



# *Choice and innovation in the food sector*

## *Brands and private labels*

*Tenth annual symposium on competition amongst retailers and suppliers*  
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*The views expressed in this presentation are personal and do not commit the European Commission*

# *Outline presentation*

1. General trends in the food supply chain
  1. Retail
  2. Supply
  3. Private labels
  
2. Evolution of choice and innovation
  - Past studies
  - The new DG COMP study



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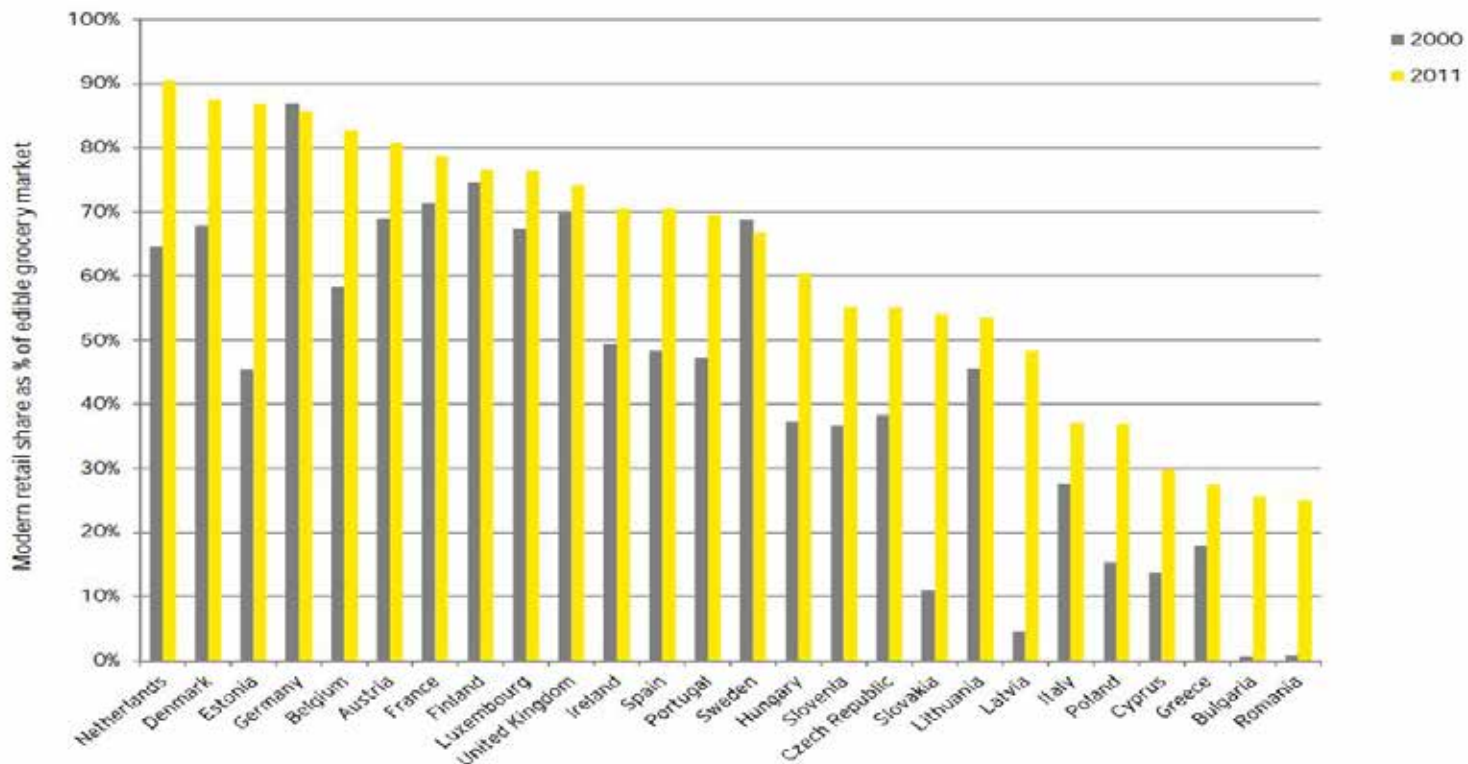
# *(1) General trends in the food supply chain*



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# What kind of retail?

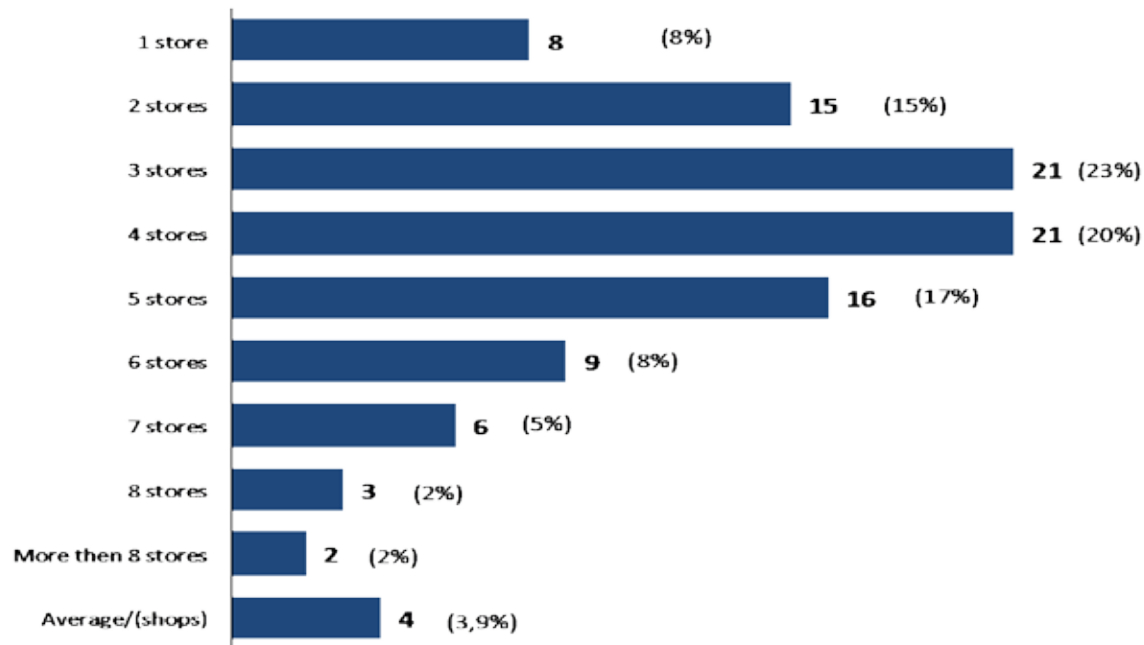
Figure 3: Evolution of the market share of modern retail compared to total food market (2000 - 2011)



Source: EY analysis based on © Planet Retail

# Where do the consumers go?

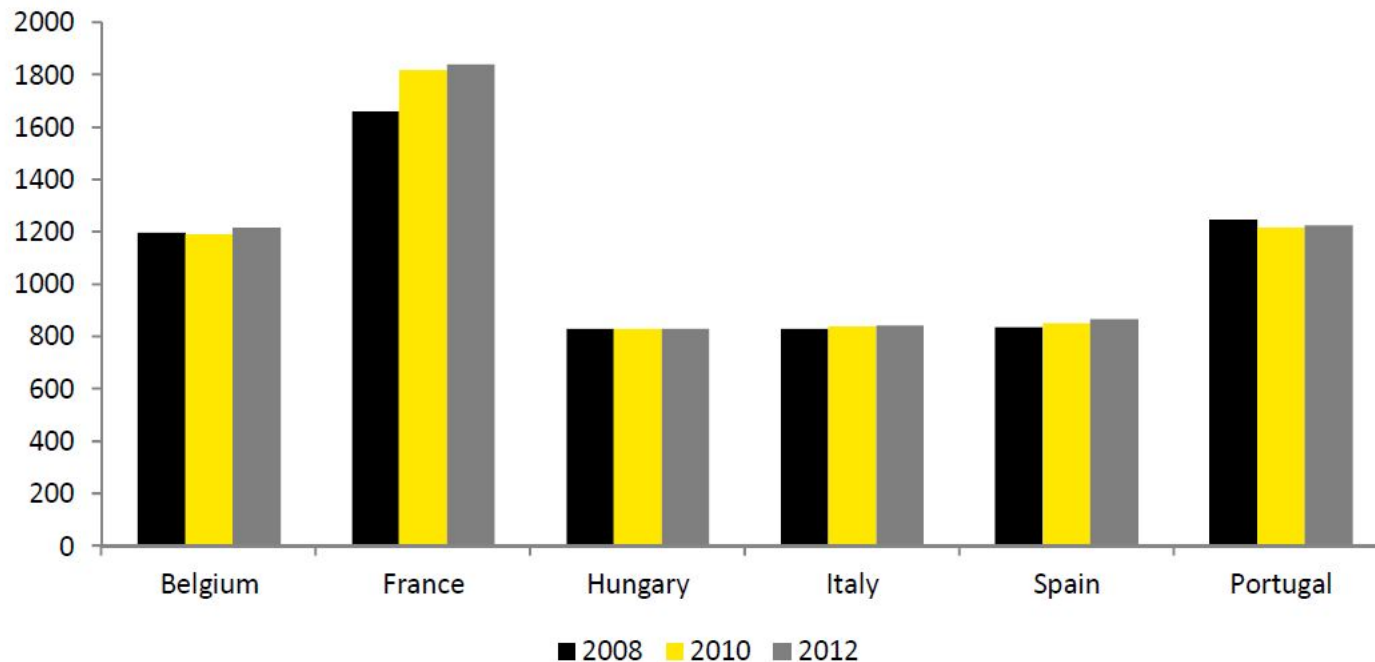
## Number of Supermarkets/Hypermarkets used in Past 4 Weeks



Source: AC Nielsen Shopper Trends 2013

# What kind of retail?

Average surface of supermarkets over the period 2008-2012 in some Member States (Source: EY analysis based on Planet Retail)

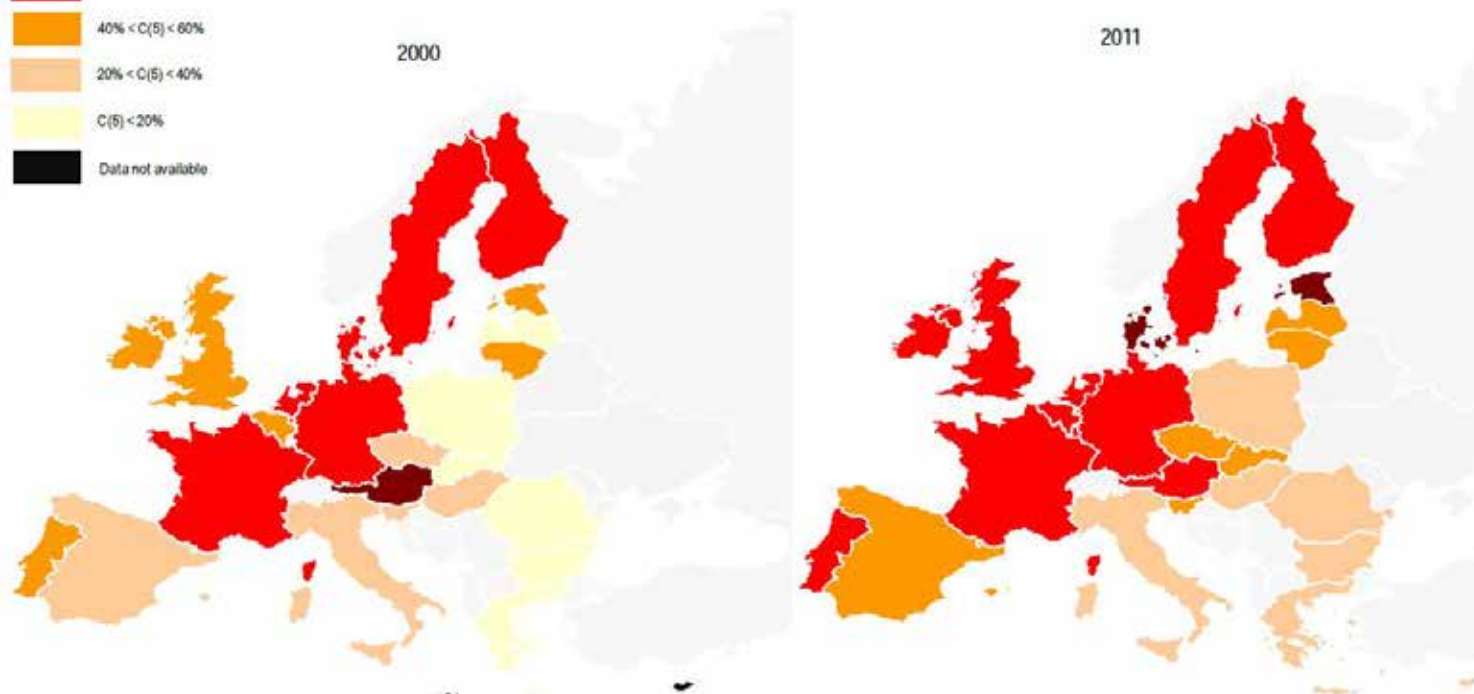
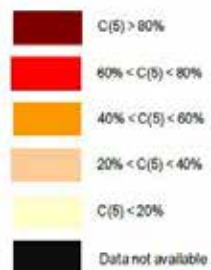




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# Increased retail concentration

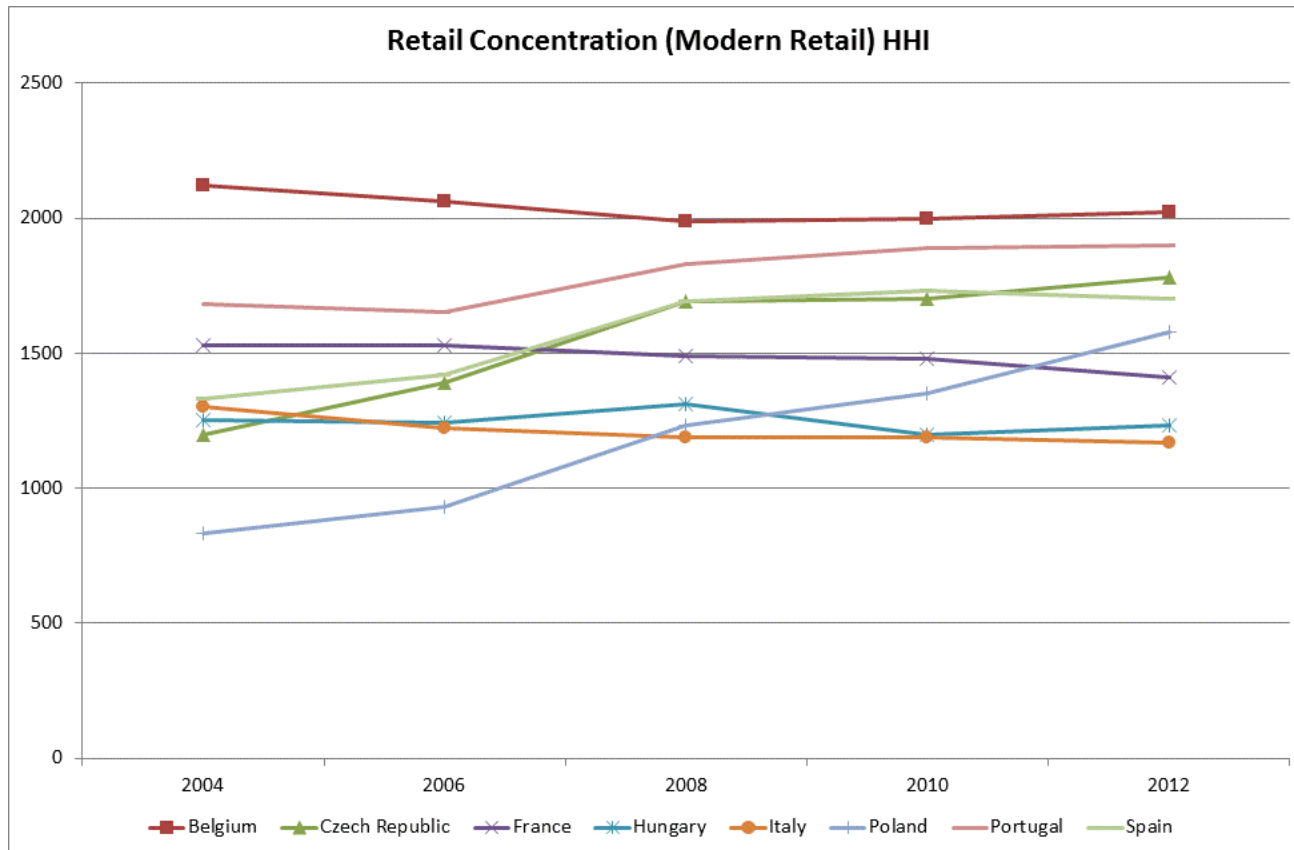
Figure 4: Evolution of the combined market shares of the top 5 retailers C(5) per MS (2000 - 2011)



Source: EY analysis based on © Planet Retail

# Modern retail concentration at national level (HHI)

HHI = measure of concentration based on the sum of squared market shares  $\in [0; 10,000]$





## Modern retail concentration is quite high in a number of Member States at local level (Source: ECB)

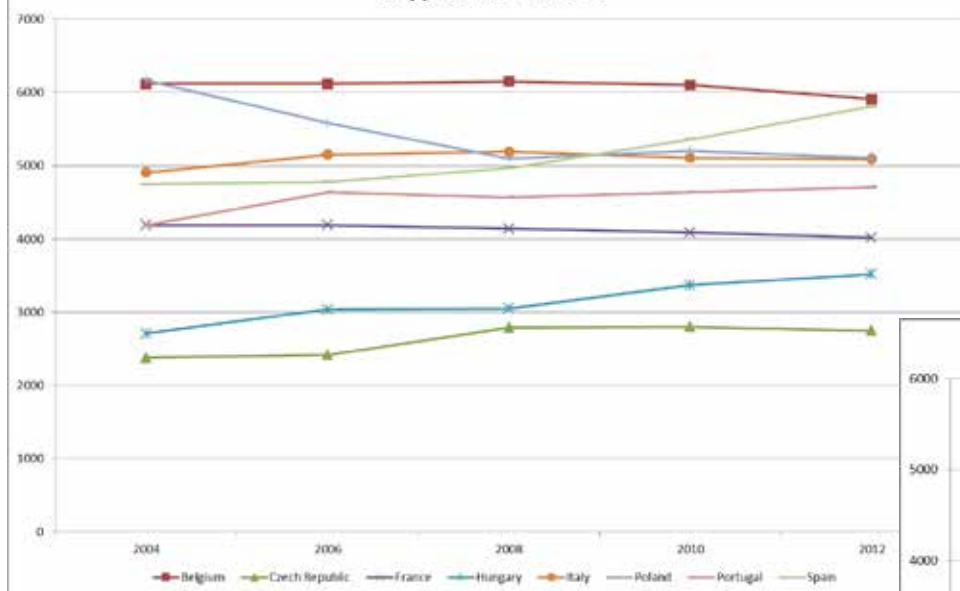
Table 5 Downstream concentration measures using a *local market definition* – national averages of local HHIs computed at the store and parent company levels

Country	Store level			Parent company level			
	5 km	Country	10 km	Country	5 km	Country	10 km
NL	13	NL	4	BE	21	BE	12
AT	15	BE	6	AT	23	AT	16
IT	16	AT	7	IT	24	IT	17
ES	16	IT	7	ES	25	ES	20
BE	16	DE	7	GR	27	FR	21
DE	16	ES	9	DE	29	GR	22
GR	17	GR	11	NL	30	PT	24
PT	23	PT	14	FR	31	DE	24
FI	26	FR	16	PT	32	NL	26
FR	27	FI	19	FI	40	FI	38
<b>Euro area average</b>	<b>19</b>	<b>Euro area average</b>	<b>9</b>	<b>Euro area average</b>	<b>28</b>	<b>Euro area average</b>	<b>21</b>

Source: Eurosystem staff calculations based on information from the Nielsen store location database.

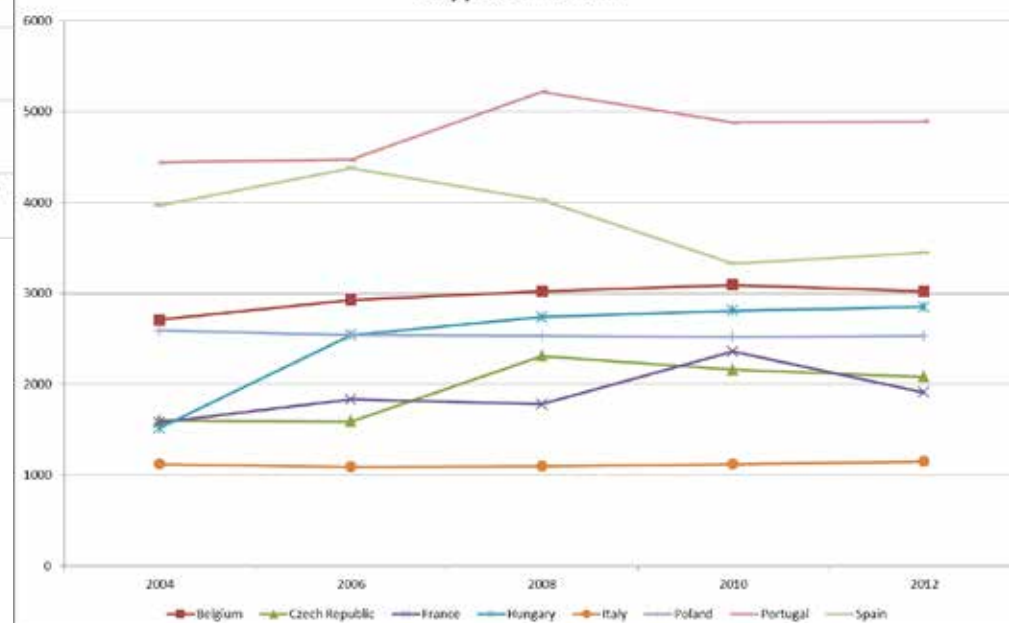
# Supplier concentration (HHI at national level)

Supplier HHI - Cereals



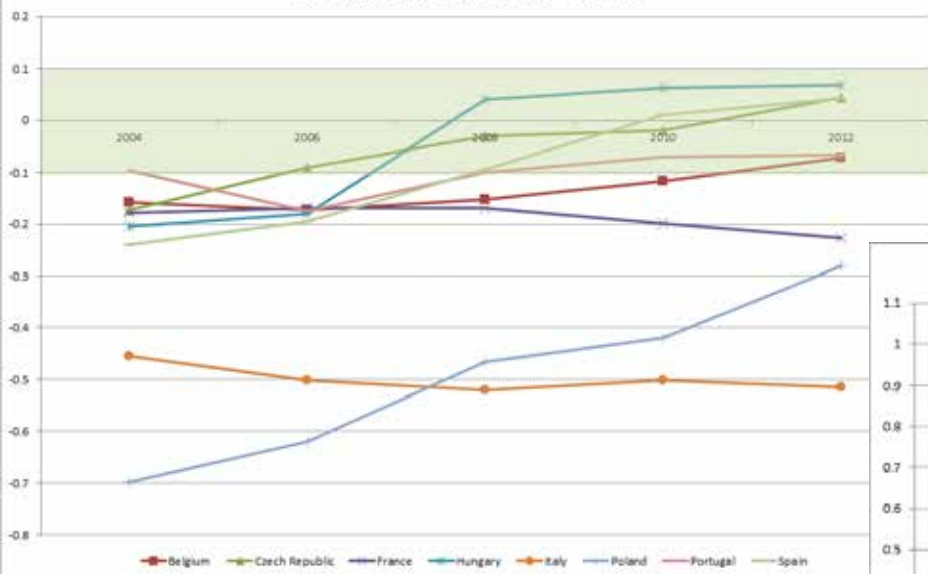
Supplier concentration is generally higher for cereals than for ham, but differences between MS

Supplier HHI - Ham



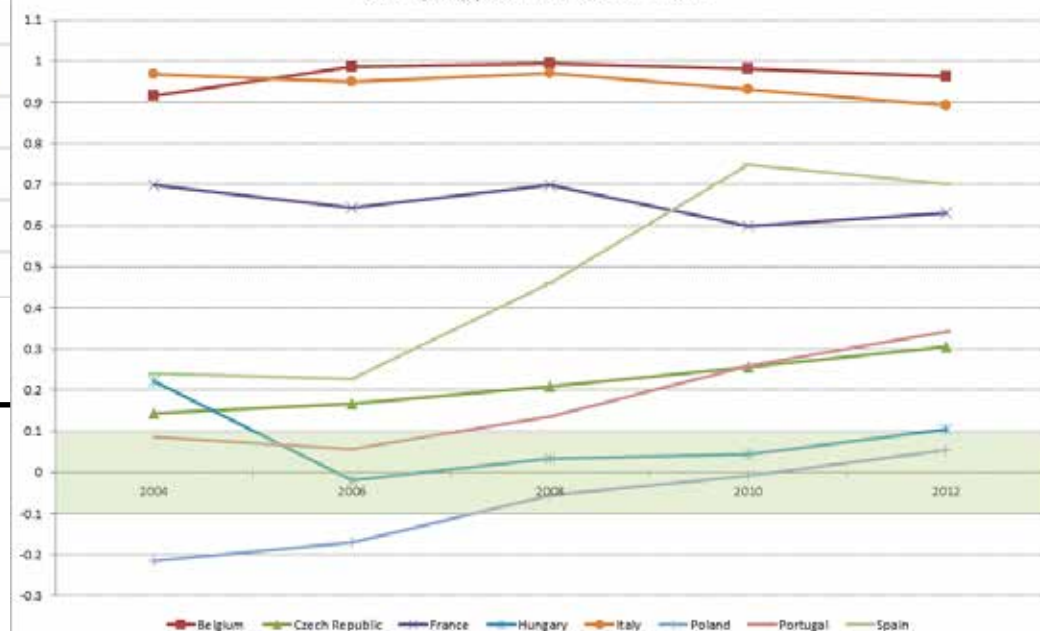
# Imbalance between retailers and suppliers

Retail/Supplier Imbalance - Cereals



Cereals: the supply side of the market is in general more concentrated than the retail side

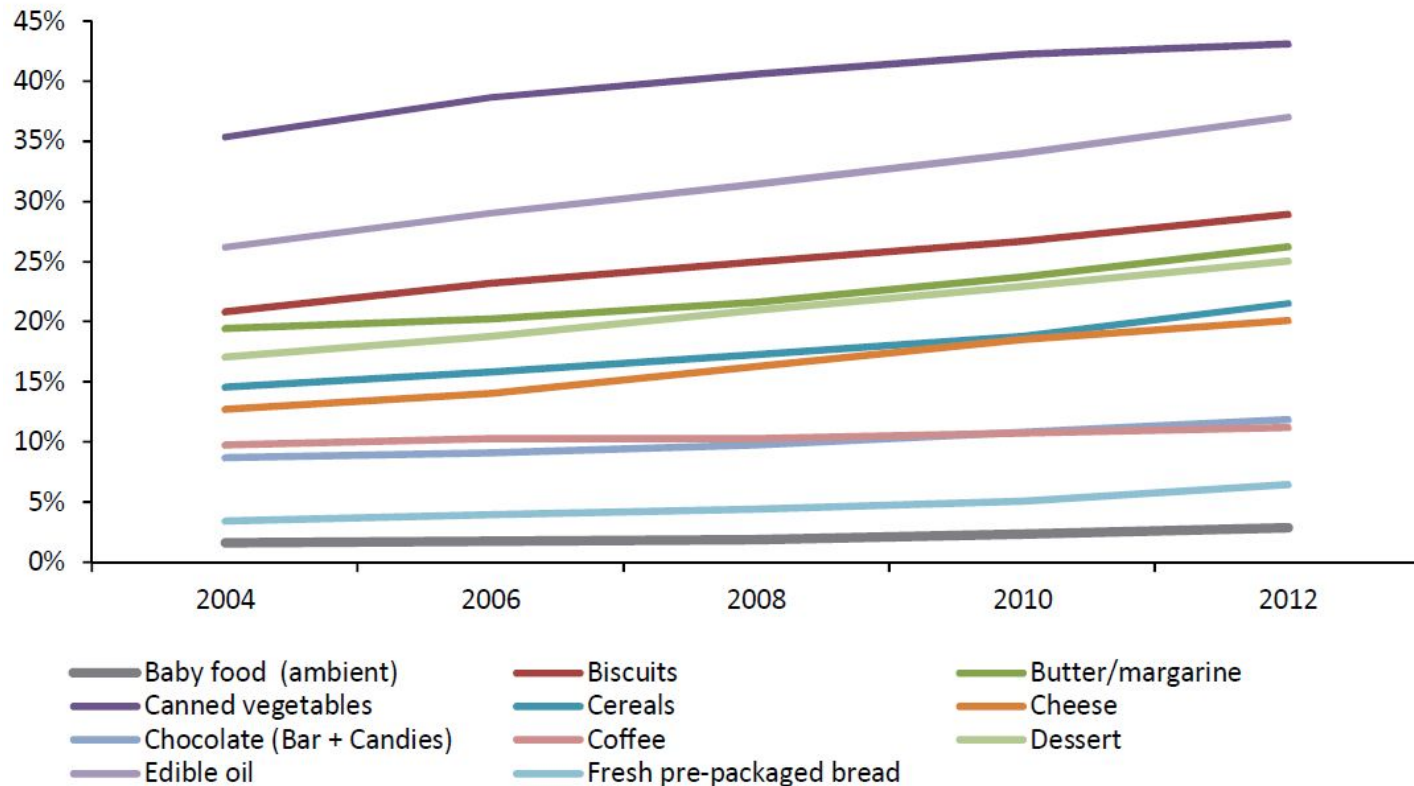
Retail/Supplier Imbalance - Ham



Ham: the retail side of the market is in general more concentrated than the supply side

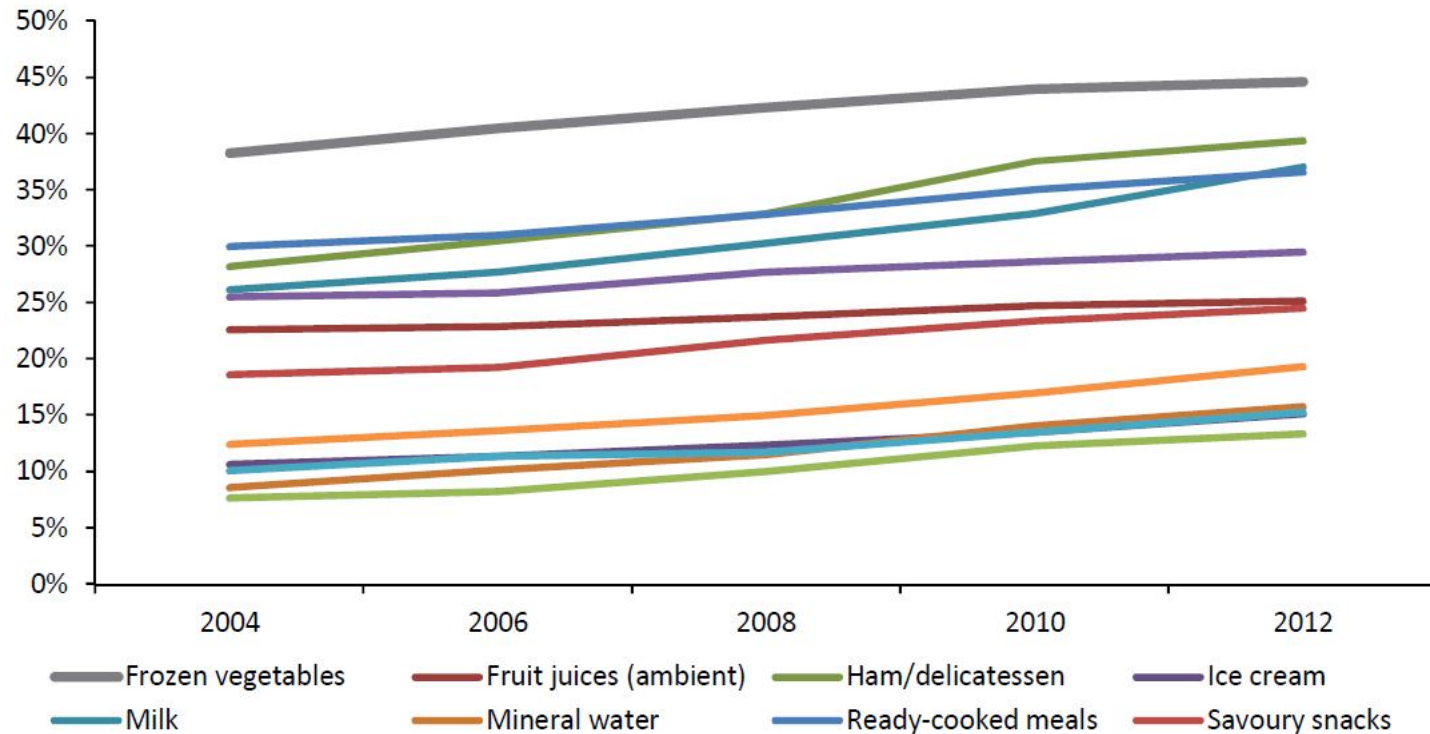
# Private labels

Share of Private labels in certain product categories in a sample of 6 Member States (Source: EY analysis based on Euromonitor)



# Private labels

Share of Private labels in certain product categories in a sample of 6 Member States (Source: EY analysis based on Euromonitor)





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## *(2) Evolution of choice and innovation*



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## *(2.1) Past studies*

## DG ENTR/LEI study

- *"Innovation in the European food supply chain is not under pressure. The number of product introductions still increases. This holds for both industrial brands and private labels"*
- *"There is one major exception to the main conclusion. The number of product introduction goes down in Spain. This is due to two factors: the rapid increase of private-label market share and the reduction of the number of stock keeping units in many supermarket formulas"*
- *"In terms of economic performance, as measured by profitability and innovation, the study does not observe a problem with respect to **supplier-retailer relations** or private labels". "However, the study does not exclude that bargaining relations between retailers and suppliers are uneven and that some commercial practices - for instance copycatting or delays in payment - distort competition and/or the viability of specific firms"*.



## Other studies/findings on innovation and private labels

- ü CC Groceries Inquiry (2007) expressed no concerns about private label products leading to reduced innovation by suppliers of branded goods
- ü According to a study by Mintel, private labels accounted for 54% of new product developments in the UK in 2011. Therefore, not only branded good suppliers engage in product innovation but there is also private label innovation.
- ü Retailers often provide incentives to innovate through private labels. Therefore, retailers do not only engage in copy-cattig.
  - ü Study of Dobos (2007) in Hungary where almost 40% of new product introductions were initiated by the retailer
  - ü Nielsen Global Study indicates that "private labels offer the opportunity for retailers to differentiate themselves and to lead the way with innovation"
- ü Research by Coca-Cola (cf. Oxford Symposium 2013) indicates that Europe has more innovations per capita compared to the US (the absolute number of innovative products is higher in the US)
  - ü It was also found that the majority of innovations come from small companies or entrepreneurs with no large companies behind them (though the innovative products are then later picked up by big brand manufacturers)



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## *(3.2) Retail study DG COMP*

## *WHY? 2 main objectives retail study*

### Objective 1:

Providing economic input to the discussion on unfair trading practices (UTPs)

Cf. Green paper and Impact Assessment on UTPs initiated early 2013:

- ü Main arguments about the effects of UTPs : *Is this true?*
  - ü Capacity to invest and innovate affected through UTPs => detrimental effect on choice and innovation
  - ü Single Market affected through existence of fragmented national rules => detrimental effect on cross-border sourcing and distribution

### Objective 2:

Answer the calls of the Parliament to **check if competition** is working in the retail sector in Europe

## ***WHAT? Subject of retail study***

- ü Analysis of the evolution of **choice and innovation** at local level
- ü Analysis of the potential **drivers** of choice and innovation at local and national level:
  - ü Concentration related factors: retail concentration (at national and consumer catchment area level), supplier concentration, ratio of both (measure of imbalance in bargaining power and scope for UTPs)
  - ü Other factors: shop type, shop size, private label penetration, socio-demographic variables, economic growth/crisis,...

## *HOW? Type of analysis*

### 1. Descriptive statistics

- Ø Factual description of how choice and innovation have been evolving over time
- Ø Factual description of how the drivers of choice and innovation have been evolving over time

### 2. Econometric analysis

- Ø To identify a possible relationship between the evolution of choice and innovation and their drivers
- Ø To identify the most relevant factors that could explain the evolution of choice and innovation

### 3. Case studies

- Ø To complement the quantitative/econometric analysis:
  - ü Analysis of some bulk fresh products (fruit and vegetables, meat)
  - ü Analysis of products close to the agricultural level of the food supply chain (milk, cheese, olive oil)



***Thank you!***