

# Competition in Baltic Grocery Retail Markets

A BICEPS REPORT\*



November 2006

---

\* The report has been produced by a team consisting of Alf Vanags, Mark Chandler, Anders Paalzow, Indre Bajoraite, Arturs Kanepajs and Merlin Müür. We thank Morten Hansen for very helpful comments on an earlier draft. Financial support from the Competition Policy Centre at SSE Riga is acknowledged.

# 1 Introduction

Over recent years the Baltic states have seen a remarkable development of their retail grocery sector. Starting from a very Soviet system in which, for example, supermarkets were unknown all three countries are now served by a mix of modern formats – hypermarkets, supermarkets, and discount stores – as well as traditional open markets. Moreover, the sector is characterised by considerable dynamism with new entry and considerable cross border activity. However, the rapid emergence of a small number of leading retailers has led to concerns, especially in Latvia, about excessive market power vis-à-vis suppliers and smaller retailers. Among other things this has led to a proposal to change the competition law with respect to retailers in a way that would give the Latvian Competition Council much bigger powers to intervene in the sector. In particular the proposed legislation would introduce the concept of ‘significant market power’ and would outlaw practices that ‘abuse’ such market power.

It has to be said that the proposals for amendments to the Latvian competition law come with very little hard evidence of the state of competition in retail grocery. One exception is the Latvian Competition Council (LCC) recent investigation of the milk market where it is concluded that “despite the fact that the value added and costs of the milk processing producers are higher than that of the retailing stage of the process, the profit per unit earned by the supermarkets is considerably higher, which demonstrates unequal market power as between the milk processors and the two biggest retailers”<sup>1</sup>. However, it is not demonstrated how and to what degree this negatively affects consumers. Latvian supermarkets have also been alleged to engage in below cost pricing, price flexing<sup>2</sup>, late payment to suppliers, charging for access to shelf space and other practices which could be regarded as potentially anti competitive<sup>3</sup>.

Latvia is not the only country in which state of competition in retail markets for groceries has aroused both public interest and regulatory attention in recent years. For example in 2000 the UK Competition Council (CC) published the results of an 18 month inquiry into UK supermarkets. This inquiry in many ways provides a model for how such an investigation should be conducted and also demonstrates the uncertainties associated with drawing conclusions about individual practices observed in the sector.

The focus of much of the UK inquiry was the competitive relationship between the supermarkets and their suppliers (exactly similar to concerns expressed in Latvia) and although it was found that a number of industry practices adversely affected the competitiveness of some of their suppliers and operated against the public interest and others gave the supermarkets substantial advantages over smaller grocery retailers, the CC nevertheless concluded that that the adverse effects of these practices would most effectively be addressed by means of a supermarkets code of practice. Moreover, the CC also concluded overall level of profits in the industry was not excessive. Subsequent

---

<sup>1</sup> Kuplā and Tarvāne (2006) p 8. Our translation from the Latvian.

<sup>2</sup> Price flexing refers to the practice selling the same product at different prices in different locations.

<sup>3</sup> Some of these allegations have appeared in the Latvian press and others are mentioned in the ‘anotācija’, ie the formal justification from, the Economics Ministry for making its legislative proposals.

developments in the UK market and reviews of the working of the code of practice have led to the instigation of a new inquiry in March 2006 which is currently under way. The new inquiry will examine, among other things, whether the practices of selling below cost and ‘price flexing’ which were not covered by the code of practice, result in the distortion of competition.

The UK supermarkets inquiry has been described by one commentator as “the most data intensive and technically demanding ever conducted in the UK”<sup>4</sup> and that “the quantity of applied economic analysis was unprecedented in a commission inquiry, and the conclusions were largely based on a sophisticated empirical testing of hypothetical models”<sup>5</sup>. Nevertheless, even after this the Commission concluded that it could not recommend ‘remedies’ or changes in behaviour other than that some practices should be covered by a code of practice. Pricing below cost and price-flexing, although regarded as compromising competition, were not included in the code or subject to other remedies on the grounds that “overall ... the market is generally competitive, ... [and] our duty [is] to ensure that intervention in such a market must be proportionate and impose the least regulatory cost in seeking to remedy any adverse effects found”<sup>6</sup>

Thus, even with the benefit of the deepest investigation, the UK competition authorities have been reluctant to resort to draconian remedies. This is partly because the, despite moderate to high levels of market concentration the grocery market is regarded as “generally competitive” and partly because the market is much more complex than can be interpreted in terms of simple textbook economic models.

The grocery market in Latvia and the other Baltic states is hardly less complex than in the UK and a full evaluation of the prevailing degree of competition requires equally deep investigation. To date apart from the recent Latvian Competition Council investigation into milk margins virtually nothing has been done in Latvia and we know of no investigation in Estonia or Lithuania This study is a first step in the direction of serious investigation. In particular, the aim is to assess the degree of market concentration (generally regarded as a key indicator of competition) across the Baltic states and to make some comparison with other European countries. One quite clear result is that retail grocery in the Baltics looks much more like Western Europe than is the case in other Eastern European new EU member states.

The structure of the report is as follows: the next section considers some methodological issues in defining and measuring competition; this is followed by a section that examines the complexities of market definition in retail grocery markets; section 4 presents the main empirical results on concentration of the retail grocery market in the Baltic states in comparison with other European countries; a fifth section considers the procurement market in dairy products; and section 6 offers some conclusions.

---

<sup>4</sup> See p1 Frontier Economics (2000)

<sup>5</sup> See Frontier Economics (2000) p 4

<sup>6</sup> See para 1.8 in Competition Commission (2000)

## 2 Competition and how to measure it

Competition is usually regarded as a desirable feature of an economic system. However, there is no consensus on how to define it, never mind how to measure it. In economic theory there are at least two distinct approaches to competition. Firstly, there is the neoclassical approach which focuses on market structure in a particular sector, in particular the number of participants and their respective market share, and which considers market concentration as an important measure of competition. This may be contrasted with the Austrian view which looks upon competition from a different perspective, focussing on market innovations and product differentiation.

### *The neoclassical approach*

The neoclassical approach typically informs the standard regulatory approach to competition issues and also underpins the measures employed in this report. The focus is on market structure where there is a presumption that a more concentrated market is less competitive and therefore less in the public interest.

The empirical challenge in the neoclassical approach is to find a meaningful measure of concentration that sums up in a single number the most important aspects of the distribution of market shares in a given market. The most commonly accepted measure of market concentration is the Herfindahl-Hirschman Index (HHI). The HHI is calculated as the sum of squares of the percentages of the market shares held by the firms in the market. If there is a monopoly, then one firm has a 100 per cent market share and the HHI is 10,000 (100 x 100). On the other hand, if there were thousands of firms competing, each of them having a market share close to zero, then the HHI would be close to zero. A property of the HHI is that it differentiates between an industry in which four players have equal shares and another where one player has 70 per cent share and the three others 10 per cent each. The former, which is more competitive, will have a lower HHI.

The HHI is used by the US Department of Justice when analyzing markets. It considers markets with an HHI less than 1,000 to be competitive. If the HHI is between 1,000 and 1,800 then the market is considered to be moderately concentrated, whereas a HHI of 1,800 or greater indicates a highly concentrated market. As a general rule, mergers that increase the HHI by more than 100 points in a market that already is concentrated (i.e. HHI greater than 1,000) raise antitrust concerns. Both theory and empirical evidence suggest that other things being equal markets with a higher HHI generate higher prices and bigger profits for market participants.

Alternative measures of concentration are the market shares of the top few – three, four or five – market participants. The market share indicator provides an intuitive measure of concentration but one that is less informative than the HHI about the distribution of market shares.

Even in the neoclassical approach with its focus on market structure and prices the mechanism linking prices to the number of firms depends on a complicated mix of

factors, eg the type of competition and the potential for collusion between sellers. In particular, the observed market structures anywhere including the three Baltic countries, depends on more than just the market behaviour of retailers. It is influenced by factors (in many cases political/institutional) such as:

- economies of scale
- legislation and institutional factors
- the planning system, e.g. through restrictions on development/establishment of new stores
- the holding of land, e.g. the incumbents may have bought most of the attractive land
- prices of land and real estate prices can prevent new companies from entering the market
- the buying power of retailers: strong buyer power from the existing retailers' side might make it more difficult for new participants to enter the market and offer products at competitive prices
- business practices as such

All of these may affect the market structure and hence competition by preventing, restricting or distorting competition. Indeed, the terms of reference of the new 2006 UK supermarkets inquiry indicate that it will examine both the planning system, where there are fears that it “restricts or distorts competition by raising the cost of, and also limiting the scope for, new local market entry, particularly by way of new large format stores”<sup>7</sup>, and the issue of land holdings by large retailers where the Office of Fair Trading (OFT) believes “There are reasonable grounds for suspecting that the land holdings of the large supermarket multiples may reinforce their existing market position in some local areas. . . [there is also] evidence of practices that could have an anti-competitive effect, including the use of restrictive covenants in relation to sites sold by the big supermarkets”<sup>8</sup>.

### ***The Austrian approach***

With this approach, retailers are seen as competing for customers using new products, and new methods for selling and marketing. Hence, price is not the only instrument of competition and according to the Austrian view a competitive market does not have to be one where homogeneous products are offered at low prices and where price is more or less the only competitive tool. On the contrary, a competitive market would be characterised by product and service differentiation, a non-uniform price distribution, and generally by dynamism in price and product developments. On the face of it the Austrian approach rather well describes the nature of competition in retail markets and, in practice, the judgements of competition authorities often include factors originating in the Austrian approach eg the degree of choice offered to consumers.

### ***Price transparency***

---

<sup>7</sup> See Office of Fair Trading (2006) p 2.

<sup>8</sup> See Office of Fair Trading (2006) p 2.

Most of these theoretical and institutional issues are beyond the scope of this report. However, they would be important for a deeper understanding of the workings of Baltic retail grocery markets. One business practice observed in the Baltics, that surely is unwelcome whatever ones theoretical position, concerns the availability of price information. Retailers in the Baltic grocery market appear to have established the ‘business practice’ of not allowing systematic price comparisons, eg one of the authors of this report was asked by security to leave a supermarket when he was writing down prices (for a price survey aimed at identifying the ‘cost of living’ in the Baltic countries). This practice, unknown in most of Western Europe, severely hampers the market economy, since information about prices is one of the foundations of a well functioning market economy. This practice makes price surveys like the ones comparing the cost of a basket of groceries from a number of retailers impossible. These types of surveys are common in many countries and are published regularly by newspapers and consumers’ magazines.

### **3 Market definition**

All analysis of competition faces the problem of how to define the market domain over which competition should be analysed – after all, through a chain of substitutions it is possible for any good or service in the economy to compete with another. In fact this is implicit in the budget constraint of individuals or households. Such a broad definition of a market is not especially useful for practical purposes and in many instances regulators or competition authorities devote considerable energy to defining markets in a way that is most relevant for analysis.

The retail grocery market is no exception. The many complications include the following:

- A typical supermarket carries tens of thousands of product lines, this makes definition of the ‘output’ of a supermarket problematic.
- What is the geographic area over which a market should be defined?
- Many types of retail outlet (format) sell products other than groceries – in some cases groceries are the core business eg supermarkets while in others it is subsidiary eg petrol stations.
- Shopping habits can lead to a an apparent segmentation of the market eg in the UK Competition Council approach a distinction is made between weekly ‘one-stop- shopping’ usually made at one location and as ‘secondary shopping’, which “typically involves the greater use of other types of grocery stores, a different product mix and a lower average basket spend”<sup>9</sup>.

The fact that grocery retailers carry many thousand of lines means that it is difficult to define exactly what it is that, say, a supermarket ‘supplies’ and correspondingly it is not clear what exactly is the ‘price’ at which the supply is offered. One route to definition of the market is to suppose that what is supplied is a certain ‘kind of shopping’. This is the

---

<sup>9</sup> Office of Fair Trading (2006) p 5

solution adopted by the UK Competition Council which distinguishes between ‘one-stop shopping’ at locations (usually supermarkets or hypermarkets) where people do a weekly shop for most of their grocery and routine household needs and ‘secondary’ shopping at convenience stores or specialized shops which supplements the regular weekly shop. Needless to say, this ‘two market definition’ can generate as many problems as it solves and is not accepted by all stakeholders in the grocery market.

In this report for practical purposes (data comparability) we have demarcated the grocery market as consisting of the retail services provided in the NACE 52.11<sup>10</sup> category. In other words we focus on the market shares of non-specialised grocery outlets that are dominated by food and hence we exclude both specialised shops<sup>11</sup>, such as butchers, and outlets such as petrol stations that are dominated by non-food items.

The grocery market clearly has a geographical domain – people are unlikely to travel large distances to undertake their normal weekly shopping, and even less far for secondary shopping. The UK definition of the catchment area of a ‘one stop’ outlet is that it should be reachable by car within 20 minutes<sup>12</sup>. In the Baltic context this means that stores located in the capitals can be regarded as belonging to a single market but that there may be many different local markets and that the idea of a national market is problematic. Ideally, we would have liked to identify local markets and the degree of competition within them. To date this has not proved possible and our basic results refer to market structure at the national level. We nevertheless feel this is informative since in a large part of the national market consists of the market in the capital city. Moreover, the presence of a retailer at a national level has an impact at the local level even when it does not have a store at a particular locality.

We have however been able to obtain data on numbers of stores at both the national and capitals level.

## **4 Grocery retail market structure in the Baltic states and in some comparator countries**

Although it is well understood that market structure is not the only factor determining the degree of competition in a sector, especially in a complicated sector such as retail grocery, nevertheless other things being equal less concentration is likely to be associated with a more competitive sector than one with more concentration. Accordingly in this section we report various measures of concentration of the grocery retail outlet sector in

---

<sup>10</sup> The NACE 52.11 code consists of "Retail sales in non-specialized stores with food, beverages or tobacco predominating"

<sup>11</sup> This does not exclude very much in the Baltic states, which have some of the lowest market shares of specialised shops in the EU. For example in Latvia in 2005 the share of specialised shops in the combined specialised and non-specialised market was 3.7%. Lithuania and Estonia are similar.

<sup>12</sup> This based partly on the views of the UK supermarkets and partly on a survey conducted for the CC which found that more than 90% of respondents travelled 20 minutes or less to do their main weekly shopping.

the Baltic states in order to build a picture of the overall level of concentration in the national markets. The Baltic concentration levels are then compared with data from other European countries, including from some selected Western European countries and from all of the European post-communist countries for which we have data.

After an international comparison we look at each Baltic country in turn, focussing on the development of market shares from 2003-2005. We then examine development in the distribution of retail outlets across firms.

#### 4.1 Concentration results for the Baltics and international comparisons

Table 1 shows the market shares of the leading grocery retailers in each of the Baltic states, together with two summary measures of market concentration – the Herfindahl Hirschman Index and the 4 firm concentration ratio.

**Table 1. Grocery retail market structure in the Baltics**

	Estonia		Latvia		Lithuania	
	Firm	%	Firm	%	Firm	%
1	ETK Grupp	25	Rimi	22	VP Market	38
2	Rimi Eesti	25	VP Market	21	Iki	14
3	A-Selver	12	Mego	4	Norfa Retail	13
4	Soome SOK	8	Nelda	3	Rimi Lithuania	6
HHI	1510		963		1869 <sup>a</sup>	
CR	70		50		72 <sup>a</sup>	
Period	2005		2005		2005	

Notes: HHI: Herfindahl Hirschman Index calculated from the market shares of the 6 largest firms, excluding franchises. CR: 4-firm concentration ratio. <sup>a</sup>Based on 5 firms only. The base is sales in NACE 52.11.

Sources: Statistical Offices of Estonia, Latvia and Lithuania; company websites; Lursoft website; reports in financial newspapers Aripaev and Verslo Zinios; and own calculations.

Table 2 (below) presents a picture of the market structure for a selection of European comparator countries. Hence, we observe that internationally the highest level of concentration occurs in Lithuania. Estonia falls between Sweden and the UK, with Latvia exhibiting a level similar to that in the UK. The very high level of concentration in Lithuania is mostly explained by the particularly high market share of its largest retailer, *VP Market*. Thus in terms of the US Department of Justice criteria the Latvian grocery market is competitive but the Estonian is moderately concentrated, while the Lithuanian is highly concentrated.



**Table 2. Grocery retail market structure in selected European countries in 2004**

	<b>UK</b>		<b>Ireland</b>		<b>Germany</b>		<b>Slovakia</b>		<b>Sweden</b>	
	Firm	%	Firm	%	Firm	%	Firm	%	Firm	%
1	Tesco	23	Tesco	16	Edeka	14	Tesco	10	ICA Sverige	36
2	Sainsbury	14	Musgrave	14	Rewe	12	Lidl & Schwarz	8	Axfood	17
3	Asda	12	Spar	8	Aldi	11	Metro	7	Coop Norden	14
4	Morrison	10	Dunnes	7	Lidl & Schwarz	10	Rewe	4	Bergendahls Gruppen	3
HHI	966		598		612		241		1748	
CR	59		45		46		29		69	

Notes: Definitions as in Table 1.

Sources: IGD (2005). "European Grocery Retailing 2005".

**Table 2 (continued)**

	<b>Bulgaria</b>		<b>Croatia</b>		<b>Czech Republic</b>		<b>Hungary</b>		<b>Poland</b>	
	Firm	%	Firm	%	Firm	%	Firm	%	Firm	%
1	Metro	8.1	Konsum	15.1	Lidl & Schwarz	9.3	Coop Hungary	14.0	Metro	5.7
2	Rewe	1.2	Getro	8.7	Metro	9.0	Tesco	13.8	Jeronimo Martins	2.8
3	Fantastico	0.5	Metro	4.7	Ahold	8.7	Metro	9.0	Tesco	2.7
4	Piccadily	0.4	Coop Italia	3.3	Rewe	6.1	CBA	8.3	Auchan	2.3
HHI	67		344		304		610		61	
CR	10.2		31.8		33.1		45.1		13.5	

**Table 2 (continued)**

	<b>Romania</b>		<b>Russia</b>		<b>Ukraine</b>	
	Firm	%	Firm	%	Firm	%
1	Metro	7.3	Pyaterochka	0.7	Fozzy Group	1.3
2	Carrefour	1.5	Metro	0.7	Metro	0.7
3	Rewe	1.1	Perekriostok	0.4	Furshet	0.5
4	Cora-Louis Delhaize	0.6	Ramstore	0.3	Rewe	0.3
HHI	57		1.3		2.6	
CR	10.5		2.1		2.8	

Tables 1 and 2 together show that the development of the Baltic grocery markets is very similar to what we observe in Western Europe. By contrast, in most Eastern and Central European countries the market is much less developed. The very low levels of concentration almost certainly reflect the fact that outside the capitals and other big cities the availability of modern retailing is limited. This is even more the case in Russia and Ukraine.

## 4.2 Developments over time by country

### Estonia 2003-2005

#### a. Market shares

The following table indicates changes in firm market shares in the Estonian market from 2003 to 2005.

**Table 3. Market shares in Estonia in 2003 and 2005**

	2003		2005	
	Firm	%	Firm	%
1	ETK Grupp	25.8	ETK Grupp	25
2	Kesko Food	24	Rimi Eesti	25
3	A-Selver	8	A-Selver	12
4	Soome SOK	7.6	Soome SOK	8
HHI	1372		1495	
CR	65.4		70	

Sources: AC Nielsen and own calculations.

We observe an increase in both the Herfindahl Hirschman Index and the 4-firm concentration ratio from 2003 to 2005. At the beginning of 2005 *Kesko Food* and *ICA Baltic* joined and became *Rimi Eesti Food*. However, *A-Selver* has made the most impressive gains in market share over this period.

#### b. Number of shops

Looking at the number of shops indicates a leadership position for *ETK Grupp*. In 2005 this company owned *A ja O* and *Konsum*, respectively the largest and third largest chains in Estonia. Its total network of 185 shops was by far the largest of all firms in the country. The following table gives the numbers and proportion of shops for each company in 2005.

The total number of chain grocery shops was 337. This was 37 per cent of the 920 shops in Estonia selling food. Super/hyper markets represented 13 per cent of the shops operated by chains. The super/hyper market subsector is dominated by *A-Selver*, although the largest number of hypermarkets is operated by *Rimi Eesti*. The discounters were divided between *Rimi Eesti* and the 26 *VP Market* outlets.

**Table 4. The distribution of retail outlets among Estonian retailers 2005**

	Number of chains	Number of shops	Super/hyper markets	Discount	% of chain shops	% of super/hyper markets	% of all shops
ETK Grupp	3	185	6	0	55	14	20
Rimi Eesti	3	61	13	48	18	30	7
A-Selver	1	20	20	0	6	47	2
Soome	1	4	4	0	1	9	<0.5
VP Market	1	26	0	26	8	0	3
TOTAL	8	337	43	74			37

Source: Company websites and personal correspondence

### c. Tallinn

We also have figures on number of shops for the city of Tallinn in 2005 as shown in Table 5 below. It appears that the *ETK Grupp* which is very important in Estonia as a whole is very underrepresented in the capital, leaving it to *Rimi Eesti* to dominate the grocery market there.

**Table 5: Distribution of shops in Tallinn**

	Number of shops	Percentage of chain shops
ETK Grupp	5	7
Rimi Eesti	34	45
A-Selver	9	12
Soome	4	5

Source: company websites and personal correspondence

## Latvia 2003-2005

### a. Market Shares

The following table shows the development of the Latvian market.

**Table 6: Market share developments by turnover in Latvia**

	2003	2004	2005
1 VP Market	16.7	19.3	21.1
2 Rimi Latvia	14.4	21.0	22.1
3 Mego	5.3	4.7	3.8
4 Nelda	3.7	3.5	3.4
HHI	538	851	963
CR	40.1	48.6	50.4

Source: Lursoft

There has been a significant increase in the market shares of both *VP Market* and *Rimi Latvia* over this period. *Rimi Latvia* has done particularly well; managing to knock *VP Market* off the top spot in 2004. Partly this has been at the expense of the smaller chains *Mego* and *Nelda*, which both saw reductions in their market shares. Another interesting feature of the Latvian market in this period has been the formation of cooperative associations among competing firms, such as the *Baltstor* association uniting *Mego* and 26 other companies in a purchasing collective. If such associations and franchises are counted as united firms then the Herfindahl index would rise by close to 70 points. The Herfindahl index increased a lot between 2003 and 2005, starting from a very low base. It remained very low by international standards even in 2005.

### b. Number of shops

Table below shows the most recent data on the distribution of shops in Latvia.

**Table 7: Number of shops in Latvia in 2005.**

	Chains	Shops	Super/hyper-markets	Discount	% of chains	% of Super/hyper - markets
VP Market	2	100	20	80	13	11
Rimi Latvia	2	78	41	37	10	22
Nelda	1	17	17	0	2	9
Aibe	1	495	0	0	62	0
Elvi	1	69	69	0	9	38
Mego	1	36	36	0	5	20
TOTAL	8	795	183	117		

Sources: Company websites and own calculations.

*Aibe* unites by far the largest network of shops in Latvia. Of the 795 chain shops in Latvia 23 per cent qualify as super/hyper markets, 15 per cent are discount shops, and the remaining 62 per cent constitute the large chain of *Aibe* shops that do not fall under either category. The latter are more akin to local grocery stores, except that they are united into a chain.

## Lithuania

### a. Market shares

The Lithuanian grocery market has developed as shown in the table 8 below.

**Table 8: Market share developments by turnover in Lithuania**

	2003	2004	2005
1 VP Market	36.1	36.9	38.1
2 Iki	14.7	14.1	14.5
3 Norfa Retail	8.2	11.0	13.1
4 Rimi Lithuania	6.3	6.8	6.1
HHI	1655	1762	1903
CR	65.2	68.9	71.7

Source: Verslo Zinios – “Didžiausios Lietuvos bendrovės pagal pardavimų pajamas” [“The largest Lithuanian companies by sales revenue”]

In Lithuania we observe a gradual increase in both the Herfindahl Hirschman Index and the 4-firm concentration ratio. Similarly to Estonia, the largest gains were made by the third largest retailer. *Norfa Retail* closed more than half the gap with *Iki*. The very high market shares of *VP Market* throughout this period stand out and give Lithuania one of the highest concentration ratios in Europe. There is also a strong franchise operator, *Aibe*, with 6 per cent of the market in 2005 (not shown in the tables because it is below the top four). Although each shop operates independently they all display the *Aibe* name and hence from the viewpoint of customers appear as a united chain.

#### b. Number of shops

The table below shows the distribution of shops among the major supermarket chains.

**Table 9: Market share according to number of stores in Lithuania**

	Number of chains	2004		2005				
		Number of shops	% of chain shops	Number of shops	% of chain shops	Super/hyper markets	Discount	% of discount
VP Market	2/1	195	21.5	195	20.3	195	0	0
Iki	2	132	14.6	153	16.0	93	60	86
Norfa	1	87	9.6	104	10.8	104	0	0
Rimi Lithuania	2	30	3.3	38	4.0	28	10	14
Aibe	1	462	51.0	469	48.9	0	0	0
TOTAL		906		959		420	70	

Note: The percentage figures show number of stores as a percent of the total national number of chain stores. Sources: Company webpages and personal correspondence.

Hence the total number of chain shops, including the franchise chain *Aibe*, was 906 in 2004 and 959 in 2005. The biggest growth was the 21 shop expansion of the *Iki* chain in 2005. By the end of 2005 *VP Market* ceased to operate discount shops in Lithuania, with the merger of its *Saulute* chain into its main *Maxima* chain. Also apparent from this table is the small average size of the *Aibe* shops, in terms of sales, relative to the others. With 49 per cent of the shops in 2005 *Aibe* only received 6 per cent of total revenue. In 2005,

44 per cent of Lithuanian chain shops were super/hyper markets and an additional 7 per cent were discounters.

### c. Vilnius

The distribution of shops in Vilnius in 2004 and 2005 is shown in the table below.

**Table 10: Number of grocery retailers in Vilnius**

Retailer	2004		2005	
	Number	%	Number	%
VP Market	54	44	55	44
Iki	28	23	29	23
NORFA Retail	17	14	18	14
Rimi Lithuania	11	9	11	9
Aibe	13	11	13	10
TOTAL	123		126	

Source: Company websites and personal correspondence.

The percentage shares are as a proportion of the total chain shops, which increased by only 3 from 2004 to 2005. Hence we see that most of the expansion of the retail network took place outside of the capital in this period. Vilnius represents a fairly mature market compared to the rest of Lithuania. Looking at the distribution in more detail we see that *Aibe* is relatively unrepresented in Vilnius, with *VP Market* and *Rimi Lithuania* concentrated in the capital.

## 5 The procurement market in dairy

### Latvia

The milk market in Latvia is dominated by three companies. The recent report published by the Latvian Competition Council shows the shares of these companies in the total Latvian milk purchasing market.<sup>13</sup> This data is reproduced in the table below.

**Table 11: Latvian milk purchasing market shares (%)2005**

	2004	2005
Rīgas piens kombināts	26	24
Valmieras piens	11	12
Tukuma piens	7	7

Source: Latvian Competition Council

This data suggests the milk market is not especially concentrated. However, we have to bear in mind that the supply of milk to supermarkets is dominated by these three firms.

<sup>13</sup> Kuplā, Sanita and Tarvāne, Ilze (2006). "Konkurencijas Padomes Piena Turgus Uzraudzība" ["The Competitions Council's Supervision of the Milk Market"], p. 4. Available at <[http://www.kp.gov.lv/uploaded\\_files/petijumi/PIENS\\_tirgus\\_uzraudziba.pdf](http://www.kp.gov.lv/uploaded_files/petijumi/PIENS_tirgus_uzraudziba.pdf)>.

Other purchasers of raw milk use it almost exclusively to produce other dairy products. Thus, the concentration of supply to grocery outlets is higher than suggested in this table. The table below shows the revenue shares of the leading Latvian dairy firms and the Herfindhal index which at over 2000 is much higher than the HHI for retailers.

**Table 12: Latvian dairy company sales 2005**

Company	Sales mln LVL	% of total
Rigas Piena kombinats	43.9	32
Valmieras piens	26.3	19
Rigas Pienaimnieks	21.6	16
Preilu siers	20.1	15
Tukuma piens	15.7	11
Limbazu piens	10.3	7
HHI	2036	

Source: Dienas Bizness

It should also be noted, however, that Lithuanian dairy products are also commonly found for sale in Latvian retail outlets. This is particularly the case at VP Market. Nevertheless fresh milk is sold for retail mainly by *Valmieras piens*, *Tukuma piens* and *Limbazu piens* (owned by *Rigas Piena kombinats*). *Rigas pienas kombinats* claimed overall 53 percent of the Latvian milk market and 35 per cent of the ice cream market in 2004.<sup>14</sup>

## **Estonia**

The Estonian dairy market appears to be a little less concentrated than that of the other two Baltic States, with five firms playing a significant role. The leading companies and their approximate market shares are shown in the table below. Again we observe an HHI in excess of 2000.

**Table 13: Estonian dairy company sales 2005**

Company	Sales mln EEK	% of total
Tallinna Piimatööstuse	804.5	31
Piimandusühistu E-Piim	629.5	24
Põlva Piim	508.3	20
Saaremaa Liha-ja Piimatööstus	363.3	14
Rakvere Piim	268	10
HHI	2233	

Source: Aripaev

<sup>14</sup> Rigas Piena kombinats website < <http://www.rpk.lv/index.php/article/articlestatic/21/1/1/>>.

## **Lithuania**

A number of Lithuanian firms work in the dairy industry as shown in the table below which also shows an HHI in excess of 2000.

**Table 14: Lithuanian dairy company sales 2005**

Company	Mln LTL	% of total
Rokiskio suris	473.1	28
Pieno zvaigzdes	446.3	26
Zemaitijos pienas	369.2	22
Marijampoles pieno konservai	203.0	12
Kauno pieno centro grupe	94.0	5
Vilkiskiu pienine	91.7	5
Kelmes pienine	35.3	2
HHI	2142	

Source: Verslo Zinios

However, the retail of fresh milk is almost entirely supplied by *Pieno zvaigzdes* and *Zemaitijos pienas*. *Rokiskio suris* exports approximately 60 per cent of its production.<sup>15</sup>

## **6 Concluding remarks**

This report presents a preliminary analysis of the state of competition in Baltic retail grocery markets. A number of conclusions emerge from this:

### ***Market structure at the national level***

- At the national level the structure of the grocery market is quite varied across the three Baltic countries. The market in Latvia can be regarded as competitive with an HHI of less than 1000, in Estonia it is quite concentrated while in Lithuania the degree of concentration is amongst the highest in Europe.
- The high Lithuanian concentration is explained by the 38 per cent market share of VP Market. This is higher than the highest market shares in other European countries.
- Concentration has been increasing in recent years in all three of the Baltic States.

---

<sup>15</sup> Rokiskio suris website <[www.rokiskio.com](http://www.rokiskio.com)>.



### *Local markets*

- There is evidence of significant local market variations within countries. Thus in Estonia the largest network of shops is owned by ETK Grupp, but this firm is very underrepresented in Tallinn, where Rimi dominates.
- In Latvia and Lithuania around half of retail chain outlets are part of the Aibe franchise group. However, in Vilnius Aibe is underrepresented and the largest number of shops are owned by VP Market.

### *Dynamic competition*

- In both Estonia and Lithuania the third ranked retailer substantially increased its market share between 2003 and 2005. In Estonia the share of A-Selver grew by 50% from 8% to 12% and in Lithuania the share of Norfa retail grew by even more than 50% - from 8.2% to 13.1%
- Competition takes different forms. Thus in Lithuania VP Market operates almost exclusively through the hypermarket/supermarket format whereas in Estonia it competes exclusively through the discount store format. In Latvia it operates a mix of hypermarket/supermarket and discount with 80% of its stores by number being in the latter category. Rimi by contrast tends to operate a mix of formats with the discount format dominating in Estonia.
- A particularly dynamic element in Lithuania and Latvia appears to be the Aibe franchise group, started in 1999 in Lithuania and in Latvia in 2002. Combined turnover has more than doubled since 2002 and growth has been especially strong in Latvia. Also the Aibe network has by far the largest number of shops in the Baltic states region.

### *Procurement*

- This is an area that requires further investigation but the supply of one important and controversial (in the context of Baltic competition issues) product – namely dairy products, appears to be more concentrated than the grocery market itself. The HHI for dairy products in all three countries is higher than for grocery retail. Also, for example, in Latvia one firm sells over half of the milk retailed for private consumption. Thus in terms of the bilateral situation of suppliers and retailers the suppliers would appear to have considerable bargaining power.

### *General conclusions*

As noted in the introduction, this study represents a first step in examining competition in one of the most important sectors of the Baltic economies. We have found that concentration levels are on a par with many Western European countries and much higher than in most of Central and Eastern Europe. On the whole we see this as reflecting

the advanced development of retailing in the Baltics as compared with other post-communist countries. Nevertheless, with levels of concentration comparable to the UK there is a need for vigilance by the competition authorities, but we strongly recommend that intervention should be based on considered evidence.

## References

Competition Commission (2000) *Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom*

Competition Council (2004). "Par pārkāpuma konstatēšanu, tiesiskā pienākuma un naudas soda uzlikšanu", Decision, 20 December 2004, p.

Frontier Economics (2000) "The price of beans: the Competition Commission inquiry into supermarkets" *Frontier Economics Bulletin* November 2000

Kuplā, Sanita and Tarvāne, Ilze (2006). "Konkurencijas Padomes Piena Turgus Uzraudzība" ["The Competitions Council Supervision of the Milk Market"] [http://www.kp.gov.lv/uploaded\\_files/petijumi/PIENS\\_tirgus\\_uzraudziba.pdf](http://www.kp.gov.lv/uploaded_files/petijumi/PIENS_tirgus_uzraudziba.pdf)

Office of Fair Trading (2006) "The grocery market: OFT's reasons for making a reference to the Competition commission" May 2006