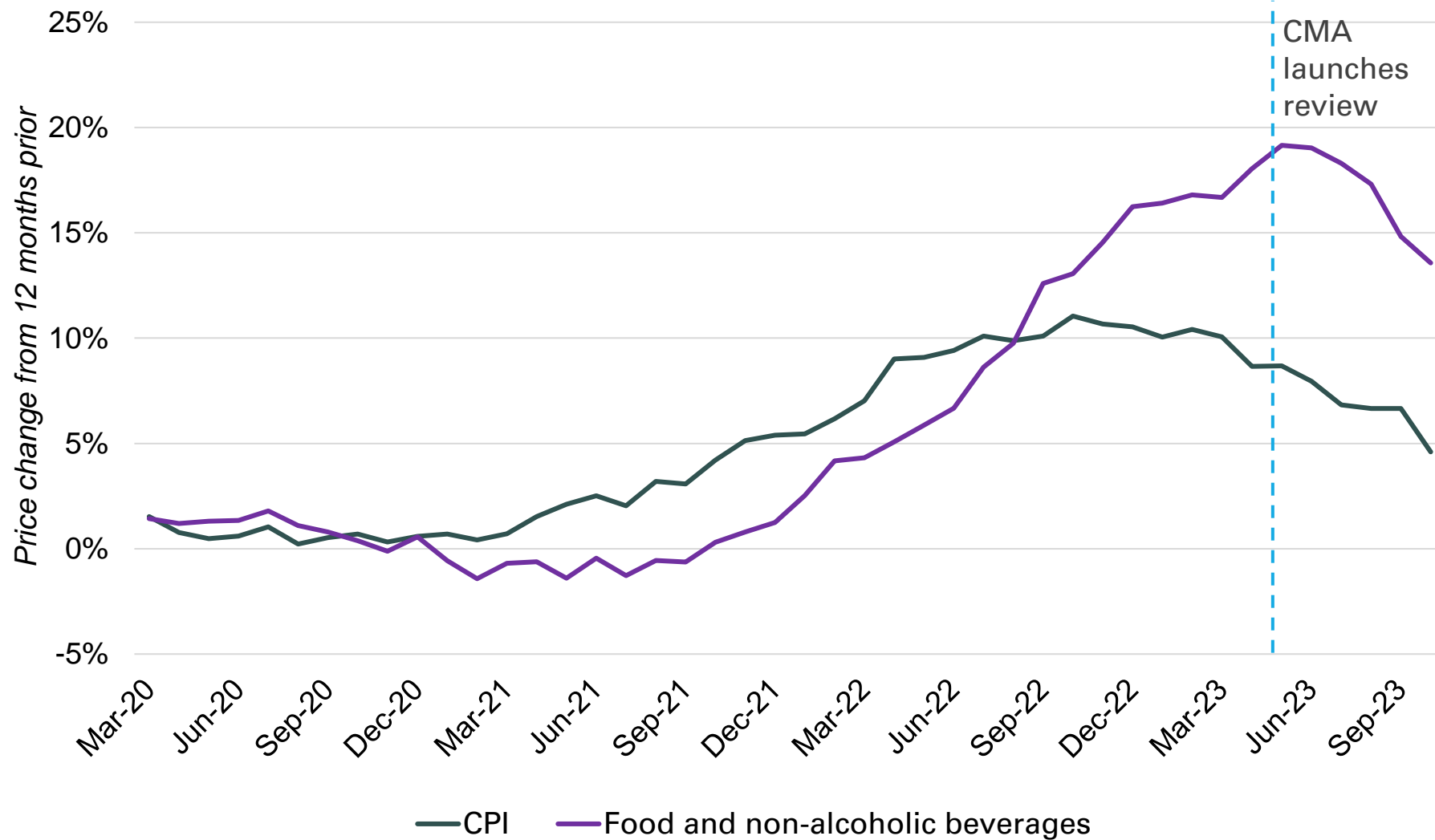


# CMA review: competition and price inflation in groceries

Friday 8<sup>th</sup> December



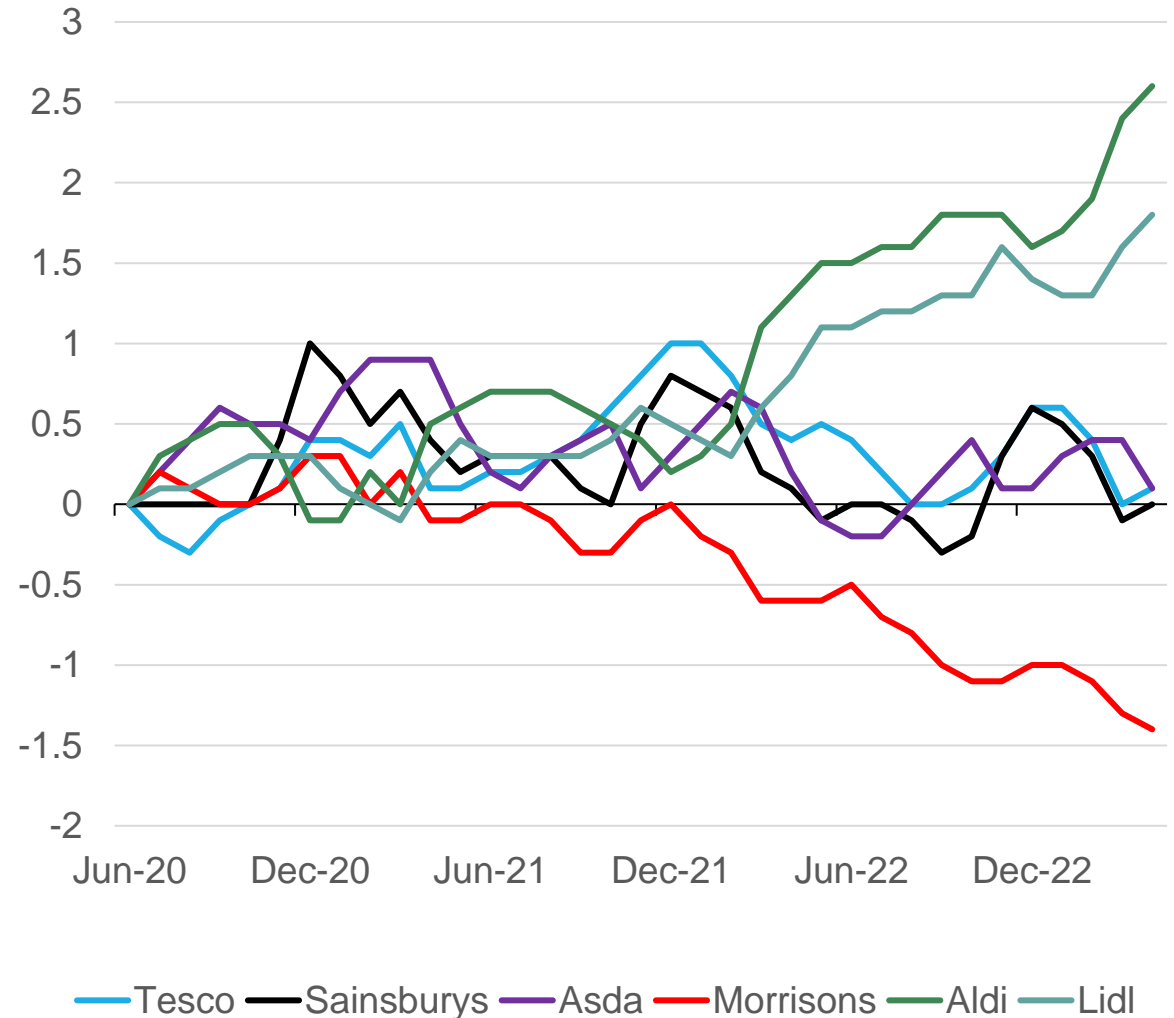
# Food price inflation and CPI



# Retail competition

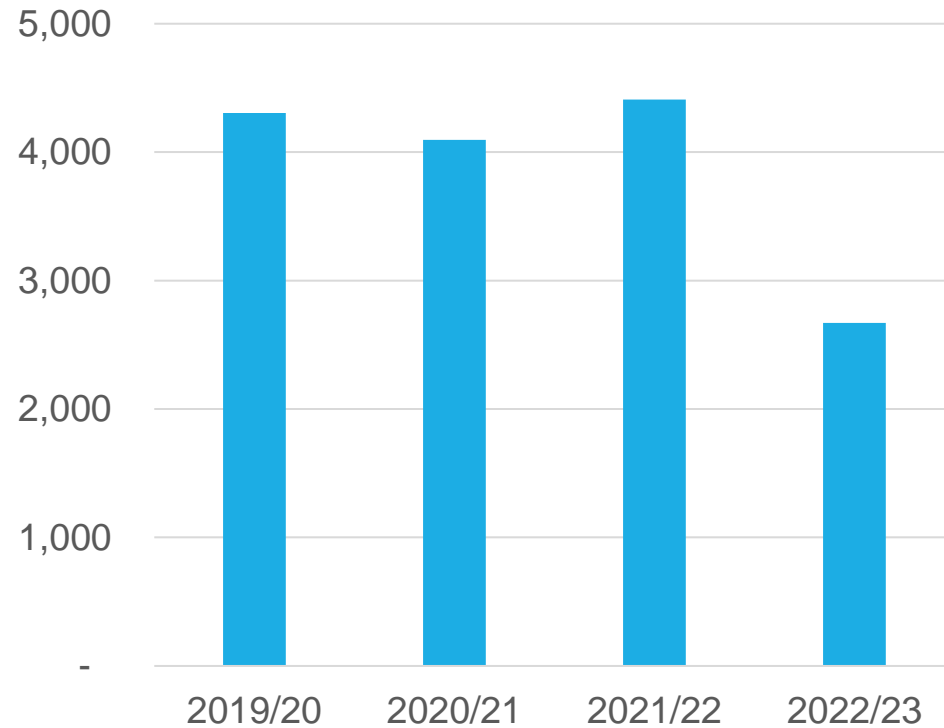
- The growth of the discounters has put pressure on competitors to reduce prices
- Consumers have been switching to lower price retailers
- Retailers whose relative prices rose have lost market share

Change in market share, June 2020 to April 2023

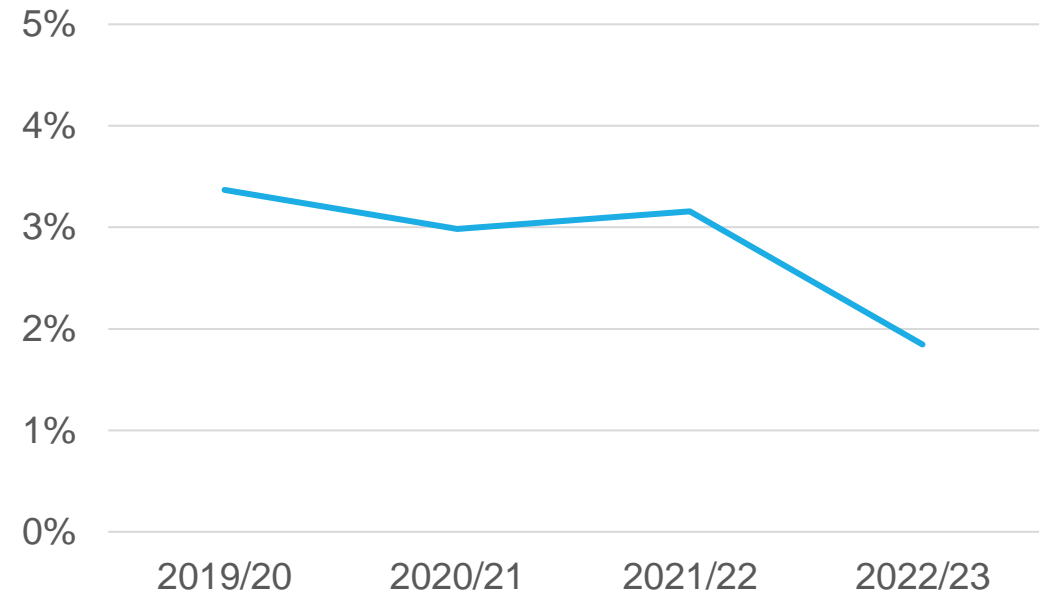


# Retailer profitability

Aggregate operating profit for the retailers' grocery businesses between FY 2019/20 and FY 2022/23 (£m)



Weighted average operating margin for the retailers' grocery businesses between FY 2019/20 and FY 2022/23





## GROUP A

**Product categories:** Infant formula, baked beans, mayonnaise, pet food

**Characteristics and profitability levels:**

- Brands are very, or relatively, important
- Margins are highest
- Unit profitability has increased but overall margins have declined,
- absolute profit performance has been mixed

## GROUP B

**Product categories:** Bread, lemonade, chilled desserts, ready meals

**Characteristics and profitability levels:**

- Brands are relevant but own-label is a strong alternative
- Profit levels are moderate (low for own-label producers)
- Overall margins and absolute profit levels have declined



## GROUP C

**Product categories:** Milk, poultry

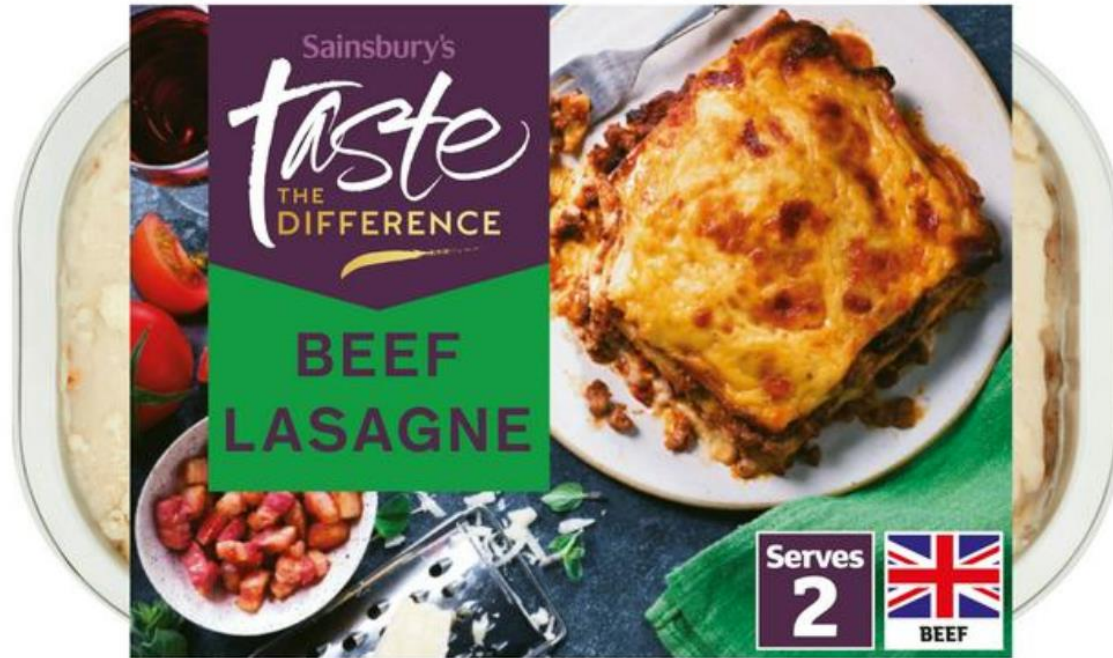
**Characteristics and profitability levels:**

- Essential, commodity-type goods, almost exclusively own-label
- Concentrated supply but low margin
- Mixed picture in terms of trends in margins and absolute profit



# Relationships between manufacturers and retailers

We need to differentiate between brands and own-label



# Relationships between manufacturers and retailers

## Own-label

- Manufacturers compete strongly for large tenders
- High degree of cost transparency (cost-pass through or open book)
- In some cases, concentrated markets (eg milk, poultry)
- Evidence of retailers switching
- Over-capacity in some product categories (eg poultry, ready meals)
- Low margins

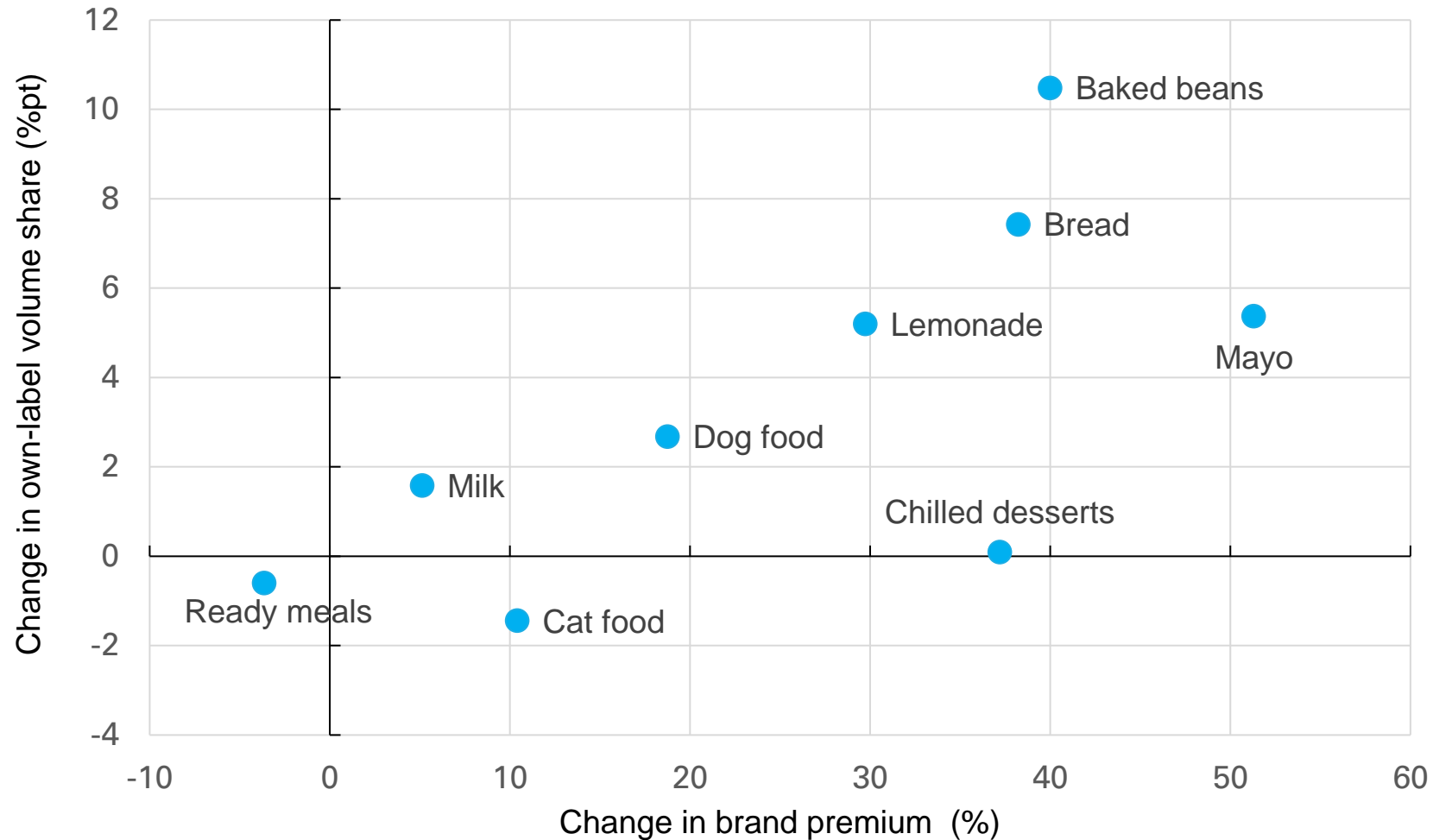
Conclusion: retailers appear to be able to obtain competitive prices for own-label supply

## Branded

- Necessarily only one manufacturer for any particular brand
- Some are 'must stock' brands
- Negotiations centre around list prices and adjacent promotional funding
- Retailers can offer shelf positioning as an incentive
- Higher profits
- Both sides say negotiations are tough
- Bargaining position depends on importance of overall brand portfolio and market share of the retailer

# Switching to cheaper own-label products

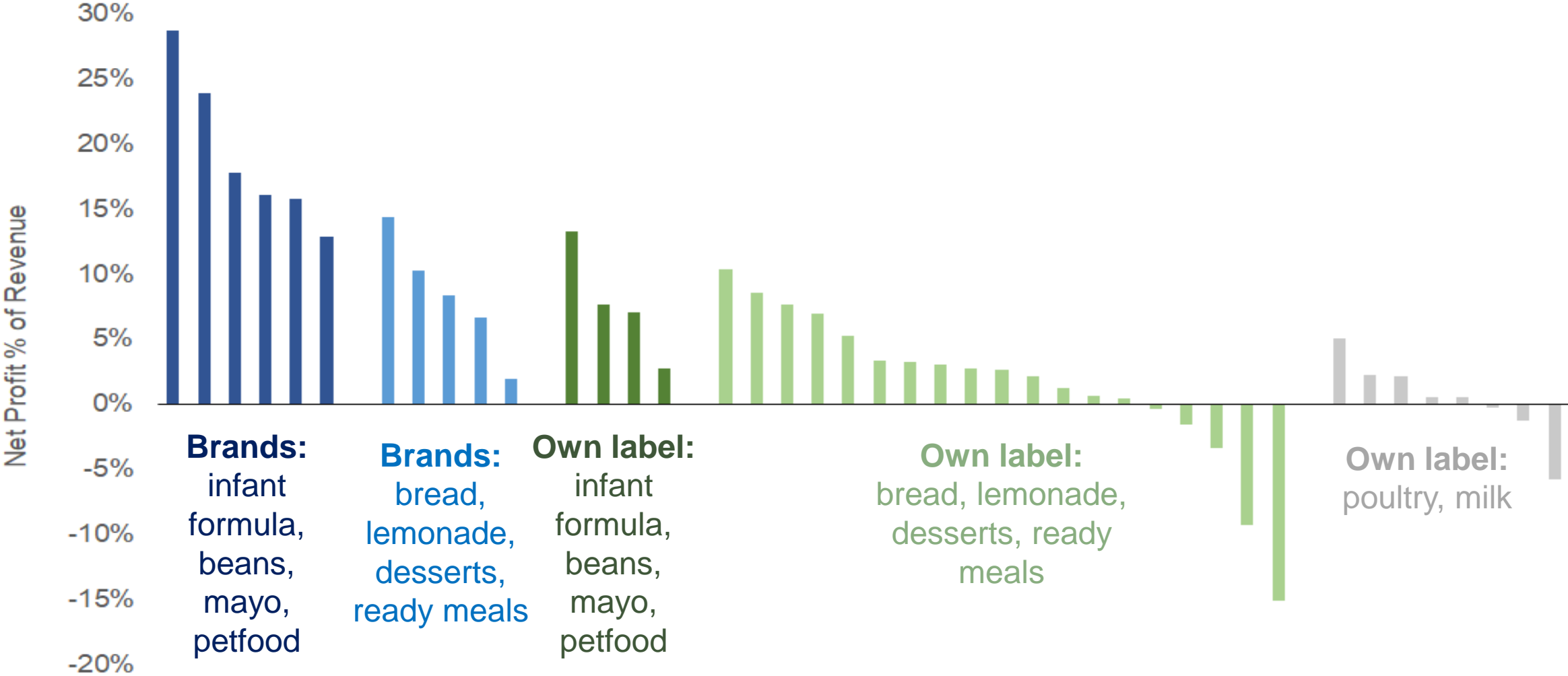
Change in brand premium compared to change in own-label share between September 2021 and September 23



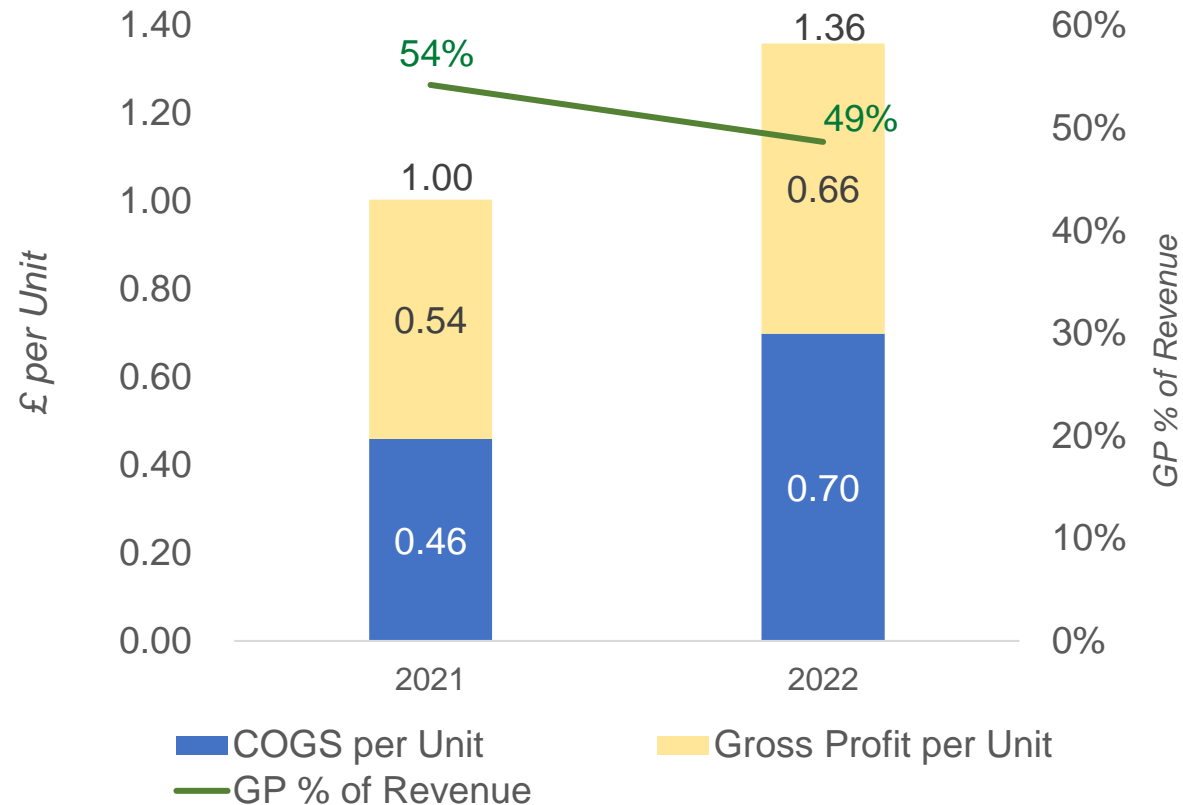


# Profitability

Average net profit, 2020-2022, % of revenue



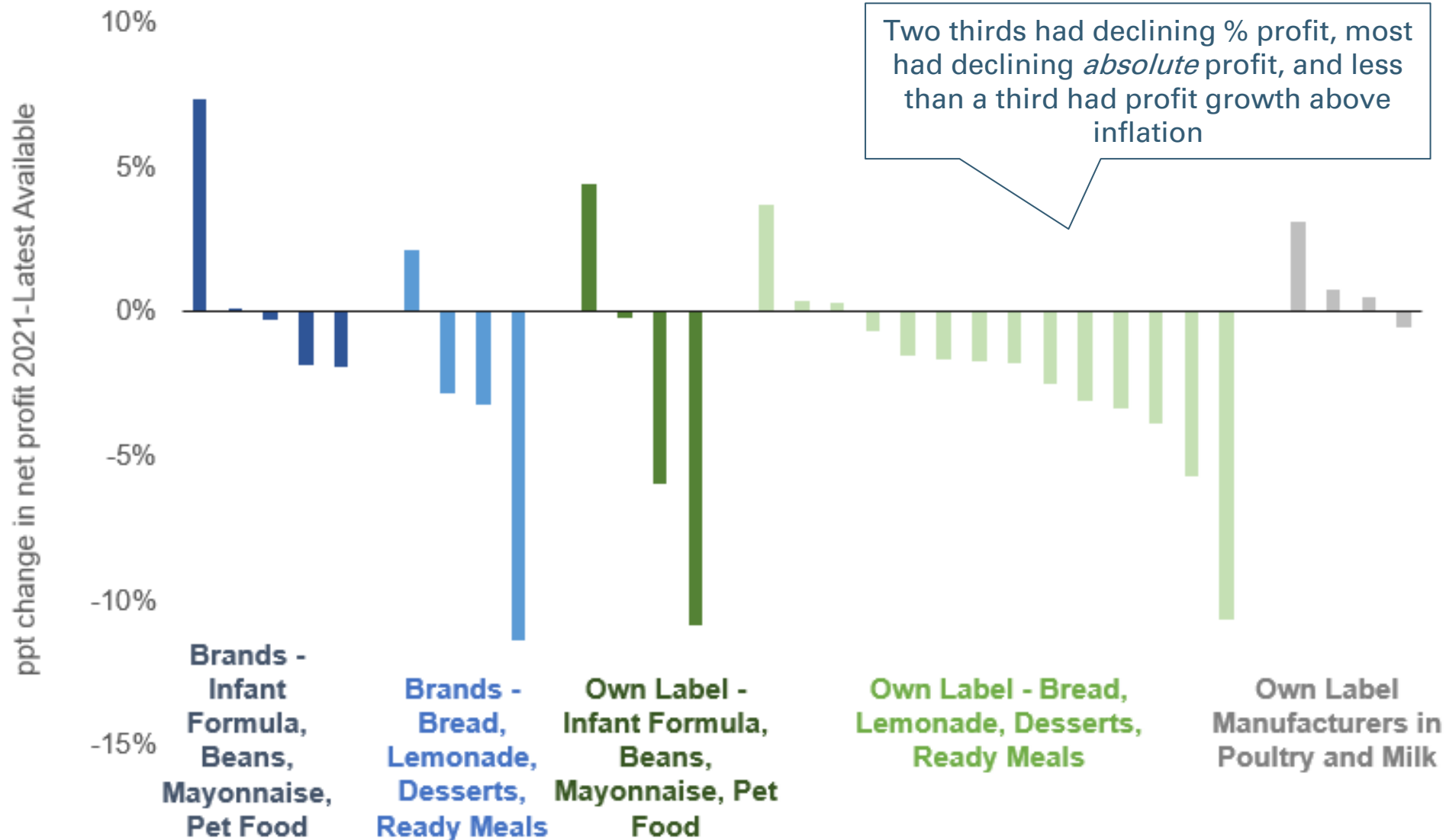
# Unit prices rose more than costs...



**Cost per unit has risen by 24p, but price has risen by a greater amount: 36p**

**However, profit as a percentage of revenue has fallen, from 54% to 59%**

# Most suppliers (branded and own label) had *declining profitability*



# Conclusions

- **Retailers appear to get competitive prices from own-label manufacturers, and seem to be passing these on to consumers**
- **For many brands (and some own-label), prices rose by more than costs increased**
- **Those who stay loyal to brands will be paying more, but many consumers have switched to own-label**
- **We have not seen evidence that weak competition - between retailers, or between food manufacturers - has materially contributed to overall food price inflation**
- **However:**
  - **Some consumers don't have access to own-label products**
  - **The story is different for infant formula**