



ACS Submission:

CMA Retail Banking Market Investigation – Provisional Decision on Remedies

ACS (the Association of Convenience Stores) welcomes the opportunity to provide feedback to the Competition and Markets Authority investigation into retail banking and the report detailing its provisional decision on remedies. ACS represents 33,500 local shops across the UK including Spar UK, Costcutter Supermarkets, Nisa Retail and thousands of independent retailers.

The convenience sector employs 407,000 people in over 50,000 stores across the UK¹. 75%² of convenience stores are operated by independent retailers. The total value of sales in the convenience sector in the year to April 2015 was £37.7 billion, and turnover in the sector has grown by over 5% in the past year. The sector has also invested over £600 million³ in stores over the past year. However, the sector faces many challenges including the rising National Living Wage, auto-enrolment pensions and the burden of business rates, which all add to retailer costs, and stifle and delay business investment. Convenience store operators usually fund investments through their own financial reserves, which suggests a lack of faith or relevance in the retail banking market for small businesses.

We would like to see progress following the CMA's final report in improving access to finance so that further investment can be financed.

CMA Retail Banking Market Investigation

We welcome the recommendations of the CMA and its package of proposals on banking services for small businesses. We hope that these provisional recommendations will be taken forward upon publication of the CMA's final report in August, as they will encourage competition amongst retail banks for business customers, improve transparency in product offers, and make it easier for businesses to compare and switch financial providers.

Convenience retailers have difficulty in accessing finance and assessing the value of any finance offered because of the complex and opaque design of the banking system for business accounts. The CMA has already cited that over 90% of SMEs get their business loans from the bank where they have their current account. This means competition is weak and reform is required so that the banking system allows small businesses to invest and grow without the disincentive of overly punitive terms.

The convenience sector continues to experience year-on-year growth as consumer shopping habits increasingly favour the use of a good local shop. The grocery market has grown by

¹ ACS Local Shop Report 2015

² ACS Local Shop Report 2015

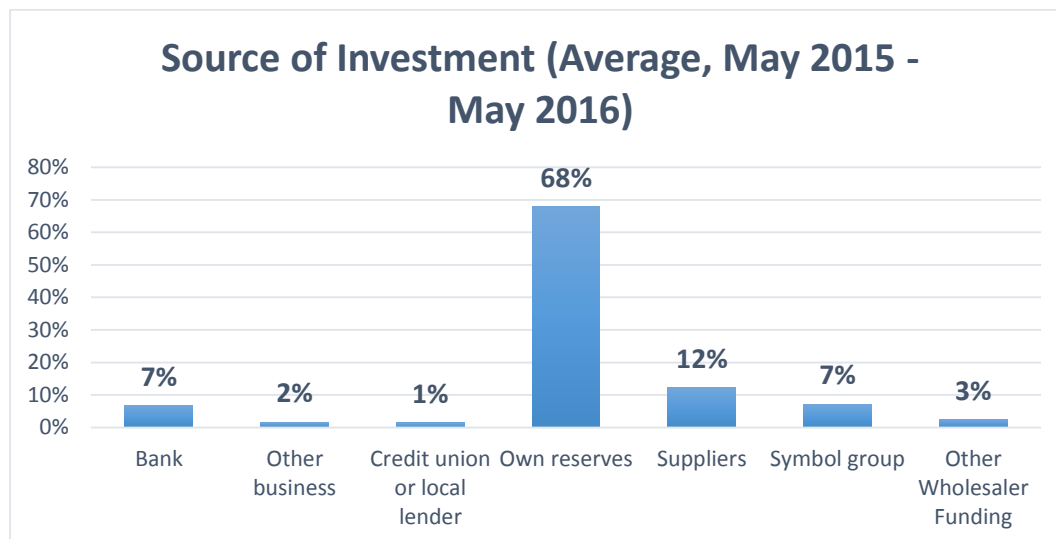
³ ACS Investment Tracker: March - May 2016

38% since 2006 and the convenience store sector has grown by 50% in this period⁴. Therefore, the capability of retailers to access finance to fund investments remains highly important. This sector growth has been caused by larger companies entering the convenience store sector and growing their estates of stores. This has led to increased competition, and despite the sales growth of the sector, the number of stores has remained about the same because of the decline in the number of unaffiliated independent retailers. Unaffiliated independent retailers are often the smallest operators in the sector, and they are the least likely businesses to access finance from banks. An improved retail banking market should aim to support these small independent businesses.

Retailers require access to finance to fund a range of investments. ACS' Investment Tracker is a quarterly survey of independent and multiple retailers. This shows that retailers are investing primarily in refrigeration (38%), shelving (23%), in-store lighting (19%) and store signage (13%)⁵. Retailers continue to invest in refrigeration to meet consumer expectation of a larger fresh food offer in stores as well as signage and lighting to improve store accessibility.

Access to Finance

In addition to its purpose, ACS has tracked investment across the convenience sector from May 2015 to May 2016 to determine the origin and cumulative levels of investment in the sector. Convenience retailers invested £181 million in their businesses in the last three months, which is up 24% from the previous quarter and 2.4% from the same period in 2015⁶. 30% of independent retailers invested in their stores in Q2 2016, a slight increase from 28% in 2015. However, the majority of independent store owners are still funding their store investments through their own reserves (68%), which has seen an increase from the previous quarter (55%).



As the graph demonstrates, over two-thirds of investments have been funded through private reserves. This figure increases to 76% for the unaffiliated independent retailers that are viewed as riskier investments by the retail banking market. Growth in the convenience

⁴ IGD Convenience Retailing Report: 2006

⁵ ACS Investment Tracker: March - May 2016

⁶ ACS Voice of Local Shops Survey: May 2016

sector continues to be dominated by multiple retailers who are likely to secure capital finance more easily than small independent retailers.

For new store developments and store refits, retailers often look for support from their symbol group. Symbol groups often know more about business investment priorities and growth potential so they can be a good investment partner. In addition, some independent retailers may be using their own reserves to fund investment because they are investing smaller sums of money which do not require capital investment loans. Nonetheless, smaller retailers continue to struggle to access finance for larger capital investments.

Issues with Access to Finance

The ACS Voice of Local Shops survey is a quarterly survey of 1,210 independent convenience store retailers. In 2012, ACS asked retailers what negative experiences they have experienced with their banks over the last three years. 23% said unclear communications, 10% said they were misled on terms, 7% said they had been subject to arbitrary changes in terms and 6% said they had been mis-sold a financial product⁷. Retailers have anecdotally informed ACS that there are often stringent terms applied to securing loans, with many banks insisting on the retailer moving all business banking processes to the new bank in order to secure finance. This is often a time-consuming and costly process to go through in order to secure finance from banks.

The same survey also asked retailers, "Over the last year, do you feel that your bank has supported the growth of your business?". In response, 42% of businesses indicated their bank had been supportive, while 41% stated they had not⁸. Although this does not directly correlate with access to finance issues, our experience of members' problems with banking and finance often also relates to service, communication of terms and fee issues and are not limited to direct access to finance packages.

⁷ ACS Voice of Local Shops Survey: July 2012

⁸ ACS Voice of Local Shops Survey: July 2012