Below Cost Legislation and Retail Performance

by

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Below Cost Legislation and Retail Performance

Alan Collins¹
Kostas Oustapassidis²

Abstract

This paper examines the impact of pricing legislation on retail performance. It focuses on the experience of the Republic of Ireland, which has had a ban on below cost selling of certain grocery products since 1988. OLS regression of quarterly data on a basket of 13 grocery product categories over the period 1984-1994 identifies legislation as a key influence on retail performance and as a significant variable in the explanation of retail gross margins. Evidence is found to support a positive relationship between the prohibition of below cost selling and retail gross margins. Incomes, retailer concentration and retail advertising are found to be significant but negatively related to retail performance.

Executive Summary

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The authors gratefully acknowledge financial contribution from the Department of Food Economics Research Fund.
This paper examines the retail-wholesale price spread on a basket of 13 grocery product categories over the period 1984-1994 using quarterly price information. Product links were established between retail prices collected by the Central Statistics Office\(^3\) and the wholesale price group, NACE 414, processed and preserved fruit and vegetables. The retail categories consisted of dried vegetables, frozen vegetables, tinned vegetables, tinned fruit, jellies, custard and preserves.

The analysis identifies legislation (Groceries Order) as a key influence on retail performance and as a significant variable in the explanation of retail gross margins.

The results indicate that legislation increased category gross margin by 4.6 percentage points.

A negative relationship is found between grocery concentration and category gross margin.

The analysis suggests that the sterling crisis presented grocery retailers with an additional 1.5 percentage points in category margin.

While the imposition of legislation appears to have halted the rate of multiple expansion, it has patently failed to address the concern about the concentration of buying power. There is no evidence to suggest that the benefits of asymmetric distribution in buying power are being passed on to consumers in the form of lower prices.

\(3\) The authors gratefully acknowledge the valuable assistance provided by CSO personnel in Cork during the analysis.
Government legislation and intervention play an important role in shaping the nature of grocery retailing throughout the EU. Traditionally, intervention has taken the form of planning and opening hour restrictions (Nyborg-Thomsen, 1995) (Vielberth, 1995) (Borchert 1995) (Merenne-Schoumaker, 1995) (Sternquist and Kacker, 1994) but recently various Governments have imposed restrictions on retailers' pricing policies (NatWest Securities, 1997). Legislative changes implemented in Spain during 1996 prevent the selling of merchandise below cost. Similar legislation has recently come into effect in France under the Loi Galland preventing the selling of products "at a price which is excessively low in relation to production and selling costs" (NatWest Securities, 1997). The prohibition on below cost selling imposed in the Republic of Ireland in 1987 provides an opportunity to assess the impact of such legislation on retailer performance and consumer welfare. This paper sets out the conditions under which the decision to impose the prohibition on below cost selling was made. It does not seek to assess the correctness or the rationale of the decision, but seeks to identify some of the consequences.

**Competition in the Irish Grocery Market**

The structure of the Irish grocery market has changed radically over the last forty years (Appendix Tables 1 and 2). Supply side factors, responding to changes in consumer circumstances, have resulted in substantial innovations in the provision of food products to the consumer. Over the period, the nature of competition changed in terms of both means and intensity as retail strategy reflected the needs and conditions of the marketplace. The initial catalyst to this progression was arguably the abolition of resale price maintenance under the 1956 Groceries Order, providing retailers with greater scope to compete on price. Prior to this point, strict adherence to resale price maintenance was ensured by measures such as blacklists of price-cutters and boycotts of suppliers (Massey and O'Hare, 1996). The emergence of the self service supermarket and the multiple retailer during the 1960's promoted the use of
price competition as a means of achieving competitive advantage. By passing the costs of order assembly to the customer, the self service supermarket generated cost savings which could be passed to the customer through lower prices. Furthermore, it was evident that the larger multiple operators were becoming more successful in obtaining preferential terms and conditions from manufacturers thereby enhancing their ability to compete on price to the detriment of smaller retailers (Fair Trade Commission (FTC), 1972).

On the demand side there were considerable changes in both the geographical concentration and the mobility of customers with improved access to both private and public transport. Continuing concentration of the population in and around Dublin provided retailers with the potential to reap economies of scale and scope through the development of larger retail outlets (Parker 1994a). Indeed, the rapid growth in outlet size caused some concern. It was believed that it presented a substantial barrier to entry which could only be surmounted by large international companies (FTC 1972). One consequence of the growth in outlet size was that it increased the ratio of fixed to variable costs, thus rendering retailers more exposed to shifts in demand. Dawson and Shaw (1987) argue that such a change in cost structure necessitates that retailers operate at higher levels of capacity, thereby increasing the importance of market share and retail concentration with subsequent implications for competitive activity.

Greater consumer mobility, by reducing the importance of proximity to shops as a basis for competitive advantage, increased the effective area of retail competition. The promise of lower prices provided customers with the incentive to consolidate their purchases and travel to these new large scale outlets. This consolidation of shopping activities together with the large multiple retailers’ need to attract a greater share of the grocery market, frequently led operators to engage in new forms of promotional activity such as trading stamps, turnover tax, exemptions and coupons. The most contentious form of promotion was use of below cost selling or "loss leading" which increased in frequency throughout the 1960’s, 1970’s and 1980’s (FTC, 1972) (Restrictive Practices Commission (RPC), 1987).
Under the 1956 Groceries Order, below cost selling was not prohibited. But manufacturers disliked the practice. It placed them under considerable pressure from other retailers who wished to respond to their competitor's actions (RPC 1987). In an effort to assist suppliers resist retail pressure, the order permitted them to withhold deliveries from retailers who sold products at prices below wholesale cost before the deduction of quantity discounts. This provision proved totally ineffective as manufacturers feared that termination of supplies would simply result in the substitution of competitors' products for their own (FTC, 1972). Moreover, the increasing availability of generic private label products and the shift in the balance of power towards the retailer within such trading relationships, made it easier for retailers to engage in this activity with impunity (RPC, 1987).

The 1973 amendment of the Groceries Order introduced a ban on below cost advertising. This was in response to the concern that widespread advertising of below cost prices might generate a misleading impression of large retailers' overall price levels (Massey and O'Hare, 1996). The expectation was that such a ban would restrict the benefits of below cost selling and thereby reduce its incidence. The prohibition was largely adhered to until 1985 when a High Court action highlighted the futility of such legal activity and there were no further prosecutions (RPC, 1987).

Competition in the Irish grocery market is reflected in the high casualty rate even among multiple retailers including Three Guys, Tesco, H. Williams, Moyletts and Five Star who all left the sector over the 1977-1987 period. It has been argued that in the Irish market, share is more important than short term profits and that "the recognition that supernormal margins could attract new and powerful competitors which have been seen off in the past is a powerful incentive to develop scale through price competition" (Goodbody, 1995).

By 1987 there was increasing concern about the effects of below cost selling. In its review of the Groceries Order, the Restrictive Practices Commission
(1987) recommended a ban on such practices for a number of reasons. First, the growth in the multiples' share of the grocery market was causing concern and was believed to threaten the viability of the independent sector. The practice of below cost selling was believed to have generated adverse consumer perceptions of independent retailers' overall price competitiveness. Second, the rapid growth in generic own brand products and the consequent shift in the balance of power between retailers and manufacturers caused additional concern. The shift in power was partly reflected in manufacturers' practice of providing additional allowances to retailers as an incentive not to sell below cost. These allowances were considered most undesirable and discriminatory as they were unlikely to be provided to all sectors of the grocery trade. In this respect, the Irish grocery market provides some support to Grant's (1987) hypothesis that "the principal effect of buying power is not to depress prices across markets but rather to induce price discrimination in favour of large buyers through discounts". Third, the practice was considered to cause undue difficulties to suppliers. On the one hand, suppliers had to contend with considerable inefficiencies in production and stockholding to cater for the irregular demand resulting from such promotions and, on the other hand, faced considerable pressure from other customers who wished to match their competitor’s prices but were less willing to reduce margins.

The Commission's recommendations were duly incorporated into the Groceries Order 1987 and came into force in December 1987. Below cost was defined in terms of net invoice cost including value added tax. The ban was to extend across grocery goods, defined as "goods for human consumption (excluding fresh fruit, fresh vegetables, fresh and frozen meat, fresh and frozen fish which has undergone no processing other than freezing with or without preservatives) and intoxicating liquors not for consumption on the premises and such household necessaries (other than foodstuffs) as are ordinarily sold in grocery shops and includes grocery goods designated as 'own label', 'generic' or other similar description" (SI No 142 of 1987). Certain products, of which the above were a subset, had been excluded from the original Groceries Order (1956) and maintained in all subsequent amendments. The continuation of the exclusion was argued for reasons of
perishability and administrative purposes, although it opened up the possibility of below cost selling on these items. This risk was considered small given that the excluded products had traditionally been sold at a premium in the larger multiple retailers (RPC, 1987).

In summary, the prohibition of below cost selling was largely as a result of increasing retailer concentration and buying power, the demise of the independent sector and the "views of manufacturers and retailers that it would make a significant difference to them" (RPC, 1987:60). On the consumers' side, one argument presented in favour of the ban was that it would "seem likely that a wider range of products would be sold at cost or just above cost as a substitute for below cost selling so that there would be no net additional cost bearable by the consumer" (RPC 1987).

### Theoretical Model and Hypothesis

The structure-conduct-performance paradigm hypothesizes that certain elements of market structure, most notably seller concentration and barriers to entry, are conducive to monopolistic conduct and govern the extent to which prices exceed costs (Scherer and Ross, 1990) (Martin, 1994). Following Bain (1956), barriers to entry may take various forms. Planning restrictions, under the General Policy Directive of 1982, on the development of new outlets is one particularly potent barrier to new entry in that "it has been considerably more difficult to develop new retail locations than to develop in existing locations for the principle of need generally has to be demonstrated" (Parker 1994b). This has resulted in a relatively stable number of large multiple retail outlets while small retail operators left the sector (Table 1).

<table>
<thead>
<tr>
<th>Table 1. Shop Numbers by Trade Sector</th>
<th></th>
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</tr>
</thead>
</table>
Another factor which may be expected to raise barriers to entry is that of product differentiation. Literature on the UK market stresses the importance of advertising as a means of developing the retail brand and thereby differentiating oneself from other retail competition (McGoldrick, 1990). This is particularly so when combined with own brand products. This source of differentiation is considered important given the substantial share of own brand sales in the Irish market⁴ (Figure 1).

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⁴ It should be noted that the strategic positioning of own brand products has changed considerably in recent years. Prior to the mid 1990’s, retailers successfully positioned own brand products on the basis of price (AGB, 1993). Since 1993, the largest 4 retailers have relaunched their own brand products with a clear emphasis on quality.
According to Scherer (1980) basic conditions on both the demand and supply sides may be expected to impact on market structure, firm conduct and firm performance. Some consideration must be given to demand conditions and, given that we are concerned with food products, real income levels in particular.

Government policy as it pertains to competition may also be expected to influence firm performance (Martin, 1994). The aim of this paper is to evaluate whether or not the imposition of below cost legislation influenced the extent of retailer monopoly power.

**Hypothesis**

The imposition of the ban on below cost selling had an impact on retail performance resulting in a significant increase in retailer gross margins in affected product categories.

**Empirical Model**
One of the chief difficulties in researching the Irish grocery sector is the lack of reliable performance data. This is primarily due to the fact that the sector is dominated by private or foreign companies.

Given that retailer reported margins are not available, recourse was taken to wholesale and retail price indices. While not ideal, the use of retail and wholesale prices to examine changes in the retailing industry is not new (McFall, Lamm 1981). The relatively narrow assortment of goods produced by Ireland's rather specialised food sector will differ substantially from the broader bundle of goods consumed domestically. At an aggregate level, the derivation of margin movements using wholesale and retail price indices is problematic. This is because the wholesale index is weighted according to output and import shares, while the retail price index is weighted by domestic consumption. Furthermore, the aggregate producer price series for food contains products not directly used by consumers such as animal feed and milled products for the baking and confectionery industries. Both these factors limit the usefulness of the aggregate food index. To overcome this problem, more disaggregated data is utilised.

One product category NACE 414, "processed and preserved fruit and vegetables", was selected to form the data set used to test our hypothesis. The Central Statistics Office (CSO) monitor retail prices for 119 types of food products. As a result of consultation with the CSO, 13 product varieties were assigned to NACE 414. These were weighed using current CSO retail basket weights and aggregated to form a retail price index for the category. Both the wholesale price index and the constructed retail price index were used to derive a retail margin for the category. The product categories, their weights in the retail price index and the product varieties monitored by the CSO are given in Table 2. The derived margin series is based on actual margins provided by one retailer for the fourth quarter of 1994.
NACE Category 414 was chosen for a number of reasons. First, all its constituent products are subject to the provisions of the groceries order. Second, in situations where large quantities of particular food products such as dairy and meat are exported, one would expect differences in producer prices obtained on the domestic and export markets. This problem is avoided using the NACE 414. Third, the means by which NACE 414 products are merchandised and retailed have remained relatively stable, suggesting that changes in gross margin could not be argued on the basis of changes in "service" costs. This would not be argued in the case of bread products for instance, where the rapid penetration of in store bakeries would be expected to have increased gross margins. Fourth, the threat arising from own brand or private label products played an important part in the Restrictive Practices Commission's decision to amend the Groceries Order and introduce the ban on below cost selling. We therefore considered it appropriate to include a category which displayed a strong own brand share of trade. In 1987, prior to the implementation of the Order, private label accounted for 42% of canned foods declining to 31% by 1993 (AGB 1993).

Table 2. CSO Product Categories, Weights and Varieties

<table>
<thead>
<tr>
<th>Category</th>
<th>Category Weight in RPI</th>
<th>Varieties Priced</th>
<th>AGB Basket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dried Vegetables</td>
<td>0.0201</td>
<td>Dried Peas</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dried Potatoes</td>
<td></td>
</tr>
<tr>
<td>Frozen Vegetables</td>
<td>0.1799</td>
<td>Peas</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Beans</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chips</td>
<td>*</td>
</tr>
<tr>
<td>Tinned Vegetables</td>
<td>0.2147</td>
<td>Peas</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Beans</td>
<td>*</td>
</tr>
<tr>
<td>Tinned Fruit</td>
<td>0.0757</td>
<td>Tinned Pears</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tinned Peaches</td>
<td></td>
</tr>
<tr>
<td>Jellies</td>
<td>0.0326</td>
<td>Jelly</td>
<td></td>
</tr>
<tr>
<td>Custard</td>
<td>0.0116</td>
<td>Custard Powder</td>
<td></td>
</tr>
<tr>
<td>Preserves</td>
<td>0.1791</td>
<td>Jam</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Marmalade</td>
<td>*</td>
</tr>
</tbody>
</table>

Source: AGB quarterly market share figures are used to derive our measure of
concentration at the four firm level (CR4\textsuperscript{5}) over the period 1984q1 to 1994q4. In our analysis we considered the symbol group, SuperValu as one firm, because of its centralised purchasing and aggregation of buying power through one wholesaler. Secondly the group has a strong retail brand identity and we assume similar pricing policies among its retailers for the product area reviewed. AGB figures measure retailers' market shares within selected product fields and as such do not capture the entire grocery market. The basket used in this analysis is composed of 51 products of which 22 come from the dry grocery product category. The products which are represented in both the NACE category and the AGB basket are indicated in Table 2.

Oligopoly theory posit a positive relationship between market concentration and gross margin, where gross margin equals the difference between retail price and marginal cost. In our analysis we assume that the marginal costs of retailing an additional unit of output is equal to its purchase price i.e. wholesale price. However, where scale economies are important, cost structures may generate increased price competitiveness to ensure capacity utilisation (Scherer, 1980). We have argued that the increasing ratio of fixed to variable costs in the grocery sector has indeed increased the importance of maintaining market share. Therefore, while increasing concentration may ease the possibility of collusion, the need to ensure capacity may actually result in reduced gross margins. Thus the sign of our concentration measure may be positive or negative.

We use retail advertising intensity as a measure of product differentiation. Annual data was available for retail advertising for the period 1984/94 and on a quarterly basis for the period 1991/94. The 91/94 quarterly data was used to develop a quarterly profile which was imposed on the earlier years, providing a quarterly index of advertising expenditures. Changes in advertising intensity are captured using the variable Advgval88 which is defined as (Retail Advertising Expenditures index/Grocery Value index).

\textsuperscript{5} The CR4 is the market share of the 4 largest firms.
We have argued that price competition dominated retail strategy in Ireland throughout much of the period under review. This strategic emphasis would be expected to be reflected in the nature of its advertising, particularly as retailers responded to competitors' pricing activities, suggesting a negative relationship between retail advertising intensity and gross margin. Akehurst (1995) drawing on Baumol et al (1965) argues that advertised price cuts are more likely to make inroads on competitors' sales which in turn would be expected to elicit further advertised price reductions. Price cuts in themselves are unlikely to result in such reciprocation as identification of the reductions would impose considerable search costs on both retail competitors and their customers. Advertised cuts however would be expected to generate some shift in customer patronage and retaliatory price reductions by competitors.

To capture the effect of changing demand conditions we use real per capita gross domestic product. Over time, changes in this variable would be expected to influence market demand and hence gross margins. It is given by the variable GDPCP. Given that real per capita gross domestic product figures are only available on an annual basis, each quarter of each year was assigned the annual value.

The expected sign of our GDP variable is unclear. On the one hand, the food category under review includes a number of tinned and staple food products. We would expect demand for these products to diminish with increasing personal income. On the other hand, the category also includes frozen products which would be expected to be closely related to the purchase of household durables such as fridge freezers which would be positively correlated to income. Therefore, the sign may be either positive or negative although the consumer price index basket weights suggest that a negative relationship may be more likely.

The Irish economy is very open with regard to the importation of food

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6 The effective use of advertised price cuts was the reason for the ban on below cost advertising prior to the ban on below cost selling.
products in general but particularly in relation to branded products from the UK. The exit of sterling from the European Monetary System in the last quarter of 1992 and its subsequent devaluation relative to the Punt, resulted in a considerable shift in retailers’ stocking policies in favour of lower priced UK branded products (AGB 1993). Therefore the analysis includes a dummy STERL for 1992Q4 and 1993Q1 to account for the any margin changes\textsuperscript{7}. The impact of the devaluation in sterling relative to the punt and the subsequent substitution of imports for domestically produced goods is expected to result in an increased margin. Therefore STERL is expected to be significant.

An examination of the data showed a large increase in the retail margin over the period 1994q1 to 1994q4. This was isolated to the frozen vegetable product category. Food industry sources were queried as to the possible reasons for this unexpected variation. It was identified as a reflection of the frozen potato chip market where the costs of raw material prices for potatoes rose considerably during the 1994 season as a result of drought conditions throughout Europe (European Commission, 1995). The weight associated with this product is assumed to be considerably larger on the retail component of our index than on the wholesale side. To accommodate this, an additional dummy Dum414, is incorporated into the analysis. It is set equal to 1 for 1994q2 to 1994q4. Similar to our currency crisis dummy we expect Dum414, capturing the effect of the potato price increases, to have a positive sign. Here the underlying factor is a variation in weighting between the consumer and wholesale price indices. Therefore, the coefficient value will not represent a real change in margin.

Finally, the data includes a dummy variable, Legis, which captures the

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\textsuperscript{7} The use of a dummy variable for only two periods may cause some readers concern. However, the authors believe that the shock to the system was sufficient to justify its inclusion. The exit of sterling from the EMS in September 1992 resulted in a dramatic appreciation of the punt from STG 0.92 at the end of the summer to STG 1.09 by the end of year. Furthermore the determination of the Irish authorities not to devalue was clearly signalled to the financial markets. However the markets viewed the new level of the punt as unsustainable (Walsh 1993) and the sudden loss of competitiveness in the key UK market led to expectations of an inevitable devaluation (Honohan 1993). In the interim the devaluation of sterling encouraged the substitution of cheaper branded imports for more expensive domestically produced products (AGB 1993). The punt was finally devalued in late January 1993.
imposition of the ban on below cost selling. It takes the value of zero from 1984q1 to 1987q3 and the value of one for all subsequent periods. The hypothesis being tested is that there is a positive relationship between the imposition of the ban on below cost selling and gross margins. Therefore we expect our dummy, LEGIS, representing legislation to be positive.

**Model Estimation**

The model to be estimated is given as:

\[
\text{Retmar} = \text{Const} + \text{Cr4} + \text{Advgval88} + \text{GDPCP} + \text{Sterl} + \text{Legis} + \text{Dum414}
\]

*Where*

- Retmar is derived retail margin for NACE code 414
- Cr4 is the market share of the top 4 retailers
- Advgval88 is a measure of retailer advertising intensity
- GDPCP is per capita gross domestic product in real terms
- Sterl is a dummy to capture the exchange rate shock of Sterling leaving the EMS
- Legis is a dummy = 0 pre-imposition of legislation = 1 post imposition
- Dum414 is a dummy to capture the shock to the potato market

**Results**

Table 3 presents the OLS estimates from regressing the derived gross margin RETMAR for NACE code 414 on retail concentration, advertising intensity, per capita GDP, currency shocks, legislation and a dummy for frozen potatoes. The results indicate that all variables are significant at the
95% level with the exception of the sterling shock variable whose significance is marginally lower. The adjusted $R^2$ indicates that our variables account for over 61% of the variation in our dependent variable.

### Table 3

<table>
<thead>
<tr>
<th>Regressor</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>36.03 (4.04)</td>
</tr>
<tr>
<td>CR4</td>
<td>-.27 (.06)</td>
</tr>
<tr>
<td>ADVGVAL88</td>
<td>-1.65 (.79)</td>
</tr>
<tr>
<td>GDPCP</td>
<td>-.002 (.3206E-3)</td>
</tr>
<tr>
<td>STERL</td>
<td>1.54 (.76)</td>
</tr>
<tr>
<td>LEGIS</td>
<td>4.60 (.63)</td>
</tr>
<tr>
<td>DUM414</td>
<td>3.91 (.75)</td>
</tr>
</tbody>
</table>

The sign and coefficient value of the legislation dummy confirms our central hypothesis with legislation increasing category gross margin. The extent of the increase is surprising, accounting for over 4.6 percentage points.

The sign on the concentration ratio is negative indicating that as concentration increases the margin in this category declines. The size of the reduction in margin is modest with a 1 percent increase in the CR4 resulting in a 0.25% reduction in gross margin. One argument supporting this result is that higher concentration is achieved through the substitution of multiple supermarket shopping for smaller independent outlets which would be expected to charge higher prices. Also, given that gross margin does not take the volume of sales into consideration, it could be that small margin reductions are sacrificed for higher market share leading to higher profits.
The negative sign on the advertising intensity variable confirms the expected relationship between retail advertising and the category's gross margin. The category's products, including commodities such as canned beans, are considered as known value items and regularly discounted to maintain a retailer's price position.

The sign on our income variable, GDPCP, is negative indicating that as income increases the category suffers reduced margins. However, the low coefficient value shows that it would take an increase of £603 in real per capita gross domestic product to reduce margins by 1.0 percentage point. Second, the products reviewed tend to be low value added. One possibility is that these goods may be inferior resulting in reduced demand as income increases.

The coefficient value for our currency dummy, STERL, demonstrates the potential gains from playing the market. Our analysis suggests that the sterling crisis presented grocery retailers with an additional 1.5 percentage points in margin. The extent of the margin gain reflects the one way bet that speculators enjoyed during the currency crisis. Retailers' knowledge that the punt was overvalued and the expectation of its inevitable devaluation would have encouraged retailers to buy forward and substitute cheaper imports for relatively more expensive domestic goods. The margin gain points to both the failure of retailers to pass these gains on to consumers in addition to their propensity to switch suppliers when speculative opportunities emerge.

Conclusion

While the data is subject to certain shortcomings it supports our hypothesis that the imposition of below cost legislation increased retail margins in the product category reviewed. Clearly, this has welfare implications for the consumers of such products. Our analysis focused on processed and preserved fruit and vegetables. It is plausible to assume that in many instances this product category is more heavily shopped by less affluent consumers suggesting that these have incurred the greatest share of welfare
losses.

It was hoped that the imposition of below cost legislation would herald a new era of broader based price competition. The dramatic increase in margin attributable to the legislation suggests that such a change in competition did not happen. There was no evidence to suggest that this category was the focus of below cost selling by retailers, indicating that the ban may have resulted in increased margins across the board. This is confirmed by CSO observations which estimate that gross margins increased from 15.8 percent in 1988 to 20.1% in 1993.

Table 4. Retail Concentration

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dunnes Stores</td>
<td>21.0</td>
<td>25.4</td>
<td>17.4</td>
</tr>
<tr>
<td>Power Supermarkets</td>
<td>25.8</td>
<td>24.5</td>
<td>18.5</td>
</tr>
<tr>
<td>Super Quinn</td>
<td>5.4</td>
<td>6.2</td>
<td>6.6</td>
</tr>
<tr>
<td>Tesco</td>
<td>0.00</td>
<td>0.00</td>
<td>8.4</td>
</tr>
<tr>
<td>Multiples (CR3)</td>
<td>52.2</td>
<td>56.1</td>
<td>44.3</td>
</tr>
<tr>
<td>Super Valu</td>
<td>9.9</td>
<td>7.0</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Total (CR3)</strong></td>
<td><strong>56.7</strong></td>
<td><strong>56.9</strong></td>
<td><strong>44.3</strong></td>
</tr>
<tr>
<td><strong>Total (CR4)</strong></td>
<td><strong>62.1</strong></td>
<td><strong>63.1</strong></td>
<td><strong>50.9</strong></td>
</tr>
</tbody>
</table>

Source: Taylor Nelson AGB

It is interesting to note that, in its enquiry, the Restrictive Practices Commission (1987) alluded to the growing share of the market held by the multiples and the difficulties this presented manufacturers as one of the reasons for recommending the prohibition. Table 4 indicates that the legislation appears to have halted multiple concentration. The beneficiaries appear to be the symbol groups and SuperValu in particular. While the imposition of legislation appears to have halted the rate of multiple expansion it has patently failed to address the "concern about the level of concentration of buying power" (RPC 1987).

The figures above suggest that the grocery market is still characterised by an
asymmetric distribution of power. This continues to favour large multiple retailers and certain wholesalers who have strong links with their retailers. There is no evidence to suggest a reduction in the subsequent pressures on manufacturer margins. Furthermore our analysis does not provide any evidence to indicate that the benefits of this power imbalance are being passed on to consumers in terms of lower prices.
Appendix

Appendix Table 1. Changing Structure of Grocery Retailing

<table>
<thead>
<tr>
<th>Outlet Type</th>
<th>Outlet Numbers</th>
<th>Share of Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarket</td>
<td>NA</td>
<td>41</td>
</tr>
<tr>
<td>Delicatessen</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Other Grocery</td>
<td>13111</td>
<td>10770</td>
</tr>
<tr>
<td>Grocery with Pub</td>
<td>3742</td>
<td>3007</td>
</tr>
<tr>
<td>Fresh Meat</td>
<td>1776</td>
<td>1803</td>
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Source: CSO

Appendix Table 2.

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Source: Nielsen Retail Census 1994

References


