FOOD RETAILING IN EUROPE - POST 1992

PROJECT II
THE COCA-COLA RETAILING RESEARCH GROUP
EUROPE

THE SINGLE MARKET: 1992 IN RETROSPECT

A study prepared for

THE COCA-COLA RETAILING RESEARCH GROUP EUROPE

by

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INTRODUCTION

This series of papers, produced by the Coca-Cola Retailing Research Group, Europe, over the last two and a half years, has been concerned with assessing the implications of the Single European Market for food retailers in the twelve Community Member States.

The intention was to produce a series of practical, working documents which would help smaller and medium sized retailers understand what the Single Market meant for them. Whilst the largest multi-national operators were likely to be aware of the legislation and the trading opportunities, the same might not be true of all other retailers.

Moreover, the intention was to focus on food, as opposed to non-food, retailing. The legislation relative to these sectors obviously differs, even though the changes in company and employment law are common to both.

A full list of all the papers published in this series is included at the end of this document as an appendix.

It was planned that this, the final paper in the series, should be published soon after the Single Market opened for business on 1st January 1993. It looks back at the build up to the Single Market, from the signing of the Single European Act of 1986 to the present day, to see what has been achieved so far, what remains to be done to complete the Single Market and how food retailers have reacted to the enlarged market now available to them for both selling and sourcing.

The paper also considers the question 'what next?'

CONTENTS

SUMMARY

Throughout this series of papers it has consistently been argued that:

* retailing was going to be less affected by the proposed Single Market legislation than manufacturing or food processing

* the existing structural variations between countries in food retailing were unlikely to be changed

* national and regional variations in consumer markets and consumer preferences would persist, certainly in the short to medium term

This remains the case, especially so far as food retailers are concerned.

Even though more than 450 retailers had, by the autumn of 1992, become involved in cross-border trading operations, the overwhelming majority are involved in non-foods. Of the foreign operations set up in the Member States, only 13 per cent involve food.

Before the Single Market even came into effect, attention was turning to the prospects offered by the inclusion of EFTA countries to create the European Economic Area and by the opening up of Eastern Europe. There is little in the former to attract food retailers, but the latter does offer exciting prospects. Investment in Eastern Europe, compared with investment in the Single Market, will be long term, high risk and difficult, but the ultimate prospects are good.

The creation of the Single Market has been a considerable achievement, no-one supposed that all the planning would be completed, and all the legislation in place by 1st January 1993. That was merely a start date for trading. So it has been. Many of the details still have to be worked out and definitions agreed, but it is really only in the field of indirect taxation that major problems still exist.

The removal of the boundaries created the enlarged Single Market, but the real economies of scale only come when the same products can be sold in all, or at least all the major, countries. National and regional differences will make this hard to achieve. Whilst this is more of a problem for suppliers, it does affect retailers with own brands. Creating Euro-brands remains as difficult as ever, even in the Single Market.

THE COMING OF THE SINGLE MARKET

On 1st January 1993 the Single Market came into existence.

Politicians lit a series of beacons across Europe to welcome the birth of the Market. Newspapers included reviews for their readers telling them - to a greater or lesser extent - what it meant for them and their country. Television news gave the event rather less coverage. Were it not for the media, businessmen might have forgotten the significance of the actual date.

There are two reasons why the actual day itself was not made more of an event - apart, of course, from the fact that it was a public holiday in most countries:

(i) there had been a progressive build-up over the last five years in the attention focused on the Single Market, as government departments, trade bodies, consultants and other interested parties tried to inform, and interest, business organisations in the Single Market

(ii) it had never been intended that the first day of January 1993 would mean the start of a new era in European integration. It was merely the deadline for the completion of the first phase of the integrating process agreed in the Single European Act of 1985. Much has actually been achieved, but there is still a lot more that needs to be done

Nonetheless, the Single Market is now 'open for business' and it is reasonable to ask how important an event this really is.

This paper considers, therefore, such issues as

* what has actually been achieved to date?
* what remains to be done?
* have retailers been encouraged to trade cross-borders as a result of the coming of the Single Market?
* is the Single Market still the key attraction?
* are traders and suppliers taking advantage of the Euro-market?

THE ACHIEVEMENT TO DATE

The extent of the achievement in setting up the Single Market has been somewhat obscured by the length of the preparatory period between the signing of the Single European Act in 1987 and the opening of the Market in January 1993. The pace may have been tortoise-like, but the ground covered was considerable:

* more than 250 of the 282 individual measures in the Programme have been adopted by the EC Council

* getting these measures adopted at the national level has been more difficult, with some countries insisting on the right to defer implementation for several years. Nonetheless, on average some 80 per cent of EC directives had, according to the European Commission, been incorporated into national legislation by December 8 1992. The range was between 73 per cent in Italy and 96 per cent in Denmark

To get where it has the Commission has had, among other things, to

* harmonise technical standards for all products, so that the same specifications could be used everywhere. At the start of the process, in 1986, it was estimated that there were more than 100,000 different sets of technical specifications existing in the Community

* liberalise rules on the service sector, including transport

* remove border controls

* likewise remove fiscal boundaries, by agreeing on VAT systems for all countries and an end to controls on excise duty at internal frontiers

Details of the progress in processing the legislation were given in the most recent of these papers on 'Food Retailing in Europe - Post 1992', published in November 1992. The boundaries between the 12 Member States have now been effectively removed and companies are free to trade where they wish, subject only to environmental constraints.

The underlying objective of the Single Market Programme was to free the flows of trade and business between the 12 Member States. Long before January 1993 it was accepted that this was happening. If the process was not completed by January 1st, then it was only a matter of time. Attention had already moved on to other issues of Community development. In particular

* the move towards monetary union, if necessary with a fast and a slow lane

* arising from this move, issues related to the establishment of a Central Bank and to competition policy and merger control

* the ultimate aim of political union

By comparison the creation of the Single Market was relatively simple.

As noted above, the objective was to remove the constraints on cross-border trading within the Community. This, however, does not necessarily mean that the job of selling to the end-user, the consumer, is any easier. In no way has the Single Market

* removed national or regional variations in consumers' life-styles, tastes or purchasing patterns. Countries are no more alike than they were previously.

* changed the structure of retailing within individual Member States. There are still very marked variations in the degree of retail concentration between countries, in wholesaling and supply patterns and in the importance of the various forms of retailing.

The differences remain as much of a challenge as they ever were.

WHAT REMAINS TO BE DONE?

The Single Market has opened, but there is much 'tidying up' to be done. This comes as no surprise. January 1 1993 was just one of the key dates in the process. In particular there is much implementation at the national level to be achieved, but this should not detract from the progress that has been made.

Perhaps the most serious omissions to date are concerned with indirect taxes. Some agreement was reached in October 1992 on VAT, when a package of eight Directives fixed a legally binding minimum VAT rate of 15 per cent across the twelve Member States until 1996, together with minimum excise duty rates on a range of products, including alcohol, tobacco and mineral oils. Nonetheless, big differences still remain between the rates levied in the separate States, and already a few non-food retailers are trying to turn this to their advantage by taking orders in their own country but actually supplying the goods from another. As the previous paper in this series showed, there are major problems and variations to be overcome.

It is true that a system has been set up for the common collection and administration of VAT across all Member States. There are likely to be problems that still have not been anticipated. Certainly businesses are now finding out just how much paperwork and administrative burden has been placed on them regarding collection procedures.

Then there are the more short-term problems. Two examples will suffice. Firstly, one of the four 'freedoms' that form the basis of the Single Market which still needs to be implemented fully concerns cross-border movement. Products can now cross borders easily. The controls over people doing so are being removed by stages and should be gone by the end of 1993. The position regarding the movement of animals, and to a lesser extent plants, has to be clarified.

Secondly, the harmonisation of company law is making slow progress. A directive dealing with takeover procedures is currently under review, but the plans for a voluntary European Company Statute for multi-national organisations seem to have come to a halt.

Finally, there is the host of technicalities - often related to matters of definition - that need to be resolved. To give but a few examples of those relevant to food retailers:-

* To retailers' relief, the European Commission has given up trying to harmonise ingredients and recipe rules for most foods. Fears that much loved national and regional products will be killed off are virtually gone. The exceptions are fruit juices and chocolate products.

* There are also no plans for harmonising the names of products, so consumers will have to look at the labels to see what they are buying. Yoghurt, for example, has different names in different countries. What are regarded as fruit purées in some countries are not so regarded in others. Many other foods are likely to have similar problems, including pâté, ham and smoked salmon.

* The Commission has boasted that no products will disappear as a result of the new regulations. The French, for example, will still be allowed to produce unpasteurised cheese. The principle of mutual recognition will mean that any food made in one Member State will be allowed to go into another Member State. National rules, however, will probably still apply to the manufacturing of some products, as for example foreign brewers wanting to set up production plants in Germany are finding out.

* Regional foods will be protected if registered as 'traditional' products, but the rules will not be extended to include the use of a country in a product name. The situation gets very complex. Scottish smoked salmon, for example, will be safe because Scotland is regarded as a region and not a 'country'.

* Likewise, what are regarded as 'generic terms' may not be registered as 'traditional' products. A list of what constitutes 'generic terms' still has to be agreed, but it is likely to include such names as Black Forest Gateau and Frankfurter sausages.

* The position has to be clarified over the use of colourings and additives in food. As time passes, it seems that the rules will be less strict. It may even be that all colourings and additives used in at least one Member State will be allowed in all 12 countries. The latest suggestion from the Commission is to draw up a list of all E numbers currently used and allow them all. That will certainly not be accepted with ease by the French, Belgians, Danes and Dutch, who all have relatively strict rules.

It could never have been expected that, by January 1993, the Market rules would be both comprehensive and unambiguous. The details will be debated for some time to come.

HAVE RETAILERS BEEN ENCOURAGED TO TRADE CROSS-BORDERS?

The fundamental idea behind the establishment of the Single Market was that an enlarged and open market would be created and that businesses should benefit from serving this multi-country market. Have retailers seen it in this way?

At first sight the answer has to be 'yes'. Research by The Corporate Intelligence Group has identified 469 retailers who have crossed borders and invested in retailing within the 12 European Community Member States. Of these 469 retailers -

342	were retailers already within the European Community who have crossed borders and started to trade in one or more of the other 11 Member States. This represents 73 per cent of those investing in the Single Market countries
57	came from EFTA countries (12 per cent of the total). Of these countries Switzerland was by far the most important with 24 investors, Sweden came in second place (12 investors) and Austria third (10 investors)
70	(15 per cent of the total) came from outside Western Europe. This group is dominated by 43 U.S. retailers who have moved into Europe and by 20 retailers from Japan. The Japanese presence has developed relatively recently, but is becoming increasingly important

Of these cross-border operators, therefore, 73 per cent were retailers in the EC countries seeking to benefit from the opening up of the Single Market, while 27 per cent would appear to be 'outsiders' seeking to establish a presence before 'Fortress Europe' was created.

Within the Community countries, France and the U.K. have dominated the list for both investors and for foreign retail operations established -

Active investors and their investments

EC country	Active investors No.	Invested in retail operations in No.
Belgium	17	60
Denmark	12	24
France	95	349
Germany	47	195
Greece	0	0
Ireland	9	12
Italy	26	75
Luxembourg	0	0
Netherlands	23	93
Portugal	7	14
Spain	15	23
UK	91	284
Total	342	1,129

Thus 95 of the retailers developing cross-border operations are based in France and 91 in the UK; between them these two countries alone account for 54 per cent of all the retail investors found in the EC Member States. Germany, in third place with 47 investors, came some way behind.

A natural hypothesis is that these retailers found their home markets sufficiently competitive or even saturated to encourage them to go abroad for development purposes. Yet, conversely, it was still France and the U.K. that attracted the highest levels of foreign investment; the latter apparently because of the relatively high margins that were thought to be attainable and the former because of the sector opportunities that were still thought to exist.

These cross-border retailers did not confine their attention to one country only, or indeed to the Single Market countries only. The 469 investors have each gone to an average of 4.5 countries and between them become involved in 2,131 retail operations. Of these 1,374 were in the Single Market countries and 1,129 of these come from existing Single Market country members. The pattern is as follows:

The Flow of Retail Investments

To / From	EC No.	EFTA No.	Other countries No.	Total No.
EC	1,129	220	355	1,704
EFTA	83	69	52	204
Other countries	162	19	42	223
Total	1,374	308	449	2,131

Source: The Corporate Intelligence Group

The total number is impressive, but it is non-food rather than food retailers who have been responsible. So far as the investments in the Single Market countries are concerned, the breakdown is as follows:

Investments in Retail Sectors

	No.	%
Food	179	13
Non-food	897	65
Mixed & others	298	22
Total	1,374	100

Source: The Corporate Intelligence Group

Given that the 'mixed and others' category essentially relates to department and variety stores and to mail order operators, all of which are predominantly non-food operations, food retailers only account for 13 per cent of cross-border moves.

Much of this cross-border investment in food retailing is found in Southern Europe. Spain is the single largest target market for food operations. It has attracted 45, with the largest contribution coming from France, although Portugal also has a relatively sizeable number (13 out of a total of 57 foreign investments). The Spanish operations include most of that country's hypermarket, supermarket and convenience store chains. The 7 food operations into Greece also include the most modern types of store there. Southern Europe in general has seen its food retailing being modernised by operations owned, or invested in, by retailers based in other EC countries. In complete contrast, the Scandinavian countries (including Denmark) have attracted hardly any food operations, while relatively few have gone into the Netherlands (only 10 out of a total of 138 cross-border operations), Belgium (12 out of 180), Germany (16 out of 164) or the UK (19 out of 207). All these countries, of course, have highly developed and efficient multiple grocery chains in their domestic markets. In this context, it is interesting that as many as 25 cross-border food operations appear to have moved into France, which also of course has a sophisticated, but relatively fragmented, domestic grocery sector.

This still begs the question of whether this increase in cross-border activity is the result of the creation of the Single Market. One way of analysing this is to look at the timing - did the investment take place during the build up to the establishment of the Single Market? So far as the 12 EC Member States are concerned, the position is as follows:

Date of Retail Investment

Initial investment	No.	%
Pre-1970	63	5
1970-79	184	13
1980-84	254	19
1985-89	378	27
1990 onwards	495	36
Total	1,374	100

No-one is going to pretend that cross-border activity is purely a recent phenomenon. In the non-food sector companies like Woolworths, C&A and Bata have been doing it for decades. But it is very significant that, of the 1,374 new operations set up in the EC countries by foreign retailers, as many as 873 (63 per cent) have essentially taken place since the signing of the Single European Act, while no less than 495 (36 per cent of the total) occurred between January 1990 and May 1992. Does this not indicate the influence of the Single Market?

When The Corporate Intelligence Group asked these cross-border operators this very question, the replies minimised the impact of the Single Market on their decision-making. Typical responses were:

> There has been for many years now a move towards internationalisation. It is merely a reflection of that process.

> The way retailing is developing, it was now or never. If we had not opened in other countries now, it would have been too late.

The Single Market is said to have facilitated the move to cross-border trading, with the removal of natural boundaries and of the restrictions on trading, and thus to have encouraged retailers to expand their spheres of operation.

More detailed questioning of these retailers, however, suggests a high degree of rationalisation in this. In reality, the Single Market does appear to have acted as the catalyst. Sooner rather than later they would have developed their international network of outlets, but the coming of the Single Market made it happen in the last few years.

Cross-relating the country and the type of investment involved reveals some interesting variations:

		Country											
Type of investment	Total	Belgium	Denmark	France	Germany	Greece	Ireland	Italy	Luxembourg	Netherlands	Portugal	Spain	UK
Organic	47	5	1	8	3	1	0	2	2	2	1	15	7
Acquisition	35	2	1	4	2	0	4	3	0	2	0	16	1
Joint Venture	24	2	0	4	3	3	0	3	0	0	6	3	0
Franchise	33	1	1	2	3	3	3	6	0	2	2	5	5
Concession	2	0	0	0	1	0	0	0	0	0	0	0	1
Buying Group	13	1	0	0	2	0	0	4	0	1	2	3	0
Alliance	19	1	0	6	1	0	1	0	0	3	0	2	5
Equity Stake	6	0	0	1	1	0	0	1	0	0	2	1	0
TOTAL	179	12	3	25	16	7	8	19	2	10	13	45	19

Organic growth accounts for 47 (26 per cent) of the investments made by food retailers. Among non-food retailers it was also the most popular investment route and was actually chosen for as many as 40 per cent of the cross-border moves. Food retailers were relatively more interested in acquisitions (accounting for 20 per cent of their cross-border moves) than non-food retailers (10 per cent) and in joint ventures (14 per cent, compared with 8 per cent). Conversely, franchising and concessions were far more important to non-food retailers.

Nearly half the acquisitions that took place in the food sector were in Spain, as well as one third of the organic developments. This presumably reflects the relative ease of entry into that country. Spain apart, acquisitions were spread fairly evenly over the other EC Member States, as were joint ventures. Both France and the UK, however, attracted an above-average number of organic developments. It is interesting that, behind the figures for organic development, there is a clear tendency for retailers to move across the nearest border into a very similar retail and market environment; for example, from France to Spain or from the Netherlands to Belgium. Conversely, the greater the distance and/or the greater the variation in cultures and market environment, the less attractive organic growth becomes.

THE ATTRACTIVENESS OF THE SINGLE MARKET

Is the Single Market still as attractive a target as it appeared during the run-up period? The answer is almost certainly 'No'. Time has moved on and other things have happened - in particular the formation of the European Economic Area and the opening up of Eastern Europe.

The European Economic Area

Before the Single Market even started, we were proposing to broaden it. The idea was for the EFTA members to come in and turn the Single European Market into the European Economic Area. The voters of Switzerland have expressed their disapproval and the time scale has accordingly been set back, but the process is under way.

There is much to be said for such a development. The size of the marketplace is increased, with up to a further 40 mn consumers coming in to join the 345 mn in the SEM. The concept of a commercially united and open Western Europe is taken nearer to completion. But it is only an economic move. The EFTA states are basically taking on most of the economic rights and obligations of Community members, without becoming full members and without having a vote in the EC Council of Ministers.

It is unlikely, however, that retailers' view of the Single European Market will be enhanced by the addition of the EFTA members. On the positive side, these are developed economies, politically stable, with stable currencies and with reasonably good transport and distribution infra-structures. But they:

- have relatively low population levels (50 per cent more countries only raise population numbers by 13 per cent);
- have low densities of population;
- offer developed and highly competitive market places;
- are high cost countries in which to operate;
- offer little opportunity for new entrants.

Few retailers in the EC member states will feel excited about the joining of the EFTA countries. More likely the reverse will be true and retailers in the EFTA countries may see better prospects opening up for them inside the 12.

To be more specific, food retailing in many of the EFTA countries is dominated by co-operatives and buying groups (Migros in Switzerland, ICA in Sweden are examples) to the extent that there is little room for market entry (other than with discount chains like Aldi's). The trend in non-food has already brought major retailers from Sweden into Community markets (irrespective of official membership of the EC). IKEA, with a turnover of SKr 22,325 mn in 1991/92, has 39 of its massive furniture and household superstores in Community markets (compared with only 12 in Sweden). Hennes & Mauritz earns over half of its fashion chain turnover outside Sweden, most of it in Community countries (especially in Germany, Denmark, The Netherlands and the UK). Neither of these large firms have had the slightest difficulty in setting up in the EC. Official membership could, however, make it easier for some of the smaller retailers in EFTA countries to spread across Europe - Polarn & Pyret, a children's wear specialist based in Stockholm, is an example, having already moved successfully to Switzerland, Norway and Iceland (all EFTA countries).

The conclusion has to be that if anything has awoken retailers' interest in foreign development or investment, it is the Single Market. The extension into EEA will have minimal impact in this respect.

The opening up of Eastern Europe

The possibilities offered by the opening up of Eastern Europe are much more exciting. There are potentially 120 mn consumers coming into reach in Eastern Europe : 400 mn if what was the USSR is included, and up to 1.2 mn retail outlets. Any move into Eastern Europe has to be seen as

* high risk
* long term

but with potentially high rewards for those who stay the course and are successful.

The risks arise from the fact that the East European countries are in the process of moving from centrally planned command regimes to market economies. The transition is causing severe economic disruption, as shown by the falls in output and employment and by the strong inflationary pressures. Investors' hopes must be that stabilisation programmes, combined with the privatisation of former state-owned enterprises, will gradually improve economic efficiency. This, however, will take time.

Moreover, on the political front the changes are equally dramatic. The process of democratisation has led to the unleashing of nationalism and ethnic hostility. In such an environment all investment is high risk.

Nonetheless, many Western retailers have been more attracted by the prospects than deterred by the dangers. In an analysis carried out last September, The Corporate Intelligence Group identified as many as 90 western retailers who had established a presence in Eastern Europe. The prospects were thought good enough for 40 of them to have ventured into more than one country. Even then others were known to be studying the territory and either to be waiting for more advantageous times or to be already in direct negotiations with prospective partners.

These 90 retailers had established more than 180 operations in East Europe. Not surprisingly Hungary, Czechoslovakia and Poland were the prime targets. The analysis by country showed the following picture:

Eastern Europe: Summary of Western Retailers' Penetration, September 1992
(No. of companies)[a]

		East European Country						
Country of origin	Total	Bulgaria	Czechoslovakia	Hungary	Poland	Romania	Former USSR	Yugoslavia
Austria	26	-	7	11	2	-	3	3
Belgium	8	1	3	2	2	-	-	-
Finland	2	-	-	-	-	-	2	-
France	12	-	2	2	3	1	3	1
Germany	60	2	12	17	13	-	11	5
Italy	17	1	2	3	2	3	3	3
Netherlands	2	-	1	-	-	-	1	-
Spain	3	-	1	-	-	-	-	2
Sweden	7	-	2	2	3	-	-	-
Switzerland	3	-	1	1	-	-	1	-
UK	18	1	4	2	2	-	6	3
USA/Canada	19	2	5	2	4	2	4	-
Others	4	-	-	1	1	-	2	-
Total	181	7	40	43	32	6	36	17

a Many companies are represented in more than one country.

Source: Corporate Intelligence Research Publications's 'Retailing in Eastern Europe'.

The report looks at the position in the two leading countries in a little more detail:

* Hungary's reputation as the most liberal of the former Eastern bloc countries has encouraged a relatively large number of western retailers to establish operations there; in 1992 the foreign share of the retail sector is estimated to have exceeded 20 per cent. Important liaisons which have already been established include those of Julius Meinl (Austria) with a leading food group, Csemege; Spar Austria with General (a major consumer goods retailer); and the German giant, Tengelmann, which is looking to build up a majority shareholding in Hungary's leading retailing and wholesaling organisation, the Skala Co-op. The arrival of Quelle, Otto Versand and Neckermann from Germany is expected to herald a radical expansion of the mail order business, while a host of other big names - encompassing Group André (France), Asko (Germany), Louis Delhaize (Belgium), Marks & Spencer (UK) and Metro (Germany) - has established a toehold which may well lead to more extensive ventures.

* Despite its imminent partition, Czechoslovakia continues to attract foreign retail investment, especially from neighbouring Austria and Germany. Others from further afield include the Dutch food group, Ahold, and its Belgian counterpart, Delhaize Le Lion; both have established joint ventures with prominent local firms. The Italian duo, Benetton and Stefanel, are here too - as they are in most East European markets, while another old Eastern hand, IKEA, has opened two stores since mid-1991. Bata, in exile in Canada for the last 40 years, has returned home and is bringing in other foreign brands to widen its footwear offer. A recent entrant, however, has been Kmart, the US leviathan, which has made Czechoslovakia its first overseas venue; it hopes to put its expertise in discount retailing to good effect across Eastern Europe eventually.

It is noticeable that there is considerable latent interest in Poland but foreign investment in general has been held back by a surfeit of bureaucracy and political instability. The domestic retail sector has undergone a dramatic metamorphosis from rigid state control to over 80 per cent privatisation, but foreign participation has been cautious and small-scale. Some 30-40 western retailers, including Belgium's GIB, have become involved in relatively minor joint-ventures. With nearly 40 mn people and aspirations to become a reasonably prosperous member of the EC, Poland should, in theory, present new investors with fascinating opportunities. So far, it has stubbornly resisted putting theory into practice.

The disintegration of the old Soviet Union has created a plethora of independent republics all, in varying degrees, competing for the foreign investment they need to prop up their restructuring programmes. Retailing has not been high on the list of priorities, although it is blindingly apparent, no where more so than in Russia, that grossly inefficient distribution systems are fundamental barriers to progress. There is a fairly long list of retailers which have set up shop, usually in joint venture, in Russia - where the main magnets have been Moscow and St Petersburg - but most are small-scale hard currency operations. The newly-privatised GUM department store group is acting as a conduit for bringing in western retailers which include Karstadt and Galeries Lafayette. There are also several food-based supermarkets and cash and carries run by a diverse band which includes Aer Rianta (Ireland), Spar (Germany), Stockmann (Finland) and Intermarché (France).

It is apparent that retailers' interest in Eastern Europe differs from that shown in the Single Market in that

- a relatively higher proportion of the cross-border moves involve food retailers. The emphasis to date has been very much on the essentials of food, clothing and footwear.

- joint ventures tend to be the favoured approach, as opposed to organic growth in the EC countries. The reasons for this are obvious enough: language problems and cultural differences are even greater, while national legislation may even make any other method of entry impossible.

Among the main findings of The Corporate Intelligence Group's study were that

* For most, if not all, western retailers involved in the East, the central motivating factor has been the belief that they simply could not afford to ignore the opportunities there; to wait might be too late.

* Notwithstanding the urgency factor, however, most new entrants view their investments as long term and are inclined to expand cautiously.

* They have also tended to be very selective in their choice of countries, following the general trend of foreign investment flows which in turn are yardsticks of perceived political and economic stability. Hungary and Czechoslovakia are, therefore, favoured locations, followed at a distance by Poland. For many German retailers, naturally, the former East Germany was the focus of attention and this is pre-occupying them at the present time.

* Western retailers are clearly apprehensive about short term prospects elsewhere in Eastern Europe and have been slow to move into Romania, Bulgaria and the independent republics of the former USSR; much of former Yugoslavia remains beyond the pale.

* Those western retailers which have entered Eastern Europe appear to be well aware of the risks involved and have tailored their approaches (either in terms of location or scale) to accommodate these. By the same token, few appear to be despondent about their ventures and all remain convinced of their long term potential.

The overall conclusion has to be that, certainly in the longer term, the development prospects in Eastern Europe are far more exciting than they are in the other EC Member States.

ARE SUPPLIERS AND RETAILERS TAKING ADVANTAGE OF THE EURO-MARKET?

The answer has to be 'Not to the extent that they should be'. The reason for this is twofold.

1 The actions of national governments

Whilst, as already noted, national governments have gone a long way towards implementing EC directives, the rigour with which they have implemented those directives has varied greatly.

This is true of both foods and non-foods. So far as non-foods are concerned, one example will suffice. EC directive 89/336 referred to the construction and manufacture of electrical apparatus. In France the legislation involved in its implementation amounted to two pages. In the UK the draft regulations issued by the Department of Trade & Industry covered 84 pages.

So far as foodstuffs are concerned there are, for example, loud complaints in the U.K. that the number of butchers' shops and of slaughterhouses will be drastically reduced - some say by as much as 50 per cent - because of the cost of complying with the new EC regulations. But examination shows that the British authorities are in fact applying these directives in a very heavy handed way.

There is probably a 'domestic' reason for this. Ever since the salmonella in eggs scare in 1989, the Department of Health has become highly preoccupied with hygiene: the Amendment Orders it put through in both 1990 and 1991 prove this. As a consequence, it is setting standards far higher than are actually required by EC regulations, but letting the blame appear to fall on 'Brussels' for the measures being proposed. In reality if EC is responsible, it is probably Edwina Currie rather than the European Commission.

Other traders particularly vulnerable in the UK are likely to be market stallholders and operators of mobile vans, although fixed site food retailers will all obviously be affected by the hygiene requirements.

Some national governments are more bureaucratic than others and undoubtedly 'extend' Brussels directives to suit their own ends. In such circumstances neither retailers nor suppliers are getting all the benefits from the Single Market to which they should be entitled.

2 Country differences

As noted earlier in this paper, country and regional variations have persisted, despite the coming of the Single Market. The Euro-consumer has not been created.

If suppliers and retailers with multi-country operations were to benefit from the true economies of scale that the Single Market should be offering them, they would be selling the same products in the same form across all countries. But retailers have a vested interest in selling their customers what they want in the usual pack format, which is often at variance with the concept of the Euro-brand. In such a conflict, it is the latter's arguments that usually win the day.

Hence a survey conducted by AC Nielsen and published in the Financial Times on 4 January 1993 concluded that

> "of the tens of thousands of products commonly sold in European supermarkets only 45 "Euro-brands" were widely on sale in identical format in at least the four largest countries."

Companies in the cosmetics and toiletries sector have gone a long way in standardising their products across country boundaries : obvious examples would be multi-national operators like L'Oreal, Colgate-Palmolive and Gillette. Many of the drink companies have been equally successful; for example Heineken and Guinness. Snacks and pet foods have achieved some success. But with a few exceptions - Kelloggs cereals and Heinz ketchup would be obvious examples - the food brands have not achieved the same degree of standardisation.

Food suppliers are trying to remedy this situation. At the end of 1991 Unilever, for example, was surprised to find that it used 85 varieties of flavouring in the chicken soups it sold across Europe and had 15 different cone shapes for Cornetto ice creams. It concluded that these variations came about partly because of national preferences and partly because national subsidiaries had been given too much freedom. The latter is more easy to correct than the former. But if it is hard to convert existing brand variations into a Euro-brand, it is easier to design and develop a new product so that the same format can be sold in a number of countries.

The rule seems to be that the easiest products to standardise are those with a high level of impulse purchasing. Conversely, the closer a product becomes to being part of a consumers' staple diet, the more difficult it is to take it across national borders.

Retailers heavily into 'own brands' have a particular interest in seeing the same format sell in all the countries in which they operate. With manufacturers' brands they will more readily specify what they feel sells best.

The fact remains that prices for the same product still do vary widely across Europe and will doubtless continue to do so for some time to come. The Nielsen survey suggested that Kelloggs Cornflakes are more than twice as expensive in France and Italy than they are in the U.K.; Evian water costs twice as much in Ireland as it does in France. In part such variations can be attributed to distribution or volume factors; in part it may be argued that price is still a marketing weapon, to be used tactically and strategically as required. In theory prices should converge as the Single Market develops. In practice this will only happen when there are more similar products and when there is greater consumer awareness of what is available in other parts of the Market.

Better communication and greater travel undoubtedly lead to some convergence in international food preferences. Such changes, however, happen slowly. So long as these national variations persist, some of the benefits of size that should come from the enlarged Single Market will be lost.

APPENDIX

FOOD RETAILING IN EUROPE - POST 1992

The eleven papers published in the 'Food Retailing in Europe - Post 1992' consist of:

Title	Date of Publication
Grocery Retailing and 1992	March 1990
The Social Charter and Food Retailing	December 1990
Food Retailing Alliances: Strategic Implications	January 1991
Food Retailing in a Greener Europe	April 1991
Retail Logistics: Physical Distribution Post 1992	May 1991
Prospects for Grocery Brand in the Single European Market	September 1991
The Opening up of Eastern Europe	November 1991
Talking to Governments	July 1992
EC Retailers and Non-EC Suppliers	October 1992
The Single Market Legislation - an update	November 1992
The Single Market - 1992 in retrospect	January 1993