

Retail alliances: Balancing negotiating power in the supply chain

Commenting on the report issued today by the European Commission Joint Research Centre on retail alliances and their impact on the food supply chain, EuroCommerce Director-General Christian Verschueren said:

“The thorough and evidence-based JRC report helps clarify the reality of retail alliances and confirms that there is little evidence of an impact on farmers, and that existing regulation is sufficient. Retailers operate on low margins. Alliances allow them to slightly balance the stronger negotiating power of large suppliers to provide consumers the products they want at a reasonable price. The large multinational suppliers operate globally, achieve significant margins and have the power to set conditions in the supply chain. Most retailers are only present in a limited number of countries in Europe and join alliances to help create a reasonable basis of negotiation with these large manufacturers, and pass on the benefit to the consumer.”

The report responds to a call from the European Parliament following the adoption of the EU directive on unfair trading practices in the food supply chain in 2019. The report confirms that there is little evidence of an impact of alliances on farmers; that the existing regulatory toolbox is sufficient to address possible concerns. It concludes that alliances are diverse and should be analysed on a case-by-case basis.

Retail and wholesale alliances play a key role in making food and other consumer products more affordable and in widening the range of products offered to our customers. They go some way towards creating the real European internal market which should exist for sourcing consumer products. They also help strengthen competitive retail and wholesale ecosystems to the benefit of all Europeans, and:

- bring together individual, or groups of, retailers and/or wholesalers and buying groups, to negotiate better sourcing conditions by combining volumes and creating economies of scale;
- deal with large FMCG suppliers who are often global players, for which even the largest European retailers represent a negligible part of their turnover;
- offer private label suppliers access to international markets;
- respond to the need to create a European Single Market for sourcing when many large manufacturers seek to fragment the single market through Territorial Supply Constraints, which make it impossible to source where it makes most commercial and operational sense;
- are critical to the viability of retailers of all sizes, including SMEs;
- help suppliers in marketing and promoting their products across countries;
- operate in compliance with national and EU legislation, including competition rules, and are subject to regular scrutiny by EU and national competition authorities;
- do not handle agricultural commodities, fresh produce or deal with individual farmers.

Strong competition in the retail and wholesale market means that efficiency gains and improved sourcing conditions get passed on directly to consumers through better prices and/or improved customer experience and innovation. There is no evidence of higher retail and wholesale margins arising from participation in such an alliance. Concluding, Verschueren said:

“Alliances help consumers, and keep smaller food retailers alive in Europe, including in cities and rural areas where they play a crucial social role, as has been made even more obvious in the current crisis. They have no effect on prices paid to farmers, serve to moderate the negotiating power of already powerful multinationals, and support a single market for sourcing.”

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EuroCommerce is the principal European organisation representing the retail and wholesale sector. It embraces national associations in 31 countries and 5.4 million companies, both leading global players such as Carrefour, Ikea, Metro and Tesco, and many small businesses. Retail and wholesale provide a link between producers and 500 million European consumers over a billion times a day. It generates 1 in 7 jobs, providing a varied career for 29 million Europeans, many of them young people. It also supports millions of further jobs throughout the supply chain, from small local suppliers to international businesses. EuroCommerce is the recognised European social partner for the retail and wholesale sector.