Position paper
23 February 2021

Territorial Supply Constraints

We thank the Commission for the growing attention it has given to Territorial Supply Constraints during recent years. The DG GROW study published in November 2020 confirms issues that retailers and wholesalers have raised for many years and provides a welcome basis for future action to ensure that retailers and wholesalers can benefit from the single market for their sourcing.

Territorial Supply Constraints (TSCs) are practices imposed by brand suppliers when dealing with buyers with the aim and effect of segmenting the market and maintaining significant wholesale price differentials across countries. They are not justified by EU or national rules and standards, consumer preferences or the need to adapt to national circumstances such as differences in climate. They work to the detriment of consumers by restricting choice and maintaining artificially high prices. They mean that retailers and wholesalers are not able to choose sourcing when conditions are more favorable in other countries than where the retailer/wholesaler operates, to parallel import and/or distribute goods across their networks from one EU country to another. TSCs often also restrict retailers' access to the supplier's full range of products, while, at the same time, manufacturers are increasingly moving online to sell their whole range to consumers directly.

In this document, we comment on the DG GROW study and ask the Commission to address territorial supply restrictions as a priority to strengthen the resilience of retail and the agro-food ecosystems by allowing retailers and wholesalers to benefit from the single market for their sourcing and consumers to benefit from the efficiencies that this can achieve. We ask the Commission to use a combination of approaches including in competition rules and enforcement and clear guidance to operators. Should these avenues not prove sufficiently effective, we would recommend in due time the Commission to consider proceeding with legislation putting a stop on market fragmentation imposed by brands suppliers.

Key messages

- **Territorial supply constraints are practices frequently related to strong brands**: a few international suppliers control the majority of brands that retailers need to stock, and consumers expect to find in their stores; consumers are able to purchase products in another member state, but retailers are often not.
- **TSCs stretch beyond a few anecdotal cases**: the study confirms that TSCs are prevalent, and used as a means to segment the single market; they occur in categories of products that are common across the EU and in relation to brands which consumers particularly value;
- **Variations in consumer prices across Europe cannot only be explained by cost factors alone:** the econometric study confirms that wide price differences cannot be explained only by local economic conditions, labour, logistics and VAT costs;
- **The consumer harm is significant:** the study confirms that TSCs have an impact on consumer choice, prices and innovation, and that savings of an estimate amount of at least €14bn could be achieved if TSCs imposed by manufacturers were removed;
- **Adaptation to local markets should not be confused with TSCs**: adaptation to local markets is essential for suppliers, wholesalers and retailers; but practices such as price discrimination and product differentiation should not be used as an artificial means of preventing parallel imports and purchasing at an EU level;
- **The study may underestimate the scale and impact of the problem:** many SMEs that are part of buying groups or purchase from wholesalers, which are affected by TSCs but are not aware of it; there is also evidence that TSCs occur beyond the consumer-packaged goods sector;
- **TSCs are not relevant to private labels:** the study finds evidence that retailers may differentiate products and adapt prices to local markets circumstances but does not find evidence of practices hindering the free movement of these products.

1. Detailed comments on the study

1. **Territorial supply constraints are practices related to strong brands**: the study usefully confirms that TSCs arise in categories and relationships where brand suppliers hold significant bargaining power:
   - **A few large international suppliers control the majority of brands retailers need to have in their stores**: A-brand suppliers provide products that consumers and business customers expect retailers and wholesalers to have as part of their assortment – so called “must-have” products, which customers will go elsewhere to buy if a trader does not stock them. Brand suppliers hold appreciable market shares in these categories[1], as the substitutability of these products is limited[2]. Consumers have no permanent contract with retailers, and shop where it suits them best, with little retailer brand loyalty, and a choice of outlets, both physical shops, online and or mixed channels. Retailers are therefore dependent on the suppliers of these unique brands to attract and maintain customers loyalty[3].
   - **Few retailers and wholesalers operate in many other countries,** as opposed to brand suppliers who are often global players with an established presence all over Europe and worldwide[4]. Suppliers use this global presence to their advantage by applying significant wholesale price variations between countries that cannot be fully explained (see below), and directly affect the prices consumers pay. On the markets they want to invest in to obtain more penetration or higher sales, they apply lower wholesale prices than in other markets, where they compensate for the lower wholesale prices in the cheaper markets. Retailers and wholesalers would like to benefit from the Single Market for sourcing but are often unable to do so because large multinational manufacturers will not allow it.
   - **In a highly competitive environment with low margins, retailers and wholesalers need to create synergies and efficiencies in sourcing**. Retailers and wholesalers operate on the basis of large volumes, high fixed costs and low net margins (1-3%). Competition in retail and wholesale has increased, with an accelerating trend towards online sales, particularly since COVID-19, and pressure from other sectors such as food service and other home delivery platforms. In this environment, and with the cost of goods sold representing on average 70-80% of the final consumer price, retailers and wholesalers have no choice but to seek further efficiencies in sourcing. Retailers, that are still essentially nationally structured, are dealing with increasingly consolidated global manufacturers, especially in the fast-moving consumer goods (FMCG) sector. These manufacturers generate significant net profit margins (often 15-30%)[5]. Market research shows that net margins of A-Brand suppliers remain unchallenged[6]. A-Brands suppliers have been investing heavily in direct-to-consumer sales online, especially in the context of the COVID-19 pandemic, thus increasingly competing with their distributors.

2. **TSCs practices are beyond anecdotal cases**: the study confirms that TSCs are implemented in a number of cases, much beyond isolated cases:
   - 49% of retailer and wholesaler respondents to the study reported that “*they found themselves in a situation where they tried to source products in another EU country and were refused based on geographical location*”; a vast majority of suppliers (77% of respondents) confirmed

[1] the 5 key categories affected are soft drinks, coffee, personal care, confectionary, household care

[2] see statistical annex - compared performance of large suppliers and retailers

[3] studies (clash of the titans, KUL; local heroes, DICE) and the AB InBev decision show that retailers are dependent on suppliers for their “must-have” or “essential” products

[4] see statistical annex - compared performance of large suppliers and retailers

[5] see statistical annex - compared performance of large suppliers and retailers

[6] "*Operating profit margins among the Global 50 rose 0.2 percentage points to 18.7%, close to the historic 18.9% high seen in 2007. It’s a notable turnaround from the 16.4% in 2016"; "The biggest fmcg players were in great shape heading into the coronavirus. And many are ideally positioned to thrive in the ‘new normal*" in “*Ready for the storm: The world’s FMCG giants are ideally positioned to thrive in the ‘new normal*” by OC&C (2020)

that they differentiate their offer depending on countries (even though they deny restricting parallel imports);
- All material collected, including stakeholder interviews, economic literature surveys and econometric analysis point in the same direction - that TSCs exist beyond anecdotal evidence and work to the clear detriment of consumers.
- TSCs are usually imposed orally and retailers often fear retaliatory action by suppliers who (threaten to) refuse to supply if they find out that their distributors have attempted to source from a different geography.
- TSCs are more likely to arise in categories where large brands suppliers have an appreciable share of the market: the TSC study confirms the need for a case-by-case analysis based on product category[7].

3. **Variations in consumer prices across countries cannot be explained by cost factors alone**: the study confirms that TSCs are associated with higher prices:
    - Different methodologies, including the econometric analysis show that price differences cannot be explained by differences in the local competitive or economic situation and differences in VAT; this confirms previous studies from the European Central Bank[8], Benelux[9], the Belgian[10] and the Luxemburg[11] governments;
    - Retailers and wholesalers have to purchase on the basis of national conditions set by suppliers (price, choice, promotional activity, etc.). These result in significant variations in wholesale prices across Europe, and also in terms of access to range/choice. Local competition provides incentives to retailers to pass on savings they make to consumers, but equally, low margins, and thus limits on retailers' ability to absorb a high wholesale price, lead inevitably to higher consumer prices[12]. Consumers are able to shop across borders and compare prices and range – retailers are often not.
    - European/international retail alliances respond to the need to create a European Single Market for sourcing; they offer a means of mitigating the impact of TSCs; they seek to negotiate on a level playing field and help counter pressure from large FMCG suppliers to increase prices and benefit consumers through lower prices and better choice. EU Commission Executive Vice President Margrethe Vestager has unequivocally recognised the pro-competitive effects of European retail and wholesale alliances: "*Buying alliances between retailers have become a key component of grocery supply chains. They can bring lower prices to consumers for food and personal care brands that they purchase on a daily basis*."[13]

4. **Consumer harm/impact on prices is significant**: the study confirms that TSCs have an impact on consumer choice, price and innovation:
    - The structures established by A-brands suppliers in local markets serve as a way to maintain a fragmented retail market and support the enforcement of TSCs – as such they can be seen as rent-seeking practices which draw resources that could be used more efficiently

[7] "the economic impact of modern retail on choice and innovation in the EU Food sector", European Commission, DG COMP, Nov 2014
[8] ECB (2015), Grocery Prices in the Euro Area: Findings from the Analysis of a Disaggregated Price Dataset, European Central Bank, Economic Bulletin, Issue 1, pp. 1-19. (available online here)
[9] "Territorial supply constraints in the retail trade in Belgium, the Netherlands and Luxemburg" Benelux General Secretariat, Feb 2018 (available online here)
[10] "Analyse des prix, rapport annuel 2017 » Observatoire des prix, spf Economie (available online here)
[11] "Etude 4 frontières, édition 2020, Analyse comparative des prix de produits identiques dans les grandes surfaces alimentaires au sein de la Grande Région » Observatoire de la formation des prix, ministère de l'économie, Luxembourg 2020 (available online here)
[12] Marcel Corstjens – compared performance of retailers and manufacturers
[13] "*Antitrust: Commission opens investigation into possible collusion by two French retailers in a purchasing alliance*", Commission press release IP/19/6216

elsewhere[14]. To enforce TSCs, suppliers need to set up a network of national sales offices and coordinate their activities. They must monitor the buying and selling behaviour of retailers and wholesalers to enforce their conditions and impose punitive measures to ensure compliance. These can take the form of supply chain disruption (e.g. rationing, refusal to supply, price increases, product design variants for given markets, refusal to grant quantity discounts); all these measures are documented in the DG GROW TSC study[15]. All these structures cost money and insert a further inefficiency into the supply chain;

- The econometric analysis estimates potential savings to be at least up to EUR 14bn in a (limited) number of countries and product categories where they are likely to be more prevalent[16];
- a majority of retailers and wholesalers (61%) responding to the study expect some degree of price pass-through if TSCs were removed: competition between retailers, low customer loyalty and low switching costs for consumers mean that retailers and wholesalers have a very strong incentive to pass through the benefits from lower wholesale prices[17];
- The survey shows that TSCs reduce consumer choice and innovation: some large global manufacturers are able to dictate which products can be sold by the retail sector in a given national market. However, consumers can gain access to a fuller range when purchasing abroad, but retailers are often blocked from doing so;
- TSCs or higher supplier margins do not, despite claims by brand representatives, generate more innovation: many products subject to TSCs are very well-established and in some cases decades old, with 'innovation' limited to repackaging. A range of established products which continue to generate significant sales and margins provides little incentive to replace it with something different or invest in other ranges. A further indicator of this phenomenon is in supplier margins, which are significantly higher than those of retailers, yet their levels of investment are not significantly higher[18]. Economic literature demonstrates that incentives to innovate depend on the change in profits of the innovating firm, not its level[19].

5. **Adaptation to local markets should not be confused with TSCs**: The study usefully confirms that *practices such as price discrimination and product differentiation are not TSCs but can act as a vehicle to prevent parallel imports*[20]. We would in this context like to emphasise:
    - A-brand suppliers often concentrate production in a limited number of locations in Europe and are able to use the single market to distribute their products freely around Europe. They

[14] "*Posner (1975) has argued that the abnormal profits a monopolist can pocket create proportional incentives to engage in rent-seeking activities to protect the flow of monopoly profits. TSC-induced price discrimination allows the monopolist to realise even higher monopoly profits, so that it also increases rent-seeking costs. (…). In the attempt to maintain rents, the manufacturer uses resources that may as well be used more productively elsewhere. As long as market segmentation is so profitable as it currently is, the rent-seeking business is very "productive" and makes it likely that brand manufacturers allocate their internal resources rather into this direction than into socially valuable directions, e.g. process and product innovations*." DICE study p. 47

[15] the DG GROW study of TSCs highlights the various forms that TSCs may take: refusals to supply certain products (46% of respondents); differentiation of products in terms of packaging (30%), destination obligation (29%), differentiation in terms of product content (27%); quantitative limitations (24%); restrictions on promotions (15%).

[16] the econometric analysis covers the following sample of products: bread & cereals, other foods, alcoholic and non-alcoholic beverages (16 countries data set)

[17] "an international empirical analysis of the performance of manufacturers and retailers" Marcel Corstjens, Richard Steele; Journal of retailing and consumer services 15 (2008) 224-236

[18] see statistical annex compared performance of manufacturers and retailers

[19] with reference to the so-called *replacement effect* of Arrow (1962): "*The higher the profit level before the innovation is, the lower is the incentive to invest into a quality-increase. Price discrimination enforced through TSCs unambiguously increase profits relative to a uniform price level, so that TSC must unfold a negative effect on innovation incentives according to the replacement effect*." DICE study (p. 47)

[20] see DG GROW TSC study page 40

also use the single market for purchasing of their own ingredients but prevent retailers from benefiting from the single market in buying and selling those manufacturers' products.

- TSCs should not be confused with product differentiation. The JRC report on product differentiation confirms that some degree of product differentiation exists to cater e.g. for local tastes, regional variations in temperatures. These variations in products are legitimate. However, we see differentiation being misused by suppliers as an excuse to refuse to supply products from one country to a buyer operating in another country. The obvious goal in many of these cases is not to cater for local taste, but to fragment the internal market.
- TSCs apply to packaged products widely available across the EU, not to fresh or very local products;
- Retailers and wholesalers should be free to decide whether to buy products on a local basis or for all their outlets in one place and take any additional tasks, whether in terms of logistics or re-labelling and the risk of any potential mismatch with consumer preferences.

6. **The study may underestimate the scale and impact of the problem**: the study highlights that SME retailers and wholesalers claimed that they did not suffer from TSCs. However:
    - Most respondents to the survey were large retailers and wholesalers; these operators often play a significant role in their national markets but do not represent the entire market;
    - The impact on SMEs or wholesalers may be underestimated in the study: large suppliers do not negotiate directly with SMEs; most SMEs in retail are part of a bigger structure, buying group or source from wholesalers;
    - The study covers a limited number of countries where TSCs are most prevalent and a limited number of product categories. Indications from the Benelux study, the DG COMP ecommerce enquiry in 2017[21], and feedback to the TSC study show that TSCs are also applied in other categories; we ask the Commission to further collect data on this as well.

7. **TSCs are not relevant to private labels**: The study finds evidence that retailers may differentiate products and adapt prices to local market circumstances but does not find evidence of practices hindering the free movement of these products:
    - Private label products are products manufactured by an independent supplier on behalf of a retailer or wholesaler; they respond to specifications agreed between the supplier and the retailer/wholesaler and carry the brand of the retailer/wholesaler who also takes responsibility for the characteristics and quality of the product. They are a growing part of retailers' assortment, often complementing brands with innovative products, e.g. convenience, fresh, organic, local, fair trade, free-from, budget, premium, to meet specific consumer demands[22];
    - Retailers undertake cross-border transfer of their private labels where this makes economic sense, and in doing so, provide the (often SME) manufacturers access to international markets. Many of these would otherwise have none of the resources or knowledge to invest in branding in other countries/markets;
    - Retailers often source products for multiple markets from the same supplier with - as much as possible - the same specification, uniform packaging and multi-language labelling, allowing for efficiencies and lower prices to consumer. If this is possible for a private label supplier, it should also be possible for a brand supplier;
    - Where private labels are produced for a market locally, this may lead to some variation in the composition depending on local circumstances or consumer choice. But this is not a TSC.
    - Price differentiation is not a TSC: the study shows that private label retail prices at consumer level differ between countries and in the same direction as prices of branded goods. Private label prices differ for many reasons (e.g. where they are sourced and cost of ingredients,

[21] "Identifying and addressing barriers to the Single Market" COM(2020)93 p. 20
[22] for more details see "Retailer brands, serving consumers, SMEs and innovation", April 2016 (here)

labour, taxation, logistics, etc.) reflecting other factors than TSCs. It should not be confused with practices aimed at segmenting the single market. Retailers do not prevent distributors of their private labels to source the product in another country than the country in which their headquarters are located.

2. Options for the future

8. **Addressing TSCs should remain a priority on the Commission's agenda in supporting more resilient retail and agri-food ecosystems.** A better functioning single market and an economy that works for people should support improving resource allocation and removing costs of artificial segmentation of the market. This would play a particularly significant role in supporting a more resilient agri-food eco-system and support transition to a more digital and sustainable economy. Increased competition and efficiencies would benefit consumers in the form of lower prices and greater choice, in particular in the countries most affected by TSCs.

9. **Addressing TSCs will help create a more efficient value chain and benefit consumers**; expected benefits include:
   - increased efficiency in the supply chain arising from more efficient allocation of resources in the single market[23] - in particular, it will help retailers and wholesalers to choose EU wide sourcing where this can generate benefits in terms of efficiency, conditions and logistics;
   - bring down manufacturer costs of monitoring and enforcing price-discriminating regimes against any retailers seeking to deviate from the price levels and sourcing arrangements imposed by suppliers;
   - bring down wholesale prices and improve range in the countries most affected by TSCs; we can expect[24] that consumers in these markets will unambiguously benefit: the retail market is highly competitive, and retailers will have no choice but to pass on price changes to consumers;
   - more competition will also increase suppliers' incentives to innovate and increase the attractiveness of their products thus benefiting consumers; economic literature and the study show that competition is a strong driver for innovation, not high margins.

10. We need the Commission to send a strong signal that TSCs are no longer acceptable and suggest an approach that builds on a combination of tools in competition law and enforcement and soft legislation.

11. **Competition rules should be adapted to reflect the competitive harm caused by TSCs. This means**:
   - **Clarifying the Vertical Block Exemption Regulation (VBER) guidelines[25]**: fragmenting the single market and restricting parallel imports is generally a hard-core restriction (Article 4 VBER); we would recommend that, as part of the ongoing review process, vertical guidelines are amended to provide a definition of TSCs and clearly spell out that they are a hardcore restriction[26]; we further invite the Commission to analyse legal gaps in the framework, in

[23] "*Allowing retailers to seek arbitrage opportunities eliminates not only the misallocation effect of price discrimination enforced by TSCs, but will also most likely lead to a positive output effect to the benefit of consumers*" in "territorial supply constraints: impact on consumer welfare", DICE, July 2019 (here)
[24] "territorial supply constraints: impact on consumer welfare", DICE, July 2019 (here)
[25] Guidelines on Vertical Restraints SEC(2010) 411 final
[26] "Evaluation of the Vertical Block Exemption Regulation" SWD(2020)172 (p. 178-179)

particular with regard to unilateral practices of a non-dominant supplier and suggest possible ways of addressing these[27].

- **Maintaining a clear and flexible framework for joint purchasing agreements** – as part of the current review process of the Horizontal Block Exemption Regulations and Guidelines, we ask the Commission to maintain the Guideline's current overall well-balanced approach. we ask that the Horizontal Guidelines continue to allow and support retailers to seek synergies through alliances; alliances help in mitigating the impact of TSCs. European retail and wholesale alliances are often created to support retailers and wholesalers negotiating with strong, often international fast-moving consumer goods (FMCG) suppliers with high profit margins. By providing clear rules on the conditions for purchasing agreements, the Guidelines safeguard that retailers and wholesalers can continue to increase their buying power towards these suppliers. In doing so, they also support retailers' and wholesalers' efforts to develop a truly single market for FMCG sourcing.

12. **We encourage the Commission to pursue strong enforcement action against large multinational suppliers**: the AB InBev decision[28] highlighted that AB InBev had put in place sophisticated mechanisms to enforce price discrimination, including volume limitations in the Netherlands, changes in the packaging of products to make them less transferable, making supplies of beer products available in Belgium conditional upon the purchase in Belgium and making promotions in the Netherlands conditional upon these not being offered in Belgium. The DG GROW TSC study sheds light on the key categories that are more prone to TSCs. In this context, we welcome the recent launch of a formal investigation into practices of Mondelez[29] for potential cross-border trade restrictions on chocolate, biscuits and coffee products. We encourage the Commission to not only focus on market dominance cases, but also on parallel trade restrictions between suppliers and their resellers in relation to existing supply agreements. The threshold required to establish market dominance under Article 102 TFEU is only met in few cases, thus, the stricter competition law regime for market dominant undertakings does in most cases not remedy the problem (i.e. unilateral conduct of strong brand suppliers, which are not yet market dominant).

13. **We suggest that the Commission also develops guidance** which would:
    - establish that artificial market segmentation to prevent the circulation of products across borders is an unacceptable practice that breaches the Single Market to the ultimate detriment of consumers;

[27] competition rules capture issues related to unilateral conduct of a dominant operator (Art 102 TFEU) and agreements between a seller and a buyer aimed at partitioning the single market (Art 101); however, there is a legal gap with regard to unilateral conduct of a non-dominant supplier, which would reflect most circumstances in which TSCs arise

[28] in 2019, the European Commission imposed a EUR 200 million fine on AB InBev for abuse of dominance and imposing practices on their distributors for the purpose of prohibiting Belgian retailers from importing the same products from the Netherlands. Case AT.40134 (here)

[29] "Commission opens formal investigation into possible trade restrictions by Mondelēz", Commission press release IP/21/281

- highlight a series of most harmful practices on the basis of the study and findings of the AB InBev case
- include a monitoring and review mechanism involving both retailers and suppliers; through this process, the Commission could extend the analysis beyond Fast Moving Consumer Goods to other categories[30]

14. **The Commission could also consider addressing the impact of TSCs on those suffering from (or at risk of) poverty**: artificially higher food prices resulting from TSCs have a relatively higher impact on consumers with lower incomes or who are more vulnerable

[30] the TSC study and a study by the Benelux secretariat show that TSCs may also occur in other sectors such as electronics or textiles

3. Statistical annex on the retail sector and compared performance with suppliers

3.1. *compared performance of large FMCG suppliers and large retailers*

The tables below are based on global figures reported by large retailers and FMCG suppliers. It shows retailers operate on the basis of high turnover (based on millions of different products) and low net margins EBIT/revenue) as compared to large FMCG suppliers. Large retailers have a significant lower market capitalisation than large suppliers. Large retailers are significant providers of employment as compared to suppliers, especially as large suppliers operate on a global scale. Capital expenditure in relation to turnover is not significantly higher in the manufacturing sector, which confirms that margins and investments are not related indicators.

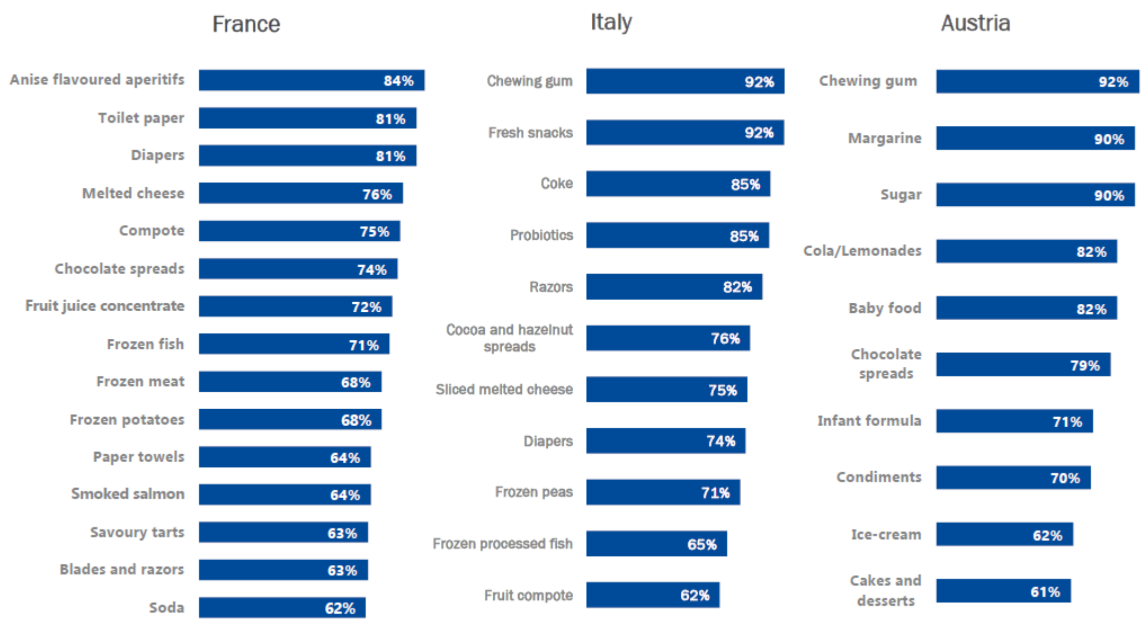
	€B	*€B*	*EBIT Margin*	*Thousands*	*%*	*€B*
	EBIT	Revenue	EBIT / Revenue	Employees	Capex / Revenue	Market Cap
Tesco plc	€ 2,9	€ 65,0	4,5%	423	1,9%	€ 26,2
Carrefour	€ 1,1	€ 74,1	1,4%	321	2,3%	€ 11,2
REWE Group	€ 0,6	€ 53,4	1,1%	234	3,4%	n/a
Auchan Holding SA	€ 0,9	€ 46,4	1,9%	331	3,0%	n/a
Ahold Delhaize	€ 2,7	€ 66,3	4,0%	380	3,3%	€ 24,3
Mercadona	€ 0,7	€ 25,5	2,7%	90	8,6%	n/a
Jeronimo Martins	€ 0,6	€ 18,6	3,5%	115	3,6%	€ 11,0
Sainsbury	€ 0,8	€ 33,4	2,5%	180	1,9%	€ 5,1
Casino	€ 1,3	€ 34,6	3,7%	210	3,2%	€ 3,8
Metro Group	€ 0,8	€ 27,1	3,1%	102	1,8%	€ 2,7
Colruyt Group	€ 0,5	€ 9,4	5,1%	30	4,0%	€ 7,6

	€B	*€B*	*EBIT Margin*	*Thousands*	*%*	*€B*
	EBIT	Revenue	EBIT / Revenue	Employees	Capex / Revenue	Market Cap
Nestle	€ 13,0	€ 87,9	14,8%	291	5,9%	€ 342,5
Unilever	€ 8,7	€ 52,0	16,8%	150	2,7%	€ 138,6
Coca-Cola	€ 9,3	€ 34,3	27,1%	86	5,5%	€ 212,2
AB InBev	€ 14,8	€ 48,1	30,8%	170	9,9%	€ 81,7
Diageo	€ 4,6	€ 14,8	31,4%	28	4,0%	€ 83,4
Mondelez	€ 3,4	€ 23,9	14,2%	80	4,2%	€ 79,7
PepsiCo	€ 9,8	€ 61,8	15,8%	267	6,3%	€ 199,6
Kraft Heinz	€ 2,8	€ 23,0	12,3%	38	3,1%	€ 38,1
Danone	€ 3,2	€ 25,3	12,8%	100	3,8%	€ 49,1
Heineken	€ 4,0	€ 23,9	16,8%	86	8,0%	€ 48,2
Altria Group	€ 9,5	€ 23,1	41,1%	7	1,0%	€ 76,4
Kellogg	€ 1,3	€ 12,5	10,3%	31	4,3%	€ 24,5

Source: company reports 2019 (except where unavailable at the time of collecting the data 2018)

3.2. *The market share of leading brands supplier is often beyond 50% in key categories*

A-brand suppliers provide products that consumers and business customers expect retailers and wholesalers to have as part of their assortment – so called "must-have" products, which customers will go elsewhere to buy if a trader does not stock them. Brand suppliers hold appreciable market shares in these categories, as the substitutability of these products is limited. Consumers have no permanent contract with retailers, and shop where it suits them best, with little retailer brand loyalty, and a choice of outlets, both physical shops, online and or mixed channels. Retailers are therefore dependent on the suppliers of these unique brands to attract and maintain customers loyalty.



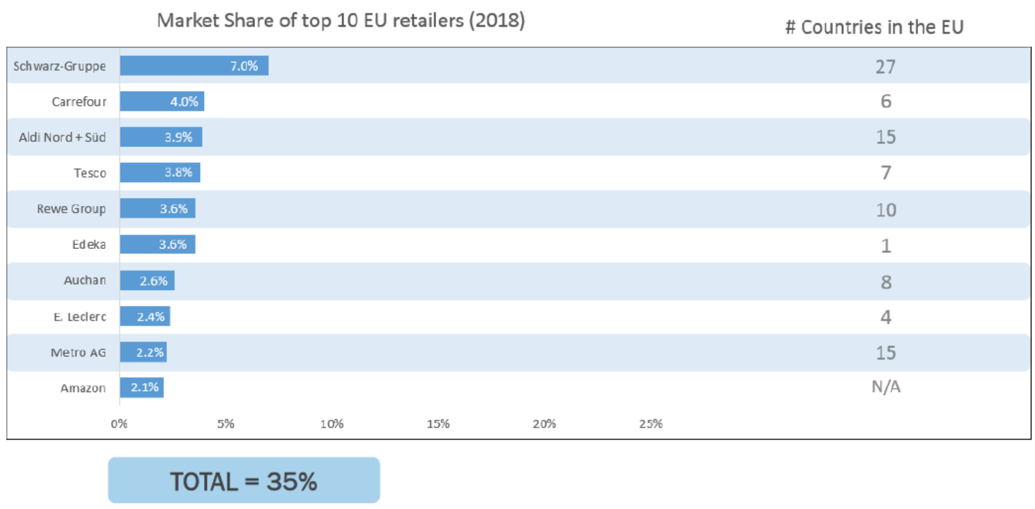
* Excluding private label. Nielsen, February 2019

Source: Nielsen, 2018

Source: Nielsen, 2016

3.3. *Retailers' market share at EU level is small*

Few retailers and wholesalers operate in many other countries, as opposed to brand suppliers who are often global players with an established presence all over Europe and worldwide. Retailers' share of the EU market is limited.



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.

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