Lesson 1.4 – Retailers and Consumers, the Big Picture

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Learning Outcomes

- Recognize the ongoing shifts in food retail structure characterizing the modern distribution in European countries,

- Recent changes in consumer behaviour characterizing modern consumption patterns.

The European Food Retail Industry

1) Decentralization of retail operation; growth of larger, more isolated operations (around cities but not necessarily inside the cities)

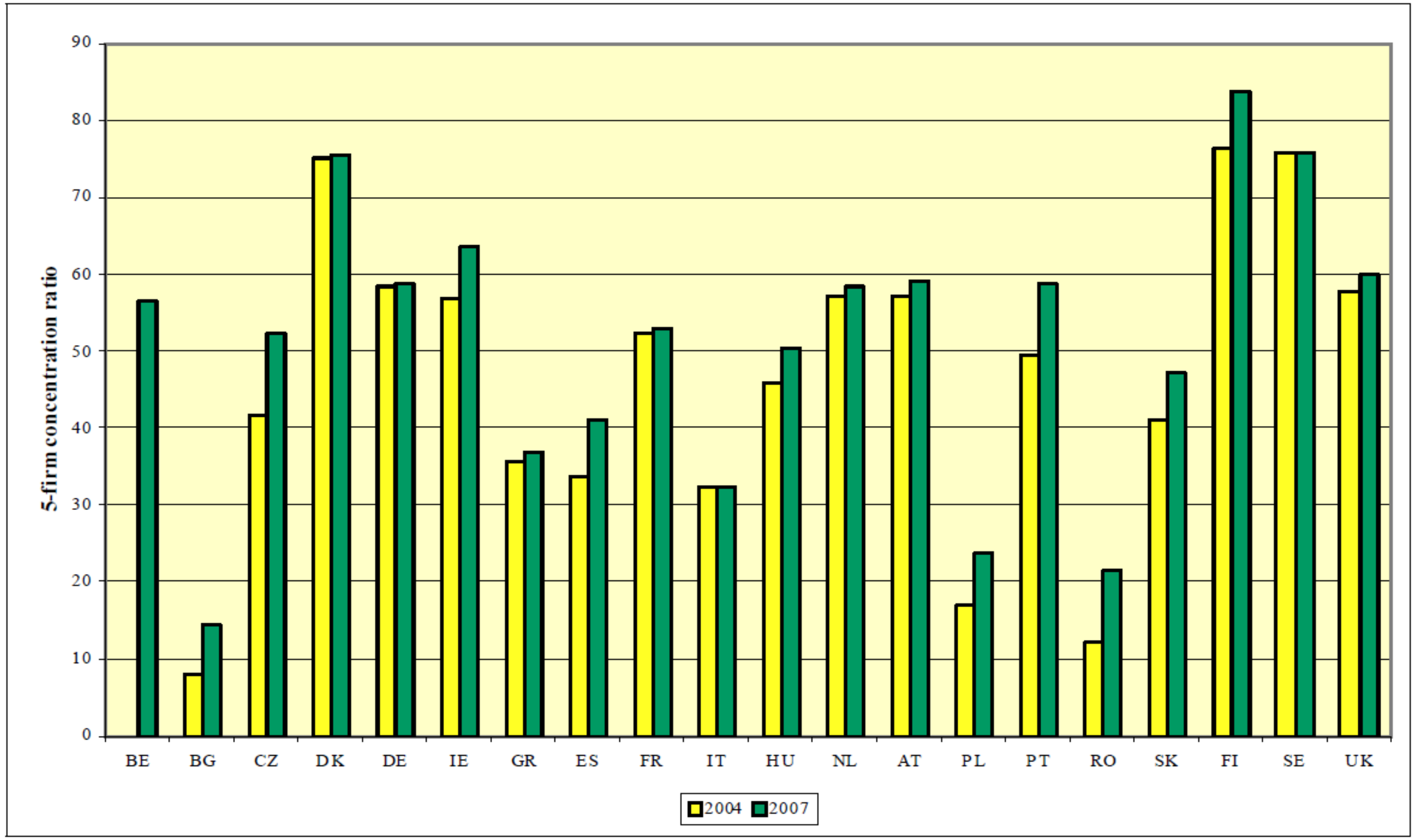
2) Differentiation of store formats to cater more to specific consumer segments; larger stores not only capable to provide more services; also more efficient;

3) Increased in size and power; changes in the structure along the supply chain.

These are pervasive trends BUT do not apply equally to all State Members

Food Retailers Concentration in the EU

Figure 13: Combined market share of the five largest retailer chains (2007) and change (2004-2007)

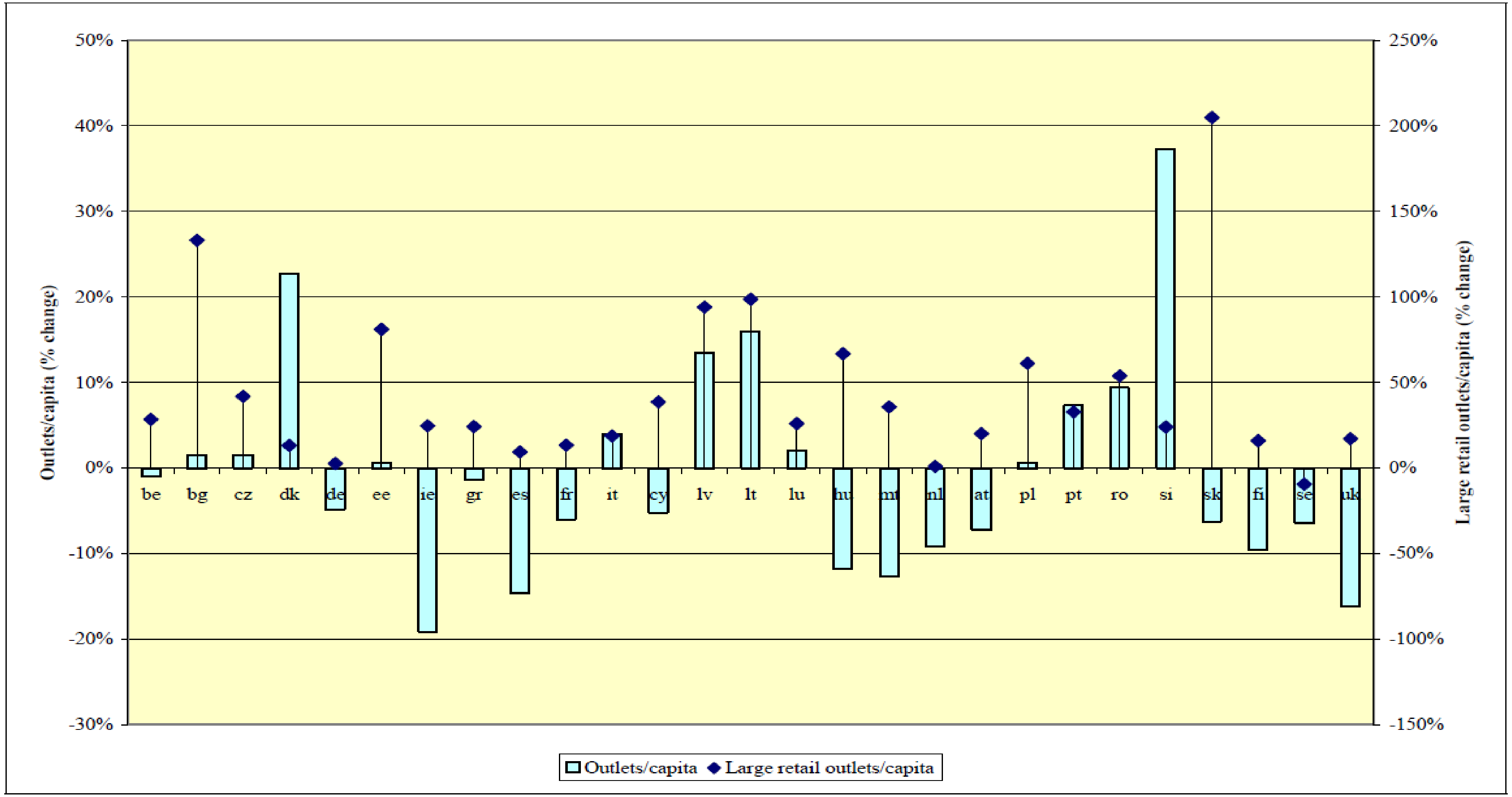


Note: There are no data for CY, EE, LT, LV, LU, MT and SI. Market shares are based on turnover and include non-food items sold by retailers.

Source: Bukeviciute et al.(2009) "The functioning of the food supply chain and its effect on food prices in the European Union"

Food Retailers Consolidation in the EU

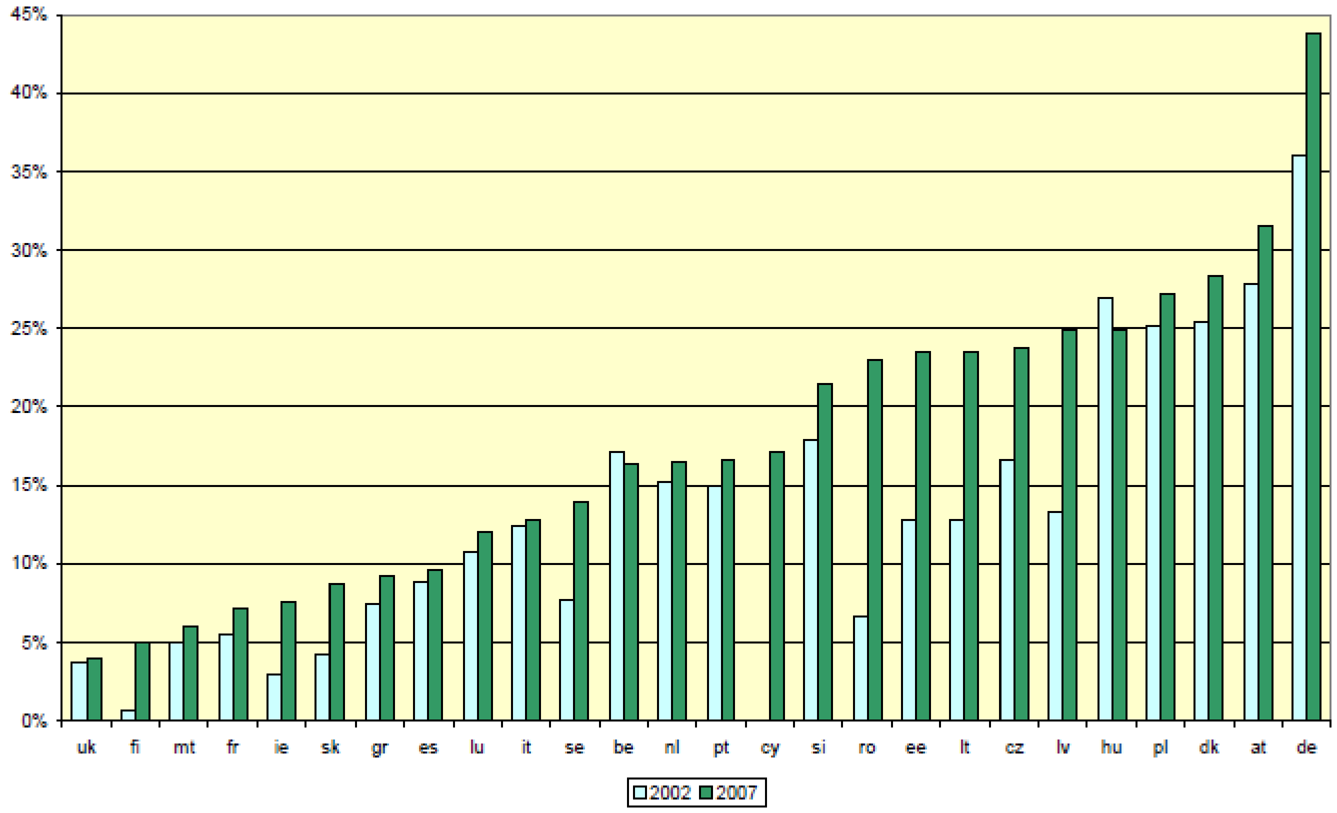
Figure 14: Change in number of outlets per capita, 2002-2007



Note: Large retail outlets include hypermarkets, supermarkets and discounters.
Source: Euromonitor International

Source: Bukeviciute et al.(2009) "The functioning of the food supply chain and its effect on food prices in the European Union"

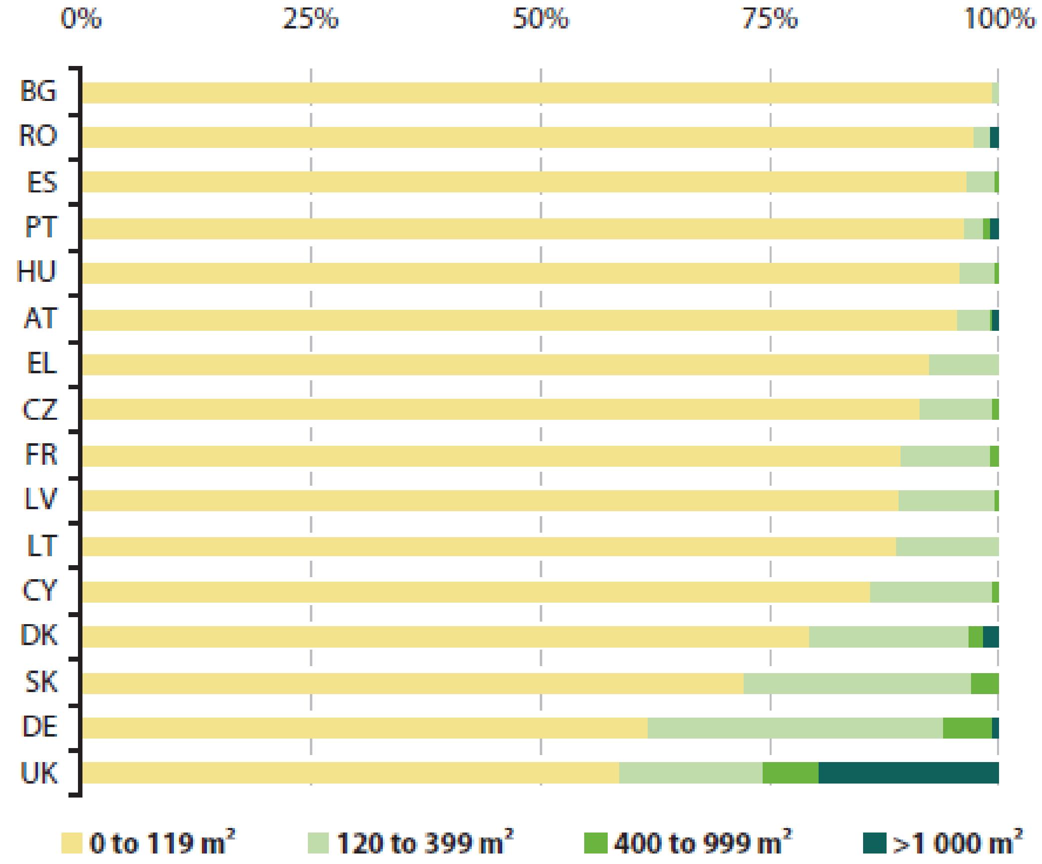
Combined market share of retail discounters, 2002 and 2007



Note: Market share calculated as the share of discounters' turnover in turnover of large retailers (hypermarkets, supermarkets and discounters).
Source: Euromonitor International

Source: Bukeviciute et al.(2009) "The functioning of the food supply chain and its effect on food prices in the European Union"

Number of stores by category of sales space, retail sale of food, beverages and tobacco in specialised stores, 2007 (1) (% of total stores)



(¹) NACE Rev. 1.1 Group 52.2; no data available for those Member States that are not shown.

Source: Eurostat (Structural business statistics, online data code: dt_oth_3d52_spa)

Source: Adapted from Martinez-Palou and Rohner-Thielen (2011) "Food: from farm to fork statistics"

European Consumers: Who are they?

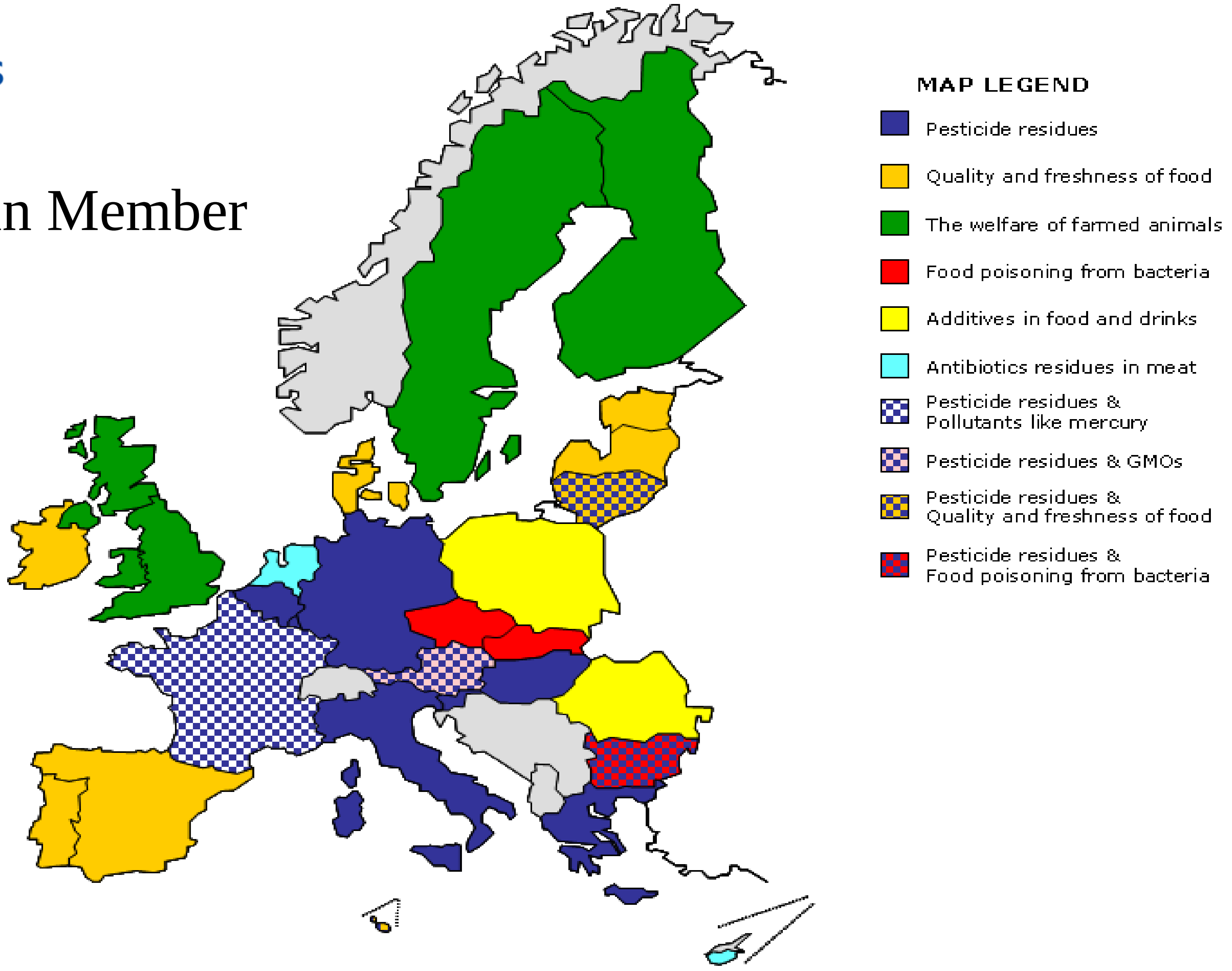
The Modern EU Consumers

Modern consumers show very heterogeneous taste; the role of food has gone beyond that or providing nourishment

- Time saving features, the trade-off between price and added service and quality;

- A stronger interest for quality, health, fairness in food production and sourcing, non-traditional production methods (organic, sustainable, biodynamic etc…)

Top concerns in Member States

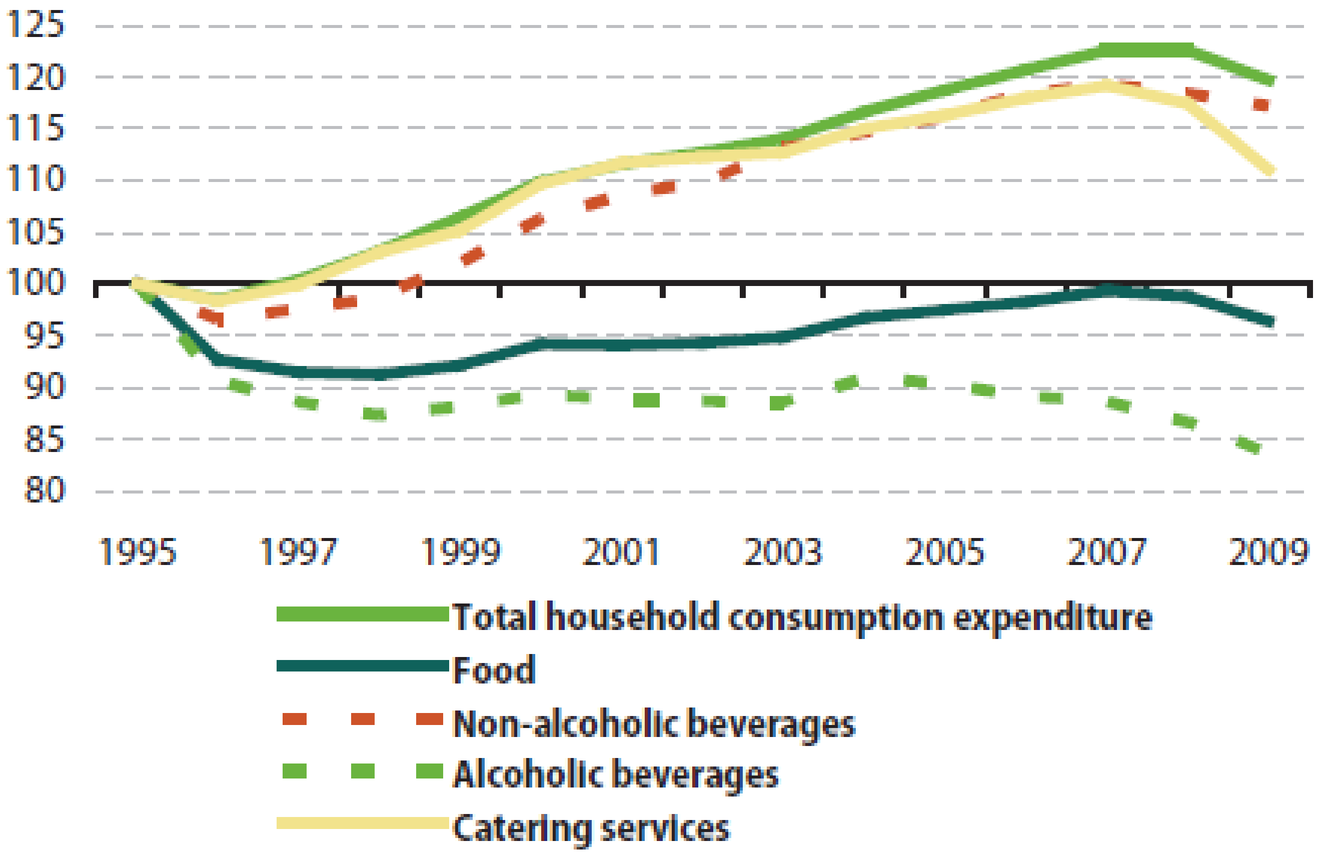


Source: Special Eurobaromater, 2010, SPECIAL EUROBAROMETER 354 - Food-related riskshttp://www.efsa.europa.eu/en/riskcommunication/riskperception.htm

Income constraints, education, traditions, and structural economic features affect the composition of consumer diets and food spending (over time as well as across countries)

Figure 6.12: Development of household final consumption expenditure, volumes, EU-27

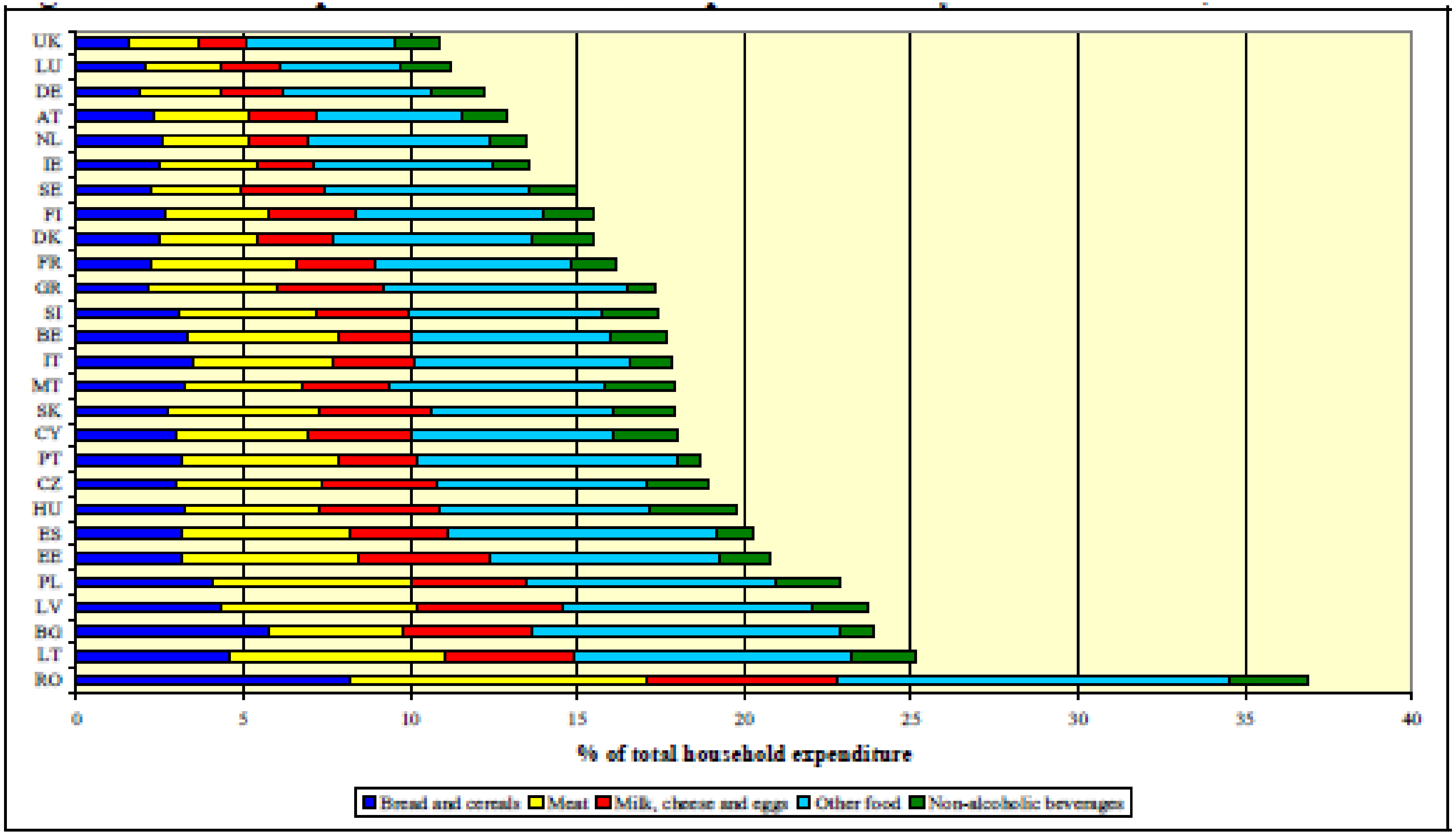
(1995=100)



Source: Eurostat (National accounts detailed breakdowns, online data code: nama_co3_k)

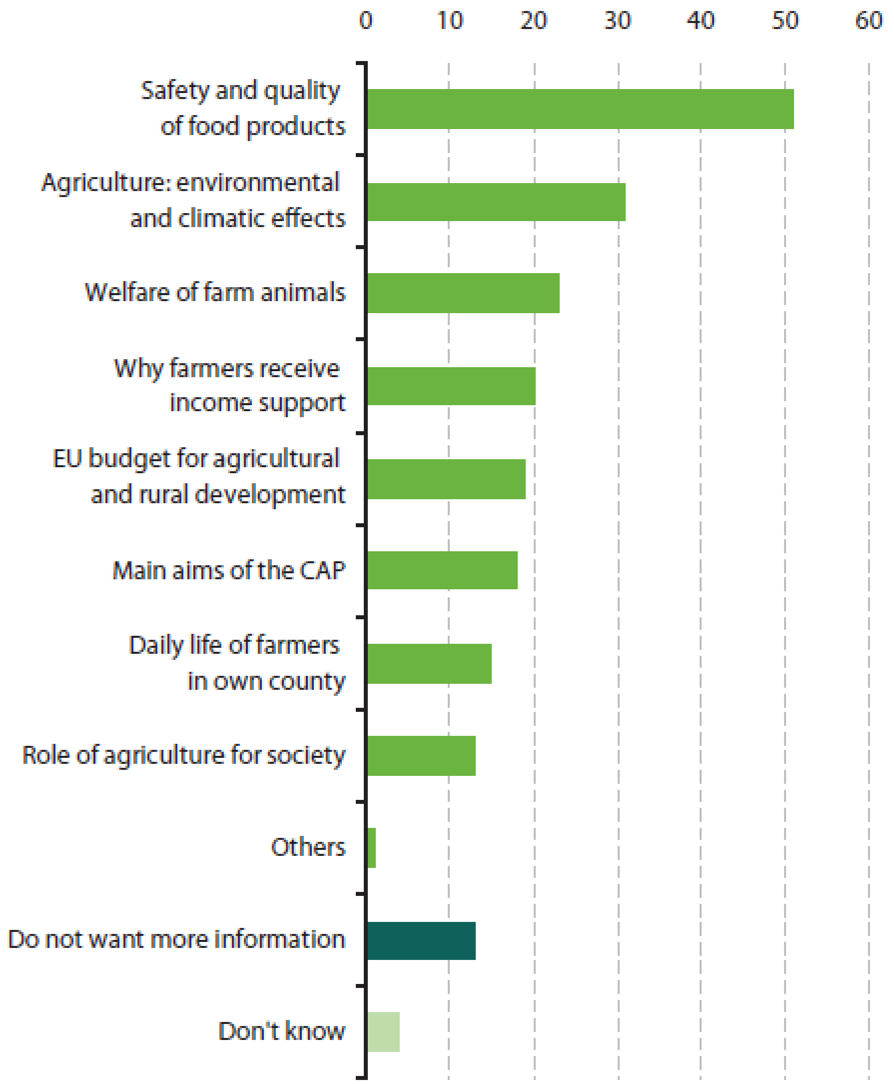
Source: Martinez-Palou and Rohner-Thielen (2011) “Food: from farm to fork statistics”

Composition of food consumption basket by Member State, 2008



Source: Eurostat (based on HICP weights)

Source: Bukeviciute et al.(2009) "The functioning of the food supply chain and its effect on food prices in the European Union"



(¹) A maximum of three answers allowed.

Source: Europeans, agriculture and the common agricultural policy, Special Eurobarometer 336, November-December 2009 (http://ec.europa.eu/public_opinion/archives/ebs/ebs_336_en.pdf)

Agricultural topics on which the public express a wish to have more information, EU-27, November-December 2009 (1)(%)

Source: Martinez-Palou and Rohner-Thielen (2011) “Food: from farm to fork statistics”

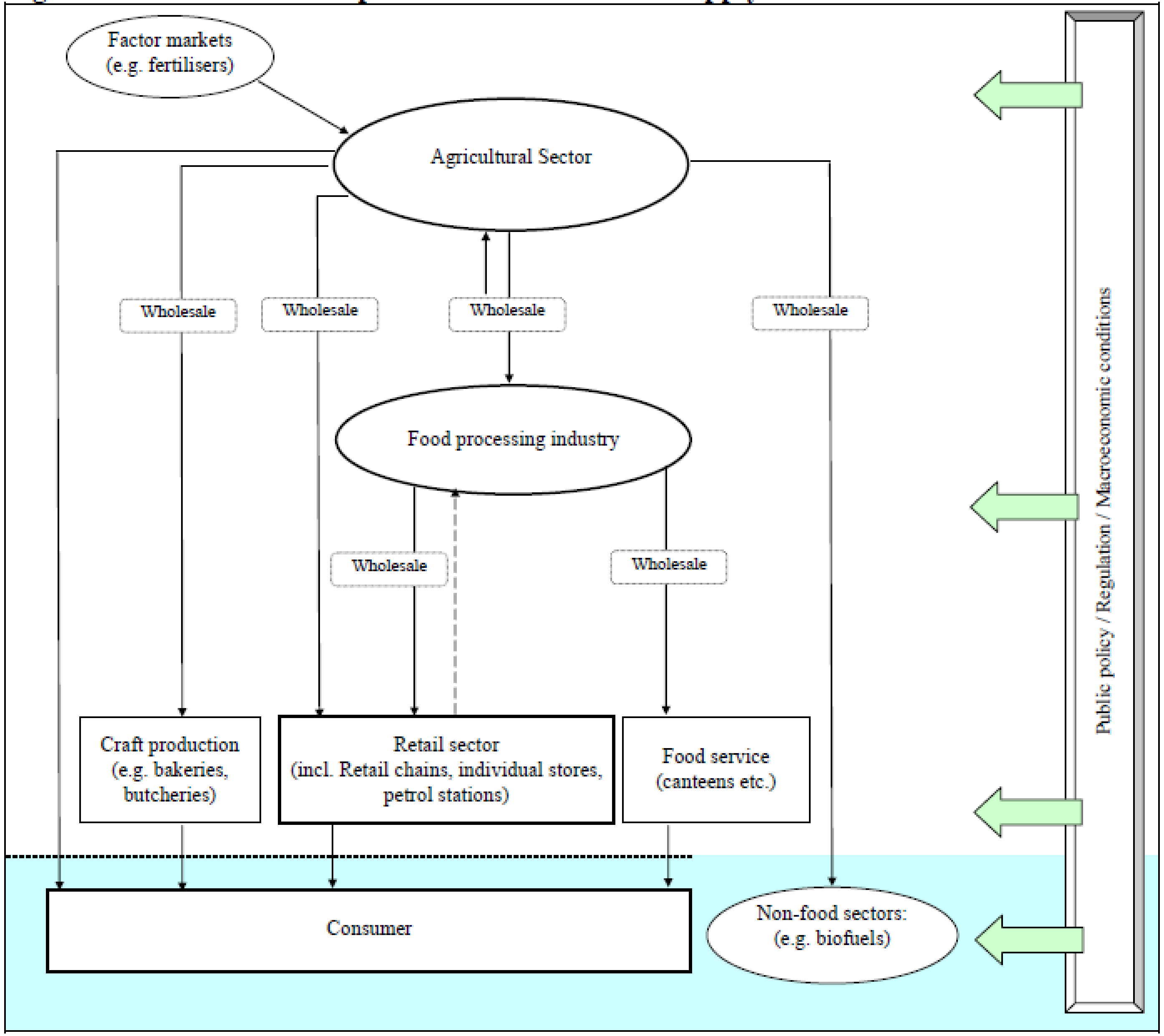
Let’s look at the big picture …

Agribusiness

- The term Agribusiness dates back to 1957.
- In recognition that farms had become part of a much longer and industrialized **Food Value Chain**, Goldberg and Davis (Harvard Business School). defined such chain, as a whole as agribusiness.
- The contribution of "on-farm" business to agribusiness sector has been shrinking compared to that of the UPSTREAM input suppliers (seed, chemical suppliers etc…) and the DOWNSTREAM processing, storage, transport, packaging, marketing and retail industries.

In the discussion that follows I will use the terms agri-food sector, agribusiness, food supply chain interchangeably !!!!

Figure 1: Schematic representation of the food supply chain



Source: Bukeviciute et al.(2009) “The functioning of the food supply chain and its effect on food prices in the European Union”

The Agribusiness Sector and its Structure

- High level of industrialization and CONCENTRATION of some components of the agribusiness sectors
  - upstream, such as the seed industry,
  - downstream such as food manufacturing / retailing

Advantages: more opportunities for innovation, efficiency in production and distribution, economics of scale / scope, better informed production / marketing decisions/ safer products.

Critiques: consolidation (i.e. market concentration) leads to “market failures” and unbalanced market power along the channel; it may (indirectly) contribute to some current issues such as and unhealthy diets/obesity epidemic...

Structure of the food system

Number, size and level of "vertical integration" matter

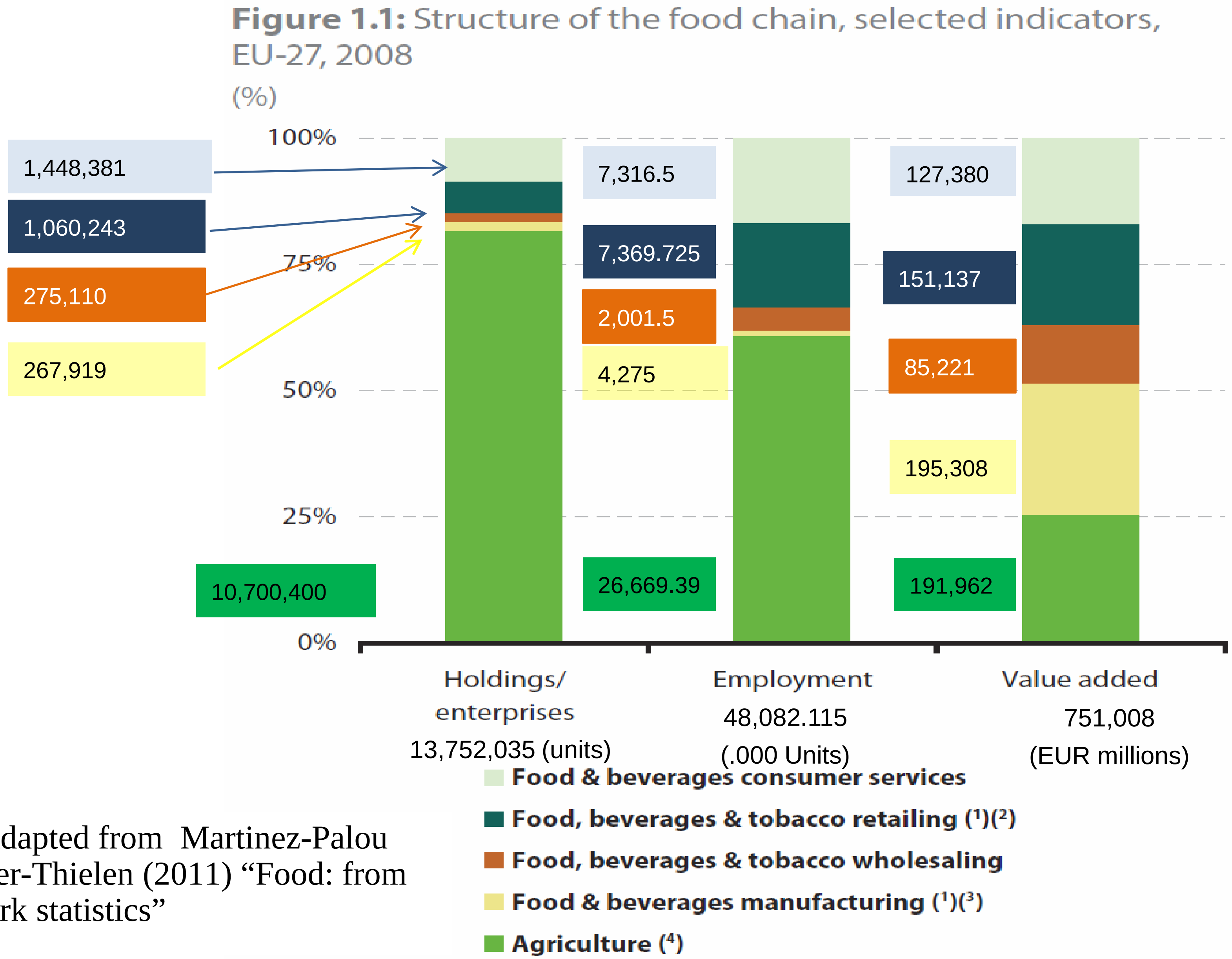
Large firms may have more resources and incentives to invest

Industrial concentration is an important indicator of industry structure

Concentrated industries are associated with:

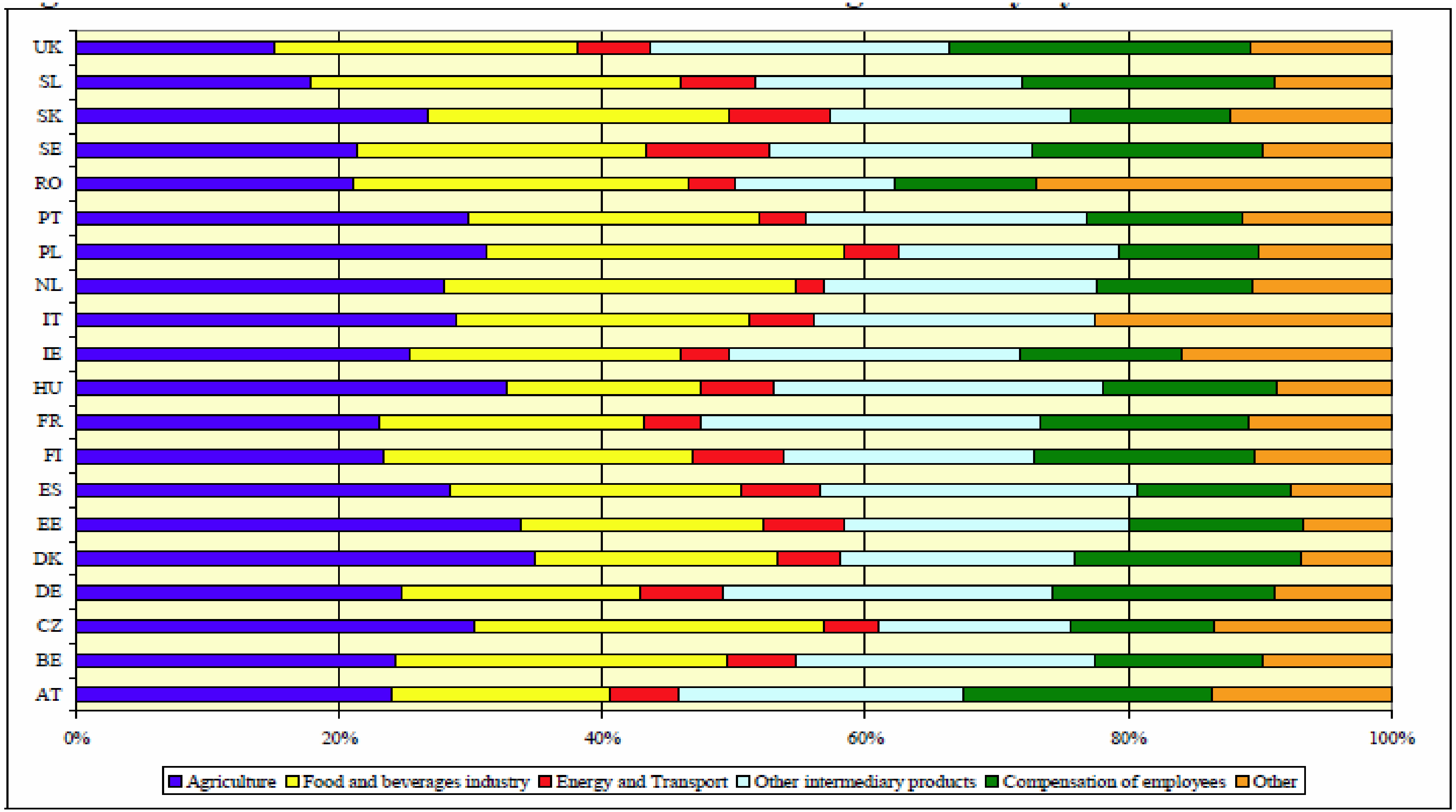
- Increased efficiency (economies of scale / size/ scope)
- Barriers to entry/exit
- "Deeper pockets" i.e. higher capacity to invest
- Market power (pricing power; upstream and downstream)

The European Food Supply Chain



Source: Adapted from Martinez-Palou and Rohner-Thielen (2011) "Food: from farm to fork statistics"

Contribution of different sectors to food costs in the EU



Source: own calculation and sub-aggregations based on ESTAT. Only Member States included where Input/Output tables for 2003 or after are available.

Source: Bukeviciute et al.(2009) "The functioning of the food supply chain and its effect on food prices in the European Union" Page 11

Take-home messages

- Food retailers are becoming concentrated and consolidated;

- Thanks to their size and to the proximity with consumers, dictate conditions to may of the other actors in the supply chain

- European consumers are heterogeneous, but on average more informed; they value quality, and products with different characteristics satisfying their needs – which go beyond acquiring nourishment

Take-home messages

- The European Agri-Food sector is complex and structurally diverse;

- The interactions of the different agents along the supply chain (including consumers and policymakers) result in complex dynamics that lead to challenges and opportunities for all the agents involved and call for a comprehensive and holistic analytical approach (otherwise, why would you be needing this course ? ☺)

Group Project / Assessment

Group Project / Assessment – Teams and Rules

- You will work in groups of 2 to 3 members each.

- Groups will be created based upon your choice of questions to be answered from the list provided. The matching will be coordinated by a lecturer (we will do this right after this lesson).

- Each group should have a name and a leader. Being the team leader does not grant exclusion from the other activities

- There will be a luncheon presentation section, on Friday March 13th starting at 12:30. Each group should prepare a presentation which should last no more than 15 minutes and will have 5 minutes for open discussion.

- Not all the group members are required to speak at the presentation.

Group Project / Assessment – Presentation Expectations

- One PowerPoint presentation / group
- You MUST send a file with the presentation to the lecturers before the presentations begin.
- Prepare printed copies for each lecturer present at the Friday afternoon discussion section

- Each team’s presentation should last between 12 and 15 minutes and it **<u>MUST</u>** contain:
  a. An introduction describing and contextualizing the topic;
  b. How the issue is managed and the role of the different agribusiness actors;
  c. Concluding remarks and implications for the agribusiness actors.

  <u>Note</u>: A reference list has to be provided on the presentation's last slide.

Group Project / Assessment – Score Breakdown

The score of the presentation will be determined by the following three components:

a. Completeness	70 pts.
b. Exposition and Interaction with audience	15 pts.
c. Visual quality	15 pts.

Hint for point b: avoid reading extensively from notes;

Hint for point c: refrain from sounds effects and extensive animation.

Group Project / Assessment – Score Breakdown

a. Completeness 70 pts.

Introduction	5
Appropriate technical language	10
Accuracy of the information	10
Logical flow of facts presentation	10
Relevance of content	10
Appropriate amount of content	10
Research question addressed in all its parts	10
Conclusions.	5

Group Project / Assessment – Score Breakdown

b. Exposition and Interaction with audience 15 pts.

Stimulate Attention	3
Voice	3
Delivery	3
Length of presentation	3
No use of notes	3

Group Project / Assessment – Score Breakdown

c. Visual Quality 15 pts.

Format	5
Visuals	5
References	5

Group Project / Assessment – Report

Report summarizing information content in the presentation must be received by the lecturers by Monday, April 13th.

Not to exceed 10 pages, double spaced (Times New Roman, Font 12) excluding reference list tables, charts and front cover (if any).

Cite and list all sources at the end of the report, in the reference list.

For the references use the "Author – Date" Chicago-style (NOT the "notes and bibliography "style). Guidelines are available at http://www.chicagomanualofstyle.org/tools_citationguide.html.

Questions?