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Agro-food Business Strategies for Origin Labelled Products

LUIS MIGUEL ALBISU and KATE CORCORAN

Summary

Traditional and typical food products are, at present, fully recognised by European Union institutions and regulations. The name Origin Labelled Products (OLPs) brings together all those food products, which have legal recognition under the EU legislation, defined as produced in a particular place or region, while complying with certain EU rules. The term includes products of either Protected Designation of Origin (PDO) or Protected Geographical Indication (PGI). Globalisation of food markets has reinforced the attractiveness of these products, as seen in the trend for consumers to appreciate locally produced products more in response to global brands and homogeneous food products. Food safety concerns among consumers, either rationally or emotionally driven, have contributed to the desire for established and traditional processes and origins in products.

In this paper, the most important features that identify OLP enterprises and their business environment are described. Although they are small and medium size enterprises (SMEs), they have some distinctive features that might allow them to become more competitive. Following this, the principal characteristics of OLPs and their marketing characteristics are exposed. Future business strategies are discussed in the global economic context and a number of recommendations provided.

Key words: Origin labelled products; agro-food; business strategies

Unternehmensstrategien für Agrar- und Nahrungsprodukte mit Herkunftsbezeichnungen

Traditionelle und typische Nahrungsmittel werden seit einiger Zeit von den Europäischen Institutionen und Verordnungen in besonde-

rer Weise anerkannt. Der Name Produkt mit geschützter Herkunftsbezeichnung betrifft alle Nahrungsmittel, die durch EU-Verordnung gesetzlich geschützt sind, weil sie an einem bestimmten Ort oder einer bestimmten Region nach besonderen EU-Regeln produziert werden. Der Ausdruck schließt sowohl Produkte mit geschützter Herkunftsbezeichnung als auch Produkte mit geschützten geografischen Angaben ein. Durch die Globalisierung der Nahrungsmittelmärkte hat die Attraktivität dieser Produkte zugenommen, wie man an der zunehmenden Wertschätzung lokal produzierter Nahrungsmittel gegenüber weltweit bekannten Marken und austauschbaren Produkten erkennen kann. Verbraucherbedenken bezüglich der Sicherheit von Nahrungsmitteln, seien sie rational oder irrational, haben den Wunsch nach geregelten und traditionellen Verarbeitungsprozessen und Herkünften der Produkte befördert.

In diesem Beitrag werden die wichtigsten Merkmale von Herstellern von Produkten mit geschützter Herkunftsbezeichnung und ihr Unternehmensumfeld beschrieben. Obwohl es sich dabei um kleine und mittlere Unternehmen (KMU) handelt, haben sie doch bestimmte Eigenschaften, die sie befähigen könnten, wettbewerbsfähiger zu werden. Anschließend werden die Eigenschaften der Produkte mit geschützter Herkunftsbezeichnung und deren Marketing-Charakteristika beleuchtet. Künftige Unternehmensstrategien werden im globalen wirtschaftlichen Zusammenhang diskutiert und verschiedene Empfehlungen gegeben.

Schlüsselwörter: Produkte mit geschützter Herkunftsbezeichnung; Nahrungsmittel; Unternehmensstrategie

1 Introduction

Traditional and typical food products are, at present, fully recognised by European Union institutions and regulations. The name Origin Labelled Products (OLPs) brings together all those food products, which have legal recognition under the EU legislation, defined as produced in a particular place or region, while complying with certain EU rules. The term includes products of either Protected Designation of Origin (PDO) or Protected Geographical Indication (PGI). Traditional Speciality Guaranteed (ETG) products now complement PDO and PGI products.

Producers of traditional and typical food products want to get official EU recognition for their products, and were willing in the past to obtain forms of national identification before EU-wide rules were established. Although this carried an extra cost, many producers were aware that the market, in most cases, was willing to pay a premium for this type of product (RITSON and KUZNESOF, 1996; VAN ITTERSUM et al., 2000). Producers observed that consumers feel more confident with typical products that have gone through a selective procedure involving a degree of quality control, and given credibility by OLP status. This is seen even among larger OLP agro-food firms with well-established brands, who also prefer to apply for and use the legal recognition. For example, in Spain, the most famous wine brands like Torres, Raymat and Vega Sicilia have incorporated OLP regulations because their owners think they will get more benefits by having OLP accreditation.

In the marketplace, there are other food products with explicit information on origin of production. Therefore, for example, producers will usually indicate the origin of the products sold at local markets while distribution chains may provide information for certain products on their provenance. Nevertheless, OLPs have a legal mandate that carries implications for certain production rules in relation to specific geographic and human circumstances, with associated written standards for quality control in each case.

Historically, these products have had greater recognition in Mediterranean countries, but following EU Council Regulation no. 2081/92, OLP identification has spread throughout Europe. While some EU Mediterranean countries have less EU accepted OLP products than central European countries for example, nevertheless consumers' appreciation of OLPs is generally weaker in central and northern European countries.

Globalisation of food markets has reinforced the attractiveness of these products, as seen in the trend for consumers to appreciate locally produced products more, in response to global brands and homogeneous food products. Food safety concerns among consumers, either rationally or emotionally driven, have contributed to the desire for established and traditional processes and origins (BOUQUERY, 1994; TROGNON et al., 2000).

In this paper, section 2 deals with the most important features identifying OLP enterprises and their business environment. Section 3 analyses the characteristics of OLP products and their marketing characteristics. Future business strategies are discussed in section 4 and finally, some concluding remarks are put forward.

2 Origin Labelled Products enterprises and their business drivers

In general, OLP food enterprises are of small or medium size. The number of workers involved in an enterprise is less relevant today with productivity increased through mechanisation and automatisations, thereby reducing the labour input required. Thus, we can find large factories employing a very small number of people. There are other significant parameters, which have a close correlation with business size, depending on the value and type of product. In the agro-food industry we consider SMEs as enterprises with a turnover of less than 35 million € per year. Bigger OLP enterprises exist, but they are uncommon and are not representative of the entire group.

OLP enterprises are normally well established family businesses, usually passed on from father to son. They tend to be spread widely. They are frequently remotely located and the presence of a number of such enterprises is a feature of many remote rural areas. These peculiarities make them of special interest for regional authorities because their sustainability is an important aspect of rural development.

Many European development programs require co-financing from national funding agencies and regional authority funding. Therefore, funding decisions can be more decentralised depending on the governance structure in each country. Regional development agencies have played an important role and they have evolved from merely functioning as catalysts, co-ordinators and animators, to partnership positions and vehicles for creating formal networks (CAMERON and DANSON, 2000, p. 33).

This approach fits well with OLP firms where public and private interests can work together, not only on generic promotions, but also in setting up joint business ventures. Public investment might not have profit maximisation as its primary goal, but will have the additional twin goals of developing well-rooted firms in a region to underpin economic growth and above all, to generate employment. These firms should be able to produce high-value food products and still be profitable within smaller commercial operations. Besides, through the support of OLP enterprises and products, regional development agencies can realise the additional objectives of promoting regional cultural values and patrimony. These returns are above market value.

However, there is a trend for agro-food business to migrate from rural to urban areas or neighbourhoods, where they can find better services, better market access, more qualified technical labour and other advantages (CONNOR and SCHIEK, 1997; CALZONETTI and WALKER, 1991). This goes against the idea of preserving rural dwellers in the remotest rural areas.

Originally, the raw material element was a very important part of the total final cost of the food product, thereby giving advantage to industrial agro-food firms located close to the source of agricultural raw materials. With the intensification of the industrial and technological processes, agro-food industries have gradually re-orientated towards the location of consumers markets. This has given OLPs a great advantage in that the transforming industries have to be located within the geographic origin specified by the product. The narrower this is, the greater the likelihood of it being a rural area. Conversely, where the specified geographic area

is large then firms have a tendency to move towards centres of population.

OLP enterprises have been obliged since their inception, to enter into collaborative networks with other enterprises producing the same product within their geographical area. This obligation is distinctive from other non-OLP SMEs, which may be included in networks but on a voluntary basis.

OLPs firms amalgamate as nodes similar to the formation of industrial districts within a specific area. Characteristics of these 'nodes' mirror the progress of small firms developing within a political culture of solidarity, trust and co-operation, as might be incorporated in a social model beyond purely business activities (BECATTINI, 1987; BERTINI, 1999). An important feature of industrial districts as with OLPs networks is that collaborating firms also have to compete constantly (ALBISU et al., 2000).

This tension between co-operation and competition affects the dynamics of 'learning alliances' and information exchange, which would benefit OLP enterprises. The firm in an active 'alliance' that can learn most from its alliance partners, is the firm that benefits the most in the long run. A key question is evaluating how firms can structure alliances to optimally configure the combinations of private and common benefits and thereby affect alliance evolution (KHANNA et al., 1998, p. 208).

OLPs networks must include all firms in their defined area or 'origin' of production if they want to put the common brand from that area on their products. To date, little attention has been given to the composition of co-operative network enterprises, such as power structures and social leadership.

Inter-firm co-operation has become an increasingly common feature of corporate strategies in recent years. The development of network alliances may become the single most important means for agro-food SMEs to sustain highly competitive market niches involving short product cycles and continual innovation (SUAREZ-VILLA, 1998, p. 13).

Supply chain management is considered as one of the key elements in competitive markets. OLP firms are, usually highly vertically integrated, where the first part of the chain includes activities such as the production of raw materials and their industrial transformation. Co-operatives are in many cases, organisations that deal with OLP products and they are frequently involved at the primary transformation stage. Nevertheless, with exceptions, they lack the ability and knowledge to handle the most sophisticated part of the commercialisation process in that their activities do not generally cover marketing of the finished food product.

Vertical co-ordination is critical in gaining efficiencies along the OLP firms supply chain. For a reference firm and activity, this is understood as the process of specifying a particular aspect of ownership, control, or integration of upstream/ downstream activities. Upstream/ downstream activities are "activities that precede/ follow the reference activity in the sequence of steps from producing raw materials to delivering a finished product to a customer" (MILGROM and ROBERTS, 1992). Vertical co-ordination has been widely used in the agro-food sector (HENDERSON et al., 1993).

Industrial organization, agency, strategic management and organization theories have all dealt with vertical co-ordination and integration. 'New Institutional Economics' of-

fers further theoretical foundation which lead to better understanding of firms' strategic planning choices (SAUVÉE, 1998, 27). These theories and models hold radically different views and open intense debate between organisational economics and strategic literature supporters in particular. In spite of this progress, there are notions which are not included in the economic literature, such as loyalty, commitment and trust. These elements are actually important components of the relationships between the big operators along the food chain. This is especially true of distributors as they increase in size, they have to engage with other very significant suppliers with medium and long term planning strategies.

Recently there have been attempts to integrate the analysis of supply chain and network analysis, into what it has been termed 'net chains' (LAZZARINI et al., 2001, p. 7). This new approach interprets supply chain and network perspectives by inter-organisational collaboration. Particular emphasis is placed on the value of creating and co-ordinating mechanism sources. Chain and network theories are put together into four main streams: network theory, social capital theory, supply chain management and business economics, and organisational theory (OMTA et al., 2001, p. 1). OLP firms should benefit from this as it encompasses all horizontal and vertical links that this new approach tries to address.

According to CASSON (1991) the notion of trust is itself embedded in the cultural environment (both local, at a corporate level, and in society). This idea fits well with the kind of environment that OLP firms operate in. Therefore, these firms' behaviour might be explained following both economic theories incorporating other sociological approaches as well. Individual firm's analyses may oppose structural approaches that take into account, not only single components, but also overall collective groups of firms and their associated circumstances.

Information is a major driver and determinant of the type of co-ordination in the food production/ distribution system, as well as determining holders of power. According to BOEHLJE and SCHRADER (1998) in a negotiated, co-ordinated system, the relative uniqueness and value of the information/ knowledge resource (not the physical resources) will form the basis of the system of power and control. The closer the OLP firms' enterprises stand in relation to the consumer, the easier it will be to get valuable information that can be transmitted back into the agro-food system.

OLP firms could also benefit from the most up-to-date theoretical and analytical methodologies. However, the kind of research usually undertaken is still of a very descriptive nature without providing a well-developed conceptual framework. Nevertheless, these businesses are complex in nature because they involve the relationships of many vertical and horizontal firms, which may also be involved in networks and conditioned by public and political issues.

3 OLP firms' distinctive food products and marketing features

European agricultural raw material commodities are generally uncompetitive with raw materials coming from other parts of the world. Agro-food industrial transformation gives the necessary added value to justify agricultural production. Specific and differentiated food products offer

better ways of being successful within niche markets across individual countries.

Consumers evaluate food products according to four criteria: raw material content; agro-food industrial transformation and packaging; service; and image. OLP firms have mainly concentrated on the first component. This has been their most important asset and the basis of their business production. Farmers are proud of the produce that has evolved and been refined in its physical form. At the same time they have learnt to adapt to addressing market requirements. Well-known products with a good image will achieve success locally within markets of limited geographic spread.

Historically for OLP firms, raw material usually underwent agro-industrial transformation but this was generally unsophisticated. More recently, trends have forced them to incorporate new technologies in order to compete with other food products. While modern technology allows the characteristics of OLPs to be developed, it means that new traits, common with other agro-food industrial processes, are also developed.

OLP firms have not been effective in product presentation, although more recently they have been trying to offer a more 'modern' appearance in order to access high value markets and price premiums. While concentrating on the physical attributes of their products, OLP firms tend to be very poor performers in the area of marketing – such as product and customer servicing and investing in promotion of their image. Many OLP firms have traditionally had very small budgets for these activities.

Non-tangible agro-food product components, such as services and image, do not have a high profile when their attention is focused on the physical attributes of the product, such as the raw material, transformation and subsequent product presentation. It has been this poor appreciation of how to maximise the value of the final food product, by not addressing marketing activities which generate a high proportion of the final value, that has constrained greater success for OLP firms.

These products are generally well known in local and regional markets close to their areas of production. Some have expanded into national markets and there is a minority that sell a considerable part of their production in foreign markets. This is the case for wine producers, which are ahead of many other OLP food producers. Perishable agro-food products have extra difficulties in developing distant markets because of logistical barriers and the need to keep products refrigerated.

The experience of having a high degree of consumer appreciation in local markets is not matched when OLP firms explore distant markets. They start in places where they are well known and move to new markets where they have little presence or are hardly known at all. Most firms are aware of this but are still not willing to change their strategies. They invest little or nothing in promoting their food products. This is like moving from a successful position in a mature market, to a new product launch in the same or new market, believing that the same approach will be plausible.

OLPs entering new markets encounter considerable difficulties but they might have some advantages if they exploit these. Because of their traditional image in restricted markets they find severe difficulty in changing consumers' per-

ceptions when trying to introduce new products. Launching a new product is much easier outside their main territory but it still requires heavy promotional investment. Very rarely do evaluations of public and private promotional investment take place, although the best way is to try to integrate all evaluations, taking in those of consumers, the agro-food industries and the distributors (SANJUAN et al., 2000, p. 163).

OLPs are commonly distributed through traditional channels although there are some that have been able to access and use distribution chains (CANALI, 1991, p. 303). Their small production volume is a serious constraint though not necessarily the most severe. Probably lack of knowledge on how to deal with modern distribution systems and poor to non-existent planning, are even bigger constraints. Accessing better distribution channels requires collaboration and networking among OLP firms and advice from public regional development agencies or similar institutions.

4 Future business strategies

OLP firms, as it was stated at the outset, are SMEs. Therefore, they face similar problems and prospects as other SME firms. Nevertheless, they do have some distinctive features that allow them to react to opportunities and make use of different business strategies.

Most of the products under consideration have limited markets. They can be quite strong within a limited geographic area but have difficulty in expanding into new areas. Larger firms have learnt how to make strategic alliances to cover larger markets, while SMEs have to search out new alliances amongst firms dealing with similar or different products. Adjustment requires a new philosophy and ways to develop co-operative or joint commercial expansion. New rules have to be investigated and applied to Origin Labelled Products.

Like most SMEs involved in food manufacture, OLP firms are better at ensuring the physical quality of the product and enhancing efficiency of production (GILPIN and TRAILL, 1997, p. 293). They should adopt alternative business philosophies which are more concerned with new product development, allied to strong marketing and sales organisation.

Too much emphasis has probably been given to the physical elements of OLP products and not enough to non-tangible elements, especially relating to their organisation. This situation should be reversed in the future. There has often been a lack of medium to long-term strategy, with decisions being taken on a day-to-day basis. Business strategies should be closely linked to their network structure and composition. In that respect, firms will need to look more carefully at group strategies to achieve the group goals of OLP firms.

OLPs are valued more than their market value because public authorities have a great interest in their survival. These bodies consider that OLPs are part of their culture and a good means of promoting their regions and local 'territories'. In traditional markets, cultural identification takes place between consumers and the regions from which OLP products come from. In this way, their public and private promotional budgets accomplish multi purpose aims. OLP firms fully realise this and should identify and aim at common objectives that they could never achieve on their own.

Environmental issues, sustainable agriculture, rural conservation and many other attributes should be incorporated in the whole product package.

There is a business challenge to find a balance in the use of traditional raw materials and the launching of innovative products. Innovation must be handled carefully in OLPs. It must respect the old and valued attributes of the food product – its taste and/or other physical characteristics, while at the same time adapting to new attributes valued by consumers, such as lighter taste and smoother texture. This trend is happening with many wines and cheeses. OLPs rely on tradition as an important asset of their product and production systems. But there is a constant contradiction and tension between tradition and innovation.

Modern markets require constant innovation; while at the same time consumers also appreciate tradition. The correct combination is a difficult formula to arrive at, but a necessary exercise to be carried out for OLPs. There is not a standard solution and each product and region must find its or her balance. This leads to the challenge of using traditional versus new technological methods. Traditional methods encounter serious difficulties in meeting strict and stringent quality controls. Food safety requires better technical controls in the entire production system and yet, there are many enterprises that are not prepared to meet these standards. Firms are forced to find their own compromises in not fully introducing standardised technical processes but still incorporating high levels of technology.

Therefore, OLP firms are obliged to use modern technology while trying to adapt new methods to deliver their original products' taste and process. Failure to do this could result in a product similar to those produced elsewhere. Originally these products will have had distinct characteristics because of their novel raw materials, territorial and climatic conditions and their 'know-how'. Technology has improved to such a degree, that previous 'know-how' might become irrelevant and does not affect other typical or strong characteristics of the product.

OLP firms should learn how to approach mass marketing chains. Most of the OLPs are commercialised through traditional channels. This might well be an important commercial outlet but they cannot avoid considering other channels of distribution. Most of the people involved in producing this type of product do not have a professional view on how to approach and negotiate with mass marketing chains. This requires specific techniques and 'searching-out' capabilities, to establish logistic platforms, contract requirements, develop personal trust, etc.

Collective action needs to be capitalised in a more organised way. Co-operation strategies have to prevail over competitive conflicts but this requires a sense of business direction and long-term objectives. Social leadership is an important component in achieving these objectives. A high success rate of these goals is achievable if firms work in a tight and orderly manner.

OLP enterprises, like many other agro-food businesses, are facing a greater degree of internationalisation. They have difficulties in accessing far-off markets. Alliances and co-operative ventures could provide good potential for success in this area, if firms are familiar with and embrace more symbiotic ways of doing business. They should take advantage of their culture of working in networks but expand their scope from intra to inter-firm dealings.

Entering mass marketing chains requires a common strategy among businessmen from the same producing area. From time-to-time, distribution chains offer food products that are not normally stocked on their shelves. They are looking for high quality items that appeal and which consumers will appreciate and be attracted to. This reinforces consumers' loyalty to the store. OLPs fit very well into this scheme. It usually requires joint promotion among different firms and this type of promotional activity is likely to find financial support from regional development agencies.

Apart from recognition by their regular consumers in restricted markets, OLP firms have a good knowledge of local commercial channels and this is one of their most important competitive advantages. This information could be shared among agro-food firms producing similar food products in different countries. The idea is that market expansion should be achieved by exploiting niche markets instead of searching bigger market shares in already saturated markets.

5 Concluding remarks

Firms dealing with OLPs are concerned with the globalisation process. They are mostly of a small or medium size and, as with many other agro-food firms, they have fears that the big multinationals might force them out of the market. Wealthy markets are very fragmented and there are niche market opportunities of limited scope in many different countries. Firms producing high quality OLPs, if fully adapted to actual competitive requirements, might find great avail of these new opportunities for conducting their businesses.

Consumers now demand diversity in their food choices as an important part of their food quality aspirations. Distribution chains are aware of these demands and have tried to introduce more regional and typical products, the kind of products with OLP denominations. These products have found new acceptance in entering the most significant distribution chains but not in an isolated market penetration approach. These firms are increasingly understanding that the best way forward is through collective promotion of OLPs from the same origin and, if possible, through forming alliances with products from other regions. Regional opportunities are achievable because of the decisions of the decentralised distribution chains. The same approach could be taken in entering new foreign markets, but in this case, logistics are the most important problem, especially for perishable products.

Future opportunities for OLP firms may lie in trying to take advantage of their networking capabilities. They should try to establish more strategic planning in a collective approach. Careful planning should be undertaken to study strategies dealing with inter-firm relationships. Models could differ among groups because of their different nature and composition. Detailed strategies will be very important to facilitate market entry and to consolidate food product ranges in foreign markets. However, a collaborative strategy between firms has to override competitive motivation in the network.

OLP firms need to stress marketing approaches. They will have to think more about adding service to their physical products and investing more in developing and commu-

nication their image, especially in new markets. This corresponds to a new business attitude, which is far from classical behaviour.

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Authors:

LUIS MIGUEL ALBISU, Unidad de Economía Agraria, Servicio de Investigación Agroalimentaria, Diputación General de Aragón (e-mail: lmalbisu@aragob.es),

KATE CORCORAN, Institute of Ecology and Resource Management, University of Edinburgh (e-mail: corcoran@srv0.bio.ed.ac.uk)

This work is part of the EU research project DOLPHINS (Development of Origin Labelled Products: Humanity, Innovation, and Sustainability). We thank the helpful comments by the editors. All remaining errors and omissions are our own.