

What challenges do retail alliances raise and what opportunities do they offer?

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

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Presentation Outline

- I. Background
- II. National retail alliances
- III. International retail alliances
- IV. Effects of retail alliances
- V. Conclusions

I. Background

1. Why the interest in retail alliances?

- **New and evolving national and international retail alliances**
 - Retailers feel under competitive pressure to form or extend alliances
 - Membership and composition changes in some alliances
- **Supplier complaints**
 - Complaints about price pressure, anti-competitive behaviour and UTPs
- **Competition authority concerns**
 - Concerns about collusion, foreclosure and back-door consolidation
- **Lack of public understanding about what retail alliances do (or don't do)**
 - Are they buying goods or selling services? How do they work?
 - Are they profiting from benefits to the exclusion or detriment of others?
 - Are they making consumers better or worse off?
- **European Parliament calls on EC to conduct in-depth analysis (12/3/2019)**
 - Lack of information about extent and effects of buying alliances

Background (#2)

2. How do retail alliances differ from retail groups and other forms of alliances?

- Retail alliances are horizontal alliances of retail chain groups that work together in pooling their purchasing power for sourcing supplies
- Retail chain group members tend to be integrated corporate retail chains, consumer cooperatives, or independent retailer groups
- Retail alliances have their own legal and commercial identity, separate from that of their members, and funded by membership subscription
- Retail alliances have an operational focus and different to more strategic forms of horizontal alliances like marketing alliances and R&D alliances
- Retail alliance life span is open-ended and membership often changes (due to diverging member interests or new alliance opportunities)

Main types of retail chain groups in Europe

- ❖ Differences based on ownership, governance and operational control:
 1. **Integrated retailers** – fully horizontally and vertically integrated chain-store networks under single ownership/control
 2. **Independent retailer groups** – generally one of three forms:
 - **Voluntary associations and symbol groups** - often wholesaler-led associations whereby independent retailers become voluntary members
 - **Retailer cooperatives** - owned by members who coordinate joint buying and common retail branding
 - **Vertical chain networks** - wholesale operation owns or co-owns the stores run by independent retail entrepreneurs with centralised services
 3. **Franchise systems** – business format franchises and dealerships with vertical control
 4. **Hybrid groups** - such as joint ventures, multiple cross-shareholdings, or a mix of organisational types

Differences between main types of retail chain groups

Type of retail chain	Independent retailer group	Integrated retail chain	
Specific form	Retailers' cooperative	Consumer cooperative	Corporate retail chain
Members	Retailers – defined membership	Consumers – open membership	N/A
Purpose	Group buying through to cooperative retail chain	Community retailing and social movement	Corporate retail chain
Objectives	Competitive cost advantage through to competitive differentiation for profit maximisation	Maximise customer service and contribute to the community	Maximise shareholder returns
Ownership	Member owned	Member owner	Investor owned
Control	Democratic - by member vote	Democratic - by member vote	Hired board of directors and shareholders, based on their investment level
Funding	Equity of members	Equity of members	Capital markets
Returns	Reinvest or shared between members	Reinvest or shared between members	To shareholders

At what level are retail supply agreements struck?

➤ **Retailers tend to engage with suppliers at comparable levels:**

- Retail chains or even local store owners deal with local/regional suppliers
- Central group buying and national alliances deal with large/national suppliers
- International alliances deal with European suppliers (“A brand” manufacturers) generally for service agreements or sourcing private label

➤ **Alliances provide members with umbrella supplier agreements:**

- Umbrella contract to cover basic (factory-gate) prices, leaving members to determine specific terms of supply (like transportation and logistics)
- Retail alliances do not generally process orders, make payments or carry out category planning on behalf of members
- Alliances tend to aggregate demand for a limited rather than full range of products (generally focusing on the leading brands)

II. National retail alliances

- Vary in importance across EU member states
- Can represent multiple smaller retailers to combine for viable national market shares – e.g. Superunie in Netherlands and Euromadi and IFA in Spain
- Can represent two or three large retail groups but sometimes with changing allegiances – e.g. in France
- Increasing interest by national competition authorities: Italy (2014), France (2015, 2018), Belgium (2018)

Example: changes in French retail alliances (#1)

➤ 2014 - First wave of major retailer alliances:

- Système U/Auchan (10 Sept), ITM/Casino (7 Nov), Carrefour/Cora (22 Dec)
- Focus on brands, excludes fresh produce and private label
- Results in the three alliances plus Leclerc having 90% of the national market

Market shares of the main food-retail operators in the downstream market

BEFORE	2014 market shares according to Kantar
Carrefour	21.8%
E. Leclerc	19.9%
ITM Entreprises	14.4%
Groupe Casino	11.5%
Goupe Auchan	11.3%
Système U	10.3%
Lidl	4.7%
Cora	3.3%
Aldi	2.2%

AFTER	Market shares following agreements (estimate)
ITM/Casino	25.9%
Carrefour/Cora	25.1%
Système U/Auchan	21.6%
Leclerc	19.9%
Lidl	4.7%
Aldi	2.2%

Example: changes in French retail alliances (#2)

➤ **2015 - Autorité de la concurrence (FCA) opinion (31/3/2015)**

- Downstream risks: information exchange, buying symmetry, store entry
- Upstream risks: investment incentives and foreclosure
- Economic dependency: delisting practices and demands for advantages
- Outcome: prior notification required for any new partnership agreement

➤ **2018 – Second wave of major retailer alliances**

- Three new alliances: Auchan/Casino/Metro/Shiever, Carrefour/Système U, and Carrefour and Tesco
- Scope increased to private label and international markets
- FCA announces investigation on 16/7/2018
- Egalim Law (1/11/2018): “ensuring balanced commercial relations in the farming and food sector and healthy, sustainable food affordable for all”

III. International retail alliances

- Which are the leading international alliances?
- What is their purpose?
- What is the scope of their activities?
- What is their approach to negotiation?

International Retail Alliance Membership - Examples

1. **EMD** - Superunie, Markant, Euromadi, Kaufland, etc. (Asda left in 2018) (est. 1989)
2. **Coopernic** - Rewe, Leclerc, Coop Italia, Ahold Delhaize (est. 2006)
3. **Carrefour/Tesco** (est. 2018)
4. **Horizon** - Auchan, Casino, DIA and Metro (est. 2018)
5. **AMS** - Ahold Delhaize, Migros, Jerónimo Martins, Morrisons, Booker, Musgrave, Salling, ICA, Uniarme, Kesko, etc. (est. 1988)
6. **AgeCore** - EDEKA, Colruyt, Conad, Coop Swiss, Intermarché, Eroski (est. 2015)
7. **Eurelec** – REWE and E.Leclerc (est. 2016)
8. **ICDC** – Casino and DIA (est. 2016)
9. **IFA** – 34 retailers in Spain, plus Portugal and Italy (est. 1967)
10. **BIGS** – Spar franchises across Europe (est. 1991)
11. **Provera** – Cora, Louis Delhaize, MATCH, Smatch and Delitrateur (est. 1999) – plus Carrefour Belgium (from 2019)

Purpose of International Retail Alliances

➤ **Enhance supply chain efficiency**

- Create efficiencies in the supply chain – scale, scope and span economies
- Make the most of the EU Internal Market – cross-border procurement
- Provide EU-wide marketing/promotional opportunities for FMCG suppliers

➤ **Enhance retail competitiveness**

- Help national retail groups compete better with large international retailers
- Help retailers compete with digital players, discounters, B2C suppliers
- Promote technology developments like click & collect and digital solutions

➤ **Counter supplier power**

- Respond to selling power of major FMCG suppliers and ↑ supplier concentration
- Avoid territorial supply constraints by multinational suppliers

Scope of Activities of International Retail Alliances

- **International on-top agreements** – added benefits to suppliers over and above national agreements, e.g. supporting multi-country product launches, sequencing volume promotions across countries, data aggregating to share with suppliers on retail sales across countries
- **Private label sourcing** – allowing members to benefit from volume leveraging and sharing best practice and market knowledge on product and market trends
- **SMEs networking** – promoting small and medium suppliers with proven track record, sharing large network of suppliers, active support for suppliers
- **Buying** – negotiating prices with A-brand suppliers or joint purchasing private label (inline with competition law and UTP Directive)
- **Coverage** – parts of EU, EU-wide, or global

Scope of Activities of International Retail Alliances

➤ Different scope of activities across international retail alliances

Alliance	Intl. On-Top Agreements	Private Label Sourcing	SME's networking	Buying	Coverage
Eurelec					EU
Agecore		Selected projects			EU
AMS					EU + Global
Coopernic		Selected projects			EU
CWT					EU + Global
EMD					EU + Global
Horizon					EU + Global

Source: EMD

International Retail Alliances and Producer Relationships

- ❖ Negotiations can cover the strategic relationship with global suppliers, the joint purchasing of own brand products, and goods not for resale
- ❖ Different possible stances or negotiating tactics:
 - **Cooperative** – supporting international expansion opportunities and co-development, e.g. new private label products and formulations
 - **Transactional** – “more for more” joint business planning (JBP) with scope for suppliers to increase sales but with volume discounts, “investments for improved support”, “a trade rather than a raid”, but risk of double-pay for on-top agreements
 - **Confrontational** – seek price harmonisation between markets or additional discounts from major brand suppliers, which in extreme cases of dispute can result in temporary product non-availability

IV. Effects of Retail Alliances

- What benefits can flow from retail alliances?
- What harm can arise from retail alliances?
- What competition issues have recently arisen?
- Do retail alliances increase retail productivity?
- Do retail alliances raise or lower consumer prices?

Potential Benefits from Retail Alliances

➤ **Greater efficiency in supply chains**

- Using scale, scope and span economies to reduce costs and waste
- Utilising the Single Market to source efficiently across Member States

➤ **Lowering prices for consumers**

- Using buying power to negotiate discounts and pass on to consumers
- Stimulating retail competition to make retail markets more dynamic

➤ **Encouraging product innovation and improvements**

- Sponsoring new supplier entry and new private label development
- Stimulating supplier competition to make supply markets more dynamic

Potential Harm from Retail Alliances

- **Facilitate retail concentration in national markets and more widely**
 - Foreclosure of excluded (smaller) players
 - Exacerbate retail size advantages (waterbed effect or spiral effect)

- **Facilitate retailer coordination across national and international markets**
 - Information exchange and collusion in overlapping markets
 - Mutual forbearance deterring cross-border retail entry

- **Facilitate abuse of buyer power against suppliers**
 - Coordinated bargaining stances - “all deal or no deal”
 - Long-term harm to product innovation, quality and choice

Competition Issues Involving Retail Alliances

➤ **Facilitate retail concentration in national markets**

- Is there evidence for a spiral effect on excluded small retailers?
- Did the BKartA decision to block the EDEKA/KT consolidation result in Kaiser's Tengelmann exit? (B2-31/17 decision 16/11/2017)

➤ **Facilitate retailer coordination**

- Centrale Italiana terminated in 2014 - information exchange concerns
- Dawn raids in Belgium (Carrefour and Provera) and France (Casino and Intermarché) on 20/5/2019 (also previous dawn raids on Casino and Intermarché in Feb 2017)

➤ **Facilitate enhanced buyer power in negotiating with suppliers**

- Disagreements between major brand suppliers and AgeCore members in 2018 and 2019 – but BKartA view as simply a contractual dispute
- FCA announces investigation of new alliances in France (16/7/2018)

Effect of Retail Alliances on Retail Productivity

❖ Geyskens, Gielens & Wuyts (2015)

- Examine membership of 24 European alliances over a 15-year period
- Find that alliances generate scale advantages for members
- Alliance scale increases members' productivity and sales, and decreases their cost of goods sold
- Yet, retailers benefit less from alliance scale when membership is heterogeneous in terms of member size and when it extends its scope across too many geographic markets
- Not all members benefit equally: smaller members benefit less, especially when overlapping with fellow members in served markets

Effect of Retail Alliances on Retail Prices

❖ Ciapanna & Rondinelli (2014, ECB)

- Higher prices associated with higher retail concentration at the regional level across 9 Euro-area countries (indicating market power effect)
- But, buyer group concentration can lower prices (one s.d. \uparrow in HHI \Rightarrow \downarrow 2.6% in prices) (indicating countervailing power effect)
- Covers broad range of product categories and regional markets but limited to one year snapshot (2010)

❖ Molina (2019)

- Uses pre- and post-alliances data on purchases of bottled water in France and finds countervailing power reduces prices by 7%
- Comparing 2013 with 2015, the emergence of three alliances reduced other retailers' margins by 9% and manufacturer margins by 45%
- Strong countervailing power effect raising retailers' share of industry profits from 69% to 84%, but net decline in total industry profit by 3.5%

V. Conclusions

- ❖ Differences across alliances in their composition, scope, and approaches
- ❖ Fluctuating membership points to flexibility in alliances and so indicating dynamic element in retail and procurement markets
- ❖ Lack of academic studies about the empirical effects of retail alliances on suppliers – e.g. margin squeeze, UTPs or foreclosure?
- ❖ Limited number of studies on the retail price effects of alliances – but indication of countervailing power benefits in lowering prices
- ❖ Retail alliances tend to deal with FMCG producers and not directly with farmers, and pass-back effects on agricultural markets are not clear but could be positive if consumer demand increases

Further Reading

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Thank you!

Any questions?