



## **Competition Authority Publishes Study of the Grocery Sector**

Following the Government's decision to abolish the Groceries Order in March 2006, the Competition Authority was asked to review and monitor the structure of the grocery trade on an ongoing basis in order to see how it responds to the new legislative environment. The Competition Authority subsequently initiated the *Grocery Monitor* Project.

According to Competition Authority Chairperson, Bill Prasifka: "*The Grocery Monitor has facilitated a comprehensive mapping of the retail and wholesale levels of the grocery supply chain, an analysis of the competitive dynamic as well as an examination of aggregate price trends and the principal drivers of grocery inflation. The exercise has revealed a number of bottlenecks in the grocery sector which will require continued monitoring by the Competition Authority and other consumer groups. I would like to acknowledge the tremendous co-operation received from each of the stakeholders involved, all of whom embraced the project enthusiastically.*"

Today, the Competition Authority has published the first two reports in the initial phase of the project, with one further report to follow at a later date.

- The first report, ***A Description of the Structure and Operation of Grocery Retailing and Wholesaling in Ireland: 2001 to 2006*** provides a description of the market structure at the wholesale and retail levels of the Irish grocery sector.
- The second report is entitled ***Price Trends in the Irish Retail Grocery Sector: A Description of the Evolution of Retail Grocery Prices between 2001 and 2007***. In this report, the Competition Authority has considered the impact of the removal of the Groceries Order by examining the evolution of the aggregate retail grocery price trends since 2001.
- The third report to be published in the current phase of the project will be ***The Retail Planning System as Applied to the Retail Grocery Sector: 2001 to 2006***.

As part of the project, the Competition Authority met various stakeholders including representatives of the Department of Enterprise, Trade and Employment, the National Consumer Agency, major participants in the

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grocery sector, trade associations and others. The Competition Authority also met with representatives of the 13 largest retailers and wholesalers in the Irish grocery sector, and sent a questionnaire to 230 small retailers.

### **Key Findings of Report No. 1:**

Report No. 1 examines the structure and operation of the retail and wholesale levels of the grocery sector.

#### *Wholesale level - Market Structure*

- Over 95% of the wholesale turnover in the Irish grocery sector is attributable to seven groups of operators.
- In 2006, the combined turnover of these seven operators was €4.7bn, of which, €3.6bn was due to the sale of groceries
- The wholesale level of the grocery supply chain is highly concentrated with the two largest wholesaler-franchisors, Musgrave and BWG Foods, together accounting for almost 80% of the €3.6bn wholesale groceries turnover in 2006.
- Over the period of the Competition Authority's analysis, the relative position of each of the wholesale groupings was unchanged.

#### *Wholesale level - Principal Trends*

- The principal customer group of the wholesalers are their franchisee retailers (or affiliated retailers) who on average account for 78% of wholesale grocery turnover.
- At the wholesale level there is a trend toward the deepening of the relationships between wholesalers and their affiliated retailers. Wholesalers are involved in the branding of retail outlets, the marketing of common brands, the choice of products that their affiliated retailers sell as well as a variety of logistical aspects of retailing including product ordering, stock management, billing and legal compliance.
- One implication of this trend is that, in some respects, the wholesaler/affiliated retailer business model in effect mimics the business model of the vertically-integrated retailers.

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- Over the period of the Competition Authority's analysis, no new wholesaler-franchisors have entered the sector. Entry on any significant scale seems difficult.

#### *Retail level - Market Structure*

- There are a variety of operators retailing groceries in the State. These include the vertically-integrated retailers (retailers that own and operate their retail outlets, e.g. Tesco, Dunnes Stores), 18 groups of affiliated retailers (retailer groupings operating retail brands under licence from a wholesaler, e.g. SuperValu, Spar, Centra) and some 3,500 independent retailers.
- The large number of retail groupings tends to overstate the actual number of entities involved – the 18 retail brands are owned by the seven wholesalers.
- The combined turnover of grocery retailers in the State is estimated at €14.6bn, of which, €11.6bn is attributable to the sale of groceries.
- Across all retailer groupings, Tesco, SuperValu and Dunnes Stores had the greatest shares of turnover, accounting for approximately half of all turnover.
- Over the period of the Competition Authority's analysis, the relative position of the retailer groupings remained relatively stable. The recent entrants Aldi and Lidl have taken share of turnover from each of the major retailers.

#### *Retail level - Principal Trends*

- There has been considerable expansion by the main retailer groupings. The number of outlets belonging to the multiples has almost doubled since 2001. Similarly, the number of retailers operating outlets under a brand licensed by a wholesaler has almost doubled. The number of independent retailers (retailers not affiliated to a wholesaler) has fallen considerably since 2001 and reflects a much longer term trend in the sector.
- Grocery retailing capacity in the State has increased since 2001. Despite the fall in the number of independent retailers in the State, the expansion of the multiples and retailers affiliated to a wholesaler

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through a franchise arrangement has tended to increase the amount of floor space.

- Retailers are evolving to satisfy different customer requirements. The larger operators tend to serve the one-stop-shopper while the smaller operators serve a convenience function. The larger operators are beginning to move into the convenience sector.
- The significant expansion by the multiples appears to be driven by demographic factors, i.e., population growth has facilitated the expansion in the number of larger supermarkets.

### **Key Findings of Report No. 2:**

Report No. 2 examines aggregate price trends in the grocery sector.

- The price trends for Groceries Order items and Non Groceries Order items appear to behave differently prior to the removal of the Groceries Order. Specifically, when grocery prices were rising, the price of Groceries Order items tended to rise more rapidly than Non Groceries Order items and when the prices of grocery items were falling, the prices of Non Groceries Order items tended to fall more rapidly.
- During the nine month period following the removal of the Groceries Order, the price trends for Groceries Order items and Non Groceries Order items appear to behave very differently. The price trends move in opposite directions, with the price of Groceries Order items falling and the price of Non Groceries Order items rising.
- For the period from April 2006 to December 2006, i.e., the 9 months following the removal of the Groceries Order (See attached Figure):
  - The price of Groceries Order items decreased by 1.5%;
  - The price of Non Groceries Order items increased by 2.4%;
  - The price of all grocery items (Groceries Order and Non Groceries Order items) decreased by 0.6%; and
  - The CPI, covering prices of all consumer goods and services, increased by 2.9%.

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- Since the beginning of 2007 the price trends for Groceries Order items and Non Groceries Order items appear once again to behave similarly with both trends rising. Toward the end of 2007, the rise in the price of Groceries Order items is steeper and this has been attributed to the rise in world commodity prices of certain agricultural products such as wheat.
- For the period from January 2007 to November 2007 (See attached Figure):
  - The price of Groceries Order items increased by 5.1%;
  - The price of Non Groceries Order items increased by 1.5%;
  - The price of all grocery items (Groceries Order and Non Groceries Order items) increased by 4.0%; and
  - The CPI, covering prices of all consumer goods and services, increased by 4.7%.

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## **NOTES TO THE EDITOR**

Vertically-integrated retailers – this term refers to retailers who own and operate multiple retail outlets across the State, and in effect carry on their own wholesaling. These include Dunnes, Tesco, Superquinn, Marks & Spencer, Lidl, and Aldi.

Affiliated retailers – these are retailers who own and operate one retail outlet (and in some limited cases, several outlets) under a retail brand or fascia which is used by other retail outlets and is under license from a wholesaler-franchisor. These include Centra, Super Valu, Spar, Mace, Londis etc.

Independent retailers – this term refers to retailers who own and operate a retail outlet under a unique retail brand or fascia and who are not affiliated with a wholesaler-franchisor.

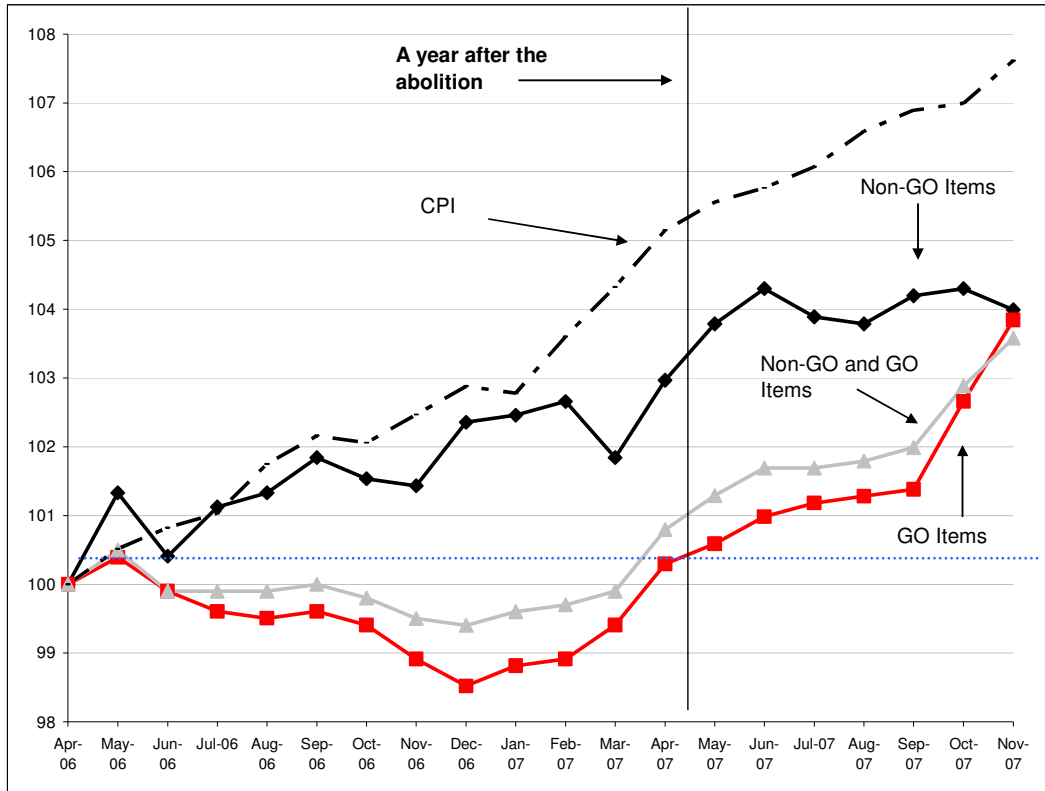
Wholesaler-franchisor – this term describes a wholesaler who licenses the use of a retail brand or fascia under a franchise agreement to retailers and sells goods at wholesale predominantly to its affiliated retailers. The main wholesaler-franchisors are ADM Londis, Barry Group, BWG Foods, Gala Wholesalers, Mangan Wholesale, Musgrave, Stonehouse.

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**Figure 1: Price Trends for Groceries Order and Non Groceries Order Items after April 2006 (April 2006 = 100)**



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