

**19th Annual IMP Conference:
4th-6th September 2003
Lugano, Switzerland**

**Competitiveness and power relationships:
Where now for the UK food supply chain?**

**Martin Hingley¹
Harper Adams University College, the UK
and
Andrew Hollingsworth
Harper Adams University College, the UK**

Address for correspondence: Martin Hingley, Harper Adams University College,
Newport, Shropshire, TF10 8NB, United Kingdom. Telephone + 44 (0) 1952 820 280.
Email mhingley@harper-adams.ac.uk. Fax + 44 (0) 1952 814 783.

¹ Both authors contributed equally and have been listed alphabetically.

Competitiveness and power relationships: where now for the UK food supply chain?

Work in progress paper

Abstract

Under instruction from the OFT (Competition Commission, 1999), the Competition Commission's report into UK supermarkets published in October 2000 received, rather predictably, a mixed response from the various participants in the food supply chain. Although it found little evidence of monopolistic behaviour, the findings indicated both the significance of buyer concentration and the need for voluntary regulation (Competition Commission, 2000). Recent evidence and further changes to the industry structure suggests that not only will buyer power continue to concentrate in the hands of the major retail players, but further concentration and consolidation in the food retail sector will take place both within and beyond the home market. The relative buyer power of supermarkets has been increasing and this is likely to continue with further consolidation as a result of the impending Safeway merger. From initial research, it would appear that many manufacturers and suppliers remain unconvinced that the code will offer significant improvements in the suppliers' trading position. Further empirical research is needed to establish specifically the impact of the Code on suppliers and manufacturers alike.

The changing competitive environment in the UK food sector

This paper examines the impact of the Competition Commission's findings on the competitiveness of the UK food retail sector within the context of the food supply chain. Under instruction from the OFT, the Competition Commission's report into supermarkets published in October 2000 received, rather predictably, a mixed response from the various participants in the food supply chain. The report concluded that price competition was acting effectively and there was little evidence of the abuse

of market power (Competition Commission, 2000). However, there were a number of concerns relating specifically to buyer power in the supply chain. Although it found little evidence of monopolistic behaviour, the findings indicated both the significance of buyer concentration and the need for voluntary regulation (Cooper, 2001; Dobson et al 2001). More recent evidence suggests that not only will buyer power continue to concentrate in the hands of the major retail players, further concentration and consolidation in the food retail sector will take place both within and beyond the home market. The relative buyer power of supermarkets has been increasing and this is likely to continue with further consolidation as a result of the impending merger of one of the largest UK food retailers, Safeway.

The Commission's concerns relating to buyer power in the supply chain led to the Department of Trade and Industry establishing a code of practice to govern supermarkets' dealings with suppliers, launched in November 2001. The code was designed to facilitate flexible and mutually beneficial arrangements between larger food retailers and their suppliers. The main elements of the code included the need for agreeing transparent supply terms in writing, and the conditions for advising and making changes to these terms as well as independent mediation. From initial reporting in the media, it would appear that many manufacturers and suppliers remain unconvinced that the code will offer significant improvements in their trading positions. The Commission also recommended the establishment of a Food Chain Centre empowered with the development of supply chain integration.

The critical relationship between the supplier and retailer, for most, will be influenced by the recently introduced Code of Conduct. From initial research, it would appear that many manufacturers and suppliers remain unconvinced that the code will offer significant improvements in the suppliers' trading position. A recent extensive investigation into competition in the UK dairy industry, commissioned by the Milk Development Council (MDC) and undertaken by KPMG LLP, confirmed that whilst major UK supermarkets operate as a "complex monopoly", there was no evidence of collusion. This has resulted in particular problems for the British milk industry because of the commodity nature of the product. To overcome this, KPMG recommended the need for "greater transparency and greater collaboration"

throughout the supply chain. This is consistent with other findings by The Policy Commission on Farming and Food (Policy Commission, 2002), the Food Chain Centre, and MDC (MDC, 2003). It also identifies a need to “reconnect” food supply chains to address inefficiencies, with these efficiency gains being passed back to the food producers. A further recommendation is that the Food Chain Centre produces sector based, best practise reports and encourages information sharing.

Concerns have also been expressed about monitoring the Codes provision with, for example, calls from Lord Haskins (Anon, 2002) and David Webster (IGD, 2002) for a third party regulator. KPMG, for example, recommend that this needs to be reviewed biannually by the Office of Fair Trade (MDC, 2003).

The report of the Policy Commission on the Future of Farming and Food recommends that the OFT should formally review the workings of the Code after two years, and should be extended to all suppliers, retailers and food service companies. It also suggests that the resolution mechanism in the Code should be by independent arbitration.

The impact of power relationships and imbalance in the food industry supply chains

There is a general agreement with regard to imbalance of power in food supply channels in the UK, with the majority of control lying in the hands of retailers (Hogarth-Scott, 1999; Collins & Burt, 1999; Ogbonna and Wilkinson, 1996). Hughes (1994) describes marketing and supply channels as having senior partners, ‘channel captains’, or ‘channel/ category leaders’ (Shaw and Ennis, 2000; O’Keefe and Fearne, 2002). A trend towards retailer-led rationalization provides evidence that suppliers risk losing everything if they are ‘dropped’ by their retailer customer, especially if they are involved in an ‘exclusive’ relationship. This is an area of debate broached in

the IMP context and is illustrated, as such by Harrison (2001) in the case of the relationship between clothing suppliers and UK retailer Marks and Spencer. Further, Robson & Rawnsley (2001) in their examination of buyer-supplier relationships in the food industry found evidence of coercive practices and concluded that: 'the balance of power is held by the retailers' and that 'no code of ethics seems to guide their dealings with supply chain members'. Wycherley (2002), in his study of organic supply to supermarkets found that 'supermarkets were attempting to use market power dominate the industry, despite their partnership rhetoric' and cites the same view from Collins and Burt (1999) in their study of the development of multiple retailing in Ireland.

However, the reality of supply chain relationships in food supply channels cannot be simply explained by a straightforward power-dependency construct, rather the situation can also be described as a coexistence of co-operative and competitive constructs. For example, power relationships are often prevalent, however, companies 'simultaneously pursue' adversarial/ competitive and co-operative and partnering/network approaches (Morris et al 1998; Hogarth-Scott, 1999); with many food industry partnerships being long-standing but not necessarily fully relational. Empirical findings in Hingley (2001) concur with this view. Retail buyers are indeed *channel captains* and truly two-way *interactive* partnerships in the UK food industry, are not yet 'fully developed' (Robson and Rawnsley, 2001; Howe 1998). However, reduction of supply base and focus on fewer, 'exclusive' suppliers has produced a greater mutuality in food industry relationships than is commonly believed. A contribution to the power/ dependency/ mutuality debate in the empirical studies, described in Hingley (2001), is that power imbalance is no barrier for suppliers wishing to enter relationships with more powerful customers and that within this imbalance there are formed close and workable relationships. This does not mean, however, that case suppliers would not like to see a greater demonstration by retailers of the mutuality of relationships with more emphasis on collaboration and reciprocity. Further research with regard to these issues fits within the IMP model and sphere of interest and will contribute to the debate on the nature of relationships in a power-dependency context.

Methodology

Traditionally, as UK food retailers have become ever more concentrated and consolidated, increasing levels of power have enabled them to exercise substantial control over the supply chain. The extent to which the Competition Commission's code of conduct will affect this needs to be investigated. Principal research areas for this paper will include the suppliers response to the Competition Commission findings, an analysis of changes to supply chain relationships that may have followed, and evidence of suppliers being deterred by any power imbalance from forming and maintaining supply chain relationships.

Further empirical research is needed to establish specifically the impact of the Code on suppliers and manufacturers alike. The methodology for gathering evidence, which will be used to answer the research questions, is the postal survey approach in the first instance, involving principal UK retail buying organisations, as well as suppliers of UK-based diverse food products. The sample will be selected from both the branded and non-branded food supply bases in the UK. This will be followed by in-depth interviews with 'typical' case representatives from those previously sampled via the postal survey. This paper will develop the literature review, research questions, and methodology; it is also hoped that some preliminary findings can be communicated.

References

Anon (2002) "The Saturday Essay", *The Grocer*, October 12, 30.

Collins, A., and Burt, S. (1999), "Dependency in manufacturer- retailer relationships: The potential implications of retail internationalisation for indigenous food manufacturers", *Journal of Marketing Management*, **15**, 1, 673-693.

Competition Commission (2000) *Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom*, London: Competition Commission..

Competition Commission (1999) *Supermarkets referred to the competition commission*, Office of Fair Trade, Press Notice No 11/99.

Cooper, D. (2001) "Competition and market power in food retailing: findings from the Competition Commission's inquiry into supermarkets", *Agricultural Economics Society Conference Proceedings*, Harper Adams University College, 10-13th September.

Davies, B.J. and Ward, P. (2000) "Space allocation in UK grocery retailing", *British Food Journal*, 102, 5/6, 406-419.

Dobson, P.W. Davies, S.W. and Waterson, M. (2001) "The patterns and implications of increasing concentration in European food retailing", *Agricultural Economics Society Conference Proceedings*, Harper Adams University College, 10-13th September.

Evans, P. (2001) "European retail – an industry in crisis?", *International Trends in Retailing*, 18, 1, 45-58.

Harrison, D. (2001), "Network effects following multiple relationship dissolution", In: Håkansson, H., Solberg, C. A., Huemer, L. and Steigum, L. (Eds.), *Proceedings of the 17th Annual IMP Conference: Interactions, Relationships and Networks: Strategic Dimensions*, 9-11 September, Norwegian School of Management BI, Oslo.

Hingley, M.K. (2001): "Relationship management in the supply chain", *International Journal of Logistics Management*, 12, 2, 57-71.

Hogarth-Scott, S. (1999), "Retailer-supplier partnerships: hostages to fortune or the way forward for the millennium?", *British Food Journal*, 101, 9, 668-682.

Howe, W.S. (1998), "Vertical market relations in the UK grocery trade: analysis and Government Policy", *International Journal of Retail & Distribution Management*, 26,

6, 212-224.

Hughes, D. (Ed.) (1994), *Breaking with tradition: Building partnerships & alliances in the European food industry*, Wye College Press, Wye.

IGD (2002) *The IGD Convention 2002*, Watford: Institute of Grocery Distribution.

MDC (2003) *Prices and profitability in the British dairy chain*, Report by KPMG LLP for the Milk Development Council, Cirencester: MDC.

Morris, M.H., Brunyee, J., and Page, M. (1998), "Relationship marketing in practice: Myths and realities", *Industrial Marketing Management*, **27**, 359-371.

Newman, A.J. and Cullen, P. (2001) "From retail theatre to retail food show: the shrinking face of grocery", *British Food Journal*, **103**, 7, 443-452.

O'Keefe, M., and Fearn, A. (2002), "From commodity marketing to category management: Insights from the Waitrose category leadership programme in fresh produce", *Supply Chain Management*, **7**, 5, 296-301.

Ogbonna, E., and Wilkinson, B. (1996) "Inter-organisational power relations in the UK grocery industry: Contradictions and developments", *International Review of Retail Distribution and Consumer Research*, **6**, 4, 395-414.

Policy Commission (2002) *Farming and food: a sustainable future*, HMSO: Report of the Policy Commission on the Future of Farming and Food, January.

Robson, I., and Rawnsley, V. (2001), "Co-operation or coercion? Supplier networks and relationships in the UK food industry", *Supply Chain Management: An International Journal*, **6**, 1, 39-47.

Sayce, S. and Webb, S. (2001) *Grocery Retailing 2001: the market review*, Watford: Institute of Grocery Distribution.

Shaw, S., and Ennis, S. (2000), "Marketing-channel management", In: Blois, K. (Ed.), *The Oxford Textbook of Marketing*, Oxford University Press, Oxford, 245-270.

Wycherley, I. (2002), "Managing relationships in the UK organic food sector", *Journal of Marketing Management*, **18**, 673-692.