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# From abundance to sustainability: what paradigm for food retailers?


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**The major food retailers are at the heart of the food system. Thanks to this central position, their power of influence extends from agricultural practices upstream to household food practices downstream. In a food transition perspective, it is therefore essential to mobilise the retail sector: France should launch this initiative as part of the National Strategy for Food, Climate and Nutrition (SNANC), scheduled for the autumn.**

## A trajectory that needs to be corrected

As the main indicators show, France is not on the right track when it comes to healthy, sustainable food or access to quality food. In July, the French Ministry of Agriculture reported that meat consumption in France was set to continue rising in 2022, while the market for organic produce was plummeting. An opinion issued by the French High Council for Public Health in April 2023 reiterated the "obesogenic" nature of the nutritional environment, and called for "profound and lasting changes to food systems". And in September, the Restos du Cœur launched an appeal for donations, saying it could not cope with the influx of new beneficiaries. This situation highlights the shortcomings and inefficiencies of the French food system, and raises a number of questions.

## A key player

At the crossroads of health, sustainability and accessibility, food retailers have become virtually unavoidable for consumers: 78% of home food shopping in 2023[1] . In a recent publication (Brocard, 2023), we highlighted the centrality of supermarkets in the contemporary food system. This centrality is primarily due to their pivotal role in the food value chain, between consumption downstream and agriculture and industry upstream. But retailers are not only intermediaries or "marketers". On the contrary, its sphere of activity is extending both upstream (direct contracting with farmers, growth of its own brands, definition of its own quality standards, etc.) and downstream (construction in the media of the figure of the 'consumer' and his interests, direct questioning of citizens, information and support for the adoption of new eating habits, etc.), giving it economic, political and cultural power over food.

In fact, food retailers do have the resources to match their ambitions: as the most concentrated link in the food chain (with five groups capturing 80% of the food sales market in 2023)[2] , retailers have a great deal of economic power, enabling them to impose their conditions on suppliers while at the same time wielding considerable influence over consumer practices. As the main recipients of household spending, it is retailers who are mobilised by the government when it comes to responding to inflation (via "anti-inflation baskets"). They are also the ones communicating about barrier measures during the COVID-19 pandemic[3] . Finally, they are the ones who are the focus of increasing attention from public authorities, investors and civil society organisations as regards the sustainability of their business model and their environmental impact.

**Harmful environmental and social impacts**

Retailers are now in a strong position, following an uninterrupted expansion since the invention of the supermarket and then the hypermarket after the Second World War. This success was based on the promise of an abundant and inexpensive offer, freeing up time and relieving the burden on household budgets. But this model, combined with the power of these players, has in turn helped to shape a food system with major social and environmental externalities. According to a McKinsey study[4] , European retailers and their value chain within the food sector contribute 20% of the European Union's total greenhouse gas emissions. A distinction needs to be made here between emissions that are directly attributable to them (scopes 1 and 2), for example those linked to the cooling of shelves or the energy consumed, and indirect emissions that concern upstream or downstream activities (scope 3). The former, which are taken more into account by retailers and are the subject of commitments and action plans aimed at reducing them, represent only 5% of total emissions; the remaining 95%, which depend mainly on upstream agricultural and industrial activities (e.g. production methods, balance between crop and animal production), then on consumer practices (e.g. waste), are not yet sufficiently taken into account by retailers. However, the challenge of the food transition is to reduce the impact of our diets by making them compatible with sustainable agricultural trajectories: fewer animal products, more plant products (fruit, vegetables, pulses, oilseeds) and increased consumption of products from sustainable production methods5 .

However, despite their position in the system, retailers are not being mobilised to the extent of their capacity to contribute to the necessary changes in diets. The work carried out by civil society, the most salient conclusions of which we have highlighted, demonstrates this deficit in terms of: the composition of their branded ready meals; the balance between plant and animal proteins; product promotion policies (shelf placement, promotions, etc.) or margins (higher or lower), which make a product more or less attractive. This observation applies not only to France, but also to a number of other European countries that have been analysed. In addition, retailers sometimes adopt an attitude described by scientists as "eco-defensive"6 when it comes to slowing down the introduction of environmental regulations. Yet supermarkets should adopt a constructive and ambitious stance on the transition to agriculture and food, which could also benefit them, given the growing number of challenges facing a sector that is not free from vulnerabilities.

## A model to be rebuilt

While the food reailers sector still dominates food purchases, we have identified three major dependencies for its business model:

- retailers have less room for manoeuvre for **national brands**, which bring traffic into shops as well as income (the vast majority in the form of back margins, while the "front" margins which are added to the supplier purchase price to form the price visible to the consumer are close to zero in order to remain competitive with competitors on emblematic products)7 , than for their own brands (private labels, distributor brands), and even less for certain flagship products or brands (e.g. Carte Noire coffee, Nutella, etc.). Shop management therefore depends on a fine balance between national suppliers and private labels;
- **animal products sales** are linked to the majority of the sector's environmental impacts. Certain products (e.g. charcuterie, poultry) are among the few profitable departments in a shop, and thus compensate for losses in other departments.8 However, at the same time, they concentrate the majority of risks for retailers (e.g. volatility of animal feed prices, health problems, reputational issues linked to the ecological impact of meat sales, etc.);
- food retailers’ business model requires **additional revenue** to complement food sales in order to be profitable: property income (rental of space in shopping centres, increase in the value of shops in urban areas), financial income,9 etc. This dependence on volatile sectors is not likely to strengthen its resilience in the face of shocks.

These vulnerabilities are reinforced both by more frequent crises and by public policies. For example: hypermarkets, which have already been weakened by changes in purchasing practices (they have lost 14 market share points in 20 years)10 , could continue to see their value depreciate in a world where the private car has a less central role11 ; and the profitability of animal products could be reduced by squeezed margins and/or higher prices (and therefore lower purchases) as a result of higher production costs due to environmental conditions, competition with other uses or changes in public policies.12 While the sector seems to be taking seriously the risks posed by the dependence of its model on hypermarkets (through the development of new sales formats) and on the traffic generated by national brands (by seeking to strengthen their own brands), this is not yet the case when it comes to the place of animal products in the product mix or in its profitability model. Transparency on this subject is a prerequisite for conducting more in-depth analyses that would lead the sector to build an appropriate strategy.

The regulatory context (particularly at European level), the economic context (due to private initiatives moving in the right direction in Germany and the UK, for example, and growing pressure from investors) and the media context (due to the growing activism of civil society)13 are favourable to firmer and more transparent commitments on the part of retailers to reduce their indirect impacts upstream and downstream. In this context, public intervention is essential to support the sector in these transformations, going beyond a purely competitive rationale that is insufficient to make ambitious measures possible. The French food strategy (SNANC) is an opportunity to start planning for the future of the food retail sector.

1 Le Basic, AScA, ADEME (2017). Analyse des effets économiques et sociaux d'une alimentation plus durable. Volet 2 : Analyse de la valeur socio-économique de l'alimentation, et sa répartition.

2 https://www.lsa-conso.fr/e-leclerc-etc-parts-de-marche-p9,446586?utm_source=newsletter&utm_medium=email&utm_campaign=lsa_quotidienne&email=2058930470&idbdd=56449 . These groups are also allied within central purchasing units, with the top five in France covering 90% of the market by 2023, see https://www.lsa-conso.fr/les-raisons-de-la-valse-des-alliances-a-l-achat-dans-la-distribution-alimentaire,416056 .

3 Fourquet, J. & Llorca, R. (2022). La Société du supermarché. Rôle et place de la grande distribution dans la France contemporaine. Fondation Jean Jaurès.

4 McKinsey & Company, Eurocommerce (2022). Sustainability, Digitalization, Sills: Transforming the EU retail and wholesale sector. 64p.

5 Poux, X., & Aubert, P.-M. (2018). Une Europe agroécologique en 2050 ?: une agriculture multifonctionnelle pour une alimentation saine. Iddri, Étude ; Willett, W. et al. (2019). Food in the Anthropocene: the EAT–Lancet Commission on healthy diets from sustainable food systems. The Lancet, 393(10170), 447–492 ; Couturier, C., Charru, M., Doublet, S., & Pointereau, P. (2016). Le scénario Afterres 2050 ; ADEME (2023). Transitions 2050. Choisir maintenant. Agir pour le climat.

6 Croizean, J.-P., Robert-Demontrond, P., Bouillé, J., & Allano-Frey, M. (2018). Discours et pratiques en matière de stratégie carbone : le cas de la grande distribution intégrée en France. Management International, 20(4), 26–44.

7 The study by Basic et al. (2017) highlights the extent to which certain products are subject to low margins, particularly branded products, which are considered to be flagship products. The term "front margin" is used here in the sense of "gross margin", i.e. the distributor's margin in relation to the supplier's purchase price, without taking its costs into account. Back margins are a series of rebates and discounts negotiated by a retailer with a supplier, the value of which represents between 30 and 40% of the prices charged. https://www.definitions-marketing.com/definition/marge-arriere/

8 An OFPM study (2023: https://observatoire-prixmarges.franceagrimer.fr/sites/default/files/pictures/rapport_ofpm_2023_avec_couv_0.pdf ) shows that, among the departments studied, the most profitable are charcuterie (9.7% net margin before tax) and poultry (8.8%), while others are loss-making. The food retailers' model is therefore based on a careful balance between departments, and between products within departments, in order to achieve low profitability.

9 Op. cit. Le Basic et al. (2017).

10 https://www.lsa-conso.fr/pgc-117-3-milliards-d-euros-de-chiffre-d-affaires-en-2021-selon-nielseniq,403006

11 This possibility was identified by France Stratégie in one of the sections of the Pisani-Ferry-Mahfouz report coordinated by Pierre Girard (2023: https://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/fs-2023-les_incidences_economiques_de_laction_pour_le_climat-thematique-capital.pdf ).

12 In the United States, an analysis of the increase in the price of animal feed in 2008 already revealed the issues of competition between biomass uses and weather-related production losses, without consumer prices rising (Becker, 2008: https://nationalaglawcenter.org/wp-content/uploads/assets/crs/RS22908.pdf ). The war in Ukraine has resulted in additional production costs for beef in Europe due to higher fertiliser, fuel and feed prices (Webagri).

13 Recent reports on the subject, analysing the sustainability of food retailers' practices, have been published in the UK (Superlist, 2022; WWF, 2022 - https://www.wwf.org.uk/sites/default/files/2022-11/WWF-Whats-in-Store-for-our-Planet-the-Impact-of-UK%20Shopping-Baskets-on-Climate-and-Nature-2022-v1.pdf ; Feedback), France (Réseau Action Climat, 2023 - https://reseauactionclimat.org/alimentation-et-climat-la-mauvaise-note-des-supermarches/ ), Belgium (Super-Liste, 2022 - https://www.superlijst.be/fr ), the Netherlands (Superlist, 2023) and at European level (BEUC, 2023 - https://www.beuc.eu/reports/illusion-choice-why-someone-already-decided-what-you-will-eat-lunch ).

**MODES DE VIE** **FOOD SYSTEM**