

Mr. Bill Prasifka  
Chairman  
The Competition Authority  
Parnell House  
14 Parnell Square  
Dublin 1

6<sup>th</sup> March 2009

REF: Study of Retail Related Import | Distribution Sectors

Dear Bill,

In the first instance, thank you for taking time to meet with REI yesterday.

Retail Excellence Ireland was established in 1995 to raise standards and skills in the Irish Retail Industry. The retail industry is fundamental to our economy and currently employs over 300,000 people. The industry is the second largest employer in Ireland (the Civil Service being the largest).

Retail Excellence Ireland welcomes this study as it will throw much needed light as to the real reasons for price difference in the market. Suffice to say that our 600 member companies (8,000 stores) are frustrated with the very negative media commentary which is primarily based on "flawed" NCA reports. Added to this An Tanaiste has added her voice to the "rip off" claim.

The NCA reports have focused primarily on many international brands (thus allowing for exact price comparison). It is our view that the actions of this limited number of companies are not common across the industry and as such the NCA reports should preface this, or at the least be clear as to the companies included in their sample. The majority of retail operators of all sizes (with the exception of the global giants) are struggling to survive and the majority are offering very best price to the Irish consumer.

An Tanaiste has also make much reference to the Forfas report which investigated operating cost in the Irish retail industry. The report suggested that a difference of no more than 6% should be expressed in prices in the ROI. Retail Excellence Ireland believes that this report does not highlight the true cost differences between Ireland and other jurisdictions.

# Retail Excellence Ireland's Interpretation of Price Difference:

**There are 5 primary reasons for price difference:**

## **1. Wage Cost**

The minimum wage in the UK market currently stands at £5.60 (€6.20 approximately). The ROI minimum wage is €8.65. This results in a 39% difference in this fundamental cost. This difference alone is resulting in the closure of "wage dependant" retail operators and has left food operators in a very precarious position. Our figures indicate that a similar percentage difference runs through all pay grades within the industry. The average wage cost as a percentage of sales in the ROI market in 2008 was 16.21% (source REI CBRE Quarterly Retail Industry Productivity Review). The net effect of this cost difference on price is 6.32%.

Period	ROI Wage Cost 2008 (as % of Sales)
Q1 2008	18.10%
Q2 2008	16.28%
Q3 2008	15.78%
Q4 2008	14.66%
Annual Total 2008	16.21%

### **What affect wage cost difference on price?**

Period	ROI Wage Cost 2008 (as % of Sales)	% Difference UK v ROI	Net affect on Price in ROI
Annual Total 2008	16.21%	39%	+6.32%

### **The solution?**

1. Reduce the minimum wage rate in ROI.
2. Abolish JLC's which legislate for higher than minimum wage rates and "extraordinary" Sunday time rates.

## **2. Rent Cost**

The Forfas report was limited in its investigation as to property costs in the ROI market. It compared Bond Street, London to Grafton Street, Dublin and Oxford Street, London to St. Stephens Green, Dublin. It found that property costs were roughly similar between both jurisdictions. It failed to account for productivity i.e. rents versus footfall levels. London is a market of 16million people while Dublin is far less. This is a significant omission which undermines the report in totality.

Period	ROI Rent Cost 2008 (as % of Sales)	International Entry Level Rent %	% Difference International v ROI	Net affect on Price in ROI
Annual Total 2008	9.74%	6.50%	49.80%	+ 4.85%

### **The solution?**

1. Introduce a register of lease interest specifying the true headline rent. This will assist in stamping out the false inflation of rent, which when used as evidence at time of rent review increases all neighbouring rents. This is a very real breach of competition law.
2. Outlaw upward only rent clauses and let the market determine rent increases as well as decreases.
3. Introduce a code of practice for lease law in Ireland as is the case in ALL civilised societies. Most codes are built on landlord and tenant partnership with rent as a percentage of turnover being the norm.

### **3. VAT**

A 43% difference exists between higher level VAT rates in the UK and ROI.

Period	ROI Higher Level VAT Rate	UK Higher Level VAT Rate	% Difference UK v ROI	Net affect on Price in ROI
March 2009	21.50%	15.00%	43.33%	+6.50%

### **The solution?**

Reduce the VAT rate to a rate that is comparable with neighbouring jurisdictions.

### **4. Other Costs**

There are a myriad of costs associated with retailing which are "excessively priced" in the ROI market. Suffice to say that banking charges, cost of finance, cash transit and utilities all contribute to significant price difference. The price differences in these categories experienced by a leading German Discounter and expressed in their submission to the Joint Oireachtas Committee on pricing should be referenced. Suffice to say that the German Discounter is paying lower prices for all these cost categories that the average retailer.

### **The solution?**

The Government regulate and / or control these costs. As such Government intervention is required.

### **5. Supplier Behaviour**

We are delighted that the focus has rightly been placed on supplier pricing into the Irish market. We are also pleased that An Tanaiste has recently modified her view on the true cause of price difference. The Forfas report referenced that 70% of a retailers costs are supply or "input" costs. This implies that if the ROI "input" price from a supplier is even marginally higher than the "input" price in other jurisdictions, the retail price will be grossly inflated.

It is impossible to quantify the affect that supplier pricing has on inflated retail price structures on a macro level. On a product by product basis the difference is very clear.

Supplier bad behaviour falls into three main categories:

- a) The implementation of inflated euro price lists, where a notable premium above the comparable sterling price list exists. And furthermore the non availability of sterling account terms and prices to the ROI retailer.
- b) The excessive supplier price difference between ROI and UK in FMCG brands. Such difference is contributed to by the cost of distribution and agency fees in the ROI (to a relatively small market compared with say the UK). However, the magnitude of some differences indicates that supplier profiteering exists.
- c) The rigorous implementation of licensing agreements between the supplier and the retailer resulting in a supplier determined retail price level in the ROI market. Licensing agreements are most prevalent in fashion and beauty categories and result in controlled prices in differing jurisdictions.

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