

5-Jan-2000

## Dynamics of the Retail Sector in Ireland

---

### **Changing Retail Environment Has Major Implications For Irish Manufacturers - Forfás**

Irish manufacturers need to prepare at both strategic and operational levels for the changes which are currently underway in retailing, according to a new report published by Forfás today Wednesday, 5 January 2000.

The report, entitled *"The Dynamics of the Retail Sector in Ireland"*, says that the retail sector now contributes 6% of Ireland's Gross Domestic Product (GDP) compared with just under 5% a decade ago. The importance of the sector to employment and economic growth will continue to increase, according to the Forfás review, which was undertaken in consultation with the retail sector itself and with suppliers and distributors in Ireland and internationally.

The report states that major structural changes now underway have implications for all retailers, their suppliers and intermediaries such as distributors. The continued internationalisation of the sector, the growth of own label or retailer brand products and the move to centralise distribution are the most significant drivers of change.

At a strategic level, Forfás says that manufacturers need to decide whether to develop and invest in their brands or concentrate on supplying retailers with branded products. They also need to focus on continuous improvement in operations, specifically in the areas of quality management, use of IT links with retailers and continuous new product development.

The report says that there will also be opportunities for cross group sales. An example of this is that Enterprise Ireland has recently launched a supplier development programme to specifically assist food and non-food manufacturers plan and prepare for changes taking place.

"For many Irish food companies, there are new opportunities to develop both their own brands and to supply high quality innovative food products both to retailers in Ireland and internationally", the chief executive of Forfás, Mr John Travers said at the launch of the report. He added that the exchange rate stability of the euro should increase the opportunities for supplying to retailers in other euro-zone countries. Forfás data contained in the report indicates that around 50% of the output of Irish-owned food and clothing firms is sold on the Irish market. "A high level of competition in Irish retail markets is ultimately good for the consumer and for national competitiveness. This requires Irish retailers and manufacturers to heighten their awareness of the changes underway and consider the best way to respond", Mr Travers added.

He said that over the years retailers had played a key role in providing a "shop window" for Irish manufacturers by assisting them in launching new products and developing the scale in competitiveness required to compete on international markets. Supplying the international retail market had served to enhance innovation, quality and competitiveness amongst Irish manufacturers.

However, the pace of structural change in the retail sector in Ireland, underway for the last decade, has significantly accelerated with increased international ownership. This was evidenced in the development of larger sized outlets, variations in formats to meet locational and demographic needs and the growth of symbol groups.

"Structural change is being driven by the search for economies of scale, increased market share, vertical integration of the supply chain, consolidation among the major companies and the co-ordination of information and communications technologies. The last five years have witnessed a dramatic increase in cross-border retail expansion and the internationalisation of large retailers across Europe and the US", Mr Travers said.

Forfás believes that the major strategic challenge for Irish retailers is how to respond to the increasing flow of international retailers into the Irish marketplace. For Irish manufacturers, the challenge is how best to respond to the emergence of a small number of multinational retail chains with significant market share. Increasing retail concentration will result in purchasing for the Irish market being centralised.

The "own-label" share of the Irish grocery market is forecast to exceed 20% within the next three to four years. These developments require manufacturers to strategically reposition their businesses to develop the skill required for supplying retailers' national and international needs and to increase their supply-chain efficiencies.

The Irish retail sector will also need to assess the benefits and implications of centralised distribution for their supply chains. The larger Irish retail chains will need to move quickly to develop their distribution strategies and this will make it uneconomic for manufacturers to maintain a store-to-store distribution fleet.

The review says that distributors will face challenges posed by the centralised distribution systems of the major retailers. Efficiencies in distribution will reduce the number of deliveries to each retail outlet. The benefits of increased competition and efficiency are being passed on to the consumer in lower prices, but the retail industry needs to continue to respond to the changing lifestyles and purchasing requirements of consumers.

Forfás says that the government support agencies, particularly Enterprise Ireland, Shannon Development and An Bord Bia, have a key role in assisting

Irish suppliers with their response to the challenges. In addition, the regulatory environment has an important contribution to make in retaining the spatial balance of retail activity in the regions and ensuring balanced development in urban areas.

"Irish retailers and manufacturers that are leading and adapting to the structural changes are reaping the benefits of the buoyancy in consumer demand in the Irish economy", Mr Travers said.

"In particular, Irish manufacturers are benefiting from the opportunities for accessing new markets by supplying to multinational retailers abroad. For those adopting a "wait and see" approach, the need to develop a response is immediate".

ENDS

Tom O'Dwyer, Press & Communications Manager, Forfas, Tel: 01-6073085

---