



消費者委員會
CONSUMER COUNCIL

Grocery Market Study

A Briefing for the Press

19 December 2013

Objectives of the Study

- Examine the state of competition in the Hong Kong foodstuffs and household necessities retailing sector with respect to geographic factors, product dimensions and service attributes
- Examine the possible existence of market power of relevant players in the various relevant markets in Hong Kong
- Determine whether prima facie evidence exists of anticompetitive conduct that has been alleged through anonymous interviews with concerned parties in the sector

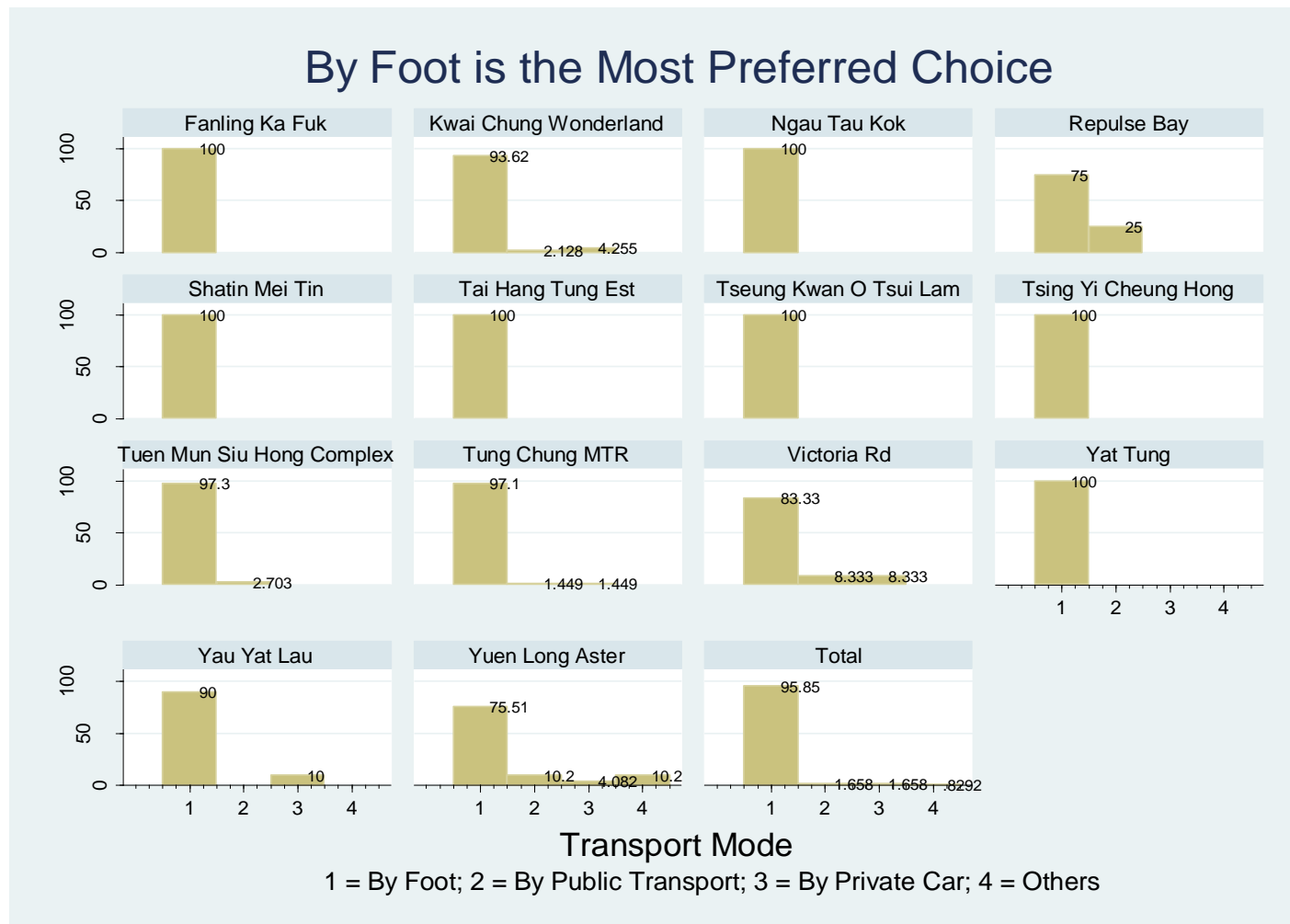
The Study

- Consumer Council's View of Relevant Grocery Markets
- Market Power of the Two Incumbents
- Exercising Market Powers over Consumers and Suppliers
- Anti-competitive and Unfair Trade Practices

Relevant Market

- Supermarkets which provide a convenient form of shopping for consumers where a complete range of foodstuffs and household necessities is readily available for purchase without the necessity of visiting other retail outlets
 - Overseas studies show grocery markets with supermarket operators are highly concentrated in many countries
- Two grocery shopping models
 - A retail market for “one-stop shopping” (planned purchases), shop floor size $\geq 15,000$ sq. ft; and
 - A retail market for “secondary shopping” (including spontaneous or convenience shopping), shop floor size $\leq 3,000$ sq. ft.

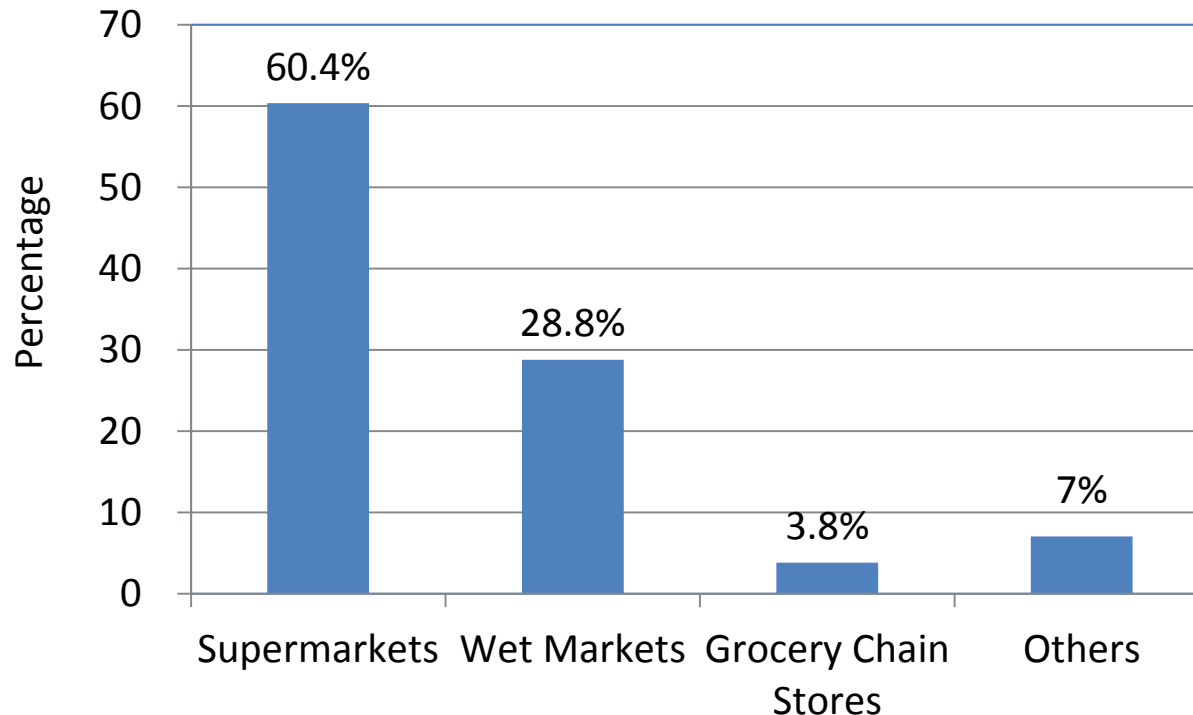
Preferred Mode of Transport to Supermarket



- The relevant geographical market is defined as within 15 minutes walking distant catchment area

Relevant Foodstuffs Retailing Sector

Supermarkets and Wet Markets Are
the Top Two Choices of Store Type for Food



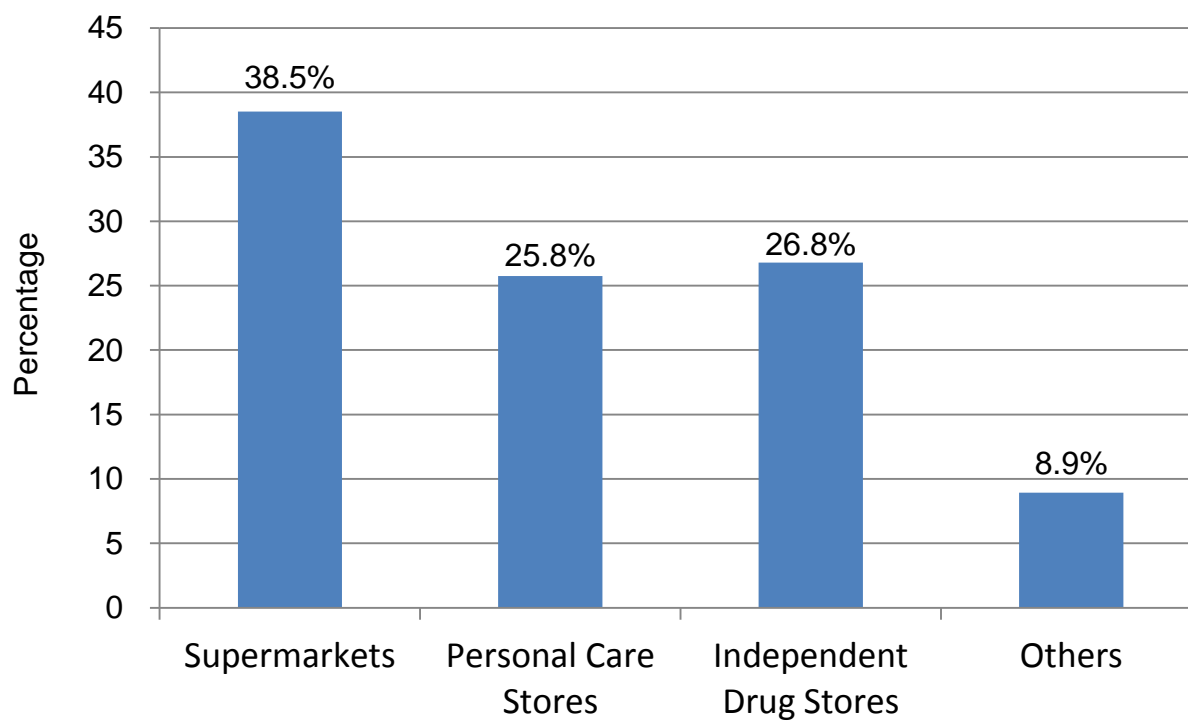
Market Covers:

- Supermarkets
- Wet Markets
- Grocery Chain Stores

Excludes Convenience Stores

Relevant Household Necessities Retailing Sector

Supermarkets, Personal Care Chain Stores and Independent Drug Stores
Are the Top Choices of Store Type for Household Necessities



Market Covers:

- Supermarkets
- Personal Care Chain Stores
- Independent Drug Stores

Excludes:

- Wet Markets
- Small Grocery Stores

Market Concentration in Hong Kong

- Based on Herfindahi-Hirschman Index (HHI)
- Market concentration of the relevant market of “one-stop shopping of foodstuffs” is moderately concentrated
- Market concentration* of the relevant market of “one-stop shopping of household necessities” does not represent a concern about market competition

*Assuming personal care chain and supermarket chain under the same holding company are not treated as one entity, otherwise the market concentration is different.

Market Power – Foodstuffs Retailing Market

- 28.6% (PARKnSHOP) and 33.9%(Wellcome) market share based on the weighted outlet coverage of two biggest supermarket chains, together accounting for 62.5% of the market (562 outlets)
 - Given that the two supermarket chains have a market share below 40% but above 25%, it is inconclusive whether they possess a substantial degree of market power, which warrants further scrutiny
 - Barriers to entry such as sunk costs; limited access to key inputs and distribution outlets; economies of scale; and exclusionary behaviour by incumbents are to be considered
 - For example: price advantage in bundling rental arrangements between the largest supermarket chain operators and the Link REIT, over that between single shop operators and the Link REIT

Market Power – Household Necessities Market

- 11.8%(PARKnSHOP) and 14.1%(Wellcome) market share based on the weighted outlet coverage of the two biggest supermarket chains
- Given that the two supermarket chains have a market share below 25% respectively, it cannot be concluded that either one possesses a substantial degree of market power
- However, under current practices, if both business of supermarket and personal care are fully owned by the same company, it should be treated as one entity. One of the group has a market share of 35.9%.



Supermarket Chains Keep Growing

- Dwindling number and market share of small supermarket operators (less than 2 outlets)
- Data from the Census and Statistics Department showed that the number of small supermarket operators substantially declined by 16 % over 12 years from 1999 to 2011 and the small supermarket operators only contributed less than 1% of the floor space of the sector compared to the large operators.

Exercising Market Power on Consumers

- Do incumbents exercise their market power w.r.t. different local competition environment?
 - Type I local market has no competition;
 - Type II local market has some competition from small chains; and
 - Type III local market has rival competition.

	ParkNShop	Wellcome	Others	Total
<i>By type</i>				
Type I	7	13	2	22
Type II	12	9	3	24
Type III	27	31	16	74

- No significant difference in Price, Quality, Range and Services between Types I, II and III

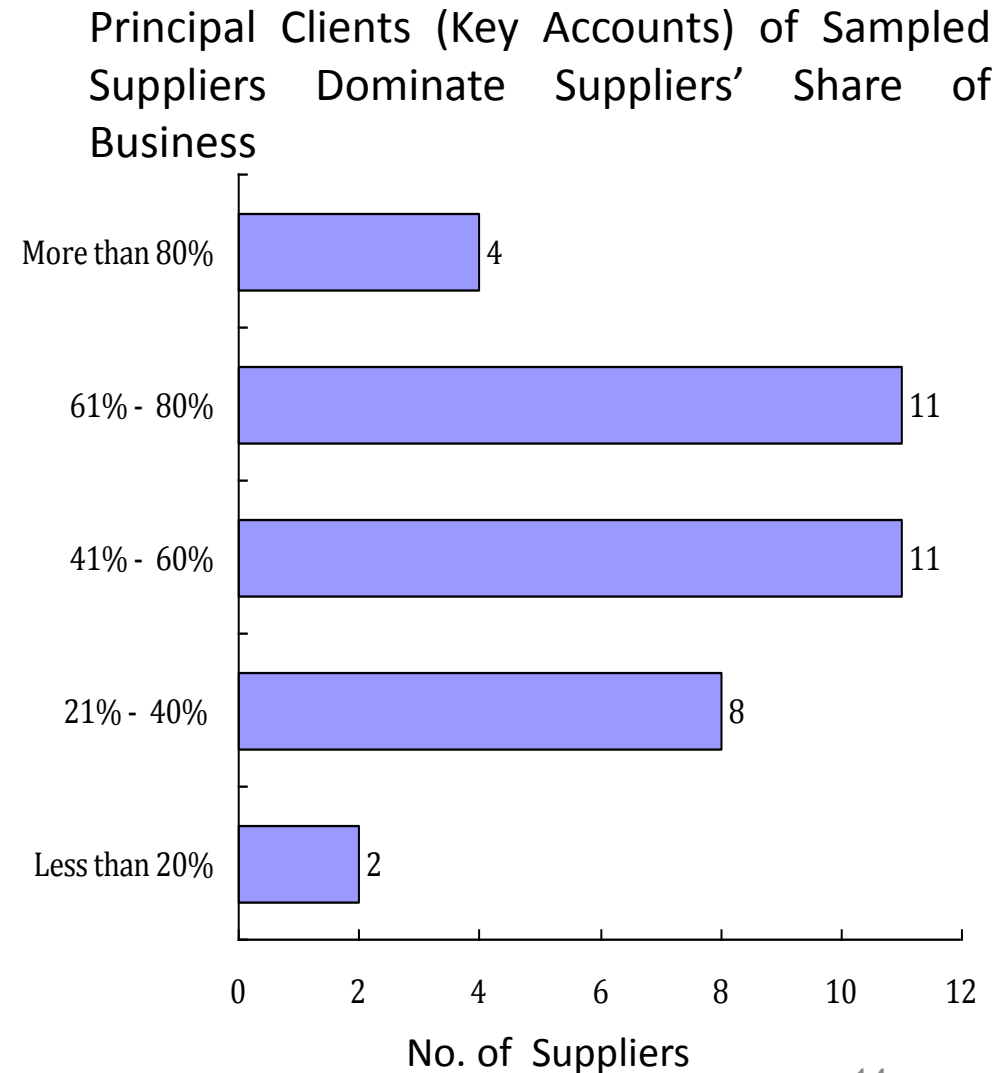
Exercising Market Power on Suppliers

- 2007 An academic study* showed suppliers were at disadvantaged position in bearing business risks for supermarkets:
 - *Accept the absolute authority of the retailers to remove the goods from shelf (61.2%)*
 - *Accept the absolute authority of the retailers to lower the retail prices (55.4%)*
 - *Share promotion fee (62%)*
 - *Accept certain services provided by the retailers (44.6%); and*
 - *Only few (31.4%) suppliers managed to be able to stipulate the resale prices of the goods on the retailers.*
 - *Bear the responsibility of damaged goods (63.6%)*
 - *Offer incentive rebate unreasonably (46.3%)*

*The study was conducted by Prof. Ho Suk-ching and Prof. Sin Yat-ming on Hong Kong's Retailing Industry in 2007.
<http://www.cuhk.edu.hk/cpr/pressrelease/070314e.htm>

2012 Research Sample

- Members of Hong Kong Supplier Associations who are the representatives of suppliers in grocery market
- 43 suppliers provides information on anonymous basis



Findings: Supply Contract with Principal Clients

- Extent of Bargaining Power of the Incumbents
 - 75.6% said renewal was subject to certain harsh conditions such as accepting the authority of the retailers to remove the goods from shelf and lower the retail prices
 - 63.6% of the respondents said that they can cross out unfavourable clauses to them and negotiate figure values of the supply contract such as volume of trade, advertising fee to be paid and supply prices of the goods
 - Only 27.3% of the respondents said that they are able to add clauses favourable to them

Findings:

Exclusive Supply Contract with Principal Clients

- Exclusivity: 40% of suppliers have exclusive trade agreements
- Those with exclusive restriction may be in the form of short duration and special package or
 - Via terms unfavourable to others
 - With prior approval or consent
- Exclusivity has no clear link between the size of the supplier

Findings:

Slotting Fees and Advertising Fees

- 90.2% paid slotting fees
- 38.9% found the slotting fees charged were excessive
- 47.4% said they were not satisfied with the way their products were promoted and displayed

Findings:

Resale Price Maintenance

- 94.7% made price recommendations to their buyers
 - 26.8% said they do not allow discounts
 - Only one practiced compulsory minimum resale price
 - Seldom retailers follow the recommended prices
- 37% said some retailers complain or object suppliers to deal with competitors that offer low prices or discounts in the market
- All those been interviewed said that being complained about price discounts offered by other retailers and the complaints came principally from supermarkets

Findings:

Unfair Competition

- 65.9% of suppliers had to take those unsold goods back with a returned goods policy. 64.7% of cases stated unsold goods had an impact on the supply price such as offering rebates at the year end.
- 90% also confirmed the presence of private label products mainly from chain stores & supermarkets to compete with the suppliers' goods provided to retailers.



Issues to Consider

- Exclusivity is sometimes required by big retailers
- Resale Price Maintenance – refuse to supply if not follow “recommended” minimum resale price
- Some retailers prevent other retailers from offering discounts, by complaining to suppliers and threatening to stop doing business

Issues to Consider

- Big retailers, in particular supermarkets, frequently engage in the production of competing goods to those provided by suppliers
 - But charging those suppliers (who are also competitors) slotting fees, as well as damaged goods allowance, and forcing them to take back/bear the cost of unsold goods, requesting rebates, resulting suppliers' products are in a disadvantaged position in relation to those produced by the big retailers

Conclusion and Recommendations



- The two supermarket giants, PARKnSHOP and Wellcome, are growing their presence in the grocery retailing market, with prima facie anecdotal evidence found in imposing restrictive practices on suppliers and competitors.
- When the Competition Ordinance comes fully into force, the Council urged the Competition Commission should look into whether the two largest supermarket chains have abused their market power to engage in anti-competitive practices in the grocery retailing market.

Conclusion and Recommendations

- At the same time, some measures should be taken by the industry such as applying some form of redress to enable players in the sector affected by unfair practices to voice their concerns. An introduction of a voluntary code regime under the Hong Kong Retail Management Association, would provide a functional trade complaint forum acceptable to all sides in the grocery sector.
- In the next review of the Competition Ordinance a few years after, the Government is urged to consider introducing a cross-sector merger control regime so that the Commission would have oversight where a merger of acquisition might arise that may have a detrimental effect on consumer interest.