



# **Commercial Relations between Food Suppliers and LRG's in Portugal**

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# 1. MAJOR ISSUES

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The commercial relations between large retail groups (LRG's) and their suppliers have been the subject of debate in Portugal for a number of years now, certainly since the 1980's, as they have been in many countries across Europe.

The issue has surfaced again recently with many factors coming together: the continuous growth of LRGs and their private labels; the imbalance in bargaining power between suppliers and LRG's, with suppliers on the downside; the 2003 reform of the Common Agricultural Policy (CAP) to be concluded in 2013; and the recent price volatility for certain foodstuff on international markets.

# 1. MAJOR ISSUES

It was against this backdrop that the Portuguese Competition Authority (PCA) decided to undertake a market study to analyse the commercial relations between food suppliers and food retailers.

This market study required the collection and treatment of a vast amount of data requested from nearly 50 entities (producers, LRG, producers' and retailers' associations, etc) and covering the period 2000-2009. The PCA had meetings with several of these stakeholders as well.

In October 2010 the PCA published its *Final Report*, having published a preliminary version in Dec 2009 which was sent to different shareholders for comments.

# 1. MAJOR ISSUES

In 1985, the previous Directorate-General for Competition and Prices (DGCP) conducted a survey of food suppliers and retailers (including LRG's) on their commercial relations, following several “complaints” about alleged “abusive practices” committed by LRG's.

In July 1997, the *Portuguese Industry Confederation* (CIP in the Portuguese acronym) and the *Portuguese Association of Distributors* (APED in the Portuguese acronym) agreed on the implementation of a Code of Good (Commercial) Practices which they would abide by in their dealings.

However, this Code, may be unsurprisingly, did not eliminate a host of problems that kept being reported by several food suppliers and their associations.

# 1. MAJOR ISSUES

In 1998/1999, the Directorate-General for Commerce and Competition (DGCC in the Portuguese acronym) conducted a new survey of the LRG's and their food suppliers so as to update the 1985 survey and to reevaluate the status of their commercial relations.

This new survey revealed that certain practices identified in the previous survey were still being followed by the LRG's, possibly under different designations but with similar effects.



# 1. MAJOR ISSUES

After its inception in 2003, the PCA initiated a monitoring process on the commercial relations between food suppliers and retailers, resulting in the publication of a few reports including one on *“Buyer power and pass-through of large retailing groups in the Portuguese food sector”*, published in 2006.

Using an instrumental variables panel-based econometric approach applied to purchases and sales data specific to large retailing groups, over 16 quarters from 2000 and 2003, and disaggregated at the brand, product and supplier levels, this report concluded that purchasing pools and vertical agreements lower LRG’s acquisition prices and that these gains tended to pass through (at least partially) to final consumers as lower retailing prices.

# 1. MAJOR ISSUES

In October 2003 the PCA issued a recommendation to the government on the licensing to requirements to open large retailers, with a view of making the licensing procedure less cumbersome and more transparent and verifiable, and insuring their compliance with environmental and urban requirements and regulations.

Finally, the PCA has been quite an active member of the ECN Food Sector Working Subgroup, having followed closely the work carried out both by the European Commission as well as by other NCA's.

# 1. MAJOR ISSUES

There has been a growing concern in many community institutions, among them the European Parliament and the European Commission, regarding moves in prices for foodstuff, and the differential between prices paid to the producer and prices charged to the consumer, tied in with an array of trade practices used in the food distribution sector, along with a range of issues relating to production, supply and distribution of foodstuffs.

As a result, the European Commission published an interim report in December 2008, on the subject of “*Food prices in Europe*”, along with a road map detailing the key guidelines for the political actions to be taken.

# 1. MAJOR ISSUES

In October 2009 the European Commission published a communication entitled “*A better functioning food supply chain in Europe*”, where the Commission outlined specific political initiatives in line with the road map.

More recently, in July 2010, the Commission published the “*Retail market monitoring report*”, in accordance with the new approach to monitoring the market set out in the 2007 document on “*A single market for 21<sup>st</sup> century Europe*”.

# 1. MAJOR ISSUES

In the “*Retail market monitoring report*” the Commission identified three priorities, common to the whole food supply chain, to be followed by member states.

These relate to:

- (i) fostering sustainable market-based relations between all stakeholders in the food distribution chain;
- (ii) increasing transparency along the chain so as to provide an incentive for competition and resilience to price volatility; and
- (iii) encouraging integration and competitiveness in the chain in all member states.

# 1. MAJOR ISSUES

In this context, the issues relating to the growing buyer power of LRG's *vis-à-vis* their suppliers have warranted special focus.

It has been the subject of several studies, carried out not only by the European Commission, including the General Directorate for Competition (DG COMP) and the General Directorate for Agriculture and Rural Development (DG AGRI), but also by member states, either through their competition authorities or their agriculture ministries.

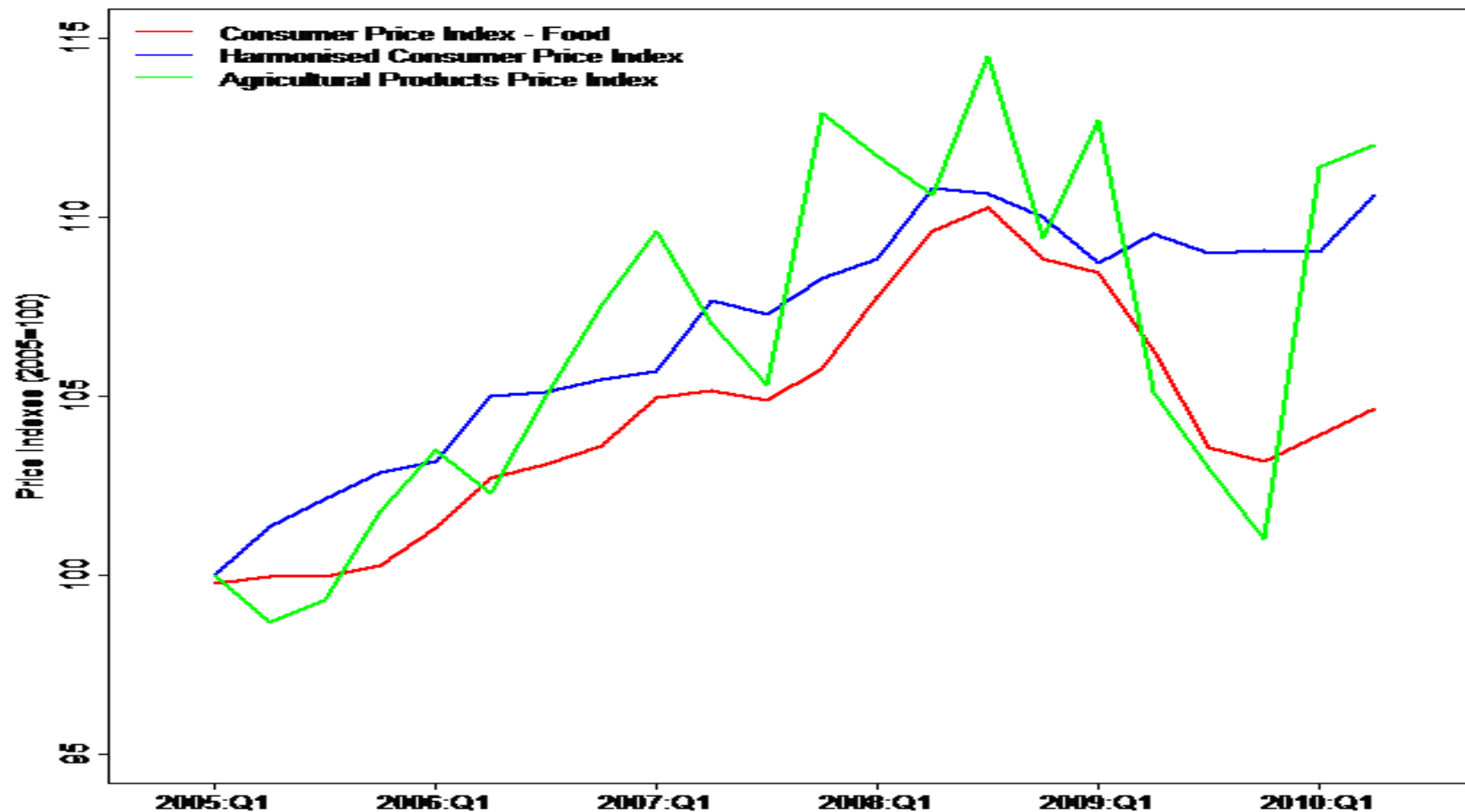
This work has attempted to mesh a range of solutions into the process of European integration and the creation of the single market, as envisaged in the CAP reform of 2003.

# 1. MAJOR ISSUES

The next diagramme compares the quarterly evolution of the **H**armonized **C**onsumer **P**rice Index (HCPI), the **C**onsumer **P**rice Index for **F**ood (CPIF) and the **A**gricultural **P**roducts **P**rice Index (APPI) in Portugal, between the 1st quarter of 2005 and the 2nd quarter of 2010.

The perceived stronger volatility of the APPI is consistent with the concerns expressed by food producers. However, due to seasonality effects, it is not surprising that prices upstream might exhibit greater volatility. Moreover, one ought to be careful in drawing conclusions from such a diagramme since it tells us very little about the way the implicit risk at each stage might be compensated later on, which would have no impact on the final overall risk allocation.

# Quarterly evolution of the HCPI, CPIF and APPI – Q1 2005 to Q2 2010





## 2. PCA FINAL REPORT

## 2. PCA FINAL REPORT

### 2.a. CONTENTS

## 2. PCA FINAL REPORT

### **Contents of the Report:**

0. Summary and main conclusions
1. Recommendations to the government and stakeholders
2. The current debate: historical background
3. Retail sector
4. Upstream supply sector
5. LRG's private labels & pricing strategy
6. Commercial practices between LRG & their suppliers
7. Appendices

## 2. PCA FINAL REPORT

### Contents of the Report (cont.):

The PCA's final report also contains five Appendices, including a review of the economic literature on major concepts such as:

- Private labels versus manufacturer's labels
  - Buyer power
  - Pass-through
  - Waterbed effects
  - Competition assessment of an increasing buyer power
- etc.*

## 2.a. CONTENTS

The PCA's Final Report on the commercial relations between food suppliers and LRG's addressed the following issues:

- Some historical background on the business relations between food suppliers and retailers in Portugal; the continuous expansion of LRG's;
- A characterization of the food supply and distribution stages and of the regulatory framework;
- A characterization of the main issues over contractual and extra-contractual relations between food suppliers and retailers;
- Evolution of gross margins for producers, wholesalers and retailers;
- Concentration ratios and indices along the vertical chain, “buyer power” and economic dependency;
- Private (or own) brands versus manufacturer's (or industry's) brands, and their price evolution over the examined period.

## 2.a. CONTENTS

The work was undertaken under the supervision powers granted statutorily to the PCA.

Moreover, the PCA can issue recommendations to the government and stakeholders, as it did, under its regulatory powers.

## 2. PCA FINAL REPORT

### 2.b. SUPPLY/DISTRIBUTION FMCG

## 2.b. SUPPLY/DISTRIBUTION FMCG

The supply of fast moving consumption goods (FMCG) encompasses all product markets (or baskets of products that can be considered substitutable or relatively homogeneous) supplying firms operating at the distribution level.

Typically, this supply stage lies between the upstream production stage and the downstream distribution stage.

Food suppliers might be producers themselves, selling directly to distributors (as in the case of some fresh produce) or they might be manufacturers, some of them integrated upstream into the production stage.



The term “distribution” is taken to include a range of functions relating to the acquisition of foodstuff from suppliers (fundamentally upstream in the production chain) in order to sell the goods to the consumer.

It is made up, in general terms, by two sets of operations:

- (i) one which is *upstream* of the “wholesale activity” – including cooperatives acting as wholesalers, along with smaller scale operators and wholesale chains. These are the traditional suppliers for small retail outlets (such as grocers, hardware stores, bakers and confectioners, butchers, fishmongers and local markets), as well as a large part of the HORECA channel (hotels, restaurants and cafeterias); and
- (ii) that part of the market which is *downstream*, known as the “retail trade”.

## 2.b. SUPPLY/DISTRIBUTION FMCG

The “retail trade” includes:

- (i) The HORECA channel, as already mentioned, which pick up supplies through the wholesale trade and increasingly from the supplier in the agro-food supply sector;
- (ii) The traditional, atomized, retail trade;
- (iii) The smaller and regional based retail chains; and
- (iv) The LRG's, defined here as the main retail chains with a network of outlets, both small and large (mini-markets, supermarkets and hypermarkets), extending (in fact or potentially) nationwide.

## 2.b. SUPPLY/DISTRIBUTION FMCG

Of all the FMCG in general (food, cleaning, & personal hygiene) *i.e.*, the basket of goods sold in supermarkets, our focus was on some specific goods, namely:

*vegetable & fruits, dairy (milk, cheese, yogurts, & butter), rice & pasta, flours, cookies, & breakfast cereals, vegetable oil (olive oil, vegetable butter & oil), & non-alcoholic drinks.*

## 2.b. SUPPLY/DISTRIBUTION FMCG

Focus on these products is justified:

- (i) by the importance they have in family budgets, given that this selection represents around 40% of household consumption of fast-moving non-durable consumer goods (that is, in the main basket of products sold in supermarkets);
- (ii) by other studies of food and beverages being undertaken in various member states, in the wake of the effects stemming from the crisis that affected the sector in the three-year period 2006 to 2008; and
- (iii) by the fact that a large part of these products or the raw materials from which they derive are covered by intervention through the CAP.

## 2.b. SUPPLY/DISTRIBUTION FMCG

The 9 LRG's operating in Portugal are:

- Sonae (Modelo-Continente, MC)
- Jerónimo Martins (JM, 49% held by Ahold)
- ITMI (Intermarché) (*franchising*)
- Auchan (Pão de Açúcar & Jumbo)
- Lidl
- Carrefour (Dia%/Minipreço)
- E. Leclerc (*franchising*)
- Aldi (since mid 2006)
- El Corte Inglés (Supercor)

Represented 85% of FMCG retail sales in 2008 (79% in 2002), with MC and JM together representing around 42% of the 9 LRG's.

## 2. PCA FINAL REPORT

### 2.c. SUPPLIERS' CONCERNS

## 2.c. SUPPLIERS' CONCERNS

- LRG appeared in Portugal in the 1970's with the major expansion occurring in the 1980's;
  - Discount stores appeared in the 1990's (Lidl) and have continued its expansion in the current decade (Aldi opened its first store in 2006) along with LRG's private labels;
  - Consumer preferences: higher product diversity (all goods in the same store), potentially lower prices, larger and easier parking places, *etc.*;
- ⇒ Fall of traditional trade and of their suppliers (wholesalers)

## 2.c. SUPPLIERS' CONCERNS

- ⇒ Increasing dependence of suppliers on LRG's shelf-space for their products to reach final consumers;
- Suppliers' brands notoriety depends, mostly, on consumers' perception; thus it is essential for them that their brands reach consumers;
- Issue is less relevant in sectors where suppliers have alternative channels to LRG (*v.g.*, non-alcoholic drinks to the HORECA channel).



## 2.c. SUPPLIERS' CONCERNS

- However, this may change in the long-run:
  - Fall of wholesalers and increase in LRG's competitiveness will imply HORECA may buy from LRG rather than from suppliers, thus leaving fewer alternatives to the latter;
  - HORECA might even start buying LRG's private labels in case they become sufficiently important for consumers w.r.t. industry's own brands;
- ⇒ Current issue may become more important in the long-run.

## 2.c. SUPPLIERS' CONCERNS

- ✓ Growing importance of LRG's for suppliers;
  - ✓ Competition among suppliers and their brands (MDI) to access LRG's shelf-space;
  - ✓ Competition between suppliers' MDI and LRG's MDD over shelf-space;
  - KEY: LRG influence suppliers' prices through their buyer power, the allocation of their shelf-space, and by setting final prices to consumers of their own MDD and suppliers' MDI;
- ⇒ Intensify conflicts between suppliers and LRG's.

## 2.c. SUPPLIERS' CONCERNS

- Moreover, general (informal) complaints from suppliers on LRG's unilateral practices:
  - ✓ Unfair trading practices, including not respecting the agreed payment deadlines (in spite of these being often quite long);
  - ✓ increasing concentration of LRG's in retail sales & as upstream customers to suppliers (v.g., the recent mergers Sonae/Carrefour-hypers, Dec/07 and JM/Tengelmann-Plus, Apr/08) ⇒ increasing buyer power
- Also addressed by other competition agencies & by the EC (v.g., EC Reports on the Food Supply Chain, Oct/09, & on the Retail Sector, July/10)

## 2.c. SUPPLIERS' CONCERNS

- ✓ Large rebates, some with retroactive effects;
- ✓ Payment delays;
- ✓ LRG's private labels (MDD), look-alikes & copycat;
- ✓ Large slotting fees for shelf-space;
- ✓ Increasing % of shelf-space allocated to MDD, a larger % than their market share;
- ✓ Large risk-sharing loans for LRG's investment needs (v.g., promotions & opening of new stores);
- ✓ Unjustified retrieval of suppliers' own brands (MDI) from shelves;
- ✓ Non compliance of pre-paid reposition services.

## 2.c. SUPPLIERS' CONCERNS

More succinctly, there are overall four areas where the imbalance between food suppliers and LRG's would seem to be more acute:

- (i) the unilateral imposition of contract conditions (that is, negotiations within a pre-set purchasing agreement);
- (ii) discounts and related mechanisms;
- (iii) penalties; and
- (iv) payment terms.

## 2. PCA FINAL REPORT

### 2.d. RECOMMENDATIONS

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Major task of the PCA:

- Competition law assessment under “prohibited practices”, art. 4 & 6, similar to art. 101 & 102 TFEU resp.; & art. 7 (“abuse of economic dependency”). But *sine qua non* condition of a significant harm to competition;
- “Restrictive Commercial Practices” (DL 370/93), notably, on “sales below cost” & “abusive bargaining practices”: individual practices, do not require a harm to competition.

## 2.d. RECOMMENDATIONS

Yet, most of the practices do not fall under these legislations, thus:

- As mentioned, on the use of its regulatory powers the PCA can draw specific recommendations to the government & the parties (as it did) in order to promote a better balance of bargaining powers between LRG and their suppliers, but only insofar they contribute to improving competition and consumer welfare.



## 2.d. RECOMMENDATIONS

Briefly, the PCA has recommended:

- The reinforcement of the sector's self-regulation by bringing more legal force to the existing "Code of Conduct" between the LRG's association (APED) and the industry (CIP), signed in 1997;
- The Government to set-up a Committee in order to promote a better regulation of unfair commercial practices which do not fall under the attributions of the PCA or the latter Code of Conduct;
- Promote the collection, treatment & dissemination of statistical data along the food supply chain

## 2.d. RECOMMENDATIONS

Additionally:

- Reinforce supervision of “restrictive commercial practices” (by the ASAE);
- Promote measures which encourage the opening of traditional shops in local markets;
- Analyze the impact of ‘look-alike’ and ‘copycat products’, by an independent consultant;
- Prioritize the transposition to domestic legislation of the EC Directive on payment terms for commercial transactions;
- Proactive participation of domestic agencies on the EC monitoring of the food supply chain.

## **3. CONCLUSIONS**

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- In most food products (& FMCG, in general), LRG are becoming gatekeepers on the access of suppliers' brands to final consumers
  - LRG influence suppliers' prices through their buyer power (BP) – together with unilateral “unfair practices” which lower those prices –, manage their shelf-space & set prices to final consumers
- ⇒ Unfair practices may be difficult to assess under competition law or specific sector's regulations
- ⇒ The rising LRG's concentration is potentially a future concern

### 3. CONCLUSIONS

- Future concerns & conflicts “LRG vs suppliers” intensified by growth of MDD, look-alikes & copycats which pull consumers away from industry’s brands, pushing these out of the market
- ⇒ Concerns for future innovation as well as for product diversity & quality
- ⇒ A rising BP & potential fewer alternatives to suppliers other than LRG suggest a stronger future concern than today (even in the presence of downstream competition between LRG)

### 3. CONCLUSIONS

- ⇒ Although the New EC Guidelines on Vertical Restrictions put more emphasis on seller power than on BP, this latter may become sufficiently significant in the future for it not to be seen *a priori* as pro-competitive as it is today
- ⇒ Important to keep on monitoring LRG's growth & issue specific regulations allowing for more balanced relations between the industry & LRG, insofar as these contribute to improving competition & consumer welfare

# APPENDICES

## A. LRG's: CUSTOMERS & SUPPLIERS



## A. LRGs: CUSTOMERS & SUPPLIERS

A.1. LRG in retail sales of FMCG

A.2. LRG's concentration as buyers in the upstream supply sector of FMCG

A.3. Is LRG's shelf-space an essential facility for suppliers?

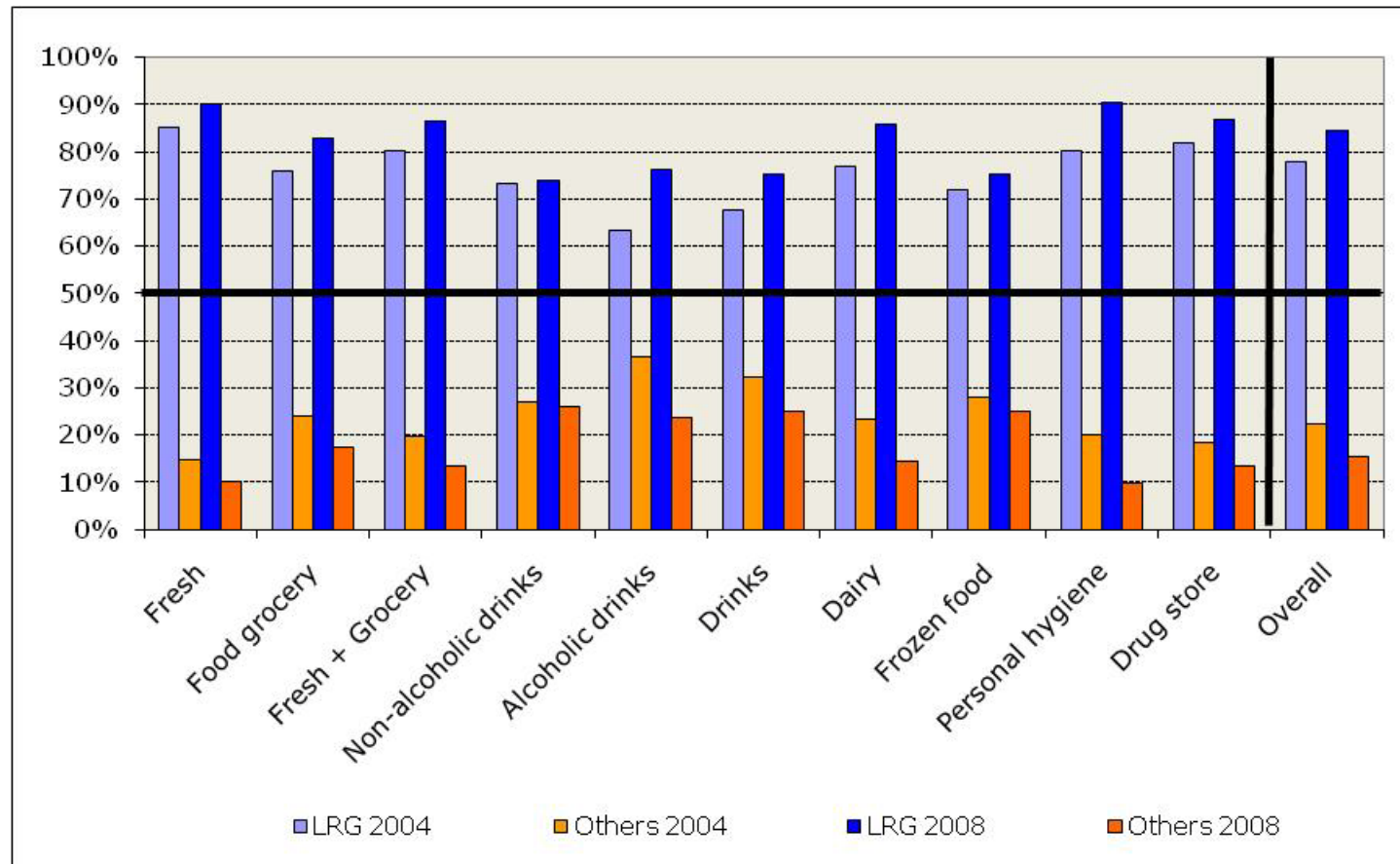
## A.1. LRGs: CUSTOMERS & SUPPLIERS

- In 2008, AdC estimates reveal a total retail sales value of €M 12,154 (7,3% of domestic GDP), a 30% rise since 2004 (€M 9,346, 6,5% of GDP)
- In 2008, LRG have 57,000 employees (39,000 in the major 2, MC + JM), a 63% rise w.r.t. 2004
- Of retail sales, LRG account for 79% in 2002 (€M 7.246) & 85% in 2008 (€M 10.276)
- Worldwide, the 3 largest LRG: Wal-Mart, Carrefour, & Metro AG have a 2008 turnover of €M 288,312, €M 91,944, & €M 71.139 resp.

- In retail sales, LRG's HHI evolved from 1160 in 2002 to 1305 in 2008 (rather competitive)
- The major 2 (MC + JM) represented 41% in 2002 & 42% in 2008
- From 2004 to 2008, LRG's stores rose from 1017 to 1486 & their aggregated selling area from 1,2 millions m<sup>2</sup> to 1,7 millions m<sup>2</sup> resp.
- In spite of a slight fall of sales/m<sup>2</sup>, from € 6138 in 2004 to € 5861 in 2008

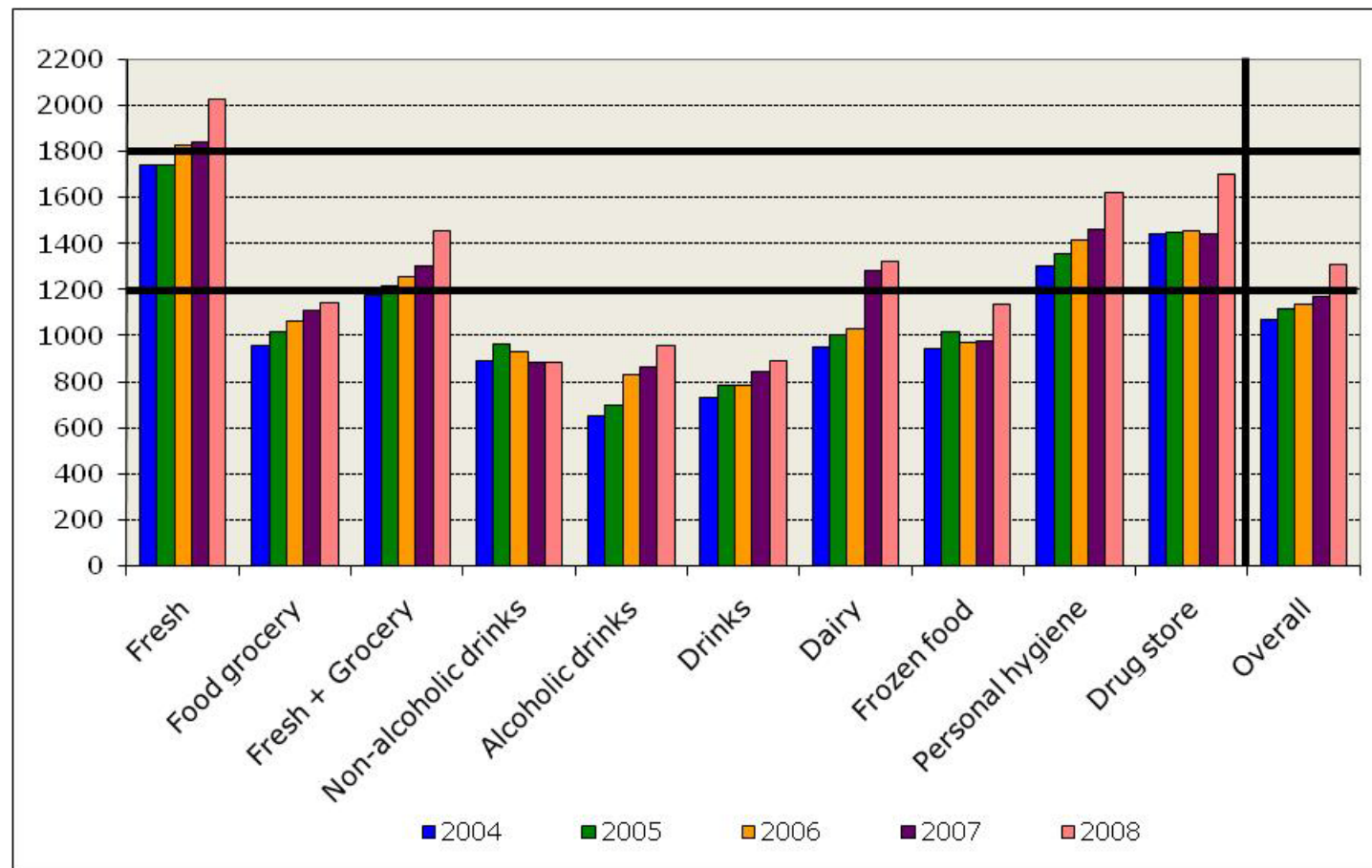
## A.1. LRGs: CUSTOMERS & SUPPLIERS

Growth of LRG common across all FMCG categories



## A.1. LRG in retail sales

As well as of their HHI (exc. non-alc. drinks)



## A.2. LRG & purchasing pools

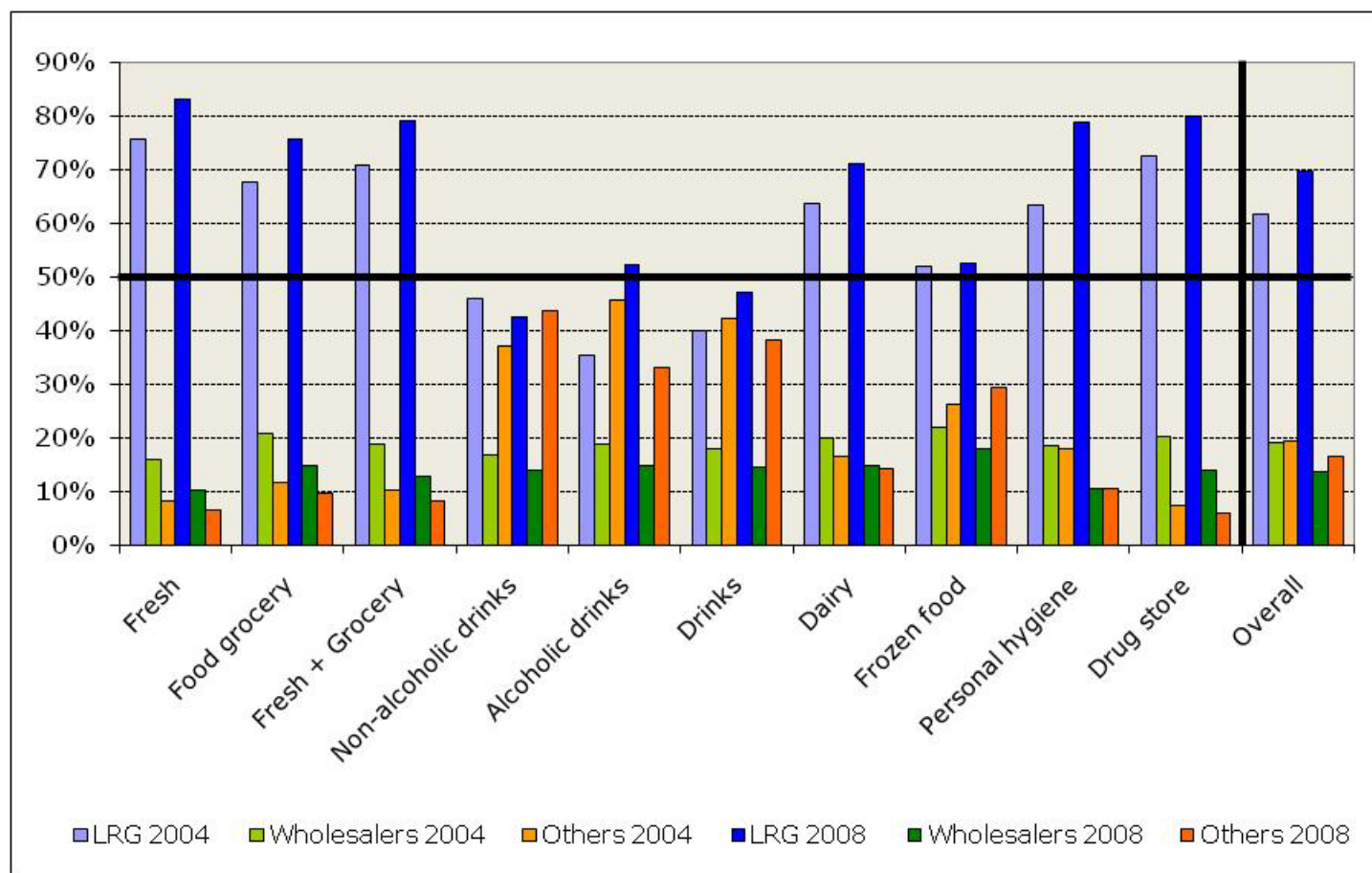
- The Report further included comments on the competition assessment of purchasing pools, with a special emphasis on the pros and cons of buyer power & on the required *ex ante* anti-competitive and pro-competitive nature of selling and purchasing agreements respectively.

## A.2. LRG as buyers

- 56% in 2002 (€M 5.823) to 70% in 2008 (€M 8.122), HHI from 1269 to 1015 resp.
  - Only in fresh products, LRG's HHI as buyers is larger than 1800 & only in 2008
  - In contrast, wholesalers' share falls from 23% in 2002 to 14% in 2008 & that of the remaining customers falls from 21% in 2002 to 16% in 2008
- ⇒ Thus suppliers tend to have fewer alternatives to LRG, except in "non-alcoholic drinks" & "frozen food" where LRG's purchasing shares slightly fell w.r.t. to the HORECA's

## A.2. LRG as buyers

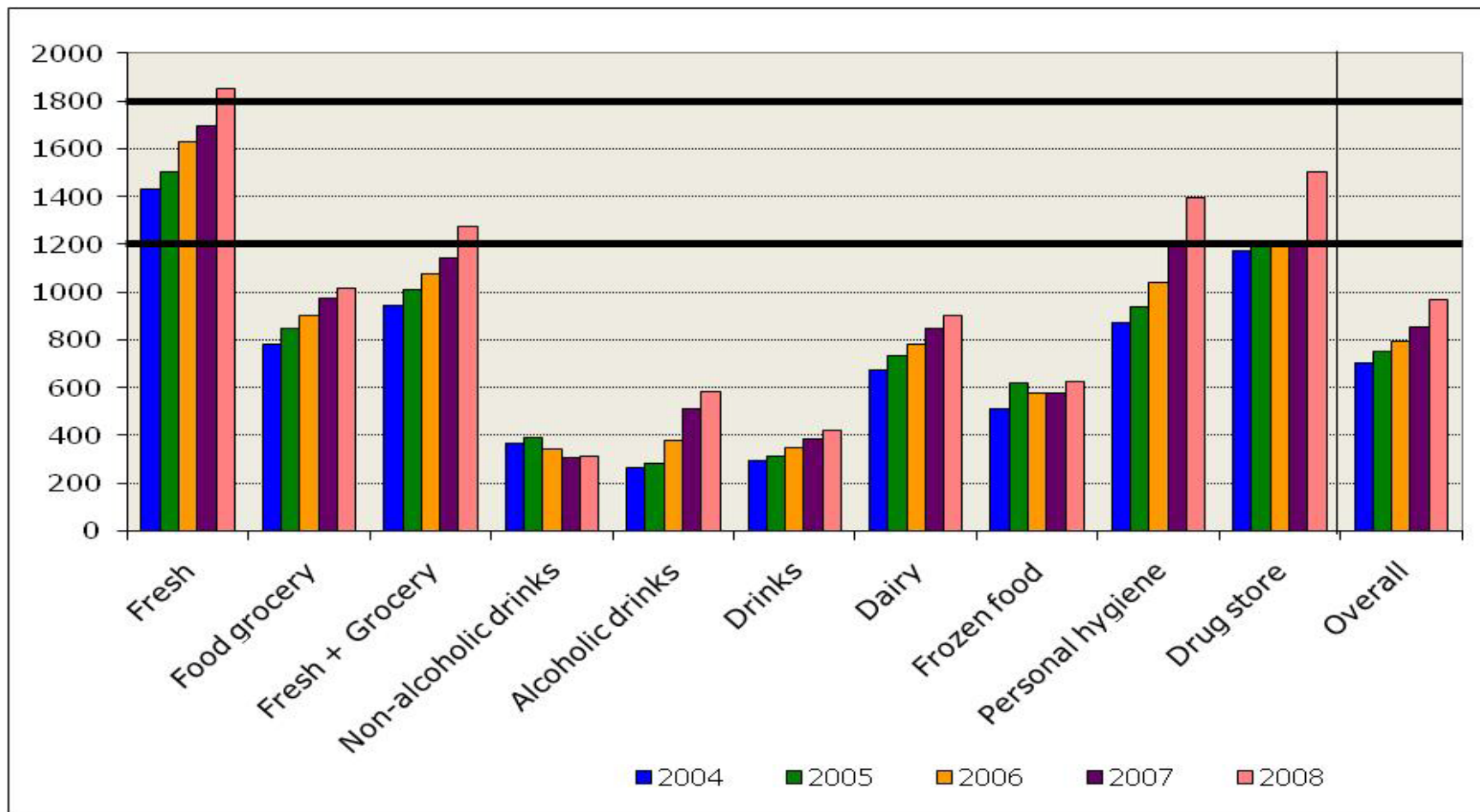
### Buyer's shares in the FMCG supply sector





## A.2. LRG as buyers

### LRG's HHI in the FMCG supply sector



## A.3. LRG's space: essential facility?

- LRG are becoming gatekeepers on the access of suppliers' own brands to final consumers (exc. non-alcoholic drinks & frozen food)
- Yet, although they account for more than 2/3 of total purchases in the FMCG supply sector, they do not act alone, but as 9 separate groups
- Would require "collective dominance" which does not seem to be the case in Portugal (v.g., strong competition between LRG)
- However, possible long-run issue given the increasing concentration of LRG!

## B. SUPPLY OF SPECIFIC PRODUCTS

## B. SUPPLY OF SPECIFIC PRODUCTS

Considered products:

- ✓ Vegetable & fruits (henceforth “fresh”)
- ✓ Dairy: UHT milk, cheese, yogurts, & butter
- ✓ Rice & pasta
- ✓ Flours, cookies, & breakfast cereals
- ✓ Olive oil, vegetable oil, & vegetable butter
- ✓ Non-alcoholic drinks (juice & soft drinks; coffee & coffee-related)

Circuit: production – supply – LRG – final consumers

Measures of market power:

- LRG operate in a 2-levels market: upstream as buyers & downstream as sellers
- Downstream, they manage shelf-space & sell MDD (their own labels) & MDI (industry's brands)
- Suppliers sell MDI & produce MDD
- MDI compete with MDD on accessing LRG's shelf-space  $\Rightarrow$  we assume MDI & MDD belong to the same market in the upstream supply-side

## B. SUPPLY OF SPECIFIC PRODUCTS

Measures of market power:

- LRG's buyer power (BP) depends on their total purchases of MDI & MDD
- Suppliers' seller power (SP) depends solely on their sales of MDI, being down-weighted by their "sales" of MDD
- We measure "relative SP" (RSP) by the ratio:

$$\text{RSP} = \frac{\text{HHI suppliers' sales of MDI}}{\text{HHI LRG's purchases (MDI + MDD)}}$$

With "relative BP" (RBP) being the inverse of RSP

### Results:

- RBP is rising w.r.t. relative suppliers' power (RSP) in all of the products considered, with the single exception of non-alcoholic drinks where it is stable in the considered period (2004-2008)
- $RSP < 1$  (in favor of LRG or of a  $RBP > RSP$ ) for some products in 2007-2008 & for the "fresh" category all over the considered period

### What does this suggest?

- RBP depends on whether or not suppliers have alternative channels to LRG (*v.g.*, the way the upstream side of the market is defined in purchasing agreements – EC Communication on horizontal agreements), more than on:
  - ✓ LRG's concentration on purchases;
  - ✓ Growth of LRG's MDD; &
  - ✓ Degree of LRG's purchases abroad (EU & imports)
- Yet, these factors do also contribute to rising BP



## B. SUPPLY OF SPECIFIC PRODUCTS

Some examples: (i) RBP in “fresh” category

	2004	2005	2006	2007	2008
<b>LRG's purchases (€M)</b>	<b>113.3</b>	<b>134.6</b>	<b>165.7</b>	<b>181.1</b>	<b>173.9</b>
LRG's share	75.7%	77.9%	78.6%	80.9%	83.2%
HHI	1738	1517	1713	1791	1779
CR1	30%-40%	25%-35%	30%-40%	30%-40%	30%-40%
CR2	51.5%	46.4%	50.6%	52.3%	53.6%
CR3	66.6%	62.2%	63.2%	64.6%	64.8%
CR4	72.5%	69.2%	68.7%	70.4%	72.1%
<b>MDD</b>	<b>7.3%</b>	<b>5.6%</b>	<b>11.3%</b>	<b>11.1%</b>	<b>9.1%</b>
<b>External origin</b>	<b>24.3%</b>	<b>15.0%</b>	<b>9.2%</b>	<b>10.2%</b>	<b>10.4%</b>
Relative SP	2004	2005	2006	2007	2008
<b>R_HHI</b>	<b>0.366</b>	<b>0.263</b>	<b>0.225</b>	<b>0.190</b>	<b>0.169</b>
R_CR1	0.464	0.355	0.250	0.189	0.174
R_CR2	0.557	0.400	0.314	0.257	0.221
R_CR3	0.549	0.419	0.360	0.308	0.272
R_CR4	0.594	0.451	0.429	0.371	0.323
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<b>R_CR9</b>	<b>0.821</b>	<b>0.645</b>	<b>0.654</b>	<b>0.601</b>	<b>0.529</b>

## B. SUPPLY OF SPECIFIC PRODUCTS

Some examples: (ii) RBP in UHT milk

LRG's purchases	2004	2005	2006	2007	2008
UHT milk (€M)	343.9	345.3	372.9	423.4	537.9
HHI	776	889	973	1080	1146
CR1	15%-25%	15%-25%	15%-25%	15%-25%	20%-30%
CR2	30.3%	33.0%	35.1%	38.2%	41.3%
CR3	42.4%	45.4%	47.0%	51.3%	53.6%
CR4	52.3%	56.4%	58.0%	60.6%	63.2%
MDD	40.2%	40.3%	40.8%	40.8%	41.4%
External origin	10.0%	5.8%	4.6%	8.3%	12.2%
Relative SP	2004	2005	2006	2007	2008
R_HHI	4.410	4.049	3.464	3.309	2.133
R_CR1	3.492	3.009	2.621	2.696	1.951
R_CR2	2.015	1.888	1.713	1.656	1.319
R_CR3	1.495	1.410	1.326	1.285	1.107
R_CR4	1.249	1.164	1.107	1.110	0.974

## B. SUPPLY OF SPECIFIC PRODUCTS

Some examples: (iii) RBP in Rice & Pasta

LRG's purchases	2004	2005	2006	2007	2008
<b>Rice &amp; Pasta (€M)</b>	<b>100.8</b>	<b>93.8</b>	<b>101.3</b>	<b>131.8</b>	<b>177.6</b>
<b>Food Grocery</b>	<b>67.6%</b>	<b>70.4%</b>	<b>73.3%</b>	<b>75.6%</b>	<b>75.6%</b>
HHI	915	1006	1013	1215	1221
CR1	15%-25%	15%-25%	15%-25%	20%-30%	20%-30%
CR2	35.7%	37.5%	35.0%	40.4%	39.4%
CR3	45.9%	47.4%	47.1%	52.0%	53.1%
CR4	54.4%	56.9%	58.2%	63.4%	66.1%
<b>MDD</b>	<b>18.2%</b>	<b>19.6%</b>	<b>22.4%</b>	<b>25.6%</b>	<b>32.0%</b>
<b>External origin</b>	<b>0.8%</b>	<b>0.9%</b>	<b>0.8%</b>	<b>0.7%</b>	<b>1.5%</b>
Relative SP	2004	2005	2006	2007	2008
<b>R_HHI</b>	<b>1.512</b>	<b>1.246</b>	<b>1.110</b>	<b>0.793</b>	<b>0.732</b>
R_CR1	1.207	1.002	1.060	0.687	0.750
R_CR2	1.188	1.036	1.164	0.860	0.900
R_CR3	1.308	1.140	1.130	0.919	0.911
R_CR4	1.294	1.204	1.059	0.935	0.852

## B. SUPPLY OF SPECIFIC PRODUCTS

Some examples: (v) RBP in Olive oil

LRG's purchases	2004	2005	2006	2007	2008
Olive oil (€M)	108.3	119.0	150.9	125.8	144.2
HHI	845	906	988	1092	1150
CR1	10%-20%	10%-20%	15%-25%	15%-25%	15%-25%
CR2	31.9%	31.6%	34.4%	36.0%	38.4%
CR3	43.4%	45.3%	47.2%	49.9%	52.5%
CR4	53.0%	54.7%	56.5%	59.9%	60.7%
<b>MDD</b>	<b>24.3%</b>	<b>29.1%</b>	<b>31.9%</b>	<b>28.5%</b>	<b>33.8%</b>
<b>External origin</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>3.9%</b>
Relative SP	2004	2005	2006	2007	2008
<b>R_HHI</b>	<b>2.312</b>	<b>1.986</b>	<b>1.740</b>	<b>1.842</b>	<b>1.618</b>
R_CR1	1.889	1.807	1.690	1.644	1.461
R_CR2	1.936	1.887	1.687	1.739	1.569
R_CR3	1.519	1.381	1.307	1.301	1.186
R_CR4	1.312	1.192	1.118	1.121	1.052

## B. SUPPLY OF SPECIFIC PRODUCTS

Some examples: (vi) RBP in Vegetable oil & butter (VOB)

LRG's purchases	2004	2005	2006	2007	2008
<b>VOB (€M)</b>	<b>134.8</b>	<b>129.2</b>	<b>134.7</b>	<b>148.6</b>	<b>193.3</b>
HHI	886	1012	1121	1345	1366
CR1	15%-25%	15%-25%	20%-30%	25%-35%	25%-35%
CR2	33.4%	35.4%	37.1%	41.6%	44.0%
CR3	44.0%	46.8%	48.7%	53.1%	54.8%
CR4	54.1%	57.4%	60.0%	64.2%	65.4%
<b>MDD</b>	<b>11.4%</b>	<b>12.0%</b>	<b>13.8%</b>	<b>18.2%</b>	<b>19.9%</b>
<b>External origin</b>	<b>2.3%</b>	<b>1.2%</b>	<b>1.6%</b>	<b>2.1%</b>	<b>3.3%</b>
Relative SP	2004	2005	2006	2007	2008
<b>R_HHI</b>	<b>4.085</b>	<b>3.327</b>	<b>2.857</b>	<b>2.337</b>	<b>1.668</b>
R_CR1	2.538	1.901	1.759	1.570	1.283
R_CR2	2.518	2.312	2.149	1.870	1.500
R_CR3	1.945	1.781	1.671	1.495	1.316
R_CR4	1.597	1.474	1.380	1.246	1.143

## B. SUPPLY OF SPECIFIC PRODUCTS

Some examples: (vii) RBP in Non-alcoholic drinks

	2004	2005	2006	2007	2008
<b>LRG's purchases (€M)</b>	<b>406.1</b>	<b>427.7</b>	<b>463.3</b>	<b>497.8</b>	<b>488.8</b>
<b>LRG's overall share</b>	<b>46.1%</b>	<b>48.3%</b>	<b>45.3%</b>	<b>43.0%</b>	<b>42.4%</b>
HHI	942	1008	1078	1143	1276
CR1	15%-25%	5%-15%	5%-15%	5%-15%	5%-15%
CR2	28.2%	22.7%	21.7%	20.5%	20.5%
CR3	35.6%	30.9%	29.2%	28.5%	28.5%
CR4	42.8%	38.8%	36.5%	35.2%	34.5%
<b>MDD</b>	<b>7.1%</b>	<b>9.9%</b>	<b>11.7%</b>	<b>16.1%</b>	<b>19.1%</b>
<b>External origin</b>	<b>5.5%</b>	<b>6.1%</b>	<b>7.1%</b>	<b>9.0%</b>	<b>12.4%</b>
Relative SP	2004	2005	2006	2007	2008
<b>R_HHI</b>	<b>1.473</b>	<b>1.288</b>	<b>1.054</b>	<b>0.916</b>	<b>0.769</b>
R_CR1	1.001	1.344	1.428	1.530	1.660
R_CR2	1.342	1.579	1.657	1.666	1.595
R_CR3	1.525	1.711	1.685	1.632	1.557
R_CR4	1.596	1.707	1.666	1.654	1.615

## C. PRIVATE LABELS & PRICING STRATEGY

## C. PRIVATE LABELS & PRICING

- Increasing sales of MDD by LRG over the last two decades. Represent today 29% of FMCG's sales
- MDD are not just low quality & low price products anymore: we witness a rise in the 3<sup>rd</sup> & 4<sup>th</sup> generation MDD
- LRG promote MDD with 2 major objectives:
  - a) Improve their competitiveness as buyers & as sellers; &
  - b) Increase consumer's loyalty to their stores



- 2 major effects from MDD:
  - a) Higher degree of substitutability between products & between MDD & MDI; and
  - b) Market expansion
- Some suggestion of possible cross-subsidization of MDD by MDI (industry's labels)
- Increased use of shelf-space by MDD, by displacing lower quality MDI
- ⇒ Issue is what may happen in the future once the demand for MDD matures in a significant way (effect on product innovation, diversity, *etc.*)?

**Thank you.**

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