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The German Distribution System

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Uwe Chr. Täger,
Günter Weitzel**

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GENERAL DISTRIBUTION

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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THE GERMAN DISTRIBUTION SYSTEM

This paper forms part of an OECD project which addressed the issue of the structure and change in the distribution systems of seven OECD countries.

First, the paper discusses the role of distribution systems in the overall economic performance. Next, it gives an overview of the structure and evolution of the distribution system in West Germany for the period 1970-1988. Finally, it analyses the impact of competition laws and other regulations on the distribution of consumer goods.

* * *

Ce document fait partie d'un projet de l'OCDE qui avait pour objet l'analyse de la structure et des changements dans les systèmes de distribution dans sept pays de l'OCDE.

Tout d'abord, cette étude présente une discussion du rôle des systèmes de distribution dans la performance de l'ensemble de l'économie. Ensuite, elle donne une vue d'ensemble de la structure et de l'évolution des systèmes de distribution dans l'Allemagne de l'Ouest pendant la période 1970-88. Finalement, sont analysés l'impact de la réglementation et de la loi sur la concurrence sur le secteur de distribution de biens de consommation.

Contents

A. Introductory remarks	5
B. Position of the distributive trades in the economy as a whole	6
1. Contribution of distribution to overall economic performance	6
2. Value added per employee in distribution	11
3. Capital structure, capital/output ratio and capital intensity of distribution	13
C. Structure and development of the distributive trade	19
1. Analysis by number of firms, sales volumes, employment	19
2. Analysis by turnover- and workforce-size class	40
3. Large-scale firms	51
4. Analysis by types of retail stores	56
5. Growth of co-operatives and groups of affiliated distributors	66
6. Trends in investment	70
7. Costs and rates of return	74
8. Balance sheet structure	83
9. Purchasing structures	86
10. Use of new technologies in the retail sector	92
D. Impact of competition laws and other regulations on the distribution of consumer goods	95
1. General comment	95
2. Regulations governing the location of large-scale retail projects ..	96
3. Regulations governing packaging and environmental protection in distribution	98
4. The issue of shop opening hours	104
5. Horizontal co-operation agreements between small and medium-sized retail enterprises	106
6. Vertical marketing agreements between distributors and manufacturers	111
7. Selected measures to protect small and medium-sized distributors and their effects	115
8. The problem of the concentration of buying power in the German distribution system	118
9. Foreign activity of German trading firms in Europe and elsewhere ...	120
E. Summary conclusions on competition in consumer goods distribution	123
Appendix	125

A. INTRODUCTORY REMARKS

Markets cannot operate properly in a modern economy based on the division of labour without an efficient distribution system that performs the many intermediary functions required. The circulation of goods is highly dependent on efficient distribution. Marked changes in the general environment, but also a strong internal development dynamic, have transformed the structures and functions of the distribution sector.

The purpose of this study, based on the latest data and information, is to analyse the integration of distribution into the overall economy of the Federal Republic of Germany prior to reunification and the changes in retail structure against the background of changing general conditions. Quantitative and qualitative information from various sources have been utilized to this end.

In view of the unification of the two German states in the autumn of 1990, a description and analysis of the structure and development of distribution should in principle also take account of the situation in the former German Democratic Republic. However, it has not been possible to do this in this study, mainly because of the lack of comparable statistics for the territory of the former GDR. But even if it were possible to incorporate distribution in eastern German rapidly into joint statistics, comparability with earlier data would be very difficult because of the radical structural change, and developments would still have to be discussed separately for the two areas of the old and new Federal Länder. Specific developments in the 'new' states of the Federal Republic of Germany are therefore referred to only in passing.

This study focuses on the organizations involved in distribution, i.e. distribution in the institutional sense. Only by this approach can the developments in the sector be described and analysed using official statistics, in which individual firms are assigned to one of the various economic sectors on the basis of their principal economic activity. In addition, the specific commercial functions of both smaller and larger firms in the competitive market are described and analysed against the background of the changes in overall conditions.

B. POSITION OF THE DISTRIBUTIVE TRADES IN THE ECONOMY AS A WHOLE

1 Contribution of distribution to overall economic performance

The contribution of distribution to the gross value added of the business sector is a significant measure of its efficiency. In 1989 (more recent data are not available) distribution accounted for 10.6 per cent of business sector gross value added, which represents a marked decline on previous years: in both 1970 and 1980 the figure was 11.4 per cent. Whereas the value added of the distributive trades increased between 1970 and 1980 by an average annual rate of 7.9 per cent and was thus on a par with the aggregate growth in the gross value added of the business sector, in the 1980 to 1989 period it ran below average. Aggregate annual growth in business sector gross value added averaged 4.9 per cent during this period, but the growth rate for distribution fell back to 4.0 per cent.

Within the distribution sector, net value added rose steeply during the 1970-1980 period, particularly in the retail sector. The increased importance of retail trade in this decade can be accounted for by the increase in private household consumption, but also by efforts within the sector to boost efficiency through rationalization and new types of firm and outlet. In the below-average overall growth of distribution in the 1980-1989 period, wholesale trade fared somewhat better than retail trade. One of the decisive factors may have been that wholesalers increasingly engaged in service activities such as consultancy, service, transport, and so on, thus sharing in the growth in demand for services, including business-related services. The increased importance of the services sector in this period is also shown by the strong growth of value added in the service sector in the narrower sense (see table B.1).

A changing picture gradually emerges upon analysis of gross value added at 1980 prices. From this point of view, distributors in the Federal Republic of Germany have only just managed to keep up with the growth in value added of the business sector as a whole both between 1970 and 1980 and between 1980 and 1989. In distribution, as in the entire business sector, there was a

Table B.1
Gross value added of trade and industry
 at current prices
 period 1970-1989
 by economic sector

	DM billion				Percentage share			Average annual change in per cent	
	1970	1980	1989(a)	1980	1970	1980	1989(a)	1980/70	1989/80(a)
Economic Sector	1970	1980	1989(a)	1980	1970	1980	1989(a)	1980/70	1989/80(a)
Agriculture, forestry and fishing	21.78	30.37	36.11	30.37	3.8	2.5	1.9	+3.4	+1.9
Manufacturing industry	333.72	632.23	883.25	632.23	58.2	51.7	47.0	+6.6	+3.8
Distribution and transport	103.47	225.65	329.33	225.65	18.0	18.4	17.5	+8.1	+4.3
Transport, communications	38.07	85.67	129.62	85.67	6.6	7.0	6.9	+8.5	+4.7
Distributive trades	65.40	139.98	199.71	139.98	11.4	11.4	10.6	+7.9	+4.0
Wholesale distribution, brokerage	33.90	66.71	-	66.71	5.9	5.4	-	+7.0	+4.0(b)
Retail distribution	31.50	73.27	-	73.27	5.5	6.0	-	+8.8	+3.7(b)
Service enterprises	114.39	335.07	630.23	335.07	20.0	27.4	33.6	+11.4	+7.3
Enterprises Total	573.36	1,223.32	1,878.92	1,223.32	100	100	100	+7.9	+4.9

marked reduction in the latter period in value added growth compared with the 1970-1980 period. Nevertheless, the decline overall was not quite so marked as it was for the average of the other economic sectors. The goods-producing sector, in particular, was unable to reach anything like the same level of gross value added growth in the 1980-1989 period as in the previous decade. After an average annual increase of 1.9 per cent in gross value added, increases in this area fell back to an annual average of only 0.7 per cent. Agricultural production, on the other hand, experienced increased value added growth levels. In real terms, too, the services sector was the growth leader in the entire period under analysis, with average annual increases of 4.5 per cent in the first and 4.1 per cent in the second period far outstripping the average of other sectors.

Marked divergences in growth rates are also apparent within distribution. In the retail sector, which experienced above-average growth rates in the general value added growth years from 1970 to 1980, growth continued at a markedly slower rate between 1980 and 1989. Wholesaling and brokerage, on the other hand, saw stronger growth in value added in this period (see table B.2).

If depreciation and production taxes are deducted and subsidies added, gross value added gives net value added. This consists of income from dependent employment, and from entrepreneurship and property. Here too, there is a marked shrinkage in average annual growth rates between the two periods. While net national product of the entire business sector increased by 7.7 per cent in the 1970-1980 period, growth fell back to 4.8 per cent in the 1980-1989 period. In distribution, growth in the second period was about half that in the first-period. Whereas incomes (taken as a whole) saw above-average increases in the first decade, they fell well behind the general growth level in the business sector in the second period. Overall this reflects the increasing level of competition (see table B.3).

Table B.2
Gross value added of trade and industry
 at 1980 prices
 period 1970-1989
 by economic sector

	DM billion				Percentage share			Average annual change in per cent
	1970	1980	1989(a)	1970	1980	1989(a)	1980/70	
Economic Sector	28.63	30.37	35.93	3.1	2.5	2.4	+0.6	+1.9
Agriculture, forestry and fishing	522.43	632.23	671.58	55.9	51.7	45.7	+1.9	+0.7
Manufacturing industry	168.26	225.65	280.60	18.0	18.4	19.1	+3.0	+2.5
Distribution and transport	58.98	85.67	113.51	6.3	7.0	7.7	+3.8	+3.2
Transport, communications	109.28	139.98	167.09	11.7	11.4	11.4	+2.5	+2.0
Distributive trades	56.50	66.71	-	6.0	5.4	-	+1.7	+2.0(b)
Wholesale distribution, brokerage	52.78	73.27	-	5.7	6.0	-	+3.3	+1.9(b)
Retail distribution	215.39	335.07	482.01	23.0	27.4	32.8	+4.5	+4.1
Service enterprises	934.71	1,223.32	1,470.12	100	100	100	+2.7	+2.1
Enterprises Total								

(a) Provisional figures (b) 1988/1980

Source: Statistisches Bundesamt, Volkswirtschaftliche Gesamtrechnungen, Konten und Standardtabellen

Table B.3

Net value added of trade and industry
at current prices
period 1970-1988
by economic sector

	DM billion			Percentage share			Average annual change in per cent	
	1970	1980	1988(a)	1970	1980	1988(a)	1980/70	1988/80(a)
Economic Sector	19.24	21.98	26.23	4.0	2.2	1.8	+1.3	+2.2
Agriculture, forestry and fishing	277.28	521.11	694.58	57.8	51.6	47.3	+6.5	+3.7
Manufacturing industry	91.65	201.71	278.38	19.1	20.0	19.0	+8.2	+4.1
Distribution and transport	32.11	71.91	100.30	6.7	7.1	6.8	+8.4	+4.3
Transport, communications	59.54	129.80	178.08	12.4	12.9	12.2	+8.1	+4.0
Distributive trades	91.53	264.22	468.98	19.1	26.2	31.9	+11.2	+7.4
Service enterprises	479.70	1,009.02	1,468.17	100	100	100	+7.7	+4.8
Enterprises Total								

(a) Provisional figures

Source: Statistisches Bundesamt, Volkswirtschaftliche Gesamtrechnungen, Konten und Standardtabellen

2 Value added per employee in distribution

Value added per employee represents a significant indicator of the productivity of the workforce in distribution compared with other sectors of the economy. The growth differences between the various sectors are of particular significance. Between 1970 and 1980 gross value added per employee in distribution rose by about 2 per cent. This increase was markedly less than that of the business sector as a whole, in which value added per employee climbed to 3.1 per cent. The strongest increase occurred in the production of agricultural and forestry goods, where gross value added per employee rose by an annual average of about 5.5 per cent. This was undoubtedly due to the process of concentration, rationalization and mechanization in this area, allied with the considerable fall in numbers employed here (see table B.4).

In distribution, an average annual increase in gross value added per employee of 1.7 per cent was recorded in the 1980-1989 period. Again, this level of growth was weaker than in the business sector as a whole, whose average annual growth rate was also lower in the 1980-1989 period than in the 1970s. The reasons for the slowdown in the growth of gross value added per employee in distribution were that sales growth and thus value added growth weakened and that fewer options remained than were available in the 1970s for replacing staff by capital and for cutting staff costs through reorganization and rationalization. The 1980s also saw major restructuring in the distribution sector, it is true, but this was due more to circumstances in the business sector in general and to changes in competitive conditions, among other things, than to further fundamental changes in organization.

Table B.4

Development of gross value added per employee
in trade and industry
at 1980 prices
period 1970-1989
by economic sector

Economic Sector	Average annual change in per cent		
	1980/70	1989/80(a)	1989/70(a)
Agriculture and forestry, fishing	+5.5	+5.6	+5.6
Manufacturing industry	+3.0	+1.4	+2.2
Distribution and transport	+2.4	+2.2	+2.3
Distribution	+2.0	+1.7	+1.9
Transport, communications	+3.0	+2.9	+3.0
Service enterprises	+1.4	+1.5	+1.5
Enterprises Total	+3.1	+2.0	+2.6

(a) 1989 provisional figures

Source: Statistisches Bundesamt, Volkswirtschaftliche Gesamtrechnungen, Konten und Standardtabellen

3 Capital structure, capital/output ratio and capital intensity of distribution

An essential precondition not only for mechanization and rationalization of production but also for efficient distribution of goods in a highly developed economy is the availability of capital and its distribution within the various areas of the economy. In addition, the capital/labour ratio and the capital/output ratio (gross value added) provide valuable insights into the level of technical and organizational development and the pace of development of both the economy as a whole and its component sectors.

In the 1970s capital stock¹ at 1980 prices increased by 4 per cent. In distribution, which recorded an average annual rise of 3.8 per cent, this increase was marginally lower than in the business sector overall. Capital stock growth was stronger only in the particularly expansionary sectors of transport and communications and in the service sector. Growth in agriculture, forestry and fisheries was distinctly below average.

In the eight years from 1980 onwards, capital stock in the German economy grew more slowly than in the 1970-1980 decade. Capital stock in the business sector (evaluated at constant prices) increased by almost one-quarter between 1980 and 1989, corresponding to an average annual rise of almost 3 per cent. In services and transport, the increase was above average, but in manufacturing industry, and especially in agriculture and forestry, it was below (see table B.5). In distribution, capital stock grew less strongly than the average for the entire business sector. Producer durables reported by distribution currently account for a good 4 per cent of the capital stock of the economy as a whole (excluding government and non-profit organizations). Almost two-thirds of business capital stock is held in the service sector in the narrow sense.

The share of total business sector capital stock in the Federal Republic held by service enterprises in the narrow sense has increased. This shift stems

¹ Defined as the mean of start-of-year stocks of producer durables of two successive years.

Table B.5

**Capital stock(a) of trade and industry
at 1980 prices
period 1970-1988
by economic sector**

Economic Sector	DM billion			Percentage share			Average annual change in per cent	
	1970	1980	1988(b)	1970	1980	1988(b)	1980/70	1988/80(b)
Agriculture, forestry and fishing	236.1	262.3	261.5	6.3	4.7	3.8	+1.1	+0.0
Manufacturing industry	958.9	1,348.8	1,534.2	25.6	24.3	22.4	+3.4	+1.7
Distribution and transport	453.1	695.7	851.7	12.1	12.6	12.4	+4.4	+2.6
Transport, communications	280.4	445.1	556.4	7.5	8.1	8.1	+4.7	+2.8
Distribution	172.7	250.6	295.3	4.6	4.5	4.3	+3.8	+2.1
Service enterprises	2,097.3	3,223.5	4,218.4	56.0	58.4	61.4	+4.4	+3.4
Enterprises Total	3,745.4	5,522.3	6,865.8	100	100	100	+4.0	+2.8

(a) Average of start-of-year gross fixed assets of two successive years

(b) Provisional figures

Source: Statistisches Bundesamt, Volkswirtschaftliche Gesamtrechnungen, Konten und Standardtabellen

partly from the increasing use being made of plant leasing¹ In addition to conventional finance leasing, other forms of lease have been developed, above all for property, which have the same balance sheet and tax implications as leasing. They involve longer-term lease of buildings by real estate investment trusts and other finance companies.

In view of the shortage of suitable new sites for development for distribution purposes and the rising cost of land and buildings in suitable locations, property leasing will in future play an increasingly important role in distribution as in other sectors.

Comparing capital assets to output (production value less purchased materials and services) for a given period gives the capital/output ratio, which shows how much capital is used to produce one unit of output during a specified period.

In 1988 in the business sector overall, installed capital stock required to produce the gross production value (at 1980 prices) amounted (also at 1980 prices) to about five times the gross production value (see table B.6).

Marked differences between the various economic sectors become apparent upon closer inspection. Capital stock in the service sector had to be about twice as great as the business sector average in 1988 in order to achieve the same value added. It should be noted, however, that the service sector is a highly heterogeneous collection of businesses, including credit institutes and insurance firms, property rentals, the hotel and catering trades, facilities for education, science and culture, and the health and veterinary sector. Capital intensity in distribution is distinctly below average. With a capital/output ratio of 1.8, the sector needed less than half the overall business sector average capital requirement to create one value added unit in the 1980-1989 period.

In recent years the capital/output ratio of the business sector has tended to show a slight rise. This means that to produce one unit of output an increasing amount of capital was required. This trend is, however, confined to

¹ Indicated in the official statistics according to the ownership concept.

Table B.6

**Capital/Output ratio
in trade and industry
at 1980 prices
period 1970-1988
by economic sector**

	Capital/Output ratio			Average annual change in per cent	
	1970	1980	1988(b)	1980/70	1988/80b
Agriculture, forestry and fishing	8.2	8.6	7.2	+0.5	2.2
Manufacturing industry	1.8	2.1	2.4	+1.6	+1.7
Distribution and transport	2.7	3.1	3.1	+1.4	0.0
Distribution	1.6	1.8	1.8	+1.2	0.0
Transport, communications	4.7	5.2	5.2	+1.0	0.0
Service enterprises	9.7	9.6	9.0	0.0	-0.8
Enterprises Total	4.0	4.5	4.8	+1.2	+0.8

(a) Quotient of capital stock and gross value added at 1980 prices

(b) Provisional figures

Source: Statistisches Bundesamt, Volkswirtschaftliche Gesamtrechnungen, Konten und Standardtabellen

developments in manufacturing industry. In the service sector, and particularly in agriculture, forestry and fisheries, the capital/output ratio showed a downward trend in the 1980-1989 period. The rise in the ratio was however weaker than in the 1970s.

A further measure of an economy's capital resources is provided by the capital/labour ratio. This is determined by the quotient: capital stock divided by labour input.

This ratio, too, shows above-average capital stock per employee in the service sector in the narrow sense, whereas in distribution this ratio is distinctly below the aggregate average (excluding government). Over time, a continuous rise in capital intensity has been recorded for all areas of the economy. Capital formation in distribution was on the whole somewhat weaker in recent years than the aggregate business average (see table B.7).

Table B.7

**Capital intensity(a)
in trade and industry
period 1980-1988
by economic sector**

Economic Sector	Capital Intensity			Average annual change in per cent	
	1970	1980	1988b	1980/70	1988/80(b)
Agriculture, forestry and fishing	104	187	243	+6.0	+3.3
Manufacturing industry	74	114	141	+4.4	+2.7
Distribution and transport	95	138	168	+3.8	+2.5
Distribution	52	71	83	+3.2	+2.0
Transport, communications	199	293	361	+3.9	+2.6
Service enterprises	715	812	875	+1.3	+0.9
Enterprises Total	163	250	314	+4.4	+2.9

(a) Capital stock in DM1,000 per employed person (annual average)

(b) Provisional figures

Source: Statistisches Bundesamt, Volkswirtschaftliche Gesamtrechnungen, Konten und Standardtabellen

C. STRUCTURE AND DEVELOPMENT OF THE DISTRIBUTIVE TRADE

1 Analysis by number of firms, sales volumes, employment

1.1 Breakdown of trade sectors

1.1.1 Shift of functions between sectors

According to the tradition of wholesale trade this sector is distributing consumer goods to the retail trade and raw material as well as capital goods to industry. This "natural" succession of tiers in the distribution chain is existing only in theory, however, in practice we have rather a strong forward and backward integration.

Due to this development trade companies are involved in a wider range of business activities. While expanding they have established - legally but not economically independent - subsidiaries which cover "new" functions from other sectors. Thus business fields of parent companies belonging to a particular sector have changed basically. Resulting from this an institutional approach is no longer a valid basis for an analysis.

Instead of this a functional approach might be necessary or even better an approach focussing on all fields of *corporate decision making*. However, statistical data based on such an "integrated" approach are hardly available. Therefore the official statistics cannot always show the structural change. Even censuses of distribution conducted in longer intervals are reflecting rather inadequately the shift of functions between sectors. According to the following table C.1 companies belonging to the wholesaling sector derive still 94 % of their turnover from business activities referring to functions in wholesaling. The same is true for companies belonging to the retailing sector. Only commercial agencies are an exception. This subject matter will be further discussed below.

In fact a strong integration in business activities has taken place. This refers especially to the manufacturer and the retailing sector. Major retailers are increasingly incorporating successful marketing of manufacturers - mainly that

Table C. 1

Business activities by sectors in the distributive trade 1978 and 1984

trade sector	turnover in % from business activities in ...							
	wholesaling		commercial agencies		retailing		other commercial activities	
	1978	1984	1978	1984	1978	1984	1978	1984
wholesaling	94.0	94.6	0.5	0.3	4.3	3.9	1.3	1.2
commercial agencies	17.5	17.1	74.6	74.0	4.4	4.6	3.6	4.3
retailing	3.3	4.6	0.2	0.2	93.2	92.4	3.3	2.8

Source: Statistisches Bundesamt, Handels- und Gaststättenzählung 1979 und 1985

of the well-known brand name producers - into their own distribution policy. By this, tightly-organised retailing companies take over functions from manufacturers, e.g. sales promotion for particular products and in return they receive significant price reductions from the manufacturers for these services.

The wholesale trade is affected by this trend of integrated business activities, too. But the development is quite different:

On the one hand original wholesaling companies have expanded by acquisitions and by establishing new firms in the retailing sector. Thus they are more and more involved in sales activities on the retail level. This is true for large buying groups in the food sector which formerly focussed only on wholesaling functions. But this is also true for specialist wholesalers such as building supply firms or trade firms in the DIY-sector.

On the other hand traditional wholesalers are often under pressure by large manufacturing companies as well as by large retailing chains.

The manufacturers of consumer goods are intending to increase their control over the complete distribution channel up to private consumers. Forward integration, e.g. acquisitions of sales outlets, is a common method to reach this target. There is a widespread trend of such marketing strategies as can be seen in the clothing industry. As a result of this development wholesalers are bypassed by manufacturers.

Bypassing of wholesalers is also possible as a result of backward integration by retailers. Large retail chains or buying groups are more and more launching their own (dealer's) brands. With such concepts they attempt to combine quality and low prices without reducing their margins. Thus retailers have a decisive influence on supply conditions of particular products with respect to price, quality, packaging, etc.

1.1.2 Number of firms

In the total distributive trade the number of firms (Unternehmen) has declined in the period 1970 - 1980. Wholesaling and retailing have been affected by this development to the same extent (-0.7 %) while the number of firms in the sector of commercial agencies decreased significantly on average by 2.5 %

per year. This shrinking process has stopped in the distribution sector after 1980 so that the number of firms has picked up (see table C.2).

This different development of decline and expansion in the period of time cannot only be explained by the growing concentration or by the strong pressure of competition; as these determining factors have increased in importance over the recent years. So a likely explanation might be that a consolidation has taken place in the period 1970 - 1980 in which the distributive trade has adapted to the changed market conditions. Assuming this basis a slight increase of the number of trade firms could start in the following years.

However, wholesaling did hardly participate in this positive trend in reaching an increase of the number of firms of only 0.2 % per year in average. As a consequence the wholesale trade although having reached 114,600 firms in 1988 didn't achieve the level of 1970. This data can be explained to a certain degree by the above described bypass effects of wholesaling.

More firms than in wholesaling were established in the commercial agency sector in the recent years. However, it should be considered that there was a lower basis in 1980. Beside of this the development must be assessed as reasonable because commercial agents have got more opportunities in various business fields. They are involved rather successfully in negotiations of business transactions due to the efforts of manufacturers to improve their direct marketing. In addition commercial agents are carrying out more and more sales transactions on their own account. In both cases they are operating on the wholesale level, i.e. they are direct competitors to wholesalers.

There was a distinct increase of the number of firms in retailing in the period 1980 - 1988. Although a lot of small retail businesses couldn't compete with price aggressive retailing chains so they had to exit the market, many new small firms found a niche. The food sector dominated by powerful large companies is such an example where small retailers can survive with a quality orientated individual marketing strategy. In other branches trade is combined with additional services, e.g. repairing.

Table: C. 2

**Distributive trade: number of enterprises
by sector^{a)}, period 1970 - 1988**

Sector	Number (1000)			Average annual change in per cent	
	1970	1980	1988	1980/70	1988/80
Total wholesaling	120.6	112.4	114.6	-0.7	0.2
- Fuels and lubricants	3.4	2.3	2.0	-3.8	-1.7
- Vehicles, accessories and tyres	3.4	4.0	4.7	1.6	2.0
Total commercial agencies ^{b)}	84.4	65.4	71.6	-2.5	1.1
Total retailing ^{c)}	395.0	367.5	396.7	-0.7	1.0
- Fuels and lubricants	22.9	17.7	14.3	-2.6	-2.6
- Vehicles, accessories and tyres	13.1	22.7	33.8	5.7	5.1

a) Enterprises with annual sales of more than DM 12,000 in 1970 or DM 20,000 in 1980 and 1988 (excluding VAT)

b) Excluding agency filling stations

c) Including agency filling stations

Source: Statistisches Bundesamt, Umsatzsteuerstatistiken, calculations of the ifo Institute

1.1.3 Sales volumes

During 1970 - 1980 retailing was at the top in respect of increase rates of sales volumes. This sector could achieve an average growth of 8.2 % per year. Wholesaling showed a similar positive development in the same period. After 1980 sales' growth slowed down due to saturation of demand for consumer goods (see table C.3). Nevertheless, the increase rate of retailing was still by 4.6 % per year whereas wholesaling reached only 2.8 %. This and the above mentioned data show the severe problems of the wholesale trade in maintaining its market position within the distribution system.

By contrast, retailing companies made more efforts in developing innovative trade systems in order to attract customers' demand. An active pricing policy is the most important basis on which major retailers have introduced new types of outlets (see below). Most successful of all were low-price discount stores with a limited product range and large hypermarkets which are low-price orientated, too. Markets in nearly all consumer good sectors could be conquered by these strategies as they correspond to growing consumer preference to purchase as cheaply as possible.

The sales activities of the commercial agency sector didn't expand extraordinarily but well-balanced during the total period of analysis. However, its sales volume was amounting only to 56.4 bill. DM in 1988 in comparison with wholesaling which achieved 836.3 bill. DM in the same year.

With respect to comparing the absolute values of sales volumes wholesaling is exceeding retailing considerably. The main share - about 50 % - of wholesalers' turnover derives from supplying industrial enterprises (including craft businesses). A smaller share of 35 % is received from supplying retailers and the remaining 15 % refer to foreign trade wholesaling (Batzer et al. 1991, p. 96).

1.1.4 Employment

The distinction between self-employed persons and employees has been of particular interest in the distributive trade. In recent years short-time work

Table: C. 3

**Distributive trade: sales volumes by sector^{a)}
period 1970 - 1988**

Sector	DM (billions)			Average annual change in per cent	
	1970	1980	1988	1980/70	1988/80
Total wholesaling	318.9	669.5	836.3	7.7	2.8
- Fuels and lubricants	27.8	94.3	67.8	13.0	-4.0
- Vehicles, accessories and tyres	14.7	34.4	56.4	8.9	6.4
Total commercial agencies ^{b)}	14.9	23.4	33.1	4.6	4.4
Total retailing ^{c)}	170.8	375.8	537.8	8.2	4.6
- Fuels and lubricants	2.9	8.6	10.7	8.1	2.8
- Vehicles, accessories and tyres	17.8	44.7	79.4	9.6	7.4

a) Enterprises with annual sales of more than DM 12,000 in 1970 or DM 20,000 in 1980 and 1988 (excluding VAT)

b) Excluding agency filling stations

c) Including agency filling stations

Source: Statistisches Bundesamt, Umsatzsteuerstatistiken, calculations of the ifo Institute

plays an increasing role, too. According to growing concentration and a fierce competition of large retailers small firms which are not efficient enough have to exit the market (see the above paragraph dealing with the number of firms). Thus the share of self-employed was considerably declining in the period 1970 - 1980. However, this shrinking process stopped after 1980. As a result the share of self-employed stabled 1988 by 21.1 % in retailing and by 13.3 % in wholesaling (see table C.4). The larger share in retailing shows that this sector gives more opportunities to establish small stores in niches of demand in order to supply private consumers.

Although the sales volume in wholesaling is clearly higher than in retailing this sector is employing many more people: 2.3 m compared with 1.3 m in wholesaling (1988). In spite of self-service and other efforts in cutting the workforce, retailing is still requiring a large number of staff. Thus this sector could expand its employment during 1980 - 1988. The rate of self-employed increased a little bit more (1 %) compared to dependent-employed (0.4 %).

1.2 Breakdown of retailing

1.2.1 Total number of enterprises

The number of retail enterprises declined sharply (-7 per cent) in the 1970-1980 period but rose again thereafter, so that by 1988 it had returned to the 1970 level of almost 400 000 (see table C.5). The determining factor have been developments in the food sector, where there has been a drastic reduction in the number of retailers. The increases in the selling space and turnover of the large food retailers were particularly marked. By means of rationalization, these firms achieved a significant competitive edge in price terms and were thus able significantly to expand their market share at the expense of small and medium-sized retailers, who could not withstand this fierce competition and went out of business in increasing numbers. The number of food retailers thus virtually halved between 1970 and 1988.

In other retail areas, however, the number of firms increased significantly. The motor vehicle, car parts and tyres sector, in particular, recorded high growth rates in the number of firms (averaging over 5 per cent per year) throughout

Table: C. 4

**Distributive trade: Economically active persons by sector
period 1970 - 1988**

sector year	self-employed	Share in %	dependent-employed	Share in %	All economically active persons	%
1000 persons						
Wholesaling^{a)}						
1970	253	18.5	1117	81.5	1370	100
1980	173	12.8	1176	87.2	1349	100
1988	172	13.3	1117	86.7	1289	100
Average annual change in per cent						
1980/70	-3.7		0.5		-0.2	
1988/80	0		-0.6		-0.6	
1000 persons						
Retailing						
1970	571	28.8	1407	71.2	1978	100
1980	440	20.3	1723	79.7	2163	100
1988	475	21.1	1779	78.9	2254	100
Average annual change in per cent						
1980/70	-2.6		2.0		0.9	
1988/80	1.0		0.4		0.5	
1000 persons						
Total trade						
1970	824	24.6	2524	75.4	3348	100
1980	613	17.5	2899	82.5	3512	100
1988	647	18.2	2896	81.8	3543	100
Average annual change in per cent						
1980/70	-2.9		1.4		0.5	
1988/80	0.7		0		0.1	

a) Including commercial agencies

Source: Statistisches Bundesamt, Wirtschaft und Statistik Nr. 4, 1990 (revised data), calculations of the ifo Institute.

Table C.5

**Number of retail enterprises(a) (b)
by sector
period 1970-1988**

Sector	Number			Percentage share			Average annual change in per cent	
	1970	1980	1988	1970	1980	1988	1980/70	1988/80
Food, beverages, tobacco	154,221	101,841	85,163	39.0	27.7	21.5	-4.1	-2.2
Textiles, clothing, shoes, leather goods	61,017	65,120	69,695	15.4	17.7	17.6	+0.7	0.9
Furniture and fittings	27,922	34,594	39,589	7.1	9.4	10.0	+2.2	1.7
Electrical appliances, musical instruments	16,754	21,524	26,620	4.2	5.9	6.7	+2.5	2.7
Paper, printing products, office equipment	17,155	16,535	20,476	4.3	4.5	5.2	-0.4	2.7
Pharmaceutical, cosmetic and medical products	30,626	30,037	31,554	7.8	8.2	8.0	-0.2	0.6
Fuels and lubricants(b)	22,924	17,653	14,305	5.8	4.8	3.5	-2.6	-2.6
Vehicles, accessories and tyres	13,074	22,672	33,811	3.3	6.2	8.5	+5.7	5.1
Other goods, miscellaneous goods	51,979	57,529	75,461	13.1	15.7	19.0	+1.0	3.4
Retail Total	395,000	367,505	396,674	100	100	100	-0.7	1.0

(a) Enterprises with annual sales of more than DM 12,000 in 1970 or DM 20,000 in 1980 and 1988 (excluding VAT)

(b) Including agency filling stations

(c) Sales growth 1988/1980 of sectors in relation to total growth

Source: Statistisches Bundesamt, Umsatzsteuerstatistiken, and Ifo-Institut estimates

the period of analysis on the back of the car ownership boom of the 1970s and 1980s. The electronics sector is another high-tech area with particularly innovative products and correspondingly short product life cycles, allied to an ever-expanding field of application for both business and leisure (e.g. in office automation and consumer electronics). This acted as a stimulus to distribution, so that the number of retailers in this field continuously increased.

Similar growth occurred in the furnishings sector, despite the radical structural changes which it experienced. Conventional furniture retailers lost considerable ground to firms with totally new marketing concepts which concentrate on specific target groups, for example young people setting up their first home, and for the most part apply a low-price policy in self-service stores where the customer takes home and puts together his purchases himself. Furthermore, major food retailers (e.g. the Asko Group) have moved into the field, opening up new large-scale furniture markets and adopting an aggressive pricing policy.

The fluctuations in the number of retail firms mask what is in fact a significant change in the make-up of the sector, as existing firms go out of business in large numbers, to be replaced by (in some cases even larger numbers of) new entrants (newly founded firms). No data are, however, available for describing this change in the retail sector in the Federal Republic.

1.2.2 Turnover growth

Whereas during the 1970-1980 period retail turnover grew by a healthy annual average of something over 8 per cent, growth slipped in the years up to 1988 to a relatively modest annual average rate of barely 5 per cent (see table C.6). This is partly accounted for by saturation in private consumption, which had a negative impact on retail trade and a positive one on other services, such as tourism. Expansion in predominantly fashion-oriented retail sectors, such as textiles and footwear, and also furniture and fittings ran below average from 1980 onwards.

On the other hand, growing demand in the motor vehicle sector produced especially strong turnover growth. The same was true of sales of

Table C.6

**Retail sales(a) (b)
by sector
period 1970-1988**

Sector	DM (millions)			Percentage share			Average annual change in per cent		
	1970	1980	1988	1970	1980	1988	1980/70	1988/70	1988/80
Food, beverages, tobacco	50,360	95,123	137,870	29.5	25.3	25.6	+6.6	+6.6	4.7
Textiles, clothing, shoes, leather goods	26,344	53,482	67,518	15.4	14.2	12.6	+7.3	+7.3	3.0
Furniture and fittings	11,866	28,765	36,805	6.9	7.7	6.8	+9.3	+9.3	3.1
Electrical appliances, musical instruments	6,060	15,239	23,787	3.6	4.1	4.4	+9.7	+9.7	5.7
Paper, printing products, office equipment	4,702	10,456	17,792	2.8	2.8	3.3	+8.3	+8.3	6.9
Pharmaceutical, cosmetic and medical products	11,243	24,170	39,369	6.6	6.4	7.3	+8.0	+8.0	6.3
Fuels and lubricants	2,939	8,588	10,710	2.3	2.3	2.0	+8.1	+8.1	2.8
Vehicles, accessories and tyres	17,802	44,722	79,366	10.4	11.9	14.8	+9.6	+9.6	7.4
Other goods, miscellaneous goods	38,500	95,287	124,595	22.5	25.4	23.2	+9.5	+9.5	3.4
Retail Total	170,816	375,832	537,813	100	100	100	+8.2	+8.2	4.6

(a) Enterprises with annual sales of more than DM 12,000 in 1970 or DM 20,000 in 1980 and 1988 (excluding VAT)

(b) Including agency filling stations

(c) Turnover growth 1988/1980 of sectors in relation to total growth

Source: Statistisches Bundesamt, Umsatzsteuerstatistiken, and Ifo-Institut calculations

pharmaceuticals, paper and printing products, and office equipment, which stabilized at a high level.

Turnover growth in food retailing remained astonishingly stable. The food share of total retail trade turnover in 1988 was virtually the same as in 1980, at around 25 per cent. Only in a very long-term comparison stretching back to 1970 is there any significant contraction in turnover (1970: 30 per cent). This relatively strong position is mainly due to a shift in marketing emphasis to embrace non-food lines, which have come to play an increasing role in food retailing.

Turnover growth broken down by categories of goods and retail sectors does not point up any clear trends. Demand for unproblematic basic goods (e.g. foodstuffs) has fallen in almost all product groups, although this contraction in consumption has been offset - in some cases amply so - as retailers change their supply strategies and enlarge their product ranges. Furthermore, the introduction of innovative, technically complex products has boosted sales in many product areas in a high-quality, high-tech trend that extends across many product ranges and retail sectors, from sports articles through consumer electronics to office communications.

Markets have accordingly become increasingly polarized and are characterized less by dominant sectoral trends than by the strategies employed by individual firms. In the chain store market segment, for example, the dominant firms almost all concentrate exclusively on price competition and seek to gain a competitive edge through rationalization or, in some cases, novel marketing strategies (e.g. flat-pack furniture). In the higher-priced market segments, quality is the key-note in competitive strategies, which seek to combine stronger design emphasis with an appropriate marketing style, starting with the exclusive city-centre location of sales outlets and encompassing all aspects, including shop fittings and layout, which are designed to create a high-class ambience for the demanding customer.

1.2.3 Retail employment trends

Most job creation in recent years has centred on service enterprises, but in the retail sector staff numbers have largely stagnated in the 1980s. Employment trends have varied widely in different branches. Those with the strongest employment growth are pharmaceuticals, cosmetics and medicines (1989/1979: + 13.4 per cent; see table C.7). Job creation here resulted from the above-average sales growth and the development of new types of outlet, such as drugstores. The furniture and furnishings sector went through a similar development, as the introduction of new marketing strategies in the form of out-of-town furniture warehouses and specialist furnishing or DIY stores boosted the demand for staff.

It is significant that in the motor vehicle sector - a growth area in terms of both turnover and number of firms - there has been a downward trend in employment. Labour productivity must therefore have risen all the more steeply.

Job shedding in the electronics retailing sector and in paper, printing products and office equipment has been even more pronounced, clearly the fruit of efforts to avoid hiring more staff, even though these sectors are innovative and involve the provision of considerable sales advice (see below).

Part-time employment in the retail sector was initially very restricted. In 1970 over 82 per cent of employees worked full time and only 18 per cent part time. Since then, the proportion of part-time employees has risen continuously, reaching 32 per cent in 1988. The rationale underlying this trend is the need to make more flexible use of staff to meet daily and seasonal demand and sales peaks, thereby also achieving a consistent reduction in staff costs (see table C.8).

Part-time employment plays a major role in virtually all branches of retailing. The number of part-time employees will continue to rise, so that the overall trend, calculated on a full-time employee basis, will be one of stagnation. Only the large multiples and the self-service discount stores and hyper- or supermarkets are likely to create more new jobs. Despite greater

Table C.7

**Number of retail employees (a) (b)
by sector
period 1970-1988**

Sector	Number			Percentage share			Average annual change, 1989/79, per cent
	1979	1985	1989 (c)	1979	1985	1989	
Food, beverages, tobacco	628,676	643,400	673,670	25.9	27.3	27.8	7.2
Textiles, clothing, shoes, leather goods	459,576	456,782	451,817	18.9	19.3	18.6	-1.7
Furniture and fittings	171,014	176,111	186,057	7.0	7.5	7.7	8.8
Electrical appliances, musical instruments	97,934	95,231	91,455	4.0	4.0	3.8	-6.6
Paper, printing products, office equipment	72,177	62,250	65,128	3.0	2.6	2.7	-9.8
Pharmaceutical, cosmetic and medical products	151,872	161,577	172,186	6.2	6.8	7.1	13.4
Fuels and lubricants	8,893	7,321	9,341	0.4	0.3	0.4	5.0
Vehicles, accessories and tyres	241,955	231,401	239,565	10.0	9.8	9.9	-1.0
Other goods, miscellaneous goods	598,695	526,587	533,981	24.6	22.3	22.0	-10.8
Retail Total	2,430,792	2,360,660	2,424,207	100	100	100	-0.3

(a) Enterprises with annual sales of more than DM 12,000 in 1978 or DM 20,000 1984 and 1989. Annual turnover: total employees (full- and part-time).
 (b) Excluding agency filling stations

(c) Projection based on retail trade representative statistics: owing to amended rates of change and non-inclusion of agency filling stations in the representative statistics, the overall total is not equal to the sum of the parts.

Table C.8 **Trend in number of retail employees
by full- and part-time employees
period 1970-1988**

Year	Full-time employees (000s)	Percentage share	Part-time employees (000s)	Percentage share	Total (=100 %) (000s)
1970	1,842	82.1	401	17.92	2,243
1980	1,803	72.7	677	27.32	2,480
1985	1,731	69.9	747	30.12	2,478
1988	1,734	68.0	815	32.02	2,549

Source: Deutsches Handelsinstitut Koln, e.V.

centralization of purchasing and sales and more flexible use of labour, more staff will be needed as a result of the opening of new shops and the growth in the turnover of existing outlets.

An overall comparison of the figures for 1980 and 1988 shows markedly divergent changes in significant structural sizes (see table C.9), which reveal basic trends in retail development in Germany. With nominal turnover growth of 43 per cent the retail sector as a whole clearly expanded its sales activities, while the comparatively slight rise (8 per cent) in the total number of firms points up the concentration that took place and the stagnation or very slight reduction in employee numbers highlights the immense increases in labour productivity. It should not be forgotten, however, that with the increasing popularity of self-service, sales functions are of course being transferred to customers (e.g. self-service selection of desired clothing size).

High-tech retail sectors, such as electronics or office equipment suppliers, achieved above-average turnover increases (56 and 70 per cent) while at the same time shedding jobs. In other words, they have made marked gains in rationalization or productivity. The products they sell require the provision of extensive sales advice, but consumers increasingly use sources of information outside the trade, such as specialist magazines, fairs, etc. They are thus well informed and may be described as 'skilled' buyers, who are capable of selecting even technically complex products in 'take-away' discount stores. In these cases the retailers need focus only on the core areas of purchasing, transport and storage.

1.3 Breakdown of the craft in the food sector

The craft is a highly regulated sector in Germany. The main provisions are laid down in the "Handwerksordnung". For example, the entry into the market is regulated by a special qualification (Meisterprüfung, i.e. großer Befähigungsnachweis) required for persons who want to establish a craft business. With respect to creating the single European market only some efforts have been made to change the legal framework in order to reduce barriers for entering the market and limitations for business activities.

Table C.9 Changes in the retail sector by product area

1988/1980

Product area	Firms	Sales	Employees (a)
	Changes in per cent		
Food, beverages, tobacco	-16.4	44.9	7.2
Textiles, clothing, shoes, leather goods	7.0	26.2	-1.7
Furniture and fittings	14.4	28.0	8.8
Electrical appliances, musical instruments	23.7	56.1	-6.6
Paper, printing products, office equipment	23.8	70.2	-9.8
Pharmaceutical, cosmetic and medical products	5.1	62.9	13.4
Fuels and lubricants (b)	-19.0	24.7	5.0
Vehicles, accessories and tyres	49.1	77.5	-1.0
Other goods, miscellaneous goods	31.2	30.8	-10.8
Retail Total	7.9	43.1	-0.3

a) Comparison of 1989 with 1979.

Source: Ifo-Institut calculations based on official statistics (cf. Tables w2 and w3).

In 1990 only 221 persons from EC-member countries were registered in the German craft sector to carry out their own business; most of them were bricklayers. In comparison: more than 37,000 craftsmen from Germany were registered in total in the same year.

German craft businesses have traditionally a strong position in the German food sector. However, they have come under strong pressure from large industrial competitors. These competitors have advantages on the manufacturer level as well as on the retail level due to a larger production capacity. Thus they are able to exploit economies of scale and to put more emphasis on pricing policy. Especially in this field large manufacturers and retailers have been superior to the small craft businesses.

In spite of this difficult situation, craft businesses have tackled the fierce competition as customers' behaviour has changed in recent years. Consumers are becoming increasingly health-minded and therefore some of them are more quality than price orientated. This is true for goods such as bread, cakes and pastries. This is to a certain extent also true for meat products. A number of consumers in Germany have developed a "new" attitude towards these products with respect to ecological problems. Especially large retailers who tried to displace craft businesses from the market in the past realized the changed situation. They have given bakers and butchers an opportunity to establish their own outlets within hypermarkets.

According to these market developments the baking trade could increase its employment as well as its turnover during the whole period of analysis (see table C.10). The considerable decline of the number of firms was resulting from concentration trends. Small, less efficient and competitive firms have to exit the market while medium-sized firms could expand by establishing sales outlets. This marketing strategy is typical in the baking trade.

The butcher's trade hasn't developed as successful as the baking trade. Turnover has risen on average by 4.8 % per year in the period 1970 - 1980. However, in the following years turnover stagnated. Considering inflation, this is a decline in terms of real value. Also employment has decreased so that the level of 1970 couldn't be reached in 1988. Although the butcher's trade could

Table: C. 10

Food craft: number of enterprises, employees, turnover

Craft sector	1970	1980	1988	Average annual change in per cent	
				1980/70	1988/80
1. Baking trade					
Number of firms (1000)	40.0	30.7	25.0	-2.6	-2.5
Employees (1000)	200.6	249.0	264.7	2.2	0.8
Turnover (billion DM)	9.7	14.7	19.6	4.2	3.7
2. Butcher					
Number of firms (1000)	36.2	28.7	25.8	-2.3	-1.3
Employees (1000)	212.3	219.0	194.7	0.3	-1.5
Turnover (billion DM)	19.5	31.2	31.1	4.8	0

Source: Zentralverband des Deutschen Bäckerhandwerks,
Deutscher Fleischerverband, calculations of the ifo Institute

establish own sales outlets within hypermarkets, too, this trade has particular problems with price-aggressive retailers as a main marketing strategy of them is to make special offers for meat with very low prices.

As a result of this, the market share of the butcher's trade fell from 41 % in 1976 to 29 % in 1986. By contrast, the market share of discount stores grew from 9 % to 18 % in the same period. Hypermarkets could improve their market share from 15 % to 29 % (Weitzel 1989, p. 117).

Comparing data of food retailing with those of the craft it has to be considered that craft businesses are carrying out manufacturing functions as well as distributive functions. Due to these two main functions the craft in the food sector is playing an important role in German economy:

- 50,800 firms were existing in 1988 (food retailing: 85,163 see table C.5)
- with 459,4 m employees (food retailing: 673.7 m see table C.7)
- and a turnover of 50,7 bill. DM (food retailing: 137.9 bill. DM see table C.6)

2 Analysis by turnover- and workforce-size class

2.1 Retailing

Over the last two decades there has been a marked trend for more retailers in the Federal Republic of Germany to move up into higher turnover-size classes. This upward trend resulted from above-average internal growth of the large firms thanks to their market strength, financial clout and good organization, and also from their external growth through mergers, acquisitions and takeovers.

The number of retail firms with annual turnover of up to DM 250 000 declined sharply in the 1970s and continued to decline, though significantly less steeply, into the 1980s. The proportion of retail turnover for which they accounted also fell back over the same period, from 16.7 per cent in 1970 to 5.6 per cent in 1980 and then to 3.9 per cent in 1988.

In 1988 firms with turnover of between DM 250 000 and DM 1 million made up almost 35 per cent of all retail firms, a proportion which was only slightly lower than in 1980, but significantly higher than in 1970. Their share of turnover has fell sharply, however. In contrast, the share of turnover accounted for by firms in the turnover category DM 10 to 25 million and in higher categories shows a clear upward trend (see tables C.11 and C.12).

The cumulation of firm and turnover share in the higher turnover-size classes shows particularly clearly that a very large majority of retail firms (in 1988 no fewer than four-fifths) have an annual turnover of less than DM 1 million. About 99 per cent of all firms lie below a turnover threshold of DM 10 million. The firms with annual turnover of less than DM 1 million accounted for 17 per cent of total retail turnover in 1988 (whereas they still had 42 per cent in 1970 and 24 per cent in 1980). Firms with annual turnover of less than DM 10 million accounted for almost 47 per cent of retail turnover in 1988 (as against almost 65 per cent in 1970 and almost 55 per cent in 1980) (see table C.13).

Falling firm and turnover shares in the lower turnover brackets and rising shares in the upper brackets should not, however, immediately be interpreted

Table C.11

**Development and distribution of the number of retail enterprises(a) (b)
by turnover-size class
period 1980-1988**

Size of enterprise (annual sales of between DM... and less than DM...)	Number		Percentage		Average annual change in per cent 1980/70 1988/80
	1970	1988	1970	1988	
less than 250,000	285,076	179,516	72.0	47.5	+0.6
250,000 - 1 m	92,582	134,340	23.4	34.5	+0.2
1 m - 10 m	16,958	50,645	4.3	16.9	+3.6
10 m - 25 m	707	2,142	0.2	0.8	+5.2
25 m - 100 m		694		0.3	+6.6
100 m - 250 m	340	100	0.1	0.04	+5.0
250 m and over		68		0.04	+9.6
Total	395,663	367,505	100	100	-0.7
					+1.0

(a) For 1970 enterprises with annual sales of more than DM 12,000, for 1980 and 1988 enterprises with annual sales of more than DM 20,000 (excluding VAT)

(b) Including agency filling stations

Source: Statistisches Bundesamt, Umsatzsteuerstatistiken for the years 1970, 1980 and 1988, and Ifo-Institut estimates

Table C.12 Development and distribution of retail enterprise turnover (a) (b)
by turnover-size class
period 1980-1988

Size of enterprise (annual sales of between DM... and less than DM...)	DM Millions				Percentage		Average annual change (per cent)
	1970	1980	1988	1970	1980	1988	
less than 250,000	28,614.8	21,081.7	21,128.1	16.7	5.6	3.9	-3.0
250,000 - 1 m	42,463.6	67,475.1	69,702.1	24.9	18.0	13.0	+4.7
1 m - 10 m	39,421.1	116,781.0	159,669.9	23.1	31.1	29.7	+11.5
10 m - 25 m	10,621.3	32,201.8	48,170.5	6.2	8.6	9.0	+11.7
25 m - 100 m		30,589.0	50,208.3		8.1	9.3	-
100 m - 250 m	49,694.7	15,735.0	23,456.6	29.1	4.2	4.4	+5.1
250 m and over		91,969.0	165,477.0		24.5	30.8	+7.6
Total	170,815.5	375,839.4	537,812.6	100	100	100	+4.6

(a) For 1970 enterprises with annual sales of more than DM 12,000, for 1980 and 1988 enterprises with annual sales of more than DM 20,000 (excluding VAT)

(b) Including agency filling stations

Source: Statistisches Bundesamt, Umsatzsteuerstatistiken for the years 1970, 1980 and 1988, and Ifo-Institut estimates

Table C.13 Distribution of retail sales and enterprises (a)(b)
by turnover-size category
period 1970-1988
cumulative share (per cent)

Turnover-size class (annual sales of between DM ... and less than DM ...)	Enterprises			Sales		
	1970	1980	1988	1970	1980	1988
less than 250 000	72.0	48.8	47.5	16.7	5.6	3.9
250 000 - 1 million	95.4	85.4	81.9	41.6	23.6	16.9
1 million - 10 million	99.7	99.2	98.8	64.7	54.6	46.6
10 million - 25 million	99.9	99.8	99.6	70.9	63.2	55.5
25 million - 100 million	100	99.95	99.93	100	71.3	64.9
100 million - 250 million	100	99.98	99.96	100	75.5	69.2
250 million and over	100	100	100	100	100	100

a) For 1970 enterprises with annual sales of more than DM 12,000, for 1980 and 1988 enterprises with annual sales of more than DM 20,000 (excluding VAT).

b) Including agency filling stations.

Source: Statistisches Bundesamt, Umsatzsteuerstatistiken (turnover tax statistics) for 1980, 1982, 1984, 1986 and 1988, and Ifo-Institut calculations.

as signals of corresponding relative firm and turnover concentration. The nominal turnover increases through time were due not only to real turnover growth, but also to the increase in prices, which was also a factor in pushing firms up from near the upper limit of their size class into the next class without there having been any genuine concentration.

In the case of certain Länder (Bavaria and North-Rhine/Westphalia) an attempt was made to adjust the size class structure for inflationary changes, which involved special processing of the statistical data. The result for North-Rhine/Westphalia in fact shows evidence of deconcentration during the 1978-1984 period. In the case of Bavaria too, this method fails to point up any significant increase in turnover size for the large retail firms in the period from 1980 to 1984.

It would nevertheless be premature to conclude from such findings that there was no longer any general tendency towards concentration in the retail sector in the early 1980s, partly because of the statistical problems connected with indexation, but also partly because of the increasing trend, which has not yet been fully quantified and analysed, towards splitting up large firms into separate legal entities and allowing individual sectors greater independence, in order to reduce risk among other reasons, whilst yet increasing the extent of central decision-making.

For statistical and methodological reasons it was impossible to undertake size-class indexation for the Federal Republic as a whole. By analogy with the calculations described above for North-Rhine/Westphalia and Bavaria, there are good grounds for supposing that size-class indexation relating to the distribution of enterprises will not provide evidence of significant concentration, although in terms of turnover there is a - relatively limited - trend towards concentration in favour of the enterprises with annual turnover of over DM 250 million.

The results of distribution and catering surveys (as opposed to those of sales tax statistics) offer an opportunity to follow the development of enterprises and turnover from the point of view of workforce-size classes. This throws up interesting and valuable insights because the 'inflation problem' or the

problem of how to deflate changes in size does not apply here. Enterprises and turnover remain in the same workforce-size class until an increase in workforce causes them to move up a class. This is, however, only the case to a limited extent overall, since in the course of capital and labour substitution a considerable share of the increase in turnover at constant prices can be managed through increases in labour productivity.

The results of the distribution and catering surveys show that most retail enterprises fall into the size-classes of 1-2 or 3-9 employees. In 1968 no fewer than 93 per cent of firms fell into these categories, in 1979 approximately 90 per cent and in 1985 91 per cent. There is no reason why this proportion should have changed more than minimally since then.

Turnover distribution is, of course, quite a different matter. In 1967 the size-classes with the highest relative turnover shares were the 3-9 employee category (no less than 29 per cent) and the large firm - over 500 employees - category (with 24 per cent). The latter's share climbed almost 6 percentage points in 1978, reaching 29 per cent that year and 33.5 per cent by 1984. The 10-19 employee category also saw an increase, though a rather more modest one. Even in 1984 the 3-9 employee category accounted for a substantial proportion of turnover, approximately 22 per cent, though this had declined somewhat since 1978. The small firms, with 1-2 employees, lost virtually half their share of turnover between 1967 and 1984 (see table 1 in the appendix).

Analysis of workforce-size classes thus shows a concentration drift in turnover terms towards the larger and the large-scale enterprises, though this is far less pronounced than with nominal turnover-size classes. A considerable proportion of retail turnover is still generated by firms with fewer than 50 employees in all: over half in 1978, and still virtually half in 1984. Correspondingly, the turnover share of retail firms with 50 or more employees rose from 39.4 per cent in 1967 to 47.8 per cent in 1978 and to 50 per cent in 1984.

In the second half of the 1980s the relative enterprise and turnover concentration clearly continued, though to a much lesser extent.

2.2 Wholesaling

Official statistics indicate an unusually broad spectrum of firm sizes though the majority of companies are categorized as smaller firms (see tables C.14 and C.15). For example, in 1988 approximately 55% of all sales tax paying wholesale firms had annual turnovers of less than DM 1 million. On the other hand, 350 wholesale companies, i.e. only 0.3% of the entire number, recorded turnovers of DM 250 million or more.

Turnover distribution categorised according to company size presents a different picture: The annual turnover share of small firms with less than DM 1 million in sales was 2.5% compared to approximately 50% for large firms with annual turnovers of DM 100 million or more (see table C.16).

The question arises as to if or to which extent the small-sized wholesale firms included in official statistics do or can perform wholesale functions adequately. A further question in this connection is how to ascertain the minimum turnover level at which a company can still carry out its wholesaling functions properly. These questions cannot be answered via a generally applicable, scientifically satisfactory method for two reasons: first, the appropriate size required for a company to perform its duties properly varies significantly from one branch of economic activity to another. And secondly, to date no minimum standards have been set for wholesale performance in the various branches.

Numerous interviews with wholesalers have led to the conclusion that - keeping the performance of the most important wholesaling functions in mind - in general one cannot speak of properly functioning wholesale firms when referring to companies with an annual turnover of less than DM 1 million. Many of those persons interviewed set the minimum annual turnover level even higher - at DM 2 million or even DM 5 million. Taking DM 1 million as the appropriate cut-off level - but generalising - it can be concluded that there are only approximately 52,000 properly functioning wholesale companies in the prior Federal Republic of Germany. Only 36,500 wholesale firms meet or are above the DM 2 million annual turnover minimum level, whereby just under 20,000 wholesale companies have an annual turnover of DM 5 million or more. In

Tab. C. 14

**Number of Firms and Sales Volumes in Wholesale Trade
in the years 1980 and 1988
Shares in %**

size of the firms in sales volumes (in Billion DM)	Number of firms		Sales volumes	
	1980	1988	1980	1988
- 10	91,8	90,2	22,6	18,8
10 - 100	7,5	8,9	32,2	32,1
100 and more	0,7	0,9	45,2	49,1
	100	100	100	100

Sources: Statistisches Bundesamt, Umsatzsteuerstatistiken 1980 and 1988

Number of Wholesale Firms a)
1980 and 1988
according to Branch and Annual Turnover Classification
Share in %

Branch	Firm size (Annual Turnover from ... to ... DM)													
	20 Tsd. - 1 Mill.		1 - 2 Mill.		2 - 5 Mill.		5 - 10 Mill.		10 - 25 Mill.		25 Mill. - 100 Mill.		100 Mill. and more	
	1980	1988	1980	1988	1980	1988	1980	1988	1980	1988	1980	1988	1980	1988
Grain, feed and fertilizer, animals	49.2	49.3	16.7	15.3	17.8	17.1	8.8	9.1	5.3	6.4	1.8	2.4	0.4	0.5
Textile raw materials and semi-finished inputs, skins	60.9	57.9	10.7	10.2	12.3	13.9	6.2	6.4	6.0	6.2	3.4	4.3	0.6	1.0
Technical chemicals, unprocessed drugs, rubber	55.0	49.3	10.5	11.6	12.4	11.3	7.1	9.8	7.9	9.8	5.0	6.3	2.0	2.2
Hard fuels, mineral oil manufactures	34.5	35.0	10.4	13.0	16.3	17.3	12.1	11.1	12.8	10.3	9.2	9.4	4.8	3.9
Ores, steel, non-iron metals etc.	34.0	31.0	11.5	11.3	18.3	19.2	13.0	12.4	11.5	13.4	8.5	9.2	3.2	3.4
Wood, construction and installation materials	49.4	51.9	14.5	13.9	17.6	16.1	9.4	8.7	6.4	6.0	2.6	3.1	0.2	0.3
Scrap and recyclable products	79.8	76.1	7.7	8.0	7.0	7.9	2.8	4.0	1.9	2.7	0.8	1.1	0.1	0.1
Raw Materials and semi-finished products	51.9	51.7	13.6	13.2	15.9	15.5	8.6	8.6	6.2	6.6	3.0	3.5	0.8	0.9
Food, drink, tobacco products	55.4	51.9	14.7	13.8	14.1	15.0	6.7	7.4	5.2	6.3	2.9	4.1	1.0	1.6
textiles, clothing, shoes	62.4	61.9	13.4	12.3	12.2	12.5	6.2	6.3	3.8	4.5	1.8	2.2	0.2	0.4
leather goods	57.4	54.0	14.2	13.9	14.3	15.3	6.8	7.3	4.9	5.7	2.1	3.1	0.4	0.7
metal goods, fixtures	64.5	64.1	13.4	13.0	12.0	12.3	5.5	4.7	2.7	3.6	1.7	1.7	0.1	0.5
Fine mechanical and optical products, jewelry	57.8	54.4	14.6	15.0	14.5	15.2	6.5	7.2	4.3	5.1	1.9	2.5	0.4	0.6
Transportation equipment, machines	61.2	59.3	12.3	12.7	12.0	12.1	6.8	6.7	4.2	4.7	2.6	3.3	0.9	1.1
Pharmaceuticals, petische related products	62.9	59.3	12.8	12.7	11.7	12.8	5.5	6.1	3.8	4.5	2.7	3.4	0.7	1.3
Paper and printing materials, Goods of various types	58.4	55.7	14.1	13.7	13.6	14.3	6.4	6.9	4.5	5.3	2.3	3.1	0.6	0.9
Finished products	56.4	54.5	14.0	13.6	14.4	14.7	7.1	7.4	5.0	5.7	2.5	3.2	0.7	0.9
Total wholesale														

a) Von Unternehmen mit mehr als 20.000 DM Jahresumsatz.

Quelle: Statistisches Bundesamt, Umsatzsteuerstatistiken der Jahre 1980 und 1988 sowie Berechnungen des Ifo-Instituts.

Tab. C. 16

Turnover of wholesale firms a)
1980 and 1988
according to Branch and Annual Turnover Classification
Share in %

Branch	Firm size (Annual Turnover from ... to ... DM)													
	20 Tsd. - 1 Mill.		1 - 2 Mill.		2 - 5 Mill.		5 - 10 Mill.		10 - 25 Mill.		25 Mill. - 100 Mill.		100 Mill. and more	
	1980	1988	1980	1988	1980	1988	1980	1988	1980	1988	1980	1988	1980	1988
Grain, feed and fertilizer, animals	3.3	3.0	4.1	3.6	9.7	8.9	10.7	10.3	13.8	15.7	14.1	17.0	44.3	41.5
Textile raw materials and semi-finished inputs, skins	4.0	3.1	3.2	2.5	8.3	7.6	9.5	8.1	19.7	17.1	36.7	33.6	18.6	27.9
Technical chemicals, unprocessed drugs, rubber	1.7	1.2	1.5	1.3	4.1	2.9	5.0	5.3	11.9	11.8	20.6	24.3	55.3	53.2
Hard fuels, mineral oil manufactures	0.3	0.4	0.4	0.6	1.3	1.7	2.1	2.4	4.8	4.8	10.7	13.9	80.4	76.2
Ores, steel, non-iron metals etc.	0.6	0.5	0.7	0.7	2.7	2.8	4.3	3.9	8.0	9.3	17.8	18.2	65.9	64.7
Wood, construction and installation materials	4.1	3.7	5.2	4.4	14.0	11.5	16.2	13.5	23.9	20.3	27.9	29.5	8.7	17.1
Scrap and recyclable products	11.5	7.5	7.9	5.3	15.6	11.3	13.6	12.7	18.6	18.9	23.8	24.1	9.1	20.2
Raw Materials and semi-finished products	2.1	2.1	2.5	2.4	6.4	6.2	7.6	7.5	11.8	12.6	16.9	19.9	52.8	49.3
Food, drink, tobacco products	3.0	1.8	3.0	1.9	6.5	4.6	6.7	5.1	11.8	9.6	19.6	18.4	49.4	58.5
Textiles, clothing, shoes	6.7	5.4	6.3	4.9	13.0	11.3	14.3	12.5	19.6	19.7	26.9	28.4	13.2	17.8
Leather goods, metal goods, fixtures	4.9	3.1	5.0	3.4	11.2	8.3	11.8	8.7	18.9	15.1	24.3	24.3	24.0	37.0
Fine mechanical and optical products, jewelry	8.3	5.9	7.6	5.4	15.3	11.2	15.2	9.7	16.9	16.7	28.2	23.5	8.4	27.7
Transportation equipment, machines	4.7	3.1	4.8	3.6	10.4	8.1	10.4	8.4	15.3	13.2	18.8	19.0	35.6	44.5
Pharmaceuticals, netische related products	2.9	1.8	2.7	1.8	5.9	3.9	7.5	4.9	10.1	7.2	19.7	15.6	51.0	64.8
Paper and printing materials, Goods of various types	3.2	2.4	3.0	2.4	6.1	5.4	6.3	5.6	9.8	8.9	20.7	19.9	50.9	55.5
Finished products	4.0	2.7	4.0	2.8	8.6	6.6	8.9	7.0	13.9	11.8	21.0	20.1	39.6	49.1
Total wholesale	3.2	2.5	3.3	2.7	7.7	6.4	8.4	7.2	13.0	12.0	19.2	20.1	45.2	49.2

a) Von Unternehmen mit mehr als 20.000 DM Jahresumsatz.

Quelle: Statistisches Bundesamt. Umsatzstatistiken der Jahre 1980 und 1988 sowie Berechnungen des Ifo-Instituts.

1988, the turnover share of these firms in total turnover of all companies listed in official statistics registers was 97.5%, 94.8% and 88.4% respectively.

An analysis of changes in the size structure of wholesale firms between 1980 and 1988 leads to the following conclusions: the number of wholesale firms with annual turnovers of DM 100,000 or less as well as those with DM 2 million or more had grown during the eight year period. In contrast, the number of wholesale companies in the range inbetween, i.e. with turnovers between DM 100,000 and DM 2 million, decreased during the same period of time. The increase in numbers of wholesale firms (with the exception of the very largest size categories) grew proportionately to firm size, i.e. the increase in number of relatively large wholesale firms was greater than for relatively smaller ones. The increase in assets in the lower two categories under DM 100,000 indicates that new firms entering the market were more numerous than the firms exiting. It should be noted that not all recorded entries into the market were new entries; neither were all new entries recorded in these two categories. However, the available data seem to support the thesis that between 1980 and 1988 considerable wholesale establishment activities were under way, especially at the beginning of the 1980s. Federal level data on fluctuations in wholesale activities are not available.

Between 1980 and 1988, in the category consisting of firms with annual turnovers between DM 100,000 and DM 2 million, the number of firms leaving the market were more numerous than those entering it. For the most part this overall decrease in number of firms of intermediate size is to be contributed to a greater "migration" of firms into the next higher turnover categories due to internal and/or external turnover improvements than to "immigration" into this intermediate category by firms with previously lower turnover levels. Turnover levels in the upper categories have shifted upwards in conjunction with the just-mentioned movements out of the intermediate category.

3 Large-scale firms

3.1 Retailing

3.1.1 Introduction

The position of large-scale retail firms and the way in which they have developed with the passage of time are of crucial significance for the state of competition and the concentration of power in individual markets. A distinction must be drawn between the food and non-food retail sectors because they show markedly divergent patterns of development.

3.1.2 Food retailing

The position of individual enterprises is in many cases dependent not only on absolute turnover levels or market share, but also to a significant extent on capital linkages with other enterprises and on cooperative arrangements. In the grocery sector the large multiples, in particular, generate a powerful growth dynamic. These are the firms which primarily determine the pace and intensity of structural change in the food sector, in which the leading companies in particular play a key role. The top ten firms, led by the ALDI-Gruppe, REWE-Leibbrand, Coop AG, the Tengelmann-Gruppe and the Asko-Schaper-Gruppe, between them accounted for 58 per cent of total institutional food retail turnover in 1988, or 48 per cent of functional retail food turnover, i.e. including non-industrial production of foodstuffs. Between 1978 and 1988 these market shares increased considerably. From 1987 to 1988 alone they rose by 6 per cent, a clear indication of their increasing market significance. Since then market shares have further increased as a result of considerable internal, but primarily continued external, growth. This will have involved further shifts in the concentration ratio within this area of enterprises with relative market strength (see table 2 in the appendix).

Closer examination of the changes in the various large food retailing firms and groups shows very clearly above-average turnover growth for REWE, Asko

and SPAR, partly accounted for by considerable external firm growth.¹ New entrants to the top 20 companies list (all trades) between 1986 and 1988 were Asko Deutsche Kaufhaus AG (8th place), Massa AG (18th), Kaiser's Kaffeegeschäft AG and Allkauf SB-Warenhaus GmbH & Co KG (20th). Schaper KG, which in 1986 held 15th place, dropped out of this list after Asko Deutsche Kaufhaus AG had taken a controlling interest in January 1987.

3.1.3 Non-food retailing

By contrast, there is nothing like the same degree of concentration in the non-food sector, and only a relatively weak increase in concentration can be observed, although here, too, a number of mergers and acquisitions have taken place. Thus the department stores and big mail order houses, as well as large food retailers, seeking to diversify (new product lines, takeover of firms with specialist ranges), have moved into fields which previously were the preserve of specialist dealers, such as electrical goods (particularly consumer electronics), toys, sports articles and furniture. They are also increasingly diversifying into services such as tourism and financial services (insurance, credit). In the future, firms will increasingly seek to establish a particular retail profile and in so doing stock various sales lines and product types. These activities will in part be carried on by legally independent affiliates.

Despite the diversification strategies of the large retailers and their numerous and increasing excursions into classical specialist retail areas, traditional specialist retailers have successfully maintained their position in many sectors and enjoy very favourable prospects. Their potential strengths lie in product quality and specialist knowledge, the depth of their product range, and the expertise and service they offer. There will be an increasing trend amongst specialist firms in the various non-food sectors in future to club together in cooperation groups and to develop their purchasing and sales policies increasingly on a group basis. This is particularly true of the furniture, electrical goods, sports articles and toys specialist retail sectors, but also of textiles and clothing, footwear and household goods.

¹ See 8th Hauptgutachten der Monopolkommission: Wettbewerbspolitik vor neuen Herausforderungen, 1988/1989, p. 324 ff.

3.2 Wholesaling

In order to come to some founded statements as to the extent to which increasing concentration in the upper and highest turnover categories is actually a fact, it would be necessary to calculate the price-related growth components in individual categories, that is to convert the nominal turnover figures into real (expanded) turnover data. Neither of these is possible given the data available. Therefore, it can only be speculated - if concentration processes in wholesale have taken place - that they are by no means significantly large.

In its 8th Hauptgutachten 1988/39, the Monopolkommission also came to the conclusion that only a slight increase in concentration seems to have taken place in wholesale activity between 1988 and 1989¹. Their analysis is based upon a special evaluation of the Statistisches Bundesamtes' data on the turnover and employee shares of the 45 largest wholesale companies². Table C.17 includes turnover and employee figures according to institutional delineation; table C.18 is composed of the turnover shares of the largest companies according to major goods groupings (functional division).

¹ Monopolkommission, 8th Hauptgutachten 1988/89, p. 290.

² For details on the methodology used in the special evaluation see the 8th Hauptgutachten; in addition see the 7th Hauptgutachten 1986/87.

Tab.-C. 17

Largest Wholesale Companies' Share of Turnover and Employees (1)
according to major areas of business (2), 1988 and 1989
(institutional delineation)

	Turnover size from ... to ...	Share of Turnover (%)				Share of Employees (%)			
		1988		1989		1988		1989	
		not cumulativ	cumulative	not cumulativ	cumulative	not cumulative	cumulative	not cumulative	cumulative
a	b	c	d	e	f	g	h	i	
Wholesale of raw materials and semi-finished products									
1	1 - 5	17.2	17.2	17.5	17.5	10.2	10.2	10.5	10.5
2	6 - 10	5.4	22.6	5.4	22.9	1.9	12.1	1.5	11.8
3	11 - 15	4.3	26.8	4.3	27.2	1.2	13.4	1.9	13.7
4	16 - 20	3.4	30.2	3.4	30.7	1.3	14.7	0.4	14.0
5	21 - 25	2.8	33.0	2.8	33.5	0.5	15.2	1.0	15.1
Wholesale of finished products									
1	1 - 5	5.6	5.6	5.7	5.7	4.6	4.6	4.6	4.6
2	6 - 10	2.3	7.9	2.3	8.0	1.0	5.6	0.9	5.5
3	11 - 15	1.8	9.6	1.9	9.9	0.9	6.5	0.7	6.2
4	16 - 20	1.5	11.1	1.4	11.3	0.7	7.2	1.0	7.2
5	21 - 25	0.4	11.5	0.4	11.7	0.3	7.4	0.3	7.5
Total wholesale									
1	1 - 5	7.0	7.0	7.2	7.2	2.9	2.9	2.9	2.9
2	6 - 10	3.6	10.6	3.7	10.9	3.4	6.3	3.4	6.3
3	11 - 15	2.2	12.8	2.3	13.2	0.6	6.9	0.5	6.8
4	16 - 20	1.8	14.6	1.8	15.0	0.4	7.3	0.5	7.4
5	21 - 25	1.5	16.0	1.5	16.4	0.7	8.0	0.6	7.9
6	26 - 30	1.3	17.3	1.3	17.7	0.3	8.3	0.2	8.1
7	31 - 35	1.2	18.4	1.2	18.9	0.4	8.7	0.5	8.7
8	36 - 40	1.0	19.5	1.1	20.0	0.5	9.1	0.3	8.9
9	41 - 45	0.9	20.4	0.9	20.9	0.4	9.6	0.6	9.6

- (1) Special evaluation of the Statistisches Bundesamt number VC94 of March 14, 1990
(2) See Statistisches Bundesamt (editor), Systematik der Wirtschaftszweige mit Erläuterungen (Systematic of Economic Branches with Elucidation), 1979 edition, Stuttgart or Mainz, 1979
(3) Combines and/or member companies categorised according to size of turnover in each branch of economic activity.

Source: Monopolkommission, Achtes Hauptgutachten, 1988/89

Tab. C. 18

Largest Wholesale Companies' (1) Share of Turnover according to Major Goods Groupings (2), 1988 and 1989
(functional delineation)

Turnover size from ... to ...	Share of turnover (%)					
	1988		1989			
	not cumulative	cumulative	not cumulative	cumulative		
a	b	c	d	e		
Wholesale of raw material and primary products fuel oil, second hand articles, scrap material						
1	1 - 5	22.5	22.5	24.2	24.2	
2	6 - 10	7.8	30.4	7.7	31.9	
3	11 - 15	6.0	36.3	6.1	38.0	
4	16 - 20	4.1	40.4	4.2	42.2	
5	21 - 25	2.2	42.6	2.5	44.8	
Wholesale of foods						
1	1 - 5	11.0	11.0	11.2	11.2	
2	6 - 10	4.3	15.4	4.1	15.3	
Total wholesale						
1	1 - 5	7.1	7.1	7.4	7.4	
2	6 - 10	3.6	10.6	3.6	11.1	
3	11 - 15	2.3	12.9	2.3	13.4	
4	16 - 20	1.8	14.7	1.8	15.2	
5	21 - 25	1.5	16.3	1.5	16.7	
6	26 - 30	1.3	17.5	1.3	18.0	
7	31 - 35	1.2	18.7	1.2	19.2	
8	36 - 40	1.0	19.7	1.1	20.2	
9	41 - 45	0.9	20.6	0.9	21.1	

(1) Special evaluation of the Statistisches Bundesamt number VC94 of March 14, 1990

(2) See Statistisches Bundesamt (editor), Warenverzeichnis für die Binnenhandelspolitik, ("Goods Register for Domestic Trade Policy"), 1978 Edition, Stuttgart and Mainz 1978

(3) Combines and/or member companies categorised according to size of turnover in each branch of economic activity.

Source: Monopolkommission, Achtes Hauptgutachten, 1988/89.

4 Analysis by types of retail stores

4.1 Definition of different types

(a) Main stress on food retailing

- SB-Laden / Self-service store: selling space: less than 200 sqm
product range: basic foodstuff
- SB-Markt / Self-service market: selling space: 200 - 400 sqm
product range: food including fresh food and basic non-food items
- Supermarket: selling space: at least 400 sqm
product range: foodstuff including everyday commodities
- Discountmarkt / Discount store, discount house: small (about 400 sqm) or medium-sized (about 1000 sqm) retail unit with a narrow product range at heavily discount prices

(b) Main stress on non-foods:

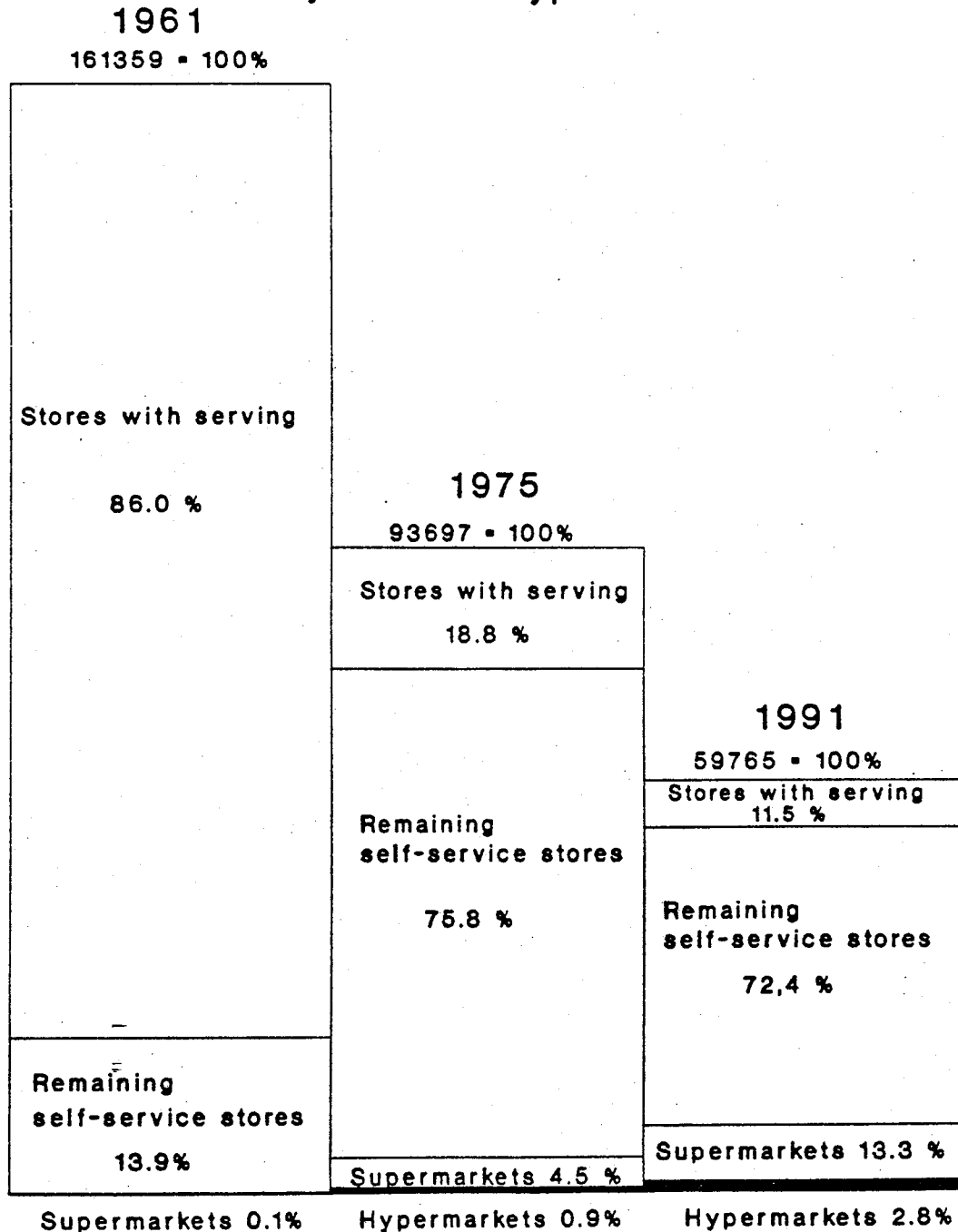
- Verbrauchermärkte, SB-Center (SB = Selbstbedienung = self-service)
selling space: at least 1500 sqm
product range: foodstuff, non-food commodities
- SB-Warenhaus / hypermarket: selling space: at least 5000 sqm
product range: foodstuff and a wide range of durables and non-durables.
In general on out-of town sites.

4.2 Market structures by different types

See the following charts C.1 to 3 which contain a breakdown of number of stores, selling space and turnover by different types of retail stores. The group "Remaining self-service stores" is including discount stores, too.

Fig. 1

Number of retail stores in food retailing
by different types

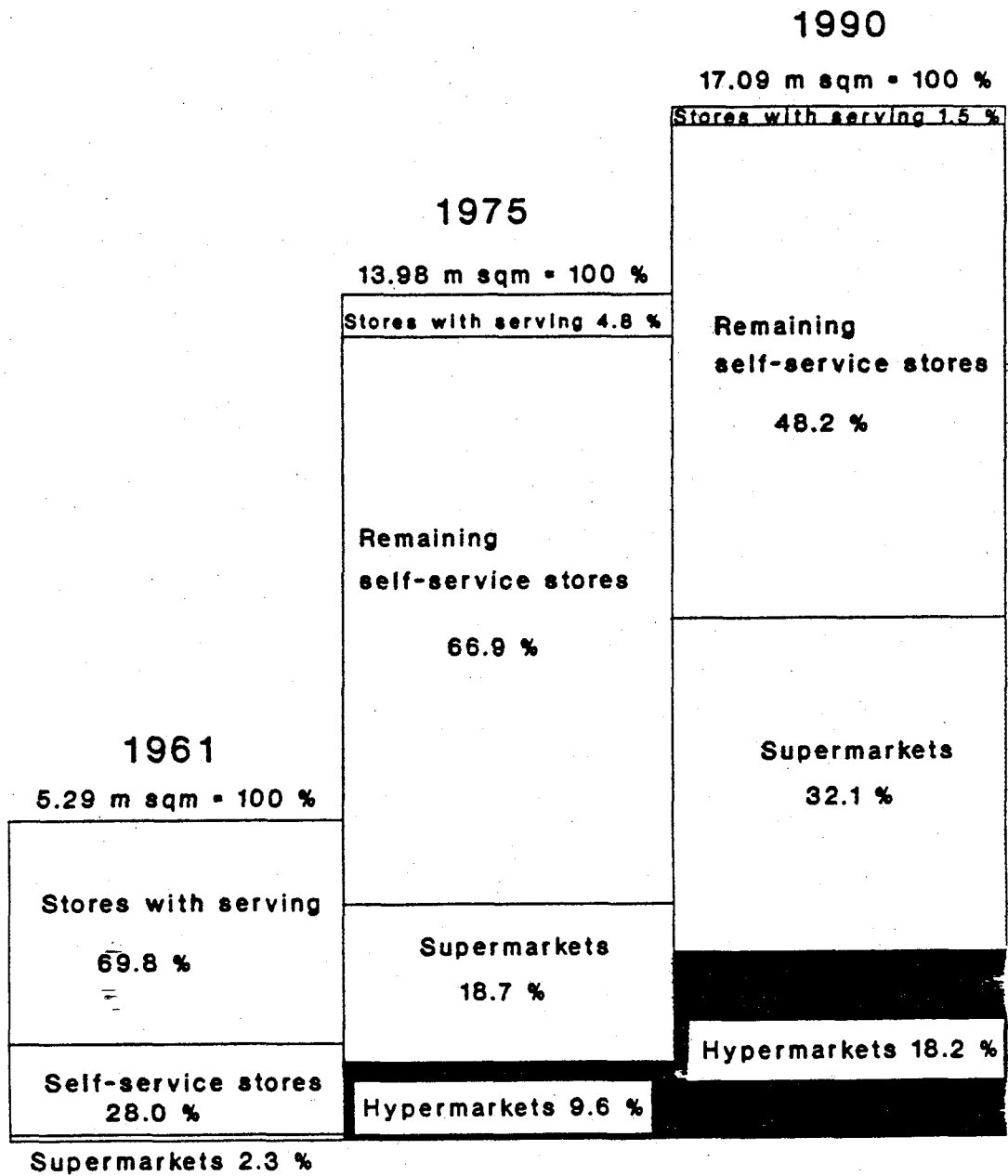


• excluding Aldi, specialists and independent retailers.

Source: Deutsches Handelsinstitut Köln.

Fig. 2

Selling space in food retailing*
by types of retail stores

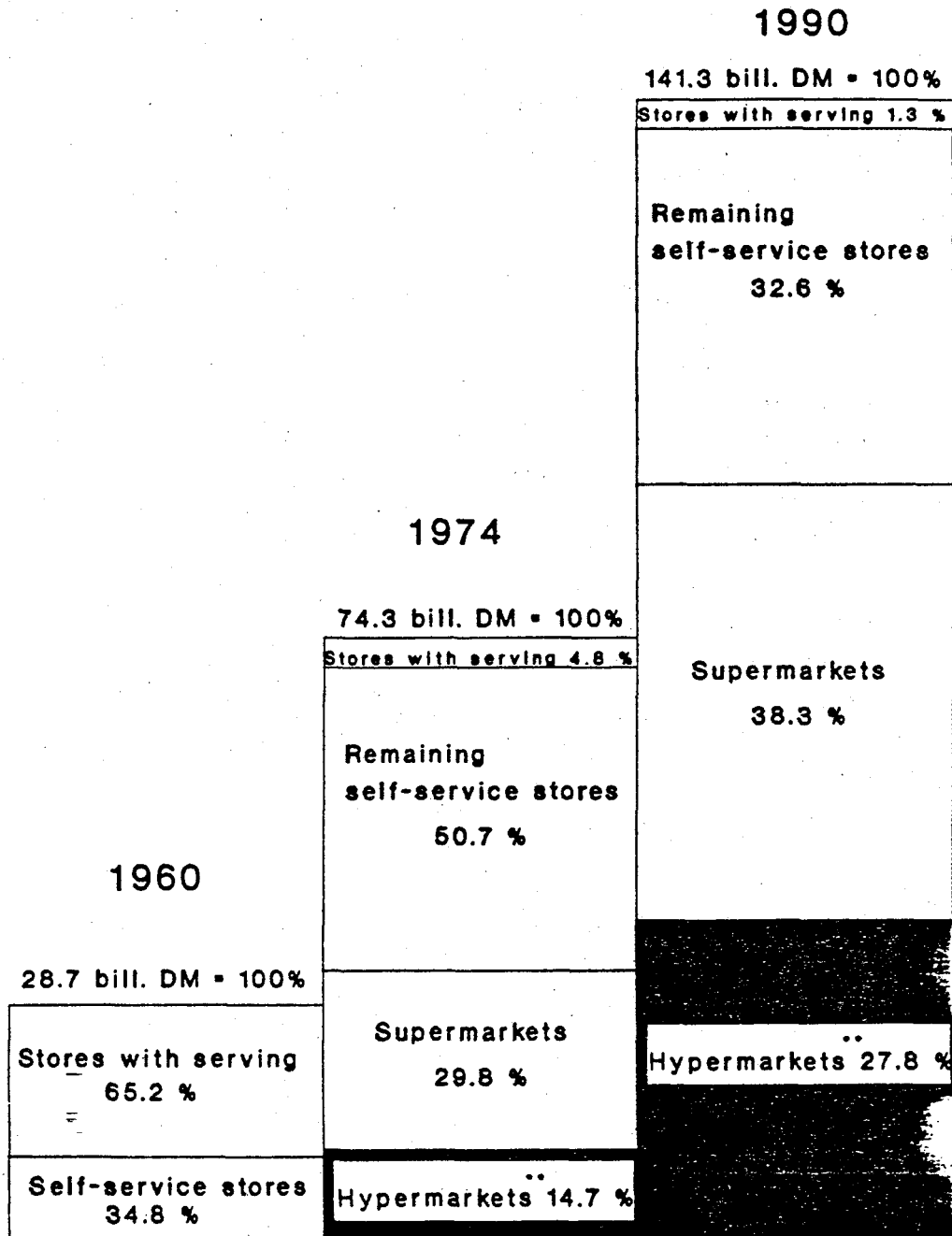


* excluding Aldi, specialists and independent retailers.

Source: Deutsches Handelsinstitut Köln.

Fig. 3

Breakdown of sales volume •
by types of stores in food retailing



- excluding Aldi, specialists and independent retailers.
- ** food departments of hypermarkets.

Source: Deutsches Handelsinstitut Köln.

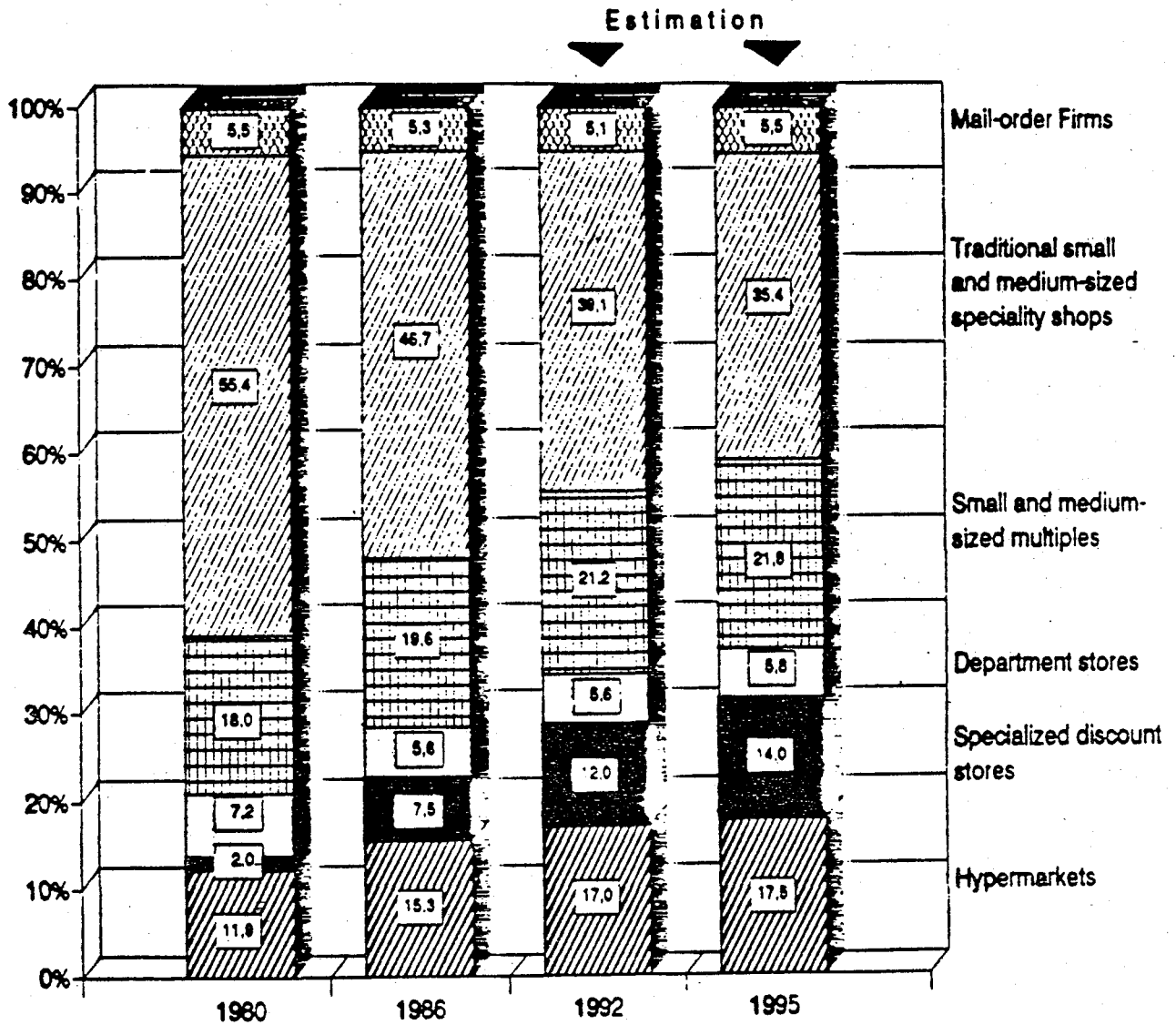
In a description of retail distribution by outlet type the focal point of analysis must be marketing concepts underlying the way that products are supplied. Key factors here are the surface area and sales volume of the outlets, the depth and range of the product lines stocked, the type of presentation and, in particular, the pricing policy applied.

There has been a particular expansion in large specialist markets (**Fachmärkte**), which have boosted their market share from only 2% in 1980 to 7.5% in 1986, thus overtaking department stores in size of turnover (see figure C.4). The key feature of this type of outlet is its specialized but extensive product range, in many cases accompanied by the provision of qualified sales advice. Specializing as they do in specific product areas, these outlets achieve high market shares in those areas. Thus building and DIY centres, garden centres, drug stores and furniture markets have gained market shares of between 20 and 35 per cent, although limits to further growth are now becoming apparent in these areas. This is not the case for the consumer electronics, car accessories and shoe sectors, where market shares lie between 4 and 10 per cent, with every indication of further growth in market share still to come. Specialist markets for clothing, sports articles and office equipment have similar market shares but only slight growth prospects. For the specialist market sector as a whole an increase in market shares to around 14 per cent in 1995 is forecast, which will bring them still closer to the market share of the super- and hypermarkets and large self-service stores (**Verbrauchermärkte/SB-Warenhäuser**). These have now become a 'classic' outlet type which, with a particularly large sales area, gained a market share of 12 per cent even in 1980 (see figure C.4). Their main emphasis is admittedly on food retailing, but as their sales area increases the proportion of their turnover accounted for by food falls. According to the Deutsches Handelsinstitut, only 62 per cent of the total turnover of self-service stores in Cologne with a sales area of more than 4 000 sq.m. is accounted for by food.

Table C.19 gives an idea of the market significance and sales performance of food supermarkets and self-service stores. This type of supply was still uncommon in 1980 (found in barely 2 per cent of shops), but even then in sales volume its market share (20 per cent) was some ten times greater.

Fig. 4

Market Shares of Retail Outlet Types in the Federal Republic of Germany 1)



- 1) Former West Germany.
- 2) With total turnover (incl. retail stores).
- 3) Only the four German department store groups and Woolworths.
- 4) Only Hypermarkets with food department.

Source: Calculations and estimates by the Ifo Institute on the basis of data from the Federal Office of Statistics, federations, cooperatives and firms.

Table C.19

**Market shares of food retail outlets by type
period 1970-1995**

Outlet type	1970	1975	1980	1985	1990	1995
Total number of outlets	165,000	123,000	93,800	76,200	64,900	58,000
	Shares (per cent)					
of which:						
- hypermarkets	0.4	0.8	1.8	3.0	4.1	4.9
- discount stores	0.5	1.0	2.3	4.8	7.8	10.5
- traditional food retailers*	99.1	98.2	95.9	92.2	88.1	84.6
Total turnover (DM billion)	50.5	73.7	100.6	125.3	142.7	164.0
	Shares (per cent)					
of which						
- hypermarkets	6.0	12.8	20.5	25.9	31.0	33.7
- discount stores	2.0	3.4	6.2	9.3	11.1	11.4
- traditional food retailers*	92.0	83.8	73.3	64.8	57.9	54.9

* Outlets selling mainly food which are neither hypermarkets nor discount stores. Specialised shops offering a single food line (eg bakeries, confectioners) are excluded.

Source: GfK-Handelsforschung, Nurnberg

Since then growth has been uninterrupted. Despite the relatively restrictive policies of the planning authorities on the basis of Paragraph 11(3) of the BauNVO, there is bound to be further growth in this type of supply in the immediate future, even if at a slower rate, so that by 1995 it will account for about one-third of total food turnover in Germany.

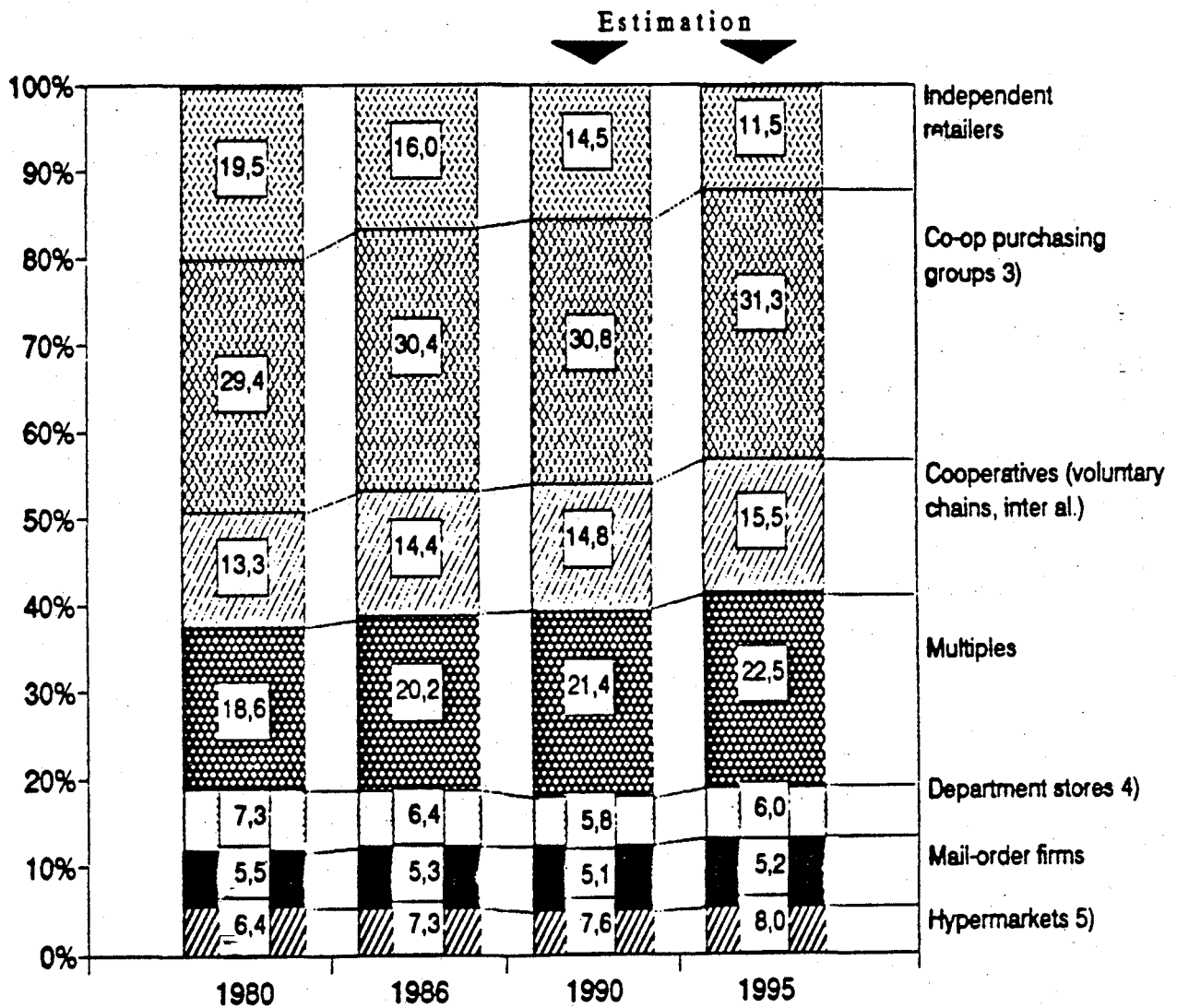
Discount shops account for a further 11 per cent. They sell a very limited range - some 600 articles (supermarkets, by contrast, stock on average 26 000 articles) - at low prices in relatively small sales areas averaging around 600 sq.m. Originally they stocked primarily dried foods and a limited selection of everyday non-food articles such as washing powders, cosmetics, etc. In recent years, however, they have extended their range to include fresh foods (e.g. dairy products, fruit and deep frozen goods). The narrow range makes a fast rate of turnover possible, thus lowering costs and prices, so that considerable competitive pressure is exerted by discount stores on both hypermarkets and local supermarkets (convenience stores). Initially discounters operating small-scale shops tended to be located in town centres. In the last few years they have chosen a broader spread of locations, including out-of-town sites. Since this enables them to enlarge their sales areas substantially, discount firms are becoming even more similar to hypermarkets and supermarkets in their supply profile and thus also in their competitive relations.

This expansion in the turnover of 'modern' methods of retailing has been at the expense of the traditional specialist retail trade, whose market share has contracted continuously from 55 per cent in 1980 to 47 per cent in 1986 and is likely to shrink yet further (1992: 39 per cent; 1995: 35 per cent; see figure C.4). This leads us to consider the situation of the retail sector from a different perspective, analysing it according to types of enterprise. The first distinction to be made here is whether or not a retailer is part of a larger group, e.g. a purchasing cooperative. Other types of retail firm are the multiples or chain stores and the department stores.

The dominant market share trends for the most important types of retail distributors have been as follows (see figure C.5):

Fig. 5

Market Shares of Important Types of Retail Businesses 1)
in the Federal Republic of Germany 2)



- 1) Arranged according to main activity.
- 2) Former West Germany.
- 3) Including group headquarters.
- 4) Including department store groups.
- 5) Firms that primarily operate hypermarkets.

Source: Calculations and estimates by the Ifo Institute on the basis of data from the Federal Office of Statistics, federations, cooperatives and firms.

Ifo-Institut für Wirtschaftsforschung, München



- Cooperative retailers has slightly increased their market shares since 1978; this applies to both cooperative purchasing associations and private-sector affiliated groups;
- The independent or non-organized retail sector continues to lose significant ground;
- Of the large-scale retail types, conventional department store firms, in particular, have recorded poor market share growth, whereas the large-scale multiples and chains and the firms whose main operations are hypermarkets or self-service stores achieved further increases in market share.

The development of cooperative arrangements in distribution is of particular interest. Cooperative retail traders seem in the main to have held up well on their various markets. The main reasons for this are firstly, new purchasing and sales strategies, for example the establishment and expansion, by the food-sector affiliated groups, of group-owned branch systems and subsidiaries, and secondly, the enhanced efficiency and competitiveness of the member firms resulting from improved purchasing, service and marketing arrangements supplied by the central offices. Nevertheless, considerable numbers of - predominantly small - retailers have also left the affiliations in recent years. In the non-food sector, most cooperatives now consist only of efficient retailers with good development prospects. Given their often very convenient locations, these firms have played a leading role in consolidating or expanding the competitive capacity of many such groups.

5 Growth of cooperatives and groups of affiliated distributors

Within the framework of cooperatives or affiliated groups, independent retail traders can transfer certain functions, primarily purchasing, to their cooperative head offices, which as a rule can perform these functions more efficiently than individual firms. These groups promote competition in their markets by improving the performance of their member firms in relation to that of the large-scale firms and chain operations in the retail sector.

Such groups play a major role in the following sectors:

- food, beverages and tobacco (e.g. Edeka-Gruppe, REWE-Gruppe, Spar-Gruppe, S+T-Gruppe Markant);
- furniture (e.g. Europa-Möbel, Garant-Möbel, VME, WK-Möbel, Regnet-Möbel);
- toys (e.g. Interfunk, Aera, Expert Bild + Ton, Ruefach, Electronic-Partner);
- textiles and clothing (e.g. Katag, Rheintextil, Südbund);
- footwear and accessories (e.g. Nord-West-Ring, Ariston, Garant Schuh);
- sports goods (e.g. Intersport, Fach-Sport);
- household goods (e.g. Nürnberger Bund Grosseinkauf, E.D.E., EK-Grosseinkauf);
- photographic goods (e.g. Europafoto, Plusfoto, Ringfoto).

The level of purchasing cooperation, i.e. the share of turnover that is handled by the central office, varies - in some cases considerably - according to the sector, but overall is very high. It ranges from an average of 50 per cent for photographic goods and 54 per cent for textiles and clothing to almost 90 per cent in the food sector (see figure C.6). There are no contractually agreed, in other words legally binding, procurement obligations; but there is a growing

trend for more goods to be purchased via the centres. Both the centres themselves and the member firms are keen that this should be so, for only with a sufficiently high input volume will the cooperative centres secure a strong bargaining position with manufacturers and achieve a further competitive edge from rationalization, thus also improving the competitiveness of the member firms.

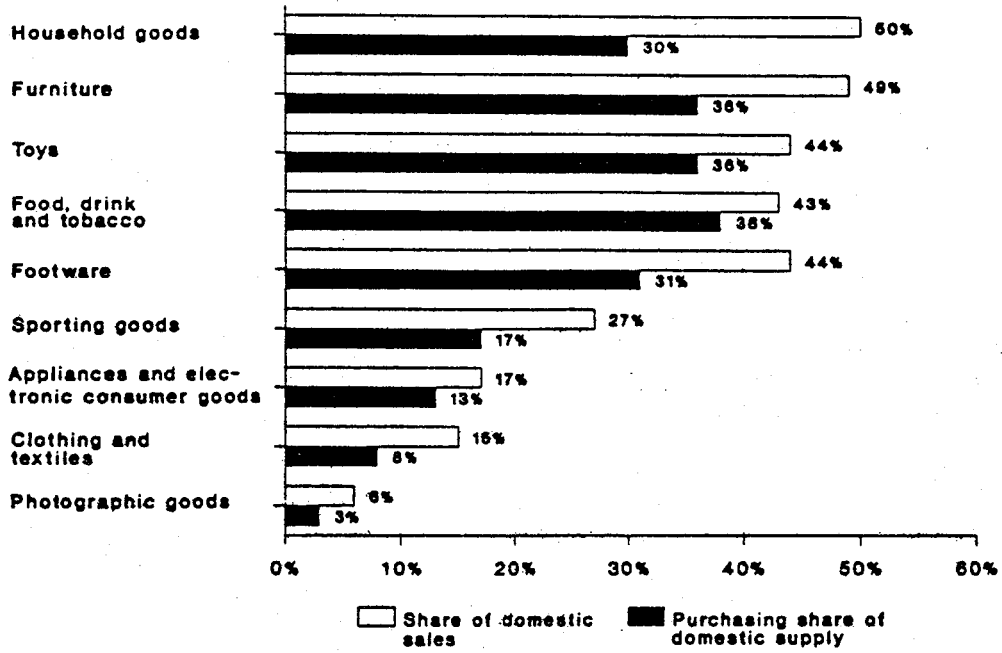
This type of arrangement is not without problems, however, for cooperative centres usually conclude only outline contracts with manufacturers specifying collection commissions and del credere guarantees and certain basic conditions. At the same time virtually all the member firms conduct their own negotiations with the manufacturers and, depending on their performance, enjoy sometimes substantial additional benefits such as assistance with advertising costs, special offer discounts, discounts for introducing products or stocking full ranges, bulk discounts, and so on. The largest and most efficient of the cooperative members, in particular, can thus obtain individual discounts which go well beyond the basic conditions negotiated by the centres. It is clear from this that even with centralized negotiation of some of the terms, both the member firms and the manufacturers still enjoy considerable freedom of action and no standardized terms are uniformly applied. Very little information is available regarding these individually negotiated terms.

According to calculations based on official statistics and company information, the sales and purchasing market shares of the cooperative groups vary considerably according to the sector. Retail cooperative groups are a much stronger force in food retailing, household goods, furniture and toys than in other sectors. In these areas they purchase between 36 and 38 per cent of domestically produced goods, but in other areas their share is much lower (e.g. sports goods 17 per cent, textiles and clothing 8 per cent; see figure C.6).

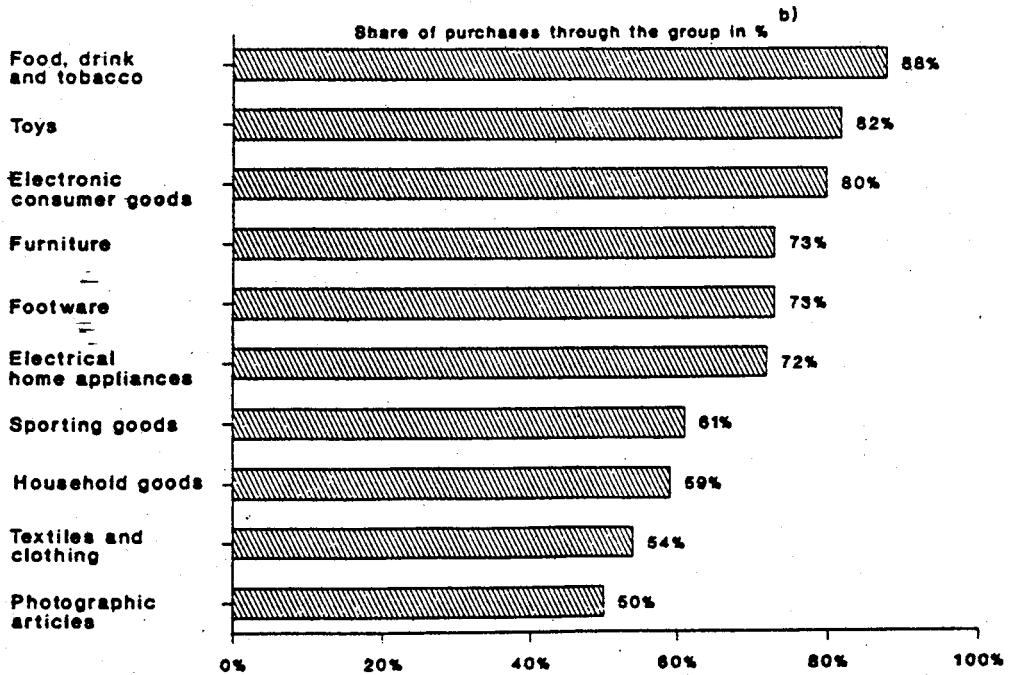
Few individual cooperative groups have particularly high shares of the purchasing market. The largest central organizations in the food sector, for example, each account for shares of less than 10 per cent of the relevant domestic supply, according to IFO estimates, if holding companies such as,

Fig. 6

**Quantitative Importance of Trade Cooperatives
in Sales and Purchasing Markets in 1986**



Degree of Purchasing Concentration of Cooperating Retail Firms in 1986 ^{a)}



a) Independent and brokerage operations. b) Arithmetic mean weighted with turnover.

Source: Calculations and estimates by the Ifo Institute in 1987.

for example, REWE-Leibbrand are excluded. Research by the Monopolies Commission confirms this view overall, although the data it has produced show marked increases in centralized input volumes in some sectors.

The large furniture trade cooperatives have input market shares of between 3 and 4 per cent in purchasing; the market share of the largest cooperative in the consumer electronics sector (Interfunk) is approximately 7 per cent. In the toy market one cooperative (Vedes) has an above average input market share of approaching 16 per cent. In the household goods sector, too, one cooperative (Nurnberger Bund) has a relatively high input market share.

Although purchasing is one of the most important functions of distributors' cooperatives, transferring this function from the small and medium-sized distributors to the cooperative is no longer enough to offset the disadvantages from which they suffer in competition with the large-scale multiple groups. Cooperative centres have therefore in recent years started to offer their members additional marketing services, aimed at establishing a specific corporate identity for the group in its visual presentation (e.g. in advertising, or shop design). In addition to these sales promotion measures, which also extend to product design, cooperatives also offer a range of merchandising management services (e.g. merchandise ordering systems, stock control, cost control).

6 Trends in investment

The growth dynamic of the retail sector (continuous but further enhanced recently), not just in respect of sales but also structures, with changes in firm and outlet types, increases in surface area, new working arrangements, and so on, has been generated firstly by the constant growth in private consumption and secondly, by an increasingly urgent desire to expand on the part of retail firms and groups. In the course of these developments, a marked substitution of capital for labour took place.

This growth dynamic is also reflected in vigorous investment activity. Retail investment expenditure more than doubled in the period from 1980 to 1989 (see table C.20); in 1989 almost DM 15 billion were invested.

Investment rates have varied widely over the years according to retail sector. Above-average investments, as measured by turnover, were made in 1989 in the following sectors, in particular: electrical goods/music instruments, drugs and cosmetics, textiles and clothing, and motor vehicles and accessories.

Despite this strong growth in reported investments, the retail sector also procured capital goods through various forms of leasing. The investment value of assets leased via finance and manufacturer leasing in 1989 amounted to almost DM 4.5 billion. This gives retailing the highest leasing rate of all sectors of the economy (see figure C.7).

In the future the retail investment boom is likely to tail off only slightly. Considerable demand and turnover increases can still be expected, which will stimulate further expansion in capacity, in particular in terms of surface area. Much of this investment activity will, however, be located on the territory of the former GDR.

Retail investment activity in the next few years will continue to be fuelled by measures aimed primarily at greater modernization, diversification and rationalization. In a number of multiples, plans for branch conversions and the greater use of merchandise information or logistics systems are far from complete. Many small and medium-sized firms have not yet installed

Table C.20 Gross fixed capital formation in the retail sector
by sector
period 1970-1990

Sector	DM million			Investments (a)		
	1970	1980	1989	1970	1980	1989
Miscellaneous lines (including mail order)	970	1,400	2,300	3.6	2.3	2.5
Food and beverages	1,100	1,440	3,000	2.2	1.7	2.1
Clothing, linen, footwear	660	1,500	2,700	2.5	3.0	3.7
Household items	410	680	840	3.6	2.6	2.1
Electrical goods, optical products, watches	160	500	1,150	1.7	2.1	3.0
Vehicles, machines, office equipment	330	870	2,900	1.7	1.9	3.4
Other branches	90	550	1,750	1.8	1.4	3.2
Total retail trade	3,720	6,940	14,640	2.3	2.1	2.8

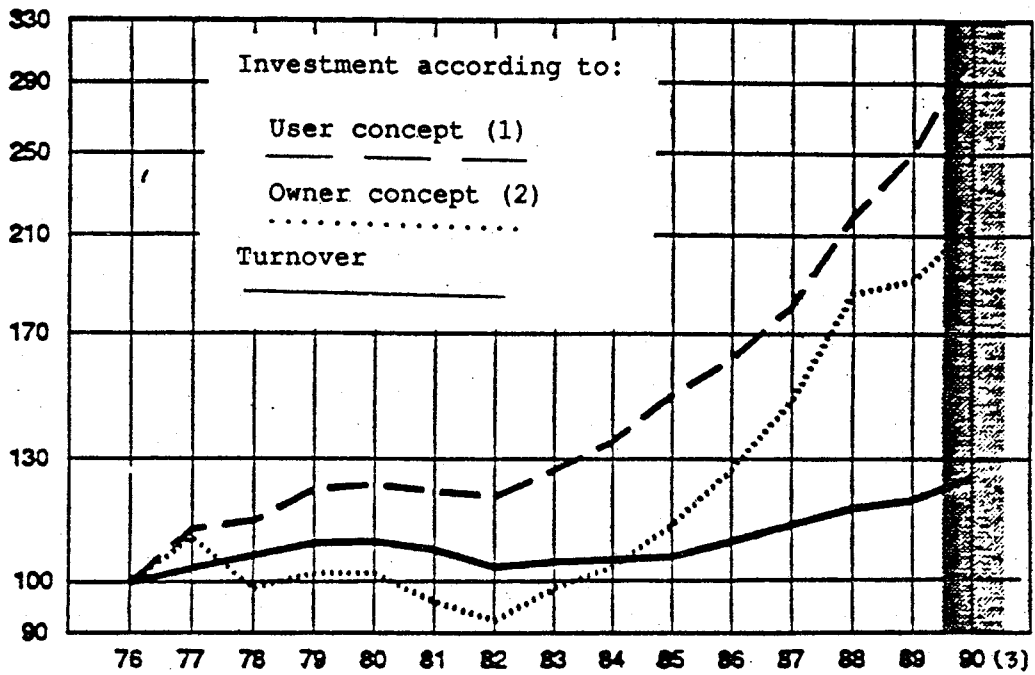
(a) Investments as percentage of turnover

Source: Ifo-Investitionstest

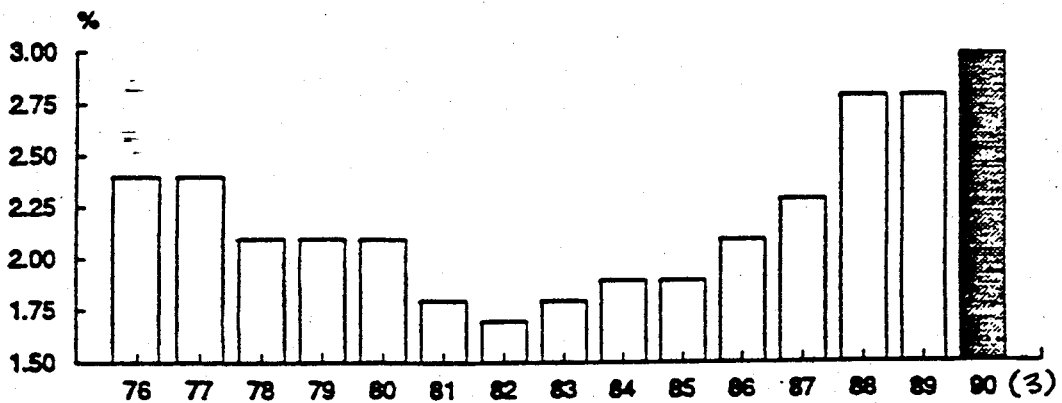
Fig. 7

RETAIL INVESTMENTS

1976 = 100, 1980 prices



Investment in per cent of turnover (current prices) (2)



- 1) Including investments attributed to other sectors but utilised by retail trade (e.g. leasing).
- 2) Only investment attributed to retail trade.
- 3) Estimated.

Source: Ifo Institute.

electronic till or check-out systems or become as computerized as they need to and there is therefore still a lot of potential for lowering running costs via in-house logistical applications.

7 Costs and rates of return

7.1 Retailing

Table 3 in the appendix sets out the gross trading profit ratios for the retail sector drawn from various sources (representative annual survey and cost structure statistics of the Statistisches Bundesamt, interfirm comparisons of the Institut für Handelsforschung an der Universität Köln and balance sheet structure statistics of the Deutsche Bundesbank). While in the annual survey results full value added tax is included in gross trading profit and turnover inclusive of value added tax serves as a reference figure (as in the company comparisons of the Institut für Handelsforschung), the Bundesbank statistics and the cost structure statistics show gross trading profit and turnover or total operating performance less value added tax. For purposes of comparison, all published rates were reduced to the following formula: gross rate of return = ((turnover (excluding VAT) less sales input (excluding prior turnover tax)), divided by turnover (excluding VAT)) times 100.

According to the Deutsche Bundesbank findings, the average gross trading profit in the retail sector in 1988 was 31.4 per cent, and in the specialist sector (according to the Institut für Handelsforschung) 31.1 per cent. At 26.5% (1987), the gross rate of return in the annual survey of the Statistisches Bundesamt is rather lower; no satisfactory explanation for this difference can be elucidated. There were also differences in overall trends: according to the annual survey there was a fall in the gross rate of return from 1979 to 1986 inclusive; according to the Bundesbank statistics, it rose between 1978 and 1982, and after a slight decline in 1983 continued to increase; the Köln Institute's figures show a rise to 1980, followed by a slight downward trend or stagnation to 1987. Since then the average gross rate of return is recorded as rising again.

It is not easy to interpret these divergent trends in the retail sector gross rate of return identified in the various sets of statistics. It is, however, recognizably clear that the gross rate of return is exposed pressure from competition, although this pressure has clearly been significantly attenuated by the extraordinarily good business climate since 1986/87. The upward trend in the

gross rate of return throughout the reference period 1978-1988 (according to the Bundesbank figures, in which the large firms make a strong impact) is no doubt an indication that in the 1980s the large firms had a rather greater margin for manoeuvre than the specialist retailers, which they exploited primarily to achieve savings on the purchasing front.

Only the Bundesbank supplies data on aggregate average operating results for the retail sector. The gross rate of return from operating business amounted to 29.0 per cent of total operating performance. Inclusion of 2.4 per cent interest earnings and other income made up a (broad) gross rate of return of 31.4 per cent. After deduction of all expenditure excluding taxation (28.1 per cent), an annual pre-tax profit of 3.3 per cent, falling to 2.1 per cent after tax, remained for 1988.

Whereas there had been a profits collapse early in the 1980s (1980/1981), average retail profit margins stagnated between 1982 and 1985. The recovery phase in 1986 and 1987 was then followed (unexpectedly) by a renewed and not inconsiderable decline. As the calculation of consolidated retail operating results shows, this was exclusively caused by developments on the cost front. The average retail cost margin rose in 1988 by half a percentage point, an increase which could only partly be offset by the improvement in trade margins of 0.1 per cent (see table 4 in the appendix).

The breakdown of overall costs by cost types (Bundesbank data) shows that in the 1980s the retail trade (on average) managed to keep labour costs under control; there was even a slight decline, due in the first instance to the introduction of flexible working arrangements and part-time work. Interest expenditure was also markedly less onerous than at the start of the 1980s, due no doubt mainly to the improvement in interest rates, but also to the trend in total capital productivity. Since 1980 the retail output/capital ratio rose by approximately 10 per cent (see table 5 in the appendix).

To assess retail profitability from the managerial standpoint, data on the return on capital employed must be consulted. It is of course crucial from this viewpoint that equity capital and loan capital employed by the firm should together produce a higher rate of return than the interest arising on the

capital borrowed. Only then is it possible to have recourse to the borrowing option and, in addition, to finance consolidation, expansion and diversification measures with a proportion of own capital. Empirical research shows that in 1988 the retail sector achieved an average annual return on total capital employed¹ of 9.0 per cent. At an average interest rate on borrowed capital² of 5.6 per cent per annum, the positive difference in interest was 3.4 per cent. This earnings differential should certainly have been high enough to allow the measures needed to be funded in part from own capital. The high return on equity of 71 per cent per annum in 1988 can be explained by the relatively narrow equity capital base amounting to only 7.4 per cent of the balance-sheet total.

Cash flow³ also gives an impression of the profitability and internal financing capacity of the retail sector. In 1988, businesses generated a total of DM 22.7 billion, the equivalent of 4.2 per cent of total operating performance, for financing purposes. In 1986 and 1987 cash flow had also amounted to 4.2 and 4.3 per cent of total operating performance respectively.

7.2 Wholesaling

Statistical data on the economic situation and development in wholesale activity are available from a number of sources. However, these materials are partially incomplete and hardly compatible; at the very least a great deal of it requires explanation.

The Repräsentativstatistik ("Representative Statistics") and the Kostenstrukturstatistik ("Cost Structure Statistics") of the Statistisches Bundesamt, the Bilanzstrukturserhebungen ("Balance-Sheet Structure Statistics") of the Deutsche Bank as well as the Betriebsvergleichsergebnisse ("Results of the Comparison of Business Enterprises") from the Institut für Handelsforschung at the University of Cologne all provide information on the gross proceeds situation of wholesalers. Table C.21 presents all available gross proceeds data from the

¹ Annual profit plus interest expenditure as a percentage of the balance sheet total.

² Interest expenses as percentage of loan capital (excluding trade accounts payable).

³ Annual profit after tax plus depreciation.

Average Wholesale Gross Proceeds (a)
between 1978 and 1988
according to various sources

Year	Supplementary statistics to the trade and restaurant census	Deutsche Bundesbank ^{b)} (projected results)	Institut für Handelsforschung (registered wholesale)	Kostenstrukturstatistik ("Cost structure statistics") (registered retail)
1978	13,0	18,2	23,1	
1979	13,4	19,2	23,0	
1980	13,2	17,9	23,2	13,1
1981	23,7	18,1	24,5	
1982	12,6	17,8	24,7	
1983	12,7	17,6	24,8	
1984	12,6	17,5	24,3	13,2
1985	12,6	17,5	24,1	
1986	13,6	18,2	23,8	
1987	14,6	19,3	24,7	
1988		19,6	25,3	

(a) Turnover (without VAT) ./ goods received in % of turnover (without VAT)

(b) Gross proceeds from current business activities as well as interest receipts and other receipts (expanded gross proceeds).

Source: Statistisches Bundesamt, Kostenstrukturstatistiken ("Cost Structure Statistics"), Deutsche Bundesbank, Bilanzstrukturstatistik ("Balance-Sheet Structure Statistics") Institut für Handelsforschung of the University of Cologne, Betriebsvergleichsergebnisse ("Results of Comparison of Business Enterprises").

mentioned sources¹. The lowest shares are those obtained by the official statistics, the highest are those from the Institut für Handelsforschung. A totally satisfactory explanation for these statistical discrepancies cannot be given here. The analysis conducted by the Institut für Handelsforschung only covers a portion of all wholesale branches. Those firms which are not included are above all companies which have a high percentage of products marketed directly, i.e. without calling in intermediary delivery services. These companies have lower gross proceeds shares due to their relative lower costs. The wholesale Bilanzstrukturerhebungen of the Deutsche Bank include trading agency costs. This tends to result in higher gross proceeds figures than are otherwise found in pure wholesale activities to the extent that commissions and cost reimbursements form the basis for sales taxes levied on trading agencies. In other words, the taxable gross profits base in such cases is relatively small. The most accurate data appear to be those of the Repräsentativstatistik of the Statistisches Bundesamt. According to this source, in 1987 the average wholesale trade margin was approximately 14.6%.

No significant trend can be identified for the period following 1987. Both 1981 and 1985 were clearly years of overall lower gross proceeds. Since then there has been a noticeable improvement in wholesale gross proceeds - an improvement which is directly connected to favourable overall economic developments which appear to have continued throughout 1989 and 1990. 1991 can also be expected to deliver favourable gross proceeds results.

A more detailed report on wholesale firm activities is available from the Deutsche Bundesbank and the Institut für Handelsforschung.

Deutsche Bundesbank: From every DM 100 of total output produced in 1988, an average gross profit from operational business activities of DM 17 resulted after DM 83 for goods inputs were deducted. The expanded gross profits - including interest receipts from securities and shares as well as other receipts (DM 2.60) - amounted to DM 19.60. For 1988, after total expenditures were deducted, before tax annual surplus amounted to DM 1.40.

¹ Turnover (exclusive of value-added tax) less inputs in percentage of turnover.

This profit measurement is approximately the equivalent of operational profits inasmuch as the share of those firms in the report for which employer salary is still considered as a profit and not as a cost element is relatively small. Furthermore, corporate taxes from joint stock companies are no longer included (see table C.22).

This business performance calculation makes it clear that wholesale firms would not have been able to cover all of their expenses with the gross proceeds from operational activities. Rather, it was only through interest receipts from securities and shares as well as other receipts that it has been possible for them to cover total costs and also make a (operational) profit.

A look at profit developments as based upon annual surpluses also indicates that 1981 and 1985 were low-profit years and that the situation has continually improved - but in a limited manner - since then. During the past years, wholesale firms have not succeeded in covering for rising costs via rising productivity. In spite of this discrepancy, the rising tendency of average cost margins has to a large extent been compensated for by an accompanying rise in gross proceeds.

Institut für Handelsforschung. This institute's business performance calculations result in higher numerical values. However, when operational profits are estimated, the results are similar to those obtained by the Deutsche Bundesbank (see table C.23). Thus, these results also seem to indicate that the annual surpluses obtained by Bundesbank calculations are generally operational profits in nature.

A comparison over time for the 1980s indicates the following profit trend: Between 1978 and 1982 wholesalers' operational profit margins - in spite of overall gross proceeds increases - were significantly reduced due to higher cost margins. In the following years until 1986 profit margins remained quite "suppressed". Since 1986, however, a marked recovery of profit levels can be observed; this recovery is due to an overproportionally large increase in gross proceeds as compared to more slowly rising cost margins. The generally positive overall economic conditions appear to have favoured wholesalers

Tab. C. 22

Wholesale Business Performance Calculation^{a)}
 1980 to 1988
 in % of total output

Position	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total output b)	100	100	100	100	100	100	100	100	100
./. Inputs	84,1	84,1	84,5	84,5	84,6	84,8	84,2	83,2	83,0
= Gross proceeds from operational activities	15,9	15,9	15,5	15,5	15,4	15,2	15,8	16,8	17,0
+ Interest receipts, other receipts	2,0	2,2	2,3	2,1	2,1	2,3	2,4	2,5	2,6
= Expanded gross proceeds	17,9	18,1	17,8	17,6	17,5	17,5	18,2	19,3	19,6
./. Total expenditures c)	15,4	16,0	15,9	15,4	15,4	15,6	16,1	16,9	17,2
= Annual surplus before tax	2,5	2,1	1,9	2,2	2,1	1,9	2,1	2,4	2,4
./. Taxes	1,0	1,0	0,9	1,0	0,9	0,8	0,8	1,0	1,0
= Annual surplus after tax (approximated operational profits)	1,5	1,1	1,0	1,2	1,2	1,1	1,3	1,4	1,4

(a) including trade services

(b) Turnover including changes in stocks and other self-produced items; excluding value-added tax

(c) excluding corporate taxes of joint-stock companies and excise taxes

Source: Deutsche Bank, Monatsberichte ("Monthly Reports"), Heft 11 (Band 11)

Tab. C. 23

Business Performance Calculation of the Registered Wholesale firms
1978 to 1988
in % of Turnover

Position	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Turnover (excl. VAT)	100	100	100	100	100	100	100	100	100	100	100
./.. Inputs	76,9	77,0	76,8	75,5	75,3	75,2	75,7	75,9	76,2	75,3	74,7
= Gross proceeds	23,1	23,0	23,2	24,5	24,7	24,8	24,3	24,1	23,8	24,7	25,3
./.. Taxable total costs ^{a)}	19,2	19,5	20,1	21,4	22,2	21,9	21,9	21,9	21,5	21,9	22,3
./.. Taxable business performance	+ 3,9	+ 3,5	+ 3,1	+ 3,1	+ 2,5	+ 2,9	+ 2,4	+ 2,2	+ 2,3	+ 2,8	+ 3,0
./.. Accounting costs ^{b)}	1,6	1,8	1,7	1,7	1,7	1,7	1,5	1,5	1,5	1,5	1,5
= Operational business performance	+ 2,3	+ 1,7	+ 1,4	+ 1,4	+ 0,8	+ 1,2	+ 0,9	+ 0,7	+ 0,8	+ 1,3	+ 1,5

(a) Total costs without accounting costs

(b) Employer salary and interest on own capital.

Source: H. Philippl, Betriebshandelsspanne, Gesamtkosten und Betriebsergebnis der am Betriebsvergleich beteiligten Großhandelsbetriebe in den Jahren 1978 bis 1988 ('Business Trade Margins, Total Costs and Business Performance of Wholesale Firms participating in the Business Comparison for 1978 to 1988') in: Mitteilungen des Instituts für Handelsforschung der Universität zu Köln ('Bulletin of the Institute for Trade Research of the University of Cologne'), Number 4/1990, p. 52.

with high turnover rates and a growing scope for business activities - a development which most probably continued through 1991 as well.

8 Balance sheet structure

8.1 Retailing

The balance sheet structure surveys of the Deutsche Bundesbank show that in 1988 almost three-tenths of retail sector capital was invested in fixed assets. On the liabilities side of the consolidated retail trade balance, on which the vertical capital structure is revealed, the main element was borrowed capital, which totalled 85 per cent including reserves; only 7.4 per cent of capital employed consisted of own capital (see table 6 in the appendix). At first sight this unfavourable vertical capital structure in retail trade seems to contradict the highly favourable income trend. This is a measure of the fact that the large firms, particularly those focusing on discount sales, see great growth potential in the current economic climate and are trying to exploit it through the use of borrowed capital. That can also be clearly discerned from the capital structure trend over time. At the start of the 1970s, when small and medium-sized enterprises still dominated the West German retail trade, the proportion of own capital was about one-quarter. In the last twenty years firms with different business objectives from the small and medium-sized firms, viz expansion, market share gains, etc. emerged. These firms pitched their sales strategies to create a value-for-money image for their outlets. In many cases they were able to generate far higher total returns on investment than the traditional medium-sized trader. The whole strategy was based on the multiplication of this type of retail outlet, the high capital requirement for which made greater recourse to borrowing necessary. Thanks to widespread customer acceptance and the resulting high profitability, these firms thus had no problems in procuring the outside capital they required.

8.2 Wholesaling

The Deutsche Bundesbank's Bilanzstrukturergbnisse (Balance-Sheet Structure Statistics) include data on the assets, capital and financial structures of wholesale firms. According to these statistics, around one fifth of the assets held by wholesale companies are comprised of fixed assets, the other four-fifths of working capital. Borrowed capital dominates on the debit side of wholesale's consolidated balance sheet with just under 77%. If reserves are in-

cluded (8.4% of the balance sheet total) - attributable mostly to borrowed resources - then 85% of all assets can be considered as originating in outside sources, and only 15% from wholesale companies' internal sources (1988) (Table C.24).

Tabelle C. 24

Wholesale's Asset and Capital Structure
in 1970, 1980 and 1989 (1)
in % of Balance Sheet Total

	1970	1980	1989	1970	1980	1989
Fixed Assets						
of which:						
Tangible assets	22,2	19,1	20,5	Own sources (2)	21,2	14,9
Securities	19,5	15,8	15,2	of which: short-term	72,4	78,3
Shares	2,7	3,3	5,3	long-term	59,5	64,2
Working capital	77,0	80,5	79,2		12,9	14,1
of which:						
Stocks	29,3	31,6	28,6	Reserves	4,7	6,6
Cash	4,4	4,9	5,8			
Debt claims	43,3	44,0	44,8			
of which:						
short-term	41,4	42,3	42,5			
long-term	1,9	1,7	2,3			
Deferred items	0,8	0,4	0,3	Deferred items	1,7	0,2
Balance-sheet total	100	100	100	Balance-sheet total	100	100

(1) 1970 values from the Systematik der Wirtschaftszweige des Statistischen Bundesamtes ("Systematic of Branches of Economic Activity of the Statistisches Bundesamt"), 1961 Edition; for 1970 and 1988 values *ibid*, 1979 Edition

(2) Own capital plus profit carried forward less value adjustment of own capital

Source: Statistisches Bundesamt, Monatsberichte ("Monthly Reports") Number 11 and Sonderdrucke (Special Issue) Number 5.

9 Purchasing structures

9.1 Retailing

Ever increasing importance in the German retail sector is coming to lie with purchasing due to the increasingly intensive conditions of competition and the strengthening of multiple groups and cooperative associations, although this varies considerably from sector to sector. The larger firms, in particular, nowadays take over the function of wholesaler themselves and purchase on behalf of retail shops a large proportion of the lines stocked there. According to official statistics on retail goods ranges and procurement methods, direct procurement by retailers particularly from manufacturing enterprises accounted for 43 per cent of total input volume (see table 7 in the appendix) in 1985 (latest statistics available). The leading sectors here were motor vehicles, vehicles parts and tyres, paper and printing products, office equipment and textiles, clothing, footwear and leather goods. The key factors explaining the considerable scale of direct procurement from manufacturers in these sectors were no doubt the vigorous efforts of manufacturers to create well-known brands so as to bring the goods they market as close as possible to the end consumer; and the trend towards retail chains. The large-scale firms in particular often try to establish direct contact with manufacturers in order to have more influence over the quality and price of the goods they sell.

Wholesalers dominate deliveries to the retail trade, particularly in the pharmaceutical, cosmetic and medical product sectors and in food and drink retailing. Wholesalers who supply an integrated network, such as the central and regional stores of voluntary chains and purchasing associations, etc, play a particularly significant role in food retailing. Input via independent wholesalers is particularly important with fresh goods and dairy products, in other words in lines for which a high degree of logistical competence is required. Relatively little direct purchasing from abroad by retailers takes place. In 1985 the import quota amounted to only 4.5 per cent of overall input. It should, however, be noted that retailers buy a substantial proportion of their imports from wholesalers. The import quota for wholesale-traded processed products rose between 1980 and 1986 from 22.3 per cent to 27.0 per cent.

Since 1979 retail inputs via wholesalers have slightly increased in proportional terms, and the share of inputs from manufacturers and also from farm and forestry enterprises have declined accordingly. The largest increases in wholesale input to the retail sector were in fuels and lubricants, foodstuffs, beverages and tobacco, and furnishings and fittings. The main reasons for this were the organizational changes in manufacturers' distribution methods (involvement of wholesale firms which are separate legal entities, but are nonetheless in the main closely tied to producers). The increase in inputs via cooperative centres and enhanced levels of cooperation also contributed to increasing wholesalers involvement.

Retail procurement structures vary considerably according to the type of distribution. While wholesalers supply fixed traders with over half their products, the figure for mail order firms is only one-fifth (see table 8 in the appendix). Most inputs to variety goods mail order firms, in particular, come directly from manufacturers. A large proportion of the goods, almost one third, comes from abroad. The main reasons for this high import quota are the favourable purchase prices which give firms in certain product sectors a cheap source of supply, and special offers which enable the mail order firms to acquire their own range of goods distinct from those on sale in shops.

In recent years there have been major changes in the way goods are purchased as a result of structural changes in the retail sector and amongst the suppliers, but also as a result of the reorganization of input and sales strategies. Department stores have, for example, considerably reduced their wholesale inputs. The same is true of hypermarkets and the inexpensive department stores. Self-service discount stores and supermarkets, on the other hand, are making increasing use of wholesalers as suppliers.

Mail order inputs from wholesalers have contracted significantly in recent years. The import rate has risen, mainly due to developments in the specialist mail order business. The import rate for miscellaneous mail order firms, however, remained largely unchanged.

9.2 Wholesaling

Wholesale firms are often utilised primarily in border-crossing movement of goods. In numerous cases wholesale firms have won a good reputation for themselves as competent business partners of both manufacturing and trading companies. In 1986, wholesale firms in the Federal Republic of Germany obtained more than a quarter of their goods from outside the country (more current data are not available). In this connection, there was hardly any difference between wholesalers of finished goods and those dealing with raw materials and semi-finished products (see table C.25). However, as is to be expected, a significant difference exists between manufacturing's performance as supplier to wholesale firms of the two main groupings. While wholesalers of finished goods obtained more than two-fifths of their goods from domestic manufacturers, those wholesale firms dealing with semi-finished and raw materials only procured approximately 35% of their wares from domestic manufacturers.

Between 1980 and 1986 wholesaler's procurement patterns changed significantly. The share of finished products obtained abroad by domestic wholesalers increased markedly. For wholesalers of raw materials and semi-finished products, on the other hand, procurement of goods from abroad only increased slightly. The losses incurred as a result of the increase in demand for imported finished goods were felt approximately equally by domestic manufacturers and by other domestic sources of goods.

Foreign markets are of much lesser importance for the sale of wholesale firms' goods than they are for goods purchase. In 1986, only approximately one-sixth of all goods sales were made to foreign purchasers. In contrast, sales to domestic manufacturers and retailers play a significant role (see table C.26). Considerable differences exist between production-connecting trade and wholesale movements of finished goods. The former sells over one-third of its goods to manufacturing, though just under 20% of goods are sold abroad. Finished goods trade is concentrated to a large extent on interaction with retailers.

Tabelle C. 25

Wholesale Procurement Structure
in % of total good purchase

	1980			1986		
	Manufac- turing	Other domestic sources of goods	Foreign sources	Manufac- turing	Other domestic sources of goods	Foreign sources
Wholesale of raw materials and semifinished products	37,2	36,2	26,6	35,7	37,5	26,8
Wholesale of finished goods	43,2	34,5	22,3	40,9	32,1	27,0
Total wholesale	40,0	35,4	24,6	38,6	34,5	26,9

Source: Statistisches Bundesamt, Warensortiment sowie Bezugs- und Absatzwege im Großhandel 1980 und 1986 ("Goods Assortment, Procurement and Sales Channels in Wholesale Activity 1980 and 1986")

Tab. C. 26

**Wholesale Sales Structure
in % of turnover**

	1980					1986				
	Manu- factu- ring	whole- sale	retailer	other domes- tic de- mand	foreign demand	Manu- facturing	whole- sale	retailer	other domes- tic de- mand	foreign demand
wholesale of raw materials and semi- finished pro- ducts	33,0	23,1	12,6	14,8	16,5	36,4	17,9	12,5	13,4	19,8
wholesale of finished pro- ducts	19,8	15,6	42,9	12,3	9,4	19,7	15,0	43,0	11,6	10,7
Total whole- sale	26,5	19,4	27,5	13,6	13,0	26,8	16,2	30,0	12,5	14,5

Source: Statistisches Bundesamt, Warensortiment sowie Bezugs- und Absatzwege im Großhandel 1980 und 1986

During the past years the overall sales structure of West German wholesale firms has not changed to any great degree. This is especially true for wholesale activities with finished products. As for companies involved in production-connecting trade, their sales structure has been modified by noticeably increased marketing to domestic manufacturers and a significant reduction in sales to foreign wholesale firms. This development supports the thesis that multi-stage structures in finished goods trade have declined and that mostly quantity-determined differences in A and B traders are on the decline.

10 Use of new technologies in the retail sector

The application and use of the new information and communications technologies plays a major role in the dynamic development being experienced by the retail sector. IT has an impact not only on organizational and information structures, but also, in this context, on productivity, costs and profits, competitiveness and employment.

In principle, all forms of IT can be applied to the retail trade, but the most important applications are data cash registers and merchandising information systems. Use of these systems potentially reduces operating costs (labour costs) while at the same time boosting earnings through enhanced transparency of information relating to payment and goods flows.

Data cash registers equipped with scanner systems offer a particularly effective means of reducing labour costs since they eliminate the need to indicate (and alter) prices on goods. Merchandising information systems offer labour cost savings in administration, especially purchasing and book-keeping, because data need only be recorded once and can then be retrieved for any number of different purposes, and because certain procedures, for example, ordering, can be carried out automatically.

Scanner installation in shops in the Federal Republic started at the end of the 1970s, and has sharply increased since the mid-80s. At the end of 1989 almost 3 500 shops and markets had scanner systems, according to data produced by the CCG, Centrale für Coorganisation mbH, Köln. In terms of both number of markets and number of scanner cash registers, the foods group REWE/Leibbrand leads the field (see table 9 in the appendix).

The use of scanner systems is closely tied in with the diffusion of the EAN code or article numbering by the manufacturer. The potential use and speed of diffusion of scanner cash registers are highly dependent on the extent to which manufacturers both in and outside the food sector price mark their products themselves. Recently self-scanners based on the American model have been tested, that is to say, cash registers at which customers cash up their purchases themselves.

Open merchandising information systems have been in use in the larger retail firms for many years. More recently, their application has been expanded by incorporating chain stores into computerized ordering by means of mobile data processing terminals. Open systems are increasingly being applied in medium-sized retail firms (see table C.27). Closed merchandising information systems are used primarily for permanent inventory updating in the warehouses and for autonomous ordering. This involves a very advanced and complex data processing application, which is as a result not yet very widespread.

The application of videotex services in the retail sector has not made anything like the headway in Germany that was initially expected of it. User acceptance is running well below predicted levels. If private households radically change their attitude in the 1990s, which can by no means be taken for granted, new selling methods such as teleshopping will also receive a boost. The expansion of markets resulting from creation of the EC single market should open up new telemarketing sales opportunities .

Overall, the use of high technology in retailing is set to increase significantly in the coming years, with a major role for the introduction and diffusion of electronic payment systems (POS banking, electronic cash) and with a perceptible impact on staff levels and costs. Considerable technical, organizational, legal and economic problems still need to be resolved here, however.

Tab.: C- 27

State and Forecast of IT Diffusion in Retail Distribution
in Germany

Field of IT Application	1990	2000	2010
1. Accounting (internal or external)	3	3	3
2. Purchasing	2	2	3
3. Point-of-sale systems (Data cash registers, scanner systems)	1	1	2
4. Merchandising information system	1	2	2
5. Data communication between chain stores and central office	2	2	3
6. Intrafirm logistics			
- Fleet management systems	2	3	4
- Vehicle scheduling	1	1	2
7. Communication to suppliers via			
a) online data communication	1	1	2
b) offline data communication	1	1	1
c) videotex	1	1	1
8. Videotex service for customers supplied by			
a) Retailers	0	1	1
b) Mail order houses	1	2	3
c) Manufacturers (Direct marketing)	1	1	1
9. Teleshopping service offered by			
a) Retailers	1	1	2
b) Mail order houses	1	1	2
c) Specialized service firms	1	1	2
1 = Beginning application (diffusion rate		< 10 %	
2 = Expanding application (diffusion rate	10 %	- 50 %	
3 = Dominant application (diffusion rate	50 %	- 75 %	
4 = Extensive application (diffusion rate		> 75 %	

Source: Ifo-Institut für Wirtschaftsforschung.

D. IMPACT OF COMPETITION LAWS AND OTHER REGULATIONS ON THE DISTRIBUTION OF CONSUMER GOODS

1 General comment

Competition in the distribution of consumer goods in the Federal Republic of Germany takes place within a complex network of laws and other legal provisions, most of which do not derive directly from domestic trade policy, but from other specific policy areas such as building regulations, regional planning priorities, or the policy objectives of consumer protection (which is often highly restrictive) and environmental protection. A lively debate is currently taking place in Germany over the contrasting and in some cases strongly conflicting objectives of the various policy areas. It must nevertheless be said that the most determinedly competitive and expansionary consumer goods distributors do not allow such regulations to hamper or unduly impinge on their marketing development policy; in most cases their financial 'clout' and marketing resources are many and varied, allowing most of them much room for manoeuvre in choosing alternative strategies and responding relatively flexibly to regulatory provisions.

Small and medium-sized firms, on the other hand, which are mostly managed by their owner and often staffed by members of his family, frequently have much more trouble finding a flexible response to such regulations than the large-scale businesses. As a result of their restricted financial resources and high dependence on the location of their shops, this category of owner-managed firms often finds that such regulations constitute an additional cost burden, which has corresponding adverse effects on their competitiveness and performance. The retail and wholesale traders concerned are naturally taking steps to improve their competitive positions in the sector by boosting their performance, for example by establishing closer links with significant buyers through improved delivery services.

2 Regulations governing the location of large-scale retail projects

Over the last two decades the regional planning authorities have drawn up various regulations to ensure that specific conditions are fulfilled before large-scale retail stores (currently those with a sales area of approximately 800 sq.m.) can be established, both in urban centres and in peripheral areas and in the area around large and medium-sized cities. The primary policy objectives were firstly, to ensure that certain areas were not burdened with excessive environmental side effects of an increasing proliferation of these large-scale retail projects, such as heavy traffic and other environmental nuisances, and, secondly, to give the 'mature' mix of in some cases very varied retail outlets belonging to both larger and smaller consumer goods distributors located in urban centres some protection against the threat posed by the entry onto the market of a large-scale competitor. This often leads to protection measures for local retailers against larger potential competitors, many of whom are prepared to adopt aggressive price-cutting policies.

The often very lengthy authorization and planning permission process for the establishment of large-scale retail projects has revealed that the criteria used by the authorities concerned (whether governments or communal authorities) to decide on such project locations often place great emphasis on the expected competitive effects on the locally established suppliers of consumer goods to the resident population. The main reason for this is that the final policy decision on such a project is taken in the 'parliament' of the town or community concerned, in which locally established trading interests are often carefully nurtured.

In the light of the marked increase over the last twenty years in the number of large-scale retail outlets (hypermarkets and specialist stores or self-service superstores), the conclusion can be drawn that this indirect regulation of market access has not had a notable effect on the development of competition in consumer goods distribution. Where the big consumer goods retailers saw their plans for new stores substantially restricted by building regulations, they switched the emphasis of their expansion strategy to developing stores with a sales area of less than 1 000 sq.m. In other words, they modified their business and marketing strategy in respect of outlet type.

In this way firms bent on expansion circumvented legal restrictions as far as possible. This has, however, resulted in considerably tougher competition in urban centres between these new types of outlet owned by the very marketing-oriented large chain stores and the owner-manager retailers.

This switch in locational planning by the distributors with financial resources at their disposal had the following effects on competition: whilst the number of larger branch stores of the large firms located in prime sites in the large and medium-sized cities (or upper and medium-sized towns) has strongly increased over the last twenty years, the number of owner-managed smaller retail businesses has sharply declined. The large-scale firms with capital to spare have systematically diversified their various supply and outlet types to include larger numbers of shops with a smaller selling space, thus circumventing the regulation on building use designation. They have often succeeded in wresting market share from 'family' consumer goods retailers. Overall, the regulations governing location of large-scale retail outlets have not substantially hindered the expansion and thus the growth of the highly competition-oriented firms. While it is often maintained that the competitive pressure on small retailers located in small and medium-sized centres and the resultant failure of many owner-managed specialist retail businesses have been caused specifically by the increased activity of the large-scale firms with access to capital for establishing new types of outlet, it can also be said that in a number of cases local centres and secondary centres have received a boost from the implantation of new modern shops of this type: other specialist shops and service operations have in many cases moved into the neighbourhood of the attractive new shops.

3 Regulations governing packaging and environmental protection in distribution

Given the ever increasing quantities of packaging employed in the transport and sale of consumer goods and the environmental problem posed by their disposal, German legislation has been strengthened in recent years by tougher regulations to extend to distributors the duty incumbent on the economy as a whole to reduce the quantity of packaging used and/or to require their domestic and foreign suppliers to use environmentally acceptable packaging for the products to be marketed by them. However, the stated intentions of many manufacturers, for example, to reduce the use of non-returnable drinks containers or to cut down on transport packaging so as to ease the disposal problem have not as yet significantly eroded the total volume of packaging thrown away by households and distributors. The government has therefore come forward with several pieces of legislation in the last two years that have a direct or indirect effect on distribution.

Due to the increasing political acceptability and significance of preventive action to protect the environment, the German government found itself virtually forced to adopt regulations having the force of law in order to achieve significant reductions in the quantities of sales and transport packaging materials used in the distribution chain or in distribution channels. These regulations focus on the environmental management objective of physical reuse of the containers and transport packaging and therefore have a considerable impact on the logistics systems currently employed by manufacturers and distributors. It cannot yet be said with any certainty whether these provisions may give rise to discriminatory effects with regard to individual distributors, be they large or small, since the initial responses of manufacturers and distribution firms and cooperatives to the establishment and development of a dual waste disposal system covering the entire territory of the Federal Republic are as yet still somewhat tentative.

In order to avoid being compelled to take back packaging, the firms in Germany involved in distributing 'packaging-intensive' consumer goods have together formed a limited liability company for the prevention of waste and the recovery of secondary materials (Das Duale System Deutschland). This joint

venture awards a trademark licence to manufacturers of consumer goods permitting them to print a 'Grüner Punkt' (green spot) logo on the packaging of their goods. This gives purchasers a guarantee that the packaging will be taken back for recovery or reuse by the suppliers and manufacturers involved in the distribution chain and the contracted waste disposal company. This joint venture concludes contracts under private law with specialist waste disposal companies in the various regions of the Federal Republic requiring them to record the content of the packaging and reclaim the materials according to type and quality. Access to the market by distributors and manufacturers under this nation-wide system for the registration and reclamation of packaging is dependent on their willingness to accept a licence and to bring their logistics and disposal activities very largely into line with this system. This might lead to concerted market behaviour and have an adverse effect on competition in the distribution sector.

The distributors with marketing clout, in particular, will no doubt seek to pass the additional charge and costs arising from these provisions on to their customers or back to their suppliers. Many domestic and foreign manufacturers of products used in retail distribution have already taken appropriate action to adapt their packaging systems to the new requirements, particularly by using less packaging and more environmentally acceptable materials. Customers will no doubt soon face price increases arising from the fee payable for the licensing arrangement for the award of the 'Grüner Punkt' to the different packaging types.

The licence fee varies from DM 0.01 to - exceptionally - DM 0.20 per item depending on the volume packaged. These costs cannot be said to constitute significant discrimination against individual suppliers or manufacturers in the consumer goods distribution chain. Compared with other marketing costs and in particular the - in some cases very considerable - expenditure on advertising and sales promotion for individual consumer goods, these 'environmental costs' cannot be regarded as excessive. They will be unlikely to give rise to any marked discriminatory effects against foreign suppliers in particular.

The following is another presentation - in brief - of the legal framework which stipulates how the avoidance and elimination of packaging materials is to be conducted within consumer goods distribution channels.

In July, 1991, the German federal government issued a legal regulation aimed at reducing the amount of packaging materials. Within the context of this regulation, a series of legal stipulations - which also apply to retail companies - were set out to ensure the elimination of packaging waste products. The following measures are the main aspects of the various stipulations:

- the duty to take back and (re-)utilise packaging materials, and
- the duty to take back, demand a deposit for and (re-)utilise containers for beverages, cleaning agents, detergents and paints.

In addition to producers, notably trading firms which are involved in the distribution of these "packaged" consumer goods are affected by these duties. The duties, however, do not apply if the producer and trading companies take part in an "elimination" system which provides for the removal of packaging materials from consumer and retailer locations. The groundwork for the realisation of an ecologically and organisationally effective packaging waste removal system has been laid by the combined effort of two groupings: relevant industrial and trade associations have developed an elimination system of the type just mentioned above. Further, a joint company ("Duales System Deutschland GmbH") has been set up by approximately 400 consumer goods, trade and packaging goods firms to organise and implement this concept.

The Dual System concept developed by producers and traders includes the following objectives:

- maximal reduction of packaging materials waste and its recycling by non-public means,
- provision of incentives for ecologically sound packaging on the part of producers and traders

- provision of systematic information for consumers on the avoidance and elimination of packaging materials
- avoidance of discrimination and trade barrier creation vis-a-vis foreign firms in order to keep the system open to all producers and traders
- promotion of recycling systems for beverage containers.

In order to ensure an efficient application of the system, numerous legal regulations have been passed which require companies to carry out the following measures:

- In addition to the usual waste containers, consumers are to be supplied with so-called packaging containers free of charge so that the various types of packaging materials (such as glass, paper/carton, synthetic materials, tinplate and aluminum) can be collected separately. Private and communal firms will be commissioned to provide these special containers; their performance will be controlled by state institutions.
- Legislation has been passed which sets quotas for the collection and elimination of the various types of packaging materials. For example, as of July 1, 1995, 80% of all packaging materials must be collected. If the quotas for the various types of materials are not met, then it can be surmised that legislation will be passed which will forbid the use of specific types of packaging materials.
- Affected trade and producer firms will be required to provide guarantees for taking back and (re-)utilising relevant packaging materials. These guarantees will also apply to goods of foreign producers/traders.

In order to give trade and producer firms time to adjust to the new legal environment, legislation has been passed setting up a timetable for the realisation of various stipulations:

- As of December 1, 1991, producers and other firms which take part in the distribution of consumer goods are required to take back and (re-)utilise

transport and packing materials. Transport materials include items such as barrels, boxes, sacks, pallets and cartons.

- As of April 1, 1992, trade firms must set up facilities which enable customers to remove and leave behind so-called "wrapping materials". Such materials serve the purpose of covering the products so that, for example, they can be are placed and purchased in a self-service manner.
- As of January 1, 1993, firms will be required to take back packaging materials as well as take back and demand deposits on containers for beverages, cleaning materials, detergents and paints.

Firms can only be released from meeting the above stipulations when the planned waste elimination system has been installed properly and state institutions have assured that it is functioning correctly. In addition, recyclable packaging for beverages may not be allowed to constitute less than 72% of the packaging materials.

Regulations passed vis-a-vis the avoidance and elimination of packaging waste materials and the resulting decision of producers and traders to set up a comprehensive elimination system must be seen in the light of the growing importance of environmental protection in the German political scene. The greatly increased amount of packaging materials used, removal efforts required and resulting costs incurred during the past few years have motivated legislators to pass legally-binding stipulations of the types mentioned for both producers and traders; these stipulations without doubt affect the competitiveness of these firms. However, the effect of these measures on the competitive behaviour of companies is relatively mild since hardly any of the firms in the distribution channel exempt themselves from cooperating with the joint company set up to conduct the packaging materials removal efforts on behalf of both producers and traders. Each domestic and foreign company can join the "consortium" in order to ensure that its packaging with the "green dot" will be removed.

The socio-political position of environmental protection has risen to such an extent in the past few years in the Federal Republic of Germany that it

appears likely that firms will be willing to cooperate with the joint company set up for packaging waste materials reduction and removal purposes.

Individual firms will feel the effect of these regulations less than otherwise might be expected due to the fact that all firms, both domestic and foreign, are affected in an identical manner. The high political position attributed to environmental protection in the Federal Republic of Germany can also serve as an explanation for the fact that cartell evaluation of the system of one joint company taking on the waste elimination responsibility for both producers and traders has not led to any objections to such a scheme.

4 The issue of shop opening hours

The key arguments being weighed in the debate on shop opening hours in the Federal Republic of Germany are the interests of retail employees, the interests of consumers and the flexibility and freedom of action of the various types of retail outlet run by the smaller or larger firms in their various locations.

Retail shop closing hours are governed by the comprehensive Shop Closing Hours Act, which seeks among other things to prevent any abuse with regard to the working hours of retail employees. Shop closing hour regulations in Germany can therefore be seen primarily as a labour protection measure. In addition, the regulations governing opening hours, which apply to all retail enterprises, are also regarded as an instrument of competition policy designed to have a neutral effect and prevent the excessive competition that could be generated by an aggressive retailer using arbitrary closing hours for competitive advantage. As competition in retail distribution becomes more intensive, the Shop Closing Hours Act increasingly serves to provide protection against retailers who wish to deploy shop opening as a key factor in their sales and customer strategies.

After a highly emotional debate the controversial decision was taken in late 1989 to allow some liberalization of the opening hours laid down by law. Provided that retail firms continue to comply with the maximum weekly total of 64.5 hours, they may now stay open on Thursdays until 8.30 p.m., though there is no obligation to do so. Staff working arrangements were settled by means of agreements on an individual company basis with a view to minimizing the additional burdens and obligations on the workforce of each retail outlet. No additional demand for labour arising from this slight extension or modification of opening hours has as yet been identified; firms have been able to absorb the changes by regrouping the work schedules of their full-time and part-time employees to meet the situation.

It is too soon to make a reliable assessment of the long-term effects for the economy as a whole of this minor liberalization of shop closing hours in Germany. Initial surveys of retailer and consumer opinion suggest that this

'evening service' arrangement is not being uniformly exploited. Some ten per cent of the approximately 400 000 firms operating a retail store have taken up the option of staying open, on an occasional or regular basis, until 8.30 on Thursday evenings. About 5 per cent of consumers, according to the surveys, have taken advantage of the opportunity of extended shop opening hours to make more detailed price and quality comparisons.

The empirical surveys show that the 'long Thursday' arrangement has given rise to a noticeable displacement of retail sales in some regions, particularly away from the suburbs and outlying areas of larger towns and towards the branch stores in prime city and town centre locations. The principal losers are the small and medium-sized retailers whose shops are in the suburbs and who derive little benefit from the larger numbers of potential impulse buyers in the town centres. The large-scale retail stores, on the other hand, have recorded sales increases of up to 30 per cent on the extended opening day, although this should be seen in conjunction with a fall in sales in many cases on Saturdays which had previously been very busy. In rural areas and small towns almost no use has been made by local retailers of the option to extend opening hours.

5 Horizontal cooperation agreements between small and medium-sized retail enterprises

Compared with other industrialized countries, small and medium-sized retailers' purchasing cooperatives in the Federal Republic of Germany play an extraordinarily important role in the distribution of consumer goods¹. According to Ifo-Institut estimates, approximately 35 per cent of total turnover of (West) German retail trade, almost DM 690 billion (1990), is accounted for by small and medium-sized retail enterprises which are not only relatively closely tied in to cooperative associations for purchasing purposes, but have in recent years also increasingly expanded collaboration with the central offices of their cooperatives to cover other functions, such as marketing and sales and, above all, the technical aspects of shop design and layout, so as to demonstrate to customers a recognizable, consistent and progressive image of the entire group.

Taking into account the less intensive cooperation relations between the medium-sized and the large-scale retail firms and individual distribution groups and cooperatives, it can be assumed that about 50 per cent of retail sales in the Federal Republic of Germany are handled by the various types of purchasing cooperatives. What cooperative relations there are amongst the large-scale retail firms extend primarily to the joint purchase of certain product groups, in particular the joint importation of consumer goods from the Far East, for example.

However, these joint purchasing activities give rise to competition policy problems when their effect is to create such a powerful purchasing force or such strong demand that market relations are significantly affected. The German cartel authorities have taken the view that with a market share of between 5 and 10 per cent a market-dominating position vis-a-vis demand, or at least a strong market position, can be presumed to exist, in which case the

¹ See the pilot study 'Purchasing Organisations' by the Ifo-Institut, commissioned by the Commission of the European Communities, Directorate XIII, Munich, August 1991.

positions of competitors on the supply and demand side are also taken into account.

Bearing in mind relevant competition policy issues and possible discriminatory effects generated by distributors' cooperatives, a few problem areas are discussed below on the basis of empirical findings concerning the competitive activities of such cooperatives and their smaller and larger member firms.

1. As a general comment on the development of purchasing and distribution cooperatives in the Federal Republic of Germany it can be said that in order to achieve the objective of the collaboration, viz to strengthen the competitiveness and efficiency of small and medium-sized retailers, it is no longer sufficient to engage solely in joint buying via the purchasing or cooperative central office; the other commercial functions of the member firms also need joint promotion to increase efficiency in order to minimize as far as possible the drawbacks of being small in the increasingly tough competition with the large-scale firms and chain operations with their plentiful capital. To do this, it is often necessary for the cooperative central office and the member firms to reallocate responsibilities and functions to respond effectively to the new challenges of the changing conditions of competition on the consumer goods retailing scene.

Member firms do not in principle relinquish their independence, but cooperate over a wider field of activities than previously, which may well result in their aligning or loosely coordinating their approaches to competition in certain functions. Horizontal restriction on competition between member firms have not yet been observed to any significant degree, however, since local competition in consumer goods distribution is characterized by widely varying structures and (competitive) relations.

2. In the food retailing sector in particular there have been increasingly urgent moves in recent years by the large purchasing and commercial cooperative societies to strengthen and improve their market and competitive position by developing 'cooperative-owned' large-scale retail stores and by taking (equity) holdings in other retail and wholesale firms.

Well over half of the turnover of the REWE-Kooperationsgruppe, for example, is generated by the cooperative-owned shops catering for the various product types, which vary widely in their marketing and design strategies so as to meet the particular requirements of varied consumer demand as fully as possible. The figure is substantially lower for the other food-sector cooperative groups, about 30 per cent in the case of the EDEKA-Gruppe, for example. The specialist non-food retailers' cooperatives, on the other hand, rarely operate their own retail outlets, except where perhaps a member dealer gives up a business situated in a prime location, which is then secured on behalf of the cooperative group.

Generally speaking, member firms were initially critical of and even opposed to the idea of cooperative-owned retail outlets, which they saw as posing undesirable competition in their specific field. In recent years criticism has become muted since this strategy has been shown to be a way of opening up additional market segments and sales potential for the cooperative group and since the increased volume of goods purchased has enabled member firms to improve their joint purchasing terms. A further advantage is that consumer awareness of the market presence of the cooperative group has been boosted by these mainly large-scale stores, which overall leads to a substantially more positive assessment of the group's performance potential on the part of both suppliers and consumers.

From the point of view of competition policy, the establishment by cooperative central offices of shops wholly owned by the cooperative or the affiliated group can be welcomed up to a certain point, since it offsets the decline in the number of member firms and strengthens the counterweight to the power of the large-scale firms and other large operations. A critical threshold is however reached where the subsidiary or the group-owned branch systems and holdings become so powerful that emphasis shifts from the cooperative sector proper towards the chain store, jeopardizing the ability of the member firms to identify with the cooperative group and putting them at a disadvantage.

From the manufacturers' point of view, the trend towards concentration in specific cooperative groups in various branches strengthens the demand potential of the affiliated groups. The extent to which this may have an adverse effect on competition in that it restricts competition in demand and narrowing manufacturers' freedom of manoeuvre with regard to marketing cannot be evaluated in general terms, but only in individual cases, taking account of the demand and supplier structures prevailing in a specific product market.

3. Ifc-Institut calculations and estimates suggest that cooperative groups have widely varying sales and input market shares in the different branch markets. Retail cooperatives are significantly more widespread in the food and drink, household goods, furniture and toys sectors than in other areas. Overall, distribution cooperatives are not in fact such a significant force, either in terms of sales or in terms of input, as is often assumed.

The individual cooperative groups do not for the most part hold particularly large input market shares which would indicate excessive demand power. The biggest grocery trade central offices have shares of less than 15 per cent each of the domestic supply in question, if holding companies are left out of account. The input market shares of the large furniture-trade buying cooperatives are down between 3 and 4 per cent each. The market share of the largest consumer electronics cooperative is about 7 per cent, though on the toy market one cooperative does have an above-average input market share of about 16 per cent.

4. Evaluation of distributors' cooperative arrangements in terms of cartel and competition policy should not be confined to the size of their input and sales market shares, but should also take account of the qualitative linkages between the member firms and the cooperative group. In the Federal Republic of Germany most consumer goods purchasing groups and affiliations have as their members a large number of small and medium-sized retail firms which are all distinguished by very different sales and purchasing priorities and price strategies. The centres, as the coordinating bodies, often have few opportunities to give their member firms effective, let alone binding, recommendations on how to organize

their purchasing and sales activities. Nevertheless, the coordinating effect of certain input and sales concepts proposed by the cooperative centre and the suction effect of the member firms on competition in distribution which this generates cannot be totally ignored, especially in cases when the freedom of a member firm to determine its own competitive strategy is 'withdrawn' by the cooperative central office for any length of time.

5. The overall conclusion of an evaluation of the commercial and competition policy significance of consumer goods cooperative groups is that they are of decisive importance in helping large sections of the small and medium-sized specialist retail sector in the Federal Republic to remain competitive, and indeed to survive at all. They promote competition on the markets by improving the performance and efficiency of their member firms and act as a counterweight to the large-scale firms and other large operations in the sector.

6 Vertical marketing agreements between distributors and manufacturers

In Germany domestic and foreign manufacturers admittedly have the broadest possible freedom to match how their products are marketed to their own objectives and interests. However, there are a number of economic and legal restraints that arise from legislation, the practice of the courts and the attitude of the Federal Cartel Office regarding methods of marketing consumer goods which the manufacturers and distributors concerned must comply with if specific marketing systems with contractually binding commitments and obligations with regard to resellers are to be incorporated into manufacturers' own distribution practices. The conditions governing admissibility and the commercial justification of selective sales systems or vertical marketing agreements between manufacturers and distributors have been radically transformed in the last two decades, mainly as a result of the changing balance of power between distributors and manufacturers in the consumer goods market. The priority for manufacturers was to be able to influence domestic and foreign distributors in their decisions on prices and terms and even in some cases to oblige them to comply with a set price.

The increasing power of large trading firms and groups in the distribution chain and the intensive competition between recognized branded goods of, for example, consumer electronics manufacturers and in retailing have, however, made it impossible to guarantee one-hundred-per-cent application or enforcement of vertical marketing agreements.

According to Ifo-Institut estimates, approximately 5 per cent of retail sales in 1990 involved consumer goods which are distributed under a strict binding sales agreement network (excluding motor vehicles, printed matter sold at fixed prices, such as books and newspapers, and medicines). While an obligation to maintain binding prices cannot be imposed vertically on the buyer (i.e. the distributor) in such marketing agreements, non-binding price recommendations for branded goods are possible and are subject only supervision against abuse by the Cartel Office under Paragraph 38a 111 of the GWB (Law Against Restraints of Competition). There have been cases in recent years, however, where the non-binding price recommendation was used to compel distributors to apply uniform set prices. Rigorous intervention

by the German cartel authorities against a very varied range of evasive practices, and the fiercer competition on the price front between the large distributors, have meant that attempts to introduce mutually binding price maintenance have had no lasting success. In particular the aggressive price policy and expansion strategy of some consumer market chain stores contributed signally to the failure of most such attempts by domestic and foreign manufacturers to establish 'closed' sales networks with specific price objectives and marketing interests in Germany.

According to Ifo-Institut surveys, some 25 per cent of domestic and foreign consumer goods suppliers attempt to channel or control sales of their products by signing authorized dealership contracts with selected wholesalers and retailers, involving the following obligations, among others:

- measures to prepare and open up an agreed sales territory through autonomous advertising and sales promotion and employment of an in-house sales team;
- development of an after-sales service (including minor repairs where appropriate);
- employment of trained specialist staff to give customers systematic advice on complicated products;
- maintenance of sufficient stocks to guarantee rapid delivery to customers;
- compliance with rules relating to competition in order to prevent conflicts of interest involving competing products;
- a ban on actively seeking and supplying customers outside the established sales territory;
- respect for territory, customers and products by manufacturers;
- exclusive or sole rights for the authorized dealer in an established sales territory.

The effectiveness of such authorized dealerships with vertical distribution links depends crucially on the conditions of competition in the relevant product market and on the sales and marketing practices of the manufacturers concerned in relation to their authorized partners. In general, branded goods manufacturers engage in considerable outlay (e.g. on advertising and sales promotion) in order to gain lasting acceptance for their brands from both distributors and customers. If such a dealership system is to be employed effectively, the conditions governing the relationship between the partners must be evenly balanced in terms of rights and obligations and the competitive freedom of action of the partners must not be unduly restricted.

Overall, German laws and regulations on competition build in strict conditions if manufacturers and distributors are to employ vertical distribution links of this kind as an commercially justified way of securing sales and guaranteeing the necessary level of professional consumer guidance. Such linkages are on principle permitted by the German competition authorities, but are subject to increasingly stringent controls of abusive practices pursuant to Paragraph 18 of the GWB.

Selective links between manufacturers and trading companies are also permitted in principle under European Community laws against restrictions of competition (Articles 85 and 86 of the EEC Treaty). According to the generally accepted judgments of the European Court of Justice, however, distribution agreements are incompatible with the common market if the resellers (i.e. trading companies) participating in the regulated sales arrangement are not selected on the basis of objective qualitative criteria and/or if the arrangements are applied in discriminatory fashion.

It can generally be concluded in the case of the Federal Republic of Germany that because of the increasingly European and worldwide orientation of marketing and distribution strategies and because of the increasing liberalization of international trade in consumer goods, rigid regional and national systems of vertical consumer market sales agreements have been increasingly watered down and are probably doomed to failure. The increasingly fierce competition in national and European consumer goods distribution and the ever-increasing influence and power of the more

aggressive trading companies and groups in the distribution system have ensured that in Germany most of the current vertical agreement systems have only marginal effects on competition in the distribution of basic consumer goods.

7 Selected measures to protect small and medium-sized distributors and their effects

In general, barriers to entry to the German distribution market are not erected by laws and regulations, but are economic in nature, arising from the hotting-up of competition and the efficiency of the larger distributors. These factors do not have a strongly discriminatory character or a perceptible discriminatory effect, in the legal sense, but they do exert a major influence in the decision of 'discouraged' smaller manufacturers and new trading companies to exit from the market, having failed to achieve the standards required to satisfy private or industrial customers.

The radical change in distribution structures in the last two decades has deprived the laws that are supposed to impinge directly or indirectly on distribution processes of some of their effect. The protection for small and medium-sized firms (contained, for example, in some of the clauses of the law against unfair competition) is of only limited effect since competitive practices have become so sophisticated that they are no longer properly covered by the law as it stands. Court rulings in Germany interpreting the legislation have also failed to take proper account of modern distribution techniques and the competitive behaviour associated with them. For the same reason, the expansionary and even aggressive marketing and price policies of some of the more dynamic companies have brought them into conflict with some of the regulations, resulting in a number of court cases.

The political pressure exerted on policy-makers by small and medium-sized retailers and their lobbyists with a view to restraining the penetration of large-scale firms that employ a variety of sales and marketing strategies had very little influence over the actual pattern of competition on the consumer goods market. This is mainly due to the fact that consumers naturally showed an increasing preference for shops which satisfied their needs and expectations, even if they had to travel further to get to them. The waning influence of certain protective and regulatory mechanisms also convinced the German specialist retail trade that it had to rely more on its own abilities and strengths to compete successfully with big businesses and multiple stores. The mainly family businesses reacted by adapting to and focusing on the local and

regional requirements in their catchment areas, and avoided being drawn into a price war with their much larger multiple store rivals. This policy of targeted and systematic development of local competitive strengths was coupled with a new division of labour between the various types of purchasing and affiliated cooperatives and groups and their member firms.

Overall, politically sponsored attempts over the last 30 years to strengthen the regulations, and especially to influence retail trade structures by means of laws based on higher economic policy objectives, have had only marginal long-term effects on the basic patterns of competition. On the other hand, certain regulations were in fact repealed on constitutional grounds, such as the law of 5 August 1957 regulating the right to exercise a profession in retailing, it came to be felt that the need to demonstrate proven expertise in order to run a retail shop was an excessive intrusion into the freedom to exercise a profession. Most politically motivated protective laws governing trading in the last 50 years have now been repealed; they were often very restrictive and were no longer in harmony or compatible with the constitutional principle of freedom of competition and freedom to exercise a profession.

Some laws were intended to influence pricing in order to give consumers as much transparency on prices as possible. This objective was in fact promoted rather more effectively by decisions by retailers in recent years to quote net prices for items. General discounting or the granting of individual reductions was generally the exception in consumer goods retailing, since this price policy would have impeded the trend towards minimizing costs in mass distribution (e.g. in the food sector) and would also have had an adverse effect on the price and performance image of a trading company.

German consumers currently 'shop around' to find the best final or net price, which they regard as a significant factor in judging whether a retail shop offers high standards and value for money. On high-value durable consumer goods, however, discounts and other reductions are made, and legal restrictions or bans have very little influence over the extent of such reductions. For this reason the legal framework conditions which still largely apply for pricing and for discount and cash discount policy in retail distribution are now of very little significance. Price competition on most

product markets between the dynamic and in some cases aggressive retailers or discount-stores is so fierce that all moves by government or indeed by trading associations to influence firms' price policies may be regarded as doomed to failure in the long run.

8 The problem of the concentration of buying power in the German distribution system

Over the last two decades there have been marked changes in the competitive relations between domestic and foreign consumer goods producers and trading companies and groups. The increasingly intensive input competition between the large-scale firms and the cooperative head offices of the small and medium-sized (specialist) retailers resulted in considerable disruption to vertical competition between individual producers and distributors. The present systems of discounts and special terms were no longer suitable instruments for directing the flow of large quantities of goods via the powerful distributors with their new retailing methods. Additional systems governing competition and terms had to be specifically developed, in order to take better account of the varying capacity and willingness of producers and distributors in the supply chain. Through their innovative marketing, distributors have come to influence consumer choice 'on the spot' far more than before, which has also contributed to changing these vertical competitive relations. Some of the fastest-growing distributors applying their own competition-oriented price policy and setting systematic price levels for competing products in their stores have in fact restricted the freedom of action of many branded goods manufacturers in recent years, particularly as regards price policy. In order to counteract this loss of influence over price fixing, many producers have tried to introduce contract systems to regulate the situation; however, this requires considerable marketing expenditure, which only the largest manufacturers can in general afford.

In order to assess the concentration of buyer power of the large distributors, the German cartel authorities have developed the concept that the market strength of the buyer-distributors depends principally on the sales potential which they can open up or restrict for a given manufacturer in quality and quantity terms. The leading firms can indeed be crucial to many manufacturers, since turnover with them may account for as much as 10 per cent of their total turnover. It is almost impossible to switch to other buyers at home or abroad.

However, the German monopolies commission and, to some extent, the courts question or even reject this approach. In their view, market strength should be assessed from the point of view not of a given distributor, but of the manufacturer. The main reason for this difference in emphasis is to give a better picture of the supplier's room for manoeuvre vis-a-vis his competitors and his current and potential sales alternatives. This requires differentiation of the relevant sales market into individual product markets which consist of identical or similar products.

Overall, German consumer goods distributors have in recent years markedly improved all aspects of their performance in response to intensive qualitative competition (e.g. modernization of branch or shop facilities, improved presentation of goods, greater use of advertising and logistical systems). With greater freedom in planning and closer contact with customers, distributors were able to take over certain market functions which they could evaluate and perform more effectively than manufacturers. Another effect of this was that part of the value added hitherto generated in distribution was gradually transferred, or switched for cost reasons, to trading and other economic activities (such as forwarding). This gradual reallocation of market functions in the distribution chain in favour of trade resulted from its closeness to the market and the concentration of buying power of those trading firms which have improved their competitive position vis-a-vis customers by introducing new and effective methods for the sale of goods, the range of goods to sell and the types of outlet to sell them in.

9 Foreign activity of German trading firms in Europe and elsewhere

Only a small number of large German wholesalers and retailers for consumer goods carry on extensive investment activities in foreign markets. One of the main reasons is that up into the 1970s the large trading firms concentrated their efforts on establishing a network of modern businesses in favourable locations in all sales regions of West Germany. This placed great demands on the firms' financial and management resources leaving little willingness to invest in foreign projects during these years. This reservation towards foreign investment was backed up, in the case of most trading firms, by the fact that the German consumer concentrated a growing share of purchases on retail trade which was expressed in above average growth rates for retail sales. Most of the trading firms profited from this favourable development and saw no need to become involved in foreign markets.

At the beginning of the 1970s several major German commercial firms began to expand their sales markets via capital investment in the U.S. and in individual European countries. Capital shares in existing trading firms in these countries were acquired without active participation in operational business activities. This type of foreign investment, however, has had little long-term success for German trading firms. This is primarily due to the fact that the management of a German trading firm has relatively little knowledge and experience in the management and supervision of foreign subsidiaries and was only able to make an insufficient assessment of the particularities of foreign markets with respect to entrepreneurial risks. A large number German trading firms' foreign investments were abandoned after a short period of time after not achieving the envisaged profits. Directly linking these foreign trading firms and subsidiaries to the management of the German parent company frequently failed as a result of the different conditions that prevail in the retail markets of the various countries involved.

In the past few years, however, several larger German trading firms have intensified their foreign investment activity using a different strategy. Especially in the member states of the European Community, these marketing-active firms have established new trading firms with the goal of initially building up a small network of businesses in a particular sales region

following the marketing concept already tried out in Germany and of gathering basic experience in previously unfamiliar retail markets. Of particular note is that this foreign investment concept is largely characterized by relatively high competitive activity with respect to price. The German trading firms are attempting to capitalize on the competitive strengths gained in domestic markets also in particular foreign markets. A dominating role in this connection will be played by the competitive strategy that has been perfected by several German trading firms of low pricing and a restricted range of goods. (Witness the investment activity of ALDI in Great Britain as well as that of Lidl & Schwarz in France.)

This new trend in the foreign activity of large German firms in consumer goods wholesaling must be seen in terms of the fact that for becoming involved in the distribution of a foreign sales market it is not alone sufficient to transfer capital and to accompany this capital with financial instruments but that a cross-border investment in the distribution of a foreign market also requires the transfer of management know-how in order to directly implement the competitive strengths of the firm in the relevant foreign markets.

Market entry barriers for foreign firms in the German system of consumer goods distribution:

1. The high and increasing intensity of competition frightens off foreign investors in mass distribution. In contrast, suppliers of commercial services in several market niches have been quite successful.
2. There are, to be sure, restrictive regulations for foreign investors. However, on the whole these are not concentrated on entry to the German distribution system but cover the whole of German industry. Several specifically commercial regulations are losing their importance more and more.
3. The majority of German consumers have shown reserve towards foreign trading firms and a relatively strong loyalty in their choice of shops.

However, a larger portion of younger consumers is showing increasing flexibility in their selection of retail outlets.

4. In Germany there is a so-called system competition, i.e., the various trading firms and groups have constructed a very detailed system of marketing concepts and have adapted this in light of the changing purchasing and consumption habits of various consumer segments so that foreign suppliers of retail services find it very difficult to gain a toe-hold in this mutually competitive system. Breaking into this system competition requires high initial investments which foreign investors shy away from since they seek a high return on investment in as short a period as possible.
5. A major portion of market-leading and marketing dominant trading firms is owned by institutional capital investors and other domestic financial groups whose participation in profitable German trading firms is not for short-term profit but is designed for more long-term aims. In addition, many German trading firms are not corporations quoted on the stock market which, of course, has an effect on the participation of foreign investors.
6. Nearly all leading, world-market manufacturers of consumer goods have either production and/or distribution companies in Germany in order to be able to offer their products directly to German trading firms. Direct market contact is indispensable for these leading world-market producers in order to enter into long-term supplier relationships with the major German trading firms. Here, for example, the producer's advertising support for the sales of their products is indispensable in order to establish a market presence in the German distribution system.

E. SUMMARY CONCLUSIONS ON COMPETITION IN CONSUMER GOODS DISTRIBUTION

Over the last two decades three key factors were responsible for the comparatively intensive competition now characteristic of distribution in the Federal Republic of Germany:

1. The fundamental ban on the establishment of retail price maintenance or price fixing for consumer goods by manufacturers decisively affected price competition at the various distribution levels. The development of independent pricing by distributors was assisted by the very strict and comprehensive monitoring of domestic and foreign manufacturers carried out by the cartel authorities with the aim of preventing them acquiring excessive influence over pricing.
2. The rapid penetration of powerful trading companies with very active marketing policies involved innovative and modern distribution and outlet design strategies which paid much closer attention to the increasingly sophisticated needs of consumers and the very high demands they make of retailers in terms of value for money for consumer goods. As part of this process of reorientation, many distributors developed very active policies on competition, while many smaller (family) businesses continued to pursue their traditional more defensive policy, and as a result lost competitiveness and influence in the fiercer competitive conditions prevailing.
3. Growing consumer acceptance of and demand for foreign products has boosted imports to the point at which some 30 per cent of goods on certain retail consumer markets are imports.

These key economic factors have resulted in much more intensive vertical and horizontal competition, and even relatively small differences in the standards offered by distributors can be decisive in influencing consumer buying behaviour.

The big firms with access to capital have pursued systematic diversification in their supply and marketing strategies, varying their selling area, product policy and price policy at will to achieve a marked competitive edge. Government regulations did not greatly impinge on these strategies and the way they were implemented, except for the regulations on building use, which contributed significantly to the decision by many larger firms to relocate and thus alter their planning strategy regarding outlet types. Many of the large distributors had in fact already secured prime locations for their large-scale self-service stores and hypermarkets in the early 1960s, and have tried to some extent to deter potential competitors from establishing further large-scale stores in the same market segment.

In the light of the performance of the distributors engaged in very intensive (horizontal) competition and the increasing input competition between the leading distributors and domestic and foreign producers, economic market factors have had much greater influence over the distribution of consumer goods than regulatory factors (including measures relating to discrimination). The effect of the latter, often originating in protective legislation and regulations, has been weakened by the dynamic development of competition in distribution in recent years. Furthermore, the bolder wholesale and retail trading companies have also developed very sophisticated 'evasive' strategies to avoid coming into conflict with the regulations.

APPENDIX

Tables 1 - 9

Tab. 1 Retail enterprises and sales by workforce size class (a)

Size of workforce (number of persons)	Enterprise						Turnover					
	Number			Share (%)			DM million			Share (%)		
	1967	1978	1984	1968	1979	1985	1967	1978	1984	1967	1978	1984
1 - 2	220.186	174.496	169.949	54,6	50,4	50,1	17.610	25.941	31.459	12,4	7,1	6,6
3 - 9	156.376	137.245	137.921	38,8	39,7	40,6	41.506	82.447	103.380	29,3	22,5	21,8
10 - 19	16.313	22.080	20.530	4,0	6,4	6,1	13.374	41.562	50.320	9,4	11,3	10,6
20 - 49	6.854	8.618	7.855	1,7	2,5	2,3	13.379	41.322	51.673	9,4	11,3	10,9
50 - 99	1.839	2.108	1.738	0,5	0,6	0,5	8.038	25.328	27.589	5,7	6,9	5,8
100 - 499	1.153	1.240	1.072	0,3	0,4	0,3	14.452	42.717	50.467	10,2	11,7	10,7
500 and over	183	243	253	0,0	0,1	0,1	33.369	107.009	158.876	23,5	29,2	33,5
Total	402.904	346.030	339.318	100	100	100	141.728	366.326	473.762	100	100	100

a) Enterprises with annual sales exceeding DM 12,000 (1967, 1978) or DM 20,000 (1984).
Excluding petrol stations operating as commercial agencies and sales of agricultural equipment.

Source: Statistisches Bundesamt, Handels- und Gaststättenzählungen 1968, 1979 and 1985.

Tab. 2 Sales and market shares of the ten largest food-sector retailers, 1978 and 1988

1978		1988	
Enterprise or group	Total turnover (DM billion) (incl. VAT)	Enterprise or group	Total turnover (DM billion) (incl. VAT)
1. Aldi-Gruppe	9,0	1. Aldi-Gruppe	19,7
2. Tengelmann-Gruppe	5,7	2. REWE-Leibbrand-Gruppe	16,3
3. REWE-Leibbrand	4,2	3. Tengelmann-Gruppe	14,6
4. Coop-AG	4,2	of which:	
5. Schaper-Gruppe	3,2	-- Plus-Warenhaus-	
6. Massa	1,8	Gesellschaft mbH &	5,2
7. Allkauf	1,7	Co. OHG	
8. Deutsche SB-Kauf	1,4	-- Kaiser's Kaffee-	
9. Wehrhahn-Gruppe	1,3	Geschäft MG	3,6
10. Deutscher Supermarkt	1,2	4. Coop-MG	11,4
		5. Asko-Schaper-Gruppe	9,4
		6. Spar MG	7,9
		7. Edeka-Zentrale MG	7,6
		8. Allkauf	4,5
		9. Massa	4,0
		10. Lidl & Schwarz	3,9
Turnover of the above enterprises/ groups	33,6 (= 32,0%) (a)	Turnover of the above enterprises/ groups	99,1 (= approx. 58,0%) (a)
Food turnover of all retail companies	104,8	Food turnover of all retail companies	169,7
Food turnover of other companies	35,2	Food turnover of other companies	38,7
Total food turnover	140,0 (= 24,0%) (b)	Total food turnover	208,4 (= 48,0%) (b)

a) Market share of ten largest enterprises in food sales of retail companies.

b) Market share of ten largest enterprises in food sales of all companies involved in retailing.

Source: Ifo-Institute estimates based on material supplied by Glendenning and Lehning, Lebensmittel-Zeitung, company information, annual reports, etc. and data from the Statistisches Bundesamt.

Tab. 3 Estimates of gross retail profit margins (a)

Year	Annual Survey	Deutsche Bundesbank (b)	Institut für Handelsforschung	Cost structure statistics
1978		29,8	30,4	
1979	29,3	29,9	30,6	
1980	27,5	30,2	30,9	
1981	27,1	31,7	30,8	29,7
1982	27,0	31,9	31,1	
1983	27,1	31,4	31,3	
1984	26,7	30,8	31,0	
1985	26,2	30,8	30,9	27,3
1986	26,0	31,1	30,9	
1987	26,5	31,3	30,9	
1988		31,4	31,1	
1989			31,5	

a) Sales (excl. VAT) less cost of goods sold (excl. taxes)/sales (excl. VAT) x 100. In order to ensure comparability, all published data have been converted to this formula.

b) Gross profit from trading plus interest and other income.

Source: Statistisches Bundesamt, Jahreserhebung (Annual Survey) and Kostenstrukturstatistik; Deutsche Bundesbank, Bilanzstrukturstatistik; Institut für Handelsforschung an der Universität zu Köln, inter-firm comparisons.

Tab. 4 Retail sector operating results (a)

Item	1980	1981	1982	1983	1984	1985	1986	1987	1988
Gross performance (a)	100	100	100	100	100	100	100	100	100
less cost of goods sold	70,0	70,4	70,3	70,9	71,5	71,6	71,3	71,0	71,0
= gross trading profit	30,0	29,6	29,7	29,1	28,5	28,4	28,7	29,0	29,0
+ interest and other income	1,7	2,0	2,2	2,1	2,3	2,4	2,4	2,3	2,4
= gross earnings	31,7	31,6	31,9	31,2	30,8	30,8	31,1	31,3	31,4
less total outlays (b)	28,1	28,8	29,3	28,2	28,2	28,2	28,1	27,8	28,1
= pre-tax profit	3,6	2,8	2,6	3,0	2,6	2,6	3,0	3,5	3,3
less taxation	0,8	0,7	0,7	0,8	0,7	0,7	0,7	1,1	1,2
= after-tax profit (accounting profit)	2,8	2,1	1,9	2,2	1,9	1,9	2,3	2,4	2,1

a) Sales including inventory changes and internally produced and capitalized assets; excluding VAT.

b) Excluding taxation.

Source: Deutsche Bundesbank, Monatsberichte, Hefte 11.

Tab. 5 Retail cost structure, 1980-1988

Per cent of gross performance

Type of expense	1980	1981	1982	1983	1984	1985	1986	1987	1988
Labour compensation (a)	13,6	13,7	13,9	13,5	13,5	13,3	13,3	13,1	13,2
Depreciation	1,9	1,9	1,9	1,9	1,9	1,9	1,9	1,9	2,1
tangible fixed assets	1,7	1,7	1,7	1,7	1,7	1,7	1,7	1,7	1,9
other	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2
Interest payments	2,0	2,4	2,4	1,9	1,8	1,8	1,7	1,5	1,5
Other	10,6	10,8	11,1	11,0	11,0	11,2	11,2	11,3	11,3
Total (excl. taxation)	28,1	28,8	29,3	28,2	28,2	28,2	28,1	27,6	28,1
Taxation (b)	0,8	0,7	0,7	0,8	0,7	0,7	0,7	1,1	1,2
Total (incl. taxation)	28,9	29,5	30,0	30,0	28,9	28,9	28,8	28,7	29,3

a) Wages, salaries, compulsory and voluntary social security charges.

b) Including corporate income tax and excise duties.

Source: Deutsche Bundesbank, Monatsberichte, Hefte 11

Tab. 6 Asset and capital structure of retail enterprises (a)
Per cent of balance sheet total

	1970		1980		1988	
	1970	1980	1970	1980	1970	1988
Capital assets	37,4	30,5	29,9	13,4	7,4	
of which:						
(tangible) fixed assets	35,2	27,9	25,6	80,9	85,1	
securities, investments	2,2	2,6	4,3	55,2	57,6	
Current assets	62,6	69,5	70,1	21,5	25,7	
of which:						
inventories	34,8	45,8	43,3	4,2	5,4	
cash	4,5	4,1	4,3			
receivables	22,5	19,1	22,2			
of which:						
short-term	20,8	17,7	20,4			
long-term	1,7	1,4	0,8			
Accrued and deferred items	0,8	0,5	0,3	1,9	0,3	0,1
Total	100	100	100	100	100	100

a) Derived from the Systematik der Wirtschaftszweige des Statistischen Bundesamtes -- 1970 from the 1961 edition; 1980 and 1988 from the 1979 edition.

b) Equity plus reserves plus profit carried forward minus value adjustment on equity.

Source: Statistisches Bundesamt, Monatsberichte Nr. 11/1990 and Sonderdrucke Nr. 5.

Tab. 7 Retail sector goods sourcing by product area
Per cent of total goods purchases

	1979			1985		
	Wholesale	Other domestic sources	Imports	Wholesale	Other domestic sources	Imports
Food, beverages, tobacco	63,5	34,8	1,7	67,2	31,3	1,5
Textiles, clothing, footwear, leather goods	34,3	52,9	12,8	35,6	49,8	14,6
Furniture and fittings (excl. electrical goods)	44,4	49,6	6,2	51,1	43,1	5,8
Electrical goods and appliances, musical instruments, etc.	47,3	49,7	3,0	49,8	47,8	2,4
Paper and printing products, office equipment	42,5	54,9	2,6	44,9	52,5	2,6
Pharmaceutical, cosmetic and medical products	70,3	29,1	0,6	69,2	30,0	0,8
Fuels and lubricants	59,0	40,6	0,4	66,1	33,6	0,3
Motor vehicles, parts and accessories, tyres	32,9	65,7	1,4	29,8	68,8	1,4
Other goods	54,0	38,7	7,3	50,3	43,0	6,7
Total	51,6	43,7	4,7	52,5	43,0	4,5

Source: Statistisches Bundesamt, Warensortiment sowie Bezugswege im Einzelhandel, 1979 and 1985.

Tab. 8

Retail-sector sourcing by outlet types
Per cent of total goods purchases

	1979			1985		
	Wholesale	Other domestic sources	Imports	Wholesale	Other domestic sources	Imports
Fixed outlets	52,6	43,6	3,8	53,9	42,6	3,5
of which:						
department stores	65,9	26,0	8,1	50,4	42,2	7,4
self-service stores	34,8	35,9	1,1	41,5	56,5	2,0
superstores	64,9	33,8	1,3	56,1	43,1	0,8
variety stores	63,3	35,6	1,1	56,9	42,3	0,8
supermarkets	61,8	36,3	1,9	68,3	30,1	1,6
Mail order houses	27,5	48,2	24,3	19,9	52,1	28,0
of which:						
non-specialist	21,3	48,3	30,4	15,3	55,6	29,1
specialist	37,0	48,1	14,9	29,1	45,2	25,7
Itinerant trade	55,3	41,4	3,3	56,1	40,8	3,1
Total	51,6	43,7	4,7	52,5	43,0	4,5

Source: Statistisches Bundesamt, Warensortiment sowie Bezugswege im Einzelhandel, 1979 and 1985.

Tab. 2 Scanner installations in large retail enterprises (a)

Enterprise	Number of branches with scanners		Change (per cent)
	1989	1988	
Reve Leibbrand	791	490	61
Tengelmann	206	125	65
Kaufhof.	157	100	57
Nanz	118	80	48
Karstadt	113	73	55
Spar	100	101	-1
tegut	99	100	-1
Jean Pascale	97	94	3
WMF	91	-	-
Edeka	76	38	100
Hertie	69	50	38
Reve Zentral	69	60	15
Interdiscount	68	17	300
ASKO	67	15	347
dm	66	64	3
OBI	63	-	-
Otto Reichelt	61	20	205
A.T.U.	52	37	40
Co op	52	43	21
Metro	51	49	4
Total-above enterprises	2.466	1.725	43
Total retail trade	3.434	2.252	53

a) As at end-year.

Source: Centrale für Coorganisation GmbH, Köln.

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