

Distribution Channels and Procurement of Fruits & Vegetables in the Swedish Grocery Trade

- a case study out of small suppliers' perspective

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Abstract

Today the retail sector distribution channels for fruits and vegetables, heading towards Swedish consumers, often involve large channel members as producer organisations, distributors and retailers working with cost efficient economies of scale and centralised purchasing organisations. These circumstances make it difficult for growers operating on a small scale. In their wish to expand market shares small producers need to get a deeper understanding about the possible channels of distribution and their members, structure, strategies, relationships, purchasing organisation, demands and requirements. This case study presents an analysis on how these issues affect small farmers and how these factors differ between studied channels and their members in order to help small suppliers to be more competitive so that they can obtain new market shares. Based on the result of analysis, a set of recommendations has been proposed.

Keywords

Purchasing, requirements, supplier selection, retail trade, distribution channel, small, regional, local, suppliers, producers, farmers, distributors, wholesale, fruits and vegetables, groceries, Sweden.

Background

Distribution channels of fruits and vegetables are divided into two branches: the hospitality and retail sector. In the latter, there can be several channel members linking the producer and the consumer. Examples of these members are producer organisations, wholesalers and retailers. [1] The aim of the Supply Chain Management is to connect flows of products,

transactions and information, passing through the channel members, in order to lower total costs and improve customer service. [2] This often includes a higher lever of cooperation and integration between organisations. The integration and centralised management of the retail chains, through the usage of advanced IT solutions, has brought about a better control of the information flow of the point-of-sale data and requirements concerning price, quality and customer service enabling correct delivery in terms of time, form, quantity and place. [3]

Wuotila Bär & Grönsaker (WBG) is a small supplier of vegetables that is interested in an increase of their turnover and market shares outside their county, Norrbotten County, because the company's largest customer, the retail chain Coop, has exclusive rights to sell their produce in the region. [4] WBG and other small producers sometimes lack resources to conduct a study about the market and possible channels of distribution. This knowledge would strengthen their competitiveness and allow farmers to adapt themselves to customer requirements.

Problem discussion and purpose

The biggest retailers' demand for large product volumes, quality certification, low price and customer service, their centralised purchasing organisation, and the oligopoly on the grocery market are all circumstances that create difficulties for the sale of small farmers' products. [5] [6] [7] However, what kind of these produce still find their way to the stores and the retailers' purchasing organisation, strategies, supplier relationships, requirements and the structure of the distribution channels of the Swedish retail sector (including direct producer-consumer contact with no intermediaries) are not

described with focus on small growers in the most recent studies.

Therefore, the purpose of this master thesis is to get a deeper insight into these conditions. Afterwards it will be possible to suggest proposals that will help small producers in gaining new market shares.

Methodology

This thesis was conducted according to the principal rules of case study research methodology. To achieve the purpose of the study, producers, distributors, retailers and consumers, i.e. every bit of the distribution channels, have been examined.

In order to come to wide-ranging conclusions it has been a priority to gather information, regarding the structure of the distribution channels, strategy, purchasing operations, relationships and requirements, from the largest distribution channel members, via interviews and the study of documents. This data has been analysed qualitatively and through comparison of the participants of the distribution channels, by using the adequate theories on Supply Chain Management, purchasing and channels of distribution.

Empirical findings

Focusing on small suppliers, the flow of fruits and vegetables through the largest and most important actors of each level of the distribution channel has been investigated. The studied channel members are:

- Producers
- Distributors
- Retailers
- Consumers

Apart from the individual **producers**, actors and channels involving farmers in their organisation were examined. These include producer organisations, farmers' markets and e-commerce networks.

Three largest **distributors** of fruits and vegetables (Everfresh, Saba and ICA Frukt och Grönt) to the Swedish retail sector were described. Information on smaller wholesalers to

the retail and hospitality sectors was also presented and analysed.

On the **retailer** level of the channel the biggest store chains were studied. ICA, Coop and Axfood are the retailers that dominate the Swedish grocery market.

Finally, **consumers** had to be studied. This was done through representing the documents which gave an account of two consumer surveys.

Information concerning these actors was gathered through interviews and documents and collected for each actor and the channel as a whole, based upon the structure, purchasing organisation, strategy and relationships. Furthermore the mapping of retailers' and distributors' requirements was done, since producer organisations only forward the requirements of the largest retailers and their distributors to producers.

Results of the analysis

The results of the analysis indicate a number of circumstances that are negatively influencing the sale of small growers' products. In brief, these conditions consist of the lack of appropriate intermediaries/channels, market concentration on each channel level, integration, uniform nationwide pricing, economies of scale and centralised procurement organisations of the largest retailers and their wholesalers.

The analysis is focused on the consequences of these issues for small growers in order to improve their knowledge about the potential channels of distribution and the main requirements of the possible customers. This would enhance the ability of the producers to market themselves in a proper way.

Moreover, the analysis has resulted in the classification of the customer requirements into market qualifying and market winning requirements. Small suppliers may not have enough resources to market themselves and to satisfy the retailers' market qualifying demands for low price, quality certification, customer service and large volumes. Other identified actors and channels have lower requirements. The most crucial market winning requirement is the consumer demand for regional products of a

distinctive niche, which together with the lack of suitable intermediaries has led to development of e-trade networks and the theoretically exceptional direct channel between producers and consumers – farmers' markets. They are growing in importance, especially for small growers.

Recommendations

Suggestions of this thesis were made in accordance with the results and conclusions. Several recommendations deal with cooperation between producers, customers and organisations in order to reduce the costs of marketing, distribution and coordination of the flows in the channels. This would increase the regional market share since small growers in comparison to the big producer organisations, can not obtain economies of scale during the transportation. These general recommendations are intended to be helpful guidelines for small producers in improving their sales and gaining new market shares. The proposals regard:

- Production of unique fruits and vegetables.
- Establishment of contact with small distributors in the hospitality sector which are less centralised and concentrated compared to small wholesalers in the retail sector.
- Development of regional distribution centres.
- Setting up of a distributor role within producer organisations which lack such.
- Starting of even more farmers' markets.
- Avoiding exclusive right of sale contracts within the closest geographic area.
- A more extensive collaboration in the bordering regions with the present customers.
- Complete adaptation to the current qualifying standard requirements.

There is a hope that this study will be useful in enabling small suppliers to expand their market shares, in addition to contributing to the general knowledge of the distribution channels of fruits, vegetables and other consumer products.

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