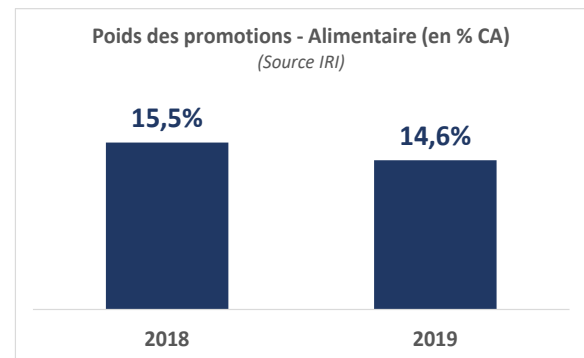
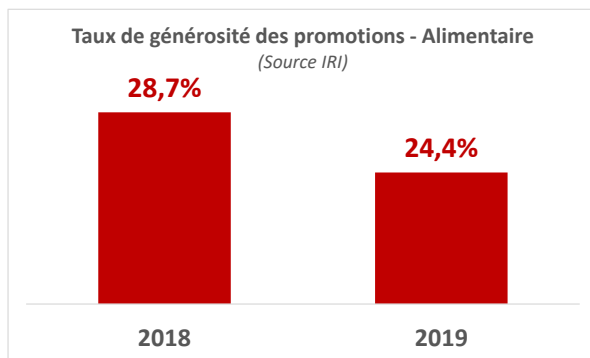


## Impact on manufacturers of the promotional capping introduced by the EGAlim law in 2019

### 1. Very heterogeneous picture regarding the evolution of promotions in 2019, for food manufacturers

In 2019, overall, promotions decreased for consumer food products: -0.9 point as far as share of sales generated under promotion, and -4.3 points as far as discount rate.



This overall decline, however, hides significant **discrepancies according to product categories and types of players**. Thus, 1/3<sup>rd</sup> of food categories recorded an increase of their share of sales under promotion between 2018 and 2019. In addition, a study carried out by IRI on behalf of Ilec, covering 12 major categories representing around ¼ of the market total, showed that, **out of 8 of these 12 categories, manufacturers of national brands recorded an increase in promotion between 2018 and 2019.**

**Not all food manufacturers have therefore made savings thanks to the introduction of promotional capping measures**. Those who are most likely to have benefited from it are the players operating in categories which, until 2018, exceptionally recorded simultaneously a weight of promotional promotions of more than 25%, and a discount rate above 34%: for example, coffees (pods and roasted), sparkling water, champagnes, or biscuits (chocolate and fruit).

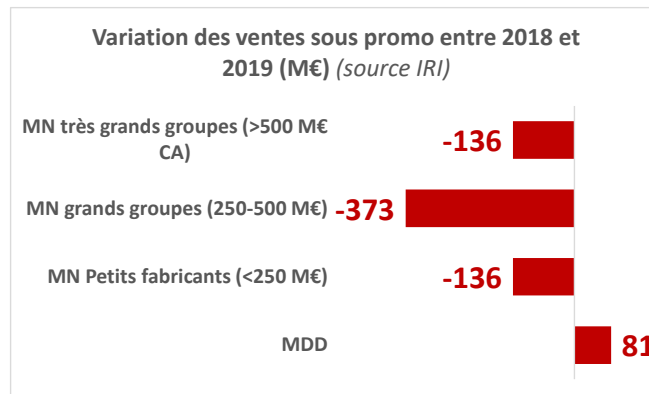
### 2. For food manufacturers who are members of Ilec, an average drop of just under 5% in promotional budgets between 2018 and 2019

The promotional budgets of food manufacturers who are members of Ilec fell on average from 6.4% of the 3x net price in 2018 to 6.1% in 2019, i.e. a drop of slightly less than 5% (source: Ilec survey on negotiations and suppliers' net price evolution, March 2020). The impact of this drop can be estimated around € 100 million for Ilec's.

**3. The manufacturers members of Ilec are not, however, representative of the entire market of national food brands in terms of promotion; they are mainly medium and large companies, whose promotional budgets are in average higher than those of smaller manufacturers.**

Members of Ilec account for around 60% of sales of national branded consumer goods. They are mainly medium and large companies, with very few SMEs. However, the weight of promotion, and consequently of the promotional budgets, are significantly higher for large manufacturers than for small companies, in absolute terms but also in proportion to the turnover achieved: the share of sales under promotion varies in the ratio of one to two (in 2019, 8.9% of turnover under promotion for SMEs against 18.6% for manufacturers achieving more than € 1 billion, in total consumer good products, according to IRI).

As a result, in 2019, nearly 80% of the decrease in promotions was attributable to manufacturers realizing more than € 250 million turnover:



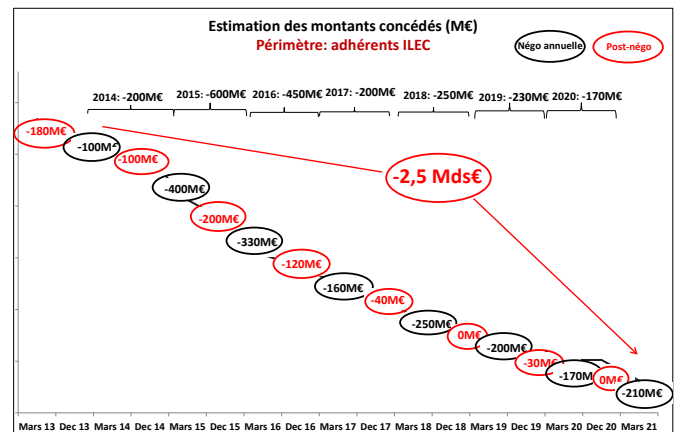
Therefore, if we wish to take Ilec's data as a basis and extrapolate the potential savings for all food manufacturers, because of the promotional capping measures, we need to apply a reduction coefficient to take this size effect into account.

**4. Taking into account these elements and based on data from Ilec's members, we estimate that the promotional capping measures have generated savings around € 120 to € 160 million for all manufacturers operating in food categories in 2019 (assuming a promotion rate of around 25% applied to the almost 650 million euros drop in promotional turnover registered in 2019)**

**5. These savings on promotional budgets in 2019 are far from offsetting the price reductions conceded by manufacturers over the same period, at the 3x net price stage and even more when international agreements are considered (5x net price).**

For Ilec's members only, **the 5x net price reductions conceded in 2019 amounted to € 230 million. This figure already includes the savings made at the level of promotional budgets, which were therefore much lower than the sums granted at the level of the 3x net price and after international agreements' yearly negotiations.**

Beyond 2019 alone, the cumulative decrease in the 5x net price of Ilec's members between 2013 and 2021 amounts to as much as € 2.5 billion.



**6. The promotional budgets of food manufacturers have certainly decreased in 2019, but there is no trend downwards and the move back remains fragile, given the potential weaknesses of the mechanisms designed to cap promotions and the remaining gap between the actual average discount rates and the legal thresholds.**

Compared with the “resale at a loss 10% increase” measure, the promotional capping presents more weaknesses and possible workarounds. Among the main risks:

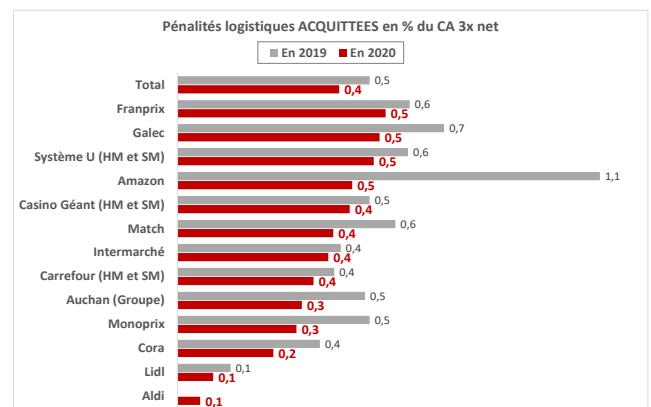
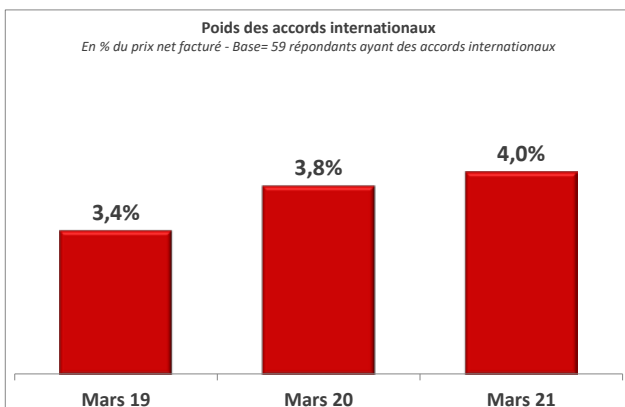
- The increasingly systematic **search for saturation of promotional thresholds by retailers** (“*the ceiling becomes a floor*”), with catch-up effects that can be observed on certain brands or categories which did not reach the promotional limits up in 2018. The example of the biscuits category can illustrate this phenomenon. In 2019, the promotional weight, close to the maximum in snacks and cookies, respectively decreased from 22.7% to 22.2% and from 17.2% to 16.2%; on the other hand, the promotion increased in pastry biscuits and dry biscuits, which used to be less heavily promoted until then (respectively from 12.4% to 13.3% and from 7.0% to 7.7%).
- The fact that **certain promotional mechanisms are not covered** by the legal prescriptions: heterogeneous packs, shock prices, unaffected prize pool, etc. Even though they are not too widespread today, there is a risk of an increased use of some of these techniques.

**Poids des mécaniques promotionnelles**

(source A3 Distrib, tous produits et tous circuits GMS)

	2018	2019	2020	CAM Juin21
LOTVIRTUEL	18,2%	19,3%	20,5%	21,4%
REMISE	15,9%	19,6%	22,8%	23,2%
CODE	10,0%	8,9%	8,2%	9,4%
BON D ACHAT	8,9%	8,5%	7,5%	7,1%
PRIX BARRE	7,4%	4,5%	2,7%	2,6%
GRATUITE	3,9%	3,0%	2,9%	2,9%
JEUX	2,6%	2,6%	3,2%	3,2%
PRIX CHOC	2,1%	2,4%	2,5%	2,4%
OFFERT	0,9%	0,7%	0,5%	0,4%
CRESCENDO	0,8%	0,2%	0,2%	0,2%
OR	0,7%	0,5%	0,3%	0,4%

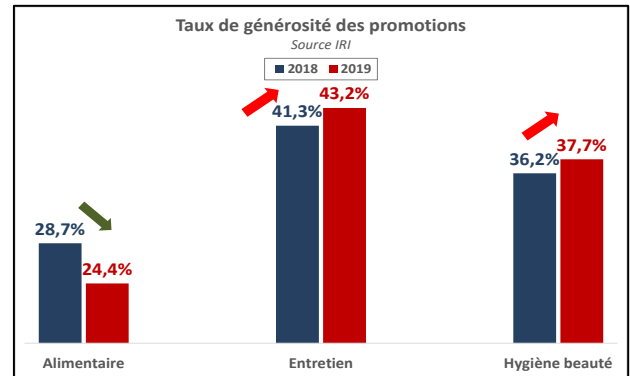
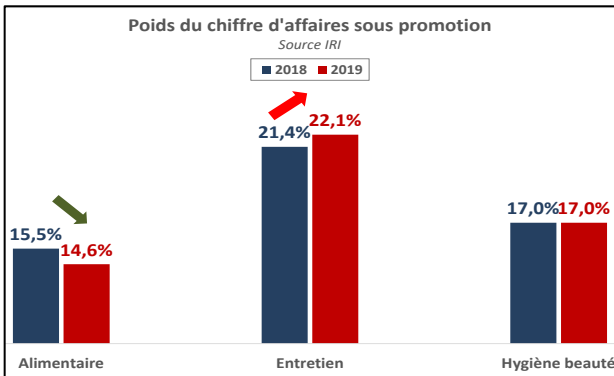
- **The relentless development of other sources of potential abuses** which materialize into significant financial transfers from manufacturers to retailers, via international agreements and logistics penalties. The budgets devoted to **international agreements** are constantly increasing, and now represent on average 4% of manufacturers’ net invoiced price. **Logistics penalties** have become a genuine source of alternative financing for most retailers. In 2020, the penalties paid by manufacturers amounted to 0.4% of their turnover on average, an amount almost identical to that of 2019, despite a total freeze of penalties in Q 2 2020 due to the Covid crisis.



The evolution of Ilec's members as far as their 3x and 4x net prices at the end of the annual negotiations of the last three years illustrates the fragility of the promotional capping system. In 2019, the 4x net price evolved more favorably than the 3x net price, thus testifying the decrease in promotional budgets induced by the newly adopted Egalim law. But in 2020 and again in 2021, the trend was reversed, with a decrease in the 4x net price more significant than that of the 3x net, which is the sign of promotional budgets once again on the rise.

Ilec	Epicerie salée	Epicerie sucrée	Frais non laitier	Frais laitier	Surgelés salés	Surgelés sucrés	Boissons sans alcool	Boissons alcoolisées	Total
3N 2019	-1,2 %	-1,8%	-1,3%	+1,7%	+2,3%	+1,8%	-0,3%	0,0%	-0,7%
4N 2019	-0,5%	-0,7%	-0,9%	+1,6%	+2,7%	-0,8%	-0,9%	-0,4%	-0,3%
3N 2020	-0,6%	+0,3%	-0,7%	+2,2%	0	-1,3%	-0,9%	-0,6%	-0,2%
4N 2020	-0,6%	-0,9%	-1,6%	+1,8%	-0,5%	-2,2%	-0,9%	-1%	-0,7%
3N 2021	-0,8%	+0,5%	-4,5%	-0,5%	-0,9%	-0,6%	-1,1%	-0,8%	
4N 2021	-0,6%	+0,5%	-3,9%	-0,6%	-1,3%	-0,8%	-1,9%	-0,9%	

**7. Evidence of harmful effects for manufacturers in the detergents and personal care categories, whose promotional budgets have continued to grow.**



The capping of promotions in food has exacerbated the promotional war that retailers are waging on “non-food categories”: the weight of promotions and especially the rate of discount in these categories, already significantly higher than in food before the EGAlim law, continued to soar in 2019, thus weighing more and more heavily on manufacturers’ budgets.

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