EuroCommerce Retail & Wholesale

Briefing Note
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Impact of European Retail Alliances on farmers and SMEs in light of the economic literature – Summary

Summary of the Charles River Associates study

Cooperation between retailers & wholesalers can take different forms:

1. **Groups of Independent Retailers**: small independent retailers group together to engage in joint procurement of branded and private label goods and jointly set up other services to members (e.g. IT infrastructure, administrative services, joint marketing, financing).
2. **National Retail Alliances**: smaller retail chains join national alliances, which help them with procurement of private labels, negotiations with larger brands and other services.
3. **European Retail Alliances**: larger retail chains or groups of independent retailers engage in joint procurement with large A-brand suppliers (by jointly buying or negotiating on top agreements) or with large-scale private label suppliers.

Thanks to alliances, retailers become more efficient by pooling together – and use the savings made to offer better prices and choice to consumers. They rebalance the negotiations with global brands who have must-have products which consumers expect to find in the supermarket, and counter territorial supply constraints.

Competition investigations have found alliances lead to better consumer prices.

Alliances deal with suppliers that have sufficient volumes to serve the demands of the retailers involved.

They are mostly deal with processed food products (and non-food staples) – both branded and private label. European alliances do not deal with farmers.

The study looks at the effects of retail alliances regarding (i) supply chain efficiencies, (ii) buyer power vis-à-vis food processors, (iii) pass-on of potential cost reductions to consumers and (iv) choice and innovation.

The study finds that that by obtaining better purchasing terms, through efficiencies and increasing buying power, alliances benefit farmers through (i) demand expansion, and (iii) greater competition.

Retail alliances help extract a larger fraction of total supply chain profits. The increasing bargaining power of retail alliances is at the expense of the margins of food processors -

but not of farmers. Rather, the main result is market expansion, where farmers actually get a better return rather than the assumed 'squeeze'.

This is the case for competitive agri-food market, but also with imperfect competition. This is because efficiencies for suppliers (e.g. from the scale, scope or span of production or higher effectiveness of coordinated promotion campaigns) will normally make prices fall leading to increased efficiency and reduced costs. This means that even in imperfect competition, the benefit of market expansion overcomes other negatives.

The usual application of buyer power theory may not apply to retail alliances.

1. There is no backward integration or sponsoring entry (especially with branded goods) as a retailer is not going to merge with the suppliers and is not funding them to enter the market. Similarly, theories of buyer power usually rest on full joint procurement (i.e. price and quantity commitments), but this does not apply as quantities are decided by individual retailers and many alliances are concerned with on top agreements (i.e. what complements the purchase agreement).
2. Better purchasing conditions creates more efficient contracts. This means lower unit prices (also through rebates or lump sum payments), i.e. net-net prices. It is irrespective that these rebates and lump sums flow from the manufacturer to the retailer. The pass on comes from the model (low margins) and with more than one retail alliances, there are additional competition and gains from supply side efficiencies.
3. Negative effects on innovation and choice would only happen if you were limited to buying what retail alliances negotiate. This is not the case. Further, concentration has not be found to have that effect – and is in fact believed to have positive effects.
4. The market reality is that retail alliances often concern retailers that are not operating on the same geographical markets and they would need to have explicit agreements to collude. Implicit collusion is unlikely due to the size of the assortment and the different nature of the consumer, purchasing behaviour and size of the baskets between the market. Also, a retailer remains free to join or leave an alliance. If it was a cartel, there would be punishment for leaving.

No particular retail alliance accounts for an entire national market. The general rule is that you operate below safe harbour thresholds, anti-competitive effects are unlikely.

There is no support for the waterbed effect. The theory relies on assuming weaker retailers would not defend themselves, e.g. by joining an alliance themselves. However, this does not reflect the reality and retailers are free to join different retail alliances.

When investigated, like in the Agecore and Copernic investigations, it was confirmed that joint purchasing fostered competition and lead to lower prices, more variety and higher quality. The attained rebates contributed to the overall retail strategy.

✅ 1. Retail Alliances Are Pro-Competitive

- They **lower prices** for consumers by passing on better purchasing terms obtained from manufacturers.
- Competition investigations (e.g., Agecore, Copernic) confirmed alliances **lead to lower prices, more variety, and higher quality**.

✅ **2. Buyer Power Concerns Do Not Apply**

- Procurement is **not fully joint** — quantities are decided individually, and many agreements are mostly "on top" of existing contracts.
- Territorial supply constraints prevent uniform terms across markets.

✅ **3. Efficiency Gains Benefit Consumers**

- Better purchasing conditions create **more efficient contracts** (lower unit prices via rebates/lump sums).
- Multiple alliances increase **competition and supply-side efficiencies**, resulting in lower prices.

✅ **4. No Harm to Farmers**

- Alliances mostly deal with **processed food products** (and non-food), not direct farm produce.
- Any link to farmers is **indirect**; studies show market expansion benefits farmers rather than squeezing margins.

✅ **5. No Evidence of Anti-Competitive Effects**

- No evidence of negative effects on other retailers (waterbed effect); other retailers can join alliances themselves.
- Negative effects on innovation and choice are **unlikely**, as retailers are not limited to alliance-negotiated products.

✅ **6. Regulatory Investigations Confirm Positive Impact**

- Past investigations found **joint purchasing fosters competition**, lowers prices, and improves quality.