



The economic impact of modern retail on choice and innovation in the EU food sector

AIM/FoodDrinkEurope comments on the study commissioned by DG Competition of the European Commission

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Executive Summary

The study must be seen in a context of further consolidation of an already highly concentrated EU modern retail sector, including through a growing web of buying groups and retail alliances whose members include many of the largest retailers in Europe (see Annexes 1 and 2).

It is a commendable longer term attempt by the Commission to understand the retail sector and apply conclusions to specific competition issues. It is therefore critical to have a full understanding of the strengths and weaknesses of the approach.

The key findings of the study can be summarized as follows:
(note: in moderately concentrated retail markets)

- Choice, defined by the number of product references available, has generally increased.
- Innovation, defined by the number of new product references available, increased up to 2008 then fell - the authors attribute this to the crisis.
- Trends in retail concentration varied: it has either increased or fallen.
- Supplier concentration has generally increased.
- On the whole, the study finds no clear imbalance of power either way between suppliers and retailers.
- The impact of retailer concentration on innovation is unclear.
- Increased concentration of suppliers may be associated with decreased innovation.
- An increase in the bargaining power of retailers may be associated with increased innovation.
- A statistically and economically significant negative relationship exists between private label penetration and innovation. Moreover, as the relationship is non-linear, the higher the private label penetration, the steeper the decline in innovation.

As we will show in our comments, some of those findings are not sufficiently robust to be considered conclusive. The key reasons for this, in order of importance, are as follows:

- The econometric part of the study does not include any of the countries with high levels of retail concentration, so is highly imbalanced (see Section 2). This is of concern because negative impacts on choice and innovation may be particularly likely to occur in countries with highly concentrated retail markets. The fact that all these markets have been excluded from the econometric part of the study may therefore seriously bias the results of the study.
- The measures used to assess both supplier and retailer concentrations are flawed (see Section 3). The authors excluded all private labels from the analysis of supplier concentration although in some categories they represent more than half of the market. However, retailers increasingly compete with brand manufacturers in all categories and all segments, including premium,

with their own brands. This is healthy when competition is on merits, but much less so when the retailer's conflict of interests as customer and competitor leads to specific unfair trading practices and free-riding which are detrimental to innovation.

- As a result, an increase of private label share leading to the exit of some branded suppliers from the market is interpreted as an increase in brand supplier concentration, whereas it reflects, on the contrary, a greater imbalance in favour of retailers (see milk case study in Annex 3 and olive oil case in Annex 4).

In addition, the measure of retail concentration does not take into account buying groups.

As the measure of imbalance of bargaining power used in the study relies on the comparison of supplier concentration and retailer concentration, the flaws of the methodology used to estimate both concentration ratios undermine the bargaining power findings of the study.

- Finally, the measures of innovation used in the study are not fully representative of the underlying degree of innovation in the market (see Section 4). The authors use interchangeably the terms "new products" and "innovations", whereas in reality the extent to which new products can be considered innovative varies dramatically, e.g. between a truly disruptive innovation and a copy-cat which undermines innovation by free-riding on the original brand's investment.

In terms of competition policy implications, the most important finding is the recognition that whereas private labels contribute to choice and have beneficial effects up to a certain point, beyond that "tipping point" the effect turns negative for innovation. The higher the private label penetration beyond that point, the steeper the decline in innovation. Because the study did not cover the most concentrated retail markets, the question whether another tipping point might exist in relation to the growth in retail concentration, beyond which the impact on innovation is also detrimental, remains unanswered.

More work on the latter could help competition authorities identify a cluster of conditions that cumulatively hurt innovation significantly in the modern grocery retail sector. Besides the share of private label, potential candidates for inclusion in that cluster are the level of retail concentration at national and local level (including buying groups), the incidence of parasitic copies, the level of weighted distribution of innovations, lead times for innovation listings and the incidence of unfair trading practices that are broad-based and detrimental to innovation. If verified this would be a significant step towards providing a predictive tool to competition authorities to assess whether sector trends in a growing number of markets are pointing to a significant threat for incentives to innovate for manufacturers, efficiency of innovation, the level of innovation itself and consumers' access to innovative new products.

In conclusion AIM and FoodDrinkEurope commend the research consortium's good work in a new and difficult territory but regret that the shortcomings of the research render a number of the findings in the study unreliable. We welcome the initiative of DG Competition to open

an in depth debate about the subject of the study. The Commission will need to be aware of the strengths and weaknesses of its approach when applying the study's conclusions to concrete market situations. AIM and FoodDrinkEurope offer our cooperation in finding ways to overcome the data limitations that hampered the work of the Consortium so that more research can be conducted on highly concentrated markets with a refined set of tools, including for the measurement of concentration, imbalances of power and the various types of innovation.

Once DG Competition is satisfied that its thinking relies on robust evidence, it will be well placed to engage in a well-informed debate with national competition authorities and the other Commission services concerned on wider policy implications. This will help achieve a more coordinated approach in Europe on the important questions which prompted DG Competition to initiate the research in the first place.

1. Introduction

1.1. The wider context

The European modern retail sector is the most concentrated regional retail sector worldwide and still consolidating. This can have a negative impact on the ability of brand manufacturers to launch innovations with a reasonable chance of obtaining a return on their investment in R&D and consumer research.

In the last six months alone, the number of buyers in the French market has shrunk from ten to six, following the purchase of Dia by Carrefour and the creation of three new buying co-operations: Auchan-Système U, Casino-Intermarché and Carrefour-Cora (Annex 1). Auchan has also formed a new purchasing co-operation with the Metro Group that will also include Système U.

The complex and shifting web of European retail alliances, groups that combine the volumes of their members to obtain goods or services at a discount, is adding to suppliers' transaction costs, often without countervailing benefits. In case of a conflict with an alliance, the substitution options for suppliers are reduced. At the same time, because the discounts obtained are often of a fixed and/or retroactive nature, they may not be passed on to consumers and thus not give rise to consumer benefits. The 2013 aggregate sales of only the four largest alliances are estimated at 464 billion euro. Many participants are among the leading retailers in their market (Annex 2 - main European retail alliances).

Retailers increasingly compete with brand manufacturers in all categories with their own brands (also called private labels) and the market share of private labels is growing in almost every European country. They compete in all segments of the market, including premium. Brand manufacturers welcome this competition and find it healthy when it takes place on merit. However, the dual role of the retailer as both customer and competitor can create conflicts of interest and specific unfair trading practices which are detrimental to innovation and consumer choice, taking into account that the retailer controls all marketing levers in store (listing, shelf-positioning, promotion, pricing, proving times for new products etc).

Retail customers seek information on branded products' new product development and marketing initiatives well in advance, typically six months but much longer periods are frequent too. This includes information on consumer insights, product insights, market trends and packaging designs.

While information shared by branded suppliers is commercially confidential, there is a need to impart it to retail customers to sell products and secure shelf space and retailer support. Indeed, private label competition apart, suppliers want an open, partnering relationship with their retail customers. However, if misused to inform private label competition, there are implications with this information sharing:

- the retail customer as setter of private label specifications has near perfect information on the new product and marketing plans of all competitors;
- competitive uncertainty for private label is reduced significantly, reducing costs and risks;
- private label products are able to free-ride on R&D investments made by branded suppliers and the legitimate period in which branded products can earn a return on their risk and investment is reduced, damaging scope for future innovation;
- this is particularly damaging in cases when a private label parasitic copy comes to market a short time after the brand launch; and
- innovation driven competition between products is less vigorous than would otherwise be the case.

Notwithstanding this conflict of interest, the members of AIM and FoodDrinkEurope benefit from working with retail customers on good business practices, such as those conducted in the Efficient Consumer Response initiative, benefiting the whole food chain and consumers. Another example of good collaboration is the Supply Chain Initiative on good trading practices in the food chain, launched in September 2013 on the basis of a code of fair practice adopted by seven trade associations, including AIM and FoodDrinkEurope and the main European retail and wholesale associations.

1.2. AIM and FoodDrinkEurope's interest in the subject of the study

AIM is the European Brands Association. It represents manufacturers of branded consumer goods in Europe on key issues which affect their ability to design, distribute and market their brands. Effective competition in the grocery retail sector is essential for branded goods manufacturers, as it is for other suppliers whose produce is sold through this channel. In essence, supermarkets act as gatekeepers, providing branded goods suppliers with their only effective means of access to the consumer.

Although the scope of the study is food, many of its findings have implications for all product categories for which the food retail channel is an essential outlet, such as non-food packaged consumer goods and beyond.

FoodDrinkEurope represents Europe's food and drink industry. A pillar of the EU economy, Europe's food and drink industry boasts an annual turnover of €1,017 billion and generates 4.25 million jobs, making it the largest manufacturing industry in the EU. The industry is also highly fragmented with over 287,000 companies, 99% of which are small and medium-sized enterprises (SMEs), accounting for almost half of the total industry turnover and two-thirds of overall industry employment. Ensuring a sustained growth of the food and drink sector entails enabling it to evolve in an environment free from any distortion of competition.

Considering the importance of the study undertaken by the Commission and in order to avoid duplication of efforts in preparing our submission and for interested stakeholders reading it, our two associations have decided to present our comments jointly.

1.3. An ambitious objective to be welcomed

We commend DG Competition for initiating this ambitious study and for all the efforts and resources that went into its publication. An in-depth study, rich in data, on the way changes in modern retailing and the food chain affect competition, in particular consumer choice and innovation, is welcomed. AIM and FoodDrinkEurope are keen to contribute to further work on those issues in areas where the study has yet to meet fully the Commission's goals.

We note that the Commission has not officially endorsed the content of the study and that DG Competition Director-General Italianer, in his opening speech at the launch conference on 2nd October, and Commissioner Vestager, during her confirmation hearing at the European Parliament on the same day, both stated that the study is the starting point and not the end of the Commission's reflection on its subject matter.

AIM and FoodDrinkEurope are grateful for the opportunity we had to share our immediate reactions to the findings during the 2nd October conference panel debate and to have been given time to submit the present, more detailed submission. The comments expected from National Competition Authorities and private stakeholders should inform the Commission's assessment of the study and any further work it may wish to conduct.

This is all the more important as the study is part of a laudable longer term attempt to understand the retail sector and apply conclusions to specific competition issues. It is therefore critical to have a full understanding of the strengths and weaknesses of the approach. For this, the results of the inquiry in the German food retail sector conducted by the German competition authority (Bundeskartellamt) and published in September 2014 are a good precedent, albeit conducted in a different context and with different objectives. We will briefly come back later to what can be learned from that work.

The authors of the study made the choice not to address the development of e-commerce and the convenience channel. In the case of food, those channels tend to be controlled by the leading retailers, so that the measure of concentration would not be significantly affected.

1.4. Key findings

To analyse the evolution of consumer choice and innovation in the European food sector, the study relies on a vast amount of data and on econometric analysis.

With the major caveat regarding limitations in scope, availability of data and questions about the methodology which we will discuss in the next sections, the study's key findings are:

(note: in moderately concentrated retail markets)

- Choice, defined by the number of product references available, has generally increased
- Innovation, defined by the number of new product references available, increased up to 2008 then fell - the authors attribute this fall to the economic crisis.
- Trends in retail concentration varied: concentration has either increased or fallen.
- Supplier concentration has generally increased.
- On the whole, the study finds no clear imbalance of power either way between suppliers and retailers.
- The impact of retailer concentration on innovation is unclear.
- Increased concentration of suppliers may be associated with decreased innovation.
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- A statistically and economically significant negative relationship exists between private label penetration and innovation. Moreover, as the relationship is non-linear, the higher the private label penetration, the steeper the decline in innovation.

As we will show below, some of those findings are not sufficiently robust to be considered conclusive. The key reasons for this, in order of importance, are as follows:

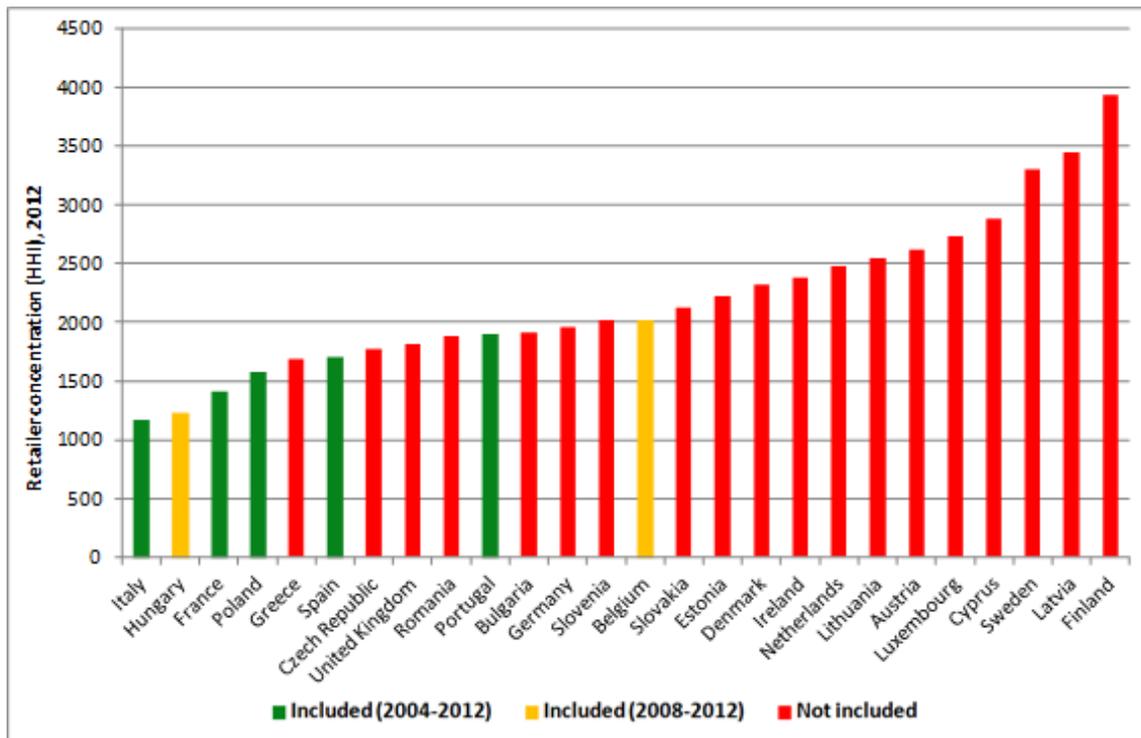
- the econometric part of the study does not include any of the countries with high levels of retail concentration (see Section 2);
- the measures used to measure both supplier and retailer concentration are flawed (see Section 3); and
- the measures of innovation used in the study are not fully representative of the underlying degree of innovation in the market (see Section 4).

2. Scope of the study: a limited number of countries in full scope

As the authors of the study recognize, its findings are limited by the fact that they were derived from econometric research in slightly or moderately concentrated retail markets only. Depending on the indicators, the number of countries covered varied from 4 to 14. The lack of data at the local retail level prevented them from analysing situations of high concentration of modern retail, such as those in Nordic and Baltic countries.

The figure below illustrates the highly imbalanced nature of the study in this respect. For each country, the figure shows the level of retail concentration (in terms of the Herfindahl-Hirschmann Index, HHI, based on 2012 data). The bars for each country are then given a colour depending on whether the country in question is fully, partly

or not at all included in the econometric part of the study. As the figure makes clear, almost all of the included countries are those with relatively non-concentrated retail markets. Surprisingly, in particular given the very objective of the study to examine the impact of retail concentration, none of the highly concentrated retail markets have been included.



For the seven countries covered, the HHI ranged from about 1200 to 2000, with an average of around 1600. By contrast, the HHI for the 18 markets not included ranged from around 1700 to 3900, with an average of about 2400. This is a striking difference.

It is not entirely clear to us why the data would not be available for Nordic countries like Denmark, Latvia or Sweden and for other markets like Austria, Germany, the Netherlands and the UK, which are all more concentrated than the countries covered by the study.

Similarly, most of the countries with the highest share of private label are not covered by the empirical analysis. This is consistent with the fact that highly concentrated markets are not covered by the study since retail concentration is one of the drivers of private label growth. It however deprives the findings of an important dimension.

Some of the countries with high degrees of retail concentration have been included in the case studies. However, as the Commission will readily recognise, a qualitative case study does not even begin to represent a proper empirical assessment of the impacts of high retail concentration on choice and innovation.

The fact that none of the countries with high levels of retail concentration have been included in the empirical analysis is a critical shortcoming of the study. Only where data is available from countries with different levels of retail concentration is it possible to understand fully the correlation between retail concentration and innovation. As such, the study does not deliver on its key objective to investigate the impact of retail concentration.

This shortcoming is of concern because negative impacts on choice and innovation may be particularly likely to occur in countries with highly concentrated retail markets. Where competition between retailers is weak, retailers may have a greater ability and incentive to refuse to list innovations. Moreover, manufacturers are in that case highly dependent on just a few retailers. In highly concentrated retail markets, a decision by just one retailer not to list a particular innovation can result in the entire business model behind the innovation becoming unviable (for example because the innovation would not achieve a sufficiently high weighted distribution in order to justify a nationwide TV campaign).

In this context, it may be instructive to draw a parallel with the study's results on the impact of private label penetration. As the (revised) results of the study have shown, a statistically and economically significant negative relationship exists between private label penetration and innovation. Moreover, this relationship is non-linear: the higher the private label penetration, the steeper the decline in innovation.

It cannot be excluded that a similar relationship would also exist between retail concentration and innovation. If it were the case that this relationship was also non-linear (i.e. the higher retail concentration, the steeper the decline in innovation), the omission of highly concentrated retail markets would introduce a very serious bias in the econometric results of the study. Of course, whether or not this is the case is unknown at the moment. But precisely because this possibility cannot be excluded at this stage, the fact that highly concentrated retail markets have not been included in the econometric part of the study represents a serious concern.

As the Commission has recognized, additional work will be needed. We would be keen to work with the Commission on ways to fill the gaps in data, including for the German market, as it would be particularly interesting to look at the German findings in conjunction with the new Bundeskartellamt retail sector inquiry results. This would help national and European competition authorities align their understanding of the markets.

3. A flaw: the method used to measure concentration

Another shortcoming of the study relates to the methods used to measure the level of concentration of both retailers and manufacturers. As we explain below, these methods have flaws. As the study relies on concentration measures to reach findings on consumer choice and innovation, these flaws further undermine a number of the study's conclusions.

3.1. Measuring supplier concentration

The study measures the concentration of branded food suppliers as follows:

“For the purposes of presenting the descriptive statistics in the following chapter, at procurement (national) level, supplier concentration is measured by HHI for brand only market, since negotiations at procurement level occur differently for brand versus private label suppliers”.

The supplier concentration ratio at the national level used in the study has little relation to market power or bargaining power in the food sector where competition increasingly takes place between brands and private labels. Even though negotiations at procurement level occur separately, these negotiations are very much influenced by the competitive interaction at retail level. For example, retailers may more readily use the threat of delisting branded products in the negotiations, or of reducing the amount of shelf space available for such products, if they have a strong private label offering.

It is worth noting in this context that the competitive interaction between upstream and downstream markets is also taken account of in the Commission's own merger practice. For example, in Case COMP M.5644 *Kraft Foods/Cadbury*, the Commission recognised that the competitive interaction between branded goods and private label at retail level had to be taken into account in the assessment of the impact of the transaction upstream.

In order to take private label into account, it is, at least in this context, not necessary to have information on the identity of the *manufacturers* of private label products. Retailers' ownership of private label brands puts them in direct competition with branded goods suppliers. Consequently, for the assessment of concentration at the supplier level, each retailer should be taken into account as a separate supplier with their respective private label products.

Using the data provided by the study, across the 23 categories in scope, we find that, as shown in the table on the next page, average private label shares in 2012, expressed in value, ranged from 5% (Romania) to 33% (Germany and UK), with an average of 22% for the 14 Member States in scope.

However, in 20 categories, the private label share in at least one market is higher than 50%, reaching its highest level at 88% (ham in the Netherlands).

Private labels share (value) in 2012 in %. PL source data: DG report data in annexes p. 291-298.	Belgium	Czech Republic	Denmark	Finland	France	Germany	Hungary	Italy	Netherlands	Poland	Portugal	Romania	Spain	United Kingdom	Average 14MS
Baby food	1,8	2,4	0	0	3,1	3,2	2,2	2,4	6	0	6,4	0	3,7	0,7	2,28
Biscuits	46,9	8,5	23,2	13,2	21,4	36,9	26,5	16,7	33,2	12,7	41,5	0	34,4	21,3	24,03
Bread	9,8	2,5	8,6	7,5	3,8	20,1	2,4	3,9	28	8,7	5,2	0,2	7,4	14,3	8,74
Butter/margarine	18,9	14,8	12,1	8,1	33,3	43,1	20,7	28,4	26,7	17,6	22,4	0	36,9	17,4	21,46
Canned vegetables	54,4	18,5	59,5	55,9	45,2	61,2	25,2	41	34,5	6,4	64,3	0	47,4	39,8	39,52
Cereals	30,1	13,2	22,1	18,1	13,5	31,2	38,2	6,1	12,3	16,1	25,5	0	37,8	21,8	20,43
Cheese	20,2	7,3	14,5	15	28,1	30,1	11,5	8,5	32,5	18,9	21,8	0	23,2	31,5	18,79
Chocolate	13,6	8,6	6,4	5,7	7,2	16	10	5,1	16,9	12	13,1	0,1	20	8,2	10,21
Coffee	18,2	5,1	14,8	21,3	5,3	21,2	8	7	17,2	0,8	15,6	0	20,2	19,8	12,46
Desserts	33	11,4	11,6	15,3	29,5	40	25,3	11,3	29,1	15,6	23,3	5,3	34,6	36,6	22,99
Edible oil	47,7	35	36,7	45,9	43,4	47,1	33,3	22,9	45,8	16	37,9	12,6	54,4	46,6	37,52
Frozen pizza/starters	16	39,4	32,2	26,3	36,8	28,5	23,1	23,8	18,1	14,7	51,8	33,9	33,6	40,4	29,90
Frozen ready meals	33,5	18,9	31	35,2	51,4	35,4	31,8	15,9	31,8	46,9	3,5	57	42,3	46,1	32,74
Frozen vegetables	44,9	21,3	59,9	43,2	46,2	42,7	42,6	39	28,8	18,4	59,6	0	59,8	47,8	39,59
Fruit juices	38,3	9,5	27,1	20,3	21,3	31,5	24,8	17,8	23	6	30	0,2	37,4	36	23,09
Ham	65,9	15	33,4	19,6	38,3	71,4	33,5	28,2	88,3	7,4	43,6	34,1	52,9	62,7	42,45
Ice Cream	23,9	4,7	13,6	10,8	14,3	21,9	16,9	4,3	13,7	4,2	17	0,1	26,9	24,9	14,09
Milk	62,2	26,2	17,7	6,7	42,3	66,8	25,7	20,2	43,2	22,7	29,1	0,5	46,2	66,5	34,00
Mineral water	16,9	3,2	13,6	11	12,2	13,5	12,3	4,3	12,2	10,9	26,8	4,8	23,4	27,8	13,78
Savoury snacks	23,1	14,2	20	22,8	32,6	36	20,7	14,5	25,9	9	31,5	0	36,1	32,9	22,76
Soft drinks	14	7,6	13,2	11,2	9	18	10,5	7,8	15,4	8,3	29,6	1,5	11,1	8,9	11,86
Tea	22,6	6,9	18,3	12,4	15,4	18,5	8,3	7	16,3	12,4	10,2	0	24	15,1	13,89
Yoghurt	22,9	9,8	7,3	11,1	17,2	23,2	15	10,8	26,7	15,2	25	2,3	24,7	14,4	16,11
Average 23 product categories	29,51	13,22	21,60	18,98	24,82	32,93	19,68	15,77	27,86	11,20	29,92	4,57	32,10	29,60	22,27

Source: assembled on the basis of the data collected from pp 291-298 of the study (annexes).

It is worth noting that Nielsen arrives at an average market share of private label of 35.8% in value in fast moving consumer goods in Europe in September 2014. The study may thus have selected categories where private labels were on average less prevalent. In terms of consumer choice, one should also keep in mind that the private label share in volume will often be significantly higher than its share in value.

For the reasons above, the exclusion of all private labels from the analysis of supplier concentration is a serious flaw and can lead to erroneous results and conclusions, with implications for policy. The authors of the study could have interpreted the findings in a more differentiated way. To illustrate this we have conducted an analysis in two of the categories covered by the study: milk in Belgium and Germany (Annex 3) and oil in Spain (Annex 4). This shows that the study's approach can lead to strange results: a growing share of private label and reduced share of brands, combined with an increase in modern retail concentration, are interpreted in the study as indicating an increased concentration of brand suppliers in the category, leading to reduced innovation. The same flawed conclusion could be reached in a situation where a very high share of private label combines with a low share held by a small number of brands.

Buying Power – Retail and Supplier concentration

Supplier concentration is measured by HHI for brands only: the sum of the squares of market shares of all identified suppliers (brand owners), calculated on brand only grocery share (including other & artisanal suppliers but excluding private labels), p. 85. This measure overstates supplier concentration. Example:

- Higher modern retail share of the category: from 55% to 69%
- Increase of private label share vs supplier share of category: from 10% to 28%

Ice cream in Spain		
Company Shares (by Global Brand Owner)	2006	2012
Brands	75,0%	61,1%
PL total (all retail included)	9,6%	28,3%
Artisanal	1,9%	1,2%
"Others"	13,5%	9,40%
	100%	100,0%

Modern Grocery Retail share of category sales	2006	2012
	55,6%	68,7%

The report finds that supplier concentration is increasing

Supplier concentration using Global Brand Owner	2006	2012	Change%
HHI Brands Only (5 brands suppliers)	4289	4365	2%
HHI Brands & Artisanal* as 6 suppliers	4086	4200	3%
HHI brands, artisanal & 'others' as 1 supplier (7)	3182	3343	5%

Following report methodology

In this other example of the ice cream market in Spain, the study concludes that supplier concentration has increased. This result is distorted by the fact that the strong growth in private label in the category, from 9.6 to 28.3% in the space of only six years, is not taken into account. This growth is partly explained by the higher share of modern retail in the category, growing from 55 to 69%, as part of the general trend of modern retail concentration in Spain. Smaller brands and artisanal producers have lost share.

If the whole category interaction is taken into account in the analysis, and private label competition is included in the measure of supplier concentration, the HHI measuring supplier concentration would actually show a decrease of 22% in the category and 33% for brand suppliers only (see graph on next page).

Buying Power – Retail and Supplier concentration

A category analysis of concentration has to consider the whole category interaction

- *Five brands suppliers who lost market share*
- *Increased number of players with more private label suppliers*
- *Modern retail increases its power both through private label competition and taking share from independent shops*
- *Share of top 5 sellers in 2012: 70%; 2 are brand suppliers, 3 retailers*

Ice cream in Spain		
Company Shares (by National Brand Owner)	2006	2012
Brands	75,0%	61,1%
PL total (all retail included)*	5,6%	17,1%
Artisanal	1,9%	1,2%
"Others"	17,5%	20,7%
	100%	

*Carrefour, Eroski, Mercadona, Alcampo, Dia

Others: not all suppliers - brands or retailers are identified or computed

Modern Grocery Retail share of category sales	2006	2012	Change%
	55,6%	68,7%	+24%

Level of category concentration	2006	2012	Change%
HHI with all 11 & 12 private label and brand players (100% category), "others" as 1	2735	2122	-22%
Brand suppliers level of concentration	2417	1629	-33%

In addition to the above, the residual category "others" - referring to small local suppliers with a market share below 1% - seems to have led to an artificial increase in the HHI levels, especially in categories where the market share of "others" is high (in some cases the sum of the "others" is the largest seller). This is because it appears that "others" was considered as one supplier (with a consequent potential massive impact on the HHI). In reality, "others" comprises many small suppliers with only a small impact on the HHI.

The above flaws potentially undermine the study's conclusions regarding the imbalance of power between suppliers and retailers.

Furthermore, the study and the econometric tests do not draw any conclusion from situations where the supplier concentration ratio at the national level and supplier concentration at local consumer shopping area level ("share of assortment") move in opposite directions. The authors concede that the latter *"is affected by retailers' assortment decisions to stock certain products"* (p.30) and has been declining substantially in the period 2004-2008 in all the Member States of the sample and in most Member States in the 2008-2012 period. Where brand suppliers find it hard to make it to retailers' shelves, they gradually exit the market (e.g. falling share of the category "others" in the olive oil case looked at in the study)

and those brand suppliers who are still in the market find their incentive to innovate reduced by the struggle to achieve sufficient access to enough retailers (so-called “weighted distribution”) and to compete with private labels on their own turf.

3.2. Measuring retailer concentration

The lack of coverage of highly concentrated retail markets has already been referred to as a critical shortcoming.

Two other methods used by the study Consortium underestimate the level of retailer concentration.

- (1) The study does not take into account buying groups, even though it acknowledges their growing importance and their contribution to retailer concentration and bargaining power at the procurement level:

“Increasing concentration can also be seen at the procurement level, through the development of buying groups. Buying groups are essentially a type of retail purchasing alliance, at a regional, national or international level. In essence, a buying group is an organization created by several shops or retailers with the aim of improving their purchasing conditions as well as enhancing their market competitiveness compared to other types of retail players.” (p. 50)

“Buying groups, or procurement organisations, have existed since the 1930s but they have developed particularly since the 1980s-1990s, a period which has witnessed the rise of cross-border alliances. The aim of cross-border groups is particularly to strengthen the retailers’ bargaining power through higher volumes to reduce purchasing costs, for the procurement of large international brands or for private labels.” (p. 50)

“It is important to clarify how retail concentration is measured at the procurement (national) level. Measuring retail concentration at the buying group level would enable the impact of buying alliances on choice and innovation to be determined. However, in reality, procurement organisations and buying alliances are a complex phenomenon.(...)”

Considering information is incomplete and complex, the Consortium proposed to express retail concentration at procurement level in terms of the retailer group and banner market shares at national level only. Thus retail concentration will not be measured at procurement organisation level.” (p. 81)

National competition authorities have assessed buying groups and considered the aggregate market share of their members as an indication of their market power and bargaining strength. The alleged complexity of this task at the EU level cannot justify excluding buying groups from the estimation of retailer concentration, especially as more and more such groups are formed. The authors could have made a distinction between national buying groups (whose members buy jointly and which could relatively easily have been taken into account to measure retail concentration at procurement level), and European

retail alliances, which as mentioned in the introduction, frequently have as their main objective the negotiation of over-riders with international manufacturers, serving as gate-keeper, whilst leaving the actual buying to the individual members of the alliance in the markets where they operate, with no evidence that any cost reductions are passed on to consumers. The European retail alliances are generally formed between leading retailers operating in different markets and not competing with each other at national level. National buying groups may involve large retailers as in France or a market leader bringing smaller retailers within its ambit, as in the “new generation” buying groups highlighted in the German competition authorities’ 2014 retail sector inquiry.

The importance of buying groups at national level is made clear by a recent decision of the Italian competition authorities requiring one of those buying groups to disband (decision Centrale Italiana, 2014).

(2) In the study the authors calculate the national retailer concentration using the HHI index and use it to calculate the ratio of imbalance of power in all 23 categories covered. However, the HHI will vary by category for retailers as it does for suppliers. The German retail sector inquiry has also shown this and has taken it into account. Data available for Spain (see table below) indicates that in 18 of the 23 categories considered, the retailer share at category level is higher than the national share of modern retail in the food market. In many categories, therefore, the study underestimates the degree of retailer concentration.

Spanish modern grocery retail market share (%) of edible grocery sales National average: 73% of distribution								
	Product categories	2004	2006	2008	2010	2012	Growth in 8 years	CAGR* 2004-2012
1	Baby Food	38,1	43,6	49,4	54,4	56,6	49%	5,1%
2	Biscuits	93,4	93,7	93,1	92,2	91,9	-2%	-0,2%
3	Baked Goods	38,2	39,0	39,5	40,5	40,8	7%	0,8%
4	Bottled Water	83,5	83,7	83,7	84,2	84,2	1%	0,1%
5	Breakfast Cereals	94,2	94,2	94,1	94,8	94,6	0%	0,1%
6	Canned/Preserved Food	83,1	83,6	84,4	85,2	85,4	3%	0,3%
7	Cheese	68,1	69,4	73,0	74,9	75,7	11%	1,3%
8	Chilled Processed Food	88,9	88,9	89,4	89,7	89,8	1%	0,1%
9	Chocolate Confectionery	79,7	81,5	81,0	81,3	82,2	3%	0,4%
10	Coffee	92,0	92,3	92,0	92,2	92,6	1%	0,1%
11	Dried Processed Food	87,9	87,8	88,1	88,4	88,7	1%	0,1%
12	Drinking Milk Products	80,1	81,1	83,8	86,0	86,4	8%	1,0%
13	Ice Cream	54,8	55,6	59,9	65,8	68,7	25%	2,9%
14	Juice	85,7	85,7	85,2	86,2	86,7	1%	0,1%
15	Oils and Fats	72,5	73,2	74,4	76,2	76,2	5%	0,6%
16	Ready Meals	86,0	86,4	86,9	87,0	86,7	1%	0,1%
17	Snack Bars	64,7	65,1	65,8	66,6	67,4	4%	0,5%
18	Soft drinks	80,7	80,9	82,2	82,6	82,6	2%	0,3%
19	Soup	85,5	86,1	87,1	87,8	88,8	4%	0,5%
20	Spreads	84,1	84,5	87,0	90,1	90,9	8%	1,0%
21	Sweet and Savoury Snacks	62,5	63,6	65,2	67,3	67,8	8%	1,1%
22	Tea	88,2	88,3	88,0	88,5	88,4	0%	0,0%
23	Yoghurt and Sour Milk Products	84,5	84,9	88,9	91,3	92,2	9%	1,1%
							6,6%	0,8%

*CAGR: Compound Annual Growth Rate

3.3. Measuring the imbalance of power

The study compares supplier concentration at category level with retailer concentration at the national level - using one single measure to express retail concentration across all 23 categories - as a proxy for the imbalance of the relationship or bargaining power:

“Note: The measure of imbalance is defined as the natural logarithm of the ratio of national retail concentration HHI to national supplier concentration (in a given product category) HHI. A value of zero indicates that retailer HHI and supplier HHI are equal. Values greater than zero indicate higher retailer than supplier concentration; values less than zero indicate higher supplier than retail concentration.” (p. 190)

As the measure of imbalance of bargaining power relies on the comparison of supplier concentration and retailer concentration, the flaws of the methodology used to estimate both concentration ratios pointed out above undermine the bargaining power findings of the study.

Furthermore, the comparison of concentration ratios in different markets (the product market and the retail distribution market) to infer bargaining power overlooks a key source of market power: the outside options available to each side of the commercial relationship (i.e. the substitutability test). Suppliers have limited distribution options in concentrated markets while retailers have wider options in category markets to stock other branded products not currently listed and via commissioning private label. In addition, in countries where the hard discount format has a high market share, opportunities for the distribution of a wide variety of branded products are more limited so that retailers with wider product assortments gain in importance, beyond the level suggested by the HHI.

The *Carrefour/Promodès* and *Rewe/Meinl* merger decisions of the European Commission estimated that suppliers' outside options vanished when the retailer's market share exceeded a "threshold of threat" of approximately 22% of a supplier's turnover. Some national authorities have referred to lower thresholds.

The recent food retail sector inquiry by the Bundeskartellamt found a positive relationship between retail market share and bargaining power after a detailed consideration of the outside options available to both suppliers and retailers, including a finding that "must stock brands" made up only 6% of the brands in the categories covered by the German inquiry report.

The German competition authorities found that the leading retailers are in a stronger bargaining position than the manufacturers and have a significant structural advantage over their smaller competitors. The Bundeskartellamt is *“convinced that even high-volume suppliers can have relatively weak bargaining power”*.

Finally, the way the manufacturer concentration index was calculated, not taking into account the role of private labels as head-to-head competitors

with manufacturer brands, in a store environment where the retailer controls all the marketing levers, ignores the well-recognised role of private labels in constraining a brand manufacturer's bargaining power.

4. Drivers of consumer choice and innovation

4.1. Struggling with a workable definition of innovation

The authors of the study have visibly struggled to find a definition and typology of innovation that would reflect the way innovation is created and distributed in the market while allowing them to use the consumer-level data sources available from data providers.

They have chosen Mintel and Nielsen Opus and adopted the Mintel typology which distinguishes between five launch-types for products first placed on the market: New Product, New Variety/Range Extension, New Packaging, New Formulation, Re-launch.

This typology has the merit of recognizing that there are different types of innovation that are all valid in meeting consumer needs, including the continuous improvement of products. However, using the raw Mintel data as a source to isolate innovation has clear limitations. Throughout the study, the authors refer to new products placed on the market as "innovations" as though all of these new products are necessarily and equally innovative. In reality, however, the extent to which new products can be considered "innovative" varies dramatically.

To illustrate this point, the launch type "New Product" is a very broad category containing all of the following:

- a breakthrough, or disruptive innovation that creates a new segment in a category and generates sustainably very high levels of sales;
- a budget private label line at the low end of the range that would not claim to add any new content;
- a parasitic copy of a brand, whether made under a private label or under a competing brand, that comes so close to the make-up and design of the original brand that a significant number of consumers pick it up thinking they are buying the original brand or a product of very similar quality. Such a parasitic copy does not deliver any innovation. In fact, it undermines it: brand owners' incentives to invest in innovation are reduced if parasitic copying prevents them from earning a return on their investment and risk.

Within the "New Product" category, all of the above are given equal weight. In practice, the non-innovative new products are actually given greater weight since they tend to be more numerous. The study will thus consider an increase in parasitic copying to represent an increase in innovation even though such an increase is in practice far more likely to undermine innovation.

The launch type “New Packaging”, also referred to as “packaging innovations” in the study, which has a significant bearing on results as it is the category which grew most during the period under consideration, ranges from truly innovative packaging for product protection or ease of use at one extreme, to new package sizes with no other new features at the other.

We do not underestimate the magnitude of the task facing the authors of the study, who have looked at all data sources available in the market. Separating parasitic copies is also difficult although their existence and damaging role would have deserved at least a mention in the study. AIM and FoodDrinkEurope don’t have a perfect solution either but are keen to work with the Commission on more refined ways to evaluate impacts on innovation in the future.

Although not addressing all the challenges raised, one way of gaining better understanding is by weighing new products coming to market by their sales or by the distribution they achieve in the market. This would be a good proxy for the value delivered to consumers and the product’s market potential. Although this would be difficult to do for the whole period under consideration in the study as data series do not stretch that far back, it would be possible for part of the period. This would provide a good base line for the data collection in future years. Moreover, this data would provide a clear indication of consumers’ access to innovations, since many of them shop at a limited number of stores and learn about innovations at the point of sale. The economics of branding, with a high level of fixed costs in research, production and communication, are such that the availability of sufficient retail distribution stimulates innovative efforts, whereas limited distribution has the opposite effect because the investment in innovation cannot be recouped.

4.2. General economic drivers

The findings that some general economic drivers, such as the rate of unemployment, a positive macro business environment and high sales turnover in a category have strong impact on innovation (negative in the case of unemployment) all conform to the experience of our members.

4.3. Market concentration-related drivers

The study arrives at the following findings:

- An increase in the concentration of suppliers may be associated with decreased innovation.
- An increase in the bargaining power of retailers may be associated with increased innovation.

In highly concentrated markets and with adjustments made for the flaws in the retailer concentration, supplier concentration and bargaining power measurements referred to above, the outcome of the market-concentration related econometric analysis could tell a very different story. This would

align the results with the market realities observed in other reports: a high retail concentration increases retailers' bargaining power at the procurement level and the penetration of their private label at the retail level. The study fails to take into account the reality that in many countries a manufacturer who does not convince one or two retailers to carry its brands will not be able to launch these new products across the market, given the absence of scale. This shows that the power of a single retailer can go well beyond its own stores, and can have a considerable impact across the entire market.

4.4. Private labels and the "tipping point"

As the study demonstrates, a statistically and economically significant negative relationship exists between private label penetration and innovation. Moreover, as the relationship is non-linear, the higher the private label penetration, the steeper the decline in innovation.

AIM and FoodDrinkEurope welcome the fact that DG Competition asked the Consortium to look at this important point again, using a methodology which takes into account the possibility that the relationship between private label penetration and innovation is non-linear. This is much better able to capture the tipping point and leads to a very robust finding.

For all the categories and countries covered by the study, one can observe an average increase in the market share of private label during the period 2004-2012. The table below shows the annual average increase per country for the 23 categories covered by the study:

Private labels share evolution in % (compound Annual Growth Rate 2004-2012) . PL source data: DG report data in annexes p 291-298	Belgium	Czech Republic	Denmark	Finland	France	Germany	Hungary	Italy	Netherlands	Poland	Portugal	Romania	Spain	United Kingdom	Average 14MS
Baby food	15%	49%	-	0	7.8%	2.1%	3.3%	6.9%	45%	0	0.4%	0	57%	-5.4%	12.9%
Biscuits	2.1%	13%	6.8%	6.2%	-0.8%	0.5%	11.5%	3.5%	15.1%	24.5%	5%	0	7.1%	-0.5%	6.7%
Bread	2.4%	3.5%	-1.7%	16.6%	5.9%	-0.4%	18.9%	6.3%	-1.1%	20.2%	8.5%	0	12.4%	2.4%	6.7%
Butter/margarine	0.3%	2.7%	9.9%	4.5%	2%	0.9%	9.2%	2.9%	2.2%	13.7%	5.1%	0	4.6%	1.5%	4.2%
Canned vegetables	2%	5.2%	2.3%	0.3%	0.2%	1.5%	5.8%	1.2%	0.8%	1.2%	5.4%	0	3.2%	-3.2%	1.8%
Cereals	2.3%	9.7%	1.1%	7.4%	0.2%	-0.3%	18.9%	1.3%	0.3%	11.6%	8.2%	0	7.9%	0.7%	4.9%
Cheese	0.6%	9.6%	3.7%	5.1%	1.7%	0.3%	15.2%	4.5%	2.4%	10.7%	11.7%	0	12.3%	-2.2%	5.4%
Chocolate	1.6%	17.3%	5.7%	6.7%	-1.3%	0.07%	15.8%	3.1%	4.6%	18.4%	2.1%	0	4.6%	0.8%	5.7%
Coffee	-0.3%	3.7%	2.5%	18%	-3.4%	1.9%	7.5%	5.7%	6.9%	1.7%	6.1%	0	1.6%	5.5%	4.1%
Desserts	2.8%	4.7%	2.7%	10.2%	1.9%	1%	5%	5.3%	3.1%	8.4%	10.8%	64%	5.1%	0.6%	8.9%
Edible oil	4.2%	7%	1.4%	1.5%	2.6%	0.7%	3.2%	3.3%	1.8%	11.7%	6.5%	24.4%	3.7%	-2.1%	5%
Frozen pizza/starters	-4.6%	6.4%	3.6	2.4%	-0.5%	-0.6%	8.4%	2.6%	0.6%	1.5%	7.3%	11.95%	1.7%	0.7%	2.9%
Frozen ready meals	-0.4%	13%	-4.3%	4.3%	0.7%	0.03%	10%	4.6%	4.8%	8.7%	3.4%	76.5%	4.7%	1.9%	9.1%
Frozen vegetables	1.2%	5.2%	1.9%	3.2%	-0.4%	2.3%	17.9%	1.7%	0.7%	2.2%	1.6%	0	0.9%	0.2%	2.7%
Fruit juices	-1.4%	-1.6%	5.1%	3.6%	-1.8%	0.9%	14.5%	0.4%	4.3%	2.6%	7.2%	0	3.3%	-0.2%	2.6%
Ham	1.4%	7%	3.2%	6.5%	1.7%	0.3%	30%	2.3%	0.5%	-1.6%	7.9%	0.2%	12.6%	2.2%	5.3%
Ice Cream	0.5%	6.7%	6.4%	5.9%	-1.5%	0.2%	8.6%	-0.3%	5.1%	21.2%	6.5%	0	14.7%	1.5%	5.4%
Milk	-0.4%	3.7%	2.5%	20.6%	1.8%	1.8%	6.9%	10.3%	1.2%	16.2%	7.1%	0	9.2%	0.9%	5.8%
Mineral water	1.3%	-2.7%	1.2%	8.5%	2.8%	8.2%	16.2%	2.2%	4.2%	8.7%	19.8%	20.2%	10%	-0.3%	7.2%
Savoury snacks	0	5.3%	3.3%	2.8%	2.4%	4.9%	12.9%	1.9%	1%	5.6%	6.4%	0	5.3%	4.1%	4%
Soft drinks	-1.6%	1.8%	0.7%	9%	-1.7%	-0.7%	13.9%	5.4%	1.2%	16.2%	19.3%	0	11.9%	-3.3%	5.1%
Tea	0.6%	7.7%	4.5%	0.4%	3.1%	-0.5%	11%	4.8%	3.1%	12.3%	9.1%	0	9.1%	-1.9%	4.5%
Yoghurt	1.2%	9.6%	4.6%	7.3%	2.1%	0.3%	5.6%	3.5%	3.2%	12.3%	12.3%	0	6.5%	-2.3%	4.7%
Average 23 product categories	1.3%	8.2%	2.9%	6.6%	1.1%	1.1%	11.7%	3.6%	4.8%	9.9%	7.7%	8.6%	9.1%	0.1%	5.5%

The existence of a risk threshold or tipping point above which private label market shares in a product category will restrict innovation has been confirmed by research relative to Spain done by Kantar World Panel (“Innovating in the post-crisis era”, November 2014). The benchmark analysis of 104 categories in the period 2011-2013 led Kantar to conclude that a private label market share above 35% leads to less innovation and growth in the market. The key findings are in Annex 5. The full review of the study’s finding with a focus on the Spanish market can be found in Promarca’s (the Spanish brands association) separate submission.

These results are related to the fact that brand owners have both a stronger incentive and a stronger ability to innovate than retailers with their private label.

- Brand owners have stronger *incentives* to innovate than retailers. Given the threat of private label, brands risk being progressively commoditised and then marginalised if they do not innovate. Failing to innovate can over time become a threat to survival for brand owners. For retailers, this is not the case. Retailers can succeed with private label strategies that involve little if any innovation efforts (in part by copy-cattng).
- Brand owners have a stronger *ability* to innovate than retailers. When it comes to innovations requiring significant R&D investment, brand owners have an advantage over retailers because they can launch innovative products on a very large scale, e.g. EU-wide or even globally and with many retail customers, and support these launches by their established brands. Retailers do not have this ability.

The above is not to say that retailers never introduce innovative private label products. There are more and more examples of that, thanks to their insight into the shopper and growing scale. However, brand owners represent the main force for product innovation in the market. The results both of the Consortium study and of the study undertaken in Spain show that innovation can suffer dramatically once private label becomes dominant in a particular market.

These results can only serve to confirm the fact that the dual role of retailers as customer and competitors creates concerns. If fair, private label competition is healthy. But in situations of retail dominance or if private label becomes too strong in the market due to unfair trading practices, innovation can end up suffering significantly.

4.5. The role of the crisis

The authors of the study find a 6.8% annual reduction in innovation in the period 2008-2012 and attribute it mainly to the economic crisis. In the case of Spain, where rich data is available, the decline in innovation started well before the onset of the crisis and is also due to the difficulty to achieve normal distribution of new products in some of the largest chains. The business model of branded goods suppliers is particularly susceptible to this dependence on large retailers, because of the high fixed costs involved in product innovation and commercial communication. To have a chance to earn a return from such investments, branded goods suppliers are particularly dependent on gaining access to as wide a distribution base as possible, and individual large retailers recognise that they have an ability to foreclose that access through threats to restrict shelf space.

5. Conclusions and recommendation for further work

We welcome the initiative of DG Competition to open an in depth debate about the subject of the study. This first study should be part of a longer term attempt to understand the sector which competition authorities in Europe regulate. While we have the highest respect for the quality of the work of the Consortium in a new and difficult territory, the shortcomings of the research discussed in this note render a number of the findings of the study unreliable. The study is rich in data but less so in context and precision of the analysis. This is clearly of concern for AIM and FoodDrinkEurope. However, we would not want this concern to be given the wrong interpretation.

In terms of competition policy implications, the most important finding is the recognition that whereas private labels contribute to choice and have beneficial effects up to a certain point, beyond that "tipping point" the effect turns negative for innovation. The higher the private label penetration beyond that point, the steeper the decline in innovation. Because the study did not cover the most concentrated retail markets, the question whether another tipping point might exist in relation to the growth in retail concentration, beyond which the impact on innovation is also detrimental, remains unanswered.

More work on the latter could help competition authorities identify a cluster of conditions that cumulatively hurt innovation significantly in the modern grocery retail sector. Besides the share of private label, potential candidates for inclusion in that cluster are the level of retail concentration at national and local level (including buying groups), the prevalence of parasitic copies, the level of weighted distribution of innovations, lead times for innovation listings and the incidence of unfair trading practices that are broad-based and detrimental to innovation. If verified this would be a significant step towards providing a predictive tool to competition authorities to assess whether sector trends in a growing number of markets are pointing to a significant threat for incentives to innovate for manufacturers, efficiency of innovation, the level of innovation itself and consumers' access to innovative new products.

When applying the study's conclusions to concrete situations, the Commission will need to be aware of the strengths and weaknesses of its approach. We hope to have made a contribution to that thinking.

It is also in this spirit that we offer our cooperation in finding ways to overcome the data limitations that hampered the work of the Consortium so that more research can be conducted on highly concentrated markets with a more refined set of tools, including the measurement of concentration, imbalances of power, the various types of innovation and ways to identify early enough threats to innovation and the dynamics of competition in the European grocery sector.

Once DG Competition is satisfied that its thinking relies on robust evidence, it will be well placed to engage in a well-informed debate with national competition authorities and the other Commission services concerned on wider policy implications. This will help achieve a more coordinated approach in Europe on the important questions which prompted DG Competition to initiate the research in the first place.

Annex 1: In France, the distribution landscape has been **drastically redrawn** in the span of a few weeks

In less than 4 months, the power relations in place have fundamentally changed 4 times : **from 10 to 6 buying organisations, 4 of which are major ones**

Groups	Before 20/06	Since 20/06	Since 11/09	Since 8/10	Since 22/12
Carrefour	20.4%	+ Dia 21.9%	21.9%	21.9%	+ Cora 25 %
Dia	1.5%				
Louis Delhaize Cora	3.4%				
Leclerc	19.9%	19.9%	19.9%	19.9%	
Intermarché	14.3%	14.3%	14.3%	+ Casino 25.8%	
Casino	11.5%	11.5%	11.5%		
Auchan	11.3%	11.3%	21.6%	21.6%	
Systeme U	10.3%	10.3%			
Lidl	4.6%	4.6%	4.6%	4.6%	
Aldi	2.3%	2.3%	2.3%	2.3%	

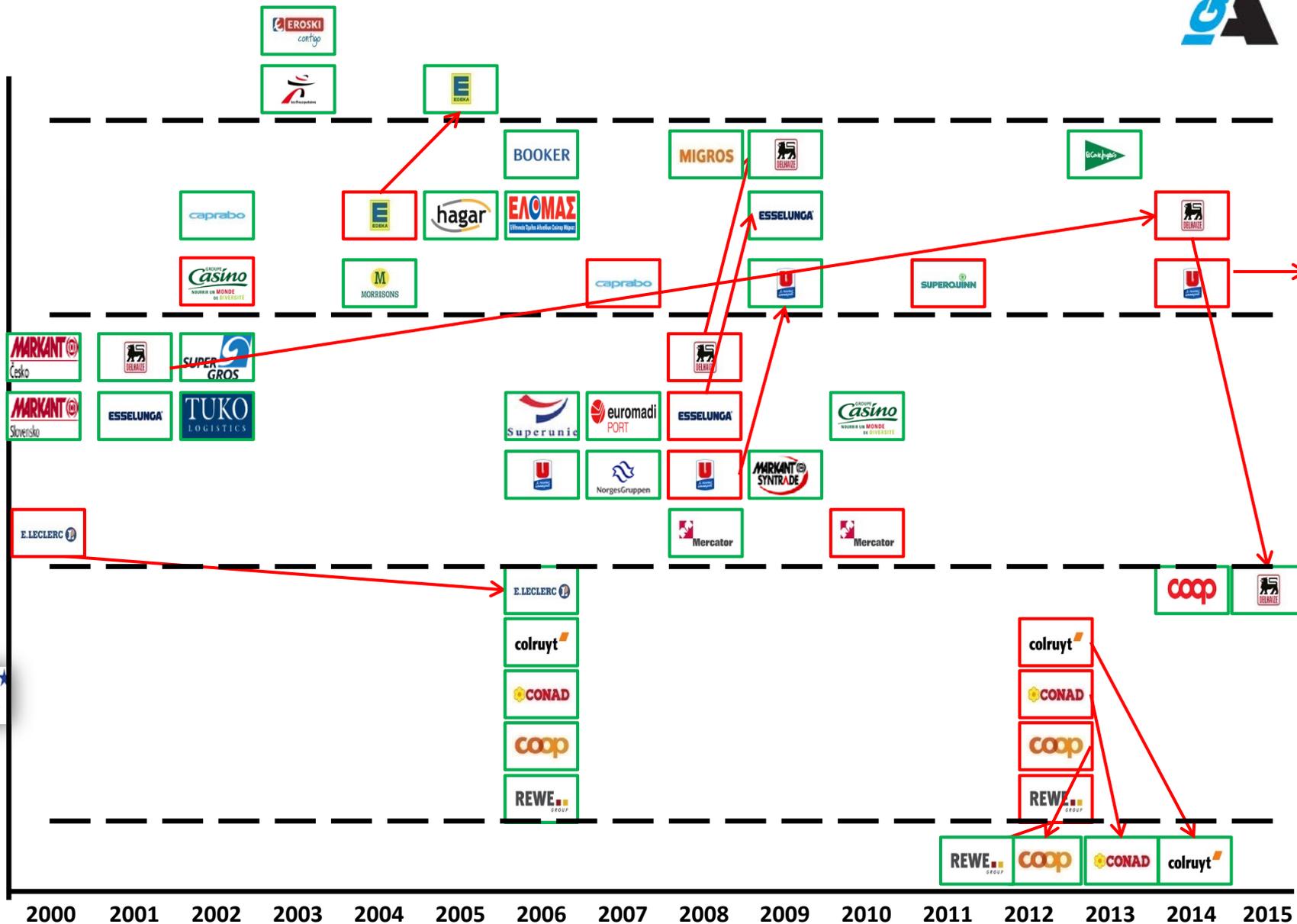
Who are the main European grocery retail alliances?



	<p>Created by two independent retailers in 2003, Alidis was expanded in 2005 with the addition of a third member. The Geneva-based alliance is focused on negotiating international agreements, developing skill sharing, harmonising working methods and as a forum for exchanging information.</p>
	<p>AMS was founded in 1988 and has 14 members across 25 countries. The grocery retail alliance’s initial focus was on sharing European buying activities among retailers (private labels, store equipment). In 2010 the ACP (AMS cooperation programme) was initiated by some AMS members to negotiate with international suppliers on service agreements, in line with other European retail alliances. AMS is based in Amsterdam.</p>
	<p>EMD was founded in 1989 by national grocery retail alliances in Austria, France, Germany, Italy, Netherlands, Portugal and Spain. Recruitment has extended to 15 members, including individual retailers, operating across 16 countries from Switzerland. As with AMS, the alliance’s initial purpose was focused on buying (equipment, private label) but has since extended to sell service agreements to international suppliers.</p>
	<p>Created in 2005 in Brussels by Leclerc and Conad to negotiate international service agreements with suppliers. Extended membership in 2006 to three additional independent retailers. In 2013 four members left the alliance. Two new retailers joined in October 2014.</p>
	<p>Created in Brussels in October 2013 by four members of Coopernic for the same purpose: negotiation international service agreements with suppliers,</p>

Source: IGD Research. Please note: data and membership is right as of December 2014. Changes in membership can occur and these would not be reflected if they happened after December 2014.

How have grocery retail alliances changed over time?



Retailer leaves the grocery retail alliance

Retailer joins the grocery retail alliance

Annex 3: Milk

In this annex, we take a closer look at some of the study's conclusions in regard to the alleged imbalances between supplier and retailer concentration. As we demonstrate, the study frequently exaggerates these imbalances in favour of retailers. This is for the following reasons:

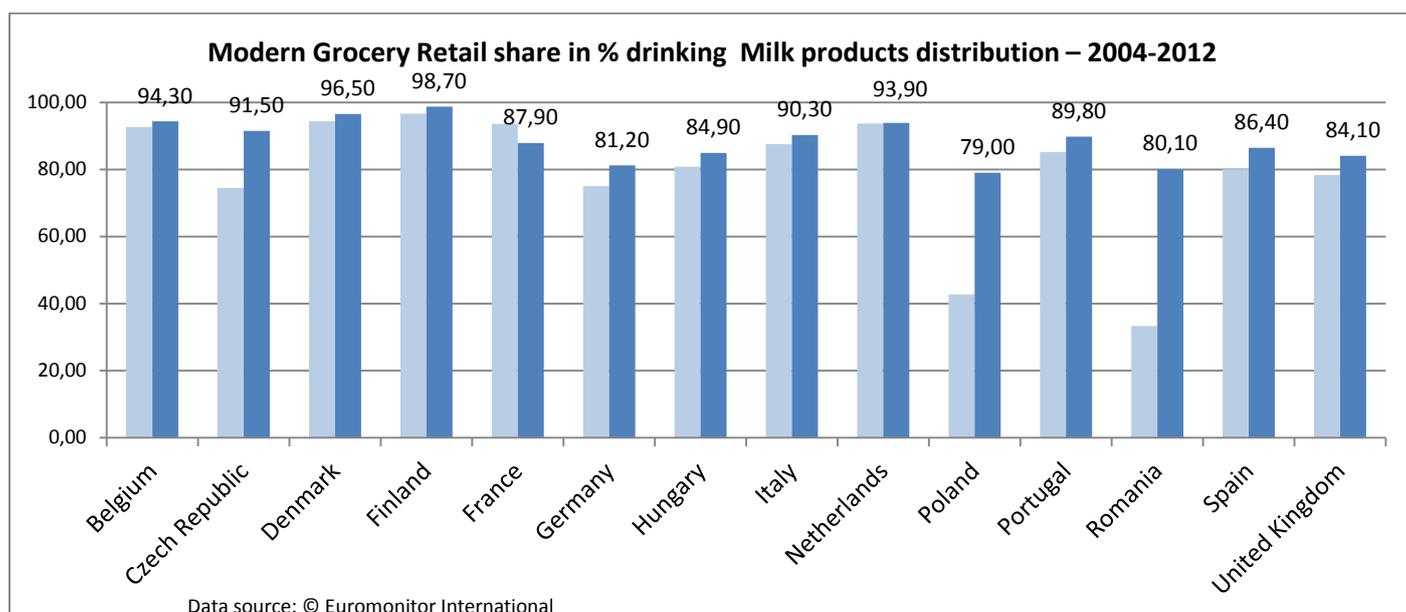
- The study ignores the competitive pressure exerted by private label on suppliers. In some categories, private label accounts for more than half of the market. It is not possible to draw reliable inferences on imbalances between suppliers and retailers without taking this into account. By ignoring private label, the supplier market appears significantly more concentrated than it is in reality.
- When the share of private label increases, some branded suppliers may decide to exit the market. On the measures of the study, supplier concentration is, as a result, increasing and the market is becoming more imbalanced towards suppliers. But this conclusion is exactly at odds with reality. Retailers' private labels have displaced supplier brands and the market is therefore becoming more imbalanced towards retailers.

We illustrate these points with respect to the milk category. In this category, the study suggests that supplier concentration is increasing in 9 of the 14 countries studied. The highest increases occur in Germany (+9.6%) and Poland (+9.7%)¹. A measure of imbalance between supplier and retail concentration is being reported for 10 of the 14 markets (p371).

According to the report, the share of private label in those markets ranged in 2012 from 1% to 67%, an average of 34%², with an average annual increase of 13%. Euromonitor data show a similar picture. According to Euromonitor, the share of private label in the EU-25 countries in 2012 ranged from 5% (Bulgaria) to 74% (UK).³

In the markets considered, modern grocery retail controlled in 2012 between 79% and 99% of milk distribution. The control over milk distribution has increased on average by 12% in 8 years.

These figures already show that in many cases, retailers exert a considerably degree of control over the milk category. In a country like the UK where private label accounts for 74% of the market, retailers clearly represent formidable competitors to the remaining suppliers of branded products.



¹ See table19 p137 of the report

² Table based on pl data in report from p 291 to 298

³ No data for Malta, Luxembourg and Cyprus

This case shows the retailers’ control over the category, not only in terms of the control of distribution – leaving no alternative channels for suppliers to market their products as reported by German competition authorities in their 2014 market inquiry, but also as direct competitors with private labels.

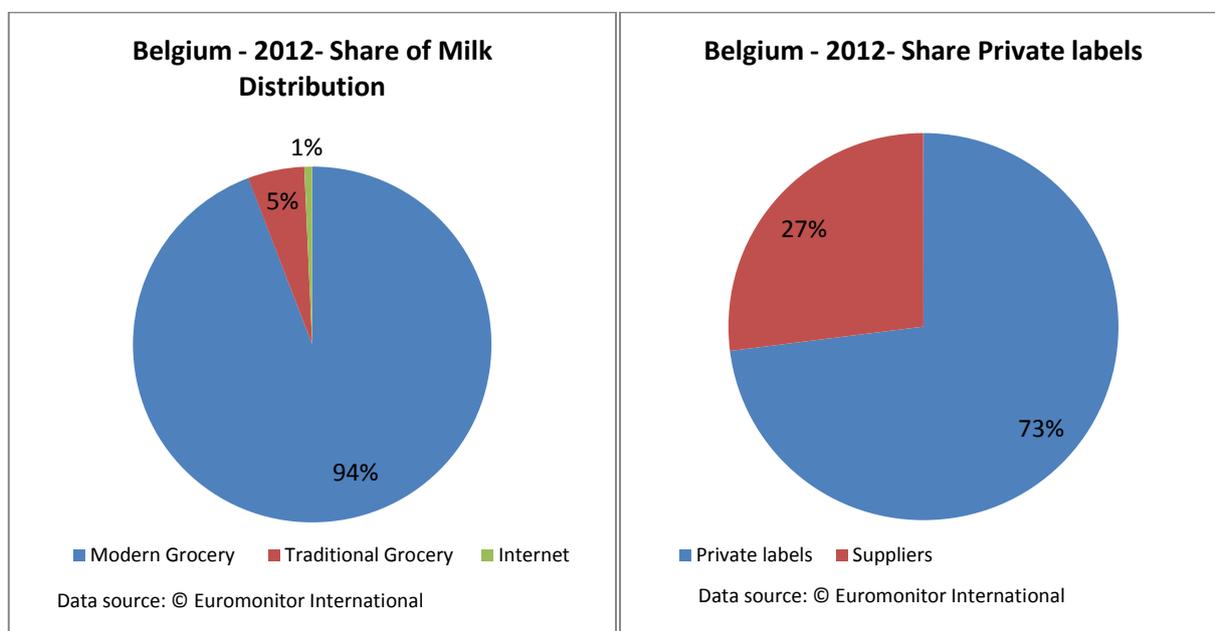
With this background in mind, we now consider in further detail the distribution of milk in two countries. You will find in the following pages two case studies: one for Belgium and the other one for Germany.

1. Belgium

According to the study, Belgium shows the highest growth of imbalance, with supplier concentration growing faster than retail concentration (p371). For 2012, the study indicates the following:

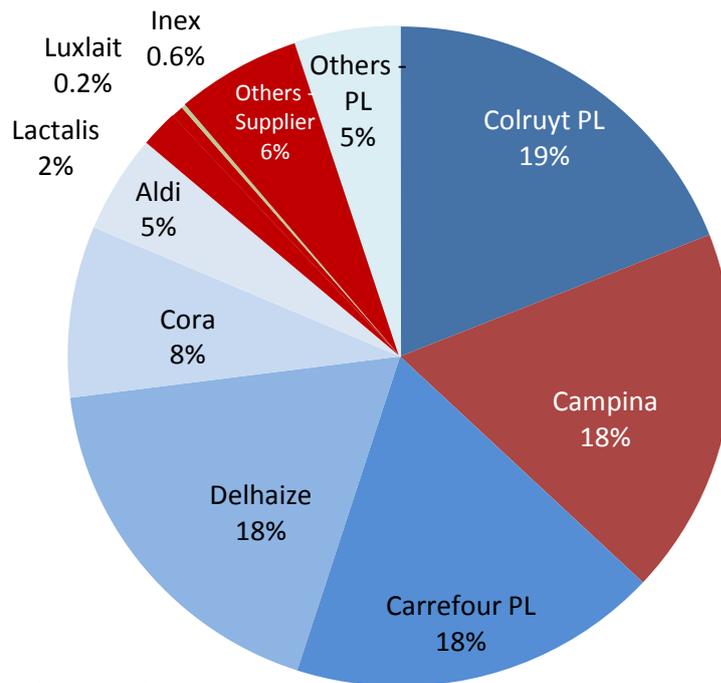
- milk private label share of 62% (p291);
- supplier concentration⁴ increasing by an annual average of 2.3% since 2004 (p303);
- retailer (group level) concentration decreasing by an annual average of 1 % since 2004 (p302);
- a modern grocery retail share of edible grocery of 83% (p65) at national level – i.e. 11 points below the modern grocery retail share of the milk category;
- imbalance increasing (supplier concentration increasing more than retail concentration) by 11.5% a year since 2004(p371).

However, it is not credible to claim that the distribution of milk in Belgium is balanced in favour of suppliers. The opposite is true. The reason for this is that private label accounts for a clear majority of the supply of milk in Belgium. The study suggests the share of private label to be 62%. Euromonitor data, shown in the figures below, indicates that private label accounts for a share of 73% of the distribution of milk in Belgium.



⁴ HHI:the sum of the squares of market shares of suppliers for category supplier only market (in this case on the remaining category market of 38%)

2012 - Share of Milk Sales - Belgium 73% PL Share



Data source: © Euromonitor International

Based on the above data, we see on the contrary that:

- there are no alternative channels left for suppliers for selling milk in Belgium, as modern grocery retail controls 94% of the distribution
- In addition, Belgium is among the countries with the highest private label shares in the category. As the above figure shows, four out of the top-5 suppliers in the category are retailers with their private label. Only one of them, Campina, is a branded supplier.

Contrary to the study's conclusion, the Belgian milk market is therefore characterized by a strong imbalance in favour of retailers, rather than in favour of suppliers. The study's erroneous conclusions are due to the following two factors:

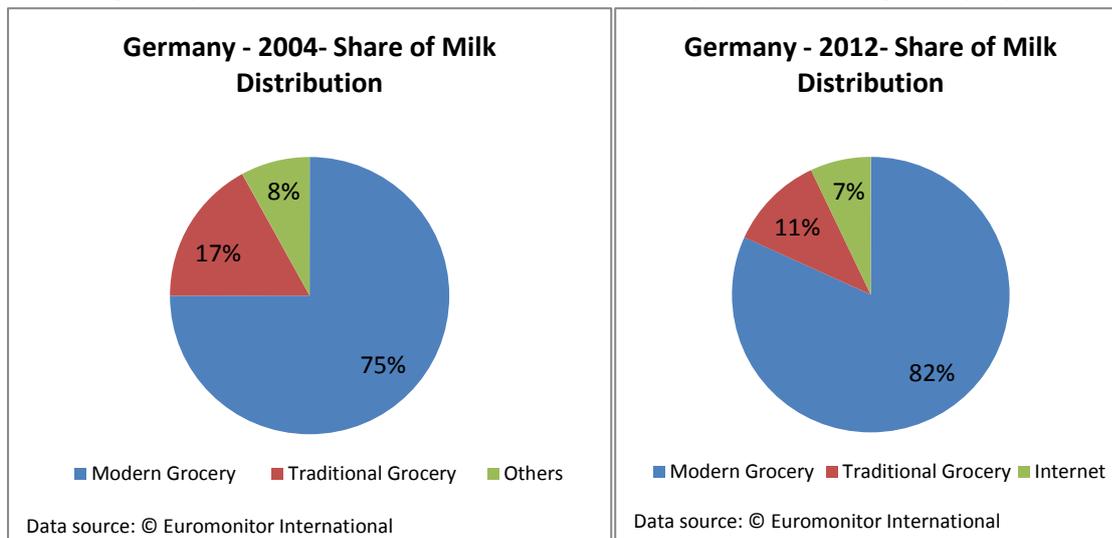
- the report doesn't consider – as the consumer does - the whole category with all the players – be they retail or manufacturer brands , it analyses the market as two different markets;
- the “supplier market” has been reduced to 27% - with consequently less suppliers.

Let us now consider the second case study on the following pages: Germany.

2. Germany

On the measures of the study, the German market has seen the highest growth of supplier concentration for milk in the EU (p137) -9.6% annually (from HHI 441 to 915) from 2004-2012. But again this is a misleading conclusion.

- Modern grocery retail share of the distribution of drinking milk products grew by 7 points



- According to the German competition inquiry, the top 5 retailers control 70% of the distribution of milk:

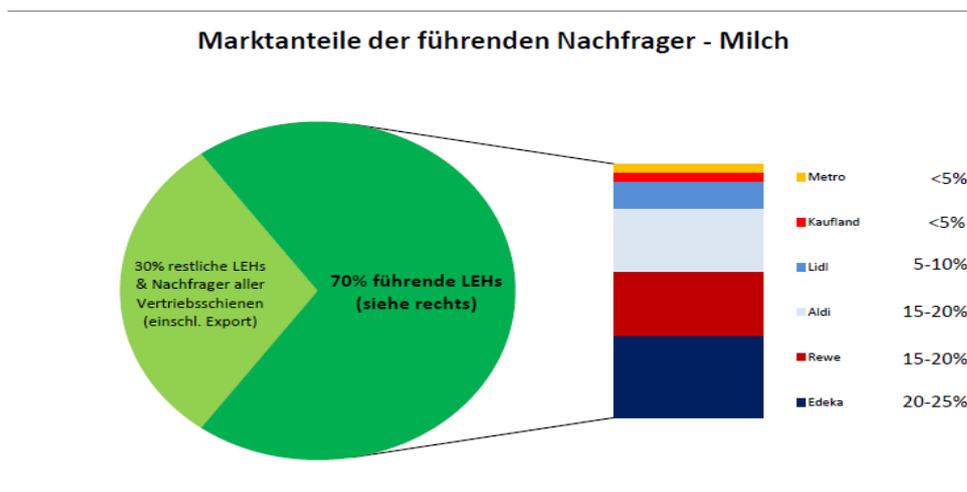
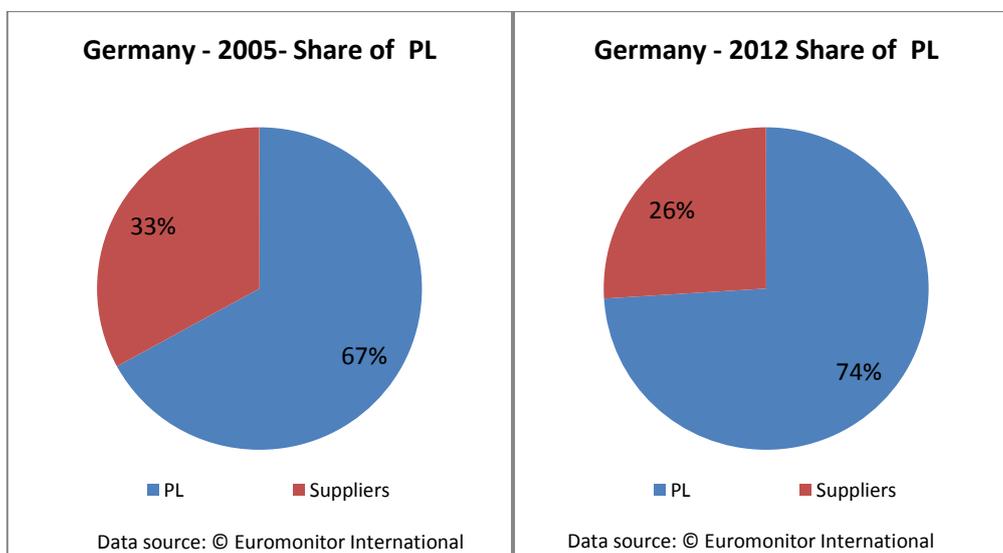
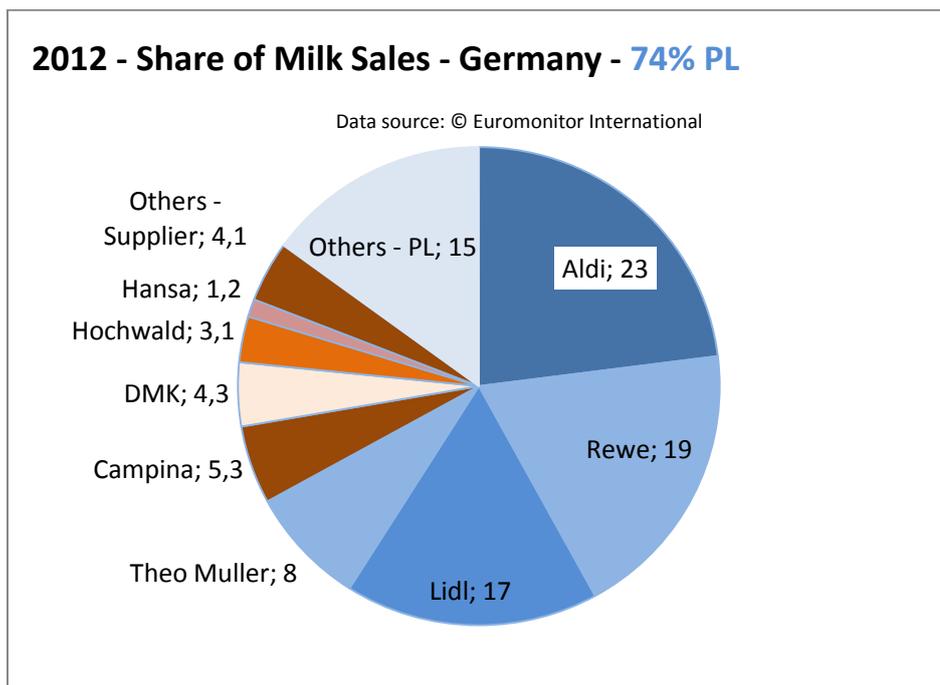


Abbildung 17: Marktanteile Milch gesamt



The share of private label in the “milk only” category in 2012 stood at 74%, up from 67% in 2005 (see figures above).

The figure below examines the share of individual suppliers in the German milk market. As in the case of Belgium discussed above, the top suppliers in the market are all retailers with their private label: Aldi, Rewe and Lidl. The largest branded supplier, Theo Muller, has a share of just 8 %.



In 2005, the shares were

- Aldi: 20%	+3
- Rewe: 17%	+2
- Lidl: 14%	+3
- Theo Muller: 7%	+1
- Campina: 4.9%	+0.4
- Hochwald: 2.1%	+1
- Hansa: 1.1%	
- DMK: 0%	

The study finds that:

- Supplier concentration increased, at an annual growth (CAGR) of 9.6% since 2004 (p334)
- While recognizing an imbalance, the retail side being more concentrated than the supplier side, the imbalance would decrease annually by 4.9% (p371), retail concentration growing at a lower rate than supplier concentration (5% at national level, p300, versus 9.6% for milk suppliers).

Based on the above data, we see:

- An increase of modern grocery retail share of distribution by 7 points
- An increase of private label share by 7 points too – shrinking the “supplier market” by the same amount.

In conclusion:

The increase in the share of private label has resulted in a sharp reduction in the number of branded suppliers. In 2005, “other suppliers” accounted for a share of 13%. In 2012, this has gone down to just 4.1%.

It is because of this that, apparently, supplier concentration has increased. But as the above discussion shows, this conclusion is misleading. Suppliers have been marginalised because of the continued growth of private label. For this reason, private label needs to be included in any assessment of supplier concentration.

In the context of the German milk market, it is simply not plausible to claim that supplier concentration has increased or that the market is imbalanced in favour of suppliers. As in the case of Belgium discussed above, the very opposite is true.

A mathematical demonstration

1. Were we to consider the category as a market, and apply the measure of national supplier concentration in a product category as defined in the report for the full market (p 85) considering “private labels” as one supplier (p217) we would have a supplier concentration level for the milk category at 5711 in 2012.

Company Shares (by Global Brand Owner) | Historic | Retail Value RSP | % breakdown

Geograph	Categc	Companies	2005 % share	2005 HHI	2012 % share	2012 HHI	CAGR
Belgium	Milk	Royal FrieslandCampina NV	18,1	328	18,1	328	0
Belgium	Milk	Lactalis, Groupe	2,1	4	1,8	3	-4%
Belgium	Milk	Inex NV SA	0,5	0	0,6	0	5%
Belgium	Milk	Luxlait SA	0,2	0	0,2	0	0
Belgium	Milk	Chevrardennes NV SA	0,2	0	0,1	0	-18%
Belgium	Milk	Danone, Groupe	2,7	7	0,0	0	-100%
Belgium	Milk	Private Label	72,5	5256	73,1	5344	0,30%
Belgium	Milk	Others	3,7	14	6,0	36	15%
Belgium	Milk	Total	100,0	5610	100,0	5711	0,30%

Research Sources:

© Euromonitor International

2. Were we as the report does to consider the share of suppliers in the ‘branded market’ (excluding private labels altogether), as a measure s of national supplier concentration in a product category, we would have a supplier concentration level for the milk category of 5.113 and growing in 2012... while the “supplier market” shrank following private label growth.

Company Shares (by Global Brand Owner) | Historic | Retail Value RSP | % breakdown

Geograph	Categorie	Companies	2005 % category share	2005 % share of supplier market	2005 HHI on supplier market	2012 % category share	2012 HHI on supplier market	2012 HHI on supplier market	CAGR
Belgium	Milk	Royal FrieslandCampina NV	18,1	65,8	4332	18,1	67,5	4561	
Belgium	Milk	Lactalis, Groupe	2,1	7,6	58	1,8	6,7	45	
Belgium	Milk	Inex NV SA	0,5	1,8	3	0,6	2,2	5	
Belgium	Milk	Luxlait SA	0,2	0,7	1	0,2	0,7	1	
Belgium	Milk	Chevrardennes NV SA	0,2	0,7	1	0,1	0,4	0	
Belgium	Milk	Danone, Groupe	2,7	9,8	96	0,0	0,0	0	
Belgium	Milk	Others	3,7	13,5	181	6,0	22,4	501	
Belgium	Milk	Total "Supplier Market"	27,5		4672	26,8	100,00	5113	1,3%

Research Sources:

© Euromonitor International

3. Were we to measure imbalance as the study does by $\log \frac{HHI(\text{retail side})}{HHI(\text{supply side})}$, using the retail concentration HHI at retail group level provided by the report which appears to have been used for their estimate p302: Belgium = 2023

$\log (2023/5113) = -0.4$ – supplier concentration stands higher than retail concentration.

4. Were we – as the consumer does – to look at the category offer of all individual suppliers – be they retail or manufacturers brands, we would have a supplier concentration level at 1542 HHI in 2012 for milk, as shown on the following page.

Company Shares (by National Brand Owner) | Historic | Retail Value RSP | % breakdown

Geograph Categories	Companies	2005 % share	2005 HHI	2012 % share	2012 HHI	CAGR in %
Belgium Milk	Etn Franz Colruyt NV	18,4	339	19,0	361	0,9
Belgium Milk	FrieslandCampina SA NV	18,1	328	18,1	328	0
Belgium Milk	Carrefour Belgium SA/NV	18,8	353	17,7	313	-1,7
Belgium Milk	Delhaize 'Le Lion' SA	18,1	328	17,7	313	0
Belgium Milk	Others	9,1	83	11,4	130	6,6
Belgium Milk	Cora SA/NV	7,4	55	8,4	71	3,7
Belgium Milk	Aldi NV/SA	4,2	18	4,8	23	3,6
Belgium Milk	Lactalis Europe du Nord	2,1	4	1,8	3	-4,0
Belgium Milk	Inex NV SA	0,5	0,3	0,6	0,4	4,0
Belgium Milk	Luxlait SA	0,2	0,0	0,2	0	0,00
Belgium Milk	Chevrardennes NV SA	0,2	0,0	0,1	0	0,00
Belgium Milk	Danone NV/SA	2,7	7	0,0	0	-100
Belgium Milk	Total		1514		1542	0,2

Research Sources:

© Euromonitor International

5. Were we then – as the study does – to establish a measure of power or imbalance, between retail and suppliers, and consider the category as two different “markets”, we could

A) ° Compare the respective HHI of each “supplier” market – retail and manufacturer brands: the measure of imbalance shows a retail concentration higher than suppliers’ “ $\log(1106/367) = +0.47$

Company Shares (by National Brand Owner) | Historic | Retail Value RSP | % breakdown

Geograph Categories	Companies	2005 % share	2005 HHI	2012 % share	2012 HHI	CAGR in %
Belgium Milk	Etn Franz Colruyt NV	18,4	339	19,0	361	0,9
Belgium Milk	Carrefour Belgium SA/NV	18,8	353	17,7	313	-1,7
Belgium Milk	Delhaize 'Le Lion' SA	18,1	328	17,7	313	0
Belgium Milk	Cora SA/NV	7,4	55	8,4	71	3,7
Belgium Milk	Aldi NV/SA	4,2	18	4,8	23	3,6
Belgium Milk	Others PL	5,4	29	5	25	
	Private Label "concentration" level		1121		1106	0

Company Shares (by Global Brand Owner) | Historic | Retail Value RSP | % breakdown

Geograph Categories	Companies	2005 % share	2005 HHI	2012 % share	2012 HHI	CAGR in %
Belgium Milk	FrieslandCampina SA NV	18,1	328	18,1	328	0
Belgium Milk	Lactalis Europe du Nord	2,1	4	1,8	3	-4,0
Belgium Milk	Inex NV SA	0,5	0,3	0,6	0,4	4,0
Belgium Milk	Luxlait SA	0,2	0,0	0,2	0	0,00
Belgium Milk	Chevrardennes NV SA	0,2	0,0	0,1	0	0,00
Belgium Milk	Danone NV/SA	2,7	7	0,0	0	-100
Belgium Milk	Others suppliers	3,7	14	6	36	
Belgium Milk	Supplier concentration level		354		367	-1%

B) Compare the degree of modern grocery retail concentration with the brand supplier concentration in the category.

Ideally that measure should be done with the modern grocery retail concentration for the category and not – as the report does – using a single national modern grocery retail concentration level.

In spite of this, were we to use the retail concentration HHI used by the study for Belgium in 2012 (HHI=2023),

The measure of imbalance: $\log(2023/367)$ would be – again – but even more, to the detriment of suppliers. The degree of retail concentration being higher, the level of imbalance would stand at + 0.74.

Annex 4: OIL

In this case study, we examine the Spanish oil market. In particular, we assess the finding in the report that in Spain, the imbalance between suppliers and retailers has in recent years shifted in favour of suppliers, mainly as a result of an increase in supplier concentration. As we will show, this finding is entirely out of in line with the reality of the edible oil market in Spain, which is the following:

- The share of private label in the Spanish oil category has increased dramatically between 2004 and 2012. In olive oil, it has increased from 35% to 56%. In vegetable oil, it increased from 48% to 68%. The growth of private label has come at the expense of branded good suppliers.
- The top sellers in both markets are retailers, not branded good suppliers.
- Retail concentration and the control of modern retail are both increasing.

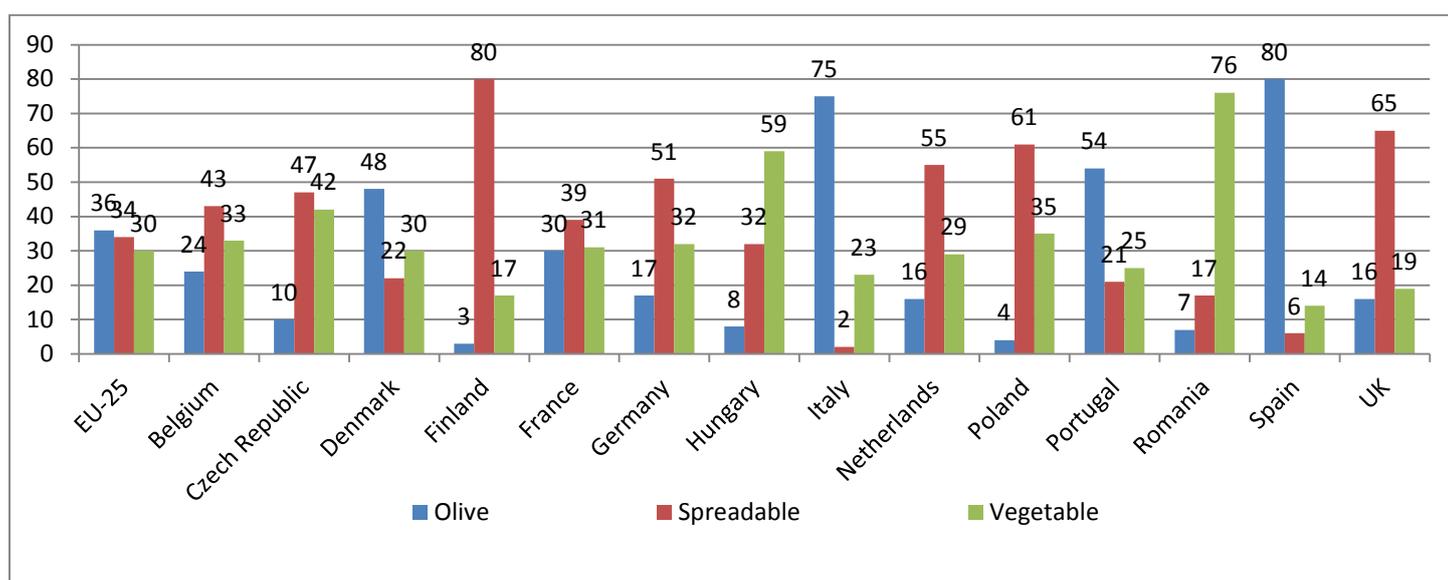
In such circumstances, it is not credible to claim that the balance of power in the market has shifted from retailers to suppliers. The very opposite is true. By excluding private label from the measures of supplier concentration, the study arrives at a manifestly incorrect way of viewing competition in the market. Had the impact of private label on supplier competition properly been accounted for, the report could only have arrived at the correct conclusion that the balance of power in the market has sharply shifted in favour of retailers.

The structure of this case study is as follows. First, we provide some background on the edible oils category in the various Member States, followed by some key findings of the report at EU level. We then discuss the case of Spain in more detail.

The edible oils category

- The edible oil category studied in the report is defined (p75) as “olive oil, aromatic oil, other oil”
- The Euromonitor database classifies oil in 3 subcategories: olive oil, spreadable oils & fats¹, and vegetable and seed oil². The “oil” sector represented close to 23 billion € in 2012 in the EU.
- The 3 categories have a relatively similar share of the EU oil sector (36%, 34%, 30% in 2012). However, at country level, the share of each of the three categories can differ substantially. In Spain, the country on which this case study focuses, olive oil accounts for 80% of all oil consumed and vegetable oil for 14%.

2012 share of the three main oil categories



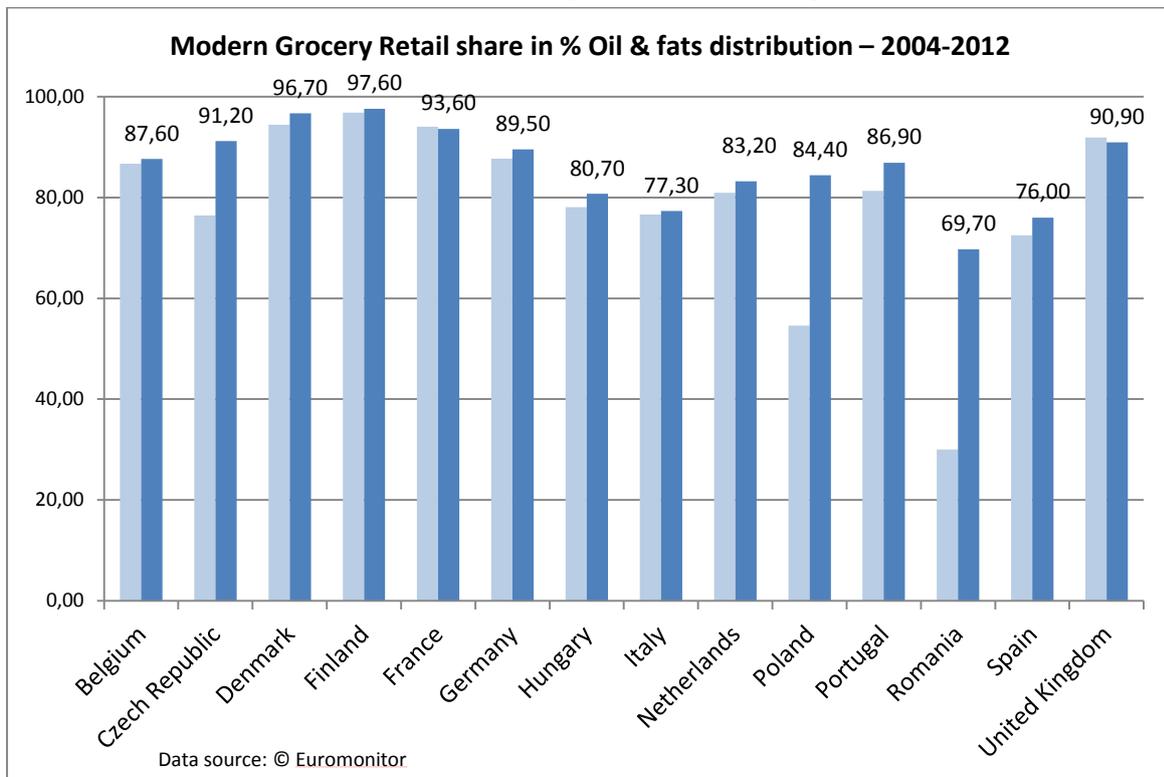
¹ Generally a substitute for butter, usually made from vegetable oils (or olive oil or sunflower oil) and usually also contains buttermilk.

² Oils made of seeds/fruits other than olives, include vegetable oil, sunflower oil, grapeseed oil, walnut oil, sesame oil, groundnut oil, etc

- The share of private labels in these 3 oil categories varies significantly. In 2012, it ranged:
 - From 6.5% to 69.8% for olive oil
 - From 3.2% to 33.2% for spreadable oil
 - From 0.8% to 65% for vegetable and seed oil

Key findings of the report

- The degree of supplier concentration is reported increasing in 9 of the 14 countries studied. The highest increases are reported for Poland (+9.7%), Italy and the Netherlands (+7.4% each) and Spain (+5%).³
- A measure of imbalance in favor of suppliers, when comparing supplier and retail concentration is reported for 6 out of the 14 markets (p364). However, the report concludes that at EU level, supplier concentration is higher than retail concentration.
- In the markets considered, modern grocery retail controlled in 2012 between 69.7% and 97.6% of the distribution of oil & fats. The share of modern grocery in this category has increased, on average, by 11% between 2004 and 2012. Data for each country are shown in the figure below.



Spain

In the remainder of this case-study, we will examine the oil category in Spain in more detail.

As noted above, the study claims that in Spain, the degree of supplier concentration has increased by 5.2% annually. The study also argues that the imbalance in favour of retail that existed between 2004 and 2010 would since have shifted in favour of suppliers (p327 & 364).

As shown on the next pages, these conclusions are entirely out of line with the actual dynamics of the Spanish oils markets. We discuss olive oils and vegetable oils in turn.

³ See table 19 p137 of the report

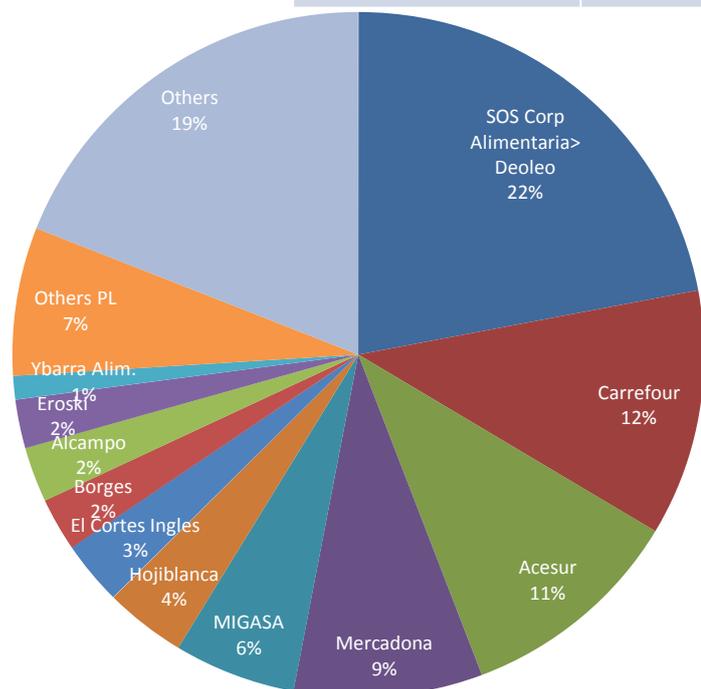
1. OLIVE OIL (80% of the Spanish oil category)

- Private labels have increased their share by 6% CAGR annually at the detriment of other suppliers (brands and “others”), gaining 21 points market share in 8 years.
- The power of retailers manifests itself both in modern retailers’ control of distribution channels (76% in 2012) and in the concentration of private labels in the olive oil category (56.4% in 2013).

Spain - Olive Oil – Share of suppliers

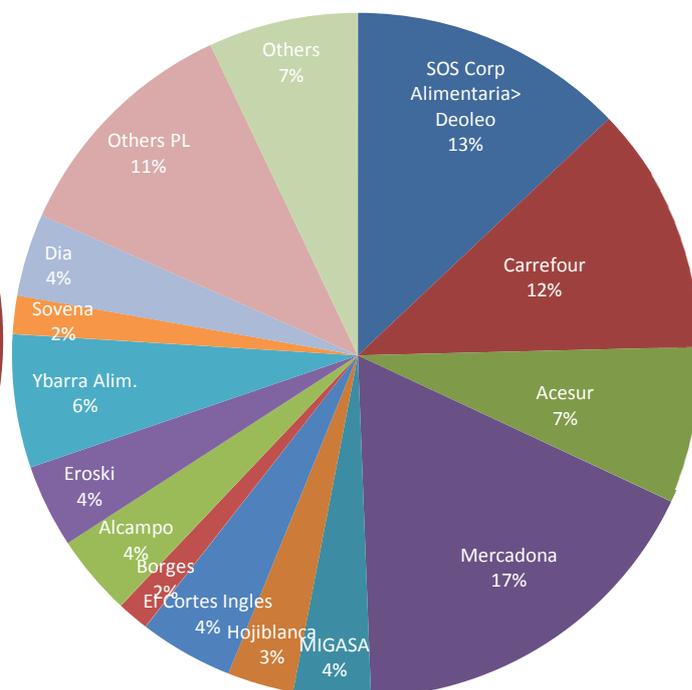
% share of Sales	2005	2013
Brands	45,8%	36,5%
Private Labels	35,3%	56,4%
Others	18,9%	7,1%

2005



Data source: © Euromonitor International

2013



Data source: © Euromonitor International

- In 2012, the number 1 seller is a retailer – Mercadona, with 17% of the category share; the top 5 sellers represent 53% of the category opposed to 60% in 2005 – 2 of the top 5 sellers are retailers.

➤ **These data do not show an imbalance favouring suppliers – quite the opposite.**

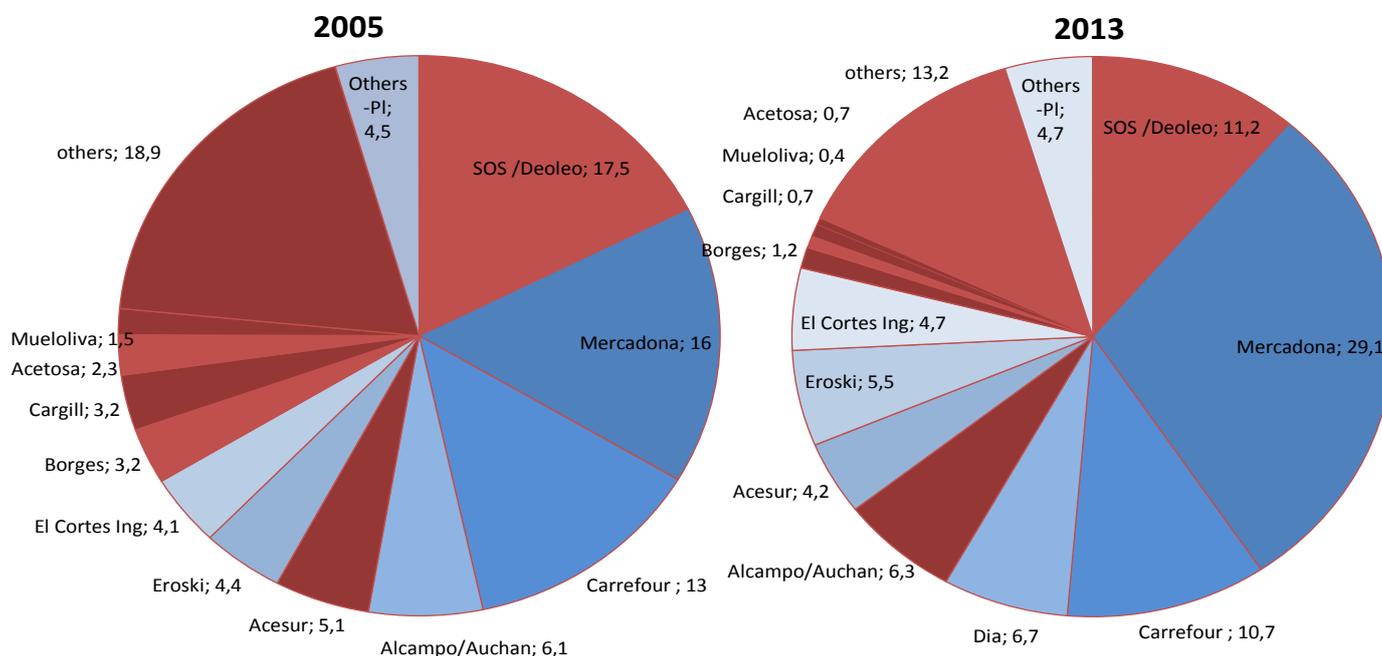
2. VEGETABLE OIL (14% of the Spanish oil category)

- Private labels have increased their share by 4.5% CAGR annually at the detriment of other suppliers (brands and “others”); they gained 20.2 points market share in 8 years.
- Retail concentration is expressed both by its control of distribution channels (76% in 2012) as well by the concentration of private labels in the vegetable oil category (68.3% in 2013 from 48% in 2005)
- The top 5 sellers of the category in 2013 represent 64% of the category sales from 58% in 2005.
- 4 of the top 5 sellers in the category are retailers: Mercadona (N°1), Carrefour (N°3), Dia (N°4) and Alcampo/Auchan (N°5)

➤ **The data does not show an imbalance favouring suppliers – quite the opposite.**

Spain – Vegetable Oil – Share of suppliers

% share of Sales	2005	2013
Brands	33,7%	18,5%
Private Labels	48,1%	68,3%
Others	18,9%	13,2%



Data source: © Euromonitor International

Our analysis points to flaws in the method used to measure supplier concentration:

Vegetable oil

1) The report methodology: increase in private label share leads to lower supplier market share. Report defines an increased supplier concentration

The table below illustrates how the report's approach of excluding private label from the measures of supplier concentration can lead to erroneous conclusions. As shown, the share of the largest supplier, SOS Corp Alimentaria SA, decreased from 17.5% to 11.2% between 2005 and 2012. Based on a "supplier market", the share of this supplier has however slightly increased, resulting in a greater contribution to the HHI. But given the contraction of the overall supplier market as a result of the strong growth of private label, this result has little economic significance.

"Supplier concentration" - Our calculation following report methodology - on "brands market only including others" for Vegetable and Seed Oil

Companies	2005 category share	2005 "supplier market" share	2005 HHI "on brands suppliers only"	2013 category share	2013 "supplier market" share	2013 HHI "on brands suppliers only"
SOS Corp Alimentaria SA	17,50	33,8	1145,8	11,20	35,8	1280,4
Aceites del Sur Coosur SA (Acesur)	5,10	9,9	97,3	4,2	13,4	180,1
Borges SA	3,20	6,2	38,3	1,2	3,8	14,7
Cargill Inc	3,20	6,2	38,3	0,7	2,2	5,0
Aceites Toledo SA (ACETOSA)	2,30	4,4	19,8	0,4	1,3	1,6
Mueloliva SL (Grupo Hermanos Muela)	1,50	2,9	8,4	0,4	1,3	1,6
Others	18,90	36,6	1336,4	13,20	42,2	1778,5
		Sum of individual HHI			Sum of individual HHI	
"Suppliers only market"	51,70	100,00	2.684,32	31,30	100,00	3.261,95

Data source: © Euromonitor International

2) Recommended methodology, ALL identified suppliers of the category – whatever their origin

- If we consider all identified suppliers – retailer or manufacturer brand – we see a level of concentration at 25% the level of the supplier concentration based on the report methodology
- We are also able to measure the level of Private label level of concentration
- We see that the Private level increase leads to the gradual disappearance of small brands suppliers in the vegetable oil market: an increased private label supplier concentration leading to an increased category concentration.

Vegetable and Seed Oil

Companies	2005	2005 HHI	2013	2013 HHI	
SOS Corp Alimentaria SA	17,50	306,3	SOS Corp Alimentaria SA	11,20	125,4
Aceites del Sur Coosur SA (Acesur)	5,10	26,0	Aceites del Sur Coosur SA (Acesur)	4,2	17,6
Borges SA	3,20	10,2	Borges SA	1,2	1,4
Cargill Inc	3,20	10,2	Cargill Inc	0,7	0,5
Aceites Toledo SA (ACETOSA)	2,30	5,3	Aceites Toledo SA (ACETOSA)	0,4	0,2
Mueloliva SL (Grupo Hermanos Muela)	1,50	2,3	Mueloliva SL (Grupo Hermanos Muela)	0,4	0,2
Mercadona SA	16,00	256,0	Mercadona SA	29,10	846,8
Centros Comerciales Carrefour SA	7,40	54,8	Centros Comerciales Carrefour SA	10,7	114,5
Carrefour SA	5,60	31,4	Dia	6,7	44,9
Alcampo SA	6,10	37,2	Alcampo SA	6,3	39,7
Eroski, Grupo	4,40	19,4	Eroski, Grupo	5,5	30,3
El Corte Inglés SA	4,10	16,8	El Corte Inglés SA	4,7	22,1
	Sum of individual HHI		Sum of individual HHI		
Identified Brands suppliers category share	32,80	360,28	Identified Brands suppliers	18,10	145,33
Identified PL identified category share	43,60	415,50	Identified PL	63,00	1.098,22
Total "identified" category suppliers	76,40	775,78		81,10	1.243,55

Olive oil

"Supplier concentration" - Our calculation following report methodology -Olive Oil

Companies	2005 category share	2005 "supplier market"	2005 HHI "on brands suppliers only"	2013	2013 "supplier market" share	2013 HHI "on brands suppliers only"
SOS Corp Alimentaria SA	22,00	34,1	1159,8	12,90	29,5	871,4
Aceites del Sur Coosur SA (Acesur)	10,60	16,4	269,2	7,4	16,9	286,7
Miguel Gallego SA (MIGASA)	5,70	8,8	77,9	3,6	8,2	67,9
Hojiblanca, Grupo	3,80	5,9	34,6	3,1	7,1	50,3
Borges SA	2,50	3,9	15,0	1,5	3,4	11,8
Grupo Ybarra Alimentacion SL	1,10	1,7	2,9	6,3	14,4	207,8
Others	18,90	29,3	856,0	7,10	16,2	264,0
Sovena SA	0,00	0,0	0,0	1,80	4,1	17,0
	Sum of individual HHI			Sum of individual HHI		
Category share of "Suppliers only"	64,60	100,0	2.415,34	43,70	100,00	1.776,89

Data source; © Euromonitor International

Olive Oil - our recommended methodology including all Identified suppliers

Companies	2005	2005 HHI	2013	2013 HHI	
SOS Corp Alimentaria SA	22,00	484,0	SOS Corp Alimentaria SA	12,90	166,4
Aceites del Sur Coosur SA (Acesur)	11,00	121,0	Aceites del Sur Coosur SA (Acesur)	7,4	54,8
Miguel Gallego SA (MIGASA)	6,00	36,0	Miguel Gallego SA (MIGASA)	6,3	39,7
Hojiblanca, Grupo	4,00	16,0	Hojiblanca, Grupo	3,1	9,6
Borges SA	2,50	6,3	Borges SA	1,5	2,3
Grupo Ybarra Alimentacion SL	1,10	1,2	Grupo Ybarra Alimentacion SL	0,4	0,2
Mercadona	8,80	77,4	Mercadona	17,40	302,8
Carrefour SA	12,00	144,0	Carrefour SA	11,7	136,9
Eroski, Grupo	2,30	5,3	Eroski, Grupo	3,9	15,2
Alcampo/Auchan	2,60	6,8	Alcampo/Auchan	3,8	14,4
El Corte Inglés SA	3,00	9,0	El Corte Inglés SA	4,4	19,4
			Sovena	1,8	3,2
			Dia	3,9	15,2
	SUM OF Individual HHI		SUM OF Individual HHI		
Identified Brands suppliers	46,60	664,46	Identified Brands suppliers	33,40	276,12
Identified PL	28,70	242,49	Identified PL	45,10	503,87
Total "identified" category suppliers		906,95	Total "identified" category suppliers		779,99

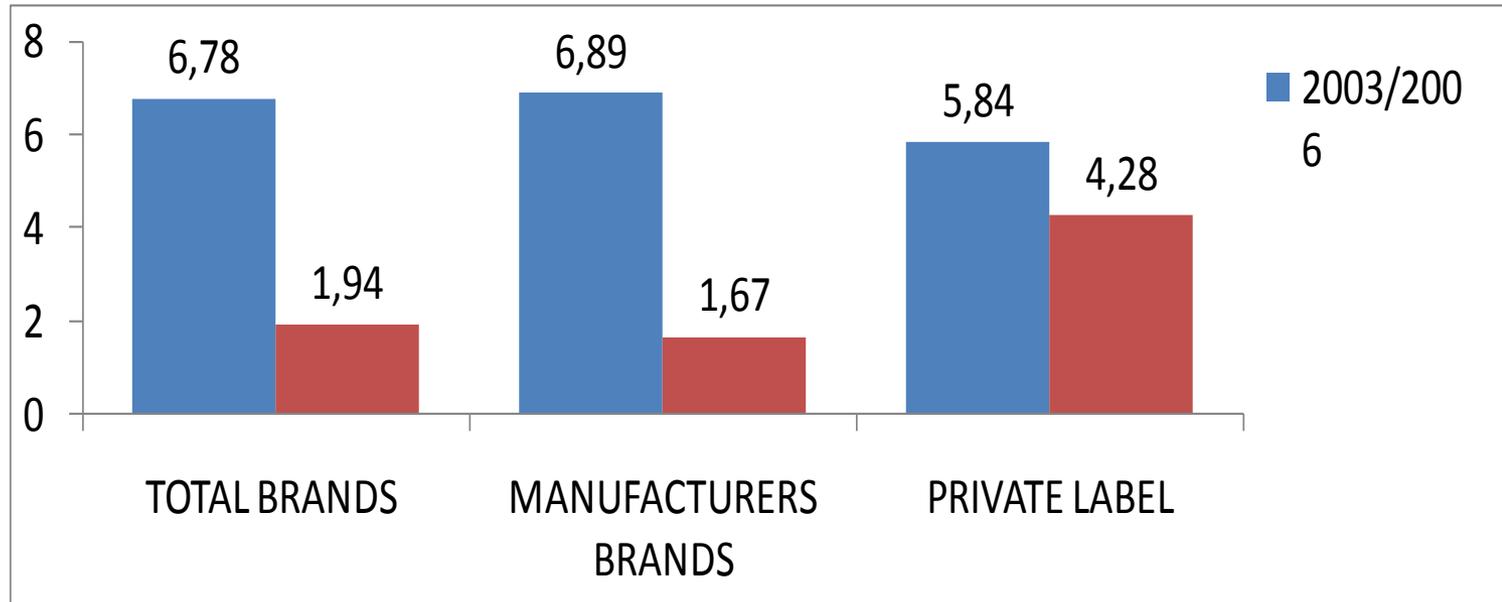
**FINDINGS IN THE RELATIONSHIP BETWEEN PL
SHARE AND INNOVATION ACTIVITY IN FMCG**

César Valencoso, Consumer Insights Director



THE SPANISH NATIONAL COMPETITION AUTHORITY REFLECTED A DRASTIC REDUCTION IN INNOVATION LEVELS IN THEIR LATEST REPORT (OCT 2011)

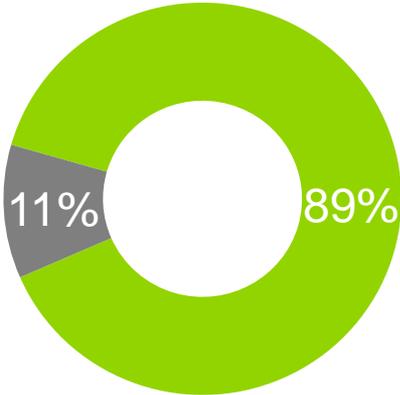
Drop in annual rate of new sku's introduction
(2003-2010)



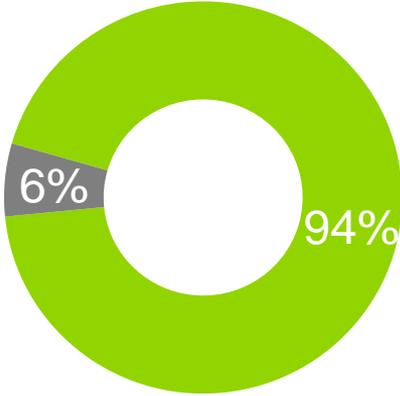
Source: CNC report on Manufacturers Y Distribution relationship.(Oct 2011) Own data extracted from distributors data

SINCE 2010 THE NUMBER OF NEW PRODUCTS LAUNCHED IN SPAIN HAS COMNTINUED TO DECLINE, YEAR ON YEAR.

innovations in FMCG. Manufacturers Brands + Private Labels



TAM 2/2013

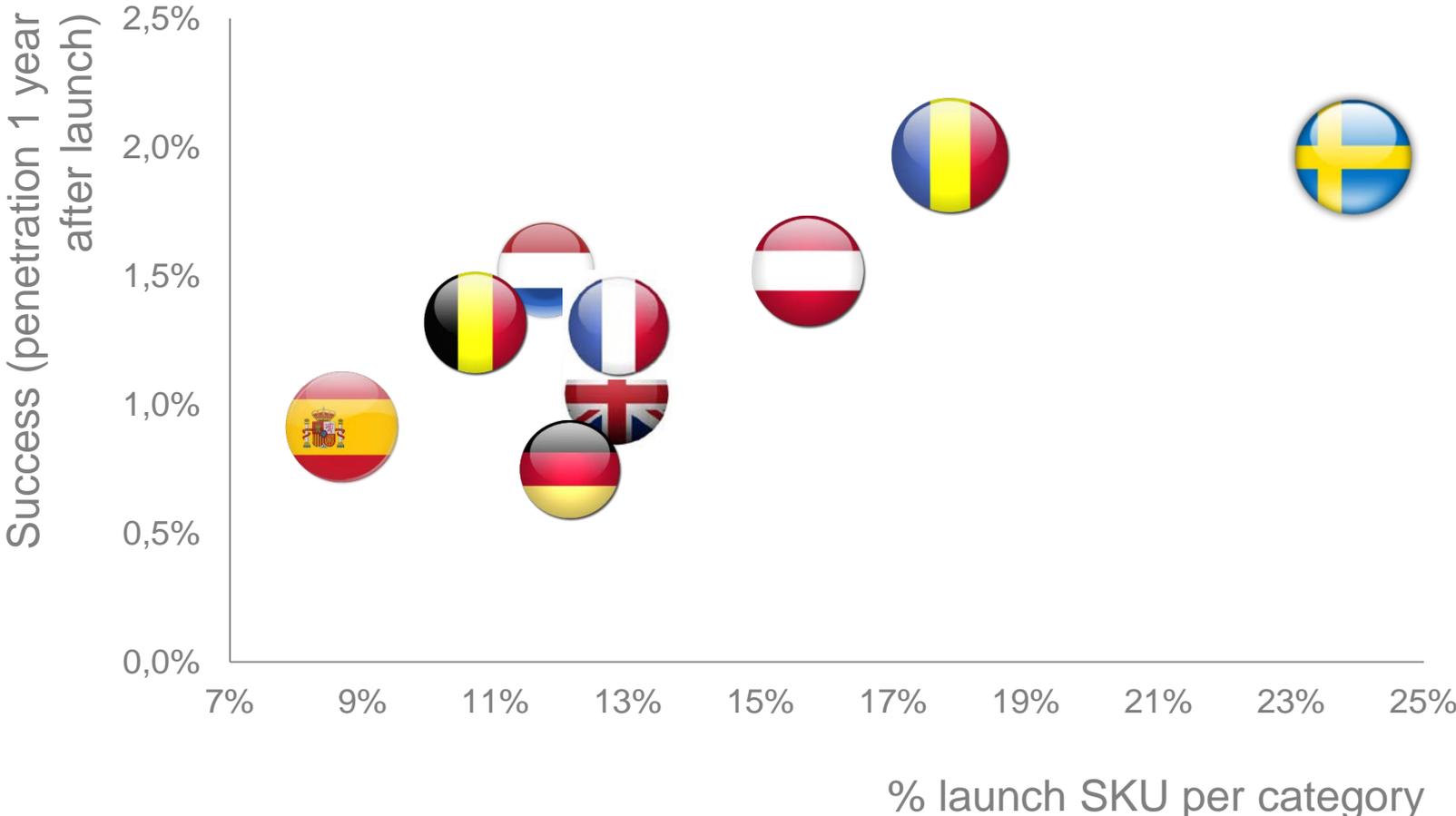


TAM 4/2013

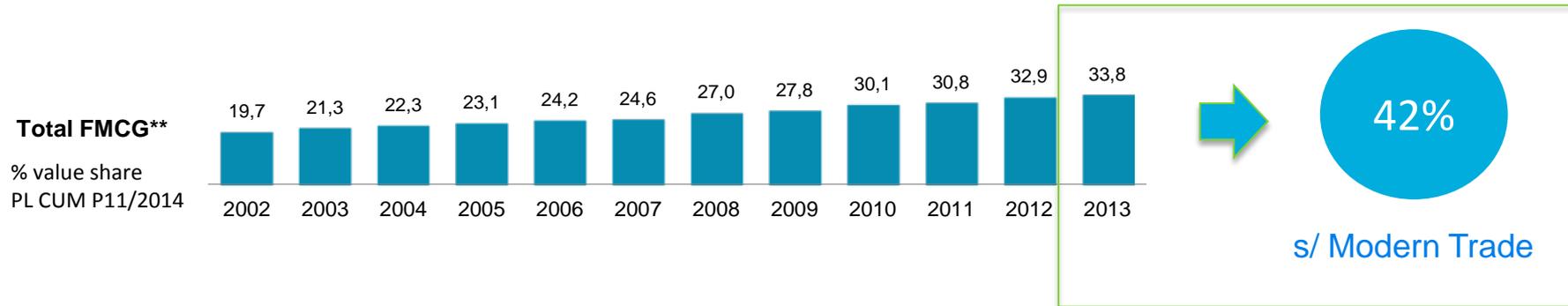
- Retailer
- Manufacturer

Source: Innovation Radar.

SPAIN AT THE VERY BOTTOM OF INNOVATION IN EUROPE

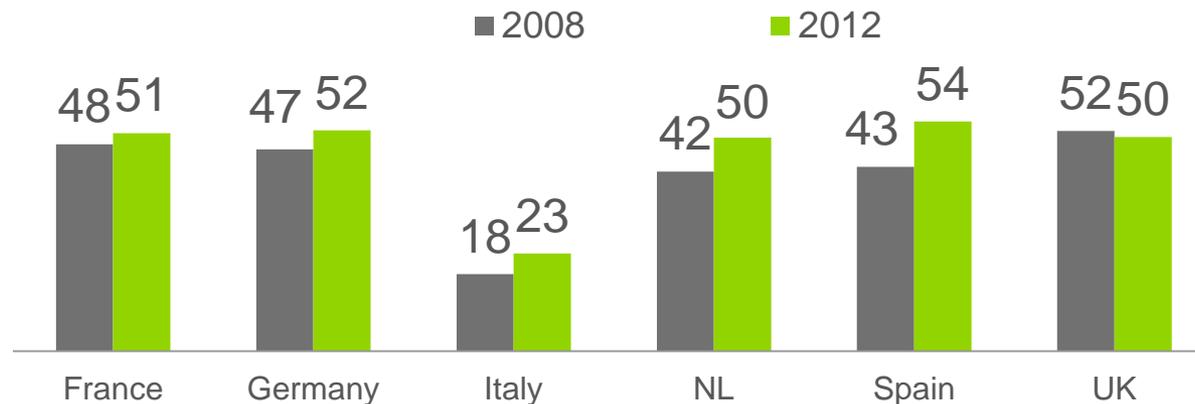


PRIVATE LABEL IN SPAIN IS BIGGER AND GROWS FASTER THAN ANYWHERE IN EUROPE



Total FMCG**

% purchases election share*



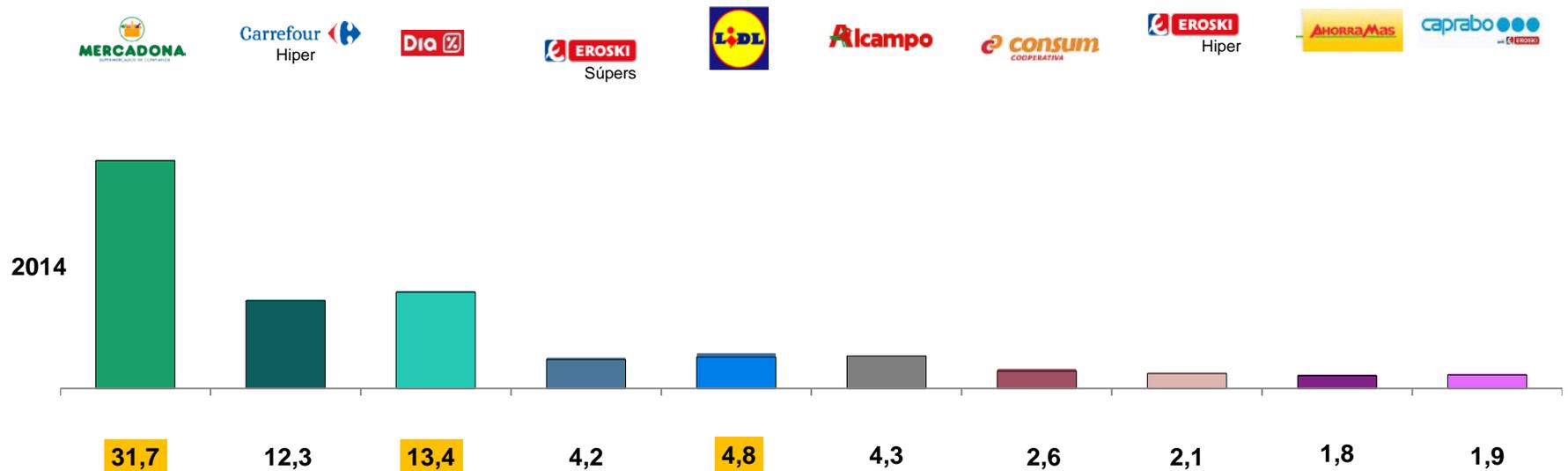
* Source Europanel based on monthly trends on the number of buyers and their purchase frequency for hundreds of FMCG categories in each country

** Total FMCG Envasado: Alimentación Envasada (sin frescos perecederos) + Droguería + Perfumería + Baby + Pet Food.

Fuente: Kantar Worldpanel

RETAILERS WITH “SHORT ASSORTMENTS” ACCOUNT FOR HALF OF MODERN TRADE SALES

% Value Share CUMP10/2014 / Modern Trade **FMCG**



Fuente: Kantar Worldpanel

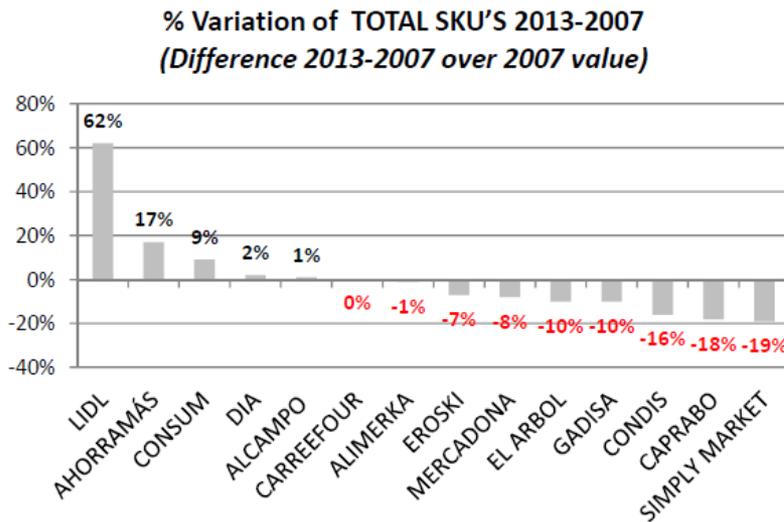
**BETWEEN 2007-2013, TOTAL SKU'S IN THE MARKET DECLINED BY -3%
EVEN THOUGH THE NUMBER OF STORES GREW BY +6% AND TOTAL RETAIL SURFACE BY +15%,**



3.1. Total Volume of SKU's

IN THE 15 CHAINS OF THE ANALYSIS, TOTAL NUMBER OF SKU'S (MF+PL) IS REDUCED BY

-3%



2013 vs 2007	
CHAIN	% Variation No. of TOTAL sku's
LIDL	62
AHORRAMAS	17
CONSUM	9
DIA	2
ALCAMPO	1
CARREFOUR	0
ALIMERKA	-1
EROSKI	-7
MERCADONA	-8
EL ARBOL	-10
GADISA	-10
CONDIS	-16
CAPRABO	-18
SIMPLY MARKET	-19
TOTAL	-3

**THE DECLINE OF 3% WAS A COMBINATION OF: -9% DECLINE IN MB'S
+15% INCREASE IN PL'S**

Source: Own analysis as per KWP data

CONFIDENTIAL

KANTAR WORLD PANEL

Decálogo de una **Innovación Exitosa**

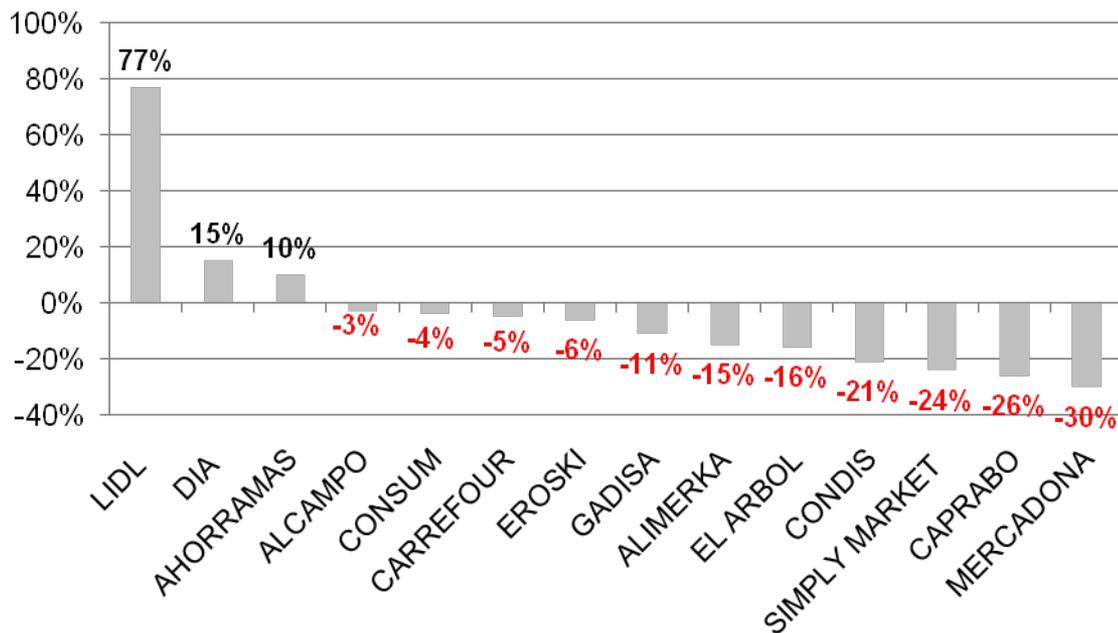
3.1. SKU VOLUME: MANUFACTURER'S BRANDS (MB)



IN THE 15 CHAINS ANALYZED, THE TOTAL NUMBER OF MB SKU'S HAS BEEN REDUCED

BY **-9%**

% Variation of MB SKU's Number 2013-2007

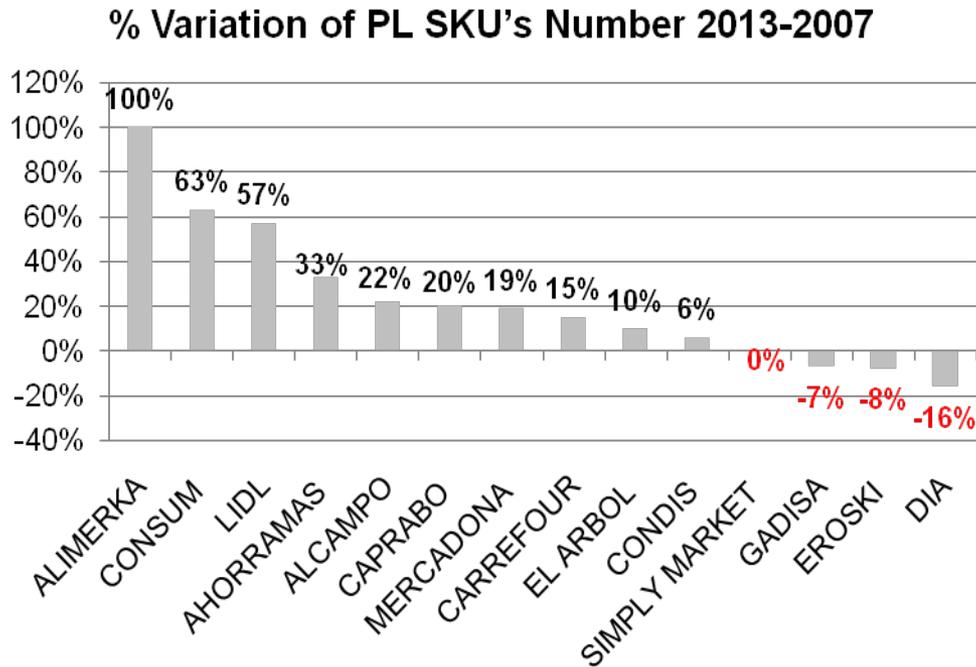


2013 vs 2007 % Variation No. of MB sku's	
CHAIN	% Variation
LIDL	77
DIA	15
AHORRAMAS	10
ALCAMPO	-3
CONSUM	-4
CARREFOUR	-5
EROSKI	-6
GADISA	-11
ALIMERKA	-15
EL ARBOL	-16
CONDIS	-21
SIMPLY MARKET	-24
CAPRABO	-26
MERCADONA	-30
TOTAL	-9

MB SKU'S NUMBER DECREASED IN 12 OUT OF THE 15 CHAINS

3.1. SKU VOLUME: PRIVATE LABEL (PL)

IN THE 15 CHAINS ANALYZED, THE TOTAL NUMBER OF PL SKU'S INCREASED BY **+15%**



2013 vs 2007 % Variation No. of PL sku's	
CHAIN	sku's
ALIMERKA	100
CONSUM	63
LIDL	57
AHORRAMAS	33
ALCAMPO	22
CAPRABO	20
MERCADONA	19
CARREFOUR	15
EL ARBOL	10
CONDIS	6
SIMPLY MARKET	0
GADISA	-7
EROSKI	-8
DIA	-16
TOTAL	15

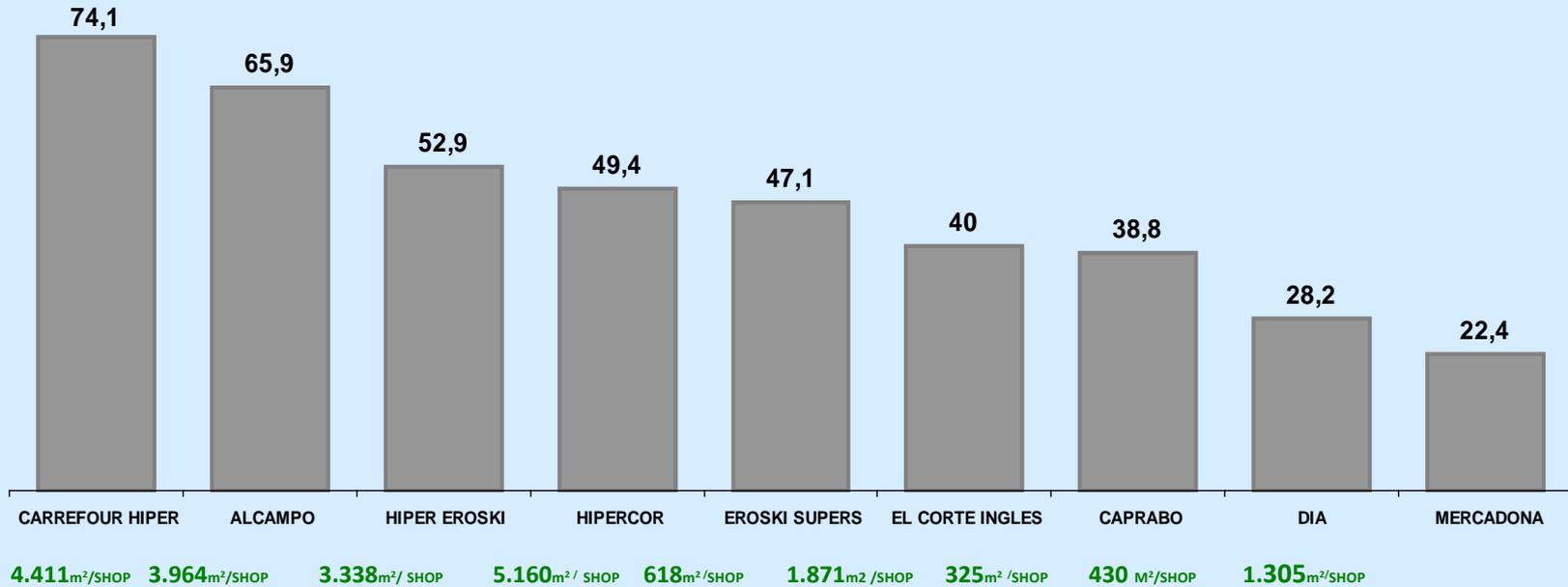
PL SKU'S NUMBER INCREASED IN 10 OUT OF THE 15 CHAINS

HYPOTHESIS: The more Private Label prevails, the less innovative the category is

MOST INNOVATIONS ARE NEVER AVAILABLE FOR CONSUMERS, MAINLY DUE TO THE LOW LISTINGS OF NEW PRODUCTS BY KEY CHAINS

% INNOVATION AVAILABLE PER RETAILER
 MANUFACTURER BRANDS- FOOD + NON FOOD

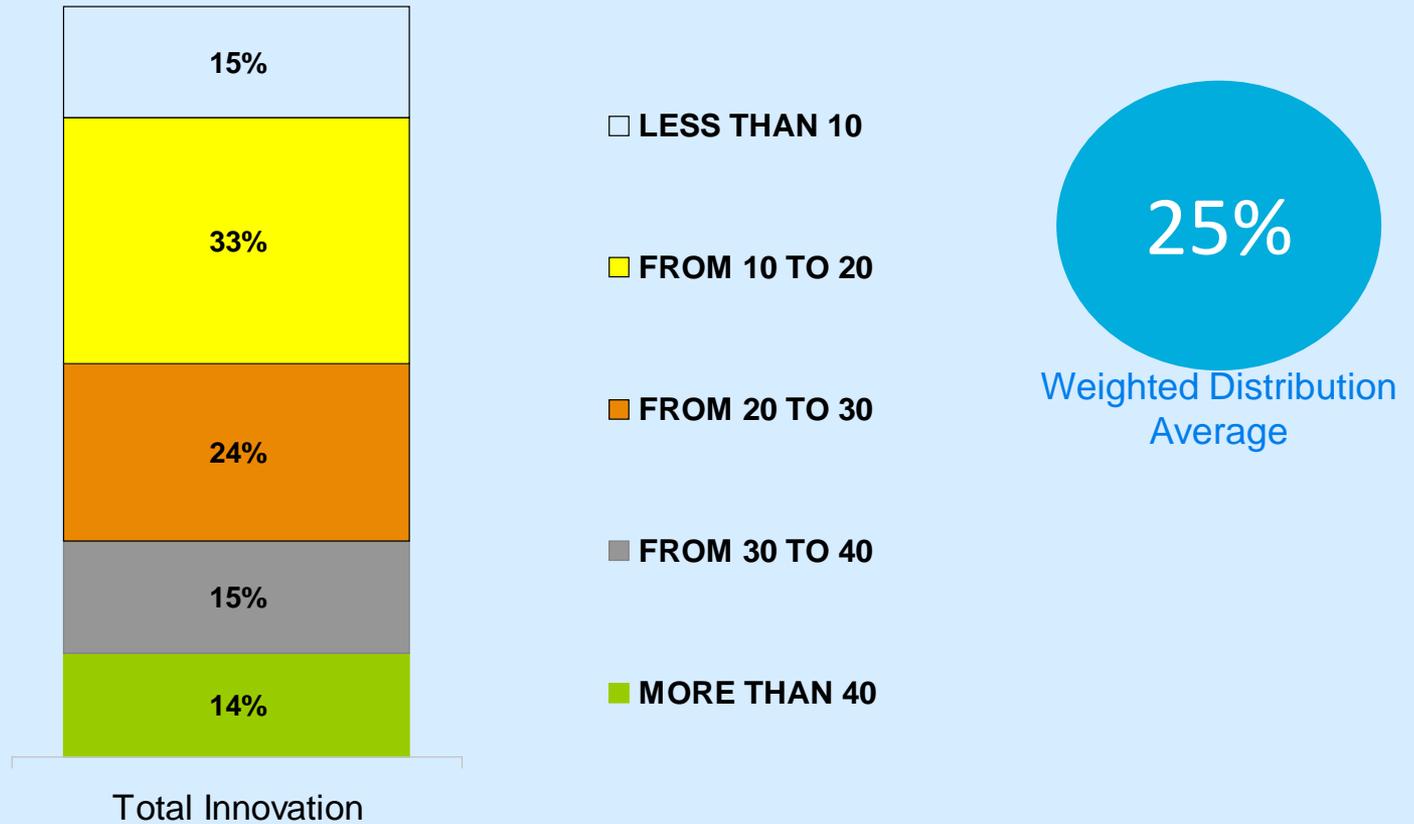
Source: % Innovation KWP- T. Rolling Year 11/2011 / m²/shop Alimarket 2012 (2011 data)



PACKAGED FMCG

ONLY 29% OF INNOVATIONS OBTAIN DISTRIBUTION HIGHER THAN 30%

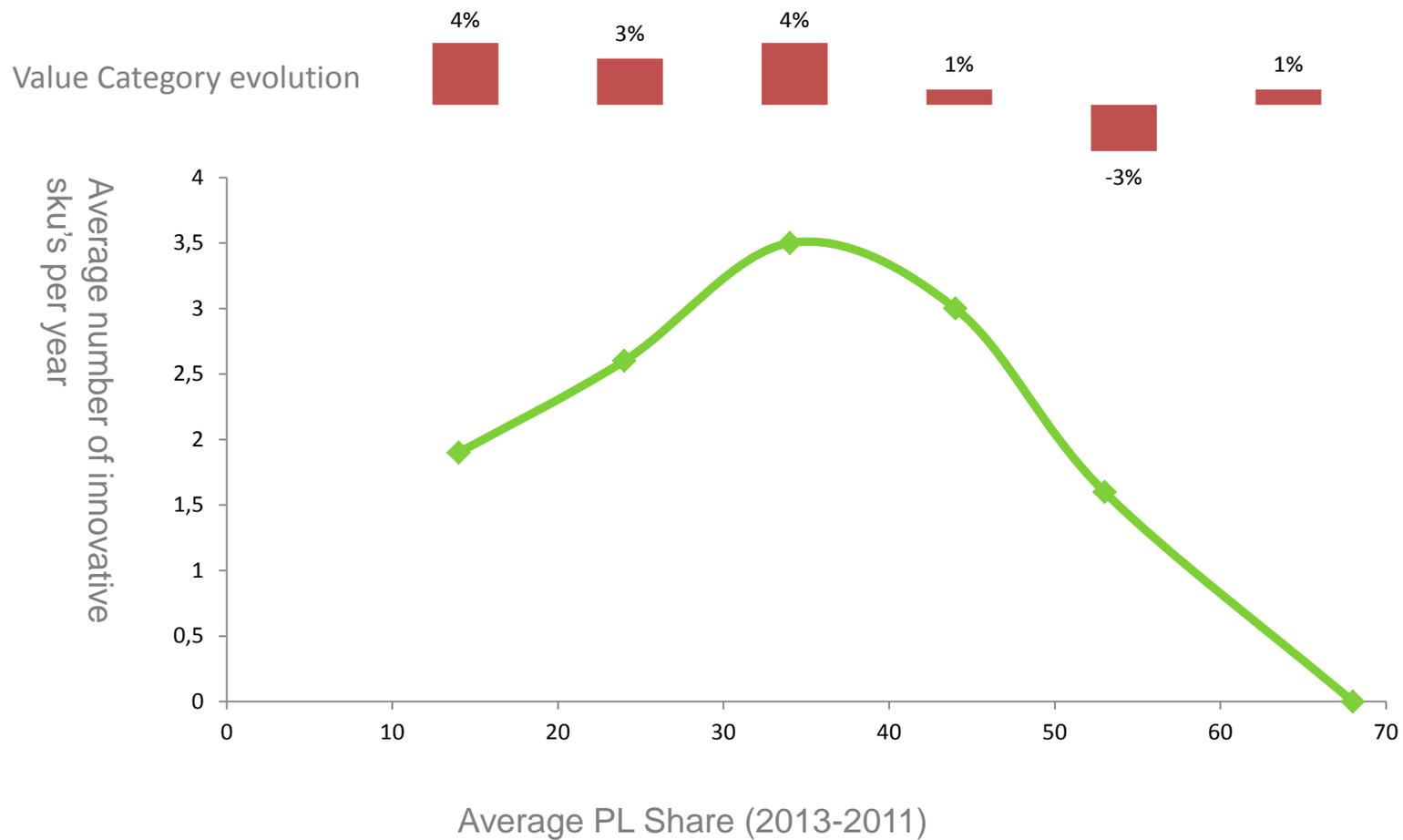
WEIGHTED DISTRIBUTION OF INNOVATION
MANUFACTURER BRANDS- FOOD + NON FOOD
(2011)



BEYOND 35% PL SHARE, INNOVATIONS AND GROWTH BOTH DECLINE

FMCG (103 categories)

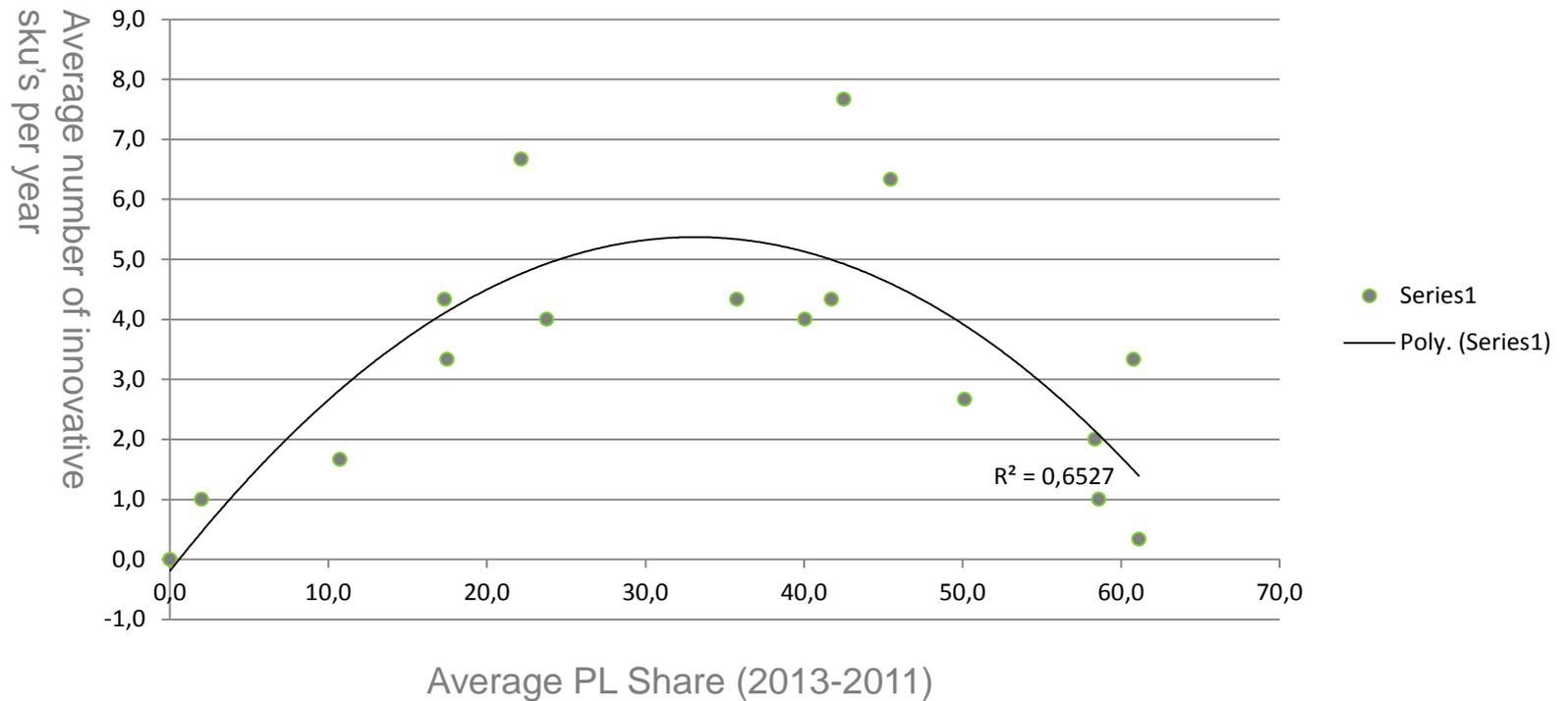
Relationship between PL share and number of innovations



COMPETITION AND INNOVATION INCENTIVE SEEM TO BE CONNECTED

22 Food Categories*

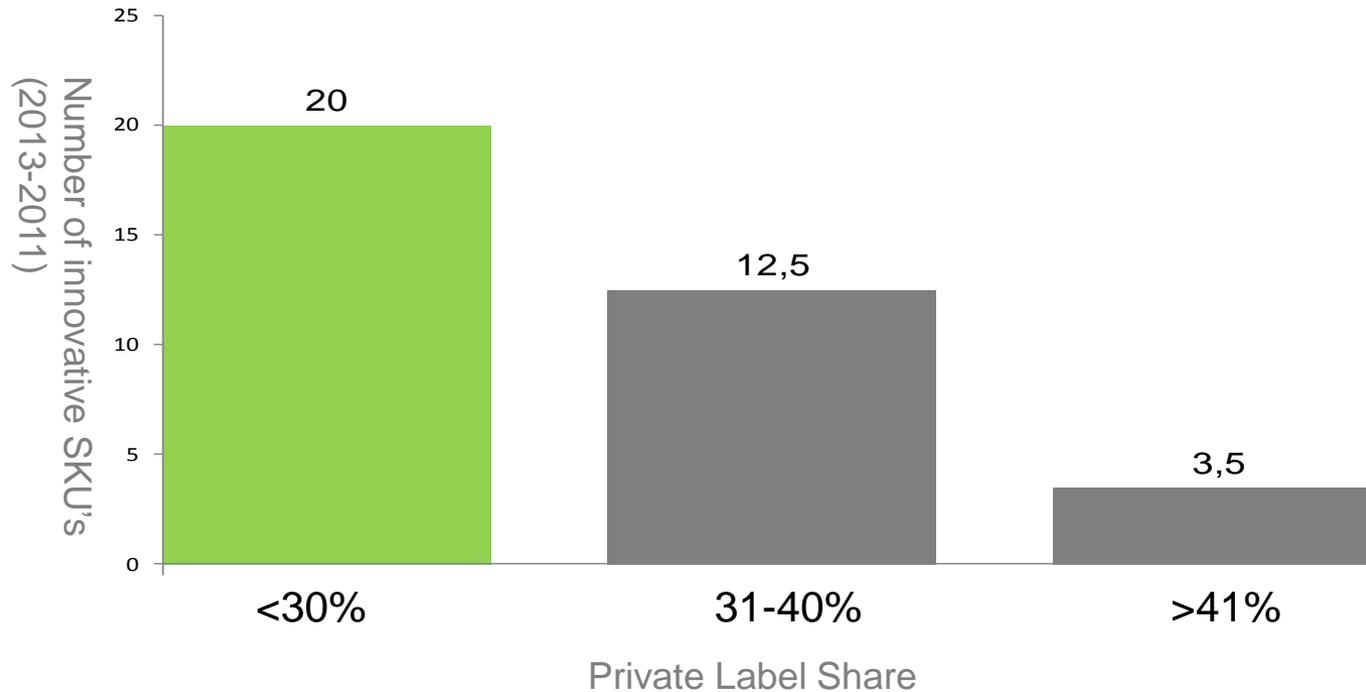
Relationship between PL share and number of innovations



Analysis based on 22 categories included in “the economic impact of modern retail on choice and innovation in the food sector”

EXAMPLES OF RELATIONSHIP BETWEEN PL AND INNOVATION

Relationship between PL evolution (in points of share) and evolution of number of innovative SKU's

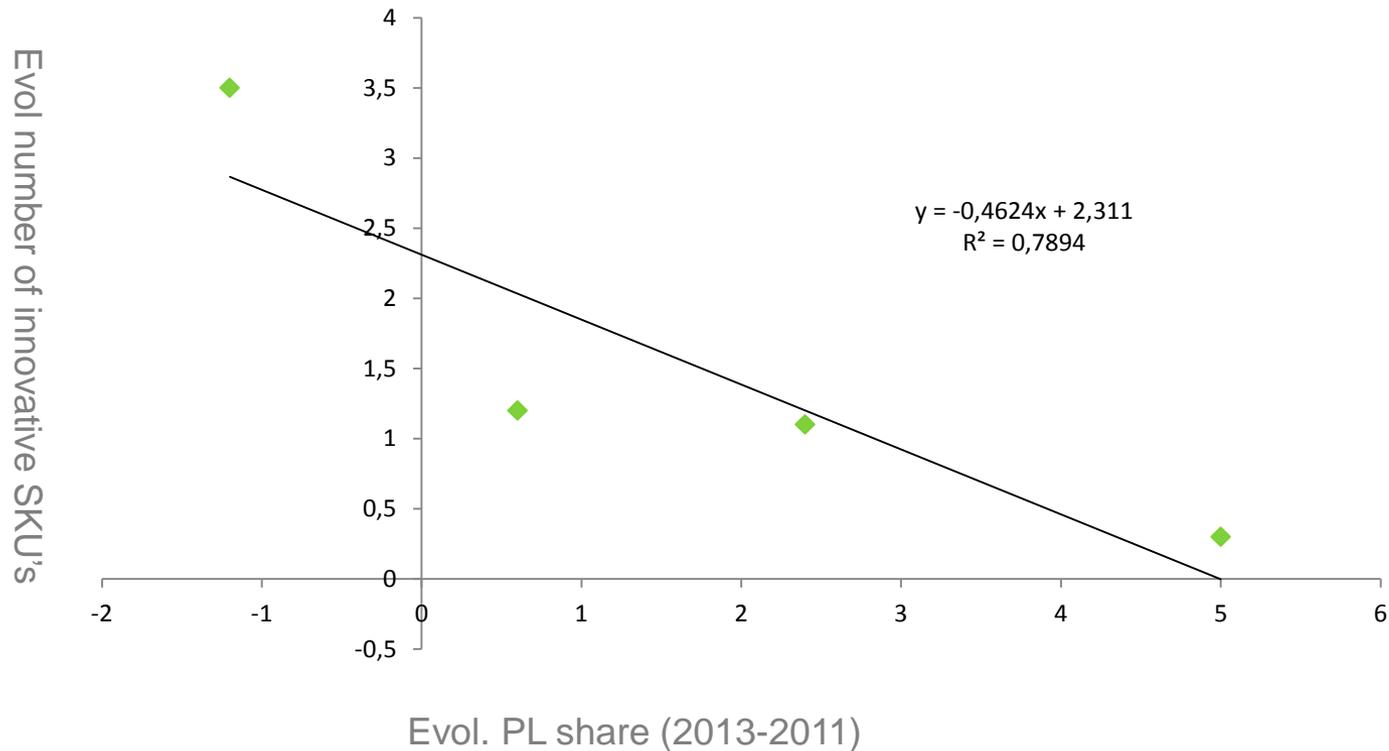


Analysis based on 22 categories included in “the economic impact of modern retail on choice and innovation in the food sector”

EVERY ADITIONAL POINT OF SHARE FOR PRIVATE LABEL MEANS -16% OF INNOVATIVE SKU'S IN THE CATEGORY

FMCG (103 categories)

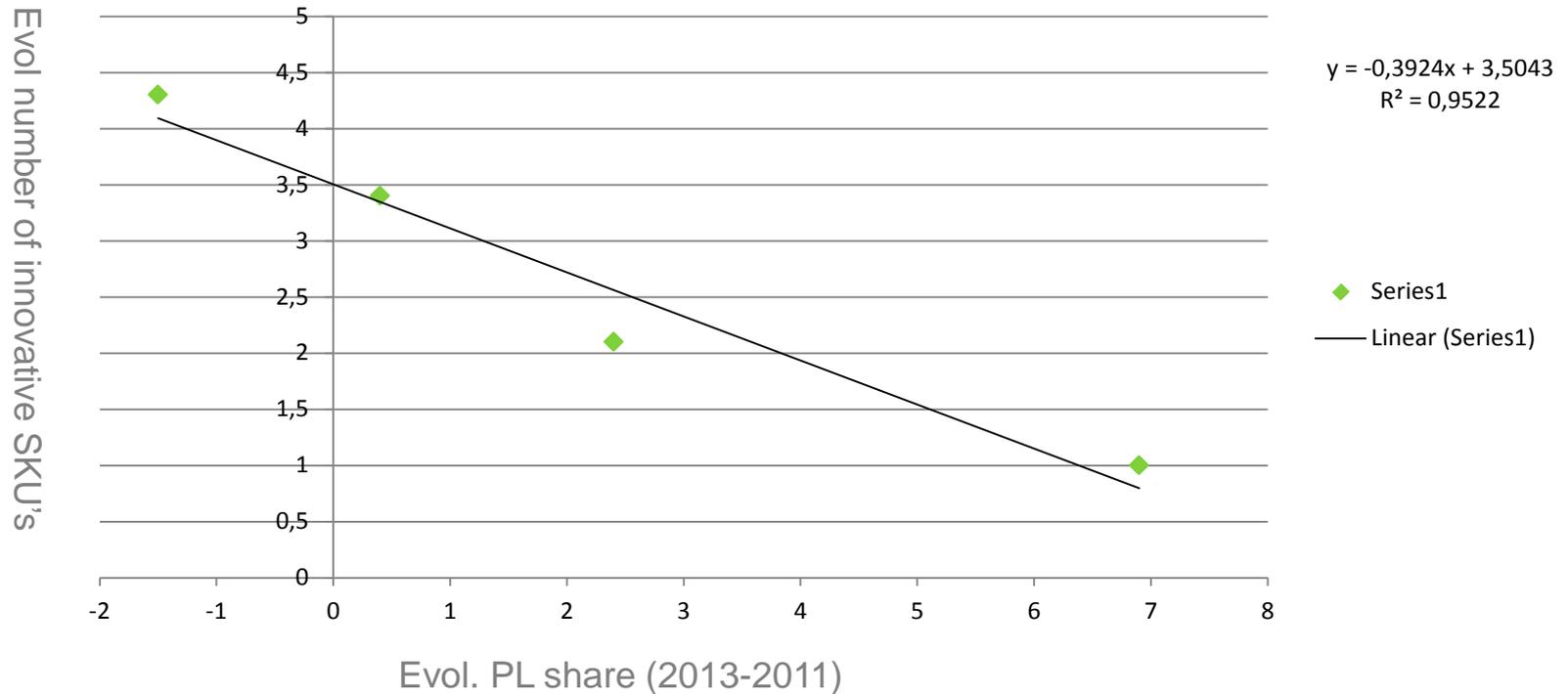
Relationship between PL evolution (in points of share) and evolution of number of innovative sku's



EVEN MORE CLEAR IN FOOD CATEGORIES

22 Food Categories*

Relationship between PL evolution (in points of share) and evolution of number of innovative sku's



Analysis based on 22 categories included in “the economic impact of modern retail on choice and innovation in the food sector”

Conclusions

Innovation in Spain is below European average because it is trapped in a vicious circle

- Private label is growing fast in Spain, pushed by the main retailers
- The more PL, the less innovation
- Manufacturers are the drivers of innovation, but their share is declining every year
- Brand manufacturers' innovation is hardly distributed, so tends to fail
- As innovation usually fails, manufacturers reduce their investment
- Without investment, there is no consumer awareness / trial and innovations fail
- Without innovations PL grow faster
- ...