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Divestment Strategy in the French Food Retailing Industry: Transferring Financial Risk from Shareholders to Independent Entrepreneurs

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Abstract

The Casino group's announcement that it will be selling several hundred of its stores in France, notably to the Intermarché cooperative, by the end of 2023, has sent shockwaves through the retail world. For careful observers, however, this is just one of the fundamental movements transforming the sale of fast-moving consumer goods. Over the past five years, the Carrefour group has also been divesting the ownership of many hypermarkets, handing them over to independent entrepreneurs acting as franchisees. In both cases, the integrated model, to which Casino and Carrefour groups belong, gives the impression of running out of steam, while cooperative and franchise retailing is showing excellent results. Thus, Intermarché, E. Leclerc and Système U cooperatives have gained an ascendancy that seems to be linked to an intelligent assimilation of the "good economic practices" that the integrated model has been implementing since the 1970s. A theoretical approach based on the notion of organizational isomorphism provides a relevant framework to better understand the evolutions underway, the consequence of which is to have the financial risk associated with retail activities borne by independent entrepreneurs rather than shareholders.

Keywords

Contractual Model, Divestment Strategy, France, Isomorphism, Retailing

1. Introduction

The recent collapse of the Casino group, which surprised even the most keen retail observers, and the incredible dynamism of Intermarché cooperative, has taken over several dozen stores. The Carrefour group is pulling out on a massive scale, selling off a growing number of its hypermarkets and supermarkets under franchise. These are two strong signals of the major difficulties experienced by the integrated food retailing industry model in France, after decades of profitability that shareholders have congratulated themselves on. This is even more surprising given that industry specialists are constantly highlighting the numerous advantages of the integrated model: a high degree of consistency in sales management at store level, massive economies of scale in logistics, powerful central purchasing units obtaining the best terms from suppliers, etc.

Yet, for less than a decade, the integrated model seems to be losing ground to the contractual model (retailer cooperatives, franchises), which is even becoming a real source of inspiration for reinventing itself. As early as the late 1990s, Baroncelli and Manaresi (1998) had already pointed to the early signs of divesting in-house trade activities into franchising operations in France, leading to a reduction in the strategic scope of business. The main interest here is to transfer the risk associated with retail activities from shareholders to independent entrepreneurs. This position paper argues for a different hypothesis: is not it ultimately the large retailers that have emerged from the contractual model, such as the French leader E. Leclerc, who have assimilated the techniques and modes of governance of the integrated model so well over time that they are now able to dominate them? Whatever the case, the consequence is increasingly clear: the French in-store retail landscape could change radically in the next few years.

Methodologically, the paper adopts an inductive approach. Induction is a reflexive process that enables us to move from the specific (observed facts, or situations) to the general (a theory, or general knowledge). From the Latin *inducere*, itself translated from the Greek *epagôgè* ("to lead towards"), induction designates a conjectural inference, i.e., a generalization held to be true based on observed facts. In physics, induction is based on the careful observation of phenomena, and is therefore the method *par excellence* used by empiricists, particularly Anglo-Saxon philosophers since Francis Bacon. While the hypothetico-deductive approach is dominant in management, the interest of an inductive approach is to identify a trend, or even propose an explanatory model, based on empirical information. The inductive approach adopted here is therefore based on a major trend, namely the multiplication of divestment movements in the French food retailing industry, to arrive at a theoretical explanation based on organizational isomorphism

2. French Retailing in the Throes of Crisis

2023 was a dramatic year for ready-to-wear stores in France, if we look at the list of companies that went bankrupt: Camaïeu, Minelli, Naf-Naf, Pimkie, André, to name but a few. The trade press is issuing the gloomiest forecasts for the long-term survival of other legendary companies such as IKKS, Galeries Lafayette and Jennyfer. The explosion of online retailers is largely responsible for the collapse, particularly in the fast-fashion and ultra-fast-fashion sectors, for example with the exceptional growth of Shein and Pretty Little Thing, even though these two companies raise many societal and environmental criticisms (Dzhengiz et al., 2023). The growing success of second-hand goods, for which fashion accounts for around half of consumer purchases in France, is another factor explaining a crisis that looks set to last. However, this crisis tends to overshadow a profound transformation whose effects are just as destructive, but this time in food retailing.

To cut to the chase, several large retailers are making radical changes to the legal status of several hundred stores, abandoning the integrated model in favor of the cooperative or franchising model (for a definition, see **Table 1**). The Casino group, for example, has decided to sell over 300 of its hypermarkets and supermarkets to the Intermarché cooperative. The Casino group is not just another large retailer. It is a *historic symbol* of French food retailing, like Walmart in the United States or Sainsbury's in the United Kingdom. The Casino group is the inventor of the chain store model, introducing private labels in 1901, and very early on at the head of a powerful network of warehousing structures (Londeix, 2021). Admittedly, the Casino group made some unfortunate choices over two decades, selling off highly strategic assets on a massive scale to reduce its indebtedness, but it was hard to imagine the Intermarché cooperative taking over so many of the Casino group's stores.

The Casino group's difficulties come as less of a surprise when we turn our attention to the Carrefour group. The large retailer, which pioneered the hypermarket format in 1963, has decided to gradually divest its least profitable stores by opting for franchising. 5 hypermarkets in 2018 and 2019, 12 in 2020, 10 in 2021, then 16 a year in 2021, 2022, 2023 and 2024: the pace is steady, and confidential information obtained from top management confirms that the move is set to continue. The official aim is to reform the governance of certain ailing hypermarkets so that they can regain their growth momentum. Given that the hypermarket format has been running out of steam in France for several years (Delépine, 2019), it is not unreasonable to imagine that, since franchising has the advantage of passing on the financial risks to independent entrepreneurs, stores with satisfactory profitability will also be targeted. The most likely hypothesis is

Table 1. Integrated model vs. contractual model.

Model	Type	Description
Integrated model	Chain store	Two or more stores that are commonly owned and controlled by a larger or smaller number of shareholders.
Contractual model	Retailer cooperative	Set of independent entrepreneurs who jointly conduct marketing, purchasing and logistical actions.
	Franchise network	Contractual agreement between a franchisor and franchisees who pay the right to own and operate one or more units in the franchise network.

Source: The author.

that of a strategic plan to "silently" withdraw from the hypermarket format, using the contractual model as a way out.

3. Advancing the Contractual Model

The contractual model is based on a well-known analysis in distribution channel management, following the contribution of McCammon (1970). McCammon refers to "contractual marketing systems" in which relationships between channel members, as well as their respective rights and obligations, are contractually formalized, while maintaining the complete legal independence of each party. Two organizational forms can be identified in the world of food retailing, the franchise networks and the retailer cooperatives, which converge around a common principle: a contractual agreement between stakeholders. The contractual model seeks to achieve scale effects comparable to those of the large retailers of the integrated model, whose capital is held by shareholders, while preserving the decision-making autonomy of the independent entrepreneurs who own the stores:

- The first form is franchise networks. An established brand (franchisor) allows an independent entrepreneur (franchisee) to use it, with its business model and other intellectual property. In return, the franchisee agrees to pay the franchisor an entry fee, as well as regular royalties.
- The second form is retailer cooperatives. Independent entrepreneurs join forces to collectively improve the technical conditions under which retail activities are carried out. To achieve this, they agree to abide by the terms of the membership contract, particularly about governance mechanisms.

For the past two decades, the contractual model has been enjoying a real revival in France, particularly in the food retailing industry. Its three most remarkable success stories are E. Leclerc, Intermarché and Système U cooperatives, with sales for 2022, excluding petrol, of €44 billion, €31 billion, and €24 billion respectively (by way of comparison, €42 billion for the Carrefour group's subsidiary in France). There are many reasons for this, not least its positioning, with its strong "territorial roots", but also its highly aggressive pricing policy, sometimes to the detriment of certain suppliers, as demonstrated by the farmers' crisis of January 2024. The E. Leclerc cooperative has won over a growing number of consumers forced to make painful trade-offs in the highly inflationary period France has been experiencing since the outbreak of the Russian attack on Ukraine. Its financial results for 2023 were exceptional, positioning the cooperative as the sector's undisputed leader (Malhère, 2024).

In short, the contractual model confirms a powerful rooting, which may seem surprising insofar as, from the early 1970s, the integrated model was seen as the legal status equated with economic excellence, at the origin of major commercial and logistical innovations (Sorescu et al., 2011). What is more, its increasingly vertical and centralized store management was presented to successive generations of MBA students as the "royal road" to significant productivity gains, sources of a dynamic policy of cost use leadership, to use Porter's (1980) famous analysis. The divestment strategy in the French food retailing industry, of which the Carrefour and Casino groups are the main symbols, therefore represents a genuine reversal in favor of the contractual model. With reference to the inductive approach mentioned above, the aim is to order the facts observed, i.e., the multiplication of divestment movements observed over the last few years, using a relevant analytical framework.

4. An Explanatory Framework: Organizational Isomorphism

Is there a theoretical basis for understanding the reversal of strategy–in other words, the loss of momentum of the integrated model in favor of the contractual model? Neo-institutional theory can provide a positive answer, focusing on the institutional pressures exerted on organizations to converge towards similar structures and practices. As early as the late 1970s, Meyer and Rowan (1977) proposed an original analysis of the institutional environment, according to which companies are embedded in a set of values and norms that influence their organizational modes. The authors refer to the notion of organizational field, which shapes corporate goals, practices, and strategies. Drawing on this key notion, DiMaggio and Powell (1983) enriched the analysis by proposing an original approach to organizational isomorphism, which they defined as a process leading a company to align itself with other competing companies facing similar environmental conditions. **Table 2** presents the three forms of organizational isomorphism usually inspired by the contribution of DiMaggio and Powell (1983).

It would be wrong to believe that this framework is purely conceptual, far removed from the questions posed by the divestment strategy in the French food retailing industry. On the contrary, the progress of the contractual model can be explained by its exceptional ability to assimilate the fundamentals of the integrated model, ending up resembling it completely. As DiMaggio and Powell (1983) point out, organizational isomorphism is based on processes of imitation of good business practices, which lead companies to become increasingly homogeneous in their behavior and strategic choices, adopting "rituals of conformity" to this end. Companies thus become isomorphic with each other, especially when the environment becomes uncertain and volatile. This type of environment, coupled with increasingly intense competitive pressures, then leads companies to copy the operating modes of their most profitable rivals and those deemed most "legitimate" in the organizational field (Huault, 2017).

Table 2. The three forms of organizational isomorphism.

Coercive isomorphism	Pressure from dependent organizations, cultural expectations in society.
Mimetic isomorphism	Organizations move closer to those that are more legitimate or perceived as more successful.
Normative isomorphism	Mainly attributed to professionalization and legitimization by academic experts.

Source: Adapted from Aizawa (2018).

When we examine the evolution of the most powerful retail cooperatives, namely E. Leclerc, Intermarché and Système U, the organizational isomorphism is unmistakable, especially at the convenience store level (Labbé-Pinlon & Schultz, 2011). Over time, they have drawn direct inspiration from the integrated model to set up the same central purchasing units with formidable bargaining power, the same logistical platforms enabling drastic reductions in delivery costs, or the same merchandising techniques inducing optimized in-store customer journeys. It is possible to speak of a *mimetic approach* that has led an E. Leclerc or Système U hypermarket to be a near carbon copy of a Casino or a Carrefour hypermarket, in terms of both upstream channel organization (store procurement) and downstream management (store operations). Moati (2013) refers to a huge "homogenization of representations" linked to the presence of a powerful sector culture within the French food retailing industry.

This helps to understand the process by which several Casino group stores, including large hypermarkets, have been taken over by independent entrepreneurs from the Intermarché cooperative, whose historically favored retail formats are the supermarket, the hard-discount store and the convenience store. The Intermarché cooperative has effectively assimilated the basics of the integrated model, imitating its good economic practices taught since the 1950s by Bernardo Trujillo, during his seminars in Dayton, Ohio (Jacques, 2017). In 1969, Jean-Pierre Le Roch quarreled with his old friend Edouard Leclerc, founder of the E. Leclerc cooperative in 1954, and created the Intermarché cooperative, it was because he quickly realized that the integrated model had to be copied, especially with its highly centralized decision-making processes. For his part, Edouard Leclerc, a former seminarian, remained committed to the idea of placing the individual, not the organization, at the heart of the retail system (Carluer-Lossouarn, 2008). Edouard Leclerc's son, the media-savvy Michel-Edouard Leclerc, challenged this vision when he took control of the E. Leclerc cooperative (Picard, 2023). Leclerc cooperative, moving closer to the policy of the Intermarché cooperative through organizational (mimetic) isomorphism.

5. From Integrated to Contractual Model

While the contractual model derives its success from mimetic practices compared to the integrated model, it should not be added that the integrated model, for its part, is not insensitive to the advantages of the contractual model, among other things, to benefit from the entrepreneurial potential of university students (Nabil, 2021). This is why the Casino and Carrefour groups, as well as the Auchan group, no longer hesitate to franchise a growing number of stores. In so doing, they are shifting the uncertainties of the retail business onto independent entrepreneurs, whereas the integrated model requires accountability to shareholders, who expect a sufficient return on their investment. As such, they exert varying degrees of pressure on the company to achieve their goals. The Casino group's buyers at the beginning of 2024, the consortium of Daniel Kretinsky, Marc Ladreit de Lacharrière and the Attestor investment fund, now hold more than 53% of the capital, and their aim is to retain only a network of franchised convenience stores to recoup royalties without risk, while the cash flow of many hypermarkets was in deficit.

The contractual model effectively means that independent entrepreneurs bear the financial risks associated with running their own stores, even though they do not have full decision-making latitude to implement their own concept and ideas. He/she is obliged to duplicate an existing concept, without being able to communicate with his/her customers in a totally autonomous way, and while being obliged to respect the modes of governance imposed by a "network head". His/her quest for autonomy is thus constantly hampered, with impacts on his/her psychological health (Larty & Hopkinson, 2023). Although retail cooperatives grant the independent entrepreneur partial decision-making latitude, it is impossible for him/her to innovate in any meaningful way in the exercise of retail activity. Finally, the contractual model is based on the signing of contracts of limited duration (between 3 and 8 years), and there is no guarantee that the independent entrepreneur will be able to continue the collaboration at the end of the contract. Should the contract be terminated, he/she will be unable to use the assimilated know-how for several years and may even be bound by a non-competition clause preventing him/her from joining another franchise or retail cooperative.

For groups operating under the integrated model, financial risk is thus outsourced to an independent entrepreneur, without adversely affecting shareholder returns, since the eventual turnaround of a store in difficulty is no longer the group's responsibility. On a broader level, the contractual model is seen as effective from a managerial point of view, as Carrefour's financial documentation states: "As it is not capital-intensive, it makes it possible to rely on the partners' involvement and knowledge of the local market". For its part, the Casino group considers that the operation of stores owned by an independent entrepreneur is more efficient, with greater owner involvement, favorable to the development of sales (and consequently of royalties paid). Although the social issue is rarely highlighted, the contractual model also makes it possible to outsource personnel management to an independent entrepreneur, who is not obliged to respect collectively bargained company agreements at group level, particularly regarding pay rises, end-of-year bonuses, days off, etc. The move to a contractual model thus means that the independent entrepreneur's employees lose some or all the advantages they have gained over several decades. The most damaging consequence could be a weakening of the emotional bond between employees and their organization, which is crucial as a determinant of dedication and loyalty (Urio et al., 2023).

The divestment strategy initiated by companies in the integrated model finally makes it possible to generate a significant financial result thanks to the volume of business, having outsourced several expenses, starting with salaries and investments, which significantly improves profitability. In fact, experts in French food retailing note that most of the Carrefour group's profitability now comes

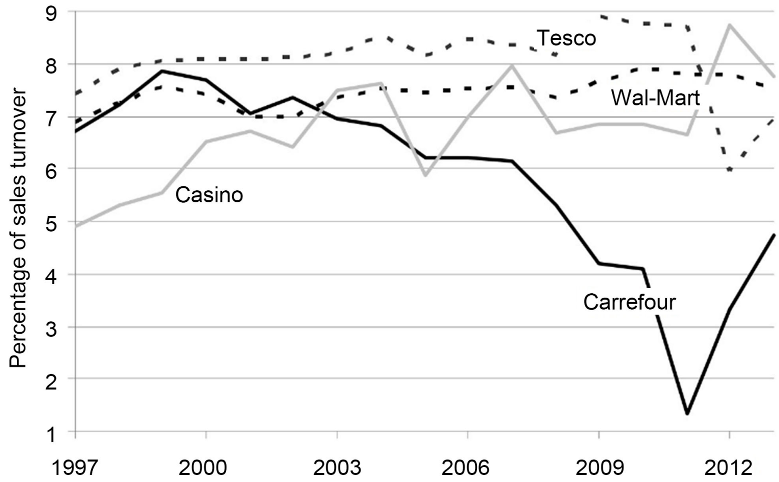

Figure 1. Change in Carrefour group EBITDA between 1997 and 2013. Source: Benquet and Durand (2016).

from the margin earned from franchisees to which royalties paid are added, offsetting the fall in EBITDA (see **Figure 1**). According to Benquet and Durand (2016), this is clearly the result of the group's accelerated financialization, which began in the early 2000s. However, it would be a mistake to think of this as a "French exception", as Anglo-Saxon researchers like to say. In fact, the phenomenon is also present in other European countries, Belgium in particular. The Delhaize subsidiary of the Belgian-Dutch group Ahold Delhaize, for example, has planned to switch to a contractual model for all its supermarkets, the only possible option to guarantee the company a future, according to a statement by its spokesperson. From this viewpoint, organizational isomorphism can once again be mobilized to understand the evolutions underway, but this time in the direction of the contractual model towards the integrated model.

6. Concluding Remarks

With the Casino group selling several of its stores to independent entrepreneurs from the Intermarché cooperative, and Carrefour group opting for franchising for several hundred of its hypermarkets and supermarkets, there have been several strong signals over the past few years heralding a profound transformation in the French food retailing industry, even if consumers won't really see any change in store offerings. Which customer would be able to tell whether their favorite Carrefour Market supermarket is part of the integrated model (25% of the total by 2023) or the contract model (75% of the total by 2023)? Here again, it must be said that organizational isomorphism is a relevant analytical framework. We are indeed dealing with a contractual model built by Carrefour group to take up, in a similar (isomorphic) way, elements of the integrated model in terms of assortment presentation, product placement on shelves, communication policy and, more generally, the atmosphere of the store, automatically associated with the brand's overall image and positioning.

The question is whether the future has already been written, with the inevitable disappearance of the integrated model. If this were the case, several decades of evolution in the food retailing industry would be marked by a profound rupture, doubtless of the same nature as that experienced by many industries such as the automotive, micro-computer or household appliance industries, when they abandoned a strategy of vertical integration in favor of a strategy of massive outsourcing and "networking", explored very early on by Gulati et al. (2000). Today, no one is surprised by the strong fragmentation of value chains, sometimes on a global scale, with components manufactured by tier 1 and tier 2 suppliers, then shipped to assembly plants, before the finished products that emerge are stored and then delivered by logistics service providers. Food retailing could be subject to the same evolution, invisible to consumers but with a deep impact on organization and governance, radically altering the way in which the financial risk associated with the retail business is managed.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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