

The Cost of Running Retail Operations in Ireland

December 2008



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Forfás

1. Introduction and Background

At the request of the Tánaiste and Minister for Enterprise, Trade and Employment, Forfás have examined the comparative costs of running retail operations in a number of cities in Ireland, the UK and the Netherlands. Farell Grant Sparks (FGS Consulting) were commissioned to provide the required supporting data - their report is attached in appendix 1.

A recent survey by the National Consumer Agency (NCA) compared prices for a range of goods in the Republic and Northern Ireland. The NCA found that selected branded grocery goods were up to 31 percent more expensive in the South than the North and selected own-branded goods were between 11-17 percent more expensive in the South than the North¹. Recent exchange rate movements may have widened this differential further. There has been much discussion regarding the factors driving price differentials in retail outlets between the Republic of Ireland, Northern Ireland and the rest of Europe. This debate has been magnified in the public consciousness through the volatility of exchange rates in recent months and the suggestions of profiteering by retailers. The counter-arguments advanced by the retail sector include that the cost of doing business in Ireland is higher than in other locations.

The purpose of this study is to examine the composition of retail business costs in Ireland and to determine how their cost base compares with retailers in other countries. The approach adopted for the review was to:

- 1 Examine in detail the composition of costs for a number of types of retailers in Ireland and prepare cost profiles for each retail format;
- 2 Benchmark relevant unit cost data (e.g. labour, property, utilities, etc) for the following cities:
 - Dublin, Cork, Limerick, Galway;
 - Belfast;
 - London and Manchester; and,
 - Maastricht.
- 3 Aggregate the retail profiles and unit cost data to develop an assessment of the relative costs of operating various retail case study formats in each of the above locations.

The purpose of this study was to examine the composition of retail business costs in Ireland and to determine how their cost base compares with retailers in other countries. While operating costs are on average 25 percent higher in Dublin than in Belfast, they account for a relatively small share of total costs (circa 20-25%). Our analysis highlights that higher operating costs in Ireland add approximately 5-6 percent to the total cost base of retailers in Dublin versus those operating in Belfast.

A significant gap exists between retail prices (North and South) and the costs of running retail operations. A challenge exists to:

- Lower prices for customers in Ireland;

¹ Source: NCA Euro/Sterling Survey, 18th June 2008.

- Reduce the costs that retailers pay for goods, which they argue are significantly higher than those faced by retailers in the UK and Northern Ireland; and,
- Reduce the costs of doing business in Ireland where higher operating costs in Ireland are primarily driven by higher property, wage, utility (e.g. energy, waste, etc.) and local services costs.

Key Assumptions

This study is based on a range of important assumptions. The key assumptions made to develop the case study cost competitiveness comparisons are as follows:

Development of Sector Cost Profiles

- To understand the cost structure of firms in each of the retail sectors, FGS interviewed a range of foreign and Irish-owned retailers based in Ireland. The interviews were based on detailed questionnaires. The accuracy of the results was cross-referenced against industry sources. However, the accuracy of the detailed results is dependent on the quality of the data received from retailers.
- The four broad retail formats addressed in the report (convenience, multiple, department stores and retail park) are based on questionnaire responses from seven retailers in total. The data has been aggregated to retailer format level to protect retailer confidentiality.
- Every company has a different cost structure and these can vary considerably even for companies of the same size within a specific sector. For example, some retailers own their site while others rent - in this case, a rent rate has been imputed from the value of the site (5% of the site value). Therefore, the aggregate operating costs results should be taken as indicative for retailers within a sub-sector.

Collection of Unit Cost Data

- Based on these profiles, data was collected for four Irish and four international cities.
- Accurate unit cost data of all business inputs is critical to measuring Ireland's cost competitiveness. The unit cost data was primarily collected from retailer sub-supplier sources, rather than retailer, in order to obtain internationally comparable data. Where possible, a single well established industry data source was used for each cost category. Where a single industry source was not available, supplier companies were approached to provide standardised and comparable unit cost data across all locations.
- The data provided in this study is likely to be at the upper-end of the cost scale for all locations, as major corporations operating across countries were the source of the majority of unit cost data. Therefore, in examining the results of this study, it is important to note that the emphasis on unit cost data collection was on data that is comparable across locations. Actual cost levels will, of course, vary within each location.

Aggregation of the Unit Cost Data and Cost Profiles

- Based on the cost profiles and the unit cost data, the consultants developed company profiles that combine these data to provide an overview of the cost competitiveness of a company operating in Ireland relative to competitor locations. It is important to note that these are case studies of seven retail operations - they do not necessarily represent a survey of the sector.

Benchmarking Model Assumptions

- Same cost structure in all countries: The same cost structure profiles, based on interviews with retailers in Ireland, were applied in all locations. Having assessed quantities of inputs required by firms in Ireland (e.g., number and type of staff, square meters of retail space required, etc), the consultants then collected relevant unit cost data in all of the locations. Therefore, the results compare the costs of running an identical (Irish) operation across the eight locations. Clearly, the cost structure of firms will vary across locations. As Irish businesses are likely to be structured in a way to minimise costs in Ireland, this methodology could potentially over-estimate the cost competitiveness of Irish locations.
- Exchange rates: Cost competitiveness is determined by changes in price levels and exchange rates. To ensure comparability across locations, exchange rates were applied to unit costs for locations outside the Eurozone (i.e. London and Manchester) using October 2008 exchange rates (1 Euro = 0.79 British pounds).

2. Composition of Retail Sector Costs

Based on the seven case study retailers, the proportions of retail sector sales revenue fall into two distinct categories:

| Category | Percentage of Revenue |
|-------------------------------------|-----------------------|
| Goods for Resale (including margin) | 75 - 80 percent |
| Operating Costs | 20 - 25 percent |

Therefore, the cost of buying goods for resale is the single biggest cost incurred by retailers and accounts for three-quarters to four-fifths of their total costs. The operating costs - i.e., those costs expended in bringing these goods to customers (property, labour, utilities, etc.) account for 20-25 percent of their total costs.

Based on surveys with a number of retailers, operating costs can be broken down further for various types of retailers as follows:

Figure 1: Operating Cost Profiles by Retail Format (costs excluding the costs of goods)

| Cost Profiles By Broad Retail Format ² | | | | |
|---|-------------|----------|------------------|-------------|
| | Convenience | Multiple | Department Store | Retail Park |
| Number of Stores | 1 | 2 | 2 | 2 |
| Labour Costs | 54% | 37%-60% | 46%-49% | 32%-35% |
| Property Costs (incl. Service Charges; Maintenance) | 32% | 16%-18% | 25%-28% | 26%-29% |
| Transport and Distribution | - | 1%-18% | 0%-2% | 9%-24% |
| Utilities (incl. Electricity; Gas; Telecoms; Water; Waste) | 11% | 6%-9% | 3%-5% | 4% |
| Security and Cleaning | 1% | 3% | 3%-5% | 2%-3% |
| Advertising and Marketing | - | 4%-8% | 3%-4% | 5%-10% |
| Local Authority Rates | - | 1%-2% | 3%-4% | 3%-4% |
| Other Business Services (incl. Accountancy; Audit; Legal; Banking; Insurance, Post, ICT, etc) | 2% | 4%-10% | 10% | 3%-7% |
| Total Operating Costs | 100% | 100% | 100% | 100% |

Figure 1 highlights that operating costs are dominated by labour (annual salary) costs (particularly for smaller more labour intensive grocery stores), property costs (particularly for department stores which are centrally located, and retail park stores which have significant store sizes), transport and distribution costs, and utilities (especially energy and waste). Other services including security, cleaning, advertising and marketing, and professional services can also be significant for individual retailers. This hierarchy of costs is in line with recent findings published by the *Centre for Retail*

² All of the survey responses are from Dublin based retail operations, except for the convenience store, which is based in Limerick. Some retailers did not break down costs into all the categories listed. For example, transport and distribution costs for the convenience retailer are incorporated into their cost of goods.

*Research (UK; 2008)*³. In some cases, retailers did not include data on certain cost factors, as this could not be broken out on a store-by-store basis (e.g. convenience store transport overheads are likely to be captured in other cost categories).

3. Unit Costs Data

Taking the key cost categories in order of importance, this section presents data comparing business inputs across all eight cities benchmarked. Data has been sourced from reliable national and international sources.

3.1 Labour Costs

Labour costs account for the largest share of total operating costs. The retail sector is a labour intensive sector. The retail sector in Ireland employed 198,100 people in May 2008⁴. The sector comprises a large body of relatively low-skilled workers, a smaller contingent of managerial workers, and an even smaller group of professionals with skills in purchasing or non-retail specific areas such as accounting, information technology and human resources. Key findings include:

- The salary of a store manager in Dublin is broadly comparable to that in London, but is significantly higher in Dublin than in either Belfast or Manchester (by 33 percent and 28 percent, respectively). Costs are more competitive in other Irish cities.
- The salary of sales assistants follows similar patterns to store manager salaries, with Dublin and London the most expensive areas, although salaries in Dublin are higher than London.
- Earnings for lower-skilled workers are also higher in Ireland, particularly when compared with the UK. The minimum wage level is likely to be an important determinant of the cost of lower skilled labour, particularly with regard to younger and/or part-time staff members⁵. 33.4 percent of employees in the retail sector in Ireland earn less than €10.00 per hour⁶. The Irish annual minimum wage (€17,544) is higher than the level applying in either the Netherlands or the UK (€16,284 and €13,781 respectively).
- Relatively low levels of employer social contributions improve Ireland's labour cost competitiveness.

3.2 Property Costs

Property costs generally account for the second largest component of total operating costs, particularly for department stores, which are centrally located, and retail park stores, which have significant store sizes. The location and type of premises used is dependent on the business model of the retailers and their business models differ substantially from corner shops, to boutique prime street retailers to out-of-town warehouse retailers. To the greatest extent possible, the retail locations chosen within each city are compared with their equivalents in other cities. Key findings include:

- City centre shopping centre annual rent rates - only London charges higher rental rates than those that apply in Dublin.

³ <http://www.retailresearch.org/home/index.php>

⁴ Source: CSO: Earnings in Distribution and Business Services, October 2008.

⁵ National Employment Rights Authority, 2008. This is based on a 39-hour working week at an hourly rate of €8.65.

⁶ CSO, National Employment Survey, October 2006

- High street annual rental rate - Dublin is the most expensive of all the locations examined, exceeding the average cost charged on London's Bond Street. Prime high street units in Dublin are 2.5 times those in Belfast. In the other Irish sites, the annual rentals are more akin to the Belfast and Manchester comparators - significantly larger cities.
- Outer city shopping centre rentals - Dublin is considerably more expensive than other Irish cities, but Dublin does compare favourably with Manchester and London.
- Rents in Maastricht are typically a fraction of Irish and UK costs across all retail site categories.

3.3 Transport and Distribution

While the costs of shipping to Ireland are relatively cost competitive, these shipping costs are additional to those borne by retailers in the UK and the Netherlands. While retail operations in Northern Ireland face these same physical challenges, interviews with retailers suggest that UK retailers equalise transport and distribution costs across all of their Great Britain and Northern Ireland stores, effectively subsidising stores in Northern Ireland.

The cost of domestic transport and distribution is a function of many factors, including fuel and labour costs. Key findings include:

- Irish diesel costs (excluding VAT but including other fuel duties) are 19 percent lower in Ireland than the UK, driven by the higher levels of fuel duty in the UK⁷.
- Ireland faces higher labour costs for drivers and warehouse staff than the UK.
- Ireland's relatively low population and population density increase the cost of goods transported per kilometre.

3.4 Utilities (incl. Electricity, Gas, Telecommunication, Waste and Water)

Utilities are generally the fourth largest cost category facing retailers in Ireland. Costs in this category are dominated by electricity and waste.

- Electricity prices are 18 percent lower in the UK than in Ireland for high usage retailers, and three percent lower in the Netherlands.
- Refuse charges in Dublin are significantly higher than those in all other cities.
- Gas prices are 18 percent lower in the UK than in Ireland. However, gas prices in the Netherlands are 22 percent higher than Ireland.
- In all categories relating to fixed line telecommunications recorded, Ireland was the most expensive of the three countries examined. As regards local calls from mobiles, the average cost in Ireland per minute was recorded as 45 cent, while similar charges in the UK and the Netherlands were 18 cent and 15 cent respectively.
- Irish water and waste water costs are competitive.

⁷ Based on 2007 data.

3.5 Other Costs

A wide range of other costs also contributes to the costs of running retail operations in Ireland. Key findings include:

- Professional services fees (e.g. accountancy / legal) are high in Irish cities, particularly Dublin.
- IT services costs in London and Dublin are significantly higher than in all other cities.
- In terms of the cost of finance, Ireland is the most expensive location for overdrafts and term loans. For example, an overdraft of €500,000 in Ireland would cost a business an additional €14,800 per annum compared with a similar facility in the Netherlands.

4. Relative Cost Competitiveness of Retail Operations in Ireland

Figure 2 summarises the variance in costs between the various case study retail stores in Ireland and the international cities. This table sets out the cost differential of operating an identical store to that in Dublin across the other cities. The ranges presented reflect the relative performance of individual retailers within the four retail formats. A negative number (denoted by parentheses) indicates that the relevant city has a cost advantage over Dublin - i.e. the costs of operating a convenience store in Manchester is 25% lower than that in Dublin (excluding the costs of goods).

Figure 2: Summary of Variance (Range of Variance): Dublin versus Comparator Cities (percentage of operating costs - excluding the costs of goods)

| | Belfast | London | Manchester | Maastricht | Cork | Limerick | Galway |
|--|---------------|-----------|---------------|---------------|---------------|----------|---------------|
| Convenience Store | (46%) | 22% | (25%) | (19%) | A | (33%) | (27%) |
| Multiple Store | (32%) - (13%) | 4% - 5% | (23%) - (7%) | 1% - 2% | A | A | (18%) - (8%) |
| Department Store | (34%) - (19%) | (4%) - 5% | (31%) - (25%) | (15%) - (11%) | (23%) | (31%) | (27%) - (23%) |
| Retail Park Store | (21%) - (18%) | 6% - 8% | (14%) - (11%) | (4%) | (14%) - (13%) | (15%) | (12%) - (7%) |
| () Indicates a cost advantage for this location versus Dublin. | | | | | | | |
| A - Some cities are excluded, as property rental figures are not comparable. | | | | | | | |

Key findings include:

- For convenience stores, the data indicates that a similar store based in Belfast would pay substantially lower costs (i.e. 46% lower than Dublin operating costs). London is the only city which has a more expensive operating environment. Dublin's weak cost competitiveness is driven by property and labour costs.
- For multiples stores, the data indicates that Belfast, Manchester and Galway offer a more cost competitive business environment than that available in Dublin. While London remains the most expensive location to operate the case study multiple store in, the difference in the costs base from that in Dublin is marginal. This differential is primarily driven by higher

labour and property costs in these locations. However, once again retail operations in Ireland will pay more for comparable levels of utility usage than in either London (one percent to three percent) or Maastricht (up to one percent).

- For department stores, similar stores in Belfast would pay substantially lower costs (i.e. 19 percent to 34 percent lower than Dublin's operating costs). The key drivers of this differential are labour costs (14 percent to 15 percent) and property costs (2 percent to 16 percent).
- More generally, similar department stores in each of the international cities would face lower operating costs than their Irish counterparts - with the exception of London. In each case, the relatively higher cost of labour and property are the central determinants of this variance.
- For retail operations in retail parks, the data suggests that similar stores operating in each of the locations addressed by this study would face lower operating costs than their Irish counterparts - again with the exception of London. In each case, the relatively higher cost of labour and property are the central determinants of this variance.

As operating costs (e.g. property, labour, utilities, local services, etc.) in Dublin are on average 25 percent higher than those in Belfast, they increase the total costs of doing business in Dublin. These operating costs account for approximately 20-25% of the total cost of running retail operations - the remaining costs are dominated by the costs of goods. Therefore, higher operating costs add approximately 5-6 percent to the total cost base of retailers in Dublin versus those operating in Belfast. Other Irish cities are relatively more cost competitive.

NCA research has highlighted that retail prices in Irish cities are significantly higher than those charged by retailers in Northern Ireland. The higher cost of running retail operations in the Republic of Ireland account for only part of this differential. A challenge exists to:

- Lower prices for customers in Republic of Ireland;
- Reduce the costs that retailers pay for goods, which they argue are significantly higher than those faced by retailers in the UK and Northern Ireland; and,
- Reduce the cost of doing business in Ireland. Irish based retailers face higher operating costs across a range of areas including property, labour, utilities (e.g. energy, waste, etc.) and local services.

5. Conclusions and Policy Issues Arising

Tackling high and increasing costs is challenging. While the slowdown in the economy should lead to some moderation in cost pressures, concerted actions are required to manage consumer and retailer costs in Ireland. A range of actions can help to restore cost competitiveness.

5.1 Cost of Goods

Given our reliance on the UK and the US in terms of imports, a strong euro should result in cost savings on imported goods and services for consumers and businesses. The fact that the strong euro does not appear to be translating into lower import costs may be indicative of a lack of competition in the import, distribution and retail sectors. A review of competition in the retail related import /

distribution sector should be undertaken. The review should assess whether a lack of competition is inhibiting the benefits of sterling weaknesses being passed through in lower prices to consumers. This review should also consider the potential for encouraging direct importation from source countries, rather than indirectly through the UK, as is currently the norm.

5.2 Land and Property Prices

Despite recent falls, Irish land and property prices remain extremely high relative to the costs faced by businesses and consumers in other countries. The cost competitiveness of retail operations should improve over time as retailers have greater leverage to negotiate more favourable lease terms. It is important that the property market be left to adjust without interference.

Falling land and property prices do not reduce the necessity for structural change in respect to land planning. In a recent review of the retail sector, the Competition Authority recommended the removal of caps on floor space and that decisions on size should be left to local authorities, the removal of the reference to floor size for discount stores in the retail planning guidelines, and that local authorities should have specific regard to increasing competition and customer choice in retail planning and decision making.

5.3 Labour

The increasing cost of labour was identified as a key driver of growing costs. In each retailer case, payroll costs were noted to be significantly higher than the equivalent proportion reported by non-Irish operations within the relevant retail groups. The slowdown in the economy should moderate wage growth. In future reviews of the minimum wage, it needs to be borne in mind that our high minimum wage has implications for both those on the minimum wage and for setting relativities for higher paid jobs.

5.4 Utilities

Utility costs have increased dramatically in Ireland in recent years to the point where Irish electricity and waste costs are the highest in the eurozone. Further efforts should be made to minimise increases in the costs of publicly owned and managed services.

In view of the significant energy price increases over the past 12 months, it is vital to demonstrate that Ireland is serious about tackling its very significant energy challenges. Recovery of carbon windfalls, improving energy efficiency and investing in strategic infrastructure can improve Ireland's energy cost competitiveness.

Ireland continues to perform poorly relative to competitor countries in meeting the waste management needs of enterprise. Ireland's comparatively poor performance in terms of both cost and capacity can be traced back to the failure to deliver key waste management infrastructure in recent years. Actions are required to remove barriers to private sector investment in the waste sector, including existing regulatory and policy uncertainty, the lack of coordinated regional waste plans and planning delays.

While further investment is needed to improve public infrastructure, there are concerns that cost increases are in part related to inefficiencies in delivery that are passed onto the rest of the economy. In areas such as water, Government can facilitate continued improvement of public services and infrastructure without adding to inflation by eliminating inefficiencies and achieving economies of scale through better co-ordination of local authority plans.

5.5 Transport and Distribution

Section 3.3 highlights that despite lower fuel costs, transport and distribution costs are relatively high in Ireland due to higher wage levels and Ireland's geographic characteristics (island economy with a low population density). Continued investment in international and national transport infrastructure, in particular in the inter-urban road network, is key to improving the efficiency of retail supply chains and central distribution models in Ireland.

5.6 Strengthening Competition Policy across all Locally Traded Services

Enhancing competition within Ireland's domestic economy is critical. Market entry by new firms and rivalry between firms promotes price competition, improves quality and service and stimulates productivity as firms invest in the development of new products and processes to gain competitive advantage. Restrictions on competition allow existing providers (large and small) to produce goods and services inefficiently and / or to inflate prices artificially. While there are a number of examples of the benefits of greater competition in domestic markets, e.g. air travel, taxis and telecommunications, a wide range of sectors in Ireland are relatively sheltered from competition.

As highlighted above, reform of the land planning system offers significant potential to enhance competition in the Irish market. In addition, a review of the importer / distributor market is also required.

Weak competition in locally traded sectors also weakens the cost competitiveness of other locally trading sectors as retailers also source goods and services locally. In order to improve cost competitiveness in the Irish market, we suggest the following actions across a number of policy areas:

- The active pursuit of measures to enhance competition in locally traded sectors of the economy (e.g. solicitors, barristers, banking and non-life insurance, transport, energy and waste services) is essential. Anti-competitive practices take many forms - for example, they can restrict the ability of people to enter these sectors (e.g. limited training places, limited recognition of overseas qualifications and restriction on the ability of customers to switch providers easily and firms to advertise).
- The Competition Authority has published a number of major reports in recent years. We welcome the recent announcement of a process by the Tánaiste and Minister for Enterprise, Trade and Employment for progressing recommendations of the Competition Authority.

5.7 Government Related Charges and Costs

Control of Local Authority Charges

While low corporation tax rates and taxes on employment improve the cost competitiveness of operating retail operations from Ireland, local authority charges add to the costs facing business in Ireland. While local authorities provide a range of essential services to businesses and the wider community, it is critical that local authority charges on businesses reflect the economic cost of providing services.

Reducing Administrative Costs

Easing the administrative burden that regulations create can improve the business environment by reducing costs, minimising the time businesses spend fulfilling regulatory requirements and increasing productivity. Government needs to implement vigorously the Better Regulation agenda to achieve the target to reduce administrative burdens by 25 percent by 2012.

eGovernment

Ireland performs relatively poorly in terms of delivery of eGovernment services. Government can reduce retailer costs by developing the quality and availability of eGovernment services. There is a need to prioritise and advance the implementation of key eGovernment projects.

Appendix 1

Forfás

**Cost of
Running Retail
Operations in
Ireland**

FINAL
REPORT

FGS Consulting
December 2008

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1. Introduction and Context

1.1 Background

As noted in the 2006 National Competitiveness Council's 'Statement on the Costs of Doing Business in Ireland' cost competitiveness remains critical to ensuring that companies based in Ireland have the ability to compete successfully in international markets. High costs can be seen both as a symptom of and as a threat to success. Consequently, Forfás commissioned FGS Consulting to undertake a study into the cost of running retail operations in Ireland in 2008.

The retail sector is one with which every Irish person has an almost daily interaction and accounts for close to a quarter of consumer expenditure. There has been much discussion recently regarding the cost differential in retail outlets between Ireland, Northern Ireland and the rest of Europe. A survey by the National Consumer Agency in June 2008 comparing prices for a range of goods in the Republic and Northern Ireland found that selected branded grocery goods were up to 30 percent more expensive in the South than the North. Selected own-branded goods were between 11-17 percent more expensive in the South than the North.

This debate has been magnified in the public consciousness over concerns that the benefits of the stronger euro against Sterling (which should reduce the cost of imports from the UK) have not been passed on and the suggestion of profiteering by retailers, particularly multi-national chains. The counter-argument advanced by the retail sector suggests that the cost of doing business in Ireland is more expensive than in other locations.

At the request of the Department of Enterprise, Trade and Employment, this study was commissioned to examine the comparative costs of running retail operations in number of cities in Ireland, the UK and the Netherlands.

The retail sector is a significant part of the Irish economy. In May 2008, the retail sector employed 198,100 people, accounting for 9.3 percent of those employed (CSO, 2008), about half of whom are full-time. Just under one-fifth of those employed are non-nationals.

The CSO estimates that there are over 29,000 wholesale and retail enterprises in the state⁸. Tesco and Dunnes together account for half of the grocery market of €12bn, with market shares of 26% and 24% respectively, followed by Musgrave /Supervalu /Centra with 22%, Superquinn with 7% and new entrants Aldi with 4.5% and Lidl with 2.6%. The Competition Authority estimates that the number of grocery stores operated by these retailers increased by 63% between 2001 and 2007 and that their floor space has increased by 77%. Over the same period, the population of Ireland increased by 13%. Other key segments of the market (clothes, electronics, home furnishings, etc) are serviced by a variety of Irish and foreign owned firms.

Irish-based retailers are undoubtedly experiencing a difficult trading period at present: 'The volume of retail sales in Ireland has declined by more than 5% year-on-year...some retailers are finding it difficult to obtain funding to support expansion while others are putting plans on hold as they gear up for what

⁸ Source: www.cso.ie/statistics/Services.htm - based on 2005 data.

promises to be a challenging Christmas trading season' (CBRE, 2008). These problems have been compounded by the rising incidence of people crossing the border to shop. Representatives of the retail sector in Ireland have noted that the differential in VAT rates has contributed to this phenomenon by making Ireland less competitive in comparison to our nearest neighbour⁹.

1.2 Objectives of this Study

The purpose of this review is to examine the composition of retail business costs in Ireland and to determine how their cost structures compare with retail firms in other countries. The approach adopted for the review was to:

1. Examine in detail the composition of the cost structures for a number of types of retailers and retail formats in Ireland and prepare retail cost profiles;
2. Benchmark relevant unit cost data for a number of locations. The locations assessed in the review are:
 - Dublin, Cork, Limerick, Galway (Republic of Ireland);
 - Belfast (Northern Ireland)
 - London and Manchester (Great Britain); and
 - Maastricht (Netherlands);
3. Aggregate the retail profiles and unit cost data to develop an assessment of the relative costs of operating various retail case study formats in each of the above locations.

While the retail sector is not homogenous in terms of location, size, format and ownership, and generalising about cost structures is difficult, the following three broad input cost elements can be identified:

- Purchase of Goods for Resale and Inventory Management and Operating Margins;
- Domestic Labour Inputs; and
- Non-labour Domestic Inputs.

This report addresses the latter two cost elements and does not examine the purchase of goods purchased by retailers for resale (nor is the issue of margin addressed).

This assessment is not an attempt to settle the debate as to whether the higher retail prices for consumers in Ireland is due in part or full to either the costs of operating various retail formats in Ireland or super-normal profits for retailers but rather to gather data on the cost competitiveness of basing a retail operation in Ireland as opposed to other trading partners. The study examines the different cost structures as a means of understanding the differing pricing structures faced by Irish consumers.

⁹ This differential refers to goods covered by the top rate of VAT. In Budget 2009, the Irish Government increased its VAT rate from 21 percent to 21.5 percent. After the data for this report was gathered, the UK Government reduced its VAT rate from 17.5 percent to 15 percent (albeit on a temporary basis).

1.3 Focus and Methodology

A key objective of this study was to undertake a series of structured interviews with a selection of retailers operating in the Irish marketplace in addition to the collation and analysis of unit cost data on themes including labour, rent and utilities. This study is based on a range of important assumptions. The key assumptions made to develop the case study cost competitiveness comparisons are as follows:

Development of Sector Cost Profiles

- To understand the cost structure of firms in each of the sectors, FGS interviewed a range of foreign and Irish-owned retailer based in Ireland. The interviews were based on detailed questionnaires. The accuracy of the results was cross-referenced against industry sources.
- The three broad retail formats addressed in the report (grocery / multiple, department stores and retail park) are based on case study material from seven retailers who completed the detailed questionnaire. The data has been aggregated to retailer format level to protect retailer confidentiality.
- Every company has a different cost structure and these can vary considerably even for companies of the same size within a specific sector. For example, some retailers own their site while others rent – in this case, a rent rate has been imputed from the value of the site (5% of the site value). Therefore, the aggregate operating costs results should be taken as indicative for retailers with a sub-sector.

Collection of Unit Cost Data

- Based on these profiles, data was collected for four Irish and four international cities.
- Accurate unit cost data of all business inputs is critical to measuring Ireland's cost competitiveness. The unit cost data was primarily collected from supplier sources, rather than user surveys, in order to obtain internationally comparable data. Where possible, a single well established industry data source was used for each cost category. Where a single industry source was not available, supplier companies were approached to provide standardised and comparable unit cost data across all locations.
- The data provided in this study is likely to be at the upper-end of the cost scale for all locations, as major corporations operating across countries were the source of the majority of unit cost data. Therefore, in examining the results of this study, it is important to note that the emphasis on unit cost data collection was on data that is comparable across locations. Actual cost levels will, of course, vary within each location.

Aggregation of the Unit Cost Data and Cost Profiles

- Based on the cost profiles and the unit cost data, the consultants developed company profiles that combine these data to provide an overview of the cost competitiveness of a company operating in Ireland relative to competitor locations.

Benchmarking Model Assumptions

- Same cost structure in all countries: The same cost structure profiles, based on interviews with retailers in Ireland, were applied in all locations. Having assessed quantities of inputs required by firms in Ireland (e.g. number and type of staff, square meters of retail space required, etc), the consultants then collected relevant unit cost data in all of the locations. Therefore, the results compare the costs of running an identical (Irish) operation across the

eight locations. Clearly, the cost structure of firms will vary across locations. As Irish businesses are likely to be structured in a way to minimise costs in Ireland, this methodology could potentially overestimate the competitiveness of Irish locations.

- Exchange rates: Cost competitiveness is determined by changes in price levels and exchange rates. To ensure comparability across locations, exchange rates were applied to unit costs for locations outside the Eurozone (i.e. London and Manchester) using October 2008 exchange rates (1 Euro = 0.893 British pounds).

1.4 Report Structure

This report is structured in a manner designed to set out the analysis undertaken and the consequent findings and recommendations in a logical and accessible manner. The report consists of four sections, as follows:

1. Introduction and Context
2. Analysis of Case Study Responses
3. Overview of Unit Cost Analysis
4. Policy Actions

2. Analysis of Case Study Responses

2.1 Introduction

At the outset of this study, it was determined that case studies represented the most appropriate approach to the collation of key data on the cost profiles of a sample of firms. Consequently, FGS Consulting – in conjunction with Forfás – designed and distributed a survey to retailers in Ireland in order to access this rich source of information.

This section analyses the cost structures of a range of retail formats in Ireland based on survey returns from seven retailers. For the purposes of presenting the data collated, the authors have categorised the various retailers under four headings, as follows:

- Convenience Store
- Multiple
- Department Store
- Retail Park

2.2 Overview of Cost Profiles

Figure 2.1 below presents a summary of the survey responses received for the purposes of this study. This indicates that labour costs are the most substantial factor underpinning the cost of operating a retail operation. Beyond labour costs, property costs and utilities tend to be the largest costs facing retailers in Ireland. This hierarchy of costs is in line with recent findings published by the *Centre for Retail Research (UK; 2008)*.

Based upon the data collated, it is clear that the distribution and importance of certain cost factors can differ across the various retail categories used. For instance, labour costs tend to account for a smaller proportion of overall costs for those retailers operating in the Retail Park environment. According to the data presented here labour accounts for approximately 32% to 35% of all costs for these retailers compared with 46% to 49% in the case of Department Stores.

By contrast, those retailers classified as Multiple tend to spend proportionately less on property costs (16% to 18%) compared to the other retailers surveyed (25% to 32%). However, the proportion of costs absorbed by utilities appears relatively consistent across all of the categories at approximately 4% to 6% although there are some outliers (i.e. Convenience Store, etc.).

Similarly, the proportion of overall costs devoted to other activities (i.e. security and cleaning; advertising and marketing, etc) appears to be broadly consistent across the various retailers surveyed.

Figure 2.1: Summary of Survey Responses (percentage of Total Operating Costs)

| Cost Profiles | | | | |
|---|--------------------|-----------------|-------------------------|--------------------|
| | Convenience | Multiple | Department Store | Retail Park |
| # Stores | 1 | 2 | 2 | 2 |
| Labour Costs | 54% | 37%-60% | 46%-49% | 32%-35% |
| Transport and Distribution | - | 1%-18% | 0%-2% | 9%-24% |
| Property Costs | 32% | 16%-18% | 25%-28% | 26%-29% |
| <i>(incl Service Charges; Maintenance)</i> | | | | |
| Utilities | 11% | 6%-9% | 3%-5% | 4% |
| <i>(incl Electricity; Gas; Telecoms; Water; Waste)</i> | | | | |
| Security and Cleaning | 1% | 3% | 3%-5% | 2%-3% |
| Advertising and Marketing | - | 4%-8% | 3%-4% | 5%-10% |
| Local Authority Rates | - | 1%-2% | 3%-4% | 3%-4% |
| Other Business Services | 2% | 4%-10% | 10% | 3%-7% |
| <i>(incl Accountancy; Audit; Legal; Banking; Insurance, Post, ICT, etc)</i> | | | | |
| Total Operating Costs | 100% | 100% | 100% | 100% |

3. Overview of Unit Cost Analysis

3.1 Introduction

The level of costs will vary from retailer to retailer, depending on their type (convenience, multiple, discounter etc) and on their size and location. However, a number of cost types are constant amongst retailers, namely:

- Costs of merchandise from suppliers
- Rental/Mortgage per sq metre
- Labour
- Distribution

Based on the seven questionnaires returned from retailers, the proportions of retail sector sales revenue fall into two distinct categories:

- Goods for Resale (including margin) 75 – 80 percent; and
- Operating Costs 20 – 25 percent.

In this section, we focus on the variation in costs across the cities with regard to the cost of running retail operations (i.e. excluding the cost of goods for re-sale and margins). Therefore, the analysis presented here includes the latter three categories and additional expenses such as utilities and non-discretionary costs (i.e. ICT services, professional service fees, etc). We have addressed the issue of the cost of holding stock in the Appendix to this report.

This section seeks to benchmark a range of differing property costs in Irish cities and those in comparator countries. The location of retail units is central to their competitiveness given that their customer base must typically visit their premises. The location and type of premises used is dependent on the business model of the retailers, and their business models differ substantially from corner shops, to boutique prime street retailer to out-of-town warehouse retailers.

For all retail site categories, every attempt has been made to make credible comparisons. To the greatest extent possible, the retail locations chosen within each city are compared with their equivalents in other cities. Specific locations are attached to each city on the charts below where possible. If a range of rents was provided by a source for a specific location type in a city, the high point of the range was used, as the range can often vary widely.

3.2 Key Cost Centres

Labour Costs

The retail sector is a labour intensive sector. The retail sector in Ireland employed 198,100 people in Ireland in May 2008. The retail sector comprises a large body of relatively low-skilled workers, a smaller contingent of managerial workers, and an even smaller group of professionals with skills in purchasing or non-sector specific areas such as accounting, information technology and human resources.

Figure 3.1 below presents average annual salaries for the retail sector. For this study, we selected store managers, sales assistants, customer service representatives and buyers for illustrative purposes.

Regional salary differentials are evident across all countries and all sectors and are influenced by a myriad of factors such as the regional cost of living and regional skills availability (a shortage of people willing to do the work or with sufficient skills will 'bid up' wages).

Regional salary differences are evident in the retail sector. For instance, although store manager¹⁰ roles in Dublin are broadly comparable to those in London, the applicable rate in these cities tends to be far in excess of the salaries paid in the other selected locations. Store manager salaries in Cork are more than €10,000 per annum lower than in Dublin and €8,500 per annum lower in Galway than in Dublin. Moreover, store manager salaries are significantly higher in Dublin than in either Belfast or Manchester (by 33 percent and 28 percent, respectively).

Sales assistant salaries follow broadly similar patterns to store manager salaries, with Dublin and London the most expensive areas although salaries in Dublin are higher than London at this level. The salary of a sales assistant is significantly higher in Dublin than in the other Irish cities and is almost 50 percent higher than the equivalent salary in either Belfast or Manchester.

¹⁰ Typically, a store manager oversees all operations in a retail outlet.

Figure 3.1a Annual Salaries for Selected Occupations, 2008 (Euros)

| | Store Manager (€) | Sales Assistant (€) |
|------------|-------------------|---------------------|
| Dublin | 42,500 | 22,000 |
| Cork | 29,500 | 17,500 |
| Limerick | 29,500 | 17,500 |
| Galway | 34,000 | 17,500 |
| London | 44,641 | 20,979 |
| Manchester | 33,132 | 15,571 |
| Belfast | 32,085 | 15,079 |
| Maastricht | 46,719 | 25,177 |

Source: Manpower Ireland Salary Guide 2008; ONS, ASHE 2007; Eurostat 2007 (estimate)
Note: The figures quoted are € conversions (where applicable); the rate is based on late October 2008: £ 1 = € 1.26

The authors also assessed data on the labour costs associated with a number of other retail occupations and these showed similar trends. For instance, the cost of employing a customer service representative¹¹ in Dublin is lower than in London whilst the cost in other Irish cities are marginally lower than those in Manchester and Belfast. The cost of employing a retail buyer¹² is higher in Dublin than in many of the benchmarked locations whilst other Irish cities are also more expensive than their provincial UK counterparts.

Figure 3.1b Annual Salaries for Selected Occupations, 2008 (Euros)

| | Customer Service Representative (€) | Retail Buyer (€) |
|------------|-------------------------------------|------------------|
| Dublin | 21,500 | 37,500 |
| Cork | 19,000 | 34,500 |
| Limerick | 19,000 | 34,500 |
| Galway | 19,000 | 34,000 |
| London | 26,895 | 45,212 |
| Manchester | 19,691 | 33,556 |
| Belfast | 19,331 | 32,496 |
| Maastricht | 29,129 | 46,719 |

Source: Manpower Ireland Salary Guide 2008; ONS, ASHE 2007; Eurostat 2007 (estimate)
Note: The figures quoted are € conversions (where applicable); the rate is based on late October 2008: £ 1 = € 1.26

It is important to note that the minimum wage level is also likely to be an important determinant of the cost of running retail operations, particularly with regard to younger and/or part-time staff members. Specifically, the applicable rate in Ireland (€17,544) is higher than the rate applying in either the Netherlands or the UK (at €16,284 and €13,781, respectively). 33.4 percent of employees in the retail sector in Ireland earn less than €10.00 per hour¹³.

Employer Social Contributions

As regards social contributions, compared to the other comparator locations Irish employers make the lowest contributions at just under 11% of salaries. In the UK, the figure is higher at 12.8% whilst in the Netherlands employers contributions are significantly higher at 17.28%.

¹¹ Customer service representatives are typically involved in shop floor activities and assisting customers (queries, handling complaints, etc.).

¹² A buyer is typically responsible for the purchasing and supply activities of a retail outlet.

¹³ CSO, National Employment Survey, October 2006

Figure 3.2: Employer Social Contributions

| Employers Social Contributions (% of salaries) | |
|---|---------------|
| Ireland | 10.75% |
| UK | 12.80% |
| Netherlands | 17.28% |
| Note: Netherlands comprise: Disability 6.38%; Unemployment 4.4 %; Sickness 6.5% | |
| Source: Costs of Doing Business Survey and Watson Wyatt 2007/2008 Global 50 | |

Property and Rental Costs

Property costs generally account for the second largest component of total operating costs, particularly for department stores, which are centrally located, and retail park stores which have significant store sizes. The location and type of premises used is dependent on the business model of the retailers and their business models differ substantially from corner shops, to boutique prime street retailers to out-of-town warehouse retailers. To the greatest extent possible, the retail locations chosen within each city are compared with their equivalents in other cities.'

Figure 3.3 below presents annual rental rates for city centre, high street and outer city shopping centres. Rental costs are quite varied throughout the island of Ireland but it is clear from the table that Dublin has the highest cost per m² per annum (€) across each type of site. Other points to note are:

- In terms of city centre annual rentals, only London's Oxford Street and Belfast's new flagship Victoria Square charge higher rental rates than Dublin.
- In terms of high street annual rental rates (€ per sq m) Dublin was the most expensive of all the locations examined, exceeding the average cost charged on London's Bond Street by €54. In the other Irish sites, the annual rentals are more akin to the Belfast and Manchester comparators.
- Outer city shopping centre rentals are more aligned to city centre rentals than high street rentals. Within Ireland, Dublin is considerably more expensive than the comparator regions but compares favourably with Manchester and London.

Figure 3.3: Rental Costs by Store Location, 2008 (€per sq m)

| City | Rental Costs (€) | | | |
|------------|---|--|--|---|
| | Retail Warehouse Annual Rental rate (€per sq m) | City Centre Annual Rental rate (€per sq m) | High Street Annual Rental rate (€per sq m) | Outer City Shopping Centre Annual Rental rate (€per sq m) |
| Dublin | Airside €340 | St Stephens' Green €3,500 Dawson St €2,275 | Grafton Street €9,500 | Dundrum €4,090 Average of 7* €3,045 |
| Galway | Galway West €270 | Eyre Square Centre €1,300 | Shop Street €3,200 | Galway Shopping Centre €1,045 |
| Limerick | €240 | Arthur's Quay €1,000 | Cruises Street €2,100 | The Crescent €2,000 |
| Cork | Eastgate €259 | Merchant's Quay €1,020 | Patrick Street €5,000 | Mahon Point €1,250 |
| Belfast | Boucher Road Retail Park €216 Holywood Exchange €222 | Victoria Square €3,173 Castle Court €2,538 Chichester St €558 | Donegall Place €3,427 | Forestside €2,631 Abbey Centre €1,687 |
| London | €444 | Oxford Street €6,300 Edgware Road €1,200 | Bond Street €9,446 | Brent Cross €5,949 |
| Manchester | €292 | Arndale €1,686 | Market Street €3,845 | Trafford Centre €5,330 |
| Maastricht | Alexandrium III (Rotterdam) €195 | Entre Deux €900 | Grote Straat €1,500 | Brusselse Poort €350 |

Source: CBRE, DTZ Sherry FitzGerald Research
 Note: The rates above generally refer to ITZA (In Terms of Zone A) – High St, City Centre and Outer City – with the exception of Limerick (City Centre; Outer City), Cork (City Centre; Outer City) and Galway (Outer City).
 * Refers to 7 suburban locations

Utilities

Electricity: In terms of electricity, the Netherlands is the most expensive of the three locations, with a price of 19 cent per KWh (with regard to costs under Band IA). In Ireland and the UK, the cost is 15 cent and 13 cent respectively. However, under Band IB (the category most applicable to retail operations) Ireland is the most expensive – 14 cent per KWh – while in the Netherlands the equivalent cost is 13.5 cent. In the UK – the least expensive of the three jurisdictions – the cost is just 11 cent per KWh (or 21 percent lower than the rate payable by Irish retailers). Comparisons made in the model were based on a band of 20 to 500 KWh, as this is the consumption band that is most representative of the retail sector¹⁴.

14 Sustainable Energy Ireland, Profiling Energy and CO2 Emissions in the Services Sector, page.39, April 2005

Figure 3.4 Electricity Costs per Kilowatt Hour

| Location | Consumption Band | |
|-----------------------|--------------------------------|--------------------------------|
| | Band IA : < 20 MWh | Band IB : 20-500MWh |
| | Cost per kwh (Kilowatt/hour) € | Cost per kwh (Kilowatt/hour) € |
| Ireland | 0.1477 | 0.139 |
| Netherlands | 0.186 | 0.135 |
| United Kingdom | 0.1303 | 0.1114 |

Source: Eurostat
Note: Costs refer to January 2008

Gas: Finally, gas prices are higher in Ireland than in the UK although they are lower than in the Netherlands. Prices quoted in Figure 3.5 below relate to industrial end user (band c) which equates to 10,000 to 100,000 GJ annually. Costs are highest in Maastricht at €13.28. However, Irish retailers pay up to 18 percent more than their British counterparts (i.e. prices are approximately €2 higher than in the UK).

Figure 3.5: Gas Prices

| Gas Band IC | |
|-------------|-----------------|
| City | Cost per GJ (€) |
| Belfast | €8.89 |
| Cork | €10.88 |
| Dublin | €10.88 |
| Galway | €10.88 |
| Limerick | €10.88 |
| London | €8.89 |
| Maastricht | €13.28 |
| Manchester | €8.89 |

Source: Eurostat
Note: Costs refer to January 2008

Telecommunications: In all categories relating to fixed line telecoms recorded in the NCC Cost of Doing Business Report, Ireland was the most expensive of the three countries benchmarked.

Ireland was also the most expensive location comparing European calls, but only marginally so compared to the UK (33 cent and 31 cent respectively). In the Netherlands, calls were substantially cheaper. Calls to the US from Ireland were also the most expensive, while the cost per minute of a call to the US from UK was 90% cheaper at 2 cent per minute.

Figure 3.6 Fixed Telephone Costs per Minute (price in €)

| Location | Local Call | International Call Europe | International Call US |
|--|------------|---------------------------|-----------------------|
| Ireland (Dublin, Cork, Limerick, Galway) | 0.05 | 0.33 | 0.16 |
| UK (London, Manchester, Belfast) | 0.02 | 0.31 | 0.02 |
| Netherlands (Maastricht) | 0.04 | 0.17 | 0.08 |

Source: Adapted from the Eurostat Structural Indices recorded in Cost of Doing Business Survey

For mobile phone costs, Ireland is the most expensive of the three locations, with the exception of international calls to Europe.

Figure 3.7 Mobile Telephone Costs (price in €)

| Location | Local Call | International Call Europe | International Call US |
|--|------------|---------------------------|-----------------------|
| Ireland (Dublin, Cork, Limerick, Galway) | 0.45 | 0.63 | 1.26 |
| UK (London, Manchester, Belfast) | 0.18 | 0.51 | 0.51 |
| Netherlands (Maastricht) | 0.15 | 0.83 | 0.67 |

Source: Adapted from the Eurostat Structural Indices Cost of Doing Business Survey

Waste Management

Amongst the four Irish cities, refuse charges are highest in Dublin, at €185 per tonne. In Cork, the rate is €150, and rate is lowest in Galway at €115. With regard to landfill fees, Ireland is less expensive than the Netherlands, where the fees are €127, and €135 respectively. Biological gate fees are also higher in the Netherlands (at €90) than in Ireland where the cost is €68.

Figure 3.8 Refuse Charges

| Location | Refuse Charges (€per tonne: city locations) | |
|-------------|--|------------------------------------|
| Dublin | €185 | |
| Cork | €150 | |
| Limerick | €120 | |
| Galway | €125 | |
| Belfast | €93.22 | |
| London | €63.92 | |
| Manchester | €56.60 | |
| Maastricht | €130 | |
| | Other Waste Charges | |
| | 2007 Non-Hazardous Landfill Gate Fees Incl Tax | Biological Gate Fees Including Tax |
| Ireland | €127 | €68 |
| Netherlands | €135 | €90 |
| UK | | |

Source: Costs of Doing Business, 2008 (NCC)
Note: Costs refer to 2008 unless otherwise stated

Water and Waste Water Treatment: Finally, water charges are broadly comparable across the comparator regions with the exception of Maastricht and Belfast – the most expensive at €1.27 and €1.19, respectively – and Galway where water is cheapest at just €0.71

Figure 3.9: Water Charges

| Water charges | |
|---------------|-----------------|
| City | Cost per m3 (€) |
| Galway | €0.71 |
| Cork | €0.97 |
| London | €1.04 |
| Manchester | €1.04 |
| Dublin | €1.07 |
| Limerick | €1.07 |
| Belfast | €1.19 |
| Maastricht | €1.27 |

Source: Costs of Doing Business, 2008 (NCC)

Transport and Distribution

In terms of inbound freight costs (incorporating the cost of sea transport for a forty foot container from Rotterdam), two of the four Irish cities face the lowest costs of all eight cities. For instance, Cork is the cheapest of all the cities at a cost of €756.15 whilst costs in Dublin are also relatively low at €856.15. By contrast, Maastricht's rate was the highest at €1801. Indeed, Dublin, Belfast and Limerick's rates were favourable in comparison to London, Galway and Manchester.

Figure 3.10: Inbound Freight Costs

| Transport | |
|------------|----------|
| City | Cost (€) |
| Cork | €756.15 |
| Dublin | €856.15 |
| Belfast | €1143.99 |
| Limerick | €1343.45 |
| London | €1543.84 |
| Galway | €1653.45 |
| Manchester | €1656.71 |
| Maastricht | €1801.00 |

Source: *Costs of Doing Business, 2008* (NCC)
Note: Costs based upon freight from Rotterdam

The cost of transport and distribution is a function of many factors, including fuel and labour costs. As part of the consultations undertaken for this study, we examined the likely breakdown of this cost and believe that a ratio of 60:40 is broadly representative. Consequently, this ratio has been used for the analysis presented in Section 4.

Whilst labour has already been shown to be generally more expensive in Ireland than in the UK, the cost of both petrol and diesel (excluding VAT but including other taxes) is actually lowest in Ireland.

Figure 3.11: Fuel Costs

| | Fuel | |
|-------------|-------------------|-------------------|
| | Diesel €/Litre | Petrol €/Litre |
| Ireland | 1.18 | 1.19 |
| UK | 1.45 | 1.39 |
| Netherlands | 1.21 | 1.55 |

Source: Poyry Energy Consulting

Figure 3.12: Labour-related Transport Costs

| Labour Hours (2006) | |
|--|---------|
| Ireland | €35,000 |
| UK | €31,000 |
| Netherlands | €43,000 |
| Source: CSO (2007) and Eurostat (2008) – <i>Competitiveness in EU Road Freight Transport</i> | |

Non- Discretionary Costs

In addition to the core costs outlined above, the authors have also benchmarked a range of additional costs, which contribute to the cost of running a retail operation.

Accountancy Fees: Maastricht’s accountancy fee cost is the highest of the cities examined with a charge-out rate of €124.24 per hour. The accountancy fee costs are second highest for the four Irish cities at €115.79 per hour. Belfast’s charge out rate is significantly lower at €64.81, while London’s and Manchester’s costs per hour are €106.81 and €90.79 respectively.

Figure 3.13: Accountancy Fees

| Accountancy Fee Costs | |
|--|-----------------|
| City | Cost per hr (€) |
| Belfast | €64.81 |
| Manchester | €90.79 |
| London | €106.81 |
| Cork | €115.79 |
| Dublin | €115.79 |
| Galway | €115.79 |
| Limerick | €115.79 |
| Maastricht | €124.24 |
| Source: <i>Costs of Doing Business, 2008</i> (NCC) | |

Legal Fees: Dublin’s legal fee cost is the highest at €302.25, followed by Maastricht, where the average cost per hour is €248.29. The city with the lowest fee costs is Belfast followed by Manchester, while the typical charge in London is €204.16.

Figure 3.14: Legal Fees

| Legal Fee Costs | |
|-----------------|-----------------|
| City | Cost per hr (€) |
| Belfast | €169.42 |
| Manchester | €174.21 |
| Limerick | €176.54 |
| London | €204.16 |
| Cork | €221.27 |
| Galway | €223.62 |
| Maastricht | €248.29 |
| Dublin | €302.25 |

Source: *Costs of Doing Business*, 2008 (NCC)

Postage: In terms of courier and postage costs, Belfast, Cork and Dublin have the lowest charges at €6.41, €7.32 and €8.42 respectively; Maastricht, Manchester and Limerick have the highest costs of €48.42, €26.39, and €26.32.

Figure 3.15: Postage and Courier Costs

| Postage and Courier Costs | |
|---------------------------|----------|
| City | Cost (€) |
| Belfast | €6.41 |
| Cork | €7.37 |
| Dublin | €8.42 |
| London | €13.19 |
| Galway | €26.32 |
| Limerick | €26.32 |
| Manchester | €26.39 |
| Maastricht | €48.42 |

Source: *Costs of Doing Business*, 2008 (NCC)
Note: Refers to cost of a Courier to deliver a package within the city centre

IT Services: London and Dublin charge the highest IT service costs at €169.49 and €165.88, respectively. Maastricht, Manchester and Belfast offer substantially lower costs with charges of €31.67, €54.23 and €59.46 respectively.

Figure 3.16: IT Service Costs

| IT Service Costs | |
|------------------|-----------------|
| City | Cost per hr (€) |
| Maastricht | €31.67 |
| Manchester | €54.23 |
| Belfast | €59.46 |
| Limerick | €84.21 |
| Galway | €110.15 |
| Cork | €118.62 |
| Dublin | €165.88 |
| London | €169.49 |

Source: *Costs of Doing Business, 2008* (NCC)

Banking and Finance: Finally, there is a wide range of banking charges that a retailer could face, including overdraft charges and loan charges. In terms of the cost of finance, Ireland is the most expensive location for overdrafts and term loans. For example, an overdraft of €500,000 in Ireland would cost a business in Ireland an additional €14,800 per annum in Ireland compared with a similar facility in the Netherlands.

Figure 3.17: Interest Rates Available to Non-Financial Corporations

| Interest Rates | | | | |
|------------------------|---------|----------|-------------|-------|
| Overdraft | Ireland | Eurozone | Netherlands | UK |
| Under €1M (Up to 1 Yr) | 8.98% | 6.81% | 6.02% | 6.87% |
| Under €1M (1-5 Yrs) | 6.99% | 6.29% | 5.82% | 6.87% |
| Over €1M (Up to 1 Yr) | 7.43% | 6.33% | 6.35% | |
| Over €1M (1-5 Yrs) | 6.48% | 5.51% | 5.22% | 6.37% |

Source: ECB; De Nederlandsche Bank; Central Bank of Ireland; Bank of England
Refers to Q3 2008

In relation to credit and debit cards management and processing costs, there are the two main card types a retailer is likely to accept. These are traditionally priced in two different ways:

- Credit card transactions are priced on a percentage of the total value or ad valorem basis. This is a percentage of the value of the card transaction.
- Debit cards are priced on a per transaction basis. This is usually expressed as pence per transaction.

The pricing for transactions or card acceptance that a retailer will negotiate with their bank is known as their merchant service charge (MSC). It is not possible to provide facts and figures on pricing as this will depend on the nature of a merchant's business and how it operates; pricing will be decided by

negotiation between the merchant and their prospective bank. However, research conducted in 2005 by Payment and Systems Europe Limited, which assessed the MSC levels across Europe, found that Ireland's average MSC was less than 1.5%; one of the lowest in Europe. Switzerland, for example, had an average percentage of closer to 3%.

3.3 Summary of Key Findings

In this section, the authors sought to set out a detailed comparison of the key costs of running a retail operation (i.e. rental, labour, utilities, etc) across three jurisdictions and this analysis has revealed a number of interesting observations which broadly support claims that Dublin is a particularly expensive place to do business. The following summarises the key findings.

Property Costs: The available data indicates that the cost of renting a High Street premises is highest in Dublin, whilst the cost of a Shopping Centre location in Dublin City Centre trails only London and the new Victoria Square development in Belfast. The cost of an Outer City Shopping Centre in Ireland tends to compare favourably with British cities although once again, Belfast is less expensive than Dublin.

In common with other businesses, the retail sector faces higher retail property costs in Ireland than other benchmarked locations, particularly in Dublin. Other Northern European Eurozone locations generally face much lower retail property costs than Irish locations across the range of site categories. Planning policy in continental Europe is better developed and restrictions on planning in Ireland continue to impede the development of competitive retail markets, as recently argued by the Competition Authority¹⁵.

Overall, Dublin is in the same cost bracket as London for prime high street rental, but Galway and Limerick remain relatively cost competitive. In almost every retail property cost category, Maastricht is substantially less expensive than all other locations. Interviews with retailers have indicated that in recent years many have signed upward only rent reviews. This limits their flexibility during a downturn.

Labour Costs: In terms of labour costs, Irish retailers face a higher minimum wage than applies in either the UK or the Netherlands and although the cost of employing a Store Manager in Dublin is broadly comparable to London, it is significantly higher than in the other Irish cities Belfast or Manchester. Similarly, the costs of employing a Sales Assistant are highest in Dublin and London although labour costs in Dublin are actually more expensive than in London for this position. Moreover, the cost of employing a Sales Assistants is significantly more expensive in Dublin than in the other Irish cities or in either Belfast or Manchester. Maastricht is consistently more expensive

¹⁵ The Retail Planning System as Applied to the Grocery Sector: 2001-2007, Competition Authority, July 2008.

for full-time labour costs than all other locations, due in part to higher employer social security contributions and differences in labour force composition.

Utilities: In terms of utilities costs, Ireland was the most expensive location in which to do business under several headings. For instance, Ireland was the most expensive of the three jurisdictions examined for fixed line telecoms (local calls) whilst the per unit cost of electricity usage (Band IB) was also more expensive in Ireland than in the UK or the Netherlands.

Transport services: Transport costs are an important input to the retail sector and progress on infrastructure capacity development has helped to reduce transport costs in Ireland, with most Irish locations competitive for transport services. While the costs of shipping to Ireland are relatively cost competitive, these shipping costs are additional to those borne by retailers in the UK and the Netherlands. While retail operations in Northern Ireland face these same physical challenges, interviews with retailers suggest that UK retailers equalise transport and distribution costs across all their Great Britain and Northern Ireland stores, effectively subsidising stores in Northern Ireland.

The cost of domestic transport and distribution is a function of many factors, including fuel and labour. Key findings include:

- Irish diesel costs are 19 percent lower in Ireland than the UK, driven by the higher levels of fuel duty in the UK.
- Ireland faces higher labour costs for drivers and warehouse staff.
- Ireland's relatively low population and population density also increases the cost of goods transported per km.

4. Relative Cost Competitiveness of Retail Operations in Ireland

Figure 4.1 summarises the underlying data on the extent of the variance in costs between retailers classified as Multiple in Ireland and various other locations. For the purposes of this analysis, the authors calculated the variance under each cost factor between the reference store (based upon the survey returns) and each of the seven comparator locations using the unit cost data set out in Section 3.

Figure 4.1 summarises the extent of the variance in costs between retailers classified as Multiple in Dublin and other locations. The numbers in parentheses denote the extent to which costs are lower in comparator cities than those in Dublin. For example, annual salary costs in Belfast are 11.4%-18.4% lower than annual salary costs in Dublin. The key driver of this differential is labour costs where the variance ranged from 11% to 18%. Whilst transport costs are broadly comparable between Belfast and the stores surveyed, Belfast-based stores also operated under more advantageous conditions with regard to property costs and utilities.

Similar operations in London and Maastricht are likely to face higher operating costs than their Irish-based counterparts but this differential is primarily driven by higher labour and property costs in these locations. However, once again retail operations in Ireland will pay more for comparable levels of utility usage than in either London (i.e. 1% to 3%) or Maastricht (i.e. up to 1%).

Figure 4.1: Summary of Variance between Dublin and Comparator Cities

| Multiple | | | | | |
|--|--------------------------|--------------------|------------------------|-----------------|--------------------|
| | Belfast | London | Manchester | Maastricht | Galway |
| Labour Costs | (18.4%)- (11.4%) | (2.1%)- (1.4%) | (17.0%)- (10.6%) | 5.2%-8.3% | (12.3%)-(-7.6%) |
| Transport and Distribution | 0.1%- 1.6% | 0.1%-1.6% | 0.1%- 1.6% | 0.1%-1.9% | - |
| Property Costs | (11.4%)- (1.5%) | 4.8%-9.8% | (3.9%) - 3.8% | (9.1%) - (4.5%) | (6.5%) |
| Utilities | (2.3%)- (1.1%) | (2.5%) - (1.2%) | (1.2%) - (2.6%) | (0.8%) - 0.2% | (0.5%)-(-0.1%) |
| <small>(incl Electricity; Gas; Telecoms; Water; Waste)</small> | | | | | |
| Professional Services | (0.5%)- (0.4%) | 0%-0.1% | (0.5%)- 0.9% | (0.5%)-2.5% | (0.2%)-1.0% |
| <small>(incl Accountancy; Audit; Legal); Post)</small> | | | | | |
| Overall Variance | (32%) - (13%) | 4%-5% | (23%)- (7%) | 1%-2% | (18%)-(-8%) |
| <small>Note: Cork and Limerick are excluded as the Rental figures are not ITZA (In terms of Zone A) Figures in parentheses indicates that the comparator city is less expensive than the reference store</small> | | | | | |

Figure 4.2 presents a similar analysis on the extent of the variance in costs between retailers classified as Department Stores in Ireland and various other locations. This indicates that similar stores based in Belfast will pay substantially lower costs (i.e. 19% to 34%). The key drivers of this differential are both labour costs (14% to 15%) and property costs (2% to 16%).

Indeed, Department Stores operating in each of the locations addressed by this study will face lower operating costs than their Irish counterparts – with the possible exception of London – and in each case the relatively higher cost of labour and property are the central determinants of this variance.

Figure 4.2: Summary of Variance between Dublin and Comparator Cities

| Department Store | | | | | | | |
|--|----------------------|-----------------|---------------------|---------------------|------------------|------------------|----------------------|
| | Belfast | London | Manchester | Maastricht | Cork | Limerick | Galway |
| Labour Costs | (15.4%) - (14.3%) | (2.2%) - (2.1%) | (14.3%) - (13.3%) | 6.6%-7.1% | (10.1%) - (9.4%) | (10.1%) - (9.4%) | (10.0%) - (9.3%) |
| Transport and Distribution | 0%-0.2% | 0%-0.2% | 0%-0.2% | 0%-0.2% | - | - | - |
| Property Costs | (16.2%) - (2.4%) | (0.1%)-8.7% | (15.1%) - (10.2%) | (21.3%) - (17.4%) | (12.0%) | (19.7) | (16.8%) - (13.8%) |
| Utilities | (1.5%) - (1.0%) | (1.7%) - (0.8%) | (1.1%) - (1.7%) | (0.3%) - (0.2%) | (0.1%) | (0.2%) | (0.3%) - (0.2%) |
| <small>(incl Electricity; Gas; Telecoms; Water; Waste)</small> | | | | | | | |
| Professional Services | (0.9%) - (0.4%) | (0.5%) - (0.1%) | (0.5%) - (0.2%) | (0.3%)-1% | (0.4%) - (0.2%) | (0.4%)-0.3% | (0.1%)-0.4% |
| <small>(incl Accountancy; Audit; Legal); Post)</small> | | | | | | | |
| Overall Variance | (34%) - (19%) | (4%)-5% | (31%)- (25%) | (15%)- (11%) | (23%) | (31%) | (27%) - (23%) |

Figures in parentheses indicates that the comparator city is less expensive than the reference store

Figure 4.3 presents a similar analysis on the extent of the variance in costs between retailers classified as Retail Parks in Dublin and various other locations. The overall message here is comparable to that pertaining to Department Stores above given that the data indicates that similar stores operating in each of the locations addressed by this study will face lower operating costs than their Irish counterparts – again with the possible exception of London – and in each case the relatively higher cost of labour and property are the central determinants of this variance.

Figure 4.3: Summary of Variance between Dublin and Comparator Cities

| Retail Park | | | | | | | |
|--|----------------------|-----------------|----------------------|-------------------|---------------------|-----------------|---------------------|
| | Belfast | London | Manchester | Maastricht | Cork | Limerick | Galway |
| Labour Costs | (10.7%) - (9.6%) | (1.3%) - (0.9%) | (9.9%) - (8.9%) | 4.3%-4.9% | (7.4%) - (7.1%) | (7.4%) - (7.1%) | (7.1%) - (6.5%) |
| Transport and Distribution | 0.8%-2.2% | 0.8%-2.2% | 0.8%-2.2% | 0.9%-2.6% | 0% | 0% | 0% |
| Property Costs | (9.3%) - (9.2%) | 7.9%-8.0% | (3.7%) - (3.6%) | (11.1%) - (11.0%) | (6.2%) | (7.7%)- (7.6%) | (5.4%)- (5.3%) |
| Utilities | (1.2%)- (0.9%) | (1.3%)- (0.9%) | (1.3%)- (0.9%) | (0.3%)- (0.2%) | (0.1%) - 0% | (0.1%) | (0.2%) - 0% |
| <small>(incl Electricity; Gas; Telecoms; Water; Waste)</small> | | | | | | | |
| Professional Services | (0.2%)-0% | 0% | (0.4%) - 0% | (0.1%) - 1.1% | (0.1%) - 0% | 0%-0.4% | 0%-0.4% |
| <small>(incl Accountancy; Audit; Legal; Post)</small> | | | | | | | |
| Overall Variance | (21%) - (18%) | 6%-8% | (14%) - (11%) | (4%) | (14%)- (13%) | (15%) | (12%) - (7%) |

Figures in parentheses indicates that the comparator city is less expensive than the reference store

Finally, Figure 4.4 presents a similar analysis on the extent of the variance in costs between retailers classified as Convenience Stores in Limerick and other locations¹⁶. The analysis presented here

¹⁶ In this case study, the surveyed retailer is based in Limerick.

indicates that a comparable store based in Belfast would face substantially lower costs (i.e. 19%) and that this differential is driven by a number of factors including labour (5%), property (12%) and utilities (2%).

However, the analysis indicates that this observed differential vis-à-vis Belfast does not hold true for the five other locations including Galway. In each of these cases, the cost of running a retail operation is less expensive in the Irish reference store (in Limerick) when compared with each of the other comparators.

Figure 4.4: Summary of Variance between Limerick and Comparator Cities

| Convenience Store | | | | | | |
|--|--------------|------------|------------|------------|------------|-----------|
| | Belfast | London | Manchester | Maastricht | Dublin | Galway |
| Labour Costs | (5.1%) | 13.9% | (3.6%) | 25.1% | 15.7% | 1.6% |
| Transport and Distribution | - | - | - | - | - | - |
| Property Costs | (11.6%) | 72.3% | 18.1% | (2.6%) | 33.6% | 7.9% |
| Utilities | (2.3%) | (2.8%) | (2.9%) | (0.1%) | 1.0% | (0.1%) |
| (incl Electricity; Gas; Telecoms; Water; Waste) | | | | | | |
| Professional Services | 0% | 0% | 0% | 0% | 0.1% | 0% |
| (incl Accountancy; Audit; Legal; Post) | | | | | | |
| Overall Variance | (19%) | 83% | 12% | 22% | 50% | 9% |
| Note: Cork was excluded as the Rental figures are not ITZA (In terms of Zone A) Figures in parentheses indicates that the comparator city is less expensive than the reference store For the purposes of comparison, property figures assume a Zone A rate of €1,000 for the reference store | | | | | | |

5. Policy Actions

Tackling high and increasing costs is challenging. While the slowdown in the economy should lead to some moderation in cost pressures, concerted actions are required to manage consumer and retailer costs in Ireland. We have identified a wide range of actions that can help restore cost competitiveness.

5.1 *Cost of Goods*

Given our reliance on the UK and the US in terms of imports, a strong Euro should result in cost savings on imported goods and services for consumers and businesses. The fact that the strong Euro does not appear to be translating in lower import costs may be indicative of a lack of competition in the import, distribution, and retail sectors. A review of the low levels of competition and high concentration in retail related import/distribution sector should be undertaken. The review would assess whether a lack of competition is inhibiting the benefits of sterling weaknesses being passed through in lower prices to the benefit of consumers. This review should also consider the potential for encouraging direct importation from source countries, rather than indirectly through the UK, as is currently the norm.

5.2 *Land and Property Prices*

Despite recent falls, Irish land and property prices remain extremely high relative to the costs faced by businesses and consumers in other countries. The current fall in land and house prices will have a positive impact on Ireland's international cost competitiveness. The cost competitiveness of retail operations should also improve over time as retailers have greater leverage to negotiate more favourable lease terms. It is important that the property market be left to adjust without interference.

Falling land and property prices does not reduce the necessity for structural change in respect to land planning. In a recent review of the retail sector, the Competition Authority¹⁷ concluded that the planning system acts as a barrier to retail competition in the State, thereby limiting consumer choice and value for money in three ways: restrictions on the size of grocery retail outlet; restrictions on where a grocery outlet can locate and uncertainty as the planning process can raise the cost and delay the arrival of new outlets. The Competition Authority recommends the removal of caps on floor space and that decisions on size be left to local authorities to make, remove the reference to floor size for discount stores in the retail planning guidelines, and that local authorities should have specific regard to increasing competition and customer choice in retail planning and decision making.

¹⁷ Retail Planning Guidelines and Competition, Competition Authority, July 2008.

5.3 Labour

The increasing cost of labour was identified as a key driver of growing costs. In each case, payroll costs were noted to be significantly higher than the equivalent proportion reported by non-Irish operations within the relevant retail groups. Retailers attributed this to a range of factors including the following:

- High levels of labour market demand over the past decade;
- The relatively high minimum wage pertaining in Ireland; and
- Retailers argue that there is an increasing requirement for security personnel (particularly in Dublin).

The slowdown in the economy should moderate wage levels. In future reviews of the minimum wage it needs to be borne in mind that our high minimum wage has implications for both those on the minimum wage and for setting relativities for other higher-paid jobs.

Labour market policies that promote productivity growth and enhance labour supply through raising participation rates offer significant potential to boost competitiveness. In the longer term, higher participation rates in the labour force can help to moderate skills shortages and excessive wage inflation. While average Irish participation rates are close to the OECD average, they are significantly lower among a number of specific socio-economic groups such as second earners, lone parents and older workers¹⁸. Reforms of Ireland's labour tax system, improvements in early education and childcare facilities including a review of costs, and more targeted re-training interventions are required to encourage increased participation.

5.4 Utilities

Utility costs have increased dramatically in Ireland in recent years to the point where Irish electricity¹⁹ and waste costs are the highest in the eurozone. Further efforts should be made to minimise increases in the costs of publically owned and managed services:

The cost of public utilities – and in particular, electricity – was also identified as a principal overhead and one that compared unfavourably with the UK and other European jurisdictions. In each case study interview, retailers noted that energy costs were high in Ireland and attributed this differential to a number of factors including the following:

- The absence of a competitive energy market; and
- The lack of retailer buying power (in the case of franchises).

¹⁸ National Competitiveness Council, 2008, Benchmarking Ireland's Performance, Forfás; and OECD, 2008, Employment Outlook, Paris.

¹⁹ Ireland's high energy costs reflect a number of factors, including a high reliance on imported fossil fuels; exposure to global fuel price changes; poor availability and performance of the generation plants; the relatively small scale of generation plants; the low level of spare generation capacity; high levels of capital investment required to meet growing demand; and the limited competition in generation and supply.

In view of the significant energy price increases occurring over the past 12 months, it is vital to demonstrate that Ireland is serious about tackling its very significant energy challenges. Recovery of carbon windfalls, improving energy efficiency and investing in strategic infrastructure can improve Ireland's energy cost competitiveness.

Ireland continues to perform poorly relative to competitor countries in meeting the waste management needs of enterprise. Ireland's comparatively poor performance in terms of both cost and capacity can be traced back to the failure to deliver key waste management infrastructure in recent years. Actions are required to remove barriers to private sector investment in the waste sector, including existing regulatory and policy uncertainty, the lack of coordinated regional waste plans and planning delays. While further investment is needed to improve public infrastructure, there are concerns that cost increases are in part related to inefficiencies in delivery that are passed onto the rest of the economy. In areas such as water services, by eliminating inefficiencies and providing a more coordinated approach among local authorities, Government can facilitate continued improvement of public services and infrastructure without adding to inflation.

5.5 *Transport and Distribution*

The cost of distributing stock to stores throughout the Republic of Ireland was another cost factor, which is regarded as both having increased substantially in recent years and as comparing unfavourably to other jurisdictions. Whilst this differential is at least partly attributable to the aforementioned higher cost of labour, retailers also identified the following as contributing factors:

- **Population and population density** – the density and distribution of Irish population centres differs from other European countries and as a result retailers maintain that their stores are less busy than in UK
- **Different distribution and replenishment model** – in response to the above, retailers have argued that they had to adopt a business model for Ireland based around more deliveries, which, in turn, implies that trucks are under-utilized.

Continued investment in international and national transport infrastructure, in particular in the inter-urban road network, is key to improving the efficiency of retail supply chains and central distribution models in Ireland.

5.6 *Strengthening Competition Policy across all Locally Traded Services*

Enhancing competition within Ireland's domestic economy is critical. Market entry by new firms and rivalry between firms promotes price competition, improves quality and service and stimulates productivity as firms invest in the development of new products and processes to gain competitive advantage. Restrictions on competition allow existing providers (large and small) to produce goods

and services inefficiently and/or to inflate prices artificially. While there are a number of examples of the benefits of greater competition in domestic markets, e.g. air travel, taxis, telecommunications, a wide range of sectors in Ireland are relatively sheltered from competition²⁰. Reasons for this include; the power of producers in these sectors, the nature of the good/service produced, the limited scope for competition (in the case of natural monopolies), the small size of the Irish market, the role of Government and the power of regulators and weak consumer voice and action. If sheltered sectors of the locally traded services sector are not exposed to greater competition, services inflation will continue to outpace the eurozone average in the long term and the cost competitiveness of Irish firms will deteriorate further.

As highlighted above, reform of the land planning system offers significant potential to enhance competition in the Irish market. In addition, a review of the importer/ distributor market is also required.

Weak competition in locally traded sectors also weaken the cost competitiveness of other locally trading sectors such as retail as retailers source goods and services locally. In order to improve competition in the Irish market, we suggest the following actions across a number of policy areas:

- The active pursuit of measures to enhance competition in locally traded sectors of the economy e.g. solicitors, barristers, banking and non-life insurance, transport, energy and waste services is essential. Anti competitive practices take many forms – for example, they can restrict the ability of people to enter these sectors e.g. limited training places, limited recognition of overseas qualifications and restriction on the ability of customers to switch providers easily and firms to advertise.
- The Competition Authority has published a number of major reports in recent years. We believe that the Government should publish formal responses to Competition Authority reports, indicate its disposition towards recommendations and specify what progress has been made towards implementation. Where possible, responses should come from Government, rather than the Department responsible.

5.7 Government Related Charges and Costs

Management of Local Authority Charges

Local authority charges add to the costs facing businesses in Ireland, reducing the advantages of our competitive corporation tax rates. While local authorities provide a range of essential services to businesses and the wider community, it is critical that local authority charges on businesses reflect the economic cost of providing services.

20 A recent OECD paper ranks Ireland behind only Greece in terms of regulatory barriers in the services sector (e.g., energy, transport and communication), indicating further potential to reduce monopoly rents. The analysis is based on 2003 data. Source: OECD, 2007, "Product Market Regulation in the Non-Manufacturing Sectors of OECD Countries: Measurement and Highlights," Economics Department Working Paper, Number 530, Paris.

Reducing Administrative Costs

Easing the administrative burden that regulations create can improve the business environment by reducing costs, minimising the time businesses spend fulfilling regulatory requirements and increasing productivity. Government needs to vigorously implement the Better Regulation agenda to achieve the target to reduce administrative burdens by 25 percent by 2012. The High-level Group on Business Regulation recommendations are already estimated to have saved Irish business €20 million in administrative costs in 2008 through cutting out paperwork, revising the rules for small businesses and making better use of secure on-line services. We support the rolling programme of work set out by the Group.

eGovernment

Ireland performs relatively poorly in terms of delivery of eGovernment services. Government can further promote the take-up and development of best practice in ICT by developing the quality and availability of eGovernment services. The online service of the Revenue Commissioners has been successful in reducing some of the administrative burdens on businesses, but the benefits of eGovernment have not yet been realised in other areas. There is a need to prioritise and advance the implementation of key eGovernment projects²¹. This would not just improve the productivity in the public and private sector; it could enhance value for money and open up large markets for innovative ICT products and services²². Better leadership and coordination is required to implement eGovernment projects.

5.8 Role of Business

Finally, there is an onus on retailers to control all elements of their costs by constantly reviewing how they operate. This may entail the development of new higher value products and services, changing how and where they source products, and changes in how they operate in order to increase efficiency (energy conservation; adoption of alternative free and open source software) and productivity (skills enhancement, and capital investment).

²¹ Forfás conducted a review of eGovernment in Ireland in 2007.

²² The Revenue Online Service (ROS) system is an example of a technological system introduced which has led to significant gains in public sector productivity. Overall, the total savings to the Revenue Commissioners as a result of ROS were estimated at €10.6 million for 2005.

Appendix 1

Stock Holding

In the UK, the average stock holding was 8.7%, with average stockturn at 11.5 times per annum accepting the normal issues about stock valuation over 12 months. The highest stockturn was 24.8 times in supermarkets. For comparison, stockturn in vegetable retailers was 65.3 times. Low stockturn was seen in electrical retailers (7.4 times), specialists (7.7 times) and department stores (8.5 times). Trades with low stockturn will obviously have higher storage costs as a percentage of turnover than normal.

The costs of stock holding can be approached in two ways:

- the financial costs of holding a given level of stock; and
- actual storage costs of the retail business.

Some retailers do make an internal charge for the value of stock holding, but only for management purposes: this value is not revealed in their final accounts. The actual costs of storage are, again, not revealed directly but we have obtained information from a sample of retailers and applied this to the figures available. The implicit interest charge for stockholding is £1,352.5 million (or 5.4%) in the UK.

The total cost of storing stock is estimated to be £3,569 million (1.2% of turnover). Naturally, total stockholding costs are related to the rate of stockturn and to the occupancy and other costs of physical stock holding. The lowest percentage stockholding costs can be seen in supermarkets (0.4%) and the highest in specialist stores (1.6%).

Although the authors do not have comparable figures available for Maastricht and Ireland, we estimate that stockturn in Maastricht would be slightly higher than the UK - around 11.8 times to 12 times – and the physical stockholding costs around 1.2% to 1.5% (i.e. on the higher side).

However, we believe that stockturn rates would be lower in Ireland, apart from smaller groups supplying a single town or a small geographical area and we expect the costs of physical stock holding to be in the 1.8%-2.0% region.

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