Wir ❤ Lebensmittel.

What are national cooperative buying groups and how do they differentiate from ERAs?

The role of national and international retail alliances in the agricultural and food supply chain

05.11.2019 | Dr. Dirk Eßmann | Senior Vice President EDEKA AG

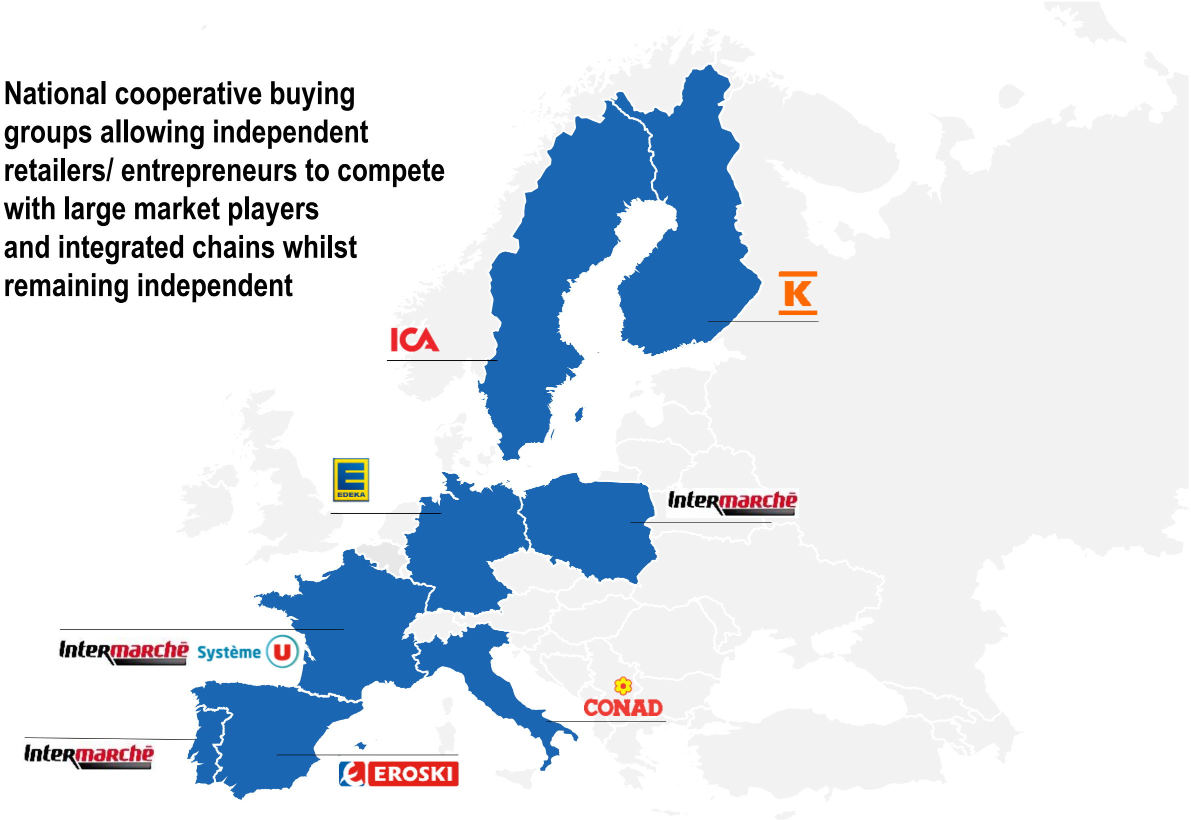
EDEKA

Agenda

01	**National cooperative buying groups / alliances are essential**
02	National cooperative buying groups / alliances lack bargaining power
03	European Retail Alliances as a corrective

National cooperative buying groups exist for more than century

National cooperative buying groups allowing independent retailers/ entrepreneurs to compete with large market players and integrated chains whilst remaining independent



Key characteristics

- Assurance of independent ownership and entrepreneurship
- Full responsibility of individual members for their activities
- High degree of flexibility, e.g. in assortment, contracting w/local suppliers or service offerings
- Cooperatives ensure competitiveness through **joint buying, investments in infrastructure** and **expansion**
- Benefits necessarily need to be passed on to consumers in the form of product choice, better prices and product innovation

Cooperative buying groups of Independent Retailers deliver strategic support and processes beyond Joint Buying

Every **Cooperative of Independent Retailers** is different in scope, structured differently and offers different services to its members and supply chain partners, according to its particular purpose and business model.

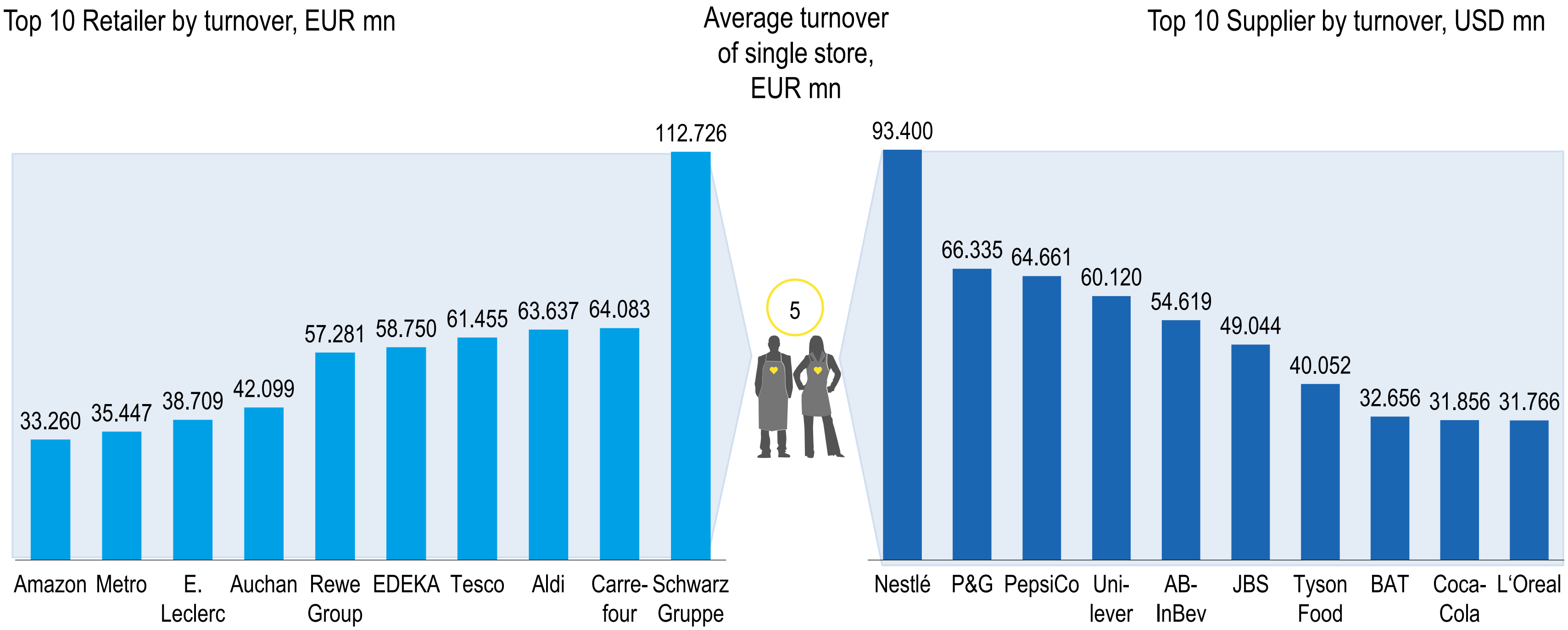
	Joint Buying	Private Label	QC Services	IT	Admini-stration	Marke-ting	Supply Chain	Finan-cing	Invest-ment
Cooperative buying groups	✓	✓	✓	✓	✓	◎	◎	◎	◎
National Retail Alliances	✓	◎	◎						

Explanation: ✓ Usually covered ◎ depends

Key characteristics

- Primarily a horizontal agreement between retail groups.
- Small central structure is mandated to develop limited set of services.
- Joint buying to achieve consumer benefits on national level

Independent retailers are economically challenged by horizontal and vertical competition



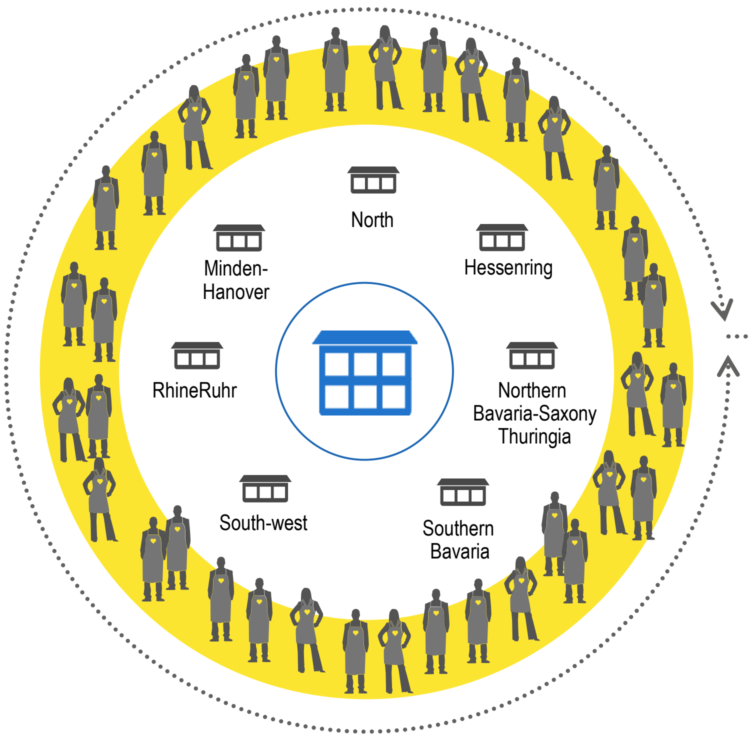
Independent retailers / entrepreneurs face strong "dual competition": They are horizontally suffering under the high competitive pressure by competitors, and vertically suffering under the negotiating power of strong global brands.

National cooperative buying groups/ national alliances are essential for suppliers and consumers

Benefits create value in the supply chain

- National cooperative buying groups offer of wide set of functions for the Independent Retailers
  - strong connection to the central organization
  - strong alignment between the cooperative members due to common brand utilization
- Alliances are primarily a legal entity between retail groups
  - small central structure
  - mandated to develop a specific set of activities that enhance supply chain efficiency
- The logic of achieving additional synergies and efficiencies is applying to both
- National cooperative buying groups/ alliances are essential for suppliers to grow, for consumers to achieve competitive prices and for Small and Medium Independent Retailers to invest into the future to survive!

The cooperative EDEKA-Model ensures competitiveness and consumer value for 112 years

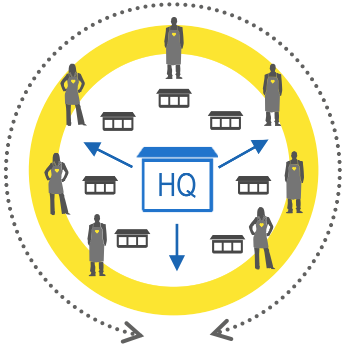


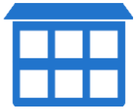
- The first EDEKA cooperative was founded more than a century ago by independent small food retailers in the face of an overpowering industry and large trading companies.
- To this day, EDEKA guarantees a high-quality food supply with good value for money to consumers throughout Germany.
- EDEKA is an important partner for the agriculture sector at local level in Germany. The independent EDEKA retailers, can freely negotiate prices and assortments of local importance.

The national cooperative structure safeguards the future

Independent Retailer

- Safeguards infrastructure & the local supply chain both in rural and urban areas
- Invests into his store on his own risk
- Is an important employer and vocational trainer
- Is an important partner for the agriculture sector at regional and local level
- Is involved in local community
- Supports social projects, e.g. daycare centers, sports clubs and primary schools





EDEKA-Zentrale

- Negotiates with relevant national brand suppliers (Joint Buying)
- Develops Private Label assortment
- Is Responsible for Strategic Investments
- Safeguards the logistic infrastructure ensuring the food supply chain
- Provides competitive IT structure
- Develops the national marketing campaign
- Offers financial services

3.700 independent EDEKA retailers acting with heart and mind

Approx. 3.700 independent retailers are EDEKA‘s face to the customer

They are important for provision of high quality food to rural areas

Independent retailers invest into their own store on their own responsibility

Agenda

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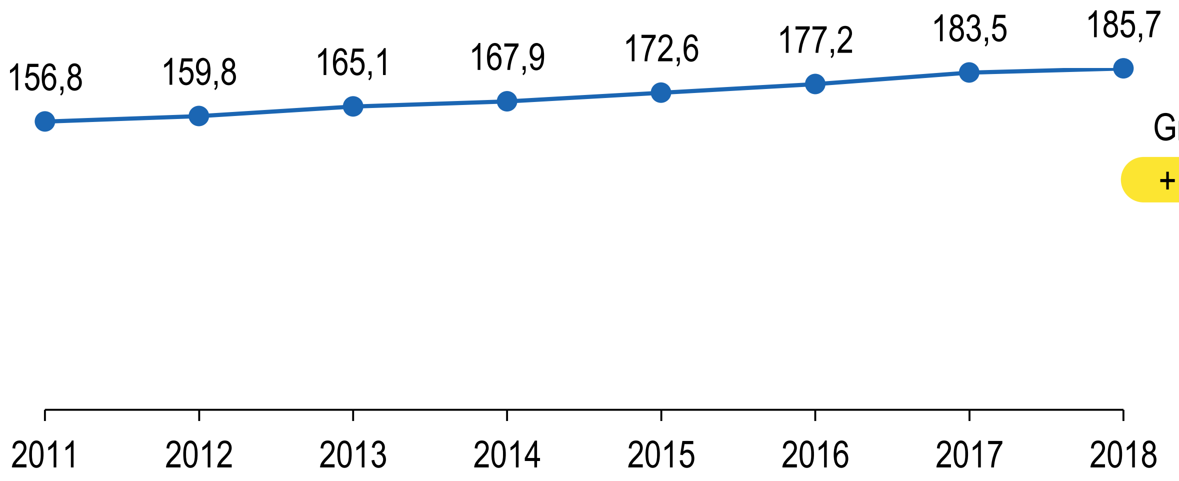
02 National cooperative buying groups / alliances lack bargaining power

03 European Retail Alliances as a corrective

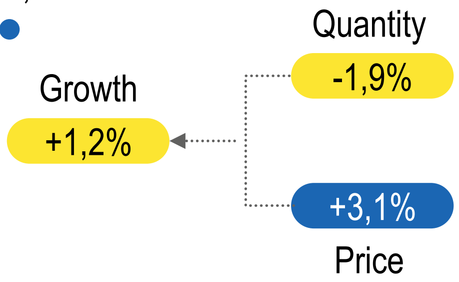
Retailers in Germany are facing cut-throat competition in a saturated food market

Sales in € billion, Germany

Food retailers
(incl. drugstore)

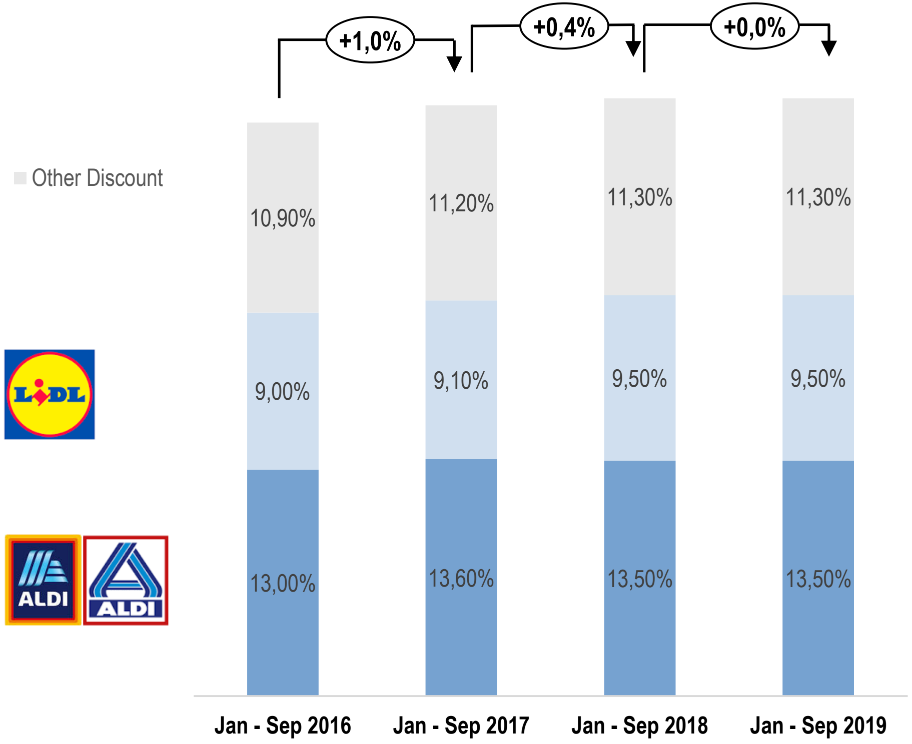


Sales growth 2018 vs. 2017



Source: IRI populations, GfK ConsumerScan (calculations based on CP+ household panel, receipt total for FMCG incl. fresh food)

Especially in Germany Hard Discount demands price competitiveness



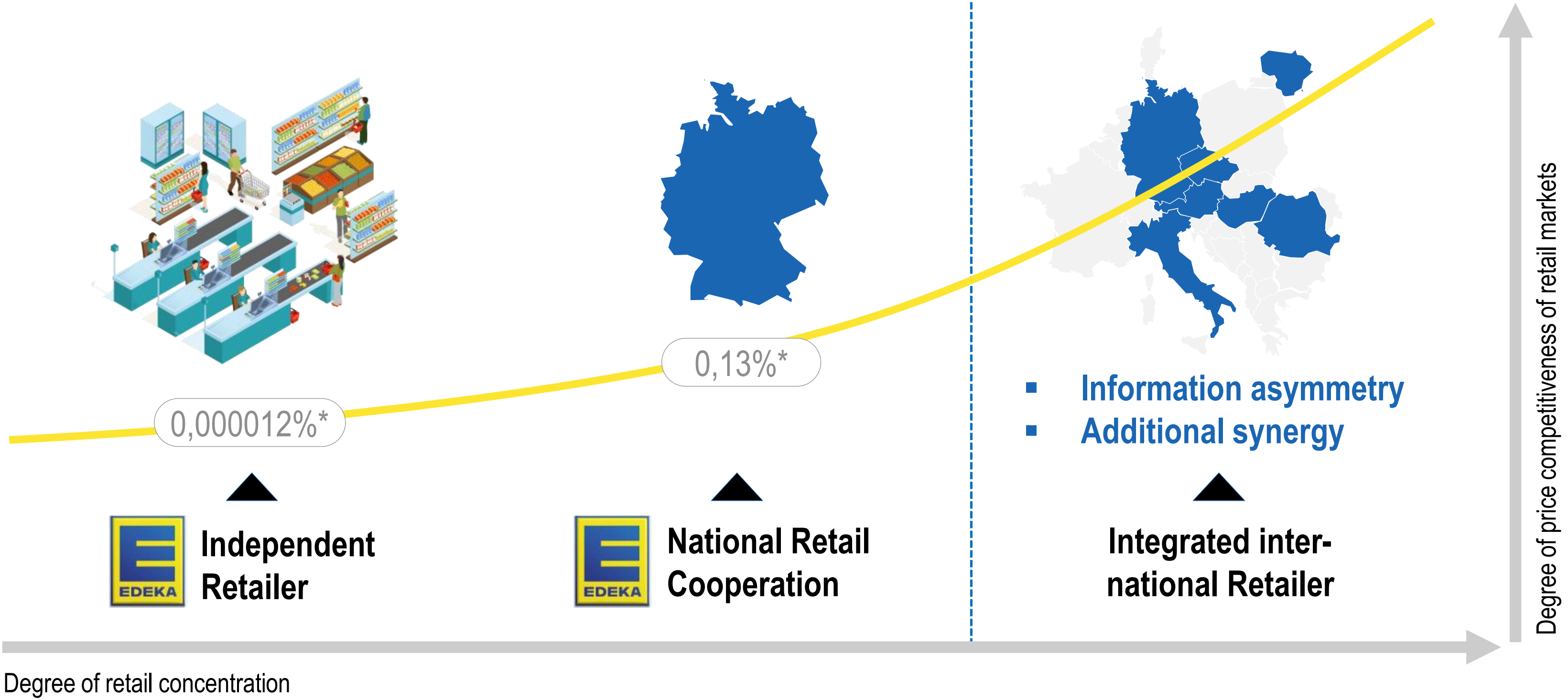
Total market share discount	32,90%	33,90%	34,30%	34,30%

Key characteristics

- Over the last years discounters had the ability to gain further market share.
- Discounters have enhanced their quality perception (e.g. organic products) on private Label products further.
- More than 280 brands have been listed additionally at discounters' over the last three years.
- The price competitiveness of discounters stays unbroken.

Negotiation with TOP FMCG Suppliers, independent retailers / EDEKA face a Bargaining Power Gap vs. integrated retailers

Bargaining power curve (share of Revenue EDEKA vs. Heinz*)

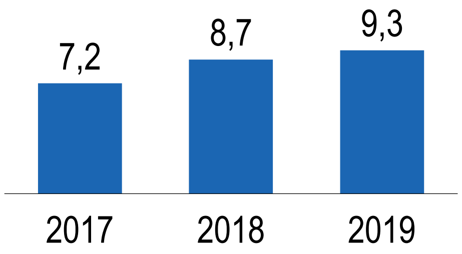


Source: EDEKA / OC&C study 2019, * Revenues of Heinz with EDEKA in percent of total revenues Heinz

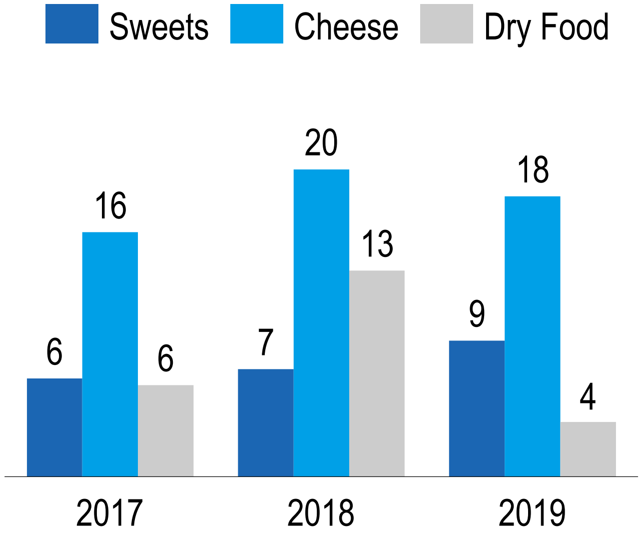
National cooperative buying groups have to deal with substantial demands of price increases every year

Price increase demanded from EDEKA by selected suppliers, %

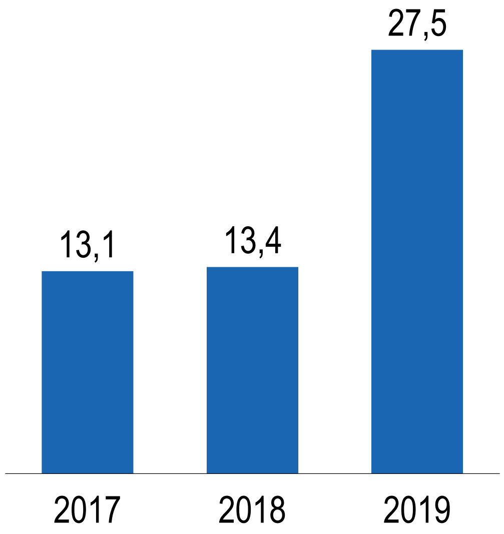
Leading Beverage Company



Leading Snacks Company



Leading Food Processing Company



Source: EDEKA

Suppliers escalate the conflict in case price increases are not accepted by retailers – example Heinz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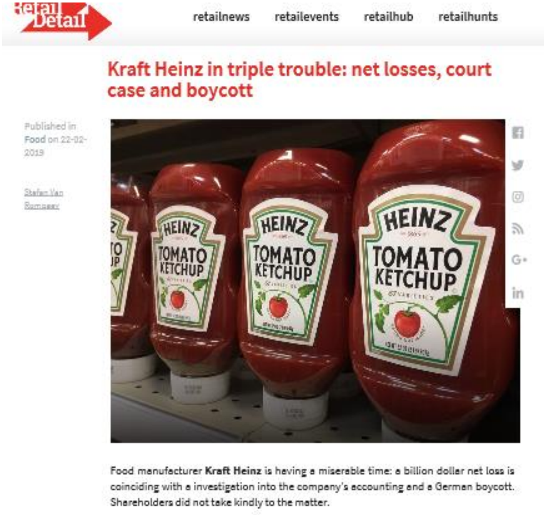
Dispute escalates: Ketchup giant Heinz is no longer supplied to Edeka

By Daniel Johnson - 23 February 2019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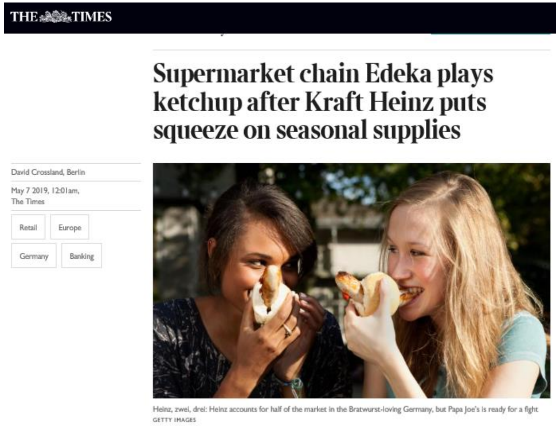
Kraft Heinz in triple trouble: net losses, court case and boycott

Published in Food on 22-02-2019

Stefan Van Rompaey

Food manufacturer **Kraft Heinz** is having a miserable time: a billion dollar net loss is coinciding with a investigation into the company's accounting and a German boycott. Shareholders did not take kindly to the matter.


THE TIMES

Supermarket chain Edeka plays ketchup after Kraft Heinz puts squeeze on seasonal supplies

David Crossland, Berlin
May 7 2019, 12:01am,
The Times

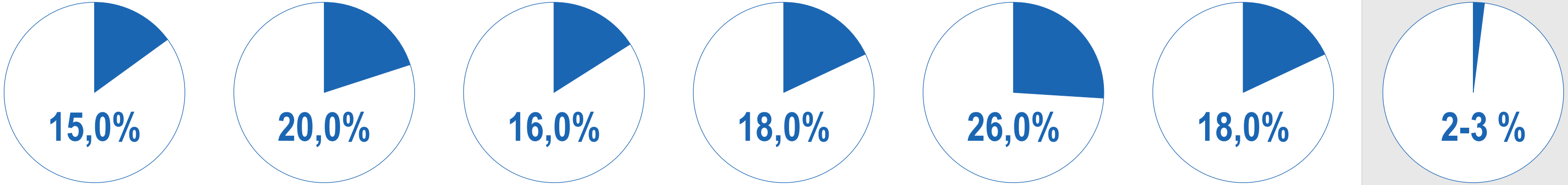
Retail Europe Germany Banking

Heinz, zwei, drei: Heinz accounts for half of the market in the Bratwurst-loving Germany, but Papa Joe's is ready for a fight
GETTY IMAGES

Heinz stopped all deliveries to EDEKA for more than 150 days.
Another 10 suppliers stopped deliveries in 2018 due to non-acceptance of price increases.

Top suppliers achieve double-digit return on sales – multiple times higher than leading retailers

	Nestlé	P&G	PEPSICO	Unilever	Coca-Cola	Mondelēz International	EDEKA
Revenue, USD mn	93,400	66,335	64,661	60,120	31,856	25,938	54,560
Return on Sales	15,0%	20,0%	16,0%	18,0%	26,0%	18,0%	2-3 %



Focus Areas of industry value creation

- Price increases on products
- Optimizing cost structure, outsourcing of production
- Restructuring production facilities and logistics
- Restructuring less profitable products/ categories and entering into more profitable categories

Source: EDEKA / OC&C study 2019

Agenda

EDEKA does need the support of AgeCore

An efficient and consumer welfare enhancing negotiation result can be achieved through the corrective of the ERAs (reduction of Bargaining Power Gap).

Without the consumer-oriented corrective of the ERAs, the balance of power would shift even further towards the profit-driven global FMCG manufacturers.

Thus, national and international retail alliances are essential for **suppliers to grow**, for **consumers to achieve competitive prices** and for **EDEKA to invest into the future** and survive!

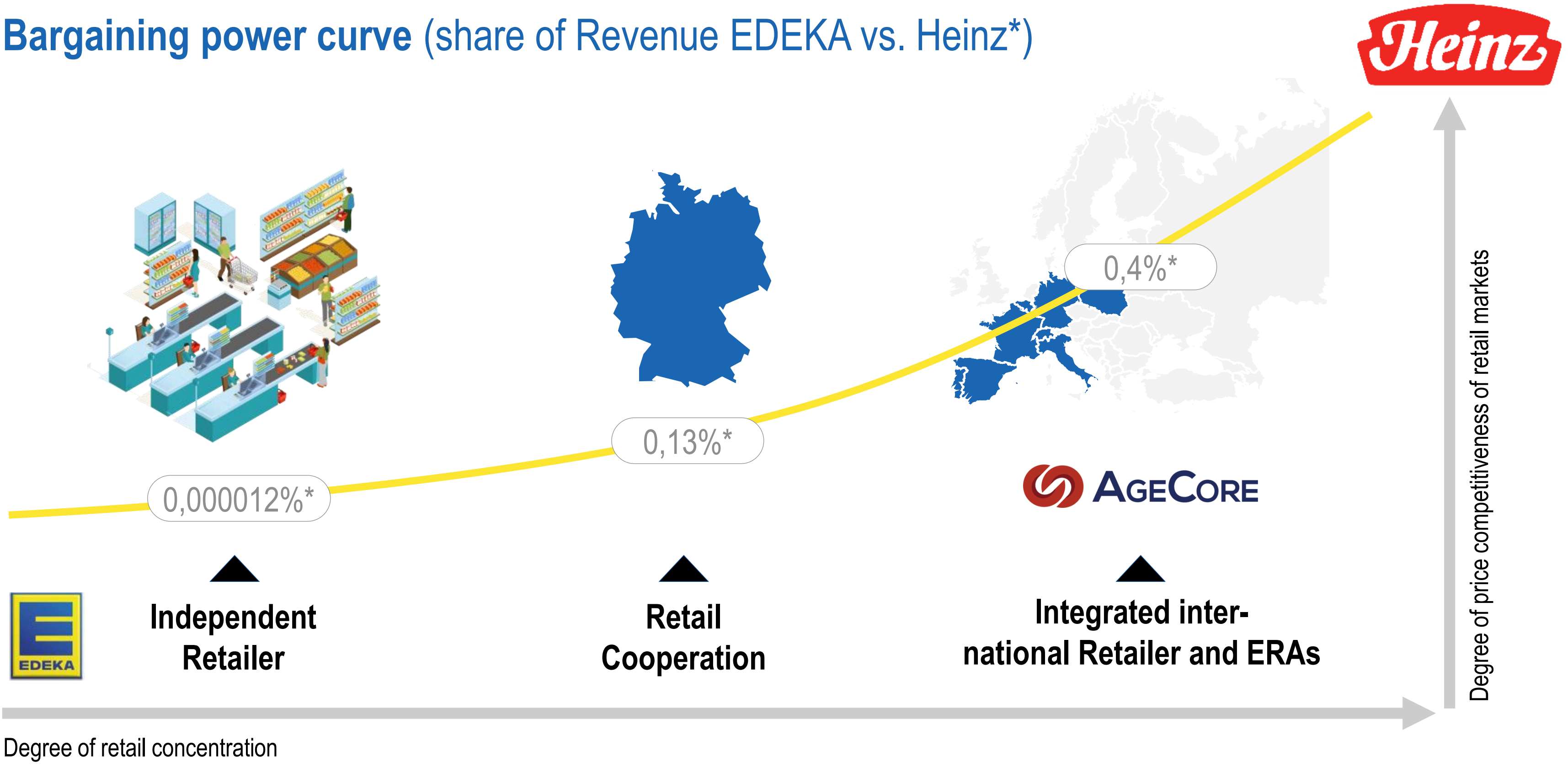
With AgeCore six retailers cooperate for the benefit of consumer welfare

AGECORE

- AgeCore consists of six members which are exclusively / predominantly active on their home market. Members comply to a strict Code of Conduct.
- AgeCore, together with its members, negotiates with TOP 75 FMCG suppliers.
- Volume of negotiation contributes approx. 15% of the total buying volume of individual members
- No negotiation with farmers.

Even AgeCore helps to gain level playing field

Bargaining power curve (share of Revenue EDEKA vs. Heinz*)



Source: EDEKA / OC&C study 2019, * Revenues of Heinz with EDEKA / AgeCore in percent of total revenues Heinz

Summary: National cooperative buying groups as well as ERAs are essential to ensure consumer welfare

The supply industry is growing, merging and getting bigger in size (concentration) as well as getting more and more efficient by optimizing functionality, processes and negotiation power.

Strong “dual competition”: Retailers are horizontally challenged by high retail competition, and vertically they are challenged by the negotiating power of strong global brands.

In order to achieve competitive prices for consumers and to maintain the complex infrastructure to supply consumers, it is necessary especially for retailers acting solely nationally to negotiate the best possible purchasing prices.

European Retail Alliances constitute a key strategic option of cooperation between retailers in order to strengthen their position horizontally as well as vertically.

A comprehensive consumer welfare can only be maintained through national and international activities.

Thank You