NEW REPORT

VERTICAL INTEGRATION IN GROCERY RETAIL

The return of vertical integration in the grocery sector

ResearchFARM

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Introduction

In the age of digitalisation Vertical Integration (VI) has made a triumphant return. As it remains unclear where value will be created in future, a VI strategy can be seen as risk mitigation. Owning the entire value chain means being in control of the value generating business.

The leading grocers have become so big and are in need of such huge volumes that the drive to vertical integration comes from the desire to secure supply (and fully stocked shelves). The discounters for example are growing so fast and their future demand forecasts are so big, that only a vertical integration strategy can guarantee business continuity.

But, a vertical integration strategy has other benefits too. If executed in the right way, VI will give retailers the agility & speed to react to emerging trends. This is especially the case with NPDs and differentiation through PL.

A VI strategy also confers to the retailer the ability to ramp up/down SKU count, according to its needs (economic parameters). In other words when times are getting harder the SKU count in store can be reduced, as shoppers won't have as much disposable income. This would happen without having to take contractual obligations with third parties such as the FMCG industry into account. This can then easily be reversed once the economy improves again.

And to further underline the point, this concerns SKU counts, not just volumes of the single SKU. All in all, this means the grocer can manage the total value chain according to its OSA needs, rather than some quickly outdated plans of its buying department.

Moreover a VI strategy will enable better quality control, the potential to differentiate especially on the private label ranges, but it also means having a unique handle on replenishment costs, processes and standards. There are huge gains in efficiency to be had.
Naturally, VI cuts out the various middle men, such as the wholesalers and brokers. This is not only relevant for costs and margins but also for delays/time spent on admin/negotiating. Vertical integration can yield total control over pricing and margins, marketing spend etc

VI is not only good for input price control but it's also good for cost control in logistics (and not just the hard cash but also the carbon footprint). Owning the entire value and supply chain gives the grocer much better predictability. This means investment can be made over a longer term horizon and then guarantees business stability, in effect it makes higher investment levels possible, as the owner can take a long term view.

There will be much future evolution in VI strategies. Some key topics include digitalisation, block chain promises making the supply chain more transparent, an end to end supply chain culminating with the integration of online sales, selling to 3P, the impact of automation, and more potential for retail private label brands.

If current VI trends continue, it will get much harder to get listed especially if products don't have a serious claim to being innovative.

What is the way out for small scale producers? They could ignore mass retail and try to get their products into hipster coffees hops, gastro pubs etc. They could also look to partner up, through M&A or looser agreements to gain scale. A final option is of course to go direct and there the best option will be provided by the online marketplaces.

Key questions answered

Why has vertical integration returned with a vengeance in grocery retailing? Why now?

What are the advantages and disadvantages of a vertical integration strategy for grocers?

What is most important? Securing supply, OSA, NPDs, SKU counts, price and cost control? Is it all about private label?

What are the main trends? Is any one VI model significantly outperforming the others?

What are the leading discounters, Aldi and Lidl, getting right and wrong about VI? Where are they actually vertically integrated?

What are source logistics and triple supply? How does this fit into the overall VI strategy?

How does a VI strategy link up with online?

Why is Mercadona the clear stand out operator, when it comes to VI? What is so unique about the Spanish market leader's model?

Which kind of FMCG manufacturers are best suited to an interprovidores role? Could the model be replicated elsewhere?

Where is Holland & Barrett leading the way in terms of VI?

What can FMCGs do about this trend towards greater integration of the leading retailers? How can they get products on to shelves and then off them?

Are online marketplace really a solution? And for who?

Does concentration and M&A on the retailer side mean concentration and M&A on FMCG?

Features & Benefits

Features

ResearchFarm are the EU's premier experts on the discounters:

- Buy into decades of research and analysis

- Find out all there is to know about their operational similarities and differences and their growth potential

- Understand the new competitive threat and how other retailers will be caught in a strategic trap

- Detailed recommendation for FMCG and retail players

- Actionable insights and recommendations for FMCG, retailers and suppliers, understand where you should play

Benefits

- Best in class case examples, innovations and process optimisations

- Insights into leading players not covered in depth elsewhere

- Recommendations on pitfalls to avoid and strategies to copy

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Thought provoking analysis combined with actionable recommendations