Spanish Food Ddistribution Industry and Three Phase Structure of Eroski

Hideo Ishizuka
Consumer's Co-operative Institute, Japan
15, Rokubancho, Chiyoda-ku, Tokyo, 102-0085 Japan
E-mail:ccij@jccu.coop http://www.co-op.or.jp/ccij/

May 2001

1 Five Tiers of Food Distribution Retailers

The Spanish food distribution industry occupies thirteen percent of the domestic total production and is the largest employer, employing fourteen percent of the approximately forty-five percent of the retail market, (fiscal year 1996). Inside the European society, social change can be seen. In recent years Spain too has undergone much economic, social and political change. Consequently, the Spanish food retailing market has also undergone considerable change. Eroski Group (one of the main pillars of the Mondragon Co-operative Corporation in Basque Country) has a responsibility and a mission within the Spanish food retail industry, as a pure Spanish domestic enterprise.A current Spanish food retailing industry can be divided into five types of retailing:

1. The first is a traditional independent retailer. They consist of "Mercado" or market. Some of them are large scale and others are small-scale. Housewives are the main consumers. using these markets. Administrative management insures consumer protection.

2. The second is convenience stores. For the most part these stores are privately run. Eroski, however, also has its own network of convenience stores, but the character of the management is different.

3. The third is small-sized supermarket (less than 250 - 400 square meter). Generally called Commercial Centers, they have many tenants and are known for being community oriented shopping areas. On the other hand German super-Lidi and Tingelmann, and the domestic Dia, bargain sale stores also can be included in this category.

4. The fourth are a big supermarket (more than four hundred square meters).

5. The fifth are hyper markets (more than 2,500 square meters). They are changing the face of Spanish food retail industry. Eroski, Hipercor Pryca, Alcampo and Continente are among the top runners.

Table1. Spanish Food Retailing Industry Market Share
Source: newspaper El Pais, 1995,10.26 interview with Eroski

	1988	1989	1990	1991	1992	1993	1994	1995
Hypermarket	15	20	23.4	26	28.6	30.5	30.7	33
Big Supermarket	12	12	12	12.2	11.7	11.9	13	14
Small Supermarket	25	29	29.6	29.7	30.3	30.6	31	31
Traditional food retailer								
Convenience store	48	39	35	32.1	29.4	27	25.3	22

We can see in Table 1 that the market share of hypermarkets increases yearly and increases two fold within a five years period from 1988 to 1993. The traditional retailing industry has been most affected by these changes. The number of hypermarkets has reached more than 275 stores and has increased nearly thirty times compared to twenty years ago when there were only 10 stores in all of Spain. On the other hand, the market-share of big supermarkets is flat compared to that of smaller-sized stores, which has increased slightly in recent years. Though discount stores have expanded in recent years, a counterattack by supermarkets has put their market share within eight percent of retailing industry (1995).

In contrast, the market share of the traditional food retailing industry has decreased and occupies only twenty-two percents of the retail market. The number of stores within the traditional food retailing industry also decreases from 86,000 in 1989 to 52,000 in 1997. The collapse of the traditional retailing industry is connected to the Commercial Law of 1996 which gave supermarkets control of which defines severe control to the existing privileges of the supermarket.

2 Actual Situation of Food Distribution Industry Group

The hypermarket sector continues to develop. Ten retail groups occupy 46.8 percent of the market share (gross sales) and only 5 percent of the number of stores (fiscal year 1996). These retail groups have picked up momentum by trying to meet the changing needs of the market, reorganized and unify during the second half of 1980's, and into the 1990's.

Table 2. Ten Top Food Distribution Groups
Source : " Anuario Economia y finanzas 1998 ", Ediciones El Pais

Group	Sales 1996 (in millions pts)
1. Promodes	787,600
2. Pryca	538,619
3. Eroski	411,957
4. Auchan	378,914
5. Marco	115,732
6. Superdiplo	106,600
7. Caprabo	86,144
8. Enaco-Ahorramas	82,176
9. Osoro-Uvesco	58,509
10. Gadis	52,656

The reason for this reorganization and concentration is because of the competition in the single European market. Pryca, Promodes and Auchan are backed by French capital and they came into Spain in the 1970's.

Table 3. Market Share of Five Hypermarkets (%)
Source: hearing at Eroski

Group	1993	1996	1998
Promodes	7.8	9.7	9.8
Pryca (Carrefour)	6.9	7.1	9.6
Eroski	3.2	6.3	10.9
Alcampo (Auchan)	3.6	5.1	7.1
Hipercor (El Corte Ingles)	2.4	4.4	7.1
Total	23.9	32.6	44.5

These groups commonly have a strategy to merge with regional supermarket chains, looking at their scale of operation and area division strategy as a whole. For example, Promodes purchased Daily farms in 1998; Alcampo purchased Sabeco in 1997, Fumbo and Espresso in 1996 (these two are chain stores in Portuguese Pandeazucal). In this respect, Eroski, tied a business agreement with the Unide group and the Mercat group in 1997.

Table 4. Four Principal Supermarket Groups
Source:

Group	
1. Promodes	Continente, Dia, Punto-Cash, Punto de la Plaza, Iliturgitana, Dairy Farms, and Simago.
2. Pryca	Comptoirs Modernes, Comodisa, Maxor and Supermercats Economics
3. Alcampo	Sabeco, Jumbo, Express, and Pan de Azucar
4. El Corte Ingles	Hipercor, Supermerados El Corte Ingles
5. Eroski	UNIDE, Vegonsa, Mercat, Grupo Distac, Sebastian de la Fuente, San Prudencio, and Cenco

Though an industry correlation figure is somewhat confusing and overlapping, and, in opposition to these principal groups, small retailers have merged with these groups in order to increase their competitive power over the last ten years. The main two groups are Euromadi group and IFA group. For the market share in fiscal year 1996, Euromadi occupied 22.2% and IFA is 22.1%of market share. It appears that the market share of small-sized supermarkets is similar to that of hypermarket groups.

3 Strategy of Eroski

What is Eroski's strategy in this situation of market expansion in the Spanish food distribution industry? The complex cooperative association of Eroski can best be understood in phases. In fact, it is best thought of in three phases or layers of structure. (What are the three phases? Based on its corporative value.) There has been some criticism that Eroski is losing its sense of cooperative mission and the expansive MCC is changing it to quasi-multi national company, as well as concerns about the increase of part time workers/non-member workers within the new employment system.

Table 5. Indexes of Eroski Group
Source: hearing at Eroski.

	1996	1997	1998	1999
Sales (millions pts)	334,045	378,850	493,751	
Rough profits (millions pts)	5,804	6,128	8,256	
Cash flow (millions pts)	13,037	16,024	20,947	
Investment (millions pts)	25,867	32,808	35,901	
Employees	12,377	13,291	20,182	
Stores: Hyper/Maxi	40	42	45	47
Stores: Supermarkets	214	232	752	800
Stores: Franchises	136	191	2,010	2,023
Stores: Counter area	417	453	800	893

A first strategic aspect of Eroski is the scale of retail outlet classification. The scale includes: small local convenience stores to large-scale hypermarkets in order to meet the diverse needs of consumers. By having stores of every scale throughout Spain, the Eroski group is opposing groups backed by French capital. By offering convenience stores as well as city type supermarket and suburb type markets, Eroski aims to meet the various needs of consumer in communities in various regions.

The second strategic aspect of Eroski is its regional strategy. This includes locating leading stores in five main regions of Northern, Southern, Eastern, Western and Central Spain, centering on Basque, Valencia, Andulcia, Catalonia and Castile respectively. In some area, Eroski invested 50 percent of the capital for the existing cooperatives and private supermarket groups in order to increase their competitive power through economy of scale.

Group of Eroski which are developing in every regional in Spain, partly in France, however, has their own products'brand name; Consumer. The eight hundred items of products with Consumer brand, ranged daily food products to household products, has reached twenty five percents of total sales of Eroski group.

4 Organizational Character of Eroski group

Eroski also has three faces in the aspect of organizational character:

> First, "Eroski" means a core group composed by Hypermarkets, Maxi supermarkets and agricultural products' co-operatives. This Eroski is supposed as a successive entity derived from originally Eroski since its establishment in1969. People who look this Eroski is a real Eroski, apt to think this "Eroski" adapt naturally co-operative principles as a member of the MCC group. This is truly but one face of Eroski.
>
> Second, the "Eroski group" includes Consum and their investment companies Cecosa and Erosmel for a former core Eroski and Eros Mel. Usually, a statistical index of Eroski reflects this portion.
>
> Third, Eroski also includes other subsidiary or co-partner supermarkets under the name of " Eroski Group" in a broad sense. When an argument refers to Spain Market and EU Market, many people discuss on Eroski Group in this sense. The strategic mark of Eroski has focused on this third aspect of aiming at being a first ranked network among the Spanish food distribution industry.

Consequently, the organizational character of the Eroski group can be divided into three layers, based on the differences in organizational principles. First, Eroski' mainly adopts straight co-operative principles. Second, the Eros Mel group is based on quasi-cooperative principles or on social economic principles as a share company. Thirdly, Eroski can be called a social economic solidarity economy in the broad sense to include the partnership of a profit-seeking enterprise and an overseas enterprise. In conclusion, the Eroski group applies cooperative principles, non-profit association principles and social economic principles respectively in each aspect of the organization.