trade intelligence

A Shift in the Balance of Power

INSIGHTS FROM 20 YEARS IN SA FMCG RETAIL

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Introduction

INSIGHTS FROM 20 YEARS OF INDUSTRY ANALYSIS

Trade Intelligence has been providing insights on the South African FMCG retail sector for 20 years. To celebrate this milestone, we will be publishing a series of articles and white papers on some of the major changes and trends we have seen in this time.

The South African FMCG industry is currently negotiating a delicate balance, with all stakeholders feeling the compounding pressure of rising costs and constrained consumer spending. How did we get here and who holds the power now? And what does that mean for the industry going forward?

In this first article, we look at the shifts in power between brands, retailers and shoppers over the two decades spanning 2004 and 2024, a tumultuous period in South Africa's economic history.

> Globally the balance of power shifted over time, with the rise of mega-retailers

RETAILER, SUPPLIER, SHOPPER:

A Shift in the Balance of Power

It is difficult to imagine now, but there was a time – before Trade Intelligence was established in 2004 – when brands dictated the agenda in retail. Companies like Unilever and P&G, having invested through research and development and marketing in building sought-after consumer brands, would limit the quantity of high-demand products delivered to a single retail chain, insist that the retailer carry all SKUs of a particular brand, and demand that the retailer participate in their promotions. [1]

What goes around, comes around. Globally the balance of power shifted over time, with the rise of mega-retailers like Walmart, Carrefour, and Tesco controlling access to increasing numbers of shoppers. A wave of mergers and acquisitions further put the squeeze on market access for suppliers, and when some of the retailers in Europe formed cross-border buying alliances, it was game over for brand power, at least in the supplier/retailer equation.

FOOTNOTE:
[1] https://hbr.org/1996/11/the-power-of-trust-in-manufacturer-retailer-relationships

Retailer Power

Retailers wielded their power over suppliers and brands in trading terms negotiations that became notorious for their brutality. Suppliers had to agree to payment terms of sixty days and more from retailers – notably Pick n Pay – which for this reason was famously accused of being not a retailer but a bank. Retailers penalised suppliers for out-of-stocks, with new listing fees.

"In trading terms negotiations, a lot of supplier spend was locked in, with fees for gondola ends and for listing on broadsheets," explains Andrea du Plessis, Insights Lead at Trade Intelligence. *"Retailers started picking up margin from suppliers rather than sales alone, and this became a powerful drug for them."*

In South Africa, retailer power was enhanced by the high degree of consolidation in the retail sector, with the 'Big Six' retailers – Shoprite/Checkers, Pick n Pay, Woolworths, Massmart, SPAR, and Clicks squeezing out competition from the independents, tying malls into unpopular and anti-competitive exclusive lease agreements, and flexing their muscle with suppliers and service providers.

Kerry Elliot, Sales Lead at Trade Intelligence believes that the consumer boom of the early 2000s also empowered retailers. *"To a degree, power dynamics are also dictated by the economic cycle. In the early years of the millennium, economic growth in South Africa was driven by a consumer boom as previously disadvantaged groups entered the middle class, and as malls – and the biggest retailers – first began to set up shop in or near the major townships."* Amid this abundance, South Africa's retailers and suppliers alike experienced good growth, and while trade negotiations remained robust, there were glimmerings of compromise.

For a brief period, the Efficient Consumer Response (ECR) initiative – a global movement calling on retailers and manufacturers to collaborate on non-competitive issues – enjoyed some popularity. Joint Business Planning (JBP)[2], a collaborative process in which a retailer and supplier agree on short-term and long-term objectives, financial goals, growth, and shared business initiatives for profitability, began to challenge the dominance of traditional haggling for trading terms, at least in the imaginings of the more progressive suppliers.

"We throw around words like 'partnership collaboration' and 'JBP' like they mean something today," said Joe Mueller, Kellogg Company's VP, Industry and Customer Development, at the League of Leaders meeting in New York City last year. *"[Retailers] don't know what it means. We get together and we negotiate, but how do we break the paradigm of what truly is collaboration, and how do we partner with our retailer partners and our supplier partners to actually move the needle on the things that matter?"*[3]

FOOTNOTE:
[2] https://www.8thandwalton.com/blog/joint-business-plan/#:~:text=A%20joint%20business%20plan%20(JBP)%20is%20the%20collaborative%20process%20of,shared%20business%20initiatives%20for%20profitability.
[3] https://consumergoods.com/someones-missing-retailer-cpg-negotiations

Shifts in power are part of a broader historical trend. The Industrial Revolution, where once scarce products became abundant, gave power to those who were able to produce at volume, taking it away from artisanal producers and giving it to the new manufacturing businesses. The ‘retail revolution’ – which saw an abundance of points of sale that suppliers would have to serve if they wanted to stay competitive – gave greater power to retailers. The ‘branding revolution’ – where a scarcity of alternatives became an abundance – temporarily shifted power to brands, while retailers were under pressure to supply the brands people wanted, before (as we have seen) retailers regained the initiative.

The latest revolution – the ‘digital revolution’ – is characterised by a profusion of information. Shoppers who once got their information from the TV ad or the broadsheet are now getting it from wherever they choose. Retailers and brands alike are losing control over the messaging – and this has shifted some power away from brands and retailers, and back to the shopper.[4]

FOOTNOTE:

[4] https://medium.com/wdhb/consumer-power-a-history-of-revolutions-3152b6693e83

The Rise of Shopper Power

The shift of power to the shopper has been deepened by a decline in loyalty to retail brands. Since COVID, and in the face of difficult economic conditions and high inflation, shopper loyalty has gone out the window. During the worst of the COVID pandemic and in the subsequent supply chain crisis, where people shopped was substantially driven by availability, i.e. where basics like bread and toilet paper could be found. Price inflation and economic uncertainty have reinforced this trend, with shoppers going wherever the best prices can be found, and considerations like brand and quality becoming less critical.

"Where conditions for shoppers have become more difficult, this has empowered them to be more demanding, because everybody wants their spend," says Kerry Elliot. *"But taking some power back from retailers hasn't given any power back to suppliers – if anything, it has put them even further on the back foot. There are some signs of pushback though."*

Recently, she notes, UK retailer Sainsbury's received pushback from suppliers when, in switching from its Horizon supplier platform to one provided by US-based Circana, it introduced tiered access to sales data, with suppliers charged up to £400,000 for access to the top data tier. Many suppliers complained that this was data they had once received for free. *"A strange way to try and make money,"* said a representative of one famous brand. *"They should stick to putting things on shelf and selling them."*

Retailers have also been targeted by suppliers for the fees they now charge for placement in in-store digital media, and for charging additional fees for listing on online platforms. In early 2023, Tesco faced criticism from brands and suppliers about a per-product fee, which covers order processing, product picking, shipping, and returns management for listing on their delivery portal. Of course, retailers believe – correctly in most instances – that they still hold enough swing to 'force' suppliers to buy these services.

However, the rise of online retail has loosened the grip of loyalty to retail brands further, even as retailers invest more heavily in loyalty programmes. Almost everyone has several retailer loyalty cards in their actual or digital wallet, and many shoppers subscribe to a range of delivery services – based, again, not on retailer brand but on price and delivery times.

Shoppers claim that belonging to a loyalty programme makes them loyal to a store – but their behaviour says differently. Trade Intelligence carried out a shopper survey with retailer loyalty as part of the focus. The survey found that there is significant cross-over between loyalty programmes at stores that could be regarded as quite similar, e.g. high percentages of shoppers holding both Checkers Xtra Savings and Pick n Pay Smart Shopper cards, or Pick n Pay Smart Shopper and SPAR Rewards cards.

Gen Z makes up **19%** of household grocery shoppers.

Generation Next

Another factor in the shift of power towards shoppers is of course the shoppers themselves – notably Generation Z, born from the years 1995 to 2010, coming of age with the rise of smartphones and social media, and now the most influential generation.

Gen Z makes up 19% of South African household grocery shoppers, and while they are not a homogenous group, there are some distinct differences in their shopping preferences to older generations.

"These 27-and-unders are more educated than older cohorts, more demanding, and more reliant on technology and digital channels and diverse information sources, from word of mouth to TikTok." according to Nicola Allen, Senior Retail Analyst.

An article in the *Journal of Interactive Marketing* argues that in the digital age, there are four sources of consumer power – *demand-based power*, where consumption patterns and purchase behaviours are driven by the internet and social media; *information-based power*, where users of social media are themselves able to influence demand among their peers; *network-based power*, by which the influence of individuals is connected across networks; and *crowd-based power*, which amplifies the other three sources and gives large groups of consumers the power to influence or even create markets.[5]

Whatever the source, this newfound power can have a major impact on brands and retailers alike, as the various Twitter (X) campaigns against Woolworths and some of its product lines demonstrate. It may also drive sales unexpectedly. Checkers' exploitation of the sudden, social media-driven demand for Prime energy drink – itself a product of YouTuber Jake Paul's popularity – is a case in point. Either way, suppliers and retailers have to be constantly at the ready for these surges in messaging and seemingly random fluctuations in demand.

Shifts in the balance of power over the last twenty years have been incremental rather than seismic. Retailers that have lost the absolute loyalty of their customers can still fight to get it back, using the data and networks now available to them. Brands now have more platforms than ever to win the affection of a new generation of wired and media-literate shoppers. And an educated, engaged and empowered shopper base is good, in the long term, for everyone.

FOOTNOTE:
[5] https://medium.com/wdhb/consumer-power-a-history-of-revolutions-3152b6693e83

SUMMARY

Shifts in FMCG Power Dynamics

1 Shift from Brand to Retailer Dominance

- Early 2000s: Brands like Unilever and P&G controlled retail agendas through strong brand influence
- Rise of mega-retailers (Walmart, Carrefour, Tesco) shifted power, as retailers began controlling market access and negotiating tougher terms

2 Consolidation in South African Retail

- Major retailers (Shoprite/Checkers, Pick n Pay, Woolworths, Massmart, SPAR, Clicks) increased market share, exerting significant influence over suppliers through aggressive negotiations and stringent conditions

3 Impact of the Digital Revolution

- Empowered consumers with access to information, reducing brand and retailer control over messaging
- Increased consumer demand for transparency and responsiveness from brands and retailers

4 Economic and Pandemic Effects

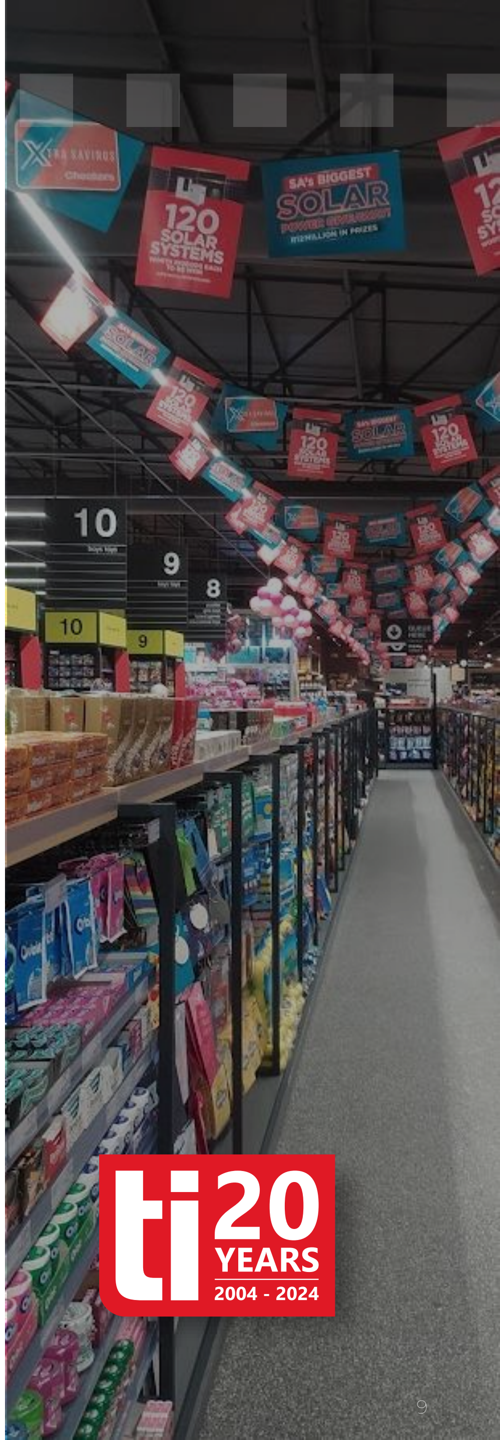
- COVID-19 pandemic and economic challenges heightened shopper focus on price and availability, diminishing brand loyalty
- Shoppers prioritized essential goods and best prices, further shifting power dynamics

5 Rise of Shopper Power

- Decline in retail brand loyalty, driven by economic uncertainty and high inflation.
- Consumers, especially Generation Z, use digital platforms and social media to influence demand and behaviour

6 Need for Adaptability and Innovation

- Brands and retailers must leverage data, technology, and collaboration to meet evolving consumer needs
- Emphasis on agility and informed decision-making to stay competitive in a dynamic market



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Conclusion

The last twenty years have seen significant shifts in the balance of power within the FMCG sector, driven by economic changes, digital transformation, and evolving shopper behaviors. Brands, retailers, and shoppers have all had their turn in the driver's seat, but today, empowered shoppers are leading the way, and hold the fate of your brand's growth in their pockets... right next to their tightly guarded wallets.

As we move forward, the brands that thrive will be those that truly understand their specific shoppers' needs and behaviours, aligning their strategies, propositions and innovations accordingly.

Trade Intelligence remains committed to providing the insights needed to navigate these dynamics and succeed in a highly competitive and constrained market.

Are your strategies shopper-centric?

Grocery **shoppers** are the **driving force** of the FMCG **retail economy**.

NOW MORE THAN EVER...

- It is critical for retailers and manufacturers to understand their shoppers as intimately as possible to secure their portion of a pie with limited growth opportunities.
- Brands will need to invest in research that reveals the nuances, opportunities and pitfalls of a more complicated shopper landscape.

Tailored research must be underpinned by a solid base of industry insights and intelligence.

"Things have changed at the point of purchase, and they'll continue to change. Shoppers are tougher and more informed, and it's the retailers and brands who actively seek to understand them that will still be here and thriving in five years' time."

Nicola Allen, Senior Analyst - Retail and Shopper Research

At Trade Intelligence, our SA Grocery Shopper Report offers in-depth insights into shopper profiles and behaviors. Our bespoke shopper research solutions helps brands and retailers to understand the needs of their own shoppers in greater *detail* and tackle specific problem areas in their interactions with shoppers.

Reach out to Trade Intelligence to find out about our ready-to-use shopper insights and bespoke shopper research solutions: shelley@tradeintelligence.co.za

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