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The Commission's food retail study – not enough food for thought

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In October 2014, the Commission published the result of its long-awaited [food retail study](#). The study provides an extensive empirical analysis of the impact of bargaining power and private label on choice and innovation. However, the study suffers from a crucial shortcoming: none of the countries with high levels of retail concentration have been included in the empirical analysis. As such, the study does not really deliver on its promise to investigate the impact of retail concentration and is unlikely to quell the debate on this issue.

Part of a longer term review of retail market dynamics, the study was launched following complaints raised by various stakeholders that retailer buyer power and the increasing importance of private label may negatively impact on choice and innovation. Similar concerns have been expressed in a number of contributions in the economic literature (example [here](#)). The key aim of the study was to examine these concerns empirically.

As part of the study, an extensive dataset was compiled in order to be able to undertake an econometric study of the driving factors behind the development of choice and innovation over time. Of particular interest was how each of choice and innovation are influenced by (i) retailer concentration; (ii) supplier concentration; (iii) the relative bargaining power of retailers and suppliers; and (iv) the share of private label. An econometric analysis is capable of “isolating” the impact of each of these factors, controlling for the impact of other factors that may also have an impact (for example, GDP or unemployment).

The study was undertaken at local level and included a total of 300 shops situated in seven countries. (Some qualitative case studies were also undertaken for a number of categories, half of which relating to fresh products, covering a small number of additional countries.)

One of the key findings of the study is that in moderately concentrated retail markets, an increase in retailer bargaining power does not seem to result in less choice and innovation in food products. Up to a point, the same conclusion was reached for the share of private label. Once the share of private label increases beyond a certain point, private label may become detrimental for choice and innovation.

A crucial limitation of the study is however that the empirical analysis is based on data from just a handful of countries. Moreover, as it happens, none of these countries include countries with highly concentrated retail markets. (The limitation is due to the data at local level, required given

the study's set-up, not being available for many countries.)

To illustrate, using the key measure of concentration relied on in the study, the Herfindahl-Hirschman index (HHI) for the seven countries included in the study ranged from 1200 to 2000 with an average of 1600. Conversely, the HHI for the 18 countries not included in the study ranges from 1700 to 3900 with an average of 2400. (All figures are for 2012 and have been rounded. A market may be considered moderately concentrated if the HHI exceeds 1500; a HHI value in excess of 2500 typically is taken to signal a concentrated market.)

This being the case, the study does not really deliver on its promise to investigate the impact on retail concentration on choice and innovation. It is not possible to investigate this impact if none of the countries with high levels of retail concentration are actually included in the study. In short: the study does not provide enough food for thought.

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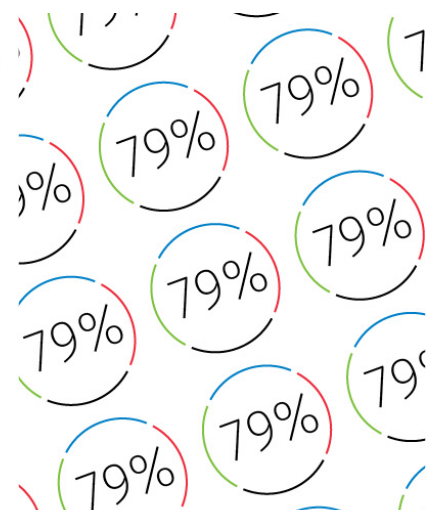
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Source: OECD [Consumer welfare](#)

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