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Food-Retail Development and the Myth of Everyday Low Prices: The Case of Brazil

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This article analyses the changes in Brazilian food retailing by investigating the co-existence of, and the pricing variation across, large supermarket chains and small independent supermarkets. It uses cointegration tests to show that, despite the widespread belief that small supermarkets are inefficient and charge higher prices, they in fact charge lower prices. Accordingly, in contrast to the prevailing literature on food-retail development, competition in food retail is complex and cannot be described as a simple Darwinian process of market concentration. The article explores the survival of small retail and its consequences for the current discussion on modern food retail in developing countries.

Key words: Food-retail development, supermarkets, competition, price strategies

1 Introduction

A large literature on food-retail development has emphasised the rapid rise of modern retailing in developing countries and its impact on farmers and small traditional business (Alvarado and Charmel, 2002; Dobson and Waterson, 1999; Faiguenbaum et al., 2002; Gutman, 2002; Reardon and Berdegué, 2002; Reardon, 2004; Reardon et al., 2003, 2009a, b). The main message from this literature is reasonably simple. Large supermarkets are able to achieve efficiency gains and set lower prices so that the traditional stores and independent supermarkets are under pressure to abandon the food-retail market, resulting in a process of downstream concentration. This concentration increases the buying power of large supermarkets, allowing them to impose prices and standards on the supply chain, from food processors to farmers. Private standards are complex and costly to accomplish and the result is the exclusion of small food businesses (food processors and farmers), leading to a general process of upstream concentration. The consequences for developing economies can be negative, as only some of the producers can benefit from the new system of distribution.

Building on a different perspective, this article states that the consequences of the rapid rise of modern retailing in Brazil are complex and can result in the preservation of

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