

# Retail Sector Council Business Costs Working Group

February 2019

# Business Costs Working Group

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## Overview

- The Business Costs Working Group has been established by the Retail Sector Council to support the delivery of the Council's aim of challenging and informing both the sector and government of the key issues it faces and developing potential solutions to accelerate positive change and increase the productivity of the sector.
- The Terms of Reference (ToR) have been agreed
- The Group will be supported by KPMG, PWC and the IFS. Volunteers for the group from the Sector Council would be welcome.
- These slides set out a proposed approach for the Working Group to address the ToR

### Working Group Terms of Reference

- 1 Are there costs, borne by the retail sector, that are out of proportion to the utility derived by the end consumer and therefore represent friction costs to the industry that undermine its productivity?
- 2 Are there costs borne by certain segments of the retail sector but not borne by other segments, which therefore potentially distort competition amongst retailers?
- 3 In the event that such "deadweight", "frictional" or "distortive" costs are identified, what recommendations does the group have in advising the Sector Council as to remedies?
- 4 What would be the consumer benefit and/or improvement in UK productivity from adopting the recommendations made?

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## Terms of Reference Question 1

Are there costs, borne by the retail sector, that are out of proportion to the utility derived by the end consumer and therefore represent friction costs to the industry that undermine its productivity?

## Response

- Definition of 'friction costs' - costs and potential costs associated with the retailing of goods **beyond** the direct costs of production and marketing. For example, taxes and indirect and direct costs of regulatory compliance will constitute friction costs. Those costs with the greatest friction would be those where the cost most outweighs the benefit to a company
- Survey of major retailers asking for data on:
  - i. Friction costs related to tax, i.e. direct costs imposed externally. Cost expressed in £
  - ii. Friction costs related to 'operational inefficiency', i.e. arising internally from business activity. Cost expressed as percentage of sales
  - iii. Friction costs relating to regulatory compliance, e.g. food safety, packaging requirements. Cost and 'level of friction created' both expressed on a scale of 1-5
  - iv. Future potential friction costs – open question on future expected cost burdens
  - v. Business Rates – granular data on impact of Business Rates on store viability
- Survey has been sent to several major retailers for response by late March – Working Group to be given summary and assessment at the meeting following this in April
- Intended that the data will form evidence base that will underpin consideration of other ToR questions

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## Terms of Reference Question 2

Are there costs borne by certain segments of the retail sector but not borne by other segments, which therefore potentially distort competition amongst retailers?

### Response

- Data from major retailer survey, other primary and secondary data sources and input from Working Group members to answer

## Terms of Reference Question 3

In the event that such "deadweight", "frictional" or "distortive" costs are identified, what recommendations does the group have in advising the Sector Council as to remedies?

### Response

- To be discussed by Working Group

## Terms of Reference Question 4

What would be the consumer benefit and/or improvement in UK productivity from adopting the recommendations made?

### Response

- To be discussed by Working Group

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## Title

- Text