The Market Share of Foreign Multinationals in British Retailing, 1850-1962

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This paper presents the results of the first systematic study of foreign direct investment in British retailing up to the 1960s. It shows that while foreign multinationals were unimportant in British retailing overall, they dominated some retail trades. The paper goes on to show that these retail entrants were mostly not by retailers but manufacturers. Their motives varied, from the luxury goods producers and global oligopolists seeking one form or another of vertical restraints, to the producers of novel goods wanting to speed the diffusion process. The relative absence of foreign retailers is explained by the absence of patent, trademark, or any other form of protection on retail innovations and the ease with which they could be copied.

That foreign direct investment (FDI) mostly benefits host economies has almost become a truism in modern economics, and one reflected in most economic historians' assessments of foreign multinationals' contributions to British manufacturing. Recent research, for example, has documented over 1,000 subsidiaries of foreign firms that had entered UK manufacturing by 1962, mostly in relatively high-technology sectors (Godley 1999; Bostock and Jones 1994). FDI in UK manufacturing has therefore been composed overwhelmingly of relatively high productivity entrants and thus disproportionately responsible for productivity growth in the manufacturing sector overall. The message is clear. Without this inward investment by foreign multinationals witnessed over many decades, British manufacturing's sluggish performance since the late nineteenth century would have been considerably worse.

Whether this was the case outside the manufacturing sector remains a mystery, for relatively little is known of foreign multinationals in the service sector. In part there has been a general academic neglect, but there has also simply been less historic inward investment in services. Since 1963, from which time official statistics capture inflows, FDI in services has accelerated ( Census 1963; Jones 1996). Prior to recent research, however, very little was known of foreign multinationals' activities in British services for earlier decades. The importance of investigating FDI in services is underlined by the fact that productivity growth in the historically relatively large UK service sector was apparently even slower than in manufacturing (Broadberry 1996). If FDI was disproportionately important in increasing manufacturing productivity, then, depending on how important they were, foreign entrants may also have been responsible for some of the growth in services. Certainly the productivity gap between the numerous UK subsidiaries of foreign multinationals and indigenous firms in services in the 1990s was far greater than in manufacturing, suggesting that their recent impact on service sector productivity has been far from trivial.

The current state of knowledge makes it impractical to gauge the historical impact of FDI on all UK services. This paper presents the results of a research project that correspondingly concentrates on the largest service, retail distribution, and maps the relative significance of foreign entrants from 1850 (before when any entrants are assumed to have been insignificant) to 1962 (after when the official statistics on inward FDI supersede the methods used here). This research has documented 118 subsidiaries of 99 foreign parent companies active in British retailing during this period.

An earlier article has shown how the chronological development of FDI in British retailing closely followed the downward spread in purchasing power. Initially entrants were exclusively luxury goods retailers in London's West End, but by the end of the nineteenth century most new entrants were distributing durable goods to lower middle and working class households. During the interwar period most new entrants focused on mass marketing simple consumer goods (Fletcher and Godley 2000). While this suggests that the pattern of foreign entry into British retailing was particularly sensitive to income, what is of more concern here is whether these entrants were successful or not. This paper therefore concentrates on assessing how important foreign multinationals were in British retailing.

Perhaps the most revealing indicator of foreign influence in British retailing would be market share. To the extent that foreign entrants gained market share in retailing, they must have overcome the disadvantages of foreignness (e.g., higher costs of learning about local consumer preferences) through offsetting competitive advantages, such as superior marketing skills or more efficient purchasing or logistics.
While foreign entrants were present from 1850 at the very latest, before 1885 they were essentially confined to a range of single-establishment luxury goods boutiques in London's West End. Table 1 therefore shows how the market share of all foreign multinationals in British retailing increased from 1885 to 1962. As Table 1 illustrates, by 1885 Singer's pioneering move into British retailing was reaping considerable rewards for the firm. Outside Singer, however, the foreign presence in British retailing remained insignificant. Moreover, little had changed by 1907, when the much bigger Singer retail organisation accounted almost entirely for foreign multinationals' market share of one-quarter of one per cent of all British retailing.

After the first world war foreign multinationals were increasingly active in the sector, their market share increasing to around 1.3 per cent in 1929 and 1939, before rising rapidly to nearly four per cent of the UK retail sector captured in the 1961 Census of Distribution. But despite this growth in importance, FDI in British retailing never really amounted to very much throughout the period. It clearly lagged behind FDI in manufacturing, for instance. Already before 1914, nearly one per cent of the British manufacturing workforce was employed by a subsidiary of a foreign multinational. By 1963, that share had risen to just over 12 per cent (see Godley 1999, n.83; Mitchell 1998, 111; Census 1963. And further risen to over one quarter today, Jones 1996).

**TABLE 1.**
Foreign Multinationals' Market Share of British Retailing, 1885-1961 (%)

<table>
<thead>
<tr>
<th>TRADE</th>
<th>1885</th>
<th>1907</th>
<th>1929</th>
<th>1939</th>
<th>1961</th>
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<tr>
<td>Bakers</td>
<td></td>
<td>0.7</td>
<td></td>
<td></td>
<td>12.7</td>
</tr>
<tr>
<td>Butchers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dairies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fishmongers</td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Grocers</td>
<td>5.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Off-licenses</td>
<td></td>
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<tr>
<td>FOOD</td>
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<td>0.1</td>
<td>1.9</td>
<td>0.1</td>
<td>0.8</td>
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<tr>
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<td></td>
<td>1.8</td>
<td></td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>Menswear</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Womenswear</td>
<td></td>
<td>0.1</td>
<td>0.3</td>
<td>0.2</td>
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</tr>
<tr>
<td>Women's</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Underweara</td>
<td></td>
<td>10.0</td>
<td>10.0</td>
<td></td>
<td></td>
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<tr>
<td>CLOTHING</td>
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<td>0.0</td>
<td>0.1</td>
<td>0.5</td>
<td>0.7</td>
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<tr>
<td>Booksellers/</td>
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<td>Stationersb</td>
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<td></td>
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<tr>
<td>Confectioners</td>
<td></td>
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<td></td>
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<tr>
<td>Tobacconists</td>
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<td>Newsagents</td>
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<tr>
<td>Jewelers</td>
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<td>Music sellers</td>
<td>0.1</td>
<td>0.1</td>
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<td></td>
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<tr>
<td>Sewing</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Machines</td>
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<td>90.0</td>
<td>90.0</td>
<td>75.0</td>
<td>40.0</td>
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<tr>
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<tr>
<td>Stores</td>
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<td>67.8</td>
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<tr>
<td>Department Stores</td>
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<td></td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
<td>50.0</td>
</tr>
<tr>
<td>Petrol</td>
<td>12.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vacuum cleaners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cycle Dealers</td>
<td></td>
<td>90.0</td>
<td>90.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elec. Etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Misc.</td>
<td></td>
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<td>1.3</td>
<td>4.2</td>
<td>5.1a</td>
<td>14.3</td>
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<tr>
<td>ALL RETAIL</td>
<td>0.15</td>
<td>0.24</td>
<td>1.30</td>
<td>1.35b</td>
<td>3.92</td>
</tr>
</tbody>
</table>

**SOURCE:** Multinationals' share of total establishments by retail trade, sector and overall from Appendix, Table A1 (except where indicated in the notes). Note that space constraints have meant that the appendix cannot be included here. A full version of this paper is, however, available from the author.

**NOTES:**
- a) Based on estimate of US corset and lingerie direct salesforce out of trade's total salesforce.
- b) Estimate of Encyclopaedia Britannica's market share derived by their salesforce (200) out of trade's salesforce.
- c) Estimate based on Max Factor's 105 concessions in department stores out of all establishments. As concessions were smaller than typical chemist goods establishments, this is an overestimate.
- d) Singer's collapse in market share estimated from its much reduced postwar store count.
- e) Estimate of retail sales through typewriter manufacturers' own outlets only.
- f) Dixon, 'UK Petrol Case', 384, shows that company controlled stations were 40% of the size of the independents (tied or otherwise) in 1964, hence the estimated market share here is twice the share of total outlets.
- g) Estimate of combined market share of Electrolux and Hoover machines via own outlets and direct sales forces. After WWII, both companies increasingly began using independent dealers.
- h) Because variety chain store sales per establishment in 1939 were around eight times higher than average, Woolworth's contribution to overall market share has been reweighted accordingly.
- i) Because variety chain store sales per establishment in 1961 were fourteen times greater than average, Woolworth's contribution to overall market share has been reweighted accordingly. Also, company owned petrol stations were twice as large as independents, so the oil majors' contribution to overall market share has also
been reweighted. Blank cells = zero. Note values less than 0.1% counted as zero.

This overall insignificance notwithstanding, Table 1 shows that some retail trades experienced a much greater foreign presence at certain times.

Food

The largest sector in British retailing was, and remains, food retailing. The food sector included over forty per cent of all outlets and sales over the period, with the grocery trade dominant (Jefferys 1954, Table 8, p.453). This was also the sector that saw the beginnings of what Jefferys described as the ‘revolution in the distributive trades’, with the first multiples and co-operative societies both introducing some form of organisational innovation (Jefferys 1954, 6).

The first foreign entrants into food retailing were meat distributors. T.C. Eastman, the pioneer of refrigerated shipping in the 1870s, negotiated a joint venture with the leading Scottish multiple butcher, John Bell, guaranteeing provincial outlets for his American beef. This enabled him to avoid having to sell at below-cost prices in an overstocked London market before the meat deteriorated. The eponymous chain soon became the largest multiple butchers in Britain, although Eastman’s involvement appears to have been minimal; indeed, managerial control soon seems to have reversed direction, with the Bell family taking over Eastman’s American interests.

Despite much debate among foreign suppliers, apart from two small, abortive attempts by Antipodean frozen lamb interests and the Eastman joint venture, the door to British meat retailing was closed. This represents a marked contrast with margarine, where the Dutch producers, Van den Berghs and Jurgens, made the first genuinely significant investments in British food retailing acquiring a string of grocery multiples from 1906 to 1927.

The development of a new hydrogenation process allowed cheaper vegetable fats to be used in place of animal fats from around 1900. The downside was that these techniques increased margarine’s perishability and so reduced its shelf-life. Dutch producers, having already invested in establishing their brands, were reluctant to let independent retailers sell below par product. The suddenly increased importance of controlling distribution channels pushed Van den Berghs and Jurgens, as well as their principal British competitor, Maypole, to further vertical integration. By 1929, the two Dutch firms had merged and together controlled 4,000 British grocery stores, or over five per cent of the entire trade (Matthias 1977). With the merger of Lever Brothers, Van den Berghs and Jurgens, the Dutch margarine interests drop out of Table 1 after 1929, as Allied Suppliers (Unilever’s combined British grocery interests) was no longer a foreign controlled company. The foreign share of British food retailing recovered only with the postwar growth of Garfield Weston’s Associated British Foods.

Weston, a leading Canadian biscuit manufacturer, was convinced that the UK biscuit industry was overstocked with too many small producers, and so, in the depths of the Depression, he acquired several bakeries. He then simply rationalised production onto fewer sites and, with modern equipment, produced biscuits at half the cost and set about undercutting competitors.

Many of these newly acquired bakeries had small chains of tied retail outlets, and Weston kept them on as outlets for his bakery products. Their number increased dramatically in the 1950s as Weston acquired further regional bakeries in his pursuit of economies of scale. As with the Dutch margarine producers, Weston’s interest in retailing was nevertheless perfunctory. He changed his mind, however, when he recognised that his Canadian retailing subsidiary had successfully developed the self-service supermarket format. Fine Fare was the vehicle chosen to import the format into Britain. From 1954 to 1961 the firm quickly expanded to a chain of 253 supermarkets, or over 40 per cent of the still fledgling British self-service grocery trade (Davies 1987). While Weston takes some credit for introducing the format, other grocers, such as Sainsburys and Tesco, proved rather more successful supermarket retailers than Fine Fare thereafter.

Self-service also prompted a reorganisation of the small independent grocery stores, with around 13,000 small grocers tied to foreign voluntary wholesale organisations by 1961, such as Spar, Vivo, VG, and Centra. Independents benefited from centralised buying, improved accounting methods and new advertising and display techniques. The total amount invested by the foreign voluntary wholesalers in British retailing, as opposed to wholesaling, was probably small (and they have not been included in the table), but they introduced important benefits to the small shop sector in the late 1950s and early 1960s, reducing the competitive gap between the independents and the chains.

In sum, the influence of foreign retailers in food retailing appears to have been even more muted than that suggested by the market shares in Table 1, because the big foreign investors, Van den Berghs, Jurgens, and ABF, were primarily interested in production and devoted little managerial time or attention to retailing. Weston’s pioneering but ultimately unsuccessful attempt to dominate the self-service supermarket trade was the only significant investment in the food sector that was primarily concerned with retailing.

Clothing

Clothing was the second largest sector throughout, with around one fifth of all British retail sales and outlets. In contrast to the food trades, there were more foreign entrants in clothing but rarely of any prominence. This was largely because of the numerous but small luxury goods retailers. Beginning with L. T. Piver, a ladies’ glove maker who
opened a Regent Street shop in 1850, and Revillion Frères, a furriers with another West End branch that opened in 1869, a succession of mostly French artisans opened clothing outlets in London.

The large number of small luxury goods entrants also included many in non-clothing trades: such as Tiffany and Cartier in jewellery, the American-acquired Dunhill tobacconists, two Danish ceramists, Ipsen and Royal Copenhagen, as well as a Japanese art dealer, Yamanaka, among many others. Of the 118 firmly identified retail subsidiaries owned by foreign parents, 24 were luxury boutiques. None attained any great prominence in this period (see generally Holland 1970).

The significant inward investors in the clothing sector were actually clustered in the footwear trade. The Swiss firm, Bally, for example, wanted to increase its sales primarily through mail order but acquired the small London Shoe chain in 1899 to give the firm more British presence. It subsequently acquired Dolcis, a larger chain, and then Russell and Bromley, so that in 1956, just before Dolcis was sold to the leading British footwear chain, Sears, Bally had almost 300 British branches. Along with Scholl (entered in 1924 and built up a chain of one hundred outlets by 1939), Bata (entered in 1933 and quickly opened 200 stores by 1939), and several smaller ventures, foreign multinationals collectively owned around 400 branches in both 1939 and 1961. This paled into relative unimportance when compared to the leading British retailers, however. Already by 1929 the two Sears’s subsidiaries, True-form and Freeman, Hardy and Willis, along with Saxone, Barratt, and Mansfield had nearly 3000 branches between them.

Similarly in menswear and womenswear, the entrants that grew to some prominence, such as Etam (the largest hosiery retailer in Britain with forty branches in 1929), C&A (a leading ladies’ outfitter by 1939), and Spirella (the pioneer of the direct selling of ladies’ corsets), were nevertheless simply very small compared to the leading clothing multiples, such as Burtons (333 and 595 branches in 1929 and 1939 respectively), Hepworths (around 300 by 1939), Prices Fifty Shilling Tailors (over 260 by 1939), Hips (100), Alexandre (around 70), and others (Honeyman 2000).

OTHER

The residual sector of British retailing included everything from hardware to music shops, from department stores to petrol garages. With the consumer goods in this sector relatively income elastic, these trades grew in importance as living standards increased. In this environment of growing opportunities, several foreign manufacturers of consumer goods each opened a small number of retail outlets but continued to distribute the vast majority of their imported goods via independent dealers. The former baseball star-pitcher, A. G. Spalding, for instance, had a small chain of around five sports goods outlets but continued to sell golf clubs, tennis rackets, and so on through independents. Ingersoll, the leading watch retailer, with branches in 1939, still sold the majority of its watches elsewhere; as did A. W. Faber his pencils, despite a solitary store in Queen Victoria Street, Remington, Underwood, and other typewriter manufacturers, as well as Steinway, Blüthner, and Bechstein, among piano manufacturers, all had just one or two retail outlets in central London locations to showcase their products. While several trades therefore had a foreign presence, sales through these subsidiaries’ own establishments were less significant than through independent dealers (US Dept of Commerce 1929).

The retail trades where foreign multinationals attained genuine importance and a significant market share over the period were therefore restricted to sewing machines, variety chain stores and vacuum cleaners, along with chemists goods and petrol, although to a lesser extent. First was Singer, which opened its first shop in Glasgow in 1856. Its importance in British retailing, however, dates from the 1875 decision by the company’s British agent to target the consumer market through company-owned outlets rather than via independent dealers. This met with a rapid growth in demand and Singer’s UK sales quickly exceeded those of any other foreign market. The retail organisation grew from 20 branches in 1873, to 394 in 1885, to 625 in 1907, and finally to peak at 900 establishments and 6,000 employees by 1914. Almost half of all British households owned a Singer sewing machine by then (Godley 1996 and 2000).

Next was Woolworths. Frank W. Woolworth opened his first British store in Liverpool in 1909, before also rolling out national coverage with extraordinary speed; 375 branches by 1929, 759 by 1939, 1,068 in 1961. Woolworths’ recipe for success was simple. Financial muscle in purchasing gave cost savings that were passed on in the form of a much wider range of products than competitors could sell under the fixed price formula. With much larger staffing per establishment, Woolworths not only became the leading foreign multinational in British retailing (overtaking Singer during the 1920s), but became Britain’s biggest retailer, employing well over 60,000 by 1961.

Like Singer, Electrolux (entered 1912) and Hoover (1919) both used armies of door-to-door salesmen to
distribute their vacuum cleaners. Both had some retail outlets (Hoover around twenty by 1939), but they focused almost exclusively on direct sales before the 1950s. Together they enjoyed around 90 per cent of the rapidly growing British market for vacuum cleaners (Jefferys 1950, Bowden and Offer 1994).

Boots had come into American hands in 1920 when Jesse Boot's attempts to avoid passing the company to his son coincided with the expansionist dreams of Louis Liggett, the American entrepreneur who had built the Rexall chain. Liggett had struggled to establish his business in Britain, so the acquisition of Boots gave him the largest multiple chemists at a stroke. American techniques transformed much of Boots' management, but domestic expansion during the 1920s soon caught up with Liggett as he was forced to sell his British assets in 1933 to stave off bankruptcy.

Finally, Esso, Mobil, Regent, PetroFina, and Total together with the dominant British incumbents, Shell and B.P., transformed the retailing of British petrol after the relaxation of postwar building restrictions in 1954. Esso had first experimented with company-owned stations in the 1930s, but petrol stations before the 1950s were overwhelmingly independents, typically stocking two different brands. The transformation came as a competitive scramble broke out in the late 1950s, when the oil companies attempted to reduce delivery costs, expand the range of oil products available, and increase the quality of service to consumers by purchasing sites and building their own stations (Dixon 1962 and ???).

To draw this brief survey to a conclusion, these empirical results, summarised in Table 1, contribute to filling something of a gap on the history of FDI in the British economy. Despite their overall unimportance, some retail trades clearly witnessed dramatic change as a result of foreign entrants. Nevertheless, this mapping of the foreign influence leaves many questions unanswered, and the next section attempts to fashion an explanation for the uneven impact of foreign multinationals in British retailing.

Despite its tendency to involve an ever higher share of scarce resources as economies mature, distribution has traditionally been seen simply as a residual economic activity. Some chains or department stores may have exploited economies of scale or scope, but, according to the conventional view, overall the sector was a drag on productivity growth. This appears to be at odds with much of the historical narrative of the emergence of modern retailing, where the development of mass retailing is supposed to have considerable welfare benefits. Such conflicting views arise probably because the theory of retailing remains by and large undeveloped.

Most retail history has in fact simply assumed that increasing firm size arose from increasing economies in advertising, logistics, management and so on. But the economic theory of retailing needs to explain far more than the relationship between increasing concentration and increasing returns to scale. Indeed, while such economies may have been present in this period, their impact on concentration levels can hardly be described as revolutionary. Jefferys estimated that multiples accounted for between twelve and fourteen per cent of all sales in 1930, for example; hardly a dominant form of organisation. Moreover, the large multiples, those firms that would be expected to benefit most from economies in distribution, accounted for far less. In fact any explanation of historic patterns of retail development needs to pay far less attention to any putative scale economies and far more to its most distinctive characteristic: its spatial specificity.

Retailing is an activity that is physically constrained by the location of consumption. When the costs of personal transportation are high, consumers cannot easily switch from one shopping area to another. Because physical locations are therefore imperfect substitutes for one another, imperfect competition in retail sites leads to a degree of market failure (Shaw et al 1998). Incumbents, or first-movers, have strong advantages because spatially constrained consumers face significant switching costs, for example. With incumbents holding some degree of market power, producers of novel or perishable products may face high transaction costs when distributing via these independent retailers.

Foreign multinationals were, by definition, late-comers into the already developed British high streets. They must therefore have held some strong advantages to oust incumbents. As noted above, these may have been superior economies in the supply chain, such as in purchasing, or logistics, or other management functions. Or they may have developed superior merchandising skills elsewhere and so simply imported better advertising or display activities and so on to a receptive British audience. Or they may have been driven to invest in dedicated distribution channels because of high transaction costs.

In fact, given the degree of heterogeneity in retailing, there may be other, so far unmentioned, determinants of FDI. For example, even the most cursory review of the empirical results reported here reveals that most foreign multinationals investing in British retailing were not in fact retailers but manufacturers. The determinants of FDI in British retailing may therefore be sensitive not only to the economics of distribution but manufacturing also. Rather than producing a blanket explanation of all foreign entry, we accordingly concentrate first on the different kinds of entrants.

Luxury Goods Retailers Luxury goods retailers were invariably small scale foreign artisans with boutiques in London, Paris, as well as on and two other fashion centres. These were therefore manufacturers and they acquired dedicated retail outlets in these key markets because of the peculiarities of the demand for luxury goods. While luxury goods are normal goods, at the margin they experience a perverse demand curve because of what
Leibenstein described as snob effects (Leibenstein 1950). Instead of price rationing demand, for consumers of luxury goods an increase in price can signal an increase in its value, or snob appeal. At the margin therefore luxury producers can sell more when they raise prices.

While luxury goods incumbrates may benefit initially, the outcome is an extremely unstable equilibrium, where high profits attract new entrants. The danger to the entire market arises, however, should the new entrants seek to gain market share through price competition. If snob factors remain an important component of total demand, cutting prices will reduce demand. The moves by luxury goods manufacturers into retailing are therefore best explained as attempts to increase vertical restraints in the market. Along with increased product differentiation (to reduce product substitution), this enabled producers to retain full control over the luxury price tag.

Showcase Retailers Other entrants also appear to have been motivated more by profit maintenance issues than by retailing per se. Those foreign manufacturers opening showcase outlets used their retailing investments as mechanisms to exercise control over independent dealers. Unlike the luxury goods producers, these markets were much wider and so manufacturers were simply unable to exercise full control through ownership. For firms like Steinway and Bechstein, however, the opening of a splashy West End showroom combined with nation-wide marketing (often including artist endorsements) both differentiated the product and minimised the threat of independent retailers engaging in price competition.

With the 24 entrants in the luxury trades and the 33 showcase retailers, almost half of all foreign entrants are best interpreted as attempts by foreign manufacturers of highly differentiated products to minimise the threat of price competition through vertical restraints of one kind or another. While the producer profits might have been higher under this kind of monopolistic competition, the real incentive was to underlie product differentiation and so maintain consumer confidence in the brand. Whether it was pianos or watches, jewellery or haute couture, a notable feature of both luxury and showcase entrants was their virtual disappearance after the widespread adoption of resale price maintenance.

There were two other groups of foreign manufacturers that invested in British retailing. These were the producers of established and novel consumer goods for the mass market, both of which were distinct from the showcase entrants because they acquired full control over most or all of their British distribution channels.

Established Mass Market Distributors The producers of standardised goods, such as margarine, bread, chemists goods, and petrol, were all in extremely concentrated industries (indeed, as was the case with Weston, their entry may have precipitated a shake-out). Game theoretic solutions to the competitive strategies in oligopolistic industries are complex to model, but a common result is that the ever present threat of retaliation both gives stability to the eventual outcome and minimises the likelihood of price competition. Under such circumstances, if one producer pursues forwards integration, the others would follow regardless of any corporate competence or interest in retailing. Moreover, with competition limited to product differentiation and service, controlling distribution channels becomes ever more important.

Distributors of Novel Products The manufacturers of novel consumer goods may well, like Singer, have ended up in oligopolistic markets, but their motives for entering British retailing were different, for they were interested in developing newly emerging markets. This is best understood through a combination of transaction costs, product cycle and product life cycle theory.

Because independent retailers, with their incumbent advantages, faced few incentives to market novel products, their manufacturers faced high transaction costs and so a strong incentive to internalise distribution channels. Where foreign producers had already solved such a dilemma in their home markets, they were able to establish similar dedicated distribution channels in Britain, following exactly the same product cycle logic of internationalization as with the establishment of a foreign factory (Vernon 1967). The reason why producers of novelties were more likely to internalise distribution in both home and host nations was because of the particular risks they faced of not doing so as these newly emerging markets developed.

Product life cycle theory suggests that novel products move through various stages as they diffuse through a market: introduction, growth, and maturity. For producers of novel products, the key point is the transition from the introductory to the growth stage, when the growth in sales can be quite dynamic, and so total cumulative sales disproportionately important in a relatively short period (leading to the classic bell-shaped distribution of annual sales, or the 'S'-shaped curve for cumulative sales over time). Therefore the optimal risk averse strategy when transaction costs were high, was to invest in their own distribution channels.

It follows, of course, that in the maturity phase the manufacturers’ dilemma is no longer present. First, independent retailers recognise the existing market and so are willing to distribute the good, reducing transaction costs, and second, there is little possibility of another rapid take-off in sales to justify costly retail investments. Not surprisingly all these entrants disposed of their British retail organisations either shortly before or after the early 1960s, and their products were distributed through independent retailers.

Foreign Retailers Out of the entire population this leaves only eighteen entrants that were foreign retailers. Moreover, once several short-lived and unsuccessful ventures are excluded, this group coalesces into Woolworths, C&A, Etam, Fortnums and Masons, Fine Fare, Safeway (entered 1962), and the voluntary grocery wholesalers. While Fortnums came into Weston's control almost by accident, the others represent attempts to
introduce novel retail formats, whether it was the self-service supermarket, the expanded variety chain store, or the chains of ladies outfitters. These are the closest historic examples to the dominant type of retail entrants today. And yet, during this period, they were only a very small minority (Godley and Fletcher 2000 and 2001).

III

Classifying these entrants into one or another of these five groups of retailing investments helps to highlight the economic justification for undertaking costly FDI in British retailing. This varied from group to group. On the one hand, the luxury goods and showcase retailers, along with the distributors of established goods, were all trying to minimise competitive forces in their respective sectors. On the other hand, the both the international retailers and the distributors of novel products were embracing competitive forces, either through importing novel retail formats, or through speeding the initial diffusion process of new consumer goods.

The former group of entrants harks back to an older literature on the anti-competitive nature of the multinational enterprise. Although, given the peculiarities of luxury demand and the emphasis placed on product differentiation among showcase retailers, there may have been little, if any, net loss to consumer welfare among these entrants, as opposed to the straightforward oligopolists.

In the latter group it was the asymmetry of information about novel products between the producer and independent retailers that led to a degree of market failure. In the international market for retail innovations, by contrast, the source of market failure was (and is) different.

Without protection from patent and trademark law, FDI would normally be the route through which the foreign profits from proprietary innovations could be captured. But retail innovations were relatively easy to copy, enabling incumbents and entrepreneurs to move first. Foreign innovations were therefore introduced into Britain in this period mostly not by FDI but either by immigrant entrepreneurs or by British retailers after visits to observe retail practices elsewhere, usually in the United States.

Department store merchandising, for instance, was revolutionised by Harry Gordon Selfridge introducing the advertising and display techniques he had developed at Marshall, Field in Chicago. Alan Sainsbury, the most successful British self-service grocery entrepreneur, simply copied ideas from supermarkets in the United States. More remarkable was the succession of Jewish immigrants whom collectively were more responsible for transforming British high streets than the entire sum of foreign multinationals. Montague Burton, Isaac Wolfson, and Charles Clore imported and developed sale-and-leaseback financing to fund the rapid growth of Burton’s, Great Universal Stores, and Sears. Simon Marks (Marks and Spencer), Jack Cohen (Tesco) and others successfully pursued innovative retail formats (Godley 2001).

MILESTONES IN MARKETING HISTORY

This study therefore raises far more questions about British and multinational retailing than it has been able to answer. In the international transfer of innovations, for example, and in contrast to manufacturing, where the role of the multinational is paramount, it remains unclear exactly how retail innovations are transferred from nation to nation. The role of the multinational enterprise appears to have been far less important than that of the individual entrepreneur. Intriguingly, the emergence of international retailers as the dominant group of the equivalent population of foreign entrants in British retailing in recent years suggests that international retailers have subsequently developed ways of protecting their innovations in a manner that was by and large impossible in the period under review here.

Historians will want to know why firms in some concentrated industries (margarine, petrol, and more recently motor cars) pursued vertical integration, but in other seemingly similar industries (meat and tobacco perhaps) they did not. And, finally, while their overall importance suggests that foreign multinationals may have contributed little to British service sector productivity growth over the period, their uneven distribution suggests that their impact may have been disproportionate in certain retail trades. Although, given the emphasis on internationalisation and imperfect competition in explaining retail FDI here, rather than economies of scale and scope in distribution, even entrants with large market share may well have held little or no productivity advantage.

Additional detailed case study research will be the only way to discover whether this was in fact the case. In fact, two case studies in particular, as Singer and Woolworths between them accounted for between two thirds and ninety per cent of all the foreign multinationals’ market share of British retailing for almost all this period.

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