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Myths about Grocery Retailers and their Retail Buying Groups (RBG)

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Retail buying groups (RBGs) in the European grocery sector have sparked intense debate among retailers, brand owners, and regulators. These alliances enable member retailers to consolidate purchasing power and negotiate better terms with suppliers, aiming to enhance price competitiveness. However, RBGs' rising influence has generated controversy, with stakeholders promoting competing narratives. Key concerns include whether RBGs primarily benefit member retailers, reduce prices for consumers, or stifle brand owners' innovation by limiting revenues. This paper examines and debunks common myths about RBGs, addressing claims that grocery retailers hold inherent advantages over brand owners, RBGs excessively consolidate power, and their primary goal is to capture supplier profits. It explores whether cost savings are systematically passed on to consumers and assesses accusations that RBGs exploit small suppliers and harm innovation. By analysing profitability, consumer value and innovation risks, the study sheds light on the complex dynamics of RBGs. It highlights how vested interests and negotiation biases often obscure objective understanding, aiming to foster a balanced perspective on the economic and political implications of RBGs in the grocery sector.

Key words: Retail Buying Groups; Grocery Sector; Myths

Introduction

In recent years, retail buying groups (RBGs) have become a focal point of debate in the European grocery sector. These groups, formed by member retailers to consolidate their purchasing power and negotiate better terms with suppliers, operate at the intersection of three powerful stakeholders: the member retailers themselves, brand owners of prominent power brands, and regulatory bodies within individual European countries and the EU. As RBGs' influence grows, so does the controversy surrounding them, fuelled by competing narratives from stakeholders vying to shape perceptions in their favour.

The core of this debate revolves around a fundamental question: who truly benefits from the rise of RBGs? Are member retailers increasing their profitability through RBGs or are consumers benefiting from lower prices? The answer is far from straightforward. Complicating matters are questions of profitability, the extent to which cost savings are passed on to consumers, and the potential impact on brand owners' willingness to invest in risky research and development. Critics argue that the allegedly growing bargaining power of RBGs reduces brand owners' revenues, potentially stifling innovation and long-term value creation in the sector.

Adding to the complexity is the proliferation of myths surrounding RBGs, often driven by the vested interests of stakeholders. Retailers and brand owners, seeking to influence public and regulatory opinion, frequently frame the discourse with biases that obscure objective analysis. Furthermore, the highly charged nature of annual contract negotiations—marked by intense bargaining and financial brinkmanship—has entrenched quasi-truths that cloud the debate. These narratives have endured over time, making it difficult to discern fact from rhetoric.

This paper aims to debunk several of these myths by examining profitability comparisons between large brand owners and major retailers, assessing how much of the cost savings are passed on to consumers, and evaluating the potential risks to innovation. It seeks to provide clarity on an issue that is both economically significant and politically sensitive, contributing to a more balanced understanding of RBGs' real impact on the grocery sector and its stakeholders.

Understanding Retail Buying Groups (RBGs)

RBGs are collaborative alliances formed to enhance their members' price competitiveness through collective purchasing power. Whilst their structures and strategies vary, member retailers claim they share a common goal: levelling the playing field by securing more favourable procurement terms. RBGs operate in several forms, ranging from jointly controlled companies where members hold non-controlling stakes, to cooperatives, contractual agreements, or informal arrangements where a representative organization negotiates on behalf of multiple members (European Commission, March 2023).

RBGs can be categorized based on their scope: national and international (for a comprehensive typology of RBG see Chauve et al.,2024). National RBGs primarily focus on reducing purchase costs for their members by negotiating additional discounts. Members of national RBGs can often be competitors in their respective output markets. In contrast, international RBGs operate across multiple countries and fall into two distinct categories. The first includes groups like AgeCore, EMD, and Epic, which seek supplementary discounts beyond what each member negotiates independently. The second, more recent, category includes groups such as Eurelec and Everest, which develop unified purchasing strategies for major international brands, negotiating the lowest possible prices for key products across relevant EU member states.

Despite their structural and strategic differences, this paper concentrates on European RBGs that negotiate with large international suppliers of 'must have' brands ("brand owners"). These groups aim to secure terms that go beyond individual trade agreements negotiated separately and independently by each member.

The Myths

MYTH 1 : Large grocery retailers possess inherent advantages—such as prime locations, control over in-store activities and consumer prices, private label offerings, loyalty programs, economies of scale, and operational efficiency—that give them significant leverage over brand owners and a privileged position with their shoppers. This dominant position is a key driver of their strong profitability.

MYTH 2: Over time RBGs are progressively getting excessively large and powerful. Often, member grocery chains hold dominant positions within their respective markets. When these chains come together to form an RBG, the resulting groups become disproportionately powerful, creating significant challenges for brand owners forced to negotiate with them.

MYTH 3: The predominant motivation for grocery retailers to form RBGs is to capture a larger share of their suppliers' (large brand owners) profits.

MYTH 4 : It is rare or overstated that RBG members pass on to their shoppers the incremental discounts generated by their collective negotiation.

MYTH 5 : The pass-on by grocery members of RBGs will only generate incremental discounts to their shoppers if they occur systematically and in a predetermined manner.

MYTH 6 : RBGs put excessive pressure on disadvantaged farmers and small suppliers, resulting in exploitative prices being offered for their products.

MYTH 7: RBGs harm innovation by brand owners and product choice for consumers. By reducing their member retailers' buying prices RBGs lower brand owners' incentives to invest in innovation and consumer choice.

MYTH 1 :
Large grocery retailers possess inherent advantages—such as prime locations, control over in-store activities and consumer prices, private label offerings, loyalty programs, economies of scale, and operational efficiency—that give them significant leverage over brand owners and a privileged position with their shoppers. This dominant position is a key driver of their strong profitability.

REALITY: Grocery retailers experience poor profitability compared to other industry standards, particularly when measured against brand owners. This below-par profitability has been a longstanding issue in the sector. Key performance metrics such as return on sales, return on assets, and return on capital invested (ROCI) consistently show that grocery retailers lag significantly behind their suppliers and most other industries.

Table 1 and Table 2 present the return on invested capital (ROIC) and economic value added (EVA) figures for the 10 largest publicly quoted global brand-owners and 10 largest publicly quoted European retailers over the period 2017-2023. The sample is based on global brand-owners as they own the brands that are relevant for RBG. The retail sample is based on European retailers as they are the relevant population for RBGs.

Table 1 : Average annual profitability indicators for largest publicly quoted brand-owners 2017-2023

BRANDOWNERS	ROIC(*)	EVA(**)
NESTLE	11.9	6,359
P&G	12.6	4,286
PEPSICO	15.8	4,461
UNILEVER	16.5	4,730
L'OREAL	13.3	1,647
MONDELEZ	7.0	-59
COCA-COLA	9.7	1,656
DANONE	6.0	232
GEN MILLS	10.5	1,067
K CLARK	23.1	1,584
AVERAGE	**12.6**	**2,596**

(*) average annual Return on Invested Capital
(**) average annual Economic Value Added in million euros.
Source: Bloomberg

Table 2 : Average annual profitability indicators for largest publicly quoted European retailers over the period 2017-2023.

RETAILERS	ROIC	EVA
AHOLD	7.3	627
CARREFOUR	3	-314
TESCO	6.4	-249
SAINSBURY	4.8	-125
CASINO	0	-467
METRO	4.5	-9
X5	8.4	-654
MAGNIT	7.1	-533
JERONIMO	12.6	273
OCADO	-4.9	-562
AVERAGE	**4.9**	**-201**

Source: Bloomberg

The EVA results in Table 2 reveal that, over the past seven years, this group of large European grocery retailers has destroyed economic value. In other words, these businesses have been unable to generate sufficient net profits after tax to cover the cost of the capital employed in their operations. These findings are concerning not only for the grocery retail sector itself but also for regulators and brand owners, who have a vested interest in maintaining a diverse and competitive retail landscape. By contrast, over the same period, large brand owners have achieved substantial net profits after tax, even after accounting for the cost of the capital employed in running their businesses.

What is striking is that this substantial disparity in profitability between grocery retailers and brand owners has persisted over a 30-year period (1990–2018). Table 5, which examines samples of the largest publicly listed retailers and brand owners (see Tables 3 and 4), demonstrates that regardless of the profitability metric used—whether net profit margin, return on assets, or economic value added—retailers consistently show significantly lower profitability. Furthermore, the gap in profitability between retailers and brand owners has not reduced over this extended timeframe.

Table 3: Top 10 grocery retailers in the sample by year by sales

1990	2000	2010	2014	2018
WALMART	**WAL-MART**	**WAL-MART**	**WAL-MART**	**WAL-MART**
SAFEWAY	**CARREFOUR**	**CARREFOUR**	COSTCO	COSTCO
CARREFOUR	**AHOLD**	**COSTCO**	KROGER	KROGER
TARGET	KROGER	METRO	**CARREFOUR**	**CARREFOUR**
SAINSBURY	METRO	COSTCO	**TESCO**	**TESCO**
AHOLD	**TARGET**	KROGER	**TARGET**	**TARGET**
M&S	COSTCO	**TARGET**	SEVEN & 1	**AHOLD-DELH**
TESCO	SAFEWAY	AEON	CASINO	7 & 1
CASINO	**TESCO**	SAFEWAY	METRO	CASINO
DELHAIZE	SAINSBURY	**AHOLD**	**AHOLD**	METRO

Source: Datastream, Bloomberg and Financial times of the various years

Table 4: Top 10 brand-owners in the sample by year by sales

1990	2000	2010	2014	2018
UNILEVER	**NESTLE**	**NESTLE**	**NESTLE**	**NESTLE**
NESTLE	**UNILEVER**	**P & G**	**P & G**	**P & G**
P & G	**P & G**	**UNILEVER**	**PEPSICO**	**PEPSICO**
PEPSICO	**COCA COLA**	**PEPSICO**	**UNILEVER**	**UNILEVER**
COCA COLA	**PEPSICO**	ANHEUSER B INBEV	ANHEUSER B INBEV	ANHEUSER B INBEV
GEN MILLS	KIMB CLARK	**COCA COLA**	**COCA COLA**	**COCA COLA**
KIMB CLARK	DANONE	**L'OREAL**	MONDELEZ	**L'OREAL**
CAMPB SOUP	HENKEL	DANONE	**L'OREAL**	DANONE
COLGATE	**L'OREAL**	HEINEKEN	DANONE	MONDELEZ
L'OREAL	COLGATE	HENKEL	HEINEKEN	HEINEKEN

Source: Datastream, Bloomberg and Financial times of the various years

Table 5: Performance indicators of Grocery Retailers and Brand-owners

	NPAT MARGIN RETAIL	NPAT MARGIN BRAND OWNERS	ROA RETAIL	ROA BRAND OWNERS	EVA RETAIL $ BILLION	EVA BRAND OWNERS $ billion
1990	3.3	6	7.7	8.4	NA	NA
2000	3	9	6.5	11.4	1.3	9.4
2010	2.5	13.3	6.4	11.3	2.7	15.4
2018	1.9	12.9	6.9	10.2	6.1	21.9

NPM: net profit margin, ROA: return on assets, EVA: economic value added
Source: Bloomberg, Companies' annual accounts and our calculations

Understanding why such a persistent asymmetry in profitability exists between grocery retailers and brand owners is important. The primary explanation lies in the inherently challenging nature of the grocery retail business, which is constrained by low net margins, limited differentiation, and high fixed costs. For such businesses, sales volume becomes the critical driver of success, making the industry particularly vulnerable to price wars. To remain competitive, grocery retailers must secure the lowest possible buying prices from suppliers. However, due to their lack of differentiation, they are compelled to pass these hard-won supplier discounts on to price-sensitive shoppers to prevent losing them to competing retailers. This dynamic is especially pronounced for "must-have" brands, where price competitiveness is a conditio sine qua non.

Grocery retailers, in this sense, are forced to become modern-day Robin Hoods, transferring the discounts negotiated with their suppliers to their shoppers. While this dynamic strains retailers' profitability, it ultimately benefits consumers by ensuring competitive prices. If grocery retailers didn't exist, regulators would likely need to create them to maintain affordable prices for consumers.

In contrast, brand owners have successfully differentiated their offerings through years of innovation and consistent investment in their brands. This differentiation is the cornerstone of their superior profitability, enabling them to command higher margins which also make their profitability resilient during challenging market conditions. This resilience became evident during recent market disruptions, such as those caused by COVID-19 and high inflation. As shown in Table 6, both grocery retailers and brand owners experienced a decline in profitability due to these external shocks. However, while grocery retailers saw their EBIT margins drop by 7%, brand owners experienced a far smaller decline of just 1%, illustrating the fragility of retailer profitability compared to the stability of brand owners' earnings.

Table 6: Comparing grocery retailers and brand-owners profitability during recent market perturbations (Covid and inflation)

	G R*	G R	G R	B O**	B O	B O
	2019	2022	% DELTA	2019	2022	% DELTA
GROSS margin	23.9	22.5	-6%	53.3	52.2	-2%
EBITDA margin	6.9	6.2	-10%	23.3	22.8	-2%
EBIT margin	3.1	2.9	-7%	19.4	19.3	-1%

*GR (grocery retailers): Ahold-Delhaize, Carrefour, ICA, Axfood, ELA SA, Kesko, Dia, Jeronimo Martins, Sonae retail
**BO: (brand owners): Nestlé, P&G, PepsiCo, Coca-Cola, Kraft-Heinz, Mondelez, Kellogg
Source: McKinsey, 2024

MYTH 2: Over time RBGs are progressively getting excessively large and powerful. Often, member grocery chains hold dominant positions within their respective markets. When these chains come together to form an RBG, the resulting groups become disproportionately powerful, creating significant challenges for brand owners forced to negotiate with them.

REALITY: The size of RBGs is often measured by cumulating the total sales of each of its member retailers. Actually, the total consumer sales influenced by RBGs represent only a fraction of the cumulative sales of their member retailers. RBGs neither manage nor intervene across the entire assortment carried by their members. Instead, they focus on power brands—key products that are consistently stocked by all member retailers. Typically, RBGs account for 20% of their members' cumulative sales.
Moreover, the influence of RBGs is inherently constrained by the nature of these power brands, which are "must-have" items for consumers. If a must-have brand is unavailable in a particular store, consumers are likely to shop elsewhere. This dynamic reduces the retailer's leverage and limits the bargaining power of RBGs.

This phenomenon is further reinforced in European retail markets, where high grocery retail concentration often coincides with consumer access to four or five conveniently located stores. The presence of must-have brands in all these stores reduces switching costs for shoppers. Retailers, therefore, are compelled to offer competitively priced propositions for these brands to retain customers, further diluting the bargaining advantage of RBGs.
Lastly, many RBGs primarily negotiate "on-top" discounts, leaving substantial flexibility for brand owners to craft individualized deals with retail members for their specific markets. Thus, while RBGs aim to enhance their members' collective bargaining power, the countervailing forces of must-have brands and the ease of shopper mobility significantly constrain their influence.

MYTH 3:

The predominant motivation for grocery retailers to form RBGs is to capture a larger share of their suppliers' (large brand owners) profits.

REALITY: The primary objective of RBGs is to enable their members to remain sustainably price-competitive in their downstream markets by securing improved purchasing terms for suppliers' "must-have" brands.
Several well-established economic theories explain the existence of RBGs and how they can create value for consumers. These include countervailing power (Galbraith), function specialization (Stigler), and efficiency in contestable markets (Baumol). While these theories do not portray RBGs as powerful structural tools for retailers to boost profitability, they highlight the role of RBGs in enhancing supply chain efficiency and driving sustainable price competitiveness, ultimately benefiting consumers.
The benefits of these buying alliances may be passed on to shoppers as evidenced by three recent large-scale empirical studies (Frontier Economics, 2019; Molina, 2021; and Corstjens, 2024) .The studies found that at RBG member retailers, consumers on average paid lower prices for brands within the RBG remit compared to the prices of similar brands in the same category that were not part of the RBG remit or that after retailers joined an RBG, the prices of brands within the RBG remit were on average lower compared to the prices of these same brands before the retailer became an RBG member.

Furthermore, in June 2023 the EU regulator formally acknowledged the potential consumer benefits associated with RBGs, stopping its antitrust investigation against two European Retail Alliances, AgeCore and Coopernic. The EC found no evidence of anticompetitive effects and emphasised the positive influence of those alliances on reducing prices, which is *"particularly important in the context of high inflation at the time.'* (European Commission, July 2023)

Moreover, brand owners, in exchange for discounts offered to member retailers, obtain services from the members of RBG. The specific services offered by RBGs to brand-owners vary. To illustrate the nature of the services we describe below 5 examples of such support activities : (1) coherent promotional activities for product launches and sequencing of promo programs across retail members of the RBG which often cover multiple countries, (2) sharing of shopper check-out data from member retailers providing unique information about consumer preferences about brands as well as interactions between brands, (3) support for category management and growth initiatives, (4) mediation in case of disagreements with a subset of member retailers of the RBG, and (5) in particular for less international brand-owners, international RBG can help these brand-owners to capitalize on internationalization opportunities.

Finally, if the primary objective of an RBG were to transfer net profit margins from brand owners to grocery retailers, one would expect to observe a positive trend in retailer profitability and a corresponding decline in brand-owner profitability over the past decade, coinciding with the growth of RBGs. While numerous exogenous factors have influenced the profitability of both retailers and brand owners during this period, the data provides no evidence of such a trend. On the contrary, retailer profitability has not shown significant improvement, nor has brand-owner profitability declined during this time.
The dynamics of the German retail market over the last 20 years illustrate that RBGs, along with successful international expansion, are potent survival mechanisms for grocery retailers. Table 7 illustrates that a series of German retailers who did not join RBGs were unable to

survive. While other factors undoubtedly contributed to the demise of some of these German retailers, it is worthwhile to observe that their lack of purchasing scale through **successful** organic internationalization or their failure to join RBGs contributed to their downfall.

Table 7: The demise of a number of retailers in Germany during the last 20 years

RETAILERS IN GERMANY	INTERNATIONAL EXPANSION	MEMBER OF RBG	SURVIVAL
EXTRA	NO	NO	NO (acquired by REWE)
KAISER-TENGELMAN	YES	NO	NO
MARKTKAUF	YES	NO	NO
NETTO	NO	NO	NO (acquired by EDEKA)
PLUS	YES	NO	NO
REAL	YES	HORIZON	NO
SCHLECKER	YES	NO	NO
SPAR	YES	ALDIS-AGENOR	NO
WAL-MART	YES	NO	NO

Source: various German retail sector publications, including Lebensmittel Zeitung

Table 7 also illustrates that being part of an RBG is not a guarantee of survival; it is important that the RBG is successful. RBGs Horizon and Aldis-Agenor (of which Real and Spar were members, respectively) did not survive 【https://plma.com/article/horizon-purchasing-alliance-dissolved】.

Successfully competing in the German grocery market, the largest in Europe, against Aldi and Lidl, with their substantial and successful international scale, necessitates, even for the largest grocery retailers in Germany, EDEKA and REWE, achieving sufficient buying scale. If this cannot be achieved organically or if such expansion is too costly or takes too much time, it has to be sought via international RBGs. The latter is exactly what EDEKA (Everest) and Rewe (Eurelec) are doing successfully.

MYTH 4 :

It is rare or overstated that RBG members pass on to their shoppers the incremental discounts generated by their collective negotiation.

REALITY: Economic theory suggests that the extent of pass-through between economic agents depends on two key factors: the degree of agent differentiation (EU Horizontal Guidelines, 2023) and the linearity of the contracts binding them. Location used to be a primary driver of grocery retailer differentiation. However, although retailer concentration has increased, today's importance of location as a differentiating factor has diminished. Shoppers across Europe now typically have access to multiple conveniently located grocery retailers, reducing location's competitive significance.

Today, it is widely accepted that grocery retailers exhibit limited differentiation from their competitors, resulting in a high degree of pass-through. Additionally, contracts between brand owners and RBGs are often linear, typically structured around percentage discounts. This further amplifies the pass-through effect by lowering retailers' marginal costs.

As mentioned above (myth 3), evidence from several recent studies, covering various European countries and RBGs, provide empirical support for the notion that RBGs reduce consumer prices for products within their remit.
There is no empirical evidence, however, supporting the hypothesis that member retailers of RBGs improve their profitability as a result of participating in an RBG.

MYTH 5 :

The pass-on by grocery members of RBGs will only generate incremental discounts to their shoppers if they occur systematically and in a predetermined manner.

The "pass-through" is expected to occur at the brand level and materialize as close to real-time as possible. If a retailer receives an incremental discount of *x%* for brand *y* through its RBG, the corresponding percentage discount must be promptly reflected in the consumer price of brand *y*. This is purportedly intended to demonstrate the retailer's commitment to competitive pricing behavior.

REALITY: In the complex landscape of grocery retail, this pricing approach is unrealistic. Effective competitive pricing in the grocery retail sector is shaped by several critical factors, including the pricing decisions of local competitors, consumer price elasticity, and the marginal costs of products, i.e., the retailer's net buying prices. Reducing retail pricing to merely applying a profit margin to the most up to date net buying prices oversimplifies this multifaceted process. Strict adherence to such simplistic pricing rule by an RBG member would reflect a fundamental misunderstanding of what it means to be price competitive.

If a member retailer of an RBG receives an incremental discount of x% on a product, being price competitive does not necessarily mean this discount on this brand should be passed on to shoppers as soon as possible. The decision depends critically on the pricing decisions of direct competitors. These competitors may have different objectives and circumstances, such as distinct roles for the product or category, differing inventory and logistics factors, or recent underperformance for that product or category. As a result, they may adjust prices by more or less than the x% discount. Failing to respond to competitor pricing decisions can harm the retailer's price image and deter shoppers. On the other hand, reducing prices by more than x% could trigger a price war. Additionally, retailers may have specific objectives, such as regaining market share in a category or using strategic pricing for certain brands during a set period to attract new shoppers. In such cases, the retailer may need to price below the current discount threshold to achieve these goals.

Member retailers of RBGs seek additional discounts that help them remain competitively priced while ensuring their economic viability. From their experience with competitor pricing behavior, grocery retailers know that, to maintain competitiveness across their entire brand assortment, a minimum incremental discount is necessary—especially for the key 'must-have' brands that are typically part of the RBG.

For grocery retailers, the ability to react swiftly to competitive price changes is a critical aspect of their pricing strategy. Given the complexity of their assortments (often comprising over 30,000 SKUs), low profit margins, and the wide range of local competitors, it is unrealistic to implement a fixed, comprehensive model for allocating the savings from lower procurement costs that result from participation in an RBG. The EU Commission's Horizontal Guidelines acknowledge in general the pass on to consumers absent market power. For RBGs assuming below 15% market share, there is no reason for the EU to take a closer look.

MYTH 6 :
RBGs put excessive pressure on disadvantaged farmers and small suppliers, resulting in exploitative prices being offered for their products.

REALITY: RBGs typically engage with a limited set of large brand owners. Unless the RBG also manages private labels for its members, it has minimal involvement with farmers. In cases where farmers do engage with an RBG, it is usually not small-scale farmers, but rather integrated farmers (e.g., through cooperatives), who are often large organizations with significant influence, similar to major brand owners.
Similarly, RBGs do not focus on small brand owners. They cannot, and do not, intervene across the entire assortment carried by all members. Instead, they concentrate on power brands—those that are considered essential by retailers and are typically carried by all RBG member stores to meet customer demand.

MYTH 7:
RBGs harm innovation by brand owners and product choice for consumers. By reducing their member retailers' buying prices RBGs lower brand owners' incentives to invest in innovation and consumer choice.

REALITY: Brand owners of fast-moving consumer goods have a poor track record in product innovation (see below) and there is no evidence that this is caused by RBGs taking away resources from brand owners, which could otherwise have been spent on product innovations.

There is overwhelming evidence that brand owners' profitability has been robust over time (with some exceptions during the COVID and raw material driven inflation of recent times) so they cannot use 'lack of resources' to justify low or mis investment in R&D and product innovation. Moreover, substantial share buy-backs by large brand owners are another indicator that they prefer to hand back considerable resources to their shareholders rather than reinvesting these resources within the company in real product innovation. This can be illustrated by the amount the two largest consumer packaged goods companies have recently spend on share buy-backs. Nestlé's 2023 share buyback program is expected to end in December 2024, and be worth up to $22 billion, while the share buyback scheme for Procter & Gamble in 2023 ran to $7.5 billion. Historically, brand owners have spent significant amounts of money on R&D. However, large proportions of these investments have gone to reducing the cost of production, extending shelf life of existing products, and developing minor brand extensions. Much less has been invested in truly new innovative products.

Below is an illustration of the lack of new product innovation of one of the most reputable brand owners, P&G. This systematic decline over time of P&G's R&D output has been happening while, according to published company records, they were spending annually in excess of $1billion on R&D (Corstjens and Carpenter, 2019). It is highly likely there are good explanations for the below par product innovation at large brand owners, other than the power of RBGs.

Figure 1: Innovation (or lack thereof) at P&G over the last 60 years

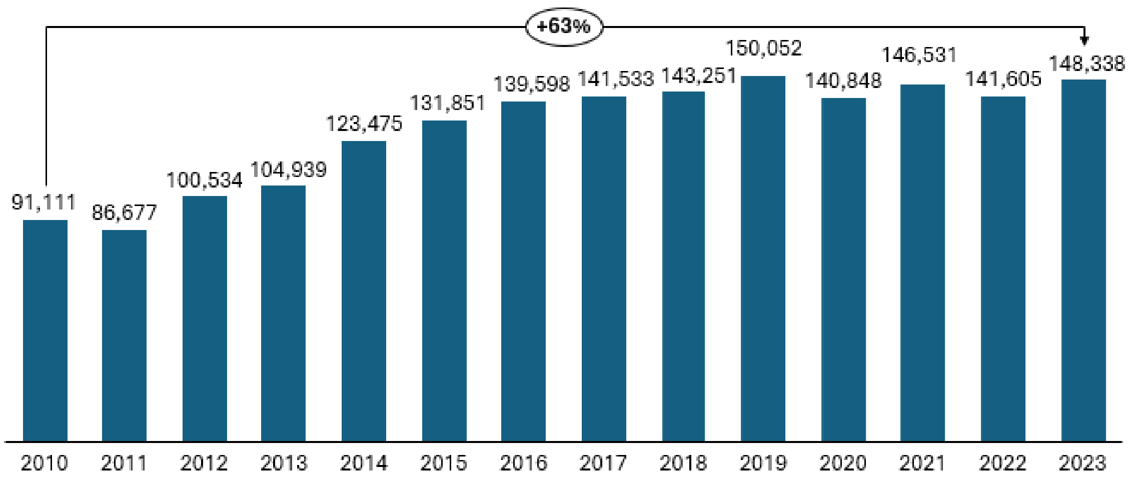
Source: (Corstjens, M. and G. Carpenter, 2019).

Member retailers of a RBG who wished to undermine brand-owners' innovative output by, for example, denying shelf space for brand-owners' innovative brands, would be penalized by shoppers who like innovations and could freely switch stores to access to superior brands.

The proposition that retailer negotiation power may reduce incentives to innovate has been examined in the literature (Inderst er al., 2007; EY et al.,2014). In fact, their hypothesis was the opposite, i.e. that greater negotiation power from retailers might incentivise brand owners to increase their innovation efforts to ensure that they remain essential to retailers and avoid delisting.

Recent figures provided by Mintel (2024) traced new product introductions by fast moving consumer goods manufacturers in Europe over the last 15 years. A shown below, these introductions on the market increased by more than 60% between 2010 and 2024. Although these new product introductions do not reflect the degree of true innovation by FMCG manufacturers (because they include versioning, range extensions and new packaging) such massive increase in new product introductions could not have been possible without the support from retailers and RBGs.

Figure 2: Number of New FMCG Products, excluding private label, introduced in Europe over the period 2010-2023.



Source: Mintel GNPD Food, beverages, beauty and personal care, household, healthcare, pets; and own calculations

All in all, there is limited theoretical or empirical evidence supporting any negative impact of RBGs on innovation, product quality or consumer choice.

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