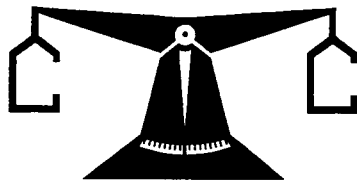




**REPORT
ON
THE SUPERMARKET INDUSTRY
IN HONG KONG**

Prepared by :
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and
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Hong Kong Housing Society

Kitty & Kettie Supermarket Limited

Park'N Shop Limited

Wellcome Company Limited

PART ONE: INTRODUCTION

BACKGROUND

- 1.1 In Hong Kong, consumers patronize supermarkets to purchase household necessities, e.g. confectionery, household cleaning products, canned food and personal care products. Their importance to consumers is second only to that of wet markets, where more choices of fresh meat, vegetables and fruits are available.
- 1.2 According to the most recent Household Expenditure Survey conducted (once every 5 years) in 1989/90, households in Hong Kong spent about 35% of their total expenditures on foodstuffs which constituted the single largest item of expenditure.¹
- 1.3 The Consumer Council estimates that supermarkets in Hong Kong control about 40% of the territory's food business, excluding meals away from home, which amounted to about \$13 billion in 1992.²
- 1.4 The two major supermarket chains in Hong Kong, Park'N Shop and Wellcome, each estimated that over 400,000 people visit their outlets everyday.³
- 1.5 Since shopping at supermarkets has fast become a daily activity of the people in Hong Kong, the competitive environment and current market practices in the industry have significant bearing on consumers.
- 1.6 In addition, members of the public have expressed concern that the market concentration of the two big supermarket chains may adversely affect product price and consumer choice. Such allegations must be investigated in the interest of consumers.
- 1.7 This study was prepared by Ms. Suk-ching HO, member of the Consumer Council and Senior Lecturer of the Department of Marketing of the Chinese University of Hong Kong, and the research staff of the Consumer Council. It is part of the Consumer Council's studies aimed at developing a comprehensive competition policy for Hong Kong. The Consumer Council's Competition Policy Committee defined the scope of the study and monitored its progress.

OBJECTIVES OF THE STUDY

- 1.8 This study serves three purposes:
 - (a) To examine the current competitive environment of the supermarket industry;
 - (b) To evaluate the impact of the market structure of the industry on suppliers and consumers; and
 - (c) To make recommendations on measures to promote fair competition and thereby enhance consumer interests.
- 1.9 This study therefore examines the effects of supermarket competition with a view to assessing whether the community as a whole benefits from it.

SUPERMARKET AS DEFINED IN THE STUDY

- 1.10 The Census and Statistics Department classifies supermarkets as establishments

which “engage in the retail sale of general provisions including a variety of food-stuffs as one of the major items” and which “use self-serving retail method”. Convenience stores are also included in this classification. It must be clarified that supermarkets carry both food and non-food items. For the purpose of this study, the Council only focused on conventional supermarkets. Convenience stores have characteristics very different from conventional supermarkets and were therefore excluded.⁴ The potential for convenience stores to become a substitute for conventional supermarkets is discussed in Part 7 of this report.

DATA COLLECTION

1.11 There is no organized information source on the operation of the supermarket industry in Hong Kong. In addition to collecting primary data through surveys, the Consumer Council used expert opinions and information collected from a variety of sources. These included:

- (a) Census and Statistics Department
- (b) Supermarket operators
- (c) Convenience Store operators
- (d) Supermarket suppliers
- (e) Academics at tertiary education institutions
- (f) Field observations by Council staff
- (g) Data compiled from previous surveys conducted by the Council
- (h) Literature on the development of supermarket industry and its operations in Hong Kong
- (i) Trade journals
- (j) Magazine and newspaper reports

1.12 These data posed certain constraints as follows:

- (a) The secondary data used were not collected specifically for the purpose of the present study. Considerable judgement had to be exercised in the selection and interpretation of such information.
- (b) Published statistics may not always be consistent and comparable over time.
- (c) Although some primary data have been provided by a number of parties concerned, other statistical data were not available for analysis by the Council.
- (d) This study focuses only on areas which are related to consumer interests.
- (e) The scale and complexity of supermarket operations together with the unavailability of certain data precluded a comprehensive study of the industry operation.
- (f) The constraints in data collection imposed limitations on the methodologies available for analysis. Every effort, however, was made to ensure accuracy.

- 1.13 Notwithstanding the above, the Council believes that the report provides an in-depth analysis of the extent of competition in the supermarket industry and the likely impact on the various parties concerned.

NOTES:

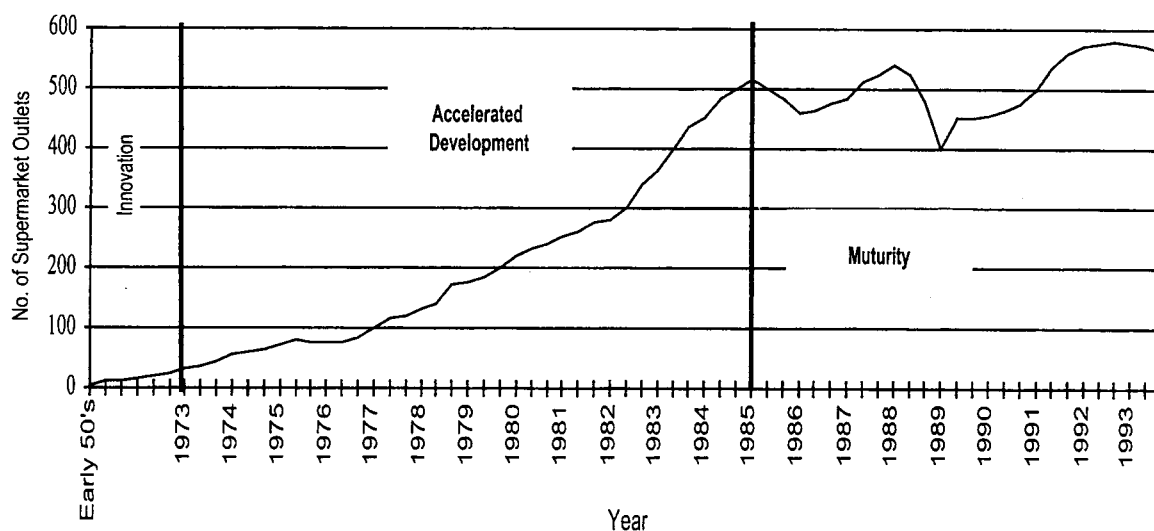
- 1 Census and Statistics Department. The survey is conducted once every five years, hence the 89/90 is the most recent report available.
- 2 Census and Statistics Department; Consumer Council's correspondence with a supermarket operator.
- 3 Ming Pao Daily, July 24, 1991, P.40; Hong Kong Economic Times, November, 13, 1991, P.6.
- 4 Where the data from the Census and Statistics Department include convenience stores as a component, the data were adjusted before being used in this study.

PART TWO: MARKET STRUCTURE OF THE SUPERMARKET INDUSTRY

MARKET STRUCTURE

- 2.1 The retail life cycle concept was employed to study the market structure of the supermarket industry. The life cycle pattern reflects fundamental shifts in the competitive positions of retail institutions over their years of operation in the market. The retail life cycle of the supermarket industry is thus traced to reveal the evolution of the competitive structure of the industry.
- 2.2 The retail life cycle describes four stages of retail institutions, namely: (a) innovation, (b) accelerated development, (c) maturity, and (d) decline.
- 2.3 Supermarkets were established in Hong Kong in the early 1950s. The development of this self-service retailing mode was very slow in the subsequent two decades and the number of outlets were few (less than 30).¹ Figure 1 (P. 6) shows the changing number of supermarket outlets in Hong Kong in the past four decades.
- 2.4 Accelerated development of the supermarket industry began around 1973. Reflecting this change, the Census and Statistics Department began separating statistical reporting on the establishment of supermarkets from that of the whole retail sector in 1974. In keeping with the favourable conditions of the market, the number of conventional supermarkets grew rapidly until the mid-1980s. The number of outlets in 1985 was more than 8 times that in 1974.² The expansion of the number of outlets was primarily supported by the expansion of the market itself.
- 2.5 The supermarket industry evolved into a maturity stage around 1985. The growth of sales and outlets started to slow down, and competitive rivalry intensified. The annual growth rate of supermarket sales was 20% between 1981-85. It had slowed down to 13% between 1985-92.³ The respective percentage growth rates for the number of outlets was 19.7% and 1.9%.⁴
- 2.6 Fluctuations in the number of outlets after 1985 indicate that the industry had moved from a phase of accelerated development to one of maturity and consolidation. As a result, uncompetitive operators were forced out of the industry.

Figure 1 : No. of Supermarket Outlets in Hong Kong



MARKET CONCENTRATION

- 2.7 In the last decade, concomitant with the progression of supermarkets along their life cycle, a fundamental change in the structure of supermarket competition occurred. The market witnessed steady growth of the large multiple chains, exemplified by China Resources Purchasing Company (CRC), Kitty and Kettie Supermarket (KK), Park'N Shop and Wellcome, as well as an increase in store size i.e. the average sales area of stores. In the 1970s, the floor space of a supermarket averaged 4,000 sq. ft. This increased to 6,000 sq. ft. in the 1980s.⁵
- 2.8 The development of multiple retail chains has led to the concentration of supermarket sales in the hands of a small number of companies. This is reflected by the Herfindahl Index, which is a measure of market concentration taking into account both the number of firms in the industry and their market shares.
- 2.9 As of October 1993, Hong Kong had about 170 supermarket operators and about 560 outlets in the territory⁶. Table 1 presents the Herfindahl Indices for 3 groups of supermarket operators for the period April 1991 - October 1993⁷. The results show that the supermarket industry has a high concentration of market share.
- 2.10 Group 1 consists of 170 supermarket operators, including chains and single-outlet supermarkets. In a perfectly competitive market, where each supermarket operator has an equal market share, the Herfindahl index for this group would be 0.0059 (or 1/170). However, Table 1 shows that the Herfindahl indices for Group 1 were between 0.3043 and 0.3354. Dividing 1 by each index gives results indicative of a market comprised of only 3 supermarket operators with equal market share, despite 170 supermarket operators in this group.
- 2.11 Group 2 consists of 8 supermarket operators, each of which has 5 or more outlets. Dividing 1 by the index, the result indicates that total sales value of this group was as if evenly distributed between 2.5 supermarket chains in the period April - October 1993. In the same period, the market share of this group of supermarkets as a percentage of the total sales of the industry was estimated to be about 75%.⁸
- 2.12 Group 3 consists of 162 supermarket operators, each of which has less than 5 outlets. The result reveals that the market share for this group was as if evenly distributed between 21 supermarket operators, although there are 162 in this group.

Table 1 : Herfindahl Index^(a) for Supermarkets^(b)

Month/Year	Group 1	Group 2	Group 3
	All Supermarket ^(d)	Supermarket Chains ^(d) (No. of outlets > or = 5)	Other Supermarkets ^(d) (No. of outlets < 5)
4/91 - 3/92	0.3043	0.3960	0.0154
4/92 - 3/93	0.3302	0.3943	0.0224
4/93 - 10/93 ^(c)	0.3354	0.4050	0.0471

Source : Monthly Survey of Retail Sales, Census & Statistics Department.

(a) Figures refer to October in the respective period.

(b) Excluding convenience stores.

(c) Figures refer to provisional survey results.

(d) No. of supermarket establishments in the 3 groups is based on survey and does not necessarily cover all the existing supermarkets in the industry.

SUPERMARKET CHAINS

- 2.13 One predominant feature of the supermarket industry is its chain operation. The two largest chains are Park'N Shop and Wellcome, with 165 and 185 outlets, respectively, as of 1993. They have become the market leaders.
- 2.14 Park'N Shop and Wellcome are able to maintain an enviable growth rate in a mature market. Between 1985-93, the annual growth rate in the number of outlets for Park'N Shop was 5.4% and 7.5% for Wellcome.⁹ In the same period, the number of supermarket outlets in the industry, excluding Park'N Shop and Wellcome outlets, declined at an annual rate of 4.3%. These figures indicate that the expansion of Park'N Shop and Wellcome likely was at the expense of other small and single-outlet supermarkets.
- 2.15 Not only do the big two outperform their competitors in the absolute number of outlets, they also hold dominant market shares. Industry estimates generally agree that Park'N Shop and Wellcome together control approximately 70% of supermarket sales.¹⁰
- 2.16 The fact that the market share of the two chains (approximately 70%) is higher than their percentage share of outlets (62% in 1993) reflects the economies of scale enjoyed by the big two chains.
- 2.17 CRC is the third largest supermarket chain. It started operation in 1984 with 8 outlets and expanded to 37 outlets in 1993, with an annual growth rate of 18.6%. KK first opened its outlets in 1987 and operated 19 outlets in 1993, with an annual growth rate of 15.5%. The expansion of these two medium-sized supermarket chains is impressive bearing in mind that they were new entrants in a market dominated by the big two chains. However, CRC and KK do not come close to the two big chains in terms of the number of outlets and market share.
- 2.18 Statistical evidence reveals that concentration in the supermarket industry is high. Despite such high concentration, this market can only be characterized as a polarized market. At one end of the continuum, the industry is dominated by the two big chains; with a large number of small, independent supermarket operators at the other end.

SUMMARY

The supermarket industry, since its inception in Hong Kong four decades ago, has reached a maturity stage in its retail life cycle. It has undergone a steady and significant transformation during the last 10 years, with a marked increase in concentration characterizing the market.

The high market concentration is reflected by the Herfindahl index which shows that in a group of 170 supermarket operators, the market share is as if evenly distributed between 3 supermarkets. With the combined market share of Park'N Shop and Wellcome estimated to be 70%, the big two chains possess about two-thirds of the market, and the other one-third of the market is shared by the other 168 supermarket operators.

The high market share has allowed Park'N Shop and Wellcome to maintain an enviable growth rate in a mature market. The market expansion of the two big chains has been achieved at the expense of Honk Kong's small and single-outlet supermarkets.

NOTES:

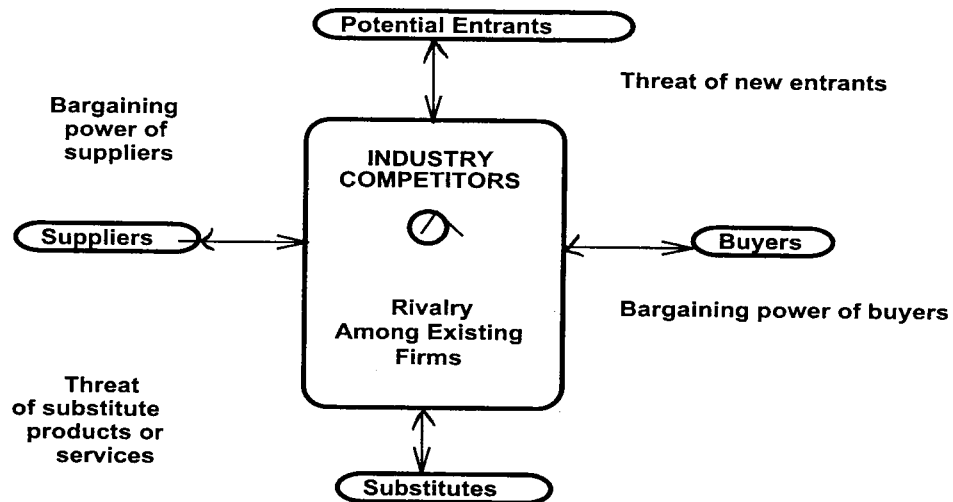
- 1 Ho-fuk Lau, "Transfer of Supermarket Technology into Less Developed Countries: A Study of the Supermarket Development in Hong Kong and China," paper presented at the Annual Meeting of Academy of International Business, New York, 1985.
- 2 Census and Statistics Department. Data adjusted for use in this report.
- 3 Census and Statistics Department (data adjusted for use in this report); correspondence with a convenience store operator.
- 4 Census and Statistics Department. Data adjusted for use in this report.
- 5 Hong Kong Economic Times, November 18, 1988, P.15.
- 6 Census and Statistics Department. Data adjusted for use in this report.
- 7 Census and Statistics Department.
- 8 Census and Statistics Department.
- 9 Park'N Shop Ltd. and Wellcome Co. Ltd.
- 10 Various sources including newspaper reports and suppliers' estimates.

PART THREE: THE FORCES OF COMPETITION

THE FIVE-COMPETITIVE-FORCES FRAMEWORK

- 3.1 A “five-competitive-forces” framework was used to analyse the competitiveness of the market. This framework is set out in Figure 2.¹

Figure 2: Competitive Forces in Supermarket Industry



Source: Adopted from Michael E. Porter, *Competitive Strategy*, Free Press, 1980, P.4.

- 3.2 The centre box in Figure 2 depicts the traditional locus of market competition known as intratype competition, which is competition among existing competitors of the same industry.
- 3.3 As supermarkets buy products from suppliers and sell them to consumers, the extent of competition between supermarkets will have implications on the relationships between:
- suppliers and supermarkets, and
 - supermarkets and consumers.

The relative bargaining power of these parties determines the nature of their relationships.

- 3.4 Two additional dimensions of retail competition are “potential entrants” and “substitutes”, as illustrated in Figure 2. The former refers to competition from newcomers entering the industry whereas substitutes are other forms of organizations that can perform the same functions as the existing market participants in the industry. The success of the new entrants or substitutes in altering the relative market shares of the existing competitors will change the competitive scene of the market.

SUMMARY

This study uses the “five-competitive-forces” framework to explore the competitive environment in the supermarket industry. The vertical relationship between supermarkets and their suppliers, intratype competition within the industry and the consequential impact on consumer interests are discussed in parts 4, 5 and 6.

NOTES:

- 1 Michael E. Porter, *Competitive Strategy*, Free Press, 1980.

PART FOUR: VERTICAL RELATIONSHIP BETWEEN SUPERMARKETS AND SUPPLIERS

RELATIONSHIP OF SUPERMARKETS WITH SUPPLIERS

- 4.1 Suppliers maintain a vertical relationship with supermarkets and the relative bargaining strengths of the two parties dictate the nature of such relationship.
- 4.2 A unique feature of the supermarket operation is its one-stop shopping facility, providing a broad assortment of products for consumer choice. As such, supermarkets have a large number of suppliers. In the case of a large supermarket chain, the number of suppliers can be as high as 600-700.¹ Many of them are small suppliers of limited-product lines. Therefore, supermarkets, especially the large chains, have a wide choice of suppliers from whom they can buy. By contrast, suppliers have a limited choice of retailers to whom they can sell, especially for volume purchases of their products.
- 4.3 According to a Consumer Council survey of suppliers of selected products/brands, the range of their products being distributed through Park’N Shop and Wellcome varies between 10% and 100% with a mode of around 50%. In other words, these two chains are significant outlets for many of these suppliers.
- 4.4 Some suppliers, aware of the disadvantages of relying too much on Park’N Shop and Wellcome for their business, took steps to diversify their distribution channels, thereby reducing reliance on large supermarket chains. The survey reveals that the strategy adopted seems to be product-specific. For example, rice, and biscuits/cakes are more supermarket-dependent, whereas beverages are less dependent. Beverages are also distributed through other channels such as convenience stores, schools, fast food shops, hotels and factory canteens, etc.
- 4.5 The reasons for the heavy reliance on the two big supermarkets are twofold. First, alternative outlets for the products are not readily available. Suppliers opined that there is no alternative distribution channel comparable to the combined size of Park’N Shop and Wellcome. Second, the relatively higher costs of serving a large number of small retailers may have prompted suppliers to focus on the large chains.

THE IMPACTS OF TRADING TERMS

- 4.6 Every year suppliers have to negotiate with supermarkets on the trading and promotional terms of their products before they can distribute products through the supermarket chains. These terms may include:²
 - (a) Flat rebate
 - (b) Additional rebate
 - (c) Commission disclaimer
 - (d) Listing fee for new products
 - (e) Trolley advertising
 - (f) Check out display
 - (g) Carrier bag advertising
 - (h) In-store promotion fund

- (i) Promotion discount
 - (j) New store opening discount
 - (k) New store opening support
 - (l) Defective product recall
 - (m) Out-dated product recall
- 4.7 The exact terms negotiated by the supermarket operators vary. With the growing market concentration in supermarket retailing, large retail chains have been able to obtain highly competitive and advantageous terms from suppliers.
- 4.8 Suppliers, particularly smaller ones, have complained privately to the Consumer Council that the two big supermarkets “imposed harsh trading terms” on them. These suppliers told the Council they reluctantly conceded to the supermarkets’ demands, by giving concessionary discounts, for fear of losing major buyers. Although these trading terms are crucial evidence to highlight the influence of the big two supermarket chains in the market, the Consumer Council is unable to disclose them as the complainants feared that they might suffer business losses from the two big supermarkets if their identities were revealed.
- 4.9 Some other suppliers also have complained that their weak bargaining position has made it impossible for them to get their products on the shelves of the two big supermarket chains. In contrast, Japanese supermarkets are said to be more open to receiving new products and are more reasonable in terms of pricing, discount and promotion.³
- 4.10 Smaller suppliers are not alone in their difficulties with the big chains; even larger suppliers have problems negotiating with them. Major cigarette suppliers pulled out of Park’N Shop and Wellcome about 9 years ago due to a dispute over the discount rate. Several sources reported that Park’N Shop refused distribution of Vita Distilled Water in 1992 in order to avoid the competitive threat that it posed to Watson Distilled Water.⁴ Suppliers of milk products found it difficult to gain access to the shelves of Wellcome, which is a main distributor of Dairy Farm Milk. Nevertheless, larger suppliers agree that in general they are in a better position vis-a-vis the large supermarket chains than are small suppliers.

EXCLUSIVE SUPPLIES

- 4.11 The constraints on business resulting from THE practices of the supermarket chains go beyond the trading terms. A supplier has alleged that THE big supermarket chains force it to supply certain products to them exclusively, i.e., exclusive supplies, and restrict the supplier from distributing the same products to other supermarkets. To overcome such constraints to its trade activities, the supplier has resorted to packaging the same line of products differently for sale in other supermarket chains.
- 4.12 On the other hand, the big chains claim that some suppliers prefer and readily accept exclusive supply contracts and appoint the chains as sole agents.
- 4.13 The Consumer Council also received a complaint from another supplier that it was threatened with retaliatory action by one of the large supermarket chains if it participated in a Chinese New Year shopping fair. The allegation was confirmed by the supermarket to be true.
- 4.14 The Consumer Council found that both Park’N Shop and Wellcome object to and restrict such practices by suppliers. They hold the view that the promotion of the

supplier's products at the fair prior to Chinese New Year would directly compete with the supermarket at the peak of the selling season of those products. They stated that in other countries such fairs were organized only for participants within the industry or trade, rather than consumers, and under such circumstances suppliers act as retailers.

- 4.15 In advanced economies where competition laws are in place, such restraints of trade are subjects for investigation under competition laws to ascertain whether they have any anti-competitive effects.

SMALL SUPERMARKETS LEAD PRICE INCREASES

- 4.16 Faced with the need to increase prices, suppliers are often pressured by big supermarket chains to turn to small supermarkets to lead price increases. Small supermarkets are therefore disadvantaged in price competition. Although consumers are better off in the short run due to the deferred price increase, they are worse off in the long run when competition between supermarkets is impeded.
- 4.17 The tremendous buying power of the two big chains in the form of hard-driven trading terms, enables them to demand exclusive supplies and better product prices. Consumers may benefit from lower prices, a wider range of product variety, and/or other forms of non-price competition such as services, if the benefits of the favourable trading terms enjoyed by the big supermarket chains are passed on to them. The effects on consumer interests will be discussed in Part 6.

VIEWS OF THE BIG SUPERMARKETS

- 4.18 Park'N Shop and Wellcome justified their actions by stating that they need to be selective in their merchandising decisions on the grounds that shelf space is limited to accommodate the great variety of available products. They were of the opinion that their power is small vis-a-vis brandname products of multi-national companies.

SUMMARY

The extensive network of outlets of the big supermarket chains make them an important retail distribution channel to many suppliers of food products. The heavy reliance of suppliers on the big two supermarket chains often results in suppliers' lack of bargaining power in negotiating favourable trading terms.

The "harsh" trading terms described by some suppliers make it difficult for them to get new products onto supermarket shelves, except for those which are very competitive and in high demand. As a result, suppliers are made to carry a significant portion of the costs of the supermarkets.

Suppliers also complained of exclusive supply terms and of a threat of retaliation should a supplier take part in a shopping fair. Park'N & Wellcome Small supermarkets are also made to adjust prices ahead of big supermarkets. The extent of such up-stream cost shifting, and whether it causes any anti-competition effects are subjects for study in other jurisdictions.

Big supermarkets justify their exclusive supply arrangement as normal agency agreements, and they are of the view that the hard-driven trading terms benefit consumers eventually. They hold the view that in festive fairs suppliers act as retailers and therefore directly compete with supermarkets in peak season.

NOTES:

- 1 Consumer Council's correspondence with a supermarket operator.
- 2 Next Magazine, April 2, 1993, pp. 92-96; Consumer Council's correspondence with suppliers.
- 3 Next Magazine, April 2, 1993, pp. 92-96.
- 4 Hong Kong Economic Times, May 21, 1992, p.6; Next Magazine, April 2, 1993, pp. 92-96; Next Magazine, August 27, 1993, pp. 112-115.

PART FIVE: COMPETITION IN THE SUPERMARKET INDUSTRY

AMONG EXISTING COMPETITORS

- 5.1 The maturity stage in the retail life-cycle is marked by keen competition among competitors. The more homogeneous their products and services are, the greater the intensity of competition between them. Supermarkets are rather homogeneous in Hong Kong. The packaging and types of products are limited due to the range of goods that local manufacturers and suppliers can provide. This is the case despite the fact that some products are purchased by big supermarket chains directly from overseas manufacturers. Services are similar in the sense that supermarkets operate on a self-service basis.
- 5.2 In view of the above, supermarkets like other retailers seek to expand their market shares through winning over customers from their competitors through divertive competition, spatial competition and store identification.

Divertive Competition

- 5.3 Divertive Competition refers to competition in which one supermarket intercepts or diverts consumers from a competing supermarket while the consumers are on a shopping trip to that competing supermarket. Supermarket customers are very much inclined to use the outlet that is most convenient or closest geographically. Convenience in Hong Kong typically means the supermarket is around 10-minute walking distance from the consumer's home.¹ The greater the number of outlets that a supermarket chain has in strategic locations, the more convenient they are to attract customers from the smaller and scatterly located operators.
- 5.4 Therefore, by increasing the number of outlets at a rate higher than the industry as a whole (Para 2.14), Park'N Shop and Wellcome have been able to divert consumers to their stores more easily than other single-outlet supermarkets or smaller supermarket chains.
- 5.5 Divertive competition is further facilitated by the low cost involved in consumers switching stores. As there is no direct cost for consumers to switch from one supermarket to another, consumers can do so at will. The flow of such switch is more likely to be from small supermarkets to big supermarkets than the reverse, due to the extensive territory coverage, better store reputation and customer loyalty of the big supermarket chains - all these are illustrated below.

Spatial Competition

- 5.6 Spatial Competition refers to supermarkets' maximising their territory coverage in strategic locations in an attempt to achieve monopolization in certain geographical areas and other objectives, including store identification, customer loyalties and competitive differentiation.
- 5.7 In spatial competition, Park'N Shop and Wellcome enjoy a pioneering advantage in occupying prime sites as they entered the industry before many other supermarket chains. They also have the resources to establish outlets in areas that have not fully developed, even though they may operate those outlets at a loss in the initial years. Other competitors and new entrants, are pre-empted from entry as they generally cannot afford to set up outlets in such areas.
- 5.8 Based on the information contained in the 1993 Special Issue of Grocery Trade Magazine, an analysis of the geographical location of the supermarket outlets in 19 districts indicates that Park'N Shop and Wellcome together account for 50% -75%

of the total outlets in 14 districts and 75% - 95% in 4 districts². The lowest combined percentage can be found at the Islands which stands at 45.5% (Table 2). Further breakdown of the 19 districts into 210 areas shows that of the 175 areas served by supermarkets, close to 40% are either exclusively served by Park'N Shop and/or Wellcome (Table 3). Park'N Shop and Wellcome do not have any outlets in 17 (or 9.7%) of the areas. Such geographical penetration of the two big supermarkets provides greater convenience to customers and therefore enables Park'N Shop and Wellcome to have a competitive edge over other supermarkets.

Table 2 : Share of Supermarket Outlets by District Board District

No.	District	% Share of Park'n Shop	% Share of Wellcome	Total % Share of Park'n Shop & Wellcome	% Share of CRC	% Share of KK	% Share of Others
		(a)	(b)	(c)	(d)	(e)	(f)
1	Islands	27.3	18.2	45.5	/	/	54.5
2	North	30.8	53.8	84.6	/	7.7	7.7
3	Sai Kung	58.3	16.7	75.0	8.3	/	16.7
4	Sha Tin	36.1	33.3	69.4	11.1	/	19.4
5	Tai Po	25.0	25.0	50.0	12.5	4.2	33.3
6	Tsuen Wan	46.4	21.4	67.8	10.7	/	21.4
7	Tuen Mun	31.3	40.6	71.9	3.1	3.1	21.9
8	Yuen Long	38.9	50.0	88.9	/	11.1	/
9	Kwai Tsing	20.6	44.1	64.7	11.8	2.9	20.6
10	Central & Western	33.3	35.9	69.2	5.1	/	25.6
11	Wanchai	29.2	37.5	66.7	8.3	/	25.0
12	Eastern	25.0	37.5	62.5	10.4	8.3	18.8
13	Southern	52.4	42.9	95.3	/	4.8	/
14	Kowloon City	31.3	31.3	62.6	3.1	9.4	25.0
15	Kwun Tong	29.7	32.4	62.1	8.1	/	29.7
16	Mong Kok	6.3	43.8	50.1	12.5	6.3	31.3
17	Sham Shui Po	36.1	36.1	72.2	8.3	5.6	13.9
18	Wong Tai Sin	39.1	30.4	69.5	4.3	4.3	21.7
19	Yau Tsim	29.0	32.3	61.3	6.5	3.2	29.0

Source : Grocery Trade Magazine 11th Anniversary Special Issue, 1993

Table 3 : Spatial Competition of Supermarkets in Areas Defined by the District Board

Supermarkets	Number of Areas	%
Only Park'N Shop	25	14.3
Only Wellcome	23	13.2
Only Park'n Shop & Wellcome	20	11.4
No Park'n Shop & Wellcome, other supermarkets only	17	9.7
Park'n Shop and/or Wellcome & other supermarkets	90	51.4
No. of areas with supermarkets	175	100
Number of areas with no supermarkets	35	/
Total number of areas	210	/

Source : Grocery Trade Magazine 11th Anniversary Special Issue, 1993.

Store Identification

- 5.9 Through large-scale advertising campaigns over a long period of time, the two big chains have cultivated better store identification and customer loyalty. The larger the size of a company, the better able it is to support a higher advertising expenditure.
- 5.10 In 1992, Park'N Shop and Wellcome spent about \$42,214,000 and \$17,814,000, respectively, on advertising; whereas, CRC and KK spent about \$1,606,000 and

\$819,000.³ In terms of advertising expenditure per outlet, Park’N Shop spent \$267,177 per outlet, which was about 2.7 times greater than the \$98,967 spent by Wellcome, 5.7 times the \$47,235 spent by CRC; and 6.2 times \$43,105 spent by KK.

COMPETITION FROM NEW ENTRANTS

- 5.11 In addition to competition from the existing supermarkets, new entrants to the market also induce competition and eventually could affect the competitive structure of the industry.
- 5.12 In the supermarket industry, there are no legal or Government administered entry barriers that prevent new operators with substantial resources from entering the market. Nevertheless, industry conditions or competitive strategies may impose barriers to entry, thus deterring new firms from entering. In the case of supermarkets in Hong Kong, the four factors affecting new entrants are the economies of scale of the large operators, difficulties in accessing prime sites and suppliers, and market niche pre-emption.

Economies of Scale

- 5.13 The extensive network of outlets of the big supermarket chains enables them to enjoy economies of scale in terms of cost savings from:
 - (a) direct sourcing from overseas suppliers;
 - (b) bulk purchasing;
 - (c) better trading terms from suppliers; and
 - (d) integrated management and stock control.
- 5.14 Also, the big chains are in a better position to increase their labour productivity through investment in new technologies and staff training.
- 5.15 A new entrant must take into consideration the economies of scale and the considerable size and number of outlets necessary to successfully compete against the two big chains. This is required in order to secure a sustainable foothold in the market and to survive the fierce divertive and spatial competition of the big supermarket chains as mentioned above. Industry specialists have suggested that in order for new entrants to enjoy the economies of scale of Park’N Shop and Wellcome, a chain should have at least one hundred outlets.
- 5.16 The economies of scale of the two big chains, therefore, form an entry barrier to new entrants as it is difficult for them to compete with the existing big supermarket chains if they enter the market on a small scale. Substantial capital is required to effectively compete in the market. The riskiness of the business is high for new entrants as they have to vie for substantial market share in this now slow-growing market to recover their investment.
- 5.17 Rental cost forms a significant part of the capital requirement for supermarket operators. In the United States, for example, rent makes up approximately 1% of the expenses of a supermarket, while it can account for almost 10% in Hong Kong.⁴ Hence, to build an extensive network of stores, a new entrant must come up with a large amount of capital.
- 5.18 Alternatively, new entrants can establish outlets on acquired properties. Over the years, the rapid expansion of CRC was achieved by operating their outlets on a

significant number of their acquired properties. Although such practice places the rent cost under the control of the operating company, the capital needed for an operator to acquire its own properties is substantial.

- 5.19 New entrants also have to build up store identification through advertising and marketing in order to compete with the existing supermarket chains (para 5.9). The capital requirement for them to do it successfully is not only substantial but will be needed for many years.
- 5.20 New entrants can seek financial support from banks upon proving that profitable opportunities for entry exist. Unfortunately, the growth potential is limited in the mature supermarket industry. For example, Park'N Shop predicted that its chain would reach a ceiling point at 180 outlets⁵. The slow-growing supermarket industry in Hong Kong limits entry and expansion opportunities for new stores to be established and be profitable, consequently constraining the borrowing eligibility of new entrants.

Access to prime sites

- 5.21 Even if new entrants are equipped with the necessary capital to acquire the appropriate sites, their opportunities may be constrained by other factors. With the keen divertive and spatial competition in the market, new entrants have to take into consideration when making entry decisions the following conditions with regard to their access to prime sites:

- (a) Spatial advantages of the two big supermarket chains

Park'N Shop and Wellcome already dominate the market in many districts in Hong Kong (Table 2), by having had a pioneering advantage in the acquisition of many prime sites.

- (b) Business connection of the big two supermarket chains

As Park'N Shop and Wellcome are parts of conglomerates which engage in the property business, they have easier access to prime sites. It has been alleged that these relationships enable the two supermarket chains to prevent competitors or new entrants from operating in the vicinities of their outlets. However, the Council has been unable to obtain a rental agreement that contains restrictive clauses on the nature of businesses to be operated.⁶

From observation, in all properties development by Hutchison Whampoa Ltd and Cheung Kong (Holdings) Ltd with supermarket facilities, the Council found that all the supermarkets are operated by Park'N Shop. Likewise, the presence of only Wellcome in Hongkong Land (Holdings) Ltd's properties, such as Landmark, was observed.

In densely populated districts, this should not cause any problems, because competitors can set up stores around the corner. However, in big development projects where other private developments are a substantial distance away, restrictive entry of competitors could limit access to prime sites for new entrants. New entrants would therefore be forced to acquire and operate at marginal sites, which in turn may reduce their competitive edge.

Park'N Shop stated that its deals with Hutchison Whampoa Ltd and Cheung Kong (Holdings) Ltd are conducted at arms-length, whereby it pays full market rental just like any other retailers. While the association with these companies is clear, the concern for consumers is whether such association poses any anti-competitive threat. The effect of vertical integration is that it restricts the free entry of competitors into the development; hence, consum-

ers will be susceptible to the product choice and pricing strategy of the sole operator. As discussed above, the problem appears to be greater in big development projects in isolated, self-contained locations.

In the case of Wellcome's holding sole operating right at Jardine's Lookout, Repulse Bay, etc., these were the result of a bidding exercise administered by the Government.

(c) Public housing

In public housing estates where some 50% of Hong Kong's population resides, the Housing Department grants the supermarket operation right through tender. A survey undertaken by the Consumer Council in March 1994 found that in 236 rental housing estates and home ownership scheme estates, 45% (or 106) have one or more supermarkets. Both Park'N Shop and Wellcome together have acquired about 80% of the supermarket establishments in these 106 housing estates. The percentage shares of CRC and KK in these housing estates are about 8.5% and 3.8%, respectively.

Their bidding experience, strong financial backing and their experience in operating supermarket outlets in many public housing estates suggests that Park'N Shop and Wellcome stand in better positions than any new entrants to win tenders for supermarket operation in public housing estates.

(d) Financial Strength of Big Supermarket Chains

Due to their financial strength, big supermarket chains can afford higher tendered prices in bidding for operating rights at public housing estates. Although the big two complained of the hefty tender price, their extensive network of outlets mean that they can spread their risk, i.e., losses in some outlets can be countered by gains in the others. On the other hand, small supermarkets are deterred or outbid when facing the huge investments needed for the establishment of outlets, especially where profits may be minimal in the initial years.

Access to suppliers

- 5.22 Large supermarket chains have easier access to goods at lower prices than small supermarkets. As already discussed in part 4 above, suppliers tend to concentrate on the larger chains since it is less cost-effective to deal with small and single-outlet supermarkets. Small operators also complained that, at times, list prices of commodities in the big chains are lower than the prices at which they can obtain them direct from suppliers.
- 5.23 Unless a new competitor of comparable size to the big two chains is prepared to enter the market with full financial backing, the lack of access to suppliers and the inability of small operators to achieve cost advantages will limit the ability of small operators to significantly challenge the dominant position of Park'N Shop and Wellcome.
- 5.24 In some industrialized economies, small supermarkets form buying groups in order to achieve scale benefits from bulk purchases. Small retailers, thus, are able to bargain for better prices by purchasing collectively rather than individually. However, overseas experience also suggests that retail alliances are complex and affected by diverse phenomena. Their success depends heavily on the loyalty and commitment of their member organizations. To the knowledge of the Consumer Council, no known buying groups exist among the supermarkets in Hong Kong although it was reported that over 100 medium and small supermarkets had attempted to form one in mid-1984 when Park'N Shop and Wellcome were having a price

war.⁷ The Consumer Council, however, was unable to ascertain whether such a group was finally established.

Market niche pre-emption

- 5.25 As competition intensifies in a mature market, new entrants may be able to succeed if they can identify a market niche with unmet needs. For example, Park'N Shop started a new multi-store concept with the opening of "More Store" in Tsing Yi in mid-1991. This concept essentially expands the product mix of a supermarket to further enhance one-stop shopping convenience. In addition to the products that are commonly available in conventional supermarkets, "More Store" also houses a wet market, a fast food shop, an electrical appliance store, a video rental shop and a clothing store.
- 5.26 Both Park'N Shop and Wellcome have attempted to expand their fresh food business which has a high profit margin.⁸ To this end, Park'N Shop opened an over \$200 million fresh food distribution centre at the end of 1991. The strategy pursued by the major chains serves to discourage new entrants from developing a market niche to fill unsatisfied needs, while competing with wet markets for market share in the fresh foods market.

SUMMARY

Due to the low cost for consumers to switch from one supermarket to another, divertive and spatial competition between supermarket chains is intense. Park'N Shop and Wellcome, with their pioneering advantage and geographical dominance in many areas, are in an advantageous position compared to other supermarkets in these aspects of competition.

Over the years, the market position of the big two supermarket chains has not been seriously challenged by any new entrants. Although there are no legal barriers, new entrants are pre-empted from the market due to the existence of significant non-legal entry barriers. These barriers appear to lie in the scale economies of the big chains, and the difficulties in accessing prime sites and suppliers. Further, the slow-growing market demand characteristic of the industry at maturity stage is unable to offer significant incentives to attract new entrants.

The association with property developers enables the two big supermarket chains to have exclusive access to shop sites within certain big development projects. Such practices present a barrier for new entrants from entering the market and may pose problems for residents in big projects developed by one developer in isolated areas, as consumers will be susceptible to the product choice and pricing strategy of the sole supermarket operator.

NOTES:

- 1 Suk-ching Ho and Ho-fuk Lau, "Development of Supermarket Technology: The Incomplete Transfer Phenomenon", International Marketing Review, Spring 1988, pp. 20-30; Wah-leung Cheung and Kai-tai Fang, "The Comparison of Shopper Purchasing Behaviour and Demographic Profiles of Two Supermarket Giants: A Hong Kong Perspective", Working Paper, School of Business, Hong Kong Baptist College, May 1994.
- 2 District Board Districts and Constituency Areas.
- 3 Hong Kong Adex Year End Media Expenditure Summary for 1992.
- 4 SCMP, August 7, 1993, Business p.2.
- 5 Hong Kong Economic Times, December 14, 1991. p.6.
- 6 The Consumer Council has however, received a complaint from a supermarket operator of such a practice by a property developer related to a major industry player.
- 7 Hong Kong Market, July 30 1984, p.4.
- 8 SCMP, August 7, 1993, Business P.2.

PART SIX: IMPACT ON CONSUMER INTERESTS

- 6.1 As supermarkets serve many household needs, it is important to examine how well consumer interests are being served by the industry in the following areas: product choice, pricing, and service differentiation.
- 6.2 The Council conducted a number of surveys to explore the above-mentioned areas. As it is impossible for the surveys to cover all the supermarkets in Hong Kong, we confined the analysis to 4 supermarket chains, namely Park'N Shop, Wellcome, CRC and KK. The Council chose these 4 chains for reason of their combined market shares and, hence, the large number of consumers patronizing their outlets.

PRODUCT CHOICE IN SUPERMARKETS

- 6.3 As shopping outlets for daily necessities, supermarkets in Hong Kong offer an extensive product assortment. For Park'N Shop, the number of products sold in an outlet range between 2,250 and 8,000, depending on store size. For Wellcome, the range is between 2,300 and 7,500. CRC outlets stock about 8,500 items.¹
- 6.4 The variety of products carried by a supermarket certainly affects the extent of product choice offered to consumers in their daily purchases of household necessities. The ability of supermarkets to provide one-stop shopping convenience is also influenced by the product portfolio stocked by the store.

Surveys on Product Variety

- 6.5 In order to ascertain the product variety offered by the different supermarkets, the Council conducted 2 field surveys in mid-August 1994. The outlets selected were located in Tuen Mun and Kowloon City.
- 6.6 As product assortment can be varied in different outlets depending on store size and consumer preference in the district, it is important that the outlets selected for comparison in the surveys were to the greatest extent possible of comparable sizes and located in the same regions. The Council chose outlets in Tuen Mun and Kowloon City because we could find outlets of the 4 supermarket chains located close to one another and with floor areas between 2,806 and 4,748 sq. ft.
- 6.7 In selecting the product categories for comparison, the Consumer Council considered the buying patterns and preferences of consumers to be the most important factors to be taken into account. In the two surveys conducted in mid-August 1994, reference was made to a recent survey conducted by two academics of Baptist College during September and October 1993,² in which 183 and 164 shoppers reported their most frequently purchased products from Park'N Shop and Wellcome, respectively. From their findings, the Council adopted for its surveys 7 product categories that are most frequently purchased by customers of the two big supermarket chains. The categories include: confectionery, canned food, drinks, edible oil, noodles, rice and household cleaning products.
- 6.8 Each product category contains many types of products. For example, under the category of noodles, there are instant noodles, shrimp noodles, egg noodles, rice vermicelli etc. Due to the numerous product types in each category, the Council confined the scope of its field surveys to include one product type to represent each category. For example, instant noodles in pillow-pack were chosen from the noodle category.
- 6.9 The product types chosen for the surveys were: bubble and chewing gum, canned

soup, distilled and mineral water, edible oil, instant noodles in pillow-pack, rice, and washing powder.

- 6.10 Within each product type, consumers may have several choices of product lines of various flavours and sizes from the same or different brands. For example, instant noodles consist of noodles in chicken flavour, beef flavour, sesame oil flavour, spicy flavour etc., with each available from various brands.
- 6.11 In total, the Council surveyed 415 and 459 product lines in 4 supermarkets in Tuen Mun and Kowloon City, respectively.

Findings of Surveys Conducted in Mid-August 1994

- 6.12 Tables 4 and 5 show the number of brands and number of product lines offered by the supermarkets in the sampled product categories. The results show that the 4 supermarkets differ quite significantly in the choice of products offered to consumers.

Table 4 : Consumer Choice in Seven Product Categories (Tuen Mun Area)

Product Category	No. of Brands				No. of Product Lines			
	Park'n Shop	Wellcome	CRC	KK	Park'n Shop	Wellcome	CRC	KK
Confectionery (Bubble/Chewing Gum)	6	3	6	5	18	13	20	22
Canned Food (Soup)	3	2	8	5	26	19	39	23
Drinks (Distilled /Mineral Water)	11	8	6	11	18	15	14	23
Edible Oil	12	9	16	11	33	26	47	40
Noodle (Instant Noodles in pillow-pack)	9	8	11	12	34	48	49	57
Rice	13	9	14	14	21	16	22	21
Household Cleaning Products (Washing Powder)	8	9	17	15	16	15	40	29

Sources :Field Survey Conducted in mid-August 1994, Consumer Council.

Table 5 : Consumer Choice in Seven Product Categories (Kowloon City Area)

Product Category	No. of Brands				No. of Product Lines			
	Park'n Shop	Wellcome	CRC	KK	Park'n Shop	Wellcome	CRC	KK
Confectionery (Bubble/Chewing Gum)	6	3	6	6	21	13	19	30
Canned Food (Soup)	3	2	9	5	26	17	43	23
Drinks (Distilled /Mineral Water)	9	8	10	11	17	15	18	30
Edible Oil	11	10	17	12	36	28	54	35
Noodle (Instant Noodles in pillow-pack)	11	11	14	17	48	57	61	74
Rice	14	10	16	16	20	16	27	23
Household Cleaning Products (Washing Powder)	8	11	16	13	16	16	35	30

Sources :Field Survey Conducted in mid-August 1994, Consumer Council.

- 6.13 In Tuen Mun, CRC surpassed the other 3 chains in three product categories and tied with 2 other chains each in one product category in terms of the largest number of brands offered. Wellcome had the least number of brands in 5 categories. In terms of product lines, CRC again outperformed the other 3 chains with the largest number offered in 4 product categories. Wellcome had the least number in 5 product categories.

- 6.14 In Kowloon City, the pattern is similar to that in Tuen Mun, with CRC offering more choices in both the number of brands and product lines while Wellcome had the least number of choices. KK was second to CRC, outperforming the others by offering the widest choice of brands in 4 product categories, with 2 tied with CRC; and its product lines outnumbered the rest in 3 product categories.

Findings of Survey Conducted in Mid-December 1993

- 6.15 In mid-December 1993, the Consumer Council had conducted a similar survey on the 4 supermarket chains in Kowloon South. A different group of product categories was chosen. The categories consisted of household cleaning products, personal care products, canned food, condiments, and paper products.
- 6.16 With the exception of washing powder, the other product types in this survey were different from those in the survey conducted in mid-August 1994. The product types in the mid-December 1993 survey were liquid detergent, washing powder, liquid soap, luncheon meat, soya sauce, and toilet paper. A total of 340 product lines were surveyed.
- 6.17 The results (Table 6) of the Mid-December 1993 survey are very similar to that of the two mid-August 1994 surveys mentioned above. In Kowloon South, CRC surpassed the other three chains in 4 product categories and tied with one chain in one category in terms of the largest number of brands offered. Park'N Shop had the least number of brands in 3 product categories. In terms of total product lines offered, CRC offered more variety than the other 3 chains.

Table 6 : Consumer Choice in Six Product Categories (Kowloon South Area)

Product Category	No. of Brands				No. of Product Lines			
	Park'n Shop	Wellcome	CRC	KK	Park'n Shop	Wellcome	CRC	KK
Household Cleaning Products								
(Liquid Detergent)	12	15	17	15	30	35	37	34
(Washing Powder)	12	15	19	15	35	34	47	33
Personal Care Products								
(Liquid Soap)	17	20	23	20	51	51	63	42
Canned Food								
(Luncheon Meat)	6	5	6	5	17	23	23	19
Condiments								
(Soya Sauce)	8	6	6	6	25	21	26	27
Paper Products								
(Toilet Paper)	13	9	22	9	13	9	22	12

Sources :Field Survey Conducted in mid-September 1993, Consumer Council.

Possible Reasons For Less Product Variety in Big Supermarket Chains

- 6.18 With respect to the surveyed products portfolio, the results of the 3 field surveys show that Park'N Shop and Wellcome do not necessarily offer a wider choice of products than their competitors, notwithstanding the fact that they might have better access to a greater number of suppliers. According to industry representatives, the possible factors contributing to these results are discussed below.

(a) Product Choice and Store Size

The argument can be made that the product number varies with store sizes, i.e., the range of products might be smaller in a small store and vice versa. Our survey results, however, do not support this argument.

In the case of CRC, which had more product choice, its store size is not the largest among the surveyed chains. In fact, its store is the smallest chain in

Tuen Mun and the second smallest in Kowloon City (Table 7). In the case of Park'N Shop, whilst its outlets in both Tuen Mun and Kowloon City are the largest among the other surveyed supermarket outlets, it does not provide the widest product variety. On the other hand, the small product range in Wellcome's outlets is to a large extent attributed to its being the smallest store in the two areas.

Moreover, the argument cannot be supported when we compare number of products per sq. ft. for the 4 supermarket chains in Kowloon City and Tuen Mun. Based on the information provided by each chain, the Council found that the number of products per sq. ft. for these outlets range from the lowest of 0.82 to the highest of 1.65. For illustration, if two outlets have the same floor area of 1,000 sq. ft., the one with the lowest product density of the range above would provide only 820 products, which is less than half of the 1650 products that would be provided by the other outlet having the highest product density of the range.

The number of products per sq. ft. for CRC in Kowloon City is 1.57, which was the highest among all 4 chains. This is collaborated with the findings of our surveys which show that CRC had provide more choice than the others in this area. Similarly, the less product variety in Wellcome can be attributed to its having the smallest number of products per sq. ft. in both Kowloon City and Tuen Mun. Also, the greater product variety offered in KK on some product categories surveyed can be explained by its having the largest number of products per sq. ft. in Tuen Mun.

Table 7 : Store Sizes & No. of Products

Kowloon City			
Supermarkets	Floor Area (sq. ft.)	No. of Products	No. of Products per sq. ft.
Park'N Shop	4,748	7,094	1.49
Wellcome	2,806	2,300	0.82
CRC	3,500	5,500	1.57
KK	4,500	5,915	1.31
Tuen Mun			
Supermarkets	Floor Area (sq. ft.)	No. of Products	No. of Products per sq. ft.
Park'N Shop	4,584	6,016	1.31
Wellcome	2,942	2,300	1.28
CRC	3,000	4,000	1.33
KK	3,000	4,949	1.65

Source : Individual supermarket chains.

(b) The Impact of Trading Terms

The trading terms proposed by big supermarket chains may have the effect of pre-empting some products from getting onto their shelves, therefore resulting in smaller product ranges available in the big chains.

Many supermarket chains require suppliers to pay a listing fee for new products to be carried in their outlets (Para 4.6). The amount of the listing fee differs between products and also supermarket chains. Big supermarket chains with more outlets are able to charge higher listing fees than other small, independent supermarkets. Suppliers, therefore, may be discouraged from distributing new products in big supermarket chains, as they may not be able

to afford the high listing fees and other trading terms demanded by the big chains.

(c) The Sale of Own-Label Products

If supermarkets limit the variety of other product brands in order to promote the sale of their own-label products, the product variety available in these supermarkets will be limited.

Park'N Shop and Wellcome carried 250 and 220 own-label products, respectively, at the end of 1993. The contribution of these products to total sales was about 4% for Park'N Shop and less than 3% for Wellcome.³

The surveys on product variety conducted in mid-August 1994 reveal that Wellcome had own-label products in 5 of the 7 product categories surveyed in both Tuen Mun and Kowloon City. Park'N Shop also had its own-label products in the same 5 categories in Tuen Mun and in 4 product categories in Kowloon City. The product categories which consist of own-label products are distilled/mineral water, edible oil, instant noodles in pillow-pack, rice, and washing powder.

The big chains offer less product variety (Tables 4 and 5) than the other chains which had no own-label products in the product categories surveyed.

Product Differentiation

- 6.19 In an attempt to achieve store differentiation, a supermarket may avoid the sale of the same products as other supermarkets. This practice allows the supermarkets to monopolize the market of the products that are exclusively distributed by them. In theory, as a result of the lack of competition, the supermarkets will be able to raise the price level of these products above the level which would be found in a competitive market.
- 6.20 The Council found no evidence of any explicit collusion among supermarkets to differentiate their products. However, direct sourcing from overseas suppliers and exclusive supplies practised by supermarkets (Para 4.11) may produce a similar outcome as collusion.
- 6.21 Product differentiation results in fewer overlapping brands and product lines carried by various supermarkets. This in turn makes it difficult for consumers to make price comparisons. Actual consumer choice can be limited despite the apparent variety of brands available in the market, as suppliers tend to distribute the same product under different brand names to different chains in response to the exclusive supply terms requested by supermarkets (Para 4.11).
- 6.22 Product categories/types available to consumers may also be limited. According to information provided by suppliers, the big two supermarket chains tend to follow each other closely on product categories and product types. As a result, the chances for innovative product types appearing on their shelves are restricted.
- 6.23 To ascertain the product variety among the supermarket chains, Table 8 presents the total number of products surveyed in the 4 supermarket chains (Park'N Shop, Wellcome, CRC and KK) in mid-December 1993 and mid-August 1994 (Para. 6.5 & 6.15). The number of products not carried by all 4 chains constituted 48% and 59% in the product categories surveyed in Tuen Mun and Kowloon City conducted in mid-August 1994, and 15% in the product categories surveyed in Kowloon South conducted in mid-December 1993. The differences in the above results can be attributed to the different product categories surveyed and other location and seasonal factors.

Table 8 : Number of Products Carried/Not Carried by All 4 Supermarket Chains

		The Three Surveyed Areas		
		Tuen Mun	Kowloon City	Kowloon South
A	Total no. of products surveyed in 4 chains	415	459	340
B	No. of products not carried by all 4 chains (as % of A)	199 (48%)	271 (59%)	52 (15%)
C	No. of products carried by all 4 chains (as % of A)	216 (52%)	188 (41%)	288 (85%)

Conclusion on Product Variety and Product Differentiation

6.24 The Council found two significant phenomena when comparing the product variety carried by the 4 supermarket chains - Park’N Shop, Wellcome, CRC and KK:

- (a) As far as the product categories surveyed are concerned, Park’N Shop and Wellcome had less product variety than either CRC and KK. According to industry representatives, the possible factors explaining this is the hard bargaining terms of big supermarkets and the sale of own-label products.
- (b) Product differentiation results in fewer overlapping brands carried by different supermarket chains. This practice allows certain supermarkets to monopolize the market of the products exclusively distributed by them. Also, this makes price comparison difficult for consumers. Consumers can have more product choice if they shop at various supermarkets. However, actual consumer choice can be limited despite the apparent variety of brands available in the market, as suppliers tend to distribute the same product under different brand names to different chains in response to the exclusive supply terms of the supermarkets.

PRICING

6.25 At least 3 aspects of pricing affect consumer interests: first, whether price collusion exists in the big supermarket chains; secondly, whether the big supermarket chains have exploited their dominant market position by increasing prices unreasonably, and conversely whether they passed the benefits derived from their efficiency onto consumers; thirdly, whether spatial price variation exists for outlets within the same chain i.e., prices are higher in the areas where there is little spatial competition from other supermarkets.

Price Collusion

6.26 Price collusion can either be explicit or tacit. Currently, the Consumer Council is not aware of any explicit collusive agreements among the supermarket operators. If such an agreement exists, it would be difficult to maintain and police. Given the large number of products each supermarket carries, it would be difficult for the operators to monitor whether their counterparts cheat on a collusive arrangement. It seems, therefore, unlikely that the supermarkets would enter into explicit price collusion agreements.

6.27 Tacit price collusion, on the other hand, is more difficult to detect because the practice can manifest itself in various non-explicit ways. There can be informal signals,

such as a series of statements made publicly on external/internal influences necessitating an increase in prices, which ultimately crystallize into an actual price rise. The firms may tend to match each other's prices and specials or refrain from following each other's action in a way as to infringe as little as possible upon each other's market.

- 6.28 The Consumer Council is unable to examine and conclude definitively whether price collusion exists among supermarkets, as it would require extensive investigative power to amount an in-depth study. This study, however, examined the pricing behaviour of 4 supermarket chains - Park'N Shop, Wellcome, CRC, and KK, to determine whether prices are competitive.
- 6.29 Table 9 presents the number of same priced products across the 4 supermarket chains and that of products priced differently in 3 surveys conducted by the Council (Paras 6.5 and 6.15). In Tuen Mun and Kowloon City, the number of products with the same price constituted 68% and 69% of the products commonly carried by each chain. In Kowloon South, the percentage share of these products was 47%. This lower share of similarly priced products in Kowloon South can be mainly attributed to the fact that the group of product categories surveyed was different than that in Tuen Mun and Kowloon City.
- 6.30 For the remaining products that were not sold at the same price across the chains (31% - 53%), some might be more expensive while others cheaper in certain chains. As a result of this compensating effect (i.e. higher prices in certain product lines are balanced by lower prices in other product lines), the prices of buying a basket of the same products across the chains only differed insignificantly (Table 10).

Table 9 : Product Pricing of 4 Supermarket Chains in Three Surveyed Areas

		The Three Surveyed Areas		
		Tuen Mun	Kowloon City	Kowloon South
A	Total no. of products commonly carried by each chains	54	47	72
B	No. products sold at the same prices (as % of A)	37 (69%)	32 (68%)	34 (47%)
C	Products sold at different prices (as % of A)	17 (31%)	15 (32%)	38 (53%)

Table 10 : Price for the Basket of Products in Different Supermarkets

Survey	Park'n Shop	Wellcome	CRC	KK
Tuen Mun Area (54 Products)	HK\$1,286.0	HK\$1,284.3	HK\$1,287.0	HK\$1,284.6
Kowloon City Area (47 Products)	HK\$902.6	HK\$901.8	HK\$903.3	HK\$902.6
Kowloon South Area (72 Products)	HK\$1,625.0	HK\$1,625.1	HK\$1,630.2	HK\$1,629.9

- 6.31 From these results, the Council found no conclusive pricing pattern between the surveyed supermarket chains and no discernable evidence to suggest the existence of price collusion. Instead, prices appear to be competitive across the chains. It is impossible to ascertain whether the pricing behaviour observed is purely coincident-

tal, a manifestation of normal market behaviour or due to price collusion.

Comparison of Prices Between 4 Supermarket Chains

6.32 Since 1974, the Consumer Council has been conducting a monthly price survey on various supermarkets. The list of products consists of some 100 fast-moving product lines, and is provided and regularly up-dated by the supermarkets. Such data are valuable for this study as it provides price information on supermarkets over time. Due to rapid changes in products over the years, only 31 products from the list are found to be unchanged between 1990 - 1993, and up to June 1994. A list of the 31 products is presented in Appendix 1.

(a) Total cost for purchasing the 31 products

Table 11 shows that the average costs are rather close between the 4 supermarkets, within the range of 0.3 - 2% or \$1.5 - \$11.3.

Table 11 : Total Costs for Purchasing Thirty-one Products

Year	Park'n Shop	Wellcome	CRC	KK
1990	494.2	487.9	496.9	491.9
1991	544.9	542	550.4	548.7
1992	572.3	573	579.5	574.1
1993	587.5	600.1	604.3	597
1994(a)	615.4	603.9	632.3	624.8
Average	562.9	561.4	572.7	567.3

(a) Figure for 1994 is the six-month average from January 1994 to June 1994

The cost of purchasing the 31 products from Wellcome was the lowest in 1990 and 1991. In the first six months of 1994, Wellcome regained its previous position by offering the lowest overall price, which was 1.9% lower than Park'N Shop, and 4.5% and 3.4% lower than CRC and KK, respectively.

The total cost of purchasing the 31 products at Park'N Shop in 1992 and 1993 was the lowest (Table 11). For KK, although the cost was higher than Wellcome in 1990, it became comparatively lower in 1993.

Table 12 : No. of Highest-Priced & Lowest-Priced Products in the Basket of 31 Products

	Park'n Shop	Wellcome	CRC	KK
No. of Products with the Highest Prices				
1990	10	5	16	9
1991	10	3	14	16
1992	12	9	10	10
1993	9	9	9	10
No. of Products with the Lowest Prices				
1990	9	17	2	11
1991	6	20	11	6
1992	3	12	8	14
1993	12	8	6	11

Source : Price Surveys in Supermarkets, Consumer Council.

The lowest cost of purchasing the 31 products at Wellcome in 1990 and 1991 can be attributed to its having the most lowest-priced products and the least highest-priced products in the same period. The same can be applied to the case of Park'N Shop in 1993. The persistently higher overall prices of CRC compared to the other supermarkets over the year can be attributed to its having the most highest-priced products and the least lowest-priced products. (Table 12)

(b) Annual rate of price increase

While the cost of purchasing a basket of similar products in different supermarket chains can be an indicator of whether consumers are enjoying differential value for their money, other yardsticks are available to evaluate the quality of the pricing performance of supermarkets, e.g. annual rate of price increase. This rate is important for two reasons.

- (i) A different annual rate of price increase can influence the price gap between supermarkets. For instance, if a supermarket starts out with a lower price than another supermarket but has a higher annual rate of price increase than the latter, with the passage of time the price advantage of the former supermarket may gradually be lost and the price gap between the two supermarkets would narrow.
- (ii) A comparison of the annual rate of price increase of supermarkets with the inflation rate can reflect how the supermarkets manage to cope with inflation and whether that benefits consumers. Other things being equal, a supermarket which is able to maintain a lower annual rate of price increase vis-a-vis the inflation rate is performing better than the others even if its products are sold at higher prices. Over a longer period, the once higher-priced outlet could evolve into a lower-priced one with lower than average annual price increases.

Table 13 shows that Park'N Shop has the lowest rate (5.7%) and Wellcome the highest (6.8%) for the period 1990-1993. The rates of increase for CRC and KK were 6.4% and 6.3%, respectively. Both CRC and KK were performing better than Wellcome with a lower annual rate of increase. Consequently, the price gap of purchasing the 31 products between Wellcome and CRC narrowed over the period. For the cases of Wellcome and KK, the latter in fact outperformed the former in 1993 by selling at a lower price. By the same token, because the annual rate of price increase of Park'N Shop was lower, it was able to replace Wellcome to become the lowest-priced outlet in 1992 and 1993 (Table 11).

Table 13 : Annual Percentage Growth of Price Increase of the Basket of Thirty-one Products

Year	Park'n Shop	Wellcome	CRC	KK	CPI(A) (a)
1990-91	10.30%	11.10%	10.80%	11.50%	9.40%
1991-92	5.00%	5.70%	5.30%	4.60%	6.90%
1992-93	2.70%	4.70%	4.30%	4.00%	5.60%
Estimated Annual Growth in 1990-93(b)	5.70%	6.80%	6.40%	6.30%	7.00%

Source : Price Surveys in Supermarkets, Consumer Council.

(a) CPI(A) for food, excluding meals away from home.

(b) Annual growth for price and CPI(A) in the period 1990-93 were estimated using exponential growth model by Ordinary Least Squares (OLS) Method.

The fact that Wellcome had the highest annual rate of price increase for the total price of the 31 products in 1991-92 and 1992-93 can be attributed to the fact that it had the fewest products with the lowest rate of price increase in

the two periods. The lowest rate of price increase for the total 31 products sold in Park'N Shop in 1992-93 can be explained by its having the fewest number of products with the highest rate of price increase and the largest number of products with the lowest rate of price increase in the same period

(Table 14)
Table 14: No. of Products with the Highest/Lowest Rate of Price Increase

	Park'n Shop	Wellcome	CRC	KK
No. of Products with the Highest Rate of Price Increase				
1990-91	7	11	4	13
1991-92	10	14	6	8
1992-93	5	9	11	13
No. of Products with the Lowest Rate of Price Increase				
1990-91	9	7	12	6
1991-92	8	7	10	16
1992-93	12	4	8	9

Source : Price Surveys in Supermarkets, Consumer Council.

(c) Comparison with Inflation Index

To assess whether the price increases of the 31 products sold in the 4 supermarket chains are in line with the inflation rate, we compared the rates of increase with the annual inflation rate of CPI (A) for food (excluding meals away from home). This includes food items that are not only sold in supermarkets, but also food products sold in wet markets, Chinese provision stores and convenience stores.

Table 13 shows that in 1990-91 the rates of price increase for all the supermarket chains were higher than the inflation rate. However, their rates of price increase were lower than inflation in 1991-92 and 1992-93. By applying the exponential growth model, estimated by the Ordinary Least Squares (OLS) method, the annual increase rate of prices for each supermarket during 1990-1993, the Council found that the 4 supermarket chains had an annual increase rate lower than the annual inflation rate for the same period.

In the basket of the 31 products, 32% - 48% of the products had increase rates higher than the inflation rates of CPI (A) for food (excluding meals away from home), depending on the chain. The number of such products was highest for Park'N Shop in 1990-91 and 1991-92. Whereas, KK had the least number of such products in 1991-92 and 1992-93 (Table 15).

Table 15 : No. of Products with Increase Rate Higher than Inflation Rate in the Basket of 31 Products

Year	Park'n Shop	Wellcome	CRC	KK
1990-91	15	14	13	15
1991-92	15	14	13	10
1992-93	12	12	13	11

Source : Price Surveys in Supermarkets, Consumer Council.

Possible Reasons for the Price Differences Between Supermarket Chains

6.33 The total cost for purchasing the 31 products was lower in Park'N Shop and Wellcome

than in the other chains; the averages for the period 1990 - mid-1994 varied about 0.3% - 2% (the last row of Table 11). In terms of absolute amount, the differences were about \$1.5 - \$11.3.

6.34 The two big supermarkets are able to sell the basket of products at a marginally lower price for the following reasons:

(a) Economies of Scale

Park'N Shop and Wellcome should have the benefit of greater economies of scale, given the cost advantages enjoyed from bulk purchasing, direct sourcing, better trading terms from their suppliers, and integrated management and stock control (Para 5.13). The question is whether the price difference of 0.3% - 2% is all that the two big supermarkets can pass on to their customers in monetary terms.

Representatives of Park'N Shop and Wellcome stated that most of the benefits of better discount terms obtained from suppliers have been reflected in the 0.3% - 2% price differences and in other non-price areas such as more outlets located in convenient locations, more spacious store environments, and better customer service.

The big chains were of the view that their substantial investments in storage facilities to keep a consistency in the quality of products, computerized distribution and stock control system, staff quality and training, etc. should be taken into account.

(b) Strong Bargaining Power

With their strong bargaining power over suppliers, big supermarket chains are often able to pressure the suppliers to turn to other smaller supermarket chains to lead price increases a week earlier (Para 4.16). This may account somewhat for the lower cost of purchasing the 31 products from the two big supermarket chains.

(c) Structural vs General Prices

Studies on the pricing behaviour of supermarkets in other countries show that big supermarket chains may be more demand oriented in their pricing behaviour. Therefore, they tend to price their fast-moving products at lower prices than other products.⁴ Since the basket of 31 products are fast-moving products, the price differences reflect this pricing structure of big supermarket chains.

6.35 On the other hand, the marginal price differences may be a result of the following:

(a) Resale Price Maintenance

Generally speaking, suppliers set a recommended retail price for products for all supermarkets. However, individual supermarkets determine the exact prices offered and may sell the products at lower prices or otherwise. As the cost of purchasing the 31 products did not differ significantly, this may suggest that recommended prices were adopted to a large extent in the 4 supermarket chains; hence, price competition between the 4 chains is minimal.

(b) Low Sales Margins

Similar to other grocery retailing, supermarkets generate profits and posi-

Similar to other grocery retailing, supermarkets generate profits and positive net cash flows from a high volume of transactions and fast stock turnover on low sales margins. With low sales margins, even if the price competition is keen and/or the two big chains have passed on the benefits of their economies of scale to consumers, the price differences between supermarkets may still be small.

Comparison of Prices Between Big and Small Supermarkets

- 6.36 Due to the lack of time-series prices for small supermarket chains and independent supermarkets, we have focused the above analysis on the 4 big supermarket chains, namely Park'N Shop, Wellcome, CRC and KK. In an attempt to compare the prices between big and small supermarkets, average prices of a basket of 25 products sold during May 1994 - October 1994 was compiled for the 4 big supermarket chains and 4 other small supermarkets with fewer outlets. A list of the 25 products is presented in Appendix 2. The data is taken from the monthly supermarket survey of the Council during the period in the same way as the analysis on the 31 products above.
- 6.37 As these small supermarkets are not included in the other analyses of our study, their names are not disclosed in order to prevent any evaluation of their performance based on only one aspect of analysis. The number of their outlets in 1994 and the total average cost of purchasing a basket of 25 products are presented in Table 16.
- 6.38 The results show that Supermarket D, which is a single-outlet supermarket, had the highest total average cost. This can be attributed to the fact that a single-outlet supermarket may not have the same cost advantage from scale economies as that enjoyed by a supermarket chain.

Table 16 : Total Average Costs for Purchasing Twenty-five Products from 8 Supermarkets in the period May 1994 - October 1994

Supermarkets	Total Average Price of 25 Products
Park'N Shop	\$428.30
Wellcome	\$416.20
CRC	\$432.70
KK	\$431.90
Supermarket A (17 outlets)	\$420.10
Supermarket B (5 outlets)	\$403.60
Supermarket C (2 outlets)	\$416.80
Supermarket D (1 outlet)	\$439.00

- 6.39 The results also reveal that Supermarket B, with 5 outlets, had the lowest total average cost. Although this may imply that big supermarket chains do not necessarily provide the lowest price for consumers, it is important to note that the sales of parallel imports in some small supermarkets is a crucial factor contributing to their lower prices.

Spatial Price Variation

- 6.40 The penetration of Park'N Shop and Wellcome in many areas (Tables 2 and 3) may give rise spatial price variation, which refers to price differentiation of a product sold at different regional outlets of a supermarket chain. This is the result of price discrimination by region. In a region where there is less competition and/or con-

sumers are less price sensitive, products carried in that regional outlet can be sold at a higher prices than the same products sold at the other regional outlets, even though these outlets are operated by the same supermarket operator.

- 6.41 As most supermarket chains adopt a policy of single pricing across all outlets, spatial price variation does not exist in the regular prices of their products. This is confirmed by the results of a price survey conducted by the Consumer Council in June 1994. The results show that no/minor variation in the total cost of buying 63 products from 10 regional outlets of Park'N Shop at regular prices. The same was found when buying 60 products from 9 regional outlets of Wellcome. The results also show no significant price variation in 67 products sold in 5 different regional outlets of CRC. The single-price policy of the supermarket chains is facilitated by the use of bar-coding technology.
- 6.42 However, spatial price variation does exist when some outlets offer more discount products than others. The price variations in these cases cannot be solely attributed to the different degrees of competition faced by the regional outlets. Apart from competitive pressure, regional outlets are allowed to offer discounts on products that are sold at regular prices in other outlets under the following circumstances:
- (a) If an outlet has a stock of products that are approaching their expiry dates within a short period, a discount on these products can be offered in this outlet;
 - (b) If the operating costs of an outlet, e.g. an outlet located in an outlining island, is higher than other regional outlets, promotional discounts may not be offered.
 - (c) Some promotional discounts may not be available for home delivery service as the operating cost of such service can be higher.
- 6.43 Hence, as one outlet can have more discount products than the others, the total cost of buying the same basket of products can differ between outlets of the same chain.

Conclusion on Price Competition

- 6.44 Product prices of a basket of 31 products across 4 supermarket chains are very competitive and differ only slightly, with an average of about 0.2% - 3% for the period January 1990 to June 1994. This average price for Park'N Shop and Wellcome was lower than that of CRC and KK.
- 6.45 Nevertheless, Park'N Shop and Wellcome did not necessarily offer the lowest prices on all products in the basket. Overall price increases over time were lower than CPI(A); however, individual product price increases varied with increases both below and above the inflation rate.
- 6.46 All supermarket chains adopt a policy of single pricing across all outlets, except for some discount items.

SERVICE DIFFERENTIATION

- 6.47 As big supermarket chains are in a better financial position than small supermarket chains, they are prepared to invest more in modern technologies. As a result, their services are easily differentiated from services provided by other supermarkets.
- (a) In-store Environment
- Park'N Shop and Wellcome have refurbished their outlets to make them

more pleasant and conducive to shopping. Their spacious shopping environment is reflected in their smaller number of products per sq. ft. than CRC and KK.

(b) Bar-Coding

Big supermarket chains, as well as some medium-sized chain, have installed the Electronic Point of Sale system which aims to (i) speed up retail transactions, minimize pricing errors; (ii) improve the operational efficiency and inventory control of supermarkets; and (iv) save labour costs. A field survey conducted the Consumer Council in mid-1993 on the scanner system in 59 different retail outlets, (51 of which were from the two big supermarket chains), found that the pricing errors occurred in about 3% of the product surveyed.⁵

However, as most supermarkets have now ceased price tagging their product individually, consumers have to make extra efforts to read the prices on price tickets (labels) displayed on the shelves. Price tickets are not easily comprehensible as the product's quantity, weight/volume and description in English and Chinese in small print are squeezed onto a small cardboard label. Adding to the confusion, products with a fine difference, e.g. same brand but different sizes, are placed side-by-side on the shelves. Incidents of misplaced products create further difficulties, in particular for the elderly.

The descriptions of purchased products on receipts also needs improvement. Findings of a Council survey in May 1993 revealed that the receipts of some supermarkets did not clearly state the names of products, their quantities, prices and weights. This lack of clear information hinders consumers' ability to counter-check their purchases. Furthermore, the descriptions were not bilingual, and the purchases of discount products or specially-packed products were not denoted giving rise to errors.

The supermarkets are aware of such consumer dissatisfaction and have pledged to make improvements.

(c) "Best Before Date"

The Food and Drugs (Composition and Labelling) Regulations prohibit the sale of products unfit for human consumption, irrespective of whether such products have passed the "Best Before Date". Though, for consumers, the main indicator of the freshness of products is the "Best Before Date" label. Over the last few years, the Council has witnessed an increase in consumer concern about the sale of goods that have passed the "Best Before Date".

While supermarkets must adhere to the Regulations, they should also take due regard of consumer sentiments on this issue.

The Council welcomes the Government's review of the Food and Drugs (Composition and Labelling) Regulations to introduce the labelling of "Expiry Date" on all perishable products, including those expected to retain its specific properties beyond 18 months. To coincide with this development, the public must be educated on the differences between "Best Before Date" and "Expiry Date"⁶.

(d) Consumer Complaints

An indication of the level of customer satisfaction is the number of complaints received and how they are handled. The number of complaints re-

ceived by the Consumer Council relating to supermarkets has been on the rise, from 99 in 1992 to 125 in 1993. In the first 6 months of 1994, the number of complaints totalled 89. As far as the Council is aware, most consumers lodge their complaints immediately at the outlets, and the problems are dealt with at that level. Hence, the number of complaints lodged to the Consumer Council has been small, compared to the volume of yearly transactions at supermarkets. These complaints are mostly related to the practices of the supermarket beyond the scope of individual units, for example redemption of gifts or products at a discounted rate with coupons. In all fairness, most complaints received by the Consumer Council are resolved promptly by the supermarkets.

Through product testing programmes, the Consumer Council sometimes identifies hazardous products that are available in supermarkets. When advised, the supermarkets have been most cooperative in the withdrawal or recall of such products. For example, in the cases of extension cord and adaptor, the supermarkets withdrew the hazardous products from the shelves without delay. In other cases, such as complaints of defective products and product recalls initiated by the wholesaler, customers were given refunds accordingly. Supermarkets' prompt response benefits consumers. Such responses also reflect the large supermarkets' power over their suppliers. The suppliers must co-operate or risk losing major distribution outlets for their product lines. Furthermore, the big supermarkets have already taken steps to forestall any refusal of withdrawal by imposing this requirement as one of the trading terms with their suppliers (para 4.6).

(e) Home Delivery

Both Park'N Shop and Wellcome maintain 3 types of order for home-delivery service: telephone, fax, and shop-and-drop. A fixed charge is levied for each delivery for Wellcome, and free service is offered by Park'N Shop to customers whose purchases exceed a certain value.

SUMMARY

Supermarkets differentiate themselves from their competing counterparts through product variety, price, and service strategies.

The Council found no evidence of collusion among supermarket chains to fix prices. Nevertheless, we found that some supermarkets tend to monopolize certain products by differentiating their products from other supermarkets through restrictive supplies or direct sourcing. Hence, price competition is impeded. This is reflected in surveys conducted by the Consumer Council which show that about 15% - 59% of total product lines surveyed were not carried by all 4 supermarket chains - Park'N Shop, Wellcome, CRC and KK.

Surveys on seven frequently purchased product categories show that large supermarkets do not necessarily provide more product brands in certain product lines to consumers. According to industry representatives, this can be explained by the fact that the hard bargaining terms imposed on suppliers and the sale of own-label products may limit products distributed in the big chains.

Price surveys on the 4 supermarket chains showed that the cost of purchasing a basket of 31 products was slightly lower in large chains than in small chains for the period 1990 - mid-1994. The average costs varied between 0.3% - 2%. The operational efficiency obtained from economies of scale, strong bargaining power and the demand driven pricing strategy explain the lower cost for the big chains. On the other hand, the price difference can only be marginal due to low sales margins and resale maintenance, i.e., suppliers' recommended

prices are followed rather closely across the 4 chains.

The lower cost of purchasing the basket of 31 products from the big supermarket chains does not imply that all products sold in these chains have a lower price. For example, one supermarket chain had the largest number of highest-priced products and the least lowest-priced products in 1992. Consumers are therefore advised to shop around rather than relying on the big supermarket chains.

The rate of price increase for these 31 products was found to be lower than the inflation rate of CPI(A) for food (excluding meals away from home) for the period 1991-92 and 1992-93.

Although most supermarket chains adopt the policy of single pricing across all outlets on the regular prices of products, total cost of buying a basket of products can differ in different outlets of a supermarket chain due to the different number of discount products available in different regional outlets. The competitive environment, operating cost and the stock level of products approaching their expiry dates are factors that determine the number of discount products offered by an outlet.

The large chains also compete for customers through service differentiation. This includes better store environments, the use of bar-coding technology to speed customer service and home delivery. The Council found these attributes to have the potential for both positive and negative impacts on consumers.

NOTES:

- 1 Data on the product assortment were provided by the individual supermarket operators.
- 2 Wah-leung Cheung and Kai-tai Fang, op.cit.
- 3 Information provided by Park'N Shop and Wellcome.
- 4 See Gripsrud, Geir. "Price Behaviour and Store Size in Grocery Retailing" Scand. Journal of Economics 84(3), 471-82, 1982; and Holdren, B.R. The Structure of a Retail Market and the Market Behaviour of Retail Units. Prentice Hall, Englewood Cliffs, N.J., 1960.
- 5 Choice, September, 1993, pp 22-30.
- 6 "Best Before Date" is applicable to foods which can reasonably be expected to retain its specific properties if properly stored. "Expiry Date" refers to foods which, from the microbiological point of view, are highly perishable and are therefore likely after a short period to constitute an immediate danger to human health.

PART SEVEN : SUBSTITUTES FOR SUPERMARKETS

- 7.1 This study also examined retail businesses which have a mode of operation similar to that of supermarkets, i.e. offering a variety of food items and household necessities in a self-service environment, to determine if they are substitutes for supermarkets.

CONVENIENCE STORES AS A SUBSTITUTE

- 7.2 Convenience stores were first set up in Hong Kong in 1981. By the end of 1993, the number of convenience store outlets had reached 400.
- 7.3 Compared to supermarkets, convenience stores are usually smaller in size, with floor space ranging between 600 and 1000 sq.ft. and carry about 2000 fast turnover products with typically only one brand per product or as few brands as possible.
- 7.4 The relatively smaller size and limited product range of convenience stores are indications that the convenience store is not designed to be a substitute for the supermarket. The main feature of a convenience store is convenience in time and location. The target customers are those who buy in small amounts - the forgotten items or items for immediate personal consumption - and those who are willing to pay extra for the convenience.
- 7.5 Two related studies - one conducted at the end of 1985 and the other at the beginning of 1986 - with the objectives of ascertaining consumers' perceptions of convenience stores versus supermarkets and exploring their reasons for patronizing convenience stores showed that consumers are aware of the differences between the two retailing modes and they use convenience stores for different reasons.¹ To consumers, a convenience store is more of a "fill-in" store than a substitute for supermarkets, filling in the void when other retail outlets are closed. Consumers go to convenience stores not for their total household needs but for a small quantity of products. The convenience stores save the walk and the time it takes to shop in a supermarket.
- 7.6 Top management personnel of the two convenience store chains in Hong Kong are of the opinion that convenience store retailing is different from supermarket retailing and that the two businesses are run on very different philosophies.² However, the management(s) of the big supermarket chains consider convenience stores their competitors, because of the overlapping items and the extensive network of convenience stores' outlets.
- 7.7 As far as competition is concerned, these two types of retailing stores only compete with each other in limited product categories such as drinks, confectionery, and snacks.

DISCOUNT STORES AS A SUBSTITUTE

The first discount store, GrandMart, was set up in Hong Kong in the beginning of 1993. It is different from supermarkets in that:

- 7.8 GrandMart offers limited product lines. It carried about 300 items at first and now carries about 700. The company plans to expand the range to about 1,000 items, but no more than 1,200.
- 7.9 The products are generally well-known brands from the United States. However, the choice within a particular product line is typically between 1 and 5 items.

- 7.10 According to GrandMart, it competes on price by:
- (a) importing directly from manufacturers (through Price Club in the U.S.);
 - (b) selling in bulk;
 - (c) minimising store decoration with plain fixtures and concrete flooring;
 - (d) locating in secondary locations (new towns and industrial districts) where rental costs are lower for a large store facility (up to 10,000 or more square feet);
 - (e) opportunistic buying (with no continuity of merchandise); and
 - (f) little or no advertising.
- 7.11 Although GrandMart stated that business performance in its first year of operation was better than forecast, whether it will pose a competitive threat to the supermarket industry remains to be seen. The reasons are:
- (a) The distribution network is limited. GrandMart operates only 4 outlets at present. This does not meet the convenience needs of customers.
 - (b) The limited product choice and opportunistic buying are not conducive to the building up of customer loyalty.
 - (c) Discount stores require a large site at low cost, such sites are difficult to obtain in Hong Kong and hence may restrict the store's expansion.
 - (d) GrandMart uses a parallel distribution network of importing directly from Price Club in the United States, rather than buying from suppliers in Hong Kong. Therefore, it will not serve as an additional outlet for local suppliers, who in turn still have to rely on the big supermarket chains for bulk orders.
- 7.12 The above analysis indicates that it will take time for GrandMart to evolve into a permanent contender in the supermarket business. If GrandMart indeed intends to move in this direction, it must first meet the convenience needs of individual consumers.
- 7.13 However, there are indications of a market niche that would enable discount stores to expand their market:
- (a) GrandMart originally expected 60% of its sales to come from small-business customers purchasing for their own firms and/or for personal use. However, 75% of its business now comes from domestic consumers and only 25% from institutional customers. The change in the customer mix from what was originally conceived implies that bulk selling and marginal location does not deter patronage by domestic consumers.
 - (b) GrandMart intends to open more stores in the near future, reflecting further room for expansion of the market.
 - (c) The opening of 2 discount stores by a new entrant named M-Mart, plus the announcement by Value Club of its interest in the local market, indicate that there are profits to be made from this business.

JAPANESE SUPERMARKETS AS A SUBSTITUTE

- 7.14 The last decade witnessed the growth of Japanese supermarkets. Most of the prod-

ucts and fresh food carried in these supermarkets are imported directly from Japan, offering a different choice of products for consumers.

- 7.15 Since most of these supermarkets are part of Japanese department stores, they tend to be located in commercial districts rather than in residential neighbourhoods. However, with their growing popularity, more Japanese supermarkets have been established in new towns and public housing estates.
- 7.16 The growing number of Japanese supermarkets is envisaged to a potential substitute to supermarkets. However, Japanese supermarkets have not yet been classified as supermarkets by the Census and Statistics Department.

OTHER RETAIL BUSINESS

- 7.17 The wide range of product categories offered by supermarkets means that some of their products may also be carried by other retail businesses, e.g., drug stores, provision stores, wet markets and bakery shops. Even though competition exists in some product lines, these retail business are not substitutes to supermarkets because their different modes of operation and fewer product categories provided are not comparable to the one-stop convenience of supermarkets.
- 7.18 The scope of this study was confined to the supermarket industry. A study of the food retail industry as a whole will require an examination on the market structure and the buying power of conglomerate companies, which operate supermarkets, convenience stores, and drug store chains. This can be the subject of a separate study.

SUMMARY

Convenience stores, discount stores and drug stores are not perfect substitutes to supermarkets as their services and target customers are different. Convenience stores operate as a fill-in store and provide convenience in time and location to their customers. Discount stores offer bulk selling of limited product lines distributed through a few outlets to both institutional and domestic consumers.

Even though supermarkets and some retail businesses have overlapping products, they are not in direct competition with each other. For this reason, they were excluded from the scope of this study.

With the current expansion of Japanese supermarkets, it is envisaged that they may become a substitute to supermarkets in the near future.

NOTES :

- 1 Suk-ching Ho & Yat-ming Sin, "International Transfer of Retail Technology: the Successful Case of Convenience Stores in Hong Kong", International Journal of Retailing, Vol. 2 (3), 1987, pp. 36-48.
- 2 Economic Digest, April 4, 1983, pp. 6-7; Mark Roberti, "A Matter of Convenience", The Executive, August 1985, pp. 28-31; SCMP, November 22, 1986, Business p.3.

PART EIGHT: PLACING THE HONG KONG SITUATION IN AN INTERNATIONAL PERSPECTIVE

- 8.1 Reference is made to overseas experience to ascertain the competitive environment in the retailing business, in general, and in the supermarket industry, in particular.

GROWTH OF CHAIN STORES

- 8.2 The past 30 years have witnessed a steady decline in the number of independent stores and a simultaneous rise in the number of chain stores. Chain store operations have accounted for a growing portion of overall retail sales.
- 8.3 In the U.S., businesses with 4 or more establishments in the same retail category handled about 25% of all retail sales in the 1930s. By 1982, this figure had increased to 50%, which indicates a growing percentage share of retail sales for chain stores.¹
- 8.4 In the U.K., the single-unit retailers, which accounted for 93% of the retail businesses in 1950, were responsible for only 28.3% in 1987.²
- 8.5 In Japan, the number of small independent stores declined from 62% in 1968 to 44.7% in 1988 and their already small market of 15% declined to 8% over the same time period.³

GROWTH OF MARKET CONCENTRATION

- 8.6 Hand-in-hand with the growth of chain stores has come increased market concentration in the retail industry.
- 8.7 In the U.S., in 1987 chains generated 77% of total retail sales in the supermarket business, 25% of which was from 4 leading retailers.⁴ Concentration is more severe at the local level than at the national level. In 1988, for example, the 4 leading supermarkets in 4 metropolitan areas commanded 75%-85% of total sales in their respective areas.⁵
- 8.8 In the U.K., the multiples hold 45% of the total grocery market. The big three took up 1/3 of the supermarket sales in 1983.⁶ By early 1990, the big five accounted for over 60% of supermarket retail sales.⁷
- 8.9 In Germany, the top 5 leading food distributors accounted for 45.4% of total sales in 1990.⁸

EFFECTS OF INCREASING CONCENTRATION ON CONSUMER WELFARE

- 8.10 As a result of increasing concentration in the retail industry, the countries cited above encountered a shift of power from suppliers to retailers. Suppliers profits were squeezed by having to give large discounts to large retailers. From a consumer welfare point of view, it is important to find out whether the discounts received by the retailers have been passed onto consumers at large or whether they are being kept as higher profits.
- 8.11 In the U.S., an analysis of the changes between 1965 and 1972 of the top 4 grocery stores in a sample of 94 metropolitan areas revealed that profits were significantly higher in markets where a few firms controlled most grocery stores sales. The analysis also found that a chain enjoyed substantially higher profits in markets where it had a dominant share of the market than in markets where it had small shares.⁹

- 8.12 In the U.K., however, an analysis of the data for 1980 and 1987 did not show a significant improvement in the relative profitability of the largest size retailers.¹⁰
- 8.13 The Monopolies and Mergers Commission in U.K. published a report in 1981 which noted that there was some statistical evidence to suggest that the larger retailers appeared to have passed on the discounts gained by them in buying at lower costs.¹¹

EFFECTS OF INCREASING CONCENTRATION ON COMPETITORS

- 8.14 In both the U.S. and U.K., the impact of the increase in the power of the largest retailers has been at the expense of medium-sized, rather than at that of all other smaller organizations. In 1987, for example, 66% of the supermarkets which ceased operations in the U.S. were moderate-size stores.¹² Similarly, in the U.K., the category of retailers that were hit hardest by the expansion of large chains were of medium size.¹³

COMPARING THE DEVELOPMENT OF SUPERMARKET INDUSTRY IN HONG KONG WITH THAT IN OTHER COUNTRIES

- 8.15 As typified by the cases cited above, many developed countries have witnessed a general rise in the size and concentration of retail stores over the past 30 years. The developmental pattern of the supermarket industry in Hong Kong mirrors the universal trend evolving in the retail sector, i.e., the development and growing market concentration of chain stores. However, unlike the U.S. & U.K., most of the supermarkets in Hong Kong are small, single-outlet supermarket operators, therefore the development of the big chains were at the expense of these small operators. (paras 2.14 and 2.17).
- 8.16 While the developmental scenario of supermarkets in Hong Kong closely follows the pattern experienced in many other countries, there is a marked difference between Hong Kong and these countries in terms of the competitive environment.
- 8.17 In many other countries, some form of public policy has been institutionalized to preserve competition. Legislators and Government administrators can employ a wide range of measures to directly or indirectly influence retail structure and competition. In the US, antitrust laws were designed to reduce monopoly tendencies and restraints of trade. In the UK, fair trade legislation has been enacted to prohibit practices of large-scale firms which might adversely affect smaller retailers, examples being the prevention of collusion, predatory pricing, tying practices and price exclusive dealing etc.
- 8.18 In Hong Kong, similar mechanisms to preserve market efficiency and consumer welfare do not exist. Although overseas experience is indicative of the fact that there is no single best set of antitrust and fair trade legislation to guarantee competition, it does not neglect the importance of a competition policy. Market power could go beyond the levels justified by true economies and thus some form of public policy and regulation may need to be in place. This subject will be examined more fully in the ensuing discussion.

SUMMARY

The development of supermarkets in Hong Kong by and large closely follows the pattern experienced in many other developed countries. However, while other countries have competition policy and fair trade legislation in place, Hong Kong lacks such a mechanism to reduce monopoly tendencies and preserve market efficiency and consumer welfare.

NOTES:

- 1 Stanley C. Hollander & Glenn S. Omura, "Chain Stores Developments and Their Political Strategic, and Social Interdependencies", Journal of Retailing, Fall 1989 pp. 299-325.
- 2 W.S. Howe & P.I. Dugard, "The impact of organization size upon business development in UK retailing 1980-7: a statistical analysis", International Review of Retail, Distribution and Consumer Research, Vol. 3 (2), 1993, pp. 111-132.
- 3 Jeroen C.A. Potjes & Roy Thurik, "Japanese Supermarket Chains and Labour Cost - Part 1", Journal of Marketing Channels, Vol. 1(2), 1991, pp. 53-73.
- 4 Barry Berman & Joel R. Evans, Retail Management: A Strategic Approach, Macmillan Publishing Company, 1992, p.68; Avijit Ghosh, Retail Management, The Dryden Press 1990, p.40.
- 5 Avijit Ghosh, op. cit, p.42.
- 6 Keri Davies, Colin Gilligan & Clive Sutton, "Structural Changes in Grocery Retailing: The Implications for Competition", International Journal of Physical Distribution & Materials Management, Vol. 15(2), 1985, pp. 3-48.
- 7 Elizabeth J. Moore, "Grocery Distribution in the UK: Recent Changes and Future Prospects", International Journal of Retail & Distribution Management, Vol. 19(7), 1991, pp. 18-24.
- 8 Christian Marfels, "Concentration and buying power: the case of German food distribution", International Review of Retail, Distribution and Consumer Research, Vol. 2(3), 1992, pp. 233-244.
- 9 Keri Davies, Colin Gilligan & Clive Sutton, op.cit.
- 10 W.S. Howe & P.I. Dugard, op. cit.
- 11 W.S. Howe, "UK Retailer Vertical Power, Market Competition and Consumer Welfare", International Journal of Retail and Distribution Management, Vol. 18(2), 1990, pp 16-25.
- 12 Gerald Lewis, "Strategic Management Concepts in US Food Retailing and Wholesaling", International Journal of Retail & Distribution Management, Vol. 19(6), 1991, pp. 21-26.
- 13 W.S. Howe & P.I. Dugard, op. cit.

PART NINE: CONCLUSIONS

SUPERMARKET AS DEFINED IN THE STUDY

- 9.1 This study adopts the definition of supermarket used by the Census and Statistics Department, but considers convenience stores to be excluded from this definition. While the supermarket is a place for "one-stop" shopping of household necessities, a convenience store is more of a "fill-in" store. The fact that convenience stores compete with supermarkets in certain product lines does not render it a substitute. (Para 7.4 - 7.7)

THE MARKET STRUCTURE

- 9.2 Supermarkets were first established in Hong Kong in the 50's, by the mid-80's the industry had reached the maturity stage of its retail life cycle. Since that time, the industry has been characterized by a marked increase in market concentration, notably in two big supermarket chains - Park'N Shop and Wellcome. Using the Herfindahl index, the Council found a level of market concentration indicative of a market with only 3 supermarket operators despite the existence of 170 different supermarket operators in Hong Kong. (Para. 2.10)
- 9.3 Analysis of the geographical distribution of supermarket outlets in 210 areas shows that, of the 175 areas served by supermarkets, close to 40% are exclusively served by Park'N Shop and/or Wellcome. (Para. 5.8)
- 9.4 Park'N Shop and Wellcome supermarkets have a combined market share of approximately 70% of total supermarket sales. During the period between 1985 and 1993, the number of outlets of Park'N Shop and Wellcome grew by an annual rate of 5.4% and 7.5%, respectively. At the same time, the number of all other outlets, excluding those of Park'N Shop and Wellcome, decreased at an annual rate of 4.3%. Such disparity in the growth rates indicates that the expansion of the two big supermarkets was at the expense of small chains and single-outlet supermarkets. (Para. 2.14)

ENTRY BARRIERS

- 9.5 The market position of Park'N Shop and Wellcome is not likely to be challenged in the foreseeable future. The extensive network of outlets of the two big chains coupled with the difficulties in accessing prime shop sites and the high start-up and high rental costs significantly inhibit the ability of new entrants to enter the market on the scale needed to pose an effective competitive threat to the market dominance of Park'N Shop and Wellcome.
- 9.6 Furthermore, big supermarket chains have sufficient financial resources to pay for prime sites at private developments and at public housing estates. Losses in some outlets can therefore be compensated by gains in others. New entrants and small supermarkets are less able to spread the risk in establishing new outlets, especially where profits may be minimal in the initial years. (Para. 5.21).

BARGAINING POWER OVER SUPPLIERS

- 9.7 The market dominance of the big supermarket chains gives them tremendous bargaining power over suppliers. Suppliers value big supermarket chains as an important distribution channel of their products because of the extensive network of outlets and central delivery facilities. However, suppliers complained that the "harsh" trading terms "imposed" by the big supermarket chain render it difficult for them to

get new products onto supermarket shelves, except for those products which are very competitive and in high demand. These trading terms include high listing fees, promotional discount, contributions to the promotion fund, and product recall, etc.

- 9.8 Suppliers have reported that the big supermarket chains are able to use their market power to restrain trade in the form of restrictive supplies, imposition of loyalty clauses, etc. As a result, the number of overlapping brands among competing supermarkets has decreased. Such activities could be detrimental to both consumers and the industry as a whole.
- 9.9 An example of restrictive supplies is revealed in a supplier's complaint that a major supermarket chain had threatened the supplier with retaliatory action if it (the supplier) participated in a Chinese New Year shopping fair. Both Park'N Shop and Wellcome viewed this shopping fair as direct competition to their business at peak season. They stated that this type of fair is not a trade fair but is opened to the public, and under such circumstances suppliers act as retailers. We must, however, point out that such restraints of trade are subjects for investigation under competition laws in other countries to ascertain whether they have any anti-competitive effects.
- 9.10 All the suppliers contacted by the Consumer Council only agreed to provide information on the condition that their identities be kept strictly confidential for fear of retaliation by the supermarkets. This is further evidence of the imbalance of market power between suppliers and the big supermarket chains.
- 9.11 The strong bargaining power of big chains over suppliers puts them in a better position than other smaller and independent supermarkets to demand trading terms in their favour. When the need to increase price arises, suppliers are often pressured by big supermarket chains to turn to small supermarkets to take the lead in increasing prices. Small supermarkets therefore are disadvantaged in price competition. Although consumers are better off in the short run due to the deferred price increase, they are worse off in the long run when competition between supermarkets is impeded.
- 9.12 Big supermarkets contend that the trading terms are common industry practice, and consumers can benefit through lower prices, better product quality and more efficient service at times of product recall, etc.

IMPACT ON CONSUMER INTERESTS

- 9.13 In order to ascertain whether consumers have benefited from the industry, the Council have examined three areas of market behaviour: product variety and product differentiation, product prices, and services.

Product Variety and Product Differentiation

- 9.14 Two significant phenomena are apparent when comparing the product variety carried by the four major supermarket chains, Park'N Shop, Wellcome, CRC and KK:

- (a) The big two supermarket chains do not necessarily provide wider product choice.

A comparison of the 340 - 459 product lines (i.e. different brands available under a product category such as instant noodles) most frequently purchased from supermarkets showed that the big chains do not necessarily offer a wider choice (Paras. 6.12 - 6.17). Also, larger-sized outlets do not necessarily carry more product lines than outlets of smaller size.

- (b) Product differentiation among supermarkets resulting in fewer overlapping brands.

The findings of the surveys revealed evidence of product differentiation between different supermarket chains.

Surveys on the most frequently purchased items by consumers conducted in Tuen Mun, Kowloon City and Kowloon South revealed that of the 415, 459 and 340 product lines carried by Park'N Shop, Wellcome, CRC and KK, about 15% - 59% were not carried by all four chains (Table 8 in Part 6).

Such a trend may be the combined result of exclusive supply terms, direct sourcing, or higher listing fees.

- 9.15 Consumers' choice is limited in the big supermarket chains as they do not necessarily provide more product lines. Further, many consumers are affected by the purchasing decisions of the big chains, given their extensive level of penetration and large market share. As the big chains tend to follow each other's products categories/types, new and innovative products may be difficult to get on their shelves.
- 9.16 Furthermore, the exclusive supply terms used by the big chains result in fewer overlapping brands, which makes it difficult for consumers to make price comparisons between supermarkets. When suppliers distribute the same products under different brand names in response to these exclusive supply terms, consumers are not getting genuine choice despite the apparent variety of brands available in the market.

Product Prices

- 9.17 Three aspects of pricing affect consumer interests, namely, price collusion, price competition and spatial price variation, i.e. whether prices are higher in areas where there is little competition from other supermarkets were, investigated.
- 9.18 It is impossible for this study to examine in-depth whether price collusion exists amongst the 4 supermarket chains. However, the Council has looked into their pricing behaviour. We believe that the large number of products each supermarket carries makes it difficult for the operators to collude on prices. However, restrictive supplies and product differentiation allow supermarkets to monopolize the sale of certain products. Whether this practice is a normal market behaviour or a deliberate strategy to avoid price competition between supermarkets is impossible to determine.
- 9.19 As far as price competition is concerned, the total cost of purchasing a basket of 31 products from the 4 supermarket chains differs only slightly, despite their different sizes and market shares. Their average cost over the period January 1990 - June 1994 varies by about 0.3% - 2%.
- 9.20 The two big supermarkets are able to sell the basket of products at a marginally lower price due to the following reasons (Para. 6.34):

- (a) Economies of Scale

Park'N Shop and Wellcome should have the benefit of greater economies of scale. Representatives of Park'N Shop and Wellcome stated that most of the benefits of better discount terms obtained from suppliers have been reflected in the 0.3% - 2% price differences and in other non-price areas, such as more outlets located at convenient location, more spacious store environments, and better customer services.

(b) Strong Bargaining Power

With their strong bargaining power, big supermarket chains were able to pressure their suppliers to turn to other smaller supermarket chains to lead price increases a week in advance (Para 4.16).

(c) Structural vs General Prices

Studies on the pricing behaviour of supermarkets in other countries showed that big supermarket chains may be more demand oriented in their pricing behaviour in that they price their fast-moving products at lower price than the others. Since the basket of 31 products surveyed are fast-moving items, the price differences reflect this pricing structure of big supermarket chains.

9.21 On the other hand, the marginal price difference may be explained by the following:

(a) Resale Price Maintenance

The 4 supermarket chains adopted, to a large extent, the recommended prices set by the suppliers. In this case, price competition between the 4 chains was minimal.

(b) Low Sales Margins

Similar to other grocery retailing, supermarkets generate profits and positive net cash flows from high volume and fast stock turnover on low sales margins. Hence, the price differences between supermarket chains may be small.

9.22 The Council found that the rates of the total price increases of the 31 products for all 4 supermarket chains were lower than the inflation rate of CPI(A) for food (excluding meals away from home) in the period 1990-1993. However, consumers are well advised to shop around and compare prices as a varying array, depending on the chain, of 11 to 15 products from the 31-product basket had price increases higher than inflation rate.

9.23 Individual chains maintain a policy of single pricing across all outlets on the regular prices of products, but allow fluctuations in the discounts offered in different districts.

Services

9.24 The Consumer Council received 99 and 125 complaint cases in 1992 and 1993 respectively. The nature of most complaints is related to the exchange and refund of products, and most were resolved satisfactorily. The most predominate consumer concern over the years has been about the sale of products well passed the "Best Before Date". This remains an important issue to be resolved.

9.25 The big supermarket chains often promptly followed the Council's advice on the withdrawal/recall of hazardous products. Whilst appreciating their vigilant effort, the supermarkets' ability to totally withdraw the substandard products also reflects their power over suppliers who are required to include product recall in the trading terms.

PART TEN: RECOMMENDATIONS

- 10.1 The 1994 World Competitive Report rated Hong Kong fourth among the world's major economies in terms of competitiveness, reflecting the many successes of our business. To live up to such international repute, Hong Kong must maintain business efficiency and free competition in the domestic market.
- 10.2 The supermarket industry, in particular the market leaders, is a vivid example of the phenomenal success that can be achieved in Hong Kong's competitive environment. The achievements of the market leaders are largely due to their entrepreneurship. However, the resultant high market concentration has aroused a certain degree of public concern over the potential impact on consumer welfare, particularly in an environment where no formal competition policy is in place to provide the necessary checks and balances.
- 10.3 The Consumer Council is proposing six recommendations with the aim of enhancing competition in the industry, improving the monitoring of trade practices and market development and bettering the services provided by supermarkets. The recommendations are as follows:

Recommendation 1: Monitoring of the Supermarket Industry

- 10.4 Given the Government's declared policy to promote competition, the Consumer Council recommends that a body be designated to monitor the supermarket industry in order to detect any growth in market power which may be detrimental to competition and consumer interests.
- 10.5 The prospect of a merger or acquisition between the two big supermarket chains is a valid cause for concern. Should that occur, it would create a mega supermarket chain netting about 70% of the market share. Even a merger or acquisition between a big and a small supermarket chain would increase the current level of market concentration. While the resultant size or market share of a merger in the industry in itself would not necessarily threaten consumer interests, the increased market concentration coupled with factors such as entry barriers, the lack of alternate distribution channels and existence of restrictive practices warrant special attention by the Government. Such monitoring should aim to ensure that any consolidation in the industry does not pose a threat to consumer interests.
- 10.6 In the U.S., horizontal mergers will be challenged under the Clayton Act (section 7) of the Antitrust Law if they combine over 25% of the market share.¹ Similarly, the Monopolies and Mergers Commission (MMC) in the U.K. examines the merger and acquisition of companies which may have an impact on competition in the market. A combined market share of over 25% of a post-merger company can trigger an investigation on monopoly situation or anti-competitive practices. MMC will only block a merger if it creates a market leader and adversely affects public interests.² In Australia, the Trade Practices Commission (TPC) prohibits mergers which substantially lessen competition, and the TPC has issued guidelines establishing a 25% threshold for the investigation of mergers.
- 10.7 Whilst the findings of this report highlighted the degree of concentration in the supermarket industry, the Consumer Council intends to examine in-depth whether Hong Kong needs to set up a similar competition policy in the overall Competition Report when findings of the Council's other sectorial studies are available.
- 10.8 In the meantime, the Council's Trade Practices Division will continue its dialogues with suppliers and supermarket operators with a view to monitoring market activities to safeguard consumer interests.

Recommendation 2: Establishment of a Complaint Avenue Against Restrictive Trade Practices

- 10.9 The Council recommends a body to be established to receive and examine complaints from businesses against unfair trade practices detrimental to the retailing sector and public interests. This body should investigate complaints from both suppliers and retailers, e.g. the imposition of loyalty clauses, threats of retaliation for agreeing to restrictive terms. The main function of this body should be to reveal and deter actions which hinder competition.
- 10.10 The need for such a complaints channel is well justified by the cases discussed earlier. A new complaint body will fill the void in the complaints avenues as, to the best of our knowledge, no trade Association is undertaking such a function at present.
- 10.11 Examples of such mechanisms can be found in the Insurance Claims Bureau and the Insurance Agents Registration Board. Both mechanisms were set up as an integral part of a self-regulatory system to receive and investigate complaints against any member of the trade. To ensure the independence of their deliberations and decisions, the 5 member Bureau/Board is convened under a non-industry chairman and comprises 2 other independent members.
- 10.12 Such self-regulatory mechanisms, though they work well for the insurance industry, may not suit the supermarket retailing trade. With the highly concentrated market power in the hands of a few big players, such self regulation is tantamount to asking the involved parties to be their own judge.
- 10.13 An alternative to setting up a new complaints mechanism is for the Government to empower the Consumer Council to examine these types of trade complaints and to take appropriate action if it considers that the interests of consumers have been jeopardized.
- 10.14 To facilitate its investigations, the complaint body must have access to all relevant information and be given the authority to enforce compliance with its decision. Therefore, full-cooperation from the industry will be necessary to ensure the eventual success of such a body.

Recommendation 3: Special Conditions for the Operation of Supermarkets in Remote Districts

- 10.15 The Council recommends that the Government develop and implement special conditions for the operation of supermarkets in remote districts. The aim should be to minimize any undesirable effects arising from the reservation of sole operation right at shop premises owned by associated companies.
- 10.16 The close business association of the two big supermarket chains with the property development business within the same conglomerate, e.g. Hongkong Land (Holdings) Ltd, Hutchison Whampoa Ltd and Cheung Kong (Holdings) Ltd, enables them to have easier access to big residential tenant buildings and prime sites, thus restricting the entry of new entrants and other supermarkets. Park'N Shop and Wellcome stated that their deals with their associated property developers are conducted at arms-length, whereby they pay full rent just like any other retailers.
- 10.17 Such close business association is unlikely to pose serious effects on consumer choice in urban areas, as it is usually possible for a competitor to establish another supermarket in the vicinity. The case is different in big development projects in self-contained and remote areas, for example, South Horizon and Lantau espe-

cially in view of future development associated with the New Airport. More often than not, consumers will patronize the only supermarket in the vicinity; hence, they are restricted to the choice of products offered in that supermarket.

10.18 For these reasons, the Council believes that positive assistance from the Government will be necessary to facilitate competition.

10.19 The following specific measures are recommended for consideration and implementation by the Administration in remote developments:

- (a) The Government should devise a planning standard for supermarket establishments in remote areas.

The current planning standard provides for a ratio of kindergarten, school, community facilities, and even the size of the food market to the population within a certain development project. Therefore, the Administration should have no difficulty in adopting this proposal.

- (b) The Government should require that the operation right of supermarkets be granted through open tender. Such requirement will help ensure that any interested supermarkets have the opportunity to bid for sites at big residential developments. Not only will this provide a more competitive environment for all existing supermarkets, new entrants can also be encouraged.

There are two ways to implement an open tender for supermarket establishments:

- (i) The Government could divide the site into two lots. One lot would be for residential development and the other would be earmarked for commercial facilities. The Government could then administer two separate tenders for the lots. Thus, the developer awarded the tender for the residential blocks would not necessarily have the automatic right to develop the commercial facilities for the site. Examples of such a procedure are the shopping arcades at Jardine's Lookout, Repulse Bay and Red Hill; or
- (ii) the Government could specify in the agreements and conditions of land sales a requirement for the developer to grant the rights of supermarket establishment(s) through an open tender.

The first option is straight forward and satisfies the competition objective. The latter case, i.e., requirement of open tender in the land sales agreement, is similar to the Government practice in the granting of the airport railway development, in which the Government specified in the planning brief that open tender is required to rule out the possibility of private deals. In the public housing estates, the right to establish supermarkets is also granted through open tender administered by the Housing Department. The Council hopes this practice will continue, and the Department will take into the account the report's findings and the need to encourage competition.

The Council understands that the requirement for open tender is rarely found in the land sales agreement for private developments. The developers are deemed to have the right to designate the operating right of any facilities within their developments. However, in situations where competition may be highly restricted and where the Government is in a position to influence such practices, the Council believes steps should be taken to pre-empt restrictive practices at the planning stage.

In awarding a tender, the Government should ensure that an operator can only bid for the operating right of one or a limited number of supermarkets in the same development, depending on the circumstances. This is to ensure that in developments which can accommodate more than one supermarket, different supermarkets can be set up to allow for competition and greater consumer choice.

The selection criteria and the tender process should be made sufficiently transparent to avoid the need for the Government to devote strenuous efforts in monitoring the tender process.

We understand that certain parties may express concern about the implications of the above recommendation on the business environment in Hong Kong. However, we must point out that the special conditions recommended are not intended to be applied indiscriminately; they are only applicable to a well-defined scope - in this case, to residential/commercial developments in remote areas. Such conditions are necessary only when strong indications exist that market competition has been impeded. The above assurances should be able to allay the concerns of various parties.

Recommendation 4: Information Disclosure

10.20 The Council recommends that the following measures be taken to improve the collection of trade statistics and information on the supermarket industry. The aims are to encourage information disclosure for the use and benefit of the industry as a whole and to facilitate monitoring by the Consumer Council and other interested individuals (e.g. for academic research). These measures include:-

- (a) The Census and Statistics Department can review whether the current information gathered from the supermarket industry can be disaggregated into such a form to facilitate monitoring of industry, for example, the supermarket sales to be itemized into conventional supermarkets, convenience stores, and Japanese supermarkets and by product categories.
- (b) The Council is aware of the fact that information on individual supermarkets is commercially sensitive. From time to time when the need arises for the Council to access such confidential information, the Council will seek approval from the Financial Secretary or the Secretary for Trade and Industry for the Census and Statistics Department to provide this information to the Council. The Council will endeavour to keep such information strictly confidential. This is similar to the current practice of Securities and Futures Commission (SFC) in its investigations and studies. Acceptance of this recommendation will greatly enhance ability of the Consumer Council to fulfil its responsibilities in conducting competition studies and monitoring the market situation.
- (c) During the course of this study, Park'N Shop Wellcome, CRC and KK did provide certain privy information to the Council in confidence. The Council appreciated their co-operation and would like this practice to continue.

Recommendation 5: Improvement of Customer Services

10.21 The Consumer Council recommends that supermarkets adopt the following measures in order to improve customer services.

- (a) Price Marking and Labelling

The Council recommends that the supermarkets improve on their price marking and labelling system. Shelf labels should be as large as possible, with clear descriptions of product brands, sizes and types printed in both Chinese and English. The receipt should clearly print as much product description as possible.

Such improvement in shelf labelling and receipt will enable consumers to check the prices charged and reduce errors.

To alleviate any misunderstanding between the supermarket managers and their customers, the Consumer Council also recommends that supermarkets should display, in a prominent position, the code of practice of the Hong Kong Article Numbering Association. This code provides customers the right to pay the lower price should there be a discrepancy between the shelf price and scanner price.

(b) Special Needs of Customers

The Council recommends that supermarkets should take the initiative to facilitate access by disabled persons and to provide products which meet special dietary needs for diabetics and people with kidney conditions. The Council believes such actions to be in the best interest of both consumers and supermarket operators.

Recommendation 6: Prohibition of the Sale of "Out-dated" Products

10.22 The Council supports the Government's review to amend the Food and Drugs (Composition and Labelling) Regulations making the labelling of "Expiry Date" compulsory for perishable products, and to abolish the exemption of labelling for prepackaged food expected to retain its specific properties beyond 18 months. Further, the amendment will make it an offence to sell "expired" products. The Council supports the amendment and sees a need to clearly inform consumers so that they understand the difference between the "Best Before Date" (for most food items) and the "Expiry Date" (for perishable food).

10.23 More importantly, the responsibility of enforcing the legislation should lie not only with the Government but also with the industry. From the Council's experience in resolving complaints on the sales of products well passed their "Best Before Date" and the sales of stale products, we found that the supermarkets are best positioned to check and withdraw such products from their shelves.

NOTES:

1 William G. Shephard, *The Economics of Industrial Organization*, 3rd Ed. Prentice-Hall, 1990, Chapter 19.

2 Derek Ridyard. *Competition Policy Review*, July 1992, Vol.2(3), pp.161-66.

Appendix 1

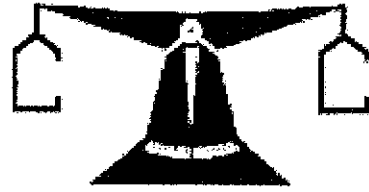
LIST OF 31 PRODUCTS

1.	AXE LEMON LIQUID DETERGENT	600 G
2.	BIRD'S EYES FISH FINGERS	10'S
3.	CARNATION FULL CREAM EVAPOR'D MILK	410 G
4.	COCA COLA (CAN)	355 ML
5.	COLGATE TOOTH PASTE (MFP 2)	9.4 OZ
6.	DEL MONTE FRUIT COCKTAIL	850 G
7.	DOLL SHRIMP SHAO MAI	10'S
8.	DREYER'S GRAND ICE-CREAM	1 QT
9.	FLORA POLYUNSATURATED MARGARINE	250 G
10.	GARDEN LIFE BREAD	450 G
11.	GOLDEN CROWN SEE MEW RICE	5 KG
12.	GOLDEN ELEPHANT FRAGRANT RICE	5 KG
13.	GREAT WALL CHOPPED PORK & HAM	340G
14.	JOHNSON HI-GIO FLOOR FINISH	1.25 L
15.	JOHNSON'S BABY LOTION	300 ML
16.	KAM HEUNG FRAGRANT RICE	5 KG
17.	KINGSFORD CORN STARCH	454 G
18.	KLEENEX TISSUE	ECONOMY
19.	KNIFE BRAND PURE PEANUT OIL	2900 ML
20.	KRAFT MIRACLE WHIP	473 ML
21.	KRAFT SINGLES CHEDDAR CHEESE SPREAD (10'S)	250 G
22.	LION & GLOBE PEANUT OIL	2900 ML
23.	LIPTON YELLOW LABEL TEA	25'S
24.	LONGEVITY CONDENSED MILK	397 G
25.	MAGGI SEASONINGS	250 G
26.	PEARL RIVER BRIDGE FRIED DACE W/SALTED BLACK BEAN	227 G
27.	RICOLA SWISS HERB CANDY	100 G
28.	SAN MIGUEL BEER (CAN)	12 FL OZ
29.	SARA LEE ALL-PURPOSE POUND CAKE	300 G
30.	VIGOR 33 CONCENTRATED POWDER DETERGENT	2 KG
31.	YAKULT (Yakult 5's for the period January - June 1994)	4's

Appendix 2

LIST OF 25 PRODUCTS

1.	CARLSBERG	355 ML
2.	SAN MIGUEL	355 ML
3.	DEL MONTE FRUIT COCKTAIL	850 G
4.	MA LING PORK LUNCHEON MEAT	397 G
5.	MA LING SLICED PORK IN SICHUEN STYLE	198 G
6.	CARNATION FULL CREAM EVAPOR'D MILK	410 G
7.	DUTCH LADY STERILIZED MILK	1 L
8.	EAGLE FULL CREAM SWEETENED CONDENSED MILK	397 G
9.	YAKULT	5 BOTTLES
10.	LION & GLOBE PEANUT OIL	2900 ML
11.	JOHNSON HI-GIO FLOOR FINISH	1.25 L
12.	COCA COLA	1.25 L
13.	COCA COLA (CAN)	355 ML
14.	VITASOY	375 ML
15.	WATSON'S PURE DISTILLED WATER	700 ML
16.	DOLL BOWL NOODLES	90 G
17.	NISSIN DEMAERAMEN	75 G
18.	DETTOL ANTISEPTIC GERMICIDE	750 ML
19.	REJOICE 2 IN 1 (NORMAL HAIR)	400 ML
20.	GOLDEN CROWN SEE MEW RICE	5 KG
21.	KAM HEUNG THAI FRAGRANT RICE	5 KG
22.	KANGEROO SEE MEW RICE	5 KG
23.	LEE KUM KEE PREMIUM OYSTER FLAVOURED SAUCE	420 ML
24.	PEARL RIVER BRIDGE SUPERIOR SOY SAUCE	550 G
25.	M & M'S PLAIN CHOCOLATE CANDIES	200 G



超級市場研究報告：

結論及建議

一九九四年十一月

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未得許可

請勿翻印

(一) 結論

超級市場的定義

- 1.1 本報告大致上採用政府統計署對超級市場的定義，但不包括便利店，原因是兩者性質不同。超級市場貨品種類繁多，為市民提供家居用品「一站購物」的方便，便利店是市民補充購物的地方，在某些貨品種類方面和超級市場有競爭，但並非超級市場的替代品。

市場結構

- 1.2 香港在五十年代開始有超級市場的出現，至八十年代中期，已踏入成熟期，且有顯著的市場集中趨勢，從「向氏市場集中指數」(Herfindahl Index)分析數據顯示，雖然有一百七十個經營者(約560間店舖)，但以市場佔有率論，即如只有三家經營者。(附件一，表一)
- 1.3 全港二百一十行政區只有一百七十五個區設有超級市場，接近四成只有百佳或惠康。(表二)
- 1.4 百佳和惠康兩家超級市場合共佔了整個行業銷售量的七成。在一九八五至一九九三年間，百佳和惠康的分店每年增長率平均分別為5.4%和7.5%；另一方面，其他超級市場數目(百佳和惠康除外)，卻每年平均遞減4.3%。這種不平均的增長比率顯示，兩大集團的擴展，影响了較細規模連鎖店和獨立經營店舖的發展。

對新競爭者的競爭障礙

- 1.5 百佳和惠康的市場地位，在可見的將來亦不易受到挑戰。兩大超市集團分店的分布甚廣，新經營者若要加入市場，至經營規模足以抗衡該兩大集團的優勢，面對的困難包括：難以找尋適合的舖位，租金昂貴，及可觀的設辦成本。

- 1.6 大超市集團有充裕的財力，在私人樓宇及公共屋邨「旺舖」開設分店，某些分店的賺蝕，可由其他分店彌補和攤分，但新競爭者或小型超市則難有相當財力去承擔新店的蝕本或低收入期。

對供應商的議價優勢

- 1.7 大超市集團對供應商有很大的議價優勢。超市集團網絡廣闊，且有集中送貨的方便，貨品供應商視為主要的分銷渠道。但供應商認為大超市集團的交易條件「苛刻」，因此，只有某些有頗大的市場需求和貨價甚有競爭能力的產品，才可以滿足大超市集團的交易條款。其他產品，特別是新產品難以進入超市銷售。超市厘定的交易條件包括：高昂的「入線」費、推廣折扣、宣傳費及產品回收條款等。
- 1.8 根據供應商的資料，大超市集團亦可以利用其市場力量，要求供應商獨家供應貨品、厘訂專利銷售條款等，令不同超市間較少相同的產品出售，對消費者和行業整體利益會有所影响。
- 1.9 一名供應商指稱某大超市集團揚言若該供應商參加一項農曆新年節日展銷活動，會採取對付行動，本會查証確有其事。百佳和惠康認為此類活動並非供應商為零售商安排的展銷活動。由於展銷會公開讓市民參加，供應商在這情況下變為零售商，因此與超級市場有直接競爭，影响其盈利。這類情況，若在其他國家發生，負責執行反競爭法例的機構會進行調查，是否有限制競爭的後果。
- 1.10 本會接觸的供應商恐怕超市集團採取報復，均要求本會答允在絕對保密的情況下才願意提供資料。這更進一步反映出供應商和大超市集團間存在不平衡的市場力量。
- 1.11 大超市集團影响到規模較小的超市競爭能力。當有些貨品需要加價時，供應商往往受到超市大集團施壓，要求由小規模的超市首先加價。因此，在價格競爭方面，規模較小的超市便處於不利地位。大集團較遲加價，在短時期或有利於消費者，但長遠計，若超級市場之間的競爭能力受阻，對消費者利益有影响。
- 1.12 大超市集團聲稱這些交易條件在行內甚為普遍，消費者可以因而受惠，例如：享受到較便宜的貨價，較優良的產品質素，和在回收產品時，有效率的服務。

對消費者利益的影响

本研究從三方面分析超市集團的市場行為，剖析消費者是否因而受惠，包括：貨品種類、價格和超市的服務。

貨品種類

1.13 在比較四間超市集團，百佳、惠康、華潤和K K的貨品種類時，發現了兩個現象：

(a) 兩大超市的貨品種類不一定更多(表三至五)：

研究比較消費者最常在超級市場購買的三百四十種至四百五十九種產品，例如同類貨品如即食麵，在超市內有多少不同牌子出售。結果顯示兩大超市集團未必提供更多選擇，而且面積大的店舖貨品種類不一定多於小店舖。

(b) 不同超市集團各自銷售不同品種的貨物愈來愈多。換言之，相同牌子的貨品愈來愈少(表六)：

調查顯示，各超市發售的產品種類愈來愈有差別。這種趨勢可能是由於超市方面訂定的獨家供應條款，直接入貨安排和高入線費等。

在屯門、九龍城及南九龍區調查消費者在百佳、惠康、華潤和K K等超級市場最常購買的貨品，分別有415、459和340種，其中有15%至59%，並非在四間超市同時有售。

1.14 鑑於兩大超市集團分店的分佈愈來愈廣，集團的採購決定影响為數甚多的消費者，可是調查顯示在消費者常購買的貨品類別中，它們的品種並非最多。

1.15 大超市集團往往密切注意對方引入的產品種類，並緊緊相隨，致令不同種類或新類型產品難以「上架」。

- 1.16 各超市大集團的獨家供應條款，使超級市場發售相同牌子產品的比例愈少，消費者愈難在價錢上作出比較。再者，供應商為應付超市集團的獨家供應要求，會把同一產品以不同包裝及牌子出售，以致消費者並沒有得到真正不同的選擇。

價格比較

- 1.17 超級市場產品的訂價有三方面足以影响消費者的利益。這包括：串同定價、價格競爭和地區性定價(某些地區由於沒有競爭而定價較高)。
- 1.18 在串同定價方面，本會並沒有可能深入調查情況，只能從大超市集團的價格行為去分析。但本會相信由於每間超級市場發售的貨品種類繁多，經營者串同定價的安排不易。但另一方面，由於貨品有獨家供應的限制，致令超市集團可以自由定價，但難以斷定究竟這是行業的正常安排，抑或是為求達到減少價競爭的方法。
- 1.19 有關超市之間價格競爭方面，本會發現，四大超市集團雖然規模和市場比率有別，但在一九九零年至九四年六月期間，卅一種相同產品的總平均售價相差不大，有0.3%至2%的差異，兩大超市集團的價格稍為低一些(表七及八)。該卅一種貨品詳列於附件二。
- 1.20 兩大超市集團由於規模經濟、對供應商的影响力及對暢銷產品的政策，取價應該是較低的，原因如下：
- (a) 規模經濟：百佳和惠康應享有較大的規模經濟。據百佳和惠康的代表稱，集團從規模經濟所的利益除了該0.3%至2%較廉的貨價外，尚見於其他非價格方面的競爭，如分店的地點較方便，寬敞的購物環境和較佳的顧客服務等。
 - (b) 超市大集團對供應商的影响力：由於大型超市集團的議價能力強，當貨品需要加價時，供應商唯有讓較小規模的超市帶頭加價。這可能是兩大超市集團卅一種產品售價較低的原因。

(c) 取價策略：在研究外國超級市場定價情況時，發現它們大多數會按照貨品的需求作為定價指標，銷售快的產品售價較其他產品為低。由於該州一種產品均屬多銷類，反映出大型超市的定價方針，與外國相類似。

以下為超市集團之間價格相差不顯著的原因：

(a) 轉售價格的維持：四大超市集團在很大程度上依照供應商建議的零售價。

(b) 低的銷售毛利：超級市場和其他雜貨零售業務一樣，採取薄利多銷的方針，因此四家超市之間的價格差別也不會顯著。

1.21 本會把超市調整售價與甲類消費物價指數之食品(不包括外出用膳)分類互相比較，發現一九九零至九三年間，四大超市集團卅一種產品加價的幅度，整體上低於通漲率，即甲類物價指數(食品，不包括外出用膳)。但消費者宜多作價格比較，因為該卅一種產品中卻有十一至十五種是高於通漲率的，個別超市有不同價格(表九、十)。

1.22 研究資料又顯示，同一集團所有分店均劃一貨價，但特價貨品則因不同地區而有出入。

服務

1.23 本會在一九九二年和一九九三年接到有關超級市場服務方面的投訴分別為99宗和125宗。投訴性質以換貨和退貨有關。這些個案大部分都能夠獲得完滿解決。歷年來最為消費者關注的仍然是產品保質期的問題，「過期產品」仍有在超市繼續發售，這是有待解決的一項重要課題。

1.24 當本會促請製造商和零售商收回危險產品的時候，大超市集團均會立即作出響應，本會欣賞它們的合作態度及工作效率，但亦充份反映了它們對供應商的影响力。

(二) 建議

- 2.1 一九九四年世界商業競爭情況報告，比較世界主要經濟中心的競爭能力，香港排行第四位，足見本港在商業經營方面的成功。為配合這國際上的優良形象，香港必須保持一定的商業效率和締造本地市場自由競爭的環境。
- 2.2 超市行業，特別是領導行業的表表者，正是市場上競爭成功的生動例子，它們的成功有賴其創新企業家的原動力。但另一方面，亦帶來這行業高度市場集中的現象，引起公眾關注對消費者利益的影响，尤其在缺乏正式的競爭政策以資制衡的環境下，更應予注視。
- 2.3 消費者委員會提出六項建議，以加強行業的競爭性、監察行業的運作、市場的發展，和增強業界的服務水準。列舉如下：

建議一：監察超市行業

- 2.4 為配合政府促進競爭的政策，本會建議政府委任一個組織監察超市行業的運作，注視市場的發展，以確保市場的增長不會妨礙競爭和影響消費者利益。
- 2.5 兩大超市集團合併或收購是亟需關注的問題。兩大集團一旦合併會出現巨大超市連鎖集團，雄霸市場70%。即使只是一間大超市集團和另一間較小規模的超市連鎖店合併，亦會增加現時市場的集中程度。雖然，商業集團的市場佔有率高，或合併後的規模大，未必對消費者利益構成影响。問題在於超市行業的獨特情況，例如新經營者入市的困難、缺乏新的分銷渠道、以及超市集團對供應商的限制性條款等問題，需要政府特別的關注，確保業內經營者的合併，不致妨礙消費者利益。

- 2.6 在美國，公司之間合併後如超過市場佔有率的25%，受反壟斷法案的規管(Clayton Act 第七節)。同樣地在英國，壟斷及合併事務監察委員會負責監察，若合併行動引致公司超過25%市場佔有率，立即進行調查，但委員會只會對影響市場競爭和消費者利益的合併採取行動。澳洲的商業監局亦採納25%市場佔有率作為準則，調查公司的合併行動。
- 2.7 本會研究指出超市行業存在市場集中的情況，但將會在完成其他行業的研究後，深入探討本港是否需要設立類似的機構，在整體的競爭研究報告提出建議。
- 2.8 在這期間，本會的商業經營手法研究組將繼續與供應商和超市經營者保持聯絡，並收集資料，以監察該行業的市場活動。

建議二：設立申訴渠道處理限制競爭的經營手法

- 2.9 本會建議設立一個專門處理不公平交易的投訴渠道，處理因此而令零售業和公眾利益受影響的投訴。供應商和零售商均可以作出投訴，例如：有關專利銷售條款、受到「威脅」、以及其他限制競爭的交易條款等，目的是透過這渠道揭發和竭止妨礙競爭的活動。
- 2.10 上文所提出的種種事例，足以支持有必要成立投訴渠道。據本會所知，目前仍未有任何商業組織負責處理這類投訴。
- 2.11 類似的機制可以參考保險索償投訴委員會和保險經紀註冊委員會的運作，兩者均為該行業的自律措施之一，接受和調查對其成員的投訴。為確保該五人委員會在決策上的獨立性，委員會的主席和另外兩位委員均由外界人士擔任。
- 2.12 類似機構雖然在保險業行之有效，但未必適用於超級市場行業，原因是超市的結構過於集中，只有幾間大型超級市場，要求它們組織類似的自律性投訴機制，牽涉入投訴的一方，可能正是自律機制的成員。
- 2.13 另一個可以考慮的方案，是由政府授權消費者委員會負起調查的責任，當發現損害消費者利益的情況，採取適當的行動。

- 2.14 為方便調查，負責調查的組織應有權收集資料，和執行決定。為此，需要業界的衷誠合作，以確保這個組織的有效運作。

建議三：在偏遠地區開設超級市場的特別安排

- 2.15 本會建議政府制定在偏遠地區開設超級市場的特別安排。目的為避免與地產發展商有關的聯營公司，自動取得獨家經營權，減少競爭。

- 2.16 兩大超市隸屬的集團均有地產發展業務，例如惠康與香港置地有限公司、百佳與和記黃埔有限公司和長江實業地產代理有限公司。這兩大超級市場因利乘便，較易在同集團聯營公司旗下的大型發展計劃取得適當經營地點，因此局限了其他有意經營這行業的人士及其他超市的加入。但百佳、惠康均聲稱它們的運作相對獨立，租賃同集團的商舖，亦付出市值租金。

- 2.17 這集團間的聯系，在市區不致嚴重影響超級市場的消費者，因為其他競爭者較易在附近地方開設超市。但在偏遠和自成一體的大型屋邨，情況便有不同。例如在大嶼山因機場計劃而引致的地區發展、海怡半島等地，消費者只能光顧當地的超級市場，接受該超級市場提供的貨品種類和價錢，別無選擇。

- 2.18 為此，本會相信政府有需要採取一些積極行動，鼓勵競爭。

- 2.19 以下是政府可以考慮在偏遠地區屋邨實行的具體措施：

(a) 政府應擬定在偏遠地區開辦超級市場的規劃準則

現行規劃標準按照屋邨的人口，厘訂幼稚園、學校、社區設施，甚至街市的比率。因此，也同樣可以為開辦超級市場制定規劃比率。

- (b) 政府應規定，超級市場的經營權須透過公開投標方式。這樣可保證任何有意在大型屋邨經營超市的人士機會均等，使現有的超市集團面對競爭，亦可鼓勵新經營者加入。

公開投標的方法有二：

- (1) 政府把大型屋邨住宅用地，和發展計劃中預留作商業設施（包括超級市場）的土地分割出來，然後分別招標競投。這安排使屋邨的發展商不能自動取得商業設施的發展權。渣甸山、淺水灣和紅山半島便是這種安排；
- (2) 政府可在賣地條款中訂明發展商須透過招標方式經營超市。

第一種是以直接方式達到鼓勵競爭的目標。第二種方式類似政府批核機場鐵路工程的做法，即規定必須公開投標，不允許私人協議的方式。此外，公共屋邨的超市經營權也是通過房屋署公開招標的。本會認為這是合適的安排，同時希望房屋署能考慮本報告的建議，儘量引入競爭。

雖然政府甚少在私人發展計劃的賣地條款中規定公開招標，一般來說，發展商有權決定發展計劃內各種設施的經營權。但在特殊情況下，例如當競爭受到局限，而政府有機會取防範措施的時候，政府應在策劃建設的最早階段作出安排，以確保市場有自由競爭。

在審批投標時，政府宜訂定同一集團在同區內能夠經營超市的最高數目。這樣一方面可促進競爭，也讓消費者有更多選擇。

再者，招標手續和審批準則應有一定的透明度，以減輕政府在監察上的困難。

或有人擔心以上建議對商業運作帶來的影響。但本會必須指出，這特別的安排有指定的應用範圍，只限於在偏遠地區的發展計劃，絕對不會隨意加諸於任何發展計劃之上，同時也必須在市場競爭受到限制的特殊情況下，政府才會引入這些條款。因此，毋須過份慮。

建議四：透露資料

- 2.20 本會建議採取以下措施，以期順利蒐集商業統計數據和資料，這不獨方便本會在研究上的需要，對超市零售行業本身和其他有興趣的個別人士(例如學術研究工作)亦有用處。
- (a) 本會希望統計署就目前所收集的資料，研究可否分為較精細的項目，以方便日後的分析和監察工作。例如細分為傳統上一般的超級市場、便利店和日本百貨公司附屬的超級市場三類，和它們提供的貨品種類。
 - (b) 有些可能屬於商業上的敏感資料，本會將會透過工商司或財政司向統計處索取，亦不會隨意公開。証券及期貨事務監察委員會在調查和研究工作方面，也有這樣安排。若能賦予本會同樣權力，當有利於競爭研究工作的進行和監察市場發展情況。這次研究工作，蒙百佳、惠康、華潤及KK合作，提供一些機密資料，日後仍望繼續合作。

建議五：增強顧客服務

2.21 本會建議採取如下措施，以增強顧客服務。

(a) 貨品標價

本會建議超市改善其店內貨品標價說明系統。價錢牌的尺寸和字體應較大，用中、英文清楚標明產品牌子、種類和屬於哪類包裝等。收據上應盡量提供更清楚和詳細的資料。

改善價錢牌和收據，將便利消費者核對，減少錯誤。

為減少顧客與超級市場管理人員之間的誤會，本會建議超市應在當眼地方張貼香港貨品編碼協會的守則。根據守則規定，產品的貨架標價和收銀掃碼顯示的價錢如有出入時，顧客有權付較低的價錢。

(b) 顧客特別需要

本會建議超市考慮傷殘人士的需要，令他們購物時沒有通道上的阻礙。又照顧市民健康的特別情況，提供適合糖尿病、腎病或其他病患者的食物。這些安排對消費者和超市雙方均有益處。

建議六：禁止「過期」產品的銷售

- 2.22 本會支持政府的決定，修訂「食物及藥劑(成份及標紙)規例」，在易腐壞食物上標註「期滿日期」及規定所有保質期十八個月以上的食品亦應有標籤日期。同時本會希望政府清楚向市民解釋食品標籤上「最佳食用日期」及「期滿日期」的分別。
- 2.23 法例的有效實行，並非政府單方面的責任，更重要是業界的衷誠合作。從處理超過保質期和變壞食品投訴的經驗，本會深信超級市場可以勤加視察架上的產品，避免貨架上陳列過期食品。

附件

Table 1: Herfindahl Index^(a) for Supermarkets^(b)

Month/Year	Group 1	Group 2	Group 3
	All 170 SSupermarkets ^(d)	Supermarket Chains ^(d) (No. of outlets > or =5)	Other Supermarket ^(d) (No. of outlets < 5)
4/91 - 3/92	0.3043	0.3960	0.0154
4/92 - 3/93	0.3302	0.3943	0.0224
4/93 - 10/93 ^(c)	0.3354	0.4050	0.0471

Source : Monthly Survey of Retail Sales, Census and Statistics Department.

- (a) Figures refer to October in the respective period.
 (b) Excluding convenience stores.
 (c) Figures refer to provisional survey results.
 (d) Number of supermarket establishments in the 3 groups is based on survey and does not necessarily cover all the existing supermarkets in the industry.

Table 2: Spatial Competition of Supermarkets in Areas Defined by the District Board

Supermarkets	Number of Areas	%
Only Park'N Shop	25	14.3
Only Wellcome	23	13.2
Both Park'N Shop and Wellcome	20	11.4
No Park'N Shop and Wellcome, other supermarkets only	17	9.7
Park'N Shop and/or Wellcome and other supermarkets	90	51.4
Number of areas with supermarkets	175	100
Number of areas with no supermarkets	35	/
Total number of areas	210	/

Source : Grocery Trade Magazine 11th Anniversary Special Issue, 1993.

Table 3: Consumer Choice in Seven Product Categories (Tuen Mun Area)

Product Category	Number of Brands				Number of Product Lines			
	Park'N Shop	Wellcome	CRC	KK	Park'N Shop	Wellcome	CRC	KK
Confectionery (Bubble/Chewing Gum)	6	3	6	5	18	13	20	22
Canned Food (Soup)	3	2	8	5	26	19	39	23
Drinks (Distilled/Mineral Water)	11	8	6	11	18	15	14	23
Edible Oil	12	9	16	11	33	26	47	40
Noodle (Instant Noodles in pillow-pack)	9	8	11	12	34	48	49	57
Rice	13	9	14	14	21	16	22	21
Household Cleaning Products (Washing Powder)	8	9	17	15	16	15	40	29

Source : Field Survey Conducted in mid-August 1994, Consumer Council.

Table 4: Consumer Choice in Seven Product Categories (Kowloon City Area)

Product Category	Number of Brands				Number of Product Lines			
	Park'N Shop	Wellcome	CRC	KK	Park'N Shop	Wellcome	CRC	KK
Confectionery (Bubble/Chewing Gum)	6	3	6	6	21	13	19	30
Canned Food (Soup)	3	2	9	5	26	17	43	23
Drinks (Distilled/Mineral Water)	9	8	10	11	17	15	18	30
Edible Oil	11	10	17	12	36	28	54	35
Noodle (Instant Noodles in pillow-pack)	11	11	14	17	48	57	61	74
Rice	14	10	16	16	20	16	27	23
Household Cleaning Products (Washing Powder)	8	11	16	13	16	16	35	30

Source : Field Survey Conducted in mid-August 1994, Consumer Council

Table 5: Consumer Choice in Six Product Categories (Kowloon South Area)

Product Category	Number of Brands				Number of Product Lines			
	Park'N Shop	Wellcome	CRC	KK	Park'N Shop	Wellcome	CRC	KK
Household Cleaning Products								
(Liquid Detergent)	12	15	17	15	30	35	37	34
(Washing Powder)	12	15	19	15	35	34	47	33
Personal Care Products (Liquid Soap)	17	20	23	20	51	51	63	42
Canned Food (Luncheon Meat)	6	5	6	5	17	23	23	19
Condiments (Soya Sauce)	8	6	6	6	25	21	26	27
Paper Products (Toilet Paper)	13	9	22	9	13	9	22	12

Source : Field Surveys in Mid-December, 1993, Consumer Council

Table 6: Number of Products Carried/Not Carried by All 4 Supermarket Chains

		The Three Surveyed Areas		
		Tuen Mun	Kowloon City	Kowloon South
A	Total no. of products surveyed in 4 chains	415	459	340
B	No. of products not carried by all 4 chains	199	271	52
	(as % of A)	(48%)	(59%)	(15%)
C	No. of products carried by all 4 chains	216	188	288
	(as % of A)	(52%)	(41%)	(85%)

Table 7 : Total Costs for Purchasing Thirty-one Products

Year	Park'N Shop	Wellcome	CRC	KK
1990	494.2	487.9	496.9	491.9
1991	544.9	542.0	550.4	548.7
1992	572.3	573.0	579.5	574.1
1993	587.5	600.1	604.3	597.0
1994 ^(a)	615.4	603.9	632.3	624.8
Average ^(b)	562.9	561.4	572.7	567.3

^(a) Figure for 1994 is the six-month average from January 1994 to June 1994.

^(b) The differences in average costs was about 0.3% - 2%

Table 8 : Number of Highest-Priced and Lowest-Priced Products in the Basket of 31 Products

	Park'N Shop	Wellcome	CRC	KK
Number of Products with the Highest Prices				
1990	10	5	16	9
1991	10	3	14	16
1992	12	9	10	10
1993	9	9	9	10
Number of Products with the Lowest Prices				
1990	9	17	2	11
1991	6	20	11	6
1992	3	12	8	14
1993	12	8	6	11

Source : Price Surveys in Supermarkets, Consumer Council

Table 9 : Annual Percentage Growth of Price Increase of the Basket of Thirty-one Products

Year	Park'N Shop	Wellcome	CRC	KK	CPI (A) ^a
1990-91	10.3%	11.1%	10.8%	11.5%	9.4%
1991-92	5.0%	5.7%	5.3%	4.6%	6.9%
1992-93	2.7%	4.7%	4.3%	4.0%	5.6%
Estimated Annual Growth in 1990-93 ^b	5.7%	6.8%	6.4%	6.3%	7.0%

Source : Price Surveys in Supermarkets, Consumer Council.

^a CPI(A) for food, excluding meals away from home.

^b Annual growth for price and CPI (A) in the period 1990-93 were estimated using exponential growth model by Ordinary Least Squares (OLS) method.

Table 10: Number of Products With Increase Rate Higher than Inflation Rate in the Basket of 31 Products

Year	Park'N Shop	Wellcome	CRC	KK
1990-91	15	14	13	15
1991-92	15	14	13	10
1992-93	12	12	13	11

Source : Price Surveys in Supermarkets, Consumer Council

LIST OF 31 PRODUCTS

1.	AXE LEMON LIQUID DETERGENT	600 G
2.	BIRD'S EYES FISH FINGERS	10'S
3.	CARNATION FULL CREAM EVAPOR'D MILK	410 G
4.	COCA COLA (CAN)	355 ML
5.	COLGATE TOOTH PASTE (MFP 2)	9.4 OZ
6.	DEL MONTE FRUIT COCKTAIL	850 G
7.	DOLL SHRIMP SHAO MAI	10'S
8.	DREYER'S GRAND ICE-CREAM	1 QT
9.	FLORA POLYUNSATURATED MARGARINE	250 G
10.	GARDEN LIFE BREAD	450 G
11.	GOLDEN CROWN SEE MEW RICE	5 KG
12.	GOLDEN ELEPHANT FRAGRANT RICE	5 KG
13.	GREAT WALL CHOPPED PORK & HAM	340G
14.	JOHNSON HI-GIO FLOOR FINISH	1.25 L
15.	JOHNSON'S BABY LOTION	300 ML
16.	KAM HEUNG FRAGRANT RICE	5 KG
17.	KINGSFORD CORN STARCH	454 G
18.	KLEENEX TISSUE	ECONOMY
19.	KNIFE BRAND PURE PEANUT OIL	2900 ML
20.	KRAFT MIRACLE WHIP	473 ML
21.	KRAFT SINGLES CHEDDAR CHEESE SPREAD (10'S)	250 G
22.	LION & GLOBE PEANUT OIL	2900 ML
23.	LIPTON YELLOW LABEL TEA	25'S
24.	LONGEVITY CONDENSED MILK	397 G
25.	MAGGI SEASONINGS	250 G
26.	PEARL RIVER BRIDGE FRIED DACE W/SALTED BLACK BEAN	227 G
27.	RICOLA SWISS HERB CANDY	100 G
28.	SAN MIGUEL BEER (CAN)	12 FL OZ
29.	SARA LEE ALL-PURPOSE POUND CAKE	300 G
30.	VIGOR 33 CONCENTRATED POWDER DETERGENT	2 KG
31.	YAKULT	4'S
	(Yakult 5's for the period January - June 1994)	

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