



To:

Mr. Philippe CHAUVE

Head of the Food Task Force – DG COMP

C/c:

Mr. Paul CSISZAR

Director "Markets and cases IV: Basic industries, Manufacturing and Agriculture" – DG COMP

Brussels, 30 January 2015

Re: The economic impact of modern retail on choice and innovation in the EU food sector – CLITRAVI comments on the study commissioned by DG Competition

Dear Mr. Chauve,

As you might know, CLITRAVI¹ is the European Association for the Meat Processing Industry. We would like to bring to your kind attention our comments to the DG COMP study "The economic impact of modern retail on choice and innovation in the EU food sector".

Please note that this paper complements the AIM & FoodDrinkEurope comments, which CLITRAVI fully supports.

As you will notice, we have focussed our efforts only on Private Labels as we think the AIM & FoodDrinkEurope submission, on this particular topic, deserves to be extended for the sake of exhaustiveness.

- **AN INSIGHT ON THE EFFECTS OF PRIVATE LABELS ON CONSUMER WELFARE**

¹ with members in nearly all EU Member States, Norway and Turkey and represents about 13,000 small and medium sized meat processing companies producing a wide variety of meat-based products (about 2,000 different recipes) and employing more than 350.000 people with an annual turnover of more than 75 billion Euros.

In many respects, consumers have never had it so good. Consumers have choice over which retailer to use, and then abundant product choice when in the store. Indeed, the healthiness and vigour of competition for access to supermarket shelves has helped ensure that consumers are largely well served in respect of the product choice they face. Equally, the battle amongst retailers to attract and retain customers has helped ensure that the prices charged by retailers remain keen. Consumers have also benefited from retail consolidation when it has served to increase retailer efficiency and allow for buying power to counter any market power held by suppliers. In all these respects, the development of private labels has undoubtedly had a positive impact: it provides additional product choices, it enhances category price competition, and it helps retailers obtain lower prices from suppliers (by enhancing retailers' bargaining power by having credible alternatives). Yet, **there are consumer concerns for the future. In particular, there is the worry that consumer sovereignty may give way to retailer sovereignty if retail consolidation continues apace and remains largely unchecked. Retailer power may counter supplier power, but what will counter retailer power?**

With retailer sovereignty, comes the concern that, in an absence of effective retail competition, **retailers will be able to undertake actions that serve their own interests and not necessarily those of their customers, who are trapped by their lack of retailer choice. In particular, retail sovereignty may permit deliberate damage to brand value, restrict product choice, cut corners on private label quality, limit price comparability, and allow for the manipulation of prices to distort category price architectures in their favour.** In all of this, brands will continue to be stocked, but only when it advances the retailer's interest by being more profitable than replacing with a private label look-alike, superficially enhances choice to placate consumers, helps the retailer to play off suppliers against each other (rather than becoming over-reliant on any one supplier), and perhaps when it aids retailer collusion e.g. using common category captains as a facilitation device).

Competition authorities have a crucial role to play in ensuring that such situations do not arise. Otherwise, **over time, we may expect to see a greater occurrence of the brand and private label "negative affects"** just described, and less of the brand and private label "positive effects" that really benefit consumers and have thus far served them so well. This calls for vigilance and action to tackle anti-competitive practices and prevent situations of single-firm or joint dominance arising and being exploited. More pointedly, it calls for **the need to focus on protecting competition in both its horizontal and vertical forms**, to ensure that consumers benefit from intense and fair rivalry at each level and between each stage of supply chains.

The feared negative effects on consumer welfare of a proliferation of private labels in terms of variety of products, price level, and market

volume can already be discerned. In all outlet formats, **clear reductions in the diversity of products** can be observed brought about by the delisting of national brands only partially being replaced by newly listed private labels. At the same time, retailers are further extending the proportion of private labels listed even though there are no positive turnover trends associated with such a course of action. **It can only be supposed that the retailers are selling their private labels with the aim of ousting smaller branded-goods manufacturers from the market.** Competition in the distribution of consumer goods distorted by the *per se* ban on vertical price fixing therefore already seems to have resulted in vertically-integrated retailing groups carving off an exclusive market for themselves as they seek to create customer loyalty by selling private labels.

The disappearance of many national brands is causing a reduction of the consumers' freedom of choice. It is a burning issue that consumers are being given the impression, at least indirectly by means of the continuous expansion of sales areas (in all outlet formats) in recent years, that a wider choice of products is being offered to them. **It is to be assumed that the outlined negative effects on consumer welfare as a result of the diffusion of copycat brands are intensifying.** Therefore it has to be assumed that consumer interests are only of secondary importance when it comes to the planning of the assortment.

- **THE CHANGING LANDSCAPE OF PROMOTIONAL ACTIVITIES: A POTENTIAL BENEFIT FOR PRIVATE LABELS WITH EXPECTED CONSEQUENCES ON CONSUMER WELFARE**

Advertising and other forms of promotional activities generate a mixture of welfare effects. On one hand they facilitate information exchange and transparency, thus creating competitive pressure and lowering prices. By empowering the manufacturer and improving its bargaining position they can work to curtail some of the downstream market power exhibited by private label owners. On the other hand, at times, advertising may lead to price increases, although one should acknowledge that this will only be the case when consumers value the reputation premium of the brand concerned.

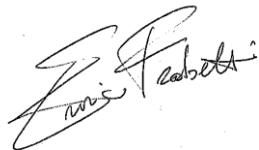
When successful, such campaigns may give rise to foreclosure effects or even create barriers to entry. This may especially be the case in a "private label environment" where private labels dominate the shelf space. Looking forward, it is important to recognize that the promotional environment within which retailing operates is undergoing significant evolution, in common with the impact being experienced by other business-to-consumer firms. Advertising is no longer a dominant form of marketing communication for retail firms. Most commentators note a secular shift away from conventional advertising vehicles into new promotional channels, including those provided by mobile phones and the Internet. Direct marketing, in-store sales promotion, as well as more novel

promotional mechanisms, including sponsorship, have also become important elements in the retailers' tool-kit. More broadly, the need for greater accountability of promotional expenditure has encouraged many consumer-facing firms, including retailers, to reallocate budgets away from non-personalized towards more personalized marketing communications.

Similarly, for many retailers and suppliers, this means that the move toward more sophisticated sales promotion mechanisms is likely to continue. **The shift toward in-store promotion provides greater control to the retailer and may tilt the balance in favour of own -labels on account of branded products.** The future impact of these shifts on the pricing of own labels and consumer welfare will deserve further scrutiny.

In hoping you could take into due account our comments, please do not hesitate to contact our High Level Forum Sherpa (Mr. Michele Spangaro), should you wish further information on this or on any other "DG COMP study" related issue.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Enrico Frabetti', with a stylized flourish at the end.

Enrico Frabetti

Deputy Secretary General