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The impact of terms and conditions of trade on competitiveness

A case-based study of the Norwegian grocery market

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Master thesis in Business Analysis and Performance Management

NORWEGIAN SCHOOL OF ECONOMICS

Abstract

The terms and conditions of trade in the Norwegian grocery market are claimed to differ substantially between the market participants at retail level. Also, the cost of goods sold constitutes the most significant part of the total costs of the firms. Consequently, the terms and conditions of trade that a market participant is able to obtain are considered to have significant impact on its competitiveness. Building on the statements of Ica that their terms and conditions are substantially worse than those of its competitors and that without improvements they would have to withdraw from the market, this paper aims at understanding how terms and conditions of trade influence competitiveness at retail level in the Norwegian grocery market. Coop's recent acquisition of Ica increases the relevance of the research. The research question is answered using a theoretical basis of vertical restraints and buyer power applied on a case study of the Norwegian grocery market with regards to terms and conditions of trade used in the market.

The main findings of the paper are that differences in terms and conditions of trade to a certain extent make it difficult for market participants to compete. However, the paper concludes that there are also other factors that affect competitiveness. The conclusions are drawn based on a margin analysis conducted for all four market participants. The analysis shows that Ica has worsened its terms and conditions of trade over the investigated time period, which have made it harder for them to compete. However, Reitangruppen is also found to experience a worsening of its terms and conditions of trade but the firm has still improved its profitability and competitiveness.

Acknowledgements

This paper is written as a part of study for the Master of Science in Economics and Business Administration at the Norwegian School of Economics (NHH). The paper is inspired by the courses taken through my master studies and the current situation in the Norwegian grocery market.

Conducting this paper has led me on an existing and demanding journey. I have met obstacles along the way but have learned immensely much, both academically and on a personal level.

My supervisor Kurt R. Brekke deserves a thank you for his guidance and constructive feedback. I will also take the opportunity to thank my family and friends for your encouragement and support throughout my studies and these final months. Lastly, to Arne: I would not have made it without your support, care and patience, especially through the last few weeks – thank you!

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Marthe Hellum Freitag

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1 Introduction

1.1 Motivation

On October 6, 2014 Ica Gruppen AB announced the sale of its Norwegian grocery retail activities to the competitor Coop Norge Handel AS. Ica Norge's (hereafter: Ica) market share has been falling since 1998 and the retailer has been experiencing operating losses since 2008. The firm has claimed that without better purchasing terms and a more efficient distribution they would have to withdraw from the market (Ica, 2013). Relative to NorgesGruppen, which is recognized as the participant with the best terms (Ministry of Agriculture and Food, 2011), Ica claims their terms and conditions to be 4-5% worse (Kristiansen, 2013; Strömberg, 2014). Another statement supporting differences in the participants' terms and conditions is that of Coop's CEO, which claims that Coop will achieve better terms and conditions due to the acquisition. Coop further expects the agreement with Ica to lead to increased bargaining power (Fanebust, 2014), which in turn is expected to lead to better terms and conditions of trade. Since cost of goods sold constitutes the major part of grocery retailers' total costs, the terms and conditions that Ica, Coop or any other retailer is able to obtain, will have a significant impact on its relative competitiveness.

Drawing on the statements of Ica and Coop and the importance of terms and conditions, the aim of this paper is to consider how terms and conditions of trade in the Norwegian grocery market affect the competitiveness of firms at retail level, i.e. how the terms and conditions that the market participants are able to obtain influence the profitability of the individual participant as well as their relative profitability on the horizontal level.

1.2 Background

In recent years, several reports have been conducted that investigate the situation in the Norwegian grocery market. Findings from the reports suggest an extensive use of vertical restraints, which are defined as contractual obligations imposed on the suppliers (Clarke, Davis, Dobson & Waterson, 2002). These restraints include listing charges, slotting allowances, contributions to promotions and different discounts and are important elements in the negotiations of terms and conditions of trade (Ministry of Agriculture and Food, 2011). The increasing use of buyer-imposed vertical restraints in negotiations can to a certain degree stem from the power shift from suppliers to retailers. Generally, there is an opinion among

suppliers that the umbrella chains[1] exploit them by forcing them to offer unreasonable discounts and bonuses (Ministry of Agriculture and Food, 2011). Up until 1985 suppliers mainly dictated which products the small and independent retailers would carry. However, since the early 1990s retailers have evolved into major chains and in 2013 the four umbrella chains dominated the market, with a market share of 96% (Nielsen, 2014). The umbrella chains have integrated vertically into wholesale operations and today only a few products are distributed separately. The chains have also vertically integrated with a number of suppliers.

Based on the findings of its 2011 report, the Inquiry Commission for the Power Relations in the Food Supply Chain (referred to as: the Food Chain Committee) proposed a new act relating to negotiations and fair trading practices in the grocery industry, where several different vertical restraints are suggested regulated (Ministry of Agriculture of Food, 2011). The association Grocery Manufacturers of Norway[2] (DLF) has also expressed the need for new legislation regulating negotiations and securing fair play between suppliers and retailers by restraining the unreasonable behavior that the suppliers experience (Hasselgård, 2012). These propositions suggest that the vertical restraints employed in the Norwegian grocery market are possibly distorting competition and can have severe consequences for welfare.

1.3 Research Purpose

Drawing on the conducted reports, suppliers' concerns and the market participants' claims about the differences in terms and conditions of trade, my research question is as follows:

How do terms and conditions of trade influence competitiveness at retail level in the Norwegian grocery market?

Based on this research question, a thorough analysis will be performed of how price as well as other terms and conditions affect competitiveness. The results will be based on an analysis of

[1] An umbrella chain is a retailer operating with several retail formats (chains) collected under one brand name. (Finne & Sivonen, 2009).

[2] Dagligvareleverandørenes Forening (DLF) (Grocery Manufacturers of Norway) is a non-profit trade association with 105 members. Membership is not granted to manufacturers or suppliers that are owned by retailers or wholesalers. Additionally, members must mainly produce national brands. DLF's members cover more than 95% of the grocery turnover in the Norwegian market (www.dlf.no)

the market participants' gross and operating margins. To answer the research question, the following supporting research questions will be applied:

(1) What characterizes competition at retail level in the Norwegian grocery market?
(2) Which terms and conditions are used in the Norwegian grocery market?

Lastly, as a consequence of Coop's recent acquisition of Ica and the statement of how it affects terms and conditions of trade, the size of the participants is highly relevant. Following an approval from the Competition Authority the number of market participants will be reduced from four to three, but their market shares will be more evenly distributed. The consequences of size will be considered with help of theory regarding buyer power, answering the following question:

(3) Does size influence the buyer power of retailers and how does relative size affects competitiveness?

The main goals of the paper are to: (1) describe the current situation in the Norwegian grocery market in relation to competition, (2) identify and analyze the main factors influencing terms and conditions of trade (the vertical restraints employed), (3) assess the economic impact of terms and conditions of trade on participants at the retail level, i.e. their competitiveness and (4) explore possible benefits of size in the market and how this affects terms and conditions of trade. The paper does not aim at investigating the possible impact on consumer welfare; however, it is inevitable to touch upon the impact on end-user prices, as this is an important determinant of the competition.

To understand the competitiveness at retail level in the Norwegian grocery market, it is important to gain a thorough understanding of the market structure and rivalry amongst the market participants. Furthermore, it is necessary to gain knowledge of which factors that are important in the competition, as well as what determines customer demand.

The empirical foundation is based on the investigation conducted by the Food Chain Committee and other publications before and following their report. Also, investigations from the UK, Sweden and Australia are drawn upon in the paper to gain further insight into the use of vertical restraints and implications of buyer power. The theoretical foundation is found in

literature on vertical restraints and buyer power. The findings will be supported by profitability margins based on the financial statements of the four dominant participants in the Norwegian grocery market.

1.4 Outline Structure

The remainder of the paper is structured as follows. Sections 2.1 and 2.2 reviews relevant literature and theory that help analyze the research questions. This includes literature on vertical restraints and buyer power. Section 2.3 presents the concept of competitiveness and section 2.4 briefly presents theory on market structure.

In section 3, the case object – the Norwegian grocery market – and its participants are presented. The development of the market up until today, in addition to customer preferences and suppliers are also presented.

Section 4 presents the methodology applied. Section 5 presents the data obtained from the umbrella chains' financial reports as well as pricing information used to isolate the effects of prices on the margins. Furthermore, the section contains a discussion about the availability of information and the implications for this paper.

Section 6 contains the analysis of the grocery market with regards to terms and conditions of trade. First, the terms and conditions of trade used in the market are identified and it is analyzed how these different vertical restraints are expected to influence the firm based on theoretical propositions. The latter is then supported by what we can actually observe in the Norwegian market through a margin analysis in section 6.2. Section 6.3 considers the concept of buyer power and how this influences the competitiveness of retailers. Section 7 provides a conclusion of the findings and the paper's implications, as well as limitations and suggestions for further research.

2 Theory and Literature Review

Section 2 will present theory and literature about terms and conditions of trade, retail buyer power, competitiveness and market structure. Section 2.1 presents the types of contracts that we can observe in the market and the use of different vertical restraints. The section contains literature on those terms and conditions of trade typically applied in the grocery industry, their meaning and which factors that affect them. Section 2.2 presents theory on buyer power and a theoretical framework for analyzing buyer power. Lastly, competitiveness is defined and a consideration of how to measure competitiveness is presented in section 2.3 and theory about market structure is presented in section 2.4

2.1 Terms and Conditions of Trade

2.1.1 Types of Contracts

The basic terms and conditions of trade negotiated in a contract are price and quantity and possible discounts relating to these two factors. With discounts, the contract is typically linear. However, a linear contract will seldom be efficient. Compared to the optimal solution for supplier and retailer combined, linear contracts will cause lower volumes and higher end-user prices as these contracts cannot serve both as a profit-maximizing and a profit-sharing mechanism. This is known as the double marginalization problem and is illustrated in figure 2.1 below.

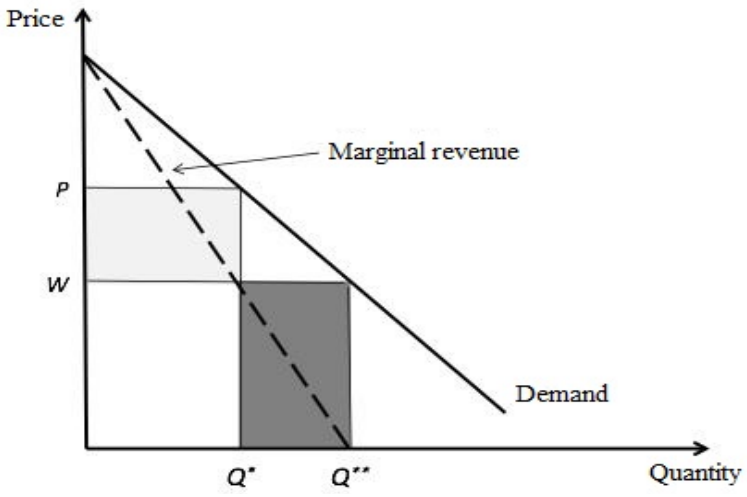

Figure 2.1. Double marginalization (Hjelmeng & Sørgard, 2013).

The supplier is faced with a marginal cost of zero and will therefore wish to sell the quantity where its marginal revenue equals zero. In figure 2.1 this is chosen as the price w and the supplier wishes to sell Q**. The retailer will however choose the quantity Q* where its marginal cost (w) equals marginal revenue (the dashed line). Consequently, the retailer will buy a lower quantity than what is optimal for the supplier, i.e. the retailer does not take into consideration the profit of the supplier when making its pricing decision. Therefore, the supplier‘s profit is reduced equal to the dark grey area in the figure. The profit of the retailer is given by the light grey area. The loss of profit by the supplier is however larger than the profit of the retailer, thus, the contract is not optimal for either party (Hjelmeng & Sørgard, 2013). Flexible contracts allow the introduction of vertical restraints, contributing to solving this problem (Gabrielsen, Steen, Sørgard & Vagstad, 2013).

2.1.2 Vertical Restraints

Vertical restraints are contractual obligations regulating buying and selling between retailer and supplier. The restraints are used when it is possible to exercise some extent of vertical control in the supply chain. If a party is able to exercise vertical control of some sort over other parties, it is plausible that the party has some bargaining power (Gabrielsen, 2010). In the grocery market vertical restraints are typically buyer imposed indicating that retailers have bargaining power over suppliers (Clarke et al., 2002).

Vertical control can be characterized along a continuum ranging from vertical separation to vertical integration. Vertical integration is the strongest force, where the integrative has full control over an integrated unit through ownership. Looser types of vertical control are often characterized as either price restraints or non-price restraints.

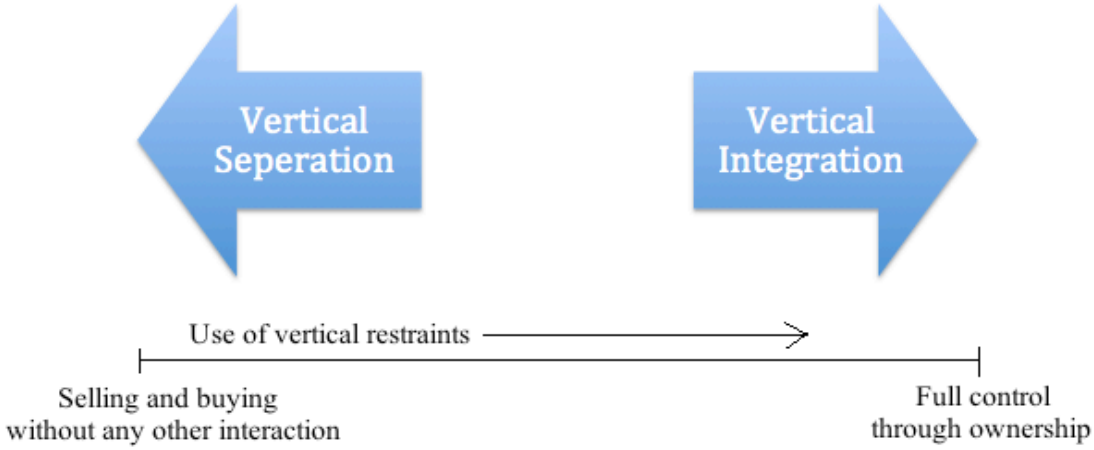

Figure 2.2. Control in the vertical supply chain.

A contract including vertical restraints consists of more than the linear price (Hjelmeng & Sørgard, 2013). In a two-part tariff, the selling price from suppliers of grocery products with the introduction of vertical restraints is given as:

$$w * Q - F ,$$

where w is the listing price from supplier including any discounts, Q is the quantity purchased and F is the vertical restraint as a fixed payment determined irrespective of quantity. The wholesale price w equals the marginal cost of the supplier and will induce the retailer to set the optimal end-customer price from the supplier side. The vertical restraint is the profit-sharing element in the relationship between supplier and retailer,

Examples of vertical restraints normally applied in the grocery industry are joint marketing, listing charges and (threats of) delisting, slotting allowances, retroactive discounts on goods sold, contribution to promotional expenses, below-cost selling, sale-or-return conditions and long payment terms. Their meaning is presented below in section 2.1.3.

Impact on Competition

The approaches to vertical restraints' impact on competition are twofold, divided between the efficiency arguments and the competition dampening arguments (Gabrielsen, 2010). Bork and the Chicago school of thought represent the first. This school of thought claims that all vertical restraints are used to ensure efficiency in the supply chain and should therefore not be regulated. The effect on the competition is achieved as the restraints remove pricing distortions, optimize investment decisions and eliminate certain transaction costs (Dobson, Waterson & Chu, 1998).

The concerns of the competition-dampening block are that the vertical restraints will cause entry barriers in the market, facilitate collusion and restrict interbrand and/or intrabrand competition (Dobson & Waterson, 1996). The interbrand competition concerns the substitution effects among brands and is connected to tying agreements and exclusive dealing and thus affects competition between suppliers selling different brands. The intrabrand competition concerns the substitution effects with regards to price or non-price factors between retailers selling the same brand, i.e. that it affects the way the products are distributed (lower prices versus offering services such as a better location, parking facilities, opening

hours, expertise etc.) (OECD, 1993; Hovenkamp, 2005). The welfare effects of vertical restraints will not be analyzed in this paper, however, the restraints' impact on the intrabrand competition is important.

A retailer will benefit when it gets the best possible agreement for itself but similarly benefits when retailers buying the same brand must pay more (Hovenkamp, 2005). According to Hovenkamp (2005, p. 185) "restraints imposed on manufacturers by powerful dealers or dealers' groups are more likely to be anticompetitive." However, vertical restraints can also be regarded as pro-competitive, i.e. promotes competition in the market place (Hovenkamp, 2005). Consequently, the assessment of the use of vertical restraints requires consideration of both competition dampening and efficiency enhancing elements.

2.1.3 Non-Price Vertical Restraints

Joint Marketing

Acting as a supplier of space, retailers may charge a promotional support fee in return for in-store advertising. Joint marketing is defined as the shared marketing efforts between supplier and retailer, where the retailer is responsible for the execution of the marketing efforts. The joint marketing fee is considered a cooperation bonus from suppliers to retailers (Gabrielsen, 2010).

The Chicago school of thought's argument for using joint marketing fees is to reach an optimal level of marketing efforts. Due to the free rider problem this level is considered unattainable when the two parties invest in marketing efforts separately.

However, joint marketing transfers the risks of the marketing effects from retailer to supplier, allowing the retailer to raise income at the expense of suppliers (Dobson, 2005). Joint marketing is mainly criticized for being a profit transfer between supplier and retailer, as the actual use of the fee is hard to detect and it has been considered a way of hiding bonus transfers (Ministry of Agriculture and Food, 2011).

Slotting Allowances

Foros and Kind (2008, p. 367) define slotting allowances as "fees paid by manufacturers to get access to retailers' shelf space". Shelf space is considered a scarce resource and a slotting allowance is a mean to allocate the resource (Dobson et al., 1998). Slotting allowances differ

from discounts, as they are upfront ("rental") fees rather than retroactive discounts based on volume purchased (Shaffer, 1991). In the Norwegian grocery market slotting allowances are considered a part of the joint marketing arrangements (Dulsrud & Beckstrøm, 2005).

The Chicago school of thought emphasizes the use of slotting allowances as a screening device to signal the supplier's seriousness, quality and belief in the product's success. Suppliers will not be willing to pay the fee unless the information they have about the product shows that the product is good enough and will likely be a success. Consequently, the slotting allowance reduces asymmetric information between retailer and supplier. Additionally, slotting allowances can be understood as a mechanism to share the costs and risks of new product introductions (Dulsrud & Beckstrøm, 2005).

The competition school of thought considers slotting allowances as competition dampening through the increase of wholesale price that must be transferred to increased end-user prices, also inducing competitors to raise their prices. Additionally, the slotting allowance can be employed to increase market power. The concern is that in the long run, smaller suppliers will be excluded from the market since it is only used as a pressure point to obtain better agreements with larger suppliers. This approach does not take into consideration the preferences of customers but solely the attempts to increase profit (Dulsrud & Beckstrøm, 2005).

In Shaffer's model of slotting allowances (1991), two firms sell homogenous products but they are differentiated due to differences in customers' store preferences. Consequently, differences in retail prices will not cause the demand of the higher-priced firm to fall to zero. In Shaffer's model (1991) two firms compete at retail level with profit functions given as:

$$\text{Profit } 1 = (P_1 - w_1)(a - P_1 + bP_2) + S_1$$

$$\text{Profit } 2 = (P_2 - w_2)(a - P_2 + bP_1) + S_2 ,$$

where P_1 and P_2 are the end-consumer prices charged by chain 1 and chain 2 respectively, w_1 and w_2 is the wholesale prices offered from the supplier and S_1 and S_2 are the lump-sum payments representing the respectively charged slotting allowances of the chains. $(a - P_1 + bP_2)$ is the demand function of chain 1 and $(a - P_2 + bP_1)$ is the demand function of chain 2.

In its easiest form the model is played out with the suppliers announcing their terms (unit wholesale price and the slotting allowance), the retailer chooses which supplier to buy from based on price (take-it-or-leave-it contract without any cooperation with other retailers). As long as suppliers are operating with a profit greater than or equal to zero, the use of slotting allowances must be outweighed by a higher retail price (Shaffer, 1991). The effect is illustrated in figure 2.3, where chain 1 imposes a slotting allowance on the supplier. This increases w_1, which in turn will raise P_1 and induce chain 2 to raise P_2 as well, but with less that P_1.

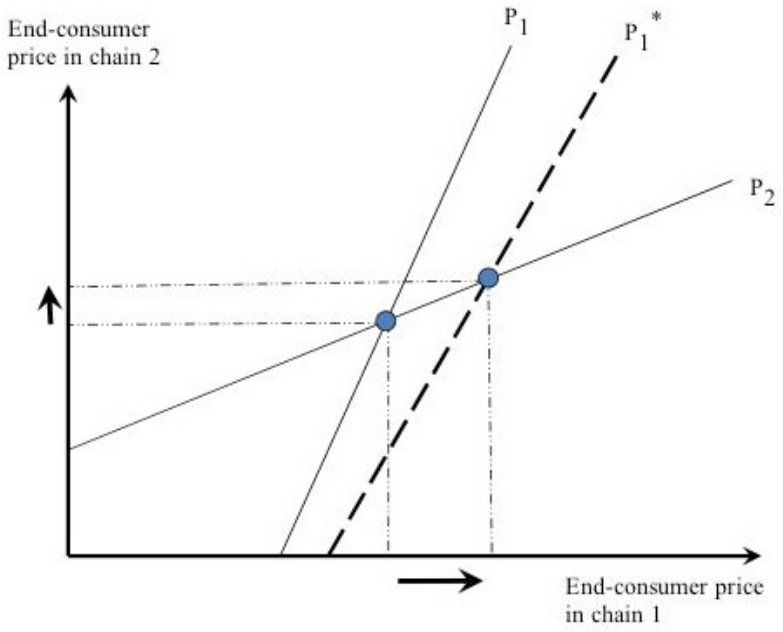

Figure 2.3. Slotting allowances used only by chain 1 (Foros, 2014).

The increased wholesale price will soften competition at retail level, as an increased wholesale price is transferred directly to an increase in end-user prices to achieve profit maximization. This gives a positive effect on competitors' sales, as some customers will shift to their stores. In equilibrium, all retailers will use slotting allowances. Consequently, all firms will raise their prices, as illustrated in figure 2.4.

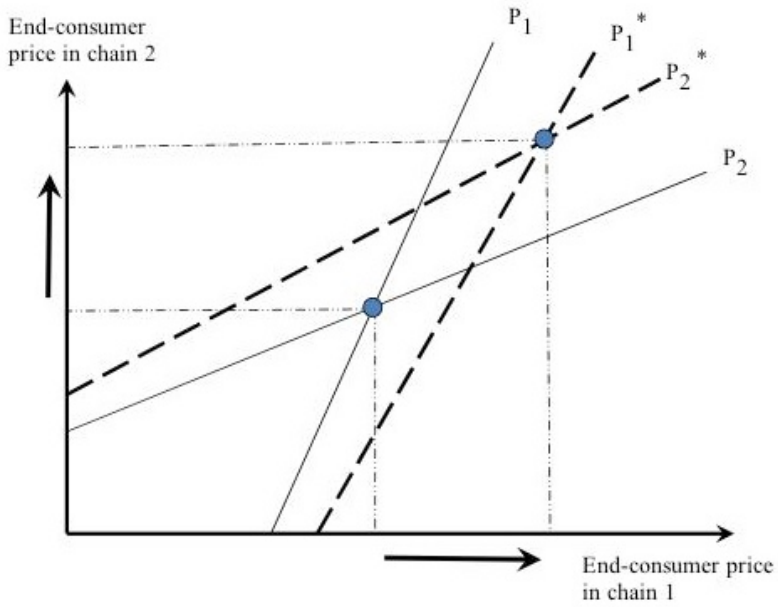

Figure 2.4. Slotting allowances used by both chains (Foros, 2014).

Shaffer (1991) assumes that end-customer prices are set based on marginal cost. Also, the contracts must be observable and irreversible. Are these latter assumptions not satisfied, Shaffer expects that no slotting allowances will be employed due to there being no strategic effects to gain from the use of the fee.

Other Vertical Restraints

Other vertical restraints may also be present in the grocery industry, giving a retailer the possibility to improve its terms and conditions. Listing charges are fees suppliers must pay before the retailer will accept the supplier and eventually buy products from their range. Delisting, or the threat of such, is removing suppliers from the acceptance list. Long payment terms is a way to obtain free loans by deliberately not pay invoices by due date. Below-cost selling refers to selling products below the purchase price to increase store traffic. This type of restraint may alter the customers' perception of product value and distort sales forecasts, harming suppliers. Retrospective discounts are monetary terms paid by supplier to retailer at year-end, calculated on the basis of sales value during the year. Sales-or-return discounts are the possibility a retailer has to get a refund of expenses by returning products not sold during a period. This type of restraint will not only cause the supplier to bear the risk of products not being sold but could dampen the retailers incentives of selling the particular products (Clarke et al., 2002).

2.2 Retail Buyer Power

Clarke et al. (2002, p. 2) define retailer buyer power as "the ability of leading retail firms to obtain from suppliers more favorable terms than those available to other buyers, or which would otherwise be expected under normal competitive conditions." This definition may be further enhanced by the proposed definition of the Secretariat of OECD (1998, para. 20): "[A] retailer is defined to have buyer power if, in relation to at least one supplier, it can credibly threaten to impose a long term opportunity cost which, were the threat carried out, would be significantly disproportionate to any resulting long term opportunity cost to itself". Consequently, retail buyer power arises from buying economies and is concerned about relative economic dependency.

According to Dobson (2005) if a large retailer loses a product line it may account for 1-3% percent of its sales, whereas the supplier's loss of the retailer would be around ten times that level. Consequently, the supplier is relatively more dependent on the retailer. It is important to bear in mind that Dobson's article is based on the grocery market in the UK, where grocery stores typically carry more product lines than what is the case in the Norwegian market. Still, the Norwegian market is much more concentrated than the UK market.

Buyer power is affected at both retail level and upstream level. Buyer power of retailers will decrease with the number of suppliers in the market, but increase with retailers' relative size to the supplier (Clarke et al., 2002). Additionally, Dobson (2005) emphasizes the skewed relative economic dependency of retailers and suppliers due to the retailers' roles as not only customers, but also as suppliers and competitors in the supply chain. A retailer is a supplier as it offers shelf space and advertising space, using means such as slotting allowances or requiring promotional support. A retailer is a competitor if it offers private label products that compete for this limited space, hence additionally operating as gatekeeper. The Food Chain Committee in its report (2011) also pointed to the multiple roles of the retailer, questioning the impact this has on competition.

2.2.1 Approaches to Retail Buyer Power

According to Gabrielsen et al. (2013) buyer power can be approached in two ways, either through the monopsony model or through the bargaining model. The monopsony model is based on a market with only one downstream retailer but several upstream suppliers. The retailer is also the only seller in the end-consumer market, hence enjoys monopsony power.

Monopsony power allows practice of demand withholding, allowing the retailer to obtain more favorable purchasing terms and increase end-user prices, both factors contributing to increased margins. The model is illustrated in figure 2.5.

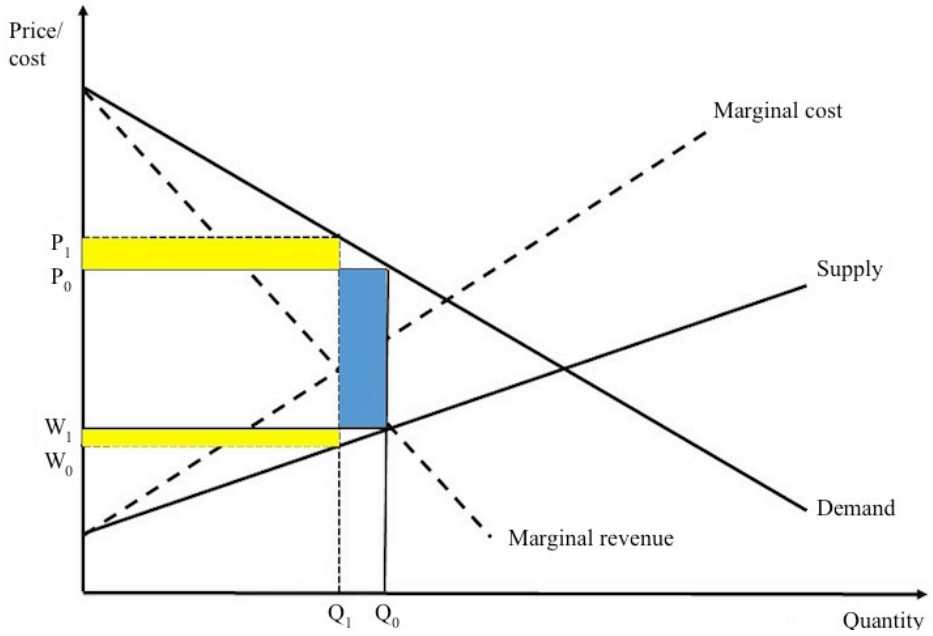

Figure 2.5. Monopsony model (Gabrielsen et al., 2013).

In the monopsony model suppliers are powerless and retailers determine which quantity they would like to buy. This is illustrated in the model as Q_1 and equals the quantity where the retailer's marginal cost equals margin revenue. At this point the supplier will sell at price w_1 and the retailer will charge end-consumer prices equal to P_1. Compared to the situation with no buyer power, the end-consumer price has increased (from P_0) and the wholesale price from supplier to retailer has decreased (from w_0). Consequently, both end-consumers and suppliers are worse off, whereas the retailer has a net gain equal to the sum of the yellow squares subtracted by the blue square.

The bargaining model is a framework where one considers different opportunities firms have of directly bargaining the terms and conditions of a trading agreement. In this framework the retailer do not have monopsony power but possesses some extent of bargaining power depending on the profitability of its own and the upstream party's outside alternatives and their relative bargaining skills. This means that the two contracting players agree on certain contractual terms, rather than the retailers solely dictating. In this paper the relative bargaining skills are considered constant. Gabrielsen et al. (2013) asserts that it is more likely that the party will use flexible contracts rather than linear contracts when holding power over

the other. Consequently, using this model, bargaining power increases the probability of using non-price restraints in trading agreements.

Figure 2.6. The bargaining model (Gabrielsen et al., 2013).

2.2.2 Retail Buyer Power Framework

Clarke et al. (2002) have developed a framework for the analysis of buyer power, drawn upon Dobson et al. (1998). The framework considers five questions, assessing signs of market power at buyer level, supplier level and end-consumer level. This assessment is followed by a consideration of how the nature of trading relationships affects market behavior, for instance mergers or the introduction of buyer groups. Lastly, the underlying economic conditions with regard to production and distribution are considered, with emphasis on the costs in the buying process, i.e. vertical restraints.

The questions making up the framework are as follows:

(1) Is there significant buyer power?
(2) Is buying power against relatively powerless suppliers?
(3) Does the buyer itself have significant selling power?
(4) Are there significant efficiency gains associated with buyer power?
(5) Does the buyer attempt to constrain its suppliers' other actions or deliberately create a dependency relationship? (Clarke et al., 2002, p.24).

Question 1 is the qualifying question. For there to be significant buyer power in a relation, the power must be exploited so that it has a material effect on negotiated prices, the quantities offered and the viability of the traders. Indicators include buying a large proportion of the product and the use of contractual agreements as slotting allowances, upfront fees and similar. Evidence supporting question 2 includes low upstream seller concentration and absence of evidence that suppliers dictate terms. Conclusions about question 3 require an assessment of the downstream seller power of the buyer, also relative to the other market participants. Question 4 about efficiency gains relate to pooling of resources so that the buyer is able to achieve efficiency gains, in this case most interestingly in regards to purchasing. Clarke et al. (2002) asserts that the effects of the efficiency gains should be seen in relation to the seller power analyzed under question 3. Lastly, the final question relates to agreements where the charges are not related to any specific cost structure or when there are any specification clauses in the contracts.

The framework is developed for policy purposes looking at the welfare consequences of market power. However, the framework is useful in determining if buyer power actually exists and if so, helps determine the extent of seller power at both supplier level and end-consumer level. The framework is thus considered useful in this case analysis as a mean to analyze the extent of buyer power in the market.

2.2.3 Consequences of Buyer Power

Supplier Innovation

According to Gabrielsen (2010) the long-term impact of buyer power is related to the profit transfer from supplier to retailers and the effects this has on innovation. The short-term effects are seen in prices and product range among the retailers.

Academics disagree about the outcome of increased buyer power with regards to innovation at supplier level. According to Besanko, Dranove, Shanley and Schaefer (2007) innovations may suffer from lack of financial resources or as a consequence of the hold-up problem. The first may arise when suppliers are so pushed on price that there are no financial resources available for innovation. The hold-up problem however occurs due to the risk that the counterpart will behave opportunistically in the future, after substantial non-reversible investments are made.

The introduction of private labels may however increase innovation among suppliers, due to the fear of strong competition from retailers themselves. Private labels are brands owned by the chains and exclusively sold in their stores. Their counterpart is national brands, which are owned by the upstream suppliers and distributed at a national scale. Private label products are either of lower quality and price than national brands, at the same quality but at a lower price, a horizontally differentiated alternative with a lower price, or a premium brand acting as a substitute to national brands both on quality and price (Berges-Sennou, Bontemps & Requillart, 2004).

Private Label Products

Private labels are considered to impact the bargaining position of retailers on two levels. First, private labels may directly increase the bargaining position through an increased number of alternative suppliers. These suppliers may either be vertically integrated in the chain's supply chain or produce the products on a contractual basis. The bargaining power is evident in that the switching costs of private label products are considered low. This is mostly due to the fact that the private-label producers often use their excess capacity. In addition, the product is still considered the same; independent of which supplier that produces the product. Thus, the customer will only to a limited extent be able to notice a change of producer. Consequently, the retailer can also credibly threaten with shift of supplier (Gabrielsen, 2010). Private labels may also create scarcity of shelf space. However, this effect is reduced if certain suppliers have particularly strong brands, so-called "must-carry products", which the buyer would not consider to exclude from its shelves as it is essential for customers visiting the store (Gabrielsen & Sørgard, 2009).

Secondly, the chain initiates the production of private labels; hence it will be able to gain insight into production costs. The 2000 Private Label Manufacturers Industry Roundtable, quoted in Steinar (2004), asserted the latter, recognizing that the chains in this case interact with the suppliers horizontally as competitors, as also stated by Dobson (2005).

Private label products may also increase retailers' competitiveness in the end-consumer market when the brands are introduced as a reaction to other chains' introduction of private labels. However, competition may also decrease if the introduction of private label makes the chains more differentiated (Steiner, 2004). According to a French survey by LSA/Fournier

(1996), quoted in Berges-Sennou et al. (2004), private labels were introduced to create customer loyalty and improve positioning in the market (improve margins and lower prices).

Steiner (2004) points out that chains often look to narrowly on the gross margin of private labels. The profitability of private label products is often overstated due to underestimation of non-invoice costs. Steiner (2004) mentions the costs of interest expenses being negatively correlated to the turnover rate, of which private labels' are lower than the national brands'. Additionally, the opportunity cost of scare shelf space and the costs of sourcing, designing and selling the private label have to be taken into consideration.

The Waterbed Effect

A negative impact of relative increases in buyer power among retailers is known as the waterbed effect. According to Inderst and Valletti (2011) the waterbed effect arises when a relatively larger buyer obtains additional discounts due to its size, i.e. a retailer is able to exercise asymmetric buyer power due to being larger than its competitors. The waterbed effect comes into play when smaller participants in the market must carry the supplier's costs of offering the larger participant better terms and conditions. The larger participant will be able to reduce end-consumer prices due to its cost advantage and gain larger market shares, hence, will be able to buy larger quantities in the future. As a result, the smaller parties will lose some sales, which in turn worsen their bargaining position and terms and conditions. Consequently, the wholesale price faced by the large retailer has fallen whereas the wholesale prices paid by smaller participants have risen. Eventually, smaller retailers would like to increase their prices to pass on the increase in the wholesale prices; however, the increased competition from the large retailer counteracts this effect (Inderst & Valletti, 2011).

The assumption behind Inderst and Valletti 's (2011) model is that the improved terms and conditions are also obtained at the margin, i.e. also through wholesale prices and not only through lump-sum payments. The assumption allows for the larger retailer to a gain a more competitive position in the end-consumer market, as it is able to pass on the benefits to end-consumer prices.

2.3 Competitiveness

In this paper the rather broad definition of the Selected Committee of the House of Lords on Oversea Trade (1985), quoted in Buckley, Pass and Prescott (1988) is used: "A firm is

competitive if it can produce products and services of superior quality and lower costs than its domestic and international competitors. Competitiveness is synonymous with a firm's long-run profit performance and its ability to compensate its employees and provide superior returns to its owners." Thus, one can say that competitiveness is related to market performance, being dependent upon high performance, however, not necessarily on an advantage over competitors. Nevertheless, competitiveness is a relative concept measured in relation to an existing comparator (Buckley et al., 1988).

According to Buckley et al. (1988) there are typically three perspectives of competitiveness: performance, potential and management process. Performance is a measure of how well the firm is doing relative to its competitors, potential is the availability and quality of the inputs that produce superior performance, whereas the process is concerned with how competitive potential is transformed into competitive performance. All perspectives and their interrelationship must be taken into account when analyzing changes in competitiveness. The interrelationship is shown in figure 2.7.

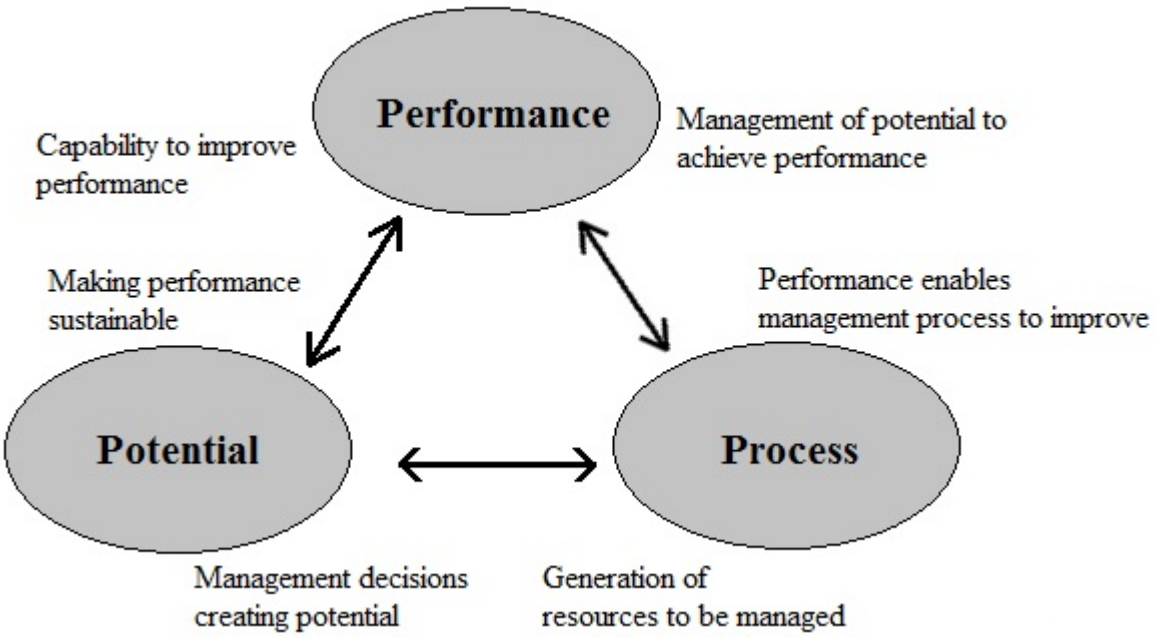

Figure 2.7. The interrelationship between measures of competitiveness (Buckley et al., 1988).

Potential is measured by considering the cost competitiveness and price competitiveness, respectively how cost efficient the firm is and which relative retail wholesale prices it operates with. Additionally, productivity and technological development are common

measures; in this paper the latter translates to innovation among the umbrella chains in terms of private label introductions.

The management processes are qualitative measures of ownership advantage, management relations internally and externally, closeness to customer, economies of scale and scope and marketing aptitude. By marketing aptitude is meant the non-price competition means, i.e. determining the target customers' demand and deliver the right mix of quality, service, marketing and similar to satisfy their needs.

Lastly, the performance is considered as the financial results that the firm delivers. This can be determined by financial ratios, indicating the firm ability to turn sales into profit and deliver satisfactory returns to its owners. Additionally, market share and growth are important indicators of the firms' competitiveness. In this paper the performance variable is in focus but due to the variables' interrelationship it is of concern how the others affect the performance.

2.4 Market Structure

The market structure of a firm is the sum of four basic characteristics of its market environment. These characteristics are the number and size of buyers, sellers and potential entrants; the degree of product differentiation; the amount and costs of information about product price and quality; the entry/expansion and exit barriers (Brickley, Smith & Zimmerman, 2009).

The two extremes of market structures are perfectively competitive markets and monopolies. Perfectly competitive markets have a large number of potential buyers and seller, product homogeneity, rapid dissemination of information at low costs and no costs of entry or exit in the market (Brickley et al., 2009). A monopoly has only one seller but many buyers, thus allowing the one buyer to choose at which price and to which accompanied quantity it will sell to maximize its profits (Pindyck & Rubinfeld, 2009). An oligopolistic market is an intermediate between perfectly competitive markets and monopoly, consisting of only a few competing firms.

According to Pindyck & Rubinfeld (2009), in an oligopoly profitability and the extent of monopoly power are dependent upon how closely the firms interact. Oligopolistic markets are

highly sensitive to strategic decisions as the participants will both be affected by and react to changes of other firms. Consequently, it is expected that the relative level of terms and conditions between the market participants will influence the relative competitiveness of the firms. The participants in the market compete on either price or quantity, respectively known as Bertrand or Cournot competition.

3 The Norwegian Grocery Retail Market

In section 3.1 the four market participants are presented. Section 3.2 presents the market development from 1990 to 2013, including market shares, number of stores and total industry turnover. Lastly, section 3.3 considers the market situation for Norwegian consumers and section 3.4 presents the supplier market.

3.1 Market Participants

Four large umbrella chains control the Norwegian grocery retail market with a combined market share of about 96%. The chains are Ica Norge, Coop Norge, Reitangruppen and NorgesGruppen (Nielsen, 2014). In addition to all being large in terms of market shares, the chains have also integrated vertically into wholesale operations (Pettersen, 2013). Bunnpris is the fifth market participant, however it constitutes an insignificant proportion of the market with a market share of 3.6% and will therefore not be analyzed.

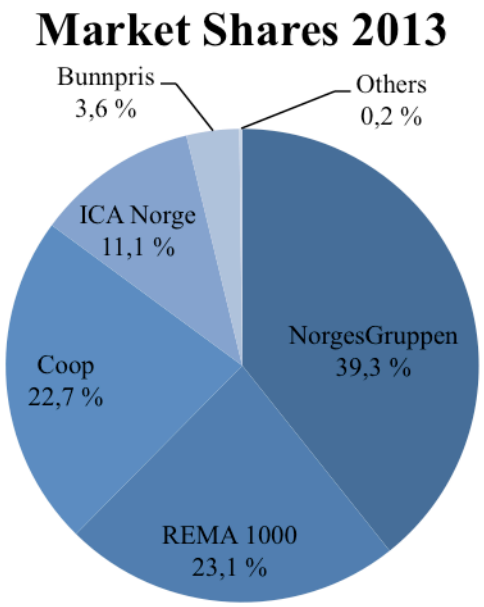

Figure 3.1. Market shares 2013 (Nielsen, 2014).

The market participants operate in four different segments: discount, local, supermarket and hypermarket. Discount stores typically have a low-price (and low-cost focus), thus carry a more limited product range of about 2,000-3,000 products to keep costs down. Local stores carry a wider range of products, which is often locally adapted, however, their sales area is often limited. Supermarkets have a wide product range, from 5,000-20,000 in the largest stores. Hypermarkets carry about 10,000-25,000 products and sell other products than solely

grocery products, e.g. clothing, building materials, toys etc., known as one-stop shopping (Pradhan, 2009). An overview of the different chains within each segment can be found in table 3.1.

3.1.1 ICA Norge AS

ICA Norge AS was a wholly owned subsidiary of the Swedish-based ICA Gruppen (before May 2013: Hakon Invest). On October 6, 2014 it was announced that Coop Norge has acquired the Group's Norwegian business (Ica Gruppen, 2014a). ICA Gruppen has retail activities in Sweden, Norway and the Baltics, as well as operations in real estate. The Group is one of the leading retail firms in the Nordics. In Sweden Ica has a market share of more than 50% (Delfi, DLF & Fri Köpenskap, 2014). The Group's chains are either wholly owned or operated through franchising agreements (Ica Gruppen, 2014b).

ICA Gruppen was formed in 1917 as a buyer group and has had a long history of mergers and acquisitions. The entry in the Norwegian market was realized through a partial ownership with Hakon Gruppen (formerly known as Hagen Gruppen), which owned Rimi. In 1998, the two companies created ICA AB, which in year 2000 was acquired by Dutch Royal Ahold BV, creating ICA Ahold. By 2003 ICA Ahold and Hakon Gruppen changed names to ICA and ICA Norge respectively, and in 2004 the Norwegian stake in the company was sold, leaving 60% to Ahold and 40% to Hakon Invest. In 2013 Ahold divested its stake and the now all-Swedish parent company changed its name to ICA Gruppen.

In 2013 ICA Norge contributed to about 17% of Ica Gruppen's sales, or 16,463mSEK (Ica Gruppen, 2014c). In the Norwegian market, the company is represented with three brands: ICA, Rimi and Matkroken constituting a combined amount of 571 stores. The first brand consists of supermarket stores focusing on quality fresh food. Rimi is the chain's discount stores whereas Matkroken consists of small and locally adapted convenience stores. About 60% of ICA Norge's stores are wholly owned, while the remaining is operated as franchises. Rimi is by far the most important concept, contributing to more than 60% of ICA Norge's sales in 2013 (Ica Gruppen, 2014c).

Involvement in the Vertical Supply Chain

Ica uses its wholesale firm ICA Logistikk for the distribution of its products (Pettersen, 2013). The chain has no extensive vertical integration or partnerships with suppliers.

Private labeled products account for 9.7% of Ica Norge's sales. The private labels include "Selection" with focus on quality, "Smart365" which is low-cost products and "I love eco" consisting of ecological products.

3.1.2 Coop Norge

Coop Norge (Coop) is the Norwegian consumer cooperative, consisting of over 100 cooperatives gathered under the parent company Coop Norge SA. The consumer cooperation runs 1,100 stores all over Norway and has about 1.4 million members. Any consumer is allowed membership through a small one-time fee. All stores operating under the Coop brand are owned by the local cooperatives (Coop, 2014).

Coop Norge SA has several subsidiaries, with wholly owned Coop Norge Handel AS and Coop Norge Eiendom AS as the largest firms. Coop Norge Handel AS (hereafter referred to as Coop) is responsible for procurement, logistics, and administration and marketing of grocery and specialist products.

Coop operates among others the chains Coop Extra, Coop Obs! and Coop Marked, which are their focus concepts in the discount, hypermarket and local segment respectively. Coop Extra is currently the fastest growing grocery chain in Norway (Coop, 2014). With the acquisition of Ica in October 2014 Coop will much likely gain a stronger foothold in the Norwegian market.

Involvement in the Vertical Supply Chain

As the other participants in the market, Coop distributes a large part of its products through its own distribution system. According to Ukeavisen Ledelse, Coop's Director of Communication has stated that the goal is to handle all distribution internally (Libell, 2013). In the end of 2013, the group opened a new storage facility with a high degree of automation, allowing them to close in on this goal. The firm has expressed their need for restructuring to keep up with their competitors and the new facility is a mean to do so (Coop, 2014).

Coop has also integrated vertically into production. Coop Norge Industri AS is a wholly owned subsidiary of Coop. This subsidiary owns the suppliers Coop Kaffe (coffee), Røra (lemonade, juice and jam) and Gomanbakeren (baked goods).

Private labels account for about 16% of sales in Coop. Coop's private labels are divided along four segments. "X-tra" is intended at the price-conscious customer and "Coop" is an alternative to national brands, with the same quality but at a lower price. "Coop Smak forskjellen", which targets the quality-conscious customer, has a focus on taste and was in 2013 the fastest growing of the four. Lastly, the brand "Änglamark" consists of ecological and allergy friendly products (Coop, 2014).

3.1.3 Reitangruppen

Reitangruppen AS is Norway's sixth largest firm and wholly owned by the Reitan family. Its history dates back to 1948. The group consists of four business areas located in Norway, Denmark, Sweden, Finland and the Baltics, see figure 3.3 (Reitangruppen, 2014a).

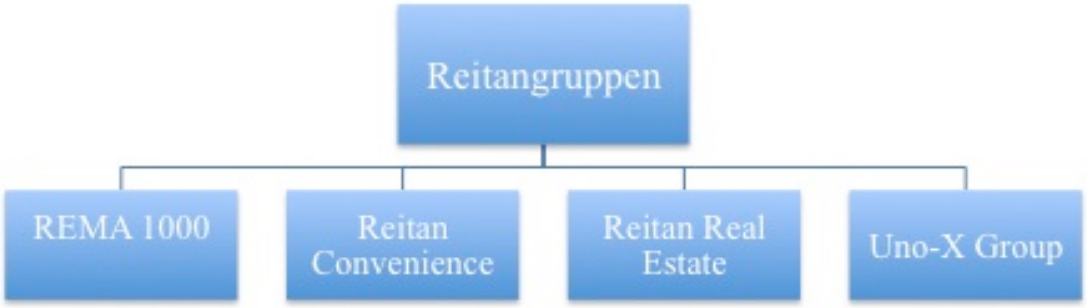

Figure 3.2. Reitangruppen AS, business areas (Reitangruppen, 2014a).

REMA 1000 represents the only brand under grocery retailing activities of the group. Reitan Convenience is the convenience operations, mainly run through Narvesen and 7-Eleven. Uno-X Gruppen operates within fuel and energy. Additionally, the group has financial investments in Axfood (15.6%) (Swedish grocery retailer and wholesaler) and Spaceworld (97%) (private electronic goods). After Lidl's (the German hard-discount chain's) failure in the Norwegian market, Reitangruppen was also able to acquire Lidl's stores, employees, warehouses and main office facilities allowing Reitangruppen to expand its business further (Reitangruppen, 2014a).

REMA 1000 operates within the discount segment and is the leading concept chain in Norway with a market share of 23.1% (Nielsen, 2014). The first REMA 1000 store opened in 1979 inspired by the German discount-giant Aldi. From 1979 REMA 1000 has gradually expanded to all parts of Norway and by the end of 2013, 528 stores were connected to the REMA 1000

brand. In 1994, the first REMA 1000 store was opened in Denmark. All of REMA 1000's stores are operated as franchises, emphasizing ownership and closeness to the local market. The franchising concept implies that franchisees own the stores and run the daily operations governed by Reitangruppen's principles, but Reitangruppen as the franchisor is responsible for the distribution of goods and services (Reitangruppen, 2014b).

Involvement in the Vertical Supply Chain

REMA 1000 gained control over its wholesale operations in 1998 through the merger with REMAGross-selskapene. Today, Rema Distribusjon distributes the chain's products (Pettersen, 2013). Reitangruppen has a partial ownership together with NorgesGruppen in BAMA, which delivers fruit and vegetables to the two firms. The groups own respectively 45.54% and 19.8% of the wholesaler. BAMA has a market share of about 70% within its segment (Ministry of Agriculture and Food, 2011).

Throughout the years, Reitangruppen has fully or partly acquired several suppliers, some of which today produce the firm's private label products (Reitangruppen, 2014a). Consequently, Reitangruppen has integrated heavily into its upstream value chain. The ownership stakes are organized under REMA Industrier. The uniqueness of the group's integration strategy is its focus on particular suppliers and industries and exclusivity agreements with some of these, e.g. Nordfjord Kjøtt and Grans Bryggeri (Pettersen, 2013).

REMA 1000 carries several different private label brands, accounting for about 18% of its sales, the largest share among the market participants. "Nordfjord" is affordable meat products, "Stange" is high-quality chicken products, "Solvinge" is eggs and "Godehav" consists of fish products. Additionally, the brand "Soft Style" consists of non-food products such as candles, napkins and disposable cutlery, carried at lower prices than those of their respective national competitors (Rema, 2014).

3.1.4 NorgesGruppen

NorgesGruppen ASA (NorgesGruppen) is the largest trading enterprise in Norway and is controlled by the family-owned firm Joh. Johannson AS. NorgesGruppen has roots back to 1866, when Joh. Johannson established a wholesale company. NorgesGruppen was established in 2000 through a merger between this wholesale operator, retail chains and concept chains (NorgesGruppen, 2014a). NorgesGruppen operates within real estate and other

activities but its core operations are retail and wholesale trade (Norgesgruppen, 2014b), see figure 3.3 for the business areas of the group.

Figure 3.3. NorgesGruppen ASA, business areas (NorgesGruppen, 2014a).

The retailing operations of NorgesGruppen include both grocery and convenience trade.

NorgesGruppen as it is known today was established in 1993 when most of the independent retailers that where not already a part of Reitangruppen, Hakon Gruppen (Ica) or Forbrukersamvirket (Coop) gathered under Norgesdetalj (NorgesGruppen, 2014b). Today, NorgesGruppen is represented in about 85% of Norway's municipalities and counts about 1,700 stores under its brand (NorgesGruppen 2014a). NorgesGruppen obtains its revenues from the sale of products in self-owned stores and through membership charges from its afflicted concept chains. The Group's concepts chains are organized under the branches Kiwi, Meny/Ultra and lastly Kjøpsmannshuset, being represented in the discount, supermarket/hypermarket and supermarket/local stores respectively. Kiwi is the group's number one concept chain, being Norway's largest chain in number of stores and the second largest in terms of turnover.

Involvement in the Vertical Supply Chain

NorgesGruppen runs its distribution through its wholly owned wholesaler ASKO. ASKO delivers about 80% of the umbrella chain's products (Norgesgruppen, 2014a). The long-term goal of the group is to distribute its entire product range (Gabrielsen, 2010). As mentioned, NorgesGruppen also has ownership stakes in BAMA.

NorgesGruppen has not pursued an active acquisition strategy in the upstream supply chain, but the development, procurement, sale and marketing of its private label products is conducted by the subsidiary Unil AS (Pettersen, 2013; NorgesGruppen, 2014a). Private

labels' share of sales is about 10%. NorgesGruppen reports that private labels are developed to provide consumers with a broader choice of products, as well as provide affordable alternatives to national brands. The range of private labels include "First Price" and "Eldorado", which are low-price products, and "Jacobs Utvalgte" which represents NorgesGruppen's premium products (Norgesgruppen, 2014a).

	Ica	**Coop**	**Reitangruppen**	**NorgesGruppen**
Discount chains	• Rimi	• Coop Prix • Coop Extra	• REMA 1000	• KIWI
Local chains	• Matkroken • (ICA Nær)	• Coop Marked	N/A	• Nærbutikken • Joker
Supermarket chains	• ICA Supermarked	• Coop Mega	N/A	• Spar/Eurospar • Meny • CC Mart'n
Hypermarket chains	N/A	• Coop Obs! • (Coop Smart Club)	N/A	• Ultra/Centra

Table 3.1. The different discount, local, hypermarket and supermarket chains under each umbrella chain per 2013 (based on Nielsen, 2014).

	Ica	Coop	Reitangruppen	NorgesGruppen
Number of stores	571	1,100	528	1,700
Market share	11.1%	22.7%	23.1%	39.3%
Revenue (NOK)	15,688	31,468	58,957	67,396
EBIT (NOK)	-851	56	3,041	2,274
Private label share	9.7%	16%	18%	10%
Ownership in suppliers	Totenpoteter AS	• Coop Norge Industri AS • Coop Norge Kaffe AS • AS Margarin-fabrikken Norge • Goman-bakeren Holding AS • AS Røra Fabrikker • Smart Club Gourmet AS • Hvebergs-moen Potetbakeri AS	• Rema Industrier AS (private labels) • Kjeldsberg Kaffebrenneri AS • Bama Gruppen AS • MaxMat AS • Spekeloftet AS • Norsk Kylling AS • Grans Bryggeri AS • Staur Foods AS • Norsk Kjøtt AS • Hugaas Industrier AS • Other smaller food industry firms	• Unil AS (private labels) • Bama Gruppen AS • Joh. Johannson Kaffe AS • Bakers AS • Lille Asia Catering AS

Table 3.2. Summary of the market per 2013, based on the umbrella chains' financial statements, Nielsen, 2014 and Pettersen, 2013.

3.2 Market Development

The trend of chain collaborations started in the mid-eighties, and by 1993 the structure in the Norwegian market was definitively changed. Figure 3.4 below shows the distribution of the market shares from 1990 to 2013. As exhibited by the orange bars in the figure, "other" (or independently organized) actors in the market were heavily reduced by 1993 and over the next 20 years they have been nearly non-existing. Other actors clearly have had the largest change in market shares, followed by a positive change for NorgesGruppen and a negative change for Ica, see table 3.3. Please note that Bunnpris was considered a part of NorgesGruppen before 2010.

3.2.1 Market Shares

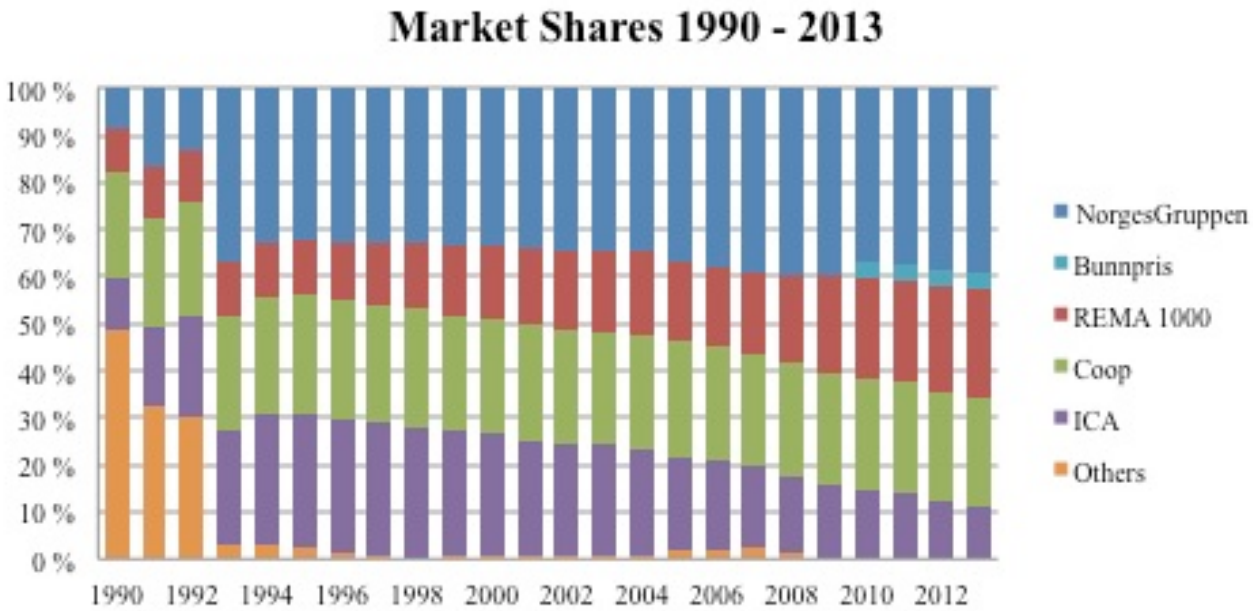

Figure 3.4. Market shares 1990 – 2013. (Nielsen, 2014; Nielsen, 2013; Nielsen 2008; ACNielsen, 2004; Haga, Berge, Haglerød & Hegrenes, 1997).

	Norges-Gruppen	REMA 1000	Coop	ICA Norge	Bunn-pris	Others
Number of observations	24	24	24	24	4	24
Mean	32.9%	15.9%	24.1%	20.9%	3.7%	5.4%
Minimum	8.6%	9.0%	22.6%	11.1%	3.6%	0%
Maximum	40.0%	23.1%	25.2%	28.6%	3.8%	48.6%
Standard deviation	.08	.04	.01	.06	.00	.13

Table 3.3. Distribution of market shares 1990-2013.

3.2.2 Number of Stores

The number of grocery stores in Norway has decreased over the time period of 1990 to 2013, especially until year 2000, see figure 3.5. Compared to 1990, today there are about 37% fewer stores. With an increasing Norwegian population, this implies a considerably lower fraction of stores per inhabitant. Still, Norway is the country in Western Europe with the highest number of stores per capita (Linthicum & Pinhammer, 2013). The high number of stores can partly be explained by Merkur, a government-run program aiming at developing and strengthen grocery stores in rural and sparsely populated areas. It is seen as an important tool in the regional policies to maintain the population pattern (Merkur-programmet, 2014). Another contribution factor to the high fraction of stores per capita is that all four of the participants are willing to operate stores in all parts of the country, as evidenced by the participants' location patterns.

A particular challenge stemming from the number of stores and their location are the logistics and transportation flows. The elongated and sparsely populated country requires a large distribution network with regards to the transportation of the products but also heavy investments in suitable properties. The distribution costs are further analyzed in section 6.3.1.

The emergence of discount chains has increased significantly, making up about 60% of the market by 2013. Combined with the general reduction of stores, the growth of discount chains implies a reduction in the number of other stores within other segments. According to Coop the reduction is foremost in small and mid-sized supermarkets (Coop, 2014).

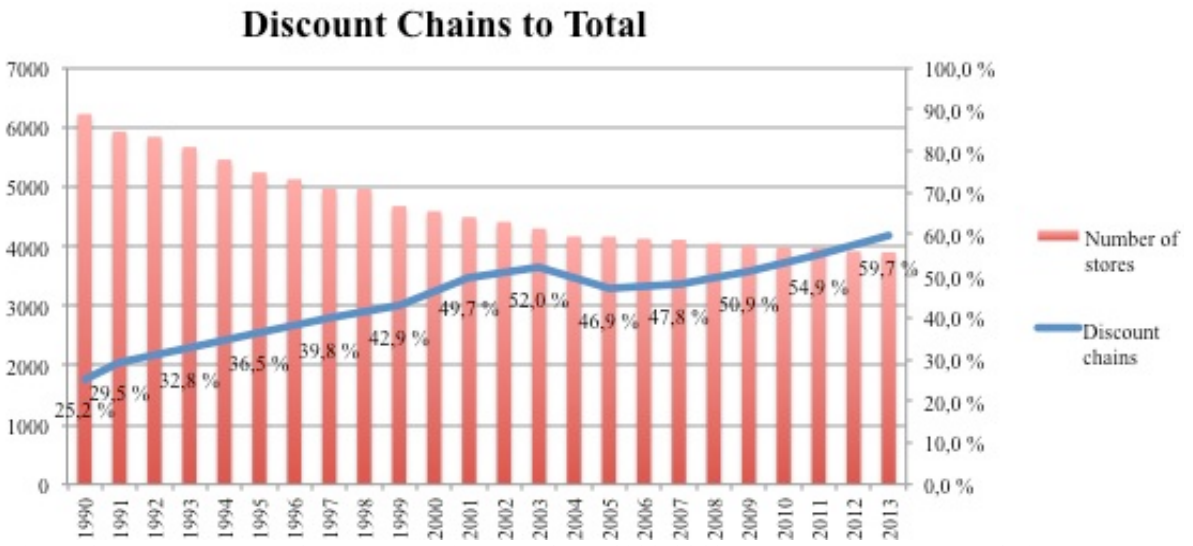

Figure 3.5. The number of grocery retail stores from 1990-2013 and the market share of discount stores over the same period. (Nielsen, 2013; Lavik & Schøll, 2012).

3.2.3 Turnover

The total turnover in grocery retail has steadily increased over the period, with a yearly average of 4.7% (4.6% through 1990-2000 and 5.0% through 2001-2013).

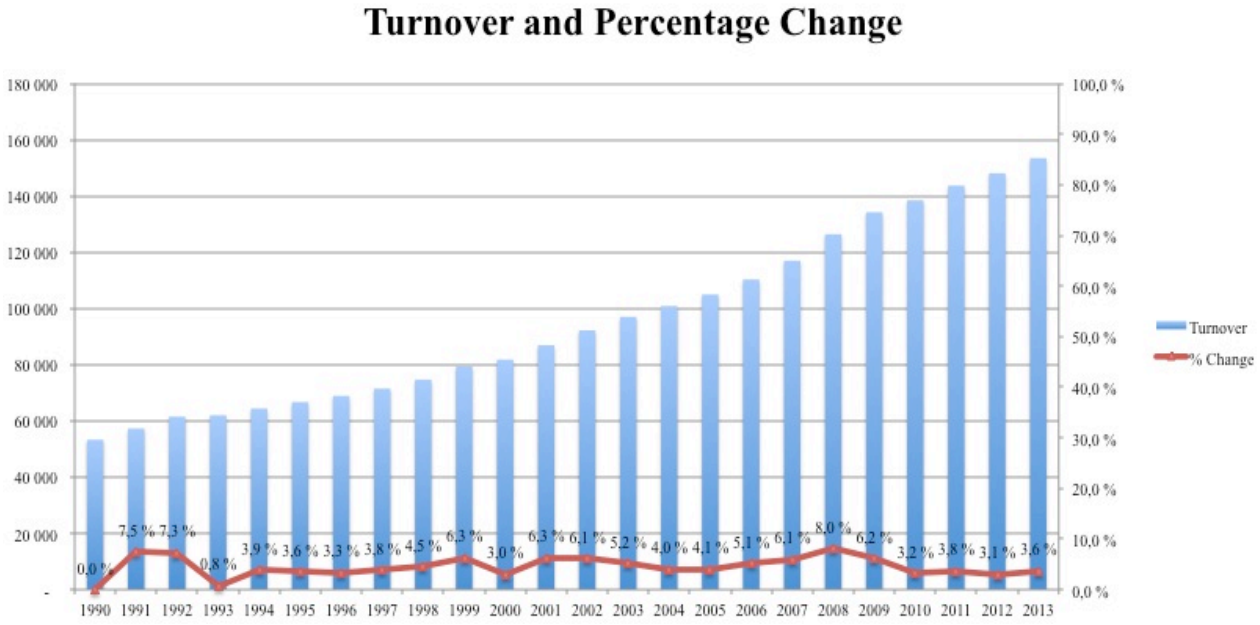

Figure 3.6. Turnover and percentage change from previous year in the Norwegian grocery market between 1990 and 2013 (Nielsen, 2013; Lavik & Schøll, 2012).

3.3 Customer Demand

3.3.1 Price Level

The price level on food and non-alcoholic beverages in Norway is the highest in Europe, as exhibited in figure 3.7. In comparison to the average of all EU-countries, Norwegian food prices are 76.6% higher. This is well ahead of the second most expensive country with prices 50% above the EU average. However, 13% of total consumption spent on food and non-alcoholic beverages is close to the EU average, see figure 3.8.

Figure 3.7. Price level indices of food and non-alcoholic beverages (Eurostat, 2014a).

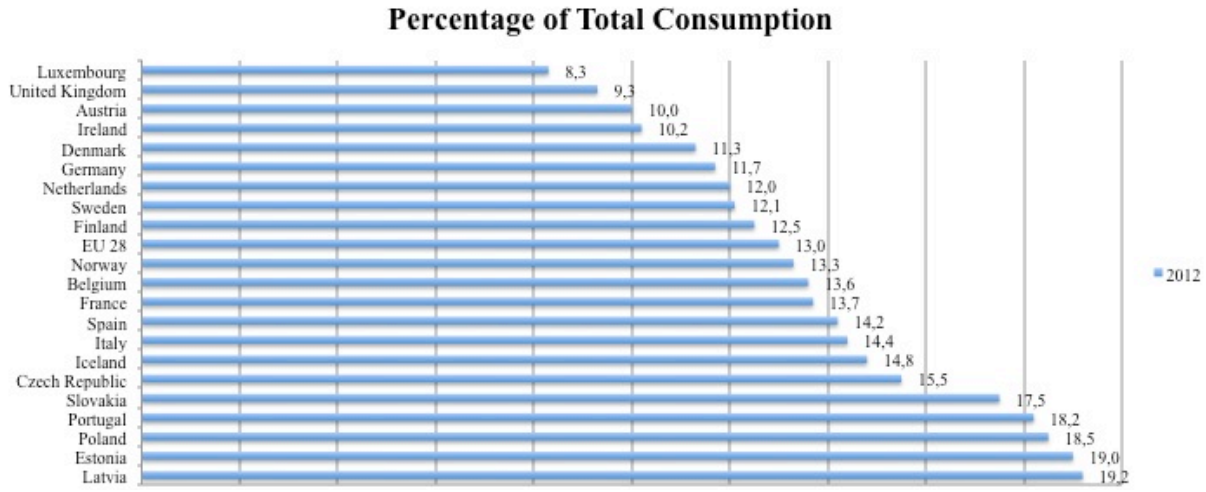

Figure 3.8. Percentage of consumption spent on food and non-alcoholic beverages in 2012 (Eurostat, 2014b).

In Dagligvarehandelen og mat 2011 Pettersen and Kjuus (2011) assess the additional costs Norwegians pay for food and non-alcoholic beverages. They point to three identifiable aspects of the market: a generally higher cost level, import restrictions and additional fees and taxes paid on different products. The high cost level is partly explained by high wage levels and partly by high transportation and establishment costs. These relatively high costs are

found mainly to be caused by Norway's widespread geographical distances, sparsely located population, large number of stores per capita and limited access to suitable locations. As a consequence of these factors, economies of scale are also less obtainable to smaller market participants (Pettersen & Kjuus, 2011). Lipsey and Swedborg (1996) and the Nordic Competition Authorities (2005), quoted in Pettersen and Kjuus (2011) also show that the price levels in countries tend to correlate positively with income. Import restrictions on agricultural products are assumed to extensively protect Norwegian suppliers and consequently Norwegian grocers from foreign competition and the market in general from intensified competition. Lastly, additional fees and taxes include instruments like taxes on products containing sugar and fees on alcohol and tobacco. Though the above mentioned factors explain a great amount of the price differences relative to other countries, there is still an unexplained rest due to other unexplored factors (Pettersen & Kjuus, 2011).

Availability of price information

Pricing decisions in the grocery market are based on maximum prices set centrally (at concept chain level in NorgesGruppen) and end-consumer prices are determined on the basis of the individual chains' pricing strategies (the Norwegian Competition Authority, 2005). According to the Food Chain Committee's report (2011) the four umbrella chains aim at having uniform prices across its stores, independent on where in Norway the stores are located. This decision increases the availability of pricing information, as each store on a local level will not compete individually on price with adjacent stores, but the price competition unfolds on the national level. Therefore there are fewer points of interest to investigate and collection of prices is more easily obtainable.

Several price comparisons are conducted and published yearly, e.g. VGs Matbørs (see section 5), and in 2013 "Enhver.no" started conducting weekly price comparison. Such comparisons are typically conducted by using average market baskets. Though price comparisons are intended at customers, a certain amount of the products appear from test to test. Consequently, the chains can monitor their competitors on particular products gathered in the basket. In addition to these price comparisons, the umbrella chains employ for positions were the task is to investigate the prices of competitors (Moflag, 2013; finn.no; karrierestart.no). Not only does this practice increase availability of information but it also supports the importance of low prices. The benefits from employing these price checkers can be assumed to outweigh the chains' costs of access to competitors' prices.

3.3.2 Product Range

A wide product range is considered a to be a good thing as it gives customers a larger freedom of choice (Ministry of Agriculture and Food, 2011). According to the Norwegian Competition Authority (2009a), a relatively smaller product range in a country may indicate problems with the competition. It has not been found any updated investigations comparing the product range in Norway to that of other European countries and to initiate such a collection is outside the scope of this paper. However, building on older reports, the Norwegian grocery market is shown to have a much smaller range of products than similar countries (Nordic Competition Authorities, 2005; Ministry of Agriculture and Food, 2011). By comparison, Swedish grocery stores typically have twice as many products as their Norwegian counterparts (Dulsrud & Johannesen, 2011). This paper assumes that it is not likely that this deviation has grown considerably smaller over the last three years. Dulsrud and Johannessen (2011) found the percentage growth rate of new products in the Norwegian market to be slightly higher than that of Sweden, however, the share of discount stores is larger in Norway, indicating that this growth will subside.

The large share of discount stores suggests that Norwegian customers are more price sensitive than they are concerned with a wide selection of products as indicated in the customers surveys. Therefore, there are some indications that there are a deviation between what customers say and how they act (the Norwegian Competition Authority, 2011). Discount stores typically carry fewer products due to their low-cost strategy. An increased number of products will lower turnover, increase waste and obsolescence and increase the amount of capital employed. Thus, costs would be driven upward (Ministry of Agriculture and Food, 2011).

Private Label Products

Compared to other countries, the private label share in Norway is considered low (European Commission, 2012); however, the share has increased steadily from 8% around year 2000. For the incumbents to be able to compete more fiercely on price, the use of private labels increased at the time of the hard discounter Lidl's entry in the Norwegian market in 2004 (Utgård, 2010) but it still do not account for more than 13.4% of sales in 2013 (Daglivarehandelen, 2013).

The development of private labels in Norway was initiated by Coop in the 1980s, followed by the other chains in the 1990s. In the beginning, private labeled products were cheap

substitutes to the national brands, but over the years products of higher quality have also been sold under the chains' private labels at relatively higher prices (Utgård, 2010).

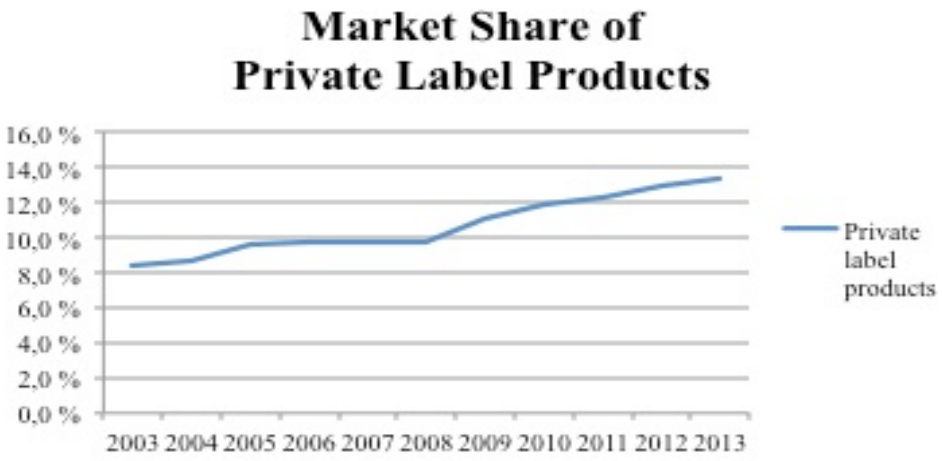

Figure 3.9. Private label products' share of sales from 2003-2013 (Nielsen, 2014; Nielsen, 2013, Nielsen, 2008, ACNielsen, 2004).

Degree of Product Differentiation

The grocery retailers are differentiated on a geographical level due to differences in their total retail offer, i.e. differences in location of the stores, the service level offered, opening hours, product range and general availability (the Norwegian Competition Authority, 2008). Table 3.1 showed that the four umbrella chains (with the exception of Reitangruppen) operate in different segments, i.e. discount, supermarket, hypermarket and local stores. This diversification can be seen as a mean to fulfill different demands and may help the chains increase sales through a larger differentiated customer base.

In such a horizontal product differentiation, customers subjectively prefer different products. Due to the different preferences, the firm selling one of the products can increase the product's price without loosing all sales. A small price increase that positively increases sales value is expected to outweigh the negative effect due to loss of customers to competitors (Sørgard, 2011).

In sum, grocery chains offer rather homogenous products but differ on a horizontal level due to variables such as location and service level, much of which are exhibited by different concept chains under each umbrella chain.

3.4 Suppliers

The Norwegian Competition Authority (2005) divides the suppliers of grocery products into six categories: international groups (Nestlé, Procter & Gamble), national groups (Orkla, Oluf Lorentzen), international brand suppliers (Coca-Cola, Kelloggs), national brand suppliers (Tine, Gilde), regional suppliers and local suppliers. In 2013, the organization Grocery Manufacturers of Norway (DLF) counted 105 suppliers constituting about 95% of the sales of branded products in Norway (DLF, 2014). As such, DLF is an important counterpart to the umbrella chains and an important voice towards government, interest groups and media.

Norwegian suppliers of agricultural products are in large protected by import restrictions, allowing them a less competitive environment by restricting foreign producers to sell their products in the market under the same conditions. As such, Norwegian suppliers are considered to have a competitive advantage over foreign suppliers and the restrictions also reduce retailers sourcing alternatives. These factors may increase the selling power of the suppliers. According to the Competition Authority (2011) Norwegian suppliers do however deliver to a particularly restricted market, making it difficult to extract economies of scale in production and be able to obtain a more differentiated product range. Supported by the discussion of the product range in section 3.3.2 this is a possible explanation of the limited selection of products in Norwegian grocery stores. The development of private labels will however increase customers' alternatives. Moreover, private labels contribute to further differentiation among the chains since the private labels are exclusively sold in the respective umbrella chains.

The different upstream food supply categories are also highly concentrated with few and large participants. Figure 3.10 is adopted from report of the Food Chain Committee (2011) and shows the market share of the three largest suppliers within certain product categories. The exhibited categories cover about 50% of the food sales in Norway and were chosen by the Committee because they were representative for an average grocery basket (Ministry of Agriculture and Food, 2011; Dulsrud & Johannesen, 2011). As exhibited by the figure, the concentration in the downstream market seems to be balanced within several categories by a concentrated upstream market. It is also important to remember that the market shares of the umbrella chains in the end-consumer market may not reflect a chain's positions towards suppliers, but generally they are a good indication (the Norwegian Competition Authority, 2005).

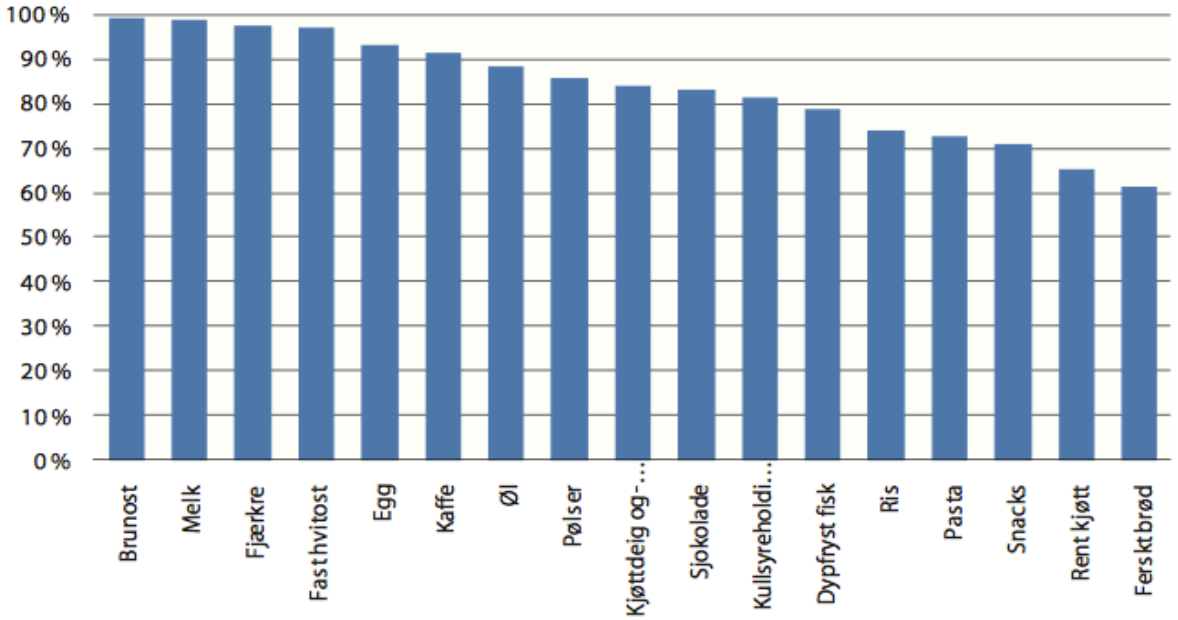

Figure 3.10. Market shares of the three largest suppliers within certain categories (Ministry of Agriculture and Food, 2011). From the left: goat cheese, milk, poultry, hard yellow cheese, eggs, coffee, beer, sausages, minced meat, chocolate, carbonated beverages, frozen fish, rice, pasta, snacks, pure meat and fresh bread.

4 Methodology

The following section describes and assesses the research methodology applied in this paper. The paper is conducted as a case study. Section 4.1 describes the case study approach. Thereafter, section 4.2 describes the data collection in case studies. Lastly, section 4.3 assesses the research quality by considering the construct validity, external validity and reliability of the paper.

4.1 Research Design – the Case Study Approach

Research is the process of finding out things in a systematic way, meaning that the findings are based on logical relationships rather than beliefs (Saunders, Lewis & Thornhill, 2012). The research design is the logical sequence that connects empirical data, the research question and conclusions (Yin, 2014). This paper employs a case study approach to assess how terms and conditions of trade influence competitiveness at retail level in the Norwegian grocery market. Case study research is according to Yin (2014) appropriate for "how" and "why" questions, situations of which no behavioral control is required and when the focus is on a contemporary event, as are applicable in this paper.

The scope of a case study is to empirically investigate "a contemporary phenomenon in depth and within its real world context" (Yin, 2014, p. 16). Yin (2014, p. 16) further points out that a case study is especially applicable "when the boundaries between phenomenon and context may not be clearly evident". However, the latter is not understood as a definite feature of a case study. Contextual conditions are conditions from outside of the case, as for example the market structure in which a firm operates, even though this surely could be overlapping with the actual case. This is also the case in this paper. It is also noted that the recognition of any blurring between the contextual condition and the case is a strength of the case study and that it could give additional insight to the case.

A case study can be exploratory, descriptive or explanatory (Yin, 2014). Exploratory studies aim at further developing and investigating research questions. These studies are often conducted when the phenomenon in question is new and complex. Through exploratory studies the aim is to gain a greater understanding of a topic by discovering what is happening. Descriptive studies describe a phenomenon in its real-life context, to some degree building on existing knowledge about it. The objective is to describe the characteristics and correlations of

the phenomenon in a limited space of time to get an accurate description of events, persons or situations. In explanatory studies the researcher develops propositions and aims at explaining causal relationships regarding the research question (Saunders et al., 2012). The research design in this paper is descriptive as the paper's aim is to contribute to the understanding of how terms and conditions of trade, hereunder the use of different vertical restraints, in grocery markets affect the competition among market participants at retail level.

The time horizon of a research can be either cross-sectional or longitudinal. The former implies the study of a particular phenomenon at a particular point in time. On the other hand, longitudinal research studies change and develop and can be said to cover more cross-sectional periods (Saunders et al., 2012). This paper assesses the situation in the grocery based on the claims that the terms and conditions of trade in the grocery market differ substantially between the market participants at the retail level. To be able to assess this effect over time and consider implications of this statement, the research is conducted at a longitudinal level.

In case studies, five important components of the research design must be addressed: the research question(s), potential propositions (form the basis of what should be investigated further), unit(s) of analysis, the logical linking of data to the propositions and criteria for interpreting the findings (Yin, 2014).

The research question is how do terms and conditions of trade influence competitiveness at retail level in the Norwegian grocery industry. Connected to this question, the propositions are as follows:

(1) The competition in the Norwegian grocery market is oligopolistic, i.e. each market participant's decisions affect the other participants.
(2) The vertical integration of the umbrella chains into wholesale operations has increased retailers bargaining power towards suppliers, i.e. allows retailers to obtain improved terms and conditions of trade through the use of different vertical restraints.
(3) Differences in size among the market participants imply differences in their terms and conditions of trade.
(4) Differences in terms and conditions of trade imply differences in profitability.

The unit of analysis is the Norwegian grocery market, restricted to the horizontal competition at retail level. Linked to this main unit of analysis are the four major market participants as four independent subordinated units.

Yin (2014) suggests five analytic ways to link the data and propositions: pattern matching, explanation building, time-series analysis, logic models and cross-case synthesis. In this paper the first two will be applied. Pattern matching implies a comparison of the findings of the study with the predicted findings to create inference. Explanation building is a part of pattern matching where the researcher focuses on using the data to develop an explanation about the occurrences in the case. Thus, the researcher must answer how and why the phenomenon occurred. The criteria for interpreting can be obtained through statistical inference when applicable or alternatively by considering rival explanations to the findings throughout the research phase.

A case study can take the form of a single-case holistic design, single-case embedded design, multiple-case holistic design or multiple-case embedded design. Single-case studies should be applied when the case is a critical test of existing theory, an unusual situation, a common case, or the case has a revelatory or longitudinal purpose. On the other hand, multiple-case studies are studies containing more than one single case and are often perceived as comparative. Multiple-case studies are often considered more robust; however they are extremely resource intensive. A case study is holistic when there is only one unit of analysis, whereas the study is embedded when there are multiple units being analyzed.

In this paper a single-case embedded design is chosen. The rational for this design lays in the focus at the Norwegian grocery market as the main unit but assessing the four market participants individually to conclude about the impact of vertical restraints on competitiveness. The case study is conducted using theory about vertical restraints and applying to the market the theoretical propositions from this literature, combined with indicators of profitability.

4.2 Data Collection

Distinctive case study research methods as studying conditions over time and covering contextual conditions all result in a large number of variables. As the case itself is the only

data point, a feature of case studies is that it has more variables of interest than data points. Consequently, case study results will often rely on multiple sources of evidence. Due to the extensive amount of data, the collection and analysis for a case study benefits from prior development of theoretical propositions (Yin, 2014).

The Norwegian grocery market has been under investigation over a longer period and in 2011 this research was compiled in the report "the Powerful and Powerless of the Food Supply Chain" (Ministry of Agriculture and Food, 2011). However, the report mainly assessed qualitative aspects without supporting the findings with any numerical evidence. As such, this paper aims at building on the propositions in the 2011 report regarding the use of different vertical restraints, supported by theory about the subject, to consider how competitiveness differ due to changes in terms and conditions of trade.

According to Yin (2014) case study evidence comes from six major sources: documents, archival records, interviews, direct observation, participant-observation and physical artifacts. Additionally there are four supporting principles important to the collection of data, aimed at supporting construct validity and reliability. The first, using multiple sources of evidence, will make conclusions more cogent when different sources support each other. The second, creating a case study database, is important for the organization and documentation of the collected data. The database should consist of both a collection of all data gather during the research as well as the case study report itself. The third principle is maintaining a chain of evidence. By this is meant that the reader should be able to follow the development of the evidence, from the initial research question to the conclusion, in both directions. Consequently, the researcher must be aware of reasonable citing of sources. In addition, the methodical procedures should be documented. The fourth principle, exercise care when using data from electronic sources, is specifically related to crosschecking of online material (Yin, 2014).

Qualitative research aims at understanding the situation according to theory by using non-numeric data as words, images, videos and similar. The data collected are subjective meanings expressed by the study's participants about the phenomenon under study. Quantitative data are selectively chosen and represent a specific part of the truth. The data is numeric and aim at examining the relationship between variables (Saunders et al., 2012). The two designs are often seen as "two ends of a continuum, which in practice are often mixed"

(Saunders et al., 2012, p. 161). Using both qualitative and quantitative data in research is known as mixed methods research. In this paper a mixed methods research is chosen to be able to triangulate, i.e. combine data to support findings from the different methods, and to obtain diversity in the information and reflections. Additionally, a mixed method allows for the data to complement each other and thus confirm, link and elaborate on findings. Saunders et al. (2012) differentiate between a deductive and an inductive approach. The former implies designing the project to test existing theoretical propositions, whereas the latter implies developing theories based on collected data. This paper follows a deductive approach.

Among researchers the case study approach has been criticized for not being rigorous enough. In addition the method has been questioned for its generalizing abilities. However, as with experiments, case studies can be generalized to theoretical propositions, even though they are not applicable for entire populations. Additionally, case study research has been criticized for its often-extensive amount of collected data, which can easily make the researcher lost and the report incomprehensive (Yin, 2014). Thus, it is important for me during the research phase to be especially aware of these aspects.

4.3 Research Quality

There are three concepts used to judge the research quality of descriptive case studies: construct validity, external validity and reliability.

4.3.1 Construct Validity

Construct validity is the credibility of the study's results and whether others will agree on the conclusions based on the unit of analysis (Yin, 2014).

The paper is conducted using multiple sources of evidence. The main basis of the paper is the 2011 report "The Powerful and the Powerless of the Food Supply Chain" by the Norwegian Inquiry Commissions for the Power Relations in the Food Supply Chain (the Food Chain Committee). The report extensively covers the aspects of the Norwegian grocery market related to the topic of this paper. However, the Food Chain Committee is also criticized for not thoroughly assessing the impact on competition through quantitative studies and wrongly defining the concept of power. Furthermore, the interviews conducted by KPMG to arrive at more of the information in the report are subjective expressions, which one cannot know the

motives of. As such, these statements may not provide an accurate description of the market situation.

Several other reports are drawn upon. Some further describes the Norwegian market whereas others assesses the situation abroad, e.g. in the UK, Australia and Sweden. Furthermore, publications from recognized institutes in Norway are used to collect data. The full list of sources is found in the reference list.

The calculations of the profitability ratios are built on objective information from the market participants' financial statements, i.e. the groups to which the four umbrella chains belong. The main concerns about the use of these financial statements are that it is not possible with the public information available to disaggregate the numbers to derive at those solely connected to the grocery retailing activities of the firms. Furthermore, the detail level of what is included in revenues and costs of the four groups are restricted to what can be found in the annual reports. Also, the actual terms and conditions and the level of these is considered sensitive information and is not publicly available. Thus, the paper has attempted to isolate the effects of price increases on the gross profit margins of the firm in order to analyze the changes in the cost of goods sold relating to changes in terms and conditions of trade. A thorough description of this is given in section 5.

4.3.2 External Validity

External validity is centered on whether the findings of the case study are generalizable on an analytical level, i.e. whether the empirical results of the study are generalizable to a broader theory (Yin, 2014).

The paper aims at contributing to an increased understanding of the use of terms and conditions of trade in the Norwegian grocery market. The single-case study conducted considers multiple theoretical sources of vertical restraints and bargaining power to arrive at its results. As such, it may provide conclusions on the implications of vertical restraints on competitiveness between horizontal competitors and conclusions about the effects of buyer power.

4.3.3 Reliability

Reliability is how reliable the data are, meaning that the same results and conclusions will be reached if the study is conducted again. Consequently, reliability considers whether the

collection and the analysis of the data are consistent (Yin, 2014). The concept of reliability implies that the research does not contain false assumptions and logic leaps (Saunders et al., 2012). A judgment of reliability is based on the transparency of the study. Threats to reliability include participant and researcher error, respectively factors that alter the performance of the participants or the interpretations of the researcher, and participant and researcher bias, respectively any factors that induce a false response or that bias the researchers' recording of responses.

The risks of using secondary data include that the data is collected for other purposes than what you need, which may also influence the presentation of the data. Furthermore, the researcher has no control over the data quality (Saunders et al., 2012).

The reasons for the researcher not conducting any surveys herself lies in that the research question, as it considers the market at the national level, would require interviews with all four major market participants and a large number of suppliers to best assess the situation. The amount of information needed is considered too extensive within the limits of this paper. Additionally, KPMG conducted such interviews on behalf of the 2011 Food Chain Committee and the researcher has thus decided to build on those findings and supplement with information that has emerged later in time. The market situation in Norway today is extensively covered in several reports and publications, as well as being frequently described and discussed in media. Both the proposed cooperation between NorgesGruppen and Ica from 2013 (Ica Norge, 2013) and Coop's recent acquisition of Ica can be said to have brought new life to the debate on the market situation. Thus, more information is regularly available. As such, the best assessment of the market situation is considered achieved by combining these sources.

The paper is built on qualitative research but the findings are supported by quantitative data to draw conclusions based on the research question and the propositions. The quantitative material consists of profitability ratios calculated on the basis of financial statements from the four major participants in the Norwegian grocery market (NorgesGruppen, Reitangruppen, Coop Norge and Ica Norge).

The financial statements of NorgesGruppen, Reitangruppen, Coop and Ica Norge are retrieved from the database RavnInfo (www.ravninfo.no). The numbers of each year are crosschecked

with the annual reports of the four groups, found on their respective webpages. Where any deviations have been found, the numbers of the groups' financial statements have been used. The crosschecking has allowed for a control of any mistakes made by third parties but has also restricted the errors on the side of the researcher with regards to typing or misclassifications. The numbers conducted from the financial reports are found in Appendix C.

The data on prices, used to isolate the effect of price increases in the gross profit margin, are also secondary information. The prices are historical numbers and consequently a collection by the researcher herself would not have been possible. The products chosen are based on an extensive dataset from VGs publications over the time period, found in the digital archive VG-arkivet (www.arkivet.vg.no) in addition to extensive collections from Dinside (www.dinside.no) when VG's publications have lacked information.

A further evaluation of the data used is found under the data presentation in section 5.

5 Data Presentation

The aim of this paper is to analyze the impact terms and conditions have on the competitiveness of the individual grocery retailers and on the relative competitiveness of the four market participants. However, the actual agreements that the umbrella chains are able to obtain from negotiations with suppliers are considered sensitive information. Consequently, there are little to no public data available about the actual size of the different discounts, bonuses and lump-sum payments that have been found to exist in the Norwegian grocery market. Nevertheless, with the available information we can draw conclusions on the firms' level of terms and conditions relative to each other and changes over the time period evaluated.

An indication of how terms and conditions of trade affect the competitiveness of a retailer is to be found through the retailer's gross margin. The gross profit margin exhibits the percentage of revenue that is left to the firm after it has paid the expenses directly related to the goods sold. Changes in gross profit margin can be due to changes in sales prices or costs. By isolating the changes in sales prices above the increase that we would expect due to inflation (i.e. the consumer price index for food and non-alcoholic beverages), we can draw conclusions on the impact terms and conditions of trade have on the gross profit margins of the four umbrella chains and eventually the impact on competitiveness. These conclusions are based on that the changes in the gross profit margin come from other sources than sales price; hence the changes in the margin must be related to changes in the terms and conditions of trade.

The isolation of the sales price can be achieved by looking at changes in the total price for a basket of the umbrella chains' products. This will be explained more in detail in section 5.2. Sales revenues, other revenues, cost of goods sold and other costs, which are used to calculate the gross and operating profit margins of the firms, are collected from the four umbrella chains' financial reports. These numbers are explained in section 5.3 and the full dataset is exhibited in Appendix C.

5.1 Profit Margins

Profit margins show a firm's ability to turn sales into profits. It is a suitable measure for determining performance, showing how well a firm utilizes its resources to generate profits. The margins as percentages can be compared at a cross-sectional, an inter-temporal or an aspiration level. This means between companies in the same industry, over time for the same business unit and against targets respectively (Hamberg, 2014). This paper is concerned with the first two levels.

In this paper the gross profit margin and the operating profit margin are calculated. The gross profit margin shows the percentage of revenue that is left to the firm after it has paid the expenses directly related to the goods sold. The operating profit margin shows the firm's profit relative to revenues, hence is a measure to show how efficiently the firm controls its operating costs (Hamberg, 2014). The operating profit margin is suitable for measuring the relative profitability of firms within the same industry, as it does not take into consideration differences between the firms' equity structure (the Swedish Competition Authority, 2011).

Calculations

$$Gross\ margin = \frac{Sales\ revenue - Cost\ of\ goods\ sold}{Sales\ revenue}$$

$$OPM = \frac{Operating\ profit}{Sales\ revenue}$$

The gross margin is calculated on the basis of sales revenue and cost of goods sold. If we experience a change in the gross profit margin, the following scenarios can have happened:

(1) Sales price has increased (decreased) and cost of goods sold has decreased (increased).
(2) Sales price has increased (decreased) and cost of goods sold has increased (decreased) with different amounts, alternatively one of the variables has not changed (no increase or decrease) whereas the other has.

In case 1 the margin will definitively improve (decline). In case 2 the effect on the gross profit margin depends on the relative strength between the change in price and the change in cost of goods sold.

Following the matching principle of revenues and costs in accounting, regulated in both NGAAP and IFRS, the reported quantity of goods sold and goods purchased will be the same in a financial statement. Hence, we do not have to take into consideration differences in sales volume (quantity) but only prices and cost of goods sold.

When the direct effect from changes in sales price is isolated, the remaining changes in the gross profit margin will stem from other variables affecting the margin, i.e. the terms and conditions of trade that the firm is able to obtain that influence the cost of goods sold. Hence, we are able to determine a change in the level of terms and conditions of trade.

Comparing the changes in the gross profit margin with the changes in the operating profit margin, we can draw conclusions on the effectiveness of the firm's operations. The changes in operating profit margin may come from three sources:

(1) Changes in the prices charged to end-consumers
(2) Changes in the prices paid to suppliers
(3) Changes in other operating costs

If the gross profit margin indicates that the firm has improved its terms and conditions of trade over the period, we would also expect the firm to improve its operating profit margin. However, if the change in operating profit margin differs from the expected this means that there has been a change in the efficiency of the firm, i.e. we observe changes due to source three (3). We are not able to point to the actual causes of these changes but are able to conclude on whether other variables than terms and conditions of trade have influenced the firm.

In this paper the base year to which we compare the development in average price and margins is 2005. However, for Ica 2010 is chosen as the base year. Being part of the Swedish group Ica Gruppen AB, Ica Norge is not obliged to consolidate all its subsidiaries in its financial statements. Consequently, previous to 2009 several important subsidiaries were

solely represented as “investments in subsidiaries” and publicly available information through financial statements is not comparable with later years. However, in 2009 these subsidiaries were merged with Ica Norge AS to simplify the group’s structure and facilitate economics of scale (Ica Norge, 2010). Following these mergers the financial statements of Ica Norge are more representative of the grocers operations.

Below are exhibited the total sales revenue and total operating costs of the four umbrella chains. Additionally figures 5.1 and 5.2 exhibit each chain’s share of sales revenue to their total revenue and the share of cost of goods sold to their total costs respectively.

	Ica	Coop	Reitangruppen	NorgesGruppen
Total revenue	15,688	31,468	58,957	67,396
Total operating costs	16,539	31,412	55,916	65,122

Table 5.1. Sales revenue and total operating costs of the four umbrella chains in 2013. Based on financial statements.

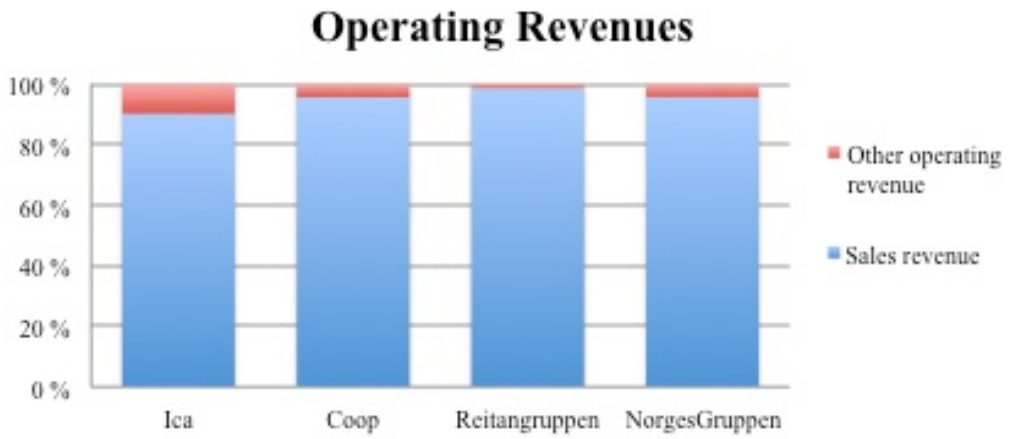

Figure 5.1. Operating revenue of the four umbrella chains in 2013.

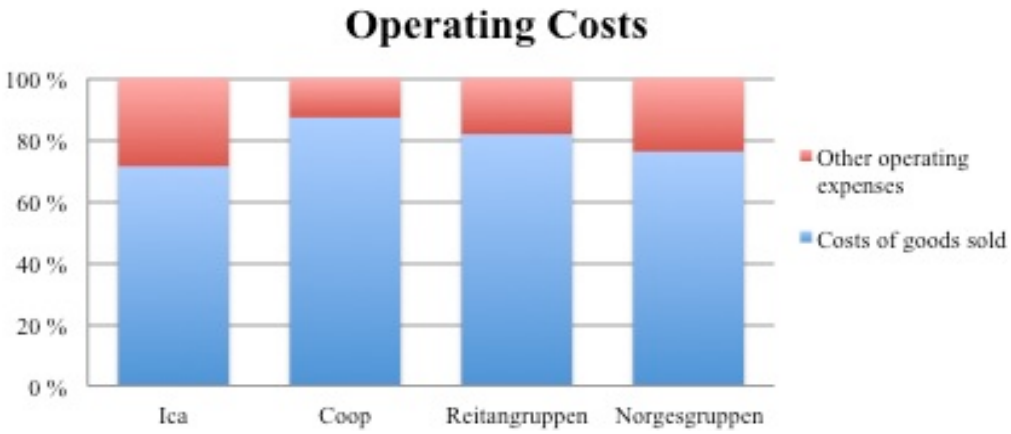

Figure 5.2. Operating costs of the four umbrella chains in 2013.

5.2 Price Collection

The analysis of the price changes relative to the base year is conducted by using price comparisons from VGs Matbørs[3], supported by comparisons conducted by Dinside in those years where the VG is lacking more comparable products. Both VGs price comparisons and those of Dinside have been conducted over several years and are considered a reliable indicator on the prices that can be found in Norwegian grocery stores. To be able to present the most reliable estimates of the prices, the same products have been compared from year to year. Over the time period a total of 15 products were identical. A larger number of products would possibly raise the validity of the calculations, however, for comparability it is important to be able to calculate the price of the same products over the time period rather than using different kinds of market baskets. The trend is still expected to be the same due to the types of products chosen. The exhaustive list of products represented in the comparisons is found in Appendix A.

The products are drawn from several different categories so as to approximate an average basket of goods sold. In 2007, 2009 and 2011 more of the comparable products were not found in the tests, consequently the years are left out of the comparison. This exclusion will however not have an impact on the final results, as the conclusions are drawn by comparing the final year of 2013 relative to the base year of 2005. In these years, all products and prices are represented for each of the individual chains.

For each umbrella chain the price change is found by averaging the prices found at each of the tested chains under the respective umbrella brands. For Reitangruppen these prices are solely collected from Rema, hence the average market basket of Reitangruppen is built on the prices found in Rema stores. For the other three market participants the prices are calculated on the basis of two to three different chains under their respective umbrella brands. The average market basket price each year is thus based on more concept chains' prices to better reflect that the umbrella chains operate within different segments. The chains included in the comparisons can be found in Appendix A and the calculation of average prices is found in Appendix B.

[3] Verdens Gang AS (VG) is a Norwegian media company producing Norway's most-read newspaper on all platforms (paper, web, cell phone, iPad). It is a party-politically and financially independent newspaper, covering news from the whole of Norway. VGs Matbørs is a price comparison of a large number of comparable products from the leading retail chains in Norway. The comparisons have been conducted since the early 2000s. The products compared are base products representing the daily consumption of Norwegian consumers (www.arkivet.vg.no).

The consumer price index (CPI) for food and non-alcoholic beverages (hereafter referred to as the CPI), retrieved from Statistics Norway (SSB, 2014) must be subtracted from the price change. The CPI of food products and the CPI of non-alcoholic beverages is weighted equally to derive at this CPI, as exhibited by table 5.2. One would expect a price change both in retailers' sales price and in purchasing costs in line with this CPI. Therefore, changes in price higher or lower than this suggest an increase or decrease in the margin stemming from price changes at chain level. Tables 5.3 through 5.6 exhibit the price of the average market basket of each of the four umbrella chains from 2005 as well as the change in the price relative to 2005. Table 5.7 summarizes the difference between the increases in CPI relative to 2005 and the increases in price relative to 2005, i.e. the isolated effect of prices on the gross profit margin.

	2005	**2006**	**2008**	**2010**	**2012**	**2013**
CPI Food (1998 = 100)	107	110	119	121	119	122
CPI Non-alcoholic beverages (1998 = 100)	103	107	115	130	138	144
Weighted average	105	108.5	117	125.5	128.5	133
Change relative to 2005	0%	3.3%	11.4%	19.5%	22.4%	26.7%
Change relative to 2010	N/A	N/A	N/A	0%	2.4%	6%

Table 5.2. The development of the CPI of food and the CPI of non-alcoholic beverages. The weighted average of the two CPIs and the percentage change in the CPI relative to 2005. (CPIs collected from SSB, 2014).

ICA	**2005**	**2006**	**2008**	**2010**	**2012**	**2013**
Prices	232.5	210.4	252.1	280.3	304.4	330.3
Change relative to 2005	0%	-9.5%	8.4%	15.3%	30.9%	42.1%
Change relative to 2010	N/A	N/A	N/A	0.0%	8.6%	17.8%

Table 5.3. Ica's average market basket and the percentage change in the price of the basket relative to 2005.

Coop	2005	2006	2008	2010	2012	2013
Prices	221.3	209.5	269.9	277.4	335.7	293.1
Change relative to 2005	0%	-5.4%	21.9%	25.3%	51.6%	32.4%

Table 5.4. Coop's average market basket and the percentage change in the price of the basket relative to 2005.

Reitangruppen	2005	2006	2008	2010	2012	2013
Prices	203.4	195.7	245.3	260.5	287.5	276.9
Change relative to 2005	0%	-3.8%	20.6%	28.1%	41.3%	36.1%

Table 5.5. Rema's average market basket and the percentage change in the price of the basket relative to 2005.

NorgesGruppen	2005	2006	2008	2010	2012	2013
Prices	229.8	208.2	266.4	289.8	304.6	303.1
Change relative to 2005	0%	-9.4%	16.0%	26.1%	32.6%	31.9%

Table 5.6. NorgesGruppen's average market basket and the percentage change in the price of the basket relative to 2005.

	2005	2006	2008	2010	2012	2013
Ica (from 2010)	N/A	N/A	N/A	0.0%	6.2%	11.8%
Coop	0.0%	-8.7%	10.5%	5.8%	29.3%	5.7%
Reitangruppen	0.0%	-7.1%	9.2%	8.6%	19.0%	9.4%
NorgesGruppen	0.0%	-12.7%	4.5%	6.6%	10.2%	5.2%

Table 5.7. Summary table of the difference between changes in CPI (table 5.2) and the changes in the price of the average market basket of each of the four umbrella chains (table 5.3 through 5.6).

5.3 Financial Statements

The calculations of the profit margins are based on numbers found in the financial statements of the four umbrella chains. The financial statements applied in this paper are those of the groups to which the four umbrella chains belong, i.e. NorgesGruppen ASA, Reitangruppen,

Coop Norge SA and Ica Norge AS. The financial statements are applied from 2005 through 2013, expect for Ica Norge AS due to the reasons explained in section 5.1. It is not ideal that the period of analysis is shortened for Ica, however, the financial statements available before 2009 are not comparable to those of later years. A consolidation of the statements of the individual subsidiaries could have been possible, but these subsidiaries' statements are not available. As such it is considered better to analyze the firm based on the statements from 2010 to give a more accurate picture of the situation in Ica. The price trend will be the same, but weaker, as exhibited by table 5.3.

The groups conduct other business activities than solely the sales of grocery products, as presented in section 3. Though including the other segments under which the groups operate may alter the precision of the calculations, the conclusions are not expected to deviate from those that would be found if the grocery retailing activities were separated. This is due to that all four groups operate within much of the same business areas and grocery retailing is the core business activity in all groups. Hence, the predominant part of revenues and costs of the groups stem from their grocery operations.

The alternative numbers to be used would be those of the umbrella chains' operations alone, i.e. solely the grocery retail activity. These numbers are however not publicly available. Moreover, the activities of the group as a whole are expected to influence the way the umbrella chains are operated. A major part of the costs of the group will be necessary to maintain the operations of the grocery segment as well. This is supported by Rustad (2008), which states that the distribution of grocery sales between different store types and wholesaler links in practice makes it impossible to separate solely grocery retail activities.

Procurement in each umbrella chain is conducted centrally. The chains' bargaining power is expected to increase with the relatively higher quantities they are able to negotiate over. Therefore, it is important that these differences are considered when analyzing the impact of terms and conditions of trade on competitiveness. NorgesGruppen operates both within the convenience and food service industry; hence the increased quantity of which they are able to negotiate over will of course affect the terms of all its business areas. Also Reitangruppen has operations within convenience. Consequently, the groups financial statements may in this regard present a better picture than the operations alone of the actual terms and conditions that they are able to obtain.

The different groups also operate with a different amount of franchises and wholly owned stores. Reitangruppen is a franchisor whereas Coop is solely operating wholly owned retailers. Both Ica and NorgesGruppen operate with both forms of ownership. The accounting for franchises differs between the firms. The effects of different forms of ownership are considered outside the scope of this paper.

Reitangruppen in its financial statements reports that marketing revenue and other revenue (classified under other operating expenses) are joint marketing. Thus, these revenues are reclassified to sales revenues. The other firms do not report any such reasons for reclassifications.

Table 3.2 shows the total overview of which suppliers the groups have ownership stakes in as of 2013. Reitangruppen and NorgesGruppen produce a part of their private label products themselves through Reitan Industrier and Unil respectively.

6 Analysis

Section 6.1 identifies the vertical restraints used in the Norwegian grocery market and determines which restraints that will most likely influence the competitiveness among the grocery retailers. Vertical restraints may create barriers of expansion due to differences in which terms and conditions market participant are able obtain. Moreover, vertical restraints may reduce intrabrand competition, thus softening competition between the competitors and facilitating coordination practices. Based on the identification of vertical restraints in section 6.1, the remaining sections analyze the impact of such vertical restraints on the competitiveness of the individual market participants and their relative competitiveness. Section 6.3 is especially concerned with buyer power and how this concept influences the competitiveness of retailers.

6.1 Terms and Conditions of Trade in the Norwegian Grocery Market

As explained in section 2 there are several restraints identified in the literature that can be used to influence terms and conditions of trade in the grocery market, including slotting allowances, threats of delisting, joint marketing agreements and other fees and monetary transfers between supplier and retailer. The aim of this section is to answer the research question of which terms and conditions of trade that are found in the Norwegian grocery market. This means identifying the vertical restraints mentioned above and evaluate which restraints that are most likely to have effects on the competitiveness of the market participants at retail level. Lastly, a theoretical consideration of the use of vertical restraints is applied through Shaffer's (1991) model of slotting allowances.

6.1.1 The Negotiations

All negotiations in the Norwegian grocery market take place during the fall, in a period known as the fall hunt (Høstjakta). In large, access to the market is decided by the four umbrella chains due to their control with procurement, wholesale and distribution functions. The complexity of the negotiations is determined on the number of bargaining levels, calculations in the negotiations, calculations of transfer prices, the ease of tracking the money flows and how predictable the retailers are concerning different bonuses (Ministry of Agriculture and Food, 2011). According to the Food Chain Committee (2011) the most important aspects of the negotiations are acceptance into the product range of the discounters KIWI, REMA 1000, Rimi and Prix. This is not surprising, considering the market share of the discount segment, cf. figure 3.5.

There are different opinions regarding how negotiations are conducted, i.e. their fairness. Several suppliers describe the negotiations as demanding and claim that the umbrella chains unilaterally draw up the agreements (Ministry of Agriculture and Food, 2011). Suppliers are semiannually allowed to propose price changes, however, it is claimed that it is difficult to get these adjustments accepted, even though they may be caused by higher commodity prices and be rationally explained by increased cost levels (Ministry of Agriculture and Food, 2011).

NorgesGruppen is considered the least transparent and most complex negotiator. The umbrella chain is reported to have two different bargaining levels and additional adjustments at the local level: the concept chains' range is determined in consultation with NorgesGruppen centrally and the use of joint marketing is determined in consultation with the three branches KIWI, Meny/Ultra and Kjøpmannshuset. Additionally, NorgesGruppen's system differs in that its discounts and bonuses are calculated on the basis of its transfer price from wholesaler to chain rather than being based on the unit price from supplier. This makes it harder for suppliers in knowing which level their bonuses must be on in order to be accepted. However, NorgesGruppen claims the system is designed to secure internal competition between its concept chains. REMA 1000, Coop and Ica each have only one bargaining level. However, Coop and Ica make certain adjustments to their different concept chains (KPMG, 2011). The final agreements between the umbrella chains and the largest suppliers are supervised by the Competition Authority (the Norwegian Competition Authority, 2009b). Other than that there is little insight into the process that determines the grocery retail offer of the coming year.

Based on the description above the negotiations emerge as confusing and unpredictable for several suppliers, indicating that they do not have sufficient control over the outcomes.

6.1.2 Main Vertical Restraints

There seems to be agreement between researchers that the system of different vertical restraints employed in the market is quite complex. The Food Chain Committee (2011) found there to be three variables on which supplier and retailer negotiate: the unit price of the product (listing price), discounts directly connected to the product and other bonuses irrespective of the product, including cooperation bonuses and innovation and project bonuses. The bonuses take the form of different monetary transfers and the umbrella chains

control their use. Joint marketing was considered the most important bonus (Ministry of Agriculture and Food, 2011). Moreover, joint marketing arrangements were among the first identified vertical restraints when investigation of such practices in Norway started around 2005 (Dulsrud & Beckstrøm, 2005). Therefore, in this paper joint marketing agreements will be the main restraint in focus.

Dulsrud and Beckstrøm (2005) identified joint marketing arrangements to consist of different variables. Based on interviews they constructed a so-called "joint-marketing package", as exhibited in figure 6.1 below. The researchers point out that the package is solely meant to increase the understanding of the concept of joint marketing and is not intended to be the only possible explanation of what joint marketing arrangements are. Based on the report of the Food Chain Committee (2011) and the interviews conducted by KPMG (2011) the package still seems to give a valid picture of what we expect to find in the Norwegian market today. Also Gabrielsen (2010) considers joint marketing as a generic term of different activities conducted collusively by suppliers and retailers.

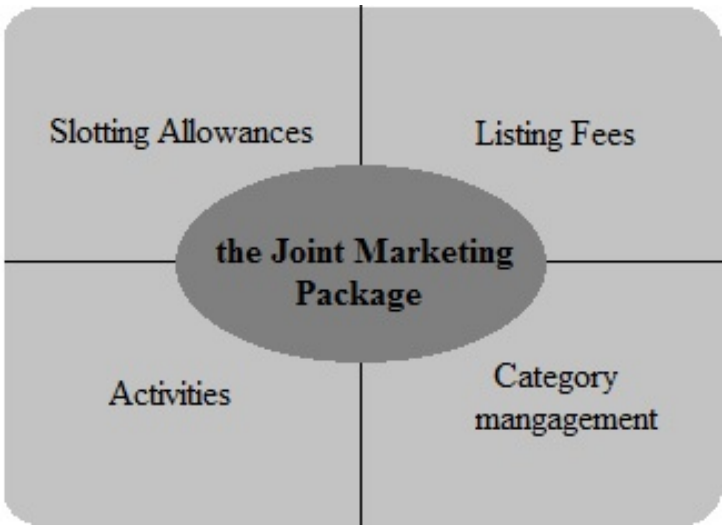

Figure 6.1. The joint marketing package. Adopted from Dulsrud and Beckstrøm (2005).

As exhibited in figure 6.1 joint marketing arrangements consist of four main variables: slotting allowances, listing fees, activities and category management. To review, slotting allowances are payments from suppliers to retailers for access to shelf space (Foros & Kind, 2008) and listing fees are fees paid to be eligible for acceptance into the product range of retailers (Clarke et al., 2002). Category management is a cooperation between supplier and

retailer where certain product categories are operated as separate business units (Dulsrud & Beckstrøm, 2005). Category management will not be analyzed in this paper.

To fulfill the aims of this paper, the focus will be on slotting allowances and the different activities that retailers conduct on behalf of and in cooperation with suppliers. The available information from reports over the last years suggest that listing fees and threats of delisting is important to credibly signal the seriousness and intention of which terms and conditions the retailers seek to obtain, hence they will be considered for this intention.

The Use of Joint Marketing

According to the qualitative investigation by KPMG (2011) the joint marketing fee is mainly paid upfront based on estimated sales and for some suppliers it is adjusted at year-end based on actual performance. The fee is found to be between 0% and 11% of gross sales price to retailer. However, differences between suppliers are expected to occur based on their relative size and sales value for the retailer. The smaller and less powerful retailers are found to pay about 15-20% of gross sales price as a joint marketing fee.

The joint marketing agreements is criticized for being more of a profit transfer than a payment for certain services, i.e. suppliers claim that they pay an excess price compared to what they actually gain from the arrangement. Consequently, retailers are expected to receive financial benefits that exceed their costs of conducting the service. This excess should therefore be reflected in the margins of the retailers.

Moreover, suppliers claim that the following year the retailer considers the fee as the baseline, meaning that the retailer demands a lump sum based on previous years. If the suppliers expect any marketing efforts to be conducted over the following year, additional payments must be made (KPMG, 2011). This aspect of the negotiations suggests that the excess payments from joint marketing fees should increase from year to year. Should there be differences in what kind of arrangements the retailers are able to obtain, this baseline may work to further increase the gap in terms and conditions between retailers, eventually distorting competition.

There are also suppliers that believe that they gain from the agreements. According to KPMG's (2011) statements these suppliers produce brands that are important frequency generators or products on which the chains aggressively compete on price. Retailers have no

choice but to include these products in their product range, hence it is more likely that the relative bargaining power of these suppliers are stronger. Consequently, the terms they are able to negotiate will be expected to be more in line with what the services are actually worth.

From the chains' side the joint marketing fee is considered both a payment for marketing and a discount. Some chains claim that it is the suppliers that want to hide the level of payments they make to retailers (KPMG, 2011). If this is the case, the suppliers' need for less transparency may indicate that the payments differ between the chains. It may then be in the interest of suppliers to keep the actual amount hidden, so as not to reveal their bargaining limits and be able to sustain their bargaining power towards the chains. This argument is partly supported by Dulsrud and Beckstrøm (2005). Some of their informants claimed that access to competitors' agreements was easily obtainable and the joint marketing agreements are a mean to conceal the actual relationship between retailer and supplier.

Chains do also claim that there will not be a 1:1 relationship between the joint marketing fee and the reciprocities. This is because the restraint will also be used to increase store traffic, which is expected to benefit suppliers indirectly (KPMG, 2011). However, as Bogen (2008) points out, if all chains adopt the practice of using joint marketing fees to generate sales the effect for the individual supplier will be lost. Moreover, due to the nature of grocery products customers will visit stores irrespectively of advertising. The only way to influence store traffic is then to differentiate on variables important for customer choice, and not on an overarching level. All suppliers are likely aware of this, hence it does seem as if retailers are able to impose less favorable terms on suppliers than one would expect under perfect competition.

NorgesGruppen was identified as the market participant that has been advocating for increasing the use of joint marketing arrangements. Following NorgesGruppen's lead, the other market participants have increased their use of the restraint as well. Ica was recognized as the most transparent in terms of identifying how the restraint is employed. The practice of follow-up by the chains is also found to differ on chain level. Some retailers have been found to conduct and follow detailed plans, whereas other retailers at year-end ask to transfer the practices to the following year (KPMG, 2011). Hence, there are indications that the retailers do not necessarily feel particularly committed to the agreement and that the payment is more of a profit transfer than an exchange of services.

The Effects on Competition

Joint marketing is by the Chicago school of thought found to be facilitating the optimal level of marketing efforts between two parties. The efforts unfold in regards to promotion as well as a measure to signal the supplier's beliefs about the success of its product and reduce information asymmetries. Especially for a new product introduction, the bonus is seen as a way to divide the risks of sales omissions (risk sharing).

The Norwegian grocery market is neither at retail level nor upstream in the supply chain perfectly competitive, but rather oligopolistic, and as such it is expected to exist information asymmetries. Information from the qualitative investigations of Dulsrud and Beckstrøm (2005) and KPMG (2011), as well as the highly concentrated nature of the market, do however indicate that retailers are aware of which suppliers that exist in the market and that retailers are in the position of reviewing suppliers' reliability. Dulsrud and Beckstrøm (2005) also assert that the import restrictions on several grocery products contribute to reducing the effects of the screening due to an overweighing amount of Norwegian suppliers. This assertion is justified by the limited number of suppliers in the market, which likely reduces the probability of unreliable market participants. Consequently, there is little evidence of information asymmetries existing in the Norwegian grocery market and there must be other reasons for the use of joint marketing in the industry, i.e. due to risk sharing or profit transfer.

The anticompetitive effects of vertical restraints can be summarized in the following ways: restraints may facilitate cooperation practices and dampen competition, and vertical restraints may raise rivals' costs (the Norwegian Competition Authority, 2005). Each of these strategic effects will be exemplified below through the use of slotting allowances and Shaffer's model (1991).

Slotting allowances can reduce price competition between competitors at retail level. Should chain 1 demand a slotting allowance it is expected that the supplier will increase the wholesale price as long as it earns profits equal to or greater than zero. An increase in wholesale price will be directly transferred to end-user price but suppliers will compensate retailers' loss of sale through the slotting allowance. In equilibrium, the increased price to end-consumer charged by chain 1 will induce chain 2 to increase its price as well (best response), however, not with as much as chain 1. Should however both chain 1 and 2 demand slotting allowances from suppliers, both chains can raise prices above that of the equilibrium

of only one chain. Figures 2.3 and 2.4 exhibit these effects. The use of the slotting allowance signal to competitors that the chain will increase its prices (due to the increase in marginal cost) and thus competition between retailers is reduced (Shaffer, 1991).

Additionally, the use of slotting allowances can reduce the number of products offered in the grocery stores. Drawing on the Norwegian Competition Authority (2005) retailers may gain from reducing the number of products through reduction in transaction costs (fewer negotiations, distribution links etc.). In addition, a limited product range increase the competition between the chains due to differentiation, especially in combination with differences in the product range between the umbrella chains. The price competition will become less intense and consequently retailers are able to increase profits and improve margins (the Norwegian Competition Authority, 2005).

It may be that the different retailers are not able to induce on the suppliers the same amount of slotting allowances. Consequently, we will have a situation approximate to the one of only chain 1 using slotting allowances, cf. figure 2.3. Assuming that the supplier will charge the same wholesale price (listing price without discounts) irrespective of the slotting allowance, chain 2 will not be compensated as much as chain 1 for the loss of sales due to the price increase. In this incident the use of slotting allowances will raise rivals' costs and we will observe differences in retailers margins.

The assumption behind Shaffer's model (1991) is that the contracts are observable between the umbrella chains and the contracts are irreversible. Additionally, the chains must set prices based on marginal costs.

Observable contracts in the Norwegian grocery market are to some extent satisfied in that the different agreements are relatively well known. However, as the slotting allowance is considered a part of the joint marketing package and joint marketing is criticized for concealing some of the transfers between retailers and suppliers, the assumption is not as clear. The question becomes how much information is needed for competitors to believe they will gain from the strategic effect of the allowance. If it is sufficient to know that slotting allowances are used and the fees' approximate size, we will expect reduced competition in the market due to slotting allowances. If rivals need more accurate information to be able to

reduce price competition, it is less likely that the use of the slotting allowance will not distort competition.

The assumption of irreversible contracts is necessary when wholesale prices are determined prior to the pricing game between retailers. In the Norwegian market the agreements are foremost negotiated annually during the fall hunt. Semiannual price adjustments are possible but are considered harder to obtain. Therefore the agreements are considered to be relatively stable.

Lastly, it must be assessed whether the chains set prices based on marginal cost. According to the Norwegian Competition Authority (2005) the chains base end-consumer prices on both lump-sum payments and marginal cost. Hence, the price is set based on an average price rather than marginal costs alone. Moreover, the prices in the market are to a large degree assumed to be determined with respect to what competitors charge (the Norwegian Competition Authority, 2005). This is supported by the widely used practice of price comparisons and collections conducted by different stakeholders, as discussed in section 3.3.1. Furthermore, the margins of individual products are expected to differ widely across the product range due to the adjustments to competitors' prices (the Norwegian Competition Authority, 2005). Some products are even sold at a loss in order to increase store sales, a practice known as below-cost selling (Clarke et al., 2002). In the Norwegian market especially diapers have been prone to such practices (Larsen-Vonstett & Backe, 2004; Brynsrud & Strømsheim, 2011).

In sum it can be concluded that the contracts in the Norwegian grocery market are irreversible but whether the contracts are observable depend on how much in-depth knowledge the competitiors need about the agreement to react with higher prices. It cannot be expected that end-consumer prices are set based on marginal cost, as prices in the market are found to be based both on lump-sum payments and on competitors' prices.

6.1.3 Conclusion About the Use of Vertical Restraints

Joint marketing arrangements are in the Norwegian grocery market mainly criticized for not being used to their intention but increasingly being a profit transfer from supplier to retailer.

The Chicago school of thought considers the use of joint marketing as a way to optimize the level of marketing efforts of suppliers and retailers. This is on the costs of advertising, but also on sharing the risks of failure of new product introductions and as a reduction of information asymmetry. Due to the concentrated upstream and downstream market in the food supply chain, the information asymmetry is considered low. Thus, there must be other reasons than screening that explains the use of vertical restraints in the market.

As the possible deviating use of the joint marketing arrangement is known in the market, suppliers are naturally aware of the possible consequences of agreeing to such a vertical restraint. Depending on the bargaining power of the retailers, we thus expect suppliers to be reluctant towards such a payment as long as they are not credibly threatened to pay. These threats may come to light in termination of contracts. However, smaller retailers are assumed to have less bargaining power and as such can not dictate these terms in the same way as larger retailers. This is expected to be reflected in differences in the retailers' margins and will be considered below in relation to the waterbed effect in section 6.3.3.

6.2 Margin Analysis

The Norwegian grocery retail market is oligopolistic, characterized by a few competing firms and substantial entry barriers. The restricted availability of information on prices and product quality are limited to the extent of specific negotiations and agreements between suppliers and retailers. End-consumer prices are relatively easily observable through price comparisons and other collections conducted by different stakeholders. Section 2.4 explained that oligopolistic markets are highly sensitive to strategic decisions as the participants will be both affected by and react to changes of other firms. Consequently, it is expected that the relative level of terms and conditions between the market participants will influence the relative competitiveness of the firms.

The following section presents the margin analysis of the four market participants by use of the method explained in section 5. The analysis provides insight into the level of terms and conditions of all market participants. The relative competitiveness between the four due to differences in terms and conditions of trade is analyzed below.

6.2.1 Analysis of the Different Umbrella Chains

Table 6.1 presents the price changes, gross profit margin changes and operating profit margin changes relative to 2005. All market participants have increased their prices; however, the effects on gross and operating profit margin differ considerably between the four.

	Ica		Coop		Reitangruppen		NorgesGruppen	
	2010	2013	2005	2013	2005	2013	2005	2013
Price change	0%	11.8%	0%	5.7%	0%	9.4%	0%	5.2%
Gross margin change	0%	-12.4%	0%	36.8%	0%	-14.9%	0%	12.6%
Operating profit margin	-3.3%	-6.0%	0.2%	0.2%	4.6%	5.2%	3.0%	3.5%

Table 6.1. Change in prices and gross profit margin relative to base year. Operating profit margin in absolute terms.

Ica

Relative to 2010 Ica has increased its prices with more (11.8%) than we can expect from inflation (i.e. CPI). In isolation we would thus expect the gross margin of Ica to increase over the period as well, however the firm's gross profit margin has declined. Therefore, we can conclude that Ica has experienced a worsening of their terms and conditions of trade over the time period. We cannot conclude on whether their terms and conditions of trade were poor in 2010, but the observations imply that Ica's terms and conditions are worse by 2013.

Due to the decrease in gross profit margin we will in isolation also expect a decrease in the operating profit margin of Ica. As exhibited in table 6.1, this decrease is considerably larger than the decrease in the gross profit margin alone (almost doubling their negative profit over the period); hence we can conclude that Ica is also running its operations less efficiently in 2013 than in the base year of 2010. We do not know what cause these changes, but due to the large deviation between the changes in gross margin and changes in operating profit margin other costs must have increased considerably.

Coop

Compared to the base year of 2005, Coop has increased its prices relative to what we would expect from the CPI. Hence, we would also expect Coop's gross profit margin to increase. This increase is rather extensive, indicating that Coop over the analyzed period has been able to improve its terms and conditions of trade.

The operating profit margin of Coop in 2013 is unchanged relative to its operating profit margin in 2005. If Coop was able to employ its improved terms and conditions of trade as efficiently in 2013 as in 2005 we would expect the operating profit margin to increase over the time period. As the margin has remained at the same level it can be concluded that Coop is now running its operations less efficiently than in the base year.

Reitangruppen

From the basis year 2005 to 2013, Reitangruppen's gross margin has decreased by about 15%. However, the prices that Reitangruppen operates with in 2013 have increased with more than what we can expect from the CPI. In isolation this price increase should have improved the margins of the firm. Since we however observe a reduction in the margin relative to the base year, the cost of goods sold that Reitangruppen is able to obtain must have increased with a larger amount than what their prices have done. Based on this, it is likely to assume that their terms and conditions in 2013 are worse relative to what they were in 2005.

However, a conclusion indicating that the terms and conditions of Reitangruppen have worsened does not imply that the terms and conditions that they do have are poor. Their gross profit margin is still high as it is observed to be more than 20% (see figure 6.2). Due to the concept of mean reversion, we can expect that Reitangruppen after a long period of high margins return to a more normal level (towards the market average).

The operating profit margin of Reitangruppen is improved in 2013 relative to 2005. As such, we can say that even though their terms and conditions of trade have worsened relative to 2005, the group is managing to run its operations more efficiently.

NorgesGruppen

The prices of the average market basket of NorgesGruppen have relative to 2005 increased with more than we can expect based on the CPI. Due to this price increase, we would also expect the gross margin of the group to increase. This expectation is in line with what we observe. However, the change in prices relative to change in gross margin is not large enough to be able to draw conclusions on whether NorgesGruppen has improved its terms and conditions of trade as well over the period.

Following the increase in gross profit margin we will also expect the operating profit margin

of NorgesGruppen to increase. Building on figure 6.2 we see that this is the case, however, we do not have grounds to conclude about whether the changes in the operating profit margin is related to other factors as well. In sum, it cannot be concluded that NorgesGruppen has experienced any changes in its competitiveness over the analyzed time period.

Conclusions on the Different Umbrella Chains

The analysis concludes that Ica's terms and conditions of trade must have worsened over the analyzed time period, also contributing to a decline in their operating profit margin. However, the decline is assumed to be caused by other factors as well; hence, Ica is operating less efficiently in 2013 relative to 2010. Coop's terms and conditions are expected to have improved relative to those that the chain had in 2005 but the firm is operating less efficiently in 2013. Reitangruppen's terms and conditions are observed to have worsened; however the firm has managed to run its operations more efficiently in 2013 relative to 2005. NorgesGruppen has improved its margins relative to 2005 but we do not have grounds to conclude on improvements in neither terms and conditions of trade nor efficiency.

6.2.2 Comparisons Between the Market Participants

Section 6.2.1 established that over the period of 2005 through 2013 there have been some changes in the level of the terms and conditions of each market participant. Though we can draw conclusions for most participants on whether the terms and conditions of trade have improved or worsened over the period, it cannot be concluded on how good or bad the terms and conditions were initially. This section aims at further analyzing the differences found and the relative competitiveness of the participants based on the gross and operating profit margin alone. Section 6.3 will introduce the concept of buyer power to further analyze the causes of the observed differences. The concentrated market and oligopolistic price competition (with differentiated products) implies that the market participants are affected by and react to each other's changes but there are also risks of tacit collusion. Consequently, a comparison with the operating profit margin of British and Swedish grocery retailers will be conducted.

The development of the gross and operating profit margins of the four market participants are exhibited in figures 6.2 and 6.3.

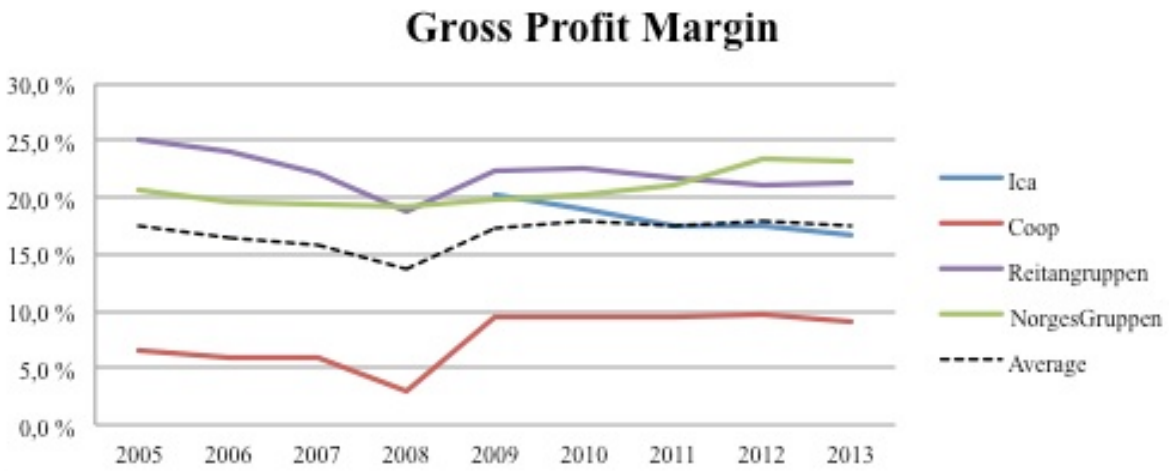

Figure 6.2. Gross profit margin of the four market participants and the market average from 2005 to 2013. Based on financial statements.

The average gross profit margin of the market has been relatively stable over the entire time period. The exemption is 2008; however, the average quickly returned to about 17.5% the following year. From figure 6.2 we see that Coop and Reitangruppen has followed roughly the same trend as the average of the market. NorgesGruppen seems to have increased its margin at the expense of Ica, as the two are developing in opposite directions from 2010. We know from the calculations in the previous section 6.1.1 that Ica has reduced terms and conditions of trade relative to 2010. From the calculations we cannot conclude about the causes of the observed changes in NorgesGruppen. Consequently, no clear conclusions can be draw on whether the worsened terms in Ica is caused by the opposite improvements in the terms of NorgesGruppen. However, there are indications of the impact of different size and the question will be elaborated further in section 6.3.3.

We could expect to see differences in gross profit margins between the market participants based on the extent of vertical integration. Products purchased through subsidiaries will be expected to have a lower premium price from supplier to retailer than those purchased in the open market. From section 3 we know that Reitangruppen is the market participant with the highest level of integration, followed by NorgesGruppen and Coop. Ica has fewer investments upstream in the vertical supply chain. However, it is the gross profit margin levels of Ica, Reitangruppen and NorgesGruppen that are considerably higher than that of Coop. The difference between Coop and the other participants may be grounded in that Coop is a consumer cooperative, thus may not have the same profit maximizing objectives as the other participants. Nevertheless, Ica is not deviating considerably over the period from those

participants that are most heavily integrated with suppliers. Thus, we cannot see any clear trends on whether vertical integration influences the margin.

Based on section 6.1.2 suppliers claim that they are exploited to pay an excess bonus through the joint marketing arrangement and there are claims from suppliers that this fee will increase from year to year. Support of these claims should be found in generally high gross profit margins among the retailers. In addition, we would expect the margins to increase over time. The gross profit margin of the market is however relatively flat with no observable trend over the time period. Based on these observations we cannot say that retailers generally are able to excessively use joint marketing arrangements and exploit suppliers. Furthermore, Coop is the only market participant on which we can conclude that has improved its terms and conditions since 2005. However, figure 6.2 exhibits that the gross profit margin of the firm has been almost constant since 2009. Hence, the improvement in terms cannot be said to increase from year to year as suppliers claim.

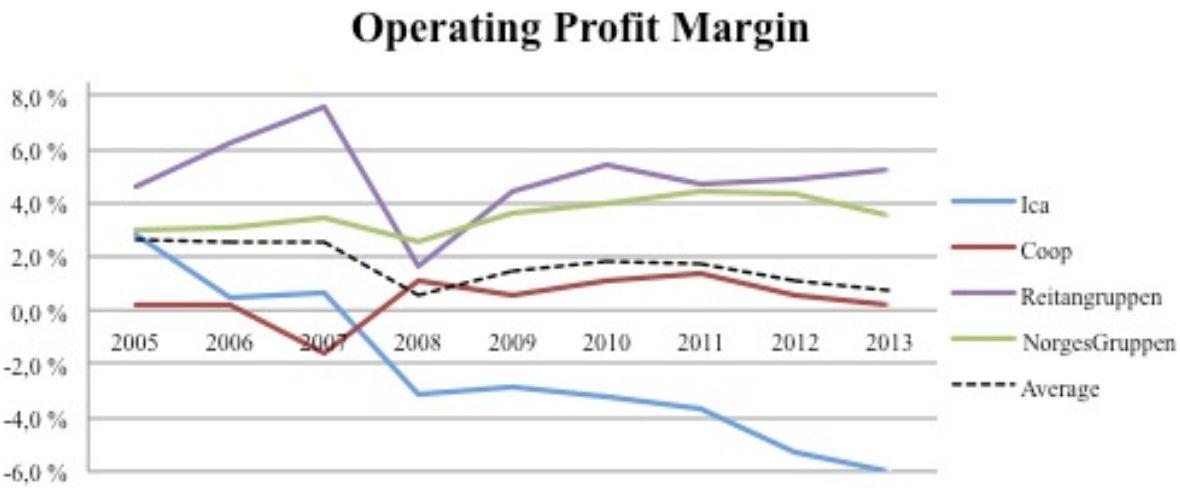

Figure 6.3. Operating profit margin of the four market participants and the market average from 2005 to 2013. Based on financial statements. Please note that the numbers of Ica previous to 2009 are those conducted from Ica Gruppen AB (ICA AB). ICA AB's financial statements provide information on the total sales of the Norwegian segment, as well as operating profit. Therefore, it is possible to derive at Ica's operating profit margin over the entire time period of 2005 through 2013.

Figure 6.3 exhibits the operating profit margins of the four market participants. We see that NorgesGruppen and Reitangruppen have margins above the market average, whereas Coop and Ica are below the market average. An interesting consideration in this regard is Coop's

acquisition of Ica, i.e. the two weakest market participants are now combining their operations. An analysis of the acquisition effects will be performed under section 6.3.3.

The average operating profit margin has been declining over the time period. The decline seems to be largely due to Ica's significant decline over the entire time period. Coop's operating profit margin has varied, but has been kept between 0.6% and 1%. In 2012 and 2013 we observe a falling trend in the firm's margin.

Reitangruppen's operating profit margin has been the largest over the entire period (with the exception of 2008). The margin varied considerably during the first half of the period but it seems to have stabilized around 5% from 2009. NorgesGruppen has experienced growing margins over the time period (slightly offset in 2008), however we observe a small decrease in 2013.

The risk of tacit collusion is the risk that market participants "indirectly coordinate their production and pricing decision by observing each other's competitive actions and responses" (Hoskisson, Hitt, Ireland & Harrison, 2012, p. 210), hence reduce competition. The probability of tacit collusion increases when the market participants have long-term perspectives on their operations. The Norwegian grocery retailers are considered to fulfil these criteria, supported by new store openings or improvement of old stores and additionally Coop's acquisition of Ica. Additionally, the market shares of the participants are large and stable.

Problems with the competition can be indicated by high profit margins over a longer period of time (the Swedish Competition Authority, 2011). In comparison to the operating profit margin of grocery retailers in comparable countries, the operating profit margins of the Norwegian grocery retailers cannot be said to be especially high. In their 2008 report the UK Competition Commission finds that the largest supermarkets have operating profit margins between 2.5% and 6.5% and that these margins have been relatively stable over the years of 2000-2007 (the time period investigated). Also the Swedish Competition Authority (2011) reports the operating profit margins of the largest Swedish grocery retailers to between 2.5% and 5.5%. Hence, the margins in Norway are largely consistent with what we can expect based on an international comparison with similar countries. Figure 6.4 compare the three largest grocery retailers in the three countries.

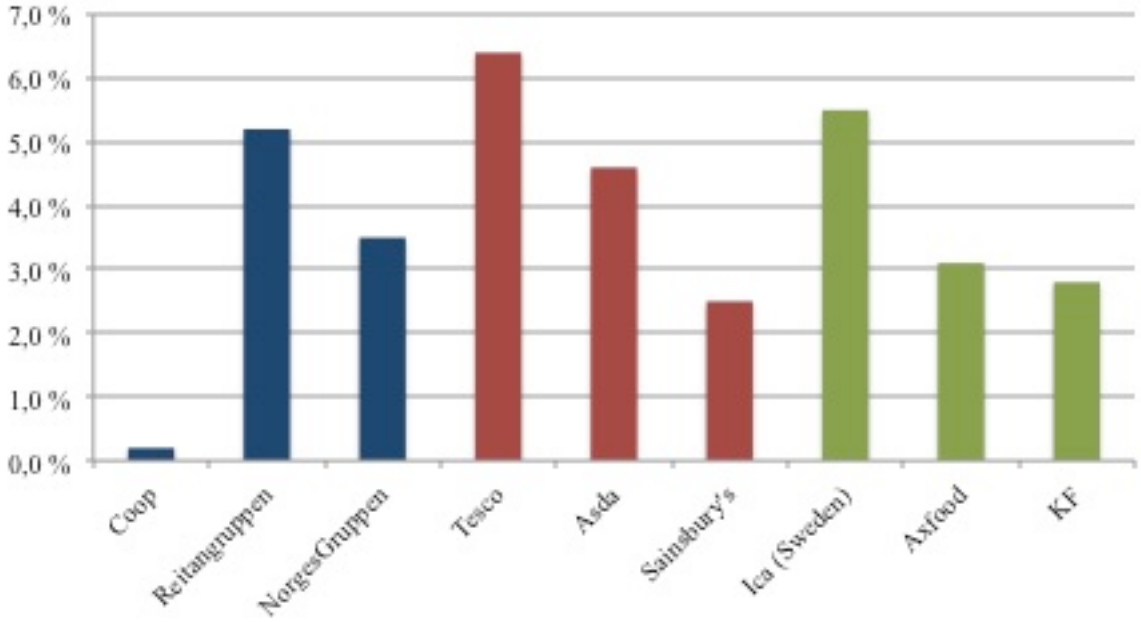

Figure 6.4. Comparison of the operating profit margin of the three largest grocery retailers in Norway, the UK and Sweden. Adopted from the Swedish Competition Authority (2011). Norwegian grocery retailers are exhibited in blue and the operating profit margins are those of 2013. The UK and Sweden are represented in red and green respectively, and the years are 2007 and 2009. The margins are in all countries considered to be relatively stable (UK Competition Commission, 2008; the Swedish Competition Authority, 2011); hence, despite different years the comparison can be made across the countries.

Following the use of slotting allowances as presented in section 6.1.2 we would expect both end-consumer prices and retailers' profit margins to be high. It is already established in section 3 that the prices on food and non-alcoholic beverages in the Norwegian grocery market are high compared to other European countries and that not all of these differences can be explained by taxes, fees and a generally higher cost level. As the above analysis concludes, there is however no indication of especially high margins in the Norwegian grocery retail industry. In addition, all market participants are expected to compete fiercely on price, especially given the importance of the discount segment. In sum, we would not expect the competition between retailers to be dampened because of the use of vertical restraints alone.

6.3 Buyer Power in the Norwegian Grocery Market

In section 2.2 it was established that the use of flexible contracts are more likely to occur when a party holds power over the other (Gabrielsen et al., 2013). From section 6.1 it is clear that there is evidence of use the of vertical restraints in the Norwegian grocery market through joint marketing agreements and it is not expected that the use of these restraints would be as

substantial had suppliers had countervailing more power. We do observe from previous sections that the relative profitability between the chains differs. To be able to assess how the use of restraints affect the difference in competitiveness between the umbrella chains, the concept of buyer power will be investigated further. This allows the paper to analyze possible causes relating to relative power between the market participants. The concept of buyer power will be evaluated by use of the bargaining model. I will first briefly explain the rationale behind using the bargaining model, building on Gabrielsen et al. (2013) and the assumptions of the monopsony model.

Firstly, the monopsony model requires that all suppliers offer the same wholesale price to the retailer, namely the market price. The model assumes a perfectly competitive upstream market. Based on section 3 it is not likely to assume that any horizontal level in the Norwegian grocery industry is perfectly competitive. The second assumption is that the contracts are linear. The interviews conducted by Dulsrud and Beckstrøm in 2005 and by KPMG for the Food Chain Committee's report in 2011 indicate differently, due to the use of different discounts and other payments. The third assumption of the model is that the unit costs of production increase. Since we observe the use of different vertical restraints it is more likely that the costs are decreasing. Therefore, also the third assumption of the monopsony model is violated. Lastly, in the monopsony model the buyer dictates the quantities bought and sold, thus both wholesale and end-user prices. Though there are indications of strong bargaining power on the buyer side, we cannot expect the umbrella chains to be able to dictate the terms and conditions of trade as they like. Especially is this for true for must-carry brands and other frequency-generating products. The market participants also compete fiercely on price in the end-consumer market. In sum, all assumptions of the monopsony model are violated. As the above analysis has indicated it is likely to assume that the retailer and supplier negotiate over the terms and conditions in the market to some extent. Thus, the bargaining model is the appropriate framework to base the analysis on.

6.3.1 Buyer Power Framework

Applying the buyer power framework of Clarke et al. (2002), the following section contains an analysis of the buyer power in the Norwegian grocery market.

1) Is there significant buyer power?

The preliminary question of significant buying power is the key question in investigating buyer power. Clarke et al. (2002) consider two factors as evidence of buyer power: one or

more buyers must buy a significant proportion of the product as a whole and they must be able to materially influence the terms negotiated.

The combined market shares of the four umbrella chains in the Norwegian market are about 96%, thus indicating a concentrated market apt to increase the buyer power of retailers. Another indicator that can be used to draw conclusions on buyer power is the Herfindahl-Hirschman Index (HHI). The HHI is a statistical measure of market concentration. The index is calculated by summing the squared market shares (MS) of all market participants (i) [4]:

$$HHI = \sum_{i=1}^{n} (MS_i)^2$$

HHI is in line with economic theory, which claims that the fewer firms that constitute the market, the lower the competition will be. Hence, the higher the HHI is, the lower the competition in the market will be. HHI ranges from values close to 0 (many firms with small market shares) to 10,000 (a monopoly: 100^2) (Rhodes, 1993). American competition authorities considers a market to be highly concentrated when HHI is larger than 2,500 (U.S. Department of Justice and the Federal Trade Commission, 2010), whereas the European Commission (2004) operates with a number above 2,000.

Due to the objectives of this paper the market shares of the umbrella chains are used in the calculations. Alternatively, HHI could have been calculated using the market shares of the individual concept chains, by acknowledging that each chain compete irrespectively of which umbrella chain they belong to (e.g. will Coop Mega compete with a Coop Extra store). The concentration would then have been lower.

As exhibited in figure 6.5 below, the HHI of the Norwegian grocery market has been higher than 2,500 since the chain formations were a fact in 1993. The index has been quite stable at about 2,660 over the last 20 years, despite changes in participants' market shares within the industry, cf. table 3.3. Consequently, the HHI indicates that the Norwegian market is highly concentrated and that without access to the shelves of one or more of these umbrella chains, suppliers are in large excluded from the market.

[4] Please note that the individual market shares of "other" market participants (see figure 3.4) are excluded from the calculations. before 1993, as those participants were small independent grocers. Ideally the HHI should be calculated by including all firms but as supported by the European Commission (2004, paragraph 16), "very small firms may not be important because such firms do not affect the HHI significantly".

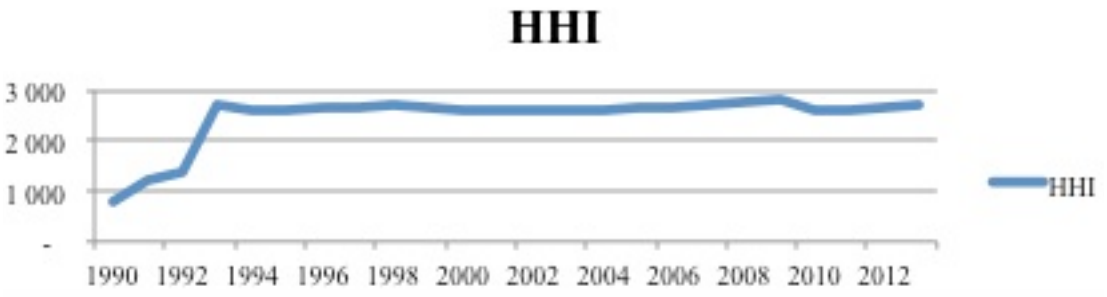

Figure 6.5. Herfindahl-Hirschman Index 1990–2013. (Nielsen, 2014; Nielsen, 2013, Nielsen, 2008, ACNielsen, 2004; Haga et al., 1997).

Differences in Buyer Power Among the Market Participants

The differences in market shares between the umbrella chains suggest that it is more important to be accepted by certain chains. It is likely to assume that access to 39% of the market through NorgesGruppen is of greater importance than solely 11% through Ica. Hence, it can be assumed that the suppliers will agree on less beneficial terms and conditions presented by NorgesGruppen.

Additionally, the discount segment in Norway is very important (cf. figure 3.5). The Food Chain Committee (2011) revealed that acceptance into the discount stores across all umbrella chains is considered one of the most important aspects of the negotiations. As exhibited by figure 6.6, Rema (Reitangruppen) and Kiwi (NorgesGruppen) are by far the most important chains within this particular segment.

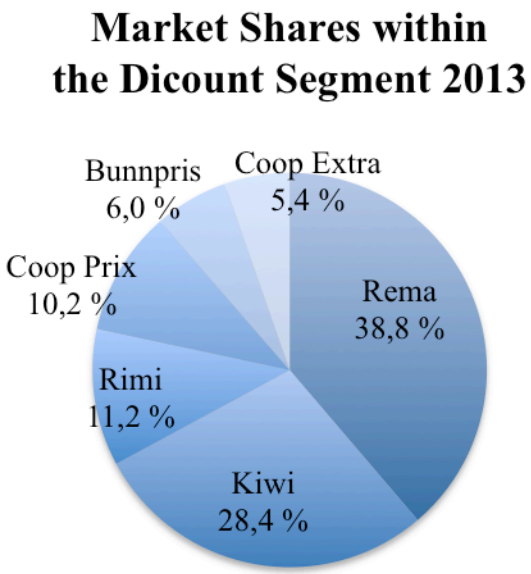

Figure 6.6. Market shares within the discount segment (based on Nielsen, 2014).

Private labels are another important aspect to consider in relation to the materiality of each buyer's influence on terms of trade. Literature suggests two ways through which private labels will improve the bargaining position of buyers: more alternatives to existing suppliers and insight into production costs. The latter is especially relevant in respect to the preliminary consideration of buyer power. Through knowing the cost structure of certain products the retailers will be better suited to know the reservation price and the bargaining limits of the suppliers.

The share of private label products in the Norwegian grocery market is found in figure 3.9. As the figure exhibits, the sale of private labels has increased steadily, indicating that the relative buyer power of all four market participants over suppliers may have increased. The differences in shares of private labels on retail level seen in isolation indicate that Reitangruppen and Coop, which has the largest private label shares, have more buyer power relative to the other two. We can also expect buyer power to increase the more product categories a retailer has private labels in. The retailer is then able to offer more substitutes as well as obtain more information about cost structures of different products. Based on information about the types of private label products, Reitangruppen is operating with the most diverse private label range. Reitangruppen's potential advantage is also supported by their vertical integration with several suppliers through ownership, whereas the other firms have more long-term agreements with external suppliers.

Conclusion on the Significance of Buyer Power

Based on the above findings it is likely to assume that there is significant buyer power across all umbrella chains in the Norwegian market. Suppliers have in practice no other access to end-consumers than through these four. However, based on the relative market shares and positions within the growing important discount segment, as well as private label innovations and ownership, it can be assumed that NorgesGruppen and Rema will have a stronger buyer power than the other two firms.

2) Is buying power against relatively powerless suppliers?

The power of suppliers is assessed through considering who dictates terms and conditions of trade and how the seller concentration is in the upstream market. These considerations come from that size in itself is not enough to generate buyer power. The retailer must also be able to

credibly (threaten to) shift a significant proportion of its purchasing to other suppliers (Oxera, 2012).

As explained in section 3.4 suppliers are within most categories competing with few large participants. Figure 3.10 showed that in 11 of the chosen categories, the three largest suppliers had a combined market share of more than 80% and in neither of the investigated categories had the three largest suppliers less than 60% market share. This evidence suggests that suppliers have some power, mainly due to the limited number of sourcing alternatives available to retailers. Consequently, suppliers can be assumed to some extent resist retailers' pressure to reduce prices and admit different discounts and fees (Clarke et al., 2002).

Also, the ability of retailers to dictate terms of trade varies. It is has been touched upon in preceding parts that the ability to resist the pressure of retailers depends on the strength of the supplier's brand or that the product cannot be easily copied by the retailer. With these requirements in place, retailers would not be able to gain as much from using private labels to counteract the power of suppliers. It is outside the scope of this paper to investigate these aspects for individual categories of products. Nevertheless, there is assumed to be differences between the suppliers with regards to these aspects and suppliers of must-carry products are definitively possessing considerable power relative to other suppliers.

At the same time, when private labels can be used they will increases the alternatives of the retailers and allow them to increase power. When private labels were introduced in the 1980s, the products were typically cheaper and of poorer quality than the national brands. However, over the years the product variety within the private label segments has grown. Today we can find products with the same quality, both to lower and equal prices as the national brands; hence, information about the costs of production is more easily obtainable.

Conclusion on the Power of Suppliers

We cannot expect suppliers in the Norwegian market to be powerless. Based on the Food Chain Committee's report (2011) the upstream market is heavily concentrated within a large number of important categories. However, we can expect the power between suppliers to vary. The use of private labels is expected to increase the bargaining power of the retailers, but no clear conclusions can be drawn on the impact of what this production has to say for retailers' relative power. Nevertheless, certain suppliers must be included in the chains'

product range to not loose store traffic and sales, hence the suppliers cannot be claimed to be powerless.

3) Does the buyer itself have significant selling power?

This question relates to the potential selling power of a retailer in the downstream market, meaning its ability to dictate the end-consumer prices.

Even though the competition at retail level is restricted by the number of market participants and there are risks of tacit collusion in the Norwegian market, it is not likely that one buyer on their own can increase prices considerably above those of its competitors without losing sales. Moreover, the discount chains compete foremost on price and given this segment's high share of the market in Norway it is not likely that prices will be driven upwards due to selling power. Additionally, the market participants employ considerable efforts into having the lowest prices. Also, both Rema and Kiwi have announced their intention to be the chain with the lowest prices in the market (Kiwi, 2014; Reitangruppen, 2014a). This indicates that there is no one-sided dictation of end-consumer prices.

4) Are there significant efficiency gains associated with buyer power?

Drawing on the report conducted by the UK Competition Commission (2008) there are two possible sources to economies of scale in the grocery market: distribution costs and purchasing costs. The interesting effect for this paper is whether the efficiency gains from the terms that one retailer is able to induce on a supplier is limiting the other participants' possibilities and/or relax competition between the market participants.

The distribution costs are affected by quantity; meaning that a larger participant (in terms of volume) will be able to divide the costs of distribution over a larger amount of products, hence reduce the marginal cost of distribution. This effect can however be present even though the retailer does not possess buyer power but still operates with an efficient level of output. Nevertheless, the vertical integration of wholesale operations in the umbrella chains is considered to have increased their buyer power by further regulating the access to the market.

In the relation to buyer power the obtainable purchasing costs relate to other factors outside the fixed quantity or negotiated per unit costs (generally all terms and conditions of trade) (Dobson et al., 1998). Table 5.1 and figure 5.2 exhibits the total costs and the cost of goods sold relative to total costs of all market participants. Cost of goods sold constitutes the major

part of the chains' costs. Consequently, the cost advantages that retailers are able to obtain in the negotiations are extremely important for their competitiveness.

In question 1 it was assessed that all four umbrella chains have some extent of buyer power. However, NorgesGruppen and Reitangruppen were considered to likely possess the greatest power due to their size on an overarching level but also due to their shares within the discount segment and Reitangruppen's heavy investments in private labels and upstream suppliers. Both retailers have considerably higher margins than those of the other two market participants, cf. figure 6.2 and 6.3. However, Coop has over the time period investigated been able to increase its terms and conditions of trade; hence, the relatively larger margins of NorgesGruppen and Reitangruppen do not indicate that Coop is worse off. On the other hand, Ica has worse terms in 2013 relative to 2010. Also, the firm's margins are decreasing over the same time period.

In sum there are significant gains associated with improved terms and conditions of trade due to cost of goods sold constituting the major part of total costs.

5) Does the buyer attempt to constrain its suppliers' other actions or deliberately create a dependency relationship?

Evidence of this last question is connected to retailers' ability to impose on suppliers terms and conditions that are not related to the cost structure of the products.

As was discussed in section 6.1 several suppliers consider the reciprocities from joint marketing agreements to be unidentifiable. Consequently, the use of joint marketing may serve as such constrain. On the other hand, based on the margin analysis in section 6.2.2 and comparisons to similar countries the margins of Norwegian grocery retailers are not particularly high. Also, the average profit margins are constant or decreasing over the time period, not indicating that retailers claim an unreasonable part of shared profits through the joint marketing arrangements found to be employed.

Conclusion about the Buyer Power Framework

Drawing on the analysis above there is evidence of buyer power in the Norwegian grocery market. NorgesGruppen and Reitangruppen are considered the participants with the strongest power. They are both large in terms of market shares generally as well as within the

particularly important discount segment. Supported by high gross margins, these two firms seem to some extent to be able to exploit their power in a larger degree than their competitors.

6.3.2 Buyer Power and Competitiveness

The concern of this paper with regards to buyer power is how buyer power can distort the horizontal competition between retailers in exaggerating differences in competitive positions. The section above established that there is evidence of significant buyer power among the retailers in the Norwegian grocery market. The following section draws on the analysis in section 6.3.1 and analyzes the possible consequences of this power.

Upstream Vertical Integration

Reitangruppen is the firm that has integrated most in the upstream vertical supply chain. From the gross profit margin alone we would thus expect Reitangruppen to have among the best terms and conditions. This is true based on previous statements, however their terms have worsened over the time period analyzed in section 6.2.1. The vertical integration in Reitangruppen is a continuous process and the firm has acquired more of the firms over the time period investigated here. Based on the analysis above we would expect the terms and conditions of trade to increase with increased vertical integration. This effect can however not be observed for Reitangruppen. We cannot expect Reitangruppen's terms and conditions of trade to be poor, as they are known to be close to NorgesGruppen's. Still, the observations indicate that upstream vertical integration do not necessarily improve the competitiveness of the market participant above that of the others.

Private Label Products

Literature suggests that private label products give retailers insight into production costs. In combination with an increased number of alternatives, the bargaining power of retailers is expected to increase as they can more credibly impose on suppliers more favorable terms and conditions of trade. Based on the analysis in section 6.3.1 we would expect Reitangruppen to obtain the best terms and conditions of trade. Again, the firm's terms and conditions cannot be claimed to be poor or good, but their margins alone suggest that they are able to obtain rather favorable terms even though they have declined over the last years. Given that Reitangruppen is almost consistently winning price comparisons we expect its prices to be lower than those of the competitors. Hence, the costs must be considerably lower as well if the retailer is able to have the best margins. In combination with the vertical integration

analyzed above and knowing that the integrated suppliers often produce their private labels, Reitangruppen cannot be said to have gained this cost advantage through improved conditions of trade, but the higher margins might have been caused by generally more efficient operations. Coop should in isolation follow suit on Reitangruppen based on their private label investments. However, even though Coop's terms and conditions are know to be at the same level as Reitangruppen's and the terms are found to have improved over the investigated time period, the operating margins of Coop are much lower than those found in Reitangruppen.

Conclusions on Buyer Power and Competitiveness

Improvement of terms and conditions is not supported by upstream vertical integration as Reitangruppen, which have heavily invested in upstream suppliers over the investigated time period, have experienced a worsening of terms and conditions of trade by 2013. As the private label introductions of Reitangruppen have in a large degree been conducted simultaneously with the upstream integration, increasing the outside alternatives cannot be concluded to improve terms and conditions of trade. On the other hand, Coop, which is the firm with the second largest amount of private labels, has achieved improvements over the time period.

6.3.3 Buyer Size

Because of the lack of clarity and conclusiveness in the economic literature on the issue of relative buyer power and size, the Australian Competition Commission (2008) asserts that the impact on other retailers of a larger retailer's buyer power will need to be assessed on the basis of the particular factual evidence. In the following section, the implications of size on profit margin will be analyzed by comparing NorgesGruppen and Ica, the largest and smallest market participant in terms of market share. Lastly, an analysis of the possible consequences of Coop's acquisition of Ica is conducted.

The Waterbed Effect

KPMG (2011) gained insight into the contracts one supplier had with the different umbrella chains. The supplier revealed that the terms given to the largest chain were substantially higher than those given to the smaller chain. Furthermore, the supplier pointed out that its fear of losing the contract with the largest chain resulted in unreasonable discounts. This effect is brought up in Dobson (2005) as possibly leading to a virtuous circle, where the largest competitor can use it cost advantage to undercut the smaller competitors to consistently gain a larger market share. Inderst and Valletti (2011) formally introduced the waterbed effect, which was presented in section 2. To review, the waterbed effect is present when relatively

smaller competitors must carry the suppliers' costs of offering the larger competitor the best terms and conditions. Hence, the smaller retailer will obtain worse terms and conditions at the same time as the larger retailer become more competitive. This implies that the smaller participant's profitability will be reduced and eventually it will not be able to compete as efficiently.

The above section analyzes the possibilities of NorgesGruppen obtaining better terms and conditions of trade than Ica due to its relatively larger market share. The large market share implies that NorgesGruppen controls a wider access to the market than Ica does. Consequently, we may expect that suppliers will offer NorgesGruppen better terms and conditions than Ica. Considering the development in the market shares of NorgesGruppen and Ica, cf. figure 3.4, they have also shown different trends. Whereas NorgesGruppen has increased its market shares since its establishment in the Norwegian market, Ica's market share has declined. Compared to 2005, NorgesGruppen's market share has increased with 7%, whereas Ica's share has declined with 45%. Based on the observations in 2010, the gross profit margins of both firms are at the same level of about 20% in 2010. However, over the next years the gross profit margins of NorgesGruppen and Ica move in opposite directions (see figure 6.2). In isolation, this is in line with changes in market shares translating into the level of terms and conditions.

The analysis in section 6.2.1 concludes that Ica's terms and conditions of trade have worsened over the time period of 2010 to 2013. The differing trends of the two firms' gross profit margins indicate that NorgesGruppen may have improved its terms on behalf of Ica. From section 6.2.1 we observe an increase in NorgesGruppen's gross profit margin, but cannot conclude that the changes in NorgesGruppen's margin are caused by changes in its terms. Consequently, we cannot conclude definitively on whether we observe the waterbed effect in the Norwegian grocery market. Nevertheless, there are indications found in the trend of both market shares and profits than strongly suggest a relationship between the competitiveness of the two firms.

Coop and Ica

Herfindahl-Hirschman Index (HHI)

With the recent changes in the market, a concentration measure is even more relevant in assessing the competitiveness among the market participants. Coop's acquisition of Ica

reduces the number of major market participants from four to three. Assuming that Coop will sustain Ica's market share, Coop's market share will rise to 33.8%. The following figure 6.7 exhibits the potential new market shares should the Competition Authority approves the acquisition.

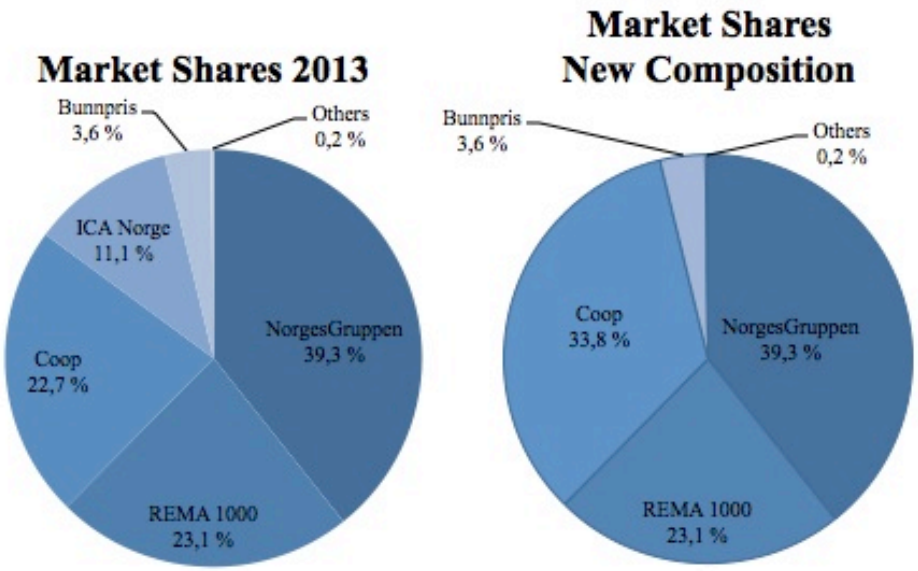

Figure 6.7. Market shares as of 2013 and possible new market shares following the acquisition (adapted from Nielsen, 2014).

Following the increased concentration of the market, HHI[5] will rise to about 3,200, or with about 500 points. Hence, the HHI indicates that the acquisition theoretically reduces the competition in the market at the national level and as such the risks of tacit collusion and reduced competition increase. The effect on HHI is summarized in table 6.2.

	Norges-Gruppen	REMA 1000	Coop	ICA	Bunn-pris	Others	HHI
Old composition	39.3%	23.1%	22.7%	11.1%	3.6%	0.2%	**2,730**
New composition	39.3%	23.1%	33.8%	0%	3.6%	0.2%	**3,234**

Table 6.2. HHI based on old and new composition of the Norwegian grocery market (based on Nielsen, 2014).

[5] Please refer to section 6.3.1, question 1, for the calculations and explanation of the HHI.

Upward Pricing Pressure (UPP)

UPP is in brief the consequences of changes in the market structure on end-consumer prices (Farrell & Shapiro, 2010). The index considers two effects on pricing incentives arising from a merger, rather than looking at concentration through measures like the HHI. Taking the acquisition of Ica into consideration, market competition will be reduced, allowing Coop to increase prices due to loss of direct competition (pressure prices upwards). However, the efficiency gains expected to arise from the acquisition can lower the firm's marginal costs, which would counteract the increased pricing pressure (pressure prices downwards). It will be the net pricing pressure that will determine whether the end-consumer price will be driven upwards or not (Farrell & Shapiro, 2010). The effect is an important consequence of a reduction in the number of market participants that may reduce the competition in the market. The main concerns regarding the acquisition is whether the reduction in the number of actors will allow for tacit collusion and higher prices than before.

The possible situation in the market is that it will be three more equal participants in terms of size. It is likely that the acquisition of Ica will increase the competitiveness of Coop compared to the situation today. The two umbrella chains both currently operate stores across Norway; however, their positions are stronger in different parts of the country (Fanebust, 2014). Additionally, the distribution network will most likely be more efficient due to a larger number of stores and an increased sales area. The CEO of Coop claims that one of the reasons for the acquisition was increased bargaining power. He expects the acquisition of Ica to further increase the competitive constellation of the market and allow Coop to be an active participant with regards to prices, product range and geographical reach within Norway (Fanebust, 2014). These statements imply that the terms and conditions of Coop are still not good enough, even though the above analysis has found the terms to improve relative to 2005.

The price paid to acquire Ica was a high 2.8 billion SEK or 2.5 billion NOK (Ica Gruppen, 2014a; Ekeseth & Laustsen, 2014) and Reitangruppen has stated that they intended to buy Ica as well (Haugdahl, 2014). These facts in combination suggest that the market participants consider gaining an increased market share to be important in order to become more competitive. Consequently, size may explain why Coop acquired Ica. Given that Ica would be sold regardless of Coop's offer, the alternative was that Reitangruppen would have acquired Ica. This would have made Coop the smallest participant and combined with its slightly declining profitability the group's situation would resemble that of Ica. Based on the analysis

of the waterbed effect above, Coop would then be expect to be pressured on its margins and would possibly have had to exit the market as well. Hence, the alternative of Coop not buying Ica could have proven even worse than paying an excess price.

The media has claimed that this situation could be compared to “the blind buying the lame” (Kaspersen & Laustsen, 2014). Coop has not proven itself able to turn better terms and conditions of trade into an improvement of profitability in the period from 2005. Consequently, it will be interesting to observe the development of the retailers if the Competition Authority approves of the acquisition.

7 Conclusion

This section provides the main conclusions of the paper and answers the research question of how terms and conditions of trade influence competitiveness at retail level in the Norwegian grocery market and discuss the implications of the findings. Section 7.2 considers the limitations of the paper and suggests topics for further research.

7.1 Main Findings

Building on the presentation of the Norwegian grocery retail market in section 3 the paper concludes that the competition is characterized as an oligopoly with price competition and geographically differentiated products. The implications are that the market participants are affected by and react to each other's actions. Consequently, we would expect that the relative level of terms and conditions between the market participants will influence the relative competitiveness of the firms.

Section 6.1 analyzes the finding of different reports conducted over the last years to derive at which terms and conditions that are used in the Norwegian grocery market. The contracts between suppliers and retailers are found to be regulating three variables: the unit price of the products, the discounts directly related to the product and other bonuses irrespective of the product. Thus, it can be concluded that we observe the use of flexible contracts, hence vertical restraints. The main vertical restraints used are found to be collected under a so-called joint marketing package, consisting of listing fees, joint marketing activities conducted by the retailers and slotting allowances.

The propositions in regards to the research question are that differences in terms and conditions of trade influence the competitiveness (with the main focus on profitability) in the market, meaning that the different market participants are expected to have different profitability dependent on which terms and conditions of trade that they are able to obtain. We do not know at which level any of the market participants were at in the beginning of the time period or which level they are at today. However, previously conducted research suggests that NorgesGruppen has the most favorable terms, followed by Rema and Coop and lastly Ica.

The margin analysis conducted in section 6.2 concludes that Ica has worse terms and conditions of trade in 2013 relative to the base year of 2010, but the firm is also running its

operations less efficiently. Due to that cost of goods sold constitute the major part of total costs, this can imply that poor terms and conditions may make it more difficult to compete in the market. On the other hand, Coop is found to have improved its terms and conditions in 2013 relative to 2005 but the firm has not been able to transfer these improvements to an enhancement of profit margin, which shows that better terms and conditions alone are not enough to improve competitiveness.

Reitangruppen is also found to have worse terms and conditions of trade in 2013 relative to 2005. The firm has still increased its operating profitability over the same time period, as seen through the increase in its operating profit margin. The operating profit margin of Reitangruppen is also the highest among the four participants for almost the entire period investigated. NorgesGruppen's change in gross profit margin and prices do not give any indications on changes in terms and conditions of trade. We do however find that the firm in 2013 has increased its operating profit margin relative to 2005, indicating that either terms and conditions has improved or that the firm is operating more efficiently.

The extent to which vertical restraints can be imposed on suppliers is found to depend on the relative bargain power of the retailers over suppliers. Consequently, the concept of buyer power is analyzed in section 6.3 to determine the extent of retail buyer power in general, but also to analyze if there are any differences in the relative buyer power of the market participants.

The paper concludes that there is buyer power present at the retail level in the Norwegian grocery market. An asymmetric buyer power between the market participants is expected as well. The asymmetry is analyzed with regard to differences in market shares, the use of private labels and vertical integration with and investments in suppliers. The paper could not find any correlation between the use of vertical integration and improvement in terms and conditions of trade. With regards to private label introduction, the improvement in terms and conditions of trade in Coop in isolation suggests that private labels introductions increase the possibility of obtaining better terms, whereas Reitangruppen's worsening counteracts this conclusion.

To sum it up, the changes in gross profit margin and terms and conditions of trade of the four market participants have differed and have also translated differently into operating profit margin, which is the indicator of profitability and competitiveness.

We would expect that improved (worsened) terms and conditions would increase (decrease) gross profit margin and also lead to increased (decreased) operating profit margins. With regards to Ica, this is the case. This observation suggests that terms and conditions of trade greatly impact the competitiveness of individual firms in the Norwegian grocery market. However, we observe that both Coop and Reitangruppen experience different effects, respectively better terms and conditions and decreasing operating profit margin and worse terms and conditions but increasing operating profit margin. Previous research implies that both Reitangruppen's and Coop's terms and conditions of trade are located somewhere between the two extremes of NorgesGruppen and Ica, but that their terms are roughly the same. Hence, it can be concluded that there are also other factors in addition to changes in terms and conditions that influence competitiveness.

As shown in this paper, Ica's statement that their terms and conditions of trade make it impossible for them to compete in the Norwegian market is only true to a certain extent. Their worsened terms and conditions of trade makes it harder for them to compete, but as exhibited by Reitangruppen it is possible to experience a worsening of the terms and conditions of trade but still improve operating profit margin, thus improving competitiveness.

Implications of Findings

An interesting observation is that Coop has improved its terms and conditions of trade but is still not able to be more competitive in the market, neither increasing its operating profit margin nor its market share. Still, the firm acquires Ica to improve its bargaining power and obtain better terms and conditions. Based on the observations in this paper, Coop already has problems with the efficiency of its operations and Ica has had even greater difficulties in succeeding, as the firm has been struggling with both poor margins and efficiency. As Coop previously has not shown itself able to turn the improvements in terms and conditions into profitability it will be interesting to observe whether their increase in size will allow them to obtain even better terms and if they are actually able to turn the trend around. It must be noted that an increased number of stores and sales area may also contribute to increased economies of scale for the firm. As such they may be able to improve efficiency due to this. Lastly, it is

important to consider that even though it does not seem optimal for Coop to acquire Ica, to not acquire them might have been worse.

7.2 Limitations and Suggestions of Further Research

The main limitation of investing the topic of this paper is the availability of data to researchers. Prices paid to suppliers and terms and conditions of contracts are generally considered sensitive information and the only information available to the public are found through financial statements. However, the importance of the industry to Norwegian consumers implies that more information should be available, as it will allow for a more open discussion of how the situation is in the market. Gabrielsen (2010) also asserts that transparency in the market in regards to information on prices, quality and service level is needed for improved effectiveness of the competition between the market participants. With access to these factors, consumers can take better-informed choices and stimulate the horizontal competition between the chains, which in turn can influence the prices and product range that Norwegian customers are faced with.

As such, further investigation is suggested on the topic of this paper through gaining inside information on (one of) the market participants and as such improve the understanding of the market. Based on the implications of the findings in this paper, another topic of research is Coop's acquisition of Ica and the backgrounds for why "the blind buys the lame", as it has been expressed in Norwegian media.

Another topic for further investigation is that of margins on different products, in particular the difference on private label products and branded products from powerful suppliers to further analyze how the grocery retailers can improve their competitiveness.

This paper has also touched upon the subject of the retailers' exploitation of suppliers by using buyer power. This paper concludes with the existence of buyer power among the grocery retailers but cannot find any indications of particularly high margins at retail level. A topic for further investigation is how the terms and conditions of trade that retailers are able to obtain affect suppliers and the margin at the upstream level in the supply chain. The upstream market is however characterized by a wide range of product categories, with differing importance and competition. As such, the effects of buyer power are suggested to be investigated within certain categories.

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Appendix A - List of Products Included in the Price Comparisons

Products

1. Milk (Tine)
2. Sour cream (Tine)
3. Mackerel in tomato sauce (Stabburet)
4. Caviar (Mills)
5. Tomato soup (Toro)
6. Flour
7. Rice (Uncle Ben's)
8. Eggs
9. Ketchup (Idun – Stabburet)
10. Sun Extra Power (refill – Lilleborg)
11. Pilsner beer – canned (Ringnes)
12. Chips – Classic salt (Maarud)
13. Bananas
14. Apples
15. Tomatoes

Chains from which the Prices are Collected

Ica

1. Ica: Ica Supermarked / Ica Nær
2. Rimi

Coop

1. Coop Mega
2. Coop Obs! (not for 2012 and 2013)
3. Coop Prix

Reitangruppen

1. REMA 1000

NorgesGruppen

1. Kiwi
2. Meny
3. Spar

Appendix B – Price Comparisons

Ica

ICA	2005	2006	2008	2010	2012	2013
Milk	9,6	10,7	11,8	14,5	14,9	34,8
Sour cream	13,9	13,9	15,4	15,9	16,9	16,5
Mackerel in tomato sauce	10,4	12,5	14,9	17,9	16,9	12,9
Caviar	22,3	19,4	19,9	22,9	22,9	22,9
Tomato soup	11,9	10,0			14,5	18,9
Flour	7,0	7,0		16,5	11,9	11,9
Rice	12,4	8,0	33,6	12,5	29,5	27,9
Egg	26,8	27,8			37,9	33,9
Ketchup	11,5	10,5		14,9	16,5	16,2
Sun Extra Power	27,9	18,3		38,9	33,9	37,5
Pilsner beer	23,5	22,9	20,5	22,9	24,5	24,9
Chips	11,6	13,5	14,2	25,9	24,9	27,9
Bananas	9,9	8,9	17,9	17,5	9,9	14,9
Apples	10,0	17,4	17,9	9,8	12,9	20,0
Tomatoes	20,0	17,9	19,9	29,3	24,9	24,9
SUM	228,6	218,6	186,0	259,4	312,9	346,0

Rimi	2005	2006	2008	2010	2012	2013
Milk	9,6	10,2	11,9	13,8	13,8	36,3
Sour cream	13,9	12,5	14,6	14,9	14,6	15,9
Mackerel in tomato sauce	10,0	12,0	14,0	16,8	16,7	12,5
Caviar	22,3	18,5	19,5	20,4	22,2	21,2
Tomato soup	11,5	10,0	11,5	16,9	15,6	19,2
Flour	6,4	6,5	7,0	11,3	11,6	11,4
Rice	9,9	10,0	33,8	29,2	27,9	26,7
Egg	23,0	22,0	19,0	19,2	32,9	33,6
Ketchup	11,5	8,7	12,0	13,8	15,4	14,8
Sun Extra Power	25,8	16,6	26,7	26,9	32,5	35,7
Pilsner beer	22,5	22,0	20,5	20,5	23,9	23,9
Chips	13,3	12,1	13,6	16,1	25,1	26,7
Bananas	9,9	9,0	8,5	13,9	10,9	7,7
Apples	17,5	14,0	9,5	8,5	7,8	10,4
Tomatoes	29,5	18,0	20,0	22,9	24,9	18,7
SUM	236,5	202,1	242,0	265,1	295,8	314,7

ICA Average	2005	2006	2008	2010	2012	2013
Milk	9,6	10,5	11,9	14,2	14,4	35,5
Sour cream	13,9	13,2	15,0	15,4	15,8	16,2
Mackerel in tomato sauce	10,2	12,3	14,5	17,4	16,8	12,7
Caviar	22,3	18,9	19,7	21,7	22,6	22,1
Tomato soup	11,7	10,0	11,5	16,9	15,1	19,1
Flour	6,7	6,7	7,0	13,9	11,8	11,7
Rice	11,2	9,0	33,7	20,9	28,7	27,3
Egg	24,9	24,9	19,0	19,2	35,4	33,8
Ketchup	11,5	9,6	12,0	14,4	16,0	15,5
Sun Extra Power	26,8	17,4	26,7	32,9	33,2	36,6
Pilsner beer	23,0	22,5	20,5	21,7	24,2	24,4
Chips	12,4	12,8	13,9	21,0	25,0	27,3
Bananas	9,9	9,0	13,2	15,7	10,4	11,3
Apples	13,8	15,7	13,7	9,2	10,4	15,2
Tomatoes	24,8	18,0	20,0	26,1	24,9	21,8
SUM	232,5	210,4	252,1	280,3	304,4	330,3

Coop

Coop Mega	2005	2006	2008	2010	2012	2013
Milk	9,8	10,6	12,2	13,8	13,4	15,7
Sour cream	13,4	13,5	14,8	16,2	15,9	14,9
Mackerel in tomato sauce	9,5	12,9	14,9	17,9	18,2	13,6
Caviar	20,5	20,4	20,9	22,9	24,2	23,2
Tomato soup	10,8	10,9	12,9	18,8	14,7	20,5
Flour	11,5	6,9	7,8	12,9	13,9	12,5
Rice	10,8	13,0		32,5	31,9	30,5
Egg	19,7	27,9	21,4		43,5	36,9
Ketchup	10,5	9,2	13,0	14,9	16,8	16,3
Sun Extra Power	23,5	17,0	31,2	29,9	36,0	27,7
Pilsner beer	20,5	20,9		23,2	25,0	25,9
Chips	13,2	13,5	14,9	17,8	27,2	29,5
Bananas	16,9	10,9	10,1	10,0	18,9	13,9
Apples	14,9	14,9	10,7	14,9	24,9	13,9
Tomatoes	34,9	14,9	29,9	29,9	27,9	21,9
SUM	240,4	217,3	214,8	275,6	352,4	316,8

Coop Obs!	2005	2006	2008	2010
Milk	9,6	10,4	11,0	13,8
Sour cream	12,9	13,3	13,5	14,8
Mackerel in tomato sauce	10,4	11,2	12,9	16,8
Caviar	19,9	19,8	20,4	20,9
Tomato soup	10,5	10,4	12,2	10,3
Flour	7,2	6,5	7,2	11,5
Rice	10,9	9,9		29,4
Egg	18,9	26,4	21,3	
Ketchup	9,2	8,7	12,4	13,9
Sun Extra Power	19,2	16,6	28,5	27,2
Pilsner beer	19,9	20,0		21,2
Chips	12,4		13,5	14,9
Bananas	14,9	9,9	9,9	10,9
Apples	9,9		16,9	19,9
Tomatoes	29,9	16,9	16,9	24,9
SUM	215,7	179,9	196,5	250,4

Coop Prix	2005	2006	2008	2010	2012	2013
Milk	9,5	10,4	18,7	13,8	13,8	14,3
Sour cream	12,9	13,3	14,4	14,8	14,6	15,9
Mackerel in tomato sauce	10,4	11,2	12,9	16,8	16,9	12,5
Caviar	19,9	19,8	20,5	20,9	22,5	21,2
Tomato soup	10,4	10,4	12,2	17,2	14,6	18,7
Flour	6,5	6,5	7,2	11,5	12,2	11,4
Rice	10,9	9,9	40,4	29,4	27,9	26,7
Egg	18,9	26,4	20,7	19,2	40,6	17,9
Ketchup	9,2	8,7	12,0	13,9	15,5	15,0
Sun Extra Power	17,4	16,6	28,5	27,2	32,9	35,7
Pilsner beer	19,9	20,0	19,0	21,2	23,9	23,9
Chips	12,4	12,5	13,5	16,4	25,8	16,4
Bananas	14,9	9,9	12,9	10,9	9,9	9,9
Apples	9,9	14,9	16,9	9,9	21,9	10,9
Tomatoes	24,9	12,9	29,9	24,9	25,9	18,9
SUM	208,0	203,3	279,6	268,0	318,9	269,3

Coop Average	2005	2006	2008	2010	2012	2013
Milk	9,6	10,5	14,0	13,8	13,6	15,0
Sour cream	13,1	13,4	14,2	15,3	15,3	15,4
Mackerel in tomato sauce	10,1	11,8	13,6	17,2	17,6	13,1
Caviar	20,1	20,0	20,6	21,6	23,4	22,2
Tomato soup	10,6	10,6	12,4	15,4	14,7	19,6
Flour	8,4	6,6	7,4	12,0	13,1	12,0
Rice	10,9	10,9	40,4	30,4	29,9	28,6
Egg	19,2	26,9	21,1	19,2	42,1	27,4
Ketchup	9,6	8,8	12,5	14,2	16,2	15,6
Sun Extra Power	20,0	16,7	29,4	28,1	34,5	31,7
Pilsner beer	20,1	20,3	19,0	21,9	24,5	24,9
Chips	12,7	13,0	14,0	16,3	26,5	23,0
Bananas	15,6	10,2	11,0	10,6	14,4	11,9
Apples	11,6	14,9	14,8	14,9	23,4	12,4
Tomatoes	29,9	14,9	25,6	26,6	26,9	20,4
SUM	221,3	209,5	269,9	277,4	335,7	293,1

Reitangruppen

REMA 1000	2005	2006	2008	2010	2012	2013
Milk	9,5	10,0	11,2	13,4	13,8	13,9
Sour cream	12,0	13,5	14,3	14,9	14,6	15,9
Mackerel in tomato sauce	9,0	11,0	12,9	16,8	16,7	12,5
Caviar	19,0	20,0	19,4	20,4	22,0	21,2
Tomato soup	10,0	10,0	11,8	12,7	12,7	18,0
Flour	6,5	6,5	7,0	11,3	11,6	11,4
Rice	8,0	8,0	31,3	28,9	27,8	26,7
Egg	19,0	19,0	18,3	19,2	32,8	33,6
Ketchup	8,7	8,7	12,0	13,8	15,4	14,8
Sun Extra Power	16,6	16,6	28,1	26,6	32,1	35,7
Pilsner beer	22,5	20,0	19,9	20,5	23,8	23,9
Chips	11,7	10,6	13,2	16,0	23,9	16,4
Bananas	11,0	10,0	14,0	10,5	9,9	7,7
Apples	12,0	19,9	13,0	9,0	16,9	10,4
Tomatoes	28,0	12,0	19,0	26,5	13,5	14,9
SUM	203,4	195,7	245,3	260,5	287,5	276,9

NorgesGruppen

Kiwi	2005	2006	2008	2010	2012	2013
Milk	9,5	10,3	10,7	13,8	13,8	13,9
Sour cream	12,9	12,9	13,6	14,0	14,6	15,9
Mackerel in tomato sauce	10,9	10,9	12,9	16,9	16,7	12,5
Caviar	19,7	19,4	19,9	20,4	22,4	21,2
Tomato soup	9,8	10,0	11,9	16,9	13,9	18,9
Flour	6,4	6,5	6,5	11,4	11,9	11,4
Rice	13,9	7,9	34,9	29,9	28,9	26,9
Egg	19,7	19,9	18,6	18,5	33,9	33,7
Ketchup	9,4	8,6	12,4	13,9	15,9	15,6
Sun Extra Power	16,5	16,5	27,5	26,9	32,4	35,9
Pilsner beer	21,9	19,9	19,9	20,9	23,9	23,9
Chips	12,3	12,4	14,2	16,4	23,9	26,9
Bananas	9,9	9,9	8,7	10,4	9,9	7,7
Apples	13,9	13,9	13,1	8,3	15,0	13,0
Tomatoes	29,9	19,9	23,6	22,7	13,0	14,8
SUM	216,7	198,9	248,4	261,2	290,0	292,1

Meny	2005	2006	2008	2010	2012	2013
Milk	9,6	10,7	12,2	13,8	14,9	15,5
Sour cream	13,4	13,3	14,7	15,9	16,9	16,9
Mackerel in tomato sauce	9,9	11,9	14,9	17,9	16,9	12,9
Caviar	20,3	19,8	19,9	22,9	22,9	21,9
Tomato soup	11,9	10,2	13,9	17,9	18,5	18,9
Flour	6,5	6,6	5,8	11,9	11,9	11,9
Rice	14,0	9,9	39,9	31,9	29,5	27,9
Egg	19,7	20,3	26,9	25,9	35,9	34,9
Ketchup	10,0	9,3	13,0	14,9	16,5	16,2
Sun Extra Power	27,7	18,0	29,4	29,9	33,9	37,5
Pilsner beer	22,9	22,0	21,9	22,9	24,5	24,9
Chips	12,8	13,6	14,9	24,9	24,9	27,9
Bananas	13,9	9,9	9,9	10,9	9,9	12,9
Apples	13,8	12,9	15,9	14,9	9,9	8,9
Tomatoes	29,9	19,9	24,9	29,9	24,9	14,9
SUM	236,4	208,2	278,1	306,4	311,9	304,0

Spar	2005	2006	2008	2010	2012	2013
Milk	9,8	10,7	12,2	13,8	14,5	14,9
Sour cream	13,8	14,2	14,5	16,5	15,5	16,9
Mackerel in tomato sauce	10,9	13,2	13,9	13,9	17,9	12,9
Caviar	21,3	20,7	21,9	22,9	23,5	22,5
Tomato soup	11,8	11,2		18,9		19,5
Flour	5,7	6,7		13,5	12,5	11,9
Rice	13,9	13,9	43,6	31,5	29,5	27,9
Egg	20,7	21,5			35,5	39,9
Ketchup	10,4	10,8		14,9	16,5	16,6
Sun Extra Power	27,8	18,3		32,9	33,9	37,9
Pilsner beer	23,7	22,9		22,5	24,9	24,9
Chips	13,2		14,2	18,5	26,9	28,5
Bananas	11,5	10,0	12,9	14,9	6,9	9,9
Apples	14,9		16,9	19,9	12,9	11,9
Tomatoes	26,9	16,9	18,8	24,9	24,9	16,9
SUM	236,3	191,0	169,0	279,5	295,8	313,0

NorgesGruppen Average	2005	2006	2008	2010	2012	2013
Milk	9,6	10,6	11,7	13,8	14,4	14,8
Sour cream	13,4	13,5	14,3	15,5	15,7	16,6
Mackerel in tomato sauce	10,6	12,0	13,9	16,2	17,2	12,8
Caviar	20,4	20,0	20,6	22,1	22,9	21,9
Tomato soup	11,2	10,5	12,9	17,9	16,2	19,1
Flour	6,2	6,6	6,1	12,3	12,1	11,7
Rice	13,9	10,6	39,5	31,1	29,3	27,6
Egg	20,0	20,6	22,8	22,2	35,1	36,2
Ketchup	10,0	9,6	12,7	14,6	16,3	16,1
Sun Extra Power	24,0	17,6	28,5	29,9	33,4	37,1
Pilsner beer	22,8	21,6	20,9	22,1	24,4	24,6
Chips	12,8	13,0	14,4	19,9	25,2	27,8
Bananas	11,8	9,9	10,5	12,1	8,9	10,2
Apples	14,2	13,4	15,3	14,4	12,6	11,3
Tomatoes	28,9	18,9	22,4	25,8	20,9	15,5
SUM	229,8	208,2	266,4	289,8	304,6	303,0

Appendix C – Excerpts from the Financial Reports

Ica Norge

Ica	2005	2006	2007	2008	2009	2010	2011	2012	2013
Sales revenue	10 418	10 645	10 549	10 777	17 098	17 107	17 240	15 718	14 167
Other operating revenue	654	365	301	336	1 367	1 546	1 761	1 595	1 521
Sum operating revenue	11 072	11 009	10 850	11 113	18 465	18 653	19 002	17 314	15 688
Cost of goods sold	9 326	9 426	9 240	9 589	13 650	13 848	14 226	12 983	11 803
Other operating expenses	1 383	1 383	1 485	1 640	5 309	5 362	5 405	5 163	4 736
Sum operating expenses	10 709	10 809	10 725	11 229	18 959	19 211	19 631	18 146	16 539
Gross profit	1 092	1 219	1 310	1 188	3 448	3 259	3 014	2 736	2 364
Operating profit	363	201	125	- 116	- 494	- 558	- 629	- 832	- 851

Ica Norge – from the Swedish financial reports before the joint venture

ICA	2005	2006	2007	2008	2009
Sales SEK	19 039	18 359	19 095	20 293	21 666
Operating profit	534	89	127	-520	-506

Coop

Coop	2005	2006	2007	2008	2009	2010	2011	2012	2013
Sales revenue	18 677	21 212	23 201	24 071	27 468	28 065	28 785	29 711	30 126
Other operating revenue	331	324	305	2 110	1 194	1 223	1 256	1 285	1 342
Sum operating revenue	19 008	21 536	23 506	26 181	28 662	29 288	30 041	30 996	31 468
Cost of goods sold	17 446	19 978	21 843	23 371	24 886	25 379	26 027	26 816	27 410
Other operating expenses	1 519	1 517	2 036	2 553	3 620	3 608	3 614	4 014	4 002
Sum operating expenses	18 965	21 495	23 879	25 924	28 506	28 987	29 641	30 830	31 412
Gross profit	1 231	1 234	1 358	700	2 582	2 686	2 758	2 895	2 716
Operating profit	43	41	- 373	257	156	301	400	166	56

Reitangruppen

Reitangruppen	2005	2006	2007	2008	2009	2010	2011	2012	2013
Sales revenue	16 452	20 202	30 385	40 714	40 585	41 435	46 119	53 241	58 185
Other operating revenue	27	404	1 117	80	305	600	472	501	772
Sum operating revenue	16 479	20 606	31 502	40 794	40 890	42 035	46 591	53 742	58 957
Cost of goods sold	12 322	15 359	23 692	33 106	31 478	32 076	36 151	42 045	45 748
Other operating expenses	3 404	3 996	5 508	7 028	7 600	7 731	8 266	9 119	10 168
Sum operating expenses	15 726	19 355	29 200	40 134	39 078	39 807	44 417	51 164	55 916
Gross profit	4 130	4 843	6 693	7 608	9 107	9 359	9 968	11 196	12 437
Operating profit	753	1 251	2 302	660	1 812	2 228	2 174	2 578	3 041

NorgesGruppen

NorgesGruppen	2005	2006	2007	2008	2009	2010	2011	2012	2013
Sales revenue	30 366	35 348	41 057	47 047	51 078	53 411	56 031	59 409	64 592
Other operating revenue	1 165	1 283	1 621	1 968	2 154	2 264	2 610	2 674	2 803
Sum operating revenue	31 531	36 632	42 678	49 016	53 232	55 675	58 641	62 083	67 396
Cost of goods sold	24 109	28 410	33 090	38 016	40 921	42 621	44 237	45 456	49 610
Other operating expenses	6 509	7 120	8 179	9 796	10 483	10 949	11 945	14 055	15 512
Sum operating expenses	30 618	35 529	41 269	47 812	51 404	53 570	56 182	59 511	65 122
Gross profit	6 257	6 938	7 967	9 031	10 157	10 790	11 794	13 953	14 982
Operating profit	913	1 102	1 409	1 204	1 828	2 105	2 459	2 572	2 274