



Food Marketing Policy Center

NEWSLETTER

Department of Agricultural and Resource Economics
College of Agriculture and Natural Resources
University of Connecticut

Mission

The Food Marketing Policy Center conducts research on food and agricultural marketing and related policy questions. It facilitates research within the land grant university system by organizing meetings and conferences, by maintaining large scale data bases and by distributing publications. The general intent is to provide information that can contribute to improved performance of the food production and marketing system. Key users include farmer and consumer organizations, agribusiness firms, public agencies, state legislatures, and the U.S. Congress.

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Newsmaker Interview: Professor Bruce Traill, University of Reading, UK

by Ronald W. Cotterill

● **Bruce, recently you were the chair of a European-wide research effort that was titled, "Structural Change in the European Food Industries." Could you tell us what exactly the project was in terms of the scope, and its mission?**

● Yes, it was what the European Commission calls a concerted action. The European Commission funded the costs of a group of research economists coming together for a series of meetings. They didn't actually finance research. The group consisted of 18 different research organizations, or representatives of them, from the 13 countries in the European union. The interests of the group cover innovation, the determinants of international competitiveness, globalization processes, the impact of retailer concentration on small and large firms, and the role of small and medium enterprises in the European food industry. Together, these interests have been grouped into the catch-all title, 'Structural Change in the European Food Industries.' On the last issue we analyzed the sizes of companies, made comparisons across Europe and looked at changes in the size distribution between around 1980 and 1992. This work focused on changes in the number of firms and the number of employees in small, medium, and large sized firms.

● **So what did you find?**

- We expected to find a substantial increase in concentration and some convergence. We expected that countries with lower concentration would become more like the concentrated countries which tend to be the northern European countries, UK, Netherlands, Denmark, and so on. What we actually found was an almost total absence of any pattern in the changes. There was very little evidence of any convergence. Perhaps there was a slight trend for what medium sized companies, which were defined as those between 100 and 500 employees, to do better than either large companies or small companies.

- **Now this study was focused solely on food manufacturing firms. It did not involve food retailing?**

- Yes, that's right. A possible explanation for medium sized companies doing well is that these are, to a large extent, the companies that supply private label, and there's been a major trend within Europe towards private label products.

- **So that hypothesis would be that the retailers through their interventions into the manufacturing sector have advanced the fortunes of the second tier, medium sized firms at the expense of the larger. Now your research was focused primarily on the number of firms in different employee size classes. Did it also analyze market shares? Did you examine any four or three firm concentration ratios by industry for various national markets or the European union as a whole?**

- We did a little bit of that, but it proved too difficult to get comparable figures which were meaningful and so didn't proceed very far with it. As you say, the data focused on numbers, but also had share of output by different sized firms in different countries. So the figures we looked at mostly were changes in the share of output in different size categories.

A third group is looking at some of the qualitative changes which have taken place in the vertical chain including some of the linkages which have been developing between agricultural producers, food manufacturers, and retailers, and recent changes in

- **Recently, the European Commission has become quite active and visible in antitrust enforcement in Europe, often challenging mergers between large multi-nationals. Did you have any contact with people from the Commission, them asking you for assistance or information on particular firms that they were investigating?**

- The answer to that is a simple no. The only contact we had with the European Commission involved DG12, the agency that is responsible for scientific research.

- **Did your group go beyond the issue of size distribution of firms and changes in it to look at issues of conduct and performance.**

- The other aspects of the work reflected the interest of the people involved in the group which were a mixture of economists, or those who have come up through agricultural economics departments and developed specialization in the food industry, and people working in business schools who also work on the food industries. So it was an interdisciplinary group, and some of the work reflected that. It wasn't, if you like, mainstream industrial organization economics. Some researchers looked at innovation by completing twelve case studies in six different European countries. In fact, a book will be published in the second half of this year called "Product Innovation in the Food Industries."

A second group examined competitiveness using Michael Porter's framework and tried to assess how useful this approach is for national and/or European governments who are always expressing an interest in enhancing the competitiveness of their different industrial sectors. That's also coming out as book entitled *Food Industry Competitiveness*.

advertising trends. The group looked specifically at the dairy industry.

- **It sounds like you certainly achieved an increase in general understanding of food marketing issues**

in European countries. As you look to the future where would you go with research on European food industries?

● Clearly one of the major strategic issues in Europe is the development of retailers as channel captains. I think this trend towards retailer leadership is more advanced in Europe than the United States. This may be because we have more concentrated retail markets, and because in some parts of Europe, notably the UK, private label and related uses of distribution system technology generally has advanced to a very high level. It's having major repercussions on the rest of the food system food manufacturers of all types, but different groups in different ways. I think how the retail system continues to develop is clearly one of the main issues. Are European, and for that matter, U.S. retailers going to move towards the UK model, if you like, or not? Are there going to remain major differences in the retailing systems, partly because of different regulatory systems controlling the ways in which retailing develops? If so, in what way are these food systems going to remain different as a result of that? More generally how the retailers are going to contribute to the globalization process, I think, is an interesting question. We've seen a lot of internationalization in food manufacturing as the European economies become integrated into a single market, but not very much in food retailing. This situation is unlikely to continue. It would seem only logical that some of the big successful food retailing chains in one country are going to start taking over big retailers in other countries. At the moment, by and large, they've taken over small retailing chains in other countries to get a foothold and expand slowly through doing things well. But I would anticipate some major takeovers, and there might be some more rapid changes in the organization of the food system in general. Following up on that, one can also see this happening at a global level. European chains own several top U.S. chains (e.g. A&P, Stop & Shop, Giant). Some of the French supermarkets are already big in Latin America. Exactly how you research the impact of changing food retailing systems is a more difficult matter. As far as hard economic analysis and

data is concerned we'd like to obtain on price data for individual products across countries so we can say more about how integrated markets really are, and how price setting and relationships between branded and private label prices are changing between countries within the EU. These data tend not to be available for public research. If we could get our hands on some of that data, I think we could say we'd be able to learn some interesting things about, basically, how integrated the European market is and try to begin to understand why not, if it's not fully integrated, which would be my suspicion, how the manufacturers and/or retailers are actually setting their prices and what their strategies are. We always assume that the single market with common prices and to the trend towards global or European consumers must be good for firms because it allows them access to a big market, but I think we sometimes forget that separated markets and different demand conditions are necessary for price discrimination. There are gains for manufacturers to be able to discriminate between different countries. It would be interesting to have the data to be able to look at those things, but it's going to be too expensive for academics unless something happens which makes it more publicly available.

Food Marketing Policy Center Staff and Cooperating Researchers

Staff Changes: Tom Steahr died unexpectedly from a heart attack on June 22, 1997. Tom was 59 years old and had no history of heart problems. He was affiliated with the Policy Center since its inception, and completed several studies on the demographic incidence of foodborne illnesses.

Everett Peterson is back at V.P.I. after spending the 1996-1997 academic year on sabbatic leave at the FMPC. Everett continues to work with us on brand and industry level demand analysis.

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General Announcements

Recent PhDs

Glenn Langan completed his Ph.D. dissertation, "Brand Level Demand and Oligopolistic Price Interaction Among Domestic and Imported Beer Brands". Glenn is now employed at CARAT, doing brand level market research for Fortune 500 clients with scanner data. His committee was Ron Cotterill, Advisor; Kathy Segerson, Subash Jain, and Subash Ray.

Li Yu Ma completed his Ph.D. dissertation, "An Econometric Analysis of Competition in a Differentiated Product Industry: The U.S. Ready-to-Eat Cereal Industry." Ma is now a postdoc at the Center. His committee was Ron Cotterill, advisor; Kathy Segerson, and Subash Ray.

Aviv Nevo, a visiting scholar at the FMPC, recently completed his Ph.D. dissertation, "Demand for Ready-to-Eat Cereal and its Implications for Price Competition, Merger Analysis, and Valuation of New Brands" at Harvard University. His committee was Zui Griliches, advisor; Michael Winston and Gary Chamberlin. Aviv recently accepted an assistant professor position in the economic department at the University of California, Berkeley.

Neal Hooker completed his Ph.D. dissertation, "Food Quality Regulation Under Trade Agreements: Effects

on the Supply of Food Safety and Competitiveness" in the Department of Resource Economics, University of Massachusetts. His committee was Julie Caswell, advisor; Rich Rogers, Kellie Raper, and Randall Bausor. Neal is doing a postdoc at Texas A&M, Center for Food Safety.

Food Marketing Policy Center Graduate Assistantship Available, Fall 1998

The Food Marketing Policy Center in the Department of Agricultural and Resource Economics has one graduate assistantship available at either the M.S. or Ph.D. level. Students with interest in organization of food industries and one or more of the following: demand and price transmission analysis, comparative analysis of U.S. and European foods systems, cooperatives, industrial organization economics, or antitrust policy are encouraged to apply. Support will be for two years at M.S. and four years Ph.D. level. For further information, please contact Ronald W. Cotterill, Director, Food Marketing Policy Center, 1376 Storrs Road, U-21, University of Connecticut, Storrs, CT 06269-4021. Tel. (860) 486-2742, Fax (860) 486-2461.

CYBERSPACE

Food Marketing Policy Center on the Web

Don't forget to check out our ever expanding Policy Center Home Page at:
<http://www.ucc.uconn.edu/~wwware/FMKTC.html>

Included on the Home Page is information on the Center and publications. In the near future you will be able to directly download publications.

Regional Research Project NE-165 on the Web

Private Strategies, Public Policies, and Food System Performance has a new website at <http://www.umass.edu/ne165/>. The website includes up-to-date information on members, conferences, meetings, publications, and the impact of NE-165. The website was designed by Eileen Keegan of the University of Massachusetts. Try it out!

NE-165 Proceedings and Working Papers Available on the Worldwide Web

We are happy to announce that new NE-165 Proceedings and Working Papers are now available on the Worldwide Web at AgEcon Search (<http://agecon.lib.umn.edu/ne165.html>). For easy access, publications may be printed directly from this site. Currently available are the 12 chapters of *The Economics of Reducing Health Risk from Food*, Working Paper #43 *Using Informational Labeling to Influence the Market for Quality in Food Products* by Julie Caswell and Eliza Mojdzuska and Working Paper #44 *Market Competition and Metropolitan-Area Grocery Prices* by James K. Binkley and John M. Connor. Future publications will be posted at this site as they become available.

Conference Announcement

NE-165 will hold an international conference on "The Economics of HACCP, New Studies of Benefits and Costs" in June, 1998 in Washington, D.C. Organizing co-chairs are Laurian Unnevehr and Richard Williams.

A call for abstracts will be distributed in August with a due date of late October. For updated details see: <http://www.umass.edu/ne165/upcoming.html>.

NE-165 Well Represented at "Vertical Relationships and Coordination in the Food System" Piacenza, Italy June 12-13, 1997

The competitive strategy group from NE-165 accounted for four of the six plenary session papers at the two day conference attended by 150 research and

government economists from Europe and North America. These papers were authored or co-authored by the following NE-165 participants: John Connor, Purdue; Ron Cotterill, Connecticut; Azzeddine Azzam, Nebraska; and Luciano Venturini and Giovanni Galizzi, Sacred Heart Catholic University.

Papers were also delivered by Bruce Traill, Reading; Steve Sonka and Randy Westgren, Illinois; Loic Sauvee, ISAB, Cergy-Pontoise, France; Spencer Henson, Reading; and Ian Sheldon, Ohio State. Ian stayed after the conference to teach a two week short course to graduate students.

March/April 1997 Issue of Agribusiness

The issue is dedicated to papers from the 1995 conference "Food Retailer-Manufacturer Competitive Relationships in the US and UK". Twelve papers were reviewed and ten were accepted. The papers are interdisciplinary with economic geographers as well as agricultural economists contributing. Authors are from Canada, France, Italy, the U.S. and the U.K. The comparative, transatlantic approach of this issue provides insights that can leverage strategy and policy changes in individual countries, including the U.S. Also see Bruce Traill's interview in this newsletter.

Activity Report

Julie Caswell

(University of Massachusetts)

Julie was recognized with the Distinguished Member Award from the Northeastern Agricultural and Resource Economics Association (NAREA) at its June 1997 annual meeting.

Julie presented a Principal Paper at the Allied Social Science Association annual meeting "Rethinking the Role of Government in Agri-Food Markets," New Orleans, January 1997.

Julie presented two seminars: *Food Labeling, Food Safety, and International Trade*, presented at the School of Nutrition Science and Policy, Tufts University, April 22, 1997 and *Food Purchasing in the Year 2000 and Beyond* presented to the Massachusetts Home Economics Council, Waltham, Massachusetts, April 29, 1997.

Ronald W. Cotterill
(University of Connecticut)

Ron was on sabbatic leave during spring 1997 at the Yale School of Management.

Ron presented a Seminar at the Department of Agricultural Economics, Cornell University, titled, "Jawboning Cereal," April 21, 1997.

Ron was interviewed by the CBS radio network news on the urban grocery gap, April 10, 1997.

Ron is providing economic analysis for a consumer class action lawsuit against ADM, A.E. Staley, Cargill, and CPC International that seeks to recover damages due to price fixing of citric acid and high fructose corn syrup by these wet corn millers. A key issue is whether overcharges are passed through to consumers.

Ron taught in a two week short course for university faculty and government staff titled, "New Product Development in the Agro-food System," at the International Center for Agriculture in Mediterranean Countries, Zaragoza, Spain, May 1997.

Ron attended and delivered a plenary session paper, "The Economics of Private Label Pricing and Channel Coordination" at the international conference "Vertical Relationships and Coordination in the Food System" Sacred Heart Catholic University, Piacenza, Italy, June 12-13, 1997.

Ron is providing economic analysis for plaintiff, Retail Market Network, Inc. in its monopolization lawsuit against Act Media Inc., the dominant provider of instore marketing services to retailers.

Michael Lubatkin
(University of Connecticut)

Michael continues work on the strategic motives for merger in food industries.

William Putsis
(London Business School)

Bill continues work on a project with Ravi Dhar (Yale) and Ron on private label modeling strategies in food industries.

Effective July 1, Bill left Yale and is now on the faculty of the London Business School. He will continue to affiliate with the Policy Center and is interested in expanding our private label research to include U.S-U.K. comparative research on private labels.

Kellie Raper
(University of Massachusetts)

Kellie will present "Testing for Monopsony Power in Multiple Input Markets: A Nonparametric Approach" in a selected paper session at the American Agricultural Economics Association annual meetings in Toronto, Canada, July 27-30, 1997.

Kellie spent June 18-26 at Texas A&M University in College Station, Texas working with Drs. Alan Love, Diana Burton, and Richard Shumway on research related to "Empirical Measurement of Monopsony Market Power Exertion."

Richard Rogers
(University of Massachusetts)

Richard spent his spring break in Davis, California working with Drs. Rich Sexton and Mahlon Lang on research related to the "Optimal Advertising Intensity for Agricultural Marketing Cooperatives." He also spoke with executives from Tri-Valley about marketing their branded consumer products.

Richard and Jeffrey Royer, University of Nebraska, continue to put together a book from the project's June 1995 conference on "Vertical Coordination in the Food System." The accepted papers have been revised, permission to publish has been granted where needed, and we continue to search for a publisher.

Richard chaired the University's selection committee for the Distinguished Teaching Award for the 1996-97 academic year.

Richard has agreed to revise his chapter "Broilers Differentiating a Commodity" for the second edition of *Industry Studies*, edited by Larry Duetsch, University of Wisconsin-Parkside.

Kathy Segerson

(University of Connecticut)

Kathy continues work on legal economic models of regulation and liability.

Data Corner

Recent acquisitions include:

Metro Market Studies, 1997 Grocery Distribution Analysis and Guide.

Food Institute Report 1997 Food Marketing Review.

Contact Andrew Franklin (860) 486-2826 for a complete listing of data and reference works available.

Food Marketing Policy Center

Publications Catalog

We have updated the list of the publications that are available through the Center. Call (860) 486-1927, write for a copy, or download it from our Home Page:

<http://www.ucc.uconn.edu/~wwware/FMKTC.html>

Recent Publications and Papers

Andonov, Tihomir, Richard Rogers, and Bernie Morzuch. "Market Share, Retail Price, and Cooperatives in the Margarine Industry, 1992." Submission accepted, subject to revisions, by the *Journal of Cooperatives*. 24 pages.

Caswell Julie A. 1997. *Uses of Food Labeling Regulations*. Prepared for the Directorate for Food, Agriculture, and Fisheries, Committee for Agriculture, Organization for Economic Cooperation and Development, Paris, France.

Caswell, Julie A. In Press. Rethinking the Role of Government in Agri-Food Markets. *American Journal of Agricultural Economics*. Presented as a Principal Paper at the Allied Social Science Associations annual meeting in New Orleans, January 5, 1997.

Caswell, Julie and Ronald W. Cotterill, eds. *Strategy and Policy in the Food System*, Storrs: Food Marketing Policy Center, Conference Proceedings, Washington, D.C., June 1996.

Colatore, Corinna. 1997. *Economic Analysis of HACCP in the Seafood Industry*. M.S. Thesis, University of Massachusetts at Amherst, in process.

Cotterill, Ronald W. "The Food Distribution System of the Future: Convergence Towards the U.S. or U.K. Model," *Agribusiness*, March-April 1997, 13(2):123-135.

Cotterill, Ronald W. "The Role of Cooperatives in Differentiated Product Markets," forthcoming *Journal of Cooperatives*, 1997.

Cotterill, Ronald W. "The Economics of Private Label Pricing and Channel Coordination" presented at an international conference "Vertical Relationships and Coordination in the Food System" Catholic University, Piacenza, Italy June 12-13, 1997.

Love, Alan H., Diana M. Burton, C. Richard Shumway, and Kellie Curry Raper. New research project "Empirical Measurement of Monopsony Market Power Exertion in the Beef Packing Industry" funded by USDA Grain Inspection, Packers and Stockyards Administration.

Putsis, William, "An Empirical Study of the Effect of Brand Proliferation on Private National Brand Pricing Behavior," *Review of Industrial Organization*, 1997.

Rogers, Richard. "The Role of Cooperatives in Increasingly Concentrated Markets" presented at the symposium on "Cooperatives: Their Importance in the Future Food and Agricultural System" held in Las Vegas, Nevada, January 16-17, 1997. The paper will be included in the proceedings.

Willis, Michael S. and Richard T. Rogers. "Market Share Dispersion Among Leading Firms as a Determinant of Advertising Intensity," accepted for publication, with revisions, by the *Review of Industrial Organization*. 20 pages.