

Retailing Market Structures and Consumers Food Prices in Slovenia

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Abstract - The retail market outlets are one of the crucial elements of food chain efficiency and consumer price determination. Whereas in uncompetitive markets consumer price determination might be biased on cost and mark-up price formation within food chains from farmers, food processors and traders to consumers, this cost and mark-up price determination is unlikely in competitive markets. Trade, market and price liberalization imply that by the increase in competitive market pressures there might be changes causing the level and patterns of consumers food prices during transition and the entry of Slovenia into the enlarged European Union (EU-25). During the last fifteen years the retail food market outlets in Slovenia have undergone considerable changes in the number of suppliers, their size, organization and ways of operation. In the initial stage of transition the regionally based monopolistic retailers formed the core of the retail food marketing structures. With liberalization and market deregulation, there was a short period of entries of numerous small shops. However, the later developments have strengthened two main development patterns: firstly, the mergers, takeovers and concentration process of domestic retailers under the umbrella of Mercator, which has become the biggest Slovenian retailers. Secondly, the entries of mixed-owned and later foreign-owned food marketing chains and supermarkets have become important. The changing retailing market structures have had impacts on increases of competition within food chains and thus on the level and structures of consumers food prices. Whereas consumer food prices have adjusted in different directions also due to different initial market conditions and policy changes, there is prevailing downward consumer food price adjustment on the increased competition. By the increased competitive pressures food markets have become more integrated and internationalized into the enlarged EU-25 agro-food markets. The induced greater internalization of retailing marketing chains by entries of supermarkets rationalizes marketing activities and increase welfare for consumers various consumer price and non-price or quality ways.¹

INTRODUCTION

This paper aims to evaluate the impacts of market deregulation and the European Union (EU) enlargement on market structures and on consumer food prices in Slovenia. With the EU membership the competition and competitive pressures have increased and the regulatory environment created by the liberalization of markets is reinforcing their im-

portance. Different suppliers' efficiency strategies might be important in agro-food chains by entry of new suppliers and different alliances in horizontal and vertical market coordination. Similar as in most other EU countries, also in Slovenia the increased competition has resulted in higher concentration in retail agro-food markets (e.g. Bojnec, 2005 and 2006). The EU membership has increased competitive pressures in the agro-food markets. Under such circumstances the increasing competitive markets are creating pressures for downward price adjustments, but this also depends on the initial market conditions (e.g. Bojnec and Peter, 2005; Bakucs and Fertő, 2005)). The initial market conditions and the increased competition in domestic markets have been flooded by low-cost suppliers and adjustments in market prices and marketing margins. The EU membership has had different impacts on agro-food price adjustments by various agro-food markets in Slovenia (Bojnec, 2005 and 2006). Agro-food domestic producers and traders might be squeezed under the pressures to reduce their prices and trade margins, but real consumer price reductions lead to the consumers' gains from these price reductions.

METHOD AND DATA

Real consumer price developments are common method to study consumer prices. In the case of main food staples, it can be studied on the basis of real consumer agro-food prices by food chains to study price level and their patterns as well as by consumer price indices to study only their real patterns. The average consumer price is price achieved for a certain product in retail trade. To exclude the impact of inflation and to get a real consumer price, prices at retail levels are deflated by the base year consumer price index. The increasing, decreasing or more stable development patterns in real consumer prices imply relative position for suppliers and consumers at a certain food chain. Data on consumer prices for agro-food products are obtained from the Statistical Office of the Republic of Slovenia (SORS), which collects data on consumer prices each month in exactly defined period of time by price collectors in about 1100 selected outlets (e.g. shops, market-places, at craftsmen and other organizations) in four Slovenian towns and through the Internet. The consumer price is the final selling price in retail shops, supermarkets, hypermarkets, and similar market outlets that customers pay to purchase a certain product. It includes the prescribed value-added tax as well as all other duties.

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EMPIRICAL RESULTS

Bojnec (2005 and 2006) analyzed real consumer price developments in Slovenia by main food staples chains. To illustrate main price developments, we present general pattern in development of consumer prices. As can be seen from Figure 1, real consumer prices explore some differences in their patterns of development by declines in real consumer prices for food, non-alcoholic and alcoholic beverages, but the increase in real consumer prices for tobacco products. The decline for the former is particularly in 2004 when Slovenia entered into the enlarged EU-25. This indicates that the increasing competitive pressures in the consumer markets that occurred from the entry of new competitors, particularly western supermarkets and hypermarkets that have increased competitive pressures and thus caused reductions in real consumer prices for main food staples, which are more visible for beverages, but also for food prices. On the other hand the increase in real consumer prices of tobacco products is also biased to taxation policies as well as regulations that are important in the market of tobacco products.

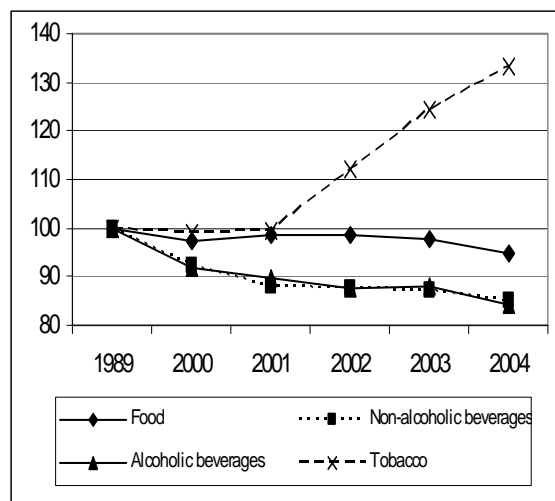


Figure 1. Real consumer prices for food, beverages and tobacco (1999=100, deflator is consumer price index).

CONCLUSIONS

The market deregulation and the entry of Slovenia into the enlarged EU-25 have brought considerable changes in agro-food retailing and consumer pricing. Different efficiency and marketing strategies have been implemented to response to the increasing competitive pressures in agro-food retailing and pricing. Whereas in an initial stage of transition several small shops were set up, the later developments were reversed by less new entries and more exits particularly by merging and taking over of the previous retailing structures. This merging and concentration process of the Slovenian retailing sector was under the umbrella of the biggest Slovenian retailers Mercator, which has become one of the largest retailing chains in Slovenia up to recently and even after the entry of foreign super- and hyper-market chains. Efficiency strategies to reduce costs

and marketing strategies to develop retail brand name products have been used to response to competition at domestic and regional markets. With the market deregulation and EU enlargement food retailing and food consumer prices in Slovenia have adjusted in different directions to the new market situations depending on policy changes and related distortions that existed in individual markets prior the enlargement, but consumer's price reduction tendency has been found to prevail. The most recently, after the EU enlargement, some stabilization in agro-food markets is already recorded, but at different levels of real prices (SORS, 2006). This implies that agro-food markets in Slovenia are becoming much more integrated into the enlarged EU-25 competitive markets.

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