

A BRIEF SUMMARY OF THE FIRST CENTRO EINAUDI / SISIM REPORT ON THE RETAIL TRADE IN ITALY

THE LARGEST BUSINESS SECTOR in a modern economy? Cars? No, commerce. In the European Union alone, the retail trade boasts as many as 21 million workers against the 2.4 million employed in the production of cars and means of transport in general. In Italy, more than 3 million people work in commerce, although the number fell by about 200,000 (in job units) in the Nineties. But in proportion to sectorial employment, the units lost to commerce in the decade (6 per cent) were fewer than the number of those who disappeared from the statistics on the employment in industry in the same period (10 per cent).

So it is not so much commercial occupation that has gone extinct as the traditional small-scale retail trade. From 1991 to 1999, points of sale in Italy decreased from 762,000 to 404,000, almost halving due to the disappearance of marginal operators. The drop in the number of employees was accompanied by the restructuring of the sector, which turned into an irreversible structural reform from 1997, that is from when the introduction of the euro looked like an imminent change. Hence, in the space of a few years, Italian retail is bound to lose some of its singular characteristics, such as the lowest average number of employees for point of sale (3.8, against a European average of 11.4), as well as its high percentage of free-lance workers in commerce (58 per cent against a European average of 29 per cent).

ONE OF THE CHARACTERISTICS - though not the only one - of the restructuring in progress is the advance of the large-scale retail trade. Over a third of the trade in foodstuffs now passes through large-scale

retail trade, and the same happens for almost 10 per cent of the commerce in non-food goods. These figures suffice to show how the restructuring process is well under way and how, especially in the non-food sector, it has only just begun. In Italy, the penetration of modern retail is still low, especially in some areas of the country (the South), but it continues to grow. The South, where 37 per cent of the population lives, is also home to 18 per cent of hypermarkets and 26 per cent of supermarkets.

IN ORDER TO FACILITATE CHANGE, in 1998 the legislative framework was changed, the aim being to liberalise accesses and the carrying out of commercial activities. It was a 'compulsory' reform, again a fruit of the euro. If the inflation differential between Italy and its partners is to be null, it is necessary to eliminate all possible frictions and obstacles capable of making prices levitate along the chain from production to retail selling: commerce has to be fully efficient, and competition healthy and open. The legislator, however, has decided to entrust the enactment of the reform to local autonomies, partly to safeguard the specific features of towns and cities which are very different one from another, and also very different from those of the rest of Europe. To date, the reform has remained something of a dead letter. The Regions have, at most, passed framework laws, deferring more minute questions to future regulations. In some cases, the laws of enactment have thwarted the liberalisation of the national reform, bringing in through the back door the constraints that had been thrown out of the window. Besides the risk of wasting time, there is also that of missing an important occasion to generate (and not destroy) new jobs.

OTHER DISTINCTIVE FEATURES of the 'commerce revolution' are the innovation of points of sale formats and the flattening of the retail distribution pyramid.

The first phenomenon has to do with the introduction of business and sales formats - franchising and discount markets, for example - which did not exist until 20 years ago. The number of franchisers increased from 50 to 500 between 1980 and 1998. There are 22,000 franchisees, and through their points of sale passes the equivalent of twice the sales of the La Rinascente group, with an induced occupation of 60,000 units. Franchising is still growing since, besides being a commercial format, it is also one which represents a model of birth and

development of chains of points of sale for producers of goods (and services) in pursuit of a direct access to the market to optimise the direct use of capital invested.

The number of discount markets increased from 600 in 1993 to 2,300 in 1998 (-200 compared to 1997). Their niche, which opened and expanded in the years of greatest contraction of Italian consumers' available real income, thus seems to be reaching its limit on account of the tax squeeze and the recession of the GDP.

The innovation of sales formats, as well as of the organisational elements of shops, has always been a distinctive feature of the sector. It would appear that today shops, like goods, have a life cycle of their own, so that innovation is becoming an essential ingredient of the continuity of the sales service. Without innovation, firms no longer have the possibility to survive.

The flattening of the retail distribution pyramid happens due to two types of thrust, both vertical, on the product system. On the one hand, retailers who are growing in size skip intermediaries to buy their supplies directly at the factories where they are produced. Sometimes, this process includes the creation of new private labels, which enable retailers to earn market power (and quotas of margins) with respect to producers. As a reaction and as a defence, producers are seeking to reduce their intermediary role in both the large-scale retail and wholesale trades, organising their direct sales through chains of specialised shops, franchised points of sale, shops and, in the future, distance selling through telephone call centres and the Internet.

In this way, one link in the retail distribution chain has been radically downscaled, thus improving the efficiency of the chain. The wholesale trade thus slumped from 152,000 to 100,000 points of sale between 1991 and 1996. The few who resist are seeking to strike agreements with the traditional small-scale retail trade, but perhaps they forget that the union of 'weaknesses' is unlikely to trigger 'strength'. Part of the wholesale trade is turning into cash & carries, a format of the Eighties, which has been stable since then and has not grown for a long time.

THOUGH IN ITALY the first phase of modernisation of commerce has yet to be completed, a second is already opening up. The economies of scale suggested by the presence of a single market of European consumers, due in large part to the euro, are pushing operators to seek the dimensions most conducive to their exploitation. It is estimated that from the year 2000 onwards, there will be no chains or competitive European operators with annual sales of less than 30 billion euros (almost 60,000 billion lire). Though much lower competitive ceilings are recorded in the non-food sector (1 billion euros), very few Italian operators can claim to reach such values.

Therefore, if in Italy the number of retail distribution 'poles' will fall in the space of a few years to four or five, each capable of controlling a turnover of at least 10-15 billion euros, two of them at least will be in French hands (Auchan and Promodès-Carrefour), whereas Italians are by no means leading players in comparable operations on other European markets. Italian companies seem in fact to focus on defensive mergers of a regional or pluriregional nature, but still without an overview of the continental scale of competition in the future. Over the last five years, the market share of the top ten retail distribution groups has grown by as many as 8 percentage points and now approaches 38 per cent of consumption.

The absence of Italians from the large-scale international merger scene is also the fruit of the backward conditions of the Italian retail industry which, like industries in other sectors, has hardly ever made use of the venture capital of Stock Market

investors. Italian retail firms whose shares are quoted on the Stock Exchange can be counted on the fingers of one, perhaps two hands. There are 113 such firms in Great Britain, 32 in France and 22 in Germany. In this field, Italy's position is close to that of new capitalists, such as Hungarian retailers, who have been operating on the free market for only a decade.

The race towards 'gigantism' is on, especially if we consider Wal-Mart's 10.7 billion dollars bid for Asda (Great Britain) and the Promodès-Carrefour maxi-merger, often pointed to as an inevitable historical necessity. The whole process, alas, might ultimately fail to live up to all expectations. To conquer important slices of the market is not necessarily to appropriate shares of profits, especially if it is undifferentiated products that are being distributed. In this case, together with the drop in prices - typical in the case of foodstuffs and also of consumer electronics - margins ultimately fall, partly because there is a limit beyond which producers cannot be 'squeezed'.

Until two years ago, 'gigantism' was not only justified by logistic and supply economies, but also by the financial income which large-scale retail firms were earning on the active monetary cycle of their management (large-scale firms can, typically, pay for supplies even 60 days after selling them and encashing the proceeds). But this income has dropped by two thirds with the generalised fall in European interest rates and in the first half of 1999 some large-scale retail enterprises produced accounts in which this effect is now more than evident.

GIGANTISM IS THUS NOT THE ONLY STRATEGY which retail distributors can implement to carry out their economic function in the year 2000. When an economic paradigm exhausts its development potential, as in the case of traditional commerce, or sees that it is about to reach the limit, as in the case of distributive gigantism, successful strategies come into being if the leading players, meaning entrepreneurs, seek to follow new roads and become innovators.

Innovation is more likely to occur if the new commercial entrepreneurs come from other sectors, presenting themselves in a new role to supplement their own competences with retail distribution. They could emerge from the group of new producers who, by creating their own or franchising networks, will ensure independent outlets for their products,

differentiating them from those of their competitors. Once they become internationalised, it will be these networks which will give the Italian economy better opportunities than it has today to 'break through frontiers' and sell Italian-made products worldwide. The operation will not succeed, if investment is not made in the internationalisation of retail distribution.

New traders will subsequently emerge from among those who are in a position to control the virtual technologies of intermediation - in other words, the technologies of e-commerce. This innovation is more important than the mere introduction of new formats. E-commerce makes it possible to change the way of producing and that of selling; it is an opportunity not only for commercial entrepreneurs, but also for entrepreneurs in the productive sectors (who may stop playing the role of intermediaries) or for those in the new distributive sectors (IT and telecommunications firms).

E-COMMERCE IS VERY PROMISING INDEED: today its global market is worth a little more than 50 billion dollars, while the sales of the entire system are worth double that. It boasts a growth rate of 174 per cent a year, and in 2001 Internet sales ought to top 400 billion dollars, more than double those of General Motors. The European slice of the cake amounts to just 11 per cent, with the United States gobbling up the lion's share. In Europe, however, the speed to adapt of North European countries has stepped up a grade, while 10 per cent of Germans already use the Internet, and one out of three of them shop on the network. France is also expected to step rapidly into line in view of telematic literacy resulting from Minitel use.

Italy is the European Cinderella of e-commerce, which has few entrepreneurs as users and few users as end customers. The risk is that end consumers will, sooner or later, come to the network and not find national suppliers there. Another part of the value of the distributive retail chain would thus emigrate abroad. The time is technologically ripe. Web-TV and WAP telephones are terminals which will soon be introduced to familiarise Italians with 'shopping on-line', exempting them of the often laborious use of PCs.

The question of cultural impact remains, however. It suggests that e-commerce will never replace all forms of commerce, but will settle down in a stable position of its own with given percentages in the different sectors. As a country, alas, we are still outside this market and its technologies, and are hence deprived of the benefits we might otherwise obtain in terms of jobs.