

Sector inquiry into vertical relations between suppliers and retailers in the food and non-food supply chain in the Republic of Croatia

The Croatian Competition Agency (CCA) conducted a sector inquiry into the relations and terms of business between retailers and suppliers in the vertical supply chain for food, beverages and household hygiene products in the Republic of Croatia.

The objective of the inquiry was, among other things, to establish facts and circumstances related to financial and commercial terms of business, pricing mechanisms, contracting models, and other elements of business cooperation between retailers and suppliers, with the aim of better understanding market mechanisms within the vertical food supply chain. The inquiry was conducted in the context of rising retail prices of food and other consumer goods observed on the market during 2022 and 2023. The inquiry itself covered the period from January 2022 to July 2024.

As part of the inquiry, the CCA issued a public call on its website inviting all businesses operating in the food and non-food vertical supply chain, professional associations, employers' organizations, consumer protection associations, and other legal or natural persons with relevant knowledge about the market situation to submit data and information that could help the CCA better understand the market situation. No submissions were received in response to this call.

Data and statements were collected through questionnaires sent by the CCA to market participants - a total of 49 retailers and 23 suppliers. Of the suppliers, 16 were producers and 7 were distributors. The sample was based on the CCA data from its regular annual grocery retail market study and included the most significant participants in the relevant vertical levels of the market. The inquiry covered 8 product categories: meat and processed meat products; poultry and eggs; bakery products (bread, pastries); milk and dairy products; fresh fruit and vegetables; non-alcoholic beverages and bottled water; confectionery products (biscuits, chocolate, candies, etc.); and basic foodstuffs (flour, sugar, rice, pasta, edible oils, etc.). The supplier sample was selected accordingly by the product category.

Key findings of the inquiry:

1. Dynamics of price list changes

The results showed that during the observed period, suppliers—especially distributors—changed their price lists more frequently than producers. This dynamic in wholesale prices was reflected in changes and increases in retail prices set by retailers.

This was particularly evident in inflationary conditions. According to Eurostat data from January 2022 to July 2024:

- **Food prices in Croatia increased by 26.1 % compared to the EU average of 24.3 %.**
- **Producer prices in Croatia rose by 18.5 % compared to 21.3 % in the EU;**
- **The Croatian import price index increased by 26.3 %, suggesting the import component was a more significant driver of price increases than domestic production.**

2. Price calculation and bargaining position

Suppliers independently set wholesale prices, typically communicated via price lists that are updated with a prior notice of 15 to 60 days, most commonly 30 days. Although the price list is generally an integral part of the supplier-retailer agreement, distributors in particular changed their price lists multiple times per year, especially those working with principals outside Croatia.

Retailers generally determine retail prices independently and do not include suppliers in retail pricing decisions. However, suppliers may propose promotional prices. Most retailers reported that they set their gross margins based on market conditions, target profitability, and competitors' prices.

3. Market position and bargaining power

Most retailers assessed their bargaining position as equal, although smaller regional retailers reported a weaker position and "pressure" regarding purchasing conditions. Some retailers also reported practices resembling potential "bundling" (tying sales) imposed by the suppliers, which will be further investigated.

On the other hand, most suppliers were satisfied with their position, although some point to unfavourable conditions, especially for perishable goods (e.g., eggs).

4. Gross margins

Retailers generally set their margins independently of the supplier type, although margins are often higher for private label products. Food products tend to have lower margins compared to non-food items. Most retailers do not differentiate their margin policies based on whether the supplier is based in Croatia or abroad.

5. Frequency of and reasons for price changes

Significant dynamics in wholesale pricing was noted in 2022 and 2023, particularly for products like sunflower oil, eggs, bakery items, milk, and detergents. Distributors recorded more frequent price changes and a higher number of price lists than producers.

While producers primarily cited the rising raw material and energy costs as reasons for price increases, distributors typically mentioned changes in purchase prices from their producers and/or upstream suppliers.

6. Contractual relations

Contracts are mostly concluded on an annual basis, typically in the last quarter of the previous year or the beginning of the current year. For commodities such as fresh meat or fruit and vegetables, prices were set just before delivery or on a weekly basis.

7. Category management

Product category management (e.g., shelf placement) was generally handled by retailers themselves. Only a small number of retailers reported contractual collaboration with their suppliers in this regard, typically with strong brands or in categories such as beverages and confectionery.

Conclusion

The inquiry did not identify structural competition concerns in terms of prohibited agreements between market participants. Certain practices, such as potential tying, will be subject to further examination.

The increase in retail prices was primarily driven by the rise in input and procurement costs, particularly for distributors who, based on the data, more frequently adjusted their price lists. Although some retailers reported absorbing part of the cost increases, most adjusted retail prices in response to rising input costs.

Finally, it is not possible to assign responsibility for price increases to any single participant in the supply chain. However, the available data indicate that the import component and international supply chain prices play a significant role in the overall increase in food and consumer goods prices in Croatia.