

FOOD RETAILING IN EUROPE - POST 1992

PROJECT II
THE COCA-COLA RETAILING RESEARCH GROUP
EUROPE

RETAIL LOGISTICS : PHYSICAL DISTRIBUTION POST 1992

A study prepared for

**THE COCA-COLA RETAILING RESEARCH GROUP
EUROPE**

by

Dr James Cooper
Exel Logistics Reader
Cranfield School of Management
and
Mr D.W. Kelly
Director of Consultancy
Automotive Research Unit Ltd

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The Corporate Intelligence Group Limited



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SUMMARY

The main points to emerge from this study of the prospects for retail logistics within Europe are that:

- * Increasing concentration in grocery retailing will mean a shift in control of the supply chain. Suppliers will lose influence, retailers will gain.
- * Inventory will increasingly be kept upstream of retail outlets. This has important implications for the management and control of storage and delivery.
- * As retailers concentrate more on their core activities, the contracting out of logistics services will grow.
- * Deregulation of the haulage sector will make the contracting out of retail logistics services more attractive as hauliers become more responsive to the changing needs of retailers.
- * The importance of information technology as a means of controlling the supply chain will grow. This will again contribute to the attractiveness of contracting out specialised logistics activities.
- * The information technology capabilities of logistics contractors, notably hauliers, will have to grow substantially to meet the expectations of retailers.
- * As information technology is used more to integrate the different logistics activities (especially transport and warehousing) the responsibilities of individual contractors will increasingly extend to embrace more than one activity.
- * There will be a tendency for retailers to want to use fewer, larger logistics contractors. A main aim of the retailers is to achieve economies from the "bulk buying" of services, together with reduced administration costs.

- * Deregulation of the haulage sector will make hauliers better able to grow in line with the changing needs of retailers.
- * The pace of the above developments will be very variable across Europe. In general, northern Europe will progress faster than southern Europe. Logistics in support of retailing in eastern Europe will be difficult for many years to come.
- * Prices for transport services will fall in some markets as a result of deregulation and other "1992" factors, especially in Germany and in cross-border transport.
- * this downward trend in prices, however, will be counteracted by the impact of increasing congestion and environmental controls on transport which will raise operating costs.

1. INTRODUCTION

This report examines the prospects for retail logistics within Europe. Retail logistics is defined as management of the supply chain linking retailers and their suppliers. Accordingly, retail logistics embraces a range of activities, from freight transport, through to warehousing and information technology. Indeed, one of the key points about logistics is its emphasis on taking an integrated approach to a number of related activities; only through integration can inefficiencies within the supply chain be eliminated. Grocery retailing, which provides many examples of best practice in logistics, is widely used for the purposes of illustration throughout the report.

The scope of the report is Europe-wide, but the main focus is on the European Community (EC). The reason for this is that the EC represents one of the world's leading economic powers, at least potentially. As a result, economic developments within the EC outweigh those in countries belonging to Comecon or the European Free Trade Association (EFTA). This is true of retailing and logistics, just as it is for almost any other area of economic activity.

2. RETAILING AND LOGISTICS

Retailing and logistics development

At the outset it is important to consider some of the variables in retailing which have a key bearing on the development of logistics. Three of the most significant retailing variables are:

- * concentration of ownership in retailing;
- * retail formats;
- * retail internationalisation.

European countries are often very different from one another in respect of these variables, making it very difficult to generalise about retailing or retail logistics in Europe. While this may appear to be an obvious point when comparing, say, Bulgaria with Belgium, there are often considerable differences between countries of the European Community (EC) which is itself far from an homogeneous economic bloc. Variations in national incomes illustrate this point very simply; the per capita income in Denmark is nearly four times the figure for Portugal.

The European grocery retail sector's turnover has been calculated by The Corporate Intelligence Group as being in excess of 520 ECU billion. Within the individual countries are extremes of retail and producer concentration. In food retailing the UK scene is one of considerable concentration of ownership. Five retailers account for around 60 per cent of sales, with supplies delivered through retailers' distribution depots and with such trade often being handled by third party distributors. At the other end of the spectrum, most food retailers in Italy are independents, often family-run and with the traditional wholesaler route dominating. This is a pattern which is repeated in most European countries, including Spain, Portugal and Greece. Food retailers in the UK have gained competitive advantage through innovations in logistics and it is one of the objectives of this report to determine the degree to which such logistics innovation will continue to influence the development of the EC's grocery retail sector. Similarly, producer concentration varies between countries. Overall, European food manufacturing is fragmented. The UK, France, Denmark and the Netherlands have the ten leading producers accounting for more than 30 per cent of food industry output and the top fifty firms accounting for more than 50 per cent. This is in sharp contrast to the situation in Southern Europe where the top fifty producers account for 25 per cent of output. Here again, however, there is - in overall terms - increasing concentration. Such developing manufacturer-retailer concentration, and the implications of such a development, will have significance for developments in the logistics sector. Indeed, the potential offered by increasing sophistication in the logistics sector will materially influence the nature of the manufacturer-retailer interface.

Retail formats tend to follow ownership trends to a large extent. Hypermarkets and superstores tend to be operated by the larger food retailers while corner shops and small supermarkets will often be independently operated. So, not unexpectedly, the average size of outlet varies considerably between European countries. The UK and Italy are about equal in terms of both population and size of economy. But the UK has little more than one-third of the number of retail outlets of Italy. In terms of numbers of persons per store, Italy has 66 against 166 in the UK ("Retailing in Europe", Corporate Intelligence Research Publications, 1990). This has considerable importance for logistics since larger retailers can take a more creative approach to logistics by, for example, setting up distribution centres to serve superstores. Small stores will depend to a much greater extent upon the operations of wholesalers.

Again, in food retailing, there are considerable differences in the way that retailers have sought to internationalise their businesses; retailers from northern Europe have generally

developed further in this direction than their counterparts in southern Europe. Appendix 1 gives some examples of such firms, although the list is not in any way intended to be exhaustive. One important implication for logistics is that retailers will often take their suppliers with them into new markets. A case in point is Marks and Spencer which has contracted Exel Logistics for its French transport and warehousing operations. This process can therefore contribute to the development of logistics contractors, both in respect of expanding business and developing internationally.

Recent developments in retail logistics

In recent years there have been a number of important developments in retail logistics. UK grocery retailers have been particularly active participants in promoting these developments. Indeed, it is interesting to draw a parallel between UK grocery retailing and Japanese manufacturing, where a number of large players, especially in cars and electronics, are locked in fierce competition in the domestic market-place. Porter (1990) has noted that competition of this kind has been an important factor in promoting innovation. This is certainly true of UK grocery retailers in the field of logistics.

Three main areas of logistics innovation are particularly important to grocery retailers; these are:

- * using information technology to develop better control of the supply chain;
- * releasing more sales space in retail outlets by eliminating storage space;
- * contracting out to specialist companies those logistics activities such as transport and storage which are not "core" retailing business.

One of the major contributions of information technology to retail logistics is that it increases transparency within the supply chain. Innovations such as electronic point of sale (EPOS) systems keep an on-line record of how many items of any particular product line are on the shelves - a major improvement on periodical physical counting. In turn, this translates into better ordering and delivery practices, a development which is especially important to fresh food retailers who want to maximise the life of fresh food on the shelves of stores and in the customer's home (Boatman, 1989).

Much effort has been devoted by many grocery multiples towards eliminating storage space at retail outlets. This is because the opportunity cost of storage space is often

substantial, especially at high street locations. Converting this storage space into sales space has important implications for retailing and retail logistics. For retailers, the revenue-earning potential of a site can be increased, but there is also the increased risk of empty shelves. This is where the creation of regional distribution centres (RDCs) is important, since they offer the opportunity for keeping inventory in reserve just upstream of the retail outlet, rather than relying on inventory replenishment coming directly from suppliers. When linked with information systems such as EPOS, the retailer can rely on the efficient replenishment of inventory, without the need for extensive storage at the retail outlet.

As retailers have vertically integrated upstream along the supply chain, their involvement with logistics has increased. Many retailers have themselves operated both the RDCs and the transport fleets supplying retail outlets from the RDCs. In recent years, however, there has been a change in operational responsibilities within retail logistics. More and more, these responsibilities have been contracted out to third party specialists. In many instances, a specialist will perform more than one of the logistics functions, say transport and warehousing combined, on behalf of a retail client (Cooper and Johnstone, 1990). Once more it is important to recognise that information technology is a crucial factor in this process of contracting out. The retailer's own fleet, for example, can be replaced by a contractor's fleet because information technology makes it possible to exercise "control by information" rather than "control by doing" (Quarmby, 1985). In effect, information technology can be used by retailers to ensure that contractors fully "mimic" the high operational standards established by the retailers' own fleets.

Future changes in retail logistics

The grocery retail environment is clearly one which is changing very rapidly. Logistics will remain a key factor in this process of change throughout the 1990s and beyond. Among the most important changes affecting logistics will be:

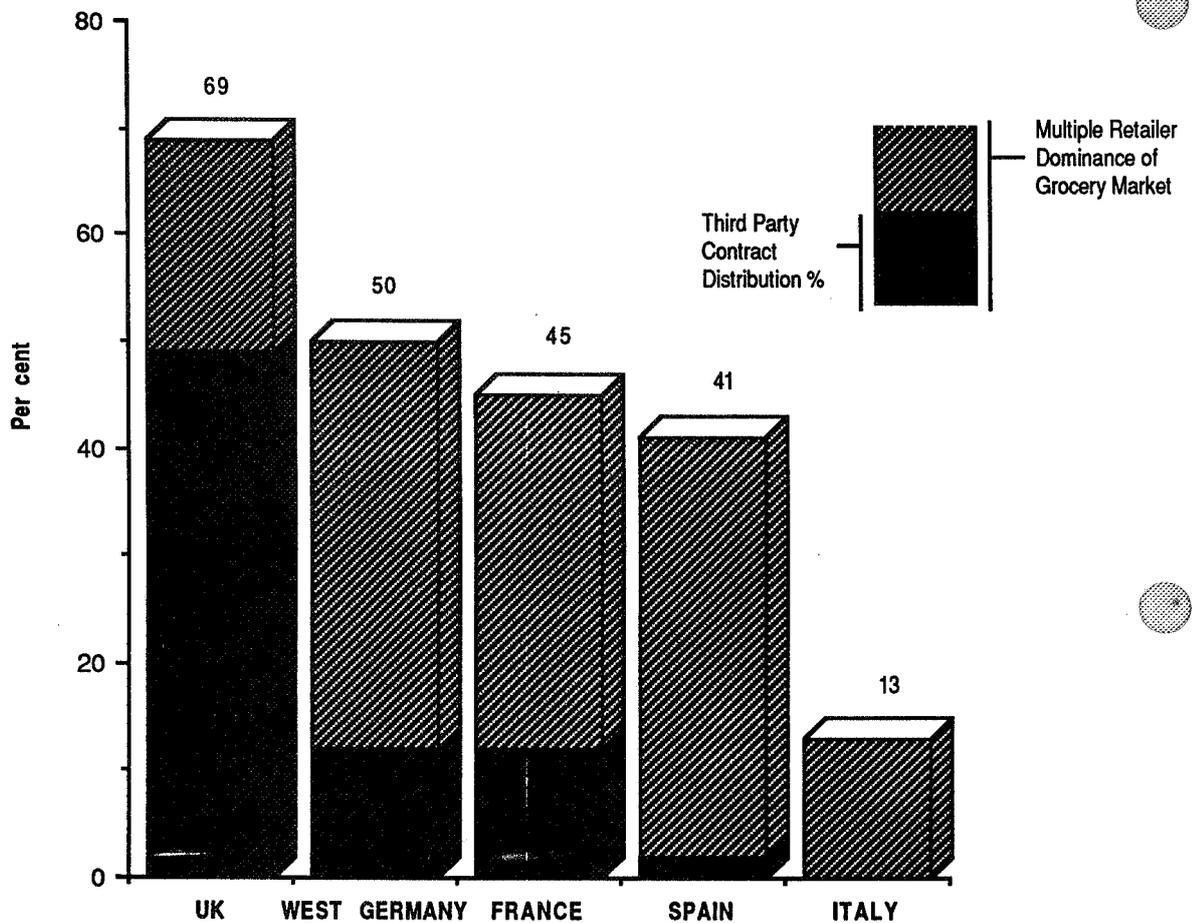
- * retailers' concentration on their core retailing businesses;
- * the increasing internationalisation of retailing;
- * the shift in logistics control to retailers from their suppliers;
- * the use of advanced information technology systems, especially electronic data interchange (EDI) systems.

There has been a tendency in retailing, as in many other businesses to concentrate on core business. The attractions of this focused approach to business are many and vary

from business sector to business sector. For many retailers, investing in retailing rather than, say, in fleets of trucks, is likely to remain a preferred course of action. Furthermore, as the business of logistics becomes ever more specialised, it will make sense to leave the work to specialist contractors, providing they can continue to meet the exacting standards demanded by retailers.

As the following diagram shows, there still remains considerable scope for contracting out by European grocery retailers. Only in the UK is the majority of grocery distribution in the hands of third party contractors.

DIAGRAM 1 Grocery Market Share Held by Multiple Retailers and Share of Grocery Retail Distribution held by Third-Party Operators



Source: NFC Contract Distribution Report, 1989

Retailers have lagged behind manufacturers in their efforts to internationalise their businesses. There are signs now, however, that this is changing. A number of retailers have found that their domestic markets are becoming saturated and are looking for opportunities elsewhere (Treadgold, 1989). This is true of food as well as non-food retailers; Sainsbury's, for example are now established in the eastern states of the USA, following its purchase of Shaw's supermarket chain. Other retailers prefer "border-hopping" as a means of internationalisation. Here the French hypermarket chains have been particularly active, especially in Spain. As a result the suppliers of logistics services to these retailers have to take an increasingly international approach. This means not just having an international transport capability, but also developing their expertise to manage cross-border information systems.

As retailers have grown, either within the domestic market or through international development, they have progressively taken over more control of the supply chain from suppliers. This is clearly evident in a physical sense through, for example, the setting up of RDCs. But this is simply a manifestation of a change in who decides how and when goods should be supplied to retail outlets. As retailers have increasingly adopted logistics as a competitive weapon, it follows that they will further attempt to dictate to suppliers the conditions under which products reach the shops. Information technology is certain to be a prime consideration in this process as it is the key to future logistics development. The retailers will want the main say in which systems should be used for controlling delivery to their stores.

Retailers are now in the process of taking their interest in information technology to a more advanced stage. In particular, the use of electronic data interchange (EDI) systems will grow, as it promises to improve the efficiency of activities such as order processing. Developments of this kind have important implications for logistics contractors who will need to be linked to the EDI systems (see Browne, 1989). Increasingly they will need to switch their skills portfolio away from traditional areas, such as fleet engineering, into areas related to information technology, such as database management.

3. LOGISTICS SERVICES : THE PHYSICAL ENVIRONMENT

A major factor which will affect the growth and development of retail logistics within Europe is the infrastructure - particularly road, and to some extent rail. The United Kingdom has been grappling with road problems for some time; the concentration which has taken place within the retail sector was materially influenced by the developing motorway system. Now, however, that system is proving to be increasingly inadequate; partly as the result of a slowing down in motorway building but, also, because of the congestion caused by an increase in traffic volumes, and the widening or refurbishment of many existing roads.

It is a matter of conjecture as to how such congestion will occur in a number of key areas in Europe. Alleviating congestion is a key concern for many European governments, but no clear direction has yet emerged. Road pricing is one option but there are political difficulties relating to implementation. Road building, the traditional way of dealing with congestion, is now not a popular option, and the lead times for major developments are long. However, in the case of "missing links" in the road infrastructure there may be no ready alternative. One of the conclusions that has emerged from the writing of this paper is the difficulty of getting relatively quick, firm information on the likely shape of the European road system in particular. Enquiries made both of EC institutions and of road transport associations - which might be expected to have an interest in this area - produced either very general views or statements to the effect that, normally, such information was not collected and analysed. Consequently, several leading transport firms were questioned as to the information they held on infrastructure developments; in these cases the response was that such information would provide an input into the planning of operating management in particular territories.

There is certainly some information available on road improvement schemes in Spain and Portugal, upon transport improvements in the Lille area, upon the Channel Tunnel and the development of high speed rail links in France, Germany, the Netherlands and Belgium. What appears to be lacking - or at least not immediately available - is a readily available central view upon infrastructure trends and planning which might form an important input into the planning of existing and potential participants in the market.

Somewhat similar considerations apply to an appraisal of environmental factors. There are many broad statements about the Commission's intention to monitor the environmental implications of, for example, road improvements but, at a more detailed level, proposals affecting firms have to be built up in a painstaking fashion. Individual

firms will undoubtedly do this but any organisation wanting an overview might not obtain such an overview too easily. It might be argued that the obtaining of such information is an essential part of the data collection and analysis process which organisations go through in formulating strategic thinking but there is certainly unevenness in broad information availability across the functional area normally considered when strategic thinking is being formalised.

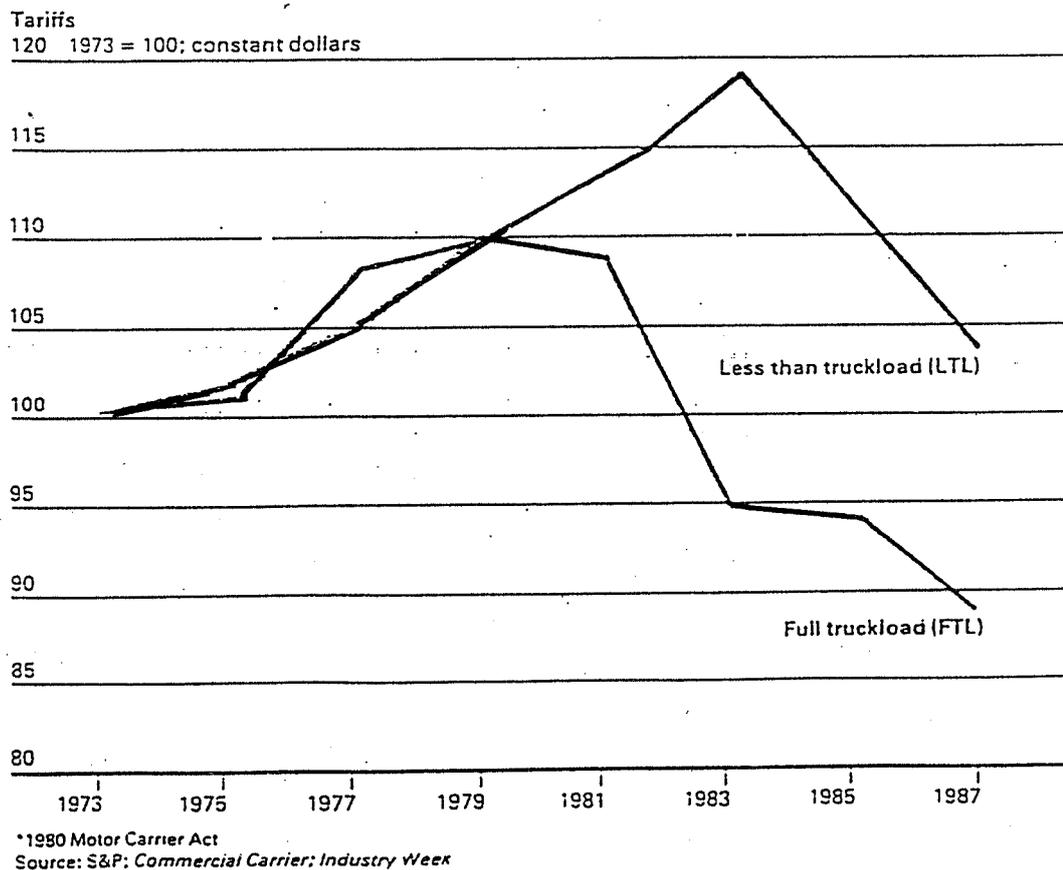
4. LOGISTICS SERVICES : CHANGES TO THE MARKETPLACE

Deregulation of the International haulage sector

Retailers, as important users of logistics services, need to be aware of changes which affect the market for these services. A crucial development affecting the supply of logistics services to the market place is the deregulation of road freight transport.

Some observers have predicted that the European road freight sector is in for a turbulent time following the deregulation of international haulage in the European Community. They take as their model the USA in the 1980s after the Motor Carrier Act (MCA) which deregulated the inter-state trucking sector. The MCA allowed many non-union entrants into the sector after 1980 and there was fierce competition with established truckers. As a result of these competitive pressures, there was a collapse in freight rates. Both full-truck-load (FTL) and less-than-truck-load (LTL) rates fell dramatically in the early 1980s (see diagram below).

Diagram 2. The effects of truck deregulation in the United States



Not surprisingly, many established freight companies were severely destabilised by these events. Of the 30 largest LTL carriers in 1979, only 10 were still in business by 1988 (Ross, 1990). The others either went bankrupt or were taken over by former business rivals.

The deregulation of international haulage within the EC is unlikely to have the same impact as inter-state deregulation did in the USA, for a variety of reasons. One of the most important is that the objectives of deregulation are different. In the USA the federal administration recognised that inter-state trucking was highly expensive and wanted to reduce the cost to users. Crucially, the Teamsters' union was a powerful influence in a sector where entry was restricted because of the regulations. Wages for union drivers in the late 1970s were 50 per cent above those of non-union drivers (Journal of Law and Economics, 1978). Deregulation in the USA, by allowing lower-cost entrants into inter-state trucking, brought down rates.

EC deregulation has different origins. It derives from the Treaty of Rome and the right of any individual from any member state to provide goods and services anywhere within the Community. The European Commission rightly observed that the system of bilateral permits which controlled most international haulage within the Community amounted to cargo reservation. If a consignment needed to be moved from, say, France to Italy, then French or Italian hauliers were most likely to receive the necessary permits. A not unimportant consideration was the role of national governments, both in negotiating quotas for permits and allocating them to hauliers.

Deregulation of international haulage within the EC began in 1988 and is due to be completed by the end of 1992, at which time any properly qualified haulier should be able to enter the international haulage market. When considering the consequences of this deregulatory process, there are three vital points to consider.

- * Firstly, although international permits of all kinds were in short supply in some countries at various times prior to deregulation, there is little evidence that this significantly inflated the price level for international haulage services in the EC.
- * Secondly, there is no suggestion that labour union activity in international haulage led to excessively high wages and, hence, prices; the fragmented structure of labour unions in Europe has simply not allowed this to happen.
- * Thirdly, the European Commission has powers to intervene in the market "when a serious disturbance to the market is likely to persist"; a collapse in freight rates, leading to the bankruptcy of major companies, would certainly be regarded as sufficient grounds for intervention.

Clearly then, both freight market conditions and the objectives of deregulation in the USA and Europe are very different. Changes in prospect as the result of European deregulation are therefore unlikely to follow closely the US model. There will be falls in price, but these are likely to come from other "1992 factors" as much as from deregulation alone. The following are likely to be among the most important contributors to price falls.

- * the deregulation of national freight markets;
- * cabotage;
- * efficiency improvements.

These are now examined in detail in the following paragraphs.

Deregulation of national freight markets

The European Commission has no authority to change the rules of domestic freight operation in any member state, except in circumstances where there is a breach of the Treaty of Rome. However, it is clear that the Commission has had an indirect impact on domestic regulation as a result of successfully promoting change in regulations affecting international freight regulation. In effect, many national governments have noted the trend towards deregulation, not just in Europe, but also in the USA, and have tried to keep in step. One important reason for this is that governments have had to consider the future of haulage sectors in their own countries, particularly with respect to future competition. Many European governments have reached the conclusion that it is better to deregulate than not.

Before 1985, the UK and Luxembourg were the only two EC countries which had no economic regulation of their haulage sectors affecting capacity or price or both. By 1990, in a Community expanded by the membership of Spain and Portugal, member states were taking a very different approach to the regulation of national freight markets. Now, only Germany, Italy and Greece have no stated plans for deregulation. All the same, a weakening of regulation, especially in Germany, must be in prospect.

This change in the regulatory environment, in both national and international freight markets, has important implications for the users of freight and logistics services, such as retailers. In particular, the users can expect a better responsiveness to their needs as competition increases amongst haulage companies. This is essentially a qualitative change, as opposed to a quantitative one (e.g. falls in price), but users should not underestimate its impact. As Joy notes in relation to Australian deregulation:

"Freedom of entry imparts (to haulage) a dynamism not found under regulation"

(Stewart Joy, 1964)

Similarly, for US deregulation:

"The relaxed regulatory climate has also spawned new concepts in trucking and logistics management. Shippers may now use dedicated contract carriage, in one of its many forms, as an alternative to trucking services controlled either by the shipper or entirely by the carrier. There is now a range of for-hire trucking services beyond the traditional common and contract carriage, which can be tailored to the needs of a particular shipper".

(Richard Schweitzer, 1988)

Deregulation therefore poses a major threat to own account operations as haulage services become more attractive to retailers and other shippers.

Cabotage

Cabotage is domestic work performed wholly within one country by an international haulier from another country who has just completed an international journey. So if an Italian international haulier delivered a consignment from Milan to Paris and then picked up in Paris a consignment bound for Lyon, then the Paris-Lyon work would be termed cabotage.

For many years cabotage has been prohibited in member states of the EC. However, in June 1990 a permit system was introduced as a limited experiment in cabotage.

In assessing the impact of cabotage on European freight markets, it is helpful to distinguish between two forms of cabotage (Cooper, 1990). First, there is what may be called "casual cabotage". This is opportunistic work where an international haulier offers his services in a foreign domestic market after delivering goods, often as a second-best alternative to securing an international return load. Casual cabotage, by its very nature, seems likely to have a very limited appeal. It is hard to imagine that food retailers, operating very sophisticated distribution systems, will value the services of itinerant hauliers from other countries.

In contrast, "network cabotage" is a potentially important development. Its application is in the operational networks of large freight companies where the opportunities for performing cabotage results in more efficient operation (and hence lower prices). Appendix 2 illustrates how cabotage can eliminate empty running within freight networks. In this hypothetical example, designed to show the importance of permitting cabotage, freight rates would reduce by nearly 40 per cent. Achievable savings by freight companies are bound to be rather less, but still significant and worthwhile.

Network cabotage has two important implications for retailers:

- * Firstly, any retailer with international operations can benefit, since network cabotage implies the need for cross-border freight movements. Many retailers have this requirement either in sourcing or in the movement of products between distribution centres and retail outlets. With the increasing internationalisation of retailing (Treadgold, 1988), network cabotage has a growing potential impact on retail businesses.
- * Secondly, the freedom to perform cabotage operations applies only to the haulage sector, and not to own account fleets. This means that contracting out freight operations will become more attractive to many retailers with international business interests.

Nonetheless, it is important to realize that the overall impact of cabotage is likely to be extremely localised. Estimates vary but in France, for example, the Ministry of Transport estimates that 1 per cent of French domestic freight could be captured by caboteurs, while the FNTR (the main trade association for road transport operators) believe that up to 3.5 per cent of freight could be at risk (Artous, 1990). Retailers operating in areas which straddle borders are clearly likely to be among the main beneficiaries from cabotage.

Efficiency Improvements

There are a number of elements in the European Commission's 1992 programme that will help to improve the efficiency of logistics and freight transport, in particular. For example, the Single Administrative Document introduced in 1988 eliminated the need for 70 other trading documents. This has resulted in fewer errors and fewer delays to goods in transit because of incorrect documentation. A clear benefit to retailers has been in the international sourcing of products, which has become less erratic and less costly, a very important consideration especially for food retailers.

However, the one most important 1992 measure for international hauliers and their customers is the prospect of reducing, or even eliminating, delays at borders. These have been estimated to cost up to 830 million ecu per annum (Cecchini, 1988). Much effort has been devoted within the 1992 programme to improve border crossing times. At present, delays arise for a variety of reasons, including the following:

- * Value Added Tax (VAT) collection;
- * Excise Duty payments;

- * checks for drugs and illegal arms;
- * plant and animal health checks;
- * collection of trade statistics.

Total elimination of delays at borders will be difficult to achieve simply because borders are such convenient checking places. Nonetheless there is good scope for a substantial reduction in the present levels of delay, some of which are considerable. As Table 1 shows, a haulier travelling from Belgium to Italy is typically delayed at borders for 11.66 hours.

Table 1. Border delays, 1988 (hours)

<u>From/To</u>	<u>Belgium</u>	<u>France</u>	<u>Germany</u>	<u>Italy</u>	<u>Holland</u>	<u>UK</u>
Belgium	x	4.03	2.91	11.66	1.44	4.50
France	3.76	x	2.61	7.58	1.81	4.64
Germany	3.35	2.98	x	7.74	1.43	4.85
Italy	6.63	5.87	4.90	x	5.70	7.72
Holland	1.54	2.30	1.72	8.27	x	3.96
UK	4.16	5.01	4.36	9.75	4.21	x

Source: Ernst & Whinney, 1988

Shortening the length of time drivers spend at border crossings will lead to better productivity, offering scope for freight rate reductions. Yet interestingly, research shows that the greatest impact will be on international transport over short distances rather than long distances (Cooper, Browne and Peters, 1991). This is because border delays are more significant as a proportion of total transit time on shorter journeys, even though they are less in absolute terms.

Changes in the price of freight services

The driving forces behind freight rate reductions in Europe are manifold, ranging from deregulation effects to improved efficiency. Table 2 represents a summary of the overall impact on price resulting from the most important changes.

Table 2. Predicted falls in freight rates, 1990-2000

	<u>National</u>		<u>International</u>	
	<u>short distance</u>	<u>long distance</u>	<u>short distance</u>	<u>long distance</u>
Specialised transport	0	0	1-5%	1-5%
General haulage	0	1-5%*	10-15%	5-10%

* Deregulation in Germany will cause rates to fall by around 20% (Kandler, 1989).

Source: Cooper, Browne & Peters, 1991.

The key conclusions to be drawn from this summary are that:

- i. There will be a wide variation in transport price reduction; no change can be expected in short-distance national work while short-distance international work will see falls of up to 15 per cent.
- ii. General haulage will see the greatest falls in price; specialised transport, provided in association with warehousing and information technology systems, will be less susceptible to price reduction because its market positioning is more defensible.
- iii. The price reductions are mainly predicated on operating cost reductions which will be widely enjoyed by hauliers. As a result it is unlikely that there will be widespread bankruptcies among freight companies. German companies are the most vulnerable in the event of instant deregulation but all the signs are that the German government will bring in a slow programme of reform, providing hauliers with a soft landing.
- iv. It is also important to note that the predicted falls in rates are the result of institutional change within the EC. Other events, such as worsening traffic congestion in urban areas, could contribute to price rises.

Changes in prospect for logistics providers

Retailers in Europe have considerable scope to improve the efficiency of their logistics (Cooper, Browne and Peters, 1990). In aiming for improvement they are increasingly able to enlist the support of providers of logistics services, notably freight companies. As noted above, the continuing process of deregulation in the freight sector is making suppliers of logistics services altogether more competitive and innovative. Moreover, the providers will also become larger, again partly in response to regulatory change.

Many European freight companies have long had designs on becoming bigger, but this has often been far from straightforward. In countries where regulation has been strict, the only way to grow was to acquire other companies which were in possession of vital, scarce (and therefore expensive) permits. As recently as 1987, the going rate for a single national journey permit in Germany was DM 200,000. Permits in France are now virtually worthless as deregulation nears completion; they were worth 165,000 francs in 1986, but only 70,000 francs by the end of 1987 (Bonnafous, 1988). So the process of growth for ambitious freight companies has, until now, been a very expensive process. Moreover, because the permits themselves were usually non-transferable the acquisition of companies to achieve growth frequently resulted in the purchase of some unwanted assets (depots, for example).

Now in Europe there is the prospect of larger, more efficient, freight companies to meet the changing needs of retailers and manufacturers alike. In retailing, many of the larger retailers will welcome the prospect of being able to buy freight services from fewer, larger, companies. Up until now, services have often been bought from a wide array of small to medium-sized hauliers, for want of anything else. This has not only led to operational inefficiency (for example, by being unable to exploit the use of advanced information systems) but has also been administratively costly.

Importantly, many of the larger retailers, in partnership with large freight companies, are bound to concentrate on the development of freight services which are "tailor-made" to the requirements of the retailer, and "dedicated" to the retailer's use. This will mean freight companies setting up vehicle fleets and warehouses for the exclusive use of client retailers and working to closely specified standards of operation.

Changes elsewhere in Europe

The above discussion has focused almost entirely upon changes in retail logistics in EC countries, for the very good reason that the most important changes will take place within the Community, brought about by economic growth, the 1992 programme, and freight deregulation. Most other European countries belong to two other trading blocs, EFTA or Comecon, or have formal associations with one or other of the blocs (e.g. Malta, an associate member of the EC). Since the future of both EFTA and Comecon remains somewhat uncertain, it is not easy to predict the future of retail logistics in either of them. In EFTA, Austria has already applied for membership of the EC, and Sweden will follow shortly. EFTA could therefore soon be deprived of two of its most important members. Comecon is in even worse disarray, with its member countries having to make the painful transition from command to market-based economies.

In many of the Comecon countries of eastern Europe there are severe difficulties already apparent in simply trying to keep the supply chain to retail outlets working. The problems are acute, ranging from irregular production to the poor quality of transport services. Transit times for goods are often slow as a result of inadequate roads, a major problem in the distribution of perishables. Telephone links are often outdated, making it difficult to carry out transactions with suppliers. The time-scale for retail logistics reaching the sophistication of western Europe will undoubtedly be long.

5. CONCLUSION

This report has revealed the role which sophisticated logistics will play in the EC's changing retail scene. Changes in manufacturer and retailer concentrations have been considered and the potential which exists for logistics to affect and influence relationships between the two groupings has been outlined. In particular, the opportunity which exists for retailers to improve the efficiency of their logistics could result in a further shift in control to retailers from their suppliers.

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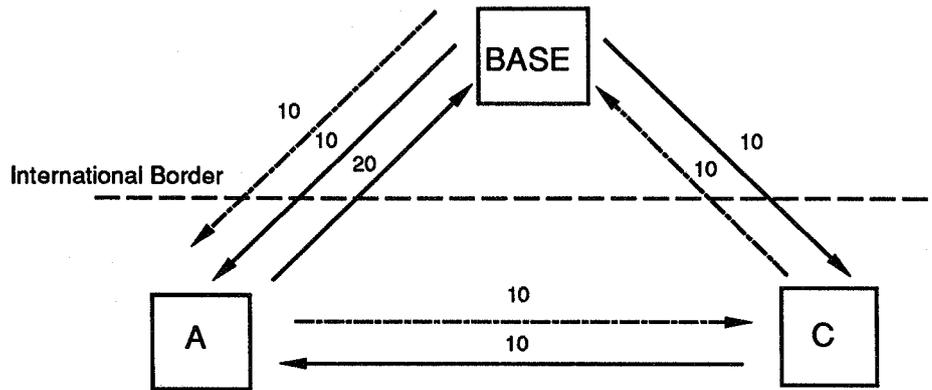
Appendix 1. Examples of food retailers with an international presence

<u>Name</u>	<u>Country of Origin</u>	<u>Main trading activity</u>
Anhold NV	Netherlands	Food retailing
Albrecht Group (Aldi)	W. Germany	Food retailing
Asko	W. Germany	Food and clothing
Auchan	France	Food retailing
Carrefour	France	Food retailing
Coles Myer	Australia	Food, Dept Stores, Discount Stores
Dee Corporation	GB	Food, Sports Goods
Delhaize	Belgium	Food Retailing
Docks de France	France	Food Retailing
GB-Inno-BM	Belgium	Dept Stores, Food, DIY, Sports Goods, Fast Food and Drink
Grand Metropolitan	GB	Food and Drink
Marks & Spencer	GB	Clothing, Food, Household
McDonalds	USA	Fast Food
Promodes	France	Food Retailing
J. Sainsbury	GB	Food Retailing
Southland Corporation	USA	Convenience Stores
Tengelmann	W. Germany	Food Retailing
Safeway Stores Corporation	USA	Food Retailing
Vendex	Netherlands	Dept Stores, Fast Food, DIY, Bookshops

Source: adapted from Davies & Treadgold, 1988

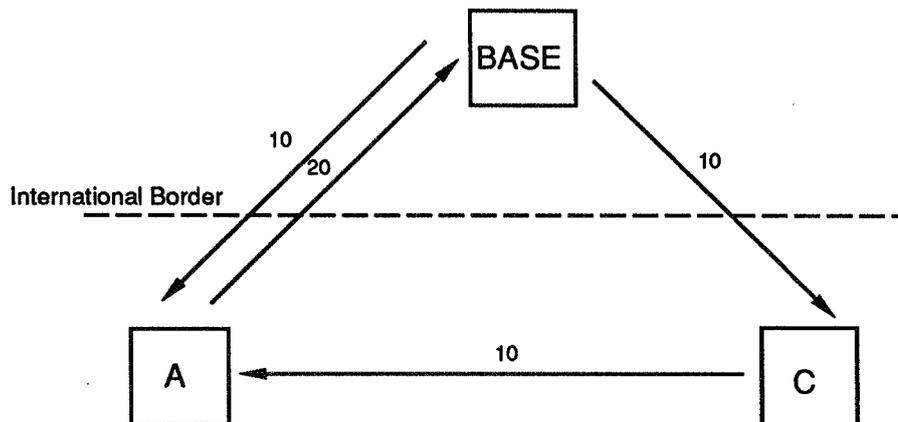
Appendix 2. Transport networks and cabotage restrictions

a) Transport network with cabotage restrictions



50 loaded truck movements
30 empty truck movements

b) Transport network without cabotage restrictions



50 loaded truck movements

Key:

----- empty running
———— loaded running

Points A, C and Base are equi-distant.

Source: Cooper, Browne & Peters, 1991