

The Feuds between Suppliers and Retail Distributors

1. Background of Study

In recent years, the ratio of sales made by retail distributors to the total retail sales of general merchandise has increased year after year. Since most domestic businesses are small or medium enterprises (over 90%), it is difficult for suppliers with limited capital to adopt pull marketing strategies. Therefore, most suppliers apply push marketing strategies to promote their products. Without the promotion of retail distributors, it will be hard for the product suppliers to do marketing. Under such circumstances, suppliers adopting push marketing strategies have considerable dependence on retail distributors.

Meanwhile, in order to deal with the pressure from competition, brick-and-mortar retailers have no choice but to increase their capital and business scales so as to cope with the competition pressure in the retail distribution industry by economies of scale and other resources. In consequence, retail distributors, such as hypermarkets, supermarkets and convenience stores become increasingly concentrated, and they are no longer just the intermediaries between manufacturers and end users.

With the advantage of controlling sales channels, capital and information, brick-and-mortar retailers have different influences on suppliers, competitors and consumers. Hence, the competition authorities had switched from the conventional policy of focusing on preventing large manufacturers from abusing their position in the market and begun to work out measures to prevent competition issues resulted from brick-and-mortar retailers' exploitation of the dependence of manufacturers or suppliers on them.

For this reason, it is necessary to be familiar with the operation of both suppliers and brick-and-mortar retailers, understand their cooperation principles and practices, and keep an eye on the business conducts of both sides to pinpoint competition problems that are likely to occur.

2. Study Methods and Process

This study is conducted to understand different situations when transactions are made between supplies and brick-and-mortar retailers by reviewing the "2019 Survey on Transactions of Suppliers with Brick-and-Mortar Retailers" and the "2020 Study of Transactions between Distribution Businesses and Suppliers" performed by the FTC. The purpose is to outline the commercial behavior of goods or services and identify potential problems that are likely to happen in between, in order to offer reference for the competition authority when handling related cases.

3. Main Suggestions

Regarding how business is conducted between suppliers and brick-and-mortar retailers and potential competition issues, the suggestions are as follows:

- (1) With mergers between brick-and-mortar retailers, except for carefully assessing the influence on the overall economic benefit, the FTC should also monitor developments of the market to prevent deterioration of market structure and abuse of market power.
- (2) The FTC should investigate into restraint of competition and unfair competition practices adopted by suppliers and brick-and-mortar retailers from the angle of maintaining free competition in the market instead of intervening in private feuds.
- (3) The FTC should continue to monitor the growth and decline as well as substitution of each other between brick-and-mortar retailers and online shopping platforms.