Working paper on buyer power

Introduction

1. This working paper considers ways in which the buyer power of grocery retailers with respect to their suppliers has the potential to harm consumers. This first section discusses the concept of buyer power, and identifies possible advantages and disadvantages for consumers arising from grocery retailers' buyer power. The second section discusses the extent to which UK grocery retailers, particularly the four largest, may have buyer power and how this may have changed in recent years. The final three sections each deal with a specific way in which buyer power might harm consumers. We summarize evidence relevant to buyer power issues in relation to individual industries in an annex to this paper.

2. Buyer power is a shorthand term for the extent of grocery retailers' market power in relation to their suppliers. The extent to which a grocery retailer will have buyer power will depend on the nature of its relationship with the supplier in question. Grocery retailers' relationships with their suppliers can be characterized in two main ways: first, those situations where there are numerous suppliers and a single 'market price' is paid by all grocery retailers to their suppliers for the product in question (referred to as a 'market framework'); and second, those situations where suppliers are relatively concentrated and prices and other terms are negotiated bilaterally (referred to as a 'bargaining framework').[1]

3. Within a market framework, an important factor in determining buyer power is the size of the grocery retailer's sales of a product relative to the supplying industry's total sales of that product. Also relevant is the degree of concentration of grocery

[1] The use of different 'paradigms' to analyse buyer power was discussed at the Roundtable: Buyer Power held on 10 October 2006, the transcript for which together with the Discussion paper on Buyer Power are available on the CC website www.competition-commission.org.uk/inquiries/ref2006/grocery/economic_roundtables.htm.

retailers in relation to the sales of a product. In a bargaining framework, the factors that may confer buyer power are essentially those which affect the extent of a grocery retailer's reliance on its supplier (these are often referred to as the 'outside options').[2] These factors include the size of the grocery retailer relative to the size of its supplier, the absolute size of the grocery retailer and the supplier, and the supply of own-label products that compete with the supplier's products.

4. So far we have identified three ways in which grocery retailers' buyer power might adversely affect competition and harm consumers:

(a) In a market framework, if suppliers display unit production costs that increase with the volume produced (generating upward sloping supply functions), powerful buyers might withhold demand (known as 'demand withholding') so as to reduce the purchase price and generate a better margin on the sale of these goods. If these buyers also have some selling power vis-à-vis the final consumers they serve (ie some ability to set the price they sell at), they can sell the reduced quantity purchased at higher prices to consumers in the downstream market. In this case consumers would pay higher prices and purchase a lesser volume of these goods. We discuss demand withholding further in paragraphs 10 to 14.

(b) Buyer power might suppress investment by suppliers in process and product innovation as well as in maintenance if it reduces suppliers' expected returns from such investment. Such effects on investment may arise both within a market framework and within a bargaining framework. In this case consumers would be harmed by a lower rate of innovation and product quality. We discuss trends in investment and innovation by suppliers in paragraphs 15 to 20.

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[2]Bargaining theory predicts that buyers are only willing to trade with sellers at a price that is less than or equal to their *outside option*. The buyer's outside option may be an alternative source of supply, or backward integration. Likewise, sellers are only willing to trade with buyers at a price that is greater than or equal to the seller's outside option. The seller's outside option might be an alternative sales channel. Buyers and sellers will therefore negotiate over the difference between the total realizable margin on the product and the joint value of their outside options. The firms' relative bargaining power will determine how this incremental surplus is shared.

(c) Within a bargaining framework, if the terms of trade (eg prices, quality, service) to grocery retailers with less buyer power worsen when grocery retailers with stronger buyer power obtain better terms (a 'waterbed effect'), then the offer to final consumers by grocery retailers with less buyer power may also worsen (eg the price charged by these grocery retailers to final consumers may increase). Depending on the way in which grocery retailers with stronger buyer power set their retail offer, the net effect in the short term on downstream prices or quality might be negative (this is explained more fully in paragraphs 22 and 23). Further, any differences between the offerings of different grocery retailers may lead to some retailers exiting the market, thus progressively increasing concentration and leading to an increase in prices or reduction in quality in the medium to long term. We discuss the waterbed effect further in paragraphs 21 to 36.

5. The possession of buyer power by grocery retailers, however, may not always be disadvantageous for consumers. Buyer power can lead to lower prices or better quality for consumers, it may increase innovation in the supply chain, or it may act as a countervailing force to any market power possessed by suppliers. As a result, our analysis of buyer power needs to consider the *net effect* on consumer welfare.

Indicators of UK grocery retailers' buyer power

6. In 2006, the four largest grocery retailers in the UK (Asda, Morrisons, Sainsbury's and Tesco) accounted for three-quarters of total grocery sales in supermarkets and convenience stores together. For suppliers that target consumers nationally, and whose main distribution channel is through grocery retailers, the four largest grocery retailers are likely to be important customers accounting for a large share of their sales.

7. The increasing prominence of own-label products is also likely to have contributed to an increase in the buyer power of UK grocery retailers. An estimated 40 per cent of products sold in UK supermarkets are own label. Furthermore, there is an increasing tendency for grocery retailers to source on a national or international basis. This widens the supply base available to grocery retailers and therefore increases the extent to which they can use alternative suppliers, thus increasing their bargaining power with respect to individual suppliers.

8. There are, however, factors that mitigate against grocery retailers' buyer power. Both Tesco and [✂] have submitted that major brands are very difficult to replace, as they are 'must-stock' products. Asda claimed that the ability to switch away from branded suppliers was limited by customers' expectations that a broad range and depth of products would be supplied. In addition, suppliers might have greater bargaining power in relation to certain regional or niche products that customers were increasingly demanding and that grocery retailers might find difficult to source.

9. The cost of switching supplier may also make a grocery retailer reluctant to switch supplier and thus reduce its bargaining power. These costs may include: loss of product availability during a switching period and any resulting loss of reputation; loss of benefits associated with supplier expertise and familiarity with retailers' processes and systems; and other costs associated with changing distribution arrangements. These costs may also vary between products. Although most grocery retailers have submitted that these costs are high, few actual estimates were given. We note that in the CC's recent inquiry into the merger of two manufacturers of own-label carbonated

soft drinks, many retailers told the CC that switching suppliers was straightforward and inexpensive.[3]

Demand withholding

10. In paragraph 4*(a)*, we identify demand withholding as one possible adverse effect arising from grocery retailers' buyer power. Consistent with the conditions set out in paragraph 4*(a)*, demand withholding may affect industries in fragmented markets (ie where there are numerous producers) and where economies of scale are not present (at least not in the short term). We consider that these conditions are most likely to be met in primary produce sectors.

11. For example, Worldwide Fruit told us that fruit prices tended to be formed on the 'market' and that retailers could purchase fruit worldwide (implying a fragmented supply base). [✂] also told us of competing imports, from [✂], as the main source of price pressures since the mid to late 1990s. This would be consistent with a 'market' framework where there are numerous suppliers as opposed to a 'bargaining' framework. We would expect to have a market framework where demand withholding is an issue.

12. As to the slope of supply curves, in order for an adverse effect to materialize, unit production costs should be increasing and decreases in the prices to retailers should be associated with lower quantity supplied to final consumers and possibly higher prices to consumers. We have so far received no evidence that there is such an effect on production costs and prices to retailers.

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[3]CC, *Macaw (Holdings) Ltd/Cott Beverages Ltd: a report on the acquisition by Cott Beverages Ltd of Macaw (Holdings) Ltd*, April 2006, paragraph 5.21.

13. However, according to [✂], despite a significant number of producers going out of business, the reductions in prices to retailers corresponded to low prices at the retail level and an increase in the overall quantity of [✂] supplied. These cases show that the market framework may be realized in practice in some cases, for example in certain fruit industries and in the case of the supply of [✂]. In relation to the fruit industry, [✂] stated that the UK production of some fruit has recently shrunk significantly because of ever-increasing pressure on suppliers' margins. This is consistent with demand withholding that could have harmed consumers.[4] However, in order to assess whether this is the case, it will be important to consider whether imports of similar fruit have replaced fruit produced in the UK in terms of both quantities, quality and range of varieties.

14. We will continue to analyse upstream sectors. We invite producers that consider that demand withholding may take place in their market to come forward with specific evidence.

Investment and innovation

15. In paragraph 4*(b)*, we note that grocery retailers' buyer power could suppress investment by suppliers in process and product innovation as well as maintenance and upkeep. Trends in expenditure for research and development (R&D) by suppliers may therefore provide an insight into trends in the buyer power of grocery retailers. If buyer power has been increasing, as claimed by some suppliers, we may expect therefore to see a reduction in innovation by suppliers.

16. Trends in R&D expenditure in the agriculture and food production industries are set out in Figure 1. While it is difficult to draw a strong conclusion from these aggregated

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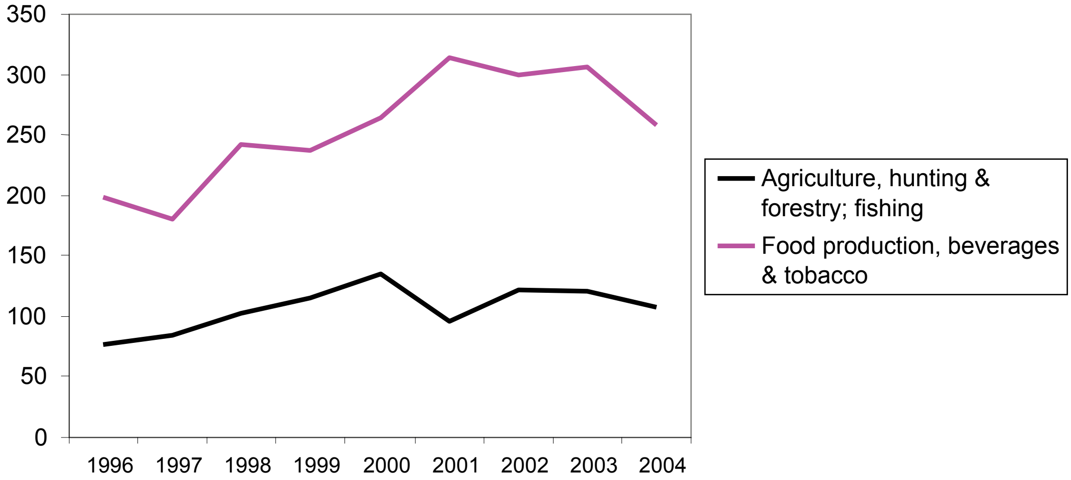
[4]However, this could also be consistent with excess supply.

figures, there does not seem to have been a significant or broad-based decline in R&D expenditure in the period since 1996.

FIGURE 1

Expenditure on R&D, 1996 to 2004 (£m)



Source: ONS report: *Research and Development in UK Businesses (MA14)*.

17. In the survey of suppliers conducted by GfK on behalf of the CC (the GfK report), 80 per cent of suppliers surveyed said that they had made an investment in some form of process or product development during the past two years.[5] Of these, 43 per cent stated that they currently spent more on such investments than they did five years ago, while only 14 per cent stated that they spent less.[6]

18. Two producers ([✂] and Worldwide Fruit) have told us that greater competition and pressure on margins may actually have increased spending on innovation.[7]

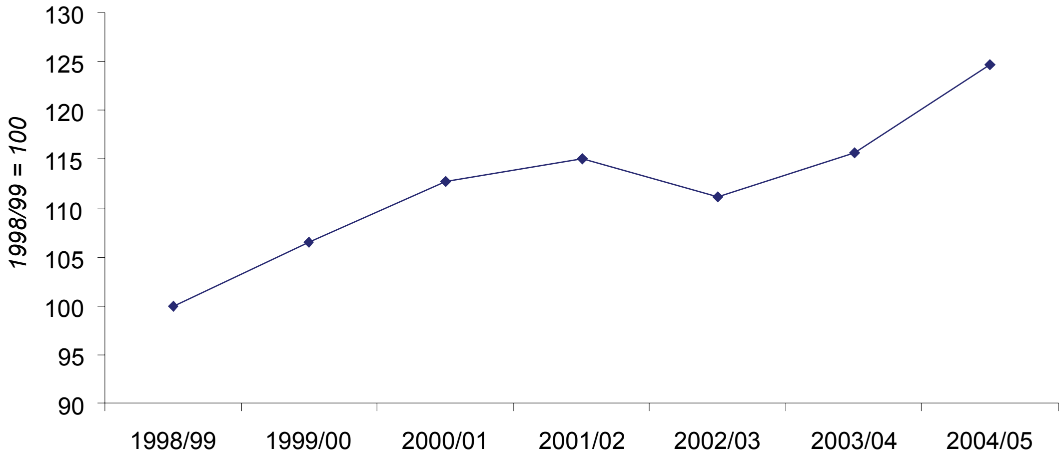
19. The R&D Scoreboard database organized by the Department of Trade and Industry (DTI) provides information on the R&D activities of the top 750 UK firms and the top 1,000 international firms. We have considered 13 leading food and beverage

[5]GfK Report, Chart 58.
[6]GfK Report, Chart 61.
[7]In the case of one, the investment was made by its parent outside the UK, though the benefits were experienced in the UK.

manufacturers for which we had comparable data for a period of seven years. The index of their weighted average R&D to sales ratio is presented in Figure 2. This shows an increase in R&D spending over the period for these firms. Further, a report from the Confederation of Food and Drink Industries of the EU (CIAA)[8] states that R&D intensity in the UK food sector is above EU average. R&D expenditure has increased from 0.3 to 0.5 per cent of turnover between 1995 and 2002.

FIGURE 2

Index of R&D/sales ratios for 13 leading food and beverage manufacturers, 1998 to 2005 (weighted by sales)



Source: DTI R&D Scoreboard.

20. In summary, the evidence we have reviewed to date does not seem to indicate low or decreasing levels of investment and innovation among suppliers to grocery retailers. Some of the evidence suggests that the strong bargaining position of grocery retailers may have increased incentives to invest. In the next stage of our inquiry, we will consider further any evidence regarding the impact of grocery retailers' buyer power on investment and innovation by suppliers. We invite the submission of further evidence in relation to this matter.

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[8] Available at: www.ciaa.be/documents/news_events/Data_&_Trends_2005.pdf.

The waterbed effect

21. In paragraph 4*(c)*, we set out the possibility of a 'waterbed' effect. We have received a detailed submission on behalf of the ACS by Europe Economics and Professor Roman Inderst which formally sets out a model of the waterbed effect. While we are still checking the details of the analytical part of the model, we note that it provides a clear explanation for the existence and possible consumer harm of waterbed effects.

22. According to the ACS submission, the logic of the waterbed effect is the following. The starting point is that a retailer's size determines in some way the extent of its buyer power. This means that retailers pay different prices beyond what would be warranted by the different costs for suppliers of serving customers of different sizes. In other words, retailers earn non-cost-related discounts that are proportional to their size.[9] If this is the case, and if the discount obtained affected the price to the retailer,[10] a large retailer which obtained such a discount would charge lower prices to final consumers, while relatively small retailers would not be able to match these prices as they would be constrained by the higher input prices they pay.

23. The second step set out by the ACS is that the lower prices charged by large retailers have the effect of winning over a share of the small retailers' customers. This would further reduce the smaller retailers' size and consequently worsen their bargaining position relative to suppliers. This process could lead to smaller retailers charging higher prices while larger retailers charge lower prices. The net effect for consumers could in principle be negative.

[9] There are many reasons why a retailer's size may confer buyer power. These were discussed in the roundtable on buyer power (see footnote 1 above).
[10] For the retailer to have an incentive to lower its prices (ie to pass on to final consumers the discounts that it obtains from the suppliers) the terms of trade between suppliers and retailers have to focus on the unit price. If the discounts are given in the form of fixed payments they may result purely in a transfer of profits between suppliers and retailers without an effect on the final price and hence without any waterbed effect.

24. Within its theoretical model, the ACS found that the waterbed effect was more likely to lead to higher prices at small grocery retailers and to higher average prices to consumers if there was a significant differential between the position of the large and the small retailers. According to the ACS, a high market share for the large grocery retailers increased the likelihood of a waterbed effect materializing and adversely affecting consumers on average.

25. Finally, the ACS claimed that these 'short-term' effects could be exacerbated by suppliers and wholesalers potentially going out of business in the medium term as a result of earning lower profits overall and further worsening the remaining small grocery retailers' bargaining position.

26. According to the ACS submission, the conditions that would make a waterbed effect more likely and potentially harmful to consumers are, in summary:

(a) buyer size reflecting buyer power for large and small grocery retailers and leading to significant non-cost-related discounts for the large grocery retailers;

(b) a significant difference between the bargaining position of small and large grocery retailers;

(c) discounts affecting the unit price paid by grocery retailers to their suppliers;

(d) lower prices charged by large retailers leading to growth of large grocery retailers mainly at the expense of small grocery retailers (as opposed to growth from an increase in the total size of the market); and

(e) the number of suppliers willing to sell to smaller grocery retailers reducing with increased buyer power.

27. Subject to a more detailed analysis of the theoretical model confirming the relevance of these conditions, we can use some of the available data to check whether these conditions are likely to be met in practice.

28. The first two conditions require that the size of the buyer determines the ability to obtain non-cost-related discounts and that differences in this respect between small and large grocery retailers are significant. It is important to note that for the waterbed effect to materialize, the requirement is not just that large buyers pay less than smaller buyers but that incremental changes in the size of the buyers are likely to lead to differences in the price paid.

29. One way to test for this is to observe what prices are currently being paid to suppliers by grocery retailers of different sizes. To this end, we have conducted a preliminary analysis of price data for 15 suppliers of branded goods. Whilst the analysis is preliminary, it does not indicate the presence of price differentials that are consistently in favour of the larger grocery retailers. This finding is in contrast to that of the CC's investigation in 2000 where it was found that Asda, Safeway, Sainsbury's, Somerfield and Tesco bought goods in the top five branded lines from their suppliers more cheaply than other grocery retailers.

30. Another aspect to consider is whether such price differentials are non-cost-related or simply reflect the different costs in supplying different retailers. We have only limited data that allows this type of analysis and we will have to conduct further analysis of the available data as we go forward.

31. On condition *(c)*, relating to whether discounts affect the unit price paid by grocery retailers, we do not have very specific evidence. We note, however, that replies by the grocery retailers to CC questionnaires indicate a prevalence of contracts where multiple tariffs are employed. Similarly, the GfK report indicates that around 70 per cent of suppliers make regular or occasional payments to grocery retailers as marketing contributions or other promotional investments. Other payments are less common. However, 43 per cent of respondents stated that they paid some 'other

rebates' to retailers. This suggests that in trading between grocery retailers and suppliers tariffs tend to have multiple parts.[11]

32. We also plan to conduct a preliminary assessment of condition *(d)*, concerning the link between grocery retailers' prices and sales growth. We will attempt to obtain market shares by value and volume over time which may help explain the extent to which larger grocery retailers have grown at the expense of smaller retailers and on the relative prices charged.

33. Finally on condition *(e)*, relating to supplier numbers, we note in the working paper on supplier profitability, as well as the working paper on wholesalers, that we do not have strong evidence suggesting that buyer power has led or is leading to suppliers and/or wholesalers exiting the market in numbers greater than what might be expected to arise from normal competitive behaviour.

34. In summary, we acknowledge that the ACS submission presents a model that puts the waterbed effects in a clear theoretical framework. The evidence we have at this stage, though, is incomplete and mixed and more data and further analysis is required to complete our assessment.

35. Finally, we have considered information from the GfK report addressing more directly the interaction between the terms offered to large and small retailers. Considering price first, the GfK report shows that only 7 per cent of suppliers 'agree' or 'strongly agree' that when larger customers negotiate a lower price, prices are increased to smaller customers. However, effects on non-price factors seem more common. For

[11]An efficient use of these multiple part tariffs would imply discounts not affecting the wholesale unit price, but rather the lump sum payments. This is because setting unit prices to reflect the unit cost of serving a certain customer and using the fixed element of the tariff to split the overall profits made between suppliers and retailers is one way of avoiding the inefficiency associated with the problem of 'double marginalisation' (see also paragraph 71 and footnote 21 of the working paper on supply chain practices).

example, 40 per cent of suppliers indicate that when demand from large customers increases there could be supply shortages to smaller grocery retailers. More generally, 21 per cent of suppliers indicate that when larger customers require better or additional services, service to small customers becomes worse as a result.

36. In conclusion, an assessment of the potential for adverse effects arising from waterbed effects will need to be based on further analysis of both the theoretical rationale and the data. This will be needed to assess the precise conditions under which such effects may lead to adverse effects in theory, and whether such conditions are actually likely to materialize in practice.

Preliminary analysis of individual industries

1. The factors which increase or decrease a grocery retailer's buyer power are not necessarily consistent across or within supplying industries. This annex presents an initial assessment of some factors affecting buyer power in several important supplying industries.

Beverages

2. Beverages generally account for around 20 per cent of the grocery retailer's food revenues[12] (with the exception of [✂], where they account for only [✂] per cent). The approximate ratio of alcoholic to non-alcoholic beverage sales is 3:1.

3. For alcoholic beverages, the supply base does not appear to be particularly concentrated. [✂] or more suppliers account for [✂] per cent of the expenditure of Tesco, Asda or Sainsbury's. This is slightly lower for some of the smaller chains, with the exception of [✂]. Most supermarket chains have over 30 suppliers accounting for 90 per cent of expenditure on alcoholic drinks; some have up to 100.[13]

4. A large proportion of alcohol sales to grocery retailers are branded products. Initial analysis of Asda's submission suggests that [✂] per cent of suppliers of alcoholic drinks to Asda (by value) are supplying mainly branded products.

5. The major alternative sales channel for alcohol suppliers is on-trade sales (for immediate consumption, eg to pubs). Off-trade beer accounted for only 40 per cent of sales by volume in 2004. However, this has increased substantially since 1990, when

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[12] CC analysis of submissions.
[13] Ibid.

off-trade accounted for 20 per cent of beer sales. Of off-trade sales, grocery retailers accounted for 55 per cent of sales by value in 2004 an increase from 50 per cent in 2002.[14]

6. In the wine sector, it is estimated that own-label makes up 46 per cent of all wine sales. This rises to 58 per cent in the off-trade market.[15]

7. For non-alcoholic drinks, there is a slightly different picture. Most grocery retail chains purchase the majority (90 per cent) of their non-alcoholic drinks from between 5 and 15 suppliers. Generally two to four suppliers account for 50 per cent of this expenditure.[16]

8. There is also a larger own-label share of soft drinks (33 per cent) and hot beverages (17 per cent).

9. In the off-trade lager market, real prices are reportedly on a downward trend.[17] However, beer prices in the on-trade market are estimated to have risen 10 per cent faster than inflation over the last ten years.

10. Table 1 shows other comparative price trends in the beverage sector.

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[14]The Society of Independent Brewers Submission.
[15]Mintel Report: *Own Label Food and Drink—UK*, October 2006.
[16]CC analysis of submissions.
[17]Mintel Report *Lager—UK*, June 2005.

TABLE 1 **Retail price indices for drinks (index 1999=100), 1999 to 2003**

	1999	*2000*	*2001*	*2002*	*2003*
All items (consumer price index)	100.0	103.3	105.3	106.4	109.5
Soft drinks (take-home)	100.0	100.5	100.6	99.4	99.9
Catering	100.0	103.5	107.8	111.6	115.1
Wines and spirits (all channels)	100.0	100.2	102.6	104.8	107.1
— off trade	*100.0*	*99.4*	*100.3*	*100.3*	*101.0*
— on trade	*100.0*	*102.7*	*105.9*	*109.9*	*113.4*

Source: Monthly Digest of Statistics, National Statistics website.

Meat, poultry and fish

11. Meat, poultry and fish appear to account for between 5 and 10 per cent of food revenues at grocery retail chains.[18]

12. We do not currently have data to assess these industries separately. However, data provided by the grocery retail chains suggests that they deal directly with very few suppliers of meat, poultry and fish. It appears that only three to six suppliers account for 50 per cent of purchases by the grocery retail chains, increasing to 12 to 25 suppliers accounting for 90 per cent of purchases.[19] This is consistent with what we were told by the Meat & Livestock Commission (MLC) which submitted that most farmers sold to meat processors (who set the farm gate price), who then dealt with the supermarkets. There has been increasing concentration in agricultural holdings (but accompanied with an increase in the average herd size at each holding).

13. The MLC submitted that of all retail sales, 76 per cent of beef, 69 per cent of lamb, 76 per cent of pork, 81 per cent of bacon and 85 per cent of processed meat was sold through grocery retail chains. According to the MLC, the number of butchers in the UK had declined from 22,900 in 1980 to around 6,600 in 2005.

[18]CC analysis of submissions.
[19]CC analysis of submissions.

14. Meat appears to be predominantly sold as own-label. The MLC estimated that around 70 per cent was sold as own-label.

Dairy

15. For Sainsbury's, Asda and Tesco, the proportion of (food) revenue that is made up of dairy products varies between [✂] and [✂] per cent. At Aldi it is [✂] per cent, and at [✂] as high as [✂] per cent.[20]

16. There are around 20,000 dairy farms in the UK. They sell to processors, who set the farmgate price. There are around 200 fresh milk processors, of which the three largest account for 90 per cent of liquid milk sales to supermarkets.

17. Data provided by the grocery retailers shows that they typically make the majority (90 per cent) of their purchases of dairy products at 20 suppliers. However, only around four suppliers account for 50 per cent of spend.

18. The four largest grocery retailers account for less than 25 per cent of volume sales of raw milk processed in the UK. Alternative sales channels including the much diminished doorstep milk supply[21] are shown below.

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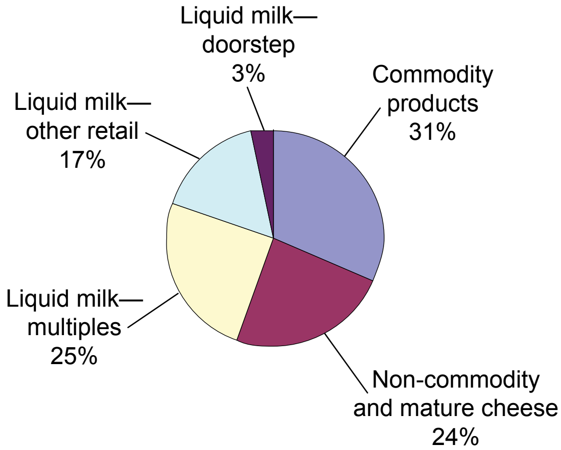
[20]CC analysis of submissions.
[21]See working paper on supply chain profitability, paragraph 29.

FIGURE 1

Sales channels for processed raw milk



Source: CC estimates based on Defra and MDC data.

19. An estimated 46 per cent of dairy products are sold as own-label. This figure rises to 63 per cent in cheese where Mintel estimates that the average price per kilo has increased by 7 per cent since 2000. The largest cheese brand (Dairylea) stands at just 6.6 per cent of the market.[22]

Bread

20. Bread and cakes account for around 10 per cent of total grocery (food) revenues. The number of suppliers supplying to each retailer varies quite significantly across grocery retailers. Sainsbury's has [✂] suppliers accounting for 90 per cent of spend in this sector, whereas Tesco has [✂] and Asda has [✂]. For other grocery retailers this figure varies between 4 and 38. However, the number of suppliers accounting for 50 per cent of spend on bread and cakes is generally between two and six.[23]

21. According to the National Association of Master Bakers, the majority of wholesale members supply locally to hospitals, independents, schools, and canteens. Some of

[22]Mintel Report: *Own Label Food and Drink—UK*', October 2006.
[23]CC analysis of submissions.

the larger members supply to grocery retailers, although this is slowly changing because of grocery retailers' local sourcing initiatives.

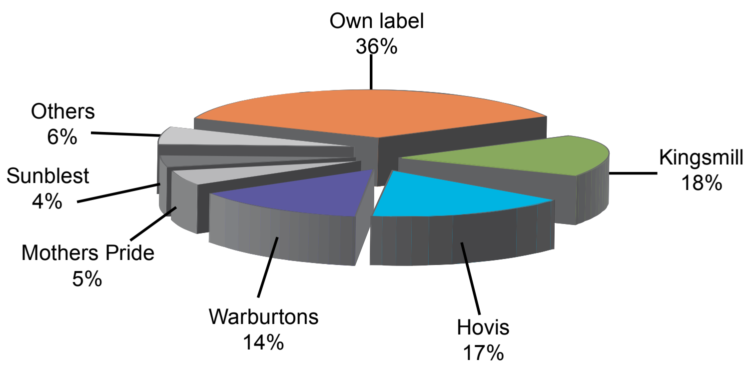
22. Grocery retail chains and co-ops distribute 87 per cent of UK bread while 17 per cent can be further classified as being the product of an in-store bakery. 7 per cent is accounted for by independent retailers though this represents a 5.6 per cent increase on the independent sales figures for 2000.[24]

23. Volume across the industry has steadily fallen over the last four years. However, prices continue to rise as an apparent trend towards a premium on quality continues to unfold.

24. Plant bakeries supply 77 per cent of UK bread, and continue to increase this figure at the expense of in-store bakeries (17 per cent) which declined by 5 per cent between 2000 and 2004. The shares of supply of the largest plant bread providers are shown below.

FIGURE 2

Shares of supply of the largest plant bread providers



Source: Mintel, *Bread*, February 2005.

[24]Mintel Report: *Bread*, February 2005.

25. The 'own-label' category shown in the pie chart includes the producers of all the grocery retail chains' own-label plant bread (these are likely to include the branded producers). The supply by imports stands at just 2 per cent reflecting the fact that the product life of bread is relatively short.

Fresh produce

26. Around 10 per cent of grocery (food) spend is on fresh produce. Most grocery retailers purchase the majority of fresh produce from over 15 and up to 50 suppliers (with the exception of Somerfield). Four to ten suppliers typically account for 50 per cent of spend in this sector.[25]

27. Relative to other product categories, a large proportion of fresh produce is sourced overseas. Data from Asda shows that [✂] per cent of its fresh produce is regionally sourced, [✂] per cent nationally sourced, [✂] per cent comes from Europe and the rest ([✂] per cent) is global.

28. Asda told us that it had minimal bargaining strength when produce was seasonal ([✂]), and that it had had to accept price increases on [✂] because it had no short-run alternative suppliers to [✂] (it had since switched [✂]). The NFU cited [✂] as earning a reasonable return as demand had been in excess of supply this summer and there had been few imports.

29. On the other hand, [✂] told the CC that margins on two particular types of fruit were increasingly shrinking. It submitted that each major retailer had an exclusive 'category manager' who was essentially an intermediary or agent. Growers agreed to sell all of their output to a particular agent, but did not deal with UK supermarkets

[25]CC analysis of submissions.

directly. The agents agreed the price with the supermarkets and received a commission of around 6 to 9 per cent. It told us that half of the UK's [✂] orchards had closed in the past ten years.

30. This may still be the case: Tesco told the CC that commodity and produce suppliers might be easier to replace than large brands or own brands.

Toiletries/household and fabric cleaning

31. Most grocery retailers purchase toiletries from over 15 suppliers, with around five suppliers accounting for 50 per cent of spend.

32. Most grocery retailers appear to purchase the majority of household and fabric cleaning products from less than ten suppliers, with only two or three suppliers accounting for 50 per cent of purchases.

33. The majority of toiletries and household cleaning products are branded (Asda's submission implies more than [✂] per cent of the suppliers that account for 50 per cent of purchases). A number of branded manufacturers told us that they negotiated a rolling 12- to 24-month business plan with each of the major retailers, which described promotions, ranges, distribution and prices.

34. Alternative sales channels exist in the form of Boots and Superdrug.