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## **LARGE SCALE RETAIL TRADE AND COMPETITION**

**GAZDASÁGI VERSENYHIVATAL**

**August 2000**



**LARGE SCALE RETAIL TRADE AND COMPETITION:**

**THE COMPETITION POLICY POSITION  
OF THE  
HUNGARIAN COMPETITION AUTHORITY  
ON THE  
KEY COMPETITION ISSUES  
OF  
LARGE SCALE RETAIL TRADE**

**Competition Office Bulletin No. 3**

**Gazdasági Versenyhivatal**

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**Large Scale Retail Trade and Competition: The Competition Policy Position of the Hungarian Competition Authority on the Key Issues of Large Scale Retail Trade**

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**Gazdasági Versenyhivatal (the Hungarian competition authority)**

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The prevailing of any competition policy position of the GVH is determined by the opportunities provided by competition law.

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Please send your possible comments to the email address: [gvhfuzetek@gvh.hu](mailto:gvhfuzetek@gvh.hu)

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## 1. Introduction

Today it seems obvious that the answer to the question whether globalisation is really unavoidable, is positive. In any case the experts of social sciences and economic policy, and persons involved in politics are faced with new demands, questions and requests every day relating to the alleged or real national, regional or local negative impacts of the world-wide economic processes. This is also true for the Hungarian Competition Office (HCO): it is often presented with complaints coming from social, economic or civil groups, which can not be solved due to lack of competence, nevertheless, the HCO examines them from the aspect of competition law and policy and tries to find a solution.

In a market economy driven by free economic competition the concerned parties - previously protected against stronger economic actors or those finding themselves under completely new circumstances - are subject to several real or seemingly negative impacts. These entities often feel that the foreign companies with strong capitalisation which appear in some markets, as well as the intensively expanding, increasing and even concentrating giant multinational companies, are competing against them, instead of competing with them (domestic small and medium enterprises) or for them (suppliers, producers, and customers).

Retail trade is a sensitive area accompanied by public and economic disputes, especially the areas of wholesale and retail trade of food or food-like and fast moving consumer goods<sup>1</sup>.

The citizen, the consumer is in a weak bargaining position concerning goods and services she wishes to purchase. Information, which is growing exponentially day-by-day and becoming more and more incomprehensible renders difficult not only the optimal, but also the proper choice. The institution which helps the consumer make choices and which creates a connection between consumers, producers, and suppliers and which finally provides the consumers with goods is (retail) trade.

Economic actors have different bargaining positions in relation to each other. Their relative position and power rely on several factors and can vary in time and space. Similarly, the assessment of actors and tasks of retail trade is diverse. The retailer not only buys and sells but gives a surplus to the goods. From the aspect of the consumer it is an important factor where, how and from whom the goods are purchased. It is not indifferent, whether the same product is purchased at a product demonstration, in a specialist's shop, in an elegant small or in a discount shop, and the price is not the only factor which makes the difference. The various forms of retail trade differ in their methods, image, efficiency, costs and their assessment.

A remarkable concentration has taken place in the 1990's in the field of retail trade. A significant owner-concentration occurred, enormous retail trade chains were established, retail trade units with large sales-area have forged ahead, shopping centres have spread and become more popular and purchase associations have been formed. The mentioned developments are different aspects of concentration with very different impacts, yet the problems arising from the concentration in retailing have not been thoroughly studied from an economics and competition policy point of view. We are still not familiar with these issues in detail.

Trade concentration - with all its advantages and possible disadvantages - has become more and more significant in the past few years in Hungary. This process could have effects on the settlement structure, the built and natural environment, traffic, air pollution, not to mention - as

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<sup>1</sup> FMCG-Fast Moving Consumer Goods

an affect of the changes in purchasing (and time spending) habits - on the culture and on the spare time of the youth. Nevertheless these very important factors have only a secondary importance in an economic approach based on pure efficiency and performance.

## **2. Retail trade markets**

### **2.1. Retail trade nowadays**

The tendency characteristic for the end of the 1990's is that the macro economical role of trade is growing. Further development seems to be possible, but in order to achieve that the continuation of the internal technological and structural modernisation of the sector is necessary. Apart from the development, the competitive and the efficiency gap is growing between the retail chains and the retail trade small and medium enterprises. The appearance and spread of retail chains with a large area and strong capitalisation have caused a significant change in the retail trade sector, competition is constantly growing. It is no surprise that several small and medium-size enterprises see the expansion of retail chains or rather shopping centres as the main cause for their going out of business. However economic researches, fact-finding investigations, and theoretical essays could not confirm this reasoning. The explanation could rather be found in the logical economic processes related to efficiency pressure.

The European Commission reflected on the changes of retail trade markets' economic and social role by issuing the Green Paper on Commerce<sup>2</sup> in November 1996. As a result of the disputes following the issuing of this document two new problems were outlined, which are significant from the sector's point of view. On one hand it was brought up that when making policies influencing the trade sector too, State authorities do not take into consideration the role of this sector to the proper extent. On the other hand the argument appeared that by the application of competition policy independent small and medium-size enterprises may get into a disadvantageous position compared to large retail chains.

In the "Commerce 2000-White Paper on Commerce"<sup>3</sup> published in January 1999 the Commission did not suggest radical changes. As a long-term objective a strategy based on the improvement of the markets' competitive conditions and competitiveness was proposed. The related Community measures were divided into four groups: (1) In the field of commerce the opportunities in the use of political instruments should be utilised, (2) the administrative, legislative and financial environment should be improved, (3) competitiveness and the supporting of enterprises should be increased, (4) development of the European and world-wide commerce should be stimulated.

When applying competition rules the Commission takes into consideration the change process which is happening in this sector, especially the concentration tendencies and the different forms of cooperation between small and medium size enterprises.

Several competition supervision procedures of the Hungarian Competition Office dealt with retail chains in connection with concentrations and - in the context of procurement associations - exemptions of horizontal agreements. The retail trade platform is becoming more and more hectic, diverse and numerous new owners appear, firms are forming groups, they are applying new methods and try to do their best for the customers. However the business decisions of

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<sup>2</sup> Green Paper on Commerce, COM (96) 530 final

<sup>3</sup> White Paper on Commerce, COM (99) 6 final



retailers can at times infringe the provisions of the Competition Act<sup>4</sup> to a smaller or larger degree.

Hungary follows the international trends, for ownership changes, acquisitions of the retail chains, and the alteration in the external and internal structures of retail trade are frequent events. The main problem in the course of competition supervision proceedings is precisely the complexity of retail trade changes and the accessibility of current and real information when assessing the market position of a given enterprise.

<b>Retail trade network on 30.06.1999<sup>5</sup></b>					
Region	The number of operating companies	The number of retail trade shops	Among them operated by joint individual enterprises		The number of shops per 10000 capita
Central Hungary	29 380	37 604	21 201	15 745	132
Central Transdanubia	10 914	16 319	6 745	9 423	147
Western Transdanubia	10 392	16 482	7 939	8 405	167
Southern Transdanubia	10 751	17 135	8 227	8 754	175
Northern Hungary	10 866	16 452	7 243	9 045	129
Northern part of the Great Hungarian Plain	14 550	21 488	9 237	11 990	140
Southern part of the Great Hungarian Plain	13 591	19 753	8 564	11 041	146
Retail trade shops altogether	100 444	145 233	69 156	74 403	144
Out of which only in Budapest	16 320	24 670	15 748	8 355	134
Source: Central Office of Statistics					

Commerce, especially food wholesale and retail trade was an attractive area for investors already during the pre-privatisation process. Between the years 1991 and 1998 more than 10.300 commercial stores were sold. Companies which were formerly State-owned retail-trade enterprises also found a buyer quickly. Compared to the industrial sector (besides the tax allowance for the greenfield investments) the higher rate of return, the lower risk and capital demand, and the higher profitability are the reasons for the attractiveness of the sector. The investment is advantageous also for the party accepting: the capital: the introduction of the most modern commercial techniques, methods and infrastructure requires additional capital investment, which could be accomplished in this way with the least cost. The number of trade companies with foreign interest increased faster than the number of all kinds of companies. For example in 1998 the number of retail trade enterprises was 73.532, and 11.726 - in other words 15.9 per cent - of them were functioning with foreign participation<sup>6</sup>. Wholesale and retail sale of food and wholesale of mixed products attracted more investments than the other parts of this sector. Furthermore the number of trade companies purely owned by foreign investors is growing. The most important states investing in the trade sector are the following: Germany, Holland, Austria, Great-Britain and the United States of America.

<sup>4</sup> Act No. LVII of 1996 on the prohibition of unfair and restrictive market practices

<sup>5</sup> Figyelő, 14 October 1999., p. 22.

<sup>6</sup> Dr. Imre Béhm: Foreign operating capital in commerce, in: Pénzügyi Szemle, issue No.1, 2000, page 73.

Foreign investors participate in retail trade in several forms of ownership including 100 per cent ownership, joint ownership and cooperation in the form of different agreements (for example licence, franchise and co-packing agreements). There are five main types of foreign capital investments in commerce:

- new companies with low capital, established by a great number of foreign and domestic private investors,
- companies with foreign interest established from State-owned companies during the spontaneous privatisation process,
- mainly large-size companies with foreign interest established on the initiative and under the control of the State holding company during the privatisation process,
- additional capital increase of already functioning enterprises for development and investment reasons,
- greenfield investments.

## **2.2. Concentration**

It is a common tendency all over the world that retail trade is getting more and more concentrated. The high level of commercial concentration is explained by compound reasons - in relation to the increasing power of retailers - such as the changing of consumers' habit (connected to traffic, demographic and income changes), new marketing methods, moving toward weekly shoppings and comfort shops, changes of computer utilisation, the role of economies of scale aspects, the increase of chains' capacity and the appearance of own brands.

An ever smaller number of enterprises control larger and larger parts of retail trade. This tendency and the higher level of vertical integration (retail products, common marketing activity) are characteristic in particular in food trade perhaps because of the closer connection between the producers, the retailers and wholesalers. No economy following competition principles can avoid or ignore this tendency.

In Northern Europe the shop network is more concentrated, the substantial part of food retail trade occurs in larger floor-spaced stores especially in supermarkets. Whereas the number and market share of larger retailers is increasing here too the Hungarian "network" is still frittered away compared to the European average (a substantial part of individual and joint enterprises operates in trade businesses and fluctuation is high), the ratio of buyers/shop is lower. The comparison, of course, is not entirely correct, it is sufficient to think of the changing consumer prices. It is clear that despite the numerous Hungarian peculiarities, the main processes, tendencies and problems are the same here as everywhere else in the world, it may however differ in extent or rapidity. (It is interesting to mention that the monitoring unit of the Hungarian retail trade's data collecting system is not the enterprise but the shop. This might be in connection with the fact that larger part of the enterprise operate only one shop.)

It is also clear from the data that retail trade is a profitable business: there are among the largest enterprises of the world such companies, active in retail trade, as the American Wal-Mart or the French Carrefour.

<b>Some indicators of food retail trade in Europe, 1990</b>					
Countries	capita/ one shop (person)	Turnover/ m <sup>2</sup> (USD)	Market share of hipermarkets from total turnover ( per cent)	Market share of supermarkets from total turnover ( per cent)	Market share of ABCs (small grocery shops) from total turnover ( per cent)
The Netherlands	1430	-	4	54	34
Norway	330	6531	1	44	46
Sweden	930	7143	-	-	-
Austria	640	4015	15	29	34
Belgium	640	5284	18	59	10
Great Britain	550	-	-	-	-
Finland	550	6768	-	-	-
Germany	380	-	18	35	30
Switzerland	360	-	9	37	37
Greece	341	-	-	-	-
Denmark	330	6747	-	-	-
France	290	6845	39	41	9
Portugal	228	-	1	9	16
Italy	170	-	2	26	14
Spain	150	-	16	20	15
Hungary	400	2000	3	21	16
In the year of 1990 and 1996	166	1020	10	32	22

Source: Cégvezetés, January 1998 (the Hungarian values are estimated)

<b>The 10 largest commercial companies of the world, 1997</b>		
Companies	Residence	Turnover (billion \$)
Wal-Mart Stores	USA	118
Sears Roebuck	USA	41,5
Metro	Germany	37
Rewe Zentrale	Germany	35,4
Kmart	USA	32,2
JC Penny	USA	30,5
Edeka Zentrale	Germany	30,4
Tengelmann	Germany	30,2
Carrefour	France	29
Dayton Houston	USA	27,8

Source: Goldman Sachs, in Cégvezetés, July 1999

### 2.3. The forms of retail trade

The spreading of the retail chains and new trading forms, which appeared in Hungary only a few years or a decade ago but which have a long tradition in Western Europe, and the simultaneous withdrawal of the customary forms are a daily topic in the media. This issue is not only topical but also not free from emotions in view of the large number of persons interested and the potential social tensions.

Retail shops can be classified and defined on the basis of factors such as function or sales area. A multiple categorisation could be done by sales area considering the characteristics of the area in question. One possible grouping is the following:

*Grocery* (sales area is less than 100 m<sup>2</sup>, general grocer's shop)

- garage shop (sales area is less than 50 m<sup>2</sup>, its main activity is food trade)
- comfort shops (non-stop, open in the weekends too, it is located near home address)
- special grocery (specialised in something, for example bakery, milk-bar)

*Supermarket* (sales area is between 100-2500 m<sup>2</sup>, general food store)

- small supermarket (sales area is between 100-200 m<sup>2</sup>, partly self-service, general food store)
- medium supermarket (sales area is between 200-400 m<sup>2</sup>, mainly self-service, general food store)
- large supermarket (sales area is between 400-2500 m<sup>2</sup>, it offers household goods and chemical products too)

*Hypermarket* (sales area larger than 2500 m<sup>2</sup>, it offers, beside food-products, other kinds of goods too)

Grouping in terms of functions of the different shops:

- *hard discount* (warehouse-like, cost-saving form with narrow range of products meaning 600-1000 goods, eliminated fresh products, for instance Penny Market, Profi)
- *soft discount* (wider range of products meaning 1000-2000 goods including fresh products too, higher prices and higher level of outfits, for instance Plus, Jéééé)
- *Cash-and-carry* (this is basically a wholesale marketing form which offers a great possibility for retailers and big consumers to purchase in a simple way from a large warehouse with a wide range of goods)

The shops differ also in terms of application of pricing methods for "luring" customers. There are two pricing strategies considering super- and hypermarkets and retail chains:

- high-low pricing (price sensitivity, cross-financing) and
- EDLP (every day low pricing - low prices applied everyday, strict cost control).

Statistics and public opinion researches on the turnover and market share of the different types of shops must be treated with reservation taking into account the complex nature of the data, the overlapping of the different categories, but bearing in mind the uncertainties, they could still serve as starting point.

<b>Market shares of the places of purchase in Hungary, 1998 ( per cent)</b>	
Store	3
Hypermarket	5
Supermarket	13
Large discount/Wholesale	24
Small grocery	32
Small discount	5
Vendor/market	7
Other	11
Total	100
Source: GfK Hungária, Világgazdaság, March 1993	

Statistics and public opinion researches can be found almost every day in the written media about the Hungarian citizens' relation to super- and hypermarkets. The consumers asked gave the following answers to the test made by the GfK's market researchers<sup>8</sup>:

<b>In what type of shop do you spend most of your money for food?</b>			
Type of shop	Budapest	Pest county	Country-wide
Hypermarket	17	16	10
Supermarket	33	24	27
Smaller self-service shop	25	26	32
Not self-service shop	5	15	12
Specialised shop	1	0	1
Discount	12	17	14
Vendor, market	4	1	1
Wholesale, C+C	2	1	2
Source: GfK			

<sup>8</sup> Népszabadság, February 2000

## 2.4. Choosing a shop

On the basis of the 1999 research of the Marketing Research Institute GfK<sup>7</sup> it can be stated that the following have an influence on choosing a shop:

- opening hours
- price level of the products, perhaps services
- range of goods and services
- freshness and quality of goods
- environment and cleanliness of the shop
- level of service, behaviour of the shop-assistants
- time necessary for shopping
- technical equipment and modernity of the shop
- what kind of domestic goods and branded goods are offered
- the existence of parking lot and whether it is free of charge
- accessibility of shop using public transfer
- the force of habits
- reputation, spreading and prestige of the chain
- indication of prices and their exactness
- possibility of paying by credit card
- remuneration, respect of regular buyers
- promotions, existence and frequency of favourable discount sales

The most important elements among the above mentioned factors are the price level, the freshness and quality of the goods, the assortment of goods, the cleanness of the shop and the considerate and polite service. These factors are characteristic for the different types of retail, consequently there is a tight connection between the preferences of the consumers concerning the shopping circumstances and the turnover data of the different types. In the competition pursued for the customers besides the prices certain marks of quality and other subjective factors get a more and more important role.

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<sup>7</sup> Népszabadság, 2th March 2000, p.23.

## 2.5. Commercial promotion in retail trade

The Inspectorate for Consumer Protection and the Office of Economic Competition receive lots of complaints concerning commercial promotions mostly because of their deceiving and misleading nature. Indeed it is often hard to make a difference between the unfair practices and the practices serving merely marketing purposes. The promotion-actions organised by trade target primarily the consumers. Their basic aim is to increase the turnover of certain products but there can appear also other direct or indirect motives like market entrance of a shop or chain, increasing their reputation, the wakening of mass interest, increase of sales, winning new buyers, altering buying preferences and preferences of consumers, forming a brand or shop loyalty. The traders achieve their varied and complex aims by different methods: depending on the targeted consumer circle and the willingness of buyers newer and newer gifts, bonuses, prize games, discount sales events and discounts attract the attention and induce the buying mood of customers. However the continuous and careless discount sales can harm the reputation of the firm and this is why all enterprises operating on rational grounds avoid the excessive application of such methods.

## 2.6. Shopping centres

The public opinion on large retail chains and huge shopping and entertainment centres is complex and diverse. In spite of their different economic role and assessment from a competition policy point of view the concepts of chain, hypermarket, supermarket and shopping centre are often confused by people. Shopping centres are establishments with a large area (which according to certain definitions exceeds 6000 m<sup>2</sup>), suitable for housing a lot of various shops (the proportion of food-selling shops is usually ca. 20 per cent ) and owned by one or more owner or investor who leases or rarely sells the premises. The large multinational retail chains are often present in these centres, as well as numerous other „smaller” retailers and even entertainment enterprises. Although the demand for premises continuously increases in the complexes which are popular in the circle of visitors and buyers, more and more problems and clashes of interests arise regarding the terms of lease contracts and the figures on fullness and utilisation of space.

On the basis of Anglo-Saxon standards there are three models of shopping centres: the city centre (ca. 10-20 thousand m<sup>2</sup>), the metropolis centre (over 30 thousand m<sup>2</sup> with at least 70 shops) and the regional model.

<b>Characteristics of shopping centres in 1998</b>			
	USA	Europe	Hungary
Population (million)	263	443	10,2
Number of centres	42 874	4100	25
Number of inhabitants per centre (thousand)	6,13	108	408
Area of centres (million m <sup>2</sup> )	523	64,26	0,35
Area of shopping centres per capita (m <sup>2</sup> )	1,99	0,15	0,03
Average area (m <sup>2</sup> )	12 198	15 673	14 000
Share from the turnover of the retail (per cent)	53	14,2	7,8
Weekly turnover (USD/m <sup>2</sup> )	37	90	110

Source: Association of Hungarian Shopping Centres, Világgazdaság, 15. 12. 1998.

Despite the frequent criticisms the popularity of the shopping centres is constantly growing. Shopping and visiting malls has become entertainment and a pastime. The research data shows that in the opinion of the majority of buyers, people visit both smaller and larger shops, because these are complement each other. The majority of buyers like the pleasant and high-standard environment of the shopping centres and the possibility of buying more things in one place is important to them.

Even though the opinion on retail chains is a similarly complex question, due to the different aspects of assessment, it represent an absolutely different issue.

<b>Shopping centres in Budapest<sup>8</sup></b>		
Name	Area (m <sup>2</sup> )	Fullness ( per cent)
Hattyúház	16 000	40
Budagyöngye	10 000	100
Rózsakert	17 500	100
Mamut	27 000	100
SÜBA	10 400	99
Új Udvar	17 500	84
Oktogon Üzletház	2 200	80
Teréz Udvar	700	50
Orczy Plaza	12 000	100
Lurdy Ház	42 000	60
Eleven Center	10 000	99
Duna Plaza	42 000	100
Westend City Center	91 000	100
Pólus Center	56 000	89
Europark	30 000	100
Auchan/Tesco	22 500	100
Csepel Plaza	20 000	96
Campona	38 000	80

According to researches and public opinion polls, buyers spend USD 110 per m<sup>2</sup> per week in a Hungarian shopping centre. The similar average in Europe is USD 90 and in the USA only USD 37. These data justify that the investors can still increase the number of shopping centres at the expense of the benefit per area unit and they still can remain profitable. However strict and unswerving conclusions can not be drawn from this information. Data of different countries can not be clearly compared with each other since the nature of their geographical, social, demand and price-level situation is different, not to speak of the differences between the experiences and traditions in retail.

Fitting into the framework of the International Council of Shopping Centres the Association of Hungarian Shopping Centres<sup>9</sup> was established with 17 members on 29 April 1998. The main aim of the organisation is gathering and representing the enterprises and organisations interested in the branch, in the development and strengthening of the situation of the branch and in the spreading of the international norms which might be applied in Hungary.

<sup>8</sup> Népszabadság, 25th January 2000, p.25.

<sup>9</sup> www.mbsz.hu



In Budapest and in its environs there are already more than 30 shopping centres larger than 5000 m<sup>2</sup>. According to the data provided by the Association of Hungarian Shopping Centres the area of the centres in the capital approaches already 800 thousand m<sup>2</sup> and further investments are expected. In the years 2000 and 2001 only in the capital shopping centres of 600 thousand m<sup>2</sup> are planned to be built. Buyers in the countryside will be awaited for shopping on further 400 thousand m<sup>2</sup>. Hungary with its 5 m<sup>2</sup> shopping centre per 100 capita outmatches the other countries of Central and Eastern Europe.

Although these data concerning the surface areas seem to be high even in the case of a rapid spread, Hungary still has not reached the European average. For the 82 million population of Germany there are 250 shopping centres with altogether 8 million m<sup>2</sup> and their share from the retail turnover amounts to 7-8 per cent. In Austria there are 104 shopping centres with altogether 1 million 250 thousand m<sup>2</sup> for a population of 8 million and their share from the retail turnover amounts to 11-13 per cent. The 7 million inhabitants of Switzerland may go to 60 shopping centres with altogether 900 thousand m<sup>2</sup> and with a share from the retail turnover of about 11 per cent.

On the basis of the internationally accepted terms and measuring methods the shopping centres in Hungary have a share of only 7,8 per cent from the retail turnover. However this figure can reach 16 per cent because of the new shopping centres. The average share of the shopping centres from the retail turnover in European countries amounts to 14,2 per cent. The shopping centres possess the largest proportion of the retail turnover with a figure of 30 per cent in Norway. In France, Ireland, Great-Britain and Sweden this share amounts to 26 and 25 per cent. In the United States the share of the shopping centres amounts to 53 per cent, the number of the centres here exceeds the 42 thousand. (The statistics do not contain data concerning the independent commercial units. On the basis of international standards the overseas statistics regard a commercial complex as a shopping centre, if it is planned, built and operating as a connected and unified unit consisting of at least 20 parts provided that its area exceeds 5000 m<sup>2</sup>.)

Perhaps as an answer to the criticism against the centres and generally the multinational firms stating that they squeeze the Hungarian goods out of the market, the Association of Hungarian Shopping Centres carried out a survey concerning the shares of the Hungarian and foreign goods in the shopping centres. According to that survey for example at the Auchan Magyarország Kft. 80 per cent of the goods are Hungarian and this proportion amounts to 75-80 per cent in the shops of the Gránit Pólus Kft. The proportion of the Hungarian products is 85 per cent in the Cora, only 60 per cent in the Duna Plaza and 85 per cent in the Tesco shops.

Despite of the popularity that can be seen from the turnover data, the investors themselves also agree that because of different grounds and point of views a part of the population (6-11 per cent) is against shopping centres. In addition to that the joining of the turnover data of different retail units and chains operating in shopping centres and the common treatment of this data in order to demonstrate the turnover results of the centres might be problematic.

More and more retailers appear in the dynamically spreading malls and this is the basis of the connection between the retail trade and the shopping centres which are active in the entertainment and other services. The whole truth is however that the unknown „smaller ones” are not able to pay the rental fees in the modern buildings with good infrastructure especially because the necessary buying demand, mood and power of the visitors just dropping in is not assured. Even the firms offering goods with brand quality can often replace one another in the shopping centres. No wonder that more and more is heard of the contractual debates, proceedings and deals between the operators of the centres and the tenants.

## 2.7. Retail chains

Retail competition manifests itself in price, geographic area, product variety (assortment) and in the dimension of commercial services offered to the consumers. There are certain problems however, which may raise concerns with respect to perfect functioning of competition in the retail sector. Among others, some questions of this kind are: asymmetries in bargaining and information, high transaction costs, vertical restraints.

The transformation of retail trade, the proliferation of retail chains and the increase of their market shares do not give rise in themselves to competition policy concerns, they are natural consequences of entrepreneurial competition strategies, they entail increase in efficiency, the advantages which appear in price, product variety and quality of services - all of which can be enjoyed by the consumers as well.

More efficient retailers induce not only their competitors but also the producers to strive for efficiency. Possible sources of increased efficiency are for example economies of scale, economies of scope, better stock-keeping and storage capacities, and their better utilisation, the possibility of decreasing the risks of operation, advantages stemming from co-operation, added potentials resulting from special professional knowledge, the developed state of logistics and purchase systems. Successful commercial activity requires other factors too, such as a reliable financial background, proper level of publicity and number of discount sales, appropriate product variety attractive and satisfying for consumers, joint resale and direct sale for the consumers.

The concentration process of retail trade is a very complex process. On the one hand, the market shares of certain chains, the number of outlets, their capacities, variety and consequently their turnover gradually increases, and on the other hand, mergers and acquisitions occur frequently. (Parallel with the concentration of retail trade competition authority intervention may become necessary.) During the past few years there were numerous mergers in the food retail sector and the competition authority had many procedures, e.g. acquisition of SUPER KÖZÉRT Rt (VJ-166/1997) and ÉLIKER Rt (VJ-21/1999) by SPAR Magyarország Kereskedelmi Kft (Kft is the Hungarian type of a Limited Liability Company), the acquisition of BAKONY FÜSZÉRT Rt (Rt is the Hungarian type of a Public Limited Company) by MECSEK FÜSZÉRT Rt (Vj-55/1998), the acquisition of Alfa Rt. by Csemege-Julius Meidl (Vj-98/1999), the acquisition of Csemege-Julius Meidl by RANSART S.A. (Vj-97/1999), acquisition of METRO Holding Hungary and METRO Kft by METRO Cash&Carry (VJ-146/1999). As a result of their efficiency gains, furthermore because of the number and size of the competitors these transactions have not raised competition concerns from the point of view of the operation of economic competition.

## 2.8. Distribution in the retail food sector

Food distribution represents a considerable proportion of the retail turnover. (27 per cent of the population's spending goes to food and consumer goods, nevertheless the proportion of these products in the retail turnover is higher, because a substantial part of consumer spending derives from utilities and other services.) One of the characteristics of food retail selling is that they are carried out in "mixed" retail shops, rather, than in specialised stores. As a consequence, the turnover of retail trade of foods can not be determined precisely, but it can be calculated from consumption, domestic sales of food suppliers and import.

The most prominent distributors in the food industry are the large chains typically pursuing retail activity (Csemege-Julius Meidl, the Tengelmann group (Plusz and Kaiser's), SPAR,

TESCO, CORA, AUCHAN, PROFI, Penny Market), and the cooperative so called ÁFÉSZ-es with their nation-wide network of rather diverging-sized shops. Similarly considerable retail trade turnover is realised by the METRO Stores, a wholesaler enterprise otherwise, since the entrepreneurs buy also for their own consumption there. All these enterprises have a joint market share of about 30-35 percent in the retail turnover of foods (ÁFÉSZ stores are not included).

The performance of certain shops and retail outlets is strongly influenced by their ownership structure. For example, in 1999, after the European changes in ownership and structural movements, as a result of these changes, the Belgian Louis Delhaize group acquired control over Csemege-Julius Meinl Rt and Alfa Rt. The penetration of the French retail chains is becoming more and more significant, after the appearance of Cora and Auchan, Carrefour also contemplates investment in Hungary (in the form of greenfield investment or acquisition).

## **2.9. Retail purchase in the food sector**

The intensifying competition, and the fact, that large retail chains have their own, independent, large-scale purchases to large-capacity central storage-houses, made the introduction of new methods necessary in Hungary too, so purchase associations have appeared and spread. Retailers recognising the advantages of joint purchases have established the first purchase associations, which were enterprises having a few shops only at the beginning, or these were founded through the pooling of the traditional but disintegrated co-operative trade. Their aim is to assert more advantageous purchase conditions at the suppliers and producers as a result of higher volume of their joint purchases. At the same time, this induced purchase associations to use more developed logistics, organise better distribution and they recognised that in addition to cheaper purchasing it is also necessary to minimise every cost item occurring during the sale process.

Purchase associations vary greatly in their size, scope of their members' activity and conditions of operation. Presently, their most important feature is that their activity is limited to joint purchases, their sales have not been harmonised (apart from certain discount sales), although these associations try to produce the illusion of a "uniform chain", under the same name, appearance, quality-requirements and similar product supply. These standardisation endeavours may result in adjustment in sales first, than they may agree on similar selling conditions (first of all similar prices), which later however could lead to a restriction of competition.

It should be underlined, that the concentration level of food retail purchasing is higher than that calculated on the basis of sales. Large chains purchasing directly from producers are behind COOP Hungary Rt, which organises the activities of regional public limited companies established for the co-ordination of purchases by co-operatives (PRO COOP Rt) and the activities of two connecting FÜSZÉRT-s (Mecsek, Hétforrás) which are also in the ownership of co-operatives. METRO Stores, some smaller or larger purchase associations and specialised wholesalers (active mainly in tobacco and beverage/alcoholic drink distribution) and CBA, which was established in 1992 and by now supplies hundreds of shops should be mentioned as also significant players. Their joint market share could reach up to 60 per cent.

<i>The largest purchasers in Hungary</i>		
Name of the firm	Purchase (per cent)	Data source
METRO Hungary Kft	9,3	Estimation based on data supplied by the firms
ÁFEOSZ, COOP Hungary Rt	8,0	ÁFEOSZ data supply
CBA Trade Kft	6,5	Estimation based on data supplied by the firms
Csemege-Julius Meinl Rt	4,5	Data supplied by the firm
Honiker Kft	3,9	Estimation
Tengelmann group	3,5	Estimation based on data supplied by the firms
Spar Hungary Kft	2,9	Estimation based on data supplied by the firms
TESCO-Global Stores Rt	2,6	Estimation based on data supplied by the firms
Total	41,2	
Resource: data supplied by the firms, in: Takács Józsefné: Basic characteristics of wholesale and retail structure in food trade (1999, Budapest, Office of Economic Competition, manuscript)		

Due to lack of data supply Penny Market Kft, Profi Hungary Kft, the Cora and Auchan Stores cannot be found in the chart above, although according to company tax returns, the order of their purchases would justify their presence on the list. So, the top twelve companies' approx. 60 per cent market share should be understood with this correction. (It should be noted that since wholesale and retail activities can be pursued within the same enterprise and the products supplied are of great variety, moreover because of the characteristics of statistical data collection, figures on turnover and concentration can only be estimated. This is why "data" and indices with so many approximations can be found in daily and professional written media, which do not take into account these considerations at all, or which take into account these factors to a limited extent only. This explains for example, that aggregating mechanically the top ten enterprises - on the basis of highest turnovers realised - a figure as high as 65 percent can be computed for the concentration of food retail trade. These items of data contain overlaps with respect to wholesale and retail turnover, certain groups of enterprises are regarded as single enterprises, albeit they co-ordinate only a part of their purchases, furthermore they contain significant non-food turnovers of these enterprises.

### **3. Regulatory Objectives**

Some questions, complaints and real or imaginary injuries arise with regard to the large-size retailers both from the side of competitors and suppliers that may be problematic also from the competition policy point of view. The need for an operative treatment and regulation of the problems, has been voiced generally and with much emotion from many sides. The need for regulation is becoming stronger as in the developed market economies - although with different tradition and size - regulations or tendencies have appeared aiming to restrict the expansion and the tools of the large-size retailer.

### 3.1. Competitors and regulatory objectives

The small and medium-size competitors forced into an intensifying competition have to adapt to the changed circumstances, what they might find unfair and anticompetitive. In these circumstances it is not excluded that in a strongly concentrated market there is an abuse appearing in the form of restricting or eliminating the competition, for example predatory pricing.

However in the experience of the HCO, until now there has been no sign of the above mentioned situation in Hungary. In the competition created by the new and strong entry, the traditional, small and medium-size retailers need a completely new strategy for adjustment. One way of this might be joining a purchase association. In any case the defence of the weaker competitor by official, public tools is not an adequate solution.

The question of selling under the purchase price is a current theme and a frequent complaint against the retailer chains. The effort to eliminate this practice is getting particularly stronger from the part of the representatives of competitors and of small and medium-size retailer enterprises, but it is a thought-provoking fact and showing the complexity of the question that the largest retailers (in the best position in terms of purchase price) also support this drive. The way and extent of the regulation (which is - in the actual situation - a significant intervention into the competition through the functioning of the market), the parties interested, the possible sanctions of the prohibition, the responsibility and the sphere of competence are subjects of wide discussion.

In the view of the HCO the implications of the regulation are costly and doubtful, as opposed to the amount of the controversial advantages. It has not been properly thought over at which player the advantages of the regulation would appear, and it is difficult to comprehend and to abide by the prohibition of the sale below the purchase price. On the one hand, the purchase price is a complex factor, because for example several discounts granted to distributors or a share of the common marketing cost have to be deducted from the verifiable producer price effectively shown on the bill. Since the prohibition can not be general, the lack of full transparency gives rise to the cheating of the regulation. On the other hand, the prevention of the free movement of the price, which is the basic tool of competition, is against the mission of the office, the competition policy principles and the freedom of the economic competition. Such restrictions affect the above-mentioned efficiency factors and such sanctions of the lower price deriving from the more efficient operation hurt the competition.

Predatory price which is unjustifiably low represents the price category dealt with and managed by competition law. By using the predatory prices that is prices which are lower than the normally justifiable ones, the market player in dominant position can oust his competitors from the market, he can restrict the competition and after that increase the prices above the earlier level. In light of the above the price below the purchase price serving as a marketing tool, can not be compared to the predatory price as a part of an exclusionary strategy. A general prohibition would incur the above-mentioned negative effects while the real abusive behaviour has always had the right remedy. It must be noted that predatory pricing appears in practice mostly as the conduct of a producer, in certain forms of the retail trade usually it can not be used as a part of the company strategy because the market entry is relatively easy and there is a lot of competitors.

### 3.2. Producers' complaints and bargaining positions

The most frequent groups of complaint that come from the suppliers and producers, and concern the abuse of the buying power of the retail chains are the following:

- discount without reason, demand of unfair margin (for the supplied quantity, extorting a lower price from the producer with reference to the reliable contact, the mixing up of the wholesale and retail-trade prices), discount sales, definition and financing of promotions,
- returning of the products with expired guarantee or which could not be sold,
- delaying payment, postponement, payment connected to the last sale,
- demanding help against the competitor traders,
- achieving an attractive supply by making loss, or through a loss-making sale ( loss-leading - sale below value, which may hurt the reputation of the producer, and there is no defence against it like this since the RPM, the resale price maintenance is prohibited),
- slotting allowances, listing fee (the retailer can choose from the competing suppliers, and they must pay for the entry on the list and in the premises for the advantageous shelves),
- price and non-price discrimination which is produced by buyers,
- vertical restrains,
- and in general the abuse of the economic dependence which may appear directly or indirectly.

Mostly it depends on the habit of the buyers whether the producer or the retailer is in a stronger bargaining position. Namely, from point of view of the consumer, in the process of shopping there is a significant opportunity for increasing efficiency with respect to the time factor.

The most important factor influencing consumer habits (what, how much, where, at what price, when and how often to buy) is the price. The price demanded, achieved or simply haggled from the producers (which is an input price from the point of view of the retailer) has an effect on the final price of the product. It is also an important question to what extent the pricing policy appears as a dominant element within the operating strategy adopted by retailers.

So the bargaining position is influenced by the type of the given product and market, or the consumer habits, and all these determine the assessment and the task of the competition policy. As long as there is no harmful collusion between the chains or anticompetitive agreement concluded with the producer, the increasing market share emerges from the nature of the competition and it is not harmful for the effective player. So in such a case we feel the positive effects of competition (for example in the lower price). However if the concerned retailer abuses his bargaining position and exploits the producer's economic dependence, by intervening into its investment policy, the conditions of the production and transportation, the vertical contact thus evolved could be problematic with respect to the functioning of the economic competition. The behaviour of the large-size retailers by which they apply unjustifiably unfavourable business conditions to the small and medium-size producers must be analysed from the aspect of moderating the detrimental effects of evidently unequal power relations. Also if it is possible, a solution must be found for the creation equalising rules which are in conformity with the Civil Code (and which compensate the power relations by the restriction of the freedom of contract

for the benefit of the weaker actors). Such rules - appearing in a Government Decree - would be appropriate which could be applied without restriction of the economic and market mechanisms. The application of these rules could be controlled and in case of a breach sanctioned by the relevant ministry.

### **3.3. The protection of the competition and social problems**

The starting-point of the HCO is the defence of the competition, and not the defence of the weaker, less effective competitors, especially not by (restraining and limiting) rules that hurt public interest connected to the maintenance of the market competition serving economic effectiveness and social development. International experience and efforts also show that an artificial institutional intervention often distorts the competition instead of balancing it.

The international experiences support the national developments that serious social problems arise from the increase of the retail trade's concentration, and the expansion of the shopping centre and multinational chains. In the sharp-edged competition the small-sized retailers among whom there are a lot of forced entrepreneur can go bankrupt because the lack of capital and expert knowledge. There was a change both in the consumer, the shopping and the entertainment habits, and as the last two things are often linked, the building of the retail chains and shopping centres has a contestable effect on the cityscape, the traffic, the air and environmental pollution, the environment and the town planning. From the part of trade unions and the civil organisations many questions and complaints arose in connection to the shop hours of the stores and the employment problems. Although we do not dispute that the above-mentioned questions are important, the HCO can not deal with these questions as question concerning the competition.

While deciding the introduction of a regulation one has to consider its costs, which partly occur through the restriction of the competition. According to our present knowledge the intervention is not desirable. The artificial intervention retards the efficiency, hinders the natural process of the correction and equalisation, it is static, does not keep up with the changes, it can be inflexible in respect to the distribution of the advantages and disadvantages. It is the responsibility of the regulator what will be the result of the intervention, since the restraint of the efficiency can yield the competitiveness of the economy. The decision-makers have to see that the regulation can bring negative effects beside the expected positive ones. Furthermore the effectiveness and the enforcement of the regulation aiming to influence directly the business policy is questionable, especially because the responsibility of the intervening person concerning the operation of the market is hard to assess and control.

A country-wide or local regulation based not on competition policy but other aspects, for example social, lifestyle, or city-planning criteria, could be justified. The need for such a regulation is particularly understandable considering that the change of the retail trade is far quicker than in other countries which have otherwise left us behind in this field, and therefore the effects of the rearrangement present a challenge both for the social and the concerned market actors.

### **3.4. International experiences in the handling of buyer power**

The Hungarian topicality of the current issue renders the international experiences and the way of handling the buyer power interesting, with special regard to sales below the cost of purchase or production. The national characteristics and the stage of development also have to be considered when drawing on other countries' experience. In Hungary the questions of buyer

power of supermarkets and the related safeguarding of interests are popular topics in the media, both when local or international problems are at issue.

Experiences of OECD countries demonstrate the existence or will of some kind of a regulation on pricing, differing from country to country depending on the concept of public interest and economic policy followed. However a solution satisfying all interested parties, hasn't appeared yet. Important factors of the process are the book-keeping system and transparency of the operation of retail chains, the basic principles of economic policy related to the competition policy, the power of trade unions, the degree of concentration and the speed of the concentration process.

In 1994 the McKinsey Global Institute<sup>10</sup> made an analysis on employment issues in the retail sector. The publication pointed out the fact that the barriers of market entry (such as limitation of opening hours and of zones or the right of veto given to the existing retailers, etc.), under certain conditions, may increase the anti-competitive nature of vertical restraints in the retail sector. These administrative restrictions may block the increase of employment and value-creation, may limit the purchase choice of consumers and, contrary to their original target, they do not protect the individual traders, who are existing outside the chain, since the number of small shops is gradually shrinking.

In 1998 three members of the staff of the Office of Fair Trading<sup>11</sup> (Paul Dobson, Michael Waterson and Alex Chu) released a publication on the economic effect of buyer power. The report on retail sector was met by great interest since the authors concluded that the concentration in the food retail sector had not resulted in lower consumer prices but in higher margins. The scepticism of the researchers, however, is not reinforced by the practice or the theoretical background.

In 1981 the Monopolies and Mergers Commission<sup>12</sup> made a wide ranging assessment on margins and discounts applied by retailers. They found that the discounts, which were gained from the suppliers through the buyer power of the largest supermarkets eventually benefited the consumers due to the lower prices. The three experts of the OFT however were dealing with the problem theoretically during the time when they were also taking part (and they still do) in the assessment of the end of the century on the profitability of retail chains.

In the view of the authors the buyer power and the seller power are going hand in hand which undermines the competition between the traders and the suppliers. Also the consumers do not benefit from the increased margin related to the concentration in the food retail sector. The buyer power is defined as the situation where an enterprise or a group of enterprises get more favourable conditions from their supplier than which would be available or expectable for others or in normal competition conditions. A simple definition of buyer power, based on the differences between prices only, however, might lead to unnecessary investigations of the OFT, since the price gap might be caused by different costs of supply or the different conditions of contracts. The authors emphasised also the danger of generalisation and stated that, in spite of the same tendencies detected in the EU Member States and other countries, the British experiences might not be used directly in other parts of the world. The buyer (or seller) power of retailers cannot be evaluated, picking it out from its economic circumstances, its proper place and time, and its competition relations.

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<sup>10</sup> [www.pwcglobal.uk.cok](http://www.pwcglobal.uk.cok) - Comments on the Study by Paul Dobson-Michael Waterson-Alex Chu : The Welfare Consequences of the Exercise of Buyer Power (Office of Fair Trading, Research Paper 16, September 1998)

<sup>11</sup> See before

<sup>12</sup> See before



In addition to the research work, more and more competition supervision proceedings and market assessments are launched by the competition authorities on supermarkets to find out whether they are in a dominant position (compared to their competitors or suppliers), if they are abusing it or operating against the public interest.

## **4. Some questions of the retail trade economy**

### **4.1. The role of retail trade**

Important elements of the economics of retail trade are the characteristics of consumers (small, immobile, not well-informed), the dimensions of competition (geographic location, range of products, image of retail chain), and the vertical restraints. The retail trade protects (indirectly) the small, weak and uninformed consumers from the producer by gathering the demand and making the bargaining position of consumers stronger. The retail trade has a threefold function: (1) managing the relation with the producers, (2) carrying out logistic work (stockpiling, distribution, etc.) and (3) keeping and improving the relations with consumers.

The retailer - if its power and opportunity makes it possible - does and tries to intervene in the supply chain and the process of production. Behind the so-called supply chain management are such factors and requirements from the trader's point of view as:

- safeguarding the requirements for quality,
- levelling the information asymmetry,
- improving the co-ordination, opportunity for quick answer, just-in-time distribution,
- trading of exclusive products.

No wonder that, within these circumstances, the role of wholesale trade has reduced and the structure of trade has changed.

There are some links between suppliers and retailers which define their relations and their position of bargaining. The location of the shop, its furnishing and the shelves where the consumers can find the product etc. are important. Often, the retailers keep their own brands at the best and most conspicuous places, , since these brands produce a higher profit. That is why these are the most promoted products by the retailers. The producers also have requirements regarding the shop staff's skills, their methods of work and sometimes they offer to finance the education of the staff (or, sometimes, the retailers require this). The joint sales campaigns and promotions are also important factors, however the equality of their contribution to the financing is often questionable.

### **4.2. Dimensions of the competition in retail trade**

The manifestations of horizontal dimensions of the competition in retail trade could be:

- price-, cost-effectiveness, economies of scale and scope,
- geographical advantages,

- selection of products (quality and range),
- quality and structure of retail service.

There are "free-rider" competitors exploiting the high quality investments of traders aimed at quality service. The lower-quality (and costs) service induce lower prices, because customers often purchase in a cheaper shop before or after buying products in a shop providing higher-quality trading services at a "higher" price. The free-rider problem is often solved by vertical restraints.

Where the mutual interest of producers and traders goes against their individual interests both parties are able to use the vertical restraint against one another's interest to protect their mutual interest.

Vertical restraints, imposed by the producers on retailers, could be the following:

- recommended resale prices and resale price maintenance,
- non-linear producers' prices (franchise charges, discount-discrimination),
- quantitative requirements (in turnover and storage),
- enforcement of selling of the full range of a product,
- geographical exclusivity,
- refusal of service.

The bargaining power of the retail trade, however, became stronger in the past decade. Due to the changed power relations the traders may impose the following vertical restraints on the producers:

- exclusive service,
- refusing storing, exclusion from list,
- minimal supply levels,
- minimal advertising requirements,
- opportunity cost,
- price discrimination and sales at a loss.

The order of the above roles in the bargaining power is not accidental, it reflects the course of historical events. Although, traditionally, from the economics point of view the producers have been regarded as the determining party, today, in the viewpoint of economic policy, the market conduct of the large retailers is more influential.

#### **4.3. Manifestation of the buyer power**

In summary, a retailer with strong market position may apply the following strategic buyer practices:

*Slotting allowances*

The retailer requires payment from the suppliers to display their goods on the appropriate shelf space. Even in large supermarkets the shelves are finite, space supply is limited, so the goods compete for shelves. Of course, there are goods (items used daily, individual products) whose sales are necessary for the retailer. For these products the retailer can not charge high fees, but the secondary brands -to use this ugly expression- are put under such pressure.

*Exclusive distribution*

An exclusive or sole distribution agreement makes it possible to extract concessions from the suppliers. This practice is related to conditional purchases.

*Conditional purchase behaviour*

This means the purchase of goods only at the condition of significant concessions made by the suppliers. This behaviour has two categories. The first is where a purchaser is in such a dominant position in comparison with a supplier that the purchaser's business - at least in the short and medium term - becomes vital for the supplier, so the buyer can extract lower prices from the supplier, in part because of assured orders, or because there is no alternative. The second type is where the buyer will buy only on condition that other retailers and outlets are not supplied with the product or with a similar version of the product. For example, retailers complain when discount shops are also supplied with the same product.

*Exclusivity contracts*

It is problematic why a seller might agree to an exclusionary contract. There might be some desire to foreclose the market and thereby allow for higher prices which are profitable both for the retailer and the supplier. On the other hand the tight buyer-seller relation which excludes the externalities resulted from the independence, through the double marginalisation does not allow the retailer to receive alone all the benefits of the improved sales and the seller to enjoy alone the benefits of the product development or of the reduction of costs. Of course it is possible that the retailer at first offers favourable exclusionary terms, then after the conclusion of the contract the conditions of the business step by step become worse. It is also possible that the retailer loosens its constraints if other retailers are competing (with exclusivity contracts) for the given supplier's favour, too.

*Cloning behaviour*

The protection of brand names, trade marks, patents may vary from system to system what might offer opportunity for abuse. The own-label products of the retailers are often close (and, because of the elimination of the additional costs, cheaper) copies of the carefully designed, developed and tested manufacturers' products, but they attract away customers from their suppliers because of the prices or the discounts and promotions of the own-label products. It often occurs that retailers make their suppliers manufacture the products that will be sold under the name of the retailers' own-label.

*Joint marketing*

This means compelling the producer to engage in a joint promotion exercise. This category may involve a number of different practices: a special discount price which only applies to the retailer's customers, a unique package for customers, a joint advertising campaign. It might be beneficial for both parties, but may be the source of unequal benefits as well.

*Predatory buying of inputs*

As a strong seller can drive his potential rivals out of the market by pricing low, a retailer may seek to expand its purchases to force out a rival by driving up factor prices. This cost-raising strategy is especially effective where the competitors have no alternative because of the scarcity of the resources, the specialised labour and high-quality raw materials.

*Strategic purchasing of facilities*

Control of the essential facilities for distribution is a general feature of privatised public utilities. Therefore the access conditions (pricing) are usually regulated to prevent the abuse of the dominant market position. Nowadays the large supermarkets represent the form of access where the producers meet the final consumers. While these large retailers often operate on national or on an even wider market, the manufacturers might distribute their products only in a much more limited area.

*Reciprocal dealing*

It is related to monopsonistic buyer purchasing from a specific seller on condition that the seller is also going to buy products from the buyer.

The real effect of the mentioned various practices is unclear, it might be beneficial and harmful, too. Whether the practice is a simple marketing tool or a problematic, competition-restricting activity is highly affected by the given environment (competitors, suppliers, consumers, regulators) and by the structure, characteristics and concentration-level of the market.

*Exclusion from the list*

A serious punishment affecting the producers, that is the supply side, is exclusion from the list. It is a kind of menace: if the producer does not yield to the retailer, does not pay slotting allowances or in another way puts his foot down, the strong retailer abusing his market position may take out the producer from his list of suppliers. If the accustomed consumer does not find an excluded product on the shelves, she would either not buy anything, because it was a specific not-substitutable impulsive product (both parties lose profit), or would buy it somewhere else (delaying, the excluded retailer loses profit), or in the long run would choose another store (the retailer loses a lot: whole consumers' "baskets"), or would choose another product or brand (the producer loses).

Beside the characteristics of the product and the consumer's mood, the strategy chosen by the consumer depends for example on the proportion of the cost of switching brands (CSB) and the cost of switching stores (CSS). Lower value means bigger strength. But if the consumer can easily switch stores and shops it is likely that the retailer would consider whether to exclude one of his suppliers or not. This makes it possible to take advantage of the economies of scope.

*Terms of business*

Retailers might act together to improve their position against their suppliers, but as this kind of action is forbidden by law, they can do it under the practice of tacit "standard terms of business". There are broadly used tacitly agreed contract terms which include for example „the usual” sharing of promotional costs between buyers and sellers. To make the purchase easier and to make the bargaining position stronger the purchasing associations are increasingly popular.

#### 4.4. Some policy questions

When tackling retailer competition problems the parties involved meet a couple of factors which should be taken into consideration, such as directives which should be followed, traditions, experiences and novelties. The Hungarian retail trade statistics are very complex, often deficient and less reliable, their utilisation is a question of attitude and interpretation. The comparison of certain data, observations based on different aspects, values estimated by different methods is especially problematic. However there are always some undisputed facts and quasi indisputable intuitions. For the economic policy considerations the following are the main questions related to the buyer power assessment:

Questions	Relevant evidence
1. Is there significant buyer power? "Significant power" here means the ability to have a material effect on prices set or negotiated, on quantities exchanged, or on the viability of traders at one or more stages of the production/distribution cycle.	A significant proportion of the whole product purchased by this firm.  Significant agreements on terms of purchase by this firm.
2. Is the buyer power facing relatively powerless suppliers? If so, it is more likely that buyer power has policy implications. By contrast, if buyer power is linked with significant seller power at the upstream stage then it is more likely that the existence or enhancement of buyer power is beneficial.	Absence of evidence that suppliers dictate terms of sale.  Low seller concentration in the upstream market.
3. Does the buyer itself have significant seller power? If so, then buyer power may serve as a means of strategically enhancing seller power in the downstream market, raising thereby potentially adverse effects.	Normal means of assessing seller power (on the downstream market)
4. Does the buyer attempt to constrain its suppliers' other actions? If so, such an arrangement should be treated with reservations.	Evidence of exclusive supply requirements, specific custom designs or arrangements, idiosyncratic specification, etc.
5. Are there significant productive efficiency gains associated with buyer power? If so, then there may be an efficiency justification for the presence of buyer power.	Pecuniary or other economies of scale indicating natural monopsony tendency (ie: average costs lowered by buying undertaken by a single party).
Source: Paul Dobson-Michael Waterson-Alex Chu : The Welfare Consequences of the Exercise of Buyer Power (Office of Fair Trading, Research Paper 16, September 1998)	





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