

Chain Store Pricing and the Structure of Retail Markets

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The ESRC Centre for Competition Policy (CCP), at the University of East Anglia is the leading UK Centre for research in the economics and law of Competition Policy. Its members undertake high quality, independent, academic research into competition and regulation and its impact on companies and society.

BACKGROUND

- The All-Party Parliamentary Small Shops Group report *High Street Britain:2015* paints a gloomy picture for the future of traditional shopping in Britain with many small shops likely to have stopped trading with few independent businesses taking their place. The report expresses the fear that “Their loss...will damage the UK socially, economically and environmentally. People (as consumers and members of communities) stand to be disadvantaged the most with restricted choice, entrenched social exclusion and a vulnerable supply chain caused by consolidation”¹
- This research examines in detail the relationship between chain stores and independents in markets in the opticians industry and the implications for consumer choice and the local economy.
- Retail markets are now dominated by chain stores - their market share has increased from 23% in 1950 to 65% in 1995 and casual observation suggests that it is increasing further. Between 1995 and 2000, the New Economics Foundation² reports that the UK lost some 20% of its corner shops, grocers, high street banks, post offices and pubs - a cumulative loss of over 30,000 economic outlets, with a further 28,000 standing to be lost by 2005. The Opticians industry is no exception. Since the deregulation of the industry in the 1980s there has been rapid entry and growth of chain store retailers. Between 1988 and 1991 alone market share increased from 46% to 75%. The table below shows that there is now a clear cut off point between the size distribution of the top 4 firms and other opticians.

Chain	Number of outlets
Specsavers	412
Dolland and Aitchison	338
Boots	271
Vision Express	169
Scrivens	105
Optical Express	104
Rayner	97
Batemans	54
Leightons	41
Others	4633
Total	6224

- The four principle chain store retailers - Specsavers, Dolland & Aitchison, Boots and Vision Express have a national presence with stores in all regions of England and Wales.

¹ All Party Parliamentary Small Shops Group (2006) *High Street Britain:2015*

² New Economics Foundation (2005) *Clone town Britain; the survey results on the bland state of the nation*

- They also have a significant brand name and prominence as a high street retailer. Specsavers and Boots set all prices nationally. Prices at Dolland & Aitchison and Vision Express are predominantly determined on a national basis.
- A typical Local Authority District will have 17 opticians' outlets - 3 chain stores as defined above and 14 independent outlets. Clearly some will contain more and there are 42 markets with no chain-stores for example.

METHODOLOGY

- Data was gathered by downloading the names and postcodes of all opticians' outlets in England and Wales from the online Yellow pages directory. Local Authority Districts were used as an approximation of the area in which consumer search behaviour takes place and the gathered data was divided between the relevant local authority districts.
- The data was used to test propositions and questions which had been developed from two streams of economic literature which are separate but related. The first examines what can be learned about competitive conduct from analysis of the size of a market needed to support a given number of outlets. The second looks at the strategies that chain stores adopt in local markets, in particular in relation to price.³ It adapts the vertical product differentiation model developed by Dinslerloz in 2004 to allow for chain store national pricing.⁴

RESULTS

- In markets where one or more chain store is present, the number of independent outlets increases proportionately with an increase in market size (consistent with chain-store national pricing strategies in the vertical product differentiation model). In addition, markets with an older population are also likely to have more independent outlets. Independent outlets are increasing in both the average wage LADs and where the proportion of income support claimants is highest. This result provides some evidence that the number of chain stores rather than the number of chain store outlets affects the number of independent outlets.
- There is some evidence (though it is somewhat weak) to suggest that the presence of a Boots outlet reduces the number of independent outlets, compared to where chain stores other than Boots are present. Boots is prominent in the East and South East which features incomes only below those of London. It also has a long established brand. This may indicate that Boots is perceived to produce a higher quality product than other chain stores.
- Where the average wage is higher evidence suggests that there will be more independent outlets and where wages are lower there will be more chain stores. This supports the vertical product differentiation assumption that independent opticians produce a higher quality product than chain stores.
- In markets where there are no chain stores, the number of independent outlets increases less than proportionately with an increase in market size. This suggests that the nature of competition between independents depends on whether a chain store is present. More specifically, an increase in market size, and consequently an increase in the number of independents, leads to a fall in the independents price, only in markets without chain stores.

³ For example Bresnahan and Reiss *Entry and competition in concentrated markets*. Journal of Political Economy 99 (977-1009) and Dobson and Waterson *Chain-store pricing across local markets*. Journal of Economics and Management Strategy, 14 (93-120)

⁴ Dinslerloz, E.M., (2004) *Firm Organisation and the structure of retail markets*. Journal of Economics and Management Strategy, 13, 207-240

POLICY ISSUES

- The results suggest that chain store national pricing strategies can protect independent retailers from the intense local competition that could arise under local pricing between chain stores in large markets where several chain stores interact. This justifies concern that policymakers have expressed over the impact of chain store local pricing strategies on independent retailers.
- Arguably, national pricing strategies are therefore beneficial for product variety and choice. While it is the case that independent retailers are more likely to be located in areas where income is higher, chain stores provide important choice for lower income consumers and therefore to a degree support public health policy.
- It is clear that this market at least needs to be monitored regularly since a change in pricing strategy by any of the chain stores could have a negative impact on independents. It is interesting to note that Optical Express has a local pricing strategy and its national market share is increasing significantly.

FOR MORE INFORMATION:

The full working paper - **CCP Working Paper 06-7. Olczak, M (2006) "Chain Store Pricing and the Structure of Retail Markets"** - and more information about CCP and its research is available from our website: www.ccp.uea.ac.uk

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