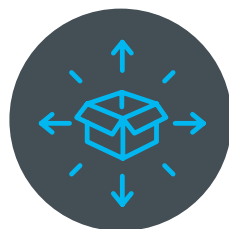
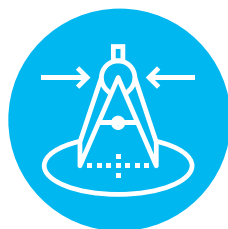




Insights Paper:

A Perspective on Assortment and Consumer
Price Differences in Europe

December 2020



AIM is the European Brands Association, representing branded consumer goods manufacturers in Europe on key issues which affect their ability to design, distribute and market their brands. Ranging from national SMEs to multinationals, our members are united in their purpose to build strong, evocative brands, placing the consumer at the heart of everything we do, respecting European cultural diversity and strength whilst also availing of the great opportunity that is the European Single Market.

Building sustainable and trusted brands drives investment, creativity and innovation to meet and exceed consumer expectations. We work with business partners across a complex value chain to meet these expectations. A question that often arises from stakeholders, specifically with regard to grocery products in the retail context, is why there are different consumer products in different countries and how consumer prices are set. The data on both of these questions is vast and available from a wide range of independent sources. As manufacturers, we cannot set retail consumer prices, or finally decide what is on the shelf; this is only within the sphere of retail decision-making. However, we do have an in-depth knowledge of this process, which inevitably impacts what is available to consumers. This briefing paper has been developed to explain the consumer price and assortment setting to give readers an understanding of some of the key elements involved in these decisions.

Contents

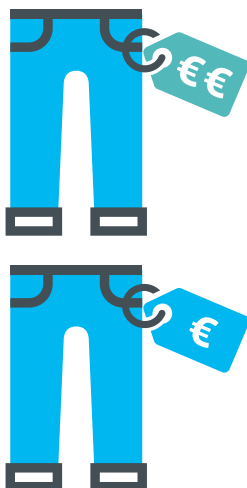
Summary of key points	4
1. Consumers preferences and choice, “united in diversity”	6
2. Retail differentiation : a strategic imperative.....	8
3. Consumer markets are local	14
4. Competitive environment and consumer price	16
5. Retail buying power and consumer price.....	17
6. Promotions and consumer price.....	19
7. Retailers brands and consumer price	20
8. Retail margin and consumer price	21
9. Retail costs, efficiencies and consumer price	24
Conclusions	26
Annexes	28
A1. Differences in VAT rates in the European Union	28
A2. Differences in Corporate Tax rates in the European Union	29
A3. Grocery basket: Price Variation across retailers stores in the same city – Example	30
A4. Grocery Retailer Brands price differentials across countries : examples.....	31
A5. Vertical integrated retailers products price differentials across countries (Ikea, Zara...)	32
A6. Market are local – illustration – Milk share, differences across a set of countries.....	33
A7. Retail buyer power, gatekeeper and suppliers dependency. Illustration	34
A8. European retailers size in Europe – 2018	35
A9. Variation of retailer margin in Europe.....	36
A10. Methodologies used in price comparison reports-overview	37

Summary of key points



Markets are local due to historical, cultural and socio-economic differences. They therefore differ per consumer as well as per region, within and across countries. Competition law defines the market size in function of the catchment area - the consumer ability and willingness to travel for purchasing goods. It therefore varies per consumers as well as per regions within and across countries.

Consumer prices are set by retailers depending on their business strategy and the competitive environment's intensity (number of players, respective market shares), and nature (players' positioning and formats: some retailers focus on quality value, offering services that justify higher product prices, while others focus on the lowest prices possible, and still others concentrate on creating consumer interest through various types of promotions).



The retailer sets the consumer price on supplier brands according to its retail strategy and its own retailer brands; as such the retailer has a dual role as a retailer and as its own supplier, competing directly against its intermediaries (wholesaler, suppliers) products. Retail can increase the consumer price of supplier brands to create a significant price gap with its own retailer brands, in order to make its retail brands more attractive to consumers. Retail margin on retailer brands vary per retailers and products, creating price differences.



Differences in a store's assortment are influenced by retail strategy as well as the nature of competition. It relies on the socio-economic environment, consumer preferences and purchase power, the households profile in the market. Retail format, hence store size, establishes a natural physical barrier – space – to assortment breadth. As such it affects both consumer choice and price. There are no two stores that have an identical assortment, even if both stores belong to the same retailer.

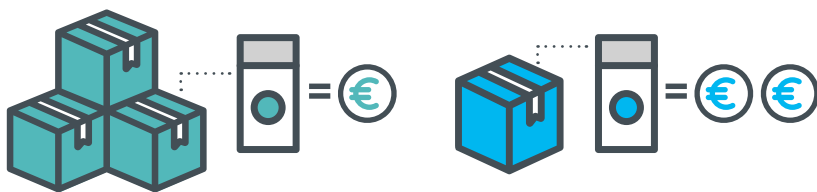


Price is a marketing tool used to support retail differentiation strategies. Differentiation is essential for businesses to ensure that consumers purchase their products – and not a competitor's products – or via their (virtual or physical) store – and not via a retail competitor's channel.



Consumer prices are dynamic: prices vary across the weeks because of promotions, but also because of business needs (e.g. generate cash flows by increasing sales while temporarily reducing margins). Some retail models rely on constantly monitoring competitor prices and systematically aligning product prices according to any competitor's changes. Each retailer defines the margins that it wants to make on consumer sales, but its effective profit will depend on the sales achieved, the competitive environment, and consumer demands. **Retail consumer price varies across markets independently of intermediaries (suppliers, wholesalers, farmers) price being uniform or not as even when confronted with identical intermediary price, retail consumer price vary.**

The higher the retail concentration, the higher the consumer price, regardless of suppliers/wholesalers price.



Retailers' buyer power over suppliers is an important factor influencing price differences across Europe: "larger retailers may have more bargaining power....the (competition authority) **found that the 4 largest retailers paid between 4 and 6% less ...**"¹

As acknowledged by the Nobel Prize in Economics "there is never absolute homogeneity in the commodity if we include the terms of sale" which are function of both costs to serve (e.g. payment various delays; if sending out trucks full or partially full, express delivery etc.) as well as the "indirect price factors" such relationship with suppliers (e.g. various support in sales) as observed regularly in merger cases.

¹ [Competition and Markets authority, Sainsbury/Asda, § §2-3 of Appendix L](#)

Consumers

Stores/Point of Sales (POS)

- Independent
- Franchises
- Affiliates (own by retail group)

Retail Groups Buying Groups

Wholesalers
(consumer goods)
Industry/Suppliers
Wholesalers
(Raw Materials)
Producers
(Raw Materials)

AIM®
EUROPEAN
BRANDS
ASSOCIATION

1. Consumers preferences and choice, “united in diversity”

As the 2012 Belgian authority reports¹, the variation of assortment and price within a country demonstrates that consumers do not necessarily favour the same products or seek to buy the cheapest products. Consumers decide to purchase more expensive products even if offered cheaper products.

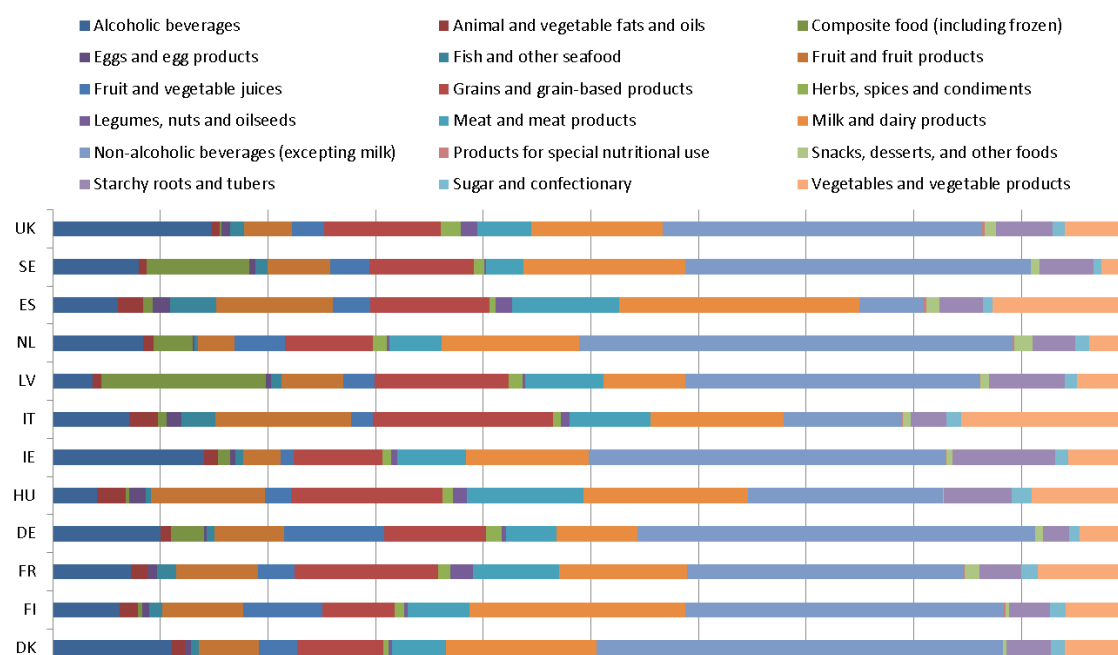
“Even with identical retailing costs, the same product may be sold at different prices ...reason lies in differentiation – the same product may be perceived as not exactly identical when bought in different stores. For instance, a consumer may prefer to buy his jar of Nutella at a corner store in his posh neighbourhood even if he knows that the same item is less expensive in a less fancy, more crowded, or further away superstore.”².

Economic studies refer to the price elasticity – sensitivity to price – which varies per consumer and per product, as well as depends on purchase circumstances.

Likewise, *“the very same product might have a different customer perception in one country than in another. For example, a specific type of pasta which is considered to be quite regular in Italy might be perceived as something of high quality in Slovakia”³.*

Consumer purchase frequency – defined as “consumption intensity”⁴ – also varies strongly as *“not all are inclined to consume pasta like the Italian regions or consume sparkling water like the Austrian regions”⁵*. The difference of consumer preferences and behaviours influenced by their culture is illustrated by the differences in daily consumption (weight shares) of consumers⁶.

Mean daily consumption in weight shares of 18 food categories for an adult consumer in 14 EU Member States



Source: JRC report

1. Belgian authority, Niveau de prix dans les supermarchés, FOD/SPF Economie, E1-432/0310-12 2. Centre for Economic Policy Research (CEPR), The price of the same product often varies across stores, 13 March 2018, French Central Bank research 3. European Central Bank (ECB), Within and across country price dispersion in the Euro Area, November 2014 (NO 1742) p.20 4. Number of units of the products sold per person per month in a location, Bank of Greece, Analysing price level differences in the Euro Area, Competition structure and Consumer Behavior, 27.10.2014 5. Bank of Greece, Analysing price level differences in the Euro Area, Competition structure and Consumer Behavior, 27.10.2014, Nielsen database in 10 countries, 41 categories, 58 regions, data collected from September 2008–December 2011, manufacturer and retailer brands., p.25 . working with ECB Eurosystem project 6. JRC, Consumer Footprint Basket of Products, variation of food consumed by an average citizen in a reference year using EFSA database

Such differences are represented in the differences of the volumes traded in each country. Such reality leads to a direct economic effect: the volume sold in specific locations affect the possible scale benefits; it has a direct effect on price⁷.

Does packaging size matter?

As the UK Competition authority remarks, consumers have a whole set of criteria which matter to them when selecting a product such as the *“average shelf-life, calories/sugar content, packaging quality/ease of use/ volume, quality of ingredients, aesthetics/look...”*⁸. Price is only one of them. For example, the Greece Central Bank reports: *“Greek and Irish consumer tend to buy smaller pack sizes than on average”*. Pack size is used as a measure of *“consumer cost indifference”* as product price *“tend to be lower in general on larger pack size...still it is consumer choice to buy what pack size”*.

Pack size is also a function of the product usage. *“In Greece, the country with the lowest average pack size in Juice, a Greek family with 2 kids tends to pack their lunchboxes with an individual 500ml bottle. The 500ml bottle price implies a litre cost of about 2 euro. By contrast, a German family would buy the kids canteens which are filled up each day from a 1.5 or 2 litre bottle. In sum, the Greek consumers’ choice of packing a personal bottle rather than filling two canteens from a 2 litre bottle is costly :with approximately 200 lunch box days per year this implies an extra cost of 200€ per family and year, just for juice”*.

Why does a consumer choose a certain store?

Consumers choose their point of sales based on a set of criteria which are a function not only of the point of sales features (e.g. distance/time to reach stores, opening hours, assortment breadth, ambiance/design, in and out store services such as parking, speed at cash outs etc...) but also of the consumers shopping purpose (e.g. a once-a-week grocery stock up purchase leads to the decision to select bigger stores; special event, quick purchase in proximity/specialist store for certain products such as wine, cheese, etc.). *“It would be artificial to isolate one factor that consumers in fact trade off against other important considerations: their budget, their desire for sufficient product quality, and their time...”*⁹.

Does store location matter?

Store location¹⁰ is the most important and decisive factor that drives consumer selection of their point of purchase. In rural areas consumers will travel more to stores than when they live in cities where convenience is key: such differences lead to different consumption in various geographies¹¹. It is the reason Competition law relies on the definition of “catchment areas” to analyse competition dynamics.

Price is one of the many components of consumer store selection which is a function of the total basket purchase, not of a single product¹². The average number of products purchased in a consumer grocery basket vary from 16 to 40 products, varying per family profile, purchase reason (stock up for week; regular top up convenience shopping trips¹³).

As retailers say, *“Grocery retailing encompasses competition on the entire “retail offer”, which covers a wide variety of products, with many variations in terms of quality levels and price points...”*¹⁴

7. Belgian authority, Niveau de prix dans les supermarchés, FOD/SPF Economie, E1-432/0310-12,p ; France, UK 8. Competition and Market authority, Anticipated merger between J Sainsbury PLC and Asda Group Ltd, Appendices M14-63, 9. Asda Sainsbury Merge , Parties response to issues statements , p20 §86, p.20 10. Asda Sainsbury Merger Notice,2019, CMA, quoting IGD Retail and Shopper trends May 2018 11. Asda Sainsbury Merge , (retailers) Parties response to issues statements, p.17,46 12. UK 2008 groceries investigation by the Competition and Markets Authority; Sainsbury and Asda Merger Notice 2019; Retail Market Power in a Shopping Basket Model of Supermarket Competition, AAEA 2016 meeting 13. Asda Sainsbury Merge , Parties response to issues statements , p19-20 14. Asda Sainsbury Merge , Parties response to issues statements , p.45 §226

2. Retail differentiation: a strategic imperative

Differentiation is at the core of any business strategy¹⁵ as it addresses the challenge of making a consumer choose a specific business offer at the expense of a competitor. The greater the differentiation, the more loyalty businesses create, the higher the profitability¹⁶.

For retail, the focus is to make their stores less substitutable for consumers. Assortment selection is an important part of the retail competitive offer in its differentiation quest: “supermarkets ...do not compete with individual products but with their full product portfolio”¹⁷. The development of retailer brands¹⁸ represents one other important feature of such retail differentiation strategy. The retailer store format, location as well as a number of retail services are also essential for differentiation.

As the retailers indicate:

“retailers do not compete “on product range” in an isolated sense – they compete on the retail offer as a whole. Competition between the differentiated retail offers also involves a variety of factors important to grocery customers that are key parameters of competition, including: (i) convenience of store locations locally; (ii) value for money on product quality and price (not just price); and (iii) other aspects of the in-store offer, including range or service, and other aspects of the in-store shopping experience... (some retailers) have business models that rely on high volumes and low cost, accompanied by substantial growth of new stores,(some) have a proposition that is centred on a “premium” customer perception and high quality/convenience, (some) has ...grown in the convenience sector,... larger stores may have a wider range of products and a greater offer of amenities such as cafés, concessions, general merchandise, and specialist food counters”¹⁹

2.1 Assortment and retail differentiation

The quest for retail differentiation is illustrated by the variety in retail assortment. The number of items present in each store varies per their size, from 1500 for discounters to 9.700²⁰ in rural Italy to over 50.000 food products in a German supermarket, with one international retailer declaring they work with over 30.000 food suppliers in 18 European markets²¹. In France, a French retailer states they work with SMEs for over 60.000 product items²².

So how many products are in a store? It varies significantly

- In France = between 1,658 to 29,867 products per store
- In Belgium = between 7.101 to 21,953 per store
- In Luxembourg = average of 14.366 per store
- In Germany = up to 50,000 food products in a supermarket

Reviewing 4 neighbouring countries²⁴, defining a cross border region (store distance of 30 to 50kms) over half of the products of that region are sold in only one store (54.955 on a cross border range of 111.540 products). 59% of the French assortment is not present in any of the neighbouring regions. The Belgian 2012 report states that only 16.7% of the manufacturer brands listed in Belgium are also sold in at least one of the neighbour markets.

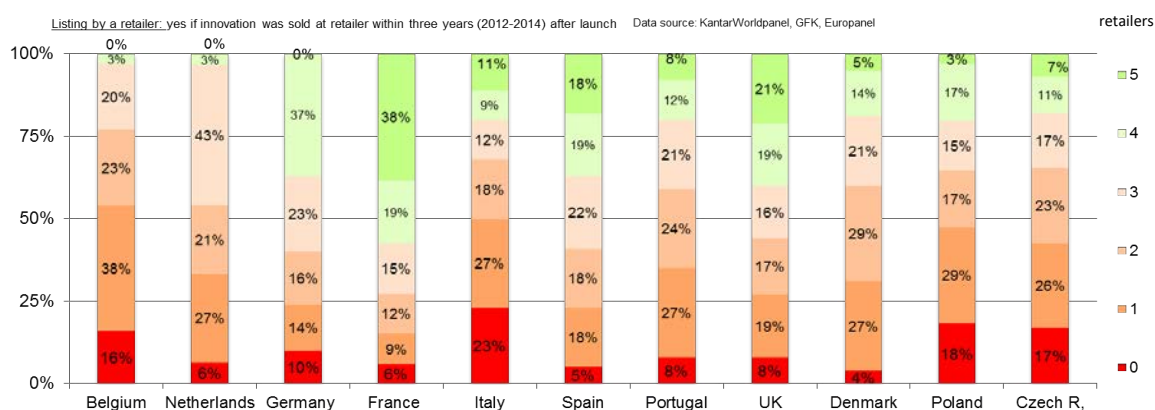
¹⁵. Michael E. Porter, “How Competitive Forces Shape Strategy”, Harvard Business Review, May 1979 (Vol. 57, No. 2), pp. 137-145; McKinsey April 2020, Driving differentiation in retail ¹⁶. Deloitte, The Retail Profitability Challenges, 2017 ¹⁷. Ahold, leading Dutch retailer, (N°14 global retailer in 2019) 28.09.2009, letter, HT.1171 stakeholder input, comments regarding review block exemption regulations and guidelines on vertical restraints ¹⁸. Journal of Retailing and Consumer Services Volume 10, Issue 6, November 2003, Pages 345-352 ¹⁹. Asda Sainsbury Merger, (Retailers) Parties response to issues statements , p20 §86, p44-46 ²⁰. <https://www.esmmagazine.com/carrefour-italia-introduces-outlet-rural-store-concepts/61899> ²¹. Metro AG presentation, “ a better functioning food supply chain”, Copa Cogeca Conference ²². <https://www.lineaires.com/la-distribution/comment-carrefour-bichonne-ses-fabuleuses-pme-48727> ²³. Ministère de l’Economie, Grand Duché de Luxembourg, Observatoire des prix, Etude 4 Frontières, Edition 2020, p11, 22 retail banners stores, within a 30-50 km from Luxembourg, 1.8 Million people leave in the neighbouring areas, to add to 600.000 people leaving in Luxembourg, so for 2.4 million population. 200.915 cross border workers come daily to work in Luxembourg, over 50% come from France, the rest is equally split between Belgium and Germany. 98 grocery categories reviewed, from food to household/cleaning to Health and Beauty products, ²⁴. Nielsen 4 Frontier study for Luxembourg Ministry of Economy

Adapting to local consumer preferences

Even when comparing stores of the same retailer present in at least 2 neighbouring countries, on average only 27% of the assortment is similar in the stores of the same retailer across its banners in neighbouring markets. This is explained by the fact that stores adapt their assortment to local consumer preferences as well as to the local retail competitive environment²⁵. Retail heterogeneity is in response to consumer heterogeneity.

Retail differentiation implies retail requesting suppliers to differentiate their products through packaging, ingredients even when selling generic products such as pizza margarita; or Bolognese sauces etc...²⁶ This also leads retailers to request some supplier exclusivity, the ability to purchase products other retailers do not offer.

Ratios of Brands present at top 5 retailers in country



Source: KantarWorldPanel, Euromonitor

The critical factor = Shelf presence

In grocery, branded products present at only one retailer represent between 9% to 38% of the retail assortment across a number of Member States. On average less than half of manufacturers brands (47%) manage to be present in the stores of at least three of the top five retail groups in each country.

In the UK²⁷ only 21% of the manufacturers brands are present at the seven main grocery retailers which represent 75% of the national grocery sales. The retail quest for manufacturer brands exclusivity will vary in function of the retailers own brands strategy as well as their overall pricing positioning.

25. <https://www.gondola.be/fr/news/delhaize-ouvre-une-plateforme-regionale-de-transbordement-neufchateau> March2020; Ahold Delhaize declares "store assortment is function of the consumers and the town corners. The stores define which products to order, it makes assortment organisation a bit more complex" 26. CMA, Competition and Market authority, Anticipated merger between J Sainsbury PLC and Asda Group Ltd, Appendix M, on difference of assortment, differentiation. Exclusivity §103-107 27. Do Sales Matter? Evidence from UK Food Retailing, Agricultural Economics Society, 85th Annual Conference, April 18-20, 2011, Warwick University, Coventry,

AVERAGE CONSUMER BASKET SIZE IN UK



**Supermarkets: 13
products on average**



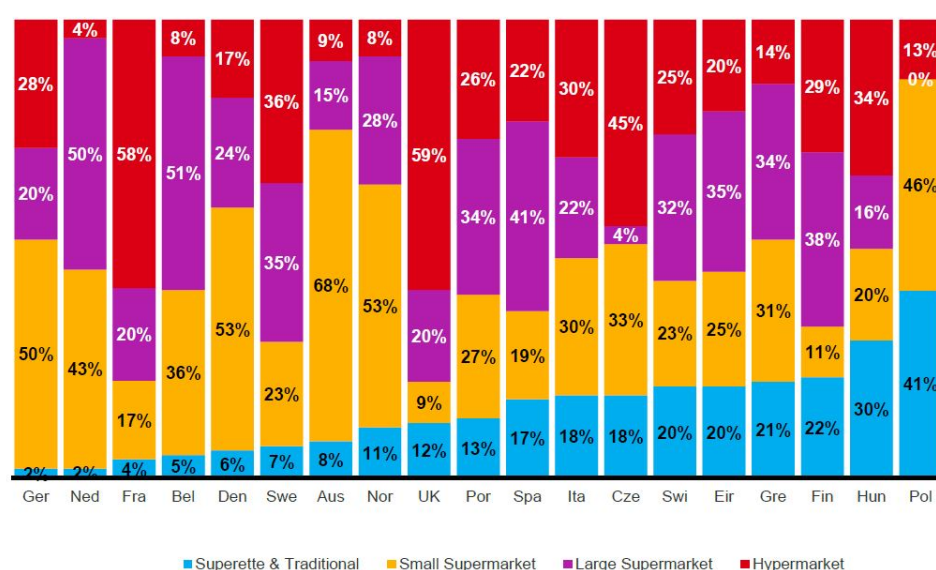
**Discounters: 16
products on average**

2.2 Format and retail differentiation

How does size of store matter?

The 2012 Belgian authority report highlighted the impact of format on assortment and price in grocery: over 78% of French Grocery purchases are made in larger stores (58% in Hypermarkets) while 52% of German purchase are made in smaller stores. As such the choice offer to consumer varies per country as well as within countries. Stores size and number vary regionally.²⁸

Differences of store size per country



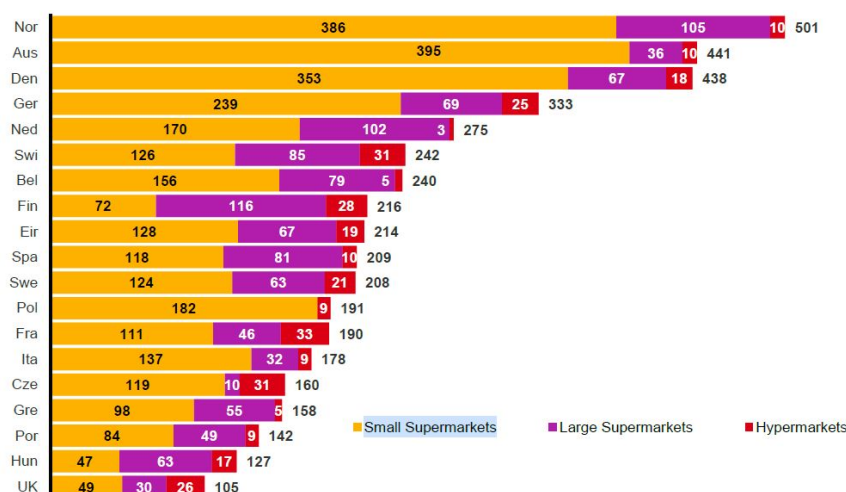
Source: Nielsen 2017 Grocery Universe Report

Smaller stores are generally associated with higher price, as they have lower volume sales, hence scale, to cover retail fixed costs. To address this challenge, some retailers, such as discounters have reduced assortment in their stores to compensate the scale factor and manage profitability. As explained in the Belgian report, consumers perceive a higher price paid in specific stores balanced by the quality of the services (e.g. opening hours, parking, stores nearby where purchases for other products can be combined).

The retail offer spread - the number of stores in markets - is also a factor which influences competition, assortment and price.

The number of stores intensifies the competition if the stores belong to different retail groups. For integrated retail groups, the number of stores increases the costs of managing a larger network while it also reduces competition as stores are owned by same retail group. Europe presents large variation of store density across markets.

Differences in stores density per country



The Nordic countries seem to offer more stores per inhabitants than in the Southern regions of Europe and in some Central and Eastern Europe.

Source: Nielsen 2017 Grocery Universe Report

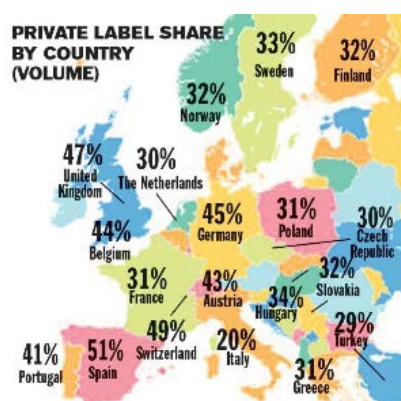
The 2012 Belgian authority report defines that the grocery turnover per inhabitant is slightly higher in Belgium than in the Netherlands; however the turnover per m2 is higher in the Netherlands which underlines a lower profitability for Belgian retailers on such an indicator. This illustrates the complexity of comparing factors to explain differences in Europe.

2.3 Retail branding and retail differentiation

Retail brands are one important tool for retail differentiation. As defined by the UK Competition authority, "it is on own-brand that retailers can really differentiate themselves. Half of grocery shoppers already feel this is the only difference between supermarket operators"²⁹.

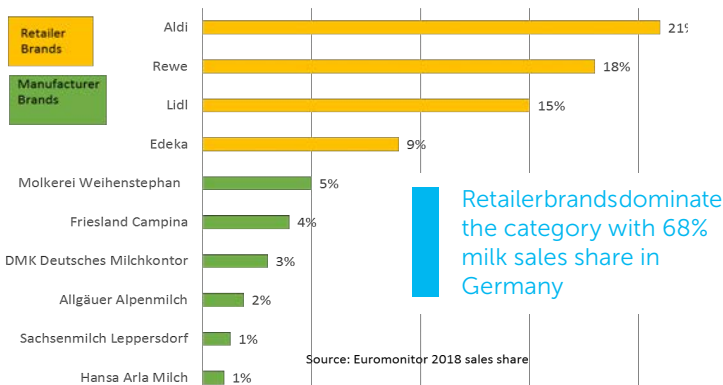
Retailer brands across Europe represent – on average - from 30% to 50% of the sales in Member States³⁰. Higher retailer brands share can be found in a number of major grocery categories.

Private label share by country (volume)



Source: PLMA 2019

Companies share of Milk sales - 2018 - Germany



Retailer brands dominate the category with 68% milk sales share in Germany

Source: Euromonitor 2018 sales share

What's in a name?

The retail quest for differentiation is also expressed by the fact that international retailers brand their stores differently in the different Member states where present. For example, Ahold Delhaize developed in the Netherlands mainly under the A. Heijn banner. While this banner is also present in Northern Belgium, the main Belgian banner for the group is Delhaize. In the Czech Republic, the store banners are named "Albert", in Romania, "Mega Image". With this approach, retailers also have different names on their own retail brands. Some would argue such an approach reduce their ability to benefit from scale efficiencies. Yet, they do it for the sake of differentiation.

Retailer brands are even less distributed internationally than manufacturer brands. In the Belgian 2012 study, only 4% can be found in at least two countries even if, like in France and Belgium, many of the same retailers are present in both countries. As the report explains, some of the retailers chose to develop specific products for the local markets, even if they are using their same retail banner brands.

The different weight of retailer brands in the different categories and countries is one important factor which influences retail assortment selection and consumer price.

2.4 Consumer Price and Retail Differentiation

How do retailers decide the consumer price?

Retailers fix consumer prices on the basis of their retail differentiation strategy. Price is a marketing tool: some retailers look at offering the lowest price; some focus on a premium offer which justifies a higher price; some move price regularly through various types of promotional tools. These regular retail changes of consumer price occur independently of the products price they negotiate with intermediaries (suppliers, wholesalers) on an annual basis at national level for products distributed across the whole country.

As stated by the French Central Bank:

"price dispersion across stores ...essentially results from persistent heterogeneity in retail chains' pricing... the average level of prices depends on the positioning and the customers' target of the retail chain ... Within a retail group, for instance, prices are lower in chains characterized by larger stores... retail chains account for 76% of the variance; product fixed effects account for 8%,"³¹

As retailers compete on a full range, products price are generally not fixed at individual SKUs level but more across the suppliers range, across categories. The wholesale price negotiated with the supplier is only one among a number of factors which influence the final consumer price.

"Much of the price variation that is observed in the UK food retailing sector is accounted for by price differences between retailers.... that cost shocks originating at the manufacturing level is not one of the main sources of price variation in the UK"³²

A recent report in France³³ confirmed what Belgian³⁴ and UK authorities acknowledged, price within the cheapest and most expensive grocery store within a national market vary significantly: 20 points gap. Similar price differences appear in other retail sectors, within and across markets.³⁵

³¹. The Determinants of Consumer Price Dispersion: Evidence from French Supermarkets, France Central Bank, June 2017, WP #632, "supermarkets facing favourable local demand conditions in terms of larger population and per capita income also exhibit higher prices. Stronger local competition tends to decrease price levels in supermarkets. Indeed, the further away is located the nearest large supermarket, the higher the prices", also in "Price dispersion, chain heterogeneity, and search in online grocery markets", Spanish Economic Association, vol. 9(1), pages 115-139, March 2019 ³². Do Sales Matter? Evidence from UK Food Retailing, Agricultural Economics Society, AES > 85th Annual Conference, April 18-20, 2011, Warwick University, Coventry, UK, reviewing 230,000 weekly price observations on around 500 products in 15 categories of food stocked by the UK's seven largest retail chains, Nielsen scanned data ³³. IRI Insight & Communication France, Price, December 2020, ³⁴. In Belgium, 22 to 26% between the highest and lowest price for identical product Niveau de prix dans les supermarchés, FOD/SPF Economie, E1-432/0310-12, P.23, 24, 6. ³⁵. See Annex 4

3. Markets are local

Consumer markets are local, in terms of consumer behaviours, the retail offer, the products selection.

As retailers explain:

*"grocery competitors do not compete for customers based on their national share: they compete for local customers through their local stores" ...differences ... are largely a result of the mix of products sold, which is primarily driven by differences in demographics between local areas"*³⁶

The Belgian authority in 2012 acknowledges the existence of 40 grocery retail banners belonging to 15 retail groups. Only 6 of these retail groups are present in all 10 regions of the country, yet with different weight; 3 retail groups are only present in one region; 27% of the cities have only one retail group. A similar observation can be made in all EU markets *"there are many strong smaller and regional operators ...which provide a strong constraint in the local areas where they are present"*³⁷

Cross border variation of competitive environment

Belgium			
National	Share	Region	Share
Colruyt	27%	Colruyt	21%
Ahold Delhaize	17%	Ahold Delhaize	19%
Carrefour	15%	Carrefour	17%
Aldi	14%	Aldi	14%
Lidl	8%	Lidl	8%
Concentration-top 5 retailers	81%		79%

France: 2 regions have a border with Luxembourg					
National	Share	Region1:North	Share	Region2:East	Share
Carrefour	21%	Carrefour	24%	Leclerc	27%
Leclerc	20%	Auchan	22%	Intermarché	13%
Intermarché	14%	Leclerc	16%	Carrefour	10%
Casino	11,5%	Intermarché	14%	Auchan	9%
Auchan	1%	Casino	3%	Casino	4%
Concentration-top 5 retailers	68%		79%		63%

Source: Kantarworldpanel, GfK, 2015



Germany			
National	Share	Region: North Rhine Westphalia	Share
Edeka	23%	Rewe	19%
Lidl/Kaufland	18%	Edeka	18%
Rewe	16%	Aldi	18%
Aldi	14%	Kaufland/Lidl	16%
Metro	7%	Metro	5%
Concentration-top 5 retailers	78%		76%

Source: Kantarworldpanel, GfK - 2015

Luxembourg	
National/region	Share
Cactus	45%
Louis Delhaize (Cora)	18%
Delhaize Group	11%
Auchan	8%
Lidl	5%
Aldi	4%
Colruyt	4%
Carrefour	1%
Concentration-top 5 retailers	87%

Source: Planet Retail 2015

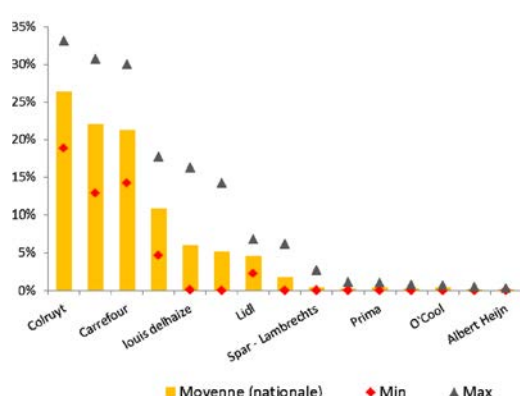
The local specificities are visible when looking in cross-border areas. Even in the two French regions having borders with Luxembourg, the competitive environment differ: in one the national price leader (Leclerc) is largely ahead (+14) while in the neighbouring French region it comes at the 3rd level.

The same can be said when looking at Belgium: the national price leader in the Luxembourg area is head to head with competitors, not leading as it does at national level (+10 pts share). Retailers are not present in all regions, and also not present with the same weight.

Retail strategy as well as positioning can vary greatly across all geographic levels, even at cities level.³⁸ Market structures vary also greatly from one geographic area to the other: in some markets retailers compete head to head; in others, a leader clearly dominates, outdoing all other competition as the Belgian authority acknowledged when comparing Belgium and the Netherlands.

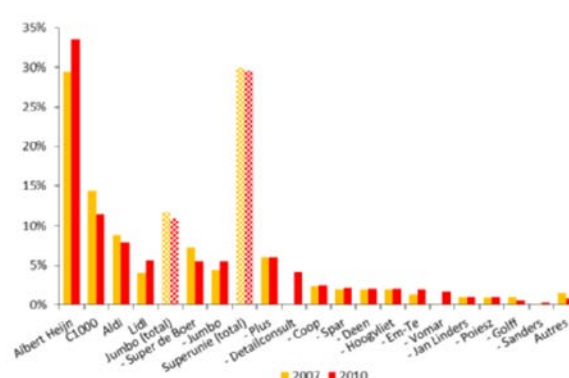
In Belgium, the 3 main retailers have relatively similar share while in the Netherlands the market leader clearly dominates and distances its competitors.

Belgium Retail Competitive Structure – 3 players share distant by 5%



Source: Belgium 2012 SPF p.68 - 78 – Retailers market share

Netherlands; Retail Competitive Structure – leader at 30%, N°2: 15% share



As the retail association explains³⁹:

“There are legal and commercial reasons for retailers not to sell everything everywhere just as there are reasons for not opening a store in every country and every town in their home state or abroad”.

Despite being a global grocery retail leader (N°9) Carrefour for example is only established in 7 Member States in Europe; Ahold Delhaize (N°15 globally), a Dutch retailer, is present in 6 Member states while 60% of its turnover is done in the USA.

The challenge of bringing a new product to market

If retail sources 80% of their stores products locally⁴⁰ in order to meet consumer preferences⁴¹, the market for new manufacturers brands entries is limited in all Member States. A brand entry is defined by a review of the market potential, the costs of entry as well as the ability to sustain a profitable business. In addition a brand can only be present if a retailer accepts to purchase it. If only in the food sector, Eurostat list the existence of 294.000 food product suppliers. Clearly not all can be present in all EU markets. As stated by the UK authority “suppliers do not have unlimited capacities...some may have capacity constraints which...limit their ability to provide additional volumes”⁴².

The report for the European Competition authority remarks that ***“Distribution systems are often national, rather than multinational, and cater for local demand idiosyncrasies and customer requirements for reliability, frequency and flexibility of delivery and payment terms. They can also be subject to economies of scale and scope and are not easily replicated.”***⁴³

38. ECB 2015, Grocery prices in the Euro Area: findings from the analysis of a disaggregated price dataset p.7 39. Eurocommerce, Geoblocking, Issue Brief September 2017, p.2 40. Eurocommerce, Supply chain tryptic 41. CMA, 2019, Anticipated merger between J Sainsbury PLC and Asda Group Ltd, Appendix E, “the Parties (retailers) stated ... that differences ... are largely as a result of the mix of products sold, which is primarily driven by differences in demographics between local areas” 42. CMA, 2019, Anticipated merger between J Sainsbury PLC and Asda Group Ltd, Appendix M26 43. Geographic Market Definition in European Commission Merger Control, a study for DG COMP by the Centre for Competition Policy, University of East Anglia, Norwich, January 2016 ,p.7

While consumers may support the introduction of new products, their brand preferences are also linked to their culture and history as the review of some product categories show. Market leaders for a product vary per geographic location⁴⁴ within and across countries, be it manufacturer or retailer brands.

Local companies presence bring choice and difference in assortment

Diversity of Soft Drinks suppliers - top 15 in each market - 2018		© Euromonitor International	Retailer brands - Retailer dual role as supplier	
Portugal	France	Belgium	Germany	Croatia
Sumol+Compal SA	Alma Group, The	Coca-Cola Co, The	Aldi Einkauf GmbH & Co oHG	Agrokor dd
Coca-Cola Co, The	Nestlé SA	Spadel SA, Groupe	Coca-Cola Co, The	Coca-Cola Co, The
Heineken NV	Danone, Groupe	Nestlé SA	Lidl & Schwarz Stiftung & Co KG	Kofola SA
Super Bock Group SGPS SA	Coca-Cola Co, The	Alma Group, The	Rewe Markt GmbH	Stanic Beverages doo
Águas das Caldas da Penacova SA	Carrefour France SA	Danone, Groupe	PepsiCo Inc	Atlantic Grupa dd
Grupo EAA	Suntory Holdings Ltd	PepsiCo Inc	Bitburger Braugruppe GmbH	Naturalis doo
PepsiCo Inc	Galec - Centre Distributeur Edouard Lederc	Eln Franz Colruyt NV	Hassia Gruppe	Vindija dd
Waterbunkers SGPS SA	Auchan France	Ahold Delhaize 'Le Lion' SA	Danone, Groupe	Kofola CeskoSlovensko as
Unilever Group	ITM Entreprises SA	Suntory Holdings Ltd	Franken Brunnen GmbH & Co KG	PepsiCo Inc
Sonae Modelo Continente Hipermercados SA	PepsiCo Inc	Carrefour Belgium SA/NV	Rheinfelsquelle H Hövelmann GmbH & Co KG	Nectar doo
Águas Canalvelhos SA	Système U Centrale Nationale SA	Unilever Group	Nestlé SA	Nestlé SA
Suntory Holdings Ltd	Unilever Group	Red Bull GmbH	Eckes-Granini Group GmbH	Dona Napitci doo
Outeirinho - Turismo e Indústria SA	Nerios Groupe	Eckes-Granini Group GmbH	Vilsa-Brunnen O Rodekohl GmbH & Co	Lidl
Nestlé SA	Britvic Plc	Monster Beverage Corp	Adelholzener Alpenquellen GmbH	Suntory Holdings Ltd
Unicer - Bebidas de Portugal SA	Eckes-Granini Group GmbH	Standard Investment Management BV	Mineralbrunnen Überkingen-Teinach AG	Rauch Fruchtsäfte GmbH & Co OG

Pan European manufacturers brands are rarely present in all markets; in markets where they are present they tend to have different share of sales, at times insignificant.⁴⁵ Strong international retailer brands are seen as leaders in a number of countries; this also explains why some manufacturer brands are not appearing, as they are not always selected by the retailers to challenge their retailer brands.

The growing impact of Sustainability

Sustainability concerns reinforce the consumer and companies preferences for local sourcing in addition to retail emphasis on local products. Such reality is further emphasized when we see a digital giant like Amazon⁴⁶ has multiplied its establishment in Europe in all neighboring markets while cross border distribution would have been thought possible.

4. Competitive environment and consumer price

As per the European Central Bank “Structural features, specifically the competitive situation at the producer and retail levels, have an impact on prices and price dispersion”.⁴⁷

“Local market structures and the degree of local competition might also differ which can give rise to different mark-ups and prices.”⁴⁸

The European Central Bank has demonstrated empirically what competition law theorised: “regions with greater downstream retail market concentration tend to have higher price”.⁴⁹ The Belgian report also observes higher regional concentration as not all groups are present in all regions; concentration is even higher in cities as the retail leader is dominant in all but 30% of the cities. Likewise in the UK “grocery competitor local shares may be far from symmetrical.”⁵⁰

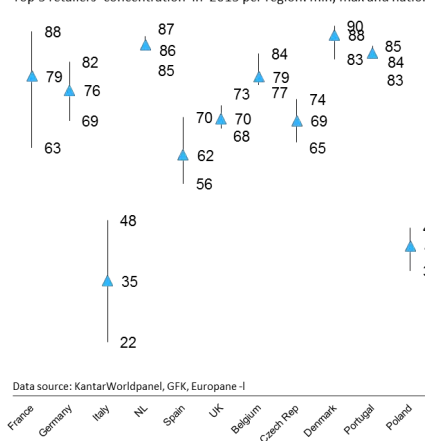
44. Bank of Greece, Analysing price level differences in the Euro Area, Competition structure and Consumer Behavior, 27.10.2014, p.9-10 45. ECB Nielsen database, only 13 products out of 180 brands were found with significant share in 6 of the 13 countries. ECB in its November 2014 paper, Price dispersion within and across countries (NO 1742) p.2 and p.4. ECB 2015 Grocery price in the Euro area : Findings from the analysis of a disaggregated price dataset”. The Greece central bank have exclude some of these brands from the sample as their share was not being sufficiently representative. 46. Amazon has established a portal/service, in UK, Germany, France, then Italy, Spain, recently the NL. The German authority in its review of Amazon established that 80% of consumers purchasing on Amazon.de are German, 10% of sales come from Austria, the rest from other countries. Similar data are defined in Amazon France authorities investigation and Court Case 47. ECB 2015 Grocery price in the Euro area: Findings from the analysis of a disaggregated price dataset”. 48. ECB 2014 p.7. 49. European Central Bank paper 1744, Retail market structure and consumer price in the Euro area, December 2014 p.15 50. Asda Sainsbury Merger, (retail) Parties response to issues statements p.48 §242

The European Central Bank remarks that “a national HHI (concentration) level is a poor indicator of actual competition”, as it would assume that “all stores in a country are competing against each other” while it is clear than a Rome consumer does not go to Milano for its weekly purchases⁵¹.

Market concentration varies accordingly per geographic and product markets. The different competition intensities across Europe are illustrated by the competitor respective share, as well by their distance with the market leader⁵². This illustrates competition dynamics, or the lack of it. Individual retailer share varies significantly per product category within the same market; the retail weight and its retail buyer power varies as well per categories.⁵³

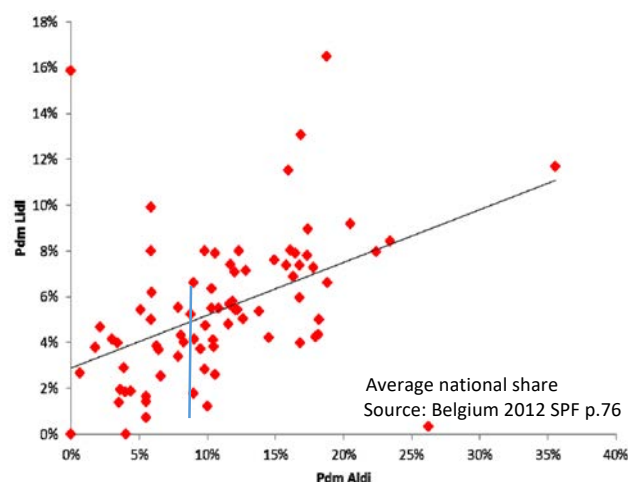
Market concentration varies per regions

Top 5 retailers concentration in 2015 per region: min, max and national average



Retail market share per categories, some double than its national average

Retailer market share varies per product categories



“Regarding cross-location relative price variations, we first find that geo-graphic distance between locations matters: prices at different locations move together more strongly if the locations are closer to each other. We also find that price co-movement is much stronger if the different locations are within the same country, which means that national borders continue to matter”⁵⁴. This is explained by stronger differences in the retail competitive environment (different retailers) as well as differences in legislation (e.g. VAT) in various countries.

5. Retail buying power and consumer price

Retail buyer power over suppliers⁵⁵ is another factor behind price differences across Europe.

“Suppliers may agree to charge lower prices to larger retailers for two reasons: first, because fulfilling larger orders may be inherently more efficient (e.g. in terms of distribution, invoicing, etc), meaning the per-unit costs incurred by the supplier are lower; and second, because larger retailers may have more bargaining power....the CC found that the 4 largest retailers paid between 4 and 6% less ...”⁵⁶

UK Competition & Market Authority

51. ECB December 2014 Paper 1744, Retail market structure and consumer price in the Euro area, p.12-13. 52. Bank of Greece, Analysing price level differences in the Euro Area, Competition structure and Consumer Behavior, 27.10.2014, p.14. See in appendices the list of the top 5 retailers in the various Member States to further visualise. 53. Belgian authority, Niveau de prix dans les supermarchés, FOD/SPF Economie, E1-432/0310-12. 54. ECB in its November 2014 paper on price dispersion within and across countries (NO 1742) p.6. 55. The Determinants of Consumer Price Dispersion: Evidence from French Supermarkets, France Central Bank, June 2017, WP #632; ECB 2015, Grocery prices in the Euro Area: findings from the analysis of a disaggregated price dataset p.11; Caprice, S., and Shekhar, S., (2017), On the Countervailing power of large retailers when shopping costs matter, Toulouse School of Economic Working paper, No 17-771; Baye, Irina and Schlippenbach, Vanessa von and Wey, Christian, One-Stop Shopping Behavior, Buyer Power and Upstream Merger Incentives. The Journal of Industrial Economics, Vol. 66, Issue 1, pp. 66-94, 2018; 56. CMA, Competition and Market authority, Anticipated merger between J Sainsbury PLC and Asda Group Ltd, Appendix L

Retailer brands further reinforce retail power⁵⁷:

*“the retail sector in western countries has undergone several major changes that have shifted power from manufacturers toward retailers... In addition, **retailers have allocated an increasing amount of shelf space to their private labels, resulting in an impressive increase in the market shares of these private labels, which has strengthened retailers vis-à-vis manufacturers**”*

Retail concentration reduces the supplier alternatives for distributing their products, hence reduces supplier ability to resist retail exercise of buyer power as evidenced by the German competition authority:

“Even strong manufacturers with high turnover shares in the food retail sector can be faced with strong bargaining power from their customers, if they have even fewer outside options than their customers... Shifting sales to another distribution channel is either regarded as not economically viable or doubt is cast on the “absorptive capacity” of alternative distribution channels”⁵⁸

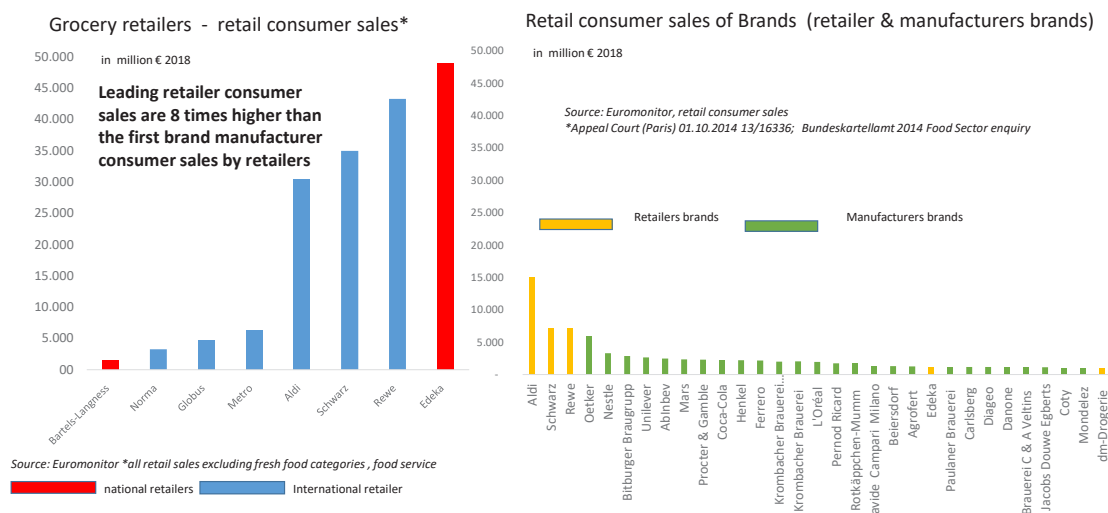
Another expression of that retail power lies on the “back margin” i.e. additional fees paid to some powerful retailers. Finally, the power pressure exercised during negotiations; unfair trading practices, lead to price difference, difference in mark-up relying not on the product quality, nor on volume purchased, but simply on retail power as a gatekeeper⁵⁹, allowing retail to establish any toll fee suppliers must pay to access markets.

As acknowledged by the court : *“Even if certain suppliers have important market share which provide them a power in the negotiation, **all are dependant on the retail order to sell their production** and few can allow to be delisted by a big retailer or to engage in a court case: this asymmetric relationship may lead certain suppliers to be forced to accept certain contract terms which are unfair, not in favour of their business”⁶⁰*

The German authority assessed that *“no food manufacturer or supplier offers a product range which comprises all or a substantial part of the articles required by the food retail trade”⁶¹*

Imbalance of forces: Retail buyer power in grocery - Germany 2018

*“all suppliers are dependant of the retail order to sell their production”**



Difference in retail actors, different weight of retailers in the different European countries, different levels of retail power explain price dispersion, beyond the mere different retail market concentration level

57. Chambolle, C and Villas-Boas (2015) “Buyer power through the differentiation of suppliers, International Journal of Industrial Organization, 43, 56-65” The authors analyse the entering into retailer brands as a mean to increase buyer power. , at the expense of product quality, hence consumer welfare; Paul W. Dobson and Ratula Chakraborty “Assessing Brand and Private Label Competition”, European Competition Law Review, February 2015, p.76 58. Bundeskartellamt, Sector inquiry, Buyer power in the food retail sector, 24.09.2014 p.8 , p.13-14 59. COMP IV/M.784) 60. Appeal Court (Paris) 01.10.2014 13/16336, p.13 against leading retailer, confirming initial court decision (RG2009F00729) 61. Bundeskartellamt, 2014 Food Sector Enquiry p.6

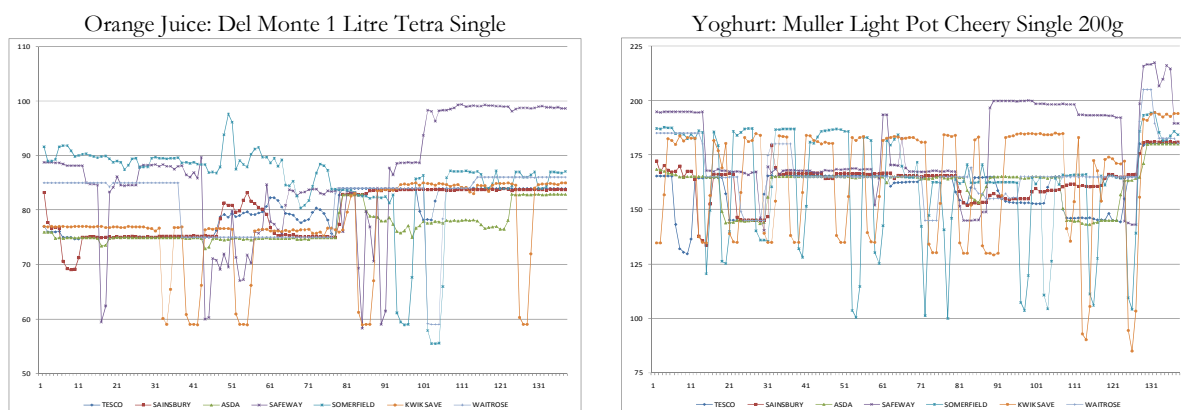
6. Promotions and consumer price

Some retailers build their model on retail price comparison, adjusting daily their prices to prices found at competitors.⁶² Some retail will use an approach by Every-Day Low Price (EDLP); some rely on higher start price "to sell to consumers who do not compare prices and low prices to those that do"⁶³.

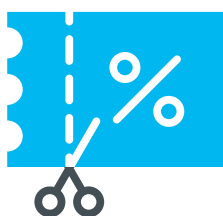
*"Retailers increasingly make use of differentiated prices in forms of coupons, sales promotions, and personalized offers. Especially in multichannel retailing it has become common practice to differentiate prices according to touchpoints or across online and offline channels. Price differentiation comes in different forms. In general, retailers may charge different prices according to customer segments and/or sales channels as well as dynamically over time, or a combination of both"*⁶⁴.

Promotional activities, generally associated with price discounting, are also a way to create changes and choice. As retailer explained: *"(we) have different pricing grids hat have been established based on historic levels of customer demand and (retail)'s capacity in each day of the week, at a particular time of the day for each geography"*⁶⁵

WeeklyPrices(pence)ofaSelectionofProductssoldbyUKRetailChains(p6,"DoSalesMatter?")doneatthebarcode level (SKU/EAN), 131 weeks



Price promotional discounting can vary from 10% to 50%, if not more in some countries where sales-below-costs are allowed. In the UK, a study using over 507 products in 15 food categories (including ambient and frozen foods) defines that on average the price discounts run for 4 weeks at a 25% price discounts average. Needless to say the promotional activity per category or retailer, per time period, varies⁶⁶. To factor in the importance of promotion on price dispersion several of authorities studies use a price sales weighted figure and not a temporal shelf price.⁶⁷ In 2016, **28% of grocery retail products were purchased through promotional discounting in Western Europe.**

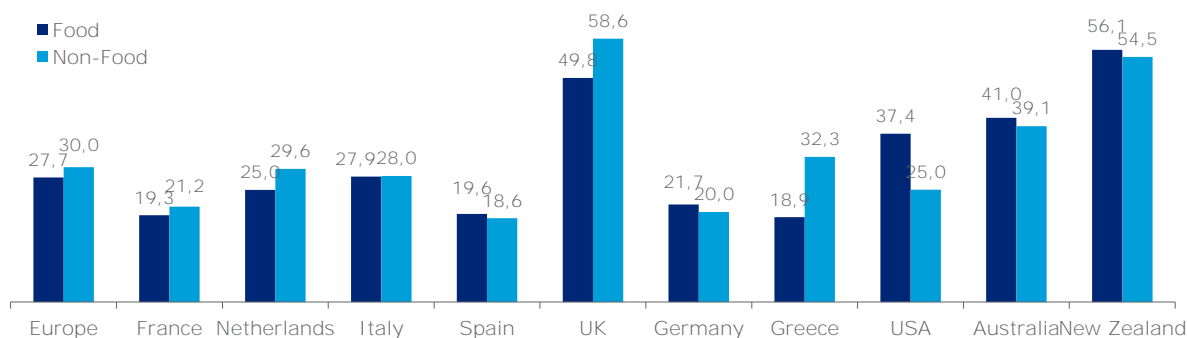


10% - 50%

Price promotional discounting can vary from 10% to 50%

62. <https://www.colruyt.be/fr/a-propos-de-colruyt/meilleurs-prix/comment-comparons-nous> comparing 65.000 prices daily to adjust retail price offer
 63. Do Sales Matter? Evidence from UK Food Retailing, Agricultural Economics Society - AES > 85th Annual Conference, April 18-20, 2011, Warwick University, Coventry, T.A. Lloyd, C.W. Morgan, S. McCorriston and E. Zgou. Sales in article are defined as "promotional discounting".
 64. Nuremberg Institute for Market Decisions (NIM), Marketing Intelligence Review / Vol. 11, No. 1, 2019 / Werner Reinartz and Nico Wiegand, University of Cologne
 65. See for example Ocado (online retailer) Hearings, CMA, Asda Sainsbury anticipated merge
 66. Do Sales Matter? Evidence from UK Food Retailing, Agricultural Economics Society, 85th Annual Conference, April 18-20, 2011, Warwick University, Coventry
 67. average weighted price= unit price *volume purchased. Some do it at the product reference level, some at brands, mixing all pack size and various products

Volume sales on promotion by country, for food and non-food, % volume sold on promotion



Special note for Greece: Volume sales on promotion is mainly referring to Temporary Price Reduction. Feature, display and special pack are applicable only to specific categories.

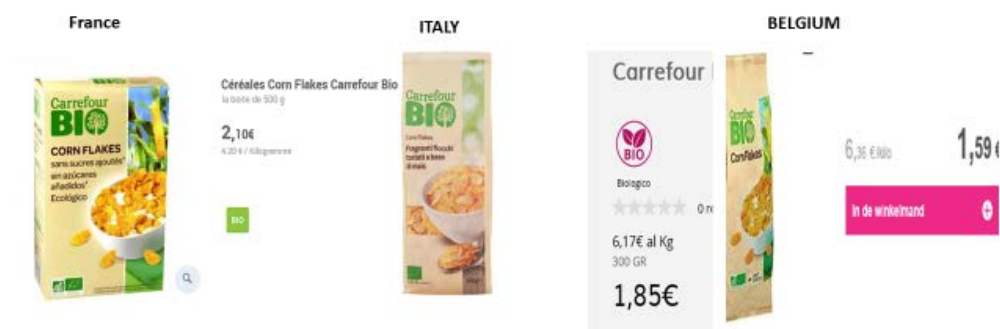
As observed by the French Central Bank “store and temporary discount fixed effects suffice to explain on average 90% of the observed dispersion of prices across stores and time”⁶⁸

7. Retailers brands and consumer price

The retailer brands strategy is one of the important structural features to be analysed in any given price comparison be it at any market level, if only considering retailer brands represent half of the volume sold in grocery in Europe. By distancing the price of its retailer brands from the manufacturer brands, the retailers create a gap which allow them to capture a market for their retailers brands: retailers brands entry is associated with higher price for the largest manufacturers brands⁶⁹.

Price dispersion for retailers brands whether nationally⁷⁰ or internationally⁷¹ appear to be greater than for the manufacturer brands: “for branded products this (price) dispersion is 27% and for own-label products 45%.”

Retailer brands: differences in price and product packaging



Carrefour Bio Corn Flakes: Belgium: 51% more expensive (kg-wise) in Belgium than in France; 47% more expensive in Italy than in France; 3% more expensive in Belgium than in Italy. The difference is partially hidden by different size offer (smaller in Belgium by 50%, by in Italy; 40% smaller in Italy than in France). Yet the appearance of shelf price to consumer is cheaper price in Belgium!

The variation of the manufacturers and retailer brands assortment across markets– different products, different volume of the same product, different packaging of the same products, different image of the same product - is an important factor explaining price differences within and across markets.⁷²

⁶⁸. The Determinants of Consumer Price Dispersion: Evidence from French Supermarkets, France Central Bank, June 2017, WP #632 ⁶⁹. Bank of Greece, Analysing price level differences in the Euro Area, Competition structure and Consumer Behavior, 27.10.2014, p.22. Paul W. Dobson and Ratula Chakraborty, How Do National Brands And Store Brands Compete?, ESRC Centre for Competition Policy, University of East Anglia, CCP Working Paper 14-7; see also Ratula Chakraborty, Empirical shopper UK data analysis in CCP Working Paper 18-2 16.3.2018. This practice may raise a conflict of interest that threatens the competitive process in consumer goods markets when the same company acts as both player and referee ⁷⁰. Do Sales Matter? Evidence from UK Food Retailing, Agricultural Economics Society - AES > 85th Annual Conference, April 18-20, 2011, Warwick University, Coventry, UK p.11 : “for branded products this (price) dispersion is 27% and for own-label products 45%.” ⁷¹. Belgian 2012 and 2017 reports ⁷². Asda Sainsbury Merge , Parties response to issues statements p.45 §226

8. Retail margin and consumer price

Retailer gross margin⁷³ varies following each retail strategy and financial needs. The retail margin will also depend on the retailers' ability to sell at a higher price, depending on its position in the market, of the market environment and of its competitor dynamics. Even in the case of identical price for products negotiated with intermediaries (wholesalers, suppliers, farmers), the consumer price can vary as each retailer defines its price and margin by markets.

In addition, there are several routes to purchase products: even international brands are distributed in many European countries by wholesalers which negotiate with the retailers for a number of suppliers. Establishment in all EU markets is too costly: what is true for international retailers is also true for international brands companies.

Suppliers products distribution in Europe: difference in number of intermediaries



The Belgian authority⁷⁴ explained well that as diversification is at the core of retail, wide price differences within the same country exist (22 to 26% between the highest and lowest price for identical product⁷⁵). As a result, retail gross margin varies between 15% to 30% within Belgium. These price variations take place within a country even if the products are purchased from intermediaries at the national level. As reviewed by the UK authority *"competitive differences are one aspect of selecting range, which affects the mix purchased, and hence the local margins.... In a number of places, the (retailers) national and local accounts are not directly comparable ... local margins reflect the local competitive conditions better than a national margin figure"*⁷⁶.

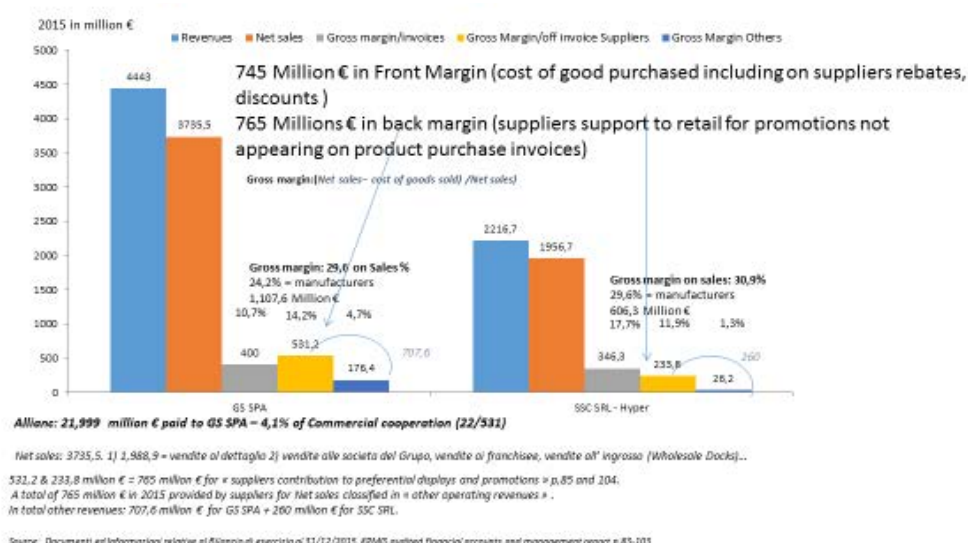
The Nobel Prize in Economics acknowledged in his research that *"there is never absolute homogeneity in the commodity if we include the terms of sale within the concept of the commodity"*⁷⁷. Just as retail defines consumer price based on a set of factors, which are not function of just costs but strategies, the intermediary (wholesalers/suppliers/farmers...) price is also based on the relationship with retailers, as well as the intermediary's financial needs and strategies, which also vary in space and time.

Retail gross margin is also a function of the costs of products purchased from suppliers or wholesalers. As reviewed by the authority, beyond the mere product unit price, there are **"costs to serve such as variations in payment terms⁷⁸ or logistical costs (e.g. if sending out trucks which are only partially full), as well as differing levels of service provided (for example, whether produce is supplied loose or pre-packed)....For example, if ..(retailer) looked to organise more frequent deliveries (in order to minimise the time between a product being manufactured and it reaching the store, and hence provide a longer average shelf-life to the consumer), then this would likely be higher associated logistics costs for the supplier, who would need to recover this from the relevant (retailer) resulting in higher unit costs"**⁷⁹.

⁷³. Gross margin: (sales – cost of goods sold)/sales; costs of goods sold: purchased from suppliers or wholesalers ⁷⁴. Niveau de prix dans les supermarchés, FOD/SPF Economie, E1-432/0310-12, P.23, 24, 62, analysis comparing identical products at the difference of the ECB ⁷⁵. See also Belgian consumer price organisation price comparison ⁷⁶. CMA, 2019, Anticipated merger between J Sainsbury PLC and Asda Group Ltd, p.121. Appendix F8-37 "In addition to their national accounts, used to calculate national average margins, the Parties also provided their local-level management accounts, conducting a local incentives analysis for certain theories of harm ..." Also ¶93-96, of differences of mix (range and volume sold when same products, effect of retail margin) ⁷⁷. Stigler, George J. 1961., The Economics of Information, Journal of Political Economy 69(3): 213–225., p.214 ⁷⁸. The Late Payment directive recognised the economic effects of delayed payments, which can be considered as indirect short term loan to retailers ⁷⁹. CMA, 2019, Anticipated merger between J Sainsbury PLC and Asda Group Ltd, p.121. Appendix M16-71-73

Any current differences in cost may be reflective of a broader relationship with suppliers, including additional aspects such as the level of support being provided for the suppliers' products, or whether the strategic aims of the retailer align with the supplier (e.g. to grow a particular category). This is also consistent with the complexity of supplier negotiations, and range of negotiable parameters, which the Parties and suppliers have described. During the Grocery Market Investigation, the CC found that the **difference in purchasing terms do not simply relate to additional volumes but may also relate to other factors, such as differences in the retailer's proposition and relationship with suppliers as well**.⁸⁰

Back and Front Margin for retailer - Italy retail financial statement



As explained by the FAO⁸¹: "The gross margin from trade is the not the sole source of income for retailers. **Retail generates revenues both from selling the consumer products purchased (gross margin)) as well as from the following activities from trade:** (selling services such as) advertising and promotion activities for brands owners; product placement charges; retail chain entry fees: retail chain entry fee are often a significant source of income, especially when the chain has sufficient market power (share) to determine the conditions of entry for suppliers; reduce operating capital needs/cost due to supplier credit (producers/wholesalers are often required to defer payments due from retailers). The retailers often impose long-term credit terms on their suppliers and get immediate cash from their customers. Therefore the stores may have negative working capital requirements on which they can make also revenues".

Retail margin structure also varies within and across countries as some put all discounts on products purchased invoices (front margin), some retailers require some discounts such as promotional support to be invoiced separately. Some authorities specify in legislation what may or may not appear in back margin.

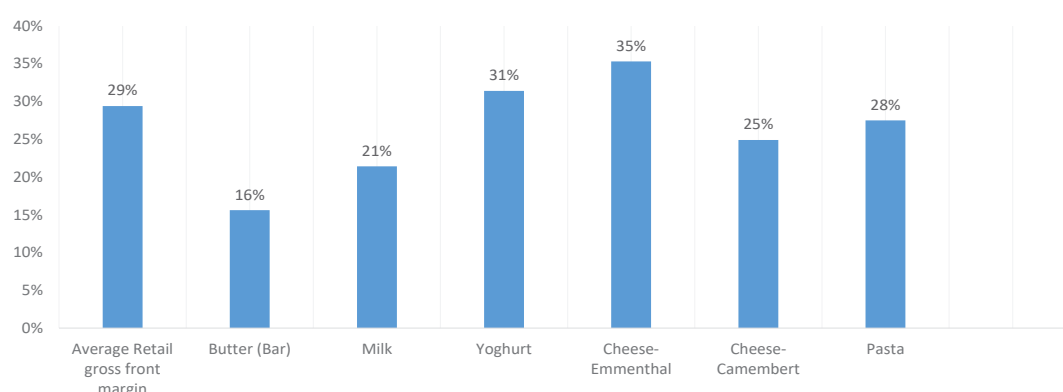
Legislators have expressed concern that the growing reliance on back margin by grocery retailers in Europe lead to higher consumer prices as the money paid by suppliers to retailers is not passed on to consumers.⁸²

80. Grocery Market Investigation (2008), Appendix 5.3, paragraph 12. 81. FAO Agri Business handbook 2009 82. Assemblée nationale, Rapport (2268) de la commission d'enquête sur la situation et les pratiques de la grande distribution et de ses groupements dans leurs relations commerciales avec les fournisseurs sur la situation et les pratiques de la grande distribution et de ses groupements dans leurs relations commerciales avec leurs fournisseurs, September 2019.

An accurate international price comparison requires to collect and analyse the front and back margin made by retailers in the various countries. France has just voted a law with a requirement to put in the contract all the money paid by suppliers to retailers for all allowances be in France or abroad to all retailers active in France.⁸³

Retail margin on products varies per products⁸⁴: average retail gross margin on all products range from 20% to 35%. However for certain products, it can reach from 40% to 75% on agriculture.⁸⁵ Any product price comparison requires therefore to consider the retail gross margin on the specific product within the different geographic locations.

Average Retail Gross Front Margin on products



Source: Rapport 2019, Observatoire des prix et des marges, France

The Belgian and UK authorities raise a number of accounting challenges which make relevant and accurate analysis of retail margins difficult, further challenging any price comparison.

The UK authority challenges⁸⁶ the retail data and financial statements on margin and costs *“(retail costs) estimates ... are overstated... We had some concerns that the variability of certain tasks used in the (retail)’ bottom-up analysis might be overstated, resulting in low margins... should take into account the (retail) Parties’ margins on sales from their other business areas...such as fuel or general merchandise (non grocery products).... GM sales drove incremental profit through increased average basket value and higher margins”*.

The Belgian authority explains that, as a vast majority of banners have over 60% of the stores under franchise, a number of costs are outsourced: a cost /margin comparison between stores would require to access the stores financial statements across the various markets, within and across countries.

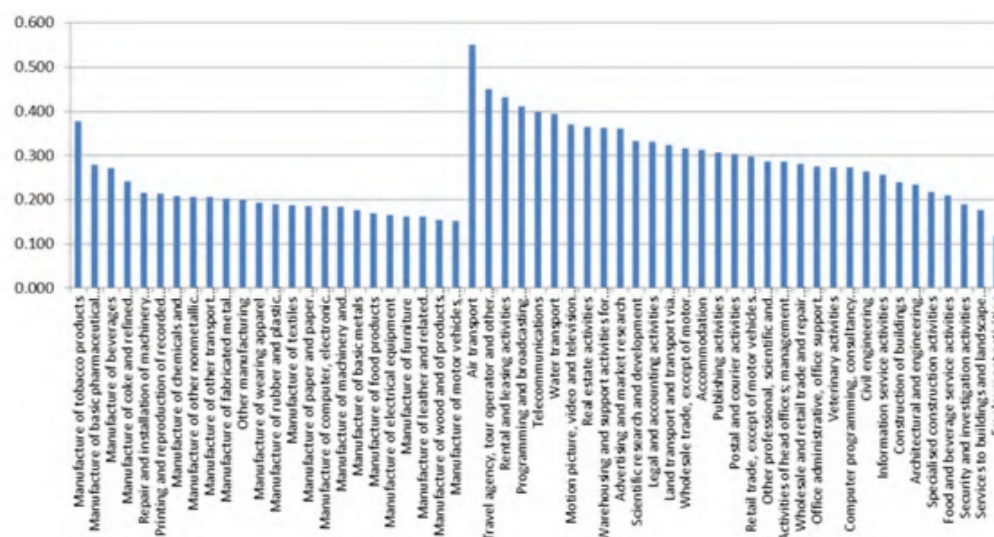
Lastly, as the Belgian report acknowledges, some retailers may have a lower gross margin yet a higher net margin, which is a result of their respective business model, competitive environment, as well as retail efficiencies. For example the national market leader has a 7% net margin versus 1% for the foreign international retailer.

Retail financial reports show that in general international retailers have lower net margins while national retailers are generally more profitable as they don't have to bear the financial costs of international expansion. The differences of retail margin in a market has an additional indirect impact on price: the Belgian authority explains higher prices in the country also by the fact that a main retail actor struggles financially, and as it cannot lower its consumer price for profitability reasons, there is no incentive for competitors to further lower their own consumer price.⁸⁷ Belgian retailer margins can therefore be higher than in others countries.

⁸³. Loi Asap, 7.12.2020 updating the requirement of L.441-3 III 4° Commercial Code ⁸⁴. Rapport au Parlement 2019 : Observatoire de la formation des prix et des marges des produits alimentaires, FranceAgriMer, Ministère de l'Economie et des Finances ,Ministère de l'Agriculture et de l'Alimentation ⁸⁵. <https://www.leparisien.fr/economie/marges-dans-la-grande-distribution-dans-le-secret-de-la-fabrique-des-prix-09-10-2019-8169825.php>; ⁸⁶. CMA, 2019, Anticipated merger between J Sainsbury PLC and Asda Group Ltd, p.121. Appendix F- ⁸⁷. Belgian authority, Niveau de prix dans les supermarchés, FOD/SPF Economie, E1-432/0310-12

As acknowledged by a recent report for the Commission⁸⁸, the mark-up, the ability to price at higher level than just costs is higher for retail than it is for the manufacturers.

Figure 2.16: Mean price cost margins in manufacturing and services



Source: Gradzewicz, M., & Muck, J. (2019). Globalization and the fall of mark-ups. Notes: 2014 data with fixed capital stock; averages over 18 EU countries.

9. Retail costs, efficiencies and consumer price

Costs are one but not the sole factor to explain price differences, as even with identical wholesale/supplier price, retailers will price differently according to their different banners, the local competitive environment, their commercial as well as financial strategies and necessities, not to mention their relative weight in the given markets. Only a detailed financial analysis can possibly explain the variation of the economic indicators and their relationship to price.

For example, if the **salaries** in Belgian retail have been demonstrated as higher than the Dutch⁸⁹, the Belgian retail productivity is higher, which tends to justify higher costs. The costs of labour are also a function of the retail sales, stores size, of the retail opening hours which vary per banner and location⁹⁰.

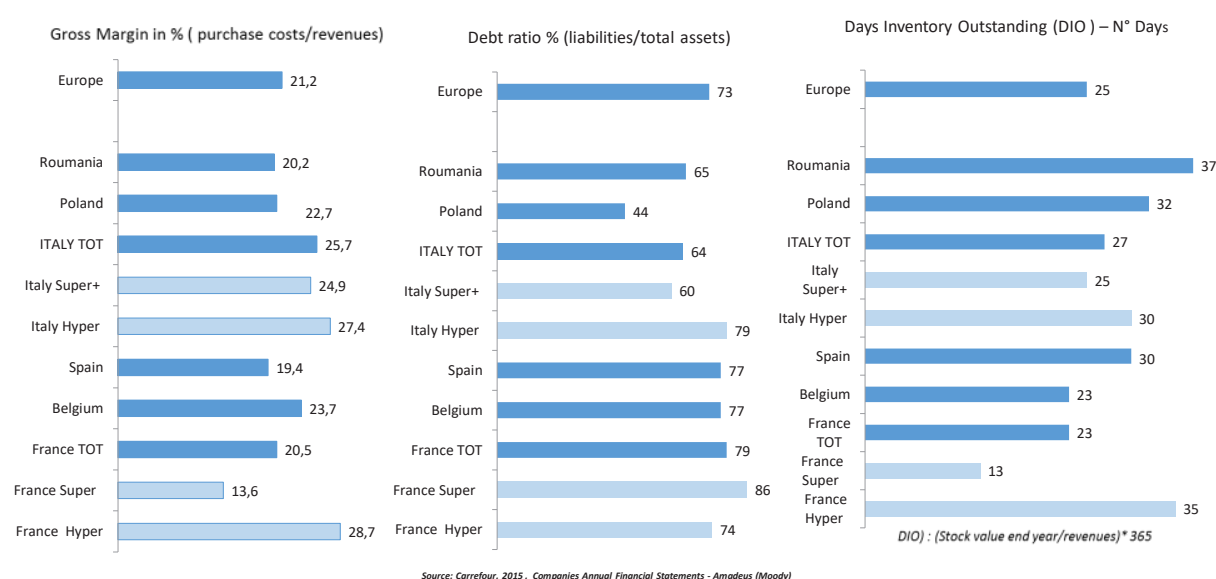
The Belgian report shows variation in the retailers' employees age, contract (long terms versus interim, short term contract); the stores opening hours (as week-ends, evenings are more expensive) even within banners in the same countries. The report also remarks that differences between stores within and across retailer banners need to be analysed in relation to stores ownership (independent, franchised store or store of retail integrated group). Banners of the same retailer can be under a mix of stores owned by group and franchisees.

⁸⁸. Single Market Performance Report 2019, COM(2019) 650 final, SWD(2019) 444 final. Price cost margin is the relationship between price and marginal costs. It is usually considered as an indicator of market power as the higher the margin, the larger the difference between price and cost, the higher the markup/margin. ⁸⁹. Belgian authority, Niveau de prix dans les supermarchés, FOD/SPF Economie, E1-432/0310-12 ⁹⁰. CMA, 2019, Anticipated merger between J Sainsbury PLC and Asda Group Ltd, p.121. Appendix F

EU countries' laws vary in terms of social benefits obligations, stores opening, taxes (direct or indirect) - all of which affect operator cost and consumer price. Some reports have looked at the price of land, of rents, at energy costs, higher in a country than in another⁹¹, explaining differences within and across countries. For example, a hypermarket is usually located in an area where land is cheaper than in city downtown; yet it is more expensive to operate, in terms of heating, of number of employees etc⁹².

As illustrated below with the example of an international retailer financial ratios in different European countries, the gross margin, the debt ratio, the level of inventories (costs) vary per countries, per banners (hypermarket versus supermarket even within same country, France or Italy). All can impact consumer price.

Differences in retail efficiencies and profitability within and across markets



Taxes, direct or indirect, also vary between countries, be it at the level of the income taxes on businesses, on lands, on product (e.g. Belgium has a green tax on product packages adding up to consumer price that other countries do not have)⁹³. For example:

- VAT rates can vary significantly across the EU⁹⁴, by over 10% for standard VAT rate (17% in Luxembourg, 27% in Hungary); reduced VAT rates can vary by 16% (from 2.1% in France to 18% in Hungary); their rules also differ country by country. The reduced rate do not necessarily apply to the same product categories in the different European countries. For example, a set of various food products can be classified under different categories which create a large VAT differentiation. While some countries also use VAT to promote some of their local industries; some, as Denmark, use a single VAT rate (25%) for all products. Some countries define different VAT rates for alcoholic beverages, for example differentiation of wine from alcohol/spirits, some do not and choose to apply one unique VAT rate. Some consider mineral water as an essential product while some consider it as a luxury product, probably assuming people can use tap water to drink: VAT rate for a bottle of water in Europe varies from 3% (Luxembourg) to 27% (Hungary), a 23% price difference due to tax if operators were not redistributing some of this cost across countries, according to consumers purchase power.
- Corporate tax rate varies⁹⁵ between a rate of 9.2% (Bulgaria) to 30.3% (France), hence a 21% tax variation, representing variation of costs on businesses which some might decide to charge higher consumer price to ensure similar level of profit for their companies across markets.

⁹¹. Belgian authority, Niveau de prix dans les supermarchés, FOD/SPF Economie, E1-432/0310-12 ⁹². Bank of Greece, Analysing price level differences in the Euro Area, Competition structure and Consumer Behavior, 27.10.2014, Belgian and UK reports ⁹³. Belgian authority, Niveau de prix dans les supermarchés, FOD/SPF Economie, E1-432/0310-12 ⁹⁴. An overview of the different rates applied in all EU countries is provided in the EU information document, January 2020. A set of countries changes rates in past years, sometimes quite significantly for some product categories, a reality international price comparison across time needs to take into account ⁹⁵. OCDE Composite Effective Average Tax Rate 2019

Likewise, companies net retail margin, companies profit, rely on so many factors beyond direct operational costs. To name a few: the decision to create reserves for investment, to guarantee loans, to spend in the development of other businesses⁹⁶. Many factors may explain different profitability at different times, within and across countries.

Conclusions

Price differences are not an indication of market failure but of markets, businesses' diversities in all possible ways, as well as the national EU governments' different approaches to taxes, social welfare, products origin and labelling, for example.

The importance of differentiation, by products and price, has again recently been defended by the French Competition authority in a grocery retail case⁹⁷. Differentiation is at the core of dynamic competitive markets. Differences are embedded in the European Union motto "united in diversity". Standardisation is not something to which European citizens or consumers aspire. As observed by a central bank, **"difference in consumer habits seem to have a larger impact on observed price differences"**⁹⁸ than other factors such as competition structures, local costs or macro-economic factors.

Retail heterogeneity is also central to explain price dispersion across markets: *"what is more important in explaining price dispersion is the contemporaneous occurrence of retailer heterogeneity (in terms of services rendered), and consumer heterogeneity (in terms of propensity to search and preferences regarding how to shop, i.e. "supermarket lovers" vs. "social shoppers")*⁹⁹, a conclusion also reached by the European Central Bank *"price level differences are shown to be a function of the structure in retail and producer markets, where the competitive situation is of particular importance, but where consumer behaviour also has a role to play"*.

As the Belgian authority points out in its comparison of cross border grocery prices, differences in price are not indicative of a competition or economic issue. The large price variation within countries across banners *"suggest that the international price difference do not have a decisive impact on national retail costs, but just reflect differences of retail formats across countries"*¹⁰⁰.

There are many and complex reasons for price differences, some induced by operators, some by the government. Price dispersion across countries may also be affected by the relative state of the business cycle¹⁰¹: *"European price dispersion tends to be pro-cyclical – higher during upturns and lower during downturns"*.

Again recently, the UK authority¹⁰² has challenged retail alleged claims of lower prices through potential purchase synergies.

The UK authority, as the French authority, defined that retail differentiation strategy is essential for competing. They observed differences in the mix of products sold by the retailers; differences in retailer shoppers preferences, significant differences in the volume sold for identical products, differences observed between the retailers in terms of consumer pricing, promotion, ways of managing business as well as suppliers relationship, all explaining differences in consumer prices.

Retail alleged purchased synergies were not considered credible due to retailer differences in retail strategies, retail willingness to maintain different retail approach and branding. The fact that leading retailers are not using the international retail alliances they created to pursue international purchase synergies but merely use such retail alliances to impose an additional fee for suppliers to access markets¹⁰³ further demonstrates the validity of the authority challenging retailers' ability to standardise their purchasing to the alleged benefits of consumers. Retailers do not wish to align their strategies, assortments, consumer price but to remain independent in their ability to react to the local market and competitive environment, and generate the profit they consider necessary for their businesses.

⁹⁶. For example as illustrated by the French parliamentary commission on grocery retailing on real estate acquisitions, vertical integration into manufacturing etc. ⁹⁷. French Competition authority, 25.06.2020, inquiries to examine the joint purchasing agreements in the food retail sector, Auchan/Casino/Metro/Schiever ⁹⁸. Bank of Greece, Analysing price level differences in the Euro Area, Competition structure and Consumer Behavior, 27.10.2014 p.36 & 37. ⁹⁹. Price dispersion, search costs and consumers and (retail)sellers heterogeneity in retail food markets, Italy, 2011, Dipartimento di Economia e Statistica, Giovanni Anania and Rosanna Nisticò ¹⁰⁰. Belgian authority, Niveau de prix dans les supermarchés, FOD/SPF Economie, E1-432/0310-12, p.16 ¹⁰¹. ECB 2015, Grocery prices in the Euro Area: findings from the analysis of a disaggregated price dataset p.9 ¹⁰². Anticipated merger between J Sainsbury PLC and Asda Group Ltd, Appendix M.- M24, footnote 41: the authority a comparison on so called top 100 branded suppliers as not representative of the retail sales volume. Authority acknowledged "1.000 largest suppliers of branded goods" ¹⁰³. JRC, Retail alliances in the agricultural and food supply chain, 2020

The French enquiry reviewing the Auchan Casino retail alliance concluded this June that ***“purchasing partnership agreements for retailers’ own-brand labels products are also likely to have a negative impact on the downstream market, by limiting the level of differentiation between the retailers’ own-brand labels products ranges, and therefore competition, between brands. By allowing distributors to market retailers’ own-brand products with identical characteristics, the variety of assortment offered to customers will be limited”***.

Competitiveness requires entrepreneurship, whose foundation relies on the entrepreneurial freedom in managing choice in complex legal, social, economic and competitive environments. Entrepreneurs alone take the risks to create, develop, preserve their businesses, adapting to both consumers, customers as well as government requests. These details explain the various differences observed in assortment and price. An accurate assessment of companies practices require a thorough business, economic, social, legal, competitive review; it cannot rely on a limited, temporal price or assortment comparison, not representative of the markets and businesses at large.



Annexes

A1. Differences in VAT rates in the European Union

Source: DG Taxud – Situation as on 1.01.2020

List of VAT rates applied in the Member States (in %)

Member States	Code	Super-reduced Rate	Reduced Rate	Standard Rate	Parking Rate
Belgium	BE	-	6 / 12	21	12
Bulgaria	BG	-	9	20	-
Czech Republic	CZ	-	10 / 15	21	-
Denmark	DK	-	-	25	-
Germany	DE	-	7	19	-
Estonia	EE	-	9	20	-
Ireland	IE	4.8	9 / 13.5	23	13.5
Greece	EL	-	6 / 13	24	-
Spain	ES	4	10	21	-
France	FR	2.1	5.5 / 10	20	-
Croatia	HR	-	5 / 13	25	-
Italy	IT	4	5 / 10	22	-
Cyprus	CY	-	5 / 9	19	-
Latvia	LV	-	5 / 12	21	-
Lithuania	LT	-	5 / 9	21	-
Luxembourg	LU	3	8	17	14
Hungary	HU	-	5 / 18	27	-
Malta	MT	-	5 / 7	18	-
Netherlands	NL	-	9	21	-
Austria	AT	-	10 / 13	20	13
Poland	PL	-	5 / 8	23	-
Portugal	PT	-	6 / 13	23	13
Romania	RO	-	5 / 9	19	-
Slovenia	SI	-	5 / 9.5	22	-
Slovakia	SK	-	10	20	-
Finland	FI	-	10 / 14	24	-
Sweden	SE	-	6 / 12	25	-
United Kingdom	UK	-	5	20	-

N.B.: Exemptions with a refund of tax paid at preceding stages (zero rates) are not included above (see section V)

VAT rates can vary significantly across the EU,

- on average: by over 10% for standard VAT rate (17% in Luxembourg, 27% in Hungary);
- reduced VAT rates can vary by 16% (from 2.1% in France to 18% in Hungary); their rules also differ country by country

VAT rate for Food	Special	Reduced	Standard
Netherlands	None	9	21
Belgium	6	12	21
Luxembourg	3		17
Germany	None	7	19
France	None for food	5.5/10	20
Italy	None for food	5/10	Not for food
Spain	4	10	Not for food
Portugal	None	6/13	23
Poland	None	5/8	23
Czech Republic	None	10/15	22
Slovakia	None	10	20
Hungary		5/18	27

VAT rate for Beverage	Mineral Water	Alcoholic Beverage
Netherlands	9	21
Belgium	6	21
Luxembourg	3	14/17
Germany	19	19
France	5.5/10	20
Italy	22	22
Spain	10	21
Portugal	13	13/23
Poland	23	23
Czech Republic	15	21
Slovakia	20	20
Hungary	27	27

23% VAT /consumer price difference for a bottle of water
(Luxembourg: 3% - Hungary: 27%)

A2. Differences in Corporate Tax rates in the European Union

Source: OCDE, Corporate Tax Statistics Database

Variation between a rate of 9.2% (Bulgaria) to 30.3% (France), hence a 21% tax variation

Year: 2019	Composite Effective Average Tax Rate
Country	
Austria	23,8
Belgium	23,0
Czech Republic	21,2
Denmark	19,6
Estonia	17,0
Finland	19,1
France	30,3
Germany	27,5
Greece	26,9
Hungary	10,0
Ireland	12,0
Italy	20,7
Latvia	17,0
Lithuania	13,4
Luxembourg	22,7
Netherlands	22,6
Poland	15,3
Portugal	25,6
Slovak Republic	22,5
Slovenia	18,1
Spain	25,0
Sweden	19,8
Bulgaria	9,2
Croatia	15,8
Cyprus	10,4
Malta	28,5
Romania	14,3

Looking at neighbouring markets, possible cross border effects, for example

France has the highest corporate tax (30.3%) compared to its Germany (27.5%); Belgium (23%), Spain (25%) and Italy (20.7%)

Hungary (10%) compared to Austria (23.8%), Slovakia (22.5%), Romania (14.3%) and Croatia (15.8%)

Adversely as seen Hungary VAT tax rate is the highest in Europe: it shows that Hungary chose to tax more consumers (VAT rate highest) than companies (corporate) .Its neighbour countries have lower VAT rate

Looking at neighbouring markets, possible cross border effects, for example

A3. Grocery basket: Price Variation across retailers stores in the same city

Example: Brussels – Consumer Organisation (Test Achats)



Indice de prix: L'indice 100 est attribué au supermarché qui propose le panier le moins cher de sa province. Un magasin avec p.ex. un indice 106 est 6 % plus cher que le magasin le moins cher pour ce panier.

Supermarchés: Aldi, Lidl et Leader Price ne sont pas repris dans ce classement car ils ne vendent pas (ou pas assez) de produits de marques. Le (*) à côté de magasins Makro indique un manque de produits distributeur pour pouvoir faire une comparaison valable.

- Manufacturers brands basket :137 products
- Mix baskets: 65% manufacturers brands,30% retailer brands, 5% discount retailer brands

- ☐ Examples of price variation across different format (hyper,super, convenience) or banner (name) of same retail group (purchase organisation) in same area (zip) code
- ☐ Example of price variation same format, different area code, same city (Bruxelles)

		Panier produits de marque	Panier mixte			Panier produits de marque	Panier mixte
Bruxelles				1150	COLRUYT Rue René Declercq 20, Woluwe-St-Pierre	105	100
1000	CARREFOUR MARKET Rue Neuve 123, Bruxelles	107	111	1150	CARREFOUR MARKET Av. Fr. Legrain 75, Woluwe-St-Pierre	107	111
1000	AD DELHAIZE Boulevard Anspach 63, Bruxelles	107	111	1150	PROXY DELHAIZE Avenue Charles Thielemans 17/19, Woluwe-St-Pierre	108	112
1000	PROXY DELHAIZE Rue Haute 221/227, Bruxelles	112	112	1150	MATCH Rue de l'Eglise 98a, Woluwe-St-Pierre	110	114
1020	COLRUYT Place Maurice de Moor 7, Laeken	102	100	1160	COLRUYT Boulevard du Triomphe 20, Auderghem	102	100
1020	DELHAIZE Avenue de la Birse 15, Laeken	107	110	1160	CARREFOUR HYPER Bd du Souverain 240, Auderghem	107	109
1020	CARREFOUR MARKET Avenue de l'Arbre Ballon 1, Laeken	108	111	1160	DELHAIZE Clos Lucien Outers 1, Auderghem	108	110
1030	COLRUYT Avenue de Roodebeek 17, Schaerbeek	102	100	1170	CARREFOUR MARKET Place Keym 83, Watermael-Boitsfort	111	111
1030	DELHAIZE Avenue Léon Mahillon 22, Schaerbeek	108	110	1170	PROXY DELHAIZE Chaussée de la Hulpe 255, Watermael-Boitsfort	111	112
1030	MESTDAGH Rue de Jerusalem 60, Schaerbeek	110	111	1180	COLRUYT Rue de Stalle 161, Uccle	100	100
1030	PROXY DELHAIZE Chée de Louvain 545, chaerbeek	114	112	1180	DELHAIZE Avenue De Fré 94, Uccle	106	110
1030	SMATCH Rue Auguste Lambotte 38/40, Schaerbeek	115	115	1180	CARREFOUR MARKET rue Gatti de Gamond 60, Uccle	108	111
1040	COLRUYT Rue Gray 102, Etterbeek	103	100	1180	PROXY DELHAIZE Place Emile Danco 10, Uccle	111	112
1040	DELHAIZE Rue Nothomb 50, Etterbeek	108	110	1190	COLRUYT Avenue Victor Rousseau 208, Forest	100	100
1040	CARREFOUR MARKET Cours St-Michel 80, Etterbeek	109	111	1190	AD DELHAIZE Chaussée de Neerstalle 8-12, Forest	109	111
1040	PROXY DELHAIZE Rue de l'Escadron 45, Etterbeek	112	112	1190	MESTDAGH Chaussée d'Alsemberg 303-309, Forest	111	111
1050	DELHAIZE Avenue du Bois de la Cambre 120, Ixelles	107	110	1190	MATCH Chaussée d'Alsemberg 171, Forest	115	114
1050	CARREFOUR MARKET Chée de Waterloo 609, Ixelles	110	111	1200	CARREFOUR MARKET Rue Tomberg 96-114, Woluwe-Saint-Lambert	107	111
1050	PROXY DELHAIZE Avenue de la Couronne 159, Ixelles	112	112	1200	DELHAIZE Chaussée de Roodebeek 199, Woluwe-Saint-Lambert	108	110
1060	MESTDAGH Chée de Forest 32, Saint-Gilles	109	111	1200	PROXY DELHAIZE Avenue du Roi Chevalier 53, Woluwe-Saint-Lambert	108	112
1060	MATCH Chaussée de Waterloo 71, Saint-Gilles	110	114	1200	CORA Av. des Communautés 101, Woluwe-Saint-Lambert	108	111
1060	PROXY DELHAIZE Rue Dejoncker 3-13, Saint-Gilles	111	112	1200	MATCH Rue St.-Lambert 202, Woluwe-Saint-Lambert	114	114
1070	COLRUYT Chée de Mons 824, Anderlecht	100	100	1200	SMATCH rue Abbé de l'épée 11, Woluwe-Saint-Lambert	115	115
1070	CARREFOUR MARKET Avenue Marlus Renard 21, Anderlecht	106	111	1210	PROXY DELHAIZE Avenue du Boulevard 21/35, Saint-Josse-ten-Noode	110	112
1070	DELHAIZE Chaussée de Mons 718, Anderlecht	107	110	Brabant Wallon			
1070	CORA Drève Olympique 15, Anderlecht	110	111	1300	COLRUYT Av. des Princes 45, Wavre	101	100
1070	MATCH Chaussée de Ninove 500, Anderlecht	111	114	1300	DELHAIZE Chaussée de Louvain 126, Wavre	105	110
1080	COLRUYT Chaussée de Gand 362, Molenbeek-Saint-Jean	100	100	1300	AD DELHAIZE Avenue de la Gare 13-14, Limai	108	111
1080	DELHAIZE Rue de Rudder 32, Molenbeek-Saint-Jean	107	110	1300	MESTDAGH Avenue des Princes 9, Wavre	108	111
1080	MESTDAGH Chaussée de Gand 610, Molenbeek-Saint-Jean	108	111	1301	CARREFOUR HYPER Bd. de L'Europe 3, Blerges	106	109
1080	PROXY DELHAIZE Chaussée de Gand 680, Molenbeek-Saint-Jean	108	112	1340	COLRUYT Av. du Douaire 2038, Ottignies	103	100
1082	CARREFOUR HYPER Av. Charles Quint 560, Berchem-Sainte-Agathe	107	109	1340	DELHAIZE Centre commercial du Douaire 1, Ottignies	107	110
1082	DELHAIZE Av. Charles Quint 410, Berchem-Sainte-Agathe	108	110	1340	MESTDAGH Av. Provinciale 127, Ottignies	108	111
1083	OKAY Av. Charles Quint 49, Ganshoren	107	107	1340	INTERMARCHE Avenue Albert 1er 59, Limelette-Ottignies	109	114
1083	CARREFOUR MARKET Av. Charles Quint 33-35, Ganshoren	110	111	1400	COLRUYT Chaussée de Bruxelles 170, Nivelles	101	100
1090	COLRUYT Rue Leopold I 511B, Jette	102	100	1400	DELHAIZE Chaussée de Mons 16, Nivelles	106	110
1090	OKAY Chée de Jette 389, Jette	107	107	1400	PROXY DELHAIZE Rue Octave Grillaert 4, Nivelles	109	112
1090	DELHAIZE Avenue de l'Arbre Ballon 24, Jette	107	110	1400	MESTDAGH Avenue du Centenaire, Nivelles	109	111
1090	CARREFOUR MARKET - MESTDAGH Rue Leopold I 513, Jette	111	111	1400	MATCH Boulevard Fleur de Lys 16, Nivelles	110	114
1140	COLRUYT Av. des Anciens Combattants 42, Evere	101	100	1410	COLRUYT Chaussée de Bruxelles 684, Waterloo	102	100
1140	CARREFOUR HYPER Av. des Olympiades 12, Evere	107	109	1410	CARREFOUR HYPER Chaussée de Charleroi 579, Waterloo	105	109
1140	OKAY Rue du Bon Pasteur 59, Evere	107	107	1410	CARREFOUR MARKET Drève de Richelle 10, Waterloo	105	111
1140	DELHAIZE Rue de Genève 2, Evere	109	110	1410	DELHAIZE Boulevard Henri Rollin 7, Waterloo	106	110
1140	CARREFOUR MARKET Chée de Louvain 797, Evere	111	111	1410	PROXY DELHAIZE Rue François Libert 21, Waterloo	107	112

A4. Grocery basket: Price Variation across retailers stores in the same city

The Belgian consumer association published similar price difference across a set of vertically integrated, retail chains across Member States.

Différences de prix dans les chaînes internationales

	Belgique	Pays-Bas	Luxembourg	France	Allemagne	Espagne	Italie	Portugal
								
	133	131	129	129	122	126	115	100
	137	130	129	145	110	122		100
	124	128	127	131	115	113		100
	101	100		104	101	101	101	102
ZARA HOME	111	111	111	113	111	100	115	105
	110			100		109	112	107
	110	100				110	102	111
	100	106		120	107			103
	101	100		100	100	100	101	106
ZARA	125	125	125	126	125	100	126	101
	103	105	103	103	105	103	103	100
	125	108	130	125	104	100	117	101
	102	102		101	101	101	100	100
	118	116		109	107	100	108	103
	137	139	137	136	100	105	132	
	115		115	100	105			
	110	100	110	102				

Indice le plus bas

Indice le plus élevé par chaîne

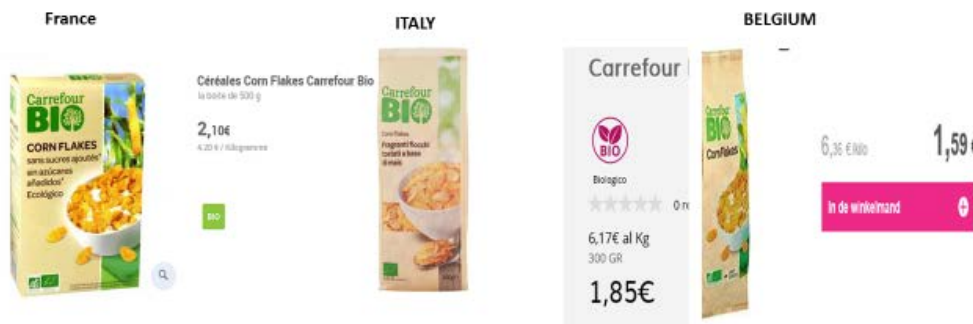
Ikea is both a producer and a retailer, centralising purchasing from Sweden. Yet a Bulgarian consumer has to pay 27.6% more than a Belgian consumer, 5.8% more than a Swedish consumer, 2.3% more than an Italian consumer. The Italian consumer pays similar price to a Swedish consumer for a product made by a Swedish supplier, yet at a higher price than in Portugal.

				
51.05€		48.21 €		
BILLY библиотека 99,90 лв	Boekenkast BILLY €39.99	BILLY Bokhylla 495 kr /styck	BILLY Estante 45€ /ud	BILLY Libreria, bianco € 49,90

www.ikea.be, www.ikea.bg, www.ikea.it, ikea.se, reference number 002.638.50. Supplier: Gyllensvaa

A5. Retailer Brands price differentials across countries from international retailers: examples

Difference in price, packaging and pack size, no multi language for the neighbouring markets



Carrefour Bio Corn Flakes: Belgium: 51% more expensive (kg-wise) in Belgium than in France; 47% more expensive in Italy than in France; 3% more expensive in Belgium than in Italy. The difference is partially hidden by different size offer (smaller in Belgium by 50%, by in Italy; 40% smaller in Italy than in France). Yet the appearance of shelf price to consumer is cheaper price in Belgium!

Carrefour: 4,2€/kg in France, 500g package, Consumer price: 2,1€ ; Belgium : 6,36€/kg, 250g package, Consumer price: 1,59€ ; Italy: 6,17€/kg, 300g package, consumer price: 1,85€

Source: Carrefour webshop in France, Italy and Belgium <https://drive.carrefour.eu/>

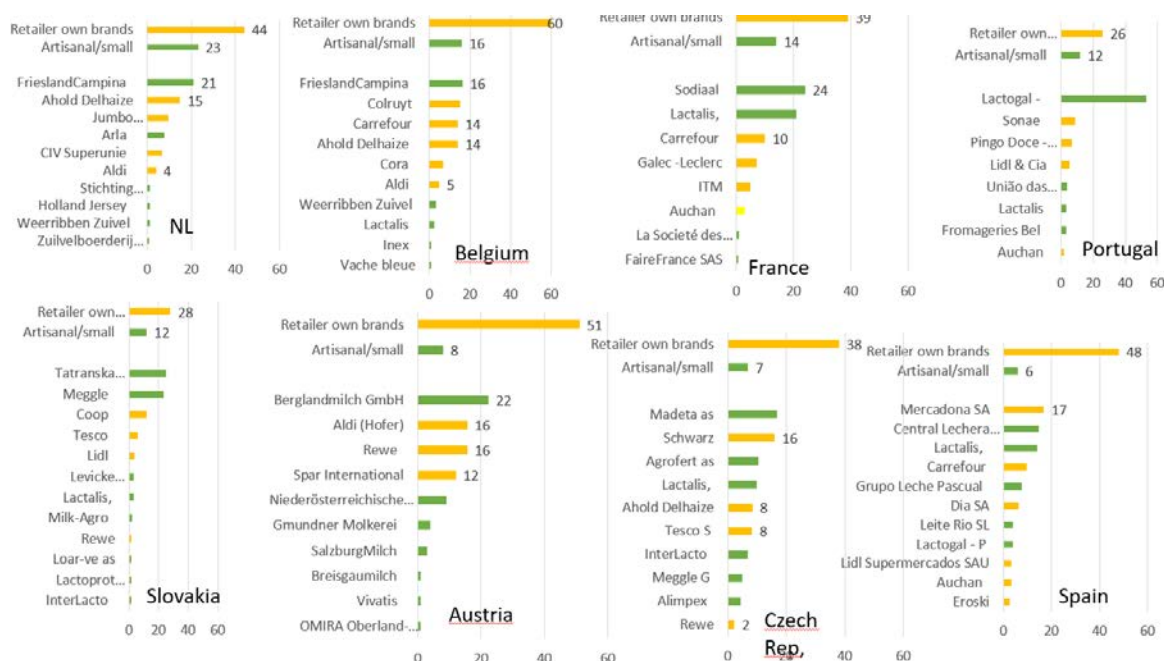


A6. Market are local –differences across a set of countries

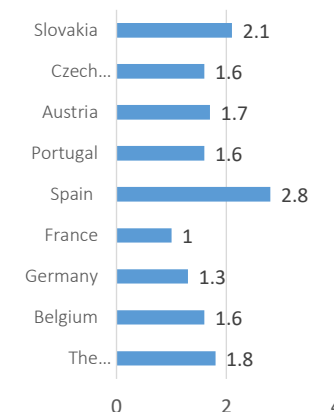
- The weight of retailer brands (competitive environment for supplier) vary from 28% (Slovakia) to 60% (Belgium), explaining thereby the fact that there are more or less no room for manufacturers brands in some markets. It is one of the reason for price being different in countries.
- Significant difference in terms of retailers brands (competitive environment) can appear between neighboring markets such as Belgium (60%) or France (39%) or the Netherlands (44%)
- The market leader is a national supplier, usually a Farmers Cooperative. Friesland Campina is a merge of a Dutch and Belgian cooperative

“retailers have allocated and increasing amount of shelf space to their private labels, resulting in an impressive increase in the market shares of these private labels, which has strengthened retailers vis-à-vis manufacturers” Chambolle, C and Villas-Boas (2015) “Buyer power through the differentiation of suppliers, International Journal of Industrial Organization, 43, 56-65

Milk: country difference in competitive environment



Milk Market in the countries in 2018 - in % Modern Grocery Sales



The variation in the ratios represents the differences of consumers consumption pattern (more or less milk consumption as part of culture and preferences). It also illustrates difference in market size (population and market value) as well as variety of price across grocery categories.

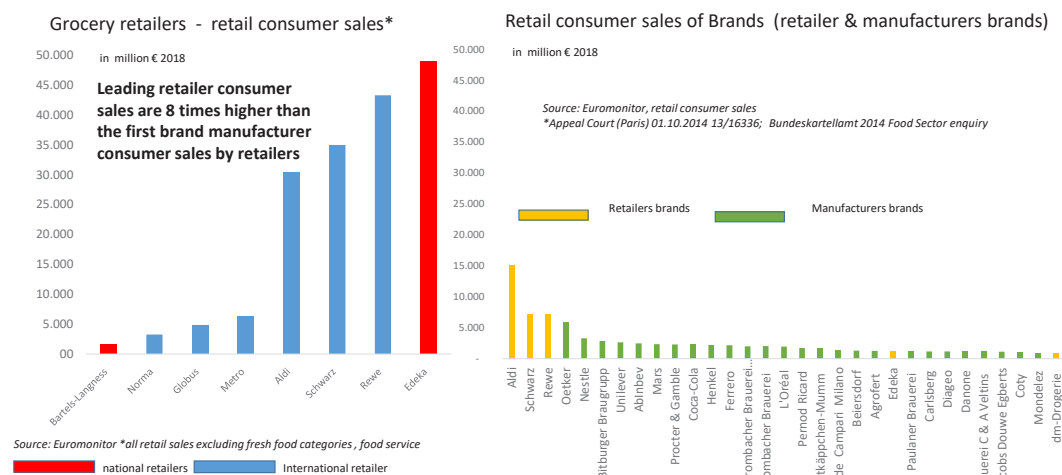
Datasource: Euromonitor

A7. Retail buyer power, gatekeeper and suppliers dependency. Illustration Germany and The Netherlands

Imbalance of forces: Retail buyer power in grocery - Germany 2018

Imbalance of forces: Retail buyer power in grocery– Germany 2018

*“all suppliers are dependant of the retail order to sell their production”**



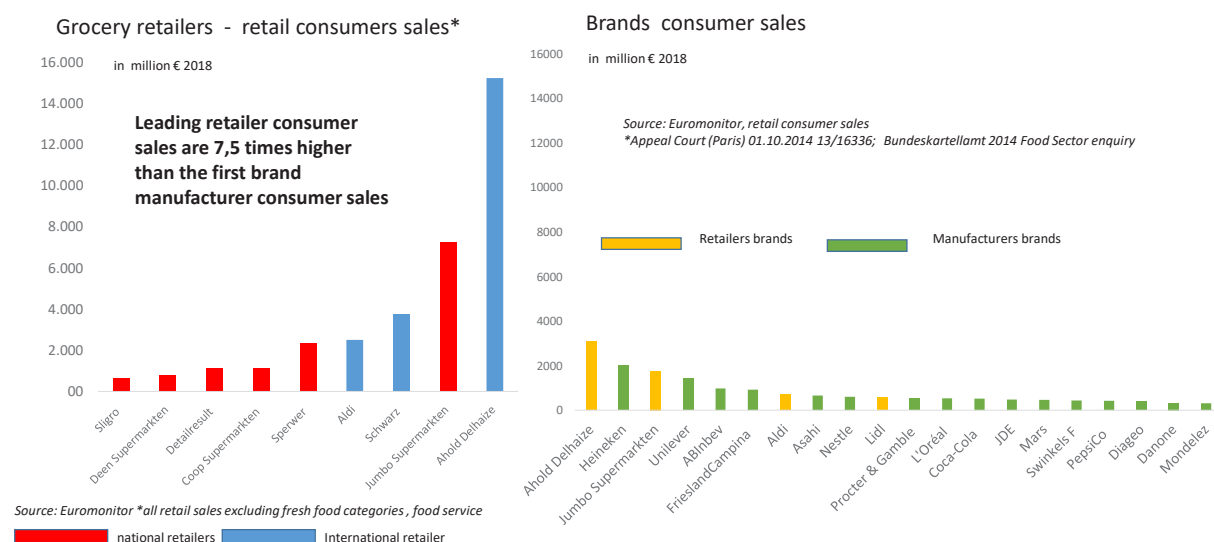
“Even the most important suppliers represent only a small share of the overall turnover of retailers” France Competition authority Avis n° 15-A-06 du 31 mars 2015, §253-254;

“no food manufacturer or supplier offers a product range which comprises all or a substantial part of the articles required by the food retail trade” Bundeskartellamt, 2014 Food Sector Enquiry p.6 (4) Ahold, global retailer in 2019) 28.09.2009, letter, HT.11

Imbalance of forces: Retail buyer power in grocery - NL 2018

Imbalance of forces: Retail buyer power in grocery– NL 2018

*“all suppliers are dependant of the retail order to sell their production”**



A8. European retailers size: their consumer sales in Europe – 2018

Top EU Retailers - 2018 consumer sales



Source: Euromonitor, retail consumer sales, 2018, EU24 (not incl. Cyprus, Luxembourg, Malta, not including automotive, fuel, foodservice, fresh food)

Grocery retailers are also leading in national markets: examples

TOP Retailers in Germany in 2018



TOP Retailers in Spain in 2018

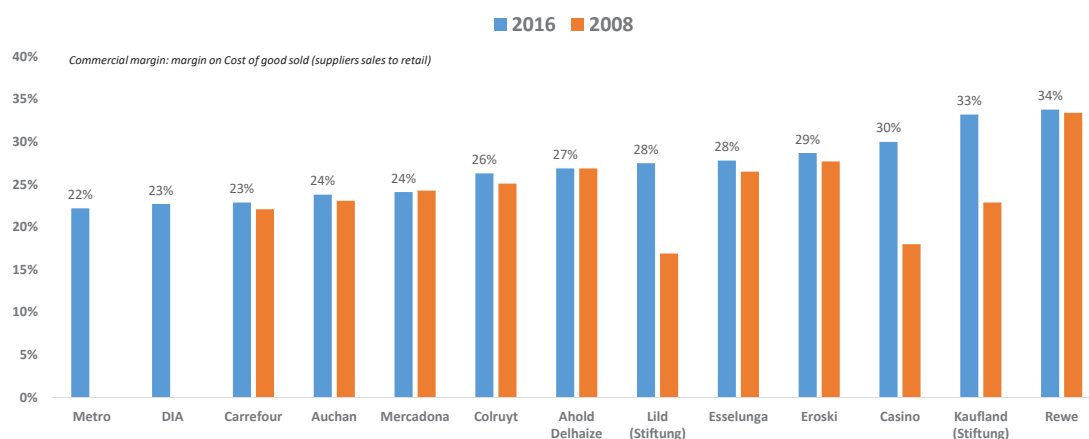


Source: Euromonitor, consumer sales 2018 *not including automotive, fuel, foodservice, fresh food in grocery, rentals

A9. Variation of retailers gross margin across Europe

Gross (commercial) margin: European leading retailers

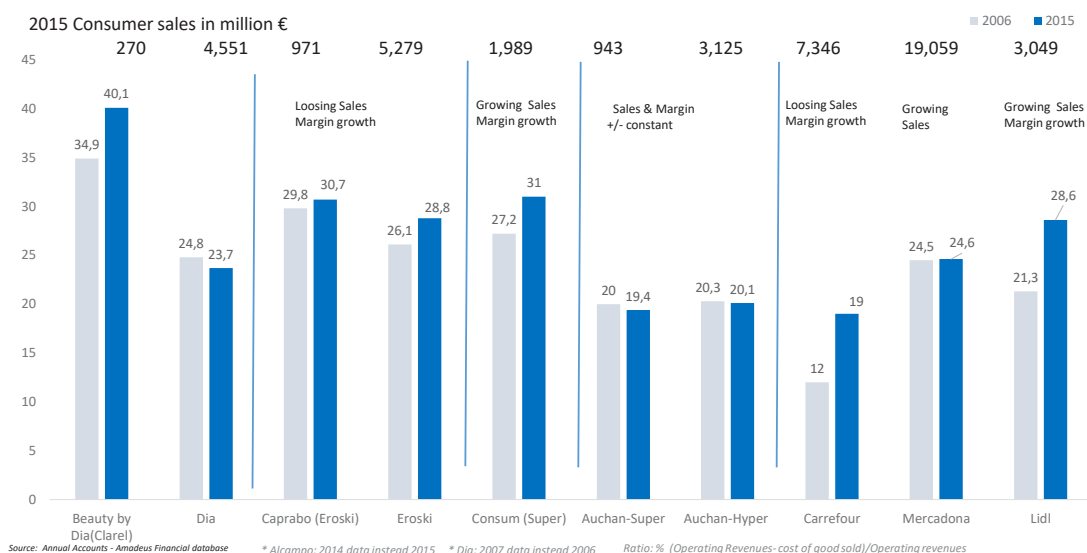
Retail gross margin increases : margin retailers get from the difference between the consumer price they sell at and the price they purchase from intermediaries (suppliers, wholesalers, farmers)



Data source: Amadeus/Orbis, BvD, Moody's – Group consolidated accounts – all accounts standardised by BvD on same format, diverging for some to companies investors presentation.

As observed by Belgian authority, great margin dispersion within countries and stores format, to be assessed in function of competitive environment and market evolution (entries, change of share, price....)

Grocery Retailers - GROSS (COMMERCIAL) MARGIN IN SPAIN



Source: Annual Accounts - Amadeus Financial database

* Alcampo: 2014 data instead 2015

* Dia: 2007 data instead 2006

Ratio: % (Operating Revenues-cost of good sold)/Operating revenues

Margin dispersion between retailers within a same market or within the same retail group, by different banners, the results of retail decision with regard both the final consumer price level as well as its own profit strategy.

A10. Methodologies used in price comparison reports

The authorities which did proceed to some price dispersion analysis have commented on the difficulties of price analysis as none can cover in a comprehensive and representative way the multiple economic factors which may influence the consumer price dispersion. It is important to understand each report statistical base.

1. Belgium, 2012, *Niveau de prix dans les supermarchés*, FOD/SPF Economie, E1-432/0310-12

- Like for like products: identical EAN/SKUs, a universe of 225.000 products in Belgium
- Reviewing the assortment of stores of > 400m2
- ACNielsen database, scanned consumer grocery purchase ticket

France is the country which has more common products (42.003) with Belgium, a result explained by more common leading retailers in both countries, as the Nielsen database does not include the German discounters, present in all markets. Belgian authority reports that the price difference within the country are bigger than price with neighbouring markets (on average 10% price difference)

2. 2017 review, *ANALYSE DES PRIX RAPPORT ANNUEL 2017 DE L'INSTITUT DES COMPTES NATIONAUX, Comparaison du niveau des prix à la consommation de produits en Belgique, en Allemagne, en France et aux Pays-Bas*, p.102-103. The price were collected for a year, from October 2016 to November 2017, in order to gather both volume and price ; the price used is hence a weighted price at the difference of Luxembourg price which is a shelf price. The Belgian authority reviewed 180.000 products. The authority found 64.751 products sold in Belgium and in at least one other neighbouring market, so 36%

3. Ministère de l'Economie, Grand Duché de Luxembourg, Observatoire des prix, *Etude 4 Frontières*, Edition 2020 (annual study)

- Like for like products: identical EAN/SKUs
- Shelf price data collected in stores, except for Germany (where it is scanned data, average weighted price= unit price *volume purchased). Report states that the different methodology for Germany is explained by legal data protection not allowing individual store collection , data must be aggregated. Nielsen defines that the difference of methodology explained partially the lower price in Germany. Shelf price is official, not taking into account the promotion, hence the discounts. Price is therefore higher than paid by consumers (see p.17)
- 22 retail banners stores in 4 countries. Cross border region defined by a catchment area of up to 50 km from Luxembourg,
- 1.8 Million people leave in the neighbouring areas, to add to 600.000 people leaving in Luxembourg, so for 2.4 million population. 200.915 cross border workers come daily to work in Luxembourg, over 50% come from France, the rest is equally split between Belgium and Germany.
- 98 grocery categories reviewed, from food to household/cleaning to Health and Beauty products

4. ECB 2014, *Within and across country price dispersion in the Euro Area*, November 2014 (NO 1742)

5. ECB 2015, *Grocery prices in the Euro Area: findings from the analysis of a disaggregated price dataset*, Economic Bulletin, 2015 . 13 countries, 45 categories (not quantified in % of sales), 2008-2011 price data.

The ECB papers unlike the Belgian, UK or Luxembourg authorities report do not compare like for like products (at EAN level) but include all products (EAN) and package variation ,including all brands, despite the brands being different across countries. As such the paper as for the CPI look at price level rather than at specific products, despite their mentioning brands.

The "impact of borders" as qualified in the ECB papers analyzing aggregated price collected in 2008-2011 is the impact of the various competitive environments, qualified by the ECB alternatively as "market segmentation" or "structural features" The segmentation terminology wrongly suggests intentional purposes while at the same time the ECB acknowledge the impact of historic and consumer preferences factors for the existing realities.

Likewise, the conclusion of the ECB papers that price differences are larger across countries than within countries is contradicted by the UK study which acknowledge retail price variation across the countries at 25% similar to the Belgian 2012 report (10% across countries price differences for over 25% within the country). The ECB mentions an aggregated (13 Member States) price variation within countries of 5%.

The ECB publications use the same dataset provided by ACNielsen;

- Compare price levels: average price across brands, products, pack size
- *13 countries in the Euro Zone*: Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, the Netherlands, Austria, Portugal, Slovenia. Some have common borders, some not.
- *45 product categories*: (1) 100% fruit juice; (2) all-purpose cleaners; (3) automatic dishwasher detergent; (4) baby food; (5) beer; (6) stock; (7) butter; (8) carbonated soft drinks; (9) cat food; (10) ready-to-eat cereals; (11) chewing gum; (12) chocolate; (13) cigarettes; (14) ground coffee; (15) instant coffee; (16) condoms; (17) deodorant; (18) nappies; (19) dog food; (20) fabric softener; (21) frozen fish; (22) ice cream; (23) strawberry jam; (24) laundry detergent; (25) margarine; (26) refrigerated milk; (27) UHT milk; (28) olive oil; (29) panty liners; (30) paper towels; (31) pasta/spaghetti; (32) frozen peas; (33) tinned peas; (34) rice; (35) shampoo; (36) shaving preparations; (37) sugar; (38) toilet tissue; (39) toothpaste; (40) tinned tuna; (41) vodka; (42) sparkling water; (43) still water; (44) soups; (45) whiskey.
- *70 regions*; their number varies somewhat across products, These regions are defined by the national Nielsen affiliates, and generally do not correspond to official NUTS-2 or NUTS-3 regions. approximately 10 store types on average per country;
- *4 brands per product category*: 180 brands, two pan-European and two (most popular) local brands. whenever a pan-European brand (i.e. a brand that is available in most countries) could be identified it was selected irrespective of local market shares.
- *3 stock-keeping units - SKUs - per brand*, not necessarily same pack size across countries. Within brands, we have information about the three most popular varieties (or SKUs). The basis of selection of particular varieties was local market share, which means that these varieties are generally not comparable internationally. AND *"3 most popular pack size per SKUs"*
- *prices of 45 products collected between September 2008-December 2011*: Data is generally available on sales value, sales volume and price, the latter one usually in terms of both pack price and equivalised unit price (e.g. price per kg or price per liter). prices are not individual transaction prices but average unit prices over the month observed. (price: average: weighted=unit price*volume). value and volume variables, monthly data for a 3-year period for each country, beginning in late 2008.

The Greece Central Bank paper has used the same database but "cleaned" data as it saw a set of data issues compromising the data analysis as set by the ECB (see below)

6. Bank of Greece, Analysing price level differences in the Euro Area, Competition structure and Consumer Behavior, 27.10.2014, Pavlos Petroulas and Theodora Kosma worked on ECB project, used same database but cleaned data (see p.5)

- 10 countries: dropped Slovenia, Slovakia and Estonia from the sample *"as their price tend to exhibit catch up effects due to recent accession"*. So AT, BE, DE, ES, FR, GR, Ireland, Italy, NL, Portugal
- Drop categories: 41 vs 45 (ECB): drop cigarettes (as not grocery, as different price structure), chewing gums, bouillon, chocolate as the *"product unit varies greatly across countries"* in the database collection" eg *"chocolate category"* in some countries referred to clusters such as occasion (chocolate gift pralines...) or to product structure (bars, bites...). Chewing gum reported either as strip, package piece, kg or packs...etc
- 58 geographic locations vs 70 as *"locations where branded products have very low coverage, less than 10% sales for the market leader as otherwise not representative of that market"*
- Dropped time series as *"large share of missing values....dropped the first 4 and last 3 time period"*, sample run then from January 2009 and October 2011

p.4 *"there are missing brands in each market"*. In addition, as the annexes show there are missing price data. Only 10 categories on the 41 have data for all 10 countries.

7. The Determinants of Consumer Price Dispersion: Evidence from French Supermarkets , Banque de France, WP # 632, June 2017

- The price data was collected by Prixing, a start-up that offers a mobile price comparison app and website: price lists from supermarkets offering 'click&collect' services (order on line, pick up in stores). *Note: as such the sample is not fully representative of all stores offer as not all chains have such services (eg discounters) but covered over 80% of French grocery retail*
- 1.000 products (SKUS/bar codes), one price observation per week , "the most frequently observed price" in each store for the product largely food products *"The resulting weekly modal price data set contains more than 37 million observations (almost 1.5 million trajectories) of the most widely sold products"* see below table
- 1500 geolocalized medium and large size stores over the period October 2011 to September 2012. Some retail groups are over-represented with respect to their share in the total population of medium and large supermarkets. *Their share in the data collection represents the share of the "click & collect" markets*
- 286 local markets (out of 330 in mainland France). On average there about 13 local markets per region and, in each local market, 6 supermarkets for which we have price records
- define price dispersion as price differences within a quarter for exactly the same product (i.e., barcode) sold in different supermarkets

Table 1: Number and percentages of products by COICOP product categories and brand/manufacturer

COICOP-level 1	prices		products		brands	manufact.
Food & non-alc.bev.	26231005	70.6%	703	70.3%	250	76
Alc.beverages	2320956	6.3%	66	6.6%	42	22
HH eqpt.&maint.	1992881	5.4%	55	5.5%	26	8
Recreation&culture	1580217	4.2%	42	4.2%	14	3
Miscellaneous	5005850	13.5%	134	13.4%	39	12
Total	37130909	100%	1000	100%	371	121

Table 2: Stores' retail chain/group and market shares

Retail chain	N.store (w/prices)	%	N.all stores (med.-large)	%	Mrkt shares [Kantar]
Group AUCHAN:	92	5.9%	443	7.0%	14.5%
Auchan (large supermkts)	55	3.5%	139	1.8%	11.2%
Simply Market (medium)	37	2.4%	304	4.0%	3.3%
Group CARREFOUR:	286	18.2%	1733	27.7%	24.9%
Carrefour (large)	186	11.9%	226	3.0%	14.8%
Carrefour Market (large&med.)	100	6.4%	1507	19.8%	10.1%
Group CASINO:	126	8.0%	506	8.1%	6.7%
Geant Casino (large)	87	5.5%	150	2.0%	3.5%
Casino (large&medium)	39	2.5%	356	4.7%	3.2%
Group SYSTEME U:	468	29.8%	1033	16.5%	12.2%
Hyper U (large)	55	3.5%	64	0.8%	
Marché U (medium)	7	0.5%	8	0.1%	
Super U (large&medium)	390	24.8%	717	9.4%	
U Express (medium)	16	1.0%	244	3.2%	
Group LECLERC:					
Leclerc (large)	222	14.1%	641	8.4%	24.8%
Group MOUSQUETAIRES:					
Intermarché (large&medium)	377	24.0%	1837	24.1%	16.8 %
Total	1571	100%	7596	100%	100.0%

About AIM

AIM is the European Brands Association representing brand manufacturers in Europe on key issues which affect their ability to design, distribute and market their brands.

AIM comprises 2500 businesses ranging from SMEs to multinationals, directly or indirectly through its corporate and national association members. Our members are united in their purpose to build strong, evocative brands, placing the consumer at the heart of everything they do.

AIM's mission is to create for brands an environment of fair and vigorous competition, fostering innovation and guaranteeing maximum value to consumers now and for generations to come. Building sustainable and trusted brands drives investment, creativity and innovation to meet and exceed consumer expectations. AIM's corporate members alone invested €14 billion in Research & Development in Europe in 2014, placing them fifth in the EU ranking of R&D investment.

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