the Labour government also call for more local retail centres partly via "a revision of PPG6, to ensure that the retail and leisure providers improve their design performance and consider the wider economic development implications of their development on the overall urban form."<sup>88</sup> The Social Exclusion Unit PAT 13 team also recommended in 1999 that the

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government should have a more active approach to planning local community retailing, which then should be followed by a planning policy guidance note to strengthen local centres.<sup>89</sup>

Whatever the planning shifts, whatever the innovations, arguably the local shop is operating, and increasingly so, in an unfairly competitive environment. This is because they face competition from what is essentially a local monopoly. That is, the out-of-town superstore, having closed down local shops, with no rival superstore nearby controls more than 25% of the market. One third of the UK's supermarket catchment areas have only one superstore.<sup>90</sup> On a national level, too, it has been argued that the supermarkets have become an oligopoly.\*<sup>91</sup>

**The battle continues:** This issue, raised back in 1995 by the SAFE Alliance/Institute for Public Policy Research report '*Off Our Trolleys*', was taken up by the Office of Fair Trading (OFT) in 1998. Its report 12 months later, concluded that competition between existing grocery retailers is not effective.<sup>92</sup> The OFT subsequently asked the Competition Commission (CC) to examine whether the Big Four were practising anti-competitive behaviour. This would be measured by (a) their impact on traditional shopping centres and small shops; (b) high prices; (c) excessive profits; (d) exploiting their buying power with suppliers, and finally, (e) whether these factors meant that they are fact operating as an oligopoly.

\* An oligopoly is 'a group of companies, which together have 25% more or more of the market, and all behave in some way that adversely affects competition,' which 'can exist even if the companies involved do not have an explicit agreement to co-operate.'

# 3 Battleground No. 2: Supermarket Competition

## 3.1 Prices, profits and the arrival of Wal-Mart

The argument goes that if one company monopolises the market, it can capture the consumer who has nowhere else to go, and thus charge excessive prices. If several companies monopolise the market, they may have a formal or informal understanding between them that prices are best kept above a certain level, also leaving the consumer to pay an unfairly high price. So do supermarkets charge excessive prices? Are they guilty of Prime Minister Blair's charge that: *"We pay too much for our basic goods but across a whole range of services. We are overpriced compared to the US and the reason, in part, is that there is too little competition."*<sup>93</sup>

Evidence that British supermarkets are overpriced comes from three sources: comparisons with other countries, high selling price compared to what was paid to the supplier, and associated high profits. In the first case, a Euromonitor cost of living survey found that the UK has higher prices than Germany for staples such as milk, rice, flour and potatoes (even though it is now a poorer country).<sup>94</sup> The Financial Times reported that prices in Britain are 36% higher than in France, 45% higher than America, and 54% higher than Germany.<sup>95</sup> Journalists from The Times found that the British were paying \$139.49 for a shopping basket, 35% more than shoppers in Germany, and 31% more than those in the US.<sup>96</sup> A German professor did a similar study at Tesco in Cambridge and Rewe in Kassel, Germany. His 34-item British basket cost 56% more.<sup>97</sup> BBC Panorama reporters found a basket of groceries costing \$126 at a London supermarket could be bought for \$121.50 in Paris, \$110 in Berlin and \$96 in Rome.<sup>98</sup>

However, owing to several confounding factors, international price comparisons are notoriously unreliable.<sup>99</sup> For example:

variations in national eating habits (mark-ups are higher in the UK for fruit and vegetables than other European countries<sup>100</sup>)

variations in national shopping habits (British consumers maybe willing to pay more because they prefer nicer stores with higher quality products);

exchange rate fluctuations<sup>101</sup>;

incomparability of goods in size or weight<sup>102</sup>;

variations in capital and operating costs (high land costs in the UK for example).

A high selling price compared to what was paid to the supplier is therefore a more persuasive argument. For example, a report by the Independent in August 1999 showed that the difference between farm gate and supermarket prices were huge for a range of produce.<sup>103</sup> A report by the Commons Welsh Affairs Committee raised concerns about the growing difference between farm gate and retail prices for beef and lamb.<sup>104</sup> The concern is so high that there are speculations that Britain will follow the French in demanding that the supermarkets display the price they paid to the supplier, alongside that charged to the consumer (or post both onto the internet).<sup>105</sup>

The high mark-ups imposed by the supermarkets on fresh foods have certainly generated good profits - the more fresh food is sold, the greater the profit.<sup>106</sup> Profits are also particularly high on processed food, especially the increasingly popular ready meals. Imported products may have an even higher mark-up.<sup>107</sup> Also contributing to high profits is the high proportion of high mark-up own-brand goods in UK supermarkets (42% compared to 18-19% in France and Germany).<sup>108</sup> Not only do own-brands have a high mark-up, but they allow the supermarkets to charge more for branded goods. (In Europe, supermarkets must charge less for brands in order to gain custom, and there are laws against copy-cat packaging.<sup>109</sup>)

So are the supermarkets under paying their suppliers, over charging customers, and then pocketing the difference? Does this explain the higher profit margins compared to the US and the rest of

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Europe? The supermarkets say no, high profits are not gained by ripping off the consumer, but by heavy capital investment, operating efficiency and low staffing costs.<sup>110</sup> Moreover, they need high margins because of the high costs of land.<sup>111</sup> And when profits are measured by return on capital invested, the Big Four are less profitable than their European rivals.<sup>112\*</sup> There are also different conditions of depreciation between UK and the rest of Europe. French supermarkets depreciate rapidly to reduce tax incidence, while UK firms depreciate slower in order to report higher short-term profits in the active stock-market conditions.<sup>113</sup> And when it comes to price, Tesco claim they are 8% lower than Europe, particularly on their own brand items (they have even launched a price comparison scheme on their Internet site).<sup>114</sup> Initiatives such as Value Lines, they point out, have helped food prices fall by 11% since 1987.<sup>115</sup> However, the 'value', 'economy', 'low cost' and other such lines are often not the highest quality in terms of contributing to a healthy diet. After reports revealed that many products promoted in this way contain high levels of fats and sugar, some supermarkets have responded to such complaints by giving discounts on fruit and vegetables.<sup>116 117</sup>

With profits and prices thus explained, the supermarkets also have to show that they compete with each other. To this end, they claim that even though they may monopolise a local market (which they blame on planning controls), they compete nationally for price, service and convenience.<sup>118</sup> Such is the importance of service and convenience to the modern (time-pressed but generally more affluent) consumer that they became increasingly important in competitive terms (and often traded for cheaper prices).

Price competition has become visibly more pronounced in the past few years, particularly since the OFT announcement in 1999. In February 1999 Tesco announced price cuts on 240 key items by up to 25%.<sup>119</sup> Two months later, a few weeks after the CC was asked to investigate, it instituted new price cuts

to the tune of £25 million, cutting the price on 175 lines.<sup>120</sup> By the end of 1999, Tesco had spent 380 million on price cuts (gaining market share and thus profits).<sup>121</sup> Asda, meanwhile, introduced a 'Rollback' scheme in March 1999, with the aim of having 4000 price cuts by the end of the year. By August 1999 over 2400 products had had price cuts, including the 100 top UK brands.<sup>122</sup> In October 1999 Sainsbury's pledged a Low Price Guarantee, undertaking to match the lowest prices in 1,600 of the most regularly purchased items.<sup>123</sup>

The low price claims made by Asda (it then estimated it was 5-10% better value than the other big supermarkets) made it a good fit for takeover by a store famed for its low prices: Wal-Mart. Indeed, the 'rollback' scheme was a copycat Wal-Mart strategy. After the takeover, Wal-Mart pledged to cut food prices by as much as one third - as it did after taking over a major German supermarket.<sup>124</sup> The supermarket price war thus continued into 2000, with Sainsbury and Tesco both pledging new price cuts. These price wars have affected profits - margins have now fallen from their peak of 6.8% in 1993 to 5.9% today.<sup>125</sup>

Winners and losers: It would seem that the arrival of Wal-Mart has already created a greater competitive edge in UK food retailing in terms of price and profits. But there are two issues of contention here. First it is questionable whether cheap food is really what is needed. The cheaper prices obtainable in the US have not demonstrably resolved problems of access to food for people on low incomes. Falling food prices in the UK since the 1960s haven't eliminated food poverty either.<sup>126</sup> Indeed many argue that the 'cheap food' policy has helped cause poverty among farmers and contributed to the current situation of food poisoning, contamination and poor nutritional quality. A fair price policy is perhaps a more appropriate approach, one that takes into account the true costs of production. Secondly, Asda - Wal-Mart, along with Tesco, Sainsbury and Safeway, still control 70% of sales of foods and household products. Potentially such dominance creates barriers to entry for suppliers,

\* 1997 estimates by Deutsche Morgan Grenfell indicate that return for capital invested is 20% for French hypermarkets Carrefour but only 15% for Tesco. In Europe, suppliers are given long-credit terms, so the supermarkets do not have to pay the supplier for a long period of time, leaving the supermarkets more cash, thus offsetting the capital investment they need to make.

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since they have few other buyers. This can have the effect of forcing prices down for the supplier, while the supermarkets can charge what they like. This issue, discussed below, was one taken seriously by the Competition Commission.<sup>127</sup>

### 3.2 Produce suppliers: the chosen and the global

The restructuring of supermarkets in the 1980s saw more than just the growth of out-of-town superstores; it saw the growth of retail capital. Coupled with increasingly streamlined accounting systems, this allowed the large supermarkets to side-step wholesale markets, and purchase direct from the supplier.<sup>128</sup> This gave the supermarkets the ability to plan and control supplies in a way not possible via the open markets of wholesale. Aided by technology, they worked hard at speeding up delivery schedules ('just in time'), eliminating delivery errors and improving sales forecasts. They also worked to fulfill the 1990 Food Safety Act, demanding 'traceability' of products via barcodes, and strict health and hygiene standards in suppliers' packhouses.<sup>129</sup>

As direct relationships between the supermarkets and their suppliers built up, the fresh produce supply chain became a key strategic focus. Supermarkets wanted to reduce shrinkage and waste, increase freshness and quality, and maximise profits on these high margin items (margins are generally 35-45% higher on fresh produce). Supermarkets now knew that the appearance of their fresh produce could lure customers away from rival stores; the positioning of an attractive fresh produce section at the stores' entrance is no coincidence.<sup>130</sup> Providing out of season products year round also became popular with the consumer. The strategy worked: by 1997, supermarkets held 70% market share for fruits and vegetables.<sup>131</sup>

The supermarkets soon realised that buying produce was most cost-effective when they were able to control how much they wanted and when they wanted it. They also gained from controlling the quality (cosmetic) standards of the produce, and its price. Gaining this control was facilitated by the use of as few suppliers as possible, also making it easier

to trace products (to abide by the Food Safety Law).<sup>132</sup> With fewer suppliers now needed for a consolidated market, competition between farmers for supermarket patronage accelerated. To compete, suppliers changed the way they operated in order to suit the needs of the supermarkets, taking on responsibilities of logistics and marketing. In particular, they worked to add value to their product eg ready to cook, and pre-washed salad bags, in turn creating extra value for the supermarket.<sup>133</sup> If successful, growers who supplied supermarkets then benefited from higher market share and sales volumes, along with market intelligence.

However, not all have benefited. Many say supermarket buying strategies have affected British farmers for the worse. Supermarkets, some farming commentators say, have ruined the small farmer (with less small shops, there are now fewer buyers for the small farmers not able to provide large enough volumes for the supermarkets). Supermarkets are also notorious for maltreating the farmers that do supply them. For example, they demand cosmetic standards much stricter than European Union rules (e.g. Cox apples must be 60mm to 90mm across and be up to 30% red),<sup>134</sup> leaving farmers with fruit not worth picking, and no market willing to buy them. The dictates of the supermarkets are therefore resulting in both a harder life for farmers, and massive waste. And all the while, the farmers must keep the supermarkets happy by footing the bill for (frequently changing) packaging requirements and promotions (Safeway allegedly recently asked £20,000 per line out of each of its suppliers for promotional purposes<sup>135</sup>). Suppliers may also be dropped or have to change orders at a moment's notice if they are not meeting the supermarkets' exacting quantity and quality requirements. Fear of speaking out, however, has been a serious obstacle to change. As Off our Trolleys noted in 1995: "*fear of de-listing means that reports of first hand experience of supermarkets' buying policies are usually anonymous, for fear of retribution.*" This situation does not appear to have improved. Evidence from the British Independent Fruit Growers' Association to the Competition Commission was given anonymously "*due to fears of*



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*retaliatory action being taken (by the supermarkets) against themselves and/or their marketing desks".*<sup>136</sup>

Another major problem for British farmers is undercutting by foreign producers. Supermarkets now often source out of the UK, from countries such as Kenya, New Zealand, USA and Egypt. These countries have the advantage of either a more favourable climate or/and cheaper labour, which allow the production a wide range of premium fruits and vegetables at lower prices all the year round. Out of season products tend to be very popular with the consumer and can be sold at a higher margin. Heavy investment in export by poorer countries (Kenya for example, exported 84 824 tonnes of horticultural products in 1996, a 58% increase over 5 years) has driven a transformation of marketing and supply, bringing horticulture essentially under the control of the UK supermarkets.<sup>137</sup> This is despite heavy criticism of labour and environmental conditions in these countries which are often far below the standard required of British farmers. Christian Aid, for example, have provided numerous examples of injustices in countries supplying UK supermarkets.<sup>138</sup>

It is in this context that the British farmers have to compete for supermarket patronage (and even if successful they are often not given a written contract). The result: increased costs, lower prices, and overall declining returns (30-40% lower in 1999 than 1998<sup>139</sup>). Unable to meet the costs of production, these farmers are struggling to survive as supermarkets make high (albeit falling) profits. As National Farmers Union (NFU) President Ben Gill put it in 1998: *"I want to be in the business of continuing to produce the best quality food in the world. I am confident we do that at the moment, but unless there is a major redress in the apportionment of added value in the food chain so farmers are getting a fairer share of it, there will not be the breadth of British farming in the next millennium for them to source it."*<sup>140</sup>

Supermarkets claim that wherever possible they do try to help the British farmer. All have a 'Buy British' policy, and promote British produce: 95-100% of fresh meat sold in supermarkets is British for example. There are visible signs of promotion of British products around the stores, whether they be a special push to sell English apples in October, or advertising year

round sales of 100% British eggs. Asda is particularly active. For example, it has a 'Bring-it-back-home' initiative, favouring British over foreign suppliers, and a 'Cost-Plus' scheme, fixing prices through the peaks and troughs - for farmers and consumers.<sup>141</sup> Whilst good promotion, however, such initiatives will not necessarily provide the farmer with a price which covers the cost of production. Indeed, a recent Waitrose initiative - called Select Farm Milk - to ensure that premiums are paid which reflect the cost of production, has been withdrawn.<sup>142</sup> Once again, farmers have no surety of price or market. Supermarkets do point out that they often source from smaller producers for their increasing ranges of high margin products and have encouraged local farmers to grow non-traditional crops increasingly popular with consumers (also sold at a high margin).<sup>143</sup> Moreover, supermarkets alone cannot be held entirely responsible for the plight of British farmers. The state of the pound, for example, has been catastrophic for many. Supermarkets have also recently produced a voluntary code of practice for working with suppliers which has yet to gain approval from the Minister for Agriculture Fisheries and Food (MAFF), Nick Brown.<sup>144</sup>

**Winners and losers:** Whatever the initiative, whatever the other causes, the supermarkets undoubtedly hold power over their suppliers. As one study on the supermarket - supplier relationship explained: *"The relationships between suppliers of goods and services are not equal partnerships since the supplier's dependence on the custom of a major supermarket is much greater than the supermarket's dependence on any one supplier. The supermarket controls the crucial resource of access to large numbers of consumers, while the supplier provides products normally also available elsewhere. The potential substitutability of the supplier plays into unequal power relationships with the supermarkets who are the sole route to mass custom."*<sup>145</sup>

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### 3.3 Supermarket power, the environment and health

This power relation places the growers in a subservient and vulnerable position; even if the supermarkets do help them, they are still in control. Arguably, however, this ability to control can benefit the consumer. It ensures that all suppliers conform to strict food safety and hygiene standards and allows a greater response to consumer demand. For example, in the last few years, there has been increasing demand for environmentally friendly and ethically produced food. Following the wholefood stores lead and in response to consumer demands, supermarkets now have numerous initiatives to encourage the type of environmental and ethical improvements now favoured by consumers (see Table 1). The most visible example is that of organic food, now more in demand than ever owing to concerns over genetic modification (GM) in foods. In 1998 sales increased by 40%, with total sales predicted to reach £5bn by 2005.<sup>146</sup> Sainsbury's stocked 650 organic lines in 2000, up from 330 in 1998, and 42 in 1996.<sup>147</sup>

The outcome is an example of how consumer power can change the mode of production: more conversions by conventional farmers to organic. Sainsbury's (who have been commended for their environmental and ethical initiatives) encourage farmers to convert, and other supermarkets also offer grants. A survey by Friends of the Earth in March/April 2000 scored the 12 top supermarket stores for their commitment to providing GM free foods, removing dangerous pesticides and promotion of organic food. Waitrose gained the highest score overall.<sup>148</sup>

These initiatives have been made possible because the supermarkets exert so much control over the supply chain. If the supermarket had to buy via wholesalers, or were not in the position to demand changes in production standards from their suppliers, such consumer-driven environmental improvement could be less apparent. There are other examples too. It is the supermarkets who have been responsive to the genetically-modified food issue. By eventually listening and responding to the concerns of the consumer, they have reduced the marketability of genetically engineered products on the world market, despite government policy. When consumers lost confidence in British beef during the BSE crisis of 1998-99, it was the supermarkets who largely rebuilt consumer demand, not the officially designated body of MAFF.<sup>154</sup> In 1998 people spent 3.5 times as much on food and non-alcoholic drinks from supermarkets compared to any other food retailer.<sup>155</sup>

The supermarkets, then, have utilised, and created more power by positioning themselves as the guardians of food quality in the UK. They have asked the British consumer to trust them and been met with a positive response - three-quarters of British adults say they trust Sainsbury's and Tesco the same as or more than 5 years ago and they trust them more than government.<sup>156</sup>

But is this trust misplaced? Take the Ethical Trading Initiative hailed by Sainsbury's as 'Socially Responsible Trading'.<sup>157</sup> Christian Aid reports that for all the talk about Ethical Trading, real action to improve the situation is superficial. Targets or timetables, if they exist, are vague.<sup>158</sup> Not enough is actually being done to improve the real situation for suppliers and workers in poorer countries.

**Table 1: Examples of supermarket initiatives on environment and ethical trading**

<b>Initiative</b>	<b>Store</b>	
<b>Farm Biodiversity Action Plan</b> <sup>149</sup>	<b>Sainsbury</b>	<b>Encourages farmers to establish new habitats</b>
<b>Royal Society for the Protection of Birds initiative</b> <sup>150</sup>	<b>Tesco</b>	<b>Enhance farmland wildlife</b>
<b>Integrated Crop Management (ICM)</b> <sup>151</sup>	<b>Sainsbury</b>	<b>Aiming to reduce the use of agrochemicals</b>
<b>Reduced animal testing</b> <sup>152</sup>	<b>Asda</b>	<b>Own brand has no animal testing</b>
<b>Ethical Trading Initiative</b> <sup>153</sup>	<b>all major supermarkets</b>	<b>Increase amount of ethically traded products and improve labour conditions</b>

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And the organic food revolution is being met less by increased support for British farmers, but by increased sourcing from overseas (three quarters of organic food sold in Britain is imported). Sainsbury's recently came under fire for its imperialistic approach when it announced that it had commissioned the whole Caribbean island of Grenada for organic fruit production.<sup>159</sup> The increased mileage resulting from imports and distribution systems causes not only increased use of fossil fuels but also other environmental damage. This includes increased use of post harvest chemicals in storage, increase packaging and processing and more wastage.

There is also the issue of health. It has been suggested that the food industry, supermarkets especially (considering their dominance in the market place and the way that the more accessible small shops have closed) should take more responsibility for the health of the nation as a whole.<sup>160</sup> At the very least, they should ensure that their pricing policies favour increased consumption of healthier foods. The high margins on fruit and vegetables (see section 3.2) suggests otherwise. Previous work by the National Food Alliance (now Sustain) shows that sugary and fatty foods are cheaper and more heavily promoted by supermarkets. Moreover, their 'Value Lines' that are targeted at those with lower incomes are dominated by unhealthy foods.<sup>161</sup>

**Winners and losers:** All this is indicative of the way that supermarkets will only use their power to respond to consumer, environmental and health concerns when it fits within their agenda. Though this can be explained away as good business practice, when supermarkets have so much power over what we buy, arguably they should be subject to stricter regulations to force them to conform to the same type of standards that they expect of their suppliers. This type of legislation is being called for not only by consumer groups and produce suppliers, but by the manufacturers of the numerous grocery products stacked on supermarket shelves (see below).

### 3.4 Manufacturers, own branding and food miles

A survey carried out in 1999 showed that 65% of food manufacturers are in favour of laws to curb the buying power of the major supermarkets (a rise from 49% in 1998).<sup>162</sup> Along with the produce suppliers, manufacturers too have borne the brunt of supermarket buying power. As far back as the 1960s, after the abolition of the Resale Price Maintenance (RPM), retailers began to take control of the food supply chain from the manufacturers.<sup>163</sup> Then, during the 1980s and '90s technological change gave control of distribution, warehousing and stock control to the supermarkets, which allowed them to manage stock more effectively. Supermarkets then extended their influence up the supply chain, expecting manufacturers to fit in with these sophisticated systems of distribution.<sup>164</sup> Supermarkets also demanded certain product specifications from the manufacturer, and insisted, to save costs, on more input in terms of quality control, market development and stock optimisation management.<sup>165</sup> Thus the manufacturer inevitably had to bear increased costs, such as inventory holding.<sup>166</sup>

These changes have not always been popular with the manufacturers. Manufacturers are dependent on supermarkets to stock their products but cannot rely on supermarkets to promote their product. If it is successful, the supermarket will likely produce it under an own brand label which is more heavily promoted. According to a report published for the Liberal Democrats: *"The stress on own-label puts supermarkets in an ambivalent position in relation to suppliers: they are not just customers, but competitors too, selling their own products. This raises questions of anti-competitiveness since they have access to confidential information about product launches and strategies. The downward cost pressure on brands also discourages research and product development that will ultimately restrict consumer choice."*<sup>167</sup> This situation is facilitated by the weak trading standards law in the UK which allow supermarkets to imitate standard brands.<sup>168</sup>

This strategy of own-branding has had a significant impact on increasing the profits and power of the

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supermarkets. (Britain has a very high proportion of own brand goods: share of sales volumes in the UK is 44.7%, compared to 22.2% in France.<sup>169</sup>) The manufacturers sell the supermarkets unlabelled products cheaper than branded because they do not have to invest money in developing or marketing the products' brand identities. The retailers then pass some of the saving onto the customers, and keep the rest for themselves, therefore benefiting the supermarket via higher margins, sales and image strengthening.<sup>170</sup>

Own-brand retailing tends to grow with market concentration - the two reinforce each other.<sup>171</sup> This is because the manufacturer, with few other outlets to sell to, can be dictated to when it comes to the terms and conditions of the brand. This is reflected by the results of recent research showing that: *"In almost all own-label supply relationships in the UK there is an absence of written contracts... Agreements regarding logistics and meetings are normally made verbally and kept flexible according to the retailers' requirements. The length of time for which the supply relationship should last is rarely specified and never drawn up in a written contract, implying that the supplier could be dropped at any time."*<sup>172</sup>

Supermarkets, however, are quick to point out the advantages of their control over manufacturers: it has forced them to work in partnership to make grocery distribution more efficient. For example, at one time goods were delivered from suppliers to numerous warehouses from where they were delivered to stores. Vehicles then returned empty.<sup>173</sup> But now, the reorganisation of warehousing to create huge regional distribution centres and the rise of 'just-in-time' deliveries and technological stock supply has meant more shared user operations and back loading (full vehicles on return trips), and less deliveries and shorter journeys.<sup>174</sup> According to the supermarkets the accrued benefits are significant. Tesco's Supplier Collection scheme has reduced travel by almost 5 million km per year, saving 1.7 million litres of fuel worth £720,000.<sup>175</sup> Safeway claim that since 1989 over 75,000 deliveries have been saved, reducing supplier journeys by 5%. Asda, meanwhile, have reduced supplier collections by 52,000, saving 13,300 tones of CO<sub>2</sub> emissions.<sup>176</sup>

Consolidation of grocery distribution, however, does not necessarily make it more 'efficient'. With very few suppliers, more long distance journeys are required. Products will be transported to Scotland from the supermarket supplier even if they are based in the south of England. Thus the journey required is longer. The same applies to processed foods. There is also an increasing amount of food sourced out of Europe (see section 3.2). Largely as a result of the distribution networks of the major stores, the Food Miles report revealed that the amount of food being transported on UK roads has increased by an average 20%, with an increase of the distance travelled of 50%.<sup>177</sup> Half the total freight carried on UK roads is food products.<sup>178</sup>

**Winners and losers:** In real terms the impact of own brand and consolidated distribution systems has been very positive for the supermarkets and has had mixed blessings for manufacturers. The effect on primary producers is likely to be the most pronounced as they have become increasingly squeezed into tight specifications and volume demands and yet gain less and receive an ever decreasing proportion of the retail price.

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It is true that retailing is a complex, dynamic and ever changing industry. Supermarkets are now diversifying into, for example, home delivery. Most of the major supermarkets are now running home delivery services and these are often linked to new internet sales. Tesco Direct, for example, is now the world's biggest online grocer and the UK's second biggest 'e-tailer'. It has 400,000 users.<sup>179</sup> Such services have been welcomed as an opportunity to reduce car based shopping and therefore aid those without cars. However, the additional costs involved coupled with an increasing emphasis on internet links excludes those unable to afford the internet or even use it.

Another example of diversification is the non-food market. Supermarkets have gained a significant proportion of sales of petrol, pharmaceuticals, CDs, banking and even mortgages. This has put pressure on non-food retailers, particularly independent petrol retailers and bookstores. In an ironic twist, Tesco has submitted a complaint to the Office of Fair Trading. This concerns the magazine industry which it claims is blocking technological development, in magazine distribution, championed by Tesco and WH Smith News. Tesco claims that this means customers suffer.<sup>180</sup>

Supermarkets are also increasingly expanding overseas. For example Sainsbury's owns Shaws, a New England (US) chain. By 2002, 45% of Tesco's selling space will be overseas. The situation is changing rapidly as the bigger US retailers such as Wal-Mart also look to expand their operations even further into Europe and elsewhere. Metro AG, Germany's largest retailer for instance, is now considered ripe for take-over by Wal-Mart, as is Boots in the UK.<sup>181</sup>

Thus, the supermarkets have a strong and increasingly consolidated hold on the UK retail market. Despite their critics, the big four supermarkets are popular places to go. The supermarkets have strong consumer loyalty despite the high media profile gained by those concerned with supermarket power. The resolution to this conflict is often cited as being a mismatch between nostalgia and behaviour. *"There is a nostalgia associated with shopping on the High Street which is not reflected in actual behaviour"* said Safeway recently in its own defence. A commentator writing in the New Statesman

responded to problems raised by Tim Lang at the Centre for Food Policy saying: *"Lang may or may not be right, but the rest of us are not exactly marching on Westminster to protest... If we don't wish to buy into supermarket culture, we should vote with our wallets and take our business elsewhere."*<sup>182</sup>

Presented thus, we are cajoled into believing that if we want modern life and convenient shopping, we should just put up with the negatives. If we really cared, we wouldn't go to supermarkets. But this is a naïve dichotomy. We all have a right to enjoy our out-of-town supermarket, and praise it for its quality and choice and convenience. This does not preclude us from asking our supermarkets to bear some of the costs that are borne by the environment and the local economies. It should not stop legislation to make sure supermarkets behave responsibly. It should not stop us from demanding a rethink on how the government views competition in food retailing. The scope of the changes should reflect how retailing is at the heart of the many challenges facing society in this century.

In order to address the problems, we must address the crisis in local food retailing. This is not a problem just in rural or poor inner city areas, but everywhere. Many reports and organisations now recognise this inter-locking feature of retailing.<sup>183 184 185 186</sup> The last Government began to recognise the problems when it responded to concerns about giant out-of-town developments by imposing constraints.<sup>187</sup> The present Government has built on that by recognising other dimensions too and encouraging debate. But the hypermarket shows little sign of slowing. We need a new policy direction to ensure new delivery mechanisms support bottom-up retail strategies. There must be a commitment to a new consumer culture and a policy of (re)building the local food economy to ensure the survival and promotion of local shops for local communities.

# Looking For A New, Fairer Contest

## 4.1 Recommendations

Many Members of Sustain have provided specific recommendations to the Competition Commission and the Select Committee on the Environment, Transport and Regional Affairs inquiries into Supermarkets. We do not attempt to repeat their recommendations here but make the following overarching proposals.

### 4.1.1 For Government

#### **Competition policy rethink**

The social costs of retail concentration need to be brought into the assessment of competition within the retail sector. The Competition Commission's remit has been so narrowly defined that it risks missing the real issues of environmental, social and public health concern. Sustain's submission to the Competition Commission Inquiry proposed the following should be included:

- i. Competition issues and suppliers,
- ii. Social exclusion
- iii. Local economies, jobs and businesses
- iv. Environmental externalities, green belt, and transport.<sup>188</sup>

It is essential that the Government monitors progress - against measurable targets in each of these key concerns - following the implementation of any measures put in place on the recommendations of Competition Commission.

#### **Local monopolies**

There needs to be a re-definition of what constitutes a monopoly such that monopolies in essential supplies (such as food) are considered at a local level. The geographical definition of a market in retail competition policy should be re-drawn on a consumers 'Travel to shop' basis - and local market share calculated from this.

#### **Achieving supplier and retail diversity**

In order to ensure the existence and the diversity of retail outlets, it is essential that the Government examines and strengthens the local food sector. This

must include measures to develop the supply chain such that local shops can source locally and local suppliers can sell locally. Local food retail operations, such as farm retail, farm direct delivery schemes and the more recent farmers markets and new initiatives on local community owned retailing provide useful experience and thinking.<sup>189 190 191</sup> Too often, these retail solutions are piecemeal and small-scale. They need to be built on, and quickly before hypermarkets have taken 100% of market share. This new policy direction must attract the industry and inspire them to provide investment in people and systems. This includes skill training, support, IT, supply routes, mentoring and marketplace to enable and encourage entrepreneurs - private or social - and community groups to set up and run vibrant local retail centres.

#### **Making the market work**

We believe there is a clear case for bringing in specific measures, in the public interest (which include social, health, and environmental as well as financial), to ensure that where the market does work against the public good, measures can be put in place to address the problems. This must allow for strengthening in **planning** regulations and guidance where necessary to curb inappropriate developments and strengthen opportunities for existing and alternative food retail outlets. **Community** mapping initiatives are revealing that local people are not always agreed that a supermarket is the best solution to local food problems. It is therefore important to analyse people's criteria for shopping in different places before planning new retail developments. There should be a radical re-think of **transport** policy to introduce disincentives for long distance transport and incentives to source and sell more locally to reduce reliance on roads and fuel. Plans to tax car spaces in out of town shopping centres should be reconsidered to address the unfair advantage of out-of-town stores over local. A major programme of **research** is required into the freight transport implications of centralised distribution and 'consolidation'. Distribution of new grants available under the **Rural Development Regulation (EC)** should reflect the need to develop local supply chains and enhance local market development.

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### **4.1.2 For Non-Governmental organisations / civil society**

Increase action to make retailing and competition policy a cornerstone of work to promote sustainable and healthy food culture

Develop a strong and effective alliance to put pressure on Government and the food industry

Promote and monitor the development of local food retailing operations

### **4.1.3 For the food industry**

Make a commitment to building social criteria into all policy decisions

Invest in developing local and regional sourcing operations

Stop hypermarket developments in sensitive areas

Work with Government and civil society organisations to develop solutions to tackle the problems in food retailing

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## MEMBERS

Action and Information on Sugars  
Arid Lands Initiative  
Association of Public Analysts  
Association of School Health  
Education Co-ordinators  
Association of Unpasteurised Milk  
Producers  
Baby Milk Action  
Bio-Dynamic Agricultural  
Association  
British Association for the Study of  
Community Dentistry  
British Dental Association  
Butterfly Conservation  
Campaign for Real Ale  
Caroline Walker Trust  
Catholic Institute for International  
Relations  
Centre for Food Policy  
Child Poverty Action Group  
Children's Society  
Common Ground  
Commonwork Land Trust  
Community Nutrition Group  
Compassion in World Farming  
Consensus Action on Salt and  
Hypertension  
Council for the Protection of Rural  
England  
Design And Technology Association  
Diabetes UK  
East Anglia Food Link  
Ecological Foundation  
Ecologist  
Elm Farm Research Centre  
Farm Animal Care Trust  
Family Farmers' Association  
Farmers' Link  
Federation of City Farms and  
Community Gardens  
Food Additives Campaign Team  
Food Commission  
Foundation for Local Food  
Initiatives  
Friends of the Earth  
Gaia Foundation  
Genetics Forum  
GMB (Britain's General Union)  
Green Network  
Guild of Food Writers  
HDRA - The Organic Organisation  
Health Education Trust  
HUSH: The UK E.Coli Support  
Group  
Hyperactive Children's Support  
Group  
Institute of Consumer Sciences  
Institute of European and  
Environmental Policy, London  
International Society for Ecology  
and Culture  
Land Heritage  
Local Authorities Co-ordinating  
Body on Food and Trading  
Standards (LACOTS)  
Maternity Alliance  
McCarrison Society  
National Council of Women  
National Dental Health Education  
Group  
National Farmers' Union  
National Federation of Consumer  
Groups  
National Federation of Women's  
Institutes  
Northern Ireland Chest, Heart and  
Stroke Association  
Oral Health Promotion Research  
Group  
Permaculture Association  
Pesticides Action Network - UK  
Plantlife  
Royal Society for the Protection of  
Birds (RSPB)  
Rural Agricultural and Allied  
Workers' Union (TGWU)  
Scottish Federation of Community  
Food Initiatives

Society of Health Education and  
Health Promotion Specialists  
Soil Association  
Townswomen's Guilds  
UNISON  
Vegetarian Society  
West Country Graziers  
Willing Workers on Organic Farms  
Women's Environmental Network  
Women's Food and Farming Union  
World Cancer Research Fund

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National Consumer Council  
National Heart Forum  
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Scottish Consumer Council  
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