

European Commission
DG COMP – Directorate E
Task Force Food
Mr Philippe CHAUVE
Head of the Task Force
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- BY E-MAIL -

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SUBJECT: Comments on the Modern Retail Study

Dear Mr Chauve,

We believe that the study is a valuable, facts based contribution to the ongoing political debate on the food supply chain, and in particular, on alleged unfair trading practices resulting from alleged market imbalances.

We welcome the study's holistic approach analysing both the procurement market as well as retail market. The case studies are well researched and demonstrate the limited direct commercial relations between retailers and farmers. An additional characteristic of modern supply chains is that there is positive collaboration (within the limits of competition law) between supply chain partners to develop the best possible product for consumers at the best price.

The study also well reflected the diversity of the retail market by covering a wide range of Member States, product categories and store formats. It also highlighted important technological aspects such as growing digitalization in the sector.

1. We support the definition of innovation and welcome the following broad findings from the study:

- Modern retail has had no negative impact on consumer choice. In fact it would appear that modern retail has improved the level of consumer choice.
- Retailer concentration appears to be less of a significant trend in modern retail than alleged by the manufacturing and farming industry. Indeed, manufacturer concentration is higher in



over half of the markets measured by the study, and appears to be growing at a stronger rate than retail concentration.

- In contrast to manufacturer concentration, modern retail concentration does not appear to have any detrimental impact on choice.
- As an additional comment, the study references increases in outlets. This trend, together with increases in formats and product lines in the food sector is described in the European Retail Action Plan as leading to a relative decrease in end consumer prices.

2. We believe that the research would have been more up-to-date if the retail market was more accurately described:

The effect of modern retail on choice and innovation would have been more accurate if a wider, more current appreciation of the modern retail market was used.

3. We are concerned about certain aspects of the private label findings:

Innovation levels are closely tied to the economic cycle as well as the dynamics of changing consumer patterns. Certain trends, characteristic of modern retail, such as private label development, have no real detrimental impact on innovation (1), until one reaches a very high level of private label penetration.

In the areas where we agree, we will not expand on the points. However, we will elaborate on the mentioned areas of concern below.

→ **The market setting:**

Retail is a fast moving environment, characterised by many innovations, both product and process, as well as very diverse offerings, not necessarily offered solely in competition to other retailers.

In this context, the relevant modern retail market should not be seen as limited to chains of stores, supermarkets, hypermarkets and discounters as opposed to traditional independent shops. We do not think that modern retail is exclusively characterised by a market generally consisting of discounters, supermarkets and hypermarkets, frequent new shop openings and increasing floor space.

(1) An additional benefit of private label development has been private label manufacture as a driver of SME growth - "The impact of private labels on the competitiveness of the European food supply chain" – Bunte 2011



In our opinion, the relevant modern retail market should encompass:

- **A diverse range of competing offerings**, in different distributive formats. For example in the ready to eat, or frozen, food segment, retailers compete with delis, canteens, smaller convenience stores, petrol forecourts, pop-up shops, markets and fast food chains. It is very limiting for the study to only cover certain types of retailers in this respect. This market is defined by modern consumer behaviour, as well as modern demographics and lifestyle shifts. Certain product categories are heavily impacted by changes and trends in consumption patterns and as such it is not possible to look at the impact of modern retail on choice and innovation with only certain limited types of retailer in mind.
- If the study were to look at modern retail in a more current context, taking into account the wider market trends mentioned above, the level of concentration as well as the impact of the current retail market on choice and innovation may be altered, in a more positive manner (i.e. further increased levels of choice and innovation in the relevant market). Increased private label penetration in ready cooked meals can for example spur innovation in deli's and fast food restaurants, to name but a few relevant examples.

→ **Updated private label findings**

- According to the recently published additional research on the impact of private labels on innovation, there was some evidence, when a non-linear specification was tried, that a higher share of private labels in a given product category and shop is associated with a smaller number of innovative products. As the relationship is non-linear the higher the level of private label penetration, the steeper the decline in innovation. We note the effects appear to depend on the format being evaluated (hypermarket, supermarket and discount) and the strongest effects mainly apply to the discount format.
- One explanation could be that once the level of product innovation reaches a limit, beyond a certain point, companies are less prepared to invest in product innovation and turn their focus to process innovation. In short, product innovation is replaced by process innovation to attain further efficiencies, for example, by shortening supply chains, developing package deals (e.g. for a dinner deal of several ready meals sold together with a bottle of wine) etc.

Once product innovation reaches a certain level, the willingness of companies to take risks, and invest in further product innovations may sharply reduce. This may be exacerbated in situations where there is a high level of private label penetration. Where private label penetration is high in a particular category, competition in that particular category is very intense. As such, companies may become more risk averse as they wish to preserve margin by scaling back product innovations in that category, whilst scaling up process innovation.

- In this context it is important to note that amongst our membership, an overall private label share of just thirty percent is already seen as a very high proportion of the assortment.



→ **Our opinions on next steps**

- Further raise awareness of the study with MEPs and Member State representatives through Parliamentary events and presentations in relevant Council working groups.
- Include key findings of the study in official speeches to highlight findings such as the absence of systemic problems in the food supply chain and the neutral/slightly positive impact of modern retail on innovation levels, consumer choice and investment.
- Ensure stakeholders can react to further comments provided on the study by interested parties as they become available.

Best regards,



Else GROEN
Director General

