

Thalassorama

The Changing Nature of UK Fish Retailing

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Introduction

A significant change that has occurred in retail markets over the last 20 years has been the rapid decline of specialist food stores (grocers, butchers, and mongers), as supermarkets lay claim to increasing shares of the food market. Indeed, the effect of supermarket dominance has received considerable research attention, and numerous studies have focused specifically on the relationship between concentration, prices, and profits. This approach has provided an understanding of the behaviour and performance of the industry (*e.g.*, Kinsey 1998; Ailawadi, Borin, and Farris 1995) and the existence of market power (Competition Commission 2000). However, there has been relatively little consideration given to the likely effect of these changes on the nature of trade in seafood goods, in terms of product forms and regulation. The effect of supermarket dominance in fish product trade is interesting because of the growth in aquaculture production and significant differences in terms of trade that exist between farmed and wild-caught species.

In this paper, we take a brief look at how supermarkets are affecting fish retail. We present the current scale of fish retail in the UK, describe the extent and implications of supermarket dominance, and highlight the key features of wild-caught and farmed fish that differentiate them in terms of supply. The potential incentives for large retailers to influence the nature of fish products that reach the market are then discussed with reference to fish supply industries.

Market Statistics

The fish retail market can be broken down into three categories, fresh/chilled, frozen, and canned. In 1999, the total market value for fish retail in the UK was £2.19

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billion. The frozen sector accounted for the greatest market share, with around 40% of sales. Fresh/chilled sales made up 27% of the market, this includes fish in the value-added (ready to eat) category, which is experiencing the greatest growth. When broken down by species, the most significant growth has occurred in salmon and other farmed fish. Salmon retail grew 62.4% between 1995 and 2000 as technological improvements reduced production costs and facilitated expansion into new markets (Key Note 2001). Despite long-term declines in the quantity landed from many fisheries, there has been overall growth in the value of fish retail, the decline in quantity being more than compensated for by price increases. The sector is forecast to grow by 9.4% in value from 2000 to 2004 (Key Note 2000, 2001), as healthy eating becomes more important in the demand for food.

Supermarkets in Fish Retail

Supermarket influence on food retail markets in the UK began in the early 1950s. Their success, which is related to consumer demand for convenience shopping and economies of scale, has precipitated the decline of specialists in all food categories. Concentration ratios reveal the scale of change that has occurred in fish sales. In 1988, the five largest supermarket chains accounted for only 31.5% of total fresh fish sales, but by 1995 their share had increased to 60.9%. This trend is better illustrated in figure 1, where the value of fish sales is plotted, by outlet, as a percentage of the total market from 1988 to 2001.

Growth in supermarket sales of fish has occurred at the expense of market stalls and fishmongers. Indeed, supermarket share increased from 16% to 66% over the period, while fishmongers' share fell from 49% to 18%. This trend is not confined to the UK, as fish sales are becoming increasingly concentrated in supermarket outlets across Europe (Bell, Davies, and Howard 1997; Viaene and Gellynck 1995) and beyond (Kinsey 1998). Such a dramatic change has significant implications for both downstream (consumer) and upstream (processor, harvester) levels of the chain.

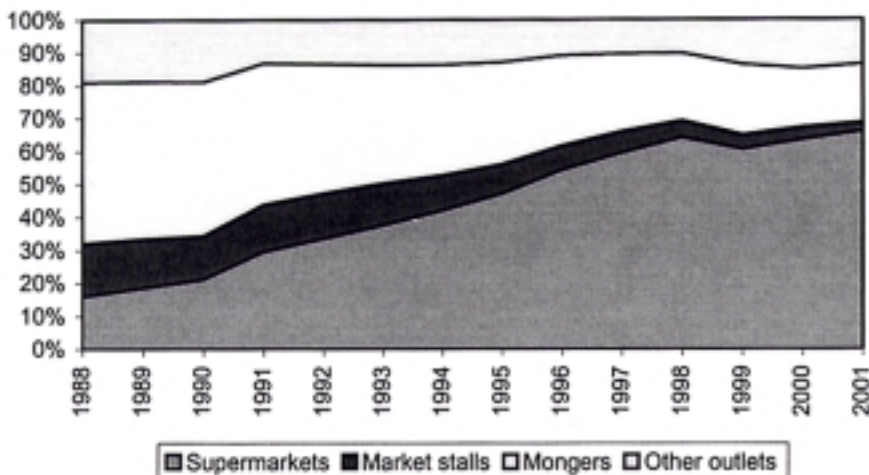


Figure 1. Value of Fish Product Sales by Outlet
Source: Sea Fish Industry Authority (quarterly). Various issues.

The success of supermarkets can be attributed to many factors, including convenience and economies of scale. The significance of this impact is evidenced by the Competition Commission's investigation into grocery markets (Competition Commission 2000). This investigation was motivated by concerns that larger buyers could exploit vulnerable suppliers, and specific questions were asked about the effect of supermarket dominance. The Commission's findings showed that in competitive markets, dominant suppliers reduced wholesale *and* retail prices, while in non-competitive markets dominance has been used to lower wholesale prices, but these reductions were not always passed on to the consumer. The size of the buyer was shown to be a significant factor determining the price paid to suppliers, as smaller outlets consistently pay higher prices to source their goods (Competition Commission 2000). Therefore, growth in the multiple sector may have put increasing pressure on upstream agents. This occurs because their relationship is asymmetric; suppliers depend on supermarkets (who have large market shares) more than supermarkets depend on suppliers (whose goods are often substitutable). The only exceptions to this rule are *must stock* branded products, but this is rarely the case for fish.

Wild-Caught and Farmed Fish

With increasing dominance over the supply chain comes the power to influence the range of goods that reach the consumer. Large supermarkets may handle up to 20,000 different product lines from up to 2,600 suppliers, some of which will offer more profitable and convenient terms of trade than others. A key feature differentiating the supply of fish is the nature of trade in farmed and wild-caught industries. Supply of the former is now dominated by large, multinational fish farms and can be effectively managed in the short run by altering harvest time and in the long run by varying the number of active farms. Whitefish supply, however, is not so predictable. In the short run, fishermen may respond to price changes and adjust supply, but in the long run, whitefish availability is determined by biological forces which have been undermined by poor management. It is, therefore, much easier for traders to operate in the farmed fish market where supply and prices are less volatile.

The rise of aquaculture industries over the last two decades has coincided with the growth in importance of supermarkets in fish retail. Indeed, their parallel growth may not be entirely coincidental, as supermarkets have supported expansion of the salmon farming industry. There are now significant aquaculture industries in a growing range of species, notably salmon, tilapia, catfish, and shrimp, and the potential for cod farming has generated considerable interest. As such, farmed fish may offer considerable diversity, and supermarkets trying to maximise their scale advantages will stand to gain from increased trade in a more manageable commodity. For example, rapid growth has occurred in the supply of salmon to the UK market, from 28,569 tons in 1991 to 93,468 tons in 2000, and salmon is now the most popular purchase in the sector. A significant point, as cod is the traditional favourite.¹ However, the extent to which substitution between farmed and wild-caught species can continue is not clear, but with supermarket dominance expected to continue (IGD 2001), their capacity to influence the format of fish supply in the future will increase.

With a greater proportion of fish retail going through supermarkets, there has been an increasing emphasis on scale and continuity in supply. Indeed, the ability to source the required quantity of fish was cited as the main constraint on fish proces-

¹ Cod is still the most important species when fish and chip shop sales are accounted for.

sors (Sea Fish Industry Authority 2000), and the knock-on effect has been rapid consolidation at upstream levels of the chain. The number of processing firms fell from 988 in 1998 to 541 in 1999. Larger suppliers are better equipped to import fish and benefit from less volatile international markets. Indeed, some supermarkets have bypassed UK suppliers completely, sourcing their fish directly from processors overseas where stocks are more reliable.² The net effect of these changes is a coordinated supply chain with fewer, more highly integrated agents.

Future Trends in Fish Retail

The retail sector, while highly concentrated, remains dynamic, and major changes in the way consumers purchase their groceries are predicted (The Store 2001). For example, the format of fish presentation, which has typically been a fishmonger's counter, may give way to the more typical supermarket format, as declining demand for whole or fresh fish, and scale advantages from shelves, make the counter less attractive.

The need for consistent standards and vertical integration in the chain will grow as retailers try to generate a trust relationship with consumers. The level of processing in fish products may also change, as tomorrow's consumer will have less time to cook and will demand more convenience meals. This will benefit processors in the short run, as more value will be added per unit of the fish processed. However, with increasing concentration in retail, the current structure of fish supply chain may be untenable. If whitefish is to remain a significant good at the retail level, then processors will have to scale up significantly, fishing fleets may become less independent,³ and supermarkets will focus on direct trade with suppliers in countries where the resource is most plentiful. The aquaculture industry, however, seems much better suited to cope with these changes. The sector is already highly concentrated at production levels for many species, so farmed fish products that have been processed by large, multinational companies may well become increasingly dominant in supermarket fish catalogues.

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² This also provides other 'marketing' benefits. For example, one major UK supermarket chain advertises its use of imported cod rather than domestic cod on the basis that it comes from sustainable stocks.

³ Examples of this have already been seen with small fleets operated by several UK processors and supermarket chains.

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