G8 alternative summit

June 2007 in Rostock

Expansion of supermarkets in the food sector: who reaps the benefits?

Marita Wiggerthale

Protests against Wal-Mart in the USA

Photos: Stacy Mitchell

Protests against Wal-Mart in Mexico

Photos: Ruben Garcia (www.globalexchange.org)

Protests against Woolworths in Australia

http://www.malenyvoice.com

Protests against Tesco in UK

Photos: Judith Whately, Action Aid, http://www.tescopoly.org

Protests against Tesco in South Africa

Photos: Action Aid

Protests against Lidl in Germany

http://www.attac.de/lidl-kampagne/

Expansion of supermarkets

- **Rapid expansion** in Latin America (1980ies: 10-20% of food market, 2002: 50-60%) and Asia
- Five biggest supermarkets worldwide: **increase of presence by 270%** in the period 1980-2001
- **Three waves of expansion:**
  - **1st wave**: South America, East Asia (without China), South Africa, North/Central Europe (begin/mid of 1990ies)
  - **2nd wave**: South East Asia, Central America (Mexico), South/Central Europe (mid/end of 1990ies)
  - **3rd wave**: expansion in South and Central America (Peru, Nicaragua, Guatemala, Bolivia) and South East Asia (Vietnam), China, India, Russia, starting also in Kenya, Sambia and Simbabwe (end of 1990ies-beginning of 2000)

Driving forces for supermarket expansion

- ✓ **Liberalisation of trade and investment** at national, regional (NAFTA, MERCOSUR, ASEAN) and multilateral level (GATS, TRIMs)
  - ✓ Increase of FDI in food industry: from 743 Mio. US$ to 2.1 bn US$ in Asia, from 222 Mio. US$ to 3.1 bn US$ (1988-2001) in Latin America
- ✓ **Technological revolution in logistics and inventory management**
  - ✓ **Eletronic Data Interchange** (EDI) in 1985 by Wal-Mart (**Just-in-time concept,** productivity increase by 40%)
  - ✓ **Radio-Frequency Identification** (RFID) in 2005 by Wal-Mart (RFID requires huge investments; 100.000 US$ per shop, 400.000 US$ per store ➔push in concentration process)
  - ✓ RFID: microship attached to each food iteam: allows **total traceability**, information about place of the farm, storing temperature, product charateristics, map of whereabouts all along the value chain **from field to dust bin** of the consumer at home

Market shares and Top 10

Marktanteile (2001) **Market shares**		Top 10 in Lateinamerika		Top 10 in Asien **Asia**		Top 10 im Mittleren Osten und **Middle East** Afrika **Africa**	
Brasilien	75%	(1) Wal-Mart (US)	6,8%	(1) AEON (Jap)	2,9%	(1) Shoprite (SA)	3,2%
Korea	65%	(2) Casino (F)	3,1%	(2) Seven & I	2,8%	(2) Pick'n Pay (SA)	3,1%
Argentinien	57%	(3) Carrefour (F)	2,7%	(3) Woolworths (AUS)	1,8%	(3) Massmart (SA)	2,6%
Philippinen	57%	(4) Cenosud (Chile)	1,5%	(4) Coles Myer	1,8%	(4) Metcash (SA)	2,16%
Chile	50%	(5) Soriana (Mex)	1,5%	(5) Uny (Jap)	1,2%	(5) Casino (F)	1,4%
Costa Rica	50%	(6) Falabella	1,2%	(6) Daiei (Jap)	0,9%	(6) SPAR (SA)	1,3%
China (Stadt)	48%	(7) Gigante	1,1%	(7) FamilyMart (Jap)	0,8%	(7) Woolworths (SA)	1,3%
Mexiko	45%	(8) D&S (Chile)	1,0%	(8) Lawson	0,8%	(8) Carrefour (F)	1,2%
Thailand	43%	(9) Commercial Mexicana	1,0%	(9) Wal-Mart(US)	0,7%	(9) Supersol	1,0%
Kolumbien	38%	(10) Oxxo	0,9%	(10) Lotte	0,7%	(10) Blue Square	1,0%
Guatemala	35%						
Malaysia	31%	**Gesamt:** Total	20,9	**Gesamt:** Total	14,6%	**Gesamt:** Total	18,10 %
Indonesien	25%	**CR4[10]:**	14,1%	**CR4:**	9,3%	**CR4:**	11,0%

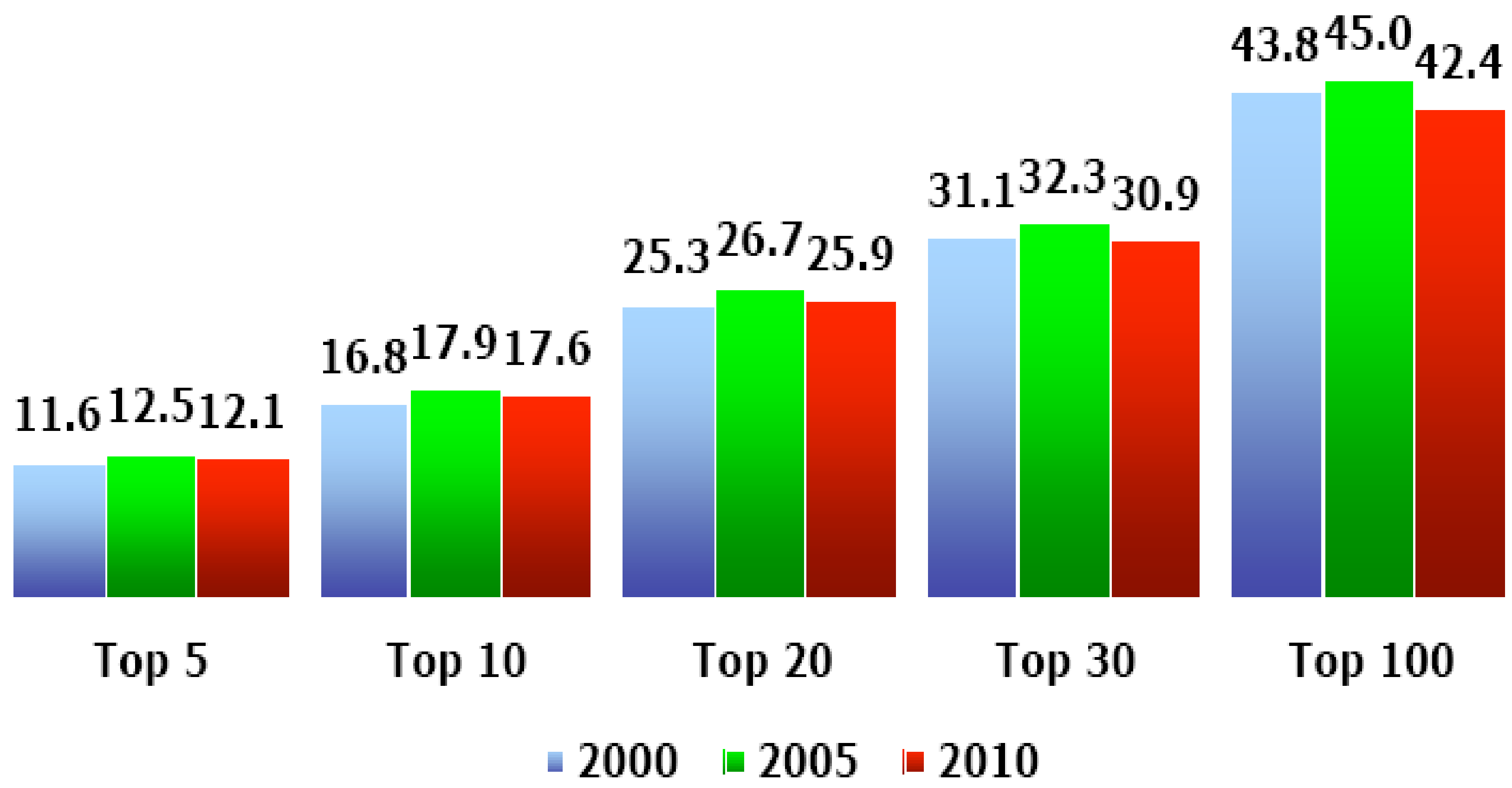
Quelle: Eigene Darstellung nach Reardon, Timmer, Berdegué (2005:48-49), Vorley (2007: 19, 21, 25)

Top 10 Grocery Retailers Worldwide, 2005

Company	Country of Origin	Retail Banner Sales 2005 (USD mn)	Market Share (%)	Net Sales 2005 (USD mn)	Grocery Sales (%)	Domestic Sales (%)	Foreign Sales (%)
1 Wal-Mart	USA	338,744	6.1	312,427	44.9	77.6	22.4
2 Carrefour	France	117,175	2.1	92,597	74.1	47.6	52.4
3 Metro Group	Germany	83,237	1.5	69,260	47.4	48.3	51.7
4 Tesco (1)	UK	77,171	1.4	69,631	73.4	76.9	23.1
5 Ahold	Neth.	76,774	1.4	55,307	84.0	18.0	82.0
6 Seven & I (2)	Japan	69,237	1.2	35,324	72.0	66.0	34.0
7 Kroger	USA	63,702	1.1	60,553	70.5	100.0	0.0
8 Sears	USA	61,952	1.1	49,124	12.7	88.1	11.9
9 Rewe	Germany	56,527	1.0	51,832	76.4	69.5	30.5
10 Costco	USA	56,456	1.0	52,935	60.2	79.5	20.5

Source: Bill Vorley

Worldwide: Market Share of Leading Grocers, 2000-2010 (%)



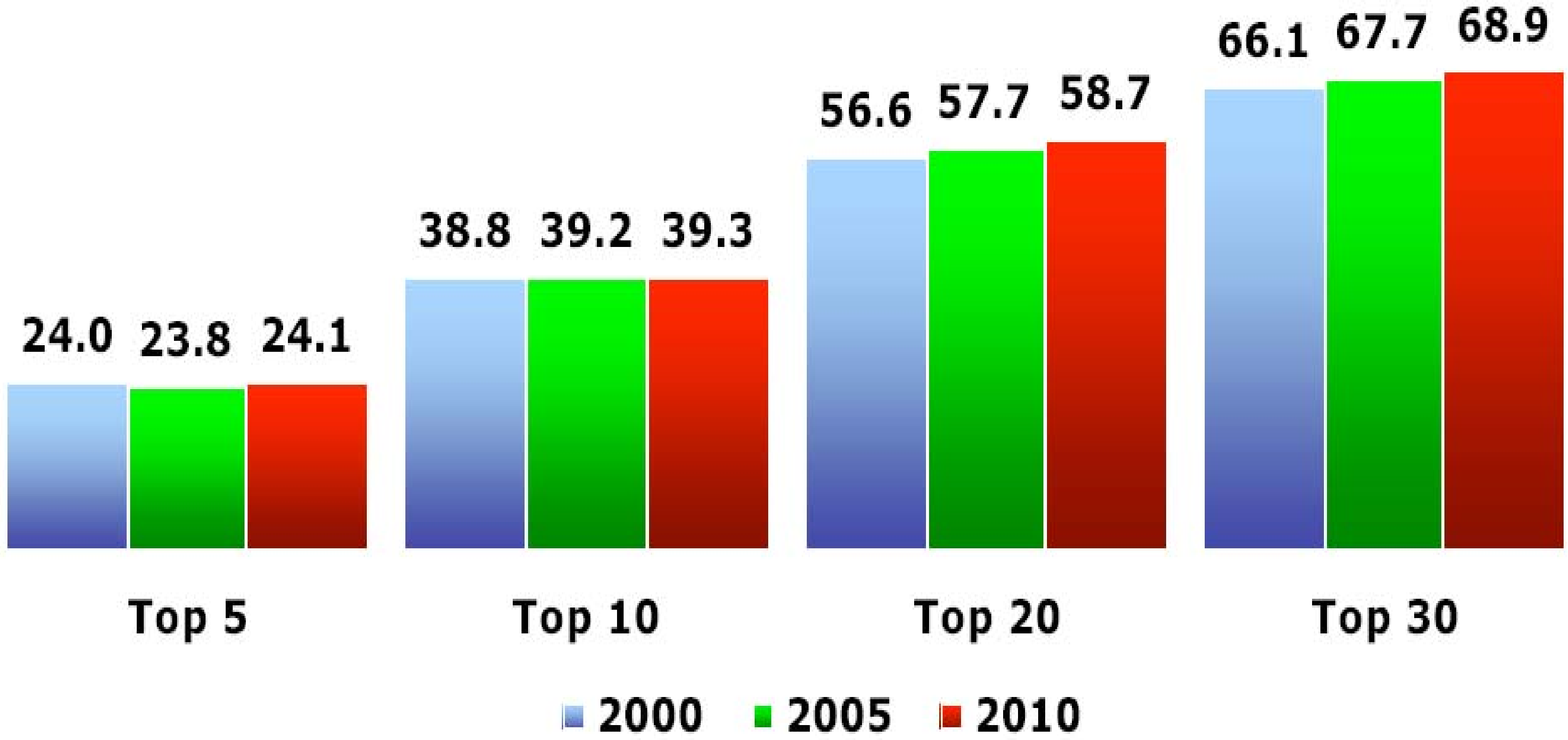
Source: Planet Retail Ltd – www.planetretail.net

Leading Grocers in Western Europe, 2005

		2005			
Rank	Company	Retail Banner Sales (EUR mn)	Market Share (%)	Grocery Retail Banner Sales (EUR mn)	Market Share (%)
1	Carrefour	73,330	6.8	54,636	7.0
2	Metro Group	52,255	4.8	22,800	2.9
3	Tesco	50,138	4.7	37,304	4.8
4	Rewe	41,675	3.9	31,469	4.0
5	Edeka	40,186	3.7	34,358	4.4
6	Schwarz Group	36,642	3.4	30,393	3.9
7	Auchan	35,161	3.3	21,577	2.8
8	Aldi	32,266	3.0	26,634	3.4
9	Leclerc	31,325	2.9	19,713	2.5
10	Casino	29,270	2.7	21,890	2.8
	Subtotal	422,248	39.2	300,774	38.4
	Others	655,623	60.8	482,036	61.6
	Total MGD Sales	1,077,871	100.0	782,810	100.0

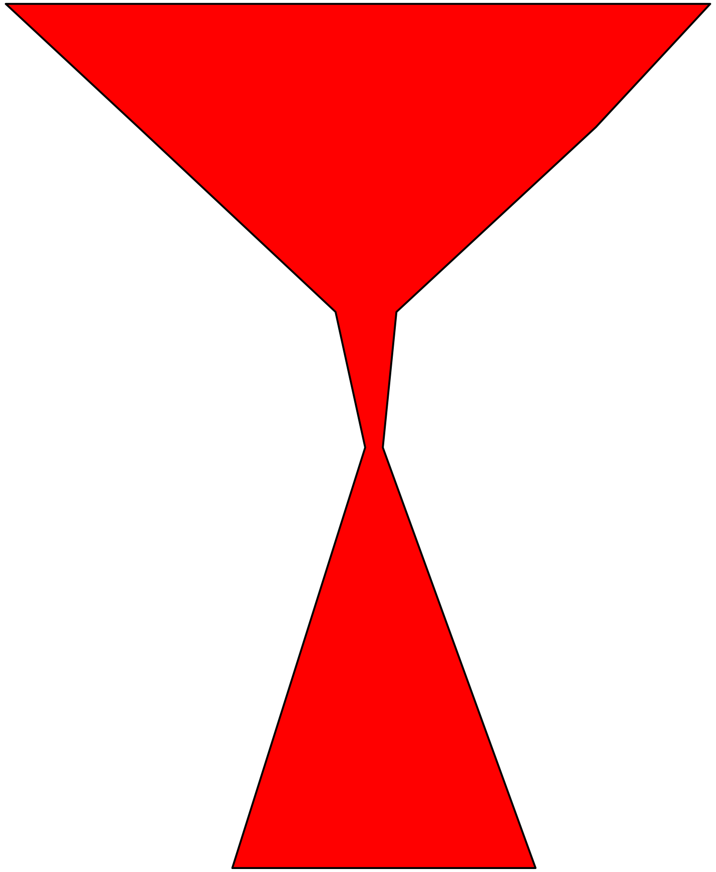
Source: Planet Retail Ltd – www.planetretail.net

Western Europe: Market Share of Leading Grocers, 2000-2010 (%)



Source: Planet Retail Ltd – www.planetretail.net

The Supply Chain ‘Bottleneck’ in Europe



Consumers: 160,000,000

Customers: 89,000,000

Outlets: 170,000

Supermarket formats: 600

Buying desks: 110

Manufacturers: 8,600

Semi-manufacturers: 80,000

Suppliers: 160,000

Farmers/producers: 3,200,000

Covers retail food (not foodservice) and represents about 85% of the total sales of the western European countries (Source: Bill Vorley)

Misuse of buyer power

- ✓ Paymentws for **access to shelf space**
- ✓ Imposing conditions on **suppliers‘ trade with other retailers**
- ✓ Applying **different standards to different suppliers**
- ✓ Imposing of **unfair imbalance of risk**
- ✓ Imposing **retrospective changes to contractual terms**
- ✓ Restricting **suppliers‘ access to the market**
- ✓ Imposing **charges and transferring costs to suppliers**
- ✓ **Requiring suppliers to use third party suppliers** nominated by the retailer

Changes in Procurement systems

1. Centralisation of procurement (distribution centers)

- ✓ Demands fewer employees, centralised storing system, sophisticated technology and procurement systems management

2. Appearance of specialised wholesalers

- ✓ Allows for reduction of transaction, coordination, research and control costs

3. Introduction of preferred supplier systems

- ✓ Supplier needs to be able to secure permanent supply in requested quantities at quality and safety standards set by supermarket

4. Rise of quality and safety standards (Éssential element)

- ✓ **HACCP** (Hazard Analysis and Critical Control Point), recommended by Codex Alimentarius Commission
- ✓ **EurepGap:** (2002: 3889 certified suppliers, end 2005: 350,000 certified suppliers; increase of countries from 20 to 60; 50-70% of FFVs are certified with EurepGap or SQF 1000
- ✓ **Global Food Safety Initiative** (GFSI, 75-99% of products are already certified according to information by 2/3 of interviewed supermarkets)

More trends...

- ✓ **Regionalisation of distribution centers**, appearance of regional TNCs in food retailing, e.g. CAHRCO and Hortifruti in Central America
- ✓ Development of **„global hubs“**, e.g. Metro in China, Carrefour in Hong Kong
- ✓ Increase of **international sourcing**
- ✓ Increase of **concentration and misuse of buyer** (unfair practices!)
- ✓ Creation of **bilateral olígopolies** (already existing in Chile)
- ✓ **International expansion of private standards** through regionalisation and global procurement systems
- ✓ Increasing **convergence of export and domestic markets** with regard to actors and product standards
- ✓ Continuation of trends in **standards setting**: 1) shifting towards **voluntary mangement systems** (monitoring of product and process standards), 2) creation of **company coalitions for standard setting** (see GFSI); 3) increasing use of **Business-to-Business (B2B) standards** (connection to leading food or retailing company or ist production chain, e.g. Joint Venture between Central American Retail Holding Company – CAHRCO with Ahold)

Effects of supermarket expansion

1. Effects on street vendors
2. Effects on workers
3. Effects consumers
4. **Effects on small farmers**
   - ✓ Development of producer prices
   - ✓ Development of market access to supermarkets and traditional markets
   - ✓ Market behaviour of the food industry
   - ✓ Development of contract farming

Effects on street vendors

Example: Vietnam

Categorie	**Number of jobs**
Street vendors	18
Retailers	10
Shop vendors	8
Employees of medium scale supermarkets	5
Employees of Big C (Joint Venture)	4

Employment in supermarkets lower in comparison to informal markets and street vendors (in relation to traded turnover) ➔ **loss of jobs (streets, small shops), increase of poverty as street vendors often belong to the poor**

Effects on workers

Downward pressure on prices:

1) Example: Wal-Mart in China: price pressure by Wal-Mart on food processors is translated into longer working hours and lower wages for workers

2) Example: banana production in Latin America: “price war“ in UK (30% ↓ since 2002)

➔ daily wages decreased from 12-15 US$ per day (2000) to 7-8 US$ per day (2003), i.e. below poverty level

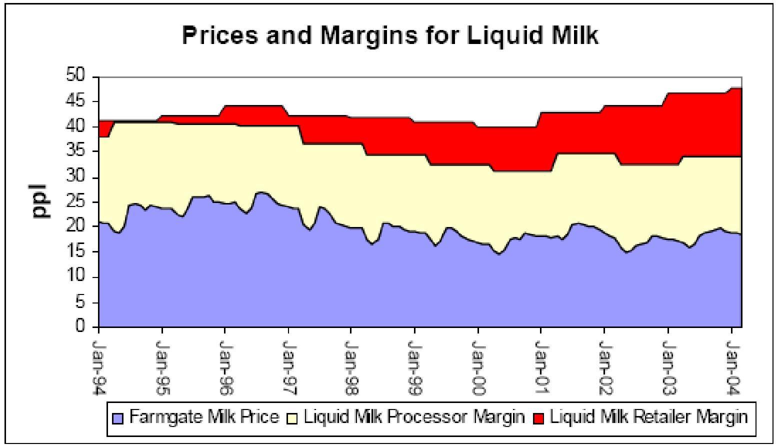
➔ all banana producing countries in Latin America reproduce the low labour and environmental standards in Ecuador

No right to build workers‘ councils: e.g. Lidl, Metro

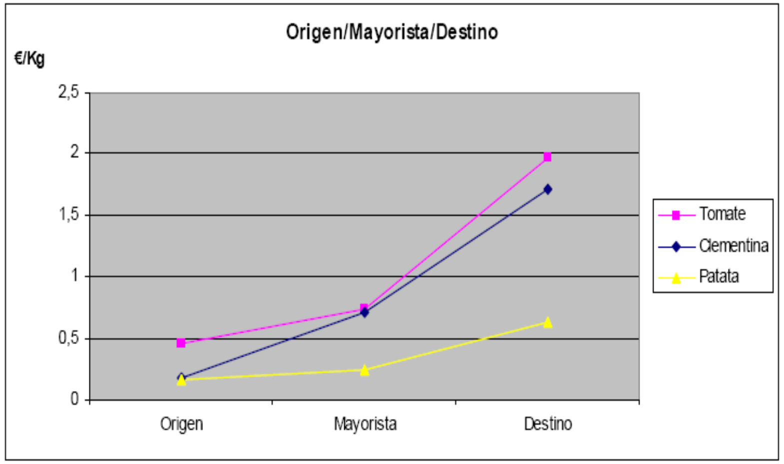
Credit: Robin Carter 2003

Effects on consumers

- ✓ **Mixed picture**
- ✓ In general, **fresh fruits and vegetables** are often cheaper in street markets
- ✓ **Assumption**: consumers benefit from cheaper food prices in supermarkets
- ✓ **Empirical evidence: lower prices to producers do not always translate into lower prices for consumers**
- ✓ **Milk in Chile**: price pressure on dairy industry by supermarkets ➔ increase of prices in poorer districts of the city (small shops) in order to compensate losses; as supermarkets are situated in rich districts of the city, **poor people implicitly subsidise the milk prices of rich people**



Source: National Farmers Union in Scotland



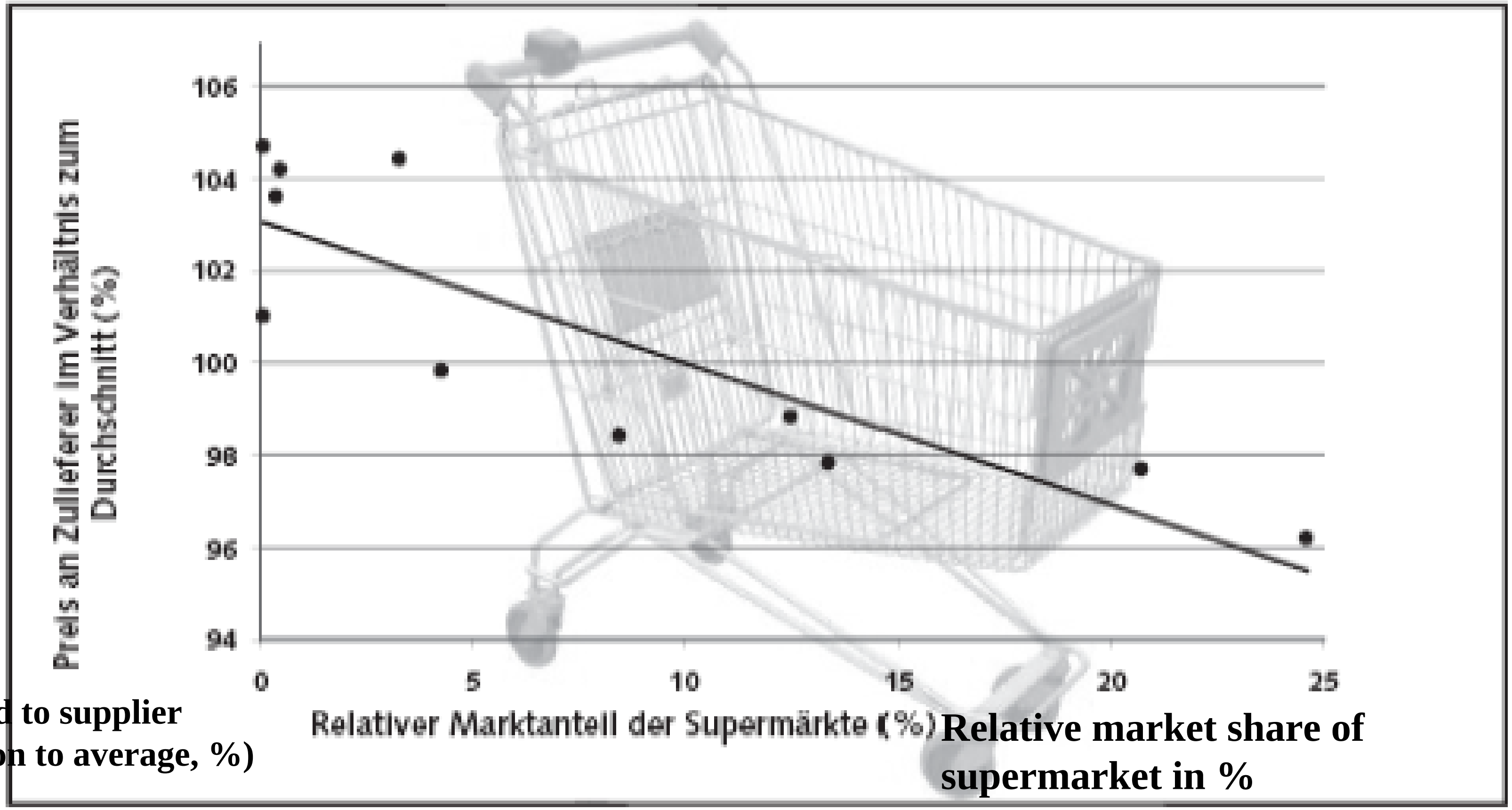
Fuente: Estimación COAG a partir datos MAPA. Diferencia de precios Destino / Mayorista / Origen (semana 51 del año 2005)

Effects on small farmers: prices

Example: tomato producers in Nicaragua

CSU (largest super-market, belongs to CAHRCO, joint venture with Ahold)	**La Colonia (second largest supermarket**, local)	**Traditional retailers**
0,20 US$/kg	**0,26 US$/kg**	**0,21 US$/kg**
Procurement via Hortifruti (regional TNC)	Procurement via two traditional wholesalers	Procurement via traditional wholesalers
43 preferred suppliers; CSU standard	26 preferred suppliers, best sold to La Colonia, rest to wholesale market	-----

Effects on (small) farmers: prices



Price paid to supplier
(in relation to average, %)

Relative market share of
supermarket in %

Quelle: UK Competition Commission (2000) Tabelle 5.3 and Anhang 11.5.

Effects on small farmers: market access

- ✓ **Leading supermarkets do not purchase about 40-50% from the domestic wholesale market anymore**
- ✓ FFV procurement officers in supermarkets: **"beat Wal-Mart", "beat the wetmarkets"** (e.g. in Malaysia the supermarkets create an atmosphere in displaying their produce as on the wetmarket) ➔ response in China and Malaysia: wet markets are upgrading their facilities and procurement systems
- ✓ **Decreasing market share of food traded in traditional wholesale markets:**
  - ✓ **Ecuador:** FFV trading is taking place less and less on traditional markets; e.g. SLF – biggest supermarket – purchases it's potatoes mainly from big producers and no more from the wholesale market with its lower standards **because of high quality standards** it has introduced.
  - ✓ **Korea:** market share of traditional markets in FFV decreased from 42% in 1998 to 29,5% in 2002
  - ✓ **Philippines:** 80% of fresh produce still sold in wet markets, but Filipino consumers are rapidly conscious about safety and move to supermarkets

➔ **Future development and adaptation of wholesale market is crucial to small farmers**

Effects on small farmers: food industry

- ✓ **Food industry** = important supplier to supermarkets and buyer from farmers
- ✓ **Top 100 control 2/3 of global food market** (but CR4 is 10,3%), in general: 1/3 of trade with goods globally = intra-firm trade
- ✓ Food processors are increasingly confronted with **„private brands"** of supermarkets (12% world market share in packaged food)
- ✓ **Small food processing industries and newcomers in developing countries do have difficulties to develop and to supply supermarkets at home and abroad** (demand for large quantities, high quality and safety, traceability, continuous supply, unfair competiton practicies)
- ✓ Food processors respond with a mix of strategies to the emergence of SM-power:
  - ✓ **Expansion of markets**: **investments, exports**
  - ✓ **Increase efficiency and integrated value chains**: out-sourcing, mergers & acquisitions, concentration on core business, reduction of staff expenditures, closer cooperation with supermarkets, flexible organisational structures, **purchase of cheaper raw materials, lobbying for tariff reduction**
  - ✓ **Development of new healthy local food** with higher quality
  - ✓ **Higher expenditures for public relations and increase of sales**

Effects on small farmers: contract farming

- ✓ **Trend in FFV**: exporters (and supermarkets, see UK) purchase from contracted big farms or produce in their own farms
- ✓ **Contract farming: pros →** secured outlet at fixed or negotiated prices, and potentially improved capacity and production methods to comply with food standards
- ✓ **BUT, "side effects" such as**: export companies and **small farmers being driven out of business**, low labour standards, harmful environmental effects, **unequal of distribution of profit margins** etc.
- ✓ **Experiences:** food companies and supermarkets purchase from small farmers ....
  - ✓ ...if there is no other choice
  - ✓ ...if they consider farmers willing to „learn"
  - ✓ ...if farmers have a professional attitude and offer real cost savings
- ✓ **Small farmers face risk of being forced to accept relatively low prices and to use the inputs imposed on them.** Agrochemical companies do have an interest in intensive agriculture with high inputs and high outputs.

Business model of supermarkets

„Their business model, focused on maximising returns for shareholders and keeping costs competitively low for consumers, demands increasing flexibility through 'just-in-time' delivery, but tighter control over inputs and standards, and ever-lower prices."

UNDP (2005): Supermarket Buying Power, Global Commodity Chains and Smallholder Farmers in the Developing World. Human Development Report 2005.

Measures to address supermarket expansion

- ✓ **First question to answer:** „How does an equitable and sustainable food system look like?
- ✓ **Measures necessary to deal with supermarket expansion**:
  - ✓ **Restore or maintain needed policy space** for agriculture and trade
  - ✓ **Slow down of supermarket expansion**: stop investment liberalisation in the retail sector, control of market entry, zoning regulations, business licenses etc.
  - ✓ **Limit buyer power of supermarkets**: modernise competition laws
  - ✓ **Provide targeted and comprehensive support for small farmers**: reflection about the need to introduce new governmental instruments
  - ✓ **Involve all actors concerned in the formulation of standards**: governmental process criteria, impacts assessments etc.
  - ✓ **Improve access to market information and transparency**: monitoring of prices by the state and extension of information to small farmers, better access to information by consumers about origin, production method and content

Proposal for Day of Action

International of day of protest on November 17th against the Big 5 global supermarkets

(Wal-Mart, Tesco, Carrefour, Metro, Ahold).

If you are interested in organising an event in November then please do email trina.tocco@ilrf.org, ruben@igc.org or judith@jwhateley.fsnet.co.uk.