Supermarkets

University of Reading
Department of
Agricultural Economics & Management

SUPERMARKETS AND THE MARKETING OF FRESH FRUIT AND VEGETABLES

A.H. GILL

Miscellaneous Study No. 69
1980
Price £2.00

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I wish to express my grateful thanks to all those in the supermarkets and to the growers and packers who, by answering my questions and providing other information, enabled me to make this study.

The conclusions expressed are my own and are not necessarily shared by others in the University.

A.H.G.

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SUPERMARKETS AND THE MARKETING OF FRESH FRUIT AND VEGETABLES

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1. Introduction

Supermarkets and Direct Sales[1]

The last twenty years or so have seen a number of significant developments in horticultural marketing in this country, but possibly none has been more important than that resulting from the growth of the supermarket chains. At the heart of the matter have been the supermarkets' policies of buying the great bulk of their requirements of fresh fruit and vegetables directly from the grower, the producers' co-operative or the specialist packer rather than through the wholesalers in the wholesale markets. There has long been some flow of produce from the producer direct to the retailer, but prior to the supermarkets it was very largely a local flow, the growers meeting the needs of the independent shops in their own areas. The individual transactions were small and they had no obvious effects upon the importance of the wholesale markets. Indeed, the prices at which the transactions were effected depended very much upon the price levels in the markets. The supermarkets introduced a demand for direct supplies on a very much bigger scale and the flow of produce to them widened out to a typically regional pattern. As a consequence, the wholesale markets have lost a significant volume of business and their influence upon price determination has been reduced. This type of change, where the role of the wholesale markets is diminished, is not peculiar to the U.K.. In the United States it came rather earlier and in all countries in which a similar supermarket development is taking place comparable adjustments in market organisation are being witnessed.

[1] Definitions in Appendix

Supermarkets began appearing in the U.K. in the early 1950's. Their significance was recognised by the Runciman Committee on Horticultural Marketing in the mid 1950's[2]. The Committee forecast that they would have an appreciable effect upon the volume of produce entering the markets although not to an extent in the following ten or twenty years as to make unnecessary positive action to improve the efficiency of the markets. An estimate provided in 1974, seventeen years after the Committee published its findings, indicated that 25 per cent of home grown supplies were sold direct to the retail channel, most of them destined for the supermarkets[3]. Five years later in 1979 it was reckoned that, apart from potatoes and produce grown for processors, around 70 per cent of home grown produce was sold through the markets, so implying that the proportion going direct had increased to 30 per cent .[4]

In view of the increased share of the total grocery trade in the hands of the chains - up from 43 per cent in 1971 to 52 per cent in 1978 - and the fall in the number of greengrocers, the increase in the proportion of produce going direct was to be expected. An element in the situation has been the fact that supermarkets have been widening the range of produce they sell and in this way tending to increase their share. At first their range was limited to the principal fruit and vegetables and some early observers considered that they would continue to provide a comparatively small number of lines. Limited floor and shelf space in the stores, short shelf-life characteristics and technical pre-packing problems were thought likely to turn out to be unavoidable restricting factors[5]. In practice, ranges have been made much wider, including such difficult products as soft fruit, and the trend remains in this direction.

From the producer's point of view it may be argued that the growth of the supermarket chains has been a welcome development. They represent not only an additional outlet for produce, but also a type of outlet quite different from that provided by the wholesale

[2] M.A.F.F. 'Report of the Committee on Horticultural Marketing'. Cmnd. 61 HMSO, 1957.

[3] Price Commission 'Interim Report on Fruit and Vegetables', H.M.S.O., 1974.

[4] Economist Intelligence Unit 'Retail Business No.259 and No.260', London, Sept. and Oct. 1979.

[5] For example, M.A.F.F. 'Examination of the Horticultural Industry, 1970', H.M.S.O., 1971.

markets. They provide a more direct link to the consumer and by bringing him that much nearer it is claimed they contribute towards more efficient, and therefore more profitable, marketing. In place of the commission selling system of the markets, transactions are effected at previously agreed prices, something, it appears, many producers prefer. On the other hand, direct selling has brought with it the need for pre-packing to the supermarkets' specifications and this activity requires additional capital investment and the acquisition of what are fresh skills for most growers. Other arguments against direct sales (which are discussed on page 31.) are put forward by producers such as to imply that they provide no clear balance of advantage over other possible market outlets. The issue is of direct interest mainly to the larger producers since they will have access to sufficient produce to warrant investment in their own packing machinery. However, it is also relevant to the smaller producers who market through co-operative societies or who have access to independent packers.

For wholesalers operating solely in the markets, all direct sales, whether they go to supermarket chains, to independent retailers, or elsewhere, are against their interests. A small number of the bigger wholesaling companies have widened their interests to include pre-packing facilities and distribution services for both home-grown and imported produce and in these ways have acquired a share of supermarket business. However, the majority remain subject to indirect pressure from the supermarkets and the future prospects of the chains with respect to their share of total fruit and vegetables sales, must continue to be a matter of concern to them.

Objectives & Methods of Study

It was against the background just described that the study was carried out. The principal objectives were, first to establish the ways in which the supermarkets organise the buying of their fruit and vegetables and the importance of fresh fruit and vegetables in their retailing operations. Second, to consider to what extent and in what ways sales to supermarkets do in fact enable the producer to plan his marketing in a more orderly and effective manner than if he sells through the wholesale markets. In other words, to appraise the arguments and counter-arguments given above. The role of the wholesaler was not examined in detail, nor was the consumer's attitude to the supermarket as a source of fruit and vegetables.

In more detail, the information recorded relating to the supermarkets' buying activities in fruit and vegetables included the following: (1) sources of supply and reasons for preferences; (2) methods of agreeing quantities purchased and purchase prices; (3) methods of specifying and checking produce quality; (4) degree of formality in the trading relationships with producers; the extent of legal commitments and the nature and extent of joint consultation, supply planning and capital investment. Since buying policies are necessarily influenced by retailing policies and practices, information was also sought relating to: (5) the place of fruit and vegetables in the stores in terms of relative profitability, pricing policies, range handled and problems of presentation and management.

The information was obtained during the course of personal interviews with the persons responsible for the fruit and vegetable buying departments of the chains and it is upon their comments that the report is based. The information noted was qualitative rather than quantitative and in order to provide some check upon the quality of the comments that were recorded, the opinions of a number of producers (20) and of producers' co-operatives (7) supplying supermarkets were obtained. They were questioned on a number of aspects including the supermarkets' methods of quality control, supply programming, the longevity of the relationship, pricing and the settlement of accounts. Five specialist produce packers running their own businesses and operating mainly to meet the supermarkets' needs also gave their views. They were questioned about the nature of their trading relationships with the producers from whom they received their supplies and with the supermarkets to whom they sold those supplies. The aspects discussed were, in essence, those itemised in numbers (1) - (4) above.

Finally, in order to obtain a more complete picture of the retailing outlook, the principal voluntary groups that service independent grocers were asked to indicate what role they saw for fruit and vegetables in their operations and what they considered to be the principal problems their members faced in retailing fresh produce.

2. The Supermarket Chains

The Survey Sample

From among the fifteen retail chains with an estimated turnover of £100m or more in 1978 - as listed in the Appendix - only two were not included in the survey. The sample was less complete among the smaller chains, but these smaller chains together had only an estimated 10 per cent share of the total multiple turnover in 1978. Twenty separate retailing organisations provided information. Sixteen of the 20 are concerned mainly with groceries and basic household requisites and include two co-operative retail societies, three are selling mainly non-food products but have important food departments and one is concerned solely with fruit and vegetables. Four of the organisations are in a class apart in terms of number of food stores controlled, namely Allied Suppliers Ltd. with 1030, Fine Fare 683, International 650 and Tesco 510, the next largest being Sainsbury with 231, in 1979, according to the Institute of Grocery Distribution (IGD). These numbers are more relevant to the problems of organisation than to that of market share. The trend amongst the chains is towards fewer but bigger stores to the extent that, in some instances, small outlets have been disposed of. The trend has some significance for producers since changes in the average size and number of stores will have an impact upon produce buying as well as upon retailing.

In terms of geographical spread, only four of the 20 may be regarded as national. The majority are regional in the sense that they cover up to one-half of the U.K.. A small number are local, being concentrated in particular conurbations. In comparison with many countries, distances in the U.K. are small. For example, London is a little more than 100 miles (160km) from the main vegetable production areas of Lincolnshire and East Anglia and the Manchester and Birmingham conurbations are even closer. Short distances such as these and a certain geographical concentration of production necessarily influence the organisation of the buying and selling operations. Buyers need not be permanently stationed 'in the field' in order to be fully aware of the supply situation and delivery times can be quick.

Fruit and Vegetables in Supermarkets

In view of the trend towards larger and more comprehensive retail outlets, it is only to be expected that fruit and vegetables will be part of that development. However, far frmm being regarded as products that have to be on offer for the sake of completeness, fruit and vegetables are welcomed by supermarkets as important 'traffic builders', on a par with the fresh meat and in-store bakery departments. The full range of nationally marketed dry groceries that are available in all supermarkets are subject to severe price competition from which there is no easy way of escape. Product quality among dry groceries has a very wide degree of sameness and although 'own brands' provide some limited possibility of relief competition is overwhelmingly in terms of price. By contrast, among the perishable foodstuffs, including fruit and vegetables, quality differences do exist and these may be exploited by the individual chain. They provide an opportunity for the supermarket to create its own image in the eyes of the consumer to an extent not possible with dry groceries. This individual image allows more freedom in pricing and presentation and some refuge from the highly competitive margins provided by dry groceries. It was generally reported during the enquiry that fruit and vegetables rank high in terms of profitability. They were stated to be equal to, or barely second to, the fresh meat departments and the in-store bakery departments.

However, this is not to say that the standards at which fruit and vegetables are handled in supermarkets are necessarily high. Selling methods, if not the objective of maximum profit, vary somewhat from one chain to another. At one extreme there is the quest for the highest possible quality almost regardless of price. More commonly, lower prices are set but with the aim of providing the best possible qualities at those prices. The range of produce provided, the proportion pre-packaged, display arrangements and site locations within the stores, are other elements that are featured differently.

Product quality, rather than price, was regarded by practically all the produce controllers as the consumer's primary consideration. Handling and visual inspection are the chief means by which consumers satisfy themselves since brand and varietal names, with certain limited exceptions, and attached grading classifications, appear to count for very little when a choice is being made. The general appearance and freshness of the produce, including freedom from damage and other blemishes are the major characteristics that are being looked for. Despite the major importance of the appearance of the produce, comparatively few attempts are made to develop displays to the fullest. They tend to be simply functional, and not to include more than the briefest acknowledgement to artistry, even where the quality standards are highest. Given the range of contrasting shapes and colours that are available, virtually the year round, the display itself, arranged with skill and imagination, can be such as to attract shoppers and can be, in itself, an element in increasing sales. In effect, a store-within-a-store can be created in the shape of the display of a first-class greengrocer. If the standards generally sought are set at a much more modest level - and it was argued that pre-packaged produce and a rapid turnover militate against the traditional type of display - it appears, nevertheless, that many supermarkets do not attain even a reasonable standard. At worst, control is obviously lacking, the produce has a stale look, is often over-ripe or damaged and the stand areas are untidy and uninviting.

Retail Prices of Fruit and Vegetables

Supermarkets have a strong preference for stable fruit and vegetable prices and for pricing each product uniformly in all their stores. The main reason for seeking stability is the belief that it appeals to shoppers and is conducive to regular and to increased custom. Stable prices, especially if local competitors are similarly inclined, also enable more thought and effort to be given to competition in ways other than to do with price. Uniform prices throughout the chain simplify the administrative task and facilitate the pursuit of an overall policy. Pre-packaging, which involves price labelling usually before the produce reaches the store, necessitates stability and uniformity over two or three days. Retail prices are, therefore, in most cases set by the central buyers although four of the chains in the survey, each with a wide regional spread, pursue regional pricing policies. In all cases the buying and selling functions are closely co-ordinated; the two are not regarded as being divisible. As a broad rule, store managers are not permitted to make changes from laid-down prices, except with prior approval from the central or regional controllers.

The ease with which prices can be held varies from commodity to commodity. Tomato and lettuce prices, for example, are difficult to hold for even two or three days during the peak season; apple and citrus prices can remain unchanged for two or three weeks or even longer; mushroom prices may be held constant for several months. It is unfortunate for the suppliers, as well as the consumers, that the prices of the major tomato and lettuce crops are among the least stable. However, the task of holding prices stable is eased by the fact that the fruit and vegetable products are looked at as a whole in all the chains when their profitability is being measured. If, therefore, a particular price is known to be currently out-of-line, either too low or too high, the short-term loss or gain, as the case may be, will be at least partially offset by appropriate prices for other products.

Although actual comparisons have not been made, it seems possible that supermarkets' prices for similarly presented produce fluctuate less widely than those of the independent greengrocer. The supermarkets' prices are based upon comparatively regular supplies and steady demand. The wholesale markets, upon which greengrocers mainly rely, are exposed to the full impact of any general shortage or over-supply and they respond by appropriate price adjustments. Market prices consequently move more rapidly between wider extremes and these movements are felt by the greengrocer. It was argued that being at one remove from the markets did not prevent the central buyers from being fully aware of short-term price trends but did prevent them from being unduly distracted by the more unpredictable day-to-day price fluctuations that the markets experience.

Claims were made that in other ways the supermarket has an advantage over the independent greengrocer with respect to pricing. One is that in so far as the supermarket has a faster turnover it is easier to take account of short-term changes and that the dis-advantages of over-buying at what turn out to be relatively high prices are lessened. Another is that the faster turnover and high volume sales associated with the supermarket should allow them to work to lower margins than the greengrocer and to fix lower prices for like products. Finally, there is the belief that those supermarket shoppers who are one-stop shoppers are prepared to ignore the extra penny on the price, presumably regarding it as the sum to be paid for the greater convenience they are looking for.

These various claims may be regarded as plausible, but they are not known to have been tested in an objective way. It appears that very little, if any, market research of this sort has been carried out in this country. Yet, in an area lacking anything in the way of firm evidence, two rather contradictory statements may be made. First, it seems to be the case that consumers generally regard short-term, unpredictable, price fluctuations for fruit and vegetables as the norm. In the circumstances, consumers' knowledge of price differences, and especially price differences between shops, will tend to be vague. Second, as if to belie this assertion, a close account is taken by the supermarkets of competitors' prices and appropriate adjustments are sanctioned and made - more quickly downwards than upwards - particularly for stores in 'tough areas'. This implies that consumers are thought to be aware of, and do take account of, differences between stores. Thus, although the chains strive to hold their prices steady and uniform in all their branches, they are, in fact, very price conscious and any differences from their competitors are merely ones of degree.

Produce Packaging, Labelling and 'Promotions'

Pre-packaging has been - and probably still is - the principal method of presentation employed by supermarkets. The aim has been to make fruit and vegetables available in the same way as other foodstuffs that are neither as fragile nor as perishable, in order to facilitate fast and easy shopping. Recently there has been a move towards enabling customers to handle and to select the individual fruits and vegetables they wish to buy. The system of selection by customers - variously called 'free-flow', 'loose-flow' and 'self-selection' - has expanded noticeably in the past two or three years. To a large extent the increased interest was stimulated in the U.K.

by the comparative shortages and ensuing high prices of produce (especially pre-packaged produce) in 1976 and 1977 and it was given added encouragement by the sharp rises in fuel and packing material costs. At that time, opinion among the controllers about the merits of 'free-flow' was divided, rather more being at least uncertain about its value than were in favour. The sceptics were particularly concerned about the extra wastage that was thought to be unavoidable and the unhygienic aspects associated with shoppers picking over produce. Some controllers were uncertain about having adequate staff and space to operate the method successfully. Those in favour were satisfied as to its success in stimulating sales and to its greater profitability. The recent expansion of 'free-flow' indicates that some opinions have changed since that time. Selection by the customer is a service not provided by most independent greengrocers and its reported success suggests that an advantage rests with the supermarkets in this respect.

The increasing tendency has been for the chains to offer particular products both loose and pre-packed giving customers a choice. It is felt that the existence of a choice must tend to attract additional buyers and this appears likely to be the case, assuming acceptable standards of quality and display are maintained. Pre-packaged produce simplifies the task of management in the shops since decisions about presentation and quality are taken earlier, the onus resting mainly upon the companies' buyers. Loose produce, on the other hand, shifts a greater responsibility on to the shop salesman, although it was argued that the customer would be less inclined to blame the store for poor purchases if she had selected them herself. For some companies, the retailing simplicity of pre-packaged produce fits better into their general strategy than the extra control, space and in-store pricing requirements of loose produce. Where both systems are provided, the general opinion was that loose produce sold faster, that consumers became 'educated' in selecting produce and that wastage was not excessive. Nevertheless, it was considered advantageous to offer both choices to shoppers rather than to settle for one.

'Sell-by' dates are also being provided on pre-packaged items to an increasing extent. Those in favour of providing them considered that they would to some degree engender consumer confidence and encourage sales. Their views are supported in an OECD report which states that consumers "would appreciate" an indication of sale limit date as giving some assurance about quality additional to that obtained by visual inspection[6]. Doubts among consumers about quality are possibly greatest with products that are overwrapped in trays that offer limited scope for inspection. Those not in favour argued that they were unnecessary with fruit and vegetables, where handling and inspection was possible, and that they were, to some extent, aimed at 'conning' the buyers by diverting the consumer's attention to them. It was also felt that they had the disadvantage of causing store managers to play safe and to under-order so as to reduce the risk of wasted stocks. The 'just right' stock situation of shelves becoming empty at the end of the week or delivery period demands careful management, given the perishable nature of the produce and the fluctuations of demand. In view of the difficulties, the more common policy was so to stock that shoppers were assured of supplies, even at the risk of wastage, rather than to understock in order to be more sure of quality but run the risk of empty shelves and lost custom.

Promotions of particular items for a week or so were reported as being markedly successful in boosting sales of them. The use of promotions is perhaps restricted by the need for careful observance of consumer law requirements in defining reductions. Mass displays in prominent positions, plus an element of price reduction, are the usual means. To some extent promotions are used as a means of diverting consumer attention away from products that are temporarily in short supply. The exigencies of the seasons ensure that supermarkets cannot always obtain the quantities of the produce they need to the standards they normally purchase and yet they wish to maintain their full range on display. The problem may be reduced by attracting shoppers to those goods that are plentiful and up to the usual standards whilst at the same time seeking to disguise the shortages

[6] OECD 'Prepackaging of Fruit and Vegetables' Paris, 1979.

and avoid any encouragements to purchase those items not up to the usual standards. 'Promotions' help to do just this.

The Outlook

The opinions noted in most interviews were that the potential profitability of fruit and vegetables is now more widely appreciated by the supermarket directors than had been the case and that the departments have been up-graded as a consequence. A fuller range of items and a variety of methods of presentation have been adopted in order to widen the service provided and to assist development. This changed attitude has also had an impact upon staffing. More skill and care are necessary in stock control and handling, both in the warehouse and in the shop, than in the case of dry groceries and yet, because of the early limited status of fruit and vegetables and, to some extent, because of the comparatively dirty nature of the job, rather less interest was shown and insufficient training was given. Now more incentives are being provided and status is being raised in order to improve the standard of staffing. As individual stores become larger, the more it will become possible to employ managers and staff with specialist skills and interests in fruit and vegetables, a need that is all the more necessary as 'exotics' and items such as soft fruits come within the normal stocking range. Paradoxically, the faster turnover of the larger stores tends to make the task of management easier as well as providing the consumers with possibly the best guarantee of freshness that they may expect. However, the likelihood of successful developments in this direction must be set in the context of a generally difficult situation for retail shop staffing. Controllers tended to quote staffing as one of their 'biggest headaches'. In general, the evidence obtained suggested that the interest of supermarkets in fruit and vegetables will continue to grow. Strategies with respect to the central issues of quality and prices will continue to vary between chains. Some will prefer to emphasise quality at the expense of price whereas others will seek to maximise quality at lower price levels.

3. Procurement Policies

Central Procurement

Single, central buying offices exist in all but one of the 20 chains that were investigated. The exception relies upon a small number of wholesalers, each of whom operates within a region and serves up to twelve stores. The service each provides is subject to the checks of a regionally based employee of the supermarket. This one exception apart, all the buyers operate from a single centre within each organisation agreeing transactions with their suppliers over the telephone. Only a small number of supermarket staff operate permanently in the production areas and then their work is mainly that of solving immediate supply problems, particularly that of checking quality standards, and not that of buying. Most of the produce is delivered by the producers to a small number of strategically located supermarket depots and, from these, suitably made-up loads are dispatched to the stores. The depot managers may do a certain amount of buying to make good unexpected shortfalls, but they must use approved sources and receive prior sanction for their actions. Retail store managers may also buy, but only in exceptional circumstances. Again, they must use approved sources and obtain prior approval. The accounts for local purchases, whether by the depot or the store manager, are generally settled through the central offices and in this way central control is maintained.

Several reasons are advanced to support the central procurement policy. There are economies to be gained from buying and distributing in bulk. Buying in large lots tends to reduce the costs of physical handling for both buyer and seller as well as the unit costs of buying and selling. Buyers are also able to obtain the particular specifications they need on the scale required and sellers handling large quantities are better able to supply them. From the seller's point of view, handling large quantities increases the likelihood that even the oddest items will be available in lots of marketable size. In other words, there is likely to be a better and fuller match of supply and demand. The saving in distribution costs depends partly upon the turnover of the individual store. At the hypermarket level, daily requirements may be sufficiently big to justify direct movement of produce from the grower or pre-packer to the store rather than through the depot. Moreover, the large store tends to have a steadier throughput which aids the ordering process. By contrast, the smaller store needs not only smaller deliveries, but also deliveries in a more uncertain fashion. Thus the chain with comparatively small retail outlets is at a disadvantage compared with one with large individual outlets and the problem is increased the greater the geographical dispersion of the shops. A third reason for central procurement is that it is regarded as essential to achieving a comprehensive and consistent policy for quality standards and the successful creation of a company image. The more procurement is broken down in scale, the bigger the number of buyers and the more likely are quality standards to vary from store to store within the organisation.

There is a further argument for central procurement in the U.K.. Our imports of both fruit and vegetablea are supplied to a considerable extent through the agents of overseas marketing boards, or through a comparatively small number of export sources and importers. It is appropriate to deal with this concentration of supply through a single buying office and logical, therefore, to co-ordinate both home and overseas purchases through the same single office. The relative compactness of the U.K. import flow tends to simplify and ease the buying operation. Imports that are brought in easily by road, from a considerable number of suppliers and with little or no fore-warning as, say, into France from Spain and Italy on occasions, make the market situation more uncertain and therefore more difficult to handle.

The number of buyers per supermarket chain is small, perhaps no more than three or four. By training and background, most of the buyers are experienced in fruit and vegetable retailing or wholesaling, rather than in production on the farm. A few trained horticulturalists are employed to give technical advice, but they are limited to just two or three organisations.

Sources of Supply

The great bulk of supermarket home-grown fruit and vegetable requirements are purchased direct from individual producers, producers' co-operatives or produce packers. The producers and co-operatives concerned need to have produce packing facilities since the chains, as a general rule, do very little of their own packing. The majority of the chains (14) use the markets to provide less than 5 per cent of their total needs, taking both home-grown and imported together. The remainder, excluding the one relying entirely upon regionally-based wholesalers, quoted up to 15 per cent as coming from the markets, one apart stating up to 20 per cent. In the main, the markets are looked to for 'exotics', very early or end-of-season supplies and for 'topping-up'. Each chain tends to have its 'regular' wholesalers. As the very small degree of dependence indicates, market-based wholesalers are regarded by the supermarkets as an inappropriate link in the distribution chain, being unable to give sufficient assurance about providing the required supplies and being unable to deal with packing needs. Produce packers, some of whom rely entirely upon packing and some of whom have market-wholesaling interests, are, however, relied upon to a considerable extent. This is especially so for imports since it is less easy for the supermarkets to establish direct links with producers overseas and packing and labelling in the final form has to be done in the U.K.. Specialist packers offer the advantages of handling a range of produce and of having the peculiar skills and expertise involved in packing. Generally, in addition, packers provide transport services to the supermarket depots. For the bulk of their own supplies the packers' usual practice is to establish their own 'regular' group of growers, any occasional short-falls being obtained wherever appropriate.

The supermarkets endeavour to ensure at least two suppliers of each product. This is partly to reduce the risk of a complete absence of supplies that being dependent upon only one producer might mean, but partly to make possible comparisons of produce, asking prices and fulfilment of undertakings. There could, conceivably, be a price to pay for these safeguards. Buying from at least two suppliers adds to administrative costs, and it may run counter to the most efficient use of transport thereby raising distribution costs also above the lowest possible levels.

Quantities Purchased and Supply Programmes

Provided the supermarket has been satisfied with the quality and reliability of supplies in the past - mainly implied by the acceptance of deliveries without complaint - a supplier may reasonably work on the assumption that he will continue to be asked to provide supplies in the future. As a general rule, confirmation is given at the start of each season when the supermarket discusses with its suppliers what it expects to take during the season. The indication given is usually only verbal and frequently no more precise than 'our purchases will be about the same as last year's'. Only two chains from among those questioned provided written estimates at the start of each season broken down into months and weeks, whilst another four gave less precise written statements. Thus, although the supplier has a sure outlet, he does not have an undertaking that the buyer will accept certain quantities specified well in advance. The planning period for agreed quantities tends to be the week. Discussions take place, usually over the telephone and on Thursdays, about the following week's programme. The daily quantities that are then set out are, however, subject to confirmation or change - including complete cancellation - by the supermarket, on the day before delivery is due. The likelihood of change is greater with the more perishable crops and those subject to comparatively wide fluctuations in supply and demand than with the less perishable and more stable lines. In practice, short-term changes such as these are very common and the suppliers contend with them. By taking into account their past trading patterns with the particular supermarkets, as well as their knowledge of the wider current supply-and-demand situation, they appear able to plan to a largely acceptable degree of accuracy.

As a general rule, therefore, there are no commitments on either side that may be regarded as contractual, using the term in the simplest - and perhaps most usual - sense and thinking of the crop season as the period of time. That is, suppliers, whether producers or others, are not commited to providing particular products at given times and in given quantities and there are no forward statements about prices. However, if the meaning of a contract is taken more broadly in the sense of involving the spirit of an understanding, and excluding any attempt to link the meaning with a legally binding written form, then the relationships between the supermarkets and the suppliers may be regarded as contractual. Commitments of a morally binding nature are considered to exist both by the supermarkets and by their suppliers. The feeling most frequently expressed among the supermarkets was that business took place upon a basis of mutual trust and understanding and a willingness on the part of each party to help the other, according to the circumstances of the time. If difficulties arose for the supermarket and its requirements were less than anticipated, it would discuss the matter with the supplier and seek to find a solution acceptable to both sides. Similarly, if difficulties arose for the supplier in fulfilling the requirement, he would look for, and could expect, understanding and assistance from the supermarket. It was considered that there was a mutual dependence and a need for loyalty on both sides.

However, business relationships dependent to such a large extent upon good personal relationships will inevitably incorporate a range of attitudes. Some supermarkets appeared more concerned than others to forecast requirements as carefully as possible, to cut variations to a minimum and then with the longest possible warning. To quote one controller, if a particular supplier had given good service over a period of time, then the supermarket would 'guarantee' to continue trading. At the other extreme was the controller, far more 'market' orientated, who stated that his concern was to acquire produce for sale and that he had 'no time for farmers'.

Controllers were questioned about the possibility and the desirability of being more specific in their supply programmes and in setting them down in writing and their replies provide additional evidence of their different shades of attitude. Those who gave the programmes considered that they represented a stronger commitment by the supermarket and gave the grower increased confidence, despite the uncertainties surrounding them. The grower could feel more assured about the outlet for his produce and he would, therefore, be able to plan his cropping and packing more efficiently. They considered, moreover, that the grower would respond and that the supermarket would be more likely to receive preferential treatment in return when supplies were scarce. In answer to the question that the grower might have difficulty in fulfilling a programme due to unforeseen circumstances, the view was expressed that he, knowing his past crop outputs, should not accept a commitment that was not reasonable by those standards. The majority, who did not give programmes for more than a week ahead, thought that, in view of the inevitable fluctuations in supply and demand, programmes could not be meaningful and usable by the grower for planning purposes. They quoted the lack of requests from growers for programmes as evidence supporting their contention. In addition, since the trade is based essentially upon mutual trust, they were unnecessary. A reason of a different nature was that the records required to build-up programmes were costly to produce.

Given the uncertain nature of the fruit and vegetable business, on both the supply and demand sides, and the practical planning problems that follow, the difficulties in achieving reasonable forecasts are understandable. Nevertheless, the maximum possible accuracy is desirable for good, long-standing trading relationships and it is noteworthy that the majority of growers questioned, although not wanting fixed or legal commitments, would welcome something firmer than generally exists at present.

Buying Prices

Just as the chains regard the week as the period for firm decisions about quantities, so they regard the week as the period for fixed prices. Nevertheless, there is a mutual understanding that prices may be re-negotiated during the week in question, either - and more commonly - at the request of the supermarket, or at the request of the supplier. Such changes in prices may, or may not, involve changes in the related quantities of produce. Prices are, in fact, often changed this way bringing the agreed-price period down to two or three days. Re-negotiation tends to take place for products that are particularly subject to fluctuations in short-term supply and demand, including such major items as tomatoes and lettuces. Supply and demand conditions for apples, as another example, are more stable and the price is likely to be held for the week. If it is at all possible, prices will be held constant from one weekly negotiation to the next and may, indeed, remain unchanged for three or four weeks. Mushrooms are a product that tends to fall into the last category. Yet, whatever the product, the situation will be watched carefully and buying prices will be changed when appropriate. They will be passed on more or less immediately to the retail level, although there may be some adjustments between products, losses on one being offset by gains on another.

The price bargaining is, therefore, very largely a short-term supply-and-demand balancing exercise, very much influenced by the supply situation on the farms and the demand situation in the High Street. Some produce controllers claimed, however, that they take something more than the very short-term view. Their stated aim is to achieve the lowest possible price consistent with the quality they are asking for, recognising that it is in their own interests that their suppliers continue to earn a reasonable profit. Certain products that are welcomed by supermarkets, but are difficult to grow and pack consistently well (sprouting broccoli was an example quoted), were mentioned particularly as needing 'encouragement' in this way. Supermarkets claim, therefore, that they pay prices rather above the lowest in the markets when supplies are plentiful and the markets are depressed, but expect, in return, to pay rather less than the highest when supplies are scarce and market prices are very high. Evidence obtained from growers tends to confirm this assertion. How far buyers in fact take the long-term view and discount the current situation depends upon company policy and individuals. Some controllers gave the impression of being much more motivated by prices and day-to-day situations than others. To quote examples, the controllers' comments included the assertions that they themselves were 'in the driving seat', 'pretty dictatorial' and 'like petty dictators doing an awful lot of knocking down'. At the time of interview, one particular individual, well-known and respected in the horticultural world and serving a group of producers with a long-standing connection with the chains, described the price being offered for lettuces as 'grossly unfair'. The offer had come from an organisation that prides itself upon its relations with its suppliers and regards itself as being more understanding than most of the need to offer growers 'fair and reasonable' prices.

The weekly discussion often starts with the grower, or his agent, stating his asking price and, if this is not acceptable, bargaining begins. To arrive at their starting levels, both sides make considerable use of price intelligence derived from the wholesale markets and there is evidence that to some extent producers consult their fellow producers as to what prices they should aim for. It is not possible to say how far this consultation goes, but it is not generally on an organised basis.

Discounts, on the settlement, are expected by some of the supermarkets. It was claimed that these reflected no more than genuine savings in cost due to handling economies whereas others considered that the discounts reflected a mixture of 'economy and bullying'.

A very few exceptional cases were encountered where prices are negotiated on a long-term basis of a part or whole season. These exceptions could be accounted for either because the supply of the crop in question was comparatively stable, or because there were few suppliers or because the crops were minor ones, some produced more or less to order. These negotiations take a more conscious account of costs of production and are much more on a 'cost plus' basis. However, they are in a class apart and there is no evidence to suggest that they are the forerunners of a trend in that direction.

Quality Standards and Quality Control

The fact that buying negotiations take place over the telephone implies such a degree of mutual understanding about the quality standards that will be acceptable in terms of freshness, colour and blemish, that they may be agreed verbally. The supermarkets aim to build-up this understanding with their suppliers over time. Questions of variety and specification of size will be comparatively simple and unambiguous. Written specifications based upon the statutory EEC grading standards are provided by one-third of the chains when the relationship with the producer is first established, but they are regarded as little more than educational material. The remaining two-thirds put nothing about quality specifications in writing, saying that they are neither asked for them by their growers nor are they practical, given the variable nature of horticultural produce and the flexibility this demands. In the short term, account has to be taken of the immediate situation and standards adjusted quickly either downwards or upwards, according to relative scarcity or surplus. It was argued that the speed of action necessary made the provision of specifications impossible. Although the continuing aim of the produce buyers is high quality produce, it is a quality that is realistic in terms of the large volume required and prices that are competitive.

Facilities for chilling produce, either on the farms, at the supermarket depots or on the lorries - whether running from the farms or from the depots - are very limited. One chain alone makes a special attempt to use a 'cold chain', such facilities providing increased flexibility through the use of stocks, as well as maintaining freshness better. Generally the handling systems are 'straight through' ones passing the produce as quickly as possible, the depots being concerned essentially with making-up the requirements of the individual store rather than holding buffer stocks. Much of the produce, particularly the more perishable items in the summer season, is taken from the farms early in the morning and is in the stores early on the following morning.

In most cases, quality control involves mainly sample checks by the supermarkets when the produce reaches their depots. General checks by them at the pack-house stage are impossible due to the lack of field staff and any inspection and selection in the field is even more exceptional. The producer dispatches the produce that he thinks the supermarket will find acceptable in the prevailing market conditions. If any intended delivery is marginally below the expected standard, an early warning by the producer may make its acceptance possible. Rejections are made by the supermarkets at their depots and the producer has to deal with the produce as best he can, receiving no recompense from the supermarket. However, although the consequences of rejection fall heaviest upon the producer, they must also be unwelcome to the supermarket, assuming a short-fall is thereby created. A crucial aspect of the trading relationship is involved in this matter, one where misunderstandings and suspicions may arise on both sides because each has only a limited appreciation of the other's problems. The closeness of the liaison at this point is a good indication of the quality of the trading relationship. The closer the liaison, the greater the efforts will be to settle any problems about quality before the produce reaches the depot.

Consultation and Integration

The regular weekly discussionsbetween the supermarkets and producers centre upon the quantities and grades of produce to be delivered in the following week, but the likely supply situation in the next month or so must inevitably come under consideration from time to time, even by those chains who do not provide written programmes. In addition to questions of quantity, the quality of the crops awaiting harvesting or already in store and the likely optimum supply pattern, having regard to considerations of quality, is a matter regularly under review. Further, all these conversations will have been preceded in most cases by discussions reviewing the prospects for the season as a whole. The majority of chains try to arrange such longer-term exchanges with their suppliers.

Consultation of a longer-term, more developmental, character relates mainly to matters of crop variety - appraised most often in terms of shelf life, but also in terms of taste and visual appearance - and to forms of packaging, both for transport and for selling. A number of the bigger chains provide returnable crates aiming to simplify handling and to reduce damage to produce in transit. The majority express their opinions and preferences about packing for transportation rather than lay down specifications the growers are required to meet. Joint experimental work with crops in the field is very limited since only two chains employ trained horticulturalists and then a small number.

The annual discussions mentioned tend to be held on the farms and thereby provide an opportunity to renew acquaintances and to review past trading, as well as to look forward to the future. The produce controllers themselves often take part. Much less common appear to be visits by growers to the supermarkets' depots to which they send their produce. On the immediate level of dealing with current problems, seven of the twenty chains have at least one man 'permanently on the road' making visits to farms and pack-houses. Such visits may involve the person in charge of the pack-house rather than the grower himself. The remaining chains make only irregular and infrequent visits to pack-houses. At one extreme, one chain reported that many of their principal, long-standing suppliers had never been visited and visits were not contemplated unless 'absolutely essential'.

None of the chains expressed an interest in any form of formal vertical integration or 'joint venture' type of activity with their suppliers, whether individual growers or growers' co-operatives. The extremes of opinion expressed were, on the one hand, the wish to seek involvement, but without formal connection and, on the other, to have a free choice of sources of supply. One difficulty envisaged in formal developments was that of possibly having to accept responsibility for an entire crop regardless of its quality. As was to be expected in view of these attitudes, only a very few instances were noted where the supermarket had made any form of capital available to its growers. In one instance short term credit had been given to assist the purchase of returnable containers and transport and, in two others, the services of technical advisers had been provided free of charge to help development work. The impression given by growers was that even the most willing chains were very cautious about giving financial assistance to new proposals.

In general, therefore, the business exchanges between the supermarkets and their suppliers, looking beyond the weekly buying agreements, are very largely informal and consultative, seeking, to varying degrees, to develop personal relationships and understanding. Formal arrangements with firm commitments are not wanted either by the supermarkets or, it appears, by the growers. At the practical level, the achievement of good relationships depends a great deal upon the number of supermarket staff able to visit the farms and pack-houses. The buying staffs themselves are invariably small with little time to spare for visiting growers and certain extra staff and transport are necessary in order to gain improvements. However, the return to be set against the additional cost involved is difficult to quantify and little evidence was obtained suggesting that the supermarkets are planning moves in this direction. Nevertheless there was in some quarters a conviction that communications between grower and buyer had not been close enough and that improving them was the major task ahead.

Supermarkets' Criticisms of Producers

The two services from producers that the supermarkets value particularly are reliability in supplying the quantities previously agreed at the times and places agreed and consistency in meeting the quality standards laid down, both within the individual packages and over time. Supermarkets wish to feel assured that their suppliers will 'look after them' and that, rather than consider alternative outlets when produce is scarce and prices are high, they will 'bend over backwards' to obtain supplies. It is, indeed, common for producers and packers supplying supermarkets to purchase produce if otherwise they would not be able to meet their commitments. Supermarkets welcome ample warning of supply difficulties and if quality is poorer than expected. The wider range of produce the supplier is able to provide the better, but, assuming dependable service, the comparatively small-scale producer would be welcome. Questions of price and what the supplier may be willing to accept, are said to come well after considerations of reliability and consistency, in order of importance. Moreover, with respect to price, the ability to agree a figure quickly without prolonged negotiations and to regard the agreed figure as fixed for a period of time is regarded as an advantage. Finally, knowledge of the trade and market conditions generally, and an ability to advise and put forward fresh ideas, are added virtues. It is against this background that criticisms expressed by the supermarkets of their suppliers must be seen.

With respect to broader issues of business philosophy, greater affinity appears to be felt with the larger co-operatives, specialist packers and wholesaler organisations than with the individual producers. The larger organisations are felt to have a better understanding of the retailers' attitudes and problems and are also regarded as being more willing to accept criticisms of their own performance. By contrast, the individual tends to be excessively production-orientated with little feel for retailing. He is regarded as being reluctant to admit shortcomings about his crop, grading and packing and too inclined to wish to bargain in the short-term fashion of the dealer. For these reasons, they were not regarded as good sellers. On the narrow issues, the most frequently stated reservations, as will be expected, were about grading and packaging standards. Grading standards achieved were thought to be too low and too inconsistent, although it was also remarked that standards had improved noticeably over the years. The principal criticism of packaging was the lack of standardisation, opportunities for improvement being lost through insufficient consultation before new investments were made in the pack-houses. This last is an example where the large, specialist packers are thought to have a better understanding and to be more able to deal with problems than the smaller grower-packer.

The statements just given attempt to represent the balance of the evidence obtained. It was not entirely one-sided. Some large organisations were thought to lack urgency, to be costly and to suffer from frequently changing staffs. At the same time, the service provided by some individual growers was praised very highly.

4. Implications for Producers

Possible Advantages and Disadvantages of Direct Sales

Various claims have been made for direct sales by producers in comparison with sales through the wholesale markets. One advantage is said to be that they reduce the element of risk for the producer mainly by providing assured outlets, a more even pattern of sales and a sale price that is settled before the produce leaves the farm. The extra knowledge helps the planning of the business and avoids having to wait for and to accept whatever price the wholesale market achieves. Another claim is that closer, regular contact with leading retailers increases awareness of consumers' preferences and that production becomes more market orientated as a consequence. The most preferred varieties, qualities, packaging, etc. are more likely to be provided. Third, the direct sales outlet is said to be the most demanding in terms of quality, presentation and delivery dates and the extra rigour will raise the producer's performance. Fourth, the direct sales outlet will be valuable merely as an extra outlet enabling risks to be spread wider, quite apart from the question of type of outlet. Generally, the producer becomes more knowledgeable about the market and less at the mercy of market forces. These various advantages will tend to ensure not only higher profits, but more stable profits, as well as greater peace of mind for the producer.

If the grower sells to a packer, rather than to the supermarket itself, the same arguments may be put forward. In effect, the influence of the supermarket is undiminished and the grower may, in fact, have direct discussions. Indeed, dealing through a packer will provide the additional advantages of avoiding investment in packing machinery and the organisational problems of packing. In order to strengthen their position, growers may do business with two or more packers rather than just one and some of those interviewed did just this.

The price to be set against these possible benefits is said to be that of being at the mercy of large, powerful buyers who are slow to settle their accounts, of having to accept whatever price they are prepared to offer, of having to follow their instructions about quality and packaging, of having to accept rejections of deliveries for wrongly stated reasons and, possibly, even dismissal as a supplier, virtually without prior notice. Further, the producer is said to be left with his second class produce which he has to dispose of as best he can. These various claims and counter-claims may be related to the findings of the survey.

Production Planning and Market Orientation

The understanding between producer and supermarket for fresh produce is not as firm or as expressly stated as it is with certain crops that are supplied for quick freezing and canning, either for quantities, prices, or times of delivery. This is understandable given the fact that in the processing sector factory capacity has to be planned for and the processed products are put into store. Moreover, what understanding exists in the fresh produce sector is likely to be verbal rather than written, as it is with processing. Nevertheless many producers have had long-standing relations with particular supermarket chains. Those growers who were questioned regarded the relationship as one that would continue from year to year, and one that they could safely rely upon as they carried out their yearly planning. The disposal of that proportion of their crop that was ear-marked for the supermarkets was considered to be settled. They were sufficiently assured to plan to include not only more unusual crops but also to ensure a sequence of harvests for particular crops. Further, they were confident that the prices they would receive for their produce would bear comparison with those achieved through other market channels in that season, however good or poor the season turned out to be. Prices were not, therefore, a matter for particular concern. In the circumstances it was considered that more time and energy could be devoted towards meeting the supermarket's needs and less to interpreting and responding to fluctuations in market prices.

Although the growers indicated that, on the whole, they felt confident enough to assume a continuing relationship and to act accordingly, there was no guarantee of year-to-year continuity. One particular producer, for example, whose produce had been praised by the buyer concerned, found himself abandoned by the company at short notice and with no reason given. The break was in fact due to a change of supermarket staff. Breaks in relations seem most likely when staff changes are made in the buying departments, changes in suppliers being made even though the broad pattern of policy may remain unchanged. The producer may receive some prior warning, but more probably not, and it appears to be a risk that he has to accept.

With regard to short-term planning, although the week is the usual planning period the hopes and intentions of the supermarkets are frequently changed. The producer has to be prepared for and to cater for adjustments at perhaps a day's notice. In this respect he is less free than if he uses the wholesale market outlets since in his use of the latter he is entirely his own master. However, the producers did not indicate that the short-term changes were such as to create any big problems.

Much of the produce purchased by supermarkets is pre-packed in one form or another, vegetables as well as fruit, and standards of selection are at their highest for pre-packing. The pre-packing process brings home to the producer, in a way that no other form of grading does, exactly what proportion of his produce is reaching the highest standard and the view was expressed during the course of the enquiry that this greater awareness has raised standards of production significantly and generally. The producer knows more clearly the nature and source of quality shortcomings and is therefore more able to provide the right remedies. It was reported that workers in the packing shed have taken a pride in knowing that they were packing for an organisation with a high reputation for quality and that this has boosted morale and the care with which they work. In a negative way, the knowledge that produce may be rejected at the supermarket's depot, after the expense of transport to that point, and with disposal yet to be completed, is also an incentive to greater care in grading and packing.

Bargaining Strength

At first sight, the balance of bargaining strength may seem to lie heavily in favour of the supermarkets with their large, continuing orders for produce at their disposal and certainly the supermarkets acknowledged that they ask for 'favourable' prices. To some extent these may be related to real economies associated with bulk handling and fully utilised transport. However, the evidence indicates that in the case of outdoor vegetables the number of producers and pre-packers available is not sufficiently great for the supermarkets to ride roughshod over the supplier's feelings. Indeed, in conditions of shortage, such as existed during the very long, dry and hot summer of 1976, the balance of advantage may be with the producers. At that time, and at others also, the supermarkets have been forced to accept that supplies were not available. At the important Christmas period of the year, for example, vegetable supplies may be difficult to guarantee. In the case of glasshouse salad crops and, especially, top fruit, readily-available imports at the present time put the home producer in a weaker position. However, the chains are buying in competition with each other and the producer typically does business with more than one. The trend towards a small number of dominant chains in the U.K., perhaps four or five, seems unlikely to change the nature of their competition against each other. They are all seeking the same sort of service, consistent and good quality produce and reliability of delivery, above all else, and they are all concerned that their store shelves should be well stocked at all times. A source of strength for the producer is that he may deal with two or three. More importantly, given the chains' rivalry and their need to safeguard their supplies in an uncertain supply area, then, provided he operates efficiently, he seems assured of a continuing outlet at fair prices.

There are, therefore, factors in the producer's favour and swings of advantage which are recognised and taken into account by both sides. The extent to which the supermarkets take the long-term view varies. Some claim to recognise that undue pressure will cause them to lose their best producers, including those welcome crops that are not major lines, and that they conduct their relationships accordingly. Others certainly adopt a harder, live-for-today approach.

Producers' Attitudes

In order to get a more balanced view, the opinions of a number of producers and producers' co-operatives supplying the supermarkets were obtained. Since those questioned are suppliers to the supermarkets they can be expected to be approving of the relationship, at least in broad terms. Nevertheless certain aspects of trading, although acceptable to the producers, may be less attractive than they would wish. One change the majority of those questioned wished to see was the provision of written programmes of requirements by the supermarkets, recognising that they would be provisional and subject to change. They consider that the provision of such a document would represent an increased moral commitment and therefore a strengthened undertaking on the part of the supermarket. At the same time, its acceptance would commit the producer more strongly. The changw would be one of degree. Producers do not seek commitments to fixed supply programmes. They appear to want freedom to take account of unpredictable supply fluctuations just as much as the supermarkets wish to take account of unpredictable demand fluctuations.

No desire for change was noted among the producers for the ways in which quality is specified, but there were suspicions that the quality checks at the depots of some of the chains occasionally provided the pretexts for rejections, the true reason being unsold stocks on hand. The chains were considered to have inadequate procedures to establish quickly their own stocks position. The arrangements for pricing produce also seem to be generally acceptable. Given the inevitable uncertainty about both supply and demand in the short-run, many producers doubt whether changes towards longer-term fixed prices are feasible. There is, however, a widespread preference for the marketing system that settles the sale price before the produce leaves the farm, if only for a day or two, to the uncertainty involved with commission sales through the wholesale markets. The preference is partly a question that prior knowledge may make possible alternative courses of action, including that of rejecting the offer, and partly that of avoiding any risk of dishonesty that may be associated with the commission system. This matter of known prices, together with what are regarded as assured outlets, are at the heart of what many producers find attractive about dealing with the supermarkets. However, other advantages are thought to exist. They recognise that the extra demands in terms of higher quality and consistent and timely delivery that they have to meet do not exist in the wholesale markets, but they prefer the extra discipline and what is regarded as the more 'business-like' relationship, even if decisions are sometimes regarded as being rough and unfair. The final reward, it is considered, comes in the way of higher average net returns than can be achieved through market sales. The problems of having to market lower grades through other channels has to be accepted. However, few, if any, producers use only the supermarket outlet and the diversion of some class one produce to the markets and other buyers is not necessarily made with reluctance. Some producers welcome the use of a range of outlets for their produce, including the market intelligence so derived. They claim to recognise that the markets must receive a proportion of first class produce if the wholesalers are to market to the best of their ability.

5. Direct Buying in the Future

The Limits of Direct Buying

The extent to which direct buying will grow will depend mainly upon the share of the fresh fruit and vegetable market that is held by the supermarket chains. Expectations are that they will continue to increase their share of the grocery market during the coming years and there seems no reason to assume that fruit and vegetables will not be a part of that increase. At the same time, there is no reason to think that the supermarkets, in seeking additional supplies, will do other than buy direct. However, although the proportion bought direct seems likely to continue to increase, particular groups of buyers will continue to use the wholesale markets, or wholesalers outside the markets, to obtain their needs. Some of these groups have been in decline, but there will be a lower limit to their decline and so, by definition, an upper limit to direct buying.

The first group includes hotels, restaurants and public institutions. Such businesses and establishments are generally too small to buy direct and rely upon wholesalers for virtually all their supplies. Between 1961 and 1978 data in the 'National Income & Expenditure' reports of the Central Statistical Office show that catering expenditure has remained virtually unchanged at a little over 13 per cent of the total expenditure on food at current prices. It may be taken that the share of fresh fruit and vegetables within this figure for catering has also remained constant over these years. Looking to the future, the catering element in the total fresh fruit and vegetable market seems likely to remain largely unchanged, but it is only a small part. One estimate is that it amounts to no more than 4 per cent of the total[7].

The second group is made up of all the independent retailers - grocers, greengrocers and market traders. It includes the voluntary (or symbol) groups of grocers since their fruit and vegetable requirements are generally provided by local wholesalers. Enquiries made as a part of the study did not indicate any likely change in this respect by the voluntary groups since centralised buying and

[7] E.I.U. op. cit.

distribution are not considered to be economically feasible. These various types of independent have been falling in importance as is shown in the Appendix. More will be squeezed out as the supermarket chains grow, but there must be a level below which the number will not fall. A gain of as much as 20 per cent by the supermarkets of the fresh fruit and vegetable market would still leave perhaps 50 per cent of total sales in the hands of these various other traders. Most of their purchases are made in the markets, and are likely to continue to be made there, but a proportion - its size unknown, but probably small - is acquired from travelling wholesalers who themselves buy direct from growers. To the growers, these visiting wholesalers offer the advantages of providing 'fixed prices' and the avoidance of transport costs which are becoming an increasingly important consideration. They can represent, therefore, an attractive outlet to the grower and another threat to the markets themselves.

Finally, as a third group, the chains themselves do a certain amount of 'topping-up' from the markets. This practice will probably remain, but at no level higher than the one that has already been noted, about, on average, 2 per cent - 3 per cent of their total needs.

These estimates suggest that the upper limit on direct buying could be about 50 per cent of the fresh fruit and vegetable trade. They are not intended as a forecast that it will rise to this level, merely as indicating a ceiling beyond which it seems unlikely to go.

Farm Gate Sales to Consumers

Consumers who call at the farms in order to buy the fruit and vegetables they need reduce the business of all retailers, whether supermarkets or independents, as well as that of all wholesalers. Any increase in farm-gate sales will, therefore, reduce the volume of direct buying as defined and discussed in this study. On-the-farm sales in the U.K. have increased in importance in recent years. One estimate is that they now account for five per cent, by value, of all fruit and vegetable sales[8]. Nevertheless, despite the recent growth,

[8] E.I.U. op. cit.

there are reasons for believing that such sales will not continue to increase significantly.

It seems likely that consumers are attracted to farm sales mainly in order to purchase better quality produce, particularly fresh produce. The produce will not only be fresher, it is also likely to be cheaper since the producer avoids marketing costs. However, most of his customers will incur extra costs in visiting him. About 17 per cent of the household weekly budget in the U.K. is spent upon fresh fruit and vegetables and a price saving of, say, 25 per cent would, therefore, provide the consumer with a net saving of a little more than 4 per cent, not taking account of extra travelling costs. Since few farm gate points of sale offer a comprehensive range, the customer's cash gain will be further reduced by having to visit other outlets in order to satisfy his needs. Thus the likelihood that many quality-conscious customers will be attracted to farm gate sales seems small, and the likelihood that such sales will have any significant impact upon the importance of direct buying correspondingly small.

The Wholesaler's Position

A distinction must be drawn between those wholesalers who are operating what may be called traditional-type businesses within the wholesale markets - essentially selling from a stand for commission - and those who have broadened their businesses and now operate outside, as well as within, the markets and who include service to the supermarkets among their activities. The latter are few in number in the U.K., perhaps no more than eight to ten. Their businesses are large in comparison with those of the traditional wholesalers who still include small family concerns among their number.

The newer businesses actively seek to procure produce, both home-grown and imported and they also have access to grading, packing and storage facilities, as well as operating distribution depots and transport services. In some cases the extra facilities have become available to them as a result of 'joint venture' type activities with one or more producers' co-operatives. In these cases the wholesalers - if they may, for the sake of convenience, be so described - are less clearly straight forward intermediaries in the distribution chain since the supermarkets will have contact with the co-operatives involved. The views expressed by the chains in favour of this new type of organisation were that they had more affinity with retailers than many producers and that they were more orientated towards marketing. For example, they were less inclined to argue about quality and small differences in price; they were more 'professional', that is, they knew 'what was wanted, when it was wanted and how it was wanted' and strove to provide what was being asked for. The criticisms and doubts about them were mainly to do with the level of their charges for their services. Since they operate, despite the partial exceptions noted above, as intermediaries between the producer and the supermarkets this criticism is to be expected. At their best, this type of organisation was welcomed by the supermarkets as being able also to advise on quality, supply and price patterns.

The traditional market wholesalers characteristically adopt a much more passive marketing role in that they do not actively seek to acquire produce and they do not refuse to handle produce of poor quality. Their role in the market system as a whole is essential in that they cater for all grades of produce and provide the flexilility necessary to deal with unexpected gluts, as well as catering for all types of producer and all types of retailer, apart from the supermarkets. However, their functions are not compatible with a distribution system where large quantities of produce, of specified types, flow in a systematic way, as developed in response to the growth of supermarket chains and changes in consumer tastes and preferences. Although it has been suggested that the markets will continue to handle a substantial share of the total fresh fruit and vegetable trade, perhaps as much as one half, many wholesalers will remain under pressure and tend to lose business. Relief will not be obtained from this pressure by the absorption of other market wholesalers since success in the market is largely dependent upon the quality of the service given in the particular market, very much as a local activity. The acquisition of branches in various markets will not provide economies of scale and may, in fact, involve diseconomies since costs may be higher and yet revenues are not likely to increase. If market wholesalers are not to be left behind in the economic race, they will have to develop more positive links both with their producers and their retailers.

6. Concluding Remarks

Supermarket chains have developed in the U.K. from their beginning in the late 1950's to having an estimated 52 per cent of the grocery trade by the late 1970's. No carefully stated estimates for fresh fruit and vegetables are available, but what figures there are suggest that the supermarkets' share of the trade may be about 25 per cent of the total. Informed opinion appears to be that the chains will increase their share of the grocery business and there are good reasons for believing that they will strive to expand their sales of fruit and vegetables in the same proportion. The average retail margin on fresh produce is comparatively high, one estimate being 13 per cent compared with 9 per cent for dry groceries, and this is a reason in itself. In addition, well presented displays of high quality produce are regarded as a means of drawing customers into the stores thereby increasing sales in total. Fresh produce is an important part of the one-stop shopping unit.

Supermarkets have had a significant impact upon consumer buying habits for fruit and vegetables, mainly through their use of prepackaging. This process involves careful selection of the best produce for packing, and enables a degree of selection by the purchaser himself. From a small start with a limited number of lines, the supermarkets have increased considerably the range they offer. There has been a general recognition that, through a wider range and different forms of presentation, including now, individual selection by the customer, total sales may be increased. This recognition, and the spur of intense competition among the chains, together imply that the search for new developments in these directions will be a feature of the coming years. Such developments will be helped by the trend, which is confidently predicted, towards bigger stores. Turnover in them is so increased that even the comparatively small-selling lines are likely to pass through in sufficient volume to ensure acceptable levels of costs and returns. The bigger volume enables the stores to employ better qualified staff and gives the buyer a better chance of fresher produce. However, although additional lines and innovations bring about an increase in sales, trends of recent years suggest that any gains the supermarkets may make in the future will be mainly at the expense of the independent greengrocer and market stall holder, rather than represent an increase in consumption per head. One source of strength of the individual greengrocer has been the ability to supply what might be regarded as the odd product and to cater for the unusual demand, but now that the supermarkets have developed beyond the mass turnover items into the more specialised items the greengrocer has had to face increased competition. Fortunately for him, the severity of this competition has varied. Although the supermarket chains in general have had the impact described, their performance varies widely and at the bottom of the scale standards of fruit and vegetable quality and presentation remain poor.

In order to obtain the produce they need the supermarkets have very largely by-passed the wholesale markets and gone either directly to growers with packing facilities (including co-operatives) or to specialist packers. The growers concerned have been mainly the larger growers and many smaller growers will have been unaffected either through being too small or because of a lack of access to packing facilities. To those to whom the supermarkets are possible buyers of their produce, they provide not merely a new outlet, but also a new marketing system quite different from that of the traditional wholesale markets and also from that involving direct sales to local retailers.

The general trading pattern is for prices and the quantities to be exchanged to be settled for the week ahead. Supply planning of a provisional nature usually extends beyond the week and often includes an outline of the possible seasonal programme for a particular product. The quality standards required are the subject of joint discussions at the start of the business relationship and the understandings are such that transactions are agreed over the telephone, before the produce leaves the farms. On this basis,a very small number of buyers, operating centrally, buy for their whole chain. The transactions are not the subject of any written contractual arrangements, but the aim is to plan supplies and to minimise price fluctuations as far as possible. In the short-term the dominating factors tend to be the current demand and supply situation but the influence of the market varies between products. For certain of them, conditions are so changeable that the agreement even for the week cannot always be held and may be revised; for other products supply and demand circumstances may be such as to provide considerable stability for several weeks. Although undertakings by the supermarkets to accept produce, and by the producers to provide produce, are not set down in writing, in so far as a spirit of understanding exists between the two sides, the relationship may be regarded as contractual. A small number of supermarkets provide written provisional programmes of their requirements for the season, broken-down into shorter time periods, and these are regarded as implying an increased commitment, although the figures given are intended to be no more than guide lines. In the circumstances, good, continuing business relationships depend a great deal upon personal understanding and trust and inevitably the closeness and degree of success varies.

For the producer, the mere availability of an additional market outlet may be an advantage, making possible greater flexibility and enabling him to spread his risks wider. However, the main advantages of the supermarket outlet over the typical wholesale market outlet have been claimed to be the greater element of supply planning and certainty about the disposal of supplies that they involve, prices that are agreed before the produce leaves the farm and a fuller awareness of consumers' needs and consequent adaptation to meet those needs more effectively. Together they represent a more systematic and disciplined approach to marketing and together they provide a more stable and a higher income. The major disadvantages are said to be those of being exposed to the whims of powerful buyers who seek to buy cheaply, who reject produce as they wish, for wrongly stated reasons, and who leave the producer to dispose of his poorer quality produce as best he can, without any assistance from the supermarket.

Wherever the goods being bought and sold are as variable in quantity and quality as they are with fresh fruit and vegetables and wherever demand is subject to unpredictable short-term changes, trading will inevitably depend a great deal upon exchanges between individuals and will inevitably embrace a range of attitudes. Some supermarket chains seek to achieve through the provision of written programmes, specifications and 'men on the road' close co-operation with their growers; others, in contrast, adopt a more day-to-day trading approach. This range of attitudes may also be identified among the producers. Some look for a close understanding whereas others wish to be freer and are more inclined to search out what appears to be the best current opportunity. Although this desire for a degree of freedom and flexibility is an understandable aspect of business behaviour in the peculiarly uncertain circumstances of fruit and vegetable trading, it must run counter to the goal of more efficient marketing. It is not feasible to plan forward to the extent that exists with manufactured foodstuffs, nevertheless, much can be done with the less perishable fruit and vegetables - apples, for example - and the evidence of what the most successful chains achieve indicates that others could do more in this direction. The need that exists is for closer co-operation than is usual at present. It is significant that in the few examples found where both sides have committed themselves to agreed prices for periods extending into months, involving each in additional risk, the undertakings appear to have been successful not only from the strict trading point of view but in increasing mutual trust and understanding. A criticism that may be made of the supermarkets is that they have not given enough attention to developing communications with their suppliers. In order to understand the other's needs and problems, as well as to develop new ideas, there can be no real substitute for personal and direct conversations between the supermarket staffs and the growers, both on the farms and in the stores. In practical terms, a priority need would seem to be to increase the number of supermarket staff regularly visiting the fields and pack-houses. The link between the grower and the supermarket is more direct than in the grower-wholesaler-retailer distribution chain of the wholesale markets, and may compare favourably in most instances, but it frequently remains, nevertheless, rather loose and inadequate, with only lip-service being paid to consultation and planning.

One of the pressures on producers arising out of the growth of the supermarkets has been to match the large-scale demand for their produce with large-scale supplies. Moreover, to the very limit that the uncertainties of fruit and vegetables permit, these supplies have to be regular, reliable and standardised, on an industry-like production line basis. The tendency towards fewer but bigger chains suggests that this trend will persist and intensify. This development will favour the larger suppliers carrying wide ranges and having sufficient flexibility to deal with short-supply situations. The opportunities facing the smaller, independent grower, who may be outstandingly capable at crop production, will be correspondingly reduced. Producers' co-operatives may be for him the way of achieving an appropriate scale, but in so far as members are reluctant to pool produce and to drop their individuality - and there is evidence that this is sometimes so - the scope of co-operatives will be restricted.

Despite the shades of attitude and approach among the supermarket chains, they all involve important differences from the wholesale markets for the producer. They are more demanding, but, in the opinion of the producers questioned, they provide a more stable pattern of supply requirements, more even prices that are known in advance of dispatch, an increased awareness of the consumer market and higher average net returns. The differences may be ones of degree, but it seems undeniable that in broad terms they represent a movement towards more planned and orderly marketing that is in accord with trends in retail structure and consumers' shopping habits and that other producers, as yet seemingly unaffected, will have to move in the same direction.

APPENDIX - DEFINITIONS, NOTES & STATISTICAL TABLES

"Supermarkets" and "Supermarket Chains"

These terms, as used in this study, relate to companies controlling a substantial number of retail outlets. The term "multiples" is an alternative often used to describe the organisations in question. Businesses controlling single outlets, or a small number of outlets, even though each outlet may be a "supermarket" in terms of involving customer self-service, of having a minimum selling area or of involving some other criteria, are not included. The majority of the retail outlets controlled by the chains do, in fact, rank as "supermarkets", but some are smaller and some are large enough to be classified as hypermarkets or superstores.

"Hypermarket"

The term "hypermarket" (or superstore) is used in what may be regarded as the usual sense, i.e. a store with a selling area of at least 25,000 sq. feet (or 2,500 sq. metres), with a wide range of food and non-food products, self-service methods, location on the town fringes and providing car-parking facilities. The selling area limit is arbitrary in the sense that stores with 15-25,000 can offer similar services and involve similar economic operation.

Direct Sales

"Direct sales" relate to produce passing from the producer either directly to the supermarket or via a packer to the supermarket, by-passing the wholesale markets. In some studies direct sales have been taken to mean transactions between producer and consumer, by-passing both the wholesaler and the retailer, but this is not the definition used here.

Major Food Retailers by Size of Turnover
(Years ending Dec., 1977-Sept., 1978)

Tesco	£979m.
Sainsbury	811
International Stores	543
A.S.D.A.	536
Allied Suppliers	448
Fine Fare	370
Marks & Spencer	364
British Home Stores	274
Fitch Lovell (incl. Key Markets)	214
Safeway Food Stores	209
Kwik Save	192
Waitrose	172
Mac Fisheries	166
Woolworths	140
Debenhams (Caters)	100

Source: Institute Grocery Distribution "Food Industry Statistics & Digest" August, 1979.

Share of Grocery Trade Accounted for by Type of Grocer (%)

	1961	1966	1971	1975	1976	1977	1978
Multiples	26.9	36.3	43.5	47.9	48.4	50.2	52.3
Voluntary Groups	12.7	21.0	22.0	20.4	20.6	20.3	20.0
Unaffiliated Independents	39.6	26.0	20.5	16.2	15.2	14.0	12.4
Co-ops	20.8	16.7	14.9	15.5	15.8	15.5	15.3

Source: Economist Intelligence Unit (EIU), Retail Business No. 249, Nov., 1978.

Specialist Greengrocery Outlets
(No. in U.K.)

1961	1971	1977
42,070	28,608	21,000

Source: Census of Distribution and EIU, Retail Business No. 249, Nov., 1978

(Note: The method of government enquiry into the structure of retail distribution was changed in 1976 and comparisons with earlier years therefore involve estimation).

Les Supermarchés et la distribution des fruits et légumes frais

Ce rapport est une étude de la politique d'achat et de vente en détail des supermarchés à succursales multiples les plus importants en Grande-Bretagne. Il tient compte aussi des opinions de certains des producteurs qui ont pour débouché les supermarchés. L'objectif principal est de considérer les relations entre les supermarchés et leurs fournisseurs et de voir dans quelle mesure les producteurs peuvent organiser leur production et distribution plus efficacement que s'ils vendaient leurs produits dans les marchés de gros. Depuis leur apparition il y a à peu près vingt ans, les grands supermarchés ont gagné environ 25 pour cent du marché britannique pour les fruits et légumes frais. Leur croissance continue au détriment des autres débouchés d'épicerie de détail, et la rentabilité relative des fruits et légumes pour eux, nous portent à croire que ce pourcentage continuera à s'accroître.

Les acheteurs pour les supermarchés ne se rendent pas sur les lieux de production mais travaillent exclusivement dans un bureau central. Les transactions sont conduites au téléphone. Ils achètent directement aux producteurs, coopératives ou compagnies d'emballage spécialisées, et moins de cinq pour cent en moyenne est acheté dans les marchés de gros. La plupart des grands supermarchés discutent leur programmes provisoires d'approvisionnement au début de chaque saison, mais la période planificatrice normale est d'une semaine. Les quantités à fournir et les prix à payer sont décidés pour chaque semaine, sous réserve de changements proposés par les supermarchés avec un jour de préavis. La situation offre-demande influe beaucoup sur les prix. Sur les grands supermarchés il n'y a que deux qui couchent par écrit leurs besoins saisonniers et hebdomadaires. Quelques cas exceptionnels où les prix sont décidés pour une période plus longue ont été relevés. Les supermarchés donnent des instructions en ce qui concerne la qualité au début des relations commerciales, et les producteurs se familiarisent avec le degré de qualité que les acheteurs trouvent acceptable. Des échantillons de sondage sont pris quand les produits arrivent aux dépots des supermarchés, et l'écoulement des produits rejetés est la responsabilité du producteur.

Malgré le manque de contrats écrits, dans la mesure où une entente existe et est respectée par les deux parties, les rapports peuvent être considérés comme contractuels. Les producteurs les regardent comme permanents et font leurs plans en conséquence. Un avantage qu'ils attribuent au supermarché comme débouché est le fait que la partie de leur production destinée aux supermarchés peut être considérée comme définitivement vendue. En outre, les prix qu'ils reçoivent sont relativement bons, et, non moins important, sont décidés avant que les produits ne quittent la ferme, par contraste avec les marchés. L'exigence de bonne qualité et le besoin de livraisons promptes et sûres ont contribué à améliorer la qualité de production. Le refus de temps en temps des produits pour des raisons qui peuvent paraître insuffisantes a causé un certain mécontentement, mais l'écoulement des produits de qualité inférieure qui ne sont pas requis par les supermarchés, et le sentiment qu'on est l'associé inférieur présentent apparemment aucun problème.

Les bonnes relations commerciales dépendent en large mesure d'une confiance et d'une entente mutuelle, et certains supermarchés sont plus soucieux que d'autres de développer de telles relations. Les arrangements formels ne sont pas recherchés, le facteur le plus important est la fréquence des contacts personnels entre les deux parties. On pourrait aller plus loin dans ce sens, mais en général les producteurs ont été heureux de pouvoir vendre aux supermarchés avec plus de certitude qu'aux marchés de gros.

Supermärkte und das Marketing von frischem Obst und Gemüse

Dieser Bericht ist eine Untersuchung über die Einkaufs- und Einzelhandelspolitik der wichtigsten Supermarktketten Großbritanniens, und die Meinungen gewisser Produzenten, die an die Ketten verkaufen, werden in Betracht gezogen. Das Hauptziel ist, das Verhältnis zwischen den Supermärkten und ihren Lieferanten zu untersuchen, inwiefern die Produzenten ihr Produktionsprogramm und Marketing methodischer planen können, als wenn sie durch die Großhandelsmärkte verkaufen. Seit dem Erscheinen der Supermärkte vor ungefähr zwanzig Jahren haben die Supermarktketten schätzungsweise 25 Prozent des Markts für frisches Obst und Gemüse gewonnen. Das ununterbrochene Wachstum auf Kosten anderer Einzelverkaufsstellen für Kolonialwaren und die relative Rentabilität von Obst und Gemuse für Supermärkte lassen darauf schließen, daß dieser prozentuale Marktanteil weiterhin steigen wird.

Die Käufer der Supermärkte führen ihr Geschäft in einem zentralen Einkaufsbüro und nicht dort wo das Obst und Gemüse wachsen. Transaktionen werden telefonisch abgeschlossen. Sie kaufen direkt von Produzenten, Genossenschaften oder fachmännischen Produktverpackungsfirmen ein und im Durchschnitt wird weniger als fünf Prozent von den Großhandelsmärkten bezogen. Die meisten Ketten diskutieren provisorische Belieferungsprogramme am Anfang der Saison, aber die normale Planungszeitspanne ist eine Woche. Die Liefermengen und die zu bezahlenden Preise werden wöchentlich vereinbart und Änderungen von den Supermärkten können nur einen Tag voraus gemacht werden. Preise werden von der aktuellen Angebot- und Nachfragesituation sehr beeinflußt. Nur zwei der Ketten stellen ihren Bedarf für die folgende Saison beziehungsweise für die folgende Woche schriftlich fest. Eine geringe Anzahl außergewöhnlicher Fälle, wo Preise für längere Zeitspannen vereinbart werden, kommen vor. Richtlinien über die erforderliche Qualität werden von den Supermärkten am Anfang der Geschäftsbeziehungen gegeben, und Produzenten erwerben Kenntnisse darüber, was für den Käufer annehmbar ist. Stichproben werden bei der Lieferung der Produkte in das Supermarktlager durchgeführt und der Produzent ist für den anderweitigen Verkauf abgelehnter Produkte verantwortlich.

Trotz des Nichtbestehens von schriftlichen Verträgen, insofern als ein gegenseitiges Einvernehmen besteht und dementsprechend gehandet wird, kann man die Beziehungen als vertraglich ansehen. Produzenten halten sie normalerweise für dauernd und planen die Produktion demgemäß. Ihrer Meinung nach haben die Supermärkte für sie viele Vorteile im Vergleich zu anderen Verkaufsstellen. Sie können den Verkauf des Anteils ihrer Produktion, der für die Supermärkte bestimmt ist, als erledigt betrachten und sie werden verhältnismäßig gut bezahlt. Genauso wichtig ist die Tatsache, daß Verkaufspreise vereinbart werden, bevor die Produkte den Bauernhof verlassen, im Gegensatz zum Verkauf auf den Märkten. Die hohen Qualitätsvorschriften und das Verlangen nach zuverlässiger und pünktlicher Lieferung tragen zur Erhöhung der Qualität bei. Die gelegentliche Verweigerung von Produkten aus anscheinend unzureichenden Gründen hat zwar etwas Unzufriedenheit verursacht, aber die Notwendigkeit, etwaige zweitklassige Produkte, die die Supermärkte nicht annehmen, anderweitig zu verkaufen und das Gefühl, in einer schwachen Verhandlungsposition zu sein, sind anscheinend keine Probleme.

Gute Handelsbeziehungen sind hauptsächlich von gegenseitigem Vertrauen und Verständnis abhängig und einige Supermarktketten geben sich mehr Mühe als andere, um ein solches Verhältnis zu entwickeln. Es wird nicht nach formgerechten Vereinbarungen gesucht; die Häufigkeit der persönlichen Kontakte zwischen den beiden Seiten ist wichtiger. In dieser Richtung könnte noch mehr getan werden, aber im allgemeinen begrüßen die Produzenten die größere Sicherheit, die ihnen die Supermärkte im Vergleich zu den Großhandelsmärkten bieten.

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