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A model of supplier–retailer power asymmetry in the Australian retail industry

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ABSTRACT

Power asymmetry in highly concentrated retail markets is an unavoidable consequence within supplier–retailer relationships. This paper investigates the existence of power asymmetry in an Australian context and outlines the impacts on the industry. A documentary analysis was undertaken using documents from three major investigations into the grocery retail sector in recent years. These documents allowed us to gain insights into the industry using report submissions and transcripts of public hearings. In addition, in-depth interviews were carried out with suppliers to Australia's two major supermarket chains (who account for 73% market share). The interviews focussed on the nature of the relationships they had with the retailers. Combining these two approaches provided rich data. This paper contributes to the literature on power in supply channels. The findings support the existence of power asymmetry across many product categories but, contrary to other studies, find that the major supermarket chains in Australia are not averse to exerting coercive power for their own benefit. We propose a model identifying the determinants of power asymmetry. We find that the highly concentrated nature of the grocery retail market sees the power imbalance exaggerated in this context. We conclude that power asymmetry in the short-term is benefitting consumers, but that the long-term impacts on the supply chain may be detrimental to the grocery industry in Australia if nothing is done to curb the market power of the two major supermarkets chains.

1. Introduction

Relationships have long been considered vital to business success (Ford, 2002; Brennan & Turnbull, 1999; Turnbull, Ford, & Cunningham, 1996), but it is the understanding of the dynamics of those relationships that can hold the key to that success. Power and interdependence have been a central theme of relationship dynamics and are considered crucial for understanding relationships (Caniels & Gelderman, 2007). In the retail industry there is almost an implicit understanding that relationships between powerful retailers and their suppliers will be asymmetric (Hingley, 2001). These relationships can be long-term, with the parties being committed to the relationship, albeit 'calculative commitment' (Kumar, 2005). Essentially many suppliers have little choice but to maintain their relationships in order to access consumers (Schellhase, Hardock, & Ohlwein, 2000).

Numerous studies have highlighted the ability of major retailers to exert power in highly concentrated markets (Gedeon, Fearne, & Poole, 2008; Olsen, Prenkert, Hoholm, & Harrison, 2014; Hingley & Hollingsworth, 2003). To date the majority of these studies have concentrated on players in the European and US markets. This paper investigates this phenomenon from an Australian perspective. The Australian grocery retail market is highly concentrated with two major dominant players. Such dominance may lead to power asymmetry and a channel climate that may lead to the exercise of that power asymmetry (Zhuang & Zhang, 2011).

Given this context, the purpose of this paper is to understand the supplier–retailer relationship dynamics (specifically power) in the Australian environment. The specific research questions of this study are:

- To what extent do Australian retailers have and/or exert power in the grocery supply chain?
- What is the impact of power asymmetry in this context (negative and positive)?

2. Power in business relationships

Power is a central theme of relationship dynamics and is interestingly considered crucial to the operational and commercial success of relationships (Dahlstrom & Dwyer, 2008; Cox & Chicksand, 2005; Turnbull et al., 1996). In any business relationship, the balance of power and the degree of dependence or interdependence will help shape the dynamics of the exchange processes that lead to the evolution of relationships. In order to understand the role of power in relationships it is important to define it clearly. Many definitions have been proposed and refined over the

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years, and for the purposes of this paper we explore the existing definitions in an attempt to clarify our understanding of power.

Gaski (1984) puts forward many definitions of power, highlighting the consistency of the definition of power in the literature;

> A has power over B to the extent that A can get B to do something that B would not otherwise do. (Dahl, 1957)
> The power of actor A over actor B is the amount of resistance on the part of B, which can be potentially overcome by A. (Emerson, 1962)
> When an agent, O, performs an act resulting in some change in another agent, P, we say that O influences P. If O has the capability of influencing P, we say that O has power over P. (Cartwright, 1965)
> [(as cited in Gaski, 1984, pp.9–10)]

From these definitions, power can be regarded as the ability of one party to influence the actions of the other. What is particularly important is the perceived balance of power, since it is not the use or exercise of the power within the relationship but the knowledge that it exists, which can change the actions of the parties. The relative dependence between the parties in the relationship determines their relative power (Hallen, Johanson, & Seyed-Mohammed, 1991). Emerson, 1962 also clearly makes the connection between power and dependence and states that:

> Power resides implicitly in dependency........The dependence of actor B upon actor A is (1) directly proportional to B's motivational investment in goals mediated by A, and (2) inversely proportional to the availability of those goals to B outside of the A-B relation (p. 32).

If party A perceives that it is dependent on party B and that party B is not dependent on party A, then that would give party B a certain degree of power in the relationship. Moreover, party B would only have that power if the parties hold the same perception of their relative interdependence. The dependence in business relationships may result from several factors, including a lack of alternatives (suppliers or customers), the importance of the product, and availability. The overriding issue in examining power and dependence is the realisation that one party's power stems from the dependence of the other party on it. This realisation is confirmed by Dixon and Wilkinson (1982) who state that the more one firm depends on another, the greater the power the latter has over the former.

Whether (or not) power and dependency are in fact two extremes on the one continuum merits some discussion. Pfeffer and Salancik (1978) suggest that organisations respond to the demands of other organisations that control critical resources. From this, power and dependency may be seen as opposites ends of a continuum in that “firms in a business relationship can be expected to adapt to each other to the degree that they are dependent on each other's resources” (Hallen et al., 1991). In other words, if one party holds the balance of power based on control of critical resources, then the other party may be dependent on that party.

For this reason it is often difficult for suppliers to develop mutually beneficial relationships with customers, given the power balance (Benton & Maloni, 2005). This is especially true if we consider the power balance as being dependence-based, because parties who possess dependence-based power may choose to exercise that power through punitive actions or through non-coercive tactics (Kumar, Scheer, & Steenkamp, 1998; Kumar, 2005). These mediated power bases are often seen as the negative side of power asymmetry. On the other hand, non-mediated power bases such as expert, referent, and traditional legitimate sources (French & Raven, 1959; Benton & Maloni, 2005) are common in buyer-seller relationships, occurring naturally as a part of buyer-seller interactions. Essentially, research has shown that asymmetrical power relationships can have benefits even for the party with the weaker bargaining power (Hingley, 2005). Power and dependency in relationships are multi-dimensional constructs, and as an example one party may be smaller than the other and it would be assumed the larger party has the power this is not always the case. It may be that the smaller party is technically superior and in this context the power balance lies with them. The existence of power asymmetry in its own right is not indicative of a non-working relationship; rather it is the exercise of power, particularly through coercive tactics, which can lead to conflict in the relationships. More powerful channel members have also been known to exercise non-coercive strategies as opposed to coercive tactics to maintain their power advantage. (Frazier & Rody, 1991). Higher dependence levels may also lead suppliers to be more compliant, so that the exercise of power may be infrequent (Frazier, Gill, & Kale, 1989; Zhuang & Zhou, 2004; Zhuang, Youmin & Tsang, 2010). It has also been shown by previous research that the appropriate use of power, by the stronger party, significantly enhances relationship commitment hence the reluctance to use coercive power (Zhao, Huo, Flynn, & Heung, 2008).

There has been much discussion in the literature about this issue in a retail setting (Dusart, 1998; Clarke, 2000; Duffy, Fearne, & Hornibrook, 2003; Hingley, 2005; Hingley, Sodano, & Lindgreen, 2008; Ostendorf, Mouzas, & Chakrabarti, 2011). In several countries, such as the U.K., Finland and Australia, retail concentration levels are very high. Given the high levels of concentration in these countries, suppliers have greater dependence on the retailer who controls the access to consumers (Frances & Garney, 1996). Controlling the access to a substantial portion of the supplier's market leads the retailer to be seen as a “gatekeeper” (Dobson & Inderst, 2008). This increased dominance of large supermarket chains has led to greater levels of power asymmetry with the potential for these players to exert this power for their own benefit. Indeed Schellhase et al. (2000) go so far as to say that “retailers have gained the upper hand in the sales channel.” Previously there was an argument that manufacturers with sought after brands had a degree of countervailing power (Blois, 2005), but as supermarket power has evolved and strengthened over time this has been further eroded. The impacts of this power imbalance have been discussed in terms of increased fees being paid by suppliers, fear of further pressure on prices, restricted product range and issues of shelf space allocation (Bloom & Perry, 2001; Biong, 1993; Skinner, Gassenheimer, & Kelley, 1992). For suppliers, these are the negative impacts of the asymmetry but for consumers, the impacts of the asymmetry are positive with cheaper prices being passed on and therefore improving consumer welfare, although in longer term this may lead to less choice (Frances & Garney, 1996; Clarke, 2000).

In light of this literature this study aims to investigate the power of the two major Australian supermarkets, in particular to confirm the existence of power asymmetry and to investigate its impacts both positive and negative on the food industry as a whole. Power and dependence will be explored, in particular how they have evolved as supermarket dominance increases. The coercive elements of power at play will also be examined. The determinants of power asymmetry will be identified and a model will be presented to help explain the evolutionary nature of power in this context.

3. The Australian context

The Australian grocery retail industry is dominated by two major supermarkets, Woolworths and Coles. In 2013, Woolworths was the leading player with 39.6% market share, while Coles held 33.5% (IBIS World, 2014). To highlight the dominance of these players, it should be noted that Metcash, which supplies independent grocers, has only 9.5% market share and Aldi the next biggest supermarket has only 10.3% market share. In 2011 there was a dramatic shift in power in the grocery supply chain following the increased use of private label brands by the two major supermarkets and the start of aggressive price wars between the two, which drove prices down across the board, e.g. Milk being sold at $1 a liter down from an average of $1.24

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