Economy Unit

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The Right to Retail

Can localism save Britain's small retailers?

Adam Schoenborn

ResPublica
changing the terms of debate

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About ResPublica

ResPublica is an independent, non-partisan UK think tank founded by Phillip Blond in November 2009. We focus on developing practical solutions to enduring socio-economic and cultural problems of our time, such as poverty, asset inequality, family and social breakdown, and environmental degradation.

Our research combines a radical civic philosophy with the latest insights in social policy analysis, economic modelling, behavioural economics, management theory, social psychology and technological innovation to produce original, implementable solutions. We would like to foster new approaches to economic inequality so that the benefits of capital, trade and entrepreneurship are open to all. We believe that human relationships should once more be the centre and meaning of an associative society, and that we need to recover the language and practice of the common good. Our work seeks to strengthen the links between local individuals, organisations and communities that create social capital.

ACS | the voice of local shops

About ACS

ACS (Association of Convenience Stores) is the voice of local shops, representing over 33,500 convenience stores. ACS helps local shops thrive through lobbying, support and networking opportunities.

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The Right to Retail

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Foreword

by James Lowman, Chief Executive, ACS

You could forgive independent retailers and those who love their local shops for being gloomy in the Spring of 2011. High street vacancy rates are rising, the superstores are growing their market share, customers have less money to spend and the cost of regulation is increasing. However, we believe that the drive to localism offers hope and opportunity.

This report makes a compelling case that now is the time for a radical look at the way regulation and competition policy affects local shops. For too long, policy-makers have hidden behind a notion that competition between a handful of massive retailers is enough - that it's all the competition that consumers need. Until we expose this assumption and really examine it, local shops will be operating at a disadvantage.

It is inconceivable that an independent retailer starting out today could grow to become a market leader, as Tesco and Sainsbury's have done in the past. It's time we addressed whether the current 'big is beautiful' competition policy is the right one for the communities of the future, and this is the perfect time for a new Government – one which has local communities in its DNA - to challenge the received wisdom.

As well as national competition policy, the Government has other policy levers to consider: rates policy to actively promote the high street, more powers for local communities to decide on competition in their area, support for businesses who want to operate on a mutual basis or to co-operate more meaningfully, planning policies that stop out-of-town development, and supporting local lending.

In commissioning this report from ResPublica, we didn't want them to produce the definitive answers to all of these complex questions, but to put the debate on a different footing. I hope that stakeholders - whether they are players on the national political stage or local people who just care about the future of their local retailers - engage in this debate.

ResPublica and ACS would welcome your views.

Executive Summary

Introduction – The Decline of Ownership

Britain today has an economic model which is indifferent to ownership. At the end of a period of economic boom and attendant high levels of individual and geographical redistribution, only 12 per cent of British households hold any business assets.[1] This 12 per cent includes the extent of our private and social entrepreneurs, from publicans and craftsmen to B & B proprietors and – as this report will explore in greater detail – our grocers and food retailers.

This report focuses on and interrogates trends in ownership in the grocery retail market specifically. Has this crucial market become more concentrated? Will small retailers still be viable in the future? Has competition policy failed small owners? Can markets be reconfigured to marry ownership with growth? Or will this require new approaches to ownership? What policy interventions, at a national or at a local level, can promote market entry and sustain diversity? What civic action is needed to support this?

Part 1 – The Rise of Supermarkets

Some of the most important markets for our daily lives have concentrated so quickly that, on the high street, we can see and feel it happening. Groceries are arguably the most important retail market to communities in the UK, accessed and needed by all and home to a large proportion of the UK's small business owners, with approximately 50000 convenience stores, 40000 other specialised retail grocery outlets, 6000 grocery suppliers and 400 grocery wholesalers reaching into communities around the country. For every pound spent in British shops, more than 50p is spent on food and grocery sales.[2]

Despite the continued growth in the grocery market, the number of shops selling – particularly small and independent shops – has been in marked and sustained decline. In 2008, the Competition Commission completed a major inquiry into the grocery market, which found that: "The number of larger stores [2,320+ square meters] located out-of-town increased from just under 300 in 1980 to more than 700 by 1990 and to almost 1,500 in 2007."[3] While over the same period:

> *"The number of specialist grocery stores has declined significantly ... The number of butchers and greengrocers declined from 40,000–45,000 each in the 1950s to fewer than 10,000 each by 2000. The number of bakeries declined from around 25,000 in 1950 to around 8,000 by 2000 and the number of fishmongers declined from around 10,000 to around 2,000 over the same period."* [4]

1. ONS (2010) "Wealth in Great Britain: Main Results from the Wealth and Assets Survey 2006/08."
2. Institute for Grocery Distribution. Available at: http://www.igd.com/index.asp?id=1&fid=1&sid=7
3. The Competition Commission (2008) "The supply of groceries in the UK market investigation," page 33. Available at: http://www.competition-commission.org.uk/rep_pub/reports/2008/fulltext/538.pdf
4. The Competition Commission (2008) "The supply of groceries in the UK market investigation," page 34.

The UK's 8151 supermarket outlets today account for over 97 per cent of total grocery sales, and more than 76 per cent of groceries are sold by just the four biggest retailers.[5] The Competition Commission stopped short of condemning this market settlement, defending this model of retail market concentration as sufficiently competitive and offering unique social benefits as supermarkets leverage their market share to provide good value for consumers through economies of scale and negotiating power with large suppliers. As a result, the cost of groceries declined 8 per cent in real terms between 2000 and 2007.[6]

Part 2 - Why are Small and Medium Sized Retailers Disappearing?

In order to discern what small and medium –sized retailers saw as the main obstacles facing their businesses going forward, we conducted a snapshot survey of 183 small and medium -sized grocery retailers across the United Kingdom. The most commonly identified obstacle was competition from a national chain, selected by nearly 4 out of 5 retailers surveyed (78.0 per cent). This was followed closely by the economy in general (73.8 per cent), taxation (66.5 per cent) and regulation (63.4 per cent). Nearly half of all retailers surveyed (47.0 per cent) selected competition from national retailers as the primary obstacle facing their business.

While it is clear that the mass supermarket model has competitive advantages owing to the scale of the multiple retailers and the economies that this scale allows, our survey revealed that more than 85 per cent felt that this advantage was unfair. The two most common reasons given were supermarkets' pricing behaviour (86.6 per cent) and buying power (84.1 per cent). An unfair bias in the planning system was also a major concern (68.2 per cent).

Part 3 - Competition without Competitors

As the competition authorities in the UK enter into a period of fundamental reform, we need to pause to consider:

Is the concentration of a market the sign of a properly functioning approach to competition, where the most efficient business models naturally eliminate their competitors, or does the inability of small and medium –sized businesses to compete represent the opposite: an uncompetitive market?

The finding of the Competition Commission in 2008 – that the grocery market represents a "good deal for consumers" – has exposed the limitations of our national competition framework. We participate in our economy not just as consumers but as employees, community-members, investors and crucially as owners. As such, competition law must go beyond price-based consideration of consumer interest. It must create and sustain markets and a model of growth that can sustain small owners alongside the big. If instead we continue to be indifferent to ownership, we will continue to be a society without assets, practicing capitalism without capitalists.

5. Kantar WorldPanel grocery market figures, published 21 March 2011. The Competition Commission's findings were based on an estimated 85 per cent market share for large retailers, with 65 per cent market share attributed to the four biggest retailers.
6. The Competition Commission (2008) "The supply of groceries in the UK market investigation," page 41.

The reality is that, without significant change in retail market trends, past and even current levels of popular retail ownership are unsustainable. Non-affiliated independent retailers in the grocery and convenience market have been in long-term decline, following in the path of specialist grocers such as butchers and bakers towards becoming marginal, niche players in the food economy.

Part 4 – Recommendations

Our recommendations reflect both the Government's wider commitment to local and civic empowerment and the specific commitment to review the National Planning Policy Framework in order to make it "localist in its approach, handing power back to local communities to decide what is right for them." Our recommendations aim to make explicit that a successful localist agenda would be one which not only gave communities and individuals the power to shape their physical environment, but also, crucially, their local economy.

> "We will seek to ensure a level playing field between small and large retailers by enabling councils to take competition issues into account when drawing up their local plans to shape the direction and type of new retail development."
>
> \- The Coalition programme for government

Local and Civic Recommendations

Recommendation 1 – Allow Communities to Designate Retail Mix in Neighbourhood Plans
As part of the provisions set out for communities in the Localism Bill, communities will be given a new right to draw up a "neighbourhood development plan." This will allow communities to specify where they would and would not like development, and what sort of development they would like. As part of this process, community forums should have the power to designate the desired retail mix for their neighbourhood, specifying what type of retail development they would value. These plans could pertain not only to the location and look of new retail developments, but to the use of existing premises.

Recommendation 2 – A Community Right to Appeal
Using the forum and referendum mechanisms laid out above, communities (as defined by the Localism Bill) should also be granted the right to initiate a planning appeal, where an approved development contradicts the parameters of an existing neighbourhood plan. This right should include the entitlement to legal support.

Recommendation 3 – Treat Shops as Local Assets
The Localism Bill will also introduce a requirement for local authorities to maintain a list of assets of community value. Crucially this community right should extend to local shops (as well as other players in the local economy) which local forums, constituted in the way described in the

Localism Bill, decide are critical to community life. Subject to a fixed one-year period and open to annual renewal, shops designated in this manner should qualify for exceptional support from local authorities, including:

Recommendation 4 – Business Rate Reduction for Designated Retailers
As the Government considers mechanisms for a new system for Business Rates and Government Grant, it should consider allowing significantly more flexibility in the local distribution of business rates. By designating a business as a significant community asset through the mechanisms established in the Localism Bill, the community would enable their Local Authority to issue a standard level of business rate relief to the business.

The debates in Scotland and Northern Ireland around levies on large or out-of-town retailers could offer a model for micro-redistribution at a local level, and empowered Local Authorities should have the flexibility in rate setting to reflect locally set priorities for the high street.

Recommendation 5 – A Community Right to Buy
As recommended above, communities themselves should be given the tools – through the Neighbourhood Plans introduced in the Localism Bill – to decide what features of their neighbourhoods are essential community assets, and where a business deemed a community asset is seeking a major reclassification of use order, community groups should have a prioritised Right to Buy – including time to develop a bid and raise the money to buy the asset when it comes on the open market.

It is important that the Community Right to Buy be designed and applied in such a way that it increases the local services available to a community, and does not act as a barrier to business ownership for entrepreneurs in the community.

Recommendation 6 – A Community Right to Try
Finally, as with other assets designated to have community value, if a property in question is owned by the Local Authority or is in a state of disuse (the town centre vacancy rate at the end of 2010 was at 14.5 per cent)[7], community groups should be extended a preliminary and priority Right to Try – allowing the creation of a test cooperative venture, if a viable business plan can be produced. Thus, in communities where a particularly valued shop or market was designated for closure, the community themselves would have the first opportunity to take it over, opening the possibility for enterprising community groups to sustain local retail through community-run initiatives (see Recommendation 11).

Recommendation 7: Embed Small and Medium Owners in Local Enterprise Partnerships
Our surveying of small and medium –sized retailers found that nearly 7 out of 10 had not heard of Local Enterprise Partnerships, which are set to replace Regional Development Agencies by March 2012 and are to be made up of local business people and council representatives. All Local Enterprise Partnerships should reflect the local economy with a range of small and medium – sized businesses represented as full members.

7. Local Data Company (2011) "Terminal Illness or Gradual Decline: A review of GB shop vacancy in 2010."

National Recommendations

Recommendation 8 – A Community Interest Clause in Competition Law
Our first recommendation called for the right for local communities to designate neighbourhood retail mix. This would in effect entitle communities to set their own standards for local competitiveness, ensuring that communities could approve or prevent future planning permission based on their vision for the local high street.

This must be supported by a change in the national competition framework to recognise a more robust notion of consumer interest. It is recommended that competition regulation be amended such that the interests of a local community (where set out using the forum and referendum mechanisms established in the Localism Bill) should take precendence over more narrow considerations of consumer interest. Rather than approaching competition as a remote and technocratic debate, the best place for public interest to be established and specified with regard to the high street is at a local level, by communities.

Recommendation 9: An Annual National Report on "Buying Power" and "Price Flexing"
One of the key ways to enable local people to open up the debate around competition is to make information available about the nature and extent of market distortions caused by "price-flexing" and "buying power." In the same way that opening the public sector to unprecedented transparency allows citizens to understand and challenge the use of public money, introducing publically available data on wholesale buying price differentials and variations in selling prices will allow a full public debate on the future of the grocery market, and inform community decisions on neighbourhood plans.

The Grocery Code Adjudicator should have a statutory responsibility for publishing an accessible, anonymised report annually and should have corresponding statutory powers to collect, access and distribute the relevant data.

Recommendations for a Joined-Up Retail Economy

Adopting new and more mutual models of retail cooperation and ownership will be crucial to stemming this decline.

Recommendation 10 – Encourage Mutual Retail Models
One of the challenges for the grocery retail market, with or without reform to the competition framework, will be for small retailers to find innovative ways of harnessing the advantages of scale while preserving retail diversity and small-scale independent ownership. One way that independent retailers have sought to survive is by increasingly joining together in order to leverage their combined scale for marketing, branding and buying power. This typically takes the form of membership in a (often mutually owned) "symbol group" such as SPAR, Londis or Costcutter, which have rapidly increased their market share to nearly one third of the convenience market. National and subnational growth strategies must not be indifferent to ownership – neither in terms of scale or diversity - and should offer specific incentives for financial organisations that lend to and support mutually owned businesses.

Recommendation 11 – Encourage Community-Run Retailers
Finally, if communities value a plural retail economy they should not only spend money at local businesses, they should become more directly active in sustaining retail diversity. Community-run, consumer cooperative retail models can overcome some of the disadvantages small retailers face in the market by increasing local loyalty and leveraging in other forms of in-kind support. Community groups who are interested in establishing their own co-owned retailer or marketplace should be able to designate viable community assets for purchase or meanwhile leasing as a means to enable trading. And as the Department for Business, Innovation and Skills looks to establish new mentoring services for small and medium –sized businesses, it should introduce specific mentoring for community-run and mutual retailers.

Introduction: The decline of ownership

The past three decades have largely been a period of great renewal and advancement, one which has given rise to a popular and cross-political expectation of steady growth and managed inflation. In exchange for this, the trade-off that we have accepted has been the withdrawal of popular participation as owners in the economy and of general access to local markets. Thus, while the easing of credit conditions has meant that home ownership has steadily increased across society over these decades, ownership of virtually all other types, from liquid savings to business ownership and investments, has declined in nearly inverse proportion. Britain every year is less and less a nation of shopkeepers – assets and ownership are concentrating, finance has become the preserve of the City of London and high streets have converged as though by centralised design.

Concentrated markets, those dominated by a few big players, can be highly efficient at delivering low prices and good value to consumers, as big players benefit from economies of scale and use their market power to reduce the costs of their inputs. Big players can buy more, cheaper and undersell their rivals – the essence of competition.

However, concentrated markets by definition have fewer small and independent players. While there is little by way of longitudinal data on business ownership, today only 12 per cent of British households have any business assets.[8] This 12 per cent includes the extent of our private and social entrepreneurs, from publicans and craftsmen to B & B proprietors and – as this report will explore in greater detail – our grocers and food retailers.

Even amongst business owners, the distribution of business asset value is stark. The median value of household business assets held by business owners is estimated at only £25,000 - compared with a mean of £256,000 (see Fig 1).[9] However, the bigger issue here is the asset gap between the twelve per cent of business-owning households and the remaining 88 per cent of society.

Fig 1

Great Britain				£
	Mean	1st quartile	Median	3rd quartile
Business value	256,000	5,000	25,000	140,000

1 Results are for business owners only.

Source: Office for National Statistics

8. ONS (2010) "Wealth in Great Britain: Main Results from the Wealth and Assets Survey 2006/08."
9. ONS (2010) "Wealth in Great Britain: Main Results from the Wealth and Assets Survey 2006/08."

On the high street, we can see this market concentration happening. We can see that small and medium-sized retailers are disappearing from our high streets, and the first section of this report will examine the extent of this transition. The sections that follow will examine why it is happening and what can be done to create an environment where regular people can enter the market and create their own business assets.

> "High street UK has changed dramatically over the past twenty years compared with France or Germany, where there are laws that prevent entry to local markets without the consent of existing retailers"
>
> \- Advisor to the Mayor of London in evidence

We can also see the downsides of an economic settlement which allows and privileges market concentration - they include the centralisation of capital, assets, risk, decision-taking and finance; the loss of local distinctiveness, traditional varieties, craft production, and a sense of belonging to the community; the draining of money from the communities where it is spent; and the insistent uniformity on our own high streets.

> "The Government's Big Society agenda depends on more diverse and wider asset ownership, alongside greater competition."
>
> \- Phillip Blond

Three decades ago, the average person would have bought local produce from a locally-owned shop; would have borrowed money from a local lender and would have been more likely to work locally and invest in a local business, if not their own. Economic activity is deeply connected to our social and built environment, and has historically played a role in reinforcing place and building social connectedness.

> *"The trust of a city street is formed over time from many, many little public sidewalk contacts. It grows out of people stopping by at the bar for a beer, getting advice from the grocer and giving advice to the newsstand man, comparing opinions with other customers at the bakery and nodding hello to the two boys drinking pop on the stoop, hearing about a job from the hardware man and borrowing a dollar from the druggist.*
>
> *"Most of it is ostensibly utterly trivial, but the sum is not trivial at all. The sum of such casual, public contact at the local level – most of it fortuitous, most of it associated with errands – is a feeling for the public identity of people, a web of public respect and trust, and a resource in time of personal or neighbourhood need…"*

This anecdotal observation made by Jane Jacobs in her seminal 1961 work *The Death and Life of Great American Cities* has since been substantiated by a significant body of research into the sources of our (declining) stock of social capital, which amongst other things has found that:

> *"The results are clear and consistent: the more places respondents report being able to walk to in their neighbourhood, the higher their level of social capital. This relation suggests that walkable, mixed-use neighbourhoods are better generators of social capital..."* [10]

The separation of economic activity from place has had a profound and largely ignored impact on our sense of identity and local solidarity, and consequently on our social capital. While the substitution of managers for owners and proprietors hasn't deadened trivial public contact, the economic shape of our communities is linked to our declining social capital and our felt loss of the "web of public respect and trust." Social capital and local economies have historically been mutually sustaining – as our sense of social and public obligation has waned, we have stopped sustaining our friends and neighbours in the local economy and *vice versa*.

But it has been an economic crisis – not a social one – that has raised the most serious concern about our current economic settlement, underlining as it did the inherent vulnerability of a remote and centralised economy. In grocery retail, this manifested as a sudden reversal of sustained price deflation and the return of "food security" as a concept of public debate. For the first time in a generation, concerns were raised about the supply and distribution of food. The sustainability and social justification of our economic model have been called into question by the high level of economic concentration which it has engendered and sought to leverage.

When we talk about "rebalancing the economy," what we are really talking about is shifting back the locus of ownership and economic control to communities. *The goal and evidence of a genuinely new economic settlement, of any political stripe, must be the end of this declining trend in popular ownership. The challenge of the next settlement – in the retail industry as in the economy at large – will be embedding the small and the local owner into our economy, without compromising competitiveness or consumer benefits.*

This report will focus on and interrogate trends in ownership in the grocery retail market. Has this crucial market become more concentrated? Will small retailers still be viable in the future? Has competition policy failed small owners? Can markets be reconfigured to marry ownership with growth? Or will this require new approaches to ownership? What policy interventions, at a national or at a local level, can promote market entry and sustain diversity? What civic action is needed to support this?

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10. Kevin M. Leyden, Social Capital and the Built Environment: The Importance of Walkable Neighborhoods. American Journal of Public Health. 2003 September; 93(9): 1546–1551.

Part One: The Rise of Supermarkets

In few markets has the concentration of the British economy been as visible as it is in the retail – and particularly the grocery retail – industry.

Groceries are arguably the most important retail market to communities in the UK, accessed and needed by all and home to a large proportion of the UK's total ownership, with approximately 50000 convenience stores, 40000 other specialised retail grocery outlets, 6000 grocery suppliers and 400 grocery wholesalers reaching into communities around the country. For every pound spent in British shops, more than 50p is spent on food and grocery sales. In 2010, this amounted to over £150bn spent on groceries, which is approximately £2425 per person, up 3.1 per cent from 2009.[11]

Despite the continued growth in the value of grocery sales, the number of shops selling – particularly small and independent shops – has been in marked and sustained decline. At the end of the 2009-10 financial year, there were 48,410 convenience stores in the UK – convenience stores being those food and grocery stores which have less than 3,000 square feet of floor space and open for long hours every day of the week. This was a year-on-year decrease of 1.6 per cent over the previous 12 month period.[12] The decline of small grocery retailers has largely been localised to non-affiliated independent shops, which have been in long-term collapse, the total number of stores in this segment falling by 5.0 per cent last year alone, from 21,950 to 20,860 in the 2009-10 financial year.

It is not just that existing independent retailers are closing, new independents aren't entering the market. Between 2001 and 2006, two large format stores opened every week. Of these, only one was independent and three were Co-ops. The rest were opened by large multiple retailers.[13]

One way that independent retailers have sought to survive is by increasingly joining together in "symbol" groups, such as SPAR, Londis or Costcutter, which share branding, marketing and buying power. "Symbols" have seen rapid development (a 7.8 per cent increase in the number of shops in 2010) as independents find it too difficult to "go it alone," and now represent 31.2 per cent of the convenience store market (see Fig 2).

11. Institute for Grocery Distribution (2010) "UK Grocery Retailing" Available at: http://www.igd.com/index.asp?id=1&fid=1&sid=7
12. Institute for Grocery Distribution (2010) "UK Grocery Retailing" Available at: http://www.igd.com/index.asp?id=1&fid=1&sid=7
13. The Competition Commission (2006) "Working paper on barriers to entry," page 16.

Fig 2

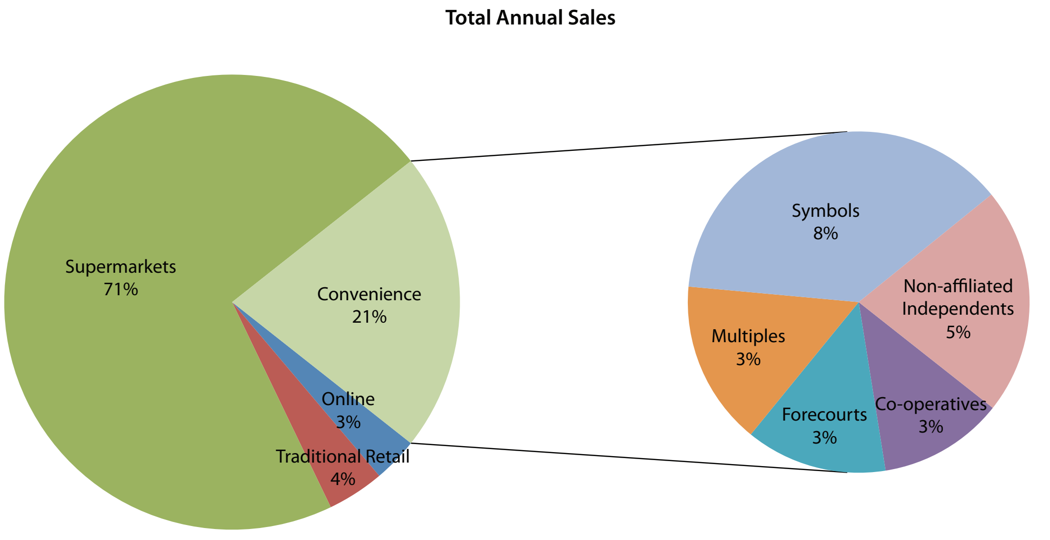
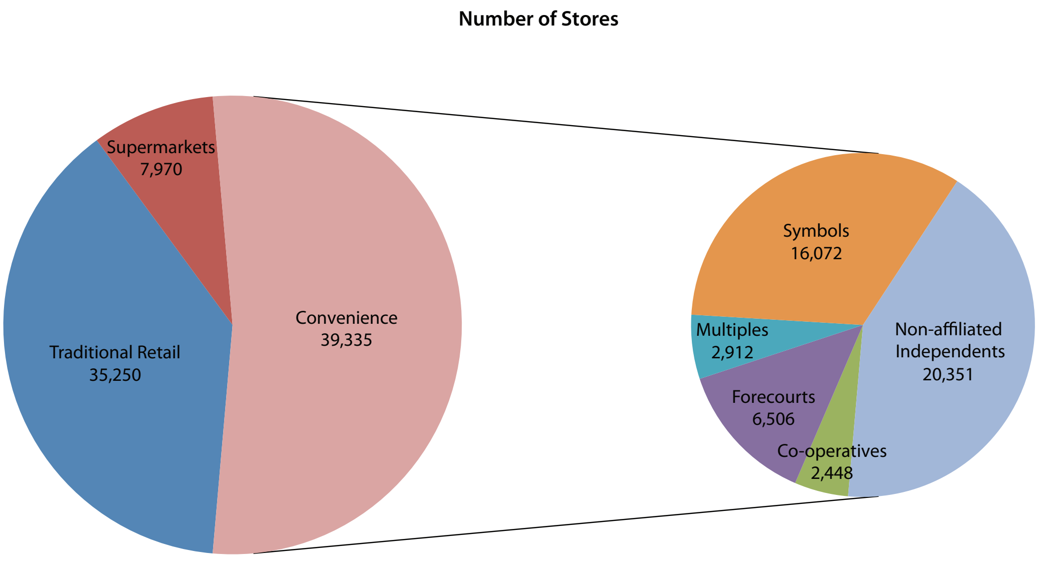

Total Annual Sales
Supermarkets
71%
Convenience
21%
Online
3%
Traditional Retail
4%
Symbols
8%
Non-affiliated
Independents
5%
Multiples
3%
Forecourts
3%
Co-operatives
3%

Fig 3


Number of Stores
Supermarkets
7,970
Convenience
39,335
Traditional Retail
35,250
Symbols
16,072
Multiples
2,912
Non-affiliated
Independents
20,351
Forecourts
6,506
Co-operatives
2,448

These relative market shares are the tail end of a significant and sustained shift in the market from small, typically independently owned shops to the so-called "multiple" retailers. In 2008, the Competition Commission completed an inquiry into the grocery market, which found that:

> *"The number of larger stores [2,320+ square meters] located out-of-town increased from just under 300 in 1980 to more than 700 by 1990 and to almost 1,500 in 2007... This reflects a long-term trend. The share of groceries being sold by large or regional grocery retailers increased from an estimated 20 per cent in 1950, to 44 per cent by 1971 and to 85 per cent by 2007."* [14]

While over the same period:

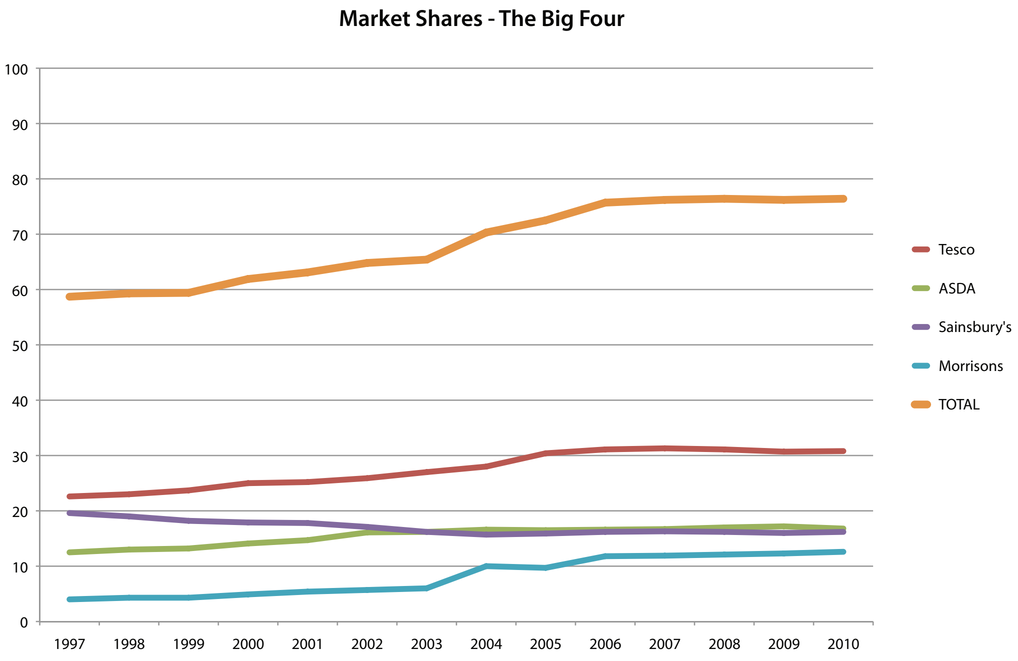
> *"The number of specialist grocery stores has declined significantly ... The number of butchers and greengrocers declined from 40,000–45,000 each in the 1950s to fewer than 10,000 each by 2000. The number of bakeries declined from around 25,000 in 1950 to around 8,000 by 2000 and the number of fishmongers declined from around 10,000 to around 2,000 over the same period."* [15]

This change has had an enormous impact on the nature of the high street. As a result, the majority of the grocery supply chain now culminates in just four retailers: Tesco (which accounts for 30.3 per cent of the food market), Asda (17.0 per cent), Sainsbury's (16.3 per cent) and Morrisons (12.2 per cent). The UK's 8151 supermarket outlets today account for 97 per cent of total grocery sales, and over 76 per cent of groceries are sold by just the four biggest retailers.

> "We need to focus on the local as well as national market. It is often at the local level where monopolistic practises are visible."
>
> \- Advisor to the Mayor of London in evidence

14. The Competition Commission (2008) "The supply of groceries in the UK market investigation," page 33. Available at: http://www.competition-commission.org.uk/rep_pub/reports/2008/fulltext/538.pdf
15. The Competition Commission (2008) "The supply of groceries in the UK market investigation," page 34.

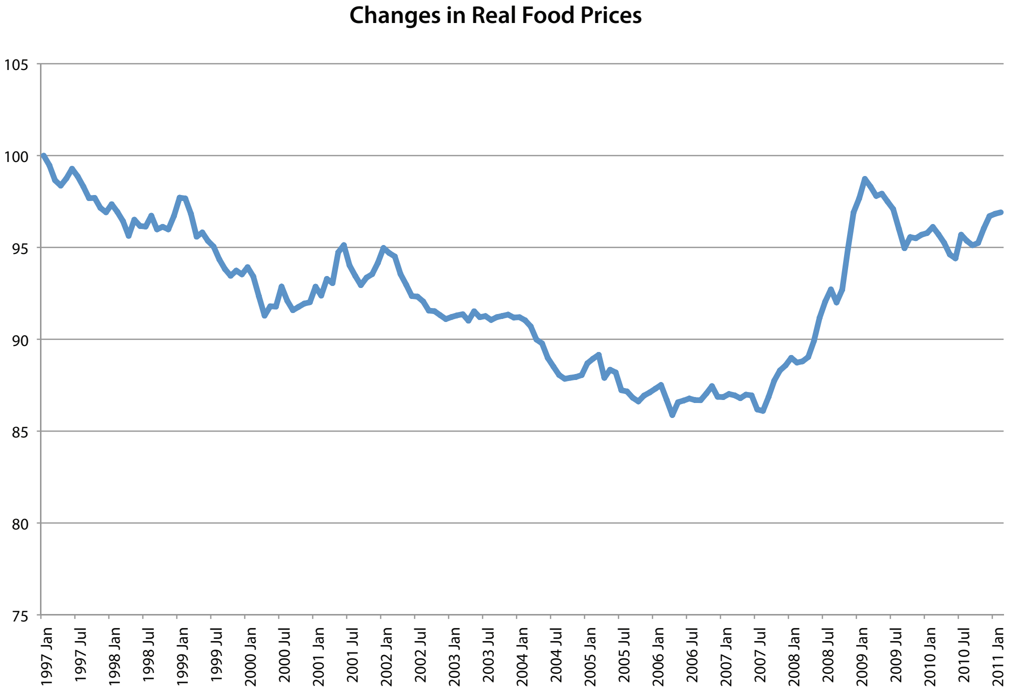
Fig 4



The Competition Commission stopped short of condemning this market settlement, defending this model of retail market concentration as sufficiently competitive and offering unique social benefits, as supermarkets leverage their market share to provide good value for consumers through economies of scale and negotiating power with large suppliers. As a result, the cost of groceries declined 8 per cent in real terms between 2000 and 2007.[16] This meant that in 2008 only 12.4 per cent of household spending was on food, drink and tobacco, compared with 14.3 per cent in 1998 and 17.3 per cent in 1988.[17] Driving down the cost of groceries is socially progressive from the perspective of consumers, particularly beneficial to those on the lowest incomes who typically spend a larger proportion of their income on food.

16. The Competition Commission (2008) "The supply of groceries in the UK market investigation," page 41.
17. Institute for Grocery Distribution (2008) "UK Grocery Retailing" Available at: http://www.igd.com/index.asp?id=1&fid=1&sid=7&tid=0&folid=0&cid=94

Fig 5



It must be noted that national trends towards lowering food prices have suddenly and dramatically reversed over the subsequent years, in large part due to global trends although at nearly three times the European average in 2010 (a 4.9 per cent annual rise to February 2011, compared with 1.8 per cent across Europe).[18] It can of course be argued that, as in the banking sector, market concentration and a business monoculture may provide efficiencies, but at the cost of increased exposure to global and systemic risks.

However, as Part 3 will discuss, our view of market concentration should be shaped by more than a price-based consideration of consumer interest. We participate in our economy not just as consumers but as employees, community-members, investors and crucially as owners. What we need are markets that can sustain small owners alongside the big. If, as a society, we continue to be indifferent to ownership, we will continue to be a society without assets, practicing capitalism without capitalists.

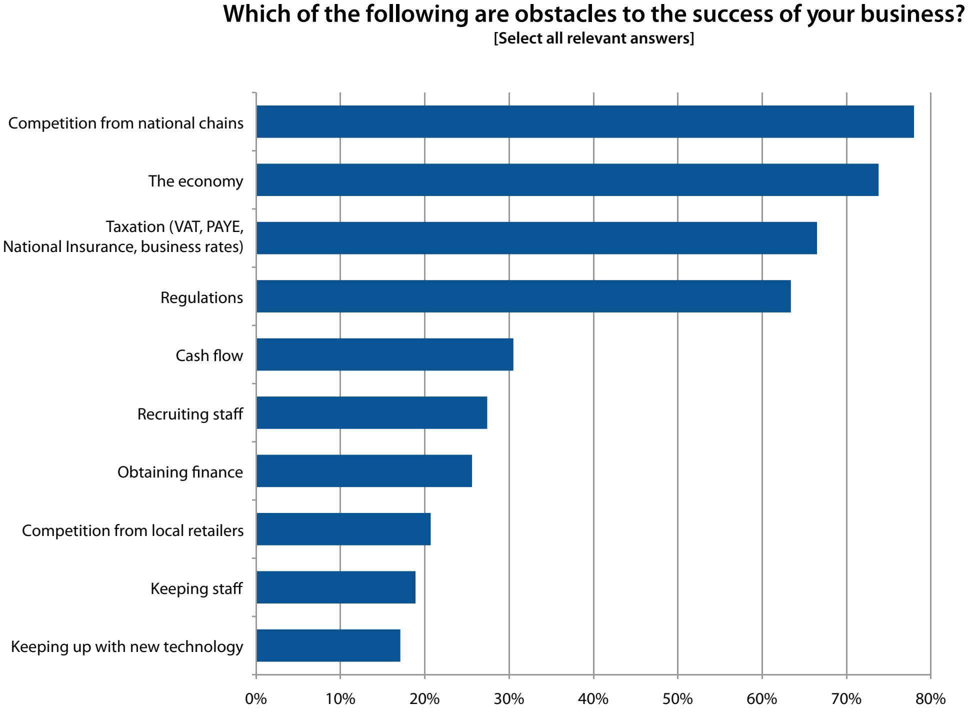
18. The Press Association (1 March 2011) "Warning over supermarket price rise."

Part Two: Why are Small and Medium Sized Retailers Disappearing?

What can explain the slow but steady erosion of locally-owned and independent retailers from the high street? In January 2011, we conducted a snapshot survey of 183 small and medium -sized grocery retailers across the United Kingdom, in order to determine what they saw as the most serious obstacles facing their businesses going forward. At the heart of our analysis and recommendations is the evidence that we have received from these small retailers through our survey, structured interviews and a roundtable which brought together small retailers with competition experts and policy advisers to identify possible solutions.

We began this process by asking shopkeepers which of the following obstacles their businesses face.

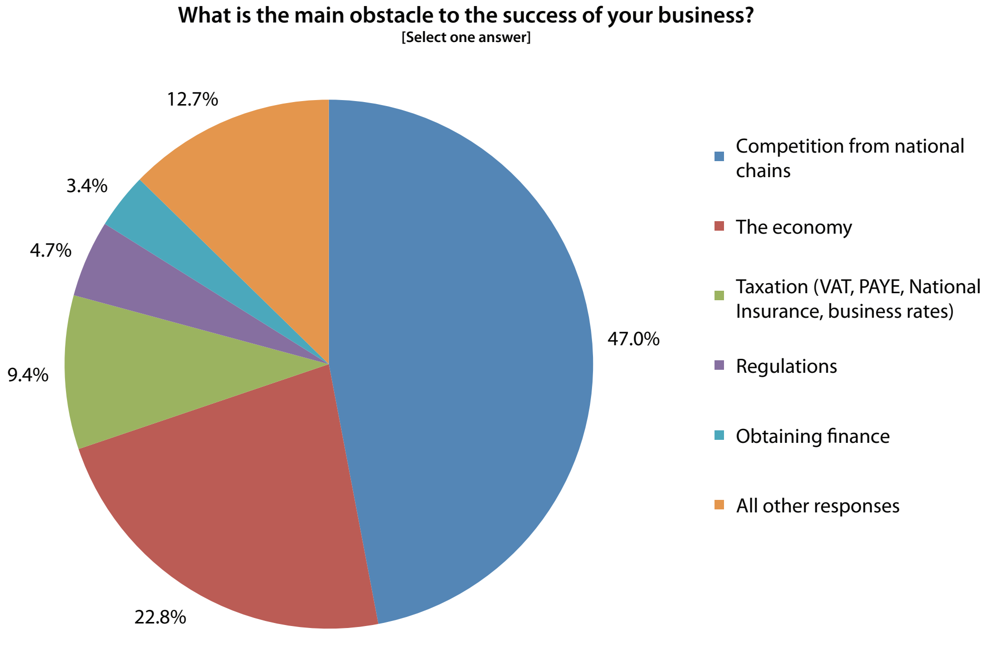
Fig 6



The most commonly identified obstacle was competition from a national chain, selected by nearly 4 out of 5 retailers surveyed (78.0 per cent). This was followed closely by the economy in general (73.8 per cent), taxation (66.5 per cent) and regulation (63.4 per cent). The other obstacles identified were less widespread, with fewer than 30 per cent of small grocery retailers surveyed selecting cash flow, staff recruitment or retention, finance, local competition or obtaining new technology as an obstacle.

When asked to select the main obstacle to their business, the challenge presented by national retailers became even more apparent. Nearly half of all retailers surveyed (47.0 per cent) selected competition from national chains as the primary obstacle facing their business.

Fig 7



Other factors were much less pronounced in the survey responses - although more than a fifth (22.8 per cent) identified the state of the economy as their chief concern, reflecting the impact of the economic downturn and flagging consumer confidence. One in ten (9.4 per cent) were primarily concerned with taxation.

Issues posed by the competition environment are clearly a significant source of concern for small grocery retailers. Overwhelmingly, by a margin of nearly 7 to 1 (see Fig 8), small and medium – sized retailers felt that their biggest competitor was a national chain. Market analysts expect this competition and market concentration to intensify now that Asda, Waitrose and Morrisons are all planning to enter the convenience market, especially given Asda's acquisition of 147 stores from Netto's UK chain.

The intensity of this competition is significant. As Fig 9 details, nearly two-thirds (65.4 per cent) of small retailers surveyed identified three or more national competitors in their local area, rising to 85.0 per cent of retailers having 2 or more national competitors.

Fig 8

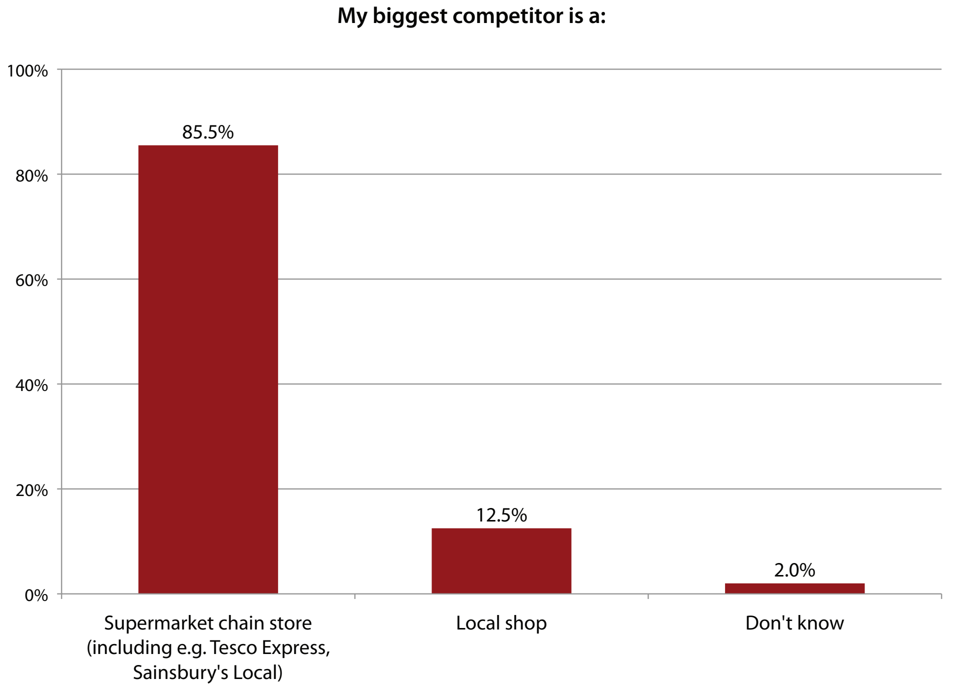

My biggest competitor is a:
100%
80%
60%
40%
20%
0%
85.5%
12.5%
2.0%
Supermarket chain store (including e.g. Tesco Express, Sainsbury's Local)
Local shop
Don't know

Fig 9

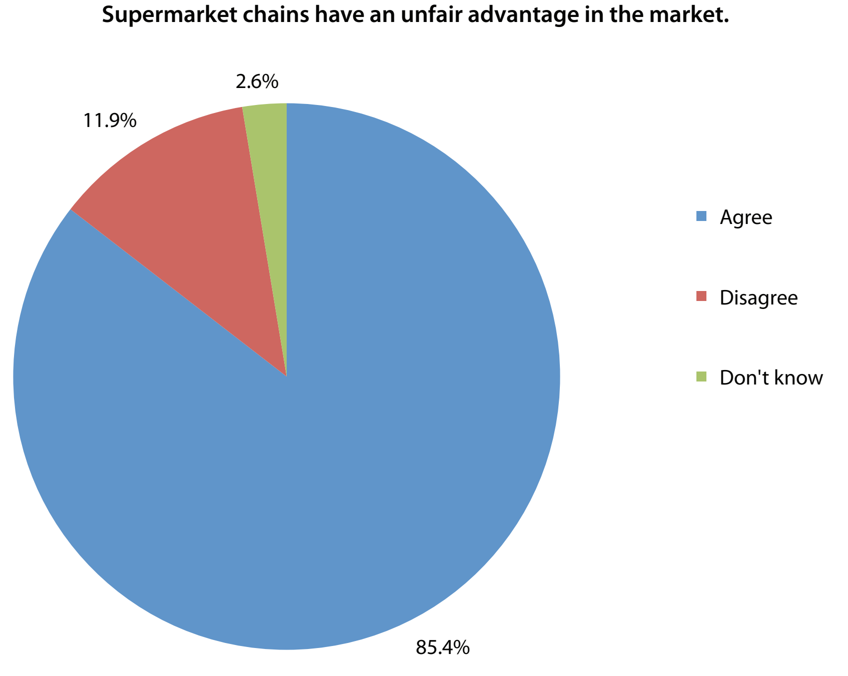

How many supermarket chain stores are there in your local area, excluding your own?
30%
25%
20%
15%
10%
5%
0%
3.9%
11.1%
19.6%
25.5%
19.6%
20.3%
0
1
2
3
4
5 or more

An Unfair Advantage?

While it is clear that the mass supermarket model offers competitive advantages owing to the scale of the multiple retailers and the economies that this scale allows, there is considerable concern that the market share of multiple retailers also creates serious, perhaps insurmountable, unfair and anticompetitive advantages for big players.

While small and medium –sized grocery retailers feel that their national rivals have a significant competitive advantage,[19] our survey revealed that more than 85 per cent felt that this advantage was unfair (see Fig 10).

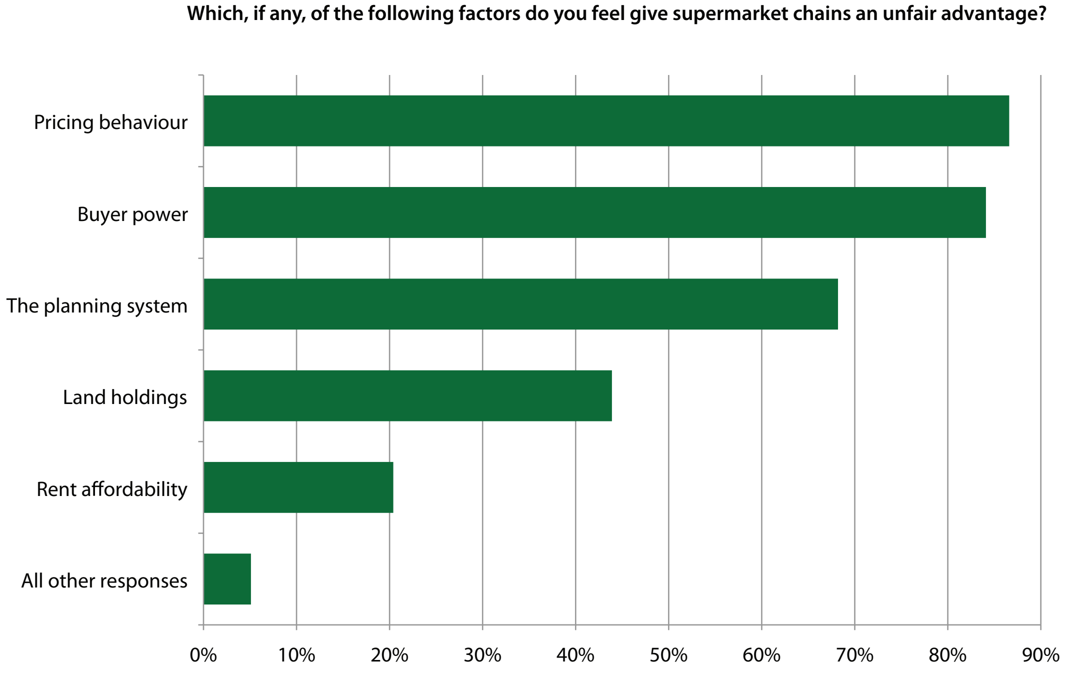
Fig 10



In order to ascertain what they felt was unfair about the advantage held by national supermarkets, we asked the surveyed retailers to select relevant factors (Fig 11). The two most common answers given were pricing behaviour (86.6 per cent) and buying power (84.1 per cent). An unfair bias in the planning system was also a major concern (68.2 per cent), whereas supermarket land holdings (43.9 per cent) and rent affordability (20.4 per cent) were not viewed by the majority of those surveyed as unfair advantages.

19. 98.7 per cent of the shopkeepers surveyed agreed that supermarkets have a significant advantage in the market, figure not included.

Fig 11



Pricing Behaviour

There are a number of pricing behaviours which, when practised by companies with a significant share in a given local or national market, actively reduce the competitiveness of that market.

When the Competition Commission made its first report into the grocery market in 2000, one of the key findings was that major retailers routinely practised below cost selling, which "when conducted by Asda, Morrison, Safeway, Sainsbury and Tesco, i.e. those parties with market power, operates against the public interest."[20] Lowering prices below cost and absorbing the loss (or passing it on to suppliers) creates a situation in which competing retailers, and even the wholesalers that supply them, can only compete at a loss.

In 2007, the Competition Commission "identified ten grocery retailers that engage in below-cost selling." While they noted that this practise was "small in the context of their total revenues," the Competition Commission did state that this practice "may also unintentionally contribute to the exit of smaller grocery retailers and specialist stores."[21] Several European countries have instituted outright bans against below cost selling, including the *Loi Galland* (1996) in France banning selling below the cost of production and equivalent German legislation prohibiting selling below wholesale price.

20. Competition Commission (2000) "Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom."
21. Competition Commission (2007) "Groceries Market Investigation: Emerging Thinking."

A second, related issue is "price flexing." Price flexing is the practise of a large retailer pursuing global pricing strategies, varying pricing in particular markets in order to exploit its local market share for additional profit or its national market share to weaken local competitors. The Competition Commission's 2000 report also found that price flexing practices were practised "by Budgens, the Co-ops, Netto, Safeway, Sainsbury, Somerfield and Tesco."[22] Although the Competition Commission observed that this behaviour was still common when it reported again in 2008, they ultimately concluded that it did not constitute "behaviour that was predatory."[23]

A business is deemed to be pricing unfairly if it is selling its products at a loss with the intention of driving its competitors out of the market.

Buying Power

Issues of pricing are complicated and compounded by the enormous and expanding disparity in buying power between large retailers and their independent competitors. The fact that multiple retailers are today responsible for 97 per cent of total grocery sales, including 76 per cent accruing to just the big four retailers, has "given rise to a second complex monopoly situation."[24] The UK food market exhibits many of the features of an oligopsony purchasing market, in which a small number of buyers have sufficient market power to distort prices and are effectively able to dictate terms to their suppliers.

This has been a prominent issue in the grocery competition debate, prompted by the "many allegations from suppliers" over the main supermarkets' behaviour. According to the Competition Commission:

> *"The existence of buyer power among some of the main parties has meant that the burden of cost increases in the supply chain has fallen disproportionately heavily on small suppliers such as farmers."* [25]

The Competition Commission's most prominent interventions into the grocery market have centred on the issue of buying power and the treatment of suppliers, including multiple iterations of a code of practise for retailers towards their suppliers and, most recently, the introduction of an ombudsman to proactively enforce this code.

The impact of a purchasing oligopsony in the food sector is not only felt by farmers and other suppliers, but by other grocery retailers and ultimately by consumers. Despite the Competition Commission's interventions into the market, in 2006 the Office of Fair Trading noted that:

> *"There is evidence to suggest that the buyer power of the big supermarkets has increased since 2000, and that the differential between suppliers' prices to large supermarkets compared with those to wholesalers and buying groups has risen … This could harm consumer choice by undermining the viability of alternative business models including wholesale distribution to the convenience store sector."* [26]

22. Competition Commission (2000) "Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom."
23. Competition Commission (2008) "Groceries market investigation."
24. Bill 18 of 2009-10, Research Paper 10/21, House of Commons Library, Grocery Market Ombudsman Bill, 2010.
25. Competition Commission (2000) "Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom."
26. Office for Fair Trading (2006) "The Grocery Market: The OFT's reasons for making a reference to the Competition Commission."

In 2000, the Competition Commission concluded that a buying share of at least 8 per cent of total grocery purchases was sufficient to distort both the supplier market and the retail market, as:

> *"Five multiples (the major buyers—Asda, Safeway, Sainsbury, Somerfield and Tesco), each having at least an 8 per cent share of grocery purchases for resale from their stores, have sufficient buyer power that 30 of the practices identified, when carried out by any of these companies, adversely affect the competitiveness of some of their suppliers and distort competition in the supplier market—and in some cases in the retail market—for the supply of groceries."* [27]

There is considerable evidence that these distortions include a prominent 'waterbed effect,' defined as a "situation in which price reductions, which are not cost related, are negotiated with suppliers by large retailers and result in higher prices being charged by suppliers to smaller retailers either directly or through wholesalers."[28] Suppliers passing the costs of doing business with large supermarkets to their independent rivals amounts to a perverse and unsustainable subsidy of supermarket profits and low prices, and exaggerates the disadvantages of scale to which independent shop owners and retailers are already subject.

While purchasing prices are protected by commercial confidentiality, 2006 modelling by the Competition Commission estimated that the big four retailers pay approximately 13 per cent less for grocery supplies than their high street competitors.[29] This is an enormous price differential, one which creates a playing field on which we cannot expect small and independent players to survive or grow.

Planning

> "When it comes to planning permission, local authorities don't feel able to challenge large retailers."
>
> \- John Noble, British Brands Group

The final area where the majority of shopkeepers polled felt that they had an unfair disadvantage in comparison with major supermarkets was in the planning system. In this, they echo a view held by many communities and activist groups that have struggled to exert control of their local high streets.

Concerns include that the resources available to major retailers make it significantly harder for local authorities to challenge submissions by supermarkets for planning permission, compared with smaller retailers. Particularly, local authorities' decisions maybe influenced by a cost-benefit assessment on the basis that supermarkets are able to fund costly appeals against refusals and

27. Competition Commission (2000) "Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom."
28. Europe Economics and Association of Convenience Stores (2006) "The 'Waterbed Effect'. How Non-Cost Related Discounts to Large Retailers can Harm Consumers."
29. Competition Commission (2008) "Working paper on supplier pricing to grocery retailers and wholesalers", p 17.

claim costs if they win, or resubmit modified versions of refused applications. Better resourcing also allows major developers to exploit legal loopholes in land usage, offer local authorities "sweetners" in exchange for planning permission or bypass planning objections by funding major developments.

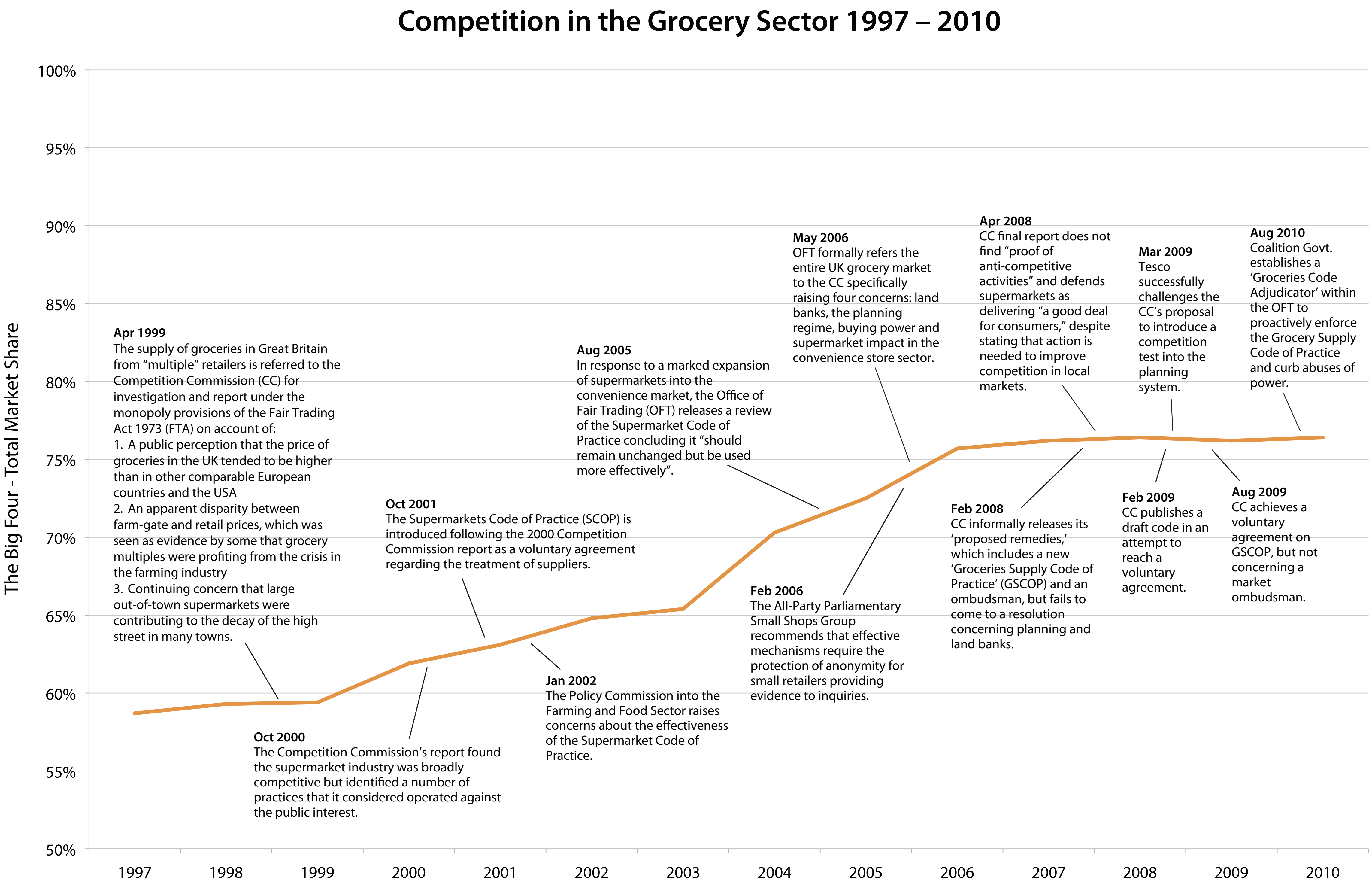
Finally there is concern about the impact of major retailers on civic engagement in the planning process. Supermarkets are often better able than small retailers or even local communities to successfully lobby local authorities.[30]

As a response to this, Government is planning to introduce radical reforms to the way that planning decisions are made. The introduction of neighbourhood plans and community referenda in the Localism Bill present a real opportunity for communities to take ownership of their high street, encouraging and growing the diversity of retail provision in their local areas. However as communities and local authorities take on new powers, the challenge will be to ensure that these powers are not captured by powerful actors.

Alongside the introduction of new powers for local communities are plans to rationalise existing national planning policy. This important reform must not compromise existing safeguards for local high streets such as the Town Centres First policy, and it is welcome that Ministers have pledged their ongoing commitment to the policy remaining in the new National Planning Policy Framework.

30. Friends of the Earth (2007) "Shopping the Bullies Why the planning system for retail needs to be strengthened, not weakened."

Fig 12


Competition in the Grocery Sector 1997 – 2010
The Big Four - Total Market Share
100%
95%
90%
85%
80%
75%
70%
65%
60%
55%
50%
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Apr 1999
The supply of groceries in Great Britain from "multiple" retailers is referred to the Competition Commission (CC) for investigation and report under the monopoly provisions of the Fair Trading Act 1973 (FTA) on account of:
1. A public perception that the price of groceries in the UK tended to be higher than in other comparable European countries and the USA
2. An apparent disparity between farm-gate and retail prices, which was seen as evidence by some that grocery multiples were profiting from the crisis in the farming industry
3. Continuing concern that large out-of-town supermarkets were contributing to the decay of the high street in many towns.
Oct 2000
The Competition Commission's report found the supermarket industry was broadly competitive but identified a number of practices that it considered operated against the public interest.
Oct 2001
The Supermarkets Code of Practice (SCOP) is introduced following the 2000 Competition Commission report as a voluntary agreement regarding the treatment of suppliers.
Jan 2002
The Policy Commission into the Farming and Food Sector raises concerns about the effectiveness of the Supermarket Code of Practice.
Aug 2005
In response to a marked expansion of supermarkets into the convenience market, the Office of Fair Trading (OFT) releases a review of the Supermarket Code of Practice concluding it "should remain unchanged but be used more effectively".
Feb 2006
The All-Party Parliamentary Small Shops Group recommends that effective mechanisms require the protection of anonymity for small retailers providing evidence to inquiries.
May 2006
OFT formally refers the entire UK grocery market to the CC specifically raising four concerns: land banks, the planning regime, buying power and supermarket impact in the convenience store sector.
Feb 2008
CC informally releases its 'proposed remedies,' which includes a new 'Groceries Supply Code of Practice' (GSCOP) and an ombudsman, but fails to come to a resolution concerning planning and land banks.
Apr 2008
CC final report does not find "proof of anti-competitive activities" and defends supermarkets as delivering "a good deal for consumers," despite stating that action is needed to improve competition in local markets.
Feb 2009
CC publishes a draft code in an attempt to reach a voluntary agreement.
Mar 2009
Tesco successfully challenges the CC's proposal to introduce a competition test into the planning system.
Aug 2009
CC achieves a voluntary agreement on GSCOP, but not concerning a market ombudsman.
Aug 2010
Coalition Govt. establishes a 'Groceries Code Adjudicator' within the OFT to proactively enforce the Grocery Supply Code of Practice and curb abuses of power.

Part Three: Competition without Competitors

The Competition Commission's 2008 inquiry was a major opportunity to revisit the current settlement in the grocery industry and to set a standard for competitive markets across the UK. However, as in 2000 and despite the escalating market concentration in the interim, the Competition Commission's conclusions and recommendations offered little to challenge the status quo. This was the major opportunity for reform in a crucial market but three years later the grocery market remains unchanged, leaving us to consider whether the competition framework is serving its purpose.

When the Competition Commission began the inquiry into the grocery sector, it articulated its mission as follows:

> *"Our starting point is that in a competitive market, commercial success should not be penalized unless there is clear evidence of an abuse of market power and harm to consumers. We also do not necessarily attach particular significance, in the context of competition between retailers, to the national share of any one grocery retailer, although we have not come to a final view on the relevant geographic market and we do see national shares as relevant to the assessment of buyer power."* [31]

Is this the correct standard for competition? Should our competition framework be chiefly concerned with abuse of power – or should competition policy exist to prevent the concentration of ownership and of the market power which enables abuse and denies regular people the opportunity to join the economy as shopkeepers and retailers?

As the competition authorities in the UK enter into a period of fundamental reform, we need to pause to consider:

Is the concentration of the retail market the sign of a properly functioning approach to competition, where the most efficient business models naturally eliminate their competitors, or does the inability of small and medium –sized businesses to compete represent the opposite: an uncompetitive market?

This question continues to divide economists. How we choose to answer this question has profound consequences for the kind of economy that we will have.

31. Competition Commission (2007) "Groceries Market Investigation: Emerging Thinking."

The changing idea of competition

At the core of modern economics is Adam Smith's famous position that competition among firms promotes efficiency by encouraging the production of the best products at the cheapest price, as competitors strive to undersell each other. For Smith and the classical economists, competition is about business behaviour – the stimulation of an active effort to undersell being obviously connected with our common sense notion of "compete."

Smith's revolutionary defence of free markets is the idea that a competitive market is ultimately self-regulating, that the process of competition will allocate resources efficiently, aligning supply and demand as if by an "invisible hand." In contrast, a firm in a monopolised market, without threats to its profit-making, would be encouraged to become inefficient and abusive in its management of resources.

The key shift in the way we think about competition

During the nineteenth century, a new school of neoclassical economics advanced and conceptually altered Smith's concept of competition in a basic but important way. Competitiveness was re-defined as the state in which the behavioural process of competition had run to its limits, producing an equilibrium in which demand equates to supply. Perfect competition on this account is an outcome which does not depend on the existence of actual competitors or the act of competing. In fact perfect competition represents a situation in which business rivalry, or competition in the Smith-ian sense, is ruled out by definition.[32] This was summarised by Hayek, when he argued that perfect competition meant "the absence of all competitive activities."[33]

This was a Copernican re-conceptualisation of competition. Competition was no longer defined in terms of rivalry and enterprise, but often reduced to an equation of price and marginal cost in which lower or stable prices and expansion or continuation of output were the only parameters. Price was treated as a parameter rather than a variable from the standpoint of the individual firm, a "drastic change from the concept employed by Smith, for whom competition meant nothing but the necessity for the individual seller or buyer to raise or lower his price or offer in response to market conditions."[34]

The defence of monopoly

By the 1950s, economists from the University of Chicago had begun to argue – in contrast to classical liberals who believed that monopoly undermined competition – that monopolies could be socially beneficial. To begin with, monopolies usually emerge due to efficiency savings. The hugely influential, though contested, 'welfare trade-off' model

32. Paul J. McNulty, *A Note on the History of Perfect Competition* (The Journal of Political Economy, Vol. 75, No. 4, Part 1, Aug. 1967), p 398
33. F.A. Hayek, *The Meaning of Competition*, in F.A. Hayek, *Individualism and Economic Order* (Chicago, University of Chicago Press, 1948), p92
34. Paul J. McNulty, *A Note on the History of Perfect Competition* (The Journal of Political Economy, Vol. 75, No. 4, Part 1, Aug. 1967), p 398

developed by 2009 Nobel-laureate Oliver Williamson gives an account of how efficiency gains realised by market concentration can offset the losses to society by the resulting price distortions.

This was supported by the contention that, where price distortions made monopolies undesirable, the theoretical possibility of competitors was sufficient for market self-regulation. Undesirable monopoly in all its forms was almost always undone by the forces of competition,[35] as the 'establishment of the cartel, by raising prices, makes it more profitable for outsiders to enter the industry.'[36]

The Chicago School would eventually become known for maintaining that barriers to entry were essentially a myth,[37] arguing that the numerous barriers to entry that did exist were produced by governments and regulators in an ill-informed effort to protect consumers. This reflected the view that the competitive process would protect itself better than governmental intervention could, defending private monopoly as preferable to public monopoly or public regulation because the first is considered to be more responsive to – and more capable of elimination by – the market and competitive processes.

In essence, whereas the prevailing framework prior to the Chicago School aimed to protect small business from being pushed out of the market, the Chicago School considered the efficiency gains and the resultant welfare gains to the consumer to be of more value.

The ideas of the Chicago School came to be the main frame of reference for legal rulings in the United States and gradually came to have an influence on antitrust policies in the United Kingdom and elsewhere in Europe. The simplicity of the basic price theory framework facilitated its application to a range of problems in the area of competition and allowed for a consistent approach.

Pro-social markets

In parallel to this, the Smithian tradition was also continued by the 'Ordoliberal' school of thought – which promoted the idea that a competitive economic system was necessary not just for consumer value, but for a prosperous, free and equitable society, and posited that the market must be imbedded in a 'constitutional' framework for the benefit of society's development.[38] On this account, the legitimate focus of competition

35. A key postulate within the Chicago analysis was that the purpose of antitrust was to advance consumer welfare.

36. Milton Friedman, *Capitalism and Freedom* (University of Chicago Press, London, 2002), p 131

37. Rob Van Horn, Corporations: The Roots of Chicago Law and Economics in Edited by: Philip Mirowski and Dieter Plehwe, The Making of the Neoliberal Thought Collective (Harvard University Press forthcoming), p 17

38. The framework was supposedly necessary to protect the process of competition from distortion, to assure that the benefits of the market were equitably distributed throughout society and to minimize governmental intervention in the economy. David J. Gerber, *Law and Competition in Twentieth Century Europe: Protecting Prometheus* (Oxford University Press, Oxford, 2003) p 232

regulation goes beyond the narrow focus of preventing 'abuse of power' towards an aspiration to create and maintain the conditions for competition, since 'the only way of achieving sustained economic performance and stability [is] through an economic order based on competition.'[39]

Competition so defined is achieved through the elimination of monopolies, the minimising of big business and supporting an economy characterised by small and medium-sized firms.[40] Competition on this account was conceived in relation to its impact on small and medium sized firms, specific communities and social groups, and must 'function in a way that all members of society perceived as fair and that provided equal opportunities for participation to all.'[41]

This account of competition – which, alongside a thriving '*Mittlestand*' of SMEs, has been an enduring feature of the German economy – sees barriers to entry and equitable treatment of participants as proper measures to be employed when evaluating a fully functioning market. By placing emphasis on social as well as economic concerns, this view holds that it is possible to advance a dispersion of economic power to accompany a parallel dispersion of political power.

39. David J. Gerber, *Law and Competition in Twentieth Century Europe: Protecting Prometheus* (Oxford University Press, Oxford, 2003) p 241
40. Rob Van Horn, Corporations: The Roots of Chicago Law and Economics in Edited by: Philip Mirowski and Dieter Plehwe, The Making of the Neoliberal Thought Collective (Harvard University Press forthcoming), p 12
41. David J. Gerber, *Law and Competition in Twentieth Century Europe: Protecting Prometheus* (Oxford University Press, Oxford, 2003) p 241

Part Four: Enabling Local Ownership

The Coalition Government has laid out a striking ambition for its time in office: the genuine empowerment of civil society and local communities to create civic solutions to social problems. The Prime Minister summarised this mission as building the Big Society, a call for:

> *"… a huge culture change, where people, in their everyday lives, in their homes, in their neighbourhoods, in their workplace, don't always turn to officials, local authorities or central government for answers to the problems they face but instead feel both free and powerful enough to help themselves and their own communities."*

This vision of communities that are empowered, proactive and ultimately responsible for local outcomes is at the heart of the recommendations made in this report. Despite countless grassroots campaigns, communities around the country have often felt powerless to exert control over their high street, which have been slowly drained of local diversity, ownership and homespun entrepreneurialism.

Drawing on input from nearly 200 small and medium –sized grocery retailers and interviews with experts and policy makers, we have created a series of recommendations designed to build on current government legislation to enable local solutions to the problems holding back growth and participation on the high street. These recommendations will be divided into three categories:

- Local and civic recommendations
- National recommendations
- Recommendations for a joined-up economy

Local and Civic Recommendations

> "The three key priorities for this government are tackling the deficit, economic growth and localism."
>
> - BIS representative in evidence

Our recommendations reflect both the Government's wider commitment to local and civic empowerment and the specific commitment to review the National Planning Policy Framework in order to make it "localist in its approach, handing power back to local communities to decide what is right for them." Our recommendations aim to make explicit that a successful localist agenda would be one which not only gave communities and individuals the power to shape their physical environment, but also, crucially, their local economy.

Over the course of researching this report, a number of consultees have expressed concerns that devolving strategic economic planning to local authorities or Local Enterprise Partnerships (LEPs) may in fact undermine rather than strengthen local economies.

One example of how efforts to pursue strategies for local economic growth at a Local Authority level have been unsuccessful in the past was the failure of local authorities to voluntarily take up the strategies "for working together with partners from the public, private and voluntary sectors … to set about improving local government procurement" outlined in the *National Procurement Strategy for Local Government* (2003). While a nationally-set target or statutory requirement for local procurement levels could have driven local economic activity, leaving local authorities to make independent procurement decisions saw relatively few take up the available opportunities.

Other consultees have expressed concern that myriad locally-set regulations will generate increased costs for businesses and barriers to trade. Any recommendations focused on local authority or LEP leadership must take into account the costs inherent in local variation, decreased capacity and competence at a local level and an increased vulnerability to special interests and economic power. Our local and civic recommendations are built to complement and leverage the new community and local government powers outlined in the Localism Bill, which allow substantive civic participation while minimizing detrimental variation.

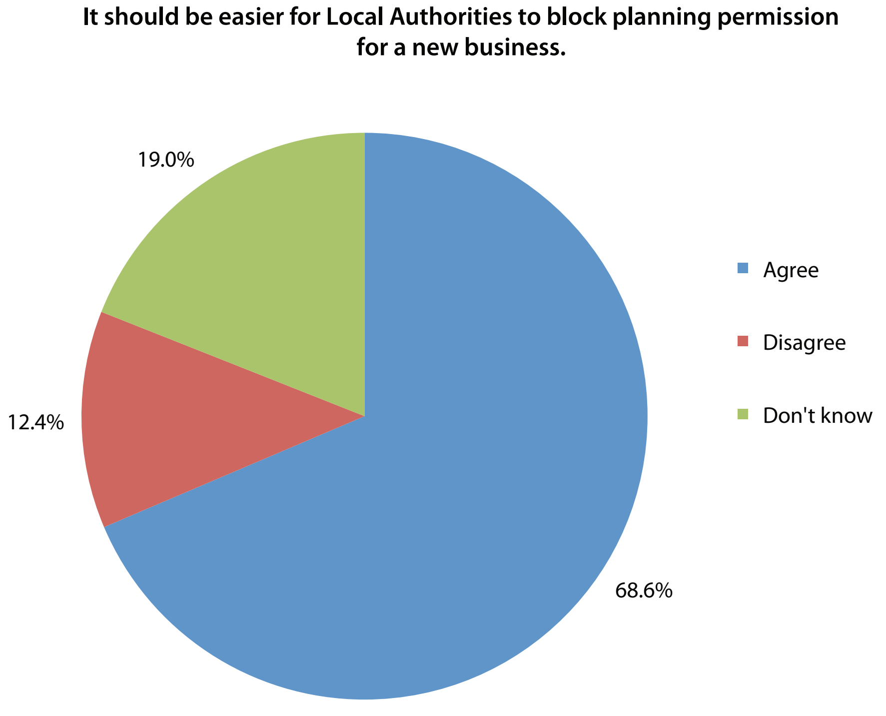
Given that context, it is worth noting that 96 per cent of small and medium –sized retailers surveyed indicated that their Local Authority should do more to support local businesses. Some of the ways that surveyed retailers felt local authorities should support local businesses included issuing special grants for local businesses (54.8 per cent supported), changing the way transport and parking facilities are designed to reflect the needs of the local high street (47.1 per cent) or their having the power to vary business rates locally (47.1 per cent).

Recommendation 1 – Allow Communities to Designate Retail Mix in Neighbourhood Plans

> "We're abolishing this ridiculous system where Whitehall tells communities what they must build, and then dictates when and where they have to build it. Those who make planning decisions will no longer be able to avoid reporting back to those whose lives are directly affected by them."
>
> - Bob Neill MP, Parliamentary Under Secretary of State with responsibility for Local Government and Planning

Despite the fact that retailers were hesitant to see Local Authorities control the planning process, 68.6 per cent felt that Local Authorities should have the power to block planning permission of a new business.

Fig 13



The desire for local input at a planning level was underscored by a series of other questions, which found that 86.9 per cent of retailers agreed with the statement "Local people should have more say and influence over the development of their high street" and 91.4 per cent agreed with statement "Local businesses should have more say and influence over the development of their high street."

As part of the provisions set out for communities in the Localism Bill, communities will be given a new right to draw up a "neighbourhood development plan." According to the impact assessment for neighbourhood plans:

> *"A neighbourhood plan can set out clearly the nature of the development that is and is not anticipated and, where a development proposal is shown to be in general conformity with that neighbourhood development order, planning permission is automatically granted without the need for a planning application."* [42]

42. Communities and Local Government (2011) "Localism Bill: Local plan reform - Impact Assessment"

This is a powerful new tool for communities to input into the future of local environments, specifying where they would and would not like development, and what sort of development they would like. Local authorities play a role in this process, confirming neighbourhood forums and boundaries of proposed neighbourhood plans, providing expertise and holding referenda to confirm the adoption of plans. There is also a duty for local planning authorities to support the development of these plans, given a certain threshold of community participation.

As part of this process, community forums should have the power to designate the desired retail mix for their neighbourhood, specifying what type of retail development they would value. These plans could pertain not only to the location and look of new retail developments, but to the use of existing premises. It will not be a purely negative or veto mechanism, it will give communities the ability to green light desired planning permission more quickly and it will give developers the ability:

> *"To approach neighbourhood communities with an offer of financial support to promote a neighbourhood plan which explicitly identifies a specific development proposal of the kind that the developer would wish to take forward. In this way, where popular support for such a proposal is demonstrated and confirmed in the referendum, the degree of certainty is increased."* [43]

Placing communities at the heart of planning processes will rightfully politicise important decisions about the environment in which we live – in the realm of retail competition, substituting neighbourhood engagement for remote and technocratic decisions which have left many communities feeling the victims rather than the benefactors of development. Nowhere is this more important than in regard to decisions taken about the shape of the local high street.

Recommendation 2 – A Community Right to Appeal

Using the forum and referendum mechanisms laid out above, communities (as defined by the Localism Bill) should also be granted the right to initiate a planning appeal, where an approved development contradicts the parameters of an existing neighbourhood plan. This right should include the entitlement to legal support, in order to offset the perceived advantage that major economic players have over local communities and their elected representatives in the planning process by virtue of the legal resources at their disposal.

Recommendation 3 – Treat Shops as Local Assets

The Localism Bill will also introduce a requirement for:

> *"Local authorities to maintain a list of assets of community value. Communities will have the opportunity to nominate for possible inclusion the assets that are most important to them. When listed assets come up for sale or change of ownership, community groups will have time to develop a bid and raise the money to buy the asset when it comes on the open market. This will help local communities keep much-loved sites in public use and part of local life."* [44]

43. Communities and Local Government (2011) "Localism Bill: Local plan reform - Impact Assessment"
44. Communities and Local Government (2011) "A plain English guide to the Localism Bill"

Crucially this community right should extend to local shops (as well as other players in the local economy) which local forums, constituted in the way described in the Localism Bill, decide are critical to community life. Subject to a fixed one-year period and open to annual renewal, shops designated in this manner should qualify for exceptional support from local authorities, including:

Recommendation 4 – Business Rate Reduction for Designated Retailers

As noted above, 66.5 per cent of independent retailers surveyed listed taxation as an obstacle to the success of their business, while 9.4 per cent listed it as the main obstacle. As the Government considers mechanisms for a new system for Business Rates and Government Grant, it should consider allowing significantly more flexibility in the local distribution of business rates. By designating a business as a significant community asset through the mechanisms established in the Localism Bill, the community would enable their Local Authority to issue a standard level of business rate relief to the business.

The debates in Scotland and Northern Ireland around levies on large or out-of-town retailers could offer a model for micro-redistribution at a local level, and empowered Local Authorities should have the flexibility in rate setting to reflect locally set priorities for the high street.

Recommendation 5 – A Community Right to Buy

While the Department for Business, Innovation and Skills is currently considering increasing the flexibility of "Use Class Orders," which govern the type of business that may be carried out in a particular site, others (most recently the London Assembly and eleven of the London boroughs[45]) have called for more restrictive Use Class orders in order to preserve essential shops and prevent them from becoming residential properties, betting shops or estate agents.

As recommended above, communities themselves should be given the tools – through the Neighbourhood Plans introduced in the Localism Bill - to decide what features of their neighbourhoods are essential community assets, and as with other assets designated to have community value, where a business deemed a community asset is seeking a major use reclassification, community groups should have a prioritised Right to Buy – including time to develop a bid and raise the money to buy the asset when it comes on the open market.
It is important that a Community Right to Buy be designed and applied in such a way that it increases the local services available to a community, and does not act as a barrier to business ownership for entrepreneurs in the community.

Recommendation 6 – A Community Right to Try

Finally, as with other assets designated to have community value, if a property in question is owned by the Local Authority or is in a state of disuse (the town centre vacancy rate at the end of 2010 was at 14.5 per cent[46]), community groups should be extended a preliminary and priority Right to Try – allowing the creation of a test cooperative venture, if a viable business plan can be produced.

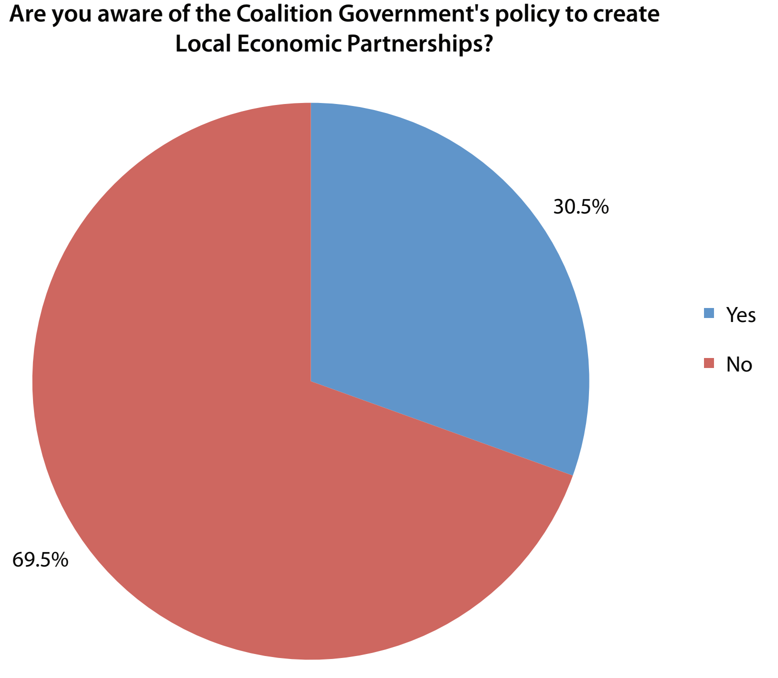
45. London Assembly (2010) "Cornered shops: London's small shops and the planning system."
46. Local Data Company (2011) "Terminal Illness or Gradual Decline: A review of GB shop vacancy in 2010."

Thus, in communities where a particularly valued shop or market was designated for closure, the community themselves would have the first opportunity to take it over, opening the possibility for enterprising community groups to sustain local retail through community-run initiatives (see Recommendation 11).

Recommendation 7: Embed Small and Medium Owners in Local Enterprise Partnerships

Local Enterprise Partnerships (LEPs), which are set to replace Regional Development Agencies by March 2012, are to be made up of local business people and council representatives rather than full-time employees. It remains unclear what the statutory powers of LEPs will be, their key responsibility will be to remove barriers to local growth. According to BIS, the framework for LEPs has been "designed to ensure that business is at the heart of decision-making in these partnerships." However, despite the fact that a number of LEPs have already been formed,[47] of the retailers we surveyed, nearly 7 out of 10 had not heard of Local Enterprise Partnerships.

Fig 14



All Local Enterprise Partnerships should reflect the local economy with a range of small and medium –sized businesses represented as full members.

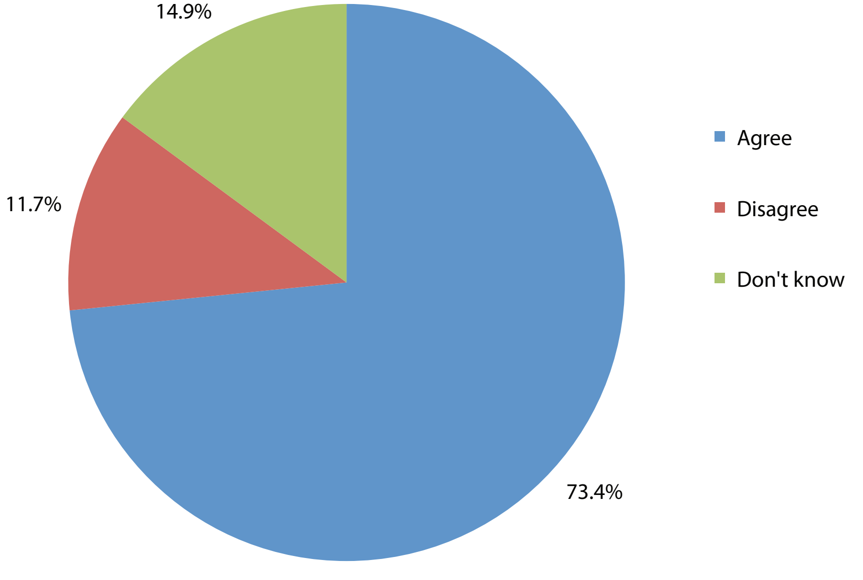
47. 24 Local Economic Partnerships were approved in the initial application process, with more expected to follow.

National Recommendations

Given that multiple retailers now account for 97 per cent of total grocery sales and over 76 per cent of groceries are sold by these four biggest retailers, it is perhaps unsurprising that our polling indicates that there remains a strong appetite amongst independent retailers for further intervention into the grocery retail sector. There was a widespread feeling amongst those retailers consulted that the Competition Commission had failed to sustain a competitive grocery market where small and medium –sized retailers can coexist besides the large "multiples."

Fig 15

I would like Government to intervene more in the grocery market.



Recommendation 8 – A Community Interest Clause in Competition Law

One of the main recommendations produced by the Competition Commission's two year inquiry in grocery market competition ending in 2008 was a local competitiveness test for planning permission. The proposed test would have required Local Planning Authorities to give consideration to the local variety of retail outlets before granting permission to a new development. Despite the test having the support of most major retailers (including ASDA and Marks & Spencers) as well as independent retailers, following the introduction of the local competitiveness test Tesco successfully appealed to the Competition Appeals Tribunal on the grounds that its impact on consumer benefit was not sufficiently assessed.

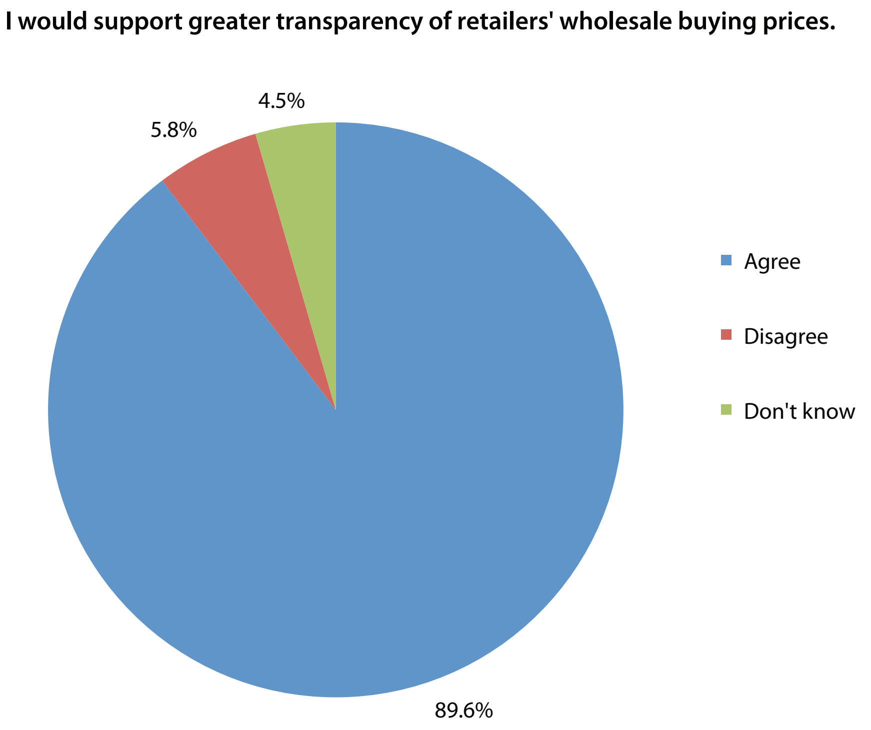
Our first recommendation called for the right for local communities to designate neighbourhood retail mix. This would in effect entitle communities to set their own standards for local competitiveness, ensuring that communities could approve or prevent future planning permission based on their vision for the local high street.

This must be supported by a change in the national competition framework to recognise a more robust notion of consumer interest. While root and branch reform of the competition framework will be the subject of an upcoming ResPublica publication, it is recommended that competition regulation be amended such that the interests of a local community (where set out using the forum and referendum mechanisms established in the Localism Bill) should take precendence over more narrow considerations of consumer interest.

At present, there exists a power for the Secretary of State to give an intervention notice to the Office of Fair Trading "if he believes that it is or may be the case that one or more than one public interest consideration is relevant to a consideration of the relevant merger situation concerned." These considerations of public interest are currently limited to three specified areas: national security, media diversity and, since 2008, mergers between financial institutions.

As Part 3 argued extensively, competition law requires a robust conception of public interest. Rather than approach this as a technocratic debate, the best place for public interest to be established and specified with regard to the high street is at a local level, by communities.

Fig 16



Recommendation 9: An Annual National Report on "Buying Power" and "Price Flexing"

One of the key ways to enable local people to open up the debate around competition is to make information available about the nature and extent of market distortions caused by "price-flexing" and "buying power" (see Part 2 for more details). In the same way that opening the public sector to unprecedented transparency allows citizens to understand and challenge the use of public money, introducing publically available data on wholesale buying price differentials and variations in selling prices will allow a full public debate on the future of the grocery market, and inform community decisions on neighbourhood plans.

The Groceries Code Adjudicator should have a statutory responsibility for publishing an accessible, anonymised report annually and should have corresponding statutory powers to collect, access and distribute the relevant data.

Recommendations for a Joined-Up Retail Economy

The reality is that, without significant change in retail market trends, past and even current levels of popular retail ownership are unsustainable. Non-affiliated independent retailers in the grocery and convenience market have been in long-term decline, following in the path of specialist grocers such as butchers and bakers towards becoming marginal, niche players in the food economy. Adopting new and more mutual models of retail cooperation and ownership will be crucial to stemming this decline.

Recommendation 10 – Encourage Mutual Retail Models

As noted in Part 2, one way that independent retailers have sought to survive is by increasingly joining together in order to leverage their combined scale for marketing, branding and buying power. This typically takes the form of membership in a so-called "symbol group" such as SPAR, Londis or Costcutter, which have rapidly increased their market share to nearly one third of the convenience market.

There are many lessons that small and medium –sized businesses in other sectors can learn from the cooperative practises of small and medium sized grocery retailers. As noted in Part 2, only one in eight independent retailers surveyed saw their main competitor as another local retailer, which may give an indication of why an industry of competing retailers have been so willing to pursue cooperative strategies –helping them to remain viable. By coming together to share knowledge, services and buying power, independent shops are better able to survive in an environment where the balance of power is firmly set against them.

One of the challenges for the grocery retail market, with or without reform to the competition framework, will be for small retailers to find innovative ways of harnessing the advantages of scale while preserving retail diversity and small-scale independent ownership.

National and subnational growth strategies must not be indifferent to ownership – neither in terms of scale or diversity - and wherever possible should offer specific incentives for financial organisations that lend to and support mutually owned businesses.

Recommendation 11 – Encourage Community-Run Retailers

Finally, if communities value a plural retail economy they should not only spend money at local businesses, they should become more directly active in sustaining retail diversity. Community-run, consumer cooperative retail models can overcome some of the disadvantages small retailers face in the market by increasing local loyalty and leveraging in other forms of in-kind support.

Case Study: The People's Supermarket

The People's Supermarket is a London-based Industrial & Provident Society that sells food and food produce. The supermarket is staffed by volunteer members who in exchange for a commitment of four hours' time every month and an annual fee of £25, earn a 10 per cent discount at the till.

The supermarket's core ambitions are:

- To create a supermarket that meets the needs of its members and the local community by offering high quality, healthy food at reasonable prices
- To buy from trusted suppliers with whom it develops mutually sustaining relationships
- To buy British produce where possible, and produce local to London
- To provide choice and information to its members to help them make healthy decisions
- To create a community supermarket that highlights the possibilities of consumer power and challenges the status quo
- To minimise wastage, by creating prepared dishes from food coming up to its sell-by date, and by composting all other waste material
- To provide inspirational training and life skill opportunities to the local community
- To create a working environment that values every one's contribution, is welcoming, safe and non-judgmental
- To be a training and development resource for the local community
- To buy sustainable energy and other inputs, and to promote alternative, forward thinking ideas and solutions

Over half of the venture's start-up costs have been covered by donations of goods and services, by local residents as much as companies large or small. Annually the supermarket is able to raise additional capital through the small membership fee.

Alongside a small number of paid managers, the shop is staffed by three kinds of people: members, volunteers who have signed up through local organizations and 18-24year olds who have been on Job Seekers Allowance and are participating in the Government's Future Jobs Fund. The staffing model of the supermarket enables it to keep expenditure to a minimum.

Inspired in part by the Park Slope Food Coop in Brooklyn, New York, The People's Supermarket is supported by its members, the London Borough of Camden, Development Trusts Association, Esmée Fairbairn Foundation, Social Enterprise London and several local residents associations.

As per Recommendation 6, community groups who are interested in establishing their own co-owned retailer or marketplace should be able to designate viable community assets for purchase or meanwhile leasing as a means to enable trading.

And as the Department for Business, Innovation and Skills looks to establish new mentoring services for small and medium –sized businesses, it should introduce specific mentoring for community-run and mutual retailers.

ResPublica
changing the terms of debate

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Adam Schoenborn is a senior researcher for ResPublica, where he has led research on a range of subjects including savings policy, asset welfare, public sector mutualism, economic localisation and political localism. Before joining ResPublica, Adam worked for the Progressive Conservative Project at Demos as well as the Centre for Social Justice, where he authored 'A Force to be Reckoned With', a report on re-establishing traditional forms of policing by consent and local policing in England and Wales. More recently, he served as lead researcher for ResPublica's flagship report on public sector reform, 'The Ownership State.'

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Britain today has an economic model which is indifferent to ownership. At the end of a period of economic boom and attendant high levels of individual and geographical redistribution, only 12 per cent of British households hold any business assets. This 12 per cent includes the extent of our private and social entrepreneurs, from publicans and craftsmen to B & B proprietors and – as this report will explore in greater detail – our grocers and food retailers.

This report focuses on and interrogates trends in ownership in the grocery retail market specifically. Has this crucial market become more concentrated? Will small retailers still be viable in the future? Has competition policy failed small owners? Can markets be reconfigured to marry ownership with growth? Or will this require new approaches to ownership? What policy interventions, at a national or at a local level, can promote market entry and sustain diversity? What civic action is needed to support this?

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