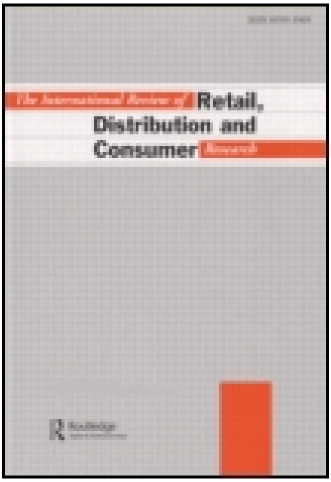

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Comparative structure and development of retailing in the United Kingdom and Germany 1980–92

W.S. Howe, U. Jürgens and H. Werwy

Abstract

This paper considers the organization structure of retailing in the UK and Germany over the period 1980–92 in terms of comparable retail trade classifications and organization size categories by number of outlets per organization. These data are used to identify shifts in the structure of the retail trades, and reference is made to contrasting institutional arrangements in the two countries, particularly legislation on retail planning and competition, that help to explain, for example, the less dominant position of large-scale retailers in Germany than in the UK.

Keywords

Retailing, structure, UK, Germany, statistics.

Introduction

Retail distribution plays a significant role in the functioning of modern economies and hence in the standard of living of consumers. At the present time in the UK retailing accounts for 7.4 per cent of value added in the economy and about 10 per cent of employment; and spending in retail establishments accounts for 36.6 per cent of personal expenditure (Howe 1996). The corresponding data for the German economy are 8.8 per cent of GDP) and 8.3 per cent of employment (Commission of the European Communities 1993).

In both countries the view is taken that the organization size structure of the retail sector and individual retail trades is important and a legitimate

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area of government concern and intervention. This may be based upon the view that a particular size structure of retail organizations is desirable in terms of the geographical distribution of retail outlets or on the grounds of retailing efficiency. Governments may also take the view that competition within the retail sector itself, or 'vertical' competition between retailers and their suppliers, may be adversely affected by some structural imbalance within individual retail trades or at the supplier/retailer interface, and that such a competitive imbalance may correspondingly adversely affect consumers (Howe 1990). Thus, in both the UK and in Germany, while the practice of resale price maintenance by manufacturers has been very largely disallowed in order to increase the extent of retailer price competition, concern about market power imbalances among retailers and at the supplier/retailer interface has resulted in government inquiries into the matter in the UK (Monopolies and Mergers Commission 1981, 1993, 1997; Office of Fair Trading 1985) and in part lies behind the local retail outlet planning controls (*Baunutzungsverordnungen*) and legislation on shopping hours (*Ladenschlußgesetz*) in Germany (Howe 1997).

The purpose of this paper is not to enter into a debate on how best governments may intervene in the structure of the retail sector or individual trades in order to maximize consumer welfare (if only because the latter aspect is a particularly vexed issue) but to examine changes that have taken place in the size structure of the retail trades in the two economies, to suggest why differences between the UK and Germany have occurred in this respect, and to consider what implications this may have for the two retail sectors. This paper builds upon the earlier work in this field by Howe and Dugard (1993) through incorporating an international comparison and reference to the government retail policy environment.

The data

The central concern of this paper is with the size structure of the retail sector in two economies. This takes us below aggregate firm concentration ratios (proportions of the total retail sector or individual component parts accounted for by the largest 'n' firms) and looks at the organization outlet-number size structure of individual retail trades. Thus the fundamental building block is the size of a retail organization or firm (*Einzelhandelsorganisationen*) as measured by the number of individual shops or outlets (*Verkaufsstellen*) that it controls. Although this is not a perfect measure across the whole of the retail sector (a small grocery organization with two or three branches may be of much less significance than a single family-owned department store outlet), it is a sensible comparative measure within individual retail trades; and, unlike sales turnover or employment size categorization, does not suffer from, respectively, differing rates of price inflation over time or confusion with labour productivity (including the problems of accounting for part-time employees).

For the purpose of this research, organizations in each of the six retail trade categories in the UK and those in Germany for the years 1980 (1978 for Germany), 1986 (1984 for Germany) and 1992 (1992 data relating to the former West Germany) were classified by outlet numbers into three size categories: 1 outlet (independents), 2–9 outlets (small multiples) and 10 + outlets (large multiples). The six retail trade categories were those for which consistent and comparable UK data over the period 1980–92 were available; and comparable German data were obtained by amalgamating into those six categories the large number of individual German retail trades. These data exclude only retail hire and repair businesses, and account for more than 90 per cent of the total UK retail trade.

The data on the structure of German retailing for the years 1978, 1984 and 1992 required considerable careful work in their assembling. The overall sets of data for 1978 and 1984 relating to the former Federal Republic of West Germany are strictly comparable in terms of their geographical and retail trade coverage and layout in the original source (*Fachserie 6* (*Handel*, *Gastgewerbe*, *Reiseverkehr*) – *Handels- und Gaststättenzählung*). The 1992 data were more specifically provided to the authors by the Federal Statistical Office (*Statistisches Bundesamt*), and are for the former West Germany and the whole of Berlin. In all cases the German retail trades data were assembled in the same form as the UK data by careful translation (in both the literal and colloquial senses of the word) of the more detailed breakdowns provided in the German statistics. The original German retail trades for 1978 and 1984 are strictly comparable, while bringing those of 1992 into line with the two earlier years required some judgement and reference to other primary sources.

We can thus be fairly confident that the German data correspond to our definition of retailing, that there is a strict comparability between the individual UK and German retail trades categories, that the allocation of each retail trade total sales across outlet-number size categories of retail organization is consistent, and that the data are comparable over time.

The first part of our analysis describes changes in the two economies in respect of the organization size structure of retail trades, and compares these using shift and share analysis. The second part of the analysis contains more tentative conclusions on why these movements – and the contrast between the UK and Germany – have occurred, and offers some views on the importance of institutional variables in this context.

Comparisons of changing retail structures

As a first comparison we may note the summary position and changes that have taken place in the position of the three size classes of retail

Table 1 Total retail sector market shares by organization size

UK	*1980*	*1986*	*1992*
Independents	32.5%	28.8%	25.3%
Small multiples	14.5%	12.3%	10.9%
Large multiples	53.0%	58.9%	63.8%
Germany	*1978*	*1984*	*1992*
Independents	45.5%	43.9%	37.4%
Small multiples	19.5%	15.5%	15.5%
Large multiples	35.0%	40.6%	47.1%

organization in the UK and Germany. These are measured and set out in Table 1 simply in terms of overall retail market shares.

The more aggregated data in Table 1 show significant differences in the overall size structure of the retail sectors of the UK and Germany, and clearly justify further analysis. The most obvious difference in the overall retail sector organization size structure between the two countries is the position of the largest and smallest size of retailers. In the UK the average market share of independents over the period 1980–92 was 28.9 per cent, while for Germany over the period 1978–92 it was 42.3 per cent. At the other end of the organization size scale, the corresponding figures for large multiples were 58.6 per cent and 40.9 per cent.

Common to both countries over the total period were increases in the market share of the large multiples; but the extent of these and the distribution of the corresponding market share losses between independents and small multiples differ considerably between the two countries. In the UK, the large multiples expanded their market share by one fifth (63.8 per cent/53 per cent), whereas by this measure the German large multiples increased their market share by more than one third, albeit from a lower base and to a 1992 market share in Germany below the UK 1980 figure. In both the UK and Germany the independents appear over the whole period covered to have experienced broadly similar fortunes in terms of proportional market share losses. In the UK the market share of independents fell by over one fifth (25.3 per cent/32.5 per cent), whereas the corresponding German figure was 18 per cent. But there was a much greater contrast in the outcomes for small multiples. In the UK, their market share loss was almost one quarter, while the corresponding figure for Germany was only one fifth; and, over the period 1984–92, the German small multiple market share remained constant.

In order to take the analysis of the causes of the reduced market fortunes of smaller retailers further, the data are used to distinguish three components in the growth in retail sales over the total period 1980–92 and the two sub-periods 1980–86 and 1986–92, using three outlet-number size categories of retail business and the six sectors of the retail trade for which data are available at this level of disaggregation. The technique adopted is based upon shift and share analysis as originally used in analysing regional employment changes (O'Farrell 1972). In our case the organization size categories are 'regions' of the total retail economy and the trades of the retail sector are 'industries'.

In terms of the actual growth of total retail sales over a period disaggregated by outlet-number size category of firm (A), this overall growth can be broken down into a national growth factor (N) which represents the extent to which sales in any individual outlet-number size category would have expanded purely in line with total retail sales; a proportionality shift factor (P) which is the amount by which sales in a particular outlet-number size category of retail business have grown or declined as a result of that size class 'specializing' in fast- or slow-growing trades within the total retail sector; and a crucial differential shift factor (D) which reflects the extent to which, for each organization size class, actual sales expanded more or less than N, allowing also for P. Thus $D = A - (N + P)$.

The following notation is used

s_{tc} = sales in each retail trade category (t) in each size class (c)

$$S_c = \sum_t s_{tc}, \text{ total sales in each size class}$$

$$S_t = \sum_c s_{tc}, \text{ total sales in each trade category}$$

$$R = \sum_t \sum_c s_{tc}, \text{ total retail sales.}$$

The data in Table 2 set out the results of our shift-share analysis for the UK for the whole period using the raw data. The first row of data in Table 2 (A) is taken from the raw sales data, and is the absolute increase in total sales revenue for each organization size category. The second row in Table 2 (N) is the increase in total sales for each organization size category that would arise had each of these size categories experienced a rise in total

Table 2 Shift-share analysis data – UK 1980–92

	Outlet size category		
	Independents	*Small multiples*	*Large multiples*
Actual sales increase 1980–92 (£M)	+15,028	+6,070	+53,110
N	+24,188	+10,696	+39,324
P	+141	+128	−269
D	−9,301	−4,754	+14,055

sales in line with the total retail sector. In terms of our notation above it is

$$N_c = S_c^0\left(\frac{R^1}{R^0}\right) - S_c^0$$

where the superscripts 0 and 1 represent respectively opening (1980) and closing (1992) values. Thus each of the 1980 sales totals for individual organization size categories has been inflated by the ratio of the closing to opening grand totals, and the original size category value subtracted. It is immediately apparent that overall only the largest organization size category experienced an actual sales revenue increase greater than this; which is to say that only this size category of firm increased its overall market share.

The third row (P) in Table 2 indicates the rise (+) or fall (−) in sales revenue for each organization size category which may be attributed to total sales in each of its individual retail trade categories rising more or less than the global level of total retail sales by virtue of its relative product specialization. It is a measure of the extent to which a particular size category of retailer benefits/loses from operating in particularly rapidly/slowly growing retail sectors. This component for each retailer size category is computed as

$$P_c = \sum_t s_{tc}^0\left(\frac{S_t^1}{S_t^0} - \frac{R^1}{R^0}\right)$$

Reference to Table 2 shows that it was in fact the two smallest size categories of retailers that benefited from operating within faster growing sectors such as Household Goods and Other Non-Food Retailers where $\left(\frac{S_t^1}{S_t^0} - \frac{R^1}{R^0}\right) > 0$ and that the large multiples lost ground in this respect.

Finally, the last row (D) in Table 2 indicates the remaining determinant of total change in sales revenue by retail organization size class: The impact of size class itself. Not surprisingly from our previous analysis, this effect is negative for all retailer size classes except the largest. However, this size effect varies considerably between the two smaller classes of retailer and between the UK and Germany.

United Kingdom

Taking the whole period 1980–92, the data in Table 2 and Appendix 1 show that the underlying trend of increased sales revenue (N) for independent retailers is offset to the extent of 39 per cent by the size impact D. For the small multiples (2–9 outlets) this reducing effect of D is 44 per cent, while for the large multiples the positive overall trend effect N is very slightly offset by a small negative P, but is added to by 36 per cent by the size of effect D. The absolute gain in sales of each organization size class, which is reflected in summary form in the changing market share percentages in Table 1, can also be measured by calculating $S_c^1 - \left(\frac{R^1}{R^0}\right)$ for each organization size class. For the whole period the figures are $-9{,}160$ and $-4{,}626$ for independents and small multiples respectively, and $+13{,}786$ for large multiples. The 'proportional deficit' of the first two organizational size classes is $\left[S_c^0\left(\frac{R^1}{R^0}\right) - S_c^1\right] / \left[S_c^0\left(\frac{R^1}{R^0}\right)\right]$, and is 22 per cent for independents and 25 per cent for small multiples. However, taking a more strategic look at the same data, of the 13,786 gain by the large multiples over this period, two-thirds came from the independents and one third from small multiples.

The UK results over the two sub-periods 1980–6 and 1986–92, however, show significantly contrasting results. Those for the first sub-period summarized in Appendix 1 are broadly comparable with the previous analysis by Howe and Dugard (1993), although those earlier results related to the period 1980–7 and covered only the first five of the present six retail trades. For this first sub-period there is more of a contrast in the results between the independents and the small multiples. These two size categories of organization both experienced positive P factors and negative D effects, but the extent to which the negative D offset N was 32 per cent for independents and 42 per cent for small multiples. The large multiples in this earlier period added 31 per cent by virtue of the size factor D to their overall trend factor N. The proportional deficits as calculated above for the whole period were 12 per cent for independents and 15 per cent for small multiples for the first sub-period, reflecting the shorter time covered. Comparing in particular the relative losses of market position of the independents and small multiples, the first sub-period data suggest a greater incidence of the polarization phenomenon of retail organization size structure within which the very smallest retailers have an in-built locational or service-oriented survival potential compared with the small multiples which are much more immediately exposed to the competition of the largest multiple-shop retailers, but which lack the buying power and operational efficiencies of the latter (Kirby 1986). Thus the first sub-period negative size effects D for the independents and small multiples were further apart, at 32 per cent and 42 per cent respectively, and the proportional deficits at 12 per cent and 15 per cent presented a greater contrast during this first sub-period than for the whole period studied.

For the latter sub-period 1986–92 this relative position of the independents and small multiples is much less obvious. Reference to the summary shift-share analysis data in Appendix 1 shows not only that the positive size factor D gain for large multiples in addition to their N was only 25 per cent in the second sub-period compared with 31 per cent in the first, but also that the proportional negative D factor for independents (D/N 36 per cent) was almost the same as that of the small multiples at 35 per cent. The corresponding proportional deficits for independents and small multiples, which take account of P as well as D, were both 12 per cent. Consistent with the overall whole-period results, therefore, the second sub-period saw the elimination of the apparently relatively protected position of the independents during the earlier sub-period; and this suggests that those factors that earlier protected the very smallest retailers relative to the small multiples are no longer so potent, or that the small multiple sector – which, on our definition at a UK market share of 10.9 per cent, is a very small part of total retail sales – has consolidated to a point at which there is now a hard surviving core. By contrast, increased locational availability, consumer mobility, longer opening hours, wider merchandise range and lower prices during a period of reduced real incomes for many are all making large multiple, one-stop shopping more attractive to consumers than is offset by the convenience store format and the ability of voluntary groups etc., to maintain the price etc. competitiveness of the smallest retail organizations, although the proportional size advantage of the large multiples in the latter sub-period was lower than in the former.

One further particular change in the fortunes of the different size categories of retail enterprises between the two sub-periods 1980–6 and 1986–92 is the effect of P in the shift-share tables. This measures the gain or loss in total by individual size categories of retail organizations resulting from their comparative specialization in relatively expanding or declining retail trades among the six identified. Gains under this heading arise, in our notation, when individual retail trades are characterized by $\left(\frac{S_t^1}{S_t^0} - \frac{R^1}{R^0}\right) > 0$. At the most global level, the contrasting fortunes of the two smallest and the largest size classes of retail organization are brought out in Appendix 1 by comparing the D/N and the (D+P)/N percentages where the latter figure is improved or worsened by comparison with the former. By this comparison the advantage for independents and small multiples in the first sub-period becomes negative in the latter sub-period, with the large multiples experiencing the reverse: Turning the first sub-period disadvantage into a gain in the latter sub-period.

Comparison of actual sales data allows us to see this more clearly; and the gain for the large multiples, for example, from having 50 per cent of their 1992 sales in the expanding Food trade and only 4.5 per cent in

Drink, Confectionery, etc., is apparent in contrast to independents deriving 24 per cent from the latter trade and 19 per cent from the deteriorating Household Goods trade which accounted for only 11 per cent of large multiples' sales in 1992. It is difficult to imagine that this change in the P factor fortunes of the different size classes of retailers can always be attributed to particular strategies, but changes in the relative growth rates of individual trade components of the retail sector have clearly also contributed to the enhanced position of the large multiples.

Comparisons of changing retail structures: United Kingdom and Germany

Rather than simply repeat here the analysis of the German data corresponding to that of the UK in the previous section, the German data are both presented and analysed comparatively to the UK.

The first comparison is for the whole period 1980–92 (Germany 1978–92), and the respective shift-share data are again summarized in Appendix 1. These show that while the three organization size category D effects have the same sign in each of the two economies, the relative impact of D/N alone differs between British and German independents and small multiples. For the UK the respective ratios for independents and small multiples are −39 per cent and −44 per cent, while for Germany they are −39 per cent and −33 per cent. Thus, while independents in the UK and Germany fared identically in this respect, the German small multiples suffered very much less than their UK counterparts over the whole period in competition with large multiples. The proportional deficits for UK independents and small multiples, incorporating the impacts of P and D and reported above as 22 per cent and 25 per cent, compare with 18 per cent and 21 per cent for Germany. These demonstrate the overall more protected state of German independents, including as they do the positive P effect enjoyed by German independents reducing D/N −39 per cent to (P + D)/N −35 per cent, which on this measure outperformed their UK counterparts. On the other hand, German small multiples had to contend with a large negative P effect increasing D/N −33 per cent to (P + D)N −41 per cent, although they too outperformed their UK counterparts.

The comparative shift-share results for our first sub-period (UK 1980–6, Germany 1978–84) are again summarized in Appendix 1. As indicated above, the UK data, more than those of the whole period 1980–92, provide evidence of a contrast in the fortunes of the smallest and middle outlet-number retailers. The respective first sub-period negative effects of D/N for UK independents and small multiples were 32 per cent and 42 per cent. The German results for this sub-period are startling. While the independents experienced a negative D effect of 21 per cent, the small multiples achieved such a very small actual absolute increase in their total sales (MillDM 1,093 over six years) that Appendix 1 shows D/N as −93 per cent. Since the relative specialization impact for German small multiples was negligible, the negative impact of D contributes almost entirely to the loss of market share over this period; and comparison of the sales data shows that this was particularly so in Food (where the large multiples increased their market share from 48 per cent to 63 per cent over this period) and Mixed Retail Businesses (where the large multiples further increased their market share to 74 per cent and that of the small multiples declined from 15 per cent to 10 per cent in what was in both 1978 and 1984 the second largest German retail trade). This was therefore a sub-period during which the German independents particularly enjoyed some competitive protection: Their D/N was −21 per cent compared with −39 per cent over the whole period 1978–92, and the proportional deficit (incorporating a positive P) was only 3.5 per cent compared with 17.8 per cent for the whole period. These German results for the first sub-period also exceeded the experience of the UK during 1980–6 when the independents' negative D/N was 32 per cent and the proportional deficit 12 per cent.

The German second sub-period results summarized in Appendix 1 show a marked contrast to the first sub-period, and also some similarities to the UK first and second sub-period comparisons. Over the period 1984–92 the German large multiples continued to strengthen their position, as revealed in Table 1. Appendix 1 shows, however, that the 37 per cent added to their N in the form of D was down from 79 per cent in the first sub-period. By this measure German independents suffered a competitive loss of 39 per cent in the latter sub-period compared with 21 per cent in the former. In this respect the German results are similar to the UK comparative sub-period outcomes, but the position of German small multiples is significantly different. They held their market share in the latter sub-period, the negative P being counterbalanced by a surprising 12 per cent *positive* D/N.

The results of our comparative market share and shift-share analysis in summary are:

- Across the whole period German retailing is characterized by a greater market share for smaller retailers than is the case in the UK.
- Although the German large multiples increased their retail market share proportionately faster than those in the UK (the German large multiples whole-period positive D/N was 69 per cent compared with the UK figure of 36 per cent), their 1992 market share at 47.1 per cent is well below the UK figure of 63.8 per cent for that year, and even below the 1980 UK figure of 53 per cent.
- The German independents suffered a less than proportionate loss of trade overall than their UK counterparts, as reflected in the

respective (D + P)/N ratios; and again their 1992 market share of 37.4 per cent was not only almost half as much again as the UK 25.3 per cent but was greater than the UK 1980 figure.

- The UK small multiples lost one quarter of their market share over the period 1980–92, whereas the German proportion was one fifth over the slightly longer period 1978–92, and their small multiples market share was constant at 15.5 per cent over the second sub-period.
- In both countries the independents lost some of their relative competitive protection during the second sub-period compared with the first: The negative D/N ratios rose from 32 per cent to 36 per cent for UK independents, and from 21 per cent to 39 per cent in Germany. These results indicate a particularly deteriorating position in Germany – moving independents from a more to a less protected position than in the UK, despite the fact that in percentage terms German independents still enjoy a much greater market share in 1992 than their UK counterparts.
- The extreme sub-period D/N proportions relating to German small multiples are not easily explained. The care taken in assembling the basic figures suggests that they are not the result of 'wrong' data, and the deterioration in their total retail sector market share from 1978 to 1984 of 19.5 per cent to 15.5 per cent is not excessive. As indicated above, the very large absolute negative 1978–1984 D stems from a virtual standstill in total sales. In Food this total actually fell, leading to a drop in market share in this retail trade from 13.3 per cent in 1978 to 9.6 per cent in 1984 in a trade which accounted in 1978 for 19.9 per cent of total German small multiple retail sales. This period 1978–1984 obviously represented a significant 'culling' of the German small multiple sector; and in this sense the pattern is not dissimilar to that of the UK where, at least in terms of the negative D/N ratios alone, the second sub-period saw a lower rate of deterioration of the market position of small multiples (from −42 per cent to −35 per cent, with the latter figure being almost identical to that of independents) although, as in the case of independents in both countries, the surviving core of German small multiples enjoys a higher total retail sector market share at 15 per cent compared with the UK figure of 10.9 per cent.
- The results immediately above account in part too for the considerable progress made by German large multiples over the period 1978–84 when their positive D/N was 79 per cent compared with a UK figure of 31 per cent, but also during which the German independents experienced a more protected position than their UK counterparts with respective negative D/N ratios of 21 per cent and 32 per cent.

- The more obvious effect of D/N, which reflects the impact purely of retail organization size in terms of number of outlets, must also be taken along with the influence of P. The latter reflects relative retail trade specialization by particular retail organization size classes. For the UK these effects are relatively small, as shown in Appendix 1. The average P/D ratio over the whole period was 2 per cent, although comparisons indicate a deteriorating situation for independents and small multiples, with their P/D ratios over the two sub-periods moving from +5.8 per cent to −5 per cent and +10.5 per cent to −11.7 per cent respectively. Within the German retail sector these P effects are of greater importance, averaging 10 per cent over the period 1978–92, and again point to a shift in advantage to the largest retailers, who saw their P/D ratio move from −8.1 per cent to +19.3 per cent across the two German sub-periods. The likely explanation for this, if the potential gains from this are understood by retailers, is that the large multiple retail organizations can shift their market orientation (for example, grocery supermarkets adding non-food merchandise) faster than the smallest retailers, who may face both barriers to exiting from their existing merchandise areas and entry barriers to taking on more rapidly growing lines.

The UK environment

There are a number of possible explanations for the changes in retail market organization-size structure set out above, and which will vary from one economy to another and over time. As an example of one that space precludes us from following up here, it may be that economies of scale or scope of one type or another (at the retail organization or shop level) favour organization size. Such economies would normally be converted into lower total unit costs, and the ability to compete successfully against smaller retailers either on a specifically 'low cost' base or by appropriate differentiation strategies. As pointed out in a recent text on retailing management, individual retailer sales volumes significantly increase gross margin achievement through buying discounts; there are, for example, greater opportunities for such retailers to obtain selected merchandise (including private labels); and there is a generally more positive attitude of suppliers towards larger retail organizations (Walters 1994: 48, 91). In this case a 'virtuous circle' may set in which results in a core of larger and larger retail organizations significantly reducing competition from smaller retailers. In fact, the evidence on the relationship between UK retailer organization size and gross sales margins is far from conclusive, and a more detailed recent empirical study by one of the authors of this paper led to the suggestion that 'greater profits are neither a necessary *input* for the relative survival of the independents or growth of the large multiples (indeed in the particular case of Food it is quite the opposite), nor the *outcome* of poor sales performance as in the case generally of the small multiples' (Howe and Staines 1997).

An alternative line of argument behind some of the relationships explored in this paper is that, while there may be no shorter-term reward to retailers arising from size or market share, the managerial decision on the part of large multiples to increase their market share may come from a strategic reaction to 'sunk costs'. In the case of retailers, and using Sutton's distinction (1992: 8–10), these may arise exogenously in the form of required large initial outlays on scale-efficient stores (involving up to £2m. per acre for grocery superstores in the early 1990s according to Wrigley (1992b: 1521)), or endogenously in the form of chosen advertising etc. costs. In either case typically large-scale retailers (large multiples in our population) may have a particular incentive to seek to increase their market share, although this may not be associated in the shorter term with improved sales margins.

However, such strategies or potential benefits for larger retailers in competing against smaller rivals require a 'permissive' environment: One that allows larger retailers to obtain such cost advantages and to exercise them in terms of passing efficiency and other savings on to consumers. Thus, a major distinction between two economies may well be their respective retail legislative environments. As Wrigley points out in an earlier article, disparities between, in this case, the British and US grocery retailing sectors in the 1980s, in terms of market concentration, the use of market power, the geographical structure of retailing, and sales margins and returns on investment 'owe a considerable amount to the differential nature of the regulatory environments in which the industries operated' (Wrigley 1992a: 727).

The British retailing economy has always been relatively unconstrained in terms of opportunities available to larger-scale retailers to develop and exploit their market position. Following abolition of war-time controls on shop building and product rationing by the mid-1950s, the largest grocery retailers themselves played a significant part in the breakdown of resale price maintenance (rpm), one of the most significant effects of which was to increase the 'vertical' power of larger retailers *vis-à-vis* manufacturers (Howe 1973). More obvious was the impact of larger retailer competition in terms of total retail trade market share. This increased in the grocery trade, for example, from a 20 per cent market share for multiples (defined as organizations having 10+ outlets and excluding Co-operative Societies) in 1950 to 42 per cent in 1970 and 71 per cent in 1986, with a corresponding reduction in the market share of independents (retail organizations having 1–9 outlets) from 57 per cent to 43 per cent and 18 per cent over these years (see data in Howe 1992: 49).

The British government, was aware through reports of the Monopolies and Mergers Commission, of many of the consequences of increased retailer market power, as firms even of the size of Unilever subsidiary Birds Eye, with a frozen food market share of 47 per cent, admitted that its trade discounts to retailers 'were not created at the initiative of the manufacturer *but were an unavoidable response to the power of the retailer*' (Monopolies and Mergers Commission 1976: paras 125–6, emphasis added). However, in its 1981 report *Discounts to Retailers* the same body, having found evidence of significant differences in manufacturers' terms of trade between smaller and larger retailers, took the rather laconic view that 'Concessions made by a manufacturer to strong buyers may be said to be commercially justifiable in the sense that, if they were not, the manufacturer would not have made them' (Monopolies and Mergers Commission 1981: para. 6.18). Indeed, in this analysis, retailer buying power is seen as a constructive 'countervailing power' to the market dominance of manufacturers. In its 1985 study *Competition and Retailing* the Office of Fair Trading updated the earlier Monopolies and Mergers Commission report (Office of Fair Trading 1985). However, it concluded at this stage that consumers were not likely to suffer from differential bargaining power among retailers *vis-à-vis* their suppliers; and a subsequent further updating of this type of study towards the end of the decade again failed to convince the UK government that there was any need for action in this area (see *Financial Times* 5 November 1988). The UK Director General of Fair Trading more recently initiated an inquiry into competition among supermarkets; but past experience suggests that this is unlikely to lead to action (see *Financial Times* 15 May 1996).

At a general policy level the UK Conservative government over the past eight years published 'green' and 'white' papers in the area of restrictive trade practices and market power which considered moving towards an 'effects-based' prohibition of anti-competitive trading agreements, including vertical agreements. Only more recently had any legislative action been taken in this respect (UK Department of Trade and Industry 1988, 1989, 1996b). Particularly disappointing was the lack of clear follow-up to the government's green paper on abuse of market power in which it recognized that there would have been an opportunity in respect of intra-UK trade to move to a prohibition of exploitative conduct as recognized in Article 86 of The Treaty of Rome, para. (a) of which refers to abuse of a dominant market position by 'imposing unfair purchase or selling prices or other unfair trading conditions' (UK Department of Trade and Industry 1992). The Conservative government view, reflected in a ministerial quotation in the March 1996 consultation document, was that 'Despite experience of EC law the identification of abuses of market power in many cases remains a matter for fine judgement. It can be very difficult to assess in advance what will be regarded as anti-competitive and what as acceptable business behaviour' (UK Department of Trade and Industry 1996a: para. 9.5).

This policy situation has now been changed by the recently-elected Labour government which set out its position in a consultation paper and draft parliamentary bill published in August 1997 (UK Department of Trade and Industry 1997). The policy now to be adopted in this area is a clear effects-based, prohibition approach modelled upon Articles 85 and 86 of The Treaty of Rome; and section 17(2)(a) of the draft bill directly incorporates para.(a) of Article 86 of The Treaty of Rome quoted above, although any such legislation is not likely to come into practical effect until mid-1999 (*Financial Times* 8 August 1997).

We cannot but conclude that, so far as the UK is concerned, the government, having provided for freedom in competitive pricing among retailers, has until very recently largely stood back from any further intervention in this market. Some concern has been expressed from time to time over a number of years regarding changes in retail market *structure* through horizontal acquisitions or mergers that might have led to some reduction in consumer choice. But otherwise, and particularly in respect of market *behaviour*, UK governments have been passive. Indeed, in a recent paper, Wrigley, following a detailed consideration of the UK grocery retailing sector in the late 1980s and early 1990s, saw the Office of Fair Trading/Monopolies and Mergers Commission as being rather weak regarding, for example, the reaction by established large-scale grocery retailers to the entry of deep discounters; and his overall view was that 'The unbroken growth in the market power of the major food retailers during the 1980s was underpinned by an environment of competition regulation in the UK that was conducive to the concentration of retail capital and retailer dominance of the retailer–supplier interface' (Wrigley 1994: 15).

Smaller retailers in the UK have therefore been left almost entirely to their own organizational and marketing devices in meeting competition from those retailers defined as large multiples; but, while at one time retailer voluntary groups (including trade cash-and-carry), locational and service differentiation, and more recently the convenience store format would seem to have provided some degree of polarized competitive protection at least for the smallest retailers in some trades, this is now fast disappearing, with the emergence of significant convenience store chains such as Alldays (Watson and Phillip) and many petrol retail chains moving rapidly to developing forecourt shops (for example, Shell Select).

The German environment

The setting for a consideration of the retail legislation framework in Germany is that of a social market economy, where the free rein of the principles of pure markets is tempered by the application of social criteria. This was particularly the case during the period of our study when, for example, the number of discount stores and self-service outlets, which had multiplied almost by a factor of three in the 1970s, rose by less than a quarter in the following decade, when new shopping developments were burdened by a 'complicated and lengthy process of authorization', and where over the period 1980–92 the total retail market share of discount stores and self-service outlets expanded only from 11 per cent to 17 per cent (Vielberth 1995: 80–5).

Among the legal conditions that were decisive for the development of the type and the size of retail business in the Federal Republic over the last forty years the most important was the law concerning shop opening hours announced on 28 November 1956 to protect employees from working on Sundays and to regulate their daily working hours. Up to the present there have been only special licences (for petrol stations, railway stations, airports, kiosks) to fill existing temporal niches, which are supervised by the official factory and shop inspectorates (*Gewerbeaufsichtsamt*). These shop opening hours do not meet the interests of customers but rather those of employees and small independent retailers. Usually these shop owners have a one-person or family business. They are exposed to a heavy workload and are rather inflexible with regard to extending their opening hours which would mean more personnel and other costs. Because of the law concerning opening hours, these small retailers have been more or less secure from niche competitors. But, against the protest of trade unionists and small businessmen, opening hours were liberalized from 1 November 1996. On workdays shops can now open until 8 pm (previously 6.30 pm) and on Saturdays until 4 pm (previously 2 pm) (*Süddeutsche Zeitung* 22–3 June 1996). In comparison to other European countries, however, opening hours are still restrictive.

Although the law concerning opening hours had a rather dampening effect on the competition, it could not prevent the process of concentration in the retail sector over recent decades. Hatzfeld (1995: 23) distinguishes between three essential tendencies: a) the tendency to spatial concentration within the town or city; b) the trend to fewer but larger shops; and c) the process of surburbanization, i.e. the movement of retail business out of the cities to the outskirts or the periphery. One result of these developments has been the decline of small, self-service shops in the grocery retailing trade from some 86,500 in 1971 to 53,000 on 1 January 1991. By contrast, the sales-floor area increased over the same period from 5.5 Mio to 16.8 Mio sqm (*Handelsblatt* 18 November 1991). The most important reason for this was the spatial diffusion of new retail types. Between 1964 and 1990, eighty-eight shopping centres were built in (West-) Germany which had more than 10,000 sqm sales floor area (*Deutsches Handelsinstitut* 1991). Hypermarkets (at least 1,000 sqm sales floor area) and self-service general stores (at least 3,000 sqm sales floor area) spread out in the 1970s, and so-called speciality outlets (generally self-service non-food outlets of very different size) in the 1980s. Also important were the discounters, important not so much because of their size but for their price aggression. Generally they have only a few hundred products in their assortment, which are sold at permanent budget prices. The Aldi chain, which is also familiar in the UK, opened its first shop of this type in 1962 (Berekoven 1986: 101). In addition to the grocery retail trade, other lines of business like furniture, opticians' and chemists' shops adopted the discount system and reduced the number of small retailers. The success story of the new retail types was also based upon increased customer mobility, which had expanded significantly since the 1960s. These new types of shop were (and still are) often located on the periphery, so that the inner cities lost their traditional centrality as suppliers of goods and services for the surrounding countryside. The classical city structures thus 'dissolved' themselves functionally and spatially (Hatzfeld 1995: 27).

Although the government planning authorities are not intended specifically to have regard to retail competition, since the beginning of the 1960s these authorities have sought means to restrict the development of very large-scale retailers in terms of spatial expansion, size and variety of their assortment so that a deterioration of the inner cities could be prevented. The legal basis is the National Building Code (*Baugesetzbuch*) and the even more important ordinance defining all regulations in written or mapped form (*Baunutzungsverordnung*) according to the latest version of this ordinance. In its 1977 version this regulation defines 'oversized space' as when the floor space exceeds 1,500 sqm so that special planning approvals are necessary. In 1986 this size was decreased to 1,200 sqm floor space and subsequently to 700 sqm sales-floor space (Thies 1992). New speciality outlets or discounters circumvent this limiting value by planning 699-sqm outlets. An agglomeration of these stores has produced new forms of shopping centres – so-called speciality market-centres. Another amendment of the building ordinance (the fifth since 1962) is probable.

Competition in the retail sector has not changed only because of new retail types. In the course of market concentration processes large retail groups have emerged, which operate to the disadvantage of small retailers not only on the supply side (horizontal competition) but also in terms of buyer concentration (vertical competition). As wholesale buyers they can fix price and quality conditions to which the producers have to adhere (*Der Spiegel* 24 June 1996). In 1995 the largest ten retail businesses accounted for 78.9 per cent of all sales in the German grocery retail trade. So far, the statements of the Federal Cartel Office and the Monopolies Commission of the Federal Government do not show any sign that they believe that competition is thereby hampered (Dahremöller 1987).

On the basis of the above summary the general view of the German retail trade seems to be contradictory. On the one hand, it is 'progressive' if we consider its levels of concentration; on the other hand, it is 'old-fashioned' if we look at the law concerning opening hours and the law regulating discounts for consumers very strictly (*Rabattgesetz*). *The Economist* (23 September 1995) described the German system even as a 'Byzantine shopping regime'. At least there are some signs of liberalization in the retail sector. But who will benefit from it? The protestors against the change in shopping hours believe that the chains and shopping centres will once again be the winners at the expense of the diminishing number of small retailers.

Conclusions

This paper has examined the changing fortunes of different outlet-number size classes of retailers over some twelve years in two economies, characterized by different starting points in this respect and contrasting retail legislative environments. With regard to the latter, our period of study – basically the 1980s – was one of particular contrast between the UK and Germany. As the editor of one comparative international study expressed it in respect of retail planning, while Belgium and West Germany 'strengthened their planning policies and returned to a restrictive stance', one of 'The most dramatic features of the 1980s . . . [was] the virtual abandonment of any retail planning in the UK' (Davies 1995: xvii). We have emphasized, too, the very relaxed role of UK competition policy as it affected the retail sector during this period.

As the data in Table 1 indicate, although there has been a general move towards increased aggregate retail sector concentration in both the UK and Germany, the UK retail market has always been, and continues to be, much more highly concentrated in this respect. Shift-share analysis, however, allows us to examine this phenomenon in more detail, and in particular to isolate more rigorously the impact upon the changing market share fortunes of different size classes of retailers of their size itself – separating from this, for example, the effect of relative retail trade specialization. This allowed us, for instance, to detect a degree of competitive protection enjoyed at an earlier stage by UK independent retailers in particular *vis-à-vis* large multiples, whereas in Germany such protection was also enjoyed over the period 1978–92 as a whole by small multiples. The sub-period shift-share analysis, in particular, reveals important underlying trends. Comparing the UK data for the two sub-periods, independent retailers lost their comparative protection *vis-à-vis* small multiples, indicating that large multiples are now having an almost identical competitive impact upon independents and small multiples. In Germany too the competitive position of independents worsened in the latter sub-period, with small multiples maintaining their market position.

Taking account of the different retail legislation environments in the two economies, such underlying trends are rather surprising. The UK economy represents, in some sense, the pure market case, with little obvious legislative protection being afforded to smaller retailers in competition with their large-scale rivals. Here, there is evidence of a continued onward march by the large multiples, revealed particularly in the comparative sub-period analysis. In Germany, while the overall market share data in Table 1 provide a picture of greater relative competitive survival on the part of smaller retailers (independents and small multiples), the trend for independents is worse than that of their UK counterparts, despite the obviously much more protective retail legislative environment. We must therefore conclude that in Germany there are underlying competitive trends operating against the smallest retailers that have overwhelmed legislation on shopping hours and with regard to retail planning, both of which were obviously designed to protect independent retailers. We may, even, with the recent liberalization of shop opening hours, expect a more rapid deterioration in the fortunes of these German retailers, which may see their aggregate retail market share approach that of UK independents. Government legislation, it would appear, cannot always stem the competitive effects of differential retailer efficiency (including managerial expertise) or consumer shopping preferences. However, the longer-term impact of such changes upon consumer welfare is something which one should be wary of forecasting.

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Appendix 1 Summary shift-share analysis results

	Whole period		*Sub-period 1*		*Sub-period 2*	
	D/N	*(D+P)/N*	*D/N*	*(D+P)/N*	*D/N*	*(D+P)/N*
UK						
Independents	–39%	–38%	–32%	–30%	–36%	–37%
Small multiples	–44%	–43%	–42%	–38%	–35%	–39%
Large multiples	+36%	+35%	+31%	+29%	+25%	+26%
Germany						
Independents	–39%	–35%	–21%	–16%	–39%	–40%
Small multiples	–33%	–41%	–93%	–93%	+12%	–2%
Large multiples	+69%	+69%	+79%	+73%	+37%	+44%

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