Arev

Arev verðbréfafyrirtæki hf.
Bankastræti 5
101 Reykjavík
Iceland

Tel: 00 354 551 2500

www.arev.is
info@arev.is

EDITORIAL

Scandal at the Icelandic Dairies, Tesco

This week the Icelandic Competition Authority fined the **Icelandic Dairies** for abusing their pricing position of milk to destroy a small local competitor. Reading through the ruling it is astonishing to what length the dairies which have 98% market share in the local market went to rid themselves of a competitor that has had about 1% market share and is reliant upon them with most raw material purchases. The legendary CEO of INTEL, Andy Grove, famously said that "Only the paranoid survive". The individuals within market dominating companies often live and work within a society where paranoia is encouraged and rules.

The Editor remembers, as a young head grocery buyer of the biggest grocery chain in Iceland, feeling persecuted by smaller rivals as they tried to wrestle some of his 60% + market share away from him.

A tiny local competitor with one store managed to obtain a substantial part of the first catch of the salmon season and put out an excellent offer in the window of his shop. We hit back furiously with a massive salmon campaign in all our stores, newspapers radio and television ads as we felt we had been unfairly targeted – salmon was normally our area of strength. This we did in spite of having nowhere nearly enough fish to fulfil the subsequent demand.

Many years later after when the editor had retired from his supermarket career, he realized how reprehensible, unfair and out of all proportion this response had been.

Therefore, it does not surprise us to see that the Icelandic Dairies feel they are being unfairly targeted by its tiny competitors and the Competition Authority. They are wrong of course, they have behaved illegally and they will have to pay the price. If the Dairies want to attain their former status with Icelandic consumers and to retain their massive profits, they will need to purge their boards and rapidly fire all executives responsible for the illegal conduct of the company.

The woes of **Tesco**, the former darling of the UK stock market do not seem to let up. Its UK supermarket division may have "cooked" the books to the tune of £250 million. This comes on top of three profit warnings by the giant, the first coming after Christmas 2012. Unsurprisingly, the stock market caned the company:

The Weekly Courier has long warned its readers about fundamental weakness in the business models of most traditional UK supermarkets. The main reason for this is the relentless onslaught of low cost retailers such as Aldi, Lidl and Iceland. In our opinion, traditional UK retailers will lose much more market share in the next few years than is commonly expected. Historically, when supermarkets sales start to drop a lot of other exposure starts to come in to light.

The timing of revenue and cost recognition is but one of the many dangerous areas in food retailing. We believe that the shares of UK supermarkets need to fall further before they become an interesting investment opportunity.