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## **The specificity of products and the governance of innovative, local marketing channels in Belgian agriculture**

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# The specificity of products and the governance of innovative, local marketing channels in Belgian agriculture

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## INTRODUCTION

In a 1996 survey about one hundred innovative, local marketing channels were identified in Belgian agriculture (Van Huylenbroeck et al., 1998). The majority of these marketing channels are highly specific. Two growth scenarios are found which are presented in this paper with the help of two case studies, Foodteams<sup>1</sup> and *Fermière de Méan*<sup>1</sup>. Hereby the transaction cost theory is used to explain the appropriateness of the governance structure and to look at the transaction costs of the different models.

## THE TRANSACTION COST THEORY AND THE ANALYSIS OF MARKETING CHANNELS

The archetypal question in transaction cost economics is the make-or-buy question. This question is answered by characterising the transactions and the alternative governance structures and then aligning those two in a cost-economising manner. The attributes to differentiate the transactions in a transaction cost perspective are the frequency with which transactions recur, the uncertainty to which they are subject, and the asset specificity which is involved in the transaction. The governance structures can be distinguished with the following attributes: the instruments they use (price incentives or administrative control), the performance attributes (autonomous or co-operative adaptation) and the kind of contracts they use (classical, neo-classical or relational

contracts). The theoretical alignment between transactions and governance structures to obtain a (mainly) transaction cost economising result is given in table 1 (Williamson, 1996).

**Table 1 : Transactions aligned with governance structures**

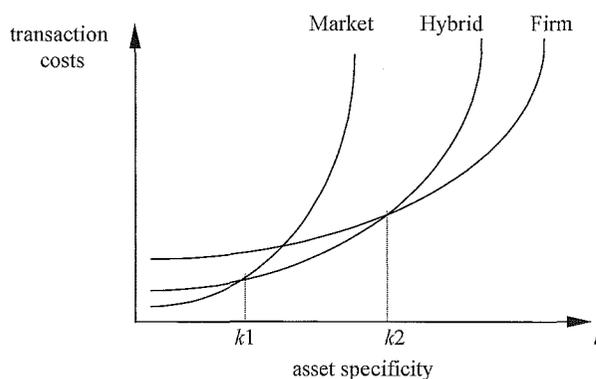
Transactions	Governance structure		
	Market	Hybrid form	Firm/Hierarchy
<b>Specificity</b>			
- non-specific	X		
- mixed		X	
- idiosyncratic		X	X
<b>Uncertainty</b>			
- low		X	(X)
- high		(X)	X
<b>Frequency</b>			
- occasional		X	
- recurrent		X	X

The link, between a transaction and the governance structure that is best suited for the organisation of that transaction in a cost minimising way, is principally determined by the asset specificity involved in the transaction. This relation is represented in figure 1. That asset specificity is the most important attribute is mostly explained by

the fact that, in an environment with bounded rationality, opportunism and uncertainty (complexity), the actors who invest specific assets want some safeguards to guarantee the continuation of the transactions. The governance structures have a different capacity to give these safeguards. The frequency and uncertainty play an important secondary role for specific transactions. The costs of specialised governance structures will be easier to

recover for large transactions of a recurring kind. An increase of the exogenous uncertainty with specific transactions makes it more imperative that the parties devise a machinery to "work things out", since contractual gaps will be larger and the occasions for sequential adaptations will increase in number and importance as the degree of uncertainty increases. (Williamson, 1985 ; Ménard, 1997)

Figure 1 : Asset specificity and transaction costs under different governance structures



Source : Ménard, 1997

### THE BEGINNING : THE FIRM AS APPROPRIATE GOVERNANCE STRUCTURE

Both case studies, like most of the local, marketing channels, have started with a small group of farmers who sell their products directly to the consumers. With *Fermière de Méan*, this was at a public market to an unorganised group of consumers. At Foodteams, the group of farmers sold their products to an organised group of consumers, a foodteam.

In both the marketing channels, the transactions could be characterised as **highly specific, with great uncertainty and high frequency**. The specificity is mostly due to the specific investments (in assets and human capital) necessary for the production and sale of farm products. The products are also specific because they carry definitely the identity of the farmer-producer by taste, from, storage possibility and most of all by the mostly verbal information that accompanies them. The uncertainty is high because of a great vulnerability to sales variation and because of the great product risks due to a lack of craftsmanship and knowledge networks.

From the start, the frequency is high, at least weekly. The characterisation of the transactions points out that **the firm is the most appropriate governance structure**. This means that the farmers will integrate the production and commercialisation in their agricultural enterprise. In this way, administrative control keeps the persons involved motivated, necessary adaptations happen in a co-operative way and the contracts in the channel have a relational character.

However, to attain a larger scale, the farmers of Foodteams and *Fermière de Méan* wanted to enlarge this activity and to reach consumers in other municipalities. Both initiatives chose a different expansion strategy.

### SCENARIO 1 : EXAMPLE FERMIÈRE DE MÉAN

In the first growth scenario, which was followed by *Fermière de Méan*, more farmers are accepted in the group and a professional marketing channel with different points of sale and a greater variety of products is developed. The management of the marketing channel can no longer be done by the farmers on a

voluntary basis. So farmers, together with some consumers, create a co-operative, which becomes a commercial enterprise that employs people, negotiates prices and quality with the producers and sells the products to consumers, retailers and wholesalers.

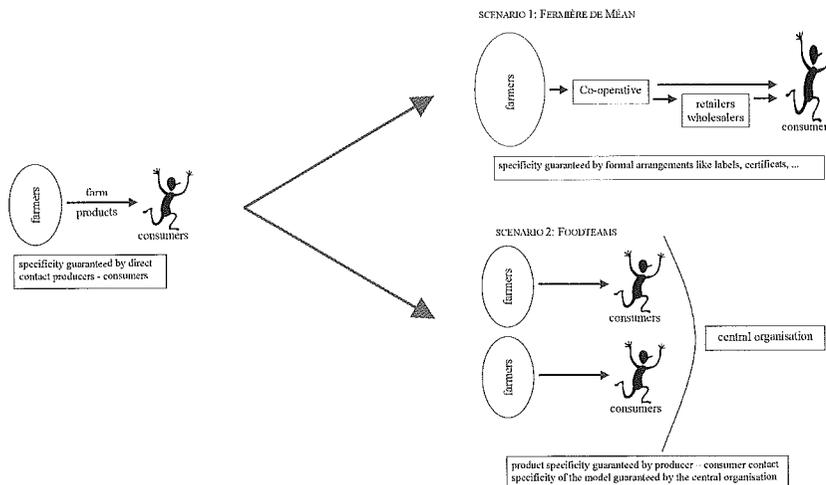
The attributes of the transactions are changed in comparison with the early stages of the project. The production and sale of farm products becomes an important activity for the farmers now involved in the chain. For most of them, *Fermière de Méan* is no longer the only marketing channel for their products. This makes that the specificity of the assets used declines. The co-operative strives to a high but common quality of the products, which makes that the specificity of the products decreases. The selling of the products under the label of the co-operative and the loss of the verbal information given by the producers themselves enforces this decreasing product specificity. The production and marketing activities specialise which gives a declining market and production risk. Thus, the transactions can now be characterised as **specific, with moderate uncertainty and still a high frequency**. This makes that **the hybrid form close to the firm becomes the appropriate governance structure**. In reality, this means that a co-operative is created with a certain degree of economic liberty but in which the farmers still have an important role say. Prices start to play again a more prominent role, farmers develop autonomous adaptations and contracts can be characterised as neo-classical.

The centralisation of the transactions at the co-operative economises a great deal of the transaction costs. However, because of the loss of the direct contact between farmers and consumers the specificity of the products must now be guaranteed by more formal arrangements like production specifications, certificates or labels. This implies extra transaction costs.

## SCENARIO 2 : EXAMPLE FOODTEAMS

In the second growth model, the original small-scale marketing channel is copied to other municipalities or neighbourhoods. This means that it remains a small group of farmers who sell their products directly to a group of consumers. The **attributes of the transactions do not change** in comparison with the original model and therefore **the firm is still the appropriate governance system**.

There is still a direct contact between producers and consumers, which maintains the specificity of the products. One of the consequences of this close contact is that the consumers are willing to take up voluntarily some part of the transaction costs, like the handling of the orders, the distribution of the goods and the gathering of the payments. However, to make sure that some opportunists do not use the model, a central organisation is necessary to protect the model. Another important function of the central organisation is the promotion of the model so that it is elaborated all over the country. Again this implies extra transaction costs.



## CONCLUSION

Innovative, local marketing channels in Belgian agriculture make use of two growth scenarios which, each in a different manner, protects the specificity of the products sold.

### Scenario 1 : example *Fermière de Méan*

- Expanding the marketing channel by engaging more farmers, creating a co-operative (or other organisation) for the commercialisation of the products and selling the products not only directly to consumers but also to wholesalers and retailers.
- The specificity and uncertainty declines and the hybrid form close to the firm become the appropriate governance structure.
- To protect the specificity of the products formal instruments have to be used like certificates or labels, which implies extra transaction costs.

### Scenario 2 : example *Foodteams*

- Copying the small-scale marketing channel to other neighbourhoods and municipalities.
- The direct contact between producer and consumer is maintained and the firm stays the most appropriate governance structure.
- To defend the specificity of the model, a central organisation is necessary and controls the use of the model and on the other side promotes it. This also implies extra transaction costs.

The transaction cost theory gives a good insight in which governance structure is appropriate for a certain transaction and is thus well suited to study specific marketing channels.

## NOTES

- (1) **Foodteams** is a consumer initiative and it consists of small teams of 10 to 15 families who agree to buy farm products from local farmers. The families always engage themselves for a full year. There are two organisations who are engaged in this initiative and who take care of the search for consumers and producers, the starting of teams and the administration of the whole initiative. There is however a strong emphasis on auto-organisation ; so that once the teams are started they rarely need help from the co-ordinating organisations.
- (2) **La Fermière de Mean** is a co-operative, in which producers and consumers co-operate for the promotion and commercialisation of farm products. The co-operative produces also a whole selection of cheeses according to traditional methods. This marketing chain is characterised by a more or less direct link between producers and consumers because both are represented in the co-operative. Through the latest years, the co-operative has expanded its business and the products are now not only sold directly to consumers but also to retailers and wholesalers, in which cases the link with the producers diminishes.

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