UK supermarkets imposing quality assurance on suppliers

Professor Andrew Godley, Head of Leadership, Organisations & Behaviour

In the UK the ‘Big Four’ supermarkets now account for three quarters of all food sales, with Tesco alone having just under 30% of the market. Approximately similar levels of concentration are seen in the US as well as in the French, German and Dutch grocery sectors (although not in Italy and Spain) among the largest European economies. But the controversy over supermarkets today does not arise from their size per se, but rather from the implications of market dominance for consumer choice.

Controversy over supermarkets arises from the implications of market dominance for consumer choice.

Supermarkets restrict choice through two avenues, either through the choices made over what goods to stock (and hence what not to stock) on behalf of consumers, and the choice of what information to release to consumers about increasingly complex food products. If consumers could be sure that supermarket buyers were acting fully in their interests, then there would be little controversy. But the recurrence of a variety of food scandals has reinforced in some consumers’ minds the view that supermarket buyers cannot be trusted to act in their interests. Supermarket dominance in the market means that they are able to control their supply chain. This control means that they might use that influence to their private advantage and to the cost of consumers.

In the UK, supermarkets insist that their record in defending consumer interests is strong (although self-evidently not perfect), and that they fully appreciate and respect the trust vested in them by ordinary consumers. The reason for their intervention in the supply chain, they insist, is as a mechanism for guaranteeing the quality control of food producers for the retailers’ and consumers’ collective benefit. Supermarkets claim that far from abusing consumer trust, they actually police the ever more complex food supply chain on behalf of ill-informed consumers.

This research aims to understand the validity of these competing explanations of UK supermarket behaviour. It reports the results of a comparison of the long term trends in the modern poultry industry in three economies (the US, UK and Italy), and the differing roles played by supermarkets in the establishment of this sector. Each of the three markets became leading producers of poultry meat. They each developed using novel genetic strains of birds and highly complex intensive rearing practices. The role played by the leading supermarkets in controlling the supply of poultry meat differed significantly in the three countries, however.

The Italian model was based purely on small-scale producers interacting with small-scale processors and retailers, with the poultry sector’s growth dependent solely on market interactions. The US model was also based on the primacy of contractual relationships within the market, where suppliers would sell and retailers would buy stock in regular auctions, although the market actors were large and fully-integrated food producing ‘agri-businesses’.

The British model, by contrast, was based on collaborative relationships in the supply chain, relationships instigated and controlled by retailers. This was absent in the US. The American preference was for “arm’s length” contracts. In a sector where quality assurance was of paramount importance in guaranteeing product quality to the consumers, the British model was to opt for the organisation closest to consumers, the leading retailers, to be the principal co-ordinator and guarantor of quality. The American model largely left the policing and co-ordination of the food market to the relevant government department and those firms with the deepest pockets, best able to survive the industry’s periodic downturns and drive consolidation through.

The case study of the development of one of the most complex but most significant food sectors (the poultry sector) in these three countries over recent decades illustrates that the food supply sector can adopt different institutional structures with similar levels of productivity. But the complexity of modern meat production has also meant that different national settings have produced different mechanisms to alleviate legitimate consumer concerns. In the United States, the national government has adopted the sole right to police the supply chain. By contrast
in the United Kingdom, it was the leading supermarkets that took on that role, and so began to adopt supply chain management practices that became highly interventionist and controlling. This model was already securely established within the supermarket sector well before the period of the 1980s and 1990s, when the leading four supermarkets began to acquire their dominant market share.

This research therefore demonstrates that the explanation behind UK supermarkets’ control over suppliers is less to do with their market power, and more to do with the industry model where the primary policing of quality control was undertaken by the retailers rather than by government.

1 Tesco 28.6%, ASDA 17.4 %, Sainsbury 16.5%, Morrisons 11.1%. Data from Kantar Worldpanel (April 2014).
2 The horsemeat scandal is only one of the most recent.