The Single Market Review

EUROPE

SUBSERIES II: IMPACT ON SERVICES

Volume 4:

Distribution

The Single Market Review

IMPACT ON SERVICES

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The Single Market Review

IMPACT ON SERVICES

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The Single Market Review

SUBSERIES II: VOLUME 4

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This report is part of a series of 39 studies commissioned from independent consultants in the context of a major review of the Single Market. The 1996 Single Market Review responds to a 1992 Council of Ministers Resolution calling on the European Commission to present an overall analysis of the effectiveness of measures taken in creating the Single Market. This review, which assesses the progress made in implementing the Single Market Programme, was coordinated by the Directorate-General 'Internal Market and Financial Services' (DG XV) and the Directorate-General 'Economic and Financial Affairs' (DG II) of the European Commission.

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It does not, however, express the Commission's official views. Whilst every reasonable effort has been made to provide accurate information in regard to the subject matter covered, the Consultants are not responsible for any remaining errors. All recommendations are made by the Consultants for the purpose of discussion. Neither the Commission nor the Consultants accept liability for the consequences of actions taken on the basis of the information contained herein.

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List of abbreviations

A	Austria
AIM	European Association of Industries of Branded Products
AMS	Associated Marketing Services
ATA	Admission Temporaire de mArchandise
B	Belgium
Bln	Billion
C&C	Cash and Carry
CE	Cecchini/Emerson
CH	Switzerland
CS	Customs Services
D	Deutschland
DC	Distribution Centre
DGCCRF	Direction générale de la Concurrence, de la Consommation et de la Répression des Fraudes (Competition Council, France)
DIY	Do It Yourself
DK	Denmark
E	España
EEA	European Economic Area
EAN	European Article Number
EC	European Commission
ECR	Efficient Consumer Response
EDC	European Distribution Centre
EDP	Electronic Data Processing
EU	European Union
F	France
FIN	Finland
FMCG	Fast Moving Consumer Goods
GR	Greece
I	Italy
IGD	Institute of Grocery Distribution
IRL	Ireland
ISO	International Standards Organization
IT	Information Technology
L	Luxembourg
M&A	Mergers and Acquisitions
MECU	Million ECU
Mln	Million
MSD	Manufacturers' Self-declaration
N	Norway
NA	Not applicable
NL	The Netherlands
P	Portugal
PDO	Protected Designation of Origin
PGI	Protected Geographical Indication
RDC	Regional Distribution Centre
S	Sweden
SM	Single market
SME	Small and medium-sized enterprise
TIR	Transport International Routier
UK	United Kingdom
US	United States
VAL	Value added logistics
VAT	Value added tax

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1. Summary

This study deals with the impact of the single market programme on the distributive trades with a focus on fast moving consumer goods. The distributive trades are not a narrowly defined sector but should rather be seen as a complex web of interactions around the distribution chain. More specifically, this report is built around the concepts of distributive processes and distributive operators. The former are the functions that are carried out along the distribution chain. To be precise, we distinguish between manufacturing production, distribution, sourcing and the retail format. Distributive operators are companies performing the distributive processes: manufacturing companies, wholesalers, logistics supply services and retailers.

An evaluation of the impact of the single market programme starts with a careful assessment of the legislative measures that matter for the distributive trades. Cross-border retailing and sourcing is made easier when no legislative hurdles prevent the sale of a product in a number of countries. In this context the legislation on technical harmonization plays an important role, in particular, but not solely, for food products and beverages. The introduction of the mutual recognition principle and the specification of EU-wide essential requirements facilitate cross-border sales. While the application and the enforcement of the legislation is not yet perfect, substantial progress has undoubtedly been made.

1.1. Legislative measures

Efficient distribution requires that goods can be transported across borders without substantial delays. The elimination of unnecessary border controls, tax formalities and transport restrictions is at the heart of the single market programme. The results of this effort are clearly visible in the distributive trades. Customs clearance becomes less burdensome, transport time declines and the productivity of the distribution system rises. While further refinements are still needed in indirect taxation, the overall picture is positive.

1.2. Competition policy

Competition policy is not a part of the single market programme *strictu sensu*. Yet it defines the ground rules of the competitive game once the barriers between countries are removed. The EU approach to franchising, parallel trade, joint purchasing agreements by buying groups and merger control offers sufficient flexibility for distributive companies to operate optimally in the single market. Yet competition policy is constantly confronted with new challenges in a changing economic environment. However, an extensive analysis of competition policy goes beyond the scope of this study.

1.3. Internationalization

The adjustments of the distributive trade sector to the single market legislation are manifold and complex. When barriers between markets came down, companies discovered new opportunities in foreign markets. One direct result of the single market legislation was therefore a marked internationalization of distributive companies during the period 1986–91 targeted at the markets of other EU Member States. Most often, firms decided to expand to surrounding countries and to southern EU countries. This internationalization was sometimes internally financed within the companies but often took the form of mergers and acquisitions (M&A) as well as joint ventures. Based on a comprehensive study of a database of M&A, logistics services companies were seen to achieve the strongest international orientation, closely followed by manufacturing companies and wholesalers. Among the various fast moving consumer product categories, more international M&A were observed in household appliances and food and beverages than in furniture and clothing.

1.4. Larger retailers

Among retailers the internationalization process was primarily limited to the larger retailers. In effect, we observed a gradual expansion of larger retailers in EU markets although retailing remains in several respects a nationally oriented business. The expansion of large retailers in national and internal markets led to a growing and often high concentration in retail markets. This is most of all true for food and grocery retailing. The growing domination of larger retailers resulted in an increasing market share of large store formats. Smaller retailers and independent shops came under pressure to develop niche activities and to move towards speciality stores.

1.5. Production facilities

In an integrated market, there is less need to maintain production facilities in most or all countries. A growing number of manufacturing companies came to realize this and concentrated production activities in countries where products could be produced most efficiently. This reorganization of production caused profound changes in the distribution system. More and more, manufacturing firms centralized their distribution in regional and even European distribution centres. In short, a shift took place from country-by-country production and distribution towards a hub-and-spoke system resembling more closely the US pattern. This evolution went hand in hand with an adoption of new information technologies that were common in the US and that were gradually applied by manufacturers on a wider European scale.

1.6. Vertical integration

A major part of this report is devoted to the reorganization of the distribution system that followed the implementation of the single market programme. The concept of vertical integration is at the heart of this reorganization. Distributive operators strive to optimize the efficiency of the distribution chain. From a theoretical perspective, this optimum is attained when the chain is fully vertically integrated. This occurs when either a single distributive operator controls and optimizes the entire distribution chain or when perfect coordination between the distributive operators is realized. In reality, the distribution chain usually consists of several distributive operators with different objectives and, hence, imperfect coordination. The basic trends underlying the distributive trades in the last decade can be interpreted as an effort to move towards a vertically integrated distribution chain. This involves either the control of more distributive functions by one distributive operator or/and the co-operation between distributive operators.

What does vertical integration mean in practice? In the complex setting of an integrating market, European retailers and manufacturing felt the need to tightly control the distribution process. This often meant that wholesale companies were eliminated from the distribution chain. The position of wholesalers was indeed seriously challenged in the emerging single market. They were often bought by other distributive companies or forced to refocus on other activities. Wholesalers were not the only distributors that faced major adjustments in an integrating European market during the last decade. The elimination of border controls was a blow for companies specialized in customs clearance and related activities.

On the other hand, there were opportunities waiting to be seized in this process of vertical integration. Once the distribution process was under firm control, retailers and manufacturers often outsourced the entire distribution process to specialized logistics companies on a contract basis. These logistics companies developed close relationships with their manufacturing or retailing customers, providing an incentive to optimize distribution systems and to invest in new distribution methods such as contract logistics and value added logistics. As their customers expanded to other EU markets, so did the logistics services companies which meant that innovative distribution systems were gradually developed on a European scale. This process took place in two steps. Initially, logistics companies followed the retailer or manufacturer to other European markets. Later on, successful companies discovered new growth possibilities in the wider European market. To fully exploit those opportunities, logistics companies developed a pan-European logistics capability through buying established transport companies, and by engaging in joint ventures, strategic alliances and co-operation agreements. This would have been impossible in a context of strictly segmented national markets in Europe.

The reorganization of distribution generated substantial cost and productivity gains. This report provides evidence of lower costs, higher productivity and better service as a consequence of centralized distribution methods and more efficient logistics. Logistics cost reductions between 1987 and 1992 amount, for a significant set of companies, to 29%, from an average of 14.3% of total revenue to 10.1% of total revenue. The largest cost reductions are observed in transport where firms report nearly a 50% cost reduction. The average number of days from order placement to reception of the shipment declined from 21 days in 1987 to 15 days in 1992. European companies furthermore report service improvements in the form of 31% lower service failures realized in on-time delivery, order completeness and the fill rate. All of this results in important productivity improvements of more than 10% in transportation, warehousing, inventory systems and administrations & EDP between 1987 and 1992.

Yet, those gains are not automatically reflected in reduced distribution margins and lower distribution prices for retailers and manufacturers. The determinants of distribution margins are manifold and the statistical apparatus too limited to offer a final judgement on this issue in this report. For the same reason, we are not able to come up with robust trends and reliable cross-country comparisons of profitability in the distributive trades. Although data in this study about distribution margins have to be interpreted with major caution, we observe in Germany and the Netherlands a narrowing of the distribution margin between consumer and producer prices. The opposite is true for Spain, the UK and, to a far lesser extent, France. The rising distribution margins in the UK and Spain seem to suggest that retailers benefited from the developments that took place in the distributive trades during the last decade. The rising distribution margins in Spain may explain the interest of French retailers in the Spanish market.

1.7. Integration of product markets: the role of distribution

The discussion of sourcing provides another 'pièce de résistance' in this report. When the free flow of goods is subject to fewer national barriers, consumers and retailers alike should find it easier to buy products from other EU countries. This should show up in rising shares of products that are sourced internationally from manufacturers that are located within the EU. This is the theory. What about the evidence?

Sourcing patterns did change in the period following the launch of the single market programme. One remarkable feature was the growing interest in international buying groups on a European scale. In such buying groups retailers join forces to exchange information and to jointly purchase products on an international scale. A shift in sourcing patterns is furthermore apparent from a detailed study of trade and consumption data. More specifically, this analysis points to a switch from domestic towards EU sourcing. Moreover, we also found evidence that EU consumers substituted non-EU for EU products. Finally, a case study of brands in selected food and beverage products revealed the existence of some pan-European brands.

Those findings do not mean that the internationalization of sourcing has been fully completed in the EU. Integrated sourcing patterns are not found in the same way for all product categories and for all countries. Tastes continue to vary a lot across European countries. Local sourcing and national brands still matter greatly. For instance, 80% or more of all brands of mineral water, ice cream and marmalade and jams are sold in one EU country only. Even for a global product such as breakfast cereals, the sales of nearly 60% of all brands are restricted to a single country.

1.8. Price convergence and price levels

The internationalization of sourcing, retailing and distribution contributes to growing price convergence among EU countries. This is particularly true for the product categories that experienced the strongest internationalization of sourcing patterns. Furthermore, we found the strongest price convergence over time for the EU-12 group, suggesting that EU membership enhances market integration. A positive EU effect was also supported by the fact that the founding six countries of the Community show substantially lower price differentials than the subsamples of EU members that included a wider set of EU countries. All of this, however, does not mean that sharp absolute price differentials for the same product are ruled out in the EU. We are still far away from the 'law of one price'. But, at least, with many fast moving consumer goods, market integration in Europe is steadily moving consumer prices into this direction.

As a result of our case studies we found that consumer prices are lower for toys, furniture, clothing and household appliances. Prices for grocery products did not decrease (except for Finland), and productivity gains in grocery distribution were re-invested in product development and advertising.

1.9. Conclusion

The ultimate goal of European integration is to raise the competitiveness of European companies and the welfare of its citizens. What does this study teach about those fundamental objectives? The extensive data material used in this report and the wide range of company studies performed do not allow detailed welfare calculations. But they provide profound insights into the way the single market is altering the distributive trades.

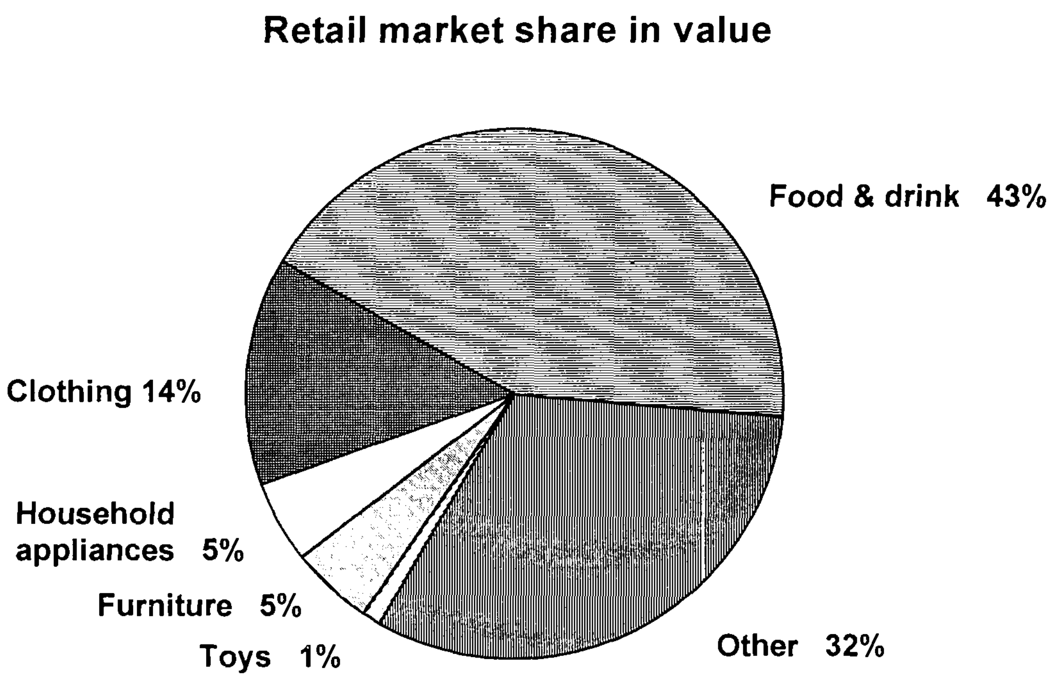
From a business perspective, the main contribution of the single market lies both in the creation of new market opportunities on a European scale and in the cost savings and productivity gains that result from more efficient distribution methods. The single market programme stimulated distributive companies to expand abroad, first in the EU markets and today also to the newly emerging markets of Eastern Europe and Eastern Asia. The single market programme furthermore eliminated the barriers that impeded the application of efficient distribution methods needed to support European-wide business strategies. In a subsequent phase, this provided the right setting for innovations in distribution and the adoption of new technologies.

From a consumer perspective, growing international sourcing expands the variety of products that are available in local shops. EU-wide sourcing and more efficient distribution methods also make those products available at lower prices. The trend towards price convergence further indicates that fewer consumers will pay the kind of unreasonably high prices that are typical for an environment with segmented markets. Finally, stronger competition and innovation in the distributive trades translates into growing consumer orientation, raising quality levels and service to the customer. A remarkable example of this is the 'Efficient Consumer Response' initiative between manufacturers and retailers in the grocery industry.

2. Introduction

This study deals with the effects of the single market programme on the distributive trades. The various links of the value chain are discussed. Attention is focused on the fast moving consumer goods and in particular on food products, clothing, toys, furniture and household appliances.

Figure 2.1. Importance of different subsectors

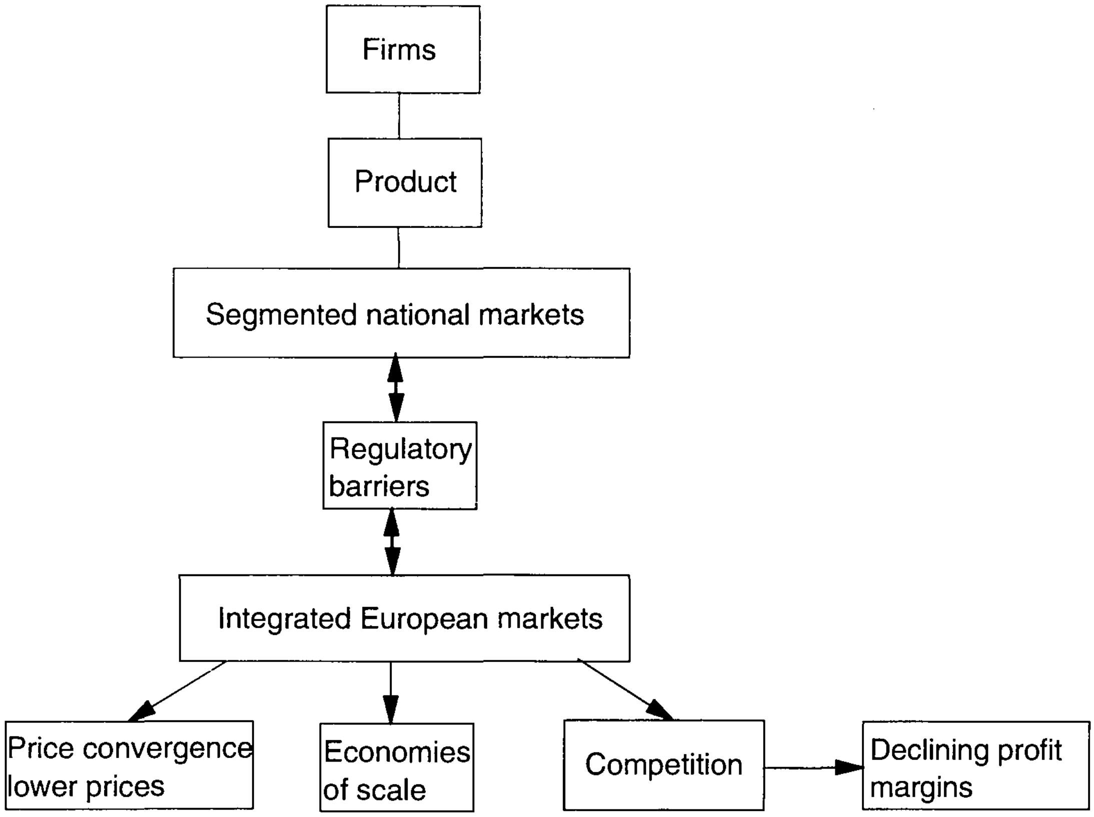


To develop a framework for such an exercise, it is worthwhile to go back to the seminal Cecchini/Emerson (CE) report.[1] This report provides a theoretical background for the expected economic effects of the creation of a single market.

The basic reasoning underlying the CE report is summarized in Figure 2.2. The starting point is market segmentation due to non-tariff barriers. Firms belonging to an industry or service sector primarily sell products in their own market. European markets are segmented as a result of various non-tariff barriers in national markets. Companies face difficulties in penetrating the market of other EU countries. They therefore rely on their national market which, in many cases, is too small to exploit economies of scale. Market segmentation also restricts competition and gives rise to large price differentials for similar products.

1 Emerson, M. [1988], 'The Economics of 1992', *European Economy* No 35. Office for Official Publications of the EC: Luxembourg.

Figure 2.2. The Cecchini–Emerson view on the single market



Source: Coopers & Lybrand and Catholic University Leuven.

The contribution of the single market programme is to identify and eliminate regulatory barriers. This leads to market integration. Efficient companies get market access to new markets in other EU countries. Internationalization occurs because companies are selling their products in more markets. As a consequence, they are able to exploit economies of scale. The entry of efficient firms or their products in previously protected markets leads to competition between companies which drives down prices towards average and marginal costs, cutting profit margins. Price dispersion across EU markets is reduced. Consumers are better off.

The reasoning behind the CE report provides a useful structure for this study of the distributive trades. The application to a particular sector requires that sector-specific characteristics should fully be taken into account. The distinct feature of the distributive trade sector is its broad scope. The distributive trades are not a narrowly defined sector. Rather, they should be seen as a set of companies performing retail and distribution functions. Those functions correspond to the various segments of the distribution chain. The companies involved are manufacturers, logistics services suppliers, wholesalers and retailers. It is not uncommon that the same company performs several of those functions. The objectives and strategies of the broad range of companies are diverse. Moreover, a complex interdependence exists between the companies at various stages of the distribution chain.

The wide scope of the distributive trade sector profoundly affects the various stages of the CE approach. It defines the structure of this study in several ways.

(a) **Definition and characteristics of the sector**: We start this report in Chapter 3 with a careful assessment of the retail and distribution functions and note how they are performed by the companies that are active in this sector.

(b) **Identification and elimination of barriers that lead to market segmentation**: In the overview of the single market legislation in Chapter 4 of this report, we indicate the impact of the laws on the various distribution functions. We also discuss the relationship between remaining national barriers and the many dimensions of retailing and distribution. Finally, we emphasize the role of economic factors such as demand, technological and cost conditions as well as the market structure in understanding the developments in the distributive trades. Those factors should be taken into account to assess the contribution of the single market programme in this process.

(c) **Sectoral effects of market integration**: Since the single market legislation has different effects on the segments of the distribution chain, the removal of barriers will lead to internationalization and concentration that will not be uniform for retailers, logistics services suppliers, wholesalers and manufacturers. Moreover, the nature of the scale economies and size effects is different from the mechanisms identified in the CE report. At the same time, the interaction between the diverse regulatory and economic determinants of market entry and the specific features of the distributive trades leads to a process of market integration that deviates in several respects from the predictions of the CE view. For those reasons, the characteristics of the distributive trade sector are once again a central theme in the analysis of sectoral integration effects in Chapter 5.

(d) **Business strategies**: The wide diversity of operators in the distributive trades requires a clear understanding of the motivations of each player. For this reason, Chapter 6 attempts to distil the business strategies that underlie the observed sectoral adjustments.

(e) **Case studies**: Several of the key developments in the distributive trades are not easy to quantify. For this reason, this study relies on a representative group of case companies to document the main contributions of the single market. Information obtained from case companies are used throughout. Chapter 7 takes a more detailed look at each case company.

3. Definition and essential characteristics of the distributive trades

3.1. The distribution chain

The distributive trade sector brings goods to consumers and is therefore concerned with a highly differentiated flow of goods or value chain. Table 3.1 summarizes this value chain and makes a distinction between distributive operators and distributive processes. Distributive operators are the companies that operate in the distributive trade sector. They are the manufacturers, the retailers, the wholesalers and the logistics services suppliers. The distributive processes are the functions those companies perform. They are related to the retail format, sourcing, distribution and manufacturing production.

Table 3.1. The distribution chain

Operators	Manufacturer	Wholesaler	Retailer	Supplier of logistics services
Relation with supplier of input	supplier of raw materials	manufacturer	wholesaler or manufacturer	manufacturer or wholesaler
Value added	production distribution	distribution sourcing	distribution sourcing retail format	distribution
Relation with final customer	wholesaler or retailer	retailer	consumer	wholesaler or retailer

Source: Coopers & Lybrand and Catholic University Leuven.

Table 3.1 is best explained using a market-customer approach. The starting point is the consumption decision of the final consumer who buys his or her products from the retailer. The value added of the retailer is to operate a retail format that brings goods to the consumer efficiently, to source these goods from wholesalers or directly from manufacturers, and finally to carry out a part of the distribution of the goods from the supplier's warehouses to the retail outlets.

The wholesaler links retailers and manufacturers. He adds value in the processes of sourcing and distribution, since concentrating goods flows between retailers and manufacturers enables the wholesaler to source products and arrange certain distribution activities in an efficient way.

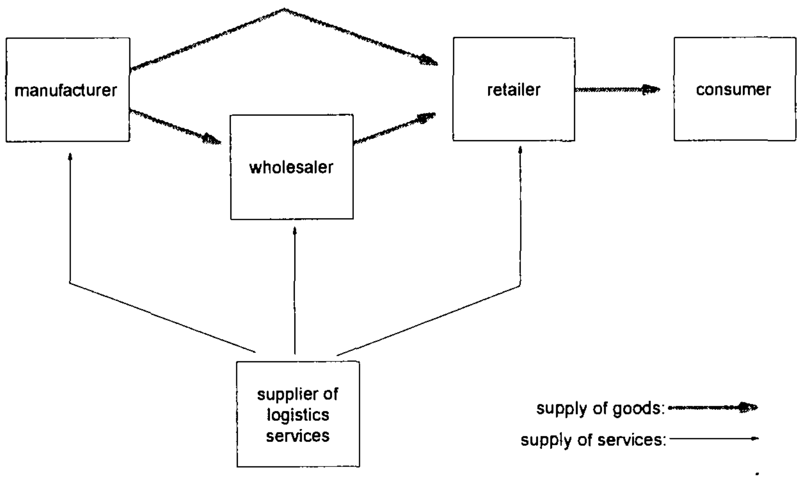
Turning to the manufacturers, they maintain close ties with their final customers in their sourcing relation with the wholesaler or the retailer. Manufacturers also perform some distribution functions. Only to the extent that manufacturing production influences distribution and retailing decisions, manufacturing production is taken into consideration in this study.[2] Manufacturers purchase inputs from suppliers of raw materials, but this is not considered in this report.

All four operators are responsible for parts of the distribution of goods from the manufacturer's plant to the retail outlet. Often retailers, wholesalers and manufacturers hire specialized suppliers of logistics services to physically carry out the activities this involves,

2 Manufacturing production strategies are the subject of other studies in the evaluation of the single market.

such as transportation, storage and sorting of the goods. The relationship between the four distributive operators are represented schematically in Figure 3.1.

Figure 3.1. Relationship between distributive operators



However (for clarity reasons not added to Figure 3.1), distribution does not consist only of downstream flows of goods but increasingly also of upstream flows of information from retailers through to manufacturers. This is one of the key functions of distribution and the basic principle behind the business concept 'Efficient Consumer Response' as a form of vertical integration. Wholesalers supply services to retailers and the latter supply services to consumers, e.g. expert advice and after sales service. Distribution is (increasingly) about the provision of services, not just the physical movement of goods.

In the following pages, we discuss the distributive processes of Table 3.1 in more detail. In doing so, we integrate the insights from the theoretical literature. A detailed analysis of this kind is essential because we will focus in Chapter 4 on how the single market programme, national legislation and economic conditions affect the distributive processes identified here.

3.2. The retail format

The retail format is defined as the set of strategic decisions related to the organization of retail stores. We distinguish between four aspects that matter for this study:

(a) the relation between the retailer and the consumer;
(b) the choice of store format;
(c) the choice of location;
(d) multi-store management and co-ordination.

A central issue in this study is the relationship between the single market programme and the retail format. The development of an effective retail format involves considerable sunk (non-recoverable fixed) costs and is therefore subject to economies of scale and to learning effects. If the single market programme facilitates the application of the retail format in many markets and many countries, it yields positive gains for the retailer. From this perspective, we now focus on each of the aspects of the retail format.

3.2.1. The relationship with the customer

Retailers deal directly with consumers. They advertise, present products on their shelves, develop and exploit a customer base, and engage in all kinds of promotional techniques.[3] Their way of dealing with the customer is part of their retail format.

There are two ways in which retailers can achieve economies of scale in promotion. Their own advertising and promotion campaigns may transcend the scope of the local store. Or retailers experience rising sales in all or most of their outlets when specific brands are promoted by national and EU-wide campaigns by the manufacturers.

The gains for the retailers of EU-wide promotion by the manufacturer should not be overestimated. Few products are marketed on a pan-European scale, and those leading brands are generally available in many retail shops. Work by Gatignon and Vanden Abeele [1995][4] indicates furthermore that, even for routine product categories, European countries respond differently to marketing strategies depending, among other factors, on the level of economic development. The authors go on to conclude that the scope for standardized marketing in the European marketplace is relatively limited.

This conclusion should not surprise us. Demand conditions vary considerably across EU countries. Those differences are explained by a variety of economic, cultural, demographic and sociological factors. Anecdotical evidence on taste differences across Europe is abundant. British consumers prefer front-loader washing machines while their French counterparts prefer a top-loader. The width of refrigerators in the UK is 60 cm but 62.5 cm in France. Spaghetti in northern Europe is made from different grains than in southern Europe. Marmalades are sweeter in one country than in another. Schweppes Tonic Water in the UK is a mass-market brand distributed together with Coca-Cola in 1.5 l PET bottles. In Germany it is a social drink, associated with luxury and status, never to be sold in 1.5 l bottles. The list of examples is endless.

Retailers can try to market their image and name on a wider scale to consumers. Only a few individual companies have successfully done this (e.g. Ikea, Benetton, Aldi, Metro). In some countries, legal restrictions rule out this strategy. For instance, TV advertising by retailers is not allowed in France. It should therefore not come as a surprise that several of our case companies emphasize the national and, most often, the local character of promotion in advertising.

In addition to promotion, the relationship between retailers and consumers is influenced by various aspects of quality service such as speed at the check-out, friendliness of the staff, hygiene and cleanness of the store and so on. Those features are key factors in the attractiveness of retail stores for consumers (see Tjordman [1995][5]). A retailer which develops a successful quality concept benefits from repeating this concept in many different stores.

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3 Manufacturers can also participate in the advertising, but this is not further explored in this report.

4 Gatignon, H. and P. Vanden Abeele [1995] 'Explaining Cross-country Differences in Price and Distribution Effectiveness' INSEAD Working Paper.

5 Tjordman, A. [1995] *Consumer Attitudes and the Food Retail Formats*. Mimeo.

3.2.2. The choice of store format

Retailers have to make a decision on the product range they will be offering to the consumer as well as on the price strategy to be followed. This involves three considerations. First, the number of product categories the retailer will be offering to the consumer has to be selected. For instance, general department stores offer a very wide range of products often including food products, clothing, cosmetics, furniture and so on. Conversely, a furniture store like Trendhopper, a clothing store such as Benetton and a food store of the Aldi type concentrate on narrowly defined product categories.

A wide product range has advantages and disadvantages. The main advantage is that consumers enjoy doing an important part of their shopping in one store. A disadvantage is the complex management of running a store with a large variety of different products. The main drawback of a wide product range is, however, the vulnerability of general stores in the face of competition from retailers that offer a large product variety at a narrowly defined product segment (e.g. category killers). General stores can never supply the same variety of products for each of the large number of product categories they are offering.

This last point illustrates the importance of the second aspect of the product choice which is the variety offered in the chosen product categories. In retailing this aspect is usually referred to as assortment. A larger variety plays to the advantage of the retailer because consumers identify the store as a site where a wide choice of a specific product category (for instance, shoes or toys) is available at reasonable prices. In other words, the consumer recognizes the retail format. In addition, the high turnover of similar products reinforces the position of the retailer with respect to the manufacturer (see also the discussion of the interface between retailers and manufacturers).

Table 3.2 combines the two aspects of product choice and positions the general department store and the specialized large variety retailer in a matrix. As indicated in the matrix, the combination of a large number of product categories and a large variety in each product category appears difficult to achieve due to logistics and management constraints. The matrix

Table 3.2. Assortment: number of product categories and variety offered in selected product categories

	Number of product categories	
	high	low
Variety in selected product categories — high	Difficult to achieve	Specialized store with large variety (e.g. category killers and Toys-R-Us type retailers)
Variety in selected product categories — low	General department stores	Non-specialized small retail shops (e.g. independents)

Source: Coopers & Lybrand and Catholic University Leuven.

also pays attention to smaller non-specialized (and usually independent) retailers. Those retailers are often 'caught in the middle'. The small size of the store prevents them from offering a large number of product categories and from supplying a large variety of products for a given product category. As a consequence, they lose customers to both the general department and specialized large variety stores.

A third and final aspect of product choice concerns the choice between a price- or a quality-driven strategy. Quality is defined broadly and can refer to observable product attributes or to perceived characteristics of a product. Efficient and friendly service or fresh products are also quality dimensions for retailers. Mature retail markets in higher income countries are usually characterized by vertical differentiation along quality lines. Retailers have the option of focusing on price competition in the lower quality segments of the product range. Corstjens et al. [1995][6] argue that this strategy prevailed in France, where mostly Leclerc and Intermarché are fiercely competing on price. Another well-known example is Aldi in Germany. Alternatively, retailers can decide to invest in quality and reputation. They sell higher quality products that fetch a higher price. According to Corstjens et al. [1995, p. 7] this has been the strategy for many years of Sainsbury and Marks & Spencer in the UK who have also successfully used high-quality own brand labels to strengthen their quality image. More recently, Tesco and Argyll repositioned themselves higher up on the quality spectrum leading to a noticeable 'quality-value' competition among UK food retailers.

It is not uncommon for high-quality retailers and discounters to coexist in various segments of the quality spectrum. This equilibrium is, however, not necessarily stable over time. Discounters are prone to attack higher quality retailers by price cutting in an effort to increase market share. In response, quality retailers come under pressure to lower the price premium they are charging for higher quality and to develop their own discounting programmes on their more basic products. According to Corstjens et al., Sainsbury, Tesco and Safeway reacted this way when they came under fire from a wave of discounters in 1993/94. The appeal of the cheaper stores ensures that the 'quality' stores must always keep their pricing very competitive.

With intense price competition, a full-scale price war is never far away. If a price war develops it has devastating effects on the retailers' bottom lines. In the end, some retailers are driven out of business or are taken over. The concentration in the sector increases, and the remaining retailers feel the need to upgrade their quality to become less vulnerable to price competition. A new (temporary) equilibrium between quality and price competitors is attained.

Quality differentiation is, however, not always feasible. Sutton [1991, pp. 70–71][7] shows that vertical differentiation is not possible when the average cost of establishing a quality reputation does not increase significantly for higher quality levels. If providing quality is not very costly, lower quality firms will imitate higher quality products. As a result, firms will not be able to charge a high price for high quality and therefore have few incentives to invest in quality.

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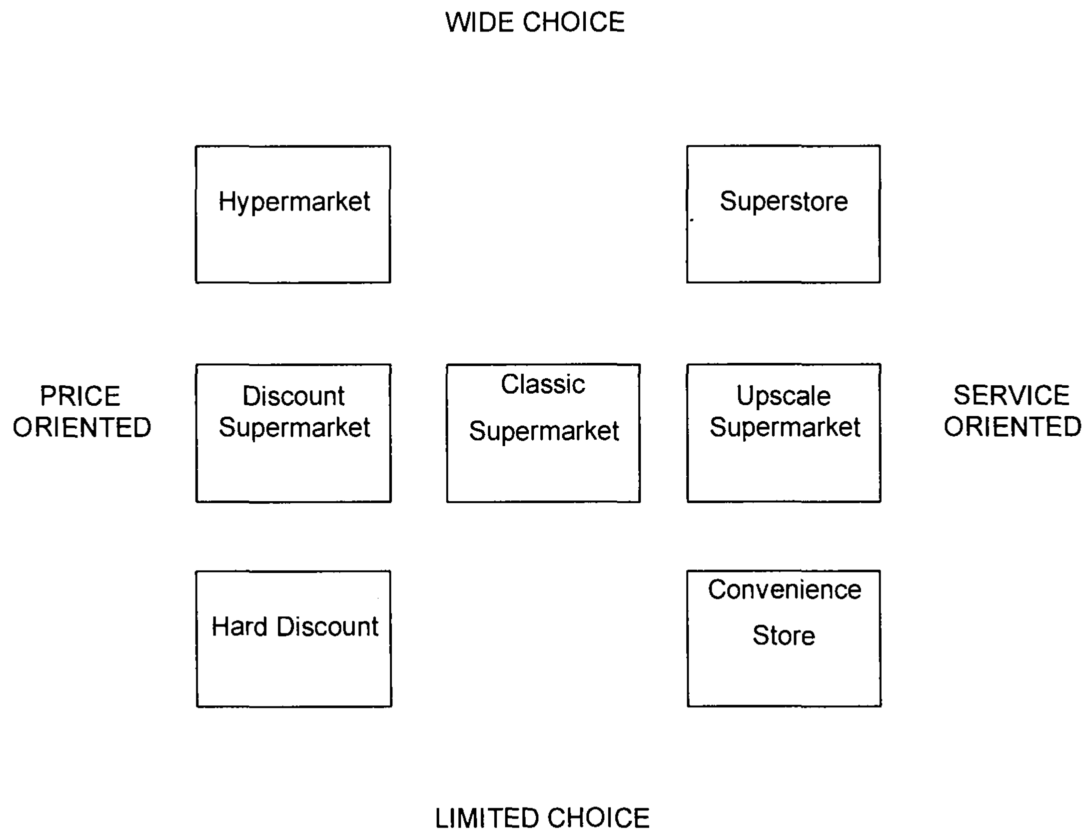
6 Corstjens J., Corstjens M. and Lal R. [1995] 'Retail Competition in the Fast-moving Consumer Goods Industry: The Case of France and the UK' INSEAD Working Paper 95/50/MKT.

7 Sutton, J. [1991] *Sunk Costs and Market Structure*. MIT Press: Cambridge.

Even if sufficient quality differentiation is feasible in a market, new entrants must succeed in positioning themselves in a specific quality segment. In mature markets with established retailers that have first-mover advantages, this may not be an easy task (see Tirole [1988], Chapter 8)[8] [9]. A well-known example is the breakfast cereals product category. Kellogg's pursued a successful strategy of brand proliferation. This company designed separate cereal products for the different taste niches making it difficult for competing companies to establish themselves in the market. This strategy paid off in a dominating market position for Kellogg's which is still maintained today.

Figure 3.2. Positioning of retail store formats



Source: Tjordman [1995].

The number and variety of product categories, the quality dimension and price strategy determine the format of the retail store. In Figure 3.1 we present a classification of store formats borrowed from Tjordman [1995] based on price, quality and product choice. The share of the different store types varies markedly across European Union countries.

Making the right decisions about the various dimensions of product choice is of crucial strategic importance for any company. It involves a significant investment and period of trial-and-error before the optimal positioning is achieved. Once this point is reached, retailers have a strong interest in repeating the same retail format in many markets because the sunk costs (non-recoverable fixed costs) involved are spread over a higher amount of sales. The retailer

8 Tirole, J. [1988] *The Theory of Industrial Organization*. MIT Press: Cambridge.

9 The theoretical background for this and the following pages is found in the books by Tirole and Sutton.

benefits from economies of scale and learning effects because it repeats the same format several times in different markets. In contrast to the manufacturing sector, those benefits are not achieved by increasing the production scale at the manufacturing plant but by applying the retail format to new sales outlets.

On the other hand, it is far from certain that the same product mix is successful in newly entered markets. If not, the retailer will have to adjust its retail format to local conditions in the market. In this case, there is a positive marginal cost of expanding the product choice to another market. This marginal cost will be lower when the new market is similar to the market of origin of the retailer. This explains why retail expansion is often first directed to other locations in the same country and subsequently to surrounding countries with comparable income levels and demand characteristics.

3.2.3. The choice of location

A key aspect of the retail format is the choice of location. Retailing and distribution is largely about closeness to customers. Successful multi-store retailers have a clearly identified location pattern which is recognized by consumers and accessible to them. Consumers know where to find the shop and how to get there.

Location theory singles out two principles that determine retail location. The maximum differentiation principle states that retailers will locate as far as possible away from competitors provided that a sufficient number of consumers can still reach the store. Maximum differentiation usually fits large food stores pretty well which tend to locate at the various edges of town. The second principle is best described as gravitation towards the sites with the highest consumer density. According to this principle, retailers have an incentive to locate at prime locations and at sites where other stores are centred, for instance in the centre of town or in large shopping malls. In spite of the intense competition, those locations are attractive because consumers value the concentration of specialized stores.

Several of our case companies in the retailing business view location as an essential component of the retail format. If, for instance, they build their retail concept on stores in shopping malls, they will not open a store elsewhere. Or, as Marks & Spencer told us, they will delay market entry until an optimal location can be obtained.

In deciding on cross-border location, retailers take cross-country cost differentials into account. In the distributive trades important cost factors are rents and land prices, exchange rates and labour costs.

3.2.4. Multi-store management and co-ordination

Like multi-plant manufacturers, retailers with several stores have to design a profit-maximizing strategy for their entire retail group. They have to decide how to enter a new market and how to co-ordinate the activities of the existing retail outlets in different markets. Retail companies benefit considerably if those co-ordination strategies can be transplanted in a flexible way to new markets of operation.

Retailers may prefer to operate through fully-controlled subsidiaries. In this case, entry in new markets takes the form of acquiring an existing retailer (merger and acquisition or M&A) or to open new stores under their own name (organic growth). The former strategy, followed by, for instance, Promodès in France and Pingo Doce in Portugal, has the advantage of direct market access by a store that is well known to local consumers. This may well be the only option whenever consumption patterns vary considerably across markets and countries. The disadvantage of this approach is the greater effort required to integrate the retail formats of the local store and the acquiring retailing group. The retailer runs the risk that few economies of scale can be reaped from applying the own retail format to the newly acquired store. The alternative, i.e. opening a new fully-owned store (e.g. Marks & Spencer, Aldi, Toys-'R'-Us), allows the retailer more easily to apply its retail format but requires a higher investment in attracting consumers and in building up market share.

In several cases, multi-store retailing in clothing and food is based on franchising and co-operatives. Stores are not fully controlled by the retail group. Local operators maintain a degree of autonomy which varies according to the retail system put in place. Local retail independence reduces the investment risk of the co-ordinating retail group and stimulates local involvement and entrepreneurship. The drawback is a co-ordination problem that stems from the absence of full vertical integration. The retail group has an incentive to shift an excessive part of the risk to the local retailer and to charge high fees for local participation in the retail system. The local retailer has an incentive to engage in activities that maximize its profits but are not necessarily consistent with the overall profit-maximizing strategy of the retail group. For instance, local quality control, promotional efforts and the product range offered to the consumer tend to diverge from the retailing group's standards.

Economic theory shows that franchising and other vertical agreements overcome at least part of this co-ordination problem. Franchising is a common practice in retailing. Clothing and fashion often rely on this set-up. A well-known example is Benetton which very strictly controls the product range and store format of its independent shop-owners. In food retailing the recent expansion of Leclerc and Intermarché in the French market and Delhaize in Belgium was made possible by an effective system of franchising. Stores of these French retailers are owned by independent operators who cannot own more than one store. The franchisee is subject to central directives on pricing, buying and general store policy in exchange for the company name and for buying and merchandizing support.

Summarizing, multi-store management and co-ordination involves a large number of issues with a direct impact on market integration in the distributive trades. A study of the single market requires a detailed look at mergers and acquisitions, franchising, co-operatives and other forms of integration among retail shops (see Chapter 5).

3.3. Sourcing: the interface between the players of the distribution chain

Sourcing describes where and from whom a player in the distribution chain purchases his inputs. Directly or indirectly the retailer sources from the manufacturing production plant. Direct sourcing, involving a transaction between a manufacturer and a retailer, is becoming more and more commonplace. Traditional sourcing, however, is mostly indirect: a retailer sources from one or several wholesalers, who in turn source from manufacturers. Even more complex indirect sourcing patterns exist, such as parallel trade for instance, where a retailer sources from another retailer, who sources from the manufacturer. The retailing company is interested in reliable sourcing at the lowest possible price. It has an incentive to source from several wholesalers or manufacturers in different countries if this results in lower prices for a given quality. On the other hand, a complex sourcing network generates organizational challenges. The manufacturer wants to sell its products in as many markets as possible under the condition that the retailer provides sufficient shelfspace and promotion for the manufacturer's products. As a consequence, retailers and manufacturers are linked through a complex relationship with at the same time common and opposed interests.

Theoretically speaking, this relation is characterized by what Tirole ([1988], p. 174) describes as the basic vertical externality. If manufacturers, wholesalers and retailers were vertically integrated in one company, they would supply products to the consumer at a profit-maximizing price. With separate manufacturers, wholesalers and retailers, the manufacturer will charge the highest possible price to the wholesaler rather than to the consumer in order to maximize profits. The wholesaler will pass through the high manufacturing price to the retailer in addition to its own profit margin. Similarly, the retailer will pass the high price on to the consumer, adding his own retail profit margin. As a consequence, the retail price will be higher and consumption lower than in a vertically integrated set-up. This hurts manufacturers, wholesalers and retailers alike.

This idea of vertical externality offers an insight into several recent developments in the relations between retailers, wholesalers and manufacturers. All sides want to obtain the best possible conditions which leads them to look for ways to strengthen their bargaining position. Retailers can improve their bargaining strength by increasing their purchases from manufacturers. This is achieved by retail expansion and by the participation in buying groups with other retailers. Private retail labels allow them to weaken the dominating position of the major brands offered by the manufacturer. In turn, manufacturing companies strengthen their negotiating position by market expansion and by developing successful brands.

At the same time, manufacturers, wholesalers and retailers realize that they have a common interest to overcome the vertical externality. All groups are served by initiatives that bring products in an efficient way from the manufacturer to the consumer. They therefore participate in various types of vertical integration schemes. This explains the recent co-operation between major retailers, wholesalers and manufacturers in the Efficient Consumer Response (ECR) framework. Common interests also show up in exclusive agreements between manufacturers and retailers. From a theoretical point of view, those types of agreements provide incentive structures for both partners to invest in mutually beneficial co-operation. If the retailer obtains some market advantage in selling certain brands, he may be willing to invest in special efforts to do so. From his side, the manufacturer has an incentive to invest in a closer relationship because the retailer will not sell competing brands.

More generally speaking, the desire to overcome the vertical externalities in the value chain underlie many of the recent trends in the distributive trades. Retailers and manufacturers attempt to shorten the way from the plant to the consumer by co-operating and by developing their own distribution.

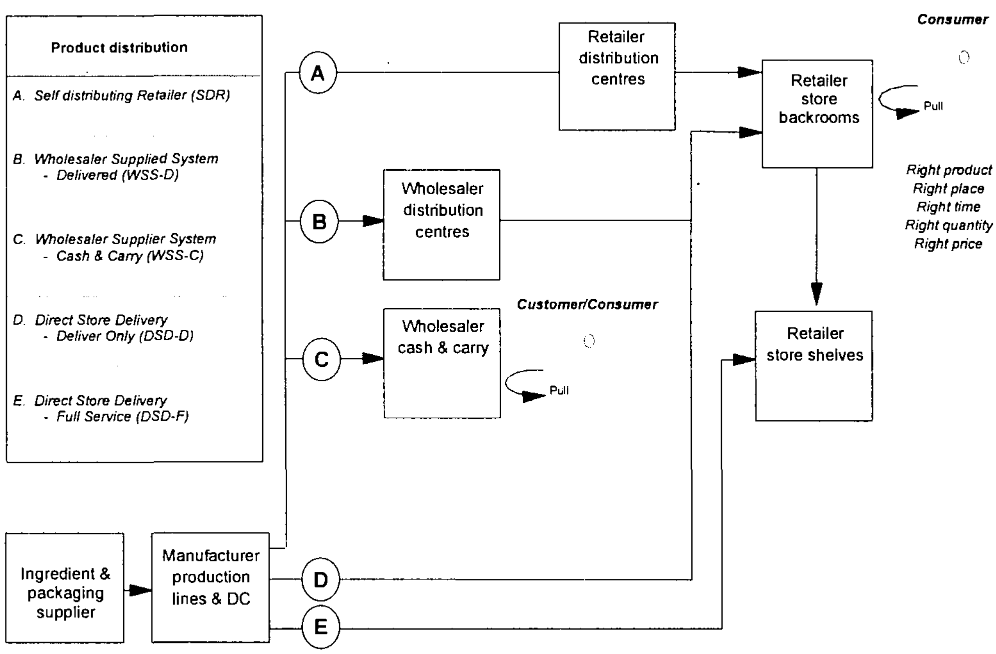
3.4. Distribution

3.4.1. Distribution channels

Distribution is the process of bringing the product from the manufacturing plant to the consumer. On occasion, the first step in this process is to bring the product from the manufacturing plant to the manufacturing distribution centre (DC) which can be situated in a different location or even a different country. This first step is usually carried by the manufacturer or a specialized logistics company. Subsequently, distribution takes one of the forms shown in Figure 3.3:

(a) self-distributing retailers;
(b) wholesaler-supplied systems;
(c) direct store delivery by the manufacturer.

Figure 3.3. Main channels of distribution



Source: Coopers & Lybrand and Catholic University Leuven.

Self-distributing retailers receive products from manufacturers into their own distribution, wholesalers purchase products from manufacturers and then resell them to their own customers (retailers). In general, there are two categories of wholesaler-supplied systems: delivery and cash-'n'-carry. Delivery wholesalers transport products to the distribution centres or retail outlets of their customers. For cash-'n'-carry wholesalers, the customers (and, sometimes, the end consumers) come to wholesalers' distribution centres to pick up products.

Under direct-store delivery, manufacturers deliver products directly to retail outlets or stores. Again, in general, there are two categories of direct-store delivery. In the first category, manufacturers deliver products to retailers' backrooms, but retailers manage the shelves. Manufacturers who fall into this 'delivery only' category typically are delivering to areas where there is a heavy concentration of retail outlets. In the second category, referred to as 'full-service direct-store delivery', manufacturers manage the retailers' shelf space and store inventory.

3.4.2. Distribution activities

Distribution of products through any of the channels described above involves a number of activities, some of which take place at several stages of the distribution chain. The most visible of these activities is transport of goods between warehouses by road, rail, air or inland waterway. In these warehouses goods are often stored for a certain period. Often sorting products (or order-picking) is also required at various stages, because incoming shipments are usually clustered by supplier (large quantities of a few products), whereas outgoing shipments must be clustered by client (small quantities of many products). Sortation is often labour-intensive and can constitute an important share of total distribution costs.

Depending upon the product type and the part of the distribution chain that is considered, distribution often involves a variety of other activities, ranging from customs formalities for cross-border transport to repackaging of goods and even to minor product modifications or assembly.

Many manufacturers, retailers and wholesalers carry out these distribution activities 'in-house'. However, these activities are often considered specialist work, which many other manufacturers and retailers – and to a lesser extent wholesalers – do not consider to be part of their core competence. For that reason, part or all of these activities are often outsourced to specialist contractors, 'suppliers of logistics services', such as transport companies, warehousing companies and companies that manage distribution activities.

3.5. Manufacturing production

Manufacturing companies benefit from the sale of their products in many markets. Multi-country operations imply decisions about the optimal location of the production plants and warehouses. They also require an investment in logistics as the manufacturer must be sure that its products reach the retailer at the right time.

Depending on the final product, manufacturing production occurs in one or two stages. The criteria for this choice are the complexity of the final products, the number of major sub-components involved, the intensity as well as speciality of manual handling and financial and tax issues. When the final product is not complex or consists of just a few major components or no substantial special manual handling is required and no tax and financial issues are relevant, only one plant will manufacture the final product. Most grocery products are manufactured in one plant, but sometimes the packaging for promotions is outsourced (co-packers). In the clothing industry it is not unusual to outsource specialized manual work by major manufacturers before the final product is delivered. This co-packing in the grocery industry and the outsourcing in the clothing industry are, however, of minor importance to distribution because they take place in the near surroundings of the primary plant. Without loss of generality, one can therefore stick the (fast moving) consumer goods industry into the single plant concept. A plant is defined as a physical location with manufacturing equipment where conversion takes place from raw materials into a final product.

As mentioned at the outset of this chapter, manufacturing production does come within the scope of this study. Yet the location of the manufacturing plant and the organization of the production process (e.g. packaging and labelling) influence the distribution process. Single market induced changes in manufacturing production strategies may therefore have an indirect impact on sourcing and distribution. If so, those effects are taken into account.

4. Determinants of distributive processes and operators

4.1. Introduction

This chapter deals with the determining factors of the distributive processes and operators identified in Chapter 3. It has a double objective. First, we identify the relevant areas of single market legislation. Second, we analyse the impact of those factors on the various distributive processes.

This chapter is devoted to the legislative measures of the single market programme. We also pay attention to competition policy which, although not part of the single market programme *strictu sensu*, matters for the business strategies of retailers and distributors that want to penetrate new markets. We furthermore indicate the remaining shortcomings of the single market legislation.

Evidently, national legislation also matters for the distributive trades but does not form the main focus of this report. For the interested reader, a detailed discussion of relevant national legislation is found in Appendix A.2 to this report.

4.2. EU legislation for the distributive trades

In this section we discuss the aspects of the EU legislative framework that affect the distributive trades. The single market legislation is too extensive to cover in full, and not all domains are equally important for the distributive trades. For this reason, we made a selection for which we relied on three information sources, i.e. the Eurostat survey of the single market, the DRI survey of trade associations and our own contacts with trade associations, sectoral experts and case companies. As it turns out, the results of the three approaches are quite consistent and offer a comprehensive analysis of the effects of the single market legislation as perceived by the distributive operators.

This analysis is summarized in Table 4.1. This table lists the various dimensions of the single market programme. More specifically, we focus on:

(a) technical harmonization and the removal of trade barriers caused by differences in national product regulations;
(b) elimination of border controls;
(c) liberalization of the road transport sector;
(d) indirect taxation and the transitional VAT system;
(e) competition policy;
(f) other single market legislation.

For each group of legislative measures, Table 4.1 indicates whether the distributive operators experienced a strong impact (denoted by XXX), a moderate impact (XX), a minor impact (X) or a negligible impact or no impact (denoted by 0). The construction of this table requires some further explanation about how we transformed the various information sources into this same format.

Table 4.1. Impact of the single market legislation according to various information sources

SM legislation	Eurostat survey		DRI survey		Own information sources	
	Magnitude	Comments	Magnitude	Comments	Magnitude	Comments
1. Technical harmonization and related legislation						
a. Mutual recognition	X 0	Greece, Spain elsewhere	XXX	+ manufacturing of food and drinks, furniture + wholesale and retail trade	XXX	+ manufacturing furniture + retailing of food, clothing
b. Essential requirements	XX X 0	Spain Greece elsewhere	XXX	+ manufacturing of food and drinks, furniture, toys, domestic electrical appliances + wholesale and retail trade	XXX	all distributive operations especially in the food area
c. Testing, certification and enforcement	n.a.		XXX	food and drinks	XXX	food and drinks
d. Environmental legislation	n.a		XXX	+ manufacturing of food and drinks, clothing, toys, domestic electrical appliances	XXX	retailers and manufacturers
2. Border controls and border formalities (including VAT clearing)	XXX XX 0	Spain, Portugal, Greece France elsewhere	XXX	+ manufacturers of clothing, sporting goods + wholesale and retail trade	XXX	wholesalers, retailers and logistics services companies
3. Liberalization of the road transport area		see border controls and border formalities	XX	+ manufacturers of domestic electrical appliances + wholesale and retail trade	XXX	+ wholesalers + logistic services companies + retailers
4. Indirect taxation	n.a.		X	+ administrative burden on SMEs of VAT system + harmonization of tax rates in sporting goods sector	X	moderate to small impact of transitional VAT system on retailers, mail order companies and manufacturers
5. Competition policy	X 0	Co-operation agreement in Greece elsewhere	0		XX	all distributive operators

6. Other areas of SM legislation					
– trade marks and intellectual property	n.a.		XXX	manufacturing production of clothing, furniture, toys, sporting goods	0
– liberalization of telecommunications	n.a.		X	wholesale and retail trade	0
– capital market liberalization	XXX XX X 0	Greece Spain Portugal elsewhere	X	manufacturers of food and drink, and clothing	0
– public procurement	0		X	manufacturers of clothing	0
– company plan/double taxation	XX 0	Spain elsewhere	0		0

0 = no or negligible effects, X = some effect, XX = moderate effect, XXX = strong effect, n.a. = not available

Source: Eurostat, DRI, Coopers & Lybrand, Catholic University Leuven.

First, the Eurostat survey on services was made available to us. This survey contains data for the aggregate of the wholesale and distribution sectors in Spain, Italy, France, Portugal, Germany and the UK. This survey asks a broad range of questions, including more general questions about the overall impact of the single market and more detailed questions about specific areas of legislation. One question deals with the recognition of licences/authorizations in other EU states and is classified in Table 4.1 under the mutual recognition heading. Another question deals with harmonization of licensing/authorization requirements in the EU and is therefore directly related to the issue of essential requirements. The survey also analyses the impact of measures that facilitate cross-border operations into other EU states. In Table 4.1 this relates to the issues of border controls/border formalities and the liberalization of the road transport sector. The survey does not contain any direct questions about competition policy but investigates whether the single market programme had an impact on business strategies of direct investment and co-operation agreements. This admittedly very indirect evidence is presented in Table 4.1 under the competition policy heading. Furthermore, the survey provides information on the single market legislation that relates to public procurement, capital market liberalization and double taxation agreements (classified under company law). Note that the Eurostat survey on services does not allow us to infer separate information about testing, certification and enforcement, about environmental legislation, about indirect taxation, trade marks and intellectual property or about the liberalization of the telecommunications sector.

The Eurostat survey indicates the percentage shares of companies that reported positive effects, negative effects and no effects, as well as the percentage of undecided companies. We converted the Eurostat rating system to our classification system by defining a strong positive impact (XXX) when 60% or more of the companies reported a positive impact of the single market legislation. A moderate positive impact (XX) is observed when 40–60% of the companies experienced positive effects. A minor positive impact (X) is obtained when 20–40% of the companies report a positive impact. No or negligible effects are defined for situations where 0–20% of the companies report a positive impact. Significant negative effects were not observed for the specific questions on EU legislative measures.

Second, we took a detailed look at the DRI survey of the trade associations' perception of the effects of the single market. For our purpose this survey contains data on food and drinks, toys, furniture, toys, sporting goods and domestic electrical appliances. For those sectors, the trade associations that were interviewed reflect in most cases the manufacturers' viewpoint. The survey furthermore adds a section on wholesale and retail trade based on contacts with Eurocommerce, which was also interviewed by us.

The DRI survey does not provide a detailed indication of the order of magnitude of the effects of the single market. But the comments allow to distinguish roughly between strong (denoted by XXX), moderate (XX) and minor effects (X) of the single market legislation. If no comments were made on an area of legislation or if it was explicitly stated that the legislation had no or negligible effect we granted a 0 in Table 4.1. We are aware, and the reader should be as well, that this interpretation of the DRI survey serves as an approximation only.

As a third source of information, we relied on our own work. We interviewed several experts and trade associations and obtained evidence from a representative set of case companies (listed in Table 5.18). Compared to the DRI survey, we focus more on retailers, wholesalers and logistics services companies which complements DRI's detailed coverage of manufacturers. Again we streamlined the information in a continuum from 'strong' to 'no effects'.

Before turning to the specific legislative measures, it is worthwhile to summarize the broader picture that emerges from the more general questions of the Eurostat survey. On the whole, companies believe that the single market programme has successfully removed EU trade barriers in the distributive trades. Of those countries surveyed, this feeling is expressed most strongly in Greece, Spain and Portugal, reflecting the southern dimension which is one of the recurring themes of this report. Companies in France and Italy have mixed feelings about the elimination of trade barriers and see both positive and negative consequences. German and UK distributive firms do not believe that the single market programme has made a significant difference: they do not report any aggregate changes nor any impact from the specific legislative measures. This may reflect that either the legislative measures did not attain their goal or that markets were already sufficiently integrated. While we are not able to judge on either interpretation, it should be noted that our UK and German case companies take a different and more positive view on the effects of the single market programme.

Table 4.1 indicates that the technical harmonization and the removal of trade barriers caused by differences in national product legislation is seen as a key issue for manufacturers, retailers and wholesalers. This is true for the application of the mutual recognition principle, for the specification of essential requirements, for testing, certification and enforcement and for environmental legislation. We argue in Section 4.2.1 that this part of the single market legislation has made a difference, although the practical application of the legislation has not been perfect in all cases.

According to all three information sources, the elimination of border controls matters greatly for wholesalers, retailers and logistics services companies. In addition, according to the DRI survey, manufacturers of clothing and sporting goods applaud the abolition of internal frontiers but, at the same time, point to difficulties with the new VAT clearing system.

The liberalization of the transport sector is crucial for wholesalers, logistics services companies and retailers. In the DRI survey manufacturers of domestic electrical appliances also appreciate the contribution of a competitive road transport sector to an efficient distribution system.

Fiscal harmonization of indirect taxes is found to impose a burden on small and medium sized enterprises (SMEs) in the DRI survey while not going far enough for some manufacturers. Our own sources pointed to the adjustments of retailers, mail order companies and manufacturing companies to the transitional VAT system. On the whole though, the emphasis placed on indirect taxation issues was less than expected.

The above EU legislation will be discussed in detail in Section 4.2, because this is where the three information sources anticipate the strongest effects of the single market programme. We will also pay attention to some aspects of competition policy because our own contacts report a moderate interest of distributive companies in competition policy. Retailers are engaged in franchising, joint buying agreements and parallel trade which are under the scrutiny of EU competition policy. Mergers and acquisitions are subject to Article 86 of the EC Treaty and the Merger Regulation. Note that companies contributing to the Eurostat survey do not attribute great importance to competition policy, although this could be the result of the absence of direct questions on this topic.

The focus on the above legislation does not mean that other parts of the single market programme do not matter for the distributive trades. According to the DRI survey, manufacturers of clothing, furniture, toys and sporting goods put a great weight on trade marks and the protection of industrial design. The EU trade mark legislation, that came into force at the end of 1993, may play an important role in the years to come. Nevertheless, trade marks and intellectual property protection are part of an in-depth analysis of individual manufacturing companies. Such analysis goes beyond the scope of this study which deals with the distributive trades.

The liberalization of the telecommunications sector may prove important in the future as it creates opportunities for new forms of retailing (e.g. TV and interactive shopping), advertising and electronic data exchange. Areas of some importance are capital market liberalization for manufacturers and southern retailers and distributors as well as procurement of public contracts for clothing and furniture. A priori, one could have expected company law to matter significantly, but this was not confirmed by the studies and materials at our disposal.

We now turn to a detailed analysis of the single market legislation. In doing so, we summarize the highlights of the legislation in the text and provide a comprehensive list of legislative measures in Appendix A.1.

4.2.1. Technical harmonization and the removal of trade barriers caused by differences in national product legislation

EU harmonization policy

Differences in national product legislation prevent the sale of specific products in all EU countries. Based on contacts with case companies, sectoral federations of distributive trades and industry experts, it is safe to say that diverging product legislation is generally perceived as perhaps the most important hurdle in the creation of a single market in the distributive trade sector. In practice, there are three approaches to those hurdles: (a) the old approach, (b) mutual recognition and (c) the new approach. Moreover, technical harmonization requires (d) testing, certification and enforcement.

The old approach: The traditional method of technical harmonization specifies detailed product-specific specifications that have to be satisfied by products sold in EU markets. This approach suffers from the long time needed for the adoption of measures and the often unnecessary level of detail. For the purpose of this study, it is important to note that the old approach is still being followed, sometimes in foodstuffs, more specifically in vertical product legislation for specific food products.

The mutual recognition principle: The second approach to technical harmonization legislation is based on the principle of mutual recognition. This principle states that products are equivalent unless a Member State can demonstrate otherwise. It allows products to be sold in other Member States once they comply with the regulatory requirements of the country of origin. Only when member countries can demonstrate that mutual recognition threatens the public interest (e.g. in some environmental, health and safety issues), can the application of mutual recognition be suspended.

In essence, mutual recognition is an attempt to circumvent the need for harmonizing legislation altogether. If it works, mutual recognition removes regulatory obstacles to trade while allowing corresponding national rules to remain in place: there is no harmonization of regulatory or voluntary specifications.

The new approach: The new approach builds on the logic of the mutual recognition principle but recognizes that this principle is hard to apply when strong differences in national product legislation exist. For this reason, the new approach involves a combination of regulatory harmonization and (voluntary) standardization of detailed specifications. Where justified regulatory obstacles to trade exist, legislation may specify essential requirements. This legislation is generally limited to the prescriptive statement of the safety, health (or other) features which a product must respect before being legally placed on the market. In order to help producers comply with the legislation, the new approach builds on the work of European standardization bodies. European standards represent a ready-to-hand set of specifications for compliance with the essential requirements (see the discussion of testing, certification and enforcement). Products that meet those standards are presumed to conform with the new legislation. Companies are, however, not obliged to use the European standards as long as they can demonstrate compliance with the EU essential requirements.

When a European standard is agreed upon, the existing national standards must be withdrawn. When no European standards exist, national standards may continue to be used by companies as a means of establishing quality and performance. Where (non-aligned) national standards remain in place, they may continue to generate obstacles to market penetration for products that do not meet those standards. This then does not represent a legal barrier but reflects consumer preferences for products meeting local standards or carrying local quality marks. As such they cannot be removed by legal measures.

In this context the close link between demand preferences and national product legislation should be emphasized. By banning for a long period the availability of foreign products, consumers often develop a taste preferencc for the domestic variety. The domestic bias is not easy to overcome in many cases and persists for some time even when trade barriers have been removed. For this reason, one cannot rule that out when local tastes are mentioned as a major barrier to trade; this is implicitly capturing the effects of hidden national legislative barriers.

The new approach has been followed in several subsectors of fast moving consumer goods dealt with in this study. A substantial part of the legislative harmonization deals with the food sector where the application of the mutual recognition principles encounters serious problems due to pronounced differences in national legislation:

(a) Several legislative measures deal with product composition, manufacturing and processing methods, product safety and hygiene. Those measures relate primarily (but not exclusively) to foodstuffs. In this respect the legislation on product ingredients (e.g. colouring, sweeteners and flavouring) is worth mentioning (see the list in Appendix A.1). The directives on manufacturing and processing methods regulate various aspects of the production process. The single market programme also lays down the packaging directives for the composition of materials and articles intended to come into contact with foodstuffs. Finally, several legislative measures relate to product safety and hygiene.

(b) Many distributive operators refer to the single market legislation on labelling, presentation and advertising.

The legislative framework on labelling lays down general rules to control misleading labelling, presentation and advertising. The objective is to inform consumers while at the same time preventing labelling which incites consumers to discriminate on the basis of nationality. The labelling informs the consumer about product composition, weight, use-by date for perishable foodstuffs, conditions for keeping or use and so on. In some cases, Member States may maintain national provisions which require the name of the manufacturing or packaging establishment of nationally-produced products to be shown.

The directive on labelling, presentation and advertising of foodstuffs (79/112/EEC with various amendments) is particularly important from the point of view of the single market, because it regulates the use of the national language in labelling. The main thrust of the regulation is that the sole use of the language of the linguistic region where the goods are marketed cannot be imposed without allowing for the possibility of using another language easily understood by the purchasers or using other means to inform the purchaser. In this way, one avoids countries using language requirements as a non-tariff barrier to trade.

The regulation on geographical indications and designation of origin (2081/92) summarizes the approach of the European Commission and the Court of Justice in the area of geographical names and indication of origin. The line of thought followed here carries wider implications for other sectors such as clothing. The regulation defines the concepts of protected geographical indication (PGI) and protected designation of origin (PDO). Both concepts relate products to the region, country or specific place from which they are originating. PGI and PDO can be registered at the European level following a procedure specified in the regulation. Registered PGI and PDO are legally protected against any misuse. Individual products can carry the PGI and PDO label after a certification procedure that checks whether it meets the criteria laid down in the specification of the PGI and PDO.

While offering the possibility to firms voluntarily to apply for PDO and PGI, the Commission and the Court are opposed to obligatory marking on the product of the country of origin (Made in...). Such obligation enables the consumer to distinguish between domestic and imported products and may therefore encourage him/her to prefer the domestic product.

Testing, certification and enforcement: Products may be denied access to a EU market, not only because of differences in specifications, but because of refusal to recognize proof of conformity with those requirements (conformity assessment). For this purpose a 'Global Approach to Testing and Certification'[10] was implemented which outlines an overall strategy for conformity assessment results and procedures. This approach allows for different methods for testing and certification taking account of product characteristics. A first option is testing carried out by 'third parties'. Under this procedure Member States are required to indicate 'notified bodies' (to carry out testing and certification), the results of whose tests must be accepted throughout the EU. Producers can also establish conformity by manufacturers' self-

10 COM(89) 209, 24.7.1989, implementing Decision 90/683, OJ L 380, 31.12.1990.

declaration (MSD) by relying on quality assurance schemes approved by accreditation bodies (on the basis of EN 29000/ ISO 9000). The directives under the new approach usually provide that products that meet conformity have a 'CE' mark affixed to allow product safety inspectors at the national level to identify and admit products complying with this legislation. Finally, the Commission has taken several legislative initiatives to establish an effective enforcement of the technical specifications.

The practice of technical harmonization

Mutual recognition: Does mutual recognition work in practice in the distributive trades? The major conclusion from our investigation,[11] the DRI and the Eurostat surveys is that the mutual recognition principle is generally considered a breakthrough. Yet it is not systematically applied by all EU countries in the areas where no essential requirements are specified. We illustrate those findings by some examples that underscore the more global assessment found in Table 4.1 earlier in the text.

Most practical examples relate to the food sector where mutual recognition is working in some but not functioning in other cases. For instance, an Italian rule prohibited the additive monosodium glutamate in uncooked meat. This had the effect of preventing the import of salami and raw ham containing the above substance but legally sold in the rest of the Union. The Italian rule was found by the Commission to be opposed to the principle of mutual recognition since the use of the additive in uncooked meat posed no health problems. Another example of the application of mutual recognition concerns yoghurt and cottage cheese. In France certain additives are permitted in the manufacturing of yoghurt and cottage cheese. In accordance with mutual recognition, Dutch retailers are now allowed to import these French products (although Dutch manufacturers are not allowed to manufacture yoghurt or cottage cheese under the French recipe for Dutch own-label products).

In other cases, mutual recognition fails to remove the obstacles to trade that arise from different national legislations. One example concerns the addition of vitamin C which is permitted in a number of European countries. In the Netherlands this is not allowed: products with vitamin C are considered a medicine. For this reason, corn flakes are sold without vitamins while they contain vitamins in the UK. Another example has to do with whipping cream. In the Netherlands, this product must have a 35% fat content. Imported cream from Germany only contains 30% and may therefore not be sold as whipping cream in the Netherlands.

EU exporters to Finland encounter several difficulties related to product ingredients. One contentious issue is the maximum tin content in preserves which is half that allowed in most other EU Member States (100ppm in Finland compared to 200ppm for other countries). This causes substantial difficulties for the imports of canned processed foods, such as canned tomatoes. In Finland, it is mandatory to add ascorbic acid and nitrate to meat products, which favours domestic producers and prevents free imports from other Member States. Sausages must be sold in statutory quality classes A and B, which protects local producers against competition from other Member States.

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11 The practical implementation of the EU approach to technical harmonization can solely be discussed on a case-by-case basis. Below we summarize the remarks of our contacts with sectoral federations, sectoral experts and case companies. Mentioned below are also the cases found in the literature, and the press. Several examples are taken from European Commission [1994] *The Community Internal Market: 1993 report*. Office for Official Publications of the EC.

In the furniture sector, a Swiss furniture case company (Möbel Pfister) emphasized the smooth cross-border movements of furniture within the EU. Other sources point to the barriers for household appliances, but it is not clear whether those are the result of the failure of the mutual recognition principle or are caused by taste differences. One of our retailing case companies in clothing (Marks & Spencer) is very positive about the impact of mutual recognition. In summary, the application of the mutual recognition principle varies considerably across product categories.

Textiles and clothing companies also voice concern on the application of mutual recognition. For instance, Germany implemented legislation prohibiting the AZO colouring substance which is commonly used in other Member States. Other companies complain about differences in national legislation on the PCP percentages tolerated for the treatment of leather used in textiles and clothing.

The new approach: On the whole, companies appreciate the specification of EU essential requirements, standards and testing procedures. The application of the legislation is, however, not perfect in all EU countries and differs across the subsectors discussed in this report. As with the mutual recognition principle, most but not all complaints refer to the food sector.[12] It is argued that national and local product requirements persist, often reflecting a different interpretation of EU legislation. Many distortions are derived from the fact that specific national 'administrative' procedures or practices are imposed by the national administrations in charge of controlling the implementation of EU legislation. In addition, there are many complaints about the inadequate or unpredictable control systems of specific Member States. Likewise, penalties imposed by Member States for violating EU rules are inadequate and variable.

In what follows we provide several examples of the new approach structured according to the classification of EU legislation on technical harmonization developed in the previous pages.

(a) *Product composition, manufacturing and processing methods, product safety and hygiene:*

   (i) Legislation on manufacturing and processing methods: EU essential requirements contribute to market integration, but significant barriers continue to exist, often but not always in food products. According to our sources, the most striking market integration is achieved in fresh food products. A recent example relates to fresh pasta products. Pasta manufacturers have developed a method which makes it possible to market fresh pasta with a use-by date of up to 120 days. In France, these new products were obstructed by a rule which said that a 'fresh' foodstuff lost its freshness if its shelf-life exceeded 42 days. In light of the EU-wide acceptance of the new pasta processing method, the French authorities have authorized marketing of the new pasta if appropriate labelling informs the consumer that the product has been specially treated in order to remain fresh for longer periods. Another example comes from Danone. This company switched the manufacturing of some of its yoghurt for the UK market to French production facilities. Its motivation was the EU legislation on manufacturing and processing methods that guaranteed access to the UK market of yoghurt produced in France.

12 There are also many complaints about pharmaceuticals which are not covered in this study.

Nevertheless, national regulations on manufacturing and processing methods continue to hinder trade. For instance, a Greek manufacturer of yoghurt is, as a result of Greek legislation, not obliged to specify sell-by/use-by dates. In France, the yoghurt manufacturer is bound by a mandatory sell-by date of 24 days after date of manufacture. For quick frozen foods, France imposes a mandatory sell-by date of 6 months after the production date. In all those cases, compliance with EU essential requirements does not guarantee automatic access to those countries' markets.

(ii) Product legislation for specific food products: few remarks were made to us on product-specific (vertical) legislation. The one exception deals with the well-known chocolate dispute. Member States such as Portugal and Belgium prohibited the sale of products which contain more than 5% vegetable oils and fats other than cocoa butter under the name chocolate. The directive on cocoa and chocolate, which was finally brought before the Council in 1995, allowed a higher use of other vegetable oils in chocolate. This creates new opportunities for chocolate producers of the UK, Denmark and Ireland to sell chocolate without the previous national obligation in several EU markets to label their product as 'artificial chocolate'.

(iii) Packaging: some references were made to us on this subject, mostly on the environmental aspects (see later). Other remarks about packaging refer to economies of scale not only in packaging costs but also in the set-up time of packaging in the production line. Clearly, those issues are part of the manufacturing production process and do not belong to the focus of this study.

(iv) Product safety and hygiene: toy companies emphasize the growing role of the CE label indicating that toys meet the directive on toy safety. Food retailers criticize the German LMBG law (Lebensmittel-Bundesgesetz) which requires importers to assume a number of responsibilities with regard to the imported food products that they place on the market. These responsibilities cover matters such as product safety, conformity and composition that only the manufacturer can verify. Retailers argue that the importer's liability should not go further than checking that his manufacturer certifies that the product conforms to EU legislation.

(b) *Legislation on labelling, presentation and advertising*: distributive companies throughout Europe underline the importance of harmonized labelling for unimpeded cross-border transactions. The main benefit of the EU legislation on labelling comes from the greater freedom of companies to include all the requested information in several languages in order to serve several markets simultaneously with the same packaging. The harmonization of the labelling format facilitates the task of the manufacturers, retailers and distributors, who do not have to worry about different labelling requirements when entering a new market.

In spite of the European initiatives in labelling, several problems remain. Once again, most examples refer to food. Consider a standard commodity like bread. In the UK, flour is required to be fortified with vitamins. In France, such bread should be labelled according to the EU directive on foods for particular nutritional uses and is therefore not considered by consumers as a standard bread product. This limits the export of UK bread to France. Desserts is another striking example. French authorities are criticized for the treatment of desserts produced by industrial means. The French DGCCRF mandates the use of certain names and imposes requirements beyond EU legislation. On German fruit desserts, a single label with the list of ingredients for several different fruit desserts is printed, e.g. cherries 8%, bananas 10%, strawberry 10%, even though this information refers only to desserts containing a single fruit. This practice is not permitted in the Netherlands. Desserts may be sold in Germany at maximum 8°C and at maximum 7°C in the Netherlands. Consequently, different labels must be printed, and, in principle, the sell-by/use-by date has to be adapted.

As mentioned earlier, the EU directive on labelling, presentation and advertising of foodstuffs allows countries to require the use of the national language on labels in combination with another language. This greatly reduces the scope for parallel imports of food and non-food products in several countries. For instance, Denmark requires that all food products must be labelled in a Scandinavian language, which constitutes a barrier to trade. In clothing, the obligation to put 'fire warning' labels only exists in some member countries. Such differences in mandatory labelling requirements create barriers to trade and prevent parallel imports.

Testing, certification and enforcement: Effective certification and inspection procedures for the application of EU legislation are quickly becoming an essential condition for the success of the single market. Retailers complain that, in particular in the southern EU countries, control of and compliance with EU quality standards is non-existent or very limited. The quality inspection is left to the Member States. The European Commission seldom intervenes to force Member States to implement efficient quality control systems in a harmonized way. As a result, intra-EU trade is distorted because low-quality goods are systematically sent to countries where quality controls are either less frequent or less stringent.

Waste disposal and environmental labelling

Increasingly, environmental issues are influencing the distributive trades. European environmental legislation on waste disposal forms part of EU standardization policy. It affects the choice of product and packaging materials and the techniques of waste disposal. Most often, environmental legislation imposes costs on manufacturers, distributors and retailers alike. However, it reflects a growing environmental awareness and a search for sustainable development in the distributive trade sector.

Two directives on waste disposal promote the prevention, recycling and conversion of waste. They furthermore stipulate that the producers of waste are responsible for handing it over to public or private collectors at their own expense. With this 'polluter pays' principle, firms have an incentive to reduce unnecessary waste generation.

For the distributive trades the proposed directive on packaging and packaging waste matters a great deal. This directive aims at preventing the production, at reducing the quantity and at promoting the recovery of packaging waste. It does so in setting targets for recovery and the minimization of final disposal for all packaging waste to be achieved no later than ten years from the date of implementation of the directive in national law.

While this directive is widely recognized as an important step forward, its application is far from perfect. Retailers, manufacturers and distributors alike complain about arbitrary and excessive national measures such as punitive taxes on one-way packaging, compulsory refill quotas or bans on certain packaging requirements. Likewise, the retail and distribution sector is pleading for EU-wide harmonization and – in particular for small and medium-sized enterprises – a simplification of environmental labelling.

The packaging directive proposed by the EU follows the line of the growing environmental awareness which gradually has grown among the consumers, retailers and manufacturers. Industrial initiatives such as the 'Verpakking Convenant' in the Netherlands or 'Grüne Punkt' in Germany – geared at reducing the packaging amounts used by the most prominent manufacturers in the detergent, food and beverage sectors – are typical examples of the mobilization around environmental themes. Eco-auditing and eco-labelling are key issues for clothing companies. Retailers open environmentally friendly stores and carry green products (e.g. Ahold in the Netherlands). Manufacturers produce and retailers sell products with environmental labels. In Germany, for instance, products can obtain the Blue Angel certification if they meet certain environmental requirements. This label informs consumers about the environmental friendliness of the product.

Growing environmental awareness is also reflected in the application of the mutual recognition principle. National environmental legislation can in some cases be upheld even if it constitutes a trade barrier for companies from other EU member countries. The Danish compulsory bottle deposit scheme is a well-known example. Denmark requires that beer and soft drinks be sold only in returnable bottles with a compulsory deposit. Companies from other countries protested, because the cost of recycling bottles reduces profitability. The Commission judged that the Danish scheme imposed a disproportionate level of environmental protection. The Court of Justice, however, backed Denmark, invoking the environmental provisions of the Single European Act. The Danish regulation was seen as safeguarding a public interest.

In summary, green issues can no longer be ignored in today's European marketplace. In northern and middle Europe in particular, environmental concerns are an essential part of the business environment. Increasingly, distributive operators have been and are being confronted with environmental requirements both at the national and the European levels.

The effects of EU legislation on distributive processes

In this paragraph, we analyse the effects of the above EU legislation on the distributive processes defined in Chapter 3. The central hypothesis is that the legislation facilitates cross-border sales of products within the EU. As shown in Table 4.2, this has an effect on all distributive processes, albeit with a different intensity:

(a) Sourcing: a major consequence of an increased product acceptance is that retailers can source products from other EU Member States which were either not available in the domestic market or were more expensive. It furthermore contributes to the creation of international buying groups which engage in joint purchasing. Those effects should primarily benefit the larger retailers who actively rely on international sourcing.

(b) Manufacturing production: an increased product acceptance allows a concentration of manufacturing production in a limited number of plants where manufacturing firms achieve economies of scale in the production of goods with a similar product composition.

(c) Distribution: increased international sourcing by the retailer and shifts in location of the manufacturing plants alter the distribution process. More complex international sourcing patterns create new opportunities for specialized distribution services (for instance, those offered by logistics services suppliers).

(d) Retail format: easier international product acceptance may perhaps facilitate the application of specific store formats in different markets. Retailers may be better able to offer the same product categories and adopt the same pricing strategies everywhere because they can be internationally sourced in a more efficient way.

Table 4.2. The impact of single market legislation on the distributive processes

	Processes			
Single market legislation	**Manufacturing production**	**Sourcing**	**Retail format**	**Distribution**
Technical harmonization	XXX	XXX	X	XX
Elimination of border controls	X	XX	0	XXX
Indirect taxation	0	0	X	X
Road transport	X	XX	0	XXX
Competition policy	0	XX	XX	X

0 = no or negligible effect, X = some effect, XX = moderate effect, XXX = strong effect

Source: Coopers & Lybrand and Catholic University Leuven.

The effects on sourcing and manufacturing production are direct and are expected to be most pronounced. The link between technical harmonization and the retail format is much weaker. Based on the evidence on the application of the EU legislation, the impact on the subsectors covered in this study (clothing, food, furniture, toys and household appliances) may vary considerably.

4.2.2. Elimination of border controls and abolition of border formalities

A summary of EU legislation

Efficient distribution requires that goods can be transported across borders without substantial delays. The elimination of unnecessary border controls is at the heart of the single market programme. The idea is to abolish internal border controls and transfer customs formalities to the external borders of the EU. This is done by abolishing the Single Administrative Document for internal EU trade. With some exceptions for intra-EU transit, the Community transit system will only apply to non-Community goods. Moreover, for goods transported under TIR or ATA convention arrangements, the EU is regarded as forming a single territory. For the trade between EU and non-EU countries, a common customs code brings together the general rules and customs procedures in a single, coherent body of law. Finally, differences in national import regimes with respect to goods from third countries, granted under Article 115 of the EC Treaty, have gradually been phased out. These national restrictions hampered the functioning of the single market by erecting intra-EU barriers for non-EU products imported into the Union through one of its Member States. For instance, when Member State A restricted the imports of textile products from a specific non-EU country by a quota, textile products imported by Member State B from the non-EU country could no longer be traded without restrictions between countries A and B.

Another major change concerns the elimination of VAT-related border checks within EU countries. VAT-related customs formalities for companies were abolished. Instead, suppliers of goods and services submit to their tax authorities periodic statements showing the value of intra-EU sales, the sub-totals applicable to each consumer and the VAT registration number of the customer. In addition, businesses are subject to selective audit checks based on normal commercial documents. Better co-ordination between national VAT administrations is to impede fraud and guarantee efficient clearing among EU Member States. The Commission furthermore attempts to simplify the administrative burden of the transitory system for companies, in particular for small and medium-sized enterprises.

The impact of EU legislation on the distributive processes

The removal of border controls and customs checks directly affects distribution and sourcing (see Table 4.2):

(a) Distribution: when border controls are removed transport time declines and transport costs fall. On the other hand, customs-related services offered by wholesalers and logistics services companies face a declining demand.
(b) Sourcing: a decline in travel time enhances the scope and reduces the costs of international sourcing.
(c) Manufacturing production: the attractiveness of centralization of production facilities depends upon
    (i) whether or not scale benefits offset increased transportation cost due to more transport, and
    (ii) whether or not acceptable delivery service levels can be achieved in spite of longer transport distances.

    On both points, elimination of border controls helps shift the balance in favour of centralization.

EU legislation in practice

According to the DRI survey, clothing manufacturers applaud the elimination of quota restrictions in intra-EU trade (i.e. Article 115). On the other hand, the DRI survey expresses the concern of toy, sporting goods and clothing manufacturers that single market liberalization goes together with a more restrictive attitude at the external borders of the Union. Our contacts with retailers and wholesalers reveal the same worry.

According to our information sources, border and customs formalities have been significantly reduced throughout the European Union. This brought down travel time and transport costs. One logistics services company, Tibbett & Britten, puts the decrease in travel time from the UK to Italy at half a day for a trip of three days. This would amount to a savings on travel time of 15–17%. Contact persons in the food business told us that, due to the reduced transport times, fresh products could now be transported quickly enough from one country to another to make international sourcing attractive. More elaborate computations in the single market study on road freight transport[13] put the transport cost savings on a trip of 1,000 km from the elimination of border times in the 1.8 to 2.1% range.

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13 European Commission, *The Single Market Review*, II: Impact on Services, Vol. 5: Road freight transport, Office for Official Publications of the EC and Kogan Page/Earthscan, 1997.

The evaluation of the elimination of VAT-related customs formalities is mixed. According to some companies, significant delays in cross-border VAT refunds occur in Italy if they are made at all. More fundamentally, the new approach abolishes VAT-related customs formalities, but does not necessarily diminish the administrative burden of the VAT system. In effect, VAT border documents are replaced by a more elaborate national VAT application. This is a sore point for companies in the distributive trades who argue that the new regime imposes too many burdens on companies. The need to prove the intra-Community nature of their operations, the burden of the identification and declaration requirements are felt to be obstacles to the expansion of trade between Member States. By far the largest impact in terms of administration of the single market has been the provision of trade statistics which impose costs on business with little or no perceived direct benefits.

This criticism is to be expected soon after the introduction of a quite different system of VAT application. As pointed out during a recent conference on the new VAT system, many of the problems are temporary. For instance, companies with intra-EU transactions will get to know the VAT numbers of their customers in other VAT countries. There is some evidence from tax authorities that this already happening. Simultaneously, follow-up directives are dealing with and simplifying some of the practical problems of the current VAT system. Likewise, computer systems of companies will be adjusted to produce the listings that are required for the current VAT applications. In effect, one of our case companies, the broker, distributor, service merchandiser and category manager Pietercil Resta, emphasized the savings in administration costs. This company agreed that border formalities have been replaced by administrative formalities, but found these administrative formalities to be little time-consuming. All relevant data were stocked in the computer and producing Intrastat records is just a matter of printing out the necessary forms.

The abolition of customs controls caused far-reaching adjustment problems for distributive companies that were specialized in customs clearance. This is a direct consequence of the single market and is illustrated here with the example of one of our case companies, Danzas. The removal of customs barriers took effect on 1 January 1993. The loss of customs services is clearly seen and explicitly discussed in Danzas' annual report of 1993. Danzas lost CHF 1,507 million in gross sales related to customs services which amounts to a decrease of 63.2%. Gross profits from customs services fell by CHF 74 million or 44.6%. As a percentage of (gross) group sales, customs services fell from 23.2% in 1992 to 13.1% in 1993 and 12.5% in 1994. The decline in revenues from customs clearance meant a reduction in group sales of 34.9%. The decline in net sales from customs services is less dramatic but pronounced nonetheless.

The employment consequences were impressive as well. A total of 468 jobs were lost in customs services which accounts for 37.2% of the work force. In addition, the annual reports mention a cost reduction programme which involved the lay-off of an additional 575 employees.

Table 4.3. The evolution of customs services at Danzas

(amounts in million CHF)	1992	1993	1994
Total gross sales of customs services (CS)	2384	877	839
% of group total	23.2	13.1	12.5
Net sales of CS	297	182	125
% of group total	6.4	4.1	2.8
Gross profit of CS	166	92	94
% of group total	10.6	6.4	6.3
Number of employees in CS	1258	790	832
% of group total	7.8	5.2	4.8

Source: Danzas annual reports.

Not surprisingly, sources within Danzas underline the scale of the switch-over for this company. To quote one of the persons interviewed 'The loss of customs clearance was hard. Everybody had to work until 2400h on the 31st of December, knowing that they would be out of work the next day'. The annual report of 1993 concludes dryly: 'Particularly during the first half of 1993, Danzas suffered from these effects on the operating income. The disappearance of the most profitable business segment of customs clearance in Europe and its indirect effects on the other activities were expected, but still surprising to many when it became a reality.'

The adjustment problems of companies like Danzas do not mean that the removal of border formalities or transport deregulation is counterproductive. Fundamentally, customs formalities and transport costs represent a dead-weight loss for the economy as a whole. The loss of customs clearance business for Danzas implies cost savings for the firms who pay for such services.

4.2.3. Liberalization of the road transport sector

Summary of EU legislation

Road transport has traditionally been heavily regulated in virtually all Member States. A particularly obstructive barrier was the quota system for cross-border road transport. A number of Member States insisted on lorries from another country having a permit for each delivery to their territory. Quotas for these national permits were agreed between Member States on a bilateral basis. At the same time, a system of Community permits, valid throughout the EU, existed in parallel. The major problem was that neither type of permit was available in sufficient numbers. On 21 June 1989 the Council adopted a directive that effectively abolished the permit system after 1992. This means that, since 1992, any transport company is allowed to organize an unlimited number of cross-border transport trips and does not have to inform any authority about its intention.

Another essential component of the single market programme concerns 'cabotage' which is the right of a non-resident transport firm to transport goods between two locations both situated in another member country. Unlimited cabotage for freight transport was to be achieved fully by 1 January 1993 but is delayed to 1 July 1998 after a transition period of gradual liberalization starting on 1 January 1994. As a consequence, cabotage was not in place during the time span analysed in this study.

To prevent a free market in transport being realized at the expense of road safety, the Commission proposed several measures on road safety and professional requirements for truck drivers.

The practice and impact of EU legislation

The liberalization in road transport is widely recognized as a major aspect of the single market programme. One of our contacts even views transport deregulation as probably the most important impact of the single market on the distributive trades. One of our case companies, Hays, emphasizes the importance of cabotage and argued that it used to be cheaper to send a truck load of goods from Munich to Rotterdam than from Munich to Düsseldorf. This is consistent with the findings of the single market study on road freight transport.[14] According to the preliminary results of this research, measures related to cabotage/cross-trade transport lower the cost price in international transport on a trip of 1,000 km by 3.3–4.1% in the different Member States. The EU legislation on weights and dimensions achieves a transport price reduction of 0.6–0.9%. On the other hand, several EU measures raised the cost for transport firms. The Eurovignette and the speed limiter each increased costs in the individual countries by a minimum of 1% and a maximum of 2.4%. The harmonization of vehicle taxes raised costs for transport firms in some countries while lowering costs in other countries. The harmonization of excise duties respresents a substantial cost burden on road transport firms of approximately 10%. On the whole, though, transport prices declined significantly under pressure of the intense competition among road transport companies which followed the liberalization of the road transport sector.

Relating this discussion to the distributive processes, we view the primary effect on distribution, but sourcing is likely to be influenced as well (see Table 4.2):

(a) Distribution: companies specializing in distribution benefit from the increased opportunities to operate in other EU countries. This contributes to the emergence of pan-European logistics services firms who take care of the distribution activities of manufacturers, wholesalers and retailers, such as warehousing and transport. Traditional wholesalers who only focus on part of the distribution process face increased competition.

(b) Sourcing: the liberalization of the transport sector reduces transport costs and drives down the price of international sourcing. This matters a lot in, for instance, the food sector. Food products are relatively inexpensive and cannot be profitably sourced internationally with high transport costs.

(c) Manufacturing production: as with the elimination of border controls, lower transport costs resulting from liberalization of the road transport sector increase the feasibility of centralizing production.

4.2.4. Indirect taxation and the transitional VAT system

A summary of EU legislation

A key element of the single market legislation on indirect taxation is the choice between the origin and the destination principle in VAT and excise taxation. The destination principle

[14] See footnote 13, p. 37.

implies that the tax rate is levied in the country where the product or service is consumed. This consumption-based taxation imposes the same tax on a specific product or service irrespective of the origin of the product. Exporters are refunded for the VAT paid in their country. The origin principle on the contrary taxes goods and services in the country where the goods are produced at the prevailing rate there.

Traditionally, the VAT system was entirely based on the destination principle. As part of the single market programme, the transitional system was introduced which maintains the destination principle for VAT residents (most companies) but installs to a yearly maximum of ECU 10,000 the origin principle for residents that are not VAT taxable (mostly consumers and some companies). In practice, this implies that private persons can, more than before, buy products abroad at the going VAT rate and bring them home without any additional VAT levy. To avoid undue distortions of trade, this rule does not apply to sales of new motor vehicles (including boats and planes), nor, subject to certain thresholds, to mail order sales and distance-selling firms or sales to government bodies, local authorities, hospitals, banks and so on.

The transitional VAT system was accompanied by efforts to approximate VAT rates. A minimum standard VAT rate of 15% was adopted as well as one or two reduced rates, subject to a minimum of 5%. A common list of goods and services eligible for the reduced rate(s) was specified, leaving Member States free to select from that list. Zero rates and extra-low rates (below 5%) existing on 1 January 1991 could be maintained, in principle, until 1997. For most countries, these measures went into effect on 1 January 1993.

Table 4.4. VAT rates in the European Union (12 Member States)

VAT rates (in %) January 1, 1991

	Reduced rate	Normal rate	Intermediate rate	High rate
Italy	4/9	19	-	38
Luxembourg	3/6	12	-	-
Netherlands	6	18.5	-	-
Portugal	8	17	-	30
France	2.1/5.5/13	18.6	-	22
Ireland	2.3/10	23	-	-
Belgium	1/6	19	17	25/33
Denmark	-	22	-	-
Germany	7	14	-	-
Greece	4/8	18	-	36
Spain	6	12	-	33
UK	-	15	-	-

Table 4.4. (continued)

VAT rates (in %) January 1, 1993

	Reduced rate	Normal rate	Intermediate rate	High rate
Italy	4/9/12	19	-	-
Luxembourg	3/6	15	12	-
Netherlands	6	17.5	-	-
Portugal	5	16	-	30
France	2.1/5.5	18.6	-	-
Ireland	2.7/10/12.5	21	16	-
Belgium	1/6/12	19.5	-	-
Denmark	-	25	-	-
Germany	7	15	-	-
Greece	4/8	18	-	-
Spain	3/6	15	-	-
UK	-	17.5	-	8

VAT rates (in %) August 1, 1995

	Reduced rate	Normal rate	Intermediate rate	High rate
Italy	4/10/16	19	-	-
Luxembourg	3/6	15	12	-
Netherlands	6	17.5	-	-
Portugal	5	17	-	-
France	2.1/5.5	20.6	-	-
Ireland	2.5/12.5	21	-	-
Belgium	1/6/12	20.5	-	-
Denmark	-	25	-	-
Germany	7	15	-	-
Greece	4/8	18	-	-
Spain	4/7	16	-	-
UK	8	17.5	-	-

Source: Eurostat.

Table 4.4 documents the evolution of VAT rates since the early 1990s. The most striking simplification is the abolition of intermediate and high VAT rates in all countries with the exception of Luxembourg where an intermediate VAT rate is maintained. EU countries now have at most three reduced rates and one normal rate. Nevertheless, non-negligible differences in VAT rates persist across countries.

EU legislation on excise taxation applies to mineral oils, alcohol, alcoholic beverages and manufactured tobacco. These products are allowed to move across the Union with suspension of excise duty and without checks at intra-EU frontiers. These movements occur via tax warehouses and under cover of an accompanying administrative document. Excise duty is paid when the product is released for consumption and at the rate in force in the Member State of consumption. As in the case of VAT, the destination principle therefore applies.

Minimum levels are specified for excise duties. Together with those minimum rates, some degree of harmonization in the tax structures is achieved in the scope of taxation, the methods of collection, tax exemptions and payment terms. Temporary transition measures were granted to Denmark, Ireland, Germany and Spain.

The practice and impact of EU legislation on indirect taxation

Because the destination principle remains the cornerstone of indirect taxation, the impact of EU legislation on most distributive companies should not be exaggerated.[15] Most retailers, manufacturers and distributors experience few changes (see Table 4.2). The exceptions relate to the partial introduction of the origin principle in VAT taxation for non-VAT residents combined with a less than complete convergence of VAT and excise tax rates.

(a) Retail format: retailers close to the border of countries with low VAT rates and/or excise taxes benefit from the increased opportunities for private consumers to engage in cross-border trade. A well-known example is the boat and channel trips between the UK and France.
(b) Distribution: the distribution process of manufacturers and mail order companies is complicated by the fact that they have to distinguish between VAT and non-VAT residents. They also have to check whether the threshold for non-VAT residents is not exceeded.
(c) In this context, particular attention should be paid to the position of mail-order companies.[16] Mail order accounts for a small share of retail trade (2–3%) but it is an area where the creation of the single market could be expected to increase cross-border sales. Apparently, this has not happened. Many of the larger mail order companies have been actively engaged in cross-border expansion by setting up subsidiaries in other countries rather than sending goods abroad. This is partially the result of differences in national technical specifications and, in particular, labelling. The cost and the difficulties of cross-border payments are another reason as are the speed of delivery and the taste differences across EU markets. An essential reason, however, relates to the special VAT regime for intra-Community mail-order sales which requires operators to appoint tax representatives and incur other administrative costs once the value of sales in a partner country exceeds ECU 100,000 (Member States have the right to reduce this to ECU 35,000). Many small mail-order companies restrict deliveries to other Member States rather than incur these costs.

4.2.5. Competition policy

Competition policy is not a part of the single market programme *strictu sensu* but constitutes the regulatory framework for undistorted competition in the single market. Its relevance for the distributive trades is undeniable. Here, we concentrate on franchising, parallel trade, joint purchasing agreements by buying groups and merger control[17] – areas we deem most relevant to the development of the single market in the distributive trades during the last decade. This assessment is based on the following considerations:

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15 This evaluation is based on (1) an interview with Stan Beelen, a Coopers & Lybrand tax partner, (2) a conference on the evaluation of the new VAT system, (3) two articles by Terra, B.J.M. [1995] in a specialized newsletter published by Sdu Juridische & Fiscale Uitgeverij, and (4) evidence from case companies.

16 This discussion is based on European Commission [1995] Proceedings of Meeting with AEVPC on June 22, Mimeo.

17 This discussion is based on the papers of the European Competition Forum of April 3 and 4, 1995 and in particular on the papers by Niall Bohan, Olivier Guersent and Jean Dubois (Ehlermann, C.D. and Laudati, L. (eds.) [1997] *Proceedings of the European Competition Forum*. Office for Official Publications of the EC, Luxembourg, and John Wiley & Sons). Useful material was also contained in European Commission [1995] *Measures in the Field of Commerce in the European Union*. Volume 2: Commerce and Competition, Commerce and Distribution Series. Finally, we draw some information from the London Economics study on competition policy that was done as part of the single market evaluation (European Commission: *The Single Market Review*. V: Impact on competition and scale effects, Vol. 3: Competitions issues, Office for Official Publications of the EC and Kogan Page/Earthscan, 1997).

(a) We show in Chapter 5 that franchising agreements play an important role in retail of furniture, clothing and, to a lesser extent, food products. France is by far the leading country in franchising in Europe. For instance, franchising of home furniture accounts for 30% of home furniture stores in France and 3% in Germany. In clothing and food products famous examples like Benetton and MacDonalds operate through a system of franchising. From contacts with retail companies and trade associations it becomes clear that differences in or the absence of national legislation on franchising create an uncertain legal framework and that a need exists for a balanced EU position on franchising.
(b) Chapter 5 provides some evidence on the importance of parallel trade. As far as we can judge, parallel trade accounts on average for about 5–10% of retail trade. In principle, the single market programme enhances the scope for parallel trade in the EU.
(c) One of the essential findings of Chapter 5 is the emergence of buying groups of retailers on a pan-European scale. A major motivation for this trend is the desire to increase bargaining strength with respect to the manufacturers.
(d) As shown in Chapter 5, the distributive trade sector experienced a surge in intra-EU mergers and acquisitions following the Single European Act. Several of those have a Community dimension as defined in the Merger Regulation that came into force in 1990. The new Merger Regulation has indeed been applied intensively to the distributive trade. Of the 140 cases that were decided under this regulation in the period 21 September 1990 to 25 March 1993 nine cases directly dealt with retail distribution, two with wholesale distribution, one with trading companies and another one with advertising. Moreover, several cases related to manufacturing companies with significant distribution activities (e.g. Pepsi/General Mills; Nestlé/Perrier; Sara Lee/BP food division).

EU competition policy: legislation and application of the legislation

On the whole, EU competition policy recognizes the value of franchising and purchasing agreements for penetrating previously closed markets. Likewise, mergers, joint ventures and other strategic alliances may yield substantial economic benefits for the companies involved. On the negative side, alliances and company agreements can lead to dominant positions and abuse of market power. Competition policy must in such cases evaluate costs against benefits.

Franchising: In principle franchising agreements are ruled out by Article 85(1) of the EC Treaty since they reduce competition between distributors of the same goods. For this reason they can work as obstacles to market integration under certain circumstances. However, franchising can contribute to competition because independent retailers can open a store more easily with the expertise and the assistance of the franchiser. Consumers benefit too because franchise agreements combine the advantage of a uniform distribution network with the existence of retailers personally committed to service. For this reason, Commission Regulation (EEC) 4087/88[18] granted a block exemption from Article 85(1) for distribution and service franchises with the exception of wholesale franchising agreements. With this block exemption, franchising in distribution and retail is allowed provided that franchisees are free to sell to other franchisees and are not restricted in their pricing, sales and sourcing strategy.

18 Commission Regulation (EEC) No. 4087/88 of 30 November 1988 on the application of Article 85(3) of the Treaty to categories of franchise agreements (OJ L 359, 28.12.1988, p. 46).

Parallel trade: Parallel trade is an essential mechanism for ensuring arbitrage between markets. Restrictions on parallel imports obstruct market integration by hampering price convergence across the different parts of the EU. Given its commitment to integration, the Commission is opposed to vertical agreements that impede parallel trade. The legal basis for this critical view are Article 85(1) when agreements between firms (e.g. vertical restraints) are concerned and Article 86 when dominant positions of firms are involved.

First consider the legislation based on Article 85. In brief, the Commission and the Court of Justice usually impose the condition on vertical agreements that the latter do not restrict parallel trade. Restrictions in distribution can be justified for efficiency reasons but should not translate into restrictions on parallel imports. This principle is applied in the case of exclusive and selective distribution systems. The Commission and the Court of Justice have dealt harshly with a very large number of cases that did not respect this principle.

Parallel trade can also be impeded by price discrimination that results from the monopoly power of companies in one or more markets. Such price discrimination is condemned as anti-competitive under European competition law for firms that have been found to occupy a dominant position. Article 86(c) explicitly mentions price discrimination as an example of an abuse of a dominant position. In practical cases, this has meant that companies are not obliged to charge similar retail prices in different markets but are not allowed to counteract the convergence of prices by restrictions on parallel trade.

Joint purchasing agreements by buying groups: One of the remarkable trends in European retailing is the rapid growth in transnational buying groups, which – for participating retailers – pool the purchasing of goods from manufacturers. German and French competition authorities, among others, have argued that the pooling of buying power considerably strengthens the economic power of retailers. This allows retailers to extract preferential terms from producers to the disadvantage of producers and at the cost of fair competition with other retailers who are unable to obtain similar conditions.

Alternatively, retailers consider joint purchasing agreements and buying groups as a necessary counterweight to the bargaining power of large manufacturers. In addition, the empirical evidence in Chapter 5 brings out that international buying groups are often composed of retailers who operate in different territories and are not directly competing. Under those circumstances, there is no clear-cut conflict with Article 85. The anti-competitive effects of joint purchasing agreements are to be evaluated case-by-case.

Another potential threat of buying groups is that they create excessive concentration in distribution. This could lead to conflicts with Article 86 which forbids the abuse of dominant positions. We have little evidence to support this claim. In any case, the application of this article in the case of buying groups is not straightforward, and the Commission has not taken this route.

Merger control: Mergers and acquisitions have been very common in the distributive trades since the beginning of the 1980s. They are a key part of the internationalization strategy of larger European retailers and distributors. While offering the potential for significant efficiency gains, they also enhance market concentration. Excessive concentration is a threat for unimpeded competition in an integrated market. The Commission's competition policy on dominant positions attempts to avoid that the merger activity of individual companies reverses the pro-competitive effects of a single market.

Article 86 of the Treaty of Rome rules out any abuse of a dominant position within the common market if it distorts competition between Member States. This is a very broad definition, and the Commission has used considerable discretion in applying it to particular cases. The rulings of the Court of Justice usually backed the Commission's opinion.

In the light of the creation of a single market, a new Merger Regulation came into force at the end of September 1990. During the first two and a half years that followed around 140 transactions resulted in decisions by the European Commission under the new procedures.[19] This regulation covers all forms of merger, including legal mergers, acquisitions, take-overs, joint ventures and strategic alliances.

The idea of the Merger Regulation is to lay the responsibility of the larger mergers with the Commission. More specifically, the Commission decides on the case when each of the following thresholds is satisfied: (i) world-wide turnover of the combined companies exceeds ECU 5 billion, (ii) at least two partners must have a EU-wide turnover exceeding ECU 250 million, and (iii) one of the partners earns less than 66% of its EU turnover in one and the same Member State. The third criterion is justified by noting that when all merging companies are very dependent on a specific Member State, competition is likely to be distorted on the national instead of the EU market. All mergers that do not satisfy those requirements automatically fall under national competition policy.

So far, the Commission has only blocked mergers twice. On several occasions, the Merger Task Force deemed the merger proposal unacceptable in its original form. Instead of flatly rejecting the merger, the Commission has allowed the merger subject to remedies, i.e. modifications that are to be undertaken for the merger to be finally approved. One common remedy is vertical disintegration in case of vertical linkages. Horizontal links between companies are another motivation for remedies. Through cross-participation merging companies sometimes obtain ownership in several of the remaining competitors. The Commission can then oblige the merging parties to sell their interests in one or more of the other companies. A new direction in the Commission's regulatory approach is to use one of the merging firms' activities to create a new 'third force' to compete with the new entity. Assets are then sold by a set undisclosed deadline to a single buyer that is not chosen by the Commission. For instance, Nestlé had to dispose of eight of its brands of mineral water when it took over Perrier. It could not sell those brands to the other large competitor in the French market of mineral water, BSN. Finally, the Commission uses remedies to facilitate entry into the relevant market.

A specific issue under merger control is the co-operation between small and independent retailers. To survive the trend towards increasing concentration of retail, SMEs will have to co-operate (like the grocery retailers of ICA) to achieve competitive purchasing prices with major manufacturers and to achieve efficient store operations. Up to now national legal restrictions remain for SMEs to co-operate on full scale. As of today retail co-operations are

19 Neven, D., Nutall, R. and P. Seabright [1993] *Merger in Daylight. The Economics and Politics of Merger Control*, CEPR: London.

not given the same rights as are franchise operations; in fact they are not even allowed to be franchisees in most Member States or according to Community rules (Article 85(1)). Several of these individual co-operation agreements are too small to be judged under Article 85, which transfers the control to the national level. As far as SMEs are concerned a new balance between co-operation and competition is an issue for discussion.

Competition policy and the distributive processes

We see implications from EU policies for the retail format, sourcing and distribution (see Table 4.2):

(a) Retail format: the policy towards franchising and the Merger Regulation directly affects the multi-store management and co-ordination feature of the retail format. More specifically, the decision of retailers to expand through franchising, organic growth or mergers and acquisitions is influenced. The main thrust of this survey is that current competition policy provides sufficient flexibility for retailers in their choice of expansion method.
(b) Sourcing: the policy towards joint purchasing agreements by buying groups is flexible enough for companies to constitute international buying groups.
(c) Distribution: the Merger Regulation allows M&A among distributing retailers, manufacturers, wholesalers and logistics services companies but, depending on the case, imposes conditions.

4.3. Remaining shortcomings in the single market framework and remaining barriers to market integration

The single market legislation amounts to a comprehensive framework to promote market integration in the distributive trades. The Eurostat survey, our information sources and the DRI report nevertheless emphasize that the single market has not been completed. Consistently, companies in the Eurostat survey indicate that, while they appreciate the removal of obstacles to trade, they do not consider the European market to be fully integrated. The DRI survey and our own contacts identify various loopholes and shortcomings that could be addressed in future actions:

(a) Mutual recognition and the new approach are not functioning well in some areas (in particular in the food sector). When sharp differences in national legislation exist and no EU essential requirements are specified, mutual recognition is hard to apply. When essential requirements are available, they are sometimes interpreted differently by national authorities. In some cases, the sales of products that have established conformity continue to experience difficulties in individual markets. There is a lack of inspection and enforcement of EU legislation on technical harmonization.
(b) Retailers and manufacturers plead for transparent and consistent guidelines in the environmental field. They accept the need for an environmental policy but find the current approach piece-meal and complex.
(c) Many distributive operators complain about the high cost and the long delays in cross-border payments. It is to be hoped that the recently approved cross-border transfer directives provide a solution to those problems.
(d) Over and over again, distributive companies point to the disruptive effects of exchange rate fluctuations on the functioning of the single market. Exchange rate movements

influence the location of manufacturing production and intra-EU sourcing. For instance, Tesco, a British retailer, explicitly mentioned it decided not to switch the sourcing of certain products from the UK to France as a consequence of the depreciation of the pound.

(e) Several manufacturing companies mention the role of trade marks and the protection of intellectual property and industrial design. While recent EU legislation is recognized as an important step forward, several companies feel that more can be done.

(f) Some retailers and manufacturers criticize the restrictions on advertising, promotion, television and the media. They argue that those restrictions limit the development of pan-European advertising and promotion campaigns. Likewise, new forms of retailing become harder to implement.

(g) Several distributive operators argue that not enough is being done to help SMEs to adapt to the new legislation. This is particularly true for legislation on VAT and the environment.

(h) Retailers and wholesalers in food, clothing, furniture, toys and sporting goods source several products from non-EU countries. They are concerned about EU external barriers and argue that the intra-EU trade liberalization should be followed by similar initiatives for products from outside the Union.

Several areas of legislation in the distributive trades are reserved to the national level. This is true for regulations of retail development, opening hours, promotional techniques as well as various aspects of labour market legislation. Those regulations often do not interfere with the functioning of the single market because they are relevant to the operators' choice of destination once he/she decides to expand geographically rather than determining the internationalization of activities in the first place. In some cases, however, these national factors may deter entry by partner country operators. For this reason, the next section deals with these issues in more detail.

4.4. Summary and conclusion

This chapter analysed the main determinants of the distributive trades. We explored in detail the contribution of the single market legislation with an emphasis on the removal of technical and customs barriers, indirect taxation, transport liberalization and competition policy. As could be expected, the impact of the single market legislation on the distributive processes varied considerably according to the type of legislation, the application of the legislation and the subsector considered.

In this chapter we recognized explicitly that the contribution of the single market cannot be fully understood without a firm grasp of the other factors that shape sectoral trends. For this purpose, we discussed the entry barriers that arise from national legislation. We furthermore identified important economic determinants including demand, cost and technological conditions as well as the market structure.

In Table 4.5 we summarize the main findings of this chapter. The table is structured according to the distributive operators and distributive processes identified and discussed in Chapters 2 and 3. We distinguish carefully between single market legislation, national legislation and economic determinants.

Turning to the retail format first, the single market legislation does not exert a profound influence on this distributive process. Perhaps the greater product acceptance that stems from technical harmonization helps retailers to successfully apply the same store format in different markets. Retailers close to the border of countries with low indirect tax rates may benefit from the increased opportunities for private consumers to engage in cross-border trade. Yet, those effects should not be exaggerated. On the contrary, competition policy defines the rules in the area of franchising and M&A mergers, but, as far as we can judge, this has at most moderately shaped the multistore management and coordination of major retailers.

Manufacturing production is obviously affected by cost conditions and technological developments. But specific aspects of the single market programme create opportunities for the concentration of production in fewer but larger plants. Centralization of production is only feasible when products from Euro-plants are accepted throughout the EU. Technical harmonization and the removal of barriers due to differences in national legislation improve product acceptance in the EU. Centralized production furthermore benefits from efficient and cheap transport in a borderless European market.

The consequences of the single market legislation on the distribution process are manifold and profound. The elimination of border controls and the liberalization of the road transport sector are crucial. These measures do not only raise the productivity of distribution by lowering transport costs and reducing travel time. They also create the appropriate environment to develop new distribution methods on a European scale, a theme which will be explored further in Chapter 5. Other points worth mentioning are the impact of competition policy on M&A activity and the impact of the transitory VAT system on mail order companies. Finally, technical harmonization indirectly affects distribution through adjustments in sourcing and manufacturing production.

Together with distribution, sourcing is the distributive process that is most significantly influenced by the single market. Technical harmonization is of primary importance. Greater acceptance in an integrated market facilitates intra-EU sourcing and promotes the development of international buying groups. Cheaper and quicker transport enhances the scope and reduces the costs of intra-EU sourcing. A transparent competition policy towards parallel imports and joint purchasing agreements creates an appropriate institutional background for intra-EU sourcing and international buying groups.

For intra-EU sourcing to be profitable, cost differentials must exist between EU countries. Demand preferences for home products should not be too strong. Technological progress in distribution and storage facilitates the shift of retailers to products from foreign manufacturers.

Table 4.5 displays a comprehensive picture of the driving forces in the distributive trades. The time has come to put the pieces of this and the previous chapter together. In Chapter 2, we defined which distributive operators perform which distributive processes. In this chapter, we identified how the single market legislation and other determinants affect the distributive processes. The puzzle is completed when we understand the strategic adjustments of the distributive operators to the induced changes in the distributive processes. This is the topic of the next chapter.

Table 4.5. Summary of the determinants of the distributive processes and operators

Distributive processes	Distributive operators	Impact factors	Relative importance	Comments
Retail format	Retailers	* SM legislation		
		- technical harmonization	X	easier application of store formats in different markets
		- elimination of border controls	0	
		- indirect taxation	X	border trade due to tax differentials
		- road transport	0	
		- competition policy	XX	multistore management and coordination affected by policy on franchising and M&As
Manufacturing production	Manufacturing companies	* SM legislation		
		- technical harmonization	XXX	increased product acceptance
		- elimination of border controls	X	allows a concentration of production
		- road transport	X	near opportunities for concentration of production
		- indirect taxation	0	
		- competition policy	0	
Distribution	Wholesalers	* SM legislation		
	Logistic services companies	- technical harmonization	XX	adjustments in sourcing and manufacturing affect distribution
	Manufacturers Retailers	- elimination of border controls	XXX	transport cost and time are reduced, decline in demand for customs clearance
		- indirect taxation	X	adjustment of mail order companies to new VAT system
		- road transport	XXX	transport cost and time are reduced, more efficient distribution methods
		- competition policy	X	impact of Merger Regulation on M&A
Sourcing	Manufacturers	* SM legislation		
	Wholesalers	- technical harmonization	XXX	increased product acceptance stimulates intra-EU sourcing and international buying groups
	Retailers	- elimination of border controls	XX	a decline in travel time enhances the scope and reduces the costs of intra-EU sourcing
		- road transport	XX	
		- indirect taxation	0	
		- competition policy	XX	policy towards parallel trade and joint purchasing agreements matters

0 = no or negligible effects, X = some effect, XX = moderate effect, XXX = strong effect

Source: Coopers & Lybrand and Catholic University Leuven.

5. The single market and the sectoral performance of the distributive trades

5.1. Introduction and formulation of the main hypotheses

In this chapter, we relate the sectoral developments in the distributive trade sector to the single market programme. In doing so, we rely on the insights developed in the previous chapters. Those insights are summarized in Tables 5.1 and 5.2 which also are the basis for the discussion in this chapter.

The left hand side of Table 5.1 reproduces the main findings of Table 4.5. The first column of Table 5.1 lists the four distributive processes identified in Chapter 2. In the second column, we indicate the distributive operators that perform each distributive process. The third column provides information about the primary impact factors on those distributive processes. This column summarizes the information of Chapter 4. The last three columns contain the value added of this chapter. Column four indicates the strategic adjustments of the distributive operators to the single market legislation. These adjustments lead to direct effects on the operator and/or the processes he performs. However, the strategic adjustment may also lead to spill-over effects for other distributive operators and processes. These indirect effects are shown in the last column of Table 5.1.

Table 5.1. Impact factors and their consequences for the distributive trades

Distributive processes	Distributive operators	Primary impact factors	Strategic adjustment of operators	Direct effects (on operators and processes)	Indirect effects (on other operators and processes)
Retail format	Retailers	* SM legislation - technical harmonization - competition policy	National and international application of retail format	* Internationalization of successful retail formats * Expansion of successful retail formats * Concentration in national markets * Increase in scale and productivity of retailers * Adjustment problems for smaller, independent retailers	* Internationalization of distribution formats * Changes in sourcing
Manufacturing production	Manufacturing companies	* SM legislation - technical harmonization - competition policy	Concentration of production	* Reorganization of manufacturing, production and distribution	* Internationalization of distribution * Changes in sourcing
Distribution	Wholesalers and logistics services companies Manufacturers Retailers	* SM legislation - technical harmonization - border controls and tax-related customs formalities - road transport * Internationalization of retailers and manufacturers	Reorganization of the distribution system	* Decline of and increased competition in some distribution activities * Expansion of newer distribution methods * Internationalization of distribution * Scale, cost, and productivity effects in distribution * Decline in distribution prices	* Lowering of retail price or/and increase in retail profits margins

Sourcing	Manufacturers Wholesalers Retailers	* SM legislation - technical harmonization - border controls and tax-related customs formalities - road transport - competition policy * Adjustments in manufacturing, production, distribution and the retail format	* Increased international sourcing * International buying groups	* Increase and shifts in intra-EU trade and consumption * Expansion of international buying groups * Expansion of retailers that rely on international sourcing * Increase of market share of products/brands that are internationally sourced; growing brand similarity * Lowering of retail prices or/and increase in retail profitability * Retail price convergence

Source: Coopers & Lybrand and Catholic University Leuven.

This rather abstract representation becomes more intuitive when we look at each distributive process in more detail. This provides a useful summary, at the outset of this chapter, of the main arguments developed later on:

(a) The retail format: as shown in the previous chapter, retailers are affected by the single market legislation on technical harmonization and competition policy. However, national legislation and economic conditions play a very important role.

The core competence of a retailer is his retail format in the development of which he invests a considerable amount of time and money. A retailer benefits when he can apply this retail format repeatedly in domestic and international markets. This is the strategic adjustment to which the single market legislation is contributing. If this contribution is significant, we expect an expansion of successful retail formats in domestic and international markets. The successful retail formats are likely to be the larger store formats and/or those of the multi-store type. Increased market concentration, scale and productivity are the likely consequences of this expansion. Smaller, independent retailers will experience growing competition. Indirectly, the internationalization of retailers triggers an internationalization of distribution and sourcing.

(b) Manufacturing production: we argued in Chapter 4 that EU technical harmonization and the removal of barriers related to differences in national legislation allow a concentration of manufacturing in a smaller number of production plants. Combined with an incentive to sell in the largest possible number of EU countries, this concentration of production leads to a reorganization of the manufacturers' distribution methods. In turn, this alters sourcing patterns and the relationship with wholesalers and logistics companies.

(c) Sourcing: the previous chapter related the sourcing between retailers, wholesalers and manufacturers to the single market legislation and economic conditions. The single market legislation creates new opportunities for international sourcing and international buying groups. Indirectly, EU legislation induces changes in sourcing through the internationalization of retailers and the concentration of manufacturing plants.

The internationalization of sourcing patterns should show up in intra-EU trade flows and in the expansion of international buying groups. International sourcing should furthermore reduce costs, and hence increase profits and stimulate the expansion of retailers that source from several EU countries. Moreover, we expect market shares of brands that are internationally sourced to increase, fostering retail price convergence across EU markets.

(d) Distribution: we showed in Chapter 3 that, in principle, distribution can be organized by retailers, manufacturers, wholesalers and logistics services companies. Distribution is influenced by a wide diversity of factors including single market measures, national legislation and economic conditions. Indirectly, the single market legislation triggers additional shifts in the distribution process if retailers and manufacturers expand internationally. These primary impact factors generate a reorganization of the distribution system. Some distribution activities are no longer needed. Other traditional distribution activities are facing enhanced competition. New distribution methods gain in importance, often linked to an increased internationalization of distribution and distributive operators. In addition, the reorganization of the distribution system may result in scale effects, cost and price reductions. Indirectly, lower distribution costs, if passed on to the retailer, will widen retail profit margins and lower retail prices. Likewise, the manufacturing companies, as users of distribution services, benefit from efficiency gains in distribution in terms of speeding up 'time to market', efficiency of distribution networks and cost of distribution services.

Table 5.1 provides a comprehensive overview of the arguments presented in this chapter. However, the set-up of the table does not correspond to the structure of the chapter that was agreed upon in meetings with the European Commission and the academic panel. Table 5.2 takes the last step that is needed to guarantee full consistency with the requested table of contents.

The first and second columns list the different types of sectoral adjustment and where they are covered in this chapter. The other columns of this table deal respectively with retailers, manufacturers and the group of wholesalers and logistics services suppliers. For each distributive operator we indicate how the changes in the retail format, distribution, sourcing and manufacturing production cause the sectoral adjustments described in the first column.

Section 5.3 deals with distribution by wholesalers and logistics services companies starting from the conclusion of Chapter 4 that distribution is one of the distributive processes that is most affected by the single market programme. The main theme of the discussion in this chapter is that the impact of the single market is closely linked to vertical integration in the distribution chain. We hypothesize that the operations of retailers and manufacturers in an integrated European market become increasingly complex. To master this complexity they take control of more segments of the distribution chain. As a result of this vertical integration, wholesalers as independent middlemen are increasingly being eliminated from the distribution chain and are forced to readjust their activities. Simultaneously, the enhanced vertical integration creates new opportunities for logistics services companies because, due to the increased complexity of the distribution process, retailers and manufacturers have an incentive to contract out the entire vertically integrated distribution chain to specialized companies. Successful logistics services companies have seized those opportunities and expanded on a pan-European scale. This has triggered the internationalization of those companies.

In Section 5.4 we focus on the position of manufacturing companies and investigate a double hypothesis. First, we analyse whether manufacturing companies moved towards centralization of manufacturing production, taking advantage of technical harmonization, the elimination of border controls and the liberalization of the transport sector. Secondly, we investigate how and to what degree manufacturing companies benefit from the vertical integration in the distribution process. Here we concentrate on savings in distribution costs and the move towards centralized distribution.

Sourcing is the subject of Section 5.5. In Chapter 4 we emphasized the considerable significance of the single market programme for this distributive process. In this chapter we test whether sourcing responded to the emergence of a single market. To be more precise, we investigate four hypotheses. First, we analyse whether the share of intra-EU sourcing increased after the adoption of the Single European Act. If so, we should observe that the share of internationally sourced products in domestic consumption rises and this increase comes from a greater reliance on intra-EU sources. Second, we look for a renewed interest in international buying groups. Third, we study brand and product similarity. Better opportunities for international sourcing should give retailers improved access to the best products at the lowest prices. All things being equal, this should lead to a growing similarity in the product range offered to the consumer of the various EU countries. Finally, we concentrate on parallel trade as one indicator of new possibilities to engage in intra-EU sourcing.

In Section 5.6, we analyse the internationalization of distributive operators. Internationalization is a broad concept, but we define it here as the multi-country operations of distributive operators. Tables 5.1 and 5.2 identify the complex driving forces behind the internationalization of distributive operators and allow us to develop the following hypotheses:

(a) Retailers: as indicated in Table 5.2, we argue that the internationalization of retailers comes from the adjustments in the retail format and the distribution process. We argued in Chapter 4 that the single market legislation on technical harmonization may facilitate the application of specific store formats in different markets through a better international product acceptance (see also Table 5.1). Moreover, retailers have an incentive in the internationalization of the distribution process trying to overcome the vertical externality that underlies the distribution chain. These pressures towards internationalization are, however, offset by restrictions imposed by national legislation and the wide divergence in demand conditions across Europe.
(b) Manufacturers: the reasons for internationalization of manufacturers are manifold and go beyond the scope of this report. For the purpose of this study, it is sufficient to note that manufacturers benefit from the ability to sell in many European markets. The build-up of a European presence coupled with the concentration of manufacturing and the enhanced own distribution activities, which are discussed in Section 5.4, underlie the international strategies of manufacturers.
(c) Wholesalers and logistics services companies: we maintain that the internationalization of wholesalers and logistics services companies follows from the internationalization of their customers, i.e. the retailers and manufacturers.

The other sections of this report take an indirect approach to measuring the impact of the single market. They document adjustments that result from the changes in the distributive processes. In Section 5.7 we hypothesize that adjustments in sourcing, the retail format and distribution primarily benefit the larger retailers, which leads to increased retail concentration and larger store formats. Section 5.8 considers whether the reorganization of the distribution system is reflected in distribution margins and profitability. In the final section, we argue that a varied dimension of increased EU sourcing should result in retail price convergence.

Table 5.2. The adjustment of distributive operators to the single market

Type of sectoral adjustment	Discussed in section	Retailers	Manufacturers	Wholesalers and suppliers of logistics services
Changes in distribution by wholesalers and logistics services companies	5.3.	Retailers are indirectly affected by those changes	Manufacturers are indirectly affected by those changes	Yes
The position of manufacturing companies	5.4.	No	Concentration in manufacturing Production gains from improved distribution	No
Sourcing	5.5.	Yes due to adjustments in distribution	Yes due to concentration of production	No
Internationalization	5.6.	Yes due to: - retail format - distribution	Yes due to: - manufacturing production - distribution	Yes due to international distribution; also discussed in Section 5.3
Competition, concentration and size	5.7.	Yes due to: - retail format - distribution - sourcing	Not covered in this report	Yes
Distribution margins and profitability	5.8.	Yes	Yes	Yes
Retail prices	5.9.	Yes due to: - distribution - sourcing	Not covered in this report	Yes

Source: Coopers & Lybrand and Catholic University Leuven.

5.2. Major trends and the main distributive companies

By now it should be clear that the distributive trades are a very broad sector with very different economic conditions and distributive operators. To provide a background for the further discussion in this chapter, we start with a short summary of major trends and identification of the main companies. This overview provides the background for the discussion later in this text. As a matter of fact, we will repeatedly refer to some of the key sectoral features presented in the next pages. The reader with a profound understanding of the distributive trades can skip those pages and immediately turn to the next section.

5.2.1. The major manufacturing companies

As explained in more detail in the Appendix A.3 to this study, the manufacturing end of the distribution chain varies considerably across the subsectors considered in this study. Manufacturing of fast moving consumer goods (FMCG) is populated by leading and powerful international players. There is a noticeable European presence among the top manufacturing companies. A somewhat more fragmented picture emerges in household appliances. The white goods market is quite diverse world-wide. However, there is a group of larger manufacturers like Whirlpool, Electrolux, General Electric, Bosch-Siemens, Matsushita, Maytag and AEG.

Manufacturing of toys and games is characterized by a high degree of fragmentation. On a world-wide basis only 12 companies hold a market share of 1% or more. The market is also very segmented due to the variety of products it involves (there are at least 12 major categories). The world top manufacturer is Nintendo, far ahead of the second world player Hasbro; the gap between the two lies mostly in the fact that video games are the leading category in the market in terms of value. The world's biggest toys and games manufacturers are mostly Japanese or American. Lego is the only EU representative among the top 10 companies. Despite the fragmentation of the market, certain players strongly dominate their market segments.

The clothing industry is characterized by a large number of small and medium-sized firms: in 1992, 86% of the 80,500 European companies had less than 20 employees each. These represented 34% of employment and 32% of turnover. A large part of these small manufacturers operate as subcontractors for larger producers or traders. Delocalization of production takes place in order to reduce labour costs. There are few major international clothing manufacturers. Frequently, manufacturing and retailing processes are vertically integrated. Some of the big manufacturers are also big retailers (e.g. Benetton, Levi-Strauss-Europe).

The market share of the top 20 furniture manufacturers in Europe is 11.1%. Of those 20 companies 11 are German and 4 are French. If we extend the study to the top 50 firms, we find that 20 depend on German capital and 10 on French. Italy, the second largest producer in Europe and the top exporter, has just 5 firms in the top 50 producers. Ahead of Italy are the Scandinavian countries with 6 of the top 50 firms. Total turnover for the top 50 exceeds ECU 10 billion (1993), equivalent to 16.8% of the European furniture supply. The average size of plants in Germany is much larger than the European average. In contrast, in Italy the production structure is extremely fragmented.

This survey of manufacturing companies displays a wide diversity in the different subsectors analysed in this report. In fast moving consumer goods, retailers are confronted with strong multinational companies. This is far less the case in the other subsectors where market fragmentation and smaller companies play a bigger role. One can expect that market integration will therefore not take the same form in the various subsectors.

5.2.2. The major retailers

Table 5.3. World's Top 25 retailers, by sales in 1993

Companies	Main type of trade	Home country	Sales 1993 in billion $	Annual average % change 1988–93
Wal-Mart	Discount	United States	68.0	26.7
Metro Int.	Diversified	Germany	48.4	19.1
Kmart	Discount	United States	34.6	5.6
Sears, Roebuck	Department	United States	29.6	-0.5
Tengelmann	Supermarket	Germany	29.5	8.2
Rewe Zentrale	Supermarket	Germany	27.2	13.2
Ito-Yokado	Diversified	Japan	26.0	19.4
Daiei	Diversified	Japan	22.6	10.5
Kroger	Supermarket	United States	22.4	3.3
Carrefour	Hypermarket	France	21.7	16.0
Leclerc, Centres	Hypermarket	France	21.1	11.1
Aldi	Supermarket	Germany	20.9	23.9
Intermarché	Supermarket	France	20.7	12.0
J.C. Penney	Department	United States	19.6	4.2
Dayton Hudson	Discount	United States	19.2	9.5
American Stores	Supermarket	United States	18.8	0.3
Edeka Zentrale	Supermarket	Germany	17.9	8.2
Promodès	Hypermarket	France	16.0	15.6
J. Sainsbury	Supermarket	United Kingdom	15.9	12.2
Jusco	Diversified	Japan	15.8	15.3
Price/Costco	Warehouse club	United States	15.5	20.2
Safeway	Supermarket	United States	15.2	2.3
Koninklijke Ahold	Supermarket	The Netherlands	14.6	14.5
Otto Versand	Mail order	Germany	14.4	13.6
Tesco	Supermarket	United Kingdom	12.9	12.0

Source: Management Horizons, extract from *The Economist*, 4 March 1995.

Table 5.3 lists the top 25 retailers in the world by sales volume. Table 5.4 gives the same data for the largest retail based organizations in the EU. The strong European position among world retailers is striking. Among the top 25 world players, more than half are European. Four European retailers belong to the top 10. Another noteworthy observation is the concentration of major retailers in the food sector and in general department stores. Apparently, the powerful manufacturing companies in fast moving consumer goods have their counterpart in the large food retailers and department stores.

Table 5.4. Retail trade: largest retail based organizations in the EU by turnover, 1994

Rank	Company	Member State	Turnover (million ECU)	Group net income (million ECU)	Number of employees
1	Metro Group	D	39,800	n.a.	13,000
2	Tengelmann Group	D	25,460	n.a.	196,719
3	Edeka Zentrale AG	D	23,445		
4	Rewe Group	D	21,637	16	161,000
5	Carrefour SA	F	20,722	328	90,300
6	Aldi	D	18,090		
7	Leclerc	F	16,281		
8	Intermarché	F	15,775		
9	J. Sainsbury plc	UK	14,819	699	131,298
10	Promodès SA	F	14,394	137	51,476
11	Koninklijke Ahold NV (incl. Stop&Shop)	NL	13,356	189	127,668
12	Tesco plc	UK	13,120	494	108,113
13	Karstadt AG	D	12,575	21	108,286
14	Kaufhof Holding AG	D	11,486	37	69,147
15	SHV Holdings NV	NL	11,435	171	57,400
16	Pinault-Printemps Redoute SA	F	10,763	184	60,843
17	Asko Deutsche Kaufhaus AG	D	9,835	159	65,906
18	Etablis. Delhaize Frères & Cie Le Lion	B	9,612	101	83,805
19	Bertelsmann AG	D	9,564	282	51,767
20	Marks & Spencer plc	UK	8,882	814	63,331
21	Matra Hachette	F	8,058	123	40,314
22	Argyll Group plc	UK	7,607	122	66,187
23	ASDA Group plc	UK	6,914	234	69,366
24	Spar Handels-AG	D	6,637	21	23,017
25	Docks de France SA	F	6,626	77	32,794
26	Kingfisher plc	UK	6,303	222	73,067
27	GIB SA	B	5,756	54	46,504
28	Boots Company plc	UK	5,081	860	75,322
29	Vendex International NV	NL	4,796	177	78,500
30	ICA Handlarnas AB	S	4,489	18	11,449
31	Galeries Lafayette SA	F	4,481	2	29,069
32	Kesko OY	FIN	4,378	75	5,701
33	Comptoirs Modernes SA	F	3,914	61	18,820
34	AVA Allg. Handelsges. d. Verbraucher AG	D	3,898	24	25,305
35	Deutsche SB-Kauf AG	D	3,819	34	25,065
36	Kwik Save Group plc	UK	3,644	115	22,502
37	Great Universal Stores plc	UK	3,476	484	31,659
38	Faellesforeningen for Danmarks Brugsfor.	DK	3,355	9	19,442
39	Centros Comerciales Continente SA	E	3,273	114	13,918
40	Great Universal Stores	UK	3,200		
41	Lewis (John) Partnership plc	UK	2,995	66	39,600
42	Sears plc	UK	2,764	148	42,783
43	IFIL-Finanziaria di Participazioni	I	2,753	148	18,951
44	La Rinascente SpA	I	2,751	51	18,920
45	Harrisons & Crosfield plc	UK	2,596	247	25,404
46	The Burton Group plc	UK	2,479	39	37,337
47	Standa SpA	I	2,402	-59	16,004
48	Tengelmann Warenhandelsgesellschaft	D	2,328	n.a.	12,651
49	WM. Morrison Supermarkets plc	UK	2,294	94	17,521

Source: DABLE and Goldman Sachs Global Research.

The discussion of retail internationalization later in this chapter is partially based on an in-depth study of leading retail companies from 11 EU countries (EU-12 without Luxembourg). Table 5.5 lists the main features of those companies by nationality. Several of those companies are present in more than one EU market, either in their own name or through a local subsidiary. The companies are primarily grocery retailers or general department stores, although several of them have gradually expanded in new areas of specialization.

Just like the manufacturing side, the presence of very large retailers in the other subsectors is more limited. As an illustration, we list the main clothing retailers in the UK, France, Germany, Spain and Italy in Table 5.6. The turnover of clothing retailers is on average significantly smaller than food retailers. Note furthermore the considerable variation in the leading retailers across countries. While there are companies that appear among the top retailers in several countries (e.g. C&A/Brennikmeyer and Etam), country-specific clothing retailers also play an important role.

Table 5.5. Overview of grocery retailers

Retailers	Ownership structure	Turnover 1993 (million ECU)	Main format	Retail sector interest	Non-retail sector interest
Belgium					
GIB	Private company	5,756	Hypermarkets, supermarkets	Food +, DIY, specially retailing (i.e. dept stores, sports stores, toy stores, books/home electronics/photo stores, stationery/newspaper stores, optical equipment), restaurants	Logistical support companies, credit cards, gift cheques
Delhaize 'Le Lion'	Public company	9.043	Supermarkets, superettes, discount food	Food +, drugstores	
Denmark					
Dansk Supermarked A/S	Private company	2.296	Hypermarkets. supermarkets, variety stores, discount food	Food +, discount clothing & footwear, shoes	Distribution companies, meat processing, property & equipment management
FDB (Coop Denmark)	Co-op	4.342	Discount hypermarkets. supermarkets, discount superm., convenience stores, grocery retail warehouse	Warehouses, building material discount stores, textiles stores, electrical equipment stores	Manufacturing companies (bakery, beverages), distribution operations
France					
Carrefour	Public company (with a large private ownership)	18,572	Hypermarkets, supermarkets, discount food	Food + , furniture/electrical, DIY, carpets, frozen food retail	Discount warehouses, C&C, petroleum wholesaling, insurance, consumer credit, travel & vacations, frozen food
Leclerc	Buying group	17,983	Hypermarkets, supermarkets	Food + , furniture, garden centres, DIY, clothing, shoes, agricultural, funeral parlour, jewellery, auto centres, travel, cafeteria, filling stations	Food processing & packaging facilities incl. large abattoir (Gilles), petroleum import (SIPLEC), trading & manuf. gold jewellery (DEVINLEC), banking
Intermarché	Buying group	17,667	Hypermarkets, supermarkets, superettes, discount food, rural groceries	Food + , collective stores, DIY, clothing, household, cafeteria, filling stations	Regional warehouses ('Bases ITM'), buying operations (SCAEX), food & drink processing & manuf. (25 cies) incl. meat processing, banking
Promodès	Public company (with a large private ownership)	13,597	Hypermarkets, supermarkets, local food stores, discount stores, convenience stores	Food +, clothing, footwear, household goods, electricals, cafeteria/pizzeria (E)	C&C, wholesale warehouses, wine bottling facility, banking (E), distribution operations
Auchan	Private company	12,059	Hypermarkets	Food +, garden centres, textiles, DIY, sports stores, fashion stores, electrical stores, furniture stores, filling stations	Catering (cafeteria), banking/credit card cie, interest in mail order cie controlled by Otto Versand

Germany					
Metro-Gruppe	Private company	29,620	Hypermarkets, supermarkets, discount, department stores, wholesale, C&C	Food +, department & variety stores, travel agencies, filling stations	Financial services
Tengelmann	Private company	25,130	Discounters, hypermarkets, supermarkets	Food +, clothes, DIY, discount non-food	Food manufacturing
Rewe-Zentrale	Buying group	20,540	Hypermarkets, supermarkets, discount, superstores	Grocery wholesale, drugstores, specialist outlets (incl. DIY, electrical stores, carpet stores, pet stores, jewellery chain), travel agencies	
Edeka Zentrale A.G.	Buying group	20,540	Supermarkets, hypermarkets		C&C warehouses for hotel and catering trade, food manufacturing, import, finance, real estate, meat processing
Aldi (estimates)	Private company	13,930	Food discount		Coffee-roasting & chocolate-making plants
Greece					
Marinopoulos	Private company	503	Supermarkets		
Sklavenitis	Private company (?)	287	Supermarkets		
Veropoulos	Private company (?)	203	Supermarkets		
Ireland					
Dunnes Stores	Private company	1,063	Supermarkets, mixed clothing, foodstores		
Musgrave	Public company (?)	624	Supermarkets, neighbourhood stores		Wholesaler
Power Supermarkets	Public company	407	Supermarkets	Lifestyle sports/leisure chain	
Italy					
Co-op Italia	Co-op	5,800	Hypermarkets, supermarkets, superettes, (hard discount: planned)	Food +, clothing, textiles	Food distribution warehouses
Gruppo Standa	Public company (with a large private ownership share)	2,800	Hypermarkets, supermarkets, variety & department stores	Food +	Wholesale business, logistics, support services (advertising, financial consultancy)
Gruppo Rinascente	Public company (with a large private ownership share)	2,700	Hypermarkets, supermarkets, variety & department stores	Food +, DIY, C&C, electrical goods chain, furniture stores	Supporting companies: real estate, distribution, factoring, foreign trading
Generali Supermercati (G.S.)	Private company	1,588	Hypermarkets, supermarkets, small grocery stores	Food +	Real estate company
Esselunga	Private company	1,394	Supermarkets, superstores	Food +	Manufacturing and processing facilities for coffee, confectionery & ice cream

Table 5.5. Overview of grocery retailers (continued)

Netherlands					
Koninklijke Ahold	Public company	12,457	Supermarkets, superettes, specialty stores	Food +, alcoholic beverages, health & beauty, pharmaceutical stores, mixed goods, confectionery retail, C&C (USA), discount drugstores (USA)	Wholesale, food manufacturing, institutional food supply, real estate activities
Vendex	Public company	4,517	Supermarkets, dept. stores, specialty stores, discount supermarkets	Food +, clothing, DIY, home furnishing, electr.goods, jewellery, pet care stores, tourism, mail order	Banking, meat product manuf. (in NL), book wholesale, computer software and literature (abroad), service activities
Unigro	Public company	1,989	Supermarkets, superettes	Food	Originally: wholesale and distribution
Portugal					
Jeronimo Martins Retail	Private company (?)	1,279	Hypermarkets, supermarkets, discount superettes	C&C	
Sonae	Private company	1,210	Hypermarkets, supermarkets, discount stores		Tourism, banking, computers, real estate and industrial activities
Grupo Pao de Acucar	Private company (?)	880	Hypermarkets, discount stores, convenience stores		
Spain					
Grupo Eroski	Co-op	1,182	Hypermarkets, supermarkets, discount	Food +, clothing, textiles, domestic appliances, furniture	Wholesale for members, 'store' card
El Corte Ingles	Private company	5,076	Department stores, hypermarkets, supermarkets	Dept. stores incl. food, travel agencies, software & information technology stores; mail order	Food packing and production centre, furniture maker, clothing manufacturer, insurance, own credit cards
United Kingdom					
J.Sainsbury plc	Public company	13,569	Hypermarkets, supermarkets, bulk purchase outlets	Food +, DIY	Meat processing, real estate development
Tesco plc	Public company	11,026	Supermarkets, superstores	Food +, filling stations w/convenience store	
Marks & Spencer plc	Public company	8,386	Mixed food/clothing stores	Food, clothing, footwear, homeware, furniture	Financial services, credit cards, shopping services, personal loans, unit trusts, pensions, Personal Equity Plans
Argyll Group plc	Public company	7,189	Supermarkets/superstores, discount	Food +, C&C, frozen food stores	
Asda Group plc	Public company	6,259	Superstores, supermarkets, discount stores	Food +	Real estate management

Sweden		(Market share)			
ICA		34.2%			
KF (Konsum)		20.5%			
D-Group (Vivo etc.)		13.2%			
Axel Johnson		5.6%			
Finland		(Market share)			
Kesko and K-retailers		39%			
S-Consumer Coop		23%			
Spar-Group		17%			
Tradeka Consumer Coop		11%			
Austria					
Aldi					
Lowa (Tengelmann)					
Spar					

Table 5.6. Overview of clothing retailers in selected countries

Leading clothing retailers	No of outlets	% outlets	Clothing turnover (Mln.ECU)
United Kingdom (1)			
Sears plc	3,042	38%	2,396
Burton Group plc	2,301	28%	2,386
Storehouse plc	428	5%	1,460
C & A / Brenninkmeyer	234	3%	1,218
C & J Clark Ltd	682	8%	601
Next plc	305	4%	544
Etam plc	239	3%	283
Lewis Trust Group Ltd	361	4%	272
Laura Ashley Holdings Ltd	182	2%	208
Coats Viyella	323	4%	186
Total	8,097	100%	9,553
France (2)			
C & A / Brenninkmeyer	45	8%	na
André	98	17%	na
Kiabi	50	9%	na
Vetimarche	105	18%	na
Nouvelles Galeries	62	11%	na
Etam	146	25%	na
Vetir	18	3%	na
Leclerc vêtements	51	9%	na
Total	575	100%	na
Germany (3)			
C&A / Brenninkmeyer	167	10%	4,358
Quelle	214	13%	3,018
Karstadt	286	17%	2,691
Otto Versand	55	3%	2,116
Kaufhof	253	15%	2,046
Hertie	99	6%	1,537
Horten	52	3%	849
Peek & Cloppenburg	39	2%	800
Woolworth	305	18%	671
Asko Group	223	13%	615
Total	1,693	100%	17,413
Spain (4)			
C & A Modas	6	1%	52
Cortefiel	67	16%	224
El Corte Ingles Group	31	7%	3,943
Galerias Preciados	30	7%	476
Simagro	95	22%	336
Zara	200	47%	na
Total	429	100%	5,032
Italy (5)			
Benetton	6,500	100%	1,485
Stefanel	na	na	270
Total	6,500	100%	1,755

Source: Marketline / Textil Wirtschaft

(1) Data 1993
(2) Data 1994; multiples only. NB: data André 1991
(3) Data 1990 except for C&A (1991), Hertie (1992) and Asko (1993)
(4) Data 1992; total groups turnover: detailed clothing turnover not available
(5) Data 1993; total groups information worldwide

In the toys and games sector, specialists are the leading channel by some margin with a share of just over 40% of the market. The discount proposition is largely represented by Toys 'R' Us and hypermarket outlets.

Table 5.7. Structure of the toys and games retail distribution in Western Europe in 1992

Distribution channel	*Market share in % of value*
Specialists	41
Hypermarkets/supermarkets	27
Department stores	12
Variety stores	7
Mail order/catalogue stores	5
Others	8

Source: Euromonitor.

Regionally, there is a high degree of variation between retailing patterns. The importance of hypermarkets is largely limited to the French and Spanish markets. The UK has a strong variety and catalogue sector, a value-driven concept which is not widespread elsewhere in Europe; the leading exponents of these sectors, Woolworths and Argos, are among the major toy retailers. In Germany and Italy, the specialist sector has maintained a larger than average share. In Germany, department stores also maintain a considerable importance.

As with toys and games, retailing of household appliances and furniture is in many EU countries still characterized by the presence of many smaller independent stores. This is particularly true in southern Europe. In Italy, for example, it is estimated that 35,000 retailers are engaged in the sale of household electrical goods, most of these being independent retailers. A similar picture emerges in Spain. In northern Europe specialist chain stores (e.g. Kingfisher, Darty) and category killers of the Toys 'R' Us, Ikea, PC World type have built up a respectable market position. Note that the absence of larger retailers creates market opportunities for wholesale companies who centralize the purchasing of the smaller stores. This is particularly true in household appliances.

Table 5.8. Home furniture: distribution channels in the main European countries, percentage market share, 1993

Channel	France	Germany	UK	Italy	Spain	Total 5
Buying groups associates	12	66	4	0	15	30
Franchising	30	3	0	0	0	7
Small and medium-sized independent stores	27	7	36	76	61	33
Large specialized distribution	15	8	25	3	1	10
Total specialized	*84*	*84*	*65*	*79*	*77*	*80*
Department stores	3	2	12	1	10	4
Hypermarkets, DIY	5	3	8	5	3	5
Mail order	5	3	6	0	0	3
Direct sales and building trade	3	8	5	15	10	8
Other			4			
Total non-specialized	*16*	*16*	*35*	*21*	*23*	*20*
TOTAL ALL	100	100	100	100	100	100

Table 5.8 gives a clear picture of the distribution structure for home furniture in Europe:

(a) Germany and France have the most modern and efficient distribution network, with much larger and extremely efficient sales outlets, particularly in Germany;
(b) Italy features a large number of small sales outlets and a less efficient distribution network, but the domestic market is considerable, second only to Germany;
(c) the situation is the reverse in the UK, where the distribution network is more modern and efficient than in Italy but the domestic market particularly small;
(d) Spain is similar to Italy, having a traditional distribution system made up mainly of small independent retailers. Its market is still limited because of the low per capita consumption.

Hypermarkets played a significant role in rationalizing distribution networks in Germany, France and the United Kingdom.

Table 5.9. Top 30 European furniture retail companies in 1993

Company	Country of origin	Type	Turnover total (million ECU)	Turnover in furniture (million ECU)	Market share (%)	Year of formation
GFM	D	J	1,782.4	1,693.3	3	1975
Begros	D	J	2,513	1,382.1	2.4	1965
DMV	D	J	1,450.8	1,251.5	2.2	1952
Conforama	F	GD/F	2,126.2	1,239.2	2.2	1970
IKEA 5	S	GD	1,821.2	1,239.2	2.2	1943
VME	D	J	2,311.4	1,138.8	2	1964
UEM 5	D	J	1,616.2	1,095.3	1.9	1965
Mondial	D	J	1,088.1	979.3	1.7	1988
Atlas	D	J	1,687	927.9	1.6	
VKG included MMZ/AFA	D	J	1,645.1	797.9	1.4	1978
Regent Möbel	D	J	1,984.5	764	1.3	1953
But International	F	GD/F	1,284	755.1	1.3	1972
Metro/Asko (3 signs)	D	GD	1,243.5	683.9	1.2	1990
MFI	UK	GD	774.2	654.2	1.1	1965
Musterhaus Küchen included Küchen Liga	D	J	1,062.2	637.3	1.1	1980
Musterring International	D	F	1,554.4	559.6	1	1938
Der Kreis	D	J	1,103.6	559	1	1979
Mobilier européen (3 signs)	F	GD/F	589.1	530.2	0.9	1969
Union	D	J	1,088.1	508.7	0.9	1988
MTG	D	J	829	407.4	0.9	
Garant	D	F	893.8	481.7	0.8	1956
Kraft	D	GD	673.6	471.5	0.8	
MEGA	D	J	621.8	362.7	0.6	1993
WOHNgruppe	D	J	673.6	351.9	0.6	
UFEM	F	J	382.2	344	0.6	1959
Concorde	D	J	569.9	342	0.6	
Vieux Chêne Expansion (6 signs)	F	GD/F	377.6	339.9	0.6	

Table 5.9. Top European furniture retail companies in 1993 (continued)

Company	Country of origin	Type	Turnover total (million ECU)	Turnover in furniture (million ECU)	Market share (%)	Year of formation
WK Wohnen	D	J	414.5	302.6	0.5	
Ais	UK	J	1,282.1	288.5	0.5	1980
Trend Möbel	D	J	518.1	285	0.5	1958
TOTAL TOP 30			35,961.2	21,373.7	37.4	

J = buying group, F = franchising, GD = large distribution.

Source: Csil.

The different degree of development in furniture retailing in the countries in question is made evident by the composition of the group of the leading firms. Out of the top 50 retailers, in order of furniture sales, 28 are German, 13 French, 5 English, 2 Spanish, 1 Italian, with just one (IKEA), multinational. Table 5.9 gives a list of the top 30 furniture retailers.

The degree of concentration in the industry should be looked at in the light of the differences that exist between large scale retail chains and business associations (buying groups). A comparison of market share should take into account that the turnover of buying groups (27 out of the top 50 operators) is the result of the combination of some tens or hundreds of small to medium-sized independent retailers.

Once again, this overview of major retailers ends with an emphasis on the diversity of the various subsectors. These differences should be taken into account in the evaluation of the single market in retailing.

5.2.3. Wholesalers

The top 20 grocery wholesalers (Table 5.10) is dominated by seven Swiss firms and four German firms. The first two enterprises have a market share of 49%, the first four enterprises have a market share of 66%. Among consumer goods, wholesaling in groceries is the biggest with ECU 154,649 million for the top 20 grocery wholesalers (1994).

The top 15 clothing wholesalers (Table 5.11) is dominated by eight German firms. The first enterprise has a market share of 35%, the first four enterprises have a market share of 70%. The total sales turnover of those 15 wholesalers is ECU 6,258 million (1994).

Table 5.10. European Top 20 grocery wholesalers

No	Name	Country	Sales (million ECU)	Accounting year
1	Nestlé World Trade Corporation	CH	38,183	1994
2	Food Ingredients Specialties SA	CH	38,120	1994
3	Rewe & Co. Ohg.	D	14,609	1993
4	Sandoz Nutrition Trading Ltd	CH	10,651	1994
5	Casino Guichard Perrachon SA	F	9,502	1994
6	Coop Valais	CH	7,342	1994
7	Spar Handels-AG	D	6,886	1994
8	Edeka Zentralhandelsgesellschaft mbH	D	6,294	1993
9	Faellesforenigen for Danmarks Brugsforenigner Fdb	DK	2,952	1994
10	Booker Belmont Wholesale Ltd	UK	2,933	1994
11	SEITA-Société Nationale des Tabacs SA	F	2,369	1994
12	Nurdin & Peacock plc	UK	1,988	1994
13	Merkur AG	CH	1,958	1994
14	Ramsvita AG	CH	1, 953	1994
15	Emil Tengelmann Ohg.	D	1,829	1994
16	Hofer & Curti AG	CH	1,724	1994
17	Système U Centre Regional Ouest	F	1,572	1994
18	Schuitema	NL	1,427	1994
19	Skandinavisk Holding A/S	DK	1,256	1994
20	Fyffes plc	IRL	1,101	1994

Source: Dun & Bradstreet combined with DABLE.

Table 5.11. European Top 15 clothing wholesalers

No	Name	Country	Sales ('000 ECU)	Accounting year
1	Silkona Tekstil GmbH	D	2,216,000	1993
2	Pentland Group plc (footwear)	UK	816,000	1994
3	Wuensche AG (including about 20% groceries)	D	695,000	1994
4	Kaufring AG (apparel, piece goods and notions)	D	669,000	1994
5	Levi Strauss Germany GmbH	D	311,509	1994
6	Triumph International Vertriebs GmbH	D	270,176	1993
7	Jean Pascale AG	D	163,854	1993
8	Levi Strauss Continental SA	B	163,641	1994
9	Matalan Discount Club (Cash & Carry) Ltd	UK	163,613	1994
10	Levi Strauss Continental	F	159,256	1994
11	S. Oliver Bernd Freier GmbH & Co KG	D	134,899	1993
12	G. Güldenpfennig GmbH	D	131,122	1993
13	Diramode	F	127,001	1994
14	Simint Italia SpA	I	118,487	1993
15	Vergotex International NV	B	118,053	1994

Source: Dun & Bradstreet.

The top 15 furniture wholesalers (Table 5.12) is dominated by 12 German firms. The first four enterprises have a market share of 63%. The total sales turnover of those wholesalers is ECU 5,337 million.

Table 5.12. European Top 15 furniture wholesalers

No.	Name	Country	Sales ('000 ECU)	Accounting year
1	Musterhaus-Küchen Deutschland & Co GmbH	D	1,106,174	1993
2	Möbel Großvertriebs-Gesellschaft mbH	D	907,500	1993
3	IKEA Lager u. Service GmbH	D	703,038	1994
4	GFM Möbeleinkaufsverbund	D	647,516	1994
5	Kaiser & Kraft GmbH	D	302,714	1993
6	SSI Schäffer-Shop GmbH	D	248,214	1994
7	MMZ Marken Möbel Zentrale	D	234,724	1993
8	IKEA Wholesale Belgium SA	B	203,667	1994
9	Möbel-Franz GmbH	D	188,859	1994
10	IKEA Trading u. Design AG	CH	157,046	1992
11	Trend Möbelhandels-GmbH & Co	D	144,072	1994
12	Friedrich A. Flamme GmbH & Co KG	D	134,899	1994
13	SB Möbel GmbH	D	134,899	1994
14	Metro-Libre service de Gros	F	118,064	1994
15	Wohnwelt Pallen GmbH & Co KG	D	105,221	1994

Source: Dun & Bradstreet.

The top 15 household appliance wholesalers (Table 5.13) is dominated by eight German firms. The second wholesaler in household appliances is a Greek firm. The first four enterprises have a market share of 45%. The total sales turnover of those wholesalers is ECU 20,878 million. The top 15 toy wholesalers (Table 5.14) is not dominated by firms from a certain country. The first four enterprises have a market share of 46%. The total sales turnover of those wholesalers is ECU 2,609 million.

Table 5.13. European Top 15 household appliance wholesalers

No	Name	Country	Sales ('000 ECU)	Accounting year
1	Rexel (conduct both retail and wholesale and should not be considered as a typical wholesaler)	F	3,216,000	1994
2	Kriskou SA	GR	2,170,000	1994
3	Promarkt Electronic GmbH & Co	D	2,158,000	1994
4	Sony Europe BV	NL	1,869,000	1995
5	Komet Electronic GmbH	D	1,510,000	1994
6	Sony Deutschland GmbH	D	1,203,000	1994
7	Metro Einkaufsgesellschaft mbH	A	1,172,000	1993
8	Panasonic Deutschland GmbH	D	1,144,000	1995
9	Weltfunk Elektronische Handels-GmbH	D	1,079,000	1992
10	Rapho Service AG	CH	1,077,000	1992
11	Hitachi Europe Ltd.	UK	1,074,000	1995
12	Rüfach GmbH & Co	D	933,503	1994
13	Panasonic UK Ltd	UK	844,210	1995
14	Grundig Vertriebs-GmbH	D	725,467	1994
15	Sharp Electronic Europe GmbH	D	704,354	1994

Source: Dun & Bradstreet.

Table 5.14. European Top 15 toys wholesalers

No	Name	Country	Sales (ECU, 1994)	Accounting year
1	Sega Europe Ltd	UK	598,870	1994
2	Vedes AG	D	239,798	1993
3	Mattel France SA	F	193,492	1994
4	Lego GmbH	D	176,448	1994
5	Mattel UK Ltd	UK	161,738	1994
6	Sega France SA	F	157,750	1994
7	Nor-Cargo Bergenske AS	N	157,568	1991
8	Lego Spielwaren AG	CH	140,939	1992
9	Hasbro UK Ltd	UK	138,110	1994
10	Warner Music GmbH	D	134,899	1994
11	Linea Gig SpA	I	115,002	1993
12	Nintendo UK Ltd	UK	113,553	1994
13	Toys 'R' Us Iberica SA	E	92,831	1994
14	Bandai SA	F	95,290	1994
15	Tyco Distribution	B	92,383	1994

Source: Dun & Bradstreet.

The total wholesale turnover in the above mentioned consumer goods is ECU 189,731 million. According to Table 5.15, the wholesale turnover in drugs is ECU 19,574 million and in industrial goods ECU 78,343 million.

Table 5.15. Wholesale distribution in industrial goods and drugs: largest European companies by turnover, 1994

No	Company	Country	Turnover (million ECU)	Group net income (million ECU)	Number of employees	Sector
1	Preussag AG	D	12,067	147	69,712	Metals and minerals
2	Metallgesellschaft AG	D	10,654	-1,403	26,324	Metals and minerals
3	Italiana Petroli SPA	I	8,326	38	1,648	Petroleum and related products
4	Lagardère Groupe SCA	F	8,060	94	40,326	Publishing
5	Gehe AG	D	7,905	72	11,313	Drugs
6	NV Koninklijke KNP BT	NL	6,097	151	27,811	Paper products
7	Office Commercial Pharmaceutique	F	5,091	34	5,612	Drugs
8	Wolseley plc	UK	4,252	177	19,073	Hardware
9	Cockerill Sambre SA	B	4,206	20	26,409	Metals and minerals
10	Baywa AG	D	3,426	8	11,952	Lumber and construction materials
11	Poliet SA	F	3,171	125	17,762	Lumber and construction materials
12	Hagemeyer NV	NL	2,192	68	9,279	Electrical goods
13	Apoteksbolaget AB	S	2,051	36	11,196	Drugs
14	CEBECO-Handelsraad BA	NL	2,012	10	4,698	Farm supplies
15	Computer 2000 AG	D	2,000	3	2,136	Computer and related products
16	Ferrostaal AG	D	1,874	31	1,912	Metals and minerals
17	Andreae-Noris Zahn AG	D	1,786	14	3,361	Drugs
18	Unichem plc	UK	1,709	38	5,535	Drugs
19	John Menzies plc	UK	1,646	35	12,261	Publishing
20	Otra NV	NL	1,607	36	5,885	Electrical goods
21	Hunting plc	UK	1,453	19	13,588	Petroleum and related products
22	Gestetner Holdings plc	UK	1,289	8	10,614	Office equipment
23	Monberg & Thorsen Holding A/S	DK	1,032	8	4,463	Drugs
24	Arus SA	F	940	-16	3,929	Metals and minerals
25	Det Danske Traelastkompagni A/S	DK	918	21	3,439	Lumber and construction materials
26	J. Bibby & Sons plc	UK	817	-24	7,298	Industrial machinery and equipment
27	Danka Business Systems plc	UK	673	41	5,945	Office equipment
28	Farnell Electronics plc	UK	663	50	4,165	Electrical goods

Source: DABLE and Dun & Bradstreet.

Table 5.16. Other selected European wholesalers

Name	Country	Main activities	Currency	1994 turnover	1994 pretax profits
Chantovent	F	Wholesaling and bottling of wine	'000 FRF	203,317	-881
Matthew Clark	UK	Packaging and wholesaling of beverages	'000 GBP	299,285	-11,349
Distriborg	F	Distribution and wholesaling of diet products	'000 FRF	398,880	19,432
Albert Fischer	UK	Sourcing, processing and distribution of fresh produce	'000 GBP	1,424,400	34,800
Headlam	UK	Wholesale, distribution, manufacturing of textiles and soft furnishing fabrics	'000 GBP	134,273	5,821
Jack L. Israel	UK	Processing and distribution of ingredients and snacks to food industry	'000 GBP	112,112	3,636
Schoeller	D	Food wholesaling, import and export	'000 DM	n.a.	n.a.
Scipio	D	Grocery trade	'000 DM	n.a.	n.a.
Tresch	F	Wholesaling of alcohols, beverages and wine	'000 FRF	287,436	4,853
Watson & Philip	UK	Distribution to catering trade, cash 'n' carry stores, retail stores	'000 GBP	440,570	10,644

5.2.4. Suppliers of logistics services

Table 5.17 lists the main features of the logistics services companies. We constructed this table using company accounts for several years as well as work done by Hers.[20] The sector of logistics services is very diverse and often very fragmented, with companies ranging from one-truck owner-operator transport companies to the large multinational and even global companies mentioned in the table, which offer a wide range of services, including transport by road, sea and air; forwarding by road, sea and air; customs clearance activities; parcel delivery; storage services and contract logistics.[21]

The top 15 logistics services companies have developed from different origins, such as pure freight forwarding (Danzas and Frans Maas for instance), pure road transport (Schenker), deep-sea shipping (Nedlloyd), parcel delivery (TNT) or contract logistics (NFC and Tibbett & Britten). In recent years most of these companies have diversified into other fields of logistics services, and presently most of the companies mentioned in Table 5.16 can offer most types of services. However, most suppliers of logistics services still realize the most important share of their turnover in their original field of activities.

20 Hers, F. 'Strategie per truck', *Financieel-Economisch Magazine*, 22 July 1995.

21 The term 'contract logistics' is explained in detail in Section 5.3.3.

Table 5.17. European Top 15 suppliers of logistics services

Name	Country	Trade marks and names of well-known subsidiaries	Main activities		Countries with subsidiaries	Sales	
			Transport-related	Other		'94 roadtr.[1] (MECU)	Incr.[2] % 89–94
Sceta	F	Calberson, Sceta, Bourgey Montreuil	Road transport, shipping agents			2674	
Stinnes	D	Schenker	Road transport	Wholesaling, import and export of coal		2098	
Danzas	CH	Danzas	Contract logistics, road, sea, air forwarding, road transport, customs clearance		A,B,D,F,UK,GR, I,NL and 29 other countries world-wide	1681	-16%
Nedlloyd	NL	Nedlloyd, Van Gend & Loos, Deni, Unitrans, Damco, Gerlach, Faxion	Deep-sea, inland shipping, contract logistics, road transport, customs, air freight	Oil exploration	B,F,D,NL,UK,I, A,GR,E,P and 17 other countries world-wide	1626	+9%
NFC	UK	Exel Logistics, Pickfords, Tankfreight, Lynx	Contract logistics, road transport, parcels	Removal services	UK,D,F,NL,E,B, IRL,L and 7 other countries world-wide	1580	+52%
Bilspedition	S	Scansped	Storage and warehousing, freight brokers, road, air, deep-sea transport, railways			1301	
Kühne & Nagel	D /CH	K&N, De Wolf, Team Fret, Nakutrans, Orient Transport Co			800 offices in 80 countries	961	+18%
P&O	UK	P&O, Pandoro, Rhenania, Transcontinental	Deep-sea shipping, ferries, road transport, contract logistics	Cruises, construction, property, exhibitions	UK,IRL,D and 11 other countries world-wide	907	+17%
ASG	S	ASG	Freight brokers, storage and warehousing, computer services			875	
Dachser	D					842	
TNT	AUS		Parcels, road haulage, deep-sea routes, air transport, freight brokers, storage,	Wholesale of equipment, travel agents, laundries		833	
Frans Maas	NL	Frans Maas, EFDN, Bleckmann	Freight forwarding, road transport contract logistics		Subsidiaries in 15 European countries	554	+53%
Thyssen Haniel	D	Trans-O-Flex				509	
Tibbett & Britten	UK		Contract logistics		UK,B,NL,F,P,IRL,E and outside Europe in South Africa and Canada	497	+359%
Saima Avandero	I		Road haulage			438	

A=Austria, AUS=Australia, B=Belgium, CH=Switzerland, D=Germany, E=Spain, F=France, UK=United Kingdom, GR=Greece, I=Italy, IRL=Ireland, S=Sweden, P=Portugal, L=Luxembourg.

Source. Our computations based on company accounts.

[1] Turnover from activities related to land-based cargo transport; excluding air and sea freight, travel services, etc.
[2] Increase of total group turnover between 1989 and 1994.

5.2.5. The case companies in this study

We end this sectoral overview with a list of case companies from which we obtained information. As shown in Table 5.18, case companies were selected in manufacturing, retailing, wholesaling and logistics services. A balance was attempted between the various subsectors considered in this report.

Table 5.18. Overview of case companies

	Manufacturer	**Wholesaler**	**Retailer**	**Suppliers of logistics services**
Food and drink	Quaker Oats Snacks Ventures Europe (Pepsico Food)	Pietercil Resta (B), (however not a wholesaler *strictu sensu*, but a broker as well as a distributor, a service merchandiser and a category manager)	Promodès (F) Rewe (D) AMS (buying group) ICA Handlarnas (S) Kesko (Finland)	
Clothing			Marks & Spencer (UK)	
Furniture			Möbel Pfister (CH)	Tibbett & Britten (UK) Danzas (CH) Exel Logistics (UK) Hays-FRIL (UK/F)
Household appliances			Kingfisher-Darty (UK/F)	
Toys	Lego (DK)			

5.3. Vertical integration in the distribution chain: the position of wholesale and logistics services companies

In this section, we turn to the effect of the single market on the sectoral performance of the distributive trades. We first focus on changes in the distribution chain that affect wholesalers and logistics services companies. As mentioned in the introduction to this chapter, we argue that vertical integration of the distribution chain puts pressure on the traditional role of wholesale companies while creating new opportunities for specialized logistics services companies. Consecutively we deal with:

(a) the restructuring of wholesale activities;
(b) adjustments and innovation in logistics services;
(c) the internationalization of logistics services companies.

5.3.1. The restructuring of wholesale activities

The growth and internationalization of retailers and manufacturers (documented in Section 5.6), changing sourcing patterns (documented in Section 5.5) and the increasing capabilities of suppliers of logistics services (documented in Section 5.3.2) result in declining demand for several wholesale services. Wholesalers are obliged to develop new activities to maintain profitability and sufficient growth potential.

The internationalization and expansion of larger retailers and manufacturers substantially complicate their distribution and sourcing methods. Manufacturers and retailers greatly value flexible, cheap and high quality distribution. It is felt that wholesalers are incapable of meeting these stringent standards (see Rosenbloom and Mollenkopf [1993]).[22] Consequently, wholesalers are being dropped from the distribution chain or they are taken over by manufacturers and retailers. This allows the latter to absorb the profits that wholesalers typically derive from centralized purchasing, inventory management and so on.

At the same time, the emergence of powerful, internationally operating manufacturers and retailers together with the rise of buying groups diminishes the bargaining position of wholesalers and cuts their profit margins. Econometric research for the US by Redmond [1993][23] indicates that the profitability of wholesalers is negatively affected by increased profitability of the retailers and the manufacturers or to quote the author 'a wholesaler "squeezed" between profitable manufacturers is less likely to perform well, *ceteris paribus*'.

This research does not come as a surprise in view of Table 5.19. This table[24] shows the market share of national wholesalers (i.e. not including importers and exporters) for the different distribution channels of electrical household appliances in the Netherlands in 1991. This evidence illustrates the strong dependence of wholesalers upon small, independent retailers. Donkers states that the overall market share of Dutch household appliance wholesalers has been declining systematically, because many independent appliance stores have either been taken over by chains or have associated themselves with buying groups or franchisers.

Table 5.19. Market share of wholesalers per distribution channel, Netherlands

Distribution channel	Percentage of business within this distribution channel involving national wholesalers
Appliance-store chains	0
Appliance stores organized in buying groups and franchised appliance stores	22
Independent appliance stores	48
Other outlets (department stores, hypermarkets, photo stores, etc.)	0
All distribution channels	17

Source: See footnote 24.

This erosion of the commercial, buying power function of wholesalers is accompanied by a threat to their physical distribution function. The increasing capability of suppliers of logistics services to execute and manage complex physical distribution activities – 'contract logistics', discussed in the following section of this chapter – provides manufacturers and retailers with a simple and cost-effective way of dealing with the complex physical issues of modern distribution logistics. It removes a barrier to vertical integration.

22 Rosenbloom, B. and D. Mollenkopf [1993] 'Dominant Buyers: Are They Changing the Wholesaler's Role in Marketing Channels?' in B. Rosenbloom (ed) *Wholesale Distribution Channels; New Insights and Perspectives*. The Hayworth Press: New York, pp. 80–82.

23 Redmond, W.H. [1993] 'Inter-Level Effects on Profitability in Vertical Market Relationships and the Role of Wholesalers' in B. Rosenbloom (ed) *Wholesale Distribution Channels; New Insights and Perspectives*. The Hayworth Press: New York, pp. 111–125.

24 Donkers, J.J. 'Perspectieven voor de groothandel in elektrotechnische consumentenapparaten in de jaren negentig', EIM Zoetermeer, 1991.

Wholesalers are aware of those trends. This is seen in Table 5.20 which comes from a survey of Dutch wholesalers. These survey results[25] show that many wholesalers agree that suppliers of logistics services have certain advantages over wholesalers, such as cheaper, higher quality logistics and the ability for manufacturers to retain control of the marketing channels. In spite of this, the majority of respondents did not consider them as important competitors.

Table 5.20. Wholesalers' view of suppliers of logistics services: outcome of a Dutch survey of wholesalers

Statement	Agree (% of respondents)	Disagree (% of respondents)
Manufacturers increasingly wish to keep control of marketing channels and prefer outsourcing to logistics companies to using a wholesaler.	45	23
Specialized suppliers of logistics services often deliver better quality than wholesalers.	44	41
Suppliers of logistics services often have lower costs than wholesalers.	51	29
Suppliers of logistics services are often better prepared than wholesalers for European integration, because of their international networks.	62	11
Suppliers of logistics services are increasingly important competitors for wholesalers.	20	46

Source: See footnote 25.

Those developments are illustrations of the more general idea of the basic vertical externality in the relationship between retailers and manufacturers (see Chapter 4). In the increasingly comprehensive and complex relationship between larger retailers and their suppliers, both parties have an incentive to co-operate in vertical integration schemes. Often, wholesalers are excluded from those preferential relationships.

In some cases – for instance where manufacturers open foreign sales offices in order to bypass 'importers' of their products – the role of the single market programme is evident. In general, however, the threat to the traditional position of the wholesaler as interface between retailers and manufacturers cannot solely be attributed to the single market programme. Innovations in the area of information technology and computer applications to retailing and distribution matter without any doubt. Moreover, wholesalers in the United States experience similar pressures. Yet, the single market programme in Europe created the setting in which retailers and manufacturers recognized the need to integrate vertically and to optimize their distribution methods.

Table 5.21. Consumer goods distribution in France: distribution market shares

	1985 (%)	1992 (%)
Manufacturers	25.5	24.1
Wholesalers	43.0	31.1
Retailers	25.5	27.2
Logistics services suppliers	6.0	17.6
Total	100	100

Source: Osiris, 'Le marché français de la logistique', Paris, 1992.

25 van der Zeijden, P.T. 'Groothandel en logistieke dienstverlener, partner of concurrent?', Groothandelsonderzoek Zoetermeer, 1991.

The shift away from wholesalers is illustrated in Table 5.21. This table represents the way in which total distribution costs are divided between the various distributive operators in France. The market shares for retailers and manufacturers have changed only slightly between 1985 and 1992, but figures for the other two players show a significant shift from wholesalers to logistics companies.

In theory, this shift could be caused by an increased tendency of wholesalers to outsource their logistics. However, this seems unlikely. Logistics is a core business for most wholesalers, and consequently these companies are often reluctant to outsource it. This becomes clear from Table 5.22 which provides information on the outsourcing of various activities by Dutch wholesalers.

Table 5.22. Outsourcing of logistics by Dutch wholesalers

Activity	In-house (%)	Partly outsourced (%)	Entirely outsourced (%)
Transport	39	13	48
Warehousing	95	3	2
Value added logistics (packaging, labelling, quality control)	86	3	11
Other tasks (order-entry, billing, after-sales service)	99	0	1

In sum, the available evidence seems to confirm our theory of vertical integration, which argues that a number of retailers and manufacturers seek to take control of distribution activities formerly carried out by wholesalers, and subsequently outsource the physical component of these activities to suppliers of logistics services.

Another indicator of the vertical integration of retailers and manufacturers, which leads to the exclusion of wholesalers, can be obtained by looking at the mergers and acquisitions (M&A) in which wholesalers are involved. For this purpose, we developed a database combining M&A information from SDC and AM data sources for the period 1981–95. In this data set, M&A are included when the acquiring company has a yearly turnover of US$ 100 million or more. We focused on manufacturing companies, wholesalers, logistics services companies and retailers in furniture, food, clothing and household appliances in all EU countries. This leads to approximately 10,000 transactions.

To document the vertical integration in the distribution chain, we checked the M&A transactions where wholesalers were acquired. A summary of our findings is found in Table 5.23 and in Figure 5.1. For each type of operator (manufacturer, retailer, wholesaler, logistics services company and other companies) the percentage share is given in the total number of M&A transactions where wholesalers were being acquired. A detailed look at the company level of the larger buyers disaggregated by type of operation, sector and number of transactions is found in Appendix A.4 to this study.

Table 5.23. Who bought the wholesalers?

	Food and drink (%)	Clothing (%)	Furniture (%)	Household appliances (%)
Wholesalers	11	8	11	17
Manufacturers	38	62	60	57
Retailers	33	17	15	19
Suppliers of logistics services	3	-	-	-
Other[1]	15	13	14	7

[1] The group 'Other' includes acquirers such as: banks, investors, holding companies and management buy-outs.

Figure 5.1. Who bought the wholesalers?

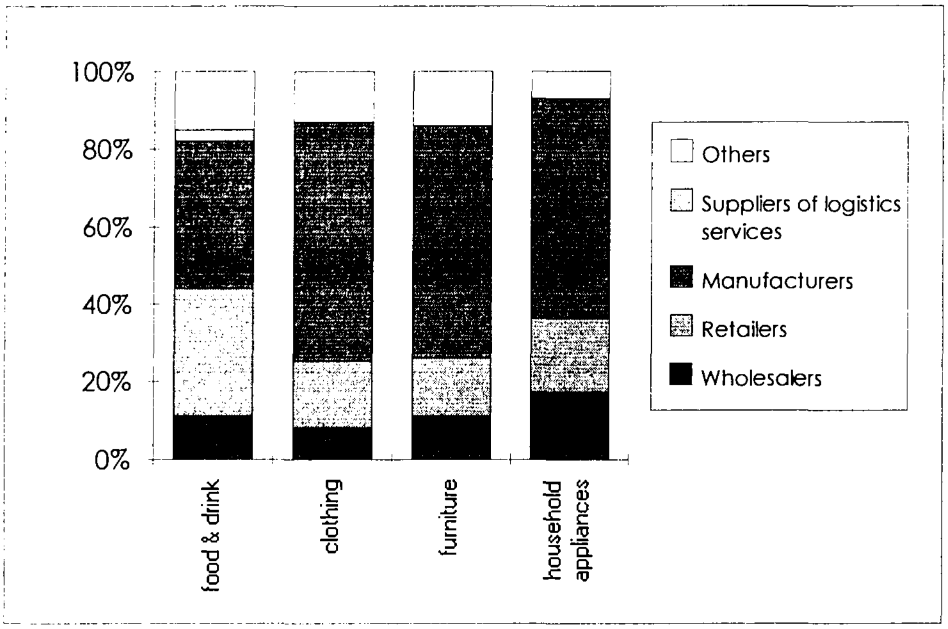


Table 5.23 and Figure 5.1 yield interesting insights. In the majority of cases, wholesalers were bought by manufacturers and retailers who were far more active than wholesalers themselves or other (general) companies. Logistics services companies played a marginal role in food and drink only. This evidence is consistent with the hypothesis that manufacturers and retailers integrated segments of the distribution chain in the period that the single market legislation was implemented. The reverse move was much less pronounced. Only 6% of M&A transactions in which retailers were acquired, were carried out by wholesalers.

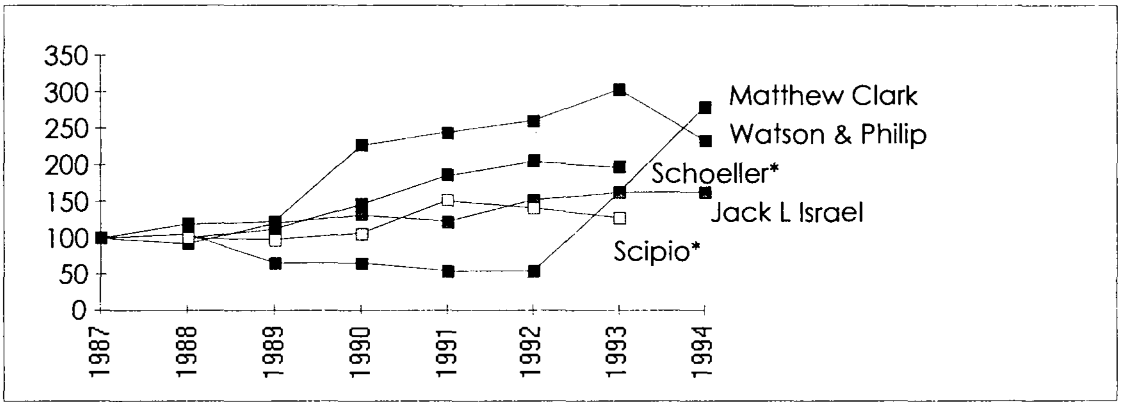
The information presented here furthermore points to a marked variation across subsectors. While manufacturers are leading the M&A of wholesalers in all subsectors, food and drink retailers are the predominant players among retailers. Wholesalers primarily buy other wholesalers in the household appliance sector.

Finally, a detailed analysis of the acquiring companies (see Appendix A.6) shows that generally the larger companies are involved in acquiring wholesalers. As will become clear later in this chapter, the companies listed in the appendix are often the ones that are operating on a European scale or have greatly expanded their European operations in the years following the adoption of the Single European Act. In other words, there is a close link between internationalization and vertical integration.

The analysis of wholesalers is completed by a look at the company accounts of several of the larger wholesalers. Ideally, we would have liked to extend our sample to smaller wholesalers, but comparable detailed company accounts for a sufficiently long period were not available to us. Even among the larger wholesalers, some gaps exist. The focus on larger wholesalers is likely to draw an overly optimistic picture of the wholesale sector because, among the wholesalers, the larger companies are most actively expanding by acquiring other companies.

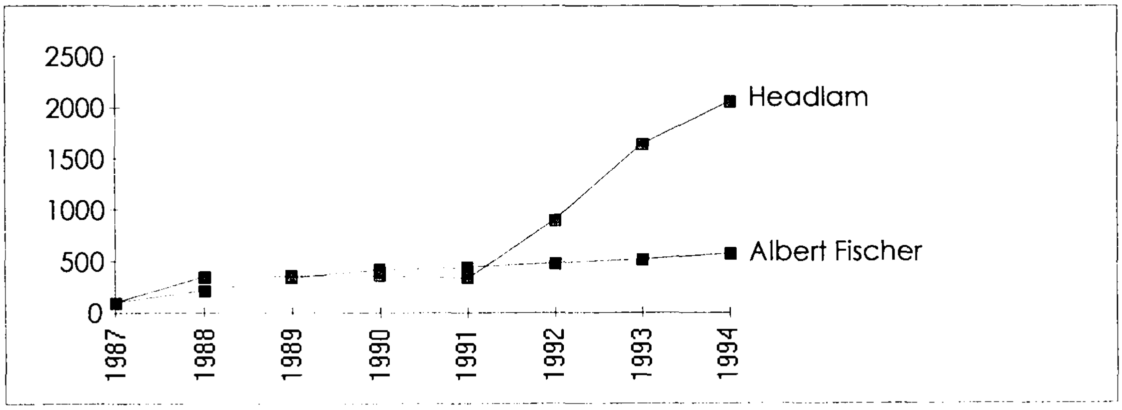
Figures 5.2 and 5.3 show the evolution of the turnover of selected wholesalers in the last decade. The year 1987 was adopted as a base year because company sources refer to 1988 as the first year when wholesale companies were fully aware of the single market programme. We have divided our company samples by lower (Figure 5.2) and higher (Figure 5.3) expansion of turnover. Turnover data, while subject to many flaws, are less dependent on different national accounting practices than profit figures. In spite of this, any analysis based on company reports should be interpreted with the necessary caution.

Figure 5.2. Turnover development for selected wholesalers (1987=100)



* For Schoeller and Scipio 1988 has been taken as the base year.
Source: Company annual reports.

Figure 5.3. Turnover development for selected wholesalers (1987=100) (fast growth)



Source: Company annual reports.

As could be expected, the growth performance of individual wholesale companies is diverse. Companies such as Headlam, Watson & Philip and Albert Fischer have grown considerably in the last decade. Several did not perform that well including Scipio, Matthew Clark (before

1993) and, to a lesser degree, Jack L. Israel. Note furthermore the slow growth of many of the companies in the period from 1987 to 1991/92. This is remarkable, because those years are generally seen as the period where the creation of the single market contributed to strong economic growth. Wholesale activity is heavily dependent on the growth rate of the economy. Hence we would expect a quick expansion of wholesalers, in particular for the group of the more dynamic wholesalers considered here. Obviously, for many companies this failed to materialize. Moreover, the expansion of companies like Headlam, Matthew Clark occurred after 1991 and was linked to mergers and acquisitions. There are reasons to believe that this change was driven by the need for new wholesale strategies in an altered economic environment.

In conclusion, the various statistical measures – although far from perfect – point to profound challenges for the wholesale sector during the years of implementation of the single market programme. Wholesalers are slowly responding and reorienting their business strategies. In Chapter 6 we discuss the strategic options that wholesalers can adopt to adapt to the new environment.

5.3.2. Adjustments and innovation in logistics services

In this section we concentrate on companies that provide logistics services. We argue that the removal of customs barriers takes away sources of revenue from logistics service companies and that the deregulation of the transport sector opens competition in transport services. On the other hand, the internationalization and growth of retailers and manufacturers, the single market legislation on border and customs barriers and the transport liberalization open new opportunities for logistics companies with innovative services, such as contract logistics and value added logistics.

Customs clearance and transport liberalization in the EU

The single market programme transfers VAT-related customs formalities to the national VAT application of the companies involved in international transactions. Likewise, other border formalities are simplified. This represents a (potential) saving for most companies. But logistics services companies, which are specialized in customs clearing, lose business. This is a direct consequence of the single market and was illustrated in Chapter 4 with the example of one of our case companies, Danzas. This company suffered a serious decline in sales and employment from the loss of its customs clearance business as a consequence of the removal of customs barriers that took effect on 1 January 1993.

Not only did Danzas experience a decline in customs clearance. Simultaneously, the liberalization of the transport sector in the EU put pressure on Danzas' traditional transport activities. Entry barriers in the transport sector are small. The deregulation of road transport in the EU gave rise to the entry of many smaller transport companies. Competition in the transport sector became more intense.

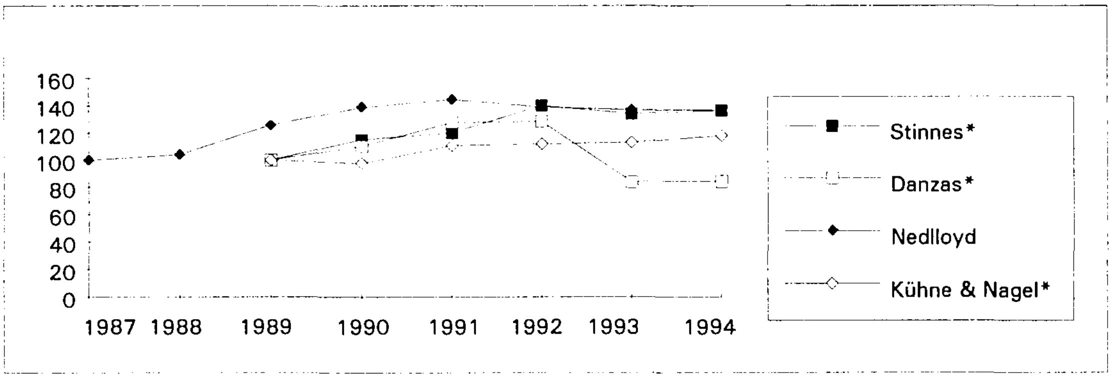
Danzas attempted to absorb those shocks by assisting clients to keep Intrastat records. They soon found out that many of their clients were doing it themselves although, according to Danzas, those records are not kept consistently. Currently, Danzas is trying to reorient its activities towards complete logistics – not just transport (see discussion below of contract logistics). Danzas needs the logistics services business in order to reach a critical mass in freight that is needed to keep their transport networks cost-effective.

The adjustment problems of companies like Danzas do not mean that the removal of border formalities or transport deregulation is counterproductive. Fundamentally, customs formalities and transport costs represent a dead-weight loss for the economy as a whole. The loss of customs clearance business for Danzas and the increased transport competition imply cost savings for the firms who pay for such services. One of the case companies, the broker, distributor, service merchandiser and category manager Pietercil Resta, emphasized the savings in administration costs. This company agreed that border formalities have been replaced by administrative formalities, but found these administrative formalities to be not very time-consuming. All relevant data were stocked in the computer and producing Intrastat records is just a matter of printing out the necessary forms (see also the discussion in section 4.2.2).

The performance of logistics services suppliers

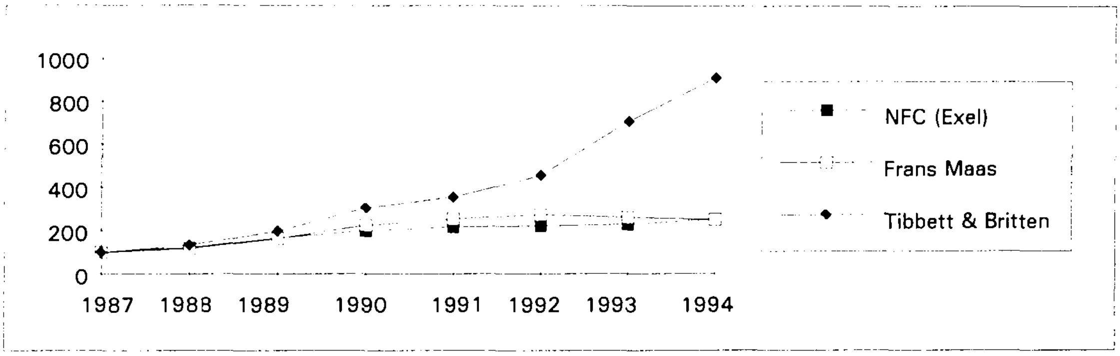
Is the experience of Danzas shared by all logistics services companies? Figures 5.4 and 5.5 portray the evolution of group turnover for the major logistics services companies based on annual accounts. The benchmark is 1987 or 1989.

Figure 5.4. Turnover development for selected suppliers of logistics services (1987 or 1989=100)



*For Stinnes, Danzas and Kühne & Nagel, 1989 has been taken as the base year.
Source: Company annual reports.

Figure 5.5. Turnover development for selected suppliers of logistics services (1987=100) (fast growth)



Source: Company annual reports.

As in the case of wholesalers, the performance of logistics services companies varies from company to company. Nevertheless, 1992 represents a clear turning point for most companies. From 1986 onwards logistics services companies benefited from the economic expansion that followed the adoption of the Single European Act. The growth of logistics services companies slowed down or was even halted from 1991 onwards. Undeniably, this partially reflects the turnaround in the economic climate in Europe. However, companies like Danzas, Frans Maas and Nedlloyd were confronted with a decline in nominal sales in the 1990s which continued even when the European economy picked up in 1994. Moreover, the turning point for Danzas and Frans Maas coincided with the abolition of border controls. For those reasons, it is safe to conclude that the removal of border controls caused adjustment problems for several logistics services suppliers.

Two companies are an exception to this overall picture of stagnation in the 1990s. Tibbet & Britten continued to grow at a fast pace and achieved a tripling of its sales in the period 1990–94. NFC's growth in turnover slowed down in the 1990s but nevertheless continued to grow at a yearly growth rate of more than 5%. This is to a large extent due to the success of the NFC subsidiary, Exel Logistics, which by 1995 accounted for 47% of NFC profits and 40% of NFC income outside the UK.[26]

Contract logistics and value added logistics as innovative adjustment strategies

Why did NFC/Exel Logistics and Tibbet & Britten continue to grow? We argue that they took advantage of the opportunities created by the single market to apply on a European scale[27] new distribution methods, such as contract logistics and value added logistics.

(a) With contract logistics, the logistics services company takes over the entire distribution process from the retailer or the manufacturer. This can include: (i) storage and flow of raw materials, parts and finished inventory, (ii) transfer to and from manufacturing plants, (iii) finished goods storage, and (iv) delivery to the customers. Contract logistics often includes the management of centralized distribution centres and warehouses by the

26 NFC is a British company.

27 Both companies are among our case companies. This analysis is based on our interviews and on the article by Bence, V. [1995] 'The Changing Marketplace for Distribution: An Operator's Perspective,' *European Management Journal*, Vol. 13, No 2, pp. 218–229.

logistics services company. Exel is specialized in contract logistics for the food sector and developed its expertise on its domestic markets in the 1980s. Tibbett & Britten's only business is contract logistics. Their knowledge of contract logistics stems from their operation in the deregulated and de-unionized UK transport sector.

Table 5.24 compares the profitability of selected logistics services companies. It is seen that the companies that are relatively most active in the contract logistics sector (NFC and Tibbet & Britten) are also the most profitable companies.

Table 5.24. Profitability of selected logistics services companies

	Profit 1994[1] (logistics and land transport) (%)	Company's primary activity[2]
NFC	6.1	C
Tibbett & Britten	5.7	C
TNT	2.6	P
Bilspedition	1.3	F
ASG	1.3	F
Saima Avandero	1.2	T
P&O	1.1	T
Kühne & Nagel	1.0	F
Frans Maas	0.9	F
Nedlloyd	0.8	T
Danzas	0.3	F

1 Profit is operational result minus net interest divided by turnover. Source: *Financieel-Economisch Magazine*.
2 T = transport, F = forwarding, C = contract logistics, P = parcel delivery. Note that most companies execute several or all of these activities; the activity indicated here is the company's original activity, which generally still is the field in which the largest share of turnover is generated.

(b) Value added logistics (VAL) is related to the separation of manufacturing production in primary and secondary production. Primary production is performed by the manufacturer at the production plant. Secondary production involves the customer- or country-specific finishing of the primary product. It is a response to a tension between a trend toward internationalization and economies of scale in production, on the one hand, and the growing need for just-in-time delivery to an increasingly differentiated market demand, on the other hand. With VAL the secondary production is outsourced to the company that takes care of the distribution as well. VAL is closely related to centralized distribution in regional and European distribution centres.

Table 5.25. Value added logistics in European distribution centres

VAL activity	Currently carried out in X% of EDCs
Repackaging	66
Labelling	48
Make customer-specific modifications	37
Quality control	37
Final assembly	30
Testing	27
Repairs	26
Re-use	18

Source: 'Value added Logistics' in Inkoop & Logistiek 7–8, 1995.

Table 5.25 presents information on the basic components of VAL. It looks at American and Japanese companies that organize their EU-wide distribution from one European distribution centre (EDC). For the main types of VAL activity, the table gives the percentage of EDCs where such activities are carried out.

Several of our case logistics companies are involved in VAL. Danzas is providing centralized European distribution services for Jacobs-Suchard in Schaffhausen, including labelling and packaging. One of the services that T&B provides to Marks & Spencer is attaching price tags to their products, as soon as it is known in which country the goods are going to be sold. This working method has enabled Marks & Spencer to supply retail outlets from a distribution centre in another country.

New distribution methods and the creation of a single market

There are several ways in which the single market legislation interacts with the spread of new methods in distribution:

(a) Direct impact of the transport liberalization and the elimination of customs formalities. These legislative measures obliged logistics services companies to develop new activities to compensate for the shortfall in revenues.

(b) The concentration of manufacturing production. This development reinforces the scope for centralized distribution. As mentioned above, contract and value added logistics are closely linked to centralized distribution systems.

(c) Value added logistics and technical harmonization. One can argue that the demand for several VAL activities (such as packaging and labelling) will be reduced as a consequence of EU technical harmonization and the removal of differences in national legislation. After all, VAL was developed to deal efficiently with regional/national variances in product specification (be it due to taste differences or to unharmonized standards). While this is true, the internationalization of manufacturers and retailers stimulates the demand for VAL services in a European market where local and national differences persist.

(d) International sourcing, and the internationalization and growth of manufacturers and retailers. We argued in the discussion of wholesale activity that sourcing and distribution of internationally operating manufacturers and retailers in Europe has become quite complex. Contract and value added logistics are distribution methods that deal with such complexity. The outsourcing of the distributive process allows manufacturers and retailers to concentrate

on their core businesses (production and retailing respectively) in the light of growing competition. The close co-operation between a retailer or manufacturer and a logistics services supplier renders many wholesale functions unnecessary and constitutes an alternative to in-house distribution. Since the demand for contract logistics is growing, suppliers of logistics services have been developing a capability for contract logistics, which in turn reduces costs for retailers and manufacturers. For these reasons, logistics services companies specializing in such activities benefit from increased internationalization of manufacturers and retailers that is induced by the single market. This conclusion emerged unambiguously from interviews with several case companies.

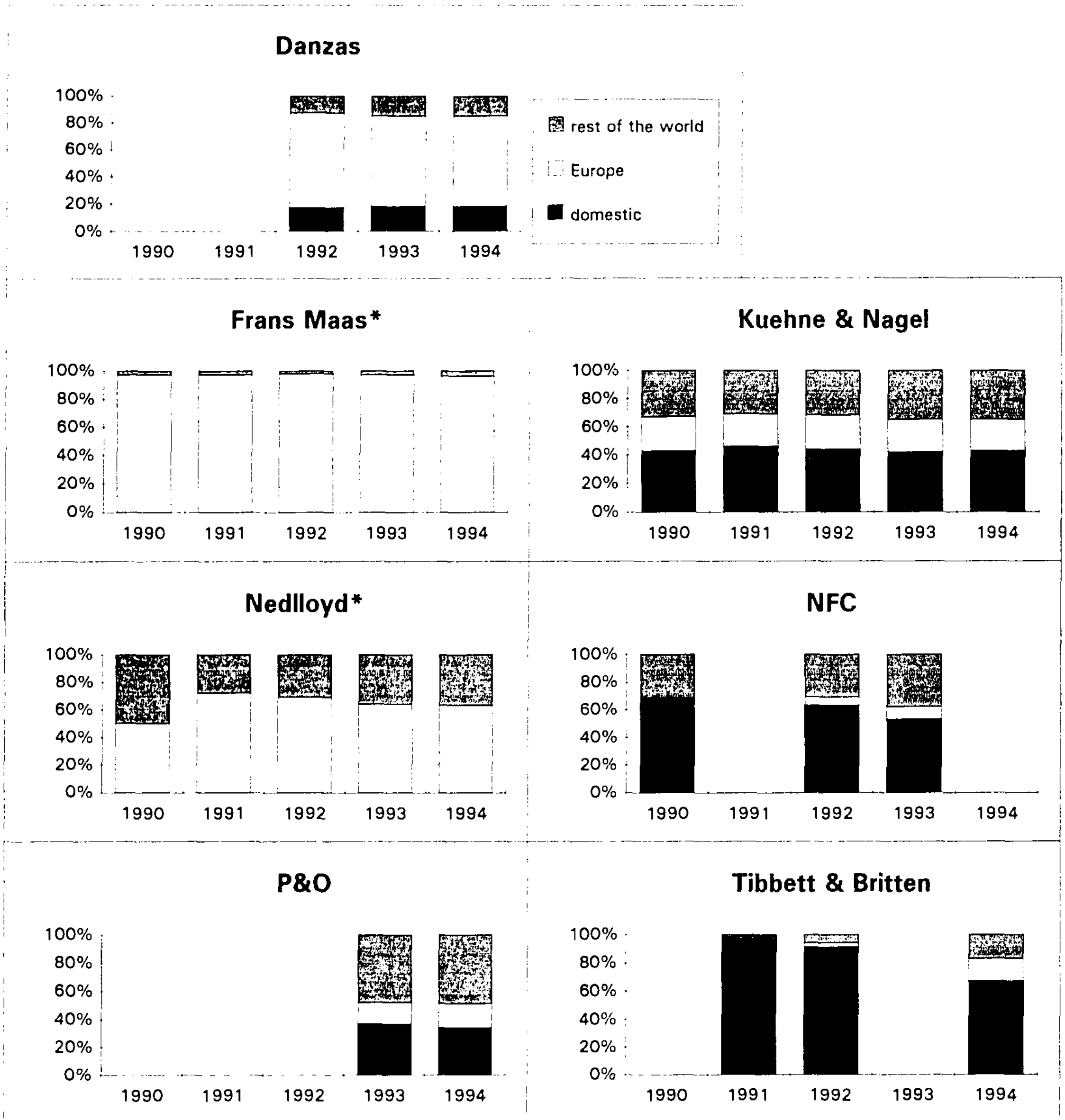
5.3.3. New distribution methods and the internationalization of logistics services companies

This last point provides a direct link between the single market, the development of new distribution methods and the internationalization of logistics services companies. Logistics companies followed the internationalization in EU markets of the companies to whom they offer specialized services. Exel's first step onto the Continent was to build and run a distribution centre for Marks & Spencer at Evry in France. When Marks & Spencer moved into Spain, they took Exel Logistics with them. Marks & Spencer worried only about store location and store format and delegated the physical flow of goods to Exel Logistics. Tibbet & Britten started with contract logistics in the UK for British companies but progressively expanded its activities abroad by following its internationally operating client. For instance, this company now runs distribution centres for Unilever in Portugal, Austria, Canada, Ireland and South Africa.

This caused a marked change in the geographic distribution of turnover for Tibbet & Britten and Exel Logistics (a subsidiary of NFC). This is seen in Figure 5.6, which presents some partial information about the geographic distribution of turnover obtained by going through the company reports of the major logistics companies. In only three years, 1991–94, the share of domestic operations in the turnover of Tibbet & Britten dropped from 97% to 67% while operations on European markets experienced a surge from 1% to 16% of total turnover. The shift in turnover structure of NFC was less dramatic but also implied a decline in domestic operations in 1990–93 from 67% to 53% and a rise in the share of European operations from 1% to 9%.

A look at Figure 5.6 should caution against thoughtlessly attributing internationalization to the creation of a single market in Europe. Indeed, several major logistics services companies have long been involved in cross-border operations. Several logistics services companies obtain a major share of their turnover outside their domestic markets. This is true for Danzas, Frans Maas, Nedlloyd, P&O, TNT and, to a lesser extent, Kühne & Nagel. With the exception of Maas, those companies also conduct major operations outside Europe. Logistics companies are therefore internationally operating companies in many respects. Yet there is a striking relationship between the companies that engaged in new distribution methods and the internationalization process.

Figure 5.6. Origin of the turnover for selected suppliers of logistics services



NB: This table shows the evolution of geographical origin of the turnover for selected suppliers of logistics services. 'Europe' signifies Western Europe including EU-15, Sweden and Switzerland, excluding the home country for each group.
* Frans Maas and Nedlloyd do not specify 'domestic' turnover separately. Turnover for the Netherlands is included in European turnover for these two companies. In some cases data were not available for certain years. In those cases no bars are shown.
Source: Companies' annual reports.

Once the internationalization process was initiated, these companies systematically seized the opportunities offered by the single market. For example, Exel Logistics discovered the growth potential of the German and French markets where outsourcing of distribution services accounted for respectively 15% of the grocery retail distribution only compared to 50% in the mature UK grocery market. In Spain and Italy outsourcing was even below 5% of total retail distribution (Cooper [1992]).[28]

28 Cooper et al. [1992] 'European Logistics', Blackwell: Oxford.

The discovery of new opportunities resulted in a dynamic interaction between internationalization and market integration. While following the internationalization of manufacturers and retailers, logistics services companies soon realized that, to take advantage of the single market, they had to create a network through which goods can move around the continent as effectively as they can within national boundaries. In the specialized literature such a network is called a pan-European logistics capability. Companies felt that they had not reached that point. Nedlloyd occupied a weak position in France and the Scandinavian countries, while Thyssen Haniel en Schenker was primarily targeted toward the German market. Danzas' share of the Scandinavian market was small. ASG of Sweden was focusing on the Scandinavian market.

The development of a pan-European logistics capability initiated a new round of internationalization for logistics services companies. They adopted different strategies:

(a) acquiring transport companies with national networks: Hays with FRIL in France and Mordhorst in Germany;
(b) acquiring regional transport companies: Exel logistics bought several small to medium-sized transport companies (see Exel's acquisitions);
(c) organic growth: once established in a national market, international logistics services companies started to tender for distribution contracts in their own name;
(d) seeking strategic alliances;
(e) establishing equity participation.

A full account of this internationalization process is offered in Table 5.26, which is based on company annual reports and our M&A database.

Table 5.26. Internationalization moves by means of mergers and acquisitions[1] for selected suppliers of logistics services

	1988–89	1990–91	1992–93	1994–95
Sceta				
Stinnes				
Danzas	Samec (I)	Ganser (D) Baker Britt (UK)	A.Mutter (D)	FedEx Logistic (D) Steinbeck (F) SGL (F) Berger (CH) Damkos (GR)
Nedlloyd	A.Christ (D) Öschger (CH)	IBM (transport) (NL)		Denkhaus (D)
NFC[2]	Dist Centres (US)	Dist Svcs (UK) Tempco (UK) Nisachill (UK) Sadema (E) Hellweg (D) Rest. Svcs (D) Food Expr. (NL) BOS (F) Tr.Ubiquity (US) Universal Wareh.(US)	RWR (D) Th.Macke (D) Martin (F) Pujos (F) Sodial (F) Trammell (US)	Leridon (F)
Bilspedition		Transportinv. (N) HaleBoserup (DK) Absalon (DK) Ellgard (DK) Speditor (FIN) Cargo Exp. (FIN) Tekatrans (D) Niederrhein (D) Nellen Quack (D) Fatton Group (F) Castelletti (CH) UTC (US) Simpac (AUS)	JetPact (S) Linjegods (N) SpedFrakt (N) Froguer (N) Th.Scandia (DK) Faxion DK (DK) Kern (D)	ShipSped (N) Intelift (DK) Kaakon (FIN) Castelletti (CH) HillDelmain (UK) HR Embassy (UK)
Kühne & Nagel	Flydistribution (N) Van Vliet (NL)		Coreck Mar. (D) Stute (D)	De Wolf (B) Team Fret (F) Nakutrac (Thailand) FreightInt (Zimbabwe)
P&O	Bowater (D) GTW (NL)	Frankfurt/M (D)	Rhena Sped. (D)	Preuss (D) Ehnes (D) Dunatrans (Hungary) Pacific (US)
ASG		Akericentralen (S) SACT (S) Tibro LBC (S) Blomqvist (N) Nord Tr. (DK) Atege (D) NovaTraffic (CH) ASG Forw. (US)	ASG Germany (D)	ASG Denmark (DK)
Dachser				
TNT	XP (NL) Auto Whs (US) Mirair (US) Dugan (US) Reddaway (US) Axiom (AUS) Rivers (AUS) Aeromar Carga Sava (Brazil)	Chronoservice (F) Le Caer (F) Red Star (D) XP (NL) Palm Valley (US)		
Frans Maas	Transmarcom (B) Weich (D) Roadspeed (GB) Italexpress (F)	Clément (F) Hunold (D)	Gerum (D) Amsped (D) Zeller (D)	Spedotrans (CH) Promexim (Poland)

Table 5.26. (continued)

	1988–89	1990–91	1992–93	1994–95
Thyssen Haniel				
Tibbett & Britten	Lowfield (UK)	Transfleet (UK) Scorpio (UK)	Silcock (UK) SAW (South Africa)	Toleman (UK) Martinez (E) Clef (F) Eskimo (A) Metra (NL) Palmer (South Africa)
Saima Avandero				

[1] *Source:* SDC database, AMdata database, company annual reports.
[2] Does not include M&A activity in the removals sector.

Figure 5.7. Internationalization moves by means of strategic alliances for selected suppliers of logistics services[1]

ASG (S) Dances (CH)

Nedlloyd (NL)	Tollpost Globe (N)
Dantransport (DK)	Fraktärna (S)
Finntransport (FIN)	MSAS Cassin (IRL)
Huolintakeskus (FIN)	Dubois (F)

Thyssen Haniel (D)	Schier Otten & Co (A)
DFDS Transport (DK)	Sifte Berti (I)
Mory–TNTE (F)	

[1] *Source*: Herz, F.'Strategie per truck', *Financieel-Economisch Magazine*, 22 July 1995.

Table 5.27. Internationalization moves by means of equity participations for selected suppliers of logistics services[1]

Company	Participation in
Sceta (F)	Calberson (F) Züst Ambrosetti (I) Samson (DK) Cavewood (UK)
Bilspedition (S)	Linjegods (N) Castelletti (I) P. Fatton (F)

[1] *Source*: Herz, F.'Strategie per truck', *Financieel-Economisch Magazine*, 22 July 1995.

5.4. The position of manufacturing companies

In this section we analyse the impact of the single market programme on manufacturing companies. This relationship is complex, and a comprehensive investigation of all facets goes far beyond the scope of this study. Here we only concentrate on the aspects that are related to the distribution chain. The discussion of Tables 5.1 and 5.2 led to two major hypotheses which are tested in this section. First, we analyse whether manufacturing companies moved towards a concentration of manufacturing production. Secondly, we investigate how and to what degree manufacturing companies benefit from the vertical integration in the distribution process that was discussed in the previous pages.

5.4.1. Concentration of manufacturing production

There is quite some case evidence that manufacturing companies reorganized their production activities. The single market legislation on technical harmonization and the removal of barriers related to the different national legislations facilitate the acceptance of products throughout the EU and create new opportunities to sell products with similar product characteristics. The removal of border controls and tax-related customs formalities, and the liberalization of the transport sector foster the quick and efficient delivery of goods to many EU countries. All this contributes to the concentration of production. A product that was previously produced in several national plants in Europe can be produced in one or a limited set of plants. This results in a reorganization of production lines across production plants within the same company and/or in the closure of some manufacturing plants. Usually, the warehouses and distribution centres of manufacturers are reorganized in response to the shifts in production. Regional or European distribution centres are built that serve large regions or even the whole of European Union.

We illustrate this process with some examples for individual companies. This evidence will be supplemented, wherever possible, by case studies from our group of case companies.

Examples from the fast moving consumer goods sector

One example is Procter & Gamble (P&G). The strategy of this company has always been to promote standardized international products that lent themselves to centralized production. For example, P&G has presently concentrated the production of all its heavy-duty liquid detergents in the UK, and the production of all its fabric softeners in Germany.

P&G's main rival, Unilever, developed throughout Europe by an ongoing series of acquisitions, which has enabled the company to build a comprehensive portfolio of products and brands. However, the company's acquisition history and its decentralized management culture have resulted in a structure of mainly local marketing and production.

Unilever is now seeking to produce in a much more co-ordinated European way in order to take advantage of the benefits of centralized production and concentrated inventory holding. This represents a major challenge for the company since the inevitable centralization of control implies an important change in management culture.[29]

Examples from the household appliances sector

During the 1980s Sony achieved a reduction in distribution costs and an increase in customer service by concentrating stock-holding on a national level. In the UK, for instance, the number of warehouse locations was reduced from eight to one. During the early 1990s, the company studied a further concentration of inventory on a European level. A single European

29 The examples of Unilever, Procter & Gamble and Sony were taken from Cooper et al. [1992], 'European Logistics', Blackwell: Oxford.

distribution centre did not appear feasible for reasons of service-level reliability. The conclusion of the study was that the ultimate European solution may be to have as few as four European warehouses.

Philips Lighting started forming a pan-European logistics organization in 1990 because of increasing internationalization of both customers and competitors. By mid-1994 product commonality had increased significantly (e.g. for the standard GLS lamp from 20% to 60–70%), and consolidation into European manufacturing centres was almost complete. After manufacturing, the warehousing structure is being overhauled as well; a project to reduce the number of warehouse locations in Europe from 14 to four is currently underway.[30]

An analysis of production and export data

We investigated whether the evidence for individual companies carried over into trade and production figures. We obtained Eurostat data on exports and production and turnover at the NACE 3 level for the period 1980–93. We considered the subsectors of this study by looking at wood and furniture products (NACE code 4600), electrical household appliances (3460), food products (4100), toys and sports articles (4940) and clothing (4530). The data cover 12 EU countries not including the newest Member States. With these data we constructed the percentage share of each country in total intra-EU-12 exports and in total EU-12 production.

Very few changes over time were observed for any of the product categories. The relative manufacturing position of EU member countries remained largely unchanged in the last decade. The Portuguese share of intra-EU-12 clothing exports rose from 3% in 1980 to 8% in 1993. The Italian share of EU-12 clothing production increased during the same period from 18% to 27%. Italy somewhat reinforces its already strong production and export position in furniture. Denmark achieves a gradually rising share of EU toy production, perhaps due to the success of Lego.

On the whole though, these changes are marginal and do not point to any direct relation with the single market programme. Apparently, the reorganization of manufacturing production strategies of individual companies is not causing measurable adjustments on a country basis. Perhaps the number of firms with shifts in manufacturing production is too small to have any observable effects. Or the adjustments of individual companies in a particular sector may offset each other at the national and European levels. Even the reorganization of manufacturing production for individual companies does not always lead to net changes in trade and production of countries. For instance, this will be the case when a company concentrates its European production of one product in one country and of another product in a different EU Member State.

5.4.2. The gains from a better distribution system

In this paragraph we focus on the gains that manufacturing companies derive from a more efficient distribution system.

A first important element concerns the relationship between the single market programme and centralized distribution. The abolition of border and customs controls, the liberalization of the

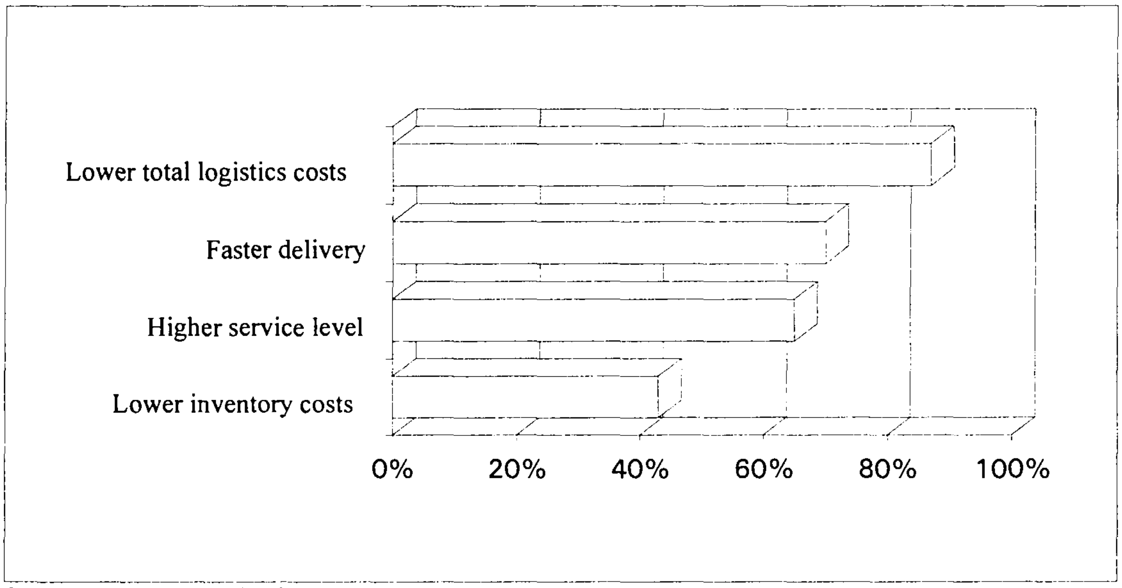
30 Lecture by James M. Aitken, Philips Lighting, 'The European Supply Chain', Woburn Abbey, May 1994.

transport sector and the concentration of manufacturing production stimulate the use of centralized distribution systems. Inherently, this trend is the logical outcome of a concentration in manufacturing and is made possible by innovative and more efficient distribution methods.

The survey data in Figure 5.8 below yields insights into the benefits from centralized distribution for Japanese and American companies operating in Europe. In order to supplement those data, we turned to our case companies. Tibbet & Britten points to economies of scale from working with large European or regional distribution centres. But the benefits of scale increases are limited once distribution centres (DCs) reach a size of 25,000 to 30,000 m^2; larger DCs are costly and difficult to manage. For many fast-moving products, a DC of this size can only serve a region within a country; for small or slow-moving products, however, a distribution centre of this size is sufficient to serve markets in several countries or even in all of Europe. For some of those products cross-border centralization does offer interesting cost-saving opportunities.

Figure 5.8. Improvements of centralized European distribution

Outcome of a 1993 survey of Japanese and American companies which have implemented centralized European distribution: Percentage of respondents saying that the implementation of centralized European distribution has resulted in the following improvements:

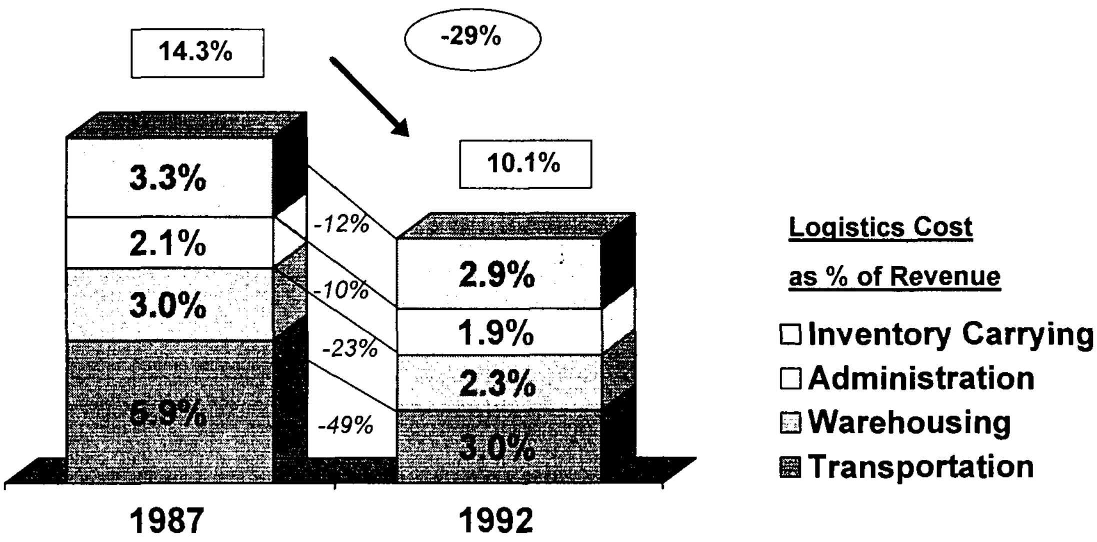


Source: Nederland Distributieland, November 1993.

A second issue concerns the cost savings and productivity gains from more efficient distribution systems. It is not easy to come up with estimates of the savings in distribution costs. Our contacts sometimes mention such savings but are not able to come up with detailed evidence. For instance, Mr Dorsman from the AMS buying group noted a decline in distribution costs and distribution prices which were primarily passed on to retailers and subsequently to consumers. Likewise, Cooper *et al.* [1992] provides many interesting remarks but few hard facts on savings in distribution costs. Data on Dutch transportation costs show that transportation costs between the Netherlands, Spain, and France increased by only 7% from 1989 to 1995 while transport costs between the Netherlands and Germany actually fell by

1%. In the period 1992–95 transport costs either stabilized or declined between the four countries mentioned.[31]

Figure 5.9. Logistics cost reductions (European average)

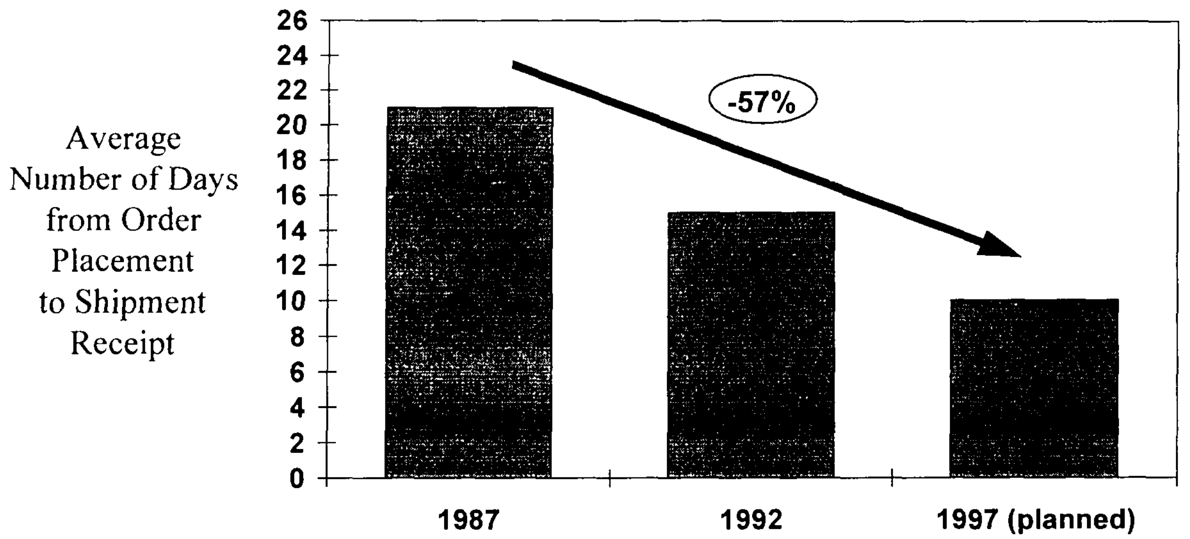


A study by A.T. Kearney [1993],[32] based on a survey of 1,000 major European companies, offers the most complete assessment of the impact of a gain in distribution efficiency. Figure 5.9 measures the logistics cost reductions between 1987 and 1992 arising from improvements in inventory carrying, administration, warehousing and transportation. The average cost reduction amounts to 29% from an average of 14.3% of total revenue to 10.1% of total revenue. The largest cost reductions are observed in transport where firms report nearly a 50% cost reduction. Costs of warehousing decline by 23%, while inventory and administration costs fell by approximately 10%.

31 In these comparisons, the Netherlands is taken as the country of origin of the transport activity.

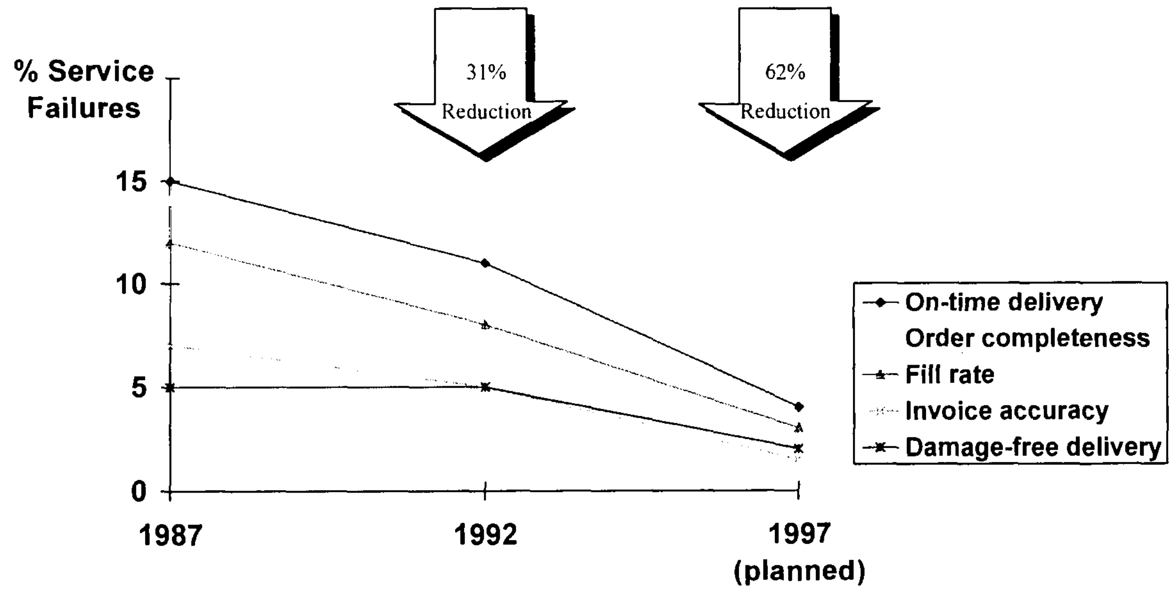
32 Kearney, A.T. [1993] *Logistics Excellence in Europe*.

Figure 5.10. Order cycle time reductions (European average)



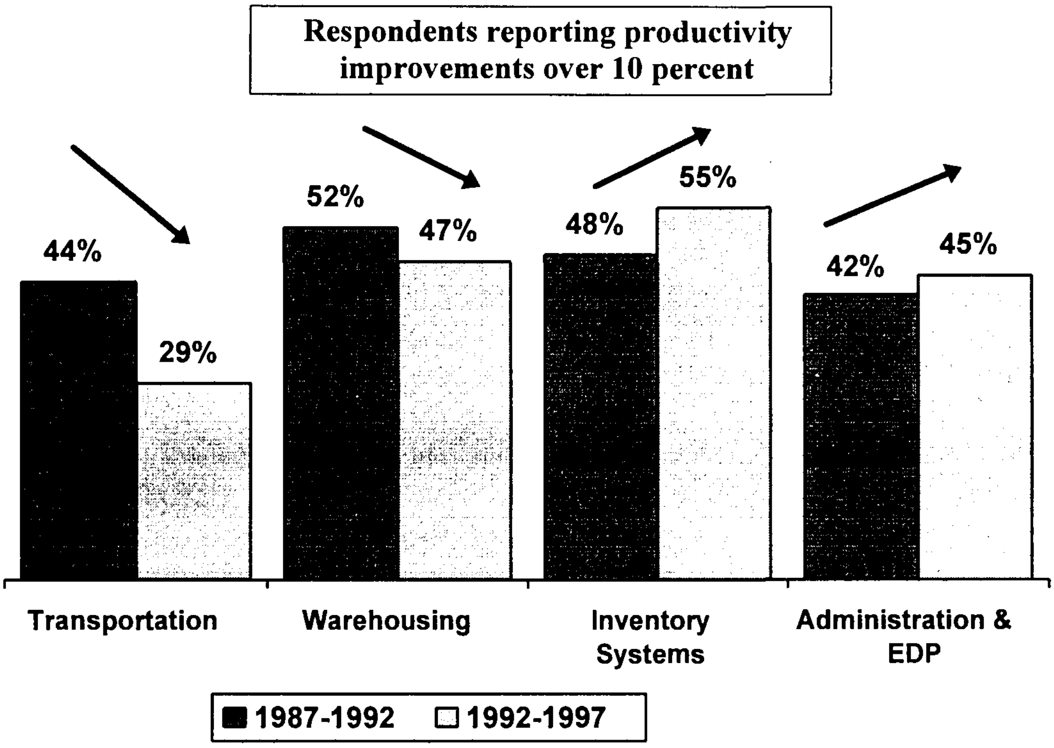
In addition to savings in logistics costs, a remarkable reduction in order cycle time appears to have been realized. As shown in Figure 5.10, the average number of days from order placement to reception of the shipment declined from 21 days in 1987 to 15 days in 1992 with further reductions anticipated for the period 1992–97.

Figure 5.11. Service improvements (European average)



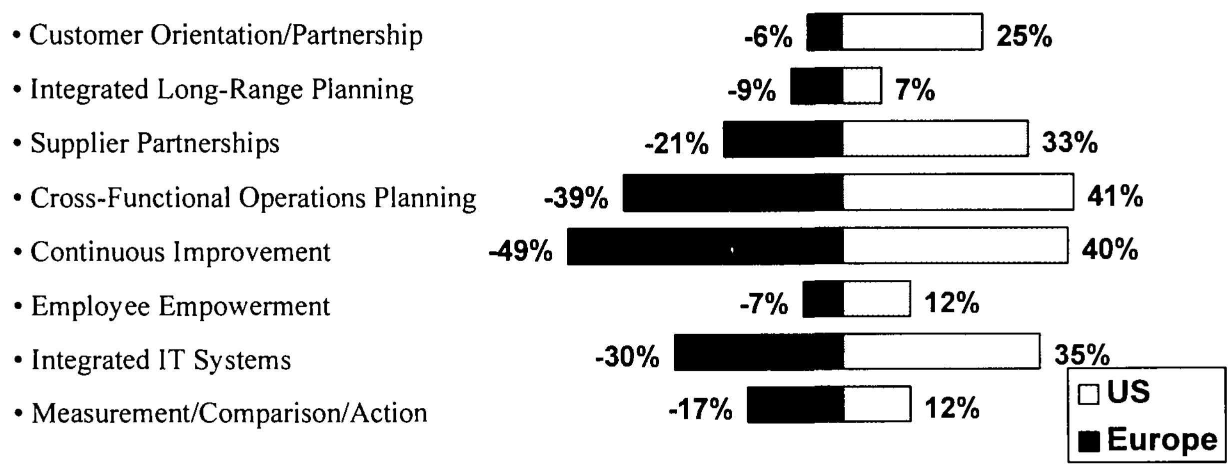
European companies furthermore report service improvements in the form of lower service failures. Figure 5.11 shows that a significant lowering of service failures was realized in on-time delivery, order completeness and fill rate.

Figure 5.12. Areas of logistics productivity improvement



All of this results in important productivity improvements. As shown in Figure 5.12, approximately half of the responding companies experienced productivity improvements of more than 10% in transportation, warehousing, inventory systems and administration and EDP between 1987 and 1992.

Figure 5.13. Leaders in logistics excellence: Europe vs US



Does this mean that European companies have achieved the same level of logistics excellence as their US competitors? Figure 5.13 provides A.T. Kearney's assessment [1993] of the percentage of European and US companies that have attained logistics excellence in specific domains. Only in the areas of integrated long-range planning, continuous improvement and measurement/comparison/action is the performance of European companies better than that of their US counterparts.

A third issue deals with the opportunities created by the single market for manufacturing companies to implement new technologies. Here the emphasis lies on information technologies. Discussions with our case companies and with our experts indicate that the implementation of technologies on a European scale is not straightforward and has not been fully realized.

At the end of the 1980s manufacturers were caught in some kind of a 'catch 22' situation. In order to make investments in information technology that could be applied to all EU countries profitable, retailers would have to restructure their information systems. Retailers, however, did not want to bear the costs of such information restructuring as long as the manufacturers did not invest in pan-European information systems. This is a typical example of what we labelled in Chapter 3 as the basic externality of vertical integration.

Since then progress towards standardization of information technology has been achieved. A European EANCOM technological standard was adopted that enables vertical integration between manufacturers and retailers. Yet the degree of implementation of this standard is below the US level of implementation of US standards. In Europe older and different standards continue to exist between countries, which will to be replaced at a company level by the EANCOM standard.

Therefore, European retailers and manufacturers, compared to their US counterparts, made less progress in the implementation of the standardization process in the use of information technology for vertical integration. They made more progress in operational agreements in logistics to reduce inventory levels by tough negotiations and by less systematic initiatives. This is illustrated by the fact that the remaining estimated operating cost reductions as a percentage of total costs to be realized by vertical integration like 'Efficient Consumer Response' is 5.5% in Europe compared to 6.3% in the USA.[33]

The technology has therefore not contributed all that much to the creation of the single market. Nor did the single market achieve the rapid implementation of new technologies. Future contributions of the technology towards the single market will occur when technologies are systematically applied to vertical integration and when the supply chain will be made more integral.

In the worst case manufacturers in the EU can face the situation where they have to implement more than one system to communicate with their retailers. In the long run this will disappear because all systems will be replaced by the EANCOM (European Article Numbering Communications) standard. Another difference with the US is the intensity of the use of IT for vertical integration. In the US this is higher than in the EU.

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33 Coopers & Lybrand European ECR Study.

5.5. Sourcing

In Chapter 3, sourcing was defined as the choice by retailers and wholesalers of which products are bought from which manufacturing plant. As summarized in Table 5.1, sourcing was found in Chapter 4 to be profoundly influenced by many aspects of the single market programme including legislation on technical harmonization, border controls and tax-related customs formalities, road transport and competition policy. Economic factors such as demand conditions, labour costs, exchange rates and technology also shape sourcing patterns. Finally, strategic adjustments of the distributive operators involved in sourcing – manufacturers and retailers – indirectly influence sourcing decisions. Manufacturers' decisions (see Section 5.4.1) to concentrate production alter retailers' choice of where to buy products. Internationalization of retailers (see Section 5.6) may induce a reorganization of sourcing.

The main hypothesis of this part of the report is that the single market programme, if effective, should promote international sourcing by retailers from manufacturing plants located in other EU countries. As pointed out in the discussion of Tables 5.1 and 5.2, this should be reflected in increased international purchases from retailers in EU Member States. Moreover, new opportunities are created for international buying groups composed of retailers from several EU countries.

How do we measure the main strategic adjustments of distributive operators in the area of sourcing? The next to last column of Table 5.1 suggests several routes. Changes in international purchasing by retailers will be reflected in trade flows. For this purpose Section 5.5.1 focuses on shifts in intra-EU trade and consumption. In Section 5.5.2 we take a look at the emergence and activities of international buying groups. In Section 5.5.3 we follow a different approach. If retailers in EU countries systematically exploit new opportunities to purchase the cheapest and best quality products available in the EU, the products and brands offered to the consumer should become more similar over time. Hence, we present information on the market share of leading brands and on brand similarity for selected products. Finally, in Section 5.5.4 we combine the evidence on international sourcing that we obtained from our case companies. In doing so, we pay attention to parallel trade as an indirect method of international sourcing.

In addition to the issues covered here, there are several other ways in which shifting sourcing patterns interact with distributive trade operators and processes (see Table 5.2). Retailers that rely significantly on international sourcing benefit proportionally more from the single market legislation. This improves these retailers' competitiveness and leads to a growth in domestic and international market share which is the subject of Sections 5.6 and 5.7. Cheaper international sourcing lowers costs to retail companies and therefore boosts retail profitability (see Section 5.8). Part of those cost savings are usually passed on to the consumer so that retail prices are adjusted downwards. Moreover, a growing product and brand similarity favours retail price convergence across the EU. Price adjustments are dealt with in Section 5.9 of this report.

5.5.1. An analysis of trade flows

If the single market programme causes a major shift towards increased intra-EU sourcing, this should show up in trade and consumption patterns. More precisely, three issues are worth looking at. First, increased intra-EU sourcing leads to a rising share of imported products from other EU countries for domestic consumption since more foreign sourced products are sold in the domestic market. To measure this, we define the percentage share of intra-EU-12 imports in the domestic consumption of goods produced in the EU-12 (denoted as domestic Euro-consumption and defined in our data set as domestic production + imports from EU-12 countries minus exports). Changes in this share denote substitution in consumption between domestic products and products that are supplied by other EU countries. Imports from outside the EU-12 are not considered.

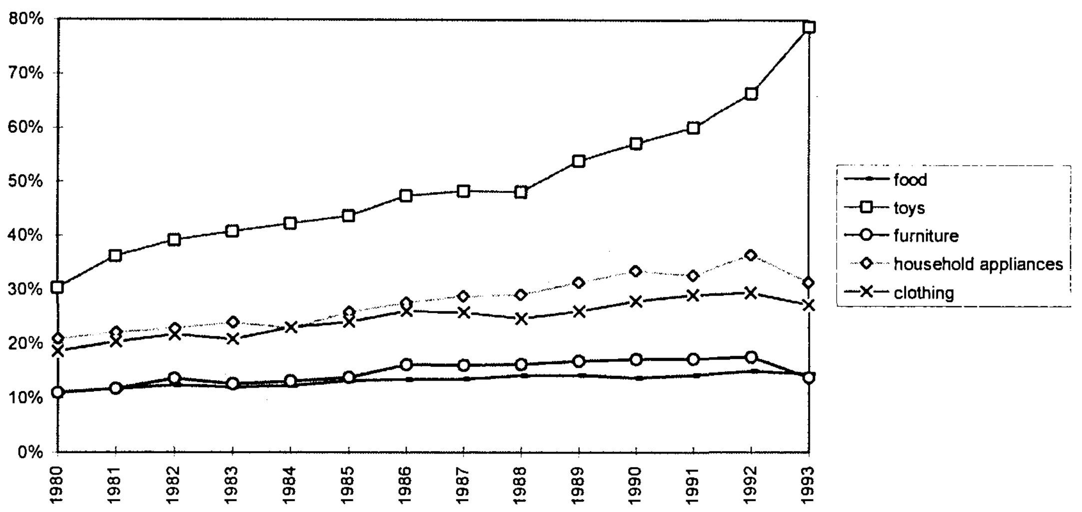
Second, the share of intra-EU imports in total imports provides interesting information. We measure this variable as the share of intra-EU-12 imports of total imports. This indicator captures the shift in international sourcing between EU-12 and non-EU-12 countries. An increase in this variable indicates that sourcing is switching from suppliers outside the EU to intra-EU manufacturers. Conversely, an increase in the share of EU imports in domestic consumption that goes together with a declining share of EU imports of total imports suggests a broader trend towards international sourcing that cannot be solely attributed to the single market programme.

The third issue relates to the share of intra-EU imports in the total (apparent) consumption, i.e. consumption of both domestic and imported products (consumption is defined in the data set as the sum of domestic production and imports minus exports). This third indicator combines some of the information of the two previous variables. A switch from domestic to EU sourcing that is accompanied by a strengthening of EU suppliers with respect to non-EU manufacturers leads to an increase in this variable. On the contrary, the share of EU imports in total domestic consumption falls when a shift to EU sourcing is swamped by a reorientation of sourcing towards non-EU manufacturers.

We obtained estimates for the three variables from Eurostat data on exports, imports, production and turnover at the NACE 3 level for the period 1980–93. We considered the same subsectors as in the discussion of manufacturing production (see Section 5.2.1). In the next pages, we summarize the main findings.

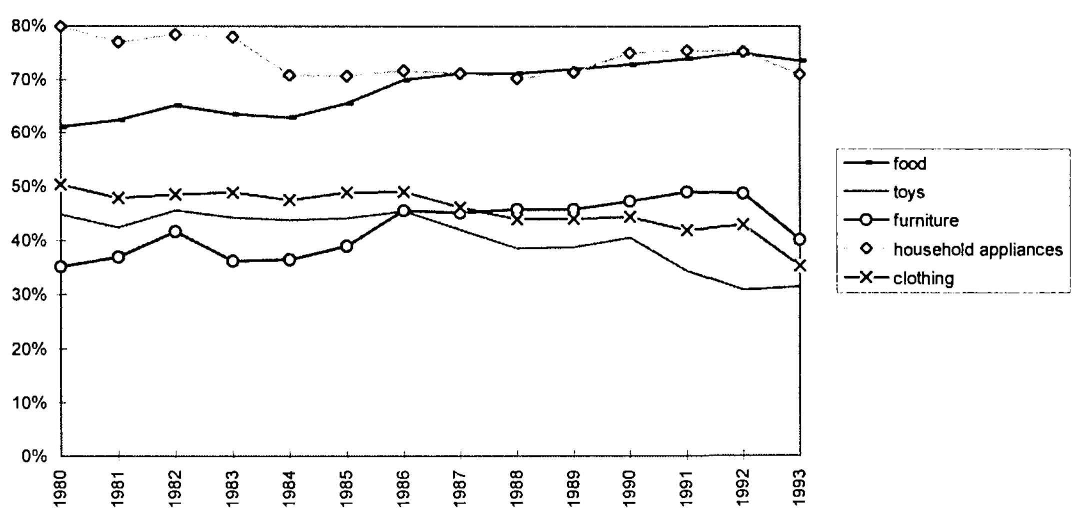
We first take a look at the global trends for the 12 EU countries combined. Figures 5.14, 5.15 and 5.16 show the evolution for the three variables in the food, household appliances, furniture, toys and clothing sectors. Several interesting results emerge from those graphs.

Figure 5.14. The share of intra-EU imports in total domestic consumption of products supplied by EU producers (in %, for EU-12 countries combined)



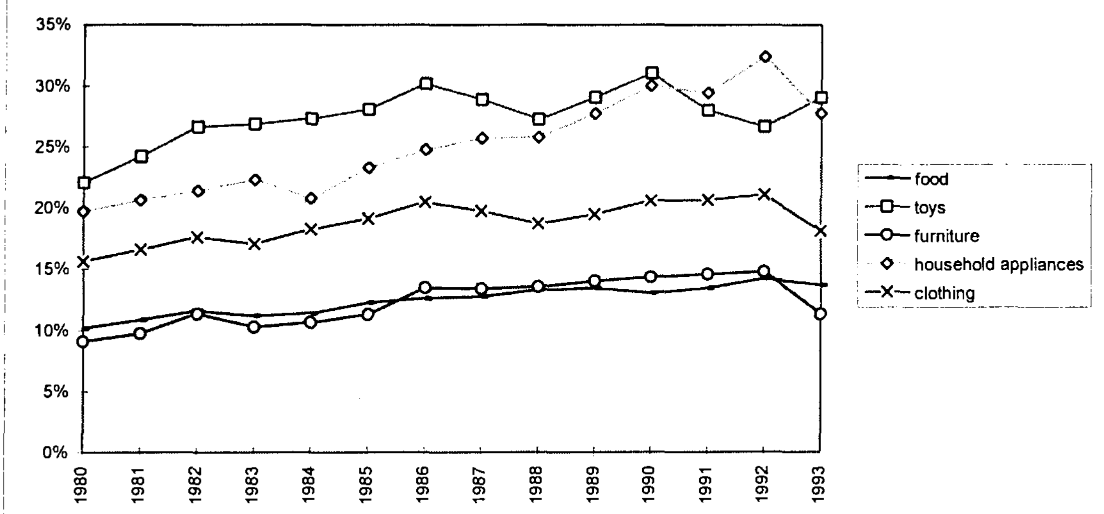
Source: DEBA

Figure 5.15. The share of intra-EU imports in total imports of EU-12 countries (in %)



Source: DEBA

Figure 5.16. The share of intra-EU imports in total domestic consumption of EU-12 countries (in %)



Source: DEBA

From 1985 to 1992 we observe a switch from domestic to EU sourcing in all product categories. This is seen in the rising share of EU imports in domestic consumption of EU-12 products in those years (see Figure 5.14). In this period, EU countries are increasingly relying on suppliers from other EU countries instead of domestic producers. This period coincides with the economic expansion that accompanied the creation of the single market, although the starting point for this evolution was given as early as 1985.[34] The recession of 1993 reverses (part of) this rise in EU sourcing.

There are clear sectoral differences in this evolution. The shift towards intra-EU sourcing is pronounced for electrical household appliances where the share of internationally sourced products in the consumption of EU-made products rose from 23% before 1985 to 33% in 1992 while showing virtually no variation in the years before. The increase in the share of EU sourced products is modest in food, furniture and clothing and amounts to at most 5%. The evolution towards greater international sourcing in clothing appears to be part of a longer term trend which may have been reinforced by the single market project. Finally, the consumption data for toys and sports suffer from major inconsistencies for several countries such that an increase in the share of intra-EU imports in domestic Euro-consumption by more than 30% in 1985–93 is suspect.

Looking at the share of intra-EU imports in total imports, we find an unmistakable shift in international sourcing towards EU manufacturers in household appliances, furniture and food. In the sector of electrical household appliances, a decline in the share of intra-EU imports in total imports by 9% between 1980 and 1985 was halted and even partially reversed in the next seven years. The furniture sector offers another example of a shift towards EU manufacturers. From 1985 onwards the intra-EU share of total imports starts rising from 36% in 1984 to 49% in 1992. The same message prevails for the food sector with a gradual 12% rise in the EU import share from 1985 onwards. The situation in clothing and toys and sports is quite

34 In the next section, we show that internationalization of companies was most visible in the period 1986–91.

different. The long-term decline in the EU import share reflects the delocalization of manufacturing production to countries outside the European Union.

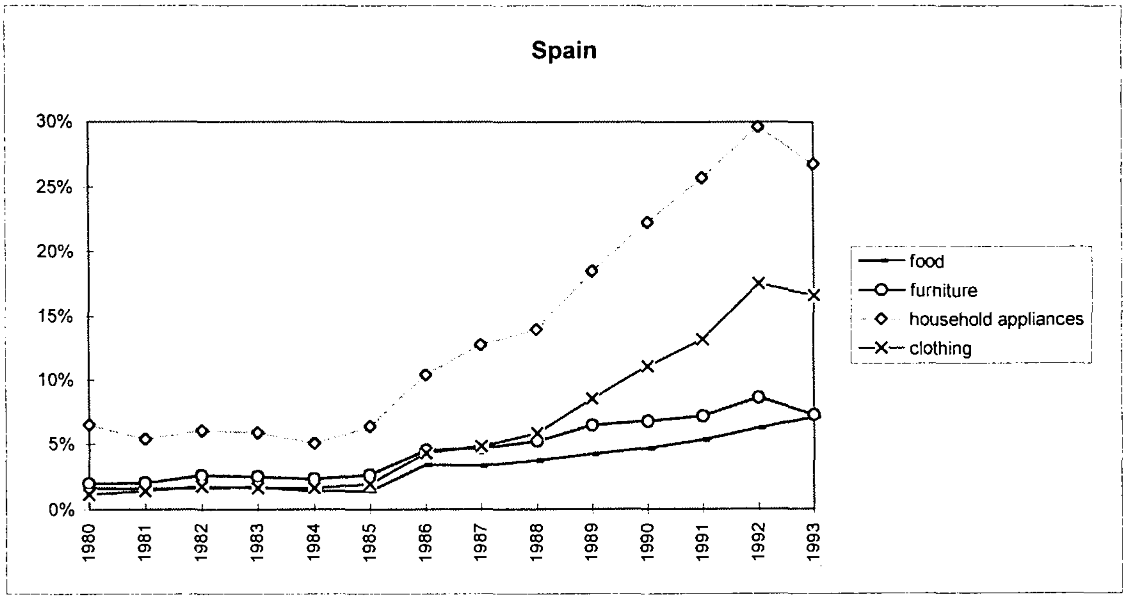
Finally, we consider the share of intra-EU imports in total domestic consumption. The shift from domestic sourcing to EU sourcing together with the stronger position of EU suppliers on the EU market causes a rise in the share of EU imports in total domestic consumption of household appliances, food and furniture in the period 1985–92. In clothing, the switch towards EU suppliers is offset by the delocalization of manufacturing to non-EU countries so that the share of intra-EU imports in total domestic consumption varies little. The indicator for toys and sports shows a lot of erratic movements but no clear trend.

Substantial intersectoral variation is observed in the choice between EU and non-EU suppliers. More than 70% of EU imports of household appliances are produced by companies located in the EU. A slightly lower percentage applies to food products. The imports of furniture, toys and sports and clothing are more likely to come from non-EU countries with the percentage share of EU imports in total imports accounting for 30% to 50%.

There is considerable country-by-country variation underlying the global trends. Without capturing the details for each member country, we call attention to the following striking facts.

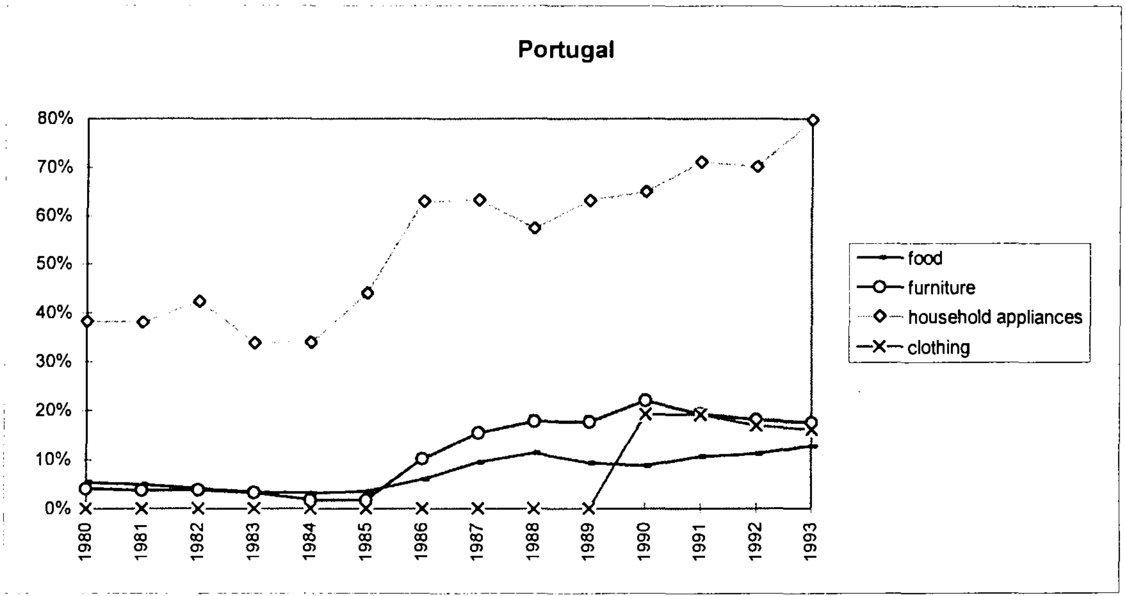
There is a southern dimension for Spain, Greece and Portugal. To see this, Figures 5.17 to 5.20 show, for each of these countries, the share of EU imports in domestic Euro-consumption. In many cases, we observe from 1986 onwards a stronger increase in this variable for those southern countries than for the EU-12 average. This is particularly true for electrical household appliances in all three countries, food in Portugal, clothing in Greece and Spain, and furniture in Greece and Portugal. For Portugal and Spain, this evolution took place right after their accession to the European Community. In these countries, the single market programme should therefore be seen as part of a wider integration process with EU countries.

Figure 5.17. The share of intra-EU imports in total domestic consumption in Spain of products supplied by EU producers (in %)



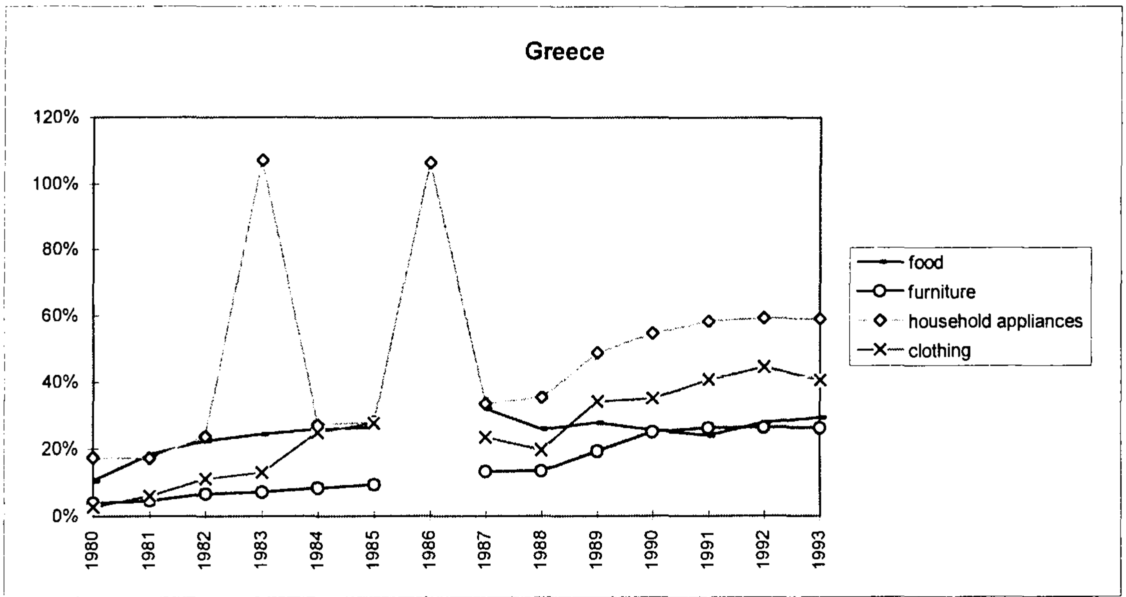
Source: DEBA.

Figure 5.18. The share of intra-EU imports in total domestic consumption in Portugal of products supplied by EU producers (in %)



Source: DEBA.

Figure 5.19. The share of intra-EU imports in total domestic consumption in Greece of products supplied by EU producers (in %)



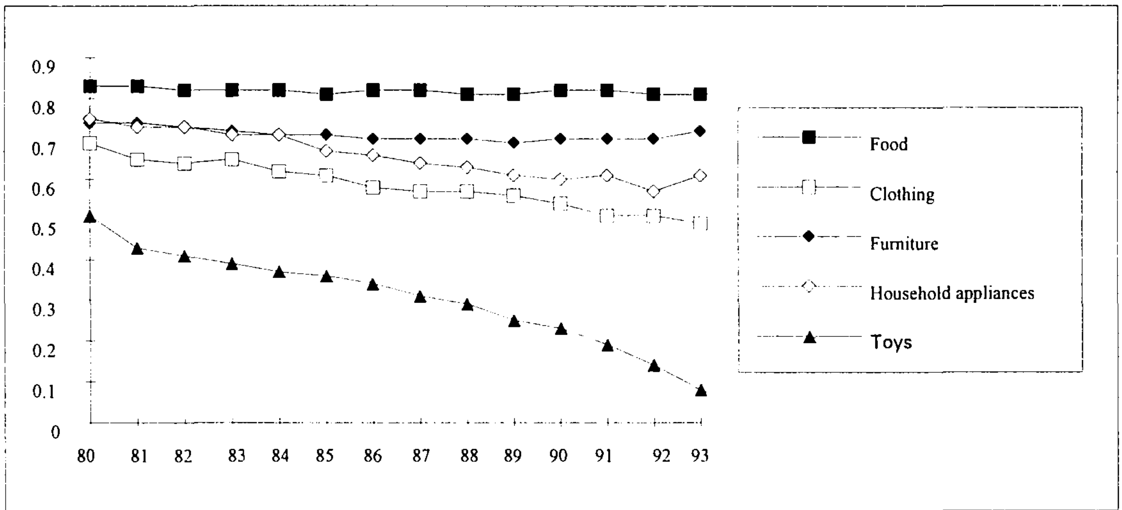
Source: DEBA.

Among longer established EU countries, the growing dependence of Denmark on EU sourcing in clothing and household appliances is worth mentioning. In food and furniture one observes a higher than average growth of EU imports in the consumption of the Benelux countries. The UK and France experience a growing EU orientation in electrical household appliances. For the former country, an analogous shift is seen in furniture.

Among EU-12 countries, the Netherlands, Ireland, Belgium, Luxembourg and Portugal rely proportionally more on intra-EU manufacturers when sourcing abroad. This is seen by looking at the share of intra-EU imports in total imports for the various product categories. This is partially a reflection of the smaller size of those countries but also suggests a higher degree of market integration with EU partners.

In spite of a growing internationalization, sourcing from domestic manufacturers dominates for all products except toys. Figure 5.20 depicts the average share of domestic production in total domestic consumption for the EU-12 countries from 1980 to 1993. Sourcing from national manufacturers accounts for approximately 80% of domestic food sales. This percentage of national sourcing is situated around 70% in furniture and 60–70% in household appliances. In clothing 50% to 60% of all products sold are made by domestic companies, but, as is also the case for electrical household appliances, this share is unambiguously declining over time. A very sharp decrease in the share of domestic production from 51% in 1980 to 8% in 1993 is found for toys and sports. However, data for this sector should be interpreted with caution.

Figure 5.20. The share of domestic production in total domestic consumption (in %, for EU-12 countries combined)



Source: DEBA.

5.5.2. International buying groups

Market integration creates an appropriate environment for international co-operation in sourcing. International buying groups are one form of co-operation of this type. Retailers associate with 'colleagues' into buying groups but without losing autonomy and control over their activity. We emphasized in Chapter 3 that such initiatives are linked to the vertical externality that exists between retailers and manufacturers. Retailers improve their bargaining strength in their sourcing relation with manufacturers by bundling and co-ordinating their purchasing decisions. The single market legislation on technical harmonization, border controls and transport facilitates such co-operation. The positive attitude of EU competition policy with respect to buying groups provides the necessary regulatory background. Do we observe a growing role of international buying groups in the last years?

In the table below (Table 5.28) we present an overview of the major retail alliances and buying groups in grocery retailing with their date of creation. A striking characteristic of these associations is their strong European flavour. Their core groups are constituted to a very large majority of European retailers. It is remarkable that not a single association includes an American retailer.

Among these associations, we distinguish two main categories: (a) the co-operative associations and (b) the independents and multiples associations. This distinction matches with the date of creation of the retail alliances concerning those two groups. In the first wave of creation (up to 1971), we see the associative movements appearing in the form of the Spar International and NAF International (respectively a voluntary chain and a co-operative)[35] organizations. It is clear that we cannot attribute this evolution to the single market programme.

In the second wave of creation, starting 1987, we observe the traditionally independent companies (small independents and multiples)[36] getting together under the umbrella of various associations. These buying groups include some of the major retailers on the European scene. These initiatives are concentrated in the grocery sector. In the clothing sector on the contrary, the 'buying group or retail alliance' phenomenon does not exist as such. Retailers have developed their businesses in a rather independent fashion using the franchise construction as their main tool for cross-border expansion. Therefore, no major buying group or retail alliance saw the light of day in this subsector of the distributive trades.

As mentioned earlier, buying groups play an important role in furniture, but we do not observe a marked increase in the number of buying groups after 1985 (see Table 5.9 in Section 5.2.2). The major reason for the creation of buying groups in furniture is to increase purchasing power.

Can we attribute the recent wave of buying groups to the single market programme? The timing of these pan-European initiatives is consistent with the deployment of the single market. It is remarkable that between 1971 and 1987 no need was felt by retailers for any sort of association or alliance at an international level.

This lack of enthusiasm stands in sharp contrast to the hectic activity after 1987. Several of our contacts in the distributive trades make a direct link between the renewed interest in the buying group and the integration process among EU countries. Market integration was felt to strengthen the internationalization and concentration among manufacturers which weakened the position of retailers. Retailers themselves became aware of the EU efforts towards integration. Moreover, a kind of domino effect seemed to have come into effect. With some retailers joining an international buying group, others not yet organized in such an association found themselves more vulnerable in the market. They were afraid of being disadvantaged not only against manufacturers but also against their newly strengthened competitors who could benefit from the power of their alliance. Consequently, the logical next step was the creation of as many alliances as necessary to provide similar 'protection' to all players wishing to 'regain' their competitive advantage. Another explanation for the interest shown by retailers – particularly the big ones – for the retail alliances, is the need to keep in close touch with the developments taking place in the sector on an international basis.

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35 Definitions given in the glossary of terms.

36 Definitions given in the glossary of terms.

Table 5.28. Major retail alliance and buying groups by chronological order of formation

Retail alliances/buying groups	Members	Date of formation
Spar International	Numerous independent retailers and wholesalers in 25 countries (Europe: NL, B, D, A, DK, F, UK, I, E, FIN, IRL, GR, P, N, CH; Slovenia, Hungary, Slovakia, Czech Republic; Australia, Korea, Japan, South Africa, Zimbabwe, Argentina)	1940
NAF International	A subsidiary of the Inter-Coop buying group co-ordinating food purchasing. Konsum (A), FDB (DK), SOK (FIN), Tradela (FIN), CWS (UK), SIS (IS), Co-op Italia (I), NKL (N), KF (S)	1971
INTER Coop	Co-operative societies in 14 European countries plus Israel and Japan	1971
Markant	Numerous small and medium-sized private and independent retailers and wholesalers from 8 European countries (A, F, D, I, NL, P, E, CH) – since 1992 incl. Spar Handels (D)	1987
SODEI	GIB (B), Docks de France (F) --> stopped 1990	1988
Eurogroup	GIB (B), Vendex (NL), Rewe Zentrale (D), Coop Schweiz (CH), Paridoc (F)	1988
AMS (Associated Marketing Services)	Koninklijke Ahold (NL), Groupe Casino (F), Allkauf-Gruppe (D), Edeka (D), Mercadona (E), Rinascente (I), Argyll Group (UK), Kesko Corporation (FIN), Superquinn (IRL), ICA (S), Hakon (N), Jeronimo Martins Retail (P)	1989
EMD (European Marketing & Distribution)	Markant Handels (D), Markant (NL), Selex (E), Nisa Today's (UK), Selex Gruppo Commerciale (I), Uniarme (P), ZEV (A), Musgrave (IRL), Super Kob (DK)	1989
ERA (European Retailing Alliance)	Royal Ahold (NL), Argyll Group (UK), Groupe Casino (F), Rinascente (I)	1989
Buying alliance in Far East	Rinascente (I), Metro International of Switzerland (CH)	1990
BIGS (Buying International Group Spar)	Spar Österreich (A), Unidis (B), Bernag Ovag (CH), Dagofra (DK), Spar (UK), Hellaspar (GR), Despar (I), BWG/Spar (IRL), Unil (N), Unigro (NL), Spar International (NL), DAGAB (S), Tukospar (FIN)	1990
Deuro buying alliance	Carrefour (F), Metro International (D & CH), Makro-SHV (NL), NAF International (NL)	1990
Buying group	Leclerc (F), Eroski (E) --> stopped in 1992	1991
Intermarché	Buying arrangement w/ Italian Sisa (volunt.chain) for Intermercado chain	1991
Buying alliance in UK	Carrefour (F), Netto (UK operations of DK group)	1992
Collaboration agreement	Marinopoulos (GR), Continent Hellas (Promodès, (F)) (GR)	1993
GDE	7 regional coop members of Coop-Italia, Eroski (E). devt.of 20 hypermarkets in the Basque region of Spain	1993
Promodès World Trade	Central purchasing office for Promodès outlets across Europe, based in Geneva	1993
Trading alliance	Dansk Supermarked A/S (DK), Spar Handels AG (D)	1993
SEDD	Delhaize 'Le Lion' (B), Docks de France (F), Esselunga (I), J Sainsbury plc (UK)	1994

Source: 'Europe's Top Retailers', Corporate Intelligence (1993); 'European Fact File', IGD (1995).

While the link between the international buying groups with the single market programme is readily made, the stated objective – centralized international buying – is not necessarily achieved. Mr Dorsman of one case company, the AMS buying group (see table above), told us that AMS members share only about 200 products, which is less than 1% of the product range of a typical larger member, such as Ahold. The share of centralized sourcing in retail turnover is correspondingly low. Centralized buying takes place for commonly designed private label products and some branded products for which member sales volumes are too low to obtain a strong position *vis-à-vis* the manufacturer. These facts were confirmed by Mr Dettmann from ICA, a Swedish grocery retailer. Mr Dettmann nonetheless emphasized that the AMS buying group helped ICA to internationally source specific products at attractive prices.

There are several reasons for this relatively modest contribution of buying groups to sourcing. Even when interest within the buying group exists for a specific article, large purchases are sometimes limited by the production capacity of the manufacturer. Moreover, the size of participating retailers is often large enough to obtain the best possible price conditions from the manufacturer. Last but not least, local taste differences and remaining barriers due to national legislation make retail stores want different types of product specifications. Especially in international buying groups, these minor variations exist for many products which complicates centralized buying considerably. In reality, the value added of the product in many cases is too small to generate sufficient profits from centralized buying.

For these reasons, international buying groups today have often evolved into training centres, forums to exchange ideas, advisory centres to select systems and pressure groups against manufacturers. In all of this, the competitive nature of the relation among retailers should not be ignored. Retailers want to know what their competitors are doing as much as they want to centralize sourcing decisions. Within single retailer buying groups (such as Promodès World Trade) this competitive tension is absent. It is therefore not surprising that centralized sourcing plays a much bigger role within such groups although the share in the total sales volume should not be exaggerated. At Promodès World Trade, the goal is to face manufacturers from a better bargaining position, to manage the production of private labels, and to arbitrage between EU markets. Purchase decisions are, however, made at the country and the store levels. Price rebates from centralized buying are passed on to the individual stores.

On the whole, one can safely say that the single market provided an environment conducive to a pan-European buying approach in sourcing. Yet, national barriers and economic factors limit the scope for a full-fledged development of such schemes.

5.5.3. Brand and product similarity

Better opportunities for international sourcing should give retailers improved access to the best products at the lowest price. Assuming that consumers have sufficiently similar tastes, this should lead to a growing similarity in the product range offered to the consumer of the various EU countries.

Unfortunately, the statistical data are not available to carry out a comprehensive comparison of consumption patterns on a product and brand level over time in EU Member States. Hence, we are not able to assess in detail the impact of the single market on brand and product availability. With the incomplete data presented here[37] we have in some ways to establish a negative result: whatever internationalization of sourcing patterns the single market has achieved, this has not resulted in a global harmonization of consumption patterns across Europe. Depending on the product category considered, consumers are more or less exposed to locally or nationally sourced products and brands. In view of the national barriers and local demand conditions emphasized in the previous chapters, this does not come as a surprise.

Top ten grocery brands

To back up this central hypothesis, we first provide evidence on the leading brands in selected EU countries. Table 5.29 lists the top 10 grocery brands in Germany, France, the UK and Italy based on Nielsen survey data for 1983 and 1993 as well Nielsen's predictions for 2003.

[37] The data refer to grocery products. Comparable data for clothing, furniture, household appliances and toys are not available.

Table 5.29. Top 10 grocery brands in four EU countries

1983	1993	2003 (predicted)
Germany	**Germany**	**Germany**
Jacobs (coffee)	Coca-Cola	
Iglo (frozen food)	Iglo	Coca-Cola
Coca-Cola (soft drink)	Jacobs	Fanta
Langnese (ice cream)	Langnese	Iglo
Persil (washing powder)	Persil	Jacobs
Rama (margarine)	Warsteiner (beer)	Langnese
Barenmarke (evaporated milk)	Suchard Milka	Dr Oetker
Ariel (washing powder)	Fanta	Pampers (diapers)
Suchard Milka (chocolate)	Dr Oetker (frozen food)	Persil
Fanta (soft drink)	Ariel	Suchard Milka
		Warsteiner
France	**France**	**France**
Ricard (spirit)	Ricard	Always (sanitary napkins)
Kronenbourg (beer)	Coca-Cola	Ariel
Lu (biscuits)	Lu	Coca-Cola
Belin (biscuits)	Pampers	Findus
Ariel	Herta (sliced meat)	Herta
Coca-Cola	Kronenbourg	Kellogg's
L'Alsacienne (biscuits)	Président (dairy)	Kronenbourg
Nestlé (chocolate)	Ariel	Lu
Nescafé (coffee)	Belin	Pampers
Oasis (soft drinks)	Kellogg's	Président
UK	**UK**	**UK**
Whiskas (cat food)	Persil	Andrex (toilet tissue)
Nescafé	Coca-Cola	Ariel
Persil	Ariel	Coca-Cola
Anchor (butter)	Nescafé	Nescafé
Heinz (soup)	Whiskas	Persil
Lurpak (butter)	Silver Spoon (sugar)	PG Tips
Chum (dog food)	PG Tips (tea)	Silver Spoon
Ariel	Flora (margarine)	Walkers
Heinz (baked beans)	Walkers (biscuits)	Whiskas
Italy	**Italy**	**Italy**
Algida (ice cream)	Barilla	Algida
Parmalat (milk)	Algida	Barilla
Barilla (pasta)	Coca-Cola	Coca-Cola
Findus (frozen fish)	Findus (fish)	Dash
Motta (ice cream)	Findus (vegetables)	Findus (fish)
Findus (frozen vegetables)	Dash	Findus (vegetables)
Coca-Cola	Parmalat	Motta
Dash (detergent)	Yomo (yoghurt)	Mulino Bianco
Linea (diapers)	Motta	Parmalat
Mulino Bianco (biscuits)	Mulino Bianco	Yomo

Source: Cross-border marketing, Research report of The Economist Intelligence Unit (1993).

Undoubtedly, there are a few Euro-brands such as Coca-Cola, Ariel, Persil that are high on the consumer list in several EU countries. Likewise, brands like Langnese, Iglo, Findus and Algida are produced by local subsidiaries of major multinationals like Unilever and Nestlé. All of this has little to do with the single market because those brands were already well established in 1983. Equally revealing is the importance of national brands that are primarily sold in one country such as Ricard in France, Warsteiner in Germany, PG Tips in the UK, Motta, Mulino Bianco and Yomo in Italy. Even among top brands, variations persist across EU countries. A glance at Nielsen's predictions for the future shows that those national brands are expected to maintain their position. Actually, the rise of private labels at major retailers may undermine the position of leading brands and diminish product similarity across EU countries.[38]

A case study for selected food products

To study brand and product availability in more detail, we concentrate on four food and drink product groups that are available in the supermarkets of all EU countries and have not undergone major technological transformations in the last decade. The four products are mineral water, breakfast cereals, jams and marmalade and ice cream. For each category several brands are available with quite similar product characteristics. In breakfast cereals and ice cream, a few large multinational food companies own several of the brands, but this is far less the case in mineral waters and jams and marmalade. Multinational companies do not always operate under their own name but also control local companies. It is not uncommon for a company to control many different brands of the same product.

We obtained retail data from Food for Thought (FFT), a Swiss-based company specializing in the food sector. This company collects data on market sales and market volume for detailed food categories as well as market shares per company and a list of brands each company is offering in 17 West European countries. Those countries are the 15 EU countries, Switzerland and Norway. The same definitions for each product apply across all countries. The data are for 1992 and refer to all products sold for final human consumption in retail shops, catering and artisan markets of which retail shops are by far the largest component. Intermediate and industrial consumption as well as auto-consumption are excluded because they are not part of retailing. Comparable data for earlier periods were not available.

The market for breakfast cereals across the 17 West European countries – for which we have data – was served in 1992 by many independent companies and subsidiaries of holding companies. Branded products accounted for a market share of 81%. The other 19% market share was taken up by own label brands. In spite of the relatively large number of companies, industry concentration is very high. Kellogg's is, by far, the leader of the pack with 48.8% of total West-European sales. The top three companies (Kellogg's, Quaker and Cereal Partners) account for more than 25% of the market share in all West European countries and for more than 50% in 14 out of the 17 countries surveyed. The top six companies (top 3 + Weetabix, BolsWessnen and Abdon Mills) capture over 75% of the market in 10 countries and have an average West European market share of 76.8%.

Table 5.30. Product and brand availability in 17 European countries

(% share of total number of companies with production of a specific product)

	Sales in domestic country only	Sales in 2–5 countries	Sales in 6–9 countries	Sales in 10 countries or more
Mineral water	90.00	8.57	0.00	1.43
Ice cream	87.38	6.80	2.91	2.91
Marmalade and jam	82.35	14.71	2.94	0.00
Breakfast cereals	57.14	33.33	0.00	9.52

Source: Own computations based on company and brand data from Food for Thought.

38 This is a controversial issue in the literature. A recent paper by Parker and Kim [1995] argues that private labels and leading brands are in many respects complements rather than substitutes (see Parker, P.M. and N. Kim, 'National Brands versus Private Labels: An Empirical Study of Competition, Advertising and Collusion', INSEAD Working Paper No 95/32/MKT). An overview of the literature on private labels is beyond the scope of this report.

Breakfast cereals come in many brands. In 1992 Kellogg's alone sold between 15 and 20 varieties in 11 of the then 12 EU members (EU-15 minus Finland, Austria and Sweden). With the market leaders dominating the market and selling many of the same brands in most markets, a similar product range is available to consumers in most European countries. In spite of this, the products of the majority of companies in the breakfast cereals sector are sold only in their domestic market. This is shown in Table 5.30 where we have computed the number of independent or ultimate holding companies[39] as a percentage of the total number of companies that sell (a) in their domestic market only, (b) in 2–5 countries, (c) 6–9 countries and (d) in 10 countries or more. We observe that the brands of 57.14% of the breakfast cereals companies in the 17 European countries are only bought by domestic consumers. Another third of the companies sell cereals in at most five countries. The large multinational companies, which dominate breakfast cereals, account for less than one tenth of the companies.

Industry concentration in ice cream products is pronounced, although lower than in the breakfast cereals product group because of the role of home-produced ice cream for direct sale (for instance, independent bakers). The three largest companies are Unilever, Nestlé and Beatrice, accounting respectively for an average market share of 31.5%, 13.4% and 6.1%. The top five companies captured 56.5% of total West European retail sales in 1992. Other important players are Filipou (4.9% of total sales), Mars (3.7%), Sudzucker (2%), Hexagon (1.6%) and Eventyr Is (1.5%). More than in the case of breakfast cereals the major players operate through local subsidiaries rather than under their own name. A long list of recent acquisitions of local companies by the major players is a testimony to this trend.

Branded products account for a market share of 76%, private labels for 13% and the remaining market share is taken by unbranded products and home-produced products for direct sale. There is a large number of brands in each market, but the uniformity of ice cream across markets is less than in the case of breakfast cereals. Ice cream products of even the dominating food companies cannot be found in the retail stores of all EU countries. This results from the fact that the grip of the major ice cream companies on the market is not as powerful as with cereals. In addition, the brands offered by the dominating companies themselves vary across EU countries, because they are often supplied by local subsidiaries. National companies historically developed their own product range, taking account of the availability of local input suppliers and of national regulations on product composition and food freshness.

The smaller degree of brand and product uniformity across EU countries is also reflected in Table 5.30. Ice cream products of less than 6% of the total number of ice cream producers are for sale in more than five of the 17 countries considered here. The brands of 87.38% of the companies are bought by domestic consumers only.

The choice of mineral waters in retail shops is dominated less by a few pan-European food manufacturers. The top 3 manufacturers Danone, Carlsberg and Nestlé attain a combined 1992 market share of 36.9%, the top 6 (top 3 + PepsiCo, Vichy Catalan and Spadel) account for 45.1% of total retail sales in the 17 European countries. Those averages mask sharp differences across EU markets. While the brands of leading manufacturers carry a large part of the retail markets of centrally located European countries like Belgium, Denmark, France and the Netherlands, this is far less true in the south (Spain, Portugal and Greece), in Ireland and in the new EU members (Austria, Finland and Sweden). On the whole, nationally oriented

39 Subsidiaries of companies are not counted as separate companies. Only the holding company is considered.

producers of mineral water play an important role. This is reflected in the brands of mineral waters in each country. While the number of brands is usually smaller than in the case of breakfast cereals, the brand names vary considerably across country. Many brands are found in one country only. In effect, 90% of mineral water companies serve national consumers only.

Marmalade and jams are prime examples of a traditional product with stagnating demand and a relatively limited degree of brand differentiation. Branded products account for a market share of only 73%. Private labels take a high 27% share. Many companies produce only one brand and the choice of brands offered to the representative EU consumer is far more restricted than in the case of breakfast cereals and ice cream. None of the brands is offered in all 10 countries or more and only Hero (owned by Oetker), Materne (Hillsdown Holdings) and Bonne Maman (Andros) come close to being Euro-brands.

Not surprisingly, the industry concentration of the marmalade and jam market is relatively low. The average market shares of the top 3, Oetker (12.7%), Orkla (6.3%) and Andros (4.6%) sum up to only 23.6%. In none of the 17 European countries of this sample, do the top 10 companies combined capture 75% or more of the market. Only in three markets do the top 3 account for more than 50% of retail sales. The top 6 manufacturers (top 3 + Danisco, Helios and Hillsdown Holdings) sell more than 25% of the market in only 10 countries. While recent acquisitions (e.g. take-over of Hero by Oetker this year) may alter this picture in the years to come, jams and marmalade correspond to a relatively homogeneous, nationally or locally supplied food product with more than 80% of the companies serving their domestic market only.

This exercise drives home a simple point that is confirmed over and over again during interviews in the case companies. While there are unmistakably a growing number of pan-European brands, sourcing by retailers of local brands and products should not be ignored. It is true that the local character of grocery products is more marked than that of household appliances, toys, furniture and clothing. But even there domestic sourcing should not be underestimated as our analysis of trade and consumption data demonstrated.

This finding does not rule out a contribution of the single market programme to a growing international sourcing. Rather, it helps to identify the areas where we might expect those effects to exist. International sourcing patterns are likely to be situated with the recognized brands and the major retailers. In other cases, sourcing from manufacturers in domestic or surrounding countries will most often prevail.

5.5.4. Parallel trade and the evidence from case companies

Table 5.31. Examples of parallel trade

Product	From	To
Beer and sodas	France	UK
Detergents	Italy	Netherlands
White goods	Spain	Netherlands
Whiskey	Italy	UK
French fries	Netherlands	Sweden
Canned vegetables	Germany	UK and Sweden

From interviews with executives from our case companies we estimate the volume of parallel trade to be between 2% and 7%. In all cases market integration increased parallel trade by facilitating cross-border purchasing. The main reasons for the substantial price differences between countries are marketing and local consumer preferences. Certain beers in France, for example, have a poor image (and therefore a low price), but the same beer has a good image and high price in the UK. For the UK retailer it is cheaper to purchase from the French retailer than to purchase from the manufacturer.

Whiskey was brought onto the Italian market at quite low prices to gain market share. For UK retailers it became cheaper to purchase from the Italian retailer than from the UK manufacturer (including the extra logistics costs). After a while, some retailers will get the same lower purchase prices from the manufacturer as their colleague retailers in another country. This was the case with french fries from the Netherlands to Sweden and was made possible by good co-operation between retailers in a buying group.

Because local consumer preferences and therefore price differences exist, we do not expect that parallel trade will disappear. Market integration will increase this, especially when one currency is adopted within the EU. This unique currency creates more efficient markets than now with 15 different currencies. An example for this is the US where parallel trade between retailers is significantly higher than in the EU.

5.6. Internationalization

A central theme of Chapter 4 is that the distributive trades sector is subject to many factors of which the single market is one. This point is particularly valid for the complex internationalization strategies of distributive operators. At the beginning of this chapter, we advanced several hypotheses on internationalization. First, we argued that the single market legislation gives retailers an incentive to internationalize their distributive activities but that national legislation and taste differences obstruct the smooth application of a retail format in different countries. Those impediments play a more restricted role in the internationalization of the other distributive operators. Furthermore, the internationalization of wholesalers and logistics services companies is closely linked to the internationalization of retailers and manufacturers. This last hypothesis was discussed earlier in Section 5.3 and will not be addressed again here.

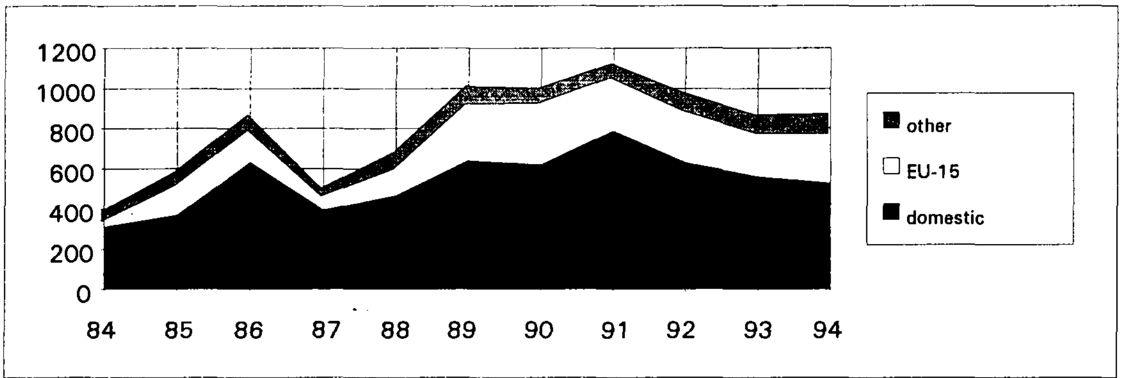
To test these hypotheses and to single out as much as possible the contribution of the single market, we took several routes. We relied on our data set on mergers and acquisitions (M&A) to throw light on the international expansion of distributive operators. Another source of information comes from a detailed look at the international operations of individual companies. Finally, we make use of evidence gathered from case companies. The last two types of data enable us to supplement international M&A with information on other forms of international expansion. Moreover, we gain insight into the share of international operations in the total turnover of companies.

5.6.1. An analysis of mergers and acquisitions

In the following pages, we use our M&A data set to analyse the internationalization of the distributive trades. As mentioned earlier, this data set contains transactions of manufacturers and retailers in the subsectors of this study as well as logistics services companies and wholesalers.

Figure 5.21 combines the whole data set to depict the evolution in the number of M&A. We distinguish between domestic transactions, cross-border transactions between EU-15 companies and transactions where the target company is outside the EU.

Figure 5.21. Overview of M&A activity in the distributive trades



Source: Own computations based on SDC and AM data.

We observe a large and growing number of M&A in the period 1986–90, which coincides with the set-up of the single market programme. Apparently, companies have seized the emerging opportunities in the single market and the strong economic growth to expand. Most of the M&A transactions are domestic, which indicates that not all of the effects of the single market on M&A are necessarily linked to a growing internationalization. On the other hand, international M&A account for a growing share. This is particularly true for intra-EU cross-border transactions, reflecting the company strategies to expand in EU markets. The M&A activity levels off in the 1990s when economic activity in the distributive trades slows down.

Table 5.32 shows M&A activity by country for 17 European countries (EU-15, Norway and Switzerland). The larger countries top the list in number of transactions with UK firms participating the most actively in the M&A process. Southern countries like Portugal and Greece are virtually not involved. Not surprisingly, companies in smaller countries are on the whole more internationally oriented than larger countries, although Denmark and Finland are noteworthy exceptions to this principle. Of all the countries, Sweden, Switzerland, Ireland, Belgium, Austria, Portugal, Luxembourg and Greece show the highest proportion of M&A that are directed towards other EU countries.

Table 5.32. M&A activity by country

Country	M&A carried out by acquirers in each country		Nationality of companies targeted by these acquirers		
	Number	% of all M&A	% domestic	% EU-15	% other international
United Kingdom	3365	34	74	17	10
France	1393	14	71	21	8
Germany	1354	14	82	12	5
Netherlands	679	7	48	31	21
Italy	476	5	68	23	9
Sweden	374	4	43	43	14
Finland	360	4	73	19	8
Denmark	273	3	71	21	8
Switzerland	273	3	11	77	12
Spain	235	2	82	14	4
Ireland	203	2	34	55	11
Norway	169	2	71	25	4
Belgium	139	1	53	42	5
Austria	28	0	18	68	14
Portugal	20	0	50	50	0
Luxembourg	13	0	8	85	8
Greece	7	0	43	57	0

Source: Own computations based on SDC and AM data.

Table 5.33. Favourite target countries of the M&A activity

Country	Top 3 of target company nationality		
	No 1	No 2	No 3
Scandinavia			
Denmark	United Kingdom	Germany	Outside Europe[1]
Finland	Sweden	Germany	Outside Europe
Norway	Sweden	Denmark	[2]
Sweden	Denmark	Germany	Outside Europe
South			
France	Outside Europe	Spain	Italy
Italy	France	Outside Europe	Spain
Spain	France	Outside Europe	[2]
Other			
Austria	Germany	[2]	[2]
Belgium	France	Germany	[2]
Germany	United Kingdom	France	Outside Europe
Ireland	United Kingdom	Outside Europe	[2]
Netherlands	Outside Europe	Germany	United Kingdom
UK	Outside Europe	Germany	Netherlands
Switzerland	Germany	France	Outside Europe

[1] For the purpose of this table, 'Outside Europe' is considered as a single country, i.e. the total number of companies acquired outside Europe is compared with the number of French companies, German companies, etc.

[2] Empty cells in this table mean that no countries were particularly more popular than the rest.

Source: Own computations based on SDC and AM data.

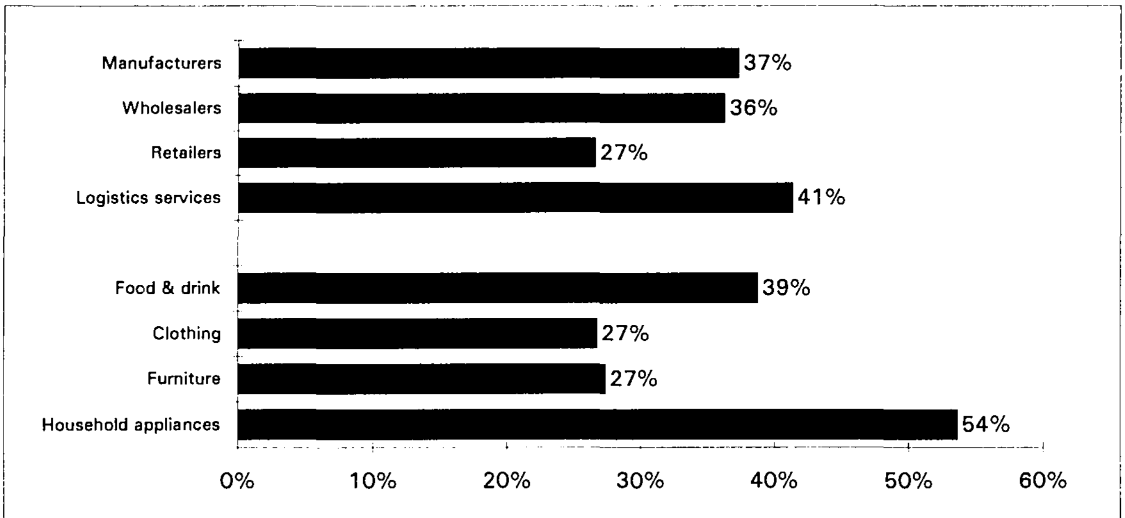
In Table 5.33 one finds the favourite target countries of the M&A activity of companies that are located in one of the countries of our sample. The world is defined as all countries outside Europe. The main conclusion of this table is that the companies in most countries like to stay close to home and acquire companies in the surrounding countries. But companies of several countries including France, the Netherlands, the UK and, to a lesser extent, Italy and Spain show a considerable interest for expansion outside Europe. This should guard us against attributing all M&A activity to the single market. M&A are part of the overall strategy of companies. Expansion in European Union markets is one dimension of this strategy alongside domestic and world-wide considerations.

Table 5.34 and Figure 5.22 document the percentage share of international M&A for the different distributive operators and subsectors of the distributive trades.

Table 5.34. Share of international M&A as a percentage of total M&A

	Manufacturers	Wholesalers	Retailers	Suppliers of logistics services	Average
Food and drink	43	36	26		39
Clothing	28	29	22		27
Furniture	29	32	14		27
Household appliances	59	58	36		54
General				42	42
Average	37	36	27	41	36

Figure 5.22. Share of international M&A as a percentage of total M&A, per targeted distributive operator and per targeted subsector



Note: Suppliers of logistics services generally operate in various subsectors. For that reason M&A involving those companies have not been taken into account in any of the four subsectors.

Source: Own computations based on SDC and AM data.

We find that the internationalization of retailers is significantly lower than that of the other distributive operators. Logistics services suppliers reveal the strongest international orientation with 41% of all M&A transactions outside the home country. Manufacturing companies and wholesalers follow closely behind with international M&A shares of respectively 37% and 36%.

Consistent with the sectoral diversity emphasized earlier in this chapter, we find clear differences in the degree of internationalization in M&A among the subsectors. The M&A of household appliance and food and drink companies are distinctly more outward looking than is observed in furniture and clothing. In view of the international character of both retailers and manufacturers (see Section 5.2), this is easily understood for food and drink companies. A similar remark can be made for the household appliance manufacturers, while the international M&A activity of wholesalers reflects the important role of this type of company in household appliances.

5.6.2. A detailed look at the internationalization of the retail sector

International expansion of individual retailers

Mergers and acquisitions are only one approach to internationalization. Alternatively, companies can participate in joint ventures or build up their own foreign subsidiaries through organic growth. A full account of the internationalization efforts of companies involves these forms of international expansion. We offer this account for a selected set of larger distributive operators.

Appendix A.6 contains a table which gives an overview of international M&A, joint ventures and organic growth development undertaken by the group of large retailers (food companies and department stores), defined in Section 5.2, in the last 30 years. While rich in content, this table does not make for easy reading. For this reason, we summarize the main findings here.

Figure 5.23 describes the internationalization methods chosen by the sample of companies when they expand into EU markets. We find a relatively equal spread between organic growth, mergers and acquisitions and joint ventures, each accounting for approximately one third of all international moves. Table 5.35 differentiates between internationalization inside and outside the EU. M&A are more often used for expansion outside the EU while joint ventures are a common tool for intra-EU internationalization.

Figure 5.23. Internationalization method

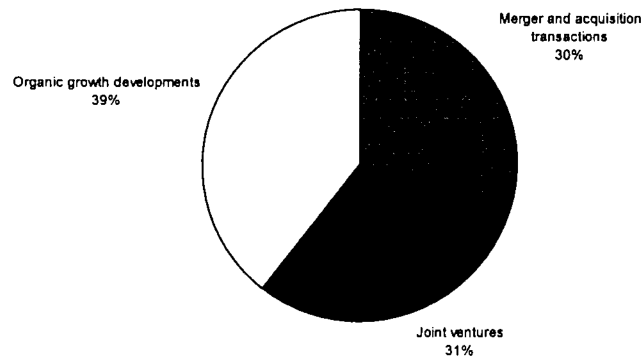


Table 5.35. Internationalization inside and outside the EU

Internationalization method	All countries	EU members	Non-EU members
Merger and acquisition transactions	36%	30%	46%
Joint ventures	26%	31%	18%
Organic growth developments	38%	39%	36%
Total	100%	100%	100%

Source: 'Europe's Top Retailers', Corporate intelligence [1993]; 'European Fact File', IGD [1995].

As was the case with the M&A exercise, we find a clear acceleration in the internationalization process after 1985, when the single market was being created. A detailed reading of the individual company accounts provides evidence of intense internationalization from 1987 onwards. 69% of all international moves covered in our sample took place after 1985.

Another interesting feature is the growing shift towards EU markets. Before 1985 the weight of EU and non-EU countries is about the same (16% versus 14% of total transactions). After 1985, EU markets receive significantly more attention from internationally expanding retailers than non-EU destinations. From 1991 onwards, a growing interest in Eastern Europe and the Pacific Rim emerges. This suggest that the single market effect was at its peak from 1987 to 1991.

A further insight into the geographical diversification of the internationalization is given in Table 5.36. As in the M&A analysis, the closeness factor matters in the choice of the countries to enter. Typically, British companies look around Ireland and France, German firms approach the Netherlands, Switzerland, Austria or Denmark, French enterprises tackle the Spanish, Italian and Belgian markets, and so forth. Additional to the closeness factor, companies tend to expand in a north-south fashion. Spain, Portugal and increasingly Italy constitute a focus for nearly all companies originating from the northern part of Europe. Finally, not all retailers internationalize. Most of the companies located in Greece, Italy, Spain or Ireland have not yet taken part in the internationalization process or have only entered one close-by country. The diversity in Europe in terms of development trends is quite obvious.

Table 5.36. Countries of operation of the major European retailers in 1993

Name	Foreign countries of operation/interest
BELGIUM	
GIB	France, UK, Spain, Portugal, USA, Zaire, Poland
Delhaize 'Le Lion'	USA, Czech Republic, Greece, (Portugal earlier)
DENMARK	
Dansk Supermarked A/S	UK, Germany
FDB (Coop Denmark)	none
FRANCE	
Carrefour	Spain, Brazil, Argentina, Portugal, Taiwan, USA, UK
Leclerc	Spain, USA, Belgium, Portugal, Italy (planned openings), Poland
Intermarché	Spain, Portugal, Italy, Belgium, Eastern Europe, Russia, Poland
Promodès	Spain, Germany, Portugal, Italy, Greece, USA
Auchan	Spain, Italy, USA, (Japan. trading cie only), Poland, Germany (spe.retail)
GERMANY	
Metro-Gruppe	Netherlands, Belgium, France, Denmark, UK, Luxembourg, Italy, Spain, Greece, Portugal, Austria, Switzerland, Hungary, Czech Republic, Poland, Brazil, Turkey, Taiwan
Tengelmann	USA, Canada, Netherlands, Italy, UK, Spain, Austria, France, Hungary, Czech Republic, Poland
Rewe-Zentrale	UK, France (new), Poland & Switzerland (limited)
Edeka Zentrale AG	Denmark, Czech Republic (pilot)
Aldi	North America, Denmark, Belgium, Netherlands, France, Austria, UK, Eastern Europe
GREECE	
Marinopoulos	none
Sklavenitis	none
Veropoulos	none
IRELAND	
Dunnes Stores	UK
Musgrave	Spain
Power Supermarkets	Northern Ireland
Superquinn	none
ITALY	
Co-op Italia	none so far (soon to start in Spain)
Gruppo Standa	none
Gruppo Rinascente	none
Generali Supermercati	none
Esselunga	none
NETHERLANDS	
Koninklijke Ahold	Portugal, USA, Spain, Belgium, Czech Republic, Mexico (project)
Vendex	Belgium, Luxembourg, Germany, Austria, Switzerland, France, Spain, USA, (Brazil, earlier)
Unigro	Spain, Belgium, Russia
PORTUGAL	
Jerónimo Martins Retail	none (partial subsidiary of Dutch Ahold)
Sonae	none
Grupo Pão de Açúcar	Spain

Table 5.36. (continued)

Name	Foreign countries of operation/interest
SPAIN	
Grupo Eroski	France, Italy and Portugal (planned)
El Corte Inglés	Portugal, USA
Zara	several European countries
UNITED KINGDOM	
J.Sainsbury plc	USA, France (limited, first beverage store opened in 1994)
Tesco plc	France, Hungary
Marks & Spencer plc	24 countries world-wide incl. USA, Canada, Japan, EU (IRL, F, E, B, NL, D, I), Eastern Europe, Far East
Argyll Group plc	none
Asda Group plc	none

Source: 'Europe's Top Retailer', Corporate Intelligence [1993]; 'European Fact File', IGD [1995].

We attempted to construct analogous tables for the group of specialized clothing retailers, defined in Section 5.2. Unfortunately, we were not able to attain the same level of detail. The results for the clothing companies are summarized in Table 5.37. Clothing department stores that were already mentioned into the previous tables are not included any more.

Table 5.37. Countries of operation of major clothing retailers

Name	Foreign countries of operation/interest
DENMARK	
Red & Green	UK, Sweden, Norway
Inwear/Matinique and Part Two	several European countries
FRANCE	
André	several European countries
Kiabi	-
Vetimarché	-
Etam	UK, Belgium, Netherlands
Vetir	-
GERMANY	
Quelle	France, Spain, Italy
Karstadt	-
Otto Versand	Europe, Japan, USA (45% of business is realized abroad)
Kaufhof	-
Hertie	-
ITALY	
Benetton	100 countries
Stefanel	France, Spain, Germany, UK, Netherlands
NETHERLANDS	
C&A Brenninkmeyer	France, Germany, UK, Spain
KBB- M&S Mode	Germany, Belgium, Luxembourg, France
Kreymborg	Belgium, Luxembourg, Germany
SPAIN	
Galerias Preciados[1]	-
Simago	France, Portugal, USA
Springfield (part of Cortesiel)	France, Portugal, Austria, Germany and Mexico
Zara (part of Inditex)	Belgium, France, Greece, Portugal and USA
SWEDEN	
Hennes & Mauritz	Iceland, Norway, Denmark, Switzerland, United Kingdom, Netherlands, Belgium, Austria

Table 5.37. (continued)

Name	Foreign countries of operation/interest
UNITED KINGDOM	
Sears plc	-
Burton Group plc	Europe (?)
Storehouse plc	-
C&J Clark Ltd	Europe, North America, Australia
Next plc	-
UNITED STATES	
Esprit	North America, Canada, Central and South America, Europe, Middle East, Asia, Australia

Source: MarketLine and own analysis based on public information.
[1] Since mid-1995 subsidiary of El Corte Inglés.

Insofar as we can judge, the internationalization of clothing retailers shares many common features with the pattern of the food retailers and department stores. With the exception of truly international retailers such as Benetton, clothing retailers expand mostly in the surrounding countries. On the whole, the number and diversity of countries that are targets of clothing retailers appear smaller than in food and department stores. However, this conclusion should be interpreted with care in light of the absence of equally detailed data.

The number of household appliance retailers that have crossed national borders can be counted on one hand. One of the few exceptions is the take-over by UK-based Kingfisher, owners of the Comet chain of electrical stores, of Darty, the largest French electrical retailer, which then held 12% of the French white and brown goods market. The acquisition led to joint operations in information technology, logistics, distribution and marketing. Sourcing of the two companies is not merged other than for the largest common suppliers, Electrolux and Whirlpool.

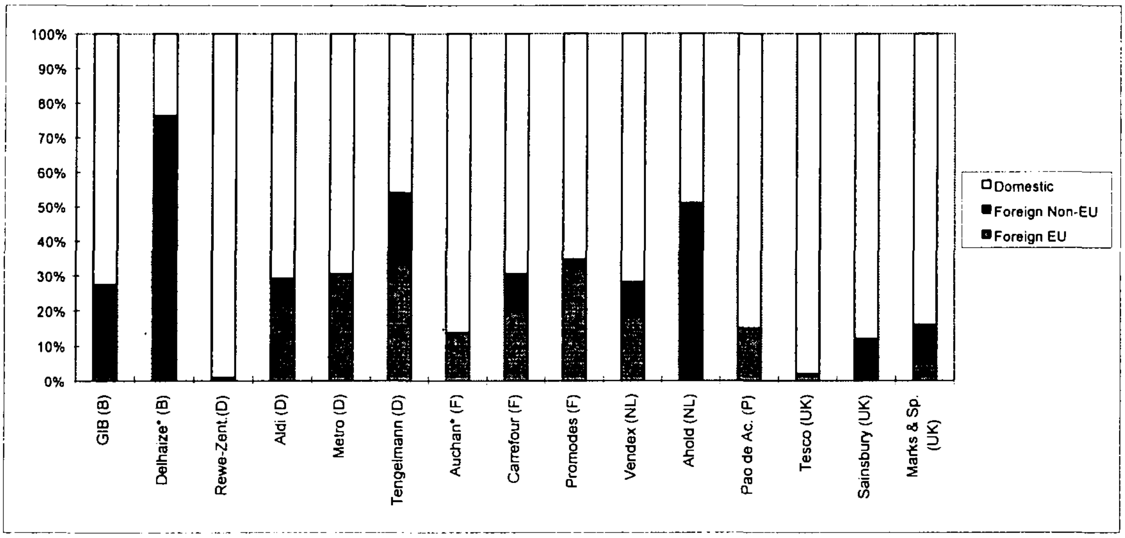
The growth of the toy superstore Toys 'R' Us is unique in its international dimension and its rapidity to build a wide network of outlets in Europe (after its saturation of the US market). No other toys retailer is as internationally active as Toys 'R' Us. Actually, the only European retailer operating in several countries is the Danish BR Toys chain, present in several Scandinavian countries. All other players, because they remain very fragmented, are basically exclusively domestic.

Did the internationalization lead to full-fledged multinational retailers?

The implementation period of the single market saw a growing internationalization of retailing in the European Union. Yet, on average retailing companies do not achieve the same multinational presence as is often found among the main manufacturing companies. Figure 5.24 illustrates the turnover structure of a group of companies that are among the retailers which have internationalized most. Those retailers are all from 'northern' EU countries (Belgium, Germany, the Netherlands, France, UK) with the exception of the Portuguese Grupo Pão de Açúcar.

The message is that, even for this group of internationally oriented retailers, the share of domestic business remains high. The exceptions are Delhaize (because of its US operations), Royal Ahold and Tengelmann for which more than 50% of the sales are realized abroad. For other retailers, the domestic market accounts for two thirds or more of total turnover. The situation for UK retailers is particularly revealing. Not more than 16% of Marks & Spencer's turnover is realized abroad. This company is the most international player of the three.

Figure 5.24. Turnover structure of the biggest European grocery retailers per country of origin



* Delhaize: EU turnover is unknown: Auchan: total foreign turnover is unknown, here only Spain is represented.
Source: 'Europe's Top Retailers', Corporate Intelligence [1993]: 'European Fact File', IGD [1995].

The national and local dimension of retailing

In the face of the domestic focus of many retailers, the share of foreign retailers in total retail sales remains relatively limited in most cases. Leading retailers are usually domestic. There are exceptions to this general rule like Ikea in furniture, Toys 'R' Us in toys and games, Aldi in Danish food retailing, C&A/Brenninkmeyer in UK, French, German and Spanish clothing. Likewise, subsidiaries of French food retailers Carrefour, Promodès and Auchan have captured a major share of the Spanish market, as the table below testifies. While internationalization is undoubtedly taking place, retailing remains in many respects a locally or/and nationally business.

Table 5.38. Top 3 retailers in Spain, market share in 1993 and contribution to their parent companies' turnover

Top 3 retailers in Spain	Market share (%)	Contribution to the parent company's business
Centros Comerciales Pryca S.A.	10.1	19.2% of Carrefour global turnover in 1992
Centros Comerciales Continente S.A.	7.5	17.5% of Promodès consolidated group sales in 1993 (incl. Dia)
Alcampo S.A.	6.0	11.2% of Auchan global turnover in 1993

This does not mean that the single market programme has failed. On the contrary, our analysis indicates that the single market project created the right environment to accelerate internationalization. Rather, we view as the main reasons for the local and national character of retailing the role of demand and taste differences, and remaining national legislation documented in Chapter 4.

5.7. Competition and concentration

In this section, we focus on the consequences of the single market on competition and concentration. Going back to Tables 5.1 and 5.2 at the beginning of this chapter, we expect changes in competition and concentration of retailers and wholesalers/suppliers of logistics services. The shifting competitive environment of wholesalers and logistics services companies was sketched in Section 5.3. This section therefore deals with retailers.

The impact of the single market programme on retail competition is indirect and acts through adjustments in the retail format, sourcing and distribution. As seen in Table 5.1, single market legislation on technical harmonization and competition policy is a factor contributing to the repeated application of the retail format by multi-store retailers. Larger retailers furthermore benefit from increased opportunities for international sourcing individually or/and through participation in international buying groups. Finally, they are the main beneficiaries of efficiency gains in the distribution process that are triggered by the single market legislation on technical harmonization, elimination of border and fiscal controls and the liberalization of the road transport sector. For all those reasons, we expect an expansion of larger, multi-store retailers at the expense of smaller, independent retailers. In turn, this leads to a growing market concentration and larger store formats.

In the following pages, we show that the hypothesis of growing concentration is indeed confirmed by the data. That does not mean that we fully attribute this trend to the indirect impact of the single market legislation. Concentration in retailing is a long-standing evolution in several EU countries and is fostered by economic factors such as demand and cost conditions, technology and market structure (see the discussion in Chapter 4). Nor is this trend confined to Europe; it is also seen, for instance, in the US. Rather, we view the single market programme as a building block of a truly integrated marketplace where, just as in the US, retail companies can optimally implement successful business strategies.

In writing this report, the authors have gradually discovered that a study on the distributive trade is an exercise in the creative combination of limited data sources. This is very much true for data on retail market shares and concentration. Data sources exist mainly, as far as we can judge, for grocery/department stores and clothing. And even for those retail groups, data are partially complete at best.

5.7.1. Competition and concentration in grocery retailing and department stores

Table 5.39 presents a concise overview of the level of concentration of the food retailing sector in 15 European countries including Norway and Switzerland in 1994/95. This table is based on data from MTI and reveals profound differences in markets across Europe. Norway, Finland, Switzerland and Sweden have a very highly concentrated grocery market with the top three retailers accounting for more than two thirds of sales. An intermediate but still high market concentration (40% or more) is found in Belgium, the Netherlands, Austria, Denmark, the UK, Ireland and Germany. Concentration is significantly lower in the southern countries, Portugal, Spain and Italy.

Table 5.39. Top 3 grocery retailers and their cumulative market share in 15 European countries

Country	Market share in % of the top 3 grocery retailers	Retail groups
Norway	86	Norgesdetalj, Co-op, Hakon
Finland	83	K Group, S Group, T Group
Switzerland	81	Migros, Co-op Schweiz, Usegro-Trimerco
Sweden	67.9[1]	ICA, KF Group
Belgium	61	GIB, Delhaize 'Le Lion', Louis Delhaize
Netherlands	57	Ahold, Vendex, Unigro
Austria	50	Konsum, Spar, Adeg
Denmark	50[2]	FDB, Dansk Supermarked
United Kingdom	49	Sainsbury, Tesco, Argyll
Ireland	45[2]	Dunnes, Associated British Foods
Germany	40	Rewe, Edeka, Aldi
France	38	Leclerc, Carrefour, Intermarché
Portugal	26[2]	Sonae, Jerónimo Martins
Spain	26	Promodès, Pryca, Alcampo
Italy	17	Crai, Co-op Italia, CONAD

[1] Data are for 1994.
[2] Top 2 retailers only.
Source: MTI, extract from *Food Magazine International*, September 1995.

The fact that a country is or has been a member of the EU for a longer period than another country does not seem to play a relevant role in the level of concentration of its food retail sector. What is remarkable is that the four most concentrated retail markets are found in countries which did not belong to the EU prior to 1994.

By combining a multitude of data sources we are able to give some indication on the evolution of concentration for selected countries. Table 5.40 takes the top three retailers in 1995 from the previous table and traces their combined market share over time. While the degree of concentration varies across countries, the trend in France, Sweden, Spain, Germany and the UK points towards growing concentration over time. For some countries, the interested reader will find more detailed concentration data in Appendix A.5.

Unfortunately, comparable concentration data for other countries are not available. Indirectly though, data on store formats throw a light on the growing concentration. The larger grocery retailers are multi-store chains or multiples (a retailer with 10 or more retail outlets).[40] More than is the case for their smaller sized competitors their sales outlets are hypermarkets (surface of 3,500 m^2 or more) and, to a lesser degree, supermarkets (surface between 600 and 3,500 m^2). Hence, market shares of multiples, hypermarkets and supermarkets are indirect indicators for the degree of and the evolution in concentration. This analogy is not perfect. In Chapter 4 we pointed to national regulations on retail development which, in several countries, slow down the construction of very large retail surfaces like hypermarkets. This fact should be kept in mind in interpreting the measures given for a wider set of countries in Figures 5.25, 5.26 and 5.27.

40 The reader will find a complete glossary of terms in Appendix D.

Table 5.40. The evolution in concentration of grocery and department store retailing in selected countries

Spain	1990	22.0	Promodès (Dia and Continente),
	1992/1993	24.0	Pryca, Alcampo
	1995	26.0	
UK	1979	34.0	Sainsbury, Tesco, Argyll
	1990	45.6	
	1995	49.0	
Germany	1990	31.0	Rewe, Edeka, Aldi
	1992	39.0	
	1995	40.0	
France	1987	24.5	Leclerc, Intermarché, Carrefour
	1990	28.0	
	1995	38.0	
Sweden	1984	63.7	ICA, KF, D-Group
	1987	66.2	
	1990	65.2	
	1994	67.9	

Source: Data kindly provided by Mr Dettmann from ICA; AGB/TCA/Consumer panel; Secodip; GFK; G+I; Dympanel, M&M Eurodata. MTI/*FoodMagazine International* and company accounts.

The basic message of these graphs is analogous to what we concluded from the concentration data. The market share of multiples, hypermarkets and supermarkets varies across countries, with the southern countries, Spain, Portugal and Italy, showing a smaller penetration for the store formats of the larger retailers. The evolution between 1985 and 1990 is towards a growing role for multiples, hypermarkets and supermarkets. This suggests that larger retailers are indeed gaining ground. A declining share of independent retailers selling in traditional stores and mini-markets is the mirror image of the stronger position of the larger multi-store retailers.

Figure 5.25. Evolution of the market share of multiples in various EU food retailing markets between 1986 and 1990

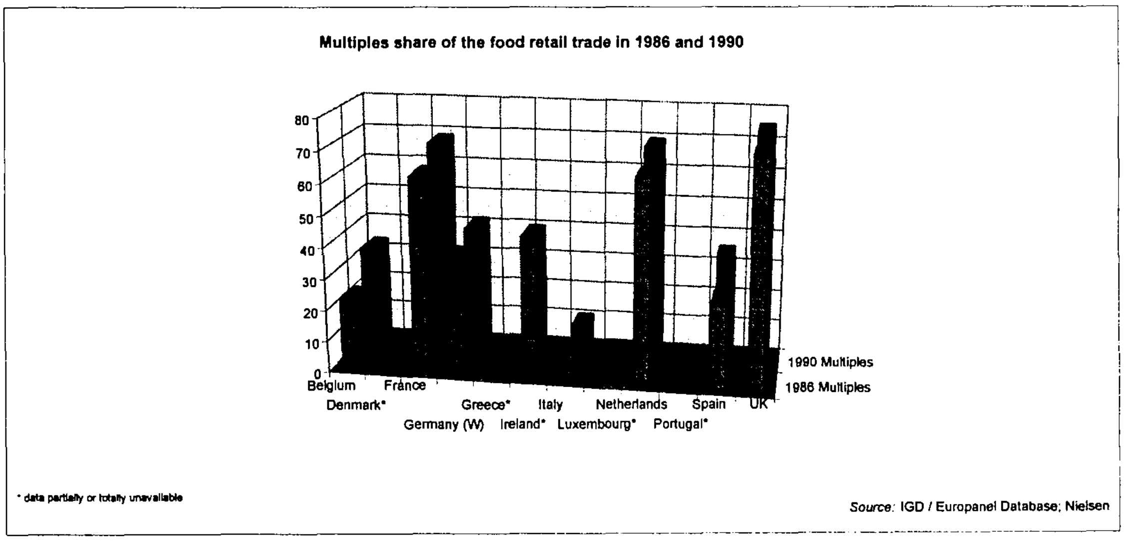


Figure 5.26. Evolution of the market share of hypermarkets in various EU food retailing markets between 1985 and 1990

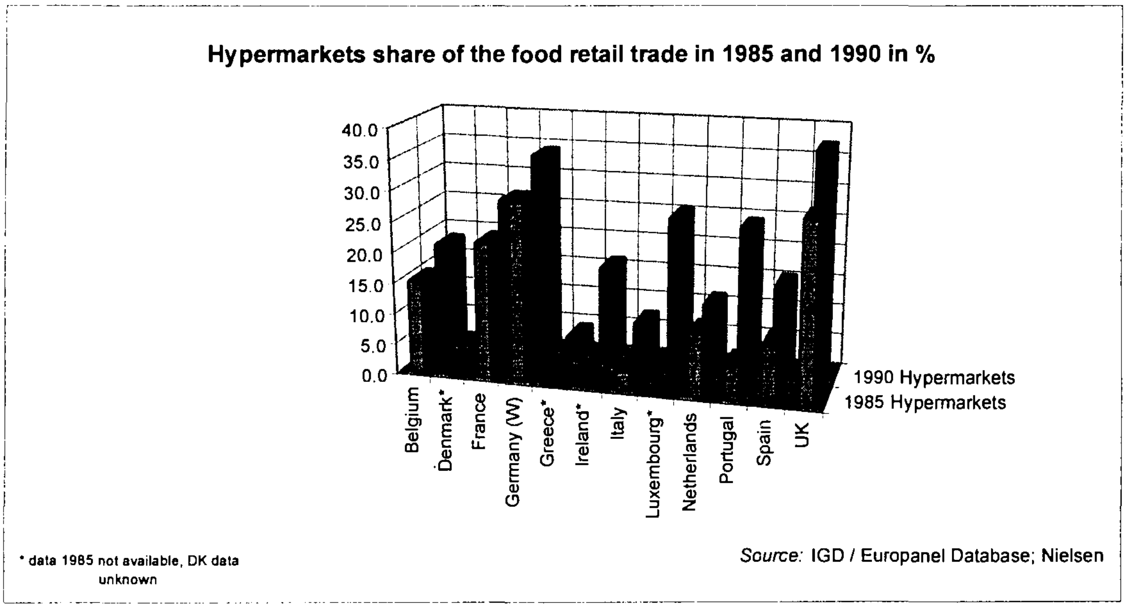
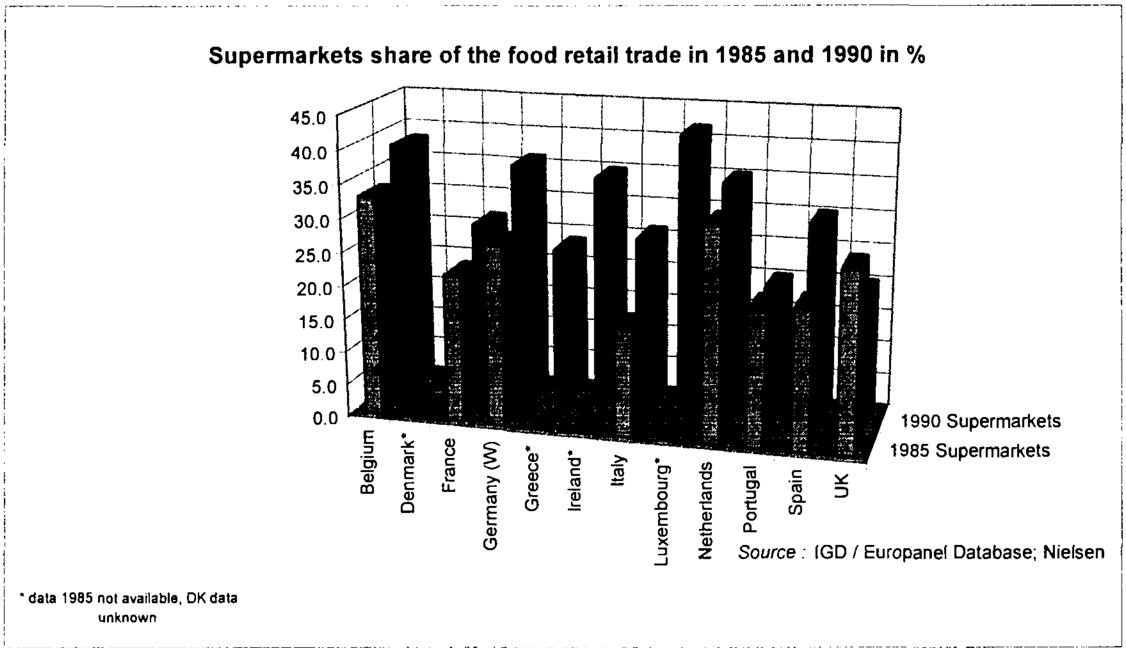


Figure 5.27. Evolution of the market share of supermarkets in various EU food retailing markets between 1985 and 1990



5.7.2. Concentration in retailing of clothing

In the clothing sector, the market concentration is lower than in the grocery sector. However, the north/south divide, observed in grocery, remains largely valid. This is seen from the market concentration data of Table 5.41 and the data on the proportion of clothing sales through various store formats (Table 5.42).

Table 5.41. Concentration in European clothing retailing: estimated share of the Top 10 clothing retailers

Country	Cumulative market share in %
UK	45
Germany	41
Belgium	38
France	35
Spain	22
Italy	13
Portugal	7

Source: Datamonitor, 1992.

Table 5.42. Proportion of clothing sales through various store formats in %

Country	Independent stores	Clothing multiples	Department stores	Hypermarkets	Mail order
Portugal	76	8	0	4	2
Italy	70	12	5	1	1
Spain	60	7	15	4	0
Germany	44	28	12	3	10
Belgium	40	17	11	13	9
France	38	14	10	18	10
UK	20	28	31	1	10
European average	*45*	*20*	*14*	*5*	*7*

Source: Texco/KSA, Datamonitor.

In spite of extensive data collection, we did not obtain a reliable and comprehensive picture of concentration trends over time. For Spain, data from Marketline indicate a decline in the market share of smaller outlets by 12% between 1986 and 1993 to the benefit of a 9% increase in market share for hypermarkets and a 3% gain in market share for mail order companies. According to the same source, French specialist clothing stores experienced a 4.1% loss in market share largely to the benefit of the hypermarkets. If those findings were to be confirmed for other countries, the strengthening of the market position of larger retailers would not be confined to grocery retail but would also extend to clothing.

5.8. Distribution margins and profitability

We now turn to the consequences of the adjustments in the distribution margins and profitability. Going back to the summary Tables 5.1 and 5.2, price setting is influenced by the changes in sourcing and distribution. Distribution prices are reduced due to cost savings from the removal of customs barriers, the liberalization of the road transport sector and the spread of innovative distribution methods. These cost savings are, at least partially, passed on to retailers and hence reflected in retail prices. The first part of this section deals with those effects.

5.8.1. Prices and distribution patterns

In this section we provide some partial evidence on the evolution of distribution margins. The distribution margin is the difference between the sales and the purchase price for the distributive operators. Ideally, we would have liked to obtain detailed evidence for the distribution margins of individual companies. Our case companies were not able to give us such evidence. Their qualitative evidence points to a reduction in distribution prices that was primarily passed on to the retailers and, to a lesser extent, to the manufacturers. This evidence is consistent with our earlier analysis of vertical integration in the distribution chain and increasing competition among and pressure on wholesale companies.

To strengthen this anecdotal evidence we pursued an analysis of consumer and producer price indices for the subsectors considered in this study. More specifically, we looked at Eurostat consumer and producer prices of foodstuffs, furniture and clothing in Germany, France, the UK, Spain, Denmark and the Netherlands. Optimally, wholesale prices per product category would also have to be included in this exercise. Unfortunately, those data are not available from Eurostat.

The results of this exercise are shown in Appendix C and summarized in Table 5.43. We consider the period 1980–94 and specify 1985 as the base year. We first describe the evolution of the distribution margin measured by the difference between consumer and producer price movements. Furthermore, we indicate the main cause for this evolution. Finally, we assess whether the manufacturer or the retailer is the likely beneficiary of the observed changes. When consumer prices increase more than producer prices, the retailer benefits from a wider distribution margin. In the opposite case, the retailer is not able to pass a rise in producer prices on to consumers. From their perspective, manufacturing companies gain when producer prices increase. Note that we assume that the benefits do not go in the first place to wholesalers and logistics services companies due to the pressure on wholesalers and to increased competition in distribution.

The evolution of distribution margins is influenced by the productivity of the distribution process. A more efficient distribution system will, when passed on to the consumer, decrease the relative price of consumer with respect to producer prices. When this narrowing between consumer and producer prices does not occur, we should not automatically conclude that no improvement in the distribution system took place. Retailers did perhaps absorb the distributive efficiency gains in fatter profit margins. A devaluation of the exchange rate may push up imported consumer prices without altering producer prices so that any gains from better distribution are swamped.[41] When manufacturing companies are the main beneficiaries of a lean distribution system, they may pass on part of their lower distribution costs as lower producer prices. In short, the relation between the distribution margin and the single market arguments made in this report is complex. The figures shown here should therefore be interpreted with caution.

41 Exchange rate movements play a minor role in food products because they are primarily sourced from national producers.

Table 5.43. Distribution margins for selected countries and sectors

Country	Sector	Distribution margin	Reason	Extra benefit for
Germany	Foodstuffs	Divergence from 1983 to 1989, convergence from 1989 to 1991 and divergence again substantial from 1992 onwards	Producer prices increased more (since 1992)	Manufacturers (moderate extra benefit)
	Furniture	Divergence since 1985	Producer prices increased substantial	Manufacturers (substantial)
	Clothing	Divergence since 1985	Producer prices increased more than consumer prices	Manufacturer
France	Foodstuffs	After 1985 equals before 1985 plus convergence since 1991	No growth of consumer prices since 1991 but increase of producer prices	Not for the retailer might be for the manufacturer
	Furniture	After 1985 is smaller than before 1985 plus convergence since 1991	Producer prices increase more and consumer prices show no growth since 1992	Manufacturers
	Clothing	Convergence since 1991	No growth of consumer prices since 1991 but increase of producer prices	Manufacturers
UK	Foodstuffs	Substantial divergence since 1985	Substantial increase of consumer prices and no growth of producer prices	Substantial for the retailers
	Clothing	Divergence since 1985	Constant or declining producer prices and a continuous marginal increase of consumer prices	Substantial for the retailers
	Furniture	Substantial divergence since 1985	Constant producer prices and still growing consumer prices	Substantial for the retailers
Spain	Foodstuffs	Dubstantial divergence since 1985	Strongly growing consumer prices and constant or even declining producer prices	Substantial for the retailers remember the strong interest of French retailers for Spain
	Furniture	Convergence from 1983 to 1990 but substantial divergence from 1991 onwards	Substantial decrease of producer prices since 1991 and still growing consumer prices	Substantial for the retailers
Denmark	Foodstuffs	More divergence after 1985 than before	Producer prices decreased somewhat	Retailers (but quite marginal)
	Furniture	Divergence since 1988	Producer prices increased	
Netherlands	Foodstuffs	From 1983 to 1992 the gap equals nearly zero but from 1992 divergence	Prom 1992 producer prices increased substantially more	Manufacturers
	Clothing	Substantial divergence since 1985	Consumer prices decreased but producer prices increased	Manufacturers
	Furniture	Substantial divergence since 1985	Consumer prices remained equal but producer prices increased substantially	Manufacturers

Source: Own calculations based on Eurostat data.

As is seen from Table 5.43, a diverse picture emerges from the comparison between consumer and producer prices. In Germany and the Netherlands, we generally observe a narrowing of the distribution margin between consumer and producer prices. The opposite is true for Spain, the UK and, to a far lesser extent, France. Denmark takes an intermediate position. Quite marked differences across product groups and time periods are furthermore observed. On balance, this suggests that the evolution of distribution margins is shaped by a variety of country-, sector- and company-specific determinants. This conclusion does not come as a surprise in view of the comprehensive nature of the distributive trade sector which is consistently emphasized throughout our report.

What does this mean for the positions of the retailers and the manufacturers? The rising distribution margins in the UK and Spain seem to suggest that retailers benefited from the developments that took place in the distributive trades during the last decade. The rising distribution margins in Spain may explain the interest of French retailers in the Spanish market. On the contrary, German and Dutch manufacturing companies seem to have reinforced their position from 1985 onwards. They enjoyed an increase in producer prices. When this rise was not offset by increasing costs, they achieved a gain in profitability.

5.8.2. Profitability

The complex interactions in Table 5.1 make clear that the relation between the single market and profitability is indirect and ambiguous. The profits of retailers, manufacturers, wholesalers and logistics services companies are determined by a variety of factors that do not always point in the same direction. Moreover, the size and evolution of profits are quite sensitive to the accounting measure being used.

A closer look at the company accounts of several of the companies studied in this report brings out the limited value of profitability figures in this assessment of the impact of the single market programme on the distributive trades. We are not able to detect any meaningful and robust relationships between the evolution of profits and the theoretical hypotheses formulated earlier. This confirms the findings of the Eurostat survey, which most often finds no impact or otherwise an ambiguous impact of the single market programme on profitability.

These results mirror the findings of a detailed comparison of retail profitability in France and the UK by Corstjens et al. [1995].[42] The authors compare the profit margins (net profit after tax/sales) of the major grocery retailers in France and the UK (Carrefour, Promodès, Casino, Sainsbury, Tesco and Argyll) in the period 1983–93. They do not find any meaningful evolution in the profit margins of those companies over time. They observe significantly higher profit margins for the UK retailers. These are partially due to different depreciation schemes, delays in payment differentials, differences in retail format and the nature of retail competition. Very little of this, if any, can be directly linked to the single market legislation.

5.9. Prices

In this section, we took a closer look at retail prices. As hypothesized at the start of this chapter, retail prices are affected through sourcing. A greater scope for international sourcing

42 Corstjens, J., Corstjens, M. and Lal, R. [1995] 'Retail Competition in the Fast-Moving Consumer Goods Industry: The Case of France and the U.K.', INSEAD Working Paper No 95/50/MKT.

and the co-operation within buying groups enable retailers to arbitrage between suppliers, which contributes to consumer price convergence. A growing brand similarity and product availability across the EU has analogous effects. Parallel trade amounts to arbitrage, which should reduce existing price differentials. In short, intra-EU sourcing is likely to induce retail price convergence. This point is made in Section 5.9.2 where we focus on the trends for the broad product categories in this study. Section 5.9.3 provides an in-depth case study for selected food products.

5.9.1. Retail price convergence

Consumer price convergence is the topic of one study in the single market evaluation written by DRI et al. [1995].[43] We rely on this interesting work which is based on price data for 1980, 1985, 1990 and 1993.

Table 5.44. Coefficients of price variation for selected groupings (based on prices including taxes)

	1980	1985	1990	1993
EU-6				
Consumer goods	15.9	14.2	13.5	12.4
Services	22.7	23.9	20.0	21.3
Energy	18.4	12.5	19.4	24.3
Equipment goods	10.5	9.7	11.6	12.5
Construction	15.7	11.0	14.0	19.1
EU-9				
Consumer goods	19.9	19.1	20.3	18.0
Services	25.2	25.6	24.6	23.4
Energy	22.1	16.1	24.7	30.6
Equipment goods	13.1	12.5	12.2	12.9
Construction	20.1	14.4	16.5	22.4
EU-12				
Consumer goods	26.0	22.5	22.8	19.6
Services	33.0	33.7	31.8	28.6
Energy	30.8	21.1	28.0	31.7
Equipment goods	18.0	14.0	13.1	14.5
Construction	24.4	22.1	23.5	27.4

Source: DRI et al. [1995].

Table 5.44 places the coefficient of price variation[44] for consumer goods with respect to other product and service groupings. Different country groupings are considered. EU-6 consists of the six founding countries of the EU. The EU-9 group also includes Denmark, the UK and Ireland, while the EU-12 group is the set of countries which participated in the single market programme (EU-9 + Greece, Portugal and Spain). The EU-15 group contains all current EU members (EU-12 + Austria, Finland and Sweden).[45] Together with equipment goods and construction, consumer goods show the lowest degree of price dispersion. In all four regional

43 DRI, E. de Ghellink, Horack, Adler & Associates [1995] *The Emergence of pan-European Markets: Analysis of Changes in Price Disparities in the EU following the Launch of the Internal Market Programme*. First Interim Report, September 1995, mimeo (to be published shortly as 'Price competition and price convergence' in *The Single Market Review* series, Subseries V, Vol. 1, Office for Official Publications of the EC and Kogan Page/Earthscan).

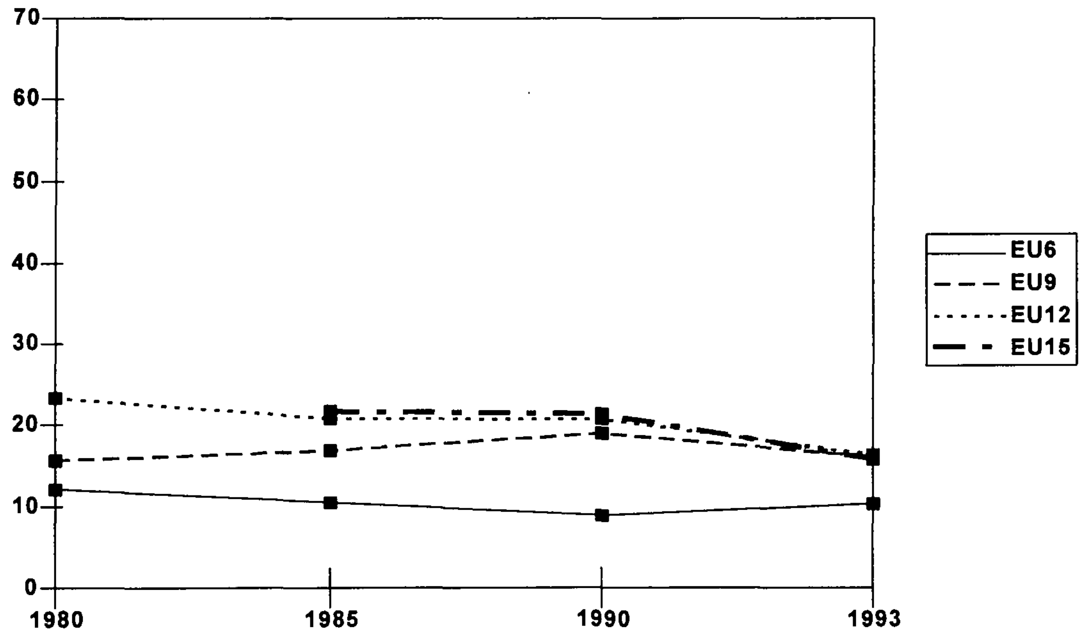
44 Defined as the standard deviation divided by the mean. This measure indicates the average percentage price dispersion.

45 In this section the terms EU-6, EU-9, EU-12 and EU-15 are used to denominate particular groups of countries, all of which eventually joined the EU. The terms should not be taken to refer to the actual make-up of the EU at any particular time.

aggregates, the reduction in price dispersion over time was most pronounced for consumer goods. Hence, EU markets of consumer goods are among the most integrated and show a clear tendency towards price convergence. Price dispersion in consumer goods is smaller for the EU-6 countries than for the other country groups and is the highest for the full country sample. Price convergence though is fastest in the EU-12 and EU-15 country groups and slowest in the EU-9 group.

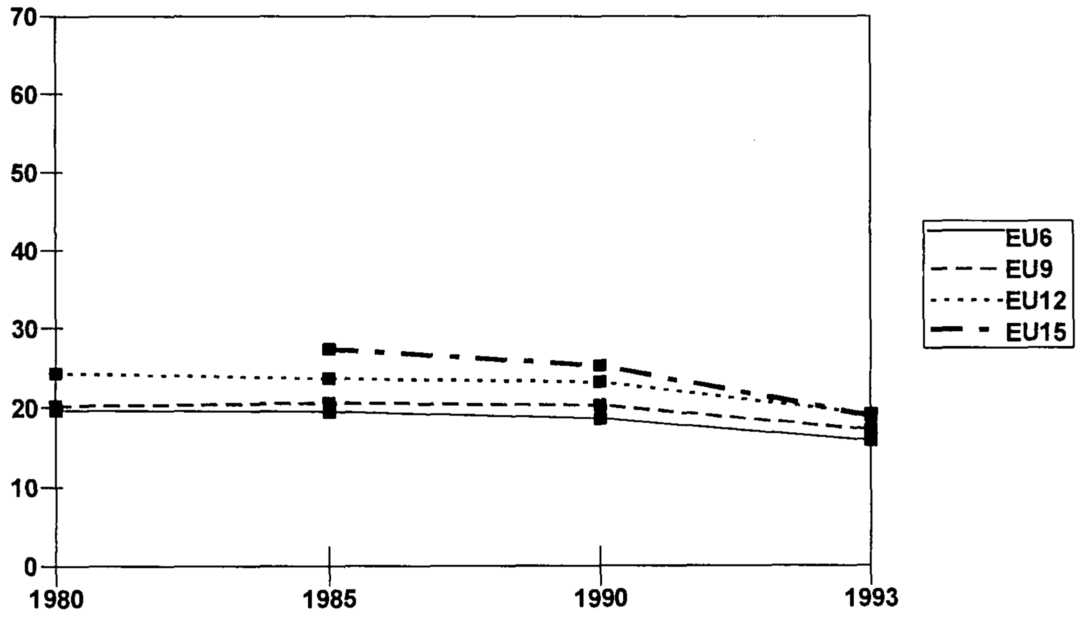
The convergence in consumer goods is not uniform and hides substantial cross-sectional variation. This is seen in Figures 5.28 to 5.32 which split up consumer goods into food products, beverages, clothing and footwear, durable consumer goods (in which category furniture, some household appliances and toys are included) and other manufactures (which includes domestic electrical accessories). A more detailed product classification is found in Table 5.45 for the EU-12 countries only; the DRI study does not report the EU-6, EU-9 and EU-15 country groups separately for all product categories. In the graphs and the table, the coefficient of variation is given in percentage terms.

Figure 5.28. Price dispersion in durable consumer goods



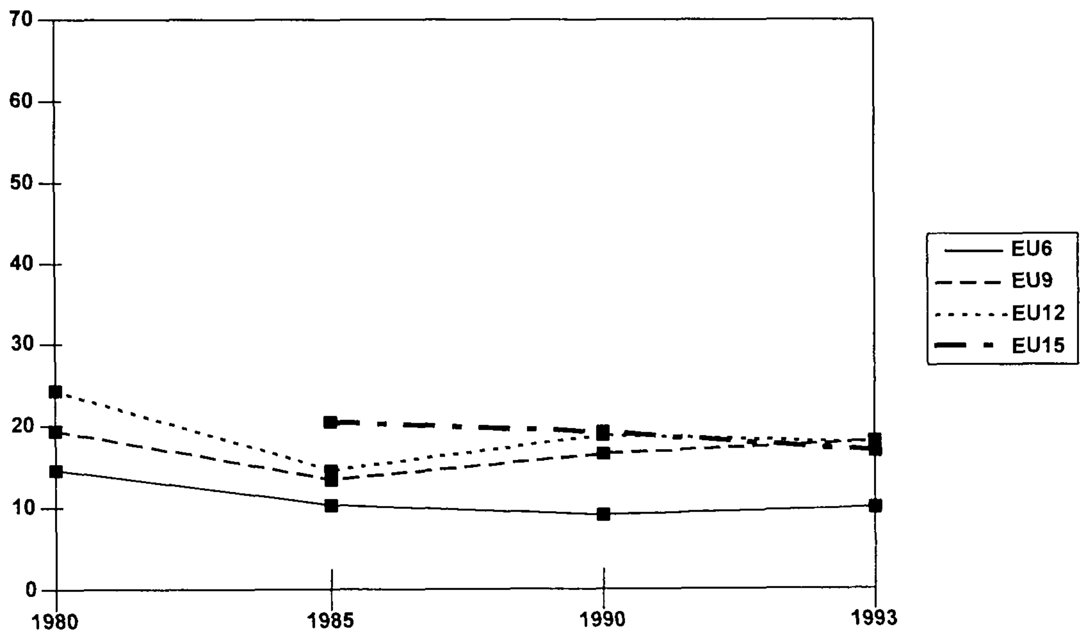
Source: DRI.

Figure 5.29. Price dispersion in other manufactured products



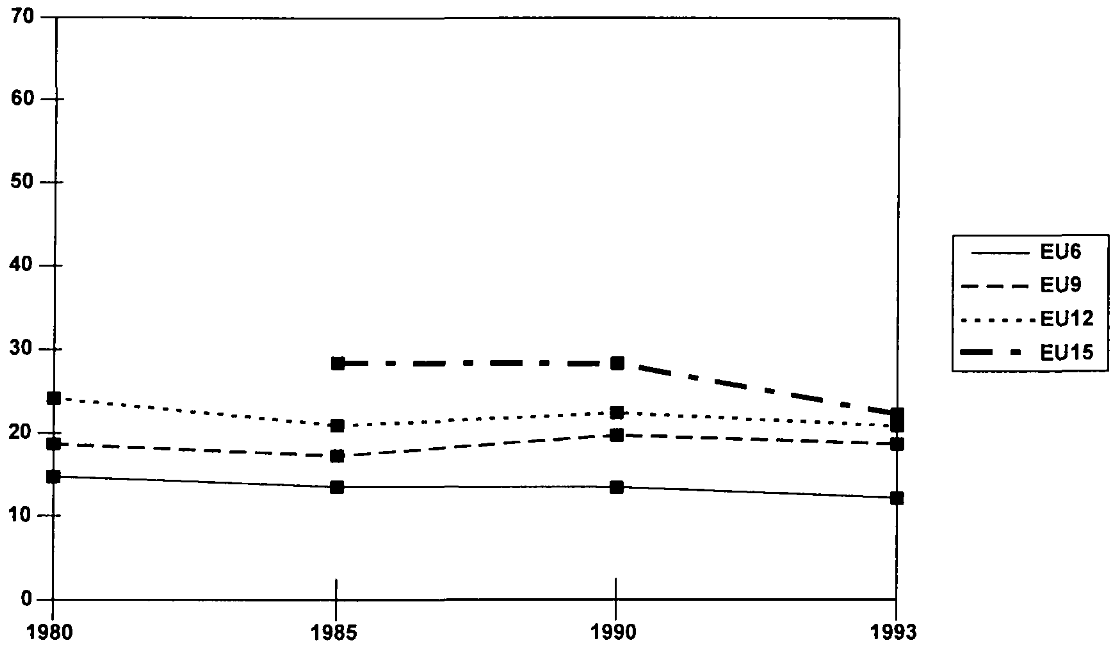
Source: DRI.

Figure 5.30. Price dispersion in clothing and footwear



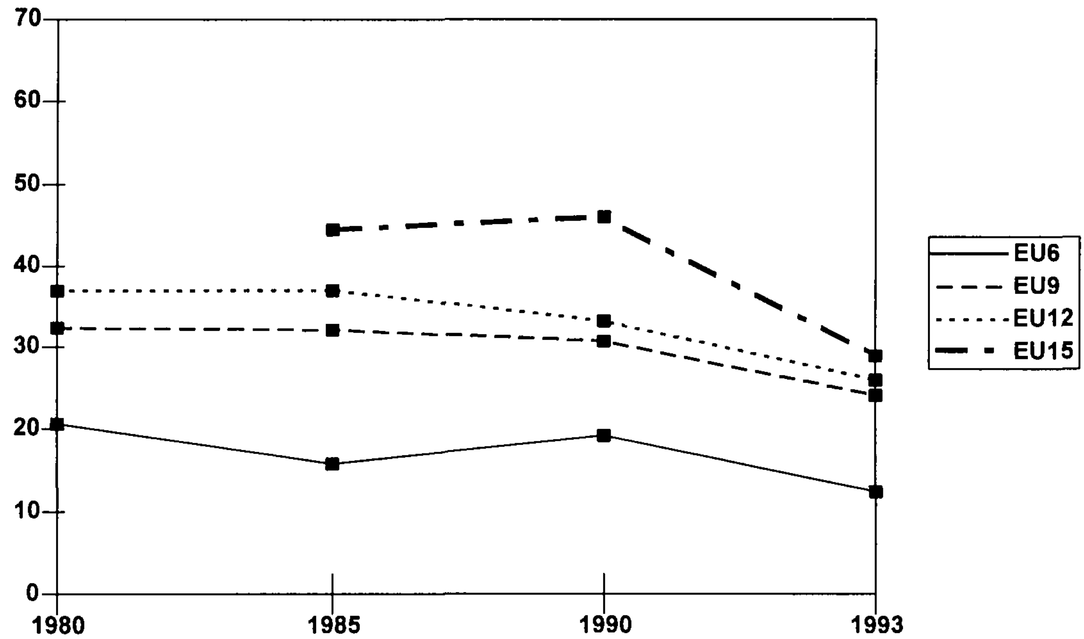
Source: DRI.

Figure 5.31. Price dispersion in food products



Source: DRI.

Figure 5.32. Price dispersion in beverages



Source: DRI.

Table 5.45. Retail price convergence in selected consumer goods for EU-12 countries

(coefficient of variation in %)

	1980	1985	1990	1995
Food	24.2	20.9	22.4	20.8
Beverages	36.9	37	33.2	26
Clothing and footwear	24.3	14.5	18.8	17.9
Durable goods of which:	23.3	20.8	20.7	16.4
- furniture	16.7	10.1	11.9	7.7
- fridges, freezers and washing machines	20.2	17.2	15.5	11.7
- toys and sports	17.9	11.3	14.4	12.6
Other manufactures of which:	24.4	23.7	23.2	19.1
- domestic electrical accessories	18.3	27.6	25.9	21.7

Source: DRI et al. [1995].

For food products we observe a slight decline in price dispersion for EU-12 countries between 1980 and 1993. This evolution takes place between 1980 and 1985 and again from 1990 to 1993. From 1985 to 1990 food price dispersion actually increases. An analogous time pattern is found for the EU-9 countries, but price differences in 1993 are approximately where they were in 1980. Food price dispersion remains about constant over time with a slight reduction from 1990 to 1993. On the whole, there is little evidence of price convergence due to the single market except perhaps for the weak convergence after 1990.

In beverages we find greater price dispersion than in food products. However, there is a strong tendency for price differentials to narrow between 1985 and 1993 in the EU-9 and EU-12 countries. This is less so for the EU-6 countries where price convergence was considerably higher to start with. In spite of the convergence, price differentials in beverages remain, together with those of food products, higher than for any of the other product groups considered here.

Prices of clothing and footwear converge substantially (by nearly 10%) from 1980 to 1985 but not any more in the period 1985–93. On the contrary, price differentials widen again after 1985 in EU-9 and EU-12 countries. The single market programme did therefore not close the gap in clothing and footwear prices in EU markets.

In furniture, prices in the EU-12 countries converge markedly from 1980 to 1985 and again from 1990 to 1993. Remarkably, of all products and services analysed in the DRI report, furniture is for the EU-12 countries the product category with the lowest price dispersion in 1993 (only 7.7%). The message for household appliances is similar in many respects with price dispersion of fridges, freezers and washing machines and domestic electrical accessories declining significantly during the years in which the single market programme was taking effect. Washing machines and dryers are the product category that ranks fourth in the DRI list of goods and services with the highest degree of price convergence. In short, during the period 1985–93 the concept of a single market as an area with integrated prices comes close to full realization in furniture and household appliances.

As could be expected, this conclusion does not hold for all durable goods and other manufactured products. Toys and sports articles follow the pattern of clothing and footwear with substantial price convergence in 1980–85 but increasing price differentials from 1985 to

1990. Nor does convergence necessarily take place for all country groups. Price dispersion widens in EU-9 countries for durable goods between 1985 and 1990.

In the theoretical framework of this study, price convergence is related to international sourcing. Interestingly enough, many (but not all)[46] of the findings on price convergence are consistent with the discussion of sourcing:

(a) Food and beverages are the products with the highest price dispersion and no clear price convergence for food products is found. This could be the result of the fact that food and beverages are still the most domestically sourced products with only a modest trend towards international sourcing after 1985. The domestic orientation and price dispersion of food products can itself be related to the less than full realization of EU technical harmonization and the persistence of local taste differences (see Chapter 4).
(b) Furniture and household appliances are the product categories which experienced the strongest price convergence in 1985–93. They are also the products with the clearest shift in sourcing towards EU manufacturers during this implementation period of the single market.
(c) Prices of clothing and footwear and of toys and sports goods diverge after 1985. At that time, a profound reorientation in sourcing to the products of non-EU manufacturers was taking place. Apparently, larger purchases from suppliers in different parts of the world counteract the trend towards price convergence that stems from EU market integration.
(d) The evolution towards price convergence is more pronounced for the EU-12 country group than for the EU-9 and EU-6 country groups. This fact fits in well with the southern dimension found in sourcing. In several product categories, the strongest shift towards international sourcing from EU suppliers in the 1985–93 period was observed for the new Member States at the Union's southern frontier (Greece, Portugal and Spain). This market integration with other EU Member States is reflected in a narrowing of price differentials.

One wonders why the internationalization of food manufacturers and retailers as well as the growing concentration among food retailers did not cause a clear-cut price convergence in food products. Apart from demand differences and remaining non-tariff barriers, theoretical insights related to market structure may offer an explanation. The work by Sutton [1991],[47] already mentioned in Chapter 2, emphasizes the non-linear relationship between increased market concentration and the degree of price competition. According to Sutton, competition may shift from price to non-price variables in the presence of endogenous sunk costs and once a minimal market size is reached. Major manufacturers and retailers will increasingly compete on non-price features for their well-recognized brands. Price competition will be fierce among local retailers for locally sourced lower priced products. Sutton explicitly analyses several food and beverage products as examples of his theory, including breakfast cereals, prepared soups, soft drinks and minerals. If the Sutton theory is correct, there is no reason why a growing internationalization of larger retailers and manufacturers and a greater availability of major brands will lead to price convergence.

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46 Our analysis of sourcing did not distinguish between food and beverages and can therefore not explain the different price evolution for both product categories.

47 Sutton, J. [1991] *Sunk Costs and Market Structure*. MIT Press: Cambridge.

5.9.2. A detailed case study for selected food and beverages

We now turn to price convergence in the food product categories which we analysed in detail in Section 5.4 on sourcing. The exclusive focus on four food and drink products – mineral water, breakfast cereals, jams and marmalade and ice cream – is restrictive but nonetheless worthwhile for several reasons. Unlike in the DRI study, we are able to compare price levels for the same product in different countries in addition to the price evolution over time. Moreover, the focus on food and beverages provides a kind of 'acid' test for the impact of market integration on retail price convergence. The previous pages demonstrated relatively limited price convergence in food products and considerable remaining price dispersion in food and beverages. In short, food is not the sector where the single market contributes in a dramatic way to price convergence, so that any evidence in this direction is particularly interesting.

Price data are for the retail sector, include VAT and excise taxes and are converted into ECU. They are obtained from Food For Thought, a Swiss-based consultancy group. While this firm does not offer individual price data at the brand level, we were able to compute unit values for each food category by dividing market value by the volume of consumption. This yields the average price in each national market in ECU per litre of mineral water and ice cream and per kg of jams and marmalade and breakfast cereals. Since all taxes are included, this unit value measures the price the consumer pays in a retail outlet for a typical consumption basket of the selected product group. We obtained data for the 1985–94 period. For more details about the definition and the source of the data and the food products, we refer to Section 5.4.3.

The sample of countries allows us to make a distinction between EU and comparable Western European non-EU-member countries as well as between the new member countries (Finland, Austria and Sweden) and the other 12 members (EU-12). The new Member States and Norway were obliged to implement the single market legislation only after the European Economic Area (EEA) took effect, although it cannot be ruled out that they voluntarily adopted (parts of) the single market programme before. Switzerland did not join the European Economic Area so the single market legislation does not apply to Switzerland. Finally, we consider separately France, Belgium/Luxembourg, the Netherlands, Germany and Denmark or EU-6[48] as a separate country group. Those countries are located in the core of the EU and share several retail characteristics.

In Tables 5.46 to 5.49, we facilitate cross-country comparisons by expressing the unit value data with respect to the German price level which takes the value of 100. In addition, we compute for each year the coefficients of variation for the total sample of countries and for the various subsamples.

Tables 5.46 to 5.49 measure price dispersion for, respectively, breakfast cereals, ice cream, mineral waters and jams and marmalade in the period 1985–94. It is reassuring that, in many ways, the results for the selected food and beverage products are in line with the study by DRI et al. The coefficient of variation for the EU-12 is close to the average reported by the DRI study except for mineral waters where we observe a price dispersion in the 40–50% range. Food retail markets of the core countries appear to be more integrated than those of the

48 Note that Italy including northern Italy should be included in this group. The lack of regionally disaggregated data prevents us from doing this. Note that by switching Denmark for Italy we have a different classification of the EU-6 countries than in the study by DRI et al.

European Union as a whole. This is seen by looking at the price data and the coefficient of variation for the EU-6 group. The case of mineral water in Table 5.48 is particularly striking. While the average price dispersion for the 12 and 15 EU countries ranges between 40% and 50%, the retail price of a one litre bottle of mineral water varies on average by less than 10 % in the six core countries. This may reflect the availability in the EU-6 of brands owned by the leading food manufacturers operating in Europe.

In addition, this case study provides several additional insights:

(a) The average dispersion masks very marked differences in absolute price differentials between pairs of EU countries. Individual country characteristics matter in the determination of food and drink retail prices. For instance, a litre of mineral water is about four times as expensive in the UK as in Spain, but the British consumer pays only approximately half the price for breakfast cereals as his Italian counterpart. Compared to Germany, mineral waters are very expensive in the UK, but cereals, jams and marmalade and ice cream are cheap. Finnish consumers face high prices for mineral water, jams and marmalade but not for ice cream. Italy is a country of expensive cereals and relatively cheap ice cream. The list of such examples is long, suggesting that retail is detail and that cross-country variety is a key feature of the European retail sector.

(b) Likewise, there are marked differences in retail price convergence over time. For the food categories considered, the evidence on retail price convergence during the period 1985–94 among the group of 12 countries that signed the Single European Act is mixed. The variation of coefficient of breakfast cereals declined from 32% in 1985 to 25% in 1994 with the decrease taking place after 1992 (see Table 5.46). The price dispersion of mineral water in Table 5.43 displays substantial year-on-year variations but no clear time trend. The variation coefficients of the food groups with the smallest price differentials, ice cream and jams and marmalade, remain more or less unchanged during the time span in which the single market programme was being implemented.

(c) EU membership matters for retail price dispersion. Price data for the new Member States (Austria, Finland and Sweden) widen or do not reduce the price dispersion in the food categories selected in this study. This can be seen by comparing the coefficient of variation of the EU-12 with those of the EU-15 country group. The price dispersion in breakfast cereals is similar in both country groups. The opposite is true for ice cream. Depending on the year of reference, the average price dispersion drops by 14–22% when the new Member States are not included in the sample of EU countries. Likewise, price differentials of jams and marmalade and mineral water are smaller in the EU-12 than in the EU-15 although the gap narrows over time and disappears in the case of mineral water. The degree of market integration in ice cream and jams and marmalade among EU-6 and EU-12 countries does not apply to the new Member States nor to the entire group of West European countries.

(d) These results are in a sense surprising. Austria, Finland and Sweden are countries with high per capita incomes and well-developed food retail markets. On many counts, they resemble quite closely northern and middle European Member States. In many respects, they share more common characteristics with the core countries than the northern and southern countries in the EU-12 group. Clearly, this is not reflected in food retail prices. To the degree that this finding is confirmed for a wider set of food categories, it may reflect the impact of the single market programme. The narrowing of the price gap in jams and marmalade and mineral water between the EU-12 and EU-15 countries that takes place from the early 1990s onwards would also be consistent with this single market interpretation. During those years, the new members took active steps to assimilate the single market legislation. It will be interesting to see whether full EU membership will strengthen this integration process in the years to come.

Table 5.46. Price dispersion in breakfast cereals

(indices, Germany=100.0)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EU members										
Belgium/Lux.	91.99	98.53	104.86	105.20	121.84	126.32	106.72	107.18	104.12	105.26
Denmark	68.39	75.64	81.10	83.09	97.21	106.37	83.20	82.28	80.40	78.33
France	134.77	119.86	118.68	114.32	130.85	142.74	113.31	112.48	110.42	108.06
Germany	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Greece	119.05	149.76	146.74	137.22	186.57	205.03	155.41	143.16	139.74	108.89
Ireland	74.14	76.41	73.71	73.84	88.08	95.53	74.55	78.50	70.61	69.48
Italy	130.95	109.33	119.71	156.09	192.40	200.76	156.00	166.33	145.90	142.39
Netherlands	49.62	57.30	63.70	67.44	80.78	88.82	72.99	74.21	75.79	74.79
Portugal	75.40	78.21	80.81	85.02	117.27	116.69	103.61	197.37	102.91	70.32
Spain	91.67	99.84	103.78	118.36	161.85	183.22	152.12	131.43	108.95	94.18
United Kingdom	57.02	56.04	59.27	66.43	77.15	83.58	71.72	69.67	64.42	65.50
New EU members										
Austria	106.06	121.95	127.60	131.86	152.73	162.43	133.14	135.10	138.45	138.30
Finland	80.80	67.18	86.22	93.26	117.88	127.67	102.57	85.06	69.63	73.87
Sweden	64.23	65.13	66.80	72.20	89.51	97.48	80.56	72.08	58.22	59.28
Rest of Europe										
Norway	67.69	68.64	91.87	94.88	113.83	118.33	96.29	91.21	83.70	83.01
Switzerland	111.41	126.65	134.27	137.53	152.41	171.43	138.63	131.62	133.15	138.64
Variation Co. EU-6	0.36	0.27	0.23	0.20	0.19	0.19	0.18	0.17	0.16	0.17
Variation Co. EU-12	0.32	0.30	0.28	0.29	0.33	0.34	0.31	0.36	0.26	0.25
Variation Co. EU-15	0.30	0.30	0.28	0.28	0.31	0.32	0.29	0.35	0.30	0.29
Variation Co. (total)	0.29	0.30	0.27	0.27	0.29	0.30	0.27	0.33	0.29	0.29

Source: Food for Thought.

Table 5.47. Price dispersion in ice cream

(indices, Germany=100.0)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EU members										
Belgium/Lux.	77.79	85.90	81.15	73.76	81.59	86.15	87.78	58.55	76.41	76.04
Denmark	74.90	81.08	79.51	70.09	73.52	73.19	73.60	69.05	70.01	69.94
France	79.65	90.86	87.66	83.60	83.99	98.43	99.24	99.92	99.21	100.08
Germany	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Greece	73.97	73.49	68.17	63.97	74.63	80.65	85.77	82.33	74.88	73.02
Ireland	56.87	61.46	55.96	51.98	58.93	60.68	63.09	60.50	57.37	59.19
Italy	67.28	72.96	64.63	61.56	67.15	78.51	84.83	79.99	68.15	65.23
Netherlands	66.75	80.12	78.63	74.57	72.97	76.71	77.69	75.99	77.02	78.75
Portugal	54.62	57.12	53.57	51.16	58.00	63.29	72.18	77.07	73.68	74.44
Spain	76.89	85.17	81.32	80.18	95.44	99.22	101.63	96.80	83.57	83.87
United Kingdom	47.19	47.40	50.71	52.23	58.38	60.38	67.54	62.35	57.11	59.50
New EU members										
Austria	161.81	188.71	178.13	157.03	158.57	169.48	160.52	159.98	170.24	168.65
Finland	51.51	43.97	52.10	49.57	55.59	56.07	56.64	47.47	39.22	41.07
Sweden	72.99	88.81	83.69	83.43	103.99	105.37	116.92	106.90	87.03	87.60
Rest of Europe										
Norway	38.28	39.70	43.50	42.06	48.93	50.48	52.63	50.48	45.88	45.77
Switzerland	92.71	109.33	108.61	101.12	104.28	113.96	119.51	112.75	113.35	116.42
Variation Co. EU-6	0.15	0.09	0.10	0.15	0.13	0.14	0.14	0.23	0.17	0.17
Variation Co. EU-12	0.20	0.20	0.21	0.22	0.19	0.19	0.16	0.20	0.18	0.18
Variation Co. EU-15	0.37	0.42	0.40	0.37	0.33	0.34	0.30	0.34	0.37	0.37
Variation Coeff. (total)	0.38	0.43	0.41	0.38	0.34	0.34	0.31	0.34	0.38	0.38

Source: Food for Thought.

Table 5.48. Price dispersion in mineral water

(indices, Germany=100.0)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EU members										
Belgium/Lux.	104.41	106.83	105.66	104.91	101.41	106.36	106.70	109.31	103.44	115.82
Denmark	112.46	108.00	106.32	112.50	112.21	117.40	111.03	106.42	107.35	119.85
France	102.70	101.22	99.06	96.88	85.63	90.20	94.98	92.33	93.85	103.99
Germany	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Greece	58.80	51.84	49.54	50.44	53.81	53.63	51.25	45.31	47.70	51.26
Ireland	140.99	134.28	125.12	128.98	126.66	127.03	124.11	121.65	80.19	123.00
Italy	68.95	68.29	68.14	175.34	69.97	77.37	75.34	71.29	59.95	63.06
Netherlands	101.62	114.42	106.08	108.60	104.51	99.43	99.87	99.76	100.05	110.41
Portugal	51.28	47.62	46.10	45.02	49.36	51.16	54.87	66.02	59.89	62.02
Spain	43.31	45.93	47.74	56.78	41.28	41.94	43.31	42.84	38.87	40.38
United Kingdom	199.00	167.27	153.43	239.13	209.94	166.43	172.87	174.07	162.80	177.58
New EU members										
Austria	84.09	84.88	83.56	81.45	77.51	74.75	75.12	76.30	76.29	79.55
Finland	176.90	132.04	155.98	159.79	167.01	164.30	159.13	132.53	109.13	129.94
Sweden	231.04	213.34	206.22	217.09	227.35	231.60	222.12	206.72	151.44	169.63
Rest of Europe										
Norway	219.61	201.81	194.86	205.52	209.93	208.10	210.98	216.04	203.02	224.08
Switzerland	101.81	105.22	104.05	101.71	94.19	97.73	101.03	96.40	96.16	98.98
Variation Co. EU-6	**0.047**	**0.055**	**0.035**	**0.060**	**0.096**	**0.098**	**0.062**	**0.065**	**0.049**	**0.074**
Variation Co. EU-12	**0.45**	**0.40**	**0.38**	**0.51**	**0.49**	**0.39**	**0.40**	**0.40**	**0.40**	**0.41**
Variation Co. EU-15	**0.50**	**0.45**	**0.44**	**0.49**	**0.52**	**0.49**	**0.47**	**0.44**	**0.39**	**0.40**
Variation Co. (total)	**0.50**	**0.45**	**0.44**	**0.48**	**0.52**	**0.49**	**0.48**	**0.47**	**0.44**	**0.44**

Source: Food for Thought.

Table 5.49. Price dispersion in jams and marmalade

(indices, Germany=100.0)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
EU members										
Belgium/Lux.	76.08	81.95	80.71	70.87	71.05	72.55	72.38	69.29	65.93	70.32
Denmark	84.99	91.18	89.58	85.34	86.56	81.21	78.43	79.06	78.53	80.70
France	75.01	80.63	78.80	71.43	72.80	73.42	72.46	72.39	72.84	74.63
Germany	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Greece	105.22	101.44	97.26	90.33	98.35	100.57	101.81	94.07	88.34	90.44
Ireland	69.99	71.02	64.06	57.21	60.23	59.20	52.63	56.76	51.47	54.68
Italy	91.04	94.66	91.17	80.65	85.96	86.40	91.63	90.05	74.90	76.49
Netherlands	66.88	72.35	70.68	62.18	62.80	62.35	60.97	60.54	60.76	64.16
Portugal	63.99	64.39	62.56	59.18	62.96	64.40	70.38	80.02	71.09	72.98
Spain	73.66	78.78	76.37	74.74	80.79	84.71	85.35	82.15	69.74	70.78
United Kingdom	64.39	61.17	59.31	58.95	61.39	61.43	64.52	65.94	58.45	37.79
New EU members										
Austria	73.79	83.12	82.94	74.33	74.63	73.94	74.52	75.80	77.60	81.45
Finland	170.10	138.86	164.21	152.72	163.26	157.76	152.44	126.62	103.98	115.67
Sweden	49.36	49.81	48.23	46.13	49.48	49.50	52.12	50.73	41.41	42.35
Rest of Europe										
Norway	145.49	163.79	166.35	166.51	194.37	211.77	230.28	222.57	192.37	196.99
Switzerland	104.33	116.36	115.87	102.41	96.67	98.47	97.06	94.13	94.56	104.06
Variation Co. EU-5	**0.16**	**0.12**	**0.13**	**0.19**	**0.19**	**0.18**	**0.19**	**0.19**	**0.20**	**0.18**
Variation Co. EU-12	**0.18**	**0.17**	**0.18**	**0.19**	**0.19**	**0.19**	**0.21**	**0.18**	**0.19**	**0.23**
Variation Co. EU-15	**0.35**	**0.26**	**0.33**	**0.34**	**0.35**	**0.33**	**0.32**	**0.25**	**0.24**	**0.28**
Variation Co. (total)	**0.36**	**0.32**	**0.37**	**0.39**	**0.43**	**0.46**	**0.49**	**0.45**	**0.42**	**0.44**

Source: Food for Thought.

Table 5.50. Concluding summary table of the sectoral adjustments of the distributive trades

Distributive process	Strategic adjustment of operators	Expected effects	Observed outcome
Retail format	National and international application of retail format	* Internationalization of successful retail formats	Gradual expansion of large retailers in EU markets
		* Expansion of successful retail formats	Expansion of larger retailers
		* Concentration in national markets	Growing and often high concentration in national markets
		* Increase in scale and productivity of retailers	Increase in the market share of large store formats such as multiples, hypermarkets and supermarkets
		* Adjustment problems for smaller, independent retailers	Declining market share of smaller retailers unless successful reorientation towards speciality stores takes place or into co-operations
Manufacturing production	Concentration of production	* Reorganization of manufacturing production and distribution	Some evidence on concentration of manufacturing production
			Gradual adoption of new technologies
Distribution	Reorganization of the distribution system	* Decline of and increased competition in some distribution activities	Vertical integration in distribution
			Decline of wholesale function
			Decline in customs clearance activity
			New opportunities for logistics services companies
		* Expansion of newer distribution methods	Increased application of centralized distribution
			Expansion of contract logistics and value added logistics
		* Internationalization of distribution	Stepwise internationalization of logistics companies
			Development of a pan-European logistics capability
		* Scale, cost and productivity effects in distribution	Cost savings and productivity gains from centralized European distribution and more efficient logistics systems
		* Decline in distribution prices and distribution margins	Mixed evidence on distribution margins with significant differences across product categories and countries

Table 5.50. (continued)

Distributive process	Strategic adjustment of operators	Expected effects	Observed outcome
Sourcing	Increased international sourcing International buying groups	* Increase and shifts in intra-EU trade and consumption	Shift in sourcing from domestic to EU suppliers and from world to EU suppliers Differences across sectors exist Southern EU countries participate in this process Local sourcing continues to be important
		* Expansion of international buying groups	Expansion of international buying groups on a European scale
		* Increase of market share of product/brands that are internationally sourced; growing brand similarity	Availability of a limited number of pan-European brands Most brands remain national
		* Lowering of retail prices or/and increase in retail profitability	No clear trends in retail profitability which is hard to compare across countries
		* Retail price convergence	Retail price convergence for many but not for all fast moving consumer goods A positive link between price convergence and the extent to which they are internationally sourced Lower price dispersion in EU-6 countries but price convergence most pronounced for EU-12 countries

Source: Coopers & Lybrand and Catholic University Leuven.

5.10. Conclusion

In this chapter we provided a detailed analysis of the impact of the single market programme on sectoral adjustments in the distributive trades. The main conclusions are summarized in Table 5.50. This table compares the hypotheses and expected impacts listed in Table 5.1 with the observed outcomes discussed throughout this chapter. On the whole, the main hypotheses are supported by the facts.

Turning first to the retail format and adjustments in the retail format, we observed a gradual expansion of larger retailers in EU markets, although retailing remains in several respects a nationally oriented business. The expansion of large retailers in national and internal markets led to a growing and often high concentration in retail markets. This is most of all true for food and grocery retailing. The growing domination of larger retailers results in an increasing market share of large store formats. Smaller retailers and independent shops are under pressure to develop niche activities and move towards speciality stores.

This report is not focused primarily on manufacturing companies. Yet, we found some case evidence of the concentration of manufacturing production in a smaller number of Euro-plants. Likewise, manufacturers are gradually adopting new technologies on a European scale.

A major part of this chapter was devoted to the reorganization of the distribution system which followed the implementation of the single market programme. The creation of an integrated European market contributed to an evolution towards vertical integration in distribution. In an increasingly complex environment, European retailers and manufacturers felt the need to tightly control the distribution process. This often meant that wholesale companies were eliminated from the distribution chain. At the same time, the abolition of border controls meant the end of traditional activities such as customs clearance. In sum, many distributive companies faced major adjustments in an integrating European market during the last decade.

On the other hand, there were opportunities waiting to be seized in the changing environment. Retailers and manufacturers outsourced the entire distribution process to specialized logistics companies. These companies were able to develop new distribution methods on a European scale, such as contract logistics and value added logistics. Initially following their retail or manufacturing customers to other European markets, successful companies subsequently developed a pan-European logistics capability. This would have been impossible in a context of strictly segmented national markets in Europe.

Did the reorganization of distribution generate cost and productivity gains? This chapter points to lower costs, higher productivity and better service as a consequence of centralized distribution methods and more efficient logistics. Those gains are not automatically reflected in reduced distribution margins and lower distribution prices for retailers and manufacturers. The determinants of distribution margins are manifold, and the statistical apparatus is too limited to offer a final judgement on this issue in this report. For the same reason, we are not able to come up with robust trends and reliable cross-country comparisons of profitability in the distributive trades.

The discussion of sourcing forms another 'pièce de résistance' of this chapter. We noted a growing interest in international buying groups on a European scale. The analysis of trade flows pointed to a shift from domestic towards EU sourcing. Moreover, we also found evidence that EU consumers switched from non-EU to EU products. A detailed case study of brands of selected food and beverage products revealed the existence of some pan-European brands. However, it should be mentioned that these findings do not apply equally to all product categories and all countries, and that local sourcing and national brands continue to matter greatly.

The internationalization of sourcing, retailing and distribution contributes to growing price convergence among EU countries. This is particularly true for the product categories that experienced the strongest internationalization of sourcing patterns. Furthermore, we found the strongest price convergence over time in the EU-12 country group, suggesting that EU membership enhances market integration. A positive EU effect was also supported by the fact that the founding six countries of the Community show substantially lower price differentials than the subsamples of EU members that included a wider set of EU countries. All of this, however, does not mean that sharp absolute price differentials for the same product are ruled out in the EU.

6. The single market and business strategies in the distributive trades

In Chapter 5 we provided a comprehensive account of the direct and indirect impacts of the single market programme on sectoral adjustments taking place in the distributive trades. We identified the main effects of the single market for the period 1986–91. Wholesalers and logistics services companies furthermore experienced direct consequences of the elimination of customs formalities on 1 January 1993. The impact of the single market varied across distributive operators, subsectors and countries. The single market programme was not limited to the core countries of the EU. On the contrary, the single market programme appears to have facilitated the market integration of the newer Member States in the south of Europe.

This chapter further elaborates on the findings of the previous chapter. It takes the perspective of the different distributive operators and assesses how the single market programme changed their business strategies. In doing so, a summary is given of the rich and complex interdependence that characterize the sectoral adjustments studied in Chapter 5.

6.1. Business strategies of retailers in an integrating market

The activities of retailers are affected by the single market in several respects.

6.1.1. Sourcing

In their sourcing decisions, retail companies carefully compare terms offered by domestic, EU and non-EU suppliers. Retailers evaluate the opportunities that are being created by market integration but also the barriers that continue to impede full market integration. As the case of toys and clothing shows, they will buy outside the EU if products meeting the necessary quality standards can be purchased at a cheaper price from non-EU suppliers.

The main contribution of the single market to sourcing is the increased sourcing by larger retailers from EU manufacturers. In the period 1985–92 a gradual orientation of retailers towards EU suppliers is observed. The shift towards intra-EU sourcing was mostly found in furniture and household appliances. It is not a coincidence that these are also sectors where retailers and manufacturers report few problems with the application of the single market legislation. Moreover, in these sectors we found convergence of retail prices. Apparently, retailers seized the sourcing opportunities offered by market integration in the EU and adjusted their pricing strategies accordingly. This is true even though retail concentration is lower and the average size of retail companies is smaller than, for instance, in food retailing. Retailers in the southern countries actively participated in the internationalization of sourcing.

In food and beverages, retailers are confronted with substantial hurdles to international sourcing. Tastes vary considerably from country to country. In addition, the application of the mutual recognition principle and EU technical harmonization did not eliminate all discriminatory national practices. As a consequence, retailers continue to purchase most of their food products from national suppliers, although a slightly larger role for intra-EU sourcing is observed here too. On the whole though, consumers are still buying many local or national products in addition to some well-recognized pan-European brands.

Another noteworthy strategic move by retailers was the renewed interest in international buying groups, in particular in grocery and furniture retailing. In principle, the main objective is to co-ordinate international sourcing and to exploit price differentials in European markets. Equally important is to establish contacts with other retailers and to build up a counterweight to the growing power of manufacturing companies which operate on a European scale.

6.1.2. Internationalization

Larger retailers responded to the single market programme by establishing their presence outside their domestic market. This happened in many ways, including through organic growth, joint ventures, mergers and acquisitions, to mention some common strategies. From 1987–91 this internationalization of retailers was primarily directed at EU markets, reflecting the belief that EU markets offered valuable expansion possibilities. After 1991 international investment by retailers gradually shifted to Eastern Europe and the dynamic Asian economies.

Retailers in household appliances and, even more, in grocery retailing were most involved in this wave of internationalization. Apparently, grocery retailers viewed the benefits of market integration in the first place in terms of a wider market for retail expansion rather than of creating new opportunities for international sourcing. When moving abroad, retailers preferred to stay close to home where the similarity in demand and supply conditions facilitated the repeated application of the retailer's successful retail format. There has been remarkable interest in the Spanish and Portuguese markets. While retail companies of the southern countries were virtually absent from the internationalization process, larger retailers from core EU countries developed a lively interest in those southern markets. The retail fragmentation in those countries allowed internationally operating retailers to enter in a profitable market without excessive competition from the established domestic retailers.

In spite of the growing internationalization, most retail companies maintain an essentially domestic focus, and retail markets in the EU are not fully integrated yet. In many countries and subsectors, domestic retailers occupy a dominating position in their own market. Seldom do they realize a major part of their turnover from their foreign operations. Their mergers and acquisitions are, compared to other distributive operators, more often directed to the domestic market.

6.1.3. Distribution

Internationalization seriously complicates the logistic operations of major retailers. Retailers reacted to this challenge in several ways. They evolved to centralized distribution systems with regional distribution centres insofar as demand differences and required proximity to the retail outlet would allow them. Other companies, in particular grocery retailers, integrated part of the distribution chain by organizing their own transport and taking over several wholesale functions. Where necessary, they bought wholesale companies specialized in their area of retailing. Some retailers eliminated any independent intermediaries between the manufacturing site and the retail outlet. They then outsourced the entire national and international distribution process to one or more logistics services companies with whom they developed close ties.

6.1.4. The single market as catalyst of existing retail trends

A recurrent theme in this report concerns the distinction between the direct and indirect effects of the single market. More than once we argued that market integration in Europe created the appropriate environment for companies to implement optimal business strategies. In return, those strategies accelerate long-term underlying trends that are driven by technological, demand and supply conditions. This indirect contribution of market integration is impossible to measure exactly but should not be ignored.

The concentration in retailing is an example of this reasoning. Undoubtedly, retail concentration is triggered by a variety of factors and has been going on in several EU countries for a long time. But the removal of entry barriers in EU markets strengthens the position of larger retailers. It also enhances the contestability of national retail markets and provides incentives for local retailers in previously protected markets to adopt strategies similar to those applied by their more efficient competitors in other EU member countries.

In summary, this report argues that the market integration induced by the single market programme profoundly influenced European retail developments in the last decade. The authors are convinced that this trend will continue in the years to come. The integration of the retail markets in the 12 EU countries is not complete yet. Nor is the retail market integration with the newest Member States. In the last four years, the interest of several retailers for Eastern European markets raises the prospects for further integration if some of those countries join the European Union.

6.2. Business strategies of manufacturing companies in an integrating market

This study does not offer an in-depth analysis of the strategies of manufacturing companies. Manufacturing strategies are considered insofar as they alter the distribution chain or to the extent that manufacturing companies are affected directly by changes in parts of the distribution chain. We identified three such transmission channels.

6.2.1. The concentration of manufacturing production

Technical harmonization, the elimination of border formalities and the liberalization of road transport create new opportunities for manufacturers to concentrate European production of specific products in a limited number of manufacturing plants and to serve the European market from there. We presented several examples of companies that concentrated their manufacturing production in response to the single market programme. However, these effects do not show up in changes in the share of total EU production or exports accounted for by individual EU countries. In the product categories considered, the creation of a single market therefore did not lead to any noticeable agglomeration effects in manufacturing production.

6.2.2. Internationalization and distribution

In essence, the manufacturers' response to the single market is to combine a concentration of production with an increased presence in more EU countries. Following the adoption of the Single European Act, manufacturing companies invested heavily in international mergers and acquisitions targeted at EU markets. The move towards internationalization was most pronounced for manufacturers of food and drink products and household appliances. These are the sectors where larger companies play an important role and where a growing internationalization is observed at the retail end as well.

Coupled with a concentration of production, internationalization led to a reorganization of the distribution process. Even more than for retailers, this involves the application of centralized distribution systems which yield additional efficiency gains and reductions in distribution costs. Like retailers, manufacturers engaged in vertical integration of the distribution process by eliminating or buying independent wholesalers and contracting out their distribution functions to specialized logistics companies.

Market integration in manufacturing appears to have progressed further than in retailing. Nonetheless, we are convinced that the strategic adjustments in the distributive trades initiated by the single market programme have not been fully completed. On a regular basis, press reports mention manufacturing companies that concentrate their production and/or centralize their distribution systems. The prospect and realization of an integrated European market set into motion forces that continue to exert their impact today.

6.2.3. The benefits for manufacturing companies from a more efficient distribution system

Manufacturing companies are an important end-user of distribution services. They benefit from productivity gains in the distribution process. We identified several of those improvements in productivity. In the period 1987–92 manufacturing companies enjoyed cost reductions in transport and warehousing that are closely connected to the implementation of the single market. Likewise, the time to market was considerably reduced and the failure rate in logistics services performance came down notably. Furthermore, the emergence of a single market created new opportunities for centralized distribution systems. On the contrary, there is no evidence that the single market programme had a marked effect on the adoption of new information technology. In this respect, Europe is still lagging behind its American competitors.

6.3. Business strategies of wholesale companies in an integrating market

Vertical integration of the distribution process by retailers and manufacturers forms a threat to the position of wholesalers. While caused by a variety of reasons, the single market painfully exposes the weakness of traditional wholesalers. The distribution process of large internationally operating manufacturers and retailers is complex. The technical complexity goes beyond the capabilities of wholesalers and requires the input of specialized logistics companies. Those retail and manufacturing companies are increasingly dealing directly with one another without any intermediaries. Wholesale functions are taken over by retailers and manufacturers. For instance, several manufacturers chose to internationalize by installing sales offices in many countries, replacing the wholesalers who are specialized in import activities.

Does this mean that wholesalers have no options left? Our analysis of mergers and acquisitions reveals a growing internationalization of wholesalers in household appliances. Even in areas of general wholesale decline, individual companies are developing successful activities. What matters is, to put it in fashionable management terms, a redefinition of core competences. From our contacts with companies and a study of the literature, we identify four strategic options which are not mutually exclusive:

(a) Wholesalers reorient their activities towards retailing: basically this means that wholesalers are becoming like retailers with a growing concentration on the marketing aspect of wholesaling. They communicate their market knowledge to manufacturers, develop own-label products, invest in publicity and even develop their own retail format.
(b) Wholesalers supplement their retail focus with a brokerage function in distribution. In this scenario, wholesalers are in charge of the distribution process but outsource this distribution function to a logistics firm. One of our case companies, Pietercil Resta, is thinking about doing just this.
(c) Wholesalers reorient their activities towards distribution: basically this means that wholesalers are trying to compete directly with logistics services firms. This implies that they offer a wider range of distribution services and invest in logistics systems. To succeed, wholesalers must raise the reliability of their delivery system such that their clients can reduce their own safety stocks. Wholesalers may furthermore expand by providing supplementary distribution services, such as building in kitchens or designing showrooms.
(d) Wholesalers reorient their activities towards consultancy; they give advice to retailers on the product range. They advise their clients on internal logistics. Or, in the case of agricultural wholesalers, they may even engage in environmental consultancy for farmers.

6.4. Business strategies of logistics services companies in an integrating market

The single market programme marks a watershed for logistics services companies. More directly than wholesalers, the single market programme threatened certain activities of logistics companies. However, in response, several of these companies have seized the opportunities of an integrated market in Europe. Others have taken a wait-and-see attitude and, rather than attempting to anticipate new needs of their customers, reacted when demand for new logistics services emerged.

For several logistics companies the decline in revenues from customs clearance, which followed the removal of border controls on 1 January 1993, came as a blow. We presented the case of Danzas as one representative example of a group of companies that experienced difficult years in the early 1990s.

Other companies however, such as Exel and Tibbet & Britten, performed very well. We traced their success to the introduction on a European scale of distribution methods which they developed at home (e.g. contract logistics and value added logistics). Initially, their European expansion followed closely the internationalization of their major manufacturing and retailing customers. Subsequently, these logistics companies discovered unexplored opportunities in the wider European market and evolved towards truly international strategies. This resulted, among other adjustments, in a growing number of international mergers and acquisitions, equity participations, alliances and local subsidiaries.

It is only a slight exaggeration to say that the developments related to the single market constitute a régime shift for the logistics services business in Europe. Logistics companies have become aware of the need for fundamental strategic choices in an integrating European marketplace. We summarize these strategic choices under three headings:

(a) Concentration on existing activities: companies stay the same size and stick to their market sectors of specialization. They develop selected niche markets in their area of expertise. Examples of such a strategy are the focus of some logistics services companies in the food sector or in spare parts distribution. A very narrow niche strategy is followed by the French forwarder Daher which specializes in sophisticated logistics for the aircraft manufacturer Airbus. The drawback of this strategy is the increasing competition from larger generalist logistics firms.

(b) Expansion and internationalization: companies expand their operations. In Europe this most often means going abroad. In Chapter 5 we demonstrated that several logistics companies have already developed extensive foreign operations and can be considered international companies. We also pointed out that, to achieve economies of scale from larger operations, companies felt the need for and invested in a pan-European logistics capability. It should be clear that the financial constraints of such a strategy should not be underestimated. To lower the costs of pan-European networks, several logistics companies decided to enter in alliances with companies from other parts of Europe or to specialize in forwarding and contract logistics.

(c) Diversification towards new areas of activity: based on their competences, companies broaden their services to new market segments. For instance, transport companies acquire knowledge on general logistics such as warehousing and inventory management. Conversely, pure logistics companies are moving into transport services. Some logistics companies extend their operations to other market sectors (e.g. FDS moved from food to hi-fi distribution).

This trend of diversification leads to a gradual disappearance of the traditional distinctions between logistics, wholesale and transport companies. More and more, companies coming from different backgrounds are doing the same things. They are becoming distribution companies in the broadest interpretation of the word, offering a range of distribution services, while building up special expertise in some areas. Looking at the future, one can expect increasing EU-wide competition in profitable segments among those distribution companies.

7. Case studies

Table 7.1. Overview of case companies

<table>
<tr><th>Sector</th><th>Manufacturer</th><th>Wholesaler</th><th>Retailer</th><th>Supplier of logistics services</th></tr>
<tr><td>Food and drink</td><td>Quaker Oats
Snacks Ventures Europe (Pepisco)</td><td>Pietercil Resta (B), (not a wholesaler strictu sensu, but a broker as well as a distributor, a service merchandiser and a category manager)</td><td>Promodès (F)
Rewe (D)
AMS (buying group)
ICA Handlarnas (S)
Kesko (FIN)</td><td rowspan="5">Tibbett & Britten (UK)
Danzas (CH)
Exel Logistics (UK)
Hays-FRIL (UK/F)</td></tr>
<tr><td>Clothing</td><td></td><td></td><td>Marks & Spencer (UK)</td></tr>
<tr><td>Furniture</td><td></td><td></td><td>Möbel Pfister (CH) (only interviewed)</td></tr>
<tr><td>Household appliances</td><td></td><td></td><td>Kingfisher-Darty (UK/F)</td></tr>
<tr><td>Toys</td><td>Lego (DK)</td><td></td><td></td></tr>
</table>

Table 7.2. Synthesis table of case companies

Company	Manufacturing production and distribution	Cross-border sourcing	Internationalization and growth	Competition and concentration	Size, scale and productivity	Pricing
AMS		SM facilitates high value 'Euro' private labels. SM did not particularly develop international purchasing for standard/existing products. Parallel trade is bound to grow because of improvements of transportation systems and transparency in price information.	SM contributes slowly to disappearance of product differences between countries. Local environmental laws can become a source of new barriers and a discriminatory factor against foreign products.	Concentration increases internationally and domestically but according to AMS not because of SM. In the long run globalization of retail.	Profitability of retailers went down. British retailers realized productivity gains and savings are passed along to the consumer.	
Danzas	Centralized European distribution triggered value added logistics. Manufacturers have been able to reduce stock levels. Abolition of EU internal border control (customs clearance) resulted in a serious loss and adjustments to new activities.	SM has not necessarily changed international sourcing; it occurs where it is the cheapest; regional product variants persist.	SM accelerated trends of international expansion; in conjunction with local preferences, Danzas' organization is designed on a European and world-wide basis to 'think globally and act locally'.	Fierce competition in transport and forwarding from transport-oriented focus to a focus on complete logistics chain management.	Focus on logistics chain management achieved the critical mass required for Danzas' transportation network.	Prices continued to drop.
Hays	Serves the market by two European distribution centres.	Minor part of Hay's trucks actually cross borders.	Hays internationalized significantly but many distribution operations kept a national orientation. SM lowered barriers for inter-EU training of Hays' staff and management.	Demand for contract logistics is increasing rapidly and competition is becoming fiercer; Hays' answer is specialization.		SM contributed to centralized distribution by lowering transportation costs.

ICA	Manufacturing production is rationalized by closing plants and opening or transferring to fewer but bigger plants. Smaller retailers get organized in co-operatives. Product and production legislation did not result in expansion of the available market for manufacturers of food products in Sweden because of the preferences of Swedish consumers for Swedish agricultural products and the weak position of the Swedish crown.	Large retailers benefit more than small retailers in obtaining better purchase deals through increased product acceptance. The number of products imported by ICA increased because of the membership of AMS. International sourcing will increase gradually among other things due to the SM. ICA imports about 15% to 20% of its products. (International) private labels are now 5% of ICA's assortment and will increase to 10% within five years. The volume of parallel trade in Sweden is 1% to 2%.	Greater international product acceptance does not facilitate the duplication of retail formats abroad because differences in assortment are too big even between Norway and Sweden and within Sweden. Exporting of retail formats is easier for discounters because of narrow range in products and strict concepts.	When concentration of manufacturers increases by M&A, then that of retailers will also increase to compensate the manufacturers' power.	More harmonized product composition across borders is limited to the language on the labels. Without the indication of the country of origin there is no better acceptance of foreign products; consumers use this, for instance, to boycott certain products or to call the producer. Other remaining barriers to a more integrated market are the different currencies and the different eating habits. A barrier outside the EU are the high import taxes in trade with third countries. The EU is helping the manufacturing industry (except for farmers) much more than the consumers. SM changed some of ICA's logistics organization, e.g. distributing direct from abroad to the stores or warehouses in Sweden instead of to one central point in Sweden. In case of ECR a lot of barriers have to be solved (EDI, pallet load and pallet size, etc.). The transitional VAT system is not a problem but requires more effort.

Table 7.2. (continued)

Company	Manufacturing production and distribution	Cross-border sourcing	Internationalization and growth	Competition and concentration	Size, scale and productivity	Pricing
Kesko		Imports grew by 20% from 10% to 12% of Kesko's sales. Offered assortment has grown through SM; more international brands and more private labels. SM increased participation of buyers in international sourcing. SM made border crossing much easier for Kesko.	Greater international product acceptance does not facilitate the duplication of retail formats abroad. Main strategic issues: • strict retail chains • more private labels • more distribution in own hands • new business abroad. SM has not caused this, but makes it easier.	New smaller importers are competing with Kesko in selling to Kesko's retailers. Concentration was already very high (90% for the C-4). Remaining efficiency gap compared to foreign competitors is not that big. Concentration movement in juice and frozen food. More competition in dairy sector.	Standardization of pallets and packaging will bring substantial logistics savings but lack thereof is still a barrier. Without the indication of the country of origin there is no better acceptance of foreign products. Existing barriers are state-owned retail monopoly of alcoholic beverages and existing rules on salmonella inspection. Kesko has chosen Turku instead of Helsinki as new import harbour because Turku is nearer to Germany and Sweden. Trying to change from direct store delivery to terminal distribution; this will be more efficient for Kesko.	Finland's EU quotas for importing from third countries are now too small compared with previous national quotas; tuna fish and champignons were sold out quite early. Price of bananas will go up significantly. Similar rises in prices lead to consumption changes. However consumer retail prices (incl. VAT) went down by 11% and the manufacturer and wholesale prices (excl. VAT) went down by 5%-6%. VAT went down from 22% to 17%. Grocery industry now gets raw materials at EU prices instead of the high domestic producer prices paid before. Price convergence is observed in flour, grease, oil and eggs.

Kingfisher-Darty	White goods manufacturing still remains active in Germany, France and the UK, but relocates over time towards cheaper labour countries (in Europe). EU environmental legislation is less stringent than Germany's and constitutes a barrier for southern European producers to penetrate northern European countries.	Brown and white goods are a world market. International buying groups are not yet part of the picture. Product differences remain. EU labelling legislation leads to an increase in non-EU international sourcing. Electrical appliances retailers tend to source more internationally. Certain high-tech products follow a growing branding trend. Commodity products become more private labels from hard discounters or hypermarkets.	Americans will be the best prepared to address the whole European SM at once (see white goods of Philips absorbed by Whirlpool). Greater international product acceptance facilitates duplicating retail format abroad.	Hypermarkets provide increasing competition (France and Spain).	New sourcing patterns lead to logistics adjustments (large warehouses).	
LEGO	Manufacturing production in Denmark and Switzerland. Stocking is necessary because of high seasonality of the sales.	International retail clients source at national or store level but within an international framework contract. Hypermarkets or chains benefit from the SM standardization of toys. Private labels will increase.	LEGO's product range is pan-European; packaging is totally standardized.	Toy manufacturers are extremely concentrated; C-10 index in EU is 50%. Smaller players tend to disappear.	SM created faster border crossing which supported LEGO's rationalization of distribution with 5% to 10% savings of total transportation costs.	SM contributed to an increase in price competition which resulted in price decreases resulting in turn in sales volume increases. Supported by the creation of the SM, LEGO manages price differences between countries not exceeding 10%.

Table 7.2. (continued)

Company	Manufacturing production and distribution	Cross-border sourcing	Internationalization and growth	Size, scale and productivity	Pricing	
Marks & Spencer	M&S has its own private label St Michael, but outsourced all manufacturing to mainly British manufacturers. SM facilitated standardization but some barriers remain, e.g. different size denominations and different definitions of product materials. Distribution across the EU is still facing many differences (timing of 'sales' or nationally set events).	SM made it possible by fast border crossing to intensively exchange 1,000 lines of short life (fresh) products on the Continent, originated in the UK. 80% of the food products are exactly the same throughout the EU except for their packaging (language differences).	Since 1975 M&S expanded on the Continent (up to 32 stores at present). SM is not the unique focus of M&S inter-nationalization; however, SM contributes positively to the opening of new locations (mutual recognition). National and local barriers still remain (ownership of real estate, opening hours, labelling).	In foreign markets M&S offers a unique proposition of store formula; this plays a more important role in food than in clothing. In clothing M&S is confronted with increasingly sharper new distribution chains.	Productivity is closely related to staff flexibility on working time; on the Continent M&S faces less attractive conditions than in the UK. SM ensured through mutual recognition economies of scale in production (higher volumes) and through faster transportation economies of scale in centralized sourcing.	Thanks to productivity gains within the M&S organization price reductions of 10% to 20% were realized.
NFC/Exel	Concentration of distribution requires considerable investments in infrastructure and in IT. Complexity of distribution increased because of intensified requirements for flexibility and reliability. Therefore many manufacturers outsourced their distribution.		During the late 1980s, NFC expanded in the US and later on in the EU. SM facilitated the international expansion of NFC's clients and NFC followed its clients in the EU.	In recent years large transport groups emerged, because of high investments in centralized distribution. Logistics companies have internationalized their marketing strategies across borders, but the prediction of mega carriers failed to materialize; manufacturers have been less demanding. Competition in logistics increased.		

Pietercil Resta	Concentrates on EU countries (price convergence and distance < 1.500 km). P. R. has four professions: (a) broker (executing marketing and sales services for manufacturer) (b) distributor (financial risk for stock) (c) service merchandising & job racking (d) category management and telesales. In (southern) Europe cooperation between manufacturer and logistics company can improve.	Germany is relatively closed for non-domestic products. French sourcing became more international. P.R. estimates parallel trade at 7% of total market. If price differences between countries for a specific manufacturer are more than 3% to 5% P.R. will stop distribution. SM ensured logistics and administrative improvements at borders. Euro currency is an absolute must.		Concentration degree (C-5) of retail in a country must be at least 60% to make it profitable for P.R. to distribute products (spread fixed costs over a broad range of products) (Benelux OK, Spain not). Competition in retail increased by sales at e.g. petrol stations (will grow to 15% of total market). Competition of niche retailers will stay under 2%.		Price convergence occurs in net distribution prices. Improved profit in chain is reinvested in product development and advertising. No real price decreases for consumers in grocery products.

Table 7.2. (continued)

Company	Manufacturing production and distribution	Cross-border sourcing	Internationalization and growth	Competition and concentration	Size, scale and productivity	Pricing
Promodès World Trade	SM facilitated economies of scale in production of multi-national manufacturers.	Promodès pursues a strategy of increasing its international sourcing. National health regulations function as the last obstacle to free trade. SM can solve this by imposing EU-wide rules on safety and health. International sourcing is bound to happen more with private labels. Promodès never experienced any problem with administrative regulations of the SM.	Greater international product acceptance is not a necessary condition to facilitate the duplication of retail formats abroad. SM brought little changes in the logistics organization of Promodès. Mutual recognition with essential requirements increased the number of products offered to consumers. This favoured production-based SMEs; larger players already had the structure. Main benefit from product legislation is that competition is more open. German standards for environment are very high; and costs are quite high; however Promodès expects that German standards will be adopted in the EU and prepares for it.		EU labelling legislation is the last link of the chain (after technical harmonization and mutual recognition) allowing for the creation of totally European products. If packages are big enough, then substantial benefits can be derived from SM. If products can be made uniform logistics can be simplified and sales forecasts improved.	If products can be made more uniform, prices can decrease.
Rewe	Rewe exploits several retail formats and a significant business in wholesaling.	Rewe sources are very global. SM made cross-border sourcing easy (no customs clearance). No parallel trade in	Acquisitions in wholesale. Acquired BML in Austria (same assortment and language). Names of products must become international.			Price differences between countries depend on exclusivity of the local taste. Certain products became more expensive because

		Germany (big market and consumer does not want unknown products). More private labels (like Tip-Top).	Reunification of East and West Germany gave new impulse.			of quotas; e.g. France is now delivering more champignons than (the cheaper ones from) China.
Smiths Food Group/ Snacks Ventures Europe	Most production is local, but some products are made by plants in other EU countries. Smiths' products are very light-weight and fragile and therefore cost a lot to transport. Not many differences exist in national legislation as far as ingredients are concerned. Remaining barriers are bag size in Germany and pallet type and pallet height.	European sourcing can result in cost reductions. Transporting goods is slightly simpler now through the SM.	Internationalization is difficult because of taste differences and brand recognition.			Retailers want the same price everywhere: which results in price convergence.
Tibbett & Britten Group	Trend towards cross-border concentration of production. Most of the European distribution centres serve domestic goods flows or serve regions of three or four European countries.	In the food sector cross-border sourcing remains limited because of taste and label differences. In all integrated markets, regional differences remain important. In clothing, international sourcing is important.	T&B internationalized in the early 1990s, also onto the Continent. British logistics companies are experienced with contract logistics because of the early deregulation and deunionization of the UK transport sector. T&B's expansion is mainly organic, which gives a better base for ongoing development.	Competition in contract logistics is increasing because of good financial results.	Centralization yields scale benefits, but up to a limit. Large scale centralization will yield for small or slow-moving products (up to 30,000 m^2).	

Source: Executives of above case companies interviewed by Coopers & Lybrand and Catholic University Leuven.

APPENDIX A

Legislation and industry overviews

A.1. Detailed list of legislative measures[49]

A.1.1. Technical harmonization and the removal of barriers caused by differences in national product legislation

A first set of (horizontal) directives on product composition deals with *product ingredients*:

(i) directive on authorized food additives,
(ii) directive on colouring,
(iii) directive on sweeteners,
(iv) directive on other additives than colouring and sweeteners,
(v) directive on flavourings,
(vi) decision on the inventory of the source materials and substances used in the preparation of flavourings,
(vii) directive on preservatives,
(viii) directives on specific purity criteria for preservatives,
(ix) directive on emulsifiers, stabilizers, thickeners and gelling agents,
(x) directive on specific purity criteria for emulsifiers, stabilizers, thickeners and gelling agents,
(xi) directive on colouring matters,
(xii) directive on antioxidants,
(xiii) directive on purity criteria for antioxidants,
(xiv) directive on erucic acid,
(xv) directive on the product ingredients of cosmetics.

The directives on *manufacturing methods* regulate various aspects of the production process:

(i) directive on quick frozen foods,
(ii) proposal for a directive on foodstuffs treated with ionizing radiation,
(iii) regulation on organically grown agricultural products and foodstuffs,
(iv) proposal for a regulation on novel food and novel food ingredients,
(v) directives on methods for the quantitative analysis of binary textile fibre mixtures,
(vi) directives on methods for the quantitative analysis of ternary fibre mixtures.

A different set of directives contain (vertical) *product legislation for specific food products*:

(i) directive on cocoa and chocolate,
(ii) directive on sugar,
(iii) directive on honey,
(iv) directive on fruit juices and similar products,

49 See *Directory of Community legislation in force and other acts of the Community institutions* (27th Edition, Vol. I and II, Office for Official Publications of the EC: Luxembourg) for complete references of Community legislation published in the *Official Journal of the European Communities*.

(v) directive on fruit jams, jellies, marmalades and chestnut puree,
(vi) directive on preserved milk,
(vii) directive on edible caseins and caseinates,
(viii) directive on natural mineral waters,
(ix) directive on other water for human consumption,
(x) directive on coffee and chicory extracts.

The single market programme lays down the following *packaging* directives for the composition of materials and articles intended to come into contact with foodstuffs:

(i) directive on materials in contact with foodstuffs,
(ii) directive on vinyl chloride monomer,
(iii) directive on testing migration of constituents of plastic materials and articles,
(iv) directive on ceramics,
(v) directive on plastics,
(vi) directive on regenerated cellulose film,
(vii) directive on the release of N-nitrosamines and N-nitrosatable substances from elastomer or rubber teats and soothers.

Several legislative measures relate to *product safety and hygiene*:

(i) directive on hygiene of foodstuffs,
(ii) regulation on radioactive contamination,
(iii) regulation on contaminants in food,
(iv) directive on contamination by extraction solvents,
(v) directive on airborne noise emitted by household appliances,
(vi) directive on toy safety.

The following directives and regulations deal with *labelling*:

(i) directive on labelling, presentation and advertising of foodstuffs,
(ii) directive on the identification of foodstuffs by lot,
(iii) directive on nutrition labelling rules,
(iv) regulation on spirit drinks,
(v) regulation on aromatized drinks,
(vi) regulation on foodstuffs intended for particular nutritional uses,
(vii) directive on labelling of foodstuff prices,
(viii) directive and resolution on the labelling of non-food product prices,
(ix) directive on the indication by labelling of the energy consumption of household appliances,
(x) directive on the labelling of electric ovens,
(xi) directive on labelling and standard product information of the consumption of energy and other resources by household appliances,
(xii) directive on textile names,
(xiii) directive on the labelling of footwear,
(xiv) regulation on geographical indications and designation of origin.

The following legislation deals with *testing, certification and enforcement*:

(i) directive on the verification procedure of purity criteria for certain additives,
(ii) directive on the certification of the specific character of foodstuffs with a particular nutritional purpose,
(iii) decision on the Standing Committee for Foodstuffs,
(iv) decision on the Scientific Committee for Food,
(v) decision on the Advisory Committee for Foodstuffs,
(vi) directive on the assistance and co-operation with scientific examination,
(vii) decision on the Scientific Committee for designations of origin, geographical indications and certificates of specific character,
(viii) directive on the sampling and analysis methods for the control of foodstuffs,
(ix) directive on the official inspection of foodstuffs,
(x) directive on additional measures concerning the control of foodstuffs,
(xi) directives on methods of analysis necessary for checking the composition of cosmetic products.

A.1.2. Elimination of border controls and abolition of border formalities

Several regulations and directives achieve the elimination of frontier controls:

(i) regulation on the Single Administrative Document,
(ii) regulation on Community transit,
(iii) regulation on the use of TIR and ATA carnets in Community transit,
(iv) regulation on the abolition of customs formalities at internal frontier crossings,
(v) regulation on postal fees for customs presentation,
(vi) regulation on the elimination of transport checks at frontiers,
(vii) regulation on the abolition of certain internal frontier controls in the field of road and inland waterway transport and their transfer to the Community's external frontier,
(viii) regulation on the movement of goods within the Community for temporary use,
(ix) regulation establishing the Community Customs Code,
(x) directives on exemption from VAT on the final importation of goods.

A.1.3. Indirect taxation and the transitional VAT system

The following directives deal with indirect taxation:

(i) directives on the harmonization of VAT rates,
(ii) directives on the uniform basis of assessment,
(iii) proposal for a directive on non-deductible expenditure,
(iv) directive for the VAT scheme applicable to small and medium-sized companies,
(v) directive on excise duties: general arrangements, holding and movement of excise duty products,
(vi) directive on the harmonization of structures of excise duty on manufactured tobacco,
(vii) directive on excise duties on manufactured tobacco: definition of the various groups of manufactured tobacco,
(viii) directive on the approximation of excise duty rates on cigarettes,

(ix) directive on the approximation of excise duty rates on tobacco other than cigarettes,
(x) directive on the harmonization of structures of excise duty on mineral oils,
(xi) directive on the approximation of excise duty rates on mineral oils,
(xii) directive on the approximation of excise duty rates on petrol and diesel.

A.1.4. The liberalization of road transport

Quite an extensive legislative framework underlies the creation of the single market in road transport by trucks:
(i) regulation on road carriage between Member States,
(ii) regulation on the Community safeguard mechanism for the carriage of goods by road,
(iii) regulation on inland cabotage for the carriage of goods by road,
(iv) directive on the taxation of the carriage of goods by road,
(v) proposal for a directive on the admission of the occupation of road transport operator and the mutual recognition of diplomas,
(vi) Commission communication on an action programme on road safety.

A.2. The impact of national legislation on the distributive trades

National legislation hampers the market entry of distributive companies in several countries. The main targets of those restrictions are retailers. In the next pages we survey:

(a) restrictions on retail development;
(b) restrictions on opening hours;
(c) restrictions on promotional techniques;
(d) labour market legislation.

A.2.1. National restrictions on retail development

Retail development in European Member States is restricted by a myriad of national laws and local regulations. A detailed overview of the restrictions on retail development for 14 EU Member States is presented in Table A.1. The table also lists the primary consequences for firms of those rules and regulations.

Several striking facts emerge from Table A.1. In many countries including Austria, Denmark, France, Germany, Italy, the Netherlands, Spain and Sweden, local or regional authorities have a powerful influence in the authorization of new stores. Retailers are therefore not only facing national differences in retail development. They are also confronted with divergent regional and local attitudes within one country. This is a burden for large national retailers in their own country, let alone for retailers with pan-European ambitions.

Table A.1. National restrictions on retail development in EU countries

Countries and texts	Consequences for firms
AUSTRIA a) 'Bauordnung': Defines and restricts on a regional (*Länder*) basis the type of building that can be erected. b) 'Fischenwidmungs-/Bebauungspläne': Defines certain areas, i.e. industrial area, lodging area, general building area and gives detailed regulation concerning construction type and building specification. c) 'Gewerbebehördliche Genehmigung': In addition to the building permit, permission to run a retail business is needed. This mainly covers security issues (such as employee safeguards).	a) Regional differences may influence whether a building permit is granted. b) This regulation decides where retail outlets can be developed. In some areas (close to towns) it is easier to find those sites. c) This also depends on regional interpretation. Often a business is not opened because of missing documents or legal requirements.
BELGIUM 'Loi Cadenas'('Padlock Law') of 1975 and amended in 1994: Limits openings and increases in size of over 1,500 m² (gross), 1,000 m² (net) in urban areas (600 and 400 m² outside urban areas). a) Opinion of the Socio-economic Committee for Retail is needed (opinion given without appeal). b) Consultative opinion of the Provincial Commission is needed. c) Communal decisions.	a) Text applied with great rigour, which has particularly affected hypermarkets (no openings between 1982 and 1990). b) Strong pressure to internationalize: GIB and Delhaize Le Lion started to internationalize in 1975–76. These two companies are among the most internationalized in the sector (32% and 74% respectively of turnover realized abroad in 1992). c) Pressures to implement franchise-affiliation system: GIB is the largest food franchising company in Belgium (Unic and Nopri chains), and Delhaize opened 73 large supermarkets in Belgium between 1983 and 1992 (all franchised).
DENMARK a) 1991 Law transferred urban planning authority from regions to local communities. b) Liberalization of restrictions on development of shopping centres and edge-of-town sites.	a) New system is less conservationist. b) New opportunities for edge and out-of-town site development.
FINLAND a) Local communities control urban planning. There is no specific law relating to shopping centres and supermarkets.	a) Trend is towards bigger outlets, and the authorities are not holding this back.
FRANCE 'Loi Royer' 1973. Obligatory authorization for stores > 1,000 m² net (2,000 gross), and 1,500 net/3,000 m² for towns > 4,000 ha Authorization delivered by town planning commission, composed principally of local representatives, local traders and consumer associations under the authority of the Republic's Commissioners (local and national level). a) April 1993: Suspension of authorizations for new hypermarkets in rural areas due to pressure from small retailers. b) 'Décret Madelin' of November 1993: Further retail developments authorized but change in emphasis towards more controlled expansion in selected areas.	a) Loi Royer increasingly relaxed in practice, and widely bypassed by operators, particularly independent groups who open under the threshold level and subsequently enlarge their stores. b) Has encouraged the rise of large supermarkets and small hypermarkets, typical formats of independent groups, now the market leaders. c) Has led to artificial protection of units already opened. d) Has incited hypermarkets to increase the number of shopping arcades rented to small traders. Slow-down of hypermarket openings but no stoppage of openings and transformations (+ 192 hypermarkets since 1986).

Table A.1. (continued)

Countries and texts	Consequences for firms
UNITED KINGDOM a) Town and Country Act 1947. b) Public Health Act 1936 and 1961. c) Health and Safety at Work Act 1974. d) No specific regulation concerning sizes of stores. e) Retailers must convince local authorities of the social utility of new shopping centres. f) 1993: PPG6 - New guidelines for local planning authorities, in favour of town centre rather than out-of-town development. g) 1994: PPG18 - Restrictions on out-of-town stores to promote use of public transport. h) 1994: Report by Government Inquiry recommends methods to promote town centre development.	a) Recent changes in implementation of planning laws in favour of town centre rather than out-of-town developments. b) Few tensions with trading groups during period of development of town centre supermarkets. c) Many tensions due to refusals since market leaders are tending towards development of superstores on outskirts of towns; nevertheless, the pace of store development on the part of the market leaders remains high (20 superstores annually on average since 1986, for the market leaders in this type of store). d) Contribution to increases of cost of store creation (highest large store creation cost in Europe). e) Limits on developments of hypermarkets (> 5,000 m²): 3 Savacentre creations (Sainsbury) in 5 years.
GERMANY a) 'Baunutzungsverordnung' (BauNVO) 1977 defines 4 types of area: b) Centres of built-up areas: no restrictions. Areas designed for large stores. Activity areas: commercial companies with no harmful effects. c) Dwelling and service areas: reserved for local trade. d) For stores larger than 1,200 m² (gross), 800 m² net (1,500 gross since 1987): decision of the communal council, opinion of local government services, chambers of commerce, consumer associations. Possibility for *Länder* of implementing stricter legislation.	a) Rapid and 'strict' implementation by almost all *Länder*. b) Strong restrictions on growth of hypermarkets (+10 hypermarkets of over 500 m² annually since 1986). c) Presence of very large size shopping centres (e.g. Massa, 25,000 m² average). d) Strong regional (*Länder*) variations in legislation, explaining the strong presence of regional chains and the large number of chain names in the various *Länder*. e) Has facilitated the growth of hard discounters at the expense of traditional small traders. f) Factor which encourages external growth.
GREECE a) Lack of specific laws relating to commercial store areas and size of supermarkets. b) By law, transportation of goods is allowed only by suppliers' trucks or with trucks licensed for public use. The number of licences is limited and given only to fully professional drivers. c) Restriction on the sale of starter infant formulas - limited to pharmacies only, imposed by a government decree in 1988. d) Liberalization of restrictions concerning retail margins, with the exception of baby foods.	a) Physical limitations of the market determine the development of hypermarkets more than do any legal constraints. b) Restricts choice and freedom for producers especially when they do not possess their own trucks. Also increases transportation costs. c) Pressures to extend the sale of starter infant formulas to all retail channels. d) Overall tendency of politicians, traders and consumers towards environmental balance.

Table A.1. (continued)

Countries and texts	Consequences for firms
ITALY a) Authorizations obligatory at local and regional level for stores > 1,500 m². Law amended by decree in 1988: communes (1990) may define maximum overall areas but are not able to restrict the number of retail outlets. Law 426: obligation to obtain 18 licences (linked to product types) to open a 'general trading' store (licence No. 8 = all products).	a) Small traders are very powerful at a local and national level and block the rapid modernization of the retail sector. b) Although licences are still very difficult to obtain, the slight and continued relaxation of restrictions has resulted in an increase in the number of large stores, not only in terms of hypermarkets but also of shopping centres. c) While a large proportion of modern retail is situated in the north, the south is quickly developing and, in fact, large grocery stores are now looking to open new modern outlets in this part of Italy. d) All groups of significant size are present in all types of stores. Superstores appear to represent the ideal compromise between modernization, local constraints and culture. e) Hard discounters have expanded rapidly owing to the recession and the relative ease in obtaining planning permissions.
NETHERLANDS a) Lack of specific laws relating to commercial store areas. b) Controls are implemented at local level: municipal authorities, local traders and, indirectly, consumer associations.	a) Physical limitations of the market explain the relatively low level of development of hypermarkets more than do the legal constraints. b) Pressures are being exerted more on the qualitative aspects of retail outlets (aesthetic aspects, noise pollution, etc.). c) Overall tendency of agents (politicians, traders, consumers) to unite to maintain the environmental balance.
PORTUGAL a) 1989 Licensing Law to control the granting of planning permission for stores of > 2,000 m². Permission needs to be obtained from Ministry of Trade and Tourism. b) Stores < 2,000 m²: permission needs to be obtained from local municipal authorities. c) 1991 New guidelines to local authorities attaching conditions for improvement of local environment to planning decisions. d) 1992 Controls on development of shopping centres of > 3,000 m². e) 1993 Planned construction of 15 hypermarkets frozen.	a) New guidelines and licensing laws have slowed development in recent years. b) Hypermarket development has been very rapid, however, now accounting for an estimated 25% of food sales. c) Pressure from small retailers has caused further permits to be frozen, particularly affecting Sonae and Jerónimo Martins.
SPAIN a) Land law: authorization decisions delivered at local level by municipal authorities. b) Liberal policy with regard to formats of developed stores, few restrictions.	a) Authorization often linked to provision of other services and authorization process may take several years. b) Has enabled accelerated modernization of commercial infrastructure. c) Has enabled massive entry of foreign groups, particularly French groups, who have rapidly developed a number of large size hypermarkets (+42 hypermarkets in 5 years, representing a doubling in the number of stores since 1985: average 1990 size: 7,150 m²). Effect on supermarket growth: these remain very regional in character.

Table A.1. (continued)

Countries and texts	Consequences for firms
SWEDEN	
a) Local authorities determine the granting of planning permission. b) Increased demand for discount stores has liberalized regulations.	a) Gross profit has been reduced in many areas owing to increased competition from both large and small discount outlets.

Source: IGD.

Another common theme is the tension between smaller and larger retailers. Smaller retailers exert political pressure to block the establishment of super- and hypermarkets. In some countries, this pressure has been very effective in containing the growth of large retailers. In Belgium a strict application of the 'Loi Cadenas' of 1975 has blocked any opening of hypermarkets between 1982 and 1990. In response, the large retailers, GIB and Delhaize started to internationalise their activity as early as 1975–76. They also developed a franchise-affiliation system to circumvent the law and to continue their expansion in Belgium. In Italy, small traders are very powerful at the local and national level and block the rapid modernization of the retail sector. Only in recent years has the slight and continued relaxation of restrictions resulted in an increased number of large stores. In France and Portugal, the power of smaller retailers is only recently curbing the rather relaxed attitude towards large retailing developments. In the UK and Spain, large retailers met with relatively little effective resistance. Evidently, the outcome of the struggle between larger and smaller retailers matters greatly for the internationalization strategies of both domestic and foreign retailers.

The growing concern for the environment and urban planning is also reflected in the regulation of retail development. In Germany and Austria, location sites are divided in different categories and large stores are allocated to specific areas. In Denmark, recent regulations enhance the scope for shopping centres and edge-of-town sites. In the United Kingdom, on the contrary, rules issued in 1993 and 1994 favour town centre rather than out-of-town developments. The Netherlands pays significant attention to the qualitative aspects of retail outlets such as aesthetic aspects and noise pollution. In this country there is a broad consensus that retail development should respect the environmental balance.

The main message from a detailed study of Table A.1 is the wide diversity in restrictions on retail development in the EU. Rules vary across countries and across different regions within one country. Attitudes towards large scale retailing change over time but the direction of the change is not the same in all EU member countries. For this reason, a uniform blueprint for the EU retailing sector does not exist. Even with a full realization of the present single market project, cross-country differences in retail will persist.

A.2.2. Restrictions on opening hours

Table A.2 presents detailed information on national regulations concerning retail opening hours in EU Member States. Once again, we observe a wide disparity in customs and rules. While all countries require at least a half-day of obligatory closure, they differ considerably in the number of maximum allowed opening hours. The United Kingdom and Sweden come closest to the US situation of unrestricted opening hours. Relatively liberal practices are also observed in Belgium, Greece, France, Portugal and Spain. In contrast, the Netherlands and Germany limit opening hours to respectively 55 and 60 hours a week although there is considerable pressure for relaxing those severe restrictions. Austria and Finland have quite strict restrictions as well. Italian opening hours vary considerably depending on whether shops are located in tourist regions or not.

Table A.2. Restrictions on opening hours in EU countries

Countries and texts	Consequences for firms
AUSTRIA a) 'Ladenschlussgesetz' restricts opening hours	Practice is very strictly enforced and followed by retail business – mainly to protect employees
BELGIUM a) 1973 Law: authorizes opening from 05:00 to 20:00 (21:00 Friday) b) Small shops must close once a week (with display of this day if not Sunday) c) Generally speaking, authorization to open between 09:00 and 20:00 or 21:00 on Fridays.	Relatively liberal practices
FINLAND a) Opening hours are severely restricted by government regulations b) Opening hours are: i) Weekday 07:00–20:00 ii) Saturdays 09:00–18:00 iii) Sundays 10:00–18:00 iv) Only 6 Sundays in addition to December (4 more) per year Some exceptions are made in scattered settlement areas, e.g. in June–July some local shops may open on Sundays but it is up to the local community to decide	Suppliers and retailers want less restrictive opening hours Gas stations and kiosks are allowed to widen their assortment with, for example, fresh food products and they have longer opening hours. Retailers want longer opening hours to respond to this challenge from the CTN sector
UNITED KINGDOM a) Shops Act 1950: restricts late closing (17:30), with one late closing per week, after 20:00, authorized after written agreement by local authority b) Half-closing day per week c) Sunday opening authorized but stores above 3,000 ft can open for a maximum of 6 hours d) In Scotland: Sunday opening authorized without restriction	More flexible in practice: late opening is tolerated and many chain store companies open on Sundays
GERMANY a) 'Ladenschlussgesetz' 1956: i) Opening hours severely restricted on a Federal basis. Total 60 hours opening per week ii) From Monday to Friday, opening authorized from 07:00 to 18:30 b) October 1989 'Langer Donnerstag': authorization to open on Thursday until 20:30 c) Saturday opening from 07:00 to 14:00 except the first Saturday of the month (opening until 16:00 in summer and 18:00 in winter) d) Obligatory closure on Sundays, except for convenience stores and service stations	a) Practices are very strictly enforced and followed by trading companies b) Recent pressure to lengthen opening hours resisted by retailers and shop workers
FRANCE a) Flexible opening times, employment legislation restriction forbids Sunday opening (Sunday rest) b) Municipal exemptions or prefectorial decree for retail trade on Sunday mornings, exceptions granted for example in tourist areas	Difficulty of interpretation of texts; governmental regulations provided under law have not been published: many disputes and contradictory case law over the issue

Table A.2. (continued)

Countries and texts	Consequences for firms
GREECE a) 1990 Law: shops authorized to open between the hours of 07:00 and 21:00, Monday to Saturday b) Sunday opening permitted in tourist areas and within 400 m of national roads	Liberal practices
ITALY a) Local control of opening times b) Large stores: 09:00 to 20:00 (large variations in different towns and communes) c) Small stores: 09:00 to 12:30 and 15:00 to 19:00 Monday to Saturday d) Obligatory closure on Sundays and a half-day per week (modifications in tourist regions) e) Authorization for evening closures one or two days per week	a) Large local disparities essentially related to whether sites are in tourist regions or not b) Referendum due on Sunday opening: likely to be liberalized
NETHERLANDS a) Shop Hours Act 1976 b) 1992: Opening time extended to 55 hours Possible opening from 07:00 to 21:00 (in practice 09:00 to 18:30 or 09:00 to 21:00) one day per week c) Now possible to open on some Sundays during the year at local level	a) Discussions are currently underway between unions and employers about changing the possible opening times from 09:00 to 19:00 (union suggestion) or from 09:00 to 22:00 (employers' suggestion) b) Main issue is extra payment for working after 19:00
PORTUGAL a) Laws are set by municipal authorities Usual opening hours: · General: 09:00–13:00 15:00–19:00 · Shopping centres 10:00–22:00 (weekdays) 09:00–22:00 (weekends and holidays)	a) Large hypermarkets are generally located within shopping centres
SPAIN a) Law: opening from 08:00 to 21:30 from Monday to Saturday b) Decree: opening will not be restricted to <72 hours per week, upper limit decided at local level c) Retail outlets may open for at least 8 Sundays or public holidays per year for up to 12 hours d) Certain categories of retailers (such as convenience stores and forecourt shops) now have no restrictions on opening hours	a) Relatively liberal practices b) Sunday opening often practised but not widespread. New guidelines will adversely affect large scale retailers in regions where Sunday trading was previously unrestricted
SWEDEN a) Stores can open anytime between 06:00 and 24:00 b) Between 24:00 and 06:00 special permission needs to be obtained	a) Liberal practices b) Busier stores tend to apply for this permission
Source: IGD.	

A.2.3. Restrictions on promotional techniques

National legal restrictions prohibit the use of specific promotional techniques in several Members States. Table A.3 presents an overview of those restrictions in 12 EU countries. All promotional techniques mentioned in the table are allowed in Greece, Ireland, Luxembourg, Portugal, Spain and the UK. On the contrary, several methods are or can be prohibited in Belgium, Denmark, Germany and the Netherlands. Italy and France take an intermediate position.

Table A.3. Promotional techniques

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Belgium		Grey	Grey	Grey	Grey	Grey		Grey	Grey	Black				Black	Black				
Denmark		Grey	Grey	Grey				Grey	Grey	Grey	Grey	Grey		Black	Black	Grey	Black		
France				Grey							Grey	Grey							
Germany		Grey	Grey	Grey	Grey			Black	Grey	Black	Black	Grey		Black	Black	Black	Black	Grey	
Greece																			
Ireland																			
Italy															Grey	Grey	Grey	Black	
Luxembourg																			
Netherlands			Grey		Grey				Grey	Grey	Grey	Grey	Grey	Black	Black				
Portugal																			
Spain																			
UK																			

White box: authorized Grey box: may be authorized Black box: prohibited

1. Price reduction printed on the packaging.
2. Banded pack (2 or 3 products attached together).
3. Gift inside packaging.
4. Offer of purchase of several products for the price of 1, 2 or 3.
5. Offer of free quantity of product (25% extra fee).
6. Free sample.
7. The packaging can be free or even more expensive, but the product has a packaging with a special value (mustard in a glass, etc.).
8. The customer sends one or two coupons and receives a gift.
9. Gift offered on purchase.
10. Reduction or sample offer of brand B, attached to brand A. Both brands may or may not be from the same manufacturer.
11. Gift or sticker collection offer (in a book, etc.).
12. Offer to take part in a competition.
13. The customer sends one or several coupons and money and orders something. The customer pays much less than the retail price because the manufacturer purchases at wholesale price and makes no profit.
14. Free offer by lottery.
15. Offer of sum of money to be shared amongst winners ('share-outs').
16. Money off coupon.
17. Coupon for money off next purchase.
18. The customer collects a number of points and receives money in return.
19. In-store demonstrations.

Source: Adapted from IGD.

A.2.4. Labour market legislation

Labour market legislation varies widely over Europe. This does not distort competition for companies within the same country. But it may form an entry barrier for companies whose labour practices are prohibited outside their own country. It is beyond the scope of this report to compare labour market legislation in EU countries. The example given by one case company, Marks & Spencer, conveys the message quite well. In the UK, this company employs around 60% of its employees on a part-time basis, resulting in an optimal match between store staff availability and business level at all times of the day or the week. Employees are paid according to their actual working time. In Belgium such a set-up is not feasible. Part-time workers are entitled to unemployment benefits up to a maximum number of hours worked per month. In order not to lose those unemployment benefits, part-time workers are reluctant to work more hours if store conditions require so.

A.2.5. The impact of national legislative barriers on distributive processes

Table A.4 summarizes the anticipated effects of the various national legislative barriers.

Table A.4. The impact of national legislation on the distributive processes

Processes	Manufacturing production	Sourcing	Retail format	Distribution
National legislation				
Retail development	0	0	XXX	XX
Opening hours	0	0	XXX	XX
Promotional techniques	0	0	XXX	0
Labour market legislation	0	0	XX	XX

0 = no or negligible effect, X = some effect, XX = moderate effect, XXX = strong effect
Source: Coopers & Lybrand and Catholic University Leuven.

(a) The retail format:

(i) Legislation on opening hours, labour markets, retail development, and promotional techniques are biased against larger store formats. Short opening hours obstruct the expansion of larger retailers because their return on investment is affected more. Usually their investment in real estate is much higher than that of their smaller counterparts and their inventories are larger. They also rely more on hired labour. Longer opening hours are therefore beneficial for sales and profits of the larger retailers because they reduce the proportion of overhead fixed costs in their cost structure. In addition, longer opening hours give consumers more time to enjoy the wider range of product categories and the broader variety of the selected product categories that are typically found in bigger retailing outlets. National legislation can obstruct the successful transfer of the decisions on product choice to other markets. A recent article in *The Economist*[50] blames the very short opening hours for the lack of variety in the typical large German retail outlet. In a world where the entertainment value of shopping is on the rise, German consumers do not have the time quietly to make their choice among a wide variety of products.

(ii) Restrictions on retail development limit the expansion of larger store formats such as hypermarkets or supermarkets or ban those store formats to unattractive locations.

(iii) Restrictions on promotional techniques act on the relation between retailer and consumer. They impede the economies of scale that larger retailers could obtain from a streamlined national and international promotion campaign. However, the scope for such promotion efforts should not be exaggerated due to significant taste differences within and across EU markets (see the discussion of the retail format in Chapter 3).

(b) Distribution: national legislation on opening hours, labour markets and retail development complicate the application of the same distribution methods in all EU countries. Shorter opening hours means that goods have to be delivered to shops within

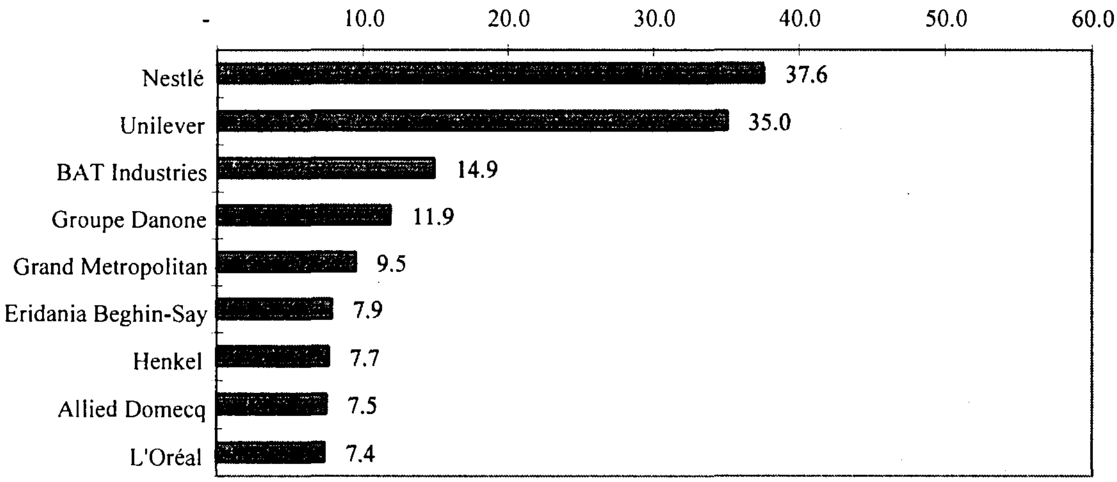
50 The Economist [1995] *German Retailing: Mind The Gap.* 23 September, 1995, pp. 67–68.

a shorter time span. Longer opening hours offer more flexibility but generally imply that goods have to be delivered more often. Finally, urban planning regulations influence the access of distributors to retail stores. In a city populated by smaller shops other logistics methods are required than in locations dominated by large store formats.

A.3. An overview of manufacturing companies

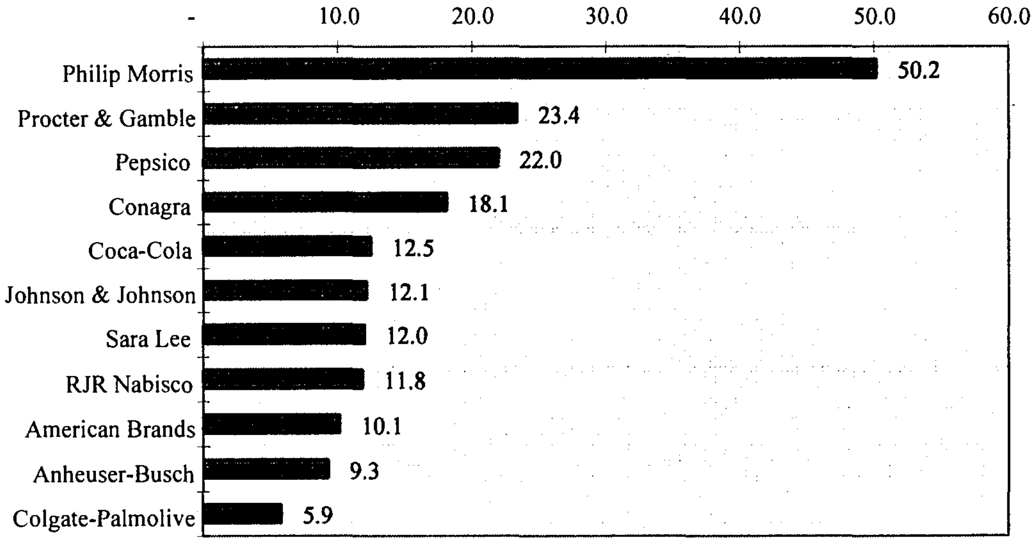
We first deal with the major manufacturers of fast moving consumer goods (FMCG), to which category many food and drink companies belong. Figures A.1 and A.2 show respectively the top European FMCG manufacturers and the top US FMCG manufacturers with significant European sales. This list contains many big international conglomerates that are the parent companies of the most popular branded products. FMCG manufacturing is populated by leading and powerful international players.

Figure A.1. Top European FMCG manufacturers by sales in 1994 (in billion ECU)



Source: Morgan Stanley Capital International, Business Week, 10 July 1995

Figure A.2. Top US FMCG manufacturers with significant European sales (> 1.3 billion ECU) in 1994 (in billion ECU)



Source: Morgan Stanley Capital International, Business Week, 10 July 1995

A somewhat more fragmented picture emerges in household appliances. The white goods market is quite diverse world-wide. However, there are a group of larger manufacturers whose world-wide sales are listed in Figure A.3. While Whirlpool, Electrolux, General Electric, Bosch-Siemens, Matsushita, Maytag and AEG are well-known companies, this is less so for the names that follow further down the list. Looking at the 1992 sales in European markets, Electrolux from Sweden dominates the European market (22% market share) directly followed by the concerns Bosch-Siemens (17%) and Whirlpool (14%). Merloni and Brandt come in the third and fourth positions with respective market shares estimated at 9% and 8%.[51] In 1993 Electrolux acquired the white goods business of AEG which considerably strengthens its world position within that segment, but also raises the company's market share on the West European market to 29%.

51 Euromonitor, 1992.

Figure A.3. Top white goods manufacturers ranked by total white goods sales in 1992 (in billion ECU)

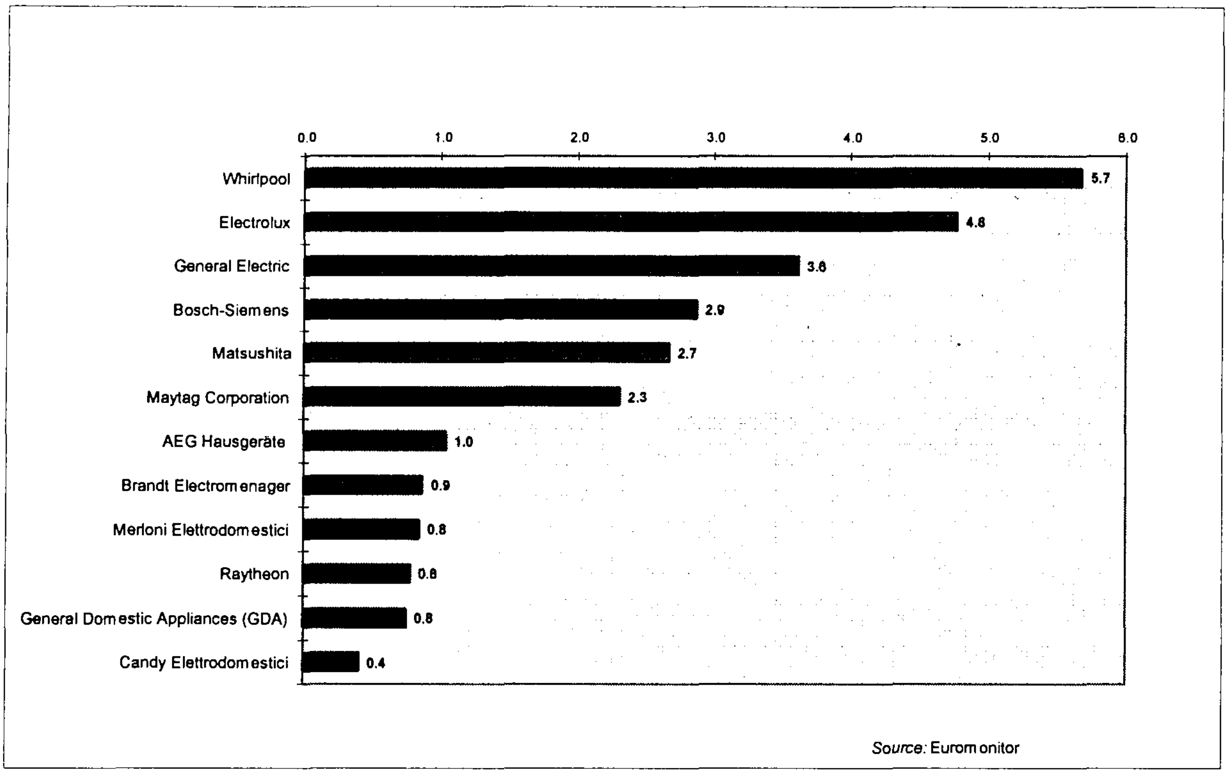


Table A.5 provides further information for 1992 on the importance of white goods in total sales, core markets and markets of expansion of the manufacturers. The fastest growing in the early 1990s and also the years before have been two midranking European manufacturers, Brandt Electromenager and Merloni Elettrodomestici, who have benefited considerably from the expansion of their core markets in Europe.

Table A.5. Main characteristics of manufacturers of household appliances

Company	Country of origin (registration)	White goods as % of total sales	Core market	Expanding into	Appliance sales growth
Whirlpool	USA	97	Americas	Europe, Asia	8.4
Electrolux	Sweden	43	Western Europe/Americas	Asia	1.9
General Electric	USA	9	Americas	Latin America, Asia, Europe	2
Bosch-Siemens Hausgeräte	Germany	80	Western Europe	Europe (mainly Spain and Eastern Europe)	2.7
Matsushita	Japan	6	Asia (Japan)	Asia (China), Europe	-5.3
Maytag Corporation	USA	95	Americas	Europe	2.5
AEG Hausgeräte	Germany	23	Western Europe	Eastern Europe	2.3
Brandt Electromenager	France/Italy	N/A	Western Europe	Europe (outside France and Italy)	12.1
Merloni Elettrodomestici	Italy	100	Western Europe	Middle East (Turkey), Eastern Europe	9.7
Raytheon	USA	12	North America	Latin America	7.3
General Domestic Appliances (GDA)	UK	100	Western Europe (UK)	Europe (outside UK)	-1.1
Candy Elettrodomestici	Italy	N/A	Western Europe (Italy)	Europe (outside Italy), esp. Eastern Europe	N/A

Source: Euromonitor.

Manufacturing of toys and games is characterized by a high degree of fragmentation. On a world-wide basis only 12 companies hold a market share of 1% or more. The market is also very segmented due to the variety of products it involves (there are at least 12 major categories). The world top manufacturer is Nintendo leading by far the second world player Hasbro; the gap between the two lies mostly in the fact that video games are the leading category on the market in terms of value. Table A.6 emphasizes the fact that the world's biggest toys and games manufacturers are mostly Japanese or American. We have listed the top 25 players in order to show a few European players as well: within the top 10, Lego is the only EU representative.

Table A.6. World's Top 25 leading toys and games manufacturing companies in 1992 (toys and games sales exclusively)

Company	Country of origin (registration)	Turnover in 1992 in million ECU
Nintendo	Japan	3.637
Hasbro	USA	2.060
Mattel	USA	1.531
Lego	Denmark	1.345
Sega Enterprises	Japan	1.121
Bandai	Japan	927
Tyco	USA	636
Fisher Price	USA	447
Takara	Japan	314
Rubbermaid	USA	257
Russ Berrie	USA	248
Geobra Brandstätter	Germany	223
Tomy	Japan	199
Ravensburger	Germany	186
Western Publishing Group	USA	182
Playmates International	Hong-Kong	169
Lewis Galoob Toys	USA	137
Idéal Loisirs	France	108
Gebrüder Märklin	Germany	99
SLM International	USA	98
Revell Monogram	USA	95
Manufactura de Brinquedos Estrela	Brazil	83
Kader Holdings	Hong-Kong	76
Atari	USA	70
Smoby	France	70

Source: Euromonitor from company accounts.

Despite the fragmentation of the market, certain players strongly dominate their segments as is seen in Table A.7.

Table A.7. Toys and games market leaders by product sectors in 1992 – world-wide

Manufacturer	Product sector	% world value share
Nintendo	Video games	62.0
Mattel	Dolls/girls' collectables	40.0
Lego	Activity toys	50.5
Hasbro	Games/puzzles	33.5
Tyco	Vehicles	7.5
Fisher Price	Pre-school/infant toys	23.0
Mattel	Plush	3.0
Bandai	Action figures	36.0

Source: Euromonitor.

The last years have seen a rapid growth of a few major companies both through acquisitions and international expansion. The increased concentration of the market in all stages of the supply chain has forced many small and medium-sized operators, particularly in Europe, to go out of business. Yet, there are still few manufacturing companies which have a comprehensive product range. This means that on the retailers' side, players are dealing with many different manufacturers.

The clothing industry is characterized by a large number of small and medium-sized firms: in 1992, 86% of the 80,500 European companies had fewer than 20 employees each. These represented 34% of employment and 32% of turnover. A large part of these small manufacturers operate as subcontractors for larger producers or traders. Delocalization of production takes place in order to reduce labour costs.

Table A.8. Top 10 European clothing manufacturing companies in 1992

Company	Country of origin	Turnover (in million ECU)	Number of employees
Coats Viyella	UK	2.867	62.248
Benetton	Italy	1.526	5.818
Courtaulds	UK	1.209	21.800
GFT Gruppo*	Italy	1.013	N/A
Triumph Gruppe*	Germany	1.006	N/A
Levi-Strauss-Europe*	Belgium	979	N/A
Steilmann Gruppe*	Germany	879	N/A
Industrias Diseño Textil*	Spain	843	N/A
Baird (Willliam)	UK	736	16,997
Escada Konzern	Germany	703	6,081

* 1991 data.

Source: Comitextil, Textilwirtschaft, DABLE in Panorama 1994.

There are few major international clothing manufacturers. Frequently, manufacturing and retailing processes are vertically integrated. The table above illustrates this fact by showing that some of the big manufacturers are also big retailers (e.g. Benetton, Levi-Strauss-Europe).

Table A.9. Top 20 European furniture manufacturing companies in 1993

Company	Country of origin	Turnover (in million ECU)	Market share (%)	Number of employees	Sales in home country (%)	Sales in other EU countries (%)
Schieder	Germany	974.7*	1.6	8.900	80	8
Welle	Germany	880	1.5	7.000	88	7
Alno	Germany	393.2	0.7	2.490	87	8
Wellmann (group)	Germany	369.9	0.6	2.455	88	9
Steelcase Strafor	France	365.5*	0.6	4,217	45	46
Parisot Group	France	304.6*	0.5	3,100		
Niehoff	Germany	304.6*	0.5		100	0
Scharf Group	Germany	302.6	0.5	2,528	85	7
Nobilia	Germany	299.8	0.5	1,200	90	6
Christie Tyler	UK	297*	0.5	5.100	80	6
Dumeste Group	France	275.3*	0.4	1.700	96	2
Skane Gripen (group)	Germany	253.5	0.4	1.700	67	18
Ahrend Group	Netherlands	236.3	0.4	1.800	73	23
Skandinavisk Industries	Denmark	228.2*	0.4	2.374	11	80
IFI	France	220.1*	0.4	2.400		
D.L.W.	Germany	212*	0.4	1.500	100	0
Samas Group	Netherlands	204*	0.3	2.150	37	59
Hülsta	Germany	197	0.3	1,650	82	0
Nolte Küchen	Germany	189.5	0.3	680	89	10
Natuzzi	Italy	182.8*	0.3	1.568	13	26
Market share top 20 manufacturers			11.1			

* Estimate based on market share.
Source: Csil, Milan (1).

The market share of the top 20 furniture manufacturers in Europe is 11.1%. Of those 20 companies 11 are German and 4 are French. If we extend the study to the top 50 firms, we find that 20 depend on German capital and 10 on French. Italy, the second largest producer in Europe and the top exporter, has just five firms in the top 50 producers. Ahead of Italy are the Scandinavian countries with 6 of the top 50 firms. Total turnover for the top 50 exceeds ECU 10 billion (1993), equivalent to 16.8% of the European furniture supply. The average size of plants in Germany is much larger than the European average. In contrast in Italy the production structure is extremely fragmented.

This survey of manufacturing companies displays a wide diversity in the different subsectors analysed in this report. In fast moving consumer goods, retailers are confronted with strong multinational companies. This is far less the case in the other subsectors where market fragmentation and smaller companies play a bigger role. One can expect that market integration will therefore not take the same form in the various subsectors.

A.4 Who bought the wholesalers?

Table A.10. Wholesale M&A in clothing, furniture and household appliances

Company name	Type of operator	Number of transactions
Large buyers in the clothing sector		
Headlam Group plc	wholesaler	11
Munton Brothers	manufacturer	4
Large buyers in the furniture sector		
Savage Group plc	manufacturer	5
Ahrend Group NV (NL)	manufacturer	4
Pinault-Printemps (F)	retailer	4
Bergene Holm (N)	manufacturer	3
Enso-Gutzeit Oy (FIN)	manufacturer	3
Guilbert SA (F)	manufacturer	3
Swedish Match AB (S)	manufacturer	3
Large buyers in the household appliances sector		
Philips Electronics NV (NL)	manufacturer	4
Suter plc	manufacturer	4
Pinault-Printemps	retailer	3

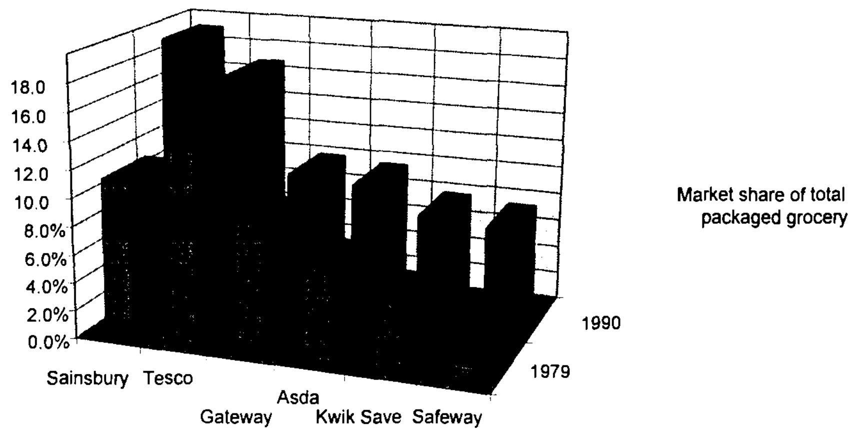
Table A.11. Wholesale M&A in the food and drink sector

Company name	No of transactions
Wholesalers	
Albert Fisher Group plc	39
FII Fyffes plc (IRL)	18
Sligro Beheer NV (NL)	12
Tobaccoland Großhandel (D)	9
Raiffaisen HG Nord (D)	8
Watson & Philip plc	8
Jack L Israel Group plc	7
Distriborg SA (F)	6
Scipio GmbH (D)	6
American Distributors	5
Grands Vins J-C Boisset (F)	5
Schöller Lebensmittel (D)	4
Chantovent SA (F)	3
Matthew Clark plc	3
Südfleisch GmbH (D)	3
Tresch (F)	3
Universal Corp (US)	3
General bidders	
Hillsdown Holdings plc	22
Cannon Street Investments plc	6
Financière Marland (F)	6
Grand Central Investment plc	6
Banco Bilbao Viscaya SA (E)	5
Barlow Rand Ltd (SA)	4
Aritmos AB (S)	3
Fitzwilton plc (IRL)	3
März AG (D)	3
Oprar SA (F)	3
Suppliers of logistics services	
Christian Salvesen plc	7
NFC plc	7
Tibbett & Britten Group plc	4

Company name	No of transactions
Manufacturers	
Coca-Cola Company (US)	13
Guinness plc	13
Pernod-Ricard (F)	13
Allied-Lyons plc	11
Sims Food Group plc	10
Fitch Lovell plc	9
Unilever	9
Brooker McConnell plc	8
Brake Bros plc	8
Perkins Foods plc	8
Boddington Group plc	7
Dalgety plc	7
MZO Oldenburger (D)	7
Oetker Gruppe (D)	7
Carlsberg A/S (DK)	6
Avonmore Foods plc (IRL)	5
Nestlé SA (CH)	5
Rémy Cointreau SA (F)	5
Cadbury Schweppes plc	4
Hazlewood Foods plc	4
Koninklijke Wessanen nv (NL)	4
Lekkerland Zentrale (D)	4
Park Food Group plc	4
Euronature sc (F)	3
Golden Vale plc (IRL)	3
Greenalls Group plc	3
Union Laitière Normande (F)	3
Retailers	
Spar Handels AG (D)	19
Grand Metropolitan plc	13
Edeka Zentrale AG (D)	12
Rewe Gruppe (D)	12
Koninklijke Ahold NV (NL)	6
Metro International AG (CH)	5
Albeda Jelgersma Holding (NL)	4

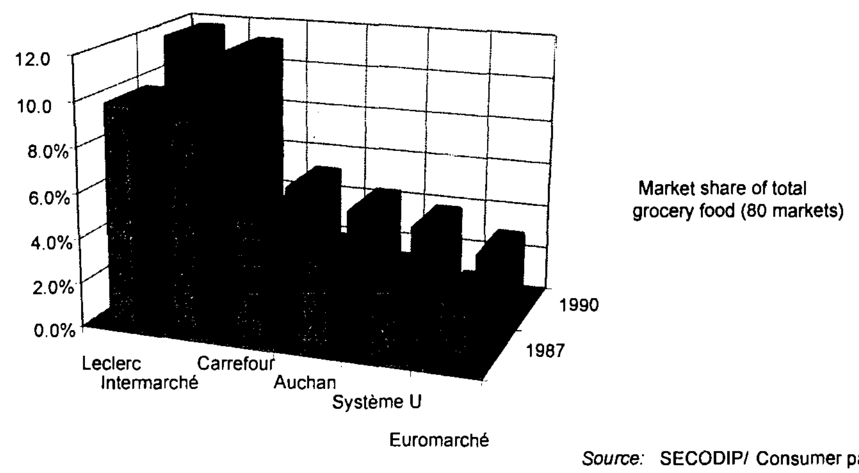
A.5. Concentration and competition from grocery retailers in selected countries

Figure A.4. Evolution of the market shares of the Top 6 grocery retailers in the United Kingdom between 1979 and 1990



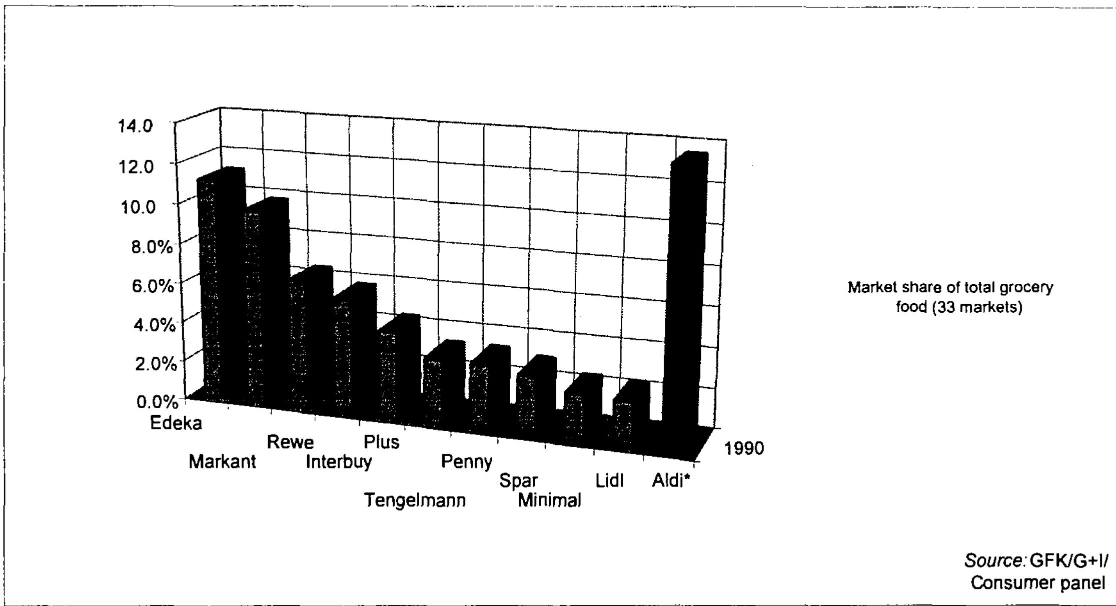
Source: AGB/TCA/Consumer panel

Figure A.5. Evolution of the market shares of the Top 6 grocery retailers in France between 1987 and 1990



Source: SECODIP/ Consumer panel

Figure A.6. Top 10+1 grocery retailers in Germany in 1990



* Aldi belongs to the category of 'discounters'.

Table A.12. Top 10 retail groups in Germany – grocery market shares in 1992

Grocery market	Share in %
Rewe AG	14.6
Edeka Gruppe	13.7
Metro Gruppe	12.4
Aldi Gruppe	10.7
Tengelmann Gruppe	7.9
Spar AG	5.4
Lidl & Schwartz-Gruppe	4.5
Allkauf	1.6
Schlecker	1.5
Karstadt/Hertie*	1.4

* Combined figures K/H.
Source: M&M Eurodata/company reports and accounts.

Figure A.7. Top 7 grocery retailers in the Netherlands in 1995

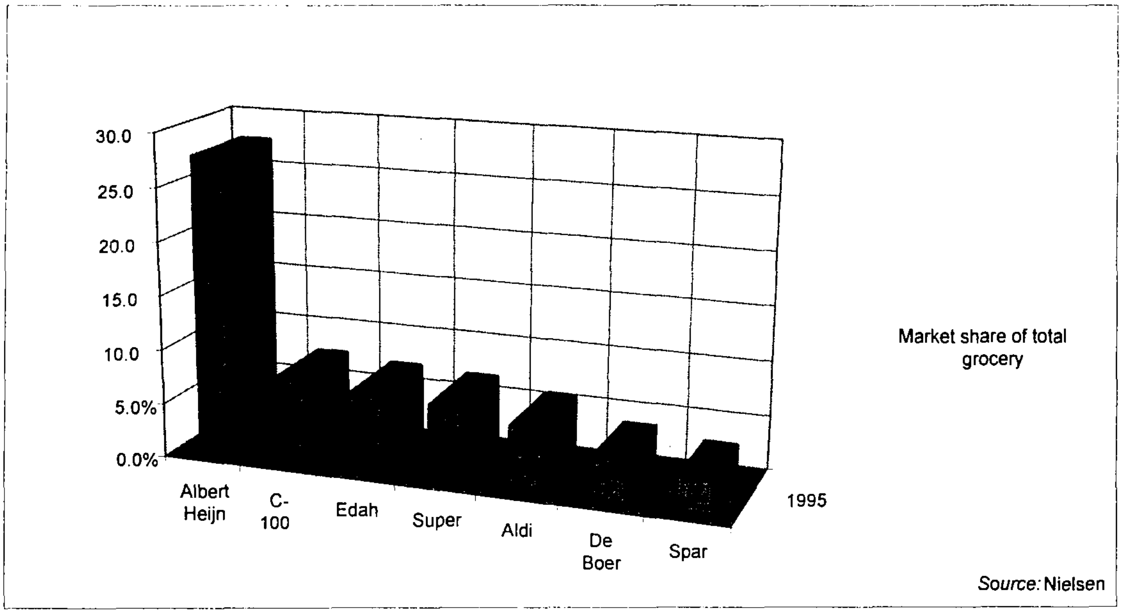
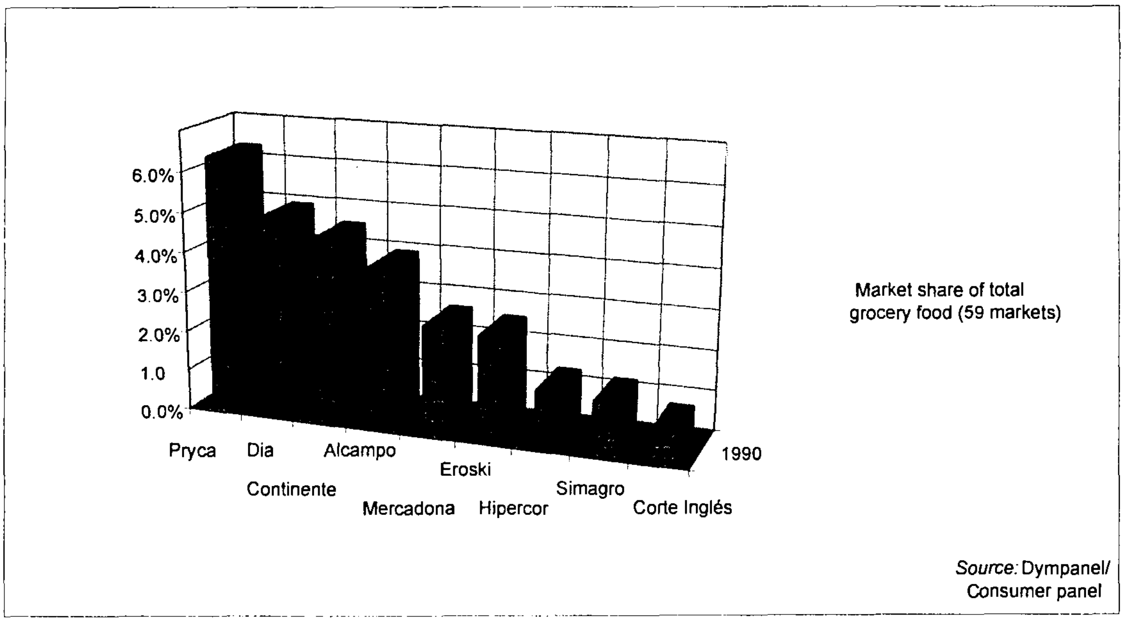


Figure A.8. Market shares of the Top 9 grocery retailers in Spain in 1990



A6. Mergers and acquisitions: international activities overview

Table A.13. International M&A

	Took interest in...	in...	at...%	Nationality	Divested in...	Started joint ventures with...	in...	at...%	Nationality	in...	Started own business...	in...	in...	Stopped in...
GIB	Sarma Mopri	1987	100	Belgium	-	Fnac	early 1980s	n.a.	French	Belgium				
Belgium	Rob	1989	100	Belgium	-	March Group & Pryca ('Aki')	1987	55	Spanish/French	Spain				
	Pizza Hut	n.a.	50	Belg./Dutch	1991	Casino ('Obi')	1989	50	French	France				
	Obi (DIY)	1991	100	French	-	Fnac Gestc ('Aki')	1990	est.50	n.a.	Portugal				
	Sainsbury's Homebase (DIY)	1979	25	British	-	SBI & 2 Polish partners	1991	41	Belg./Polish	Poland				
	Scotty's (DIY)	1989	100	American	-									
	Handy Andy (DIY)	1985	65	American	-									
	Central Hardware (DIY)	1989	45	American	-									
	Hypermarket in Kinshasa	n.a.	n.a.	Zairian	-									
Delhaize 'Le Lion'	Food Lion	1974	44	American	-	Avita - food manufacturer	1990	75	Czech		Czech Republic			
Belgium	Super Discount Markets	1986	60	American	-									
	Pingo Doce	1987	44	Portuguese	1992									
	Alfa Beta	1992	51	Greek	-									
	Supermarches PG	1994	51	French	-									
Denmark						Spar Handels AG	1992		German	Germany	Netto		UK	
Denmark											Netto	future	Poland, East.Eur.	

Carrefour	Euromarchė	1991	100	French	-	Metro-Kaufhof	1989	n.a.	German	France, Italy	Erteco (discount)	n.a.	France, UK, Italy	
France	Montlaur	1991	100	French	-	Simagro; March/Sogara ('Pryca')	1973/ 78	75	Spanish	Spain	Brepa (80%)	1982	Brazil	
	Comptoirs Modernes (Stoc; Comod)	n.a.	22	French	-	Perez Companc.	1983	80	Argentinian	Argentina	Carrefour USA	1988	USA	1993
	Castorama (DIY)	n.a.	29	French	1993	Taiwanese partner ('Presicarre')	1988	59	Taiwanese	Taiwan	Carrefour	1992	UK	
	But International (furnit.; household)	n.a.	30	French	-	Grupo Gigante	1994	50	Mexican	Mexico				
	CarpetLand	n.a.	30	Belg./Danish	-	Cencar	1994	40	Thai	Thailand				
	Il Gran Sole	1993	80	Italian	-									
	...plus many other interests previously developed					Li Huan	future		Chinese	China				
Leclerc						Eroski ('Eco.Interest Grouping')	1991	n.a.	Spanish	Spain	Leclerc	1991	USA	
France											Leclerc	1992	Spain	
											Leclerc		Belgium?	
Intermarché						Sisa (?)	1991	n.a.	Italian	Italy	Intermerca	1989	Spain	
France											Intermarchė	1991	Portugal	
											Intermarchė	1992	Belgium	
											Intermarchė	1993	Eastern Europe	
											Intermarchė	1993	Russia	
											Intermarche	1993	Poland	

Table A.13. (continued)

	Took interest in...	in...	at...	Nationality	Divested in...	Started joint ventures with...	in...	at...%	Nationality	in...	Started own business...	in...	in...	Stopped in
Promodès	Codec	1990	100	French	-	Far Eastern Department Stores	1993	30	Taiwanese	Taiwan	Contisa SA (76%)	1976	Spain	
France	Disco	1993	100	French	-	Schaper Group (ended 1991)	1976	40	German	Germany	Continente	1987	Italy	
**=companies operating*	Plaza	1990	100	German	-	Garosci Group*	1991	33	Italian	Italy	Continent	1976	Germany	
Continente in their resp. countries	Dia/Preko	1991	100	Spain	-	Sonae* (discount store)	1993	75	Portuguese	Portugal	Continent Hellas	1991	Greece	
	Red Food Stores	1980	100	American	-	Sonae* (Continente)	1985	22	Portuguese	Portugal				
	Discol (wholesale)	1993	n.a.	French	-									
	Altis (Eroski)		34	Spanish (in F)	-									
	SBB (Eroski)		50	Spanish (in F)	-									
	Marino-poulos*	1993	20	Greek	-									
	Soframad (partial interest)	1991	n.a.	French	-									
Auchan	Leroy-Merlin (DIY)	1979	100	French	-	Cub Foods (franchise)	1985	n.a.	American	USA	Alcampo	1980	Spain	
France	Boulanger	1982	100	French	-	Conti	1989	n.a.	Italian	Italy	L + M	n.a.	Spain	
	Trois Suisses	n.a.	n.a.	German (ex-Fr.)	-	Coin	1994	n.a.	Italian	Italy	Auchan Nippon Trading	n.a.	Japan	
Metro Gruppe	SHV Holding (wholesale)	n.a.	40	Dutch	-	SHV Holdings (Makro)			Dutch		Metro/Makro		all EU countries, Turkey, Taiwan	
Germany	Jetro Cash & Carry	n.a.	50	American	-						C&C outlet	1993	Czech Republic	
	Asko Group	1993	100	German	-						Distribution centre	1993	Hungary	
	MHB Massa	n.a.	50.1	German	-						C&C outlets		Brazil	

Tengelmann	A&P	1979	53	American/ Canadian	-	Panalto & Torreal	1995		Spanish	Spain	Plus	1991	Czech Republic	
Germany	Hermans Groep	n.a.	100	Dutch	-	Skala	1992	35	Hungarian	Hungary	Plus	1992	Poland	
	Superal	1988	49	Italian	-						Markady	1989	France	
	Isosceles	1989	16	British	-									
	Lowa Austria	n.a.		Austria	-									
Rewe-Zentrale A.G.	Budgens		29	British	-	Esselunga	1994		Italian	Italy				
Germany						Greek partner	future			Greece				
						Spanish partner	future			Spain				
Edeka *Germany*						Hoki	1990	50	Danish	Denmark	Pilot outlets launch	1993	Czech Republic	
Aldi	Hofer	1967	100	Austrian	-						Aldi	1972	Netherlands	
Germany	Albertson's	late 70s	11	American	-						Aldi	1976	Belgium	
	Trader Joe's	late 70s	100	American	-						Aldi	1976	Denmark	
											Aldi	1976	USA	
											Aldi	1988	France	
											Aldi	1989	UK	
											Aldi	1991	Poland	
Marinopoulos *Greece*	Continent Hellas	1993	20	Greek (French)	-	Continent Hellas	1993		Greek (French)	Crete				
Dunnes *Ireland*											Dunnes	1986	UK	
Musgrave *Ireland*	Distribuidora de Alimentación	1994	68	Spanish	-									
La Rinascente	Nuova Croff	1986	100	Italian	-	Carrefour	1991	65	French	Italy				
Italy	Sigros	1989	75	Italian	-									
	SAGEA	1990	100	Italian	-									

Table A.13. (continued)

	Took interest in...	in...	at...%	Nationality	Divested in...	Started joint ventures with...	in...	at...%	Nationality	in...	Started own business...	in...	in...	Stopped in...
Gruppo Stanza	Giocheria S.r.l.		45	Italian	-	Blockbuster (video rental)		60	American	Italy				
Italy	CCS Centrale Supermercati		20	Italian	-	Castorama	stop in 90	35	French	Italy				
	Sud Essebi	1991	100	Italian										
Generali Supermercati	Conti	1989	100	Italian	-									
Italy	Extramarket	1990	100	Italian	-									
Esselunga *Italy*						Rewe	1994	50	German	Italy				
Koninklijke Ahold	BI-LO Super-markets	1977	100	American	-	Jerónimo Martins	1992	49	Portugese	Portugal	Ahold Real Estate		Netherlands	
Netherlands	Giant Food Stores	1981	100	American	-						Euronova ('Mana')	1991	Czech Republic	
	First National	1988	100	American	-									
	Tops Markets	1991	100	American	-									
	Schuitema NV	1988/92	73	Dutch	-									
	ABS Development company		50	American	-									
	Luis Paez (sherry product.)		51	Spanish	-									
	Ino Super-mercados (planned)	1993	100	Portuguese	-									

Vendex International	Dillards Department Stores			American	1992						Various retail chains		EU countries	
Netherlands	P&C Groep		25	Dutch	-									
	Koninklijke Bijenkorf Beheer		36	Dutch	-									
	De Vleesch-meesters		20	Dutch	-									
	Barnes & Noble		50	American	-									
	Software Etc. Stores		50	American	-									
Unigro	Various retailing & distribution cies			NL, B, E	-									
Netherlands	Vezo, Heylen, Kerkhof	1988/89	100	Dutch	-									
	Veenendaal Super-marketen	1990	100	Dutch	-									
	Sogara	1990	100	Spanish	-									
Jerónimo Martins Retail	3 Feira Nova hypermarkets	1993	100	Portuguese	-									
Portugal	52 Ino Super-markets	1993	100	Portuguese	-									
	C&C Recheio	1993	100	Portuguese	-									
	46 Modelo supermarkets	1993	100	Portuguese	-									
Sonae *Portugal*	Continente Portugal (Promodès)	1985	75	French	-	Promodès	1993	25	French	Portugal				
Grupo Eroski *Spain*						Price Club stopped in 1994	1993	50?	American	Spain	Altis (66%)	1992?	France	

Table A.13. (continued)

	Took interest in...	in...	at...%	Nationality	Divested in...	Started joint ventures with ...	in...	at...%	Nationality	in...	Started own business...	in...	in...	Stopped in
El Corte Inglés	The Harris Company	1983	100	American	-									
Spain	Galerias Preciados	1995	100	Spanish	-									
J. Sainsbury	Newmarket (meat proces.)	1990	100	British	-	British Home Stores	1975	50	British	UK				
United Kingdom	New England superm. (Shaw's)	1983	21	American	-	British Home Stores	1989	100	British	UK				
	New England superm. (Shaw's)	1987	100	American	-	GIB Group	1979	75	Belgian	UK				
	Giant Food Inc.	1994	n.a.	American	-									
Tesco	Catteau	1993	85	French	-									
United Kingdom	Global TH	1994		Hungarian	-									
Argyll Group	Safeway	1987	100	British	-									
United Kingdom														
Marks & Spencer	Brooks Brothers	1988	100	American	-	Cortefiel	1990		Spanish	Spain	Marks & Spencer	1972 (?)	Canada	
United Kingdom	Peoples	1972	100	Canadian	1993	Demexco and 'S' Model	1993		Austrian/ Hungarian	Hungary	Marks & Spencer	1980...	EU (IRL, F, B, NL, D, I)	
	D'Alliard's	post 72	100	Canadian	-						Marks & Spencer	1988	Hong-Kong	
	King Super Markets	post 88	100?	American	-						Pilot store		Czech Republic	
											Franchise operations		19 countries	

APPENDIX B

Case studies

B.1. AMS – Associated Marketing Services AG[52]

B.1.1. Short organization profile

AMS is the alliance of 12 European food retailers created in 1989 to benefit its members in the form of contacts with potentially common suppliers – to buy as a group or organize the production of common private labels – and of know-how exchanges between members. Partners and suppliers work in collaboration within the alliance to generate ideas which are later converted into projects managed by the AMS project administration in Switzerland. AMS members are: Albert Heijn (NL), Allkauf (D), Argyll/Safeway (UK), Casino (F), Edeka (D), ICA Handlarna (S), Gruppo Rinascente (I), Hakon (N), Jerónimo Martins Retail/Pingo Doce (P), Kesko (FIN), Mercadona (E) and Superquinn (IRL).

B.1.2. Cross-border sourcing

The creation IM facilitates the joint development of high value 'Euro' private labels.

The advantage of international purchasing is mostly to be found in the development of new innovative products for several retailers at the same time. These 'Euro' private labels are of a good quality and developed against a reasonable cost for each partner, benefiting from maximum economies of scales due to the high volumes produced. This is of course possible, given the technical harmonization process taking place within the EU, allowing products to be sold in every country without any restriction. In this case, the association of several retailers reaches its optimum benefits.

Manufacturers' capacity restrictions limit the benefits of combined international purchasing.

Other products, more standard and already existing, do not present a lot of opportunities for major economies of scale resulting from international purchasing. Apart from the very big and well known manufacturers such as Coca-Cola, Unilever, Procter & Gamble or Kellogg's, whose sales are often organized nationally, very small manufacturers are big enough to be able to supply huge volumes of products across Europe. This limited capacity, combined with a still rather regionally delimited taste of the consumer, results in a somewhat confined 'international' purchasing activity by retailers. Typically, fresh products such as meat or milk remain very local. Other products such as canned vegetables are on the contrary internationally purchased because of their unique production location: for example, Dutch retailers purchase lots of canned vegetables from France because of the high specialization and volumes produced there, as opposed to domestically. But this has been going on for more than 15 years and cannot be attributed to the development of the single market (SM). All in all, AMS members have very few products in common in their stores: not more than 200 references versus a total average of 1,600.

To conclude, the emergence of the SM has not particularly developed the international purchasing activity of retailers for standard/existing products but certainly favoured their

52 We would like to thank Mr K. Dorsman (President) for his co-operation in preparing this case study.

partnership in developing new private labels, easier to sell everywhere thanks to the technical harmonization taking place in the SM.

Parallel trade is bound to grow as price information is becoming more instantaneous and universal.

When price differences between countries reach a higher level than the costs involved in doing parallel trade, the latter develops very easily nowadays. Thanks to the global improvement of the transportation system throughout the EU and the communication means available to the various operators, rapid and cost effective actions can be taken. The latest known example of parallel trade relates to 2 litre bottles of Coca-Cola in Portugal being one and a half to two times more expensive than in the Netherlands. It is difficult to put an exact value on parallel trade taking place in Europe but in the Netherlands one estimates that trading 'behind the back' of the traditional retail sector amounts to ECU 7 billion for both the food and non-food sectors. This includes parallel trading but also direct sales from factories or via gas stations etc.

B.1.3. Internationalization and growth

Traditionally European countries have different habits, norms and rules.

Many examples of products which conform entirely with the law in one country but are unacceptable in another can be found to illustrate the starting point of the SM integration process. Consumer habits are also a cause of limited internationalization of trade. To mention only a few:

(a) northern Europe wishes to eat spaghetti made of hard wheat whereas southern Europe prefers soft wheat spaghetti;
(b) jams contain very different quantities of fruit and sugar throughout Europe though they are all called 'jam';
(c) corn flakes with vitamins are forbidden in the Netherlands whereas they are an absolute must to please the British consumer;
(d) washing powder with or without phosphates? This is the difference between Italy and Scandinavia!

These differences have always been there, but they are slowly dwindling. The SM contributes to this. Within five to six years the vast majority of these types of issue will no longer be relevant.

Environmental issues can become sources of new barriers.

At this stage, local environmental laws are a lot stronger than the EU-wide laws. In Germany the 'Grüne Punkt' is the norm, in the Netherlands manufacturers have signed a 'packaging chart', but other countries like France or Belgium do not have any established rules yet. The fact that each country is developing new sets of laws for themselves presents the risk that they may also use this new legislation as a discriminatory factor against foreign products. It seems quite urgent to establish a stronger base for environmental legislation if we want to preserve the newly established free trade area of the SM.

B.1.4. Competition and concentration

Concentration in the retail sector is increasing not only internationally but also domestically. Mr Dorsman does not believe that the increased domestic concentration level results from a contestable market approach. Retail remains a very local activity, difficult to export, and this is why players are primarily interested in merging with a domestic competitor or acquiring them before looking outside their borders.

In the long run, the globalization of retailing is still to be expected, which the German players do not view with very favourably due to the low added-value service they offer compared with other European retailers.

B.1.5. Size, scale and productivity

In general, over the past 10 years, the profitability of retailers has been going down, particularly in France, Germany and the UK. Nevertheless, British players manage to keep quite high returns on their investments, mostly by siting themselves out-of-town and investing in environmental issues and productivity gains. Eventually, all middle-men will be squeezed out of the distribution chain there. Savings realized on productivity gains are passed along directly to the consumer.

B.2. LEGO Group A/S[53]

B.2.1. Short company profile

LEGO Group A/S is the only European toy manufacturer ranking among the world's top 10 toys and games manufacturers. In 1992, the group sales amounted to ECU 1.345 million which placed it in the fourth position among the world's leaders. In its market segment, 'activity toys', LEGO enjoys a 50% market share world-wide. This exceptional position is obviously due to the intense internationalization process which the company has been following since the middle of the 1960s and a very successful product concept (construction toy made of various colourful plastic bricks). LEGO employs 9,000 persons world-wide.

B.2.2. Manufacturing production and distribution

<u>Manufacturing is split between two locations.</u>

LEGO runs its manufacturing operations from two main locations: one situated in Denmark and the other in Switzerland. These countries belong to those enjoying some of the most expensive labour costs in the world, with LEGO constantly focusing on productivity gains and rationalization of its production to maintain its competitiveness.

Both manufacturing locations also function as distribution centres for the rest of the world. Exchanges of raw materials and finished products also exist between the two plant sites since they produce different product lines: 'Duplo' is produced in Switzerland as well as some of the components used for the rest of the product lines produced in Denmark.

53 We would like to thank the management of LEGO Group A/S for their co-operation in preparing this case study.

LEGO has adopted a distribution network based on national selling companies representing the firm in all the countries where it does business.

Physical distribution is sector specific.

In the toys sector the physical distribution patterns are strongly influenced by the heavy.seasonality of the sales to the end-consumer: around 60% of the yearly turnover is realized during the months of November and December. This implies that stocking is necessary. Nevertheless, it does not prevent the sector from evolving along the same logistics lines as the other sectors: LEGO observes a centralization of warehousing among its customers and also a trend towards the conversion of warehousing into distribution centres.

B.2.3. Cross-border sourcing

As the purchasing power of retailers keeps concentrating, particularly in the large retailers (hypermarkets, category killers, etc.), cross-border sourcing is an issue which is becoming more and more real. Up to now, LEGO has faced very little contact with international buying groups: most of them are still nationally organized but some multi-national retailers are starting to conclude 'preferred supplier' contracts at an international level. When this happens, LEGO must adjust its distribution approach. For example, when Carrefour wants to conclude a purchase contract for all its hypermarkets (in France and abroad), then LEGO France (country of origin of the client) leads the negotiations with Carrefour but is strongly assisted by LEGO Spain, Italy, etc. These negotiations involve not only the conditions relating to LEGO's 'preferred supplier status' but also the price conditions, though they do not imply direct purchases. These are still made at national level or at store level (though this is disappearing rapidly). Toys 'R' Us also does not buy at European level but at 'regional' level (Toys 'R' Us divides Europe into four different regions).

Hypermarkets or retailer chains benefit more and more from the standardization of toys in the EU. Thanks to this, they order big consignments of toys and games in China to supply all their stores within the EU. The appearance of private labels is the direct consequence of this phenomenon. At this stage, it is estimated that 2% to 5% of the market is captured by private labels but the trend is clearly upward. It is not surprising to see this development taking place when one knows that between 75% and 80% of all toys sold in the world are made in the Far East.

B.2.4. Internationalization and growth

LEGO is a pan-European product.

LEGO's product range is pan-European: only two products out of the 280 which comprise the assortment are slightly different in order to accommodate for the different electrical standard of the United Kingdom. The packaging is totally standardized. Special attention is given to the recyclable aspect of the packaging but this is mostly due to the company's ethics. LEGO contributes to the German 'Grüne Punkt' fund for each product sold in Germany, but questions have been raised about the true environmental benefits, both in Germany and within the rest of the EU.

Retailers do not internationalize their product range.

The internationalization of the product ranges at retailers is still quite limited because of the remaining cultural differences among EU countries.

The creation of the single market has not generated a particular growth in LEGO's business.

The volume growth observed at LEGO over the past few years cannot be attributed directly to the creation of the SM. The emergence of the SM has contributed to an increase in price competition within the EU, which resulted in a price decrease trend resulting, in turn, in a sales volume increase trend.

B.2.5. Competition and concentration

The manufacturers' world is extremely concentrated: the top 10 players enjoy a 50% market share in Europe, and the top five a 40% market share world-wide! Smaller players tend to disappear or convert their business into cash & carry outlets or big warehouses selling directly to the public.
The function of wholesaler is disappearing, especially as smaller players at both ends of the distribution chain tend to disappear. In Italy, the integration of wholesaling and retailing is getting more and more common.

B.2.6. Size, scale and productivity

Over the past year and a half, LEGO has been reorganizing its stock spread between its individual national warehouses (in each country) and its warehouses in Denmark and Switzerland. This results in more flexibility and an overall reduced level of stocking by keeping a 'buffer stock' at country level only. The spread of the stock among the various players in the distribution chain is now as follows:

(a) 30% of the year's sales are stocked in the retail stores;
(b) 8% in the national warehouses (instead of 12% previously);
(c) 10% at factory.

This evolution is made possible thanks to lead-time cutting and a differentiation in the way the company is doing business during the peak and the off-season. Additionally, facilitated road transportation with faster border crossing also contributes to this rationalization process. Now, 90% of Europe can be reached from Denmark within two to three days. It takes one day less to reach Spain since the creation of the SM than before.

The cost of 'non-EU' is directly measurable for LEGO.

Switzerland, remaining outside the EU, means LEGO is able to quantify the cost difference it incurs when sending or receiving shipments to/from outside the 'EU borders' compared to within the EU. Given the shipping patterns existing between Denmark and Switzerland, and Switzerland and the rest of the EU, LEGO estimates that the cost of Switzerland being a non-EU member represents about ECU 220,000 per year excluding delays and lead-time disturbances created by paperwork administration at borders.

If the SM did not exist, LEGO estimates that it would cost its transporters, and as a consequence itself, an extra ECU 500,000 to transport the goods across Europe due to the stopping time at borders: this represents between 5% and 10% of the total transportation costs incurred by LEGO on a yearly basis.

B.2.7. Pricing

Ideally, LEGO estimates that, from a consumer's point of view, the prices of its products should be adjusted to suit the local market conditions. However, with the emergence of the SM, the company has felt the need to streamline the way it is doing business in the various European countries. To ensure that this is happening, LEGO is following a policy geared to reducing price discrepancies at selling company level (i.e. wholesale price less discount) between the different European countries (EU members or not). As a result, price differences between countries at selling company level are aimed at not exceeding 10%. This measure also ensures that as little parallel trade as possible occurs with LEGO products. Nevertheless, as long as the EURO or common currency is not in use, currency fluctuations will continue to disturb this convergence effort and reduce its effectiveness. LEGO Group admits that without the creation of the SM, this policy would not have been followed to the same extent.

At present, the group is aware that parallel trade occurs between Italy and Switzerland because of the distributorship set-up in Italy. The amount of parallel trade is estimated at ECU 14 million, which represents around 1% of the total turnover of the company. Parallel trading of LEGO products is rather attractive due to the high value of the product and the low transport cost component in its final price (around 1% of the product value).

Generally, considering price developments, LEGO has observed over the past 10 years that:

(a) consumer prices for toys have dropped substantially due to increased competition;
(b) manufacturer prices to wholesalers/retailers are put under serious pressure;
(c) wholesaler prices have decreased drastically: their margins are much reduced and their role is being questioned.

B.3. Marks & Spencer plc[54]

B.3.1. Short company profile

Marks & Spencer is one of the largest British retail store chains. It operates 638 stores world-wide and specializes in the retail of clothing, footwear, homeware, food and furniture. It is now also involved in financial services, operating a storecard and providing personal loan and unit trust services. The group's turnover amounted to £6.8 billion during the fiscal year ending 31 March 1995 (ECU 8.7 billion) and its profits reached £924 million (ECU 1.18 billion). Marks & Spencer employs 63,000 persons world-wide. Its mission is stated in a few words: 'Quality, Value & Service World-wide'.

On the financial side, Marks & Spencer (M&S) is characterized by a conservative and cautious approach since most of its business expansion is financed via own equity. The gearing rate of M&S has never exceeded 25% over the past seven years and has remained around 15% over

54 We would like to thank Mr G. Harvey (Divisional Director European Affairs) of Marks & Spencer for his co-operation in preparing this case study.

the past four years. This strategic choice is plainly a very successful one since M&S is the only retailer in the world rated 'AAA' by Standard & Poor's.

B.3.2. Manufacturing production and distribution

Marks & Spencer's core business lies in retailing and the company clings exclusively to it. However, in order to warrant the quality level it has set for itself and its products, the company chose as far back as 1928 to retail products under its own label: St Michael. This implies a tight relationship/partnership with the manufacturers and suppliers of these private labels but M&S itself never got involved in manufacturing. As a matter of fact, most of its non-retail activities are outsourced.

Mark & Spencer's geographic strategy is based on a solid and strong UK position, not only on the retail side but also on the manufacturing side with a clear dedication to supporting British industry, having more than 78% of the total sales realized by British-made products.

Though much standardization of the products has taken place in the EU, certain issues remain difficult when dealing internationally. One example is the fact that many different size denominations exists within the EU for clothing. This is combined with different definitions of what product materials may be called: the label 'pure cotton' corresponds to different norms in the UK than in Germany.

Distribution chain.

Because of its growing network of stores, M&S' logistics are becoming increasingly crucial to the success of the company and to its further smooth development. All logistic activities are outsourced to logistics services suppliers who are in direct communication with each store they serve. Cross-border inventory management is in place, resulting in having, for example, a Brussels store included in a region served by one warehouse with 40 other English stores. Logistics services suppliers are operating at the level of category management and replenishment. The close relationship of M&S with its logistics services suppliers is illustrated by the fact that when M&S 'opens a new country', the suppliers, also, 'open' this country themselves to follow their important customer.

Despite the growing integration of Europe and the fact that M&S' network answers precisely the company's needs, distribution is still facing many differences across borders which cannot be neglected. One anecdote relates to the timing of distribution. Though, in the case of fashion, there is a substantial consensus across Europe with regard to popular clothing, seasons are spread between northern and southern Europe. Distribution planning is thus very important in order to meet customer needs at the right time with the right product, but this situation is no different than the one observed in the USA and has no real connection with the single market. Other issues relate to locally determined (at municipal level) timing of 'sales' or nationally set events such as 'Mother's Day' (four different dates across Europe). These are of course points of detail, but they show how alert retailers have to be to perfectly match their markets. The European market still cannot be taken for granted.

B.3.3. Cross-border sourcing

Thanks to the further integration of the single market, promoting faster transportation, accelerated exchanges have been made possible between the UK and the other European countries. In the domain of short-life products, food products now reach destination by truck within good time compared with their freshness expiration date; this was impossible in the past. Administrative formalities at borders were literally prohibiting any attempt at sourcing fresh produce from across the Channel.

This new state of things has altered the way M&S manages its food products catalogue: from an 'ambient' focus it has switched to a 'chilled' focus. The retail chain is able to offer 1,000 lines of short-life products on the Continent, which was previously impossible.

The spread of food product sourcing is as follows in M&S stores located outside the UK:

(a) 80% of products originate from the UK;
(b) 15% are specified in the UK but purchased locally;
(c) 5% are unique to the market where the store is located.

All products in the '80%' category are exactly the same throughout Europe except for their packaging which shows some language differences to match with their destination country. The 5% of products which are locally sourced correspond to all the products for which local regulation forbids imports because of specific health and safety regulations. In France, this relates for example to 'steak haché', sausages, stuffing, minced meat, French wines (they may not carry an English labelling), and chlorinated flour (including products containing it as an ingredient such as English Christmas cakes). In the clothing segment, M&S sources 100% of its products from the UK.

B.3.4. Internationalization and growth

<u>Geographic expansion.</u>

Marks & Spencer engaged in the path of internationalization slightly over 20 years ago by entering the Canadian market in 1972. However, that year was also marked by the entry of the UK into the European Community; therefore the company did not wait long to orient itself towards Continental Europe. In 1975 it opened its first store on Boulevard Haussmann in Paris and from there on expanded towards Belgium, the Republic of Ireland, the Netherlands, Spain and within France itself, reaching a total number of stores across Europe of 32 at present. Current plans include store openings in Germany and further expansion within the countries of established presence.

Thanks to its strong financial position, M&S can afford to build its expansion via organic growth without any problem. This is not only a choice but a key to success: the only acquisitions made by the group relate back to 1972 (Canada) and 1988 (USA) and so far they do not prove as successful as the rest of the company.

Two remarks have to be made with regards to M&S internationalization:

(a) M&S runs behind its schedule;
(b) the integrating single market is not the unique focus of M&S internationalization.

First, the target set by the company in terms of number of stores opened by 1995 was 50: there is thus a 'shortage' of 18 stores at this time compared to the original plan. This is due to diverse reasons: first, M&S pays great attention to the location of its stores and therefore only settles a new branch when the location fulfills all requirements set by the company to ensure its success. Such locations do not always become rapidly available and therefore require time to be acquired. Second, though the company acknowledges that the single market contributes positively to the opening of new locations, thanks to, among other things, the mutual recognition principle (see Economies of Scale under Section B.3.6), national and/or local barriers still remain in certain countries. For example, one common problem run into by M&S in France relates to the structure of ownership of real estate situated at prime locations. Many a time, due to inheritance circumstances, properties are owned by many heirs who often do not agree with each other about selling the property to a third party. Another restriction, encountered on the French territory relates to the reinforced 'chilly' attitude of the French government towards the development of big retailing stores in order to protect smaller players.

A third reason for the delay in executing the locations expansion plan is the fact that M&S planned on entering the Italian market but has not yet done so. After repeated and thorough consideration, the company decided not to pursue this direction, at least for the time being, and to utilize its resources for other destinations.

The second remark about M&S international development is that it started before the integration of the EU market and that it still continues at this very moment. Nevertheless, the creation of the single market does not constitute a restrictive focus for the company: new horizons are profiling themselves in other parts of the world and M&S is willing to seize opportunities also outside the single market. These new growth areas are Asia and Eastern Europe. Decision-making with regards to internationalization is thus mostly opportunity and market driven: regulatory frameworks are not sufficient or do not apply strongly enough at this stage within the EU to make this region (e.g. Italy) more attractive than the Czech Republic or China.

National differences remain.

Issues such as language or taste differences remain within the EU as strongly as in other parts of the world. Therefore, M&S uses local demographic profiles to reflect subtle national and regional differences and preferences in its assortment. In this respect, EU directives seem sometimes obsolescent compared with the driving forces of the market. For example, in Spain, M&S rapidly understood that in order to succeed in the Catalan region, in-store information and sometimes labels should not only include the Spanish language (basic EU requirement) but also the Catalan (market requirement).

Other national differences are opening hours. In the German market, M&S will encounter different opening hours than those it is accustomed to in France or Spain. However, the management does not see this changing factor as a competitive disadvantage because the rule is the same for all players in that market. What may constitute a difference with regard to other EU countries is the outcome of performance and productivity ratios. But this still remains to be seen.

B.3.5. Competition and concentration

Because of its specificity, M&S offers its foreign markets a unique proposition of store formula. Its products are different from those known in the country and the stores constitute a different concept in themselves. This probably plays a more important role in the food segment than the clothing segment with regard to being differentiated from the competition. In the clothing segment, M&S is confronted with increasingly sharper new distribution chains, not only dealing at a national level but also internationally such as Peek & Cloppenburgh, H&M or Zara. The concentration of players is another factor hindering easy penetration: for example in Germany, Karstadt and Hertie merged and Kaufhof and Horten did the same.

B.3.6. Size, scale and productivity

Productivity.

Productivity levels are, as identified by M&S, closely related to staff flexibility on working time. In the UK, M&S can avail itself of highly flexible personnel; around 60% of the employees work on a part-time basis. This allows an optimal match between store personnel presence and business level at all times of the day or the week. Based on this working environment where employees are also only compensated proportionally to the time they actually work, M&S faces less attractive conditions in other European countries. For example in Belgium, whether a person is entitled to unemployment benefits or not depends on the number of hours they are actually employed per month. Beyond a certain threshold, the law considers that people are not really 'unemployed' and therefore not entitled to benefits anymore. This situation tends to reduce the flexibility of part-time personnel to work more hours at a given requested time. The German law on part-time work will also certainly not prove as flexible as the British, especially with regard to compensation conditions.

Economies of scale.

Because M&S makes very little use of advertising, economies of scale in that domain cannot be observed in the company. The only promotion made by the company is below the line advertising which is by definition very local.

On the manufacturing side however, substantial economies of scale can be realized thanks to the volume increase generated, on the one hand, by the widening of the distribution scope to more stores in new countries and, on the other hand, to the more centralized sourcing pattern made possible by faster transportation. Benefits resulting from economies of scale can be directly passed on from the manufacturers to M&S because of the larger contracts made between the partners. This development is a clear benefit from the single market which, thanks to the principle of mutual recognition, allows goods to be produced as much as possible on one single production line and distributed throughout Europe without any restriction.

However, there again, M&S sometimes encounters difficulties with the restriction made on the principle of mutual recognition constituted by the principle of subsidiarity for health and safety purposes. One example is the case of bread in Spain; under the Spanish regulation, bread moisture content is maximized to a lower level than the standards adopted in other EU countries and therefore 'standard EU' M&S bread cannot be sold in Spain.

Another example is the dispute opposing the French 'Brigade de la répression des fraudes' to M&S for a 'yoghurt' definition. On a bilingual packaging – French/English – both the English term 'yoghurt' and its French translation 'fermenté lacté' were mentioned. However, because in the French language the word 'yoghurt' also exists with a different meaning, the authorities forbade the sale of the product with this bilingual labelling and M&S had to repackage it into a single language packaging. Of course, these kinds of examples are exceptions to the rule but they still create irritation and sometimes imply important and unexpected costs for the companies.

B.3.7. Pricing

M&S does not retail its products at a 'unified' price level across Europe. The biggest reason for this lies in the cost differences incurred in the different countries with regard to staffing, building purchase or rental, national requirements for price labelling, etc. Other restraints to uniformly priced products are the many different VAT rates in use across Europe and the currency fluctuations.

From a marketing point of view, M&S approaches its various marketplaces with a strong attitude of listening to the market itself. This is true with regard to the requirements it sets in terms of language use, packaging, product assortment or opening hours but also in terms of price. During the past few years of crisis that Europe has gone through, M&S decided to contain its prices as much as possible throughout the continent or even reduce them where necessary in order to continue to meet the needs of its customers. By reducing prices by 10% to 20% on certain products, M&S lost 0.04% to 0.05% of total margin but generated more volumes, off-setting most of the loss. This effort was also made possible largely thanks to productivity gains realized within the organization.

B.4. Danzas[55]

B.4.1. Short company profile

The Danzas Group is one of the world's leading freight forwarding and logistics companies, founded in 1815. In recent years Danzas has expanded to all parts of the globe from its strong European base, and the company now has about 600 offices in 42 countries. World-wide, the Group is active in the fields of third-party logistics, air freight, sea/air freight, ocean freight and customs clearance services. In addition to these services, Danzas offers their European customers express, groupage, full-load transports as well as warehousing and distribution services.

In 1994, the Group realized total sales of over CHF 6.7 million. The contributions of the different Danzas activities were as follows: European consolidation: 12.9%; European full-load transport: 7.4%; European warehousing and distribution: 12.2%; customs clearance services: 2.8%; air freight: 13.1%; ocean freight: 15.2%; other forwarding activities: 26.3% and travel offices: 10.1%. In light of a further concentration on the core activities, freight forwarding and logistics, the travel organization was sold in 1995.

55 We would like to thank Messrs V. Ovens (Director Logistics Services) and A. van Reuth (Director Business Unit European Traffic) of Danzas Management Ltd for their co-operation in preparing this case study.

B.4.2. Loss of customs clearance

The abolition of EU internal border controls has significantly affected Danzas, which was specialized in customs clearing and relied heavily on this activity for its turnover until 1992. Although customs clearance activities continued to be required for extra-European trade, total sales of Danzas' customs clearance division shrunk from CHF 2,384 million in 1992 to CHF 877 million in 1993. The impact of this loss was particularly important since it was instantaneous. Danzas adjusted to the loss of customs clearance services by improving its activities with regard to the transportation networks and further improvement in the field of logistics.

B.4.3. Manufacturing production and distribution

Centralized European distribution has triggered value added logistics (VAL) such as labelling, packaging and so on. Danzas carries out these activities for different client segments, such as customer and industrial goods, pharmaceuticals, automotive and many other. The importance of value added logistics is increasing. Manufacturers have been able to reduce stock levels, not only by using VAL activities, but also by delivering smaller quantities, and by carrying out more specific deliveries, and direct store delivery (i.e. not via warehouses). However, due to European road-traffic congestion and the lack of an integrated rail network, buffer stocks are still required.

B.4.4. Cross-border sourcing

Buying products in another country remains difficult, due to persisting regional product variants. The case of washing machines provides a good example: British customers insist on buying frontloader washing machines, whereas French customers prefer toploaders. Top-end brand Miele is now advertising a truly European washing machine; they may succeed because of the strength of the brand name. Low-end brands are most likely to continue satisfying local tastes for some time to come.

Sourcing has always taken place where it was cheapest; the single market has not necessarily changed this practice a lot. Products are bought where they are cheap, whether that is Portugal or Vietnam, inside the EU or outside.

B.4.5. Internationalization and growth

Danzas feels that the integration of the single market has not created but accelerated trends of international expansion and competition. However, the differences in habits of consumers in different countries have proven to be more of a barrier than many people thought. Differences in mentality persist. This represents an opportunity for Danzas, since they have a European and world-wide helicopter-view of the market, while at the same time the corporate sales representatives are well at home in local markets. This is reflected by the company's motto 'Think globally, act locally'.

In order to better respond to the market, Danzas decided to divide the group into three divisions in April 1996, namely *Danzas Logistics* (comprising mainly the warehousing activities), *Danzas Eurocargo* (i.e. European overland traffic) and *Danzas Intercontinental* (combining the overseas offices with air freight and sea freight in Europe).

Danzas is quite advanced compared to many of its competitors, since it is now in a position to deal with multinational customers without being hampered by internal management structure problems.

B.4.6. Competition and concentration

Due to fierce competition in the transport and forwarding sector, prices have continued to drop. For Danzas this has aggravated the problems caused by the simultaneous loss of customs clearance activities.

The increasing importance of distribution services is accompanied by a trend toward industrialization of forwarding: a move from a transport-oriented focus to a focus on complete logistics chain management. Danzas has joined in this shift by systemization of the groupage and express services and by offering the complete logistics transportation chain in order to achieve the critical mass required for Danzas' transportation network.

B.5. NFC plc/Exel Logistics[56]

B.5.1. Short company profile

National Freight Consortium (NFC plc) is a large British supplier of logistics and moving services. The company's goal is to 'become the leading international provider of value added logistics solutions for customers' by focusing on enhancing its leading position in UK logistics, by extending its range of skills in North America in attractive key market segments, by developing a pan-European logistics capability in selected markets and by preparing for expansion in Asia and the Pacific Rim.

As one of the first companies in its field, NFC have paid special attention to developing well-known brand names. These include Exel Logistics, BRS and Lynx in the field of distribution services, and Allied, Pickfords, and Merchants in moving services.

In 1993 the company reported a total turnover of £1,922 million. The largest operating company, Exel Logistics, contributed approximately 37% to turnover. A geographical analysis of the Group's turnover shows an internationally oriented company, but with a clear focus on two core markets: UK/Ireland (48% of turnover) and North America (37%). The other European countries accounted for 9% of turnover, but this share is increasing rapidly.

According to NFC's management the company's strength lies in the fact that its core activities – moving and distribution – seldom are core activities for their clients. This allows NFC to provide efficiency and value that exceed those available to the customers in-house.

B.5.2. Manufacturing production and distribution

During the past few years, a marked move towards concentration of distribution has taken place. In certain cases this has happened on a national level – UK retailer Asda, for instance, allocated £170 million to bring the number of distribution centres in the UK down to six in

56 For this case study extensive use has been made of the analysis by Valerie Bence 'The changing marketplace for distribution: an operator's perspective', *European Management Journal*, Vol. 13, No 2, June 1995.

1990. Sometimes centralization has taken place on a European level – for example for large multinationals such as DOW, Sony and Philips.

Many manufacturers operating their own distribution networks have reacted to this either by outsourcing their distribution operations (such as Unilever which sold its distribution subsidiary SPD to NFC in 1985) or by allowing their distribution subsidiary to carry out distribution services for third parties (e.g. Tate & Lyle which launched TLT Distribution). A reason for this is that centralized distribution requires considerable investments in infrastructure (in the late 1980s a centralized warehouse generally cost more than £10 million) and in information technology, and that increasing demands for flexibility and reliability have added significantly to the complexity of managing such distribution operations.

Trends towards centralization and outsourcing of distribution have contributed significantly to the increased demand for distribution services which has been the basis of NFC's growth. However, some reverse movement actions also take place. British brewer Whitbread, for instance, has not renewed distribution contracts with Exel and Tibbett & Britten and has instead chosen to move back to in-house distribution.

B.5.3. Internationalization and growth

During the late 1980s, NFC's management felt the company was becoming too dependent upon domestic earnings, and chose to expand abroad. Initially NFC expanded mainly in the US. The position of existing subsidiary Dauphin (shared-user grocery distribution) was strengthened by the acquisition of five companies over a three-year period. This gave the US operation – rebranded Exel Logistics – the critical mass required for expansion into new market segments.

After the successful expansion in the US, Exel moved on to the European mainland, once again focusing on food distribution. The creation of the single market was an incentive for international expansion of many of Exel's clients. Exel's initial steps onto the Continent followed existing customers – the company's first continental distribution centre was built for Marks & Spencer at Evry in France.
At the same time Exel acquired a number of companies in Spain, Germany, France and the Netherlands. The combination of acquisitions and foreign contracts with existing UK clients enabled Exel to establish enough credibility in these countries for organic growth.

B.5.4. Concentration and competition

Traditionally the European transport sector has been highly fragmented, but recent years have seen the emergence of large transport groups. Reasons for this include the high investments required for IT, computerized tracking and tracing, and management reporting systems, that are in turn required for complex centralized (sometimes international) warehousing systems and value-added logistics. Like many manufacturers, these logistics companies have internationalized their marketing strategies and have crossed borders, aimed at the development of a pan-European logistics capability. However, the initial rush to acquire European companies has slowed, and the emergence of very large European logistics groups ('mega carriers') that has been predicted in the past has so far failed to materialize. Manufacturers have been less demanding than expected in their transport requirements.

Nevertheless, logistics companies are clearly faced with increased competition in logistics. NFC has responded to that by a constant search for ways to add value. This has resulted in quite far-reaching services, such as the work carried out by subsidiary Pickfords, which not only delivers tools to Toyota's UK car-factory, but also installs and wires them.

B.6. Hays plc[57]

B.6.1. Short company profile

Hays is a group of 50 companies providing business-to-business services to industrial, commercial and professional customers under the three core activities, Distribution, Commercial and Personnel Services. The Distribution division – which comprises 18 companies – represents almost half of the Group's turnover of £810 million (1995). In 1995, the Group's profit was £115 million.

Hays provides dedicated, semi-dedicated and multi-user distribution services. The Group is very active in the distribution of chilled, ambient and frozen food, automotive spare parts, agro-chemicals, electronics, compact discs, stationery, wines and spirits. The company's major cornerstone is know-how in information systems. DSIA, a French subsidiary of Hays employing some 65 experts, provides specialized software support and ensures that the divisions meet the needs of their customers across a wide range of systems.

Since the beginning of the decade the Group has consistently expanded its European distribution activities, acquiring Fril (France, 1991), E. Mordhorst Spedition (Germany, 75%, 1993) and Jarlaud (France, 1995). In 1995 the Group's European activities outside the UK contributed 21% to turnover.

Hays operates a number of shared-user distribution services, where goods owned by several – sometimes even competing – clients are distributed using the same warehouses and trucks. Demand for this type of services is increasing, since they open potential scale benefits that could never be achieved by individual companies using in-house distribution.

Some examples of Hays' activities arc: dedicated distribution for Waitrose in the UK and Carrefour in France, major distribution operations for Danone, Nestlé, Bel Cheese, Allied Domecq, Ford, Vauxhall, Asmussen, Bacardi and many others.

B.6.2. Manufacturing production and distribution

Hays has won major new contracts by assisting potential customers in reducing their number of European stockholdings and in serving the market from only one or two European distribution centres. Aside from this move towards centralized distribution by established companies, Hays has also found that new companies often set up their distribution activities in a centralized way from the beginning.

The single market may have contributed to this trend by lowering transport costs. The impact of cabotage is important in this respect: to send a truck-load of goods from Munich to

57 We would like to thank Messrs B. Jaspers (Commercial Director Hays Logistics Europe) and M. Schoonhoven (Financial Controller – Netherlands) of Hays for their co-operation in preparing this case study.

Rotterdam used to be cheaper than sending it from Munich to Düsseldorf. But there are definitely other factors which also play a role in this trend towards centralization, for example the developments in the field of information technology or telecommunications.

It needs to be stressed that many distribution operations have essentially kept a national orientation. Hays has internationalized significantly during the last few years, and now runs distribution operations in a number of countries, but very few of Hays' trucks actually cross borders.

B.6.3. Internationalization and growth

Hays started internationalizing during the early 1990s, because the company's home market was becoming saturated. Although clients did not generally play a role in the initial internationalization move, some of them helped consolidate the market share of foreign operations by asking a foreign Hays subsidiary to supply distribution services to their own foreign subsidiaries. However, clients may yet initiate future internationalization moves – some of Hays' clients are now asking Hays to follow them on the next wave of international expansion, into Central Europe.

Export of knowledge is an important element of internationalization, but Hays has systematically avoided staffing its foreign companies with British executives, as this would most likely have caused cultural problems. Hays does train staff of its foreign operations by placing them in Hays operations in another country for a period of time. European unification has lowered barriers for this practice, in that EU residents can now freely work in other EU Member States.

Hays expect the logistics services business to keep expanding: many companies are still discovering the benefits of a core-competence focus, as well as the availability of high-quality suppliers of business-to-business services. This applies not only to logistics services but also to Hays' other activities – commercial and personnel services.

B.6.4. Competition and concentration

The demand for contract distribution is increasing rapidly, but the number of providers of such services also increases. Competition is becoming fiercer. According to Hays, the answer to the increased competition can only be specialization. Hays provides services in a broad variety of fields, but in each field Hays employs highly specialized professionals.

Companies in this sector only survive if they specialize in a specific region – say the north-west of Spain – or in a specific activity, such as pure transport, pure quality control or distribution management. Precisely for this reason, Hays make frequent use of subcontractors for specialist activities.

B.7. Smiths Food Group/Snack Ventures Europe[58]

B.7.1. Manufacturing production and distribution

(a) Significant cost savings can be realized by shifting production to low-wage countries (Central and Eastern Europe).
(b) Often this is not possible. Smiths' products are very light-weight and therefore cost a lot to transport. Transporting them over longer distances is not attractive. Therefore production has remained very regional. From the Netherlands the Dutch and Belgian markets are served, a few products are sold to Germany.
(c) Snack Ventures Europe is present in all countries of continental Europe. Most production is local, but there are exceptions. For example: all Doritos made in the UK; Portugal is producing a lot for Spain, and the Netherlands exports 3Ds to Italy and Greece.
(d) P&G has succeeded in concentrating its production of crisps more than Smiths because they produce 'Pringles', crisps which are sold neatly stacked in a box instead of loose in bags. For that reason they transport a lot less air and consequently they can transport over longer distances.
(e) Harmonization: for these products not many differences exist in national legislation so far as ingredients are concerned. One remaining barrier is the fact that in Germany you can only produce bags of (for example) 125 g, 250 g and 400 g. If you want to you can put 300 g into a bag, but you are not allowed to write 'e 300 g' on the bag.
(f) Another remaining barrier is pallet type and pallet height.

B.7.2. Cross-border sourcing

(a) European sourcing can result in cost reductions.
(b) Before European unification buying in Germany was just as simple as it is now. Only transporting goods is slightly simpler now, but this is not significant.
(c) Retailers get organized in buying groups, but this was also already the case before European unification.
(d) Remaining barrier for cross-border logistics: cultural differences. Even between Belgium and the Netherlands: drivers and warehouse people from different nationalities solve problems differently.
(e) Remaining barrier for international transactions: currency fluctuations. It would be better if we had a single currency.

B.7.3. Internationalization and growth

Internationalization is often difficult. For example: Smiths has not expanded into Germany very much because of taste differences, lack of brand knowledge and insufficient knowledge of market players.

B.7.4. Price convergence

Retailers want the same price everywhere: this results in price convergence.

58 We would like to thank Mr D. Kodde (Financial Director) for his co-operation in preparing this case study.

B.8. Tibbett & Britten Group plc[59]

B.8.1. Short company profile

Tibbett & Britten Group (T&B) is one of the leading suppliers of logistics services in the UK, and indeed in Europe. The company's core competence is to supply 'contract-distribution' services to manufacturers and retailers: T&B's focus is on managing distribution operations. Much of the transport work is subcontracted to specialized transport companies.

In 1995 the Group's businesses, Tibbett & Britten Limited, Tibbett & Britten International and Axial, generated a total turnover of more than £630 million. This marks an enormous increase since 1986, when group turnover was £36 million. This turnover was spread among four sectors: grocery (27% up), clothing and textiles (20% down), automotive industry (27% down to equal) and non-food consumer goods (26% up). 52% of turnover originated from the company's home market, the United Kingdom. The remainder was evenly divided between continental Europe and 'overseas'.

The company's dramatic growth underlines the fact that contract logistics is a growth sector. According to T&B this is due to the pressure on retailers' and manufacturers' margins – partly caused by single market developments. Retailers and manufacturers react to this pressure by seeking cost reductions, for example by moving to contract distribution.

B.8.2. Manufacturing production and distribution

T&B notice a trend towards cross-border concentration of production and manufacturing. They stress, however, that this trend should not be overestimated. Many blue-chip companies have opened European distribution centres (EDCs), but in fact most of their goods flows often remain domestic. In addition, many of these EDCs are actually RDCs (Regional distribution centres), serving three or four European countries.

Centralized European distribution is technically feasible, especially for slow-moving products. But for many companies it is not so much technical complexity or legislation issues that hinder centralization; differences in language, culture, and business habits are factors which are much more difficult to overcome. In addition, many companies are hindered by decentralized internal structures and internal management-culture differences.

B.8.3. Cross-border sourcing

Although cross-border sourcing increases in T&B's sectors, its importance remains limited. In spite of this T&B notice that retailers are handling an increasing part of imported goods. The explanation of this paradox lies in the centralization efforts of manufacturers: retailers buy from a manufacturer in their country, but the manufacturer chooses to produce products in one of his plants abroad.

59 We would like to thank Messrs K.D. Mellor (Chairman) and J. Cannon (Development Manager) of Tibbett & Britten International Ltd and Mr H.G.E. de Haas (Managing Director) of Tibbett & Britten Groep BV for their co-operation in preparing this case study.

In the food sector, cross-border sourcing remains limited because of taste and label differences. In some cases, especially in smaller countries, examples exist, such as Vendex Food Group of the Netherlands, which relies on Belgian GIB to store all its wine. In the clothing sector international sourcing is an important factor. Still, also in this sector distribution remains local.

Part of the commonality problem is likely to persist; in the integrated market of the United States important regional differences also exist. For example, Americans from Los Angeles and New York wear different clothes and drink different drinks.

B.8.4. Internationalization and growth

Tibbett & Britten's internationalization started in the early 1990s. Initial internationalization moves were initiated by some of T&B's clients, like Woolworths in Canada and South Africa. Subsequent more 'aggressive' moves were required in order to sustain the company's fast expansion pace. T&B expanded overseas (Canada, South Africa and more recently Hong Kong), but they also moved onto the Continent. Compared to most of their Continental colleagues, British logistics companies had more experience with contract logistics because of the early deregulation and deunionization of the UK transport sector in the 1970s. An important potential market for contract logistics exists on the Continent. Dutch retailers, for instance, have often developed in-house distribution activities because at the time of their development good contract logistics capability was difficult to find in the Netherlands.

T&B's expansion has mainly been organic. Organic growth is initially more difficult, but once established a better base for ongoing development. In contract logistics, companies usually have a limited number of clients with whom they have signed long-term contracts. New contracts can be won by participating in tender procedures. T&B have found cultural differences to be a major issue when expanding abroad. The company's motto is: 'Don't transfer skills, translate skills'.

B.8.5. Competition and concentration

T&B is increasingly facing competition from other large suppliers of logistics services. Until now, few companies had as much contract logistics experience as T&B, but seeing T&B's good results and the increasing demand for contract logistics services by shippers (manufacturers, wholesalers and retailers), many logistics services suppliers have started their own contract-logistics business. Certain competitors have seen an important share of their traditional business eliminated by the abolition of border controls and the significant decrease in transportation markets, and are now entering 'T&B's market' in order to compensate for this loss.

B.8.6. Size, scale and productivity

Centralization can yield scale benefits, but only up to a certain limit. When warehouses become bigger than, say, 25,000 or 30,000m^2 operations management becomes difficult and costly. For that reason large scale centralization will only yield the expected benefits in the case of small or slow-moving products, because only for these products does a 30,000m^2 warehouse have a large enough 'client area'.

B.9. Promodès World Trade, Switzerland[60]

B.9.1. Short company profile

Promodès is one of the leading French supermarket chains which chose as early as 20 years ago to develop its activities internationally. In 1993, the company employed more than 56,000 people and its turnover reached ECU 13.6 million with over 4,000 outlets (including franchises) spread throughout France, Spain, Portugal, Italy, Greece and the USA. About 35% of the group's turnover is realized abroad. Between 1987 and 1991, Promodès more than doubled both its sales levels and outlet numbers. This is mostly attributable to the intense internationalization of its activity.

The group is almost entirely involved in the food sector, with its retail network being accompanied by cash and carry and wholesale warehouses (which also supply institutional and catering customers). The backbone of the group is the Continent/Continente hypermarket chain (international) followed by the supermarket chain Champion (in France only).

Promodès has been quoted on the Paris stock exchange since October 1979. The group has used the market on numerous occasions to raise funds for expansion both at home and abroad. Nevertheless, the founding father remains actively in control of the company and both the founding families retain significant shareholdings in the group.

Promodès World Trade is a subsidiary of the Promodès group: it is a central purchasing unit dedicated to support the whole purchasing process within the group. It is obviously quite internationally orientated: not only as regard its contacts with the suppliers but also concerning its relationship with the various stores in the countries of operation of Promodès.

B.9.2. Manufacturing production and distribution

The rationalization of production is highly completed among multi-national manufacturers who benefit from the economies of scales to be realized partially from the increased integration of the single market.

B.9.3. Cross-border sourcing

<u>National health regulations function as the last barriers to free trade.</u>

Promodès pursues a strategy of increasing its international sourcing but no quantified data can be given about the actual volumes it involves for the time being. Several factors tend to impede this effort, particularly in the domain of foodstuffs where countries play on health and safety reasons to forbid certain products from entering their market. For example, individual national legislations on vitamin content in food constitute a serious barrier to international trading. Lots of the remaining health regulations in many countries result from historically developed norms designed to protect populations against poorly processed food products but which have nothing to do anymore with the modern hygienic technologies in use. Consequently, these obsolete rules should be suppressed and replaced by adequate ones more in touch with the modern and integrated society we live in. But they are maintained – on purpose – as a last protectionism barricade.

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60 We would like to thank Mr J. Semah (Director) for his co-operation in preparing this case study.

The creation of the single market inspires a lot of hopes and expectations to international players which often result in frustrations due to the remaining limitations. With regards to these issues, the EU should impose some EU-universal rules on safety and health.

International sourcing is more bound to happen with private labels.

Promodès experiences one major difference with regards to sourcing A-brands and private label products. In the case of private labels, the entire marketing mix is under the control of the retailer whereas with A-brands, it is under the control of the manufacturer. Consequently, most of the A-brand products are bought in the country where they will be finally sold to the consumer. Nevertheless, international arbitrage in sourcing also happens when currency fluctuations or major price differences make it attractive to purchase A-brands in foreign countries, like, for instance, the classic case of Nescafé first being produced in France, then exported to Belgium and finally re-exported to France by 'smart' retailers.

In the case of Promodès and other big players, being present in different markets (Germany, Spain, Italy and France) presents the advantage of 'shopping around' in various markets to identify which country offers the same product at the cheapest price. This advantage of having 'the man on the spot' is certainly strengthened by increased product acceptance throughout Europe. Smaller players can also benefit from this development by using international buying groups to fulfill this function but that might be less efficient than what big retailers can do: only, it is cheaper.

With regards to administrative regulations involved in international sourcing, Promodès never experienced any problem with the EU legislation after the creation of the single market.

B.9.4. Internationalization

Manufacturers' sales organization are still nationally organized and producers prefer to maintain a certain market segmentation by country to control their marketing mix and take advantage of differences (price level, promotions, etc.). The level of manufacturers' internationalizing their product range and forcing it upon retailers is still very low.

With regards to the internationalization of retailers, greater international product acceptance is not a necessary condition to facilitate the duplication of retail formats abroad. Indeed, Aldi operates in the USA with a product range which is entirely different from the one it carries in Europe; however, it is also a success there. In Europe, products are still very different between one country and another and so far do not prevent retailers from operating across borders with success.

In practice, the creation of the single market has brought little change in the logistics organization of Promodès.

Promodès observes that the logistics partners the company is dealing with are evolving into two different worlds. Those dealing with storage/warehousing and so on, belong to a 'flexible industry' and they adapt rapidly. Those involved in transport simply progress in a 'chaos'. One would expect that, with the creation of the single market, new EU-wide transport specialists would offer advantageous deals for large volume transport users like Promodès. However, it seems that, in reality, local transporters are able to offer in some cases much more attractive prices for specific trips than their bigger counterparts. Therefore, Promodès has not significantly changed its way of dealing with transport companies so far.

EU product legislation opens new horizons to smaller players.

The combination of the mutual recognition principle with essential requirements presents the advantage of increasing the offer made to consumers. For example, recently still unknown or difficult to purchase foreign products such as Feta cheese or Italian cheese are now common products throughout Europe and easily available everywhere. This regulation has an encouraging effect upon small producers who see the chance of presenting their products to a much wider market and dare to seize the opportunity. Thereby the product ranges offered to EU consumers are widening. The effect of the legislation on larger players is rather limited because they already had the power and the structures necessary to penetrate other markets than their own before the legislation and to adjust to their specificities if necessary. So the main benefit from the product legislation is that competition is more open.

Environmental issues are addressed differently across Europe.

Environment is an issue which arises sometimes when getting internationally involved. Being in Germany is an advantage for Promodès with regards to learning and getting ready for all the environmental measures which are expected to spread throughout Europe in the coming years. However, because the standards are set so high there, the associated costs are also quite high. Nevertheless, Promodès expects that soon most of the German standards will be adopted everywhere in the EU and therefore it is worth getting properly prepared for it.

B.9.5. Size, scale and productivity

The EU labelling legislation is the last link in the chain (after technical harmonization and mutual recognition) allowing for the creation of totally European products. When packages are big enough to sustain the necessary explanations/product compositions in all EU languages on it, then substantial benefits can be derived from the single market. Indeed, if products can be made uniform for the entire EU, logistics management can be drastically simplified, sales forecasts seriously improved and prices made a lot sharper both at the purchase and sales ends.

B.10. Kingfisher - Darty[61]

B.10.1. Short company profile

Darty is a retailer of white and brown goods with a clear leading position in the French market. The company was taken over by the British group Kingfisher, which also owns several retailing chains in the UK.

B.10.2. Manufacturing production and distribution

In the white goods sector, manufacturing has tended to relocate over time toward cheaper labour countries such as Italy, Poland, Turkey, ex-Yugoslavia and Eastern Europe. Nevertheless, production facilities still remain active in Germany, France and the UK. Small appliances and brown goods are massively produced in low cost countries further out of the

61 We would like to thank Mr J.-L. Selignan for his co-operation in preparing this case study.

European market, e.g. the Far East. The difference of treatment of the two kinds of products categories is basically due to their 'transportability': white goods are big, heavy and cumbersome, therefore long journeys are not economically profitable.

Environmental issues tend to create new barriers to free trade.

Germany is at the forefront of regulation in Europe with regards to environmental issues. Throughout Europe, manufacturers are slowly compelled to comply with the German rules in order to sustain their chances in the market when competing with German producers both in the German market but also in their own domestic market. One example of the regulation is the fact that within the EU, refrigerators and freezers should be provided with a 'Green to red' label indicating their level of energy consumption. Due to this indication, more energy saving products tend to gain competitive advantages over less environmentally efficient ones. This way, German products gain market shares in foreign countries because of their extra energy saving features, whereas foreign European products lose out in the German market if they cannot provide products matching the German energy consumption standard.

The costs incurred by providing products with extra insulation in order to upgrade them are very tangible. The concern of European players is whether these extra costs can be passed to their customers, for example, in Spain or Italy, who may not be very receptive so far to such high environmental concerns. This issue is also raised when dealing with regulation on packaging re-use and waste.

To summarize, because of the differences of environment sensitivities among EU customers, the EU legislation is still less stringent than the German one and the latter is sometimes spontaneously adopted by companies in order to match market competition criteria. However, this constitutes a barrier for southern European producers to penetrate northern Europe countries, more advanced in terms of environmental legislation.

B.10.3. Cross-border sourcing

The brown goods sector is operating in a world market where sourcing occurs across the globe. The technical harmonization legislation of the EU does not bring much change to the business. Products are made according to European specifications and adjusted for each market and special feature either in the Far East directly or at the time of receipt by the purchasers. Most of the products characteristics are market driven. Basically the same situation occurs for white goods wherever they are being produced.

International buying groups are not yet part of the picture.

International buying groups, because of these product differences, simply do not work! Products are too different to be bought massively across borders. For example, hi-fi products are preferred 'metal looking' in Anglo-Saxon countries whereas in the north of Europe they must be black to suit local tastes. The types of products are also different in terms of quality/price relationship between northern and southern Europe: Italy wants relatively cheaper products with a standard quality level whereas Germany is willing to pay a premium to obtain a higher quality level.

Product differences remain.

Historically developed product differences between EU countries play a protective role with regard to national markets and maintain a real segmentation of the EU market. This is particularly true for cookers for example: in the UK, a very special width measurement has to be respected because most kitchens are also equipped with a toaster. In France, the differentiation is flagrant with washing machines: they have to be top-loading whereas in the rest of Europe they are mostly front-loading.

The EU labelling legislation leads to an increase in non-EU international sourcing.

The fact that manufacturers/distributors are no longer compelled to indicate the country of origin on the products sold within the EU gives entire freedom to distributors to source their products just about anywhere, and particularly in the Far East for brown goods, where they can buy them very cheaply. This legislation breaks the last reluctance of distributors to source products from low-cost manufacturing countries: in other words, it is rather anti-'Euro-production'. However, it is important to down-tone this remark with the fact that the impact of the legislation is rather limited, given the fact that previously, it was also not mandatory to place the indication of the country of origin on the front side of the product. As long as the country of origin remained on the backside of the product, nobody paid attention to it; however, when it was clearly visible, it did have an impact (which will now disappear).

Darty's policy with regard to this issue is to indicate clearly when the product is 'Made in the EU'(literally) and not to mention anything when it comes from other regions. This is, of course, an individual company policy and a choice with regard to the marketing use of this issue.

Electrical appliances retailers tend to source more internationally.

Cheaper retailers, hypermarkets and hard-discounters are increasingly sourcing outside the EU. The trend is easily observable for hypermarkets and hard-discounters in all EU countries: they increasingly source their products from the Far East for brown goods and Turkey and Eastern Europe for white goods. This is, for instance, the case of Interdiscount operating in France, Switzerland, Spain, Italy and Germany, or Expert present in the Netherlands, Belgium and the UK.

Chains like Comet or Dixons also start to reduce their Euro-sourcing considerably. In Germany and the UK, stores get involved in sourcing from Hong Kong, Poland and Turkey. This is, for instance, the case of Metro or Mediamarkt in Germany or Dixons in the UK (and other EU countries) providing cheap low quality products.

In France, a company like Darty, positioned on the segment 'cheap but good quality products' sources most of its products in Europe because of its strategy of selling branded product. Its parent company has adopted a strict rule of only sourcing its product within Europe: this is due to a marketing strategy promoting good quality products against higher prices.

Branding and private labelling follow two different product line tracks.

High-tech products are expected to follow a growing branding trend as they carry a strong added-value baggage with them for which consumers are ready to pay. This is, for example, the case of multi-media products, television sets, etc. These products remain quite differentiated and consumers request a clear quality recognition.

Other products falling into the category of commodity products will be more and more subjected to the attacks of private labelling. For example, refrigerators, freezers, irons, etc. are already marketed under hard-discounter or hypermarket brand names. Mediamarkt (Germany), Dixons (UK), Conforama and But (France) are all involved in promoting their private label product lines. Carrefour (French hypermarket) sells around 30% of its electrical appliances line under its own label: most of these products are made in Italy but the hypermarket changes its sourcing patterns very easily depending on pricing.

Certain products falling under the commodity product category but having national specificities may be preserved from the private labelling wave: for example, washing machines should maintain a certain level of branding.

B.10.4. Internationalization

The past years have shown the successful absorption of the white goods division of Philips by the American giant Whirlpool. In a way, the technical harmonization of Europe and its resulting internationalization will probably benefit more a manufacturer such as Whirlpool, used to handling mass markets, than its European counterparts mostly used to handling segmented national markets. As Europe turns out to be one true single market, with an attenuation/disappearance of the national product differences over time, Americans will be the best prepared to address the whole market at once: they have a tremendous experience of high volumes. This is particularly true for products which still remain to be introduced. This is actually a marketing issue: newer products – in terms of life cycle – are easier to standardize because local standards either do not exist or are not yet strongly impregnated in the culture. For example, video recorders are standardized because no national players are producing them exclusively for their market; they are world-wide models.

Greater international product acceptance facilitates duplicating retail format abroad.

This is an obvious improvement in terms of category management on an international scale, but so far commonality of product assortment within EU countries is still a goal. As an example, Darty has been holding a minority stake in a Belgian operator since 1988 and did not interfere in its product assortment for seven years. The percentage of common products sold through Darty in France and its Belgian partner is estimated at around 10%. Since October 1995, Darty has decided to exert its influence on the Belgian outlets: a three-year goal relating to product commonality would be to raise this percentage to 50%, but it would be very difficult/nearly impossible to raise this percentage any higher.

B.10.5. Competition and concentration

Markets where hypermarkets are strongly developed see increasing competition from these retailers in the white and brown goods segments. This is the case of France and Spain for instance. In Germany leading white goods retailers are still department stores but they get aggressively attacked by the Metro and Mediamark outlets in their position. In the UK, Comet, Dixons and smaller retailers are sharing the market. Competition is often related to pricing issues and therefore returns to the issues discussed under the sourcing chapter (branding, novelty/hi-tech nature of product).

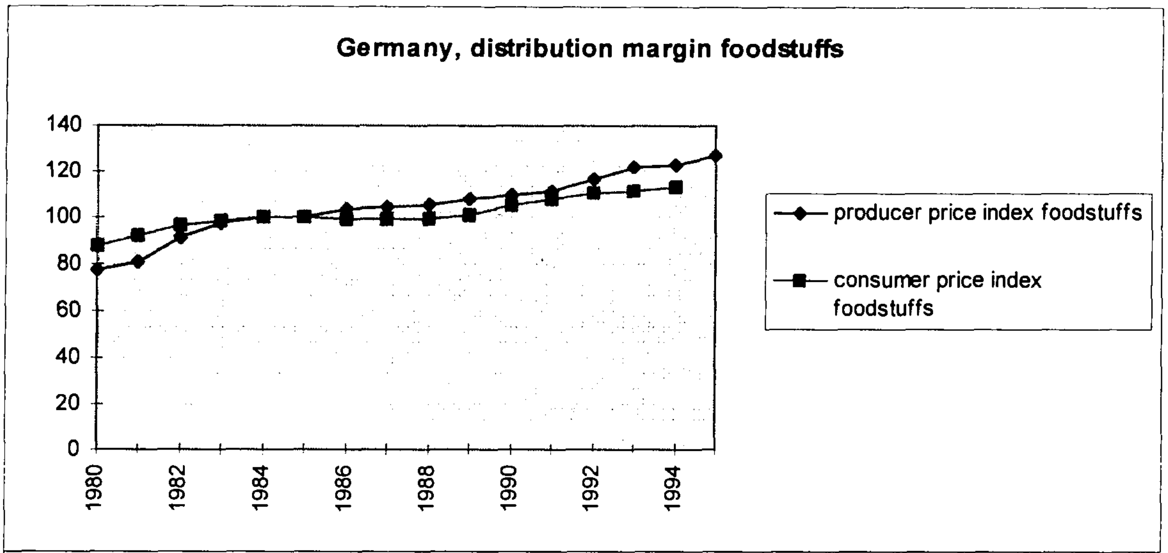
B.10.6. Scale, size and productivity

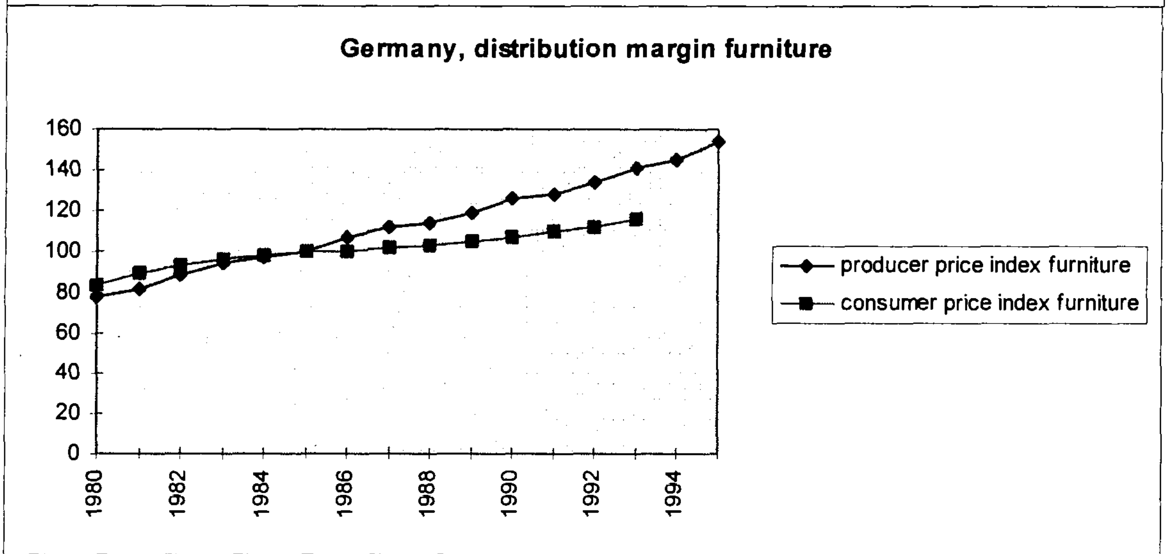
One direct consequence of the new sourcing patterns is the logistics adjustment of the distributors operating Europe-wide and purchasing huge quantities of brown goods from the Far East for instance. Most of the discounters mentioned above manage large warehouses providing them with six months of stock as opposed to their less internationally active competitors handling smaller quantities of products and sourcing them closer in the world, who only carry about two months of stock.

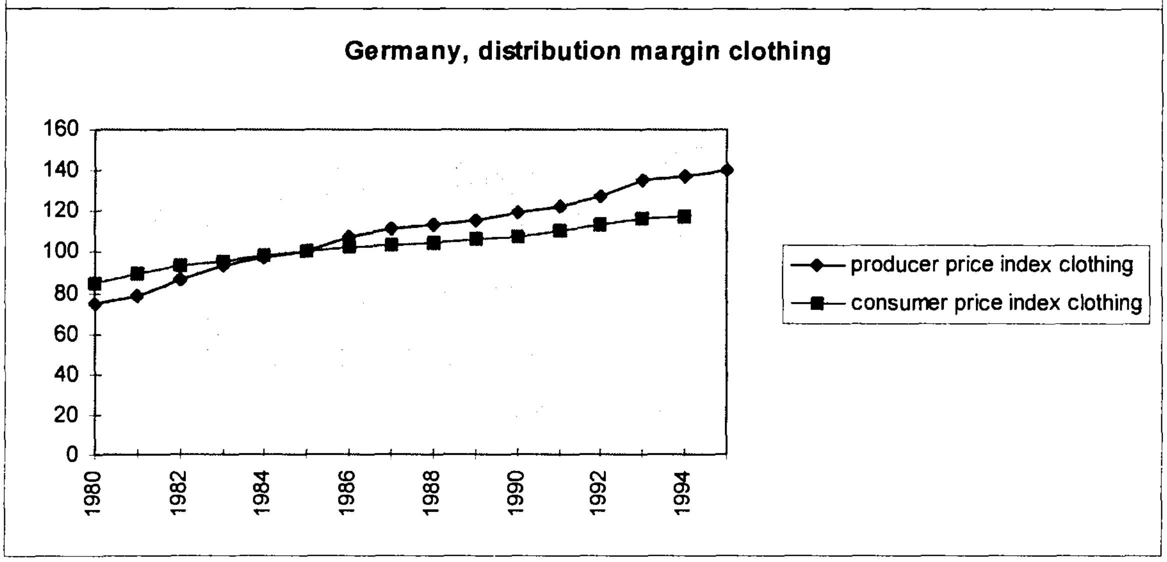
With regard to whether a narrowing of the assortment of stores is to be observed as a result of the creation of the single market, no evidence is to be found in that direction. Rather, it seems that there are still plenty of new entrants on the market to provide a wide product assortment to the consumer.

APPENDIX C
Distribution margins

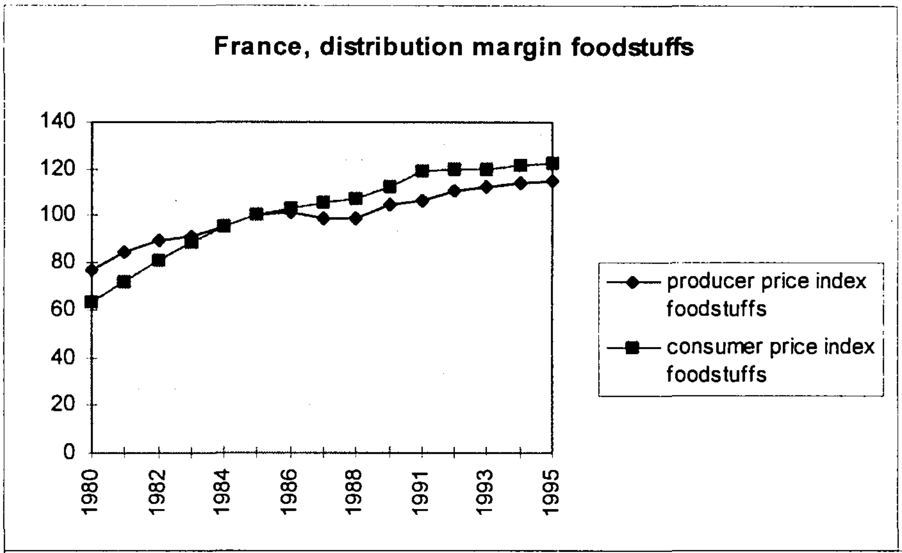
Figure C.1. Distribution margins for selected countries and sectors

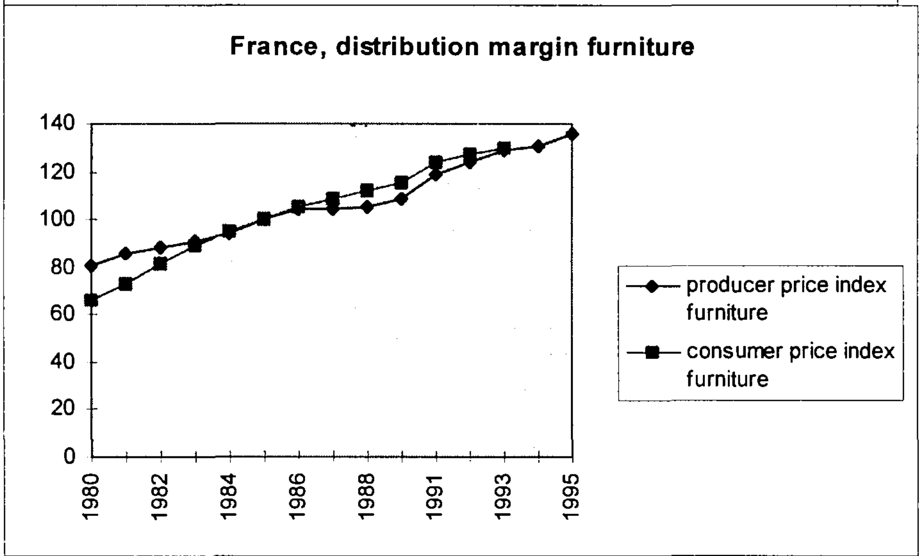


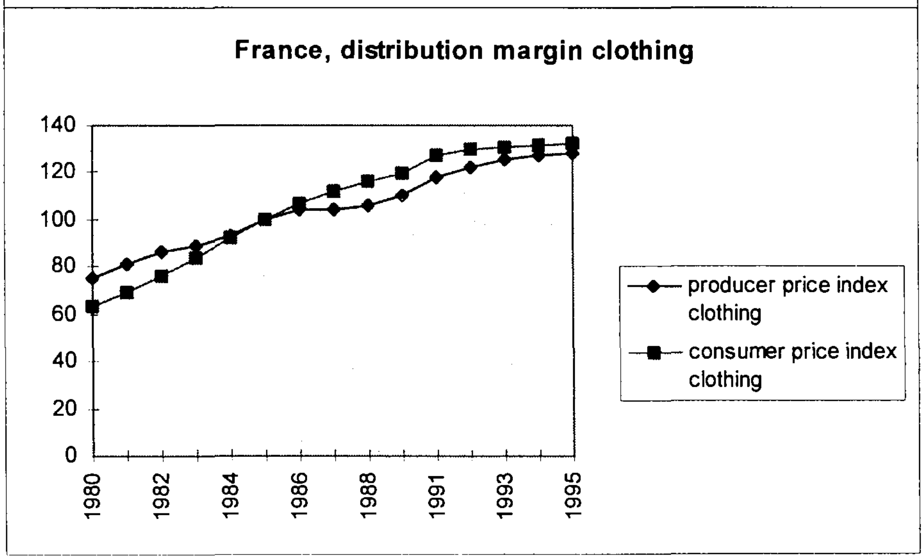




Source: Eurostat.







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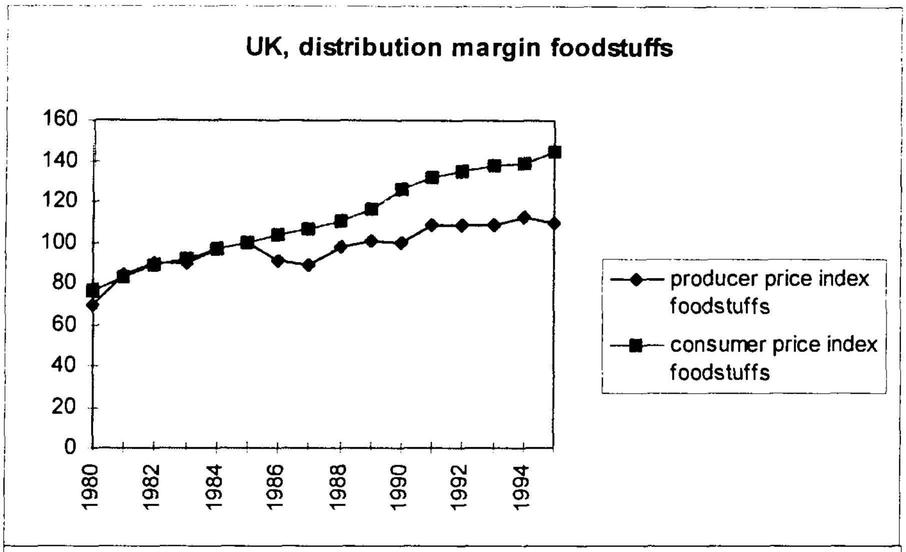
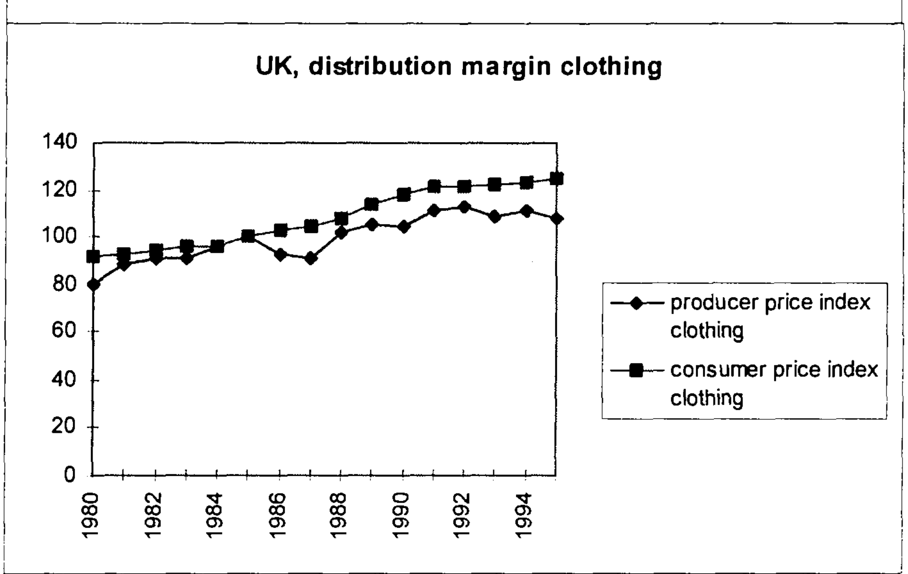
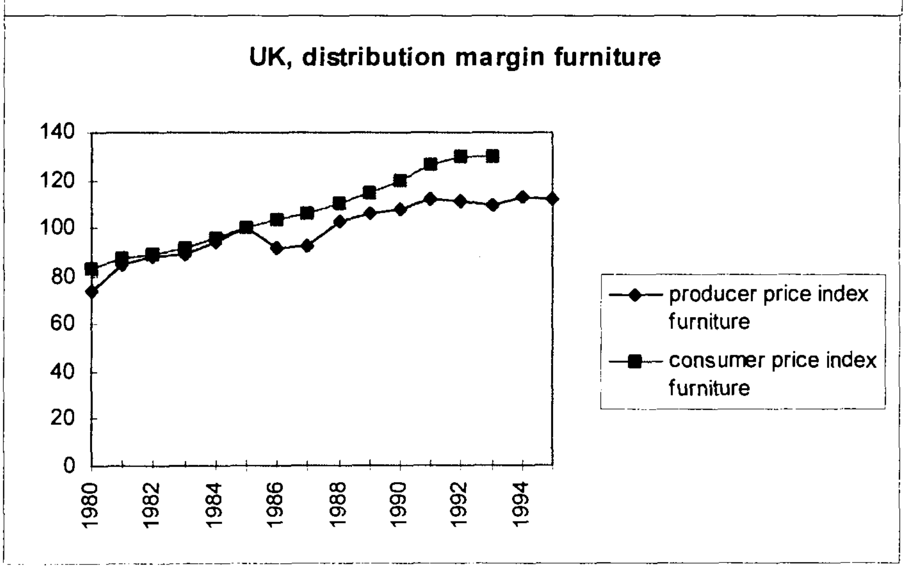
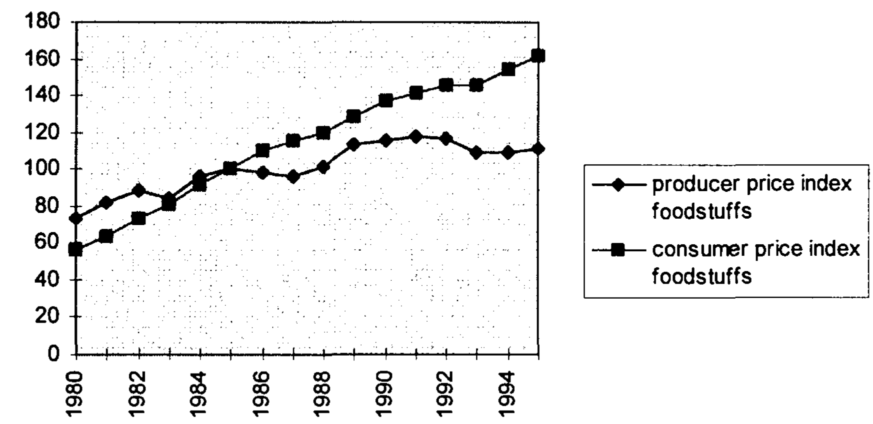




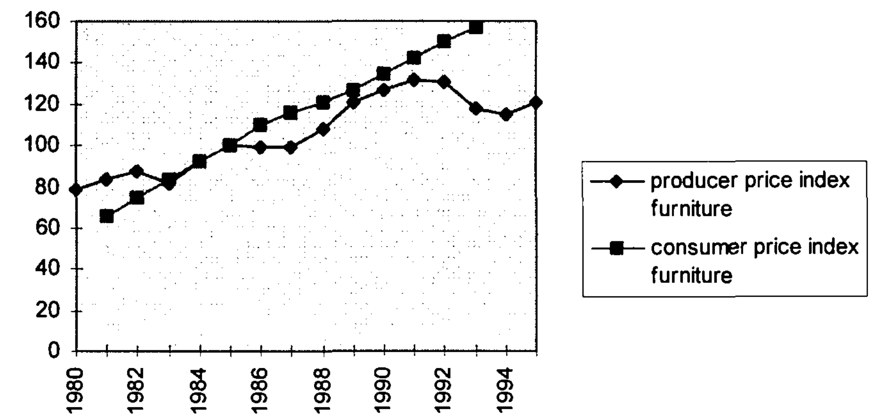


Source: Eurostat.

Spain, distribution margin foodstuffs



Spain, distribution margin furniture



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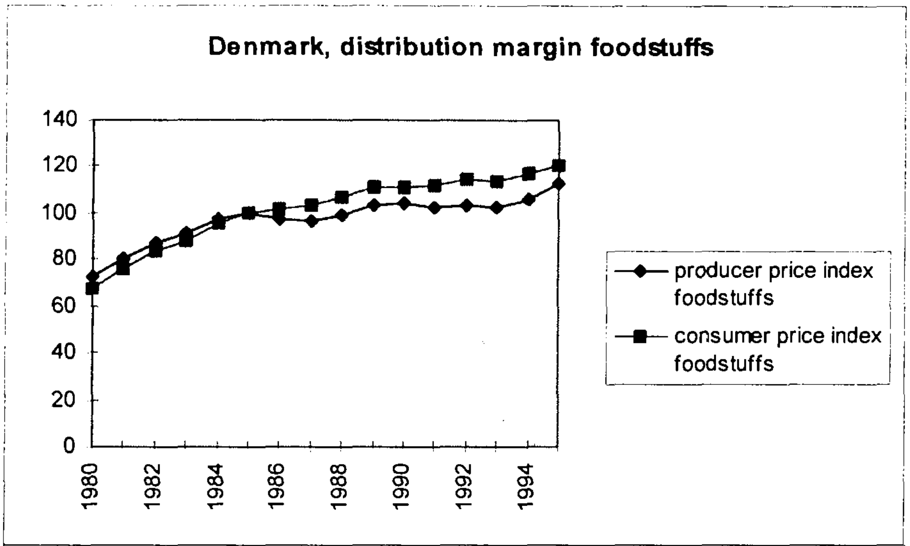

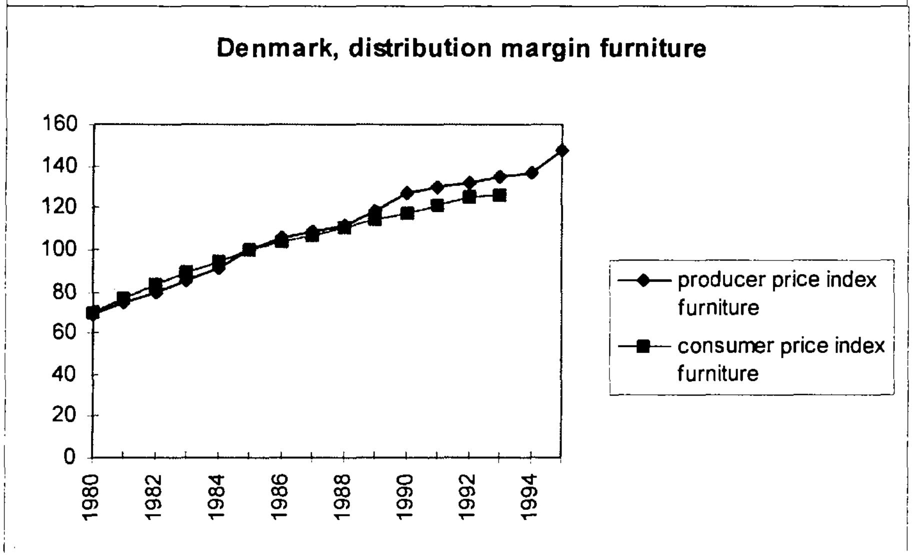

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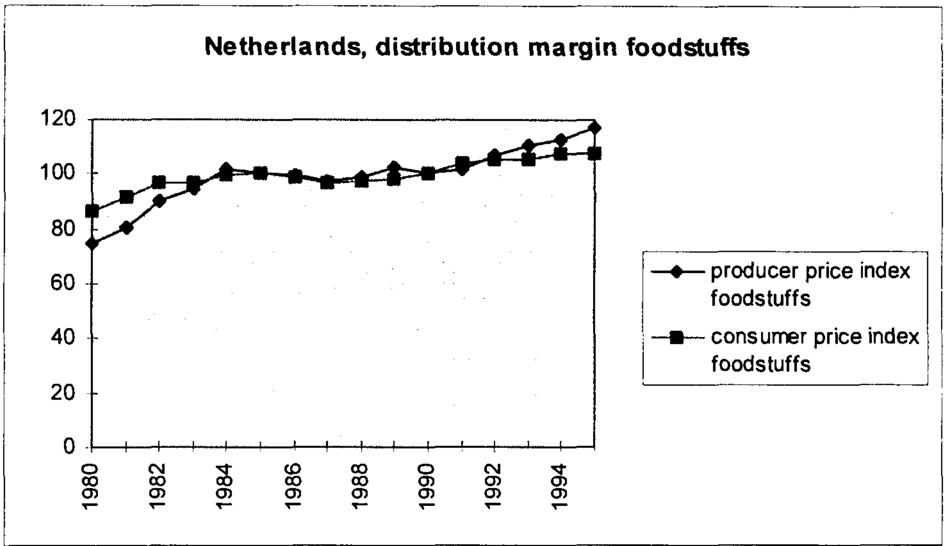

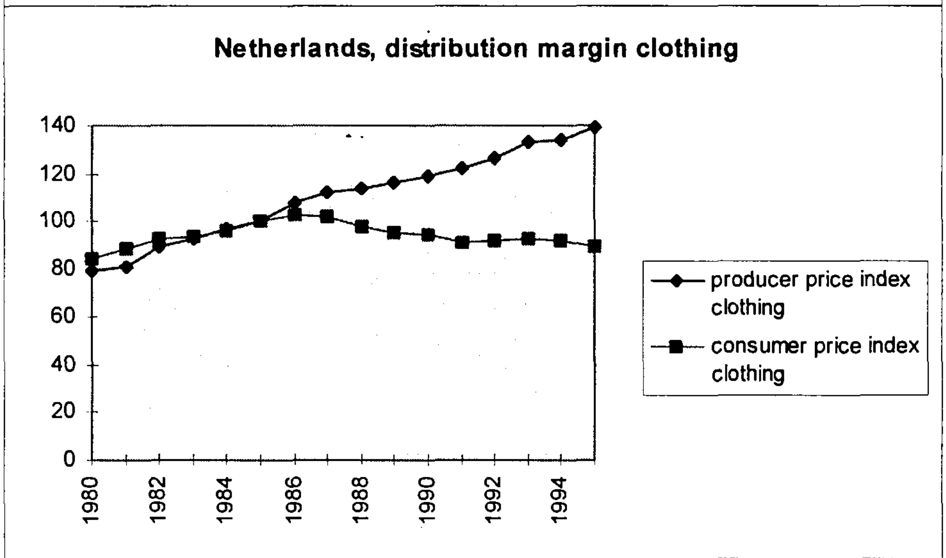

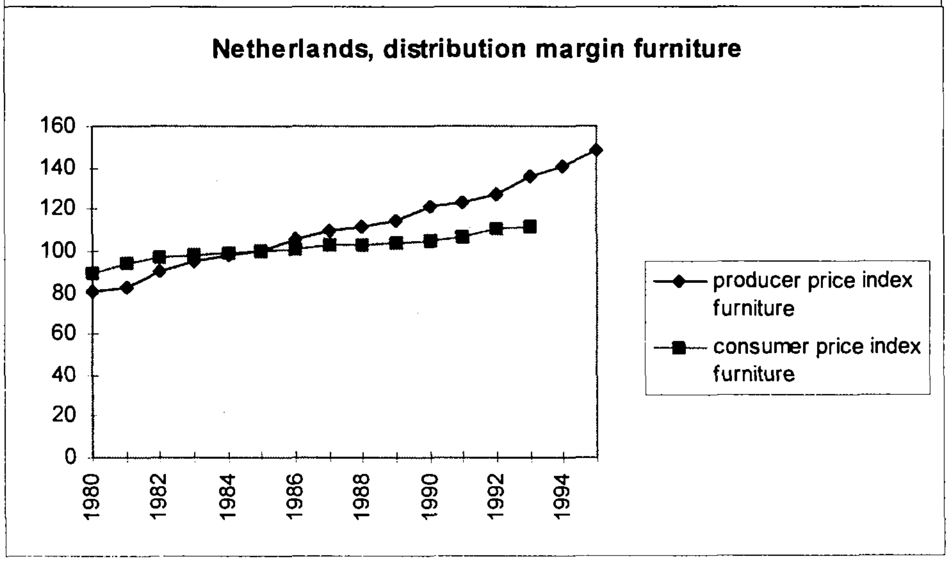

Source: Eurostat.

APPENDIX D

Glossary of terms

Private labels Products produced under a brand name specific to a retail chain and exclusively sold in this retail chain.

Fascia Name given to a store chain. Comparable to the 'brand name' for products but for retail stores. Examples of fascias are 'Continent' for Promodès, 'Safeway' for the Argyll Group or 'Plus' for Tengelmann.

TYPES OF OUTLET

Mini-market Small self-service retail store typically operating with only one checkout.

Convenience store A self-service store aimed at satisfying immediate consumer needs, usually with a sales area of approximately 100–300 square meters and long opening hours.

Supermarket A self-service retail outlet with a sales area of 400–2,500 square meters, selling predominantly food products. In the UK a supermarket is defined as above but with a sales area 4,000–10,000 square feet.

Hypermarket An out-of-town self-service retail outlet of at least 2,500 square meters, with a wide range of competitively priced food and non-food products and ample parking space. This definition is not recognized in the UK (see 'Superstore').

Superstore In the UK, a retail outlet of at least 25,000 square feet of sales.

Discount store A retail outlet focusing primarily on selling grocery products at highly discounted prices. Typical store sizes depend on the format employed, which ranges from limited line to outlets with a superstore format.

Department store A large retail outlet operating on more than one floor, selling a wide variety of merchandise often via concessions, including food departments.

TYPES OF BUSINESS

Grocery retailer A retailer with food sales accounting for at least 50% of its total turnover.

Multiple	A retailer owning or operating 10 or more outlets with the same fascia.
Co-operative	An association of retailers or agents. Co-operation involves joint purchasing activities which usually take place via a wholesale organization owned by the co-operative's members. Profits are distributed amongst the members.
Independent	A retailer owning and operating less than 10 retail outlets.
Voluntary association	An association of retailers or agents aimed at creating mutual benefits such as joint buying, often through the adoption of common fascias or brands.
Buying group	An association of retailers aimed at increasing the individual retailer's purchasing power through joint buying.

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