

COFECE-040-2020

## Greater competition in self-service stores for better food and beverages prices

- *The structure of the modern channel (self-service stores) is concentrated in few players.*
- *There are regulatory obstacles at the state and municipal levels that hinder the expansion of regional chains.*
- *In 255 municipalities there is only one self-service store and in 1,592 municipalities, there are none. Furthermore, one out of ten warehouses, supermarkets, hypermarkets and mega markets do not face competition in their area of influence.*
- *High market concentration favors the buying power of big self-service chains before its lower size suppliers, which could distort competition in the suppliers' markets.*

**Mexico City, November 4, 2020.-** The Mexican Federal Economic Competition Commission (COFECE or Commission) published the *Study on Competition in the modern channel of retail commerce of food and beverages* [*Estudio de Competencia en el canal moderno del comercio al menudeo de alimentos y bebidas*], which identifies the need to facilitate the entry of more competitors to this market, as there is a high concentration in few self-service chains with nationwide presence, mainly in the warehouse, supermarket, hypermarket and megamarket formats.

This is the result, partly, of local regulations that hinder the entry of new stores. In 1,592 municipalities, where more than 17 million persons live, there are no self-service stores and in 255 there is only one self-service store (without considering convenience stores ). The fact that there is not enough competitive pressure hampers consumers from gaining access to better prices. Furthermore, this high concentration favors the negotiating power of large retail chains over its smaller suppliers, which could cause their exit from the market and harm their capacity to innovate.

In the Mexican market for self-service stores there are only three chains with nationwide presence – *Walmart, Soriana*, and, to a lesser extent, *Chedraui* –, which in some regions face competition from well-positioned local chains. Competition from self-service stores is local, that is to say, consumers purchase at the nearest stores to reduce costs and travel times.

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For the analysis of this market, the study defined the area of influence for these large-surface stores, which were classified in four types, according with the number of inhabitants per hectare: i) Metropolitan Zone of the Valley of Mexico (ZMVM, per its initials in Spanish), ii) urban zones with population density above average, iii) urban zones with population density inferior below average and iv) rest of the country.

In 10% of the country's areas of influence, there is only one self-service store; in the 15% a duopoly exists; in 24% there are three participants, and in the remaining 51% there are more than three stores of the modern channel. The brand present in 87% of the areas of influence that have only one participant, is Walmart

This lack of competitors is due, partly, to regulatory obstacles that inhibit their market access through procedures and requirements that increase costs or, in some cases, forbid the establishment of self-service stores. To a large extent, only large national chains can overcome these barriers, as they have the economic capacity to set up legal teams specialized in procedures, unlike regional or local self-service chains with fewer resources.

The average administrative cost of state and municipal procedures required to open a modern channel establishment varies according to the warehouse, supermarket, hypermarket and megamarket format from 95 thousand Mexican pesos – for the smaller store format – up to 653 thousand Mexican pesos. Additionally, the greatest cost is the loss in sales for not being able to operate until the paperwork is completed. It is calculated that for each day that a self-service store awaits authorization to open its doors to the public, it loses the chance to sell 1 million Mexican pesos approximately, with an average duration of almost a year. Likewise, consumers lose the opportunity to gain access to a different choice of supply in terms of price and in the diversity of products, in addition to preventing the activation of greater sources of employment.

The market concentration also grants self-service stores with purchase power to conduct commercial practices that cause unforeseen costs for their smaller-sized suppliers, besides transferring to them the risk of not selling the products that the retail chain has already acquired. Amongst said practices are, paying after the agreed timeframe, applying non-negotiated charges or returning merchandise without prior agreement, impacting their profits, to the extreme that these could cause their exit from the market as they do not have enough resources to deal with them. This occurs despite the fact that there is an agreement between retailers and large chains that includes the *Code of Competitive Commercial Practices*, which is little known by small suppliers, and that does not include all the practices that could be considered abusive and that requires a review from the Ministry



of Economy (SE, per its initials in Spanish) concerning the use of mechanisms for oversight, assessment, sanction and solution of controversies.

The modern channel for retail commerce of food and beverages captures 19% of household expenditure for the purchase of said products, thus it is relevant to strengthen competition conditions in this market. To this end, COFECE proposes that state and municipal authorities modify or eliminate provisions (described in Annex II of the study) that limit the number and variety of participants. It also recommends establishing a “one-stop shop” in states and municipalities for the authorization of the establishment and operation of more self-service stores, in which the Federal Executive Branch could collaborate through the design of an assistance program or best practices.

COFECE also proposes promoting the *Code of Competitive Commercial Practices* among small and medium companies, in addition to extending its scope to prohibit retail chains from charging their supplier for situations attributable to the store, loss of items after delivery and errors in sales forecasts. Likewise, the study proposes establishing means of protection for suppliers against possible retaliation by commercial chains, and that the SE proactively oversees compliance with the conditions of the Agreement.

Generating greater competitive pressure in the market for the modern channel of retail commerce will boost its efficiency, which will reflect in better final prices for food, beverages and other goods that Mexican families purchase.

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*The Federal Economic Competition Commission is entrusted with safeguarding competition and free market access. This contributes to people’s welfare and the efficient functioning of markets. With its work, COFECE seeks better conditions for consumers, more services of higher quality and a “level playing field” for companies.*

