

# **Competition Authority Study of competition in the retail-related import/distribution sector**

## **Enterprise Ireland Submission**

Enterprise Ireland welcome's the opportunity to make a submission the Competition Authority's study into the Competition in the retail-related import/distribution sector.

In relation to the terms of reference Enterprise Ireland would like to focus its submission on

- how the retail related import/distribution sector operates and how competition works in that sector;
- whether any practice or method of competition affects the supply and distribution of goods within that sector;

The comments made in the submission are predominantly based on the grocery sector, and supply chain issues therein, but could also apply to other sections of the retail sector.

Enterprise Ireland (EI) is the government agency responsible for the development and promotion of the indigenous business sector. The agency is focused on the development of world-class Irish companies to achieve strong positions in global markets resulting in increased national and regional prosperity. Enterprise Ireland works closely with individual companies and sectoral groups, in all regions, offering a range of financial and non-financial supports to Irish-owned companies to assist them to compete and to grow. Enterprise Ireland's services are designed to help them compete in the most challenging competitive environments, to help them achieve greater efficiencies and to improve overall business performance across a range of areas.

Enterprise Ireland is concerned that large multiples may put onerous and arbitrary conditions on suppliers, especially small scale suppliers. This impacts on companies ability to make investment and R&D decisions, thus undermining the long term viability of the company and restricting competition in the market. This is especially crucial for food companies who generally operate on the basis of extremely tight margins.

## **Market Concentration**

The domestic grocery retail market is highly concentrated, with the 4 top retailers: Tesco, Dunnes, Musgraves and Superquinn holding almost 80% of market share<sup>1</sup>. Internationally a CR4 ratio of 60% is recognised as constituting a concentrated market.

## **Buyer power**

Large companies tend to buy from a large number of suppliers, ensuring that they are not reliant on any one in particular. Such companies may have long-term relationships with suppliers; however, there are generally few long-term contracts. A few large retailers tend to dominate the competitive landscape. Such major chains have a lot of power to negotiate prices and product quality, weakening supplier power. Moreover, the increasing numbers of players manufacturing own brand products puts many suppliers under significant pressure. (Datamonitor: Global Food & Staples Retail- Industry Profile, March 2009).

## **International Experience**

Market concentration in the grocery sector is not a uniquely Irish phenomenon and other countries are grappling with similar issues around increased market power. The UK's Competition Commission published a report on the supply of groceries from multiple stores in the UK in 2000. In terms of supplier relationships, the report identified a number of practices that adversely affected the competitiveness of some of their suppliers and distorted competition in the supplier market and in some cases the retail market for groceries. A similar study was

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<sup>1</sup> TNS MRBI Market Research August 2008

carried out with the results published in 2008. This showed similar complaints to the 2000 study, despite the introduction of the Supermarket Code of Conduct in the meantime. Nearly half of these related to the transfer of risks or unexpected costs from grocery retailers to their suppliers, and one-third of these related to requirements for retrospective payments or other adjustments to previously-agreed supply arrangements.

### **The Food Industry**

The food industry is central to the Irish economy. Its significance in terms of the indigenous export base and employment throughout the country is unparalleled. The industry employs some 54,000 people directly, with sales of €18 billion and exports of €8.6 billion. In terms of EI client companies, food and drink clients account for in the region of 30% of all EI client employment and 58% of exports. The food industry depends crucially on grocery retailers, especially large multiples to get its product to consumers, and it is important that these relationships are characterised by transparency and fairness.