Spain's agri-food industry: High on the food chain

Contrary to what some say, the agricultural food chain in Spain is efficient, competitive and diversified.

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Spain's agri-food industry receives much criticism: somewhere along the line between producer and consumer, prices rise disproportionately; small businesses cannot compete with large retailers, which adversely affects competition and limits choice; manufacturers engage in unfair competition by replacing brand-name products with distributor-brand equivalents.

Most of these ideas are unfounded, finds a study by IESE's Juan José Toribio, Javier Díaz-Giménez, Rolf Campos and Gonzalo Gómez Bengoechea, carried out in collaboration with ASEDAS (the Spanish Association of Distributors, Minimarkets and Supermarkets), ANGED (National Association of Large Distribution Companies) and ACES (Association of Spanish Supermarket Chains).

What is true, they say, is that Spain's agri-food industry is plagued by misinformation.

The authors find no evidence of unfair or monopolistic practices in the value chain from production to retail distribution. Quite the contrary, they say, Spain's agri-food industry has a higher level of competition than the European average.

Except for the production phase, margins are quite slim. The final price breaks down as follows: 46 percent for production, 21 percent for transformation, 11 percent for supply chain management and 22 percent for retail distribution. Retail margins are largely unchanged since 2000.

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Being the last link in the chain, retailers tend to absorb fluctuations in both producer prices and intermediary costs, reducing the impact on consumers and other links in the chain. This limited price variability is part of the strategy used by retail distributors to win customer loyalty.

Low concentration

Despite recent mergers, Spain's retail distribution sector has a low concentration compared with the rest of Europe.

When it comes to fresh food, the major distributors have a 54 percent market share versus 46 percent for traditional businesses. The five largest retailers — Mercadona, Eroski, Carrefour, Auchan and Dia — account for only 27 percent of the market share for fresh products.

Although retail sales have been declining, the variety of business models for commercial distribution has increased the quality of the supply without raising prices substantially, translating into more choice for consumers.

To measure the level of concentration in retail distribution, the authors used the Herfindahl index, which is frequently used in the United States and is the benchmark calculation for Spain's National Competition Commission. The result is 0.103, lower than the European average and the food industry in general.

Distributor brands: Impetus for innovation

The market share for distributor brands has been climbing steadily, with their revenues representing 38 percent of the total, more than 3 percent above the European average.

In Spain, the price differential between distributor brands and manufacturer brands is 67 percent, higher than the United States and most European countries.

The emergence of distributor brands has helped distributors build customer loyalty and increase their market share, giving consumers access to a wider range of products. Their impact has been greatest in areas where top brands did not have a leading position.

Such competition has incentivized innovation throughout the industry. Between 2003 and 2009, the number of innovative companies in the agri-food business doubled, while revenues from new and improved products increased from 6 percent to 14 percent.

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Prepared to go international

The growth and modernization of the Spanish agri-food industry has paved the way for larger companies capable of competing internationally.

Implementing international distribution has been beneficial to exports, both directly and indirectly, by forcing the industry to become more efficient and requiring vendors to become exporters.

Nevertheless, the authors admit there remain regulatory limitations to contend with, such as restrictions on the opening of new establishments, which have a negative effect on all links in the value chain, from pricing to employment to investment.

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