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Potential Harmonization of Supplier-Retailer Interests: the US Food Industry & Comparisons with International Examples

Gábor Kőnig, PhD

Research Institute for Agricultural Economics
Budapest, Hungary
gabor.konig@gmail.com

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Presentation Outline

Methodology

- **1. Conflicts**
- **2. Market Structure**
(concentration, foreign ownership, quality, price, contracts)
- **3. Regulations, primary research, M&A,**
(International examples – evaluation-conclusion)
- **4. Recommendations**

Conclusion

Methodology

- **Primary and secondary research:** statistical data bases, publications and consultations with specialists of the USDA, ERS, AMS, CSREES, FTC, DOJ, WB, OECD, Wal-Mart, Winn-Dixie, and Kroger.
- **Methodological considerations:**
 - Market structure is easier to analyze comparing to other factors that determines the development of the market power (e.g. value-added, innovation, information, marketing, quality, contracts, services)
 - Market Structure is interesting for the public (NFU) and also for the FTC as it uses as well (merger guidelines).
 - Challenges compared to concentration of producers-processors-retailers, by product, by country, by CR4-CR20, 2002 – census.
- Indirect relevance: horizontal (mergers) – vertical FTC investigations, producer-processor relation's regulation – shippers-grocery (fees go to lower level of supply chain, the producers; groceries purchase directly from producers).

Market

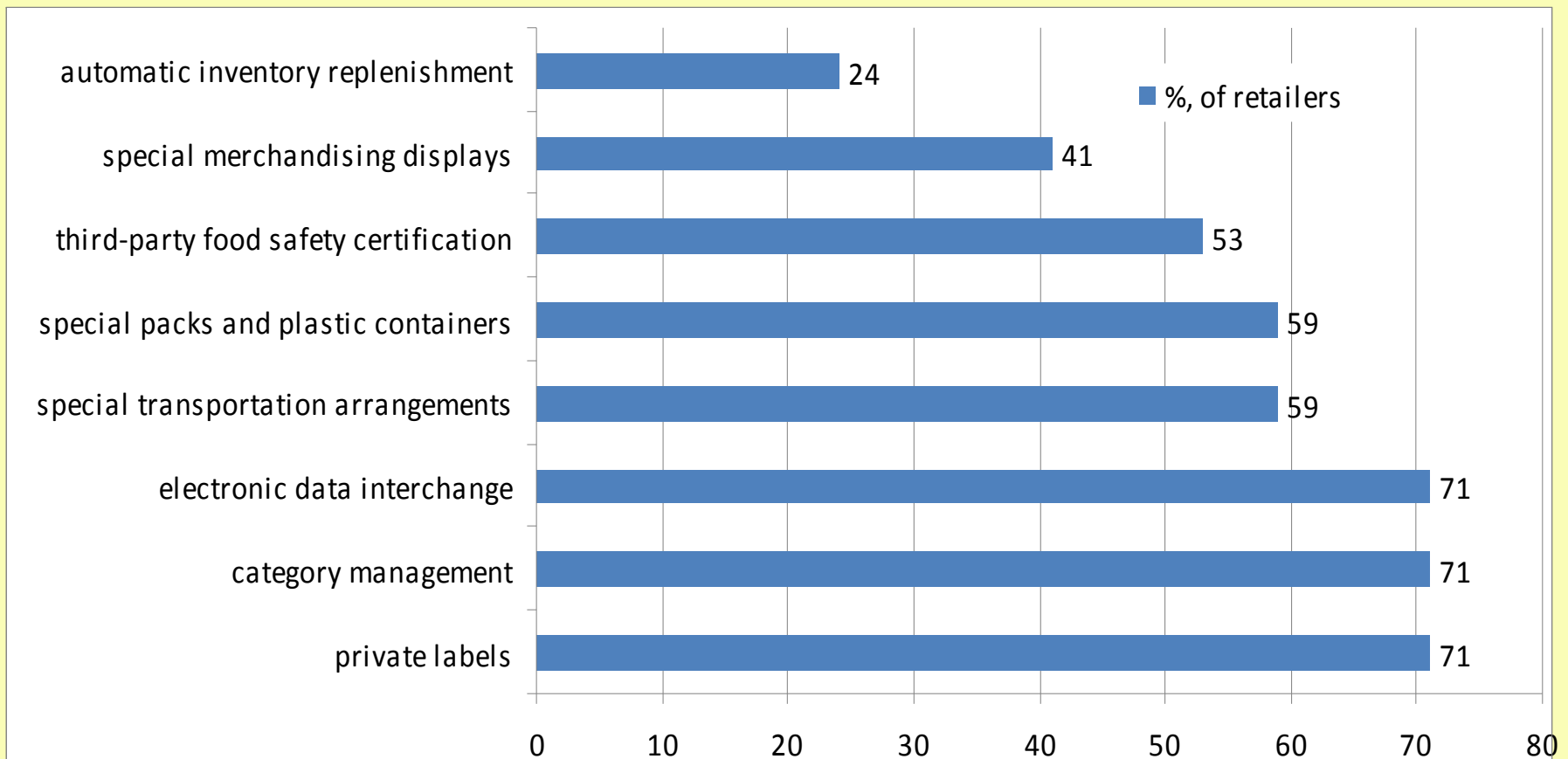


information – power - concentration

- Traditional aspect: Suppliers = seller, Retailers = buyer.
Modern aspect: Retailer as seller sells its service to shipper, who is obliged to buy it, if it wants to sell its products. (sometimes the seller offers its supplementary contribution..)
- Retailers act as a customers, shippers act as producer. (Retailers buy less from wholesalers (38-34% 1987-1997) and purchase directly from producers.)

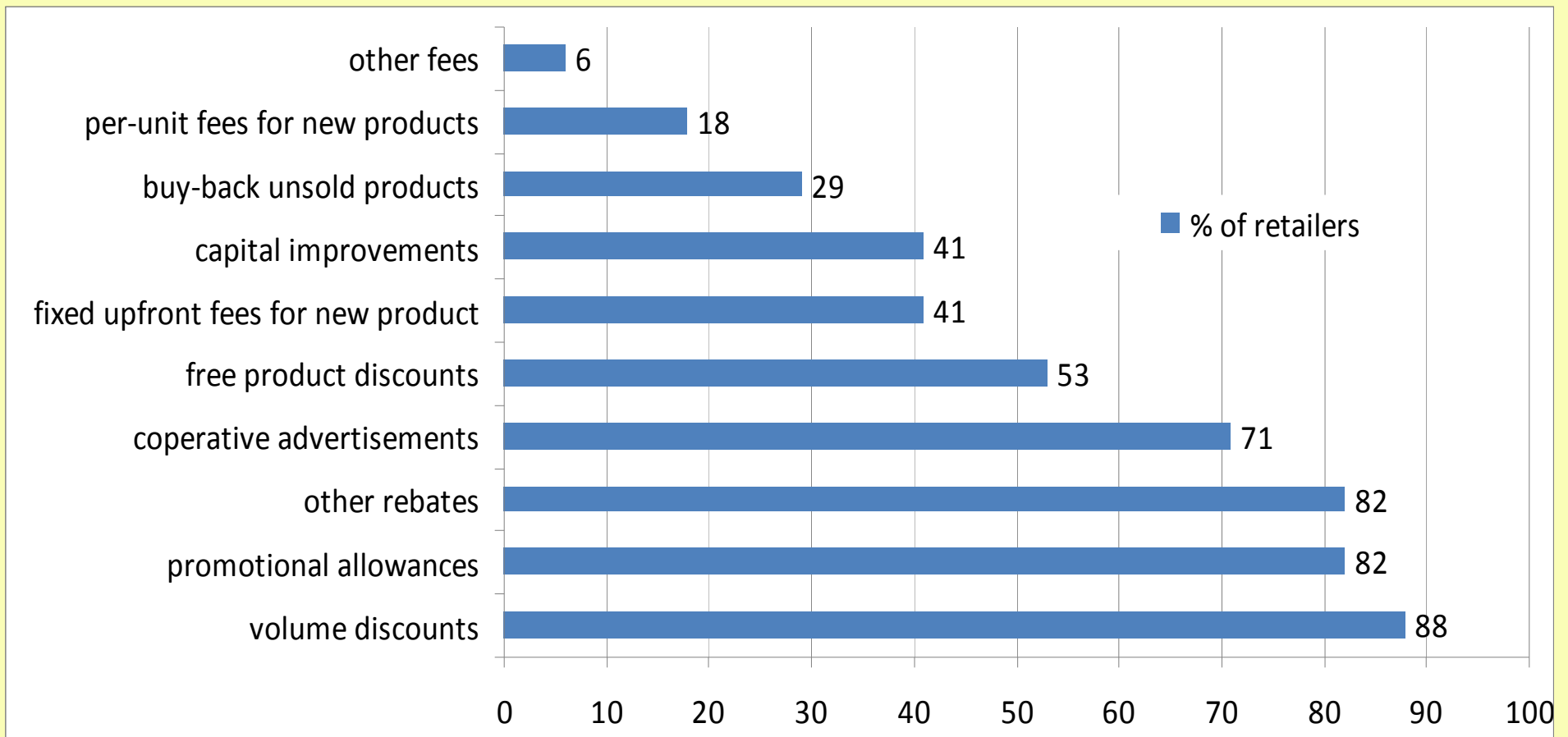
1. Conflicts

Proportion of Retailers by Services Required from US Shippers



Source: Arizona State University, ERS, 2000

Proportion of Retailers by Fees Required from US Shippers



Source: Arizona State University, ERS, 2000

European Examples

Hungary

- volume discount, fixed fees
- contribution to logistic and marketing fees
- slotting fee
- resale below cost

EU (French, English)

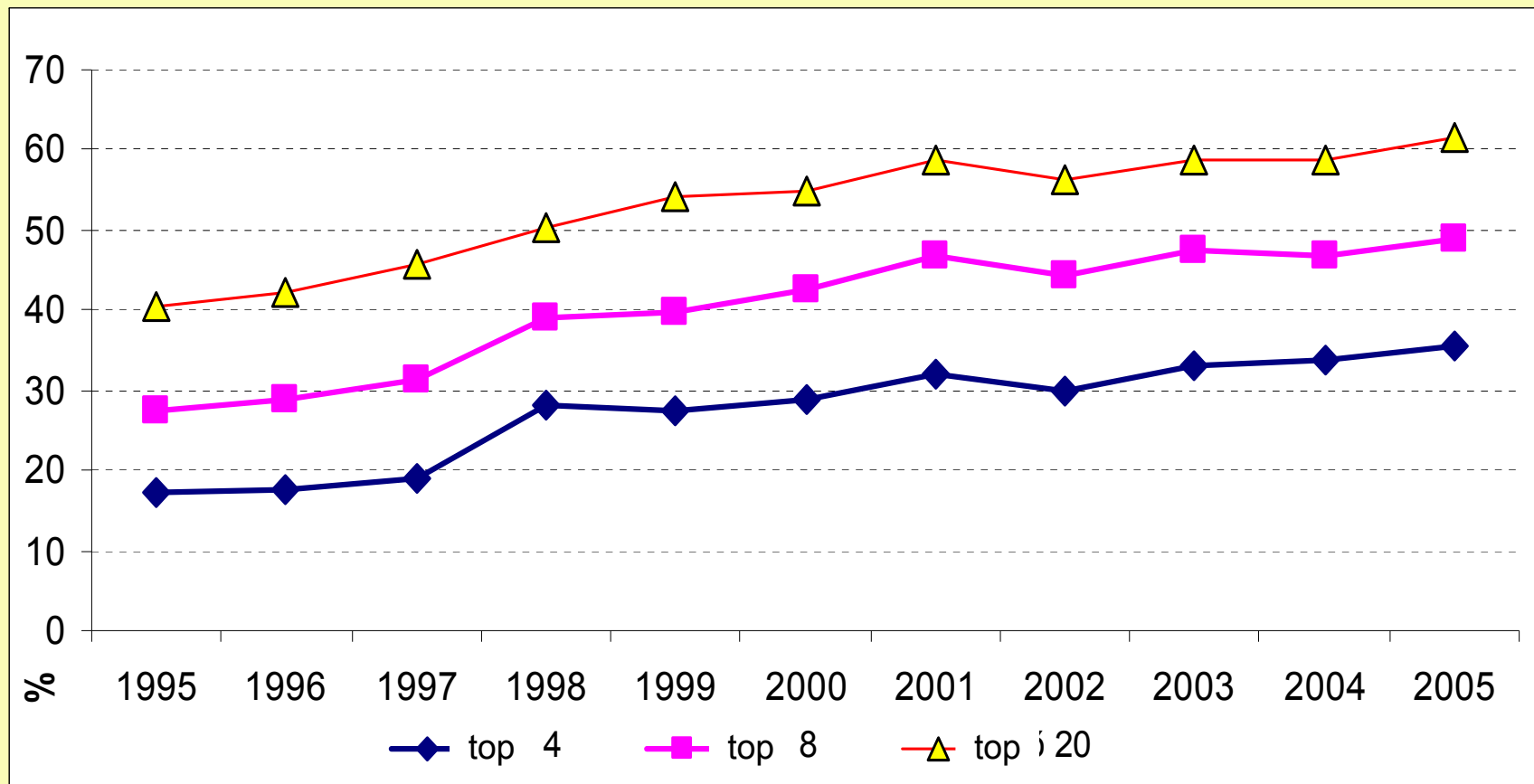
- resale below cost
- slotting fee

Trends in Grocery-Shipper Relations & Conflicts

- **Required support is more prevalent in value-added products and bigger shippers usually have the needed capacity for them also in the US and in Hungary.**
- **Sometimes bigger shippers can afford to support retailers to obtain market access, and retailers do not require contributions.**

2. Market Structure

Grocery Retailers, USA



Grocery Retailers, USA

- The concentration dynamic of the production and manufacturing sectors was quite similar but the level much higher compared to the grocery sector and therefore the **retail sector's market power has remained moderate in the USA.**
- **The level of concentration** in Hungary (top 5 grocery 70%), and in the EU (top 5 grocery 50-90%), surpasses that of the US, meaning regulation in the EU is more prevalent.
- It has not been necessary to regulate the market because of the sufficient number of market actors and the trend of consolidation. Therefore, free competition is enough to guarantee that the market works properly in the US, **where civil litigation plays an important role.**
- Concentrations increases and as the **foreign investors** continue to enter the market increasing the importance for regulation in the US.

3. Regulations, Primary Research

- FTC – DOJ
 - Robinson-Patman Act, Clayton Act, Merger guidelines
- USDA - AMS
 - Federal Milk Marketing Orders
 - Perishable Agricultural Commodities Act
 - Packers & Stockyard Acts

FTC key investigations, 1996-2005	
Horizontal-merger	188
Vertical	21
Potential competition	13
Buyer power	9
Joint venture	3
Other	92
Total	326

Rejected Merger Cases & Concentration Levels

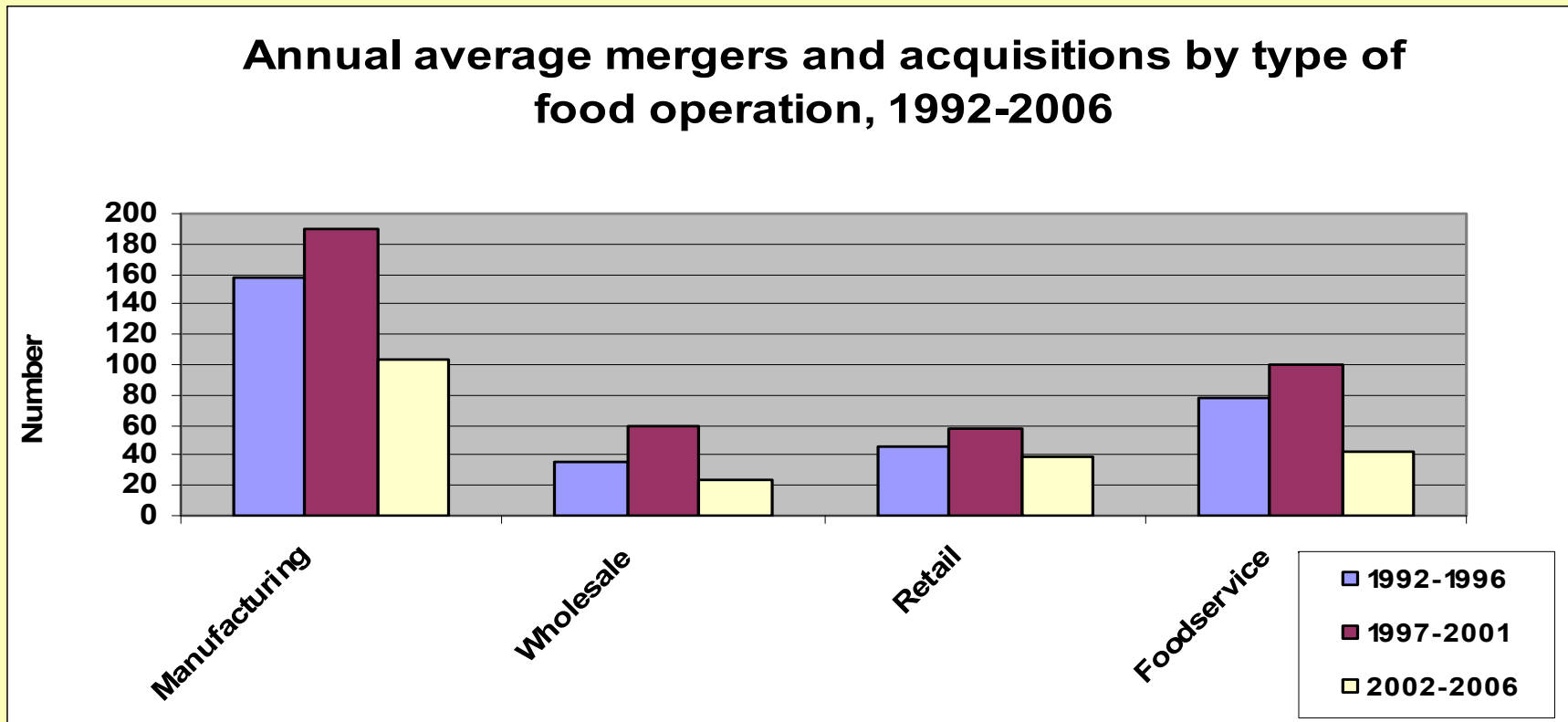
HHI concentration index after concentration	Cases 1996-2003	Cases 2001-2005
- 2,000	0	0
2,000 - 2,399	12	0
2,400 - 2,999	31	1
3,000 - 3,999	34	2
4,000 - 4,999	25	0
5,000 - 6,999	17	3
7,000 -	10	2
total	129	8

FTC's Key Merger Investigations

1997	- Jitney-Jungle/Delchamps
1998	- Albertson's/Buttrey,
	- Ahold/Giant Food
1999	- Kroger/Fred Meyer- divestiture
	- Albertson's/American Stores -divestiture
	- Shaw's/Star Markets - Massachusetts
	- Kroger/Groub
	- Ahold/Pathmark
2000	- Kroger/Winn-Dixie (Division)
	- Delhaize/Hannaford Bros.
2001	- Winn-Dixie/Jitney-Jungle
	- Ahold/Bruno's
	- Safeway/Carr-Gottstein

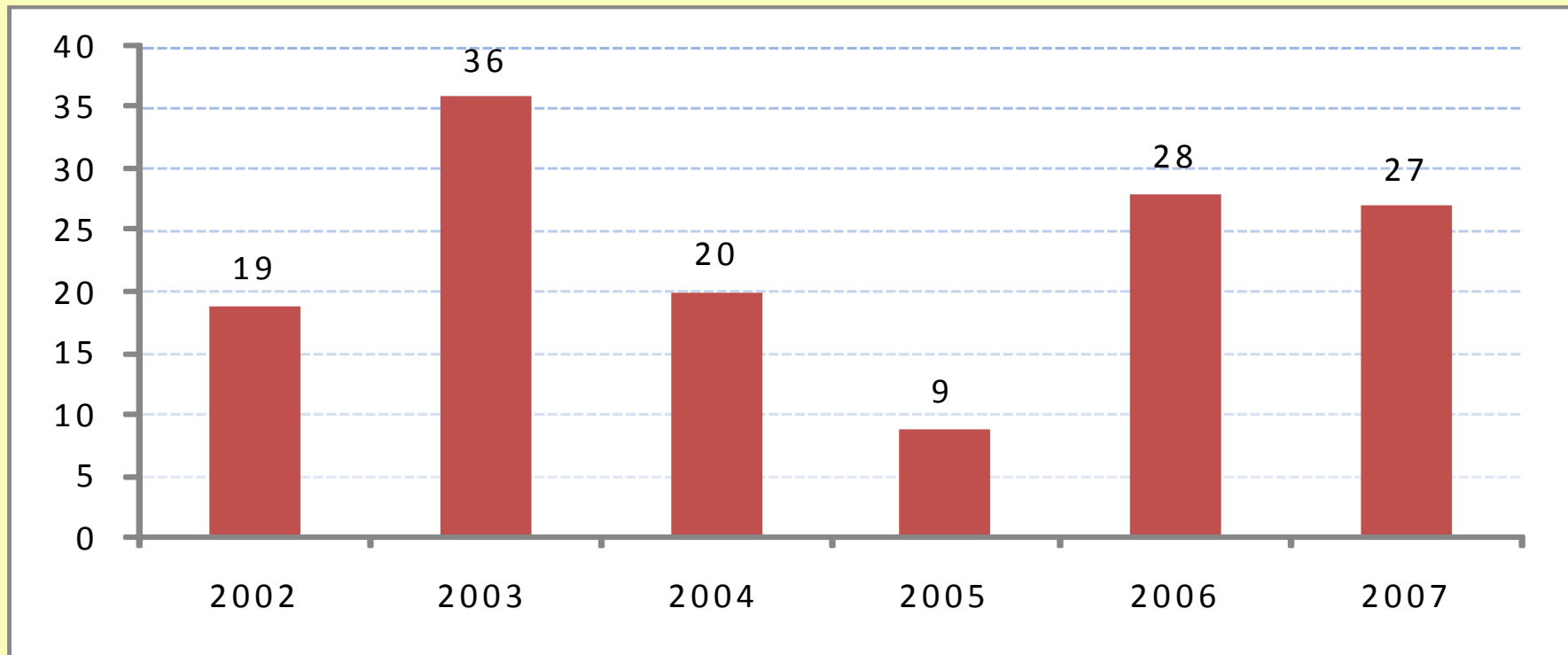
- 2007 Great Atlantic, Pacific Tea.
- Whole Foods - Wild Oats - Robinson P.

M&A in the Food Industry



- The decrease was more significant in manufacturing compared to retail. **In manufacturing the level of concentration is more developed.** In retail there is more potential for further concentration.
- The number of M&A and FTC investigations has decreased because of more intense concentration in the previous period.

M&A Among Supermarkets



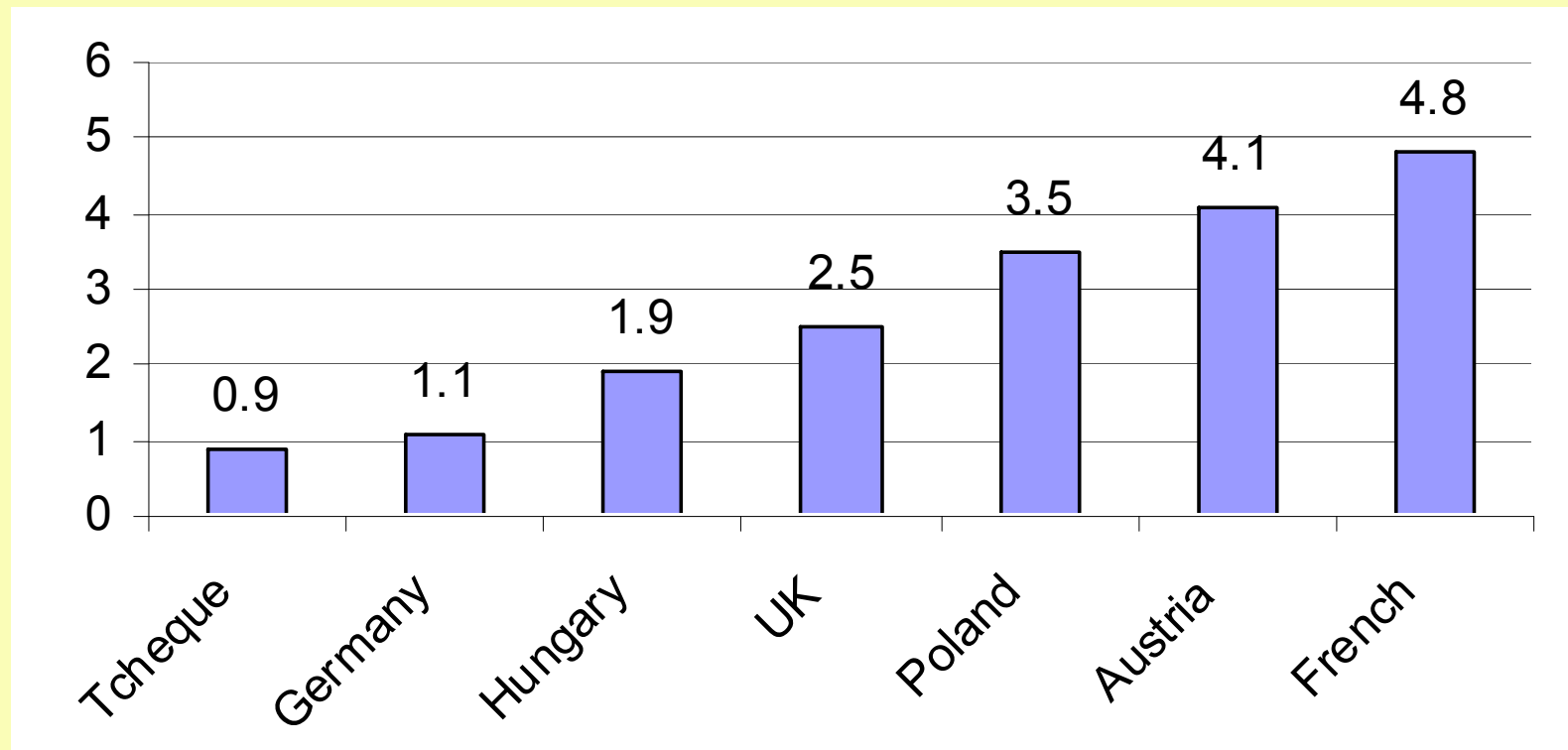
- Supermarket share in grocery retail is 60% and super centers grew 4 times to 20% from 1995-2006.

International Comparisons

- Hungary – introduced regulations that prohibited resale below cost and enforced timely payment.
Case of Tesco, Auchan, vegetables-fruit, melon, cherry growers
- EU – had several tentative measures; most have proved to be ineffective in harmonizing retailers and suppliers

International Comparisons

The degree of the regulation in the retail



Source: OECD, 2001

International Comparisons

CR4 grocery retailers, 1998-2003

	USA*	EU-15	EU-25	EU-8	Switzerland	Poland	Hungary
1998 – CR4	20	52	39	27	82	22	54
2003 – CR4	30	65	59	53	85	21	59

* USA- 1997-2002

International Comparisons

	USA	EU	Hungary
Concentration	Production: high	Medium	Production: low
	Manufacturing: 50%	50%	Manufacturing: lower
	top 4 grocery concentration is circa 30%	60%	65%
foreign ownership	less important	varies	High but decreasing 60%
regulation	civil litigation – less state regulation	Strong-common law	Strong-state law

4. Recommendations

Possible Tools to Harmonize Interests Evaluation of Tools

- **Government support** to decrease the losses of producers, shippers to help their adaptation to the current situation. These support mechanisms include trainings, assistance, financial aid, and market information.
- **Proactive, push strategy** to affect supply with **local and state regulation** can positively affect supply (shippers, retailers) for example competition law, but that does not prove to be successful. The **self regulation occurring within the market**, for example code of behavior, has not been highly successful either since shippers do not turn to these tools as they are in a position where their buyers, the retailers, can apply sanctions against them.
- **Laissez-faire, pull strategy** to affect demand (consumer) for example advertisement is the most market-friendly tool, but it is not yet efficient or effective enough to satisfactorily harmonize the relationships.
- To promote the concentration, cooperation among shippers, or producers.
- To increase the competition in the grocery by helping smaller retailers.

Conclusion

- In general, big market actors dictate and small actors try to adapt to the situation. This is true for small retailers and shippers as well.
- Regulations usually do not address the root of the problem; they are fix what is on the surface. Examples show that buying power of retailers will not change solely because of regulations, thus it would be overoptimistic to wait for entire success to emerge from regulations.
- There is no consensus among the regulators and market players about the advantages and disadvantages of conflicts between shippers and retailers.
- Because of the free-market tradition, market structure, and legal system there is less incentive to introduce more rigorous regulations in the US.
- In Hungary the regulation still remains dominant in the agricultural sector to promote the agricultural producers interest.

*Thank you for your
attention !*

