SCOTTISH CONSUMER COUNCIL

Marketing Boards, Private Food Companies, Retailers and the Consumer.

1. **Statutory Marketing Boards**

The Scottish Consumer Council has not made a general study of the role of the statutory food marketing boards. However, we understand that the Consumers' Committee which advises the Government on these matters has recently examined the working of the Potato Market Board to see to what extent it serves the interests of consumers.

The Scottish Consumer Council in principle favours full and free competition in the market place as the best way to serve the consumer interest. The statutory milk marketing boards undoubtedly breach the principle of a completely free market. Competition between dairy farmers for the sale of their milk is restricted by the existence of the three milk marketing boards with monopolies in their respective parts of Scotland. A monopoly wholesaler can if it so desires operate in the consumer interest. However, the SCC has not studied how the Scottish boards work in practice, or considered how consumers would gain or lose from their abolition.
The SCC has in the past looked "downstream" from the boards and is aware that, despite the existence of these monopolies, the market in Scotland for the sale of liquid milk to the consumer is remarkably free. There is lively competition both between different dairy trade companies and between retailers, and this works to the benefit of the consumer. Indeed the price of milk is keener in Scotland than any other part of the United Kingdom.

When the maximum retail price for milk was abolished in Scotland two or three years ago, there was no marked change in the price of milk, so strong were the forces of competition in that part of the market.

Most Scottish consumers have a choice of doorstep delivery of milk, (frequently in cities there is a choice of more than one delivery service) or of cheaper milk in the shops. Many consumer obtain milk both on the doorstep and from shops. (Research a few years ago by the Scottish Milk Marketing Board indicated that these consumers tended to purchase the largest quantities of milk.) In contrast to what is normally the case with other commodities, corner shops in cities frequently have cheaper milk than their supermarket competitors. The most probably explanation for this is that in Scottish cities unlike the rest of the UK, there are a large number of small dairies with low overheads and very local distribution who are able to undercut their higher cost, larger rivals. These latter companies supply the supermarkets in Scotland, and have traditionally dominated the market south of the
border. Through lack of competition the price of milk in shops in England and Wales has in the past been higher than on the doorstep. This is now changing.

It is not at all clear to what extent the abolition of the Milk Marketing Boards would increase significantly the overall level of competition or reduce prices for the consumer. Much would depend on the marketing arrangements which replaced the Boards, and any private arrangements which were subsequently organised would of course be subject to the full range of restrictive practice and competition legislation.

If there was a desire to test the effect of the abolition of milk marketing boards (and it should be stressed this is not the policy of the Scottish Consumer Council), it would be possible to conduct an experiment in Scotland, as happened with the abolition of the maximum retail price. There would need to be preliminary work, however, to assess the possible costs and benefits to consumers and other interests.

2. Private Food Companies

The report of the Monopolies and Mergers Commission on "Discounts to Retailers" (1981) indicated that while supermarket chains obtained substantial "discounts" from food manufacturers which are
unrelated to any economies of scale, the resulting price benefits were passed on to the consumer. As long as this remains the case, consumer organisations will oppose intervention by government into the bargaining between the giants of food manufacturing and the giants of retailing.

Indeed, it is misleading to think of prices charged to multiples as being "discounts". A price is what can be obtained in the market. There is no correct price for any commodity, on which "discounts" are given or withheld. Multiples are able to negotiate a certain price from manufacturers, but in a free market that is every bit as valid a "price" as the one negotiated with the small retailer.

The Office of Fair Trading has announced that it is conducting a further inquiry into discounting, as a result of pressure from organisations representing small grocers. It has been claimed by these groups that so large are the discounts demanded by large retailers, that certain food manufacturers recoup their lost profits by offering poorer deals to small retailers.

Consumer organisations are extremely sceptical about these claims. For a start food manufacturers have immense market power of their own, and spend very large sums of money promoting their branded products which most retailers therefore wish to stock. Few retailers are going to risk the entire business of a consumer because they do not stock a particular branded product.
That poorer deals are offered to smaller grocers is a reflection of the weaker negotiating power, and is unsurprising in such a competitive market. If food manufacturers were protected, through government intervention, from having to concede such favourable terms to multiple retailers, they would doubtless be grateful, but there is no reason at all why this gratitude should cause them to give a more generous deal to small retailers. Indeed, if prices in supermarkets were to move upwards as a consequence of "discounting" being curbed, food manufacturers might use their market power to increase their prices still further to small grocers. They could point out legitimately that with the slackening in overall competition the small retailer could maintain his margins and not be any worse off by putting up his price, thereby sustaining the previous price differential between large and small stores.

Moreover, even if manufacturers did not respond in this way, and did not even hold prices to small grocers steady, but went so far as to offer more generous terms, which would be a surprising use of their bargaining power, there is no reason to suppose that price benefits would be passed on to the consumer. In the less competitive circumstances prevailing, small shop-keepers might understandably decide to give themselves the benefit of the doubt, hold prices steady and operate on a more "reasonable" margin.

There is considerable evidence that something like this happens wherever competition from supermarkets is slack or non-existent.
For example, the Rural Scotland Price Survey (now entirely funded by the Highlands and Islands Development Board but initially launched in co-operation with the Scottish Consumer Council) has consistently shown that in the absence of competition from multiple stores, the prices of food and general groceries are consistently higher in localities which are otherwise similar.

In particular, shop prices in Kirkwall have come out year after year as being consistently and significantly higher than in the other island centres, such as Lerwick and Stornoway. For example, the most recent figures, for April to June 1984, are as follows: (Aberdeen in each case is 100).

<table>
<thead>
<tr>
<th></th>
<th>Food</th>
<th>Other Goods</th>
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<tbody>
<tr>
<td>Lerwick</td>
<td>101.2</td>
<td>115.0</td>
</tr>
<tr>
<td>Kirkwall</td>
<td>110.4</td>
<td>120.8</td>
</tr>
<tr>
<td>Stornoway</td>
<td>104.8</td>
<td>112.3</td>
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The most likely explanation for Kirwall's perpetually high prices is the absence of a branch of a particular Scottish multiple which sets extremely keen grocery prices in the other two island centres (and indeed the absence of any other competitive supermarket.)

The lesson of recent years is that the shopper benefits in price terms from the existence of supermarkets run by multiples. Not only are these prices low in themselves but they help to lower prices in other grocers shops. Small retailers have no realistic
prospect of competing effectively on price with multiple traders. They should compete on other grounds. It is no coincidence that the steady decline of general grocery stores has been matched, on the other side of the balance sheet, by a steady growth in ethnic food-stores which are open at convenient times, delicatessens, health food shops, and shops providing take-away foods. Small shops must specialise and offer better services than their competitors.

One of the arguments given for the new Office of Fair Trading investigation, however, is that elderly and immobile consumers may not be able to benefit from the lowest supermarket prices found on the edge-of-town superstores. This has been confirmed in several recent studies, as well as conforming to common sense expectations. Elderly and immobile shoppers in towns and cities tend to have to shop in stores run by independent retailers where prices are high.

What is not so clear, leaving aside the unlikelihood of a curb on multiples discounts benefiting these and other customers of small grocers, is how to tackle this problem. One approach for urban areas would be to grant automatic planning permission for every application to build a superstore, in city centres, in the suburbs and on the outskirts.

In a small pilot series of discussion groups, organised for the National Consumer Council, whose participants were drawn from less mobile sections of the population in urban areas, the overwhelming
preference expressed was to be able to walk to a supermarket. Neither the elderly nor young mothers without use of a car were seen as an adequate substitute for being able to walk to a supermarket. They wanted more supermarkets in towns. Though these were not formally representative samples, the consensus that emerged in discussion groups in different cities was striking.

Yet, it is notable that much of planning policy, in Scotland, certainly, is directed to restricting the development of supermarkets. "Overprovision of shopping facilities" and "protection of existing shopping streets" are respectively opposed and supported by planning policy. However, disadvantaged shoppers appear to hold a quite contrary view. They know that supermarket prices are low and they want to benefit. If commercial developers are willing to risk their capital in "overproviding" superstores, it is not quite clear why this should be of prime concern to planners.

However unrestricted were the supply of supermarkets to become, it is nonetheless impractical to expect every urban consumer to have one within easy walking distance. An experiment in Gateshead in the North East of England, however, indicates that it may be possible to give elderly or otherwise immobile shoppers access to low supermarket prices. Tesco in co-operation with the social services department has for several years run a scheme whereby disadvantaged shoppers can place their orders from a local
community centre or, in certain cases, from their home, and their orders are delivered to them. There is an element of subsidy from both public and both private sectors in the service, but it appears to meet a need most cost-effectively.

Moreover, a "Club 403" in the Midlands of England offers opportunities for "armchair" grocery shopping (including butchers) through Prestel. This is designed for the general subscriber, and not simply for disadvantaged groups. It is sponsored by a local daily newspaper group, with backing from the Department of Trade and Industry.

With the advances in new technology, superstore tele-shopping for the elderly may become as common as home-helps or meals on wheels. It would enable old folks to participate in the form of shopping preferred by the majority of the community and reduce their living costs.

One the one hand, therefore, the working of the market in retail services could be facilitated by the reader granting of permission to build more supermarkets in towns. On the other hand, the inability of the free market to provide the fullest benefits of cheap shopping to all citizens should be tackled by the targeting of subsidy and technology to assist directly those in most need.

3. Rural shopping

The same principles apply in rural areas, though the remedies may be different.
Most of the work done by the Scottish Consumer Council on the provisional shopping facilities has been part of a wider look at rural consumer services. This research was published in the summer of 1982 as "Consumer Problems in Rural Areas," and a further proposal was put to the Scottish Office a year later for a shop support scheme to preserve and improve certain isolated shops serving remote communities.

The gist of the SCC's argument is that there is a "market break-down" in the provision of shops on the rural periphery of Scotland, and that this adversely affects whole communities many of whose members are poor. The Rural Scotland Price Survey, has shown that while prices as a whole are about 10% higher in rural Scotland than in urban Scotland, in the more remote and sparsely populated areas prices in shops can be 25% or even 30% higher. These places tend to be some considerable distance from the nearest town, and their populations are frequently elderly, many of whom have limited or no access to a car and are therefore largely dependent on the local shop.

Those who are more mobile are able to stock up with cheaper goods in towns and they are therefore less affected by the higher prices in the local shop.

While the highest prices were most commonly found on the remoter islands around Scotland, prices in the main island centres were
found to be around the average for rural Scotland. Moreover, price levels in parts of the mainland, including Grampian and Dumfries and Galloway Regions were amongst the highest in the country. It is not, therefore, simply an island problem.

Nor is it a straightforward problem of high transport costs. Though freight changes can be a significant element in higher prices in rural areas, it is too readily assumed to be the only factor. The Scottish Consumer Council researchers believe that the size of the local market is as important as transport costs. In order to make a decent living, the rural shopkeeper with a small turnover must have a much higher mark-up on goods sold than a shopkeeper with a large turnover. So in sparsely populated rural areas, turnover tends to be low and mark-ups high. The other two factors which affect price levels are inefficiency and lack of competition.

The shop support scheme proposed by Scottish Consumer Council is intended to tackle two of these four factors, turnover and inefficiency. Turnover would be increased in two direct ways. There would be capital investment in shops to increase the range of goods available. There would be a running costs subsidy which would have to be used to reduce the price of goods in the shop to an agreed level. This in turn would make it more advantageous for consumers to spend more of their money in the local shop, thereby increasing turnover. Inefficiency would be tackled by training and consultancy services being offered to rural shopkeepers. It is not
proposed to make grants to shopkeepers who are unable to operate efficiently.

In Norway, all of these aspects are offered in a package to single shops serving remote communities. This policy has been successful in stemming the closure of social service shops, and, even more encouragingly, in increasing the turnover and reducing the dependency on subsidy of these same shops. Norway has strategic reasons for wishing to maintain the population on its periphery. However, it shows that, given the political will, shopping facilities in the most remote rural areas can be maintained at a reasonable and controllable cost of around £200,000 to £300,000 a year.

In England, COSIRA (the Council for Small Industries in Rural Areas) has put into operation in the last year a consultancy and advisory service for rural shop-keepers with the backing of the Development Commission. This is arousing the interest and envy of people in Scotland. When Scottish Consumer Council undertook its research four years ago, the part of Scotland covered by the Highland and Island Development Board was better served than any other part of the United Kingdom for assistance available to actual or potential rural shop-keepers. Today, Scotland has been left behind both by COSIRA in England and the Development Board for Rural Wales.
Once again, if government intervention is favoured it should be used for the direct benefit of the most disadvantaged consumer.

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