



European
Commission

High Level Group on

RETAIL COMPETITIVENESS

REPORT OF THE PREPARATORY WORKING
GROUP ON SMEs

*Internal Market,
Industry,
Entrepreneurship
and SMEs*

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PREPARATORY WORKING GROUP ON SMEs

Anne Leppälä-Nilsson, Vice President Legal Affairs, Kesko Corporation, Chair of the Preparatory working group

Professor Dr. Dieter Ahlert, Chair of Distribution and Retailing, University of Münster

Günter Althaus, CEO, ANWR GROUP eG

Hans Carpels, CEO and President, Euronics International

Carine Moitier, co-founder and Chief Operational Officer, Bivolino

Chris Martin, CEO, Musgrave Group

INTRODUCTION

A recent study carried out by the Oxford Institute of Retail Management stated that “the vast majority of retail and wholesale businesses are Small and Medium sized Enterprises (SMEs), representing as many as 30% of all European SMEs across all sectors. Most of these (94% of all retail and wholesale enterprises) are micro businesses, employing an average of just 2 people.¹” Against a backdrop of modest economic growth, a challenging retail market, global competition from international companies in the digital market and decreasing market diversity, retail SMEs across the EU28 face significant challenges. In this paper we want to raise awareness of these challenges and provide recommendations and solutions on how they can be overcome². If these recommendations and solutions are followed, we believe that the retail environment across Europe will be improved and the competitiveness of the retail sector will be strengthened.

CHALLENGES FACED BY RETAIL SMEs

OPERATIONAL

- Lack of economies of scale
- Potentially inefficient supply chains
- Innovation difficulties
- Compliance burdens

These are significant issues faced by retail SMEs. They hinder product development and branding; efficient purchasing, sales and supply; as well as marketing. The above challenges prevent business certainty/security/development and block access to innovation and expertise. The customer pool remains limited to that which can be expected of a sole retail trader.

FINANCIAL

- Limited or no access to finance

This is one of the biggest issues facing retail SMEs, and SMEs in general. It limits their ability to invest and improve or grow their stores and effectively compete with international chains.

There are a number of complexities beyond the sole issue of access to finance. These include accessing adequate levels of finance, ability to negotiate with financial institutions, unsustainable debt levels and debt restructuring (see later in the paper for further detail). The new European Commission acknowledges the fact that investments have to be made especially in the private sector in order to generate growth. This also includes the investment / access to finance of SMEs. In its recent regulatory framework the European Commission seems to apply all the rules regardless the size of the respective financial institute. In addition, the European and national finance programs already in place are often unknown to SMEs. The lack of information therefore leads to a clear disadvantage with regards to the SME 's competition with larger retailers.

¹ Retail and Wholesale, Key Sectors of the European Economy, the Oxford Institute of Retail Management

² For further background information on the issues facing SME retailers please read Retail competitiveness of small and medium-sized enterprises - problem definition and the 'research puzzle: contribution by prof Dieter Ahlert

EDUCATION AND SUPPORT

- Lack of know-how, support and skills
- Lack of visibility of retail SMEs in the digital world

In a highly competitive and rapidly evolving retail market there is a high risk that SME retailers operating alone will fall behind. This is because they will struggle to increase their skills or drive innovation without dedicated support such as mentoring and training programmes. Moreover, when working alone, it is difficult to develop and understand supply chain standards, ensure product quality, improve profitability, respond to changing consumer tastes and compete effectively in the long-term. In addition, the preparation and execution of new cross-channel concepts requires resources – both financial and human resources – which are hardly available to retailers who cannot rely on the support which groups of retailers have. These challenges are often even more of an issue for retail SMEs in rural or remote locations who are particularly isolated.

Retail SMEs, especially those who work on their own, also face a lack of visibility in the digital world. It is costly to invest in innovative retail methods and new cross-channel concepts (i.e. online shopping, digital marketing etc.). As such it is important that these retailers can be sure of a market and audience for these services. This currently is not the case. Recent EU data demonstrates that almost half (47%) of EU citizens have insufficient digital skills – a situation that should be remedied through consumer education schemes fit for today's digital world.

In the digital market the lack of visibility is magnified by global competition. The biggest international e-commerce businesses operate across international (and even EU) boundaries offering scale economies, refined processes, data gathering, technology usage and operational efficiencies that SME retailers cannot compete with. Such companies, strengthened by their strong branding, are causing market definitions to be redrawn. A key question for SME retailers and even large EU retailers will be how to survive in the face of such unprecedented international competition.

LOCAL AND REGIONAL DEVELOPMENT

- Lack of scale to be successful

Since the start of the crisis, the economic landscape in Europe has considerably changed. Consumers are operating within tight budgets and shopping around often, out of convenience, online. This has had very negative effects on retail SMEs with a knock-on effect on European towns and villages

Retail SMEs are feeling the full impact of the reduced purchasing power and new types of competition. Local town centres have high vacancy rates and struggling businesses. Moreover, the rise of out of town shopping centres has sometimes led to the neglect of the traditional town centre, which suffers from empty and abandoned retail space, low consumer spend and at times anti-social behaviour. There is little incentive for people to come into the town centre and this has a negative impact on footfall for the remaining retail SMEs in those localities. The situation is magnified for retail SMEs who have no wider support network or branding to help drive footfall.

This has occurred in countries across Europe and is often referred to as the 'death of the high street'.

BUSINESS ENVIRONMENT

- Extremely tough competition with international chains and online players cross-border leading to bankruptcies and finally less market diversity and competition on the market

For reasons mentioned above, many retail SMEs are going out of business. International chains take money out of local areas, whereas independent retailers create a sustainable local economy. This effect is even stronger where retailers or groups of retailers create local networks to give the added value of their inter-connected retail activity back to their local community. According to the think tank Business Alliance for Local Living Economies, for every euro spent with an independently owned store, three times more money stays in the local community when compared to spending with an international chain. The situation is exacerbated with cross-border online purchases, which can directly take substantial funds out of a locality.

LEGAL FRAMEWORK

The different legal regimes of the EU-Member States impede retailers to widen their scope of activity. Even the retailers which already have economic activities in more than one Member State face high costs which derive from the diverging national regimes. Harmonized rules or broader application of the country of origin principle could help to promote cross-border trade. These rules should be applicable both in B2B and B2C contracts.

BURDEN OF BUREAUCRACY

In many fields, EU as well as national legislation and local rules create obstacles to the retailer's daily business. Burdensome and unnecessary reporting and documentation requirements lead to a situation, where retailers are faced with high transaction costs. One example is highly divergent VAT reporting duties between member States. The European Commission made an important step when it presented its REFIT program for better regulation. Nevertheless this program risks to not having a major impact on the retailer's daily business, if the principle of "think small first" is not applied in an appropriate way and at all levels.

Despite these challenges, retail SMEs play a vital role in the economic and social fabric of society. This has been recognised by the European Parliament³. We also note that there are also success stories of retailers who have adapted to the challenges and new SME e-tailers who are taking advantage of the digital retail market.

³ Report on the European Retail Action Plan for the benefit of all actors (2013/2093(INI)) Rapporteur MEP de Jong

SOLUTIONS TO THE CHALLENGES FACED BY RETAIL SMEs

The European Parliament, through the report of MEP de Jong, has recently emphasised the need to promote SME retailers. This can be done through several measures outlined below. Many measures are targeted at retail SMEs themselves, whereas others are targeted at improving the efficiency of the certain business models that retail SMEs have developed, or adhere to, with the objective of boosting their competitiveness.

These business models include a number of widely used legal structures such as retailer owned cooperatives, buying groups, symbol groups, specialist service providers, and franchise systems. These models were designed to serve their SME retailer members and to improve the conditions under which SME retailers can do business. Certain of these business models, such as groups of independent retailers (bottom up structures founded by SME retailers), provide a higher level of independence to SME retailers than for example, franchises (top down structures, most of which are established and owned by producers rather than retailers). It is notable that large numbers of retail SMEs operating in the European retail market belong to wider business structures⁴. Being part of specialist business structures helps retail SMEs as they can benefit from:

- **Mutual assistance**

Retail SMEs can share best practices and know-how with each other to help the development of their individual businesses. This can be very wide ranging and can include assisting independent retailers and their staff by providing financing services, improving digital skills through training, developing entrepreneurial skills, building common e-commerce/IT platforms, logistics and the provision of a wide variety of administrative services.

- **Economies of scale**

Retail SMEs can benefit from the economies of scale offered through the joint purchasing of, for instance, goods, IT-systems, logistics, energy and services.

- **Access to finance**

Certain business models for retail SMEs can provide favourable conditions for payment of goods or services or the del credere clause to suppliers and service providers, some groups can also offer access to finance.

- **Innovation hub**

Business models serving retail SMEs act as a hub for retail innovation by developing and deploying state of the art concepts and technologies (either provided by an independent retailer him/her self, or developed on a collective basis) for ultimate supply chain efficiency, the best customer service, and quality private label goods.

⁴ For example, Independent Retail Europe, the umbrella association for groups of independent retailers represents over 361000 SME retailers with a retail/wholesale turnover of more than 1 trillion euros. Its members account for 540000 points of sale employing over 5.5 million people.

- **Supply chain efficiency**

Working together, retail SMEs have the possibility to build modern and environmentally friendly distribution centres and logistics systems that create supply chain efficiency. This kind of supply chain support can be of great benefit to independent retailers who operate in remote locations.

- **Urban and rural regeneration**

The establishment of new distribution centres, and finance provided to independent retailers for new stores, helps to regenerate both urban and rural areas through increased employment opportunities and investment. The distribution centres serve retail SMEs and provide employment to thousands of citizens across Europe. New stores provide greater market diversity and choice for consumers and employment, particularly in remote areas or regions. Profits (and employee salaries) are invested back into local communities through local spending but also via the sponsorship of local events, teams and community projects.

- **Sustainable SMEs**

Working together ensures that individual retail entrepreneurs can retain their independence and successfully compete with large integrated chains in their localities across every format, from convenience to supermarket and to hypermarket. According to a 2011 study by CCI France (Chambres de Commerce et d'Industrie), retail SMEs working together within the same business structure are about twice as likely to survive the start-up phase of their business when compared to purely independent retailers.

- **Local and regional development**

Although retail SMEs may be affiliated to each other in a specific structure, such as in a group of independent retailers, many retail SMEs (depending on the specific business model being used) will act locally and produce / stock local products. This is often done by building close relationships with local or regional producers, as well as service providers, ensuring that the local/regional economy benefits from the retailers activity.

- **A diverse offering over whole countries**

Belonging to a specialised grouping gives an SME retailer the opportunity to offer his consumers a very diverse product range. Customers located in sparsely populated areas can have a similar range of products and promotions to those in heavily urbanized areas. That is because an SME retailer who is affiliated to a wider support structure can choose from special product ranges, promotions, presentational formats etc. and is not limited to those products that he can procure on his/her own.

- **Competition**

The innovative business models used by retail SMEs benefit competition by ensuring a diverse, more competitive market, with high levels of customer service and innovative added-value services for customers. The consumer is the ultimate beneficiary as these characteristics facilitate consumer choice, respond to local consumer expectations and lead to lower consumer prices.

Market diversity is guaranteed by the presence of independent retailers. Given that both unaffiliated retail SMEs and retail SMEs acting within support structures equally play such a key role in the retail market, it is essential to see how these different types of independent retail business models can be fostered. This is especially important as retail SMEs operate against the backdrop of legislative obstacles that other retail business models do not face.

Ideas on how to do this:

ASSIST RETAIL SMEs WITH BETTER ACCESS TO FINANCE

While policy developments have been introduced to make grant assistance and capital available to SME retailers⁵, it is important that financial institutions are equally engaged and committed to making funding available to SME retailers. This funding must be genuinely available, and adequate levels of funding are required. For a SME retailer looking to invest in his current or new businesses, capital ranging from €300,000 to €3M is required.

One benefit of SME retailers being part of a wider business structure is that at times the central office of a group structure can facilitate funding (for store investments, innovations, real estate, purchasing of products, del credere loan security guarantees etc.). However, in some circumstances, situations exist that have prevented SME retailers from getting finance from such sources. For example, European vertical competition guidelines and national laws are ambiguously phrased, sometimes preventing the alternative sources of finance from providing a loan with a 'market' condition e.g. the central office of an SME retail grouping would ask for a security over an asset for a loan in place of an interest rate (as an interest rate would take valuable liquidity away from an independent retailer whereas a security over an asset would not).

In addition, the European regulatory financial framework lacks a clear distinction between big banks which already provide cross border financial services and smaller and decentralized bank structures. The latter financial institutes provide financial services on a regional basis. The existing regional banks often offer a more stable, constant and adequate supply of credit for SMEs.

For all future regulatory steps at the national, European and international level it is important to ensure that the measures are proportionate to the importance of the respective financial institute as well as to the nature, scale and complexity of the business, the risk situation and the quality of risk management.

Provision of financial expertise/Promotion of financial literacy

As stated in the Communication from the Commission to the European Parliament and the Council on Long-Term Financing of the European Economy, financial literacy of SMEs is an important issue. Indeed, few retail SMEs are currently in a position to fully engage with financial institutions on their own behalf, particularly in a climate where access to finance is such an obstacle to business development.

Independent retail SMEs, who have decided to work together in groups, have overcome this problem by putting in place specialist finance teams of qualified and experienced accountants to get financial expertise. The teams work with independent retailers in advising, coaching and mentoring them on all financial related aspects of their business. This extends to liaising with their solicitors, accountants and advisers as well as negotiating with banks on their behalf. In one such retail group, their specialist Retail Finance team meets with their retail SMEs on a quarterly basis – more frequently when needed – to review accounts and performance, providing a unique insight that is free of charge, open, co-operative and successful.

⁵ Communication from the Commission to the European Parliament and the Council on Long-Term Financing of the European Economy COM/2014/0168 final and its Commission staff working document

The team also works with existing retail SMEs who are looking to open new stores, and new SME retailers looking to open stores under the group's common brands. They work with those independent retailers who are looking to expand their business through revamping or extending their existing stores. This involves preparing and assessing their business case, with a view to securing finance from banks or the wider retail group in certain situations. The team assembles the necessary information and paperwork required to secure finance from the bank and, in most cases, liaises with the bank on the retailer's behalf, providing the retailer with the greater level of experience and expertise needed in these types of negotiations. The retail finance team will subsequently work through all the associated legal documentation and advise the retailers on it. This support is invaluable to the independent retailers who are part of the group.

For unaffiliated retail SMEs the situation is more difficult, however it is commendable that the European Commission has put in place measures to help such as reviving the dialogue between banks and SMEs with the aim of improving financial literacy of SMEs, particularly with regards to feedback provided by banks on loan applications.

Debt Restructuring

A further issue of concern which requires attention is the number of retail SMEs which have unsustainable debt levels requiring restructuring. This is a common situation in certain countries. Moreover, in certain jurisdictions, there has been a lot of debate about the prevalence of non-performing loans in the SME sector. There has been a notable lack of enthusiasm by the banks to adequately address the situation. This is not helped by the results of the recent crisis where economies are reliant on their established banks for financing, yet there is reduced banking competition due to consolidation.

In addition, some of the debt of now-merged banks is being sold to unregulated funds, which creates uncertainty for retailers who are heavily indebted regarding the status of their loans and potential changes in the conditions.

EU funding opportunities

Access to financing opportunities, and dealing with the related administrative requirements to access those funds, is one of the existential challenges for SMEs in the retail industry.

Difficulties in accessing such funds do exist. It has been the case recently in a Member State⁶ that independent SME retailers have been denied access to EU SME funding as they are part of a wider support structure. This is not logical as independent retailers remain independent entities, even if they participate in a wider structure. Group structures created by retail SMEs should also be able to access EU funding in order to train the staff of independent retail SMEs e.g. on digital developments.

Unaffiliated retail SMEs often are not aware of what funding opportunities exist. This must be remedied in order to provide such retailers with a choice to access those funds should they wish to do so.

⁶ Further details not provided due to ongoing proceedings.

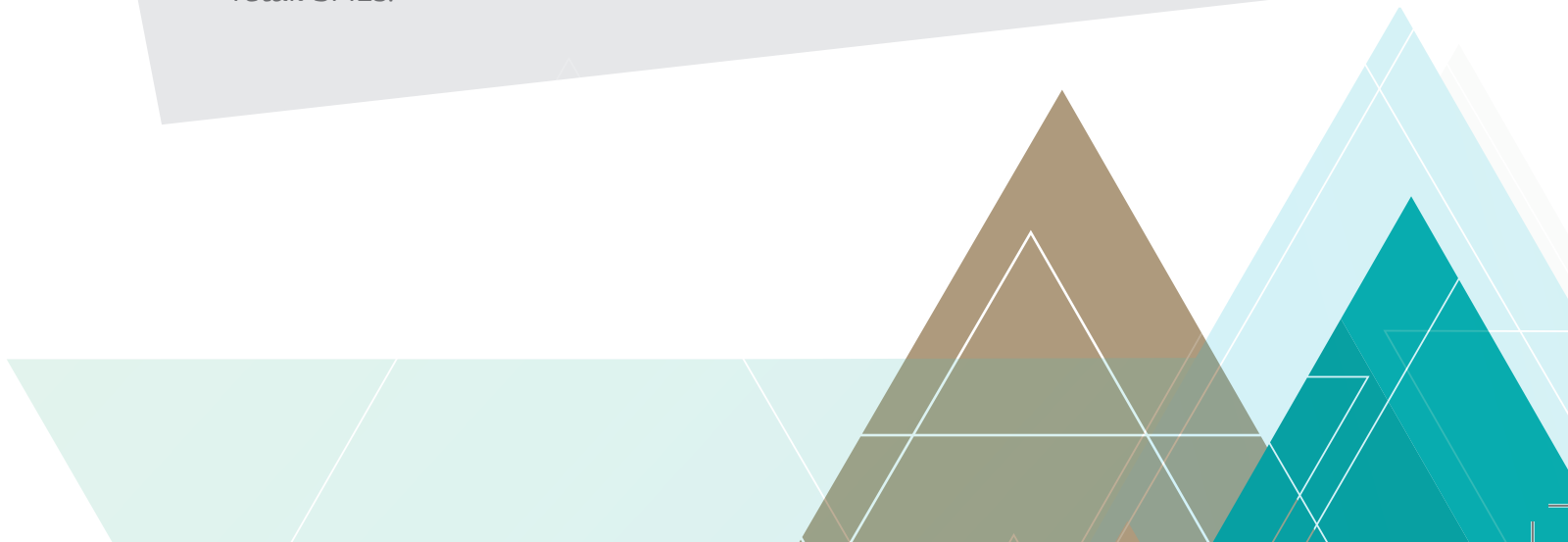
Retail SMEs should also be able to access innovation funding. This should also be applicable to groups serving independent retailers as the independent retailers are the beneficiaries of these funds – it is the independent retailers who receive trainings etc. to develop their skill sets and create new, innovative products/processes. Additional simplifications and incentives to use EU funding opportunities must be made available for small companies, as well as for banks that finance these companies. This could be done at Member State level in the form of tax incentives, by simplifying the applications for funding and setting up easily accessible EU-wide public and private funding institutions, which provide sector specific financing programmes for SMEs. Sector specific features, including the special financing requirements in retail (financing of receivables and goods) would be very useful. Further simplifications of receiving payments from these funds e.g. by having a uniform finance payment process on an EU-wide basis, also beyond the EURO zone, must be linked to this.

Access to information

Retail SMEs have a high need for easily accessible information. The European Commission already integrated this idea through platforms such as the European eJustice portal or a database for the financing of SMEs. As a second step, it is now necessary to streamline the access of information. A good means in doing so would be a one-stop shop online platform where retail SMEs could find relevant European and national legislation, procedures to be taken into account when doing cross-border services or entering another market, as well as a retail specific online guide with information on European and national funding and financing instruments.

Recommendations:

- Government policy should ensure the existence of adequate State-funded financial support and advice for retail SMEs, such as those previously recommended by the European Commission. A “Financial Education⁷ for SMEs Initiative” could be launched to showcase helpful activities, information on best practices in promoting financial literacy for retail SMEs (such as the creation of the above-mentioned retail finance teams) should be provided by the European Commission. Moreover, innovative ways to improve SME creditworthiness should be found. For example, the affiliation of an SME to a wider network should be recognised as promoting creditworthiness.
- Business structures, providing services to SME retailers, should be able to provide their retail SMEs members with certain banking transactions such as the provision of credit should they wish to do so.
- Processes should be simplified to access EU funding programmes and receive payment of funds. To promote adequate funding, funds should be sector specific. As such it would be beneficial to establish easy to access public and private subsidy institutions to provide sector-specific financing programmes for retail SMEs.



Existing information portals concerning access to finance, should be further developed, e.g. providing an online guide, creating a one-stop-shop for retail SMEs to access information on EU and national funds, projects and research on SME financing.

LACK OF VISIBILITY OF RETAIL SMEs IN THE DIGITAL WORLD LEGAL

As described above retail SMEs also face a lack of visibility in the digital world. They are not visible on large commercial platforms. In addition, the use of commercial platforms is very costly for SMEs. Finally, many consumers would be interested to support their local retail SMEs even when they buy online but it is difficult for them to do so in absence of e-commerce platforms specifically dedicated to SMEs.

For small retailers who want to develop e-commerce locally, it would make sense to cooperate together at local level and create a local market place, e-commerce platform that they would advertise to local consumers. Individual SMEs may lack necessary IT skills and visibility online, but if such a platform is created it would benefit all the small retailers involved. Retail SMEs should obtain help to create such platforms at the local level. In particular, help linked to IT skills and marketing would be necessary.

Recommendations:

Help retail SMEs to create SME e-commerce platforms on which local SMEs can sell their products online. Help with digital marketing, IT skills and promotion of the platforms would be welcomed.

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FAIR TAXATION IN THE ONLINE ENVIRONMENT

SME competitiveness in the digital world is heavily affected by the lack of a taxation level playing field. A retail SME, and indeed bricks and mortar/multi-channel retailers in general pay significantly higher levels of corporation tax (e.g. approximately 11 to 30 percent) than their multi-national pure e-commerce competitors (e.g. often less than 1 percent). It is impossible to compete fairly on sensitive issues such as price and even service if the corporation tax bases between pure online multi-national e-commerce operators and multi-channel, including SME retailers can differ by up to thirty percent. A level playing field must be developed in order to boost the competitiveness of both SME and even large multi-channel retailers.

⁷ In the practical style of the Commission's Financial Education Communication COM(2007) 808 final <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52007DC0808&from=EN>

In accordance with the OECD recommendations in its Base Erosion and Profit Shifting (BEPS) action plan⁸ (actions 12 and 13), tax authorities should put in place schemes to certify the transparent corporate tax behaviour of a company in situations where a company has disclosed its corporate structure and announced the level of tax paid. Action 12 of the BEPS project requires taxpayers to disclose their aggressive tax planning arrangements. Action 13 requires development of rules which would “include a requirement that Multi National Enterprises provide all relevant governments with needed information on their global allocation of the income, economic activity and taxes paid among countries according to a common template.”

Recommendations:

Investigate possibilities to develop a level taxation playing field and assess all options from self and co-regulatory schemes such as trustmarks to EU level legislation.

CREATING A LEVEL PLAYING FIELD FOR RETAIL SME BUSINESS MODELS BY CLARIFYING EU COMPETITION RULES

Independent retailers working together in specialist structures are heavily affected by the interpretation of competition rules. These include guidance provided at the EU level in the Regulation on Vertical Restraints (Commission Regulation 330/2010); the linked Vertical Guidelines (2010/C 130/01); and the Horizontal Competition Guidelines (2011/C 11/01).

These documents limit, in practice, how independent retailers can interact within their specialist group structures. Limits are notably placed on information exchanges on pricing, marketing, branding etc.

The possibility of pricing agreements (resale price maintenance [RPM]) within such groups particularly in the context of e-commerce are an essential necessity to ensure the competitiveness of these groups in future and enhance competition in the e-commerce market. When independent retailers, operating in a group under a common brand, do not have a unified pricing policy, they are not able to develop an efficient online service and a uniform brand image. This creates a competitive disadvantage for independent retail SMEs compared to integrated chains, which use common pricing to develop their brand image. For example, price can convey quality or value, as an image, depending on the image a brand wishes to project.

Moreover, when independent retailers, who are part of a group, do not have access to a harmonised web portal, their search ranking e.g. in Google is drastically reduced. This is because, despite the independent retailers selling the same products, Google doesn't recognize their content as unique and so the combined purchases from the independent retailers belonging to the same grouping are not used to determine the search ranking. This has negative sales implications and a huge business impact.

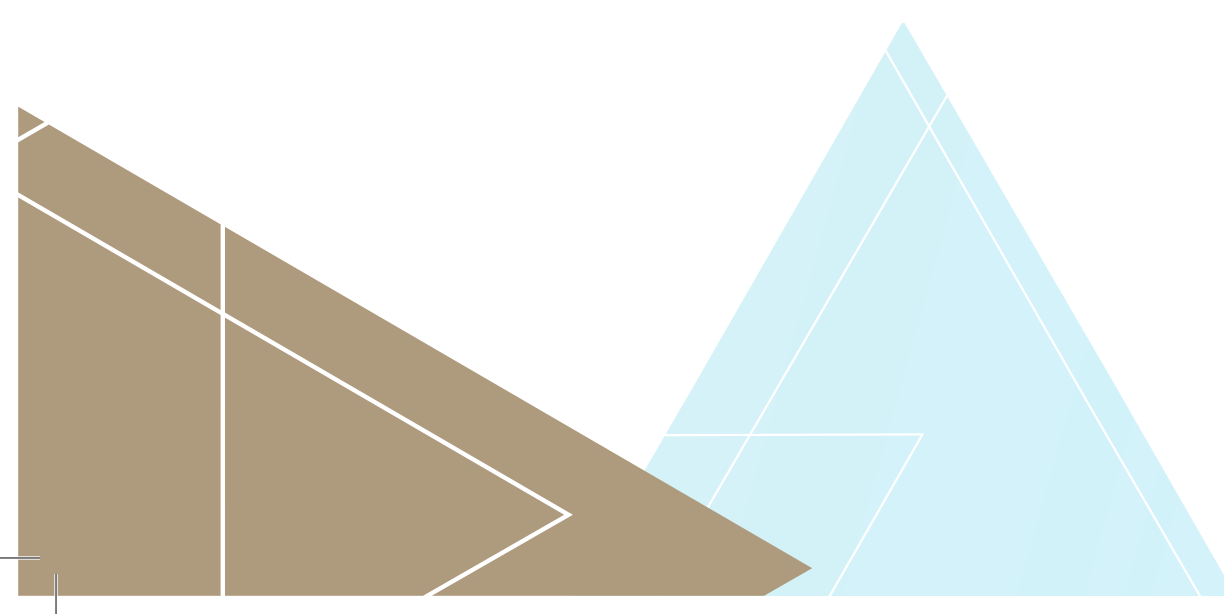
⁸ <http://www.oecd.org/ctp/BEPSActionPlan.pdf>

Although there are groups of independent retailers who have tried to build up multichannel-concepts under a single brand, the lack of the possibility to set prices makes it more difficult to maintain a consistent brand-image and online appearance. For example many independent retailers cooperating in groups have not been able to set up a common consumer facing e-commerce platform due to restrictions on using RPM. Instead, in many cases, each independent retailer (even when part of a wider group) will have his own web offering. This leads to hundreds, if not thousands of different websites of independent retail group members, which makes it burdensome and complex for a consumer to search independent retailer's e-commerce sites and to shop on-line which dilutes the brand image of a group and weakens a brand in the mind of the consumer. It also prevents efficiencies of scale (costs are carried and operation of IT-system is done by each independent retailer, SME, etc.), as the retailers cannot join forces with their peers in the same retailer grouping to establish a common e-commerce portal. An independent retailer faces extreme difficulties to build up and maintain an efficient and competitive e-commerce service of a considerable number of articles him/her self. However, by using a common 'group' web portal, this barrier is overcome and independent retailers can offer the omni-channel shopping experience, demanded by modern consumers.

Intra-group RPM in this situation would benefit consumers by boosting inter-brand competition as efficient cooperation in groups (also in the sphere of e-commerce) is the only way for independent retailers to compete with integrated chains. Indeed, it is in the consumer interest to have a strong 'independent' sector and therefore a diverse retail sector. To aid this, there should be a level playing field for groups of independent retailers and integrated chain business models to compete on. The benefits of the efficiencies created by RPM within a group of independent retailers are for the consumers in the form of more choice and lower prices. It is indispensable for groups of independent retailers to find ways of carrying out efficient e-commerce operations as omni channel retail offerings are nowadays standard consumer expectations. Allowing RPM within groups of independent retailers should therefore be a priority measure enabling independent retailers to compete online.

This can be done by adding new RPM provisions to the existing vertical competition guidelines in order to take into account new market developments e.g. the rise of e-commerce and digital customer communication or in the short-term by providing specific guidance on these issues.

It could be argued that groups of independent retailers could use the exemption from certain categories of agreements from competition law, contained in Article 101(3) of the Treaty on the Functioning of the European Union, to legally use RPM agreements. However, this is considered unrealistic by the independent retailers. Using a general treaty exemption to prove efficiency gains in each case is far too burdensome and indeed legally uncertain for each retail SME, or group, to do.



Recommendations:

Help independent retailers to get together and better face challenges, by providing guidance on the application of competition rules to their cooperation agreements. Particularly in the context of the development of e-commerce, independent retailers need to cooperate to develop an efficient online service and a uniform brand image towards consumers.

ENCOURAGING RETAIL DIVERSITY AT LOCAL LEVEL

Business rates

The European Parliament's de Jong report on a 'European Retail Action Plan for the benefit of all actors' contains a number of ideas that will benefit retail SMEs. One commendable idea, best adapted to local implementation is to introduce 'business rate discounts on local charges for small businesses and independent retailers, in compliance with applicable EU state aid competition and internal market public procurement rules'.

This measure would not only improve the competitiveness of independent retailers in localities but it would also contribute to re-generating city centres and local high streets by encouraging shops to stay and invest in those areas. This in turn would stimulate retail diversity, essential for a competitive market with true consumer choice. Moreover, this investment would bring a mix of skilled and entry level jobs and new and expanded businesses into local communities.

Profiling retail SMEs

Individual retail SMEs do not have the resources to profile themselves at EU level. However, as mentioned earlier on in this paper, they are of great benefit to consumers. This is certainly the case when it comes to creating a diverse and competitive retail market. To raise awareness of their market impact and specific services offered,

Recommendations:

In addition to encouraging the de Jong recommendations on business rates, the European Commission should provide a political recognition of the importance of independent retailers, for example, through the creation of a dedicated day for independent retail to be held in Brussels, on an annual basis. Better recognition of the sector could lead to smarter legislation that better takes into account the needs of retail SMEs.

CREATING A LEVEL PLAYING FIELD AT AN ADMINISTRATIVE LEVEL

Independent retailers working together in specialist business structures are subject to additional administrative and cost burdens that other retail business models are not subject to. This means that those independent retailers do not compete on a level playing field with other retail business models, reducing their competitiveness, and also reducing the competitiveness of the retail SMEs who belong to such groups. Each SME retailer needs to know and implement all the legal requirements in his store, which is a large burden to take on when it could potentially be delegated to a central body⁹.

Below are three relevant examples when selling food and non-food products.

Example 1: beef sales

To sell beef in certain jurisdictions, it is necessary for a retailer to have a specific authorisation. Each independent retailer is required to have such an authorisation. This means that independent retailers cooperating in a group to attain e.g. scale economies must pay for thousands of individual authorisations. Their competitors, mainly integrated chains, only require one such authorisation for the entire chain, despite the fact that they also have thousands of points of sale operating under the chain's banner.

Example 2: cosmetic sales

A similar situation exists in the field of cosmetics, where independent retailers are required to hold individual certifications, whereas other business models are only required to hold one certification for an entire chain of stores.

Example 3: IT services

An example of a non-level playing field in contractual relations is in the form of the provision of IT services to independent retailers. To qualify for the best level of IT services from well-known IT providers (which in turn give the user access to better buying conditions and specific services) each independent retailer must achieve a 'gold' or 'platinum' status. It is not possible for the group to reach the higher status as one overall entity.

On the other hand IT services used by shops in integrated chains are accumulated, thus enabling a chain to easily qualify for the 'gold' or 'platinum' status. In this situation, independent retailers cannot take advantage of the scale economies, enjoyed by other business models, which would be a possibility if an entire group could qualify for the higher customer status levels.

⁹ The follow-up to the Small Business Act showed that reducing administrative burdens is still the top priority for SMEs across Europe.

General overview of examples:

Burdens faced by non-affiliated SME retailers

- Lack of consistency as municipal health authorities interpret legislation and rules differently from locality to locality.
- Rescue authorities have different views on potentially hazardous liquids in store displays.
- Reporting non-compliant products to authorities takes extra time and costs money due to complex rules on responsibility.
- Retailers must provide too much information on labels for certain products packaged in store.
- Reducing temperatures in cooling systems e.g. by two degrees for hygiene reasons can technically be unrealistic to reach due to increased electricity costs, which also have sustainability implications (also no negative risk assessment with current temperatures).
- Very low purchasing power with global brands
- Lack of consumer convenience and competitiveness when national rules prohibit e.g. in-store pharmacies or alcohol sales.
- Perceived lack of competitiveness on comparison tools when labour costs, VAT and sustainability criteria are not listed.
- High prices for IT systems and lack of IT expertise.
- High payment costs
- High financing costs and difficulties to find finance.
- Digital business and search engines don't support SME retailers.
- High digital compliance costs e.g. data protection rules
- Tough recycling rules that are not required for online stores.
- Difficult to complete the forms to obtain licenses due to lack of expertise.

Burdens faced by SME retailers working together in a group structure

- EU competition rules prevent SME cooperation e.g. joint purchasing, e-commerce, pricing, and marketing.
- Lack of consistency as municipal health authorities interpret legislation and rules differently from locality to locality.
- Rescue authorities have different views on potentially hazardous liquids in store displays.
- Reporting non-compliant products to authorities takes extra time and costs money due to complex rules on responsibility.
- Retailers must provide too much information on labels for certain products packaged in store.
- Reducing temperatures in cooling systems e.g. by two degrees for hygiene reasons can technically be unrealistic to reach due to increased electricity costs, which also have sustainability implications (also no negative risk assessment with current temperatures).
- Very low purchasing power with global brands yet laws make it difficult for joint procurement.
- Lack of consumer convenience and competitiveness when national rules prohibit e.g. in-store pharmacies or alcohol sales.
- Perceived lack of competitiveness on comparison tools when labour costs, VAT and sustainability criteria are not listed.
- High prices for IT systems and lack of IT expertise.
- High payment costs
- High financing costs and difficulties to find finance.
- Digital business and search engines don't support SME retailers.
- High digital compliance costs e.g. data protection rules
- Tough recycling rules that are not required for online stores.
- Difficult to obtain licenses through the headquarters as these must be done on a per store basis.

Recommendations:

- Create a level playing field in the retail sector by ensuring the principle of ‘same rules, same obligations’. Companies should not have to comply with extra obligations when adhering to legislative, or non-legislative, rules just because they have a different business structure.
- Facilitate, to the greatest extent possible, the centralized treatment of administrative tasks, permits, licensing etc. for retail SMEs cooperating in business structures that help independent retailers to attain scale economies. This will help to ease the administrative burdens faced by retail SMEs. In parallel, action should be taken to reduce regulatory burden for SMEs («less red tapes»).

BETTER REGULATION

In order to remove bureaucratic obstacles for SMEs effectively the ongoing REFIT has to take into account the needs of this special group of enterprises.

The principle of subsidiarity must be stronger perceived in its substantive meaning. The Commission has to examine in more detail during the legislative process, if the policy objective cannot be achieved more effectively on the national level. Unnecessarily detailed EU-rules should be omitted. Member States must retain the necessary leeway to fit requirements into national law.

The European Commission’s announcement to revise the guidelines for impact assessment provides the opportunity to further develop the practice of data collection. Here, the Commission should be able to call primarily on existing data sets. In general, both the Member States and organizations have made available a number of representative figures, which should be brought together by the Commission and used for their own interests. In addition, surveys of EUROSTAT could be included more often.

The recurring commitment of the European Commission to the «think small first» principle requires a tangible implementation in legislative practice. The revision of the guidelines for impact-assessments provides for the opportunity to embed the principle of “think small first”. On the other hand the “think small first principle” shall not lead to a situation where SMEs are excluded from important European provisions.

Recommendations:

- Clearer and stronger enforcement of the principle of subsidiarity.
- Improvement of the European Commission’s guidelines for impact assessments.
- Actual implementation of the “think small first principle” throughout the European legislation processes.

FOSTER THE NEXT GENERATION OF RETAIL ENTREPRENEURS

Succession, ensuring that there is a new generation of entrepreneurs willing to run a retail business is increasingly gaining in importance as an issue facing SME retailers. Students often prefer to join traditional professions with a stable income, rather than engage in the potentially less stable life of an entrepreneur. To encourage entrepreneurship in retail, and prepare the next generation of retail entrepreneurs, educational measures must be taken by governments, educational establishments and the retail industry. This can be done through training courses, dedicated university studies, such as the career-integrated Executive MBA Programme for Innovations and Network Management in Retail, Sales and Services at the University of Muenster and the Executive Master of Retailing at Zeppelin University.

Recommendations:

Develop educational programmes from high school to university to encourage in the field of retail entrepreneurship. Help to fund retail industry run training courses to improve skills for future retail entrepreneurs.

CONCLUSIONS IN THE FORM OF RECOMMENDATIONS

- Government policy should ensure the existence of adequate State-funded financial support and advice for retail SMEs, such as those previously recommended by the European Commission. A “Financial Education for SMEs Initiative” could be launched to showcase helpful activities, information on best practices in promoting financial literacy for retail SMEs (such as the creation of the above-mentioned retail finance teams) should be provided by the European Commission. Moreover, innovative ways to improve SME creditworthiness should be found. For example, the affiliation of an SME to a wider network should be recognised as promoting creditworthiness.
- Business structures, providing services to SME retailers, should be able to provide their retail SMEs members with certain banking transactions such as the provision of credit should they wish to do so.
- Processes should be simplified to access EU funding programmes and receive payment of funds. To promote adequate funding, funds should be sector specific. As such it would be beneficial to establish easy to access public and private subsidy institutions to provide sector-specific financing programmes for retail SMEs.



- Existing information portals concerning access to finance, should be further developed, e.g. providing an online guide, creating a one-stop-shop for retail SMEs to access information on EU and national funds, projects and research on SME financing.
- Help retail SMEs to create SME e-commerce platforms on which local SMEs can sell their products online. Help with digital marketing, IT skills and promotion of the platforms would be welcomed.
- Investigate possibilities to develop a level taxation playing field and assess all options from self and co-regulatory schemes such as trustmarks to EU level legislation.
- Help independent retailers to get together and better face challenges, by providing guidance on the application of competition rules to their cooperation agreements. Particularly in the context of the development of e-commerce, independent retailers need to cooperate to develop an efficient online service and a uniform brand image towards consumers.
- In addition to encouraging the de Jong recommendations on business rates, the European Commission should provide a political recognition of the importance of independent retailers, for example, through the creation of a dedicated day for independent retail to be held in Brussels, on an annual basis. Better recognition of the sector could lead to smarter legislation that better takes into account the needs of retail SMEs.
- Create a level playing field in the retail sector by ensuring the principle of ‘same rules, same obligations’. Companies should not have to comply with extra obligations when adhering to legislative, or non-legislative, rules just because they have a different business structure.
- Facilitate, to the greatest extent possible, the centralized treatment of administrative tasks, permits, licensing etc. for retail SMEs cooperating in business structures that help independent retailers to attain scale economies. This will help to ease the administrative burdens faced by retail SMEs. In parallel, action should be taken to reduce regulatory burden for SMEs («less red tapes»).
- Clearer and stronger enforcement of the principle of subsidiarity.
- Improvement of the European Commission’s guidelines for impact assessments.
- Actual implementation of the “think small first principle” throughout the European legislation processes.
- Develop educational programmes from high school to university to encourage in the field of retail entrepreneurship. Help to fund retail industry run training courses to improve skills for future retail entrepreneurs.



