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DE ARAGON**

Departamento de Ciencia,  
Tecnología y Universidad



**cita**

CENTRO DE INVESTIGACIÓN Y TECNOLOGÍA  
AGROALIMENTARIA DE ARAGÓN

**FOOD DISTRIBUTION CHAINS AND THEIR SUPPLIERS:  
SOME KEY ISSUES**

ALBISU, L.M.  
GRACIA, A.

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**CENTRO DE INVESTIGACIÓN Y TECNOLOGÍA  
AGROALIMENTARIA DE ARAGÓN (CITA)**

**UNIDAD DE ECONOMÍA AGROALIMENTARIA Y DE LOS RECURSOS NATURALES**

Avda. Montañana, 930  
50059 ZARAGOZA

Teléfono: 976716305  
Fax: 976716335

*C7064*

## **Food distribution chains and their suppliers:**

### **Some key issues**

#### **1. Problem selection**

Work Package 5, according to the Project proposal, has mainly three scientific/technological objectives: i) set up detailed research methodology for each country, ii) conduct face-to-face interviews and iii) analyse and evaluate the qualitative data collected and draw conclusions from the analysis of each country. In Spain the surveys, reported in Work Package 4, gathered data from small and medium enterprises along the agro-food chains from agricultural producers to distributors.

The agro-food chains entail many relationships among chain actors from production to consumption (Cox, 1999). In each relationship there are particularities which affect the rest of the chain (Chidmi and Lopez, 2007). However, it is important to distinguish the critical linkages and those players who exert a dominant role because their bargaining power, as it is the case for food distribution chains. Their decisions most probably have a determinant effect both on the economic and communication performance along the agro-food chains (Bunte and Vavra, 2006). Sometimes they are called chain captains or leaders.

In Spain, previous surveys of this project dealt with small distribution shops, mostly independent, and results refer to that kind of business for bread and cured ham. It was purposely selected as in this country, small retailers, in contrast with many other European countries, have a significant part of the market, which runs between 40% and 50% for fresh products. That market share is slowly decreasing but not with the intensity and speed occurring in other countries.

In the last decades food distribution chains have developed very rapidly in the most advanced countries (European Commission, 2007). Many food distribution chains operate in different countries so they are able to deal with the same suppliers in diverse geographic areas. They implement the same business philosophy in different countries and they follow particular business models (Gellynk and Molnar, 2008). They have a great deal of information about consumption patterns as well as production facilities.

Their differentiated food distribution models attain different degrees of success across Europe.

One way to classify food distribution chains is according to the size of their shops. Thus, for example, some of them have mainly hypermarkets and others supermarkets. Those with the largest shops have more food product references than the rest and consequently they have to deal with more suppliers. On the contrary hard discounts have a limited number of references and few suppliers. Their shops' size interacts with their business philosophies. Some food distribution chains are keen on price competition whereas others prefer to put more emphasis on services. Those approaches should also have an impact on their business and their relationships with suppliers (Competition Commission, UK, 2007).

There is also a great difference with respect to the amount sold through their own brands and relationships with suppliers vary accordingly. Some of them require exclusive products whereas others require the same products but with better prices according to the volume sold. Distribution brands rely on more stable agreements with suppliers than the rest and they have detailed discussions about the cost of producing food products. Some distribution chains are more local than others and they have closer relationships with local suppliers of different size, which are predominantly small and medium enterprises. More often personal contacts can develop a friendly relationship but with a positive or negative consequence on their performance (Grayson, 2007)

Zaragoza is the fifth largest town in Spain with more than 650.000 habitants. Because its size, there are all sort of food distribution chains existing in Spain, from local to national and international coverage. It implies that they have their food product buying managers inside or outside the region although, in some cases, they distribute this task among both local and national managers. Agro-food chains in Zaragoza have from very small shops to the largest you can find in the country, from hard discount chains emphasising prices to those stressing on full services (Alimarket, 2007; Aral, 2007). Some of them have their logistic platforms in the region whereas others have them outside the region. Consequently food distributors' behaviour in this town should be a good example of the rest of the country.

An open semi structured questionnaire was prepared to interview face to face managers. The questionnaires were finished during the first two months of 2008. The idea was to ask questions about certain issues but there was freedom for them to divert to other associated ideas. The purpose was to gather their main thoughts but also to explore other related issues. The questions of the questionnaire are in Annex 1. Interviews, on average, lasted around half an hour and were undertaken after appointment at their premises. The answers were fully recorded with all expressions and feelings.

There were 8 questions which could be differentiated in three blocks. Each block of questions tried to constitute as a different case within the main objective of analysing relationships between distributors and suppliers. The purpose was to acknowledge how each block of questions or case could affect in different business situations through the selection of some distribution chains representative of the entire Spanish retail chain distribution system.

The first block of 4 questions was dealing with some aspects related to the usual suppliers' relationships that could affect their economic and communication performance. The use of written contracts was selected to contrast their behaviour with other distributors of not so large size that were included in our previous survey. The second question was searching the ideal supplier to emphasize its most attractive characteristics. An extra effort was required to characterise those replies by order of significance. The third question tried to get some information about the use of communication means, in a different environment of our previous analysis, and the reasons for the use of each communication mean was also demanded. The fourth question was dealing with the process of solving conflicts, as it is common to mention that there are high tensions and conflicts between suppliers and chain food distributors.

The second block of 2 questions was dealing with the critical entry and rejection conditions that suppliers have to face. Again the economic and communication issues were kept in mind. In our previous survey we found that relationships were quite stable so those critical breaking points were of particular interest. Finally, the third block with 2 questions was dealing with policy issues and norms implementation. The final aim of this project is to introduce new ideas about policy making related to economic and

communication relationships in the agro-food chain, so some comments are put together at the end of the report.

## **2. Sampling methodology**

One important issue is to distinguish the different behaviour in their relationships with suppliers of national and regional coverage. National coverage is when suppliers can cover all shops around Spain whereas local coverage implies not only limited areas, like towns or provinces, but those suppliers that might very small or quite big but they are not able to give thorough geographical services. Sometimes the limitation is the volume produced and other times are insufficient logistic capacities. Thus, all of the food distribution chains selected had those two options. Hard discount chains were not taken into consideration because the limited number of references they have and the almost exclusive international coverage of their suppliers.

Food distribution chains are quite reluctant to discover their business practices, especially these days that they are under a constant attack on the media as they are accused of abuses based on their bargaining power. It is common to read that the terms of the agreements are not respected and the margins are too small for the agro-food industries. Traceability is imposed for most suppliers and nowadays the introduction of this practice is not under discussion but only how it should be implemented. It is not a big issue, at the moment, as it is assumed that all the agro-food chain should follow that practice.

In each distribution chain or establishment three interviews were undertaken: one with the general manager, one with the person responsible of the bread section and other with the person of the cured ham section. The general manager, depending on the type of distribution chain, was the director of the hypermarket or the person responsible to buy all fresh products. Managers dealing with bread and cured ham cover other food products in their sections as well.

The names of the food distributions chains are: Alcampo, Carrefour, Galerias Primero and Sabeco (Alimarket, 2007). The names of the managers interviewed are in

Annex 2. In Alcampo and Carrefour managers from two hypermarkets were interviewed because of the significance they have in the Zaragoza market.

The Auchan group has two different types of shops. Alcampo is a brand for their hypermarkets and Sabeco for their supermarkets. Alcampo has the headquarters in Madrid and Sabeco in Zaragoza. They pursue some independent business approaches and some standards are the same. They try to cover different consumers' segments and customers for their hypermarkets have to use their cars to reach the shopping facilities.

In Alcampo most of the decisions are centralised, thus their buying managers are located in Madrid and decide most of the contracts with national coverage or with suppliers able to sell in all the outlets, all over Spain. However, hypermarkets managers have some capacity to take decisions mostly related to local products. The logistic platforms are in Madrid or somewhere else but, at least, around 300 km far from Zaragoza. The two hypermarkets of Zaragoza have 15.650 m<sup>2</sup>.

In the case of Sabeco, the headquarter is in Zaragoza, for both perishable and non perishable food products, and its geographic expansion is also around 300 km of distance from the headquarters. They have two logistic platforms, one in Zaragoza and the other 200 km from that city. Sabeco is a brand for supermarkets of different size, from medium to very big although not as big as hypermarkets. The central buying is undertaken in Zaragoza and supermarkets managers have also some possibilities to decide which products to buy. In Zaragoza they have several supermarkets with a total of 27.188 m<sup>2</sup>.

Carrefour is concentrated only on hypermarkets. It is the second largest food chain distribution in Spain. The headquarters is in Madrid as well as one of the biggest logistic platforms. They have other logistic platforms in other areas of Spain but they are also around 300 km from Zaragoza. It seems that big distribution chains in Spain keep that distance between their logistic platforms as the most efficient set up. Decisions are somehow decentralised in their hypermarkets for local food products. They have two hypermarkets and altogether they have 12.680 m<sup>2</sup>.

Galerias Primero is a regional food distribution chain with headquarters in Zaragoza. It deals with supermarkets of different size as it happens with Sabeco. Its regional expansion is not so big as with Sabeco and it covers a maximum distance of around 200 km, mostly along the provinces around the Ebro river. In Zaragoza they have several supermarkets with 62.927 m<sup>2</sup>.

Altogether there are 4 big distribution chains of different nature and they have over 100.000 m<sup>2</sup>. It is an important surface that reaches all neighbourhoods with different social classes and income possibilities. Some supermarkets are of a convenience type, with more daily buying, and consumers go to hypermarkets not so often.

### **3. Results**

The three cases or blocks of issues are separated by capital letters and, the results of the questions are also separated, in each case. The material reported is a qualitative selection of 18 interviews.

#### **A. Aspects related to usual relationships with suppliers**

##### **A.1 Use of written contracts between food distribution chains and suppliers**

Food chains utilise standard written contracts for all their commitments with their suppliers whether they are local or national. They are usually renewed every year but sometimes they are corrected in a shorter period of time. Some special market events or competitors' behaviour might force to renew the terms of the contract. They might change from chain to chain but, in each chain, it is determined as a norm that everybody has to follow. Most of the terms do not correspond to personal relationships as they are imposed by the distributors. Among many other details, contracts have specifications about how the product should be elaborated, traceability terms, seasonality and potential supplies, extra benefits if sales exceed certain levels, payment conditions, etc. There are some differences, in each chain, among products, especially for the quality and sanitary conditions. Contractual differences exist between dried and fresh food products.

There are controls to check contract conditions either internally or with external companies. Distribution brands have usually tighter terms, specific quality levels, determined origin and many other detailed conditions. Local products have to comply with many of the contract terms, especially for sanitary requirements, that food distribution headquarters impose. Prices are the most unstable parameters, especially for fresh products, and they change usually every two weeks.

Results for this question show a great similarity, among food distribution chains, because all of them require written contracts and they have comparable philosophies, when they have to deal with their suppliers. However, there are many contract details which distinguish each food chain.

## **A.2 Definition of the ideal supplier**

The ideal supplier defines precisely the best expectations that food distributors desire from their suppliers. It is a good expression of the requirements that usually ask in the written contracts and oral discussions. Answers are classified according the priority given by the different managers. It is important to point out that there is no consensus, even among managers in the same establishment, as it corresponds to very subjective evaluations.

Services and quality are ranked first more times than any other characteristics. Services, sometimes, are mentioned as such but other times they are related to different aspects. Quality is also mentioned as such but, in other occasions, it is the relationship between quality and price. Quality is usually associated with products but, on other occasions, with other product characteristics. In the first rank it is also mentioned: volume, notoriety and range of products but not so often as the other characteristics.

Prices are sometimes mentioned in the third place but it does not reach special attention. Occasionally the following characteristics are mentioned in the second and third positions: comply with norms, flexibility, adaptation, constant supply, logistics, trust, speed, variety, image, fulfil customers needs and traceability.



### **A.3 Use of communication means between managers of food distribution chains and suppliers**

Managers use several communication means. Basically it can be distinguished between what is usually a norm, in each distribution chain, and particular ways for each distribution manager to deal with suppliers. There is quite a lot of freedom in each chain to use different communication means except for e-mails, in some food distribution chains, where they are not yet accepted.

Local distribution managers have to communicate with their logistic platforms and with their suppliers. E-mails are more often used with their logistic platforms although internal communications have a tendency to operate with all sorts of means. Fax is still used extensively for daily delivery requests but also through e-mails. In both cases it is important to have written means. When e-mails are used there are not faxes and vice versa.

The telephone is used in unusual situations, when there is a problem, as it might happen with some price changes or with promotional activities. It is used to solve doubts and for urgent situations when immediate communications have to be faced. It is mostly considered as a non friendly method to get in touch with providers.

Personal communication is the common means to get in touch with local suppliers. They visit food distribution managers quite often, once every month or two months, as a means to check their businesses or to introduce new products. For suppliers, which provide products for all the establishments of the entire chain, those contacts are only once a year. Personal contacts serve to work out problems which have not been solved by other means.

### **A.4 Process to solve conflicts with suppliers**

The process to solve conflicts is indicative of how distributors and suppliers work under critical conditions. It might also depend on the kind of relationships whether they have direct or indirect contacts. It is important to know the difference between local and national conflicts.

Responses are quite homogeneous and conflicts are smoothed out depending on the relevance of the conflict and the kind of supplier involved, whether it is local or national. Communication means used depend also on those variables. In any case conflicts arise because the terms of the contracts are not satisfied when products reach the food distribution chains.

It is common that managers state that there are not many conflicts, which means that suppliers and distributors follow the terms of their contracts. Defects are detected at distributors' reception facilities where products are transported and checked. If the problem is small sometimes it is not even mentioned to their suppliers. On the other extreme when food products do not comply with the sanitary conditions, then they might even be destroyed.

Usual problems arrive because a deficient use of refrigerated temperatures or the food products do not comply with the sanitary conditions. In both occasions the quality department determines the importance of the problem. Prices and services are other items which could be sources of conflicts as the prices that are on labels might not correspond with those agreed on contracts and the same can happen with the services. Problems are usually worked out on reasonable negotiations but it influences future relationships as mistrust can take place between suppliers and distributors.

If suppliers come from the local environment then, whenever there is a conflict, the first contact usually is by telephone; the second stage is normally by e-mail and fax. It is only when the problems are not solved through those means that personal contacts are established. Then, it goes from oral to written communication.

If suppliers are of national coverage the procedure to solve problems is totally different. Local distributors get in touch with their heads of departments usually by email to transmit their problems. It is at central headquarters and logistics platforms where decisions are made taking into consideration, not only punctual problems, but many other global considerations. The contact is established from those facilities with their suppliers.

## **B. Conditions that manager of food distribution chains establish to accept and to reject suppliers**

### **B.1 Description of the three main elements to accept a new provider**

It is common that managers have very diverse ideas about the future or when considering ideal situations. It happens also in this case and the answers vary quite a lot among managers of the same food distribution chain. In this occasion there was also a request to order their answers by their significance. Managers provided not only the elements requested but many other explanations as well.

It seems that the first requirement is that there should be a need which has not been fulfilled by previous products. It requires somehow a novelty that complements existing products on their shelves. The need could be closely related to the product or a service linked to a product. The first requirement is to achieve the sanitary standards of the chain as well as other usual distribution process procedures.

Several managers mention that the packaging could be an important novelty and part of the product differentiation. Service delivery and different skills are sometimes a reason for introducing a new provider. The price is not so essential although is part of the final negotiation after achieving a certain quality level. Thus the ratio price and quality becomes part of the judgment. Afterwards, how the product sells is an important reference to keep it or to take away.

Local and national providers are approached in a slightly different way. Local distribution managers have a definitive input for the first group whereas the central headquarters of the distribution chains take full responsibility with the second group. In both cases trust is part of the mutual involvement and the expectation that the provider is going to act with the required professionalism.

The distributors' brands and their providers are in hands of the food distribution centralised managers. New providers for distributors' brands require reaching product quality standards established by each chain, to have enough productive capacity to supply regularly and to accomplish the estimated profitable expected levels of the

distribution chain. New providers, at local level, could be decided to complement the range of products already existing on the shelves although their results could not be very profitable.

## **B.2 Description of the three main elements to reject a usual provider**

Food distributors do not like rejecting providers and make great efforts to keep them. They consider their providers as partners in their business but they are very concerned with the treatment they give to other food distribution chains as well. There are many contacts between managers of food distribution chains and their providers before taking such decision.

It seems that the most generalised reason to break with a provider is because the product does not sell well. In that respect, customers finally are those who put out a product or a provider. Both considerations about the quantity sold and quality are taken into consideration as well as the prices to compete with other providers.

There are many other complementary reasons to exclude a provider such as those related to the quality of the services, lost trust, uncompetitive prices, lack of economic strength to continue normal relationships, not enough adjustment to the rules of the distribution chain and the terms of the contract as well as not enough number of references.

## **C. Policy**

### **C.1 Actual and potential norms, in the public administration, that ameliorates relationships with providers**

Managers do not think there are too many actions that the public administration can take in order to favour relationships between distributors and providers. However, there are a certain number of norms that should be properly implemented. Good examples are those norms related to the sanitary conditions or to the prohibition of selling products below cost prices.

There are other activities, whether they can be implemented with norms or through other means, which could favour commercial activities in a more proactive way to ameliorate relationships. They cover actions to favour promotions, information exchanges, associations, quality controls and better power symmetries along the food chain in order to protect weak parties.

## **C.2 Actual and potential norms, from the private sector, that ameliorates relationships with providers**

If managers find difficulties to understand the role of the public administration, they have even more difficulties to see how the private sector can interact between food distributors and their providers. It is also far away from their usual duties so they are not accustomed to think about those issues. However, they understand that those relationships should be under their control without interference of third parties. Some of them stress the need to have bigger enterprises, through concentrations, in order to have better relationships.

Nevertheless, they think again that promotion activities jointly with many other minor actions such as encouraging associations, improving understanding of consumers' needs, providing more information and training could altogether favour better relationships.

## **4. Concluding remarks**

Contracting is a compulsory norm between food chains and their suppliers. The terms of the contracts are under constant evaluation by checking the product quality conditions and the specified characteristics. Therefore trust is not an important issue as compliance to the contractual norms is compulsory.

Prices are not considered as the most important requirement to reach the best supplier. Probably it is assumed that the price has to be competitive and finally a stipulation met by any supplier. Taken for granted this condition, quality and services are the elements that distinguish good from bad suppliers. Both terms have a wide range of interpretations which force suppliers to accomplish distributors' needs.

Daily delivery requests are performed with written means, either by e-mail or fax. Telephone is mostly used to solve problems or urgencies. Personal contacts are basically a way to get in touch with local providers to reinforce communication and to create new business.

Managers mention that there are not many conflicts and they are different reasonable ways to solve them. Dealing with local suppliers is of different nature than dealing with national suppliers. In the first case, communication between suppliers and distributors goes from oral to written forms if problems become more important whereas, in the second case, is just the opposite. Personal contacts are left as the last possibility.

Novelty seems to be the most important requirement to accept a new provider and it applies to a product or a service. The requirements are similar whether it is a local or national provider but the decision making process is on hands of local managers or in the central headquarters of the food distribution chain.

Food distributors want to continue their relationships with their providers and try to solve their problems. However if a product does not sell well or there is not an offer a sufficient range of products, then a provider must be rejected. Whenever a decision of that nature is taken there are also other complementary reasons which altogether might reinforce the main impediment.

Food distributors do not expect too many rules, from the public administration, to favour relationships between them and their providers. However, the rules already published should be properly implemented. Indirect actions could be as effective as any other rule, such as the enhancement of promotions and information exchange.

It is interesting that food distribution managers think that a greater business concentration, promoted from the private sector, could help to ameliorate relationships between food distributors and their providers. Somehow they recognise that there is not a power balance between them and agro-food firms are too small.

Altogether the messages that distribution managers send is in the direction of more stable relationships having in mind that consumers have the last word. Thus, a final decision to reject a provider or product is made depending on product sales although services are assessed and competitive prices are required.

It is commonly accepted that agro-food industries have strain relationships with food distribution chains. It could be the outcome of many competitive forces influencing structural changes, where agro-food industries used to be the most powerful part of the chain and now this role is played by the distribution chains. They exert their power with determination and the difficulties should be solved among business partners but policy should help to create a better environment.

Probably most of those problems have to be solved among the private sector actors as it has been explored by different authors (Henson S., Reardon T., 2005; Macaulay S., 1993). However public administrations have also some input on those conflicts and joining public norms and private efforts can be a good combination to solve most of the problems raised on those relationships (Eijlander P., 2007; Garcia M., Fearn A., Caswell J.A. and Henson S., 2007). Norms should take into consideration future political environments in the EU and globally as well (Meyer, 2007) and it might have quite different outcomes in the future for the entire food chains (Blom, 2007).

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## **Annex 1**

### Open questions of the questionnaire

#### A) Aspects related to usual relationships with suppliers

1.- Use of written contracts between food distribution chains and suppliers

Standard norms, clauses normally included, differences between normal and local suppliers.

2.- Definition of the ideal supplier

Provide the three main characteristics by order.

3.- Use of communication means between managers of food distribution chains and suppliers

Differentiate between telephone, fax and e-mail to explain the reasons of using each one.

4.- Process to solve conflicts with suppliers

#### B) Conditions that managers of food distribution chains establish to accept and to reject suppliers

1.- Describe the three main elements, by order, to accept a new provider. How frequent acceptance happens?

2.- Describe the three main elements, by order, to reject an usual provider. How frequent rejection happens?

#### C) Policy

1.- Actual and potential norms, in the public administration, that ameliorates relationships with providers.

2.- Actual and potential actions, from the private sector, that ameliorates relationships with providers.

## Annex 2

### Interviewed managers

#### Carrefour Augusta

Director	Jose Maria de Serdio
Bread section	Miguel Angel Alonso
Cured sausage section	Miguel Angel Alonso

#### Carrefour Actur

Director	Javier Salinas
Bread section	Jose Manuel Pedrido
Cured sausage section	Luis Adame

#### Alcampo Utebo

Director	Cándido Puebla
Bread section	Angel Vera
Cured sausage section	Luis Ejido

#### Alcampo carretera Madrid

Director	Carmelo Ruiz
Bread section	Javier Romero
Cured sausage section	Florencio Galochi

#### Sabeco

Director	Eduardo Aguilar
Bread section	Arcadio Albertin
Cured sausage section	Jose Luis Abadía

#### Galerias Primero

Director	Santiago Lostao
Bread section	Angel Ibañez
Cured sausage section	Jorge Cáncer



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