

**Competition Commission, South Africa**  
**Grocery Retail Sector Market Inquiry - Comments on the Draft Statement of Issues**

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This submission is in response to the call for comments on the Draft Statement of Issues for the Grocery Retail Market Inquiry. The Statement of Issues captures many of the prevailing matters of concern in the grocery retail sector in South Africa. The comments below are suggestions on potential additional areas of inquiry that are motivated by recent research that I have undertaken.<sup>1</sup>

### **1. Buyer power of large supermarket chains**

Concerns of buyer power of large supermarkets remain prevalent in many countries worldwide. In several jurisdictions, market inquiries or studies are often undertaken given significant concerns around abuse of buyer power.<sup>2</sup>

Abuse of buyer power can manifest in negotiations of trading terms between supermarket chains and their suppliers, with the balance of power often heavily skewed towards large supermarket chains.<sup>3</sup> In this regard, a range of costs could be imposed on suppliers through trading terms, reducing the effective selling price to large supermarkets.<sup>4</sup> To compensate for these higher costs/lower prices, suppliers may be pressurised into supplying to small and independent retailers or buying groups at less favourable prices and terms ('the waterbed effect').<sup>5</sup> While suppliers would want to have as many retailers to sell to, the threat of being delisted from large supermarket supplier lists may result in suppliers giving in to their demands.<sup>6</sup>

Additionally, there is a growing trend of private labels or house brands by supermarkets in South Africa, with the major supermarket chains offering a wide range of own brand/private label products.<sup>7</sup> If suppliers producing house brands for supermarket chains are subject to exclusivity requirements, this can have implications on independent retailers accessing products from these suppliers. Even if no exclusivity requirement is in place, suppliers may be capacity constrained given their supply to the major supermarkets and may prefer not to deal with smaller and independent players, or larger new entrants, for fear of losing future business with the major incumbent chains.<sup>8</sup>

Concerns around buyer power of the major supermarket chains, including any possible effects on small and independent retailers, would be a useful addition to the Statement of Issues. It is noted that these issues may potentially be captured under 'Objective 6' in the assessment of selected value chains that are of importance to small and independent retailers in townships, peri-urban areas, rural areas and the informal economy.

## 2. The importance of increased competition between large supermarket chains, including in urban areas

While a key focus of the inquiry is on small and independent retailers in township, peri-urban and rural areas, it is also important to understand the nature and significance of competition between large supermarket chains, including in urban areas/cities. Recently, new entry in grocery retail by large chain stores has occurred through Botswana-owned Choppies Enterprises and Walmart's Game, while Fruit and Veg City entered some time ago. The barriers to new entry, *over and above* concerns around exclusive leases in shopping malls, and the competitive dynamics between the chains, are important to evaluate as part of understanding the general state of competition in the grocery retail market. This includes, *inter alia*, the concerns about buyer power highlighted above.

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<sup>1</sup> These are my personal comments and do not necessarily reflect the views of CCRED.

<sup>2</sup> See for instance, Kobel, P., P Kellezi and B Kilpatrick, Eds., (2015). 'Antitrust in the Groceries Sector & Liability Issues in Relation to Corporate Social Responsibility'. LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, Springer-Verlag Berlin Heidelberg

<sup>3</sup> Das Nair and Chisoro, (2016, *forthcoming*), 'The expansion of regional supermarket chains: Implications on suppliers in South Africa and Botswana', Working Paper commissioned by UNU-WIDER.

<sup>4</sup> Such as listing fees, rebates, advertising and slotting allowances, promotion fees, prolonged payment period terms, settlement discounts and new store openings fees (see also Reardon, T. and Gulati, A. (2008). 'The rise of supermarkets and their Development Implications, International Experience Relevant for India.' International Food Policy Research Institute (IFPRI) and Michigan State University; IFPRI Discussion Paper 00752)

<sup>5</sup> See Inderst, R., & Valletti, T. M. (2011). Buyer power and the waterbed effect. *The Journal of Industrial Economics*, 59(1), 1-20; and Davis, P., and A. Reilly (2009). 'The UK Competition Commission's Groceries Market Investigation: Market Power, Market Outcomes and Remedies'. Paper presented at the 27th International Association of Agricultural Economists Conference, Beijing, China 16–22 August 2009.

<sup>6</sup> Dobson, P. (2015). 'Structural Issues in the Groceries Sector: Merger and Regulatory Issues', Background paper by the OECD Secretariat – Latin American Competition Forum, Session I – DAF/COMP/LACF (2015)13.

<sup>7</sup> See das Nair and Chisoro (2016, *forthcoming*). For instance, Shoprite has its 'Ritebrand' and 'Housebrand' ranges in Checkers, which covers around 300 products; Pick n Pay has its 'No Name' brand; Food Lover's Market produces its own house brands 'Freshers' and 'Food Lovers Signature'; SPAR also has its own brand products.

<sup>8</sup> Dobson (2015).