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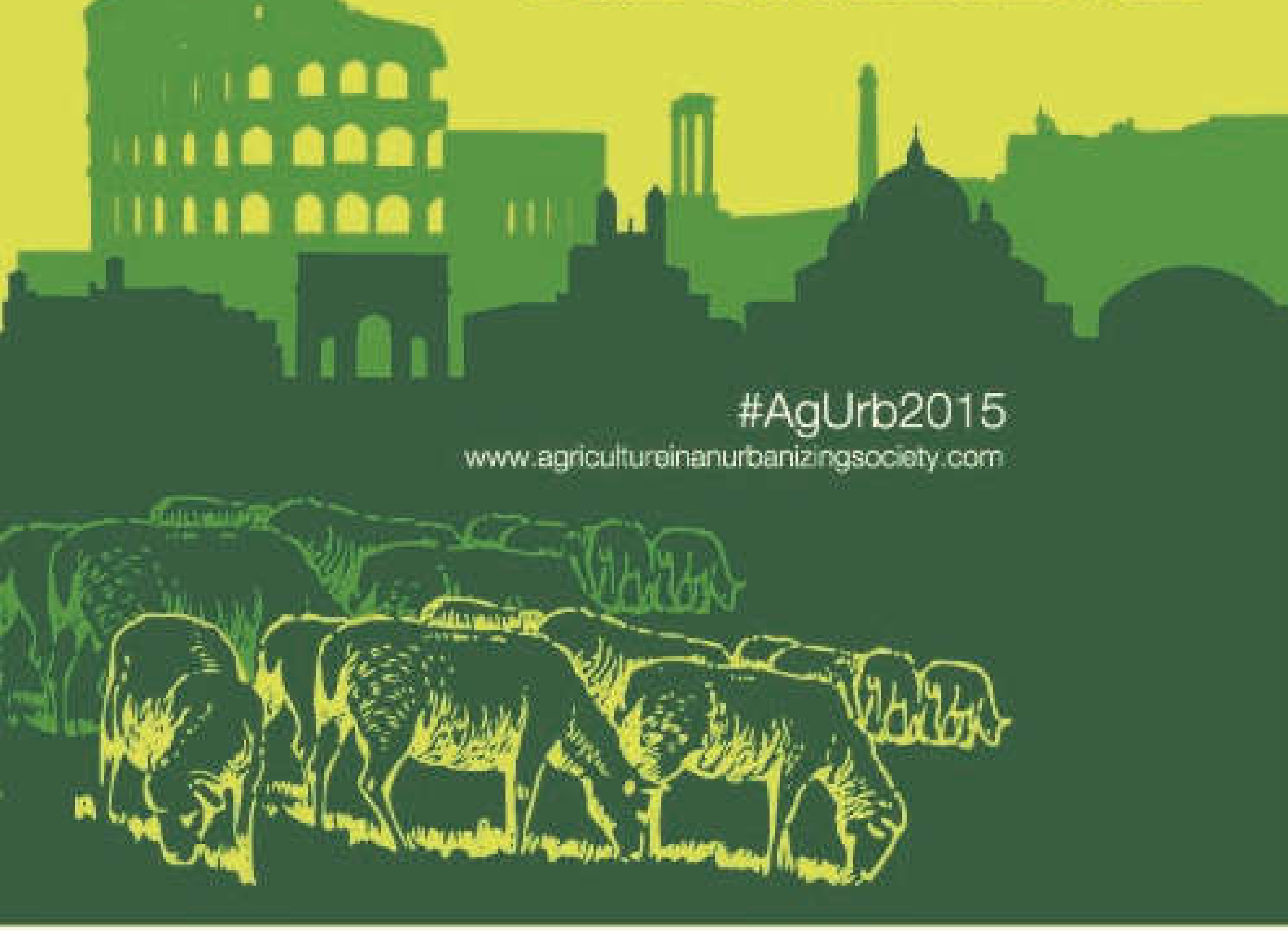

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Impact of Spanish big retailers strategies on Protected Designations of Origin of extra virgin olive

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***Abstract* – Olive oil has traditionally been marketed in Spain, and as in many of the producing countries of the Mediterranean Basin, as a commodity good, except for some Italian and French regions where it is recognized by some segments of consumers as a differentiated good. Policies undertaken by abnormally low prices of the mass distribution firms have been used to increase the ability to attract consumers to the business signs. These strategies are based on using olive oil as an appealing product. This work aims at a comparative study of the pricing policy of the Retail distribution with average prices received by producers for the past two harvests, and analyse the effects on the valorisation of olive-oils with protected designations of origin. This retail distribution strategy extends back along the whole olive oil chain and especially to the producers, as the weakest link in the chain, who suffer the worst consequences of this general lack of profitability. As negative side effect, these retail strategies contribute to trivialize the consumer perception of olive oil as an undifferentiated product. This seriously damage the collective strategies based on distinctive signs of differential quality associated with territory, and in particular Protected designation of origin extra-virgin olive-oils.**

***Keywords* - Olive oil, quality brands, retail distribution, PDO**

INTRODUCTION

The long tradition of considering the good olive oil in most producer countries of the Mediterranean Basin as an undifferentiated product has undoubtedly influenced still the way the extra virgin olive is currently produced by the mills which continue selling mainly in bulk to the bottling-refining industry. Thus, despite the numerous efforts by the producer sector to market differentiated olive oil quality from the origin mark, the local brand packaging oil reaches only assume 10% of the total in the most favorable cases. This dynamic is seriously damaging actions of the producer sector that makes an extra virgin olive oil exceptional and markets with Protected Designation of Origin.

The continuing shift in bargaining power relations which have taken place in the Spanish Agrifood System since the eighties, has meant that today the big distribution control the food chain and in particular for the olive oil. According to Alimarket (2005), brands the distribution and the first four packers groups (DEOLEO, Ybarra, Acesur and Borges) accounted in 2014 for 91.2% of the volume of oil sold at freeservice establishments in Spain.

In Table 1 we can see that the supermarket chains in 2013 accounted for 55.6% of total sales of extra virgin olive, while 30.7% of hypermarkets. Therefore, the free - distribution service accounted for 86.3% share, while the other channels, such as traditional stops (2.3%) or cooperatives (2.2%) had a low participation.

Table 1. Retail distribution of extra virgin olive conventional in Spain. 2013

Retail	Share of the total value (%)
Supermarkets	55,6
Hypermarkets	30,7
Traditional shops	2,3
Cooperatives	2,2
Others	9,2
Total	100,0

Source: Ministry of Agriculture, Food and Environment(2015 a)

Olive oil, as well as being commercially majority treated as an undifferentiated good, is part of the staple diet of Spanish consumers, because it owns the basic conditions to be considered as an "appealing" product by the big distribution which applies very low or no margins that are made up for by much higher margins on other products.

This essay aims at the comparative study of the pricing policy that maintains the big distribution with the prices perceived by the producers (farmers) in the past two harvests and analyze its effects on recovery actions of the extra virgin olive with denomination of protected origin undertaken by the producer sector. The main purpose of this paper is to demonstrate that big retailers sell much cheaper extra virgin olive than extra virgin olive with Protected Designation of Origin (PDO) and this strategy seriously damage the profitability of producers and their actions to achieve excellence in extra virgin olive.

Some jobs that have used the strategy of the big Spanish Distribution olive oil to set a very competitive price to attract their clientele are Rebollo (1993) and Garcia (2006), while Garcia and Sanz (2012) and Sanz et al.(2014) have studied the value chain in PDO olive oil. Among the most important contributions of this essay is to identify the impact of the big distribution strategy on olive oil PDO and proposals to correct them.

METHODS

Spain has issued a series of studies that estimate the profitability of the entire value chain of olive oil in Spain (AEMO, 2010 and 2012; Junta de Andalucia, 2010; MARM, 2010). They all agree that there are some fairly tight profit margins in all phases of the value chain but especially producers. Sanz Cañada et al. (2014) analyzed for different types of olives and PDO of the province of Jaen (main producing area of

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Spain) and have found that a large part of the surface and producers have a negative private profitability which is maintained with subsidies of the Common Agricultural Policy (CAP), the family labor and income from other activities.

If the price variable is the main manifestation of the strategies of the big commercial distribution of the olive oil sector in general and in particular PDO, we can compare prices at source (at the exit of the mills) and destination (Price Public sale) category of extra virgin olive oil in the previous and current harvest (October-February) in a saving format (5 liters). For this we take the average price of extra virgin olive oil in the Poolred system which is a benchmark of the main operations for the sale of bulk olive oil producers in Spain, and we compare with the average price three brands of oil distributor in Spain (Carrefour, Auchan and Hacendado) and the brands of two trading companies with high attachment to territory Oleoestepa PDO Estepa (Sevilla) and Olivar de Segura PDO Sierra de Segura (Jaen).

Prices for these brands were achieved by asking at the magazine Mercacei, which is a trade publication that tracks of consumer prices for the different types of oil and retail formats in Spain. It is important to consider that seventeen observations were taken for both sale prices of oil source to each destination price, that is, the three brands of the big distribution and the two brands with PDO

RESULTS

The comparative analysis of prices in the 2013/014 harvest begins, where the average price of oil sold under private label brands ranged from 2.53 € /l. (Carrefour) and 2.68 €/l. (Auchan), while the oil with PDO label ranged from 3.46€ /l. (Oleoestepa) and 3.57 € /l. (Olivar de Segura). If we add the average price in origin (2.06 €/ l.) average costs of packaging and commercial structure (0.41€/l.) and linear logistic costs, it appears that the profitability of the brands distributor was almost zero in the harvest. In the last harvest 2014/15 there has been a drastic fall in the production of olive oil in Spain: 807.3 thousand tonnes compared to 1781.5 thousand tons in the previous harvest (MAGRAMA, 2015 b). This has led to a significant increase in the average price in origin of extra virgin olive oil from 2.06 € / l. in the previous harvest to the € 2.80 / l. currently. However, what is particularly striking is that the average prices of the three private label brands are below average prices in origin (2,8 € / l.): 2.27 € / l. of Carrefour, 2.53 € / l. Auchan and 2.74 € / l. Hacendado and the price of oil with PDO brands: 3.51€ / l. of Oleoestepa and 3.10 € /l. of Olivar de Segura. Se certainly is a situation with sales losse.

The position of dominance of the big distribution in the food chain determines that this low price policy extends backward along the entire oil chain, which seriously undermines the profitability of producers and especially those located in mountainous territories by low yields and high costs but an oil with high organoleptic typicality. In addition, most of these producers are related to a differential quality PDO strategy, which means that the strategy of the big distribution of these actions harms the local producers.

Another negative side effect is that these business strategies contribute to trivialize the perception that the consumer has of olive oil an undifferentiated product, hampering efforts and investment of the producer sector in order to boost local strategies of oil quality and differentiation and enhance this product, too.

In addition, the strategies of big distribution do not favour the role that has developed the Regulatory Boards of PDO olive oil by spreading a code of good environmental and agro-industrial practices which benefit the processes of Rural Development in these territories.

Looking ahead, it is essential that defense mechanisms of competition by the National Commission of Markets and Competition (NCMC) in Spain and the Autonomous Regions work more effectively to control the impact of the big distribution strategies on olive oil in general and PDO in particular. In addition, public authorities in collaboration with the Regulatory Boards should insist on a training work of consumers to spread the oil with PDO which is a product that incorporates a differential attributed quality (health, food safety, etc.) which would favour the increased consumption.

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