Power distribution in the wine chain – how does it affect wine supply chain management?

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Traditionally wine was bought at the outlets of wineries or cooperatives as well as in specialty retail shops. However, due to shifting buying habits, today more than 80% of the total volume is sold via retail chains. Hence, retail chains now dominate the German wine market and the rules of competition have changed. Because of their global procurement activities retailers are able to speed up competition so that they are able to offer their customers wine of acceptable quality and easy-to-understand labels at relatively low prices. Furthermore, because retailers demand large quantities, only large wine estates and cooperatives are capable of dealing with them. In addition, retailers make abundant use of modern supply chain management and quality management techniques so they demand the same from their suppliers. Due to the increase of importance of retailers in particular, wine cooperatives are key players in the German wine market.

This small paragraph shows that the power distribution along the wine chain is not very clear. Furthermore, the question arises what happens to the power of the growers. Surely, one could argue that the answers for these questions are not very hard to get. One just has to find the market shares and hence the “market power” can be estimated. However, a review on the literature of power revealed that power is not a one-dimensional but a multidimensional construct. Thus, the estimation of real power positions is much more complex than just using market shares.

Furthermore, particularly in channel marketing literature there is an ongoing argumentation of how the usage of power effects the chain coordination. The spectrum of arguments consists of a broad array ranging from power destroys “good” channel coordination up to the argument that power facilitates “good” channel coordination.

By conducting an empirical investigation of the German wine business we want to clarify the following two objectives. First, we want to identify the power distribution within the German wine chain. Based on these empirical findings as secondly, we want to work out how power can be used in order to use it as an efficient tool of supply chain management.