



EUROPEAN RETAIL ALLIANCES AND THE ECONOMICS OF THE FOOD SUPPLY CHAIN

Pierre Bouchut

Workshop on alliances, Brussels, 4 & 5 Nov 2019

CONTENT

- 1. What are retail alliances? What is their range of activities and who are their suppliers?**
- 2. What is the rationale for setting up alliances?**
- 3. The European consumer perspective**
- 4. A supplier perspective: what are the benefits of negotiating with an alliance?**
- 5. The agricultural perspective**

EUROPEAN RETAIL ALLIANCES – WHAT, HOW AND WITH WHOM

- ERAs are diverse in terms of:
 - geographical coverage (4 to 20 countries);
 - number of members (2 to 11);
 - types of members;
 - activities;
- **Most alliances:**
 - > sell services to large national and international suppliers with significant market share – e.g. growth, data-sharing and international development;
 - > provide synergies in their members' sourcing, including in private label;
 - > some do joint projects and exchange of best practice.
- European alliances are **focused on A-brands and international private label suppliers;**
- **Leading retailers in EU countries** continue to **compete against each other** on national markets;
- ERAs have **governance and strong compliance rules** to ensure **compliance with national and EU competition rules.**

EUROPEAN RETAIL ALLIANCES



Agecore

6 members
9 EU countries



AMS Sourcing

11 members
18 countries in Europe



Coopernic

4 members
20 EU countries



EMD

11 members
16 countries in Europe



EURELEC

2 members
4 EU countries



Carrefour-Tesco

2 members
10 EU countries



Horizon Int.

4 members
16 EU countries

Source: Company annual reports, company websites, alliance website

ACTIVITIES OF EUROPEAN RETAIL ALLIANCES*

SELLING SERVICES

- **Examples:**
 - > Promotional programmes;
 - > Support for internationalisation;
 - > Support for product launches/innovation;
 - > Support for category development and growth;
 - > Data sharing with a high degree of detail on sales performance;
 - > Joint business plans and growth initiatives;
 - > Mediation.
- **They sell services against a fee which represents a percentage of the negotiated turnover of the suppliers. This aligns retailers' and suppliers' incentives on joint success in line with the principle of no payment without performance.**

SOURCING PRODUCTS

- **Private label sourcing:**
 - > Specifying product qualities and requirements;
 - > Allowing members to place orders, not buying directly via alliance;
 - > Only processed foods & packaged products;
 - > Building on expertise from participating retailers.
- **Products not-for-resale (e.g. store furniture & equipment) sourcing;**
- **A- brands sourcing (very few cases);**
- **Access to a single platform for sourcing.**

** These are a range of activities illustrating the various types of ERAs' activities; ERAs do not provide all these activities*

ERAs NEGOTIATE ON BEHALF OF OR WITH THE SUPPORT OF THEIR MEMBERS MAINLY WITH LARGE A-BRANDS AND PRIVATE LABEL SUPPLIERS

1. ERAs mainly deal with the largest FMCG suppliers (food and near foods) (e.g. Nestle, AB Inbev, Unilever, Procter & Gamble, Coca Cola, L'Oreal, etc.);
2. ERAs deal with international Private Label (PL) suppliers (food and near foods);
3. Smaller, local A-brands and PL suppliers: in very limited cases and at supplier request; ERAs support them to develop international sales;
4. Fresh product producers and farmers: ERAs only deal with processed packaged food producers;
5. Suppliers of goods that are “not-for-resale”: one of the recent activities of ERAs.

GOVERNANCE AND COMPLIANCE MECHANISMS

- ERAs operate in **compliance with national and European legislation**, including competition rules, and under the scrutiny of national and European competition authorities.
- The exchange of commercially sensitive information between members and the alliance is **strictly governed by confidentiality agreements and internal codes of conduct**, to avoid any leakage of commercially sensitive information. **ERAs use compliance officers as well as external legal counsels** to ensure compliance. They share aggregated figures only.
- ERAs negotiate on behalf of or with the support of their members.
- **International contracts define the parties' goals and commitments and set quantitative key performance indicators** to monitor progress.

GOVERNANCE AND COMPLIANCE MECHANISMS

- Where alliances buy products, the agreement between the European alliance and suppliers replaces the national agreement of respective members and suppliers.
- Where alliances sell services, once international service contracts are negotiated (“on top” of local contracts), they are:
 - > **communicated** to the members and the national teams to ensure execution;
 - > **reviewed** regularly in joint business reviews between representatives of retailer and supplier;
 - > fees are usually paid at the end of the year and **based on real counter-performance** (“scorecard”).

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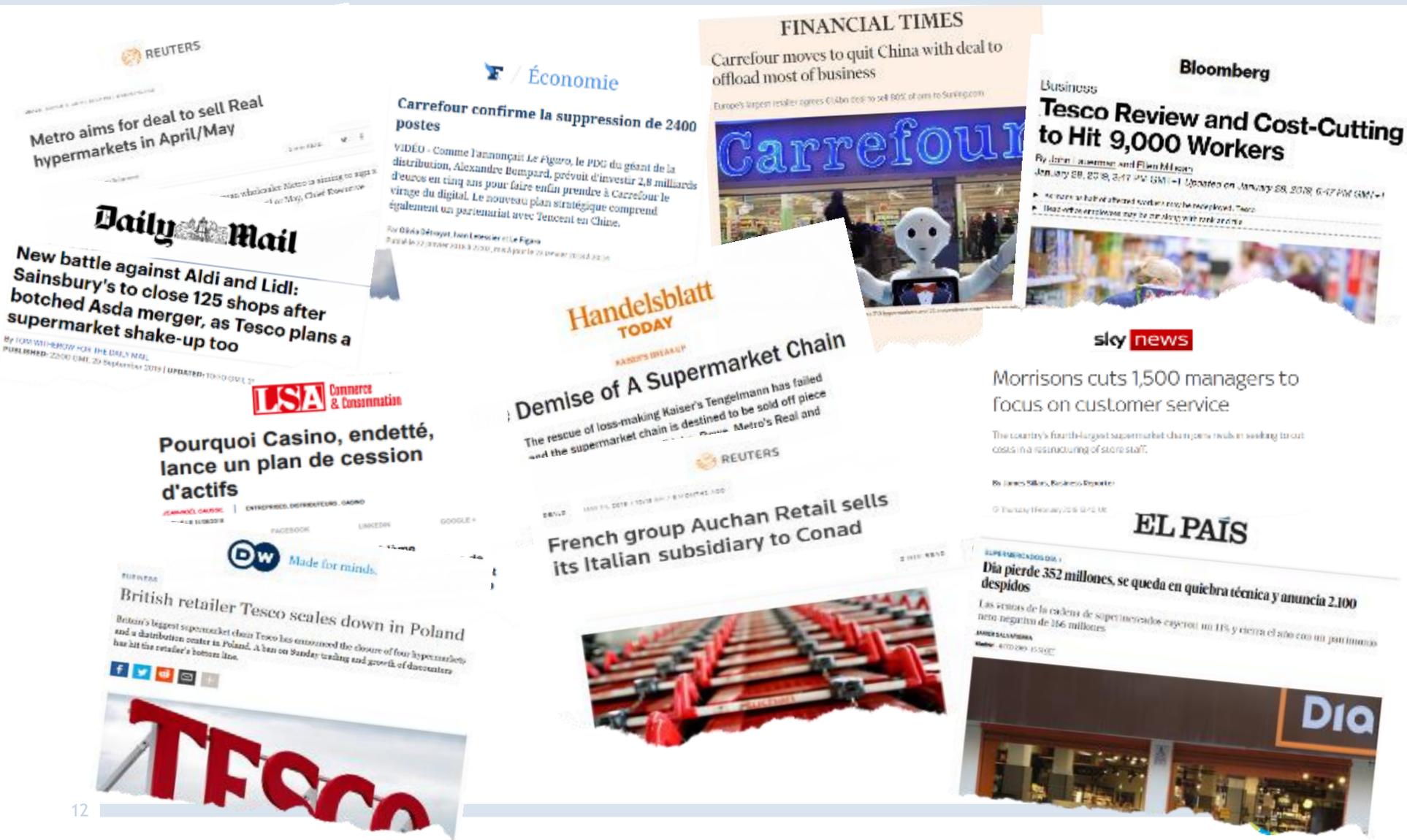
ERAs ARE VITAL TO THE EUROPEAN VALUE CHAIN

- ERAs contribute to **creating a European single market for sourcing of products.**
- ERAs seek to **offset territorial supply constraints (TSCs)** imposed by large FMCG suppliers, negotiate on a level playing field, help counter pressure from large FMCG suppliers to increase prices and benefit consumers through lower prices and better choice.
- ERAs **support retailers' profitability, which is under significant competitive pressure** and at historically low levels. The long-term survival of many retailers is in question.
- **Large international FMCG players have immense negotiating power** through their significant market share and their unique brands. They command very large margins and exceptionally high returns on capital.
- Alliances and buying groups **help SME retailers compete with larger retailers;** thus playing a key role in the livelihood of rural areas, villages and small towns.
- Alliances or other forms of cooperation **occur in many other sectors of the economy** including farmers, food manufacturers and others (e.g. automotive, pharma, airlines, banks).

ERAs SUPPORT THE SINGLE MARKET FOR SOURCING

- Most grocery retailers operate in one or a few EU member states.
- Large suppliers:
 - > are global players;
 - > are strong in specific categories;
 - > fragment the single market when selling;
 - > use the single market for their own production and sourcing.

UNDER COMPETITIVE PRESSURE, MANY EU FOOD RETAILERS HAVE BECOME VULNERABLE AND ARE RESTRUCTURING



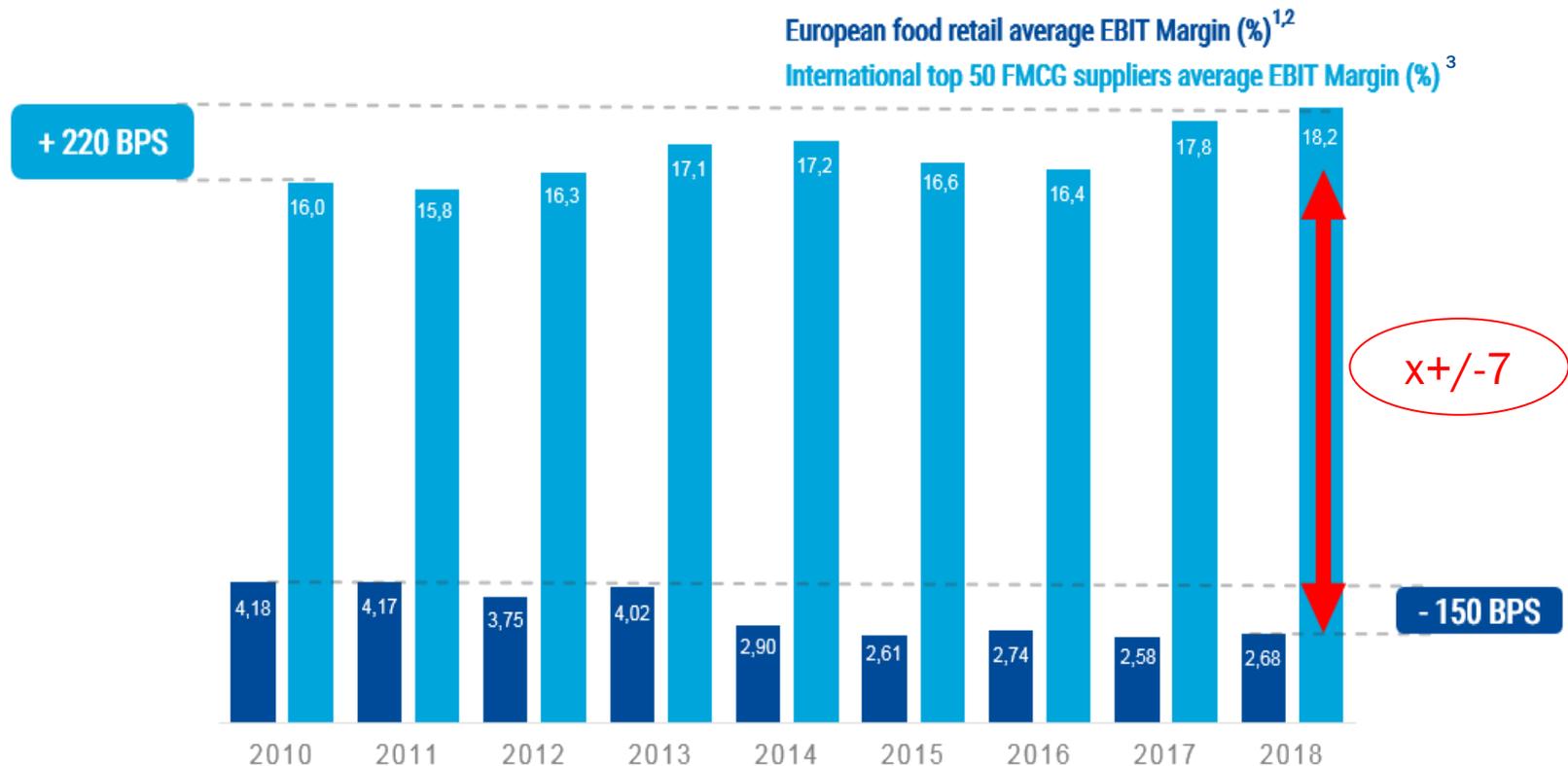
ERAs ARE A RESPONSE TO CHANGING MARKET CONDITIONS AND INCREASING COMPETITION

- **Retail competition is strong**
 - > growing retail formats include proximity, convenience, discounters, e-commerce, organic or home-delivery
- **Digital has increased competitive pressure**
 - > more transparency (prices, choice), convenience
 - > new business models competing for consumers' attention –e.g. Meal delivery platforms, etc.
 - > very strong players outside the EU
 - > manufacturers selling direct to consumers

Example: Alibaba ecosystem

- Own stores as well as marketplaces;
- 197 billion transactions on Alipay in 2018;
- Market capitalisation of USD 460 bn, more than 4 times the combined market capitalisation of the top 10 listed European food retailers.

EU FOOD RETAILERS HAVE LOWER AND DECLINING MARGINS



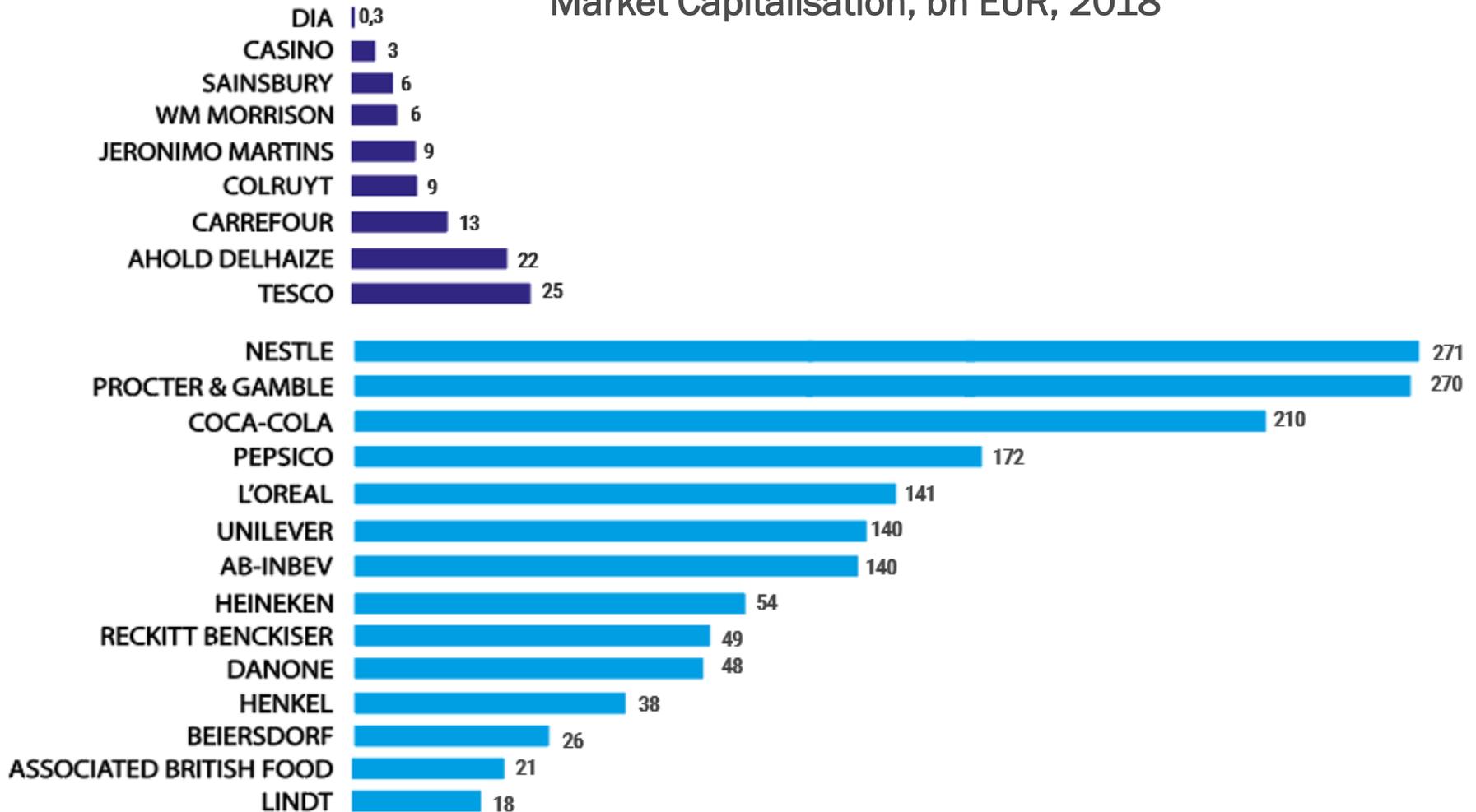
Notes:

- 1 - Average EBIT margins in European segments, excluding any bank segments
- 2 - EU food retail average includes Ahold Delhaize, Carrefour, Casino, Tesco, Sainsbury's, Morrisons, Asda, Aldi, Waitrose
- 3- Denotes adjusted EBIT/Revenue, ie excludes the impact of exceptional items

Sources: OC&C Reaping the Rewards, The FMCG Global 50; Annual reports; EuroCommerce analysis and estimates.

EU BIGGEST FOOD RETAILERS ARE 10 TIMES SMALLER THAN THEIR BIGGEST SUPPLIERS

Market Capitalisation, bn EUR, 2018



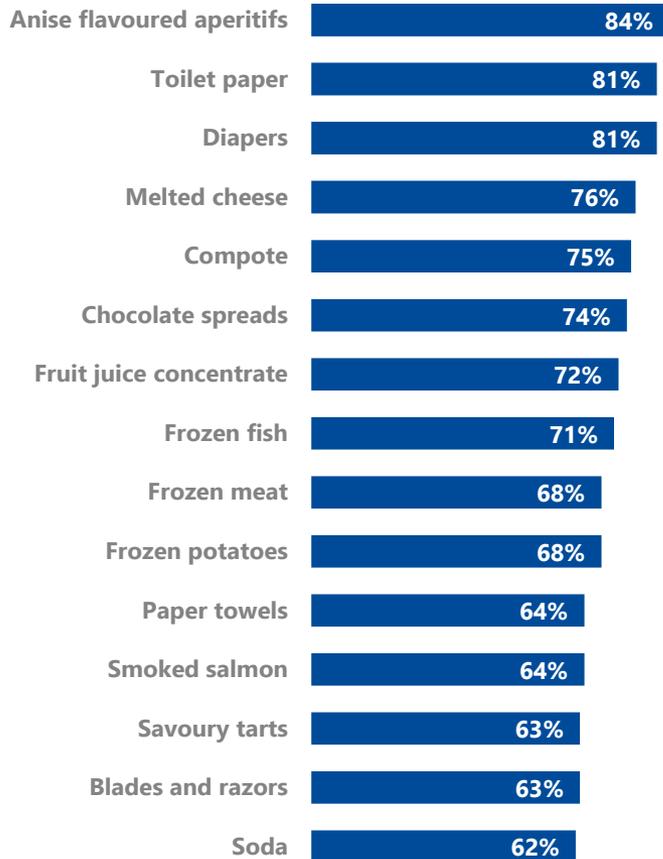
Sources: Company reports, Bernstein, Bloomberg, EuroCommerce analysis

A FEW INTERNATIONAL SUPPLIERS CONTROL MOST BRANDS THAT RETAILERS NEED TO HAVE IN THEIR STORES

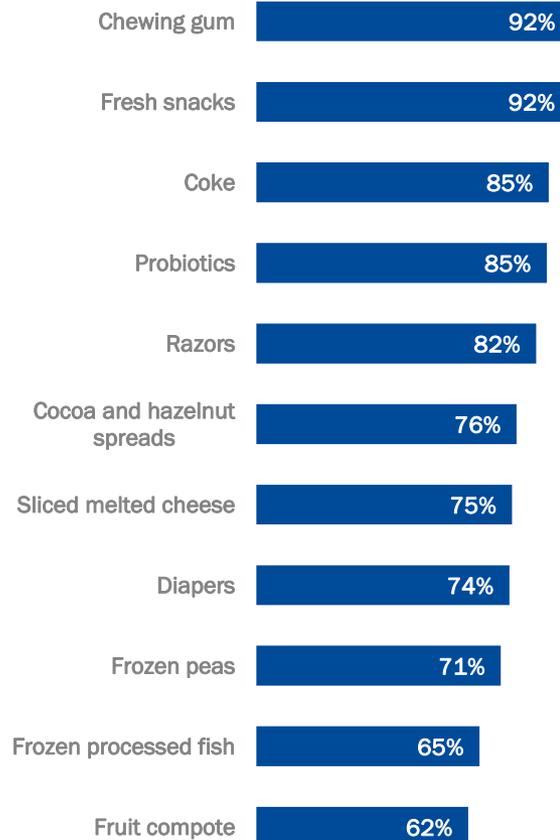


THE SHARE OF THE LEADING SUPPLIER IN ITS CATEGORY OFTEN EXCEEDS 50%

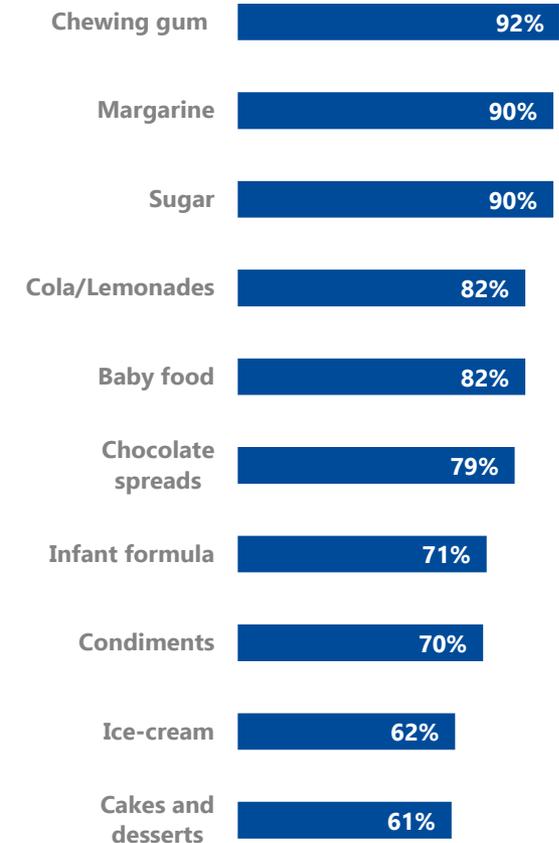
France



Italy



Austria



* Excluding private label. Nielsen, February 2019

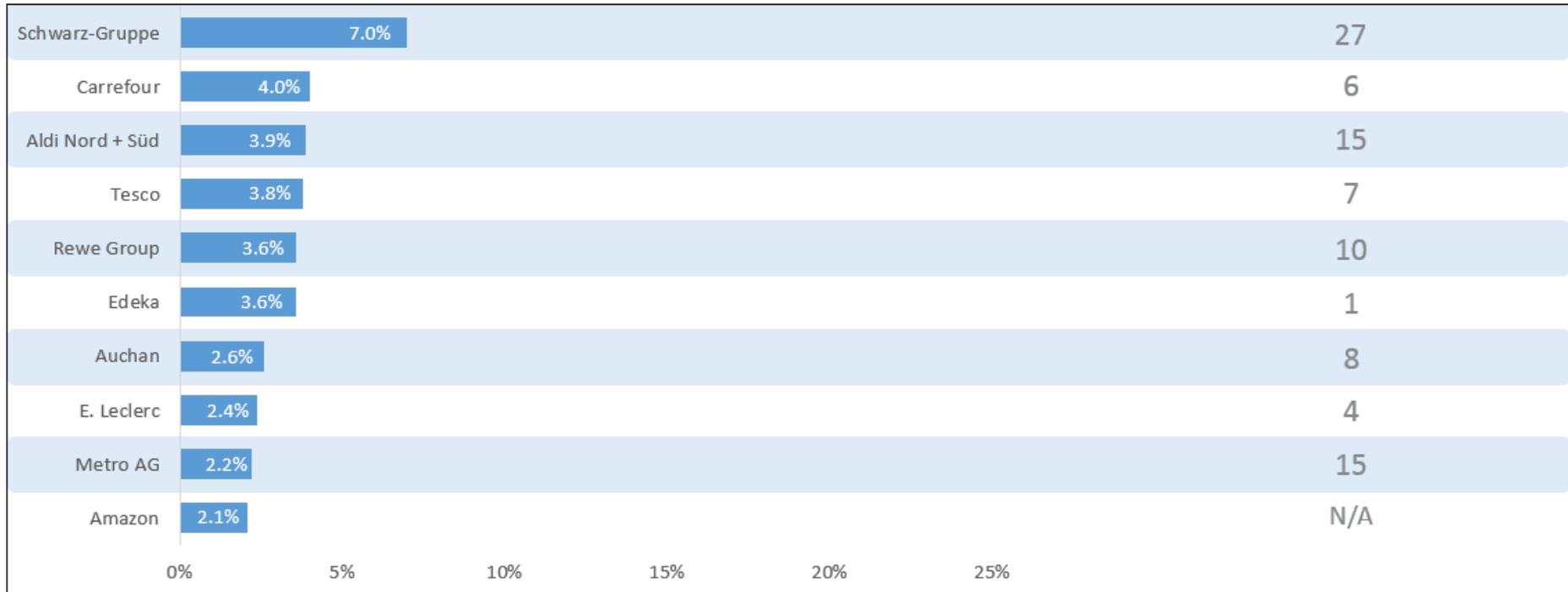
Source: Nielsen, 2018

Source: Nielsen, 2016

RETAILERS' MARKET SHARE AT EU LEVEL IS SMALL

Market Share of top 10 EU retailers (2018)

Countries in the EU



TOTAL = 35%

Source: LZ Retailytics,

This study includes all organised trade companies dealing predominantly with FMCGs. LZ Retailytics refers to "Europe" as the total 40 countries of geographical Europe, including Russia but excluding Armenia, Azerbaijan, Georgia and Turkey.

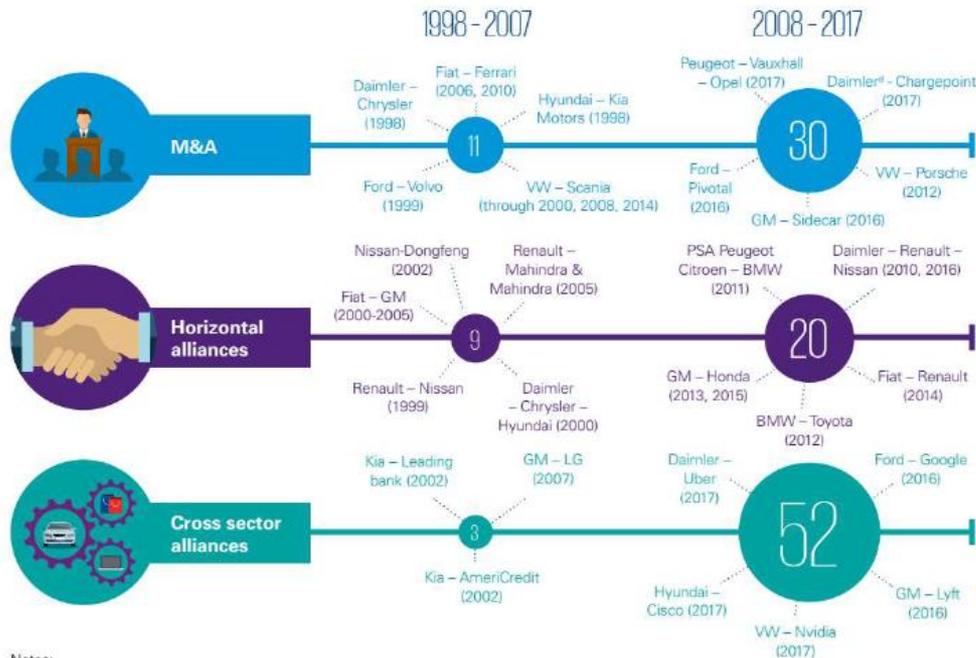
ALLIANCES EXIST IN OTHER SECTORS INCLUDING FMCG

GlaxoSmithKline plc and Pfizer Inc to form new world-leading Consumer Healthcare Joint Venture

The transaction provides a unique opportunity to accelerate GSK's strategy and create substantial value for shareholders

Changing alliances landscape in automotive industry 1998-2017^{a,b,c}

Based on the top 15 players and including selected examples from KPMG's database



Notes:

Source: Strategic alliances: a real alternative to M&A?, KPMG

Nestlé conclut une alliance avec Starbucks pour \$7,15 mds

LEUTERS | LE 07/09/2018 À 08:25 | MIS À JOUR LE 07/09/18 À 09:09

Nestlé pourra vendre des produits Starbucks en dehors des cafés



In 2011, Deutsche Telekom and Orange founded **BuyIn** to remain relevant in a **competitive market** with strong smartphone and broadband growth, **declining margins**, high technical challenges and a very **strong and consolidated supplier base**. By delivering **strategic procurement services** to its members, **BuyIn** increases the competitiveness in their direct spend. This competitiveness leads to **sustainable economies of scale and savings** based on **analytics and benchmarks** across millions of price points from 40+ operators.

Source: <https://www.buyin.pro>

By Julie Creswell and David Yaffe-Bellany

Sept. 24, 2019



The 2015 **merger between Kraft and Heinz** created one of the largest food companies in the world. It had \$28 billion in combined annual revenues and controlled dozens of food and beverage brands that for generations were staples of American households, including Heinz ketchup, Kraft cheese, Oscar Mayer meats and Planters nuts.

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ALLIANCES BENEFIT CONSUMERS

- ERAs bring the single market to consumers
- ERAs provide:
 - > Wider choice, lower prices, better promotions, good value and quality private labels products, etc.
 - > Consistent quality standards
 - > Quicker access to innovation



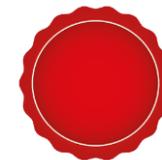
Price



Choice



Innovation



Quality

THE EUROPEAN SINGLE MARKET FOR SOURCING STILL DOES NOT EXIST FOR RETAILERS

- > **Consumer prices for branded food products often vary strongly between European countries, even taking into account VAT & excise duties or logistics costs.**
 - Pampers baby-dry price differences of up to 40%. Snickers price differences of up to 25%;
 - ECB analysis (2015) demonstrates significant cross-border effect;
 - ECB (2016) shows efficiency gains via alliances are passed on to consumers.
- > **Retailers are faced with buying price differences of up to 60% for the same product without any reasonable justification.**
- > **Retailers cannot source branded goods centrally for their stores in different Member States.**
- > **Large international suppliers force most retailers to source locally in every Member State where they resell the products concerned. Parallel imports are often challenging and at times impossible.**

Example: AB Inbev

- **AB InBev is dominant on the Belgian beer market;**
- **EU Commission fined AB InBev €200 million for restricting cross-border sales of beer between the Netherlands and Belgium;**
- **The fine is reduced by 15% because AB InBev had fully cooperated (...) and acknowledged wrongdoing.**

Source: Press coverage, French Commission hearings, ECB 2015, European Commission PR Database, EuroCommerce survey

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ERAs BENEFIT SUPPLIERS

- **Access to a large set of markets with a single entry point – e.g.:**
 - increased efficiency in managing commercial relationships;
 - less complexity, more effective way of doing business (less sales teams, less travel, administrative simplification);
 - faster negotiation cycle.
- **Access to international services in addition to nationally provided services**
 - commercial development across several countries;
 - create synergies across countries;
 - access to multiple markets for SME suppliers;
 - growth programmes.
- **Economies of scale by combining volumes and harmonizing product specifications, including supporting additional long-term investments and production planning;**
- **Support to innovation and promotion campaigns;**
- **Increased innovation capacity based on inputs and projects in multiple countries.**

ERAs BENEFIT SMEs AND HELP THEM GROW INTERNATIONALLY



A frozen food product from Scandinavia...



... found its way to Belgium and the Netherlands



A full range of 200 specialties from Italy



... found its way to Germany and Switzerland

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THE AGRICULTURE PERSPECTIVE

- ERAs do not interact with agricultural/fresh producers.
- Individual retailers only buy very little from farmers directly.
- Farmers sell to food processors, cooperatives, wholesalers and traders.
- Key facts:
 - > most agriculture production goes to processing (70%); exports; food service; catering and hospitality;
 - > farmers face **strong and concentrated first buyers** and input suppliers;
 - > the price of agricultural products is driven by **global dynamics of supply and demand, conditions affecting production, consumer trends (e.g. higher demand for organic) or policy considerations (e.g. sugar reduction), and not by retailer prices.**

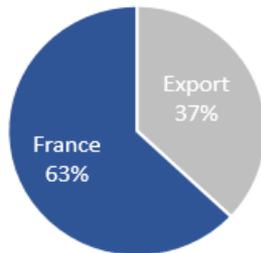
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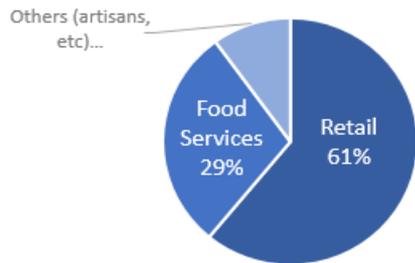
RETAILERS ONLY REPRESENT A FRACTION OF AGRICULTURAL PRODUCTS SALES

France - dairy

Sales channels for dairy farmers (volumes)



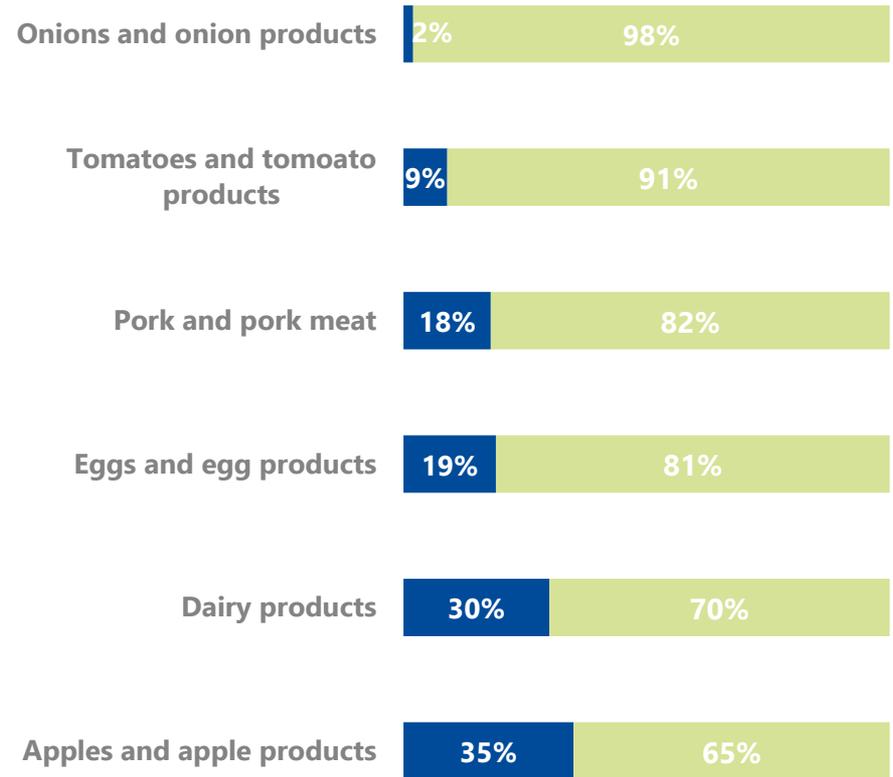
Sales channels for dairy processors



38% of dairy production is sold on retail shelves

Source: CNIEL, 2017

The Netherlands - products ending up in supermarkets vs. elsewhere (exports, food service, other channels)



■ Supermarkets ■ Elsewhere

Source: CBL

CONCLUSION

- **European Retail Alliances:**
 - > respond to the need to create a European Single Market for sourcing;
 - > are critical to the viability of retailers of all sizes, including SMEs;
 - > benefit consumers – price, choice, innovation, quality;
 - > support suppliers marketing their products across countries;
 - > negotiate, on behalf of or with the support of its members, on processed foods and packaged goods – branded and private labels;
 - > do not deal with farmers; the products they buy are so far from what farmers produce that their impact on agriculture market prices is negligible.
- **In many other sectors of the economy, alliances have created significant added value, in particular for consumers.**

THANK YOU

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