

9 International price comparisons

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Introduction

9.1. A great deal of recent attention has been given to grocery prices in the UK when compared with other European countries and the USA. Prices in the grocery retail sector have been compared with those

in other countries by the media, politicians and grocery retailers themselves to attempt to shed light on whether the UK is a relatively highly-priced market for a one-stop grocery shop.

9.2. Robust international price comparisons might help identify whether certain sectors of the economy are operating anti-competitively. Some commentators believe that grocery retailing merits such a comparison as a means of determining whether consumers pay higher prices in the UK for groceries, and if so, whether there are good reasons why this might be the case, such as higher costs in the UK. This chapter presents results from two 1999 international price comparisons and briefly considers possible reasons for the relative UK price position that emerges.

Difficulties with international price comparisons

9.3. In the course of the inquiry into UK grocery retailers, a number of third party international price comparisons have been considered. The majority of these were lacking credibility in a number of fundamental areas. Some of the methodological flaws commonly encountered in international price comparisons include:

- (a) the comparison of a small unrepresentative sample of products at a small unrepresentative sample of stores and cities;
- (b) the comparison of a basket of products at a 'snapshot in time'. Such studies take no account of exchange rate trends or promotional activity which is more prevalent in the UK, with the effect of randomizing UK prices;
- (c) attempts to compare products that are not 'like for like', most commonly through arbitrary brand substitution. Alternatively, product lists may be based on the consumption patterns of a single country, with the effect of artificially increasing relative prices in other countries;
- (d) attempts to compare products supplied in very different pack sizes through pro-rata price adjustments;¹
- (e) construction of baskets of products such that very few products have a disproportionate effect on the total basket price;
- (f) the exclusion of own-label products;
- (g) the exclusion of demand-side factors by not attempting to weight baskets according to the preferences of consumers in the countries surveyed; and
- (h) the basing of results solely on tax-inclusive price levels, thus ignoring a pricing factor beyond retailers' control.

9.4. Further discussion of the difficulties involved in carrying out international price comparisons and an examination of some of the methodological problems evident in some recent third party studies can be found at Appendix 9.1.

Introduction to the price comparisons

9.5. This chapter outlines the methodology and results of two studies, one carried out by the CC, and the other an update by the CC of an earlier comparison carried out by Eurostat and originally updated by Dresdner Kleinwort Benson (DKB).

9.6. The first study is an international price comparison which compares prices between Great Britain, France, Germany and the Netherlands using archived retail scanning data from 1998 and 1999 and price auditing² in the last two months of 1999. This study will be referred to throughout this chapter and its appendices as 'the CC study'. It surveys prices in Great Britain due to the non-availability of historic price data for Northern Ireland.

¹The CC study has also used pro-rata adjustments but, where possible, a 33 per cent maximum pack size differential has been set to eliminate comparisons of products that are not like for like.

²Price auditing is the manual collection of prices from shops.

9.7. The second price comparison is an update to 1999 of part of a study originally carried out in 1994 by Eurostat, the statistical arm of the European Commission, and updated to 1996 by DKB. It compares prices across all EC countries over a number of different grocery categories and has been updated using Eurostat inflation indices. This study will be generally referred to as 'the Eurostat update' and is used to validate the robustness of the conclusions from the CC study. In order to do this, alcoholic drinks are removed from both studies to eliminate the effect of variable duty levels across the countries surveyed, and the different proportion of alcoholic drinks present in each study. Northern Ireland is included in the Eurostat update.

9.8. The last part of the chapter briefly examines two factors which have a significant effect on British prices in both of the comparisons. The first and most important is the appreciation of sterling since 1996 to a level which many economists believe to exceed its equilibrium, with the effect of lowering foreign price levels relative to the UK when converted into sterling. The second is the long-term effect on retail prices of higher UK land prices when compared with other European countries.

The CC study

9.9. Given the above methodological objections to existing international price comparisons, we decided to carry out our own comparison of grocery prices as part of the inquiry, and in so doing, to meet as many criticisms of previous studies as possible. It was decided that the comparison should be between the UK,¹ France, Germany and the Netherlands. France and Germany were included as similarly large West European economies to the UK, while of the smaller EC nations, the Dutch retail sector represents a similarly mature market to that of the UK.

9.10. The USA was not included in the CC study for two reasons. First, its geographic size, larger population and greater uniformity of regulations over that population lends relative economies of scale to the US grocery sector. Secondly, if the USA had been included and it was found to be cheaper than all European countries surveyed, the only feasible conclusion would be that high grocery prices are a European, rather than uniquely British, problem. Similarly, if British prices are systematically higher than other EC nations, this gives cause for concern and a possible signal of reduced competition in the UK regardless of the exclusion of the USA.

9.11. Products were selected in order to cover a large range of basic foodstuffs, alcoholic and non-alcoholic beverages, personal care and household items and checked for popularity against the sales lists of a selection of UK multiples. In order to balance out any bias this method of selection produced towards British consumer preferences, popular UK products such as baked beans that occupy premium positions in other countries in the comparison were omitted. Additionally, a small number of traditional foreign products available in the UK were added such as German garlic sausages and French baguettes.

9.12. The product list was reviewed by market research company A C Nielsen in order to ensure that the maximum possible comparability of branded products was achieved across the four countries surveyed. A C Nielsen also supplied the raw price data for all products in the survey.

9.13. The study was necessarily split into two tiers in order to include as many product categories as possible. Tier 1 contains monthly data for 177 products over a 12-month period between October 1998 and September 1999. By taking a long period of price data, the study was able to iron out the effects of short-term product promotions, which tend to be more prevalent in the UK than the other countries surveyed. Such promotions were additionally included as prices are net of discounts in both tiers of the study.²

9.14. A number of products could not be compared using archived price data over 12 months. These are in categories which do not generally feature brands, and they were compared using original price collection at around 50 stores in each country in November and December 1999. This section of the CC study forms Tier 2 and includes the following product categories not strongly featured in Tier 1:

- (a) canned and fresh meat and fish;

¹Due to the non-availability of data from Northern Ireland, the UK is represented in the study as Great Britain.

²However, for a minority of retailers in Tier 1 and all stores in Tier 2, it was not possible to gain prices net of multi-buy promotions (eg 3 for the price of 2).

- (b) canned and fresh fruit and vegetables;
- (c) frozen produce;
- (d) dairy;
- (e) bakery and home baking; and
- (f) condiments.

Format of the results

9.15. Results for Tier 1 are given on both weighted and unweighted bases. The unweighted results indicate average prices paid in each country for the various baskets of goods surveyed (see below) and are detailed at Appendix 9.3. The weighted results are in the form of indices reflecting the purchasing preferences of consumers from each country in turn through the use of spend per capita data for all products surveyed. These are detailed at Appendix 9.4. The weighted results given below initially reflect British consumer preferences, but the effect that British weighting has on relative prices is later eliminated.¹

9.16. Results for Tier 2 are of limited use on an unweighted basis due to a smaller sample of 58 products, greater price variation between the products in the sample,² and the ‘snapshot in time’ basis of the exercise. However, weighted results are given using weights from the 1998 Food Survey published by MAFF.³

9.17. The 1998/99 Family Expenditure Survey (FES) published by the Office for National Statistics (ONS) was used to assess the likely proportion in an average weekly shopping basket of products from each tier. This enables the two tiers to be linked, giving a single UK price level relative to the other countries surveyed.

9.18. Two adjustments are then made to the study to more accurately reflect British price levels. First, as mentioned above, the effect of applying a weighting system based on the preferences of British consumers to both tiers is quantified and removed, bringing the study into line with the unweighted Eurostat update. Secondly, the question of the relative quality of British and German own-label goods is examined, resulting in a range of quality-adjusted German price levels to account for the possibility of lower German own-label product quality.

The methodology: five types of comparison

9.19. The prices for Tier 1 of the international price comparison were supplied by A C Nielsen using archived scanning data from a sample of at least 1,000 grocery stores in Great Britain and at least 500 in each of the other countries surveyed. In order to gain an idea of the relative prices of various branded and own-label products commonly sold in each country, products were split into four categories and separate price comparisons were made for each category. The categories are:

- (a) consistent brands at a consistent pack size in each country;
- (b) consistent brands at the most popular pack size in each country;
- (c) the most popular brands in each country; and
- (d) own-label products.

¹See paragraph 9.77.

²This is largely due to the inclusion of wine and spirits in Tier 2.

³The spend per capita data used to weight Tier 1 products was unavailable for those in Tier 2, due to their largely unbranded nature. Spend per capita data are most commonly used to assess the relative performance of brands.

9.20. A fifth comparison was also carried out by adding together the popular brand and own-label results in order to form a larger basket of products which is the most representative of an average weekly shop. It is this comparison which is used to give headline relative Tier 1 prices between the four countries, and its results are combined with those from Tier 2 below.

Consistent brand, consistent pack size

9.21. The product category roast/ground coffee features in all five of the comparisons above and is used here as an example of the different types of comparison that we undertook. The consistent brand available in most of the countries surveyed¹ is Douwe Egberts. This is most commonly available across the countries surveyed in a 250g pack size, representing the consistent pack size in the study.

9.22. Forty-five products were comparable using a consistent brand and pack size. Where precisely consistent pack sizes were unavailable in any country, prices were adjusted to show those which would prevail at the consistent pack size. However, if any product in any country was sold at a pack size which lies beyond a range of 33 per cent from the consistent pack size, it was excluded from the comparison.

Consistent brand, most popular pack size

9.23. The consistent pack size in each country is not necessarily the size that achieves the greatest sales volume. For example, Douwe Egberts coffee is most commonly sold in 227g packs in the UK and 500g packs in the Netherlands. To account for this, a separate comparison of the same 45 consistent brands at their most popular-selling pack sizes in each country was carried out. These prices were adjusted back to the consistent pack size on a pro-rata basis without the application of a 33 per cent threshold.

9.24. It is possible that such a comparison may show that the lowest-priced country was the one that sold the greatest number of branded products at the largest pack sizes, due to a lower packaging/product content ratio. However, analysis of the most popular pack sizes in each country revealed that in no country were consistently larger pack sizes of the selected branded products sold relative to the other countries surveyed. The most popular pack sizes in each country of the consistent brand products can be found in Table 2 in Appendix 9.10.

Popular brand²

9.25. To gain further insight into the prices of various product categories, the prices of the most popular brands were also surveyed in each country. Though for roast/ground coffee this is Douwe Egberts in the Netherlands, different brands have higher sales in the other countries. Surveying the prices of these brands takes into account consumers' shopping preferences in each country.

9.26. Products are excluded from the popular brand comparison where the most popular brand in three or more countries is the same as the consistent brand (for example, Kellogg's cornflakes). Prices were again adjusted on a pro-rata basis to the price that would prevail at the consistent pack size. To prevent the exclusion of a number of products for which no consistent brand exists (for example, baby food) from all branded comparisons, no maximum pack size differential threshold was applied. In total, the prices of 43 popular brands are compared. These can be found along with their pack sizes in Table 3 in Appendix 9.10.

Own label³

9.27. The fourth comparison made was of 44 own-label products. The average price taken is that of all own-label pack sizes aggregated. This method of pricing was used in order to obtain data from

¹Douwe Egberts was not available in Germany, which was excluded from the consistent brand comparisons for the product category of roast/ground coffee.

²The brands and pack sizes used in the popular brand comparison can be found in Table 3 at Appendix 9.10.

³See paragraph 6.74 for a discussion of the different types of own-label products available in the UK.

retailers which do not release own-label price information at an individual pack size. This is because in non-mature own-label categories where only one retailer produces an own-label product, the release of price data at an individual pack size would reveal a product price specific to that retailer which could be easily monitored by its competitors. Therefore, many retailers aggregate the pack sizes of all their own-label products, before passing on price information to A C Nielsen.

9.28. When comparing own-label products, the greater maturity of the British own-label market relative to others in Europe is an additional factor to be accounted for. Higher consumer acceptance of own-label products is evident in Great Britain, resulting in the availability of a larger range, and higher own-label sales values than in most other European countries. The less developed nature of the German market in particular gives rise to quality concerns over German own-label products, and may help to explain the lower German own-label prices revealed below. German own-label prices are adjusted to account for these quality concerns in paragraph 9.81 following the linkage of the two tiers of the CC study.

9.29. The limited availability of price data for own-label products at individual pack sizes prevented an additional comparison of cheapest on display goods as originally intended, because for many product categories in the UK, the cheapest on display product would be part of a budget own-label range. However, budget own-label ranges currently only account for around 4 per cent of UK grocery sales and they are included within the aggregated own-label price data.¹

Popular brand/own label combined

9.30. This comparison gives some idea of the price of a composite weekly shopping basket, which would be likely to contain a selection of own-label items and the most popular brands in the country of purchase. As mentioned above, it is the largest and most representative comparison in Tier 1 and thus forms the set of results used when combining Tier 1 with Tier 2 to give a general Great Britain price level from the study.

9.31. A degree of product duplication is unavoidable when constructing such a basket. For example, individual consumers are unlikely to buy a branded and an own-label cat food in the same shopping trip and repeat this pattern over a wide range of purchases. However, the comparison may be seen as reflecting average prices paid by a representative sample of consumers in each country. Such a sample would purchase both branded and own-label products within the same product category.

9.32. The prices in all five types of comparison were calculated by averaging on a sales-weighted basis across all stores surveyed in order to give a total average price for each country, or in the case of Great Britain, for British multiples.² Thus, if most Great Britain coffee is sold in multiples at £3 a jar but a minority is sold at £4, the average British multiples price would be closer to £3. Promotional discounts run by stores are included in the prices observed.

Types of store surveyed

9.33. In addition, average prices for various store types in each country were calculated as follows:

- (a) *Great Britain (total)*: all supermarket fascias, including non-reference stores, surveyed within Great Britain (ie excluding Northern Ireland). For a minority of product categories, Great Britain (total) price data were unavailable and Great Britain (multiples) data has been substituted for it.³
- (b) *Great Britain (multiples)*: as above but excluding Co-ops, independent chains, stores belonging to a chain of less than ten shops and stores which sell 50 per cent or more of goods not categorized as fast-moving consumer goods.⁴ Within this specification, stores in the Great Britain

¹Source: TNS Superpanel data, February 2000. Data relate to March 1999 to February 2000.

²A survey of prices in Great Britain multiple stores rather than all Great Britain store types was the most appropriate for the purposes of isolating prices available at main party stores. The 'multiples' store category was available for Great Britain only.

³The substitution of Great Britain (multiples) prices in place of Great Britain (total) prices was carried out for some products due to the non-availability of archived Great Britain total price data for these items. This has the effect of reducing the price differential between Great Britain (total) and Great Britain (multiples) in all comparisons. A list of the products concerned can be found at Appendix 9.10.

⁴This is A C Nielsen's definition of multiples for the purposes of research. It does not represent the criteria set for reference stores by the OFT in the terms of reference for this inquiry but a strong overlap exists between them.

multiples sample represent 87 per cent of all commodity value sold from Great Britain multiple grocery retail outlets.¹

(c) *France (total)*: all French supermarket and hypermarket fascias over 400 sq metres.

(d) *France (hypermarkets)*: stores over 6,500 sq metres.

(e) *France (supermarkets)*: stores between 400 and 1,199 sq metres.

(f) *Germany (total)*: all German supermarket, hypermarket and discounter fascias.

(g) *Germany (hypermarkets)*: stores over 5,000 sq metres.

(h) *Germany (discounters)*: all German discount chains with one exception.

(i) *Germany (supermarkets)*: stores between 400 and 799 sq metres.

(j) *Netherlands (total)*: all Dutch supermarket and hypermarket fascias.

9.34. It was not possible to include prices from Northern Ireland, or those for one of the German discounter chains in the survey, as these are not collected by A C Nielsen.²

Robustness of the methodology

9.35. The methodology utilized for Tier 1 has been designed to overcome criticisms made of third party studies and incorporate as many suggestions as feasible made by the main parties during consultation. Tackling each of the eight criticisms in paragraph 9.3 in turn, this study improves on many previously conducted by:

- (a) taking the largest commercially available sample of scanned price data in each country from hundreds of geographically dispersed stores covering urban, suburban and rural areas;
- (b) analysing prices over a year with results given as quarterly average prices for all products, thus eliminating promotional distortions;³
- (c) the exclusion of all brand substitution when comparing consistent brands, and of products which hold very different market positions in different countries (for example, baked beans);
- (d) setting a 33 per cent maximum threshold for pack size differentials in the consistent brand, consistent pack size comparison;
- (e) comparing product prices on three levels: an unweighted basis, weighting prices by spend per capita data to reflect consumer preferences in each country, and analysing the number of products cheaper in each country such that no product or set of products has too large an influence on national price levels;
- (f) surveying own-label price data in addition to a large sample of brands;
- (g) including demand-side factors through the use of spend per capita data to weight all comparisons according to the importance of individual products to the buying patterns of consumers from each country; and
- (h) stating relative price levels on a tax-inclusive (at the counter) and tax-exclusive basis, with conclusions based on the tax-exclusive results.

¹It should be noted that A C Nielsen estimates prices for some smaller multiple chains that do not take part in its scanned price collection activities. Estimates are on the basis of prices collected from larger chains with similar pricing strategies.

²This will have the effect of under-representing the discounter store format when calculating average German prices, but the pricing effect will be small as lower prices are on average gained from the hypermarket store format.

³The second criticism of previous studies in paragraph 9.3 also referred to the inability of comparisons at one point in time to account for exchange rate movements. For information on exchange rates, see paragraph 9.129 and Appendix 9.13.

Tier 1 unweighted results

9.36. The average prices found in each of the five Tier 1 comparisons can be found at Appendix 9.2. Unweighted tax-inclusive and -exclusive results can be found at Appendix 9.3.

9.37. Tables 9.1 to 9.6 show the results for the combined popular brand/own-label Tier 1 price comparison. Both tax-inclusive and -exclusive results are included in order to give an idea of prices paid by consumers and charged by retailers respectively. The tax-exclusive results are the most important for the purposes of this study, as they strip out a pricing factor beyond the control of retailers. Market exchange rates are used to convert foreign prices to sterling.¹

9.38. Tables 9.1 and 9.2 show price comparisons between all four countries. Tables 9.3 and 9.4 show bilateral price comparisons between Great Britain and each comparator country in turn. This has the advantage of including more products as only two countries are being compared. Prices for these tables are in pounds sterling.

TABLE 9.1 Unweighted price comparison: popular brand + own-label—taxes included

65 products	Great Britain	France	Germany	Netherlands
Oct–Dec 98	77.63	78.29	74.03	75.31
Jan–Mar 99	77.19	76.63	72.26	73.79
Apr–Jun 99	76.63	73.90	68.30	71.10
Jul–Sep 99	75.79	73.87	66.98	71.53

Source: CC.

TABLE 9.2 Unweighted price comparison: popular brand + own-label—taxes excluded

65 products	Great Britain	France	Germany	Netherlands
Oct–Dec 98	70.94	69.23	64.61	67.15
Jan–Mar 99	70.48	67.75	63.06	65.76
Apr–Jun 99	69.97	65.34	59.60	63.38
Jul–Sep 99	69.18	65.31	58.34	63.73

Source: CC.

TABLE 9.3 Bilateral unweighted price comparisons: popular brand + own-label—taxes included

	Great Britain	France	Great Britain	Germany	Great Britain	Netherlands
Oct–Dec 98	83.24	84.13	93.60	85.79	86.01	84.12
Jan–Mar 99	82.77	82.38	92.88	83.69	85.33	82.23
Apr–Jun 99	82.13	79.39	92.17	79.17	84.86	79.21
Jul–Sep 99	81.28	79.34	91.26	77.85	84.14	79.63

Source: CC.

¹Average monthly exchange rates were supplied by the Bank of England. An average of the three relevant monthly rates was used to convert foreign prices to sterling in each of the four quarters surveyed.

TABLE 9.4 **Bilateral unweighted price comparisons: popular brand + own-label—taxes excluded**

	<i>Great Britain</i>	<i>France</i>	<i>Great Britain</i>	<i>Germany</i>	<i>Great Britain</i>	<i>Netherlands</i>
Oct–Dec 98	75.99	74.33	85.03	74.79	78.43	74.89
Jan–Mar 99	75.51	72.77	84.33	72.96	77.77	73.17
Apr–Jun 99	74.93	70.13	83.69	69.01	77.33	70.49
Jul–Sep 99	74.14	70.08	82.84	67.74	76.65	70.83

Source: CC.

For the tables above, 71 products were comparable between Great Britain and France, 78 between Great Britain and Germany and 73 between Great Britain and the Netherlands.

9.39. Tables 9.5 and 9.6 show the number of products cheaper in Great Britain when it was compared with each country in turn. This eliminates distortions which may be caused by large price differences over a small selection of products. For this type of comparison, there is no need to keep constant the number of products featured over the four quarters surveyed, as price trends are not being analysed over the year. Thus, products are included as they become available. Additionally, as all prices are sales-weighted averages over hundreds of stores and foreign prices have been converted to sterling, no two markets can ever have exactly equal prices for any one product. Thus, where 15 of 30 products are cheaper in Great Britain, this necessarily means that the other 15 are cheaper in the market it is being compared with.

TABLE 9.5 **Number of products for which Great Britain is cheapest: popular brand + own-label—taxes included**

	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Oct–Dec 98	35/71	29/78	33/73
Jan–Mar 99	35/71	29/78	32/73
Apr–Jun 99	35/76	26/81	27/76
Jul–Sep 99	37/76	24/81	30/76

Source: CC.

TABLE 9.6 **Number of products for which Great Britain is cheapest: popular brand + own-label—taxes excluded**

	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Oct–Dec 98	34/71	24/78	31/73
Jan–Mar 99	35/71	26/78	27/73
Apr–Jun 99	32/76	21/81	27/76
Jul–Sep 99	33/76	21/81	29/76

Source: CC.

9.40. Tables 9.1 to 9.4 show that a composite basket of popular brand and own-label products produced higher British prices against each country in all four quarters of all comparisons. The only exception to this was against France in the first quarter surveyed when sales taxes were included. Tables 9.5 and 9.6 confirm this position, showing that a minority of products were cheaper in Great Britain in all four quarters.

9.41. The high British price position was due to the higher level of Great Britain own-label prices compared with the other countries, a result which is affected by the issue of relative own-label quality discussed in paragraph 9.28 and adjusted for in paragraph 9.81. British popular brand prices were similar to those in other countries, but not low enough to offset the own-label price differentials.

9.42. Great Britain fared better in tax-inclusive comparisons as the zero-rated status of many British foods means less was subtracted than from other countries when taxes were excluded. In all comparisons, the British price position worsened through the year, an effect contributed to by the strengthening of sterling discussed in paragraph 9.129.

Tier 1 weighted results

9.43. The weighted results from Tier 1 are shown in detail at Appendix 9.4. A brief summary is provided here of the trends that emerged from the study. All prices in each of the five comparisons were weighted by spend per capita data in each country at product level. British spend per capita data was used to weight the results summarized here, but the effect of using British weightings is stripped out of both tiers of the comparison in paragraph 9.77.

9.44. Spend per capita figures were calculated by dividing the total sales value of each product in every quarter by the population of the relevant country. As with the unweighted own-label prices, own-label spend per capita weightings are for all pack sizes at which the product is sold, as these were the only figures available.

9.45. The separate popular brand and own-label indices could not be simply averaged to form the weighted combined popular brand/own-label comparison. This was due to the inflated nature of own-label spend per capita data, resulting from its aggregation over all pack sizes. Instead, the components of this comparison were weighted according to the sales of own-label products relative to their branded equivalents in each market.

9.46. Table 9.7 is drawn from the *Private Label Manufacturers Association International Year Book 1999* and shows the percentage of own-label relative to branded products bought by value and volume in each of the countries surveyed in 1998. The value percentages were used to weight the popular brand/own-label tables for each set of weighted results.¹ Thus, under a British weighting system, the own-label component of the popular brand/own-label comparison is 43.2 per cent. Under other weighting systems, this percentage is lower. The large difference between German own-label value and volume percentages is referred to in detail in paragraph 9.81 where the relative quality of German own-label products is addressed.

TABLE 9.7 Share of own-label sales values and volumes in each market

	<i>per cent</i>		
	<i>Sales volume</i>	<i>Sales value</i>	<i>Difference</i>
UK	44.7	43.2	3.5
France	22.2	19.1	16.2
Germany	33.5	22.5	48.9
Netherlands	21.1	18.9	11.6

Source: CC.

9.47. Table 9.8 shows tax-exclusive results for the combined popular brand/own-label comparison using the method of combination outlined above. French and Dutch prices in the first quarter of the comparison were above those in Great Britain, whilst German prices were almost identical. By the last quarter, French and Dutch prices were in line with those in Great Britain, whilst Germany had become just over 13 per cent cheaper.

TABLE 9.8 Summary of results for tax-exclusive prices using a British weighting system—popular brand + own-label

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Oct–Dec 98	100	109.7	99.6	107.0
Jan–Mar 99	100	103.6	93.9	102.2
Apr–Jun 99	100	99.7	89.0	99.4
Jul–Sep 99	100	99.8	86.6	100.7

Source: CC.

¹The value rather than volume own-label percentages were taken as the spend per capita method of weighting used in Tier 1 is also based on sales value. Sales volume calculations are not weighted. They are a simple calculation of the percentage of own-label goods sold as a proportion of all goods in the market. Categories covered are groceries, beverages, health and beauty, household and paper products.

9.48. The results from Table 9.8 are dissected in Tables 9.9 and 9.10. These show that Great Britain was cheaper than all countries in all quarters for popular brand goods, and nearly 25 per cent cheaper than France in the first quarter surveyed. For own-label products, however, British prices were around 11 to 17 per cent more than those in France and the Netherlands, and 34 to 48 per cent more than those in Germany.¹

TABLE 9.9 Summary of results for tax-exclusive prices using a British weighting system: popular brand

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Oct–Dec 98	100	124.9	118.8	121.5
Jan–Mar 99	100	115.8	110.1	114.3
Apr–Jun 99	100	110.7	104.0	110.0
Jul–Sep 99	100	110.5	101.0	112.6

Source: CC.

TABLE 9.10 Summary of results for tax-exclusive prices using a British weighting system: own-label

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Oct–Dec 98	100	89.7	74.4	88.0
Jan–Mar 99	100	87.6	72.6	86.4
Apr–Jun 99	100	85.2	69.4	85.4
Jul–Sep 99	100	85.9	67.7	85.2

Source: CC.

9.49. Table 9.11 shows that relative prices for consistent brand, consistent pack size products using British weights were almost identical across all countries over the year, with no more than six percentage points difference in any one period between Great Britain and a comparator country. Similarly close price levels can be seen when consistent brands are compared at the most popular pack size in Table 9.12, though France was over 12 per cent cheaper than Great Britain in the last two quarters surveyed.

TABLE 9.11 Summary of results for tax-exclusive prices using a British weighting system: consistent brand, consistent pack size

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Oct–Dec 98	100	105.9	100.4	103.1
Jan–Mar 99	100	102.3	96.1	100.1
Apr–Jun 99	100	101.2	96.6	102.0
Jul–Sep 99	100	101.4	96.2	101.2

Source: CC.

TABLE 9.12 Summary of results for tax-exclusive prices using a British weighting system: consistent brand, popular pack size

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Oct–Dec 98	100	92.5	101.4	103.6
Jan–Mar 99	100	90.2	96.8	101.2
Apr–Jun 99	100	87.7	97.0	99.7
Jul–Sep 99	100	87.6	96.7	98.4

Source: CC.

¹For example, for France the range was $100/89.7 = 111.5$ to $100/85.2 = 117.4$.

Summary of Tier 1 results

9.50. The unweighted results above show a high British price level relative to France, Germany and the Netherlands primarily as a result of higher own-label prices. The Great Britain price position is improved from the unweighted results due to the use of Great Britain weights, but as with the unweighted results, worsened through the year. At the beginning of the popular brand/own-label comparison, British prices were lower than France and the Netherlands and similar to Germany. By the end, Great Britain was more expensive than Germany and broadly similar to France and the Netherlands. This was at least partly affected by the appreciation of sterling during the period of the study, discussed in paragraph 9.129.

9.51. The other weighted comparisons show that British prices were relatively high in relation to France, Germany and the Netherlands in the case of own-label products, relatively low for popular brand products, and similar for consistent brand comparisons, but higher than French consistent brand, popular pack size prices.

Averaging French, German and Dutch spend per capita data

9.52. The weighted results above were calculated using British spend per capita data. As a means of comparison, Appendix 9.5 shows price indices calculated by averaging the results gained under French, German and Dutch weighting systems, and thus excluding British spending data. The use of average foreign weights makes British prices appear much higher in relation to the other three countries, and up to 67 per cent higher than German prices using German weightings for the tax-exclusive own-label comparison in the last quarter. However, this should be viewed in the context of the discussion of relative German own-label quality in paragraph 9.81.

Averaging the spend per capita data of all four countries

9.53. Appendix 9.5 also contains results gained when averaging the spend per capita data of all four countries. These are used to quantify the effect of weighting Tier 1 by British spend per capita data and remove it from both tiers of the study. This is described in detail in paragraph 9.77.

Tier 2—Introduction

9.54. Tier 2 of the CC study was carried out by A C Nielsen in November and December 1999. Its field force of price auditors was asked to collect prices for selected products that do not feature in its retail scanning databases used for Tier 1. The products are mostly unbranded fresh produce, meat, fish and commodity items.

9.55. Prices were collected for the 58 specified products on one visit to 51 multiples in Great Britain, 47 stores in France, 49 in Germany and 52 in the Netherlands. Prices were converted to sterling at the market exchange rate prevalent on 1 December 1999.¹ The dates when price collection took place in each country were:

Great Britain—one week commencing 6 December 1999

France—two weeks commencing 6 December 1999

Germany—one week commencing 6 December 1999

Netherlands—one week commencing 29 November 1999

¹The rates of conversion were £1:10.3955 FFr, £1:3.1020 DM, £1:3.4952 NG.

9.56. Product prices which fell outside a threshold of 33 per cent from a consistent pack size were omitted from Tier 2, as with consistent brand, consistent pack size prices in Tier 1. The exception to this rule is when products are sold on a different basis in different markets. For instance, cucumbers are sold per unit in Great Britain but per kg in the other countries surveyed. For more details on product inclusions and exclusions from both tiers of the comparison, see Appendix 9.10.

Tier 2 unweighted results

9.57. Due to the wide price range of individual products within a relatively small product sample, an unweighted price comparison of Tier 2 products is of little use. As an example, the most expensive product in the Tier 2 comparison was Remy Martin cognac at £22.07 in Great Britain. An unweighted comparison would give inflated importance to this and other alcoholic drinks containing an excise component which grocery retailers cannot control.¹ In contrast, the most expensive product sold in British multiples in the last quarter of the Tier 1 popular brand comparison was mouthwash at £2.91.

9.58. Prices for all but one product were obtainable from British, French and German stores, but prices for nine Dutch products could not be collected due to non-availability at a comparable quality. For illustrative purposes only, total basket prices have been given for Great Britain, Germany and France at Appendix 9.6.

9.59. From the unweighted price data which were of value, we took a simple count of the number of products for which each market was the cheapest or most expensive on a tax-exclusive basis. This eliminates the large price differences for individual products that would otherwise skew the comparison.

9.60. Tables 9.13 and 9.14 show the number of products for which Great Britain was the cheapest or most expensive market when compared against other countries individually, and when compared with all other markets. Due to the excise component within the prices of alcoholic drinks in the comparison, these items have been omitted from the exercise bringing the number of products comparable across all markets down to 43. The relative tax-exclusive prices of alcoholic drinks are shown in Table 9.15 to give some indication of the higher excise levels applicable to alcoholic drinks in the UK.

TABLE 9.13 Number of products cheaper in Great Britain

	<i>Country compared against</i>		
	<i>Great Britain/ France</i>	<i>Great Britain/ Germany</i>	<i>Great Britain/ Netherlands</i>
Number of products	19/48	16/48	14/43

Source: CC.

TABLE 9.14 Number of products for which each country was the cheapest/most expensive market*

<i>Great Britain</i>		<i>France</i>		<i>Germany</i>		<i>Netherlands</i>	
<i>Cheapest</i>	<i>Dearest</i>	<i>Cheapest</i>	<i>Dearest</i>	<i>Cheapest</i>	<i>Dearest</i>	<i>Cheapest</i>	<i>Dearest</i>
10	22	7	8	18	7	11	9

Source: CC.

*The country in question must be the cheapest or most expensive by at least 1p.

¹See paragraph 9.121 for further discussion of this.

TABLE 9.15 Tier 2 alcoholic drinks prices

<i>Alcoholic beverage</i>	<i>Price (£)</i>			
	<i>Great Britain</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Cheapest Italian Chianti (red wine)	3.30	2.11	1.50	1.94
Cheapest French Chablis (white wine)	5.50	3.64	2.91	4.05
Cheapest Côtes du Rhone (red wine)	2.78	1.01	1.34	1.50
Cheapest Moselle (German) (white wine)	2.41	1.31	1.12	1.24
Remy Martin cognac 70cl	22.07	13.88	11.93	N/A
Smirnoff vodka (red label) 70cl	9.28	5.22	5.16	N/A
Bacardi white rum 70cl	9.23	6.08	5.29	N/A
Own-label multipack lager 4x440ml	2.08	1.22	1.45	1.46
Cheapest lager 4x440ml	<u>1.00</u>	<u>1.21</u>	<u>1.60</u>	1.30
Total	57.65	35.69	32.30	N/A

Source: CC.

Notes: N/A = not available. Totals include rounding because of currency conversion.

9.61. The ten products for which Great Britain emerged as the cheapest market, and the 22 for which it was the most expensive, are listed at Appendix 9.7. Great Britain was most expensive for most meat products, condiments and fresh fruit and vegetables. It was cheapest for flour, British-style sliced bread and canned fruit.

Tier 2 weighted results

9.62. Tier 2 prices were weighted by the MAFF Food Survey 1998. This was the latest available version of an annual survey published by MAFF which includes alcoholic and non-alcoholic drinks in addition to food and reflects UK consumer preferences. Where products do not fit the definitions given in the food survey, they were excluded.¹ Weighted indices comparing Great Britain with one other country at a time are shown in Tables 9.16 and 9.17. Table 9.16 gives tax-inclusive results, Table 9.17 tax-exclusive results.

TABLE 9.16 Tier 2 tax-inclusive Great Britain weighted results

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Index	100	82.8	86.4	87.9

Source: CC.

TABLE 9.17 Tier 2 tax-exclusive Great Britain weighted results

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Index	100	79.4	81.8	84.1

Source: CC.

9.63. As can be seen from Table 9.17, foreign prices were around 16 to 21 percentage points lower than those in Great Britain in November/December 1999. This level of difference is not inconsistent with the British weighted own-label comparisons from Tier 1, a similarity which may stem from the low number of branded products in Tier 2.

¹Baking powder, icing sugar, cloths and cling film were excluded from the weighted comparison for this reason.

Conclusions from both tiers of the CC study¹

9.64. The CC study was designed to reflect prices of as wide a range of products as possible and was split into two tiers in order to do this. It is useful to compare, and then link, the results of both tiers given the different but overlapping product mix included in each, which in reality would be combined to make up a weekly shop.

9.65. There are a number of reasons why the Tier 2 comparison should produce relatively higher Great Britain prices than were found in Tier 1. Specifically:

- (a) The Tier 2 comparison took place around four months after Tier 1, during which time sterling appreciated against the euro by around 4.5 per cent.²
- (b) Tier 2 consists predominantly of unbranded and own-label goods, which Tier 1 shows were generally more expensive in Great Britain.
- (c) There are alcoholic beverages featured in Tier 2, but not in the popular brand and own-label comparisons from Tier 1. British excise duty on these is higher than in other countries, inflating Great Britain price levels in Tier 2.

9.66. The most representative comparison from Tier 1 with the biggest sample of products is that of popular brand and own-label goods combined. British weighted results for the last quarter of this comparison are compared in Table 9.18 with the weighted Tier 2 results.

TABLE 9.18 Comparison of Tier 1 and Tier 2 results

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Tier 1 tax-exclusive Jul–Sep 99	100	99.8	86.6	100.7
Tier 1 tax-inclusive Jul–Sep 99	100	103.5	89.8	102.5
Tier 2 tax-exclusive Nov/Dec 99	100	79.4	81.8	84.1
Tier 2 tax-inclusive Nov/Dec 99	100	82.8	86.4	87.9

Source: CC.

9.67. From Table 9.18, it can be seen that when comparing different but overlapping streams of products, Great Britain appears to be in general but to varying extents more expensive in the latter half of 1999 than France, Germany and the Netherlands. If buying predominantly Tier 2 products, which consist largely of fresh produce, fresh meat and fish, alcoholic beverages, bakery products and condiments, a British consumer might have paid around 17 per cent more than a foreign shopper.³ However, if buying a variety of packaged groceries, soft drinks and personal care products similar to those featured in Tier 1, a British consumer might have paid less than shoppers in France and the Netherlands.

9.68. The contents of the shopping basket made much less difference when compared with German prices. British prices were around 11 to 16 per cent higher in both tiers of the study.⁴ Additionally, the British price position worsened in both tiers by around 2 to 4 per cent when sales taxes were excluded.

Linking the tiers

9.69. In order to gain a better idea of the average amount a British consumer would pay in comparison with consumers from the other countries in the study, the 1998/99 FES was used to link the results from Tiers 1 and 2. This survey was chosen as it gives the most comprehensive coverage of UK spending patterns for personal care and household goods, not covered by the MAFF Food Survey, as well as food and beverages.

¹For conclusions from both tiers relating to the ability to buy products in Great Britain and abroad at prices which deviate from the average, and information on the co-variant of individual product prices from the average national price, see Appendix 9.9.

²This is worked out by comparing the average third quarter 1999 conversion rates with those for December 1999.

³The average of the three foreign price levels is 85.7 $(100/85.7)*100 = 116.7$.

⁴ $(100/89.8)*100 = 111.4$, $(100/86.4)*100 = 115.7$. German prices are adjusted in paragraph 9.97 to account for possible quality differences between British and German own-label products.

9.70. The FES was used to determine what proportion of a representative UK product basket would be made up of Tier 1 products, and what proportion by Tier 2 products. In order to identify this, FES spend per week data in large UK supermarket chains were used to weight the prices of all products in both tiers. This enabled a calculation of the relative importance of each tier in order to establish an average basket price level British consumers might be expected to pay for a combined basket in relation to consumers abroad.

Methodology

9.71. All products in the combined popular brand/own-label comparison of Tier 1 and all Tier 2 products were put separately into 1 of 47 broad expenditure groups contained within the FES. All Tier 1 prices were multiplied by approximately 1.5¹ to eliminate the price difference between the Tier 1 and Tier 2 baskets. This ensured that the Tier 2 basket was not given an unfairly large presence in the linked basket by virtue of containing a handful of expensive products.

9.72. The 47 expenditure groups were then weighted by the FES average spend per week for a UK family in large supermarkets, and a weighted value for each tier obtained by multiplying the price of all products in each group by the weighting applicable to that group. From the values for Tier 1 and Tier 2 that were gained, the percentage that each tier contributes to an overall basket of goods was calculated.

9.73. This exercise may be seen in detail at Appendix 9.8. In summary, it was found that when excluding taxes, the products featured in Tier 2 made up 51.2 per cent of a representative basket of goods, Tier 1 products making up the remaining 48.8 per cent. The tax-inclusive split was 50.4 to 49.6 per cent in favour of Tier 2.

9.74. The results from both tiers in Table 9.18 can now be linked to give an overall price position for British multiples compared with grocery retailers in France, Germany and the Netherlands. This is shown in Tables 9.19 and 9.20 and is calculated by taking a weighted average of the Tier 1 and Tier 2 indices using the ratios identified above.

TABLE 9.19 Results from Tiers 1 and 2 linked—tax-exclusive prices

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Tier 1 and Tier 2 combined results	100	89.4	84.2	92.2

Source: CC.

TABLE 9.20 Results from Tiers 1 and 2 linked—tax-inclusive prices

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Tier 1 and Tier 2 combined results	100	93.1	88.1	95.2

Source: CC.

9.75. When adding the most representative results from Tier 1 to the results from Tier 2 and indexing British prices to foreign prices, tax-exclusive prices in Great Britain multiples were nearly 12 per cent more expensive than those in France,² 8 per cent more than the Netherlands, and nearly 19 per cent more expensive than German prices. Using tax-inclusive prices, British prices were around 5 per cent and 7 per cent more than those in the Netherlands and France respectively and 13.5 per cent higher than German prices.

¹Tax-inclusive prices were multiplied by 1.5095724, tax-exclusive prices by 1.5336673, equalizing Tier 1 and Tier 2 basket prices.

²For example, $(100/89.4) \times 100 = 111.9$.

Adjustments to the study

9.76. Two adjustments to these results have been made below. The first removes the effect of weighting the study according to Great Britain consumer preferences. The second adjusts for the quality of German, relative to British, own-label products.

The Great Britain weighting effect

9.77. Tables 9.19 and 9.20 are based on prices which reflect Great Britain consumer preferences as they are weighted by Great Britain spend per capita data. In order to make the study as representative as possible of consumer preferences in all of the countries surveyed, a weighted average of the effect that using British spend per capita data has on foreign price levels in Tier 1 can be calculated.

9.78. As an example, if the French price for roast/ground coffee was 1 per cent higher than the Great Britain multiples price using British weightings, but 1 per cent lower under German and Dutch weighting systems, and 3 per cent lower with French weightings, French coffee prices would be on average 1 per cent lower than British coffee prices. If this is repeated for all products in the popular brand/own-label comparison over the year of the Tier 1 comparison, the British weighting effect on French, German and Dutch price levels can be established, and then converted to a weighted average price effect against these countries combined.¹

9.79. The weighted average effect of a British weighting system for tax-exclusive prices was found to be 2.7 per cent. The effect on tax-inclusive prices is 1.5 per cent. A more detailed description and results of the exercise are shown at Appendix 9.5. As spend per capita data were not available to weight Tier 2 prices, the MAFF food survey instead being used, a British weighting effect is present but cannot be accurately quantified. The British weighting effects from Tier 1 have therefore been applied to the linked tax-exclusive and tax-inclusive results shown in Tables 9.19 and 9.20 in order to eliminate the estimated effect from both tiers.

9.80. The adjusted linked results are shown in Tables 9.21 and 9.22. The 2.7 and 1.5 per cent British weighting effect is subtracted from French, German and Dutch price levels for tax-exclusive and tax-inclusive results respectively to give the following price indices.

TABLE 9.21 Results from Tiers 1 and 2 linked—tax-exclusive prices

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Tier 1 and Tier 2 combined results	100	86.7	81.5	89.5

Source: CC.

TABLE 9.22 Results from Tiers 1 and 2 linked—tax-inclusive prices

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Tier 1 and Tier 2 combined results	100	91.6	86.6	93.7

Source: CC.

¹The effect of British weightings on Tier 1 prices was examined over the whole year of Tier 1 rather than for the last period only to be as representative as possible of average consumer preferences and to smooth the effect of promotions.

Own-label quality: introduction

9.81. A striking feature of the results from Tier 1 of the CC study is Great Britain's high price position for own-label products against all the other countries surveyed, but particularly Germany. By the third quarter of 1999 using tax-exclusive prices and German weightings, Great Britain own-label goods were on average 67 per cent more expensive than German own-label products, and more than this if only German discounters are considered. Even using British weightings, Great Britain prices were around 49 per cent more expensive than German prices, far higher than the price differences against France (16.4 per cent) and the Netherlands (17.4 per cent).

9.82. Given this apparent anomaly in the results, the main parties, several suppliers and other organizations were asked for their views on whether there are consistent differences between the British own-label sector and the others in the survey, and in particular whether it could be said that differences in product quality could drive the large price differences uncovered between Great Britain and Germany.

9.83. Responses received from the main parties are summarized in Chapter 14.¹ Of the responses received from suppliers, the majority indicated that they were not in a position to comment on quality differences between the UK and other European countries, and they were unaware of any research carried out into the issue. However, two suppliers indicated that the greater maturity of the British own-label sector compared with others in Europe, especially Germany, has an upward impact on the innovation and quality consumers associate with own-label products in the UK, and thus an upward impact on UK own-label prices. The views of these suppliers were backed up by the IGD and are supplemented below by industry reports published by Euromonitor and the Private Label Manufacturers' Association (PLMA).

Factors influencing own-label prices

9.84. The UK own-label sector matured from its budget roots earlier than most in Europe. UK retailers' swift take-up of EPOS² systems and single brand national identities brought forward the adoption of wider ranges of own-label products at various price and quality points. The subsequent early implementation of category management techniques helped retailers gauge the best mix of branded and own-label product ranges to produce optimum sales volume and value from individual product categories, in many cases consolidating the strong position of own-label goods within these categories.

9.85. The own-label sector developed further with the introduction of new products that did not exist in a branded form, on which the retailer label served as a guarantor of quality. Ready meals, pioneered by M&S, are the best example of this. These new product concepts helped to end the perception in the UK that own-label products were budget versions of brands, and allowed own label to gain a greater acceptance than in other markets as being capable of matching, and sometimes beating brands for quality and innovation.

9.86. Widespread consumer acceptance of own-label quality fostered scope for the recent development of premium own-label products³ in addition to standard and economy ranges. Premium ranges exist but to a far more limited extent in other European countries, and until Wal-Mart's recent decision to stock a premium own-label range, did not exist in Germany at all.

9.87. In contrast to the UK experience, which increasingly focused on own-label quality as well as price, own-label ranges were pioneered in Germany by the discounter chains, whose core marketing message concentrates on price over quality. These products were marketed as exclusive brands and often consisted largely of commodity goods positioned at the lowest price specification. Non-discounters have tended to stock secondary and tertiary brands to cover the price points of the exclusive brands offered by discounters.

9.88. Discounters' exclusive brands rarely display the name of the retail chain and thus are sometimes not considered own-label products. They have contributed to the enduring dominance of brands in the market, and limited consumer exposure to all but basic own-label product ranges.

¹See paragraphs 14.28 and 14.30 (Tesco) and 14.417 (Safeway).

²EPOS systems computerized the sale of goods and allowed for greater stock control, more efficient reordering and a quick response to consumer demand patterns, including increased acceptance and purchasing of own-label products.

³For example, Tesco Finest.

9.89. The faster development of the UK own-label sector relative to those in other European countries gives rise to the possibility that it may offer significantly higher-quality goods which could partly explain the higher Great Britain own-label prices in Tier 1 of the CC study. The aggregation of all pack sizes and prices within a product category to give an average category price may result in a premium own-label product, available in Great Britain but not in other countries, increasing the average British price. Equally, Great Britain price levels may reflect standard own-label products, whereas elsewhere, and notably in Germany, a much higher proportion may be positioned as 'economy' or 'budget' products.

Third party evidence of own-label quality differences

9.90. The IGD supported the view that the UK has a more developed own-label sector. It commented:

As a general rule, the quality of UK own brand products is similar or superior to their continental counterparts, ie there are few instances where the UK product is inferior. This reflects the UK's greater investment in own brand over many years.

At a product level, if 'standard' were defined as the most common or popular own label item within each category, it would normally be (equivalent to) a budget brand in Germany, an equivalent brand in the UK and might be in either grouping in France. Thus, simply taking the fastest-selling (own) brands would not always provide a like-for-like comparison.

9.91. In its response to our request for information, HL Foods included what it admitted was a subjective league table of own-label quality. This did not include the UK and the Netherlands, but it ranked the leading Western European countries for own label as 'France top, followed by Belgium, Switzerland, Germany and Spain'.

9.92. A recent report by Euromonitor¹ appears to confirm the trend indicated by the IGD and HL Foods that the French own-label sector is catching up with the UK and is more developed than its German equivalent. Reviewing the French own-label market, known as private label, between 1993 and 1998, it comments:

The structure of private label changed considerably over the review period. Originally, most private label products carried the name of the store and were of inferior quality and very much cheaper than branded products. However, due to a general upgrading of all consumer products, these are giving way increasingly to high quality products with their own brand names, and even to different brandings within private label.

9.93. The Euromonitor report additionally comments that German own-label products are commonly up to 42 per cent cheaper than their branded equivalents. One reason for this may be German consumers' perception of significantly lower own-label product quality relative to branded goods. Clive Vaughan, director of consultancy at market researchers Corporate Intelligence, commented that on average, German consumers have a lower perception of own-label products than consumers of own-label goods in the other countries surveyed.

9.94. Table 9.7 supports this view of a perception of lower own-label quality among German consumers. It shows that in the UK, the sales value of own-label products in 1998 was on average only 3.5 per cent less than the sales volume, indicating a small price differential between own-label and branded goods. Despite these relatively high-priced own-label products, UK own-label penetration was the highest in Europe at 44.7 per cent indicating a high perceived level of own-label quality among UK consumers and a willingness to buy higher-value own-label goods.

9.95. In Germany, there is close to a 50 per cent difference between own-label sales volume and value, far in excess of the figures for France and the Netherlands. This is evidence of a much larger price differential between branded and own-label goods, thus it might be expected, all else being equal, that a

¹*Retail Trade International 2000*, Euromonitor, January 2000.

higher proportion of German consumers would favour own-label purchases. However, as a proportion of products purchased, UK consumers bought 33 per cent more own-label goods than German shoppers. This suggests that German consumers have a perception of own-label goods as offering lower quality at a lower price, though it could also indicate that a smaller range of own-label goods are stocked by German retailers, thereby providing less choice.

9.96. French and Dutch shoppers also buy fewer own-label products than British consumers, but Table 9.7 indicates that the price differential between branded and own-label products in these countries is much smaller than in Germany. The lower level of own-label purchasing may also reflect less product availability than in Great Britain or Germany.

Summary and adjustment

9.97. We infer that at least part of the difference between Great Britain and German own-label prices reflects a perception of lower own-label quality among German consumers relative to those in the UK.

9.98. This necessitates an adjustment to own-label German price levels to account for the possible quality difference. As there is no statistically robust way of doing this, especially when the issue of lower quality is one of consumer perceptions, the nature of such an adjustment must to some extent be arbitrary. This makes a range rather than a point estimate more useful for evaluating the difference which relative own-label quality may have on the prices of own-label goods in both tiers.

9.99. Tables 9.23 and 9.24 illustrate the application of a range to German price levels. At one end of the scale, it is assumed that German own-label quality differences are insignificant and should not be adjusted for. At the other, it is assumed that they should be factored in to the extent that German–British Tier 1 own-label difference would mirror French–British own-label price differences if relative quality was fully accounted for. Average Great Britain own-label quality may also be higher than that available in France (as the IGD suggests) and the Netherlands, but sufficient evidence of this has not been found to merit a similar range adjustment.

9.100. Own-label price differences between France and Great Britain were around 15 per cent smaller than those between Germany and Great Britain over the four quarters of the Tier 1 comparison. German own-label Tier 1 prices and all German Tier 2 prices¹ were adjusted for this and the Great Britain weighting effect was again removed. As a result, German price levels rose by 4.4 percentage points (tax-exclusive) and 4.5 percentage points (tax-inclusive) at the top end of the range. This is summarized at Appendix 9.12.

TABLE 9.23 Results from Tiers 1 and 2 linked—tax-exclusive prices

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Tier 1 and Tier 2 combined results	100	86.7	81.5–85.9	89.5

Source: CC.

TABLE 9.24 Results from Tiers 1 and 2 linked—tax-inclusive prices

	<i>British multiples</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
Tier 1 and Tier 2 combined results	100	91.6	86.6–91.1	93.7

Source: CC.

9.101. One final adjustment needs to be made to these results to exclude alcoholic drinks from Tier 2 of the study, in order that the effect of excise duty, which retailers are not able to control, is eliminated.

¹The Tier 1 ranges were also applied to Tier 2 to reflect possible differential quality among Tier 2 own-label products as a top-of-the-range estimate.

However, as this adjustment is also made to the Eurostat update, the methodology and results of this study are examined first.

The Eurostat update

Introduction

9.102. The second price comparison is an update to a survey originally carried out in 1994 by Eurostat, the statistical arm of the European Commission. Eurostat undertakes periodic European price comparisons for the purpose of calculating purchasing power parities (PPPs) between EC member states (for an explanation of PPPs, see Appendix 9.13). The most recent of these, *Comparison in Real Terms of the Aggregates of ESA*, was published in 1994 and updated by DKB to 1996 in its June 1999 report *EuroFocus*.

9.103. Using Eurostat's Harmonised Index of Consumer Prices (HICP), the CC has in turn updated DKB's 1996 price data to reflect prices for the last quarter of Tier 1 of the CC study (July to September 1999) and Tier 2 (December 1999). The HICP is an index of inflation covering all EC member states using a harmonized method of price collection in each country under the direction of Eurostat. It is prepared on a monthly basis for a range of product categories.

9.104. The CC chose to update the DKB/Eurostat study due to the reliability of the methodology used by Eurostat to gain 1994 prices, and the ease with which these prices could be updated using inflation data from the same source. The 1994 Eurostat study and its DKB update utilized the most reliable methodology from a range of third party surveys examined, descriptions and critiques of which are listed in Appendix 9.1. The 1994 prices were supplied by the central statistical office of each country surveyed, after carrying out national price surveys to a harmonized methodology under the guidance of Eurostat. The HICP gives inflation indices for the same categories and sub-categories of grocery products as those covered in the original price collection, making an update to the periods covered by Tiers 1 and 2 of the CC study statistically robust.

9.105. The two product categories used by the CC for the update are food and non-alcoholic beverages (one category), and alcoholic beverages. Within these, inflation can be further disaggregated into sub-categories of products (for example, bread and cereals or fish). The update gives an indication of relative national prices inclusive of sales taxes across all 15 EC member states for the two categories and their sub-categories indexed to the EC average.

Method of weighting

9.106. The headline EC food and drink price index (shown in Table 9.25) combines the two categories described above to include all food, non-alcoholic and alcoholic beverages. The weighting of sub-categories of these (shown in Table 9.26) was applied according to national expenditure patterns. EC averages were calculated by taking a weighted average of each member state's national expenditure on the two categories combined (Table 9.25) and their sub-categories (Table 9.26). The prices and inflation statistics used were not restricted to multiple grocery retailers and only reflect food and drink purchased for home consumption.¹

Results

9.107. Full results from the exercise are shown at Appendix 9.11. However, Tables 9.26 and 9.27 give an indication of price trends for all food and drink sub-categories.

9.108. Table 9.25 compares relative food and drink price levels in 1996 as supplied by DKB, with average price levels between July and September 1999. Market exchange rates were factored into the 1999 index by adjusting price levels for movements between 1996 average rates and average rates for the third quarter of 1999. Economy-wide inflation is included alongside food and drink inflation to give an indication of real grocery price movements in each country.

¹This excludes both eat-in and takeaway restaurant purchases.

TABLE 9.25 EC food and drink price index, 1996 and third quarter 1999

Country	Food and drink price index 1996	Price rank	Food and drink inflation 1996–99	Food and drink inflation ranking	Economy-wide inflation 1996–1999	Economy-wide inflation ranking	Price index 1999	Price rank
EC average	100.0		102.1		104.5		100.0	
Austria	103.8	5	100.7	14	102.3	15	97.2	9
Belgium	101.6	9	103.4	8	103.7	10	97.5	8
Denmark	138.6	1	105.2	5	105.7	6	137.4	1
Finland	131.8	3	102.7	10	104.1	9	126.4	3
France	107.4	4	103.1	9	102.5	14	104.5	6
Germany	102.3	7	100.5	15	103.2	13	95.7	11
Greece	87.9	13	108.8	2	111.9	1	85.3	13
Ireland	102.2	8	109.2	1	106.3	4	107.1	5
Italy	98.8	10	101.7	11	105.9	5	96.7	10
Luxembourg	102.8	6	105.4	4	103.4	11	100.6	7
Netherlands	94.8	12	104.0	6	105.7	7	91.3	12
Portugal	78.0	15	106.8	3	106.5	2	77.5	15
Spain	85.0	14	101.6	12	106.5	3	79.5	14
Sweden	134.9	2	103.6	7	103.4	11	130.1	2
UK	97.3	11	101.0	13	104.8	8	116.2	4

Source: CC.

9.109. The table shows that the UK was the 11th most expensive of 15 EC countries for food and drink in 1996. Between 1996 and the third quarter of 1999, its food and drink prices rose by only 1 per cent, the third lowest rate of food and drink inflation in the EC. This may be compared with Eurostat economy-wide UK inflation which was 4.8 per cent over the same period.

9.110. It should be noted that relatively low food inflation is not necessarily the result of super-market price cutting, as UK food and drink inflation includes other types of grocery retail outlet, and there is some evidence to suggest that grocery producer prices fell between 1996 and 1998 (see Appendix 9.14).

9.111. Additionally, the growing strength of sterling since 1996 relative to other European currencies made imported goods, which the British Retail Consortium has estimated account for around 20 per cent of products sold by grocery retailers, cheaper for UK retailers when denominated in foreign currencies. Assuming pass-through of lower import costs to prices, this currency effect might be expected to contribute to lower grocery price inflation relative to UK industries that import less than 20 per cent of their products.

9.112. By the third quarter of 1999, the UK was the fourth most expensive EC country for food and drink when measured at market exchange rates. The influence of exchange rates on UK prices is illustrated by the UK's relative price position to the EC average of 97.3 per cent in 1996, transformed to 116.2 per cent in the third quarter of 1999, despite lower grocery price inflation than most. For a detailed discussion of the effect of exchange rates on UK prices, see Appendix 9.13.

TABLE 9.26 UK price position compared with the EC average for sub-categories of food and drink

Product category	1996		1999	
	UK price as % of EC average	UK rank	UK price as % of EC average	UK rank
All products	97.3	11	116.2	4
Bread and cereals	75.7	14	90.3	13
Meat	83.4	12	99.0	9
Fish	69.8	15	92.3	9
Dairy products	94.4	10	110.9	5
Oils and fats	88.6	14	110.6	6
Fruit and vegetables	105	6	121.9	2
Other food	76.3	15	94.1	11
Non-alcoholic drinks	115.4	5	144.0	3
Alcoholic drinks	132.7	5	163.2	4

Source: CC.

9.113. When the results are broken down into sub-categories of food and drink, it can be seen that the UK was comparatively cheap for food in 1996, but towards the most expensive for both alcoholic and non-alcoholic drink. Prices of alcoholic drinks include excise duty, which is relatively high in the UK.

9.114. By 1999, the UK was still expensive for drink, and had become the second most expensive market for fruit and vegetables.¹ Relative prices had also increased in all other sub-categories.

9.115. The UK price position may be additionally compared with France, Germany and the Netherlands, the countries included in the CC study. Table 9.27 indexes foreign prices to the UK for the combined categories and all sub-categories of products.

TABLE 9.27 Comparison of UK, French, German and Dutch prices, 1996 to 1999

Product category	1996				1999			
	UK	France	Germany	Netherlands	UK	France	Germany	Netherlands
All products	100	110.4	105.2	97.5	100	89.9	82.3	78.6
Bread and cereals	100	151.3	143.4	114.5	100	126.2	114.6	93.0
Meat	100	133.3	129.8	134.5	100	112.3	104.9	112.6
Fish	100	150.7	165.8	127.4	100	109.8	119.2	97.4
Dairy products	100	116.1	95.7	96.8	100	97.8	76.3	79.2
Oils and fats	100	118.4	110.3	92.0	100	98.4	85.6	73.3
Fruit and vegetables	100	102.8	102.8	85.3	100	85.0	82.4	73.5
Other food	100	140.3	132.5	109.1	100	110.7	101.7	85.3
Non-alcoholic drinks	100	81.6	93.0	80.7	100	61.8	69.1	61.8
Alcoholic drinks	100	72.4	64.6	78.0	100	54.7	48.9	59.6

Source: CC.

9.116. Table 9.27 gives further substance to the worsening British price position between 1996 and 1999 apparent from Tables 9.25 and 9.26. In 1996, UK prices for all products were around 10 per cent cheaper than French, 5 per cent cheaper than German and 2.5 per cent more than Dutch prices. By the third quarter of 1999, however, France had become 10 per cent, Germany 18 per cent and the Netherlands over 20 per cent cheaper than the UK. This occurred despite UK groceries inflation of 1 per cent being much lower than that experienced in the Netherlands (4 per cent) and France (3.1 per cent), though higher than German groceries inflation of 0.5 per cent.

Comparing the studies

9.117. The CC study produced broadly similar results to the Eurostat update above. However, there remain two differences in the way in which the studies were calculated. The CC study surveys only multiple grocery stores in Great Britain, whereas the Eurostat update includes all types of grocery shops, and additionally encompasses stores in Northern Ireland.

9.118. Table 9.28 compares the results of the two studies, with foreign prices indexed to the UK/Great Britain total. The CC results are tax-inclusive as the Eurostat update also includes taxes. The results of the Eurostat update have been adjusted to represent an average of third quarter 1999 and December 1999 results in order to fit the periods of Tiers 1 and 2 combined. The possible lower quality of some German own-label goods has also been factored into German price levels as a range estimate of the same magnitude as that used in the CC study.

TABLE 9.28 Comparison of CC study (tax-inclusive prices) with the Eurostat update

Second half 1999	Great Britain/UK	France	Germany	Netherlands	EC average
CC results	100	91.6	86.6–91.1	93.7	N/A
Eurostat update results	100	88.6	80.4–84.5	77.2	84.8

Source: CC.

For reference, the tax-exclusive results from the CC study were as follows:

CC results	100	86.7	81.5–85.9	89.5	N/A
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¹See Appendix 9.11, Table 7.

9.119. These results may now be split out to compare Great Britain (for the CC study) or the UK (for the Eurostat update) against a weighted average of the three comparator countries combined. This is in the form of a range to accommodate the possible quality differences between Great Britain and German own-label products.

9.120. The Great Britain/UK price level from both studies against a weighted average of the price levels of France, Germany and the Netherlands is shown in Table 9.29. Weighted averages are taken from Eurostat country weightings for the HICP.¹

TABLE 9.29 **UK/Great Britain price level relative to a weighted average of France, Germany and the Netherlands**

<i>Second half 1999</i>	<i>Great Britain/UK</i>	<i>Weighted average</i>
Tax-exclusive CC results	100	84.0–86.5
Tax-inclusive CC results	100	88.9–91.5
Eurostat update results	100	82.9–85.2

Source: CC.

The exclusion of alcoholic drinks

9.121. Excluding alcoholic drinks from both the CC study and the Eurostat update has two key advantages. First, the duty levied on alcohol within the four markets being compared in the CC study is dependent upon the percentage of alcohol contained in individual drinks products. It is impossible to adjust accurately for this, yet some adjustment must be made as duty is beyond the control of retailers and is generally higher in the UK.

9.122. Secondly, when comparing the tax-inclusive results from the CC study with the Eurostat update results, a higher proportion of alcoholic beverages, and thus of duty, is contained within the Eurostat update. This is likely to drive up the relative UK price position in the study, explaining some of the 6 per cent price difference with the CC tax-inclusive results shown in Table 9.29. Again, no accurate adjustment can be made to account for this and so excluding alcoholic drinks and the duty payable on them is the best solution in order to make the most accurate comparison between the studies.

9.123. Alcoholic drinks were excluded from the Eurostat update and Tier 2 of the CC study, and the proportionate weighting of the tiers in the CC study were recalculated. The effect of the exclusion of alcoholic drinks from both studies is illustrated at Appendix 9.12. Tables 9.30 and 9.31 summarize this for both studies. Table 9.31 shows that when indexed to the average price of the comparator countries, Great Britain prices were 12.4 to 15.7 per cent higher than a weighted average of French, German and Dutch prices using tax-exclusive data and following the removal of alcoholic drinks. The differential between the tax-inclusive CC results and the Eurostat update has fallen significantly and the ranges from these studies now overlap.

TABLE 9.30 **Comparison of the CC study and the Eurostat update following the removal of alcoholic drinks**

<i>Second half 1999</i>	<i>Great Britain/UK</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>	<i>Weighted average</i>	<i>EC average*</i>
Tax-exclusive CC study results	100	88.6	84.4–88.9	90.9	86.4–89.0	N/A
Tax-inclusive CC study results	100	94.0	90.7–95.4	95.8	92.3–95.0	N/A
Eurostat update results	100	98.0	90.2–94.8	83.5	91.2–93.8	91.6

Source: CC.

*No adjustments for own-label quality have been made to EC figures as this would require an extensive survey across all 15 member states.

¹See paragraph 9.103 for a description of the HICP.

TABLE 9.31 **Comparison of the CC study and the Eurostat update indexed to weighted average price of comparator countries**

<i>Second half 1999</i>	<i>Great Britain/UK</i>	<i>Weighted average</i>
Tax-exclusive CC study results	112.4–115.7	100
Tax-inclusive CC study results	105.3–108.3	100
Eurostat update results	106.6–109.6	100

Source: CC.

Summary

9.124. After adjusting the tax-exclusive results from the CC study for the possible lower average quality of German own-label products, omitting alcohol, and eliminating the effect caused by the use of British weightings, the CC study suggests that groceries in Great Britain were approximately 12 to 16 per cent higher priced than a weighted average of French, German and Dutch prices in the second half of 1999. We estimate that prices for individual products may range from being slightly cheaper in Great Britain at one extreme to around 25 per cent more expensive at the other.

9.125. The validity of the CC study is confirmed when the tax-inclusive results from it are compared with those from the Eurostat update after excluding alcohol and adjusting for German own-label quality. The range estimates given by these comparisons overlap to within a statistical margin of error.

Possible causes of a higher UK/Great Britain price level

9.126. This chapter started by carrying out a basic survey of prices faced by consumers for an unweighted basket of branded and own-label products. A number of adjustments were then made to this in order to make it as representative of the conditions facing supermarkets as possible. All Tier 1 products were first weighted in order to reflect the preferences of UK consumers, and then prices from both tiers were stripped of the British weighting effect to reflect the preferences of consumers from all countries. Sales taxes and alcohol were excluded as tax and excise are beyond the control of retailers and a range adjustment to German prices was made to allow for the possibility of inferior German own-label quality relative to Great Britain.

9.127. These adjustments also served better to align the methodologies behind the tax-inclusive CC results and the Eurostat update. Having eliminated these methodological differences, the closeness of the results from each survey serves to validate the results revealed by the CC study.

9.128. The last part of this chapter considers in detail the appreciation of sterling between 1996 and 1999 as a possible reason for higher Great Britain price levels. It also briefly refers to the impact of higher long-term UK land and construction prices for grocery retail use.¹

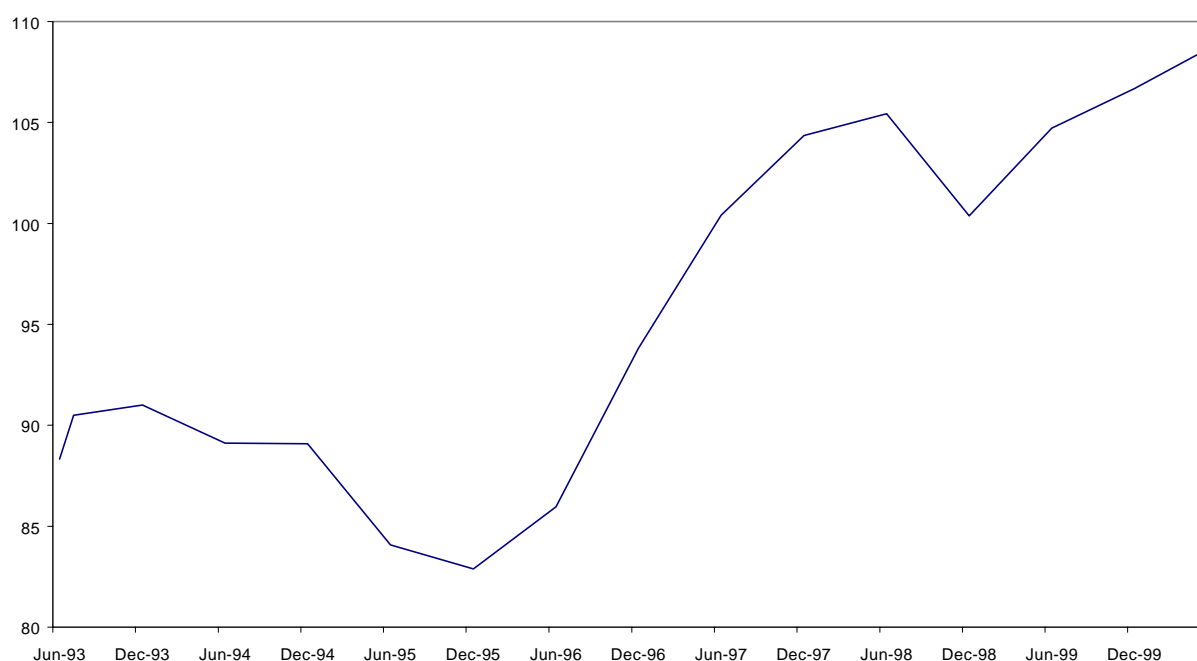
The appreciation of sterling

9.129. From its average level in 1996, and following the adoption and subsequent weakness of the euro by 11 EC member states, sterling appreciated by around 30 per cent against the UK's major trading partners and most EC countries by December 1999. Figure 9.1 shows the sterling trade-weighted exchange rate from June 1993 to May 2000.² Table 9.32 shows the percentage appreciation of sterling over other European currencies from its average 1996 level to the third quarter of 1999 and December 1999.

¹Other cost differences may also affect UK retailers such as different labour or supply costs relative to foreign retailers. Land and construction costs are included here as they were identified as having a significant, long-term effect on UK grocery retailers, from which the pass-through to retail prices was capable of approximate quantification (see Appendix 8.9).

²The trade-weighted exchange rate shows the movement of sterling against the currencies of the economies with which the UK has the most trade. It is thus an indicator of average movements in the exchange rate against the currencies of similar economies over time.

FIGURE 9.1

Sterling trade-weighted exchange rate, 1993 to 2000

Source: Bank of England. 1990 = 100.

TABLE 9.32 **Percentage appreciation of sterling over other EC currencies, average 1996 third quarter and December 1999**

Country (currency)	Sterling appreciation % third quarter 1999	Sterling appreciation % December 1999
Austria (schilling/euro)	27.1	32.7
Belgium (franc/euro)	27.3	33.0
Denmark (kroner)	25.4	31.1
Finland (mark/euro)	26.6	32.3
France (franc/euro)	25.4	31.0
Germany (mark/euro)	27.1	32.8
Greece (drachma)	32.5	39.8
Ireland (punt/euro)	23.3	28.8
Italy (lira/euro)	22.8	28.3
Luxembourg (franc/euro)	27.3	33.0
Netherlands (guilder/euro)	27.7	33.5
Portugal (escudo/euro)	27.1	32.8
Spain (peseta/euro)	28.4	34.2
Sweden (kronor)	27.1	30.9

Source: Bank of England.

9.130. Table 9.32 shows that from its average level in 1996, sterling appreciated by over 30 per cent over most European currencies by December 1999. The trade-weighted exchange rate confirms the magnitude of this appreciation. Between December 1995 and 1999, sterling appreciated by 28.7 per cent over the currencies of the UK's major trading partners. It should be remembered that the US dollar also appreciated over European currencies over this period, helping to explain the greater sterling appreciation when compared only with the currencies of EC member states.

9.131. The main effect of the appreciation of sterling when considering international price comparisons is to raise British prices relative to prices in other countries which have been converted into sterling, even though in terms of each country's own currency, British prices may be relatively falling. This can be seen above in the unweighted comparisons in Tier 1 of the CC study. Though British prices are generally falling throughout the year of the study, foreign prices appear to fall faster because they are converted to sterling at new, higher rates in each quarter. Both a pricing effect and an exchange rate effect are present and need to be distinguished.

9.132. Similarly, the Eurostat update shows that British grocery price inflation rose by 1 per cent between 1996 and the third quarter of 1999, against a 2.1 per cent average level across all EC member states. Despite this, British prices rose on an indexed basis from 2.7 per cent below the EC average in 1996 to 16.2 per cent above it in 1999.

The limitations of market exchange rates

9.133. When products are internationally tradeable, higher UK prices resulting from an appreciation of the exchange rate will, in the absence of restrictions, result in increased imports. This should act to bring foreign and British prices back into line. Thus, persistent price differences for tradeable products are likely to cause concern, and may indicate some degree of restriction of trade.

9.134. Where, as in the case of groceries, the great majority of products are of low value in relation to the costs of importing, no such adjustment mechanism will occur on any appreciable scale. An exception is cross-channel shopping for alcoholic drinks, when the higher value of the product, and higher rates of duty, do generate significant levels of imports.

9.135. Therefore, for largely non-tradeable products, price differences generated by exchange rate movements will tend to persist. The question then arises as to what extent the exchange rate is responsible for the price differences, and to what extent domestic cost, profit and price factors are responsible. This requires some estimate of the equilibrium exchange rate, as opposed to the market exchange rate used to convert prices in the CC study. The market rate may at times be below or, as generally perceived in 1999, above this value.

9.136. A higher market exchange rate may be temporary, but it would nonetheless have the effect of distorting the results of an international price comparison carried out during the period. One alternative measure uses PPP rates published by the OECD. PPP estimates can be applied to international comparisons of price levels of the components of gross domestic product, in this case the grocery retail sector.

9.137. An alternative approach seeks to identify equilibrium exchange rates, and hence the extent to which market rates exceeded equilibrium in 1999. To this end, a range of estimates was sought from macroeconomists. These can be used to illustrate the downward effect the higher market exchange rate would have on the sterling equivalent of foreign price levels in the CC study. A fuller discussion of PPP rates and equilibrium exchange rates can be found at Appendix 9.13.

9.138. Table 9.33 summarizes the deviation between market exchange rates and estimated PPP or equilibrium rates available from published sources. The PPP figure represents the greater value of sterling over the euro when converted at market rates rather than OECD PPP rates. Of the estimates of the extent to which sterling equilibrium may have been exceeded, some are specifically in relation to the currencies of the comparator countries. Others are in relation to the euro, and in one case, the rest of the world. Though not all estimates relate specifically to 1999, all are applicable due to the stability of estimates of sterling equilibrium relative to market exchange rates.

TABLE 9.33 **1999 PPP and sterling equilibrium exchange rate estimates**

<i>Organization/author</i>	<i>Date</i>	<i>Estimate</i>
OECD PPPs (Main Economic Indicators, Sept 1999)	1999 average	6.6% (Euro)*
Alberola et al (IMF Working Paper, Dec 1999)	Q4 1998	15.5% (Euro), 12.1% (DM), 15.6% (Franc)
Goldman Sachs (The Foreign Exchange Market, 1998)	September 1998	18% (F,G,D)
Goldman Sachs (The Foreign Exchange Market, 1998)	2000	20% (Euro)
Wren-Lewis/Driver (Institute of International Economics, May 1998)	2000 estimate matched with Q3 1999	19.9–46.4% (DM), 19.8% (Fr)
Keith Church (Oxford Economic Forecasting)	September 1999	14.5%–20% (rest of world)

*Sterling conversions against individual currencies that have joined the euro are also available but have not been used in accordance with the OECD's guidance that PPP calculations should treat the eurozone as a single economic unit. See Appendix 9.13 for more information on the uses and limitations of PPP rates.

9.139. On the basis of the estimates above, it appears likely that the higher grocery price levels identified in the UK in late 1999 were significantly affected by the high value of sterling at that time. The PPP estimate suggests a 6.6 per cent impact on the exchange rate. The average of the other estimates, based on the concept of an equilibrium exchange rate, suggest a 17.1 per cent impact.¹

9.140. This approximate 7 to 17 per cent range for the impact of the value of sterling should be set against the approximate 12 to 16 per cent higher British price of groceries found in the CC tax-exclusive results, and the 5 to 9 per cent higher British prices from the tax-inclusive results.

Higher land prices

9.141. A significant long-term cost difference between UK grocery retailers and those in Continental Europe is the price of land for use as a grocery retail outlet. Higher land and construction costs prevail in the UK over France, Germany and the Netherlands, and full details of our analysis of these can be found at Appendix 12.7. The effect which higher land prices may have on grocery prices is simulated at Appendix 8.9. Two key reasons for higher land and construction costs over some other European countries are:

- (a) planning permission specifically for grocery retail development is harder to secure in the UK; and
- (b) UK grocery retail outlets tend to be constructed on average to a higher standard than those in other European countries.

Conclusions

9.142. This chapter has carried out a thorough international price comparison, and adjusted it for factors that significantly affect its results (consumption weighting, sales taxes, the levying of excise on alcohol and German own-label quality). This approach has been validated by the achievement of similar results on a tax-inclusive basis from a Eurostat price comparison updated to account for inflation. The effect of the strength of sterling on the higher British prices observed has been examined, and higher land and construction prices for UK grocery retail outlets have also been considered.

9.143. The results of the CC's international price comparison on a tax-exclusive basis were that in the second half of 1999, supermarket grocery retail prices in Great Britain were around 12.9 per cent above those in France,² between 12.5 and 18.5 per cent higher than Germany and 10 per cent higher than the Netherlands. This gives a range for a weighted average price difference of approximately 12 to 16 per cent between Great Britain and the three other markets.

9.144. This result is heavily affected by the appreciation of sterling between 1996 and 1999. There is no single accepted way of allowing for this, but different types of estimate suggest that the CC comparison of British grocery prices with elsewhere in Europe was affected by between 7 and 17 per cent. Higher land and construction costs may also have an impact on British grocery prices.

¹This excludes the Wren Lewis-Driver study as no estimate was given for sterling against the Dutch guilder. The first Goldman Sachs estimate is used as it represents a valuation against the comparator currencies only. An average of the Church/OEF estimates is used.

²For example, $(100/88.6)*100$ (see Table 9.30).