# THE INTERNAL MARKET: A CHALLENGE FOR THE WHOLESALE TRADE

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# A CHALLENGE FOR THE WHOLESALE TRADE

Document

COMMISSION OF THE EUROPEAN COMMUNITIES
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# THE INTERNAL MARKET : A CHALLENGE FOR THE WHOLESALE TRADE

FEBRUARY 1990

Study carried out at the
request of the Commission by

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## Introduction

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**Assignment**

This report details the results of an exploratory investigation into the possible consequences of European integration on the European wholesale trade. The investigation was carried out by the Amsterdam Consulting Group at the request of the European Commission, DG 5: Social Affairs, Employment and Training, in coordination with Fewita (Federation of European Wholesale and International Trade Associations) and Euro-Fiet (Fédération Internationale des Employés et des Techniciens).

**Phase 1**

The investigation commenced in the autumn of 1988 with the formulation of a number of propositions, based on desk research, concerning the current and future position of the European wholesale trade following the implementation of the Single European Market. In view of the wide range of wholesale activities, four sectors have been distinguished:
- raw materials and semi-finished products
- capital goods
- food consumer goods and
- non-food consumer goods.

The social consequences of the internal market for the wholesale trade are considered separately.

**Phase 2**

These propositions were then tested by means of interviews with experts in the various sectors. The list of the persons interviewed is given in Appendix 1. Further desk research was also carried out and statistical material was gathered concerning the scope of the European wholesale trade. The quality of the statistical material is very varied for the different Member States, so great care must be taken when making comparisons and any conclusions drawn from these statistics should be used very carefully.

Comprehensive statistical desk research in which the wholesale trade is compared with quantitative developments in other sectors of industry and the economy would considerably increase the amount of information regarding this sector which is still largely unknown. Such statistical research does not, however, fall within the framework of this project but should form part of a separate research project into the structure of the sector. The findings of Phase 2 are given in an interim report which was published in February 1989.

**Introduction** (continued)

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Phase 3

The interim report of this study was published in February 1989. Following discussions (July 1989) the parties involved decided to expand the research by conducting a limited number of interviews. The purpose of this was to incorporate the consequences of European integration for the wholesale trade in a number of Member States into the final report.
When reading this report, it should be borne in mind that this survey was not intended to be a survey of the structure of the sector but rather a qualitative orientation-survey aimed at providing a background to discussions between Fewita and Euro-Fiet, chaired by the European Commission.

The third phase commenced in September 1989 and is complementary to the interim report. Additional interviews were held in a number of Member States (see Appendix 1). The experts who were interviewed were selected in conjunction with the secretariats of Fewita and Euro-Fiet. The findings of phase 2 are incorporated within this report.
Furthermore, the remarks and additional details relating to the interim report, which were provided by the members of Fewita and Euro-Fiet, are included in this version. The propositions drawn up in Phase 1 are given in Appendix 2. We would like to thank all those who took part for their constructive and helpful contributions.

# I CONCLUSIONS AND RECOMMENDATIONS

**Economic conclusions**

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1 The wholesale trade fulfils an essential function in the distribution chain where suppliers are numerous, many (small-scale) buyers dominate the sales markets, the range consists of dozens of articles and frequent deliveries are necessary. In these situations the wholesale trade, thanks to its specific knowledge, specialisation and expertise, will retain its position in the industrial chain. This position is by its very nature uncertain, since it depends to a large extent on decisions taken by those involved in previous and subsequent links.

The wholesaler is an intermediary whose function could in principle be integrated within the other links in the chain (tendencies to merge and split). This makes wholesaling a very vulnerable sector but at the same time gives it its very dynamic nature: wholesalers are continually striving to perform distributive functions more efficiently and cheaply than suppliers and consumers. This vulnerability is compensated for by the strategic function which the sector fulfils: efficient distribution of goods in complex situations. For this reason, the concept of wholesaling itself is not at issue during the nineties. The key questions are who is to perform this task and how this will be done. The wholesale trade will undergo a number of fundamental changes, the foundations of which are currently being laid.

2 The internal market acts as a catalyst in this restructuring process. Integration will speed up the rate at which changes take place, but will also lead to more intensive developments, the first signs of which can already be discerned. Furthermore, through specialisation and concentration in industry, European integration will lead to an intensification and an increase in flows of goods. Consequently, in the nineties distribution will increase in importance. The European wholesale trade will benefit from this as long as it is able to adapt adequately to new market demands.

The internal market will set new challenges for the wholesale trade, creating opportunities to achieve a better market profile and a more competitive position. To be able to make use of these opportunities, the wholesale trade will have to prepare for the changes which occur and this means restructuring.

**Economic conclusions** (continued)

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3 This restructuring will be based on a number fundamental developments in the fields of:

a increases in scale and internationalisation
b data communications
c physical distribution (logistics)
d competition
e purchasing

a <u>Increases in scale</u> and <u>internationalisation</u> will be necessary for the wholesale trade in order to be able to take advantage of developments such as:

- Investments in data communication systems and the construction of a European distribution networks which are too capital intensive for the majority of wholesalers.
- Internationalisation and increases in scale among suppliers and retailers will require wholesalers to follow the same path.
- Closer relations with consumers and suppliers by connecting computer systems will, in the long term, lead to international cooperative associations.
- The emergence of specialist organisations working at European level may undermine the competitive position of the wholesale trade.
- The producers' need for a total distribution concept at a European level increases the necessity for increases in scale.

Increases in scale and internationalisation can be achieved in a number of ways:

- by taking over companies in a number of EC Member States
- by entering into an association with an existing European wholesale group
- by cooperating with colleagues in the same sector in other Member States
- by forming a wholesale group with a number of European colleagues. These two last options offer prospects for small and medium-sized companies in particular, because synergetic advantages can be realised as a team while at the same time the partners retain their independence
- by forming a network with complementary service companies: agency companies, contract hire, public warehousing, transport, wholesalers with complementary ranges of products or with companies from other sectors.

**Economic conclusions** (continued)

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b The commercial function, the internal organisation and relations with buyers and suppliers, will change through the use of data communication possibilities. This technology will eliminate most administrative processing, leaving room for the provision of new services. This will make new demands on employees, and while relations with suppliers and buyers will become closer. One important condition for the implementation of data communication systems is the far-reaching standardisation of reporting and data files. This requires cooperation and deliberation at sector level.

c The European distribution structure will expand. Through the abolition of borders and barriers to trade, large-scale European distribution centres can be built at strategic points, leading to a reduction in the number of distribution centres. This will result in improved efficiency as regards costs structure. The wholesale trade itself will have to build up a network or seek connections with third parties.

d More intensive competition from colleagues in the sector and complementary services such as transport companies and public warehousing specialists will make the rationalisation of management and a clearer profile more necessary.

e Following the restructuring in the distribution and production sectors, purchasing patterns will change. (Specialised) European purchasing centres will be set up to optimise and coordinate (joint) purchasing.

4 Polarisation will take place in the wholesale trade: on the one hand there will be large-scale, international trading companies and on the other hand specialised, regional wholesale companies cooperating with European colleagues in subsectors. The large companies will integrate through their large-scale diversification and specialised services (leasing, transport, public warehousing).

5 In the nineties the wholesale trade will develop into a service sector: service and added value will be the key words. The wholesale trade will focus on three functions:

- the <u>commercial function</u>: segmentation of the market, selection and management of the range, product and market development.
- the <u>information function</u>: market and customer analyses, planning and management information, administrative tasks.
- the <u>logistics function</u>: storage, stock management and service.

6 In the (food) consumer goods sector the integration of the wholesale and retail trades will continue. The advantages of integration are as follows:
- Economies of scale: more efficient logistics process
- Streamlining of distribution as links in the chain are eliminated
- Shorter line of communication between producer and consumer
- Increased flexibility, enabling businesses to react more rapidly to changes in market trends
- Better prices for the consumer

The next logical step in this integration process will be the addition of various 'business services': financial services, travelling, insurance.

7 A precondition for success in the nineties is a lean costs structure. Due to the postponement of investments, there is still a considerable amount of inefficiency in the management of business such as high overheads and logistic costs. Through streamlining and automation space must be created for investments in data communication systems and in education and training. This will lead to a change in the cost structure.
Restructuring will have the greatest consequence for the small and medium-sized companies. The number of companies will fall sharply as a result of mergers and closures. Small-scale wholesale companies which are not specialised and which are not part of a larger organisation are likely to be the most vulnerable. Large companies and international concerns will continue to expand as professional organisations and will not be greatly impeded by sectorial restructuring.

**Economic conclusions** (continued)

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8 To summarise, a number of critical success factors may be formulated which the wholesale trade will have to fulfil in the nineties if it is to make the most of the opportunities available.

- It must be sensitive to market changes and flexible enough to take advantage of these. This means, among other things, a critical attitude towards market segments and the drawing up of critical market analyses.
- It must demonstrate innovation in product development and organisational development. The soft, creative qualities of the organisation will occupy an important position in the wholesale trade of the nineties.
- It must adopt a logistics concept which may or may not be developed in conjunction with third parties.
- It must become computerised so that the concept of the provision of services can acquire new substance.

9 The nineties demand a clearer profiling of the wholesale trade. The hidden force will have to come out from the shadows and create an identity positioning the wholesale sector as a reliable commercial and logistic partner. A new image of the profession will also be necessary in order to keep pace with the competition on the labour market.

**Social conclusions**

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10 The employment opportunities in the wholesale trade will remain stable or show a slight fall. Negative and positive influences will more or less offset one another:

- The increase in competition will require certain rationalisation measures in the wholesale trade (including the reduction of overheads).
- Increases in scale and concentration will lead to the elimination of a number of duplicated jobs in order to obtain maximum benefit from the advantages of synergy.
- Automation and more intensive use of modern telecommunications methods will also lead to a loss of jobs.
- The decrease in the number of wholesale companies will have an effect on employment levels despite the fact that many companies will enter new areas of activity. The following factors will have a positive influence on employment:
  + expansion of services provided, creating new jobs
  + general economic growth which will have an effect on the wholesale trade.

12 There will be a shift in functions and an increase in the demand for more qualified staff. Vacancies in commercial functions will increase, as will the demand for specialists in logistics and automation, whereas administrative functions will decline proportionally. In addition, a need will arise for generalists who can fulfil a position of integration between the various specialists. Wage systems will have to be adjusted accordingly.

13 Keener competition will have the following effects on working conditions:

- Pressure on wage costs, which will have consequences in particular for less qualified staff
- Increased flexibility which will affect working hours and salary structures and lead to an increase in the number of part-time jobs for certain tasks.
- Review of working conditions as a result of concentration and lack of demarcation between various sectors.
- Adapting of working conditions by recruiting new, more highly qualified staff.

**Social conclusions**

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14 Social legislation already tabled by the Commission, for instance in the field of worker participation and safety at the workplace could, if passed by the Council, lead to adaptation in the wholesale sector. Furthermore, possible future legislation resulting from the social charter could affect the wholesale trade.

15 The repositioning of the wholesale trade as a service sector, the shift in functions, internationalisation and increases in scale will increase the attention paid to training. In the nineties, when a shortage of (qualified) personnel is expected, training will be essential to lend substance to the critical success factors.

## Recommendations

The conclusions implicitly contain a number of recommendations for the wholesale trade which are briefly summarised below, supplemented by recommendations for the clients.

1 In view of the consequences of European union, which are not to be disregarded, every wholesaler should draw up a critical evaluation of his company strategy, the key questions of which could be:

- how, generally speaking, are we to fulfil the strategic functions of the future wholesale trade and
- how are we to interpret the critical success factors of the nineties?

An analysis of the strengths and weaknesses of individual companies compared with the developments in the branch or sector is indispensable.

2 The question of specialisation versus expansion should also be answered in this strategic reorientation. For many wholesalers, a European orientation (via a takeover policy, the formation of groups, etc.) seems inevitable.

3 A branch- or sector-wide approach towards improving the image of the wholesale trade is recommended. A joint campaign could be developed in order, specifically, to update the sector's image among its (future) target group of employees.

4 The reorientation and restructuring process requires supervision from branch associations and interest groups. Reliable information about European integration is also part of this.

5 The development of a European standard for data exchanges (networks) should be considered in order to make use of the opportunities offered by telematics more rapidly. Cooperation and consultation must be promoted, including among the relevant branch associations and interest groups.

2)

**Recommendations**

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6 Training programmes should be developed and instructors trained. An initial phase could involve drawing up an inventory of and comparing existing programmes, for example training in Germany, the Netherlands, and company training in major trading concerns. A "European" wholesaler could be used as a case model for the systematic analysis of functions, tasks, responsibilities, levels of training, the deferment of tasks, training requirements, etc. This is necessary both now and for the future. On the basis of the analysis, a plan can be drawn up for a (basic) European training programme. The cooperation of universities and institutions must be sought when this programme is shaped further. At company level, instruction and training should be placed in the context of a global policy to be developed in the field of human resources.

7 This investigation was of an exploratory nature. Owing to the extent of the area covered by the investigation, there was little in-depth research into various sectors. In particular, the insight into the non-food sector is too limited to allow reliable recommendations to be made regarding the use of promising future opportunities in this sector. This sector (including capital goods) accounts for over 50% of the total wholesale turnover. More thorough investigation into the non-food sector is therefore required.

# II FUNCTIONS AND POSITION OF THE WHOLESALE TRADE

Overall summary

**Functions of the wholesale trade**

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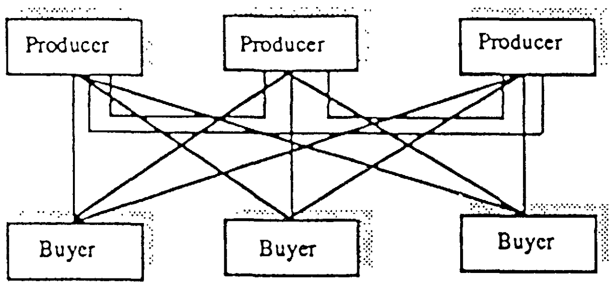
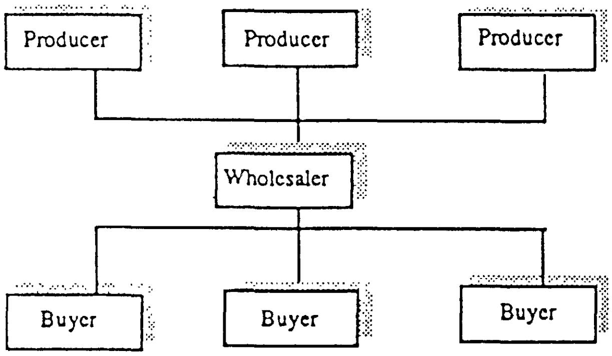
Distribution without wholesalers:




Distribution with wholesalers:




| | |
|---|---|
| EC definition of the wholesale trade | "This class includes units exclusively or primarily engaged in the resale of goods in their own name to retailers or other wholesalers, to manufacturers and others for further processing, to professional users, including craftsmen, or to other major users. The goods can either be resold in the same condition or after the processing, treatment, packing or repacking usually carried out by the wholesale dealer. Generally speaking, the latter's role involves, on the one hand, the storing of goods and, on the other hand, taking title to and/or having the right to dispose of the goods in question. In addition to a breakdown according to range of goods, there are classifications based on other criteria which are also useful for the wholesale trade, e.g.: breakdowns according to economic links, geographical area of activity (import-export, transit, domestic trade) etc." |

The primary function of the wholesale trade is to assure the availability of goods required, in the quantities required, in the right place and at the right time for the buyer. The two diagrams above clearly show this essential function of the wholesaler. The wholesale trade performs an indispensable task in areas where the number of producers and buyers is very large and the range of consists of tens of thousands of products. In addition to this primary purpose of the wholesale trade, a number of subsidiary functions may be distinguished which emphasize the specific character of the wholesale trade.

| | |
|---|---|
| 1<br>Bridging the gap | The wholesaler sells at a point other than where the products are manufactured. For producers working on a limited scale it is extremely difficult to control all potential geographical markets and in particular to service them. The wholesaler assumes responsibility for marketing and distribution. Transport is an essential part of this function but in many countries the wholesaler contracts this out. |
| 2<br>Overcoming the cultural and language barriers | Wholesaling fulfils a useful function in overcoming cultural and language barriers for overseas producers. The wholesaler also performs a bridging role with regard to differences in national legal systems. |
| 3<br>Bridging the time-lag | One of the major functions wholesaling of is that of keeping stock, thus bridging the difference in time between demand and supply. The wholesaler takes an economic risk by investing part of his working capital in goods for a limited period of time. The wholesaler also bridges time when he is called upon by producers to take charge of the introduction of new products. As soon as a critical volume has been reached they will often set up their own sales offices. |
| 4<br>Adjustment of quantities | The wholesaler adjusts the quantities on offer to the quantities required. This adjustment generally has a favourable effect on pricing. |

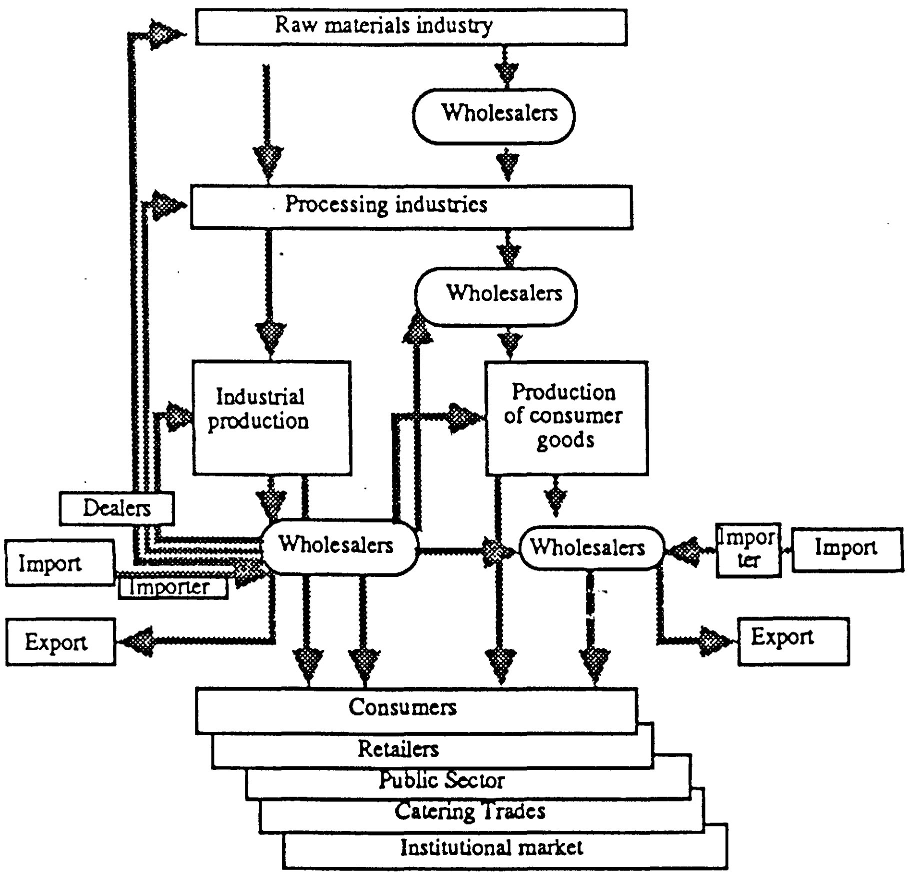
Overall summary

**Functions of the wholesale trade** (continued)

| | |
|---|---|
| 5 Compiling product ranges | Buyers often wish to make a selection from what the market has to offer. The wholesaler can link demand for a number of different products to supplies of such products by purchasing a wide range of articles. Depending on his relationship with the supplier, the wholesaler can influence the type of products supplied thanks to his knowledge of available markets and his direct relations with buyers. |
| 6 Financing | The financial function of wholesalers, in other words granting the buyer long-term credit facilities on the goods sold, still remains an important service. |
| 7 Systems Control | Systems control is concerned with management and control of the flow of information linked to the flow of goods. The systems control function of the wholesaler is becoming increasingly importance. This is a new function which has yet to be given a definite form but which offers the wholesale sector the chance to create additional added value. |

Overall summary

**Position of the wholesale trade in the distribution chain**




The position of the wholesaler in the distribution chain is by its very nature uncertain, since it depends to a large extent on decisions taken by those involved in previous and subsequent links. The wholesaler is an intermediary whose function could in principle be integrated within the other links in the chain (tendencies to merge and split). This makes wholesaling a very vulnerable sector but at the same time gives it its very dynamic nature: wholesalers are continually striving to perform distributive functions more efficiently and cheaply than suppliers and buyers. This vulnerability is compensated for by the strategic function which it fulfils: efficient distribution of goods in complex situations. For this reason, the concept of wholesaling itself is not at issue during the nineties. The key question is who is to perform this task.

Overall summary

## General features of the European wholesale trade

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### Economic dimension

The European wholesale trade consists of approximately 600,000 companies which together have an annual turnover of about 1,500 billion ECU. This means that the wholesale sector makes a major indirect contribution to the gross European product (3,523.3 billion ECU). The number of persons employed in the European wholesale trade is approximately 5 million, or 5% of the total European workforce. The wholesale trade plays an important role in the international movement of goods. Wholesaling is responsible for 15-30% of national exports, depending on the national industrial and raw materials situation, and for 40-60% of national imports.

In the last ten years the wholesale trade has gone through a tremendous economic development: turnover is almost 1 1/2 times higher (in Germany the wholesale turnover has even tripled); employment has increased by 2 to 8% (exceptions are the United Kingdom and Italy where the increase has been even greater). Wholesaling plays an important role in international flows of goods. Independent of the national situation as regards industry and raw materials, the wholesale trade accounts for 15 to 30% of national exports and is responsible for 40 to 60% of national imports.

### Growth

During the last 2 to 3 years the wholesale trade has benefited from the economic recovery. This is especially true for market-sensitive sector such as capital goods. The growth in turnover reached a level of 5% in 1988, which is 1 - 4% higher than the levels of growth in the retail trade. This higher growth rate in comparison to the retail trade is not incidental. Given the past, the growth rate in the wholesale trade may be considered structurally greater. Employment opportunities in European wholesaling have also increased. Growth here has varied between 2% and 8% per annum, according to an annual report published by Euro-Fiet on the subject of working conditions in the wholesale trade.

## General features of the European wholesale trade

**Reputation**

The wholesale trade is often characterised as a hidden giant because of its essentially economic function and its reputation for being a low profile sector. The image of the wholesale trade is generally a grey one. The products that are purchased feature clearly, whereas the services provided by the wholesale trade do not compare well. The time seems to be ripe for the wholesale trade to wake up to these facts and to pay more attention to its corporate identity.

**Diversity**

The wholesale trade is very diverse and trades in a large number of markets: raw materials, semi-finished goods, machines, plant, consumer goods, etc. The wholesale sectors all have their own structures, specific paths of development, competitive situations, etc. This makes it difficult to speak of THE wholesale trade, in spite of the fact that there are a number of common features.

**Scale**

The wholesale trade is characterised by small-scale activities. Of course, there are exceptions which prove the rule (for example wholesale in steel and electronics) but in most sectors the wholesalers are firms which employ less than 50 people. The companies are often family firms: problems with the next generation and limitations in scale will become ever more important. Small and medium-sized businesses have such a large role to play as they possess a number of very valuable features: flexibility and personal commitment. The scale factor also goes hand in hand with a regional outlook. Regional wholesalers are, in the vast majority of cases, specialist firms which can meet local and regional requirements in a highly efficient manner. The large trading companies (> 100 employees) are often subsidiaries of international conglomerates, with the result that they profit from scale advantages and have more scope for investment in innovations.

**Competition**

Competition is keen within the wholesale trade with the result that there is a great deal of pressure on profit margins as the main competitive instrument remains the price. This pressure on profit margins allows small wholesalers very little room to invest in the modernisation of their business structures.

Entry barriers

Entry barriers for the wholesale trade appear to be limited: there are few legal requirements, no specific qualifications are required and depending on the area of the sector involved, start-up capital is usually available. Knowledge of products and markets are the prime areas of expertise which the new entrepreneur will have to master. One consequence of the low level of entry requirements is that the wholesale trade attracts a large number of newcomers but also has a high turnover in terms of companies.

# III GENERAL PICTURE OF THE EUROPEAN WHOLESALE TRADE

Overall summary

**The wholesale trade in the Federal Republic of Germany**

General statistics 1986

| | |
|---|---|
| Population | 61 million |
| Working population | 27.5 million |
| Gross National Product | 910.4 billion ECU |
| Growth (87) | 1.9% |
| (88) | 3.7% |
| Inflation (88) | 1.2% |
| Imports | 194.4 billion ECU |
| from EC | 54% |
| Exports | 247.5 billion ECU |
| to EC | 51% |

Source: Eurostat

Wholesale trade 1988

| | |
|---|---|
| Number of businesses | 112,000 |
| Employees | 1.1 million |
| Turnover | 396 billion ECU |
| Growth in number of businesses (85-88) | -1% |
| Growth in turnover (87-88) | 5% |
| Increase in number of employees | 6% |

Source: Statistisches Bundesamt

Structure

According to the Statistisches Bundesamt (Federal Statistics Office), the German wholesale trade consists of approximately 112,000 businesses. Approximately 71% trade in finished products and 29% in raw materials and semi-finished products. The distribution of the 1.1 million employees is about 72% to 28% respectively. In 1985, 1.5% of the wholesale firms employed more than 100 people and 80% employed fewer than 10 people. The major firms accounted for 44% of turnover and the small businesses 16%. Appendix 3 shows a number of these statistics. In 1985 50% of all businesses had a turnover of less than 0.5 million ECU (1 million DM).

Overall summary

## The wholesale trade in the Federal Republic of Germany

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**Economic importance**

The turnover of the wholesale trade is 33% higher than that of the German retail trade. Until 1985, however, growth in the latter sector was far more positive. Approximately 41% of the Gross National Product is distributed through wholesalers. The wholesale trade employs approximately 4% of the workforce. The number of businesses declined slightly between 1985 and 1988 which points to a degree of centralisation. This is not true of the turnover and the number of jobs, which have risen by 5% and 6% respectively. In the two previous years there was a fall in turnover which was put down to the sensitivity of the sector to market conditions and pressure on prices due to strong competition.

**Reputation**

The German wholesale trade plays an important role in the economy. A training course ('Ausbildung' system) which has been in existence for several decades provides excellent basic training. In addition there is a greater degree of awareness of the wholesale sector than in neighbouring countries. International wholesale companies find it easier to attract well-qualified personnel than do small or medium-sized companies. The career development prospects are better, as are training opportunities.

**Management structures**

Germany has a number of very large (international) wholesale companies which have diversified, from steel trading for example. These companies still have close links with industry. Their management structures are up-to-date and innovative, especially with regard to automation. In small and medium-sized businesses the level of automation is to a very large extent dependent upon the affinity of the owner/manager and upon the financial backers of the organisation. Integrated systems applications with suppliers, for example, are only rarely found. The larger firms are at present taking the first steps down this road.

Overall summary

## The wholesale trade in Italy

General statistics 1986

| | | |
|---|---|---|
| Population | | 57.1 million |
| Working population | 23.2 million | |
| Gross National Product | 611.9 billion ECU | |
| Growth (87) | | 3.1% |
| (88) | | 3.9% |
| Inflation (88) | 5% | |
| Imports | | 101.9 billion ECU |
| from EC | | 55% |
| Exports | | 99.4 billion ECU |
| to EC | | 54% |

Source: Eurostat

Wholesale trade 1988

| | | |
|---|---|---|
| Number of businesses | 122,711 | |
| Employees | | 1,056,200 |
| Turnover | | |
| Growth in number of businesses (84-88) | 14% | |
| Growth in turnover | | |
| Increase in number of employees (81-88) | 22% | |

Source: Mica/Fiet

Structure

The wholesale trade in Italy consists of 122,711 businesses. In 1981 this number was 26% less and of this number approximately 85% employed fewer than 10 persons and 0.5% employed more than 100 persons (see Appendix 4). Although these data refer to 1981, since then there has been a limited amount of centralisation, as a result of which it may be assumed that the situation has not changed to any great extent. From 1987 until 1988 the number of businesses increased by 3%. The employment rate increased by only 0.5%.

**The wholesale trade in Italy** (continued)

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Sectors

The position of the wholesaler varies a great deal from sector to sector. Certain sectors such as audiovisual equipment and electrical goods, textiles and food products are well-structured whereas other sectors in the non-food areas have a weak organisational structure. During the last few years a number of commercial centres have emerged in Italy: these are situated on the edges of large cities and specialise in non-food products. These centres group together between 50 and 200 traders and offer a number of logistic advantages to small traders.

Economic importance

The Italian wholesale trade employs 1,056,200 persons or approximately 5% of the working population. These figures are not very reliable as the statistics do not distinguish clearly between the retail and wholesale trades. ISTAT does make such a differentiation, but these figures are only published once every 10 years.

Management structures

The use of automated data processing has only made moderate progress in the Italian wholesale trade (with the exception of the larger firms). The level of education of the small businessman may be one of the causes of this. This situation is expected to change rapidly in the coming years due to increased centralisation. As in many other European countries, education and training need to be improved in Italy in order to strengthen competitiveness.

Overall summary

## The wholesale trade in the United Kingdom

General statistics 1986

| | |
|---|---|
| Population | 56.6 million |
| Working population | 27.5 million |
| Gross National Product | 556 billion ECU |
| Growth (87) | 3.8% |
| (88) | 4.2% |
| Inflation (88) | 6.6% |
| Imports | 127.5 billion ECU |
| from EC | 50% |
| Exports | 107.7 billion ECU |
| to EC | 48% |

Source: Eurostat

Wholesale trade 1986

| | |
|---|---|
| Number of businesses | 112,225 |
| Employees (88) | 939,000 |
| Turnover | 237.5 billion ECU |
| Growth in number of businesses (85-86) | 1% |
| Growth in turnover (85-86) | -3% |
| Increase in number of employees (87-88) | 2% |

Source: Business Statistic Offices

Structure

The United Kingdom has 122,225 wholesale businesses which employ almost 1 million people (see Appendix 6). The structure in the United Kingdom is such that a small number of large wholesalers often dominate the various sectors. Small and medium-sized wholesalers are specialists and their area of operations is regional or local. Certain areas of the wholesale trade are being radically restructured. Large companies are buying up regional firms in order to strengthen their position.

Overall summary

**The wholesale trade in the United Kingdom** (continued)

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Sectors

The raw materials and semi-finished products and the non-food consumer goods sectors each account for about one third of the total turnover. Food wholesale comes in third place with approximately 20%. The smallest sector in terms of turnover is wholesale of capital goods (10%). Both the latter sectors had the highest growth figures in 1986, with 14% and 6% respectively.
In the foodstuffs sector 25% of distribution is effected via wholesalers. The United Kingdom has a relatively large number of convenience or corner shops which are supplied by wholesalers. Cash & carry wholesalers play an important role in this area. Competition is fierce, cash & carries find that there is a great deal of competition from 'retail discount' chains in particular. The position of the wholesaler is weaker in the non-food sector as a large number of deliveries are made directly by the producer.

Economic importance

The wholesale sector makes an indirect contribution of about 40% to the Gross National Product. The share of the national workforce is approximately 3%. In 1986 turnover decreased by 3% whereas the number of businesses increased by approximately 1%. In this same year investment barely reached 2% of turnover. It may be assumed that 1987 and 1988, for which statistics are not available, will show a growth of several percentage points. However, in these years inflation has risen rapidly, which will mean that growth in real terms has been limited.

Overall summary

## The wholesale trade in France

General statistics 1986

| | | |
|---|---|---|
| Population | | 55.2 million |
| Working population | 23.5 million | |
| Gross National Product | 737.6 billion ECU | |
| Growth (87) | 2.2% | |
| (88) | 3.4% | |
| Inflation (88) | 3.1% | |
| Imports | | 130.6 billion ECU |
| from EC | | 64% |
| Exports | | 121.4 billion ECU |
| to EC | | 58% |

Source: Eurostat

Wholesale trade 1987

| | | |
|---|---|---|
| Number of businesses | 78,000 | |
| Employees (88) | 950,000 | |
| Turnover | | 246 billion ECU |
| Growth in number of businesses (86-87) | 1% | |
| Growth in turnover (86-87) | 2% | |
| Increase in number of employees (85-87) | 8% | |

Source: CFG/Institut de l'entreprise

Structure

The French wholesale trade comprises approximately 78,000 businesses of which 5,000 (6%) are involved in export. There are some large international wholesale companies in France which have branches in a number of Member States. These are to a large extent involved in the electrotechnical industry.

Overall summary

## The wholesale trade in France

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Sectors

The interindustrial sector occupies a major place within the sector: 41% of all employment, 36% of all businesses and 36% of turnover. It is the most profitable area of the sector (see Appendix 5). The share of the food sector in total wholesale turnover is approximately 42%. Food wholesalers have had to fight off a great deal of competition from large, powerful purchasing groups. A general food wholesaler is often owned by a retail chain which has also built up a position within the catering trade from this base. The non-food sector has had to tackle the problem of being eliminated from the distribution chain. In the textiles and furniture sectors among others, the position of the wholesale trade has become a great deal weaker over the past few years. This third sector accounts for 22% of the wholesale turnover and provides 29% of the employment in the wholesale trade.

Economic importance

One third of the Gross National Product is distributed via the wholesale trade, which is less than in neighbouring countries. Approximately 4% of the workforce is employed in the wholesale sector, which over recent years has had a positive effect on job creation: between 1985 and 1987 8% more jobs were created. Less than 25% of national exports are effected via wholesalers. In total, approximately 13% of the wholesale turnover is accounted for by exports, which leads to the conclusion that the French wholesale sector is strongly orientated towards the internal market.

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Management structures

The French wholesale trade is going through a period of restructuring. The wholesale trade is more active in the formation of cooperative associations than is the case in neighbouring countries in order to combine forces in areas such as purchasing, automation and marketing. These cooperative associations have until now only grouped together French regional wholesalers. The first steps have also been taken towards international cooperation (with Spain and Italy, among others). The international companies in the interindustrial sector are making substantial investments to modernise their trading companies: marketing, improving exchanges of information, automation and stock control. The French wholesale trade is highly innovative and shows a great deal of daring in the field of automation and data communication.

Overall summary

**The wholesale trade in Spain**

General statistics 1986

| | |
|---|---|
| Population | 38.5 million |
| Working population | 13.8 million |
| Gross National Product | 232.6 billion ECU |
| Growth (87) | 5.5% |
| (88) | 5% |
| Inflation (88) | 5.8% |
| Imports | 33.3 billion ECU |
| from EC | 51% |
| Exports | 27 billion ECU |
| to EC | 61% |

Source: Eurostat

Wholesale trade 1980

| | |
|---|---|
| Number of businesses | 49,150 |
| Employees (88) | 324,000 |
| Turnover | |
| Growth in number of businesses (80-86) | 32% |
| Growth in turnover | |
| Increase in number of employees | |

Source: Instituto Nacional de Estadistica

Structure

In 1980 Spain had 49,150 wholesale businesses. According to a report from the French Embassy in Spain, this number has now increased to 65,000. 86% of these businesses operate at a local level. Approximately 58% of Spanish wholesale businesses employ fewer than 10 people, whereas only 10% employ more than 50 people. In spite of the formation of distribution groups in certain sectors, the Spanish wholesale trade can be described as regional and small scale in nature.
Wholesalers are in general extremely dependent on regional producers and suppliers. Approximately 22% of all wholesalers import goods from overseas. The structure of the Spanish wholesalers differs considerably from those in other Member States. This strong regional outlook means that Spanish wholesalers are not very well prepared for international trade and competition. The wholesale trade is aware of this fact and the larger companies are striving hard to find European partners.

Overall summary
**The wholesale trade in Spain** (continued)

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| | |
|---|---|
| Sectors | In the food sector regional wholesalers are grouped together in purchasing associations (Sociétés de Gestion) of which there are about 10 in Spain. Because of the domination of traditional commerce, cash and carries occupy an important position in the Spanish market. Their position will decline in the future due to the increasing power of integrated trade (supermarket chains and independent subsidiary companies). Distribution is carried out along extremely traditional routes in the non-food consumer sector. This sector of wholesale is not highly structured. In certain subsectors such as furniture, electronic household goods and sports equipment, the position of the wholesalers is very weak indeed as more than 70% of all goods are sold directly from the manufacturer to the retailer. The interindustrial sector accounts for 32% of the total wholesale trade. There is no recourse to direct sales in this sector. Interindustrial wholesaling is local in outlook and operates on a small to medium scale. |

Overall summary

**The wholesale trade in the Netherlands**

General statistics 1986

| | | |
|---|---|---|
| Population | | 14.5 million |
| Working population | 5.7 million | |
| Gross National Product | 179 billion ECU | |
| Growth (87) | 1.3% | |
| (88) | 2.8% | |
| Inflation (88) | 0.7% | |
| Imports | | 81.3 billion ECU |
| from EC | | 61% |
| Exports | | 85.9 billion ECU |
| to EC | | 76% |

Source: Eurostat

Wholesale trade 1988

| | | | |
|---|---|---|---|
| Number of businesses | 41,500 | | |
| Employees (88) | | 321,000 | |
| Turnover | | | 129 billion ECU |
| Growth in number of businesses (87-88) | | 3% | |
| Growth in turnover (87-88) | | 5% | |
| Increase in number of employees (87-88) | | 3% | |

Source: Vereniging van Nederlandse Groothandel/CBS

Structure

The Dutch wholesale trade has a small-scale structure: approximately 85% of all businesses employ fewer than 10 people. Only 1% (300 companies) employ more than 100 people. The small businesses account for one quarter of wholesale turnover and provide employment for more than 71,000 people. Capital goods form the major sector of the Dutch wholesale trade. This sector accounts for 23% of total wholesale turnover, food and raw materials and semi-finished products account for 19% and 18% respectively. See Appendix 7 for statistics.

**The wholesale trade in the Netherlands** (continued)

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## Economic importance

The Netherlands is above all a trading nation and as a result has a very international outlook: in the Netherlands 40% of all imports and approximately 25% of all exports are carried out through wholesalers. The food and chemical sectors in particular are strongly export-oriented. Wholesale export turnover rose by approximately 9% in 1988 to a figure of 26 billion ECU. Wholesaling, together with business services, is the sector of the economy which is growing most rapidly as regards job creation and employs approximately 5% of the workforce. Last year the number of jobs increased by approximately 3%.
Wholesaling in capital goods has recorded the highest growth rates in the Dutch wholesale trade for many years. Turnover has increased by about 7%. This growth was mainly accounted for by medium-sized companies. Large companies have recorded increases in export turnover in particular.

## Management structures

Approximately 1.2 billion ECU were invested in 1988, equivalent to about 2% of total turnover. About 40% of this figure was accounted for by investments in expansion. Significant improvements in productivity have been achieved through the automation of administrative functions. Automation of stock management and order routing systems will be the next stage. Small and medium-sized businesses have delayed making this type of investment until now because the lack of standard software has made such a step too costly. Approximately 70% of all transport is contracted out by wholesalers making deliveries from their stock (85% of the total). The agricultural products and non-food consumer goods sectors are exceptions to this rule, relying on their own transport.

Overall summary

**The wholesale trade in Belgium**

General statistics 1986

| | |
|---|---|
| Population | 10 million |
| Working population | 4.1 million |
| Gross National Product | 114.4 billion ECU |
| Growth (87) | 2% |
| (88) | 4% |
| Inflation (88) | 1.9% |
| Imports (incl. Lux) | 70.4 billion ECU |
| from EC | 70% |
| Exports(incl. Lux) | 70.2 billion ECU |
| to EC | 73% |

Source: Eurostat

Wholesale trade 1987

| | |
|---|---|
| Number of businesses | 19,315 |
| Employees (88) | 164,112 |
| Turnover | 81 billion ECU |
| Growth in number of businesses (86-87) | 2% |
| Growth in turnover (86-87) | 1.5% |
| Increase in number of employees (86-87) | 3% |

Source: ONSS & TVA

Structure

Most Belgian businesses can be categorised as small or medium-sized, often family firms with a local area of operation. According to the statistics (see Appendix 8), 81% of the businesses employ fewer than 10 people whereas 4% employ more than 50 people. Approximately 67% of all jobs are provided by wholesale companies which employ fewer than 50 people.

Economic importance

The wholesale trade employs about 4% of the workforce. The role of the wholesale trade in Belgium is to a large extent shown by the (indirect) share of wholesaling in the Gross National Product, approximately 70%.

Sectors

The non-food consumer goods sector is the major sector of the wholesale trade in terms of the number of companies (35%) and people employed (33%). Concentration in this sector is limited compared with the interindustrial sector: the 10 largest companies account for 7% of the sector's turnover, and employ 13% of the employees. The 10 largest companies in the capital goods sector, on the other hand, 33% of the sector's turnover but the number of employees is approximately the same, with the result that the average turnover per employee is higher: 0.3 million ECU and 0.5 million ECU respectively. The average turnover per employee for the ten largest companies is highest in the raw materials sector: 1.5 million ECU. This sector has seen the greatest reduction in the number of jobs available: 13% between 1980 and 1987. The capital goods sector is the only one in which job opportunities have risen since 1980 (by 16%).

Management structures

Automation in areas of stock control and data transmission is still very limited in Belgium. Many companies have not yet reached the critical size in order to generate sufficient cash flow for such relatively large investments. Many wholesale businesses fear an increase in competition as a result of the internal market, especially from their colleagues in France and the Netherlands.

Overall summary

## The wholesale trade in Portugal

General statistics 1986

| | | |
|---|---|---|
| Population | | 10.2 million |
| Working population | 4.4 million | |
| Gross National Product | 28.9 billion ECU | |
| Growth (87) | 4.7% | |
| (88) | 3.9% | |
| Inflation (88) | 11.7% | |
| Imports | | 9.6 billion ECU |
| from EC | | 59% |
| Exports | | 7.3 billion ECU |
| to EC | | 68% |

Source: Eurostat

Wholesale trade 1985

| | | |
|---|---|---|
| Number of businesses | 21,759 | |
| Employees | | 125,000 |
| Turnover | | 9.3 billion ECU |
| Growth in number of businesses | + | |
| Growth in turnover | + | |
| Increase in number of employees | | |

Source: Direcçao-General do Comércio Interno

Structure

31% of the 22,000 businesses employ more than 10 people. Their turnover accounts for 90% of the total figure. The remaining 69% of the businesses thus account for only a small percentage of total turnover.

Sectors

The food sector is the most important, accounting for 25% of the total turnover and 28% of all employment. The chemical products and minerals sector follows with 17% of turnover (see Appendix 9). The food wholesale sector is having to cope with ever stronger competition from the large supermarket chains which are rapidly making inroads into this market. These chains are owned by foreign companies and are introducing new methods and techniques. Most wholesale businesses are concentrated in the Lisbon area and in the north of Portugal.

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Economic importance

Wholesaling plays an important role in the Portuguese economy. Portugal has little industry, although trading has a long history in this country. The wholesale sector is of particular importance in the import market: approximately 60% of national imports are effected via wholesalers. Thanks to its historical links with South America, Portugal can be seen as the gateway to this continent. It is difficult to give percentage growth figures due to the lack of statistical data. However, estimates indicate that the number of businesses rose during 1988. The Portuguese wholesale trade provides employment for approximately 3% of the workforce.

Management structures

The Portuguese wholesale trade has to combat a number of problems. One of these is the low rate of productivity although labour costs are low. Increased efficiency is required to improve the competitive position vis-à-vis companies financed by foreign capital. The level of training is generally low, as a result of which there is a great need for vocational training in the wholesale trade. Modernisation would be desirable but there is a shortage of investment capital. This is especially so as regards the 70% of small firms. There is some combining of forces but where this has taken place it is under the leadership of foreign companies. Spanish and French companies have built up significant positions in the distribution sector.

As a result of the influence of foreign companies, automation has reached approximately the European average. Administrative tasks have been automated, as has stock management to a limited extent.

The Portuguese wholesale trade relies on its own transport to a great extent: 76% of all wholesale companies use their own transport. It is mainly large companies which contract out transportation requirements.

Overall summary

## The wholesale trade in Denmark

General statistics 1986

| | |
|---|---|
| Population | 5.1 million |
| Working population | 2.9 million |
| Gross National Product | 84.1 billion ECU |
| Growth (87) | -1% |
| (88) | -0.4% |
| Inflation (88) | 4.6% |
| Imports | 23.6 billion ECU |
| from EC | 53% |
| Exports | 22.1 billion ECU |
| to EC | 47% |

Source: Eurostat

Wholesale trade 1987

| | |
|---|---|
| Number of businesses (85) | 24,683 |
| Employees (87) | 142,000 |
| Turnover (87) | 53 billion ECU |
| Growth in number of businesses | |
| Growth in turnover (86-87) | 1% |
| Increase in number of employees (86-87) | 2% |

Source: Danmark Statistik

Structure

35% per cent of the approximately 24,000 wholesale companies deal with export. The wholesale turnover comprises 53 billion ECU, which is equivalent to an average turnover per wholesaler of 2.2 million ECU. About half of these wholesale businesses have a turnover below 125,000 ECU. About 10% of the businesses have a turnover of greater than 3 million ECU (see Appendix 10).

Economic importance

The indirect contribution of Danish wholesaling to the Gross National Product is well over 60%. The wholesale trade provides employment for approximately 5% of the workforce. Job opportunities increased by about 4% in 1986. In 1987 growth was a little less dramatic: 2%. The total turnover of the wholesale trade shows an annual growth of about 1%. In 1985 and 1986 exports fell by approximately 10%. In 1987 exports recovered somewhat. The national turnover was, however, moving in the opposite direction. In 1986 domestic turnover increased by approximately 4% and in 1987 a slight decrease was recorded.

Overall summary

**Summary of main facts concerning the European wholesale trade**

| | Number of businesses (in thousands) | Number of employees (in thousands) | Average number of employees per business | Turnover in billions of ECUs | Average turnover in thousands of ECUs per employee | % GNP | % Workfoce | % Consumer goods | % Industrial goods |
|---|---|---|---|---|---|---|---|---|---|
| F.R.G. | 112 | 1.100 | 11 | 396 | 345 | 41 | 4 | 71 | 29* |
| Italy | 123 | 1.056 | 8 | | | | 5 | 60 | 40 |
| France | 78 | 950 | 12 | 246 | 259 | 33 | 4 | 64 | 36 |
| U.K. | 112 | 939 | 8 | 237 | 252 | 43 | 3 | | |
| Spain | 49 | 324 | 6 | | | | 3 | 68 | 32 |
| Netherlands | 42 | 321 | 7 | 129 | 400 | 70 | 5 | 46 | 54 |
| Belgium | 19 | 164 | 8 | 81 | 494 | 70 | 4 | 54 | 46 |
| Portugal | 22 | 125 | 5 | 9 | 72 | 32 | 3 | | |
| Denmark | 25 | 142 | 5 | 53 | 373 | 60 | 5 | | |
| Luxembourg | 1 | 8 | 8 | 3 | 375 | | 3 | | |
| Ireland | 2 | | - | | | | | | |
| Greece | 25 | 150 | 6 | | | | | | |

* Raw materials and semi-finished goods

| | | | | | |
|---|---|---|---|---|---|
| Total (estimated) | 600 | 5.000 | | 1.500 | |

**Summary of main facts concerning the European wholesale trade** (continued)

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The hidden force

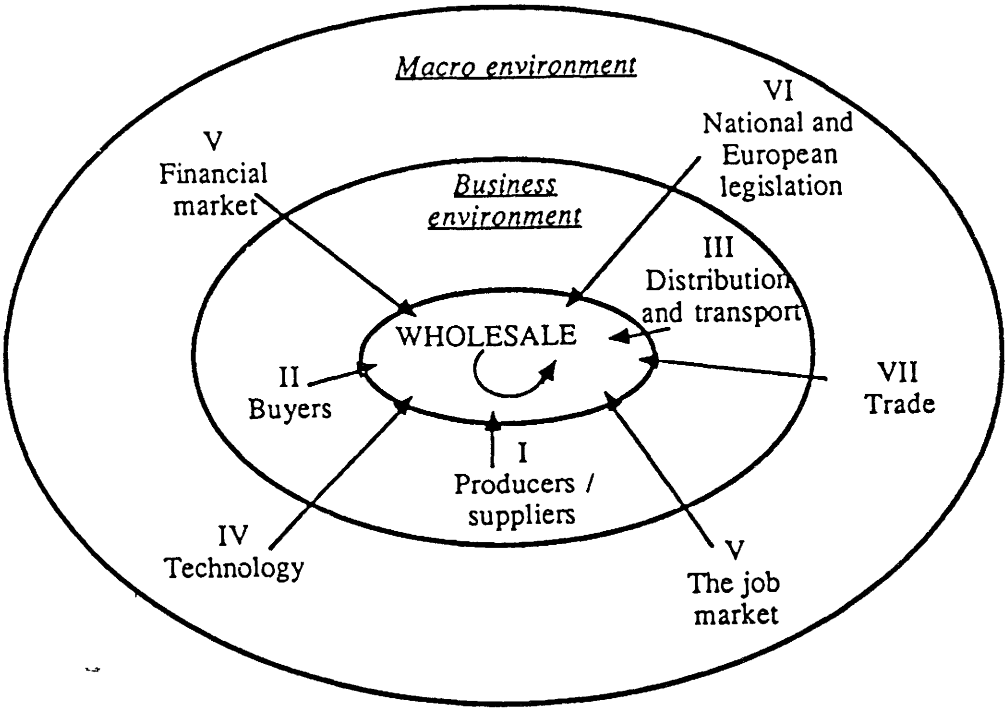
The European wholesale trade is a powerful force which remains out of sight. In all the Member States it fulfils an essential function in international trade in goods. Given the small size of the individual businesses (60% to 85% of all businesses employ fewer than 10 people), it may be assumed that flexibility, speed and the meeting of specific needs are the strengths of the European wholesale industry. In certain Member States centralisation has begun to make inroads. The average number of employees may be used to measure the extent of this (West Germany and France).

Given the growth and turnover, capital goods and food consumer goods appear to be the major sectors within the wholesale trade. The relationship between consumer goods and industrial goods is approximately equal between the various Member States. The German industrial percentage only refers to raw materials and semi-finished products.

Small-scale businesses in general appear to be most numerous, particularly in the countries of southern Europe. This may be explained by the lower level of concentration in retail outlets and industry in these countries. The average turnover per employee is influenced by the weight of the trading sector in the total turnover and by productivity. There are significant differences between the various Member States. It is difficult to draw any firm conclusions as the quality of statistics varies significantly.

The indirect contribution of the wholesale trade to the Gross National Product varies a great deal, insofar as statistical data is correct and may be compared. The significance of the wholesale trade as regards employment, on the other hand, appears to be broadly similar in all Member States.

# IV DEVELOPMENTS IN THE EUROPEAN WHOLESALE TRADE




The wholesale trade fulfils the role of an intermediary in the distribution chain and is therefore subject to a wide range of influences. These influences come from the business environment, where varying degrees of influence can be exercised, and from the macro environment. In this sphere of influence the producers and buyers are of course of great importance. The wholesale trade will have to anticipate not merely their needs but also the strategic impact of their policy decisions and their actions on their own management practice. In addition, there are developments in various fields which may have a direct or indirect influence on the position of the wholesale trade. Such developments may offer the opportunity of an improved position in the market. Whatever the case, they require a careful appraisal of how the wholesale trade will adapt to these developments. This chapter will consider the influence of developments in the above-mentioned fields on the wholesale trade.

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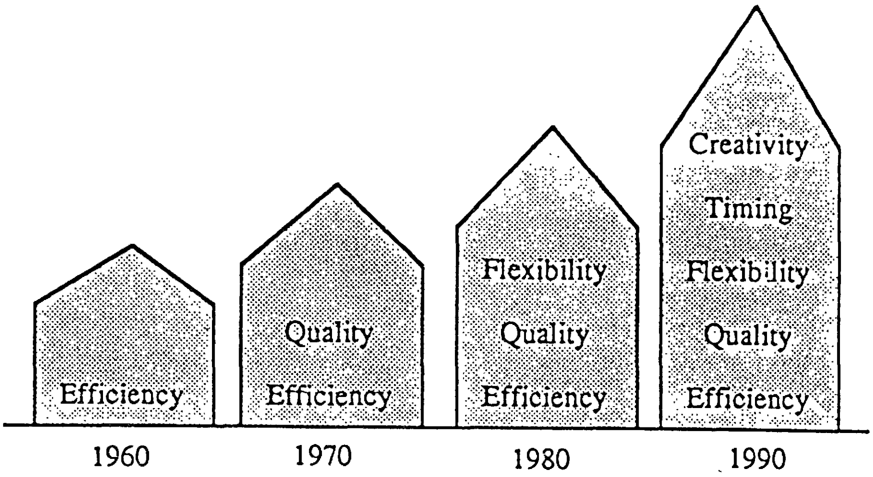
Critical factors




Over the years the critical factors which affect the success of industry have become increasingly complex. The changing needs of buyers and technological developments are responsible for this. The demands which will be made of producers in the nineties and the consequences of the European market will result in a number of developments:

Trends for the nineties

- The back-to-basics trend will continue, with the result that activities which do not form part of the core business will be contracted out to specialist companies.
- Flexibility, quality and creativity require specialists, resulting in more links in the business chain.
- Specialisation and harmonisation of technical standards (sizes, weights, safety, quality, etc.) will lead to increases in scale. In addition, the range of products available will increase due to greater R&D efforts, which together will result in an increased flow of goods and related services.
- Competition will increase. Producers will therefore want to gain more control over the marketing and distribution of their products so that they can remain in charge of the implementation of their European strategy. This may well result in forward integration of certain wholesale functions. In addition, increased use of telematics facilities opens up greater possibilities for direct sales.

Developments within Europe
I Producers
impact on the wholesale trade

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The opportunity for the wholesale trade

The increased flow of goods, the back-to-basics trend and specialisation making the distribution process increasingly complex are positive factors for the wholesale trade. They create options for carving out a position as the commercial centre of the distribution network. The wholesale trade has valuable knowledge of specific geographical markets and can fulfil an essential role by providing information: needs are changing continually and a supplier with the correct timing can build up a competitive advantage with new products.

More intensive cooperation

The wholesale trade can improve its position as a distributor and commercial partner if it can prove itself to be an indispensable partner for the manufacturer. A partner who is prepared to help build up a competitive position and will:

- cooperate and assist with the computerisation of data bases and the transmission of information,
- cooperate with and contribute towards R&D, not just as regards product development but also concerning process development and organisational matters,
- cooperate in keeping logistics costs to a minimum,
- regularly pass on relevant market information,
- think and work from a European perspective. Suppliers will give preference to wholesalers who form part of a European network and as a result can guarantee the same standard of service throughout Europe.

This means an even closer connection with suppliers than is at present the case and involvement in development and innovations which are taking place within the suppliers' companies in order to avoid being left out in the cold and being replaced by companies providing more specialised services.

The wholesale trade comes into contact with many sorts of buyers: specific trends among certain groups of buyers will be discussed in the next two sections. This section is concerned with general trends.

Competition

The consumer of products supplied by the wholesale trade will also come up against increased competition which will result in more attention being paid to improvements in efficiency in the production process. Savings on costs will be given high priority, as a result of which more demanding requirements will be imposed upon the logistic performance of the wholesaler. The Just-in-Time principle will then become more standard and will be applied to new situations.

Quality of service

Quality of service is essential in the wholesale trade. More demanding requirements mean that performance will have to be improved in the following areas:

- pre-sales elements: service policy, organisational structure of suppliers, etc.
- sales elements: stock levels, order processing periods, order information, guaranteed delivery, etc.
- after-sales elements: guarantee terms, settlement of complaints, spare parts, stocking, etc.

Elimination

In the major markets for the wholesaler in both industry and the retail trade, the trend towards concentration and internationalisation is growing. This trend is increasing the possibility of the elimination and integration of the function. Within the consumer goods market, in particular, far- reaching integration of retail and wholesale will take place as a result of increases in scale.

Reduction

Ever closer bonds will develop between buyers and suppliers as a result of joint investments in automation and marketing for example, which will lead to a decline in the number of suppliers per consumer.

Developments within Europe
II Buyers
impact on the wholesale trade

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Services provided

Wholesalers will be judged more than ever on the added value they provide. Thus the key word for the nineties will be service. The core business will be supported and strengthened by providing services in the following areas:

- The accent will shift from the sale of products to giving advice to help solve the buyers' problems or to improve internal procedures.
- Wholesalers will take over certain of the buyer's tasks which do not form part of his core business. This may include, for example, the complete purchasing activities for non-strategic products (including stocks), maintenance contracts and repairs. This development started in the retail trade during the 80's with rack-jobbing and merchandising.
- The wholesaler will give advice on product ranges and product control and will aid buyers in their marketing efforts.
- The wholesaler will provide management information and will support the buyers' planning process and take on certain administrative functions.
- The wholesaler will provide a complete logistics package, either alone or in cooperation with third parties, including financing, insurance, dispatching, transport activities, etc.

Added value

Adding value by carrying out certain activities: repackaging, promotion, supplying smaller quantities, carrying out technical adjustments and even designing their own products, perhaps bearing their own label.

Increases in scale

In the nineties buyers will become larger and more powerful, with the result that more pressure may be put on the middlemen. Improved levels of performance are thus just as necessary as increases in size to provide a counterweight to the power blocks which will develop within industry and the retail trade.

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### Overcoming inefficiency in transport

The economic advantages of European integration will be directly visible in the transport sector. A number of inefficiencies will be abolished by regulations which will go hand in hand with the disappearance of internal frontiers:

- The cabotage rules will disappear, increasing the efficiency of transport throughout Europe.
- Cumbersome transport procedures will disappear as a result of standardisation.
- Increases in scale of warehousing space will be made possible, as will a choice of preferential locations.

### Diversification of transport

Large and medium-sized transport companies are expanding their freight activities by offering related services ranging from logistics to assembly. There is a great deal of competition in the transport sector and this is likely to increase. Efforts are being made to strengthen their position further by adding value by offering to provide a total logistics package. In the nineties, large transport companies will have a major role to play in controlling the total flow of goods. They are investing in the creation of a total European distribution network, including the construction of gigantic public warehouses at central European distribution crossroads.

### Logistics developments

Control of distribution and logistics will be a key factor in the nineties due to increases in the flow of goods and products available, as well as in the level of current logistics costs. In this respect, attention should be drawn to the following developments:

Logistics developments

- European union will lead to the development of logistic (super) central points with a high concentration of producers and buyers close to each other. There will then be branch-lines to surrounding areas. Appendix 11 includes a map of Europe showing potential European clusters and those centres which should be considered as possible logistic (super) central points.

  The public warehouses referred to earlier will have a central role to play. They specialise in the provision of logistic services and can take over all activities concerned with physical distribution as well as all related information technology functions so that producers or traders may concentrate on their core business activities. As a result of this specialisation, the public warehouse enjoys the advantages of a combination and the effects of scale compared to the traditional single-user warehouses. There will be significant advantages in areas where there is a relatively small number of deliveries. By combining deliveries cost advantages are gained and more frequent deliveries are possible.
  However, public warehouses do not bear their own commercial liabilities in the way that wholesalers do.

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### Competition versus cooperation

In their attempts to add value, specialists in the wholesale and transport sectors meet in new areas of service. In certain cases this will result in competitive behaviour, but often the parties will attempt to work more closely together in order to provide more substance for their total concept. Thanks to the possibilities of data communication, manufacturers can take over commercial functions themselves while contracting out the logistic element. This also offers the trader the possibility of contracting out in order to concentrate on commercial functions. This is especially true for independent small and medium-sized businesses which do not have sufficient resources to make the significant investments in information technology and warehouse space.

### Integration

The international wholesale companies will take on the logistic functions already outlined and will perform various logistic tasks for the European business world. Another possibility is to enter into a cooperation agreement and thus take part in the European distribution networks.

Specialist firms can build up a network of complementary services and by so doing make the best use of opportunities for synergy.

### Contracting out transport

Due to increases in scale and the abandoning of the cabotage regulations, as well as the increase in competition in the transport sector, transport prices will fall, which may be a good reason for many wholesalers to contract out their transport services to a greater extent.

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## Information technology

The market place is flooded with information, produced by a number of different partners. Developments in information technology provide the opportunity to improve the processing and transmission of data. The integration of information technology systems with the telephone network means that the factors of time and distance, which are both of vital importance in the distribution trades, can be bridged more rapidly. An essential prerequisite for the use of data communication is the standardisation of data transmission methods. If this is not done, then separate provision will have to be made for each business partner, which will require enormous investments. Considerable initial hesitation will have to be overcome before companies will be prepared to process their data in a uniform manner.

## Data communication systems

Data communication systems are now being developed rapidly. Some examples are:

- Non-interactive electronic message transfer whereby transmission occurs between the data bases of computers. These data bases are concerned with transactions and the documents referring to them.
- Interactive electronic message transfer in which information is made available and orders may be transmitted. Often this is done by means of single source electronic sales methods. A new development is electronic shopping by means of which the prices charged by various suppliers may be compared. These systems are at present mainly used for commodities or standardised products.
- Electronic Data Interchange means that structured messages are transmitted between the computer systems of different organisation. In this way, not only is data exchanged but the message processing systems are integrated. The parties will have come to a prior agreement concerning the form, content and method of processing the information.

- Distribution Resources Planning goes one step further and is intended to function as a method of integrating the various planning and management functions within a physical distribution chain. This consists of connecting the retailers' systems via the wholesaler and the central warehousing to the manufacturer.

This final form of data communication is still in its infancy: psychological barriers, commercial and legal questions, the telecommunications infrastructure which in many countries still leaves a great deal to be desired and finalising of the systems themselves, all still have to be overcome. However, this is already underway and within a few years this technical breakthrough will become a fait accompli.

Stock management

Warehousing is still an important function of the wholesale trade. Developments in robotics have made it possible to make warehousing tasks fully automatic. The improved possibilities for the automation of stock management will offer the wholesaler the opportunity to improve his financial position.

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Savings and advantages

It has been estimated that administration costs in trade account for an average of 10 to 15% of the market value of the products involved. The costs of excessive stock levels and excessively long waiting times are also estimated to make up to 10 to 15% of the market price. Standardised electronic data exchange could lead to enormous savings in both of these areas for both buyers and suppliers.

The use of data communication systems brings with it a number of advantages:

- Information (e.g. stock levels) is available more rapidly, so that decisions may be taken more quickly.
- The quality of the information available is better and more wide-ranging. The quantity of information is also increased.
- Better logistic delivery will be possible and as a result lower stock levels may be maintained and less capital will be tied up.
- Fewer administrative procedures for purchasing and sales.
- Commercial information will be better and more rapidly available (customer spending patterns, speed at which products are moving, etc.).
- Commercial information will be available to clients more rapidly: advertising campaigns, special offers, information on new products.

Changes in organisational methods

The implementation of data communication systems will require certain changes in organisational practices within wholesale organisations:

- Wholesalers will have to be prepared to standardise data and to work together with partner firms and perhaps even with competitors in order to set up a data network.
- This will often involve an adaptation of the computer system and large-scale investments which cannot always directly be translated into operational advantages.

- Administrative procedures within the organisation will have to be adapted.
- The organisation will require staff qualified in Electronic Data Processing, which will require staff training.
- The control and processing of information will become a vitally important job.
- Protecting data systems against break-ins, unauthorised manipulation (hacking) or breakdown will become of crucial importance.

Cooperation

Cooperation is a central element in the use and development of data communications networks: cooperation with suppliers, buyers and colleagues in the sector. This last group is required because of the high costs involved in developing systems and laying down standards and also in order to exchange information between each other. Setting up cooperation associations implies striving towards compatibility and (in certain cases) even the direct connection of computer systems. Closer bonds will thus be formed but in time flexibility will increase, as a result of which linked systems will not necessarily guarantee long-term relations.

New forms of cooperation will come into being with service industries such as warehousing companies and haulage firms. European standardisation will make international networks possible, stimulated by European integration. The dark cloud for the wholesale trade is the possibility that automated telecommunications will make it possible for the manufacturer to sell directly to the consumer, thus eliminating the wholesaler. In certain circumstances where the wholesaler cannot supply sufficient added value during the distribution process, this will lead to a loss of certain markets.

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Strategic necessity

The developments in telematics will require active involvement and a carefully thought-out change in strategy on the part of the wholesaler. It will be absolutely essential for the wholesale trade, or those parts of it that are not doing so already, to take part in communications networks or to develop these themselves in a cooperative manner.

## V The employment and financial markets
trends and impact on the wholesale trade

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### A limited employment market

The population of Europe is growing very slowly: forecasts suggest that in the year 2005 the population growth within the EC will barely reach 2%. The population in Germany and Belgium is even falling. A falling birth rate and the increase in average life expectancy mean that the working population will decline rather than remain stable in the coming years, which in turn means that in relation to the expected economic growth there will be a shortage of (qualified) staff.

### More powerful recruitment policy

In a limited employment market the wholesale trade will complete far harder in order to attract the qualified staff they will increasingly need. This means that the wholesale trade will have to cast off its cloak of anonymity and take on a higher profile.

### Payments

The liberalisation of the European capital markets will make it easier to attract new capital. Financial transactions will be accomplished more rapidly, which will have a positive effect on cash flow and the credit offered within the wholesale trade. Thanks to the Single Market, banking networks will be able to function more efficiently so that several separate processing stages can be combined, resulting in a more efficient and more rapid international system of payment.

As regards the granting of credit and payments, a difference should be made in particular between northern and southern Europe. In Portugal, especially, credit restrictions for the wholesale trade have a limiting effect mainly on small enterprises. There are difference here not only between the Member States but also between the various wholesale sectors.

The ECU is used to a limited degree in international transactions. Its use will certainly increase in the near future as the advantages are undeniable: it is a stable value, which means that there are no risks due to fluctuating exchange rates and it is far simpler than holding a basket of different currencies.

European union will result in national regulations and legislation being partially superseded by European legislation, which will have far-reaching consequences for trade and industry. The major changes for the wholesale trade are summarised below:

Harmonisation of VAT rates

In December 1989, the EC Ministers of Finance reached a compromise on the harmonisation of VAT. Virtually no changes will take place in the VAT system until 1 December 1991. Further negotiations will be held during this period to reach agreement on standards and reduced EC VAT percentages (minimum percentage or a narrower range). The Member States will endeavour to set a standard rate for national VAT percentages of between 14 and 20% by December 1991. The zero rate for basic products in the United Kingdom and Ireland, for example, will remain in force until this date. It will also be possible to maintain this zero rate after 1 January 1992. The European Commission has proposed a range of 4 to 9% for the low VAT rate.

Initially VAT was to have been collected in the country of destination. However, as the Member States have not managed to reach any agreement on this, they have returned to an earlier proposal to allow collection to be effected in the country of origin. This collection system requires prefinancing for export companies, which involves extra charges. These are still proposals which may be changed during the period up to 1992.

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### Product liability

The internal market will also entail harmonisation of the rules regarding product liability. The new regulations will involve a reversal of the burden of proof: the plaintiff will no longer have to prove a fault on the part of the defendant. Another change is that not only the manufacturer is considered to be the producer, but the importer of products from outside the EC is also deemed to fulfil the same role. This regulation has yet to come into force and its effect on the wholesale trade is not yet clear.

This new regulation is certain to lead to increased costs (supplementary insurance premiums, higher claims for damages, increased number of claims) for:

- wholesale companies which import products from non-EC countries.
- wholesale companies which market goods whereby the consumer cannot discover the identity of the producer
- wholesale companies selling goods under their own brand name
- wholesale companies which change some part of the goods

### Technical standards

Technical restrictions will be lifted by making standards uniform: sizes, weights, qualities, safety standards, hygiene and veterinary requirements and all other technical standards which are specific to certain sectors. The harmonisation of standards will stimulate and simplify international trade. In addition, it will be more difficult for individual Member States to prohibit imports of certain goods. Controls and standards for the environment will also be harmonised to a greater extent. The wholesaler will have to follow this trend and build up a greater degree of expertise concerning environmental requirements in various fields.

**VI Regulations and legislation**

changes and impact on the wholesale trade (continued)

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Competition

EC competition legislation (see Appendix 13) will affect wholesale companies with a turnover of more than 250 million ECU which wish to merge. Such mergers will have to be examined by the European Commission for possible misuse of a dominant position within the market. Exclusive sales agreements, exclusive purchasing agreements and franchising are exempt from examination.

European Economic Interest Group

The European Commission is promoting European cooperation between small and medium-sized business in the wholesale trade by making available a new European form of association: the European Economic Interest Group (see Appendix 14). This new form of association will, for example, permit wholesalers to group together in order to form European purchasing groups.

European social legislation

The Member States of the EC intend to work together during the coming years on the development of the social dimension of the European Community. Further details are given in Chapter VI: the social dimension.

## Parallel imports

In the first years of European union parallel imports of brand name products will increase because it will take several years to harmonise prices and in addition parallel trading may no longer be prevented. This is a threat to importers of brand name products who have exclusive representation agreements, but it provides an opportunity for other wholesalers. After a few years, however, price discrimination will have a far more limited value. Geographic exclusive sales agreements will no longer be limited by national boundaries but will be based on logistically attainable areas of activity.

## Trade outside the EC

Trade with non-EC countries accounts for 42% of total European imports and 43% of total European exports. The construction of high external barriers against imports could have very serious consequences for exports. Non-EC trading partners (USA, Japan, EFTA countries) expect the internal market to be more protectionist than the 12 separate Member States. Current protectionist regulations vary widely between Member States. Import quotas are avoided by investing within the EC: Japanese companies are especially active in establishing footholds in a number of European countries. At present it is not certain how the harmonisation of import quotas will be organised and what effects this will have on the wholesale trade.

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East bloc

Recent developments in the East bloc countries have opened up a number of interesting perspectives for the wholesale trade. Until now trade has been limited (5% of total European imports and exports) and is normally in the form of bartered exchanges of goods. Privatisation and liberalisation in the East bloc countries have opened up the way for the expansion of trade, including the independent state trading organisations. The possibility of setting up joint ventures will also create opportunities. In November 1989 a treaty on economic cooperation and trade was signed between the Soviet Union and the EC. This treaty will last for 10 years and will be expanded in the coming months and years. The EC is also working on bilateral trade agreements with other East bloc countries.

**Conclusions regarding developments in and around the wholesale trade**

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1
Increased flow of goods

The European wholesale trade will benefit from the increased flow of goods which will undoubtedly result from the abolition of all sorts of barriers and the restructuring of European business life. The harmonisation of technical standards will stimulate international trade.

2
Competition

These developments will also lead to an increase in competition. Not merely competition from colleagues in the same sectors but also from neighbouring areas of activity such as transport firms which are diversifying into providing logistics services (public warehouses) and are building up European distribution networks. Moreover, companies which specialise in maintenance and service industries are beginning to encroach on the area of the wholesaler. Greater competition also implies greater pressure on profit margins unless the wholesale trade attempts to rationalise and add extra value to products.

3
Service

The wholesale trade in the nineties will be a service sector: the provision of the maximum level of service to the consumer and the development of related activities will lead to greater satisfaction of the buyer's requirements: services which will lead to more efficient management on the part of buyer and place a greater added value on his business activities.

4
Rationalisation

A precondition for success in the nineties is a lean costs structure. As a result of the postponing of investments there is still a great deal of inefficiency in company management, such as high overheads and logistics costs. Through streamlining and automation space must be created for investments in data communication systems and in education and training. This will lead to a change in the cost structure.

5 Telematics/logistics

Information technology will lead to major changes and shifts of power within the distribution trades. The wholesale trade can improve its information functions and form a vital link in the chain between suppliers and buyers. Cost savings can be achieved by automation and the provision of information can enhance the service provided which will improve the competitive position. The development of data communication networks and the introduction of stock control systems will, however, require considerable investments which will be beyond the reach of certain wholesalers.

6 Increases in scale and internationalisation

It may be concluded from the developments summarised in this section that the wholesale trade in the nineties will have to move further in the direction of increases in scale and internationalisation:

- Investments in data communication systems and the construction of a European distribution networks are far too capital intensive for the majority of wholesalers.
- Internationalisation and increases in scale among suppliers and retailers will require wholesalers to follow the same path
- Closer relations with buyers and suppliers by connecting computer systems will in the long term lead to international cooperative associations.
- The emergence of specialist organisations working at a European level may undermine the competitive position of the wholesale trade.
- The producers' need for a total distribution concept at European level strengthens the need for increases in scale.

**Conclusions regarding developments in and around the wholesale trade** (continued)

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Options

Increases in scale and internationalisation can be achieved in a number of ways:

- by taking over companies in a number of EC Member States
- by entering into an association with an existing European wholesale group
- by cooperating with colleagues in the same sector in other Member States
- by forming a wholesale group with a number of European colleagues
- by forming a network with complementary service companies: factoring, leasing, public warehousing, transport, wholesalers with complementary ranges of products.

Advantages

Whatever form of increase in scale is sought, the advantages which may be obtained are the following:

- by joining forces larger investments may be made in the area of automation (software packages) and data communication networks
- group purchasing will improve the market position with regard to more concentrated producers and clients
- information and expertise may be exchanged between cooperating partners
- staff training courses can be developed together with partner firms
- product ranges may be complementary so that partner firms can cover a larger area of the European market

Specialisation

Increases in scale are not the only strategic option. There will still remain a place within Europe for the small-scale specialist. However, these specialists will also be able to benefit from cooperative agreements in which each partner retains his independence but works with the others in certain agreed areas.

# V INDUSTRIAL WHOLESALING: OUTLINE AND PERSPECTIVES

The industrial wholesale trade

**Raw materials and semi-finished products - an outline**

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Raw materials

Wholesaling in raw materials occupies an important position in a number of EC Member States. This is especially so in countries where there are only limited supplies of raw materials. Wholesale in raw materials has an international outlook and is highly concentrated. Wholesale in steel, for example, is dominated by a small number of large companies who are often closely linked to producers. It is estimated that 80% of these companies are divisions of international industry-related companies and the remaining 20% consists of specialist companies with a limited range of activities. In addition, many of these companies are family firms.

The wholesale trade in raw materials in the chemical industry has a similar degree of polarisation: large international wholesale companies dealing in bulk products and specialist niche operators with a limited range of products usually operate within one country. Trade in petrochemicals lies in the hands of a small number of international companies. The raw materials trade has a large number of trading companies which do not themselves hold stocks but act as administrative intermediaries. Wholesalers who hold their own stocks attempt to add extra value by processing materials (steel, timber) or by blending and packaging them (chemicals). In such cases firms are moving away from raw materials towards semi-finished products.

**Raw materials and semi-finished products - an outline** (continued)

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Semi-finished products and construction materials

The level of concentration in most subsectors of the wholesale trade in semi-finished products is a great deal lower. More specialist medium-sized trading companies operate in this area covering a national or regional area from a number of branches. The back-to-basics trend within the industry often leads to the contracting out the incoming flow of goods. Wholesalers operate a just-in-time service in this area.

In the wholesale trade in timber and construction materials there is an increasingly evident trend towards sales to individual buyers: D.I.Y. chains and builders' merchants are being set up. Many wholesalers still put themselves forward as general traders, whereas given their product ranges they would better advised to specialise. In the timber market, German wholesalers are seen as highly professional and it is feared that they will begin to compete in neighbouring areas.

Other industrial products

Wholesale in plumbing supplies is on a regional basis in the vast majority of cases because of the high level of customer service required. The national market is covered by forming groups of companies. Wholesale trade in plumbing supplies is extremely capital-intensive because of the large number of products which must be stocked. The lack of any standard software means that this will have to be developed from scratch, which will require a great deal of investment.
The connection of computer systems between suppliers-wholesalers-buyers is still in its infancy.

The largest plumbing wholesalers have often taken over installation companies. As with builders' merchants, there are a large number of sales to individual buyers in this area.

Technical wholesalers who supply building, fitting and construction firms are highly concentrated within Europe. The market is dominated mainly by French companies and as a result of an expansionist takeover policy they have companies all over Europe. Thanks to increases in scale, these technical trading companies are more advanced in the application of interactive ordering systems and stock control systems, etc. Due to their high degree of professionalism they are market-orientated, they can apply the most recent techniques and they offer a better profile of the wholesale industry in general.

**Raw materials and semi-finished products - perspectives**

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Raw materials

In this sector the internal market will not bring about a large number of changes as increases in scale and internationalisation have both already taken place. The trading companies will expand further by means of takeovers in order to strengthen their European position. Their attention will be caught by specialist wholesale companies with products with a higher profit margin. Smaller trading companies will specialise further and set up cooperative associations with European colleagues or complementary service companies in order to protect their area of the market. Standardisation and simplification of technical standards will give a special impetus to the wholesaling of chemical products.

Semi-finished products

In the building materials wholesale trade the market will require further specialisation on the part of small and medium-sized firms and, simultaneously, increases in scale by changing from a local to a regional marketing area. Service will become a central feature of supplies to building, fitting and construction firms: advice, improved delivery and the provision of information. Creating added value by carrying out work on products and adding specialist products will also yield better results. Diversification towards the market of private individuals will continue. This is an additional area of the market where profit margins remain good and payment is in cash. In France this area of the market is subject to a great deal of competition from the large retail organisation, which may expand into other EC Member States.

Other industrial products

The wholesale trader in plumbing supplies will have to gain more power compared with producers as the latter will increase their influence on marketing (prices) as a result of concentration.

Technical trading companies are expanding their European markets and gaining strength. The internal market will not bring about any far-reaching changes in their strategic policies. New European regulations will simplify their internal management structures.

The industrial wholesale trade
**Capital goods - an outline**

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Structure

Wholesale trade in capital goods has a number of specific characteristics. Importing is extremely important. It often works by exclusive sales agreements and it is more sensitive to cyclical changes in the market.
The usual distribution structure is from the importer via the wholesaler to the dealer, with the functions of importer and wholesaler often being combined. This sector mainly consists of medium-sized companies which serve one region or country. In many cases they are part of a larger group. The products' service requirements encourage this regional nature. In certain EC Member States (the Netherlands, France and Spain, among others) the capital goods sector is the most powerful sector of the wholesale trade and that which has shown the strongest growth in recent years.

Competition through service

Because of the increasing complexity of products (thanks to the widespread use of micro-electronics) the wholesaler is to an ever greater extent becoming a technical specialist who advises and provides information and staff training for the consumer. Support services such as installation, maintenance and technical adjustments also have a central role to play.
Competition based on price is increasingly giving way to competition based on service. Cooperation with other service industries is increasing: rental firms, hire companies, financial institutions, etc.

Acquisition by producers

One development which is becoming increasingly common is that suppliers are taking over wholesalers for commercial and competition reasons and in order to gain more control over their markets. A second reason is the antenna function: in order to be more closely involved with developments in specific markets.

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Computer sector

The international computer companies are relative newcomers in this area. They provide their own wholesale departments by establishing their own sales offices and distribution centres in all European countries. These multinationals have experienced high levels of growth in recent years and are at a different stage of development compared to the traditional wholesaler. There is at present a threat of over-capacity in Western Europe. The degree of penetration in Southern Europe remains low. The multinationals are surrounded by a large number of small specialist trading companies. Here, too, there is a significant degree of movement in and out of the sector.

Increases in scale

Attempts are being made to introduce increases in scale into the capital goods sector for two reasons: to spread costs and risks. The latter implies takeovers in specialist areas of the market where higher profits can be made in areas that are less sensitive to the market. The degree of penetration by (non-European) manufacturers in the European wholesale market will continue for some time until the consequences of the internal market become clearer. Following this a period of disinvestment cannot be ruled out.

Competition

The internal market will increase parallel imports of brand name products until prices have levelled out. As a result, competition will be increased. Reliable advice and service will then become of vital importance. In addition, more international competition is to be expected, especially in border areas, as the logistics costs will account for a relatively smaller part of the price, as a result of which buyers will be more inclined to place orders outside their own regions. When compared to other sectors, the capital goods sectors has the least to fear from European competition because of the importance attached to service. Furthermore, the number of products will increase in the coming years as a result of improved and accelerated R&D which emphasizes the function of the wholesaler.

Competition from other sectors

Complementary service branches may become substantial new competitors: independent maintenance firms who are able to supply cheap replacement parts as they are not bound to any particular manufacturer: public warehouses which can provide the logistics element for less service-sensitive products such as photocopiers for which manufacturers can set up their own service networks. The wholesale trade can, of course, develop into an intermediary between those providing various different services in which they will contribute technical know-how and service. The large trading companies will integrate these services into their own companies.

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The computer sector

In the computer sector the internal market will encourage the standardisation of hardware and software, thus reducing product dependence. The result of this will be increased competition leading to increased efficiency. Reorganisation may be expected in western Europe whereas in southern Europe a high rate of growth may be predicted.

# VI CONSUMER GOODS WHOLESALING: OUTLINE AND PERSPECTIVES

Consumer products

**Wholesale trade in food consumer products - an outline**

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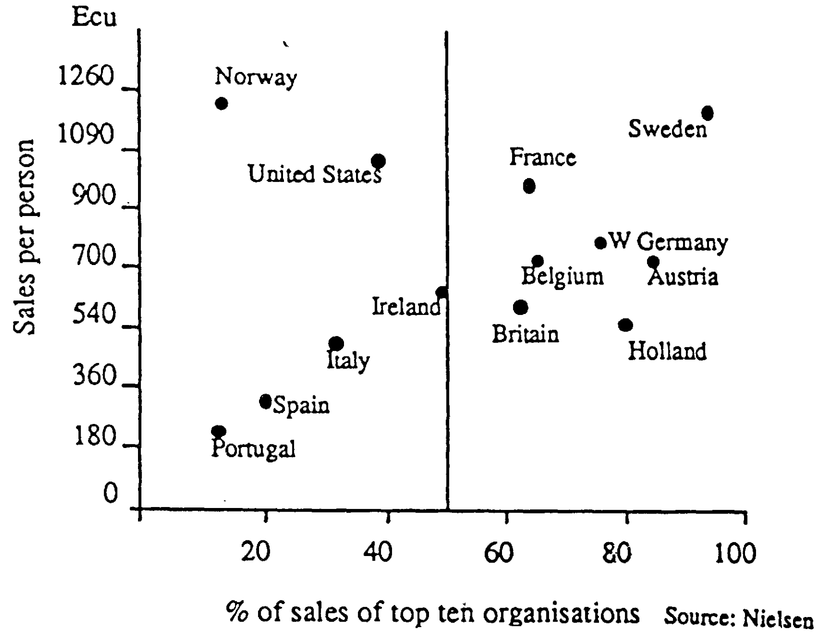
Concentration of the retail trade

Relationship between purchasing power and concentration within the retail trade 1985.




In the diagram above the yardstick for concentration is the relationship between the number of retail outlets and the turnover of the 10 largest retail organisations. In Spain, Portugal and Italy there is a low degree of concentration in the retail trade. For example in Spain 57% of the turnover in the foodstuffs industry is accounted for via wholesalers. In more northern countries this percentage is less than 20%. Very high degrees of concentration exist in France, Germany, the United Kingdom and Belgium, which can also be seen from the list of the Top 30 European retail organisations (see Appendix 12). For example, in France the market is dominated by a number of very large purchasing conglomerates.

Internationalisation of the retail trade

Large-scale retailers (turnover varying between 17 billion and 3 billion ECU) are internationalising by entering into cooperation agreements. Ahold, Casino, Argyll, Migros and ICA have concluded a cooperation agreement for purchasing, marketing, product development, etc. Further examples include the European Marketing Distribution Group (Markant, Uniarme, Selex, Iberica Selex Gruppo, Socadip and Zev) and the European Food Group (Rewe, GB-Inno-BM)

**Wholesale trade in food consumer products - an outline** (continued)

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Concentration of the wholesale trade

Concentration in the retail trade has led to concentration in the wholesale trade: purchasing cooperatives and franchise organisations have come into being, as a result of which the wholesale and retail trades have, to a large extent, become integrated. In the United Kingdom the foodstuffs wholesale trade is in the hands of about 5 large organisations which have recently taken over a number of regional specialists. This is partly due to a fear of foreign takeovers.

Cash & Carry

The Cash & Carry system has a special place in the wholesale trade in consumer goods. Its target is the small independent store. The Cash & Carry system has a number of advantages for this group: flexibility, wide product range, quantities may be decided upon independently as there is no minimum order quantity, cheaper than the wholesaler who delivers. Cash & Carries occupy a significant position in the British market (large number of convenience stores) and in countries where the number of small self-employed retailers is high: Spain, Portugal and Greece. In Spain approximately 12% of the turnover in the foodstuffs sector is accounted for via Cash & Carries.

Catering

Catering is an important market for food wholesalers. Growth is steady and this market is still characterised by a large number of small-scale buyers. In the United Kingdom, for example, 80% of all catering purchases are made from wholesalers. This percentage is also very high in other Member States. Concentration is beginning to make itself felt in the catering market and this would adversely affect the position of the wholesalers. In the United Kingdom the reaction of the wholesale trade has been forward integration, for example, by setting up their own franchise chains.

**Wholesale trade in food consumer products - perspectives**

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Increases in scale

The (integrated) wholesale trade will further internationalise and increase in size just as the retail trade has done. Increases in scale are necessary to create a more efficient distribution structure and in order to be able to build up a European purchasing network so that the market position will be strengthened compared with that of the producers and retailers. Strong competition and the resultant pressure on profit margins will lead to increases in scale in order to spread the costs.

Integration between wholesaler and retailer will continue (see also outlook for non-food products). The wholesale trade will be able to profit from trends such as the 'shop-within-the-shop' and specialist shops by developing its own franchising formulas.

Southern Europe

In southern Europe the retail trade will receive a sudden shock: concentration will increase sharply. Until now the foodstuffs wholesale trade has occupied an important position in Italy, Spain and Portugal. Forward integration would be the answer here but restructuring appears to be inevitable. Foreign retail organisations will penetrate in southern European markets and cause major upheavals in the distribution chain. The number of independent retailers will remain larger than in northern countries, providing more opportunities for the wholesale trade (especially for Cash & Carries).

Demand for change

Price relationships will change as result of the internal market. Price reductions may be expected as a result of more efficient production and the difference in consumer prices between the various Member States will diminish. The harmonisation of VAT rates will also have its effect. As a result of the opening of the frontiers, patterns of consumption will begin to merge even more. This will result in changes in the demand for consumer products. Differences in patterns of consumption will always remain due to the cultural differences in the various countries and regions. Whether these changes will lead to more or less market potential for the wholesale trade depends on the direction in which prices move and to what extent consumption patterns change.

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Logistics

As a result of the internal market, purchasing patterns will change considerably. Central purchasing offices will be set up by retail and wholesale cooperative associations spread all over Europe.
Purchasing will be carried out centrally where the advantages are the greatest. Central depots will be set up, where processing activities such as price labelling, repackaging, etc. may be carried out and from where further distribution may be organised. These depots will be able to take on a maximum range of products, resulting in significant cost savings.
Such networks will integrate transport and will make use of all forms of telecommunications technology. Just-In-Time deliveries will increase as these enable the retail industry to make considerable savings, since there is no need for temporary warehousing.

Specialisation

In addition to increases in scale, specialisation will be the trend of the nineties. Specialisation in order to improve the competitive position compared to general retailing. One special area of the market is fresh (chilled) products, because logistics are absolutely vital and are different from those of other retail products. Flowers and plants are another example. The critical time factor offers the wholesaler the chance to set himself apart by his high standards of service. The market for fresh products is expected to grow sharply in the coming years. The catering market will also remain important for the wholesale trade.
Specialisation in this target group often means that the product range must be expanded to include non-food articles so that a full product range may be offered.

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Harmonisation

The EC's food harmonisation programme is based on four main aspects: food labelling, food additives, nutritional uses and materials with which food may come into contact (packaging materials, for example).
The new regulations will replace the old detailed EC regulations. There is still no certainty as to the status of national legislation. Standardisation will facilitate international trade but at the same time increase competition on the domestic market.

Cash & Carry

Cash & Carries will focus to a greater extent on niches in the market. Increases in scale are necessary for small and medium-sized Cash & Carry companies if they are to be able to make the required investments in telematics and warehousing. Service will be the key word in the nineties in order to retain the loyalty of the small, self-employed businessman. Takeovers by retail organisations are not inconceivable, as the two concepts are very similar.

Consumer products

**Wholesale trade in non-food consumer products - an outline**

Structure

Small and medium-sized businesses dominate this sector and usually cover a regional or national area. A large number of (brand name) products are imported. The importers then resell to the regional wholesalers who take care of warehousing and distribution. There is a trend in this sector for the wholesalers to group together in order to eliminate the importer. The fight over margins is often the root cause of this.

Parallels with the food sector

The non-food sector shows a large number of parallel with developments in the food sector. The wholesale trade has lost ground to retailers in many product areas: furniture, textiles, audiovisual products and electrical goods, footwear and toys. In most EC Member States (the Netherlands, the United Kingdom, Spain, France and Belgium, for example) these products are delivered directly to the retailer by the manufacturer. For example, in Spain about 70% of audiovisual products and electrical goods are sold directly. In the furniture sector this percentage is even higher: about 80%. In Italy, unlike in other Member States, textile wholesalers have a good position: they form the link between producer and consumer, they react quickly and flexibly to rapidly changing trends in fashion and add value by adding styling.

In the non-food consumer goods sector, the wholesaler is increasingly fulfilling the role of product developer. Thanks to new links with the market, the wholesaler can react very quickly to new trends and resulting needs. Branches where this is particulary important include: plumbing, gifts, textiles. This will provide a major opportunity for the wholesale trade to take a certain distance in the nineties.

Concentration in the non-food sector is generally very limited. The non-food sector is the most diverse and the least transparent of the four sectors.

Consumer products

**Wholesale trade in non-food consumer products - an outline** (continued)

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Technical products

One exception is the wholesale trade in technical products (do-it-yourself products, ironmongery, tools, etc.): increases in scale have already taken place here. A characteristic feature of this wholesale trade is that their cost leadership strategy has resulted in too slow a rate of reinvestment. A new (re)profiling policy is beginning to emerge: processing products, automation and professionalisation of logistics, expansion of the services package and development of franchise formulas. In the car materials sector direct sales to buyers are increasing, pointing to further integration of wholesale and retail markets in consumer goods.

Pharmaceutical products

The wholesale trade in pharmaceutical products is linked to legislation governing medicines, which influences policy significantly. Due to the large number of buyers, the enormous range of products and the (critical) frequency of deliveries, this is the perfect market for the wholesaler. These characteristics mean that the critical limit for the range of a pharmaceutical wholesaler is high. As a result this area of the wholesale trade is extremely concentrated in all the Member States. The level of automation is high. Certain companies have already taken the first steps towards European cooperation.

Consumer products

**Wholesale trade in non-food consumer products - perspectives**

Restructuring

Non-food wholesaling will undergo the same changes as the food sector. The strategic choices for the wholesale sector are as follows: increase in scale and specialisation. The need for increases in scale is the same as in the food sector. A great deal of attention must be paid to professionalisation and profiling in order to maintain the competitive position: increasing the levels of service, making maximum use of automation and telematics, expanded provision of services, etc. The pharmaceutical wholesale sector now mainly has a national market place due to the considerable differences in prices between various countries.
Levelling out of prices and harmonisation of legislation on medicinal products will lead to the internationalisation of this trade.

Competition

Producers, especially from outside the EC, will carry out takeovers in order to maintain their markets. In addition, producers will wish to have a greater degree of control over the distribution of their own products. Those wholesalers who enter the retail market by franchising will encounter keen competition from the large retail organisations which will increase their product ranges and will also diversify into new specialist formulas.

Integration

In both the food and non-food consumer goods sectors further integration will occur between the wholesaler and the retailer during the nineties. Integration will initiated by both sides:

- The retail trade was the first to increase in scale, resulting in concentration. The scope makes the integration of the wholesale function a logical step as the two branches lead on from one another.
  Independent retailers will react by forming purchasing groups and cooperatives, and by so doing will integrate the task of the wholesaler.
- The wholesaler finds himself being squeezed out and consequently integrates forwards by means of franchising and setting up voluntary subsidiary companies.

The advantages of integration are as follows:

- Economies of scale: more efficient logistics process
- Streamlining of distribution as links in the chain are eliminated
- Shorter line of communication between producer and consumer
- Increased flexibility, enabling companies to react more quickly to changes in market trends
- Better prices for the consumer

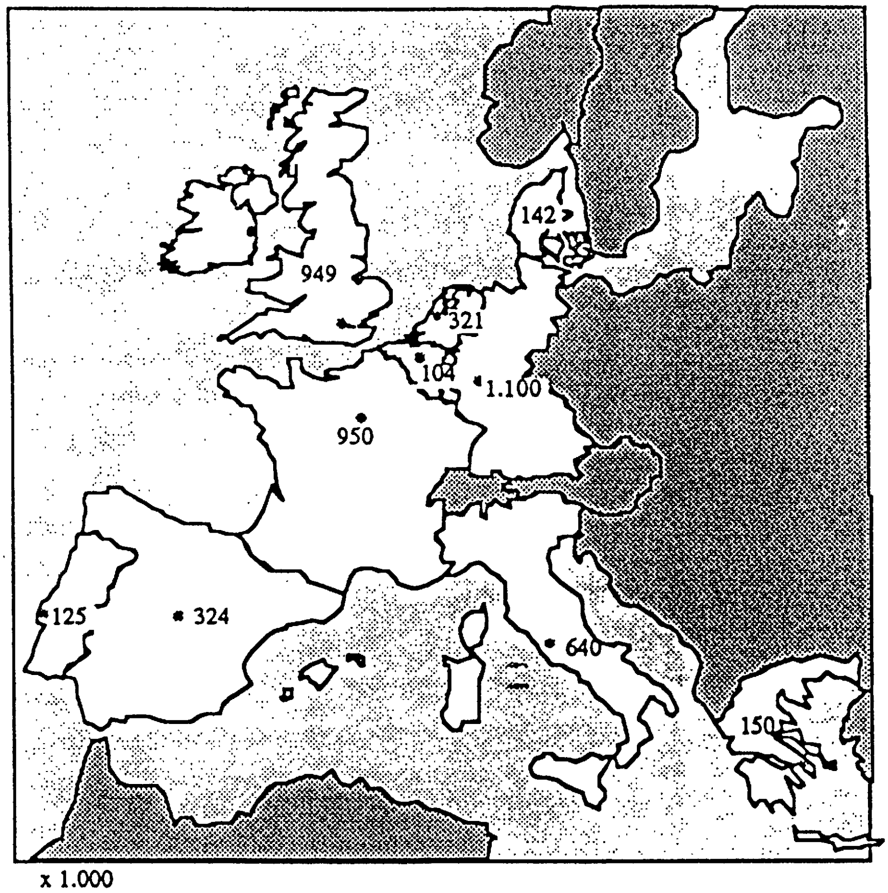
Integration of both distribution functions appears to be a logical process as there is a certain degree of overlap in activities. Integration of primary functions will be followed by integration of support services such as transport, insurance and financial services.

# VII THE SOCIAL DIMENSION

The social dimension

**Employment opportunities in the wholesale trade in 1990**

Stable employment




With about 5 million jobs, the wholesale trade provides employment for 5% of the European workforce. There are a number of reasons for assuming that job opportunities, which have probably increased in recent years in most Member States, may well stabilise or fall slightly in the first years of the nineties. These include the following:

- The increase in competition will require certain rationalisation measures in the wholesale trade (including the reduction of overheads).
- Increases in scale and concentration will lead to the elimination of a number of duplicated jobs in order to obtain maximum benefit from the advantages of synergy.
- Automation and more intensive use of modern telecommunications will also lead to a loss of jobs.

**Employment opportunities in the wholesale trade in 1990** (continued)

- The decrease in the number of wholesale companies will have an effect on employment levels in spite of the fact that many companies will enter into new areas of activity.

The following factors will influence employment opportunities in a positive manner:

- expansion of services provided, creating new jobs
- general economic growth which will have an effect on the wholesale trade.

The level of change in employment opportunities is difficult to quantify. It will be necessary to develop new methods of calculation before making estimates that are of any value.

Mobility

With effect from 1 January 1991, the Member States will recognise each others' higher education qualifications. Directives regarding the mutual recognition of qualifications have been in existence for a number of years. Such recognition of qualifications will lead to increased movement of labour. Free movement of labour will at first lead to greater mobility on the part of top management. Moving company activities in order to benefit from lower wage costs (comparative advantages) will not affect the wholesale trade.

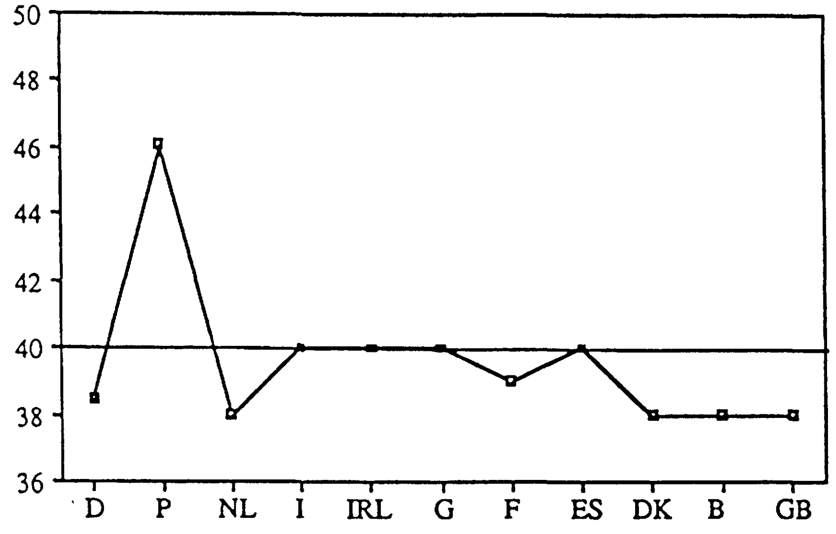
Part-time employment

A remarkable feature in a number of countries is the growth of part-time employment. For example in 1988 in the Netherlands the number of part-time jobs increased by 8%. An increase has also been noted in the United Kingdom. It is expected that this trend will continue due to the increased need for flexibility.

Changes in function

The developments which have been outlined will lead to a change in the sort of jobs that are required: vacancies in commercial functions will increase, as will the demand for specialists in logistics and automation, whereas administrative functions will decline proportionally. In addition, a need will arise for generalists who can fulfil a position of integration between the various specialists.

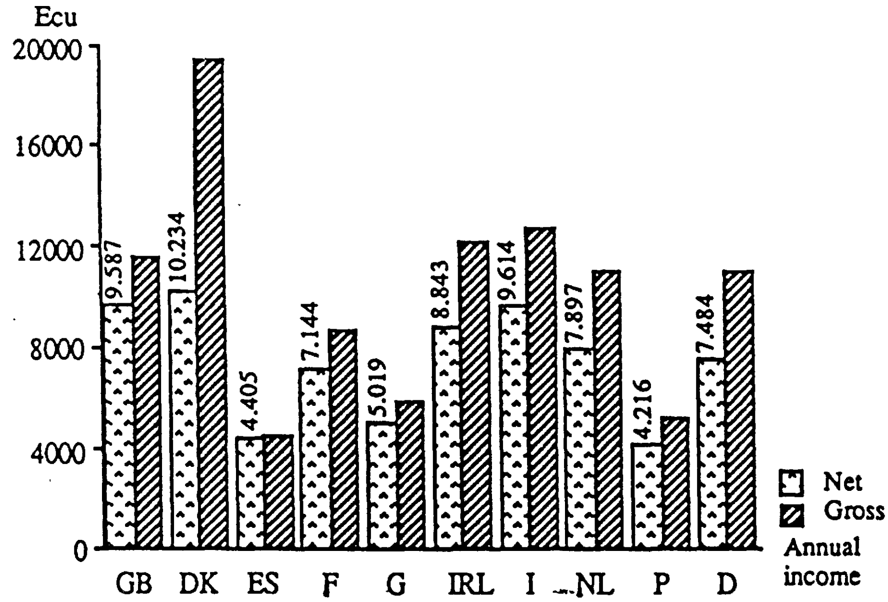
Working hours **Number of hours worked per week, 1988**




Every year Euro-Fiet carries out a survey among its members concerning working conditions within the wholesale trade. This survey shows that within the EC there are great differences as regards the number of hours worked and annual income. According to this data, the working week in the European wholesale trade varies between approximately 38 and 46 hours per week.

**Working conditions in the European wholesale trade (continued)**

Annual income **Gross Net Income:**




There are also considerable differences between gross and net annual incomes: between 4.512 and 19,500 ECU per annum gross. The differences between national taxation and national insurance systems lead to a reduced difference in the net value. Incomes in Spain, Portugal and Greece are only 42% of the average income in other Member States.

Competition The increase in competition will have the following effects on working conditions:
- Pressure on wage costs, with consequences in particular for less qualified staff
- Increased flexibility, affecting working hours and salary structures and leading to an increase in the number of part-time jobs for certain tasks.
- Review of working conditions as a result of concentration and lack of demarcation between various sectors.
- Changes in working conditions by recruiting new, more highly qualified staff.

The social dimension

## European social legislation

---

### The social charter

The social charter adopted by the European Council on 8th and 9th December 1989 constitutes a political, albeit not binding, declaration setting out guidelines within which the Commission could take initiatives based on the relevant articles of the European Single Act. The main chapter of the social charter concerns:

- Free movement of people
- Employment and remuneration
- Improvement of living and working conditions
- Social protection
- Freedom of association and collective bargaining
- Vocational training
- Equal treatment for men and women
- Information, consultation and participation for workers
- Health protection and safety at the workplace
- Protection of children and adolescents.

Possible future legislation in these areas would have an effect on working conditions in the wholesale trade.

### Safety

In this area work is being carried out on regulations to guarantee the safety of employees. Minimum requirements have been laid down concerning protection of the workplace, safety of machinery and individual protective measures. Requirements concerning the handling of heavy loads and the use of VDUs are in the process of being adopted. This would require employers to provide information, staff training and advice in this field.

### Worker participation

The European Commission presented new proposals for the adoption of a legislation enabling companies to adopt a European legal status.
Given the objections which still exist to these proposals, it is difficult to envisage how this involvement will ultimately be governed and what will be the effects on the position of employees in the wholesale trade.

The social dimension

## Training

---

### The current situation

Training within the European wholesale trade is carried out on a more or less ad hoc basis. The German 'Ausbildung' system is an exception to this. In 1987 the Netherlands established a specific (apprenticeship) course for the wholesale trade. Large companies provide in-house training for their staff but small and medium-sized businesses have to rely on the means available.

In general, the level of training in the wholesale trade is low. Most of the functions are carried out by low-paid workers. Until now, employers in the wholesale trade have pursued a human resources policy in which little emphasis has been laid upon investment. The margins are narrow due to keen competition and this means that investments are very selective, preferably being concentrated on the company's hardware. This will have to change in the nineties as it is precisely the 'soft' elements which are essential for the creation of competitive differences and the development of these 'soft' elements means investing in employees.

### Training needs

Wholesaling is a relatively labour intensive sector. People are the most important resource and this will continue to be the case despite the advent of data processing. Training will have to guarantee and increase the constant quality of this resource. More attention will have to be paid to training and the improvement of training and education programmes since:

- jobs are changing and
- European integration will require a higher standard of language proficiency and knowledge of various legal systems
- developments in automation, telematics and logistics also require staff training for new and existing employees
- the orientation towards a service-based organisation will necessitate a change in outlook on the part of many wholesale companies
- commercial expertise will become more important and will need to be given a higher degree of priority in training courses
- furthermore, the fulfilling of an informative function will mean that employees will have to be trained to collect and analyse market trends.

Improved training for employees will become a necessity if the wholesale trade is to remain competitive.

To achieve this aim, attention must also be paid to the training of instructors. European cooperation between universities and institutions must be promoted to upgrade national teaching and training systems.
Furthermore, European cooperation will raise the quality of programmes and increase their suitability.

AMSTERDAM CONSULTING GROUP

# APPENDICES

# THE INTERNAL MARKET : A CHALLENGE FOR THE WHOLESALE TRADE

FEBRUARY 1990

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## Contents

page

Appendix 1



## List of persons interviewed

| | | | |
|---|---|---|---|
| **Phase 1** | B.J. ten Doeschate | Reesink | Zutphen |
| | J.E. Fenenga | VRG Groep N.V. | Amsterdam |
| | A. Lison | VRG Groep N.V. | Amsterdam |
| | J. de Monchy | M&R de Monchy B.V. | Rotterdam |
| | W. Swart | Borsumij-Wehry N.V. | The Hague |
| | K.K. Vervelde | Ver. van Graanhandelaren | Rotterdam |
| | R.N.T.M. Vlek | Internatio Müller | Rotterdam |
| | P.J.D. van der Woude | Fed. van de Groothandel in Levensmiddelen | The Hague |
| | L. Antonini | Verbond Nederlandse Groothandels | The Hague |
| | B.J. van Enst | Verbond Nederlandse Groothandels | The Hague |
| **Phase 2** | | | |
| Denmark | F. Blak | HK/Handel | Copenhagen |
| | E. Petersen | Dagrofa | Copenhagen |
| Germany | H.R. Jäkel | HBV | Düsseldorf |
| | W. Molls | Klöckner & Co. | Duisburg |
| | H. Schmidt | | |
| U.K. | W.J. Connor | USDAW | Manchester |
| | S. Ryder | Makro | Manchester |

Appendix 1

**List of persons interviewed** (continued)

---

| | | | |
|---|---|---|---|
| France | Mrs I. Merian | Confédération Nationale | |
| | B. Hauser | des commerces de gros | Paris |
| | C. Scellier | Mitsubishi France S.A. | Paris |
| | R. Froment | Force Ouvrière | Paris |
| Italy | R. Foresi | Consorzio Végé Italia | Milan |
| | C. Mochi | ISCOM | Rome |
| | A. Zilli | UILTUCS/UIL | Rome |
| Netherlands | | | |
| | L. Bouwman | Digital | Utrecht |
| | W. Drijver | Dienstenbond FNV | Woerden |
| | P.P.F. van Stratum | | |
| | J.D. Louisse | Trade Service | |
| | | Nederland | Amersfoort |
| Portugal | O. de Sousa | Federçao P. do C | Lisbon |
| | C. de Sousa | International | |
| **Phase 3** | | | |
| Germany | E. Greipl | Metro | Düsseldorf |
| | H. Pfeiffer | | |
| | B.A. Wessels | Scipio & Co. | Bremen |
| | P. Eingärtner | Anzag | Frankfurt |
| U.K. | A. Toft | FWD | Eastbourne |

Appendix 1

## **List of persons interviewed** (continued)

| | | | |
|---|---|---|---|
| France | P. Avril | CFCG | Paris |
| | L.T. D'Annebault | Négoce de bois et produits dérivés | Paris |
| Italy | F. Mungo | CISDIT | Milan |
| Netherlands | | | |
| | J.E. Fenenga | VRG Group | Amsterdam |
| | F.R.M. Geurts | GISA | The Hague |
| Belgium | R. Labarbe | SETCA | Brussels |
| | J. Demets | Ufemat | Brussels |
| | R. Straelen | FIGIEFA<br>CLEDIPA<br>FAM | Brussels |
| Portugal | V. Sequira | SITESE | Lisbon |
| | V. da Gama | AGEFE | Lisbon |
| | E. Vilarinho | Distributor Ass. of alimentary goods | Lisbon |
| | M. de Castro | Wholesale Ass. of Chemical and Pharmaceutical Products | Lisbon |
| | J. Fereira da Costa | Portuguese Ass. of Commerce of wood and raw materials | Lisbon |

Appendix 2

## General propositions

---

Current situation

- The wholesale trade fulfils a necessary and useful function in situations where there are a large number of suppliers and/or consumers.
- The wholesale trade uses few labour-saving techniques, which makes it a labour-intensive sector (labour-intensive in the sense that personnel costs form a high percentage of the added value).
- In the wholesale trade the small-scale business prevails, yet the relative importance of the small-scale business is limited.
- There is a fusion of services and industrial activities.
- The current position of the wholesale trade is maintained by means of extending the activities to include logistics services.
- Major investments have to be made in automation, among other things, to make it possible to provide more service to the consumers, creating a stronger relationship with the client.
- In every branch of the wholesale trade two or three leading wholesale traders are active, surrounded by a large number of smaller wholesale traders.
- Entrepreneurship is deeply rooted in the organisation, as a result of which wholesale traders are often very much product-oriented.
- The image of wholesale traders is low-profile. The emphasis is on the products, not the enterprise itself.
- Transport companies are currently a threat to the wholesale trade.
- The development of new (small) wholesale traders in high-tech products.

Appendix 2

**General propositions** (continued)

---

After European union

- Concentration has taken place at an increased pace, especially in those branches of the wholesale trade in which business is conducted on a highly international scale: bulk produce and bulk goods.
- Concentration occurs whenever scale-related advantages can be gained or whenever the financial needs are great as a result of large investments.
- There has been concentration in production. The number of articles has increased, the geographical area of the market has expanded and the market itself has been extended as well, as a result of which the wholesale trade will be involved more frequently.
- Further specialisation in products and market sections.
- The wholesale trade plays an important role as a link between international producers and national consumers.
- Wholesale traders have introduced considerable computerisation and can be described as information processing enterprises. More attention will also be paid to the passing on of market information to international producers.
- The margins of the wholesale trade (for each branch) have been levelled for all EC countries (especially in border regions), insofar as the activities undertaken are the same.
- In the branches of the wholesale trade that have low margins (e.g. bulk goods), efficiency will play an important role. Only the most efficiently working wholesale companies will remain.
- In southern Europe, restructuring will take place at an increased pace.

Conclusion

The European wholesale trade will not undergo any drastic changes after 1992. Most developments have already been started independently of 1992. Technological developments and their corresponding possibilities of performing new functions will result in the most important changes.

Appendix 2

**Propositions concerning the wholesale trade in raw materials and semi-manufactured products**

---

Current situation

- Concentration and internationalisation of the wholesale trade in grain, chemical products, pharmaceutical products, etc.
- Trend towards obtaining optimum effect among consumers of the incoming flow of goods (JIT).

After European union

- A few large multinational wholesale companies control the markets. In addition, smaller specialists ('nichers') operate on a mostly regional basis.
- Manufacturers concentrate entirely on core business and contract out as many activities as possible concerning both the incoming and the outgoing flows of goods.
- Thanks to the standardisation of requirements, trade within the EG is increasing (not in volume, but with respect to geographical range).
- The primary orientation remains the global market in this branch of the wholesale trade (in the agricultural sector much will depend on agricultural policies).
- The European wholesale businesses will have a better position on the global market as a result of improved efficiency.

Conclusion The wave of concentration is coming to an end: opportunities for mergers and acquisitions are diminishing. This branch is directed primarily at the global market, which makes its future position heavily dependent on the foreign policy of the EC. A closed economic policy will have a negative effect.

Appendix 2

**Propositions concerning the wholesale trade in capital goods**

---

Current situation

- There is less question of the elimination of the wholesale trade in this branch as in the consumer goods sector.
- Over the past few years considerable growth has been recorded thanks to technological developments and a wider variety of products.
- Manufacturers and consumers concentrate on core business and are not inclined to favour forward or backward integration.
- The wholesale trade has a regional function because of the need for service and information, the preparation of specific situations for application and its advisory function.
- Service industries are increasingly entering the market, thus forming a threat.

After European union

- Defensive takeovers to avoid dumping.
- The European union provides a major incentive because of increased levels of expenditure and investment.
- Manufacturers are adopting a more global strategy, through which they will have a decisive influence on the marketing policy.
- On the one hand, standardisation will take place, which will cause an increase in trade and competition, and on the other hand extensive differentiation will take place because of accelerated technological developments.
- Increased competition results in pressure on margins.

- Wholesale companies operating on an international scale will form attractive business partners for manufacturers outside the EC.
- Service centres for the provision of logistics services have been set up for bulk goods from this branch.
- Exclusive representations will still exist. The influence of parallel imports will increase sharply.

Conclusion There will always be a need for regionally operating wholesale businesses. Scaling-up will not occur to improve positions but for defensive reasons. Competitive pressure is increasing, causing the wholesale trade to operate more effectively.

Appendix 2

**Propositions concerning the wholesale trade in consumer goods / food**

---

Current situation

- The importance of the traditional wholesale trade has been eroded by integration and concentration in the retail business.
- Cooperative associations have been set up between wholesalers and retailers in the form of voluntary subsidiaries, franchise organisations, service merchandisers and purchasing associations.
- The elimination of the wholesale trade through concentrations among suppliers and consumers (retail business).

After European union

- The traditional food wholesale trade has disappeared.
- Specialised food wholesale businesses have been developed, operating in international cooperations (catering, delicatessens).
- In Mediterranean countries restructuring will take place at an increased pace.
- New forms of wholesale trade for the smaller GWB (multiple convenience store groups) and VFB (voluntary convenience store groups) have been set up, including the fresh-food services that perform a totally commercial and logistic function and concentrate on frequent delivery of a completely 'fresh' range of foodstuffs. Another category in this sector is that of frozen foods.
- Far-reaching administrative integration has taken place between wholesalers and consumers.

Conclusion

The wholesale trade in this branch will be specialised to a large extent and will focus on smaller consumers in the region. Efficiency and maximum provision of services demand far-reaching automation.

Appendix 2

**Propositions concerning the wholesale trade in consumer goods / non food**

---

Current situation

- The traditional (importing) wholesale trade in this branch is likely to suffer the same fate as the food wholesale trade: elimination through integration and concentration in the retail business. Integration takes place mainly by means of franchising.
- Manufacturers are penetrating the trade and distribution sectors (especially in fast-moving products). Japanese manufacturers start in this way in the larger European countries.
- Wholesalers in computer equipment have expanded and increased in number very rapidly.
- It is mainly the importing wholesale trade that plays an important role in this branch.

After European union

- As a result of concentrations, a few European (importing) wholesale businesses have been set up that concentrate mainly on imports from outside the EC. These wholesale traders function particularly as an outpost for the manufacturers.
- Considerable emphasis is placed on after-sales service. Personal counselling will mainly play a large role where computers are concerned.
- Wholesale traders selling proprietary brands will suffer even more from parallel imports.
- The just-in-time principle will be introduced into this branch as well.
- The wholesale trade will always have a part to play for products that are less successful.

Conclusion

Partial elimination, penetration of manufacturers into the wholesale trade, and increased parallel imports threaten the wholesale trade in non-food consumer goods. On the other hand, there are opportunities provided by new categories of products (computers) and imports from, among others, the NICs (New Industrial Countries).

Appendix 2

## General propositions concerning social consequences

---

Employment

- Employment in the wholesale trade of bulk goods and bulk produce suffers due to the fact that efficiency plays an even more important role. The narrowing of trade margins means that only efficient wholesalers will survive.
- In the first few years after the integration, the developments will have a neutral effect on employment in the wholesale trade in the northern European countries. Afterwards, employment will increase as a result of higher levels of investment and expenditure.
- In southern European countries accelerated restructuring in various branches of the wholesale trade will lead to job losses. Economic growth, however, will result in an increase in the number of jobs so that on balance there will be no changes in the total employment of the wholesale trade.
- The shift from a labour-intensive to a capital-intensive has a negative effect on employment.

Terms of employment

- Systems of payment and social security will remain largely unchanged. These systems will gradually become more similar.
- Functions will change, resulting in the application of different systems of payment.
- Pressure on labour costs because of increased competition.
- The free movement of workers will initially result in considerable mobility among the higher levels of management.

Appendix 2

**General propositions concerning social consequences** (continued)

---

Training

- Automation of different functions in the wholesale trade leads to the need for more highly-trained staff.
- Employees will need more logistics know-how.
- Increased technological developments make further training and in-service training necessary.
- Internationalisation requires that all employees have a good knowledge of languages.
- Knowledge of the new legal systems (and of the many modifications) will have to be passed on via training courses.

Appendix 3

**Statistics on the German wholesale trade**

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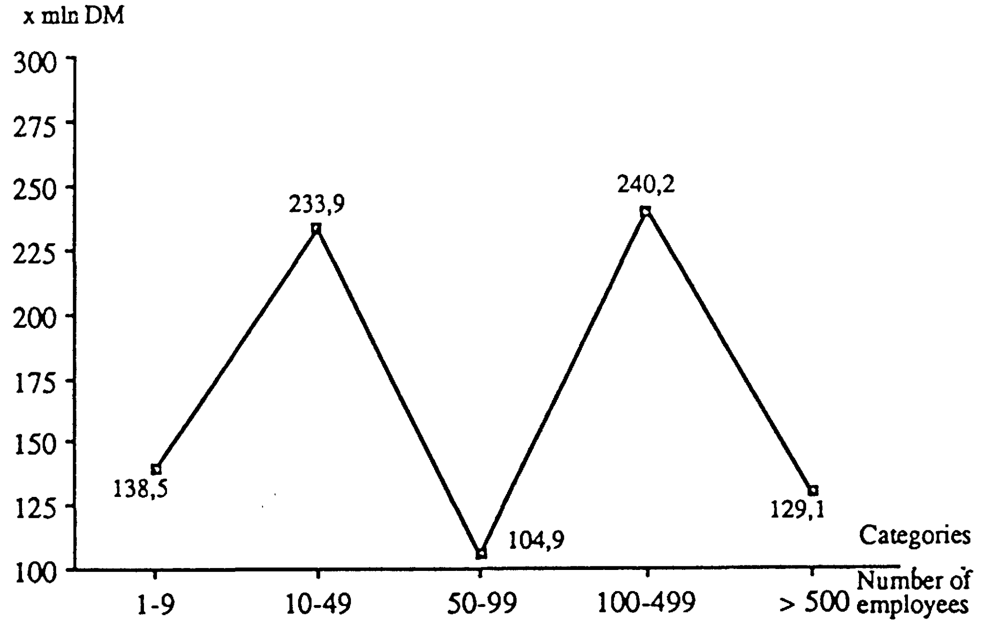
**Wholesale turnover 1985**

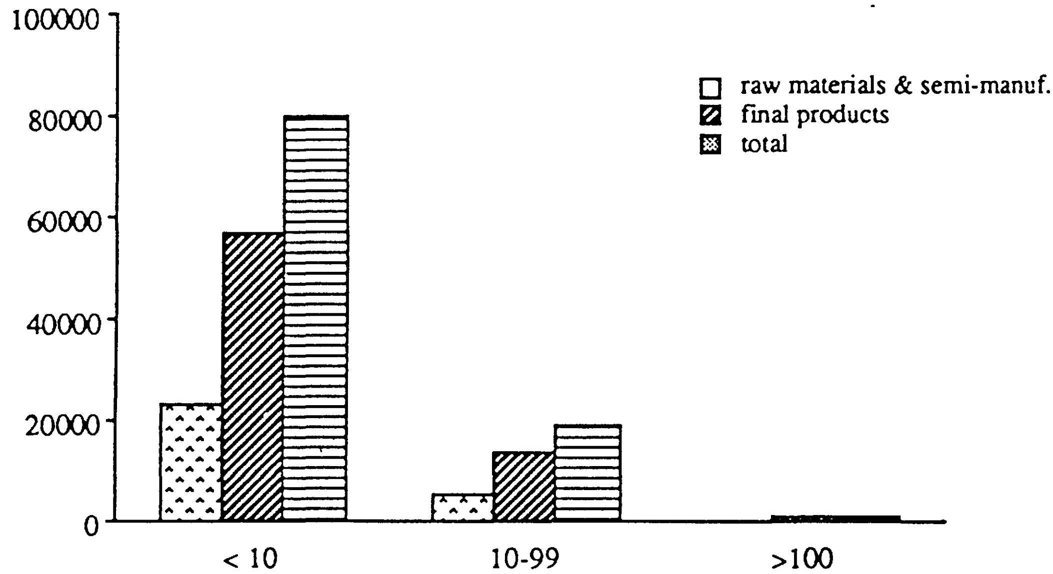



Source: Bundesverband Großhandel und Aussenhandel

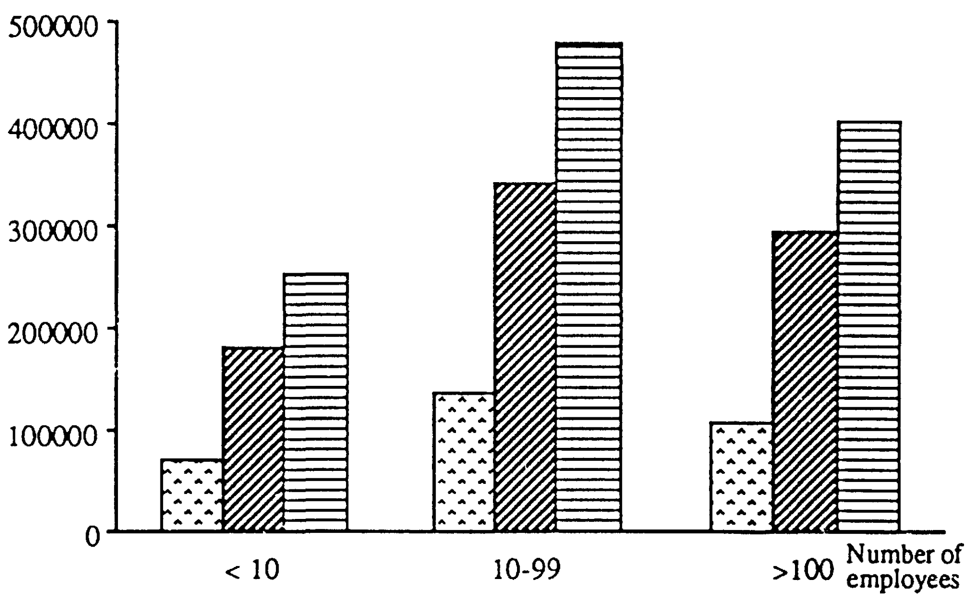
Appendix 3

**Statistics on the German wholesale trade** (continued)

Number of wholesale trade organisations in categories of seize 1985




Number of employees in categories of seize 1985

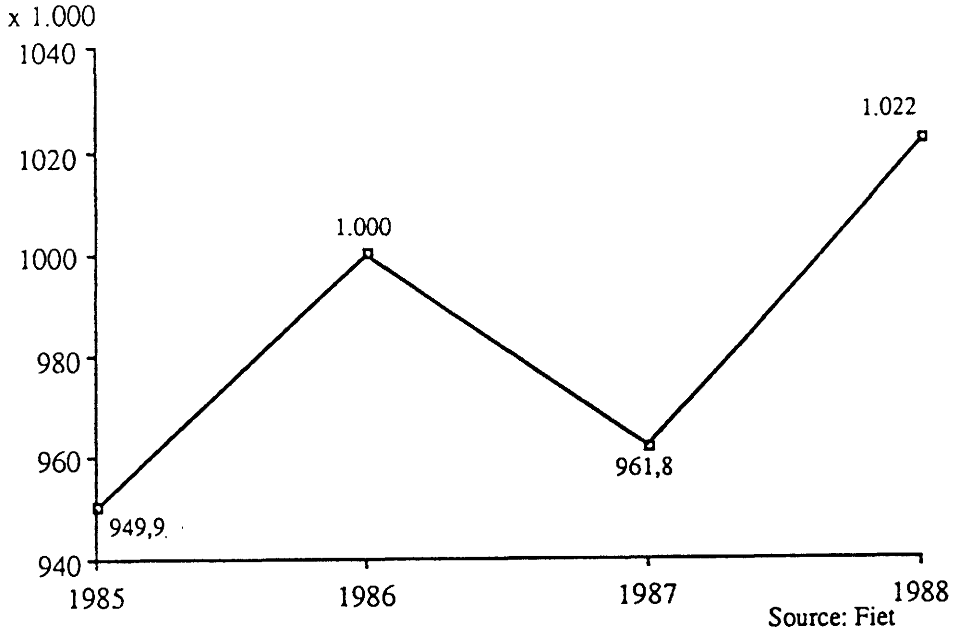



Source: Bundesverband Großhandel und Aussenhandel

Appendix 3

**Statistics on the German wholesale trade** (continued)

**Employment in the German wholesale trade**

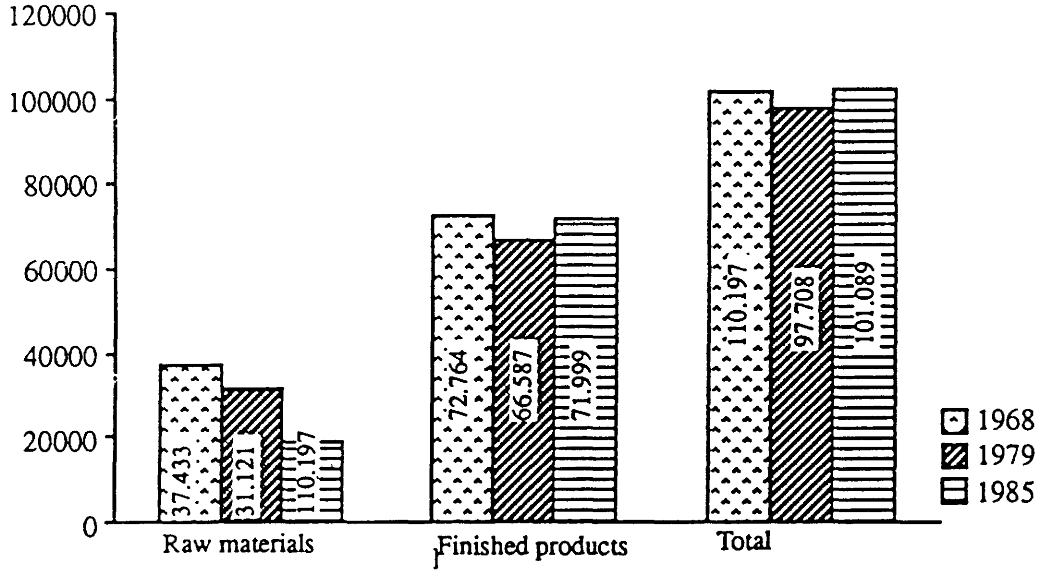



The Fiet conducts a survey of the working conditions of its members every year. According to the reports published annually, the development of employment in the German wholesale trade was as indicated above: from 1985 until 1988 an increase of 7.5% was achieved. In 1987 there was a temporary depression: the employment rate decreased by approximately 4% compared with 1986. In 1988, however, employment returned to its 1986 level.

Appendix 3

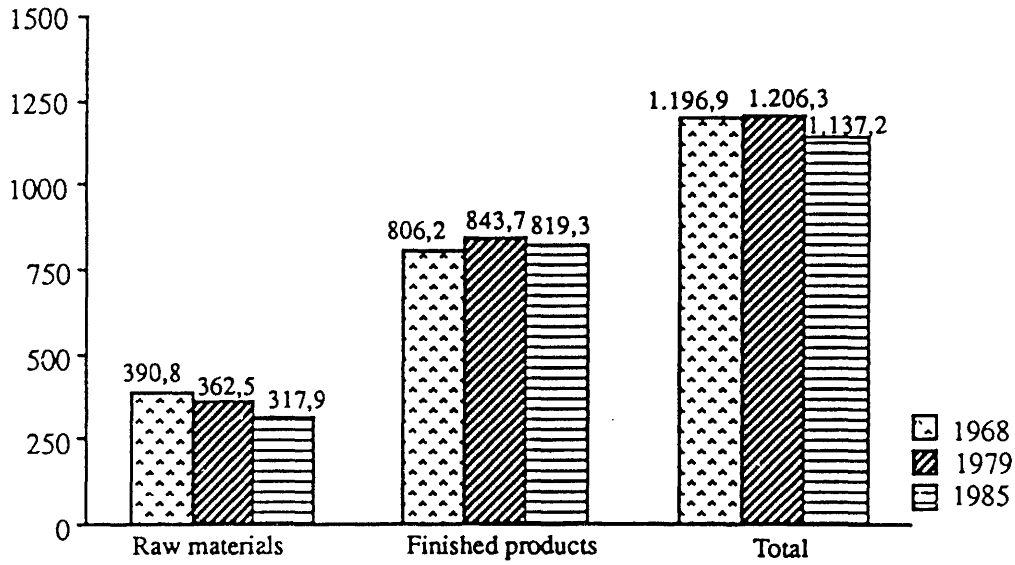
**Statistics on the German wholesale trade** (continued)

Number of wholesale trade organisations 1968-1979-1985




Source: Statistisches Bundesamt iw Berechnungen

Number of employees x 1.000

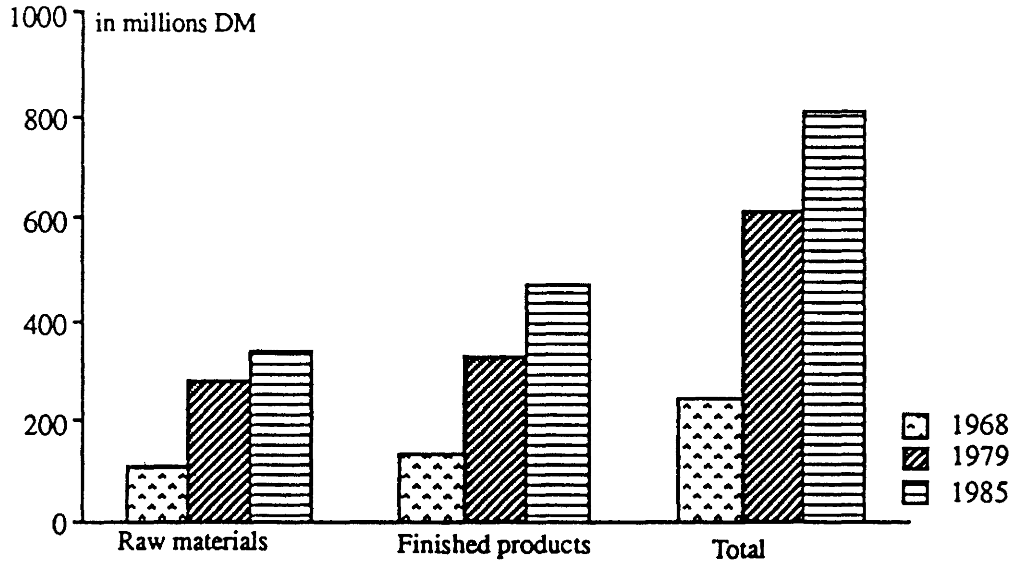



Source: Statistisches Bundesamt iw Berechnungen

Appendix 3

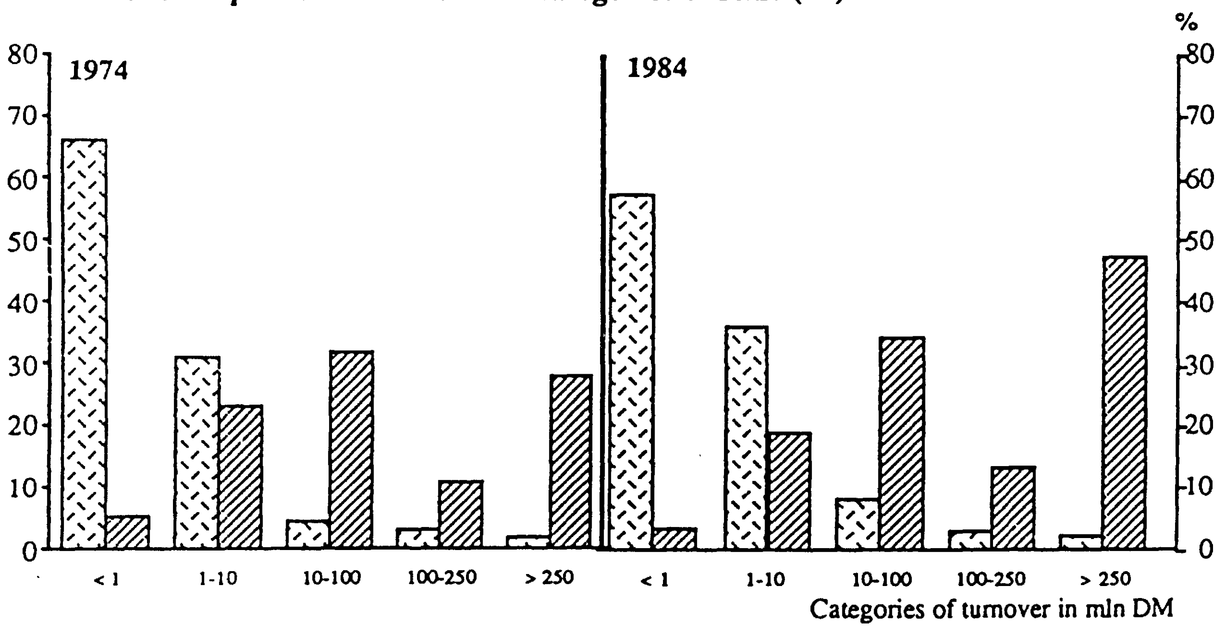
**Statistics on the German wholesale trade** (continued)

Turnover in wholesale trade organisations 1965-1979-1985




Source: Statistisches Bundesambt iw Berechnungen

Number of enterprises and turnover in categories of seize (%)




Contribution of the categorie to the total of enterprises

Contribution of these enterprises in the total turnover of the wholesale trade

Source: IFO-institut für Wirtschaftordnung München

Appendix 3

**Statistics on the German wholesale trade** (continued)

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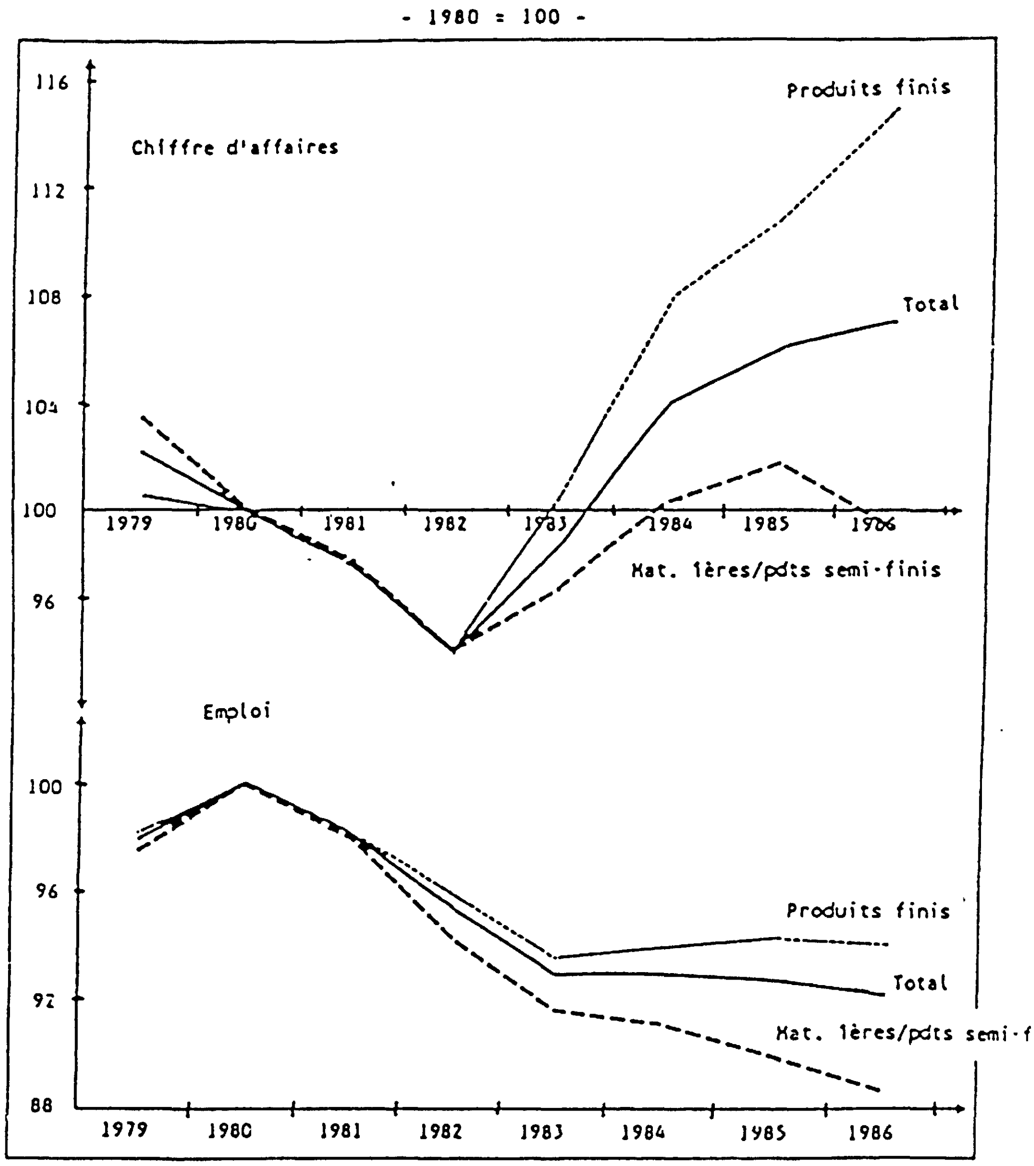
**Development of turnover and employment**



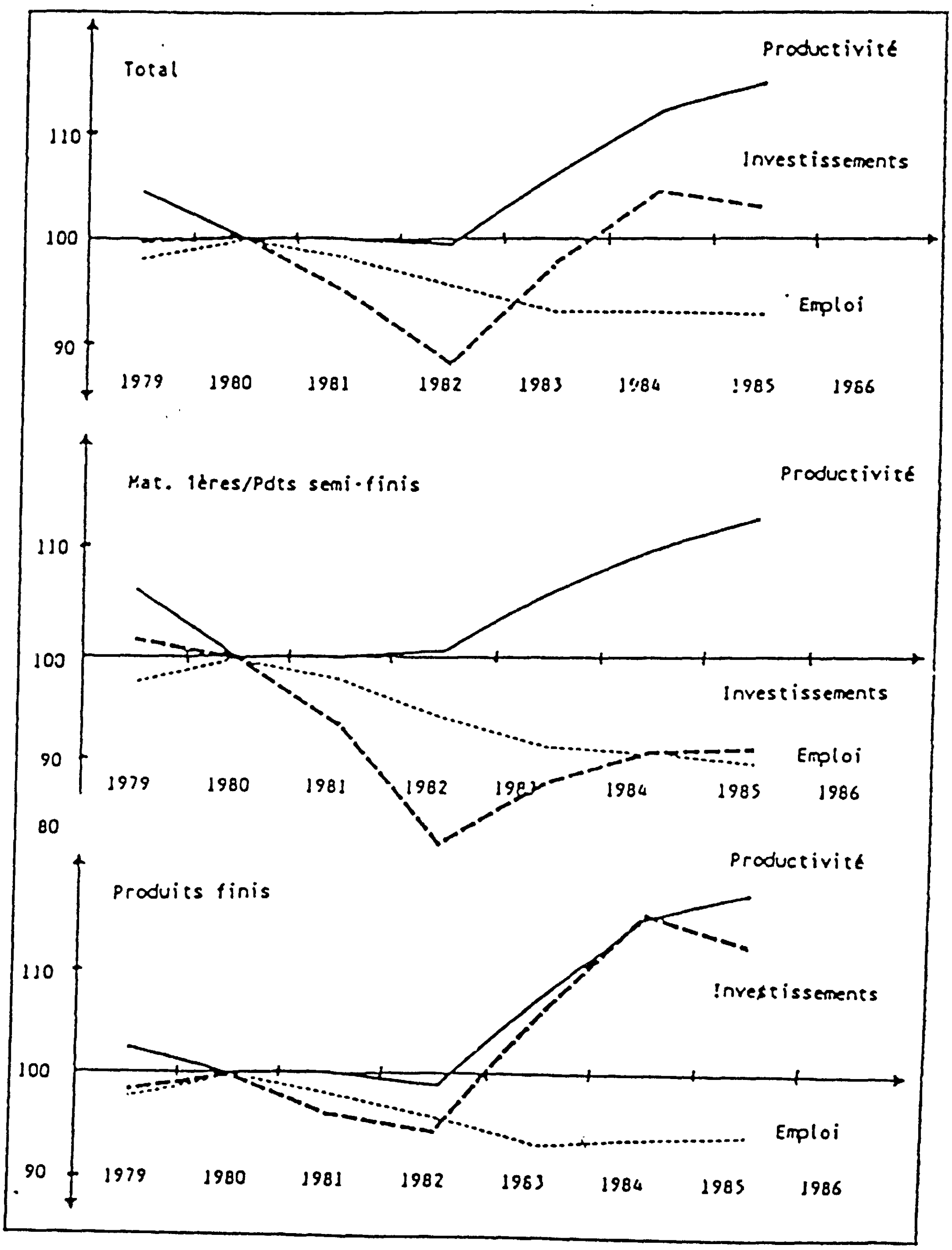

Statistisches Bundesamt; IW-Berechnungen.

Appendix 3

**Statistics on the German wholesale trade** (continued)

## Investments, productivity and employment

(1980 = 100)




Statistisches Bundesamt; IW-Berechnungen.

Appendix 3

**Statistics on the German wholesale trade** (continued)

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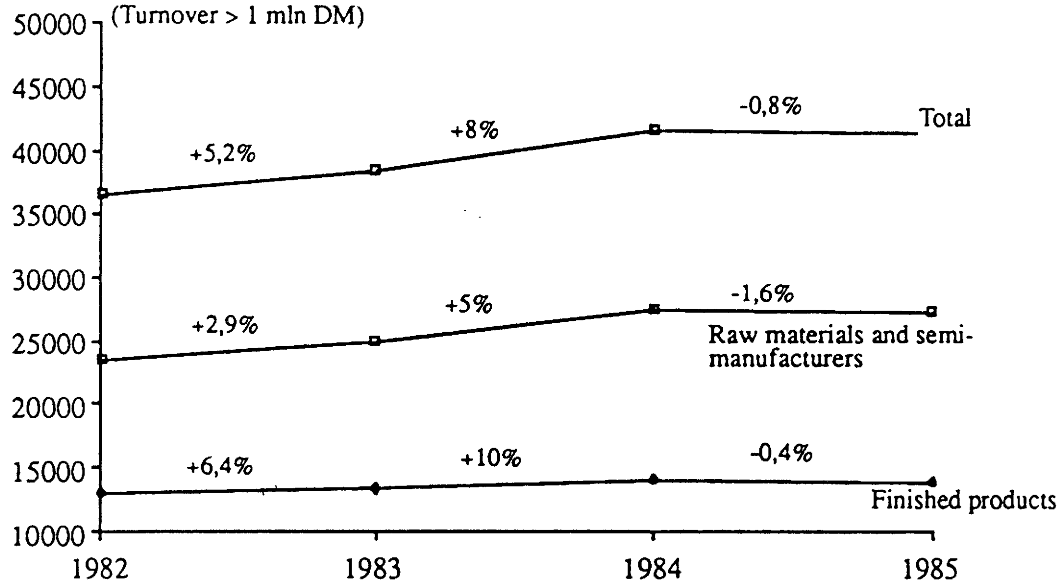
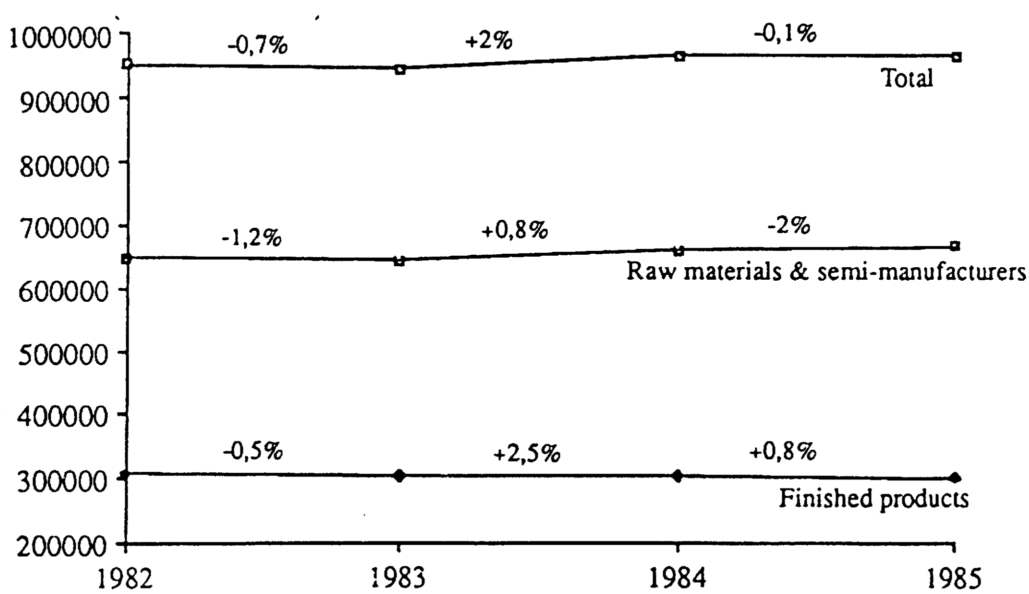
Development of number of wholesale trade organisations




Source: Statistisches Bundesamt

Development of employment (employment > 1 mln DM)




Source: Statistisches Bundesamt

Appendix 3

**Statistics on the German wholesale trade** (continued)

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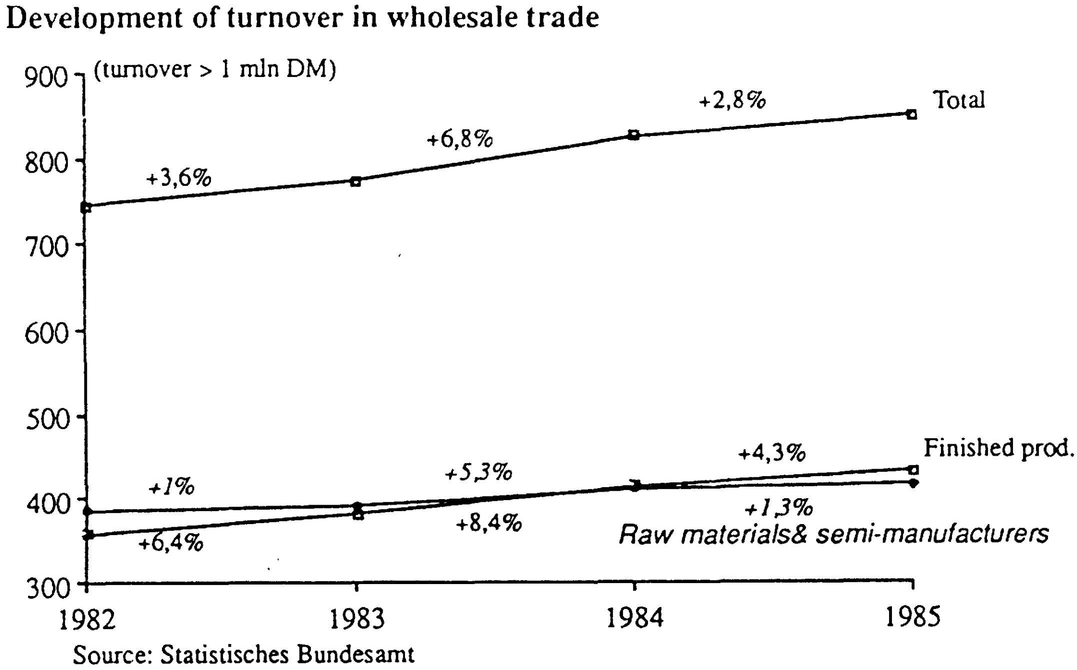



Source The preceding three diagrams are based upon figures of the 'Statistisches Bundesamt'. This office carries out a survey every year into wholesale businesses with an annual turnover of more than 1 million DM. These wholesale businesses represent approximately 50% of the total wholesale trade. The 'Statistisches Bundesamt' assumes that the 50% of the total wholesale businesses which are not covered in the diagrams account for only 4% of the total German wholesale trade turnover. Since the wholesale trade turnover in the diagram shows approximately 96% of the total, these data may be taken as representative for the branch. However, this does not apply to the number of companies and number of employees of the two main sectors: raw materials and semi-finished products and finished products.
These figures should be used carefully if conclusions concerning the German wholesale trade as a whole are to be drawn on this basis.

Appendix 3

**Statistics on the German wholesale trade** (continued)

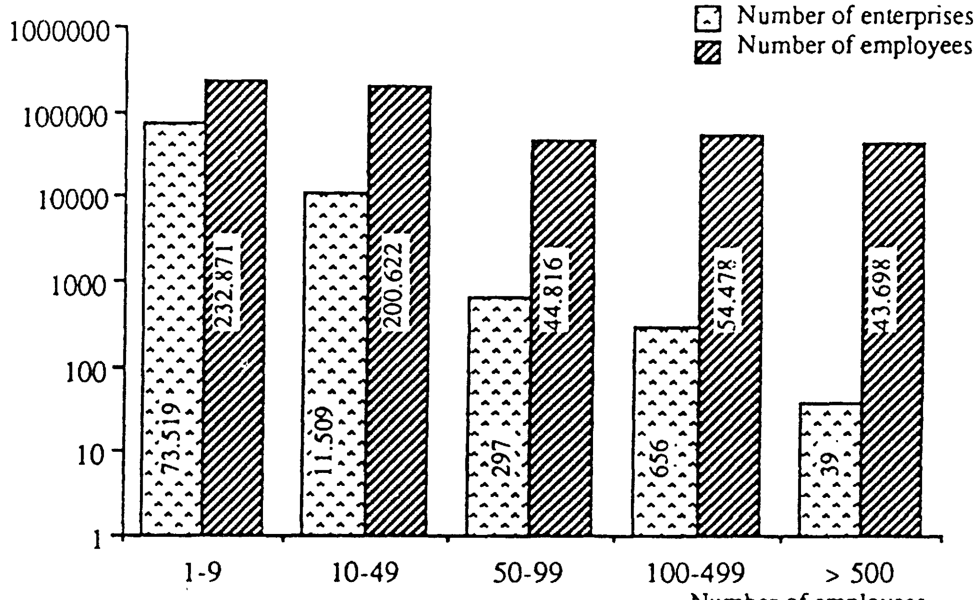
---

| | |
|---|---|
| Number of wholesale businesses | Between 1982 and 1985 the number of wholesale businesses with a turnover in excess of 1 million DM increased by 13%. Growth was highest in 1984, when 8% growth was recorded compared with 1983. In the finished products sector, the number of wholesale companies increased by approximately 16% between 1982 and 1985, whereas growth in the raw materials and semi-finished products sector was approximately 6%. About 1/3 of the wholesale businesses sell raw materials and semi-finished products. |
| Number of employees | Between 1982 and 1985 the increase in employment in wholesale companies with a turnover of more than 1 million DM was only 1%. This growth was almost totally achieved in the finished products sector. In the raw materials and semi-finished products sector employment fell by approximately 2% during the same period. Approximately 31% of wholesale employees work in this sector. |
| Turnover | According to the figures of the 'Statistisches Bundesamt', the total turnover of wholesale companies with an annual turnover in excess of 1 million DM increased by about 13% in the period 1982-1985. The turnover is more or less equally divided between the two sectors (49 and 51%). The growth rate in both sectors from 1982 to 1985 was 7 and 20% respectively. |

Appendix 4

**Statistics on the Italian wholesale sale**

Development of number of enterprises and employment 1981

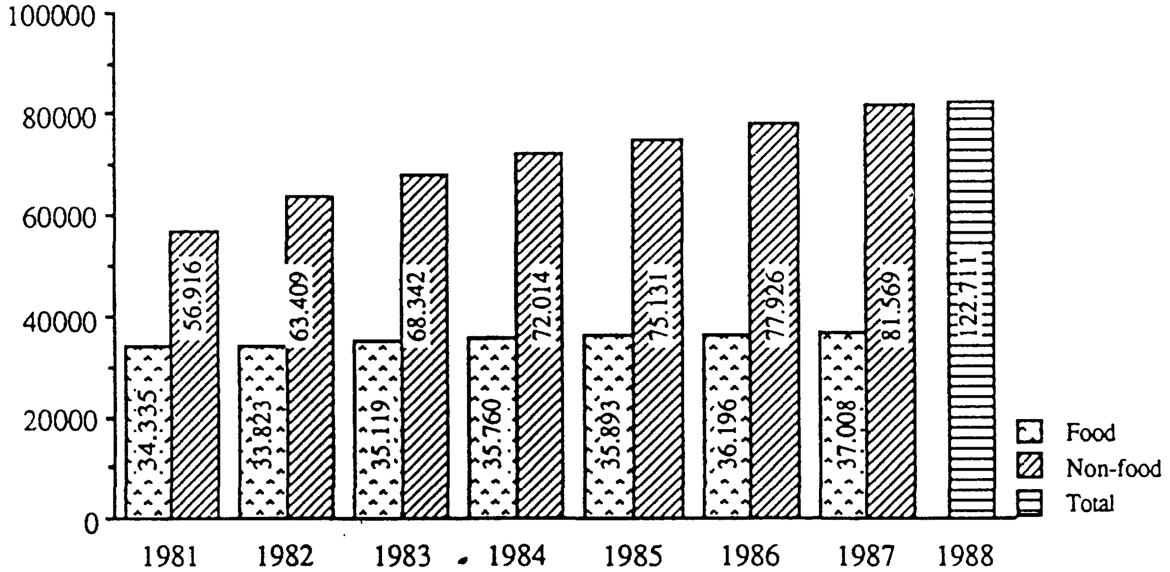



Source: Istat

The above chart gives data from the National Institute for Statistics. These figures are adapted every 10 years. The Ministry of Industry, Trade and Crafts publishes data on the wholesale trade more frequently, but these are less detailed.

Appendix 4
**Statistics on the Italian wholesale trade** (continued)

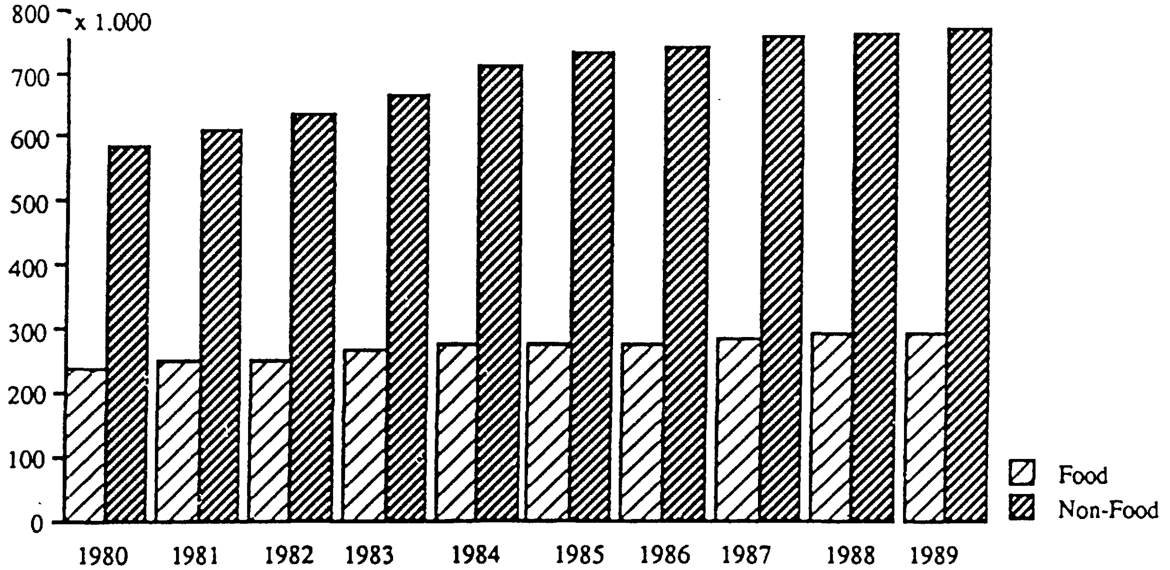
## Development of number of wholesale trade organisations




| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total | 91.251 | 97.232 | 103.461 | 107.774 | 111.024 | 114.122 | 118.577 | 122.711 |

Source: Mica 1988, Ministery of Industry, Trade and Craft.

## Development of employment




| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total | 829,4 | 864,9 | 886,8 | 933,1 | 988,6 | 1.010,4 | 1.018,3 | 1.041 | 1.056,2 | 1.061,7 |

Source: Terziano per l'Europe, UILTUCS

Appendix 5

## Statistics on the French wholesale trade

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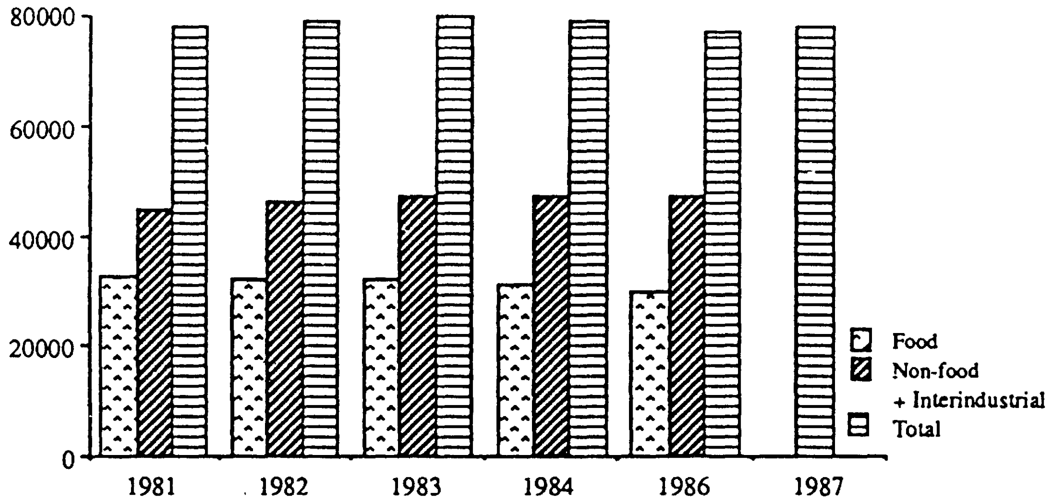
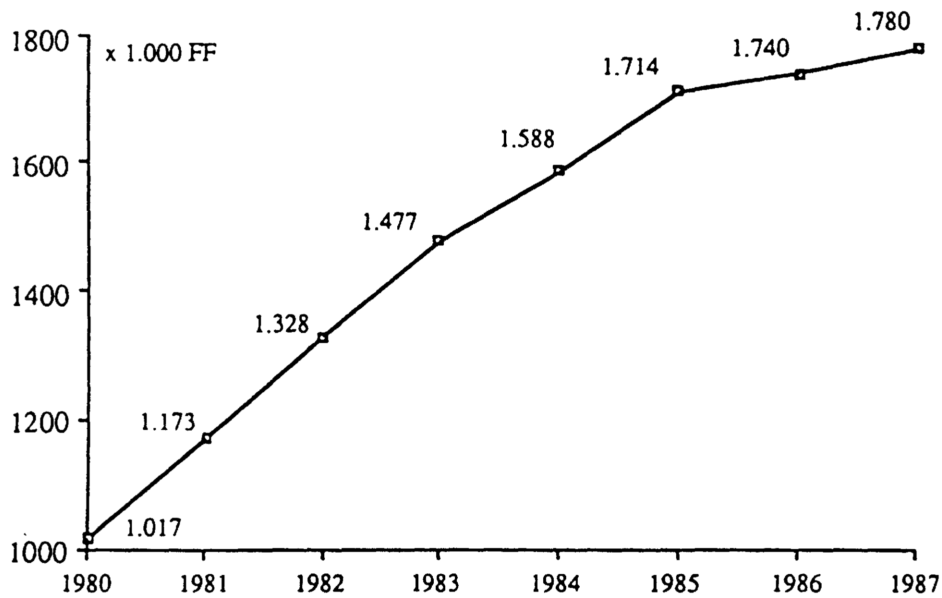
### Development of number of wholesale trade organisations




| | | | | | | |
|---|---|---|---|---|---|---|
| Total | 77.891 | 78.907 | 79.616 | 78.595 | 77.000 | 78.000 |

Source: Ministère du Commerce

### Development of turnover

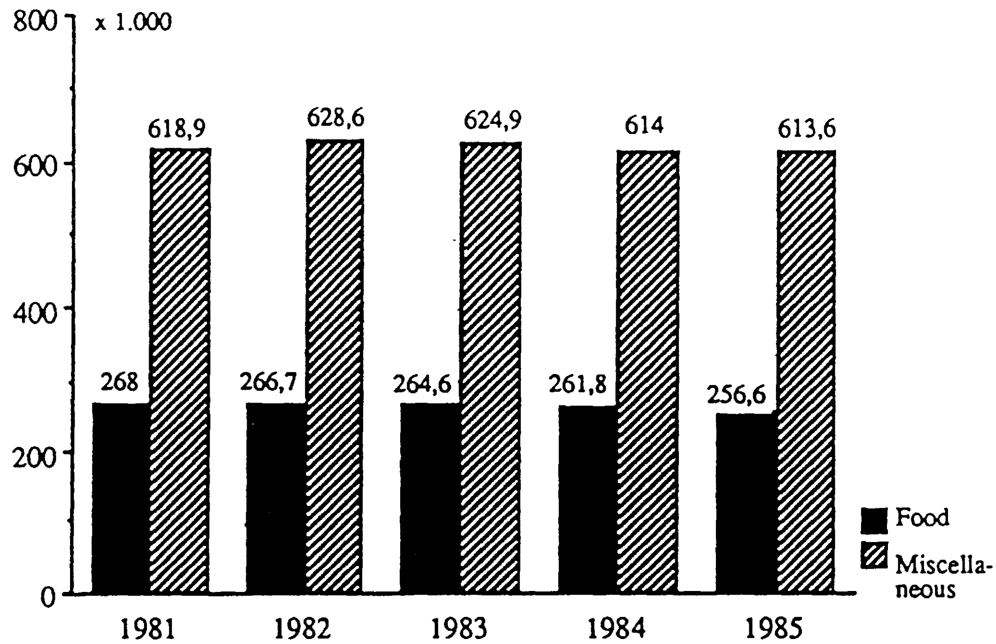



Source: Ministère du Commerce

Appendix 5

**Statistics on the French wholesale trade** (continued)

Development of employment

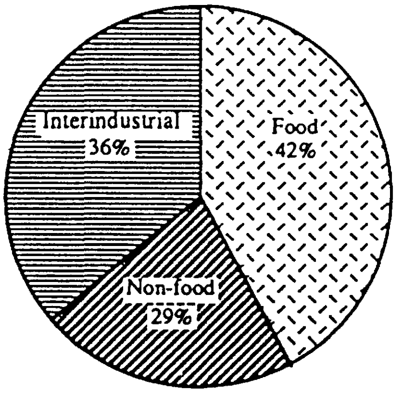



| | | | | | |
|---|---|---|---|---|---|
| Total | 886,9 | 895,3 | 889,5 | 875,8 | 870,2 |

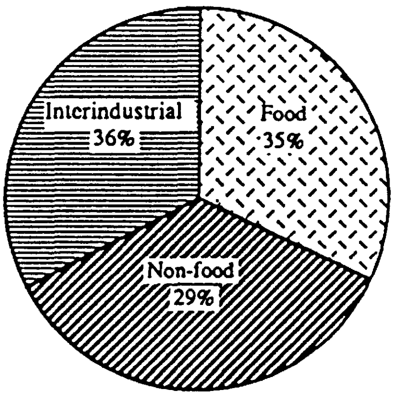
Source: Ministère du Commerce

Appendix 5
**Statistics on the French wholesale trade** (continued)

Distribution of turnover,
number of companies,
number of employees
among three sectors

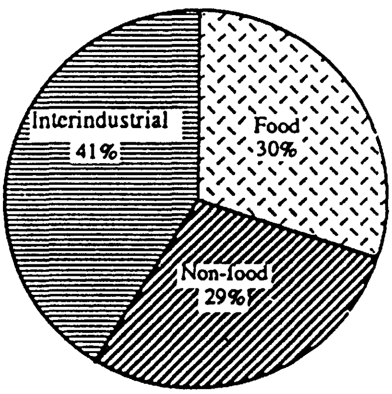



Turnover 1987




Number of enterprises 1987

Source: CFCG

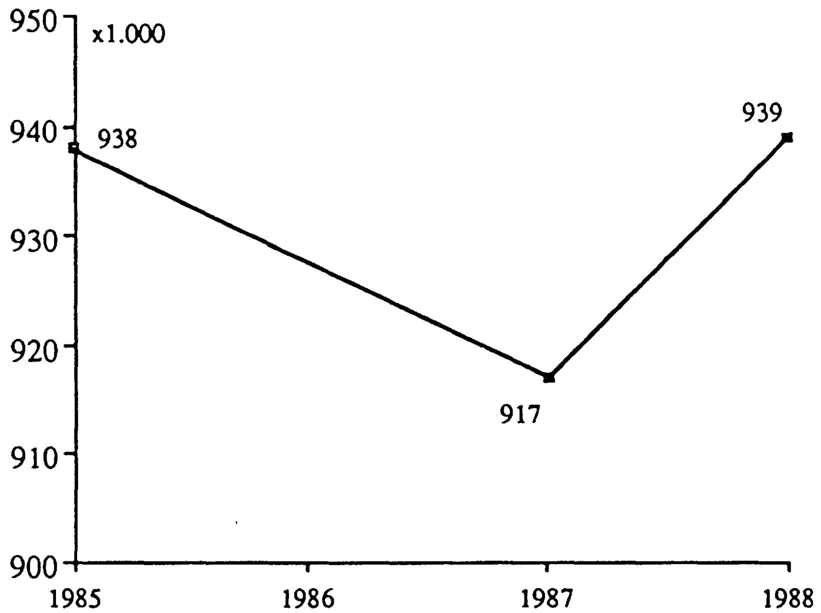



Number of employees 1987

Appendix 6

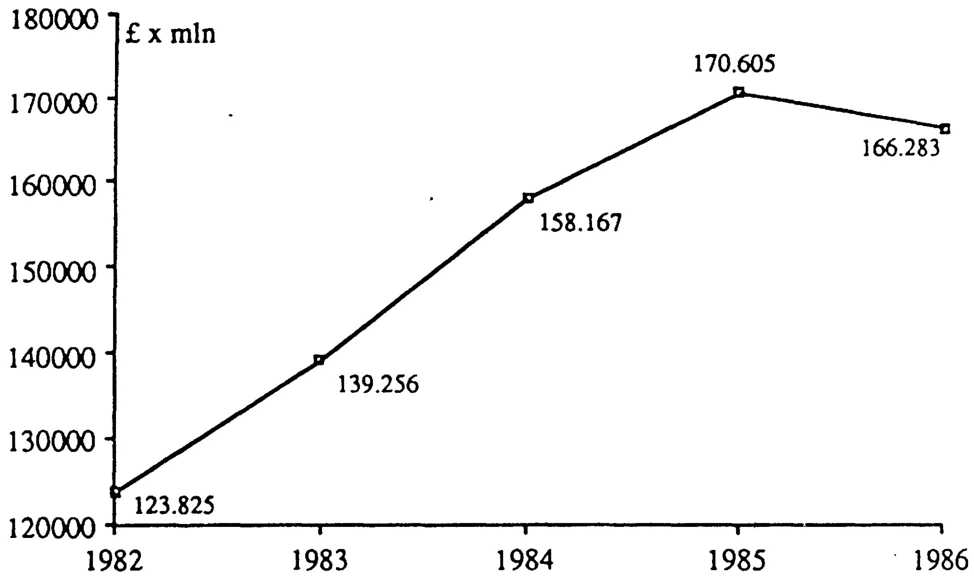
**Statistics on the British wholesale trade**

Development of employment




Source: Business Statistic Offices

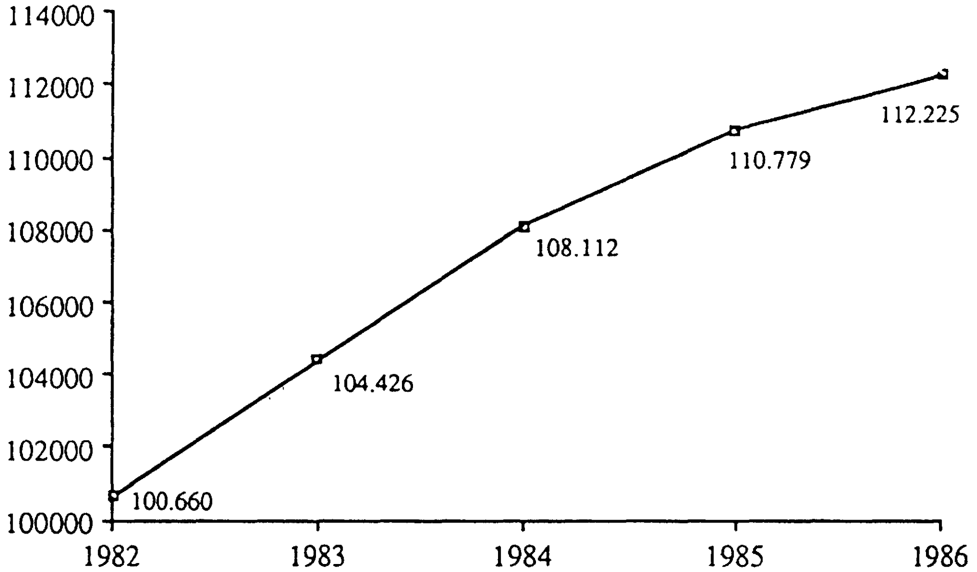
**Development of wholesale trade turnover**




Source: Business Statistic Offices

Appendix 6
**Statistics on the British wholesale trade** (continued)

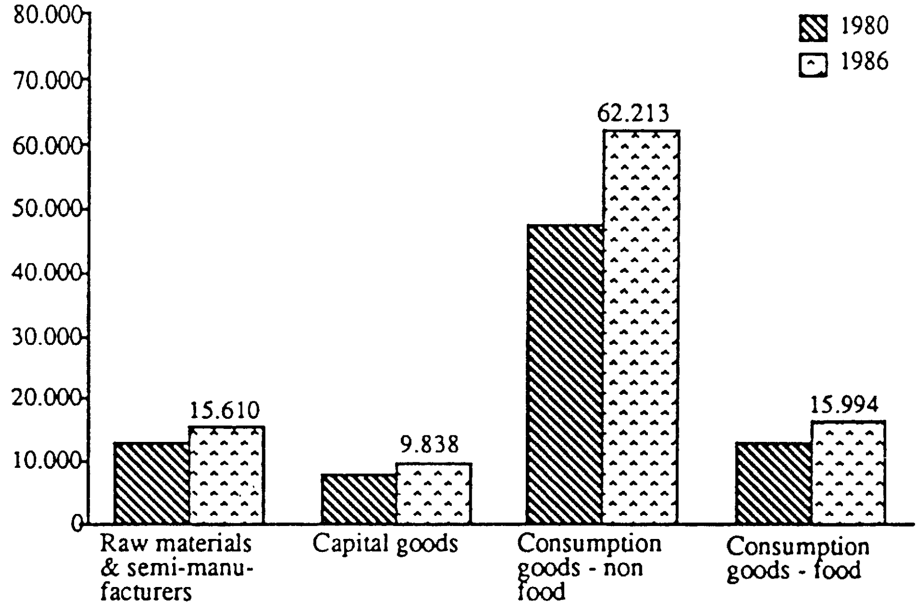
Development of number of wholesale trade organisations




Source: Business Statistic Offices

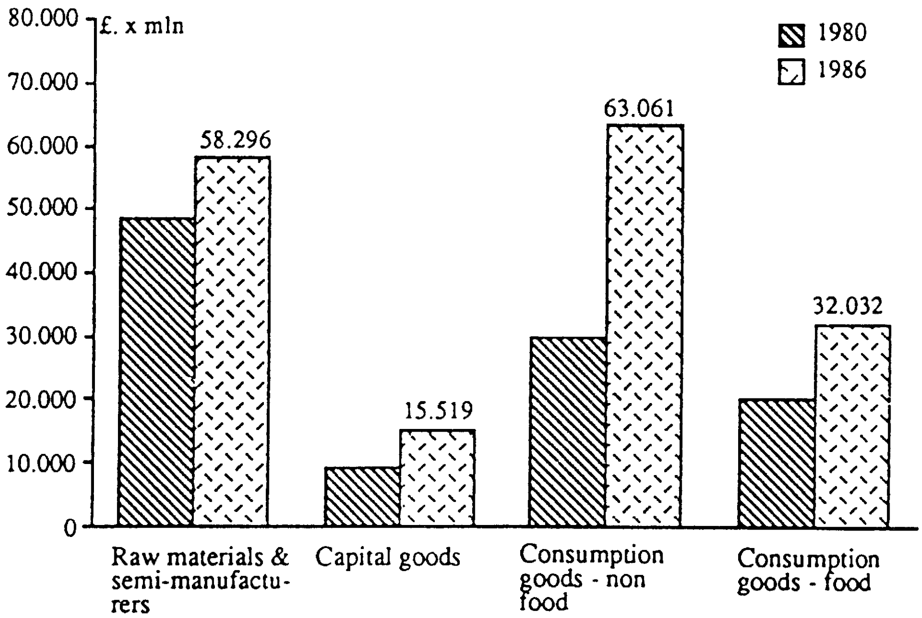
Appendix 6
**Statistics on the British wholesale trade** (continued)

Number of wholesale trade organisations



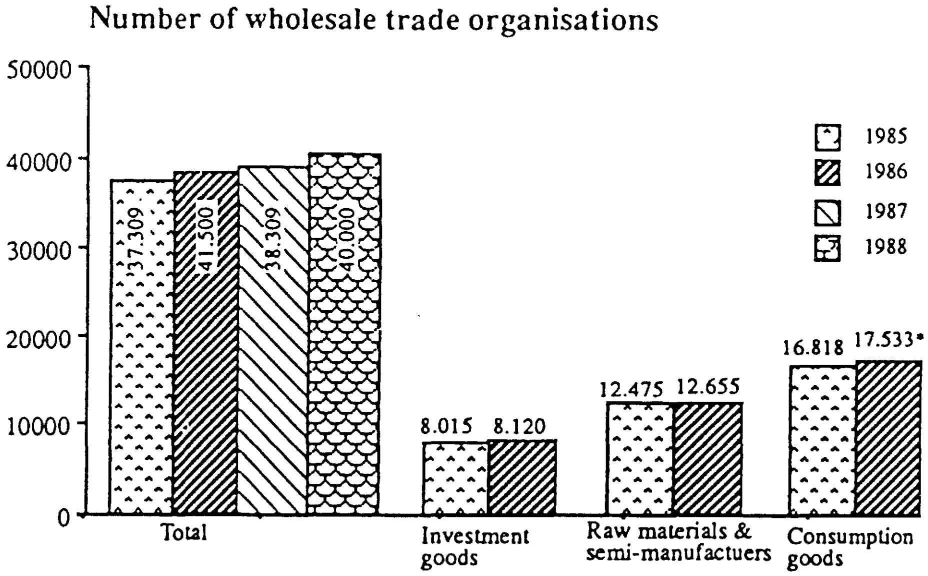

Source: Business Statistic Offices

Turnover wholesale trade



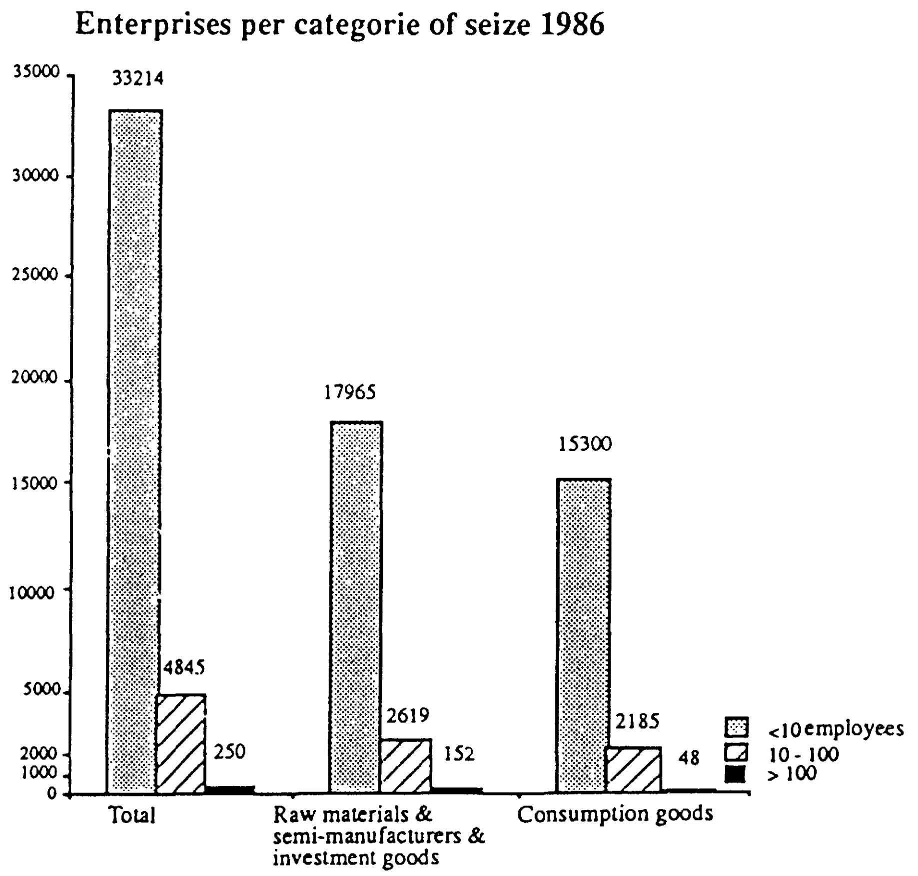

Source: Business Statistic Offices

Appendix 7
## Statistics on the Dutch wholesale trade




* of which 5.132 food wholesale trade organisations

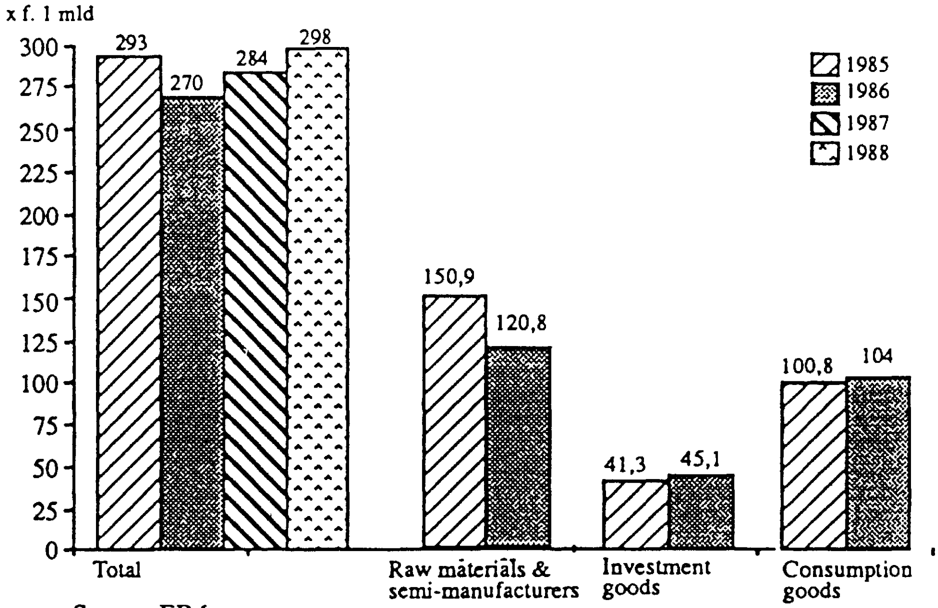
Source: EIM, CBS




Bron: EIM, CBS

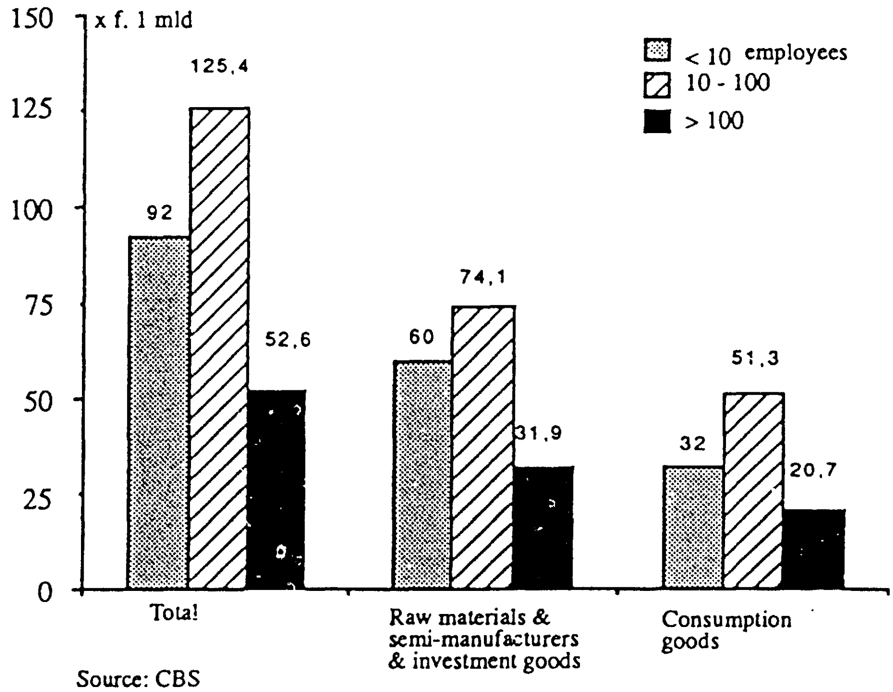
Appendix 7
**Statistics on the Dutch wholesale trade** (continued)

Turnover wholesale trade




Source: EIM

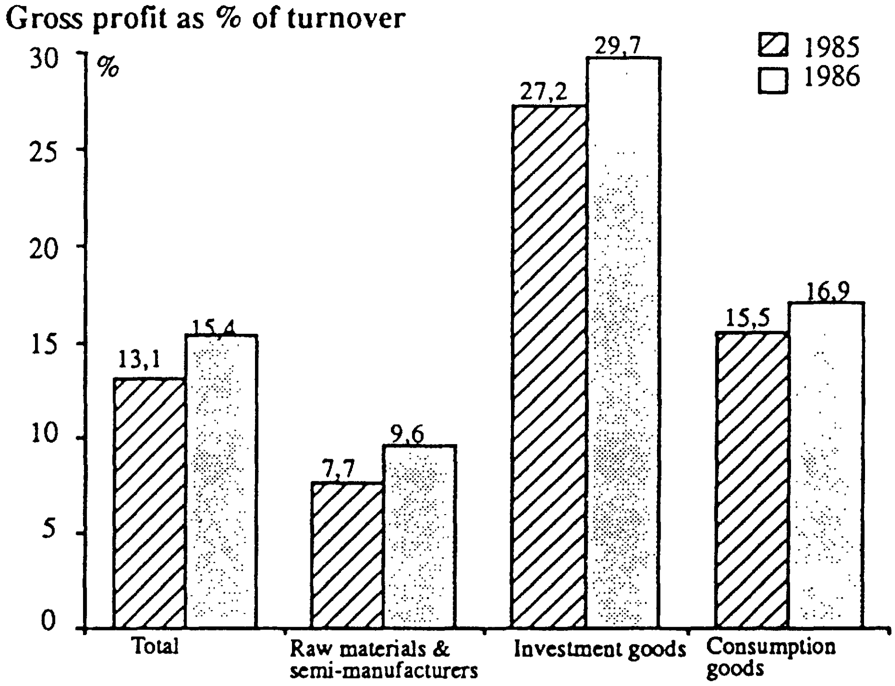
Turnover in categories of seize 1986



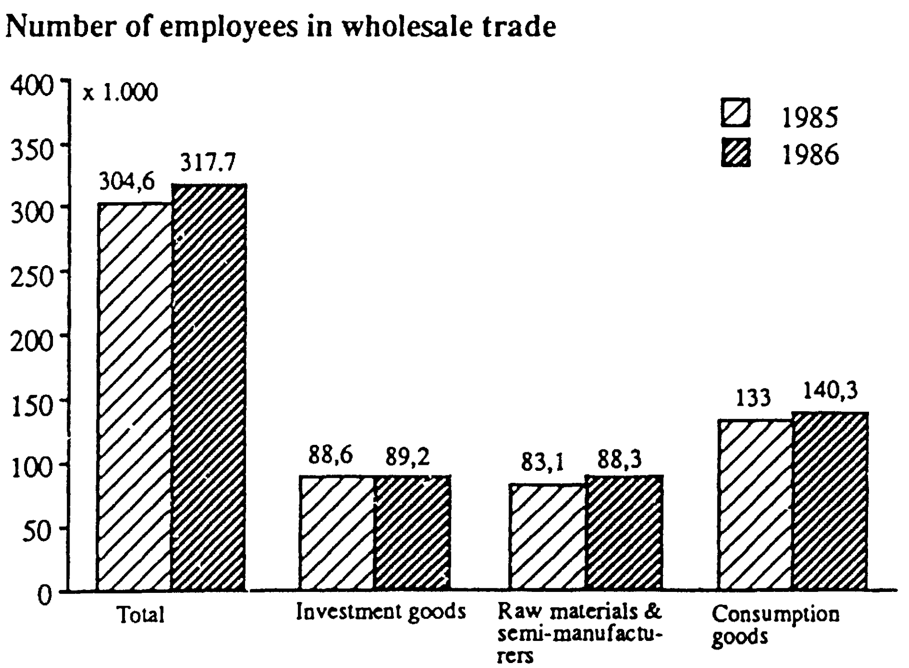

Source: CBS

Appendix 7

## Statistics on the Dutch wholesale trade (continued)




Source: CBS

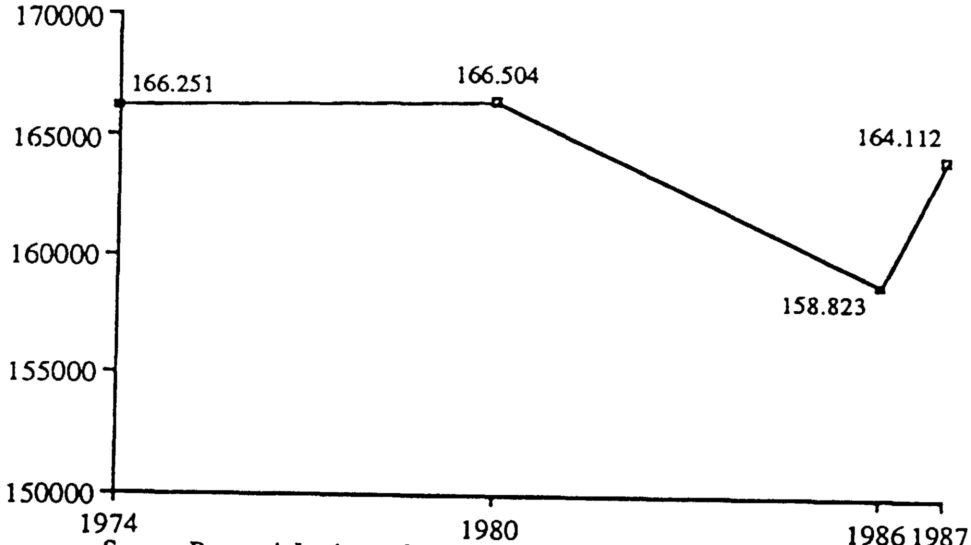



Source: CBS

Appendix 8 **Statistics on the Belgian wholesale trade**

The data in the following charts are taken from a study conducted by a Belgian interuniversity research group. The study was commissioned by the SETCA. With regard to the number of companies and employees, the survey did not include the sales offices of production companies, or export and import offices.

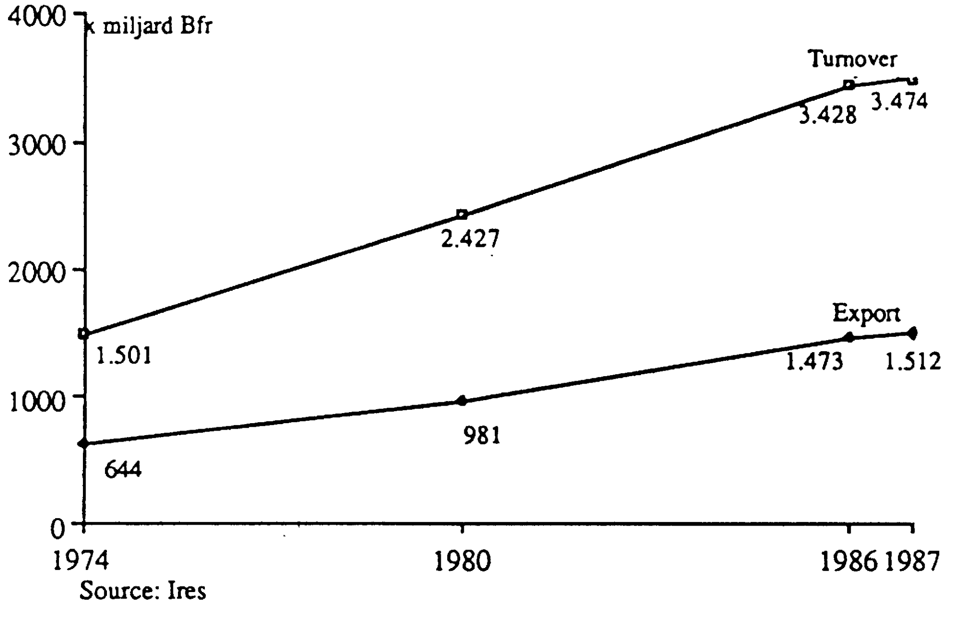
**Development of employment**



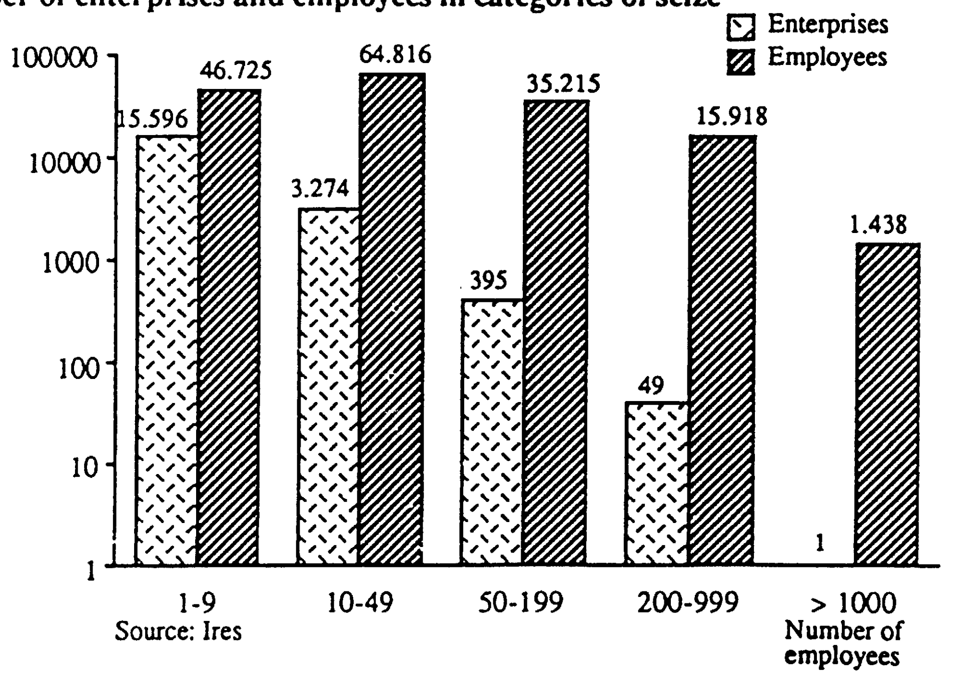
Source: Research Institute of University of Brussels / Leuven

Appendix 8 Statistics on the Belgian wholesale trade (continued)

Development of turnover and exports

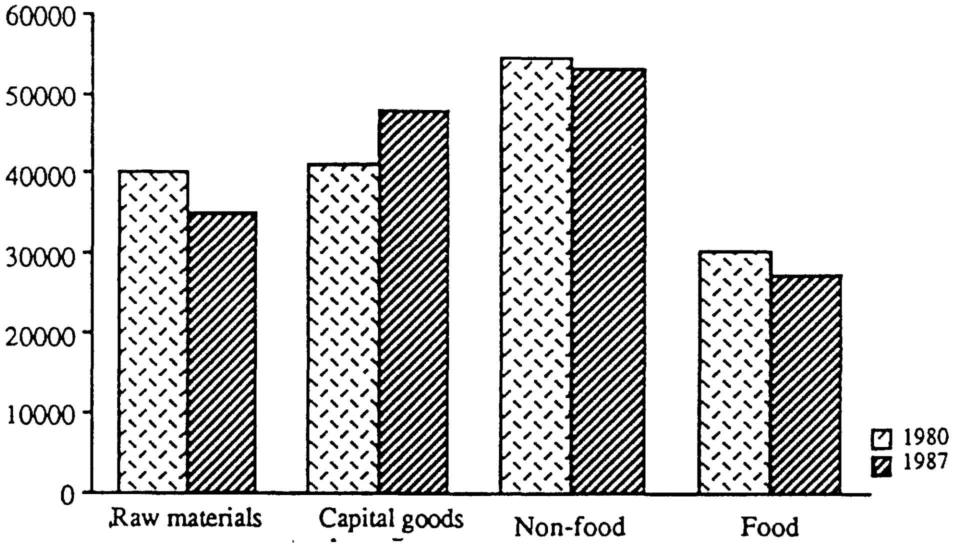



Number of enterprises and employees in categories of seize



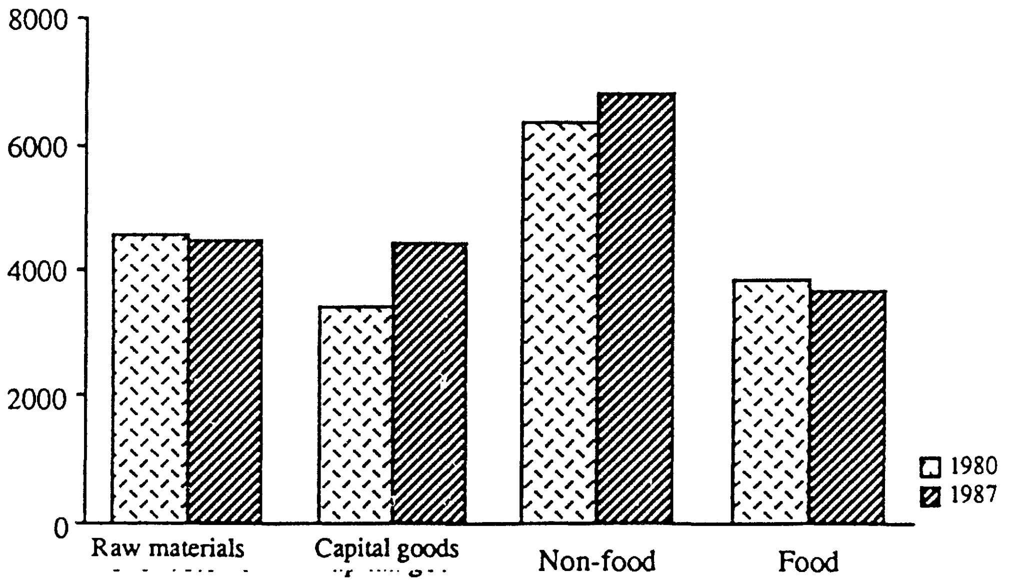
Appendix 8 **Statistics on the Belgian wholesale trade (continued)**

Development of employment



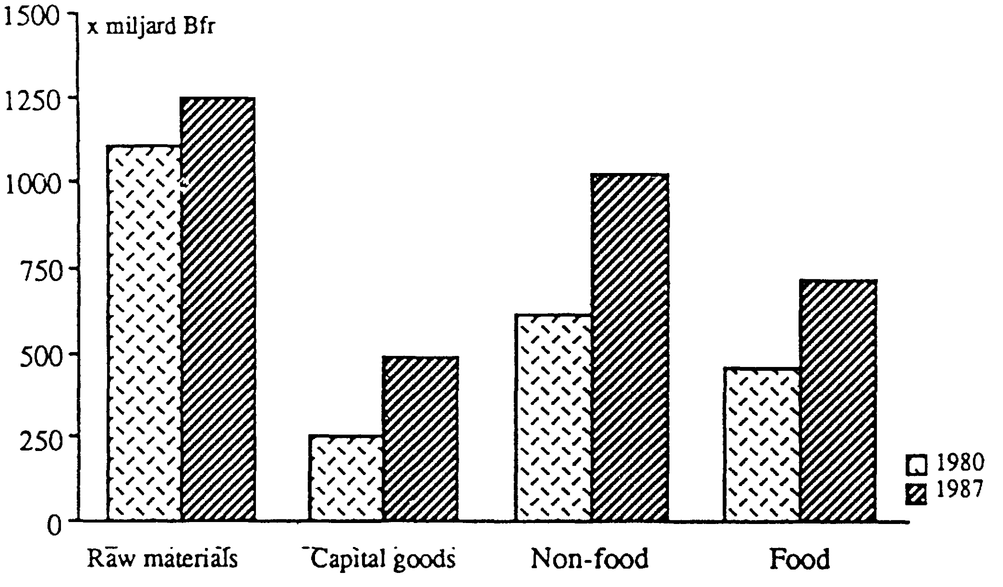

Source: Ires

Development number of wholesale trade organisations



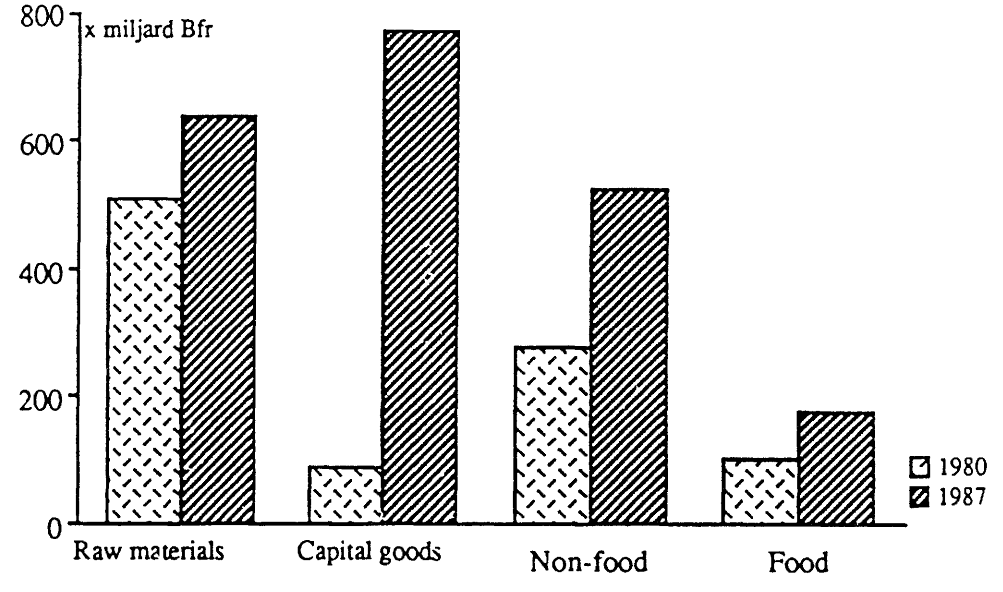

Source: Ires

Development of turnover




Source: Ires

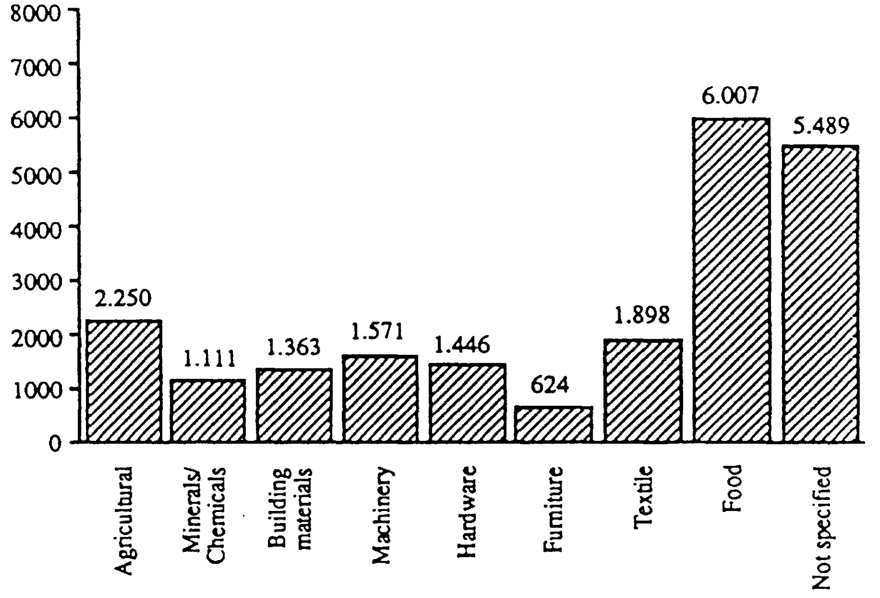
Development exports




Source: Ires

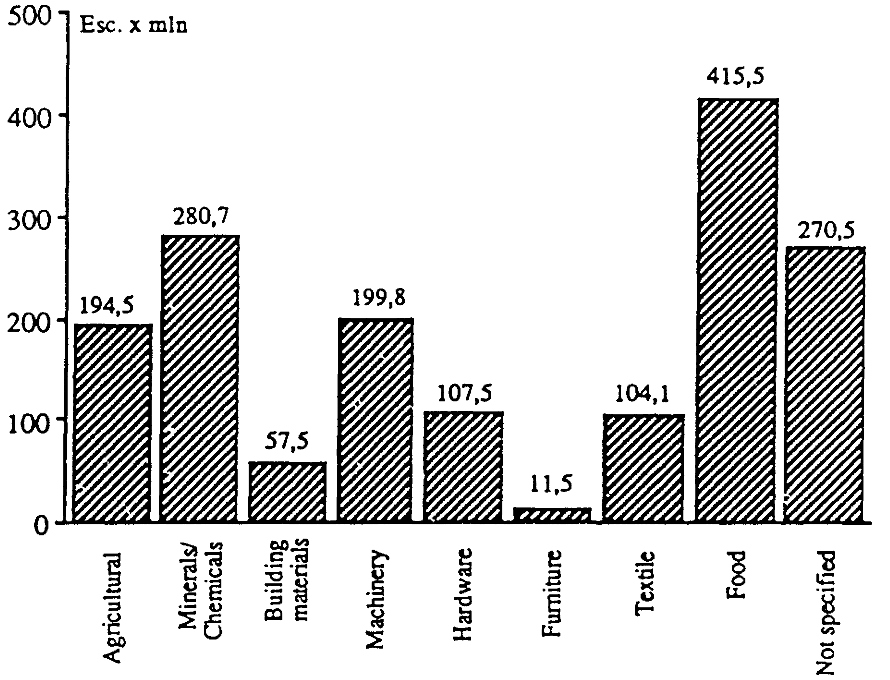
# Appendix 9 Statistics on the Portuguese wholesale trade

Wholesale trade organisations 1985




Source: Federaçao Do Comercio Grossista Português

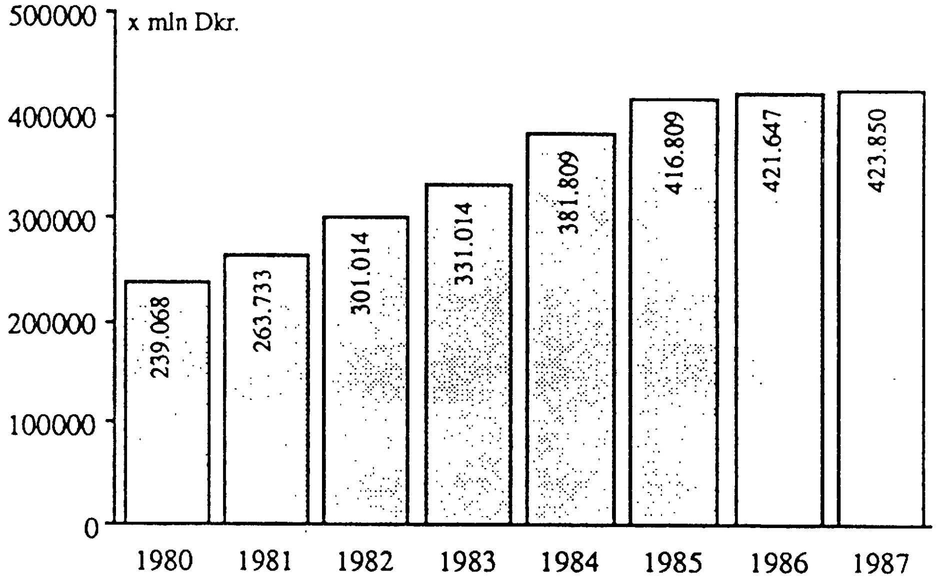
Turnover wholesale trade 1985




Source: Federaçao Do Comercio Grossista Português

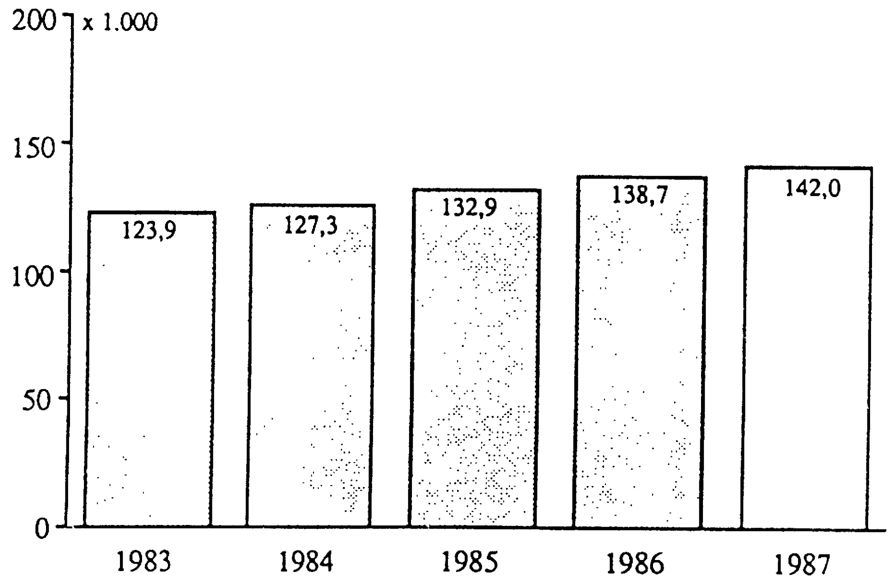
## Appendix 10 Statistics on the Danish wholesale trade

Turnover wholesale trade




Source: Danmark Statistik

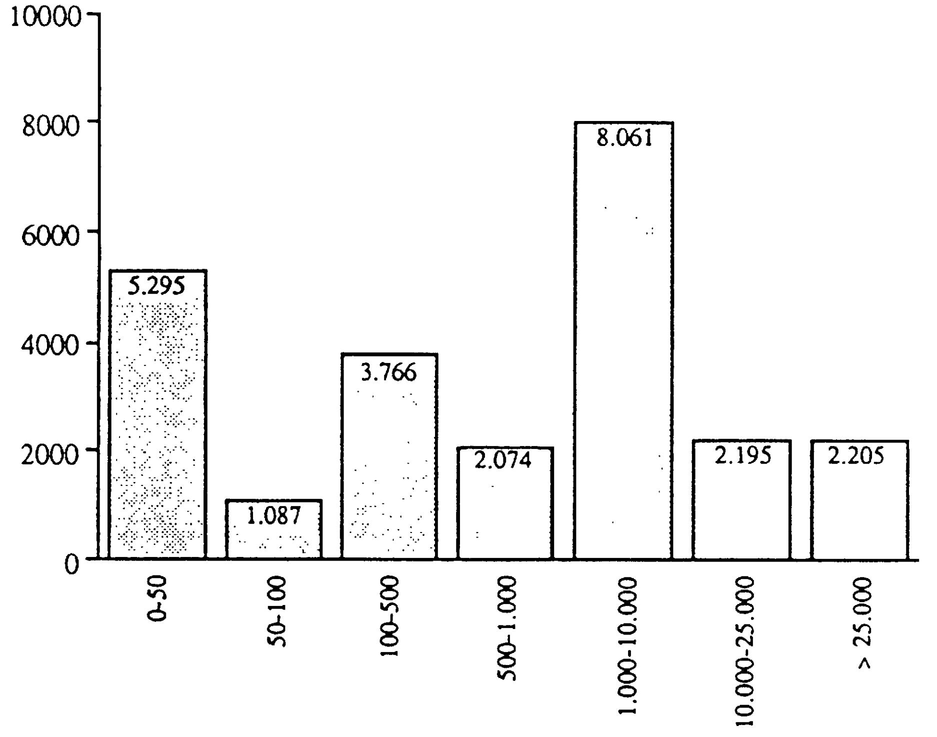
Number of employees




Source: Danmark Statistik

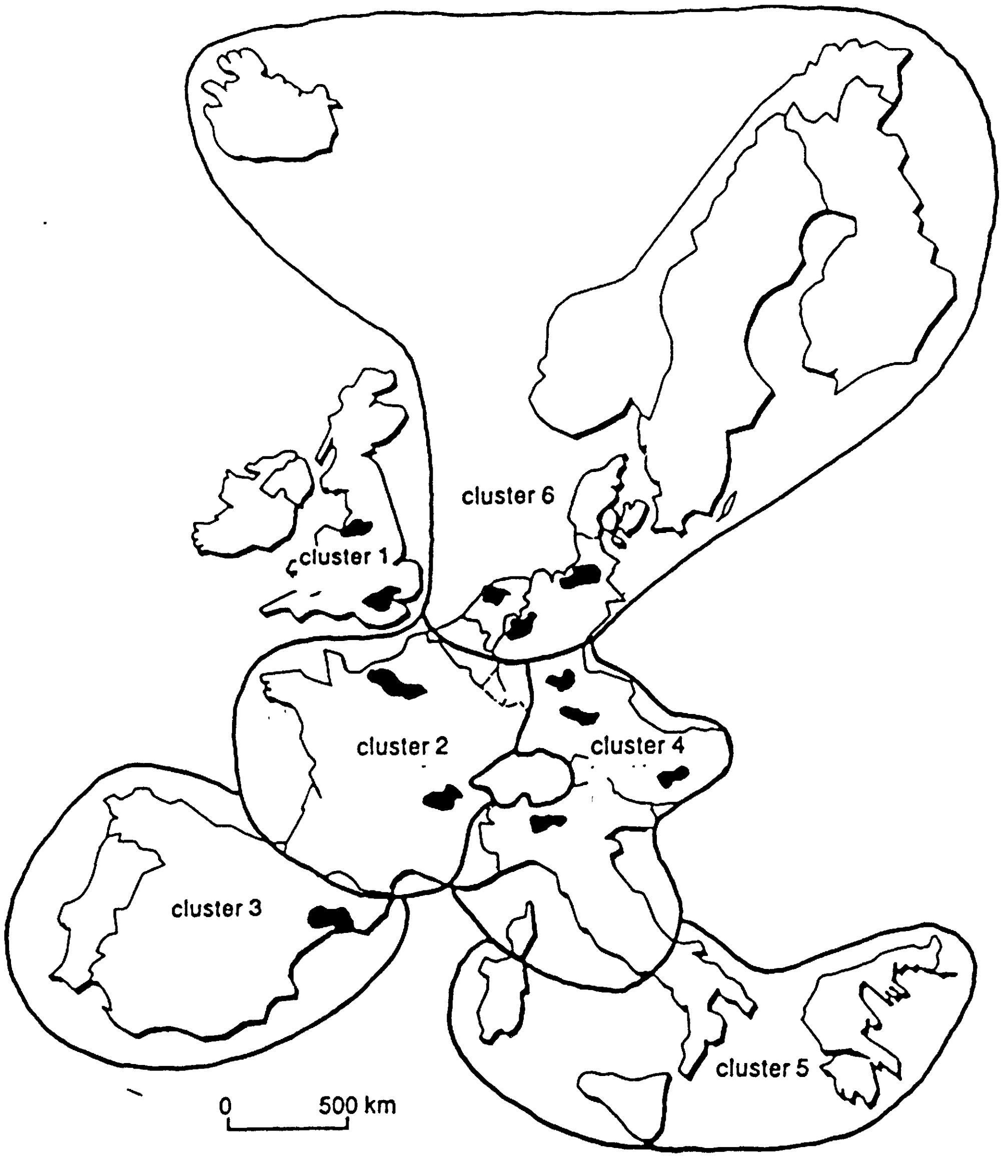
Appendix 10 Statistics on the Danish wholesale trade (continued)

Number of wholesale trade organisations in categories of turnover 1985




Total 24.683 enterprises
Source: Danmark Statistik

Appendix 11 **Euroclusters and -centra**




Bron: De Wereldbank en CartaGen DemoGraphics

The above overview shows six European clusters defined on the basis of cultural, geographic, demographic and economic variables.
The clusters are defined on the basis of a survey carried out by the International Management Institute in Geneva and CartaGen Demographics, also established in Geneva. The outlined Euro-centres will be of great importance to European integration thanks to their positive blend of strong points. They will play a central role in the development of a European logistics network.

Appendix 12 Top 30 retail organisations 1988

| | Organisation | Turnover mln Ecu | Mutation in % | Result mln Ecu | Number of employees |
|---|---|---|---|---|---|
| 1 | Metro International | 17.460 | - | - | 86.100 |
| 2 | Groupe Leclerc | 10.517 | 12 | - | - |
| 3 | Carrefour | 9.214 | 13 | 156 | 42.900 |
| 4 | J. Sainsbury's | 8.517 | 26 | 379 | 88.283 |
| 5 | Aldi | 7.549 | -20 | - | - |
| 6 | Tesco | 7.101 | 22 | 280 | 75.658 |
| 7 | Asko | 7.040 | 44 | 57 | 28.100 |
| 8 | Marks & Spencer | 6.890 | 15 | 486 | 66.466 |
| 9 | Migros c. | 6.875 | 5 | 106 | 46.970 |
| 10 | Gateway | 6.798 | -7 | 337 | 83.328 |
| 11 | Karstadt | 6.604 | 3 | 68 | 67.100 |
| 12 | Promodes | 6.564 | 31 | 49 | 19.212 |
| 13 | Ahold | 6.257 | 32 | 63 | 49.520 |
| 14 | Maus Freres | 5.786 | - | - | 19.000 |
| 15 | Edeka Zentralec. | 5.775 | 6 | - | 771 |
| 16 | KF c. | 5.205 | 0 | 95 | 23.997 |
| 17 | Casino | 5.042 | 3 | 75 | 39.642 |
| 18 | ICA | 4.921 | 19 | 35 | 16.802 |
| 19 | Kaufhof | 4.871 | 13 | 50 | 42.600 |
| 20 | Delhaize le Lion | 4.851 | 23 | 104 | 49.000 |
| 21 | Vendex International | 4.623 | 9 | 70 | 86.000 |
| 22 | Asda-MFI | 4.077 | 17 | 253 | 50.465 |
| 23 | Sears | 4.073 | 22 | 750 | 59.519 |
| 24 | Boots | 4.070 | 7 | 318 | 69.967 |
| 25 | Kingfisher | 4.004 | 30 | 254 | 57.173 |
| 26 | El Corte Ingles | 4.004 | 44 | 149 | 27.397 |
| 27 | GB-Inno-BM (GIB) | 3.927 | 20 | 65 | 31.833 |
| 28 | Great Universal Stores | 3.781 | 13 | 358 | 27.501 |
| 29 | Au Printemps | 3.610 | 58 | 62 | 28.843 |
| 30 | Euromarche | 3.254 | 15 | 23 | 20.447 |

Appendix 13 **EC Competition Legislation**

The purpose of the EC legislation on competition is to guarantee adequate free competition. The legislation is only applicable where trade between the Member States is influenced unfavourably and the legislation takes precedence over national legislation. The competition legislation aims at suppressing the abuse of power by companies taking part in market agreements. The market share of the companies concerned must be above 5% and their total turnover must be higher than 200 million ECU. Exclusive sales agreements, exclusive purchase contracts and franchising are exempt. The European Commission is currently preparing a regulation on European mergers and takeovers. This new regulation gives Brussels exclusive authority to check mergers between companies with a collective worldwide turnover than 5 billion ECU or a collective EC turnover of more than 250 million ECU against the requirements of free competition and other economic conditions. A regulation, unlike a directive, is applicable immediately in every Member State. With a few Member States agreements have been reached whereby the European Commission can also be involved in cases of mergers between companies with a collective turnover of between 2 and 5 billion ECU, as soon as an unfavourable influence is experienced.

## Appendix 14 **European Economic Interest Group (EEIG)**

The European Economic Interest Group is the first European legal form aimed at stimulating European cooperation, especially between small and medium-sized companies. The purpose of the EEIG is to facilitate or develop the economic activity of the members and to improve their results. The single aim of profit generation is not permitted.

Potential members of an EEIG are:
- companies such as partnerships or limited partnerships,
- public bodies such as municipalities and counties,
- companies set up under civil law such as Public Limited Companies, Limited Liability Companies, etc.
- individuals engaged in industrial, commercial, agricultural activities or a free profession.

The regulation on which the EEIG is based became effective on 1 July 1989.

Appendix 15 **Sources**

- CNGG (Confédération Nationale des Commerces de Gros), Paris, France
- Bundesverband Großhandel und Aussenhandel, Bonn, Federal Republic of Germany
- Fiet, Geneva, Switzerland
- Eurostat, Luxembourg, Luxembourg
- Statistiches Bundesamt, Wiesbaden, Federal Republic of Germany
- Ifo-institut für Wirtschaftordnung, München, Federal Republic of Germany
- Istat, Rome, Italy
- Mica (Ministry of Trade, Commerce and Crafts) Rome, Italy
- CFCG (Centre français du commerce extérieur), Paris, France
- Business Statistic Offices, London, United Kingdom
- EIM (Economisch Instituut voor Midden- en Kleinbedrijf), Zoetermeer, the Netherlands
- CBS (Centraal bureau voor de Statistiek), Heerlen, the Netherlands
- Iris (Onderzoeksinstituut voor universiteiten van Brussel/Leuven), Brussels, Belgium
- Direcçao-General do Comercio Interno, Lisbon, Portugal
- L'institut de l'Entreprise, Paris, France
- Danmark Statistik, Copenhagen, Denmark
- CartaGen Demographics, Geneva, Switzerland
- The World Bank, Geneva, Switzerland
- Federation of Wholesale Distributors, London, United Kingdom
- VNG (Vereniging van Nederlandse Groothandel), The Hague, the Netherlands
- Federaçao do Comércio Grossista Portugues, Lisbon, Portugal

Appendix 15 **Sources** (continued)

- DG5: Employment, Industrial Relations and Social Affairs, Commission of the European Communities
- DG23, Tourism, Social Economy, Trade and Enterprise Policy, Commission of the European Communities

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21/11/90

Official Journal of the European Communities

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The Community's legal system is of direct concern to the individual citizen as much as to the Member States themselves.

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To make Community legislation more accessible to the public, the Commission of the European Communities publishes a Directory, updated twice a year, covering:

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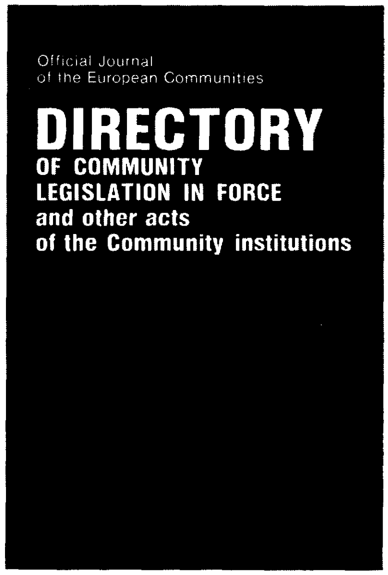
Each entry in the Directory gives the number and title of the instrument, together with a reference to the Official Journal in which it is to be found. Any amending instruments are also indicated, with the appropriate references in each case.

The legislation is classified by subject matter. Instruments classifiable in more than one subject area appear under each of the headings concerned.

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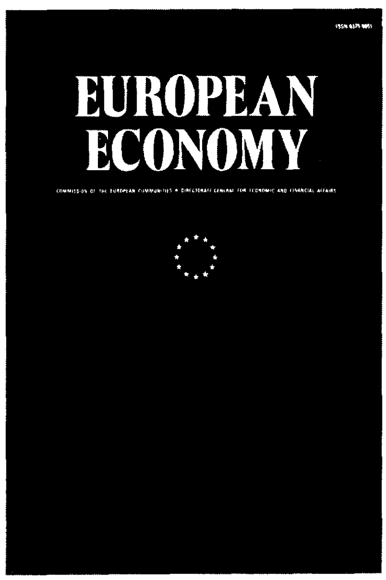

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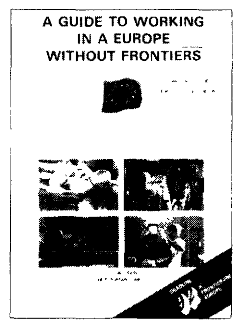


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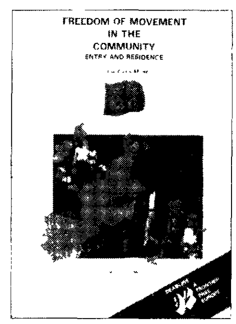


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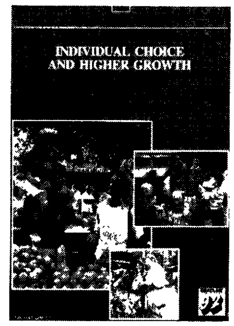


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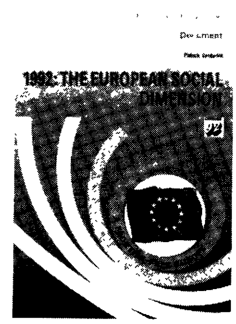

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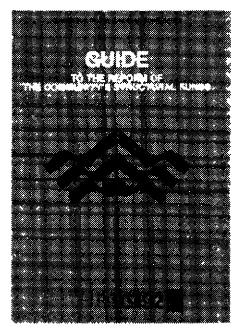


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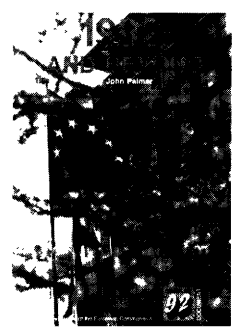


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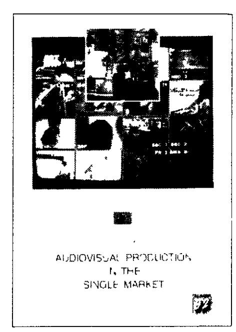

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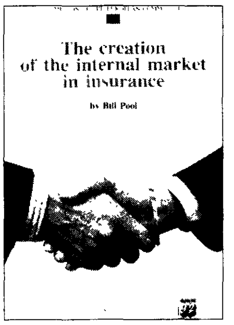


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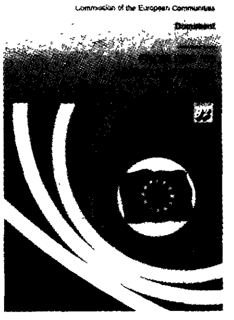

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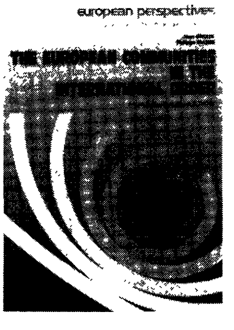


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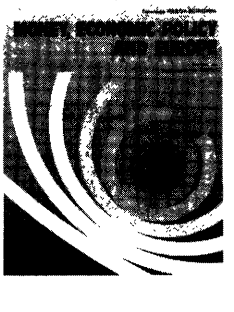


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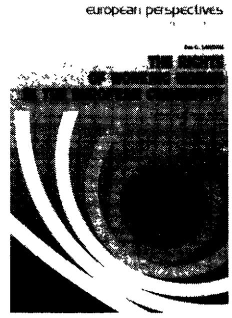


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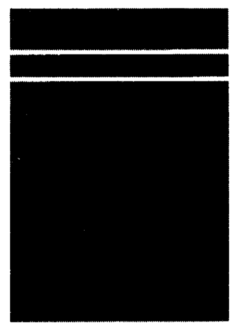

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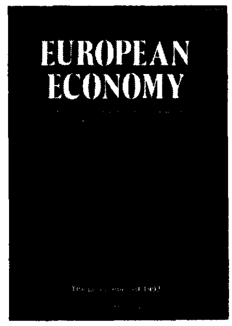


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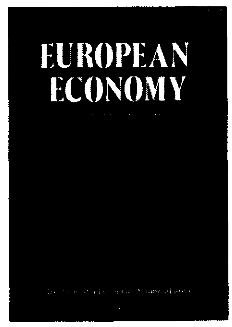


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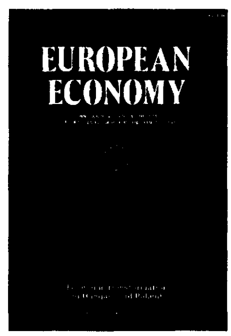


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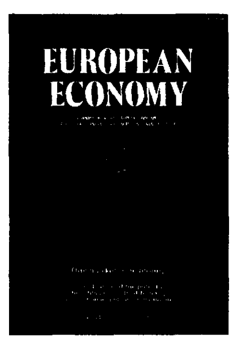


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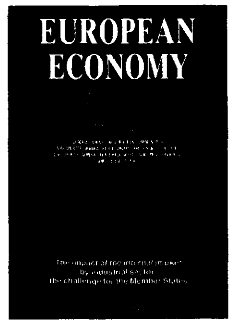


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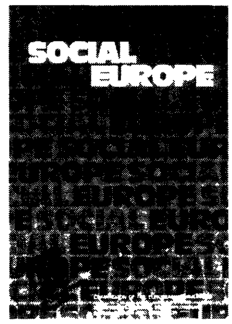


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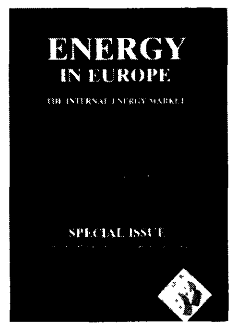


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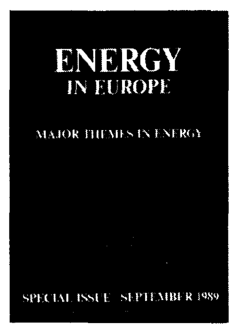


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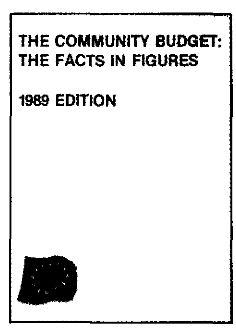


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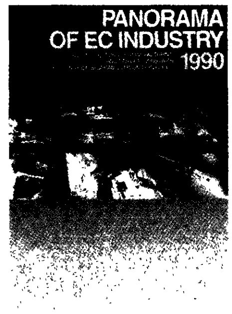


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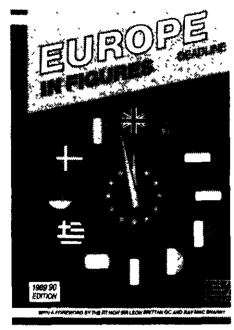


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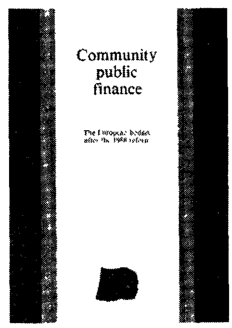


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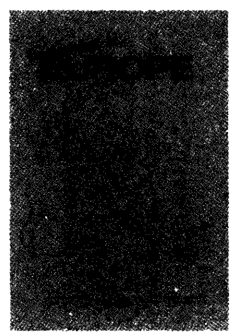

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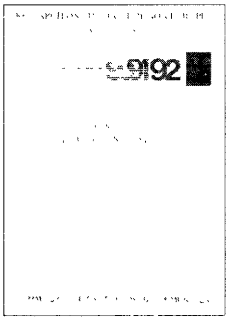

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