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Farmers' and Citizens' Criticism towards the German Food Retail Sector – Insight into the Results of a Future Workshop

Kritik von LandwirtInnen und BürgerInnen am deutschen Lebensmitteleinzelhandel – Einblick in die Ergebnisse einer Zukunftswerkstatt

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Summary

The German food retail sector is an important actor in the food value chain. So far, its role is viewed as problematic by farmers and citizens. Therefore, this study was conducted to get a deeper insight into the criticisms towards the food retail sector. A total of 24 guided discussions were conducted virtually with each session composed of two participants, one citizen and one farmer. Gathered data was analysed applying content analysis. Four major areas of criticism of the food retail sector were revealed: profit distribution, pricing, standards and marketing strategies. Farmers were most critical towards pricing policies while citizens were much concerned about marketing strategies, especially towards insufficient information on products. The research results indicate that participants feel powerless towards the food retail sector.

Keywords: food retailing, farmers, citizens, consumers, criticism

Zusammenfassung

Der deutsche Lebensmitteleinzelhandel ist ein wichtiger Akteur in der Lebensmittelwertschöpfungskette. Bisher wird seine Rolle dabei von LandwirtInnen und BürgerInnen als problematisch eingeschätzt. Die vorliegende Studie wurde durchgeführt, um Erkenntnisse über die Kritikpunkte deutscher LandwirtInnen und BürgerInnen gegenüber dem Lebensmitteleinzelhandel zu vertiefen. Dazu wurden insgesamt 24 leitfadengestützte virtuelle Diskussionen durchgeführt, wobei jede Sitzung aus zwei TeilnehmerInnen, einem/einer BürgerIn und einem/einer LandwirtIn bestand. Die Daten wurden mittels Inhaltsanalyse ausgewertet. Dabei wurden vier Themenfelder bezüglich der Kritik am Lebensmitteleinzelhandel aufgedeckt: Gewinnverteilung, Preisbildung, Standards und Vermarktungsstrategien. Die LandwirtInnen kritisierten am meisten die Preisbildung und die BürgerInnen waren sehr besorgt über Vermarktungsstrategien besonders die unzureichenden Produktinformationen. Die Forschungsergebnisse zeigen, dass sich beide Akteursgruppen gegenüber dem Lebensmitteleinzelhandel machtlos fühlen.

Schlagworte: Lebensmitteleinzelhandel, LandwirtInnen, BürgerInnen, VerbraucherInnen, Kritik

1 Introduction

Market concentration of food retailing in Germany as well as internationally is high (Haucap et al., 2013). Four companies (Aldi, Edeka, Lidl/Kaufland and Rewe) referred to as the BIG4 make up 70% of the food retail business in Germany (WBAE, 2020). About thirty years ago, 70% of the food retail sales were generated by the ten largest German companies (Weber, 2009). These figures clearly show how condensed food retailing has become in Germany, and consequently that market trends are influenced by only a few actors.

There are three factors that contribute to the concentration of the food retail sector, internationally as well as locally: mergers and acquisitions, technical advances and reforms of the regulatory environment (Haucap et al., 2013). In particular, mergers and acqusitions that the food retail sector has experienced in recent years have increased its market concentration (Secor and Çakir, 2016). Drivers of mergers and acqusitions in food sector are various (Adams et al., 1997). However, Adams et al. (1997) classify them into four groups: monopoly, efficiency, managerial and speculative gains. Technical progress is particularly advantageous for large chains that use modern barcodes and scanner tills (Haucap et al, 2013), while governmental regulation, for example stores opening time (see Wenzel, 2011), may have a positive impact on certain types of businesses (Colla, 2004).

Another activity that can cause an increase in market concentration is vertical integration (Häckner, 2003). Vertical integration occurs when one actor controls two or more levels of the value chain or product-marketing chain (Hinrichs, 2004). There are two directions of vertical integration within the value chain: backward and forward (Bering, 2021). Vertical integration in the food sector will tend to be stronger when there is a specific, uncertain, and complex service to be provided. Vertical integration makes it easier to meet and verify food quality requirements and thus ensure the safety requirements of end consumers (Hinrichs, 2004). An example of vertical integration in the pork production chain is the U.S. company Smithfield, which is co-owner of farm resources and slaughterhouses (Schulze et al., 2007).

Increased market concentration of food retailing influences its international position, especially with regard to trade. Retailers intermediate and import goods and therefore have a significant international trade role (Raff and Schmitt, 2011). Food retailing also influnces the actors in the food value chain, where its position is very important. As a link between farmers and consumers, food retailing has a strong impact on both sides (Seo, 2020). Moreover it stimulates competition at the lower stages of the food value chain (Balmann and Schaft, 2008). Aspects important to consumers such as price, choice, and quality of food products are directly affected by the development at the level of food retailing (Dobson et al., 2003). When it comes to farmers, food retailing impacts them first of all through price and production requirements. Given the impact that food retailing has on farmers and consumers, it is important to understand the issues that these two stakeholders face.

Therefore, this study aims to explore criticism of the food retail sector from the perspective of the two food value chain members, farmers and consumers.

2 Background

The concentration of food retailing is described in the theory of value chains as part of a verticalization process. The food retail sector leaves its position as a horizontal mediator between consumers and producers and takes a vertical i.e. a hierarchical position towards other actors in the value chain. This position of the food retail sector undermines some key characteristics of the food value chain, which according to Diamond et al. (2014) include:

- *„Coupling economies of scale with sales of differentiated food products that are designed to attract consumer demand and obtain premium prices in the marketplace"*
- *„Using cooperative strategies to achieve competitive advantages and the capacity to adapt quickly to market changes"*
- *„Emphasis on high levels of performance, trust, and responsiveness throughout the network"*
- *„Emphasis on shared vision, shared information (transparency), and shared decision-making and problem-solving among the strategic partners"*
- *„Commitment to the welfare of all participants in the value chain, including providing adequate profit margins to support the business and its owners, fair wages, and business agreements of appropriate and mutually acceptable duration"*

As a result of this verticalization process, the food retail sector is increasingly able to implement value-chain governance, i.e. to define the production and exchange conditions. Producers have commonly branded and distributed their products using a network of wholesalers and retailers to deliver products to customers. In recent times however, it is the retailer who dominantly manages this process (Dobson et al., 2003). One way which food retailers often choose to increase their power is product differentiation. Product differentiation by the food retailing sector, such as the separate marketing of regional food products strengthens the concentration of food retailing, but also its governance tasks. By offering differentiated products, the respective retailer can win more customers. At the same time, in order to be able to offer more differentiated products, the retailer has to demand additional standards from farmers such as organic production or animal welfare. As a result, there are farmers who often work at the edge of their capabilities to meet retailers' demands and ensure the livelihood of their families. Especially, the position of small farmers is difficult when they are forced, but cannot afford to refuse price reduction, often to the level where their survival is questionable (Dobson et al., 2003). Consequently, these circumstances lead to a feeling of powerlessness of the farmers.

Table 1: Questions for the interviews with farmers and consumers in 6 German cities/towns - Criticism phase

1. What experiences have you had with animals (farm animals or pets)?
2. What does farm animal mean to you?
3. What do you understand by a husbandry system in which the cows/pigs/chickens are doing well?
4. What worries you or what are you afraid of in animal husbandry?
5. As a consumer, what bothers you about consumer protection in relation to dairy/pig/poultry farming? As a farmer, what bothers you about dairy/pig/poultry farming?
6. As a consumer, what criticisms do you have of dairy/pig/poultry farmers? As a dairy/pig/poultry farmer, what criticisms do you have of consumers?
7. What bothers you about the food retailing/politics/processing industry in relation to dairy/pig/poultry farming?
8. What was the most interesting isssue you discussed?
9. What were the main criticisms you found?

Note: In this study we deal with the question (main category) „What bothers you about food retailing in relation to dairy/pig/poultry farming?“
Source: Own presentation.

3 Research Questions

To achieve the goal of the study, the following questions were defined to be answered:

1. What are the main criticisms of farmers and consumers about market concentration in food retailing?
2. What are the differences and what are the similarities between farmers' and consumers' criticisms?

4 Materials and Methods

We conducted 24 online discussions each with one farmer and one citizen in autumn 2020. Participants in the discussions were from rural areas of 6 German towns/cities, and were selected for a particular discussion according to the widespread type of farm animal husbandry in the area they come from. In Borken and Güstrow pig farmers were selected in addition to citizens[1]. Dairy farmers in Flensburg and Kempten, and poultry farmers in Vechta and Magdeburg in addition to the citizens. All citizens selected to participate in the discussions had to be well acquainted with the research topic. These discussions were conducted as the first phase of the future workshop.

The future workshop can be defined as a method for offering solutions for various social problems through the participants' creative group work. It consists of three steps: complaint and criticism phase, fantasy and utopia phase, and realization and practical phase. In the first phase, the participants are expected to critically assess the current situation of the research subject. As the name suggests, in the second phase participants „leave reality“ and express their fantasies, dreams, and desires related to the solution of the problem. In the third and last phase, first possible solutions appear and thus offer ways to act (Kuhnt and Müllert, 2006).

A guide was developed and used as a framework for the discussions (see Table 1).

The focus of this paper is on farmers' and citizens' critical opinion towards the food retail sector (Question 7 in Table 1). The discussions were conducted using a communication platform from a professional market research company and recorded in video and audio format. To analyze collected data, the content analysis with mixed inductive and deductive approach was applied (see Mayring, 2015). Based on the discussions, a category system was developed and used as a basis for explaining the results.

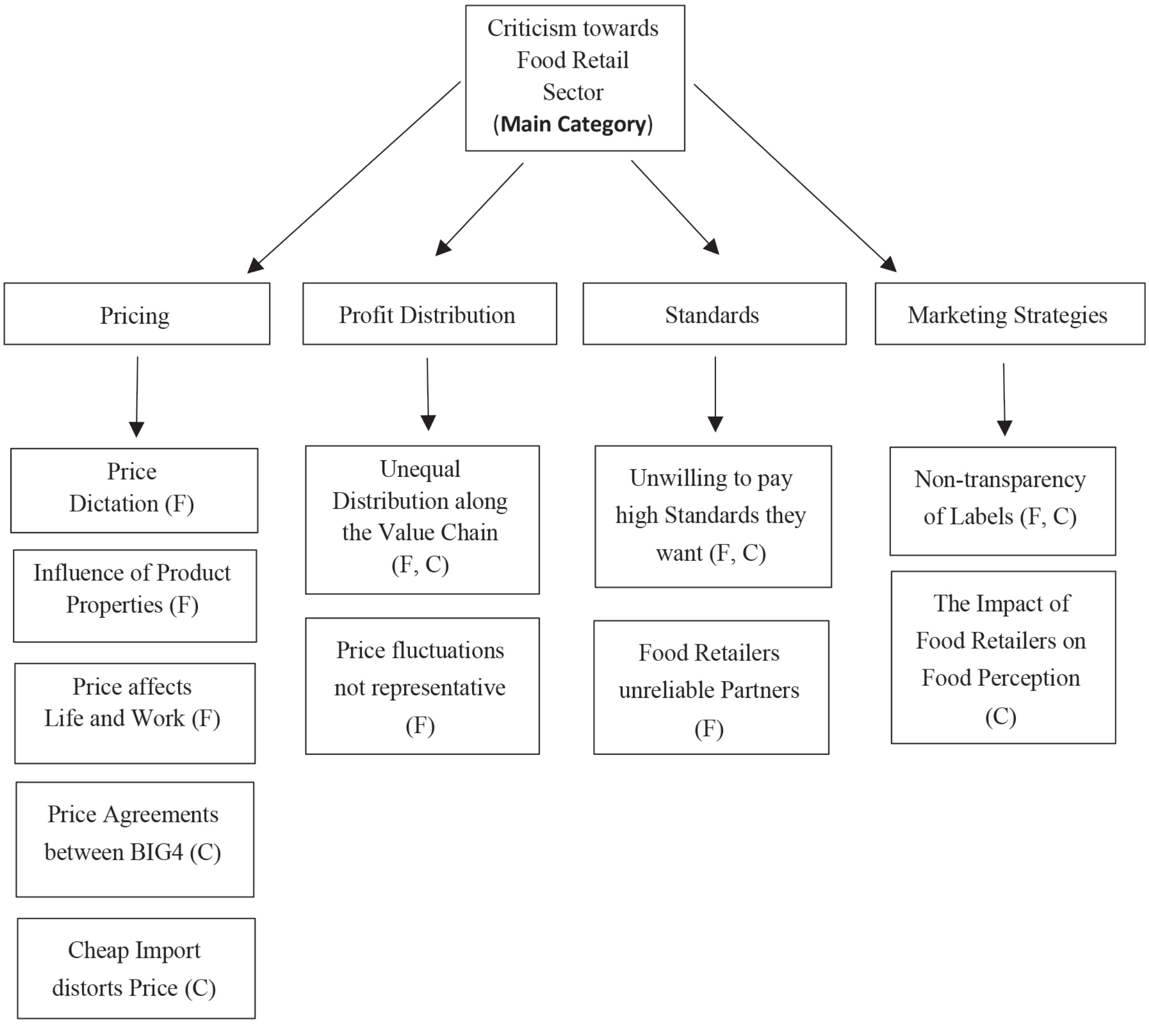
5 Research results

The research results revealed that both, farmers as well as consumers criticized the food retail sector in relation to four main issues: pricing, profit distribution, standards, and marketing strategies (see Figure 1). The criticism of farmers towards the food retail sector was stronger and more comprehensive, than that of the citizens. Pricing of animal products was indicated as a major issue by farmers when it comes to the food retail sector. Consumers first of all criticized marketing strategies for not ensuring sufficient product information.

Farmers as well as citizens understand that every actor in the food value chain has to make profit, however, they also think that the food retail sector makes more money at the expense of farmers. The farmers generally criticized the position and behaviour of the food retail sector which from their perspective has huge market power and deals unfairly with profit distribution. *„It is not the farmer who puts the money in his pocket (...), the food retail sector has such great market*

1 The term „consumers“ is also used further in the text for the same group of research participants.

Figure 1. Category tree for the criticism of German food retailing



Note: F-Farmers; C-Consumers.
Source: Own illustration.

power. In the end, far too little is left for the farmer"[2], said one poultry farmer. Some farmers have gone a step further and mentioned a specific example of what in their opinion would happen in the case of increased prices. A cattle farmer said: *"If milk costs 10 cents more, the farmer doesn't get 10 cents more. Then the food retailer firstly says he wants a little more. We then only have 2, 3, 4 cent left over, if at all."* Furthermore, some farmers have complained that prices in supermarkets are more stable than in the agricultural sector, where frequent declines are observed. According to some farmers, one of the few solutions when it comes to profit distribution would be the purchasing of regional products directly from the farmers.

Consumers mentioned that they would like to support farmers by purchasing more expensive products in supermarkets, but they have two obstacles to overcome. First, from their perspective some supermarkets do not offer products which are of good quality. One consumer pointed out: *„For example I do not have an opportunity to buy good meat here (...)"*Second, in the case of a hike in price, they do not belive that the farmers will have a relevant benefits from that action. *„Even if I would go to REWE now (...) I would always have the feeling that a company is still putting something in its pocket instead of paying something to the farmers"*, said one consumer.

The second issue that was seen critically by the discussants was pricing in the context of animal food products. The farmers criticized low consumer prices, because in their opinion through such prices food retailers only want to ensure high margins. Farmers complained that this behaviour by food retailers directly and negatively affects producer prices. *„What bothers me about the food retail sector is (...) that there is always only one direction for the food retail sector, to lower producer's prices"*, said a pig farmer. Furthermore, the food retail sector uses perishability of milk and weight limits for cattle to achieve desired prices. If farmers are reluctant to sell at a certain price, food traders buy cheaper, products from abroad instead. In the worst case,

2 Citations were translated from German

farmers would have to get rid of their products or sell them at a loss, which they often do. Some farmers said they can no longer compensate for the low prices through more of their own work. A cattle farmer said: *"I am concerned because we have not received a fair milk price in the last 5, 6 years. That means our work is not properly paid. You might not want to say it but, the farmer isalready partly enslaved. You start early in the morning and leave inthe evening because you are exhausted (...)."* Compared to the situation of pig and dairy farmers, poultry farmers see their own situation somewhat better when it comes to pricing. They said, it is easier to achieve transparent contracts with food retail businesses as a poultry farmer than pig or dairy farmer. "*For example, we made a targeted decision to farm poultry because we can make contracts with food retailers. For one to two years we know what the price is going to be for an egg (...). You cannot do that in dairy or pig farming (...)"*, said one poultry farmer.

Understandably, consumers' criticism of the food retail sector regarding pricing was much milder than that of farmers. They believe that the BIG4 companies secretly negotiate prices which finally leads to all four companies having similar prices for animal food products. However, from their perspective, current animal product prices in the domestic market are expected because low-priced products from the EU and abroad are serious competition. One of the consumers pointed out: *"It is clear if this (meat) becomes too expensive, there will still be meat but it will no longer come from Germany, someone brings and imports it."*

The third issue that was criticized primarily by farmers was an issue regarding standards in the production process. The farmers complained that the food retail businesses demand high standards of products but at the same time, they are not willing to reward them financially. Moreover, from the farmers' perspective, food retailers are unreliable partners with whom the contract must be concluded and everything negotiated in detail, otherwise even with the slightest problem there exists the danger that they will cancel the order. The issues such as animal vaccination status or purchase quantity must be agreed upon in any case. Then the dimension became clear, that there was a huge amount of eggs going back just because very few of them were not good enough. *"If something goes wrong somewhere, then the whole batch is sent home, because you thenhave an excuse"* said a poultry farmer. Due to this behaviour of the food retailers, farmers feel restricted to work in a more animal-friendly manner.

Marketing strategies were the fourth criticised issue, which was mainily censured by consumers. Consumers as well as farmers think that there is the lack of transparency regarding product labels, especially when it comes to regional labels. Farmers and consumers understand regional to mean a radius such as within the same federal state. But, food retailers would market food products originating from all over Germany or even the EU as regional, said discussants. A consumer said: *„Numerous supermarkets try to sell it a little too well in terms of marketing. Although regional, what I have now noticed is not necessarily here in Schleswig Holstein (...). Regional, it means from Central Europe.* Furthermore, consumers want labels with clear information about the origin of the product and how the animals died. They think that supermarkets are not concerned with quality, but with the positive image of the store and therefore use different and often confusing labels. *„There is also the cliché about the mountains, the beautiful nature we have (...). Of course, that doesn't correspond to reality"*, a consumer mentioned. Consumers also criticized food retailers' impact on society's perception of how agricultural products should look. A consumer said: *"The biggest player is the food retail sector or the market, the processing industry and marketing, because we are shown what a piece of meat should look like."* The discussants conclude that the food retail sector has an important task, which is to improve its information policy towards consumers.

6 Conclusion

The discussions provided an important insight into the criticism of two actors, farmers and consumers towards retailing, another actor in the food value chain. Pricing, profit distribution, standards, and marketing strategies were the four areas criticized by the participants. Taking advantage of the fact that farmers produce perishable products such as milk and that their livelihood is tied to the sale of these products, retailers set prices that bring them substantial profit and farmers a minimal profit. In addition, farmers believe that any price fluctuation hits them much harder than retailers. From the consumer's perspective, cheap imports and secret price agreements between large retailers are the main tools retailers use to control food prices. Farmers believe that retailers are not willing to pay high standard in agricultural production, even though they are looking for it, and that they are not reliable partners. Consumers believe that retailers' marketing strategies are not fair. Although both groups criticized the behaviour of food retailers in all four areas, the judgment of farmers was more comprehensive than the judgment of consumers. This is to be expected if we consider the fact that food retailing impacts farmers' activities in a more complex way. The criticism of farmers and consumers towards the food retail sector can be linked to processes of verticalization which can be observed around the world. In particular, the carrying out of value-chain governance by the food retail sector triggered a feeling of powerlessness among the discussions' participants. Strong influence on pricing, the increasing demand for standards and product differentiation, e.g. regional products are closely related to value-chain governance (Humphrey and Memedovic 2006). Possible solutions to overcome the feeling of powerlessness could be for example direct marketing or product differentiation at the agricultural level. The farmers' comments indicated that they do not currently see these strategies as an option. Therefore, honest communication between farmers, consumers and retailers, keeping in mind underlying values of the food value chain, could be a first step in the creation of a favorable position for all of them (Diamond et al., 2014). Further studies should explore the extent to which fairer trading relationships between food retailers and farmers could ensure a better balance between all actors in the value chain. In addition, possible solutions should be developed on how farmers and consumers can avoid the impression of powerlessness vis-à-vis food retailers.

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