

[REDACTED] SUBMISSION

BY

TESCO IRELAND

TO

THE COMPETITION AUTHORITY

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Contents

1. Introduction	1
2. Dynamics of Grocery Market	2
3. Impact of Differential Pricing	7
4. Actions Take by Tesco	8
5. Recommendations	9

1 Introduction

This submission by Tesco Ireland is in response to the invitation by the Competition Authority to seek submissions concerning the study of the retail related import / distribution sector.

The terms of reference for the study are as follows:

- 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 impact on competition within the sector of direct importation from source countries, rather than indirectly through the UK.

Tesco Ireland welcomes this important review and are willing to assist the Competition Authority in any way required.

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2 Overview of the Dynamics of the Grocery Sector

2.1 The dynamics of the Irish and International grocery sector is influenced by a number of key characteristics.

- Intense competition between major retail multiples and discounters [REDACTED].
- Resistance by parts of the retail sector to attempts by existing and new entrants to extend competition into local markets (as a result there are trade related objectives to planning as identified in previous Competition Authority Reports).
- Logistical obstacles to direct importation of products.
- Some major international brand owners/suppliers have been applying differential country pricing in different markets.

2.2 The logistical obstacles to direct importation of products is a very significant issue which means it is not possible in all cases to bypass existing distribution structures and purchase directly from major international brand owners/suppliers. The extent to which this is possible is determined in part by the logistic / distribution infrastructure which grocery retailers have access to. The recent investment by Tesco in an expansion of our centralised distribution infrastructure will assist in overcoming these constraints [REDACTED].

2.3 Tesco Ireland's policy is to offer choice to consumers at the lowest prices possible. Our Cash Savers range introduced last year offers over 1,500 everyday products at the lowest prices. It has been a major success with customers and now places Tesco as Ireland's largest discounter. The advantage consumers now find in our stores is that, as well as offering low prices, we also carry the branded and own brand product choices consumers seek in their regular shopping.

2.4 Tesco fully understands consumer concerns and annoyance about the significant difference in prices for many products in Northern Ireland compared

with the Republic. We share others' frustrations on this. We take no pleasure in seeing our customers travel across the Border to shop for lower prices as this is not in our commercial interests. The most significant factor behind this development is differential country pricing implemented by major international brand owners/suppliers. It is for this reason that Tesco welcomes the Competition Authority study. The second most significant factor is the uncompetitive nature of many of the costs of running a business in Ireland.

- 2.5 The most striking price differences – those which cause the most concern – are the comparative prices of familiar international grocery brands: packaged food products, health and beauty products, beverages, alcoholic drinks etc. This phenomenon requires investigation by the Competition Authority.
- 2.6 As indicated above the two key factors which determine prices on either side of the Border are as follows:
1. Supplier product costs, which account for the majority of retailers' total costs.
 2. Business operating costs including pay, rents, land, energy, utility costs, taxes and so on.

In addition to the above, relative prices have been influenced by currency impacts. These have been at their most volatile and damaging in the past year.

- 2.7 The recent Forfas Report "The Cost of Running Retail Operations in Ireland" has confirmed the significant gap in operating costs and taxes. It also confirms that retailing in Ireland faces a significant competitiveness problem.
- 2.8 However, their study only examined around 20-25% of the total cost base. Were that report also to have looked at wholesale costs by suppliers to the retail industry, a more comprehensive picture would emerge and we anticipate this will be addressed by the Competition Authority study.

3 Impact of Differential Pricing

- 3.1 The major international brand owners/suppliers have conventionally implemented differential country pricing, with higher prices the standard in Ireland. This has, in our view, been a reflection of the market power of these players.
- 3.2 The simple fact is that prices charged by suppliers of international brand products here in Ireland are higher than anywhere else in Europe. We see this across packaged food, confectionery, health and beauty products, beverages, alcoholic drinks etc. These wholesale prices are significantly higher than in Britain or Northern Ireland, putting retailers operating in the Republic at a significant cost disadvantage, and are invariably reflected in higher retail prices. These, along with the higher operating costs, are the core contributing factors in higher consumer prices for grocery products in Ireland.
- 3.3 The European internal market is segmented by the big international brand owners into national markets with different prices. What is clear is that they place Ireland at the high price end of that market. And critically, it is within the current structure of buying international products that the imbalances in the currency equation have also come to light over the past year.
- 3.4 Because of the wholesale market structure that has evolved, most retailers here buy locally from the local sales offices of these international brand owners/suppliers or their agents/distributors. Retailers buy mostly in Euros, not Sterling, and hence do not gain any upside or downside from exchange rate fluctuations. The gains in the past year, as sterling has depreciated, have been assiduously guarded by almost all of the international brand owners/suppliers, and so have not been made available through us for any benefit to the consumer. A few, very few, have come clean in a limited way, but most have continued to enjoy the fruits of the currency changes.

3.5 We have in recent months, and on commercial grounds, taken action to address both this unacceptably high wholesale cost issue and getting out of the exchange rate “noose” that affects us as well as our customers. This is discussed in more detail in Section 4.

4 Actions Taken By Tesco

- 4.1 By directly importing many international brand products through our international (mainly UK based) procurement channels, and by intensive negotiations with the international brand owners/suppliers, we have been attempting to erode the Irish market pricing differential operated by them.
- 4.2 We are, in effect, pioneering a transformation of the European grocery supply market here in Ireland. This will result in us buying more products centrally, and avoiding the inflated wholesale prices consistently charged in Ireland by the international brand owner/supply operators and their agent or distributors here. This involves a radical change in the structure of the supply chain for international products here in Ireland, and is an important step in lowering costs and hence prices for consumers.
- 4.3 We also understand that another significant Irish-owned player in the retail sector here has started sourcing many of these products directly from a European wholesaler operating in Northern Ireland, and that other Irish retailers are also exploring alternative procurement channels for the same reasons. They are attempting to circumvent the high costs we have all faced here and are reportedly beginning to achieve lower product costs. All of the above confirms that the high cost of product for retailers is a significant issue in the consumer price equation.
- 4.4 The changes we are making are not meeting with universal acceptance by the international suppliers but a number are moving in the right direction. We are, however, committed to the changes as the only sustainable way to deliver significantly lower prices for Irish consumers.
- 4.5 These actions are proving to be successful in a number of cases and this will result in reductions in prices for Irish consumers. [REDACTED]
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4.6 These initiatives are now resulting in lower prices for consumers on international brand products, as the benefit of our new structural and procurement processes becomes effective. These benefits will continue to emerge as the new arrangements become more widely applied and become established.

5 Recommendations

- 5.1 Tesco Ireland recommends that the Competition Authority seek information from all major international brand owners/suppliers and their agents/distributors who sell imported products in Ireland whether their wholesale prices into Ireland are the same or different than their wholesale prices into the UK market.
- 5.2 We believe the Competition Authority should ask them, on a company by company basis, to explain if and why they charge higher wholesale prices in Ireland than elsewhere.