THE CASE OF SPAIN

OECD
Food Chain analysis Network
Meeting

Competition and value distribution along the food chain

Panel Session III - Price formation: Stakeholders views

Paris, 30-31 October

FIAB Spanish Food and Drink Industry Federation

1.- OVERVIEW OF THE MARKET (2012)

46,7 million consumers
A total food consumption of 100,678 million Euros,

67% of food consumption made at home

33% at food service

Market share:

Top 4 retailers reach 60% (Top 1 represent 31%) – Nielsen-

Private label 33,9% (in value); 52,9% (in volume) – Kantar World Panel -

2. MARKET FORCES

Nº	Retailers (*)	Turnover 2011 (M€)	Industries	Turnover 2011 (M€)	Cooperatives	Turnover 2011 (M€)
1	MERCADONA S.A.	**16.448**	COCA-COLA ESPAÑA	**3.000**	COREN	**1.005**
2	GRUPO CARREFOUR	**8.955**	NESTLÉ ESPAÑA S.A. GRUPO	**2.085**	GRUPO AN	**612**
3	GRUPO EROSKI - DIV ALIMENTAC	**6.278**	BUNGE IBÉRICA S.A.	**1.902**	ANECOOP	**439**
4	DIA, S.A.	**4.140**	CAMPOFRÍO FOOD GROUP S.A.	**1.827**	HOJIBLANCA	**389**
5	GRUPO ALCAMPO, S.A.	**3.373**	EBRO FOODS S.A.	**1.804**	COVAP	**333**
6	HIPERCOR, S.A.	**2.535**	PESCANOVA S.A. GRUPO	**1.671**	ACOREX	**243**
7	LIDL SUPERMERCADOS	**2.400**	CORP. ALIMENTARIA GUISSONA S.A.	**1.295**	COBADU	**212**
8	CONSUM S.COOP.	**1.754**	GRUPO LACTALIS IBERIA S.A.	**1.200**	CASI	**194**
9	AHORRAMAS, S.A.	**1.345**	GRUPO MAHOU-SAN MIGUEL	**1.196**	ARENTO	**185**
10	DINOSOL SUPERMERCADOS SL	**1.300**	CARGILL ESPAÑA GRUPO	**1.174**	CAMP D'IVARS D'URGELL	**179**
	SUBTOTAL	**48.528**		**17.154**		**3.791**

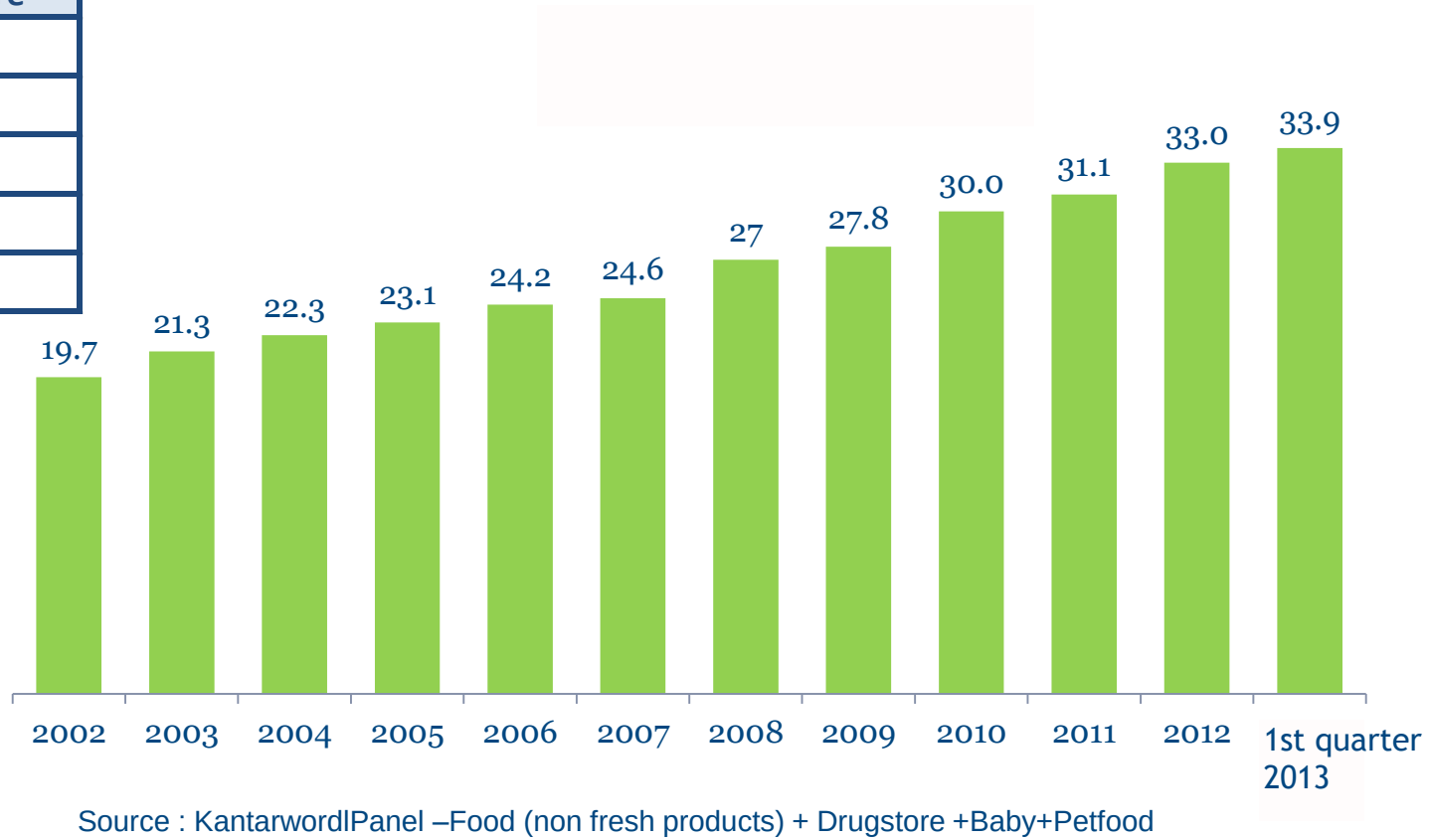
Top 10 in retail, industry and cooperatives

Turnover 2011 (Million of €)
Source: Alimarket 2012 y OSCAE 2012
(*) Food & non food

3. PRIVATE LABEL TRENDS

Categories	Private Label % Market Share
Oils	**61.6**
Biscuits	**41.3**
Canned fish	**62.8**
Canned vegetables	**60.8**
Cheese	**43.7**

Source: Nielsen (July 2013)



Source : KantarwordlPanel –Food (non fresh products) + Drugstore +Baby+Petfood

4.COMPETITION DYNAMICS IN THE FOOD SUPPLY CHAIN

In the last years, the power imbalance in the food chain has been high in the agenda –as at European level-:

Government, Parliament, stakeholders and Competition authorities have been involved in an intense debate until the adoption of the LAW ON MEASURES TO IMPROVE THE FUNCTIONING OF THE FOOD CHAIN

One of the big issues has been price formation along the food chain. Some of the evidences:

- Unequal barganing power and unfair practices by retailers
- Retailers influences prices and rents in the food supply chain (bottom-up)
- Sales below cost has been spread to different categories: milk, poultry, olive oil!
- The relationship between private label and manufacturer brands has changed radically in the last years
- NEW role of retailers: client but, at the same time, competitor
- Price differentials

5. OBSERVATORY OF FOOD PRICES (MAGRAMA: Spanish Ministry of Agriculture, Food and Environment)

"Study on value chain and prices of packaged milk"

ESTRUCTURE OF THE COST OF 1 LITER OF PACKAGED LIQUID MILK (€)					
	Min	Max	Max Price/Min Price	% Min Price	% Max. Price
Production	**0,330**	**0,375**	**1,140**	**43,47**	**34,34**
Agricultural land cost (seeds, fertilizers)	0,030	0,040	1,330	3,95	3,66
Milk production costs (feeding/purchase of cattle)	0,170	0,185	1,090	22,39	16,94
Fixed costs (machinery, petrol, taxes...)	0,040	0,050	1,250	5,27	4,58
Other exploitation costs (salaries, financing, redemption)	0,050	0,060	1,200	6,59	5,49
Opportunity costs (family rewards, invested money)	0,075	0,080	1,070	9,88	7,33
Net Benefit	0,000	0,005			0,46
Incomes other than milk	-0,035	-0,045	1,290		
Conversion and comercialization . Industry	**0,230**	**0,335**	**1,460**	**30,30**	**30,68**
Logistics costs collection	0,020	0,030	1,500	2,63	2,75
Manufacturing costs (workforce, petrol, redemption)	0,070	0,090	1,290	9,22	8,24
Packaging	0,090	0,120	1,330	11,85	10,99
Comercialization costs., marketing and management	0,020	0,080	4,000	2,63	7,33
Logistics distribution costs. Factory	0,025	0,080	3,200	3,29	7,33
Net Benefit	0,005	-0,065		0,66	
Final end comercialization	**0,170**	**0,340**	**2,000**	**22,39**	**31,14**
Platform cost/itermediate wharehouse	0,040	0,060	1,500	5,27	5,49
Costs of transport (to the shops)	0,030	0,050	1,670	3,95	4,58
Store cost (building, workforce, insurances, advertising)	0,095	0,210	2,210	12,51	19,23
Net Benefit	0,005	0,020	4,000	0,66	1,83
Price without VAT	**0,730**	**1,050**	**1,440**	**96,15**	**96,15**
VAT (4%)	0,029	0,042			
Price with VAT	**0,759**	**1,092**		**100,00**	**100,00**

Source: own based on the "Study of value chain and prices of packaged liquid milk". MARM (Agricultural Ministry). April 2009

+0.045 € differential

+0.105 € differential

+0.17 € differential

+0.32 € differential

+0.333 € differential

The analysis of the Study on value chain and prices of packaged milk, shows that:

- The biggest cost difference in the production of 1 liter of milk (private label or manufacturer brand) appears at its distribution stage (but not at producers or industrialization level)

- Differences on the cost between private label and manufacturer brands at each step of the distribution phase could be due to discrimination margins applied by retailers, thus
    - Limiting innovation and investment
    - Affecting consumer welfare

6. LAW ON MEASURES TO IMPROVE THE FUNCTIONING OF THE FOOD CHAIN

This new Law intends to avoid unfair commercial relations (disruptions in price formation) through, inter-allia, the following provisions:

1. Basic terms of the **commercial relation will be in written**: identification of contracting parties, object of the contract, price -indicating discounts when applicable-, terms and conditions, delivery, rights and duties, information to be given, procedure for modification/extinction of the contract.
2. Following **unfair practices are forbidden**:
    - Contract modifications (except by mutual agreement between the parties)
    - Commercial payments (unless they refer to the introduction of a new product or promotion, and under certain conditions)
    - Misuse of sensitive information by the retailer
    - Retailers can not handle own brands and manufacturer brands against free or unfair competition
    - Copycatting

3. The **creation of the Agency for Food Information and Control**, with powers to propose fines and propose investigations by the Competition Authority.

The law enters into force in January 2014, and opens a new approach to the issue of the balance in the food chain in Europe

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Velázquez, 64 – 3º. 28001 Madrid T +34 91 411 72 11 F +34 91 411 73 44 E fiab@fiab.es www.fiab.es

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