European Buying Groups
Strategic Context & Supplier Angles

Presentation to Crier Conference, Romania

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Who are we?

- IGD provides information & research on the global food & grocery industry
- Non-lobbying & not-for-profit
- Manage ECR UK and on Board of ECR Europe
- Over 500 members spanning the supply chain:

![Brands logos](image-url)
IGD’s global account management research

- Researching topic since 2003
- Industry wide survey – over 80 respondents in 2005
- Exclusive interviews with leading global retailers and suppliers
- Benchmark your company's position against that of other leading suppliers
- Assess the future outlook for global account management
Views from over 80 Senior Executives
Agenda

• Strategic Context

• The Negotiating Power of the European Buying Groups

• Case Study: Coopernic

• Supplier Angles: Trading with buying groups

• The Future
Strategic Context
Buying Group: Back in Fashion?

• Primary aim of buying groups is to negotiate better terms.
• Significant activity across Europe
• Feb 2006: Système U joins EMD (20 countries)
• Coopernic and Alidis due to become increasingly powerful
Strategic Pressures (1) : Market Concentration

• Market concentration is accelerating.

• EU Integration opens up possibilities.

• Leading global players are increasingly leveraging their international scale.

• Discounters are gaining market share.

• Cost and price leadership remain critical.

• Private label is gaining momentum.

Source: IGD
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Strategic Pressures (1) : Market Concentration

Grocery market share of the leading three players (%)

Market concentration

High

Medium

Low

Norway
Switzerland
Sweden
Finland
Denmark
France
Austria
Netherlands
UK
Germany
Belgium
Slovenia
Italy
Hungary
Slovakia
Poland
Romania

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Strategic Pressures (2): Discounters Growth

Market Share


Forecast → 19.4%

Source: IGD Research, Winning in A Discounter World 2006
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Strategic Pressures (2): Discounter Growth

Lidl & Aldi store numbers

Aldi CAGR: 5.32%
Lidl CAGR: 11.36%

Source: IGD Research, Winning in A Discounter World 2006
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Strategic Pressures (2): Discounter Growth

Discounter ‘revolution’ to drive like-for-likes

• Store format development

• Ranging:
  • More focus on fresh products
  • Development of organic, healthy-eating & Fair trade
  • Increased ranges through multi-variant cases
  • Changing attitudes towards manufacturers’ brands

• Greater marketing emphasis

• Customer service initiatives

Source: IGD Research, Winning in A Discounter World 2006
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Strategic Pressures (2): Discounter Growth

*Discounters adding new assortments*

Source: IGD Research, Winning in A Discounter World 2006

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Reponses from mainstream retailers

• Replication of discounter back office
  • Better buying methods
  • Improved supply chain & store operations

• Implementation of discounter front-end
  • Range rationalisation
  • Tactical use of private label
  • New store formats

• Differentiation from the discounter’s offer
Private Label is stronger than ever

Source: IGD Research, European Private Label, 2006

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Strategic Pressures (3): Private Label

With a big push in Central Europe

By 2010....

- > 20%
- 10% to 20%
- 5% to 9%
- < 5%

Source: IGD Research, European Private Label, 2006
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Strategic Pressures (3): Private Label

Extended into Non-food ranges

Good: Value

Better: Tesco

Best: Finest

Clothing: Florence + Fred and Cherokee

Healthy: Healthy Living

Source: IGD Research, European Private Label, 2006
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## Strategic Pressures (4): Internationalisation

### IGD global retail index 2006

<table>
<thead>
<tr>
<th>Index</th>
<th>Retailer</th>
<th>Change (vs. 2005)</th>
<th>Rank by Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Carrefour</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Wal-Mart</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>Tesco</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Metro Group</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Ahold</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>Auchan</td>
<td></td>
<td>14</td>
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<td>7</td>
<td>Seven &amp; I</td>
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<td>8</td>
<td>Aldi</td>
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<td>9</td>
<td>Casino</td>
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<td>20</td>
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<td>10</td>
<td>Costco</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>11</td>
<td>Delhaize</td>
<td></td>
<td>25</td>
</tr>
</tbody>
</table>

Source: IGD

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Which of the following retailers do you have a global trading relationship with?

**Tier 1**
- Wal-Mart: 71%
- Carrefour: 67%
- Metro: 51%
- Tesco: 51%
- Ahold: 35%
- IRTS: 30%

**Tier 2**
- Costco: 22%
- AS Watson: 16%
- Lidl & Schwarz: 14%
- Rewe: 11%
- Spar International: 11%
- Other: 8%

**Tier 3**
- Other: 12%

Source: IGD, Global Trading Relationships

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Strategic Pressures (4): Internationalisation

What do global partners expect?

- Access to the best people, in every market
- Consistency and effective coordination
- Proactive sharing of best practice and market knowledge
  - Locally and globally
  - E.g. to support market entry / difficult trading conditions
- Access to exclusive product innovation / differentiation
- Access to the best terms / cost prices in every market
  - Including overrides and rebates
  - Transparency
- Central distribution (where available)

Source: IGD, Global Trading Relationships
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The development of global trading relationships

“Carrefour and Wal-Mart stand out as they are committed to having a global relationship with suppliers in the long-term, rather than just asking for money.”

An international agreement with Carrefour is the key to opening the door. Our international agreement is a long-term contract, and therefore very strategic which gives stability to our relationship.”

“Wal-Mart represents best practice on all fronts in dealing with global suppliers.”

Source: IGD, Global Trading Relationships
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Increasing pressure on global/regional pricing

Is global/regional pricing included in your global relationships?

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And some have decided it is not for them…

“\textit{I have yet to be convinced that there are real benefits of global agreements. I know of many suppliers who would like to withdraw from them… if only they could.}”

\textbf{Senior Executive, Major Multinational Supplier}

Source: IGD, Global Trading Relationships

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Buying Groups’s Negotiating Power
Negotiation Power of Buying Groups

Source: IGD research, European Buying Group
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A number of factors may operate to give a buying group greater or lesser bargaining power than the joint turnover of its membership would suggest.

<table>
<thead>
<tr>
<th></th>
<th>Turnover</th>
<th>SKUs</th>
<th>Turnover per line</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailer</td>
<td>€50bn</td>
<td>40,000</td>
<td>€1.25m</td>
</tr>
<tr>
<td>Buying Group</td>
<td>€50bn</td>
<td>500</td>
<td>€100m</td>
</tr>
</tbody>
</table>

Source: IGD research, European Buying Group
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Buying Groups’ Activities

• **Buying Groups do:**
  - Seek additional rebates and other payments on branded goods bought by members
  - Specify private label products, select suppliers and agree prices for members
  - Provide a platform for data exchange between members, especially pricing data
  - Develop supplier contacts, allowing local suppliers access to international markets

• **Buying Groups don’t:**
  - Process orders
  - Make payments
  - Carry out category planning on behalf of members.
Case Study : Coopernic
Coopernic

- Wide geographical spread (Coopernic members are present in 19 countries)
- Low overlapping among company partners
Coopernic: Geographical Complementarity
Coopernic Structure (1)

Board

Executive

GS Qualiy Assurance

CoPi Fresh products (fruit/veg. – meat) CoPi brand products CoPi commercial brands/Import Food CoPi Non- Food

GS Dairy / Frozeni GS Beverages GS Food GS Near Food

GS Bazaar GS Electrical/electronic appliances GS textiles GS Articles d’économat

Eurogroup Far East Ltd. Siplec Int.

CoPi = steering committee; GS = specialist group
How is works?

- **Distribution of Costs** – Costs are distributed proportionally to the total of ‘turnover’ carried out by each associate.

- **Returns from suppliers** – Benefits coming from suppliers are proportionally distributed on the total purchasing done by single associates with each supplier.

- **Focus on branded products**. Contrary to other alliances such as Alidis & Agenor, Coopernic does not plan to introduce a pan-European private label range.

- **Synergies in the supply chain (logistics)**. For example, Leclerc supplies Conad’s the petrol stations in Italy from from its refinery in Marseille.

- **Low operational costs**.
How to make it work?

- Commitment & a clear vision

- Good personal relationship between Michel-Edouard Leclerc, CEO of E. Leclerc and Alain Caparros, CEO of Rewe.

- Michel-Edouard Leclerc: “It was Caparros, who convinced the Rewe Group to join Coopernic and sees the potential of a pan-European alliance. Caparros was always the motor between the idea.”
Supplier Angles
IGD’s Supplier Survey reveals that:

• The downward pressure on margins exerted by grocery buying groups are particularly unwelcome to most suppliers, since they come at a time when they face a range of other strategic challenges.

• The fragmentary structures of most buying groups mean that their interactions with supplier companies differ from those of "standalone" retailers of similar total scale.

• Specifically, the ability of buying groups to execute co-ordinated activities across multiple markets, retailers or store formats is more limited and it is thus difficult to offer major benefits in return for concessions made by suppliers.

Source: IGD research, European Buying Group
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IGD’s Supplier Survey reveals that:

- **Suppliers consulted by IGD were generally suspicious** of buying groups.

- Plainly, there is a need for buying groups to work harder to earn the trust of key suppliers if they are to maximise their scale advantages.

- **Major brand suppliers** in particular were dubious as to the benefits of dealing with buying groups, preferring in most cases to deal with retailers at a local level.

- Buying groups have, however, been proven to deliver benefits for small suppliers or for those specialising in the production of private label.

- Groups can offer access to new markets and volumes that might not otherwise be available - provided that the formidable practical and competitive challenges can be overcome.
Supplier Angles – Survey Results (3)

Source: Google
Dealing effectively with a buying groups requires:

- A rational, structured approach to decision-making
- A consistent approach to supplier relationships, especially in terms of price
- Appropriate structures for account management
- A rational, structured approach to measuring retailer and supplier success
- A willingness to walk away, if need be
- A small majority of suppliers in an IGD survey believe that international buying groups will become a more important feature in future although there is much uncertainty about this.
The Future Outlook
What does this mean?

• Alliances and buying groups not without their challenges

• Can be complex and fragmented (esp if too many members)

• However, will grow due to the need for scale and price competitiveness

• Greater pan-European sourcing, pricing and agreements

• Greater unity and centralisation.

• Will impact supplier profitability across smaller customers
Thank you!

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