



Some competition issues in the EU grocery sector

Oxford conference-Trends in retail competition

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Part 1: The role of retailers



The Commission study on the EU retail sector

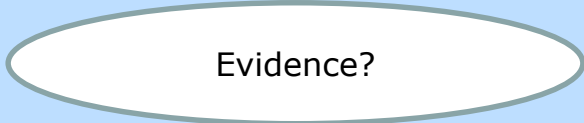
- **Motivation for the study:**
 - **Complaints** at national and EU level argue that large retailers impose detrimental conditions on food suppliers (food manufacturers and farmers) and that this reduces their means to invest, thereby decreasing choice and innovation. But no one checked the data.
- **Objective of the study: to deliver quantitative evidence**
 - Provide facts about the evolution of concentration at the different levels of the supply chain.
 - Identify the possible (positive and negative) drivers of choice and innovation.
- **Key results**
 - ↑ ○ **Competition at local level** (opening of new shops), **expansion of outlets** (store size) and **size of product category** (turnover) drive choice and innovation.
 - ↑ ○ **Economic environment** has positive relationship with choice and innovation.
 - ↑ ○ **More bargaining power for retailers** and **more competition among suppliers** (less concentration) associated with more innovation.
 - ↓ ○ **The proportion of private labels in the product assortment** in a shop and by product category appears to have a negative relationship with innovation.

Why is PL penetration associated with less innovation? Some potential explanations...

- ***Assortment effect theory:*** PL products may be less innovative than brands by nature, and replacing brands with PLs on the shop shelf therefore leads to a less innovative range of products;
- ***Consumer choice theory:*** the study results may be driven by consumer choices and retailers may be simply giving consumers what they demand. Alternatively, consumers may not easily switch between shops, giving retailers little incentive to maintain an innovative product offer;
- ***Crowding-out effect theory:*** increased PL penetration may reduce brands' incentives to innovate, e.g. because they cannot get the scale required to make innovation profitable, or because retailers use PLs to engage in practices such as marketing me-too products that reduce brand incentives to introduce innovation.
- ***Missing piece theory:*** the PL variable used in the study may capture the effect of an unexplained variable not included in dataset, such as variation in stocking policy at store-level that is not measured by retailer format.

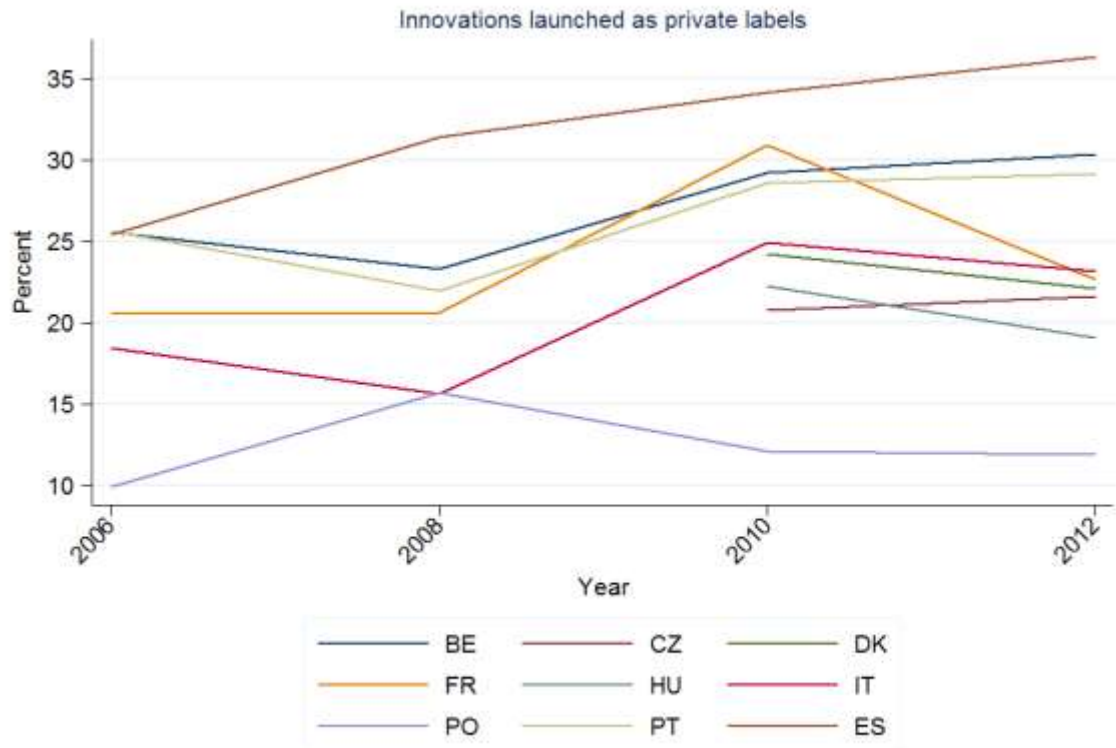
What's your view?

Arguments put forward by industry stakeholders

Theory	Arguments for	Arguments against
<i>Assortment effect</i>	Low-tier (low price) PLs compete with discounters and are less likely to be innovative. [C.F. <i>Missing piece theory</i>]	<p>PLs are innovative - retailers are best-placed to identify consumer needs (e.g. stevia, bio, local). PLs are a quicker and cheaper means of bringing innovation to market.</p> <p>Brands less innovative in numbers (advertising investments)</p>
<i>Consumer choice</i> <i>(i) Consumers don't value innovation</i> <i>(ii) Limited switching</i>	Retailers seek to meet consumer needs and consumers do not always want innovation. Price is the first parameter of competition – hence recent price wars.	<p>Studies (e.g. by Nielsen) show that a large proportion of consumers value innovation and innovating is the key to differentiation.</p> <p>Consumers switch between stores in search of best price/quality/innovation. The Study itself showed that new shops in a local area spur competition/innovation.</p>
<i>Crowding-out effect</i>	Suppliers complain that retailer practices such as discriminatory shelf-placement and look-alike PLs stifle innovation.	<p>Brands are innovating less for other reasons (range rationalisation).</p> <p>PLs complement brands on the shop shelf and do not challenge their position.</p> <p>Retailers use PLs to promote their own brand image so copycat practices would undermine that.</p>
<i>Missing piece</i>	<p>There may be better investment opportunities than launching innovations in the EU market.</p> <p>Economic climate [N.B. this is measured in the study] and local area differences could explain innovation.</p> <p>There are likely to be higher proportions of lower-tier PLs on shop shelves in areas with strong discounter presence.</p>	 <p>Evidence?</p>

Further analysis suggests that a larger number of innovations are launched under MBs than PLs

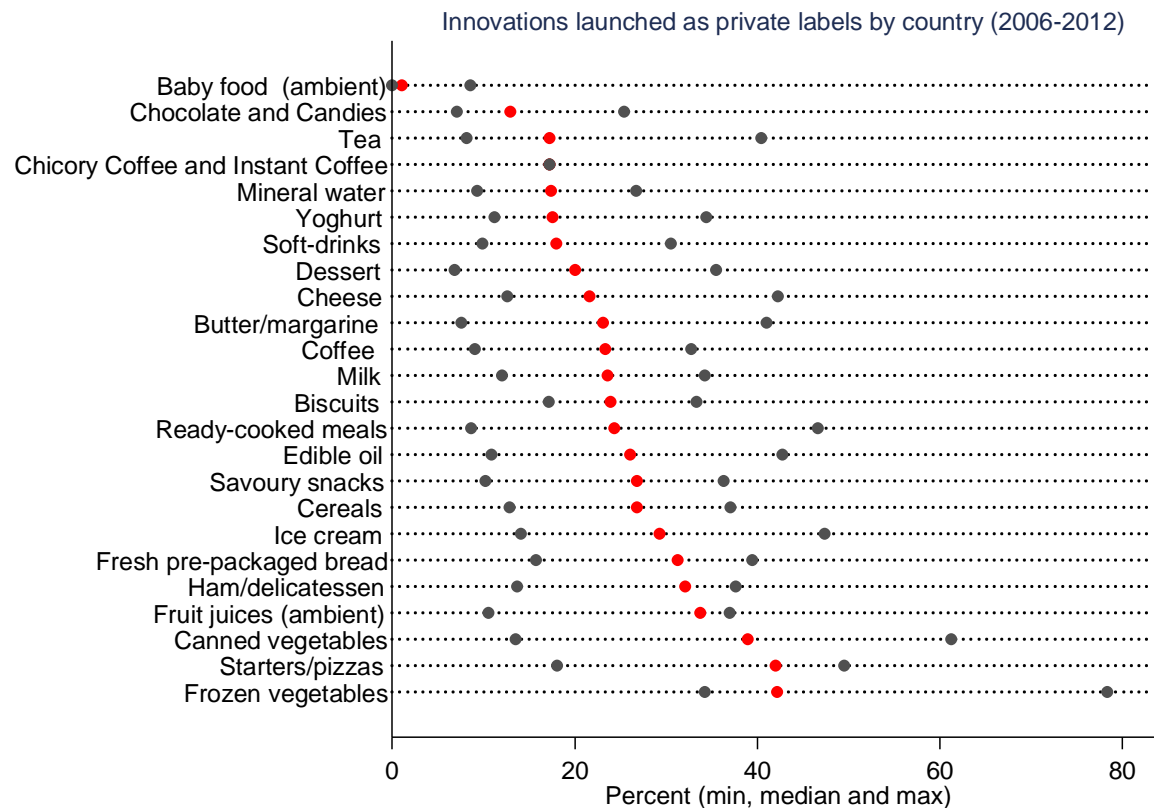
- In most MS, the proportion of innovations launched under PLs is around 20-35% and has increased over the past few years. This supports the argument that **PLs can be innovative**.
- However **more innovations are launched under manufacturer brands**.
- Caveat: The measure of innovation does not distinguish "first to market" innovations.



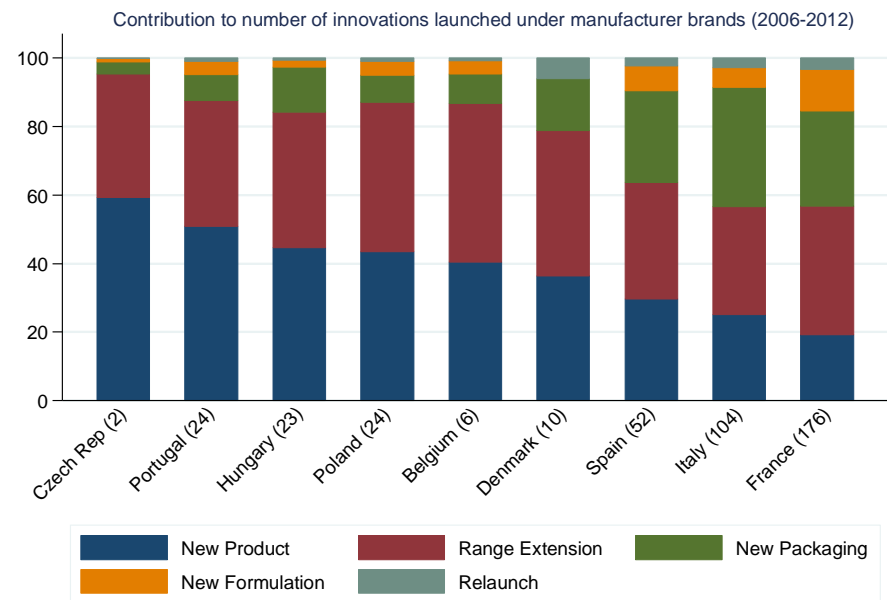
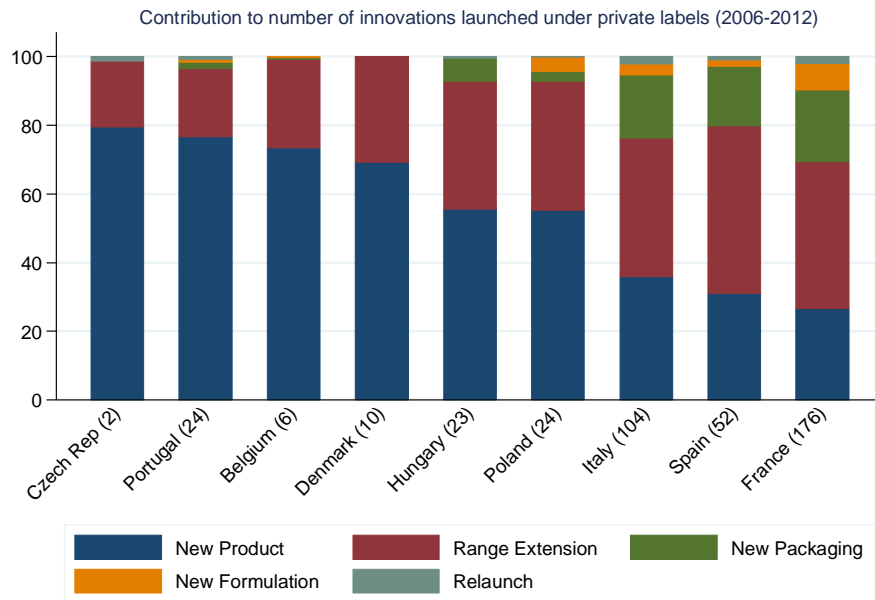
Source: Nielsen Opus innovations

The number of innovations launched under PLs differs widely by product category

- At product category level there is a lot of variation.
- For some categories a substantial amount of innovations are launched under PLs (e.g. more than 40% for frozen vegetables and starters/pizzas).
- For others (e.g. baby food), very few innovations are launched under PLs.
- Caveat: The measure of innovation does not distinguish "first to market" innovations.



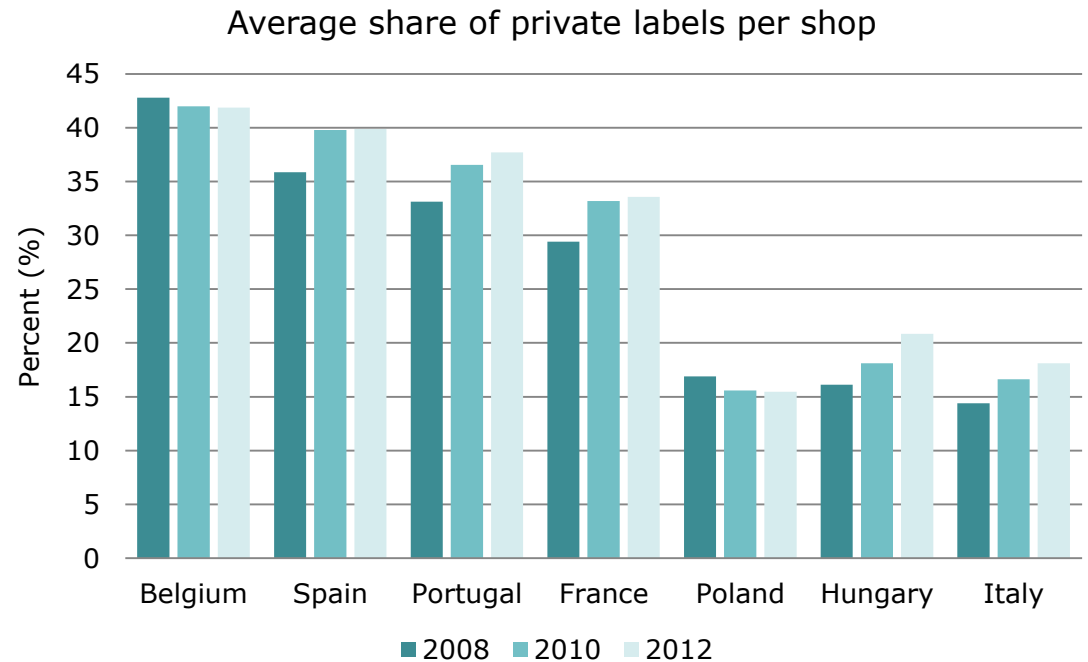
PL innovations more likely to be new products than MB innovations



- For those innovations that could be matched to the Mintel categories of innovation, both PL and brand innovations mainly consisted of new product innovations or range extensions.
- There were a few packaging innovations in France, Italy and Spain in particular.
- Caveat: Not all Opus innovations were matched to the Mintel categories, different sample sizes per MS.

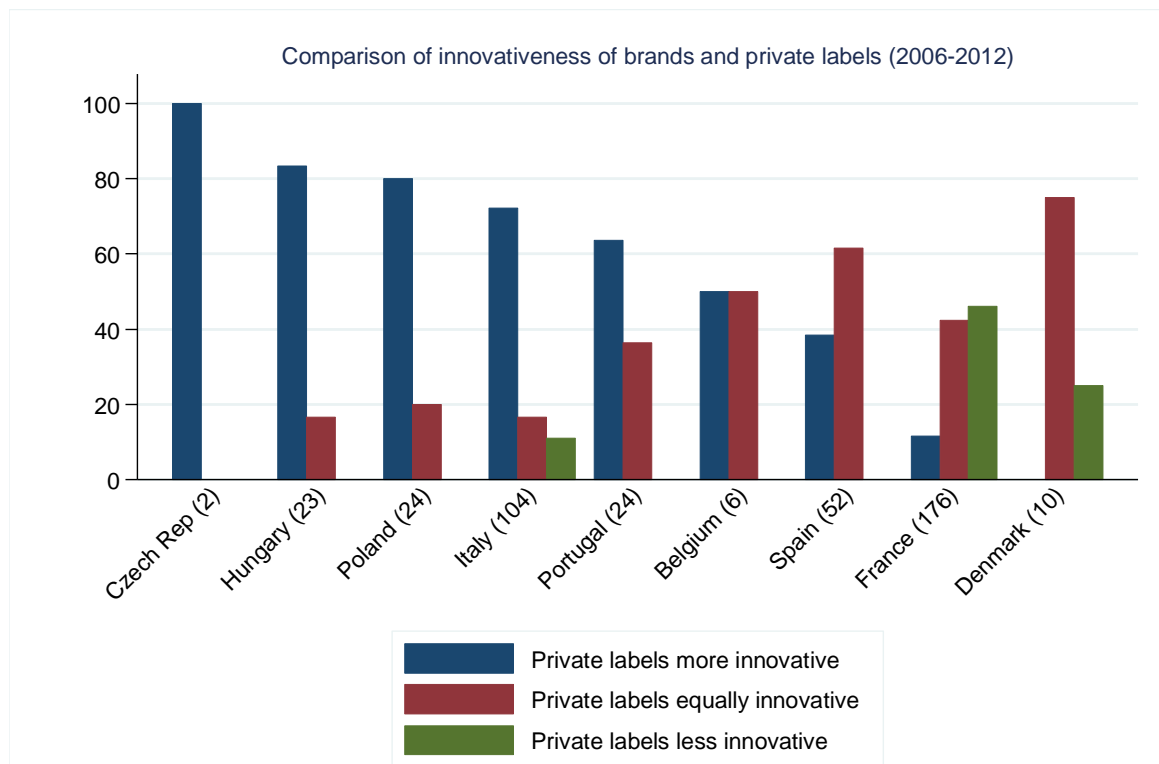
Penetration of PL on shop shelf differs by country – this may affect number of PL innovations

- *For a fair comparison of how innovative PLs and MBs are, we should consider the proportion of each on the shop shelf.*
- *In some MS, PLs are only a very small proportion of products on offer (~15% in PO, HU and IT), so cannot be expected to contribute much to innovation overall.*
- *In other MS, they are much more prevalent (>30% in BE, ES, PT and FR).*



After accounting for shelf space, PLs appear to be equally or more innovative than MBs

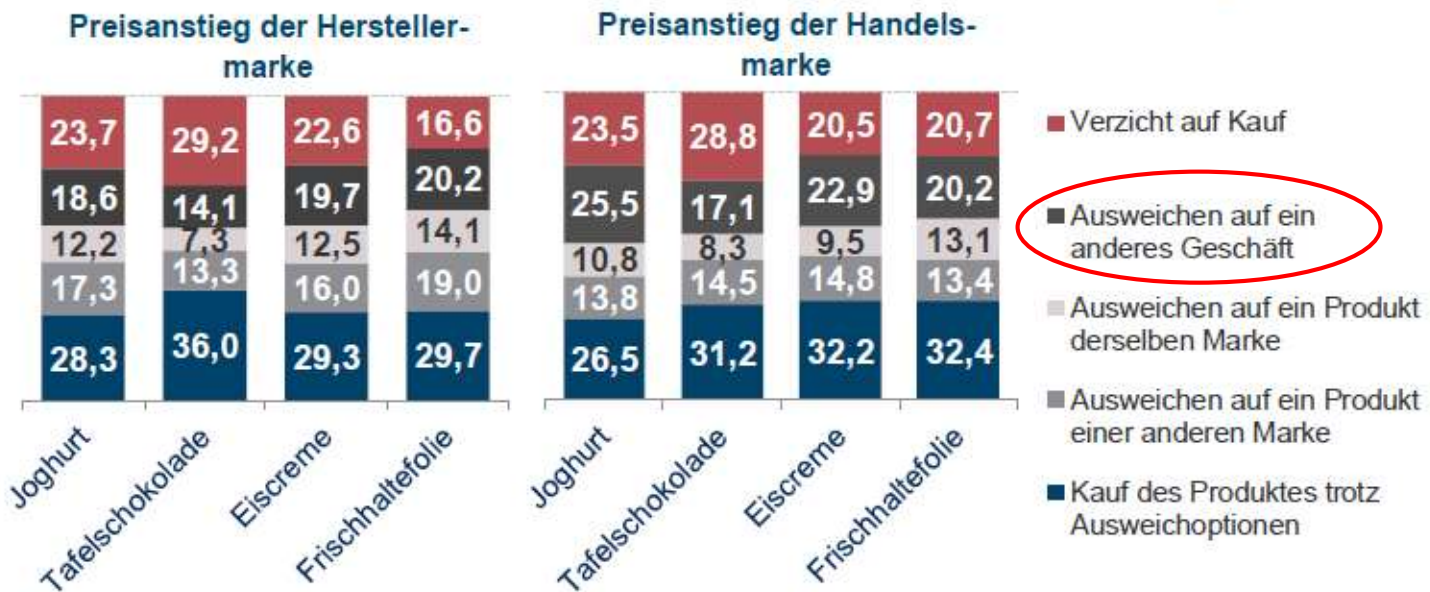
- *After adjusting to account for the proportion of products on the shop shelf, it appears that private labels can be as innovative as (or more innovative than) brands.*
- *Caveat: The measure of innovation does not distinguish "first to market" innovations.*



Source: Nielsen Opus innovations
(Number of shops in sample indicated in brackets)

Consumers do not easily switch shop or product if the price of their preferred product increases

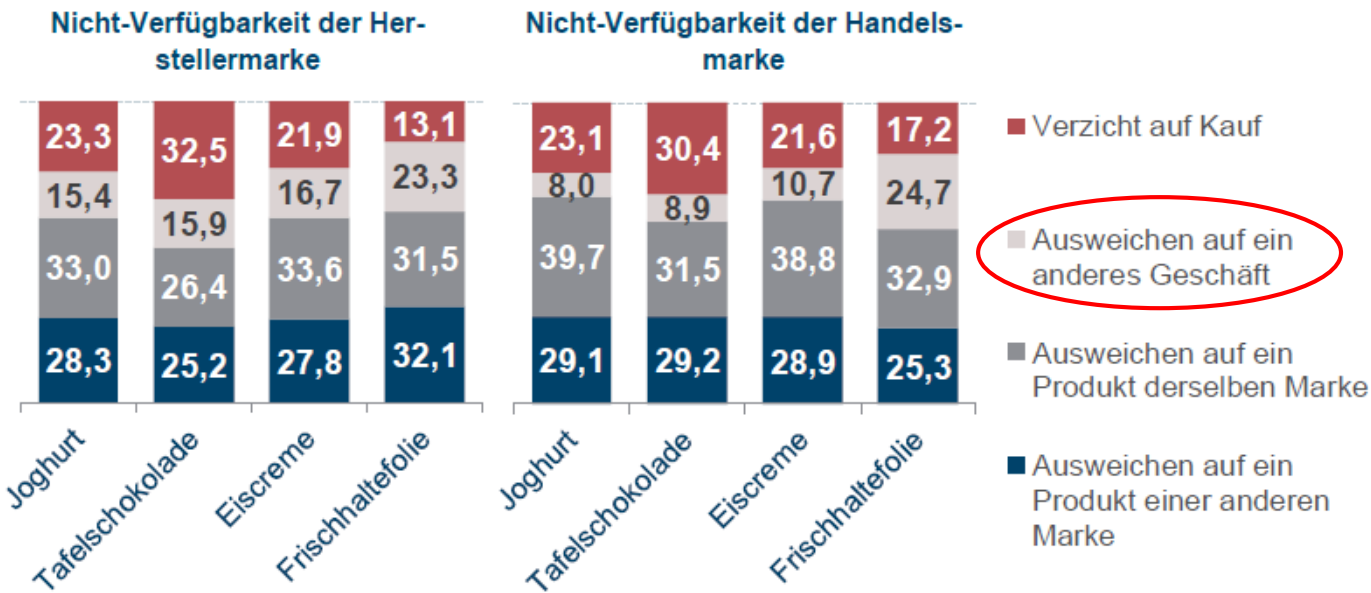
Verbraucherverhalten bei Preiserhöhungen und Preisanstieg



- Consumer survey evidence from Handelsverband Deutschland:
 - Only 14-25% of consumers switch to another store. The rest will continue shopping in the same store.
 - 27-36% will continue buying the product despite the price increase.

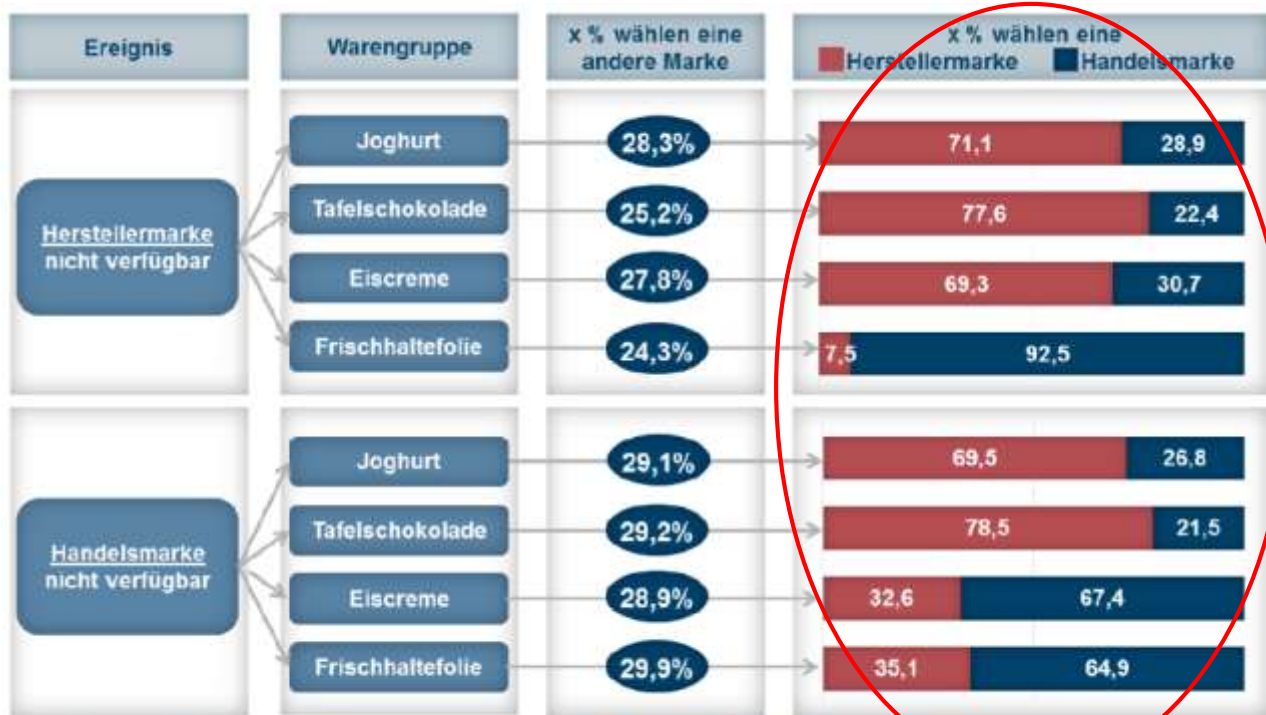
Consumers do not easily switch shop or product even if their preferred product is not available

Verbraucherverhalten bei Nicht-Verfügbarkeit



- Only 8-25% of consumers switch to another store. The rest will continue shopping in the same store.
- 25-40% will switch to another product of the same brand – high brand loyalty.

Loyalty to MBs depends on product category



Quelle: IFH Köln; bevölkerungsrepräsentative Befragung 2013, 58 ≤ n ≤ 388

- For yogurt and chocolate, consumers will tend to stick with branded products.
- For cling-film, consumers are more likely to opt for a private label.
- For ice cream, the picture is mixed.

What can we take from this discussion?

- *In absolute numbers innovation appears to come from manufacturer brands. The data does not suggest that PLs are less innovative however, after taking into account the share of private labels in numbers of products in the category and shop.*
- *Based on evidence in DE, consumers do not switch easily between stores and brands. Do consumers in other Member States behave in the same way?*
- *Yet more analysis needed to test other theories, e.g. "crowding out" effect.*
- *Under certain conditions, if there are retailer practices that limit innovation at market level, this could be a competition concern.*

Part 2: The rise of protectionism



Private initiatives (1)

- *Hungary: In 2012, domestic watermelon producers agreed together with the main supermarkets not to distribute imported watermelons or to distribute them at a minimum price.*
- *France: Agreement between Carrefour and Les Producteurs de Légumes de France excluding vegetable producers from other Member States in early 2015.*



Private initiatives (2)

- *France (2015-2016):*
Commission currently looking into agreements between market participants at various levels of the supply chain in the pork and milk sectors, reportedly aiming to increase prices and restrict imports.
- *Other Member States (2015-2016)*



State initiatives

- *Hungary: law to prevent the sanction of farmers' cartels (repealed in 2015); progressive "food chain inspection fees" which hit large non-Hungarian retailers heavily while domestic retailers who tend to be smaller are exempt. (COMP)*
- *Czech Republic: Food Act adopted obliging retailers to notify authorities of the origin and price of fresh fruit, vegetables and meat imported from within the EU (GROW)*
- *Slovakia: legislation aiming to promote Slovakian farm goods and requiring large retailers to report the percentage of imported goods to the authority and on their websites. (GROW)*
- *Labelling initiatives: several Member States are considering mandatory information about the origin of milk as an ingredient (SANTE)*

Conclusions on protectionism

- *Agreements to limit imports are against EU competition rules: they remove the fair chance given to all farmers by the internal market. By restricting imports, such agreements penalise farmers in other Member States and increase prices for consumers.*
- *State initiatives can also infringe EU internal market and competition rules.*

***Thank you for your
attention!***



Useful links

DG Competition study, "The economic impact of modern retail on choice and innovation in the EU food sector" (October 2014):
http://ec.europa.eu/competition/sectors/agriculture/retail_study_report_en.pdf

Handelsverband Deutschland/IFH study, "Handelsmarken in Deutschland und der EU – eine 360°-Betrachtung" (April 2016):
http://www.einzelhandel.de/images/publikationen/Handelsmarken_in_Deutschland_und_der_EU_-_eine_360_Betrachtung.pdf