

Tesco-Carrefour alliance promises to cut costs through joint buying power

The announcement by Tesco and Carrefour that they will enter into a long-term, strategic alliance is the latest in a series of consolidation between the major grocery retailers in Western Europe. The Alliance will cover the strategic relationship with global suppliers, the joint purchasing of own brand products and goods not for resale. It will be governed by a three-year operational framework.



According to the companies, the Alliance will enable them both to improve the quality and choice of products available to their customers, at lower prices thereby enhancing their competitiveness. This agreement will also allow them both to "strengthen their relationships with their suppliers and create significant opportunities for those suppliers". Each company will continue to work with supplier partners at a local and national level. It is anticipated that the Alliance will be formally agreed within the next two months.

Tesco is the UK's largest retailer while Carrefour is Europe's largest.

According to Euromonitor International, the combined value sales of Tesco and Carrefour gives them a 8% share of the Western European grocery market which dwarfs that of Lidl's owner Schwarz Beteiligungs (6%) and Aldi Group (5%), providing the scale where they will be able to be aggressive in their pricing strategy for non-fresh food products.



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Philip Benton, research consultant at Euromonitor International, comments: "Tesco and Carrefour are equally worried with the purchasing power that German discounters Aldi and Lidl enjoy as the price race to the bottom continues and will likely accelerate when Amazon makes its play on food in Europe."

Benton continues that Tesco is likely concerned about the impact that Sainsbury's acquisition of Asda could have on their own supply chain domestically, so would have felt compelled to act quickly and decisively.



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"Tesco may also see this as a safeguarding of risk against possible supplier price rises in the event of a hard Brexit and Carrefour are facing an increasingly competitive sector in their home market of France with rivals Auchan Retail, Casino, Metro and Schiever announcing their own purchasing partnership."

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