



Articles in this issue

Chicory root improves the taste and odour of organic pork

Differences in trace element content between organic and conventional milk

Growing bargain power of supermarkets presses organic vegetable producers

Increased yield and yield stability in variety mixtures of spring barley

Low nitrogen manuring increased yield in high-density organic apple production

Grass cover retained by nose-ringing of outdoor sows only partially reduces the risk of N leaching

Significance of seed-borne *Ascochyta* on pea and test of management strategies

News briefs

Front

Growing bargain power of supermarkets presses organic vegetable producers

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In the analyses of growing retail bargain power the organic vegetable chain in Denmark has been used as a case study focusing on two commodities: organic carrots and organic iceberg salads. These two were chosen to see if the differences in the length of durability between the two commodities would have an impact on the way contracts were made between producers and retailers/supermarkets.

Both commodities, however, were bargained on a similar basis which is covered by the main outline given in this paper.

The organic vegetable chain

The Danish organic vegetable chain is a fairly short chain (**Figure 1**) with three main nodes consisting of:

- the input suppliers (machinery, seed)
- the producers
- the consumers.

Between the producers and consumers several nodes of handling the vegetables take place. When focusing on power, in terms of contracting and capital turnover, two nodes are of importance. Among the producers it is the farm node that controls the packaging that is of interest, and concerning distribution to the consumers it is the retailers/supermarkets controlling the distribution center.

There are also alternative distribution channels like farm shops, box schemes, food service to hospitals, canteens and various public institutions like schools and kinder gardens, but 53 pct. of all organic sales in Denmark go through supermarkets and discount outlets. Only 12,6 pct. of all organic sales go through the so called alternative sales channels (data from National Organic Association). The main focus for analysis in **SAMSON** has therefore been how trade is organized between organic producers and the supermarkets/discount chains.

Growing supermarket bargain power

When supermarkets trade with producers in the supply of fresh vegetables they want to trade with as few as possible to keep transaction cost as low as possible. At the same time the supermarkets want to have enough suppliers so they will not encounter 'hold up' situations where farmers can demand the

price they want or threaten with supply shortages towards the supermarkets.

The farmer's who can deliver the packaging, do the cost of trading with other farmers to secure safe and stable supplies to the supermarkets, are supplying a service which supermarkets are interested in - if it is profitable. At the same time supermarkets are reducing cost within their own logistics by setting up a few distribution centers with specific demands to suppliers concerning packaging, how to deliver, using packaging boxes owned by the supermarket etc.

The bargain power among supermarkets and discount chains are growing and filtering a pressure down towards the farmers controlling the packaging node and again out to the farmers supplying the packaging node. A pressure that appears as declining terms of trade as well as an approximation of organic farm prices towards the conventional (**Figure 2** and **Figure 3**).

The control mechanisms that the supermarkets and discount chains use are listed in **Table 1**, and it is also illustrated how the conditions are changing in favour of the supermarkets. For example:

- the period of credit when farmers are getting paid is being prolonged
- the fee for renting space in the supermarket shelves are going up (supermarkets are not really selling food, but they are selling space)
- the supermarkets/discount chains demand an opening fee when new outlets are being opened.

These various control mechanisms make it harder for small time farmers to be a supplier in the future concerning distribution through supermarkets and discount chains.

Producer measures to counterbalance supermarket bargain power

Some of the main reasons for the growing bargain power at the end of the food chain have to do with socio-economic changes in the sphere of peoples work, family structure and growing consumer affluence, as well as new farm technologies delivering a basket of food varieties to lower prices.

Supermarkets offering this basket of varieties are lowering consumer transaction cost in relation to time of obtaining food commodities. At the same time farmers specialise their production to minimize cost, and offer more abundant and cheap produce in a competitive environment.

A food producer specialised in a few vegetables like green or red peppers can never obtain a bargain power towards the supermarkets, because the consumer would never realize if they were missing for a month. The supermarket offering a basket of varieties will always be able to have sales on black or orange peppers or even choose another bundle of vegetables. The consumer would never know. But the farmer who did not get any sales, because he tried to bargain for a higher price would know if he did not get any sales for a month.

One of the ways for the organic farmers to counterbalance this bargain power would be to control the same basket of varieties within the packaging node. The supermarkets are now being more trans-national and so are their internal buyer organizations. Farmers within the packing node (individual or cooperative) have to create new trans-national network of suppliers who can offer to deliver fresh supplies to local/national supermarkets, but organized between a trans-national farm packaging node and the trans-national buyer organization within the supermarket.

Options with themes for organic sales

Another way could be to organize producers across products and create themes for sales. This has been done by the Danish National Organic Association and the discount chain 'Netto', who together has created 12 themes throughout the year of 2005, planning advertisement promotion, discussing demands and needs among producers and the discount chain.

The idea is the same, creating a basket of varieties, but where the organic farmers are taking advantages of the situation of the strong competition among supermarkets and discount chains, where Netto has made the choice not to profile themselves on constant lower prices, but also being a discount chain with quality products using organic as a brand for this.

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