

The Danish grocery market

The yearly revenue in the Danish grocery market amounts to 105 billion DKK, which means that groceries on average represent 15 percent of the Danish household's total consumption. Hence, the Danish grocery market is a big and important market for the Danish consumers.

The Danish grocery market is characterized by high market concentration both amongst retailers and suppliers. In retail, the three largest grocery chains have a combined market share of 89 percent. Foreign supermarket chains have a market share of 11 percent and they are only present in the segment for discount stores. Among the suppliers there are only one to three major suppliers who account for the majority of the sales in the individual product categories (e.g. dairies, bread, soft drinks, beer, etc.).

The Danish grocery prices are the highest among the EU7 countries (Belgium, Denmark, Finland, France, Germany, Italy and The Netherlands). At the same time, the productivity in the sector is lower than in other Nordic countries.

In 2008 and 2009 the Danish Competition Authority conducted two downstream studies regarding the development in consumer prices and profit margins of the following product categories: bread, flour, butter and milk. Both studies showed signs of non-optimal competition within these products.

The combination of the above mentioned studies, high concentration in the grocery market, higher Danish prices and lower productivity indicates non-optimal competition in the grocery market.

Based on these findings the Danish Competition Authority has conducted a study of the competition among the retailers and the suppliers in the Danish grocery market.

The analysis of the trade and cooperation taking place between suppliers and retailers shows that the high concentration among the retailers gives the retailers a significant bargaining power over the suppliers. This market power plays a big part in alleviating adverse effects that could stem from situations where big suppliers try to limit fair competition in the market by, for instance, putting restric-

tions on the retailers ability to do business with other suppliers. There is, thus, no evidence that large suppliers can use their market position to foreclose competing suppliers from the market. The retailers can furthermore use their bargaining power to obtain favourable terms in form of e.g. lower supplier prices. The high concentration among the retailers can to a high degree offset behaviour by suppliers that otherwise could hamper the competition.

Retailers have in some areas extensive knowledge of their competitor's daily operation. By buying data from The Nielsen Company the retailers gets access to information regarding their competitor's prices and sales volume. Although the information entails a higher degree of transparency between the competing retailers, there is no sign that it leads to competition limiting behaviour in the grocery market.

Each week the retailers publish more than 600 pages of ads with special offerings on their products which are distributed to most Danish households by mail. Printing and distribution alone costs approximately 2 billion DKK annually. An analysis on selected brands shows that many of the most popular brands are almost always on offer in at least one of the nationwide chains. For selected brands the price of the special offer is on average 30 percent lower than the regular price. The widespread use of special offers and big price reductions must be seen as an indication of the market players actively competing for the consumers.

However, the study show that the widespread use of special offers is not unambiguously good for consumers – even though the offers give the active consumer an opportunity for buying the goods at low prices. One reason is that the regular prices are set relatively high to finance the expenses incurred by the retailers and the suppliers when giving special offers, and also to make the price reductions on the offers seems bigger. A study has shown that the new and more strict rules in the Marketing Practices Act, which came into force the 1st of March 2010, has led to a reduction of the regular prices on some of the most popular brands.

A consequence of the comprehensive use of special offers is that prices on many of the most popular goods (on offer) change from week to week within the same store and from chain to chain. This entails high search costs, because the many and changing offers makes it time consuming for consumers to identify the best market prices and to act upon them. Hence, many consumers ends up paying the higher regular prices, and consumers who are actively searching for the best offers, incurs cost in terms of the time they spent on searching the market for the best offers.

The current structure with high concentration among a few large grocery chains may be seen as a result of many years of competition, where the chains have been

able to exploit the economies of scale that are present in the grocery market, and thereby has eliminated many smaller and less efficient stores and chains.

Even though there has been a move towards larger supermarkets in Denmark, the move hasn't been as fast as in many other comparable countries. This is to a large part due to barriers created by the laws that regulate the Danish grocery market, which leads to a lower pressure on competition. The lack of competitive pressure results in a lower productivity and productivity growth in the grocery market.

The Planning Act, which regulates the size and location of shops and the Danish Act on shop opening hours, which regulates retail opening hours have helped to create a structure with many smaller supermarkets relative to comparable countries. Such a structure leads to a lower productivity because smaller supermarkets *ceteris paribus* are less productive than larger ones due to economies of scale. Furthermore, the law on hours of closing has hindered the larger stores to exploit their full capacity because their opening hours have been restricted to predetermined time slots.

A phase-out of the Danish Act on shop opening hours was adopted in 2010, and in 2012 only opening hours on holidays will be regulated by the Act. This liberalization increases competition for consumers on Sundays and are likely to enhance productivity growth in the sector.

An amendment to the Planning Act, which permits establishment of several large stores in Denmark, can improve productivity because many of the smaller and medium sized supermarkets will be replaced by the more productive hypermarkets. A tender where the permits to construct hypermarkets are grouped into larger pools will also make it more attractive for foreign supermarket chains to enter the Danish market. This could increase market competition and foster further productivity gains.

Main conclusions:

- **High concentration among both food retailers and suppliers:** The three largest grocery chains account for 89 per cent of total sales in groceries. Foreign chains account for 11 per cent of the market and is only represented in the discount segment. There are typically one to three major suppliers who account for the majority of the sales in each product category.
- **High food prices, low productivity:** The prices for Danish groceries are 10 percent higher than in comparable countries when adjusted for taxes but not for income inequalities nor for differences in the extent of special offerings. However, it is esti-

mated that the sum of these factors can not explain the full price difference of 10 percent. Productivity amongst retailers is lower than in other Nordic countries.

- **The grocery chains have the upper hand in the negotiations with the suppliers, which reduces the likelihood of anticompetitive conduct by suppliers:** The high concentration among retailers give them greater bargaining power over the suppliers. This bargaining power enables the retailers to obtain better terms of trade e.g. lower prices. In addition, the retailers bargaining power serves to counteract the major suppliers from exploiting their position and thereby hampering the competition.
- **Information exchange in the industry hardly hampers competition:** The retailers share certain information about their sales through the services of The Nielsen Company, including information on prices and supermarkets' sales. However, it is the assessment that this information exchange does not restrict competition.
- **The use of special offerings in the supermarkets reflects that the players in the market compete for the customers:** Many brands can virtually always be found on offer in at least one of the nationwide supermarket chains. For selected products the price for special offers is on average 30 percent lower than the regular price and some products are – when on offer – sold for prices below their cost.
- **The comprehensive use of special offerings leads to increasing costs for consumers through high regular prices and high search costs:** In order to finance the special offerings and to make the offers seem more attractive, the regular prices are set relatively high. Consumers who wish to buy at the lowest prices have high search costs. This is because prices (as a result of the many special offerings) vary from week to week and from chain to chain: Hence, it is time consuming to identify the best prices, and to visit the different supermarkets to get hold of the different products.
- **The Danish retail structure with many smaller supermarkets leads to a lower productivity among retailers than abroad:** The Danish retail sector for groceries is characterized by many small supermarkets situated close to each other and few hypermarkets. Such retail structure leads to lower productivity because smaller supermarkets can not exploit the same economies of scale as large supermarkets.
- **Permission to establish hypermarkets can increase competition and productivity in the market:** A change in the Planning Act that allows for several large stores, including hypermarkets, can increase productivity in the market because of economies of scale. Permission to construct hypermarkets can make it more attractive for foreign players to enter the Danish market, which will increase competition in retailing and thereby contributing to further productivity increases. For example, a liberalization of the Planning Act in Sweden led to significantly higher productivity

growth.

- **Overall, the analysis shows evidence that the existing players in the grocery market actively compete for consumers. Regulatory barriers, particularly the Planning Act, however, impede the development of the retail structure. This implies that competitive pressures and productivity is lower and grocery prices are higher than they otherwise might be.**