Chapter 11
Who's Got the Power? An Evaluation of Power Distribution in the German Agribusiness Industry

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Abstract Retail chains have increased in importance during the past several decades. Currently, only a handful of retailers dominate the major food markets. The resulting market shares are generally viewed as the major source of market power for these firms. We consider market power in the German agrifood industry using the framework developed by French and Raven, who identify five sources of power—legitimate, coercive, reward, expert, and referent power. Although each source is equally important, power is hard to measure and cannot be identified with a single measure. With this context, we analyze the transcripts of a public hearing of the 18th meeting of the German Bundestag, Committee on Food, Agriculture and Consumer Protection, that dealt with the topic "Supply and demand power of retailers and its consequences for consumers." As representatives from all relevant food chain participants were heard, the transcripts provide insights on the power that food retailers have in Germany.

11.1 Introduction

At the beginning of a series of government sponsored public workshops on agrifood competition in the United States in 2010, U.S. Attorney General Eric Holder posed the following question: "Is today's agriculture industry suffering from a lack of

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free and fair competition in the marketplace? That's the central question" (USDA-DOJ 2010, p. 11). This question was also the central theme of the meeting of the "Committee on the Internal Market and Consumer Protection" of the European Parliament on June 1, 2011 (see Corazza Bildt 2011), as well as of the meeting of the "Committee on Food, Agriculture and Consumer Protection" of the German Parliament on July 5, 2010 (see Goldmann 2010). This co-incidence suggests that the question is important and relevant in many countries.

In Germany today, the top 10 retail chains have a roughly 90% market share at the national level, while at the regional level some retail chains have even higher shares, which could be an indication of their possessing strong market power. That is, due to their size, these retailers could influence the decisions and actions of their suppliers or buyers. To put it more straightforwardly, retailers with this much market share might be able to tell their suppliers and buyers what they should do, maybe even to the suppliers' and buyers' disadvantage. This view assumes that power asymmetries exist, and it assumes further that suppliers and buyers do not have equal influence. However, a careful review of the processing industry shows that there are a number of processors with similarly large market shares within their more specialized sectors, suggesting that a pure comparison of market share in either the German food processing or food retail industries might not be adequate in discussions of power and power asymmetries.

As an example, consider the case of the evolution of branding in Germany. For years brands have been discussed solely in the context of strong national and manufacturer brands. However, over the past two decades, retailers' private brands have increased in importance. Today the majority of German retailers have a private "umbrella" brand that also consists of sub brands (such as low price and premium). At the same time as they established private brands, retailers also started using scanner data (data generated from electronic records of consumer purchases). This data provides retailers with substantial information about consumer behavior, often allowing them to outperform processors who must rely on purchasing data they receive from the retailers. Furthermore, consumers increasingly perceive retailer brands to be on the same footing as national and manufacturer brands. We claim that this suggests there is no longer a large difference between retailer and national brands, at least from the perspective of consumers.

As the distinction between retailer and producer blurs, consumers as well as policymakers will begin to attribute the same responsibilities to retailers as they do to processors. One area which is affected by this change in perception is the responsibility for safe and secure food quality along the whole value added food supply chain. Because of the success of private label retail branded products and the public's perception about retailer's responsibilities for food safety, retailers are now seen as liable for the total chain regardless of firm boundaries. This means that in the context of vertical coordination, retailers today have to build long term relationships with their suppliers. Excessive and anti-competitive power usage by retailers against food processors could hamper the establishment and the continuation of tighter vertical relationships. For this reason, at a recent annual meeting of the Efficient

Consumer Response initiative, retailers emphasized their efforts to build reliable relationships with their suppliers and customers.[1]

Although the market power of retailers might give them incentives to exercise inappropriate economic influence on their suppliers as well as to overcharge their customers, the discussion of retail branding above suggests that in the agrifood sector, concepts such as competition and power are complicated. Power is a multi-dimensional concept. In order to understand power use or misuse, we must first examine the different meanings and sources of power. Only then can we obtain a more balanced perspective of power in the context of the German agrifood industry. In this chapter we argue that power distribution does not reside unilaterally with retailers because processors possess countervailing power along different dimensions and types of power. Moreover, German consumers have some of the lowest food prices in Europe, and the quantity and quality of food products are good. Hence, we argue for moderation in the debate regarding retail power for these reasons: Either retailers are not prone to misuse their market power or they do not possess the market power that often is ascribed with them.

We begin this chapter by presenting a review of power and power asymmetries from the literature. In this review we also discuss how to measure power in marketing channel relationships. Based on the power concept of French and Raven (1959), we present an analysis of German agribusiness in order to answer to the questions "Who has power?" and "What are the resulting consequences?" The focus of our analysis is on the retailer-first tier supplier relation, although we will also address briefly consumers as well as farmers. Our analysis is based on a review of transcripts of a public hearing of the German Parliament, from which we argue that there are important lessons not only for the German agrifood industry but also for understanding the nature of agrifood competition generally.

11.2 Power in Marketing Channels

Several studies on marketing channels have shown that channel power has a significant impact on the buyer–supplier relationship and performance (Liu and Wang 2000; Lee 2001; Hingley 2005; Leonidou et al. 2008; Zhao et al. 2008; Yeung et al. 2009; Sheu and Hu 2009). The power relationship also has implications in the development of partnerships, as does the structure of the power-dependence relationship (Kumar 2005). Power is central not only in understanding the nature of the supply network and the power structures that exist within it, but also in implementing procurement and supply chain strategies (Cox 2001; Crook and

[1]Efficient Consumer Response (ECR) is a European food retailer industry group whose purpose is "to make the grocery sector as a whole more responsive to consumer demand and promote the removal of unnecessary costs from the supply chain" (ECR 2011). The annual meeting mentioned here was held in Berlin, Germany, on September 21–22, 2011. The organization was founded in 1994 and has its headquarters in Brussels.

Combs 2007; Ireland and Webb 2007; Flynn et al. 2008; Ganesan et al. 2009; Sheu and Hu 2009). Research has shown that the exercise of power in supply chains can impede cooperation through its interactions with other elements of the relationship (Cox 2001; Caldwell 2003; Watson et al. 2003; Corsten and Kumar 2005; Tokatli 2007; Yaqub 2009). That said, not all scholars agree on the effect of power in supply chain relationships or view power in supply chains as a negative force (Chung and Kim 2003; Hingley 2005; Maloni and Benton 2000; Sodano 2006).

There is little agreement within the literature about an exact definition of power, however. In fact, the problem of defining "power" is that it has many definitions and conceptualizations (Dahl 1957). Authors who have focused on this problem agree that power is an extremely troublesome, elusive, notoriously evanescent and subjective concept (Bierstedt 1950; Bachrach and Baratz 1962; Ramsay 1996); a vague, poorly defined "primitive" term (Hage 1972); and a difficult idea to pin down (Clegg et al. 2006). After reviewing roughly 250 definitions of power from the fields of sociology, psychology, political science, economics, management, marketing and chain and network science, we agree with Cartwright (1965) who points out that many authors "invent" their own definitions in order to suit their needs. Following the advice of Bacharach and Lawler (1980, p. 14), who state that "when doing research in order to capture the term of power we must identify a more concrete phenomenon or idea to which the primitive term points," we concentrate on definitions presented in the field of supply-chain and marketing-channel literature.

El-Ansary and Stern (1972, p. 47) define power as "the ability of a channel member to control the decision variables in the marketing strategy of another member in a given channel at a different level of distribution." Cox et al. (2002, p. 3) define power in supply chains as "the ability of a firm to own and control critical assets in markets and supply chains that allow it to sustain its ability to appropriate and accumulate value for itself by constantly leveraging its customers, competitors and suppliers." Hu and Sheu (2005) view power in terms of a strategy-influencing source that is oriented from one channel member to another. Other literature on power in supply chains and marketing channels uses similar definitions, such as the ability to influence other firms to act in a desired manner for economic gains (Ireland and Webb 2007) or to get them do things that they would not normally do (Reid and Bojani 2009). This review leads us to conclude that power generally refers to the ability, capacity or potential to get others to do something; to command, influence, determine or control the behaviors, intentions, decisions or actions of others in the pursuit of one's own goals or interests against their will; as well as to induce changes, to mobilize resources, or to restructure situations, among other things. All definitions of power seem to use similar terms and have a common theme.

French and Raven (1959) identified five types or channels of power, each based on its source or origin: coercive, reward, expert, legitimate, and referent power. *Coercive power* enables an individual to punish others. In the supply chain network context, it reflects a supplier's fear that it will be punished if it fails to comply with the requirements of the retail company. *Reward power* depends on the ability of the power holder to offer rewards to others. If a company has access to resources which are valuable to other firms, it can use them to influence the behavior of the other

firms. *Expert power* is derived from the skills or special knowledge of a particular subject. Within a supply chain, a retailer possesses expert power if its suppliers believe that the retailer possesses a special knowledge which is valuable to them (the suppliers). *Legitimate power* stems from a legitimate right to influence and an obligation to accept this influence. For example, a formal supply contract might grant certain rights to the retailer or supplier to make specific decisions in certain circumstances. Legitimate power can also arise from one's position in a network. *Referent power* is the ability to be attractive to others and depends on the charisma and interpersonal skills of the power holder. Referent power can arise when a party possesses unique or important knowledge. Within the supply chain, this power is manifested when firms want to join the procurement network of a specific retailer and when a retailer learns information about the production process of goods the retailer sells.

If power is the ability to get others to do something in the pursuit of one's own goals, even if it is against interests of others, then in the end it does not matter which source or type of power enables one to achieve the result. Power will be visible by its results. Hence, no source or type of power is more important than the other, even though some sources, such as coercion, might seem more potent.[2] What this means is that in our analysis of market power in the German agrifood industry, we consider all sources and types of power. Retailers possessing one type of power may face countervailing power possessed by food processors that is not directly tied to measures of market share.

11.3 Power Measurement

Recognizing that there are five types of power usage in marketing channel relationships, our objective is to apply them to the question of power asymmetry in the German agrifood industry. Ideally we want to measure or quantify power relations. To do so we must first define a standard for its measurement. When measuring weight, we apply kilograms, pounds or tons. The measurement of distance is expressed in meters, yards or miles. Unfortunately, as demonstrated below, there is no standard dimension for the measurement of power, which makes an objective assessment difficult if not impossible.

According to Dahl (1957) power can be estimated by measuring the amount of change induced in the actions of others. He conceptualized power as the probability that the respondent does what the actor requests minus the probability that the respondent would have done it in the absence of the request, a quantity ranging from minus one to plus one. In order to quantify power Dahl estimated conditional probabilities and calculated the difference between them. Van den Brink et al. (2005)

[2]This perception might derive from the idea that coercion is the dark side of power, in contrast to the other types of power (Craig and Gabler 1963).

introduced the idea of a cooperative transferable utility game within a symmetric network of players. They measured the power of each coalition of positions within the network by assigning them a β-value, where each position in the network has an initial weight equal to one, and measuring power is seen as redistributing this weight to all its neighbors. This measure fits well with power dependence theory developed by Emerson (1962), since the power value of a position decreases when the number of its neighbors increases.

Many studies have centered their attempts to measure power on the concept of dependence, stating that the power of *A* over *B* is equal to, and based upon, the dependence of *B* upon *A* (see El-Ansary and Stern 1972; Spekman 1979; Frazier 1983). A number of attempts have been made to measure power in marketing channels as a function of the sources of power based on the French and Raven taxonomy mentioned above (e.g., Johnson et al. 1993; Greene and Podsakoff 1981; Cobb 1980; Busch 1980). In some studies specific attention is paid to the measurement of informational power (Nermin 1991; Johnson et al. 1985), legitimate power (Ketilson 1991) and even to the additional power sources added to the typology of French and Raven (1959), such as incremental power (Ivancevich 1970) and upward influence (Greene and Podsakoff 1981). Some researchers differentiated specifically among coercive and noncoercive power sources (Hunt and Nevin 1974; Lusch 1976; Frazier and Summers 1984). Etgar et al. (1978) consider whether economic or non-economic-based power sources are more effective in enhancing channel control.

Cool and Henderson (1998) operationalized supplier/buyer power by differentiating among structural power (the number of potential suppliers/buyers and supplier/buyer concentration), dependence power (impact on seller's cost, impact on seller's differentiation and switching cost), attribution power (capacity of suppliers/buyers to bargain and the cost to switch suppliers/buyers), and integration power (the incidence of forward integration from suppliers/buyers). Their results indicate that buyer power has a much larger effect on seller profitability than supplier power. Porter (1974) attempted to model the retailer power of convenience stores and non-convenience stores. He argued that small non-convenience stores could be relatively more influential in sales than larger stores. The reason has to do with the effect of product differentiation. When the retailer is more influential in product differentiation, retailer bargaining power increases, suggesting that the size of firms can be inversely related to dealer bargaining power in contrast to popular perception (because smaller stores sell specialized lines, hence, having a greater contribution to differentiation).

Our discussion on power measurement has demonstrated a number of important insights. First, there is not one measurement or measurement system that is capable of including all relevant aspects of power. Second, power is complex and highly multidimensional. Third, power is best understood by considering each bilateral relationship among players within the network separately. Given these insights, we seek to assess the multi-facetted nature of power within the German agrifood sector by examining the perspectives of a wide variety of individual and specific stakeholders. To do this we examine the transcripts of a public hearing of the Committee on Food, Agriculture and Consumer Protection of the German

Parliament on the topic of market power, conducted in July of 2010. Spokesmen from relevant stakeholder groups were included in the hearing.[3] Thus, in addition to parliamentarians of all German parties that form the Committee, representatives of German farmers, manufacturers, retailers as well as consumers were present. Furthermore, as part of their participation in the hearings, the participants were given a questionnaire with more than twenty items asking for their perceptions on the different aspects of power. In order to analyze the different types of power and their effects we studied all transcripts and attempted to document evidence of the different sources of power (coercive, reward, expert, legitimate, and referent). Our objective is to determine if food retailers possess significant market power, given that the top 10 retail chains have roughly 90% of the retail market, through a qualitative assessment of representative comments. We present below our assessment of these transcripts and what we believe they mean in terms of power within the German agrifood industry.

11.4 German Agribusiness: Analysis of the Power Structure

11.4.1 Background Information on the German Agrifood Industry

In Germany consumers, numbering roughly 80 million inhabitants plus several million tourists per year, have many options for buying food products. A comparative study of food prices of different European countries has shown that German food prices are some of the lowest in the European Union (Lademann and Associates 2010).[4] Jürgen Abraham (Goldmann 2010, p. 8) of the food processor organization

[3]Different institutions were asked to give their opinion on the nature of competition and to send one or two representatives who delivered prepared remarks and answered questions asked by the parliamentarians at the meeting of the Committee on Food, Agriculture and Consumer Protection of the German Bundestag, 5 July 2010, in Berlin, Germany. The given remarks and comments of the participants were recorded and transcribed in the same document. We analyzed this transcript of the as well as the written comments of the invited participants. Participants and their representatives included the following: Federation of the German Food Processors (BVE 2010) represented by Jürgen Abraham; Federation of the German Retailers (HDE 2010) represented by Stefan Genth; Federation of the German Farmers (DBV 2010) represented by Dr. Helmut Born and Reinhard Schoch; Retail Chain "tegut... (2010) represented by Wolfgang Gutberlet; Lademann & Associates represented by Prof. Dr. Rainer Lademann; labor union Food Consumption Gastronomy (NGG 2010) represented by Franz-Josef Möllenberg; Consumer Advice Centre Hamburg (Verbraucherzentrale Hamburg 2010) represented by Armin Valet; the non-governmental organization Oxfam (2010) represented by Marita Wiggerthale; and Parliament Member Erik Schweickert.

[4]The study included Belgium, Denmark, Germany, Spain, France, Italy, the Netherlands, Austria, and United Kingdom for which Eurostat data of the period summer 2009 to summer 2010 had been analyzed.

BVE pointed out that because of relatively strong price competition, German consumers were at an advantage compared with consumers from other countries.[5] Only 11% of expenditures by German consumers are on food products (BVE 2010). Furthermore, consumers can select from a wide assortment of food and non-food products. For example, an average of 50,000 items are offered for sale in department stores, 10,000 items in traditional supermarkets and 2,000–3,000 items in discounters. The most important marketing channels available to consumers are retailers, direct selling by processors or farmers, and restaurants and bars. Among these, retail is the most important channel.

The German retail sector has changed dramatically since the end of World War II. In the 1950s, the first larger retailers (e.g. Tengelmann, EDEKA, REWE) were established. Today the five largest retailers have about 60–70% market share (Trade Dimension 2009); the largest ten retailers account for roughly 90% of the market share. However, a comparison of the Herfindahl-Hirschman indexes of different European countries shows that Germany is in the middle with a value of 1,900, whereas Switzerland has the most concentrated industry with over a value of 3,500 points.[6] The EU commission considers these results as high but not critical (Lademann and Associates 2010). Whereas the retail sector is dominated by a number of large firms, the processing sector is much more heterogeneous. For the last 20 years there have been roughly 5,000 processing firms in Germany. However, only 10% of them generate between 80 and 85% of all inland sales, with an average sales volume of 230–250 million Euros. The other 4,500 firms have an average sales volume of between 5 and 7 million Euros. These processors have limited production and marketing capacity and knowledge. Lademann (Goldmann 2010, p. 15) concluded that because many of these small processors are not capable of delivering to large retailers, the processors that supply retailers are relatively large. That said, a typical retailer has between 1,500 and 2,500 German suppliers on average.

A comparison of the average profits of retailers and processors is interesting since profits at the retail level are lower than at the processing level. Sales profitability before taxes on the retailing level decreased from between 0.6 and 1.6% in 2003 to between 0.3 and 0.9% in 2006. However, the same performance indicator on processing level increased in the period 1997–2007 from 2.1 to 3% (Statisches Bundesamt, various years). As an alternative to selling their products via retailers, food processors also have the option of marketing their products directly via specialized retailers, online retailers, restaurants, bars and catering firms and export. The existence of these alternatives is one of the reasons why such a high number

[5]Written opinions by the invited organizations are cited in the reference section (e.g., Lademann & Associates). Comments by organization representatives (e.g., Abraham) are taken from the Goldmann (2010) transcript with corresponding page number from the document.

[6]The Herfindahl-Hirschman Index (HHI) is a measure of the size of firms in relation to the industry and an indicator of the amount of competition among them. It is defined as the sum of the squares of the market shares of the firms within the industry, where the market shares are expressed as fractions. The HHI ranges from 1/N to 1, where N is the number of firms in the market.

of processors still exist. Besides industrial processors, there are approximately 30,000 food trade businesses. On the farm level there are around 360,000 farmers, although their numbers are declining. Dr. Helmut Born, representing the Federation of German Farmers DBV (Goldman 2010, p. 9) says that 2–4% of farmers leave the sector annually, due in part because of an overcapacity created by market interventions of the EU.

Because there are substantially more food processors and an even greater number of farmers, there is likely a significant degree of power asymmetry in the German agrifood sector. However, as Lademann (Goldmann 2010, p. 33) emphasized, power is a bilateral construct and thus should be examined separately in each buyer–supplier relationship. Broad-stroke assessments of market power or power asymmetry based solely on market shares or the number of participants can be misleading, in part because there is no single measurement of power, as stated above. Determining objective indicators is difficult because the information needed for generating them is usually not available (e.g., a determination of buyer power may require an assessment of purchase pricing below marginal cost, which requires access to private information on real costs). Because of the difficulty of working with objective measures, we consider a more qualitative analysis of power and power asymmetries by separately discussing all five sources of power (coercive, reward, expert, legitimate, and referent power) identified by French and Raven (1959).

11.4.2 Stakeholder Analysis and Sources of Power

Participants of the public hearings of the Committee on Food, Agriculture and Consumer Protection generally agreed that legitimate or position power is the most common type considered when discussing power in the food chain. Wolfgang Gutberlet (Goldmann 2010, p. 12) of the retailer "tegut..." stated that retailers are fundamentally important in the marketing channel for German agribusiness, because to reach mass markets, a supplier cannot fully avoid retailers. Since there are a limited number of nation-wide distributing retailers, such retail firms possess legitimate power. Stefan Genth (Goldmann 2010, p. 11) of the retailer federation HDE argued that while suppliers still have some alternatives, such as exporting the goods, medium-sized processors have to accept the position power of retailers. Genth also noted, however, that this can sometimes work to their advantage, since retailers often look to medium-sized processors to produce retail brands. For processors that specialize in the production of retail brands, such agreements can be very profitable as they do not have to spend any money on end-consumer marketing.

Lademann (p. 14) as well as Genth (p. 10) pointed out that in contrast to the large number of small and medium sized producers, the top 500 processors are often in a favorable position themselves, particularly if they own a "must-have" or dominant brand. In the case of such brands, consumers are willing to change their shopping outlet if their preferred on does not carry the product or

brand, which suggests that the brand-owning food processor possesses countervailing position power. Furthermore, Genth (p. 27) showed, and Abraham (p. 30) admitted, that in some segments of the food market only a handful of processors operate, so that these processors can have legitimate power. However, there can be exceptions here. For example, within the dairy industry, even though there are only a few dominant dairy companies, they do not possess significant position power because too much milk is produced by dairy farmers. Thus, regarding position power, retailers are often able to influence the decisions of their suppliers. However, in the case of large, well branded producers, the relationships are more power symmetric or even a bit asymmetrically distributed in favor of the processors.

Coercive power can evolve from asymmetries in position power. If a retailer is in a favorable position, it is also capable of punishing its suppliers if they are unwilling to make desired concessions. Small and medium sized processors often fear the potential of being delisted or having prices received cut by large retailers. As one Member of Parliament said (Goldmann 2010), "if you go – as a small family business – to a retailer for your annual meeting and there is the word delisting in the room it could be that you accept some terms that you would normally not accept." Virtually all experts commenting at the public hearing indicated that retailers use coercive power. However, large processers of top-selling brands also use coercive power, if less frequently than dominant retailers. On some occasions, processors withheld supply of some branded products to retailers in retaliation to retailer behavior. Coercive power, when applied too frequently, can create an atmosphere of distrust and suspicion between food processors and retailers, resulting in frequent renegotiations of contracting conditions and terms (Lademann and Associates 2010).

The exercise of reward power does not seem to be too evident from retailers. However, processors frequently use rewards and incentives to influence the buying decisions of retailers. There is some concern that reward power can be used in the form of bribery. For example, Lademann (p. 14) stated that all German retailers have rules that prohibit managers from accepting any gifts from their suppliers; even product samples have to be reported. Thus, reward power appears to reside primarily in the hands of suppliers.

Both expert power and referent power are rooted in brand management. Traditionally, the marketing knowledge of processors gave them expert power over retailers. Through careful marketing studies, processors knew what consumers wanted, and so they produced the products that they believed would generate the greatest demand. Retailers acted merely as the fulfilling agents of processors. However, as producers outsourced their marketing research to external service providers, such as Nielson[7] and GFK,[8] they started to lose their relative expertise in the consumer psyche because retailers could purchase marketing data from the third party external providers. Today, Abraham (p. 32) conceded that retailers often have

[7] See http://www.nielsen.com/us/en/measurement/retail-measurement.html.

[8] See http://www.gfk.com/gfkcr/.

superior customer knowledge because of their access to and analysis of point-of-sale scanner data. Small and medium sized processors are often dependent on marketing information they can receive only from retailers. Thus, over time there has been a shift of expert power from processors to retailers, which has been a function largely of technology rather than firm size or market share. However, this is only partly true in the case of popular and well-established brands. Genth (p. 29) stated that producers of "must-have" brands still utilize their own marketing studies and thus have excellent consumer knowledge.

In the context of well-known brands, referent power is also evident. For example, processors possess referent power when retailers use "big name" brands as a way to attract consumers to their stores. This is especially true for many discount retailers. However, as Lademann (p. 41) and Abraham (p. 37) observed, retailers that have private label brands can acquire and use referent power over processors. Working together with suppliers of their own private brands, retailers can learn a lot about the input markets of their supplier. Because of the number and variety of private label brands some retailers operate, retailers can sometimes have better knowledge about input prices and product development and production costs than the processors themselves. In some cases, retailers use this knowledge to establish cost-saving procedures with their retail brand suppliers in order to improve working relationships and to better coordinate the vertical product flow. Thus, the rise in private label brands seems to have increased the retailers' referent power while simultaneously decreasing it on processor side. That said, to the extent that producers of popular "must-have" brands and other processors have superior knowledge about production and development, that can enable them to influence the retailers' decisions, thus allowing some referent power to remain with processors, although it seems to be most utilized by producers of the most well-known and well-branded products.

Table 11.1 summarizes our analysis of sources of market power in the retailer and processor (supplier) relationship.

Even though the focus of our analysis has been on the retailer-processor relationship, Born (Goldmann 2010, p. 30) noted that farmers are also affected by the downstream power shifts. The vast majority of farm produce is marketed as unbranded bulk products. Furthermore, German farmers often lack customer insights so that farmers do not know which information is of high relevance to their customers. Lacking these insights, farm suppliers such as BASF or Bayer Cropscience are stepping in the position to be the knowledge broker giving them the chance to act as a system supplier for the retailers. This means that these agriculture input providers increased their expert power on the farm level. This development might result in a situation in which farmers are placed at a power disadvantage relative to the input providers.

All things considered, we conclude that power asymmetries dominate the agrifood industry, but not fully in favor of the large retailers. Retailers and food processors of well-known "must-have" brands, as well as some knowledge specialists, can have relatively symmetrical power relationships. However, the vast majority of food processors are small to medium sized processors, and most of

Table 11.1 Summary of types of power and power asymmetries in the retailer and processor (supplier) relationship

Type of power	Retailers	Food processors
Legitimate or position	Favors large retailers due to relatively larger number of food processors	Favors large processors that have popular brands Favors medium-sized processors that produce private label brands for retailers
Coercive	Dominant firms can force concessions from processors, especially small and medium-sized ones	Large processors with branded products can threaten to withhold supply
Reward	Rarely evident or used by retailers	Processors use rewards to influence retailer behavior Potential for bribery
Expert	Point-of-sale scanner data can give retailers an advantage	Marketing knowledge of branded products, though marketing studies by third parties can weaken processor advantages
Referent	Private label brands gives retailers access to production and development information and greater control over some vertical supply chains	Popular brands as sale leaders, as well as production knowledge, gives an advantage to processors

Note: Summary of examination of participant comments from July 2010 public meeting of the committee on food, agriculture and consumer protection of the German parliament.

these have weak brands and are not able to exert meaningful economic power against the retailers. Because they are small they are not able to achieve position power, and without position power and resulting (financial) capability, they also do not hold coercive or reward power. These producers also generally do not have sufficient expert knowledge of their customers or referent power to balance the power asymmetries they face elsewhere.

In contrast, small or medium sized processors that are able to establish a unique niche brand are also able to withstand competitive pressures from retailers. The reason is that niche branding allows the firms to gain specialized consumer knowledge in their segment and thus obtain expert and other types of power associated with a successful brand. Indeed, if there is one major implication of our analysis of power in the German agrifood industry, it is that consumer knowledge and professional brand management are the most valuable resource for successfully mastering the (future) competition because with these capabilities small and medium sized companies are capable of leveraging their expert power against the power asymmetries resulting from the legitimate power of large retail chains.

11.5 Summary

The trend toward concentration within the agrifood industry is being watched carefully by politicians, consumer protecting institutions, and researchers all over the world. The evolving multinationals (retail chains and food processors) have reached the economic magnitude of small countries,[9] so that the term "powerful" can be attributed to them. This claim is supported by the fact that these companies also often have huge market shares. Undoubtedly power results from possessing such market shares. However, our review of the literature has led to three observations. First, power is a multifaceted construct, emerging from different sources, and position is only one of them. Second, there is no single measure that combines all sources of power, so that a differentiated analysis of power and its sources must be used to answer the question of whether a retailer is exerting power over a supplier. Third, power is a construct that can only be analyzed in a concrete situation of two players, as it is a bilateral construct; hence, concentration ratios on the industry level have only very limited usage. For these reasons we analyzed German agribusiness, focusing on the retailer-processor relation, considering all five power sources identified by French and Raven (1959): legitimate, coercive, expert, reward, and referent power. We did this by studying the verbatim transcripts of the 18th Meeting of the "Committee on Food, Agriculture and Consumer Protection" of the German Parliament on July 5, 2010. Within the meeting representatives from all stages of the food chain commented on the power situation within the agrifood sector from their perspective. The controversial opinions provided by meeting participants enabled us to study the complex nature of power.

Our analysis of the transcripts showed that the position power of retailers, derived primarily from their market share, is of key importance. However, large processors and processors with popular brands or who produce private label products for retailers also possessed some countervailing position power. The transcripts also showed that retailers would use coercive power to discipline their suppliers, but the threat of withholding supply of popular products could give processors coercive power, but less frequently. Reward power is rarely used by retailers, but it is often used by producers. With respect to expert power, popular, strongly branded processors dominate in consumer knowledge, but retailer access to scanner data and customer buying behavior helped shift some power from processors to retailers. Referent power is generally possessed by producers, who use it, although the marketing of private labels provides some power benefit to retailers.

Overall, we conclude that power is asymmetrically distributed in the German agrifood industry, but not uniformly and not fully in favor of large retailers. Instead, large and well-branded processors possess and use some power sources and hence

[9]For example, the world largest retailer Wal-Mart had total food sales of roughly 255 billion USD in 2010, whereas Luxemburg had a gross domestic product of 41 billion USD. The largest German retailer the Schwarz-Group had total food sales of 72 billion in 2010, whereas Cyprus had a GDP of 23 billion.

are not always affected by them. This leads to the situation that the "power game" is being played very intensively among food chain participants in Germany, generally to the benefit of German consumers. The lessons here ought to apply in other countries where there are concerns about dominating retailers and food processors.

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