EuroCommerce for retail & wholesale

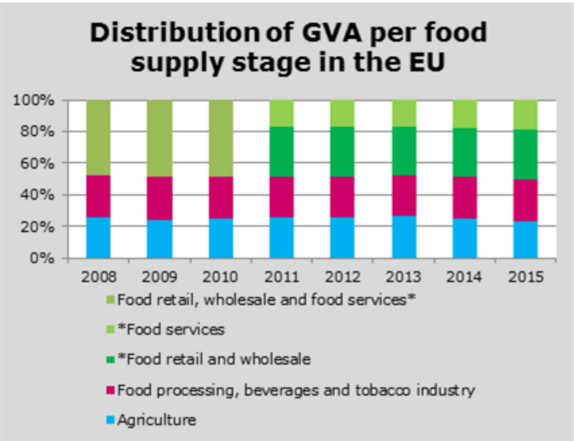
Briefing
11 April 2018

Agri-food supply chain – key figures

Distribution of added value in the EU food supply chain

Commission figures (see chart below) show that retailers and wholesalers make up together about 32% of value added in the food supply chain, while farmers make up about 25% and processors about 30%. Retailers on their own make up less than 13% of total value added in the food supply chain, rather than the 50% sometimes cited.

Added value at other levels in the chain has no impact on the level of added value generated at farm level and cannot be used as a measure of possible bargaining power or concentration at any level in the chain[1]. The increased added value at processing and distribution and food service level rather reflects increased processing taking place at other levels in the chain reflecting consumer demand for more convenience (e.g. ready meals, etc.). Absolute values show that, over the same period, added value at farm level has actually slightly increased (by about 5%).



Source: DG AGRI, 2017

Concentration is relatively low in retail and can be high in manufacturing

The Commission, in an in-depth review of the retail sector in 2014[2], identified that, **in most Member States, concentration levels at retail level was low or moderate in most EU Member States**: "*modern retailers have expanded and increased their influence in most EU member states, but the situation remains heterogeneous across the different member states (…). In comparison to other sectors, retail concentration in the market for total edible grocery (including all types of shops) is relatively low*".

An analysis of supplier concentration shows that suppliers may strongly dominate certain product categories. For instance, suppliers' market share in a large country like France further demonstrate market dominance in a number of product categories:

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[1] See Alan Matthews' article "Farmers' share of food chain value added" http://capreform.eu/farmers-share-of-food-chain-value-added/

[2] http://ec.europa.eu/competition/sectors/agriculture/retail_study_report_en.pdf

Water		Soft Drinks		Beers	
Nestlé	32.70%	Coca Cola	51.40%	Heineken	37.10%
Danone	26.20%	Suntory Or-Schw	20.30%	Carlsberg	30.10%
Alma	22.60%	Retailer Brand	9.80%	Anheuse	14.60%
Retailer Brands	13%	Pepsico	6.90%	Retailer Brands	4.90%
Tea		**Herbal tea**		**Chocolate powder**	
Unilever Lipton	41.20%	Unilever	33.10%	Nestlé	41.80%
ABF Twinings	25.60%	ABF	16.40%	Mondelez	25.90%
Retailer Brands	8.70%	Retailer Brands	15.60%	Retailer Brands	13%
Roasted coffee		**Coffee pads**		**Soluble coffee**	
Mondelez	45.90%	Douwe Egberts	35.90%	Nestlé	59.10%
Retailer Brands	19.70%	Mondelez	29.70%	Mondelez	18.10%
Douwe Egberts	12.90%	Nestlé	15.50%	Retailer Brands	18.10%
		Retailer Brands	11.60%		

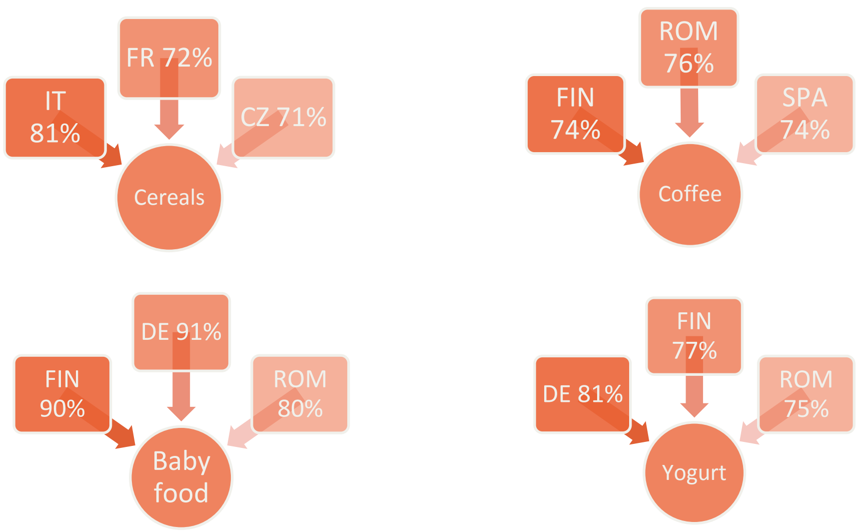
Source: Retailer Brands: serving consumers, SMEs and innovation - April 2016

In Austria, one supplier has 92% of the market for chewing gum; one has 90% of the market for sugar; one has 90% of the market for margarine; one has 82% of the market for carbonated soft drinks. (Source: Nielsen).

In Spain, the market leader for potato chips holds 81% of the market; soft drinks (86%); razor blades (93%); children's juices (79%); bitter refreshments (78%); milk powder (74%). (La cadena agro-alimentaria en Espana - 2012).

In countries like Netherlands, Denmark or Finland, one dairy cooperative holds more than 80% market share in each of these markets.

Commission figures show that the top three suppliers may dominate certain product categories in several countries - Market share of the top three suppliers per product category:



Source: DG COMP study on modern retail, based on Euromonitor Passport, EY Analysis, 2012 data

Comparing net margins shows that manufacturing remains more profitable

Retailers' profit margins are on average between 1 to 3%. According to Deloitte figures, net profit margins for the top 250 global players would be on average 2.4% in the fast moving consumer goods segment.

Global manufacturers' profit margins tend to be between 15–30%: EBIT margin of some global manufacturers: P&G (20%); Henkel (15%); Kraft (23%); Coca Cola (19%); Nestlé (15%); Unilever (14%); Danone (13%) (Source: Corporate information, 2016)

The milk market

According to European Commission figures, in 2016, 16% of the milk produced in Europe ends up on retail shelves as drinking milk; the majority is processed as cheese (37%), butter (19%) and cream (10%), and (skimmed and whole) milk powder (10%).

In Germany: 37% milk produced in Germany goes on retailers' shelves. Otherwise, 48% of milk is exported, 15% sold as an ingredient, 17% becomes drinking milk, 22% is milk powder and 47% becomes cheese. (Source: HDE).

According to European Commission figures, milk retail sales in Europe decreased by 5kg equivalent per capita between 2003 and 2016; substitute drinks are increasing in double figures; organic milk retail sales are increasing, while conventional milk sales are decreasing or remaining stable in most EU countries (Sources: Milk market observatory, Euromonitor, European Commission).

Retail and consumers

- On average, a large supermarket offers up to 50,000 products on a daily basis and hypermarkets even more. Retailers are entirely dependent on manufacturers of must-have products, and the balance of power is firmly in favour of the latter: even the largest retailers in Europe only represent a very small percentage of an individual global manufacturer's total turnover (*source: company information*).

- Consumers visit 3-4 supermarkets regularly; while price is still the most important factor, others like location, quality, product availability and store hygiene influence consumer choice; in Germany, about **one-third of customers switch to a different retailer if a specific brand is unavailable.** (*Source: IfH/BBE study for HDE/ Nielsen, 2009*).

- Only 50% of new product introductions will remain on shelves after 6 months; 75% will fail after one year; 5-10% of new product will remain on shelves after 2 years (*source: companies, Gfk, Nielsen*);

- On average, 70-80% of foods sold in supermarkets are sourced within the Member State concerned (*source: national federations*). In Italy, more than 80% of food products are sourced local (88% for cheese and 80% for meat).

Key facts and figures on the Supply Chain Initiative

- Registrations: 390 companies from across the entire EU have already registered under the SCI. Taking into account the subsidiaries of international groups, 1.181 operating companies are signed up. 2 thirds of registered entities are SMEs. National dialogue platforms have been established in BE, DE, NLs, SK, FIN, CZ, PT and one is being established currently in EE.

- In 2017, the SCI strengthened its dispute resolution mechanism, appointed an independent chair, Michael Hutchings, and reviewed the rules of governance and operations in accordance.

- Key figures from the annual survey show that satisfaction with the SCI remains high among participants (70% of respondents reported a good level of satisfaction and 42% a very high level). 9 out of 10 companies have trained their staff members; over 37,000 people have been trained across Europe; 50% of SMEs have trained more than 10 persons; one in three large companies have trained more than 50. 84% of businesses have communicated their registration to their trading partners. In 2017, 10 companies reported having received 39 complaints; a large majority of these were solved within 4 months. Companies considered that the SCI helped them improve internal processes (32%), and improve their daily communication (28%). (Source: SCI annual report, 2018)

- Other activities include EU guidance on the principle of confidentiality, and an annual workshop. A lot of activity is reported at national level through national guidance and initiatives.

Mapping of UTP laws

In its report on unfair trading practices of 2016, the Commission provided an analysis of the various national frameworks and concluded that "*given the positive developments in parts of the food chain and since different approaches could address UTPs effectively, the Commission does not see the added value of a specific harmonised regulatory approach at EU level at this stage*".

A more recent analysis shows that 20 EU countries have some form of legislation, some having adopted specific provisions, such as France, the UK, Romania, Hungary, Czech Republic, Italy or Spain; others have stretched existing provisions to the food supply chain (e.g. Germany, Austria, Finland); other countries have a voluntary scheme (e.g. Belgium, Netherlands, Estonia) or no specific scheme (e.g. Sweden, Malta, Luxembourg and Denmark). (*Source:* JRC report on unfair trading practices)

In a number of countries (e.g. the Czech Republic, Hungary, Slovakia, Romania, Poland or Bulgaria) retailers suffer from discriminatory and disproportionate legislation or very restrictive or rigid legislation making it difficult to negotiate with suppliers. This has harmed both retailers and suppliers and has not provided incentives to become more innovative or competitive.

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