

Retailer alliances - defending consumers' interests

Commissioner Gentiloni last week presented the 2022 Autumn Economic Forecast which showed that inflation is eroding the real value of savings accumulated during the pandemic, forcing households to consume less and cut down, even on their daily essentials. **Retailers and wholesalers have been working hard to cushion consumers from the worst of inflation, including by seeking synergies in sourcing through retail alliances.** Numerous studies over recent years¹ have shown how retailer alliances play an important role in this, allowing retailers and wholesalers to negotiate lower prices and pass these on to consumers.

The European Commission recognises the positive impact of joint purchasing, and the recent emergency regulation includes provisions on joint gas purchasing to negotiate better prices. They have just extended competition rules on horizontal cooperation² until June 2023 to further consider amendments to the Regulations in respect of R&D cooperation. We support this as a helpful step in getting the package in good shape for its 10 years of validity. **The Regulations and Guidelines are important for retail and wholesale, as they provide the legal framework for joint purchasing, on the basis of which retail and wholesale alliances operate in Europe.**

The 2020 JRC Report³ and the Commission draft Horizontal Guidelines have concluded that **there are many pro-competitive effects of retail and wholesale alliances**, and confirmed that any anticompetitive effect must be assessed by case-by-case analysis. Such conclusions apply to all the many ways in which alliances can be organised.

Large global manufacturers actively fragment the single market, costing Europe's consumers at least €14bn per year⁴. They seek by various means to oblige retailers to buy only from their designated distributor in a given market, and actively change labelling or product composition to make it difficult to source centrally. These global suppliers, by contrast, fully exploit the single market to concentrate their production and source their ingredients at European and global level. Alliances play a role in offsetting the negative effects of these practices, and they can better observe when these are being applied by large manufacturers.

Europe's retailers and wholesalers operate in a limited number of countries, with high fixed costs and low and decreasing net margins, typically around 1-3%, which are now further eroded by the high energy bills retailers and wholesalers must pay. These global manufacturers seeking to undermine the role of alliances, on the other hand, still enjoy net margins of 15-30% - ten times those of retailers - and their margins continue to increase despite the current circumstances.

Individually, even the largest retailers' purchases from a global brand supplier make up no more than a small fraction of that large brand's global sales (well below 5%). In many product categories, an individual multinational manufacturer enjoys a significant position in the relevant market. With much larger margins and global sales beyond Europe, these large manufacturers can much better afford to suspend delivery of

¹ European Central Bank - [Retail market structures and consume prices in the Euro Area](#) (2014); Molina, H. [Buyer Alliances in Vertically Related Markets](#) (2019); Frontier Economics - [Price effects of participation in national buying groups](#) (2021), INSEAD - [International Retail Buying Groups: A Force for the Good? The case of AgeCore/EDEKA](#)

² [Draft Horizontal Block Exemption Regulations and Guidelines on Horizontal Cooperation agreements](#), published for consultation in March 2022

³ Joint Research Centre [Retail alliances in the agricultural and food supply chain](#) (2020):

⁴ European Commission [Study on territorial supply constraints in the EU retail sector 2020](#)

their products to a retailer than the retailer can afford to do without their products, which consumers expect to see on their shelves. Alliances can help counter this imbalance in market power

The benefits of alliances are not one-sided. **They also offer real advantages to those suppliers** in providing guaranteed volumes across a number of markets, promoting their products and allowing suppliers to make an impact with newly launched lines.

Above all, **alliances offer a real service to Europe’s consumers**, particularly at a time when their cost of living is under massive pressure from rising energy bills and inflation. Since retail and wholesale is a highly competitive market, the benefits of any negotiation with major suppliers are substantially passed on to consumers, who retailers will lose out to competitors if their prices are too high. This is particularly the case when, as now, consumers are so hard-pressed by an ever-rising cost of living.

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Notes to editor

For background data

	Increase in adjusted EBIT (H1 2021 to H1 2022) in million	Adjusted EBIT margin first half 2022
Coca Cola	+764 USD	31,0%
Diageo	+564 GBP (Diageo comparison differs due to its accounting year ending on 30 June)	27,4%
Nestle	+432 CHF	16,9%
Pepsi	+367 USD	15,9%
Reckitt Benckiser	+341 GBP	25,6%
Mondelez	+ 266 USD	17,5%
Carlsberg	+ 228 EUR	18,2%
Unilever	+ 197 EUR	17,0%

Source: Figures in communications to shareholders from the companies listed for H1 2022

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