Power of Supply and demand in Germany: The Retailer-Manufacturer Relationship in the German Food Market – a study by order of HDE –

Institut für Handelsforschung

BBE Retail Experts

Brussels, 09. Dezember 2009




Agenda

1. Background
   - The Mandate
   - The Proceeding
   - The Concept of Power of Demand
   - The European Discussion
   - The Functions of the Retail Sector
2. Analysis of the Market Structure
3. Results of the Consumer Research
4. The Role of Private Label
5. Conclusion

Background

The Concept of Power of Demand

The term power of demand describes the ability of a representative of a buyer-organisation to enforce the terms and conditions of the exchange in favour for the goals of the own company against representatives of a seller-organisation.

In this connection, it has to be distinguished between the concept of power of demand and the term of market power.
The latter refers to individual bilateral relations between one buyer and one supplier, while, in contrast, the concept of power of demand focusses a supplier`s market position in a specific market.

Therefore, the Concept of Power of Demand has to be defined precisely.

Agenda

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1. Background
2. Analysis of the Market Structure
   - Definition of the Relevant Market
   - The Structure of the Total Market
   - Analysis of Individual Product-/Commodity-Groups
3. Results of the Consumer Research
4. The Role of Private Label
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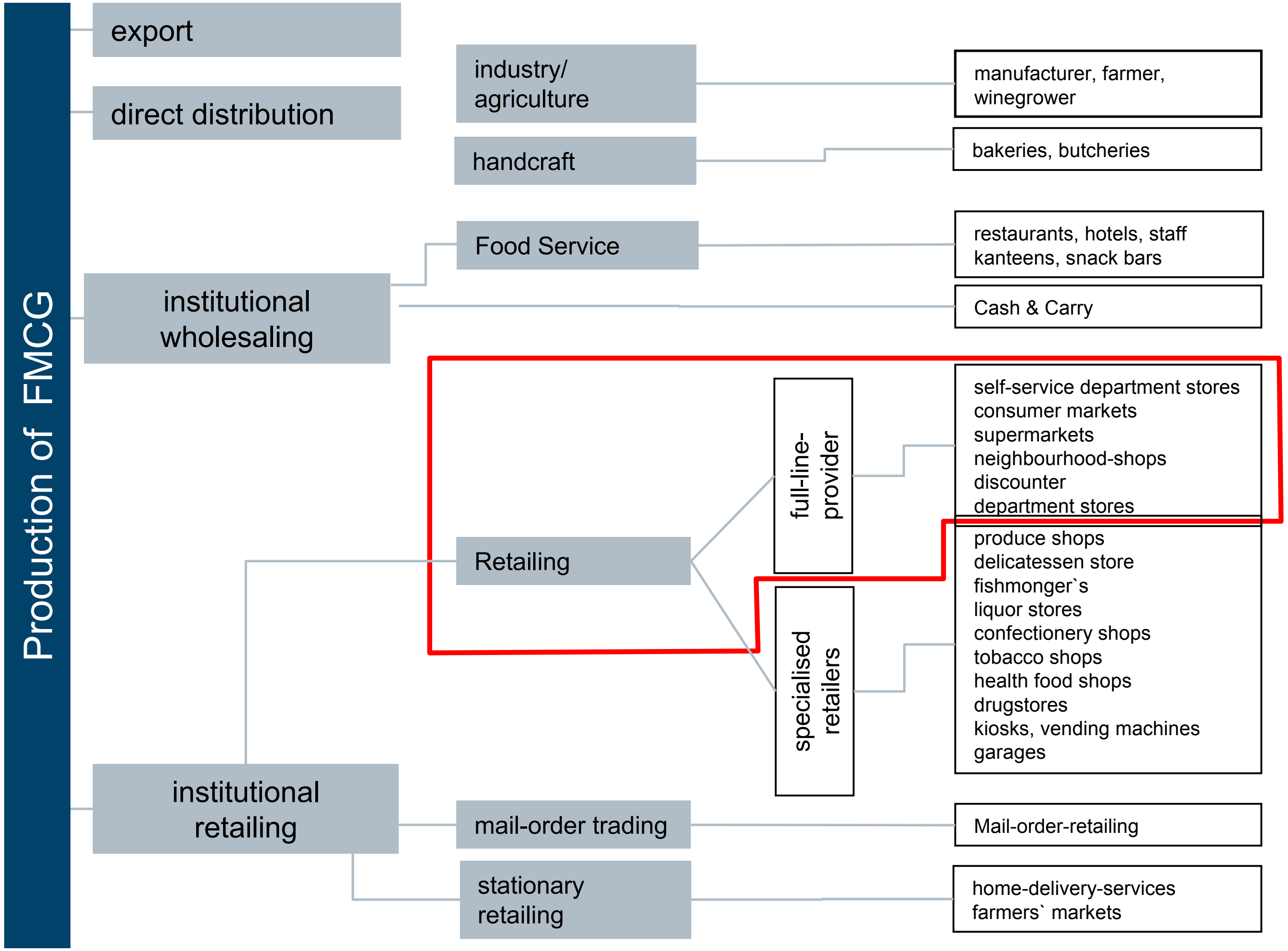
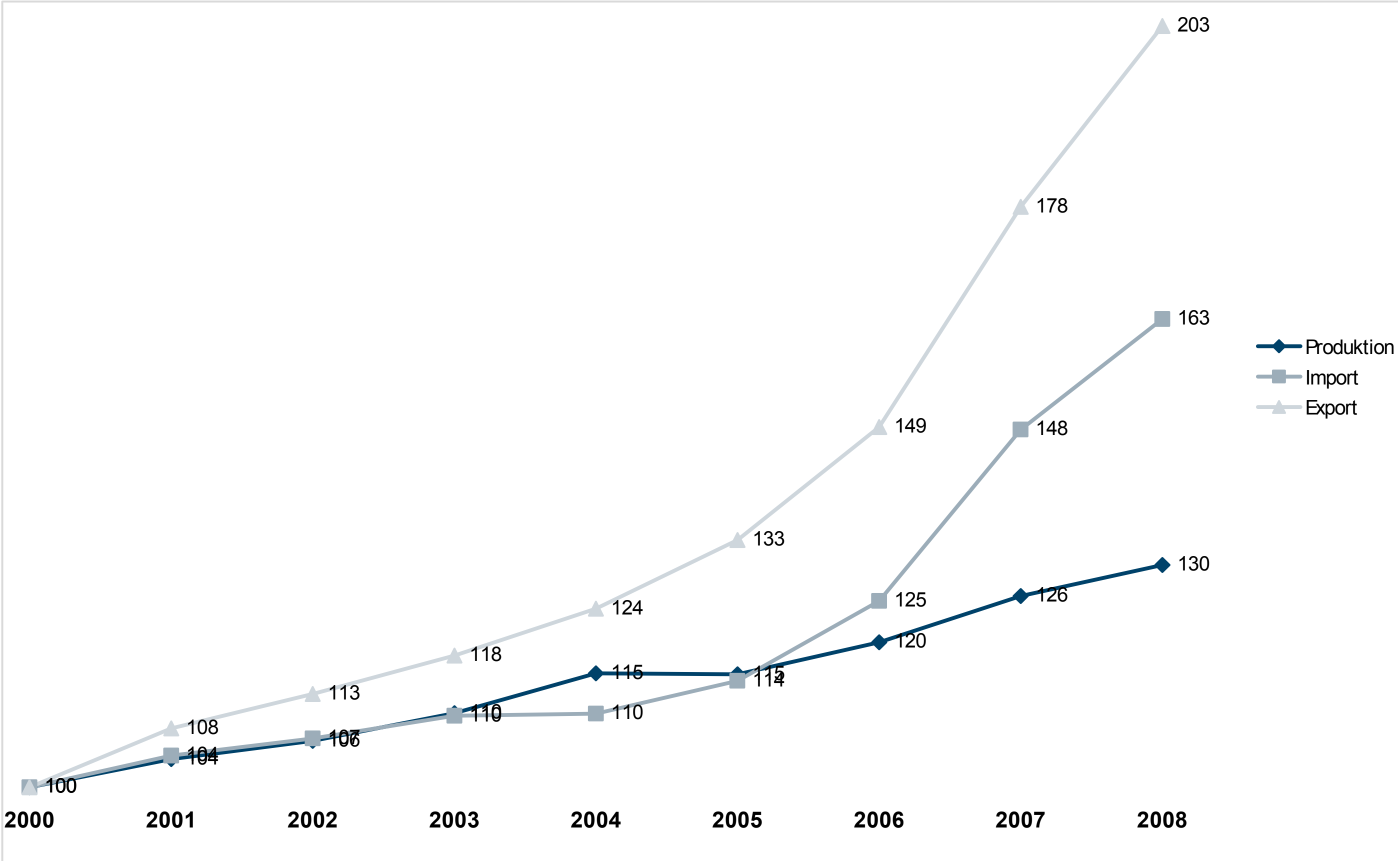
Analysis of the Market Structure
Overview of Relevant Distribution Channels



Source: according to Trade Dimensions 2008.

Alternative Distribution-Channel: Export

Index-development production, import and export of FMCG 2000-2008



Source: BBE RETAIL EXPERTS, Statistisches Bundesamt, production statistics, foreign trade statistics

Analysis of the Market Structure

Alternative Distribution-Channel: Food-Service

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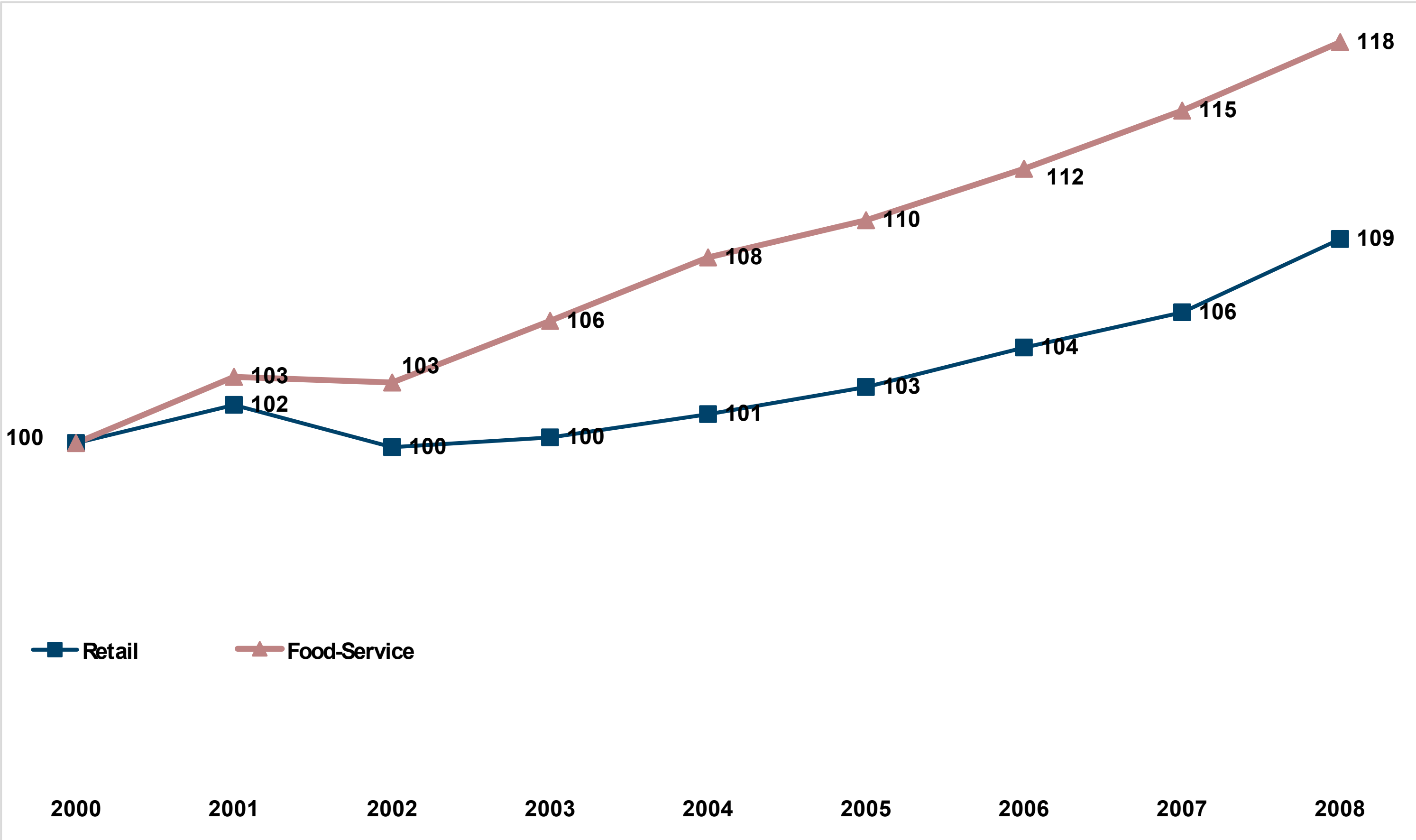
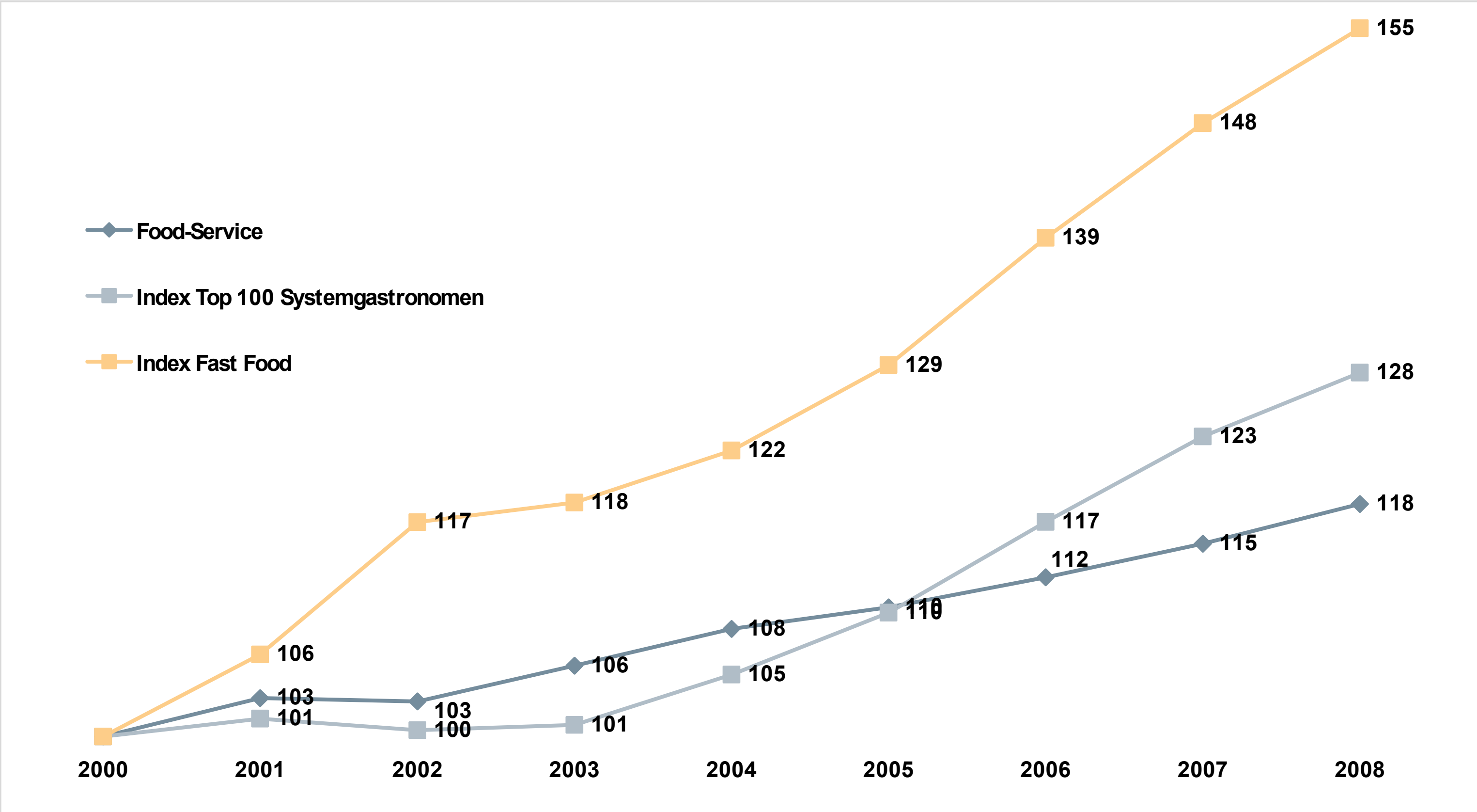
Index-development of sales Food Service and Retail



Source: BBE RETAIL EXPERTS, company statistics, dehoga, association reports, press reports.

Analysis of the Market Structure
Alternative Distribution-Channel: Food-Service

Index-development of sales Food-Service, restaurant chains and Fast Food restaurant chains, 2000-2008



Source: BBE RETAIL EXPERTS, company statistics, dehoga, association reports, press reports.

Analysis of the Market Structure
The Relationship between Manufacturer and Retailer

The previous discussion on proportions of power in food retailing mainly focussed on the constellation **"strong retailer versus weak manufacturer"**.

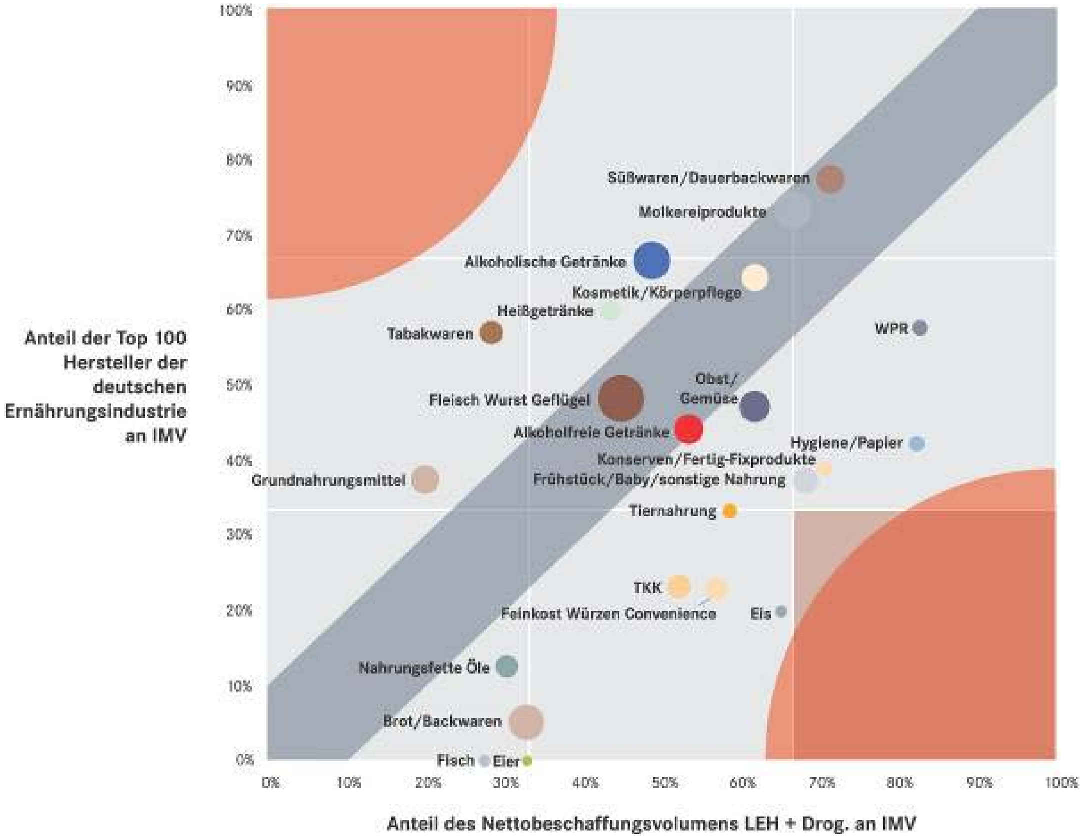
Source: Institut für Handelsforschung (IfH)

Analysis of the Market Structure

9-Field-Portfolio by Product-group: TOP 100

Production volume of the top 100 manufacturers in the food industry and the net-buying-volume of retailers and drugstores

- relative equilibrium
  - confectionery/long-life bakery product/ snacks
  - dairy products
  - personal hygiene and cosmetics
  - meat and meat products
  - alcoholic drinks
- No product-group is situated within the critical fields 1 or 9

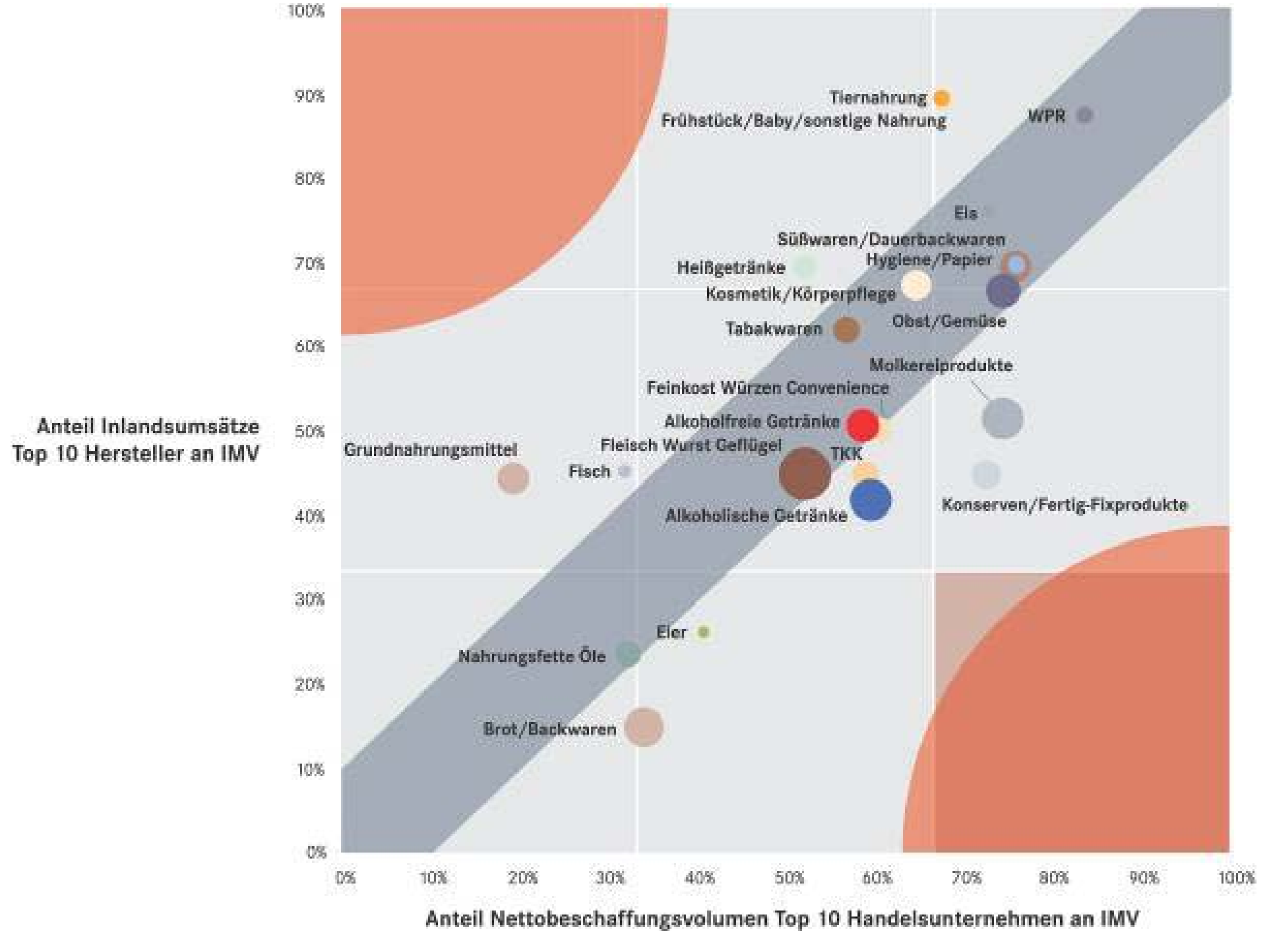


Source: Top 100 Hersteller Ranking Lebensmittelzeitung, Bundesanzeiger, press reports.

Analysis of the Market Structure

9-Field-Portfolio by Product-group: TOP 10

Domestic-turnover of the top 10 manufacturers vs. net-buying-volume of the top 10 retailers according to product-group



Source: BBE RETAIL EXPERTS

Analysis of the Market Structure

9-Field-Portfolio by Product-group: TOP 5

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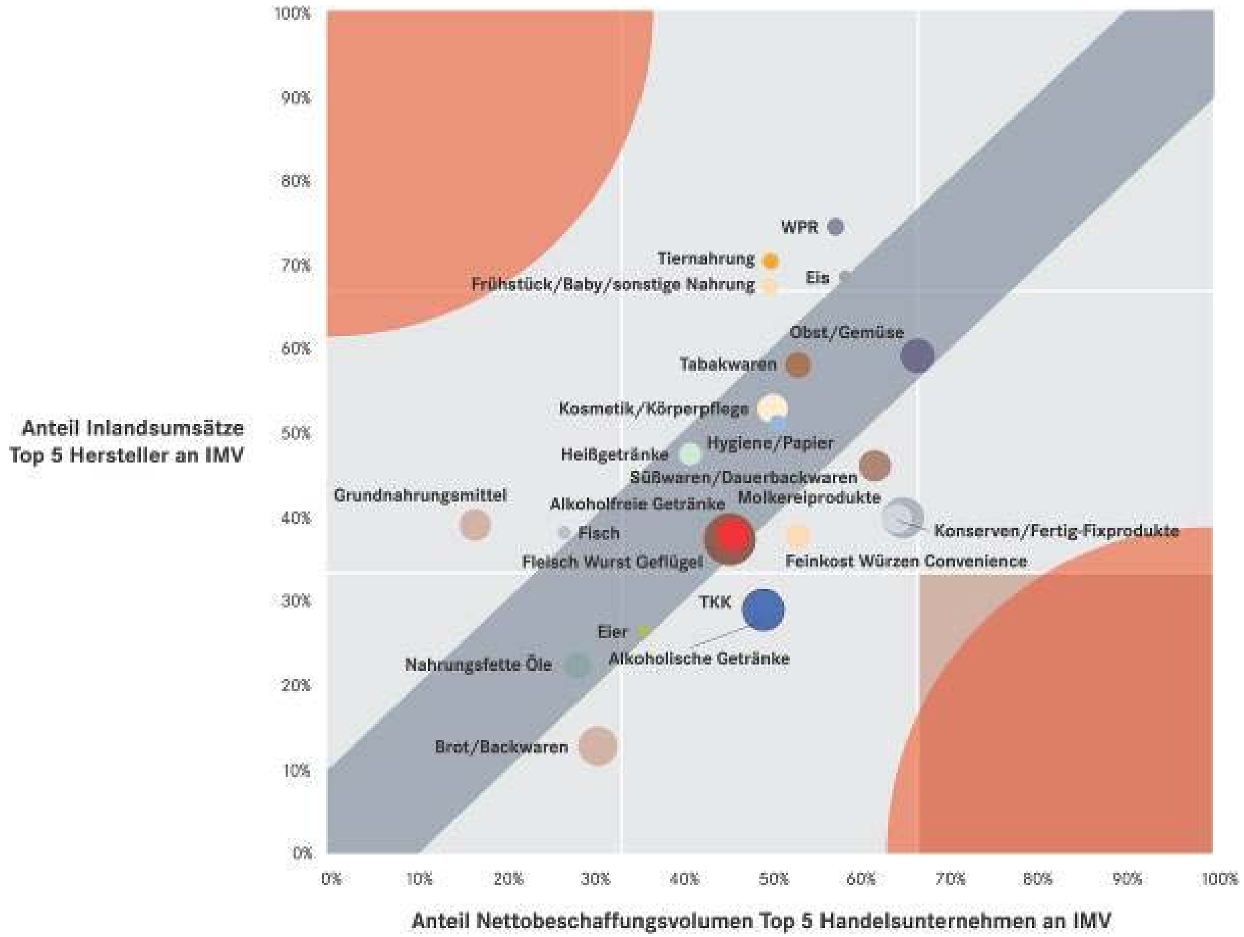
Domestic-turnover of the top 5 manufacturers vs. net-buying-volume of the top 5 retailers according to product-group

- no substantial alteration of the conclusions
- none of the 22 product-groups close in on the critical area
- half of the product-groups show a relative balance in size within a bandwidth of 10%



Source: BBE RETAIL EXPERTS

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1. Background
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3. Results of the Consumer Research
   - The Research Model
   - The Conception
   - The Results
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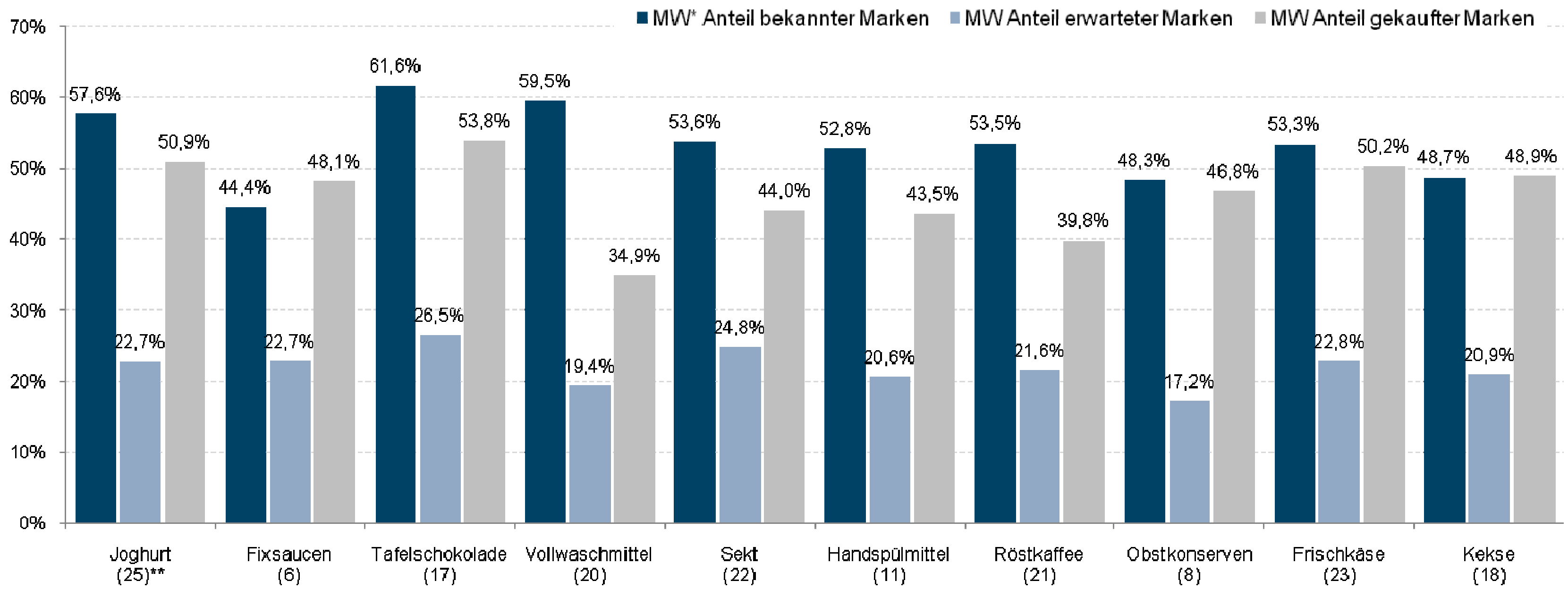
Consumer Research

Fractions of common, expected and purchased brands



MW bekannter Marken	14,4	2,7	10,5	11,9	11,8	5,8	11,2	3,9	12,3	8,8
MW erwarteter Marken	5,7	1,4	4,5	3,9	5,4	2,3	4,5	1,4	5,2	3,8
MW gekaufter Marken	12,7	2,9	9,2	7,0	9,7	4,8	8,4	3,7	11,5	8,8

** MW = Mittelwert*

*** Anzahl der abgefragten Marken je Produktgruppe*

Source: IfH

Number of expected brands: bar-chocolate

	Summe Bekannt	Summe Erwartung	Summe Kauf
Kunde 1	4	11	8
Kunde 2	0	0	5
Kunde 3	4	11	12
Kunde 4	10	7	
Kunde 5	13	5	
Kunde 6	10	6	
Kunde 7	12	3	
Kunde 8	13	9	
Kunde 9	6	11	
Kunde 10	14	7	13
Kunde 11	9	2	6
Kunde 12	12	4	7
Kunde 13	6	9	9
Kunde 14	14	3	17
Kunde 15	14	3	10
Kunde 16	10	3	15
Kunde 17	0	0	0
Kunde 18	11	3	6
Kunde 19	13	4	10
Kunde 20	12	3	8
Kunde 21	0	0	15
Kunde 22	11	3	7
Kunde 23	12	6	9
Kunde 24	12	3	17
Kunde 25	0	0	17
Kunde 26	14	1	16
Kunde 27	10	3	4
Kunde 28	12	12	17
Kunde 29	15	6	13
Kunde 30	13	2	8
Kunde 31	15	11	13
Kunde 32	1	0	2
Kunde 33	7	7	8
Kunde 34	15	6	9
Kunde 35	12	12	5
Kunde 36	14	3	8
Kunde 37	1	1	1
Kunde 38	11		
Kunde 39	0		
Kunde 40	15		

Summe per brand:

	Milka	Lindt	Ritter Sport	Aldi	Schogetten	Yogurette	Suchard	Sarotti	Nestle	Rewe	Gubor	Cote dor	Alprose	Alpia	Ferrero	Sonstige Handelsmarken	Sonstige Marken
Bekanntheit	27	29	27	18	29	29	28	29	27	24	20	23	8	27	26	4	2
Erwartung	23	13	22	5	14	10	7	15	6	4	8	8	7	11	16	6	7

Different consumers do not expect te same brands, even if the number of brands they expect is equal.

At least a quarter of the polled consumers expects these brands to be listet in a shop

Consumer Research

Must-stock-products by product-group

Product-Group (number of retrieved/ relevant brands)	**Must-stock-products** (ranking)	**Manufacturers**
yoghurt (23)		Zott GmbH & Co KG, Molkerei Alois Müller GmbH & Co. KG, Campina GmbH, EHRMANN AG, DANONE, J. Bauer GmbH & Co. KG,
instant gravey (4)		Nestlé Deutschland AG, Unilever Deutschland Holding GmbH
chocolate (15)		Kraft Foods Deutschland GmbH, Ferrero Deutschland GmbH, Alfred Ritter GmbH & Co. KG, Lindt & Sprüngli GmbH, Stollwerck GmbH,
laundry detergents (18)		Henkel AG & Co. KGaA (Weißer RiesePersil, Spee,), Procter & Gamble Germany GmbH & Co (Ariel, Dash), Unilever Deutschland Holding GmbH (Sunil, Coral)
sparkling wine (20)		Söhnlein Rheingold Sektkellerei GmbH, Gruppo Campari, Rotkaeppchen - Mumm Sektkellereien GmbH, Fürst von Metternich Sektkellerei, Henkell & Co. Sektkellerei KG, Freixenet GmbH, Matheus Müller Sektkellereien GmbH

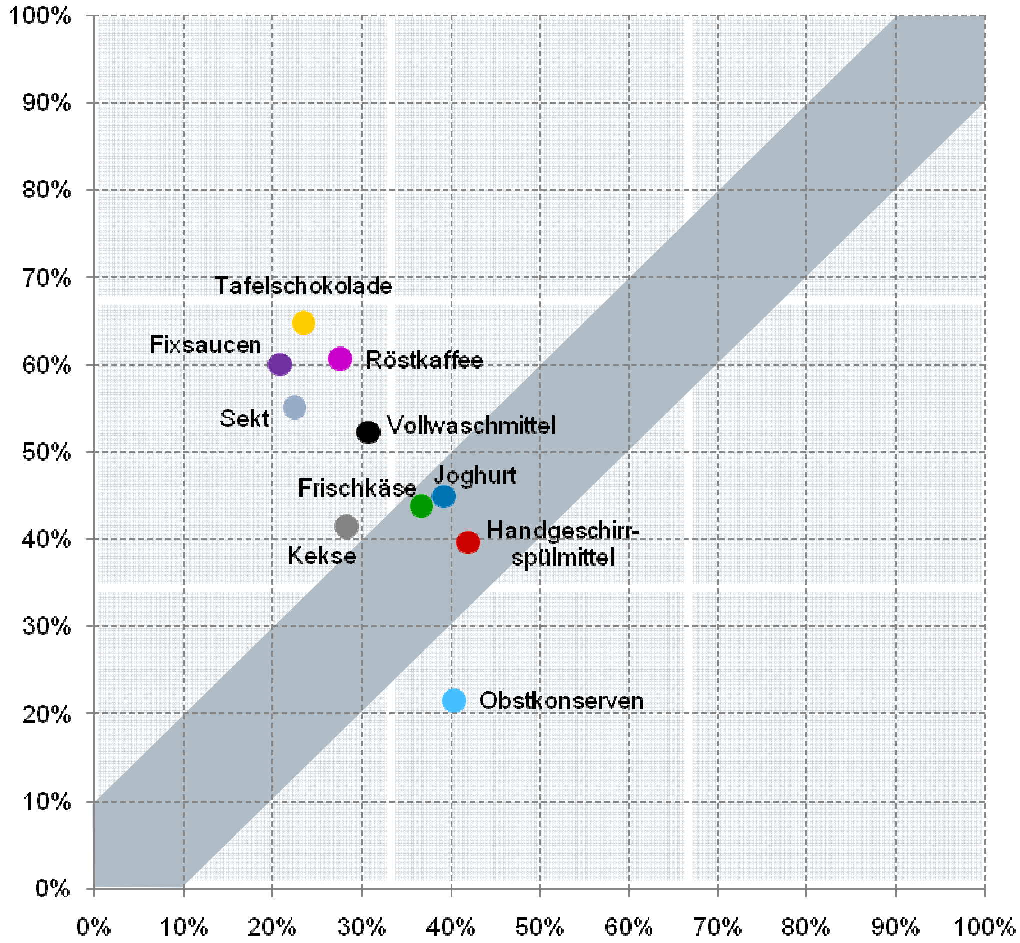
Source: IfH.

Consumer Research

Purchase of Manufacturer Brands vs. Private Label

y-axis:
%-fraction entries „I fully/rather agree“ (top 2):
I predominantly buy <u>brands of well-known manufacturers</u> and rarely unknown brands.

agreement= manufacturer power



Stark	?	?	?
Mittel	?	?	?
Schwach	?	?	!
Hersteller / Handel	schwach	mittel	stark

x-axis:
%-fraction entities „I fully/rather agree“ (top 2):
I predominantly buy <u>private label</u>.

agreement= retailer power

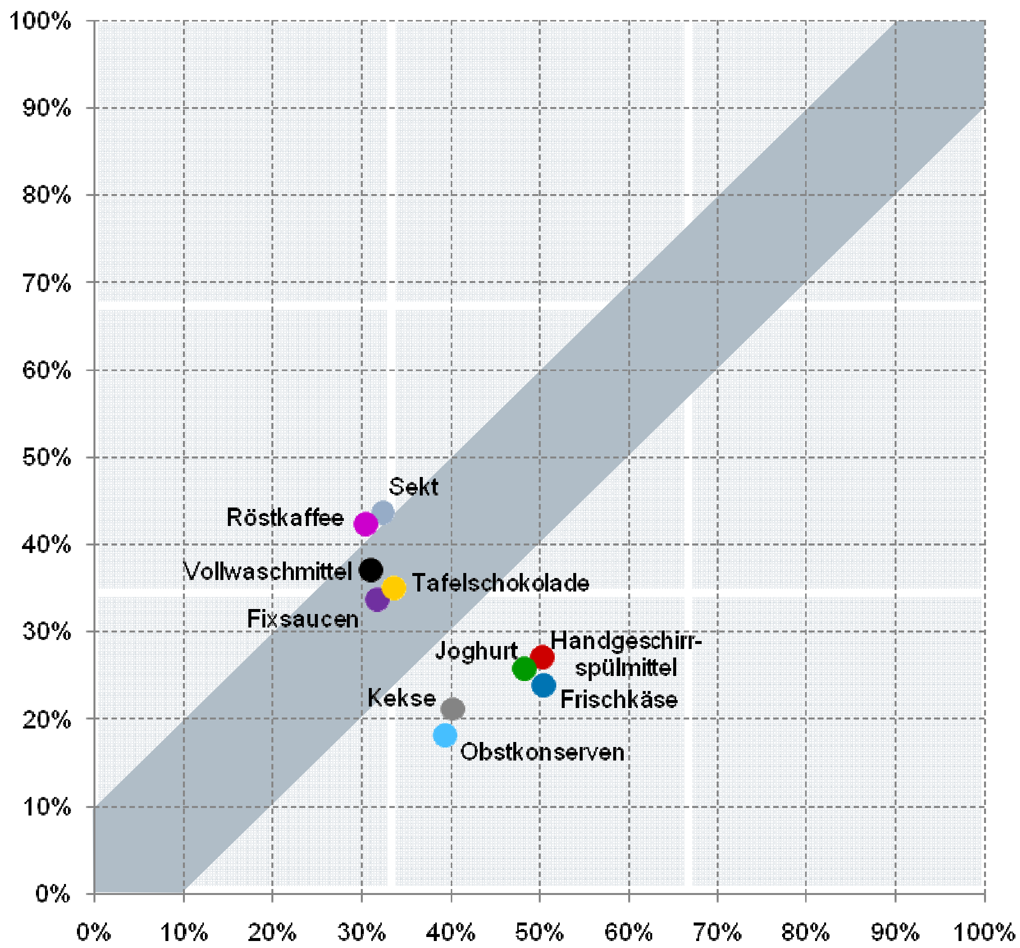
Source: IfH

Consumer Research

Response to Unavailability of brands

y-axis:
%-fraction entries „I fully/rather agree“: statement S7:
If I do not find my favoured brand in a shop, I buy it in another shop.

agreement= manufacturer power



Stark	?	?	?
Mittel	?	?	?
Schwach	?	?	!
Hersteller / Handel	schwach	mittel	stark

x-axis:
%-fraction entries „I fully/rather agree“: statement S8:
If I do not find my favoured brand in a shop, I buy another brand.

agreement= retailer power

Source: IfH.

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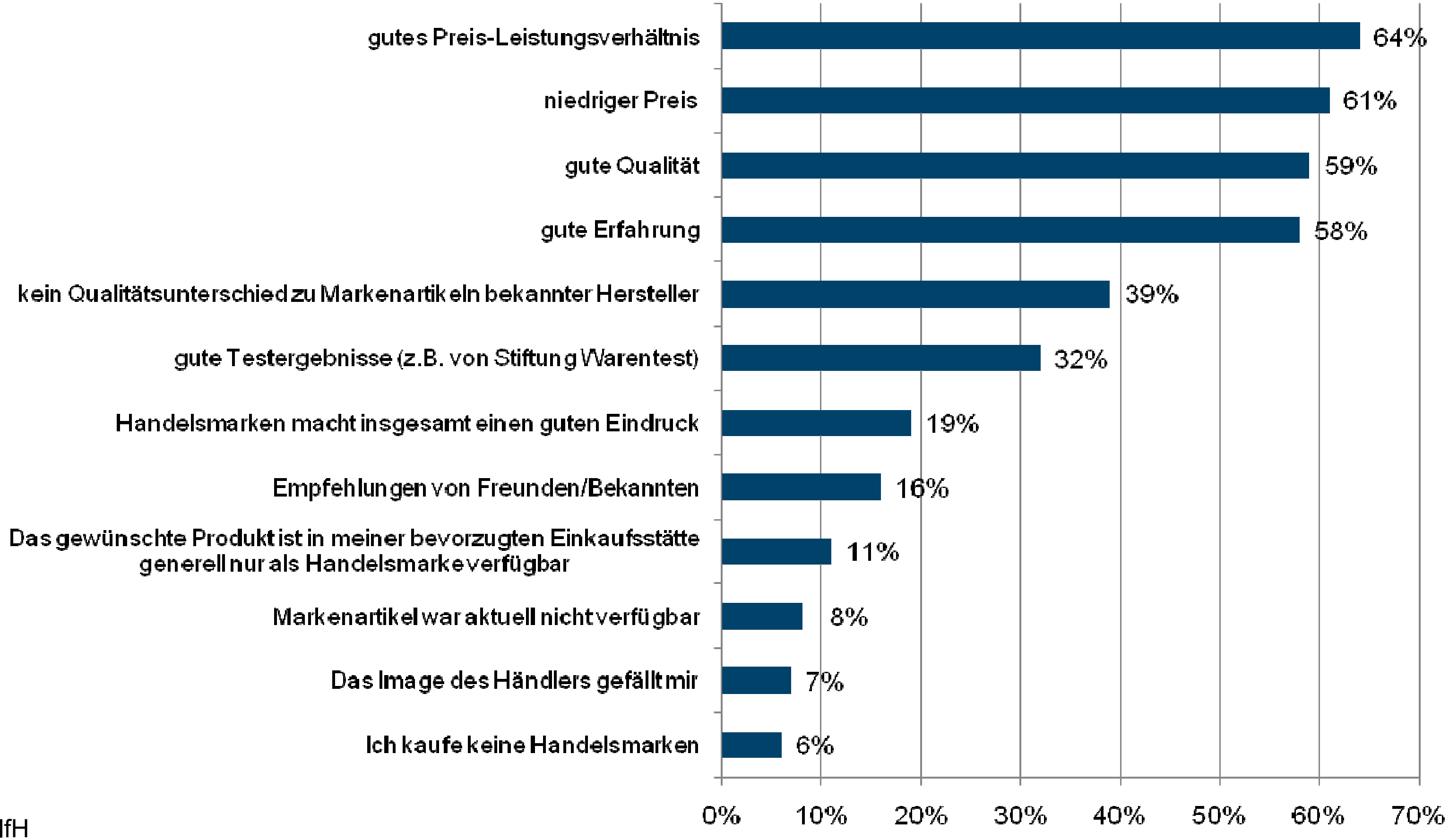
Alternative Private Label Strategies (by functions)

cases	activities					
	market analysis	product development	market test	production	communi-cation	sale
1					X	X
2				X	X	X
3	X	X	X	X	X	X

Source: Institut für Handelsforschung

The Role of Private Label

Reasons for Private Label Purchase



Source: IfH

Conclusion (I)

- A global power of demand of the retail sector in the field of Fast Moving Consumer Goods (FMCG) does not exist.
- Both, the results of the analysis of the market structure as well as the implications of the consumer research, lead to notedly sophisticated findings. Therefore blanket judgements have to be rejected.
- The discussion has to be situated at different levels of aggregation, for example at the level of bilateral manufacturer-retailer relationships or at single product-level.
- Power of demand has to be explicitly defined as a term to describe a bilateral relationship of one single retailer to one single manufacturer. A global power of demand cannot exist.
- Manufacturers have – apart from the food retail sector - several distribution channels at their disposal (e.g. Food Service, export), which in quantitative regard, become constantly more important.

Conclusion (II)

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- Manufacturers usually are specialists in a single industry. In contrast, the food retailing sector bundles several product-groups – this aspect is implicated by his function as intermediary between manufacturer and consumer. The sructures of manufacturing and retailing companies therefore are not per se comparable.
- The constellation “strong retail sector – weak industry sector” does not result for any of the analysed product-groups. Hence, there exists no need for further competition regulation the current competition law is adequate.
- From the consumer-view the existing manufacturer-retailer-structure results in relatively low food prices as well as in a high price stability.
- The retail sector functions as carrier of customer expectations. Customers expect a high number of so called must-stock-products, which have to be listet by a retailer. These must-stock-products exclusively are manufacturer brands.

Conclusion (III)

- The producers of must-stock-products usually are big international companies which control multiple brands. But also small and medium sized enterprises fabricate must-stock-products.
- Therefore, the bargaining position of the distributors of must-stock-products opposite retail companies is advantageous.
- Generally consumers expect a deep assortment, irrespective of the type of business of the providing shop.
- Private label products are reasonable supplements to manufacturer brands to fulfil the consumer expectations concerning a differentiated, regional and, with regard to price, an attractive assortment. Small and medium sized enterprises benefit from production contracts with retailers concerning private label products. A convergence of the prices of private label products and manufacturer brands leads to further welfare effects on the part of the consumer.

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