Table 8.18 - Leading brands by market segment

	Up-market	Medium	Down-market
Procter & Gamble	Ariel	Vizir	Bonux
Lever	Skip	Omo	Persil
Henkel	Le Chat	Super Croix	
Colgate-Palmolive	Dash	Axion	Gama

Source: LSA, 1998

Negotiations between producers and retailers in this market focus on a number of factors such as rebates, listing fees, services to be provided by retailers, slotting allowances and so on. Given the limited number of groups on both sides of the market, terms and conditions are normally established by secret bilateral negotiation which can also lead to discriminatory financial conditions between retailers. The market has also been apparently affected by delisting of products, and, in some cases, refusal to supply.

In 1994, the Conseil de la Concurrence carried out an investigation[51] into the market for washing powders in France. This inquiry revealed the existence of a number of anti-competitive practices in the washing powders market between 1989 and 1992, mainly concerning the relationship between manufacturers and retailers.

Amongst other things, the Conseil found:

- a number of more or less hidden rebates and fees paid by producers to hypermarket or supermarket groups. These payments were part of confidential agreements (i.e. not written into official prices) but were often included in "commercial co-operation budgets", "advertising budgets" and so on. The Conseil identified eight separate types of payment, and criticised the producers for special payments made to Intermarché, GALEC (the buying group for Leclerc) and Système U, along with criticising the retailers for undertaking these arrangements.
- several cases of delisting had occurred. For example, in 1989, Sachap (the regional buying group for Leclerc) refused to purchase Lever's brands, in protest against Intermarché's low prices, which, according to Scachap, revealed discriminatory conditions. Lever's brands were boycotted for four months, until Lever paid a special fee.
- producers often try to impose conditions too and sometimes use practices like resale price maintenance or refusal to deal. For instance, Henkel was criticised for having imposed a minimum retail price on its main retailers. Moreover, these minimum prices were found to be discriminatory. At the same time, Procter & Gamble proposed recommended prices and was not criticised. Also, the four main producers

51. Decision N. 94-D-60, 13th December 1994.

refused to supply some products to Intermarché in 1989 and 1990 in protest against the retailer selling at a loss.

- finally, there was some evidence that branded washing powders were sold at a loss. Competition on branded washing powders is very intense at the retail level, and margins are typically very thin and, in some cases, negative. In 1994, for example, Lever accused Intermarché of selling its brands at a loss: Intermarché published a promotion catalogue which announced a retail price for Lever's brands that undercut the wholesale price by 2.5%.

We spoke to several leading producers in this market. They argued that buying power was a very important problem in France. Yet it appears that the brand leaders have very strong brands and this strengthens their bargaining power with retailers. Refusal to purchase is now very rare and it seems unlikely that own brands will increase market share markedly from the level so far attained. On the other hand, one major concern of retailers is to limit the increasing number of reference points, and to avoid the over-segmentation of the market. They are trying to obtain the removal of some products from manufacturers. This could be a central point in forthcoming negotiations.

8.6.2 Coffee

The coffee market has two main sub-markets: roast and ground coffee and instant coffee. In France, instant coffee constitutes 20% of total coffee consumption in volume compared to nearly 90% (in sales value) in the UK. In the roast and ground coffee market there are three main segments: Arabica, Mixed coffee and Decaffeinated coffee, but a finer market segmentation would also distinguish different quality levels.

The following table shows the evolution of the share of the average consumers budgets allocated to the consumption of coffee (and other beverages). After a fall at the beginning of the nineties, the share of the consumers' budget allocated to the consumption of coffee (and other beverages) has increased again recently, and its level in 1996 is slightly more than in 1990. However, tea and other beverage consumption has increased in this period, and in fact, coffee consumption declined slightly in 1996 (and 1997).

Table 8.19 - Coffee (and other beverages) in the average consumer budget

Years	**1990**	**1992**	**1993**	**1994**	**1995**	**1996**
Budget Coefficient for Coffee, Tea, Herb Tea	0.323	0.272	0.265	0.290	0.340	0.346

Source:Insee 1995, 1996.

One of the main reasons for this is the rise of the world price of Arabica (+ 50%) and of Robusta (+ 40%) in 1997. This increase has affected prices in supermarkets by 25% to 40%. Distributors reflect the increase in these costs in coffee national brands although to some extent they smooth out price increases for own brands and low price coffee.

Table 8.20 shows the sales of roast and instant coffee in France for 1998.

Table 8.20 - Sales of coffee in France, 1998

Product	Roast coffee	Instant Coffee
Turnover in FFr. millions	7,581	2,517

Source: Eurostaf, 1998

The two main producers of roast coffee in France are the Kraft Jacobs-Suchard which has a market share of 44%, and Douwe Egberts' with a market share of about 16% (Table 8.21). Italian groups like Lavazza or Segafredo and the French group Legal S.A follow. Own brand market shares are growing with sales of 17% in 1997. The market for instant coffee which is, of course, much smaller is dominated by Nestlé with Nescafé having nearly 70% of the market. The second producer on the French market is Maxwell, a General Foods subsidiary, whose market share is about 15%. Own brands provide 6.2% of the market and other brands 8.8%.

Table 8.21 - Leading brand market shares, 1996 and 1997

Brands	**Market shares in volume (1996)**	**Market shares in volume (1997)**
Maison du Café (Douwe Egberts)	14.9%	16.5%
Carte Noire (K-J-S)	17.0%	16.5%
Jacques Vabre (K-J-S)	14.2%	13.8%
Grand Mère (K-J-S)	13.2%	13.2%
Lavazza	7.0%	6.2%
Segafredo	5.8%	5.4%
Legal	5.6%	4.5%
Malongo	3.0%	3.1%
Own Brands and First Price Products	15.9%	17.3%
Other Brands	3.3%	3.4%

Source: LSA Février, 1998

The major producers of coffee are subject to pressure from the major retailing chains to reduce prices for this product. In particular, when the coffee price increases (as for instance occurred during the summer of 1994 and at the end of 1996), retailers may try to impose a delay on producers before they can pass the increase on in wholesale prices. This delay enables retailers to lay in stocks, and when producers raise their prices retailers need to purchase less coffee. That can account for why retail prices do not always reflect changes in the underlying coffee price. As the coffee price is very volatile, producers, tend to bear the larger part of costs induced by market volatility.

In this market, retail prices usually reflect wholesale prices, as retailers typically charge a very small mark-up for the major coffee brands, because coffee has traditionally been considered a loss leader or very low-margin item. Nevertheless, since the Galland law forbids sales at a loss, retailers are no longer able to have negative margins. As with other products (and other countries) retailers charge higher margins on own brand products.

Coffee is similar to other products in that retail grocery chains often ask coffee producers to pay for special services. These services are, for instance, communication services (regional advertisements) or rents for end-of-aisle displays, that tend to increase the demand for a brand. This allows retailers to obtain rebates, the amount of which producers estimate at between 15% and 30% of sales. Buying groups can also require up-front fees from the producers.

Refusal to purchase appears rare in this market, but sometimes a retailer may stop listing one brand which for a secondary producer can induce serious losses.

It is expected in the next few years that concentration in the roast coffee market will increase, although own brands will also probably increase their market share. As in other markets this will put pressure on secondary producers. In this case, however, the low technology involved and the availability of sales to restaurants and cafés (accounting for 30% of total consumption) mean that a sizeable number of secondary producers are likely to survive. In the Instant sector, Nestlé is likely to continue to dominate the market.

8.6.3 Butter and Margarine

The butter and non-butter spreads market is divided into three segments in France: butter, margarine and low fat products (typically with less than a 60% fat content). Sales of butter (the largest segment) were Ffr. 6.0 billion in 1997 (Table 8.22) compared to margarine (Ffr. 1.4 billion) and low fats (Ffr. 0.8 billion). Consumption of margarine is much lower in France than the European average, with 3.5 kg/hab/year in 1997 compared to 6kg/hab/year.

Table 8.22 - Total turnovers of butter and margarine, 1997

Products	Butter	Margarine	Low fat products
Turnover Ffr. m.	6028	1385	836

Source: EUROSTAF, 1998

In the butter sector, the market is very atomistic and own brands and low price products represent more than two thirds of the market volume. The four first brands, Président, Elle & Vire, Paysan Breton and Bridel represent only thirty one per cent of the market (Table 8.23). On the other hand, margarine is dominated by Unilever which controls Astra and supplies nearly half of the margarine market. In this sub-market, own brands and first price products represent about one third of the whole market. Vamo is the main company that produces first price products and own brands for supermarkets. To capture consumers, margarine producers adopt two kinds of strategy. The first one concerns the design of products: margarine is sold in small tubs instead of packs. The second strategy consists of a very high segmentation of the market with nearly fifteen brands and only a few producers.

Table 8.23 - Market shares in butter, margarine and low fat products, 1998

Groups	**Butter**	**Margarine**	**Low fat products**
Astra Calvé	*Total: 0%*	*Total: 47%* (Fruit d'or, Plantafin, Equilibre, Effi, Astra, ...)	*Total: 39%* Fruit d'or (8.4%) Effi (10.5%) Plantafin (20.1%)
Besnier	*Total: 18.1%* Bfpridel (4.4%) Président (13.5%)	*Total: 0%*	*Total: 9.5%* Bridélight (5.6%) Bridélice (3.2%) Président (0.7%)
Cema		Primevère (1.3%)	
CLE	Elles § Vire (6.7%)		
Laïta	Paysan Breton (6.3%)		
Vedial	*Total: 0%*	*Total: 19%* (Prima, St Hubert 41, Le Fleurier,Mr Tournesol, Tournolive...)	*Total: 34.8%* Prima (3.3%) St Hubert 41 (18.7%) Le Fleurier (12.8%)
Own brands	26.9%	19.4%	7%
Others	42.2%	13.3%	9.7%

Source: Iri-Secodip, April, 19th 1998 and RIA 1998.

In the low fat content sector the leading group Astra Calvé has a 39% market share in 1998 followed by Védial 35%.

The market for butter is particularly interesting in this case. Given the atomistic nature of supply, the retailers are in a strong position to squeeze as much profit as possible out of the small suppliers. Retailers may obtain fees for listing products, for making certain types of shelf space available, for end of aisle displays and so on. Moreover, distributors may treat butter as a loss leader and often set zero margins on branded butter products, whilst realising positive margins on own brand products. From the point of view of the consumer, therefore, butter is sold at a very advantageous price. But other, smaller retailers may suffer as a consequence of this, and producers themselves may be forced to toe the line or lose their sales. There is a case, therefore, for arguing that retailer buying power could be detrimental in this respect: i.e. it tends to increase the pressure on small retailers' ability to survive, and similarly for small producers.

On the other hand, it could be argued that in terms of economic efficiency, small producers should only be allowed to make normal profits and that pressure by retailers ensures this is so. But this ignores the fact that by a change of policy, a retailer could effectively put a supplier out of business, and this is clearly a major threat as far as the supplier is concerned. This raises the issue of economic dependency, and the extent to which retailer power might be a concern for competition authorities.