

Discount Culture in the Danish Grocery Market

SUMMARY AND MAIN CONCLUSIONS

Grocery prices in Denmark are ca. 4-6 % higher than the average of seven EU-countries (Belgium, Denmark, Finland, France, Italy, The Netherlands and Germany) when corrected for VAT and excises, taking into account the high Danish per capita wealth and that more products are sold on campaign in Denmark than in the other countries. It indicates that competition and effectiveness in the Danish grocery market, or in the markets that produces groceries, is not at level with comparable European countries.

The Danish grocery market exhibits a more pronounced culture of using discounts and campaigns. One third of all products are sold on campaign in Denmark. The average is ca. 20 % in Germany, Italy, Sweden, France and Belgium. In Nielsen's analysis, campaign products cover products where prices are reduced with over 5 % during campaigns, products promoted with a special placing in the store, or products in ads with special offers.

The Danish Competition and Consumer Authority (DCCA) has previously assessed the prices of Danish groceries to be ca. 10 % above the average of the EU7-countries using Eurostat's prices and taking into account differences in VAT and excises but not the high Danish per capita wealth and that more products are sold on campaign. This did not take into account the more pronounced discount and campaign culture in the Danish grocery market than in other countries as the Eurostat prices do not include discount offers with duration less than four weeks.

The Authority has asked the consultancy firm, Nielsen, to determine the effect on prices of the discount and campaign culture in the Danish grocery market. The analysis is based on bar code data from two thirds of the total turnover in the Danish grocery market. Such a comprehensive assessment of the effect of discounts in the grocery market has previously not been carried out.

Based on, among others, Nielsen's data it is estimated that Eurostat's prices for groceries in Denmark must be corrected down with ca. 1-3 percentage points in order to take into account that more products are sold on campaign in Denmark than in comparable countries.. The pronounced culture of using discounts and campaigns thereby only explains a smaller part of the identified price difference between Danish grocery net prices and prices in the comparison countries.

Previous analysis has indicated that competition is not perfect in the value chain of bread and milk and that the productivity in the Danish grocery market is below level of several other countries. A lower productivity in the Danish grocery market can in the end lead to higher Danish groceries prices.

One analysis of the grocery market in Denmark has shown that a change in the planning law that allows more and larger shops, so called hypermarkets, can increase productivity in the grocery market. The reason is that many of the small and medium sized shops will be replaced by the more productive hypermarkets. Allowing more hypermarkets to be built in Denmark will also make entry into the Danish market more attractive for foreign grocery chains. This will increase competition and allow for further increase in productivity and contribute to reduce prices.

More pronounced use of unaddressed advertising material in Denmark

The Danish grocery chain's preferred media for communication of discounts is in unaddressed advertising material, according to a survey conducted by the DCCA. The use of unaddressed advertising material is more widespread in Denmark than in Norway and Sweden. In Denmark ca. 33.000 pages of unaddressed advertising material are published on a yearly basis whereas the comparable numbers are ca. 9.000 in Sweden and 5.000 in Norway.

Discounts and the marketing of discounts are very important competition parameters for Danish grocery chains. The use of unaddressed advertising material is, all else equal, a sign of competition among the existing grocery chains.

Some grocery chains have experimented with reducing the use of unaddressed advertising material in marketing campaigns or having less discount intensive campaigns. It resulted in a fall in the stores' turnover. The grocery chains participating in the DCCA's survey assess on average that their turnover would fall with between one fourth and one third if they would stop publishing unaddressed advertising material while their competitors would still publish them. The individual business therefore has a strong incentive to continue publishing unaddressed advertising material. The analysis contains one example of a shop that has been successful in using alternative marketing instruments.

A number of empirical studies have shown that informative advertising – e.g., advertising of prices or discounts – reduce search costs and contribute to reducing the price level. Consumers reading the grocery chains' unaddressed advertising material and actively search for the best deals contribute to strengthening competition. That leads to lower prices. The benefit of some consumers being well-

informed must be offset by the cost of producing and distributing unaddressed advertising material. The cost of production and distribution of unaddressed advertising material in the Danish grocery market constitute ca. 2 % of the total turnover in the grocery market. It is difficult to assess whether the more pronounced culture of discounts and campaigns in Denmark all in all leads to higher or lower prices.

For consumers to be able to strengthen competition on the grocery market a certain amount of consumers must be active and put up demands on price and quality towards businesses. That also benefits the less active consumers. For ca. one third of the consumers their choice of grocery shop is affected by certain products being on discount. Approximately 60 % of the consumers state that they “often” or “always” read unaddressed advertising material from the grocery chains. .

Conversely, ca. 20 % of consumers state that they “not at all” or “not often” read unaddressed advertising material. A little more than 25 % of all Danish households are not receiving unaddressed advertising material in the mail box. Since the possibility to unsubscribe from receiving unaddressed advertising material in the mail box there has been a constant increase in the number of un-subscribers.

Today there exist alternatives to receiving unaddressed advertising material in the mail box. The Internet has given consumers opportunities to advertising material on the Internet, make electronic shopping lists that can be printed or saved on the smartphone, or compare prices on specific products while shopping.

If more consumers choose to read advertising material on the Internet or on the smartphone instead of receiving them in the mail box it would contribute to keeping the cost of communicating offers down without weakening the intensity of competition. At the same time, the grocery market itself can help consumers becoming more aware of the new electronic opportunities for receiving advertisements.

Main conclusions

- Grocery prices in Denmark are ca. 4-6 % higher than the average of seven EU-countries (Belgium, Denmark, Finland, France, Italy, The Netherlands and Germany) when corrected for VAT and excises, taking into account the high Danish per capita wealth and that more products are sold on campaign in Denmark than in the other countries.
- The price difference of ca. 4-6 % indicates that competition and effectiveness in the Danish grocery market, or in the markets that produces groceries, is not at level with comparable European countries.

- The Danish grocery market exhibits a more pronounced culture of using discounts and campaigns. One third of all products are sold on campaign in Denmark. The average is ca. 20 % in Germany, Italy, Sweden, France and Belgium.
- The Danish grocery chain's preferred media for communication of discounts is in unaddressed advertising material, according to a survey conducted by the DCCA. The use of unaddressed advertising material is more widespread in Denmark than in Norway and Sweden. In Denmark ca. 33.000 pages of unaddressed advertising material are published on a yearly basis whereas the comparable numbers are ca. 9.000 in Sweden and 5.000 in Norway.
- Discounts and the marketing of discounts are very important competition parameters for the Danish grocery chains. The use of unaddressed advertising material is, all else equal, a sign of competition among the existing grocery chains.
- The cost of production and distribution of unaddressed advertising material in the Danish grocery market constitute ca. 2 % of the total turnover in the grocery market. It is difficult to assess whether the more pronounced culture of discounts and campaigns in Denmark all in all leads to higher or lower prices.
- Consumers reading the grocery chains' unaddressed advertising material and actively search for the best deals contribute to strengthening competition. That leads to lower prices. It is also in the non-active consumers favour.
- For some one third of the consumers their choice of grocery shop is affected by certain products being on discount. Approximately 60 % of the consumers state that they "often" or "always" read unaddressed advertising material from the grocery chains. Conversely, ca. 20 % of consumers state that they "not at all" or "not often" read unaddressed advertising material. A little more than 25 % of all Danish households are not receiving unaddressed advertising material in the mail box. Since the possibility to unsubscribe from receiving unaddressed advertising material in the mail box there has been a constant increase in the number of unsubscribers.
- If more consumers choose to read advertising material on the Internet or on the smartphone instead of receiving them in the mail box it would contribute to keeping the cost of communicating offers down without

weakening the intensity of competition. At the same time, the grocery market itself can help consumers becoming more aware of the new electronic opportunities for receiving advertisements.