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# Mass-market retailing: The end of a system?



A 90' & 52' documentary

Directed by Remi Delescluse

Produced by Arte France & STP Productions

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## INTRODUCTION

Over the past 70 years, the likes of Walmart, Carrefour, and Leclerc have imposed themselves on the retail sector with the promise of a better life, offering the possibility to buy products from major brands at affordable prices. But the endless downward pressure on prices is not without consequences. This documentary offers an immersion into the underbelly of the supermarket sector, which is currently going through one of the darkest periods in its history.

For the first time, we take you to the heart of the negotiating rooms to understand how the prices of consumer goods are set (or imposed), and we will reveal how a system on the limits of legality has ended up ruining some of the international barons of large-scale retail.

Because today, the multinational supermarket chains are confronted with new giants, Amazon and Alibaba, who deploy even more formidable methods. Negotiators are being replaced by algorithms. With them, there are no borders, no more opening hours, and almost no staff. This is the advent of the global digital supermarket that public authorities struggle to control. Through encounters with experts in the United States, China, Germany, and France, we will delve into a world that is being turned upside down.

## DIRECTORIAL APPROACH

The hypermarket is a world of smoke and mirrors; on one side a space open to the public, with bright colors, shelves always well stocked, and the producer smiling out from the packaging. On the other is an opaque, darker world, where silence is the rule.

We will begin the documentary with a series of announcements relayed by the international media, declaring the same crisis for everyone, with closures and job cuts in the United States, the United Kingdom, and France. This news footage will be punctuated by the comments of various world specialists in the sector, setting out the different themes explored by the film. Through previously-unpublished photo and sound archives, we will show the importance of Bernardo Trujillo in the creation of the current retail model.

We will also follow a supplier who has agreed to disclose the commercial practices of the mass retailers in the negotiation room.

Finally, we will explore the new organic sector across Europe; in France, but also in Spain, where a producer from the region of Almeria is opening its doors to us. We will explain how the sector is creating two-speed organic market, and what the risks are.

## **“THE POOR NEED LOW PRICES, THE RICH LOVE THEM!”**

The modern supermarket distribution owes its success to one entrepreneur: Bernardo Trujillo, whose lectures in the 1950s revolutionized the global food market. From the creation of large establishments on the outskirts of cities to a wide range of non-food products, it was Trujillo's discount business model that set in motion what has today become the retail outlet of 60-70% of the world's food.

Among the Americans, Germans, and French who attended his seminars were Marcel Fournier, future creator of the French supermarket giant Carrefour, and Gérard Mulliez, founder of the multinational Auchan. At the time, they didn't know it, but by applying his precepts, they all made their fortune.

### **THE DOMINANT POWER OF RETAIL BRANDS**

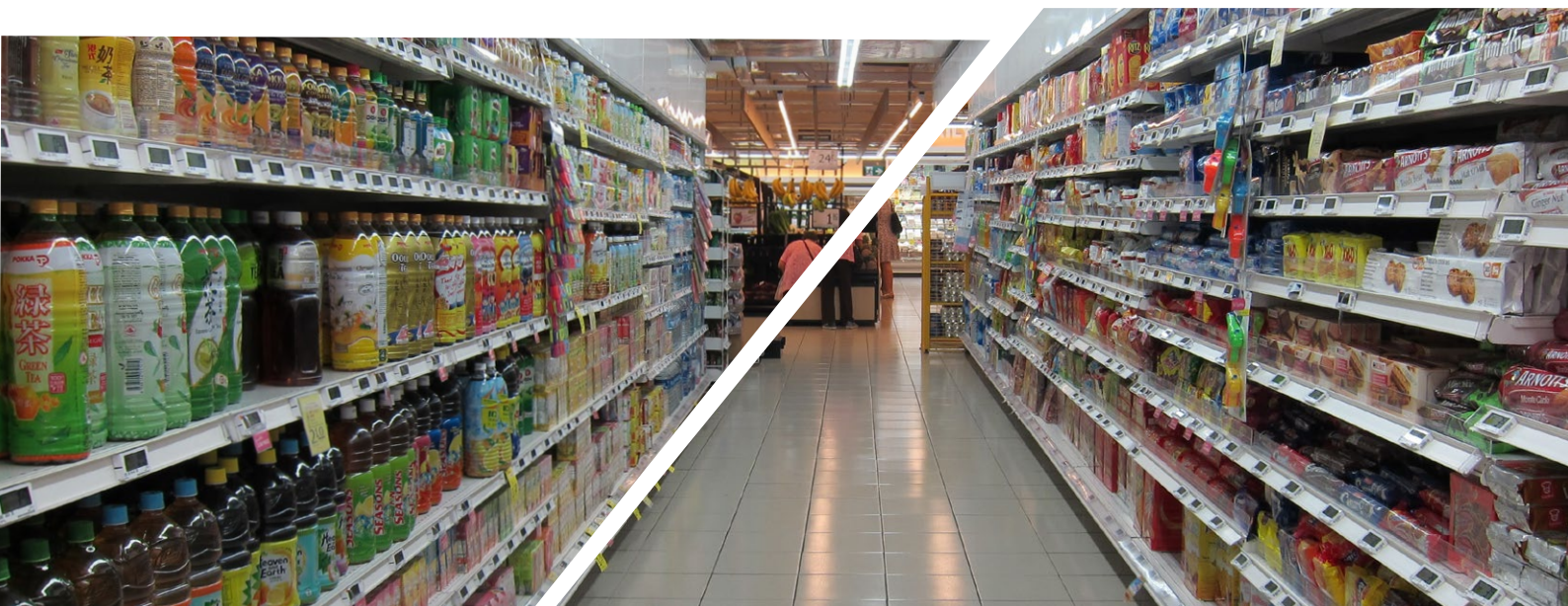
By applying Bernardo Trujillo's methods, the 10 largest retailers have now become powerful multinationals. Their combined turnover is over 1,000 billion euros, with the world's number one, Walmart, generating 500 billion euros alone.

But all specialists agree that the economic power of these big names has become dangerously concentrated. In the United States, for example, *“for every dollar an American spends on food, farmers receive less than 15 cents,”* according to Stacy Mitchell, a researcher at the Local Self-Reliance Institute.

In Europe, the market is dominated by a handful of Franco-German retailers who are engaged in a merciless price war.

### **RACE TO THE BOTTOM - THE SCANDAL OF THE CENTRAL PURCHASING SYSTEM**

Very few images exist to bear witness to what goes on inside central purchasing centers. And yet, they are the cornerstone of the low-price mechanism, the place where the retail price of the products we consume are set.





## ***A fierce battle in six square meters: The inside story of retail negotiation rooms***

*“In the United States, Walmart regularly conducts reverse auctions. Manufacturers do not come in with a sale price. The only question they ask themselves is how low the suppliers are willing to go,” says UCSB’s Nelson Lichtenstein.*

*A former buyer for a large central purchasing service agreed to speak anonymously: “In the supermarket sector, you are not selling a product to your customers because it is usually present in competitors’ stores; you are there to sell a price so they will come to you.”*

Alexis is the head of an SME based in the North of France, which produces ready meals sold in supermarkets. For the past decade, he has been squeezed by the demands of the major retailers, bending over backwards to try to keep his business afloat. He says: *“When we have an appointment at 10am, you can be sure you won’t go in before 11am. There are always a dozen other suppliers waiting at the same time.”* The atmosphere is icy: For all of them, the turnover for the following year is at stake.

### ***Abusive conditions: The hidden workings of the retail sector***

The major groups are not just after discounts. Because the price war is costing them dear, to increase their profitability, retailers have set up a parallel revenue system. For each group, Alexis must undertake to participate in a certain number of promotional operations. On average, the discounts amount to 30% – a discount he must finance himself.

And that’s not all. Today’s supermarket owners are desperate to cut costs in their establishments, and the leading item of expenditure is the payroll. So some ask their suppliers to carry out the work of their employees. When Alexis delivers to a store, he doesn’t just drop his merchandise in the storeroom. Now he has to stack his products on the shelves every week.

### **At Carrefour, a code of conduct has even been published for negotiators:**

- Never be enthusiastic with a salesperson
- React negatively to the initial offer
- As part of a committee, divide roles between good and bad guys
- Repeat the same objections over and over again, like a scratched record
- Obtain as much information as possible about the personality and needs of the salesperson (what is called “being a good listener”)



## **THE LOW-PRICE FACTORY - “CREATE A LOSS-MAKING ISLAND TO MAKE AN OCEAN OF PROFIT.”**

In order to attract consumers to their stores, retailers accept losing money or making zero profit on the products of big brands such as Coca-Cola and Nutella. In order to generate cash, they have to make up for it on fresh produce, especially agricultural products, according to Antoine Bernard de Raymond, a specialist in the agricultural world.

Farmers are therefore not safe from the methods of the mass retail sector, which has totally shaped their industry according to its own needs. Since the 1960s, there has been an ever-increasing concentration of very large farms, to the detriment of small farmers who are unable to supply large quantities. They are also subject to downward pressure on prices, and the particularity with farmers, Bernard explains, is that they don't set the price of their produce; rather, it is the retailer who announces the price at which they are ready to buy. The supermarket groups exploit an industry that produces perishable goods in direct competition with Spanish or Italian producers.

Béatrice, a grower based in the south of France, observes: *“At the moment, the Spanish sell a kilo of strawberries for 99 cents. As a result, the price of French strawberries is plummeting. We were hoping to break even by selling them at 5 euros per kilo, but they don't go for more than 4 euros. What drives me crazy is that our strawberries in 250-gram tubs can be found in supermarkets at 4 euros each – a four-fold mark-up!”*

The sector has thus been undergoing an acute crisis for many years. The pressure put on farmers is an integral part of the economic structure specific to supermarkets. As a result, one third of them do not generate more than 350 euros in monthly income. And last year in France, one producer committed suicide every two days.





## MASSIVE CENTRAL PURCHASING - THE CLASH OF THE MULTINATIONALS

Until the 1990s, the multinational food companies were relatively free from the domination of the supermarket chains. But to exert pressure on the most powerful suppliers such as Coca-Cola, Nestlé, and Procter & Gamble, some retailers decided to create commercial alliances with other European supermarket giants to set up purchasing groups with unrivaled financial muscle.

As such, in 2016, Leclerc announced a partnership with the Germany's second-biggest retailer, Rewe. Between them, the two wielded unprecedented fire-power with combined revenue of some 100 billion euros. Richard Girardot, former CEO of Nestlé France, tells us about the strategy of alliances between the big store chains to make the multinationals buckle. He will reveal the financial structures put in place by the groups to create new revenue streams.

On average, supermarkets have a net margin of 1.2%. This compares with 3-4% in the early 1990s, according to USCB's Lichtenstein. As a result, the slightest drop in consumption has an immediate impact on a group's profitability. The erosion started with the drop in non-food sales, which fell 30% between 2010 and 2018. This decline corresponds to, among other things, the emergence of Amazon and online commerce in general.

## GAFAM - TOWARDS A NEW WORLD ORDER IN RETAILING

In 2017, Amazon's made a shock announcement: The 13-billion-euro purchase of the American organic supermarket chain Whole Foods. On that day, the historic players in the food industry understood that the sector had definitively tipped into a new world. That same day, Walmart's share price fell by 5.4%, while that of Kruger plunged by 8.2%.

With the acquisition of the leading organic food company in the United States, Amazon was taking a firm foothold in the fresh produce market. Only one week after the takeover, 90% of the brand's 2,000 product lines on sale on the platform were out of stock.

In the United States, 20% of dry food products are already bought online. In Europe, alcoholic drinks generate the most sales on the platform. For example, Germans spent 230% more on this product category in 2017 than in 2016. More and more major food brands are now available for sale on Amazon, as supermarkets lose their monopoly on food distribution. Always seeking growth, the brands are being seduced by the customer traffic generated by the platform. It must be said that Amazon has an unrivalled position of strength: The world's largest store, open 24 hours a day, with 310 million active customer accounts.



## WHEN AMAZON SQUEEZES ITS SUPPLIERS

*"Amazon makes a margin of between 8-15%, depending on product category. There are some additional costs on top of this, but overall it would be more profitable in the short term for a brand to sell on Amazon than at, say, Walmart," explains Stacy Mitchell, a researcher at the Local Self-Reliance Institute.*

*"Initially, Amazon's strategy is to attract the major food brands to feed its platform, but above all to study the products that sell the most. Because the pure player does not just want to be a simple distributor; to increase its profitability, Amazon has launched the production of its own private labels. As soon as a product becomes a best-seller, it is copied."*

Indeed, the general public may not know it, but Amazon has created 135 private label brands, with names such as Solimo, Happy Belly, Preso, and Tovess. Amazon uses these own-brands to compete head-on with suppliers and in a very aggressive way. Its coffee capsules are sold five times cheaper than the Nespresso equivalent, and its washing powder is on sale at half the price of the leading brands. Last year, its private labels earned \$2 billion, and in 2022, the platform expects to reach \$31 billion in sales on its own brands.

According to Mitchell, there is a second advantage to this branding strategy: Putting pressure on the big brands to lower their prices. *"The group has admitted that it has modified its algorithm to include a new criterion, profitability. From now on, the lower the margin for Amazon, the less visible the product will be on its platform. More than any other retailer, Amazon has the power to make a supplier commercially invisible."*

## TECHNOLOGY AT THE SERVICE OF MANKIND

Since 2017, 15 Amazon Go stores have opened in the United States. Like its digital platform, its mini-markets never close and don't need any cashiers. Only a handful of employees are needed to run the store. Thanks to multiple sensors and cameras, products are automatically scanned as they move through the store. An app means payment is contactless at the moment the consumer leaves the store.

In China, Amazon's competitor Alibaba is also getting into this profitable business. It aims to open around 100 supermarkets under the Hema banner, an ultra-connected concept, without doubt the most highly developed on the current retail market. Alibaba offers customers the opportunity to choose their shopping in store – payment is made by phone – with guaranteed delivery within 30 minutes. This leaves time, for example, to have lunch at the in-store restaurant, where customers can place orders on tablets and are served by robots. At Alibaba, the number of employees is also reduced to the absolute essential, mainly cooks.



## CONQUERING THE AGRICULTURAL WORLD

For the past two years, Amazon has been investing in an experimental urban farm capable of producing vegetables with profitability 350 times higher than an ordinary farm. Called Plenty, and based in the United States, the concept is to grow lettuce on six-meter-high columns, requiring no pesticides and very little water. The objective is to supply its mini-markets in record time and in all seasons.

But in this conquest of agriculture, Alibaba has taken the lead. Its subsidiary Agriculture Brain provides Chinese farmers with image and voice recognition technology, accompanied by smart sensors that collect data to optimize performance. According to the initial results published by Alibaba, this technology has made it possible to increase annual production of a sow by an additional three piglets, and to reduce natural mortality by 3%. Tequ Group, Alibaba's partner, aims to raise 10 million pigs in two years, a target that would be impossible without Alibaba's automation system.

## CLOSURES, LAYOFFS: HOW THE MIGHTY FALL

Retail chains are the world's largest private employers. Walmart employs 2.2 million people. In both France and Germany, the supermarket sector accounts for some 750,000 jobs. While Germany seems for the moment to be spared from the turbulence that the sector is undergoing, France is being hit hard.

Similarly, in the United States, the decline in non-food retailing is already well underway. Since last year, the Sears retail giant, the country's oldest retailer created in 1886, has been on the verge of bankruptcy. It has shuttered some 200 stores in the past two years, with the loss of 150,000 jobs. The same is true in Europe, where announcements of closures are growing, and thousands of employees are being laid off, as they struggle to compete with the likes of Amazon, Cdiscount, and Alibaba, which are open 24 hours a day, offer 10 times as many products, and have lower prices thanks to their low structural costs.

## THE FINAL BATTLE OF THE HISTORIC RETAIL CHAINS

To increase sales volume, some groups such as France's Géant Casino are testing the opening of hypermarkets on Sunday afternoons. The group's management are hoping to better meet customer needs and provide enhanced services by aligning themselves with e-commerce, which is open 24 hours a day. However, union anger is growing. In France, the law prohibits food shops (outside tourist areas) from being open on Sunday afternoons. To circumvent it, the group staged a trial operation in 2019, opening a store without any employees with self-service check-out and just three security guards present to prevent theft.





### ***Amazon-Monoprix: Commercial alliance or pact with the devil?***

Although Amazon has huge cash reserves, it cannot endlessly buy up store chains or create its own brands. In order to establish itself worldwide, the firm is developing its offer of services to supermarket chains in the United States and Europe, such as Morrisons in the UK, and others in Germany and France. The objective is to gain access to the delivery market of the bricks-and-mortar groups in order to access their customers.

In France, rather than take on Amazon, Monoprix (a subsidiary of the Casino group) chose to collaborate with the company in the hope of gaining a lead over its competitors in terms of delivery times – a crucial issue in urban areas. Since 2018, all the store's products have been available on Amazon Prime, with the promise of delivery in Paris and its close suburbs within two hours of ordering, compared with at least one day for other stores.

Philippe Moati, director of the consumer consultancy OBSCO, observes: *"The French brand is taking the risk of making a pact with the devil by handing over the profile and consumer habits of its customers on a plate."* For him, Amazon's long-term strategy is to do without this alliance. *"At the beginning of the 2000s, Toys'R'Us opted to entrust the platform with its e-commerce activity. Eighteen years later, the specialist toy store is bankrupt, and Amazon dominates the market, offering the largest number of references."*

### ***The organic market, the new Eldorado for retailers***

Today, Germany is the largest organic market in Europe, followed by France, whose retailers are announcing one after the other that they want to double the volume of organic products in their establishments within the next two years. Organic is good for brand image, but above all it is very profitable. On average, stores double their margin, with a 70% gross margin on conventional products compared to 149% for organic products. *"The groups have succeeded in convincing consumers that organic is much more expensive. Since their health that is at stake, part of the clientele is ready to pay more,"* explains agriculture specialist Antoine Bernard de Raymond.

By appropriating the organic market, as it did 50 years ago with regular food, the supermarket sector is creating a two-speed market: Alongside small-scale farming that respects the seasons, it is developing a highly profitable model of mass organic agriculture with intensive production methods.

In France, a factory farm that can accommodate more than 6,000 organic pigs per year is nearing completion. The animals will never see daylight, and each will have two square meters of living space compared to 0.75m in conventional practices. The project is backed by a subsidiary of the Intermarché group and 100% of its production will be sold in its stores. This project is provoking strong reactions from local organic stakeholders. *"They are creating an industrial organic sector that has nothing to do with the initial ethical approach of respect for the animal in a human-scale farm,"* said one.

Over recent months, an unprecedented number of "conventional" farmers have announced they are converting to organic farming. We now have organic chicken farms with 24,000 birds. Under the pressure of a powerful union, the production of organic tomatoes is authorized year-round in kerosene-heated greenhouses. In Spain, a large part of the organic vegetable production comes from the province of Almeria, which is in fact an ocean of plastic.

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