

Retail alliances – working to get the best deal for Europe’s consumers

With the Commission today holding a workshop on joint purchasing and pursuing its review of horizontal competition rules, EuroCommerce Director-General Christian Verschueren said:

“We are asking that the Commission review recognises even more strongly the pro-competitive effects of alliances. Alliances, which exist in all sectors of the economy, combine the sourcing of their members facing stronger, more concentrated suppliers. Retail alliances help, on behalf of Europe’s consumers, partially to rebalance the power of multinational brand manufacturers, whose products make up a large proportion of most consumers’ shopping baskets and customers expect to see on retailers’ shelves. This gives these global manufacturers considerable leverage in negotiating the prices and conditions under which they sell to European retailers, who operate in only a limited number of markets. Alliances also help to mitigate large manufacturers’ fragmentation of the single market and other practices aimed at increasing their already significant margins”.

Retail alliances ensure consumer benefits in terms of prices, choice and innovation, in a concentrated supplier market of large global suppliers. Numerous studies demonstrate that alliances’ activities, which typically involve negotiation of sourcing conditions and services, or the actual purchase of products, lead to a 5-7% reduction in consumer prices. The Commission has over the years explicitly underlined this positive impact of alliances, with Commissioner Breton pointing to this in the context of vaccines, and Executive Vice-President Vestager pointing to their pro-competitive role on numerous occasions.

Retailers face a wide range of abusive supplier practices. These unfair industry practices (UIP) include excessive pricing, abusive rebate schemes, Territorial Supply Constraints (TSCs), illicit denial to supply, requiring retailers to stock products which sell less well to gain access to popular lines, demanding minimum shelf space, and engaging in horizontal cartels. As demonstrated in the ABInBev case and a number of pending investigations, large global manufacturers actively fragment the single market costing Europe’s consumers at least €14bn per year. Meanwhile these global suppliers fully exploit the single market to manufacture their products and source their ingredients at European and global level.

The attached background note gives more detail.

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EuroCommerce is the principal European organisation representing the retail and wholesale sector. It embraces national associations in 28 countries and 5 million companies, both leading global players such as Carrefour, Ikea, Metro and Tesco, and many small businesses. Retail and wholesale is the link between producers and consumers. Over a billion times a day, retailers and wholesalers distribute goods and provide an essential service to millions of business and individual customers. The sector generates 1 in 7 jobs, offering a varied career to 26 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.

What are alliances?

- Alliances exist in all sectors of the economy, including, for example the automotive and other manufacturing sectors. Retail alliances bring together retailers and wholesalers and help them negotiate better sourcing conditions with their international suppliers. They are diverse in terms of members, geographical coverage and activities. They abide to strict EU and national competition rules, which provide a clear and straightforward framework for their activities.
- Alliance members delegate part of their activities, mainly related to sourcing, to a central organisation, to get better sourcing conditions by combining volumes and creating economies of scale. They may provide associated marketing and distribution services, negotiated in return for fees. In some cases, alliances buy themselves; in others, they only provide support in negotiations with large, mostly international suppliers. They abide by strict EU and national competition rules, which provide a clear and straightforward framework for their activities. The main activities of the members remain independent on the selling market.
- As the Commission Joint Research Centre report in May 2020¹ underlined, European alliances mostly deal with big multinational FMCG brand suppliers who often hold a strong market positions and/or large private label supplier. They help suppliers with access to more markets and services. They do not deal directly with fresh agricultural products. The report found no significant evidence of any impact further up the agricultural and food supply chain, that is to say on farmers.
- They may also provide associated marketing and distribution services, negotiated in return for services fees. In some cases, alliances buy themselves; in others, they only provide support in the context of negotiations with large, mostly international suppliers.
- Pro-competitive effects identified in economic theory were identified by the Commission Joint Research Centre report in May 2020, and are backed up by a number of recent empirical studies²³ which have demonstrated that alliances lead to a 5-7% reduction in prices in FMCG products.
- They also help offset the many restrictions which manufacturers impose on retailers and wholesalers under so-called Territorial Supply Constraints. These make it impossible for buyers to source on a European basis, and insist that, under threat of suspending supplies, retailers buy from their designated distributor for that territory, and even prohibit retailers from transferring stock from stores in one country to branches in another. The Commission study⁴ showed that these practices are widespread and cost Europe's consumers at least 14 billion euros.

¹ Joint Research Centre, Retail alliances in the agricultural and food supply chain (2020)

² Molina H., Buyer Alliances in Vertically Related Markets (2019)

³ Frontier Economics, Price effects of participation in national buying groups, prepared for Metro AG (March 2020)

⁴ European Commission Study on territorial supply constraints in the EU retail sector: Final report (2020)

European Retail Alliances benefit suppliers and retailers



FMCG* multinationals
Private label producers

Single entry point to many retail markets in Europe

European, multi-retailer, commercial programmes



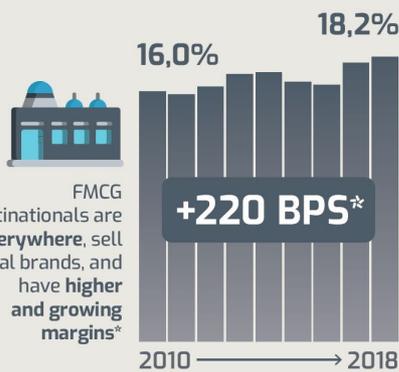
- ★ International service agreements
- ★ Growth programmes for Europe's food industry
- ★ Pan-European promotions
- ★ Joint sourcing
- ★ Leveraging regional expertise and crafts
- ★ Sustainability and innovation initiatives
- ★ Exchanges of contacts, best practices
- ★ Market information and data



Retailers
Wholesalers

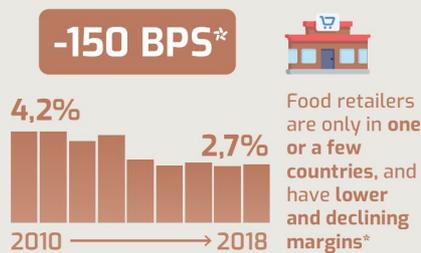
- ★ Better sourcing conditions
- ★ Efficiency gains
- ★ Wider range and choice of products
- ★ More competitive independent retailers

Large supplier margins: high and growing



FMCG multinationals are everywhere, sell global brands, and have higher and growing margins*

Retailer margins: low and declining



Food retailers are only in one or a few countries, and have lower and declining margins*

*net margins (EBIT as a percentage of sales) BPS = basis points (1 basis point=0,01%). Source: Bernstein Research, OC&C, 2019

Creating a Single Market for sourcing

FMCG brands multinationals often fragment the single market by imposing territorial supply constraints:

- ★ Restrict the circulation of products across countries
- ★ Set high price differences between countries



Without territorial supply constraints, and with a Single Market for sourcing, retailers could:

- ★ Source on a European basis
- ★ Benefit from better, pan-European, conditions
- ★ Transfer products across countries
- ★ Access a wider range of products