# Innovation, Variety and Competition in the Consumer Goods Market

## Conclusions of the Symposium organized at ESADE Business School, Madrid, September 17th

ESADE Business School
Ramon Llull University

PROMARCA
El Valor de la Marca

## “Innovation, variety and competition are essential in the food industry”

***Carlos Cabanas***
***Secretary General for Agriculture and Food, Spanish Ministry of Agriculture and Environment***

On September 17th, Spanish and European authorities and experts, both from the sector and from Competition Law, gathered at ESADE business school in Madrid in order to discuss on innovation, variety and competence in the FMCG market, both in Spain and Europe.

It is a key sector for Spain and Europe, given that it is the largest and the second largest industrial activity respectively.

***César Valencoso****, Kantar Worldpanel,* ***Philippe Chauve****, European Commission,* ***Antonio Maudes****, Spanish Competition Authority,* ***Eduardo Baamonde****, Agri-Food Co-op Association of Spain,* ***Ignacio Larracoechea****, Promarca,* ***Javier Huerta****, Huerta & Solana,* ***Helena Sanches****, Alimentary and Economy Security Authority (Portugal),* ***Estelle Peres Bonnet****, Competition Authority (France),****Rona Bar-Isaac****, Addleshaw Goddard LLP (UK),****Michael Bauer****, CMS Hasche Sigle (Germany) and* ***Carlos Cabanas****, Spanish Ministry of Agriculture and Environment, partook in the event.*

### The number of new products in the FMCG market is declining again in Spain, specifically by 27% over the year

A high private label market share discourages innovation as well as the arrival of new products to consumers. In Spain, this issue is even more serious because some leading retailers include very few brands’ innovations in their stores. This refusal contrasts with the favorable attitude from other retailers such as Carrefour, Eroski, El Corte Inglés or Alcampo. According to Kantar WorldPanel, Carrefour includes 72% of the innovations of new products from brands.

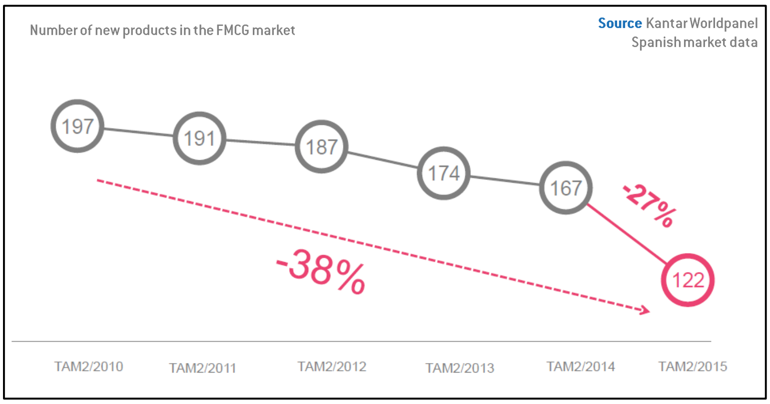
**César Valencoso**, Consumer Insight Consulting Director at Kantar Worldpanel emphasizes that the sector can only grow thanks to the creation of added value. It is extremely difficult for the FCMG industry to grow in volume due to the stagnation of the population and the maturity of the sector.

**Innovation’s role is precisely to help the industry to grow through added value**. In fact, product categories with high levels of innovation grow four times more than those with low innovation levels. For instance, Valencoso states that the yogurt category “*would be 40% smaller today if multiple innovative products hadn’t been launched from some years to now, with its implication in consumer welfare*.”

**Valencoso** adds that while manufacturer brands try to create added value through innovation (they mean 89% of all new products in the market), private labels seek to compete with low prices; the latter’s low innovation rate and the refusal of some of them – such as Mercadona or Lidl – to include manufacturers’ innovations are the two major causes of a 27% decrease in the number of innovations this year. Since 2010, there has been a cumulative reduction of 38%. Spain is the European with the fewest innovations in the market. Germany is another country with strong presence of the private labels and low penetration of innovations.


**César Valencoso**, Consumer Insight Consulting Director at Kantar Worldpanel

> **“There’s a significant negative correlation between the private labels’ penetration and innovation in the sector”**
>
> ***Philippe Chauve***
> ***Head of the Food Task Force at the Directorate General for Competition, European Commission***




**Valencoso** describes a very negative scenario. New products are only present in one out of four shops in Spain, which means that only one in four consumers can find the new product.

This prevents an appropriate investment and the achievement of an acceptable return on that investment, thereby reducing innovation in a vicious cycle that worsens every year.

In conclusion, only if the main retailers foster brands’ innovation, it will be possible to get out of that vicious cycle.

**Philippe Chauve** , Head of the Food Task Force at the Directorate General for Competition, European Commission, states that **innovation is one of the priorities for European Competition authorities**.

“*We do not just monitor prices, but we also analyze how innovation affects competitiveness.*”

“*Until recently, there were complaints from the sector about the decline in innovation, but now we have data which to rely on, thanks to an ambitious study that we have conducted*” to analyze conditions that retailers impose to producers and manufacturers.

“*Those are conditions that limit their means to invest, thereby lessening innovation, which isn’t just a theoretical concept, since its absence can be noticed at stores*”.

He adds: “*innovation is decreasing in most product categories since 2008. There’s a significant negative correlation between the private labels’ penetration and innovation in the sector*”.

“*It isn’t a linear relation; so it makes the problem worse. The higher the share of private labels in a given shop, the higher the decrease of innovation may be*”, he concluded.


**Philippe Chauve**, Head of the Food Task Force at the Directorate General for Competition, European Commission

> **“Concentration is a problem for innovation and freedom of choice”**
>
> ***Michael Bauer***
> ***Partner, CMS Hasche Sigle***

**Rona Bar-Isaac**, Associate at Addleshaw Goddard LLP explained that, although the power of retailers in the United Kingdom may benefit consumers thanks to the increase in price rivalry, it may also harm the economy through a decrease of innovation and quality investment.

Likewise, the lawyer praised the figure of the “Adjudicator” in the Groceries Supply Code of Practice (GSCOP), which helps to reinforce this code.

**Estelle Peres-Bonnet**, Permanent Rapporteur at the French Competition Authority, explained the situation in France, characterized by the price war, the reduction in margins and the anti-competitive effects in which the proliferation of central purchasing units among retailers might result.

**Michael Bauer**, Partner at CMS Hasche Sigle, declared that “concentration is a problem for innovation and freedom of choice” in Europe.

**"We need to restructure the sector in order to achieve balance"**

***Eduardo Baamonde***
***General Manager, Agri-Food Co-op Association of Spain***

## Spain is dealing with a market failure

**Eduardo Baamonde**, General Manager at the Agri-Food Co-op Association of Spain– the Spanish Food Co-op association –, points out that the food chain is not balanced due to an atomization of the supply and a concentration of the demand. "*The five biggest retailers account for more than 50% of the market share. **Large distributors have the bargaining power in Spain***". In his opinion, besides legislative solutions, reorganizing the sector is necessary in order to get a good level of balance.

**Javier Huerta**, Javier Huerta, lawyer and former vice-president of the CNMC – the Spanish Competition Authority –, highlights that "*innovation and diversity come along with Competition. Unfortunately, manufacturers' brands don't have enough incentives to innovate as they can't get back their inversion, causing a smaller inversion in innovation and harming market competition. Although the Spanish Food Chain Law is a good attempt to regulate the sector, the law is often ineffective given that the fines imposed to retailers don't discourage them.*"

**Antonio Maudes**, Director of the Department of Promotion of the Competition at the CNMC, stresses that the regulator always seeks the benefit of the consumer when in doubt. He also explains the conclusions of the report of the CNMC about relations between manufacturers and retailers and pointed out that the CNMC prefers to reinforce active legitimation of the Public Administration in order to chase disloyal practices in the food chain and facilitate reports of the Public Administration or associations to the CNMC instead of sectorial regulatory solutions.

**Ignacio Larracoechea**, Presidente of Promarca, comments that "*given that some years ago distributors had a smaller weight, legislation heavily protected them of possible abuses, but the situation has changed. The retail sector is now concentrated in big retailers that have also become manufacturers' competitors*".

**Carlos Cabanas**, Secretary General for Agriculture and Food, highlights that innovation is essential to keep the strategic value of the sector: "*the food industry has a weight beyond €90 billion and exports goods for more than €41 billion. The sector does not only propel national economy, but it also improves the image of Spain in and outside our borders.*" **Cabanas** defends that innovation, besides benefiting consumer welfare, must be profitable for the firms that invest in it. This is, according to Cabanas, the *raison d'être* of the Code of Good Commercial Practices in Food Contracts, currently in process. The objective "*is that innovations reach consumers in a framework of loyal competition that allows incentives for innovation and, in consequence, the development and consolidation of the sector*", he concludes.


**Carlos Cabanas**, S.G. de Agricultura y Alimentación, MAGRAMA





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